

**NEXON Co., Ltd.**

**Q3 2024 Earnings Prepared Remarks**

**Nov 12th, 2024**

**Junghun Lee, *Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***

Thank you, Kawai-san, and good afternoon everyone. Earlier today, Nexon posted a quarterly investor letter with details on our recent performance and outlook.

Before taking your questions today, I would like to offer some context on how these results align with the mid-term growth plan which was presented at Nexon's Capital Markets Briefing in September.

Q3 reinforced our confidence in Nexon's growth strategy for building on the success of proven franchises and adding to our portfolio of blockbuster franchises. These investments, including the ongoing content updates and service improvements provided by our Live Operations teams, are much more than simple "patches" or short-term improvements to our performance. Each is designed to extend the fun for players while improving revenue and profitability over long periods of time.

The incremental progress is evident in our Q3 results. While our topline 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.

We delivered solid progress on our IP Growth Strategy, including 15% aggregate year-over-year vertical growth in three major franchises plus horizontal growth from a new IP, The First Descendant.

The Dungeon&Fighter franchise delivered 142% growth year over year, due primarily to the launch of Dungeon&Fighter Mobile in China on May 21. The mobile development team is introducing multiple updates for Q4 as well as the New Year update scheduled for Q1 2025. We are managing the game with the belief that it can become a sustained contributor to the Dungeon&Fighter franchise.

And we are deeply 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 an improved progression system.

Establishing the next growth cycle begins with listening carefully to players and providing a series of updates that will generate sustained growth over a long period of time. It's a strategy that requires experience, innovation....and patience. But our two decades of experience with this franchise give us a long view on revitalizing growth in this game.

Beyond updates to the existing games, our strategy for growing Dungeon&Fighter franchise includes all-new experiences designed to extend the franchise onto new platforms and into new markets: The First Berserker: Khazan .... Dungeon&Fighter: Arad .... and Project OVERKILL.

Refreshing existing titles and launching all-new experiences to grow the enormous fanbase of Dungeon&Fighter is ambitious. But delivering these updates and new games gives us confidence in hitting our goal of yielding Dungeon&Fighter franchise revenue CAGR of 25% from 2023 to 2027.

Today's report includes an update on PC MapleStory which notes that revenue from outside of the primary market in Korea has improved by 23% year over year, led by Japan, North America and Europe, as well as Rest of World, with each delivering record-setting Q3 sales.

This is a testament to Nexon's hyperlocalization strategy, which adapts content and promotions to match the tastes and preferences of players in diverse markets around the world. Hyperlocalization is a Nexon initiative with enormous potential for driving growth in established franchises by adapting the experience for local audiences.

Like Dungeon&Fighter, the MapleStory team is working on new experiences to extend the franchise. In October, we executed a soft launch of MapleStory Worlds in North and South America. And we're preparing a large-scale Q4 test for MapleStory N, a new PC-based MMORPG in the MapleStory Universe.

Hyperlocalization, new experiences, and franchise extensions are the keys to the MapleStory franchise hitting its target of 14% revenue CAGR from 2023 to 2027.

And finally, the FC franchise is delivering a solid contribution. Despite last year's high hurdle, we expect to finish the year with franchise full-year revenue reaching close to 2023 level.

In Q3, the launch of The First Descendant established meaningful progress on our horizontal growth initiative – a strategy for creating all-new games that can grow to become consistent contributors to our business.

We are particularly pleased to see that approximately 75% of the global revenue for The First Descendant came from Western markets. Looking ahead, we will continue to respond to player input and provide high-quality updates to sustain the success of this game.

Our Stockholm-based Embark Studios is making steady progress in improving Nexon's profile in global markets. Following the launch of Season 4 in September, THE FINALS, showed a big improvement in player engagement. And ARC Raiders – a second game from Embark – completed a large public test in October designed to refine core areas of the game which saw a marked improvement in player sentiment compared to a test conducted in June. ARC Raiders is tracking to a release date in 2025.

Also 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. The sequel offers both nostalgia and fresh experience designed to expand The Kingdom of the Winds player base.

Our horizontal growth strategy – which includes new games, new markets and platforms – aims to generate approximately ¥100 billion in additional revenue between 2023 and 2027.

Before I turn the call over to Uemura-san, I want to make an important point about our long-term approach which connects to 2027 targets.

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 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 with enhanced experiences for players and lasting value creation for shareholders.

We are confident that these steps will keep us on a path toward our 2027 financial targets: 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.

These are auspicious goals. But far from being intimidated, we have a growing confidence that we have the right leadership and strategy for achieving them.

With this in mind, Nexon's board of directors has authorized the execution of a ¥20 billion share repurchase in the market to be initiated tomorrow.

We hope that our investors recognize our experience, our long-term vision, and confidence in creating another wave of dynamic growth.

With that, I'll turn the call over to Uemura-san.

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

Thank you, Junghun.

In Q3, we worked on both our vertical and horizontal IP growth initiatives. Our vertical growth was primarily driven by bringing our key IP, Dungeon&Fighter to mobile platforms in China. Our horizontal growth was principally from our new IP, The First Descendant - which had great success in Western Markets. As a result of this strategy, we marked record-breaking quarterly revenue at ¥135.6 Bn, growing 13% year over year on as-reported basis and 12% on a constant-currency basis.

While our topline performance was slightly below the outlook due to negative impacts from FX, it was within the expected range based on the FX assumptions in our guidance.

Dungeon&Fighter's franchise revenue grew 142% year over year, driven by the contribution from Dungeon&Fighter Mobile, which launched in China during Q2.

For the PC version in China, the in-game economy imbalance has been gradually improving. However, the game fell short of our outlook as the National Day update did not resonate well with players as we had expected.

MapleStory franchise revenues decreased year over year due to a tough comparison with Q3 2023 when the franchise achieved record-breaking quarterly revenue driven by the transformational update of the PC version in Korea and the launch of the mobile version in China.

In Korea, MapleStory's Q3 revenue was below our forecast, however the game's Net Promoter Scores have improved by 19 points between January and September, reflecting our long-term approach to improving the player experience and satisfaction.

MapleStory's revenue outside of Korea exceeded expectations and increased by 23% year over year, driven by our hyperlocalization strategy, which adapts content and holds local events and promotions to match the specific tastes of players in diverse markets. MapleStory in Japan, North America and Europe, and the Rest of World all achieved record-breaking Q3 revenue.

FC franchise revenues decreased year over year as anticipated, due to a challenging comparison with Q3 2023 when the franchise achieved record-breaking Q3 revenues.

As for other key titles, The First Descendant, which launched on July 2, resonated well with western players and - despite missing our expectations - made a significant contribution to Q3 revenue.

Operating income was up 11% year over year at ¥51.5Bn and was within the range of our expectations as revenue difference was offset by lower-than-expected platform fees, HR costs and marketing expenses.

Net income was below our outlook at ¥ 27.0Bn, down 23% year over year, principally due to an FX loss of ¥19.6 billion primarily on cash deposits.

Moving on to our fourth quarter outlook.

We expect our Q4 group revenues to be in the range of ¥83.8 billion to ¥94.7 billion, representing a 1% decrease to 12% increase on an as-reported basis or flat to 12% increase on a constant-currency basis year over year.

We expect the combined revenues of our three biggest franchises to increase by 14% to 28% year over year.

We expect Dungeon&Fighter franchise revenues to grow double digit year over year.

Dungeon&Fighter Mobile settled into an expected pattern in Q3 after an explosive launch in May. We expect a sequential revenue decline in Q4 in part due to the weak seasonality. There will be multiple updates during the rest of Q4 as well as the important New Year update scheduled for Q1 2025.

We are focused on making this game a sustained contributor in Dungeon&Fighter franchise over the long term.

As for PC Dungeon&Fighter, we expect the revenue to decrease year over year again in Q4. We are releasing new content in Q4 and preparing a large New Year update which aims to deliver a better player experience to revitalize growth and profitability over the long term.

We expect MapleStory franchise revenues to decrease year over year.

We expect PC MapleStory revenues from Korea to decrease year over year, however, the Winter update scheduled for release in December is expected to drive the revenue to increase sequentially despite the weak seasonality.

Outside of Korea, that is China, Japan, North America and Europe, and Rest of World, we expect PC MapleStory revenues to grow double digit year over year driven by the hyperlocalization strategy.

FC franchise revenues are expected to grow by double digits year over year. As a result, we expect to finish the year with franchise full-year revenue reaching close to the record-high of 2023.

Also, we expect a contribution from a new PC Multiplayer Online Battle Arena, SUPERVIVE, which we will launch in Korea later this year.

Looking at operating income, in Q4 we will incur a prepaid royalty impairment loss of ¥6.5 billion related to the termination of one of our publishing projects. Accordingly, we expect Q4 operating income to range from a loss of ¥1.3 billion to a profit of ¥7.2 billion. Q4 operating income excluding the impairment loss is expected to be in the range of ¥5.2 billion to ¥13.7 billion.

On the cost side, we anticipate increased HR costs due to the performance-based bonuses and higher headcount. Also, we expect increased royalty costs due to the growth of FC franchise revenue. On the other hand, we expect lower PG fees due to a decrease in mobile revenues excluding Dungeon&Fighter Mobile in China, which is a royalty business.

We expect net income to be in the range of ¥0.5 billion to ¥6.1 billion.

Finally, I'd like to provide an update on our shareholder return.

We announced a new shareholder return policy at our Capital Markets Briefing held in September. 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 also 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 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 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.

I'll now turn the call over to Junghun.

**Junghun Lee, *Representative Director, President and Chief Executive Officer, NEXON Co., Ltd.***

Thank you Uemura-san.

To summarize, Nexon is making measurable progress on our IP Growth Initiative. We are executing on generating vertical growth from our existing franchises with investment in our Live Services and all new experiences. And progress on our horizontal growth strategy is reflected by the successful launch of The First Descendant this year and our promising pipeline of new games in development.

Looking ahead, we are focused on making investments intended to deliver long-term improvements in revenue and operating income.

We hope that investors recognize Nexon's new shareholder return policy and share repurchase announcement as a reflection of the strong confidence we have in our mid-term growth strategy.

Operator, we are ready to take questions.