

FY2022 Q1 Earnings Conference Call (May 12th, 2022)

Q&A Summary

【Q】 On page 4 of the Investor Presentation, I see a 10.7 billion yen increase in mobile revenue in the first half of 2022. Is this increase mostly coming from Korea *Dungeon&Fighter Mobile*? Also, which generates a higher revenue for *Dungeon&Fighter Mobile*, from iOS or Android?

【A】 Shiro Uemura (Chief Financial Officer)

Your understanding is correct in that the 10.7 billion yen increase in revenue is mostly coming from Korea *Dungeon&Fighter Mobile*. Generally speaking, revenue from Android tends to be higher in Korea, but I cannot give you a specific ratio for *Dungeon&Fighter Mobile*.

【Q】 Do you expect that revenue contribution from *DNF Duel* will mainly come from North America and Europe? Could you share the expectations for the game?

【A】 Shiro Uemura (Chief Financial Officer)

We expect a contribution in each market. Based on test results and other various metrics, we expect that the largest revenue is expected to come from North America, but other regions are also expected to make reasonable contributions.

【Q】 Regarding China *Dungeon&Fighter*, why do you expect larger growth than usual in Q2? Have user trends changed compared to the past? Also, how sustainable do you think the current trend is?

【A】 Shiro Uemura (Chief Financial Officer)

Under the leadership of the new director who assumed office last August, we have been making efforts to reduce the burden users have been feeling in the game. As a result, we were able to achieve year-on-year growth in Q1 and believe that the game has bottomed out. If we can maintain the good momentum following the Labor Day update, we believe that we will be able to achieve recovery in the game.

However, the recent growth is primarily led by core users. Therefore, we believe that it is very important to retrieve sleeping users with the Level Cap Release scheduled in Q2.

While we are seeing a sign of turnaround and we think we can retain the good momentum, we will continue to carefully manage the daily operations of the game.

【Q】 Korea *Dungeon&Fighter Mobile* was off to a good start, but how long do you think this trend can be sustained?

【A】 Shiro Uemura (Chief Financial Officer)

There are three reasons for the strength of *Dungeon&Fighter Mobile*.

First, *Dungeon&Fighter Mobile* leverages very popular and strong IP.

Second, users are able to gain the same experience on mobile as the PC version. We provide high quality content optimized for mobile device. Also, we developed a sufficient amount of content.

Third, the current mobile game market in Korea is dominated by MMORPGs which are characterized by heavy monetization and auto-play feature. However, *Dungeon&Fighter Mobile* does not have the auto-play function and is a fully manual action RPG. This differentiates the game from other games in the market, leading to the game being well-received by users.

In addition to these, we are making full use of our knowledge gained in long-term operation of the PC *Dungeon&Fighter* to maintain the current strong momentum.

[Q] While many investors recognize Nexon as a game publisher, you have recently been describing yourself as “an operator of Virtual Worlds”. How are you defining yourself?

[A] Owen Mahoney (Chief Executive Officer)

The games business has provided a discrete experience. When I started in the game business 22 years ago, we used to think of it as “putting boxes through the channel”, which meant burning the game content onto a disc, sticking that into a box and selling that. Then, that transitioned into downloadable online content, but it still remained a discrete experience.

Rather than being a publisher of this discrete experience, we are an operator of Virtual Worlds. It is a virtual world, but it is a world that you go to. You will have virtual experiences with other avatars, and it has a society and a currency. So, the first lens to look at this is from the users’ view and how they experience the world over time. Secondly, to deliver a compelling experience for the user, we need to ask ourselves “what do we need to do as an operator?”

The first thing that we need to ensure is the long-term continuation of the user experience. Longevity is key to our business model. This would immediately lead us to questions like, “How does the economy work, and how do interactions between the players work in this Virtual World?”

This frame is very helpful to us, in not only deciding how we operate our business, but also the things we are not going to do, for example, super casual games or offline games.

[Q] Would *ARC Raiders* be a “put it in the box” kind of game or should we expect this to be another Virtual World in which the content would continue to get updated?

[A] Owen Mahoney (Chief Executive Officer)

I will let marketing team to take the lead on the explanation beyond what we have shown publicly. But longevity is the keyword. We are definitely thinking longevity. To describe why that is, let me back up and remind everybody on how we got together with Embark in the first place.

Embark chose Nexon over a number of other really good companies to work with because Embark favored the longevity of our franchises like *Dungeon&Fighter*, *MapleStory*, *Sudden Attack*, *KartRider*. Our approach to how to make Virtual Worlds last and grow indefinitely is what was most appealing to them. So, you can imagine the yin and yang of Nexon and Embark in which we take Embark’s capability to create AAA games and combine that with our capability in making forever franchises that have indefinite length. We both thought that would be very powerful.

【Q】 I would like to ask about Level Cap Release in China *Dungeon&Fighter*. My understanding for Level Cap Release is the update for core users while you are encouraging light users to return. How should we understand that? The number of paying users decreased while ARPPU increased year-over-year in Q1. Under this trend, I'm concerned that it may be more difficult for light users to return if you introduce the Level Cap Release. How will you strike the balance?

【A】 Shiro Uemura (Chief Financial Officer)

We believe that China *Dungeon&Fighter* has bottomed out in Q1. Since Q3 of last year, we have been making efforts to reduce the burden on users. As a result, we achieved year-on-year growth in Q1. While we saw an increase in ARPPU, we also saw an improvement in a decrease rate of paying users year-over-year. In April, the number of paying users increased year-over-year driven by well-received Labor Day update.

Although the game's revenue is mainly driven by core users, we believe the game is becoming more enjoyable for light and middle users as well. We are seeing a sign of recovery and we believe that we need to revitalize the game by conducting Level Cap Release for the solid recovery.

Level Cap Release is not necessarily the update only for core users. The Level Cap Release last time gave you the impression that it is for core users as it was conducted in a situation where the portion of core users was on an increasing trend. This time, however, we are at a stage where we are making the game more enjoyable for light and middle users. So, we believe that it is turning into an environment where sleeping users as well as light and middle users are able to return by revitalizing the game through Level Cap Release.

We have not yet reached full recovery, but we have definitely bottomed out and the game is showing a sign of recovery. We hope to solidify this recovery with the Level Cap Release.

[Q] I understand you believe that there are no platform barriers among PC, mobile, and console, but could you tell us more about your cross-platform strategy going forward?

[A] Owen Mahoney (Chief Executive Officer)

In the last five to ten years, most games on mobile have been constructed very differently than how they've been constructed on PC or console. Certainly since the iPhone 10, the power of a mobile device is perfectly adequate to deliver a great online gameplay experience. So, our view is, and where the world is going is, a mobile device is simply a workstation or a supercomputer in your pocket. Today, billions of people own these workstations in their pocket and carry them around all day long. In the near future, everybody in the planet will have one.

So, the approach we have taken is to just treat a mobile device like a PC, and that is in fact exactly what we did with *Dungeon&Fighter Mobile*. We think this is one of the reasons why the retention numbers are so good.

Although many companies treated mobile as a very different platform up till now, we have taken the approach that these are just all windows into a Virtual World. There are some differences in interface and a couple of other things, but they are basically the same, and we think we are starting to prove out this thesis.

There have been some early examples from other companies as well, and we think this is where the world is going. Furthermore, the total addressable market of mobile market is 10 times bigger than that of PC. With these reasons, we are very excited about the potential of the mobile market.
