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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

COY BROOKMAN, Individually and
on Behalf of All Others Similarly
Situated,

Plaintiff,

v.

WEBTOON ENTERTAINMENT INC.,
JUNKOO KIM, DAVID J. LEE,
HAEJIN LEE, NAMSUN KIM, JUN
MASUDA, ISABELLE WINKLES,
NANCY DUBUC, GOLDMAN
SACHS & CO. LLC, MORGAN
STANLEY & CO. LLC, J.P.
MORGAN SECURITIES LLC,
EVERCORE GROUP L.L.C.,
DEUTSCHE BANK SECURITIES
INC., UBS SECURITIES LLC, HSBC
SECURITIES (USA) INC.,
RAYMOND JAMES & ASSOCIATES,
INC., and LIONTREE ADVISORS
LLC,

Defendants.

Case No.

CLASS ACTION COMPLAINT

1 Plaintiff Coy Brookman (“Plaintiff”), individually and on behalf of all others
2 similarly situated, by and through his attorneys, alleges the following upon
3 information and belief, except as to those allegations concerning Plaintiff, which are
4 alleged upon personal knowledge. Plaintiff’s information and belief is based upon,
5 among other things, his counsel’s investigation, which includes without limitation:
6 (a) review and analysis of regulatory filings made by WEBTOON Entertainment
7 Inc. (“Webtoon” or the “Company”) with the United States (“U.S.”) Securities and
8 Exchange Commission (“SEC”); (b) review and analysis of press releases and media
9 reports issued by and disseminated by Webtoon; and (c) review of other publicly
10 available information concerning Webtoon.

11 NATURE OF THE ACTION AND OVERVIEW

12 1. This is a class action on behalf of persons and entities that purchased or
13 otherwise acquired Webtoon common stock pursuant and/or traceable to the
14 registration statement and prospectus (collectively, the “Registration Statement”)
15 issued in connection with the Company’s June 2024 initial public offering (“IPO” or
16 the “Offering”). Plaintiff pursues claims against under the Securities Act of 1933
17 (the “Securities Act”).

18 2. Webtoon is an entertainment company focused on mobile webcomics
19 and visual storytelling.

20 3. On June 27, 2024, the Company filed its prospectus on Form 424B4
21 with the SEC, which forms part of the Registration Statement. In the IPO, the
22 Company sold 16,371,549 shares of common stock at a price of \$21.00 per share.
23 The Company received net proceeds of approximately \$308.5 million from the
24 Offering. The proceeds from the IPO were purportedly to be used for general
25 corporate purposes, including working capital, operating expenses, and capital
26 expenditures.

27 4. On August 8, 2024, after the market closed, Webtoon announced its
28 financial results for second quarter 2024, which had ended just days after the IPO

1 closed. The Company reported revenue of \$321 million, which represented total
2 revenue growth of only 0.1%. The Company further revealed *advertising revenue*
3 *declined 3.6%* and *IP Adaptations revenue declined 3.7%*. The Company revealed
4 its revenue and revenue growth had been “offset by the Company’s significant
5 exposure to weaker foreign currencies.” Webtoon also reported a quarterly net loss
6 of \$76.6 million, or 70 cents.

7 5. On this news, Webtoon’s stock fell \$7.88 or 38.2%, to close at \$12.75
8 per share on August 9, 2024, on unusually heavy trading volume.

9 6. By the commencement of this action, Webtoon stock has traded as low
10 as \$12.45 per share, a more than 40% decline from the \$21.00 per share IPO price.

11 7. The Registration Statement was materially false and misleading and
12 omitted to state: (1) that the Company experienced a deceleration in advertising
13 revenue growth; (2) that the Company experienced a deceleration in IP adaptations
14 revenue; (3) that the Company experienced exposure to weaker foreign currencies
15 which offset revenue growth; (4) that, as a result of the foregoing, Defendants’
16 positive statements about the Company’s business, operations, and prospects were
17 materially misleading and/or lacked a reasonable basis.

18 8. As a result of Defendants’ wrongful acts and omissions, and the
19 precipitous decline in the market value of the Company’s securities, Plaintiff and
20 other Class members have suffered significant losses and damages.

21 JURISDICTION AND VENUE

22 9. The claims asserted herein arise under and pursuant to Sections 11 and
23 15 of the Securities Act (15 U.S.C. §§ 77k and 77o).

24 10. This Court has jurisdiction over the subject matter of this action
25 pursuant to 28 U.S.C. § 1331 and Section 22 of the Securities Act (15 U.S.C. § 77v).

26 11. Venue is proper in this Judicial District pursuant to 28 U.S.C. §
27 1391(b). In addition, the Company’s principal executive offices are in this District.

28

1 19. Defendant Jun Masuda (“Masuda”) was a director of the Company and
2 signed or authorized the signing of the Company’s Registration Statement filed with
3 the SEC.

4 20. Defendant Isabelle Winkles (“Winkles”) was a director of the Company
5 and signed or authorized the signing of the Company’s Registration Statement filed
6 with the SEC.

7 21. Defendant Nancy Dubuc (“Dubuc”) was a director of the Company and
8 signed or authorized the signing of the Company’s Registration Statement filed with
9 the SEC.

10 22. Defendants H. Lee, N. Kim, Masuda, Winkles, and Dubuc are
11 collectively referred to hereinafter as the “Individual Defendants.”

12 23. Defendant Goldman Sachs & Co. LLC (“Goldman Sachs”) served as an
13 underwriter for the Company’s IPO. In the IPO, Goldman Sachs agreed to purchase
14 4,575,000 shares of the Company’s common stock, exclusive of the over-allotment
15 option.

16 24. Defendant Morgan Stanley & Co. LLC (“Morgan Stanley”) served as
17 an underwriter for the Company’s IPO. In the IPO, Morgan Stanley agreed to
18 purchase 4,275,000 shares of the Company’s common stock, exclusive of the over-
19 allotment option.

20 25. Defendant J.P. Morgan Securities LLC (“J.P. Morgan”) served as an
21 underwriter for the Company’s IPO. In the IPO, J.P. Morgan agreed to purchase
22 2,550,000 shares of the Company’s common stock, exclusive of the over-allotment
23 option.

24 26. Defendant Evercore Group L.L.C. (“Evercore”) served as an
25 underwriter for the Company’s IPO. In the IPO, Evercore agreed to purchase
26 1,125,000 shares of the Company’s common stock, exclusive of the over-allotment
27 option.

28

**The Company's False and/or Misleading
Registration Statement and Prospectus**

34. On May 31, 2024, the Company filed its Registration Statement on Form S-1 with the SEC, which forms part of the Registration Statement.

35. On June 17, 2024, the Company filed its final amendment to the Registration Statement with the SEC on Form S-1/A, which forms part of the Registration Statement. The Registration Statement was declared effective the next day.

36. On June 27, 2024, the Company filed its prospectus on Form 424B4 with the SEC, which forms part of the Registration Statement. In the IPO, the Company sold 16,371,549 shares of common stock at a price of \$21.00 per share. The Company received net proceeds of approximately \$308.5 million from the Offering. The proceeds from the IPO were purportedly to be used for general corporate purposes, including working capital, operating expenses, and capital expenditures.

37. The Registration Statement was negligently prepared and, as a result, contained untrue statements of material facts or omitted to state other facts necessary to make the statements made not misleading, and was not prepared in accordance with the rules and regulations governing its preparation.

38. Under applicable SEC rules and regulations, the Registration Statement was required to disclose known trends, events or uncertainties that were having, and were reasonably likely to have, an impact on the Company's continuing operations.

39. The Registration Statement disclosed the following about the Company's revenue and growth strategy, explaining that advertising and IP adaptations drives the Company's business model, stating in relevant part: ¹

¹ Unless otherwise stated, all emphasis in bold and italics hereinafter is added.

1 **Our Market Opportunity**

2 We see a market opportunity of approximately \$130 billion in Paid
3 Content, *\$680 billion in Advertising and \$900 billion in our IP
Adaptations businesses.*

4 * * *

5 **Advertising**

6 Our high intent, sought after user base attracts advertisers. As we
7 continue to invest in enhanced advertising products and capabilities, *we
8 believe that we will be able to increase advertising revenue as we
9 continue to innovate our advertising products and capture an
10 increasing portion of the \$680 billion digital advertising market
globally.* For example, according to our April 2024 survey of U.S.
users, 80% of our users prefer to watch ads to unlock paid episodes and
our users are 2x more likely to pay attention to ads compared to users
on Netflix, X, Reddit and Snap.

11 **IP Adaptations**

12 Including all web-comic and web-novel content but excluding Wattpad,
13 we had approximately 725 thousand total titles on our platform as of
14 December 31, 2023. Out of these, over 900 titles were adapted into
15 other content formats outside of web-comic and web-novel as of March
31, 2024, representing less than 1% of our content library and
demonstrating significant runway for future adaptations out of our
content library.

16 *We believe that as our library continues to grow, and we continue to
17 invest in the capabilities to produce IP Adaptations either in-house or
18 with third-party partners, we can capture an increasing portion of the
over \$900 billion global entertainment industry.*

19 40. The Registration Statement touted the Company’s purported “key
20 strengths” including the following, in relevant part:

21 *Diversified Business Model. We generate revenue in multiple ways. In
22 the year ended December 31, 2023, 80.2% of our revenue was from
Paid Content, 11.3% was from advertising and 8.4% was from IP
Adaptations.*

23 *Even though we are in the early stage of our adaptation business and
24 have a limited experience in generating substantial revenues from
25 such adaptations, we believe we can further diversify our
monetization strategy through IP Adaptations.*

26 41. The Registration Statement touted the Company’s purported “Growth
27 Strategies” including the following, in relevant part:

28 *Accelerate the growth of our advertising business by enhancing our
advertising products and reaching new advertisers. We plan to continue*

1 to invest in enhancing and diversifying our advertiser product offerings,
2 including engaging and interactive advertising formats, as well as more
3 targeted ad products leveraging the data we have. ***We have seen
4 significant success with our advertising business in Japan and plan to
5 accelerate the growth of our Advertising revenue in North America.***
6 In fact, according to our April 2024 survey of U.S. users, 80% of Fast
7 Pass users are willing to watch an ad for an episode – indicative of our
8 opportunity to grow our Advertising revenue without detracting from
9 the user experience. In North America, we have historically focused
10 less on growing our advertising business and instead focused on
11 building the core WEBTOON platform around Paid Content. Now that
12 we have established a large and engaged user base in North America,
13 we expect to capitalize on that audience, through both Wattpad and
14 WEBTOON. We also expect to build local advertising sales teams to
15 bring more diverse advertisers onto our platform.

16 42. The Registration Statement purported to warn of certain risks impacting
17 the Company’s growth, stating in relevant part:

18 ***Our growth depends on our ability to innovate and expand our
19 advertising business and to develop effective advertising products.***

20 We generate a portion of our revenue from advertising on our platform.
21 ***For the three months ended March 31, 2024, our advertising revenue
22 was \$37.0 million, accounting for 11.3% of our total revenue for the
23 three months ended March 31, 2024. For the years ended December
24 31, 2023 and December 31, 2022, our revenue from advertising was
25 \$145.5 million and \$145.1 million, respectively, accounting for 11.3%
26 and 13.4% of our total revenue for the years ended December 31,
27 2023 and December 31, 2022, respectively.*** Most of our advertisers do
28 not have long-term commitments with us, and many of our advertisers
can terminate their contracts with us at any time. Advertisers may not
continue to do business with us, or they may reduce the budgets they
are willing to commit to us, if we do not deliver advertisements in an
effective manner or fail to develop effective advertising products, if
they do not believe that their investment in advertising with us will
generate a competitive return relative to other alternatives or if they are
not satisfied for any other reason. This requires us to effectively
leverage digital technology and data analytics to gain new commercial
insights and develop targeted marketing and advertising initiatives to
reach users. If we are unable to provide advertisers with a suitable
return on investment, the demand for our advertisements may not
increase, or may decline, which may impact our revenue and financial
results. ***In addition, our ability to generate and maintain our
advertising revenues depends on a number of factors, including the
maintenance and enhancement of our brands, our platform, the
scale, engagement and loyalty of our users and the market
competition on advertising prices.*** We cannot assure you that we will
be able to retain existing advertisers or attract new ones. If we are
unable to retain and enhance our relationships with advertisers, our
business, financial condition and results of operations could be
adversely affected.

1 ***We intend to continue to diversify our monetization strategy and***
2 ***increase revenues from IP Adaptations, which may not be successful.***

3 We currently generate a substantial majority of our revenues from Paid
4 Content distribution. ***We also generate a portion of our revenues from***
5 ***online advertising.*** We plan to strengthen revenue contribution from
6 our other monetization methods, such as monetizing content on our
7 platform via adaptations into film, streaming series and other rich
8 media formats. We currently have various business models for IP
9 Adaptations, including licensing out the rights to adapt content created
10 by certain creators to intellectual property adaptation partners (e.g.,
11 studios, publishers, financiers, distributors, producers and potential
12 buyers), participating in the pre-production phase for such adaptations,
13 co-producing or investing in production for such adaptations alongside
14 intellectual property adaptation partners and directly funding the entire
15 project for such adaptations. We are in the early stage of our adaptation
16 business and have a limited track record of, or experience in, generating
17 substantial revenues from such adaptations. ***If our adaptation initiative***
18 ***does not enhance our monetization ability or enable us to develop***
19 ***new approaches to monetization, we may not be able to substantially***
20 ***increase our revenues or recover any associated costs.*** In addition, we
21 may in the future introduce new services to further diversify our
22 revenue streams, including services with which we have little or no
23 prior development or operating experience. If these new or enhanced
24 services fail to engage users, customers or content partners, we may fail
25 to attract or retain users or to generate sufficient revenues to justify our
26 investments and our business and operating results may suffer as a
27 result.

28 Moreover, we may fail to effectively identify and develop popular
content on our platform with adaptation potential, properly maintain
our existing business relationship with our intellectual property
adaptation partners in the future or develop new business relationships,
our intellectual property adaptation partners may be less likely to
source content from and develop business cooperation with us, the
occurrence of which could adversely affect our business, financial
condition and results of operations

43. The Registration Statement purported to warn of certain risks impacting
the Company, including the risk posed by the Company's exposure to international
currency fluctuations, stating in relevant part:

Our results of operations, which are reported in U.S. dollars, could be
adversely affected if currency exchange rates fluctuate substantially
in the future.

As we continue to expand our international operations, we become
more exposed to the effects of fluctuations in currency exchange rates.
We incur expenses for employee compensation and other operating
expenses at our non-U.S. locations in local currency. Fluctuations in the
exchange rates between the U.S. dollar and other currencies could
result in the dollar equivalent of our expenses being higher, which may
not be offset by additional revenue earned in the local currency. This

1 could have a negative impact on our reported results of operations. To
2 date, we have not engaged in any hedging strategies, and any such
3 strategies, such as forward contracts, options and foreign exchange
4 swaps related to transaction exposures that we may implement in the
5 future to mitigate this risk may not eliminate our exposure to foreign
6 exchange fluctuations. Moreover, the use of hedging instruments may
7 introduce additional risks if we are unable to structure effective hedges
8 with such instruments.

9 * * *

10 **Quantitative and Qualitative Disclosures about Market Risk**

11 We are exposed to market risks in the ordinary course of our business.
12 Market risk represents the risk of loss that may impact our financial
13 position due to adverse changes in financial market prices and rates.
14 Our market risk exposure is primarily the result of foreign currency
15 exchange rates and fluctuations in interest rates.

16 *Foreign Currency Exchange Risk*

17 Our revenue is generated globally in multiple currencies, primarily the
18 Korean won, Japanese yen and U.S. dollar. Our results of current and
19 future operations and cash flows are therefore subject to fluctuations
20 due to changes in foreign currency exchange rates. As the impact of
21 foreign currency exchange rates has not been material to our historical
22 operating results, we have not entered into derivative or hedging
23 transactions, but we may do so in the future if our exposure to foreign
24 currency becomes more significant.

25 44. The Registration Statement reported the Company's financial results,
26 stating in relevant part:

27 For the year ended December 31, 2023, we generated revenue of
28 \$1,282.7 million, net loss of \$144.8 million and Adjusted EBITDA of
\$11.7 million, representing a net loss margin of (11.3)% and an
Adjusted EBITDA Margin of 0.9%. See "Management's Discussion
and Analysis of Financial Condition and Results of Operations—Non-
GAAP Financial Measures."

45. The Registration Statement was materially false and misleading and
omitted to state: (1) that the Company experienced a deceleration in advertising
revenue growth; (2) that the Company experienced a deceleration in IP adaptations
revenue; (3) that the Company experienced exposure to weaker foreign currencies
which offset revenue growth; (4) that, as a result of the foregoing, Defendants'
positive statements about the Company's business, operations, and prospects were
materially misleading and/or lacked a reasonable basis.

1 **The Subsequent Disclosures**

2 46. On August 8, 2024, after the market closed, Webtoon announced its
3 financial results for second quarter 2024, which had ended days after the IPO
4 closed. The Company reported revenue of \$321 million, which represented total
5 revenue growth of only 0.1. The Company further revealed *advertising revenue*
6 *declined 3.6%* and *IP Adaptations revenue declined 3.7%*. Webtoon also reported a
7 quarterly net loss of \$76.6 million, or 70 cents. The press release stated, in relevant
8 part:

9 WEBTOON’s total revenue for the three months ended June 30, 2024
10 increased 0.1% to \$321.0 million compared to \$320.7 million in the
11 prior year as growth across the business was offset by the Company’s
12 significant exposure to weaker foreign currencies including the Korean
13 won and Japanese yen, the latter of which reached historically low
14 levels against the U.S. dollar. On a constant currency basis, this
15 translated to robust double digit revenue growth of 11.1%, with growth
16 drivers across all revenue streams globally.

17 In Paid Content, revenue of \$260.7 million grew 1.0%, or 11.5% on a
18 constant currency basis. This was driven by robust, double digit
19 revenue growth on a constant currency basis in Rest of World as well
20 as Japan, which is the Company’s largest market, following successful
21 execution of user conversion strategies. During the second quarter, total
22 MAUs of 166.3 million and MPUs of 7.8 million remained relatively
23 stable compared to the prior year. The Company also strengthened its
24 leadership position in Japan, with MPUs growing 15.5% compared to
25 the second quarter of 2023, supporting a record high MPU and Paying
26 Ratio. In Korea, user engagement metrics showed improvement
27 towards the end of the quarter following the initial roll out of the
28 platform’s AI-driven personalized recommendation model.

Advertising revenue was down 3.6%, which translated to growth of
2.3% on a constant currency basis. Triple digit revenue growth on a
constant currency basis in Japan and double digit revenue growth on a
constant currency basis in Rest of World amidst the ongoing capture of
a relatively nascent North American market were partially offset by
declining ad revenue in Korea, primarily due to the continued strategic
diversification of advertising partners and inventory away from parent
company, NAVER Corporation. The Company continues to diversify
its advertising products and the introduction of pre-roll ads has
bolstered performance.

IP Adaptations revenue declined 3.7%, which translated to growth of
24.9% on a constant currency basis, driven by growth in all
geographies. The Company remains focused on efforts to strengthen its
flywheel through IP adaptations, which support expansion of our user
base, enhance the creator ecosystem, and contribute to the overall
growth of the platform.

1 57. The Registration Statement for the IPO was inaccurate and misleading,
2 contained untrue statements of material facts, omitted to state other facts necessary
3 to make the statements made not misleading, and omitted to state material facts
4 required to be stated therein.

5 58. Webtoon is the registrant for the IPO. The Defendants named herein
6 were responsible for the contents and dissemination of the Registration Statement.

7 59. As issuer of the shares, Webtoon is strictly liable to Plaintiff and the
8 Class for the misstatements and omissions.

9 60. None of the Defendants named herein made a reasonable investigation
10 or possessed reasonable grounds for the belief that the statements contained in the
11 Registration Statement was true and without omissions of any material facts and
12 were not misleading.

13 61. By reasons of the conduct herein alleged, each Defendant violated,
14 and/or controlled a person who violated Section 11 of the Securities Act.

15 62. Plaintiff acquired Webtoon shares pursuant and/or traceable to the
16 Registration Statement for the IPO.

17 63. Plaintiff and the Class have sustained damages. The value of Webtoon
18 common stock has declined substantially subsequent to and due to the Defendants'
19 violations.

20 **SECOND CLAIM**

21 **Violation of Section 15 of the Securities Act**

22 **(Against the Individual Defendants)**

23 64. Plaintiff repeats and re-alleges each and every allegation contained
24 above as if fully set forth herein.

25 65. This count is asserted against the Individual Defendants and is based
26 upon Section 15 of the Securities Act.

27 66. The Individual Defendants, by virtue of their offices, directorship, and
28 specific acts were, at the time of the wrongs alleged herein and as set forth herein,

1 controlling persons of Webtoon within the meaning of Section 15 of the Securities
2 Act. The Individual Defendants had the power and influence and exercised the
3 same to cause Webtoon to engage in the acts described herein.

4 67. The Individual Defendants' positions made them privy to and provided
5 them with actual knowledge of the material facts concealed from Plaintiff and the
6 Class.

7 68. By virtue of the conduct alleged herein, the Individual Defendants are
8 liable for the aforesaid wrongful conduct and are liable to Plaintiff and the Class for
9 damages suffered.

10 **PRAYER FOR RELIEF**

11 WHEREFORE, Plaintiff prays for relief and judgment, as follows:

12 (a) Determining that this action is a proper class action under Rule 23 of
13 the Federal Rules of Civil Procedure;

14 (b) Awarding compensatory damages in favor of Plaintiff and the other
15 Class members against all defendants, jointly and severally, for all damages
16 sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial,
17 including interest thereon;

18 (c) Awarding Plaintiff and the Class their reasonable costs and expenses
19 incurred in this action, including counsel fees and expert fees; and

20 (d) Such other and further relief as the Court may deem just and proper.

21 **JURY TRIAL DEMANDED**

22 Plaintiff hereby demands a trial by jury.
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