

NEXON Co., Ltd.

Q3 2023 Earnings Prepared Remarks

November 9th, 2023

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

Thank you Kawai-san and good afternoon everyone.

Uemura-san and I are very excited to tell you about our Q3 results. It was another great quarter for Nexon, our sixth consecutive quarter of double-digit, year-over-year revenue growth, and our Q4 guidance calls for a seventh such quarter of double-digit year-over-year growth. Uemura-san will provide the details for you. We'll also provide an update on our pipeline, which is proving to be not just the most exciting in our company's history, but also one of the most exciting in the entire global games industry.

Our other major announcement today is that after an enormously enjoyable decade leading Nexon, I will be stepping down as CEO after the Annual General Shareholders meeting this coming March.

While this move may come as a surprise, it has been in the works for some time. It all starts with assembling a deep bench of highly capable executives who can lead the next generation of the company. Nexon has one of the best collections of proven and effective leaders in the global games industry, exemplified by Junghun Lee, who in March will take my position as global CEO.

Over the years, Junghun and I have worked extremely closely together, and he was the key leader of so many of Nexon's successes in recent years. His operational capabilities are unparalleled in the games industry, and he also has deep experience in game development on both PC and mobile. Under Junghun's leadership, Nexon Korea has experienced a string of successes and an unprecedented renaissance of growth that is the envy of the industry. And he's built a highly capable team of the industry's best Virtual Worlds creators and operators.

As you have heard us say many times in the past, we are highly dedicated to consistent and robust growth over the long term, and to strong corporate governance. Succession planning is a core part of that commitment, and doesn't happen without proactively ensuring strong generational change. After ten amazing years leading Nexon, and with the company having the strongest tailwinds in its history, it's the perfect time to pass the torch to that next generation of leadership.

Junghun and I, along with others on the executive team are already hard at work to ensure a smooth transition to his role of CEO in March. After the shareholder meeting, I expect to remain as a board member and advisor to the company.

With that, I'll now move on to our Third Quarter results.

Nexon enjoyed yet another outstanding quarter, with a 23% increase in revenue and a 47% increase in operating profit year over year. We had strong year-over-year revenue growth from *MapleStory*, *FC MOBILE* and *Blue Archive*, as well as meaningful contributions from several new games.

As we've said many times in the past, Nexon's growth strategy is uniquely effective in the games industry. The first pillar of that two-part growth formula is about sustained and stable growth of our existing massive Virtual World franchises. We call these Forever Franchises, and for good reason. They grow for years or decades.

MapleStory demonstrated once again Nexon's unprecedented ability to deliver consistent and robust growth from its massive Virtual Worlds. Now in its 20th year, *MapleStory* grew an incredible 46% year-over-year in Q3. With our Q4 guidance, *MapleStory's* annual revenue is now 3 times bigger than it was only 5 years ago.

And we think the future of *MapleStory Mobile* is also bright. During the quarter we launched *MapleStory M* in China, and it has been performing better than our internal expectations.

Also in China, *Dungeon&Fighter* performed within our expected range, with solid year-over-year increase in MAUs and paying users. In Q4, we are prioritizing player engagement over monetization, and plan to introduce additional updates and events ahead of the Lunar New Year update in Q1 of 2024.

EA SPORTS FC ONLINE continued its strong momentum with little to no negative impact from a rebranding from FIFA to FC that concluded in September. Both MAUs and paying users were up year over year. And despite the extremely high-hurdle set in the 2022 World Cup year, we expect the game to complete FY23 with double-digit year-over-year revenue growth.

You've heard us say this many times: Nexon's world-class live operations and careful management of our massive live Virtual World franchises create a highly robust and consistent base of stable growth for our shareholders. This is the first pillar of our two-part approach to growth.

The second pillar of our two-part growth strategy is to develop a way to bring highly-differentiated new franchises to the market that will stack on top of our massive live Virtual Worlds. Developing highly-valuable new content is traditionally a major challenge for the games industry, but we are demonstrating an approach that works, and we are currently readying the most robust and exciting pipeline of new titles in our three-decade history. And that pipeline is getting accolades from customers.

I'll start with an update on our beta of *The First Descendant*, a new title from our Korea studios which is getting a lot of buzz with players globally. The game is a third-person, four-player cooperative, RPG

shooter for PC, PS, and Xbox. We just completed our first Open Beta, and player feedback was very positive. The game climbed to the top 8 on the most played games on the Steam charts, and retention rates solidly exceeded our targets. And interest level was high around the world – interestingly more than 60% was from the western regions like US and Europe; most of the rest was from various regions around Asia. Anticipating the potential for a large global user base, our development team is focused on creating a large volume of additional content that will follow the game's release in 2024.

Next, we are just weeks away from the commercial launch of *THE FINALS*. This is the first title from our Embark Studios in Stockholm, Sweden, and the first in a series of games aimed directly at expanding Nexon's global footprint in Europe and North America.

THE FINALS aims to redefine the category of online First Person Shooters, by innovating on several interlocking vectors: gameplay innovation, enabled by proprietary technology innovation, wrapped in a whole new setting and gameplay modes the industry has not seen before. As gamers ourselves, we believe that the industry as a whole and the FPS genre in particular has been starved of innovation over the last several years, and gamers around the world would welcome a well-crafted AAA experience with a fresh approach.

The open-beta test, which concluded this week, ran simultaneously on three platforms – PlayStation, Xbox Series X|S and PC. In addition to adding console, the Beta featured a new map, and mode plus a lot of new content. Our primary objectives for the beta were to get gameplay feedback, and to stress test the server performance at scale, frame rates and movement with large groups given the advanced destruction physics, and our team's ability to provide rapid updates across all platforms.

And the feedback from users has been extraordinary. Despite doing almost no marketing for the playtest, over 7.5 million people downloaded the game worldwide, widely distributed across North America, Europe, and Asia. On PC alone, we were ranked in the top 4 to 5 in usage on Steam for most of the test. Retention rates exceeded our goals by a wide margin. And perhaps most gratifying, players told us the game is highly unique, highly polished and stands way out above a field of other AAA games. This was exactly our goal.

More than just testing the game, we are testing a whole new way of making games. Leveraging targeted technology investments in proprietary game development tools such as advanced server-side destruction, the objective has been to deliver a blockbuster game with a much smaller, much more nimble development team. *THE FINALS* team was less than 100 people at peak. This approach represents a revolution in our industry, in which game development teams for a AAA game routinely run over 500, and sometimes well over 1,000.

While we haven't announced a commercial launch date, we plan to launch the game before the end of the year.

And there is a great deal more in the pipeline. While much investor attention has understandably been on *THE FINALS*, the team from Embark is making rapid progress on their next game, called *ARC Raiders*, a PvPvE extraction shooter, set in a beautiful but extremely hostile world. Like *THE FINALS*, *ARC Raiders* is designed to redefine its genre, in both highly original gameplay and in original technology that enables that gameplay. Again, our objective is to have a much smaller and more creative team deliver a much bigger and more innovative game. We plan to share a lot more about *ARC Raiders* in the next few months as we ready the first external beta test in preparation for a commercial launch in 2024. Based on our internal playtests and the alpha test in June, we are every bit as excited about *ARC Raiders* as we are about *THE FINALS*.

And finally, I'd like to talk about the third product Embark, what they are currently calling their Creative Playground. We have not spoken much about this in the past but are now ready to share more about the significant progress the team has been making.

For background, we have long felt that game development is entirely too difficult, relegated to a small professional class of highly-trained craftspeople who spend years learning complex tools and esoteric coding techniques. Part of the complexity is that unlike in linear media, videogames are at their core a set of if-then rules, that must be hand-coded into thousands of lines of precise instructions to make even the simplest games. The inherent complexity of the process leaves little room for creative experimentation, and filters out all but the most determined creators. Embark's Creative Playground turns this on its head completely; by enabling players to create their own experiences together, in real-time.

One simple example of the tool set in the Creative Playground is to use AI to power behavior of creatures – what the industry calls NPCs. Simulated physics and AI can enable an in-game creature to walk in physically realistic ways, without ever using the costly industry-standard pre-rendering or motion-capture technology. Our vision is for any user to design any sort of creature they can imagine – a dog, an alien eyeball with one leg, a 3-headed centipede – and it will learn to walk by itself, using machine learning.

And then, the creatures can be given personality traits. A user could make a world populated by angry crocodiles who are always hungry for the next meal. And they can then add AI-powered hamburger creatures who don't want to get eaten. Each AI-powered creature can observe and comment on their environment, talk to the user, and act according to their assigned personalities. By playing with these accessible tools in a fun and social sandbox, anyone can create experiences, and share them directly with their friends.

What I've just described is a small sliver of what the team has been developing. Our early community has made some incredible new worlds, and they've told us the Creative Playground is not just powerful, it is a fun creative place to hang out with your friends in - and together play, create, and mess around. And what is fun to use is what tends to get adopted by a mass audience. Like social media focused around making entertaining linear videos, game-making can and should be a form of self-expression for a mass audience, and that makes it a great business opportunity.

After a long gestation period to develop the core concepts and technologies, the development team plans to open the platform to external audience for testing in first half 2024.

For some early sneak peek videos of both *ARC Raiders* and Embark's Creative Playground, please go to our investor relations web site and click on the media page. We will be talking much more about these products in 2024.

So as we prepare to bring *THE FINALS* to commercial launch, we are demonstrating not just a new game but a radical new approach to bringing highly differentiated AAA games to market for a fraction of the time and cost of traditional development. This isn't just a story of one or two titles. This is a foundational change in the management and economics of game development.

And to reiterate, these new titles layer on top of a layer of existing franchises that have, year after year, shown robust and consistent growth. We are not replacing old revenue from declining titles; we are adding new revenue on top of already-growing existing revenue. This business model is a revolution in the games industry.

To summarize, there are four key themes for Nexon this quarter:

- First, we had an outstanding Q3 and once again showed the anti-fragile nature of our business model and capability of our operations teams. And our guidance calls for a 7th consecutive quarter of double-digit year-over-year growth. The consistent growth of our massive Virtual World franchises is nearly unheard-of in the global videogames industry.
- Second, we had an outstanding Open Beta for *THE FINALS*, with much higher-than-anticipated demand and very strong retention, placing the game among the ranks of top blockbusters in the global games industry. We plan to start commercial launch by end of the year.
- Third, we are making rapid progress on several other major new products that are at least as exciting creatively and commercially as *THE FINALS*.
- And fourth, we think our approach to game development and operations – technology empowering smaller but more effective game teams to bring unique AAA experiences to market – is proving to be a highly powerful investment strategy that separates Nexon from the rest of the games industry.

For investors, our approach translates to asymmetric upside opportunity – that is, minimal downside thanks to the consistency of our existing Virtual Worlds, and the potential for step-function growth upside in both revenue and earnings.

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

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

Thank you, Owen. Next, I'll review our Q3 results.

For additional details, please see the Q3 2023 Investor Presentation available on our IR website.

In Q3, we achieved record-breaking third quarter revenues. Group revenues were 120.3 Bn yen, up 23% year-over-year on an as-reported basis, and up 17% year-over-year on a constant currency basis. Our performance was driven by the growth of *MapleStory* and *FC MOBILE* in Korea, and *Blue Archive*, as well as good contributions from new titles such as *Wars of Prasia*, *DAVE THE DIVER*, and *MapleStory M* in China.

Overall, our topline performance exceeded our outlook. *MapleStory* in Korea, *FC ONLINE*, and *MapleStory M* in China exceeded our expectations.

By region, revenues from China were within the range of our outlook. While revenues from Korea, Japan, North America and Europe exceeded our expectations, revenues from the Rest of World came in lower than expected.

Looking at the total company performance by platforms, PC revenues were within the range of our outlook while mobile revenues exceeded our outlook.

Operating income was up 47% year-over-year and exceeded our outlook at 46.3 Bn yen, driven by a revenue outperformance. This marked record-breaking third quarter operating income.

Net income was 35.2 Bn yen, exceeding our outlook, primarily driven by an operating income outperformance and FX gain of 6.0 Bn yen.

Year over year, it was down 15% due to a 26.4Bn yen FX gain that we recorded a year ago.

Let's move on to results by region.

Revenues from our Korea business were 75.9 Bn yen, representing record-breaking quarterly revenues in Korea. This performance exceeded our outlook primarily driven by the better-than-expected performances of *MapleStory* and *FC ONLINE*.

On a year-over-year basis, revenues increased by 21% on an as-reported basis and by 13% on a constant currency basis.

For *MapleStory*, MAUs, paying users, and ARPPU all increased year-over-year driven by the successful major update in July. With this strong momentum, the event held in September was well-received by

users. As a result, its revenue exceeded our expectations and achieved record-breaking quarterly revenue.

The PC and mobile combined revenues of *FC ONLINE*, newly rebranded in September, exceeded our outlook, as it maintained its strength from last year.

MAUs and paying users both increased year over year.

All in all, PC revenues in Korea increased by 40% year-over-year driven by the growth of *MapleStory* and a contribution from *Wars of Prasia*.

As for the mobile business, *FC MOBILE* also maintained its strong momentum following the World Cup period. Its revenue grew year-over-year and marked record-breaking quarterly revenue.

Blue Archive and *MapleStory M* also grew year over year.

On a year-over-year basis, mobile revenues in Korea decreased by 13% as growth of these titles and a contribution from *Wars of Prasia* were more than offset by revenue decreases in *Dungeon&Fighter Mobile* and *HIT2*.

On a quarter-over-quarter basis, mobile revenues slightly decreased due to a decrease in *Wars of Prasia's* revenue.

Revenues from our China business were within the range of our outlook at 24.0 Bn yen. *MapleStory M* exceeded our expectations, while *Blue Archive* was below our expectations.

On a year-over-year basis, revenues increased by 22% on an as-reported basis and by 20% on a constant currency basis primarily driven by contributions from new titles including *MapleStory M* and *Blue Archive*.

For *Dungeon&Fighter*, revenue was within the range of our outlook and slightly decreased year-over-year.

Both the Summer update in July and the National Day update in September were well-received by players. While packaged item sales increased year-over-year, individual item sales decreased as we distributed many attractive rewards at an event held to maintain a high level of users.

As a result of this event, MAUs and paying users increased while ARPPU decreased year over year.

On a quarter-over-quarter basis, ARPPU was flat, despite the seasonality because of the event. MAUs and paying users decreased due to a tough comparison with the previous quarter which was boosted by

the Anniversary update.

MapleStory M, which launched on August 17th, exceeded our expectations as it successfully acquired a large fanbase driven by the strength of the *MapleStory* IP.

For *Blue Archive*, which launched on August 3rd, revenue was below our outlook. While the number of players was in line with our expectations, item sales were lower than expected.

Revenues from Japan increased by 12% year-over-year driven by the significant growth of *Blue Archive*.

Revenues from North America and Europe increased by 78% year-over-year driven by growth of *MapleStory* and multiple mobile games, as well as a contribution from *DAVE THE DIVER*.

Revenues from the Rest of World increased by 17% year-over-year driven by the significant growth of *Blue Archive* and contributions from *HIT2* and *DAVE THE DIVER*. This was partially offset by revenue decreases in *MapleStory* and older mobile titles.

Moving on to our FY2023 fourth quarter outlook.

In Q4, we expect growth from *MapleStory*, as well as contributions from *Wars of Prasia*, *MapleStory M* in China, and *THE FINALS*, which is scheduled to launch in the fourth quarter.

As a result, we expect Q4 revenues in the range of 87.9 to 96.2 Bn yen, representing a 8% to 19% increase year-over-year on an as-reported basis and a 2% to 12% increase year-over-year on a constant currency basis. The high-end of revenues represents our seventh consecutive quarter of double-digit year-over-year revenue growth.

We expect our Q4 operating income to be in the range of 11.4 to 17.8 Bn yen, representing a 4% to 62% increase year-over-year on an as-reported basis and a 2% decrease to 53% increase year-over-year on a constant currency basis. I'll discuss the details on this shortly.

We expect net income to be in the range of 8.9 to 13.9 Bn yen.

In Korea, we expect growth from *MapleStory* as well as a contribution from *Wars of Prasia* while expecting year-over-year decreases from *HIT2* and *Dungeon&Fighter Mobile*, both of which launched in 2022.

As a result, we expect revenues in Korea to be in the range of 55.1 to 58.9 Bn yen, representing a 8% to 16% increase year-over-year on an as-reported basis and a 2% to 9% increase year-over-year on a constant

currency basis.

We expect *MapleStory* to grow significantly year-over-year as it maintains its strong momentum from this Q3 when it achieved record-breaking quarterly revenue.

We anticipate a decrease in combined PC and mobile revenues from *FC ONLINE* due to the tough comparison with an exceptionally strong performance in Q4 2022 driven by the World Cup.

We expect a year-over-year increase in Korea PC revenues as we anticipate growth from *MapleStory* and a contribution from *Wars of Prasia*, partially offset by a decrease from *FC ONLINE*

Regarding the mobile business, we expect Q4 revenues to be decreased year-over-year.

We expect year-over-year growth in *FC MOBILE* and a contribution from *Wars of Prasia*. We expect these to be more than offset by year-over-year revenue decreases in *HIT2* and *Dungeon&Fighter Mobile*, which launched in 2022

Turning to China, while we expect a contribution from *MapleStory M*, we anticipate a year-over-year revenue decrease from *Dungeon&Fighter*, which delivered a strong performance in Q4 2022.

Accordingly, we expect revenues from our China business to be in the range of 16.4 to 18.6 Bn yen, representing a 7% decrease to 5% increase year-over-year on an as-reported basis and a 11% decrease to flat year-over-year on a constant currency basis.

For *Dungeon&Fighter*, we are introducing various updates and events designed to enhance user engagement ahead of the Lunar New Year update set for Q1 2024.

In October, paying users increased while active users decreased slightly and ARPPU decreased year-over-year.

Given it is a challenging comparison with Q4 2022 when revenues significantly grew year-over-year and we will focus on enhancing user engagement over monetization, we expect its revenue to decrease year-over-year.

MapleStory M, which launched in Q3, is expected to maintain its strong momentum and contribute to Q4.

In Japan, we expect revenues in the range of 2.5 to 3.0 Bn yen, representing a 9% decrease to 6% increase year-over-year on an as-reported basis and a 12% decrease to 2% increase year-over-year on a constant

currency basis. We anticipate growth in *MapleStory*, as well as contributions from *DAVE THE DIVER*, which launched on Switch on October 26, and *Dynasty Warriors M*, which is scheduled to launch in Q4, to be offset by decreases from terminated mobile titles.

In North America and Europe, we expect revenues to be in the range of 8.3 to 9.4 Bn yen, representing a 81% to 106% increase year-over-year on an as-reported basis and a 72% to 95% increase year-over-year on a constant currency basis driven by the growth in *MapleStory M* and other mobile titles, as well as a contribution from *THE FINALS*, which is scheduled to launch in Q4.

We expect revenues in the Rest of World in the range of 5.5 to 6.2 Bn yen, representing a 8% to 22% increase year-over-year on an as-reported basis and a 2% to 15% increase year-over-year on a constant currency basis. While we anticipate contributions from *HIT2*, which launched in Q2, as well as *THE FINALS* and *Dynasty Warriors M*, both of which are scheduled to launch in Q4, we expect these to be partially offset by revenue decreases in *MapleStory* and older mobile titles.

In Q4 2023, we expect operating income to be in the range of 11.4 to 17.8 Bn yen, representing a 4% to 62% increase year-over-year on an as-reported basis and a 2% decrease to 53% increase year-over-year on a constant currency basis.

An increase in Q4 revenue is expected, which will contribute to an improvement in year-over-year operating income.

Some of this is expected to be offset by increased costs related to business growth.

First, we expect increased HR costs related to additional headcount for the development and operation of our major Virtual Worlds.

Second, we expect higher marketing expenses for new titles such as *THE FINALS* and for *MapleStory*, as it sustains its positive momentum.

While we expect increases in costs, operating income is expected to grow year-over-year as we anticipate our business to grow in good shape and our group revenues to increase. Also, we expect our operating income margin to increase year over year.

By adding our Q4 outlook onto Q3 accumulated results, our operating income margin in FY2023 is expected to improve by 5 percentage points from 29% last year to 34% this year.

Overall, Nexon has been building a business model in which we can grow stably by launching new Virtual

Worlds onto a solid foundation of existing franchises.

In Q3, we focused on stable operation and grew revenues from the portfolio of our three major franchises. Especially, *MapleStory* maintained its strong momentum following the large update in July and achieved record-breaking quarterly revenue. Driven by the stable growth of our existing portfolio and contributions from new games such as *Wars of Prasia*, *DAVE THE DIVER*, and *MapleStory M* in China, group revenues and operating income grew double-digit year-over-year.

In Q4, we expect continued growth of our existing portfolio through stable operations. In addition, we expect high-end of our revenues and operating income to continue to grow double-digit year-over-year driven by contributions from new games such as *THE FINALS*, the first game from Embark Studios.

Last, I would like to provide an update on the shareholder return.

Given our strong financial condition and business performance as well as the current market environment, we have been aggressively purchasing our shares. To date, we have completed 70 Bn yen of our 100 Bn yen share repurchase policy that we announced on August 9, 2022. As for the remaining 30 Bn yen worth of shares, today our Board of Directors has authorized the purchase of those shares in the market during the period from tomorrow, November 10, to February 16, 2024. When this final tranche is done, we will have completed the 100 Bn yen share repurchase policy in 1.5 years, faster than the updated plan of 2 years, which we authorized a one-year acceleration in the last quarter.

We will continue to be committed to considering shareholders' return proactively.

This concludes my comments.

Back to you Owen.

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

Thanks Uemura-san,

Before we go to your questions, I'd like to reiterate a key point about Nexon's place in the global games industry.

We often talk to investors, customers, and employees and we commonly hear the same themes from all quarters: Very few major new game franchises are being introduced. With the rise of development costs, it is too risky to innovative. When something innovative does come out it usually fails. There are too many sequels, too little innovation, and too few creative surprises. And the response of many companies has been to do massive acquisitions and massive layoffs.

We believe there is a better way, and have spent the last several years re-writing the template.

- Game customers don't want to be fed the same old thing. They have many good sources of entertainment competing for their time. They became gamers because they love the art form.
- Game developers don't want to manage thousands of people or make the same game every year. They chose to work in the games industry they want to make great art for a mass audience.
- Investors who fund the games industry don't want a hits-driven business with highly-risky \$100-200 mil bets. They want to minimize risks while having a chance for maximum upside. They're not unreasonable, they are putting their capital and careers on the line and want that money to be used wisely.

Typically, these constituents goals are treated as zero-sum game, as a tug-of-war. Our approach is to solve each constituent's problem at the same time, and is based on two innovations:

-Innovation #1 is our business model, of launching highly unique AAA games that stack on top of a base of massive and consistently growing live Virtual Worlds. The games industry is largely built on a legacy of replacing old lost revenue with new revenue. Nexon has the unusual luxury of stacking new revenue on top of existing revenue. That approach leads to consistent growth over time, and significant asymmetric upside opportunity for investors.

-Innovation #2 is our technology stack to build and operate more innovative games at much lower cost. The traditional industry approach has evolved little in the last 20 years – namely, to hire hundreds or thousands of people to build or operate an online game. Nexon's approach is to build software tools that accelerate and scale every developer and operator by a factor of 10 or more. That means our teams can spend more time building interesting new games and less time managing massive teams.

Both of these pillars represent a revolution for the games industry. Together, they enable us to get out of

the cycle of endlessly-increasing development budgets and minimal innovation. It means developers can be creative again, iterating on fresh game ideas rather than being HR specialists, managing thousands of people. In short, our approach allows us to step out of the red ocean of the legacy industry and into large new blue oceans.

The entire Nexon management team have spent years architecting this strategy. Our results this quarter indicate more than ever it is working. As we transition over the coming 5 months to Junghun's leadership, we're focused on not just continuity, but on accelerating our strategy. All of this adds up to significant investment tailwinds for the company.

We'd now be happy to take your questions.