



# PC Online Gaming 101

June 11, 2013



# Today's Agenda

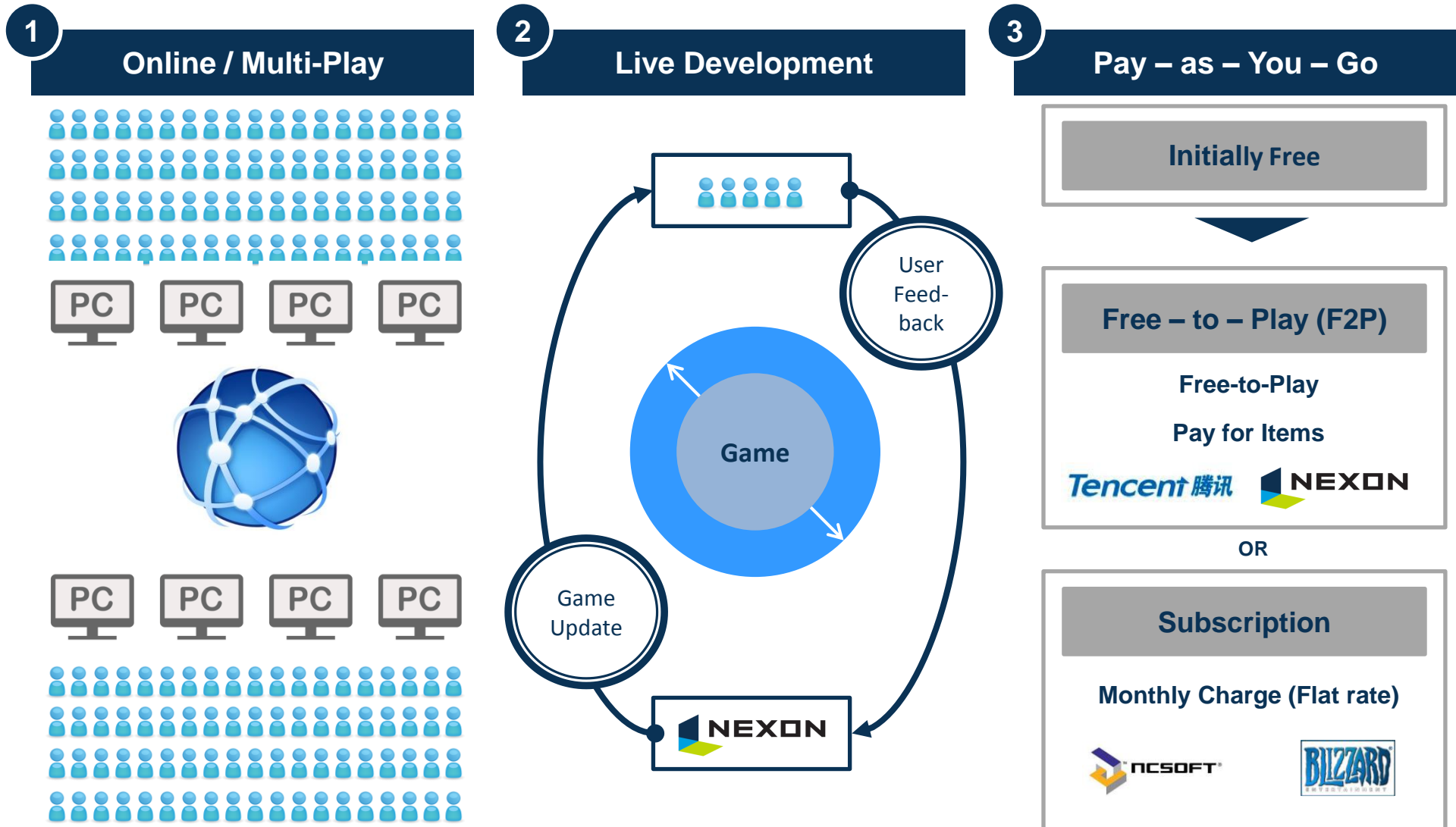
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1. Introduction to PC Online Gaming
2. Game Play & Monetization
3. Game Market Overview
4. About NEXON
5. Q&A

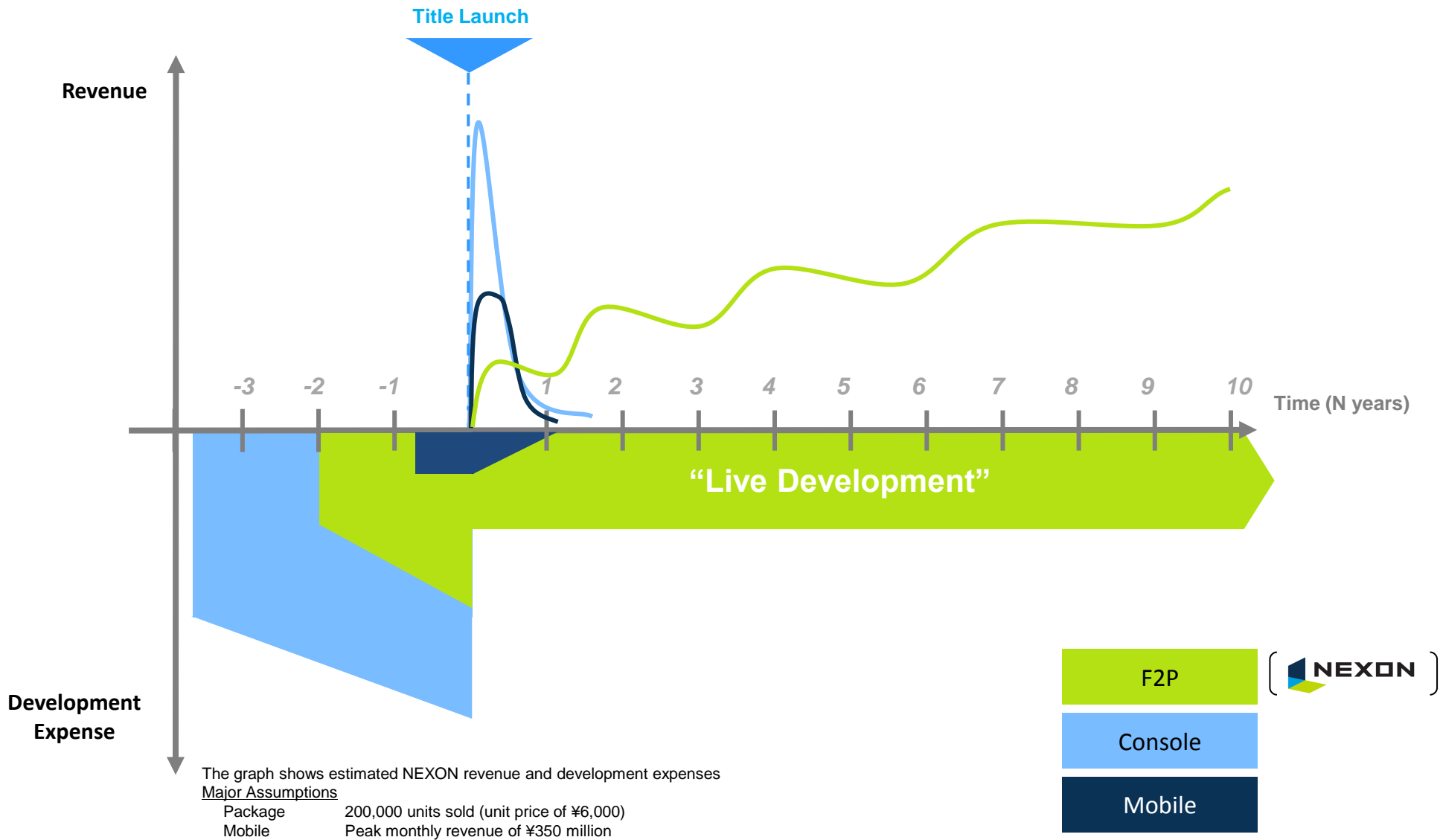
# 1. Introduction to PC Online Gaming

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# Key Characteristics of PC Online Games



# Free-to-Play (F2P) Model



# KPI for the F2P Business Model

## Casual Games

MAU<sup>1</sup> = Large

×

Pay Rate  
= Low

×

ARPPU<sup>2</sup>  
= Low

×

Retention: 1 month

=

Revenue

## Immersive Games

MAU<sup>1</sup> = Mid

×

Pay Rate  
= High

×

ARPPU<sup>2</sup>  
= High


×

Retention: 12+ months

=

Revenue






# Business Model Comparisons <sup>1</sup>

	Console	Mobile		PC Online		
		Native	Browser	Social	Monthly Subscription	F2P
Major Players	Square Enix Capcom	Gungho Supercell	DeNA GREE	Zynga	NCsoft Blizzard	 Tencent
Appeal (No. of users)	Limited	Wide	Limited	Wide	Limited	Wide
Lifetime	Medium	Short	Medium	Short	Long	Long
ARPPU	\$60 (per purchase)	\$10	\$15 – 30	\$2	\$15	\$10 - 50
Pay Rate	N/A	<10%	<10%	<5%	50 – 70%	10%
SNS Fee	N/A	Kakao (Korea) (21%) LINE (Japan) (35%)	DeNA / GREE (26%)	N/A	N/A	N/A
Billing / Distribution	Retail (40%)	Apple / Google (30%)	Carrier (13%)	Facebook (30%)	10 – 15%	10 – 15%

<sup>1</sup> Nexon Corporate Planning Department research and estimates

# Main F2P Online Game Revenue Models

NEXON's example:

Type			By Title	Revenue Share
			(Illustration)	
Publishing Operation	Development	IP	  	
Publishing Operation	Development	IP	 <p>(Japan, China, Korea)</p>  <p>Partner</p>	
Publishing Operation	Development  Development Consulting	IP	 <p>(Korea)</p>  <p>Partner</p>	
Publishing Operation	Development	IP	 <p>(China)</p>  <p>Partner</p>	



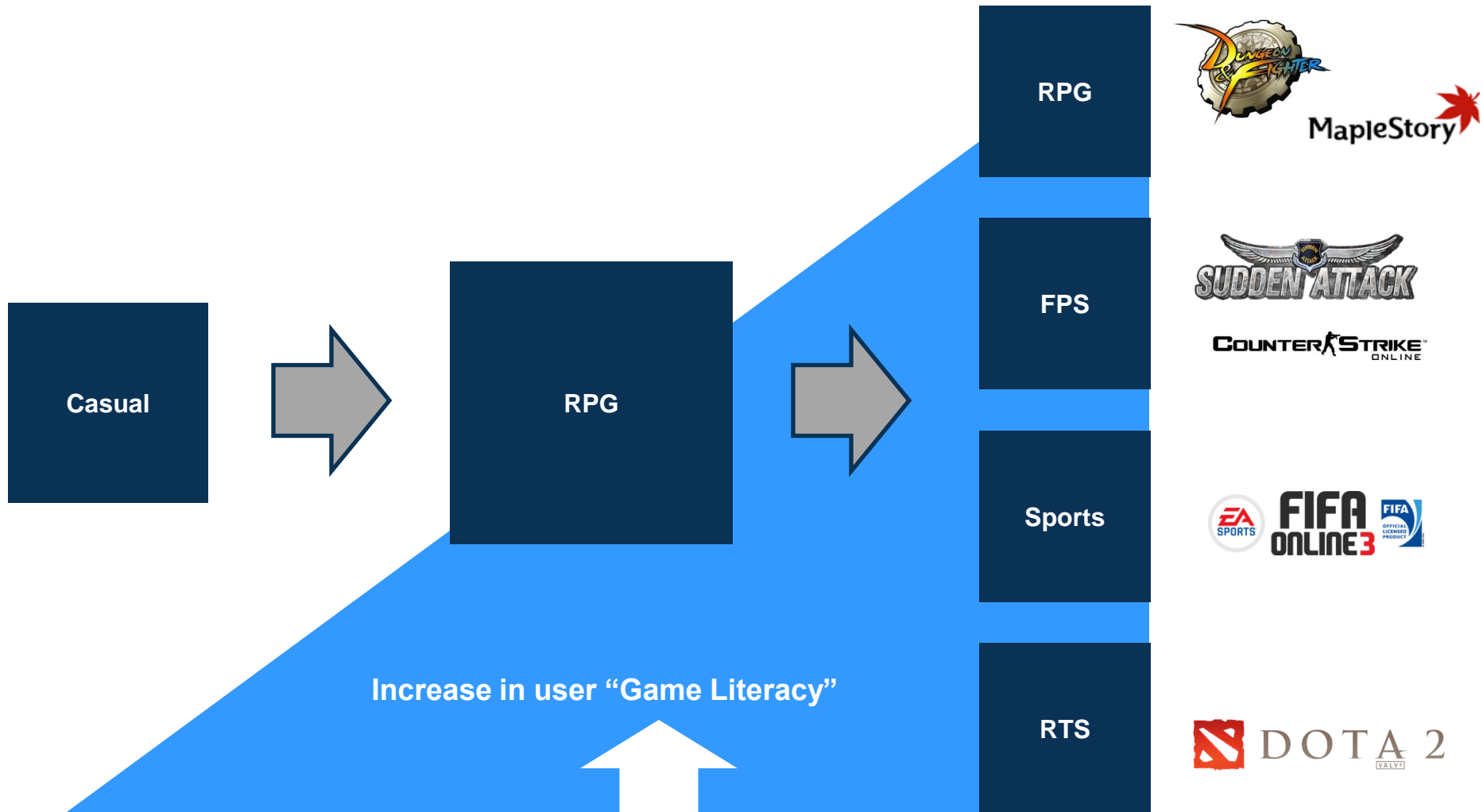
## 2. Game Play & Monetization

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# Major PC Online Game Genres

RPG (Role-Playing Game)	    
FPS (First-Person Shooter)	   
Sports	  <p>Pro Baseball 2K</p>
RTS (Real-Time Strategy)	  
Casual	 <p>QQ Racing</p>  

# Transition of Popular Game Genres



# Game Demonstration (1)

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# Game Demonstration (2)



# Game Demonstration (3)

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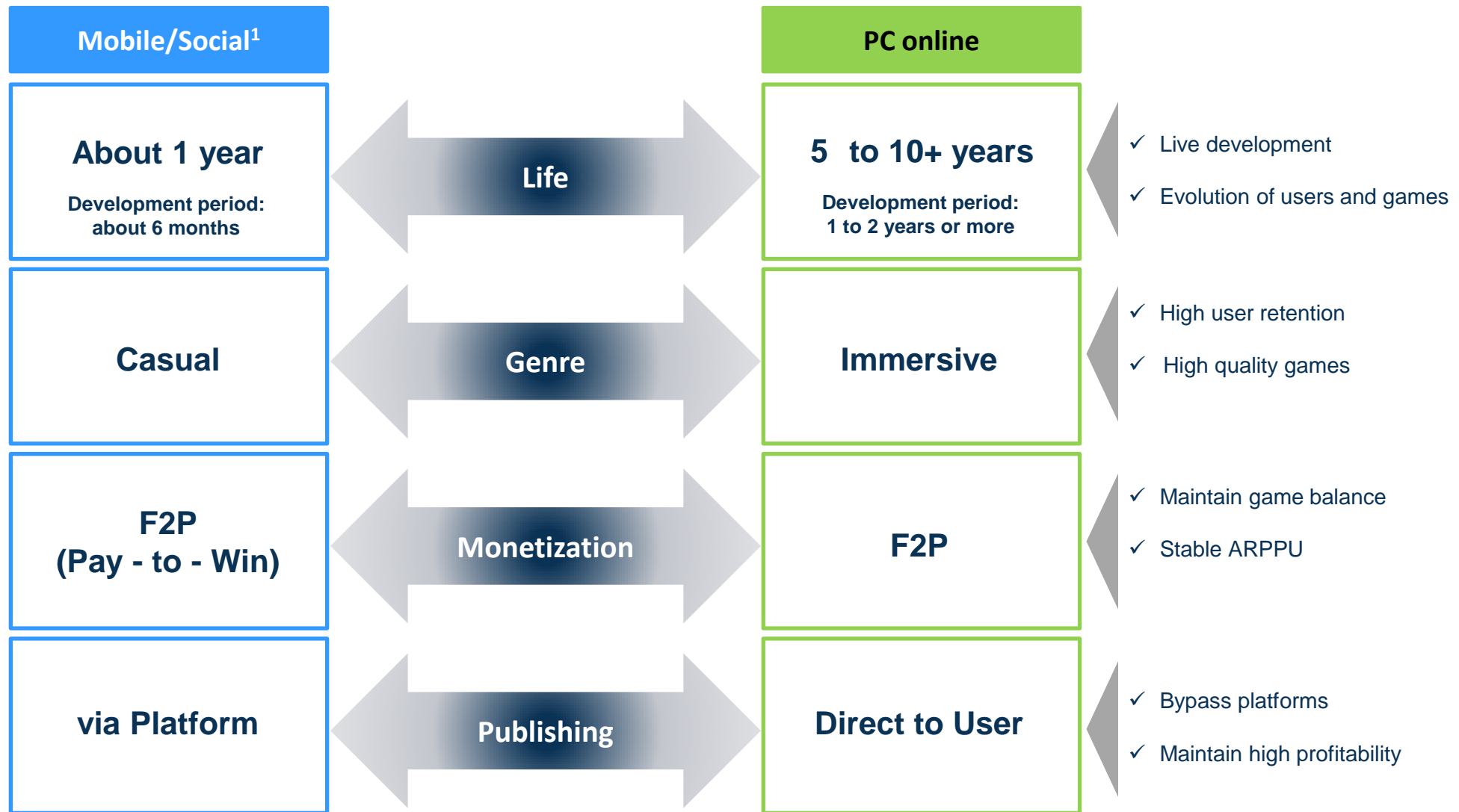


# Game Demonstration (4)





# Major Differences from Mobile/Social Games



Note 1: Native apps



# Reference: Major Titles by Platform



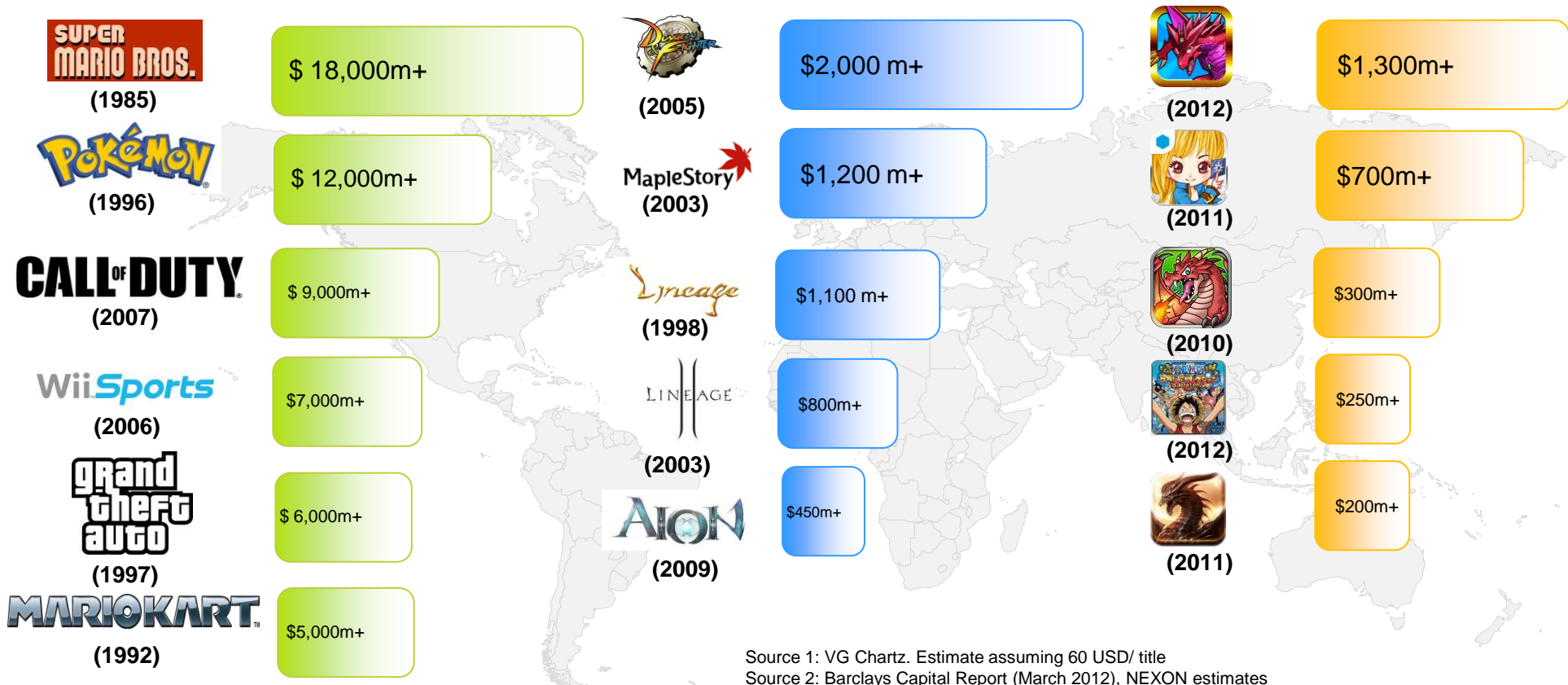
1



2



3

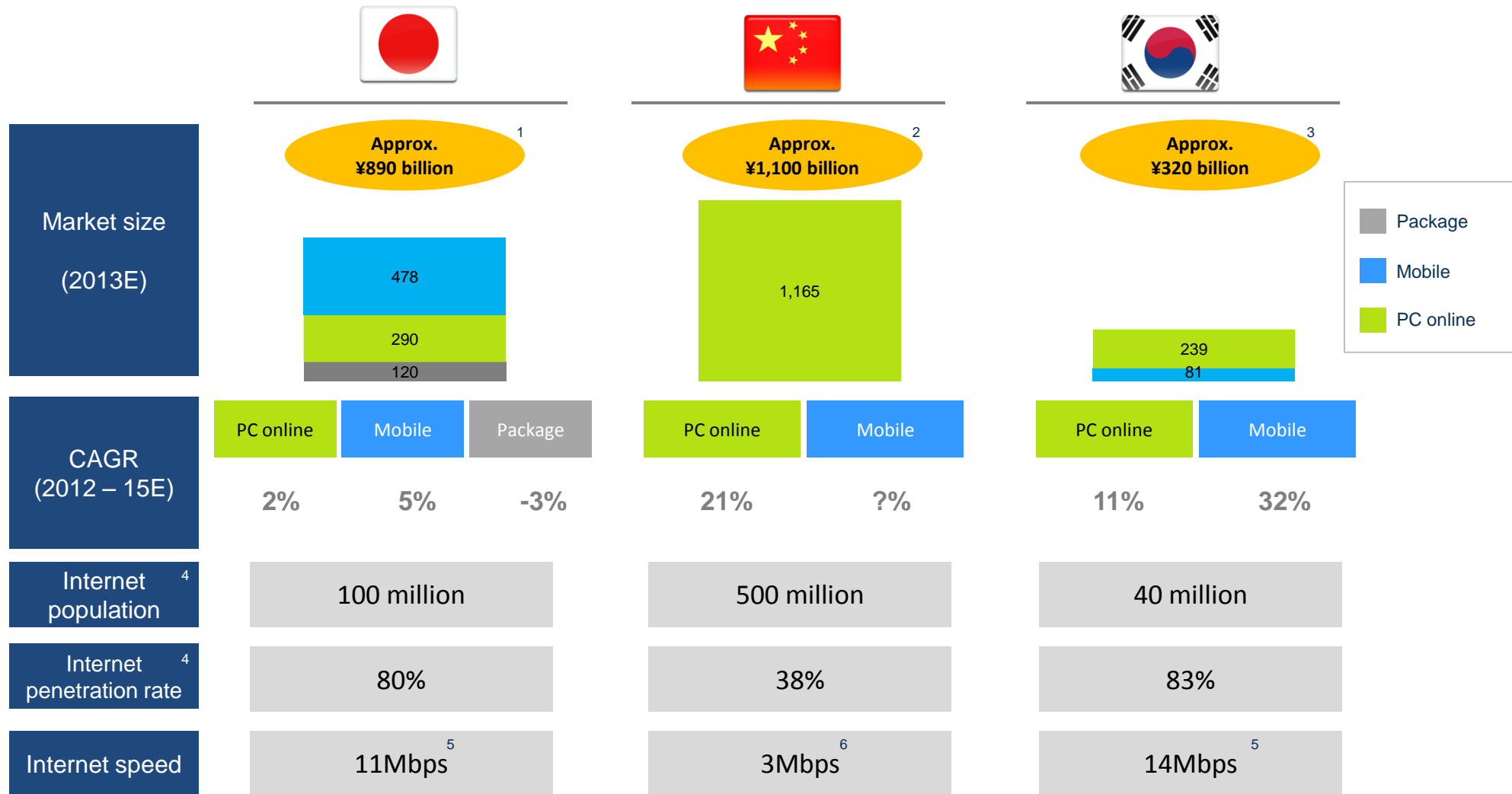


Source 1: VG Chartz. Estimate assuming 60 USD/ title  
 Source 2: Barclays Capital Report (March 2012), NEXON estimates  
 Source 3: NEXON estimates based on peak monthly revenue

# 3. Gaming Market Overview

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# Asian Game Market Overview



Source 1: Mizuho Securities Analyst Report (2013)  
Source 2: China Game Industry Report – IDC, CNG  
Source 3: IDC for PC online; Credit Suisse Securities for mobile (2012)

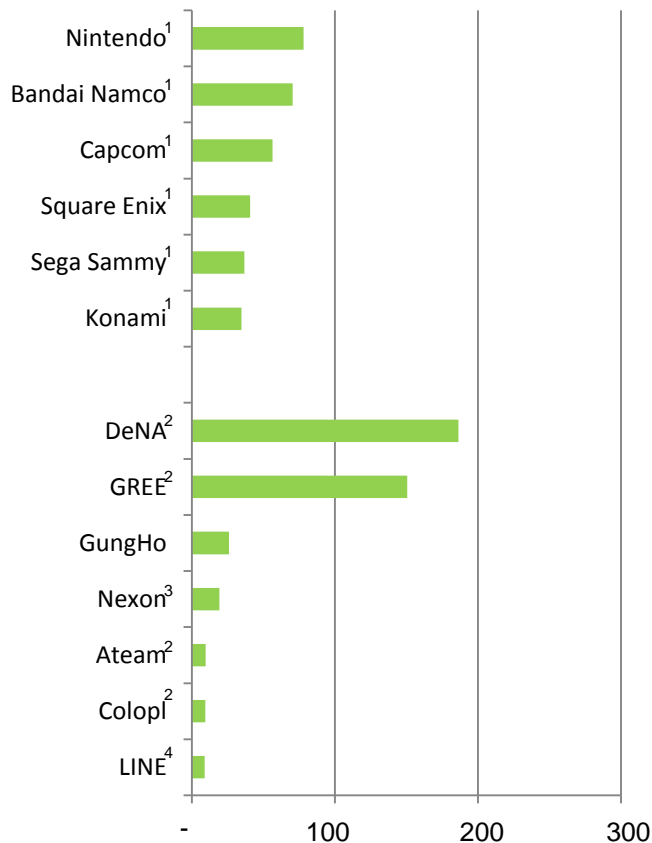
Source 4: International Telecommunication Union (ITU) (2012)  
Source 5: Akamai "State of Internet" (2012)  
Source 6: Qihoo 360 (2013)

# Key Players



2013 Market size: approx. ¥890 billion  
 ■ Package: ¥290 billion  
 ■ Mobile: ¥478 billion  
 ■ PC online: ¥120 billion

Latest FY Revenue (unit: billions JPY)

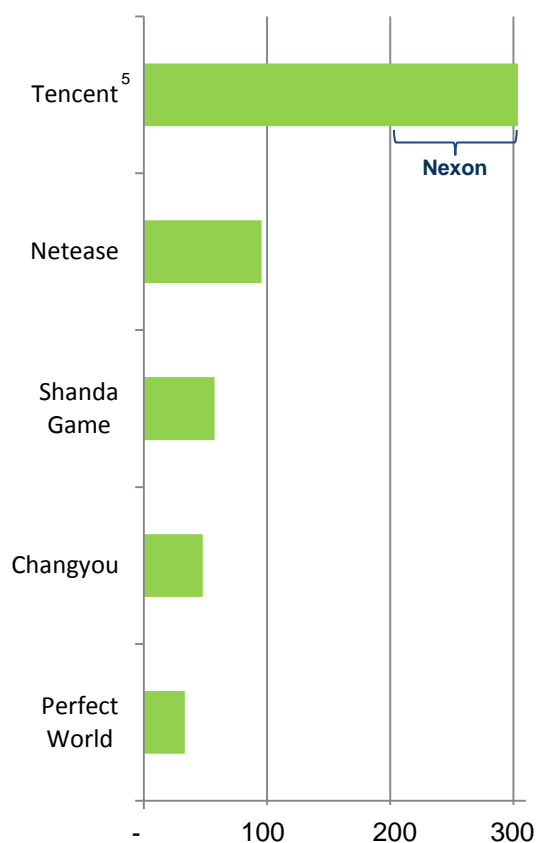


Note 1: Estimate of game-related (excluding hardware) revenue in Japan  
 Note 2: LTM actual performance based on March 2013  
 Note 3: Includes only one quarter of contribution from gloops  
 Note 4: Cumulative value from Oct. 2012 to Mar. 2013



2013 Market size: approx. ¥1,100 billion  
 (PC online market)

Latest FY Revenue (unit: billions JPY)

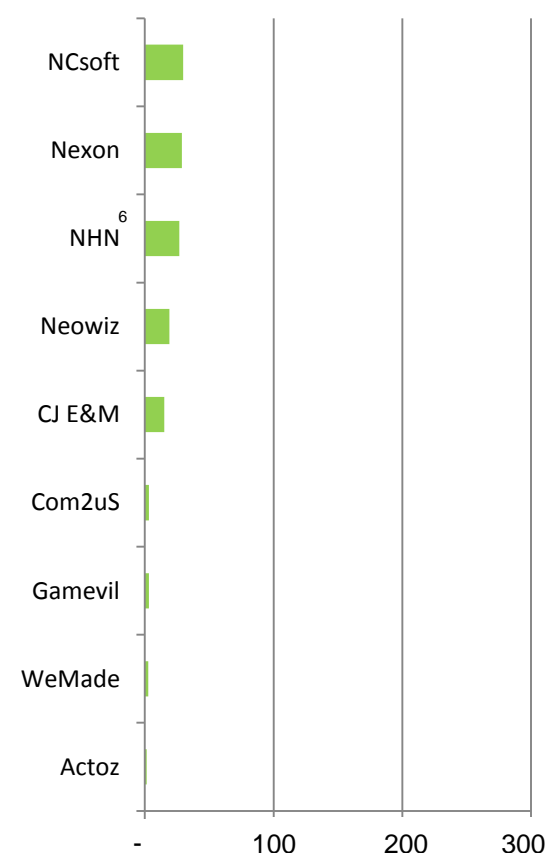


Note 5: Game-related revenue is used  
 Note 6: NHN's value uses Hangame's numbers  
 Source: Various analyst reports, NEXON estimates



2013 Market size: approx. ¥320 billion  
 ■ PC online: ¥240 billion  
 ■ Mobile: ¥ 81 billion

Latest FY Revenue (unit: billions JPY)



# Chinese Market Overview

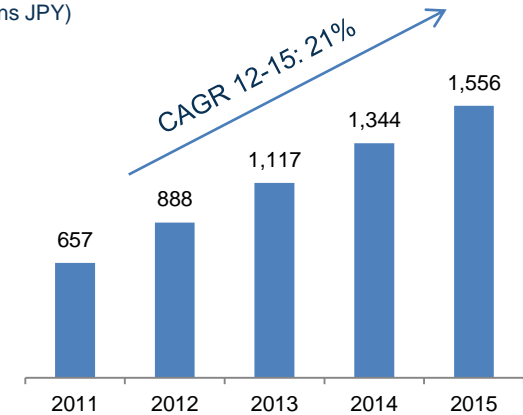


- **Market size in 2013: ¥1,100 billion, 26% growth on YoY basis<sup>1</sup>**
- **PC online accounts for 90% of the market**
  - Tencent's PC online game-related revenue for Q1 grew 34% (YoY)<sup>2</sup>
  - Change in user preference: Casual → Immersive
  - PvP (Player versus Player) games are popular
  - RPGs and PvP games such as FPS/RTS are growing in popularity
- **Mobile market growth potential**
  - 70% Android
  - Diversification of platforms (QQ / 360 / 91.com / UC web)
  - Growth of mobile market via communication platforms

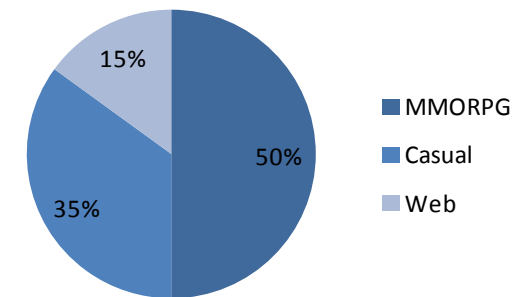
Potential of “WeChat ” (400 million users; 200 million MAUs)
- **Recognized as a high potential market**
  - The key is how to incorporate China's unique features

## Game Market Forecast<sup>1</sup>

(billions JPY)



## Market Share by Genre (2012)<sup>3</sup>



Source 1: China Game Industry Report – IDC, CNG

Source 2: Barclays Capital (May 2013)

Source 3: Credit Suisse Securities (October 2012)

# Reference: Top Mobile Games in China



Ranking

1

2

3

4

5

Title



**王者之劍**  
(The Legend of King)

**時空狩人**  
(Space Hunter)

**我叫MT**  
(I am MT)

**英雄戰魂**  
(Armed Heroes)

**搶你妹**  
(Qiang Ni Mei)

Genre

2D MMORPG

2D MMORPG

Card Battle

3D MMORPG

Card Battle

Publisher

Line Kong

PunchBox Studios

LOCOJOY

EGLS

CMGE



Source: China 360手机助手(mobile online game ranking) as of June 10, 2013

# Korea Game Market Overview




## ■ Market size in 2013: ¥230 billion, 21% growth on YoY basis <sup>1</sup>

- PC online accounts for 90% (Internet infrastructure, PC café culture)
- Users have extremely high game literacy
- Games are not considered geeky and there are many female users
- RPGs, FPS/RTS/sports games are very popular
  - League of Legends account for about 40%<sup>2</sup> of the market



## ■ Mobile market growth potential

- 67% of mobile phone users own smartphones (26% in Japan) <sup>3</sup>
- Serviced through the Kakao  platform
  - Kakao is used by about 70%<sup>4</sup> of the total population (50 million people)
  - Top 10 titles are mostly domestic casual games

Source 1: IDC for PC online, Credit Suisse for mobile (2012)

Source 2: Gametrics. Ranking by length of play time at PC cafés (June 3, 2013)

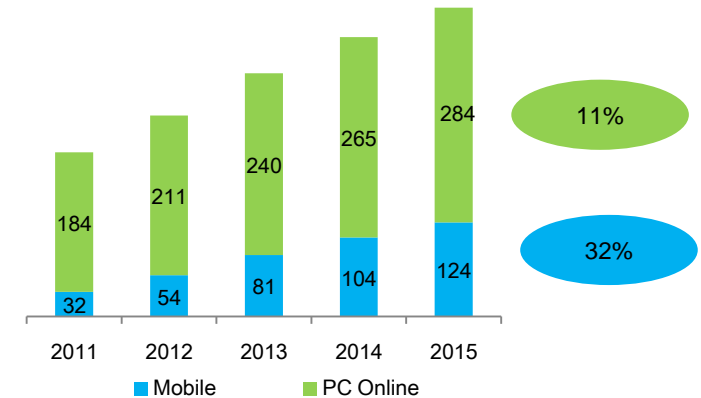
Source 3: Nielsen (June 2012)

Source 4: Sankei Aplista (May 2013)

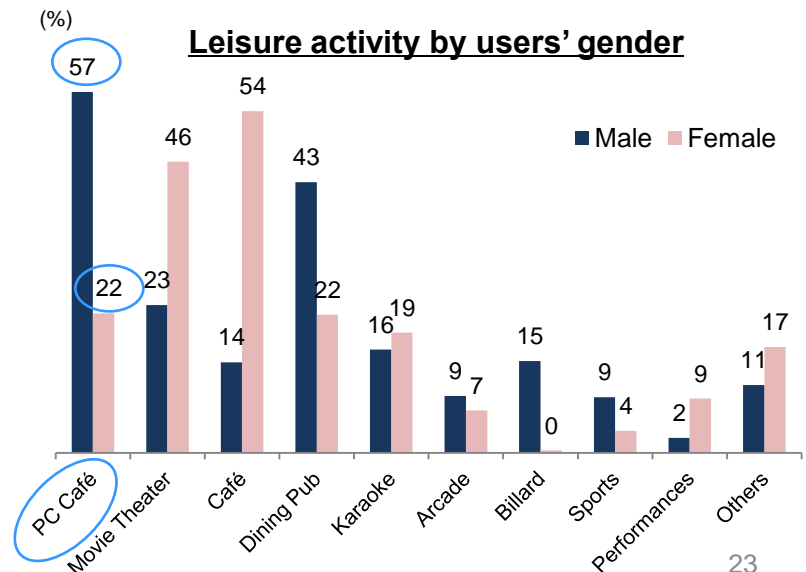
## Game Market Forecast<sup>1</sup>

CAGR 12-15

(billion JPY)



## Leisure activity by users' gender



# Japan Market Overview



## ■ Market size in 2013: ¥880 billion, 5% growth on YoY basis <sup>1</sup>

- Lead by mobile (surpassed console market)
- Declining trend in console/PC online

## ■ Browser market account large majority of the mobile market

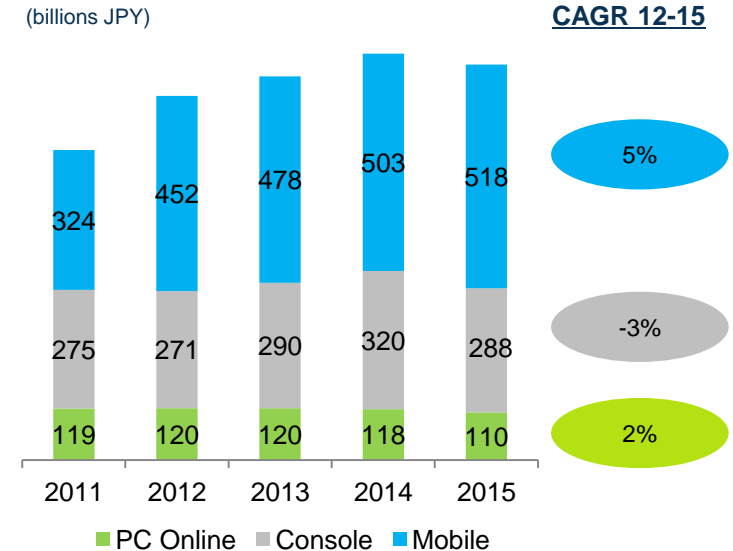
## ■ Native market is lead by “Puzzle & Dragons” → Established a new market

Native	Browser
<ul style="list-style-type: none"> <li>✓ Lack of traffic control</li> <li>✓ Importance of UI</li> <li>✓ Users have expanded to include younger players</li> </ul>	<ul style="list-style-type: none"> <li>✓ Development is short and (relatively) cheap</li> <li>✓ High retention rate of paying users</li> <li>✓ High user game literacy</li> </ul>

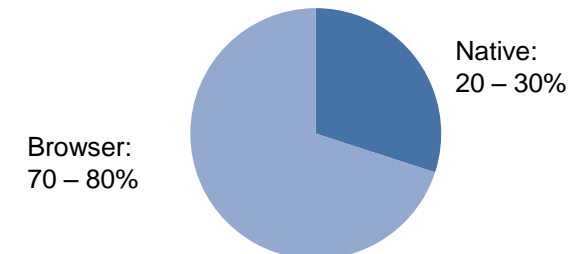
## ■ Future growth drivers

- Development of a hit title in a new genre (Next “Puzzle & Dragons”)
- Increase revenue in overseas markets
- Induce users to grow into core users

## Market Forecast<sup>1</sup>



## Mobile Market (Native vs Browser) Estimates<sup>2</sup>



Source 1: Mizuho Securities Analyst Report (January 2013)  
Source 2: NEXON and Credit Suisse Securities



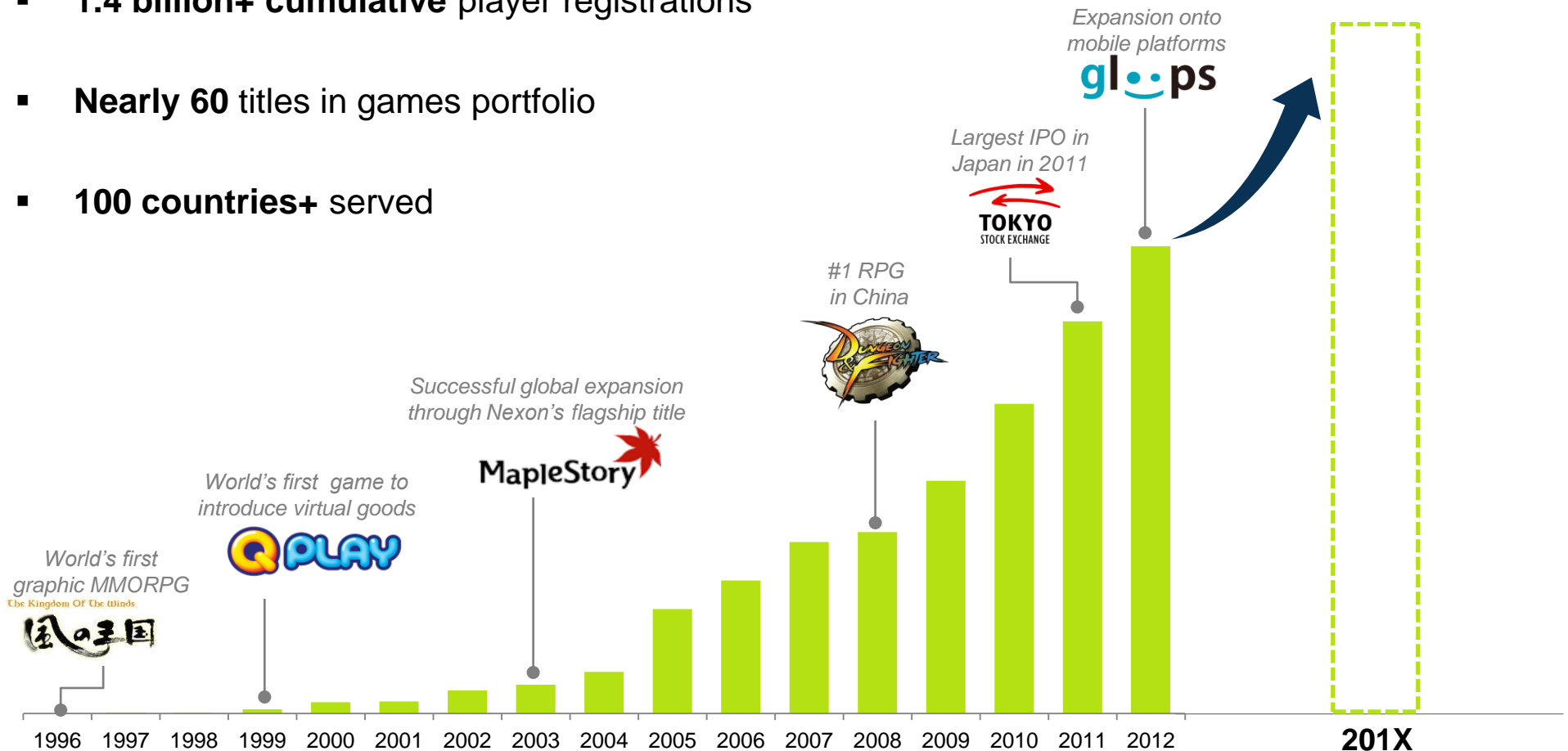
## 4. About NEXON

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# Pioneer of F2P Online Games

- **10 years+** of revenue growth
- **1.4 billion+ cumulative** player registrations
- **Nearly 60** titles in games portfolio
- **100 countries+** served

**No.1 Global Online  
Entertainment Company**



# NEXON's Strengths

## “CREATIVITY + GLOBALIZATION”

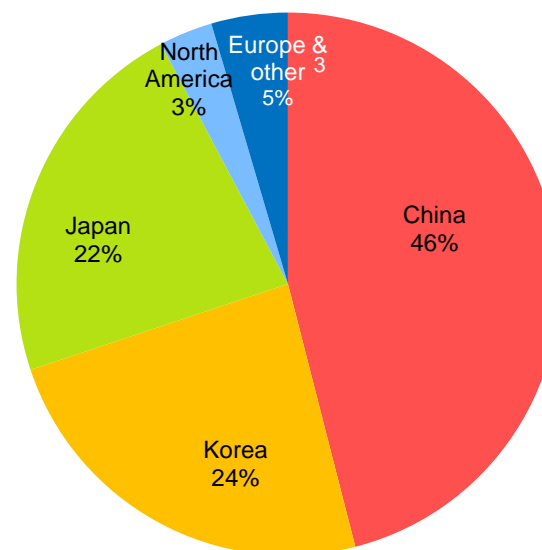
*Innovation and industry-leading experience in live operations sustaining diverse, long-lasting franchises*

*Global network enabling distribution of games to over 100 countries*

### Major Titles & Cumulative Gross revenue<sup>1</sup>

	2005 ~	¥200,000,000,000+
	2003 ~	¥120,000,000,000+
	2004 ~	¥40,000,000,000+
	2008 ~	¥32,000,000,000+
	2004 ~	¥24,000,000,000+
	2006 ~	¥24,000,000,000+

### Q1 2013 Revenue by Region<sup>2</sup>



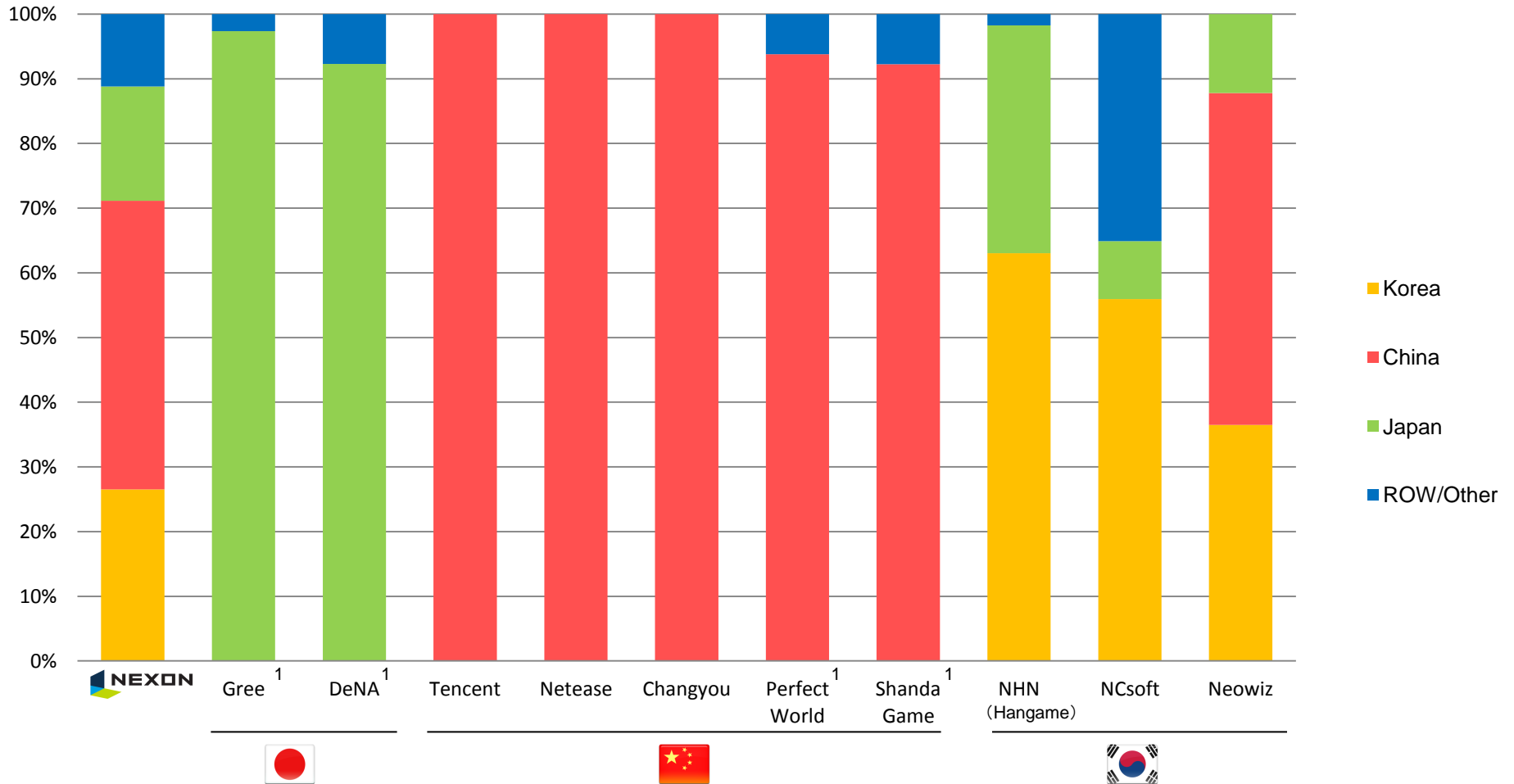
<sup>1</sup> Cumulative gross revenues from end-users over the life cycle of each game. It includes revenue received from local publishing partners in areas where Nexon doesn't publish directly (e.g. China), and those generated prior to acquisition by Nexon (*MapleStory* in 2004, *Dungeon&Fighter* in 2008, and *Sudden Attack* in 2010).

<sup>2</sup> Based on the region in which revenues originate. Not a presentation of revenues according to Nexon entities.

<sup>3</sup> Others: Europe, other Asian countries, and South American countries.

# Global Presence

CY12 Breakdown of Revenue by Region:



<sup>1</sup> Breakdown of overseas revenues by region is not disclosed.  
Source: Company materials and various analyst reports, NEXON estimates.

# Solid Presence in Growing China Market

- Rapid growth since Nexon's entry into the market (2003)
- Drivers in the China market: *Crazy Arcade BnB* (launched in 2003), *KartRider* (launched in 2006) and *Dungeon&Fighter*, the current No. 1 RPG among PC online games in China (No. 2 in the market overall)
- 2H 2013 Launches: *Cyphers*, a well established action MMO in Korea

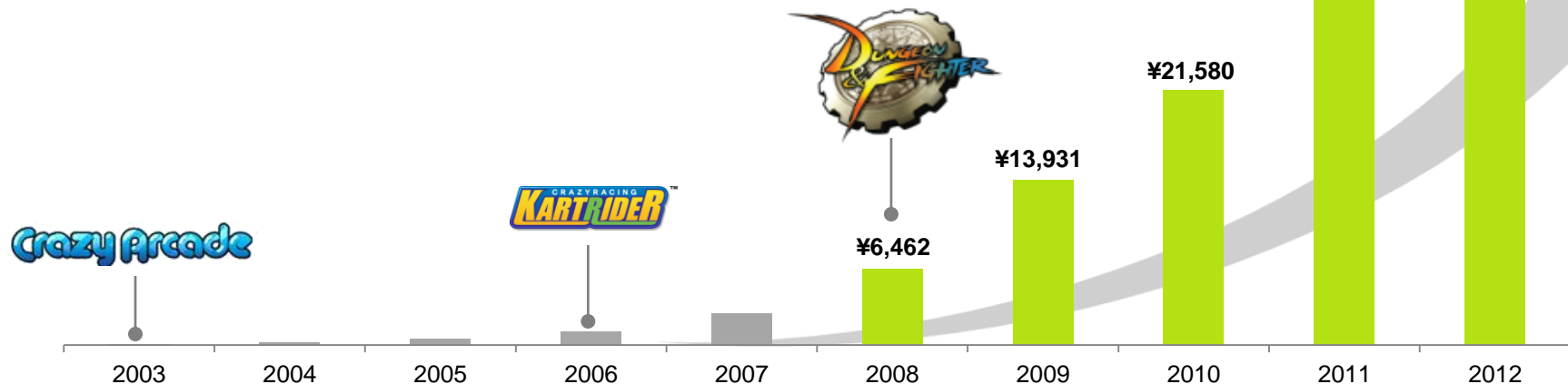
**Top PC Online Games in China**

#	Title	Click ratio
1	Cross Fire	27.40%
2	League of Legend	22.13%
3	Dungeon & Fighter	16.96%
4	QQ drive	9.23%
5	QQ dance	3.91%

Source: Bar China - Weekly ranking of click ratios at PC cafés (May 27, 2013)  
 Note: Click ratio refers to the ratio of the number of times a game was accessed at PC cafés against the total

**Revenues in China (million JPY)**

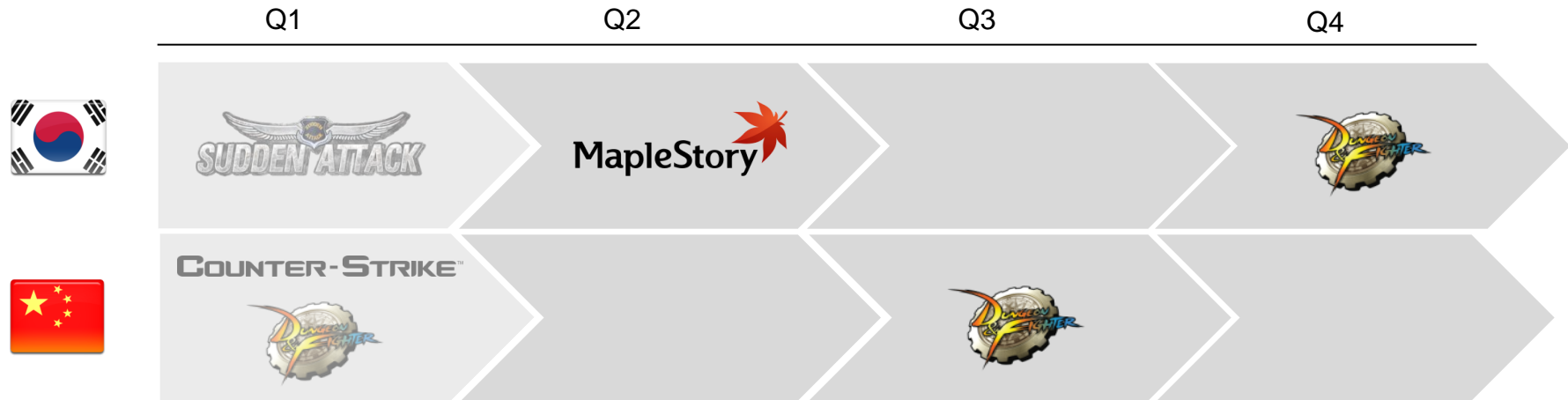
*Exceeded 3 million maximum concurrent users in June 2012*



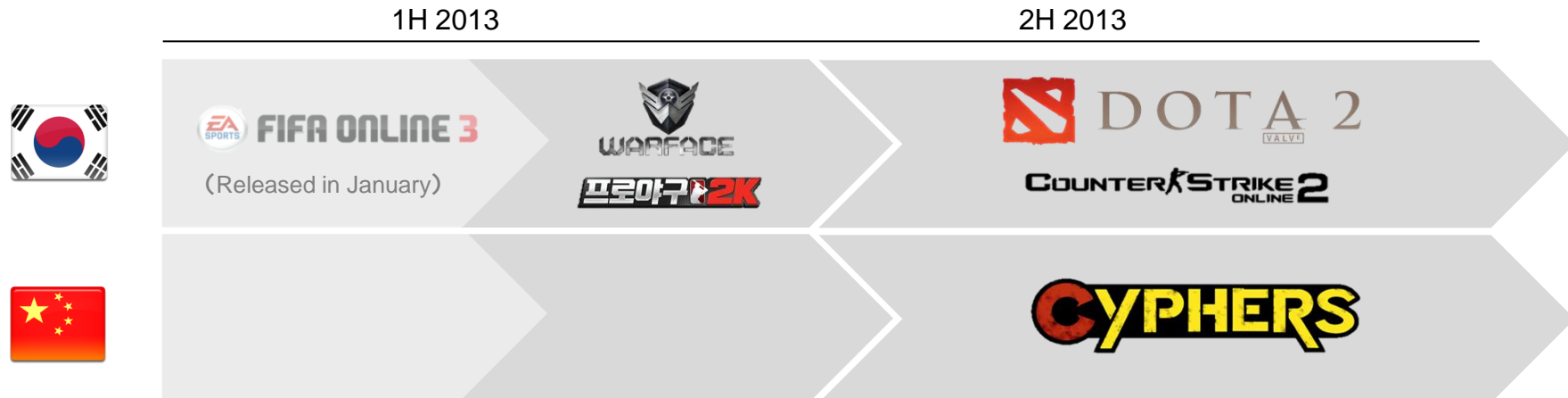
Note: The numbers above are revenues by users located in China; they are not revenues of Nexon's Chinese subsidiaries.

# Pipeline for PC Online

## Tier 1 Update



## New Titles



# Mobile Business Initiatives

		Market Perception	Nexon Initiatives
Japan	Browser	<ul style="list-style-type: none"> <li>Accounts for about 70 - 80% of the mobile market</li> <li>Mobage / GREE control user traffic</li> <li>Majority share held by top SAPs</li> </ul>	<ul style="list-style-type: none"> <li>Extend game life of existing contents</li> <li>Differentiate and create new game elements</li> <li>Expand our Mobage share</li> </ul>
	Native	<ul style="list-style-type: none"> <li>Market is led by <i>Puzzle &amp; Dragons</i></li> <li>Game competitiveness key because no platformer to direct traffic</li> <li>Regarded as a new market</li> </ul>	<ul style="list-style-type: none"> <li>gloops released its first native game in May  <i>"European Club Team Soccer — BEST*ELEVEN+"</i>  Ranked 1<sup>st</sup> in app store free ranking. Achieved 20<sup>th</sup> in grossing (Maintaining high retention)</li> <li>inBlue has already released 4 titles</li> <li>Guide users from casual to immersive game players</li> </ul>
China		<ul style="list-style-type: none"> <li>Majority Android users</li> <li>No Google store; multiple platforms exist</li> <li>WeChat has great potential but unclear release timing</li> <li>The key is how to incorporate unique features of China <ul style="list-style-type: none"> <li>User interface (e.g. UI/UX)</li> <li>Low internet connection (2G/2.5G)</li> <li>Fixed-rate mobile subscription is not available</li> <li>Some young demographics view mobile ≈ console</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Launched mobile version of <i>KartRider</i> in March</li> <li>Capitalize on our established know-how and develop games tailored to the unique market</li> <li>Introduce mid-core games, Nexon's specialty</li> </ul>
Korea		<ul style="list-style-type: none"> <li>Dominated by Android</li> <li>Kakao Talk leads the communication platform</li> </ul>	<ul style="list-style-type: none"> <li>Launched joint project between Nexon Korea and gloops</li> <li>inBlue launched <i>Dragon Girls</i> on Kakao (content from Japan)</li> </ul>

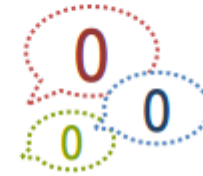
## Online



## Multiplayer



## Free-to-play



# To Become the No.1 Global Online Entertainment Company!



## 5. Q&A

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**NEXON**