

## FY2018 Q2 Earnings Presentation (Held on Aug 9, 2018)

### Q&A Summary

**【Q】** When I look at your Q3 operating income outlook, you are expecting an year-over-year marketing cost increase of ¥1.8 billion, which will add up to ¥7.0 billion. What are the reasons for you to expect Q3 marketing costs to be so high? Is it because you will have multiple new launches or do you have plans for other promotions?

**【A】** In Q3, we have plans to do promotions for new titles, including *Darkness Rises* global service, *OVERHIT* Japan service, and *MapleStory M* global service, as well as promotions for *Choices: Stories You Play* and *MapleStory* Korea service. Marketing costs will fluctuate depending on our pipeline and launch timing of new titles.

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**【Q】** You mentioned that the transition from *EA SPORTS™ FIFA Online 3* to *EA SPORTS™ FIFA ONLINE 4* is progressing very well. Please share us what you have learned from this service transition and when you are likely to see its revenues to recover.

**【A】** The transition has been proceeding very well and everything is going as we had expected. We will introduce content updates and focus on delivering good daily operations toward the peak seasons, including Chuseok (Korean Thanksgiving). We now have the mobile service *EA SPORTS™ FIFA ONLINE 4M* which launched in late July, and by managing the game well through good daily operation, we expect the revenues to come back. However, it is hard to tell when exactly it will happen. The service transition is going well, hence we want to see its revenues coming back to the usual level soon. Furthermore, we are aiming to further grow the franchise. This was the first major transition we had experienced, and there were many lessons we learned on how to retain the existing users and guide them to the new version. We believe this experience will add to our know-how.

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**【Q】** You mentioned that China *Dungeon&Fighter's* paying users increased year over year in Q2, driven by small item sales. In the past, small item sales drove increase in the number of paying users, which eventually helped pushing up revenues significantly whenever you had successful events. Do you think the recent increase in paying users will similarly help pushing up revenues significantly in a year or two?

**【A】** Although Q2 MAUs decreased year over year, China *Dungeon&Fighter's* MAU trend was stable. Paying users slightly increased and ARPPU was stable year over year. As we explained in the previous quarter, Q2 is seasonally a weak quarter and hence we focused on having our users enjoy the game contents. While doing so, we introduced small item sales through events, and many users bought these small items.

As for Q3, if we compare this year's July with last year's, MAUs slightly increased, ARPPU decreased, and paying users were roughly flat. Based on the current KPI trend, we expect that we will be able to deliver similar results to last Q3, which is a high bar.

*Dungeon&Fighter* is a very important title for us. We achieved a significant growth in 2017 and it is important for us to maintain the current level and also aim for reasonable growth hereafter.

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**【Q】** Could you give us some color on users' spending behavior during the transition period in *EA SPORTS™ FIFA ONLINE 4*?

**【A】** In order to support users for smooth transition, we took various measures, including enabling *EA SPORTS™ FIFA Online 3* users to convert their in-game assets to points which can be used in *EA SPORTS™ FIFA ONLINE 4*. Users can enjoy the game by using those points, but now that we launched *EA SPORTS™ FIFA ONLINE 4M* in late July, and users will eventually use up these points, we expect users to start making purchases as we add and make contents richer.

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**【Q】** Please explain why Q2 marketing costs were lower than your plan?

**【A】** Since performance of *KAISER* was weaker than our expectation, we spent less for its marketing. Having said that, the gap between our plan and the actual marketing costs spent was small.

We talked about this before, but the key thing in marketing is that we are in free-to-play business. Of course we do marketing to generate interest around our games, but we also look very closely at the expected lifetime value as well as effective cost per install. If the lifetime value expected is higher than the effective cost per install, we will invest in marketing. If lower, we will not invest in marketing because this will mean we will have a negative ROI. This is not about any specific game, but is our general approach to marketing.

You find a lot of game companies who want to drive their games up to the top of the app charts by spending money in marketing, even they have a negative ROI. However, they will eventually run out of money this way. We think very carefully about marketing because we are always thinking about the long term.

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