



Consolidated Financial Results for Third quarter of the Fiscal Year Ending March 31, 2025

January 30, 2025

Listed company name: Drecom Co., Ltd.
 Listing: Tokyo Stock Exchange
 Code number: 3793
 URL: <https://drecom.co.jp/>
 Representative: President and Representative Director: Yuki Naito
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 Scheduled start date to commence dividend payments: -
 Preparation of supplementary materials on quarterly financial results: Yes
 Hold quarterly financial results briefings: Yes

(Rounded down to nearest million yen)

1. Consolidated Financial Results for the Period April 1, 2024 – December 31, 2024

(1) Consolidated Operating Results (cumulative)

(% Indicates Year-over-Year Change)

| | Net Sales | | Operating Income | | Ordinary Income | | Quarterly Net Income (Loss) Attributable to Owners of the Parent | |
|-------------------|-------------|------|------------------|-------|-----------------|-------|--|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Nine months ended | | | | | | | | |
| December 31, 2024 | 8,200 | 7.4 | (26) | - | (78) | - | (823) | - |
| December 31, 2023 | 7,637 | -8.9 | 789 | -62.4 | 729 | -64.0 | 97 | -91.7 |

Note on Comprehensive Income For the nine months ended December 31, 2024 (¥817) million (-%)
 For the nine months ended December 31, 2023 ¥101 million (-91.3%)

| | Quarterly Net Earnings Per Share | Quarterly Diluted Net Earnings Per Share |
|-------------------|----------------------------------|--|
| Nine months ended | Yen | Yen |
| December 31, 2024 | (28.74) | - |
| December 31, 2023 | 3.41 | 3.41 |

(2) Consolidated Financial Condition

| | Total Assets | Net Assets | Equity-to-Asset Ratio | Net Assets Per Share |
|-------------------|--------------|-------------|-----------------------|----------------------|
| Nine months ended | Million yen | Million yen | % | Yen |
| December 31, 2024 | 13,578 | 4,913 | 35.9 | 169.66 |
| Fiscal year ended | | | | |
| March 31, 2024 | 14,148 | 5,668 | 39.7 | 196.29 |

Reference: Equity Capital As of December 31, 2024 ¥4,874 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 | Yen | Yen | Yen | Yen | Yen |
| March 31, 2024 | — | 0.00 | — | 0.00 | 0.00 |
| March 31, 2025 | — | 0.00 | — | | |
| March 31, 2025 (Forecast) | | | | 0.00 | 0.00 |

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

For details, please refer to the "Notice of Full-Year Earnings Forecast and Revision of Dividend Forecast (No Dividend)" released today (January 30, 2025).

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2025 (April 1, 2024 - March 31, 2025)
(% change from Fiscal Year Ending March 31, 2024)

| Fiscal year ending | Net Sales | | Operating Income | | Ordinary Income | | Net Income (Loss) Attributable to Owners of the Parent | | Earnings Per Share |
|--------------------|-------------|------|------------------|-------|-----------------|-------|--|---|--------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| March 31, 2025 | 13,500 | 38.0 | 500 | -44.6 | 400 | -49.6 | (200) | - | (6.96) |

(Note) Revision to the forecast of cash dividends most recently announced: Yes
For details, please refer to the "Notice of Full-Year Earnings Forecast and Revision of Dividend Forecast (No Dividend)" released today (January 30, 2025).

***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 December 31, 2024 | 29,330,212 shares |
| As of March 31, 2024 | 29,224,108 shares |

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

| | |
|-------------------------|----------------|
| As of December 31, 2024 | 599,995 shares |
| As of March 31, 2024 | 615,695 shares |

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

| | |
|-------------------------------------|-------------------|
| Nine months ended December 31, 2024 | 28,667,952 shares |
| Nine months ended December 31, 2023 | 28,558,079 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.

*These quarterly consolidated financial statements have not been reviewed by a certified public accountant or an auditing firm.

***Explanation on the Appropriate Use of Earnings Forecasts and Other Special Notes**

The forward-looking statements, including the earnings forecasts, contained in this document are based on information currently available to the company and certain assumptions deemed reasonable. Actual results may vary significantly due to various factors.

(Availability of Supplementary Financial Results Materials)

The Company will hold a financial results briefing for institutional investors and analysts on January 30, 2025. 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 Quarterly Financial Results

(1) Explanation of Business Results

The Group's mission is "with entertainment" and our goal is to continue to create services that exceed people's expectations. The Company also strives to create value that has never existed before and deliver experiences that captivate users. In the medium term, the Company aims to become a global provider of entertainment content based on IP and technology, and to achieve sustainable growth and increase our corporate value.

In our core Game Business, we focus on the development and operation of games, including third-party IP titles, game platforms, and original games. In the Content Business, we publish and distribute books and e-books—such as novels and comics—with the aim of acquiring and nurturing intellectual property (IP). Additionally, we are actively testing new services that leverage our expertise in internet services and advanced technologies.

For the first nine months of the fiscal year, net sales rose 7.4% year-on-year to ¥8,200,721 thousand. However, the Company posted an operating loss of ¥26,992 thousand, reversing from an operating income of ¥789,399 thousand in the previous year. The ordinary loss reached ¥78,591 thousand, compared to an ordinary income of ¥729,210 thousand last year. An extraordinary loss of ¥601,886 thousand was recorded due to the revaluation of future earnings and an impairment loss on a first-quarter mobile game release. As a result, the Company reported a net loss of ¥823,926 thousand, down from a net income of ¥97,393 thousand in the same period last year.

The results for each segment for the first nine months of the fiscal year under review are as follows

Game Business

In the Game Business, *Wizardry Variants Daphne*, an in-house title launched in the third quarter of the current fiscal year, exceeded expectations, generating ¥2.16 billion in sales during the quarter. The company currently operates 10 mobile game titles, with revenue derived from both new releases and several long-running titles. However, a decision was made to discontinue a first-quarter release due to lower-than-expected sales.

While some existing titles underperformed compared to the previous year, contributions from newly released third-quarter titles led to a year-on-year increase in net sales. Profits declined, primarily due to weaker sales from ongoing titles and the underperformance of in-house distribution titles released in the first quarter, despite contributions from newly launched titles.

As a result, segment sales reached ¥7,676,313 thousand, up 5.2% year-on-year, while segment income declined to ¥637,609 thousand, down 57.3% year-on-year. Moving forward, the company will continue working to maintain stable earnings from existing titles while expanding sales and profits through new releases.

Content Business

In the Content Business, while expanding our publishing and video operations to acquire, develop, and monetize intellectual property (IP), the company has been releasing monthly publications under the light novel label DRE Novels and the comic label DRE Comics. Additionally, the Company is developing new businesses in the Web3 domain and providing fan marketing support services, *Rooot* and *Fanflu*, leveraging our expertise in internet services and advanced technologies. Net sales increased year-on-year, driven by the launch of DRE Comics in fall 2023 alongside DRE Novels, as well as the success of several popular series exceeding 200,000 total copies. Regarding profit, losses narrowed compared to the previous year due to increased revenue, although the company continues to operate ahead of expenses due to ongoing investments in new business areas such as publishing, video, and Web3.

As a result, segment sales reached ¥530,194 thousand, up 55.5% year-on-year, while segment loss improved to ¥664,602 thousand from ¥702,962 thousand in the previous year. Moving forward, the Company will continue making strategic investments to achieve our mid-term goals.

In the Game Business, the Company aims to strengthen our business foundation by securing long-term stable earnings through additional investment in existing titles and system enhancements. The Company will also drive sales growth through new title releases, diversification, and expansion of revenue streams. Additionally, the Company plan to develop original PC and console titles to establish and expand our own IP portfolio.

In the Content Business, our focus remains on scaling the business built around IP ownership, development, and monetization. The Company will also actively leverage advanced technologies to create new experiences and markets.

(Note) Effective from the first quarter of the current fiscal year, the reporting segment name "Media Business" has been changed to "Content Business".

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the period under review amounted to ¥13,578,294 thousand, a decrease of ¥570,127 thousand from the end of the previous fiscal year. This was primarily due to a decrease in cash and deposits, despite an increase in accounts receivable.

(Liabilities)

Total liabilities at the end of the period amounted to ¥8,664,581 thousand, an increase of ¥184,283 thousand from the end of the previous fiscal year, primarily due to a rise in accounts payable—other and other current liabilities.

(Net Assets)

As of December 31, 2024, net assets totaled ¥4,913,713 thousand, a decrease of ¥754,411 thousand from the end of the previous fiscal year, primarily due to a net loss attributable to parent company shareholders of ¥823,926 thousand for the period. As a result, the equity ratio declined to 35.9%, compared to 39.7% at the end of the previous fiscal year.

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

The consolidated earnings forecast, which was temporarily withdrawn and undecided as of October 29, 2024, has been announced today.

For details, please refer to the "Announcement of Full-Year Earnings Forecast and Revision of Dividend Forecast (No Dividend)" released on January 30, 2025.

The consolidated earnings forecast is based on information available as of the publication date of this document. Actual results may differ due to various future factors.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

| | Fiscal Year ended March 31, 2024 | Third Quarter Ended December 31, 2024 |
|------------------------------------|-------------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,937,126 | 4,356,905 |
| Accounts receivable | 1,657,924 | 2,502,867 |
| Goods | 7,990 | 13,436 |
| Work in progress | 44,689 | 70,902 |
| Prepaid expenses | 155,917 | 319,490 |
| Other | 563,215 | 143,541 |
| Total current assets | 8,366,863 | 7,407,142 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | 191,229 | 191,229 |
| Accumulated depreciation | (48,741) | (61,474) |
| Buildings, net | 142,488 | 129,754 |
| Tools, furniture and fixtures | 87,906 | 87,547 |
| Accumulated depreciation | (68,350) | (71,347) |
| Tools, furniture and fixtures, net | 19,555 | 16,200 |
| Leased assets | 7,232 | 7,232 |
| Accumulated depreciation | (4,207) | (5,032) |
| Lease assets, net | 3,025 | 2,200 |
| Total tangible fixed assets | 165,068 | 148,155 |
| Intangible fixed assets | | |
| Software | 18,279 | 1,696,091 |
| Software in progress | 4,359,472 | 3,034,366 |
| Total intangible fixed assets | 4,377,751 | 4,730,458 |
| Investments and other assets | | |
| Investments in securities | 69,926 | 69,926 |
| Deferred tax asset | 650,038 | 631,797 |
| (Security) deposit | 199,404 | 199,404 |
| Other | 319,369 | 391,410 |
| Total investments and other assets | 1,238,738 | 1,292,538 |
| Total fixed assets | 5,781,559 | 6,171,151 |
| Total assets | 14,148,422 | 13,578,294 |

(Unit: thousand yen)

| | Fiscal Year Ended March 31, 2024 | Third Quarter Ended December 31, 2024 |
|--|-------------------------------------|--|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | 329,599 | 390,780 |
| 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 | 1,231,671 |
| Accrued income taxes | 61,235 | 94,896 |
| Allowance for bonuses | 86,949 | 45,620 |
| Other | 621,140 | 1,478,921 |
| Total current liabilities | 3,548,100 | 5,081,772 |
| Fixed liabilities | | |
| Long-term debt | 4,627,300 | 3,328,600 |
| Lease obligations | 2,243 | 1,281 |
| Asset retirement obligations | 100,000 | 100,000 |
| Other | 202,655 | 152,926 |
| Total long-term liabilities | 4,932,198 | 3,582,808 |
| Total liabilities | 8,480,298 | 8,664,581 |
| Total net assets | | |
| Capital stock | | |
| Capital stock | 1,842,360 | 1,877,177 |
| Capital surplus | 2,099,521 | 2,134,729 |
| Retained earnings | 1,926,096 | 1,102,169 |
| Treasury stock | (259,894) | (252,033) |
| Total shareholders' equity | 5,608,084 | 4,862,042 |
| Accumulated other comprehensive income | | |
| Net unrealized gains (losses) on available-for-sale securities, net of taxes | 6,611 | 11,208 |
| Foreign currency translation adjustments | 790 | 1,004 |
| Total accumulated other comprehensive income | 7,402 | 12,213 |
| Subscription warrant | 49,067 | 37,327 |
| Noncontrolling interest | 3,570 | 2,129 |
| Total net assets | 5,668,124 | 4,913,713 |
| Total liabilities and net assets | 14,148,422 | 13,578,294 |

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Comprehensive Income Statements

Quarterly Consolidated Statement of Income

(Unit: thousand yen)

| | Nine-Month Period Ended December 31, 2023 | Nine-Month Period Ended December 31, 2024 |
|--|--|--|
| Net sales | 7,637,627 | 8,200,721 |
| Cost of sales | 4,939,665 | 5,962,183 |
| Gross profit | 2,697,961 | 2,238,537 |
| Selling, general and administrative expenses | 1,908,561 | 2,265,530 |
| Operating income | 789,399 | (26,992) |
| Non-operating income | | |
| Interest income | 29 | 685 |
| Dividends received | 2,979 | 0 |
| Gain on investment in capital | 1,739 | 0 |
| Interest on refund | - | 1,760 |
| Other | - | 10,000 |
| Total non-operating income | 90 | 948 |
| Non-operating expenses | 4,837 | 13,395 |
| Interest expense | | |
| Fees and commissions | 30,564 | 57,497 |
| Other | 33,133 | 2,975 |
| Total non-operating expenses | 1,329 | 4,521 |
| Ordinary income | 65,027 | 64,993 |
| Extraordinary loss | 729,210 | (78,591) |
| Impairment loss | | |
| Total extraordinary loss | 609,185 | 601,886 |
| Net sales | 609,185 | 601,886 |
| Income (loss) before income taxes and minority interests | 120,024 | (680,477) |
| Corporate, inhabitant and enterprise taxes | 76,351 | 125,735 |
| Income taxes-deferred | (56,104) | 16,212 |
| Total income taxes | 20,247 | 141,948 |
| Quarterly net income (loss) | 99,777 | (822,426) |
| Net income attributable to noncontrolling interests | 2,384 | 1,500 |
| Net income (loss) attributable to owners of the parent | 97,393 | (823,926) |

Consolidated Quarterly Statements of Comprehensive Income

Cumulative Period for Consolidated First Quarter (Three Months Ended June 30, 2024)

(Unit: thousand yen)

| | Nine-Month Period Ended December 31, 2023 | Nine-Month Period Ended December 31, 2024 |
|--|--|--|
| Quarterly net income (loss) | 99,777 | (822,426) |
| Other comprehensive income | | |
| Net unrealized gains (losses) on available-for-sale securities, net of taxes | 1,438 | 4,597 |
| Foreign currency conversion adjustments | 708 | 213 |
| Total other comprehensive income | 2,146 | 4,811 |
| Comprehensive income | 101,923 | (817,615) |
| (Breakdown) | | |
| Comprehensive income attributable to owners of the parent | 99,539 | (819,115) |
| Comprehensive income attributable to noncontrolling interests | 2,384 | 1,500 |

(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)

(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, issued on October 28, 2022), along with other related standards, has been applied starting from the first quarter ending June 30, 2024.

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 regarding the revised treatment of deferred tax accounting for gains or losses on the sale of investments in subsidiaries within consolidated financial statements. This change, effective from the beginning of the current interim period, has no impact on the quarterly consolidated financial statements.

(Notes to Quarterly Consolidated Statements of Cash Flows)

The quarterly consolidated statements of cash flows for the nine months ending December 31, 2024, have not been prepared. Depreciation and amortization (including amortization of intangible assets) for the nine months ended December 31, 2024, are as follows: (Unit: thousand yen)

| | Nine-Month Period Ended December 31, 2023 | Nine-Month Period Ended December 31, 2024 |
|-------------------------------|--|--|
| Depreciation and amortization | 125,992 | 289,646 |

(Information by Segment)

Segment Information

I. Nine-month Consolidated Period Ended December 31, 2023 (April 1, 2023 – December 31, 2023)

1. Information on Sales, Profits or Losses Per Reporting Segment

(Unit: thousand yen)

| | Reporting Segment | | | Adjustment | Quarterly Consolidated Income Statement Amount * |
|---|-------------------|------------------|-----------|------------|--|
| | Game Business | Content Business | Total | | |
| Sales | | | | | |
| Net sales to external customers | 7,300,248 | 337,378 | 7,637,627 | - | 7,637,627 |
| Sales or transfers inside or between segments | - | 3,600 | 3,600 | (3,600) | - |
| Total | 7,300,248 | 340,978 | 7,641,227 | (3,600) | 7,637,627 |
| Segment profit or loss | 1,492,361 | (702,962) | 789,399 | - | 789,399 |

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

2. Impairment Losses on Fixed Assets and Goodwill by Reporting Segment

Impairment losses were recognized in the "Game Business" segment. An impairment loss of ¥609,185 thousand was recorded for the nine-month period from April 1, 2023, to December 31, 2023.

II. Nine-month Consolidated Period Ended December 31, 2024 (April 1, 2024 – December 31, 2024)

1. Information on Sales, Profits or Losses Per Reporting Segment

(Unit: thousand yen)

| | Reporting Segment | | | Adjustment | Quarterly Consolidated Income Statement Amount * |
|---|-------------------|------------------|-----------|------------|--|
| | Game Business | Content Business | Total | | |
| Sales | | | | | |
| Net sales to external customers | 7,676,069 | 524,651 | 8,200,721 | - | 8,200,721 |
| Sales or transfers inside or between segments | 243 | 5,542 | 5,786 | (5,786) | - |
| Total | 7,676,313 | 530,194 | 8,206,507 | (5,786) | 8,200,721 |
| Segment profit or loss | 637,609 | (664,602) | (26,992) | - | (26,992) |

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

2. Impairment Losses on Fixed Assets and Goodwill by Reporting Segment

Impairment losses were recorded in the "Game Business" segment. The amount of such impairment loss recorded was ¥601,886 thousand for the nine months ended from April 30, 2024 to December 31, 2024

3. Matters Related to Changes in Reportable Segments

(Change in Reportable Segment Name)

Effective from the first quarter of the fiscal year ending March 31, 2025, the reportable segment previously referred to as "Media Business" has been renamed "Content Business." This change is limited to the segment name and does not impact the segment classification or financial figures. The segment information for the third quarter of the fiscal year ending March 31, 2025, is presented under the revised name.

(Significant Subsequent Events)

Not applicable