NEXON Co., Ltd.

Q1 2021 Earnings Prepared Remarks

May 12, 2021

Owen Mahoney, ***Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***
Thank you Ara-san and welcome everyone to Nexon's First Quarter 2021 conference call.

Today I will provide an update on Nexon's First Quarter performance, followed by some perspective on trends shaping our business. After that, our CFO Uemura-san will provide a detailed financial review of our quarter and our guidance for Q2.

Nexon has delivered another strong quarter. All but one of our regions contributed a First Quarter performance that was close to or above the high-end of our guidance. The exception was the Korea region. Although revenue from Korea increased by 26% year-over-year, it was below our outlook due to softer than expected results from *MapleStory* and *KartRider Rush+*.

On the strength of our existing portfolio of Virtual Worlds, we again saw revenue growth – up 7% year-over-year on an as-reported basis and up 3% on a constant currency basis.

Separate from our core business, in March Nexon disclosed investments that we made over the last year in four entertainment companies. These companies, which like Nexon are defined by disciplined and dedicated management of global IP, are: Hasbro, Bandai Namco, Konami, and Sega Sammy. Others received investment but did not meet the threshold for disclosure. As of March 31, our investments in this collection of companies generated an unrealized gain of 29.6 billion yen or 26 percent.

Next I'd like to offer some context on our long-term strategy, and some specific near-term trends.

The past 18 months offer a clear affirmation of the Focus strategy Nexon adopted in 2019. At that time, we resolved to reduce the number of projects we pursue – saying "no" to many good development projects, live games, and investments, so we could say "yes" to a much smaller number of truly great ideas. The projects we chose to focus on include more resources for our best online Virtual Worlds, expansion onto new platforms including mobile and consoles, investing in a much more advanced technology base for operating massive Virtual Worlds and building new ones, and building a select number of highly-original game IP for global markets.

We know from experience that focusing attention on the development and Live Operations of Virtual Worlds like *MapleStory* and *Dungeon&Fighter* offers years and even decades of revenue growth.

We also know that a long-running Virtual World like *MapleStory* is not a linear progression, and that periods of rapid growth, like *MapleStory*'s 98% YoY growth in Korea last year, can be followed by transitional periods of flat performance or even decline.

Our long-term investors understand the dynamics of the Virtual Worlds business, and recognize the long-term growth characteristics of these franchises, as they have seen the pattern play out repeatedly across our portfolio. They understand that our existing portfolio, as well as new and unreleased titles like Mobile *Dungeon&Fighter*, *KartRider: Drift* and new games from our Embark Studios will operate on that same model: a core set of titles that together provide a stable base, augmented by step-function growth as we launch and grow new titles.

Experience tells us to anticipate some quarters with soft YoY performance in the near term, so that we can design our business to be robust over the long-term.

Several factors inform our outlook for Q2, and trends we expect in 2021.

First, our Focus strategy generated an extraordinary success in 2020, exemplified by *MapleStory* delivering 98 percent annual growth – an all-time high – 17 years after it launched in Korea. This was coupled with strong performances by other Nexon flagships like *The Kingdom of the Winds: Yeon* and *KartRider Rush+*.

Lapping that success on games with such a large base will not be easy, and focusing on doing a few things extraordinarily well can make our results more uneven in the short term. But in the longer term we make better products and therefore get better returns for our shareholders.

Second, as we've said in the past, while the COVID Pandemic seems to have benefitted games and Virtual Worlds in the short term, the larger force by far is the fundamental secular shift in global entertainment, from offline to online, and from lean-back, passive, linear media to lean-forward interactivity. Nonetheless, depending on the region and game, we anticipate short-term declines in player engagement as the world exits the pandemic. We don't, however, expect this to persist. We think the experience of Virtual Worlds is as compelling as anything in entertainment, the global audience will continue to grow dramatically, and the secular trend will get even stronger. The forces at work existed well before the pandemic and will continue after.

A third factor is about commitment to providing our players with greater transparency on rules –particularly on disclosing the probability values assigned to items purchased in our games. We recognized that the standards which players hold Nexon and games to have changed. This has become an industry-wide theme in Korea, and while Nexon and *MapleStory* are not the sole focus, we take this feedback very seriously. Our game teams moved rapidly with policies designed to clarify misunderstandings and maintain the trust of our players.

In March, we began the process of making our probability tables public, and opened a suggestion board for vetting questions and suggestions from our players. We have more work to do. But Nexon has received accolades for our efforts to listen to players and incorporate their feedback. As one example, one of Korea's top gaming outlets – GameZine – lauded Nexon for meeting with players and actively accepting user input to improve the game.

In summary, Nexon had a strong First Quarter. Focusing on a core set of priorities has served us extremely well, and we are getting ready to launch major new games, including Mobile *Dungeon&Fighter*, *KartRider: Drift*, and the first game from Embark Studios.

The world will hopefully emerge from the Pandemic soon. The entertainment industry is already clearly altered, from even one year ago, and there is growing recognition that the virtual and the interactive are at the core of the entertainment experience in the new world. Building and running deeply immersive interactive experiences on a mass scale is not a widely-held skill set – it is one of the most scarce resources in the world today. And this is the exact capability Nexon has built and we are working so hard to augment, so that we are at the core of the global entertainment industry of the 21st century.

With that, I will turn the call over to our CFO, Uemura-san.

Shiro Uemura, ***Representative Director and Chief Financial Officer, NEXON Co., Ltd.***
Thank you, Owen. Now I'll review our Q1 2021 results.

For additional details, please see the Q1 2021 Investor Presentation available on our IR website.

In Q1, we delivered year-over-year growth in all regions excluding China, driven by strong performances of multiple major franchises.

Group revenues were 88.3 Bn yen, up 7% year-over-year on an as-reported basis and up 3% year-over-year on a constant currency basis – was within the range of our outlook.

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

Looking at the total company performance on a platform basis, PC revenues exceeded our outlook while mobile revenues were in the range of our outlook.

Operating income was 43.3 Bn yen which exceeded our outlook. This was primarily due to lower-than-planned costs including payment gateway fees, and marketing costs, while revenues were within the range of our outlook.

Net income was 46.0 Bn yen, which exceeded our outlook primarily driven by an 18.1 Bn yen FX gain related to the depreciation of the Korean Won and Japanese Yen 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 were below our outlook primarily due to lower-than-expected performances of *MapleStory* and *KartRider Rush+*.

On a year-over-year basis, revenues increased by 26% on an as-reported basis and by 21% on a constant currency basis.

PC revenues grew by 21% year-over-year, driven by the growth in our four major titles.

MapleStory's revenue grew year-over-year driven by the well-received Winter update while its revenue was below our outlook.

In late February, *MapleStory* players pointed out that the information available on our game including probabilities associated with unlocking valuable items was not clear enough and that there was a lack of communication. Related to this, the number of active users, which had stayed high since the beginning of the quarter, declined beginning in late February.

We have addressed this issue and announced a policy to improve communication, transparency, and to maintain the trust of our players.

First, we provided compensation to our users in March to April.

Second, we publicly announced our plan to disclose probabilities for all of our paid probability-based items in our major games in Korea. This is the industry's first initiative in Korea. We have disclosed probabilities of some items and will continue to disclose more going forward.

Lastly, we arranged a meeting to receive feedback from key player influencers and opened a suggestion board where the development team can respond to questions and suggestions from players.

We are committed to ongoing improvements in transparency and communication to provide further assurance of fairness to players.

FIFA ONLINE 4's PC and mobile revenues combined grew year-over-year driven by the well-received Lunar New Year package offerings and promotions.

Revenues from *Dungeon&Fighter* and *Sudden Attack* also grew by 13% and 56% year-over-year, respectively.

Mobile revenues increased by 42% 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 69%, partially offset by a year-over-year decrease in *V4*.

Revenues from our China business exceeded our outlook due to *Dungeon&Fighter* which was slightly above our expectations.
On a year-over-year basis, revenues decreased by 23% on an as-reported basis and by 26% on a constant currency basis.

As for *Dungeon&Fighter*, active users -- which had remained stable since the previous quarter -- decreased in February. This was primarily due to lower engagement by light users waning off following the Lunar New Year update, which was introduced on January 21st. In contrast, paying users remained flat sequentially, which was above our expectation. As a result, revenue slightly exceeded our outlook. Quarter-over-quarter, ARPPU and revenues increased due to the typical seasonality.

On a year-over-year basis, active users and paying users both decreased due to reduced user engagement and strengthened bot sanctions. ARPPU remained roughly flat. As a result, revenue decreased year-over-year as expected.

Revenues from Japan more than doubled year-over-year driven by contributions from *FIFA MOBILE*, *V4*, *TRAHA*, as well as *Blue Archive*, which launched on February 4th.

Revenues from North America and Europe increased by 16% primarily driven by *MapleStory* and *MapleStory M*, which grew by 136% and 78% year-over-year, respectively.

Revenues from Rest of World increased by 10% primarily driven by *MapleStory* which grew 90% year-over-year.

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

Q2 2021 will be a challenging comparison given the strong performance we achieved in the year ago quarter. As a reminder, on a constant currency basis, in the year ago quarter our topline grew 27% year-over-year. Our performance last year was driven by the growth of our major PC titles including *MapleStory* as well as rapid growth from our mobile business following the launches of *V4* in Q4 2019 and *KartRider Rush+* in Q2 2020. Given this tough comparison, we expect our overall group revenues to decrease year-over-year in Q2 2021.

We expect our Q2 group revenues to be in the range of 54.5 to 59.6 Bn yen, representing a 16% to 8% decrease year-over-year on an as-reported basis and a 23% to 16% decrease year-over-year on a constant currency basis.

We expect our Q2 operating income to be in the range of 12.0 to 16.4 Bn yen, representing a 55% to 39% decrease year-over-year on an as-reported basis and a 60% to 46% 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 9.0 to 12.3 Bn yen, representing a 55% to 38% decrease year-over-year on an as-reported basis and a 61% to 45% decrease year-over-year on a constant currency basis.

In Korea, during the year ago quarter, on a constant currency basis we achieved 81% year-over-year growth. Given the challenging comparison along with a probability issue in *MapleStory*, we expect revenues from our Korea business to be in the range of 31.6 to 33.8 Bn yen, representing a 4% decrease to 3% increase year-over-year on an as-reported basis and a 13% to 7% decrease year-over-year on a constant currency basis.

As for the PC business, we expect *FIFA ONLINE 4* to sustain its recent strength and grow year-over-year. We also expect *Sudden Attack* to grow triple-digits year-over-year.

As I explained earlier, *MapleStory*'s active users have decreased since late February and the current number of active users is lower compared to last year's elevated level.

Given the enormous performance from the game in Q2 2020 when it grew 151%, we expect, on a constant currency basis, the game to decrease compared to last year.

We also expect *Dungeon&Fighter*'s revenue to decrease compared to Q2 2020 when its revenue grew by 49% year-over-year on a constant currency basis.

While we anticipate growth from *FIFA ONLINE 4* and *Sudden Attack*, we expect this to be more than offset by the declines in *MapleStory* and *Dungeon&Fighter*. As a result, we expect PC revenues in Korea to decrease year-over-year.

We expect mobile revenues in Korea to be roughly flat year-over-year on a constant currency basis. Contributions from *The Kingdom of the Winds: Yeon* and growth in *FIFA ONLINE 4 M* and *MapleStory M* are expected to be offset by decreases in *V4* and *KartRider Rush+*, both of which had strong performances in the prior year ago quarter following their recent launches.

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 13.5 to 15.6 Bn yen, representing a 30% to 19% decrease year-over-year on an as-reported basis and a 37% to 27% decrease year-over-year on a constant currency basis.

Excluding the impact of the 2.3 Bn yen one-off royalty revenue adjustment recognized in Q2 2020, we expect a decrease of 20% to 8% year-over-year on an as-reported basis or a decrease of 28% to 17% year-over-year on a constant currency basis.

As for *Dungeon&Fighter*, we recently introduced the Labor Day update on April 22nd, which included avatar packages and related new dungeons.

In addition, in June, we will release the 13th Anniversary update.

Current MAUs and paying users in April have further decreased since Q1 2021 and remain lower compared to last year.

Therefore, we expect its revenue to decline year-over-year.

As for Mobile *Dungeon&Fighter*, our partners at Tencent are working to resolve some remaining factors needed to launch the game. We are working closely with them while also creating more content for the game.

In Japan, we expect revenues to be in the range of 2.4 to 2.7 Bn yen, representing a 15% to 4% decrease year-over-year on an as-reported basis and a 20% to 9% decrease year-over-year on a constant currency basis. We anticipate contributions from *FIFA MOBILE*, *Blue Archive* and *V4*, will be more than offset by a decrease from *TRAHA* due to a tough comparison following its Q2 2020 launch.

In North America and Europe, we expect revenues to be in the range of 4.0 to 4.4 Bn yen, representing a 21% to 13% decrease year-over-year on an as-reported basis and a 23% to 15% decrease year-over-year on a constant currency basis, primarily due to a decrease in revenue from *Choices*.

We expect revenues in the Rest of World to be in the range of 3.0 to 3.1 Bn yen, representing a 36% to 32% decrease year-over-year on an as-reported basis and a 41% to 38% decrease year-over-year on a constant currency basis, primarily due to tough comparisons for *KartRider Rush+*, which launched in Q2 2020, as well as *V4*, which launched in Taiwan, Hong Kong and Macau in Q1 2020.

In Q2 2021, we expect operating income to be in the range of 12.0 to 16.4 Bn yen, representing a year-over-year decrease of 55% to 39%.

Unfavorable factors compared to Q2 2020 regarding the operating income include:

First, revenue decrease.

Second, increased stock options costs and HR costs associated with the introduction of a new compensation policy in Korea.

Third, increased outsourcing costs.

Favorable factor compared to Q2 2020 includes decreased marketing costs.

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

We expect revenues to decrease in Q2 2021 due to the tough comparison in Q2 2020. However, our Virtual World business is designed to last for years based on our long-term operation plan. Experience clearly tells us that growth is non-linear and occurs over an extended period. While we have seen periods of consecutive decreases in *Dungeon&Fighter* and *MapleStory* in the past, they continue to grow over the long term.

We are executing on our focus strategy and steadily carrying out our daily operations to grow our existing Virtual Worlds over the long term. Accordingly, we expect our revenue foundation to stably grow over the long term.

In addition to our existing business, we also have a number of upcoming Virtual Worlds under development. We will aim for further long-term growth by launching these titles going forward.

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

Regarding our three-year 100Bn yen share repurchase policy that we announced on November 10 2020, we have not yet executed any specific buyback. Over the next 30 months until Nov 2023, the end of the planned period, we will consider several factors including investment opportunities, financial condition as well as the share price as we buy back our shares.

As to our investments in global entertainment companies, we have invested 115.8 Bn yen, which accounted for 71% of the 1.5 Bn dollars that the Board of Directors authorized and recorded an unrealized gain of 29.6 Bn yen under other comprehensive income as of Q1.

With that, I'll turn it back to Owen.

Owen Mahoney, ***Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***
Thank you Uemura-san.

To summarize, Nexon's incredible performance in 2020 was followed by a strong First Quarter in 2021. We are tracking closely to the Focus strategy we established 18 months ago, using Live Game Operations to support Virtual Worlds over the long term. Experience tells us that periods of robust growth can create tough comps in the quarters that follow, but the long-term trend has been up and to the right. And we are extremely excited to be talking more about new product launches later in the year.

With that, we are ready to take questions.