

## FY2020 Q3 Earnings Conference Call (November 10, 2020)

### Q&A Summary

**【Q】** Regarding Q4 outlook in Korea, sequential decline in revenue from Q3 to Q4 looks large even taking seasonality into account. I have the impression that the good momentum has been continuing in Korea. Please tell us what are the factors of revenue decrease?

**【A】 Shiro Uemura (Chief Financial Officer)**

As for Q4 in Korea, PC business is expected to decrease due to seasonality. Mobile games do not have much seasonality, but we are expecting *The Kingdom of the Winds: Yeon* to decrease in Q4. We are seeing stronger-than-expected engagement from players and its Q3 performance substantially exceeded our expectations. As the result, the speed of content consumption was also very fast and we see the need for additional contents. Currently, we are increasing development resources to accommodate the need for additional contents. While we work to refresh content, we foresee a sequential decrease in Q4 revenue to be followed by a return to sustained success for the game.

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**【Q】** You are expecting to increase marketing expenses associated with titles including *KartRider Rush+*, *FIFA MOBILE*, *The Kingdom of the Winds: Yeon*. But since these titles are doing very well, I am wondering why you need to allocate more marketing budget. Is Nexon going to strengthen the marketing activities toward the end of the year? Or do you need to continue to invest in marketing for games that already launched? Could you tell us about your marketing promotion strategy going forward?

**【A】 Shiro Uemura (Chief Financial Officer)**

Our basic principle is to consider ROI in allocating marketing expenses. In Q4, we launched *FIFA MOBILE* in Japan and also there are several games that are trending very favorably in Korea in which we plan to continue to invest in their marketing. We think we can further expand the player base by continuing to promote the existing games based on their KPI analysis.

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**【Q】** *Dungeon&Fighter's* Q3 revenue in China dropped sequentially while you had the National Day update. It also decreased Q/Q even disregarding the one-time royalty income adjustment in Q2. Could you tell us the correlation between the events and the revenue?

**【A】** **Shiro Uemura (Chief Financial Officer)**

In the previous earnings call, we said that the existing user base were stable as the March large-scale update was well-received by the existing users. However, in Q3, both active users and paying users decreased sequentially due to the waning effect of the key update in March. However, the active users have been stably at this lower level.

In Q4, we are expecting the number of paying users to decrease compared to a year ago period while ARPPU is not expected to increase so much. As a result, we expect its revenue to decrease by approximately 20% Y/Y.

In the near-term, we will focus our efforts on sustaining the user base at the current level and then ultimately return it to growth in the mid-to-long term.

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**【Q】** I would like to ask about the nomination of Mr. Mayer on the board. Management discussed in the past that linear entertainment like movie has lower growth than interactive entertainment. So, I presume nominating him into the board does not mean you want to go into linear entertainment, but how should we understand his nomination? What does that mean for how you utilize your IP and the direction of how you leverage his expertise to grow our business?

**【A】** **Owen Mahoney (Chief Executive Officer)**

Whether or not we plan to get into the movie business, the short answer is no.

As a quick background, Kevin was Chief Strategy Officer for Disney for a long time and he has made the most impressive media flywheel strategy that I have ever seen. So, we have known Kevin for a while and have been enormously impressed with him.

We believe that the media companies and the big entertainment companies in the next 50 years are going to be much different than the media companies and big entertainment companies in the last 50 years. We think that there is a massive secular shift going on in the entertainment business right now. It is about the shift from linear to interactive, from offline to online, and from the physical to the virtual.

As we work through these, there is going to be a new set of linkages and a new flywheel that develops. We think that virtual theme parks are going to be the center of the next 50 years, as the way that physical theme parks were at the center of Disney's strategy in the last 50 years. We are very happy to leverage his advice and counsel on the board of directors.

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**【Q】** As for the difference between *Dungeon&Fighter* in Korea and in China, Korea service has been performing well whereas China service was going down. Can you please illustrate what drove the differences?

**【A】 Shiro Uemura (Chief Financial Officer)**

The main difference lies in the phase of these services. Regarding the Korea service, we had difficult period until 2018, however, gradually built momentum in 2019. And so, we were able to launch the major update on this January in this good situation. On the other hand, China service started to lose momentum in the latter half of 2019 and introduced the large-scale update in such circumstance. Therefore, while the update was well-received by the existing users, it did not bring back the churned players.

Our view is that while there's ebbs and flows in the game's performance, as long as we provide good content updates and live operations, we will be able to ultimately return it to growth in the mid to long term. So, while we are currently having difficult periods in China, we continue to iterate *Dungeon&Fighter* and ultimately return it to growth in the long-term.

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**【Q】** The stock market seems to be quite volatile these days. In this environment, how do you think about the buy-back that you have just announced? What are the key triggers to support the share price in the market?

**【A】 Shiro Uemura (Chief Financial Officer)**

We generate strong cash flow every year and expect to continue to do so if we stably operate our games. In this perspective, we continue to focus on growing our business as well as using cash in the most effective manner.

Looking at the cash position as of now, we believe we can return it to shareholders in a well-balanced manner. So, we have decided return 100 billion yen to our shareholders in the form of share buy-back over the next three years. Going forward, we would like to continue to invest in the future growth as well as consider shareholder return based on various factors that surround us.

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**【Q】** Could you provide an update on the delay of *Mobile Dungeon&Fighter*? Given that you have not included *Mobile Dungeon&Fighter* into Q4 guidance, should we take this as a message that it will not come out this year?

**【A】** **Shiro Uemura (Chief Financial Officer)**

As we announced in August, we postponed the launch to accommodate upgrades needed to bring the game in compliance with Tencent's anti-addiction system and we are working on it now. In addition to that, we are using this extra time to develop post-launch live content.

Once we determine the launch date, we will make an announcement. But practically speaking, it is already mid of November and we will need lead time to conduct marketing activities again. So, I guess it is realistic to think that there should be quite small contribution or it will not launch in Q4.

**Owen Mahoney (Chief Executive Officer)**

I just want to emphasize from my end that we and our partner Tencent are really excited about the game and 60 million pre-registered users are extremely excited to see it in the market.

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**【Q】** Regarding the new title from Embark Studios, could we get an update or some screenshot of the title within this year? Also, I was curious whether the development is still on track. If possible, could you tell me when the game can potentially come out?

**【A】** **Owen Mahoney (Chief Executive Officer)**

As we said before, we expect to start talking about it at the end of the year. What I can tell you is we are even more excited than we were before. I will personally play the new build this coming weekend and we will do an internal test. We are really excited about it and I think you are going to see stuff in the game that you have not seen before.

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**【Q】** In the mobile game space, you did not have much success in most markets until last year. However, you had a lot of success in Korea this year though we cannot call mobile games in Japan, North America and Europe as real successes so far. What do you think is different in these markets? Is it just due to the difference in the power of Nexon's IP or marketing?

**【A】 Owen Mahoney (Chief Executive Officer)**

As you recall last year in the second half, we made a major strategic shift. A big part of that strategic shift was to narrow down the number of products that we were making and to really focus on deeply immersive worlds, and then bring those immersive worlds to mobile and other platforms in addition to PC.

Through this strategy, we brought up our percentage of mobile revenue from 26% a year ago to 42% this quarter. It was a pretty big change.

But we just started this strategy less than a year ago. So, we have only got a few major products in the market in countries around the world. For example, in Korea, we have *MapleStory*, *KartRider*, *FIFA*, and *The Kingdom of the Winds*. Those are all in mobile, and we plan to launch *Mobile Dungeon&Fighter* and then *MABINOGI MOBILE* after that.

As that strategy plays out, that will flow throughout the world. Today in Japan, we just launched *FIFA MOBILE*. In China, we will be launching *Mobile Dungeon&Fighter*. So, this strategy will play out in the coming quarters and years.

You are right that these franchises are huge IP in Korea and we have also traditionally had great strength in China. But as we are focusing on fewer, bigger, better titles, we can put more effort on bringing them around the world.

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**【Q】** This is just a quicky comment. I hope Nexon's games work in multiple markets because as of now we do not see many companies which have had success in multiple regions with mobile games. It will be great to see Nexon's success in the future.

**【A】 Owen Mahoney (Chief Executive Officer)**

I think you are probably asking a broader question and making a broader comment.

I would like to emphasize one point. We grew 52% in Q3 without *Mobile Dungeon&Fighter* and we plan to grow about 30% in Q4. I think this really highlights the strength of our live operations to build up a franchise over decades and the diversity of our geographies in our intellectual properties. Also, it highlights the effectiveness of our focus strategy.

This quarter proves that we are not reliant on one title or one geography. If you remember one thing from this earnings call, it would be the diversity of our intellectual property and a growing diversity in our regional base of revenues.

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**【Q】** Regarding *Mobile Dungeon&Fighter*, you mentioned that you are spending the extra time to enhance the content. But I remember you stated in Q2 that you have prepared sufficient content. So, has your evaluation of the content changed? Or are you trying to aim for higher targets by adding content? Could you tell me the background of the decision to make additional contents?

**【A】** Shiro Uemura (Chief Financial Officer)

We want to be clear that the postponement was not because the game was not ready to be released in August but was to accommodate upgrades needed to bring the game in compliance with Tencent's anti-addiction system for young players. However, since we also have resources to proceed other works, we are efficiently using this time to further develop post-launch contents in parallel.