

NEXON Co., Ltd.

Q3 2020 Earnings Prepared Remarks

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Owen Mahoney, Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.

Thank you Ara-san and welcome everyone to Nexon's Third Quarter 2020 conference call.

Q3 was another record-breaking quarter for Nexon with revenues up 52 percent. Our strategy of focusing resources on games with the biggest potential to grow on multiple platforms is paying strong dividends, particularly in Korea where revenue and player engagement has again exceeded our expectations.

Uemura-san will take you through a detailed review of Nexon's performance in the third quarter in a few minutes. My introductory remarks will be comparatively brief, and focus on only a few points that are key to understanding our company and industry.

To start, Nexon is the world leader in a segment of the entertainment business which is not yet well understood -- Virtual Worlds. By that I mean deeply immersive, multiplayer online games played primarily on PCs and increasingly on smart phones.

Many are aware that Nexon pioneered the genre in the 1990's, and that through our live operations expertise we have a unique ability to grow blockbuster franchises over a span of decades.

What is less understood is how well Nexon is positioned to capture enormous opportunities from advancements in mobile technology, as Virtual Worlds are now played on mobile phones.

Just as the evolution of console technology took us from *Pong* and *PacMan* to *Call of Duty* and *Grand Theft Auto*, a steady pace of breakthroughs in mobile capabilities -- both devices and networks -- is enabling billions of new players access to Nexon's sweet spot, Virtual Worlds.

Our performance this quarter highlights the robust strength of Nexon IP as we bring our games onto mobile platforms. Extending franchises like *MapleStory*, *The Kingdom of the Winds*, *KartRider* and *Dungeon&Fighter* to mobile represents a massive increase in our Total Addressable Market -- from a couple hundred million game-playable PCs, to several billion smart phones. As of Q3, mobile represented 42% of our revenue up from 26% a year ago when we embarked upon our focus strategy.

Next, I would like to address the durability and diversity of Nexon's business -- in particular, the core franchises that have life-to-date revenues exceeding \$1Bn.

Today, we announced record-breaking revenue and operating income for the third quarter. Of course, we're proud of this achievement. However, what makes our Third Quarter remarkable is that we achieved this performance even without the benefit of the launch of *Mobile Dungeon&Fighter*.

We are very much looking forward to launching *MDNF*, but the point is even though we did not launch it in Q3, our revenues still went up by over 50%, and was our best Q3 ever.

Q3 highlights the power of our franchises and the strength and solid execution of our focus strategy.

In other words, as massive as *Dungeon&Fighter* is, Nexon is more than *Dungeon&Fighter*. Nexon is an extraordinarily well-balanced company with fast-growing revenue streams from multiple franchises, markets, and technology platforms.

Third, I'll highlight Nexon's IP, which include some of the largest franchises in the global entertainment industry. You'll recall that last year, we sharply focused our strategy around fewer games with bigger potential as breakout hits; on leveraging our own IP, and on bringing those Virtual Worlds to mobile. The early results of this initiative point to a breakthrough success.

There's a common misunderstanding in the broader games industry that the success of a game is determined in the days that follow its launch. This dates back to the era of offline packaged goods games, when any title that wasn't a hit on day one, was destined to fail. That's not true anymore – and it never really was true in the business of Virtual Worlds.

At Nexon, we don't measure success in days or weeks, we measure it in years and decades. Here are examples of some of our biggest Virtual World franchises:

- Our *MapleStory* franchise launched in 2003. In Korea, it grew 132% YoY in the 1st quarter; 151% YoY in the 2nd; and 71% YoY in the 3rd. Lifetime revenue is greater than \$3Bn.
- *Dungeon&Fighter*, which originally launched in 2005 is having a particularly strong year in Korea, where it grew 53% YoY in Q1; 49% YoY in Q2; and 56% YoY in the third quarter. Global lifetime Revenue now exceeds \$15Bn.
- KartRider – launched in 2004, this game has been played by more than 50 percent of the population of Korea and 45 percent of all Taiwanese. Today, lifetime revenue exceeds \$800 million.
- And finally, *The Kingdom of the Winds*, originally released by Nexon in 1996, making it the first and most enduring massively multiplayer online role-playing game. In Q3, we launched a mobile version, *The Kingdom of the Winds: Yeon*, which has performed far beyond our expectations. In fact, its performance on mobile this quarter was more than 20x performance of the existing PC version.

Our focus on Virtual Worlds and our Live Operations strength have helped Nexon to engage existing players, bring back lapsed players and recruit new ones as we provide a steady stream of new content in franchises that our players know and love.

That brings me to my final point: growth opportunities layered onto our highly stable and robust core of Virtual World franchises. Revenue from these core franchises generates more than \$1B in annual operating cash, which strengthens our balance sheet and gives us strategic flexibility to invest in new, high growth initiatives.

As you know, our next new title is the highly promising *Mobile Dungeon&Fighter*, which we expect to launch in the near future.

Following that will be new game on multiple platforms from our Embark Studios in Stockholm. We plan to provide more details on that next quarter but we're extremely excited about the groundbreaking innovation and fun we're seeing in the game.

And we plan to launch the next generation of *KartRider* in 2021. The first version of the franchise has been played by more than 380 million players on PC alone, and the next version will extend well beyond the PC. Our objective is to bring it beyond its core markets of Korea and Taiwan, to major new audiences in the US, Europe, and around Asia.

Let me summarize with three key points about where Nexon is today:

First, Nexon is the pioneer and leader in the business of Virtual Worlds – a segment of the entertainment industry that is in the early stages of massive growth, thanks to the explosion in mobile handset capabilities.

Second, our business is durable and diversified multiple franchises, multiple regions and multiple platforms, and it is getting more diversified so all the time. Today, more than 40% of our revenue comes from mobile. We have not one but several monster IP franchises that are as big as some of the biggest in the global entertainment business.

And third, on top of the extremely stable existing business, our content strategy is to launch focused number of global blockbusters on multiple platforms in multiple regions, which continue to grow for decades.

Our Q3 results highlight the strength and diversity of our portfolio. Our focused strategy is working and I've never been more excited about Nexon's future.

Finally, I would like to welcome a new member of Nexon's board of directors, Kevin Mayer. Many of you know Kevin for his role in re-invigorating Walt Disney as a global force in film, television, and streaming. Kevin's experience, insights and counsel will be invaluable in helping chart Nexon's path to become a global entertainment powerhouse.

With that, I'll hand the call over to Uemura-san.

Shiro Uemura, Representative Director and Chief Financial Officer, NEXON Co., Ltd.

Thank you, Owen. Next I'll review our Q3 results.

For additional details, please see the Q3 2020 Investor Presentation available on our IR website.

Nexon just completed another record-breaking Q3, proving once again the significance of our focus strategy and the strength and diversity of our portfolio which includes *MapleStory*, *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *FIFA ONLINE 4*.

While we did not benefit from *Mobile Dungeon&Fighter*, which was included in our outlook, an exceptionally strong performance in group revenues from other games exceeded our expectations and brought us within the range at 79.4 Bn yen, up 52% year-over-year on an as-reported basis or on a constant currency basis.

By region, revenues from Korea, North America and Europe, and Rest of World each exceeded our expectations. Revenues from Japan were in the range of our outlook and China was below our outlook due to the postponement of the *Mobile Dungeon&Fighter* launch.

Looking at the total company performance on a platform basis, PC revenues exceeded our outlook driven by *MapleStory's* strong performance across geographies.

Mobile revenues of course were negatively affected by the delay of *Mobile Dungeon&Fighter*, and came in below our outlook. However, the rest of our mobile titles performed well during the quarter. *The Kingdom of the Winds: Yeon* significantly exceeded our expectations, and *KartRider Rush+* and *V4* also exceeded our expectations.

Year-over-year, PC and mobile revenues grew by 20% and 140%, respectively. PC revenues accounted for 58% of the group revenues while mobile revenues accounted for 42%.

Operating income was 27.6 Bn yen which was below our outlook. This was due to the absence of *Mobile Dungeon&Fighter*, which is a high-margin royalty business as well as a 3.0 Bn yen impairment loss primarily on goodwill related to Big Huge Games. However, we achieved record-high Q3 operating income, which grew 13% year-over-year driven by our strong performance in Korea.

Looking at the cost items, our HR costs in Q3 were lower than our plan, while we recorded higher-than-planned payment gateway fees and royalties in relation to the strong performances of the co-developed mobile game *The Kingdom of the Winds: Yeon*, as well as other mobile games including *KartRider Rush+* and *V4*. As a result, total costs exceeded our plan.

Net income was 16.3 Bn yen, which was below our outlook primarily due to the operating income underperformance as well as an 8.6 Bn yen FX loss related to the appreciation of the Korean Won against the U.S. dollar during the quarter and its corresponding impact on U.S. dollar-denominated cash deposits.

Let's move on to results by region.

Revenues from our Korea business in Q3 exceeded our outlook primarily driven by stronger-than-expected performances of the new mobile game *The Kingdom of the Winds: Yeon* as well as *MapleStory*, *KartRider Rush+* and *V4*.

We saw strong results from all four of our major PC titles.

MapleStory demonstrated strong momentum throughout the quarter. Its revenue exceeded our expectations and grew 71% on a constant currency basis. *Dungeon&Fighter* increased its revenue by 56% year-over-year. Both *MapleStory* and *Dungeon&Fighter* achieved record-high Q3 revenue. *Sudden Attack* also grew by 35% year-over-year.

FIFA ONLINE 4's PC and mobile revenues combined slightly exceeded our outlook and were slightly up compared to Q3 2019 when its revenues grew significantly year-over-year.

Nexon's focus strategy is making steady progress on platform expansion, bringing our flagship titles to mobile.

We began with *MapleStory*, then *KartRider* and *FIFA* in Q2. On July 15th, we launched *The Kingdom of the Winds: Yeon*, which combines nostalgic aspects and pixelated art of the original PC game with contemporary mobile gameplay. The game was immediately popular with a broad demographic, including long-time fans as well as new younger players. This younger audience of players in their teens and twenties accounts for more than half of all the players of this game.

Both user engagement and revenue significantly exceeded our expectations in Q3.

The breakout success of *The Kingdom of the Winds: Yeon* – a franchise originally launched in 1996 – stands as a clear validation of Nexon's strategy to bring well-known brands to the mobile platform.

KartRider Rush+ and *V4* also performed well in Q3.

In addition to these titles as well as a contribution from *FIFA MOBILE*, which launched in June, revenues from our Korea business grew 114% on an as reported basis or 115% on a constant-currency basis year-over-year and achieved the highest Q3 revenues.

The revenue from our Korea business in Q3 accounted for 64% of Nexon Group's revenues.

Revenues from our China business were below our outlook due to the postponement of *Mobile Dungeon&Fighter* which was scheduled for release in August. Excluding the impact of *Mobile Dungeon&Fighter*, revenues were within our expected range.

On a year-over-year basis, revenues decreased by 11% on an as-reported basis or on a constant currency basis. During the year ago period we launched a large-scale update for *KartRider Rush+* which performed particularly well and created a difficult comparison this year.

PC *Dungeon&Fighter's* Q3 revenue was in the range of our outlook, but slightly decreased year-over-year.

In Q3, in addition to the seasonal updates including the Summer update in July and the National Day update which began in late September, we conducted events and other updates as an ongoing initiative to stabilize and improve the user metrics. However, the number of active and paying users decreased both year-over-year and sequentially. This was primarily due to lower user engagement from the waning effect of the key update in March, as well as continued strengthening of player identity verification and bot sanctions.

ARPPU increased sequentially due to the typical seasonality while this was more than offset by the decrease in paying users resulting in a quarter-over-quarter decrease in *Dungeon&Fighter's* revenue. As a reminder, in Q2, we recorded an adjustment of 2.3 billion yen for one-time royalty income related to *Dungeon&Fighter* sales.

Revenue decreased slightly year-over-year. While ARPPU increased compared to Q3 2019, as the portion of light users decreased compared to a year ago, this was more than offset by decreases in paying users as well as sales from the National Day package offerings.

Revenues from our Japan business were in the range of our outlook. On a year-over-year basis, we recorded a revenue decrease of 17% on an as-reported basis and 16% on a constant currency basis, primarily due to the disposition of gloops. However, excluding the impact of gloops, revenues increased year-over-year.

We are currently in a transition period in Japan as we streamline our pipeline and operations based on our group focus strategy. Next year, we expect to strengthen our capabilities as we begin to benefit from these efforts.

Revenues from North America and Europe in Q3 exceeded our outlook. On a year-over-year basis, revenues increased by 21% on an as-reported basis and 22% on a constant currency basis. *MapleStory* on a constant currency basis grew 178% versus the year ago period.

Revenues from the Rest of World exceeded our outlook. On a year-over-year basis, revenues grew 55% on an as-reported basis and 56% on a constant currency basis. *MapleStory* grew 165% year-over-year on a constant currency basis.

I'll now discuss our Q4 2020 outlook.

We expect the strength and diversity of our portfolio including *MapleStory*, *The Kingdom of the Winds: Yeon* and *KartRider Rush+* to drive our group performance in Q4. We anticipate year-over-year revenue and operating income growth at a Group level driven by strong growth in Korea, as well as growth in all other territories excluding China.

We expect our Q4 revenues in the range of 60.7 to 65.5 Bn yen, representing a 23% to 33% increase year-over-year on an as-reported basis and a 24% to 33% increase year-over-year on a constant currency basis.

We expect our Q4 operating income to be in the range of 12.3 to 16.0 Bn yen, representing a 173% to 254% increase year-over-year on an as-reported basis and a 171% to 252% increase year-over-year on a constant currency basis. I'll discuss the details of this shortly.

We expect net income to be in the range of 8.7 to 11.6 Bn yen, representing a 167% to 255% increase year-over-year on an as-reported basis and an 162% to 250% increase year-over-year on a constant currency basis.

We expect another strong quarter in Korea.

We anticipate *MapleStory* and *Sudden Attack* to grow double-digit and *Dungeon&Fighter* to grow [triple-digit year-over-year. In addition, we are looking for strong contributions from *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *FIFA MOBILE*. As a result, we expect revenues from our Korea business to be in the range of 38.2 to 40.4 Bn yen, representing a 57] to 66% increase year-over-year on an as-reported basis and a 58% to 67% increase year-over-year on a constant currency basis.

In regards to *The Kingdom of the Winds: Yeon*, we are extremely pleased with the stronger-than-expected engagement from players and along with our co-development partner, we have committed more development resources to accommodate the need for additional content. While the team works to refresh the content, we foresee a sequential decrease in Q4 revenue, to be followed by a return to sustained success for the game.

Turning to China, we anticipate *Dungeon&Fighter's* revenue to decrease year-over-year. Accordingly, we expect revenues from our China business to be in the range of 11.8 to 13.3 Bn yen, representing a 24% to 15% decrease year-over-year on an as-reported basis and a 25% to 16% decrease year-over-year on a constant currency basis.

As a reminder, our Q4 China outlook does not include any contribution from *Mobile Dungeon&Fighter*.

In addition to making changes that assure the game complies with Tencent's player protection systems, our team at Neople has used this extra time to develop additional exciting content and adding polish for a great mobile experience. We are in close contact with Tencent and hopeful that the game will be available soon. We will keep you posted on our progress.

As for PC *Dungeon&Fighter*, the National Day update has continued since September. There has not been a notable change in the number of active users or paying users from Q3. We expect the user levels to remain at low levels throughout the quarter.

We also expect that the sales from the National Day package offerings, which has a major impact on Q4 revenue, to decline year-over-year due to users being lower than the year ago period.

While we have other updates and events planned during Q4, we anticipate that these will not majorly affect its performance nor improve user metrics.

In the near term, we will focus our efforts on sustaining its user metrics at the current level and to stably operate the game.

As you know we have a portfolio of franchises that drive the majority of our revenue – these are primarily franchises that have been around for 15 years or more during which their revenue has ebbed and flowed. Despite there being periods of time when revenues have declined for a given game, as we tune the game to our players, we have been able to get the titles to stabilize before ultimately returning to growth.

We are continuing to iterate *Dungeon&Fighter* – as we focus on appealing to existing, lapsed and new players – overtime we expect the game to follow the same trajectory that we have seen with other titles where we first stabilize the game and then ultimately return it to growth.

In Japan, we expect revenues in the range of 2.9 to 3.3 Bn yen, representing a 26% to 45% increase year-over-year on an as-reported basis and a 27% to 45% increase year-over-year on a constant currency basis. We anticipate contributions from *V4* which launched in Q3 2020 as well as *FIFA MOBILE* which launched on October 12th to more than offset the negative impact of gloops' disposition.

In North America and Europe, we expect revenues to be in the range of 4.6 to 5.1 Bn yen, representing a 10% to 21% increase year-over-year on an as-reported basis and a 13% to 24% increase year-over-year on a constant currency basis.

We anticipate *MapleStory's* strong momentum to continue into Q4 and grow triple-digit year-over-year.

We expect revenues in the Rest of World in the range of 3.2 to 3.4 Bn yen, representing a 15% to 25% increase year-over-year on an as-reported basis and a 16% to 26% increase year-over-year on a constant currency basis.

We anticipate *MapleStory's* strong momentum to also continue in Rest of World and grow double-digit year-over-year as well as to benefit from *KartRider Rush+*.

In Q4 2020, we expect operating income to be in the range of 12.3 to 16.0 Bn yen, representing a year-over-year increase of 173% to 254%.

The primary driver for the higher operating income in Q4 2020 is the revenue increase.

Other favorable factors include a decreased impairment loss of 9.2 Bn yen recorded in Q4 2019, which will not be repeated in Q4 2020.

Unfavorable factors compared to Q4 2019 regarding the operating income include:

First, increased variable costs associated with revenue growth.

Second, increased marketing costs associated with promotions for new mobile games including *KartRider Rush+*, *FIFA MOBILE* and *The Kingdom of the Winds: Yeon*.

Third, increased HR costs associated with increase in performance-based bonuses as well as stock option costs.

The high end of the range reflects the fact that we expect the impact of positive drivers to be larger than that of negative drivers, resulting in a year-over-year operating income increase.

Overall, Q3 results illustrated the strength of Nexon's portfolio which consists of several of our major franchises, our live operation capability to make these franchises sustain and grow over the long term, as well as the results from our focus strategy – leveraging Nexon's IP, focus on fewer but bigger deeply immersive multiplayer online games or Nexon's sweet spot and to bring these games to multiple platforms.

In Q4, we expect our portfolio to again drive our group performance and both our group revenues and operating income to grow year-over-year, while we anticipate revenue from *Dungeon&Fighter* in China to decrease versus a year ago period, which once again reflects the strength and diversity of our portfolio.

Lastly, I would like to give you an update on the shareholder return and capital allocation strategy.

As part of our capital allocation strategy our board has authorized a new 100 Billion yen stock repurchase policy that we expect to complete over the next three years. This is an addition to our M&A strategy as well as our dividend.

The interactive entertainment industry is a high growth sector with significant opportunity for investments to accelerate our growth. Our focus remains on driving growth for Nexon - and our shareholders - but given the robust cash flow that we generate, we also want to return some of that capital to shareholders through the dividend and in the form of a share repurchase.

Besides these three strategies, we are also using a portion of the cash on the balance sheet to invest in leading global entertainment companies, principally to enhance the returns on our cash. As of Q3, Nexon completed investments totaling 85.9 Bn yen which accounted for 54% of 1.5Bn dollars that the Board authorized and recorded an unrealized gain of 18.6 Bn yen under other comprehensive income.

This ends my comments.

Back to you Owen.

Owen Mahoney, Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.

Thank you Uemura-san.

We hope that today's call clarifies our Nexon's great performance in Q3 and, importantly, that we've provided a deeper understanding of the durability and diversity of our business.

We strongly believe that Nexon is at the center of the biggest growth trends driving the entertainment industry. We start with a solid foundation of recurring revenue in a fast-growing segment, Virtual Worlds. In 2021, we will supplement this with multiple growth catalysts – new games and investments to drive market expansion.

This is why we are so incredibly excited about our future and why we believe Nexon is on a path to become one of the world's truly great entertainment companies.

With that, we are ready to take your questions.