



Q2 FY2022 Financial Results Presentation Materials

Drecom Co., Ltd.
October 28, 2021

1. Review of Q2 (Jul-Sep) FY2022 Results

2. Medium-term (fiscal year ending March 31, 2023) goals

Forecast for Q3 (Oct-Dec) FY2022

4. appendix

Summary of Q2 FY 2022 Results

Mainstay IP titles in their seventh year of release are contributing to earnings, propelled by the successful events.

	Q2 (Jul-Sep) FY2022	Q2 (Jul-Sep) FY2022 (Cumulative)	Q2 (Jul-Sep) FY2021	Q2 (Jul-Sep) FY2021 (cumulative total)	YoY	YoY (cumulative total)	Q1 (Apr-Jun) FY2022	QoQ
							Q1	
(Unit: million yen)								
Revenue	2,523	5,184	2,881	6,184	-358	-1,000	2,661	-138
Operating income	463	967	428	1,052	+35	-85	504	-41
Operating income ratio (%)	18.3	18.6	14.8	17.0	-	-	18.9	-
EBITDA	597	1,268	581	1,340	+16	-72	671	-74
EBITDA Margin (%)	23.6	24.4	20.1%	21.6	-	-	25.2	-
Ordinary income	448	941	423	1,032	+25	-91	492	-44
Net income (loss)	311	612	358	825	-47	-213	300	+11

Forecast (July 28th) vs. Actual

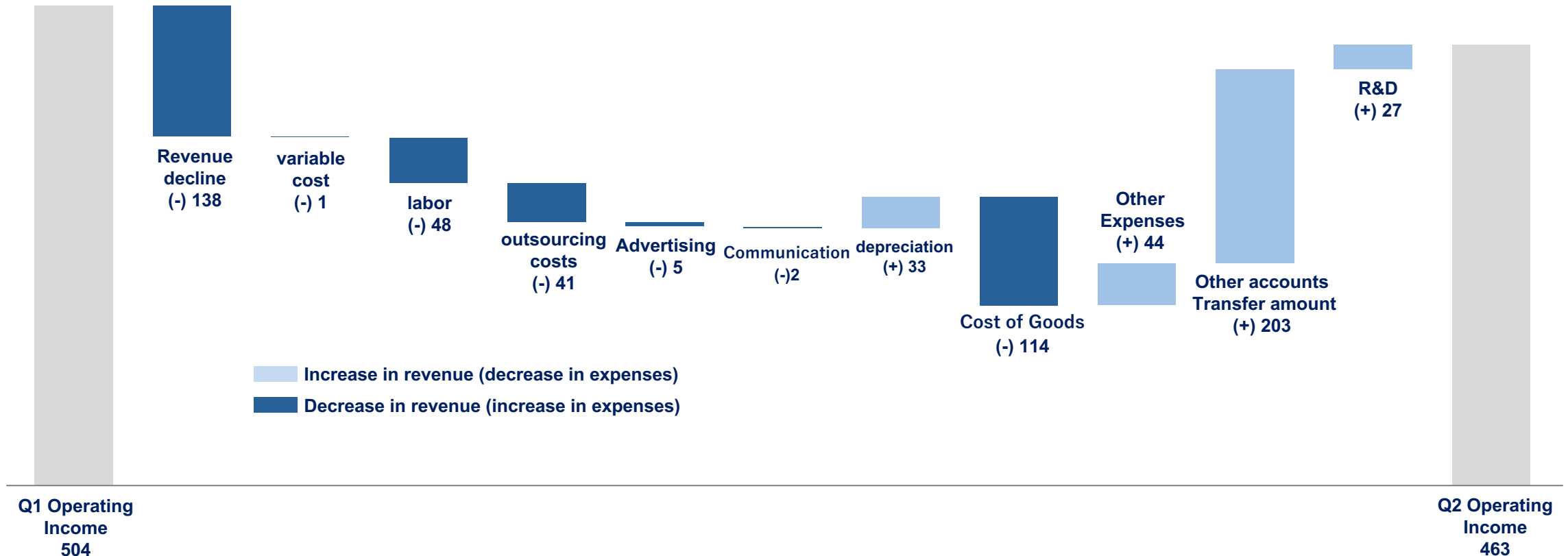
Several applications led by the mainstay IP titles in their 7th year of operation performed well and contributed to the upswing in revenue.



	Q2 FY3/22 Operating Income (Forecast (July 28th))	Q2 FY3/22 Operating Income (Actual)	
Revenue	5.18 billion yen	Budget: 5.0 billion yen	+3.6%
Operating income	0.96 billion yen	Budget: 750 million yen	+28.9
Ordinary income	0.94 billion yen	Budget: 750 million yen	+25.4%
Net income	0.61 billion yen	Budget: 5.0 billion yen	+22.4%

Analysis of Changes in Operating Income (Q1 FY2022 vs Q2 FY2022)

Sales decreased from the reaction to Q1. Developmental progress led the reduction (accounting for the increase in capitalized amount).



Topics by Business

We released *D_CIDE TRAUMEREI* at the end of September 2021.

We improved profitability while planting seeds for the future.

<p>game</p>	<ul style="list-style-type: none">➤ The event held in September for the IP title in its 7th year of release was well received. The event, which was held in September, was well received. Other IP titles also performed well, exceeding the initial forecast.➤ Many of the titles under management continue to post stable profits.➤ At the end of September, <i>D_CIDE TRAUMEREI</i> was released, bringing the number of games in released to nine. Announced the release of <i>Mikonote</i>. Three other new titles are scheduled to be released in the second half of this fiscal year. Development phase is in the final stage.➤ The development of <i>The Devil Prince and the Puppet</i> will start in September. At the same time, we will strengthen the fan community.
<p>New Business Development</p>	<ul style="list-style-type: none">➤ Established a new business division to launch new businesses in the webtoon domain. Promote business development through collaboration and M&As.➤ Orders for Root continue to increase, and the number of companies using the service surpassed 30 by the end of July.➤ Development progress of location-based titles dealing with popular IPs to be developed using AROW.

1. Review of Q2 (Jul-Sep) FY2022 Results

2. Medium-term (FY2023) goals

Forecast for Q3 (Oct-Dec) FY2022

4. appendix

Drecom at the end of FY2023

Current Drecom

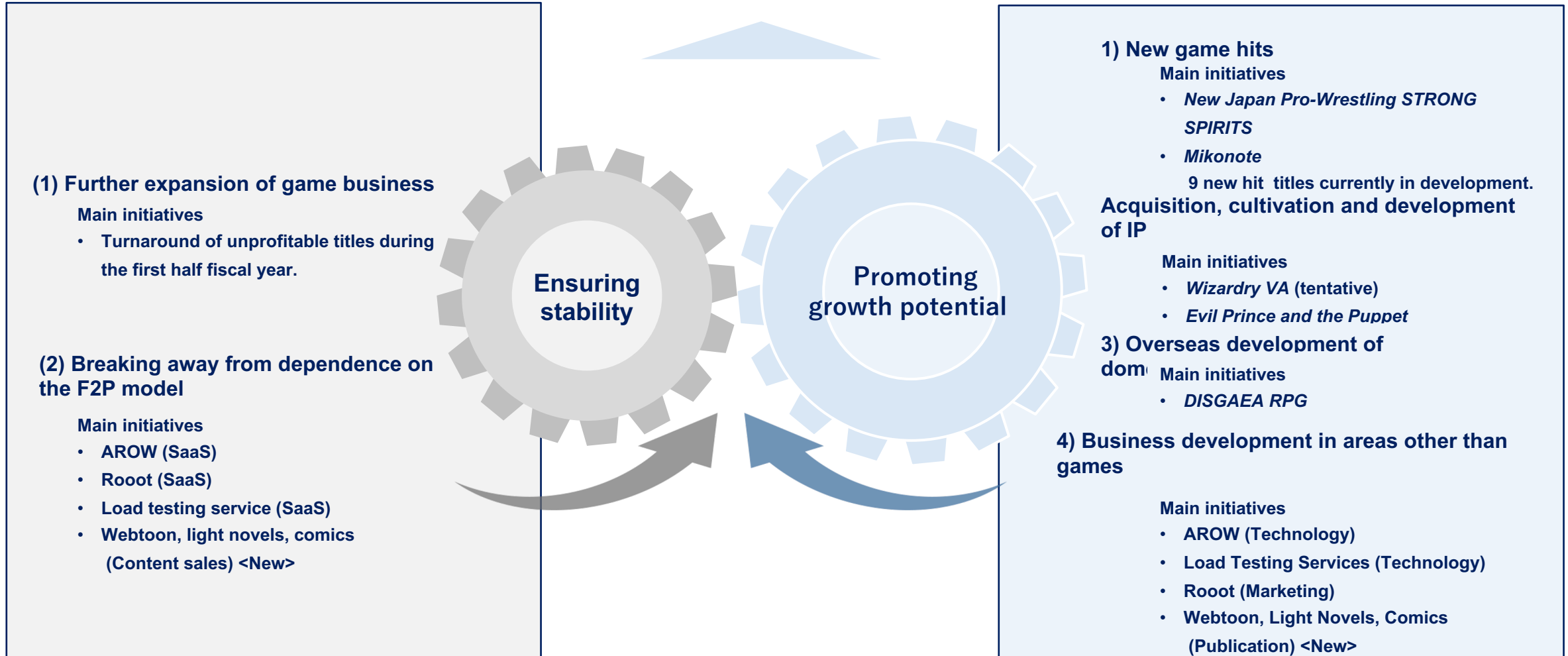
**Mobile game company
with strength in development
and operation of IP games**



**Comprehensive entertainment company
with IP at the core.
We are developing a variety of
digital entertainment contents
on a global scale.**

Medium-Term Goals (cont'd)

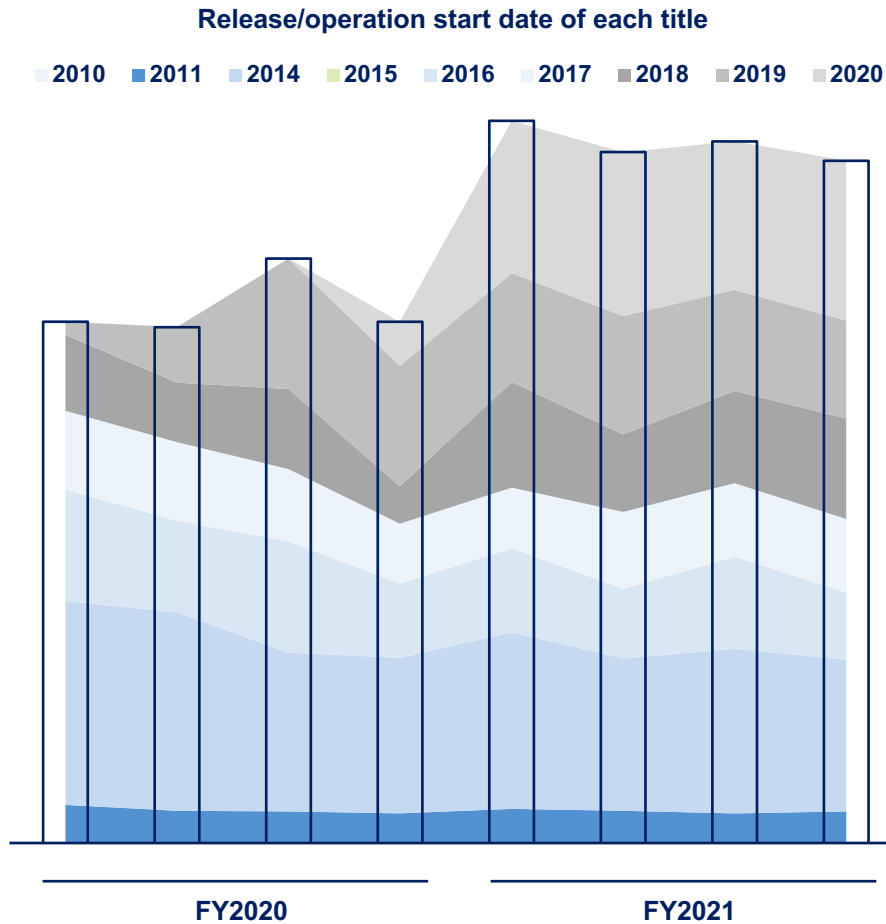
A comprehensive entertainment company that provides a variety of digital entertainment content based on IP.



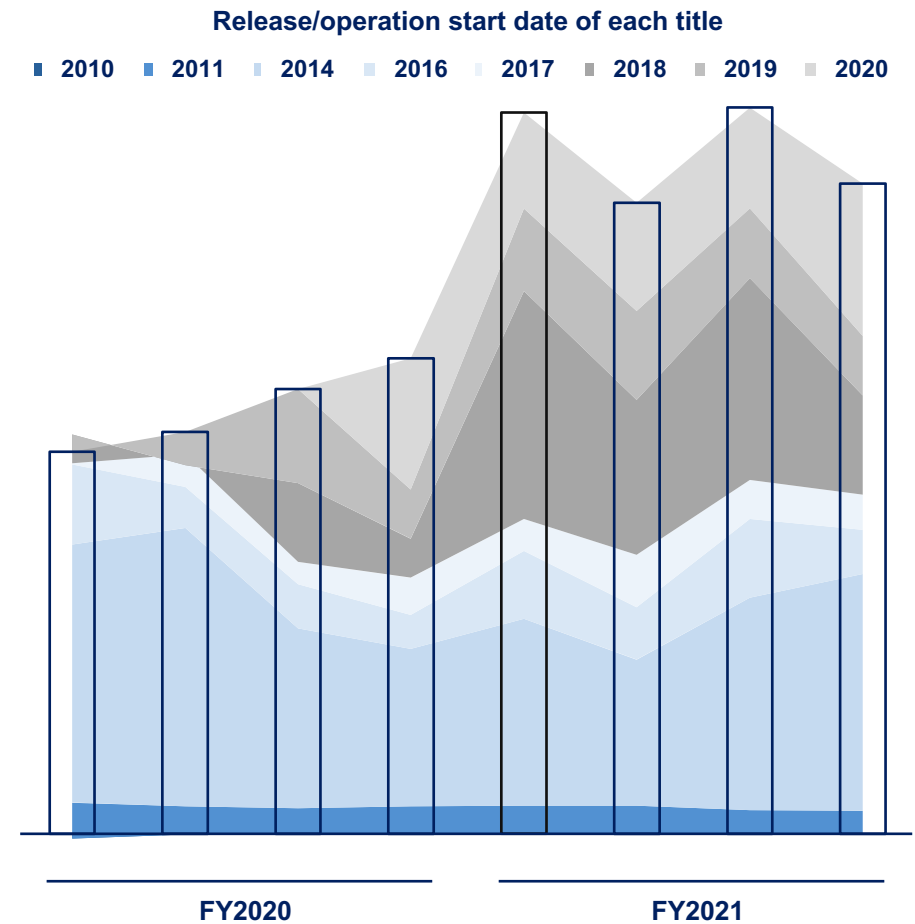
Stabilizing the game business

From dependence on a small number of hit titles to a portfolio that earns stable revenue from multiple hit titles

Revenue by titles' release year

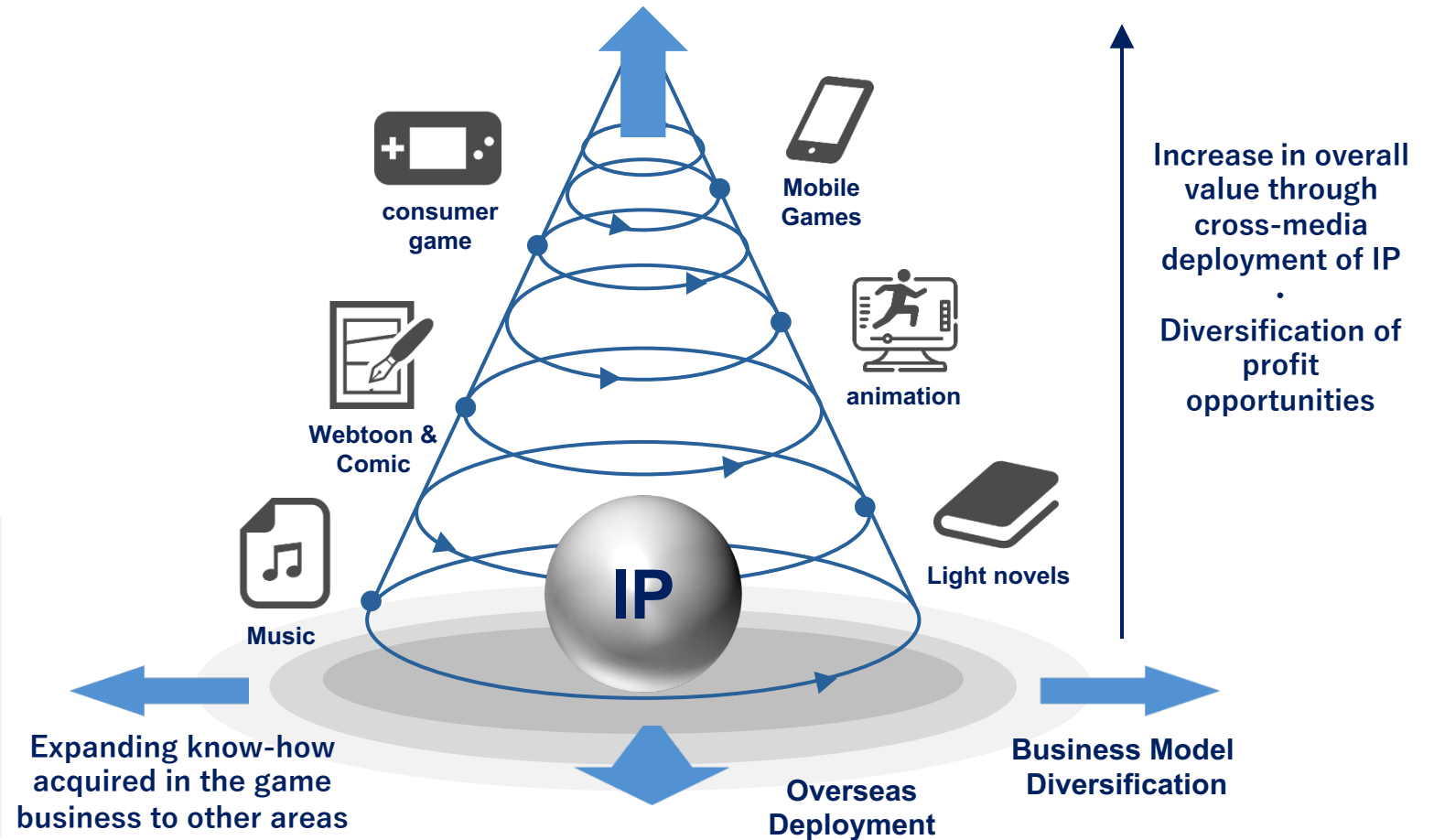
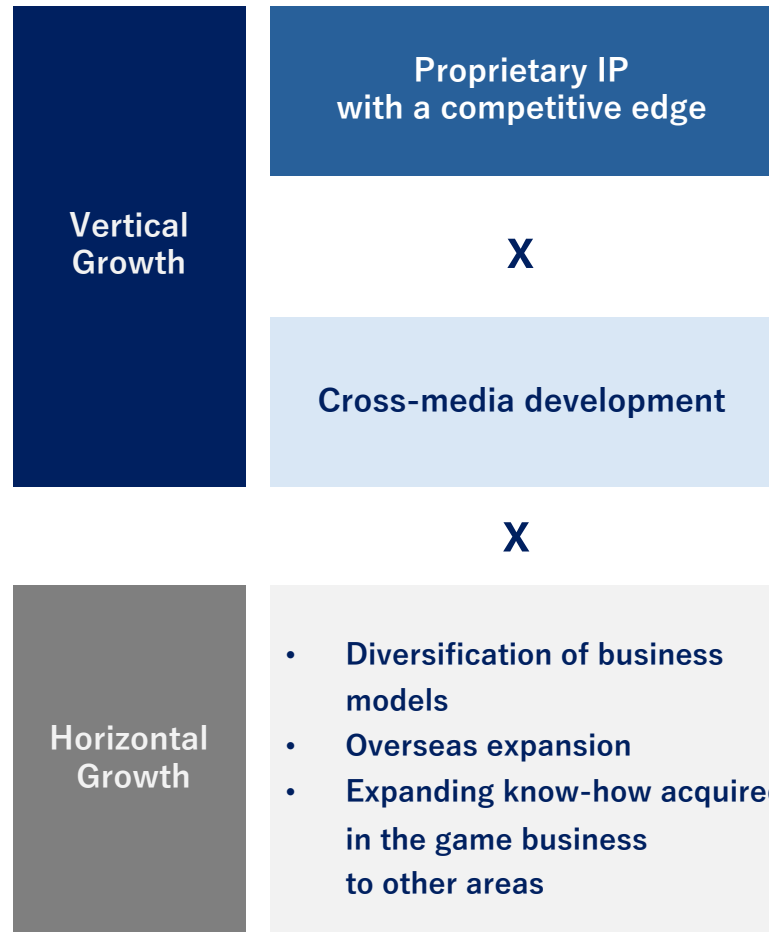


Total business profit of titles under management



IP spiral strategy

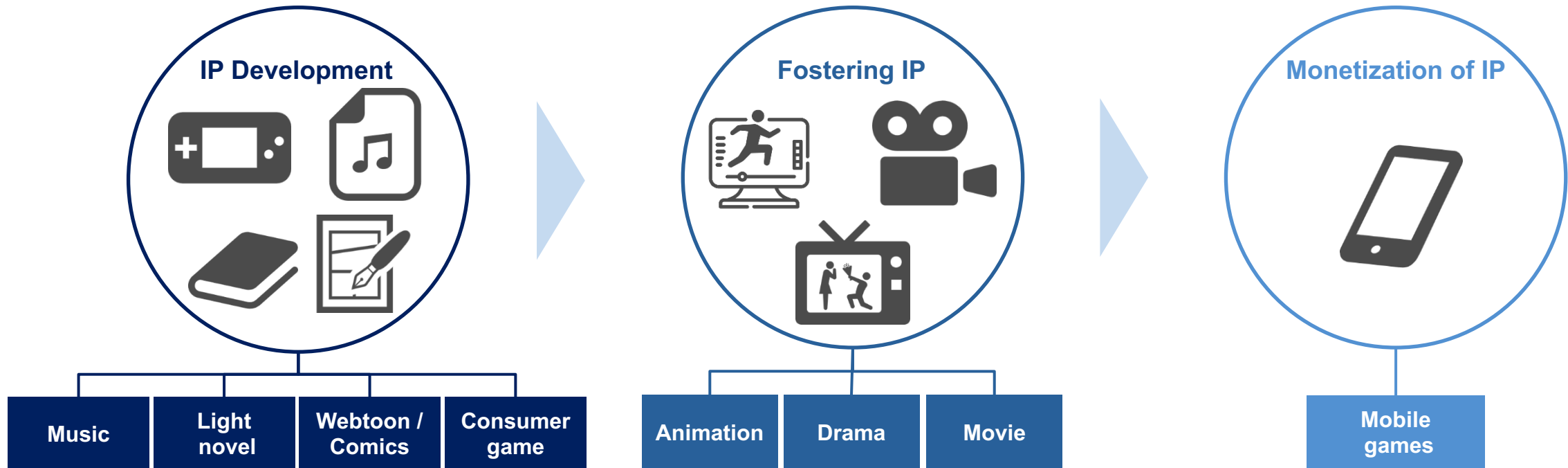
Aiming for "Spiral growth" placing IP at the core



Flow of IP development, Cultivation, and Monetization

Organize the characteristics of each entertainment domain, from IP development to monetization.

Seek development that matches the characteristics of each domain.



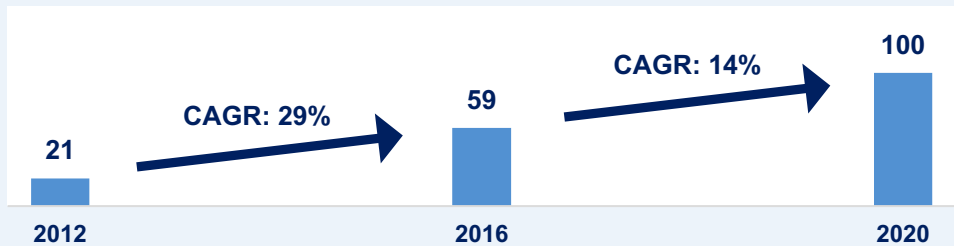
Launch of publishing division

We established a new business unit to develop new services. Its focus is IP development and production of webtoons, light novels, and comic fields.

Marketplace

The Potential of Webtoons and E-comics

<Webtoon> (Unit: billion yen)



Year	Market Value (billion yen)
2012	21
2016	59
2020	100

The market is expected to grow at a CAGR of 14%*1 from 2016 to 2020, and will be worth 100 billion yen by 2020. Further growth and similar growth in Japan is expected in the future.

< E-comics >
An area that will drive the growth of the e-book market, recording 33.8%*2 growth between 2019 and 2020.

Attracting growth in the nascent mobile game market
An area with great potential

1 Source: KT Economics and Management Research Institute
2 Source: "E-book Business Research Report 2021," published by Imprest Corporation

Characteristics of Drecom Contents

Possibility of maximizing IP value by expanding into the gaming business
Possibility of maximizing IP value

Relatively easy to expand globally
Potential market is global in scale

Webtoon/comic content.
Build-up
(continuity of story, ongoing and repeated demand for past works)

X

It can be said **NEXT**
Mobile Games marketplace
recognized as an attractive growth market.

Intensive investment in key business areas that will drive Drecom's growth

Launching the Publishing Division (cont'd)

We established a new business unit to develop new services. Its focus is IP development and production of webtoons, light novels, and comic fields..

Medium-term strategy

- Ownership of world-class IP and acquisition of production capabilities (IP acquisition, cultivation and development)
- Development of business in multiple entertainment domains (business development in domains other than games)
- Multi-layered revenue models (moving away from dependence on F2P models)

STEP 1

Early on, we created hits in the areas of webtoon, light novels, and comics.
We have accumulated know-how within the company, and have been able to gain a reputation as a hit producer

Acquire competitive content through internal and external recruitment of proven talent

X

Acquire personnel with proven label (story board) production skills

X

Digital approach to promotion and fan base building

STEP 2

Expand hit webtoon, light novel, and comic works to other media such as games and anime.
Monetize your IP in a reproducible way.

Nurture IP through the development of hit titles into games and animation

X

Strengthen IP fan base through cross-media promotion

X

Own multiple hit IPs. Build a platform consisting of our own IP.

Project Summary (as of September 30, 2021)

D_CIDE TRAUMEREI to be released at the end of September, with a total of 12 development projects underway as of the end of September 2021.

Business	Status		Definition	Number of projects	Details
Game Business	Operation		Titles in operation	12	<ul style="list-style-type: none"> ➤ Distribution by other companies: 9 titles * ➤ In-house distribution: 3 titles
	Development	Production development	Titles under development near release	9	<ul style="list-style-type: none"> ➤ Distribution by other companies <ul style="list-style-type: none"> • <i>New Japan Pro-Wrestling STRONG SPIRITS</i> • <i>Mikonote</i> • Overseas versions of domestic hit IP titles ➤ In-house distribution <ul style="list-style-type: none"> • <i>Wizardry VA</i> (tentative) • <i>Evil Prince and the Puppet</i> ➤ Unpublished <ul style="list-style-type: none"> • Location-based IP title using AROW • Unannounced titles x 3
		Prototype	Titles that are in the development stage before production development	1	<ul style="list-style-type: none"> ➤ Original titles developed by Studio Rex, a group company
New Business Development	Operation		Services in operation	3	<ul style="list-style-type: none"> ➤ Load Testing Service ➤ Root ➤ AKROGLAM
	Development		Services under development with a view to release	1	<ul style="list-style-type: none"> ➤ New services in the music field

* The number of titles in operation as of the end of September 2021. Series titles and titles developed overseas are counted as one title.

Summary of Titles Under Development (as of October 2021)

Two titles were released during Q2. Announced the release of *Mikonote*. *The Devil Prince and the Puppet* is in the development stage.

	Title Name	New/existing overseas expansion	IP/Original	Distribution Area	publisher
To be released during FY2022 *** 3 titles	1) <i>New Japan Pro-Wrestling STRONG SPIRITS</i>	new	IP	domestic and overseas	other company
	2) <i>Mikonote</i>	new	original	domestic and overseas	Drecom
	3) <i>Unreleased Title 1</i>	new	original	undecided	Drecom
To be released after FY2023 *** 6 titles	1) <i>Wizardry VA</i> (tentative)	new	IP	domestic and overseas	Drecom
	2) Location-based IP titles using AROW	new	IP	undecided	undecided
	3) <i>The Devil Prince and the Puppet</i> *Changed from proto-development to full development	new	IP	undecided	undecided
	4) <i>Unreleased Titles 2</i>	new	IP	undecided	undecided
	5) <i>Unreleased Titles 3</i>	new	original	undecided	undecided
	6) <i>Unreleased Titles 4</i> *Release date has been changed.	Existing overseas expansion	IP	overseas	other company

Expansion of game business: *Mikonote*

Formed a capital and business alliance with MADORCA Inc. Collaborative title *Mikonote* to be released this winter.



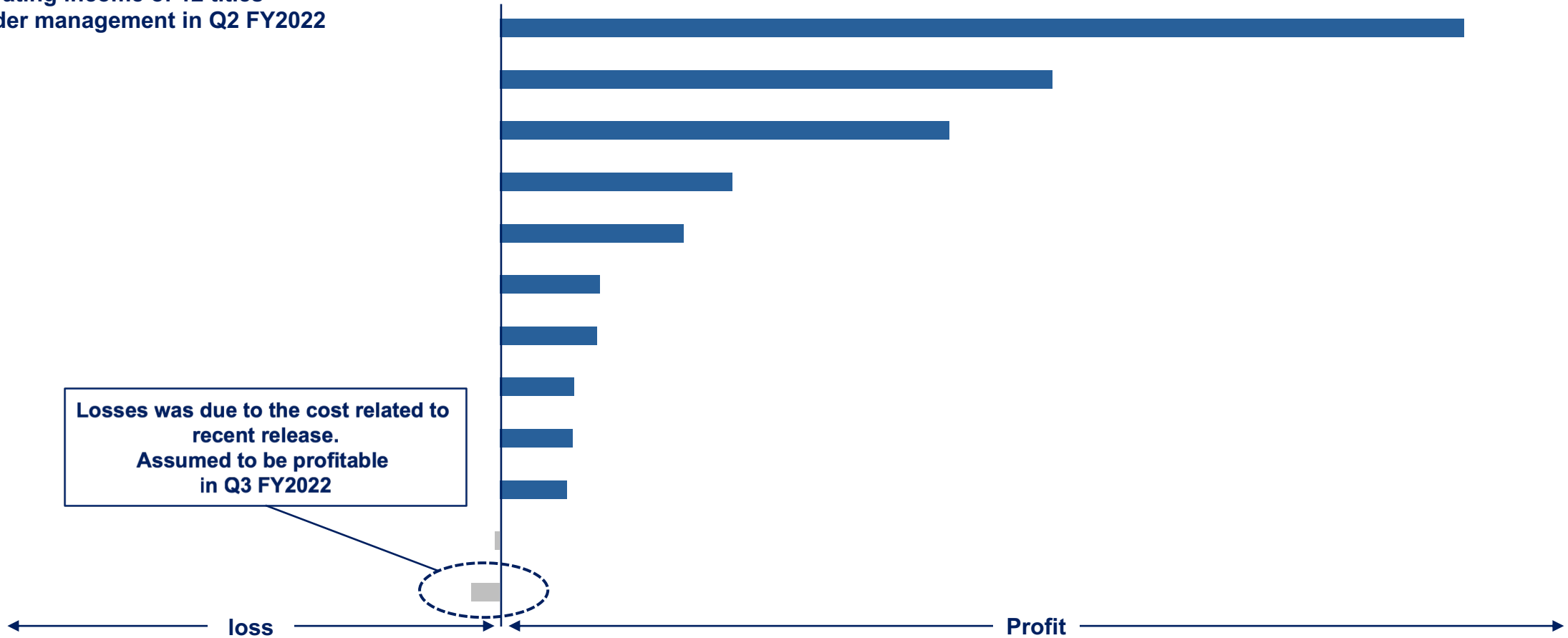
- Mikonote Teaser site URL: <https://www.mikonote.jp/>
- Official Twitter URL : @mikonote_JP (https://twitter.com/mikonote_JP)

- In August, we entered into a business and capital alliance agreement with MADORCA Inc. (referred to as "MADORCA") . We plan to release *Mikonote* this winter as the first title of the collaboration.
- MADORCA is an excellent developer with strengths in cell-look 3D technology, own proprietary engine, and a track record of developing high quality games with a small team under excellent management. Determined to be an ideal partner to complement Drecom.
- Starting with the collaboration on *Mikonote*, we plan to collaborate in both development and operation to achieve success in the mobile game market in Japan and overseas.

Improve profitability of the game business

Two unprofitable titles as of Q2

Operating income of 12 titles
*under management in Q2 FY2022



*The number of titles in operation at the end of September 2021. Series titles are counted as one title, including three "enza" titles and *BOKU & DRAGONS*.

IP Acquisition, Cultivation and Development: *Evil Prince and the Puppet*

User base continues to grow steadily. Game development to begin in September

悪魔王子と
操り人形
Evil Prince and the Puppet



- Original IP under development; official twitter account to open in November 2019, official website in December 2019.
- As of September 2021, the number of the official twitter account followers reached 83,000. Opened an Instagram account and gained 44,000 followers at the end of October (+34,000 compared to July). The fan community is steadily expanding.
- An official store opened in April 2021, and e-commerce also launched.
- Game development started in September 2021.

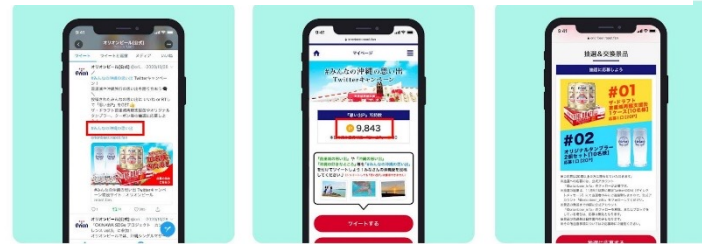
Business development in areas other than games

Root continues to expand with an increasing number of companies installing and using the service; development of IP location-based titles using AROW is also progressing



Service Summary

A service that allows users who "like" or "RT" a tweet with a specific hashtag on Twitter to receive points.



ハッシュタグ付きのツイートにいいね / RTしたユーザーにポイントをプレゼント

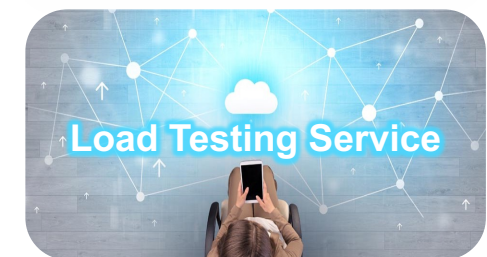
Root が制作した特設サイト内でポイントを表示

特設サイト内でポイントを使って抽選に応募

- Released in December 2020, a fan community promotion service using Twitter.
- Steadily expanding, the number of installed titles exceeded 40 and the number of companies installed the service reached 30 in October.



- Development of location-based game titles dealing with popular IPs to be developed using AROW is underway.
- We have changed our target from our original assumption of individual developers to game development companies. Commercialization progresses along with game development.



- Proposing solutions to issues that balance both business and systems, utilizing experience gained through business operations, including support for load testing prior to service launch and advice on overall activities to improve system availability, with a focus on DevOps support for services in operation.
- Launches Vulnerability Assessment Service in Cooperation with Yelae Security Co.

1. Review of Q2 (Jul-Sep) FY2022 Results

2. Medium-term (FY2023) goals

Forecast for Q3 (Oct-Dec) FY2022

4. Appendix

Management Policy for the Current Fiscal Year



Game Business

- **Bring unprofitable titles back to profitability during the first half of FY2022 and maintain profitability**
- **New titles scheduled to be released during FY2022 are sure to be hits.**
New titles are expected to contribute to earnings in the second half of FY2022
Aim for earnings growth from the second half of FY2022



New Business Development

- **For new business development in areas other than games, we will focus on music, light novels, and comics. We secure necessary functions, know-hows, and human resources through in-house investment in music and through alliances and collaborations including M&A in light novels and comics.**
- **Stabilize the existing game business and invest the profits generated in the creation of new entertainment services in game peripheral areas.**



Other

- **The office was relocated to accommodate remote work style. We are focusing on creating a strong and flexible organization that will not waver even in the midst of major changes, such as developing a working environment that can secure excellent human resources and ensure diverse working styles.**
- **Continue to focus on group-wide performance expansion and business growth through further collaboration with subsidiaries**

Outline of the outlook

QoQ revenue expected to increase contributed by new releases, year-end and new year's events, and anniversary events, but QoQ profit down due to increase in advertising and promotion expenses for *Mikonote* and operation expenses for new releases

(Unit: million yen)	Q1 (Apr-Jun) FY2022 Actual	Q2 (Jul-Sep) FY2022 Actual	Q3 Oct-Dec FY2022 forecast	Q3 Oct-Dec FY2022 (cumulative total) Forecast	Q2 Apr-Jun FY2022			Q3 Oct-Dec FY2021 (cumulative total)		
						QoQ	%		YoY	%
Revenue	2,661	2,523	2,816	8,000	2,523	293	11.6	9,156	-1,156	-12.6
Variable cost	394	380	406	1,180	380	26	6.8	1,388	-208	-14.9
Fixed cost	1,762	1,680	2,078	5,520	1,680	398	23.6	6,083	-563	-9.2
R&D expenses	117	91	112	320	91	21	23.0	263	57	21.6
Capitalization	496	692	612	1,800	692	-80	-11.5	379	1,421	374.9
Advertising expenses	16	21	123	160	21	102	485.7	57	103	180.7
Operating income	504	463	333	1,300	463	-130	-28.0	1,683	-383	-22.7
Ordinary income	492	448	360	1,300	448	-88	-19.6	1,653	-353	-21.3
Net income	300	311	289	900	311	-22	-7.7	1,298	-398	-30.6

1. Review of Q2 (Jul-Sep) FY2022 Results

2. Medium-term (fiscal year ending March 31, 2011) goals

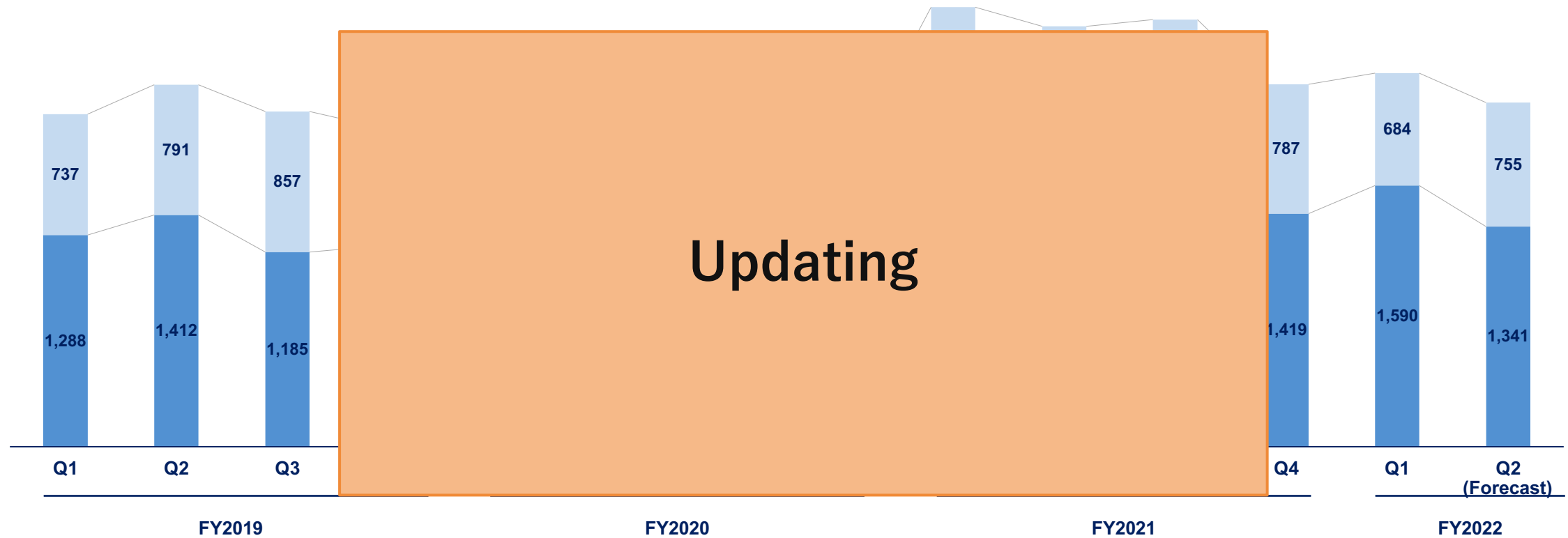
Forecast for Q3 (Oct-Dec) FY2022

4. Appendix

Gaming Business Billing Sales (by Distribution Entity)

(Unit: million yen)

- Distribution by other companies (other IP / enza titles)
- In-house distribution (*Dabimasu / BOKU & DRAGONS / Chokotto Farm*)

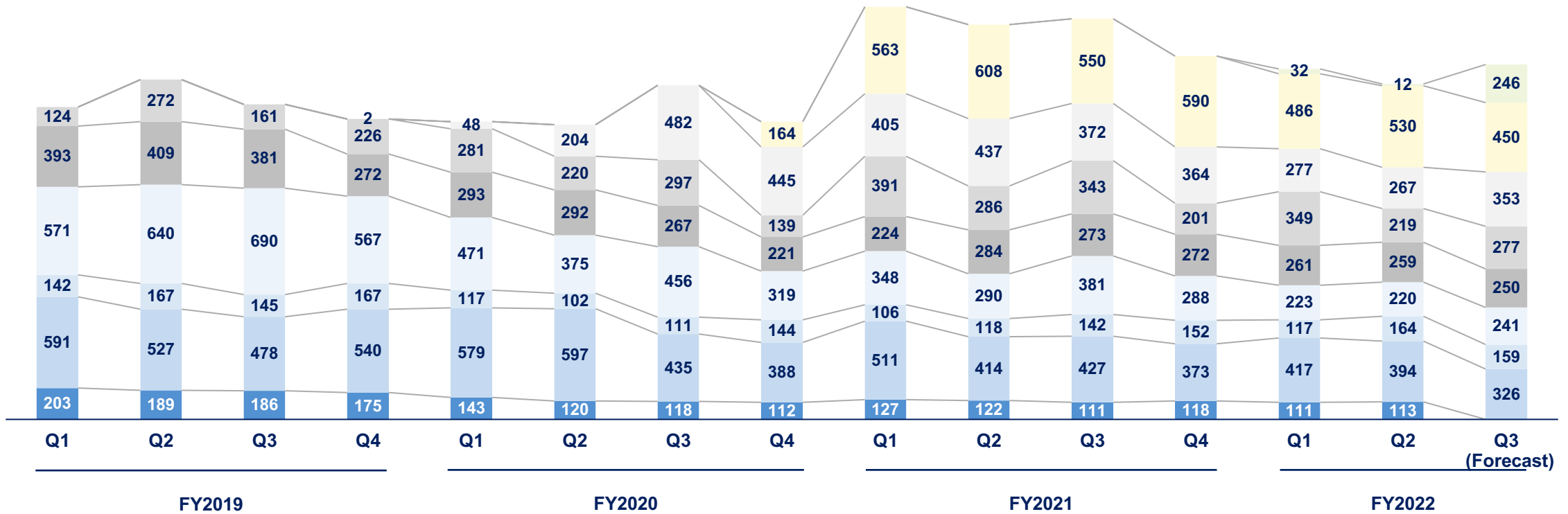


Sales of titles distributed by other companies are recorded on a net basis, while sales of titles distributed by the Company are recorded on a gross basis.
Excludes sales from platforms.

Game Business Billing Sales (by Release Period)

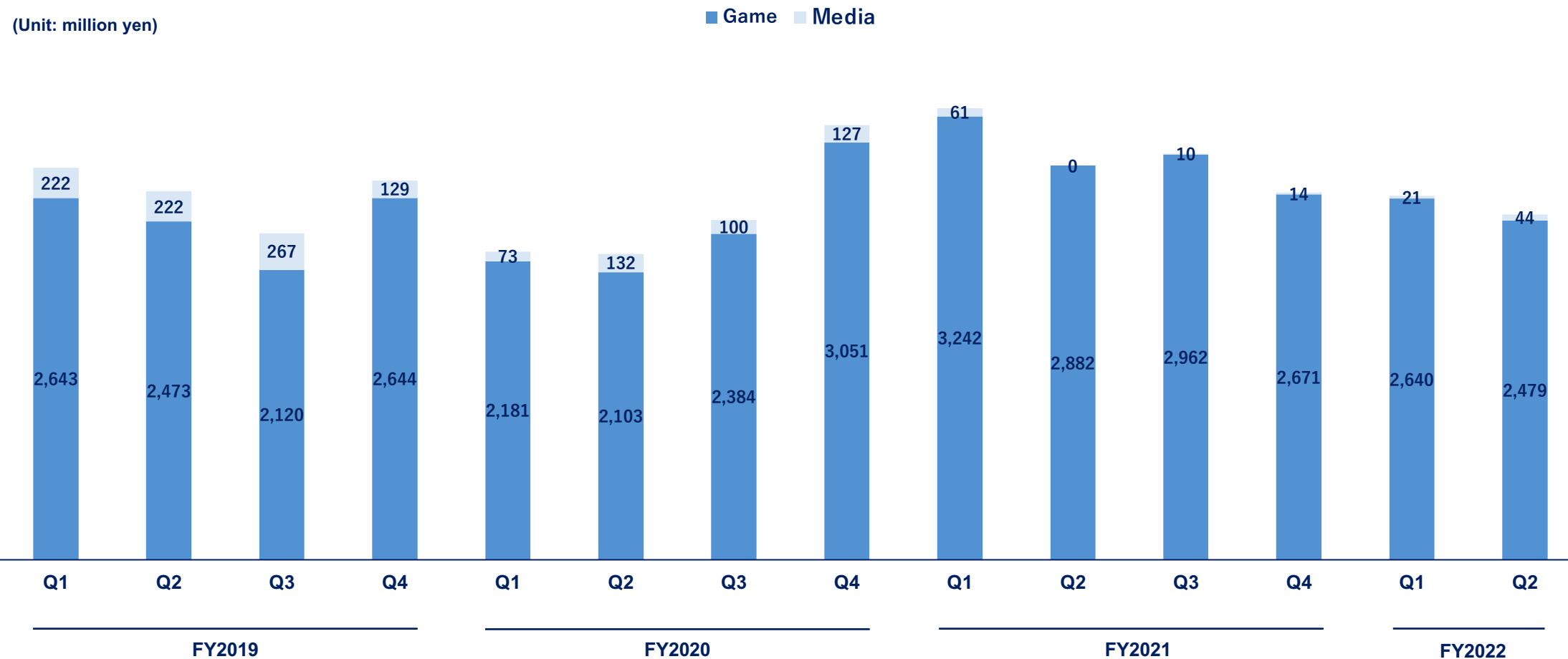
(Unit: million yen)

■ Before 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021



Sales of titles distributed by other companies are recorded on a net basis, while sales of titles distributed by the Company are recorded on a gross basis.
Excludes sales from platforms.

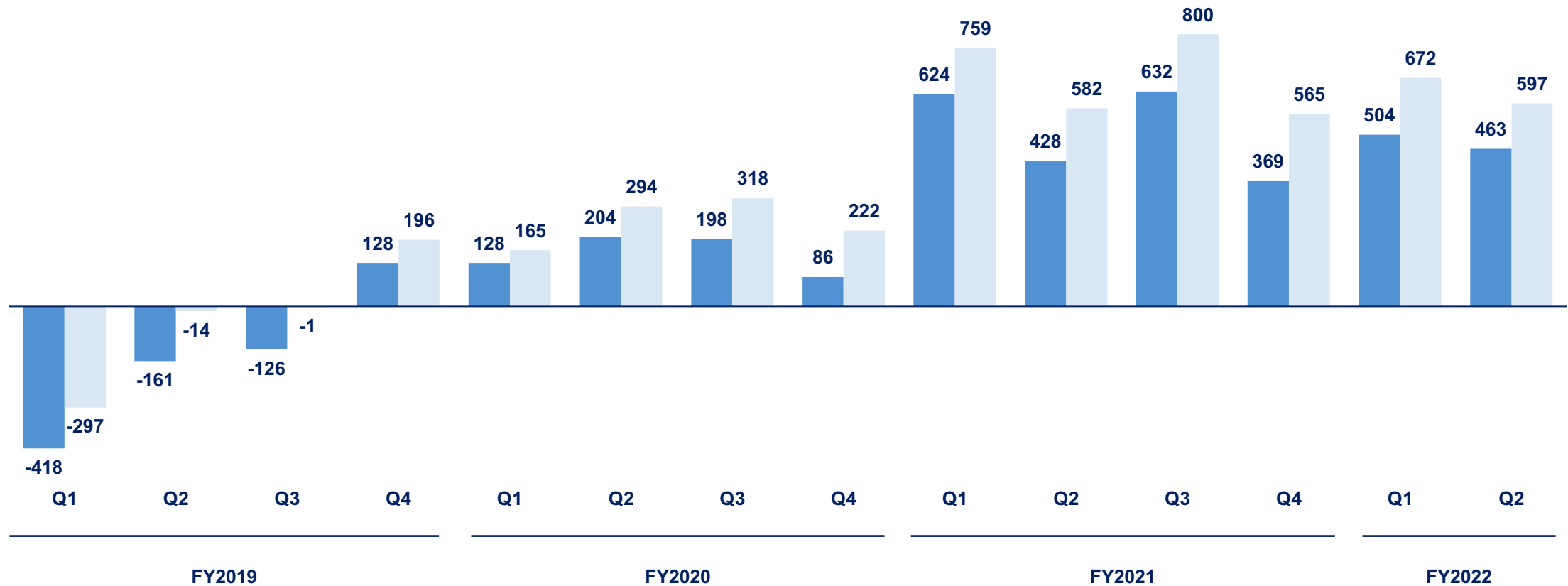
Revenue by Business Segments (FY2019 – Q2 FY2022)



Changes in Operating Income and EBITDA (FY2019 - Q2 FY2022)

■ Operating income ■ EBITDA

(Unit: million yen)



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 appointing female directors

As of July 2021, the ratio of female directors is 20%.

2) Balance between internal directors and independent outside directors

As of July 2021, 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. 24 Board of Directors meetings are held annually for FY2021 and 28 meetings are held annually for FY2020.

PL Summary

(Unit: million yen) (Unit: million yen)	Q2 FY2022 (July-September 2021)			Q1 FY2022 (April-June 2021)	Q2 FY2021 (July-September 2020)
		QoQ	YoY		
Total cost	1,566	3.4%	-21.4	1,621	1,992
Payment fee	222	0.6	-17.5	220	269
Copyright fee	54	-0.9	40.5%	55	91
Labor cost	566	2.8	27.1	551	445
Outsourcing costs	573	7.6	5.2%	533	545
Communication	141	1.3%	2.7%	139	137
Software amortization	122	-12.6%	15.0%	139	143
Depreciation and amortization	6	-67.7	6.0	20	6
Purchases of raw materials	480	31.2	31.7 %	366	364
Transfer to other accounts	-784	27.7	321.5	-614	-186
Work in process	-31	-	-	1	0
Other	214	3.2	-47.4	207	173
Total hawker fees	494	-7.8	7.2	535	460
Payment fee	28	0.4	7.3	28	26
Advertising expenses	21	28.6	102.8	16	10
Labor cost	216	17.3	-12.4	184	247
Recruitment costs	20	-44.3	406.2	36	4
R&D expenses	91	-22.5	3.2	117	88
Depreciation and amortization	5	-24.7	54.3	6	3
Amortization of goodwill	0	-	-	0	0
Other	110	-23.6	37.8	144	80

BS Summary

	Q2 FY2022 (Unit: million yen) (Unit: million yen) (As of September 30, 2021)	Q1 FY2022 (As of June 30, 2021)	Q4 FY2021 (As of March 31, 2021)	Note
Current assets	7,108	7,630	7,669	
cash equivalent	4,949	5,299	5,288	
Trade receivables	1,602	1,756	1,841	Linked to changes in sales
Other	556	574	539	
Fixed assets	2,563	2,158	1,941	
Buildings, tools, furniture and fixtures	273	266	114	Mainly office equipment
Software assets (including suspense accounts)	1,388	1,065	878	Mainly released game apps and apps under development
goodwill	0	0	0	Goodwill arising from M&A activities
Deferred tax assets	273	311	434	
Other	627	515	512	
Total assets	9,672	9,789	9,610	
Current liabilities	2,525	2,924	3,181	
Accounts payable and accrued expenses	1,013	1,051	1,024	
Loans and bonds	877	1,012	740	Bank loans / bond issuance
Other	634	860	1,417	
Fixed liabilities	2,614	2,706	2,573	
Loans and bonds	2,350	2,429	2,430	Bank loans / bond issuance
Other	263	277	143	
Net assets	4,532	4,158	3,855	
Total assets / Total liabilities and net assets	9,672	9,789	9,610	

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 economic conditions surrounding our business, social trends, and changes in relative competitiveness due to demand trends for the services we provide. Important factors that may affect our business performance include, but are not limited to, the following.



DRECOM[®]

with entertainment