



Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2025

October 29, 2024

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 semiannual securities report: November 13, 2024
 Scheduled start date to commence dividend payments: -
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results briefings: Yes

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2024

(From April 1, 2024 to September 30, 2024)

(1) Consolidated operating results (cumulative) (Year-on-year rate of increase/decrease shown in %)

	Net sales		Operating income		Ordinary income		Quarterly net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
September 30, 2024	4,018	-21.1	-315	-	-354	-	-1,022	-
September 30, 2023	5,091	-12.2	472	-70.6	453	-70.7	-169	-

Note on Comprehensive income

For the six months ended September 30, 2024 -¥1,010 million (-%)

For the six months ended September 30, 2023 -¥166 million (-%)

	Half-yearly net earnings per share	Half-yearly diluted net earnings per share
Six months ended	Yen	Yen
September 30, 2024	-35.68	-
September 30, 2023	-5.94	-

(2) Consolidated financial condition

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
Six months ended	Million yen	Million yen	%	Yen
September 30, 2024	12,521	4,713	37.3	162.63
Fiscal year ended				
March 31, 2024	14,148	5,668	39.7	196.29

Reference: Equity capital

As of September 30, 2024 ¥4,651 million

As of March 31, 2024 ¥5,615 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, 2024	-	0.00	-	0.00	0.00
March 31, 2025	-	0.00	-	-	-
March 31, 2025 (Forecast)	-	-	-	-	-

Note: No revisions to the most recently announced cash dividend forecast.
 The year-end dividend forecast for March 2025 has not yet been determined.

3. Forecast of consolidated financial results for the fiscal year ending March 31, 2025 (April 1, 2024 - March 31, 2025)

For the current interim consolidated accounting period, the new titles released in the first quarter and the existing titles under operation have resulted in a significant loss. The new game titles released on October 15, 2024, have outperformed expectations. Given this, we have temporarily withdrawn the consolidated earnings forecast for the fiscal year ending March 31, 2025, leaving it undetermined. The forecast for the fiscal year ending March 31, 2025 has been temporarily withdrawn and is undecided.

For details, please refer to the "Notice of Extraordinary Loss and Earnings Forecast" released today (October 29, 2024).

*Notes

(1) Significant Changes in the Scope of Consolidation during the Period: None

New -, (Company name) -, Exclusion -, (Company name) -

(2) Adoption of Accounting Treatment Specific to the Preparation of Interim Consolidated Financial Statements: None

(3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatement of Amendments

(i) Changes in accounting policies due to revisions to accounting standards: Yes

(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 September 30, 2024	29,310,212 shares
As of March 31, 2024	29,224,108 shares

(ii) Number of Treasury Shares at the End of the Period

As of September 30, 2024	599,995 shares
As of March 31, 2023	615,695 shares

(iii) Average Number of Shares Outstanding during the Period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2024	28,645,174 shares
Six months ended September 30, 2023	28,530,632 shares

Note: 564,000 shares of the Company's stock (5,640 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.

*The financial statements for the second quarter (interim period) are not subject to review by a certified public accountant or auditing firm.

*Proper Use of Earnings Forecasts, and Other Special Notes

(notes on forward-looking statements)

The forecasts provided in this document are based on information currently available to the Company and certain assumptions deemed reasonable as of the release date. Actual results may differ significantly from forecast figures due to various factors.

(Availability of Supplementary Financial Results Materials)

The Company will hold a financial results briefing for institutional investors and analysts on October 29, 2024. The presentation materials for this briefing will be posted on the Company's website immediately following the event.

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1. Qualitative Information on Interim Financial Results

(1) Explanation of Business 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. For the medium term, we aim to establish ourselves as a comprehensive entertainment company, delivering a diverse range of IP and technology-driven entertainment experiences to support sustainable growth and enhance corporate value.

In our core Game Business, we focus on developing and operating games, including third-party IP games, game platforms, and original titles. Within the Content Business, we publish and distribute novels, comics, and other print and digital books with the goal of owning and nurturing IP. Additionally, we are piloting new services that leverage our expertise in internet services and advanced technologies, conducting trials aimed at eventual commercialization.

The Company's financial results for the current interim consolidated accounting period were net sales of 4,018,072 thousand yen (down 21.1% year-on-year), operating loss of 315,173 thousand yen (operating income of 472,280 thousand yen for the same period of the previous year), and ordinary loss of 354,286 thousand yen (ordinary income of 453,584 thousand yen for the same period of the previous year). An extraordinary loss of 601,886 thousand yen was recorded for a new mobile game title released in the first quarter of the current fiscal year due to the revaluation of future earnings and impairment loss. Consequently, the net loss attributable to owners of the parent was 1,022,028 thousand yen for the first half of the current fiscal year, compared to a net loss of 169,363 thousand yen for the same period last year.

The results for each segment for the current interim consolidated accounting period are as follows.

Game Business

In the Game Business, the Company released a new title in the first quarter of the current fiscal year. However, as sales fell short of expectations, the Company decided to reassess future earnings and write down the assets associated with this game application. Currently, there are 10 mobile game titles in operation, generating revenue from several long-term titles.

Net sales declined compared to the same period in the previous year, primarily due to the end of certain contracted development projects, the closure of titles in the prior fiscal year, and lower performance from some ongoing titles.

Profit declined from the same period last year due to the factors mentioned above, including reduced revenue and increased expenses related to the release of a new in-house title in the first quarter of this fiscal year. This was despite the positive impact of closing two unprofitable titles in the prior fiscal year.

As a result, segment sales amounted to 3,796,631 thousand yen (down 23.6% year-on-year), and segment income was 256,878 thousand yen (down 74.0% year-on-year). In this core segment, we will continue striving to maintain stable earnings from current titles in operation, while aiming to boost sales and profits through contributions from new titles scheduled for future release.

Content Business

In the Content Business, alongside our publishing and video efforts to own, nurture, and monetize IP, the Company has continued monthly releases under the light novel label 'DRE Novels' and the comic label 'DRE Comics.' Additionally, we are exploring new opportunities in the Web3 domain and offering fan marketing support services, 'Rooot' and 'Fanflu,' leveraging our expertise in internet services and advanced technologies to maximize SNS engagement.

Net sales increased year-on-year, driven by the successful launch of 'DRE Comics' last fall alongside 'DRE Novels,' which has produced several popular works exceeding 100,000 copies across its series. As for profits, losses increased from the same period of the previous fiscal year due to ongoing cost overruns because of investments in new business areas such as publishing, video, and Web3.

As a result, segment sales amounted to 224,507 thousand yen (up 87.7% year-on-year) and segment loss amounted to 572,051 thousand yen (segment loss of 516,418 thousand yen in the same period last year). In this segment, we will continue to make investments to realize our mid-term goal.

Looking ahead, in the Game Business, we aim to build a stronger business foundation by securing long-term, stable earnings through additional investment in current titles and system enhancements. We also seek to drive sales growth

through new title releases, along with the diversification and layering of revenue sources.

In the Game Business, we will also develop original titles for PCs and consoles with the aim of owning and nurturing IP. In the Content Business, the Company aims to grow the business initiated with the objective of owning, nurturing and monetizing IP to a certain scale. In addition, we will actively promote the use of advanced technologies that create new experiences and markets.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the current interim consolidated accounting period amounted to 12,521,994 thousand yen (down 1,626,427 thousand yen from the end of the previous consolidated fiscal year), mainly due to decreases in cash and deposits and accounts receivable.

(Liabilities)

Total liabilities at the end of the current interim consolidated accounting period amounted to 7,808,812 thousand yen (down 671,486 thousand yen from the end of the previous consolidated fiscal year), mainly due to a decrease in loans payable.

(Net assets)

Net assets at the end of the current interim consolidated accounting period amounted to 4,713,182 thousand yen (down 954,941 thousand yen from the end of the previous consolidated fiscal year), mainly due to the interim net loss attributable to parent company shareholders of 1,022,028 thousand yen.

As a result, the equity ratio was 37.3% (39.7% at the end of the previous fiscal year).

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

For the current interim consolidated accounting period, the new titles released in the first quarter and the existing titles under operation have resulted in a significant loss. The new game titles released on October 15, 2024, have outperformed expectations. Given this, we have temporarily withdrawn the consolidated earnings forecast for the fiscal year ending March 31, 2025, leaving it undetermined. The forecast for the fiscal year ending March 31, 2025 has been temporarily withdrawn and is undecided.

For details, please refer to the "Notice of Extraordinary Loss and Earnings Forecast" released today (October 29, 2024).

2. Interim Consolidated Financial Statements and Key Notes

(1) Interim Consolidated Balance Sheet

(Unit: thousand yen)

	Fiscal year ended March 31, 2024	Six months ended September 30, 2024
Assets		
Current assets		
Cash and deposits	5,937,126	4,705,633
Accounts receivable	1,657,924	1,426,918
Goods	7,990	7,786
Work in progress	44,689	73,921
Prepaid expenses	155,917	165,345
Other	563,215	123,279
Total current assets	8,366,863	6,502,885
Fixed assets		
Tangible fixed assets		
Buildings	191,229	191,229
Accumulated depreciation	-48,741	-57,298
Buildings, net	142,488	133,930
Tools, furniture and fixtures	87,906	88,056
Accumulated depreciation	-68,350	-71,752
Tools, furniture and fixtures, net	19,555	16,303
Leased assets	7,232	7,232
Accumulated depreciation	-4,207	-4,757
Lease assets, net	3,025	2,475
Total tangible fixed assets	165,068	152,708
Intangible fixed assets		
Software	18,279	164,747
Software in progress	4,359,472	4,408,559
Total intangible fixed assets	4,377,751	4,573,307
Investments and other assets		
Investments in securities	69,926	69,926
Deferred tax asset	650,038	646,104
(Security) deposit	199,404	199,404
Other	319,369	377,658
Total investments and other assets	1,238,738	1,293,093
Total fixed assets	5,781,559	6,019,109
Total assets	14,148,422	12,521,994

(Unit: thousand yen)

	Fiscal year ended March 31, 2024	Six months ended September 30, 2024
Liabilities		
Current liabilities		
Accounts payable	329,599	327,205
Short-term debt	100,000	100,000
Current portion of long-term debt	1,743,850	1,738,600
Lease obligations	1,281	1,281
Accounts payable - other	604,044	549,089
Accrued income taxes	61,235	81,916
Allowance for bonuses	86,949	83,714
Other	621,140	911,663
Total current liabilities	3,548,100	3,793,471
Fixed liabilities		
Long-term debt	4,627,300	3,758,000
Lease obligations	2,243	1,602
Asset retirement obligations	100,000	100,000
Other	202,655	155,738
Total long-term liabilities	4,932,198	4,015,340
Total liabilities	8,480,298	7,808,812
Total net assets		
Capital stock		
Capital stock	1,842,360	1,870,912
Capital surplus	2,099,521	2,128,464
Retained earnings	1,926,096	904,068
Treasury stock	-259,894	-252,033
Total shareholders' equity	5,608,084	4,651,411
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	6,611	16,684
Foreign currency translation adjustments	790	1,008
Total accumulated other comprehensive income	7,402	17,693
Subscription warrant	49,067	42,357
Noncontrolling interest	3,570	1,719
Total net assets	5,668,124	4,713,182
Total liabilities and net assets	14,148,422	12,521,994

(2) Interim Consolidated Statements of Income and Interim Consolidated Comprehensive Income Statements
Interim Consolidated Statement of Income

(Unit: Thousand yen)

	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024 to September 30, 2024)
Net sales	5,091,538	4,018,072
Cost of sales	3,262,237	3,059,255
Gross profit	1,829,300	958,816
Selling, general and administrative expenses	1,357,020	1,273,990
Operating income	472,280	-315,173
Non-operating income		
Interest income	28	660
Dividends received	2,979	-
Gain on investment in capital	1,614	-
Interest on refund	-	1,760
Other	67	531
Total non-operating income	4,690	2,952
Non-operating expenses		
Interest expense	20,757	38,322
Fees and commissions	1,379	1,985
Other	1,250	1,756
Total non-operating expenses	23,386	42,064
Ordinary income	453,584	-354,286
Extraordinary loss		
Impairment loss	609,185	601,886
Total extraordinary loss	609,185	601,886
Income (loss) before income taxes and minority interests	-155,601	-956,172
Corporate, inhabitant and enterprise taxes	108,256	65,275
Income taxes-deferred	-96,191	-511
Total income taxes	12,065	64,764
Quarterly Net income (loss)	-167,666	-1,020,937
Net income attributable to noncontrolling interests	1,697	1,090
Net income (loss) attributable to owners of the parent	-169,363	-1,022,028

Interim Consolidated Statements of Comprehensive Income

(Unit: Thousand yen)

	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024 to September 30, 2024)
Interim net income (loss)	-167,666	-1,020,937
Other comprehensive income		
Net unrealized gains (losses) on available-for- sale securities, net of taxes	1,438	10,073
Foreign currency conversion adjustments	-3	218
Total other comprehensive income	1,435	10,291
Comprehensive income	-166,231	-1,010,645
(Breakdown)		
Comprehensive income attributable to owners of the parent	-167,928	-1,011,736
Comprehensive income attributable to noncontrolling interests	1,697	1,090

(3) Interim Consolidated Statement of Cash Flows

(Unit: Thousand yen)

	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024 to September 30, 2024)
Cash flows from operating activities		
Quarterly net income before taxes	-155,601	-956,172
Depreciation and amortization	110,441	143,738
Stock compensation expense	21,960	23,833
Impairment loss	609,185	601,886
Interest and dividend income	-3,007	-660
Interest expense	20,757	38,322
Trade receivables (- for increase)	-709,695	231,006
Inventories (- for increase)	-34,309	-28,975
Accounts receivable-other (- for increase)	16,180	-7,031
Consumption taxes receivable (- for increase)	-46,394	178,082
Prepaid expenses (- for increase)	14,175	3,652
Notes and accounts payable (- for decrease)	-61,181	-2,393
Accrued liabilities (- for decrease)	56,024	-54,954
Accrued consumption taxes (- for decrease)	-56,137	-17,605
Advances received (- for decrease)	-18,770	-44,736
Accrued bonus (- for decrease)	-61,281	-3,234
Other	-27,113	-24,105
Subtotal	-324,766	80,653
Receipts of interest and dividends	3,264	1,055
Interest payments	-20,801	-39,358
Payment of corporate taxes, etc.	-456,617	-61,147
Income taxes refunded	-	269,510
Cash flows from operating activities	-798,921	250,712
Cash flows from investing activities		
Payments for acquisition of tangible fixed assets	-1,163	-1,028
Payments for acquisition of intangible fixed assets	-1,007,214	-987,792
Payments for purchase of investment securities	-10,000	-
Proceeds from investment in development	-	380,000
Other	-10	-
Cash flows from investing activities	-1,018,387	-608,820
Cash flows from financing activities		
Proceeds from long-term loans payable	400,000	-
Payments for long-term debt	-500,250	-874,550
Dividends paid	-144,930	-119
Other	-8,573	1,066
Cash flows from financing activities	-253,754	-873,603
Effect of exchange rate changes on cash and cash equivalents	-3	218
Cash and cash equivalents increased or decreased	-2,071,066	-1,231,493
Cash and cash equivalents at beginning of period	6,040,496	5,932,886
Cash and cash equivalents at the end of the first half	3,969,429	4,701,393

(4) Notes on Interim 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)

(Application of "Accounting Standard for Corporate, Inhabitant and Enterprise Taxes")

The "Accounting Standard for Corporate, Inhabitant and Enterprise Taxes" (ASBJ Statement No. 27, October 28, 2022. Hereinafter referred to as the "Revised 2022 Accounting Standard") The "Accounting Standard for Income Taxes" (ASBJ Statement No. 27, October 28, 2022) and others are applied from the beginning of the current interim consolidated accounting period.

With respect to the revision regarding the classification of income taxes (taxation on other comprehensive income), the transitional treatment stipulated in the proviso of paragraph 20-3 of the Revised Accounting Standard for 2022 and the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022; hereinafter referred to as the "Guidance on the Revised 2022 Accounting Standard") have been applied. The "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022; hereinafter referred to as the "2022 Revised Guidance") The transitional treatment prescribed in the proviso of Paragraph 65-2 (2) of the "Accounting Standard for Interim Consolidation due to Change in Accounting Policy" (ASBJ Guidance No. 28, October 28, 2022) is followed. There is no effect of this change in accounting policy on the interim consolidated financial statements.

In addition, the Company has adopted the 2022 Revised Implementation Guidance for the revision related to the revised treatment in consolidated financial statements of the deferral for tax purposes of gains or losses on sales of investments in subsidiaries among consolidated companies, effective from the beginning of the current interim period. This change in accounting policy has no impact on the interim consolidated financial statements.

(Notes to interim consolidated balance sheet)

* The Company has an overdraft agreement with one bank for the efficient procurement of working capital.
The following are unused lines of credit based on this agreement.

(Unit: Thousand yen)

	Fiscal year ended March 31, 2024	Six months ended September 30, 2024
Overdraft facility	100,000	100,000
Balance of borrowings	100,000	100,000
balance (of an account)	-	-

(Notes to interim consolidated statements of income)

* The major items and amounts of selling, general and administrative expenses are as follows.

(Unit: Thousand yen)

	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024 to September 30, 2024)
Salary and allowances	272,619	290,919
Advertising expenses	222,114	289,023
Research and development expenses	223,588	110,980
Provision for bonuses	21,661	27,565

(Notes to interim consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of the interim period and the amounts of the items listed in the interim consolidated balance sheet is as follows.

(Unit: Thousand yen)

	Six months ended September 30, 2023 (April 1, 2023 to September 30, 2023)	Six months ended September 30, 2024 (April 1, 2024 to September 30, 2024)
Cash and bank deposits	3,973,506	4,705,633
Time deposits with maturities longer than three months	-4,240	-4,240
Other current assets	162	0
Cash and bank deposits	3,969,429	4,701,393

(Information by Segment)

Segment information

I. Previous six months ended, from April 30, 2023 to September 30, 2023, consolidated period

1. Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Interim consolidated income statement amount
	Game Business	Content Business	Total		
Sales					
(1) Net sales to external customers	4,971,912	119,625	5,091,538	-	5,091,538
(2) Sales or transfers inside or between segments	-	-	-	-	-
Total	4,971,912	119,625	5,091,538	-	5,091,538
Segment profit or Loss	988,698	-516,418	472,280	-	472,280

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

II. Six months ended, from April 1, 2024 to September 30, 2024, consolidated period

1. Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Interim consolidated income statement amount
	Game Business	Content Business	Total		
Sales					
(1) Net sales to external customers	3,796,465	221,607	4,018,072	-	4,018,072
(2) Sales or transfers inside or between segments	166	2,900	3,066	-3,066	-
Total	3,796,631	224,507	4,021,138	-3,066	4,018,072
Segment profit or Loss	256,878	-572,051	-315,173	-	-315,173

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

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

Impairment losses were recorded in the game segment. The amount of such impairment loss recorded was 601,886 thousand yen for the current interim consolidated cumulative period.

3. Matters related to changes in reportable segments

(Change in the name of reportable segment)

Effective from the six months ended September 30, 2024, the reportable segment previously named "Media Business" has been renamed to "Content Business." This change affects only the segment name and has no impact on segment information. Segment information for the six months ended September 30, 2023, is also presented under the new name for consistency.

(Significant Subsequent Events)
Not applicable