

**First Quarter of Fiscal Year Ending Mar. 31, 2023**  
**Financial Results Presentation Materials**



**DRECOM**<sup>®</sup>  
with entertainment

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**Drecom Co., Ltd.**  
**July 28, 2022**

Please refer to the fact sheet on our website for consolidated financial results, cost of sales, SG&A expenses, etc., and billing sales in the game business.

[https://drecom.co.jp/ir/factsheet\\_202303Q1.pdf](https://drecom.co.jp/ir/factsheet_202303Q1.pdf)

**Q1 FY2023  
financial  
results  
(April-June)  
Actual**

- **Operating income, ordinary income, and net income reached record highs on a quarterly basis**  
Q1 results: operating income 817 million yen,  
ordinary income 810 million yen, net income\* 521 million yen  
Favorable sales of mainstay title from their anniversary events, etc.

\*Net income attributable to owners of the parent

**Forecast for  
FY2023**

- **Steady progress in relation to full-year forecasts**  
Full-year forecast (announced on 5/12/2022): Net sales: 13,000 million yen,  
Operating income: 2,000 million yen  
Ordinary income 1,900 million yen, Net income\* 1,200 million yen

\*Net income attributable to owners of the parent

- 1. Review of Q1 (Apr–Jun) FY2023**
2. Forecast for FY2023
3. Medium-term goals (as of FY2023)
4. Appendix

# Summary of Q1 FY2023 Results

Record quarterly profit; IP titles celebrating their 8th anniversary performed well globally

(Unit: million yen)

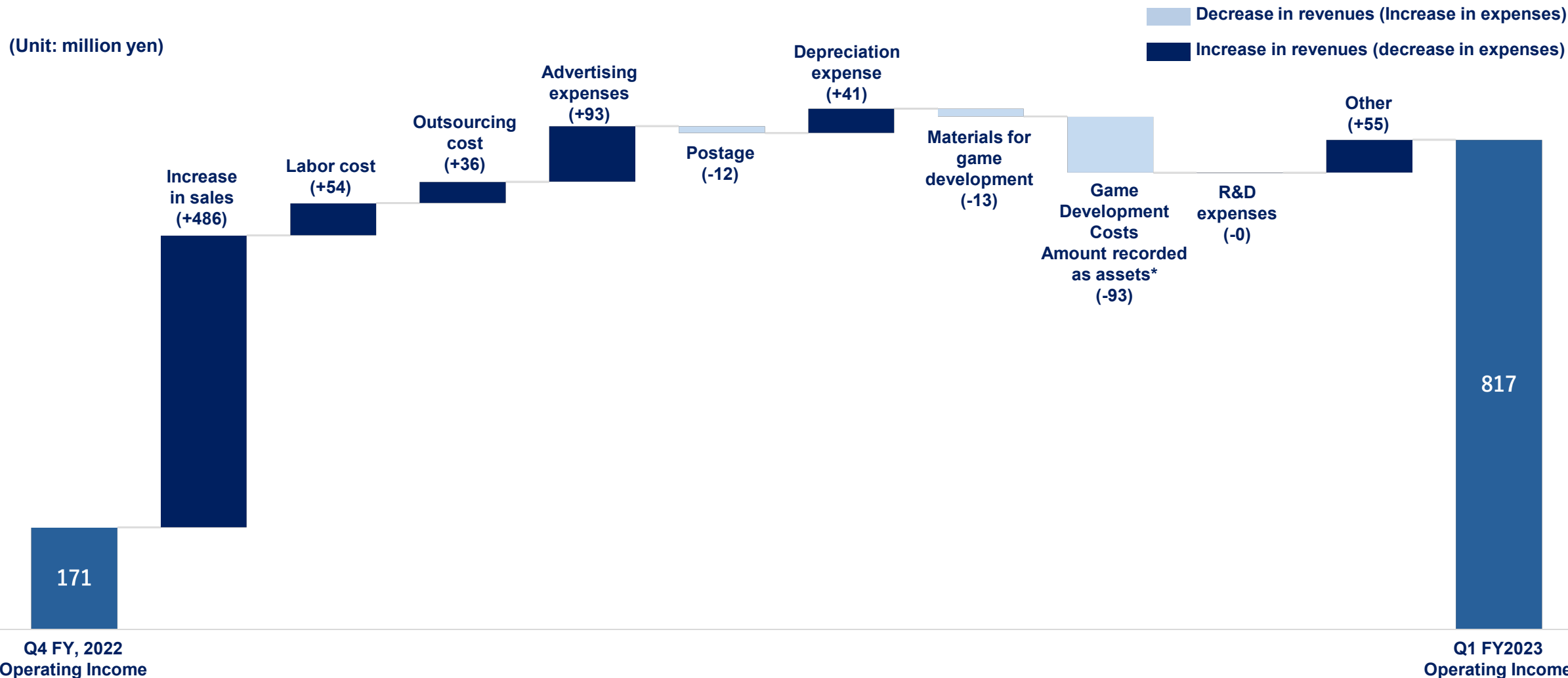
	Year ending Mar. 31, 2023 Q1 (Apr-Jun)	Year ending Mar. 31, 2022 Q1 (Apr-Jun)	year on year (Increase/Decrease)	Year ending March 31, 2022 Q4 (Jan-Mar)	QoQ (Increase/ Decrease)
Net sales	2,927	2,661	+265	2,450	+476
Operating income	817	504	+313	171	+646
<i>Operating profit ratio</i>	27.9%	18.9%	—	7.0%	—
EBITDA*	909	671	+237	304	+605
<i>EBITDA Margin</i>	31.1%	25.2%	—	12.4%	—
Ordinary income	810	492	+318	160	+649
Net income attributable to shareholders of the parent company	521	300	+221	-45	+567

\*EBITDA = operating income + amortization of goodwill + depreciation

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# Q1 Results for FY2023 (Operating Income QoQ comparison)

Increased revenues from anniversary events, etc. resulted in significant QoQ increase of profit

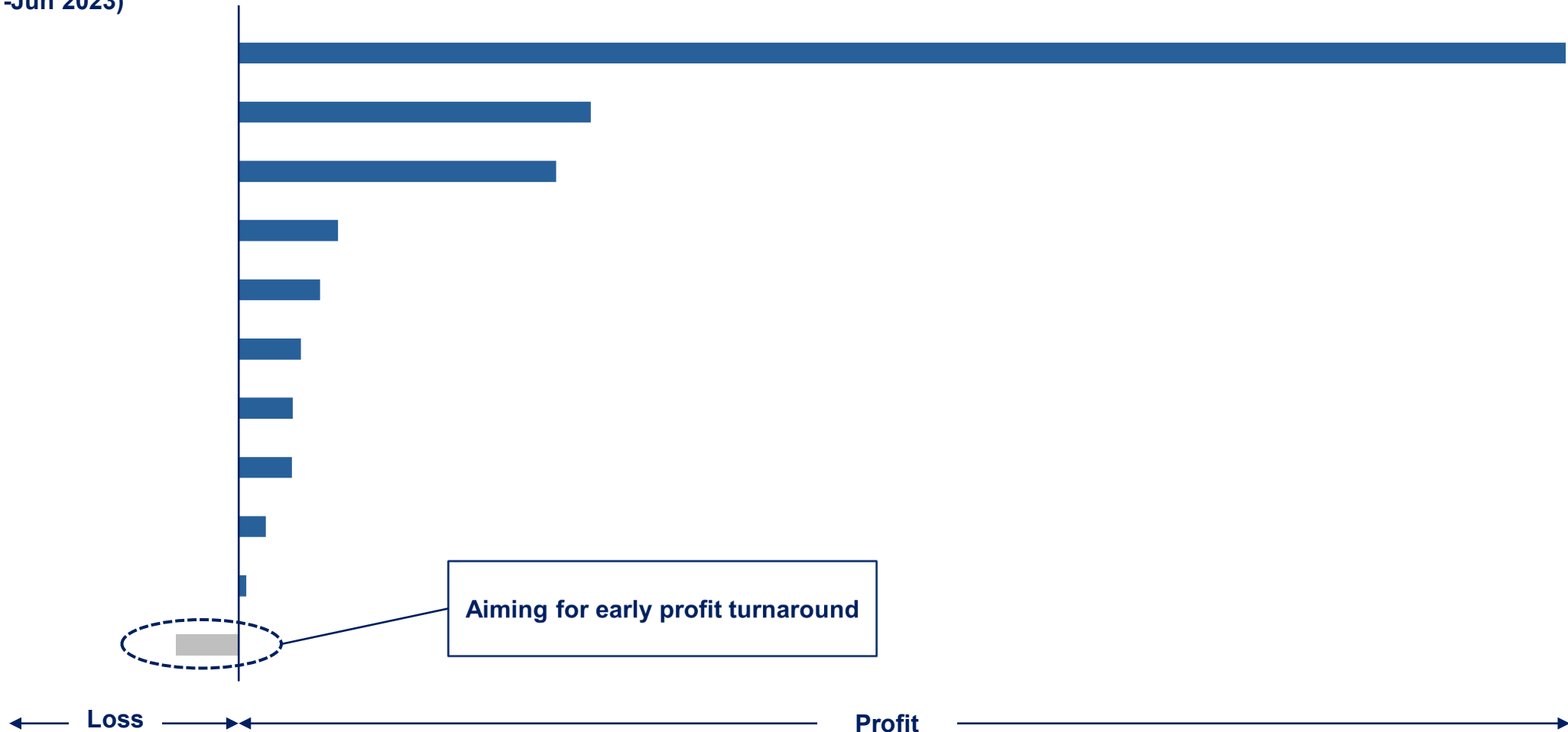


\*Amount of development costs such as labor and subcontracting costs mainly related to pre-release games deducted from manufacturing costs and transferred to assets as "Software in progress".

# Game Business: Earnings from Titles in Operation

Not only strong IP titles but also other long-term operational titles contributed to stable earnings

Profit/loss of 11 titles under management\*  
(Q1 Apr-Jun 2023)



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

## Topics of each business

### Game business

- **IP titles celebrating their 8th anniversary are performing well**
  - An integrated global content distribution schedule and other factors led to a successful anniversary event in May.
- **Securing stable income through long-term operating titles**
  - Secure stable earnings despite the severe market environment
- **Development of additional features is underway for some titles in development that are not yet ready for release.**
  - Some releases have been pushed back slightly from the expected time-frame, and the timing of the ramp-up of advertising expenses has been pushed back to Q2 or later.
  - Assumption of contribution to earnings from the second half of the year remains unchanged.

### New business

- **Large number of entries to the Drecom Media Award for New Novelists**
  - Numerous submissions (approximately 2,000 entries) to the Drecom Media Award, a novelist award for newcomers to the industry.
- **Steady sales growth for "Root" fan community promotion service**
  - Sales increased 27.6% QoQ
- **Business activities in the Web3 domain are progressing steadily**
  - In addition to blockchain game development, multiple projects are in progress, including the NFT project for IP creation.

1. Review of Q1 (Apr – Jun) FY2023

**2. Forecast for FY2023**

3. Medium-term goals (as of FY2023)

4. Appendix



# Progress of Full-Year Consolidated Earnings Forecasts

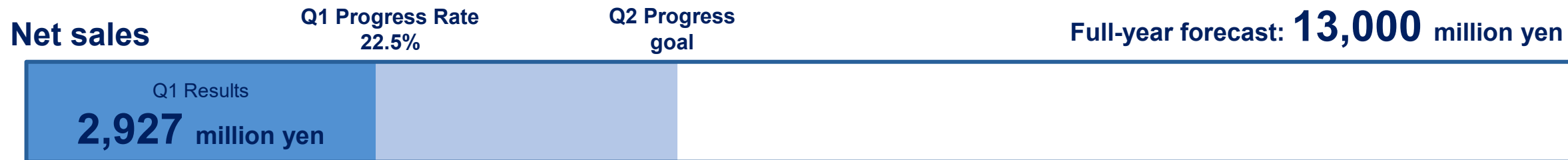
In Q1 (April-June), anniversary events performed better than expected. Steady progress in relation to full-year forecasts.

(Unit: million yen)	FY2023			(Reference) FY2022				
	Q1 (Apr-Jun) Actual	Rate of progress	Full Year Forecast	Q1 (Apr-Jun) Actual	Q2 (Jul-Sep) Actual	Q3 (Oct-Dec) Actual	Q4 (Jan-Mar) Actual	Full year Actual
Net sales	2,927	22.5%	13,000	2,661	2,523	2,893	2,450	10,528
Variable cost	356	19.2%	1,860	394	380	391	365	1,630
Fixed cost	1,753	19.2%	9,139	1,762	1,680	2,048	1,913	7,306
Advertising expenses	24	3.4%	725	16	21	88	117	243
R&D expenses	55	7.5%	737	117	91	80	54	345
Game Development Costs Amount recorded as assets*	-465	22.8%	-2,040	-496	-692	-485	-558	-2,233
Operating income	817	40.9%	2,000	504	463	452	171	1,591
Ordinary income	810	42.7%	1,900	492	448	439	160	1,541
Net income attributable to shareholders of the parent company	521	43.5%	1,200	300	311	241	-45	807

\*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".

## Progress of Net Sales and Operating Income in relation to Full-Year Forecasts

Sales expected to increase from 2H following the release of three new game titles (all distributed by the company)  
Steady progress toward achieving the full-year operating income forecast of 2,000 million yen



**Game Business:** No major events in Q2 (July-September), but stable sales are expected from titles in operation.

Sales are expected to increase from the second half of the fiscal year, as three new titles would be distributed by the company and sales will be appropriated as gross sales.

**New Business:** In the publishing business, we plan to publish more than 10 titles (paperback and e-book) in the second half of the fiscal year and beyond.



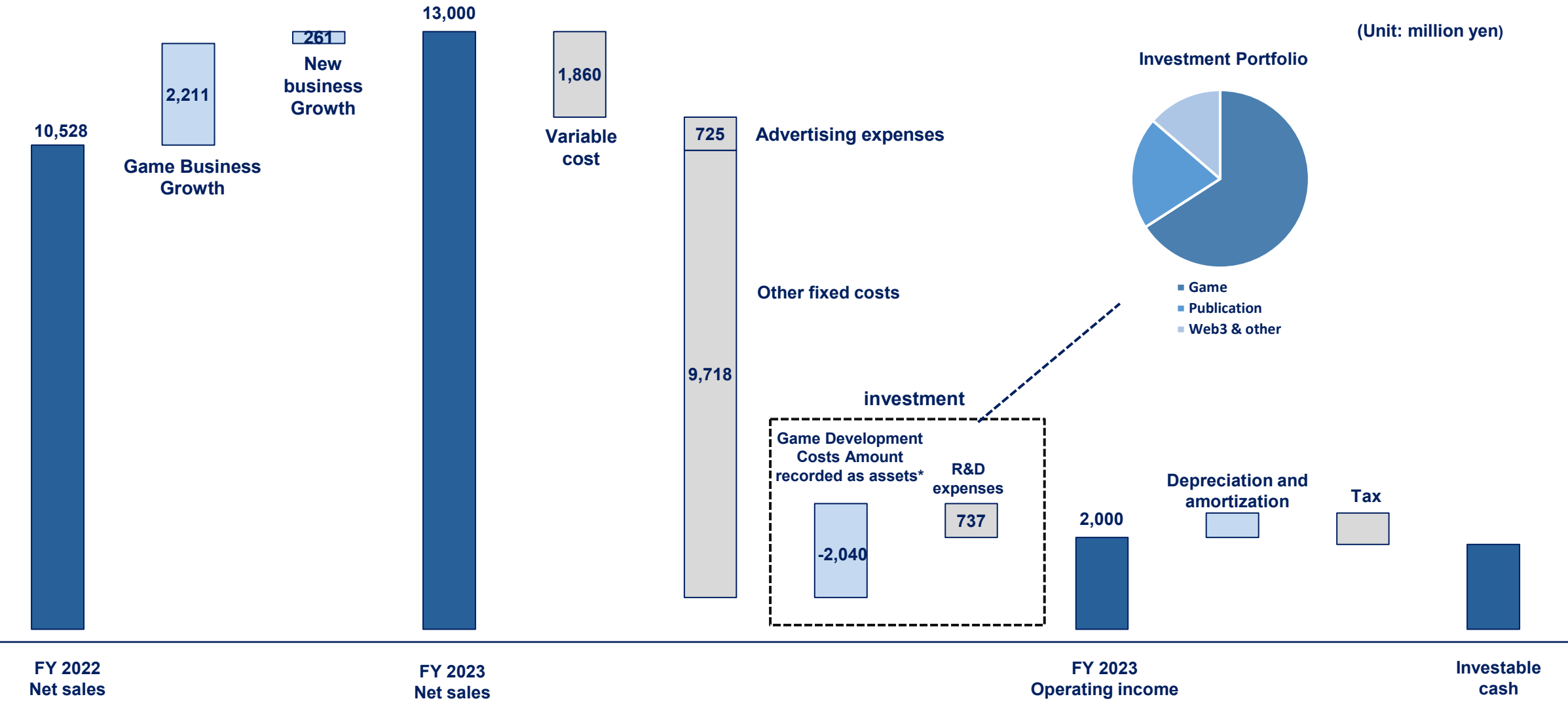
**Game Business:** No major events in Q2, and profit level will be normalized.

3 new titles are expected to contribute to earnings in 2H.

**New Business:** Accelerate R&D investment in the publishing business and Web3 domains from Q2 onward.

# Summary of Consolidated Financial Forecast for the Full Year (Reiterated)

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

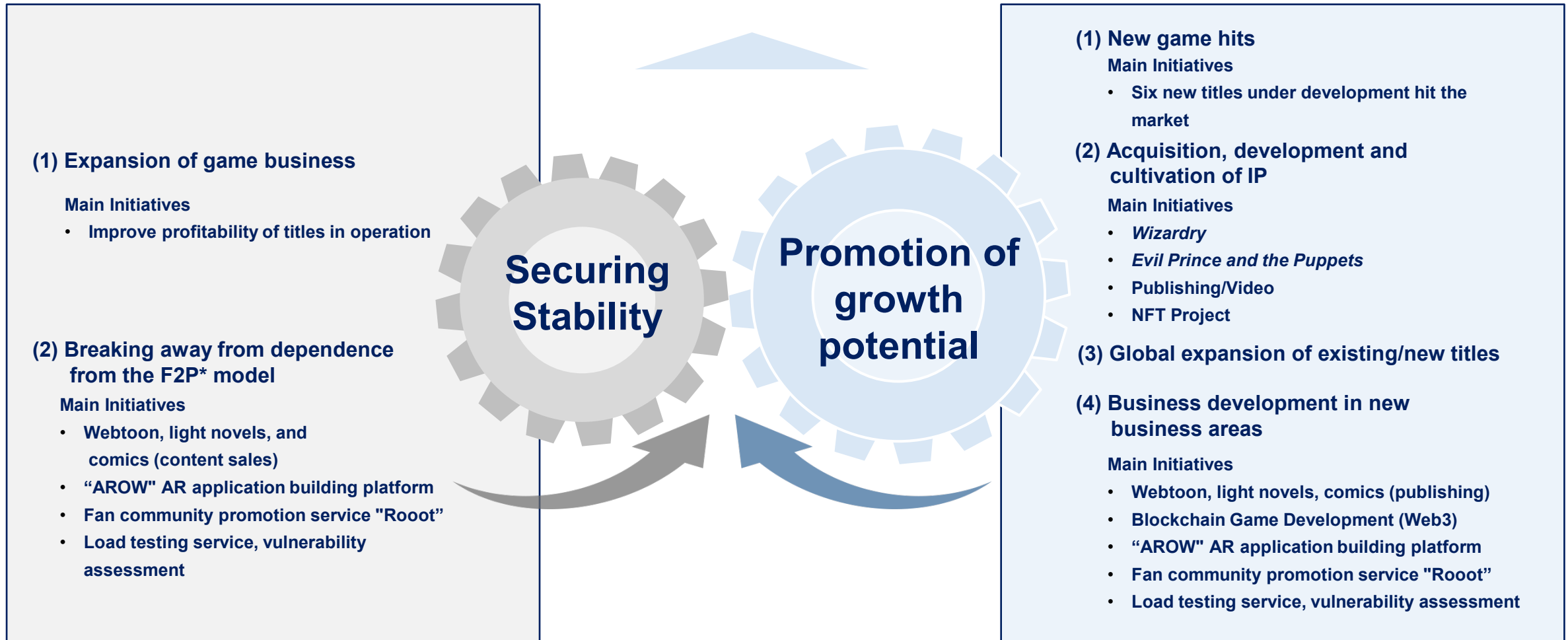


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1. Review of Q1 (Apr. – Jun.) FY2023
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4. Appendix

## Medium-term goal

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



\*F2P: Abbreviation for free to play. An online game that can be played basically for free.

# Promoting growth potential: new game hits

## Six development projects underway as of July 2022

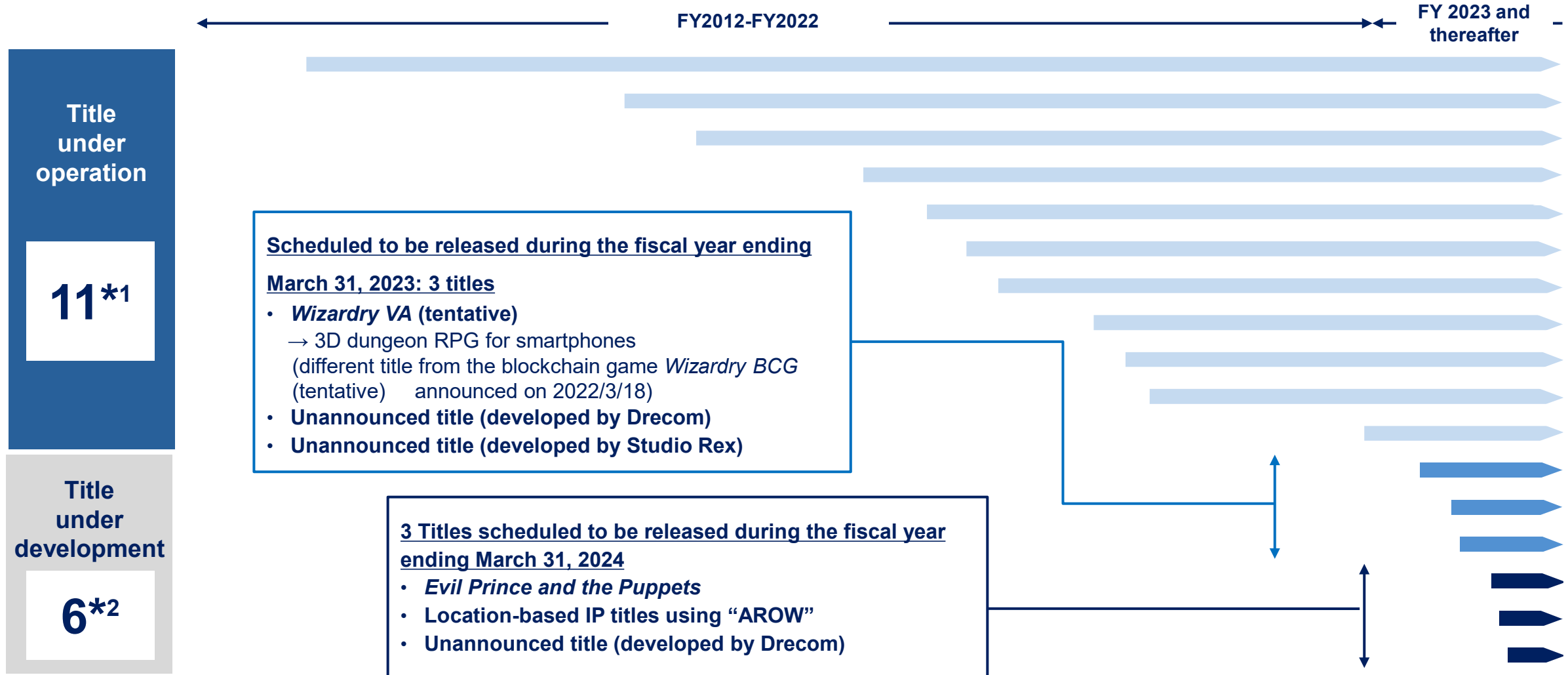
Business	Status	Definition	Number of projects	Details	
Game Business	operation	Titles in operation	11	<ul style="list-style-type: none"> <li>➤ Other company distribution: 7 titles</li> <li>➤ In-house distribution: 4 titles</li> </ul>	
	Development	Commercialized development	Titles under development with a prospect for release	6	<ul style="list-style-type: none"> <li>• <b>Wizardry VA (tentative)</b> → 3D dungeon RPG for smartphones (different title from the blockchain game Wizardry BCG (tentative) announced on 2022/3/18)</li> <li>• <b>Unannounced title (developed by Drecom)</b></li> <li>• <b>Unannounced title (developed by Studio Rex)</b></li> </ul> <hr/> <ul style="list-style-type: none"> <li>• <i>Evil Prince and the Puppets</i></li> <li>• <b>Location-based IP titles using “AROW”</b></li> <li>• <b>Unannounced title (developed by Drecom)</b></li> </ul>
		Prototype	Pre-development stage title in works	several	<ul style="list-style-type: none"> <li>➤ <b>Several projects are in progress, including two titles to be exhibited at BitSummit X-Roads*.</b></li> <li><b>Multiple projects in progress</b></li> </ul>

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

BitSummit, a gaming event now in its 10th year, will be held in Kyoto on August 6 and 7, 2022.

# Promoting growth potential: new game hits (cont.)

11 titles in operation, with 3 planned for release during FY 2023



\*1: Series titles and titles developed overseas are counted as one title. \*2: Projects classified as prototypes on page 15 are not included above.

# Accelerate growth potential: acquire, develop, and nurture IP

Strengthen IP production capabilities by adding "publishing and video business, which are our investment areas, and the Web3 domains" to "our strengths."

## IP Producing Capability



### Policy

- Focus on quality of IP developed and acquired
- Aim 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

IP fan community  
management using SNS

IP game  
development/distribution

+

+

+

### Investment Areas

Webtoon  
Light novels  
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



## Promote growth potential: Business development in new business areas (Web3 domains)

Launched 5 initiatives in areas of high affinity with existing businesses. Aiming to promote growth strategies through Entertainment x Web3



## Promote growth potential: Business development in new business areas (Web3 domains) (cont.)

Strengthening recruitment activities in order to aggressively expand business in the Web3 domain.



▼For more information, please visit the "Drecom Recruiting Site"

<https://recruit.drecom.co.jp/career/>

### Open Positions

#### **Business Planning**

Research and business planning in the Web3 domains

#### **Engineering positions**

Research on Web3 related technologies

Smart contract development/operation

#### **Community Management**

Community management on Twitter and Discord

Community design for each product

# 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

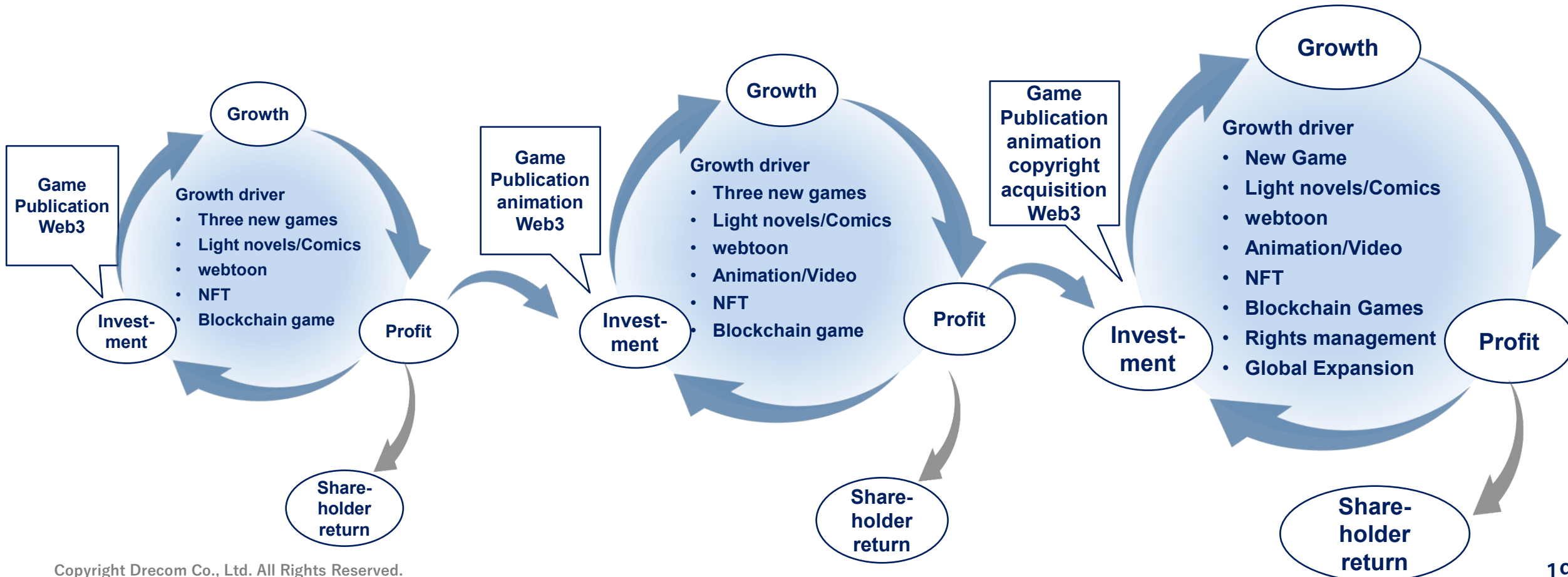
Sales: 13 billion yen (forecast)  
Operating income: 2 billion yen (forecast)

## FY2024

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

## FY2025

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



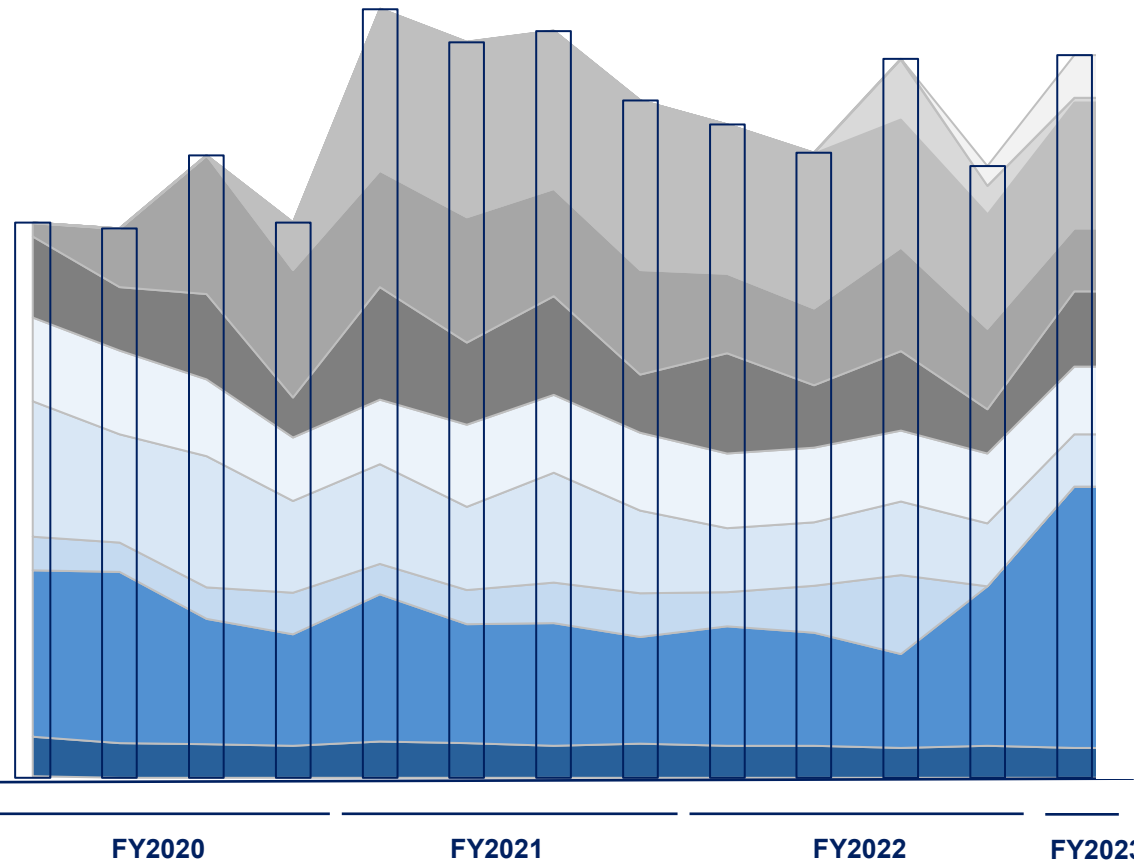
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# Revenue status of titles in operation (by release date)

Breaking away from the dependence on few hit titles to a portfolio that earns stable revenue from multiple hit titles

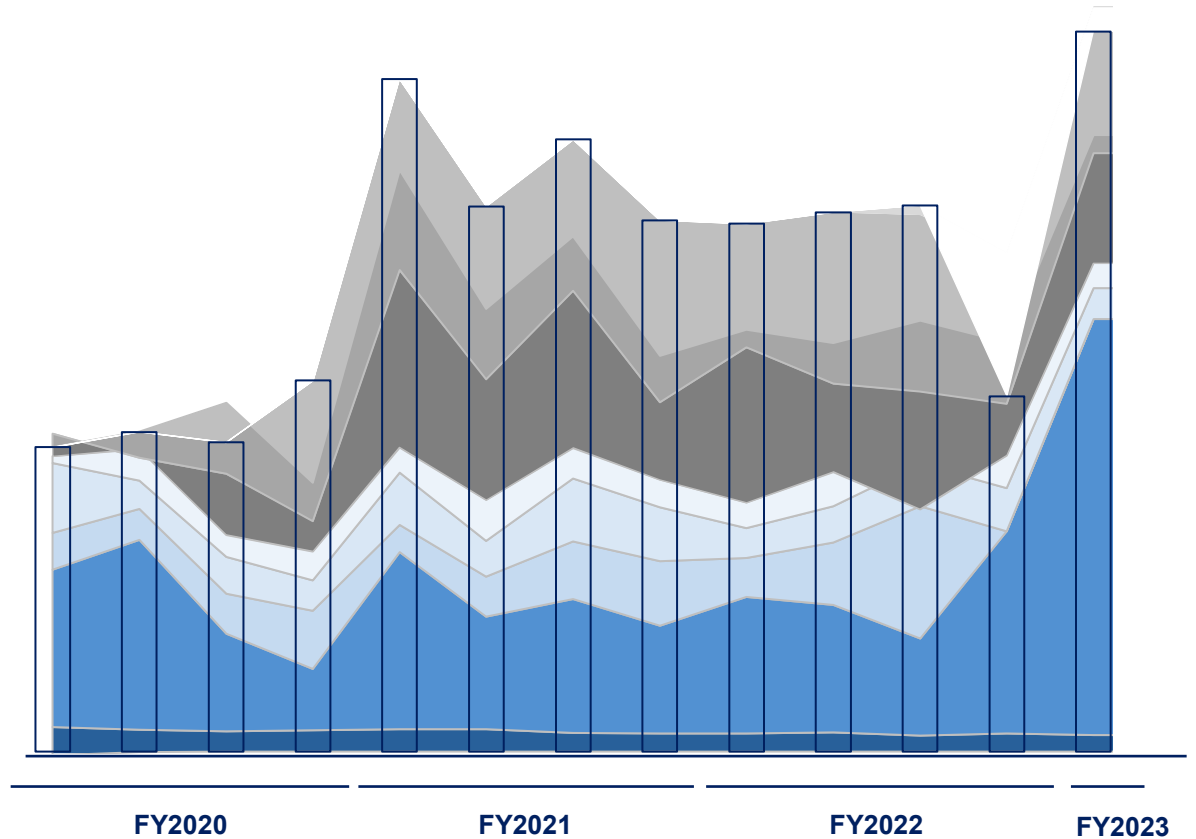
Total sales of titles under management

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



Total business profit of titles under management

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



\*Please refer to the fact sheet posted on our website for consolidated business performance trends, cost of sales, SG&A expenses, etc., and game business billing sales trends.  
[https://drecom.co.jp/ir/factsheet\\_202303Q1.pdf](https://drecom.co.jp/ir/factsheet_202303Q1.pdf)

# 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 May 2022, 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 were held annually for FY2022 and 24 meetings were 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 &amp; DRAGONS</i>	studiorex Co., Ltd.	Feb 2015
<i>Derby Stallion: Masters</i>	Drecom Co., Ltd.	Nov 2016
<i>Everybody's Golf</i>	Forward Works Corporation	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 &amp; DRAGONS</i>	studiorex Co., Ltd.	Apr 2019
<i>Super Robot Wars DD</i>	BANDAI NAMCO Entertainment Inc.	Aug 2019
<i>Disgaea: Hour of Darkness RPG</i>	Forward Works Corporation	Nov 2019
<i>New Japan Pro-Wrestling Strong Spirits</i>	Bushiroad Inc.	Feb 2022

# Glossary

Terminology	Meaning
Games distributed in-house	Games for which Drecom is the distributor. We are in charge of game planning, development, advertising, and sales.
Games distributed by other companies	The game is distributed by another company, and Drecom is in charge of development as a partnering company.
Platformer	Apple, Google, and other companies that provide service infrastructure systems to users and third parties.
Gross sales	The amount of money paid by the user to the distributor, Drecom.
Net sales	The amount of money distributed from the distributor to the developer, Drecom.
Developer	A company 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".
Research and development expenses	Costs associated with planning and creating prototypes for new games and services.
IP	Abbreviation for Intellectual Property.
Commercialized development	Game development is in full swing.
Anniversary Events	Every six months and 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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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, but are not limited to, economic conditions surrounding our business, social trends, and changes in relative competitiveness due to demand trends for the services we provide.