

FY2023 Q2 Earnings Conference Call (August 9th, 2023)

Q&A Summary

[Q] What are the assumptions of your Q3 guidance in Korea? Also, how do you forecast the longevity of *Wars of Prasia*?

[A] **Shiro Uemura (Chief Financial Officer)**

Regarding the Q3 guidance in Korea, we expect *MapleStory* to drive growth quarter over quarter, while *MapleStory* and *Wars of Prasia* to drive growth year over year.

For *MapleStory*, while revenue was lower than expected in Q2 when we celebrated the 20th anniversary, we focused on improving KPIs in preparation for Q3, a high season for the game. As a result, we are anticipating double-digit year-over-year growth in Q3.

Regarding *Wars of Prasia*, the initial performance exceeded our expectations in Q2, while we expect a sequential decrease in Q3, given that the competitive landscape of the MMORPG market in Korea is very challenging.

[Q] Regarding the China business, while Q2 performance was soft, you are expecting solid growth in Q3. How do you see your outlook? Also, please share the current user trend.

[A] **Shiro Uemura (Chief Financial Officer)**

Regarding *Dungeon&Fighter* in China, our focus remains on stable operations. We see clear signs of recovery, reflected in metrics such as increased active users and paying users, despite a decrease in ARPPU year over year in Q2. So, we can say the game is in healthy shape and we anticipate a slight year-over-year revenue increase in Q3. Our strategy is to maintain stable operation, fostering gradual growth in the mid to long term. We will continue to keep this approach in Q3 and beyond and prepare for 2024.

【Q】 Could you tell us about how you are planning to launch and grow *THE FINALS*? Will you focus on user retention to grow the game gradually, or will you expect to see decent revenue right after launch?

【A】 Owen Mahoney (Chief Executive Officer)

Our objective is to create a community of fans who keep coming back to the game for years. We are organizing our efforts to achieve this through a robust content plan post-launch.

The reason why we do that is that we know from experience that the revenue we generate over time from an engaged fan base will be much bigger than any near-term revenue we make from the first couple of quarters after launch. The way we think about the game is very different from the way a more traditional game company thinks about a product launch.

【Q】 You have a history of rebuilding titles that did not meet the expectations at the launch. For example, *KartRider: Drift* performed softer than expected and *Blue Archive* in China looks weak on the charts. Are you still working on these games to revive?

【A】 Owen Mahoney (Chief Executive Officer)

We are deeply committed to both *KartRider: Drift* and *Blue Archive*. Short-term app rankings are not a good indicator of long-term success, especially in a Virtual World like *Blue Archive* and *KartRider: Drift*. What truly matters is retention, community management, and content plans, which we watch very closely.

For *KartRider: Drift*, we are actively working on a content update and addressing user feedback and issues like user interface.

【Q】 Where do you see the opportunities of generative AI?

【A】 Owen Mahoney (Chief Executive Officer)

Generative AI has become a buzzword, like e-sports, crypto, VR, and the metaverse, and captured people's interest. When we discussed in depth the revolution that we think AI represents for the videogame industry quite a while ago, people were not so excited, but AI goes way beyond generative AI and is a bonanza to the games industry.

[Q] Could you please tell us the background behind the acceleration of the share buyback?

[A] **Owen Mahoney (Chief Executive Officer)**

We are doubling the rate at which we are committing to finishing the remaining JPY 50 billion from two years from now to one year from now in August 2024. Also, We will start repurchasing our shares of JPY20 billion of the remaining JPY 50 billion in the next three months from tomorrow morning. We have a very active dialogue in our Board meeting given a recent stock performance.

While our stock price remains the same compared to three years ago, our cash increased to JPY586 billion from JPY474 billion, despite the fact that we bought back JPY 150 billion in this period. Our revenue went up by 46% over the last three years. Our key franchises have been incredibly resilient and our company has been growing revenue at double digits year over year for the last five quarters running. We stand at the cusp of launching the most exciting products we ever had including *THE FINALS* and *ARC Raiders*. We think we are a way more valuable company than we were three years ago. Also, the recent JPY devaluation makes us look cheaper from the perspective of our investors outside Japan.

We think our value has gone way up as a company. We feel we are in a much better position even than we were three years ago. Those are some of the components of our thinking behind the buyback announcement.

[Q] How many people will you need to hire to prepare for the launches of new titles from Embark Studios?

[A] **Shiro Uemura (Chief Financial Officer)**

Regarding *THE FINALS*, the main operation will be led by Embark Studio with the support from the Korean team which has accumulated knowledge in live operations. We believe we have enough people and do not expect to increase a massive number of new headcounts.

ARC Raiders is still in development but made significant progress so far. Therefore, we will not need to hire a large number of people.

[A] **Owen Mahoney (Chief Executive Officer)**

Adding onto Uemura-san's point, there's a reason why we are able to bring a large AAA game to market without a radical headcount increase. Embark team has developed the technology stack for making games. This allows us to bring the game to market and update it rapidly, with fewer people than the industry standard. We think this will be proven to be a revolution in live operations and live development. We hope to put out a AAA game and produce the content very quickly without having to hire many people.

【Q】 In addition to the existing *Sudden Attack*, you will launch *THE FINALS*, *ARC Raiders*, and *The First Descendant* in the future. How are you planning to differentiate the value of these four shooting games?

【A】 Owen Mahoney (Chief Executive Officer)

On the surface, a game can be a shooting game. But when you play it, you realize that there are vast differences in gameplay between games that are technically in the same genre.

For instance, *THE FINALS* is nothing like *ARC Raiders*. They play completely differently. Also, they are very different from *The First Descendant* and other games in the market. The market for shooting games is vast and wide.