

NEXON Co., Ltd.

Q3 2022 Earnings Prepared Remarks

November 9, 2022

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

Thank you Kawai-san. Good afternoon everyone and welcome to Nexon's Third Quarter 2022 earnings call.

I'll start with a summary:

- Today we are reporting Nexon's best Q3 ever.
- During our discussion, Uemura-san will provide guidance that represents Nexon's highest Q4 revenue ever.
- Achieving that guidance would mean Nexon is experiencing its highest annual revenue ever in 2022.
- And we have by far our best pipeline of new games ever.

In a global business environment that is best described as ugly – particularly for tech and media – 2022 is shaping up to be a tremendous year for Nexon, and our confidence in 2023 has only grown.

Our vision for deeply immersive Virtual Worlds, backed by a highly experienced team of live operators, and a robust and growing tech stack for building and operating large-scale Virtual Worlds, is generating consistent growth and profits. The business we will review with you in the coming hour represents safety and growth in a turbulent entertainment and technology world, a world that is increasingly aspiring toward the vision of Virtual Worlds that Nexon has been pioneering and evolving for over two decades.

Our Third Quarter was highlighted by record-setting revenue – up 28 percent year-over-year. This strong performance was driven by solid growth from our live Virtual Worlds, which we refer to as Forever Franchises, and the performance of key new Virtual Worlds on mobile.

Dungeon&Fighter Mobile launched seven months ago in Korea, and continues to generate consistent revenue. As a result, the *Dungeon&Fighter* franchise has grown meaningfully overall in Korea, thanks to the addition of mobile on top of the PC business.

And, *HIT2*, a new mobile game that launched in August, is off to a great start, contributing revenue significantly above our expectations.

Importantly, our central thesis about mobile has been playing out as we planned it. While much of the industry has continued to treat mobile as a low-end computing device that allows only simple gameplay, we anticipated the rapid advances in GPU and networking power on mobile, well past what a PC or console was capable of even a few years ago. That means our focus has been on delivering a PC-level experience to mobile, which translates to PC-like retention of players. That in turn means vastly better unit economics. And the number of such players is an order-of-magnitude larger than the PC installed base, literally billions

of people around the world. As a result, the post-IDFA issues that have plagued so many other companies in mobile have not been a factor for us, as our games have a higher retention rate and monetize at a greater level than casual titles. Our business on mobile has instead been accelerating, with ballooning retention rates and expanding lifetime values. We think these strong metrics bode well for our future performance.

In addition to our successful new mobile products, several of our existing Virtual Worlds generated record-setting revenue thanks to our robust Live Operations capability, backed by our growing technology stack.

In Q3, Korea *MapleStory*, one of our longest lasting Virtual Worlds, achieved 47 percent growth year over year, nearly reaching its highest Q3 ever.

Mabinogi delivered 66 percent growth year over year, its highest quarterly revenue ever, 18 years after launch.

And *FIFA ONLINE 4* accelerated its recent strong performance, growing significantly year-over-year and delivering a third-straight quarter of record-breaking revenue.

The performance of these Virtual Worlds demonstrates several very important attributes of a healthy online games business:

First, the commonly-held mental model of Product Lifecycle – or PLC for short – is wrong. We are commonly asked when *MapleStory* will go into decline and end. It was the most asked question on our IPO roadshow 11 years ago. Today *MapleStory* in Korea is 4X the size it was at that time.... This is why we call these Virtual worlds Forever Franchises. They are designed to be just that.

Second, each Virtual World goes through cycles of ups and downs as we make the world bigger, add new experiences, and experiment with new content. That means the decline in one quarter or one year is usually followed by further growth and all-time-highs later.

Third, our portfolio provides stability. If one franchise shows a short-term decline, another usually outperforms and makes up the difference.

These three components add up to the opposite of a hits-driven business. The idea that our business is hits-driven is a misnomer, held over from the traditional games business and linear entertainment, that has mistakenly been applied to Nexon's business of deeply immersive and long-lasting Virtual Worlds.

Next I would like to share our progress on Nexon's powerful pipeline of new games in development.

I'll start with *THE FINALS*, a unique, fast-paced shooter in development at our Stockholm-based Embark Studios.

We conducted the game's first public Alpha test, in September. Typically, when readying a major launch, an online game operator will conduct an early Alpha, followed by one or more beta tests, in the months leading up to the full launch.

Our objective for the Alpha was to test the core of the game and the server code in a live environment. 10 times our anticipated demand signed up for the Alpha despite our minimal marketing, and during the test, it became the most-followed game on Steam. This clearly indicates the high interest in a shooter that breaks new creative ground in a genre that has recently become stale.

Performance of the test was much better than we anticipated, especially for an Alpha – there were no major bugs in the game, and the server performance was very smooth. Remember there was significant, never-before-tried technology in this game, including server-side destruction.

And player feedback was extremely strong. Players told us overwhelmingly they enjoyed the game. Server-side destruction – which enables a deeply immersive and realistic experience that has not been implemented in any other game before – was especially well-received.

Based on the positive feedback of the Alpha, and anticipated large audience, we want to expand our content plan at the time of launch, to ensure strong player retention over time. We also want to develop out additional meta-game elements to ensure player longevity. Increasing the volume and polish of that content is where our focus is between now and high-polish public beta, which we expect in Q1.

Next I'd like to update you on *KartRider: Drift*, a wild arcade driving experience on mobile, PC, PlayStation and Xbox.

Feedback from players during our recent cross-platform test has been positive. The remainder of the work prior to launch is about polishing the experience: matchmaking, fine-tuning the controls and balance across platforms, and making business model tweaks and additions.

We plan to start the pre-season globally in January, followed by official launch in the first half of 2023.

Our launch pipeline for the coming 12 months is the most robust in our history, with major new Virtual Worlds on all platforms and in all regions. They represent a variety of genres and play styles, but the common thread is that they are deeply immersive multiplayer online experiences, designed to last a long time.

Some key upcoming titles include:

- *TalesWeaver: Second Run*, to be released on mobile in Japan in Q4
- *KartRider Drift* in 1H. It will be available on PC, Mobile, and console.
- *THE FINALS* from Embark on PC and console
- *VEILED EXPERTS* from NEXON Games on PC
- *ARC Raiders* from Embark for PC and console
- *Warhaven* from Nexon Korea on PC and console
- *The First Descendant* from NEXON Games on PC and console
- *MABINOGI MOBILE* from our devCAT studio in Korea.

This is the strongest pipeline of new releases in Nexon's history. Our execution on these new Virtual Worlds, in addition to continuing to deliver on our existing portfolio, will provide a step-function increase in our financial performance over the next several years.

With that, Uemura-san will provide more detail on the Quarter and the outlook for Q4, and I'll return to briefly summarize our thoughts about Nexon's growth and the road ahead.

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

Thank you, Owen. Now, I'll review our Q3 2022 results.

For additional details, please see the Q3 2022 Investor Presentation available on our IR website.

We achieved record breaking quarterly revenue. Group revenues were 97.5 Bn yen, up 28% year-over-year on an as-reported basis and up 16% year-over-year on a constant currency basis. Our performance was driven by the growth of major titles *FIFA ONLINE 4* and *MapleStory* in Korea, and contributions from new titles *Dungeon&Fighter Mobile* and *HIT2*.

Overall, our topline performance was within the range of our outlook. *HIT2* and *Mabinogi* exceeded our expectations, while *Dungeon&Fighter Mobile* and *MapleStory* in Korea were lower than planned.

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

Looking at the total company performance by platforms, mobile revenues were within the range of our outlook while PC revenues were lower than expected.

Operating income was up 6% year-over-year and within our outlook at 31.5 Bn yen.

Net income, which exceeded our expectations, was up 14% year-over-year to 43.3 Bn yen. This was mainly driven by an FX gain of 26.4 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 62.8 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 56% on an as-reported basis and by 43% on a constant currency basis.

FIFA ONLINE 4's PC and mobile combined revenues were at the high end of our outlook driven by successful events and sales promotions.

MAUs, paying users and ARPPU all increased year-over-year. As a result, its revenues grew significantly and marked a quarterly record high for the third quarter in a row.

MapleStory grew by 47% year-over-year and was close to record breaking Q3 revenue. The performance, which was slightly below our own high expectations, was driven by year-over-year growth in MAUs, paying users and ARPPU as well as the well-received Summer update, events and sales promotions.

Mabinogi's revenue grew by 66% year-over-year, which significantly exceeded our outlook driven by a highly well-received update.

For *Dungeon&Fighter* and *Sudden Attack*, which showed strong performances last year, as expected revenues decreased.

All in, PC revenues in Korea increased by 40% year-over-year.

As for the mobile business in Korea, revenue from *HIT2*, which launched on August 25, exceeded our expectations as we were able to attract many core MMORPG players while also achieving a PC-like high retention rate.

Dungeon&Fighter Mobile's revenue was below our outlook due to a decrease in its active users. In response, we conducted the Level Cap release on September 28 and adjusted the game balance. As a result, we are seeing an improvement in active users now. We will continue to closely monitor the game and stably operate it.

On a year-over-year basis, mobile revenues in Korea increased by 93%. Contributions from *HIT2*, *Dungeon&Fighter Mobile* and *Blue Archive*, as well as growth of *FIFA ONLINE 4 M*, were partially offset by revenue decreases in *The Kingdom of the Winds: Yeon, V4* and *KartRider Rush+*.

On a quarter-over-quarter basis, mobile revenues increased by 16% primarily driven by a contribution from *HIT2* and a revenue increase in *FIFA ONLINE 4 M*.

Revenues from our China business were slightly below our outlook, representing a 14% decrease year-over-year on an as-reported basis and a 27% decrease year-over-year on a constant currency basis. *Dungeon&Fighter* came in at the low end of our outlook and *MapleStory* was below our expectations.

For *Dungeon&Fighter*, revenue decreased year-over-year, as expected, due to a tough comparison with the strong performance in Q3 2021 driven by that year's Summer update and new initiatives.

Active users decreased in Q3 as the effect of the Level Cap release conducted in June did not last as long as expected. Also, we continued to focus on increasing user engagement over near-term monetization. This resulted in ARPPU decreasing more-than-planned and Q3 revenue coming in at the low end of our

outlook, however, the number of active users in October has recovered to last year's level driven by these initiatives.

On a quarter-over-quarter basis, MAUs and paying users decreased following the Level Cap release, while ARPPU increased due to seasonality.

On a year-over-year basis, MAUs, paying users and ARPPU decreased due to a tough comparison with the strong performance in Q3 2021.

Revenues from Japan increased by 13% year-over-year driven by the growth of *Blue Archive* and a contribution from *CounterSide*, despite revenue decreases from *TRAHA* and *V4*.

Revenues from North America and Europe increased by 10% year-over-year driven by the growth in *MapleStory* and contributions from new games, despite revenue decreases from *MapleStory M* and *Choices*.

Revenues from the Rest of World increased by 28% year-over-year driven by the growth in *MapleStory* and contributions from new games.

Moving on to our FY2022 fourth quarter outlook.

In Q4, we expect significant growth from *FIFA ONLINE 4* and continued growth from major existing titles including China *Dungeon&Fighter* and Korea *MapleStory*. We also expect strong contributions from *HIT2* and *Dungeon&Fighter Mobile*, as well as *TalesWeaver: SecondRun*, which is scheduled to launch in Japan in the fourth quarter.

Consequently, we expect record-breaking Q4 revenues, in the range of 75.5 to 83.7 Bn yen, representing a 39% to 54% increase year-over-year on an as-reported basis and a 27% to 41% increase year-over-year on a constant currency basis.

We expect our Q4 operating income to be in the range of 7.5 to 14.0 Bn yen, representing a 153% to 369% increase year-over-year on an as-reported basis and a 116% to 311% increase year-over-year on a constant currency basis. I'll discuss the details on this shortly.

We expect net income to be in the range of 5.5 to 10.1 Bn yen, representing a 75% to 54% decrease year-over-year on an as-reported basis and a 79% to 60% decrease year-over-year on a constant currency basis. The year-over-year decrease in net income is due to a 14.6Bn yen deferred tax asset and as well as 3.2Bn yen FX gain that we recorded a year ago. As you know our guidance does not factor FX gains or other

events such as deferred tax assets.

In Korea, we expect growth from *FIFA ONLINE 4* and *MapleStory*, and solid contributions from *HIT2* and *Dungeon&Fighter Mobile*.

Consequently, we are looking for revenue in Korea to be in the range of 51.0 to 55.4 Bn yen, representing a 62% to 76% increase year-over-year on an as-reported basis and a 51% to 64% increase year-over-year on a constant currency basis.

As for the PC business, we expect *FIFA ONLINE 4* to grow significantly year-over-year driven by the continued year-over-year increases in active users and paying users.

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

While we expect year-over-year growth from *Dungeon&Fighter* and *Mabinogi*, we expect *Sudden Attack's* revenue to decrease compared to its strong performance in Q4 2021.

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

Regarding the mobile business in Korea, we expect Q4 revenues to significantly increase year-over-year. We expect strong contributions from *HIT2* and *Dungeon&Fighter Mobile*. In addition, we expect year-over-year growth in *FIFA ONLINE 4 M* and *FIFA MOBILE*. We expect these to be partially offset by year-over-year revenue decreases in *Blue Archive*, *V4*, *KartRider Rush+* and *The Kingdom of the Winds: Yeon*.

Turning to China, we expect revenues from our China business to be in the range of 13.1 to 15.2 Bn yen, representing a 15% to 34% increase year-over-year on an as-reported basis and flat to 16% increase year-over-year on a constant currency basis, driven by the anticipated increase in *Dungeon&Fighter's* revenue.

For *Dungeon&Fighter*, we adjusted the game to be more user friendly, and as a result, the number of active users in October has recovered to the last year's level.

Based on current positive trends, we expect *Dungeon&Fighter's* revenue to increase year-over-year.

Looking forward, we are focused on engagement – particularly retaining existing players and attracting returning players.

In Japan, we expect revenues in the range of 2.7 to 3.5 Bn yen, representing a 10% to 44% increase year-over-year on an as-reported basis and a 5% to 37% increase year-over-year on a constant currency basis,

driven by the new release of *TalesWeaver: SecondRun* in Q4.

In North America and Europe, we expect revenues in the range of 4.1 to 4.5 Bn yen, representing a 17% to 8% decrease year-over-year on an as-reported basis and a 32% to 25% decrease year-over-year on a constant currency basis. We anticipate decreases from *Blue Archive* and *Choices*.

We expect revenues in the Rest of World in the range of 4.6 to 5.1 Bn yen, representing a 13% to 25% increase year-over-year on an as-reported basis and a 4% to 14% increase year-over-year on a constant currency basis, driven by contributions from new games.

In Q4 2022, we expect operating income to be in the range of 7.5 to 14.0 Bn yen, representing a year-over-year increase of 153% to 369% on an as-reported basis and a 116% to 311% 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 Q4 last year, we expect increases in costs due to business growth as well as upfront investments in talent and marketing, as we prepare to release a number of major new properties in the coming quarters.

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

Second, we plan to increase headcount in anticipation of launches of several major new Virtual Worlds, as well as accrue bonuses for outstanding financial performances.

Third, we plan to make investments in marketing for certain Virtual Worlds that have shown high returns around key events and updates, such as *FIFA ONLINE 4*, *MapleStory*, and *HIT2*. We expect these marketing investments will pay returns well into the future.

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 cost increases due to upfront investments.

Overall, in Q3 2022 we achieved record-high quarterly revenues. Our performance in Q3 reflects the strength and focus of our live game operations to improve user engagement, which led to growth across multiple major titles including *FIFA ONLINE 4*, Korea *MapleStory* and *Mabinogi*. Our mobile business also grew significantly, driven by the successful release of *HIT2*, which exceeded our expectations following the successful launch of *Dungeon&Fighter Mobile* in Q1.

In Q4 2022, we manage our operations for stability and growth in our major titles and new mobile games, including *HIT2* and *Dungeon&Fighter Mobile* through appropriate updates and carefully-managed daily operations.

We expect year-over-year growth from China *Dungeon&Fighter*. While we experienced a dip in active users in Q3, we now are seeing a recovery in that number in Q4 as we took appropriate measures in live operations.

In addition, we expect to launch *KartRider: Drift* and Embark Studios' first title, *THE FINALS*, as well as several other major new Virtual Worlds, in 2023 and beyond. We believe that Nexon could accelerate our future growth by layering these titles on top of our strong revenue base.

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

Regarding our three-year 100Bn yen share repurchase policy that we announced on August 9, 2022, today the Board of Directors approved an execution of 50 Bn yen share repurchase in the market starting from tomorrow, November 10, to April 19, 2023.

As for the remaining 50 Bn yen, we plan to complete the share repurchase authorization by August 2025 at the latest by considering several factors including investment opportunities, financial conditions, as well as the market environment.

This concludes my comments. Back to you Owen.

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

Thanks Uemura-san,

To summarize our presentation:

- Today we reported Nexon's best Q3 ever, in which we grew 16% on a constant currency basis.
- Our Q4 guidance represents Nexon's highest Q4 revenue ever. We expect to grow between 27% and 41% on a constant currency basis.
- Achieving that guidance would mean Nexon is experiencing its best year ever in 2022, with topline growth between 17% and 20% on a constant currency basis.
- And we have by far our best pipeline in our company's history.

With that as a backdrop, I'd like to talk a bit more about our reason for executing 50 billion of the 100 billion yen authorization of our open market share buy-back now.

As you heard today we are extremely confident about the performance of our existing live Virtual Worlds, as well as our pipeline of new online games. If just one or two of these new titles hit, they would represent a step-function change in our revenue and earnings power, on top of the stable growth-of our live Virtual Worlds. That step-function change would make Nexon a meaningfully larger company in the near future.

Now, as you know we don't give annual guidance, as performance of new games is notoriously difficult to forecast – especially when they break new creative ground, as these games do. As operators of our business, we play the upcoming games extensively, can review all the feedback from our player tests, and can see the KPIs, and it's fair to say we have very good reason to be excited about our pipeline. And because we have several major new launches about to happen, we don't have to depend on any one of them, even though our confidence in each is high.

So, we are putting our money where our mouth is. We think now is a very good entry point for us to buy our own shares, and we want to buy a significant amount of these shares before these key new Virtual Worlds launch.

With that, Uemura-san and I would be happy to take your questions.