

Program: Bloomberg Daybreak: Asia
Bloomberg TV
Guest: Nexon President and CEO Mr. Owen Mahoney
Interviewer: Ms. Betty Liu and Ms. Shery Ahn
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Ms. Ahn:

Japanese PC and mobile game developer Nexon last week delivered second quarter results and beat the high end of its outlook thanks to a strong performance in China. It's also looking to enter new markets through M&As and partnerships.

Joining us now in Hong Kong is Nexon's CEO and President Mr. Owen Mahoney. Thank you so much for coming into the studio.

We have to address your results. They were really great, surpassing their top estimates. What was the key driver of growth?

Mr. Mahoney:

Well, I think, to summarize the key word is longevity. We think that once you ship a game, it's not the end of our job, it's the beginning of our job. We think that a game can last and grow for a very long period of time and that our relationship with our customer can and should last for years or if not decades. So our results reflect decisions that we've made for a long period of time in making that happen. And it's hard to do but once you do it you can have very consistent growth.

Ms. Ahn:

You're heavily reliant in foreign currencies. Only about 10% of your revenue comes domestically, so given the volatility that we are seeing lately – geopolitical tensions strengthening the yen, we're also seeing the fed tightening – how do you factor everything in and how is that going to affect your results in the latter half of the year?

Mr. Mahoney:

Well, it's impossible to predict what's going to happen with the currency markets but our approach is to make sure that we keep doing what we've been doing, which has been providing stable growth as a result of this long-term relationship with our customers that can build up over time, so what we really track is how we're doing in each local market where we operate. As you mentioned only 10% of our revenues are from Japan, so the currency really helped us a lot in the second quarter, but what we really do is track in a constant currency basis or a local currency basis, and our Chinese, Southeast Asian and other markets have done very well for us.

Ms. Ahn:

And talking about other markets as well of course, you are pursuing that with M&As, investments, partnerships. You can see that some of the major deals you have made in the past include the 2012 acquisition of Gloop for 468 million dollars. What's in the pipeline right now, are you looking for partners and where would that be?

Mr. Mahoney:

Well, definitely. And so we think a lot about how to grow our business, but the thing about the game business is, we're in the entertainment business and when you're developing games, games are an art form. So you have to have a cultural compatibility between your company and the company you are thinking about joining up with. And so we often say that there is no roll up in the games business. So it takes a lot of time and it takes effort and you have to make sure that you have a similar view point on how to grow your company and how to grow the individual game. So we take a very prudent approach to doing that but we keep a lot of cash around so if the right opportunity presents itself then we can move very quickly.

Ms. Liu:

I know you had an M&A when you were at Electronic Arts and I cannot help but mark that this week, we're of course going to see Tencent out with their results and this gaming behemoth, who is going from desktop to mobile, I'm curious what you think the M&A path is for Tencent. Might they be looking for companies such as yours?

Mr. Mahoney:

Well, I can't really speak for what Tencent's strategy is. They are a great partner for us. They've been a wonderful company to work with. They believe strongly in terms of longevity in games and how to build a game up over time. Together, we have the largest PC game in China, Dungeon & Fighter, and they publish it for us, they have been a wonderful partner. As far as what their plans are, they would be the ones to ask.

Ms. Ahn:

We have breaking news out of Japan. Let me break this just quickly because we have the annualized growth figures for the second quarter in Japan. Look at that, growing 4% and beating estimates of growth of two and a half percent, also a big acceleration from 1% growth in the first quarter. These are preliminary numbers for the second quarter: annualized growth of 4%, quarter-on-quarter we are seeing growth of 1%, 0.6% was the estimate also growing from 0.3%, so Japanese growth seems to be

accelerating. These are phenomenal numbers. The deflator year-on-year also falling point four percent, falling much less than expected.

Ms. Liu:

Some pretty good numbers there, Sherry, and that of course is a six quarter growth there for Japan and GDP. Let me just quickly show you where the Japanese yen is trading, which had been pretty much, as you can see, weakening ahead of those numbers. Pretty stable right now given these really quite attractive numbers for Japan, but I guess at this point when you've got six quarters of growth it seems a little bit like some of that news is baked in already into the market.

Ms. Ahn:

Yeah, it seems that it has been baked in but at least not for Prime Minister Abe. He'll love those results, of course, his polls have been falling lately.

But let's go back to our guest Mr. Owen Mahoney of Nexon and talk a little bit about your results because we have seen, of course, mobile being big not only for your company but for everybody else. Your percentage of revenue from mobile, as you can see is around 24%. Do you have a specific target to grow this business?

Mr. Mahoney:

We don't have a specific target because we think ultimately the mobile devices and the PCs are going to converge. They are already converging in a lot of ways. So we think in a few years your PC is your mobile device and your mobile device is your PC. The mobile devices already have an incredible amount of capability and so we could deliver a very very good game on the mobile device and we like the fact that it's got a lot of accessibility so it's with you at all times. Right now, as you mentioned, it's about a quarter of our total revenue. We would expect that those businesses basically merge in five years or so and we're not even really going to see much of a difference between those two.

Ms. Liu:

Before we go, I know that you're expanding obviously in Europe and also in the U.S. and I'm curious as you're moving out west with Nexon, you mentioned earlier this year about how you don't want to be chasing Hollywood hits, right, with your company. How exactly are you going to expand here in the U.S.?

Mr. Mahoney:

Well, we've been tying up and working closely with some really wonderful game development partners. We've just launched last week a game called LawBreakers on PC with our partner Boss Key

Productions and that game has been getting phenomenal reviews. You can check them online on STEAM and other places. So that's been great. We've launched just last weekend Titanfall®: Assault on mobile and that's been getting great reviews as well. We like to work with partners who have the same approach to longevity that we have and those are two great examples. We'd like to do more of that.

Ms. Liu:

All right. Owen, thank you so much. Mr. Owen Mahoney there of Nexon.