

Second Quarter of Fiscal Year Ending March 31, 2023
Financial Results Presentation Materials



DRECOM[®]
with entertainment

Drecom Co., Ltd.
October 27, 2022

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_202303Q2.pdf

Summary of this document

Q2 FY2022 (Jul-Sep) Actual

- **Q2 results: Mainstay IP titles performed well due to measures to coincide with the movie release, etc.**
Sales: 2,873 million yen (+13.9% YoY), Operating profit: 790 million yen (+70.7% YoY)
- **1H results: Operating income, ordinary income, and net income^{*1} reached record highs on a 1H basis**
Net sales 5,800 million yen, Operating income 1,607 million yen
Ordinary income 1,547 million yen, Net income^{*1} 1,056 million yen

Forecast for FY2022

- **Steady progress in relation to full-year forecasts**
Full-year forecast (announced on May12, 2022): Net sales: 13,000 million yen, Operating income: 2,000 million yen
Ordinary income 1,900 million yen, Net income^{*2} 1,200 million yen

Business Progress

- **Steady progress in each business for development, acquisition and nurturing of IP**
Publication of light novels begins
First of a series of new game titles with NFT functionality added as part of Game x Web3

*1 Net income attributable to owners of the parent *2 Net income attributable to owners of the parent

1. Review of Q2 (Jul-Sep) FY2022

2. Forecast for FY2022

3. Medium-term goals and progress of each business

4. Appendix

Summary of Q2 FY2022 Results

In Q2 (Jul.-Sep.), mainstay IP title with high profit margins performed well due to measures to coincide with the movie release, etc.

(Millions of yen)

	Q2 FY2022 (Jul-Sep)	Q2 FY2021 (Jul-Sep)	YoY	Q1 FY2022 (Apr- Jun)	QoQ
Net sales	2,873	2,523	+349	2,927	-53
Operating income	790	463	+327	817	-26
<i>Operating profit ratio</i>	<i>27.5%</i>	<i>18.4%</i>	-	<i>27.9%</i>	-
EBITDA*	875	597	+278	909	-33
<i>EBITDA Margin</i>	<i>30.5%</i>	<i>23.7%</i>	-	<i>31.1%</i>	-
Ordinary income	737	448	+288	810	-73
Net income attributable to shareholders of the parent company	534	311	+223	521	+13

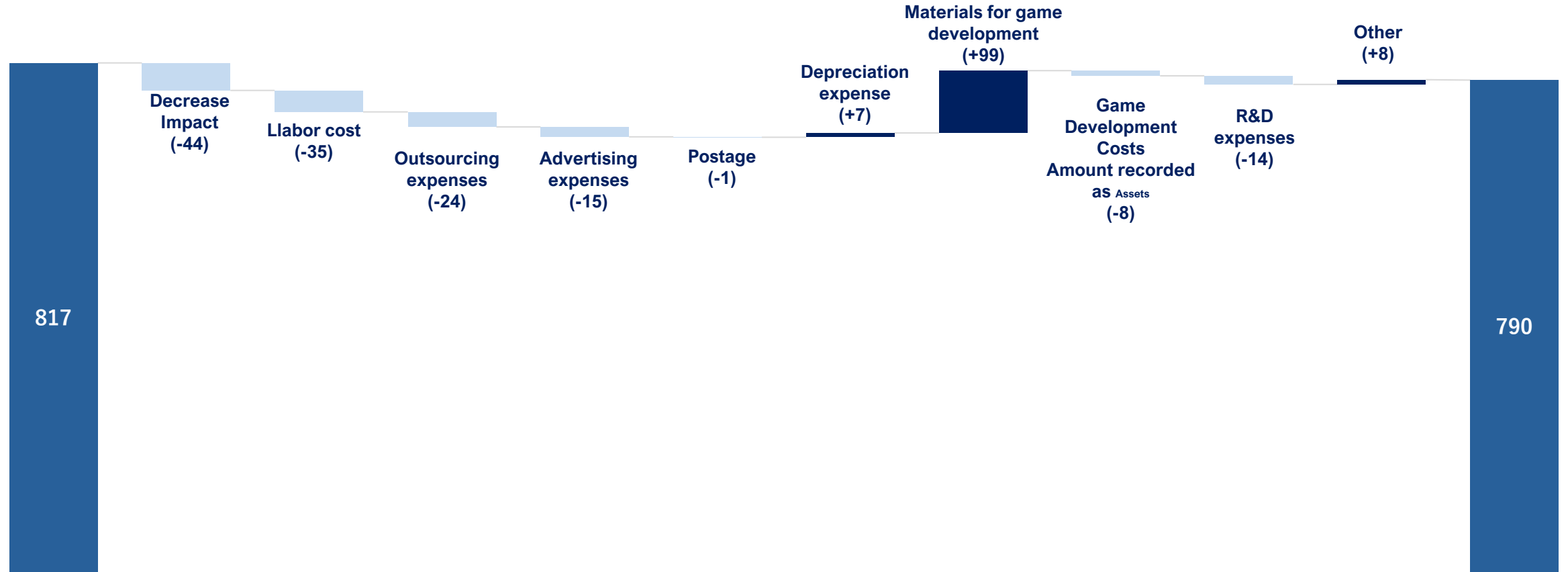
*EBITDA = operating income + amortization of goodwill + depreciation

Q2 Results for FY2022 (Operating Income QoQ Comparison)

Strong performance in Q2 following Q1

(Millions of yen)

Decrease in revenues (Increase in expenses)
 Increase in revenues (decrease in expenses)



Q1 FY2022
Operating Income

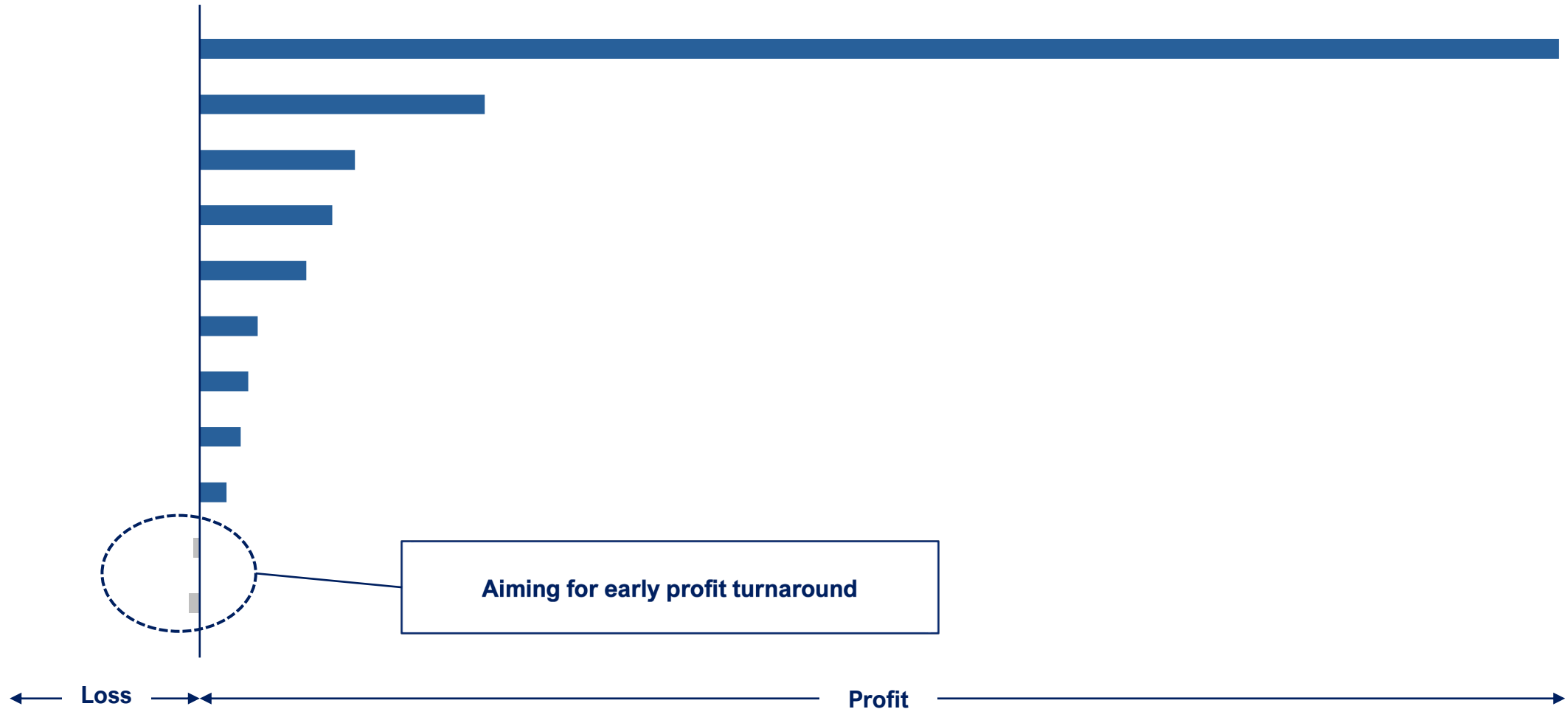
Q2 FY2022
Operating Income

*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".

Game Business Earnings from Titles in Operation

Strong performance of main IP titles; 2 titles slightly in the red

Profit/loss of 11 titles under management* (Q2 Jul-Sep FY2022)



* Number of titles in operation as of October 31, 2022. Series titles and titles developed overseas are counted as one title. Including two enza titles and *BOKU & DRAGONS*.

Topics of each business

Game business

- **Strong performance from measures to coincide with movie release of mainstay IP title, etc.**
 - Driven by the IP title excitement
- **Securing stable income through long-term investment titles**
 - Earned revenues from accumulation of multiple titles amid a difficult market environment
- **Release dates of some titles under development will be changed for quality improvement.**
 - *GGGGG* and *Wizardry Variants Daphne* are now scheduled for release in Q3 (Oct.-Dec.) and Q4 (Jan.-Mar.), respectively.
 - Consumption of advertising expenses has been pushed back to the second half of the fiscal year.

New business

- **Launch of DRE Novels, Drecom Media's light novel label**
 - To go on sale around the 10th of each month. All 9 works to be published during the year will be comicalized on the comic label "DRE Comics".
- **“Rooot”, a fan community promotion service, has surpassed 150 service installments.**
 - Officially launched in diverse industries including games, apps, brands, distribution, food & beverage, and manufacturers.
- **Business activities in the Web3 domains are progressing well.**
 - In addition to blockchain game development, multiple projects are underway, including an NFT project aimed at IP creation.

1. Review of Q2 (Jul-Sep) FY2022

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Full-Year Consolidated Earnings for FY2022 Point of View

(Added on supplementary material on May 12, 2022) *Additional information is underlined.



Game business

- **Q1 (Apr-Jun) is expected to show the same trend as the previous year's Q1, thanks to the anniversary events of mainstay titles.**
 - Mainstay IP titles in 1H outperformed initial forecasts
- **Contribution of three newly released titles is expected in the second half of the fiscal year.**
 - For new titles, release dates are determined based on quality of completion.
 - All new titles are in-house distributed titles (gross sales), which will have a significant impact on net sales.
 - Assumed increase in sales in the game business is mainly contributed by three new titles.
- **Operational and advertising costs are expected to increase with the release**

New Business Development

- **In the publishing business, more than 10 new titles are scheduled for sequential release in the second half of the year and beyond.**
- **In the Web3 business, in addition to blockchain game development, several projects are underway, including the NFT project for IP creation.**
- **“Rooft”, a Twitter-based fan community promotion service, is expected to continue to see steady sales growth.**
 - New business revenue growth is expected to come mainly from the publishing business and "Rooft"; sales in the Web3 domains are not expected.

Investment Policy

- **Proactively invest cash generated from operations in the game business into new business areas where growth is expected (publishing, web3)**

Progress in Relation to Full-Year Forecasts

In the first half (Apr-Sep), mainstay IP titles performed better than expected.

(Unit: Millions of yen)	Fiscal year ending March 31, 2023					(Reference) Fiscal year ending March 31, 2022				
	Q1 (Apr-Jun) Actual	Q2 (Jul-Sep) Actual	1H (Apr-Sep) Actual	Progress	Full Year Forecast	Q1 (Apr-Jun) Actual	Q2 (Jul-Sep) Actual	Q3 (Oct-Dec) Actual	Q4 (Jan-Mar) Actual	Full year Actual
Net sales	2,927	2,873	5,800	44.6%	13,000	2,661	2,523	2,893	2,450	10,528
Variable cost	356	346	702	37.8%	1,860	394	380	391	365	1,630
Fixed cost	1,753	1,736	3,489	38.2%	9,139	1,762	1,680	2,048	1,913	7,306
Advertising expenses	24	40	65	9.0%	725	16	21	88	117	243
R&D expenses	55	68	123	16.8%	737	117	91	80	54	345
Game Development Costs Amount recorded as assets*	-465	-457	-922	45.2%	-2,040	-496	-692	-485	-558	-2,233
Operating income	817	790	1,607	80.4%	2,000	504	463	452	171	1,591
Ordinary income	810	737	1,547	81.5%	1,900	492	448	439	160	1,541
Net income attributable to shareholders of the parent company	521	534	1,056	88.1%	1,200	300	311	241	-45	807

*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".

Progress in Relation to Full-Year Forecasts

Progress in the first half was 44.6% for net sales and 80.4% for operating income, well in line with the full-year forecast.

Sales: Strong sales in the first half of the year. Release of some of the three new titles (gross sales) distributed in-house was delayed.

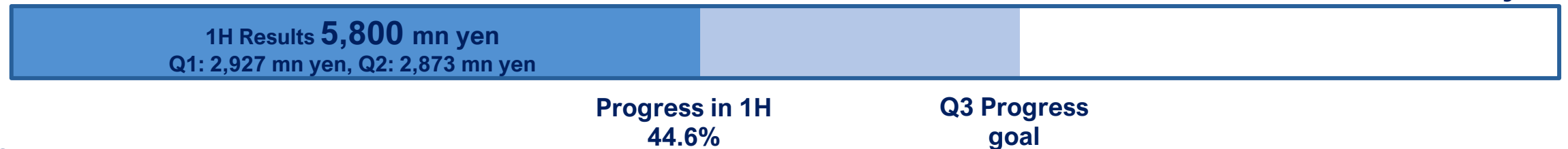
Although sales are expected to be lower in the second half of the fiscal year than initially projected, the assumption of overemphasis towards the second half of the fiscal year remains unchanged.

Operating income: Strong performance in 1H. Profit is expected to be lower than the initial forecast in the second half due to the delayed release of new titles.

* Details of net sales and operating income are shown on the next page and thereafter.

Net sales

Full-year forecast: **13,000 mn yen**



Operating income

Full-year forecast: **2,000 mn yen**



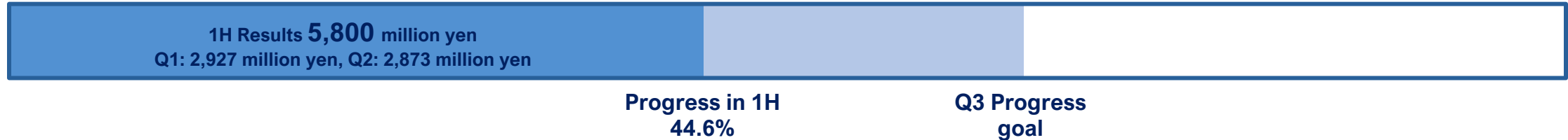
Although first-half results were favorable, we need to carefully assess the impact of existing and new titles in the second half of the fiscal year. At this time, the full-year earnings forecast remains unchanged. If it is necessary to make an announcement after careful examination, we will do so as soon as possible.

Progress in Relation to Full-Year Forecasts: Net sales

In the second half of the fiscal year, sales are expected to increase due to the release of three new titles but are expected to decrease from the initial projection due to the delay of some titles.

Net sales

Full-year forecast: **13,000** million yen



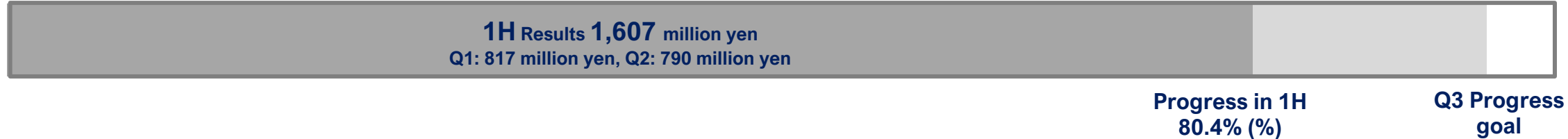
	1H Results (Apr-Sep)	2nd half (Oct-Mar) Forecast
Existing game	<ul style="list-style-type: none"> In the mainstay IP titles anniversary events and measures linking to movies release are performing well. 	<ul style="list-style-type: none"> Expected to decrease from 1H
New game	<ul style="list-style-type: none"> The release date of GGGGG scheduled for the first half of the year Changed to the second half of the fiscal year. Expected sales will be postponed to the second half of the year. 	<ul style="list-style-type: none"> Expect sales to increase due to the planned release of three titles (in-house distribution = gross sales). However, sales are expected to be lower than initially estimated due to the delayed release of some titles.
New business	-	<ul style="list-style-type: none"> Monthly publication of light novels starting in October

Progress in Relation to Full-Year Forecasts: Operating income

Due to the delayed release of some titles, operating income in the second half is expected to be lower than the forecast at the beginning of the period.

Operating income

Full-year forecast: **2,000** million yen

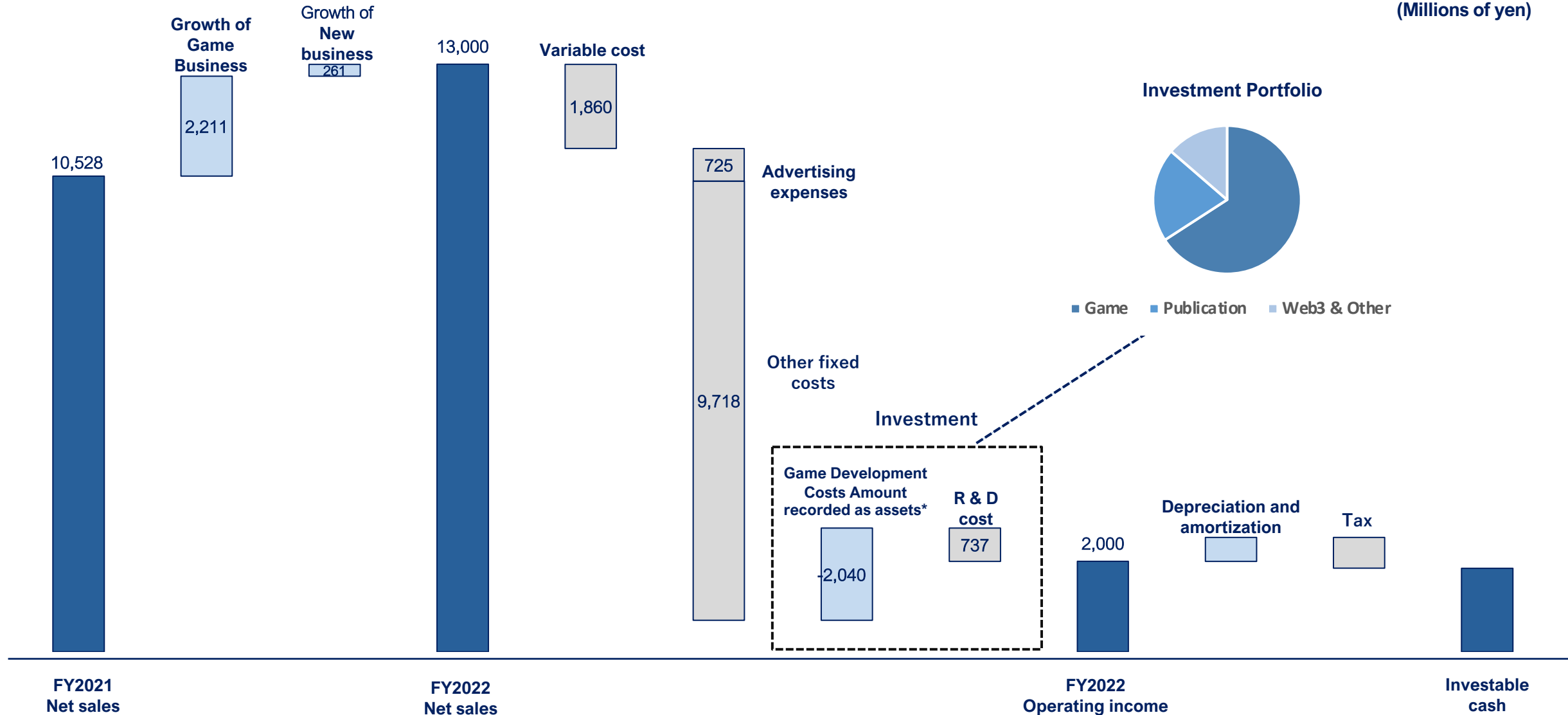


	1H Results (Apr-Sep)	2H (Oct.-Mar.) Forecast
Existing game	<ul style="list-style-type: none"> Strong performance of high-margin mainstay IP titles (net sales) 	<ul style="list-style-type: none"> Expected to decrease from 1H
New game	<ul style="list-style-type: none"> Due to the change in release timing, advertising and other expenses that were expected in the first half of the fiscal year will be postponed to the second half of the fiscal year. 	<ul style="list-style-type: none"> Three titles are scheduled to be released. Expect an increase in advertising and other expenses in conjunction with the releases. Profit is expected to be lower than the forecast at the beginning of the period due to the delayed release of some of the three titles.
New business	<ul style="list-style-type: none"> Partially unrealized R&D expenses 	<ul style="list-style-type: none"> Investing R&D and other expenses in accordance with business progress

Summary of Consolidated Financial Forecasts for the Full Year (Reiterated)

Recognized a great opportunity for business growth. Aggressive investment while expecting to secure profits.

(Millions of yen)



1. Review of Q2 (Jul-Sep) FY2022

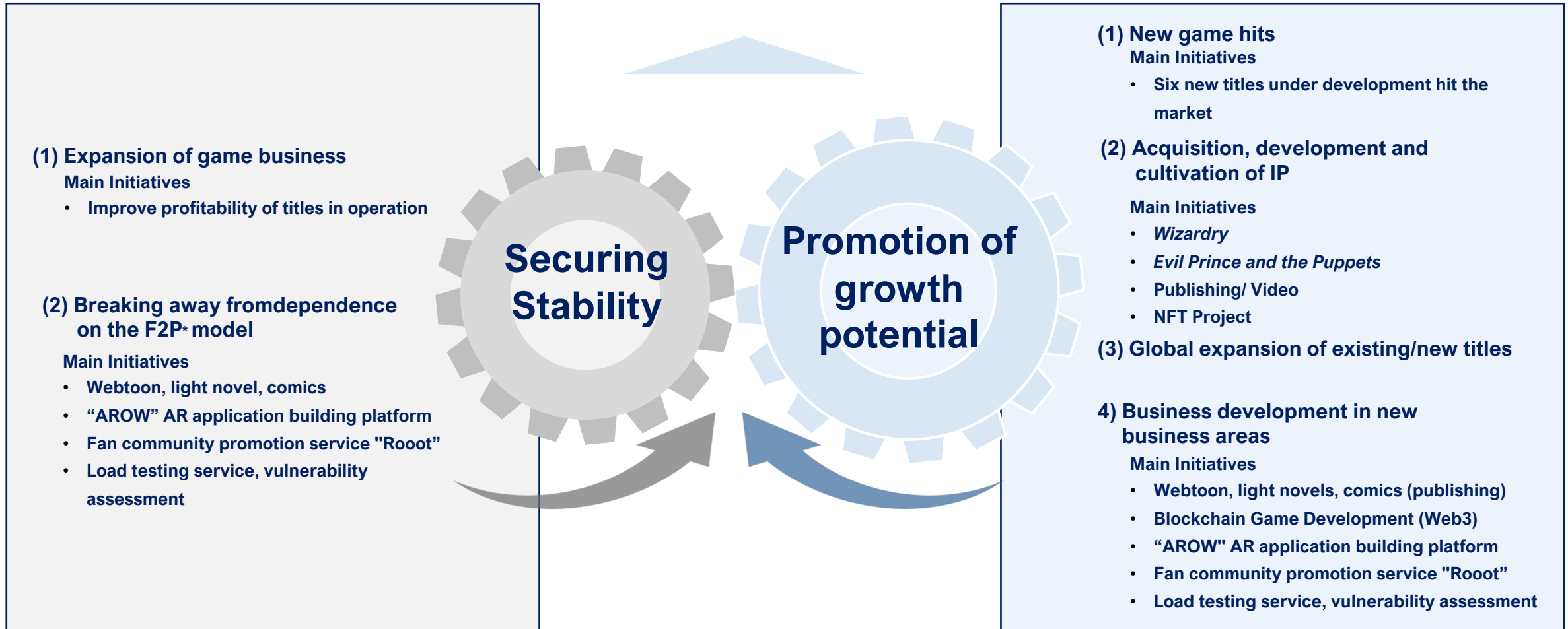
2. Forecast for FY2022

3. Medium-term goals and progress of each business

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Medium-term goal

A comprehensive entertainment company that provides a variety of digital entertainment content based on IP



*F2P: Abbreviation for free to play. An online game that can be played basically for free.

Promoting growth potential: new game hits

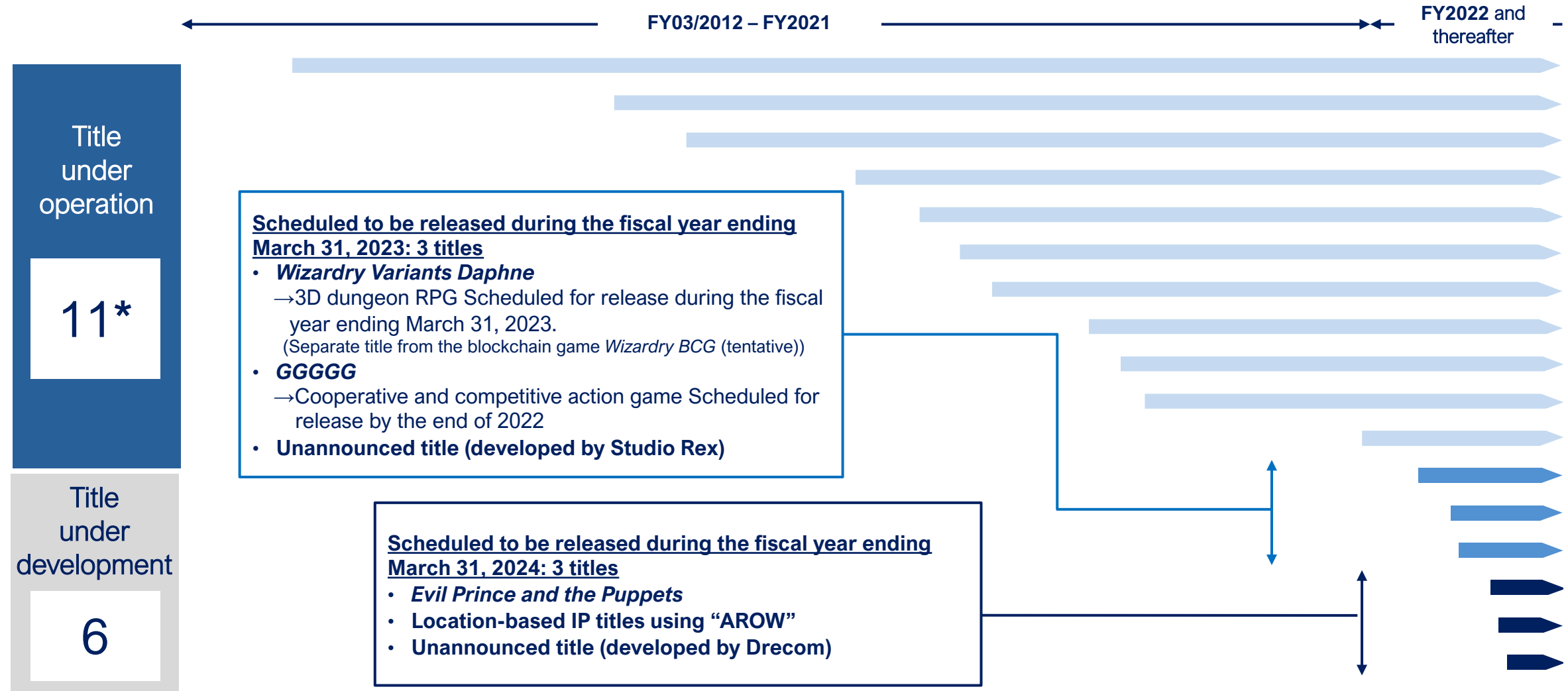
Six development projects underway as of October 2022

Business	Status	Definition	Number of projects	Details	
Game Business	Operation	Titles in operation	11	<ul style="list-style-type: none"> ➤ Other company distribution: 7 titles ➤ In-house distribution: 4 titles 	
	Development	Commercialized development	Titles under development with a prospect for release	6	<ul style="list-style-type: none"> • Wizardry Variants Daphne →3D dungeon RPG Scheduled for release during the fiscal year ending March 2023 (Separate title from Blockchain game <i>Wizardry BCG</i> (tentative) announced on 3/18/2022) • GGGGG →Cooperative and competitive action game scheduled for release by the end of 2022 • Unannounced title (developed by Studio Rex)
		Prototype	Pre-development stage title in works	several	<ul style="list-style-type: none"> ➤ Multiple projects in progress

Series titles and titles developed overseas are counted as one title.

Driving growth potential: new game hits (continued)

11 titles in operation, with 3 planned for release during the fiscal year ending March 31, 2023



* Series titles and titles developed overseas are counted as one title. * Projects classified as prototypes on the previous page are not included above.

Progress of Game Business: GGGGG App store reservation started

With the next generation communication standard "5G" coming into service, this experimental title pursues a new experience on mobile phones.

After announcing full-scale entry into the Web3 domain, NFT functionality was also implemented.

GGGGG

(read: g-g-g-g-g-)



- Genre: Cooperative and competitive action game
- Release date: Year 2022
- Supported platforms: iOS/Android
- Price: Free for basic play (with in-game purchases)
- Development/Distribution/Operation: Drecom Inc.
- Countries of distribution: 172 countries and regions worldwide, including Japan
- Copyright Notice: ©Drecom Co., Ltd.
- NFT skins that can be changed in-game will also be available



Press Release (September 20)

<https://drecom.co.jp/news/2022/09/20220920-01.php>

Game Business Progress: *Wizardry Variants Daphne* Information Release

The official title was decided. The release date, originally set as "within the year 2022," was changed to "by the end of the fiscal year 2022."

We will keep acquiring copyrights and trademarks of popular IPs and develop original titles.

Wizardry Variants Daphne



- **Genre:** 3D dungeon RPG
- **Release date:** Within fiscal year 2022 (during FY2022)
- **Supported platforms:** iOS/Android
- **Price:** Free for basic play (with in-game charges)
- **Development/Distribution/Operation:** Drecom Inc.
- **Country of distribution:** Worldwide (Japan and overseas)
- **Supported languages:** Japanese/English *At the time of distribution
- **Copyright Notice:** © Drecom Co., Ltd

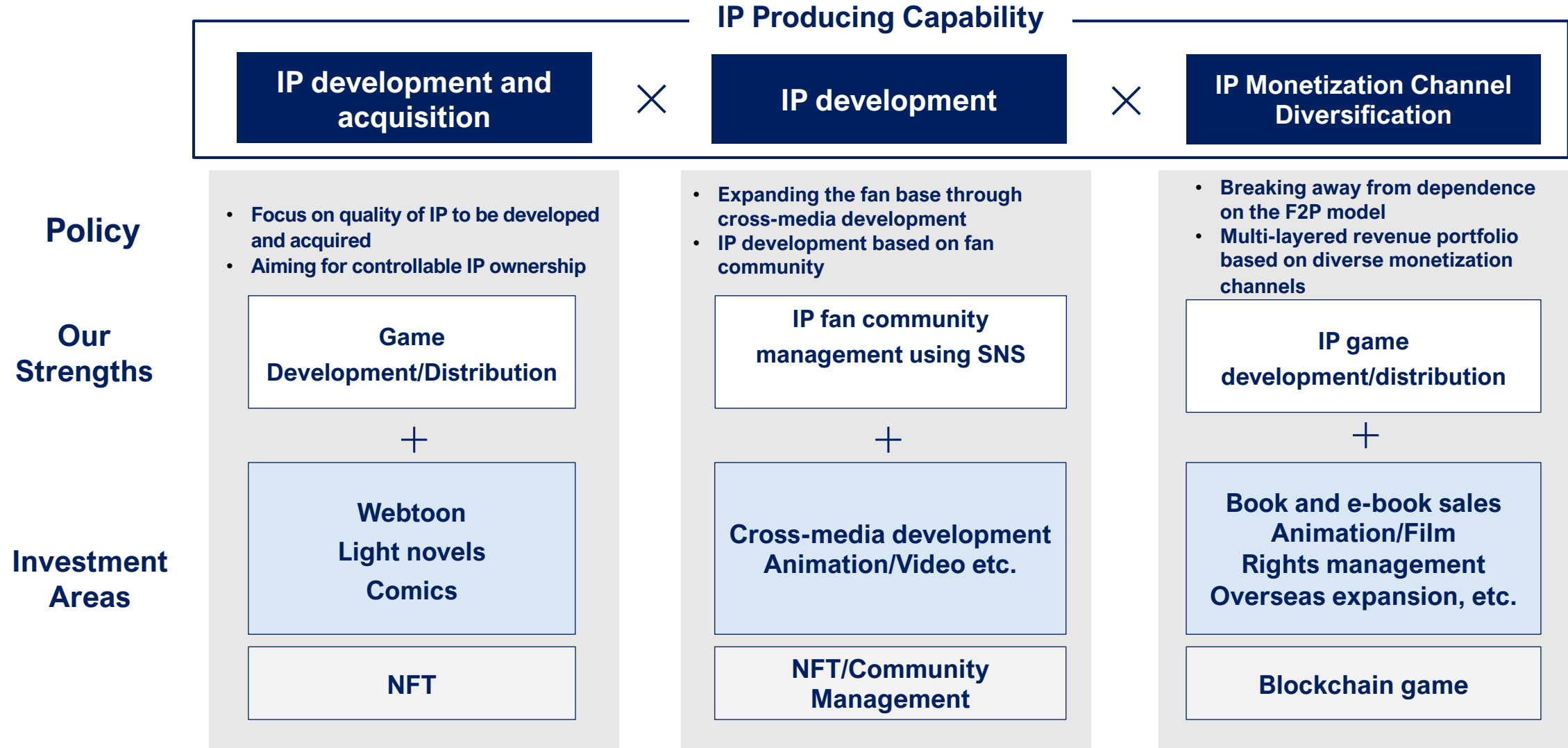


Press Release (October 26, 2012)

<https://drecom.co.jp/news/2022/10/20221026-01.php>

Accelerate growth potential: acquire, develop, and nurture IP

Strengthen our IP production capabilities by adding "our investment areas of publishing, video business, and the Web3 domains" to "our strengths."



Progress in Publishing and Video Business

Light novel label "DRE Novels" to launch on October 7; Webtoon to be co-produced with a leading Korean studio

Light novel label "DRE Novels" is launched.
All 9 works to be published this year
will be comicalized.

Webtoon productions
Announced a joint production
with Contents Lab.Blue Tokyo



■ Official website of "DRE Novels":
<https://drecom-media.jp/drenovels>

About Contents Lab. Blue

Global webtoon production company headquartered in Korea
Webtoon adaptation of famous web novels and popular published manga.

In Japan, "Piccoma" manga series started in September 2021.
The romance fantasy "The Unapproachable Lady" swept the popularity ranking charts as soon as it was distributed and became a hot topic.

The Japanese branch, Contents Lab. Blue Tokyo established in January 2022. In charge of Webtoon and Manga production, localization, and global distribution of webtoons and manga, etc. mainly for the Japanese market.

Press Release (October 25, 2022)

<https://drecom.co.jp/pr/2022/10/20221025-02.php>

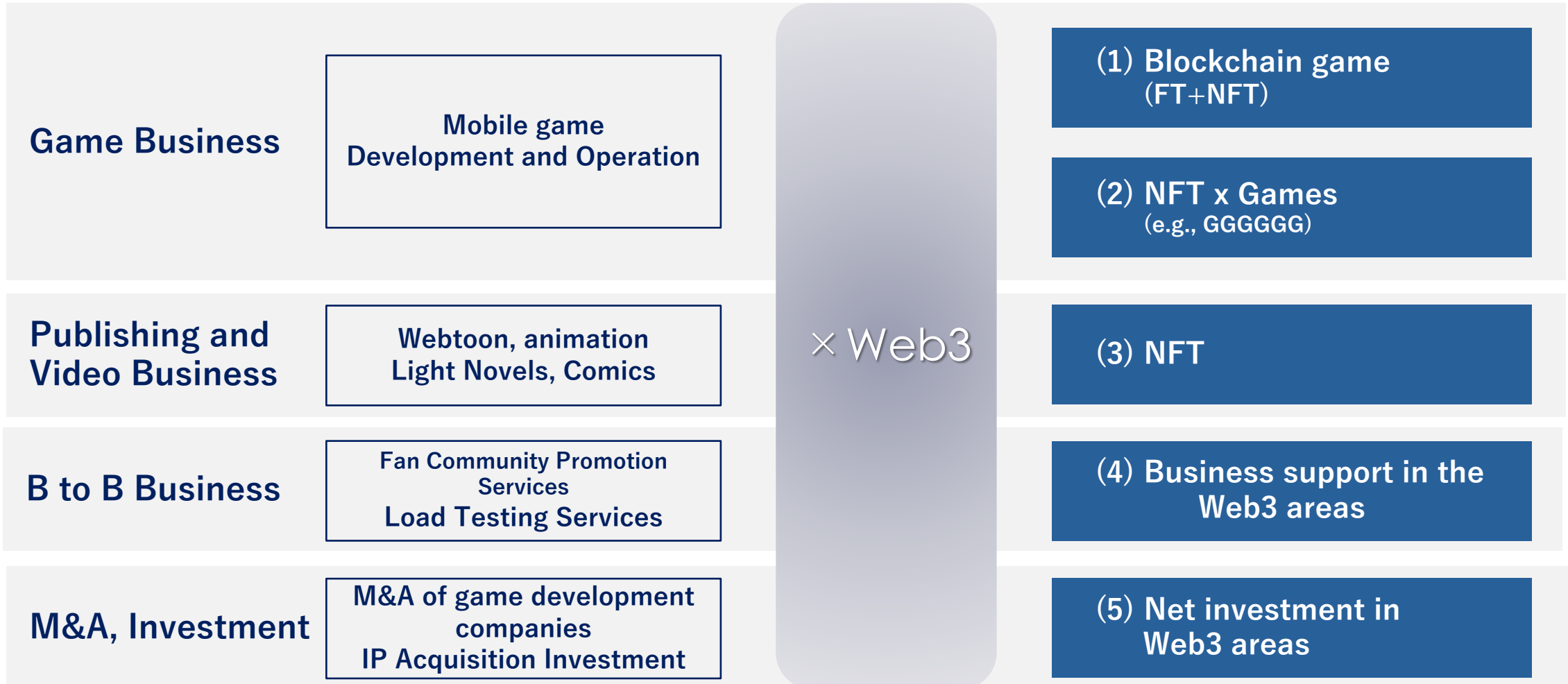
Promote growth potential: Business development in new business areas (Web3 domains)



Launched 5 initiatives in areas of high affinity with existing businesses. Aiming to promote growth strategies through Entertainment x Web3

Existing Initiatives

Initiatives in the Web3 domains



Entering Performance Expansion Phase

Aiming to enter a phase for a virtuous cycle of earnings expansion by aggressively investing cash generated from the game business.

FY2022

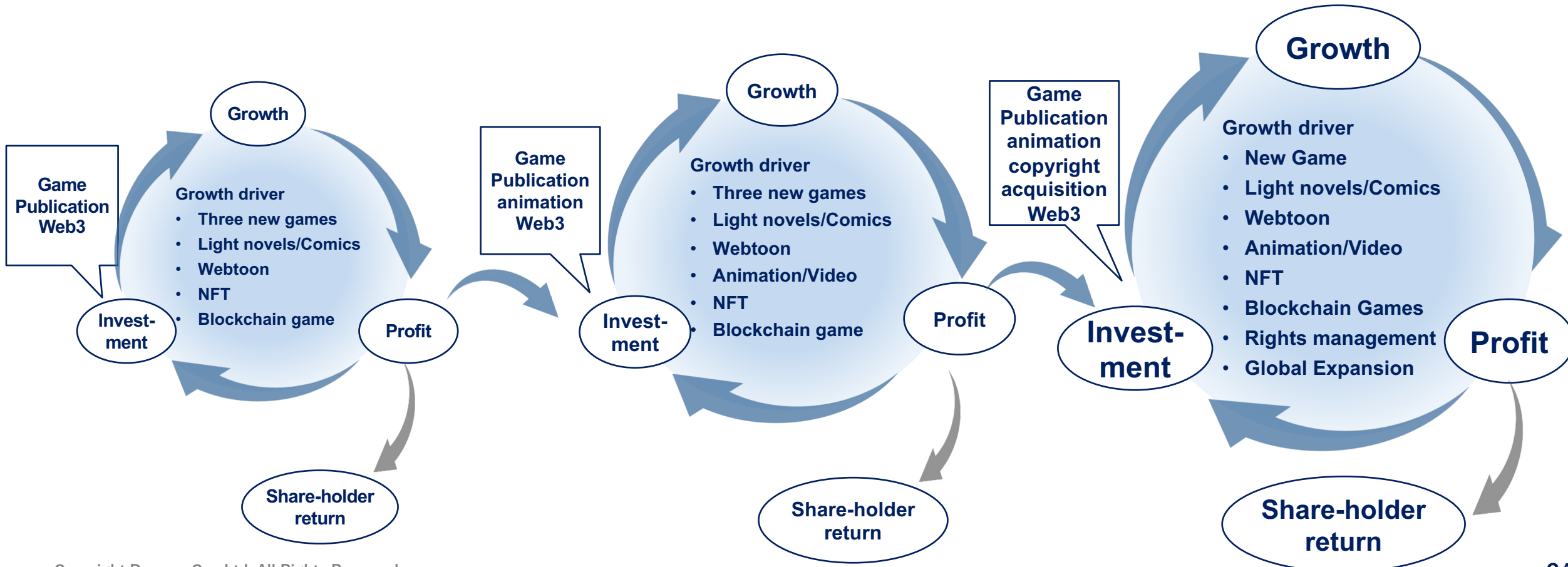
Sales: 13 billion yen (forecast)
Operating income: 2 billion yen (forecast)

FY03/2024

Sales: +20% or more YoY
Operating margin: Maintain 15%

FY03/2025

Sales: +20% or more YoY
Operating margin: Maintain 15%



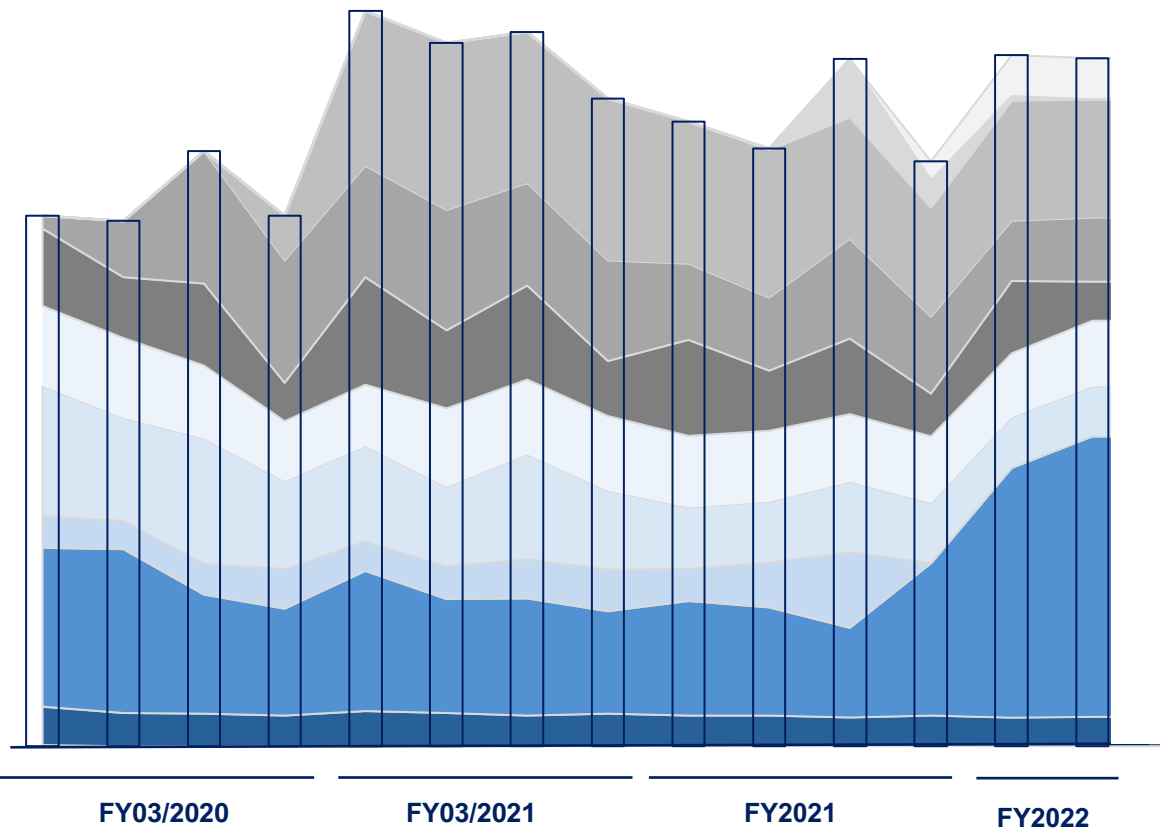
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Revenue status of titles in operation (by release date)

Breaking away from the dependence on few hit titles to a portfolio that earns stable revenue from multiple hit titles

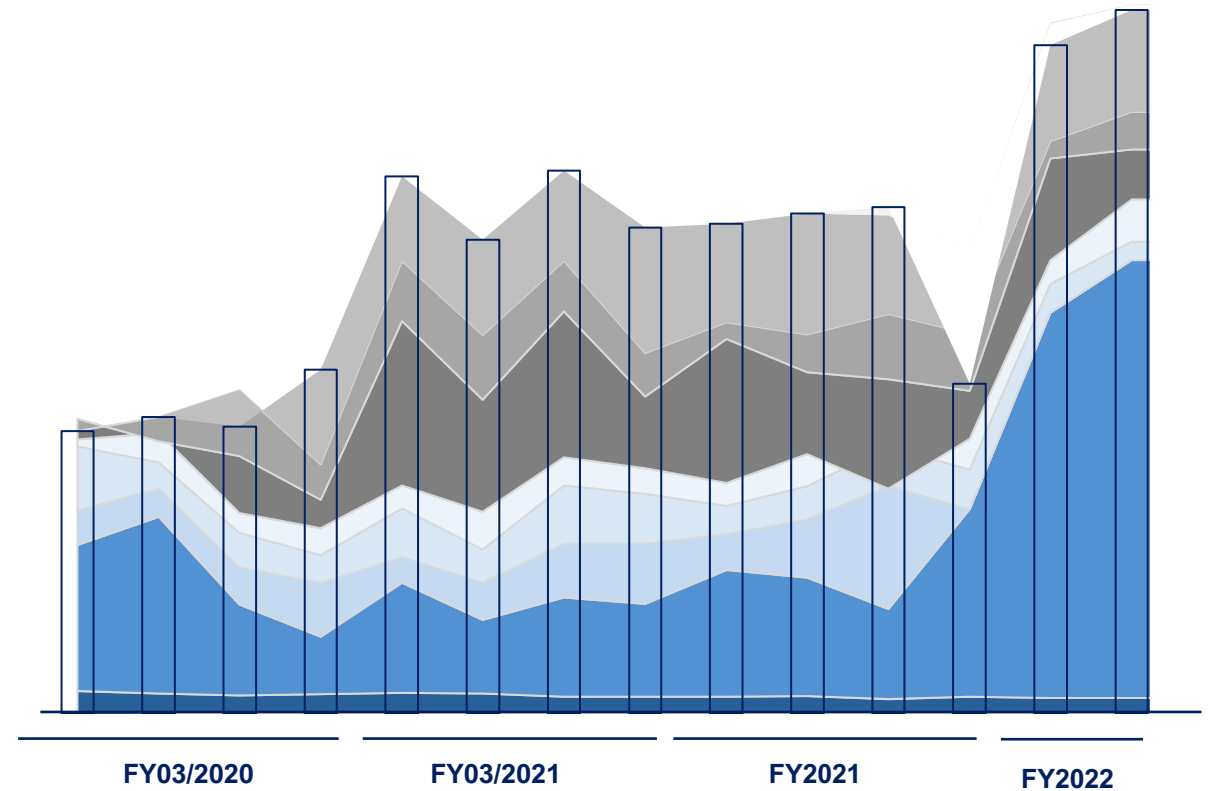
Total sales of titles under operation

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



Total business profit transition of titles under management

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



*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.
https://drecom.co.jp/ir/factsheet_202303Q2.pdf

ESG Initiatives

S

1) Establish a working environment that takes into account human rights, diversity, and flexibility

In addition to prohibiting discrimination in the workplace and implementing appropriate labor management, we are focusing on maintaining the health of our employees and creating a working environment that considers and respects the life events and life stages of our employees by introducing remote work and encouraging male employees to take childcare leave.

2) Support for employees' health promotion and skill development

We are taking the following measures to create an environment where employees can exercise their full potential in good health.

- Installation of massage rooms
- Cafe space in partnership with a popular cafe
- Support for holding knowledge-sharing events and dissemination of technology-related information



3) Support for entrepreneurial communities

As a pioneer in the field of IT venture and student entrepreneurship, we are undertaking the following initiatives to contribute to the development of future entrepreneurs and the further revitalization of entrepreneurship in Japan.



- Holding programming classes for junior and senior high school students
- Speaking at and supporting various entrepreneurship-related events
- Support students by sponsoring programming classes
- Providing office space for study groups and seminars

G

In order to achieve sustainable growth and maximize shareholder value, and to ensure sound and appropriate management, Drecom is focusing on strengthening governance, especially the appointment of female directors, the appointment of many independent outside directors with different professional backgrounds, and active discussions.

1) Actively appoint female directors

As of May 2022, the ratio of female directors is 20%.

2) Balance between internal directors and independent outside directors

As of May 2022, the ratio of independent outside directors to all directors is 60%.

3) Diversity of Independent Outside Directors

The Company appoints experts in various fields, such as certified public accountants, lawyers, and university professors, as independent outside directors.

4) Regular Board of Directors meetings and high attendance rate

The Board of Directors meets regularly on a monthly basis to share information on business conditions and management issues in a timely manner and engage in active discussions. 19 Board of Directors meetings were held annually for FY2021 and 24 meetings were held annually for FY03/2021.

List of game titles in operation

Title Name	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>Kirara Fantasia</i>	Aniplex Corporation	Dec 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	Nov 2019
<i>New Japan Pro-Wrestling Strong Spirits</i>	Bushiroad Inc.	Feb 2022

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".
Research and development 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

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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.