

LETTER TO SHAREHOLDERS

FY 2020

To Our Shareholders,

As the world emerges from the long and dangerous pandemic, Nexon teams around the world have been creating the definitive next generation entertainment company. 2020 was a great year for Nexon – one in which we posted record-breaking revenue and made significant progress on our pipeline of new Virtual Worlds, which we believe will provide step-function improvements in our earnings power.

In this letter I will review Nexon's long-term growth strategy which guided our actions in 2020. I'll offer some perspective on how our strategy contrasts with older models of game-industry growth, and finish with some insights on Nexon initiatives which will leverage economic and player trends to open new opportunities.

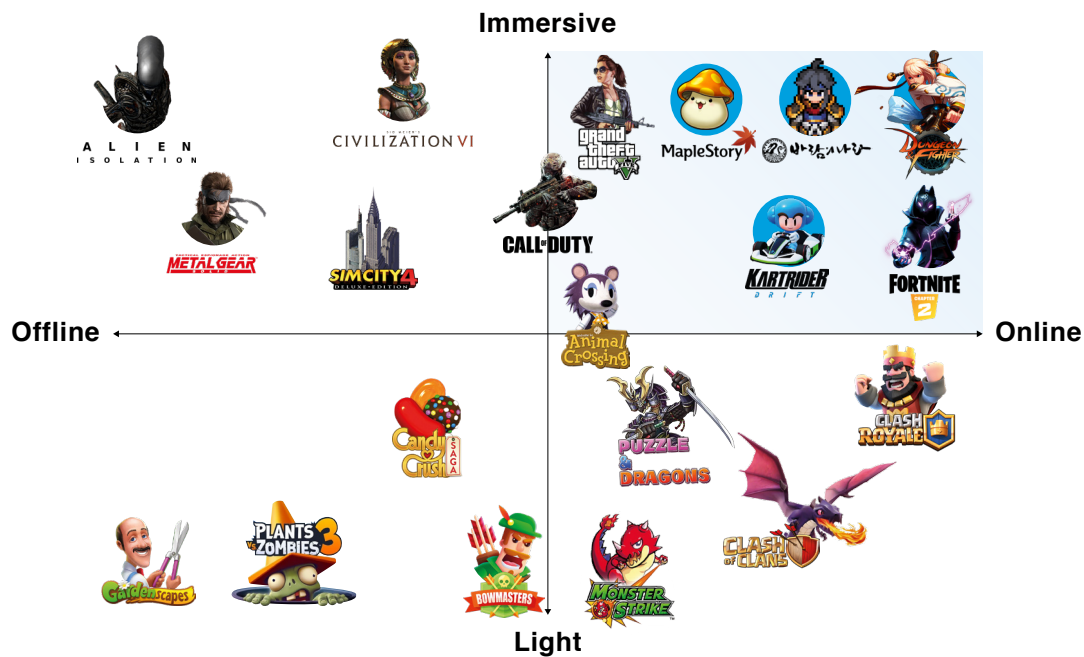
Focus

Eighteen months ago, Nexon adopted a strategy based on four pillars:

- **Focus on Virtual Worlds** – Create and sustain fewer but bigger fully online, deep, multiplayer Virtual Worlds
- **Platform Expansion** – Evolve our Virtual Worlds from our base on PCs to high-growth opportunities created by new technology on mobile and consoles
- **Leverage Our Own IP** – Concentrate our resources primarily on our own portfolio of blockbuster franchises, which are some of the largest in the global games business
- **Invest in New IP and Technology** – Invest in technology, companies, and/or IP that accelerates our other three pillars

How did we arrive at this strategy?

First is a recognition of how Nexon is unique in the games and entertainment industry. We started in the business of deep online games (the upper-right hand quadrant of the graph below). Like all companies, we tried many different genres of games (casual, single-player, others) but decided in 2019 to limit our focus to Virtual Worlds. That’s where our strength is, and where our heart is.



Second, we observe that the global entertainment industry is experiencing a massive secular shift, from offline to online, from lean-back audience passivity to lean-forward interactivity – a relentless, long-wave macro trend that is not widely recognized by analysts and traditional journalists. This secular shift will create a long list of winners and losers but we think one of the greatest beneficiaries of the shift is Virtual Worlds – deeply immersive multiplayer online games that Nexon pioneered and built into a position of global leadership.

Through our live operations expertise, we have built Virtual Worlds that have flourished and grown over decades. And thanks to breakthroughs in mobile technology, Virtual Worlds that had been limited to a few hundred million game-ready PCs are now accessible to billions of people with smartphone³, creating an order-of-magnitude expansion of Nexon’s Total Addressable Market.

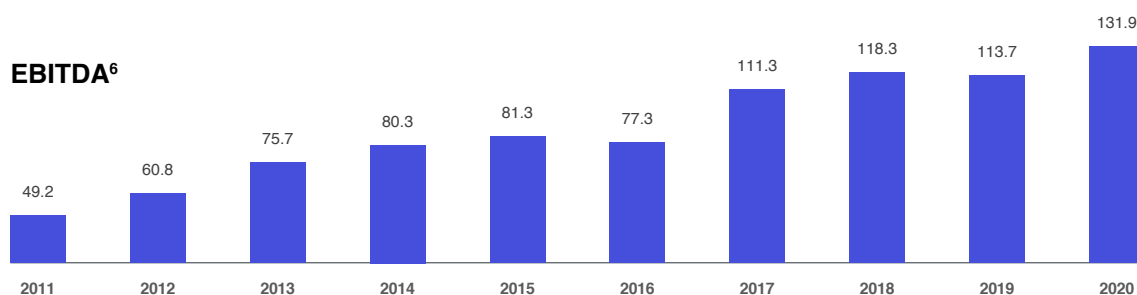
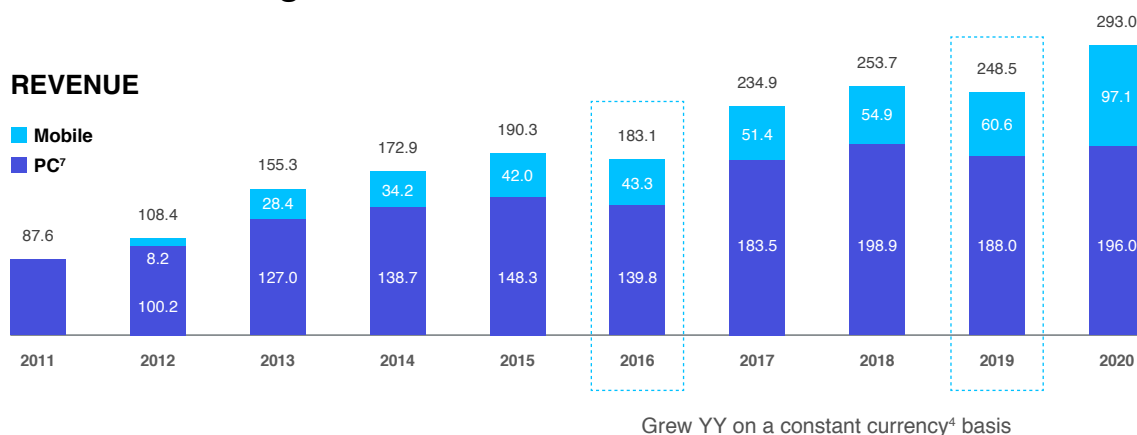
1 The letters, graphics, symbols, logos and other marks, and illustrations, characters and other works, which are shown in this material are trademarks, registered trademarks, copyrighted works or other legally protected materials owned by respective right holders.
 2 The categorization of the games shown in this material is based on our own view. It may not necessarily reflect the common views in the market.
 3 Source : Company ResearchCNY/USD, USD/KRW and KRW/JPY exchange rates from last year’s same fiscal quarter.

2020 Results

Nexon's performance in 2020 reflected the clarity of focus by our teams around the world. We posted record-breaking revenue of ¥293.0 billion – up 18% year-over-year on an as-reported basis and up 21% on a constant-currency⁴ basis. Operations in Korea – our largest market – grew revenue by 84% year-over-year, led by the strength of our major franchises.

Year-over-year, Nexon's mobile revenue grew by 60% and now represents one-third of Nexon Group's total annual revenue – up from 24% in 2019. This growth was driven by new mobile versions of our blockbuster franchises, including *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *FIFA MOBILE*⁵.

2020: All-time High Revenue and EBITDA⁶



⁴ Constant currency is a non-GAAP measure used to show performance unaffected by fluctuations in foreign currency exchange rates. Constant-currency basis amounts are calculated using the average foreign currency exchange rates for the comparable period in the prior year and applied to the current period. As an example, we calculate royalty revenues from China Dungeon&Fighter by applying the same CNY/USD, USD/KRW and KRW/JPY exchange rates from last year's same fiscal quarter.

⁵ Official title is EA SPORTS™ FIFA MOBILE.

⁶ Operating Income + Depreciation and amortization + Stock option expense – Other Income + Other Expense

⁷ PC revenues include other revenues besides PC online games and mobile games.

Two announcements in our Fourth Quarter reflect excitement about Nexon’s future. In October, Nexon was added to the Nikkei 225, the premiere index of Japanese companies whose stocks are widely viewed as a bellwether on their respective industries. And in November, we announced the nomination of Kevin Mayer to our board of directors as a non-executive member. Kevin is the former head of Strategy and Corporate Development of Disney during its incredible run of success in M&A (Marvel, Pixar, Lucas) and was responsible for creating and running the Disney+ streaming service. Together with the rest of the board, I am thrilled to be working with Kevin.

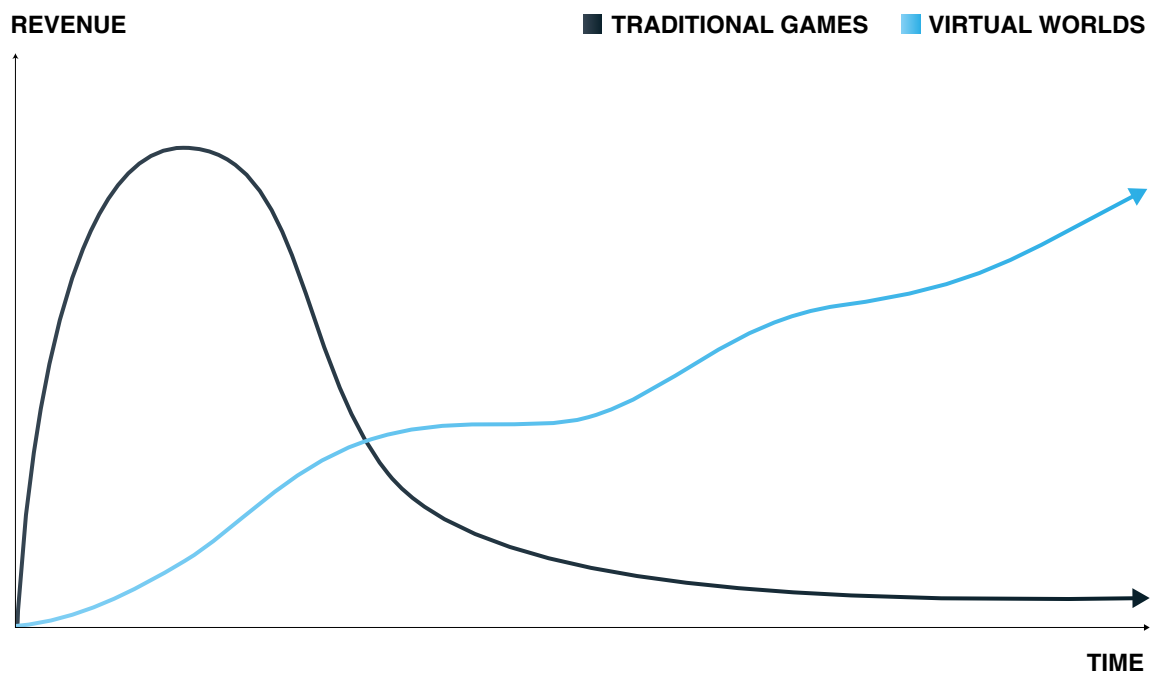
Virtual Worlds

Nexon’s business model can present an analytical challenge for those who come from traditional games. The present and future of a Virtual Worlds company doesn’t look at all like traditional games, so it’s worth discussing in some detail.

Traditionally the way video game companies generated revenue was by launching new games – no new games, no revenue. This is why industry watchers understandably fixate on new releases as they look for “catalysts” to drive the stock price. It’s a legacy from the old Hollywood model of releasing new films. But if traditional game companies are like movie studios, Virtual Worlds are much more akin to theme parks, except that Virtual Worlds are rendered entirely in software and delivered from the cloud. Thinking of our business as a virtual theme park, driven by our Live Operations expertise, offers a better mental model for how we run our business. And it has several fundamental but counter-intuitive implications for the analyst:



- **Fixation on new games as catalysts is often counter-productive.** Our business could grow robustly for years on end without any new launches.
- **Game revenue, active user numbers, and other KPIs may – and usually do—fluctuate.** The longer-lived the Virtual World, the more likely this is to happen.
- **Assumptions of standard product lifecycle (“PLC” in industry jargon) are worthless,** at least when the game is in the hands of capable live-game operators. A standard question from a PLC-focused analyst is: *When does this game decline?* Our answer is: we don’t know, since we are trying to make it last forever.



Nexon created the first Virtual World and has spent more than two decades developing industry-leading Live Operations to build these into massive, vibrant virtual communities. Our expertise in Live Operations is central to our growth plan – it’s a highly specialized and hard-to-replicate knowledge, especially at scale and across multiple franchises. The focus is on making experiences that people want to come back to for years. That approach used to be highly contrarian thinking in the larger games industry, and difficult for observers to grasp. Today Virtual Worlds are a mass market global phenomenon that is clearly overtaking linear entertainment, a hold-over from industrial-era technology.

Pipeline

This highly-stable base of massive Virtual Worlds enables us to be both deliberate and creatively ambitious about the new Virtual Worlds we launch.



Mobile Dungeon&Fighter, a game originally scheduled for release in Q3 last year, generated more than 60 million pre-registrations in China. While we work with our partners at Tencent to reschedule that launch, our teams are busy creating additional content which will sustain the game long after its release.



Kart-Rider: Drift is the next generation of one of the world’s most popular online franchises. With more than 380 million registered players to date on the PC platform alone, the first generation of KartRider has been played by roughly 45% of the population of Taiwan and more than half of the population of South Korea. The new game will be on multiple platforms (including PC and console) and, unlike similar games, is focused entirely on online gameplay. And, of course, it’s free.



The First Game from our Embark Studios in Sweden will break significant new creative ground, not just in terms of gameplay, but also in how it is built. Some early news of what they are working on can be found here: <https://medium.com/embarkstudios?source=logo-6c1e99d44d8b---e5225b33c217>.

Advances in software tools and networked computing power have largely been ignored in the games industry, even as costs for AAA development have exploded. The Embark development team's deliberate leveraging of these new technologies changes how games are played and enables much faster and cost-efficient development at a much larger scale. This means they can iterate on many new creative ideas at a fraction of the cost.

The Future

The business and art of Virtual Worlds is evolving rapidly, and forecasts for how it will look in 10 years are the subject of intense interest and speculation – especially to those of us who want to spend more time being entertained in an alternate universe. At Nexon, we think specific predictions are a fool’s errand – the path of technology is impossible to predict with accuracy and the most compelling user experiences in games result from countless cycles of iteration, throwing out what doesn’t work and doubling down on what does. Nonetheless, based on our experience four things are clear:

- **There will be many more customers.** Thanks to the effects of Moore’s Law, the potential customer base is exploding from hundreds of millions on gamer PCs to billions on entry-level mobile phones⁸ that are more powerful than high-end workstations were even a few years ago.
- **Individual Virtual Worlds will be much larger and more complex than they currently are.** The software and networks support much bigger scale. That means much larger simulated virtual spaces.
- **Development and maintenance of these Virtual Worlds will likely become even more difficult and specialized.** Developing great games is already hard enough. Few game creators in the world are able to create truly breakout hits. With technology enabling us to build much bigger online Virtual Worlds, with many times the number of players, the scale of the creative challenge is multiplied, but the fundamental issue remains: what is fun for those players? What keeps them engaged and coming back for years?
- **Software tools and technologies are advancing rapidly,** which is a boon to game developers who take advantage of them.

These points have informed our investments in tools in technology.

Embark’s ambition has been to develop massive Virtual Worlds around new IP with AAA art and groundbreaking gameplay. To do that would normally require hundreds of millions of dollars in investment and about five years.

So the team decided a new approach was needed: intelligently leverage the best external tools and augment them with new, internally-created tools and re-built work-flows. The immediate result is reduced cost and time to market. But the more revolutionary impact of this approach is the game they are now able to create: a vast, high-definition Virtual World with machine learning at the core of the gameplay.

Meantime, our Intelligence Labs team in Korea is led by the most experienced and imaginative makers of Virtual Worlds. They recognized several years ago that network and AI tools from Google, Amazon and others could be used to automate and accelerate their work. The result of applying and augmenting these tools has been a direct and immediate impact on game metrics, and it has freed the teams to better iterate and build out their Virtual Worlds. Net, the machines do more of the grunt work so the humans can do the creative work.

The benefits of these investments don't garner the kind of immediate press that our major product launches do, but they can have a massive long-term impact on the scale and scope of our business. We think that it is our job to be aggressive and ambitious about building a long-lasting future.

The greatest media company of this century will not be built on industrial-era foundations. It will look completely different. Nexon performed well in 2020 but our ambition is much greater – we aim to be the global leader in interactive entertainment. To do that, we need to re-invent ourselves, and our industry.



President and CEO

Owen Mahoney



Tokyo, Japan

March 29, 2021