NEXON Co., Ltd.

Q2 2023 Earnings Prepared Remarks

August 9, 2023

Owen Mahoney, *Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.*
Thank you Kawai-san and good afternoon.

On today's call we will review Nexon's performance in the Second Quarter and our outlook for the Third Quarter. We'll provide a summary of the performance of Nexon's multiple Virtual World franchises, and an update on highly anticipated new Virtual Worlds scheduled for release in the months ahead. And we will conclude with some perspective on how Nexon represents a truly unique, asymmetric upside opportunity for investors.

Nexon delivered another strong performance in Q2, with revenue up by 12% and operating profit up by 22% year over year. This represents our fifth straight quarter of double-digit top line growth. Our financial performance was within our expectations, as we emphasized franchise management – specifically, strengthening user metrics and engagements across our biggest Virtual Worlds.

I'll start with *MapleStory* in Korea. In Q2, revenue declined 6% but active users significantly increased year over year. We decided to focus on increasing user engagement and active player count, ahead of an important update in July. On July 13th we released that update, which is known in the community as the 6th job update, and saw a solid increase in key performance metrics.

Based on careful community management and the strong base of engaged players that we built in the first half of the year, *MapleStory* in Korea is well positioned for double-digit year-over-year revenue growth in Q3.

In China, *Dungeon&Fighter* performed within our expected range. Second quarter revenue was down year over year against a tough comparison with last year, when our China business grew 43%. The team prioritized long-term player engagement over short-term revenue, leading to a solid year-over-year increase in MAUs.

MapleStory and *Dungeon&Fighter* are two of Nexon's most resilient franchises, and illustrate Nexon's unusual business model. Unlike other segments of the games business that require a publisher to replace declining title sales with new products, these franchises provide a stable base on which to build a growing business. They represent the gold standard of long-term live service community management, leading to consistent returns that so many entertainment companies strive to emulate. Prioritizing long-term engagement and community management over short-term monetization is one way we ensure franchises like *MapleStory* and *Dungeon&Fighter* will endure and grow well into the future.

In Q2, several other Virtual Worlds helped to drive our top line growth.

FIFA ONLINE 4 and *FIFA MOBILE* continued to perform well in Korea, even after the World Cup. The two titles recorded a significant increase in monthly active users year over year, and have actually doubled the number of paying users since 2021 – the year prior to the World Cup.

One core component of this success is Nexon's careful management of one of the industry's most passionate player communities. While the World Cup provided a great promotional opportunity, the sustained growth we are seeing today after the World Cup is attributable to our outstanding Live Operations support and community management.

Last month, our partners at Electronic Arts announced that in September these titles will be branded as *EA SPORTS™ FC ONLINE* and *EA SPORTS™ FC MOBILE*. We don't expect any material impact on the titles when the brand change is implemented.

Other contributors to our Q2 performance included *Wars of Prasia* – a new Virtual World which exceeded our outlook. *HIT2* which expanded into Taiwan, Hong Kong, and Macau in May also exceeded our outlook. *Blue Archive* – now available in Japan, Korea and the West – continues to do well and grew significantly year over year in all regions. *Blue Archive* also debuted in China last week and has been well received by players.

Also, in Q2, our MINTROCKET label in Korea released *DAVE THE DIVER*, a highly unusual RPG that combines deep-sea exploration with sushi restaurant management. The game is a global hit and hugely popular on Steam, recommended by more than 97% of players – which puts it at the top 0.12% ranking of all games launched on Steam.

The game is easy to learn and a lot of fun – I encourage everyone to make some time to play *DAVE THE DIVER*. It's currently available on PC and Mac, and coming soon to the Nintendo Switch.

All in, Q2 was an excellent quarter highlighted by strong performance across our franchises - especially around player metrics. Our focus on building robust communities over short-term monetization has served Nexon's players and shareholders well for more than two decades.

Our unique portfolio of Virtual Worlds combined with our Live Operations expertise provides us with a strong foundation - that generates significant revenue, operating income, and cash flow. Nexon's franchises are extraordinarily healthy. We are looking forward to building on that robust foundation by launching new Virtual Worlds to global audiences.

Next I will provide an update on two key new titles in development, starting with *THE FINALS* – the first game from our Embark Studios in Sweden.

With very little marketing to date, close to three million players have registered to playtest *THE FINALS,* and more than 1.5 million players have put it on their Steam wish-lists, making it among the 11 most wishlisted games globally.

In mid-June, the team completed a second Closed Beta test which provided key insights ahead of launch. We are particularly encouraged by a sharp uptick in key KPIs such as early retention. Feedback from the Summer test will be assimilated into the game ahead of one more planned Beta test before the game launches on both PC and consoles with a full marketing campaign later this year.

The second title from Embark Studios, *ARC Raiders*, is also making solid progress. We held a three-day closed-Alpha test in late June to validate the first hours of gameplay, test core-game loops, and retention. Again, the test revealed a wealth of insights the team will use in preparing *ARC Raiders* for release.

I want to make two points about Embark and our operational approach around the world.

First, the Embark team has become a center of creative excellence and game innovation for Nexon's global studio organization. The teams in Stockholm and Korea are working closely together – combining their respective strengths in global AAA games with world-class Live Operations that enable live franchises to grow for two decades or more.

We're pleased with how the teams in Sweden and Korea are collaborating and learning from each other.

Second, we are investing in our marketing capability in the US and Japan – starting with several key hires in both regions -- in preparation for globalizing our franchises and launching new Virtual Worlds. Like in other industries, marketing of games is changing rapidly, with new channels, new modes of interacting with customers, and new workflows. This disruption represents opportunity for Nexon, around the world, and we want to be staffed with the appropriate skill sets for this fundamentally different marketing environment.

Before I hand off to Uemura-san, I want to reiterate a key point about Nexon's current plan and our future.

Nexon is a unique company within the games business, very different from traditional, hits-driven game companies. Our business of Virtual Worlds – from the people we hire, to the way we manage global franchises, to the KPIs that matter most to us -- is so different from traditional games as to constitute an entirely different business.

Our experience in managing global entertainment franchises, and our ability to grow and manage live communities with tens of millions of players over two or more decades each, makes us highly unique in the entertainment industry. Predictable and consistent performance from our flagship franchises has generated significant free cash flow, adding hundreds of billions of yen to our balance sheet. Because our product lifecycle operates so differently from the traditional games model, we don't have to replace old revenue from decaying games with new revenue. The new revenue from titles in the pipeline can build on top of the existing revenue of our live Virtual Worlds.

The combination of solid existing franchises and anticipated new Virtual Worlds creates an asymmetric upside opportunity for investors. Our downside is protected by the strong foundation of multiple franchises delivering steady returns and stable growth. Our upside is in multiple new Virtual Worlds, any one of which could become a hit. If one hits, it could create a step-change increase in revenue and profit profile; if more than one hits, Nexon will be a whole different company.

This quarter demonstrated yet again the stability of our existing Virtual Worlds, and that fact combined with the potential of our new Virtual Worlds make Nexon uniquely well-positioned in the coming quarters and years.

With that, Uemura-san will now take us through a detailed report on our performance and outlook.

Shiro Uemura, ***Representative Director and Chief Financial Officer, NEXON Co., Ltd.***
Thank you, Owen. Next, I'll review our Q2 results.

For additional details, please see the Q2 2023 Investor Presentation available on our IR website.

In Q2, we achieved record breaking second quarter revenues. Group revenues were 94.4 Bn yen, up 12% year-over-year on an as-reported basis and up 10% year-over-year on a constant currency basis. Our performance was driven by the growth of *FIFA ONLINE 4*, *FIFA MOBILE* and *Blue Archive*, as well as good contributions from *Wars of Prasia* and *HIT2*.

Overall, our topline performance was within the range of our outlook. *Wars of Prasia* and *HIT2* in the Rest of World exceeded our expectations, while revenues from *MapleStory* in Korea and *Dungeon&Fighter Mobile* were lower than planned.

By region, revenues from Korea and China were within the range of our outlook. While revenues from Japan, North America and Europe exceeded our expectations, revenues from the Rest of World came in lower than expected.

Looking at the total company performance by platforms, PC and mobile revenues were both within the range of our outlook.

Operating income was up 22% year-over-year and within the range of our outlook at 27.6 Bn yen.

Net income was 24.5 Bn yen, exceeding our outlook, primarily due to an FX gain of 8.1 Bn yen.

Year-over-year, it was down 7% due to a 27.7Bn yen FX gain that we recorded a year ago.

Let's move on to results by region.

Revenues from our Korea business were 62.1 Bn yen, representing record-breaking second quarter revenues in Korea. This performance was within the range of our outlook.
On a year-over-year basis, revenues increased by 21% on an as-reported basis and by 19% on a constant currency basis.

FIFA ONLINE 4's PC revenue exceeded our outlook and its mobile revenue was within the range. We were able to sustain the good trend even after the World Cup at the end of last year.

MAUs, paying users and ARPPU all increased year-over-year and it marked record-breaking second quarter revenues.

For *MapleStory,* as the growth in active users following the Anniversary update in April was slower than expected, we shifted our focus to increase the number of players rather than monetization ahead of the important update in Q3. As a result, the game experienced double-digit year-over-year growth in the number of its active users, though revenue was below our outlook and decreased year over year.

The PC and mobile combined revenues of *Wars of Prasia*, which launched on March 30th, exceeded our outlook, driven by better-than-expected user retention.

All in, PC revenues in Korea increased by 33% year-over-year driven by the growth of *FIFA ONLINE 4* and a contribution from *Wars of Prasia*. These were partially offset by *MapleStory*'s revenue decrease.

As for the mobile business, *FIFA MOBILE* maintained its strong momentum even after the World Cup period, like *FIFA ONLINE 4*. Its revenue grew significantly year-over-year and marked record-breaking Q2 revenue.

Dungeon&Fighter Mobile's revenue was below our outlook as user acquisition following the updates conducted in Q2 was lower than expected.

On a year-over-year basis, mobile revenues in Korea slightly increased primarily driven by contributions from *Wars of Prasia* and *HIT2*, and growth of *FIFA MOBILE*, which were partially offset by a revenue decrease in *Dungeon&Fighter Mobile*.

On a quarter-over-quarter basis, mobile revenues decreased by 8%. A contribution from *Wars of Prasia* was more than offset by revenue decreases in *HIT2*, *Blue Archive* and *The Kingdom of the Winds: Yeon* as well as a seasonal decrease in *FIFA ONLINE 4M*'s revenue.

Revenues from our China business were within the range of our outlook at 18.2 Bn yen. On a year-over-year basis, revenues decreased by 5% on an as-reported basis and by 6% on a constant currency basis due to a tough comparison with Q2 2022 when revenues significantly grew year-over-year.

For *Dungeon&Fighter*, revenue was within the range of our outlook. We focused on stable operations and introduced the Labor Day update in April and the 15th Anniversary update in June.

On a quarter-over-quarter basis, MAUs, paying users and ARPPU decreased due to seasonality.

On a year-over-year basis, MAUs increased and paying users slightly increased, while ARPPU decreased.

Revenues from Japan increased by 8% year-over-year driven by the growth of *Blue Archive* and *MapleStory*.

Revenues from North America and Europe decreased by 5% year-over-year due to revenue decreases in *Choices* and other mobile games.

Revenues from the Rest of World increased by 11% year-over-year driven by a contribution from *HIT2*, which launched on May 23rd. This was partially offset by revenue decreases in *MapleStory* and older mobile titles.

Moving on to our FY2023 third quarter outlook.

We expect Q3 revenues in the range of 109.9 to 119.8 Bn yen, representing a 13% to 23% increase year-over-year on an as-reported basis and a 7% to 17% increase year-over-year on a constant currency basis.

Driven by the growth of *MapleStory* and *FIFA MOBILE* in Korea, as well as new launches, we expect year-over-year double-digit growth for six consecutive quarters.

We expect our Q3 operating income to be in the range of 36.6 to 44.5 Bn yen, representing a 16% to 41% increase year-over-year on an as-reported basis and a 12% to 36% increase year-over-year on a constant currency basis. I'll discuss the details on this shortly.

We expect net income to be in the range of 28.2 to 34.1 Bn yen, representing a 32% to 17% decrease year-over-year on an as-reported basis and a 34% to 20% decrease year-over-year on a constant currency basis. The year-over-year decrease in net income is due to a 26.4Bn yen FX gain that we recorded a year ago. As you know our guidance does not factor FX gains or losses.

In Korea, we expect growth from *MapleStory* and *FIFA MOBILE*, as well as a contribution from *Wars of Prasia*.

As a result, we expect revenue in Korea to be in the range of 68.8 to 74.2 Bn yen, representing a 10% to 18% increase year-over-year on an as-reported basis and a 3% to 11% increase year-over-year on a constant currency basis.

We expect *MapleStory*'s revenue to grow double-digit year-over-year, driven by an increase in active users in Q2 and a successful major content update introduced in July.

We anticipate a decrease in combined PC and mobile revenues from *FIFA ONLINE 4* due to the comparison with an extremely strong performance in Q3 2022.

The change in title due to rebranding of the game in September is not expected to have any material impact on performance, as we will continue to offer the same gameplay as before through updates.

We expect a continued contribution from *Wars of Prasia*, which launched in Q1 across mobile and PC platforms.

As a result, we expect a year-over-year increase in PC revenues.

Regarding the mobile business, we expect Q3 revenues to decrease year-over-year.

We expect year-over-year growth in *FIFA MOBILE* and a contribution from *Wars of Prasia*. We expect these to be more than offset by year-over-year revenue decreases in *HIT2* and *Dungeon&Fighter Mobile*, which launched in 2022.

Turning to China, we expect *Dungeon&Fighter* to increase slightly year-over-year, as we continue to focus on enhancing user engagement in Q3, amidst the active users trending steadily. We also anticipate contributions from *Blue Archive*, which launched on August 3rd, and *MapleStory: The Legends of Maple*, which is scheduled for launch on August 17th.

Accordingly, we expect revenues from our China business to be in the range of 22.6 to 25.5 Bn yen, representing a 15% to 29% increase year-over-year on an as-reported basis and a 13% to 28% increase year-over-year on a constant currency basis.

For *Dungeon&Fighter*, we introduced the Summer update on July 6th, which includes package sales. We are scheduled to introduce the National Day update in September as usual.

In July, the number of active users and paying users increased year-over-year, while ARPPU decreased.

We will continue to focus on stable operation in Q3.

In Japan, we expect revenues in the range of 2.4 to 2.6 Bn yen, representing a 15% to 6% decrease year-over-year on an as-reported basis and a 18% to 9% decrease year-over-year on a constant currency basis. We anticipate growth in *FIFA MOBILE* to be more than offset by decreases from terminated mobile titles.

In North America and Europe, we expect revenues to be in the range of 6.8 to 7.4 Bn yen, representing a 35% to 47% increase year-over-year on an as-reported basis and a 29% to 41% increase year-over-year on a constant currency basis driven by a contribution from *DAVE THE DIVER*, which launched on June 28th.

We expect revenues in the Rest of World in the range of 9.3 to 10.0 Bn yen, representing a 30% to 41% increase year-over-year on an as-reported basis and a 23% to 33% increase year-over-year on a constant currency basis driven by a contribution from *HIT2*, which launched in Taiwan, Hong Kong, and Macau on May 23rd.

In Q3 2023, we expect operating income to be in the range of 36.6 to 44.5 Bn yen, representing a 16% to 41% increase year-over-year on an as-reported basis and a 12% to 36% increase year-over-year on a constant currency basis.

An increase in Q3 revenue is expected, which will contribute to an improvement in year-over-year operating income.

Some of this is expected to be offset by increased costs related to business growth.

First, we expect increased HR costs related to additional headcount for the development and operation of our major Virtual Worlds, as well as bonus accruals for contribution to great performances.

Second, we expect increased marketing expenses for *MapleStory*, which has introduced a large update, and *FIFA ONLINE 4*, which is scheduled to change its title in September due to its rebranding.

Operating income is expected to grow year-over-year as we anticipate revenue increase to be partially offset by the increases in costs due to business expansion.

Overall, Nexon has been building a business model in which we can grow stably by launching new Virtual Worlds onto a solid foundation of existing franchises.

In Q2, we focused on stable operation, grew revenues from the portfolio of our three major franchises, and increased the number of users year-over-year for all three titles. Driven by the stable growth of our existing portfolio and contributions from new games such as *Wars of Prasia* and *HIT2* which launched in Taiwan, Hong Kong, and Macau, overall revenues and operating income grew double-digit year-over-year.

In Q3, we expect continued growth of our existing portfolio through stable operation. In addition, we expect our revenues and operating income to continue to grow double-digit year-over-year driven by contributions from new games such as *DAVE THE DIVER*, as well as *Blue Archive* and *MapleStory: The Legends of Maple* in China.

In contrast to challenges in other sectors of the entertainment industry, our proven ability to manage and steadily grow blockbuster franchises and our pipeline of new Virtual Worlds represents an asymmetric upside opportunity for revenue growth. And current JPY exchange rates offer another incentive to invest: while our company performance has improved dramatically since 2020, the impact of ForEx on Nexon's enterprise value in US dollars has effectively marked down the value of a well-performing company.

Recognizing these circumstances and the unique value of purchasing Nexon shares in this market, our Board of Directors has authorized a one-year acceleration of the 100Bn-yen, 3-year share repurchase plan announced on August 9, 2022. The new completion date for purchasing remaining shares is August 2024. To date, we have repurchased a total of 50 Bn yen worth of shares. The remaining shares are expected to be repurchased by the new deadline, including 20Bn yen worth of shares which the board has authorized for purchase when the market opens tomorrow, August 10, and is expected to complete by October 27.
In addition, we are scheduled to pay the dividends of 10 yen per share per year.
We will continue to be committed to consider shareholders' return proactively.

This concludes my comments.
Back to you Owen.

Owen Mahoney, ***Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***
Thank you Uemura-san.

I'd like to close by providing some perspective on the global entertainment industry and Nexon's place in it. The contrast is striking.

Even while Nexon's business has been thriving, the wider entertainment industry has been undergoing unprecedented challenge and turmoil. Many of even the most dominant film franchises are struggling at the box office, the most dominant theme parks are reporting sharp declines in attendance, and many streaming media companies are significantly scaling back their spend. Meantime, a key point of contention in the Hollywood writers and actors strike is the rise of AI, and its potential to replace everyone, from human actors and voice actors, to script writers. The traditional entertainment industry is grappling with tectonic upheaval just as consumer demand moves away from the old, legacy business models, toward newer, more dynamic, interactive entertainment.

Instead of a threat, new technologies represent a massive opportunity for makers of online games and Virtual Worlds. Vast increases in computing and networking power are now available on handsets that literally everyone carries in their pockets – and the exponential rise of AI is a bonanza to makers of Virtual Worlds, enabling much deeper experiences brought more quickly and inexpensively, to a much wider audience.

The upheavals in technology and media mean the next entertainment industry leader will not look anything like the last generation. The great entertainment company of the future will exist in the Virtual World, not in the physical, delivered from the cloud, not in theaters or theme parks. It will deliver highly interactive, lean-forward, experiences where you create your own story, not lean-back experiences where you receive a mass-produced, pre-packaged story.

While it's clear to most traditional tech and media companies that a tectonic shift is happening, delivering this new generation of experiences requires a wholly different set of skills, and a shrewdly-selected set of technologies. Even the smartest and best-funded outsiders have found it impossible to deliver even the most rudimentary Virtual World in practice. The hundreds of billions spent on the so-called Metaverse and on VR, with literally nothing to show for it, are Exhibit A of both the appeal of the vision and how specialized and unique the required skill set is.

Nexon has been quietly building on these experiences for years, refining the skill sets used to operate such worlds at mass scale, and building real-world tools to make the vision a reality. And along the way we have been getting feedback from a highly-demanding group of customers, who rightfully want us to obsess about their requirements, over anything else. To successfully deliver this vision to these demanding customers is to become the leader of the next generation of entertainment companies.

I raise this on today's call because the confluence of the changing global media and technology environment and Nexon's emerging leadership leads us to conclude there has never been a better time to invest in Nexon.
As a result, Nexon's Board of Directors has accelerated the completion date of the 100 billion yen buyback from 2025 to 2024. The deadline for completion of the remaining 50 billion yen is 12 months from now instead of 24 months from now. And we authorized an immediate repurchase of ¥20 billion worth of Nexon stock under the program beginning tomorrow morning, August 10.

In the near term we think about it as an opportunity for massive asymmetric upside. In the long term we see the current situation as a turning point, and think now is the opportunity to become the new leader of the entertainment industry.

Operator, we are ready to take questions.