



Drecom (3793)

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

GIR Earnings View

1



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.

- 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.

Revision of Full-Year
Earnings Forecast

2



GIR Earnings View (cont.)

- 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.

3

Outlook for
the fourth quarter
FY2023

New Business Progress

4

- 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".
- Root, a Twitter-based fan community promotion service, continues to expand steadily.
- The search for commercialization in the Web3 area is also continuing.



Summary

- 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.

Financial Data (Consolidated: Quarterly)

Statements of Income													(Millions of yen)	
Accounting period	FY 03/2020	FY 03/2021	FY 03/2022					FY 03/2023					Old Q1-Q4CE	New Q1-Q4CE
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	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 Global IR, Inc.



Integrity & Sustainability

January 31, 2023

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