FY2024 Q2 Earnings Conference Call (August 8th, 2024)

Q&A Summary

【Q】 Please tell us about your outlook of *Dungeon&Fighter Mobile* in China.

【A】 **Junghun Lee (Chief Executive Officer)**

Dungeon&Fighter Mobile has experienced an explosive start since its launch in China, reflecting the strong interest and affection for the IP. The game has maintained stable retention and satisfaction levels among core users, supported by a robust content offering and our experience with the Korean service. This is why I believe that *Dungeon&Fighter Mobile* will be able to continue its stable service for a long time.

Additionally, our longstanding partnership with Tencent is instrumental in delivering high-quality content and keeping players engaged over the long term. We are committed to working closely with Tencent to ensure the continued success of *Dungeon&Fighter Mobile*.

【Q】 Please tell us about the current status and your outlook of *The First Descendant*.

【A】 **Junghun Lee (Chief Executive Officer)**

Initially, we observed some churn among casual users, but the core user base remains solid. Currently, over 60% of our users are from consoles, which means the actual number of players is much larger than the Steam traffic. Additionally, the highest number of players comes from North America, proving the global popularity of this title.

I believe *The First Descendant* has the potential to maintain its strong performance and expand as significant IP. The game is a looter shooter, which has a lot to do with RPG elements, so we benefit from a development team with over 20 years of experience in the RPG genre. This expertise gives me confidence that we can deliver stable service and content, ensuring long-term success.

【Q】 Given the heavy reliance on *Dungeon&Fighter* IP for operating profits, how do you plan to diversify your profits from non-DNF IPs in the long run?

【A】 **Junghun Lee (Chief Executive Officer)**

Our mid to long-term strategy aims to diversify revenue sources beyond *Dungeon&Fighter* IP, but please allow me to outline the whole strategy briefly. We are pursuing two main approaches:

The first is the Vertical Expansion of IP. We're utilizing existing IPs to develop new games with minimal risk and cost, as seen with *Dungeon&Fighter Mobile* in China and upcoming global releases of *The First Berserker: Khazan* on console and PC. *MapleStory* IP is also expanding with new titles like *MapleStory Worlds* and *MapleStory N*. Vertical Expansion is driven not only by expansion of established IP to new platform, new market and new formats, but also by hyper localization. You can see early good results of hyper localization in *MapleStory*, which delivered significant growth outside of Korea recently.

The second is the Horizontal Expansion of IP. We're creating new IP that has potential to become the next *Dungeon&Fighter* or *MapleStory* so that we aim to broaden our IP portfolio. Examples include *The First Descendent* and *ARC Raiders*. Just as a side note, Nexon and Embark Studio announced a partnership agreement with Tencent to localize *THE FINALS* and *ARC Raiders* for Chinese players.

We'll provide more details at our Capital Markets Briefing in early September.

【Q】 Please tell us whether the content consumption speed of China *Dungeon&Fighter Mobile* is within the expectation and whether there is any difference in player behavior between PC and mobile.

【A】 **Junghun Lee (Chief Executive Officer)**

The content consumption speed for *Dungeon&Fighter Mobile* in China is within our expectations. We are planning to add major updates for the coming months and the second half of the year.

Compared to the PC version, *Dungeon&Fighter Mobile* has a more casual and diversified user base, however, thanks to our long-term partnership with Tencent, we're confident in offering stable service and content without issues.

【Q】 Regarding *The First Descendant*, can you tell us about the regional breakdown of players?

【A】 **Junghun Lee (Chief Executive Officer)**

We cannot give specific regional figures, but outside of North America, where we have the largest number of players, we also have a large number of players in Asia and South America. Traffic and core user numbers are currently stable across PC and console platforms.

【Q】 In relation to the success of *The First Descendant* in the Western region, can you tell us if there have been any synergies with Embark Studios?

【A】 **Junghun Lee (Chief Executive Officer)**

Within Nexon Group, game directors and developers from different global entities, including Embark, regularly share their knowledge and experiences. This exchange of ideas is a key strategy for Nexon, allowing them to focus on what their development teams excel at rather than merely tailoring games to specific regional preferences.

By concentrating on the genres where we excel, we aim to maximize growth opportunities. The success of *The First Descendant* is attributable to this approach, focusing on the core of the looter shooter genre.

【Q】 Can you tell us about how you recognize deferred revenue for *The First Descendant*?

【A】 **Shiro Uemura (Chief Financial Officer)**

Revenue is deferred based on the type of items sold. For this game, more than 50% of the revenue is deferred, meaning the actual revenue generated will be higher than the revenue recognized under the accounting policy. The maximum period of deferral is 18 months.

【Q】 Can you tell us about your expected timeline for the full recovery of China *Dungeon&Fighter* PC?

【A】 **Shiro Uemura (Chief Financial Officer)**

We have been focusing on improving the in-game economy through enhancing the value of gold. However, we are not solely focused on it now. Instead, we are carefully balancing the gold supply with other metrics to ensure we maintain player incentives. We anticipate that these efforts will help stabilize the game over the next few quarters.

【Q】 Did server issues in July and system suspension impact China *Dungeon&Fighter Mobile*'s revenue and the number of core users?

【A】 **Junghun Lee (Chief Executive Officer)**

While we cannot provide specific details about the revenue decline in July compared to June, we acknowledge the server issues and the suspension of the growth vitality system. This incident, although challenging, highlighted our ability to manage live operations effectively in collaboration with Tencent. Despite the issues, we are seeing a stable trend in user sentiment and numbers.

【Q】 Can you clarify what you've assumed for the Q3 guidance for China *Dungeon&Fighter Mobile*? Are you assuming the revenue run rate similar to what you achieved in July?

【A】 **Shiro Uemura (Chief Financial Officer)**

For Q3, we anticipate some normalization when compared to the initial trend we've observed. Despite this expected normalization, our focus remains on maintaining the positive momentum we've built. We plan to achieve this by continuing to roll out regular content updates, ensuring that player engagement and satisfaction remain strong throughout the quarter.
