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NEXON Co., Ltd. (3659.JP)

Q4 2014 Earnings Call

MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone, and welcome to Nexon's 2014 Fourth Quarter Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the call over to Shumpei Kumagai, Head of Investor Relations. Please go ahead, sir.

[08HRLT-E Shumpei Kumagai]

Hello, everyone, and welcome. Thank you for joining us today. With me are Owen Mahoney, President and CEO of Nexon, and Shiro Uemura, CFO.

Today's call will contain forward-looking statements, including statements about our results of operations and financial condition, such as revenues attributable to our key titles; growth prospects, including with respect to the online games industry, our ability to compete effectively, adapt to new technologies, and address new technical challenges; our use of intellectual property and other statements that are not historical facts. These statements represent our predictions, projections and expectations about future events, which we believe are reasonable or based on reasonable assumptions.

However, numerous risks and uncertainties could cause actual results to differ materially from those expressed or implied in the forward-looking statements. Information on some of these risks and uncertainties can be found in our earnings related IR documents. We assume no obligation to update or alter any forward-looking statements. Please note, net income refers to net income attributable to owners of the parent as stated in Nexon's consolidated financial statements.

Furthermore, this conference call is intended to provide investors and analysts with financial and operational information about Nexon, not to solicit or recommend any sale or purchase of stock or other securities of Nexon.

Please note, we may be using Japanese to English interpretation during the Q&A session.

A recording of this conference call will be available on our Investor Relations website, www.ir.nexon.co.jp/en/ following this call. Unauthorized recording of this conference call is not permitted.

I'd now like to turn the call over to Owen.

[077H6N-E Owen Mahoney]

Thank you all for joining us today. Uemura-san will review our fourth quarter performance and first quarter outlook in more detail shortly. First, I'd like to offer my perspective on our 2014 results, our key themes heading into 2015 in the context of our long-term growth strategy, and lastly, a few comments on shareholder returns.

First, the highlights of our 2014 performance. Full year revenues were ¥172.9 billion, up 11% year-over-year. Operating income was ¥45.5 billion, a 10% decrease year-over-year with a 26% operating margin. This operating income includes an impairment loss on gloops' goodwill of ¥11 billion that we previewed last quarter. Net income was ¥29.3 billion, down 3% year-over-year.

As I said on previous briefings and calls, our primary focus as a management team since I assumed the CEO role in March has been on game quality, both for new games and live games

that we currently service throughout the globe. At that time, we said it'd take about two years to see the strategy bearing fruit. We made a lot of progress in 2014. In China, we introduced a series of high quality content updates for Dungeon&Fighter. In Q4, China showed strong revenues with 36% year-over-year growth on an as reported basis.

Korea was particularly strong in 2014. We achieved a significant year-over-year revenue increase there of 52%. Most of you will probably remember that back in 2012 and into 2013, our ability to grow Korea was called into question. Today, our performance in Korea is showing what we can do when we focus on game quality in new games and longevity in live games. Our Korea team did a brilliant job in 2014 executing on our strategy, and this tremendous growth rate demonstrates the effectiveness of our strategy.

Another highlight of 2014 was the excellent growth of our mobile business in Korea. Mobile revenues grew over 8x year-over-year. We launched a number of compelling mobile games, including FIFA Online, 3M, Legion of Heroes, Three Sword Heroes and Pocket MapleStory.

Our Korea PC online business also showed strong growth. FIFA Online 3, which was already a successful title in 2013, accelerated its growth in 2014. And the tailwind of the World Cup had a much stronger positive impact than we initially anticipated. This growth was driven by strong live operations, as well as good execution of sophisticated marketing and promotion.

Moreover, as with FIFA Online 3, our other existing PC titles also grew solidly. Notably, although many of our PC online titles in Korea have been around for a decade or more, our PC online titles even excluding FIFA Online 3 grew year-over-year.

The update on Japan in Q4 is less positive, in large part because we were not able to meet our quality expectations. Let me come back to Japan in a moment, as I have more to say about this region.

In North America, we started to see green shoots in 2014, as a result of improved execution by our new management team, and revenue growth turned positive in the second half of 2014. This performance is a result of an improvement of live game operations in the region, as well as marketing and promotions that are bearing fruit under the new management team there.

Another highlight of our current business is the excellent pipeline of new games we now have. We believe that our pipeline of new games is the most robust and exciting lineup we've ever had, and it's getting even stronger. Many of the titles we've been talking about for some time including DomiNations, MapleStory 2 and Ghost in the Shell Online will be hitting the market in 2015.

Also last month, we announced a licensing agreement with Warner Brothers Group to develop a mobile game based on the LEGO franchise, one of the most high profile and recognized entertainment brands around the world. Resulted in some good early successes in 2014, which we think are a validation of our strategy.

So, our focus on quality as we move into 2015 and beyond, we will continue to execute on this core principle, the unrelenting focus on quality. We'll continue to prioritize game quality for both new game development and live game operations because it's been our experience that this approach leads to longevity of games and in turn to sustainable, long-term financial growth and shareholder value.

This means that in new game development, we are focusing and putting our resources only on those games that matter. Those that are fun, highly differentiated, and that we think can achieve very long average user lifetimes. For live game operations, we place the highest value on long-term growth and player retention.

2015 will also be a year when we rollout significant number of new PC online games and mobile games. As I said earlier, we have the richest pipeline in our history. We'll be launching titles throughout the world both internally developed and through our partnerships.

Now, I'd like to return to Japan and discuss our performance in 2014 and our expectations for 2015. While our strategy took hold in several other regions around the world in 2014, our Japan business continued to face difficulties. Gloops developed several new mobile native games including four that were launched during the fourth quarter. However, unfortunately our games did not consistently meet our high standards for quality as we work through the year in a rapidly changing mobile browser and native game market dynamics.

As a result, the games did not resonate well with players. To me the issue we had in Japan was not whether we have the right strategy, but simply how well we executed it. Consequently, we recorded an ¥11 billion impairment loss on Gloops' goodwill at year end. We had signaled that this was likely and we did in fact record the impairment.

In 2015, we will be bringing our execution in Japan in line with what we've accomplished in Korea and other regions, concentrating our efforts around doing fewer projects and doing them better. This will mean fewer game launches on both native and browser games. For operations of live games, we are focusing on game longevity. We will also leverage our global pipeline across Nexon group including bringing to Japan some high quality titles developed in our Korea and U.S. partnership studios. We also continue to focus on securing publishing rights for high quality PC online and mobile games in Japan.

Summarizing our approach, we believe strongly that in online games, quality of games drives growth. We're focused on developing new games that are fun and highly differentiated and on live game operations that emphasize longevity of the game. It's been our experience that a focus on quality and longevity drives long-term success and in turn shareholder value.

In the context of this vision, we pursue a well-defined strategy to achieve future growth. The strategy begins with our sizeable base of revenue from existing titles. This is a major difference between our business and many other console and mobile game or social game companies. Unlike those companies, our existing games although they fluctuate up and down over time, will generate steady revenues for a long period of time. This is the result of our significant focus on live game operations I discussed earlier.

There are only a few companies in the world that have been servicing the same game for more than a decade and there are even fewer companies that are still delivering revenue streams from such titles. On top of this stable revenue base, we achieve growth in three ways. First, we develop and launch new games on both PC and mobile platforms. Second, we're focused on building our business in the west. Starting from 2015, we are launching a slate of high-quality mobile and PC games in the western market. Finally, M&A remains a source of potential growth. Our M&A strategy is unchanged to acquire companies that have great developers or IP at appropriate prices.

Lastly, I want to touch on shareholder return. Nexon's management team is strongly committed to driving growth and shareholder value. We are shareholders ourselves, and like our fellow shareholders, we care deeply about building the value of our shares over the long-term.

In addition to delivering value through growth in the business, we are also focused on generating shareholder returns through return of capital as appropriate including through dividends and share buybacks. On that point, despite the impairment loss from Gloops, we are scheduled to maintain the year-end dividend of ¥5 per share. As we talked about last quarter, the impairment affects our ability to pay dividends, but we elected to do so anyway.

Lastly, I'd like to talk briefly about the letter we sent to the management team of NCSOFT last week. Our central belief is that the company can be performing better and collaborate better and be more transparent with all its shareholders. Our intention is to ensure that we are always maximizing shareholder value over time.

With that, I'd now like to turn it over to Uemura-san to run through the fourth quarter results and first quarter outlook.

[0DLB37-E Shiro Uemura]

Thanks, Owen. Now, let's move on to the Q4 results. Revenues were ¥42.9 billion, up 25% on an as-reported basis and up 14% on a constant currency basis. Operating loss was ¥0.7 billion and net loss was ¥4.5 billion. Our fourth quarter revenues exceeded the high end of our outlook, while operating loss and net loss both were below the low end of our outlook.

The revenue outperformance was primarily driven by strong results from China in November and December. The main reason for the operating income underperformance was the impairment loss on gloops' goodwill. Since we follow IFRS accounting standards, impairment loss is recorded as other expense in the calculation of consolidated income statement and thus has an impact on operating income.

As for gloops, while we experienced a decrease in revenue of flagship browser games due to the slowdown of the mobile browser market, they have focused on the development of new native games. Although, we launched four new native games including SKYLOCK during the fourth quarter, we did not get the growth we wanted. Taking this into consideration, we analyze gloops' goodwill as of the end of the fourth quarter. As a result, we recognized ¥11 billion of impairment loss on gloops' goodwill.

As Owen mentioned earlier, we are scheduled to payout the ¥5 per share year-end dividend despite this issue. Net loss was ¥4.5 billion, resulting below the low-end of our outlook. The net loss a year ago was ¥4.4 billion. We had foreign exchange gains from the weaker yen in foreign currency denominated cash deposits and account receivables. But these were more than offset by the impairment loss we've recorded in addition to higher than expected tax expenses which is one time factor.

Turning to our performance by platform. Our fourth quarter mobile revenues were ¥8.9 billion, up 32% year-over-year. Of the mobile game revenues, native game revenues were ¥4.6 billion over five times year-over-year. Revenues from native games account for about half of the fourth quarter mobile revenues.

Our fourth quarter PC online game revenues were ¥34 billion, up 23% year-over-year. Please refer to the reference material to the investor presentation for our selected performance metrics for PC online games.

Continuing with fourth quarter regional highlights, our revenues from the China business were ¥16.4 billion, up 36% year-over-year on an as-reported basis, and up 22% on a constant currency basis. The primary drivers of our strong performance in China were the large scale Tier 1 update for Dungeon&Fighter in fourth quarter and the item sales conducted in November and December were well received by users. MAUs for Dungeon&Fighter decreased in November and December. However, overall Q4 MAUs were about flat quarter-over-quarter.

Revenues from the Korean business were ¥16.7 billion, up 44% year-over-year on an as-reported basis and up 29% on a constant currency basis. The year-over-year revenue increase was driven by the great reception by users of the contents updates and promotions of our existing PC online

games such as FIFA Online 3, Sudden Attack and MapleStory, as well as the contribution from existing mobile games such as FIFA Online 3M, Legion of Heroes, and new mobile games such as Pocket MapleStory.

Revenues from our Japan business were ¥6.9 billion, a 16% decrease versus a year ago. Mobile revenues were ¥5.4 billion, a 14% decrease versus a year ago. While native game revenues increased quarter-over-quarter due to the launch of four new native games by GLOOPS in the fourth quarter, this was offset by the continued decline of browser game revenues and overall mobile revenues were down 3% quarter-over-quarter. PC online revenues were ¥1.5 billion, down 23% year-over-year and down 7% sequentially.

Revenues in North America were ¥1.6 billion, a 35% increase versus a year ago on an as-reported basis and a 19% increase on a constant currency basis. As Owen mentioned, we have been concentrating our efforts on improving the user experience and marketing for our existing titles in North America to further differentiate them in the market. This has resulted in a resumption of positive year-over-year growth for titles such as MapleStory, Mabinogi and Vindictus in North America. Our revenues in Europe and other regions were ¥1.2 billion, a 7% decrease versus a year ago on an as-reported basis, and 13% decrease on a constant currency basis.

Now, turning to our Q1 2015 outlook. For the first quarter of 2015, we expect revenues in the range of ¥44.3 billion to ¥47.7 billion representing a 7% decrease to 1% increase year-over-year on an as-reported basis.

We expect mobile revenues in the range of ¥7.4 billion to ¥8.1 billion, representing a year-over-year increase of 3% to 12% on an as-reported basis, and a quarter-over-quarter decrease of 17% to 9%. We expect operating income to be in the range of ¥14.7 billion to ¥18.1 billion. We expect net income to be in the range of ¥12.8 billion to ¥15.7 billion.

In China for fourth quarter revenues, we expect a year-over-year high teens to high single digit percentage decrease on an as-reported basis. The forecast reflects the current KPI. Dungeon&Fighter received a Tier 1 update in time for the Lunar New Year on February 10.

In Korea, we anticipate year-over-year high teens to 20%-plus increase on an as-reported basis for first quarter revenue. Major PC titles such as FIFA Online 3, Sudden Attack, Dungeon&Fighter and the MapleStory are scheduled to receive Tier 1 updates in time for the Lunar New Year. As for mobile games, we do not have any major new title launches scheduled during the first quarter.

In Japan, we expect first quarter revenues to decrease 20%-plus year-over-year on an as-reported basis. On the mobile side, GLOOPS began servicing its new native game Gururin Quest on January 27. Nexon Japan is also scheduled to launch a new native game Kemono Friends on March 12.

In North America, we expect to see a year-over-year percentage increase for first quarter revenues of high teens to 20%-plus on an as-reported basis.

In Europe and other regions, we expect to see a year-over-year 20%-plus to high teens percent decrease on an as-reported basis. In the first quarter, we expect the operating margin in the range of 33% to 38%, representing a year-over-year decrease. Factors having an impact are: royalty costs associated with third party licensed games, particularly FIFA Online 3 and FIFA Online 3M, and increasing HR costs related to increases in salary and head count, primarily in Korea, an increase in marketing spending, and a change in our revenue structure due to an increase in the contribution ratios from mobile business and Korea business, which has lower margin compared to China.

Now, we'd be happy to take your questions.

[08HRLT-E Shumpei Kumagai]

Thank you, Uemura-san. Next, we would like to open up the lines to live Q&A session.

QUESTION AND ANSWER SECTION

Operator: Today's question-and-answer session will be conducted live over the phone. [Operator Instructions] Our first question comes from Han-Joon Kim from Korea. Please go ahead.

<Q – [06YW1V-E Han-Joon Kim]>: Hi, guys. Thanks for the conference call. I have about four questions if you guys can indulge me. And maybe we'll just go through one by one. But the first one is just the MAU drop in China. My understanding is that there was a little bit of a cleanup of the bots. But beyond that, do you guys have any concerns about continuity of MAU and how you guys sort of see the ARPPU trend going on alongside the MAU?

<A – [08HRLT-E Shumpei Kumagai]>: Hi Han-Joon. We'll translate for a moment, so please hold on a moment. Thanks.

<Q – [06YW1V-E Han-Joon Kim]>: Sure.

<A – [0DLB37-E Shiro Uemura]>: Hi, Han-Joon. Thank you very much for your question. I, Uemura, would like to answer that question.

If you compare the average MAU between Q3 and Q4, we see the number flattening. Nonetheless, when you look at the monthly trends in Q4, in November and December we saw the declining trend of MAUs. And I believe that this was the impact from the bot sanction being conducted by the publisher.

We see the remaining impact of this bot sanction even to-date. Therefore, we have been cautiously looking at different KPIs including MAU and we have factored them in in coming up with the forecast for Q1.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [06YW1V-E Han-Joon Kim]>: Great. Great. Thanks. If I move to the second question. I've noticed that a number of your games that were slated I think for either first half of the year or in more recent months have been delayed so can you just run us through how you're looking at the pipeline, any sort of reason for the delay, quality control, just an overview of how your pipeline outlook has changed relative to last quarter will be appreciated.

<A – [08HRLT-E Shumpei Kumagai]>: Okay. Han-Joon, we'll answer in one moment.

<Q – [06YW1V-E Han-Joon Kim]>: Sure.

<A – [077H6N-E Owen Mahoney]>: Hi, Han-Joon, it's Owen. Primarily, the delays that you've seen such as they are have not been super large. What we're really doing is focusing on the quality. Games like Ghost in the Shell, MapleStory, DomiNations and so on are very high quality games and we want to make sure that they're launched, really ready for the market and so we're proud of that quality that we've put together and that's really where we're focused.

<Q – [06YW1V-E Han-Joon Kim]>: Okay. So should we assume that there is a slight risk and you see some push back to 2016 as well or should we just assume 2015 is just shuffling within 2015?

<A – [077H6N-E Owen Mahoney]>: Well, it's going to depend on the game because we do, as I mentioned, have so many games in the pipeline. So it's going to depend on the game, but we're feeling reasonably solid and I don't want you to think that we're at all cavalier about the schedule because that's definitely not the case. What we are very focused on though is game quality.

<Q – [06YW1V-E Han-Joon Kim]>: Okay. Shall I wait for translation or should I go on?

<A – [08HRLT-E Shumpei Kumagai]>: Please go ahead.

<Q – [06YW1V-E Han-Joon Kim]>: Sure. So I think you guys have done a shareholder return of about, let's say, [ph] 25% (26:42), if you guys are assuming [ph] to raise (26:45) interim dividend, that's probably about a 15% payout, I think last year including our share buyback, you probably did about one-third of it. So I was just wondering why the drop in the payout, should we be assuming that 30% can be maintained at some point or should we be thinking [ph] 15% (27:05) is a more likely return to shareholders?

<A – [08HRLT-E Shumpei Kumagai]>: Okay. Han-Joon, thanks for the question. I'll translate, so please wait one moment.

<Q – [06YW1V-E Han-Joon Kim]>: Yeah.

<A – [0DLB37-E Shiro Uemura]>: In terms of the shareholders return policy, we have not changed the policy, and we do not have any intention to change the policy hereinafter. That is to say, we would like to maximize the enterprise price value and balance that out with shareholders' return. And that will be the future policy as well.

Having said that it is not to say that we will or definitely we have the same P&L ratio for 2014 and 2015. But we will make it a point that thinking about the appropriate shareholders' return is very important to our company.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [06YW1V-E Han-Joon Kim]>: I guess, okay. Yeah, I honestly don't want to put you guys on the spot, but I guess you guys have asked for increased shareholder returns from an investment that you've made in NCSOFT, a company that has committed to paying out about one-third of its income to shareholders. Yet as apparent, we're seeing a commitment that's a little bit less clear. So that's mainly a payout on net profit isn't the right metrics to look at? What should we be considering as the firm policy on shareholder returns?

<A – [077H6N-E Owen Mahoney]>: Hi, Han-Joon, it's Owen. We continue to believe that around the world we have an opportunity set for M&A and at the same time we, as significant shareholders ourselves, we all feel the need for shareholder returns about all investments that we're in, so including our own company. So we're committed to a policy of strong shareholder returns in our company and in any investment we make, we want to make sure that we're maximizing shareholder returns. So that's about what I can say. I hope you understand.

<Q – [06YW1V-E Han-Joon Kim]>: Okay. I guess the last question extends with your strategy with NCSOFT. Now, correct me if I'm wrong, increasingly – it is increasingly seeming like their cooperation maybe difficult. I recognize that we're still trying, but at the end of the day can we still assume that a divestiture could be a potential solution at the end of the day if cooperation is not possible?

<A – [077H6N-E Owen Mahoney]>: So, sorry, Han-Joon, I want to make sure I understand your question. What's – the question is, could we – would we divest or could we divest? Is that your question?

<Q – [06YW1V-E Han-Joon Kim]>: So the communication from Nexon over the past few years has been that, you like NCSOFT, you want to work with them, and the communication that we've seen over the past few weeks would suggest that the cooperation isn't happening and you've taken additional steps to try to make that happen. In the case that it doesn't, in the case cooperation is not manageable, can we – is selling the stake a possible option?

<A – [077H6N-E Owen Mahoney]>: Well, as you can imagine, it's very hard for me to answer that question, in a way that might be as satisfactory as you'd like. I think what we can say is we've been an investor for two-and-a-half years. We've been disappointed by our ability to see that investment grow and we want to see increased shareholder value. So as long as we are an investor and recognizing that we are the largest investor in that company, that's our intention. And that's what I can say.

<Q – [06YW1V-E Han-Joon Kim]>: Okay. I mean – I'll try one more time and then if it is, it is what it is, but on a yen basis, I think we're still sort of up on the investments. So I don't think anyone would be complaining too much if you had to dispose of the stake today. So from that perspective, we're still in the money, what is keeping us here really?

<A – [077H6N-E Owen Mahoney]>: Sorry, what is keeping that what? I didn't hear the last part.

<Q – [06YW1V-E Han-Joon Kim]>: What is keeping Nexon in the – keeping the stake in the company?

<A – [077H6N-E Owen Mahoney]>: Our belief is it – our central thesis about NCSOFT remains the same that it was two-and-a-half years ago when we started, it's a great company and we have enormous respect for the management team and the development team over there. And we – but as you've noticed we – on all fronts in which we're doing business, we are pushing really hard to derive and to create shareholder value for our shareholders and this is one of those areas. It was a significant investment at the time and it remains a significant investment at the time. So our job is to maximize shareholder value on all fronts and so that's what we're doing.

<Q – [06YW1V-E Han-Joon Kim]>: Okay. I realized these questions aren't that easy, so I appreciate the candor. Thanks. Thanks a lot.

<A – [077H6N-E Owen Mahoney]>: No. Thank you very much.

Operator: Our next question comes from Yuki Maeda from Jefferies. Please go ahead.

<Q – [0DKYJ1-E Yuki Maeda]>: Hello. Thank you for taking my question. I just have two questions. First one is about the mobile in Korea business. It declined Q-o-Q despite you guys released several games like MapleStory – Pocket MapleStory or [indiscernible] and then they were doing okay in my view, but so how – what is the specific factor for this Q-o-Q decline? You see the existing games like FIFA Mobile, Legion of Heroes decline is really significant and this trend will continue?

<A – [08HRLT-E Shumpei Kumagai]>: Hi, Maeda-san. I will translate, so please wait for a moment.

<A – [0DLB37-E Shiro Uemura]>: The reason why Korean mobile business declined quarter-over-quarter is due to FIFA Online 3M's decline mainly. As you know, FIFA Online 3 as well as FIFA Online 3M tracked the same trend.

As you know, in Q3, there was much momentum due to World Cup, but as time passed by we were seeing the slowing down of the heated nature of World Cup that created the booster of our games. And if you exclude FIFA Online 3M's impact, we can see that the mobile business in Korea was flat.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [0DKYJ1-E Yuki Maeda]>: So just a follow-up on this one. So I mean FIFA Online mobile is the largest hit title for Nexon and then – I mean if this is a trending decline, do you think so this will

continue for a while for this year? I mean, the downturn on mobile revenue is likely to continue unless I mean if you develop a new really big hit title like gloops mobile?

<A – [08HRLT-E Shumpei Kumagai]>: Okay. So I'll translate. So please wait for a moment.

<A – [0DLB37-E Shiro Uemura]>: In terms of 2015 FIFA Online 3M, in Q4 we saw a decline due to the reversal impact of World Cup, and I believe that, that has ended in Q4.

And so what will be the future of Korean mobile business? As so it happens in Q1, we do not have any major big title release. But in 2015, we have the richest pipeline in the history of Nexon. Therefore, we believe that in mobile as well in Q2, Q3, and Q4 we will be launching many new titles.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [0DKYJ1-E Yuki Maeda]>: Okay. Yeah. Thank you. And second question is about NCSoft cooperation. So I've been seeing that NCSoft answering really negatively to the investor's question in the result meeting and even if Nexon tell that the NCSoft management to cooperate like what will be – it'll be really difficult to make synergy in the operation side because they really say two companies have different philosophies and difficult to make general synergies?

<A – [077H6N-E Owen Mahoney]>: I'll answer that, Yuki. Our view on this is we've had numerous relationships with companies around the world that have very different cultures, and those include Valve, Electronic Arts, now Warner and others. And each of those companies that I mentioned have very different development styles and different ways of approaching their development culture. So we think that's an opportunity. Part of our interest in NCSoft is because they are different and we think that that's what makes for synergies and that's always been our thesis.

So we're hopeful about that. We would have a respectful belief that actually that differences allow for many more opportunities. So that's been our position and remains so.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [0DKYJ1-E Yuki Maeda]>: Just a follow-up. So like what will be the timeline you expect to make the tangible synergy from this cooperation, do you have any timeline?

<A – [077H6N-E Owen Mahoney]>: Yeah. At this stage, it's very hard to speculate about the future. We're just going to have to see how it plays out.

<Q – [0DKYJ1-E Yuki Maeda]>: Okay, okay. Thank you.

<A – [08HRLT-E Shumpei Kumagai]>: Thank you.

Operator: [Operator Instructions] Our next question comes from Brett Moshal from Orbis. Please go ahead.

<Q – [00X5VQ-M Brett Moshal]>: Hi. Brett Moshal here from Orbis. And I'd just like some color please on your Q1 forecast. It seems that you did particularly well in Q4 in China, but seem to expect a big pull back in Q1, why is that?

<A – [08HRLT-E Shumpei Kumagai]>: Hi Brett. I'll translate. Please wait one moment please.

<Q – [00X5VQ-M Brett Moshal]>: Okay.

<A – [0DLB37-E Shiro Uemura]>: Thank you very much for your question. The reason why we did well in China in Q4 is that item sales in November and December were received very favorably.

And as we have continuously mentioned in 2014, we have been putting our very best effort to stabilize China's Dungeon&Fighter KPIs. And the fact that quarter-over-quarter, on average MAU was flat denotes the fact that our effort have been quite successful. However, due to the bot sanction being conducted by the publisher, in the end of Q4, we saw slight decrease in MAUs. Up until the very last minute, we have been analyzing the most recent data and based on that, we came up with the current outlook for Q1 China.

Having said that, I believe that the outlook that we gave on Q1 on China is appropriate considering all the recent data that we were able to analyze so far.

<A – [08HRLT-E Shumpei Kumagai]>: Hope this answers your question.

<Q – [00X5VQ-M Brett Moshal]>: If I could just follow-up on this. So in Q4, revenues were up 35% in China, and you're forecasting that they will down high teens in Q1, right. And as you say you've taken the data right up to today, so you're half-way through the quarter. So clearly things have decelerated significantly in China in Q1. Can you give us some more color behind what you're seeing there, why is it that trading was so strong in Q4 and so weak in Q1 in China?

<A – [08HRLT-E Shumpei Kumagai]>: Okay. Thanks, Brett. I'll make translation.

<A – [0DLB37-E Shiro Uemura]>: Q4 was very strong because the revenue from item sales in November and December were very good. As compared to Q4, I do understand that Q1 outlook looks weak. But we have been carefully analyzing the most recent KPIs. And we do believe that the outlook that we have provided to you today is quite appropriate. And I reiterate, in Q1, we tried to analyze all the data we have. And to the best of our knowledge, we believe that outlook that we are providing to you today is the right one.

<Q – [00X5VQ-M Brett Moshal]>: So I am not, for a single second, doubting that it's the right outlook, I'm just trying to understand why it is that it's so bleak in Q1. Perhaps if you could give some more color as to how you see that progressing throughout the full course of the year, not looking for guidance but given that things have been so bleak during the first part of Q1. Do you expect any further turnaround for the rest of the year, or should we see a continuing deceleration through the next 12 months for Dungeon&Fighter in China?

<A – [077H6N-E Owen Mahoney]>: Sorry, we're going – this is Owen, Brett. We're going to translate for one second.

<Q – [00X5VQ-M Brett Moshal]>: All right. Okay.

<A – [077H6N-E Owen Mahoney]>: Brett. Sorry, so this is Owen. One thing to keep in mind is we did the content update on the 10 February and so it is – we're really basing off of very little information or not very little information, but it's just very, very early on to do this because we're right in the beginning of the content update. But as you know from watching us for some time you're going to have content updates that do well and some that resonate less and we'll see how it plays out from here and I know you're not looking for guidance, but we'll – there's usually a set of factors like what's happening with the MAU count, what's happening with the paying user count and then what's happening with the content update and that's why in our investor presentation what we see over time is basically relatively stable revenues what it's going to look like away depending on all those factors interplaying.

<Q – [00X5VQ-M Brett Moshal]>: Right. And then making assumptions around the updates, have you taken conservative stance or do you assume that things go reasonably well?

<A – [08HRLT-E Shumpei Kumagai]>: Sorry, I'll make the translation.

<A – [0DLB37-E Shiro Uemura]>: In terms of our outlook for Q1 China, we have not been conservative. I repeat myself, we have been looking at the most recent KPI data in detail and came up with the outlook, which is not conservative, but we believe to be very appropriate.

<Q – [00X5VQ-M Brett Moshal]>: Okay. Thank you. That's all from me.

<A – [077H6N-E Owen Mahoney]>: Thank you.

<A – [0DLB37-E Shiro Uemura]>: Thank you.

Operator: [Operator Instructions] This concludes the question-and-answer session. Mr. Kumagai, at this time, I'd like to turn the conference back over to you for any additional or closing remarks.

[08HRLT-E Shumpei Kumagai]

Thank you. If there are no further questions, I'd like to take this opportunity to thank you for your participation in this call.

Please feel free to contact Nexon IR team at investors@nexon.co.jp, should you have any further questions. We appreciate your interest in Nexon and look forward to meeting with you whether it is here in Tokyo or any corner of the world.

[077H6N-E Owen Mahoney]

Thank you very much, everybody.

Operator: Thank you. That concludes today's conference. Thank you for your participation. You may now disconnect.

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