

NEXON Co., Ltd.

Q2 2022 Earnings Prepared Remarks

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

Thank you, Kawai-san, and welcome everyone to Nexon's Second Quarter 2022 earnings call.

On today's call, we will update you on our Q2 results, including a strong topline performance from *MapleStory* in Korea; improved player metrics from *Dungeon&Fighter* in China, another outstanding quarter from *FIFA ONLINE 4 M*, and sustained success from *Dungeon&Fighter Mobile* in Korea.

Nexon is a loaded spring, coiled for step-change improvement in our earnings profile as we grow our existing Virtual Worlds and bring new Virtual Worlds to the global market. Our foundation of existing franchises continues to deliver steady revenue growth. Our unique portfolio of long lasting Virtual Worlds – anchored by our world class live operations – allows us the time and creative freedom to perfect new titles for release as we grow our portfolio in the coming quarters.

Many elements contributed to our success in the second quarter, but one common denominator stands out in the performance of each of these games: Live Game Operations.

Nexon pioneered the art and science of Live Operations in the 1990s and invested heavily in the decades that followed. Today we are best in class, enabling continued growth in massive Virtual Worlds, some of which began nearly two decades ago.

Knowing how to operate and grow a massive Virtual World is the backbone of Nexon's business. It provides a steady stream of content that keeps games fresh and fun; it handles the matching, ensures balance, discourages cheating and encourages player engagement. It's the difference between a game that lasts for two months....and one that continues to thrive and grow for two decades or more.

To illustrate how Live Ops impacts game performance, I'll start with *MapleStory* in Korea, where second quarter revenue increased by 38% year over year after a relatively brief period of decline last year. This is another proof point in our belief that well-managed Virtual World games experience periods of flat or declining growth before entering a new period of dynamic growth.

The *MapleStory* franchise launched in 2003 and has been on a steady – if non-linear – growth trajectory ever since, including a near-doubling of annual revenue in 2020. Over the last 3 years it has grown at CAGR of 25%, and is now in its 19th year. Growth in a live game over such a long period of time has never been done in the global games industry, not even close.

In 2021, players voiced concerns about probability disclosures related to the purchase of in-game items. The entire sector was put on notice, but Nexon was uniquely aggressive in responding.

We expanded disclosures on in-game purchases and opened a new and ongoing channel of communication to get input from players. This process resulted in our prioritizing stronger relationships with players over short-term monetization.

These initiatives meant slowing monetization while adding new content to excite the base and bring back players. Net Promoter Score – or NPS – an important indicator of player satisfaction – tells the story of how the team in Korea has strengthened player trust. In July of this year, *MapleStory* recorded a Net Promoter Score that is actually higher than the great year in 2020.

Throughout this period, our communication to investors has been clear and consistent. In 2021 we urged investors to not worry about short-term variance in monetization, and that *MapleStory's* best days are still in front of us. Our results in Q2 and early in Q3 support that prediction.

Thanks to best-in-class live operations, *MapleStory* is back in position for dynamic growth in what will soon be its third decade of operation.

Another example of prioritizing player retention for long-term growth is *Dungeon&Fighter* in China, where the Live Operations team recently executed a well-planned Level-Cap release.

A Level Cap Increase – which introduces new content to enhance engagement with players – can dramatically change the in-game environment and requires careful management. The new content, such as dungeons, are generally well received but it takes time to develop characters and new equipment. To maintain positive sentiment, we avoided aggressive monetization while players level up.

Returning to growth remains a long-term goal for *Dungeon&Fighter*. We're pleased with how it performed in Q2, capping a strong performance following the leadership changes we made a year ago. Looking toward the future, we are excited with what this tremendous franchise can achieve. In the short term, however, our focus is in driving user engagement rather than revenue growth, as we manage this leading franchise for success over its next decade.

Next I want to highlight a spectacular performance by the team supporting *FIFA ONLINE 4* in Korea. In Q2, the combined revenue of our PC and Mobile versions came close to doubling what we delivered last year on this franchise.

Football is enormously popular in Korea but delivering results 24 percent above the high-end of our Q2 estimate goes beyond excitement about the sport. In addition to starting with a great game from our partners at EA, the Live Operations team have been driving hard to keep the game fresh, balanced and fun. Our plan in Q3 is to stay close to players and keep them engaged as World Cup approaches in Q4.

Another demonstration of great collaboration between developers and Live Operations is the ongoing success of *Dungeon&Fighter Mobile* in Korea. The game – our first major Virtual World release in 2022 – launched in March and quickly attained the #1 position on both the Apple and Google game rankings.

In the second quarter, revenue from the game exceeded the high end of our expectation, driven by steady and high player engagement. Importantly, we've seen no negative impact on the PC version of the game – although the buzz on mobile serves to remind PC players to come back and play.

Clearly *DNF mobile* benefits from being one of the largest entertainment franchises in Korea and in the world; over 850 million people have played the game around the world, and it has generated well over \$20 billion in global revenue life-to-date. For the launch of *DNF mobile* in Korea, the IP's success has been amplified by great development preparation and equally strong Live Operations. Before launching, we took time to develop an extensive content plan that would ensure sustained engagement by players. And once in the market, we prioritized long-term player retention over short-term monetization.

Dungeon&Fighter Mobile continues to exceed our expectations and while it is too early to make projections on how that success will scale in the years ahead, we are making plans to expand the game into new markets.

The success of *Dungeon&Fighter Mobile* reaffirms our thesis on how to develop and sustain Virtual Worlds. These lessons can be applied to launches we're planning for later this year and in 2023.

Moving to new games in development, *KartRider: Drift* is being developed on multiple platforms for a global launch later this year. In May, we completed a successful internal beta test on the mobile version.

Another new title is *HIT2* – an MMORPG in development for PC and mobile. Pre-registrations started in June ahead of a launch in Korea on August 25.

Now I would like to discuss two new Virtual Worlds from Embark Studios in Stockholm – *ARC Raiders* and *Project Discovery*. We're pleased with the progress being made on both games and excited about sharing both with players in the months ahead.

I'll start with *Project Discovery*, a free-to-play, team based, first person shooter that is moving steadily through development.

By way of background, the global first-person-shooter market is massive. But to be successful, a developer needs to not just be able to make a high-quality game, but one that stands out from other games with something truly unique. Fortunately, the Embark team knows this market extremely well, since they

are some of the most creatively and commercially successful developers in the space.

It has become clear that the development team's progress is faster than we previously thought. The team is planning a large-scale beta test in early fall which will provide valuable feedback and help us decide on launch timing. As it stands, Discovery will be Embark's first game to market and they'll be sharing more detail about the game shortly.

Simultaneously, we've decided to add a major new mode to *ARC Raiders* – an enhanced Player vs. Player high intensity survival experience. *ARC Raiders'* tech base, physics, environment and character art, and enemy AI are in great shape. We're bringing the new mode to maximize the game's longevity. And with Discovery moving faster than we previously anticipated, we also don't want to try to launch two major new AAA franchises at the same time. Net, our plan is to launch Discovery around end of this year and *ARC Raiders* next year.

The incredible success of *DNF mobile*, and its sustained strength since its launch, underscores the wisdom of launching new games only when we feel strongly that the game is thoroughly ready.

Both *Project Discovery* and *ARC Raiders* are expected to launch on a trajectory that is common to Virtual Worlds. Revenue in the initial weeks is likely to be small, as players register and explore the new game, and then ramps up over time. The true test of a Virtual World is reflected in the months and quarters that follow. The growth and stability of Nexon's legacy franchises allows us the time and creative freedom to get it right.

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 Q2 2022 results.

For additional details, please see the Q2 2022 Investor Presentation available on our IR website.

We achieved record breaking Q2 revenue. Group revenues were 84.1 Bn yen, up 50% year-over-year on an as-reported basis and up 40% year-over-year on a constant currency basis. Our performance was driven by the growth of multiple major titles and a significant contribution from the recently launched *Dungeon&Fighter Mobile*.

Overall, our topline performance was within the range of our outlook. *FIFA ONLINE 4* and *Dungeon&Fighter Mobile* both exceeded our expectations, while *Dungeon&Fighter* in China was lower than planned.

By region, revenues from Korea, North America and Europe were within the range of our outlook. While revenues from Rest of World exceeded our expectations, and revenues from China and Japan came in lower than expected.

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

Operating income was up 47% year-over-year and within our outlook at 22.7 Bn yen.

Following an adjustment to our Embark release schedule, in Q2, we recorded an impairment loss of 2.2 Bn yen on the *ARC Raiders'* game IP.

Net income was up 176% year-over-year at 24.7 Bn yen, which exceeded our outlook.

The outperformance was primarily driven by an FX gain of 27.7 Bn yen related to the depreciation of the Korean Won and Japanese Yen against the U.S. dollar 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 51.2 Bn yen, representing record-breaking quarterly revenues in Korea. This performance was within the range of our outlook.

On a year-over-year basis, revenues increased by 57% and on a constant currency basis revenues increased by 49%.

FIFA ONLINE 4's PC and mobile combined revenues significantly exceeded our outlook driven by successful events and sales promotions.

MAUs, paying users and ARPPU all increased year-over-year. As a result, its revenues more than doubled and marked a quarterly record high for two quarters in a row.

MapleStory's revenue grew by 38% year-over-year.

MAUs, paying users and ARPPU all increased year-over-year driven by the well-received 19th Anniversary update in April and Summer update in June.

Dungeon&Fighter grew by 34% year-over-year while *Sudden Attack*'s revenue decreased as expected.

Consequently, PC revenues in Korea increased by 52% year-over-year.

As for the mobile business in Korea, revenue from *FIFA ONLINE 4* exceeded our expectations.

Dungeon&Fighter Mobile continued its strength as user engagement remained high, driven by the rich content and carefully-managed live operations.

On a year-over-year basis, mobile revenues in Korea increased by 65%. Contributions from *Dungeon&Fighter Mobile* and *Blue Archive*, as well as growth of *FIFA ONLINE 4 M*, were partially offset by revenue decreases in *V4* and *The Kingdom of the Winds: Yeon*.

On a quarter-over-quarter basis, mobile revenues increased by 25% primarily driven by revenue increases in *Dungeon&Fighter Mobile* and *FIFA ONLINE 4 M*.

Revenues from our China business were below our outlook, but increased 43% year-over-year on an as-reported basis and 25% year-over-year on a constant currency basis.

For *Dungeon&Fighter*, revenue increased year-over-year driven by the well-received package offerings for the Labor Day update introduced on April 21st.

We continued to focus on increasing user engagement rather than short-term monetization. As a result, while revenue was lower than planned, user metrics steadily improved driven by the well-received 14th

Anniversary update and the Level Cap Release introduced on June 16th. Consequently, MAUs and paying users increased sequentially despite the seasonality.

On the other hand, ARPPU decreased as usual quarter-over-quarter.

Year-over-year, MAUs slightly decreased while paying users and ARPPU increased.

Revenues from Japan decreased by 1% year-over-year. While there was a contribution from *Counter:Side*, this was offset by revenue decreases from *TRAHA* and *V4*.

Revenues from North America and Europe increased by 30% year-over-year driven by the growth in *MapleStory M* and contributions from new games, despite revenue decreases from *Choices* and *MapleStory*.

Revenues from the Rest of World increased by 77% year-over-year driven by the growth in *MapleStory* franchises and contributions from new games.

Moving on to our FY2022 third quarter outlook.

In Q3, we expect *FIFA ONLINE 4*, *Korea MapleStory* and *Dungeon&Fighter Mobile* to maintain their strong momentum and a significant contribution from *HIT2*, which is scheduled to launch in Korea on August 25th.

Consequently, we expect our Q3 group revenues in the range of 96.0 to 104.0 Bn yen, representing a 27% to 37% increase year-over-year on an as-reported basis and a 13% to 22% increase year-over-year on a constant currency basis.

We expect our Q3 operating income to be in the range of 30.1 to 36.6 Bn yen, representing a 1% to 23% increase year-over-year on an as-reported basis and a 13% decrease to 6% increase year-over-year on a constant currency basis due to increases in HR costs and marketing expenses primarily associated with new titles. I'll discuss the details on this shortly.

We expect net income to be in the range of 21.6 to 26.4 Bn yen, representing a 43% to 30% decrease year-over-year on an as-reported basis and a 52% to 41% decrease year-over-year on a constant currency basis.

While we recorded an FX gain of 16.1 Bn yen in Q3 2021, we do not factor in the FX gain or loss in the guidance.

In Korea, we expect growth from *FIFA ONLINE 4* and *MapleStory*, and contributions from *Dungeon&Fighter Mobile* and *HIT2*, which is scheduled to launch on August 25th.

Consequently, we are looking for revenue in Korea to be in the range of 61.4 to 65.5 Bn yen, representing a 52% to 62% increase year-over-year on an as-reported basis and a 38% to 47% increase year-over-year on a constant currency basis.

As for the PC business, while we expect revenue decreases from *Dungeon&Fighter* and *Sudden Attack* which performed very well last year, we expect *FIFA ONLINE 4* to continue to grow significantly year-over-year.

We also expect *MapleStory* to maintain its strong momentum and to grow year-over-year.

Driven by the successful Summer update introduced in the end of June, MAUs in July increased significantly compared to the same period of last year, and reached to the level of Q3 2020 when we achieved record Q3 revenue.

Consequently, we expect PC revenues in Korea to increase year-over-year.

Regarding the mobile business in Korea, we expect Q3 revenues to significantly increase year-over-year. We expect significant contributions from *Dungeon&Fighter Mobile* and *HIT2*. In addition, we expect a contribution from *Blue Archive* and year-over-year growth in *FIFA ONLINE 4 M*. We expect these to be partially offset by year-over-year revenue decreases in *The Kingdom of the Winds: Yeon*, *KartRider Rush+*, and *V4*.

Turning to China, last year, we achieved 33% year-over-year growth on a constant currency basis driven by the successful update of a popular character as well as well-received new initiatives for *Dungeon&Fighter*. Given that challenging comparison, we expect revenues from our China business to be down in Q3.

We are looking for revenue to be in the range of 20.3 to 22.9 Bn yen, representing a 11% decrease to flat year-over-year on an as-reported basis and a 25% to 16% decrease year-over-year on a constant currency basis.

For *Dungeon&Fighter*, we introduced the Summer update, which includes avatar packages offerings, on July 14th. We are scheduled to introduce the National Day update in September as usual.

In July MAUs and paying users were at a lower level year-over-year due to a tough comparison with the strong performance in 2021 driven by the Anniversary and the Summer updates.

Looking forward, we are focused on engagement over short-term monetization – particularly retaining existing players and attracting returning players.

In Japan, we expect revenues in the range of 2.5 to 2.9 Bn yen, representing a flat to 16% increase year-over-year on an as-reported basis and a 4% decrease to 11% increase year-over-year on a constant currency basis. We anticipate the contributions from Counter:Side and *Blue Archive* to be partially offset by decreases from *TRAHA* and *V4*.

In North America and Europe, we expect revenues in the range of 5.0 to 5.5 Bn yen, representing a 10% to 21% increase year-over-year on an as-reported basis and a 6% decrease to 2% increase year-over-year on a constant currency basis. We anticipate contributions from new games, which are expected to be partially offset by a decrease from *Choices*.

We expect revenues in the Rest of World in the range of 6.8 to 7.3 Bn yen, representing a 23% to 30% increase year-over-year on an as-reported basis and a 10% to 17% increase year-over-year on a constant currency basis. We anticipate contributions from new games.

In Q3 2022, we expect operating income to be in the range of 30.1 to 36.6 Bn yen, representing a year-over-year increase of 1% to 23% on an as-reported basis and a 13% decrease to 6% increase year-over-year on a constant currency basis.

An increase in revenue is expected, which will contribute to an improvement in year-over-year operating income.

However, compared to Q3 last year, we expect increases in costs due to business growth as well as upfront investments in talent and marketing associated with new releases.

First, we expect increased variable costs due to a revenue increase.

Second, we expect increased HR costs related to headcount for development and launch of multiple new Virtual Worlds as well as bonus accruals for contribution to great performances.

Third, we expect increased marketing expenses primarily associated with promotions for new games such as *HIT2*.

Lastly, we expect increased server costs related to expansion of our mobile business including *Dungeon&Fighter Mobile* and *HIT2*.

The high end of operating income is expected to increase year-over-year on a constant currency basis as a revenue increase will be larger than a cost increase due to upfront investments.

Overall, in Q2 2022, we leveraged our strength in live game operations to focus on improving user engagement, which led to growth of multiple major titles including *FIFA ONLINE 4*, Korea *MapleStory* and China *Dungeon&Fighter*. *Dungeon&Fighter Mobile* also maintained its strong momentum. As a result, we achieved record-high Q2 revenues.

In Q3 2022, we will stably operate our major titles and new mobile games including *Dungeon&Fighter Mobile* and *HIT2* through appropriate update and carefully-managed daily operations. This will further stabilize our business foundation for growth in 2022 and beyond.

In addition, we are making good progress in the development of *KartRider: Drift* and Embark Studios' first title, *Project Discovery*. We are also making good progress in the development of other highly anticipated new titles including *MABINOGI MOBILE* by making upfront investments in new recruitment and talent.

We remain confident that Nexon could maintain a strong growth track in 2022 and beyond by layering our highly anticipated new titles on top of our stable existing business – all of it backed by our strength in live game operations.

Last, I would like to provide an update on the shareholder return strategy.

Based on our 2022 shareholder return plan, the Board of Directors today approved the payment of a dividend of 5 yen per share for the interim period to the shareholders on the shareholder registry as of June 30, 2022.

We are scheduled to pay the same dividend per share for the year end of FY2022.

Regarding our three-year 100Bn yen share repurchase policy that we announced on November 10, 2020, we have completed all repurchases by the end of Q2 2022.

And today, our board has approved a new 100 Billion yen stock repurchase policy that we expect to complete over the next three years.

We plan to conduct the share repurchase by August 2025 by considering several factors including investment opportunities, financial and market conditions.

This concludes my comments. Back to you Owen.

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

Thanks Uemura-san.

Before we take your questions I thought it would be worthwhile to underscore a few points we have made before.

In an increasingly volatile world of recession, collapsing supply chains, collapsing discretionary spending spurred on by ballooning inflation, and collapsing advertising revenues, Nexon's business stands out as a port in a storm, one of the few truly anti-fragile businesses in the world. This is due to the way we've decided to run our business.

First, we are un-demanding on our customers. We are in the micro-transaction business, not in the macro-transactions business. We don't monetize our users heavily, or focus on so-called whales. As a result our business does well not just in times of economic growth but also in times of contraction.

Second, our content development focus is on customer retention over near-term monetization. Very much like exercise and eating right, this approach can be harder in the near term but makes for a much better long-term.

Third, we invest our profits in technologies that benefit the long-term growth of our Virtual Worlds. This proprietary technology stack has enabled us to scale our Virtual Worlds while keeping a lid on costs.

Fourth, our sustained investment in immersive Virtual Worlds have made them some of the biggest IP in the entire global entertainment industry, with hundreds of millions of fans, and with unmatched – indeed unheard-of – longevity.

Finally, we have positioned ourselves to benefit from the work of the platform providers, who have made mobile devices so powerful that we can deliver the same immersive Virtual Worlds experience on billions of mobile devices that were previously only possible on only 100's of millions of game-playable PCs. That means our Total Addressable Market is expanding by literally 10x.

Our stable base of revenues, sustained over many years, mean we don't have to replace a current product at the end of its lifecycle with a new product.

We can instead obsess over making sure our new products deliver a great user experience, both at launch and for many years in the future.

It also means we tend to do well even in – especially in – times of great economic upheaval.

This is the future that many other media and technology companies have tried to build. This is the power of the Virtual Worlds business that Nexon invented in the 1990's and continues to advance.

Operator, we are ready to take questions.