

**NEXON Co., Ltd.**

**Q1 2023 Earnings Prepared Remarks**

**May 11, 2023**

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

Thank you Kawai-san and good afternoon everyone.

On today's call we will review Nexon's performance in the First Quarter and our outlook for the Second Quarter. We'll provide an update on the development of new Virtual Worlds and how the combination of existing franchises and multiple new games in development offer a unique asymmetric investment opportunity for Nexon shareholders. And we'll conclude by looking a little farther out into the future, to how we are building a business to grow not just in the next several quarters, but over many years.

To start, Q1 was another record-breaking quarter for Nexon, in revenue and Operating Income. Q1 revenue was up 36% and operating profit was up 46% year over year. Net income – bolstered by a foreign exchange gain – was up 31% year over year, exceeding our outlook.

Results were driven by *FIFA ONLINE 4* – which maintained momentum even after last year's World Cup – and *Dungeon&Fighter* in China, which grew both players and revenue year over year. We also saw solid results globally from *Blue Archive*, the mobile role playing game we launched in 2021.

By platform, PC revenues were within our outlook while mobile revenues were higher than expected. And on a regional basis, revenues from China and Japan exceeded the expected range, while revenues from Korea, North America, Europe, and the Rest of World were within our outlook.

In Korea, *MapleStory* came in lower than our expectations, due in part to player perception of an imbalance in difficulty levels between game servers. However, our live operations team was aggressive in addressing our players' concerns, and we expect that a significant update in Q2 tied to the 20<sup>th</sup> anniversary celebration of our *MapleStory* franchise, along with other updates will drive further growth.

The Q1 start of *KartRider: Drift* was slower than planned due to lower-than-expected retention and lower-than-expected pay rates. Feedback from players identified two key areas for improvement. First, some users who are familiar with the franchise expected even more content than was provided at launch, comparing the volume with the original *KartRider*, which has been in service for close to two decades. Second, some players felt the user interface on different platforms, especially on mobile devices, was either confusing or not optimized to their play patterns.

Our development and Live Operations teams are aggressively addressing these issues. We are of course remedying the volume of content, with a strong, consistent cadence of updates planned and in development for the game. Recently, we've seen improvements in retention rates and we believe that consistent additions of new content will improve engagement and monetization on all platforms. Given its long history and massive player base, we are very committed to the *KartRider* franchise, and know from

experience that if we focus relentlessly on incorporating feedback from customers, that the community will grow over time and ultimately become very robust.

In March of Q1 we also launched *Wars of Prasia*, an MMORPG for PC and mobile in Korea. The game is off to a great start, quickly attaining a Top-5 ranking on both iOS and Android. Our objective is to continue to grow the game content and build a substantial community of players in the coming months and years.

Net, our record-breaking First Quarter reflects the robustness of Nexon's business model and our careful management of our portfolio of large and growing Virtual Worlds. Our foundation of established franchises provides a base of revenue. Not all perform as expected at all times but, typically, the collective performance of multiple Virtual Worlds delivers to shareholders consistency over time. When we get feedback from our large community of players, we move quickly to adapt and adjust, knowing that well-managed Virtual Worlds can achieve strikingly robust growth over the long term.

We have designed our business to create asymmetric upside opportunity. That strategy is based on steady growth from a portfolio of global titles, augmented by the release of new games, each of which offers the potential for significant new revenue streams from large communities of deeply engaged players.

Having reviewed for you our base of live franchises that offer stability while limiting downside risk, I'd now like to talk about our upcoming slate of Virtual Worlds, that constitute the significant potential upside part of the business equation.

We'll start with *THE FINALS*, the first game from our Embark Studios in Stockholm, Sweden. Following the successful Alpha in October of last year, in March this year, we conducted a much larger beta test that generated enormous positive buzz, and also valuable feedback for improvement on the road to launch. On a very small marketing spend, Embark registered more than two million players to participate in the test. Feedback from players, critics and influencers praised the game's visual appeal, cutting-edge destruction physics, and the intuitive ease of interacting with the game environment.

*THE FINALS* is currently tracking to begin early access later this year.

Meantime, Embark's second product, *ARC Raiders* – a free-to-play, third-person action shooter for PC and console – continues to make very gratifying progress. Although the two products are very different, we are as excited about *ARC Raiders* as we are about *THE FINALS*. Like *THE FINALS*, *ARC Raiders* significantly expands its genre, with innovative technology that enables highly unique gameplay. We will be revealing more about this product to fans later in the Summer.

Next is *VEILED EXPERTS*, a third-person tactical shooter developed in our studios in Korea. It completed a

Beta test in April and showed good retention. We plan to begin early access to the product on May 19.

Other major new titles in development include *Warhaven*, *The First Descendant*, and *MABINOGI MOBILE*. And we are currently preparing the launch of *MapleStory M* and *Blue Archive* in China.

Nexon currently has its strongest collection of new titles in development in our history. A hit by any one of these could deliver double-digit revenue growth. And if two or more become hits, it will fundamentally change our profit profile.

Nonetheless it is important to remember that our revenue planning is not focused on product launch schedules, since the success of a Virtual World is determined over years and decades, not the first few months or quarters. That means our operating focus early on is to deliver a fun and unique experience, and build a robust community of players. Doing so enables us to build the next generation of Forever Franchises to augment and expand on our existing base of Virtual Worlds.

We are able to do this since the nature of our Virtual Worlds model does not require us to replace old revenue with new revenue. We drive growth with a carefully-constructed balance of growing revenue from our existing portfolio, boosted by additional streams from new Virtual Worlds. This approach is by design, and it is relatively unique in the games business.

Lastly, I want to highlight a recent announcement that points to how we see our largest franchises evolving in the coming years.

In March at the annual Game Developers Conference in San Francisco, we introduced *MapleStory Universe*, our new initiative for *MapleStory* that leverages blockchain technology. We heard a lot of positive feedback.

We think that positive reaction is a result of us taking a very different approach from other blockchain-related announcements. Many companies have attempted and failed to build blockchain-based games that are actually fun for the gamer, or they simply viewed blockchain as an opportunity to monetize more. And as a result, players have become understandably suspicious of new blockchain announcements.

Our view is that the right way to approach any new technology is to ask: how does this new technology significantly improve the user experience, or create a new experience that was not possible before? If it doesn't make the user experience better, it is not going to make our business better.

And that approach led us to consider the many ways a gamer interacts with a live Virtual World. A player of a virtual world spends time not just in the game world, but often in many activities around the game as

well. These include: making videos, making and watching live game streams, adding to forums and wikis, creating fan fiction, and creating fan art. All of these activities contribute to a fun and positive customer experience and strengthen the community of fans.

Our team calls this the “out-game,” and it can be highly meaningful activity that expands the reach and enjoyment of the game itself. Developments in blockchain can enable us to bring those external experiences into the world of *MapleStory*, giving credit to players who contribute and participate, and to extend that credit across different Virtual Worlds. This has the potential to significantly deepen the ways players participate in a Virtual World. *MapleStory Universe* is the first step in what will be multiple different ways we expand the *MapleStory* franchise.

A second major project currently in beta, *MapleStory Worlds*, enables creators to build their own games, leveraging a powerful and easy-to-use development environment available on PC or mobile, and any of the many thousands of game art assets built for *MapleStory* over the last two decades. Today, game makers of all ages are making and sharing highly creative new experiences that are surprising even the *MapleStory* game developers.

These two initiatives are part of our larger objective of deepening the *MapleStory* experience, by enabling players and creators to build out the world themselves. *MapleStory* is already one of the biggest game franchises in the world. As we celebrate the 20th Anniversary of the franchise, we are busy creating new and highly innovative experiences for the next 20 years.

With that, I'll turn the call over to Uemura-san to walk you through our Q1 performance and Q2 outlook.

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

Thank you, Owen. Next, I'll review our Q1 results.

For additional details, please see the Q1 2023 Investor Presentation available on our IR website.

In Q1, we achieved record breaking quarterly revenue. Group revenues were 124.1 Bn yen, up 36% year-over-year on an as-reported basis and up 28% year-over-year on a constant currency basis. Our performance was primarily driven by the growth of *FIFA ONLINE 4* and *FIFA MOBILE* in Korea, *Dungeon&Fighter* in China and *Blue Archive*.

Overall, our topline performance was within the range of our outlook. *FIFA ONLINE 4* and *FIFA MOBILE* in Korea, *Blue Archive*, and *Dungeon&Fighter* in China all exceeded our expectations, while revenues from *MapleStory* in Korea, *Dungeon&Fighter Mobile*, *HIT2* and *KartRider: Drift* were lower than planned.

By region, revenues from China and Japan exceeded our outlook while revenues from Korea, North America and Europe, and the Rest of World were within the expected range.

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

Operating income was up 46% year-over-year and exceeded our outlook at 56.3 Bn yen as HR costs were lower than expected due to lower-than-planned new recruitment and as we controlled marketing expenses on *KartRider: Drift*.

Net income was up 31% year-over-year at 52.8 Bn yen, which exceeded our outlook.

This was mainly driven by higher-than-expected finance income including an FX gain of 5.6 Bn yen.

Let's move on to results by region.

Revenues from our Korea business were 64.9 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 36% on an as-reported basis and by 26% on a constant currency basis.

*FIFA ONLINE 4*'s PC and mobile combined revenues exceeded our outlook driven by successful events and sales promotions. We were able to maintain the high base of active users who entered the game during the World Cup at the end of last year.

MAUs and paying users significantly increased year-over-year. As a result, its revenues grew significantly and marked record-breaking quarterly revenues.

*MapleStory's* revenue was below our outlook.

In February, the number of active users decreased due to user dissatisfaction with the imbalance in the difficulty of character development across servers.

We took user feedback seriously and have taken immediate steps to eliminate imbalances between servers, and to improve the player experience. We also started the large-scale 20th Anniversary update and provided rewards from April 20th and have seen improvements in user sentiment and user numbers. We will continue to thoroughly communicate with our users to build a good momentum from the 20<sup>th</sup> Anniversary onwards.

*KartRider: Drift's* revenue was below our outlook following the launch of Season 1, the official service, on March 9th as the game did not meet our expectations for attracting new users in the West and Japan nor retaining existing users in Korea and Taiwan.

All in, PC revenues in Korea increased by 35% year-over-year. While *MapleStory's* revenue slightly decreased, revenues from *FIFA ONLINE 4* and *Dungeon&Fighter* increased year-over-year.

As for the mobile business, *FIFA MOBILE* maintained its strong momentum from last year, like *FIFA ONLINE 4*, and exceeded our outlook.

*Blue Archive's* revenue also exceeded our outlook driven by its successful content update.

For *Dungeon&Fighter Mobile*, revenue was below our outlook.

The number of its active users decreased due to deterioration of user sentiment caused by bugs in the game as well as shortage of content while we focused on addressing this issue.

However, we saw improvements in the number of active users and revenue after we fixed these bugs and introduced the 1st Anniversary update at the end of March.

*HIT2's* revenue was below our outlook as its users decreased more than expected due to the intense competition among MMORPGs in Korea.

On a year-over-year basis, mobile revenues in Korea increased by 37% primarily driven by a contribution

from *HIT2* and growth of *FIFA MOBILE* and *FIFA ONLINE 4 M*, which were partially offset by revenue decreases in *Dungeon&Fighter Mobile*, *The Kingdom of the Winds: Yeon* and *KartRider Rush+*.

On a quarter-over-quarter basis, mobile revenues increased by 12% driven by revenue increases in *FIFA ONLINE 4 M*, *FIFA MOBILE* and *Blue Archive*, which were partially offset by revenue decreases in *HIT2* and *Dungeon&Fighter Mobile*.

Revenues from our China business were 43.1 Bn yen, which exceeded our outlook driven by *Dungeon&Fighter*'s strong performance. On a year-over-year basis, revenues increased by 45% on an as-reported basis and by 39% on a constant currency basis.

For *Dungeon&Fighter*, revenue exceeded our expectations. Since last quarter, we have been working on initiatives to enhance user engagement such as optimizing the game balance and promoting communications with users. Amidst this positive trend, the package for the Lunar New Year update introduced on January 12th was well-received by users.

On a quarter-over-quarter basis, MAUs, paying users and ARPPU increased due to seasonality.

On a year-over-year basis, MAUs, paying users and ARPPU all increased due to the continued initiatives to enhance user engagement as well as the successful Lunar New Year update.

Revenues from Japan increased by 29% year-over-year primarily driven by the growth of *Blue Archive*.

Revenues from North America and Europe increased by 10% year-over-year driven by the growth in *MapleStory* and *Blue Archive*, while revenues from *Choices* and *MapleStory M* decreased year-over-year.

Revenues from the Rest of World increased by 24% year-over-year driven by the growth in *Blue Archive* and contributions from other mobile games.

Moving on to our FY2023 second quarter outlook.

In Q2 2023, we expect our overall business to grow driven by the continued stable growth of our existing portfolio, as well as the impact of recent launches, including *Wars of Prasia*.

As a result, we expect Q2 revenues in the range of 88.4 to 96.7 Bn yen, representing a 5% to 15% increase year-over-year on an as-reported basis and a 7% to 17% increase year-over-year on a constant currency basis.



We expect our Q2 operating income to be in the range of 22.1 to 28.7 Bn yen, representing a 3% decrease to 26% increase year-over-year on an as-reported basis and a 1% to 30% 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 18.1 to 23.1 Bn yen, representing a 27% to 6% decrease year-over-year on an as-reported basis and a 24% to 3% decrease year-over-year on a constant currency basis. The year-over-year decrease in net income is due to a 27.7Bn yen FX gain that we recorded a year ago. As you know our guidance does not factor FX gains or losses.

In Korea, we expect growth from our existing titles such as the *FIFA ONLINE 4*, *FIFA MOBILE*, and *MapleStory*, as well as contributions from *Wars of Prasia* and *HIT2*.

Consequently, we are looking for revenue in Korea to be in the range of 58.4 to 63.2 Bn yen, representing a 14% to 23% increase year-over-year on an as-reported basis and a 16% to 26% increase year-over-year on a constant currency basis.

As for the PC business, we expect *FIFA ONLINE 4* to maintain its strong momentum and to grow year-over-year.

We also expect a year-over-year revenue increase from *MapleStory*, which celebrated its 20th anniversary in April and is scheduled to conduct a large-scale summer update in June.

We expect a year-over-year revenue increase in *Mabinogi* while year-over-year revenue decreases from *Dungeon&Fighter* and *Sudden Attack*.

In addition, we expect a significant contribution from *Wars of Prasia*, which launched on March 30 across mobile and PC platforms.

As a result, we expect a year-over-year increase in PC revenues.

Regarding the mobile business, we expect Q2 revenues to be roughly flat year-over-year.

We expect contributions from *Wars of Prasia* and *HIT2*. In addition, we expect year-over-year growth in *FIFA MOBILE*. We expect these to be offset by a year-over-year revenue decrease in *Dungeon&Fighter Mobile*, which had an extremely strong performance in Q2 2022 right after launch.

Turning to China, while we expect *Dungeon&Fighter* to maintain its strong performance, we anticipate its revenue to be roughly flat year-over-year due to a tough comparison with Q2 2022 when revenue grew significantly year-over-year.

Accordingly, we expect revenues from our China business to be in the range of 17.2 to 19.4 Bn yen, representing a 10% decrease to 1% increase year-over-year on an as-reported basis and a 8% decrease to 4% increase year-over-year on a constant currency basis.

For *Dungeon&Fighter*, we introduced the Labor Day update on April 20th, which includes avatar package sales. In April, the number of active users increased year-over-year, while paying users and ARPPU slightly decreased.

In Q2, we will focus on stable operation.

In Japan, we expect revenues in the range of 2.0 to 2.2 Bn yen, representing a 7% decrease to 5% increase year-over-year on an as-reported basis and a 6% decrease to 6% increase year-over-year on a constant currency basis. We anticipate growth in *Blue Archive* to be offset by decreases from terminated mobile titles.

In North America and Europe, we expect revenues to be in the range of 4.1 to 4.5 Bn yen, representing a 28% to 22% decrease year-over-year on an as-reported basis and a 29% to 22% decrease year-over-year on a constant currency basis due to decreases in mobile titles.

We expect revenues in the Rest of World in the range of 6.6 to 7.3 Bn yen, representing a 15% to 27% increase year-over-year on an as-reported basis and a 16% to 29% increase year-over-year on a constant currency basis driven by contributions from *HIT2*, which is scheduled to launch in Taiwan, Hong Kong, and Macau on May 23, and *VEILED EXPERTS*, for which global early access is also scheduled on May 19.

In Q2 2023, we expect operating income to be in the range of 22.1 to 28.7 Bn yen, representing a 3% decrease to 26% increase year-over-year on an as-reported basis and a 1% to 30% 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 Q2 last year, we expect increases in costs due to business growth.

First, we expect increased royalty costs primarily due to revenue increases in the *FIFA ONLINE 4* and *FIFA MOBILE*.

Second, we expect increased HR costs related to an annual salary increase as well as additional headcount for the development and operation of our major Virtual Worlds as we expand our business.

Third, we expect increased marketing expenses associated with promotions for existing titles such as *FIFA ONLINE 4*, which continues to perform well, and *MapleStory*, which celebrated its 20<sup>th</sup> Anniversary. We also plan to market new games including *Wars of Prasia* and *HIT2* in Taiwan, Hong Kong and Macau.

Lastly, we expect increased other costs under COGS and SG&A in relation to outsourcing costs and cloud service costs.

Operating income is expected to increase year-over-year as we anticipate revenue increase to be partially offset by the increases in costs due to business growth.

Overall, Nexon has been building a business model in which we can grow stably by launching new Virtual Worlds onto a solid foundation of existing franchises.

In Q1, existing franchises such as *Dungeon&Fighter* and *FIFA* significantly grew as we continued to demonstrate our strength in live operations in a quarter which features a significant concentration of large updates, events and sales promotions.

In Q2, we expect our overall business to continue to grow driven by the stable growth of our existing portfolio and contributions from new games such as *Wars of Prasia* and *HIT2* in Taiwan, Hong Kong, and Macau.

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

By April, we completed 50 Bn yen of our three-year 100Bn yen share repurchase policy that we announced on August 9, 2022. We plan to retire all the shares we have acquired at the end of May.

As for the remaining 50 Bn yen, we plan to complete the rest of the 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.

Before moving on to your questions, I thought we'd offer a bit more about how Nexon is building its business over the medium term.

As I mentioned earlier in the call, Nexon's management team has designed the business to deliver solid and stable cash flows, combined with strong potential for significant upside. Our base of live games has demonstrated unprecedented stability, which translates to the investor as downside protection. And in the coming quarters we are introducing several major new Virtual Worlds projects, any one of which could bring step-function growth to our revenue and operating income line.

In short, for investors this means a significant asymmetric upside opportunity. We limit the downside, and we create large potential upside.

The Nexon management team has been very intentional about this over the last several years: this is the type of company we want to own, and it is certainly the type of business we feel most comfortable operating.

So let's discuss how we see expanding on this idea in the coming years.

Earlier I discussed *MapleStory Universe*, our extension to *MapleStory* that leverages blockchain technology. Why are we embarking on such a project, when merely continuing what we've been doing is demonstrably working?

The answer is that we see projects like *MapleStory Universe* and *MapleStory Worlds* through the lens of franchise management. Great entertainment franchises merit careful cultivation because that investment pays back so well over time. *MapleStory* is one of the largest and most enduring entertainment franchises in the world, loved by tens of millions of players. Our objective is to bring these players an even deeper entertainment experience, meaning they can both have richer experiences within the Virtual World, and benefit even more from contributing to the community.

We build our Virtual World franchises to grow for decades into the future. There are multiple vectors in which we can and will build out our largest franchises. In the coming quarters you'll hear much more from us on this topic, including ways we plan to bring many more people into our Virtual Worlds. By both opening up the experience to new fans, and by deepening the experience they have, we plan to make the next 20 years of growth in *MapleStory* and other key franchises even more astounding than the first 20 years.

With that, we would be happy to take your questions.