2Q 2023 Earnings Results

Investor Relations

2023. 8. 9
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2023 2Q Results at a Glance

**KEY PERFORMANCE**

- PUBG PC Revenue
  - YoY 35% ↑
- Resumed Service
  - May 29th
- Studio Investments
  - 7 / 15

**KEY FINANCIAL HIGHLIGHTS**

- Revenue: 387.1bn KRW
- Operating Profit: 131.5bn KRW
- Operating Profit Margin: 34%

Note: (1) Service resumed on May 29, 2023 after a 10-month suspension from July 28, 2022 (2) Studio acquisitions and minority stake investments to be completed from January to May 2023, (3) Post-IPO studio acquisitions and minority stake investments
PC / Console

PUBG PC/Console Maintaining Sustainable Global Live Service with Diverse Updates and Improved Monetization

Enhancing In & Out Game Experience under F2P + No P2W

- Tactical Gears Renewal
- New Arcade Mode: Bluebomb Rush
- Progressive Skin: Deadly Dollhouse SLR
- Survivor Pass: The Big Score

Key Live Service Content for 3Q23

- Aston Martin & Seasonal Workshop
- Street Fighter 6 Collaboration
- New Weapon Dragunov
- Miramar Map Sub Update
PUBG Mobile Generating Solid Traffic and Revenue Led by Growth in New Regions, BGMI Revenue Contribution Expected in 2H23

**Live Service Expanding Traffic and Revenue**

- New Pass System RP A Series
- Dinoground Mode
- Karol G Collaboration Skin & Voice Pack
- X Suit Upgrade Skin

**IP Collaborations and Revamping Service in India**

- Dragon Ball Collaboration Skins & Mode
- Aston Martin Vehicle Skins
- India BGIS 2023 Esports Tournament
- BGMI Login Event
Scale-Up the Creative

Scale-Up the Future Growth Potential with Transition from a Global Game Company into a Global Publisher

KRAFTON

1. Publishing Accountability
   Studio/Project supervised by Champions
   Virtual Organization System

2. Publishing Organization
   Publishing by HQ (1PP & 2PP)
   Restructuring to strengthen 2PP

3. Discovering New Creative
   “The Creative”
   Team of max 30 developers
   Soft Launch in 1.5 years

Game Studio Investments in 2023

Note: (1) To be completed in August 2023 (2) Incubating projects as of August 2023
Beyond Game

Focusing on Enhancing Efficiency in Game Development and Discovering New Gameplay Through AI and Deep Learning

Deep Learning R&D Objectives and Core Technologies

① Game Dev Efficiency
② New Gameplay

- TTS
- Language Model & Chatbot
- Image Generation
- 3D Avatar & Animation

Project Migaloo

- Deep Learning/AI technology applied to develop core open-world features and content
- Content creation and distribution using sandbox tools
2Q23 Financials

**Revenue**
KRW 387.1bn (-28.2% QoQ, -8.6% YoY)
Revenue stabilized due to seasonality and major content updates concentrated in 2H23

**Operating Profit**
KRW 131.5bn (-53.5% QoQ, -20.7% YoY)
QoQ decline from stabilized revenue in 2Q23

**Net Profit**
KRW 128.5bn (-51.9% QoQ, -33.7% YoY)

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**Revenue**
- **KRW bn**
- 2Q22: 423.6bn
  - PC: 319.7bn
  - Mobile: 131.1bn
  - Console: 88.6bn
  - Etc.: 9.6bn
- 3Q22: 433.7bn
  - PC: 282.4bn
  - Mobile: 139.1bn
  - Console: 131.1bn
  - Etc.: 11.7bn
- 4Q22: 473.8bn
  - PC: 254.7bn
  - Mobile: 282.4bn
  - Console: 178.5bn
  - Etc.: 12.2bn
- 1Q23: 538.7bn
  - PC: 348.2bn
  - Mobile: 244.9bn
  - Console: 117.0bn
  - Etc.: 6.1bn
- 2Q23: 387.1bn
  - PC: 190.0bn
  - Mobile: 139.1bn
  - Console: 117.0bn
  - Etc.: 4.8bn

**Operating Profit**
- **KRW bn**
- 2Q22: 165.8bn
- 3Q22: 144.6bn
- 4Q22: 126.2bn
- 1Q23: 283.0bn
- 2Q23: 131.5bn

**Net Profit**
- **KRW bn**
- 2Q22: 194.0bn
- 3Q22: 226.4bn
- 4Q22: 267.2bn
- 1Q23: 128.5bn

- Impairment loss of Intangible Assets: KRW -149.2bn
- 2Q23: (165.4)bn

- QoQ decline from stabilized revenue in 2H23

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**Net Profit Margin**
- 2Q22: 46%
- 3Q22: 52%
- 4Q22: 50%
- 1Q23: 33%
- 2Q23: 33%

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**Operating Profit Margin**
- 2Q22: 39%
- 3Q22: 33%
- 4Q22: 27%
- 1Q23: 34%
- 2Q23: 34%
## Expense Breakdown

### Operating Costs

**KRW 255.6bn (-0.0% QoQ, -0.8% YoY)**

- **(Personnel)** 2Q23 +2.4% QoQ, +9.6% YoY
  - Increased QoQ and YoY due to increase in headcount

- **(Paid Commissions)** 2Q23 +14.6% QoQ, -13.5% YoY
  - Increased QoQ on expenses related to PGS1 Esports event, decreased YoY from BGMI service suspension

<table>
<thead>
<tr>
<th>KRW bn</th>
<th>2Q22</th>
<th>3Q22</th>
<th>4Q22</th>
<th>1Q23</th>
<th>2Q23</th>
<th>QoQ</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Costs</strong></td>
<td>257.7</td>
<td>289.1</td>
<td>347.6</td>
<td>255.7</td>
<td>255.6</td>
<td>-0.0%</td>
<td>-0.8%</td>
</tr>
<tr>
<td>% of Revenue</td>
<td>60.8%</td>
<td>66.7%</td>
<td>73.4%</td>
<td>47.5%</td>
<td>66.0%</td>
<td>18.5%p</td>
<td>5.2%p</td>
</tr>
<tr>
<td>Personnel</td>
<td>94.2</td>
<td>98.9</td>
<td>63.4</td>
<td>100.8</td>
<td>103.2</td>
<td>2.4%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Platform Fees/Cost of Revenue&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>50.1</td>
<td>47.8</td>
<td>57.7</td>
<td>46.7</td>
<td>32.2</td>
<td>-31.2%</td>
<td>-35.8%</td>
</tr>
<tr>
<td>Paid Commissions</td>
<td>81.5</td>
<td>85.2</td>
<td>102.7</td>
<td>61.6</td>
<td>70.6</td>
<td>14.6%</td>
<td>-13.5%</td>
</tr>
<tr>
<td>Marketing</td>
<td>11.3</td>
<td>19.7</td>
<td>81.2</td>
<td>5.1</td>
<td>8.7</td>
<td>70.5%</td>
<td>-23.3%</td>
</tr>
<tr>
<td>Share-based Payment Expenses</td>
<td>(8.4)</td>
<td>7.8</td>
<td>(9.7)</td>
<td>10.0</td>
<td>9.1</td>
<td>-9.8%</td>
<td>N/M</td>
</tr>
<tr>
<td>Others</td>
<td>29.0</td>
<td>29.7</td>
<td>52.4</td>
<td>31.4</td>
<td>31.9</td>
<td>1.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>165.8</td>
<td>144.6</td>
<td>126.2</td>
<td>283.0</td>
<td>131.5</td>
<td>-53.5%</td>
<td>-20.7%</td>
</tr>
<tr>
<td>% OP Margin</td>
<td>39.2%</td>
<td>33.3%</td>
<td>26.6%</td>
<td>52.5%</td>
<td>34.0%</td>
<td>-18.5%p</td>
<td>-5.2%p</td>
</tr>
<tr>
<td>Adj. EBITDA&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>177.4</td>
<td>174.5</td>
<td>160.3</td>
<td>319.0</td>
<td>167.7</td>
<td>-47.4%</td>
<td>-5.4%</td>
</tr>
<tr>
<td>% Adj. EBITDA Margin</td>
<td>41.9%</td>
<td>40.2%</td>
<td>33.8%</td>
<td>59.2%</td>
<td>43.3%</td>
<td>-15.9%p</td>
<td>1.5%p</td>
</tr>
</tbody>
</table>

Note: (1) Platform Fees/Cost of Revenue consist of Steam, market commissions, etc. (2) Adj. EBITDA = EBITDA + Share-based payment expenses
Operating Profit / Adj. EBITDA

Operating Profit

KRW 131.5bn (-53.5% QoQ, -20.7% YoY)

Adj. EBITDA

KRW 167.7bn (-47.4% QoQ, -5.4% YoY)

- 2Q23 Adj. EBITDA decreased 5% YoY, with Adj. EBITDA margin of 43%

Operating Profit

Adj. EBITDA(1)

Unit: KRW bn

Note: (1) Adj. EBITDA = EBITDA + Share-based payment expenses, (2) Reversal of Share-based payment expenses

Operating Profit

- 39% 33% 27% 34%

Adj. EBITDA Margin

- 42% 40% 34% 59%

Share-based payment expenses

Adjusted EBITDA

- 185.8 174.5 170.0 319.0

Operating Profit

KRW 131.5bn
(-53.5% QoQ, -20.7% YoY)

Adj. EBITDA

KRW 167.7bn
(-47.4% QoQ, -5.4% YoY)
## Net Profit

### Profit Before Income Tax

<table>
<thead>
<tr>
<th></th>
<th>2Q22</th>
<th>3Q22</th>
<th>4Q22</th>
<th>1Q23</th>
<th>2Q23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-operating Profit</td>
<td>94.5</td>
<td>169.1</td>
<td>(349.1)</td>
<td>79.4</td>
<td>28.0</td>
</tr>
<tr>
<td>Non-Operating Income</td>
<td>108.9</td>
<td>206.1</td>
<td>(40.2)</td>
<td>141.8</td>
<td>85.3</td>
</tr>
<tr>
<td>Other Income</td>
<td>101.3</td>
<td>196.2</td>
<td>(49.8)</td>
<td>131.9</td>
<td>74.0</td>
</tr>
<tr>
<td>Finance Income</td>
<td>7.5</td>
<td>9.9</td>
<td>9.6</td>
<td>9.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Non-Operating Expense</td>
<td>14.4</td>
<td>37.0</td>
<td>308.9</td>
<td>62.4</td>
<td>57.3</td>
</tr>
<tr>
<td>Other Expense</td>
<td>12.8</td>
<td>35.5</td>
<td>306.0[^1]</td>
<td>60.5</td>
<td>54.9</td>
</tr>
<tr>
<td>Finance Expense</td>
<td>1.6</td>
<td>1.5</td>
<td>2.8</td>
<td>1.9</td>
<td>2.3</td>
</tr>
<tr>
<td>Profit Before Income Tax</td>
<td>260.3</td>
<td>313.7</td>
<td>(222.9)</td>
<td>362.4</td>
<td>159.5</td>
</tr>
</tbody>
</table>

### Net Profit

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<td>226.4</td>
<td>267.2</td>
<td>128.5</td>
<td></td>
</tr>
</tbody>
</table>

Note: (1) Impairment loss of Intangible Assets (KRW -149.2bn)
(2) Gains and Losses on Valuation using equity method included in other income and expense

2Q23 Net Profit decreased YoY due to decreased Operating Profit and FX effects impacting Non-operating Profit
Q&A
Our Vision

**WHY**

We believe **games** will become the world’s **most powerful medium**.

**HOW**

Based on our **creativity**, steadfast dedication toward **new challenges** and **technological development**,

**WHAT**

We will further **expand our original IPs** and build **immersive, virtual worlds**, where our fans play together and share fun moments.

**We will meet everyone in the world we are building.**