

**NEXON Co., Ltd.**

**Q3 2021 Earnings Prepared Remarks**

**November 9, 2021**

**Owen Mahoney, Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.**

Thank you Kawai-san. Welcome everyone to Nexon's third quarter 2021 earnings call.

I'm pleased to report that our results reflect a year of smart, hard work by our teams and align with the analysis we offered throughout the year. In short, Nexon is delivering on its promises -- strengthening the core business, preparing for the launch of new games in 2022, and developing new, yet-to-be announced games for launch in 2023.

Throughout the year, we have emphasized that Nexon's Virtual Worlds grow in a steady but non-linear pattern, whereby periods of robust growth can be followed by flat or declining engagement, before springing back into an all-new growth cycle. That pattern is evident in our third quarter results, which were ahead of the high end of our expectations and, once again, demonstrated how robust our franchises are over the long-term.

Second, the investments we made this year in studio leadership, content creation and in building trust with players are now showing positive results. Operational investments in two big franchises -- China *Dungeon&Fighter* and Korea *MapleStory* -- have sparked what we hope is an extended return to growth.

Third, our relentless execution on multiple catalysts has positioned Nexon well for growth in 2022. In the current quarter, our studios in Sweden and Korea are providing details on highly promising new games to be launched next year.

Our key message for today is that Nexon's core business is returning to growth, and we are preparing to launch new games -- any one of which could deliver dramatic improvements in our revenue and profitability.

In the third quarter, operating profit was up eight percent despite a tough comparison to the same quarter last year. Two of our most important franchises, China *Dungeon&Fighter* and Korea *MapleStory* delivered stronger than expected results and sequential quarterly improvements. We also saw strong performances by *FIFA ONLINE 4* and *The Kingdom of the Winds: Yeon*.

Next, I will provide some insights on our operational progress, and why we believe 2022 could be a breakaway growth year for Nexon.

I'll begin with **China *Dungeon&Fighter***, one of our highest grossing franchises. This summer we made a change in the leadership team aimed at shaking up the content plan and re-engaging players.

In the third quarter, the team delivered two successful content updates which resulted in an improvement in player sentiment and significant year-over-year revenue growth.

As you know, the 4th quarter is when we focus on building our player base ahead of big events that follow in Q1. Today, the team is concentrating on delivering continual improvements to the user experience with an eye on 2022, while avoiding aggressive monetization in the near term that could stall our new momentum.

This is exactly where we want China *Dungeon&Fighter* to be at the end of the year: re-engaging players and gathering momentum for revenue growth in 2022.

One more important insight on *Dungeon&Fighter*: Nexon is committed to full compliance with new regulations in China. However, it is important for investors to recognize that worldwide, the number of *Dungeon&Fighter* players under the age of 18 is less than one percent. And the revenue attributed to that group is quite a bit less than one percent.

Next I'll move to **Korea MapleStory**, and a completely different growth strategy. Where China *Dungeon&Fighter* needed a different creative approach to re-ignite growth, *MapleStory* has always maintained a strong creative core and substantial growth in recent years. Our challenge in Korea *MapleStory* has been two-fold: First, we face a tough comp on the explosive 98% growth in 2020.

Second, we've worked hard to rebuild trust after players expressed vocal concerns over how the industry communicates probabilities on certain in-game items.

Over the past nine months, our team has invested significant time to establish a direct dialogue with players -- to listen and implement changes based on their feedback.

Again, I'm pleased to report clear progress. *MapleStory's* Net Promoter Score -- a key indicator of player satisfaction -- has improved steadily, continuing the positive momentum we reported last quarter, and bringing us close to the high scores we saw earlier this year. Meantime, our team has taken a measured approach to monetization while delivering a stronger-than-expected result in Q3. By establishing a solid base of player engagement in Q3 and Q4, we look forward to *MapleStory's* return to robust growth in 2022.

Now I'd like to offer an **update on our creative pipeline**, starting with ***KartRider: Drift***, a new game based on Nexon's popular arcade racing franchise, *KartRider*, which has life-to-date registered more than 380 million players

Last month we announced *KartRider: Drift* will host closed-beta consumer testing in December, allowing players in Korea, Japan, Europe and the US to test the new game on PCs and consoles. A new trailer for *KartRider: Drift* was recently unveiled at Sony Interactive Entertainment's State of Play event and streamed

on Twitch and YouTube.

Built on the Unreal Engine 4, *KartRider: Drift* features stunning graphics and unique, finely tuned customization of characters and karts.

We're especially excited to announce – for the first time today, the mobile version of the game. And *KartRider: Drift* will be cross-platform and fully cross-play, which means a PlayStation player can race against a mobile player, a PC player, and an Xbox player all in different countries in the same match.

Another potential hit in our pipeline is **Mobile *Dungeon&Fighter***, which generated more than 60 million pre-registrations before the game was delayed in China last year. Last week we announced plans to launch the game in Korea in Q1 2022. Life-to-date, the *Dungeon&Fighter* franchise has been played by more than 700 million people worldwide. We are highly confident in the quality of the mobile game and its potential in Korea.

Also, we remain optimistic about the launch of Mobile *Dungeon&Fighter* in China, although at this time, we have no additional information about the release date.

Now I'd like to give you an update on **Embark** – one of the most talented game teams assembled under one roof in recent years. The studio now has more than 250 game makers working on multiple new titles and groundbreaking technology.

As we promised earlier, our plan has been to start talking about Embark's first game at the end of this year. Prior to the upcoming official game announcement, I can tell you that the game – Codenamed: Pioneer – combines uncompromising AAA quality and a highly accessible free-to-play model. It takes place in a breathtaking, high-fidelity, and immersive Virtual World. It leverages exceptionally sophisticated physics and applies machine learning to create emergent, engaging and unexpected gameplay. Embark started working on this game a little over two years ago, and we can't wait to show it to the world.

I'm also excited to report that the Embark team has also been working on a **second game**, codenamed: Discovery. Discovery is a free-to-play, team-based, first-person shooter that puts dynamism, physicality, and destruction front and center. It's a ton of fun and unlike anything currently in the market. While it is too early to set a launch date, we plan to reveal more about this one in 2022.

Both of these games are powered by a technology stack, developed at Embark, leveraging procedural tools for content creation, groundbreaking game physics, and machine learning to unlock game experiences that were simply not possible before.

But that's not all. The team at Embark is working on a third project: a creative platform. It started from our conviction that the future of games is one where all of us -- not just professional game makers -- are able to craft sharable, interactive experiences. That means creating living, persistent, Virtual Worlds where anyone can craft, play, remix, and share their experiences with other players.

We also believe that the platforms that address this challenge today -- as good as they are -- are too complicated for most people to use. We plan to show how that concept becomes a reality when we share more on this project in the months ahead.

**To summarize**, Nexon is delivering on its promises and is now positioned to enter 2022 with great momentum. Our core business is solid and we have re-ignited growth in our two biggest franchises -- China *Dungeon&Fighter* and Korea *MapleStory*. We have multiple new games in development for new markets and platforms including consoles. Best of all, we are now on a countdown to launch three potential blockbusters: *KartRider: Drift*, the first game from Embark, and *Mobile Dungeon&Fighter* in Korea.

Our message to investors is simple: Our core business is performing. We have multiple projects in development that will serve as growth catalysts. Any single one of these catalysts, if successful, will trigger a step-function improvement in Nexon's earnings power.

With that, I'll turn the call over to Uemura-san.

**Shiro Uemura, Representative Director and Chief Financial Officer, NEXON Co., Ltd.**

Thank you, Owen. Now I'll review our Q3 2021 results.

For additional details, please see the Q3 2021 Investor Presentation available on our IR website.

We faced a challenging comparison this quarter following a record-breaking Q3 in 2020. Group revenues were 75.9 Bn yen, down 4% year-over-year on an as-reported basis and down 11% year-over-year on a constant currency basis.

However, these results exceeded our outlook, primarily driven by stronger-than-expected performances of our major titles such as *Dungeon&Fighter* in China, *MapleStory*, *FIFA ONLINE 4* and *The Kingdom of the Winds: Yeon* in Korea.

Revenues from all regions excluding Japan exceeded our expectations. Revenues from Japan were in the range of our outlook.

Looking at the total company performance by platforms, PC revenues exceeded our expectations while mobile revenues were in the range of our outlook.

On a year-over-year basis, PC revenues grew by 24% while mobile revenues decreased by 44% due to a tough comparison with the year ago quarter when our mobile business grew by 140% year-over-year and achieved record-breaking results primarily driven by contributions from *V4*, *KartRider Rush+* and *The Kingdom of the Winds: Yeon*. On a quarter-over-quarter basis, mobile revenue grew slightly.

Operating income was 29.8 Bn yen, up 8% year-over-year, exceeding our outlook primarily driven by revenue outperformance.

Net income was 37.9 Bn yen, up 132% year-over-year, exceeding our outlook.

The outperformance was primarily driven by the operating income strength as well as an FX gain of 16.1 Bn yen related to the depreciation of the Korean Won against the U.S. dollar and a revaluation gain of 1.7 Bn yen due to movements in the market price of bitcoin during the quarter.

Let's move on to results by region.

Revenues from our Korea business exceeded our outlook primarily driven by stronger-than-expected performances of *MapleStory*, *FIFA ONLINE 4* and *The Kingdom of the Winds: Yeon*.

On a year-over-year basis, however, revenues decreased by 20% on an as-reported basis and by 25% on a constant currency basis due to a tough comparison with Q3 2020 when our Korea business grew by 115% year-over-year on a constant currency basis.

While revenue from *MapleStory* decreased year-over-year as expected, its performance significantly exceeded our outlook due to a well-received event in August and successful sales promotions conducted in time for Korean Thanksgiving, Chuseok.

As we said last quarter, we have been working hard to build our players' trust. As a result, the Net Promoter Scores, an indicator of player satisfaction, consistently improved throughout the quarter, and the events and content update in Q3 were well-received by players.

We will continue to focus on creating fun games that would be enjoyed by players for years to come.

Moving to *FIFA ONLINE 4*, PC and mobile combined revenues exceeded our outlook and grew year-over-year driven by well-received events and sales promotions.

*Dungeon&Fighter* grew by 22% while *Sudden Attack* maintained its momentum and grew more than 3 times year-over-year. This marks the 7th quarter in a row in which *Sudden Attack* grew by double or triple digits year-over-year.

Consequently, PC revenues in Korea increased by 9% year-over-year as *MapleStory*'s revenue decrease was more than offset by revenue increases in other major PC titles.

As for the mobile business, revenues decreased by 52% year-over-year due to a tough comparison with the year ago quarter when our mobile business marked record-breaking revenues driven by contributions from *V4*, *KartRider Rush+*, as well as *The Kingdom of the Winds: Yeon* following its launch.

On a quarter-over-quarter basis, mobile revenues were roughly flat as *V4*'s revenue decrease was offset by an increase in revenue from *The Kingdom of the Winds: Yeon* driven by successful 1st anniversary update and sales promotions.

Revenues from our China business exceeded our outlook driven by *Dungeon&Fighter*'s stronger-than-expected sales from the National Day package offerings.

On a year-over-year basis, revenues increased by 45% on an as-reported basis and by 33% on a constant currency basis.

For *Dungeon&Fighter*, we are seeing improvement in user engagement as new initiatives after a leadership change in the creative team were well-received by players.

As a result, sales from the National Day packages offered from September 14th exceeded our expectations.

Quarter-over-quarter, MAUs and paying users increased driven by positive impacts from the successful 13th Anniversary update in June and the Summer update in July. ARPPU and revenue also increased sequentially due to seasonality and improved user engagement under the new leadership.

On a year-over-year basis, while MAUs decreased, paying users, ARPPU and revenue increased.

Revenues from Japan decreased by 5% year-over-year due to revenue decreases from *TRAHA* and *MapleStory M*, which offset *MapleStory*'s growth and contributions from *Blue Archive* and *FIFA MOBILE*.

Revenues from North America and Europe decreased by 18% due to revenue decreases in *Choices* and *V4* despite the year-over-year growth of *MapleStory M*.

Despite revenue decreases from *KartRider Rush+* and *V4*, revenues from the Rest of World increased by 12% driven by significant growth in *MapleStory* and *MapleStory M*.

Moving on to our FY2021 fourth quarter outlook.

For PC games in China and Korea, usually Q4 is a quiet season when our teams focus on building the player base ahead of the big update in Q1.

While *DNF* and *MapleStory* had great performances in Q3, in Q4, our teams are focusing on building player engagement to further improve the in-game experience and add entertaining content so that we can consolidate the strong performance and grow further next year.

And Q4 2021 is faced with a challenging year-over-year comparison given the record-breaking Q4 revenues and operating income we achieved in 2020.

As a reminder, in Q4 2020, revenues from our major PC titles including *MapleStory* increased, and our mobile business grew rapidly driven by contributions from new titles. As a result, group revenues increased by 35% year-over-year.

Given this tough comparison, we expect our overall group revenues to decrease year-over-year in Q4 2021.

We expect our Q4 group revenues in the range of 51.2 to 57.0 Bn yen, representing a 23% to 14% decrease year-over-year on an as-reported basis and a 26% to 18% decrease year-over-year on a constant currency basis.

We expect our Q4 operating income to be in the range of 2.5 to 6.9 Bn yen, representing a 84% to 56% decrease year-over-year on an as-reported basis and a 90% to 64% 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 0.3 to 3.6 Bn yen.

Last year in Korea, we achieved 72% year-over-year growth driven by the strong performance of *MapleStory* and contributions from *The Kingdom of the Winds: Yeon* and *KartRider Rush+*. Given that challenging comparison, we expect revenues from our Korea business to be down this this year.

We are looking for revenue to be in the range of 29.6 to 32.3 Bn yen, representing a 29% to 23% decrease year-over-year on an as-reported basis and a 31% to 25% decrease year-over-year on a constant currency basis.

As for the PC business, we expect *Sudden Attack* to grow approximately 2.5 times and *FIFA ONLINE 4* to also grow year-over-year. However, we expect *Dungeon&Fighter's* revenue to decrease year-over-year.

As for *MapleStory*, we expect revenue to decrease compared to Q4 2020 when the game delivered an especially strong performance and grew by 88% year-over-year driven by the largest-ever Winter update and a collaboration with the popular K-pop group BTS.

However as I mentioned earlier, *MapleStory's* Net Promoter Score is improving. Rather than seeking short-term revenues, our focus is to strengthen our mid- to long-term relationship with our players and to return to revenue growth in 2022 and beyond.

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

Regarding the mobile business in Korea, we expect revenues to decrease year-over-year. While we expect to benefit from *Blue Archive*, which launched today, November 9th, and anticipate growth from *FIFA MOBILE*, we expect these to be more than offset by revenue decreases in *The Kingdom of the Winds: Yeon*, *KartRider Rush+* and *V4*, all of which had strong performances in Q4 2020 following their recent launches.

Turning to China, we anticipate *Dungeon&Fighter's* revenue to be flat on an as-reported basis and to decrease on a constant currency basis year-over-year. Accordingly, we expect revenues from our China business to be in the range of 11.4 to 13.2 Bn yen, representing an 11% decrease to 4% increase year-over-year on an as-reported basis and a 20% to 8% decrease year-over-year on a constant currency basis.

As for *Dungeon&Fighter*, we expect Q4 revenue to decrease on a constant currency basis year-over-year while Q3 revenue significantly increased.

While we have seen improvements in user engagement recently, Q4 is different from Q3 in that we do not have any particularly large monetizing events scheduled during the quarter. Therefore, we do not expect paying users and ARPPU to change significantly compared to the same period of last year.

Additionally, this year's National Day update was introduced 8 days earlier compared to last year, so we expect its positive effect during Q4 this year to be smaller than last year. Consequently, we expect *Dungeon&Fighter's* revenue to decrease year-over-year.

We manage our games with a mid-to-long term revenue outlook rather than aiming for short term gains.

Accordingly, in Q4, we intend to use the slow season to build a foundation for growth in 2022 and beyond. We will focus on creating an environment for players to enjoy the game even more by improving the in-game balances and conducting events.

In Japan, we expect revenues in the range of 2.5 to 2.8 Bn yen, representing a 28% to 17% decrease year-over-year on an as-reported basis and a 29% to 18% decrease year-over-year on a constant currency basis. We anticipate the contribution from *Blue Archive* to be more than offset by decreases from *V4* and *TRAHA*.

In North America and Europe, we expect revenues to be in the range of 3.8 to 4.3 Bn yen, representing a 26% to 16% decrease year-over-year on an as-reported basis and a 31% to 21% 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 in the range of 3.9 to 4.3 Bn yen, representing a 24% to 35% increase year-over-year on an as-reported basis and a 20% to 31% increase year-over-year on a constant currency basis. While we anticipate a contribution from *Blue Archive*, which launched today, November 9th, as well as growth from *MapleStory* and *MapleStory M*, we expect these to be partially offset by a decrease from *KartRider Rush+*.

In Q4 2021, we expect operating income to be in the range of 2.5 to 6.9 Bn yen, representing a year-over-year decrease of 84% to 56%.

Unfavorable factors compared to Q4 2020 regarding the operating income include:

First, a decrease in revenue

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

Favorable factors compared to Q4 2020 include decreased variable costs associated with revenue decrease.

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.

Overall, in Q3, we saw positive impacts from various improvement measures conducted to our major titles.

As we have said before, online games can grow over the long-term by conducting proper updates and careful daily operations.

In Q3, we have steadily operated our games, following this policy.

In Q4, similar to Q3, we will make necessary improvements on each title and, rather than seeking short-term revenue, we will focus on building a foundation to build upon with step-function growth in 2022 and beyond.

In addition, the development of new games is on the right track. We are excited to achieve significant growth in 2022 and beyond by adding these titles on top of our revenue foundation.

Last, 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 on this buyback authorization. In timing the repurchase, we take into consideration several factors including investment opportunities, financial conditions, and share price. We are still committed to executing on this initiative before the November 2023 deadline.

We make the most of our cash at hand to compose a balanced portfolio of investment for growth, investment for financial return, and shareholder return.

We will effectively utilize our cash by leveraging the strength of our solid financial base upon consideration of the balances between business investments and shareholder returns.

This ends my comments.

Back to you Owen.

**Owen Mahoney, *Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***

Thanks Uemura-san.

I'd like to close with some broader comments about how to think about Nexon's upcoming 18-24 months, and indeed, how investors can generate alpha on a Virtual Worlds company like Nexon, as distinct from a traditional games company or a casual games company.

The traditional approach to evaluating public video game companies has generally served investors well. To oversimplify, the traditional approach focuses on catalysts, in the form of new game launches. Once the pipeline of catalysts is determined, the investment is timed to the launch date. Given that it's

extremely hard to determine which new games will be a hit, public game companies and their investors have understandably gravitated toward franchise sequels over new IP or significant creative innovation. Why? For a traditional game company to even maintain its size, let alone grow, they first need to replace revenue from old games with revenue from the new slate. If they take a gamble and bet wrong, a poorly-performing slate of new games can severely impair the P&L of a traditional games company.

But when talking about immersive Virtual Worlds -- whose lifetimes are indefinite -- the traditional approach only captures a fraction of the picture.

In Virtual Worlds, the core of our business is similar to a SaaS model. The revenues may go up and down in the short term, but when properly managed they tend to be predictable over the long term, just like a SaaS business. That means that our recurring revenues could double in a few years, even without launching any new games.

This SaaS-like aspect of the Virtual Worlds business is lost on most investors, who have been trained to think in the old mode of launching new hits to replace old hits. This misunderstanding represents an attractive opportunity to those who can think in the new mode of long-lasting, simulated online Virtual Worlds.

It also gives enormous flexibility to the maker of Virtual Worlds to pursue and develop massively outsized opportunities.

Take the first game from Embark as one example. As I sit here today, I don't know whether it will be a success. Why? Because there is nothing like it, so there are no comps to help us forecast revenue. All I know is WE want to play this game, and we have a strong hunch many others will as well.

And since there's nothing quite like this game, if it does hit, we know it will have the market to itself -- we won't have to compete with similar games. For investors, this makes it much like a call option -- a potential positive black swan, with vast potential to pay returns for years or even decades.

And our massive and growing base of revenues of Virtual Worlds unlocks great freedom for us to try completely new things like Embark's new game. We can take creative bets with massive potential returns while still sleeping well at night, thanks to the SaaS-like characteristics of our core business.

All of this makes your job analyzing Nexon challenging, and it requires thinking that today may seem contrarian, but we think will be mainstream in the future. So if you're an investor on the hunt for substantial alpha, this approach represents real opportunity.

We are thrilled with the games that we will bring to market over the next 18 to 24 months and can't wait for you and our global audience of players to enjoy them. With that we look forward to taking your questions.