

Fiscal Year Ended Mar. 31, 2022

Financial Results Presentation Materials



DRECOM[®]
with entertainment

Drecom Co., Ltd.

May 12, 2022

Summary of this document

Review of FY2022 financial results

- Net sales were 10,528 million yen (down 11.1% YoY), operating income was 1,591 million yen (down 22.5% YoY), ordinary income was 1,541 million yen (down 23.6% YoY), and net income attributable to owners of the parent was 807 million yen (down 50.3% YoY) due to extraordinary losses. The company also reported a downward revision to its earnings forecast.
- In Q4, early impairment of two newly released game titles resulted in a one-time loss.

Forecast for FY2023

- Net sales of 13,000 million yen (up 23.5% YoY) and operating income of 2,000 million yen (up 25.7% YoY) are projected.
- Plans to release three new titles during the fiscal year ending March 2023. Plans to invest aggressively in publishing, video business, and Web3 business
- Change from quarterly forecast to full-year forecast announcement

Shareholder returns

- Decided to pay a year-end dividend (first dividend) of 5.00 yen per share (Record date: March 31, 2022)
- Aiming to increase corporate value over medium to long-term through both investment in growth and shareholder returns

1. Review of FY2022 Financial Results

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

Three titles released in FY03/2022 performed below expectations. Impairment losses were recorded on some titles after reevaluating future earnings.

(Unit: million yen)

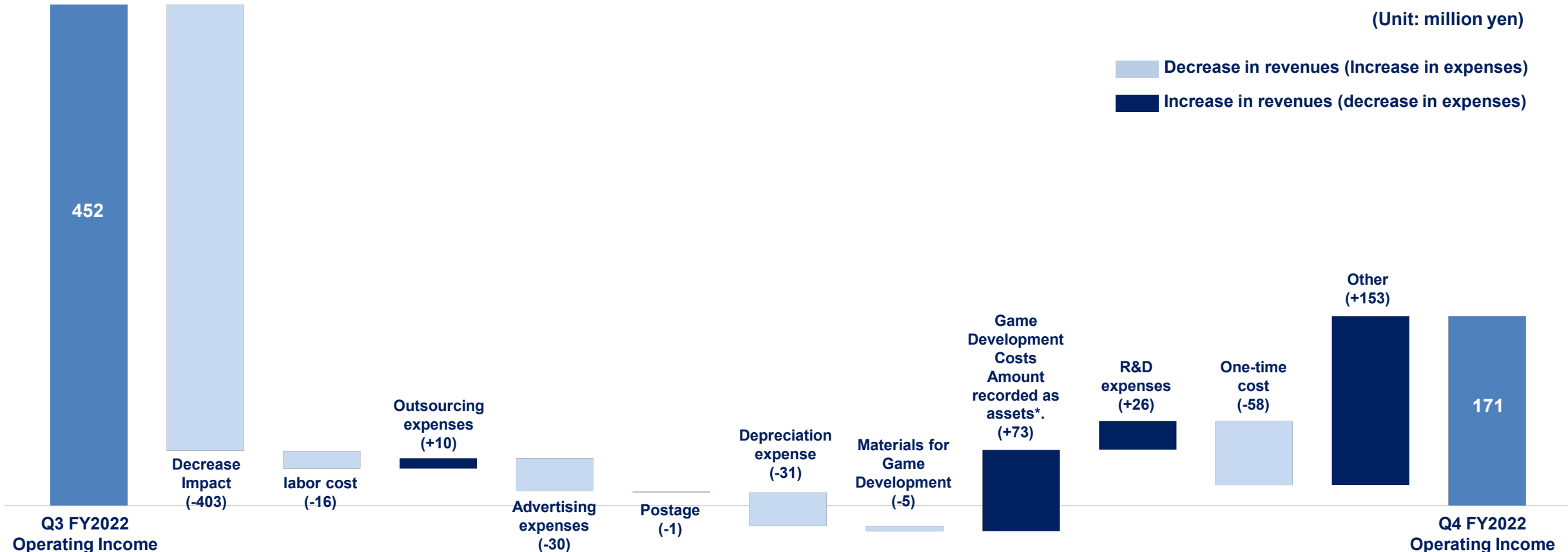
	FY2021 Results	FY2022 Results	YoY	Q4 FY2021 (Jan-Mar)	Q4 FY2022 (Jan-Mar)	YoY	Q3 FY2022 (Oct-Dec)	QoQ
Net sales	11,840	10,528	-1,312	2,684	2,450	-234	2,893	-442
Operating income	2,052	1,591	-461	368	171	-197	452	-281
Operating profit ratio	17.3%	15.1%	—	13.7	7.0%	—	15.6%	—
EBITDA*	2,705	2,127	-577	564	304	-260	554	-250
EBITDA Margin	22.8	20.2%	—	21.0%	12.4%	—	19.2%	—
Ordinary income	2,019	1,541	-477	365	160	-204	439	-278
Net income attributable to shareholders of the parent company	1,624	807	-817	325	-45	-371	241	-287

*EBITDA = operating income + amortization of goodwill + depreciation

Q4 Results for FY 2022 (Operating Income QoQ Comparison)

Sales decreased from the previous quarter due to the repercussion from holding fewer events

58 million yen was recorded as a one-time expense to account for inevitable future costs for titles for which impairment losses were recognized.

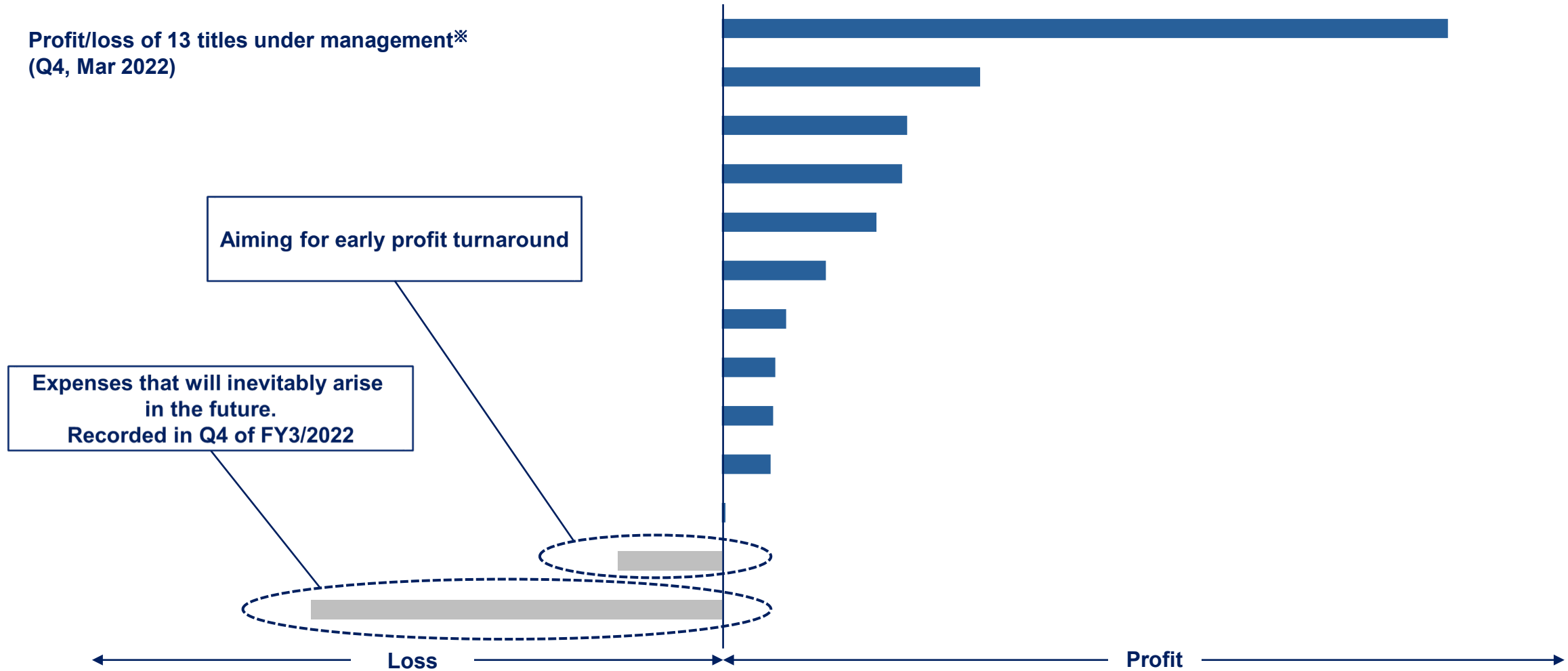


*Amount of development costs such as labor and subcontracting costs mainly related to pre-release games deducted from manufacturing costs and transferred to assets as "Software in progress".

Game Business: Earnings from Titles in Operation

Two new titles were released in Q4 of FY2022, bringing the number of titles under management to 13
Two titles were unprofitable

Profit/loss of 13 titles under management*
(Q4, Mar 2022)



Number of titles in operation as of March 31, 2022. Including two enza titles and *BOKU & DRAGONS*.

Contrasting Forecast and Actual Results

New titles were below expectations. The company posted an extraordinary loss of 305 million yen for impairment loss and other factors, and fell short of its earnings forecast.

(Unit: million yen)

	FY2022 Forecast	FY2022 Cumulative total	Compared to forecast	
	Official announcement January 27, 2022		Difference	Change (%)
Net sales	10,900	10,528	-371	-3.4%
Operating income	1,700	1,591	-108	-6.4%
Ordinary income	1,650	1,541	-108	-6.6%
Net income attributable to shareholders of the parent company	1,000	807	-192	-19.3%

<Factors for the difference>

■ Net Sales

- Impact from lower-than-expected sales of new titles

■ Operating Income and Ordinary Income

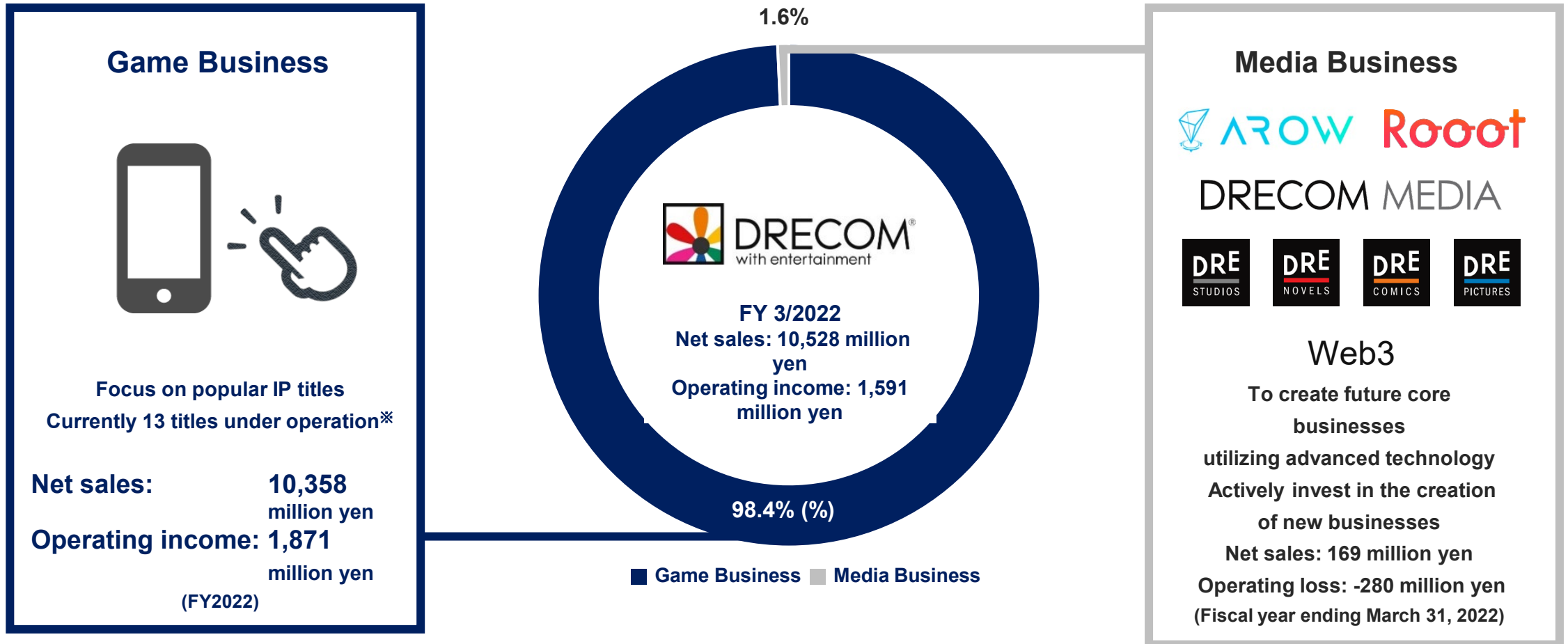
- Decrease in revenue and repercussion of one-time charges of 58 million yen for expenses that will inevitably arise in the future .

■ Net income attributable to owners of the parent

- Effect of extraordinary loss of 305 million yen
 - 208 million yen due to impairment loss on two titles
 - 96 million yen due to loss from devaluation of investment securities resulting from impairment

Fiscal Year Ending March 31, 2022 Results by Segment

Accelerate the development of services in new areas in the media business, with the game business as a pillar of earnings



As of March 31, 2010. Series titles and titles distributed overseas are counted as one title.

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Summary of Consolidated Full-Year Earnings Forecasts

Despite an expected increase in advertising expenses associated with releases and an increase in R&D expenses for the publishing and Web3 businesses, sales and income are expected to increase aided by three new releases.

	FY2022				
	Q1 (Apr-Jun) Actual	Q2 (Jul-Sep) Actual	Q3 (Oct-Dec) Actual	Q4 (Jan-Mar) Actual	Full Year Actual
(Unit: million yen)					
Net sales	2,661	2,523	2,893	2,450	10,528
Variable cost	394	380	391	365	1,630
Fixed cost	1,762	1,680	2,048	1,913	7,306
Advertising expenses	16	21	88	117	243
R&D expenses	117	91	80	54	345
Game Development Costs Amount recorded as assets*	-496	-692	-485	-558	-2,233
Operating income	504	463	452	171	1,591
Ordinary income	492	448	439	160	1,541
Net income attributable to shareholders of the parent company	300	311	241	-45	807

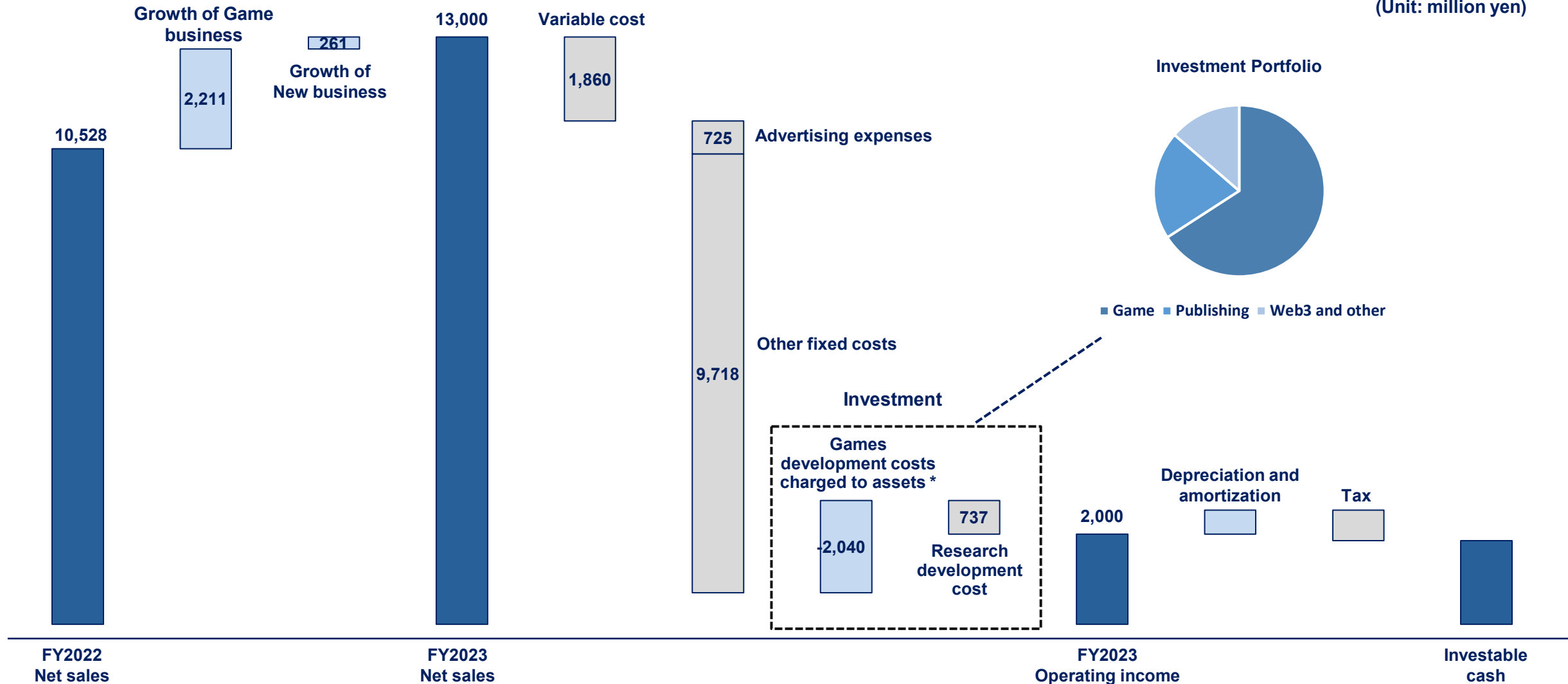
Forecast for FY2023		
	YoY	%
13,000	+2,471	+23.5%
1,860	+229	+14.1%
9,139	+1,833	+25.1%
725	+481	+197.5%
737	+392	+113.7%
-2,040	+192	-
2,000	+408	+25.7
1,900	+358	+23.2%
1,200	+392	+48.6%

*Amount of development costs such as labor and subcontracting costs mainly related to pre-release games deducted from manufacturing costs and transferred to assets as "Software in progress".

Summary of Consolidated Full-Year Forecasts

Recognized a great opportunity for business growth. Aggressive investment while expecting to secure profits.

(Unit: million yen)



Fiscal Year Ending March 31, 2023 Full-Year Results Approach

Game business

- Q1 (Apr-Jun) FY2023 is expected to show similar trends as the previous year's Q1 FY2022, contributed by coinciding anniversary events of mainstay titles.
- Contribution of three newly released titles is expected in the second half of the fiscal year.
- Operational and advertising costs are expected to increase with the release

New Business Development

- In the publishing business, more than 10 new titles are scheduled for sequential release in the second half of the year and beyond.
- In the Web3 business, in addition to blockchain game development, several projects are underway, including the NFT project for IP creation.
- “Rooot” a Twitter-based fan community promotion service, is expected to continue to expect steady sales growth.

Investment policy

- Actively invest cash generated from operations in the game business and new business areas (publishing, Web3) where growth is expected

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Dividend (first dividend)

After careful consideration of operating results and financial condition, distribution of dividend was decided

	Determined amount	Most Recent Dividend Forecast (January 27, 2022)	Actual results for the previous period (Year ending March 31, 2021)
Reference Date	March 31, 2022	same as on the left	March 31, 2021
Dividend per share	5.00 yen	0.00 yen	0.00 yen
Total dividends	145 million yen	—	—
Effective date	June 10, 2022	—	—
dividend resource	Retained earnings	—	—

- Decided on dividend payments after careful consideration of trends in operating results and financial position, investment in research and development, and future plans.
- Aiming to increase corporate value over the medium to long-term through both investment in growth and shareholder returns
- The dividend forecast for the fiscal year ending March 31, 2023 is a year-end dividend of 5.00 yen per share.

1. Review of FY2022 Financial Results

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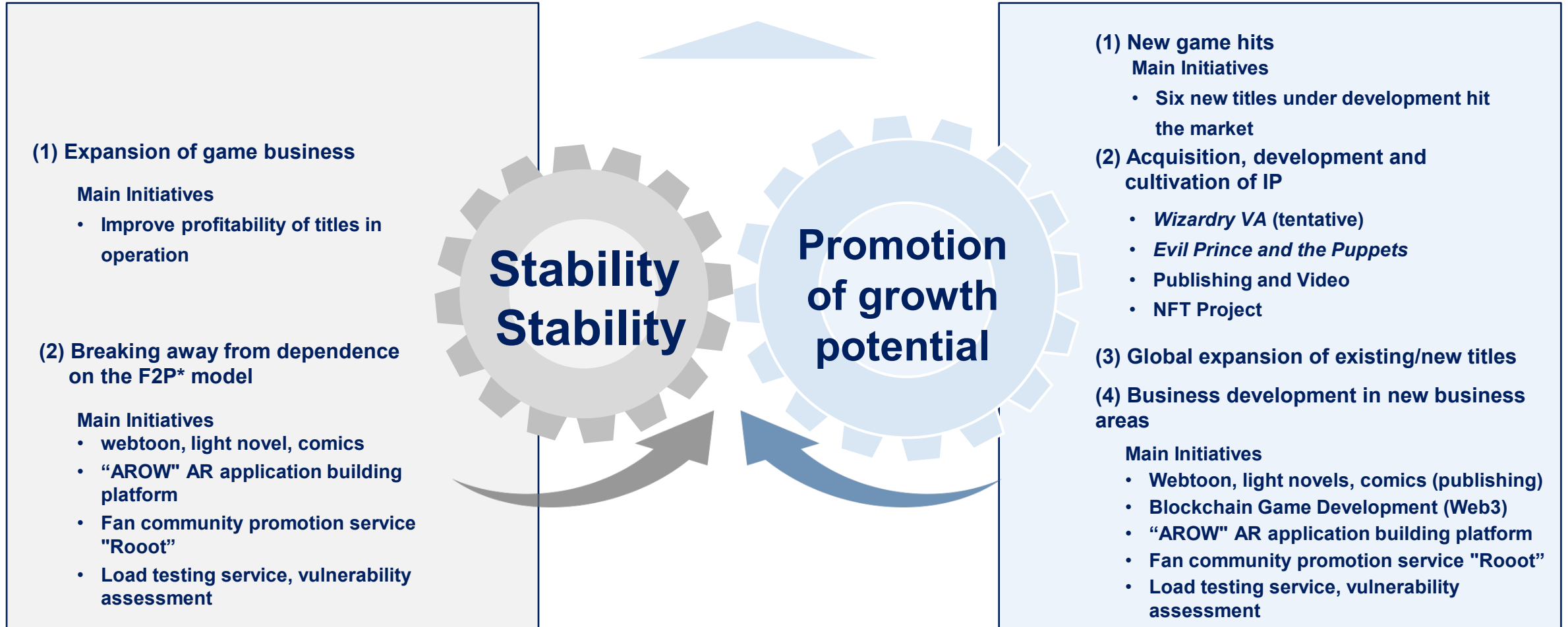
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Medium-Term goals

A comprehensive entertainment company that provides a variety of digital entertainment content based on IP.



F2P: Abbreviation for Free to Play. Online games that can be played basically free of charge.

Strengthen IP production capabilities

Focus on IP development, acquisition, advancement, and diversification of monetization channels to strengthen IP production capabilities

IP Producing Capability



Policy

- Focus on quality of IP to be developed and acquired
- Aiming for controllable IP ownership

- Expanding the fan base through cross-media development
- IP development based on fan community

- Breaking away from dependence on the F2P model
- Multi-layered revenue portfolio based on diverse monetization channels

Our Strengths

Game Development/
Distribution

Utilizing SNS
IP Fan Community
Management

IP game
development/distribution

Investment Areas

Webtoon
young-adult fiction
comics

Cross-media development
Animation/Video etc.

Book and e-book sales
Animation/Film
Rights management
Overseas expansion, etc.

NFT

NFT/Community
Management

Blockchain game

Publishing and Video Business

Aiming to maximize IP value by building a system that enables all-round media mix development. IP creation through the management of the Rookie Award

Four labels have been launched, led by people from publishing houses and film makers.

**As a first step in IP development
Large-scale novel contest for newcomer**



“DRE STUDIOS”
High-quality original works for the world
A webtoon label that aims to create



“DRE Novels”
Focusing on web-based novel and newly written novels
Fiction Labels



“DRE Comics”
Comic book label focusing on the comic book version of "DRE Novels".



“DRE PICTURES”
Planning and production of in-house IP animation

DRECOM MEDIA 大賞

Application Period : May 10, 2022 (Tuesday) - July 9, 2022 (Saturday) 23:59

Final selection: Late August 2022

Announcement of winning entries: Scheduled for September 9, 2022 (Friday)

Award-winning works are assured of the following developments

- Book publication in DRE Novels (paperback and e-book)
- Comic book (paperback and e-book) in DRE Comics
- Voice dramatization at DRE PICTURES

The webtoon award winners are awarded the following developments

- Webtoonization at DRE STUDIOS
- Voice dramatization at DRE PICTURES

*All prizes are subject to selection by the judges.

DRECOM MEDIA: <https://drecom-media.jp/>

Web3 Business

Announced business entry on Mar 18, 2020. In addition to blockchain game development, several other projects are underway, including the NFT project for IP creation.



Entering Performance Expansion Phase

Aiming to enter a phase for a virtuous cycle of earnings expansion by aggressively investing cash generated from the game business.

FY2023

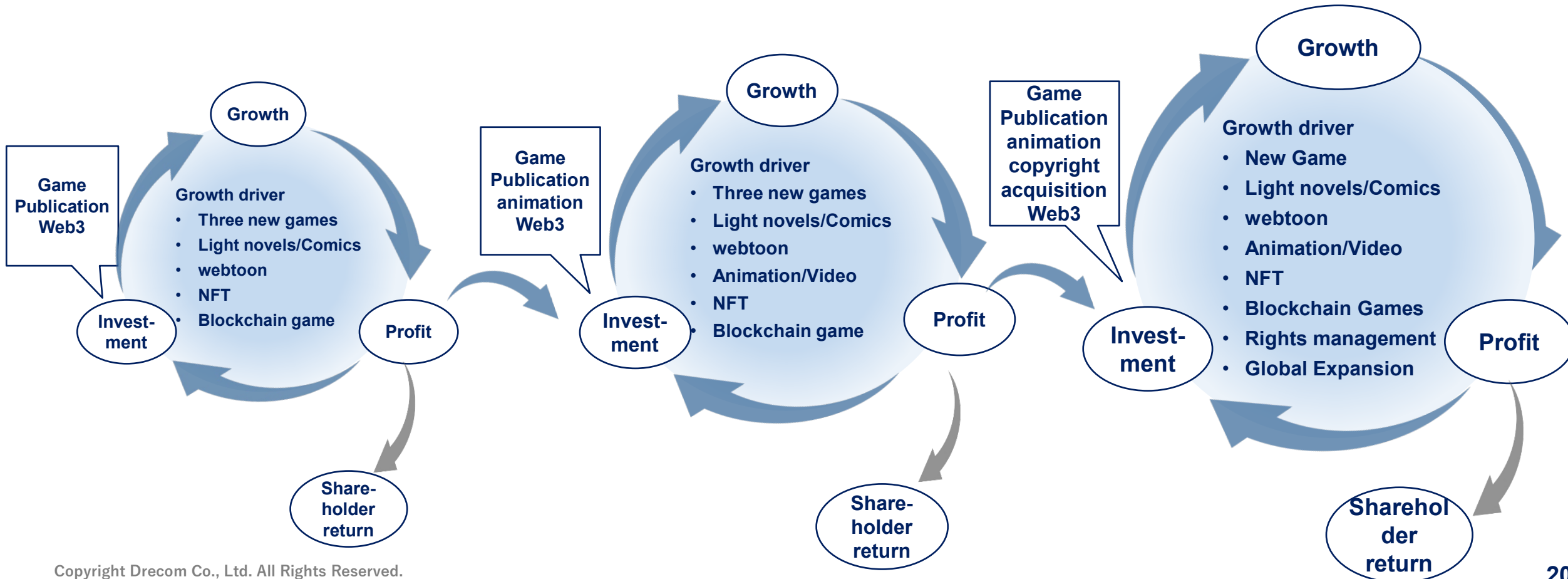
Sales: 13 billion yen (forecast)
Operating income: 2 billion yen (forecast)

FY2024

Sales: +20% or more YoY
Operating margin: Maintain 15%

FY2025

Sales: +20% or more YoY
Operating margin: Maintain 15%



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Project Summary (1)

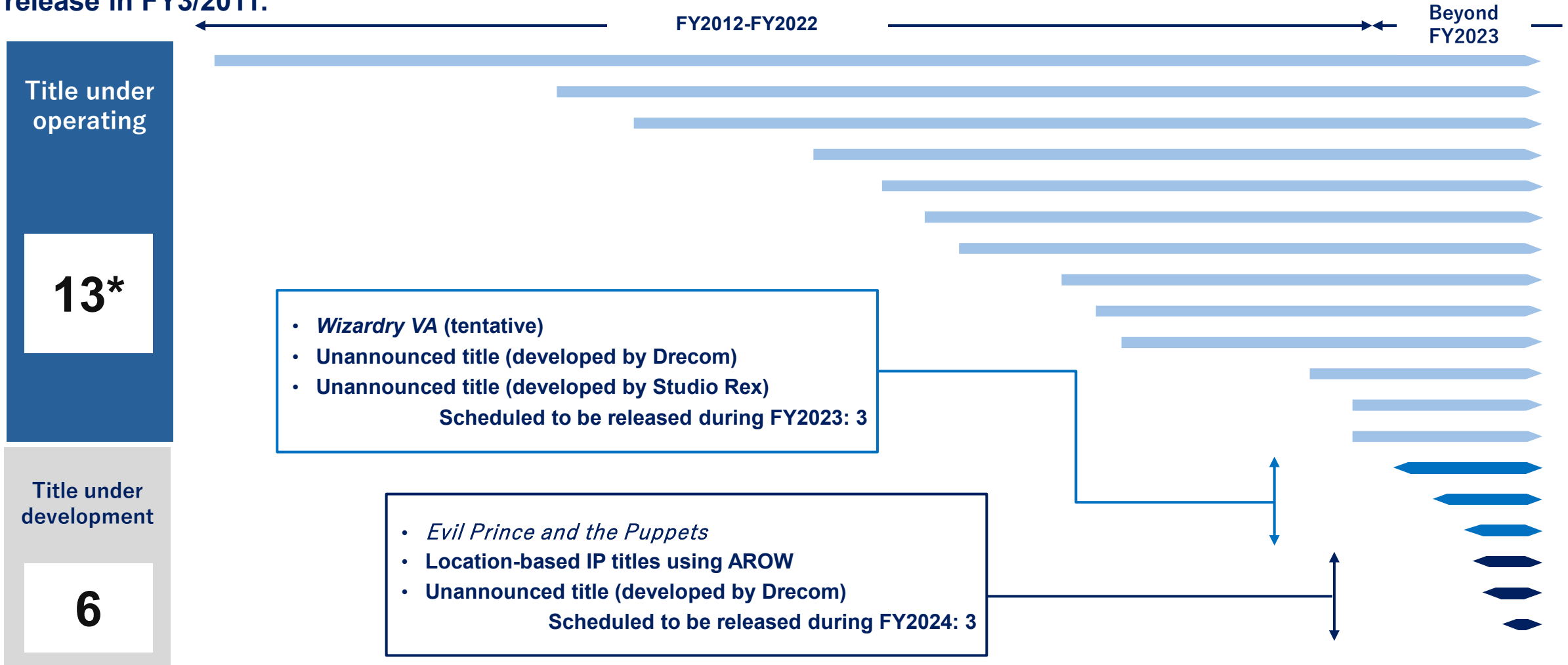
Six development projects underway as of March 31, 2022

Business	Status	Definition	Number of projects	Details	
Game Business	Operation	Titles in operation	13	<ul style="list-style-type: none"> ➤ Other company distribution: 8 titles ➤ In-house distribution: 5 titles 	
	Development	Commercialized development	Titles under development with a prospect for release	6	<ul style="list-style-type: none"> • <i>Wizardry VA</i> (tentative) • <i>Evil Prince and the Puppets</i> • Location-based IP titles using AROW • Unannounced title (developed by Drecom) • Unannounced title (developed by Drecom) • Unannounced title (developed by Studio Rex) <p>*Separate title from the Blockchain Game Development Project</p>
		Prototype	Pre-development stage title in works	—	<ul style="list-style-type: none"> ➤ Multiple candidate projects in progress.

Series titles and titles developed overseas are counted as one title.

Project Summary (2)

Released 3 new titles in FY3/2010, bringing the number of titles in operation to 13. 3 new titles are scheduled for release in FY3/2011.



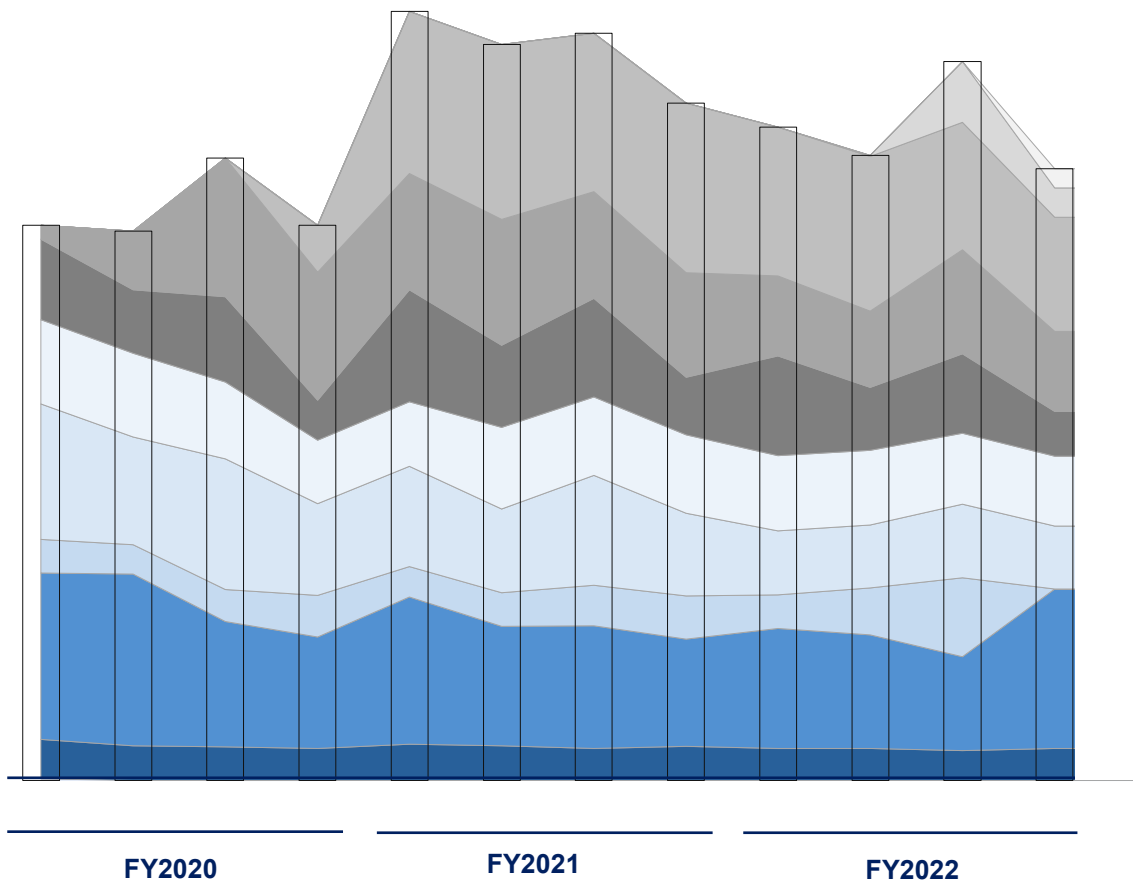
*Series titles and titles developed overseas are counted as one title.

Revenue status of titles in operation (by release date)

Shifting revenue generation model of game business from dependence on a small number of hit titles to but accumulation of revenue from multiple titles.

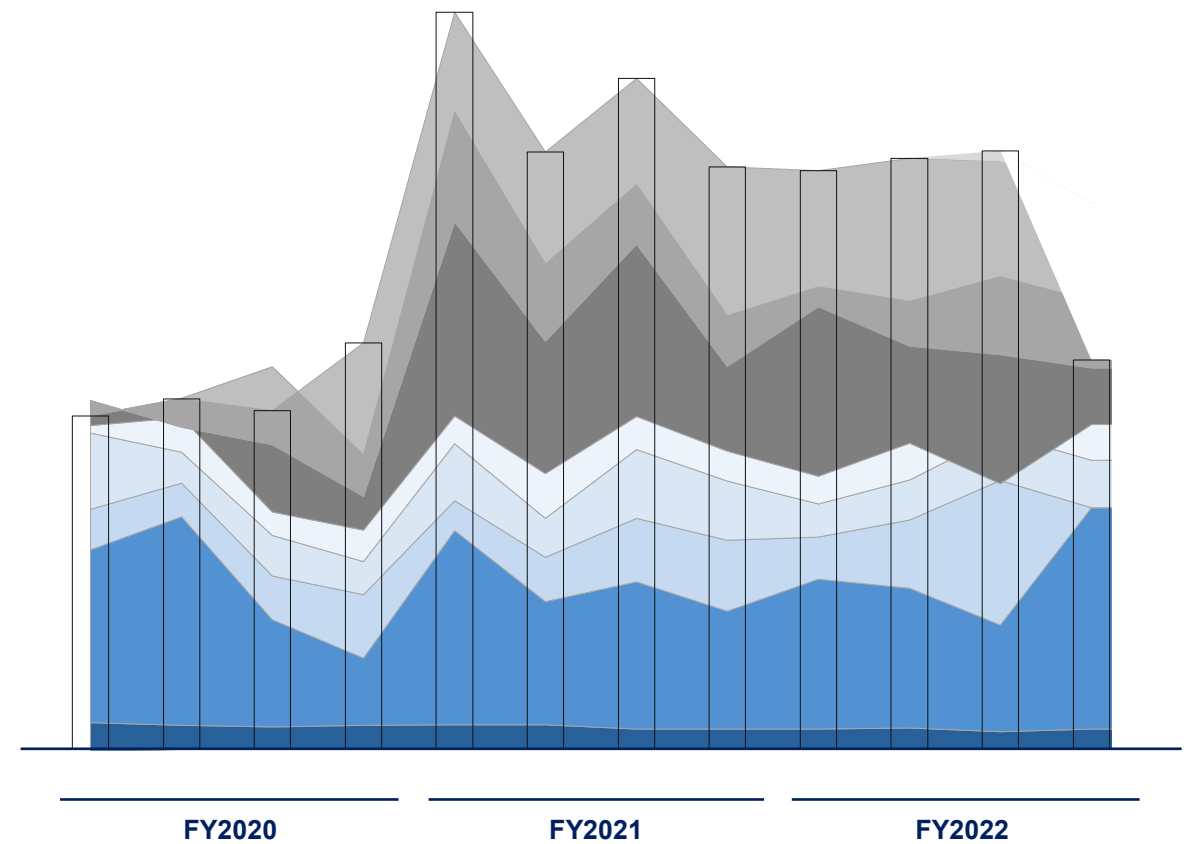
Total sales trend of titles under operation

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022



Total business profit trend of titles under management

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022



ESG Initiatives

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 appoint female directors

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

2) Balance between internal directors and independent outside directors

As of May 2022, 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. 19 Board of Directors meetings are held annually for FY2022 and 24 meetings are held annually for FY2021.

List of game titles in operation

Title Name	Distributor	Service start date
<i>Chokotto Farm</i>	Drecom Co, Ltd.	Jan 2011
<i>ONE PIECE Treasure Cruise</i>	BANDAI NAMCO Entertainment Inc.	May 2014
<i>BOKU & DRAGONS</i>	Studio Rex Co.	Feb 2015
<i>Derby Stallion: Masters</i>	Drecom Co., Ltd	Nov 2016
<i>Everybody's Golf</i>	Forward Works Co.	Jul 2017
<i>Kirara Fantasia</i>	Aniplex Corporation	Dec 2017
<i>THE IDOLM@STER SHINY COLORS</i>	BANDAI NAMCO Entertainment Inc.	Apr 2018
<i>NEKO & DRAGONS</i>	Studio Rex Co.	Apr 2019
<i>Super Robot Wars DD</i>	BANDAI NAMCO Entertainment Inc.	Aug 2019
<i>Disgaea: Hour of Darkness RPG</i>	Forward Works Co.	Nov 2019
<i>D_CIDE TRAUMEREI</i>	Samzap Corporation	Sep 2021
<i>mikonote Hare Tokidoki Kegare</i>	Drecom Co., Ltd	Feb 2022
<i>New Japan Pro-Wrestling Strong Spirits</i>	Bushiroad Inc.	Feb 2022

Terminology	Meaning
Games distributed in-house	Games distributed by Drecom. Drecom takes the lead in game planning, development, advertising, sales, etc.
Games distributed by other companies	Games distributed by other companies and developed by Dorcom as a cooperative company
Platformer	Businesses that provide service infrastructure systems, such as Apple and Google, to users or third parties, etc.
Gross sales	Amount paid by the user to the distributor, Drecom
Net sales	Amount distributed from the distributor to the developer, Drecom
Developer	Companies responsible for the development of games
Amount of game development costs charged to assets	Amount of development costs, such as labor and subcontracting costs, mainly related to pre-release games, deducted from manufacturing costs and transferred to assets as "Software in progress".
R&D expenses	Costs associated with planning and prototyping new games and services
IP	Abbreviation for Intellectual Property. Intellectual Property
this development	Game development must be in full swing.
Anniversary Events	Every six months or a year, an event is held that boosts the game. The number of active users and sales often rise compared to normal times due to the introduction of many new measures and contents



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with entertainment

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.