



Consolidated financial results Second quarter fiscal year Ending March 31, 2024
(Under Japanese GAAP)

October 26, 2023

Listed company name: Drecom Co., Ltd.
 Listing: Tokyo Stock Exchange
 Code number: 3793
 URL: <https://drecom.co.jp/>
 Representative: President and Representative Director: Yuki Naito
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 Scheduled date to file quarterly securities report: November 9, 2023
 Scheduled start date to commence dividend payments: —
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results briefings: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended September 30, 2023 (From April 1, 2023 to September 30, 2023)

(1) Consolidated financial results (cumulative)

(% is Year-on-year rate of increase / decrease)

	Net sales		Operating Income		Ordinary income		Attributable to owners of parent quarterly net income	
	Million yen	%	Million yen	%		%		%
Six months ended								
September 30, 2023	5,091	-12.2	472	-70.6	453	-70.7	-169	—
September 30, 2022	5,800	11.9	1,607	66.2	1,547	64.4	1,056	72.6

Note: Comprehensive income For the six months ended September 30, 2023: ¥166 million yen (-%)
 For the six months ended September 30, 2022: ¥1,057 million yen (72.6%)

	Quarterly Net earnings per share	Quarterly Diluted net earnings per share
	Yen	Yen
Six months ended		
September 30, 2023	-5.94	—
September 30, 2022	37.13	37.08

(2) Consolidated financial condition

	Total Assets	Net Assets	Equity-to-asset ratio	Net assets per share
Six months ended	Million yen	Million yen	%	Yen
September 30, 2023	11,388	5,385	46.8	186.42
Fiscal year ended				
March 31, 2023	12,226	5,631	45.6	195.70

Reference: **Equity capital** As of September 30, 2023: ¥5,334 million
 As of March 31, 2023: ¥5,579 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended	JPY	JPY	JPY	JPY	JPY
March 31, 2023	—	0.00	—	5.00	5.00
March 31, 2024	—	0.00			
March 31, 2024 (Forecast)			—	—	—

Note: Revision to the forecast of cash dividends most recently announced: None

The year-end dividend forecast for March 2024 has not yet been determined.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% increase or decrease from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending									
March 31, 2024	11,500	6.5	500	-78.1	450	-79.5	0	—	0.00

Note: Revisions to the most recently announced earnings forecasts: None

*Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

New —, (Company name) —, Exclusion —, (Company name) —

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and re-display of amendments

(i) Changes in accounting policies due to revisions to accounting standards: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	29,224,108 shares
As of March 31, 2023	29,129,591 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2023	610,795 shares
As of March 31, 2023	621,595 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	28,530,632 shares
Six months ended September 30, 2022	28,456,134 shares

Note: 581,600 shares of the Company's stock (5,816 voting rights) held by The Custody Bank of Japan, Ltd. (hereinafter referred to as "ESOP Trust Unit") are included in the number of treasury stock at the end of the above period.

*Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

*Proper use of earnings forecasts, and other special matters
(Notes on future descriptions)

The forecasts above are based on information currently available and certain assumptions deemed reasonable by the Company as of the date of release of this document. Actual future results may differ from forecasts figures due to various factors

(How to obtain supplementary explanatory materials for financial results)

The Company is scheduled to hold a financial results briefing for institutional investors and analysts on October 26, 2023. The financial results presentation materials to be distributed at this briefing will be posted on the company's website immediately after the briefing.

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1. Qualitative information on consolidated financial results for the second quarter ended September 30, 2023

(1) Explanation of operating results

The Group's raison d'être is "with entertainment" and our goal is to continue to create services that exceed expectations. We also strive to create trailblazing value and deliver captivating experiences. In the medium term, we aim to become a comprehensive entertainment company that provides a wide variety of entertainment content globally based on IP and technology, achieve sustainable growth and increase corporate value.

In the mainstay game business, our main business is game development and operation. We develop and operate third-party IP games, game platforms, and original games. In the media business, we publish and sell novels, comics, and other books and e-books with the aim of developing and nurturing IP. We also experimentally launch new services that utilize our knowledge of Internet services and advanced technologies, and conduct trials toward commercialization.

In the second quarter of the current consolidated cumulative period, net sales were 5,091,538 thousand yen (down 12.2% year-on-year), operating income was 472,280 thousand yen (down 70.6% year-on-year), and ordinary income was 453,584 thousand yen (down 70.7% year-on-year). In addition, the Company posted an extraordinary loss of 609,185 thousand yen due to the decision to close two new titles released at the end of the previous fiscal year and in the first quarter of the current fiscal year, and to discontinue development of one title not yet announced or in the prototype stage of development, and recorded impairment losses, resulting in a net loss attributable to owners of the parent of 169,363 thousand yen for the quarter (compared to net income attributable to owners of the parent of 1,056,684 thousand yen for the same period last year).

The results for each segment for the second quarter of the consolidated fiscal year under review are as follows.

Game business

In the game business, existing titles under operation performed well in the second quarter, exceeding expectations. In this segment, we aim to drive earnings by releasing new titles in addition to the titles under operation. However, since the new titles we have released have been performing below expectations, we have reviewed our operation/development portfolio. In the second quarter, we decided to close one title in operation that was released at the end of the previous fiscal year; and to discontinue the development of one title in development that has not yet been announced or is still in the prototype stage.

Net sales decreased from the same period of the previous year, mainly due to lower sales of other titles under management than in the previous year, despite strong sales of mainstay IP titles.

Profit decreased from the same period of the previous year due to the above-mentioned decrease in revenue and an increase in expenses associated with the release of two new in-house distribution titles at the end of the previous fiscal year and in the first quarter of the current fiscal year.

As a result, segment sales amounted to 4,971,912 thousand yen (down 12.3% year-on-year), and segment income was 988,698 thousand yen (down 45.4% year-on-year). In this segment, our core business, we will strive to grow earnings from titles in operation. Since the situation for new mobile game titles is more difficult than expected, we will review overall strategies for mobile game titles under development, reduce costs, and take other measures to improve the profit/loss situation as soon as possible. In addition, we will aim to increase sales and profits through the contribution of new titles to be released in the future.

Media business

In the media business, while working on the publishing and video business to develop and nurture IP and diversify revenue-generating channels, the Company has been publishing monthly on the light novel label "DRE Novels." In addition, we are developing new businesses in the Web3 domain and providing "Rroot" and "Fanflu" a SNS-based fan marketing support services, by leveraging our expertise in Internet services and advanced technology.

The "DRE Novels" publication boosted sales, but lower sales for "Rroot" led to a YoY decline in net sales.

As for profit, in addition to the above-mentioned factors of revenue decline, the amount of loss increased from the same period of the previous year due to ongoing costs from investments in new business areas such as publishing, video, and Web3.

As a result of the above, segment sales amounted to 119,625 thousand yen (down 8.1% year-on-year) and segment loss amounted to 516,418 thousand yen (segment loss of 201,898 thousand yen in the same period last year). In this segment, we will continue to invest in R&D to achieve our medium-term goal. However, we are reviewing some of our

plans and will implement other measures along with a company-wide cost-reduction exercise.

Looking ahead, we will review overall strategies for mobile game titles under development and implement cost reductions and other measures to improve the profit-and-loss situation as soon as possible and aim to increase sales and profits through contributions from new titles to be released in the future. In addition, we will continue to invest and focus on business expansion into entertainment areas other than games and development and nurturing of our own IP, aiming to grow into a comprehensive entertainment company with IP as its core.

(2) Explanation of financial position

(Assets)

At the end of the second quarter, the total current assets amounted to 11,388,756 thousand yen. The increase in account receivables and software in progress has contributed to this figure, while cash and deposits have decreased. This represents a decrease of 837,640 thousand yen compared to the previous fiscal year's end.

(Liabilities)

Total liabilities at the end of the second quarter amounted to 6,003,256 thousand yen (down 592,020 thousand yen from the end of the previous fiscal year), mainly due to a decrease in loans payable.

(Net assets)

Net assets at the end of the second quarter of the current consolidated fiscal year amounted to 5,385,500 thousand yen (down 245,620 thousand yen from the end of the previous consolidated fiscal year), mainly due to the net loss attributable to parent company shareholders of 169,363 thousand yen for the quarter.

As a result, the equity ratio was 46.8% (45.6% at the end of the previous fiscal year).

2. Quarterly consolidated financial statements and key notes

(1) Quarterly consolidated balance sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2023)	Six months ended September 30, 2023 (September 30, 2023)
Assets		
Current assets		
Cash and deposits	6,044,573	3,973,506
Accounts receivable	1,484,658	2,194,354
Goods	5,268	6,943
Work in progress	17,482	50,163
Prepaid expenses	148,928	153,930
Other	147,482	176,541
Total current assets	7,848,394	6,555,439
Fixed assets		
Tangible fixed assets		
Building	191,229	191,229
Accumulated depreciation	-31,029	-39,885
Buildings, net	160,200	151,344
Tools, furniture and fixtures	85,502	87,307
Accumulated depreciation	-53,143	-60,631
Tools, furniture and fixtures, net	32,358	26,675
Leased assets	7,232	7,232
Accumulated depreciation	-3,107	-3,657
Lease assets, net	4,125	3,575
Total tangible fixed assets	196,683	181,594
Intangible fixed assets		
Software	201,601	39,156
Software in progress	3,026,917	3,493,843
Total intangible fixed assets	3,228,519	3,532,999
Investments and other assets		
Investments in securities	59,926	69,926
Deferred tax asset	491,226	586,784
(Security) deposit	199,404	199,404
Other	202,242	262,608
Total investments and other assets	952,800	1,118,723
Total fixed assets	4,378,002	4,833,317
Total assets	12,226,397	11,388,756

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2023)	Six months ended September 30, 2023 (September 30, 2023)
Liabilities		
Current liabilities		
Accounts payable	449,977	388,796
Short-term debt	100,000	100,000
Current portion of long-term debt	1,780,750	1,678,050
Lease obligations	1,281	1,281
Accounts payable - other	554,851	605,252
Accrued income taxes	481,316	130,061
Allowance for bonuses	129,549	80,390
Other	802,766	741,412
Total current liabilities	4,300,494	3,725,244
Fixed liabilities		
Long-term debt	1,952,750	1,955,200
Lease obligations	3,524	2,883
Asset retirement obligations	100,000	100,000
Other	238,507	219,928
Total long-term liabilities	2,294,782	2,278,012
Total liabilities	6,595,277	6,003,256
Total net assets		
Capital stock		
Capital stock	1,811,311	1,842,360
Capital surplus	2,068,472	2,099,521
Retained earnings	1,967,564	1,652,682
Treasury stock	-266,237	-259,894
Total shareholders' equity	5,581,111	5,334,669
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	-2,079	-641
Foreign currency translation adjustments	82	78
Total accumulated other comprehensive income	-1,997	-562
Subscription warrant	49,067	49,067
Noncontrolling interest	2,938	2,325
Total net assets	5,631,120	5,385,500
Total liabilities and net assets	12,226,397	11,388,756

(2) Quarterly consolidated statements of income and quarterly consolidated comprehensive income statements

Quarterly consolidated statement of income

(Cumulative period for consolidated second quarter, six months ended September 30, 2023)

(Unit: Thousand yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Net sales	5,800,434	5,091,538
Cost of sales	3,171,491	3,262,237
Gross profit	2,628,942	1,829,300
Selling, general and administrative expenses	1,021,083	1,357,020
Operating income	1,607,859	472,280
Non-operating income		
Interest income	23	28
Dividends received	3,066	2,979
Gain on investment in capital	2,080	1,614
Other	1,179	67
Total non-operating income	6,349	4,690
Non-operating expenses		
Interest expense	19,688	20,757
Fees and commissions	46,332	1,379
Other	570	1,250
Total non-operating expenses	66,591	23,386
Ordinary income	1,547,617	453,584
Extraordinary loss		
Impairment loss	-	609,185
Total extraordinary loss	-	609,185
Income before income taxes and minority interests	1,547,617	-155,601
Corporate, inhabitant and enterprise taxes	457,711	108,256
Income taxes-deferred	32,001	-96,191
Total income taxes	489,712	12,065
Net income	1,057,904	-167,666
Net income attributable to noncontrolling interests	1,220	1,697
Net income attributable to owners of the parent	1,056,684	-169,363

Consolidated quarterly statements of comprehensive income
(Cumulative period for consolidated second quarter, six months ended September 30, 2023)

(Unit: Thousand yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Net income	1,057,904	-167,666
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	-	1,438
Foreign currency translation adjustments	-	-3
Total other comprehensive income	-	1,435
Comprehensive income	1,057,904	-166,231
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,056,684	-167,928
Comprehensive income attributable to noncontrolling interests	1,220	1,697

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: Thousand yen)

	Six months ended September 30, 2022 (April 1, 2022 to September 30, 2022)	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)
Cash flow from operations		
Quarterly net income before taxes	1,547,617	-155,601
Depreciation and amortization	177,073	110,441
Stock compensation expense	20,002	21,960
Impairment loss	-	609,185
Interest and dividend income	-3,090	-3,007
Fees and commissions	45,083	1,379
Interest expense	19,688	20,757
Trade receivables (- for increase)	-584,962	-709,695
Inventories (- for increase)	-699	-34,309
Accounts receivable-other (- for increase)	14,480	16,180
Consumption taxes receivable (- for increase)	169,624	-46,394
Prepaid expenses (- for increase)	-17,005	14,175
Notes and accounts payable (- for decrease)	-42,987	-61,181
Accrued liabilities (- for decrease)	-61,233	56,024
Accrued consumption taxes (- for decrease)	66,817	-56,137
Advances received (- for decrease)	1,980	-18,770
Accrued bonus (- for decrease)	-21,699	-61,281
Other	3,113	-28,492
Subtotal	1,333,805	-324,766
Receipts of interest and dividends	3,635	3,264
Interest payments	-15,235	-20,801
Payment of corporate taxes, etc.	-154,761	-456,617
Cash flow from operating activities	1,167,443	-798,921
Cash flow from investment activities		
Payments for acquisition of tangible fixed assets	-12,651	-1,163
Payments for acquisition of intangible fixed assets	-916,245	-1,007,214
Payments for purchase of investment securities	-59,920	-10,000
Other	69,254	-10
Cash flows from investing activities	-919,562	-1,018,387
Cash flow from financial activities		
Net increase / decrease in short-term loans payable	-1,000	-
Proceeds from long-term loans payable	2,449,400	400,000
Payments for long-term debt	-1,103,000	-500,250
Dividends paid	-144,407	-144,930
Other	-7,838	-8,573
Cash flows from financing activities	1,193,153	-253,754
Effect of exchange rate changes on cash and cash equivalents	-	-3
Cash and cash equivalents increased or decreased	1,441,034	-2,071,066
Cash and cash equivalents at beginning of period	4,732,985	6,040,496
Cash and cash equivalents at the end of the quarter	6,174,019	3,969,429

(4) Notes to quarterly consolidated financial statements

(Notes on going concern assumptions)

Nothing applicable.

(Notes on significant changes in the amount of shareholders' equity)

Nothing applicable.

(Change in accounting policy)

Nothing applicable.

(Information by Segment)

Segment information

I. Previous six months ended, from April 30, 2022 to September 30, 2022 consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
(1) Sales to external customers	5,670,326	130,107	5,800,434	-	5,800,434
(2) Sales or transfers inside or between segments	-	-	-	-	-
Total	5,670,326	130,107	5,800,434	-	5,800,434
Segment profit or Loss	1,809,758	-201,898	1,607,859	-	1,607,859

Note: Segment income or loss (-) is adjusted with operating income in the quarterly consolidated statements of income.

II. Six months ended, from April 1, 2023 to September 30, 2023 consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
(1) Sales to external customers	4,971,912	119,625	5,091,538	-	5,091,538
(2) Sales or transfers inside or between segments	-	-	-	-	-
Total	4,971,912	119,625	5,091,538	-	5,091,538
Segment profit or Loss	988,698	-516,418	472,280	-	472,280

Note: Segment income or loss (-) is adjusted with operating income in the quarterly consolidated statements of income.

(Significant subsequent events)

Not applicable