NEXON Co., Ltd.

Q4 2020 Earnings Prepared Remarks

February 9, 2021

Owen Mahoney, ***Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***
Thank you Ara-san and welcome everyone to Nexon's Fourth Quarter and year-end 2020 conference call.

Today, I will offer brief remarks on Nexon's performance for both the Fourth Quarter and Full-Year 2020 – both of which were very good. I will also offer some perspective on key trends and metrics that drive growth opportunities in our industry and company. Following that, our CFO Uemura-san will provide a detailed breakout on both the quarter and fiscal year.

Starting with our recent performance, Nexon's Fourth Quarter marked a strong finish to a good year. We beat our forecast and posted our highest-ever Q4 revenue -- up 35% year-over-year. This record-setting performance is attributable to great execution and careful management of our Virtual Worlds -- global blockbusters that show continued growth years after launch.

We are also extremely pleased with our full-year results for Fiscal Year 2020 -- the highest revenue year in Nexon's 26-year history. In addition to the topline growth, we saw clear progress on our Focus strategy for doing fewer things, bigger and better. And as a result, Nexon group revenue grew by 18% year over year.

A particular high point in the year -- and one that demonstrates our Virtual Worlds strategy -- is the performance of *MapleStory* in Korea which posted revenue growth of 98 percent year over year in 2020. Ninety-eight percent growth in its 17th year in the market.

Our performance in 2020 also reflects on the overall success of our strategy for moving blockbuster franchises onto mobile. Mobile revenue grew by 60 percent year-over-year and now represents one-third of Nexon's total annual revenue. And we expect this percentage to continue to grow in the years ahead.

With the close of a record-setting year, I would like to pause and offer some thoughts on how our strategy aligns with trends in technology and entertainment to provide catalysts for long-term growth.

In recent calls, we have highlighted the global secular shift in entertainment, from live, physical-based entertainment to online entertainment and from linear to interactive. We have said we think this shift is both profound, and under-reported.

On top of this fundamental shift, is the far-reaching impact that rapidly improving mobile technology will have on the business of online Virtual Worlds. Breakthroughs in mobile tech are leading billions of new consumers to Nexon's core business. In the past, Virtual Worlds were restricted to a limited audience of players with game-capable PCs; now everyone can have a Virtual World on their phone, in their pocket.

While the potential for billions of new mobile players will have an obvious impact on our Total Addressable Market, the larger and more enduring opportunity comes from Nexon's unique ability to sustain and grow Virtual Worlds for decades. On smart phones -- a platform where games and companies frequently disappear in weeks — Nexon brings a highly-unique specialty in operating complex Virtual Worlds. Like operating a world-class theme park in the physical world, this knowledge is specialized, based on constant iteration and refinement, and very difficult to replicate at scale.

In short, the same Live Operations support that keeps millions of PC players in a game for the past two decades….is likely to keep billions of mobile players playing for decades into the future.

A major analytical challenge for investors is to understand how a Virtual Worlds company like Nexon grows over time. In the old world of videogames, a company depends on new products for its revenues – no new products, no revenue. So analysts understandably must fixate on catalysts in the form of new product launches. Investors think that because Nexon is a game company it relies on new product introductions for growth. Not true.

The economics of a Virtual Worlds company don't look like that at all. A Virtual World company might double in revenue within a few years without any new products. The economics of a Virtual World – and therefore the analytical challenge -- are not an evolution of the traditional games business, it is a different paradigm altogether.

Since there are so few Virtual Worlds companies operating at scale, it is easy to miss this underlying difference.

In this way, Virtual World economics are more akin to theme parks. We obsess over day-to-day details that make for a great user-experience, and build a business over years. Except our theme parks are not physical, they are rendered in software and delivered from the cloud, and can increasingly be played anywhere, by anybody on the planet.

But, as robust as our current Virtual Worlds are, of course we are expanding. We are extending our existing Virtual Worlds onto new platforms like mobile, and creating new Virtual Worlds.

Today we are developing an exciting pipeline of new online games, like Mobile *Dungeon&Fighter, KartRider*: Drift, and multiple new titles from our Embark Studios in Sweden.

Most important from an investment perspective: each of the new games we are developing today is designed to be a Virtual World. Each has the same potential for decades-long revenue growth and profitability.

As we layer these new Virtual Worlds, and as we expand beyond the PC to mobile and beyond, we see a step change in earning power.

My final point relates to our Q1 2021 guidance, which Uemura-san will report on in just a few minutes. We're extremely pleased with our exceptional performance in 2020, however this success does not mean the rate of growth will be constant each quarter. Our experience tells us that growth is non-linear and occurs over an extended period.

We believe the growth potential of Virtual Worlds is the game industry's biggest catalyst. And we strongly believe that mobile represents massive opportunity as the potential player base expands from hundreds of millions to billions. We expect to see variations in our PC-to-mobile ratio in individual quarters, but the scale and direction of these forces are both massive and unmistakable.

To summarize, Nexon delivered a record-setting performance in both the Fourth Quarter and Full-Year 2020. We're extraordinarily gratified by the robustness of our massive IP franchises, thanks to the great work by Nexon employees around the world. And we look forward to introducing several new Virtual Worlds in 2021.

With that, I will turn 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 Q4 and FY 2020 full-year results.
For additional details, please see the Q4 2020 Investor Presentation available on our IR website.

We again delivered record-breaking Q4 revenues and operating income which were driven by the growth of multiple major blockbuster franchises which were expanded onto the mobile platform.

Group revenues were 66.4 Bn yen, up 35% year-over-year on an as-reported basis and up 34% on a constant currency basis, which exceeded our expectations. This was driven by the strong performances of *FIFA ONLINE 4* and *MapleStory* in Korea.

By region, revenues from Korea, Japan, North America and Europe each exceeded our expectations. Revenues from China were in the range of our outlook and Rest of World was slightly below our outlook.

Looking at the total company performance on a platform basis, PC and mobile revenues both exceeded our outlook and grew 16% and 76% year-over-year respectively.

Operating income was 15.6 Bn yen which was within our expected range. While our revenues exceeded our expectations, HR costs were higher than our plan due to higher performance-based bonus related to the terrific performances of our major titles as well as our new mobile games.

Net loss was 29.8 Bn yen, which was below our outlook primarily due to a 29.5 Bn yen deferred tax liability additionally recorded on the undistributed profits of our overseas subsidiary as well as a 21.0 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 Q4 exceeded our outlook primarily driven by stronger-than-expected performances of *FIFA ONLINE 4* and *MapleStory*.

We saw strong results from all four of our major PC titles which drove 48% year-over-year growth in our Korea PC business.
MapleStory's revenue exceeded our expectations and grew 88% year-over-year, driven by well-received Winter update and a successful collaboration with the popular K-pop group BTS.
Dungeon&Fighter and *Sudden Attack* also grew 106% and 56% year-over-year, respectively.

FIFA ONLINE 4's PC and mobile revenues combined exceeded our expectations and grew compared to Q4 2019 driven by the successful introduction of legendary players, events and content updates.

Mobile revenues grew by 116% year-over-year driven by contributions from *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *FIFA MOBILE*, as well as *MapleStory M* which grew 51%.

Overall, revenues from our Korea business grew by 72% on an as-reported basis and 70% on a constant currency basis, and set a record Q4 revenues.

Revenues from our China business were within our expected range and decreased 18% year-over-year on an as-reported basis and 20% on a constant currency basis.

PC *Dungeon&Fighter*'s Q4 revenue was in the range of our outlook. We continued the National Day update from Q3 and introduced other updates and events during the fourth quarter, all of which performed as planned.

As expected, revenue decreased year-over-year. ARPPU increased compared to Q4 2019 as the portion of light users was lower as compared to a year ago. This was more than offset by decreases in both active users and paying users due to the strengthening of player identity verification and bot sanctions, reduced user engagement since the second half of FY 2019, as well as lower sales from the National Day package offerings.

MAUs decreased quarter-over-quarter. Active users trended quite stably in Q4 as compared with Q3 when active users declined during the quarter. However, in addition to the typical seasonality, the comps were high, as Q3 included a period when we continued to benefit from the effect of the March large-scale update. Paying users decreased slightly quarter-over-quarter driven by item offerings which had rich line-ups. ARPPU and revenues decreased due to seasonality.

Revenues from our Japan business exceeded our outlook. On a year-over-year basis, we recorded a revenue increase of 52% on an as-reported basis and 51% on a constant currency basis. We benefited from new titles including *V4, TRAHA* and *FIFA MOBILE*, all of which launched in 2020.

Revenues from North America and Europe exceeded our outlook.
On a year-over-year basis, revenues increased by 22% on an as-reported basis and 26% on a constant currency basis. This was driven by *MapleStory* and *MapleStory M* which grew 124% and 55% respectively as well as contributions from *KartRider Rush+* and *V4*.

Revenues from the Rest of World were slightly below our outlook but grew 14% year-over-year on an as-reported basis or on a constant currency basis. The year-over-year growth was driven by *KartRider Rush+*'s contribution as well as *MapleStory* which grew 103% year-over-year.

Next, I'll review our FY 2020 full-year results.

FY 2020 highlighted the diversity and durability of the franchises that drive our portfolio.

Our Focus strategy, combined with our substantial IP as we bring our Virtual Worlds to multiple platforms, is paying large dividends which drove significant growth in both our major franchises and our mobile business.

In particular, Korea reflected outstanding execution. After 84% year-over-year growth, Korea now accounts for 56% of NEXON Group's full-year revenues.

In Korea, *MapleStory, Dungeon&Fighter* and *FIFA ONLINE 4* each achieved its highest full-year revenue. *MapleStory*, a 17-year-old franchise, recorded a remarkable 98% year-over-year growth and *Dungeon&Fighter,* a 15-year franchise grew 55%. Now in its 9th with Nexon, the *FIFA ONLINE* franchise also recorded year-over-year growth. As a result of the performance of these titles, our overall PC business grew 4% versus the prior year despite our challenge in China's *Dungeon&Fighter.*

The expansion of our beloved franchises onto mobile platform, including *The Kingdom of the Winds: Yeon, KartRider Rush*+ and *FIFA MOBILE* as well as V4 drove 60% year-over-year growth in our mobile business. One-third of our Group revenues was mobile in 2020.

As a result of strong execution of our focus strategy, we achieved record-high revenues and operating income for the full-year.
Our Group revenues were 293.0 Bn yen, up 18% year-over-year on an as-reported basis and up 21% on a constant currency basis. Operating income was 111.5 Bn yen, up 18% year-over-year on an as-reported basis and up 23% on a constant currency basis.

Excluding the impact of forex, we have recorded top line growth for the nine consecutive years since we went public in 2011.

Net income was 56.2 Bn yen, down 51% year-over-year on an as-reported basis and 47% on a constant currency basis due to the 29.5 Bn yen deferred tax liabilities additionally recorded on the undistributed profits of our overseas subsidiary as well as a 17.7 Bn yen FX loss on our cash deposits.

Now, I'll move on to our FY 2021 first quarter outlook.

We expect our revenue in Q1 to be flat or increase year-over-year. The growth that we anticipate from *MapleStory*, *The Kingdom of the Winds*: *Yeon* and *KartRider: Rush+* will be fully or partially offset by a year-over-year decline in *Dungeon&Fighter's* revenue in China.

We expect our Q1 2021 revenues in the range of 82.8 to 89.1 Bn yen, representing a range between a 0% to 8% increase year-over-year on an as-reported basis. On a constant currency basis, we expect a range between a 3% decrease to 5% increase.

We expect our Q1 2021 operating income to be in the range of 35.3 to 41.9 Bn yen, representing a 15% decrease to 1% increase year-over-year on an as-reported basis and a 17% to 2% decrease 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 26.0 to 30.9 Bn yen, representing a 48% to 38% decrease year-over-year on an as-reported basis and a 49% to 40% decrease year-over-year on a constant currency basis due to the operating income decrease as well as an 18.7 Bn yen FX gain we recorded in Q1 2020.

We anticipate our performance in Korea will continue to reflect the positive impact of our focus strategy. We expect *MapleStory, Dungeon&Fighter, Sudden Attack* as well as *MapleStory M*, which has kept good momentum since the major update in December, to once again grow double-digit year-over-year in Q1.
We also expect to benefit from *The Kingdom of the Wind*s: Yeon, *KartRider Rush+* and *FIFA MOBILE* resulting in a year-over-year growth in both our PC and mobile business.

Accordingly, we expect revenues from our Korea business to be in the range of 51.1 to 53.8 Bn yen, representing a 28% to 35% increase year-over-year on an as-reported basis and a 24% to 31% increase year-over-year on a constant currency basis.

While we expect our mobile revenues in Korea to increase year-over-year, we anticipate a sequential decline primarily due to lower contribution from *The Kingdom of the Winds: Yeon* and *KartRider Rush+*. We anticipate fewer players in both of these games compared to Q4 as the player base begins to settle following the games' respective launches.
Over the long-term we are looking to grow the player bases for these games as we add rich content and events that will attract, retain and re-acquire lapsed players.

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 21.6 to 24.2 Bn yen, representing a 36% to 28% decrease year-over-year on an as-reported basis and a 37% to 30% decrease year-over-year on a constant currency basis.

As a reminder, our Q1 China outlook does not include any contribution from Mobile *Dungeon&Fighter*. We are working closely with our partners at Tencent who tell us that they are making progress toward the release.
We hope to have more information soon, but we understand there are some factors that Tencent is managing in respect of the release.

As for PC *Dungeon&Fighter*, we introduced the Lunar New Year update on January 21st, which includes new dungeons and avatar package offerings.

Active users and paying users have been stable from Q4. However, they remain at low levels compared to last year. We expect sales from the Lunar New Year package offerings to decline year-over-year.
In addition, as a reminder, in the year ago quarter we introduced a large-scale update which included the Level cap release as well as Third Awakening. Accordingly, we anticipate *Dungeon&Fighter*'s revenue to decrease year-over-year.

While we do not expect a near-term major uplift in user metrics for *Dungeon&Fighter*, in order to facilitate mid- and long-term growth, we are working on seasonal updates as well as additional updates with the aim to acquire new players as well as reacquire lapsed players.
Our top priority is to sustain the game's user metrics at the current levels while stably operating the game. At the same time, we are also taking measures to drive its mid- and long-term growth prospects.

In Japan, we expect revenues in the range of 3.1 to 3.5 Bn yen, representing a 97% to 123% increase year-over-year on an as-reported basis and a 93% to 119% increase year-over-year on a constant currency basis. We expect to benefit from *FIFA MOBILE, V4* and *TRAHA*, as well as Blue Archive, a new mobile game developed by our subsidiary NAT Games, which we launched together with our partner Yostar on February 4th.

In North America and Europe, we expect revenues to be in the range of 4.1 to 4.5 Bn yen, representing a 2% decrease to 8% increase year-over-year on an as-reported basis and a 1% to 11% increase year-over-year on a constant currency basis.
We anticipate *MapleStory* to grow double-digit compared with Q1 2020 when it grew 54% year-over-year. However, we expect this to be offset by a year-over-year decrease in Choices as well as *MapleStory 2* which ended the service in 2020.

We expect revenues in the Rest of World in the range of 3.0 to 3.2 Bn yen, representing a 22% to 16% decrease year-over-year on an as-reported basis and a 23% to 17% decrease year-over-year on a constant currency basis.

While we expect to benefit from *KartRider Rush+*, we expect this to be more than offset by a decrease in *World of Dragon Nest* which launched in Q1 2020 as well as other mobile games.

In Q1 2021, we expect operating income to be in the range of 35.3 to 41.9 Bn yen, representing 15% decrease to 1% increase on a year-over-year basis.

The primary driver for the higher operating income in Q1 2021 at the high end of the range is the revenue increase.

Other favorable factors include a decreased impairment loss of 6.1 Bn yen recorded in Q1 2020, which will not be repeated in Q1 2021.

Unfavorable factors compared to Q1 2020 regarding the operating income include:
First, increased variable costs associated with revenue growth.

Second, increased HR costs including increased salaries as well as stock option costs.
This year we introduced a new HR strategy in our R&D center in Korea aimed at promoting sustainable growth and global expansion.

In a highly competitive job market, the new policy will help us acquire and retain the top talent needed to achieve our vision of global leadership in entertainment. In a related decision, Nexon introduced a company-wide salary increase and top-level incentive system tied to individual performance.
Due to the introduction of the new compensation policy, which is additional to increased stock option costs and the ordinary salary hike, we expect a large increase in HR cost compared to Q1 2021.

Third, increased marketing costs associated with ongoing promotions for *KartRider Rush+* and *The Kingdom of the Winds: Yeon*.

Lastly, increased outsourcing costs.

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

To summarize, in Q1 2021, we expect strength from multiple major franchises, while we expect this to be fully or partially offset by a year-over-year decrease in PC *Dungeon&Fighter* in China. Overall, we expect our group revenues to be flat or increase year-over-year.

In 2021, we will continue to focus on our daily Live Operations as we look to stably operate our major franchises.
We will continue to build new Virtual Worlds which we will layer upon our foundation that will continue to set us up for the long-term growth of our group business.

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

Based on our 2020 shareholder return plan, we plan to pay a dividend of 2.5 yen per share for the year-end to the shareholders on the shareholder registry as of December 31, 2020.

We plan to pay the same semi-annual dividend per share in 2021.

With regards to our share repurchase policy that we announced on November 10 – to buyback 100 Bn yen over a three-year period, we have not yet made an announcement about a specific repurchase plan. We will consider several factors including investment opportunities, financial condition as well as the share price as we buy back our shares.

Regarding our investments in global entertainment companies, we have completed investments totaling 92.4 Bn yen, which accounted for 58% of the 1.5 Bn dollars that the Board of Directors authorized and recorded an unrealized gain of 29.5 Bn yen under other comprehensive income as of Q4.

This ends my comments.
Back to you Owen.

Owen Mahoney, ***Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***
Thank you Uemura-san.
Before we get to your questions, I want to summarize three points we've made today:

First, the business of online Virtual Worlds is fundamentally different than the rest of the games business. The way we run our business and the way you analyze it are not at all analogous to other segments of the games business. That means that, like a physical theme park, our business of Virtual Worlds can grow substantially without the introduction of new games. This creates an analytical challenge for those who think of Nexon as a traditional games company and therefore look for catalysts. We proved this important point yet again in 2020 most conspicuously with *MapleStory* – a Virtual World launched 17 years ago that doubled its year-over-year revenue in Korea.

Second, we are nonetheless very excited about the new Virtual Worlds we will be introducing in 2021. Yes, they will serve as catalysts in the near to-mid-term, but the real win is for us to keep them growing over years, as we have done with our other major franchises.

Third, with all that in mind, 2020 was a terrific year for us. But more importantly, it sets us up for more great years ahead.

With that, we are ready to take your questions.