

First quarter of fiscal year ending March 31, 2024
Financial results presentation materials



DRECOM[®]
with entertainment

Drecom Co., Ltd.
July 27, 2023

Please refer to the Fact Sheet on our website for consolidated financial results, cost of sales, SG&A expenses, etc., and billing sales in the game business. https://drecom.co.jp/ir/factsheet_202403Q1.pdf

Summary of this document

Q1 FY2023 (April-June) Actual

- **Decided to discontinue a subsidiary's new title due to lower-than-expected sales**
 - Sales: 2,346 million yen (-19.8% YoY) Operating income: 8 million yen (-99.0% YoY), Ordinary income: 2 million yen (-99.7% YoY), Net loss*1: -441 million yen (vs. net income of 521 million yen in the same period last year)
 - The subsidiary's new title was decided to be closed, and a one-time loss was incurred. Extraordinary loss of 416 million yen was recorded.

Forecast for FY2023

- **Revised full-year forecast due to Q1 situation and release schedule of titles under development**
 - Revised forecast (announced on 07/27/2023):
Sales 15,000 million yen → 11,500 million yen (-23.3%) Operating income 2,000 million yen → 500 million yen (-75.0%)
Ordinary income 1,900 million yen → 450 million yen (-76.3%) Net income*2 1,100 million yen → 0 million yen

Future measures

- **Promptly change future policies and take measures to improve the profit-and-loss situation as soon as possible**
 - Improve the quality of titles scheduled for release this fiscal year, and restore marketing plans.
 - For future development titles, we will improve probability of success and reduce risk by collaborating with multiple companies and accepting investment on a project-by-project basis.
 - Implement company-wide cost reduction and investment plan review.

1. Review of Q1 (Apr-Jun) FY2023

2. Forecast for FY2023

3. Medium-term goals

4. Appendix

Summary of business results for the first quarter of FY2023

Decided to close a subsidiary's new title due to lower-than-expected sales. Extraordinary loss of 416 million yen was recorded. Sales of some existing titles were also lower than expected.

(Millions of yen)

FY2023	
	Q1 (Apr-Jun)
Net sales	2,346
Operating income	8
<i>Operating profit ratio</i>	0.4%
EBITDA	82
<i>EBITDA Margin</i>	3.5%
Ordinary income	2
Net income (loss) attributable to shareholders of the parent company	-441

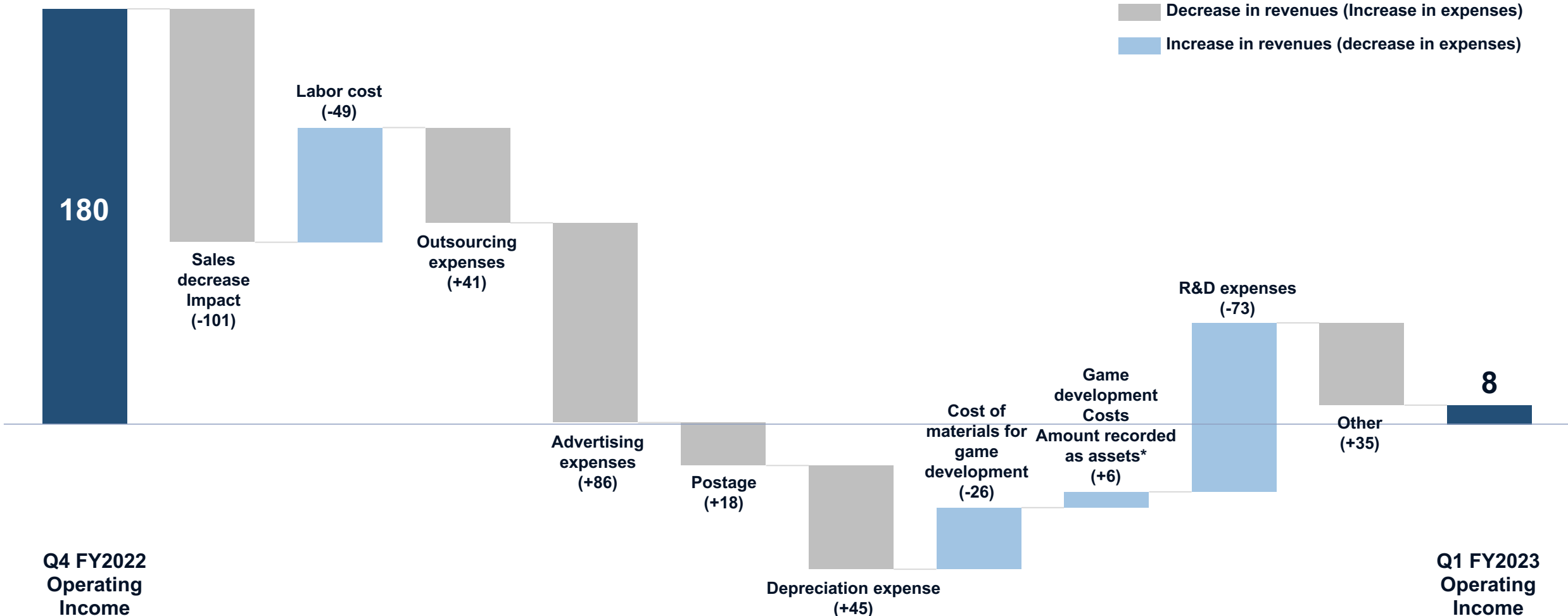
FY2022			
Q1 (Apr-Jun)	YoY	Q4 (Jan-Mar)	QoQ
2,927	-19.8%	2,420	-3.1%
817	-99%	180	-95.3%
27.9%	-	7.5%	-
909	-90.9%	209	-60.6%
31.1%	-	8.7%	-
810	-99.7%	167	-98.6%
521	-	-7	-

*EBITDA = operating income + amortization of goodwill + depreciation

1Q FY2023 Operating income (QoQ comparison)

Profit decreased due to the impact of lower sales of some existing titles and an increase in advertising and promotional expenses associated with the release of new titles.

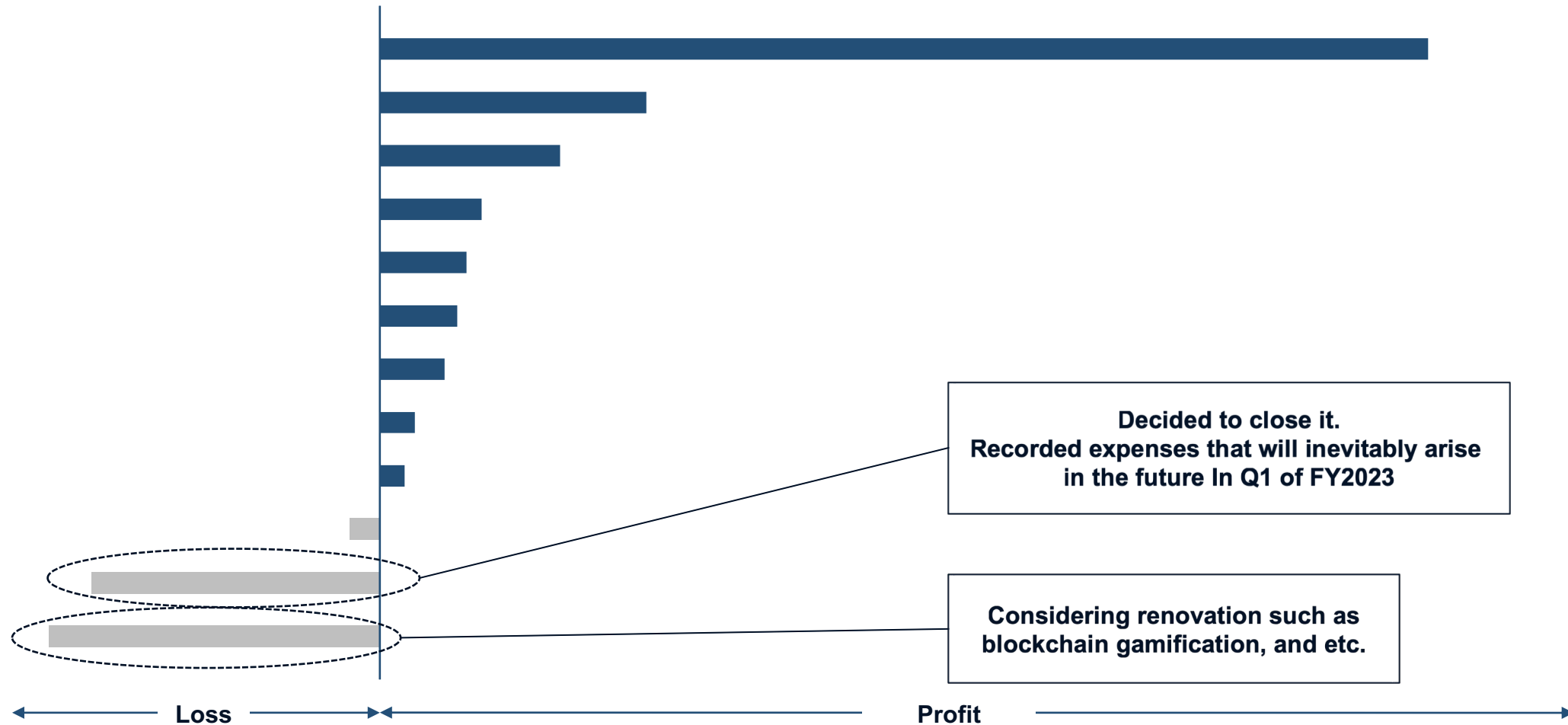
(Millions of yen)



Q1 FY2023 Revenue from game titles under management

The costs of two new in-house distributed titles are larger than those of revenue. Decided to close one of them.

Profit/loss of 12 titles under management* (Q1 Apr-Jun 2024)



Series titles and titles developed for overseas are counted as one title. Number of titles in operation as of June 30, 2023. Including two enza titles and *BOKU & DRAGONS*.

Topics of each business for Q1 FY2023

Game business

- **Sales of *DACHIMEN DENSETSU G* released in Q1 fell short of expectations and we decided to close it.**
- **Sales of some existing titles under management also fell short of expectations.**
→The impact of the severe market environment became apparent for the existing titles.
- ***Wizardry Variants Daphne*, scheduled for release within this fiscal year, has had its release date pushed back.**
→Changed the expected degree of sales contribution to the forecast.
No change in planned release during this fiscal year.
→A second user test will be conducted in the fall of 2023.
Scheduled for release after positive feedback is confirmed.

Media business

- **In the publishing domain, the comic book label “DRE Comics” began publishing on the web.**
→Publication of comic books in paperback and e-book format is scheduled to begin around October 2023.
- **Preparations for the release of *Eternal Crypt -Wizardry BC-* are progressing in the Web3 area.**
→ *Eternal Crypt -Wizardry BC-* is a blockchain game using Wizardry IP
→Unveiled game overview and future roadmap. Scheduled for release by the end of this fiscal year.
- **Continue to develop/provide new services utilizing know-hows from existing businesses**
→Operating fan community promotion services "Root" and "Fanflu", "load testing service", etc.

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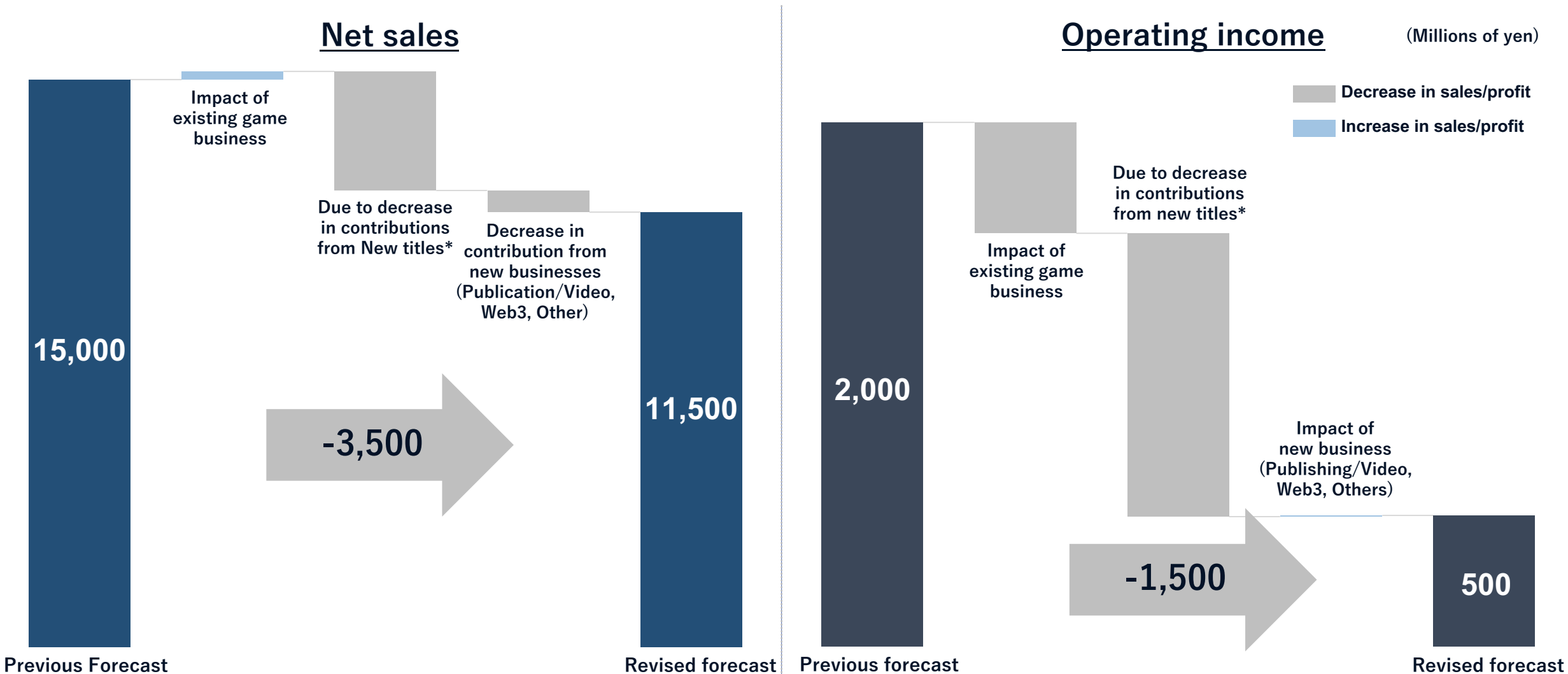
Revision of full-year earnings forecasts for FY2023

Revised full-year forecast due to lower-than-expected sales of a subsidiary's new titles and some existing titles in Q1. In addition, the release timing of a title scheduled for release during the fiscal year ending March 31, 2024 has been pushed back, resulting in a change in the expected contribution to earnings.

(Millions of yen)	Previous Forecast (Announced on May 11, 2023)	Revised Forecast (Announced on July 27, 2023)	Compared to previous time		Main Factors
			Difference	% change	
Net sales	15,000	11,500	-3,500	-23.3%	<ul style="list-style-type: none"> New titles missing targets and the expected release date being pushed back
Operating income	2,000	500	-1,500	-75.0%	<ul style="list-style-type: none"> Decrease in profits expected from new titles Decrease in profits of some existing titles
Ordinary income	1,900	450	-1,450	-76.3%	
Net income attributable to shareholders of the parent company	1,100	0	-1,100	-	<ul style="list-style-type: none"> Extraordinary loss of 416 million yen for closing <i>DACHIMEN DENSETSU G</i>

Revision of full-year earnings forecasts for FY2023

Mainly due to the revised forecast of contribution to earnings from new in-house distributed titles



Approach to full-year forecasts for FY2023

The date of the previous announcement of financial results,
Assumption as of May 11, 2023

The date of this earnings announcement
Assumptions as of July 27, 2023

Game business	<p>Existing: Despite the impact of the termination of operations of some titles, stable revenues were secured from multiple long-term titles.</p> <p>New: Three new titles to be released for in-house distribution, two of them are expected to contribute to earnings from this fiscal year.</p> <ul style="list-style-type: none"> • GGGGG released at the end of March 2023, is an experimental title that includes new initiatives. Continuing with a medium-term perspective • Scheduled for release this <i>fiscal year</i>. <i>DACHIMEN DENSETSU G</i> (Developd by studiorex Co., Ltd.), <i>Wizardry Variants Daphne</i>, <i>Evil Prince and the Puppet</i> (This title is expected to make a full-fledged contribution to earnings in the next fiscal year.) • All new titles are self-distributed titles that are recorded on a gross basis, so the impact on sales is significant. • Expect to see an increase in operational expenses, advertising, etc. due to the release of new titles 	<p>Existing: <u>Some titles fell short of expectations, and future outlook was revised.</u></p> <p>New:</p> <ul style="list-style-type: none"> • GGGGG is <u>considering modifications, including making it a blockchain game.</u> • <u>Sales of DACHIMEN DENSETSU G (released in May 2023) fell short of expectations, and we decided to close it.</u> • Wizardry Variants Daphne is scheduled for release during this fiscal year and is expected to contribute to business performance. (<u>The release timing and contribution of this title to earnings are reviewed.</u>) • Evil Prince and the Puppet is also scheduled for release during the current fiscal year. (This title is expected to make a full-fledged contribution to earnings in the next fiscal year.)
Media business	<p>R&D and other expenses are expected to increase in line with the launch of new business areas</p> <p>Publishing/Video: Following on from the light novel label, Comic/webtoon label to be launched</p> <p>Web3: <i>Eternal Crypt -Wizardry BC-</i>, NFT Project, etc. Plans to release multiple projects</p> <p>Other: Plans to continue to develop/provide new services utilizing existing business expertise</p>	<ul style="list-style-type: none"> • <u>R&D expenses are expected to be lower than assumed at the beginning of the period.</u> • No other changes
Investment policy	<p>Invest within the cash flow generated by operating activities to ensure that we are in a position to continue to meet the challenge</p>	<ul style="list-style-type: none"> • <u>Overall strategy review and investment plan revision in unpublished/prototype mobile games and new business areas</u>

Our current status and future measures

Promptly change future policies and measures

Current Status

- New mobile games performed worse than expected.
- Impact of severe market conditions became apparent in existing titles.
- Company-wide increase in costs, including R&D expenses, etc.



Future Measures

- **Improve the quality of titles scheduled for release during the fiscal year ending March 31, 2024 and revise marketing plans**
- **Greater emphasis on evaluation in pre-release game verification and user testing**
 - Decide whether or not to conduct additional development and whether or not to release the product according to the results of user testing.
 - *User testing dates: Wizardry Variants Daphne in Fall 2023, Evil Prince and the Puppet within the year 2023, and "Location-based IP Titles" in Spring 2024.*
- **Review overall strategy for unannounced/prototype stage mobile game titles**
- **Aim to improve the probability of success and reduce risk by collaborating with multiple companies and accepting investment on a project-by-project basis.**
- **Control/reduce R&D investment in new business areas such as publishing, video, and Web3**
- **Review of company-wide cost reduction and investment plans**

Summary of full-year forecasts for FY2023

Aim to improve profit/loss situation as soon as possible and achieve full-year forecast through contributions from new titles to be released in the latter part of second half of the fiscal year.

(Millions of yen)	FY2023			FY2022
	Q1 (Apr-Jun)	Rate of progress	Full Year Forecast	Actual
Net sales	2,346	20.4%	11,500	10,800
Variable cost	351	16.0%	2,192	1,386
Fixed cost	1,987	22.6%	8,808	7,132
Advertising expenses	141	15.6%	906	208
R&D expenses	82	14.6%	567	354
Game development costs charged to assets*	-498	19.8%	-2,523	-1,999
Operating income	8	1.7%	500	2,281
<i>Operating profit ratio</i>	<i>0.4%</i>	-	<i>4.3%</i>	<i>21.1%</i>
Ordinary income	2	0.5%	450	2,192
Net income attributable to shareholders of the parent company	-441	-	0	1,159

Image of progress in the second quarter of FY2023

In Q2 (July-September), aim for early improvement in profit/loss situation through measures by each operational title and company-wide cost reductions

Sales contribution from new titles and new business areas is expected mainly from the second half of the fiscal year.

■ Progress Image for Q2

Net sales: Expect to increase revenues from Q1 due to the change of one third-party distribution service in operation from July to in-house distribution (profit impact is expected to be minor)

Aim for Q/Q sales increase by implementing various measures such as seasonal events

Operating income: Expenses associated with the release of new titles (advertising, etc.), which incurred in Q1, are expected to decrease.

Reviewed company-wide cost reduction and investment plans

Net sales

Full-year forecast: **11,500** million yen



Q2 Progress image

Operating income

Full-year forecast: **500** million yen



Q2 Progress image

Three years to scale up

Finish rebuilding by the end of FY March 2024, and aim for growth in the FY March 2025 and beyond.

FY2023

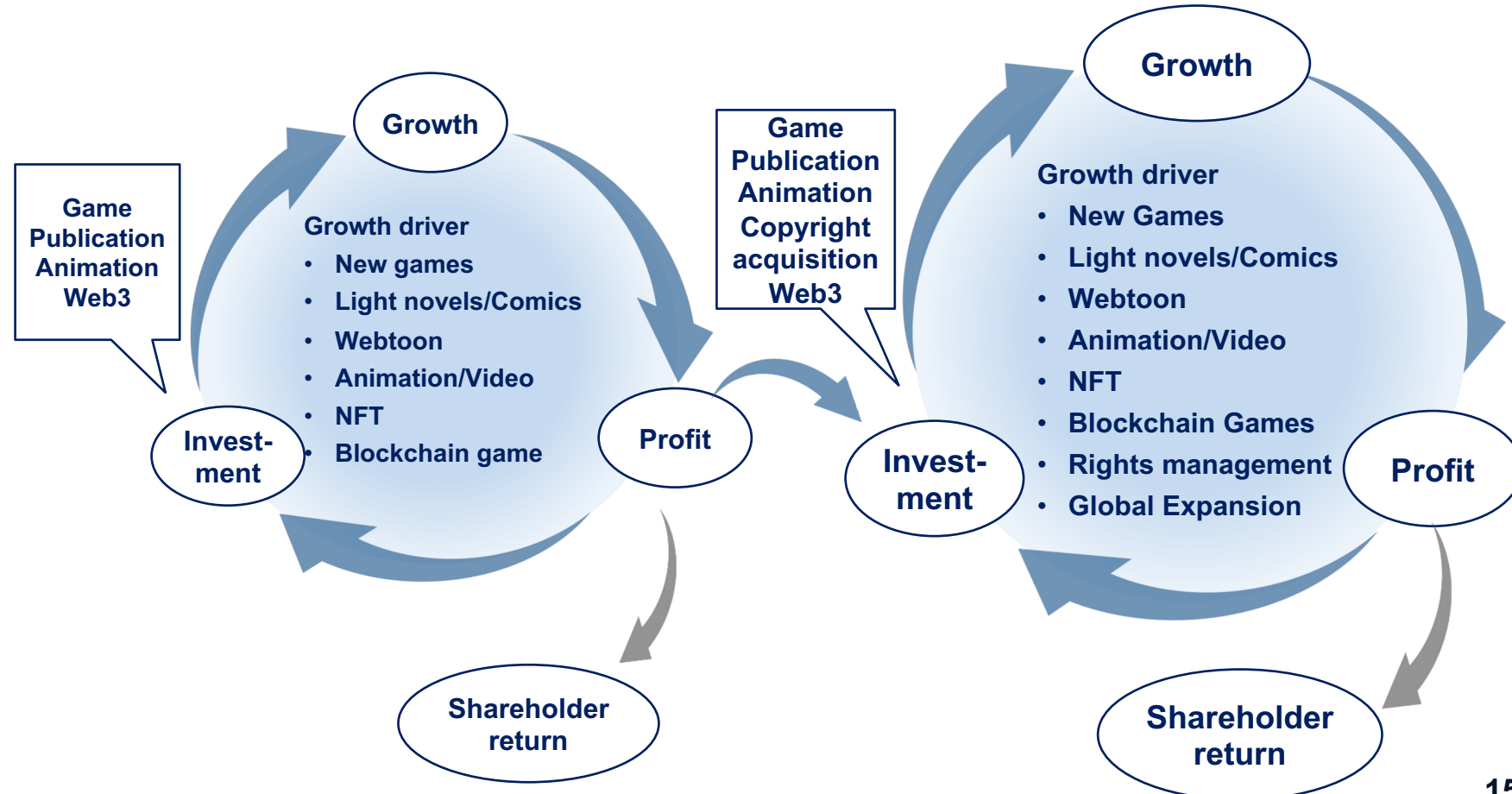
Sales: 11.5 billion yen
Operating income: 0.5 billion yen

FY2024 – FY2025

Sales: CAGR over 20%
Operating margin: Maintain 15%

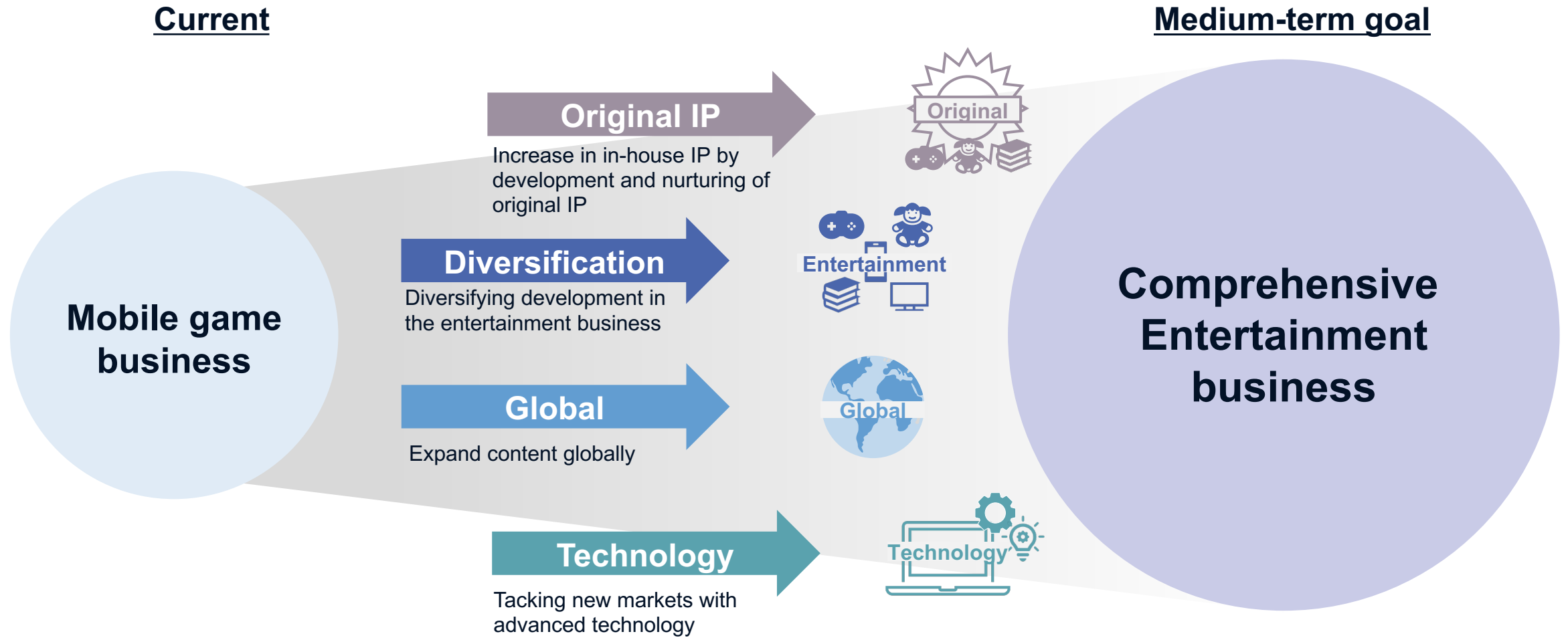
Rebuilding for next fiscal year

- Improve profitability of existing businesses
- Review investment plans
- Company-wide cost reductions
- Collaborating with other companies involving investment and acceptance on a project-by-project basis



1. Review of Q1 (Apr-Jun) FY2023
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- 3. Medium-term goals**
4. Appendix

Medium-term goal



Status of in-house IP development and nurturing: *Wizardry*

Acquire copyrights and trademarks of a popular IP and make them our own IP, and then enhance the IP value through multimedia development

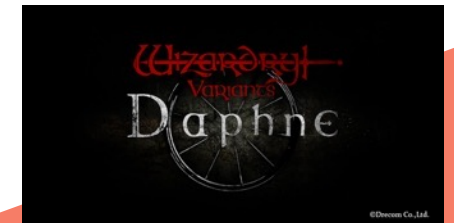


Wizardry

- From 2022 onward - (planned)
 - Novelization and comic book adaptation by Drecom Media *Blade & Bastard*
 - Mobile Gaming *Wizardry Variants Daphne*
 - Blockchain Gaming *Eternal Crypt-Wizardry BC-*



Blade & Bastard



Wizardry Variants Daphne



Wizardry BCG (tentative)

- From 2020
 - Drecom acquired trademark rights.
 - Mobile Game Development Announcement

- From 2009
 - Gamepot, Inc. acquired trademark rights
 - Derivative Series Development

1981~.

- First software released for PC.
- Series development until about 2001

1981

2009

Year 2020

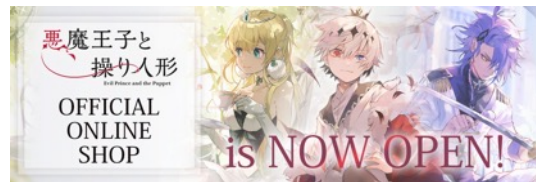
After 2022

Image of IP value enhancement

Status of in-house IP development and nurturing: *Evil Prince and the Puppet*

Initiatives to create fan communities from SNS operations, nurture IP, and develop it in multiple areas, including goods creation and game development.

Approx. 110,000 Twitter followers as of March 2023



April 2021

- Goods are now on sale at the official online store.

November 2019

- Project Presentations

Approx. 60,000

SNS followers: approx. 10,000



November 2022

- Game information released
- Real Event Exhibit

Approx. 100,000



- From 2023 (planned)
- Mobile gaming

Development and nurturing of in-house IP: *Tokyo Stories*

An initiative to develop original titles for PCs and consoles on a one-time purchase basis.

Already has more than 100,000 Twitter followers with high reputation overseas.

Tokyo Stories -working title-



- **Genre:** Adventure
- **Compatibility:** PC (Steam) / Console (platform to be determined)
- **Release date:** Undecided
- **Price:** Undecided
- **Planning/Development/Sales:** Drecom Co., Ltd.
- **Country of distribution:** Worldwide (Japan and overseas)
- **Language:** Undecided
- **Copyright Notice:** ©Drecom Co, Ltd.



Progress in publishing and video business

October 2022 Launch of publishing and video business, starting with the launch of a light novel label.
Aiming to acquire leading authors and works through newcomer awards, etc.

Four labels launched by
former publishers and filmmakers

The 2nd Drecom Media Awards
Aiming to expand the scale and discover
leading artists and works



DRE Novels.

A light novel label focusing on web-originated newly written works. Launched in October 2022



DRE Comics.

A comic book label focusing on comic book adaptation of "DRE Novels". To be launched in 2023



DRE STUDIOS.

A webtoon label that aims to create high-quality original works for the world
First issue scheduled in 2023



DRE PICTURES.

A label that do animation planning and production.

第2回 ドリコムメディア大賞

Application Period : June 9, 2023 - September 8, 2023

Announcement of winning entries: Scheduled for February 9, 2024

Award-winning works are assured of the following developments

- Book publication in DRE Novels (paperback and e-book)
- Comic book (paperback and e-book) in DRE Comics
- PV and voice dramatization at DRE PICTURES

DRE STUDIOS Award winners are assured of the following developments

- Webtoonization at DRE STUDIOS
- PV and voice dramatization at DRE PICTURES

*All prizes are subject to selection by the judges in the case of no nomination.

The 2nd Drecom Media Awards" official website

<https://drecom-media.jp/award>

Progress in publishing and video business

In June 2023, publication of the second volume of the novel "Blade & Bastard" and web serialization of the comic label "DRE Comics" will begin.

Volume 2 of the hit dark fantasy novel
Blade & Bastard is released!



- The second volume of the *Blade & Bastard* series, written by Kumo Kagyu (*Goblin Slayer*) and illustrated by so-bin (*Overlord*).
- Simultaneous release of English.

Web manga site "DRE Comics" opens.
Started serialization of a total of five works
based on light novels



- Web manga site by Drecom Media.
- The latest episode is released the first and third Friday of each month at 12:00 p.m. And the latest episode is free to read.

Progress in the Web3 areas

Progress in the Web3 areas in several projects



GGGGG NFT

- **NFTs will be sold in conjunction with the game release (Minting is free)**
- All planned numbers are sold out. Ranked among top for transaction volume in the secondary distribution market
- Discord community is about 20,000 members; NFT holders also play games with high enthusiasm



Eternal Crypt -Wizardry BC-

- **Blockchain game using the "Wizardry" IP has signed a joint venture agreement with Turingum K.K. as a new production partner.**
- *The official title, Eternal Crypt -Wizardry BC- is announced.*
- Official website and roadmap released.



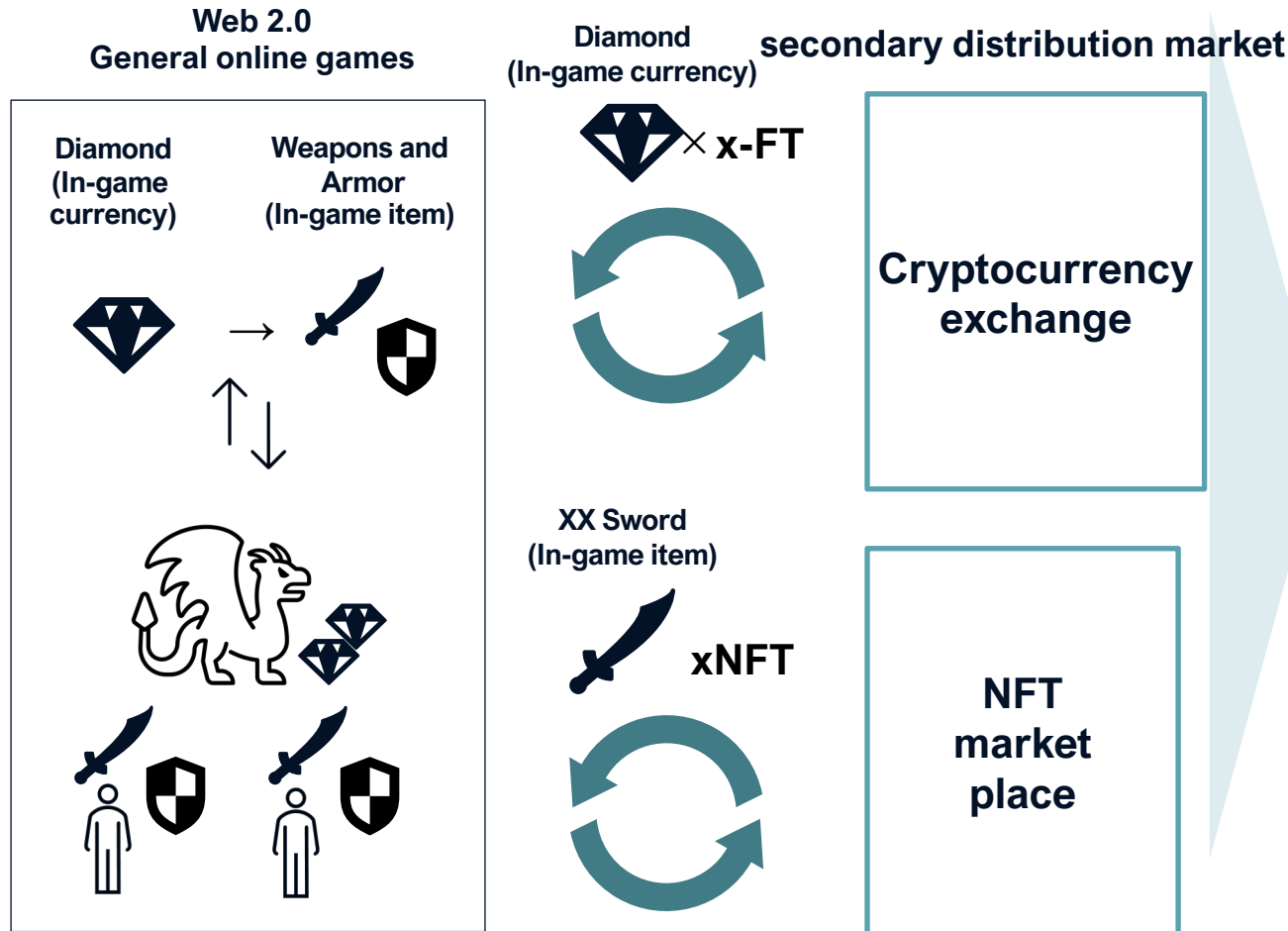
Sports3

- **Project launched in February 2023. Initiative aims to solve problems in the sports industry with Web3.**
- Co-created with an Olympic silver medalist Yuki Ota. NFT sold in late June.

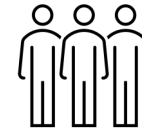
(Supplemental) Purpose of entry into the entertainment x Web3

Aim to create a system that benefits both users and management by combining FT/NFT and existing digital entertainment content to form a secondary distribution market.

Example: Online game x Web3



A system that benefits both users and management



From the user's perspective,

Easy to buy because you can sell them when you no longer need them

New entertainments will be created from the price movements of secondary distribution, buying and selling.



From the management perspective,

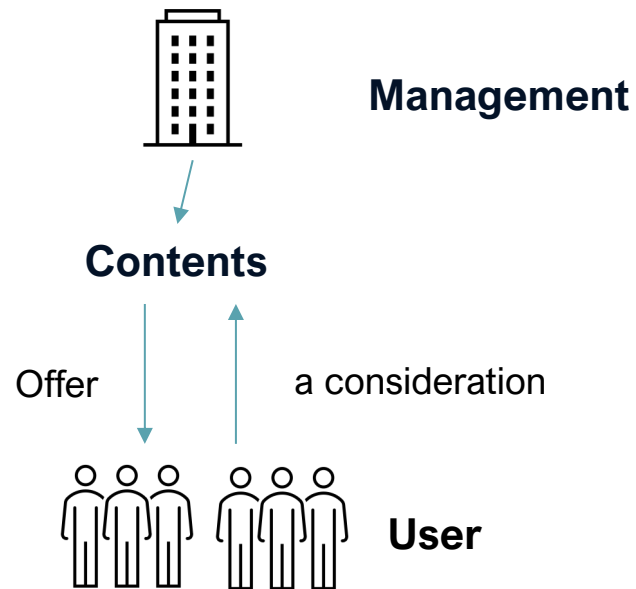
Primary sales will become more active.

Commission income from secondary distribution also contributes earnings.

(Supplemental) Purpose of entry into the entertainment x Web3

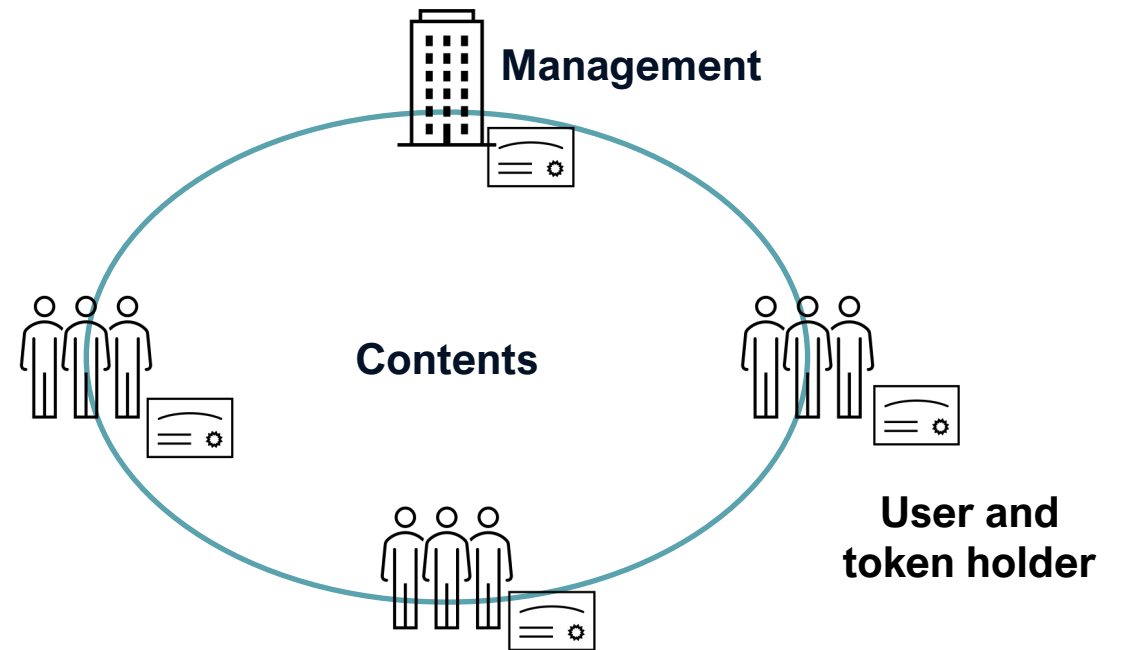
Web3 creates a highly engaged fan community where users are a part of the project

Old Entertainment (Web 2.0)



- The relationship with the management is one-way.
- Community formation is spontaneous

Entertainment x Web3



- Users are also a part of the project as investors
- Highly engaging fan communities are formed.

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- 4. Appendix**

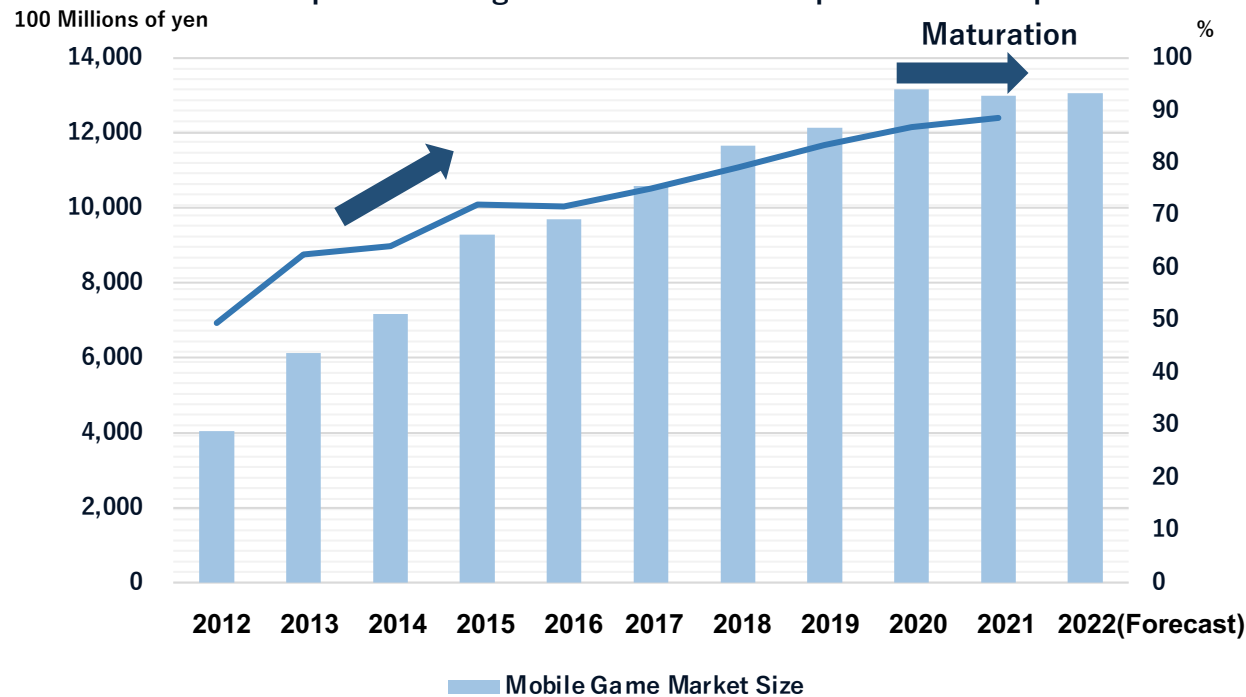
Game business: Market overview and our business strategy

As the domestic mobile game market matures, we will make investments that are not an extension of the past in order to further strengthen our business foundation.

Maturation of the domestic mobile game market

- ✓ Smartphone-owning population reaching the ceiling.
- ✓ Competition with other content such as videos, comics, social networking sites, etc.
- ✓ Users are fixated by long hit titles

Size of Japan's mobile game market and smartphone ownership



Strategy of our game business

■ Additional investment in titles under operation and strengthen the system

- Re-examine the development potential of each title without assuming attenuation
- Renovation and maintenance to withstand long-term operation

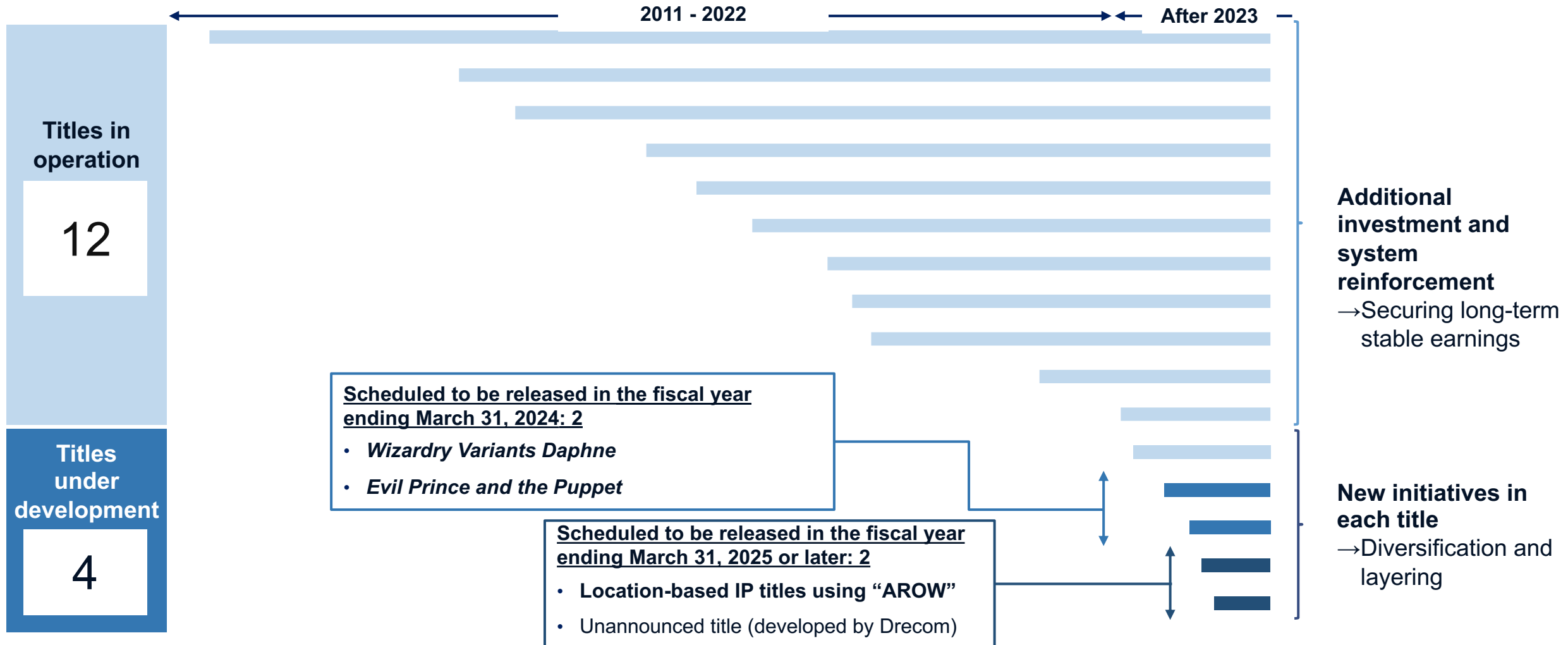
■ Diversification and layering of revenue sources

- Expansion into growing global markets.
- Deployment to other platforms such as PC/consoles.
- Introduction of revenue models other than Free to Play/Pay to Win type such as one-time purchase.

Source: Famitsu game white paper, ministry of internal affairs and communications white paper on information and communications

Game business: Pipeline of operational and development titles

Secure long-term earnings by making additional investments for the existing titles.
 Aim for diversification with the release of new titles with different initiatives.



Series titles and titles developed overseas are counted as one title. Titles for PC and consoles are not included.

Game business: Pipeline of operational and under development titles

Business	Status	Definition	Number of projects	Details	
Game	Operation	Titles in operation	12	<ul style="list-style-type: none"> ➤ Other company distribution: 6 titles ➤ In-house distribution: 6 titles 	
	Development	Commercialized development	Titles under development with a prospect for release	4	<ul style="list-style-type: none"> • <i>Wizardry Variants Daphne</i> → 3D dungeon RPG • <i>Evil Prince and the Puppets</i> → Dark fantasy adventure • Location-based IP titles using “AROW” • Unannounced title (developed by Drecom Co., Ltd.)
			Titles for Smartphones		
		Titles for PC and consoles	1	<ul style="list-style-type: none"> • <i>Tokyo Stories -working title-</i> 	
	Prototype	Titles at a stage before commercialization development	Several	<ul style="list-style-type: none"> ➤ Reviewed overall strategy. 	

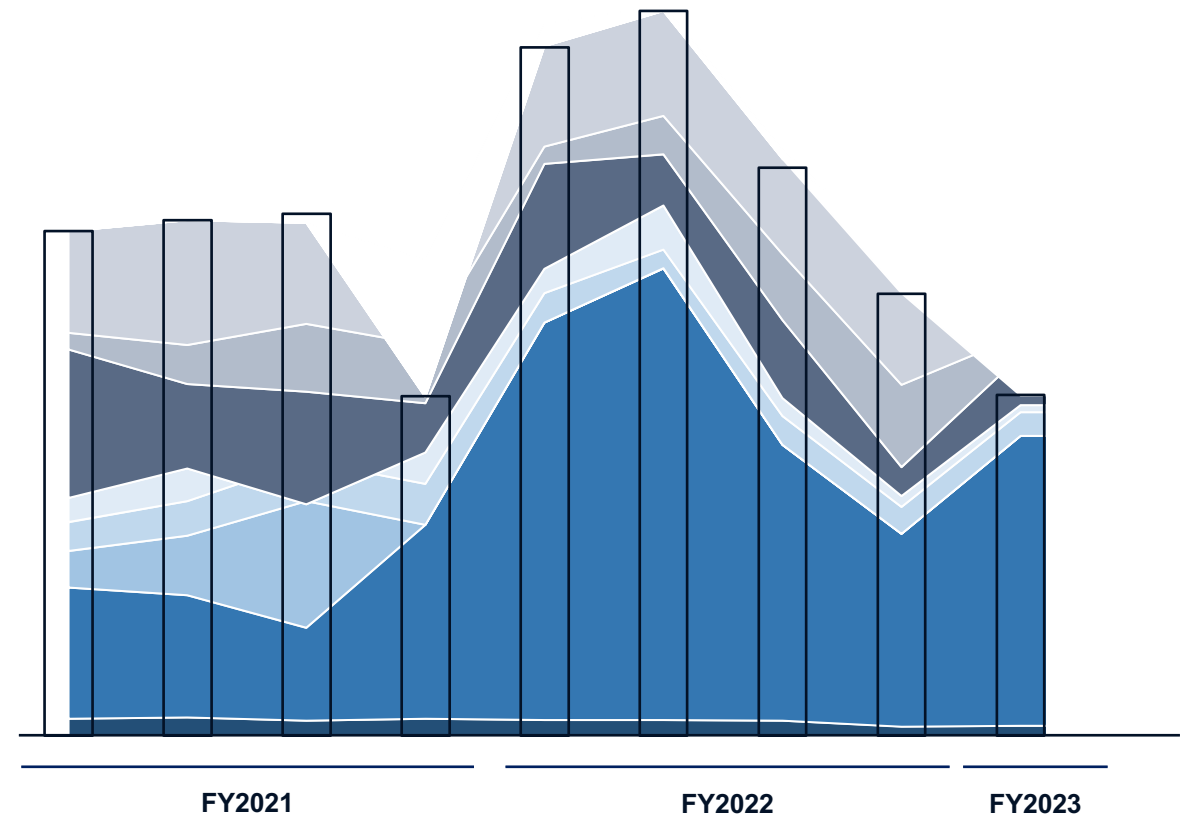
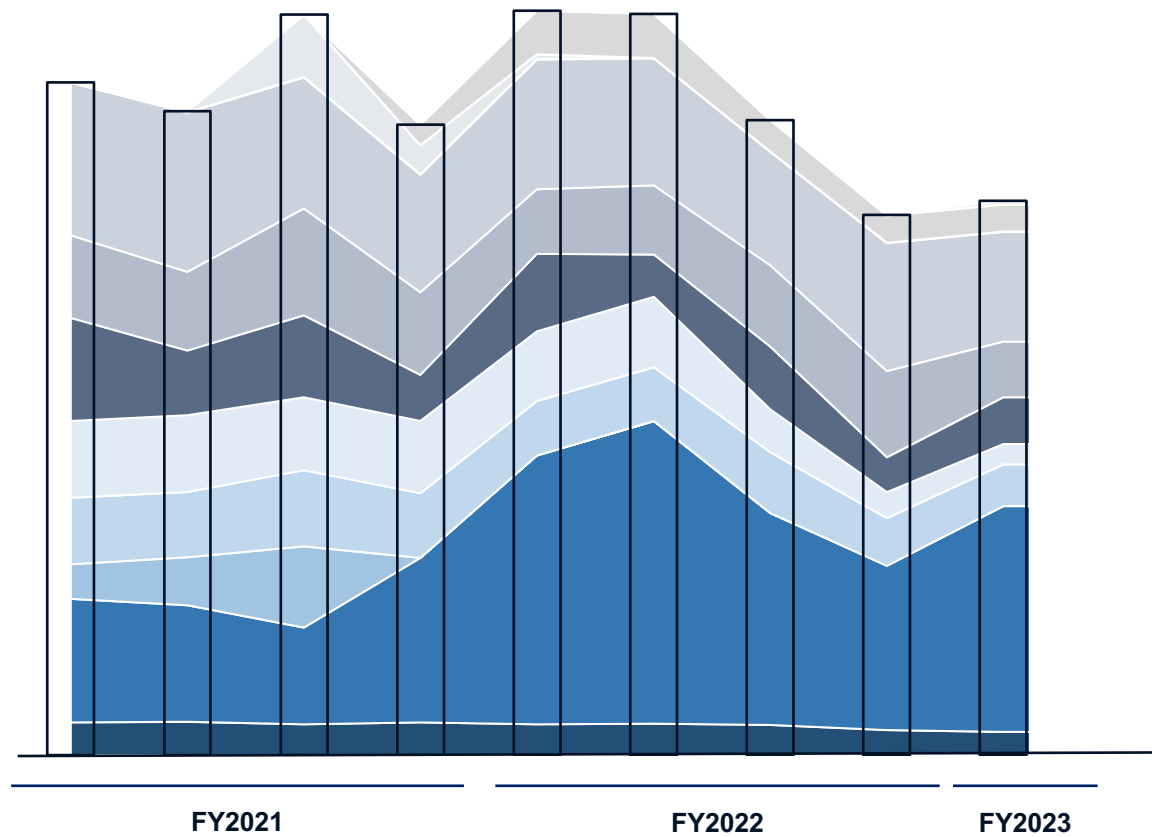
Revenue status of titles in operation (by release date)

Total sales of titles under operation

Total business profit transition of titles under management

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022 ■ 2023

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022 ■ 2023



*Please refer to the fact sheet posted on our website for consolidated business performance trends, cost of sales, SG&A expenses, etc., and game business billing sales trends.

List of game titles in operation

Game title	Distributor	Service start date
<i>Chokotto Farm</i>	Drecom Co., Ltd.	Jan 2011
<i>ONE PIECE Treasure Cruise</i>	BANDAI NAMCO Entertainment Inc.	May 2014
<i>BOKU & DRAGONS</i>	studiorex Co., Ltd.*	Feb 2015
<i>Derby Stallion: Masters</i>	Drecom Co., Ltd.	Nov 2016
<i>Everybody's Golf</i>	Forward Works Corporation	Jul 2017
<i>THE IDOLM@STER SHINY COLORS</i>	BANDAI NAMCO Entertainment Inc.	Apr 2018
<i>NEKO & DRAGONS</i>	studiorex Co., Ltd.*	Apr 2019
<i>Super Robot Wars DD</i>	BANDAI NAMCO Entertainment Inc.	Aug 2019
<i>Disgaea: Hour of Darkness RPG</i>	Forward Works Corporation (changed to Drecom on July 3, 2023)	Nov 2019
<i>New Japan Pro-Wrestling Strong Spirits</i>	Bushiroad Inc.	Feb 2022
<i>GGGGG</i>	Drecom Co., Ltd.	Mar 2023
<i>DACHIMEN DENSETSU G</i>	studiorex Co., Ltd.*	May 2023

*studiorex, Co., Ltd. joined our group in March 2020.

Terminology	Meaning
Games distributed in-house	Games for which Drecom is the distributor. We are in charge of game planning, development, advertising, and sales.
Games distributed by other companies	The game is distributed by another company, and Drecom is in charge of development as a partnering company.
Platformer	Apple, Google, and other companies that provide service infrastructure systems to users and third parties.
Gross sales	The amount of money paid by the user to the distributor, Drecom.
Net sales	The amount of money distributed from the distributor to the developer, Drecom.
Developer	A company responsible for the development of games.
Amount of game development costs charged to assets	Amount of development costs, such as labor and subcontracting costs, mainly related to pre-release games, deducted from manufacturing costs and transferred to assets as "Software in progress".
R&D expenses	Costs associated with planning and creating prototypes for new games and services.
IP	Abbreviation for Intellectual Property.
Commercialized development	Game development is in full swing.
Anniversary Events	Every six months and a year, an event is held that boosts the game. The number of active users and sales often rise compared to normal times due to the introduction of many new measures and contents

**For trends in consolidated financial results, cost of sales/ SG&A expenses, etc., and sales of game business billing,
Please see the fact sheet posted on our website.**

https://drecom.co.jp/ir/factsheet_202403Q1.pdf



Among the perceptions, strategies, plans, etc., described in this document, the outlook is not a historical fact but contains uncertain elements. Actual results may differ materially from those in the forward-looking statements for a number of reasons. Important factors that may affect actual business results include, but are not limited to, economic conditions surrounding our business, social trends, and changes in relative competitiveness due to demand trends for the services we provide.