

FY2021 Q2 Earnings Conference Call (August 11th, 2021)
Q&A Summary

【Q】 This is regarding the art versus engineering topic that Mr. Mahoney addressed in the Prepared Remarks. You decided to bring back Myeong-jin Yun, who led PC *Dungeon&Fighter* in China during its best days, as Head of *Dungeon&Fighter*. Does this mean that, as much as we try to systematically approach and engineer games, art will ultimately triumph engineering? How can we systematically approach it so that games live beyond the tenure of particular key individuals?

【A】 Owen Mahoney (Chief Executive Officer)

Let me start out with some facts. Over the past 1.5 years, we introduced a number of updates, which didn't resonate in a way that we expected them to. But both the Anniversary update in June and the Summer update in July were well received by users.

As a result, we're seeing improvements in the active and paying user number in July compared to Q2, which leads to year-over-year revenue growth expectations in Q3. While we still need more time to carefully assess whether the current positive trend is going to continue, we do hope to maintain that good trend. In the meantime, our priority remains to improve user metrics for the long-term success of the game. Therefore, we think it's important to control the monetization carefully.

Regarding the management change in Neople, we asked Myeong-jin Yun to take the position of overseeing the entire *Dungeon&Fighter* franchise. He's an extraordinary creative leader and has done a great job on China *Dungeon&Fighter* as well as *Mobile Dungeon&Fighter*. So, we thought it was the right time to put him in charge of the total *Dungeon&Fighter* franchise across all platforms.

Circling back to your question about engineering versus art, the answer probably sits on a continuum, and is not binary. Some people may disagree on this, but we think it's not about systems so much because if it were about engineering projects, anybody could copy the technique or systems. But we're in the entertainment business and we think it's a form of art. So, it is not an easily replicable skill.

[Q] As you watch games ebb and flow, do you think there is a systematic way to read upcoming declines in games? For example, when things get a bit overheated with monetization, is there a systematic way to control that beforehand so that we do not need a recovery period?

[B] Owen Mahoney (Chief Executive Officer)

I assume the premise of your question is that when a game declines, it is because of our monetization. But as we said many times, we are very careful about the long-term health of the game. Every quarter, there are a lot of opportunities for us to monetize more than we do, but we are not doing so. Thus, I would not concur with the premise of your question.

But I will say that when we put out a new content, sometimes it resonates and sometimes it doesn't. When it resonates, the numbers can go up significantly. When it doesn't, people leave the game for a while, but come back when they see something that they like.

Again, I would refer you back to the graphic of *MapleStory* and *Sudden Attack*. We have now been in this business for decades with these games, and have experienced this ebb and flow.

[Q] Regarding *Dungeon&Fighter* in China, it seems the third quarter guidance is moderately better than last year's third quarter when we saw a sharp decline. Do you think the worst has passed for the game and that we are seeing positive development going forward?

[A] Shiro Uemura (Chief Financial Officer)

Driven by the Anniversary update in June and Summer update in July, the number of paying users increased and revenue is expected to grow compared to the last Q3. Our strategy was adding a new job to a popular character in the Summer update in July, and activating users in the preceding Anniversary update in June. These two updates worked well together and had positive effects. This is opposite to what we experienced with China *Dungeon&Fighter* in 2019. We have always said that we can promote online games' growth by conducting effective daily operations and good content updates. I think this case is a good example.

However, since the game has struggled for two years, we do not think that the game has bottomed out at this point even though we see a good sign. We will operate the game carefully and try to maintain the momentum.

[Q] We are seeing the news about increased regulations for the gaming industry in China. Do you think this has any impact on your business in China?

[A] Shiro Uemura (Chief Financial Officer)

State-backed media in China published a negative article about the gaming industry. However, we are aware that the article was taken down and then put out with a milder tone a few hours later. As of now, there has been no official notice from the Chinese government. Together with Tencent, our partner in China, we are very careful to protect minors from gaming addiction.

We do not think it will significantly impact on our business performance since most of the paying users are in their 20s and there are few minors among our paying users.

[Q] The tax rate for the first half of FY2021 seems a little bit high. Can you explain the reason?

[A] Shiro Uemura (Chief Financial Officer)

There has not been any significant change regarding taxes. Although fluctuations could happen each quarter, we expect the annual tax rate to be between 20% and 25% for FY2021.

[Q] Is there any particular reason why you haven't started share buybacks? Are there any compliance hurdles to overcome?

[A] Shiro Uemura (Chief Financial Officer)

Regarding the share repurchase policy that we announced in November 2020, we told that we will conduct the buyback up to 100 billion yen by November 2023. We will firstly comply with the regulations and will consider several factors including investment opportunities such as M&A, financial condition as well as the share price to execute buyback. Although we have not started yet, we will execute it once all the conditions are met, and will announce it accordingly.
