

FY2021 Q1 Earnings Conference Call (May 12th, 2021)

Q&A Summary

[Q] I would like to know why this issue happened in *MapleStory* now, after around 20 years of operation. I recall we were seeing an immense growth in revenue before China *Dungeon&Fighter* started to fall. So, I am wondering if you might overdo when your franchise performs well.

[A] Shiro Uemura (Chief Financial Officer)

Decline in the performance in China *Dungeon&Fighter* and *MapleStory* comes from very different reasons.

We have been operating various Virtual Worlds for a very long period of time. Over the years, we have gained rich experiences in fixing individual problem in each of our titles. Regarding your question about why *MapleStory* is experiencing this after around 20 years of operation, users' way of thinking and the behavior can change, as the game grows over a very long time. We think it is natural that there will be users who would be seeking for further transparency on games, including the odds of acquiring probability-based items. We took their feedback seriously about our disclosure which had a room to create misunderstandings and we announced that we will be disclosing the probability table for all the paid-probability items in our major titles in Korea.

Since we are making online games together with our users, it is very important to ensure that the users trust us and enjoy our games. So, we sincerely deal with requests about *MapleStory* so that this game would be enjoyed by our players for another 10, 20 years.

Owen Mahoney (Chief Executive Officer)

I want to remind you that we have this huge comp on *MapleStory*. The game nearly doubled its revenue year-over-year in 2020 from 2019, the biggest year ever to date then. In a nearly 20-year game, we have ups and downs. You can see it on our graphic on the deck on page 33. This is the case of *MapleStory*, but the same pattern has appeared in all of our major products. We recognize this creates an analytical challenge for the analysts. We see these patterns in years and we manage them over a period of years and decades. But for those who follow us and have to think in shorter-term time frames, the picture is going to look very differently. When we do well, people draw a continuous line up into the right, and when it does not increase year over year, that line looks very dire. That is the challenge of analyzing and understanding a Virtual World company that measures its success over a period of years and decades.

【Q】 Compared to Q4 2020, mobile revenues in Q1 2021 dropped significantly. Also, you are expecting a huge decline in mobile revenues in Q2 2021 as well even if we consider the seasonality. What are the reasons behind these QoQ declines?

【A】 Shiro Uemura (Chief Financial Officer)

It is natural that there are some specific times of decline if you cut out a certain period of time and look at year-over-year or quarter-over-quarter.

One of the reasons for the decrease is that we are not expecting any new major mobile launches. And another reason is that mobile titles perform well right after the launch, but there is a tendency to drop sequentially for a certain period of time after the launch due to a decrease in users as time goes by. Timing-wise, mobile business looks soft in Q1 and Q2 2021, but I am very sure that once we have a new title, there would be a change in the current situation.

When it comes to the seasonality, basically we do not see it in our mobile games, except for *FIFA ONLINE 4 M* and *MapleStory M* since these titles correlate with PC version. So, seasonality of these titles may affect sequential revenue decrease in Q2 2021.

Owen Mahoney (Chief Executive Officer)

I would like to draw your attention to the *MapleStory M* example. 2020 was *MapleStory M*'s best year so far, even though it settled in after the launch. As we have said before, we expect the mobile business and the PC business are starting to look more and more similar because we are delivering Virtual Worlds on mobile devices as well. So, we think we are going to have ups and downs in the mobile business as well. But the overall trend will be up to the right as it has been for PC. But the difference between the two is that we are addressing a much larger total addressable market on mobile. So, we hope for that to expand to a much bigger market over time.

【Q】 Regarding *Maplestory*, it would be great if you tell us what KPIs made you think that this is part of the similar pattern that you have seen before?

【A】 Shiro Uemura (Chief Financial Officer)

We analyze various types of KPIs. We are disclosing MAU, paying users, and ARPPU. However, in our daily operations, we are looking at other KPIs including DAU, as we need to have a grasp of the game in a timely manner. Also, we put importance on getting direct feedback from our users to understand the status of the game.

We have been seeing a decline in active users and paying users since late February. By taking into consideration of the current trend, we have made the Q2 guidance. However, we believe the most important factor is to enhance relationship of trust through dialogues with our users and to reactivate the game. By focusing on this, we could grow the game again over the medium to long term. Regarding your question which part of the current trend is similar to past trend, I think it depends on the issue at hand and it is not necessarily the same issue that we faced in the past.

【Q】 For example, in the past, you said that the core players and MAU were stabilized, but we have not got that kind of indication at the current juncture for China *Dungeon&Fighter*. Likewise, should we think that we are still seeing continued decline trend and we are not sure where the declines will stop for *MapleStory*? Is that fair to think that we are going to manage this process for stabilization, but the decline is continuing for the time being?

【A】 Shiro Uemura (Chief Financial Officer)

Although active users and paying users started to decline from February, current KPIs are relatively stabilized. We believe we should focus on deepening our dialogues with our users to reactivate the game. So, even though the KPIs are relatively stable, we should not be too optimistic about the situation, and we will continue to ensure that we handle this situation properly.

[Q] Regarding *Dungeon&Fighter* in China, we are still seeing a decline in the current first half. At this pace, it looks like the numbers for the full year look like it is on a trajectory that looks very similar to 2016. Can you give us a sense of how we gauge where things stabilize and how long it takes to grow again?

[A] **Shiro Uemura (Chief Financial Officer)**

China *Dungeon&Fighter* started to decelerate in the second half of 2019 and the downtrend continued during 2020. In the previous earnings call, I said that we have started to see some stabilization in the KPIs. And with that as a backdrop, we reached the Lunar New Year in Q1 2021. We did all that we could and the result slightly exceeded our expectations. However, after the Lunar New Year, KPIs including paying users started to decrease again. It is difficult to say when we can see the stabilization but we have to monitor the situation closely and take appropriate measures. As we said before, we do not think we are going to get back to a great year like 2019 at once. We would like to focus on the stabilization first so that we could promote growth over the medium to long term again.

Owen Mahoney (Chief Executive Officer)

There's a couple of factors that need to be considered. One is to what extent is the closure of PC cafes during the period of COVID-19 affected the *Dungeon&Fighter* performance in China. Another is we had expected to launch *Mobile Dungeon&Fighter* now and the positive impact on the marketing. We do not feel we have quite found the right formula for our live operations or live developments for what the new content to go in the product exactly needs to look like. We are working with our partners at Tencent very closely on this. And over time, we put a lot of management attention into it. And we have been beefing up our development team and we have got some of our very best developers on the issue.

So, I think it would be a mistake to draw a line and then make a prediction based on pattern recognition. But I would reiterate that we have seen this happen so many times. We go through this process. We do some updates. They do not resonate. Sometimes the game will decline for several quarters in a row or a couple of years and then they will come roaring back. We do not know quite what that looks like yet, but we certainly got some of our very best people on it. We are working very closely with Tencent on it.

[Q] You mentioned that depending on the region and game, you anticipate short-term declines in player engagement as the world exits the pandemic. But I have not recognized that your games enjoyed the positive impacts from stay-at-home policy. In what region or title would you expect the decline in player engagement? Have you already seen the signs of that?

[A] Shiro Uemura (Chief Financial Officer)

As we said before, on overall business basis, we did not receive such a large impact from the COVID-19. We can enjoy a bit of a tailwind because people have more time to access to games because of stay-home and temporally closures of schools. On the other hand, there is a headwind due to the closure of PC cafés for games which are mainly played together with friends at PC café. So again, the situation can differ depending on which region or tittle we are talking about. But our whole business did not receive a positive or negative impact from COVID-19. We still have the same view as of today. While it is good for us that PC cafés have started to reopen, there might be some titles which will be negatively affected as people start to go back to everyday life. Of course, we have to monitor the situation, but we are not expecting a major impact as a whole.

[Q] Regarding PC *Dungeon&Fighter* in China, I know you have been trying to work for several quarters to improve this situation and I am sure the issues and challenges varied accordingly. At this moment, what is the issue that you think you need to resolve? What is your current plan to stabilize the situation as you look down the road?

[A] Shiro Uemura (Chief Financial Officer)

The issue around China *Dungeon&Fighter* is that the game is getting core as some of the light or middle users left the game. If we want to go back to the growth trajectory, we need to make sure we regain those lapsed users, but this is something that we would not be able to do just at once. So, first, we must make sure that we can maintain our current users who are enjoying the game. Following this, we will adjust the game balance and conduct measures step-by-step to regain lapsed middle or light users.

[Q] You mentioned that there are going to be peaks and valleys in terms of revenues, which I fully understand. But I would like to ask about the visibility as to when management believes that we can emerge from the current valley. I recall that, at the beginning of the year, there were several titles lined up for 2021, including *KartRider: Drift*, *Mobile Dungeon&Fighter*, and *Mabinogi*. We have not had any big flagship titles for the first five months right now, and I was wondering when you feel you can have either big content update for existing games or new title launches to drive a big boost in revenues.

[A] Owen Mahoney (Chief Executive Officer)

On our existing title base, we are coming off on some of the titles from a spectacular year in 2020. It is hard to call *MapleStory* a valley when we are coming off of doubling the revenue year-over-year in 2020, and the year prior to that was the biggest year of all time in 2019.

For new game launches, we have three big beats coming up. The first is *Mobile Dungeon&Fighter*, the second is *KartRider: Drift* and the third is the first game from Embark Studios. We do not have anything new to report on *Mobile Dungeon&Fighter*. We are very excited about *KartRider: Drift* and we are going to be talking about it later this year. Also, we will be talking about Embark's first game a lot more later in this year.

We have been making progress in new game development as we planned. We are extraordinarily excited about each of those three for very different reasons. And we think they represent a step-function growth for our company off of this very solid base.

[Q] We are curious as to the situation with *Mobile Dungeon&Fighter*. It does not seem to be reflected in the second-quarter guidance. Is it realistic that we can expect this to come out this year or is there a risk that this could be pushed back even to 2022?

[A] Owen Mahoney (Chief Executive Officer)

I do not have anything to provide an update for you on that topic. We remain extremely excited about launching *Mobile Dungeon&Fighter*. We are working with our partners at Tencent who are working to resolve some remaining factors needed to launch the game. In the meantime, as the developer and the IP owner, we are using the extra time to create a lot of additional content to enhance the longevity and give the very best player experience that we can. So, we do not have anything further to report at this time, but we hope to have more information soon.
