



Consolidated Financial Results for the Nine Months Ended December 31, 2021
(Under Japanese GAAP)

January 27, 2022

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
 Contact person: Board of Directors: Hideki Goto (TEL) +81 (0)50-3101-9977
 Scheduled date to file quarterly securities report: February 9, 2022
 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 nine months ended December 31, 2021 (From April 1, 2021 to December 31, 2021)

(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	
		%		%		%		%
Nine months ended								
December 31, 2021	8,078	-11.8	1,419	-15.7	1,380	-16.5	853	-34.3
December 31, 2020	9,156	31.3	1,683	217.3	1,653	221.5	1,298	232.5

Note: Comprehensive income For the nine months ended December 31, 2021 ¥613 million yen (-25.9%)
 For the nine months ended December 31, 2020 ¥826 million yen (284.7%)

	Quarterly Net earnings per share	Quarterly Diluted net earnings per share
Nine months ended	Yen	Yen
December 31, 2021	29.87	29.83
December 31, 2020	45.59	45.49

(2) Consolidated financial Condition

	Total Assets	Net Assets	Equity-to-asset ratio	Net assets per share
Nine months ended	million yen	million yen	%	Yen
December 31, 2021	9,770	4,619	46.8	160.67
Fiscal year ended				
March 31, 2021	9,610	3,855	39.5	132.91

Reference: **Equity capital** As of December 31, 2021 ¥4,568 million
 As of March 31, 2021 ¥3,794 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, 2021	—	0.00	—	0.00	0.00
March 31, 2022	—	0.00	—		
March 31, 2022 (Forecast)				0.00	0.00

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



3. Forecast of consolidated financial results for the nine months ending December 31, 2021
(April 1, 2021 – March 31, 2022)

(% increase or decrease from the same period of previous year)

	Sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
		%		%		%		%	
Nine months total	10,900	-7.9	1,700	-17.2	1,650	-18.3	1,000	-38.4	35.17

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
- (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: Yes
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Retrospective restatement: None
 (Note) For details, please refer to p.8 “2. Quarterly Consolidated Financial Statements and Key Notes (3) Notes on quarterly consolidated financial statements (Change in accounting policy)”.

(4) Number of issued shares (common shares)

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

As of December 31, 2021	29,072,696 shares
As of March 31, 2021	28,976,700 shares

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

As of December 31, 2021	637,366 shares
As of March 31, 2021	428,366 shares

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

Nine months ended December 31, 2021	28,569,388 shares
Nine months ended December 31, 2020	28,491,583 shares

(Note) 613,300 shares of the Company (6,133 voting rights) owned by 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 briefing for financial results targeting institutional investors and analysts on January 27, 2022. 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 Third Quarter Ended December 31, 2021

(1) Explanation of business results

The environment surrounding the Internet service industry, to which we belong, continues to undergo rapid changes. According to the 2020 Telecommunications Usage Trends Survey, as of the end of August 2020, the percentage of households with smartphones continued to increase, reaching 86.8%, surpassing the percentage of households with PCs (70.1%) and fixed-line phones (68.1%). Smartphones are now positioned as the most important information and communication devices in our daily lives. As of the end of August 2020, the percentage of people using smartphones to access the Internet reached 68.3%, smartphones are now positioned as a major device for Internet use. In response to the rapid spread of smartphones and their increasing importance as Internet devices, the Internet service industry has seen the creation of new services for smartphones one after another, and the market continues to expand and competition intensifies.

Under such an environment, we have positioned the provision of services for smartphones as its main business and is focusing on the expansion of existing services and the development of new services. In the mainstay gaming business, we are working to expand our business by increasing profits from IP games in operation and developing new IP games, utilizing the know-how we have accumulated through the development and operation of IP games over the years. In the media business, we are also working on the development and operation of new services with the aim of creating the next generation of mainstay businesses.

In the third quarter of the current fiscal year, many of the titles in operation continued to post stable profits, increasing the stability of the business.

Net sales decreased from the same period of the previous year due to the closing of several titles and withdrawal from the advertising business. On the other hand, anniversary events for various titles maintained their strong performance. In the media business, sales of new services are steadily increasing. Expenses decreased compared to the same period of the previous fiscal year. This was due to the implementation of an operational structure with a focus on further cost efficiency and an increase in the amount of assets posted due to the progress of development, despite the temporary expenses incurred in the committee style project.

As a result of the above, our consolidated net sales for the third quarters of the current fiscal year were 8,078,020 thousand yen (down 11.8% from the same period of the previous year), operating income was 1,419,983 thousand yen (down 15.7%), ordinary income was 1,380,831 thousand yen (down 16.5%), and net income attributable to the parent company was 853,257 thousand yen (down 34.3%). The status of each segment in the third quarters of the current fiscal year is as follows.

Game Business

The main business of this segment is the development and operation of games, and we are engaged in the development and operation of third-party IP games, game platforms, and original IP games.

Net sales decreased from the same period of the previous fiscal year due to a decrease in the number of titles in operation following the closure of multiple titles.

On the other hand, an event held in September for an IP game application of another company, one of our mainstay titles, performed well and helped to push the revenue at a level close to the anniversary event held in May. In addition, many of our titles in operation have also maintained strong sales

Expenses decreased compared to the same period of the previous fiscal year helped by continued efforts to improve the efficiency of operating expenses and an increase in the amount of assets posted contributed by progress made in the development of new titles, despite the temporary expenses incurred in the committee style project.

As a result, segment sales were 7,968,562 thousand yen (down 12.3% from the same period last year), and segment income was 1,632,750 thousand yen (down 16.6% from the same period last year).

Media Business

In the media business, under the "DRIP (Drecom Invention Project)", which is part of our efforts to create the next generation of mainstay businesses, we launched new services on a trial basis, utilizing our knowledge of Internet services, and repeated trials for commercialization. In addition to the commercialization of our mainstay "AROW", an AR smartphone application building platform that uses location information and 3D real maps, and the development of new titles using "AROW", we focused on expanding new services in areas other than the gaming business, such as "Root",

a fan based community promotion service using Twitter, and "Load Testing Service", which utilizes the know-how we have cultivated through the development and operation of large-scale services in the past.

Net sales increased year on year due to the steady expansion of the "Rooot" service. As for expenses, many services are still in the business development stage, and expenses continue to be upfront. As a result, segment sales were 109,457 thousand yen (up 53.3% from the same period last year), and segment loss was 212,766 thousand yen (segment loss of 274,718 thousand yen in the same period last year).

In the future, we will continue to work on further improving our mainstay gaming business profitability, and focus on the development and marketing of services in order to make a hit with several new titles planned for the fourth quarter and beyond.

We are focusing on business development in entertainment areas other than gaming, such as the establishment of a new publishing division in August 2021, and will aim to grow into a comprehensive entertainment company centered on IP, which is our medium to long-term goal.

In the current fiscal year, while we continue to recognize the epidemic of the novel coronavirus as a major management risk, we will place priority on generating stable profits and securing cash flow, and we will work to achieve balanced management by proactively investing for the future. At the same time, we will maintain a conservative stance based on the premise that profits and cash flow should not be squeezed.

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the third quarter of the current fiscal year totaled 7,041,474 thousand yen, a decrease of 627,671 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 684,928 thousand yen in cash and deposits. Fixed assets totaled 2,728,668 thousand yen, an increase of 787,391 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 1,203,533 thousand yen in software in progress.

As a result, total assets amounted to 9,770,143 thousand yen.

(Liabilities)

Current liabilities at the third quarter of the current fiscal year totaled 2,592,524 thousand yen, a decrease of 589,360 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 351,800 thousand yen in income taxes payable and a decrease of 150,414 thousand yen in asset retirement obligations. Fixed Liabilities totaled 2,557,916 thousand yen, an increase of 15,305 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 65,940 thousand yen in asset retirement obligations, but a decrease of 120,000 thousand yen in long-term loans payable.

As a result, total liabilities amounted to 5,140,214 thousand yen.

(Net assets)

Total net assets at the end of the third quarter of the current fiscal year were 4,619,702 thousand yen, an increase of 764,386 thousand yen compared to the end of the previous fiscal year. This was mainly due to the recording of 853,257 thousand yen in net income attributable to shareholders of the parent company.

As a result, the equity ratio was 46.8% (39.5% at the end of the previous consolidated fiscal year).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Nine months ended December 31, 2021 (December 31, 2021)
ASSETS		
Current assets		
Cash and deposits	5,288,132	4,603,204
Notes and accounts receivable	1,841,939	1,912,953
Work in progress	7,077	5,269
Prepaid expenses	174,067	177,782
Other	357,928	342,265
Total current assets	7,669,146	7,041,474
Fixed assets		
Tangible Fixed Asset		
Buildings	259,203	168,640
Accumulated depreciation	-173,499	-9,072
Buildings (net)	85,704	159,568
Tools, furniture & fixtures	82,817	70,702
Accumulated depreciation	-67,283	-32,298
Tools, furniture & fixtures (net)	15,534	38,404
Lease assets	61,853	1,732
Accumulated depreciation	-48,190	-1,732
Lease assets (net)	13,663	—
Total tangible fixed assets	114,901	197,972
Intangible assets		
Software	407,586	108,907
Software suspense account	471,118	1,674,651
Total intangible assets	878,704	1,783,559
Investments and other assets		
Investment securities	7	96,297
Deferred tax assets	434,953	282,999
Deposit	318,138	199,404
Other	194,571	168,435
Other investments and other assets	947,671	747,137
Total fixed assets	1,941,277	2,728,668
Total assets	9,610,423	9,770,143

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Nine months ended December 31, 2021 (December 31, 2021)
LIABILITIES		
Current liabilities		
Accounts payable	363,542	387,628
Short-term debit	100,000	209,000
Long-term debt due within one year	640,000	708,000
Lease obligations	14,773	912
Accounts payable	660,610	608,444
Income taxes payable	398,455	46,654
Bonus payment reserve	174,055	58,560
Asset retirement obligations	150,414	—
Other	680,033	573,323
Total current liabilities	3,181,884	2,592,524
Fixed liabilities		
Long-term debt	2,430,000	2,310,000
Lease obligations	6,387	—
Asset retirement obligation	34,060	100,000
Other	102,774	147,916
Total fixed liabilities	2,573,222	2,557,916
Total liabilities	5,755,106	5,150,440
Net assets		
Shareholders' equity		
Capital	1,761,208	1,792,991
Capital surplus	2,017,979	2,050,152
Retained earnings	146,380	999,637
Treasury stock	-131,058	-274,029
Total shareholders' equity	3,794,509	4,568,752
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-92	7
Total accumulated other comprehensive income	-92	7
Stock acquisition rights	58,651	49,067
Non-controlling interests	2,247	1,874
Total net assets	3,855,316	4,619,702
Total liabilities and net assets	9,610,423	9,770,143

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Comprehensive Income Statements

Quarterly Consolidated Statement of Income

(Cumulative period for consolidated third quarter, nine months ended December 31, 2021)

(Unit: Thousand yen)

	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)
Sales	9,156,085	8,078,020
Cost of sales	6,079,693	5,057,371
Gross profit	3,076,391	3,020,648
Selling, general and administrative expenses	1,392,463	1,600,665
Operating income	1,683,927	1,419,983
Non-operating revenue		
Interest received	14	26
Gain on investments in capital	8,072	-
Other	2,258	276
Total non-operating income	10,344	302
Non-operating expenses		
Interest expense	22,918	34,096
Interest on bonds	259	-
Foreign exchange loss	14,061	4,085
Other	3,321	1,271
Total non-operating expenses	40,560	39,454
Ordinary income	1,653,711	1,380,831
Extraordinary profits		
Gain on reversal of subscription rights to shares	-	4,195
Extraordinary profits	-	4,195
Extraordinary loss		
Impairment loss	-	75,399
Total extraordinary loss	-	75,399
Quarterly net income before income taxes and minority interests	1,653,711	1,309,627
Corporate, inhabitant and enterprise taxes	323,717	303,214
Income taxes-deferred	29,788	151,909
Total income taxes	353,505	455,124
Quarterly net income	1,300,205	854,503
Quarterly net income attributable to noncontrolling interests	1,337	1,246
Quarterly net income attributable to owners of the parent	1,298,868	853,257

Consolidated quarterly statements of comprehensive income

(Cumulative period for consolidated third quarter, nine months ended December 31, 2021)

(Unit: Thousand yen)

	Nine months ended December 31, 2020 (April 1, 2020 to December 31, 2020)	Nine months ended December 31, 2021 (April 1, 2021 to December 31, 2021)
Quarterly net income or loss	1,300,205	854,503
Other comprehensive income		
Other securities valuation difference	16	100
Total other comprehensive income	16	100
Quarterly comprehensive income	1,300,222	854,603
(Breakdown)		
Quarterly comprehensive income for owners of parent	1,298,885	853,357
Quarterly comprehensive income for non-controlling shareholders	1,337	1,246

(3) Notes on quarterly consolidated financial statements

(Notes on going concern assumptions)

Nothing applicable.

(Note in the event of a significant change in the amount of shareholders' equity)

Based on the Board of Directors' meeting held on October 28, 2021, the Company acquired 227,700 shares of treasury stock during the third quarter of the current fiscal year through the contribution of an additional trust under the "Stock Benefit Trust (J-ESOP)" plan.

As a result, treasury stock increased by 149,948 thousand yen to 274,029 thousand yen at the end of the third quarter of the current fiscal year.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020). The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other related standards have been applied from the beginning of the current first quarter, the Company will recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer. As a result of this change, with respect to billing revenue from general users, we have changed from recording sales at the time of consumption of in-game currency to recording sales based on the nature of the items provided.

The items provided by the Group to general users are generally consumable items (consumed by certain actions of general users and do not provide continuous benefits to general users), and the period between the purchase and consumption of items is extremely short, so sales are recorded at the time of item sales. As a result, sales are recorded at the time of sale.

The application of the revenue recognition accounting standard, etc., in accordance with the transitional treatment prescribed in the proviso of paragraph 84 of the revenue recognition accounting standard, has no impact on retained earnings at the beginning of the first quarter and on profit and loss for the first half of the current fiscal year. In addition, in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method.

(Information by Segment)

Segment Information

I. Previous nine months ended, from April 30, 2020 to December 31, 2020, 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	9,085,164	70,920	9,156,085	—	9,156,085
(2) Intersegment sales and transfers	—	496	496	-496	
Total	9,085,164	71,417	9,156,582	-496	9,156,085
Segment profit or Loss	1,958,646	-274,718	1,683,927	—	1,683,927

Note: 1. Adjustments to net sales are adjustments for internal transactions.

2. Segment income /loss is adjusted with operating income in the quarterly consolidated statements of income.

II. Nine months ended, from April 30, 2021 to December 31, 2021, 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	7,968,562	109,457	8,078,020	—	8,078,020
(2) Intersegment sales and transfers	—	—	—	—	—
Total	7,968,562	109,457	8,078,020	—	8,078,020
Segment profit or Loss	1,632,750	-212,766	1,419,983	—	1,419,983

Note: * Segment income / loss is adjusted with operating income in the quarterly consolidated statements of income.

(Significant subsequent events)

Not applicable