



Q1 FY2022

Financial Results Presentation Materials

Drecom Co., Ltd
July 29, 2021

1. Review of Q1 (Apr-Jun) FY2022 Results

2. Medium-Term Plan (fiscal year ending March 31, 2023)

3. Forecast for Q2 (Jul-Sep) FY2022

4. appendix

Summary of Q1 FY2022 Results

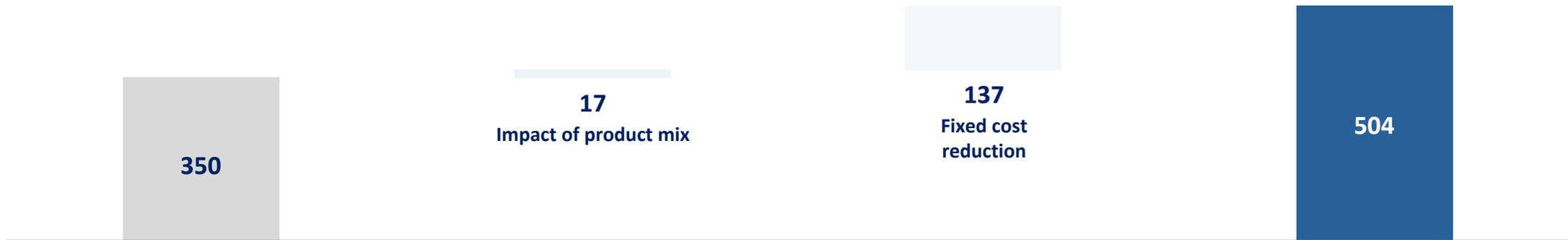
Despite of the intense emerging title competition, Operating profit margin and EBITDA margin increased in YoY.

(Unit: million yen)	Q1 (Apr-Jun) FY2022	Q1 (Apr-Jun) FY2021	YoY	Q4 (Jan-Mar) FY2021	QoQ
	Revenue	2,661	3,303	-642	2,684
Operating income	504	623	-229	368	+136
Operating income ratio(%)	18.9	18.8	NA	13.7	NA
EBITDA	671	758	-87	564	+107
EBITDA Margin(%)	25.2	22.9	NA	21.0	NA
Ordinary income	492	609	-117	365	+127
Net income (loss)	300	467	-167	325	-25

Forecast (5/13) vs. Actual

Strong sales of anniversary event titles, further successful cost reduction drove profits

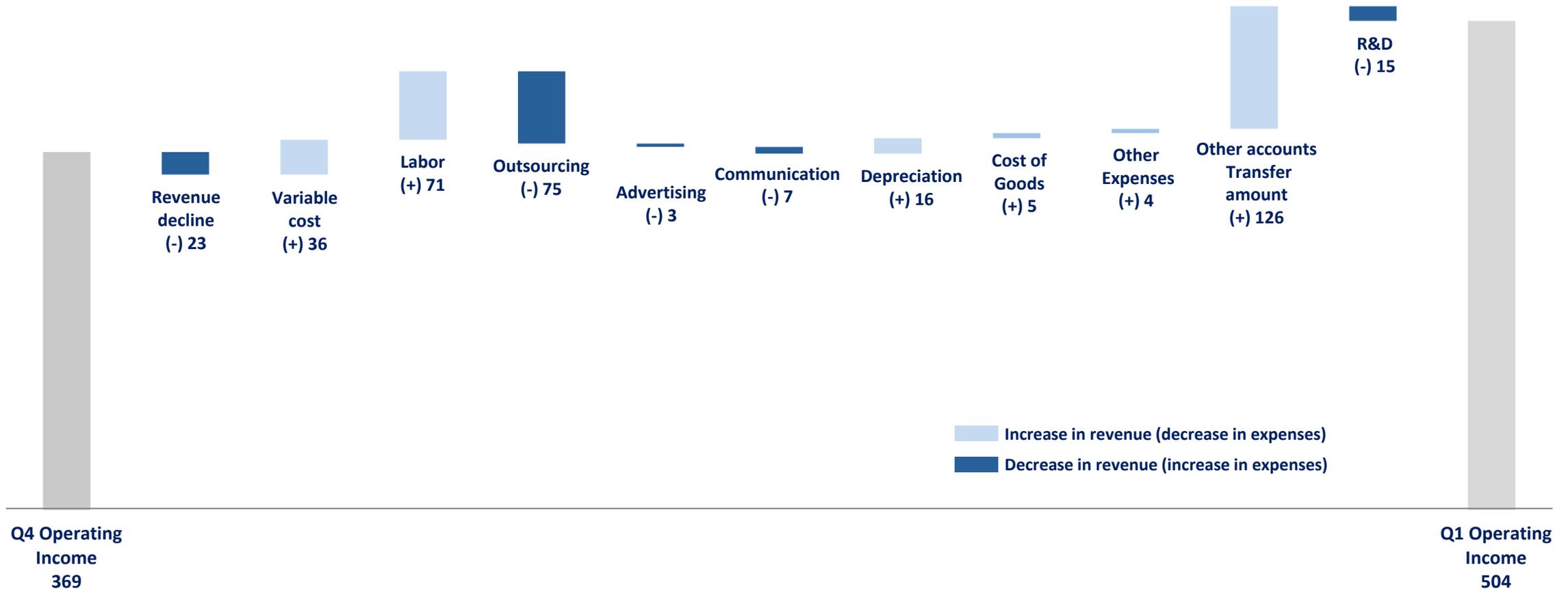
(Unit: million yen)



	Q1 FY3/22 Operating Income (Forecast May 13th)		Q1 FY3/22 Operating Income (Actual)
Revenue	2.66 billion yen	Budget: 2.70 billion yen	-1.4%
Operating income	0.5 billion yen	Budget: 350 million yen	+44.0%
Ordinary income	0.49 billion yen	Budget: 350 million yen	+40.5%
Net income	0.3 billion yen	Budget: 250 million yen	+20.0%

Analysis on Operating Income (Q4 FY21 vs Q1 FY22)

Lower fixed costs, due to further cost control, and progress in development (increase in capitalization) offset lower revenue, resulting in higher profits



Topics by Business

Improving profitability while planting seeds for future growth

<p>Game</p>	<ul style="list-style-type: none">➤ Titles that celebrated release anniversary events in April and May performed well. Gained stable support from fans by minimizing impact of strong competing titles➤ Many titles in operation continue to post stable profits. Unprofitable titles are being addressed with the aim of returning to profitability in first half.➤ Development is progressing smoothly. Six new titles are under development for release in the second half of this year.➤ Secured and established dedicated human resources and departments to launch new businesses in light novel and comic domains. Promote business development through collaboration and M&As.
<p>New Business Development</p>	<ul style="list-style-type: none">➤ As development of location-based titles featuring popular IPs developed using AROW progresses, preparations for commercialization of “AROW” for game development companies also progress.➤ “AKROGLAM”, <i>Evil Prince and the Puppet</i> continue to focus on IP development through fan community expansion➤ Load testing services are expanding through collaboration, while orders for Root are increasing.

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Medium-Term Plan

Drecom Today

**A Mobile game company
with strength in development
and operation of IP games**

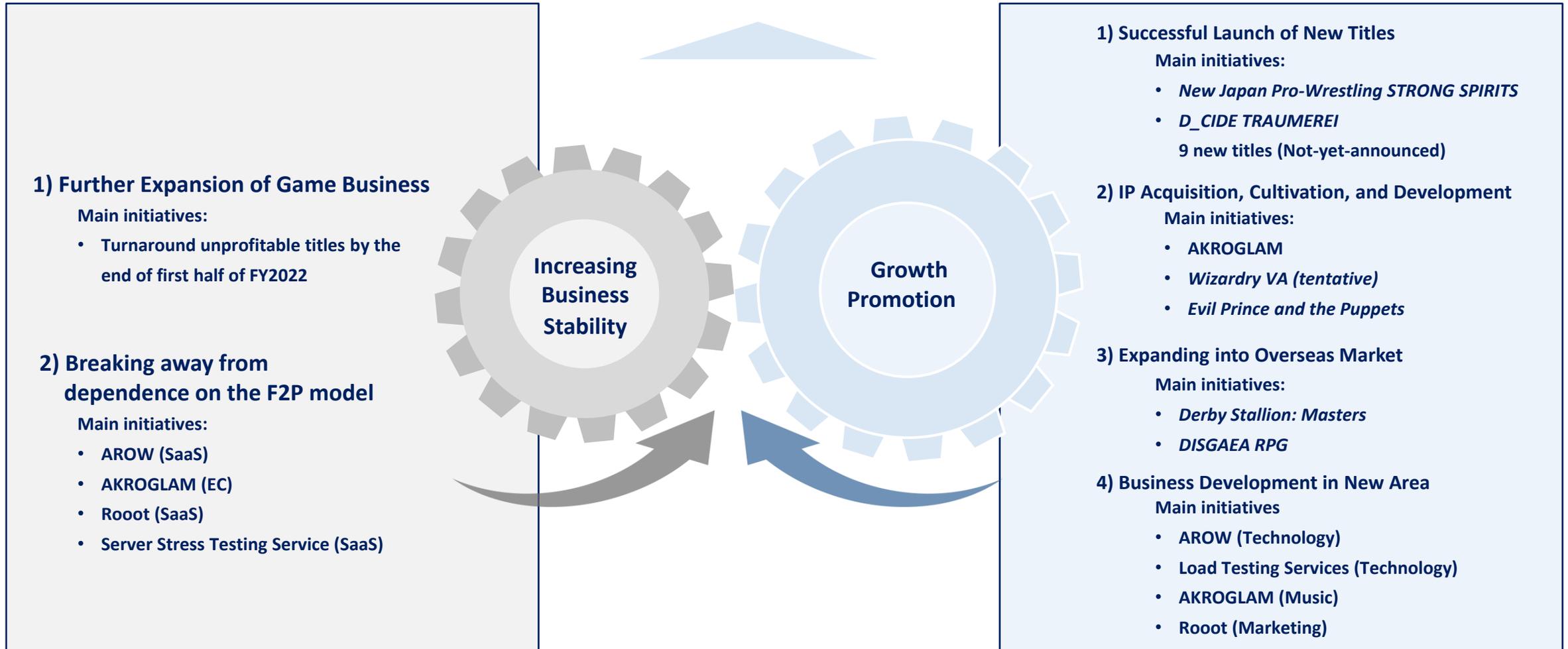


Drecom at the end of FY23

**A comprehensive
entertainment company
that provides a wide variety of digital
entertainment content globally
with a focus on IP**

Medium-Term Plan (cont'd)

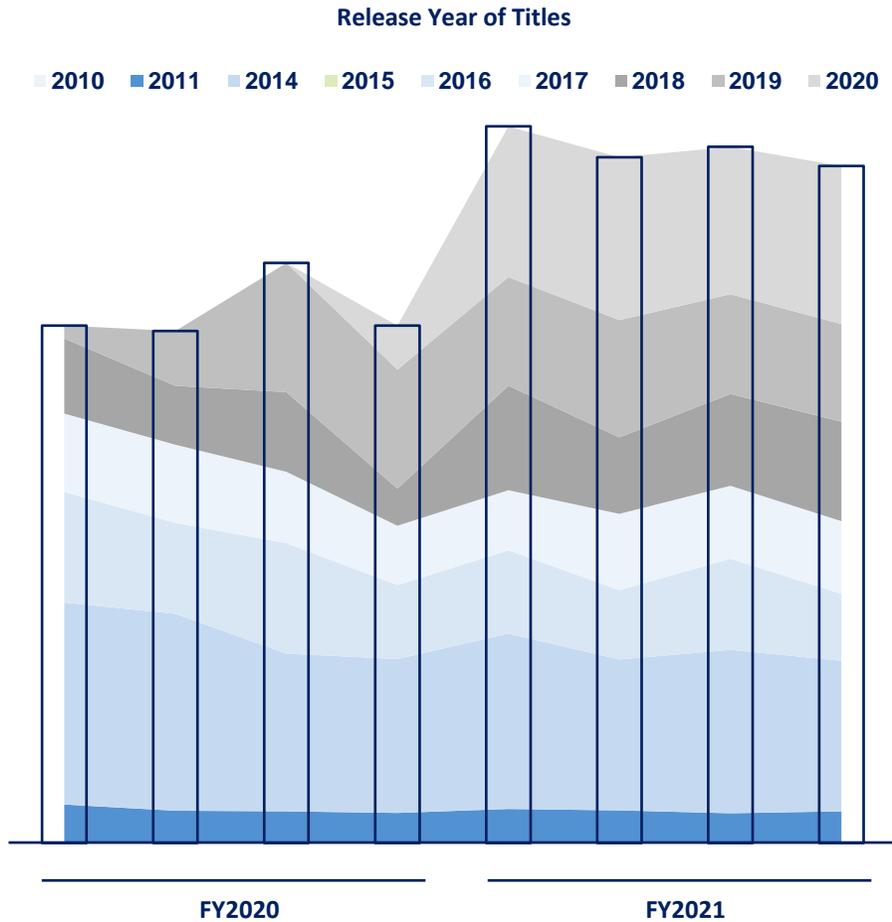
A comprehensive entertainment company that provides a wide variety of digital entertainment content globally with a focus on IP



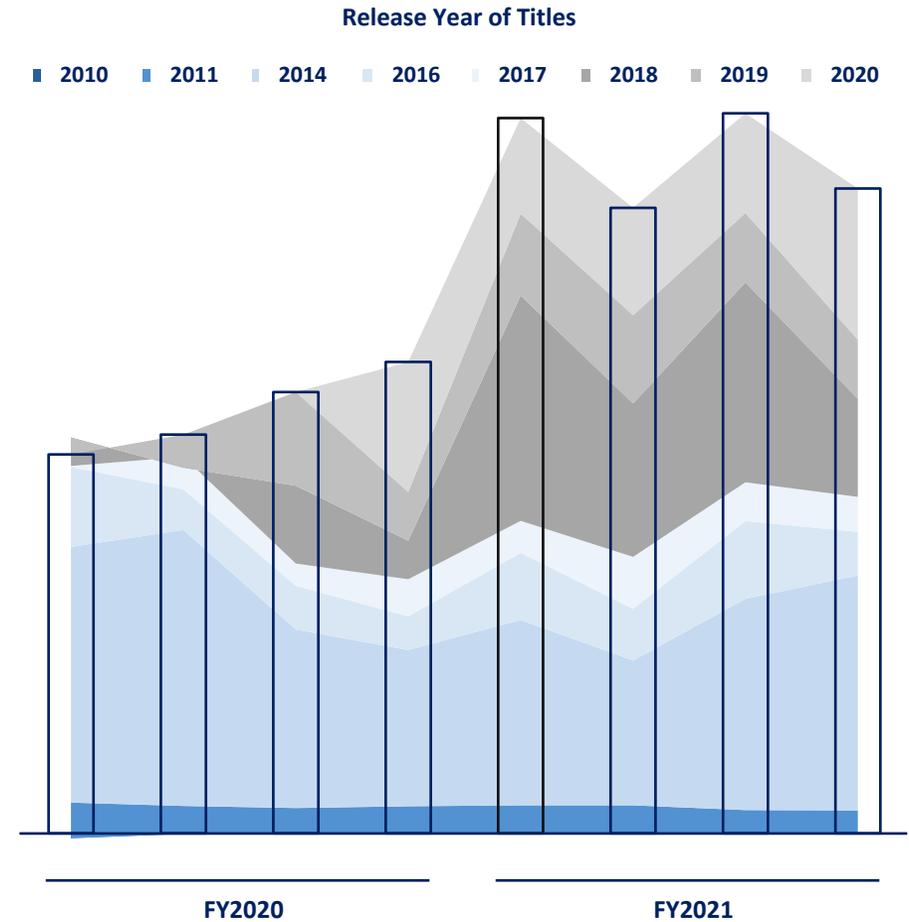
Stabilization of Game Business

Now with a healthy portfolio with revenue coming from multiple hit titles, not from few hit titles

Revenue by Titles' Release Year

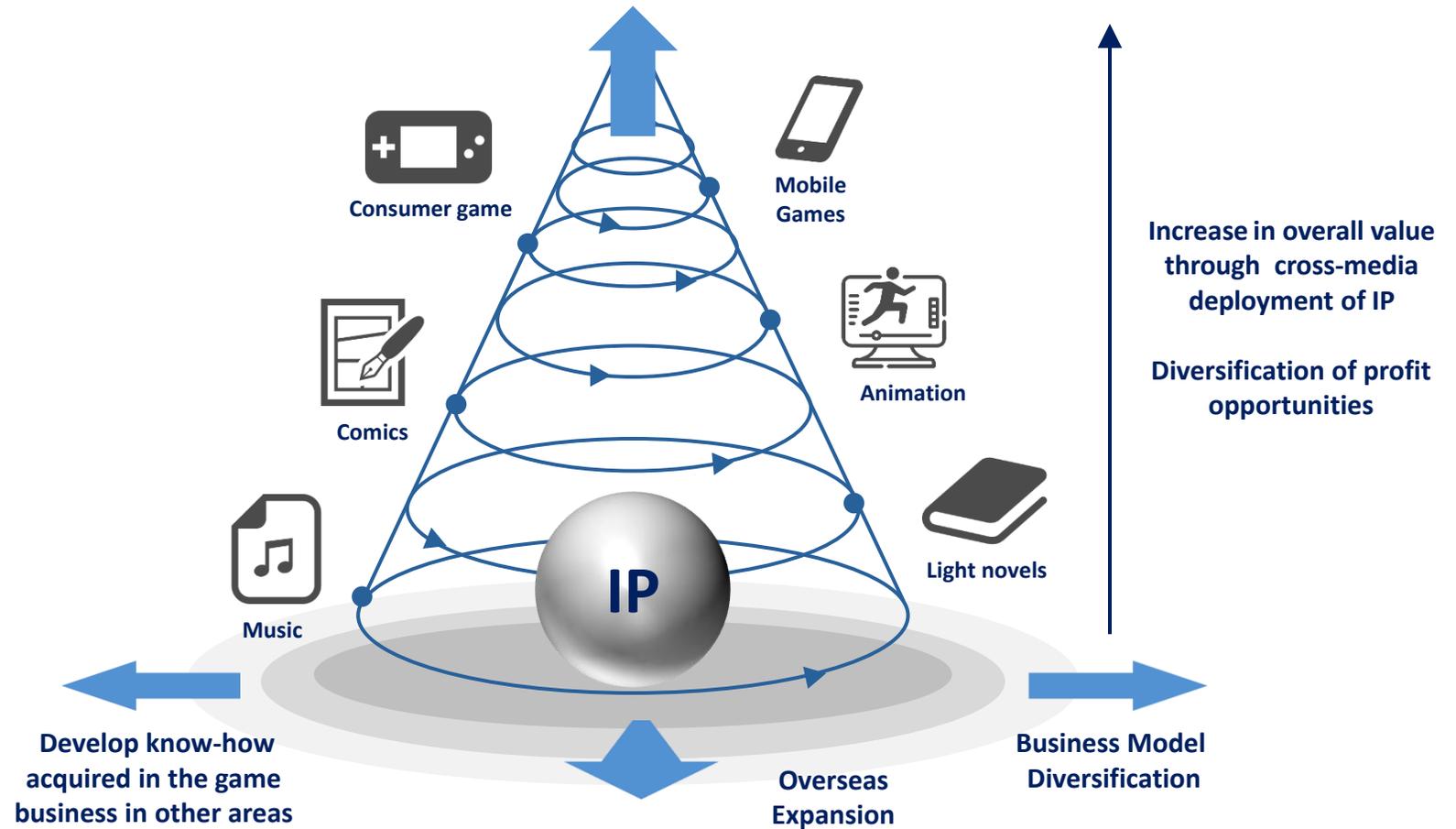
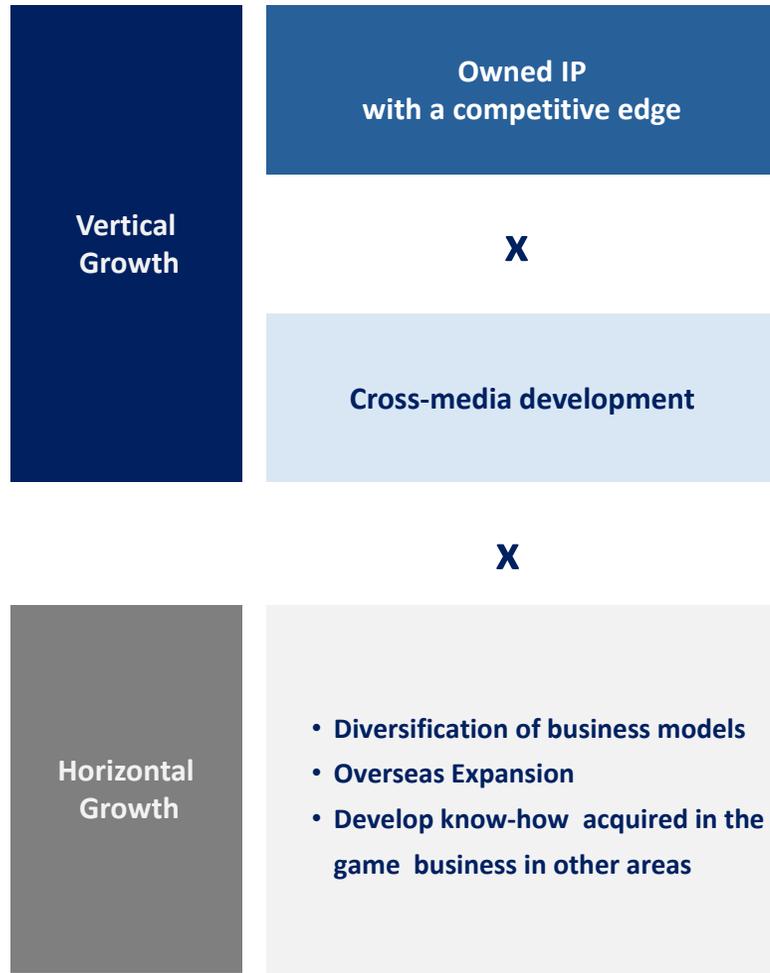


Operating Income by Titles' Release Year



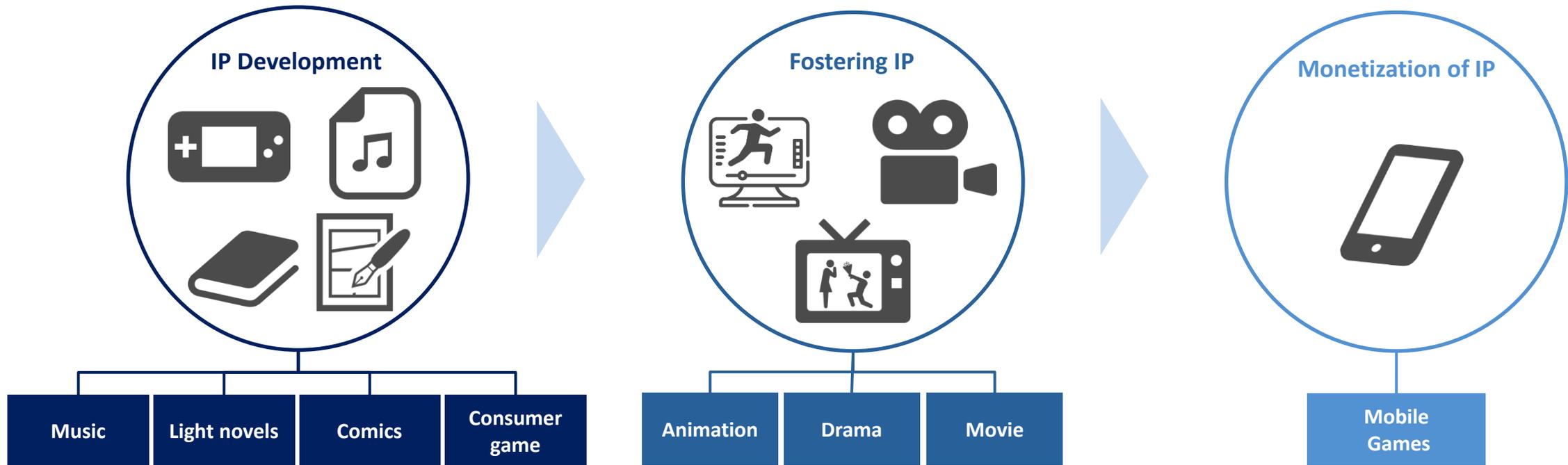
IP Spiral Strategy

Aiming to Achieve “Spiral Growth,” Placing IP at the Core



Flow of IP development, Cultivation, and Monetization

Organize the characteristics of each entertainment domain, from IP development to monetization. Seek development that matches characteristics of each domain.



Initiatives in the Areas of Music, Light novels, and Comics

Focus on music, light novels, and comics this fiscal year.

Acquire and establish new dedicated personnel and departments, and start specific initiatives.



Focused media	Publicly announced initiatives	Future approaches	Guidelines for the current term
Music	AKROGLAM	In-house investment	<ul style="list-style-type: none"> • Further expansion of <i>AKROGLAM</i> • Expansion and publication of unpublished projects
Light novels	none	Alliances and collaborations, including M&A	<ul style="list-style-type: none"> • Securing necessary functions and human resources through alliances and collaborations, including M&As • Build a foundation for expansion in the next fiscal year and beyond
Comics			

Project Summary (as of July 31, 2021)

The number of titles under development with a total of 12 development projects underway as of the end of July 2021

Business	status		Definition.	Number of projects	Details
Game Business	Operation		Titles in operation	11	<ul style="list-style-type: none"> ➤ Third-party Distribution : 8 titles*. ➤ In-house distribution: 3 titles
	Development	Development	Titles under development with a view to release	9	<ul style="list-style-type: none"> ➤ Thrid-party Distribution: <ul style="list-style-type: none"> • <i>New Japan Pro-Wrestling STRONG SPIRITS</i> • <i>D_CIDE TRAUMEREI</i> • <i>Derby Stallion: Masters</i> • Overseas versions of domestic hit IP titles ➤ In-house distribution: <ul style="list-style-type: none"> • Wizardry VA (tentative) ➤ Unpublished: <ul style="list-style-type: none"> • Location-based IP title using AROW • Unannounced titles x 3
		Prototype	Titles that are in the development stage before this development	3	<ul style="list-style-type: none"> ➤ <i>Evil Prince and the Puppets</i> ➤ Original title developed by Studio Rex, a group company ➤ Unannounced title x 1
New Business Development	Operation		Services in operation	3	<ul style="list-style-type: none"> ➤ AKROGLAM ➤ Load Testing Service ➤ Root
	Development		Services under development with a view to release	1	<ul style="list-style-type: none"> ➤ New services in music field

Number of titles in operation as of the end of July 2021. Series titles are counted as one title.

Summary of Titles Under Development (as of July 31, 2021)

9 new titles under development, 6 titles scheduled for release in second half of FY2022.

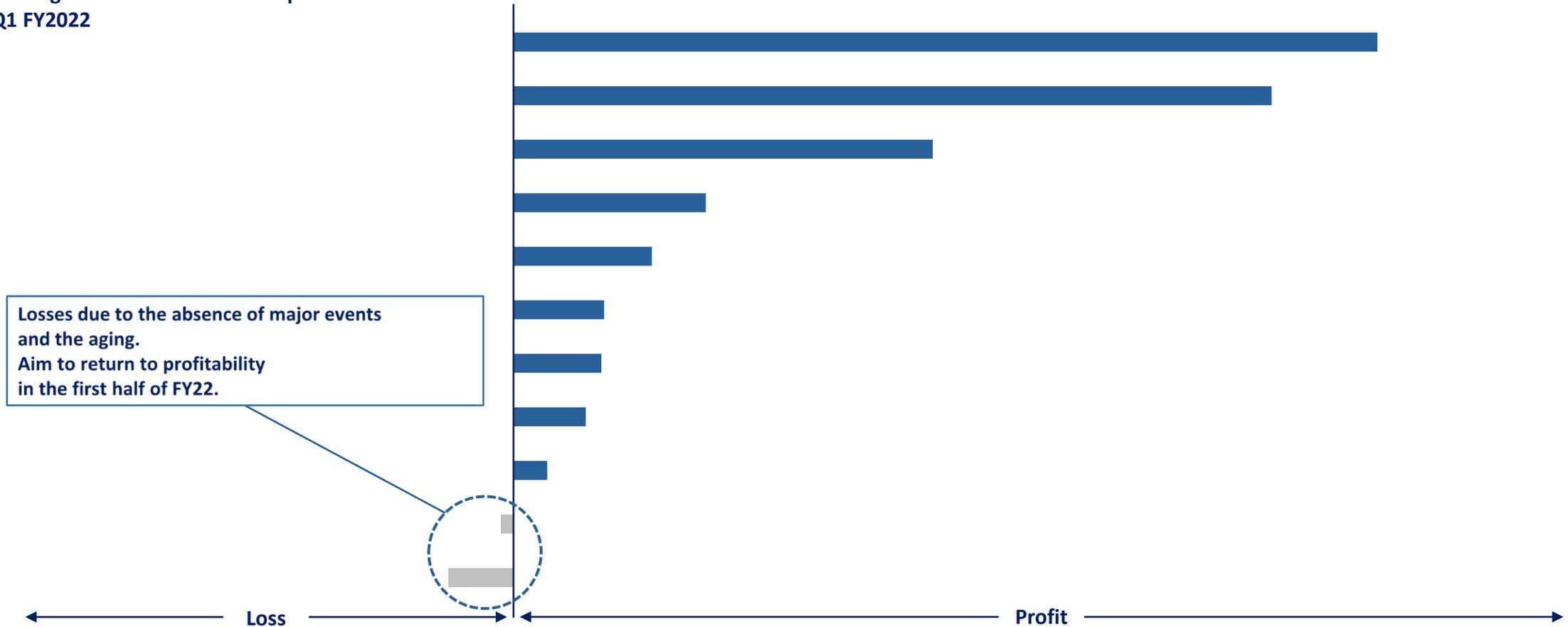
	Title	New/Existing overseas expansion	IP/Original	Distribution Area	Publisher
Release scheduled during FY22 *** 6	1) <i>New Japan Pro-Wrestling STRONG SPIRITS</i>	new	IP	domestic and overseas	other company
	2) <i>D_CIDE TRAUMEREI</i>	new	original	domestic	other company
	3) <i>Derby Stallion: Masters</i>	existing title overseas expansion	IP	overseas	other company
	4) Unreleased Titles (1)	new	original	undecided	Drecom
	5) Unreleased Titles (2)	existing title overseas expansion	IP	overseas	other company
	6) Unreleased Titles (3)	new	original	undecided	Drecom
Release scheduled after FY23 *** 3	Wizardry VA (tentative)	new	IP	domestic and overseas	Drecom
	2) Location-based IP Titles using AROW	new	IP	undecided	undecided
	3) Unreleased Titles (1)	new	IP	undecided	undecided

Improve profitability of the game business

As of Q1 of FY2022, we had two unprofitable titles.

Aim to return to profitability by end of first half of FY2022 and record profits from all titles in operation.

Operating income of 11 titles* in operation in Q1 FY2022

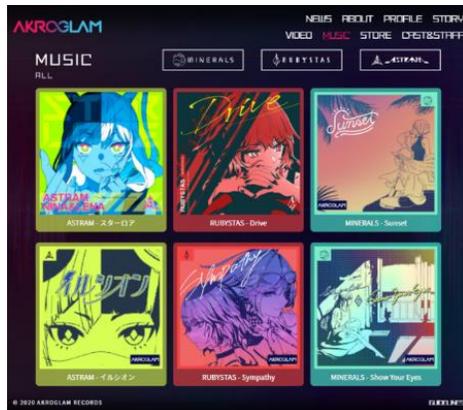


* Number of titles in operation at end of July 2021. Series titles are counted as one title, including three "enza" titles and *Boku and Dragon*.

IP Acquisition, Cultivation and Development: AKROGLAM / *Evil Prince and the Puppet*

User base continues to grow for both services

AKROGLAM



悪魔王子と 操り人形

Evil Prince and the Puppet



- Business development projects in the music domain among entertainment domains other than games.
- As of July 2021, the number of followers of the official twitter account is approximately 24,000, and the number of subscribers to the official YouTube channel is approximately 13,000.
- Online Collaboration Live "Denon Club x AKROGRAM - Future Summer-" will be held in August 2021.

- Original IP under development; official twitter account launched in November, official website in December 2019.
- As of July 2021, the number of followers of the official twitter account reached 75,000. The fan community is steadily expanding.
- An official store opened in April 2021, and e-commerce also launched.

Overseas Expansion of Existing Titles

"DISGAEA RPG" will be released on April 13, 2021

Derby Stallion: Masters



©2016ParityBit

DISGAEA RPG



©Nippon Ichi Software © 2021 FW Published by Boltrend Games.

- *DISGAEA RPG*, the English version of *Maikai Senki Disgaea RPG*, released globally on April 13, 2021.
- *Derby Stallion: Masters* is also scheduled for release in the first half of FY2022.
- Expanding into overseas markets in collaboration with Boltrend Games
- We will continue to increase the ratio of overseas sales through the overseas development of domestic hit titles and aim to grow to the same scale as domestic sales in the future.

Business Development in Areas Other than Games

Increase in sales and number of companies using Root; progress in development of IP location-based titles using AROW

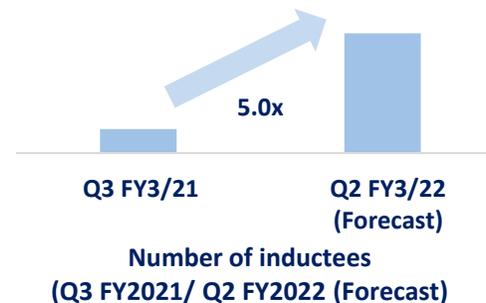


- Location-based game titles dealing with popular IP to be developed using AROW is moving forward.
- Decided to change the target from individual developers to game development companies, which was originally envisioned.

Commercialization to coincide with the release of the above location-based game titles.



- Released in December 2020, a fan community promotion service using Twitter.
- Number of companies using the system on steady expansion trend and increase to 5.0x in Q2 of FY 2022 compared to Q3 of FY 2021



- Strengths include problem solving and proposals that strike a balance between business and systems, based on experience gained from past business operations, such as support for load testing prior to service launch and advice on overall activities to improve system availability, with a focus on DevOps support for services in operation.
- Start SaaS business to diversify revenue model and break away from dependence on F2P revenue.

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Management Policy for the Current Fiscal Year



Game Business

- Return unprofitable titles to profitability during the first half of FY2022 and maintain profitability
- New titles scheduled to be released during FY2022 are sure to be hits.
New titles are expected to contribute to earnings in second half of FY2022.
Aim for earnings growth from second half of FY2022.



New Business Development

- For new business development in areas other than games, we will focus on music, light novels, and comics. Secure necessary functions, know-how, and human resources through in-house investment in music, and through alliances and collaborations including M&A in light novels and comics.
- Stabilize the existing game business and invest the profits generated in the creation of new entertainment services in game peripheral areas.



Other

- The office was relocated to accommodate a remote work style. We are focusing on creating a strong and flexible organization that will not waver even in the midst of major changes, such as developing a working environment that can secure excellent human resources and ensure diversity in working styles.
- Continue to focus on group-wide performance expansion and business growth through further collaboration with subsidiaries

Guidance for Q2 FY2022

Earnings recovered in reaction to anniversary event in Q1 and the absence of major events. R&D and capitalization increased as development progressed.

(Unit: million yen)	Q1 Apr-Jun 2022 Actual	Q2 Jul-Sep 2022 forecast	Q2 Jul-Sep 2022 (cumulative total) Forecast	Q1 Apr-Jun 2022			Q2 Jul-Sep 2022 (cumulative total)		
					change	%		change	%
Revenue	2,661	2,339	5,000	2,661	-322	-12.1	6,184	-1,184	-19.1
Variable cost	394	406	800	394	12	-3.0	945	-145	-15.3
Fixed cost	1,762	1,688	3,450	1,762	-74	-4.2	4,185	-735	-17.6
R&D cost	117	143	260	117	26	22.2	165	95	57.6
Capitalization	496	734	1,230	496	238	48.0	208	1,022	491.3
Operating income	504	246	750	504	-258	-51.2	1,052	-302	-28.7
Ordinary income	492	258	750	492	-234	-47.6	1,032	-282	-27.3
Net income	300	200	500	300	-100	-33.3	825	-325	-39.4

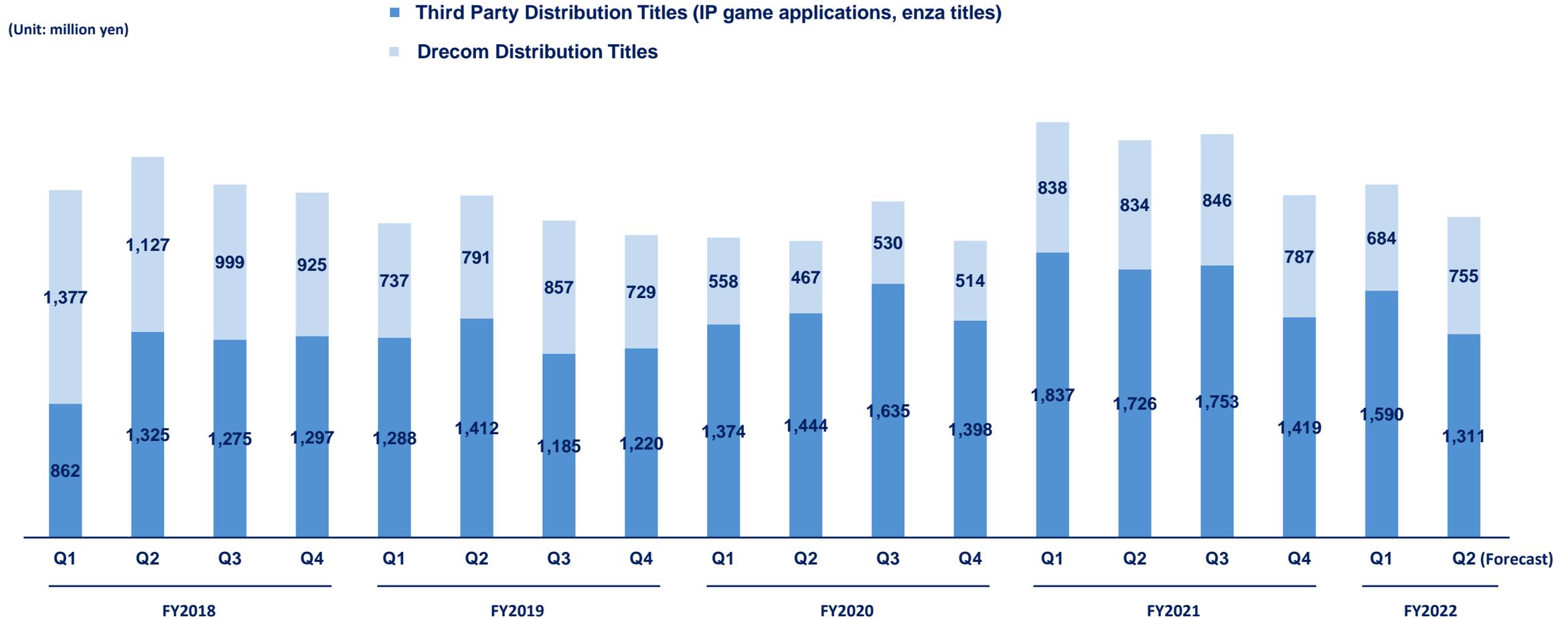
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Revenue of Game Business (by Distribution Type)



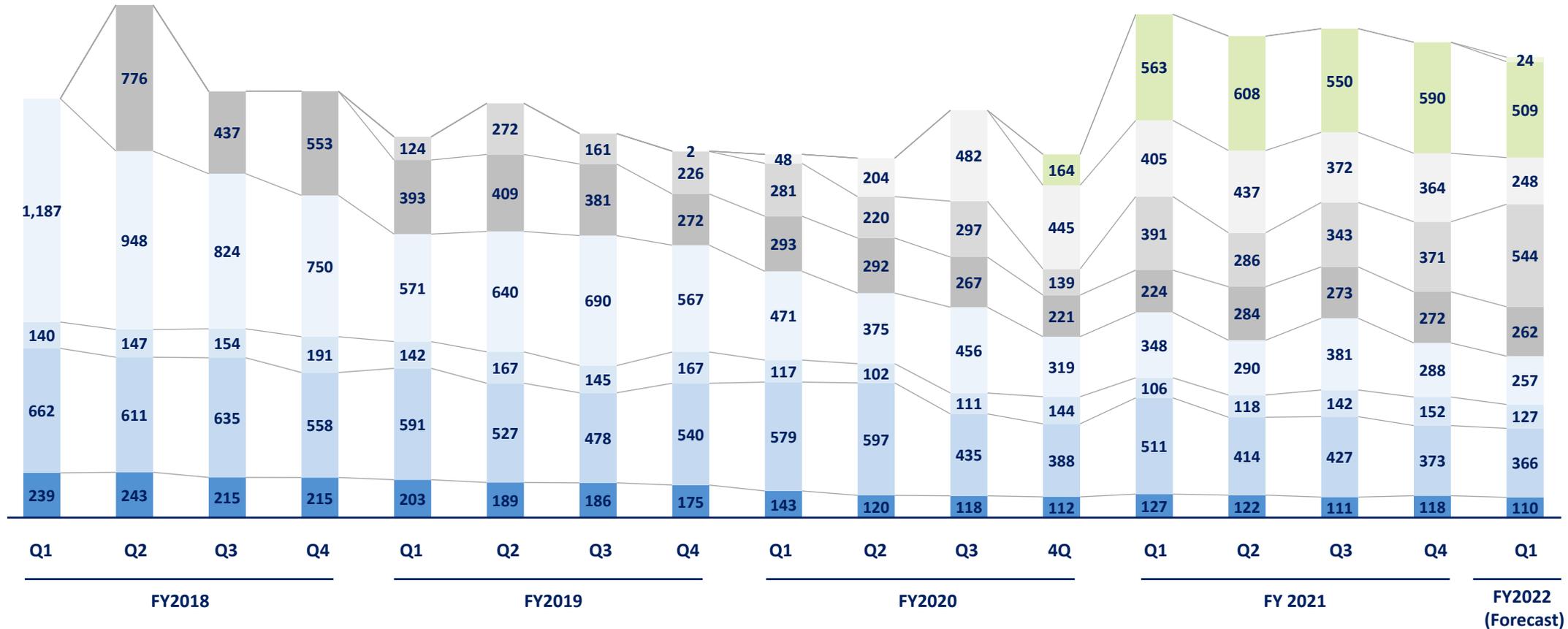
* Sales of titles distributed by other companies are recorded on a net basis, while sales of titles distributed by the company are recorded on a gross basis.

* Excludes sales from platforms.

Revenue of Game Business (by Release Year)

(Unit: million yen)

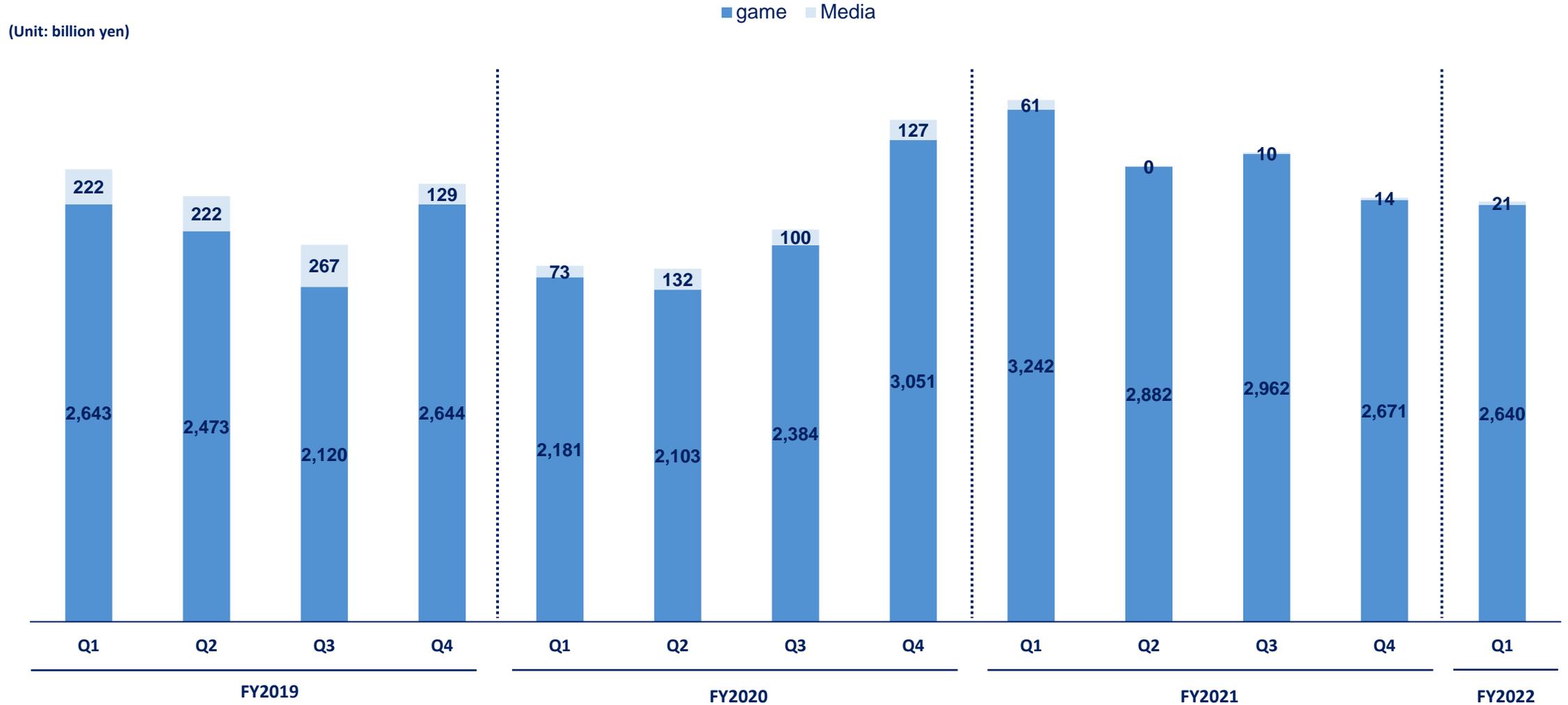
■ Before 2013 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021



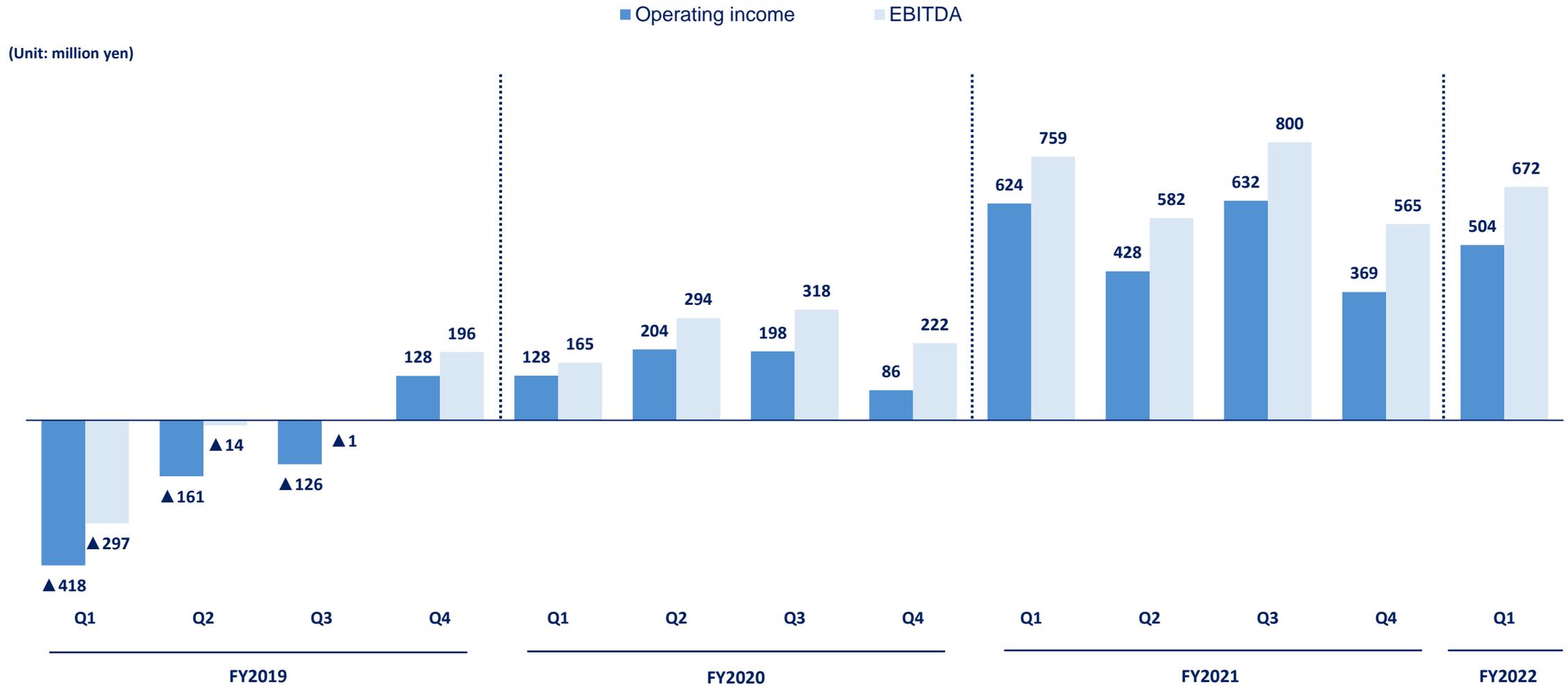
* Sales of titles distributed by other companies are recorded on a net basis, while sales of titles distributed by the company are recorded on a gross basis.

* Excludes sales from platforms.

Revenue by Business Segments (FY2019 - Q1 FY2022)



Operating Income and EBITDA (FY2019-FY2022)



S

1) Establish 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, we are focusing on maintaining the health of our employees and creating a working environment that considers and respects the life events and life stages of our employees by introducing remote work and encouraging male employees to take childcare leave.

2) Support for employees' health promotion and skill development

We are taking the following measures to create an environment where employees can exercise their full potential in good health.

- Installation of massage rooms
- Cafe space in partnership with a popular cafe
- Support for holding knowledge-sharing events and dissemination of technology-related information



3) Support for entrepreneurial communities

As a pioneer in the field of IT venture and student entrepreneurship, we are undertaking the following initiatives to contribute to the development of future entrepreneurs and the further revitalization of entrepreneurship in Japan.



- Holding programming classes for junior and senior high school students
- Speaking at and supporting various entrepreneurship-related events
- Support students by sponsoring programming classes
- Providing office space for study groups and seminars

G

In order to achieve sustainable growth and maximize shareholder value, and to ensure sound and appropriate management, Drecom is focusing on strengthening governance, especially the appointment of female directors, the appointment of many independent outside directors with different professional backgrounds, and active discussions.

1) Actively appointing female directors

As of January 2021, the ratio of female directors is 20%.

2) Balance between internal directors and independent outside directors

As of July 2021, the ratio of independent outside directors to all directors is 60%.

3) Diversity of Independent Outside Directors

The Company appoints experts in various fields, such as certified public accountants, lawyers, and university professors, as independent outside directors.

4) Regular Board of Directors meetings and high attendance rate

The Board of Directors meets regularly on a monthly basis to share information on business conditions and management issues in a timely manner and engage in active discussions. 24 Board of Directors meetings are held annually for FY2021 and 28 meetings are held annually for FY2020.

PL Summary

(Unit: million yen)	Q1 Apr-Jun 2022			Q4 Jan-Mar 2021	Q1 Apr-Jun 2020
		QoQ (%)	YoY (%)		
Total cost	1,621	-8.1	-27.5	1,764	2,236
Payment fee	220	-11.9	-19.3	250	273
Copyright fee	55	-30.7	-17.7	79	67
Labor cost	551	-7.8	15.8	597	475
Outsourcing costs	533	16.2	-24.6	458	706
Postage	139	5.2	-7.5	132	150
Software amortization	139	-5.2	11.3	147	125
Depreciation and amortization	20	-25.3	241.2	28	6
Purchases of raw materials	366	2.6	9.0	357	336
Transfer amount to other accounts	-614	27.2	228.5	-482	-187
Work in process	1	-148.0	NA	-3	0
Other	207	4.3	-11.1	198	233
Total hawker fees	535	2.8	20.9	551	443
Payment fee	28	15.8	6.7	24	26
Advertising expenses	16	26.7	-34.9	13	25
Labor cost	184	-11.4	19.6	208	154
Recruitment costs	36	86.6	148.7	19	14
R&D cost	117	14.6	54.5	102	76
Depreciation and amortization	6	-14.9	101.6	7	3
Amortization of goodwill	0	NA	NA	12	0
Other	144	10.7	1.8	162	142

BS Summary

(Unit: million yen)	Q1 Apr-Jun 2022	Q4 Jan-Mar 2021	Q3 Oct-Dec 2021	note
Current assets	7,630	7,669	5,913	
Cash equivalent	5,299	5,288	3,466	
Trade receivables	1,756	1,841	1,930	Linked to changes in sales
Other	574	539	516	
Fixed assets	2,158	1,941	1,522	
Buildings, tools, furniture and fixtures	266	101	153	Mainly office equipment
Software assets (including suspense accounts)	1,065	878	800	Mainly released game apps and apps under development
Goodwill	0	0	12	Goodwill arising from M&A activities
Deferred tax assets	311	434	283	
Other	515	526	271	
Total assets	9,789	9,610	7,436	
Current liabilities	2,924	3,181	2,788	
Accounts payable and accrued expenses	1,051	1,024	1,152	
Loans and bonds	1,012	740	750	Bank loans / bond issuance
Other	860	1,417	886	
Fixed liabilities	2,706	2,573	1,122	
Loans and bonds	2,429	2,430	1,010	Bank loans / bond issuance
Other	277	143	112	
Net assets	4,158	3,855	3,525	
Total assets / Total liabilities and net assets	9,789	9,610	7,436	

Among the perceptions, strategies, plans, etc., described in this document, the outlook is not a historical fact but contains uncertain elements. Actual results may differ materially from those in the forward-looking statements for a number of reasons. Important factors that may affect actual business results include economic conditions surrounding our business, social trends, and changes in relative competitiveness due to demand trends for the services we provide. Important factors that may affect our business performance include, but are not limited to, the following.



DRECOM[®]

with entertainment