

4Q 2019 Earnings Release

NCSOFT IR February 12, 2020

Disclaimer

The financial results for 4Q 2019 have been prepared on an unaudited basis, and may be subject to change during independent auditing process.

Please note that NCSOFT will not be responsible for individual investment decisions based on this material.

※ Major Consolidated Subsidiaries (K-IFRS based):

NC West Holdings(100%, USA), NC Europe(100%, GBR), NC Japan(100%, JPN),
NC Taiwan(85%, TWN), NCSOFT Corporation(HQ, KOR),
NCSOFT Service(100%, KOR), NC Dinos (100%, KOR),
NC ITS(100%, KOR), Ntreev Soft(98%, KOR), This Game Studio(40%, CAN)

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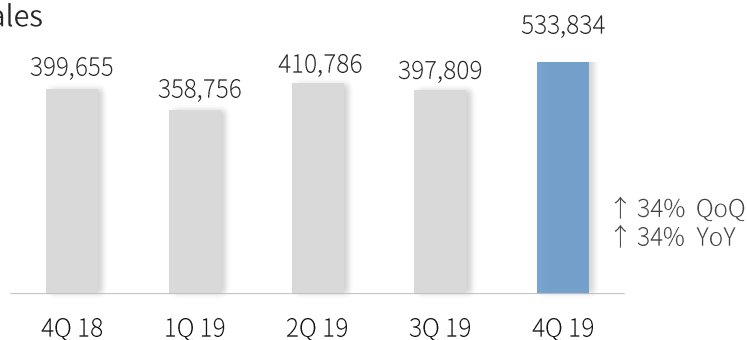
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1. Financial Highlights (Quarterly)

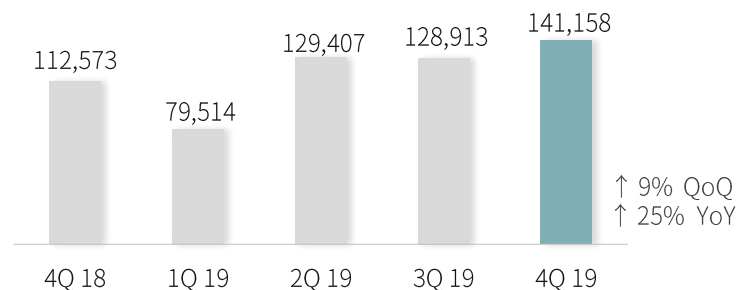
- Sales totaled KRW 533.8 billion, up 34% qoq and yoy, on the back of mobile game revenue growth
- Operating profit was KRW 141.2 billion, up 9% qoq and 25% yoy

Sales

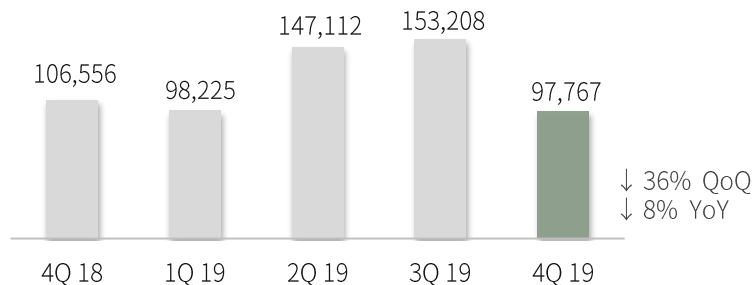


Operating Profit

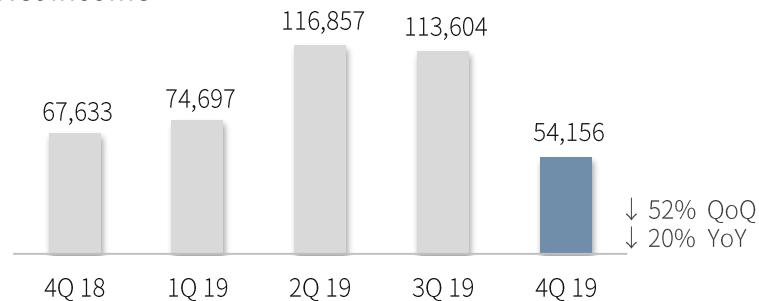
(Unit : KRW mn)



Pre-tax Income

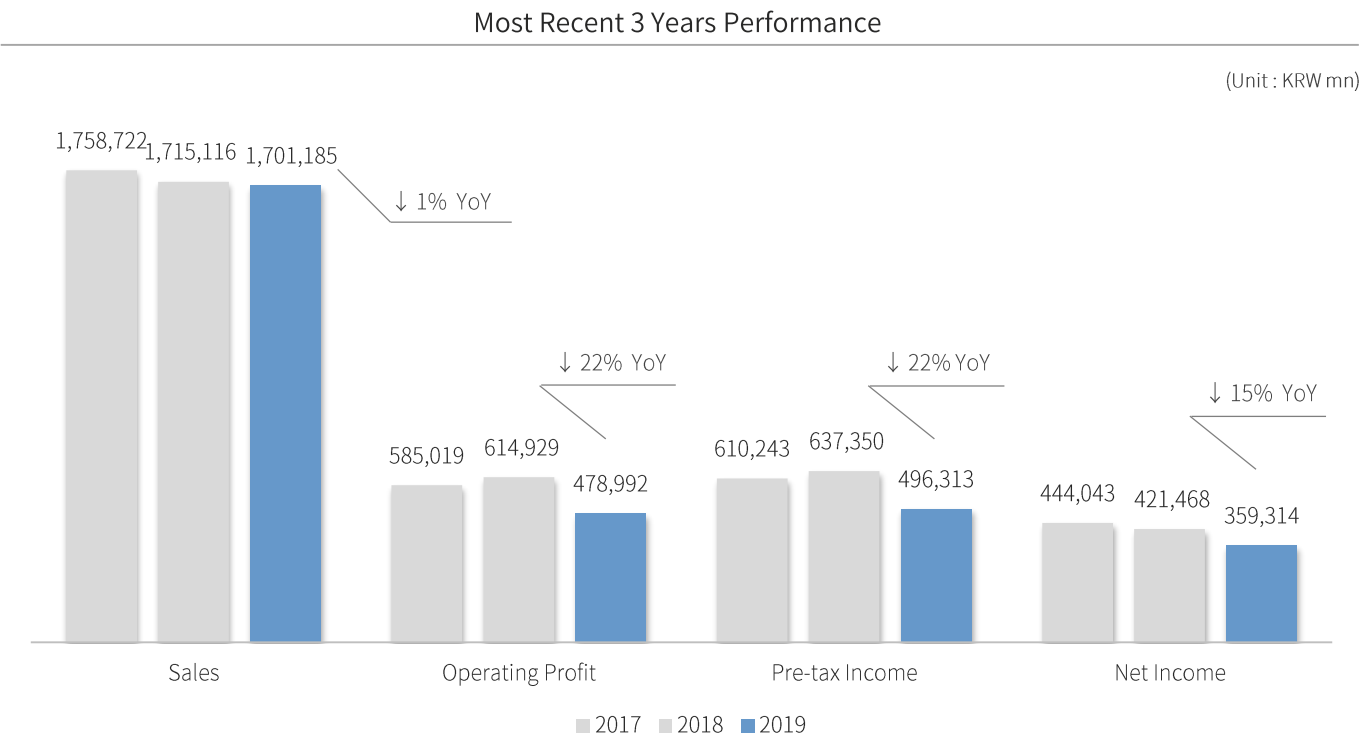


Net Income



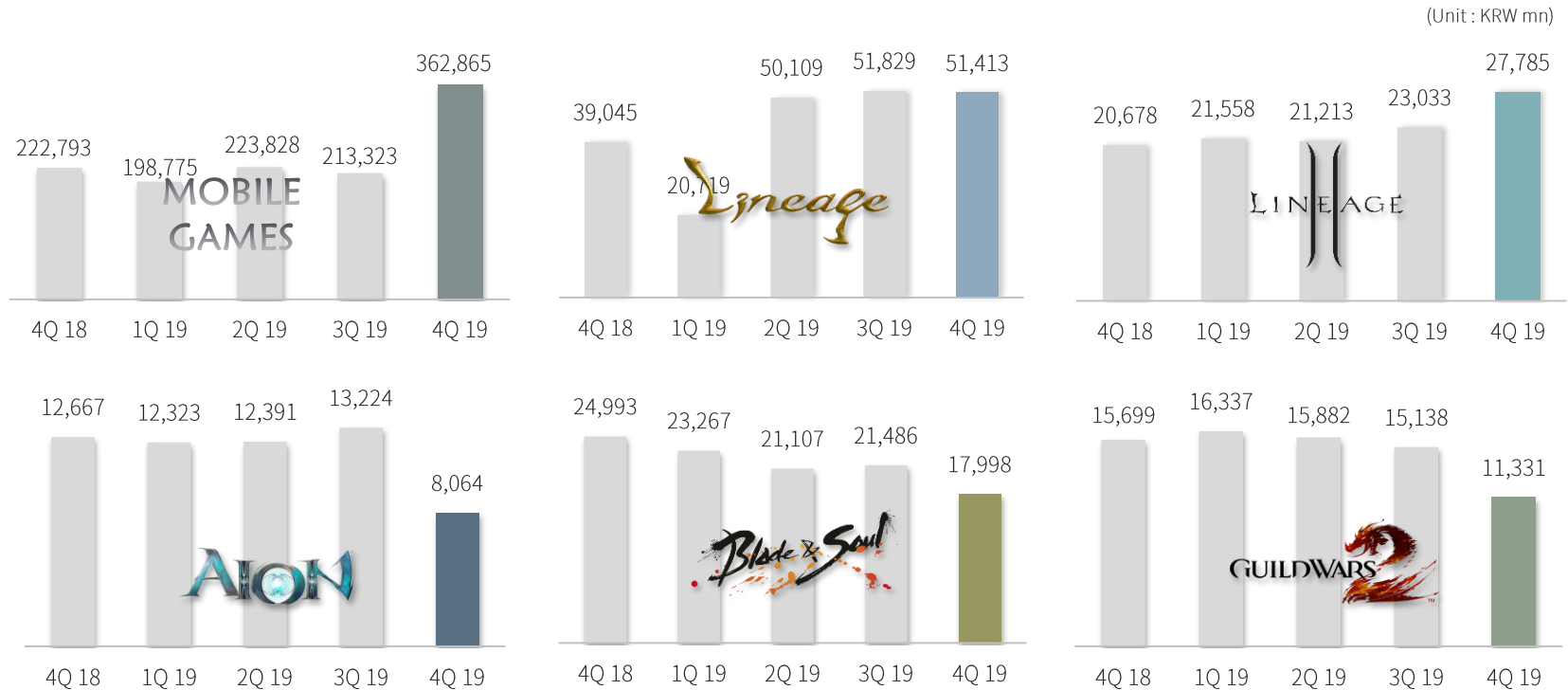
1. Financial Highlights (Yearly)

- 2019 total sales posted KRW 1.7 trillion (YoY -1%) and operating profit KRW 479 billion (YoY -22%)



2. Sales Breakdown (Quarterly by Game)

- Mobile games totaled KRW 362.9 billion, a jump of 70% qoq, driven by Lineage 2 M's launch and Lineage M's solid revenue
- Lineage 2 M deferred 20% of sales to Q1, due to change in revenue recognition method
- Lineage and Lineage 2 traffic grew resulting in sales each increasing 32% and 34% yoy to KRW 51.4 billion and KRW 27.8 billion, respectively



2. Sales Breakdown (Yearly by Game)

- Mobile game revenue totaled KRW 998.8 billion, an increase of 9% yoy and represented 59% of total revenue
- Lineage posted KRW 174.1 billion, up 16% yoy, due to the Remaster update
- Lineage 2 reached KRW 93.6 billion, a rise of 46% yoy, due to the large-scale update effects

(Unit : KRW bn)

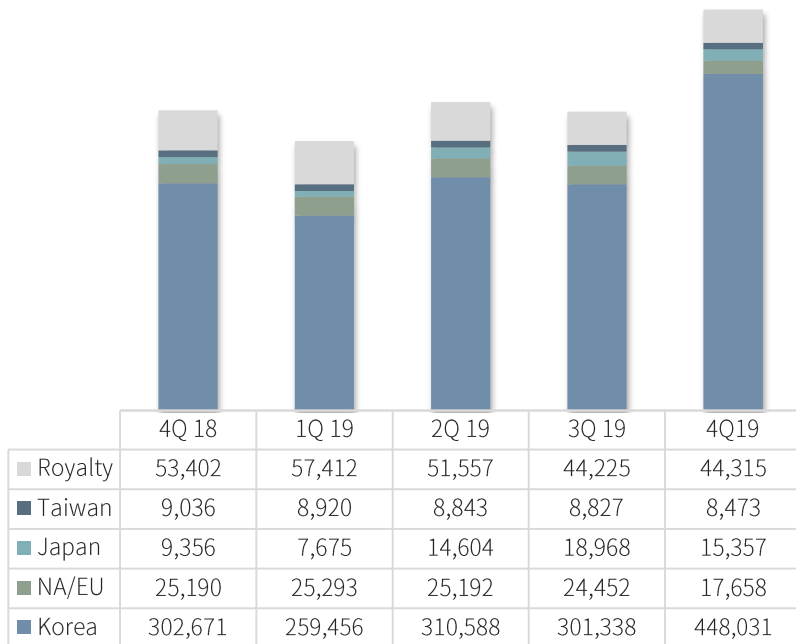


2. Sales Breakdown (by Region)

- 4Q royalty revenue was flat vs. 3Q. In 2019, it declined 30% yoy because of weaker sales from Lineage M Taiwan and Lineage 2 IP based mobile games

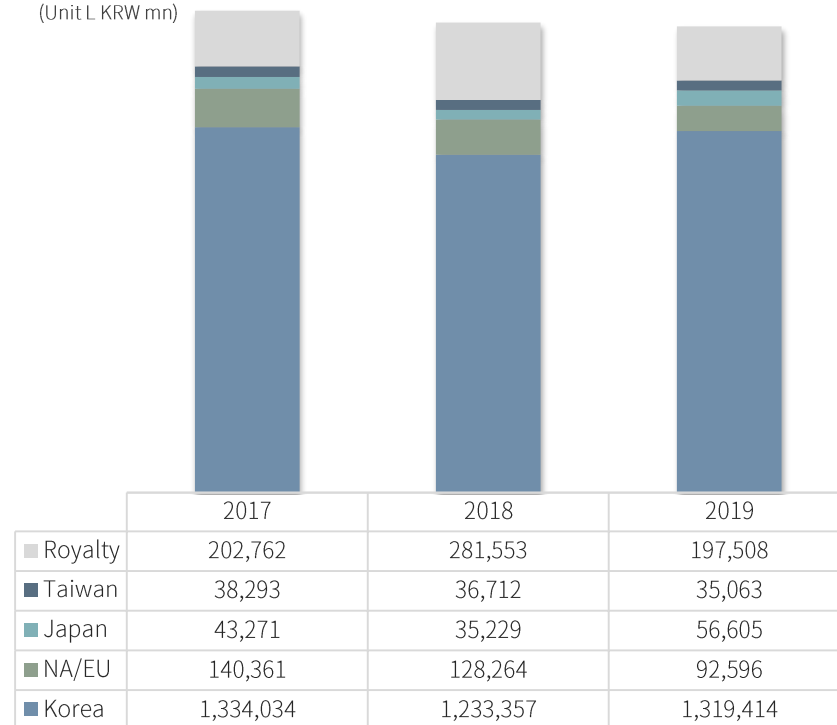
Quarterly

(Unit L KRW mn)



Yearly

(Unit L KRW mn)



3. Costs Breakdown

- Labor cost in 4Q was up 46% qoq due to special bonuses paid and incentives recognized for L2M.
2019 total labor cost up 3% yoy
- Variable cost, namely distribution fees increased on the back of higher mobile game revenue
- Marketing grew qoq and full year yoy because of new game launched and bigger ads for individual games

(Unit : KRW mn)

	4Q 18	1Q 19	2Q 19	3Q 19	4Q 19	QoQ	YoY	2018	2019	YoY
Labor cost	135,651	143,194	125,822	116,146	169,913	46%	25%	536,429	555,074	3%
Variable cost	76,851	65,336	77,189	73,094	116,231	59%	51%	306,850	331,850	8%
Payment processing fees	6,002	5,000	5,920	5,839	5,488	-6%	-9%	23,549	22,246	-6%
Distribution fees	67,107	59,658	67,137	64,411	108,792	69%	62%	274,938	299,998	9%
Royalty	839	921	1,323	972	875	-10%	4%	3,775	4,091	8%
Box & merchandise production fees	2,381	182	502	709	1,258	77%	-47%	2,905	2,651	-9%
Others	522	(424)	2,308	1,162	(182)	-116%	-135%	1,683	2,863	70%
Marketing	15,894	18,987	24,230	22,766	41,291	81%	160%	58,152	107,275	84%
D&A	6,863	11,982	12,974	12,747	14,266	12%	108%	27,651	51,969	88%
Others (*)	51,823	39,743	41,164	44,144	50,975	15%	-2%	171,104	176,025	3%
Total	287,083	279,242	281,379	268,896	392,676	46%	37%	1,100,187	1,222,193	11%

* 4Q19 Others include Bandwidth costs(3,388), Rent(263), Wage for outsourced staff(7,840), Outsourced R&D(1,586) etc.

4. Consolidated Financial Statements

Statement of Financial Position

(Unit : KRW mn)

	31 DEC 2018	31 DEC 2019		31 DEC 2018	31 DEC 2019
Assets			Liabilities		
I. Current Assets	1,576,409	2,076,674	I. Current Liabilities	473,074	449,765
Cash & cash equivalents	185,593	303,443	Bonds	155,051	11,310
ST financial instruments	232,653	676,810	Account payables	33,307	52,863
Account receivables	148,500	254,438	Lease Liabilities	-	31,381
Other receivables	30,452	16,118	Current tax liabilities	71,150	83,392
ST Investment assets	948,114	791,802	Other provisions	2	2
Others	31,098	34,063	Others	213,566	270,817
II. Non-Current Assets	1,364,870	1,269,863	II. Non-Current Liabilities	89,233	384,447
LT loans	56	4,588	Bonds	-	249,364
Other receivables	10,930	10,836	Defined benefit obligations	4,101	12,320
LT Investment assets	895,022	698,726	LT employee benefits	7,121	16,680
Investments in affiliated companies	56,380	43,614	Lease Liabilities	-	65,715
Investment property	95,006	93,685	Others	78,011	40,368
Tangible assets	233,877	350,409	Total Liabilities	562,307	834,212
Intangible assets	54,377	49,739	Stockholders Equity		
Others	19,222	18,265	I. Capital stock	10,970	10,977
Total Asset	2,941,279	3,346,537	II. Other paid-up capital	4,454	(2,245)
			III. Other components of equity	188,477	108,350
			IV. Retained earnings	2,163,816	2,382,246
			V. Non-controlling interests	11,254	12,997
			Total Stockholders Equity	2,378,971	2,512,325
			Total Liabilities and Stockholders Equity	2,941,279	3,346,537

4. Consolidated Financial Statements

Comprehensive Income Statement

(Unit : KRW MN)

	1Q 19	2Q 19	3Q 19	4Q 19	2018	2019
Sales	358,756	410,786	397,809	533,834	1,715,116	1,701,185
Operating Expenses	279,242	281,379	268,896	392,676	1,100,186	1,222,193
Operating Income	79,514	129,407	128,913	141,158	614,929	478,992
Non-operating Income	18,711	17,705	24,295	(43,391)	22,421	17,320
Income Before Income Tax Expense	98,225	147,112	153,208	97,767	637,350	496,313
Income Tax Expense	23,528	30,255	39,604	43,612	215,882	136,999
Net Income	74,697	116,857	113,604	54,156	421,468	359,314
Equity Attribution to the Owners of the Parent Company	74,189	116,423	113,339	54,382	418,185	358,333
Non-controlling Interest	508	434	265	(226)	3,282	981