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Video Games in South Korea

Highlights

- This issue provides insights and analysis on video games in South Korea. It shows the pre-COVID-19 performance of the industry along with the pandemic's impact in 2020.
- This report also discusses the recoveries and opportunities of the companies in 2020. Growth and sales would be driven by mobile games and video games.

Pre-COVID-19 Performance

In 2019, Steady Sales Growth of Video Games are Driven by Mobile, Static Console Games, and Virtual Reality/ Augmented reality (VR/AR) Headsets

In 2019, video games saw persistent sales growth through mobile and static console games, which is expected to continue over the forecast period. Mobile games remained the largest area of video games, due to the rapid introduction of new mobile games, especially massively multiplayer online role-playing game (MMORPG) types like Lineage 2M. In hand-held consoles, Nintendo introduced Nintendo Switch Lite during September 2019, however, sales were weak compared to the Nintendo Switch, though the launch still positively impacted the landscape for Nintendo.

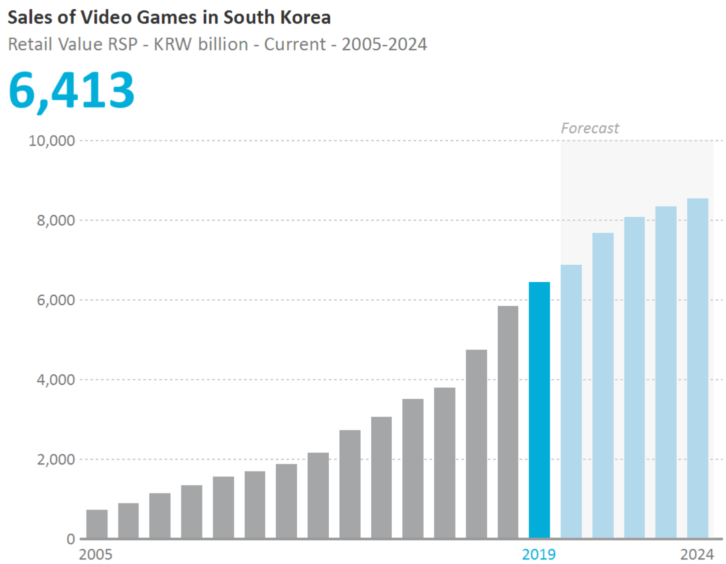
South Korea launched 5G technology in 2019, and major telecommunication firms like SK Telecom, KT, and LG Uplus actively sold VR headsets, based on the technology; as 5G can deliver smooth video clips for VR headsets. Therefore, high price promotions and a package deal with VR headsets helped consumers to access the product more easily than before. The technology also enables the operation of cloud games; therefore LG Uplus launched its cloud gaming service on 5G in September 2019. These drivers continued to lift video game sales throughout the year.

Strict Regulations Imposed on the Gaming Industry Continue to Stifle Growth Across 2019

South Korea has had limited gaming hours for teenagers since 2011, with those under 16 prohibited from playing online and console games from midnight until 6 am. However, this does not apply to mobile games. In 2019, the government considered extending the regulation hours from 10 pm until 7 am while discussing the inclusion of mobile games. Also, the World Health Organisation (WHO) placed gaming disorder in 11th position on its revision of the international classification of diseases (ICD-11), due to mental health issues caused by long hours of gameplay. The South Korean government will use the revision as a reference for enhancing its regulation of the gaming industry. Therefore, such strict regulations will stifle the growth of video gaming, especially digital play, in the future.

The Popularity of Lineage Supports NCsoft Corp's Leading Position in 2019, as Players Invest in E-sports and E-commerce Drives Sales

NCsoft Corp continued to retain its leading position in 2019, with its flagship game, Lineage. Lineage is an MMORPG, with sales mainly taking place online, boosted by the launch of Lineage M in 2017 and Lineage 2M in 2019. The game remained popular as it allows consumers to keep developing their characters, with in-game purchasing boosting sales, while many loyal gamers have been participating in the game for over 10 years - with this level of loyalty sustaining growth. The 2019



launch of Lineage 2M was accompanied by 4k resolution, shorter loading times, and allowed for at least 10,000 characters to fight simultaneously. Lineage plans to extend its platform from online and mobile, to console, to increase sales.

In 2019, online and mobile game firms expanded their investment in E-sports, allowing them to extend awareness for existing and new games, in a hugely promoted industry. Riot games largely invested in E-sports, with a KRW100 billion investment for over 10 years, which has allowed its League of Legends Champions to be the largest E-sport game in South Korea. Furthermore, EA online E-sports by Nexon and Blade and Soul by NCsoft Corp has allowed domestic players to participate in the E-sports industry. Also, PUBG announced that it will enter into the E-sports industry with its flagship game Battleground, in 2020.

E-commerce remained the leading sales platform for video games in 2019, aligned with the increase in mobile gaming. In-game purchases through online and mobile games, and developing mobile platforms like Google Play, Apple App Store, and one-store support the growth of e-commerce. Younger gamers, including Millennials and Gen-Z, are familiar with e-commerce for purchasing items, and therefore, major game publishers and developers continue to develop e-commerce advertising, targeted at these audiences. However, store-based retailing continues to experience a decline, due to the uprising of mobile games. Therefore, this changes retailing structure from store to online in South Korea, which will continue to be supported by the increase of mobile games.

2020 and Beyond

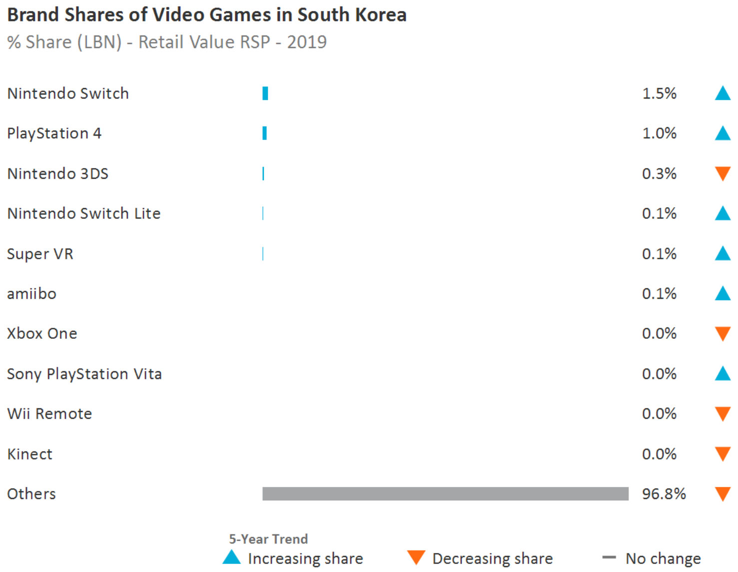
COVID-19 Impact

In 2020, sales of video games are now expected to grow by 6% in constant 2019 value terms, in light of the impact of COVID-19. This compared to a 4% rise in sales forecast in our 2019 edition of toys and games.

The outbreak of COVID-19 had a positive impact on the video games industry during Q1 and Q2, as such, growth in 2020 is predicted to be higher than growth predicted pre-COVID-19.

Despite not having a lockdown in the country, consumers were focused on social distancing, with children out of school and adults spending an increased amount of time at home. Therefore, during Q1 and Q2 of 2020, consumers found it hard to play computer games in person with their friends, and therefore, online games and mobile games increased their sales. These forms of gameplay allowed friends to meet and play online, removing the need to meet at popular game-playing locations such as cafés and restaurants. As social distancing continues across 2020, online gameplay will continue to grow, with consumers choosing a virtual way to meet their friends.

Also, several elements allowed video games to be more successful than traditional toys and games during the initial outbreak of COVID-19. This includes consumers who have increasingly turned to in-game and online



purchases in South Korea during 2019, continuing this behavior throughout 2020. Also, with children out of school, some parents used video games to occupy their time, allowing them to continue their daily routines while children were busy. Furthermore, adults at home also invested in video games to fill their time.

Affected Products within Video Games

It was assumed that video games recorded higher growth in 2020, compared to the pre-COVID-19 predictions. This was due to consumers turning to video games for increased home entertainment, with digital sales-boosting overall growth, as an easy, convenient way to purchase and play games at home. During the initial outbreak of COVID-19 in 2020, consumers began to focus on ways to entertain themselves in the home, which increased purchases of console games and video game software. This caused the Nintendo Switch to sell out, with Animal Crossing being its most popular offering.

Sales of mobile games (in-game purchases) and console games (in-game purchases) were expected to remain high in 2020. Both areas benefited from being a convenient, accessible way to entertain adults and children at home. Besides, low-unit prices for in-game mobile purchases attracted consumers, especially during a period when home entertainment was in high demand.

Although stores were not closed during Q1 and Q2 of 2020, digital purchases drove growth as consumers were wary of visiting stores, with social distancing in place, and the threat of the virus on consumers' minds. Therefore, all in game-purchases, console games (digital), video games software (digital), and computer games (digital), recorded growth, with computer games (digital) moving from negative growth in 2019 to positive growth in 2020. Also, in-game and digital purchases were both growing areas pre-COVID-19, with the outbreak of COVID-19 further motivating sales. The impracticality of visiting physical stores made these purchases more appealing.

With 5G technology having launched in South Korea in 2019, AR/VR headsets were set to record the highest value growth in 2020, despite the outbreak of COVID-19, as consumers invest in innovative and appealing home entertainment.

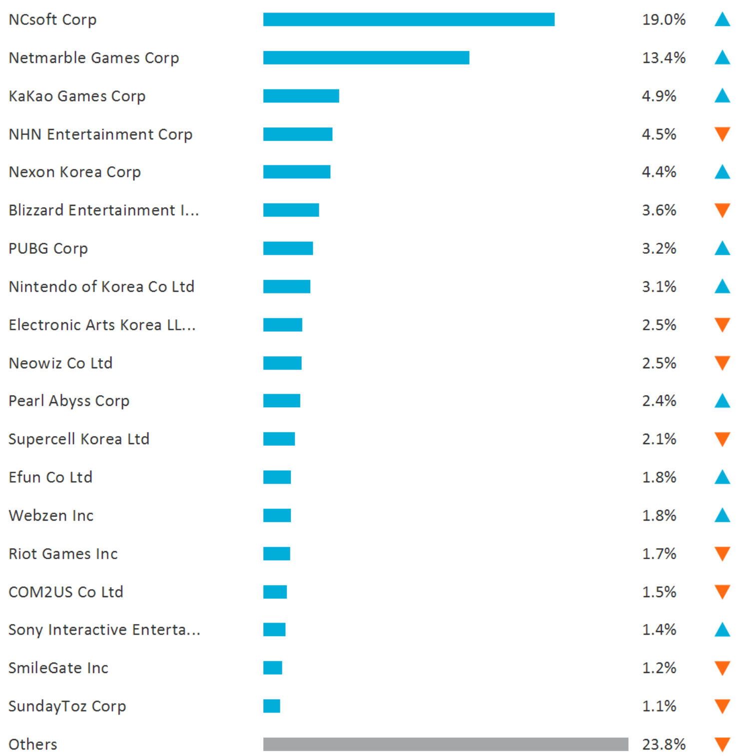
Recovery and Opportunities

The video games industry was predicted to see a boost in growth in 2020, compared to the pre-COVID-19 prediction. Across the forecast period, growth in the industry will continue to be driven by AR/VR headsets, as a new technology appealing to consumers and boosting the industry forward. Also, digital sales will remain increasingly crucial in console games (digital), console games (in-game purchases) continuing to drive high levels of growth. The convenience and increasing demand for digital purchases and downloads, bolstered by the outbreak of COVID-19 in 2020, would continue to maintain sales across the forecast period.

Also, growth and sales would be driven by mobile games, with mobile games (in-game purchases) continuing to remain popular. Low-unit prices will enable sales for those who are price conscious following the outbreak of COVID-19, and all digital games will benefit from offering promotions and aggressive price-points, having the ability to offer reduced prices compared to physical stores which have more overheads.

Overall, the outbreak of COVID-19 boosted growth for consoles and in-game purchases during 2020, especially for mobile games and mobile games (in-game purchases), with video game software (digital) predicted to drive positive growth throughout the forecast period. This will continue to challenge the growth of traditional toys and games, with AR/VR headsets predicted to drive growth, offering an interesting, innovative gaming format.■

Company Shares of Video Games in South Korea
% Share (NBO) - Retail Value RSP - 2019



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Other Hot Drinks in Japan

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