

Drecom

(TSE Code: 3793)

“Wizardry Variants Daphne” is off to a good start. The growth trajectory is being redrawn.

GIR View

■ Highlights

Drecom announced "Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2025" and " Notice of Extraordinary Loss and Earnings Forecast" after the close of business on October 29, 2024.

Financial results (cumulative) showed sales of 4,018 million yen (-21.1% YoY), operating loss of 315 million yen, recurring loss of 354 million yen, and interim net loss of 1,022 million yen attributable to the shareholders of the parent company. Weakness in existing titles, an impairment loss on *Evil Prince and the Puppet*, released in the first quarter, and continued investment in the content business contributed to the difficult results.

On the other hand, *Wizardry Variants Daphne*, which is expected to drive the company's performance in the current fiscal year, was released on October 15 of this year, and its debut has exceeded the company's expectations.

As a result, the company has decided to temporarily withdraw the full-year earnings forecast it had previously presented due to the large fluctuation in the earnings outlook.

The profitability now depends largely on *Wizardry Variants Daphne*, and it may be premature to draw an optimistic scenario based solely on its initial performance.

KEY STATISTICS



Key Stock Statistics

Recent Price (10/29/2024)	¥763.00
52 week high/low	¥1217.00 / ¥585.00
Shares Outstanding (Excluding treasury stock)	28,710 thousand shares
Market Cap	¥21,905 million
PER	NA times
PBR	4.7 times
PSR	NA times
Dividend (Dividend Yield)	¥00.00 (0.00 %)

Sector

Sector	Information and communication
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Financials (FY03/2025 CE)

Sales	¥NA
Operating income margin (%)	NA%
EBITDA margin (%)	NA%

Management

President & CEO	Naito Yuki
URL	https://drecom.co.jp/en/



However, Wizardry Variants Daphne has a mechanism for generating a regular and stable income stream through billing, and has great earnings potential if the number of users steadily increases in the future. Furthermore, Disney STEP is scheduled for release during the current fiscal year, and its Closed Beta Test (CBT) which was conducted in September and October seems to be successful.

While we cannot say that the downside risk has been completely removed, it is time to recognize that the upside potential is also expanding. It will be interesting to see if *Wizardry Variants Daphne* continues to perform well and if the full-year earnings forecast will be re-released on a positive note in the third quarter.

■ **Q2 FY03/2025 Summary: Existing titles weaken; *Evil Princess and the Puppet* impaired**

In cumulative Q2 FY03/2025, the results were; sales decline of 21.1% YoY to 4,018 million yen, operating loss of 315 million yen (vs. 472 million yen profit in Q2 FY03/2024), recurring loss of 354 million yen (vs. 453 million yen profit in Q2 FY03/2024), and net loss of 1,022 million yen (vs. 169 million yen loss in Q2 FY03/2024) attributable to the shareholders of the parent company.

The main reason for the decline in sales was that the mainstay titles in the game business remained sluggish in comparison to the strong sales of the past two years.

The operating loss was due to the aforementioned decline in sales of existing titles, the loss due to *Evil Prince and the Puppet* released in the first quarter, and continued upfront investment in the content business, despite the profit improvement effect from the termination of unprofitable titles in the previous fiscal year. Regarding *Evil Prince and the Puppet*, the company recorded an extraordinary loss of 601 million yen.

■ **Initial sales of *Wizardry Variants Daphne*, released on October 15, exceeded expectations. "Disney STEP" to be released by the end of the fiscal year**

There are some positive signs regarding new titles in the game business.

First, *Wizardry Variants Daphne*, released on October 15, has exceeded Drecom's initial expectations, and the company seems to be positive about it. Total billings since its release are approximately 700 million yen (preliminary figures for the period from October 15 to 27). The billing structure of this title is designed to level out billing revenue spikes compared to conventional item-based billing. As a result, the company expects stable revenue stream per user over time, implying the total revenue will steadily pile up as the number of users increases. In addition, the company plans to develop a computer version for overseas users, instead of a mobile (cell) phone version.



In order to supplement development and advertising expenses for *Wizardry Variants Daphne*, the company has concluded a profit-sharing agreement with Development Bank of Japan (DBJ) Inc. and has raised 500 million yen. In addition, the "location-based IP title" scheduled for release during the current fiscal year was identified as "Disney STEP," and the CBT conducted in September and October was well received.

In the content business, which continues to make upfront investments, the company is steadily expanding its IP portfolio and has finally decided to produce two animated films (*Blade & Bastard* and *The Holy Grail of Eris*).

■ Full-year forecast for FY2025: temporarily withdrawn

At the beginning of the fiscal year, the company had forecasted sales of 13.5 billion yen, operating income of 1 billion yen, ordinary income of 900 million yen, and net income of 400 million yen attributable to the shareholders of the parent company for the fiscal year ending March 31, 2025, but has now withdrawn these forecasts for the time being.

The reason for the withdrawal was that the company concluded that it would be difficult to provide forecast figures without misleading the market. Despite the company's performance through the second quarter being poor, the good initial performance of *Wizardry Variants Daphne* had led the earnings estimates to vary widely and become hard to forecast.

Instead of withdrawing the forecasts, the company may have shown a minimum profit target or a range for future sales and profit. So this withdrawal should make investors aware of the downside of the company's performance.

On the other hand, if *Wizardry Variants Daphne* continues its strong initial launch and achieves sales as Drecom expects, the company will have a mainstay title based on its own IP, which has been a longstanding aim for the company. This will lead to the realization of its vision of "becoming a global provider of entertainment content based on IP and technology".

We believe that the withdrawal of the forecast should not only be seen as negative; it should also bring attention to the potential positives of our businesses.



■ Future points

The stock price has been on an upward trend since the release of *Wizardry Variants Daphne*. The reaction of the stock price immediately after the earnings announcement was also positive.

Considering the above, the following points require immediate attention.

- Progress in *Wizardry Variants Daphne* in the third quarter (and control of and immediate response to defects)
- Will the full-year earnings forecast be reiterated in the Q3 earnings announcement, and at what level?
- Release date for “Disney STEP”
- Growth strategy for next fiscal year and beyond

The company is currently at the most important turning point of the past few years. We will closely monitor the results of *Wizardry Variants Daphne* to see how our growth strategy might be redrawn for the future.



Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY03/	FY03/	FY03/	FY03/	FY03/2024					FY03/2025	
	2020	2021	2022	2023	Q1	Q2	Q3	Q4	CE	Q1	Q2
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE	Q1	Q2
Sales	10,150	11,840	10,528	10,800	2,346	2,745	2,546	2,141	9,779	2,122	1,895
YoY	-5%	17%	-11%	3%	-20%	-4%	-1%	-12%	-9%	-10%	-31%
Net sales	2,192	3,996	3,796	4,558	683	1,145	868	706	3,404	624	335
YoY	53%	82%	-5%	20%	-48%	-13%	-18%	-19%	-25%	-9%	-71%
Net sales margin	21.6%	33.8%	36.1%	42.2%	29.1%	41.7%	34.1%	33.0%	34.8%	29.4%	17.7%
SG&A	1,575	1,944	2,205	2,276	675	681	551	593	2,501	692	582
YoY	-22%	23%	13%	3%	37%	29%	-2%	-14%	10%	2%	-14%
Operating income	617	2,052	1,591	2,281	8	463	317	113	903	-67	-247
YoY	-	233%	-22%	43%	-99%	-41%	-36%	-37%	-60%	-	-
Operating income margin	6.1%	17.3%	15.1%	21.1%	0.3%	16.9%	12.5%	5.3%	9.2%	-3.2%	-13.1%
Ordinary income	635	2,019	1,541	2,192	2	451	275	63	793	-88	-265
YoY	-	218%	-24%	42%	-100%	-39%	-42%	-62%	-64%	-	-
Net income	711	1,624	807	1,159	-441	272	266	6	104	-153	-868
YoY	-	128%	-50%	44%	-49%	142%	-186%	-91%	-	-	-
Net income ratio	7.0%	13.7%	7.7%	10.7%	-18.8%	9.9%	10.5%	0.3%	1.1%	-7.2%	-45.8%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Figure 2 Per Share Data

(Consolidated)

Accounting period	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073	29,130	29,224
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3	40.7	3.6
EPS Adjusted	29.7	-	-	25.0	56.9	28.3	40.6	3.6
BPS	113.2	106.7	47.9	74.2	132.9	159.1	195.7	196.3
DPS	0.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place *Calculated by Global IR, Inc.

**Figure 3 Cash flows**

(Millions of yen)

Accounting period	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Depreciation and amortization	214	299	462	382	627	537	269	269
Cash flows from operating activities	846	-79	78	691	3,196	1,603	2,666	-473
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766	-2,017	-2,048
Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388	659	2,413

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place *Calculated by Global IR, Inc.

Figure 4 Financial Data

(%)

Accounting period	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0	20.0	6.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4	22.9	1.9
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9	45.6	39.7

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place *Calculated by Global IR, Inc.



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