

LETTER TO SHAREHOLDERS

FY 2021



To Our Shareholders,

I'd like to start the 2021 Annual Letter by paying tribute to our founder and friend, Jay Kim, who passed away in February. While Jay was not involved in the day-to-day of the company for many years and retired from the board of directors in 2016, he remained the heart and soul of Nexon. Jay was the most original thinker I ever met. He was an engineer by training, but he had the heart of an artist. He challenged us to innovate, to make bold, original moves, and to ignore the critics. If a company has a personality, Nexon's personality is a direct reflection of Jay. The devastation we feel over the loss of our friend is matched only by the sense of mission we feel to grow his legacy and fulfill his dream of making Nexon the greatest entertainment company in the world.

In 2021 Nexon teams around the world drove relentlessly to expand our business – by growing our existing Virtual Worlds, by building new Virtual Worlds for launch in 2022 and 2023, and by building a technology stack to accelerate all our activities. Such a concerted effort over time requires a clear strategy, and such clarity, in turn, requires well-defined principles about our business and the world around us.

Our strategy is based on the following set of principles:

- Virtual Worlds are rapidly becoming the center of the entertainment business. Being able to live in your simulated, fictional world – to participate in it as an actor rather than lean back and passively observe it – is a fundamentally more compelling experience.
- Quality drives longevity: if you give players a unique and compelling experience, they will want to spend years or decades in that Virtual World. Quality is defined by gameplay, backed by great intellectual property (IP).
- Like a theme park, operating a vast Virtual World requires constant care by live operations and new live content. It requires us to make thousands of decisions to foster a community over time.
- When done well, Virtual Worlds last and grow indefinitely. Despite near-term fluctuations, we've observed this evergreen nature with each of our major franchises. This central observation is counter-intuitive and difficult for many to grasp.
- To build up Virtual Worlds and great IP requires self-discipline: an investment mindset that, like compounding interest, pays back significantly over time. Our track record of growing franchises over decades reflects our willingness to invest in our IP, rather than harvest short term gains that could hurt our long-term performance.

- If done well, the result is enduring IP that is one of the most powerful forces in business. A company in possession of such IP can look forward to stable growth over the long term. We don't have to replace old with new in order to have strong organic growth. This is a vastly different model than the traditional games business.
- We give that stable revenue-generating capability a step-function boost when we introduce great new Virtual Worlds that resonate.
- Our target market is massive, growing, and global. Additionally, there is an order-of-magnitude expansion of the Total Addressable Market underway, thanks to Moore's Law. In the past our business was limited to the 300-400 million game-playable PCs in the world. Today, 3-4 billion mobile phones are capable enough to render a deep Virtual World, and soon everyone on the planet will be using such devices.

These principles inform all of Nexon's considerations on strategy. And it has led us into sometimes surprising decisions and nontraditional investments. Over the last 25 years, the initiatives that made us most successful were the ones that were considered most weird when we originally tried them. Nobody was thinking about massively-multiplayer online role playing games when we invented the category (with *The Kingdom of the Winds*, in 1996). The idea of giving games away for free and allowing people to buy virtual items with virtual cash was considered crazy when we first introduced the model with QuizQuiz in 2001.

Meantime, our principles have led us to ignore many fashionable trends in the industry that we consider to be dead-ends. Today, many ask about our Metaverse strategy or our VR strategy, while ignoring our investments in technology to build and operate massive Virtual Worlds, investments that directly benefit the scale and growth of our business.

The principles above have guided recent investments we have made for our future.

- **Tools for scaling live Virtual Worlds:** We increased our investment in Intelligence Labs: behind-the-scenes tech for operating live games. We can now leverage off-the-shelf technology and combine it with proprietary tools to scale our operations and better retain customers.
- **Tools for building Virtual Worlds:** We invested in game development tools made by Embark Studios. These enable us to build AAA Virtual Worlds much faster and with less expense than only using traditional tools.
- **Intellectual Property:** We forged a long-term relationship with Games Workshop for one of the great fantasy intellectual properties in the world: *Warhammer Age of Sigmar*. Our agreement makes us partners to build out a deep Virtual World based on this IP.
- **Linear entertainment:** We purchased approximately 40% of AGBO, the premier producer of franchise Film and TV in Hollywood. AGBO's specialty is producing deeply immersive cinematic universes. *Avengers: Infinity War* and *Avengers: Endgame*, directed by AGBO co-founders Joe and Anthony Russo, were two of the highest-grossing films of all time. Our objective is to extend Nexon's IP to Film and TV, and to bring great linear IP to Virtual Worlds, and we anticipate AGBO will play an important part in that strategy.
- **Access to broader entertainment:** We invested in Smash Ventures and Alignment Growth Fund -- two firms led by some of the world's top media strategists. Our objective in these investments is to work with the most capable and prolific entertainment executives to build linkages between Virtual Worlds and other forms of entertainment.
- **Access to crypto start-ups:** We invested small amounts in several of the premier crypto-focused VC funds. In our view, blockchain-based technology represents the next generation of virtual currencies, an area we pioneered almost 20 years ago. The pace of development is very fast, and these investments give access to deals and the most knowledgeable and thoughtful VCs in the space.

- **Talent:** We beefed up our management team and board, with people who are leaders in other segments of the entertainment industry, to help us build a larger flywheel around the core of Virtual Worlds.

While we deployed significant investment capital to these initiatives, that capital represents a small portion of our total cash. We believe it is important to retain a fortress balance sheet to protect ourselves in any situation, and to be able to move quickly when significant strategic opportunities present themselves.

The investments mentioned above are important to accelerate our primary investment: development of large new Virtual Worlds. Three big ones we have spoken about previously are:

Dungeon&Fighter Mobile: the mobile version of our largest franchise was launched in Korea at the end of March. Beta tests in Korea have been very well received. And, along with 60 million people who pre-registered the game in China, we remain very excited to launch the game in that region.



ARC Raiders: the first game from Embark Studios in Sweden. The game combines AAA 3rd person visuals with cutting-edge physics and machine learning techniques to create a highly unique environment.



KartRider: Drift: the next generation of one of our largest and most-beloved franchises. The game will be cross-platform (PC, console, mobile) and enable significant customization of karts and characters.



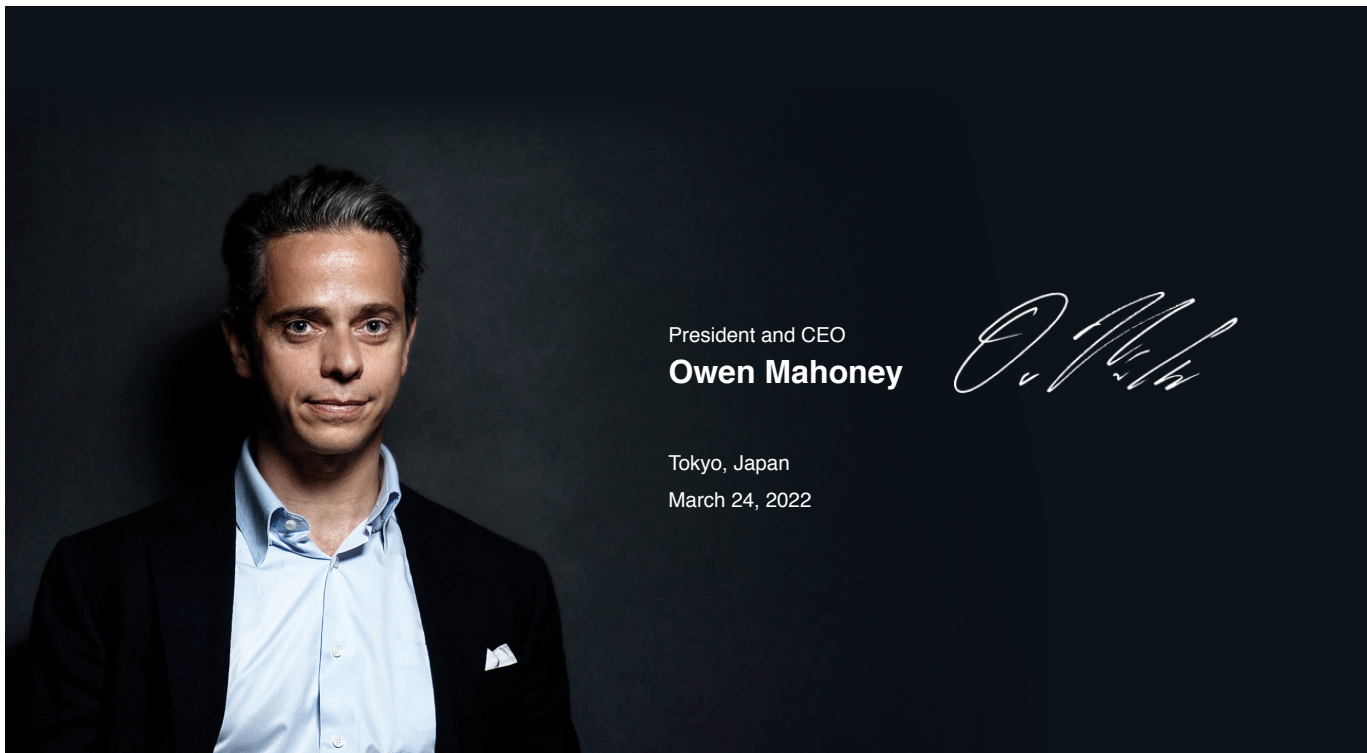
In addition to the above, we plan to launch several Virtual Worlds in the coming 12-18 months that we have not yet talked broadly about. One is the second game from Embark, code-named *Discovery* which we plan to launch within 12 months of *ARC Raiders*. Another is *MABINOGI MOBILE*, the next generation mobile version of one of our longest-running franchises. Now that mobile devices are highly capable both at the GPU layer and at the network layer, we can bring a much richer experience to a much wider market.

And there are several as-yet unannounced titles. We are entering into the busiest launch periods in Nexon's history. We think the hard work we did in 2019, 2020 and 2021 will pay out in 2022, 2023 and well beyond.

Not all of our initiatives will work. Some may not be popular in the short term, since they don't follow widely-accepted industry fashion. But if you believe as we do that a) the entertainment industry is in a broad secular shift towards online Virtual Worlds, and b) we are in the very early innings of this shift, the investments we outlined above are the type required to build this future. What seems non-traditional now will seem obvious within a few years as these investments drive significant EPS growth.

As I write this, world events are again reminding everyone that our operating environment is a highly unpredictable place. Widely-held assumptions are being reexamined. Much of what was considered obvious and mainstream even a year ago has been proven to be dead wrong.

From the time Jay Kim founded Nexon in 1994 to today, we've believed that the best way to navigate such a changing world is to be very non-traditional in our thinking, to think in first principles, to be willing to ignore the crowd. We have worked hard to create a business model, an approach to innovation and decision-making, and a balance sheet, that serves us well in any environment. While such an approach may not be popular in the short-term, we think it is a prudent way to build a business that grows for decades. It's also the only way to innovate, and to create a brighter future.



President and CEO

Owen Mahoney

A handwritten signature in white ink, appearing to read 'O. Mahoney', positioned to the right of the printed name.

Tokyo, Japan

March 24, 2022