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Earnings Letter: Q1 2024

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BUSINESS UPDATE

Q1 HIGHLIGHTS

Our first quarter was defined by our work on improving performance of key titles against challenges identified since Q4. Our strategy of delivering more content updates at a faster pace and offering a new business model is showing early progress.

Nexon delivered stronger-than-expected revenues, operating income and net income in Q1. Our performance was driven by strong performances in *EA SPORTS FC™ ONLINE* (“*FC ONLINE*”) and *EA SPORTS FC™ MOBILE* (“*FC MOBILE*”) as well as *Blue Archive* – solid results which were partially offset primarily by lower-than-expected performance of *THE FINALS*.

Q1 revenue was ¥108.4 billion, down 13% (down 19% on a constant-currency basis) year over year due primarily to tough comparisons with strong 2023 performances achieved by *Dungeon&Fighter* and *FC ONLINE*.

Operating income was ¥29.1 billion, down 48% (down 51% on a constant-currency basis) year over year due to lower consumer spending, rising costs, and an anticipated one-time loss. Nonetheless, operating income came in above our expectations due to revenue outperformance combined with careful management of HR and marketing costs, as well as lower-than-expected cloud service costs.

Net income was ¥35.9 billion, down 32% (down 36% on a constant-currency basis) year over year primarily due to a decrease in operating income. Nonetheless, results exceeded our outlook, primarily due to better-than-expected operating income and an FX gain of ¥10.7 billion primarily on U.S. dollar-denominated cash deposits.

(Unit: ¥ millions, except per share data)	Q1 2023	Q1 2024 Outlook		Q1 2024	YoY %
Revenues	¥124,087	¥97,122 ~	¥107,112	¥108,418	(13%)
PC	93,070	71,956 ~	79,146	79,297	(15%)
Mobile	31,017	25,166 ~	27,966	29,121	(6%)
Operating income	56,275	15,158 ~	23,360	29,146	(48%)
Net income	52,791	16,354 ~	22,919	35,918	(32%)
Earnings per share	61.63	19.47 ~	27.29	42.77	
Exchange rates					
100 KRW/JPY	10.41	11.06	11.06	11.19	7%
CNY/JPY	19.34	20.49	20.49	20.79	7%
USD/JPY	132.34	147.06	147.06	148.61	12%

KEY TITLE PERFORMANCES

A top priority in Q1 was the recovery of *Dungeon&Fighter* in China and *MapleStory* in Korea from challenges identified since late Q4 2023, however we saw a short-term negative impact on revenue in Q1 as expected.

- ***Dungeon&Fighter* in China:** Game revenue was at the high end of our outlook. Following an imbalance in the in-game economy which arose late in December, we have been sharply focused on improving the game's economy, with recognition that it will take time to completely restore the balance and recover both revenue momentum and the numbers of active players.
- ***MapleStory* in Korea:** Q1 revenue fell slightly below our forecast, however our strategy of throttling monetization in favor of improving player engagement had a positive impact. *MapleStory's* Net Promoter Score, an indicator of player satisfaction, improved by 14 points between January and April.

In both cases, our plan to re-energize growth in these franchises is showing early progress.

Other key-title highlights include:

- ***FC ONLINE:*** Combined PC and mobile revenues of *FC ONLINE* were down year over year due to a challenging comparison with last Q1, but above our expectations driven by successful updates and sales promotions.
- ***Blue Archive:*** Outperformance was driven by a successful third anniversary update in Japan. Worldwide revenues grew year over year and marked a quarterly record.
- ***THE FINALS:*** The launch of Season 2 in March created a short-lived increase in player metrics but delivered lower-than-expected retention and revenue. The Embark team is working with our Korea-based Live Operations team to understand and address the key issues.

RESULTS BY REGION

(Unit: ¥ millions)	Q1 2024			YoY % Change	
	Q1 2023	As-Reported	Constant Currency	As-Reported	Constant Currency
Revenue by Region					
Korea	¥64,942	¥57,340	¥53,277	(12%)	(18%)
China	43,080	29,182	27,328	(32%)	(37%)
Japan	3,609	3,630	3,483	1%	(3%)
North America and Europe	5,156	9,919	8,991	92%	74%
Rest of World	7,300	8,347	7,731	14%	6%
Nexon Total	124,087	108,418	100,810	(13%)	(19%)
Revenue by Platform					
PC	93,070	79,297	73,768	(15%)	(21%)
Mobile	31,017	29,121	27,042	(6%)	(13%)
Nexon Total	124,087	108,418	100,810	(13%)	(19%)
FX Rate					
100 KRW/JPY	10.41	11.19	10.41	7%	
CNY/JPY	19.34	20.79	19.34	7%	
USD/JPY	132.34	148.61	132.34	12%	

Korea

Revenues from our Korea business were ¥57.3 billion, down 12% (down 18% on a constant-currency basis) year over year. Revenues were 4% above the outlook driven by the higher-than-expected performances of *FC ONLINE* and *FC MOBILE*.

PC revenues in Korea decreased by 6% year over year. Strong contributions from *Wars of Prasia* and *MapleStory Worlds* were offset by decreased revenues from *FC ONLINE* and *MapleStory*.

MapleStory Worlds, a content creation and play content platform based on *MapleStory* IP which debuted in open beta in 2022 and began official service this April, saw a solid increase in active users in Q1. The game's content-creation feature, which allows users to sell their inspirations, grew in popularity.

Mobile revenues decreased by 24% year over year. The contribution from *Wars of Prasia* was more than offset by revenue decreases from *HIT2*, *The Kingdom of the Winds: Yeon* as well as *FC ONLINE M* and *FC MOBILE*.

China

Revenues from our China business were ¥29.2 billion, down 32% (down 37% on a constant-currency basis) year over year, which was within the expected range. While we benefited from *MapleStory: The Legends of Maple*, this was more than offset by the year-over-year decrease in *Dungeon&Fighter*'s revenue.

Japan, North America and Europe, Rest of World

Revenues from Japan were roughly flat at ¥3.6 billion year over year. Growth in *MapleStory* was offset by decreases from mobile titles. Q1 performance exceeded our expectations by 9% driven by the successful third anniversary update of *Blue Archive*.

Revenues from North America and Europe were ¥9.9 billion, up 92% year over year, primarily driven by contributions from *THE FINALS* and *DAVE THE DIVER*, as well as growth in *MapleStory*. However, revenue was slightly below our expectations due to the lower-than-expected performance of *THE FINALS*.

Revenues from the Rest of World were ¥8.3 billion, up 14% year over year, primarily driven by the growth in *MapleStory* and a contribution from *HIT2*, which were partially offset by decreases in other mobile titles. This was 3% above the outlook driven by stronger-than-expected performances of *MapleStory*, *MapleStory M* and *Blue Archive*.

PLAYER METRICS FOR PC AND CONSOLE

Average MAUs¹ in Q1 reached 18.3 million, up 18% year over year and up 5% quarter over quarter. MAUs of *Dungeon&Fighter* in China and *FC ONLINE* were down year over year, however, *THE FINALS* pushed consolidated MAUs up on a year-over-year basis as well as sequentially.

Slow consumer spending for *Dungeon&Fighter* in China and *MapleStory* in Korea led to lower average PUs and ARPPU in Q1. Average PUs¹ were 3.1 million, down 11% year over year, primarily due to decreases in the two games as well as *FC ONLINE*, and down slightly from 3.2 million quarter over quarter. ARPPU¹ was ¥12,545, down 17% year over year due to *Dungeon&Fighter* in China and *MapleStory* in Korea, while up 55% quarter over quarter due to the strong seasonality.

¹ Metrics for PC and console

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	YoY%
PC and Console KPI						
MAU (millions)	15.5	14.3	14.1	17.4	18.3	18%
PU (millions)	3.5	3.2	3.3	3.2	3.1	(11%)
Pay Rate	22.5%	22.5%	23.7%	18.2%	17.0%	
ARPPU (as-reported)	15,074	9,553	11,230	8,104	12,545	(17%)

Q2 OUTLOOK

We are extremely excited about the May 21 release of *Dungeon&Fighter Mobile* in China. And in the second quarter, we will continue to focus on the recovery of key titles.

Year over year, we expect contributions from *Dungeon&Fighter Mobile* in China, *MapleStory Worlds*, *HIT2* in Japan and *THE FINALS*. These are expected to be offset by decreases related to *PC Dungeon&Fighter* in China and tough year-over-year comparisons for *Wars of Prasia* and *FC ONLINE*.

In total, we expect our Q2 group revenues to be in the range of ¥92.3 billion to ¥104.7 billion, representing a 2% decrease to 11% increase (10% decrease to 2% increase on a constant-currency basis) year over year.

We expect operating income to be in the range of ¥17.3 billion to ¥27.7 billion, representing a 37% decrease to flat (44% to 9% decrease on a constant-currency basis) year over year. Key drivers affecting our performance are expected to include:

- Increased HR costs primarily due to higher headcount and annual salary hike
- Increased cloud service costs and fees² to creators in *MapleStory Worlds*
- One-time loss related to reorganization
- Decreased royalties and payment gateway fees
- Decreased marketing expenses

We expect net income to be in the range of ¥13.0 billion to ¥20.9 billion, representing a 47% to 15% decrease (53% to 24% decrease on a constant-currency basis) year over year primarily due to operating income decrease.

² In *MapleStory Worlds*, if a player spends in the content, Nexon receives the payment and pays a specific ratio of that payment to the content provider as a creator fee.

(Unit: ¥ millions, except per share data)

	Q2 2023	Q2 2024 Outlook		YoY %			
Revenues	¥94,436	¥92,310	~	¥104,731	(2%)	~	11%
PC	65,340	54,832	~	60,036	(16%)	~	(8%)
Mobile	29,096	37,478	~	44,695	29%	~	54%
Operating income	27,614	17,337	~	27,703	(37%)	~	0%
Net income	24,538	12,952	~	20,858	(47%)	~	(15%)
Earnings per share	28.80	15.44	~	24.86			
FX Rate Assumptions							
100 KRW/JPY	10.46	11.24		11.24	7%		
CNY/JPY	19.56	21.51		21.51	10%		
USD/JPY	137.37	153.85		153.85	12%		

Korea

Given the challenging year-over-year comparison for *FC ONLINE* and *Wars of Prasia*, we expect revenues from our Korea business to be in the range of ¥48.6 billion to ¥51.7 billion, representing a 22% to 17% decrease (27% to 23% decrease on a constant-currency basis) year over year.

As explained previously, our strategy of prioritizing the improvement of player engagement and satisfaction in *MapleStory* delivered early good progress. As a result, we expect *MapleStory*'s revenue to return close to the previous year level and to increase quarter over quarter despite the typical weak seasonality in Q2.

However, we expect PC revenues to decrease year over year. While *FC ONLINE* is performing stably, the game is expected to decline year over year due to the challenging comps from Q2 2023 when we achieved the highest Q2 revenue in the game's history.

Also, we expect a significant year-over-year revenue decrease from *Wars of Prasia* due to the comparison with the outstanding performance of Q2 2023 when the launch momentum remained strong.

Mobile revenues are expected to decrease year over year due to *Wars of Prasia*, *HIT2* and others.

China

While we anticipate a soft performance from PC *Dungeon&Fighter* in the near term, we expect a significant contribution from the release of *Dungeon&Fighter Mobile*. Accordingly, we expect revenues from our China business to be in the range of ¥26.9 billion to ¥34.6 billion, representing a 48% to 90% increase (35% to 73% increase on a constant-currency basis) year over year.

Although we are sharply focused on improving the in-game economy, further adjustments are needed and will be made in the months ahead. Additionally, packaged-item sales of the Labor Day update have not performed well compared to Q2 last year. Ongoing content updates in Q2 and onward are expected to further improve the in-game economy.

Japan, North America and Europe, Rest of World

In Japan, we expect revenues to be in the range of ¥4.1 billion to ¥4.7 billion, representing a 78% to 104% increase (69% to 94% increase on a constant-currency basis) year over year driven by the contribution from *HIT : The World*³ which launched on April 17. In addition, we expect year-over-year growth in *MapleStory* and *Blue Archive*.

In North America and Europe, we expect revenues to be in the range of ¥6.8 billion to 7.4 billion, representing a 24% to 35% increase (13% to 23% increase on a constant-currency basis) year over year, primarily driven by the contribution from *THE FINALS* and year-over-year growth of *MapleStory*.

For the Rest of World, we expect revenues to be in the range of ¥5.9 billion to ¥6.3 billion, representing an 8% decrease to flat (14% to 7% decrease on a constant-currency basis) year over year. Growth from *MapleStory* is expected to be more than offset by the revenue decline of *HIT2*.

³ Official title of *HIT2* in Japan.

CONTENT UPDATES AND NEW-PRODUCT PIPELINE

In Q2, we are scheduled to introduce major updates for all of our flagship franchises.

- **Dungeon&Fighter:** The Labor Day update was introduced on April 18, supported by many large-scale promotional events and the sale of packaged-items. The Anniversary update is scheduled for June.
- **MapleStory:** Beginning April 18, Nexon hosted many events in support of the Anniversary update to enhance player engagement. In late June, we are planning to introduce the large-scale Summer update.
- **FC ONLINE:** One of our biggest promotions of the year, TOTS - Team of the Season, is scheduled for release in June.
- **THE FINALS:** Season 3 is scheduled to go live in June.

We're also making steady progress on new games, including:

- **HIT : The World:** Japan service of *HIT2* launched on April 17.
- **MapleStory Worlds:** Official service started on April 25. We expect this title will expand the fan base for the *MapleStory* franchise over time, especially among the young generation.
- **Dungeon&Fighter Mobile in China:** The game is scheduled to launch on May 21, supported by a strong marketing campaign by our partners at Tencent.
- **The First Descendant:** On track to launch this summer. Last year's open beta captured more than two million players with 60% of the participants from the Western regions. This PC-console cross-platform, looter-shooter is now ranked #7 on Steam's wish-list.
- **The First Berserker: Khazan:** Hardcore-action RPG for consoles and PC based on the *Dungeon&Fighter* IP and is designed to introduce global players to one of Nexon's most popular franchises.
- **MABINOGI MOBILE:** A mobile version of the highly successful PC MMORPG is scheduled to launch in the coming quarters.
- **ARC Raiders:** A third-person, PvPvE extraction shooter from Embark Studios. The game is compatible for consoles and PC and designed to appeal to a global audience.

CAPITAL ALLOCATION

On May 14, the Board of Directors authorized a ¥2.5 increase to the ¥5 semi-annual dividend which represents a per-share dividend of ¥7.5 semi-annually or ¥15 annually.

Also, Nexon's Board of Directors authorized an execution of ¥30 billion share repurchase in the market during the period of May 15 to July 19. On February 8, Nexon announced a ¥100 billion share repurchase policy over a three-year period. The remaining ¥70 billion worth of shares are expected to be repurchased by February 2027 by considering factors including investment opportunities, financial conditions, and the market environment.

Looking ahead, we will continue to evaluate opportunities to enhance shareholder return.

CEO'S PRIORITIES

Following my appointment as CEO in March, the new management team has focused on short-term improvements to Nexon's existing business, while developing a longer-range strategy for dramatic growth.

In the first half 2024, a top priority has been **re-energizing blockbuster titles**, including *MapleStory* and *Dungeon&Fighter*. These engines of revenue are the foundation of our business and fundamental to Nexon's long-term strategy of steady, if non-linear growth. When challenges were identified from late Q4, we quickly diagnosed and addressed them with content solutions and changes to a business model. To date, we've seen early progress on *MapleStory* in Korea and, for *Dungeon&Fighter* in China, we've created a roadmap for further improvements over the course of the year.

And of course, a big priority is the May 21 launch of ***Dungeon&Fighter Mobile*** in China – a game that has the potential to have a profoundly positive impact on Nexon's revenue and profit profile. Together with our partners at Tencent, we are introducing a fresh, new mobile experience to one of the world's biggest game franchises. The enthusiastic player response to a recent Beta Test and the strong marketing campaign planned by Tencent give us growing confidence that *Dungeon&Fighter Mobile* can energize our large base of existing fans in China and attract new players to the franchise. We are extremely excited to bring this long-awaited game to the hundreds of millions of Chinese players who know and love a

franchise that has more than 850 million registered players worldwide and a life-to-date gross revenue exceeding US\$22 billion.

We've also established a **franchise management strategy** starting with our *MapleStory* IP, in which we recently reorganized teams and operations for greater alignment and efficiencies in achieving long-term goals.

Since the 2003 launch of *MapleStory* in Korea, we have expanded the franchise to new regions, platforms and formats aimed at driving engagement and attracting new players. This includes *MapleStory M* and *MapleStory Worlds* with unique content creation features that appeal to players. Previously, the teams developing and operating these games worked independently but are now reorganized as one group for greater alignment, resource sharing and creative synergy.

MapleStory PC is improving as planned in Korea. Outside Korea, *MapleStory PC* generated 33% year-over-year growth and delivered record-breaking quarterly revenue in all regions - Japan, China, North America and Europe, Rest of World - driven by the successful cooperation of the development team in Korea and live operation teams in each region. In addition, *MapleStory M* worldwide delivered 65% year-over-year growth, and *MapleStory Worlds* rapidly grew in popularity and revenue.

We have also prioritized the **development of new IP** with the potential to become enduring pillars of Nexon's blockbuster strategy. This includes an exciting pipeline of new games scheduled for release in 2024, including *The First Descendant* this summer. And players and investors can expect much more in 2025.

Finally, we've established a long-term priority on improving **Nexon's profit margins** through top line growth, cost management, and operating efficiency as we sharpen our focus on franchise management and improve the speed of decision making.

In the months ahead, we will provide a more comprehensive report on how new strategies will be integrated into our plans for delivering more engaging games for our players and strong results for our investors.