



Consolidated Financial Results for the Three Months Ended June 30, 2021
(Under Japanese GAAP)

July 29, 2021

Listed company name: Drecom Co., Ltd.
 Listing: Tokyo Stock Exchange
 Code number: 3793
 URL: <https://drecom.co.jp/>
 Representative: President and Representative Director: Yuki Naito
 Contact person: Board of Directors, Hideki Goto (TEL) +81 (0)50-3101-9977
 Scheduled date to file quarterly securities report: August 10, 2021
 Scheduled start date to commence dividend payments: —
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results briefings: Yes

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

1. Consolidated Financial Results for the three months ended June 30, 2021 (From April 1, 2021 to June 30, 2021)

(1) Consolidated financial results (cumulative)

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

	Net sales		Operating Income		Ordinary income		Attributable to owners of parent quarterly net income	
		%		%		%		%
Three months ended								
June 30, 2021	2,661	-19.4	504	-19.2	492	-19.1	300	-35.6
June 30, 2020	3,303	46.6	623	386.4	609	301.4	467	282.4

Note: Comprehensive income For the three months ended June 30, 2021 ¥301 million yen (-35.6%)
 For the three months ended June 30, 2020 ¥467 million yen (281.3%)

	Quarterly Net earnings per share	Quarterly Diluted net earnings per share
Three months ended	Yen	Yen
June 30, 2021	10.53	10.51
June 30, 2020	16.41	16.39

(2) Consolidated financial Condition

	Total Assets	Net Assets	Equity-to-asset ratio	Net assets per share
Three months ended	million yen	million yen	%	Yen
June 30, 2021	9,789	4,158	41.9	143.54
Fiscal year ended				
March 31, 2021	9,610	3,855	39.5	132.91

Reference: **Equity capital** As of June 30, 2021 ¥4,098 million
 As of March 31, 2021 ¥3,794 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended	JPY	JPY	JPY	JPY	JPY
March 31, 2021	—	0.00	—	0.00	0.00
March 31, 2022	—				
March 31, 2022 (Forecast)		0.00	—	0.00	0.00

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



3. Forecast of consolidated financial results for the six months ending September 30, 2021 (April 1, 2021 – September 30, 2021)

(% increase or decrease from the previous year)

	Sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
		%		%		%		%	
6month total	5,000	-19.2	750	-28.7	750	-27.3	500	-39.5	17.51

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

* Notes

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

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

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

(i) Changes in accounting policies due to revisions to accounting standards: Yes

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

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" on page 10 of the attached materials.

(4) Number of issued shares (common shares)

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

As of June 30, 2021	28,981,700 shares
As of March 30, 2021	28,976,700 shares

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

As of June 30, 2021	430,366 shares
As of March 30, 2021	428,366 shares

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

Three months ended June 30, 2021	28,550,949 shares
Three months ended June 30, 2020	28,449,634 shares

(Note) 407,300 shares of the Company (4073 voting rights) owned by Custody Bank of Japan, Ltd. (hereinafter referred to as "ESOP Trust Unit") are included in the number of treasury stock at the end of the above period.

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

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

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

(How to obtain supplementary explanatory materials for financial results)

The Company is scheduled to hold a financial results briefing for institutional investors and analysts on July 29, 2021. The financial results presentation materials to be distributed at this briefing will be posted on the Company's website immediately after the briefing.

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1. Qualitative Information on Consolidated Financial Results for the First Quarter Ended June 30, 2012

(1) Explanation of business results

The environment surrounding the Internet service industry, to which our group belongs, continues to undergo rapid changes. According to the 2020 Telecommunications Usage Trends Survey, as of the end of August 2020, the percentage of households with smartphones continued to increase, reaching 86.8%, surpassing the percentage of households with PCs (70.1%) and fixed-line phones (68.1%). Smartphones are now positioned as the most important information and communication devices in our daily lives. As of the end of August 2020, the percentage of people using smartphones to access the Internet reached 68.3%, and along with PCs (50.4%), smartphones are now positioned as a major device for Internet use. In response to the rapid spread of smartphones and their increasing importance as Internet devices, the Internet service industry has seen the creation of new services for smartphones one after another, and the market continues to expand and competition intensifies.

Under such an environment, the Group has positioned the provision of services for smartphones as its main business and is focusing on the expansion of existing services and the development of new services. In the mainstay social game business, we are working to expand our business through the development and operation of new IP games under a strategy focused on IP games, and in the media business, we are also working to develop and operate new services with the aim of creating the next generation of mainstay businesses.

In the first quarter of the current fiscal year, the "enza" title released in April 2018 and the IP game application released in May 2014 celebrated their third and seventh anniversaries, respectively, and performed well with anniversary events as a tailwind. Although the competitive environment was severe due to the emergence of powerful competing titles, measures taken to improve fan satisfaction were successful and contributed to stable earnings. In addition, many of the titles in operation are recording stable profits, further improving the profitability of the mainstay game business and increasing the stability of the business. Although net sales decreased year on year due to the closing of several titles in operation and withdrawal from the advertising business, expenses decreased year on year due to the implementation of a more cost efficient operation system and an increase in the amount of assets posted due to the progress of development. However, due to the impact of the decrease in sales, operating income, ordinary income, and net income attributable to shareholders of the parent company all decreased compared to the same period of the previous year.

As a result of the above, the Group's consolidated net sales for the first quarter of the current fiscal year were 2,661,328 thousand yen (down 19.4% from the same period of the previous year), operating income was 504,153 thousand yen (down 19.2%), ordinary income was 492,441 thousand yen (down 19.1% from the same period of the previous year), and net income attributable to shareholders of the parent company was 300,713 thousand yen (down 35.6% from the same period of the previous year). Ordinary income was 492,441 thousand yen (down 19.1% year on year), and net income attributable to owners of the parent was 300,713 thousand yen (down 35.6% year on year). The status of each segment in the current consolidated fiscal year is as follows.

Game Business

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

As for third-party IP games, our mainstay IP game application released in May 2014 celebrated its seventh anniversary in May, and the "enza" title released in April 2018 celebrated its third anniversary, with the strong support of users, it performed well despite the tough competition from strong competing titles. Regarding other titles, although many titles remained strong, sales decreased year-on-year due to a decrease in the number of operational titles due to the closing of multiple titles and the effect of aging from the release.

As for profits, expenses decreased compared to the same period of the previous fiscal year due to continued efforts to improve the efficiency of operating expenses and an increase in the amount of assets recorded as a result of progress in the development of new titles. As a result of the above, segment sales totaled 2,640,125 thousand yen (down 18.6% year on year). segment profit was 586,851 thousand yen (down 17.9% year on year). We will continue to strive our core business to increase sales and operating income.

Media Business

In the media business, under the "DRIP (Drecom Invention Project)", which is part of our efforts to create the next generation of mainstay businesses, we launched new services on a trial basis, utilizing our knowledge of Internet services, and repeated trials for commercialization. In addition to the commercialization of our mainstay "AROW", an AR smartphone application building platform that uses location information and 3D real maps, and the development of new titles using "AROW", we also launched "AKROGLAM", a new trial in the music domain, "Root", a new service that we have developed in the past. a marketing service using twitter, and "load testing service," which leverages the know-how we have accumulated through the development and operation of large-scale services in the past.

However, as many new services are still in the business development stage and costs continue to be upfront, segment sales were 21,202 thousand yen (down 65.5% from the same period last year) and segment loss was 82,698 thousand yen (segment loss of 91,082 thousand yen in the same period last year).

In the future, we will work to further improve the profitability of our mainstay game business, focus on the development and marketing of services in order to achieve hits with several new titles scheduled for the second half of the year, and focus on the development of new businesses in the entertainment field other than games aiming to achieve the Group's medium- to long-term goal of becoming a comprehensive entertainment company with a focus on IP.

In the current fiscal year, we will continue to recognize the epidemic of the new coronavirus infection as a major risk to our business, and place priority on generating stable profits and securing cash flow. We will strive to achieve balanced management by actively investing in the future, while at the same time maintaining a conservative stance based on the premise of not putting pressure on profits and cash flow.

(2) Explanation of Financial Position

(Assets)

Current assets as of the end of the first quarter of the current fiscal year were 7,630,872 thousand yen, a decrease of 38,273 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 85,196 thousand yen in accounts receivable. Fixed assets totaled 2,158,986 thousand yen, an increase of 217,709 thousand yen from the end of the previous fiscal year. Fixed assets increased 217,709 thousand yen from the end of the previous fiscal year to 2,158,986 thousand yen, mainly due to a decrease of 131,354 thousand yen in software and an increase of 317,663 thousand yen in software in progress.

As a result, total assets amounted to 9,789,858 thousand yen.

(Liabilities)

Current liabilities at the end of the first quarter of the current fiscal year totaled 2,924,170 thousand yen, a decrease of 257,714 thousand yen compared to the end of the previous fiscal year. This was mainly due to decreases of 341,116 thousand yen in income taxes payable and 125,495 thousand yen in provision for bonuses, despite an increase of 250,000 thousand yen in short-term loans payable. Fixed liabilities totaled 2,706,832 thousand yen, an increase of 133,610 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 100,000 thousand yen in asset retirement obligations.

As a result, total liabilities amounted to 5,631,003 thousand yen.

(Net assets)

Total net assets at the end of the first quarter of the current fiscal year were 4,158,854 thousand yen, an increase of 303,538 thousand yen compared to the end of the previous fiscal year. This was mainly due to the recording of 300,713 thousand yen in net income attributable to shareholders of the parent company.

As a result, the equity ratio was 41.9% (39.5% at the end of the previous consolidated fiscal year).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Three months ended June 30, 2021 (June 30, 2021)
ASSETS		
Current assets		
Cash and deposits	5,288,132	5,299,538
Notes and accounts receivable	1,841,939	1,756,742
Work in progress	7,077	5,429
Prepaid expenses	174,067	175,552
Other	357,928	393,609
Total current assets	7,669,146	7,630,872
Fixed assets		
Tangible Fixed Asset		
Buildings	259,203	411,436
Accumulated depreciation	-173,499	-193,771
Buildings (net)	85,704	217,664
Tools, furniture & fixtures	82,817	109,664
Accumulated depreciation	-67,283	-69,948
Tools, furniture & fixtures (net)	15,534	39,716
Lease assets	61,853	61,853
Accumulated depreciation	-48,190	-52,295
Lease assets (net)	13,663	9,558
Total tangible fixed assets	114,901	266,939
Intangible assets		
Software	407,586	276,231
Software suspense account	471,118	788,781
Total intangible assets	878,704	1,065,012
Investments and other assets		
Investment securities	7	7
Deferred tax assets	434,953	311,185
Deposit	318,138	318,138
Other	194,571	197,702
Other investments and other assets	947,671	827,034
Total fixed assets	1,941,277	2,158,986
Total assets	9,610,423	9,789,858

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Three months ended June 30, 2021 (June 30, 2021)
LIABILITIES		
Current liabilities		
Accounts payable	363,542	398,838
Short-term debit	100,000	350,000
Long-term debt due within one year	640,000	662,000
Lease obligations	14,773	13,499
Accounts payable	660,610	652,927
Income taxes payable	398,455	57,338
Asset retirement obligations	174,055	48,559
Bonus payment reserve	150,414	150,414
Other	680,033	590,593
Total current liabilities	3,181,884	2,924,170
Fixed liabilities		
Long-term debt	2,430,000	2,429,500
Lease obligations	6,387	3,650
Asset retirement obligation	34,060	134,060
Other	102,774	139,622
Total fixed liabilities	2,573,222	2,706,832
Total liabilities	5,755,106	5,631,003
Net assets		
Shareholders' equity		
Capital	1,761,208	1,762,774
Capital surplus	2,017,979	2,019,545
Retained earnings	146,380	447,093
Treasury stock	-31,058	-131,058
Total shareholders' equity	3,794,509	4,098,355
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	-92	-92
Total accumulated other comprehensive income (loss)	-92	-92
Stock acquisition rights	58,651	59,382
Non-controlling interests	2,247	1,208
Total net assets	3,855,316	4,158,854
Total liabilities and net assets	9,610,423	9,789,858

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

Quarterly Consolidated Statement of Income

(Three months ended June 30, 2021)

(Unit: Thousand yen)

	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)
Sales	3,303,191	2,661,328
Cost of sales	2,236,241	1,621,178
Gross profit	1,066,950	1,040,149
Selling, general and administrative expenses	443,177	535,996
Operating income	623,773	504,153
Non-operating revenue		
Interest received	1	0
Gain on investments in capital	—	98
Other	1,034	3
Total non-operating income	1,036	102
Non-operating expenses		
Interest expense	8,113	11,039
Payment fee	—	250
Interest on bonds	106	—
Foreign exchange loss	5,953	524
Other	1,573	—
Total non-operating expenses	15,746	11,814
Ordinary income	609,062	492,441
Net income before income taxes and minority interests	609,062	492,441
Corporate, inhabitant and enterprise taxes	129,726	67,379
Income taxes-deferred	11,719	123,768
Total income taxes	141,446	191,147
Quarterly net income	467,616	301,293
Net income attributable to noncontrolling interests	616	580
Net income attributable to owners of the parent	467,000	300,713

Consolidated quarterly statements of comprehensive income

(Cumulative period for consolidated first quarter, three months ended June 30, 2021)

(Unit: Thousand yen)

	Three months ended June 30, 2020 (April 1, 2020 to June 30, 2020)	Three months ended June 30, 2021 (April 1, 2021 to June 30, 2021)
Quarterly net income or loss	467,616	301,293
Other comprehensive income		
Other securities valuation difference	16	—
Total other comprehensive income	16	—
Quarterly comprehensive income	467,632	301,293
(Breakdown)		
Quarterly comprehensive income for owners of parent	467,016	300,713
Quarterly comprehensive income for non-controlling shareholders	616	580

(3) Notes on quarterly consolidated financial statements

(Notes on going concern assumptions)

Nothing applicable.

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

Nothing applicable.

(Change in accounting policy)

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

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other related standards have been applied from the beginning of the current first quarter, the Company will recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer. As a result of this change, with respect to billing revenue from general users, we have changed from recording sales at the time of consumption of in-game currency to recording sales based on the nature of the items provided. The items provided by the Group to general users are generally consumable items (consumed by certain actions of general users and do not provide continuous benefits to general users), and the period between the purchase and consumption of items is extremely short, so sales are recorded at the time of item sales. As a result, sales are recorded at the time of sale.

The application of the revenue recognition accounting standard, etc. follows the transitional treatment prescribed in the proviso of paragraph 84 of the revenue recognition accounting standard, but there is no impact on retained earnings at the beginning of the first quarter of the current fiscal year.

The adoption of the revenue recognition accounting standard had no impact on profit and loss for the first quarter of the current fiscal year.

In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the prior year's consolidated financial statements to conform to the new presentation.

(Information by Segment)

Segment Information

I. Previous three months ended, from April 30, 2020 to June 30, 2020, consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
Sales to external customers	3,241,795	61,396	3,303,191	—	3,303,191
Sales or transfers inside or between segments	—	—	—	—	—
Total	3,241,795	61,396	3,303,191	—	3,303,191
Segment profit or Loss	714,855	-91,082	623,773	—	623,773

Note: Segment income or loss is the same as operating income in the quarterly consolidated statements of income.

II. Three months ended, from April 30, 2021 to June 30, 2021, consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
Sales to external customers	2,640,125	21,202	2,661,328	—	2,661,328
Sales or transfers inside or between segments	—	—	—	—	—
Total	2,640,125	21,202	2,661,328	—	2,661,328
Segment profit or Loss	586,851	-82,698	504,153	—	504,153

Note: Segment income or loss is the same as operating income in the quarterly consolidated statements of income.

(Significant subsequent events)

Not applicable