

NEXON Co., Ltd.

Q2 2024 Earnings Prepared Remarks

Aug 8th, 2024

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

Thank you Kawai-san and good afternoon everyone. I hope you've had a chance to review the quarterly investor letter we posted earlier today.

Today, I will start with a bit of context on Nexon's performance in the second quarter and the start of Q3. Uemura-san will follow with some financial highlights, then we will devote the majority of our call to answering your questions.

We delivered record-high Q2 revenue and operating income, up 30% and 64% year over year, respectively. Much of this success was contributed by ***Dungeon&Fighter Mobile*** in China, which launched on May 21 and sustained the top position for more than 11 weeks – making it one of the most successful mobile releases ever in China.

This was quickly followed on July second by the breakaway success of a brand-new Nexon IP, ***The First Descendant*** – a release that shot to the top of the global grossing rankings on Steam in a week following the launch. Notably, the highest number of players are in North America and console players make up approximately 60 percent of the mix, demonstrating wide support for *The First Descendant* across all platforms and markets worldwide.

The combined success of an extension on an established IP – *Dungeon&Fighter* – and the breakthrough introduction of a brand new IP – *The First Descendant* – gives us clear proof points and additional confidence in Nexon's **IP Growth Initiative**.

Our IP Growth Initiative is a two-part strategy. The primary component is leveraging the power of our established franchises to “snowball” growth with new experiences on new platforms and in new markets. The success of *Dungeon&Fighter Mobile* in China is a powerful proof point in this thesis. This will be followed by *The First Berserker: Khazan*, which is designed to introduce global audiences to our *Dungeon&Fighter* IP. And we are currently developing multiple extensions on our *MapleStory* IP, designed to energize the massive base of existing players and attract newcomers.

By leveraging the enormous scale of our player base and synergies within our studios and Live Operations teams, we hope to unlock growth in revenue and operating income from our biggest IP.

Another element of our IP Growth Initiative is our **investments in all-new titles** with the potential to expand our presence in global markets and become pillars in our IP portfolio. In addition to recent success of *The First Descendant*, this includes ***ARC Raiders***, a promising new PvPvE extraction shooter in development at Embark Studios.

Today, Nexon and Embark Studios announced a partnership with **Tencent to publish two Embark titles** – *THE FINALS* and *ARC Raiders* – customized by Tencent to appeal to the unique tastes and preferences of players in China.

Now I'll hand the call over to Uemura-san to discuss our financial results and outlook in more detail.

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

Thank you, Junghun.

In Q2, Nexon Group's revenue exceeded our outlook, driven by the strong performance of *Dungeon&Fighter Mobile* which launched in China on May 21.

Our three biggest franchises - *Dungeon&Fighter*, *MapleStory*, and *FC* – in aggregate delivered strong year-over-year growth of 57%.

Extending *Dungeon&Fighter* IP to mobile platforms and markets in China succeeded in acquiring new players and energizing strong interest from dormant players of the PC version. As a result, *Dungeon&Fighter's* franchise revenues more than doubled year over year.

For *MapleStory*, our efforts of improving live operations in existing games and extending its IP to new regions and new formats resulted in the growth of *MapleStory* IP. The franchise revenue grew 9% year over year in Q2.

Both *FC ONLINE* and *FC MOBILE* exceeded our expectations. As expected, *FC ONLINE* revenue was down versus a year ago quarter which was a challenging comparison.

Operating income was above our expectations driven by significant revenue outperformance, despite higher-than-expected performance-based bonuses for contributions to great performances.

Net income exceeded our outlook as well, primarily due to operating income outperformance and an FX gain of ¥8.2 billion primarily on cash deposits.

As a result, revenue, operating income and net income all achieved record-breaking Q2 results.

Moving on to our third quarter outlook.

We expect our Q3 group revenues to be in the range of ¥137.8 billion to ¥152.0 billion, representing a 15% increase to 26% increase on an as-reported basis or 8% increase to 19% increase on a constant-currency basis year over year. We expect contributions from *Dungeon&Fighter Mobile* and *The First Descendant* to be partially offset by revenue decreases from *MapleStory* and the PC *Dungeon&Fighter*.

We expect the combined revenues of our three biggest franchises to increase by 17% to 30% year over year.

We expect overall *Dungeon&Fighter* franchise revenues to more than double year over year, driven by a significant contribution from *Dungeon&Fighter Mobile*.

For the PC version of *Dungeon&Fighter* in China, we will continue to focus on improving the in-game economy and preparing appealing content updates. We expect Q3 revenue to grow sequentially and the year-over-year rate of decline to improve.

For *MapleStory* franchise, we expect its revenues to decrease year over year due to a challenging comparison with a year-ago quarter when the franchise achieved record-high quarterly revenue driven by the transformational PC-version update in Korea and the launch of the mobile version in China.

For *FC* franchise, revenues are expected to decrease slightly year over year, due to a tough comparison to record-setting Q3 in 2023.

The First Descendant got off to a good start since its launch on July 2. While we expect the game to generate significant bookings in Q3, our revenue guidance reflects the expected deferral of slightly over 50% of its bookings.

We expect Q3 operating income to be in the range of ¥46.0 to ¥57.3 billion, representing a 1% decrease to 24% increase on an as-reported basis or 10% decrease to 12% increase on a constant currency basis year over year.

We anticipate increased performance-based bonuses for contributions to great performances. We also expect increased marketing expenses primarily associated with promotions for new titles including *The First Descendant*, increased platform fees related to sales on Steam as well as increased cloud service costs and fees to creators in *MapleStory Worlds*.

Accordingly, we expect Q3 net income to be in the range of ¥34.6 to ¥43.0 billion, representing a 2% decrease to 22% increase on an as-reported basis or 13% decrease to 9% increase on a constant currency basis year over year.

Finally, I'd like to provide an update on our shareholder return. We executed ¥30 billion share repurchase in the market during the period of May 15 to July 19. 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.

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 delivered record-setting Q2 results and made a very strong start to the current quarter. We're particularly pleased with the launch of two new games – one an extension on one of our biggest franchises, the second an all new IP with potential to become a long-term contributor.

In addition to the immediate impact on revenue and operating profit, we think this speaks well of our IP Growth Initiative – a blueprint for leveraging our well-established IP and creating all-new IP with potential to become new pillars.

Finally, I want to highlight Nexon's plan to host a two-hour **Capital Markets Briefing** in Tokyo on September 3. The live event in Tokyo will be webcast and will include our financial objectives and shareholder return policy combined with demos and details on our product plans. Details are posted to our IR website. We look forward to sharing our plans and to conversations with investors at this event.

Operator, we are ready to take questions.