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NEXON Co., Ltd. (3659.JP)

Q2 2017 Earnings Call

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Unverified Participant

...and this briefing session will be disclosed in our corporate website. [ph] Stay online (00:08) to make sure that you have all the documents. You should have presentation materials for today as well as [indiscernible] (00:16) or abbreviated consolidated results as well as two press releases. We have distributed four other documents. So, if you are missing any of them, please let us know.

Now we would like to start the presentations.

[Video Presentation] (00:42-03:08)

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

Good afternoon, everyone, and welcome and thank you for taking time right before the long weekend.

Prior to talking about our financial results, we wanted to start today's meeting with a footage that would give you a feel for our unique approach to game development, as well as our strategy for sustaining player engagement after a game is launched.

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This focus on game quality and sustained engagement is what delivers the kind of results we'll be sharing with you this quarter. The game you just saw is LawBreakers, a title we released on August 8 and one that is heavily anticipated by hardcore first-person shooter fans in Western markets.

LawBreakers represents a new phase for Nexon in two ways. First, the game was developed in partnership with the proven Western developer, Boss Key Productions founded by Cliff Bleszinski. And second, the game is available on both the PC and on Sony's PlayStation 4 console, our first title for this important platform.

LawBreakers matches world-class development talent in the West with Nexon's live game operations and development expertise. We think this unique combination has the potential to make this franchise grow and last for a long time, as we've done in Asia with so many other franchises. It's still early to talk about the numbers in this game, but I hope you're as excited as we are about what it means for a growing Nexon's business. This is one of several big initiatives we have under way to grow our global business.

Okay. To set the agenda for today's presentations, I'm first going to give an outline of the strong results Nexon delivered in the second quarter. Then, I will provide some color on our unique capabilities driving these results which, simply put, is to create a sustained relationship with our customers that keeps players engaged for years. And it's this extended relationship with our players that in turn drives our consistency and our growth. And after that, I'll talk about our pipeline of upcoming games before turning it over to Uemura-san, our CFO, to talk to you about Q2 more specifically and Q3 outlook.

Turning to the highlights of the second quarter. Nexon had a great quarter, no question about it. This was our biggest Q2 ever. Revenues were ¥47.1 billion, up 23% year-over-year. Operating income was ¥16.3 billion, up 22% year-over-year, and net income was ¥19.4 billion, up 157% year-over-year. These strong results beat the high end of our guidance.

Longevity in games across our regions, particularly the strong performance of Dungeon&Fighter in China, was a key driver of our Q2 performance. Dungeon&Fighter in China just had its nine-year anniversary in June. Q2's excellent performance continued the momentum following Q1's record-breaking results.

But more important than the revenue in Q2 are the games' strengthening KPIs. Across the board, our player engagement within the games – we saw that our player engagement within the games getting stronger, which we think bodes well for the future.

Okay, if that is a backdrop, I'd like to pause and explain an important differentiator in Nexon's development strategy, that is, defying the boom and bust life cycle that marks most games and offering live operations in extended content plans that sustain player engagement. That strategy is good for the consumer and great for our business.

At Nexon, we believe multiplayer games are an entry point for sustained relationship with our customers, a relationship that can and should extend into years for each of our titles. As a result, we do game development and game publishing very differently than most of the rest of our industry. While many focus on near term, such as what happens to a game at launch or what the App Store and Google Play rankings are, our primary concern is about making games that grow over time. In our world, a game is a hit only if it grows for many years.

So, when we make a new game, in addition to common game development issues, we bring deep experience to bear on areas that make a game grow. One example of this is whether the technology base at the game server level is capable of handling the demands of the game. As obvious as that sounds, some of the most expensive

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launches you've seen in the last five years in our industry failed as a result of a back-end technology that was underpowered.

Another is ensuring the quality of the content is sufficient to sustain the game over time and that we develop updated content rapidly. And yet another is in-depth testing of the many interactions of characters as thousands fill the game's virtual world, will the economy and the sociology work when there are 10,000, 100,000 or 1 million players in the same game world at the same time.

The launch of an online game is not the end of our work. It's the beginning. Once a game launches, our deeply experienced operations teams go to work on a myriad of different areas to ensure the game sustains. These include creating event-driven live services.

Another is managing the currency supply in the game world to ensure that the virtual inflation or deflation does not ruin the game experience. Another is updating the game in a way that ensures that the game maintains the balance between player classes.

In practice, these are immensely complex and difficult challenges for development and operations teams. Doing it at scale requires deep knowledge that is distributed throughout an organization, and this step has enabled us to grow our business across many games, not just one or two.

As a result, Nexon's financial results have shown a kind of consistent growth and stability over two decades that is very different from the traditional games business, one that more resembles the software as a service model.

Software as a service is appealing because it implies predictable annuity. Online games, when developed and sustained properly as we have shown for two decades, have the power to achieve the same results. We think this is the most powerful idea in videogames. And as more companies in the industry wake up to the power of longevity, we believe you will be hearing a lot more about this in the future.

And that leads to my last topic which is our pipeline for the second half of 2017. I have three new titles to show today. Even though they are new, early metrics are showing positive retention characteristics which in turn will fuel further growth for Nexon.

The first title I'd like to introduce is the newly launched mobile game, Titanfall: Assault. It actually launched just a few hours ago. This was launched by our mobile arm in the United States, NEXON Am.

Titanfall Assault is player versus player real-time strategy game in which players collect, upgrade and assemble a deck of pilots, titans and tactical burn cards which provide powerful battlefield support. In pre-launch play testing, the game has shown robust player retention and engagement KPIs, so we're excited to see how this does when it reaches a broader audience at launch.

The next is Battlejack, a new mobile game which Nexon online will be launching in Q3. Battlejack was developed by our partner, Grand Cru, a game developer in Helsinki. Battlejack is a colorful, fast-paced mobile game with an innovative blackjack-inspired core mechanic and a deep fantasy back story. But what has us really excited is that the testing phase of the game, users have been returning at very high rates. As I mentioned before, we only consider a game a hit if it continues to grow a year or more after launch. So the early metrics have us optimistic that we can hit this high bar.

And finally, Dark Avenger 3, a new mobile game we just launched in Korea. Let's show the video.

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[Video Presentation] (13:15-14:16)

Our Korean's deal, Boolean Games developed Dark Avenger and Dark Avenger 2 which to-date have achieved more than 35 million downloads in the global market.

For Dark Avenger 3, the development team filled the game with high-quality characters and backgrounds and a wide variety of gorgeous effects that provide an unprecedented and immersive experience.

The game launched two weeks ago and has quickly taken the number two and the number three spots on the app store top gross rankings on Apple and Google, respectively. Having said that, as I mentioned before, what we really care about is long-term retention, and the early KPIs on that front appear to be robust. So, there's much to be excited about this quarter and for the future.

Looking ahead, we have two major initiatives that have encouraged investors to watch and to measure. First is our unique approach to long-term player engagement which clearly resonates with gamers around the world and translates into strong financial performance. We will continue to develop and launch new titles with this long-term deal. Second, we will continue to leverage partnerships with world-class developers as an opportunity to learn more about and capitalize on global game trends.

With that, I'd now like to turn it over to Uemura-san to run through the second quarter results and the third quarter outlook. Thank you.

Unverified Participant

Arigatou gozaimashita. Thank you very much. Let's move on to Mr. Uemura, our CFO.

Shiro Uemura

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

Thank you, Owen. Now let's move on to Q2 results.

As Owen noted, we were pleased that our revenues, operating income and net income all exceeded our outlook for the second quarter. Q2 revenues were ¥47.1 billion, up 23% year-over-year on an as-reported basis and up 21% year-over-year on a constant currency basis. The high end of our outlook was ¥44.8 billion.

Operating income was ¥16.3 billion, which exceeded ¥14 billion, the high end of our outlook. Net income was ¥19.4 billion, well above the high end of our outlook, which was ¥12.8 billion. Second quarter revenue and operating income outperformance was primarily due to the strong performance of Dungeon&Fighter in China, which is a higher-margin business. This was driven by our outstanding live ops, as Owen described.

Net income also exceeded our outlook due to an additional ¥6.3 billion generated primarily from a FX gain on our U.S. dollar-denominated cash deposits and accounts receivable as the result of the depreciation of the Korean won against the U.S. dollar during the second quarter.

Revenues from the China business in the second quarter exceeded the high end of our outlook. Again, this was mainly driven by Dungeon&Fighter. The ninth anniversary update we introduced on June 22 was well-received. Along with the new character, Female Priest, sales of item such as avatars were strong.

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In the wake of a seasonally strong first quarter due to the impact of the Lunar New Year, second quarter revenues usually decrease sequentially. Consistent with that pattern, for Dungeon&Fighter in China for the second quarter, ARPPUs decreased significantly quarter-over-quarter. MAU and paying users decreased quarter-over-quarter. However, ARPPUs, MAUs and paying users all show positive growth year-over-year. In particular, the number of paying users grew significantly.

Revenues from the Korean business in the second quarter were near at the high end of our outlook. While we saw a slowdown of some mobile game titles and the PC online game, Sudden Attack, we had strong performances from key PC online and mobile games. As a result, revenues on a constant currency basis were flattish year-over-year.

As for MapleStory, which is a flagship example of our strength in long-term game operations, we conducted a 14th anniversary update in the second quarter, and it is receiving very good feedback from users.

Now turning to our Q3 2017 outlook. For the third quarter of 2017, we expect revenues in the range of ¥51.6 billion to ¥55.6 billion, representing a 17% to 26% increase year-over-year on an as-reported basis. On a constant currency basis, we expect revenues in the range of ¥47.8 billion to ¥51.4 billion, representing 8% to 16% increase year-over-year. We expect continued strong performance in China to be a primary driver of revenue growth. We expect the operating income to be in the range of ¥17.8 billion to ¥20.5 billion. We expect net income to be in the range of ¥15.9 billion to ¥18 billion.

In China for the third quarter revenues, we expect a 20-plus to 30-plus percentage increase year-on-year on as-reported basis, and a high-teens to 20-plus percent increase year-on-year on a constant currency basis.

We introduced a Summer Update to Dungeon&Fighter in July, and related item sales are off to an extremely strong start. The number of active users and paying users in July have both remained high compared to the same period last year. Strong user indexes are also drive year-on-year growth in revenues. We're also scheduled to introduce a large-scale content update, National Day Update in 8th September.

In Korea, for the third quarter revenues, we expect high single-digit to high-teens percentage increase year-on-year on as-reported basis. We expect revenues to be flat to high single-digit in percentage increase year-on-year on a constant currency basis. We expect year-on-year revenue increase from key PC and mobile game titles, as well as contributions to revenue from the mobile games, such as Dark Avenger 3 which was launched in July.

In Japan, for the third quarter revenues, we expect high single-digit to low-teens digit percentage increase year-on-year on as-reported basis. We expect revenues overall to increase year-on-year because of continued contributions from mobile native app games, such as HIT and HIDE AND FIRE more than offsetting a decrease in revenues from mobile browser games.

In North America, for the third quarter revenues, we expect high single-digit to 20-plus-percentage increase year-on-year on as-reported basis and flat to low-teens percentage increase year-on-year on a constant currency basis. We expect revenues to increase year-on-year due to the contributions from LawBreakers, which was launched on August 8.

For Europe and other regions, we expect a high single-digit to high-teens percentage revenue increase year-on-year on as-reported basis and a flat to high single-digit percentage increase year-on-year on a constant currency

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basis. We expect the mobile game Dynasty Warriors Unleashed, which launched at the end of March, to contribute to a year-on-year increase in revenues.

In the third quarter, we expect operating income to be in the range of ¥17.8 to ¥20.5 billion, which is an increase of 9% to 26% year-on-year. A positive driver is the increased revenues year-on-year, primarily driven by our high-margin China business and contributions from new titles.

As for the negative drivers: first, increased variable costs, including royalty costs and PG fees due to the year-on-year increase in revenues from PC-publishing titles and mobile games; second, greater marketing costs related to the launch of new titles; third, increase in HR costs due to our head count increase primarily in Korea. The high end of the range reflects the fact that we expect the impact of the positive drivers to be larger than the negative drivers, resulting in operating income growth year-on-year.

Now we'll be happy to take your questions.

Unverified Participant

Thank you very much. We would like to open the floor for Q&A. Other than this room, we have participants over the phone as well. Firstly, we will ask if there is any question in this room. We will fetch you a microphone, so if you have a question, please raise your hand. Also, upon posting a question, please mention your name and affiliation in advance.

Any questions from the floor? Yes, a person sitting at the very front

QUESTION AND ANSWER SECTION

Junko Yamamura
Analyst, Nomura Securities Co., Ltd.

Q

Thank you very much for you presentation. I am Yamamura of Nomura Securities. I have three questions.

The first question is on Dungeon&Fighter of China. At the outset, Mr. Owen, you mentioned about the fundamental strength of Dungeon&Fighter in China. If you look at the Q1 and Q2 and try to conduct the analysis, can you tell me the details? You had [ph] level gap, (25:28) and I understand that there were other factors that provided the good trend for Dungeon&Fighter. But in Q2, there might be some factors that you were not able to continue from Q1, and also there might be some factors that arose anew in Q2. So, please tell me the factors that led to the growth in both Q1 and Q2 one at a time, please.

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

A

Thank you very much for your question. In terms of China Dungeon&Fighter, we are seeing a very favorable momentum. And in Q1, it did very well, and we are seeing the same trend. And also in Q3 as well, we believe that the trend will continue. In Q1, we had [ph] level gap, (26:21) and those will be our content update, and those were very well-received.

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And if I explain to you furthermore regarding Dungeon&Fighter, we positioned it as a very important game for us. So, we are very cautious, so we do not want to have any dramatic increase or no dramatic monetization. And we have been following this rule, and that is the fundamental that we bore in mind in conducting the operation of this IP.

We take different parameters from this game and conduct dialogue with the users, and so that we can conduct very granular analysis to understand what we should do. If we do a play is the experience that we have for many years. And based on that experience, we are trying to cater to the needs of the users. So high-quality update and also granular live operation are the two major factors, and we are conducting very granular analysis of what is evolving. And because of that stance/approach that we are taking, we are seeing a very great trend. And MAU-wise, we are seeing increase Y-o-Y, and paying user-wise, we are seeing an increase as well. Regarding ARPPU, it is steady.

So simply put, these actually represent the profile/characteristics of growth in game. So, we did very well in Q1 and the momentum continue in Q2 as well, and we believe that the momentum will be maintained in Q3 as well. Every day, we conduct granular operation of the game and conduct due analysis so that we will be able to maintain our satisfactory level of growth.

Junko Yamamura
Analyst, Nomura Securities Co., Ltd.

Q

Thank you. Second question, this is a very nitpicky question. In Q2, about the royalty fee, maybe it's my misunderstanding but please bear with me. It seems that the fee includes onetime payment or it just shows the fact that IP content increased, thus leading to the increase of royalty fee. Looking at royalty fee, it seems that there has been an increase when you compare Q2 to Q1.

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

A

In terms of royalty fee, needless to say, it all depends on the titles that are popular at that point in time. So royalty fee ratio is not always constant. In Q2, it looks relatively high, but in terms of [indiscernible] (29:32) it was very favorable. Therefore, royalty fee went up.

Junko Yamamura
Analyst, Nomura Securities Co., Ltd.

Q

Thank you very much. My last question, about the new titles, I have several questions. You have Dark Avenger 3 as well as LawBreakers, and my question is on Dark Avenger 3. In Korea, Lineage RPG, big title, is positioned as number one. And other RPG games cannot have a very good track record or, as you say, might be difficult for other RPG games to be ranked high. But I know that you have just launched Dark Avenger 3, and the recent figures are very good. So, do you think Dark Avenger 3 is quite different from other IPs? And even though this is RPG, if the quality is very high, you will be able to win in this area. So, can you tell me what is your analysis to-date regarding Dark Avenger 3?

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

A

In Korea, I know that the competition is getting very tough, and that is the reality that we have to face. And I know that top-ranking games are very popular. But as you have mentioned right now, Dark Avenger 3, genre-wise, is quite different from other IPs. We focus on high-quality and fun-to-play game, and once we can attain those 2

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points, as mentioned by Owen, Dark Avenger 3 is positioned as number two, and we will be able to be ranked as a high game.

In terms of Dark Avenger 3, we do not place importance in the initial ranking but, rather, we emphasize the longevity. And so, retention rate is very important. And Dark Avenger 3-wise, we are seeing very good retention rate as I believe that we can expect much from this title and I believe in the high quality of Dark Avenger 3. Thank you very much.

Junko Yamamura
Analyst, Nomura Securities Co., Ltd.

Q

Thank you very much.

A

You might have some questions on the floor, but we would like to now take questions from the phone.

Operator: The next question is Mr. Han-Joon Kim from Deutsche Bank. Mr. Kim, please go ahead.

Han-Joon Kim
Analyst, Deutsche Bank AG (Hong Kong)

Q

Great. Thanks for the opportunity to ask questions. I have a few, and maybe if we can just run through them a bit. But just in regards to a follow-up to Dark Avengers 3, I know you can't disclose the KPIs, but can we say relative to Dark Avengers 1 and Dark Avengers 2 that Dark Avengers 3 has better broad-based KPIs and, thereby, it may have better longevity than Dark Avengers 1 and Dark Avengers 2?

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

A

Hi, Han-Joon. I think it's too early to tell. As I said before, we're very happy with how early retention is looking, so that we definitely can say. It's going to be – we're going to have to watch it from here, but we're feeling pretty good early on.

Han-Joon Kim
Analyst, Deutsche Bank AG (Hong Kong)

Q

Okay. Cool. The second question has to do with LawBreakers. So, I'm kind of torn here. I realize it's gotten good reviews, but it's also come from a lot of FPS fans. So, I'm wondering if there's going to be sort of a more niche audience game that hardcore FPS audience wants because it's so hardcore or if we're going to have a mass market appeal. So, maybe, I mean, is it more symbolically significant that we've made a foray into sort of the console market, or is this something that we might actually see some significant financial contribution throughout the course of the next few years?

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

A

Well, I think you've got it right. LawBreakers was not designed to be a mass market first-person shooter. If you play it, you can see the reviews on Steam or you can watch it being played on Twitch and everybody will tell you a pretty similar thing, which is it's a hard game to play. It's designed to be an arena first-person shooter.

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But our thinking on that is that's a very underserved market. And if you give them a game that they want to play, they will continue to be very loyal with it. And then once they're loyal, then they can gradually expand out to a broader market. That's our thinking with it. We think that the developer executed on a great game. They put out a great game and it appears to be resonating with the audience early on.

And then from here, we think that it serves very directly a very underserved market. This is the group of players if you've ever heard of Unreal Tournament or the old Quake Arena people, this is an Arena first-person shooter. And so, it's an underserved market.

It's also an incredibly fun game to watch, and games that are fun to watch and that are hard to play can make for a very good spectator sport. And so, we think that it will have potential to both have great viewership on the types of channels where people like to watch games, such as Twitch and other channels, YouTube and so on, and then has potential for eSports.

But the thing about eSports is we, the publisher or the game developer, don't decide whether a game is going to be an eSport game. The users tell us whether it's going to be an eSport game. But people seem to be enjoying it. Certainly, there was a lot of that interaction that we saw at the E3 event and we think it has real potential from there.

Han-Joon Kim
Analyst, Deutsche Bank AG (Hong Kong)

Q

Understood. So, I guess, as an extension of that, I mean, I know it's hard, but are there any kind of thresholds where we start to think, okay, well, it seems like there's good demand here, and so we kind of push the eSports [indiscernible] (36:03) somehow?

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

A

I wouldn't say that there's a numerical example. I think that what will happen is that – the way that these things work is they come organically from the community. The community says it, says that they want it, and then we support it. As you know, we are a pioneer in eSports. We may be the ones who are in the – seriously in eSports longer than just about anybody else I know in the video games industry based off our experience in Korea, our long experience in Korea. And so, that experience tells us that the market will inform us when it's ready for eSports and then we know how to support it when that day happens, if that day happens.

Han-Joon Kim
Analyst, Deutsche Bank AG (Hong Kong)

Q

Got it. Thanks. One quick last question. Are you guys feeling any sort of competitive pressures from the Battlegrounds? I know Sudden Attack was a bit soft in 2Q. I mean, do you feel like that's the drawdown from people going on with the Battlegrounds or is it more seasonal?

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

A

No, I think regarding – so I should make sure that everybody's caught up on translation here, Han-Joon. My take on that is two things. First of all, Sudden Attack is Sudden Attack, Battlegrounds is Battlegrounds. You and I have talked about this before. People like to talk about market share, but I'm of the belief that that's not really how our game industry works.

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How our game industry really works is like other sectors of entertainment. The better that the games are, the more it draws more people into games. I've seen this happened in television in the United States recently, it happened in animation in the West before that, and it's happening in games. So, we applaud what happened in Battlegrounds.

And our experience has been that when more good games happen in the games industry, more gamers play more games more often. And we've seen this over and over again, even in a hyper-competitive environment like Korea, as you well know. So, they sometimes have near-term impacts but they're very hard to discern and isolate from other noise in the system. And long term, we think this is a very good thing when there's better games out there.

Han-Joon Kim
Analyst, Deutsche Bank AG (Hong Kong)

Q

All right. Great. Thank you very much.

A

Thank you very much. We have a few more minutes to go. So, we will like to come back to the floor if there is any question. Do we have any question in this room? Then a person sitting in the very front?

Q

I am [ph] Sakurai of Nikkei. (38:54) I have two questions. In terms of your game breakdown, PC is about 76% and mobile is 24%. And does it mean that overseas-wise, you have more PC than mobile? In the future, what will be the trend? Do you plan to increase the ratio of mobile? That's question number one.

Going to the second question. In America, you have eSports contest or match. And in Japan, do you have any plan to sponsor eSports contest using your title, or do you have any plan to ask a third party to sponsor eSports contest using your game? So, please tell me your plan.

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

A

[ph] Three question. (39:56) Regarding your first question, as you mentioned, we're about 75% – a little over 75% in PC. And it's over the last few quarters, it's been at about that ratio.

But we are not targeting a ratio per se. We have a legacy of a lot of PC games because that's where we got our start. And as you know, markets like Korea and China are very PC-heavy markets. And because our games tend to last and grow for a very long time and they tend to keep getting bigger, that has meant that whatever we do in mobile has a lot of competition from PC. But as you can also tell, we're also developing heavily for mobile. Dark Avenger 3 is an example of that. We have many others that we've been launching and that are in the pipeline.

But I don't spend a lot of time thinking about what our ratio is going to be because when I look out over two to five years, I see that the industry is really converging with PC and with mobile devices. I see several devices here that are sort of hybrids. There are iPads or tablets, some that are very light PCs, and tablets are essentially just large mobile devices.

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So, over time, I think that these things converge and we're not spending too much time – as a practical matter on a daily basis, we have to spend a lot of time thinking about it, but strategically over time, we're not targeting a number. What we're doing is believing that the industry will ultimately converge in managing our business or planning our business that way.

And then as far as eSports, your eSports question, it feels a little early in Japan right now. It actually feels very early in North America as well. That's my personal experience or my personal opinion. A lot of people in the industry disagree with me on that. There's certainly a ton of investment going on in the West in eSports and eSports teams and other areas.

But when you compare it to the level of infrastructure and sort of maturity of, for example, Korea, Korea is quite a bit farther along. If you ever have a chance to visit Seoul, I would encourage you to visit the NEXON Arena. It sits about 550 people. It has about 300 events per year. So, that's many nights out of the week or month. And it's usually full with people. And it's also usually populated by about 60% women. The ratio is 60:40 female to male.

But going to see an eSports game live is something that's part of the nightlife in Gangnam in Seoul, and that's very different than my experience going to see games in North America today. I've gone to see different – even very what are supposed to be billed as very large games, and most of the people who are live working for the event or work for one of the companies that was there or family members of the players, even though they were broadcasting to a lot of Twitch streamers around the world, several thousand Twitch streamers. So, my feeling is that there's a lot of talk about eSports, but in several countries it's still early, even though there's a lot of talk about it.

And as I said before, one of the things that's misunderstood is gamers tell you when they want to play something competitively, and then they sort of come back to the game developer or the game publisher and say, we want more eSports things. They form their own teams and then they come back to us and they say, we'd like more support.

Hopefully, that answer your question. Thank you very much.

Q

Thank you very much.

A

Next? Additional questions via phones, please?

Operator: The next question is Mr. Jay Han from BNP Paribas. Mr. Han, please go ahead.

Jay Han
Analyst, BNP Paribas Securities (Asia) Ltd.

Q

Thanks for taking my questions. Yeah. So the first question is on Dark Avenger 3. So compared to HIT, what's the initial KPI of Dark Avenger like? I know Nexon doesn't disclose single game KPI, but I hope to get some sense and compare with HIT to matter the potential of this game. And I would like to understand, Dark Avenger 3 is

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global edition plan. I'm curious where would be the next country, Japan or Southeast Asia? That's my first question.

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

A

Thank you very much for your questions. Dark Avenger 3, we talked about the retention rate which is very satisfactory. In comparison to HIT, how is it is your question. As you said correctly, we do not disclose the KPI for each title. We rarely do that, but in comparison to HIT, it is equivalent. It is not inferior to HIT KPIs.

And then the environment, especially Korea, is changing very quickly. So in that sense, HIT was a big hit, and the environment now is quite different from that for Dark Avenger 3. But we are not looking at the temporary ranking, but rather we'd like to have our longevity, long-term titles. So the phenomena which is closer to HIT is being observed at this moment.

As for the globalization plan, this is an in-house developed title. So strong IP, especially in Asia, is something that we have, so we want to apply this to other counties. But as of now, we do not have a specific plans for the next countries. So whenever it is available, we would make announcement.

Jay Han
Analyst, BNP Paribas Securities (Asia) Ltd.

Q

Okay. Great. My second question is on tax rate. Could you elaborate the background of low tax rate in 2Q? And I'm curious, what's your tax rate outlook in second half?

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

A

Yes. About the tax rate, quarterly factors exist, and because of that, that changes. But, in general, 20% or so is the tax rate for full year unless there is something special. [ph] 2014, (47:58) we expect about a 20% tax rate. That is our calculation.

Jay Han
Analyst, BNP Paribas Securities (Asia) Ltd.

Q

Okay. Thank you very much.

Unverified Participant

Thank you very much. We have a few more minutes. So, once again, is there any question from the floor? If you have any question, please raise your hand. Thank you very much. It seems that there is no further question. We would like to end the Q&A session.

With this, we would like to end FY 2017 Q2 earnings report. Please leave the transceiver on the desk. For our information, please fill in the feedback form. Once again, thank you very much for gathering despite your very busy schedule.

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