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Earnings Letter: Q3 2024

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MANAGEMENT SUMMARY

In Q3, Nexon demonstrated meaningful progress on key elements of our IP Growth Strategy, including 15% aggregate year-over-year vertical growth in our three major franchises – *Dungeon&Fighter*, *MapleStory* and *FC* – plus horizontal growth from *The First Descendant*, a brand-new title which demonstrated global appeal. While our topline performance was slightly below the outlook due to negative impacts from FX, Nexon delivered record-breaking quarterly revenue at ¥135.6 billion, up 13% year over year, and record-breaking Q3 operating income at ¥51.5 billion, up 11% year over year.

Q3 reinforced our confidence in Nexon's growth strategy for building on the success of proven franchises and creating the next major pillar in our portfolio. Our investment in existing franchises and all new IP is designed to bring compelling entertainment to our players and to grow our business over many years. These are much more than simple "patches" or short-term improvements to our performance. Our focus with these services is to provide entertainment that extends the fun to our players and puts us in a position to drive revenue growth and profitability over long periods of time.

Over the next few quarters, we plan to continue investing in our long-term vision in order to achieve step-change growth in our revenue and operating income. This includes both making our existing franchises stronger, and also investing in innovation and expanding our portfolio of franchises. This initiative may have a temporary impact to the pace of our financial growth, but we know from our 30-years of experience that this is a necessary step to take us to the next level of performance and growth. And we have also seen that it can ultimately lead to greater, more sustainable growth across the company, with enhanced experiences for players and lasting value creation for shareholders.

IP Growth Initiative and 2027 Financial Targets

On September 3, we hosted a Capital Markets Briefing in Tokyo which included an outline of our **IP Growth Initiative**. A key element of the strategy includes **vertical growth** in our blockbuster franchises with product extensions, new platforms and regional expansion, as well as hyperlocalization of content. The growth strategy also calls for **horizontal growth**, an initiative that tries to create a new pillar of our business from existing and new IP.

The creative and commercial potential of these projects is significant. At the Tokyo briefing, we announced financial targets which include a 15% revenue CAGR and a 17% operating income CAGR between 2023 and 2027; with annual revenue increasing to ¥750 billion and annual operating income increasing to ¥250 billion by 2027.

During Q3 we made progress with our IP Growth Initiative – as we continued to benefit from the release of *Dungeon&Fighter Mobile* in China and from our hyperlocalization initiatives with *MapleStory* in markets outside of Korea. Additionally, we executed a highly successful launch of a brand-new IP, *The First Descendant*.

Vertical Growth Initiatives

Dungeon&Fighter Franchise

In Q3, Nexon's Dungeon&Fighter franchise delivered 142% growth year over year due to the launch of ***Dungeon&Fighter Mobile*** in China on May 21.

The mobile game delivered a big contribution to the Dungeon&Fighter franchise in Q3, and after an explosive launch, settled into an expected pattern. The development team is delivering multiple updates in Q4 and preparing the important New Year update scheduled for Q1. We are managing the game with the belief that it can become a consistent contributor to the Dungeon&Fighter franchise.

We are also committed to revitalizing growth in the **PC version of *Dungeon&Fighter***. We are releasing new content in Q4 and preparing a large New Year update which includes the release of a brand-new area, a level cap increase and improvements to the in-game progression system. These steps reflect our long-term vision for leveraging Nexon's Live Service capability to deliver better experiences, growth, and profitability.

Beyond improvements to the core game, Nexon is also developing multiple new projects designed to extend vertical growth in the Dungeon&Fighter franchise. This includes ***The First Berserker: Khazan***, a AAA console game which will introduce the franchise to new players, particularly in Western markets and Japan. The game was showcased at gamescom in Germany in August and at Tokyo Game Show in September and received enthusiastic feedback from players in both markets. A beta test in October yielded valuable insights. Players – more

than 70% of which were from Western regions including North America and Europe – praised the action and boss fights, with more than 80% of participants showing satisfaction with the test.

Also in October, we announced the official title of Project DW, ***Dungeon&Fighter: Arad***. This open world action RPG will be a cross-platform experience on PC, console and mobile. By extending the game experience from 2D side-scrolling to a 3D open world, we expect to reach a new audience of global players.

And this week we will showcase **Project OVERKILL**, a unique extension on the world of *Dungeon&Fighter* which brings an evolved action combat of the original *Dungeon&Fighter*, at Korea's biggest game show, G-STAR. This will be the first time players can experience the new 3D side-scrolling RPG.

Together, the new content for existing titles and the new games launching in 2025 and beyond are designed to increase engagement among the core and attract new users. This strategy is closely aligned to our plan for yielding a *Dungeon&Fighter* franchise revenue CAGR of 25% from 2023 to 2027.

MapleStory Franchise

Q3 Franchise revenue declined year over year primarily due to a challenging comparison with Q3 2023, when the PC game achieved record-breaking quarterly revenue driven by the transformational update in its primary market Korea and the release of *MapleStory M* in China.

Our long-term growth plan for the MapleStory franchise provides a good perspective on Nexon's *hyperlocalization* strategy which adapts content and holds local events and promotions to match the specific tastes of players in diverse markets around the world. This includes the establishment of the Global *MapleStory* Development team in Los Angeles. The early results are highly encouraging. In Q3, **MapleStory revenue from outside of Korea** accounted for more than 40% of the franchise total, with 23% year-over-year growth. This includes record-high Q3 sales in Japan, North America and Europe, and Rest of World.

The team is also making progress with exciting new extensions on the *MapleStory* IP. In October, we executed a soft launch of **MapleStory Worlds** in North and South America. And we

are preparing for a large-scale Q4 test for **MapleStory N**, a new PC-based MMORPG in the *MapleStory Universe*.

The combination of hyperlocalization and all-new experiences with franchise extensions have put the *MapleStory* IP on a path to achieve a 14% revenue CAGR from 2023 to 2027.

FC Franchise

FC franchise delivered a solid contribution this quarter. As anticipated, franchise revenue declined slightly year over year in Q3 due to a tough comparison with the year-ago quarter when the franchise achieved record-setting Q3 revenue. However, we expect Q4 revenues to deliver double-digit percentage growth on a year-over-year basis and expect to finish the year with franchise full-year revenue reaching close to 2023 level.

As we look out to 2027, we expect that our football partnership with EA, backed by Nexon Live Operations, will continue to deliver great experiences for players and solid results for our business.

Horizontal Growth Initiatives

Shooters

Nexon's outstanding shooter teams are tightly aligned in one organization with deeper resources and creative direction, including a sharp focus on Western markets.

An all-new game, ***The First Descendant***, which got off to a strong start in July, delivered a significant contribution to our Q3 results. Among the many achievements for this game was its success in Western markets, which represented approximately 75% of global revenue. We will continue to respond to player input and provide high-quality updates with the hope that *The First Descendant* can grow into a consistent contributor in our IP portfolio.

Nexon's Stockholm-based Embark Studios is increasing our presence in global markets – particularly in the West.

THE FINALS, which launched Season 4 in September, has staged an impressive turnaround, with a substantial and lasting improvement in both short- and mid-term retention, as well as a

healthy uptick in hours played and overall player engagement. The team is now focused on improving DAUs by attracting new players and encouraging others to return. Season 5 of *THE FINALS* is its biggest season yet, and launches before the Holidays in December.

Also, *ARC Raiders*, a new game in development at Embark Studios, completed a large public test on October 27 designed to refine core areas of the game, including the looting experience, player goals and progression, plus enemy AI. In the test, each area saw a marked improvement in player sentiment compared to a test conducted in June. *ARC Raiders* is on track for a release in 2025.

Mabinogi Franchise

Our franchise expansion strategy includes an update on another popular Nexon IP, ***Mabinogi***. The team is currently working to expand creative possibilities by moving the game onto Unreal Engine 5 to provide greater scale and freedom for players. Investments in new content for the PC version and new experiences like *MABINOGLI MOBILE* and *Vindictus: Defying Fate*, a sequel to the original *Vindictus*, are expected to reach new players and retain large numbers of existing players. An alpha test is scheduled for *Vindictus: Defying Fate* in the summer of 2025.

The Kingdom of the Winds Franchise

In October, we announced ***The Kingdom of the Winds 2***, a sequel to the world's longest-running graphic MMORPG, in development for PC and mobile devices. By evolving the game's unique pixel art to 2.5-dimensional graphics, the sequel offers both nostalgia and fresh game experiences for the core and new players.

Summary

Nexon's IP Growth Initiative has sparked new energy and enthusiasm across our company. We are listening closely to player feedback and snowballing growth in our existing franchises, while developing a new pillar in our portfolio of global blockbuster franchises.

In 2024, Nexon is delivering solid progress on our IP Growth Initiative with the launch of *Dungeon&Fighter Mobile* in China, hyperlocalization, and an all-new IP, *The First Descendant*. We

are now exiting the year with a clear vision and targets for industry-leading revenue and profitability growth in the next three years.

SHAREHOLDER RETURN UPDATE

Nexon has generated operating cash flows of over ¥100 billion for the past six consecutive years and increased our cash balance¹ to approximately ¥600 billion in 2023. This large and stable cash flow contributes to a powerful balance sheet which gives us flexibility to make growth investments and substantially improve shareholder returns. With this in mind, we announced the following new shareholder return policy at our Capital Markets Briefing.

- As a reflection of Nexon's capital efficiency, we set a minimum ROE target of 10% with the potential to grow as high as 15%.
- We plan to return over 33% of annual operating income from the prior year, excluding one-off expenses such as an impairment loss, to be deployed between dividends and share buybacks.

As a part of this new shareholder return policy, we have doubled the year-end dividend forecast from ¥7.5 per share to ¥15, representing a per-share dividend forecast of ¥22.5 annually in 2024.

In addition, our Board of Directors authorized an execution of a ¥20 billion share repurchase in the market during the period of November 13, 2024 to January 31, 2025, under the three-year ¥100 billion share repurchase policy that we announced this February. We are optimistic about our growth strategy which commits investments in the short term to yield strong growth in revenue and operating income over the mid-to-long term. Today's share repurchase announcement highlights the attractive value that we see in Nexon today as we focus on achieving our 2027 targets by delivering great experience for our players and generating strong returns for our shareholders. We plan to complete the repurchase of the remaining ¥50 billion balance by February 2027, with the consideration of factors including investment opportunities, financial conditions, and the market environment.

¹ Aggregation of "Cash and cash equivalents" and "Other deposits"