



Consolidated financial results for the First quarter of the fiscal year Ending March 31, 2024
(Under Japanese GAAP)

July 27, 2023

Listed company name: Drecom Co., Ltd.
 Listing: Tokyo Stock Exchange
 Code number: 3793
 URL: <https://drecom.co.jp/>
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 Scheduled date to file quarterly securities report: August 10, 2023
 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, 2023 (From April 1, 2023 to June 30, 2023)

(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	
	Million yen	%	Million yen	%		%		%
Three months ended								
June 30, 2023	2,346	-19.8	8	-99.0	2	-99.7	-441	—
June 30, 2022	2,927	10.0	817	62.1	810	64.6	521	73.5

Note: Comprehensive income For the three months ended June 30, 2023 -¥439 million yen (-%)
 For the three months ended June 30, 2022 ¥522 million yen (73.4%)

	Quarterly Net earnings per share	Quarterly Diluted net earnings per share
Three months ended	Yen	Yen
June 30, 2023	-15.50	—
June 30, 2022	18.35	18.34

(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, 2023	11,111	5,044	44.9	175.19
Fiscal year ended				
March 31, 2023	12,226	5,631	45.6	195.70

Reference: **Equity capital** As of June 30, 2023 ¥4,993 million
 As of March 31, 2023 ¥5,579 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, 2023	—	0.00	—	5.00	5.00
March 31, 2024	—				
March 31, 2024 (Forecast)		0.00	—	—	—

Note: Revision to the forecast of cash dividends most recently announced: Yes

The year-end dividend forecast for March 2024 has not yet been determined. For details, please refer to the " Notice Concerning Recording of Operating Expenses and Extraordinary Losses, Revision of Full-Year Earnings Forecasts, and Revision of Dividend Forecasts" released today (July 27, 2023).

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2024 (April 1, 2023 - March 31, 2024)

(% increase or decrease from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2024	11,500	6.5	500	-78.1	450	-79.5	0	—	0.00

Note: Revisions to the most recently announced earnings forecasts: Yes

For details, please refer to the " Notice Concerning Recording of Operating Expenses and Extraordinary Losses, Revision of Full-Year Earnings Forecasts, and Revision of Dividend Forecasts" released today (July 27, 2023).

*Notes

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

New —, (Company name) —, Exclusion —, (Company name) —

(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: None

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

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(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, 2023	29,129,591 shares
As of March 31, 2023	29,129,591 shares

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

As of June 30, 2023	624,995 shares
As of March 31, 2022	621,595 shares

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

Three months ended June 30, 2023	28,506,875 shares
Three months ended June 30, 2022	28,435,330 shares

Note: 595,800 shares of the Company's stock (5,958 voting rights) held by The 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 27, 2023.

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, 2023

(1) Explanation of operating results

The Group's raison d'etre is "with entertainment" and our goal is to continue to create services that exceed people's expectations. We also strive to create value that has never existed before and deliver experiences that captivate users. In the medium term, we aim to become a comprehensive entertainment company that provides a wide variety of entertainment content globally based on IP and technology, and to achieve sustainable growth and increase corporate value.

In the mainstay game business, our main business is game development and operation, and we develop and operate third-party IP games, game platforms, and original games. In the media business, we publish and sell novels, comics, and other books and e-books with the aim of developing and nurturing IP. We are also experimentally launching new services that utilize our knowledge of Internet services and advanced technologies, and are conducting trials toward commercialization.

In the first quarter of the current consolidated cumulative period, net sales were 2,346,198 thousand yen (down 19.8% year-on-year), operating income was 8,487 thousand yen (down 99.0% year-on-year), and ordinary income was 2,328 thousand yen (down 99.7% year-on-year). In addition, the Company posted an extraordinary loss of 416,328 thousand yen due to the decision to close a subsidiary's new title and the recording of impairment losses, resulting in a net loss attributable to owners of the parent of 441,807 thousand yen for the quarter (compared to net income attributable to owners of the parent of 521,831 thousand yen for the same period last year).

The results for each segment for the first quarter of the consolidated fiscal year under review are as follows.

Game business

In the game business, a subsidiary released a new in-house distributed title "Dachimens Densetsu G" but decided to close it due to lower-than-expected sales. In addition, some existing titles also fell short of expectations.

Net sales decreased year-on-year mainly due to the closure at the end of February 2023 of one title that had been in operation for approximately five years, as well as the fact that some of the titles under operation fell below the level of the previous year.

Profit decreased from the same period of the previous year due to the above-mentioned decrease in revenue and an increase in expenses associated with the release of two new in-house distribution titles at the end of the previous fiscal year and in the first quarter of the current fiscal year.

As a result, segment sales amounted to 2,268,870 thousand yen (down 20.5% year-on-year), and segment income was 236,019 thousand yen (down 73.6% year-on-year). In this segment, our core business, we will continue to strive to maintain stable earnings from titles in operation, and since the situation for new mobile game titles is more difficult than expected, we will review overall strategies for mobile game titles under development, reduce costs, and take other measures to improve the profit/loss situation as soon as possible. In addition, we will aim to increase sales and profits through the contribution of new titles to be released in the latter part of the second half of the fiscal year.

Media business

In the media business, while working on the publishing and video business to develop and nurture IP and diversify revenue-generating channels, the Company has been publishing monthly from the light novel label "DRE Novels". In addition, we are developing new businesses in the Web3 domain and providing "Root", a Twitter-based fan community promotion service, by leveraging our expertise in Internet services and advanced technology.

Net sales increased year-on-year due to the stable revenue recorded by "Root" and the start of publication of "DRE Novels".

As for profit, the loss amount increased from the same period of the previous year due to the ongoing cost advance due to investments in new business areas such as publishing, video, and Web3.

As a result of the above, segment sales amounted to 77,328 thousand yen (up 3.4% year-on-year) and segment loss amounted to 227,531 thousand yen (segment loss of 75,209 thousand yen in the same period last year). In this segment, we will continue to invest in R&D to achieve our medium-term goal, but we plan to revise some of our plans and implement other measures as we implement company-wide cost reductions.

Looking ahead, we will review overall strategies for mobile game titles under development and implement cost reductions and other measures to improve the profit-and-loss situation as soon as possible, and aim to increase sales and profits through contributions from new titles to be released in the latter part of the second half of the fiscal year. In addition, we will continue to invest and focus on business expansion into entertainment areas other than games and development and nurturing of our own IP, aiming to grow into a comprehensive entertainment company with IP as its core.

(2) Explanation of financial position

(Assets)

Current assets at the end of the first quarter of the current consolidated fiscal year totaled 6,682,429 thousand yen, a decrease of 1,165,964 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to a decrease of 1,343,864 thousand yen in cash and deposits. Fixed assets totaled 4,429,182 thousand yen, an increase of 51,179 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 55,206 thousand yen in software in progress account, despite a decrease of 27,569 thousand yen in software.

As a result, total assets amounted to 11,111,612 thousand yen.

(Liabilities)

Current liabilities at the end of the first quarter of the current consolidated fiscal year totaled 3,696,531 thousand yen, a decrease of 603,963 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to decreases of 51,679 thousand yen in accounts payable-trade, 42,500 thousand yen in current portion of long-term loans payable, 455,140 thousand yen in income taxes payable, and 90,519 thousand yen in provision for bonuses. Noncurrent liabilities totaled 2,370,795 thousand yen, an increase of 76,013 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 82,250 thousand yen in long-term loans payable.

As a result, total liabilities amounted to 6,067,327 thousand yen.

(Net assets)

Total net assets as of June 30, 2023 amounted to 5,044,284 thousand yen, a decrease of 586,835 thousand yen from the end of the previous fiscal year. This was mainly due to the net loss attributable to parent company shareholders of 441,807 thousand yen.

As a result, the equity ratio was 44.9% (45.6% at the end of the previous fiscal year).

(3) Explanation of consolidated earnings forecasts and other forward-looking information

Taking into consideration the consolidated business results for the first quarter of the current fiscal year and future prospects, we have revised our consolidated business forecast for the fiscal year ending March 31, 2024 (full year), which was announced on May 11, 2023.

For details, please refer to the "Notice Concerning Recording of Operating Expenses and Extraordinary Losses at Consolidated Subsidiaries, Revision of Full-Year Earnings Forecast, and Revision of Dividend Forecast" released today (July 27, 2023).

The consolidated earnings forecasts are based on information available as of the date of publication of this document, and actual results may differ from the forecasts due to various factors in the future.

2. Quarterly consolidated financial statements and key notes

(1) Quarterly consolidated balance sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2023)	Three months ended June 30, 2023 (June 30, 2023)
Assets		
Current assets		
Cash and deposits	6,044,573	4,700,709
Accounts receivable	1,484,658	1,661,126
Goods	5,268	6,004
Work in progress	17,482	32,662
Prepaid expenses	148,928	158,681
Other	147,482	123,245
Total current assets	7,848,394	6,682,429
Fixed assets		
Tangible fixed assets		
Building	191,229	191,229
Accumulated depreciation	-31,029	-35,457
Buildings, net	160,200	155,772
Tools, furniture and fixtures	85,502	86,700
Accumulated depreciation	-53,143	-56,845
Tools, furniture and fixtures, net	32,358	29,855
Leased assets	7,232	7,232
Accumulated depreciation	-3,107	-3,382
Lease assets, net	4,125	3,850
Total tangible fixed assets	196,683	189,477
Intangible fixed assets		
Software	201,601	174,032
Software in progress	3,026,917	3,082,124
Total intangible fixed assets	3,228,519	3,256,156
Investments and other assets		
Investments in securities	59,926	59,926
Deferred tax asset	491,226	483,315
(Security) deposit	199,404	199,404
Other	202,242	240,902
Total investments and other assets	952,800	983,548
Total fixed assets	4,378,002	4,429,182
Total assets	12,226,397	11,111,612

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2023)	Three months ended June 30, 2023 (June 30, 2023)
Liabilities		
Current liabilities		
Accounts payable	449,977	398,298
Short-term debt	100,000	100,000
Current portion of long-term debt	1,780,750	1,738,250
Lease obligations	1,281	1,281
Accounts payable - other	554,851	574,433
Accrued income taxes	481,316	26,176
Allowance for bonuses	129,549	39,030
Other	802,766	819,060
Total current liabilities	4,300,494	3,696,531
Fixed liabilities		
Long-term debt	1,952,750	2,035,000
Lease obligations	3,524	3,204
Asset retirement obligations	100,000	100,000
Other	238,507	232,591
Total long-term liabilities	2,294,782	2,370,795
Total liabilities	6,595,277	6,067,327
Total net assets		
Capital stock		
Capital stock	1,811,311	1,811,311
Capital surplus	2,068,472	2,068,472
Retained earnings	1,967,564	1,380,237
Treasury stock	-266,237	-266,237
Total shareholders' equity	5,581,111	4,993,784
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	-2,079	-101
Foreign currency translation adjustments	82	78
Total accumulated other comprehensive income	-1,997	-23
Subscription warrant	49,067	49,067
Noncontrolling interest	2,938	1,456
Total net assets	5,631,120	5,044,284
Total liabilities and net assets	12,226,397	11,111,612

(2) Quarterly consolidated statements of income and quarterly consolidated comprehensive income statements

Quarterly consolidated statement of income

(Cumulative period for consolidated first quarter, three months ended June 30, 2023)

(Unit: Thousand yen)

	Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)	Three months ended June 30, 2023 (April 1, 2023 to June 30, 2023)
Net sales	2,927,195	2,346,198
Cost of sales	1,618,881	1,662,472
Gross profit	1,308,314	683,726
Selling, general and administrative expenses	491,125	675,238
Operating income	817,189	8,487
Non-operating income		
Interest income	0	0
Dividends received	-	2,979
Gain on investment in capital	4,106	3,345
Other	524	76
Total non-operating income	4,631	6,401
Non-operating expenses		
Interest expense	10,051	10,666
Fees and commissions	729	644
Other	500	1,250
Total non-operating expenses	11,281	12,560
Ordinary income	810,539	2,328
Extraordinary loss		
Impairment loss	-	416,328
Total extraordinary loss	-	416,328
Income (loss) before income taxes and minority interests	810,539	-413,999
Corporate, inhabitant and enterprise taxes	207,758	19,942
Income taxes-deferred	80,346	7,038
Total income taxes	288,105	26,980
Net income (loss)	522,433	-440,980
Net income attributable to noncontrolling interests	601	827
Net income (loss) attributable to owners of the parent	521,831	-441,807

Consolidated quarterly statements of comprehensive income

(Cumulative period for consolidated first quarter, three months ended June 30, 2023)

(Unit: Thousand yen)

	Three months ended June 30, 2022 (April 1, 2022 to June 30, 2022)	Three months ended June 30, 2023 (April 1, 2023 to June 30, 2023)
Net income (loss)	522,433	-440,980
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	—	1,977
Foreign currency translation adjustments	—	-3
Comprehensive income	522,433	-439,006
(Breakdown)		
Comprehensive income attributable to owners of the parent	521,831	-439,834
Comprehensive income attributable to noncontrolling interests	601	827

(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)

Nothing applicable.

(Information by Segment)

Segment information

I. Previous three months ended, from April 30, 2022 to June 30, 2022, 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	2,852,416	74,778	2,927,195	—	2,927,195
Sales or transfers inside or between segments	—	—	—	—	—
Total	2,852,416	74,778	2,927,195	—	2,927,195
Segment profit or Loss	892,398	-75,209	817,189	—	817,189

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

II. Three months ended, from April 1, 2023 to June 30, 2023, consolidated period

1. 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	2,268,870	77,328	2,346,198	—	2,346,198
Sales or transfers inside or between segments	—	—	—	—	-
Total	2,268,870	77,328	2,346,198	—	2,346,198
Segment profit or Loss	236,019	-227,531	8,487	—	8,487

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

2. Information on impairment losses related to fixed assets per reporting segment

In the Game Business segment, the company recorded impairment losses of 416,328 thousand yen as of the first quarter of the current consolidated cumulative period.

(Significant subsequent events)

Not applicable