

NEXON Co., Ltd.

Q4 2023 Earnings Prepared Remarks

February 8th, 2024

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

Thank you Kawai-san and good afternoon. Before we get to Q&A, we'd like to start with some short remarks framing our results and outlook.

The Investor Letter we posted earlier today provides details on our results and outlook. Highlights include record-setting full-year 2023 revenue of ¥423.4 billion and operating income of ¥134.7 billion driven by the overall performance of key franchises. Q4 results came in below expectations with revenue of ¥84.6 billion and operating income of ¥4.5 billion.

While Q4 included unanticipated challenges, we are particularly proud of our launch of *THE FINALS* in December – a brand new IP which surprised even our high expectations in both bookings and breadth of popularity.

Launched into a murderer's row of AAA titles backed by runaway marketing budgets, *THE FINALS* debuted with a fraction of that spend and quickly emerged as a top-five game on Steam in December. Embark Studios created *THE FINALS* using new technology that allows us to deliver new content in days, rather than weeks and months. Since launch the Embark team has been leveraging those tools to be highly responsive to player feedback and build new content at a torrid pace, and we're now looking forward to the launch of Season 2 in March.

We believe that *THE FINALS* will become another powerful and enduring franchise for Nexon – a fourth major Virtual World pillar of our long-term growth. And we believe that it represents a revolution in how AAA Virtual Worlds are built and serviced.

Now I will turn the call over to Uemura-san.

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

Thank you, Owen.

In Q4, we had both setbacks and successes. We had a marketing challenge in *MapleStory* and an unexpected issue in *Dungeon&Fighter*. *FC ONLINE* also performed lower than our expectation, as the content update offered in Q4 did not resonate with players to the degree we had expected. As a result, our fourth quarter revenue fell short of expectations.

On the other hand, *THE FINALS* got off to a fantastic start in December.

Q4 operating income was below our outlook. In addition to the revenue shortfall, we had some one-off expenses, including an updated retention incentive plan, and an impairment loss, as well as a regulatory penalty in Korea which weighed on our profitability.

Q4 net income was also below our expectations. We took an impairment loss on our investment in AGBO. This impairment reflects recent events such as an entertainment industry strike and lower demand for new streaming content, which has slowed our progress. This impairment, along with the FX loss on our cash deposits, further pushed down our Q4 net income.

Despite the challenges in Q4, 2023 was a strong year for Nexon. We achieved record-setting full-year revenue and operating income - growing 20% and 30% respectively year over year. All three of our biggest franchises grew, and we launched several successful new games, including *THE FINALS*.

Looking ahead to Q1 2024, we expect group revenues to be in the range of ¥97.1 billion to ¥107.1 billion, representing a 22% to 14% decrease on an as-reported basis or a 27% to 19% decrease on a constant-currency basis year over year. We expect contributions from *THE FINALS* and *MapleStory M* in China, to be offset by year-over-year decreases in revenue from *Dungeon&Fighter*, *FC ONLINE* and *MapleStory*.

We expect a decrease in revenue due in part to changes to the business model of one of the major items for *MapleStory* as well as an imbalance in the in-game economy for *Dungeon&Fighter*. We also have tough comparisons for *Dungeon&Fighter* and *FC ONLINE*, owing to the strong performance we achieved in the year ago quarter. Despite the anticipated decrease, Q1 2024 is on track to be our second-highest Q1 revenue of all time.

And we expect Q1 operating income to be in the range of ¥15.2 billion to ¥23.4 billion, representing a 73% to 58% decrease on an as-reported basis or a 74% to 60% decrease on a constant-currency basis. In addition to the top line decrease, we expect higher HR costs due to headcount increases for business expansion last year. We are also expecting one-time losses that are likely to occur due to the transactions

in Q1. These costs are expected to be partially offset by lower royalties, PG fees, and marketing expenses.

Also, we expect Q1 net income to decrease year over year.

Finally, I'd like to provide an update on our capital allocation. We executed share repurchases of ¥30 billion worth of shares from November 2023 to January 2024 and completed our ¥100 billion share repurchase plan in January 2024.

And, today our Board of Directors has authorized a new ¥100 billion stock repurchase policy that we expect to complete over the next three years.

We plan to conduct the share repurchase by February 2027 by considering several factors including investment opportunities, financial and market conditions.

I'll now turn the call over to Junghun.

Junghun Lee, Director, NEXON Co., Ltd.

Thanks Uemura-san.

Today I want to provide a quick perspective on what investors can expect in the months ahead.

Our focus on creating and sustaining large global game franchises remains unchanged. Periods of flat or declining growth in our existing portfolio will be addressed with large volumes of new content, coupled with new initiatives designed to re-engage the large base of existing players and to attract new ones.

In 2024, players can look forward to all new experiences in big franchises like *MapleStory* and *FC ONLINE* plus a series of updates for *Dungeon&Fighter* that add up to double the amount of new content offered in 2023, delivered at a faster pace.

And there are more new games in development including: *The First Descendant*, *MABINOGE MOBILE*, *The First Berserker: Khazan*, and the second title from Embark Studios - *ARC Raiders*.

A primary focus during my 20-year career at Nexon has been dedicated to developing the Live Operations capability that keeps our biggest franchises fresh and exciting for years. Think of Live Operations as the “back end” of sustaining and growing an online game. It’s a multitude of critical functions that include matching players with similar skills; fixing the inevitable bugs that appear when millions of players join; community building; and combating cheaters to ensure the game is fun for both experienced and new players.

The initial success of *THE FINALS* and the East/West collaboration on Live Operations offers a good lens on Nexon’s strategy for expansion in Western Markets. When Embark Studios launched *THE FINALS* in December, the game was supported by the world-class Live Operations developed by our teams in Korea. Before and after the launch, the teams worked together to address security issues and keep the game fair and safe.

Finally, I want to say how pleased we are with the news that *Dungeon&Fighter Mobile* has been granted an ISBN license to operate in China.

We received confirmation on February 2 and immediately began working on plans for marketing and launching the game with our local publishing partner, Tencent.

We are working closely with Tencent to provide a great experience for players in China. As many of you know, *Dungeon&Fighter Mobile* was released in Korea in 2022 and succeeded in attracting new players and exciting the core.

Like our players in China, we're extremely excited about this news and look forward to launching the game as soon as possible.

Please note that this event is not reflected in our Q1 2024 outlook, but we believe this represents a significant positive impact on our revenue and operating income in the future.

We will be sharing more details on our plans in the weeks ahead.

With that, I'll turn the call back to Owen.

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

Thank you Junghun.

As you know, this is my last earnings call as Nexon's CEO. I want to thank each of you for your interest in our company and your many thoughtful questions over the years.

In my 24 years as a game-industry executive – including 13 years with Nexon – I've developed some sense of pattern recognition – and I've spoken from time to time publicly about the hype cycles that regularly overrun our industry. Over the years we've taken aim at fads and trends that have collectively garnered hundreds of billions of investment dollars – topics like eSports, early attempts at VR/AR, and most recently, the so-called metaverse. Our view was the hype surrounding each of these topics did no favors for investors, confusing many smart people about what really matters to players and therefore what really makes a games company grow over time.

Conversely, from the time of Nexon's IPO in 2011, my colleagues and I have emphasized and then demonstrated the power of our unique business model, and how robust the growth can result from a portfolio of well-run Virtual Worlds built in close cooperation with a community of players, for the long term. While perhaps less sexy than the techno-fads I mentioned above, this insight about the enduring and growing power of Virtual Worlds has been highly lucrative for those who understood our business.

And it's helpful to remember that lesson at this earnings call as well. Many times during my tenure, I've seen periods of slow or declining growth in blockbusters like *MapleStory* and *Dungeon&Fighter*, only to be followed by the next great era of dynamic growth.

When we experience short-term declines, our live teams focus on user experience and being responsive to player feedback, and then on rapidly executing thoughtful updates. The experience of our Live Operations teams enables us to build a massive, robust Virtual Worlds business over time, despite near term ups-and-downs. We have done this countless times.

Some investors with a shorter time-horizon, or those who are less familiar with our model may be distracted by our near-term performance. Successful long-term investors in Nexon have done well by recognizing the pattern and leveraging it for long-term gain.

With *THE FINALS* off to a very gratifying start; with the approval of *Dungeon&Fighter Mobile* in China which represents a game-changing, watershed moment in Nexon's history; with a strong slate of new franchises in the pipeline; and with the backing of a revolutionary tech stack, enabling us to radically increase the speed of new content and then operate live Virtual Worlds at scale; Nexon is extremely well positioned for step-function growth in 2024 and beyond.

And Junghun is the perfect leader to take this incredible company to the next level. I, Junghun, and the rest of the Nexon executive team are highly confident that Nexon's brightest days are ahead of it.

And as a reflection of our strongly positive views on the future, Nexon's board of directors has approved a new ¥100 billion stock repurchase policy that we expect to complete over the next three years.

Operator, we are ready to take questions from our investors.