Drecom

(TSE Code: 3793 / Sector: Information and communication)

Effect of Structural Revamp Surfacing, Awaiting the Release of New Titles

GIR View

Highlights

Drecom announced Q2 FY03/2024 results and "Notice of Recording Operating Expenses and Extraordinary Losses" after the close of business on October 26, 2023.

At the time of the Q1 results release, the company announced that it would suspend one of its titles, revise its full-year earnings forecast downward, and place priority on strengthening its business structure. The second quarter results showed signs of a strengthened corporate structure.

Although sales and profits were still down significantly YoY in 1H, the company's mainstay title "ONE PIECE Treasure Cruise" continues to perform well and cost rationalization has progressed, resulting in an increase in sales and profits in the July-September period versus the April-June period.

In the July-September period, the company decided to suspend "GGGGG" and to discontinue development of "Project BEAT," which is still under development. This resulted in new operating expenses and extraordinary losses, but the company maintained its full-year forecasts thanks to the strengthened corporate structure.

“Wizardry Variants Daphne”, which is still awaiting release, had a closed beta test in October with approximately 5,000 participants and seems to be getting a good response. There are no other changes in the development pipeline, and "Evil Prince and the Puppet" is scheduled for release during this fiscal year. Progress in the three areas of publishing, video, and the Web3 is also on track.

The immediate focus is on whether the release of "Wizardry Variants Daphne" will go smoothly by the end of the current fiscal year. We are waiting to see what kind of partners will be brought together to maximize the potential of this title.

Overview of the second quarter of the fiscal year ending March 31, 2024

In Q2 (July-September), sales were 2.7 billion yen (-4% YoY), operating income was 463 million yen (-41% YoY), recurring income was 451 million yen (-39% YoY), and net income was 272 million yen (-49% YoY). In Q2, sales and profits decreased YoY. However, both metrics showed positive growth on a QoQ basis.

Earnings were supported by the continued strong performance of the mainstay title "ONE PIECE Treasure Cruise" and effective cost control.

As part of the review of its operations and development portfolio, the company has decided to suspend "GGGGG" and discontinue development of "Project BEAT" currently under development, and has recorded related operating expenses of 9 million yen and an impairment loss of 192 million yen. However, the company has not revised its full-year forecasts at this time.

In addition, the media business, although still in the red, is at the expected line, and trials toward commercialization are continuing.

Key points for the second half of the fiscal year ending March 31, 2024

According to company data, the two titles "Wizardry Variants Daphne" and "Evil Prince and the Puppet" are likely to be released in Q4. Therefore, Q3 is expected to be a normal year for the game business, especially for major titles, with a high progress rate of operating profit towards the full-year forecast. On the other hand, in Q4, costs associated with the release of new titles are expected to precede the contribution to sales.

In light of the above, the following points will be the focus of future attention.

First, will existing game titles remain unmodulated?

Second, will "Wizardry Variants Daphne" be released by the end of the fiscal year as currently envisioned based on the results of the closed beta test? If so, what partners and in what form will it sit with to maximize its potential?

Next, "Evil Prince and the Puppet" has about 120,000 X-followers as of October. Will this game be released during this fiscal year as expected? Also, will there be any changes in the development pipeline for other games?

Approaching milestone on the trajectory of scaling up

For the company, the future of "Wizardry," which was trademarked in 2020 and is being developed as its own IP in a multimedia format, is important. The success of the release of "Wizardry Variants Daphne" is, to put it bluntly, the company's destiny. We will continue to pay the greatest attention to the progress of this project.

In the "Wizardry" area, the comic "BLADE & BASTARD 1" was released on October 25. In the blockchain game "Eternal Crypt -Wizardry BC-," a special NFT was sold prior to the game's release in October, and the first release version was launched on October 19. The company appears to be making progress in terms of forming partnerships with key players. While there are many uncertainties regarding the contribution to earnings, it should be noted that the company continues to be aggressive in maximizing "Wizardry" related revenue opportunities.

In the publishing and video domain, progress is also being made, with the launch of a comic book label in addition to a light novel label.

The company continues to aim for annual sales growth of more than 20% and operating profit margin of 15% in the next fiscal year and beyond. As the company's efforts to strengthen its management structure are beginning to bear fruit, it will be interesting to see whether the successful release of "Wizardry Variants Daphne" will be the catalyst for the company's transformation into a comprehensive entertainment company with its own IP at its core.

Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY 03/20	FY 03/21	FY 03/22	FY23/03					FY24/03				
	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE
Sales	10,150	11,840	10,528	2,927	2,873	2,579	2,420	10,800	2,346	2,745			11,500
YoY	-5%	17%	-11%	10%	14%	-11%	-1%	3%	-20%	-4%			6%
Net sales	2,192	3,996	3,796	1,308	1,320	1,058	870	4,558	683	1,145			
YoY	53%	82%	-5%	26%	38%	3%	12%	20%	-48%	-13%			
Net sales margin	21.6%	33.8%	36.1%	44.7%	45.9%	41.0%	36.0%	42.2%	29.1%	41.7%			
SG&A	1,575	1,944	2,205	491	529	565	690	2,276	675	681			
YoY	-22%	23%	13%	-8%	7%	-1%	14%	3%	37%	29%			
Operating income	617	2,052	1,591	817	790	492	180	2,281	8	463			500
YoY	-	233%	-22%	62%	71%	9%	5%	43%	-99%	-41%			-78%
Operating income margin	6.1%	17.3%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	0.3%	16.9%			4.3%
Ordinary income	635	2,019	1,541	810	737	477	167	2,192	2	451			450
YoY	-	218%	-24%	64%	65%	9%	4%	42%	-100%	-39%			-79%
Net income	711	1,624	807	521	534	110	-7	1,159	-441	272			0
YoY	-	128%	-50%	74%	72%	-54%		44%		-49%			
Net income ratio	7.0%	13.7%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	-18.8%	9.9%			0.0%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.
Note: CE=Company Estimate.

Figure 2 Per Share Data

(Consolidated)

Accounting period	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073	29,130
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3	40.7
EPS Adjusted	29.7	-	-	25.0	56.9	28.3	40.6
BPS	113.2	106.7	47.9	74.2	132.9	159.1	195.7
DPS	0.0	0.0	0.0	0.0	0.0	5.0	5.0

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	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
Depreciation and amortization	214	299	462	382	627	537	269
Cash flows from operating activities	846	-79	78	691	3196	1603	2666
Cash flows from investing activities	-456	-1,958	-123	-101	-1140	-1766	-2017
Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388	659

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	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0	20.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4	22.9
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9	45.6

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.

Drecom

(TSE Code: 3793 / Sector: Information and communication)

FY03/2024 First Quarter Result

GIR View

Highlights

Drecom announced Q1 FY03/2024 results and revised full-year FY03/2024 forecasts and dividend forecasts after the close of trading on July 27, 2023. Q1 results showed a significant decrease in sales and profit, and the company incurred an extraordinary loss due to the decision to terminate "*DACHIMEN DENSETSU G*", a new title provided by its subsidiary. Considering this, the company revised downward its full-year forecasts: net sales by 3.5 billion yen, operating income by 1.5 billion yen, recurring income by 1.45 billion yen, and net income attributable to owners of the parent (hereinafter "net income") by 1.1 billion yen. The net income forecast is now zero yen, and the dividend forecast has been changed from 5 yen per share to an undetermined amount.

The downward revision was necessitated by the weak performance of existing titles relative to expectations, the slow start of new titles released recently ("*GGGGG*" and "*DACHIMEN DENSETSU G*"), and a more cautious assumption for the next title in development, "*Wizardry Variants Daphne*".

In response to these changes in the environment, the company will focus on reinforcing its business structure this year. The company has decided to concentrate management resources, reduce costs, and seek business partners who collaborate on new titles to be released in the future (joint business), aiming for middle-risk/middle-return profile. This is a shift from the company's previous aggressive management stance, which aimed to maximize earnings by distributing its own IPs through its own channel.

The new business in media segment is moving forward as had planned.

The poor performance of the most recently released titles and the withdrawal of the dividend forecast are disappointing news. That said, the company's downward revision of its earnings forecast and its declaration of a quick shift to a more defensive management approach are commendable. Going forward, investors need to watch the degree to which the company will be able to revitalize its existing titles and a release date for its next key title "*Wizardry Variants Daphne*", together with its details of the joint project.

Overview of the first quarter of the fiscal year ending March 31, 2024

In the first quarter (April-June), sales were 2.3 billion yen (-19.8% YoY), operating profit was 8 million yen (-99% YoY), recurring profit was 2 million yen (-99.7% YoY), and net loss was 440 million yen. Both sales and profits were down compared to the previous quarter.

This is due to lower sales of some existing titles, higher advertising costs associated with the release of new titles, and poor sales of new titles. Three of the 12 titles in operation are underperforming, but the unprofitability of new titles "*GGGGG*" and "*DACHIMEN DENSETSU G*" is particularly noticeable. The company is considering modifications to the former, such as converting it to a blockchain game, while it decided to terminate the latter and recorded an extraordinary loss of 416 million yen due to impairment.

Revision of Corporate Forecast and Dividend Forecast for the Fiscal Year Ending March 31, 2024

Considering the weak Q1 progress, the company has revised its business plan in a prudent manner, particularly with regard to "*Wizardry Variants Daphne*", which is scheduled for release during this fiscal year. The company will conduct a second round of its user test around fall 2023 and evaluate the results before launching the game. The timing of the launch will also be pushed back from the previous plan.

As a result, the company revised its full-year sales forecast downward by 3.5 billion yen to 11.5 billion yen, mainly due to the revision of the contribution from new titles from the initial forecast of approximately 4.9 billion yen to approximately 1.8 billion yen. Partially offsetting the lower sales forecast were cost reductions in advertising and R&D (approx. 400 million yen each), resulting in an operating profit forecast of 500 million yen (revised downward by 1.5 billion yen), recurring profit forecast of 450 million yen (revised downward by 1.45 billion yen), and net income attributable to owners of the parent of zero yen (revised downward by 1.1 billion yen). The annual dividend forecast was changed from 5 yen per share to undecided.

"*Evil Prince and the Puppet*" will be released during this fiscal year, as previously planned. However, it will not contribute to earnings until the next fiscal year or later. In new business areas such as publishing, video, and Web3, the company plans to continue its main projects, including the launch of a comic/webtoon label and preparations for the release of "*Eternal Crypt - Wizardry BC-*".

The company expects Q2 sales to be higher than in Q1, partly because one title distributed by another company will be changed to in-house distribution, and operating profit is expected to improve from Q1 due to cost reductions (according to the company's financial results briefing material).

A year of strengthening its business structure

The company continues to aim for annual sales growth of 20% or more and an operating margin of 15% in the next fiscal year and beyond. However, in light of the current challenging performance trends, the company intends to focus on strengthening its business structure during the current fiscal year.

This includes not only reviewing development and investment plans, reducing costs, and strengthening the profitability of existing businesses, but also selecting the most appropriate partners for each new title project and accepting investment in the form of joint venture. This is likely to improve the probability of success in launching new titles while reducing cost burden, resulting in a medium risk/medium return business profile. This is a shift from the company's previous policy of risk-taking by acquiring and distributing its own titles, but it is a swift and sensible decision given the current situation in which both two new in-house titles have fallen short of expectations. The company keeps aiming at acquiring and nurturing in-house IPs as much as appropriate over mid-term horizon.

Future Highlights

The first point to watch going forward will be the results of the leverage of existing titles and the early realization of the effects of cost reductions.

The more important point this fiscal year is the release of "*Wizardry Variants Daphne*". It is time to take a hard look at whether the second user test will yield satisfactory results and set a definite release date. Partners of its joint venture and the associated economic conditions are also critical.

Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income (Millions of yen)

Accounting period	FY 03/20	FY 03/21	FY 03/22	FY03/23					FY03/24				
	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE
Sales	10,150	11,841	10,528	2,927	2,873	2,579	2,420	10,800	2,346				11,500
YoY	-5%	17%	-11%	10%	14%	-11%	-1%	3%	-20%				6%
Net sales	2,192	3,997	3,797	1,308	1,321	1,058	871	4,558	684				
YoY	53%	82%	-5%	26%	38%	3%	12%	20%	-48%				
Net sales margin	21.6%	33.8%	36.1%	44.7%	46.0%	41.0%	36.0%	42.2%	29.1%				
SG&A	1,575	1,944	2,205	491	530	566	690	2,277	675				
YoY	-22%	23%	13%	-8%	7%	-1%	14%	3%	37%				
Operating income	617	2,053	1,591	817	790	492	180	2,281	8				500
YoY	-	233%	-22%	62%	71%	9%	5%	43%	-99%				-78%
Operating income margin	6.1%	17.3%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	0.4%				4.3%
Ordinary income	636	2,019	1,541	810	737	477	167	2,192	2				450
YoY	-	218%	-24%	64%	65%	9%	4%	42%	-100%				-79%
Net income	711	1,625	807	521	534	110	-7	1,159	-442				0
YoY	-	128%	-50%	74%	72%	-54%		44%					
Net Income Ratio	7.0%	13.7%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	-18.8%				0.0%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.
Note: CE=Company Estimate. Rounded to the nearest million yen, rounded to one decimal place *Calculated by Global IR, Inc.

Figure 2 Per Share Data (Consolidated)

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BPS	113.2	106.7	47.9	74.2	132.9	159.1	195.7
DPS	0.0	0.0	0.0	0.0	0.0	5.0	5.0

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.
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Figure 3 Cash flows

(Millions of yen)

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Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388	659

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

Figure 4 Financial Data

(%)

Accounting period	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY03/23
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0	20.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4	22.9
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9	45.6

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.

Integrity & Sustainability

May 12, 2023

Sector: Information and communication

Drecom (3793)

FY03/2023 Fourth Quarter Financial Results
January 1 – March 31, 2023

GIR Earnings View

DRECOM with entertainment

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Summary of financial result for the fourth quarter, FY2023

- The company announced Q4 FY03/23 results and full-year FY03/24 forecasts after the close of trading on May 11, 2023. The sales and profits exceeded the latest forecast that the company revised in the Q3 results announcement.
- Thanks to the strong performance of the mainstay IP title *ONE PIECE Treasure Cruise*, full-year sales were 10.8 billion yen (+3% YoY), operating income was 2.28 billion yen (+43% YoY), recurring income was 2.19 billion yen (+42% YoY), and net income attributable to owners of the parent was 1.16 billion yen (+44% YoY). Operating income and ordinary income reached record highs.
- In the fourth quarter (January-March), sales were 2.4 billion yen (-1% YoY), operating income was 180 million yen (+5% YoY), recurring income was 170 million yen (+4% YoY), and net income attributable to shareholders of the parent company was a loss of 7 million yen. The company's profit was up YoY, despite the high expenses that usually occur in the current quarter.
- The company initially planned to release three new in-house distributed game titles in the fiscal year, whose release dates were changed when it announced results. Of these, *GGGGG* was released at the end of March.
- Considering the profit/loss of each of the 11 titles in operation, the disclosure materials indicate that the company is steadily generating profits except for the latest title mentioned above. The annual dividend per share remains 5 yen per share.

Company forecast for year ending March 31, 2024

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- The company disclosed its full-year forecast for the fiscal year ending March 31, 2024. No interim forecast was disclosed.
- This is an increase in sales and a decrease in profit forecast. Specifically, the company forecasts full-year sales of 15 billion yen (+39% YoY), operating income of 2 billion yen (-12% YoY), recurring income of 1.9 billion yen (-13% YoY), and net income attributable to shareholders of the parent company of 1.1 billion yen (-5% YoY).
- The contributors to the sales growth forecast are (1) the lifecycle management of solid titles in operation for an extended period and (2) the release of the long-awaited new in-house distributed game titles. Of these new titles, *DACHIMEN DENSETSU G* developed by subsidiary Studiorex is scheduled for release in May, following the already released *GGGGG*.

GIR Earnings View (cont.)

Company forecast for year ending March 31, 2024 (cont.)

- The remaining new title, *Wizardry Variants Daphne* , will be released at a suitable time during the fiscal year. Although the company does not disclose the size of sales of each new title, we believe that the contribution of this title is noteworthy.
- Regarding the decrease in operating income, key factors are: (1) the increase in variable and fixed costs associated with the full-scale launch of new titles of games distributed by the company, and (2) the increase in upfront investment and R&D for new businesses such as publishing, video, and Web3, which are expected to grow continuously in the medium term.
- We believe that the company's plan for higher sales and lower profits should not necessarily be unfavorable, as it is natural for a growing company to allocate top-line growth to investments for sustained growth.

3 Outlook for the first quarter of the fiscal year ending March 31, 2024

- The company does not disclose quarterly company forecasts, but its IR materials show outlook for the first quarter.
- This quarter's sales and operating income are likely to be lower than usual as a percentage of the full-year forecast, due to the start-up cost of *GGGGG* and *DACHIMEN DENSETSU G* and the increase in costs related to new businesses. This is different from previous years.
- In particular, it should be noted that the first quarter profit figures in the previous fiscal year were strong, setting tough year-over-year comparison.
- However, we would like to think that such advance guidance will reduce the risk of major turmoil in the stock market.

GIR Earnings View (cont.)

Future highlights

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- The first is the release date and revenue potential of new titles, particularly *Wizardry Variants Daphne*. The title has been released in beta and is in the finishing stages. Whether or not this will be a competitive title and lead to revenue traction will be the biggest focus of this fiscal year.
- Second is the progress of new business. Now that the light novel label is on track, the company plans to launch a comic/webtoon label next. It will be very interesting to see if this will be a success and open up prospects for further visualization and game production. We also look forward to the acquisition of knowledge and results in the search for Web3-related commercialization.
- Third is the development and release of future game titles. In particular, *Evil Prince and the Puppet* is scheduled for release by the end of the fiscal year.
- Fourth is risk management. In this regard, if the release schedule of a significant game title distributed by the company were to change, or if the response after release were to deviate from expectations, would the company be able to strike a balance between revenue management and development and continue its growth strategy? We will also draw attention and have high expectations for the company in risk management competency, including dialogue with the stock market participants.

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Summary

- In this new fiscal year ending March 2024, the market will finally see if the company will monetize its three new in-house distributed game titles. The first key point is whether the company can achieve solid sales growth in line with its forecast.
- If the monetization goes smoothly, the company will gain business experience and a financial foothold that would help push itself from a mobile game company to a diversified entertainment company with original IPs and media mix capability. Another important point is whether the business potential of the new business can be further visualized.
- If this scenario becomes more compelling, we would like to think that the stock market would look beyond the company's forecast of higher sales and lower profits.

Financial Data (Consolidated: Quarterly)

Statements of Income (Millions of yen)

Accounting period	FY 03/2020	FY 03/2021	FY03/2022					FY03/2023					FY 03/24
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	CE
Sales	10,150	11,841	2,661	2,523	2,893	2,450	10,528	2,927	2,873	2,579	2,420	10,800	15,000
YoY	-5.0%	17.0%	-19.0%	-12.0%	-3.0%	-9.0%	-11.0%	10.0%	14.0%	-11.0%	-1.0%	3.0%	39.0%
Net sales	2,192	3,997	1,040	957	1,023	776	3,797	1,308	1,321	1,058	871	4,558	-
YoY	53.0%	82.0%	-3.0%	8.0%	-9.0%	-16.0%	-5.0%	26.0%	38.0%	3.0%	12.0%	20.0%	-
Net sales margin	21.6	33.8	39.1%	38.0%	35.4%	31.7	36.1%	44.7%	46.0%	41.0%	36.0%	42.2%	-
SG&A	1,575	1,944	536	494	570	605	2,205	491	530	566	690	2,277	-
YoY	-22.0%.	23.0%.	21.0%.	7.0%	17.0%.	10.0%	13.0%.	-8.0%	7.0%	-1.0%	14.0%	3.0%	-
Operating income	617	2,053	504	463	452	171	1,591	817	790	492	180	2,281	2,000
YoY	-	233.0%	-19.0%	8.0%	-28.0%	-54.0%	-22.0%	62.0%	71.0%	9.0%	5.0%	43.0%	-12.0%
Operating income margin	6.1%	17.3%	18.9%	18.4%	15.6%	7.0%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	13.3%
Ordinary income	636	2,019	492	448	439	160	1,541	810	737	477	167	2,192	1,900
YoY	-	218.0%	-19.0%	6.0%	-29.0%	-56.0%	-24.0%	64.0%	65.0%	9.0%	4.0%	42.0%	-13.0%
Net income	711	1,625	300	311	241	-45	807	521	534	110	-7	1,159	1,100
YoY	-	128.0%	-36.0%	-13.0%	-49.0%	-114.0%	-50.0%	74.0%	72.0%	-54.0%	-	44.0%	-5.0%
Net Income Ratio	7.0%	13.7%	11.3%	12.3%	8.3%	-1.8%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	7.3%

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 Globl IR, Inc

Financial Data (Consolidated: Full Year)

Per Share Data (Consolidated)

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

Cash flows (Millions of yen)

accounting period	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023
Depreciation and amortization	214	299	462	382	627	537	269
Cash flows from operating activities	846	-79	78	691	3196	1603	2666
Cash flows from investing activities	-456	-1,958	-123	-101	-1140	-1766	-2017
Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388	659

Financial Data (%)

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

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

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

Integrity & Sustainability

January 31, 2023

Sector: Information and Communication

Drecom (3793)

FY 3/2023 Third Quarter Result
October 1 – December 31, 2022

GIR Earnings View

1

DRECOM with entertainment

Summary of Financial Result for the Nine Months Ended, December 31, 2022

- After the close of business on January 30, 2023, the company announced Q3 FY03/2023 results and revised full-year forecasts (see below).
- In the third quarter (October-December), sales declined 11% YoY to 2.58 billion yen, while operating income rose 9% YoY to 492 million yen. Although sales growth was somewhat sluggish, operating income increased steadily due to an improved sales mix, especially for mainstay titles.
- On the other hand, net income attributable to shareholders of the parent company was 110 million yen, down 54% YoY. This was due to a partial impairment loss on software assets related to one title in operation.
- The IP title *One Piece Treasure Cruise* has been performing well since Q1 of this fiscal year, but appears to have settled down in Q3. However, of the 11 game titles in operation, including this title, 10 titles are steadily posting profits, and the loss from one unprofitable title appears to be minimal. As a result, it can be said that the company has generally been accumulating operating and ordinary income at a cruising speed.

Revision of Full-Year Earnings Forecast

2

- The company has now revised its full-year forecasts. Sales and net income were revised downward, while operating income and ordinary income were revised upward.
- The revision was due to the change in the planned release of three in-house distributed game titles from this fiscal year to next, strong performance of mainstay IP titles on the whole, and the implementation of impairment losses in the third quarter.
- Full-year sales were revised downward by 2.3 billion yen from 13 billion yen to 10.7 billion yen. The main reason for the downward revision was a change in the release dates of three new titles.
- Operating income was revised upward by ¥200 million, from ¥2 billion to ¥2.2 billion. This is due to the generally strong performance of existing titles and a decrease in R&D expenses compared to the previous forecast, although the contribution to profit from three new titles is excluded. Ordinary income was also increased by 200 million yen.
- Net income attributable to the parent company decreased by 100 million yen from 1.2 billion yen to 1.1 billion yen. The decrease was due to impairment losses incurred in the third quarter, despite the increase in ordinary income.
- After the revision, the company still expects to increase both sales and income year-on-year, and the forecast for the annual dividend (year-end dividend) of 5 yen per share remains unchanged.

GIR Earnings View (cont.)

3

Outlook for the fourth quarter FY2023

- The outlook for the fourth quarter (January-March) is slightly weaker in light of the revised full-year forecast.
- Sales will be at 2.32 billion yen, down 5% YoY; operating income to be 99 million yen, down 42% YoY; and net income attributable to owners of the parent at 66 million yen loss, compared to a loss of 45 million yen in Q4 FY03/2022.
- We believe this is a generally reasonable assumption, mainly due to the fact that the fourth quarter has fewer events for mainstay titles and sales are calmer than other quarters, and that R&D expenses are to increase compared to the same period last year.
- Next, we will inspect the status of the three in-house distributed game titles whose releases were postponed.
- First, *GGGGG* is undergoing an open beta test in Japan in January 2023 to check its progress. 2023 (next fiscal year) release is scheduled.
- Second, *Wizardry Variants Daphne* is scheduled for market testing by the end of March 2023, which is also making progress. This one is also scheduled for release in 2023 (next fiscal year).
- Third, *Unannounced Title* (developed by studiorex) had its release date postponed, although no specific information was announced.
- These were followed by the disclosure of two titles scheduled for release in 2023. One is the mobile game *Evil Prince and the Puppet* and the other is *Tokyo Stories* for PC and consoles.

4

New Business Progress

- New businesses show steady progress.
- In the publishing business among new businesses, the light novel label "DRE Novels" has been published monthly since October 2022. Of these, *BLADE & BASTARD –Ashes are Warm, Labyrinths are Dark-* was published in December, and the response was so strong that a reprint was decided. In February, *Troubles with exorcist daughter Nicola* will be published, which won the Drecom Media Grand Prix "Gold Prize".
- Rooot, a Twitter-based fan community promotion service, continues to expand steadily.
- The search for commercialization in the Web3 area is also continuing.

■ The company revised its full-year results in this earnings announcement. Although the release of three in-house distributed games have been postponed to the next fiscal year, the company is likely to achieve high profit margins and profitability this fiscal year, supported by the strong performance of its mainstay IP titles.

■ Needless to say, the key to next fiscal year's performance will be the monetization of the three new game titles, which have been delayed. If this goes well, it will become more realistic for the company to deliver sustainable top line growth of +20% or more together with a 15% operating margin, supported by improved visibility of subsequent game pipeline and smooth ramp-up of new businesses. The company's corporate value is expected to reach an important turning point, and will likely attract increased attention.

5 Summary

Financial Data (Consolidated: Quarterly)

Statements of Income (Millions of yen)

Accounting period	FY 03/2020	FY 03/2021	FY 03/2022					FY 03/2023					
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4CE	Old Q1-Q4CE	New Q1-Q4CE
Sales	10,150	11,841	2,661	2,523	2,893	2,450	10,528	2,927	2,873	2,579	2,319	13,000	10,700
YoY	-5%	17%	-19%	-12%	-3%	-9%	-11%	10%	14%	-11%	-5%	23%	2%
Gross Profit	2,192	3,997	1,040	957	1,023	776	3,797	1,308	1,321	1,058			
YoY	53%	82%	-3%	8%	-9%	-16%	-5%	26%	38%	3%			
Gross Profit Margin	21.6%	33.8%	39.1%	38.0%	35.4%	31.7%	36.1%	44.7%	46.0%	41.0%			
SG&A	1,575	1,944	536	494	570	605	2,205	491	530	566			
YoY	-22%	23%	21%	7%	17%	10%	13%	-8%	7%	-1%			
Operating income	617	2,053	504	463	452	171	1,591	817	790	492	99	2,000	2,200
YoY	-	233%	-19%	8%	-28%	-54%	-22%	62%	71%	9%	-42%	26%	38%
Operating income margin	6.1%	17.3%	18.9%	18.4%	15.6%	7.0%	15.1%	27.9%	27.5%	19.1%	4.3%	15.4%	20.6%
Ordinary income	636	2,019	492	448	439	160	1,541	810	737	477	74	1,900	2,100
YoY	-	218%	-19%	6%	-29%	-56%	-24%	64%	65%	9%	-54%	23%	36%
Net income	711	1,625	300	311	241	-45	807	521	534	110	-66	1,200	1,100
YoY	-	128%	-36%	-13%	-49%	-114%	-50%	74%	72%	-54%		49%	36%
Net income margin	7.0%	13.7%	11.3%	12.3%	8.3%	-1.8%	7.7%	17.8%	18.6%	4.3%	-2.8%	9.2%	10.3%

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

Financial Data (Consolidated: Full Year)

Per Share Data (Consolidated)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3
EPS Adjusted	29.7	-	-	25.0	56.9	28.3
BPS	113.2	106.7	47.9	74.2	132.9	159.1
DPS	0.0	0.0	0.0	0.0	0.0	5.0

Cash flows from operating activities (Millions of yen)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Depreciation and amortization	214	299	462	382	627	537
Cash flows from operating activities	846	-79	78	691	3196	1603
Cash flows from investing activities	-456	-1,958	-123	-101	-1140	-1766
Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388

Financial Data (%)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4
Equity Ratio	47.0	33.2	19.6	32.9	39.5	46.9

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

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

Integrity & Sustainability

October 28, 2022

Sector: IT / Telecom

Drecom (3793)

FY 3/2023 Second Quarter Result
July 1st – September 30, 2022

GIR Earnings View

DRECOM with entertainment

1

Summary of Financial Result for the Six Months Ended, September 2022

- After the close of trading on October 27, 2022, the company announced its financial results for the second quarter of the fiscal year ending March 31, 2023, which were favorable.
- In the Q2 (July-September), sales increased 13.9% YoY to 2.87 billion yen and operating income increased 70.7% YoY to 790 million yen, continuing the strong performance of the first quarter. As a result, 1H operating income, recurring profit, and net income attributable to shareholders of the parent company all reached record highs on a 1H basis.
- The IP title *ONE PIECE Treasure Cruise* appears to continue to drive companywide earnings. Following the global anniversary events held in Q1, timely release of the movie "ONE PIECE FILM RED" in August, contributed to the company's Q2 performance. Of the 11 game titles in operation, nine have steadily posted profits, and two unprofitable titles have posted only small losses. In contrast to this strong performance of the game business, the media business has been losing money despite an increase in revenue. However, this is a business under development, and its financial impact on the entire company was extremely limited.
- Next, looking at the percentage of progress toward the company's initial full-year forecasts, the profit side is particularly making a remarkable headway. Operating income, recurring income, and net income attributable to owners of the parent are 80.4%, 81.5%, and 88.1%, respectively. The sales progress rate was only 44.6%, but this was due to the fact that the company had factored in the effect of launching three in-house distributed game titles that will post gross sales in the second half of the fiscal year. The company did not disclose its 1H forecasts, but it is highly likely that they exceeded the company's internal plan.

Forecasts for the 3Q and beyond for the year ending, March 31, 2023

2

- Despite extremely strong advancement on the profit front, the company maintained its full-year forecasts.
- First, in terms of sales, the company expects that the strong performance of existing games will continue to a certain extent in the second half of the fiscal year. However, the company decided not to revise its full-year sales forecast at this time because the launch of some of the three in-house distributed titles had been pushed back by about three months from its previous forecast.

Please see the final page for important disclosures.

GIR Earnings View (cont.)

Forecasts for the 3Q and beyond for the year ending, March 31, 2023 (cont.)

- In terms of profits, the company expects to sufficiently spend advertising and promotional expenses when launching the new titles, while associated revenue would be smaller than originally expected due the delay. Together with steady profits from existing games expected in the second half, the company has decided not to change its full-year profit forecast at this time.
- While the company left its full-year forecast unchanged in spite of the remarkable progress in first-half profits, we think this decision is reasonable and take it as positive news. Two points.
- First, according to the company's explanation, the delay in launching new game titles results from product quality improvement, so this should be regarded as positive. It is inferred that there are no negative events occurring with neither existing games nor with new projects.
- Second, we believe that by releasing the new titles with higher perfection while there is a tailwind from the existing game titles, chances are better for them to become the next earnings pillars, generating sustained profit growth from this fiscal year to the next.
- Regarding the new titles, *GGGGG* is scheduled to be released during 2022 according to the company’s press release dated September 20, 2022. The reservations have begun in the app store. Another title, *Wizardry Variants Daphne,* is also scheduled for release by the end of March 2023, according to the company's press release of October 26, 2022.

3

New Game Titles and New Business Progress

- Steady progress can be seen in all areas.
- First, in terms of new game titles, three titles are in full development for release during FY03/2024.
- Second, in the publishing business, the company received over 2,000 submissions for the "Drecom Media Grand Prix," a novelist award, and it awarded one gold and three silver prizes. These novels will be developed into books, comic books, webtoons, voice dramas, and other formats in 2023 and beyond. In addition, the light novel label "DRE Novels" launched three new titles on October 7. A total of nine works are scheduled to be published by the end of this year, and comic book adaptations are also planned. In addition, a collaboration with Korean company Contents Lab. Blue has been decided in order to promote webtoon.

New Game Titles and New Business Progress (cont.)

- In addition, "Rooot," a Twitter-based fan community promotion service, continues to grow steadily, and the company is also making progress in its search for commercialization in the Web3 domain.

Summary 4

- The company's Q2 and 1H results have been strong, driven by existing game titles.
- It should be noted that the launch of three new games is delayed and that the full-year guidance was not revised. That said, we would like to note that these new titles would deliver stedy earnings growth towards the next fiscal yer and beyond, if they are completed to a high degree of perfection and launched during the current fiscal year.
- At the Q3 announcement, we would like to monitor wheather the current year's earnings momentum does not change and the new games are in good shape to drive solid profits going forward.

Financial Data (Consolidated: Quarterly)

Statements of Income (Millions of yen)

Year Ending	FY03/2020	FY03/2021	FY03/2022					FY03/2023		
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q1-Q4 CE
Accounting Standard	Japanese GAAP									
Sales	10,150	11,841	2,661	2,524	2,893	2,450	10,529	2,927	2,873	13,000
YoY	-5.3%	16.7%	-19.4%	-12.4%	-2.6%	-8.7%	-11.1%	10.0%	13.9%	23.5%
Gross Profit	2,192	3,997	1,040	957	1,023	776	3,797	1,308	1,321	-
YoY	52.9%	82.3%	-2.5%	7.7%	-8.7%	-15.7%	-5.0%	25.8%	37.9%	-
Gross Profit Margin	21.6%	33.8%	39.1%	37.9%	35.4%	31.7%	36.1%	44.7%	46.0%	-
SG&A	1,575	1,944	536	494	570	605	2,205	491	530	-
YoY	-21.7%	23.4%	20.9%	7.2%	16.8%	9.6%	13.4%	-8.4%	7.2%	-
Operating income	617	2,053	504	463	453	171	1,591	817	791	2,000
YoY	-	232.7%	-19.2%	8.1%	-28.4%	-53.6%	-22.5%	62.1%	70.7%	25.7%
Operating income margin	6.1%	17.3%	18.9%	18.4%	15.6%	7.0%	15.1%	27.9%	27.5%	15.4%
Ordinary income	636	2,019	492	449	440	161	1,542	811	737	1,900
YoY	-	217.5%	-19.1%	6.1%	-29.3%	-56.0%	-23.6%	64.6%	64.2%	23.2%
Net income	711	1,625	301	311	241	-46	807	522	535	1,200
YoY	-	128.4%	-35.6%	-13.3%	-49.0%	-114.1%	-50.3%	73.5%	71.8%	48.6%
Net income margin	7.0%	13.7%	11.3%	12.3%	8.3%	-1.9%	7.7%	17.8%	18.6%	9.2%

Source: Global IR, Inc. based on company's annual securities report

Note: CE=Company Estimate. Rounded under JPY mn. Rounded to one dicimal place. *Caluculated by Global IR, Inc.

Financial Data (Consolidated: Full Year)

Per Share Data (Consolidated)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
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EPS Adjusted	29.7	-	-	25.0	56.9	28.3
BPS	113.2	106.7	47.9	74.2	132.9	159.1
DPS	0	0	0	0	0	5

Cash flows from operating activities (Millions of yen)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Depreciation and amortization	214	299	462	382	626	537
Cash flows from operating activities	846	-79	78	691	3,196	1,603
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766
Cash flows from financing activities	1,345	2,288	-271	-1,188	968	-388

Financial Data (%)

Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0
Return on Equity (ROE)	35.5	-6.6	-78.2	41.0	55.0	19.4
Equity Ratio	47.0	33.2	19.6	32.9	39.5	46.9

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

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

Integrity & Sustainability

July 29, 2022

Sector: IT/Telecom

Drecom (3793)

FY 2022 First Quarter Result
Apr 2022 - Jun 2022

GIR Earnings View

1

DRECOM with entertainment

Summary of Financial Result for the Three Months Ended, June 2022

- The company announced Q1 FY2022 results after the close of trading on July 28, 2022. Q1 sales were 2.93 billion yen, up 10.0% YoY, and operating profit was 817 million yen, up 62.1% YoY, a strong start.
- The anniversary event of the IP title *ONE PIECE Treasure Cruise*, which marked its 8th anniversary, was a success, mainly due to the globally unified content distribution schedule. Other long-term operational titles also made a stable contribution to earnings.
- Sales and operating profit were 22.5% and 40.9% of the company's full-year forecasts, respectively. Slightly low sales progress rate was expected, as three new titles, including *Wizardry VA* (tentative), are scheduled for the release in second half of the fiscal year. Operating profit may have exceeded the company's forecast due to the increased revenues from the anniversary event, but the company maintained its full-year forecast due to accelerated R&D investment in new businesses and the need to assess the status of new releases, which are more likely to occur in the second half of the fiscal year.

Forecasts for the 2Q and beyond for the year ending, March 31, 2023

2

- No new releases or major events are planned for Q2 (July-September), but the company expects stable sales from titles under operation. Profits, however, may be slightly below the previous year's level due to accelerated R&D investments in new businesses such as the publishing business and the Web3 domain.
- Since the three new titles to be introduced in the second half of the fiscal year will be appropriated as gross sales, sales are expected to increase significantly after their release. The development of additional features for some of the titles is expected to be slightly pushed back from the scheduled release dates, however the expected contribution to earnings from 2H remains unchanged from the beginning of the term.

Please see the last page for disclaimer.

GIR Earnings View(cont.)

3 New Business Progress

- The company's mid-term goal is to become a "comprehensive entertainment company that provides a wide variety of digital entertainment content globally with focus on IP."
- In the publishing business, the "Drecom Media Award," a novel contest for newcomers, has attracted approximately 2,000 entries, and although it is a new business, it is already attracting a high level of attention. The company plans to publish more than 10 new titles in the second half of the fiscal year and beyond.
- "Rooot," a Twitter-based fan community promotion service, continued to grow sales steadily, with a 27.6% QoQ increase in Q1.
- Both sales and profit for the Web3 domain is not expected to become gainful during the current fiscal year, however the company is steadily advancing multiple projects simultaneously, including blockchain game development and the NFT project for IP creation, in order to create long-term business opportunities.

Financial Data (Consolidated: Quarterly)

Statements of Income (Millions of yen)

Year Ending	FY2019	FY2020					FY2021					FY2022	
	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	Q1	Q2	Q3	Q4	1Q-4Q	Q1	1Q-4Q CE
Accounting Standard	Japanese GAAP												
Sales	10,150	3,303	2,882	2,971	2,685	11,841	2,661	2,524	2,893	2,450	10,529	2,927	13,000
YoY	*-5.3%*	*46.6%*	*28.9%*	*19.7%*	*-15.5%*	*16.7%*	*-19.4%*	*-12.4%*	*-2.6%*	*-8.7%*	*-11.1%*	*10.0%*	*23.5%*
Gross Profit	2,192	1,067	889	1,120	921	3,997	1,040	957	1,023	776	3,797	1,308	-
YoY	*52.87%*	*87.1%*	*60.1%*	*90.8%*	*92.0%*	*82.32%*	*-2.5%*	*7.7%*	*-8.7%*	*-15.7%*	*-5.0%*	*25.8%*	-
Gross Profit Margin	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%	39.1%	37.9%	35.4%	31.7%	36.1%	44.7%	-
SG&A	1,575	443	461	488	552	1,944	536	494	570	605	2,205	491	-
YoY	*-21.7%*	*0.3%*	*31.1%*	*25.7%*	*40.4%*	*23.4%*	*20.9%*	*7.2%*	*16.8%*	*9.6%*	*13.4%*	*-8.4%*	-
Operating income	617	624	428	632	369	2,053	504	463	453	171	1,591	817	2,000
YoY	-	*386.4%*	*110.1%*	*218.3%*	*326.8%*	*232.7%*	*-19.2%*	*8.1%*	*-28.4%*	*-53.6%*	*-22.5%*	*62.1%*	*25.7%*
Operating income margin	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%	18.9%	18.4%	15.6%	7.0%	15.1%	27.9%	15.4%
Ordinary income	636	609	423	622	366	2,019	492	449	440	161	1,542	811	1,900
YoY	-	*301.4%*	*194.6%*	*183.8%*	*200.8%*	*217.5%*	*-19.1%*	*6.1%*	*-29.3%*	*-56.0%*	*-23.6%*	*64.6%*	*23.2%*
Net income	711	467	359	473	326	1,625	301	311	241	-46	807	522	1,200
YoY	-	*282.4%*	*291.7%*	*167.3%*	*1.6%*	*128.4%*	*-35.6%*	*-13.3%*	*-49.0%*	*-114.1%*	*-50.3%*	*73.7%*	*48.6%*
Net income margin	7.0%	15.0%	13.0%	16.0%	12.1%	13.7%	11.3%	12.3%	8.3%	-1.9%	7.7%	17.8%	9.2%

Source: Global IR, Inc. based on company's annual securities report

Note: CE=Company Estimate. Rounded under JPY mn. Rounded to one dicimal place. *Caluculated by Global IR, Inc..

Financial Data (Consolidated: Full Year)

Per Share Data (Consolidated)

accounting period	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3
EPS Adjusted	29.7	-	-	25.0	56.9	28.3
BPS	113.2	106.7	47.9	74.2	132.9	159.1
dps	0	0	0	0	0	5

Cash flows from operating activities (Millions of yen)

accounting period	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Depreciation and amortization	214	299	462	382	626	537
Cash flows from operating activities	846	-79	78	691	3,196	1,603
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766
Cash flows from financing activities	1,345	2,288	-271	-1,188	968	-388

Financial Data (%)

accounting period	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0
Return on Equity (ROE)	35.5	-6.6	-78.2	41.0	55.0	19.4
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9

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

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

Integrity & Sustainability

May 13, 2022

Sector : IT/Telecom

Drecom (3793)

FY2022 Full Year Results
April 1, 2021 – March 31, 2022

GIR Earnings View

1

DRECOM with entertainment

Summary of Full Year Financial Results for the Fiscal Year Ending March 31, 2022

- The company announced its full-year results for the fiscal year ending March 31, 2022, after the close of trading on May 12, 2022. Full-year sales declined 11.1% YoY to 10.53 billion yen, operating profit fell 22.5% YoY to 1.59 billion yen, and net income fell 50.3% YoY to 810 million yen. In the fourth quarter (January-March), sales declined 8.7% YoY to 2.45 billion yen, operating profit fell 53.6% to 170 million yen, and net loss was 46 million yen.
- Compared to the company's full-year forecast announced in January, net sales fell short of the forecast by 3.4% (370 million yen), operating income by 6.4% (110 million yen), and net income by 19.3% (190 million yen), respectively. The main reasons for the shortage were (1) the impact of lower-than-expected sales of new titles, (2) the advance recording of 60 million yen in operating expenses for the current fiscal year, that was at a risk of occurring in the next fiscal year, and (3) the recording of a total of 310 million yen in extraordinary losses, including impairment losses on game-related assets and losses on the revaluation of investment securities. This was mainly due to the early handling of the problem caused by the softer performance of new titles.
- The announcement of the first dividend (5 yen) at the same time as the full-year results is a noteworthy change, and can be seen as a sign of the company's confidence in its ability to generate cash in a stable manner.

Outlook for FY2023

2

- The company's forecast for fiscal year ending March 31, 2023, announced simultaneously with the current full-year results, calls for sales of 13.0 billion yen (+23.5% YoY), operating profit of 2.0 billion yen (+25.7% YoY), and net income of 1.2 billion yen (+48.6% YoY). The company had previously announced forecasts only for the following quarter, but switched to a full-year basis in FY23/3. This is likely due to the fact that the company has settled on a stable outlook for the game business.
- The FY 23/3 is likely to get off to a solid start with the anniversary events of mainstay titles coinciding in the first quarter. The company expects a total of three new releases, including Wizardry VA (tentative), to contribute to earnings in the second half of the year. The company expects operating income of 2.0 billion yen, close to its record high (2.05 billion yen in FY21/3), despite increased expenses, including a 480 million yen increase in advertising costs associated with the release of new titles and a 390 million yen increase in R&D costs for new businesses.

See the final page for important disclosures.

GIR Earnings View (cont.)

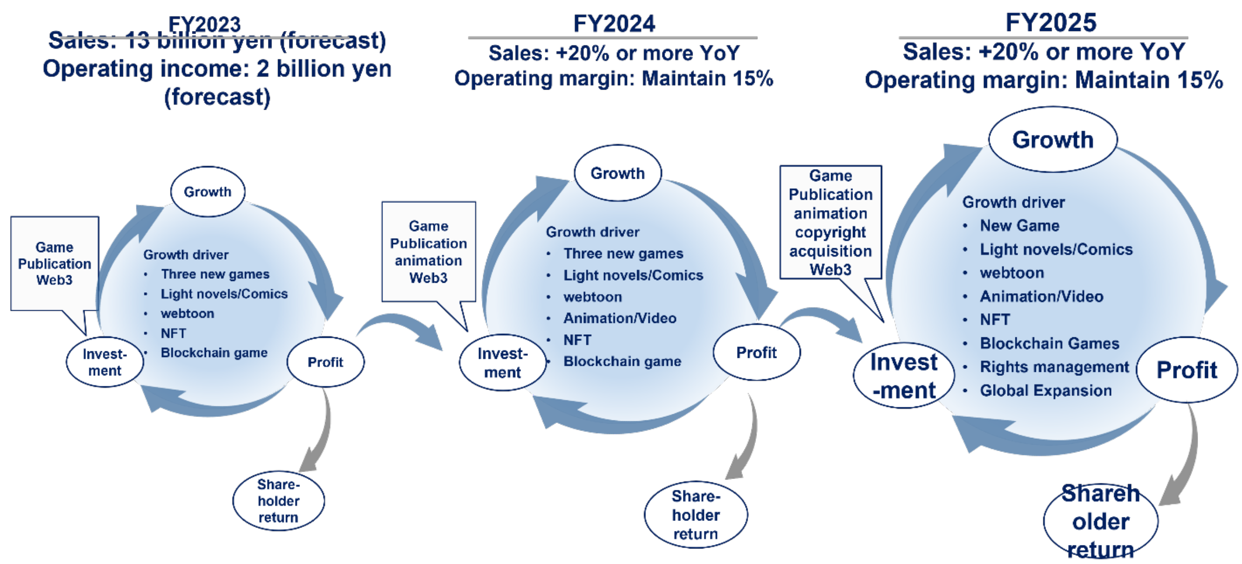
Outlook for FY2023 (cont.)

As for new businesses, the publishing business plans to release more than 10 new titles in 2H, and "Rooot," a Twitter-based fan community promotion service, is expected to continue to grow steadily. Although the company does not expect its Web3 businesses to produce revenue this fiscal year, it has several projects underway, including the development of blockchain games and an NFT project, which aims to create IP.

3 Future Development

The company's mid-term goal is “to become a comprehensive entertainment company that provides a wide variety of digital entertainment content globally with focus on IP.” As seen above, the company's forecast for FY23/3 is 13 billion yen in sales (+23.6% YoY) and 2 billion yen in operating profit (operating profit margin of 15.4%). As shown in the chart below, the company plans to maintain a revenue growth rate of over 20% and an operating profit margin of 15%, by actively investing the cash generated from the game business while continuing to return profits to shareholders until FY25/3. “Rooot" is already becoming profitable, and several concrete projects are underway in the publishing and Web3 businesses. We will keep a close eye on future developments.

Entering performance expansion phase



Source: Global IR, Inc. from company data (Financial Results for the Fiscal Year Ended March 31, 2022), p20 (https://drecom.co.jp/ir/140120220512542564.pdf)

Financial Data (Consolidated: Quarterly)

Income Statement (JPY mn)

Year Ending	FY20/03	FY21/03					FY22/03							FY23/03
	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q CE	Q4 Actual	1Q-4Q CE	1Q-4Q Actual	1Q-4Q CE
Accounting Standard	Japanese GAAP													
Sales	10,150	3,303	2,882	2,971	2,685	11,841	2,661	2,524	2,893	2,822	2,450	10,900	10,529	13,000
YoY	*-5.3%*	*46.6%*	*28.9%*	*19.7%*	*-15.5%*	*16.7%*	*-19.4%*	*-12.4%*	*-2.6%*	*5.1%*	*-8.7%*	*-7.9%*	*-11.1%*	*23.5%*
Gross Profit	2,192	1,067	889	1,120	921	3,997	1,040	957	1,023	-	776	-	3,797	-
YoY	*52.87%*	*87.1%*	*60.1%*	*90.8%*	*92.0%*	*82.32%*	*-2.5%*	*7.7%*	*-8.7%*	-	*-15.7%*	-	*-5.0%*	-
Gross Profit Margin	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%	39.1%	37.9%	35.4%	-	31.7%	-	36.1%	-
SG&A	1,575	443	461	488	552	1,944	536	494	570	-	605	-	2,205	-
YoY	*-21.7%*	*0.3%*	*31.1%*	*25.7%*	*40.4%*	*23.4%*	*20.9%*	*7.2%*	*16.8%*	-	*9.6%*	-	*13.4%*	-
Operating income	617	624	428	632	369	2,053	504	463	453	280	171	1,700	1,591	2,000
YoY	-	*386.4%*	*110.1%*	*218.3%*	*326.8%*	*232.7%*	*-19.2%*	*8.1%*	*-28.4%*	*-24.1%*	*-53.6%*	*-17.2%*	*-22.5%*	*25.7%*
Operating income margin	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%	18.9%	18.4%	15.6%	9.9%	7.0%	15.6%	15.1%	15.4%
Ordinary income	636	609	423	622	366	2,019	492	449	440	268	161	1,649	1,542	1,900
YoY	-	*301.4%*	*194.6%*	*183.8%*	*200.8%*	*217.5%*	*-19.1%*	*6.1%*	*-29.3%*	*-26.6%*	*-56.0%*	*-18.3%*	*-23.6%*	*23.2%*
Net income	711	467	359	473	326	1,625	301	311	241	147	-46	1,000	807	1,200
YoY	-	*282.4%*	*291.7%*	*167.3%*	*1.6%*	*128.4%*	*-35.6%*	*-13.3%*	*-49.0%*	*-55.0%*	*-114.1%*	*-38.4%*	*-50.3%*	*48.6%*
Net income margin	7.0%	15.0%	13.0%	16.0%	12.1%	13.7%	11.3%	12.3%	8.3%	5.2%	-1.9%	9.2%	7.7%	9.2%

Source: Global IR, Inc. based on company's annual securities report

Note: CE=Company Estimate. Rounded under JPY mn. Rounded to one dicimal place. *Caluculated by Global IR, Inc.

Financial Data (Consolidated, Full Year)

Per-Share Data (Consolidated)

Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
Total No. of Shares outstanding (,000)	14,371	28,742	28,819	28,894	28,976	29,073
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3
Adjusted EPS	29.7	-	-	25.0	56.9	28.3
BPS	113.2	106.7	47.9	74.2	132.9	159.1
DPS	0	0	0	0	0	5

Cash Flow (JPY mn)

Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
Depreciation	214	299	462	382	626	537
Sales Cash Flow	846	-79	78	691	3,196	1,603
Investment Cash Flow	-456	-1,958	-123	-101	-1,140	-1,766
Financial Cash Flow	1,345	2,288	-271	-1,188	968	-388

Financial Data (%)

Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
ROA	16.7	-0.4	-16.8	9.5	25.2	16.0
ROE	35.5	-6.6	-78.2	41.0	55.0	19.4
Equity Ratio	47.0	33.2	19.6	32.9	39.5	46.9

Source: Global IR, Inc. based on company's annual securities report.

Note: Rounded under JPY mn. Rounded to one dicimal place. *Caluculated by Global IR, Inc.

Integrity & Sustainability

March 22, 2022

Sector : IT / Telecom

Drecom (3793)

Flash comment

GIR View

1

DRECOM with entertainment

Entry into Web3 Business Announced

- Drecom (3793) announced its entry into the Web3 business after the close of business on Friday, March 18.
- Web3, also known as Web 3.0, is gaining attention as a concept that follows web1.0, in which information providers unilaterally convey information to viewers via websites, and web2.0, in which information providers and viewers communicate interactively via SNS. The company defines Web3 as "an Internet distribution service realized via tokens.
- This release states that the company has decided to enter the GameFi domain, where it can take full advantage of its strengths, as an offshoot of its Web3 initiatives. GameFi is a word created by combining the words "Game" and "Decentralized Finance (DeFi).

2

In-house IP Blockchain Contracted to develop and operate games

- Specifically, the company has signed a basic agreement with the Thirdverse Group, which its strength lays in the blockchain domain. Under the agreement, Thirdverse Group will act as the publisher and Drecom will develop and operate blockchain games on behalf of the Thirdverse Group. The company plans to produce two games for overseas markets, the first of which will be an alpha version of a game licensed from *Wizardry*, an IP owned by the company, to be released between winter 2022 and spring 2023.
- GameFi holds enormous potential, that at one point a GameFi called *Axie Infinity* in Vietnam had 1 million DAUs and monthly sales of $342 million (¥40.6 billion). Depending on future developments, this could become a gamechanger. GameFi is the first step in the company's Web3 initiative, and the company plans to consider and implement business development not only for GameFi, but for a wide range of other businesses as well.

3

Mission and mid-term goals Development consistent with

- Entertainment has a history of growing along with the development of technology. Drecom believes that as the technology continues to emerge in Web3, more new developments is expected in the entertainment field over the medium term span. The company's decision to enter the GameFi market was based on the belief that these technology trend would contribute greatly to the realization of the company's mission and vision.

See the final page for important disclosures.

Mission and mid-term goals Development consistent with (cont.)	The company's mid-term goal is "to become a comprehensive entertainment company that provides a wide variety of digital entertainment content globally with focus on IP." In addition to the already announced launch of its publishing business, the aforementioned entry into the GameFi business is also a positive step toward achieving this mid-term goal.

Integrity & Sustainability

January 27, 2022

Sector: IT / Telecom

Drecom (3793)

FY2022 Third Quarter Result
Oct 31, 2021 – Dec 31, 2021

GIR Earnings View

DRECOM with entertainment

1

Summary of Financial Results for the Nine Months Ended December, 2021

- The company announced its Q3 FY2022 results after the close on January 27, 2022. Cumulative Q3 sales fell 11.8% YoY to 8.08 billion yen, operating profit fell 15.7% YoY to 1.42 billion yen, and net income fell 34.3% YoY to 850 million yen. The decrease in sales compared to the previous year was mainly due to the impact of the withdrawal from the titles and advertising business that were terminated in the previous year. In addition to the above-mentioned decrease in sales, the main reason for the YoY decline in profit was a one-time cost of 130 million yen (recorded as a cost of sales) for a game production project using a committee system.
- Compared to the company's forecast announced in October, sales were 1.0% above forecast and operating profit was 9.2% above forecast, exceeding expectations, but net profit was 5.2% below forecast due to an extraordinary loss associated to withdrawal from offices. Sales exceeded the forecast due to the continued strong performance of several applications, especially the IP title *ONE PIECE Treasure Cruise* (currently distributed by Bandai Namco Entertainment Inc.), which is in its seventh year of operation. Despite the 130 million yen in one-time expenses related to the aforementioned game production project, the company's operating profit and recurring profit were stronger than expected due to higher sales and reduction in fixed cost, so it can be said that the company's performance was stronger than it appeared.

Forecast for the Fiscal Period, 4Q, 2022

2

- The company's forecast for the fourth quarter (cumulative total), announced together with the third quarter results, was for net sales of 10.9 billion yen (-7.9% YoY), operating income of 1.7 billion yen (-17.2% YoY), and net income of 1.0 billion yen (-38.4% YoY). Comparing the company's forecast for the fourth quarter (January-March) with the third quarter (October-December), sales are expected to decline slightly by 2.5%. This decline of sales is partially due to the loss of anniversary event sales of several titles that took place in Q3, but is lessen by the company's plan to release *New Japan Pro-Wrestling Strong Spirits* (to be distributed by Bushiroad Co., Ltd.) and *mikonote Hare Tokidoki Kegare* in Q4. The 38.1% QoQ decline in operating profit is more due to higher advertising costs for new titles and upfront costs for investments in the publishing business to generate IP rather than to the above-mentioned decline in sales. There is no need to view this as a negative, but rather as a positive decrease in profit.

See the final page for important disclosures.

3 Outlook

- In addition to *Wizardry VA* (tentative), *Evil Prince and the Puppets* and three location-based IP titles using "AROW", the company plans three unannounced original titles in the pipeline for next fiscal year and beyond.
- With regard to the launch of the Publishing Business Division announced at the previous Q2 financial results briefing, the company announced more specifically that it plans to sequentially release more than 10 new titles from the Publishing Business from the second half of FY2023 onward, and it seems to be starting up smoothly.
- In addition to the above, at the financial results briefing, the company also announced that sales of its Twitter-based fan community promotion service, "Rooot," have steadily expanded by 4.7 times compared to the same period last year. We can see that the company is making steady progress toward its mid-term goal of becoming a comprehensive entertainment company that provides a wide variety of digital entertainment content globally with a focus on IP.

Performance Index (Consolidated, Quarterly)

Income statement (JPY mn)

Year Ending	FY03/20					FY 03/21					FY03/22				
	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4QCE	1Q-4Q CE
Accounting Standard	Japanese GAAP														
Sales	2,254	2,235	2,483	3,178	10,150	3,303	2,882	2,971	2,685	11,841	2,661	2,524	2,893	2,822	10,900
YoY	-21.3%	-17.1%	4.0%	14.6%	-5.3%	46.6%	28.9%	19.7%	-15.5%	16.7%	-19.4%	-12.4%	-2.6%	5.1%	-7.9%
Gross Profit	570	556	587	479	2,192	1,067	889	1,120	921	3,997	1,040	957	1,023		
YoY	57.0%	152.3%	102.7%	-14.6%	52.9%	87.1%	60.1%	90.8%	92.0%	82.3%	-2.5%	7.7%	-8.7%		
Gross Profit Margin	25.3%	24.9%	23.6%	15.1%	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%	39.1%	37.9%	35.4%		
SG&A	442	352	389	393	1,575	443	461	488	552	1,944	536	494	570		
YoY	-43.4%	-7.8%	-6.6%	-9.4%	-21.7%	0.3%	31.1%	25.7%	40.4%	23.4%	20.9%	7.2%	16.8%		
Operating Income	128	204	198	86	617	624	428	632	369	2,053	504	463	453	280	1, 700
YoY	-	-	-	-32.2%	-	386.4%	110.1%	218.3%	326.8%	232.7%	-19.2%	8.1%	-28.4%	-24.1%	-17.2%
Operating Income Margin	5.7%	9.1%	8.0%	2.7%	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%	18.9%	18.4%	15.6%	9.9%	15.6%
Ordinary Income	152	144	219	121	636	609	423	622	366	2,019	492	449	440	268	1,649
YoY	-	-	-	-	-	301.4%	194.6%	183.8%	200.8%	217.5%	-19.1%	6.1%	-29.3%	-26.6%	-18.3%
Net income	122	92	177	321	711	467	359	473	326	1,625	301	311	241	147	1,000
YoY	-	-	-	-	-	282.4%	291.7%	167.3%	1.6%	128.4%	-35.6%	-13.3%	-49.0%	-55.0%	-38.4%
Net Income Margin	5.4%	4.1%	7.1%	10.1%	7.0%	14.1%	12.5%	15.9%	12.1%	13.7%	11.3%	12.3%	8.3%	5.2%	9.2%

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.

Financial Data (Consolidated: Full Year)

Per-Share Data

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Total No. of Shares outstanding (,000)	14,371	28,742	28,819	28,894	28,976
EPS	29.7	-7.2	-60.5	25.0	57.0
After EPS adjustment	29.67	-	-	24.98	56.85
BPS	113.2	106.7	47.9	74.2	132.91
DPS	0	0	0	0	0

Cashflow (JPY mn)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Depreciation	214	299	462	382	626
Sales Cash Flow	846	-79	78	691	3,196
Investment Cash Flow	-456	-1,958	-123	-101	-1,140
Financial Cash Flow	1,345	2,288	-271	-1,188	968

Financial Data (%)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
ROA	11.9	-2.2	-24.7	11.1	19.1
ROE	35.5	-6.6	-78.3	41.0	44.8
Capital Adequacy Ratio	47.0	33.2	19.6	32.9	39.5

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.

Integrity & Sustainability

January 24, 2022

Sector: IT / Telecom

Drecom (3793)

FY2022 Second Quarter Result
July 1, 2021 – September 30, 2021

GIR Earnings View

1 Summary of Financial Results for the Six Months Ended September 30, 2021

- In the first half of the fiscal year ending March 31, 2022, sales fell 16.2% YoY to 5.18 billion yen, operating income fell 8.1% YoY to 970 million yen and net income fell 25.9% YoY to 610 million yen. The main reason for the YoY decline in sales and profits is believed to be the impact of the withdrawal from the titles and advertising business that were terminated in the previous year.
- Compared to the company's forecast announced in July, overall sales exceeded the forecast by 3.7%, operating profit by 28.9%, and net profit by 22.4%. As a result of the strong performance of several applications, especially the IP title *ONE PIECE Treasure Cruise* (currently distributed by Bandai Namco Entertainment Inc.), which is in its seventh year of operation, sales exceeded forecasts, and as a result, profits were markedly higher than expected by absorbing fixed costs.

2 Forecast for the Fiscal Period, 3Q, 2022

- The company's cumulative total forecast for the third quarter, which was announced together with the second quarter results, is for net sales of 8.0 billion yen (-12.6% YoY), operating income of 1.3 billion yen (-22.8% YoY), and net income of 0.9 billion yen (-30.7% YoY). Comparing the company's Q3 (October-December) forecast with the Q2 (July-September) result, sales are expected to increase by 11.6% QoQ, while operating profit is expected to decrease by 20.1% QoQ. This is due to the fact that while the company expects new titles to make a full contribution throughout the quarter, as well as an increase in revenue from year-end and anniversary events, it also expects a decrease in profit due to higher upfront advertising and operational costs for the new title, *mikonote Hare Tokidoki Kegare*, which is scheduled to be released this winter.

3 Publishing Business Launch

- The company's mid-term goal is to become a comprehensive entertainment company that provides a wide variety of digital entertainment content globally, centered on IP. As part of this goal, the company announced the launch of a publishing division at its Q2 results briefing. The first step is to create hit titles in the areas of webtoon, light novels, and comics at an early stage, accumulate know-how within the company and gain a reputation as a hit producer. After that, the company plans to monetize its IP in a repeatable manner by expanding its hit webtoon, light novel, and comic works to other media such as games and animation. We will be watching this progress closely.

See the final page for important disclosures.

Performance Index (Consolidated, Quarterly)

Income statement (JPY mn)

Year Ending	FY03/20						FY 03/21						FY03/22			
	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	3Q	4Q	1Q-4Q	1Q	2Q	1H	3QCE
Accounting Standard	Japanese GAAP															
Sales	2,254	2,235	4,489	2,483	3,178	10,150	3,303	2,882	6,185	2,971	2,685	11,841	2,661	2,524	5,185	2,815
YoY	-21.3%	-17.1%	-19.3%	4.0%	14.6%	-5.3%	46.6%	28.9%	37.8%	19.7%	-15.5%	16.7%	-19.4%	-12.4%	-16.2%	-5.3%
Gross Profit	570	556	1,126	587	479	2,192	1,067	889	1,956	1,120	921	3,997	1,040	957	1,998	-
YoY	57.0%	152.3%	10.5%	102.7%	-14.6%	52.9%	87.1%	60.1%	73.8%	90.8%	92.0%	82.3%	-2.5%	7.7%	2.1%	-
Gross Profit Margin	25.3%	24.9%	25.1%	23.6%	15.1%	21.6%	32.3%	30.9%	31.6%	37.7%	34.3%	33.8%	39.1%	37.9%	38.5%	-
SG&A	442	352	794	389	393	1,575	443	461	904	488	552	1,944	536	494	1,030	-
YoY	-43.4%	-7.8%	-31.7%	-6.6%	-9.4%	-21.7%	0.3%	31.1%	13.9%	25.7%	40.4%	23.4%	20.9%	7.2%	14.0%	-
Operating Income	128	204	332	198	86	617	624	428	1,052	632	369	2,053	504	463	967	333
YoY	-	-	-	-	-32.2%	-	386.4%	110.1%	216.8%	218.3%	326.8%	232.7%	-19.2%	8.1%	-8.1%	-47.3%
Operating Income Margin	5.7%	9.1%	7.4%	8.0%	2.7%	6.1%	18.9%	14.9%	17.0%	21.3%	13.7%	17.3%	18.9%	18.4%	18.7%	11.8%
Ordinary Income	152	144	295	219	121	636	609	423	1,032	622	366	2,019	492	449	941	359
YoY	-	-	-	-	-	-	301.4%	194.6%	249.5%	183.8%	200.8%	217.5%	-19.1%	6.1%	-8.8%	-42.3%
Net income	122	92	214	177	321	711	467	359	826	473	326	1,625	301	311	612	288
YoY	-	-	-	-	-	-	282.4%	291.7%	286.4%	167.3%	1.6%	128.4%	-35.6%	-13.3%	-25.9%	-39.1%
Net Income Margin	5.4%	4.1%	4.8%	7.1%	10.1%	7.0%	14.1%	12.5%	13.4%	15.9%	12.1%	13.7%	11.3%	12.3%	11.8%	10.2%

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.

Financial Data (Consolidated: Full Year)

Per-Share Data

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Total No. of Shares outstanding ('000)	14,371	28,742	28,819	28,894	28,976
EPS	29.7	-7.2	-60.5	25.0	57.0
After EPS adjustment	29.67	-	-	24.98	56.85
BPS	113.2	106.7	47.9	74.2	132.91
DPS	0	0	0	0	0

Cashflow (JPY mn)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Depreciation	214	299	462	382	626
Sales Cash Flow	846	-79	78	691	3,196
Investment Cash Flow	-456	-1,958	-123	-101	-1,140
Financial Cash Flow	1,345	2,288	-271	-1,188	968

Financial Data (%)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
ROA	11.9	-2.2	-24.7	11.1	19.1
ROE	35.5	-6.6	-78.3	41.0	44.8
Capital Adequacy Ratio	47.0	33.2	19.6	32.9	39.5

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.

May 13, 2021

Sector: IT / Telecom

Drecom (3793)

FY2021 Full Year Result
April 1, 2020 – March 31, 2021

GIR Earnings View

1 Summary of Financial Results for the Fiscal Year 2020, Ended March 31, 2021

- For FY2020, the company posted net sales of 11.84 billion yen, operating income of 2.05 billion yen, and net income attributable to shareholders of the parent company of 1.62 billion yen. Operating income and net income attributable to parent company exceeded the company's guidance, announced on January 28, 2021, of 11.70 billion yen, 1.90 billion yen, and 1.40 billion yen, respectively; and posted record high profit.
- Results surpassed company guidance because IP titles performed better than expected. The only title that was in the red for Q3 broke into the black in Q4, but another title that was in the black for Q3 slid into the red in Q4. Therefore, total number of titles in the red was one, unchanged QOQ. Both titles are expected to rebound during FY2021 H1

2 Operational Progress

- By April 2023, Drecom aims to transform itself into a comprehensive entertainment company. The company plans to use the stable cash flow from its gaming business to fuel growth to (1) continue expansion of its gaming business, (2) diversification of IP owned by the company, and (3) apply know-how acquired in the gaming business to other areas.

  (1) Continue expansion of its gaming business

  The number of development projects in the gaming business increased by three during Q4, as 12 full-scale and prototype development are in-progress. Six new games in total are scheduled for release in FY2022.

  (2) Diversification of IP owned by the company

  As for the original IP[1] *Evil Prince and the Puppets*, development of a new game is underway, and e-commerce has also started, making it an IP.

  (3) Apply know-how acquired in the gaming business to other areas

  “AKROGLAM”, a service in the music domain, and "root", a twitter marketing service, have seen increases in fan communities and in the number of companies using their services – which also appear to be expanding.

[1] Intellectual Property

See the final page for important disclosures.

GIR Earnings View (cont.)

3 Outlook for FY2021 Q1

- The company's guidance for FY2021 Q1 (April-June 2021) for sales of 2.70 billion yen and operating profit of 350 million yen, reflect the absence of new releases, weakening of tailwinds from FY2020's "stay home" demand, and completion of cost efficiency improvements. The company expects YOY revenue and profit declines. Among other reasons for expected revenue declines are the withdrawal from the advertising business and the closing of some titles.
- The stock price has already factored-in stable fundamentals and is looking for new growth catalysts. Therefore, the stock price could fluctuate depending on developments related to new titles, and it is entering a phase where expectations for earnings growth in FY2021 and beyond are leading the way.

Performance Index (Consolidated, Quarterly)

Income statement (JPY mn)

Year Ending	FY03/19					FY 03/20					FY03/21				
	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q
Accounting Standard	Japanese GAAP														
Sales	2,865	2,695	2,387	2,773	10,720	2,254	2,235	2,483	3,178	10,150	3,303	2,882	2,971	2,685	11,841
YoY	*11.4%*	*-25.7%*	*-38.5%*	*-10.8%*	*-18.7%*	*-21.3%*	*-17.1%*	*4.0%*	*14.6%*	*-5.3%*	*46.6%*	*28.9%*	*19.7%*	*-15.5%*	*16.7%*
Gross Profit	363	220	290	561	1,434	570	556	587	479	2,192	1,067	889	1,120	921	3,997
YoY	*-54.5%*	*-77.7%*	*-64.6%*	*14.1%*	*-53.7%*	*57.0%*	*152.3%*	*102.7%*	*-14.6%*	*52.9%*	*87.1%*	*60.1%*	*90.8%*	*92.0%*	*82.3%*
Gross Profit Margin	12.7%	8.2%	12.1%	20.2%	13.4%	25.3%	24.9%	23.6%	15.1%	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%
SG&A	781	381	416	434	2,012	442	352	389	393	1,575	443	461	488	552	1,944
YoY	*2.2%*	*-55.3%*	*-35.5%*	*-32.5%*	*-30.8%*	*-43.4%*	*-7.8%*	*-6.6%*	*-9.4%*	*-21.7%*	*0.3%*	*31.1%*	*25.7%*	*40.4%*	*23.4%*
Operating income	-418	-161	-126	128	-577	128	204	198	86	617	624	428	632	369	2,053
YoY	-	-	-	-	-	-	-	-	*-32.2%*	-	*386.4%*	*110.1%*	*218.3%*	*326.8%*	*232.7%*
Operating income margin	-14.6%	-6.0%	-5.3%	4.6%	-5.4%	5.7%	9.1%	8.0%	2.7%	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%
Ordinary income	-513	-311	-458	-67	-1,349	152	144	219	121	636	609	423	622	366	2,019
YoY	-	-	-	*-69.9%*	-	-	-	-	-	-	*301.4%*	*194.6%*	*183.8%*	*200.8%*	*217.5%*
Net income	-505	-151	-717	-340	-1,713	122	92	177	321	711	467	359	473	326	1,625
YoY	-	-	-	*21.8%*	*739.6%*	-	-	-	-	-	*282.4%*	*291.7%*	*167.3%*	*1.6%*	*128.4%*
Net income margin	-17.6%	-5.6%	-30.0%	-12.3%	-16.0%	5.4%	4.1%	7.1%	10.1%	7.0%	14.1%	12.5%	15.9%	12.1%	13.7%

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded under JPY mn. Rounded to one dicimal place.

*Caluculated by Global IR, Inc.

Performance Index (Consolidated,Full year)

Per-Share Data

Year Ending	2017/3	2018/3	2019/3	2020/3	2021/3
Total No. of Shares outstanding (,000)	14,371	28,742	28,819	28,894	28,976
EPS	29.7	-7.2	-60.5	25.0	57.0
Adjusted EPS	29.67	-	-	24.98	56.85
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DPS	0	0	0	0	0

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Financial Cash Flow	1,345	2,288	-271	-1,188	968

Financial data (%)

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ROA	11.9	-2.2	-24.7	11.1	19.1
ROE	35.5	-6.6	-78.3	41.0	44.8
Equity Ratio	47.0	33.2	19.6	32.9	39.5

Source: Global IR, Inc. based on company's annual securities report
Note: Rounded under JPY mn. Rounded to one dicimal place.
*Caluculated by Global IR, Inc.

Integrity & Sustainability

February 15, 2021

Sector: IT / Telecoms

Drecom (3793)

Initiation Report

GIR View

DRECOM with entertainment

1

Japan's mobile gaming market – consisting mainly of games played on smartphones – is huge, valued at more than ¥1.3 trillion. Globally, the mobile gaming market is thought to have been worth about ¥8 trillion in 2020. The Japanese market is the third largest in the world after those in China and the US, and is not significantly smaller than either. With the wide uptake of smartphones, the Japanese mobile gaming market grew rapidly until 2017, to over ¥1 trillion. Since then it has continued to expand, at a slower pace, driven by the enjoyable gaming experiences offered by companies in the sector. Market growth is likely to have accelerated with the coronavirus pandemic.

2

In the fiscal year to March 31 2021, more than 90% of Drecom's revenue will come from mobile gaming, and the company expects to achieve record sales and operating profit. The company was founded in 2001 and was listed on the Tokyo Stock Exchange's Mothers market in 2006. Several times in the past it has run at a loss, but Global IR, Inc. (GIR) believes that this has given it the knowledge of how to be profitable and to manage itself in a way that controls its profitability. One of Drecom's strengths is that since the era of feature phone games (on traditional mobile phones) nearly a decade ago, it has had a distinctive game management style that emphasises continuous usage by players. It has also built a relationship of trust with leading IP[1] holders. Drecom's game management style fits well with IP, which emphasizes long-term value such as brand and user engagement.

3

Aiming at a stock-based business model, Drecom has set up a revenue structure that grows sales and profits through having multiple game titles. In particular, it releases IP-based games, on a Free-to-Play basis but in which players choose to make in-game payments, over long periods, with good game management in place. Games that sell less well point to the timing of reductions in operating costs and the termination of operations, allowing preparation for the release of new titles. The Japanese mobile gaming market has increasing barriers to entry, but Drecom is one of the companies able to clear them. The market continues to grow, and the mobile gaming business has become the company's cash cow. In our view, Drecom is entering a period in which it will be able to create new revenue streams.

[1] Intellectual Property

See the final page (p. 31) for important disclosures.

GIR View (continued)

4

The first reason for the increasing barriers to entry is rising development costs. These have risen to more than ¥100 million per title, and sometimes more than ¥1 billion. **The second issue is finding personnel with the right skills.** The mobile gaming business involves two different functions: development, and also management, because the revenue that players are charged comes from post-release game management. These two functions require different skills and mindsets. Game companies have to develop and retain the right human resources.

5

Third, there is a barrier to entry in the form of IP-centric inner circles within the industry, known as 'value circles,' based on abilities and relationships. IP has been adopted for most game titles as the mobile gaming market has expanded. Intellectual Property (IP) in a game refers to well-known game titles or characters. The use of this kind of IP extends across magazines, merchandise, games, and industries, further enhancing its value. Companies that use the IP therefore have to be part of the circle to be able to contribute to the improvement in the IP's value, and the interests of each industry stakeholder must be carefully taken into consideration.

6

As mobile games have become cash cows, on a consolidated basis there is the prospect of retained earnings moving into positive territory. Medium-term, Drecom aims to build new revenue streams in entertainment by deploying the management skills it has acquired in the gaming business and making the most of its management strengths.

Financial Data

Share price: ¥872 (as of February 12, 2021)

Fiscal Year	Sales (¥m)	YoY (%)	Operating Profit (¥m)	YoY (%)	Net Profit (¥m)	YoY (%)	Recurring Profit (¥m)	YoY (%)	EPS (¥)	PER (x)
2017/3	8,388	28.3	932	NA	844	NA	814	NA	29.7	-
2018/3	13,192	57.2	190	-79.7	-29	NA	-204	NA	-7.2	-
2019/3	10,720	-18.8	-577	NA	-1,349	NA	-1,712	NA	-60.5	-
2020/3	10,150	-5.4	617	NA	635	NA	711	NA	25.0	32.6
2021/3 (Co. est.)	11,700	15.3	1,900	207.9	1,800	183.1	1,400	96.8	49.1	16.6

in Millions of JPY

FAQs from Meetings with Investors

Drecom holds meetings with overseas institutional investors on an ongoing basis. Below we reproduce some common questions and responses from these meetings. The responses are based on the company's answers and include GIR commentary and additional information. The questions are ordered according to issues that were of particular interest. For more information on the answers, click “Answer” at the end of the question.

Drecom's Financial Performance

About Drecom

About the Gaming Market

Table of contents

CHART AND TABLES

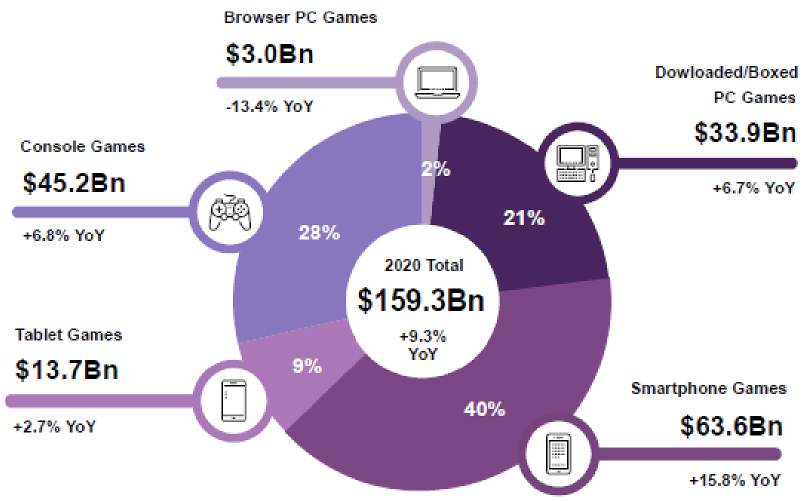
The Mobile Gaming Market

Trends in the Mobile Gaming Market

The domestic mobile gaming market expanded rapidly until about 2017

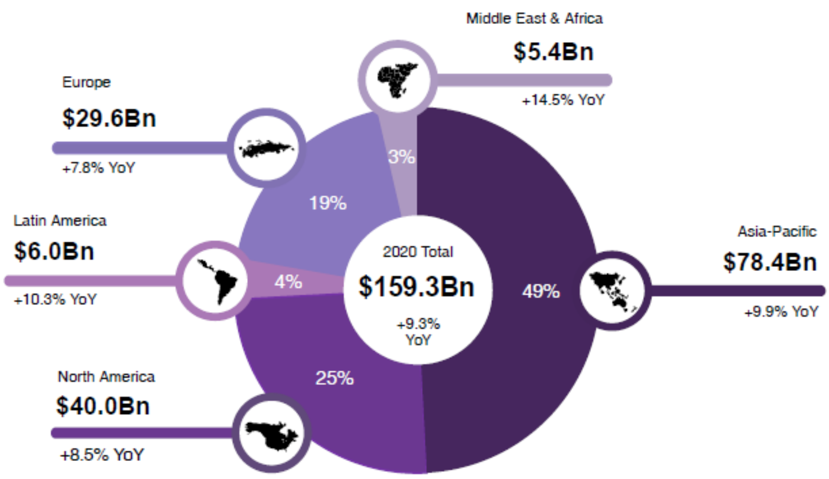
The global mobile gaming market is estimated to have been worth about ¥8 trillion in 2020, and the Japanese market about ¥1.3 trillion, making it the third-largest in the world after China and the United States. However, the difference in size is relatively small: Japan's mobile gaming market is huge.

Figure 1. 2020 Global Gaming Market By Segment, 2020



Source: Newzoo

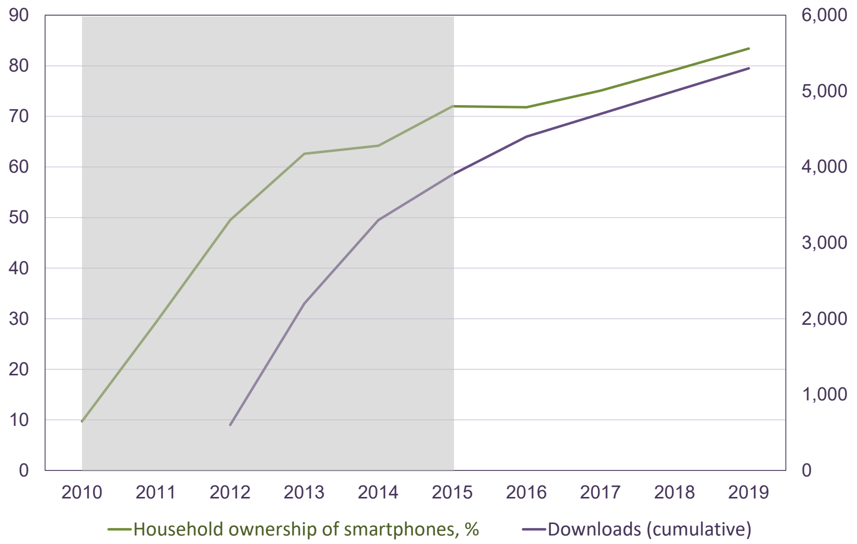
Figure 2. 2020 Global Gaming Market By Region, 2020



Source: Newzoo

The domestic mobile gaming market expanded rapidly until around 2017 with the uptake of smartphones. Since then, although growth has slowed, the market has continued to expand moderately. According to the *Famitsu Game White Paper*, the domestic mobile gaming market exceeded ¥1 trillion yen in value in 2017, and has continued to grow moderately since then.

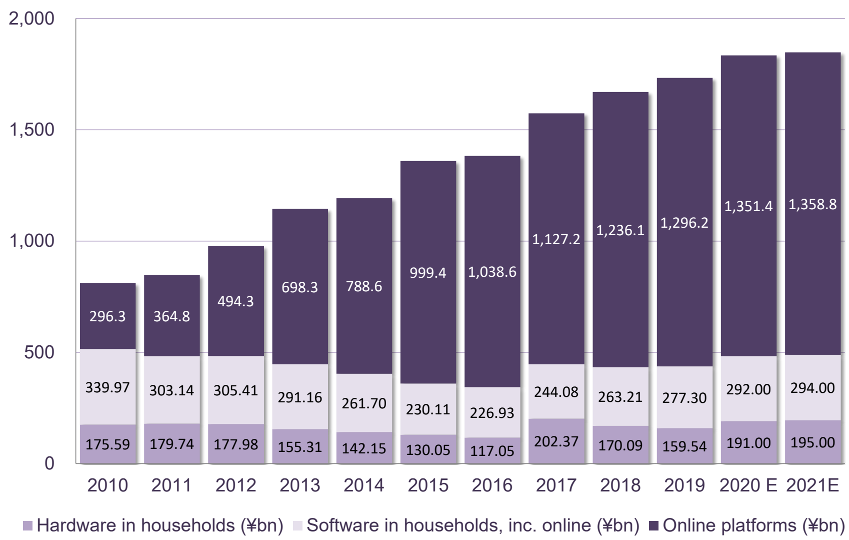
Figure 3. Smartphone Gaming Market Grew with the Uptake ofmartphones



Source: GungHo Online Entertainment Co.; Survey of Trends in Communications Usage (通信利用動向調査), Ministry of Internal Affairs and Communications

Downloads of *Puzzle & Dragons* (Pazdora), a game released by GungHo in January 2012, rose almost in line with the increase in the number of smartphones, and the overall market for smartphone games in the early 2000s expanded with the uptake of smartphones.

Figure 4. Growth of the Domestic Gaming Market (Household & Online Platforms)
Unit:¥bn



Source: *Famitsu Game White Paper,* 2020

Note: Data period: Dec 28, 2009 to Dec 29, 2019 Accurate figures for 2020 and 2021 are unavailable; from May 2020 they are estimates.

Continued Moderate Growth in 2017 and Beyond

There are three factors driving continued moderate growth:

(1) Improvement of the appeal of games, through the efforts of game companies.

(2) Coronavirus accelerating changes in life and work trends.

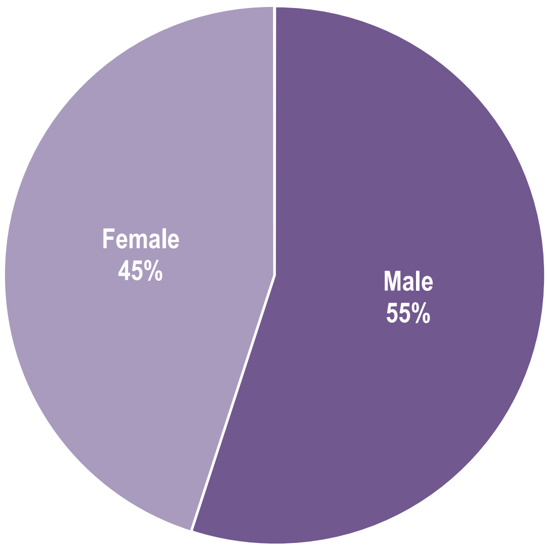
3) The expansion of the base of users who have gaming experience, and the gaming generations' transitioning into adulthood.

As noted above, the mobile gaming market continues to expand, albeit at a more moderate pace. This is for a number of reasons, including: (1) the appeal of a variety of mobile gaming experiences, as a result of game companies' efforts; (2) the acceleration of existing trends in life and work, as a result of the coronavirus pandemic, and thus an increase in the number of gaming hours played; (3) the expansion of the base of users who have gaming experience, and the gaming generations' transitioning into adulthood.

As smartphones became more widespread, users grew accustomed to using them for various functions, and they became a familiar gadget in everyday life – that is, they became commoditized. At the same time, gaming companies have optimized their smartphones for screen use, resolution, operability, and behavior when games are played, while providing users with a variety of gaming experiences. In this way, as the appeal of smartphone games is improved, a virtuous cycle is generated in which these games attract more users.

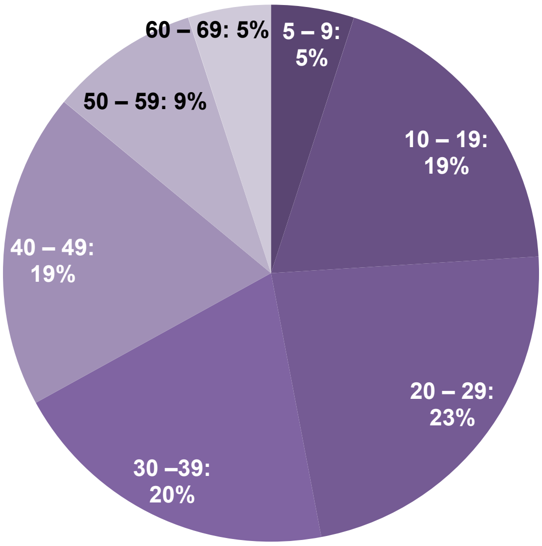
Figures 5 and 6 show that there is little difference in the gender and age composition of players. Overall. it can be inferred that the market of mobile game players is growing.

Figure 5. Gender Balance of Players Unit:%



Source: *Famitsu Game White Paper,* 2020
Note: Data period: Dec 31, 2018 – Nov 3, 2019

Figure 6. Age Breakdown of Game Players, in Years (Japan) Unit:%



Source: *Famitsu Game White Paper*, 2020
Note: Data period: 31 Dec, 2018 – 3 Nov, 2019

Figure 7. Game Apps in Japan: Players, Time and Revenues (weekly averages)

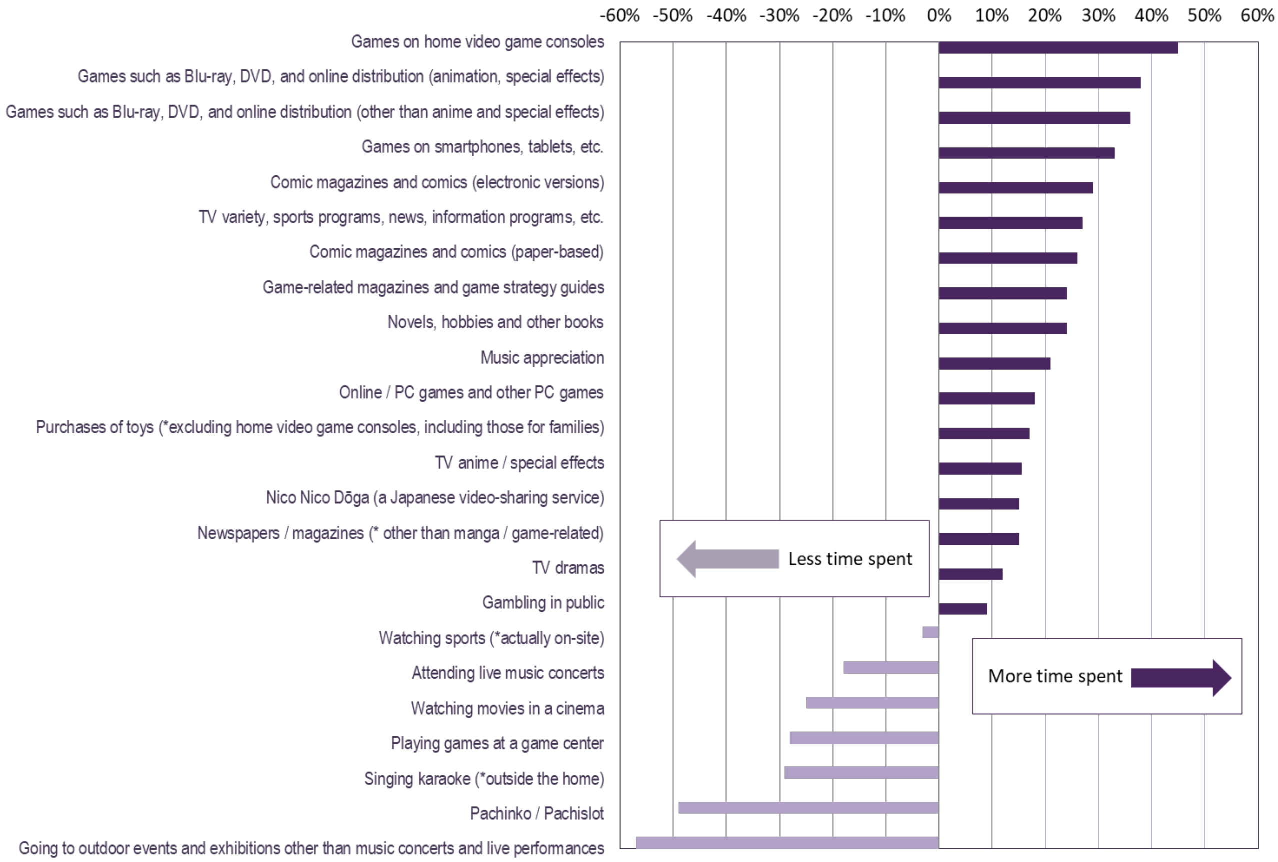
Average no. of players weekly (million)	Average weekly playing time (million hrs)	Average weekly billing (¥m)	ARPU / week (¥)
2.563	8.485	719.718	280.80

Source: *Famitsu Game White Paper,* 2020
Note: Data period: 31 Dec, 2018 – 3 Nov, 2019

Furthermore, the constraints resulting from the coronavirus since Spring 2020 have accelerated changes in life and work patterns that were already occurring. As a result, it appears that more time is being spent on playing games (see Figure 8 below). This is increasingly driving the mobile gaming market.

Figure 8. Changes in entertainment activity due to the effects of the coronavirus

Q. Please tell us about changes in the time you spent on entertainment activities in March.

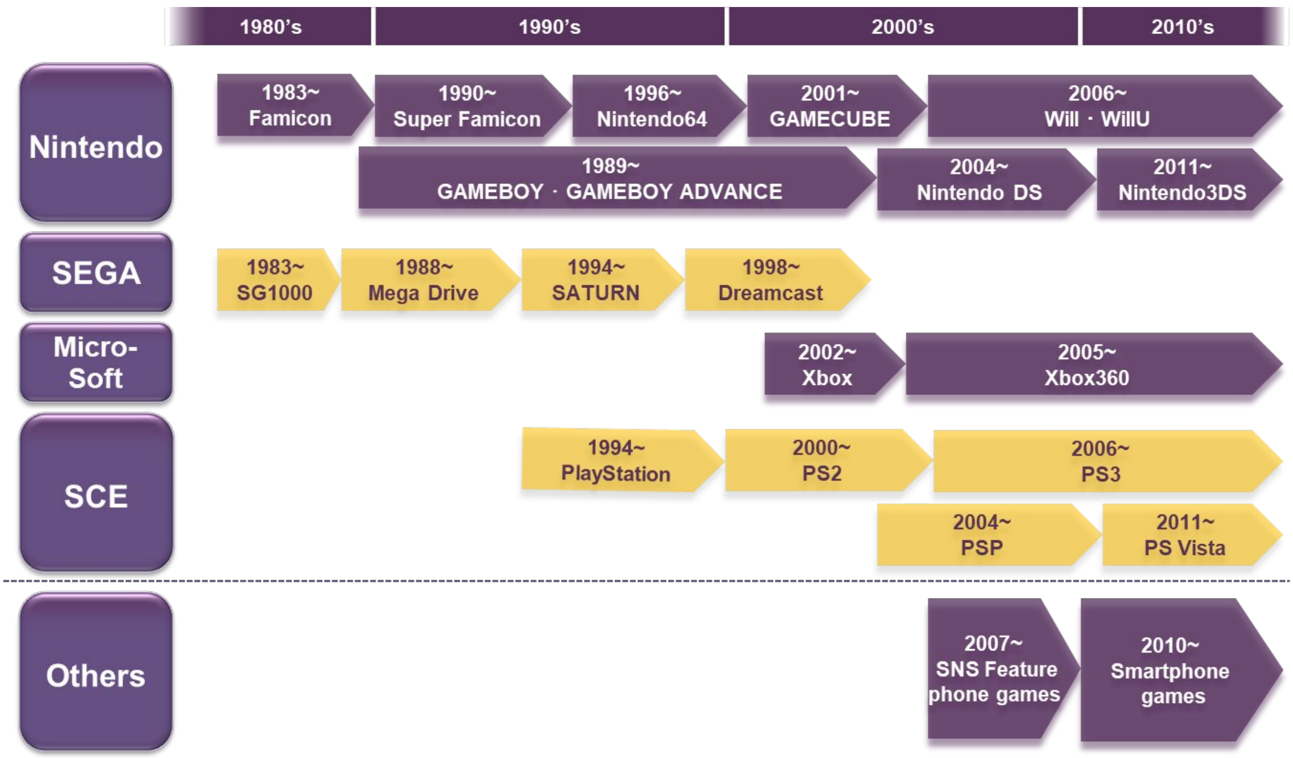


Source: *Famitsu Game White Paper*, 2020

Note: Percentage of respondents who answered that they had increased their activity. Video items include recording and viewing.
Eb-i Survey; survey date: April 6, 2020. n = 7.801

3) Concerning point 3 above, as shown in Figure 9, Nintendo's Family Computer was launched in Japan in 1983. Following this, in 1989 came the Gameboy. The Playstation, which appeared in 1994, appealed to an older user base, and in recent years these players have become more interested in mobile gaming. In addition, many users started to become familiar with games for the first time around 2010, through social network service (SNS) mobile games. The commoditization of smartphones and the increase in disposable income as players became adult members of society also helped to establish a lifestyle in which interaction with mobile games became part of everyday leisure. The younger generation now own smartphones from an early age, become paying users from about high-school age, and start to take part in the mobile game market.

Figure 9. History of the Domestic and Home Video Game Market



Source: Global IR, Inc.

Features of the mobile gaming market, high barriers to entry

(1) High development costs; (2) The need to find personnel with different skill sets; (3) The existence of 'value circles' based on capabilities and relationships

Features of the mobile gaming market:
(1) High development costs: More personnel needed, long lead times.

(2) Development and management in the mobile game business are completely different functions, requiring personnel ...

(3) The existence of 'value circles' in the industry, consisting of abilities and relationships.

Developing mobile games is increasingly expensive. Development costs for feature phone games typically ran to a few tens of millions of yen, but for mobile games they are usually in excess of ¥100 million, and for some titles are estimated to be more than ¥1 billion. The reason is that users have been used to high graphics performance, 3D images, etc. since the days of packaged software for home video-game consoles, so user expectations are high.

To give a clearer picture of the increase in development costs: developing feature phone games required 10 to 20 people and took about six months to complete. For mobile games, it requires 50 to 100, and the lead time from planning to completion rises to 1.5 to 2 years. During this period, labor costs are very high.

Mobile games are first developed, then – after release – managed. Sales are realized through users choosing to make in-game payments. Game

management involves planning in-game events, promoting engagement through interesting features or additions, responding to users' requests and complaints, and addressing problems such as defects and bugs.
Development and management of games being completely different types of business, mobile gaming companies need to nurture personnel with different mental and other skill sets. Games are developed by specialized personnel – game creators – who design the games and add sound, graphics, etc. Knowledge is built up not only by individual creators, but also as a team. By contrast, game management requires close communication with users, focusing on engagement through dialogue.

Mobile games have become a huge, ¥1 trillion-plus market, and the use of IP has become standard. Intellectual Property in a game means the inclusion of a well-known game title or character. The addition of IP to mobile games increases the value of that IP, and at the same time brings in users and gets them involved. For mobile games, the key to success is how long the player can continue to enjoy a game after it has been released – that is, whether the players will continue to choose to make in-game payments.

The same IP might be used across a number of media other than games, including magazines, videos, etc., so there are many stakeholders involved. Companies that use the IP have to be able to contribute to the value of that IP, so there is an informal inner circle of IP users known as a 'value circle'. Membership requires IP users not only to contribute to raising the value of the IP, but also to consider the other stakeholders in each industry.

The requirements for being in the game industry have expanded to encompass not just development capabilities, but also successful management and marketing, as well as being in a 'value circle' based on abilities and human relationships. The requirements not only for financial strength, but also a track record and credibility as a member of the circle, form barriers that make it hard for prospective new entrants to the market

Mobile gaming moving towards a stock-based business model

Cleared barriers to entry, stock-type business model point to stable and rising earnings.

As tangible and intangible barriers to entry arise in the mobile gaming market, companies are increasingly adopting one of the following strategies to increase revenue:

(1) Trying to create games that are big hits, using their own IP;

(2) Building up billing revenue in multiple layers by releasing multiple titles using other companies' IP, without focusing too much on one's own.

With the second option, the release of a new game is very likely to secure a certain amount of sales over a given period of time through the use of IP. And in addition to the release of new games as appropriate, billing sales will be accumulated for each title. We believe that in this way it has become possible to build a stock-type business model in the mobile game business.

In other words, while barriers to entry have risen in the mobile gaming market, business models have been shifted to stocking. Companies that can clear the barriers to entry and optimize stock-based business models are therefore more likely to achieve relatively stable revenue growth.

Clears the barriers to entry, allied with ‘value circles’

Company Profile

Founded in 2001; entered the gaming market in 2009

Drecom is a gaming company that clears the high barriers to entry in the current mobile gaming market. The company is now expected to achieve record operating profit in the fiscal year to March 31, 2021, which we believe testifies to its recognition in the mobile gaming market and its experience over the past few years, as well as its ability to control the market duration of its game titles and to optimize its revenue.

Drecom was founded by Yuki Naito, the current president. While attending Kyoto University, he set up Drecom with a group of university students centered on Kyoto University, and in November 2001 established it as a company.

Ever since it was founded, the company has been involved with entertainment services based on people-to-people connections on the Internet. In 2003 it developed a blog service, and in 2006 it was listed on the Tokyo Stock Exchange ‘Mothers’ section, with business development centered on this service. At that time, Web 2.0, which allows users to create and collaborate online, was a major new trend. Drecom’s IPO was in tune with the times.

The number of users of the blog service rose, but it proved hard to make profitable. The business fell significantly short of Drecom's expectations, and it was forced to rebuild from its management foundations. Rakuten (4755) provided support, and after a capital and business alliance in 2008, including a third-party allotment, Drecom expanded into mobile phone-related business.

2009: Moved into games on social network services. 2010: Offered games for mobile phones; established its position.

On the other hand, entertainment services based on interpersonal connections – the focus of Drecom’s business since its inception – emerged from several social networking platforms, such as Faceook and Mixi, around 2007-2008. These typically had an open-door policy on the provision of games – that is, anyone could become a game provider. In 2009, Drecom offered games on social media. The following year, it also started offering games for mobile phones. Onmyoji Heian Yokitan and Chokoto Farm won acclaim and established a position in the social game market. Chokoto Farm was launched in January 2011, has been on the market for 10 years and is still available.

During this period, the social gaming market expanded rapidly by providing new gaming experiences using people-to-people connections on the more popular feature phones. However, with the use of 'Gacha', which is a way of making purchases within games through paid electronic draws, sometimes in sequence, some game providers were viewed as having caused a social problem by unduly raising the expectations of players in games requiring payments. In 2013, the Consumer Affairs Agency alerted game providers to potential violations of the Act against Unjustifiable Premiums and Misleading Representations. The event is commonly referred to as the 'Illegal Kompu Gacha problem'. The effect was to dampen the rapid market growth, but lowering the risks arising from gamers' highs and high billing turned into a pathway to more smartphone-based gaming. In other words, the 'Illegal Kompu Gacha problem' prompted the industry to accelerate its move into the smartphone gaming market.

Revenue structure

The revenue structure of mobile game sales at Drecom differs for in-house and third-party titles.

For in-house games (in-house IP), as shown in Figure 10, billed sales are accounted as Drecom sales. From these are deducted fixed costs, and also variable costs in the form of fees paid to platforms and copyright fees. The remainder is operating income.

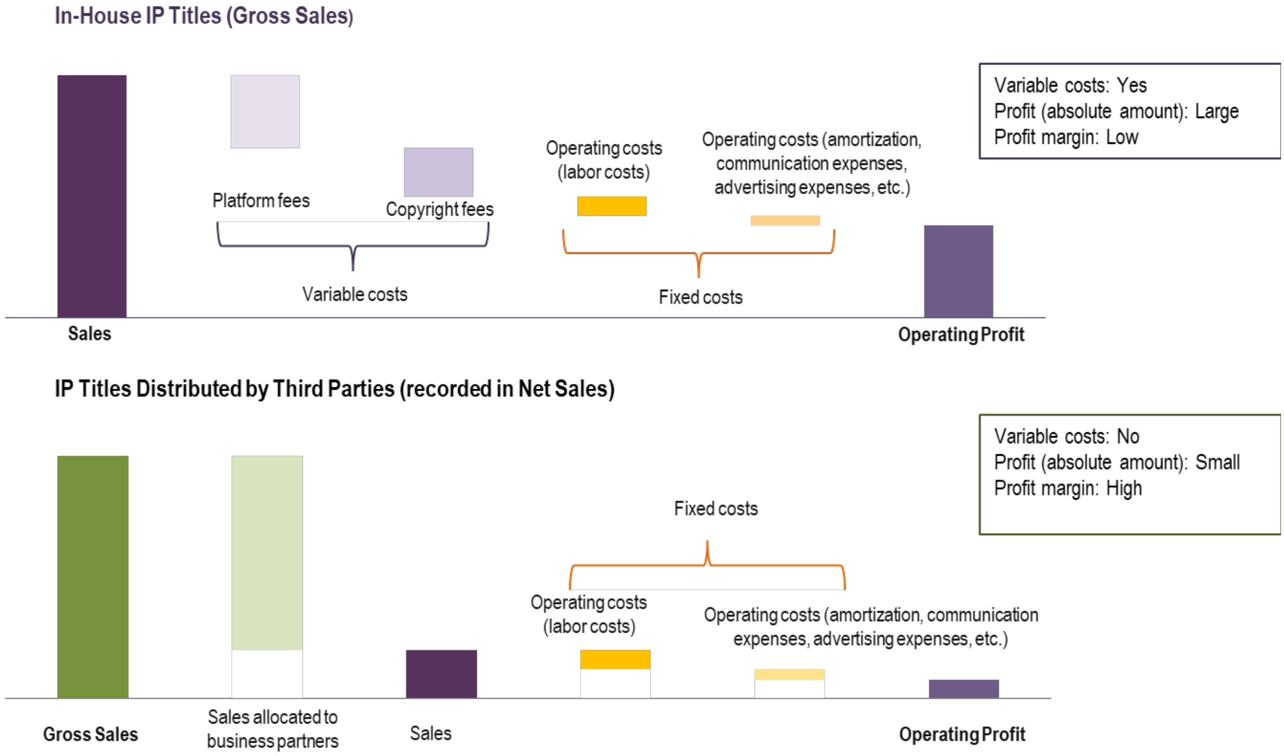
Sales are handled differently in the revenue structure of IP distributed by third parties. In this case, billed sales are revenue-shared with the partner company, and Drecom's share is accounted as its sales. In this case there are no variable costs in the form of fees paid to platforms and copyright fees. Drecom's operating income from this source is calculated by deducting its fixed costs.

The operating profit margin on IP distributed by third parties is therefore high, but the actual billed sales of the company's titles distributed by third parties are larger than the sales recorded by Drecom. GIR estimates that actual billed revenue from Drecom's IP distributed by third parties is approximately four to five times higher.

Third-party platforms distributing Drecom's IP include Bandai Namco Entertainment (BNE)'s enza. Drecom has been involved with BNE since the launch of the enza platform (details on Page 19), and we believe it is responsible for managing both the platform and games. This means that Drecom may effectively have two sources of income from its distribution via enza. If so, the company's profit margins from this relationship may be higher than those from other platforms.

The business models for in-house (owned) IP and third-party (other companies') IP are different. In-house IP is a high-risk, high-return product for which it is relatively hard to acquire users, because it does not have the name recognition of other companies' IP. However, once it has been adopted by players and becomes a hit, it is profitable because there are no copyright fees to be paid out. On the other hand, while other IPs are low-risk, low-return, powerful IPs have a number of stakeholders, and unpredictable events can incur intangible costs in the short term. For example, if the title does not become a hit, but cannot be terminated easily, this is regarded as a hidden cost.

Figure 10. Comparison of Revenue Structures: In-House versus Third-Party IP



Source: Global IR, Inc.

Drecom's strengths

Strengths nurtured since the company's inception

1. Management experience with IP and a relationship of trust with its users;
2. Building an organization that can successfully develop and manage multiple games, and establishing a stock-based business model;
3. Sustainable and reproducible management practices gained from experience, including setbacks;
4. Potential for further business development, not only in the game business.

1. Management experience with powerful IP and a relationship of trust with its users

Drecom's strengths:

(1) Managing IP, relationships with IP holders

(2) Establishing a stock-based business model that can develop and manage multiple titles.

(3) Sustainable and reproducible management practices gained from experience, including setbacks.

(4) Potential for development in other business areas.

In the gaming market nearly 10 years ago, Drecom offered several games, mainly for feature phones, including the aforementioned Onmyoji Heian Yokitan and Chokoto Farm, along with powerful IP. From the beginning the company's games were not intended to persuade people to gamble; rather, the focus was on continuous use. This meant that Drecom was not the kind of company that would grow so fast that its revenues would shoot up tenfold in a short period. But in addition to gaining a solid financial base to develop games for smartphones, the company has established a track record in business, and strong relationships with leading IP holders such as Bandai Namco Entertainment (BNE).

In game management, the focus on continuous use is player-oriented, but it also fits with IP that emphasizes increases in value long-term, such as brand and royalties. In our view it was this that gave Drecom its strengths and competitive advantages in a mobile game market that was heading for rapid expansion

In managing games using third-party IP, it is essential to have certain types of knowledge that can only be obtained from experience – such as maintaining appropriate communication across industries. It is also vital that individual skills and abilities be shared with the organization or community as a whole.

Drecom began full-scale support for mobile games for smartphones in 2012. After several transitional products, in 2014, *Full Bokko Heroes*, as well as *JoJo's Bizarre Adventure Stardust Shooters* (from BNE), and *ONE PIECE Treasure Cruise* (from BNE) were released and successfully converted for smartphones.

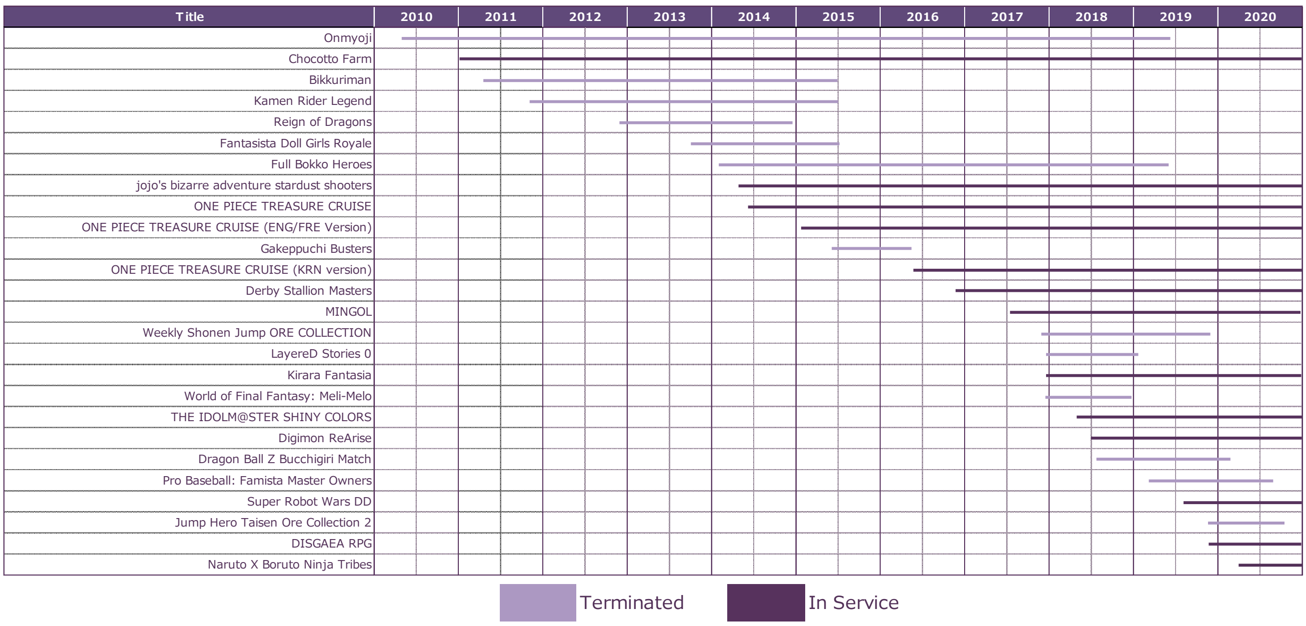
2. Building an organization that can successfully develop and manage multiple games, and establishing a stock-based business model

During the emergence of smartphone games, the game market featured blockbuster titles by other companies, such as *Puzzle & Dragons* (GungHo Online Entertainment (3765); released in February 2012) and *Monster Strike* (Mixi (2121); released in October 2013). Drecom followed this by working on games using both its own and third-party IP. Fifteen smartphone games were developed and released, under titles including *Derby Stallion Masters* and *Mingol* (now distributed by ForwardWorks). Three of these are Drecom's own games, while 12 use other companies' IP (not including the enza titles mentioned below).

Many of these games proved disappointing in terms of revenue. However, the process brought Drecom a wealth of experience and learning and resulted in an organization that can develop and manage multiple games. This point can now be identified as a factor in the company's strengths and competitive advantages.

Figure 11 shows how Drecom is accumulating sales from multiple games using a series of revenue optimization methods, including cost control, careful timing of withdrawal from service, and, based on the sales situation after a release, preparation for releases of new games. GIR believes that Drecom is putting together a stock-type business model.

Figure 11. Which Games are In Service, Which are Terminated



Source: Global IR, Inc. from company materials

Drecom has relationships with leading companies, including Bandai Namco (BNE)

Drecom has good relationships with leading companies such as BNE, ForwardWorks, and Aniplex, a wholly-owned subsidiary of Sony Music Entertainment, which itself is 100% owned by Sony (6758). In addition to developing and managing multiple games, including *ONE PIECE Treasure Cruise*, Drecom was involved in the launch of a joint venture on the game platform 'enza', which was started in April 2018. While the joint venture will become 100% owned by BNE in March 2020, Drecom's involvement with enza will continue.

So far, 12 games using BNE's IP have been developed and managed by Drecom, and five are still in service. Bandai Namco Holdings (7832), the holding company of BNE, held 19.1% of Drecom's shares (as of September 30, 2020), making it the company's second largest shareholder; these shares were transferred from Rakuten in September 2018. The shareholding demonstrates the good relationship between Drecom and BNE, and is likely to strengthen it.

ForwardWorks is responsible for the mobile business under Sony Interactive Entertainment, a multinational video game and digital entertainment company that is a 100% subsidiary of Sony. Drecom is involved in ForwardWorks' *Mingol* and *Makai War Record Disgaea RPG*. Mingol is a mobile version of *Minnan no Golf*, the main game on the Playstation, and for *Makai War Record Disgaea RPG*, Drecom was involved in repairing defects and improving game management. Both games are good examples of the relationship of trust between the two companies.

Drecom is also responsible for developing and managing *Ira Fantasia*, distributed by Aniplex, and has a track record of more than three years since this game was released. Drecom was also in charge of *World of Final Fantasy Merimero*, distributed by Square Enix (9684), though the service of this game has now been terminated.

These specific development and management results – (1) managing powerful IP and the relationship of trust with its holders, and (2) creating an organization that can develop and manage multiple titles, and with this the establishment of a stock-based business model – function as strengths and competitive advantages for Drecom.

3. Sustainable and reproducible management practices gained from experience, including setbacks

The first setback that Drecom faced was the failure of its blogging business immediately after the IPO. In addition the company was faced with the effects of its financial difficulties, as well as organizational challenges due to employees being insecure about their futures.

Drecom recovered from these difficulties with the help of a capital injection from Rakuten. The company's various responses to the crises it went through seem to have become transmuted into management expertise. Even after focusing on the game business, the company was confronted with operating losses – during the market transition from feature phones to smartphones (2013); the failure of its original titles (2015); and in the rush to release multiple IP titles (2018) – but deficits did not become the norm, and the company quickly recovered its profitability.

The upside of not having much cash is that financial constraints force an early response to any crisis. Drecom is very conscious of optimizing revenue by accurately gauging timing, monitoring failures, cutting costs by controlling outsourcing costs, withdrawing if it cannot keep up, and preparing to launch new titles.

Drecom's experience in developing and managing multiple game titles has enabled it to build a rich outsourcing network. It has effectively set up a system that enables it to double its development and game management capacity just by using outsourcing, or shrink it in the same way. With timely use of this system, Drecom can stay in control of costs and link these to demand.

4. Potential for further business development, not only in the game business.

Drecom's history is generally described with a focus on gaming, but the company has not limited itself to this business. In addition to the blog business it was working on at the time of the IPO, other major examples are ringtones for feature phones and the educational content business that led to a joint venture with Rakuten. The company has also worked on music distribution, anime distribution, SNS services using location information, and other areas. Given the size of the company, this is a wide variety of activities. Drecom does not yet have a business with continuity in addition to its game business, but it refers to itself as "an Internet shop before it is a game shop," so can be expected to work on some kind of new business in the future. It is likely to apply the strengths it acquired in the game business to other fields in the entertainment industry, with the potential to create a second strong revenue stream.

For new businesses, risk control tighter, investment initially limited.

Although developing new businesses is always a risk, we believe that risk controls are in place more than they were for the game businesses described above. Until the growth potential is confirmed, the scale of any investment is likely to be limited. As with the game business, the company will be looking to start small and grow from there.

Drecom's Business Performance

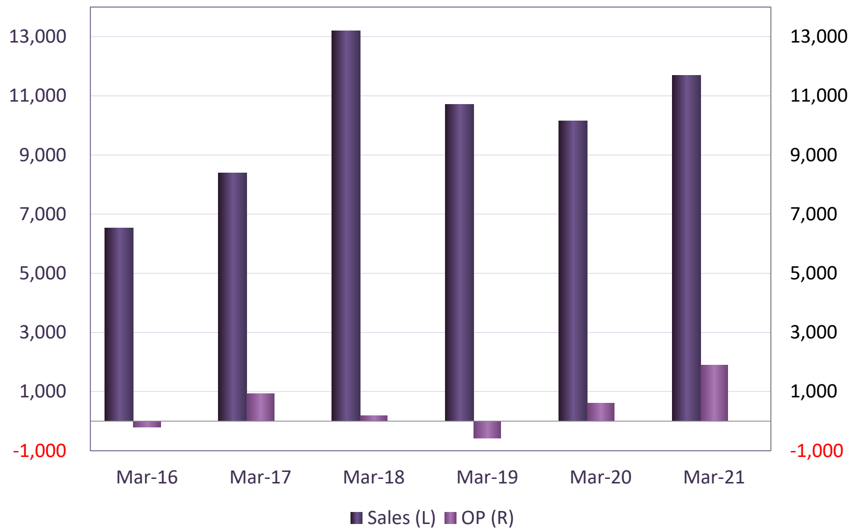
Through conscious optimization of revenue, record profits likely for the fiscal year to March 31, 2021

In 2016–2018, as the rapid growth in the mobile gaming market was coming to an end, the company released 10 titles with the aim of expanding its market share. However, competition was fierce, and sales of many games fell short of expectations. At this period in mobile gaming, gamers were looking for a new type of experience in addition to IP.

Withdrew non-monetizing titles, became profitable the following year.

Drecom acknowledged this error and after 2018, withdrew titles that would not monetize. For this reason, it recorded a net loss of ¥1.96 billion in the fiscal year to March 31, 2019, but posted a net profit of ¥690 million in the fiscal year to March 31, 2020.

Figure 12. Financial performance Unit: ¥m

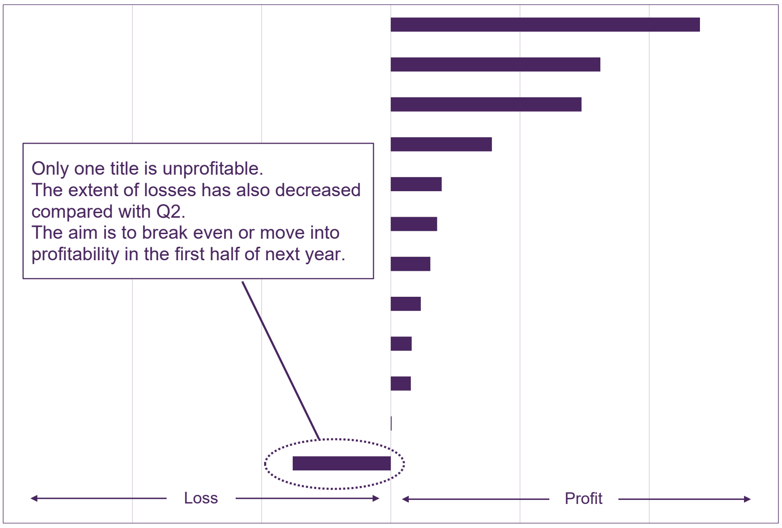


Source: Global IR, Inc. from company materials
Note: Mar-21 figures are Drecom forecasts

Profitability differs by title; cost control is tight, based on experience.

Drecom outlines the earnings situation for each title in its results briefing materials, though the exact details are not disclosed. In the third quarter of the fiscal year to March 31, 2021 (October-December), 11 of the 12 games in service were in profit, and operating profits piled up.

Figure 13. Profitablity of games in service



Source: Global IR, Inc. from company materials
Note: Series games are counted under one title. The 3 enza titles are under *Boku & Dragons.*

In addition, billings tend to increase during the New Year, when users in the entire market have more time to play games, while they tend to decrease in March and April, in July and August, during the summer vacation, and toward the end of the year, when people are busier with life and leisure actvities related to the end of school terms and to company activities. On the other hand, for Drecom, the release anniversaries of games currently in service are concentrated in the April-July and October-December quarters. Holding anniversary and half-year anniversary events at these times makes it possible to increase billings, and thus to smooth out fluctuations in sales to some extent.

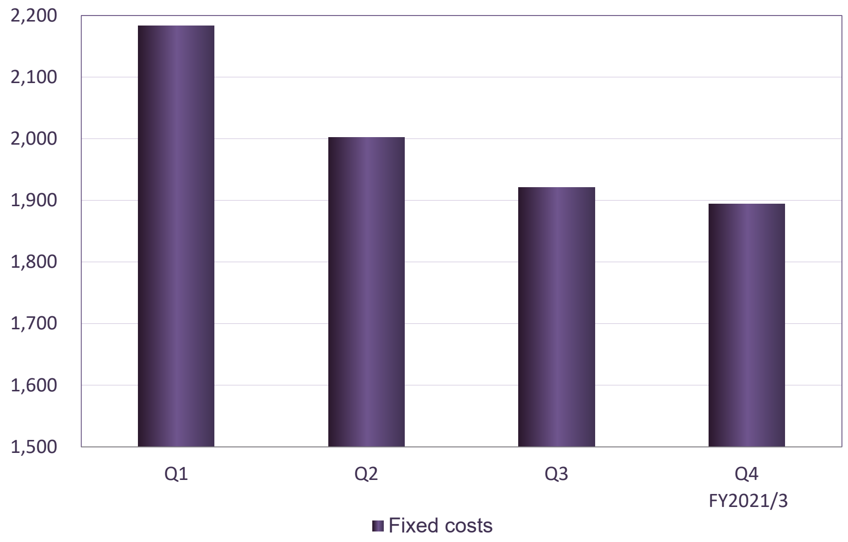
As a result, we expect sales and OP to reach record highs in the fiscal year to March 2021.

In addition to there being relatively few sales days in the January-March quarter, there were no major events other than New Year's events. Furthermore, user in-game payments will not be made until April and May for the anniversary events of the flagship titles. Therefore, January-March quarter sales are expected to have fallen compared with those in the October-December quarter. October-December quarter sales were in any case strong, driven by the anniversary and year-end events of the game Davimus.

On the other hand, costs have continued to decline since the April-June quarter, as shown in Figure 14. This is due to management with an emphasis on efficiency and efforts to review and control costs – mainly in the administration department – as the development of multiple game titles takes off and the capitalization of development costs progresses. Therefore, costs in the January-March are also expected to decline compared with those in the October-December quarter.

Drecom releases its earnings outlook only for the following quarter. This is because of factors that cannot be determined, such as the timing of game title releases. The company announced its full-year earnings forecast for the year to March 2021 when it released its October-December figures on January 28. It expects full-year sales to increase 15.3% to ¥11.7 billion and operating profit to be up 307.9%, to ¥1.9 billion. Although revenue is expected to have declined quarter-on-quarter from the October-December quarter to the January-March quarter, it had already grown 31.3% in the nine months through the October-December quarter. Both Drecom and GIR therefore expect sales and operating profit to reach record highs in the fiscal year to March 31, 2021.

Figure 14. Trend in fixed costs, FY to March 2021 Unit: ¥m



Source: Global IR, Inc. from company materials

Higher profits likely in the next fiscal year by new title release.

In the fiscal year to March 31, 2022, GIR believes that Drecom is likely to achieve higher profits. First, looking at the sales side: 11 of the 12 titles already in service in the fiscal year to March 31, 2021 have contributed to earnings, and it is almost inevitable that sales from aging existing game titles will fall in the next fiscal year. However, according to the earnings briefing on January 28, Drecom's pipeline has 10 titles under development through to March 2023. If so, at least one title can be expected to be released in the fiscal year to March 31, 2022. There is a good chance that this will compensate for the aging of existing titles and lead to a net increase in sales. Moreover, on the cost side, the company will continue to focus on operational efficiency and cost optimization. In addition, the amortization of goodwill generated by the acquisition of the BlasTrain game development company ends during the current fiscal year. GIR believes that the costs in the fiscal year to March 31, 2022 are likely to be flat or less than those on a quarterly basis in the January-March quarter of the current fiscal year.

Stable profit growth likely over the medium term through stock-based business model.

Although there are differences in the profit contribution from each title, Drecom takes its risk management very seriously. By accumulating multiple titles, the company appears to be putting into place a stock-type business model.

Consequently, it is therefore very likely that the company will be able to maintain a relatively stable trend of increasing sales and profits over the medium term.

Possibility of dividends within a few years.

Though retained earnings posted a loss of ¥1.47 billion as of March 31, 2020, as noted, the company is likely to post record high profits in the period to March 31, 2021. If it does, in GIR's view the deficit in retained earnings is on course to be eliminated and the company will be in a position to consider paying dividends within a few years.

Drecom's Growth Strategy

Drecom's Growth Strategy:

(1) Moving into other entertainment fields using the know-how acquired through game management.

(2) Expanding in-house IP.

(3) Domestic hit titles to be made available overseas.

(4) Introducing a subscription business model in areas other than mobile gaming.

In the results meeting materials for the July-September quarter of 2020 Drecom gave an indication of its future direction. In addition to further increasing its strengths in developing and managing IP games, and expanding its core game business, the company set out the following four areas to focus on in terms of growth:

1. Moving into entertainment fields other than mobile games

2. Acquisition, creation and development of IP

3. Taking existing titles into overseas markets

4. Diversification of the revenue model

1. Moving into entertainment fields other than mobile games

Over the next three years, Drecom aims to transform itself from a “mobile gaming company with strengths in developing and managing IP games” to a "comprehensive entertainment content company centered on IP.” Currently, the company's offering consists mainly of mobile games, but it has announced that it intends to develop and provide entertainment services in other fields, such as music, comics, and light novels, utilizing its own IP. In addition to being able to utilize its know-how from IP game management to acquire fans and form fan communities in each field, in the past it has developed and provided music streaming apps and manga apps, so it has long experience of business development in these areas. In September 2020 it released *AKROGLAM*, IP in the form of a musical drama, developed in-house. The service is growing – it had more than 10,000 followers on Twitter by the end of September – and sales of CDs and other related items started in January 2021.

2. Acquisition, Creation and Development of IP

To become a "comprehensive entertainment company", Drecom needs to increase its in-house IP. The company has worked with other IP holders in the past to develop and provide content, but in the future, in addition to creating and developing its own IP in-house, it plans to increase the number of IPs it owns by means including acquisitions from other companies. In the fiscal year to March 31, 2020, Drecom acquired *Boku & Dragons* (and other properties) from Ignis Co. (3989). When Ignis was choosing a company to sell to, Drecom's development and management of IP games, and its attitude regarding IP, were rated highly. Drecom's integrity in matters concerning IP and the recognition of its value are well-known within the industry, and this reputation can be expected to work in its favor when it acquires IP from other parties. In November 2020, it won a part of the copyright and trademark of the pioneering role-playing game *Wizardry*, and the music drama IP *AKROGLAM* mentioned earlier was released. Titles utilizing the company's in-house IP are currently under development in mobile games, and in addition to games that utilize IP owned by other companies, the number of Drecom mobile games using its in-house IP can be expected to increase.

3. Taking existing titles into overseas markets: increased revenue from overseas

Drecom currently obtains most of its revenue from the domestic market, but in future it aims to increase revenue from abroad by offering successful Japanese titles in overseas markets, particularly the rapidly growing Chinese market. *ONE PIECE Treasure Cruise* (distributed by Bandai Namco), developed and managed by Drecom, has been distributed worldwide since 2015, and the company has an excellent track record in management for overseas users. Worldwide distribution of *Derby Stallion Masters* and *Makai War Record Disgaea RPG* (distributed by ForwardWorks) has already been announced for the fiscal year to March 31, 2022. In addition to this previous experience, Drecom has close relationships with leading marketing companies overseas. These should prove to be strengths in the company's overseas expansion.

4. Diversification of the Revenue Model: Moving Away from Dependency on Free-to-Play

Drecom will also focus on diversifying its revenue model. Currently, almost all revenue comes from in-game purchases within games that follow a Free-to-Play (F2P) model, but in future the company intends to introduce a subscription model for areas other than mobile gaming. This should increase revenue stability by moderating the volatility inherent in the F2P model. In addition to a subscription model being expected to be introduced for the augmented reality (AR) app construction platform 'AROW', mail-order sales of related goods such as CDs have also started for the music drama IP *AKROGLAM* mentioned above. Drecom aims to generate the same level of revenue as F2P in the next five years from business models other than the F2P model.

Drecom and ESG

With respect to ESG, Drecom is improving its non-financial disclosures to help improve corporate value in the future. Its current initiatives are set out below.

S: Social

Creating 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 measures, Drecom is focusing on maintaining the health of its employees, respecting employee life events and life stages – such as introducing remote working – and recommending that male employees take parental leave.

Promoting employees' health and nurturing their skills

The company tries to ensure that the working environment is one that enables employees to stay healthy and fulfil their potential.

- For example, it has rooms where employees can receive a low-cost massage:
  <https://newswitch.jp/p/17425>
- ...and a café space, run in partnership with a popular café chain:
  <https://www.wantedly.com/companies/drecom/post_articles/173575>
- ...as well as support for events that share knowledge and disseminate technical information
  <https://tech.drecom.co.jp/>

Promoting an entrepreneurial community

Drecom seeks to be a pioneer of student entrepreneurship and IT-related ventures., The company is working on initiatives to contribute to the development of younger entrepreneurs and the further revitalization of entrepreneurship in Japan. These include:

- Free lending of office space for study sessions and seminars
  "Shea Spe" (Share Space!)
  <https://drecom.co.jp/recruit/room/>

G: Governance

President is the founder, CFO worked at major securities companies.

The founding president is Yuki Naito. He has steered the business and management since it was founded. Drecom's CFO is Hideki Goto, who has experience as an analyst and investment banker at major securities companies. Both the CFO and Hiroyuki Kono, a former investment banker in foreign securities and Head of the IR Office, can communicate with overseas investors in English without the need for interpreters. In addition, around half the company's employees are entitled to participate in a corporate share ownership scheme. This has proved a success in that they are very keen to participate in the improvement of operations and corporate value.

Further, to ensure that management functions soundly from a governance perspective, Drecom is focusing on appointing a number of independent outside directors from different professional backgrounds, on appointing women as directors, and on holding regular meetings of the Board of Directors, along with lively discussions.

- Appointment of female directors – Female directors: 20%
- Inside directors vs. independent external directors – External directors: 60%
- Independent directors have diverse expertise – Backgrounds in accountantcy, law, academia
- Frequency of Board of Directors meetings – 28 meetings in the year to March 2020; 24 in the year to March 2019

Figure 15. Comparable companies

Company	Country	Stock code	Market Cap ($bn)
Drecom	**Japan**	**3793**	**231**
Sony	Japan	6758	144,560
Nintendo	Japan	7974	81,007
Konami Holdings	Japan	9766	10,134
Capcom	Japan	9697	9,307
Square Enix Holdings	Japan	9684	8,349
DeNA	Japan	2432	2,608
GungHo Online Entertainment	Japan	3765	2,431
Mixi	Japan	2121	1,937
Colopl	Japan	3668	1,186
Akatsuki	Japan	3932	587
Klab	Japan	3656	346
Gumi	Japan	3903	282
Drecom	Japan	3793	231
Microsoft	US	MSFT	1,843,996
Activision Blizzard	US	ATVI	79,789
Electronic Arts	US	EA	42,375
Zynga	US	ZNGA	12,926
Tencent	China	700_HKG	936,841
NetEase	China	9999_HKG	457,699
Nexon	Korea (Japan)	3659	28,058
NCSoft	Korea	A036570_XKRX	20,313
Netmarble	Korea	A251270_XKRX	10,677

Source: Global IR, Inc. from interviews with Drecom

Note: As of 12 February, 2021

Performance Index

Profit and loss statement (Consolidated, ¥m)

Year Ending	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021 Co. est.
Accounting Standard	Japanese GAAP						
Sales	7,298	6,534	8,389	13,193	10,720	10,150	11,700
YoY	-	-10.5%	28.4%	57.3%	-18.7%	-5.3%	15.3%
Gross profit	2,274	1,796	3,056	3,096	1,434	2,192	-
YoY	-	-21.0%	70.2%	1.3%	-53.7%	52.9%	-
Gross profit margin	31.2%	27.5%	36.4%	23.5%	13.4%	21.6%	-
Operating income	301	-206	932	191	-577	617	1,900
YoY	-	-	-	-79.6%	-	-	207.9%
Operating income margin	4.1%	-3.2%	11.1%	1.4%	-5.4%	6.1%	16.2%
Ordinary (Pre-Tax) income	279	-218	844	-29	-1,349	636	1,800
YoY	-	-	-	-	-	-	183.1%
Net Income	-1	-618	810	-200	-1,717	713	1,400
YoY	-	-	-	-	-	-	96.2%
Net income margin	-	-9.5%	9.7%	-1.5%	-16.0%	7.0%	12.0%

Per-Share Data (Consolidated)

(	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021 Co. est.
Total No. of Shares outstanding (,000)	13,883	13,901	14,371	28,742	28,819	28,894	-
EPS	1.3	-39.4	29.7	-7.2	-60.5	25.0	49.1
Adjusted EPS	-	-	29.67	-	-	24.98	-
BPS	139.6	101.8	113.2	106.7	47.9	74.2	-
DPS	0	0	0	0	0	0	0

Balance Sheet (Consolidated, ¥m)

Year Ending	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021 Co. est.
Current Assets	3,486	2,326	5,661	6,192	5,191	4,572	-
Cash and Cash Equivalents	2,360	1,310	3,003	3,303	2,866	2,268	-
Tangible Fixed Assets	102	91	108	300	252	172	-
Intangible Fixed Assets	633	353	666	1,017	773	907	-
Investment and Other Assets	458	530	385	1,588	731	774	-
Total Fixed Assets	1,194	974	1,158	2,905	1,756	1,852	-
Total Assets	**4,680**	**3,300**	**6,819**	**9,097**	**6,946**	**6,424**	**-**
Current Liabilities	1,866	1,336	3,202	3,240	3,873	3,595	-
Long-term Liabilities	600	311	252	2,596	1,650	661	-
Total Debt	**2,466**	**1,647**	**3,455**	**5,836**	**5,523**	**4,255**	**-**
Net Assets	**2,214**	**1,653**	**3,365**	**3,261**	**1,423**	**2,169**	**-**
Interest-bearing Debt*	1,391	800	1,192	3,591	3,348	2,194	-

Cash Flow							(Consolidated, ¥m)
Year Ending	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021 Co. est.
Depreciation	542	460	214	299	462	382	-
Sales Cash Flow	944	54	846	-79	78	691	-
Investment Cash Flow	-680	-549	-456	-1,958	-123	-101	-
Financial Cash Flow	638	-574	1,345	2,288	-271	-1,188	-

Financial data							(Consolidated, %)
Year Ending	Mar-2015	Mar-2016	Mar-2017	Mar-2018	Mar-2019	Mar-2020	Mar-2021 Co. est.
ROA	0.0	-18.7	11.9	-2.2	-24.7	11.1	-
ROE	1.0	-32.6	35.5	-6.6	-78.3	41.0	-
Equity Ratio	40.7	42.1	47.0	33.2	19.6	32.9	-

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded under ¥m. Rounded to one dicimal place.

*Caluculated by Global IR, Inc.

Disclaimer

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