

Third Quarter of Fiscal Year Ending March 31, 2023
Financial Results Presentation Materials



DRECOM[®]
with entertainment

Drecom Co., Ltd.
January 30, 2023

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_202303Q3.pdf

Summary of this document

Q3 FY03/2023 (Oct-Dec) Actual

- **Q3 results: Stable revenue from existing long-term titles**
 - Sales: 2,579 million yen (-10.8% YoY), Operating income: 492 million yen (+8.9% YoY)
- **Q3 cumulative results: Sales and income up YoY due to strong sales of mainstay IP titles in 1H, etc.**
 - Net sales: 8,380 million yen (+3.7% YoY), Operating income: 2,100 million yen (+47.9% YoY)
Ordinary income: 2,025 million yen (+46.7% YoY), Net income^{*1}: 1,166 million yen (+36.7% YoY)
 - Impairment loss of 336 million yen was recorded for one of the titles in operation.
An extraordinary loss of 336 million yen was recorded.

Forecast for FY03/2023

- **Revised full-year forecasts based on the timing of new titles' release and the status of existing titles**
 - Revised forecast (1/30/2023 announcement):
Sales 13,000 million yen → 10,700 million yen (17.7% decrease)
Operating income 2,000 million yen → 2,200 million yen (10.0% increase)
Ordinary income 1,900 million yen → 2,100 million yen (10.5% increase)
Net income^{*2} 1,200 million yen → 1,100 million yen (8.3% decrease)

Business Progress

- **Steady progress in content development and IP nurturing initiatives**
 - DRE Novels' December publication, *Blade & Bastard - Ashes are Warm, Labyrinths are Dark* – has received a great response and will be reprinted.

1 . Review of Q3 (Oct-Dec) FY03/2023

2 . Forecast for FY03/2023

3 . Medium-term goals and progress of each business

4 . Appendix

Summary of Q3 FY03/2023 results

Existing long-term titles secured stable earnings. An extraordinary loss of 336 million yen was recorded after revaluating future earnings from one of the titles in operation, which resulted in impairment loss in software.

(Millions of yen)

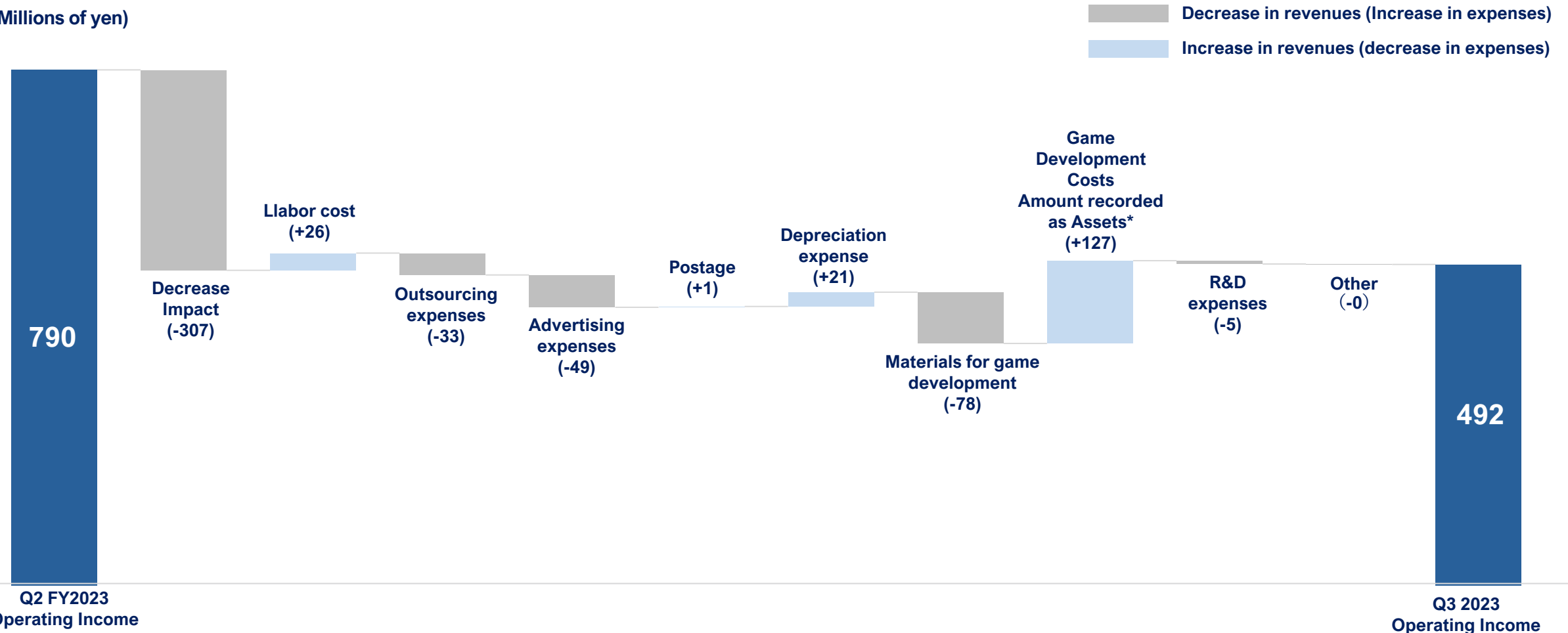
| | FY03/2023 Q3 (Oct-Dec) | FY03/2022 Q3 (Oct-Dec) | YoY (Increase/ Decrease) | FY03/2023 Q2 (Jul-Sep) | QoQ (Increase/ Decrease) |
|--|---------------------------|---------------------------|--------------------------------|---------------------------|--------------------------------|
| Net sales | 2,579 | 2,893 | -313 | 2,873 | -293 |
| Operating income | 492 | 452 | +40 | 790 | -297 |
| <i>Operating profit ratio</i> | 19.1% | 15.6% | - | 27.5% | - |
| EBITDA* | 556 | 554 | +1 | 875 | -319 |
| <i>EBITDA Margin</i> | 21.6% | 19.2% | - | 30.5% | - |
| Ordinary income | 477 | 439 | +38 | 737 | -259 |
| Net income attributable to shareholders of the parent company | 110 | 241 | -131 | 534 | -424 |

*EBITDA = operating income + amortization of goodwill + depreciation

Q3 Results for FY03/2023 (Operating income QoQ comparison)

The 307 million yen decrease in net sales versus the previous quarter was mainly due to the slowdown in sales of mainstay IP titles.

(Millions of yen)

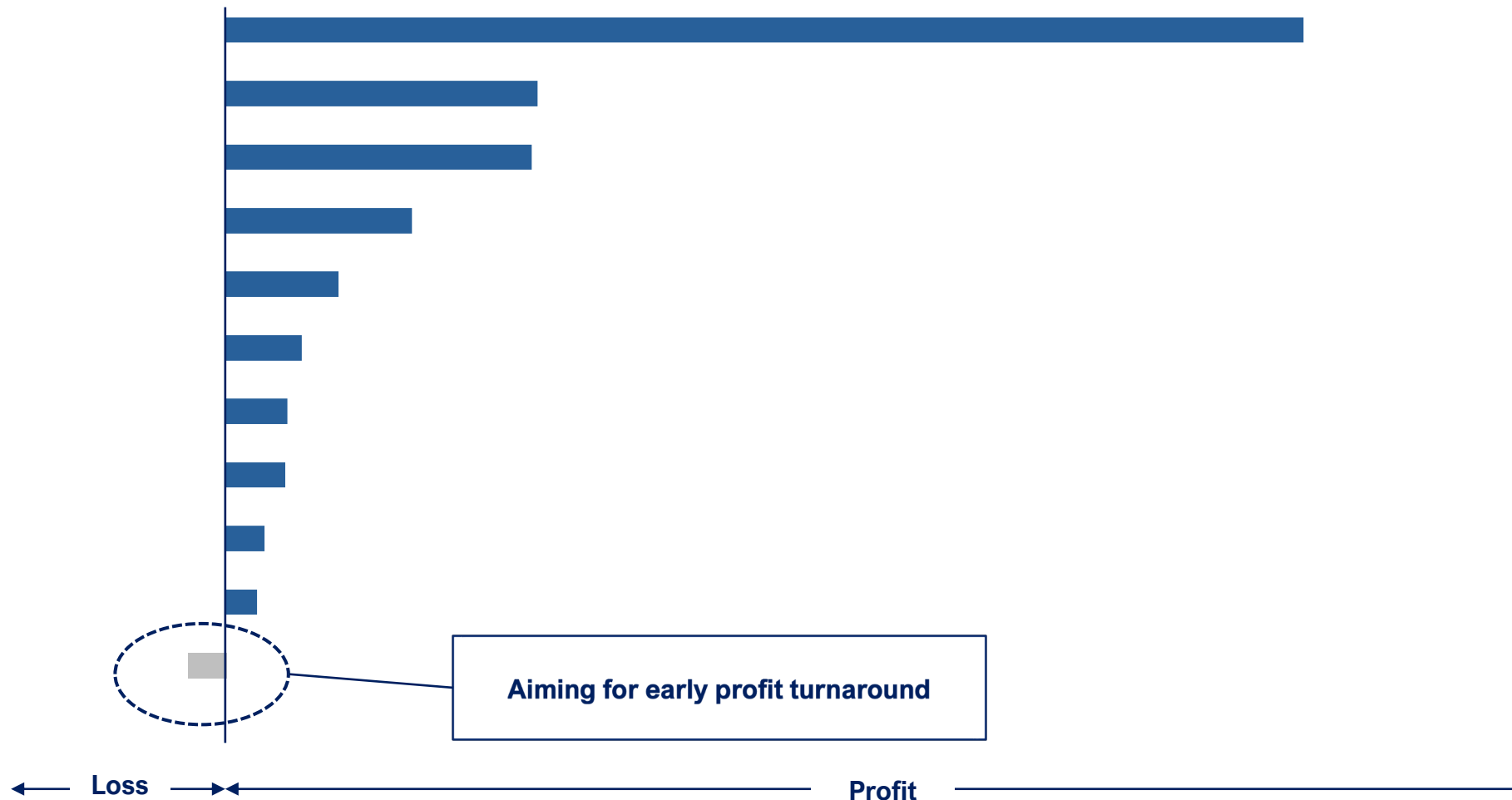


*Amount of development costs such as labor and subcontracting costs mainly related to pre-release games deducted from manufacturing costs and transferred to assets as "Software in progress".

Game business earnings of titles in operation

Long-term titles in operation maintained stable earnings. The number of titles in the red decreased to one.

Profit/loss of 11 titles under management* (Q3 Oct-Dec 2023)



*Number of titles in operation as of December 31, 2022. Series titles and titles developed for overseas are counted as one title. Including two enza titles and *BOKU & DRAGONS*.

Topics of each business

Game business

- **Mainstay IP titles were more subdued compared to Q1 and Q2.**
→ Various KPIs, such as number of users, remained strong.
- **Existing long-term investment titles secured stable income.**
→ Earned revenues from accumulation of multiple titles amid a difficult market environment
- **Release dates have been changed for three new in-house distribution titles that were originally scheduled for release during the fiscal year ending March 31, 2023.**
→ *GGGGG*, *Wizardry Variants Daphne*, and an unannounced title.
→ Sales and advertising expenses assumed for FY03/2023 have been pushed into FY03/2024.

New business

- **Monthly publication begins on DRE Novels, Drecom Media's light novel label.**
→ Novel inspired by the world of *Wizardry Blade & Bastard - Ashes are Warm, Labyrinths are Dark-* has been so well received that it has been reprinted.
- **Business activities in the Web3 area have several projects in progress.**
→ NFT project for IP creation as well as blockchain game development.

1 . Review of Q3 (Oct-Dec) FY03/2023

2 . Forecast for FY 03/2023

3 . Medium-term goals and progress of each business

4 . Appendix

Full-year consolidated earnings for FY03/2023 assumptions

As of Q2 earnings announcement Assumption as of Oct. 27, 2010

As of Q3 earnings announcement Assumption as of January 30, 2011

| | | |
|---------------------------------|--|---|
| Game business | <ul style="list-style-type: none"> • Q1 (Apr-Jun) is expected to show the same trend as Q1 of the previous year due to the anniversary events of mainstay titles. 1H mainstay IP titles outperformed initial forecasts. • Contribution of 3 newly released titles is expected in 2H. • Operating and advertising expenses are expected to increase with the release of new titles. Timing of new titles release will be determined based on their quality readiness All new titles are gross billings for in-house distribution, so their impact on net sales will be significant. | <ul style="list-style-type: none"> • <u>Q4 (Jan-Mar): Expect sales and profits will be smaller than other quarters due to fewer events for mainstay titles.</u> • Contribution of three newly released titles to the financial results is more likely to be pushed back to FY03/2024 • <u>Therefore, sales of three newly released titles are not included in the revised forecast for FY03/2023.</u> <ul style="list-style-type: none"> • For new titles, release dates are determined based on quality readiness. |
| New Business Development | <ul style="list-style-type: none"> • 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 see steady sales growth. <ul style="list-style-type: none"> • New business revenue growth is expected to come mainly from the publishing business and "Rooot"; sales in the Web3 domains are not expected. | <ul style="list-style-type: none"> • Unchanged |
| Investment Policy | <ul style="list-style-type: none"> • Aggressively invest cash generated from operations in the game business into new business areas where growth is expected (publishing, web3) | <ul style="list-style-type: none"> • <u>R&D expenses are expected to be lower than the assumption made at the beginning of the period.</u> (No major changes in investment policy) |

Revision of full-year earnings forecasts

Revised full-year forecasts due to changes in the release dates of three in-house distributed titles; originally scheduled for release during the FY03/2023. Operating income and ordinary income revised upward due to strong performance of mainstay IP titles, etc.

| (Millions of yen) | Previous Forecast for FY03/2023 | Revised Forecast for FY03/2023 | Change from last time | | vs. previous forecast | |
|---|------------------------------------|-----------------------------------|--------------------------|----------|--|---|
| | May 12, 2022 | January 30, 2023 | Difference | % change | Driving factor | Lagging factor |
| Net sales | 13,000 | 10,700 | -2,300 | -17.7% | <ul style="list-style-type: none"> Strong performance of mainstay IP titles (net sales) | <ul style="list-style-type: none"> Change in release timing of three new in-house distributed titles (gross sales) Missed target for some existing titles |
| Operating income | 2,000 | 2,200 | +200 | +10.0% | <ul style="list-style-type: none"> Highly profitable mainstay IP titles Decrease in R&D expenses | <ul style="list-style-type: none"> Omission of profit expected from three new titles |
| Ordinary income | 1,900 | 2,100 | +200 | +10.5% | — | — |
| Net income attributable to shareholders of the parent company | 1,200 | 1,100 | -100 | -8.3% | — | <ul style="list-style-type: none"> Extraordinary loss of 336 million yen due to impairment loss on one title |

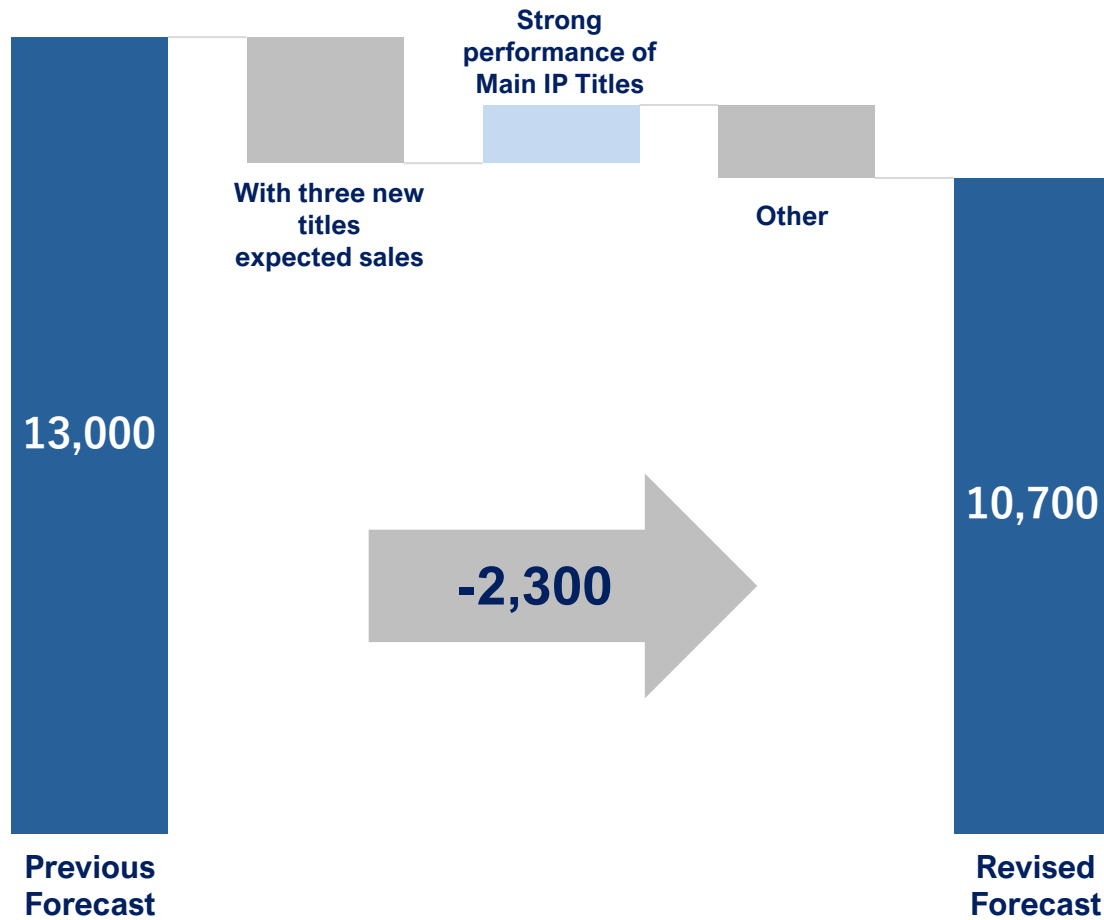
Revision of full-year earnings forecasts (Net Sales and Operating Income)

Decrease in revenues (Increase in expenses)

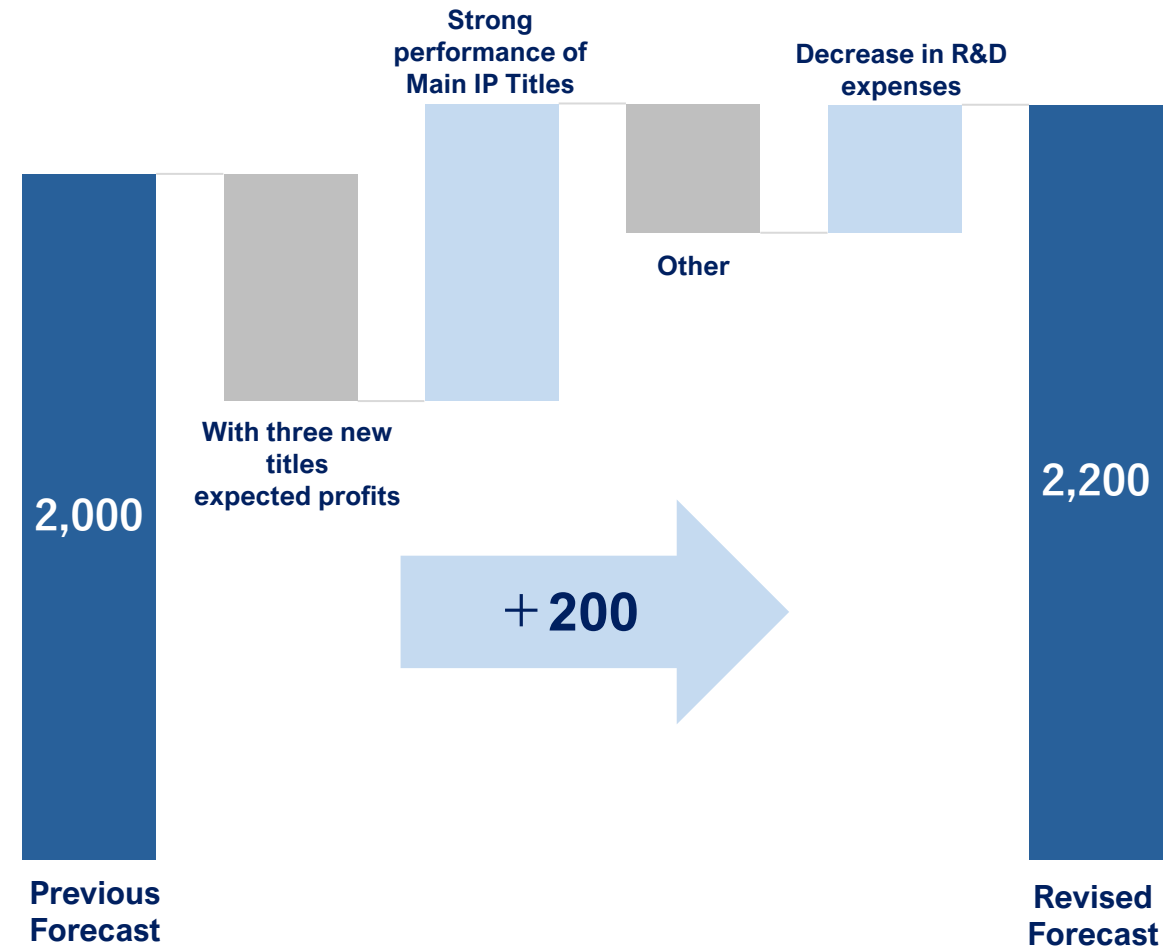
Increase in revenues (decrease in expenses)

Net sales

(Millions of yen)



Operating income



Progress towards Full-year Forecasts and outlook for the fourth quarter

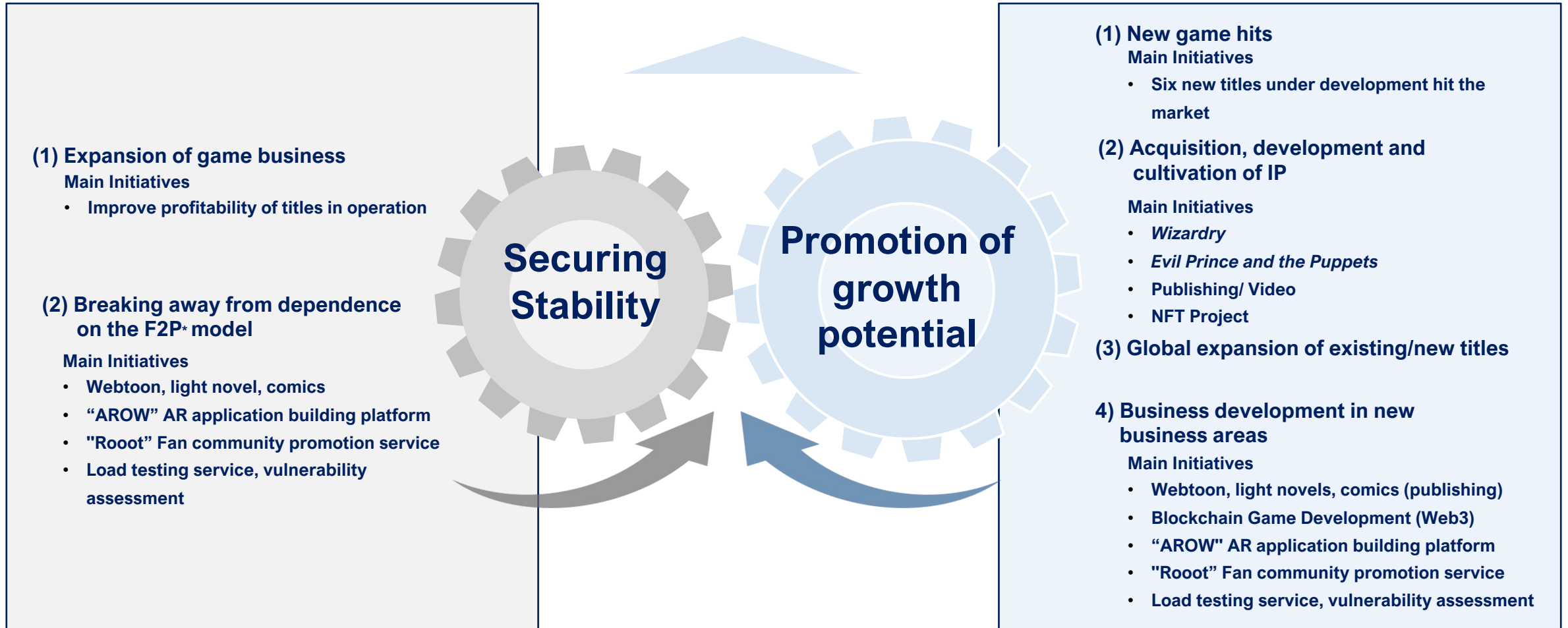
Q4 (Jan-Mar): We expect that sales and profits will be smaller than previous quarters due to fewer events for mainstay titles.

| (Millions of yen) | FY03/2023 | | | | | | | (Reference) Fiscal year ending March 31, 2022 | | | | |
|--|---------------------------|---------------------------|---------------------------|--|---------------------|-----------------------------|---------------------|---|---------------------------|---------------------------|---------------------------|---------------------|
| | Q1 (Apr-Jun) Actual | Q2 (Jul-Sep) Actual | Q3 (Oct-Dec) Actual | Q3 Cumulative total (Apr-Dec) | Rate of progress | Q4 Forecast (Jan-Mar) | Revised forecast | Q1 (Apr-Jun) Actual | Q2 (Jul-Sep) Actual | Q3 (Oct-Dec) Actual | Q4 (Jan-Mar) Actual | Full year Actual |
| Net sales | 2,927 | 2,873 | 2,579 | 8,380 | 78.3% | 2,319 | 10,700 | 2,661 | 2,523 | 2,893 | 2,450 | 10,528 |
| Variable cost | 356 | 346 | 360 | 1,062 | 76.5% | 326 | 1,389 | 394 | 380 | 391 | 365 | 1,630 |
| Fixed cost | 1,753 | 1,736 | 1,726 | 5,216 | 73.4% | 1,893 | 7,110 | 1,762 | 1,680 | 2,048 | 1,913 | 7,306 |
| Advertising expenses | 24 | 40 | 89 | 154 | 60.3% | 101 | 255 | 16 | 21 | 88 | 117 | 243 |
| R&D expenses | 55 | 68 | 74 | 198 | 54.1% | 168 | 366 | 117 | 91 | 80 | 54 | 345 |
| Game Development Costs Amount recorded as assets* | -465 | -457 | -584 | -1,507 | 69.0% | -677 | -2,185 | -496 | -692 | -485 | -558 | -2,233 |
| Operating income | 817 | 790 | 492 | 2,100 | 95.5% | 99 | 2,200 | 504 | 463 | 452 | 171 | 1,591 |
| Ordinary income | 810 | 737 | 477 | 2,025 | 96.4% | 74 | 2,100 | 492 | 448 | 439 | 160 | 1,541 |
| Net income attributable to shareholders of the parent company | 521 | 534 | 110 | 1,166 | 106.1% | -66 | 1,100 | 300 | 311 | 241 | -45 | 807 |

- 1 . Review of Q3 (Oct-Dec) FY03/2023
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- 3 . Medium-term goals and progress of each business**
- 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.

Game business overview

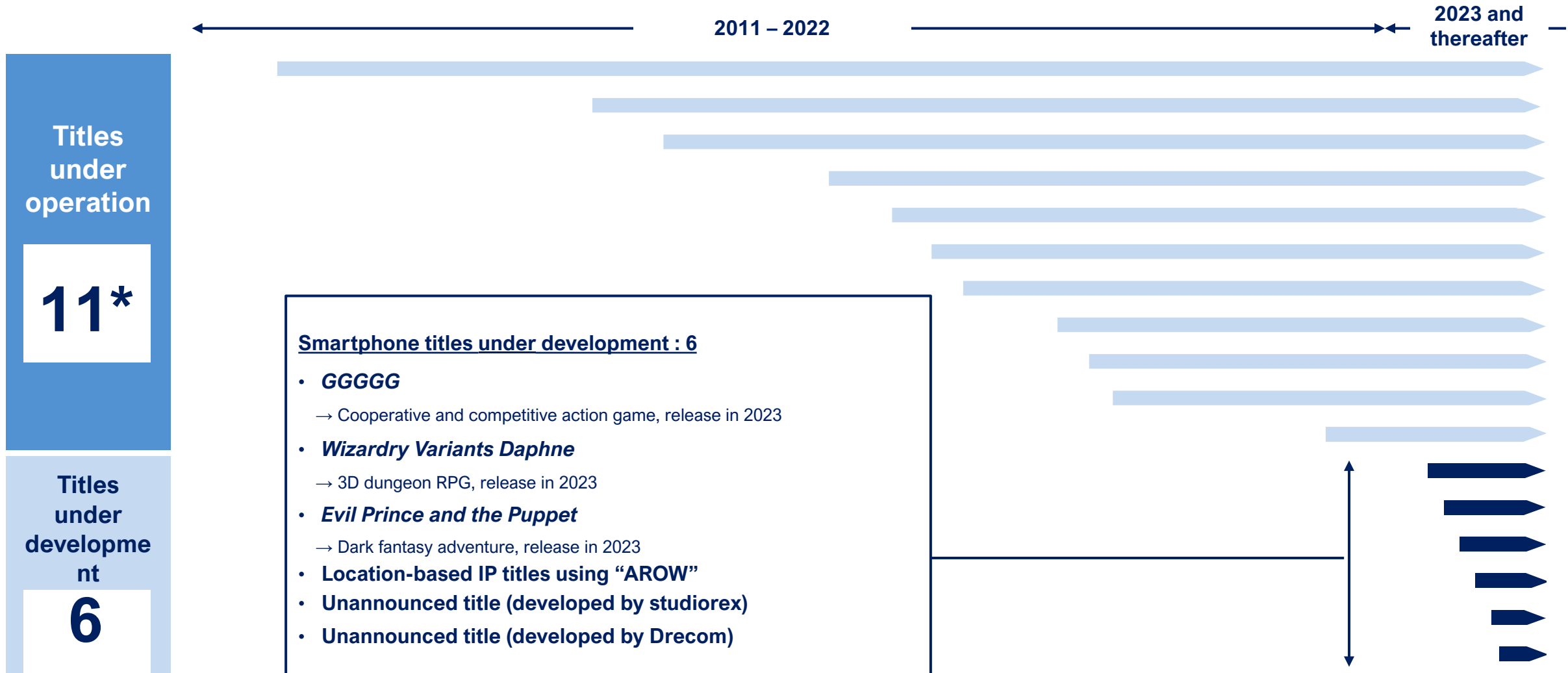
7 development projects underway as of December 31, 2022

| Business | Status | Definition | Number of projects | Details | |
|---------------|-------------|---|--|---|--|
| Game Business | Operation | Titles in operation | 11 | <ul style="list-style-type: none"> ➤ Other company distribution: 7 titles ➤ In-house distribution: 4 titles | |
| | Development | Commercialized development | Titles under development with a prospect for release | 6 | <ul style="list-style-type: none"> • GGGGG → Cooperative and competitive action game. Release in 2023 • Wizardry Variants Daphne → 3D dungeon RPG. Release in 2023 • Evil Prince and the Puppet → Dark fantasy adventure. Release in 2023 • Location-based IP titles using “AROW” • Unannounced title (developed by studiorex) • Unannounced title (developed by Drecom) |
| | | | Titles for Smartphones | | |
| | | | Titles for PC and consoles | 1 | <ul style="list-style-type: none"> • Tokyo Stories -working title- → 3D Adventure. Scheduled for release in 2023 |
| | Prototype | Titles in the development stage prior to production | Several | <ul style="list-style-type: none"> ➤ Multiple projects in progress | |

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

Game business overview(continued)

There are 11 titles in operation. Six more titles are under development.



Smartphone titles under development : 6

- **GGGGG**
→ Cooperative and competitive action game, release in 2023
- **Wizardry Variants Daphne**
→ 3D dungeon RPG, release in 2023
- **Evil Prince and the Puppet**
→ Dark fantasy adventure, release in 2023
- **Location-based IP titles using "AROW"**
- **Unannounced title (developed by studiorex)**
- **Unannounced title (developed by Drecom)**

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

*Projects classified as "Prototype" or "PC/Console Titles" on the previous page are not included above.

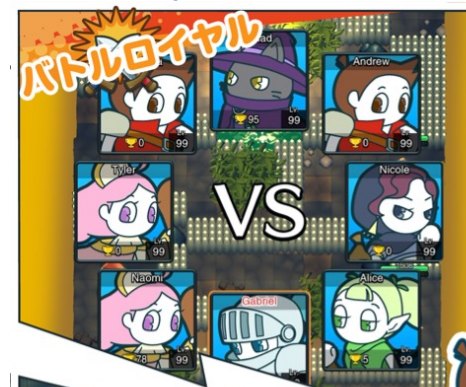
Game business progress: GGGGG open beta test conducted

An experimental title that pursues a new experience on mobile devices as the next-generation "5G" communication standard begins service. Action-oriented blockchain game with NFT skin.

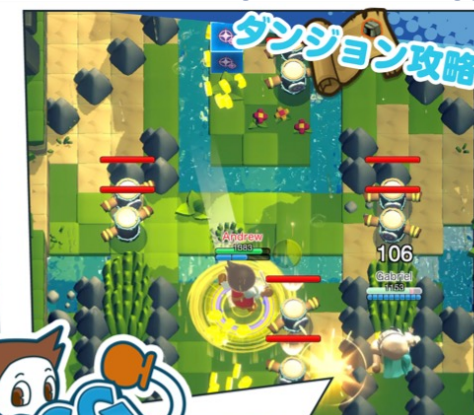


- Genre: Cooperative and competitive action game
- Release date: Year 2023
- Supported platforms: iOS/Android
- Price: Free for basic play (with in-game purchases)
- Development/Distribution/Operation: Drecom Inc.
- Countries of distribution: 172 countries and regions worldwide, including Japan
- Copyright Notice: © Drecom Co., Ltd.
- NFT skins that can be changed in-game will also be available

Battle royal



Dungeon strategy



Battle royal against 100 participants

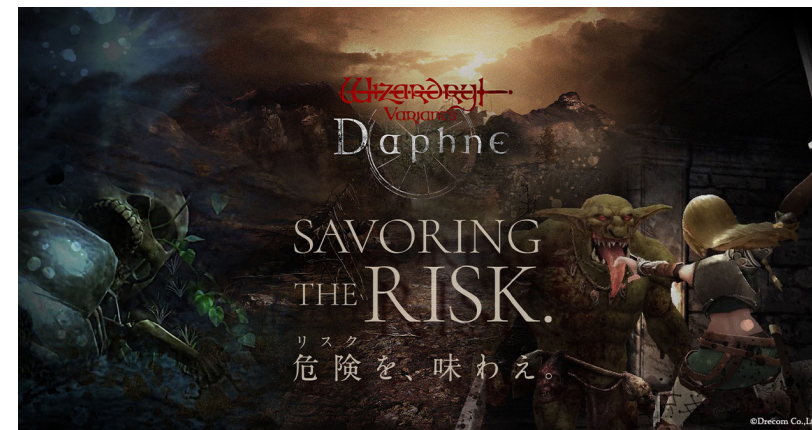


Private match

Game business progress: *Wizardry Variants Daphne*

An initiative to acquire copyrights and trademarks of popular IPs and develop original titles after making them controllable in-house IP.

Wizardry Variants Daphne



- Genre: 3D dungeon RPG
- Release date: During 2023
- Supported platforms: iOS/Android
- Price: Free for basic play (with in-game purchases)
- Developer/Distributor/Operator: Drecom, Inc.
- Country of distribution: Worldwide (Japan and overseas)
- Supported languages: Japanese/English *At the time of distribution
- Copyright Notice: © Drecom Co.



Game business progress: *Evil Prince and the Puppet*

Initiative to develop game content together with the follower-based community through the operation of SNS to foster IP assets. The number of SNS followers exceeds 100,000. Official announcement of game information made in Oct, 2022. Game development partner is Liber Entertainment, Inc.

Evil Prince and the Puppet



- **Genre:** Dark fantasy adventure
- **Release date:** 2023
- **Supported platforms:** iOS/Android
- **Price:** Free for basic play (with in-game purchases)
- **Planning and development:**
Drecom Co., Ltd and Liber Entertainment Inc.
- **Main scenario writer:** Takumi Miyajima
- **Character Design:** Domino Ozaki
- **Copyright Notice:** ©Drecom Co.



■ Press Release (October 28, 2022)

<https://drecom.co.jp/news/2022/10/20221028-01.php>

Game business progress: *Tokyo Stories*

An initiative to develop original titles for PCs and consoles on an one-time purchase basis.
Highly acclaimed overseas, exhibited at the Taipei International Game Show 2023 in February.

Tokyo Stories -working title-



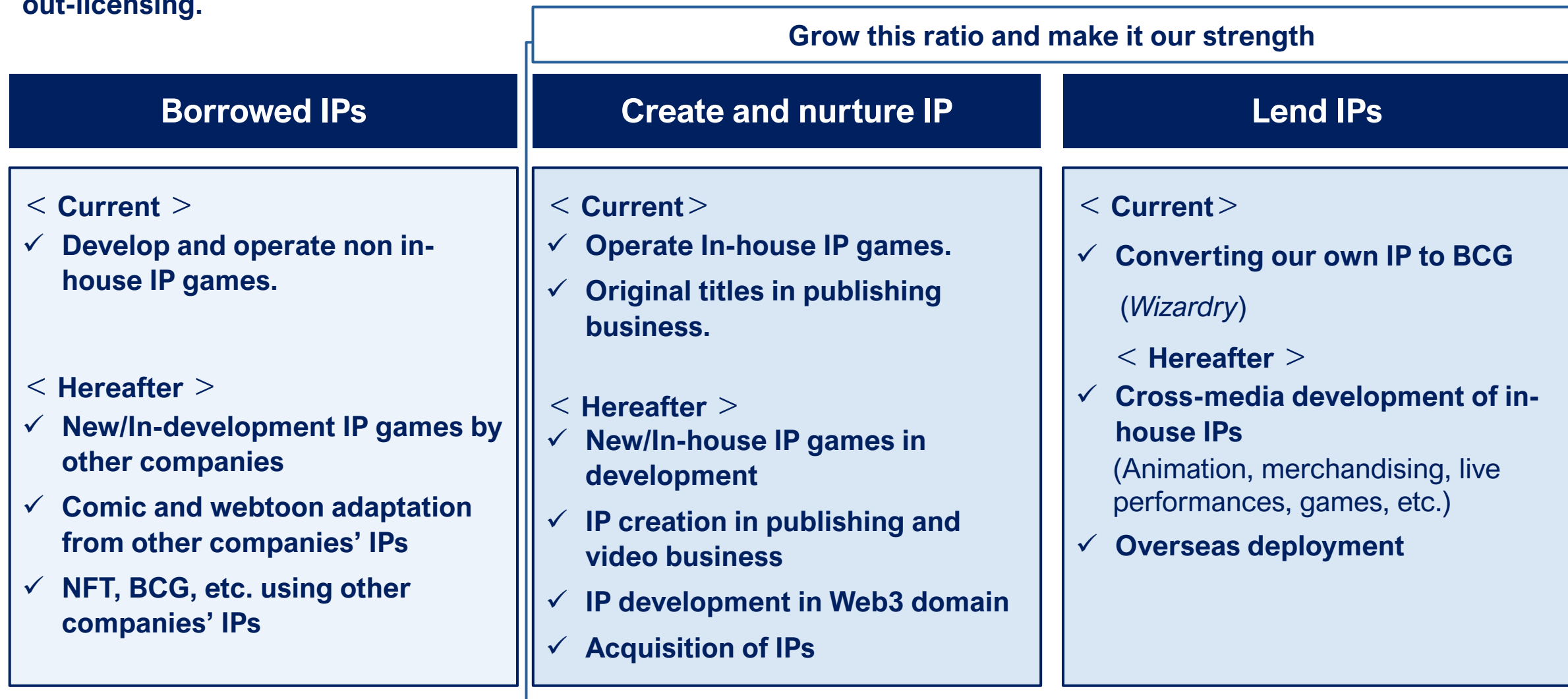
- **Genre:** Adventure
- **Release date:** 2023 (scheduled)
- **Compatibility:** PC (Steam) / Console (platform to be determined)
- **Price:** Undecided
- **Planning/Development/Sales:** Drecom Co., Ltd.
- **Country of distribution:** Worldwide (Japan and overseas)
- **Language:** Undecided
- **Copyright Notice:** ©Drecom Co.



■ **Press Releases (Jan. 16, 2023 and Jan. 27, 2023)**
<https://drecom.co.jp/news/2023/01/20230116-01.php>
<https://drecom.co.jp/news/2023/01/20230127-01.php>

Accelerate growth potential: Acquire, develop, and nurture IP

Aiming to create and nurture IP from the original content development and expand into adjacent industries by way of out-licensing.



New work published around the 10th of each month by the light novel label "DRE Novels".

Blade & Bastard

–Ashes are Warm, Labyrinths are Dark–,
published in December is going to be reprinted
due to the great response.



- Release date: December 9, 2022
- List price: 1,430 yen
(1,300 yen + tax)
- Author : Kumo Kagyu
- Illustration: so-bin

Troubles with exorcist daughter Nicola,
winner of the Drecom Media Grand Prize
《Gold Prize》, will be published in February.



- Release date: February 10, 2023
- List price: 1,430 yen
(1,300 yen + tax)
- Author: Ito lino
Illustration: Kinoko Princess

■ DRE Novels' official website: <https://drecom-media.jp/drenovels>

IP Development and cultivation initiatives: *Wizardry*

Acquire copyrights and trademarks of a popular IP and make them controllable IP of the company's own, and increase IP value



Wizardry

From 2022 (scheduled)
Novelization and comic book adaptation of *Blade & Bastard* by the Publishing and Video Division



- Mobile game releases *Wizardry Variants Daphne*

2020~

- Drecom acquired trademark rights
- Mobile Game Development Announced



2009~

- Gamepot Inc. acquired trademark rights
- Derivative Series Development

1981~

- Release of the first software for PC
- Developed the series until around 2001

1981

2009

2020

After 2022

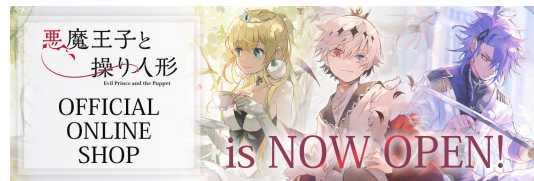
*Image of IP value enhancement

IP Dev. and cultivation initiatives: *Evil Prince and the Puppet*

Initiatives to form fan-based communities from SNS operations, nurture IP, and grow it in multiple areas, including game development.



From 2023 (scheduled)
• Mobile game releases



April 2021

• Merchandise are now on sale at the official online store.

November 2022

• Game Information Release
• Real Event Exhibit

Approx. 100,000

November 2019

• Project Announcement

Approx. 60,000

SNS followers: approx. 10,000

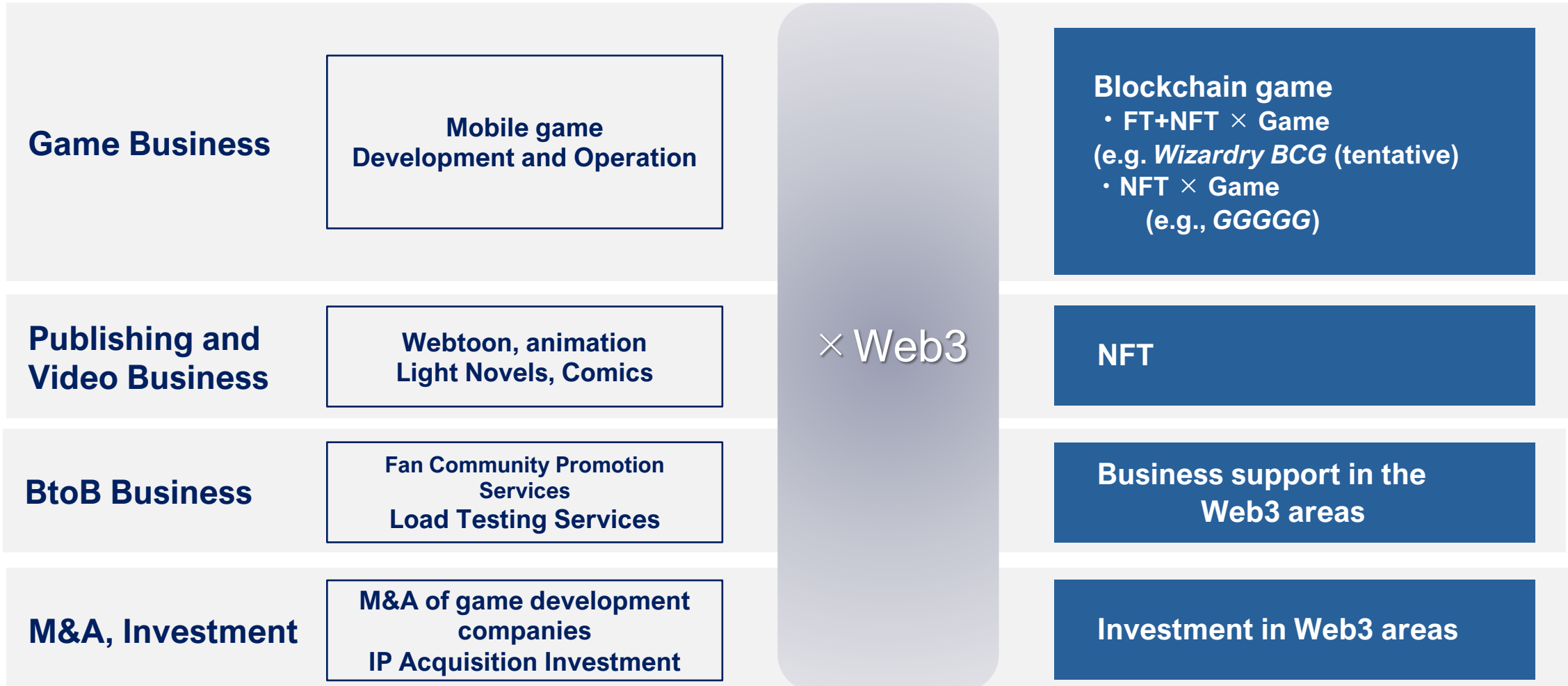
Promote growth potential: Business development in new business areas (Web3 domains)



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

Existing Initiatives

Initiatives in the Web3 domains



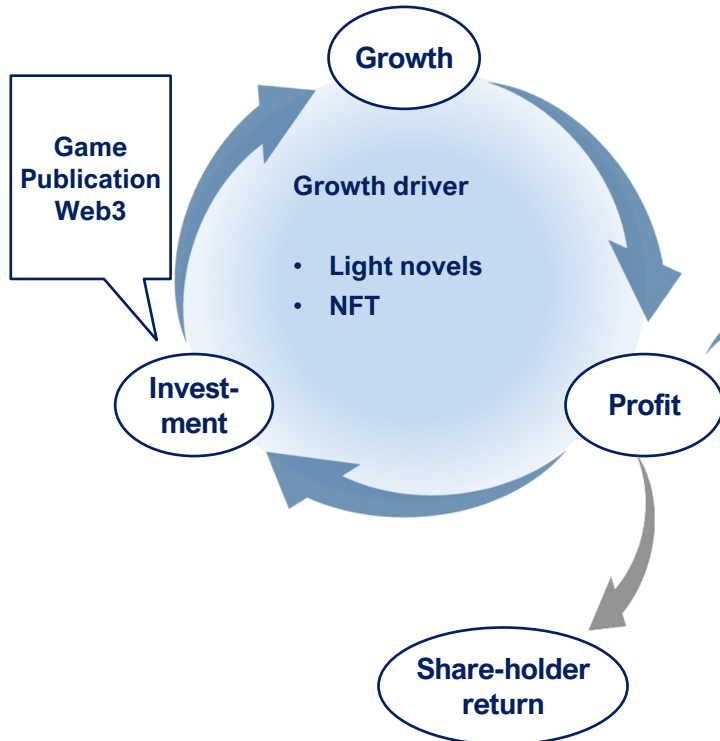
Entering performance expansion phase

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

Contribution of three new titles scheduled for release in FY03/23 will be delayed to FY03/24.

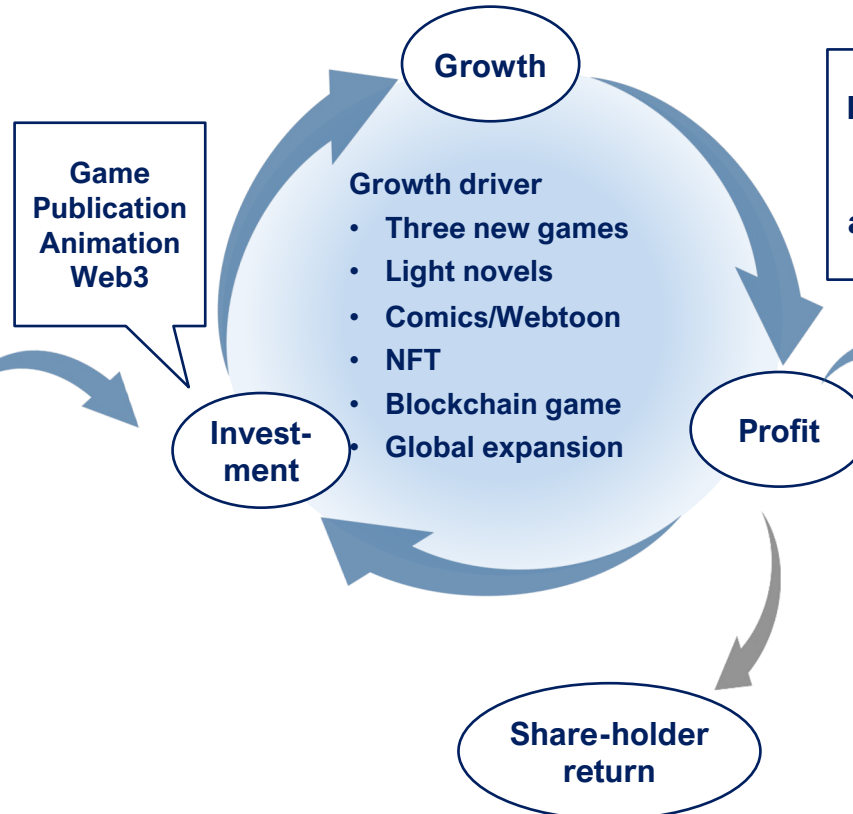
FY03/2023

Sales: 13 billion yen → 10.7 billion yen (revised forecast)
 Operating income: 2 billion yen → 2.2 billion yen (revised forecast)



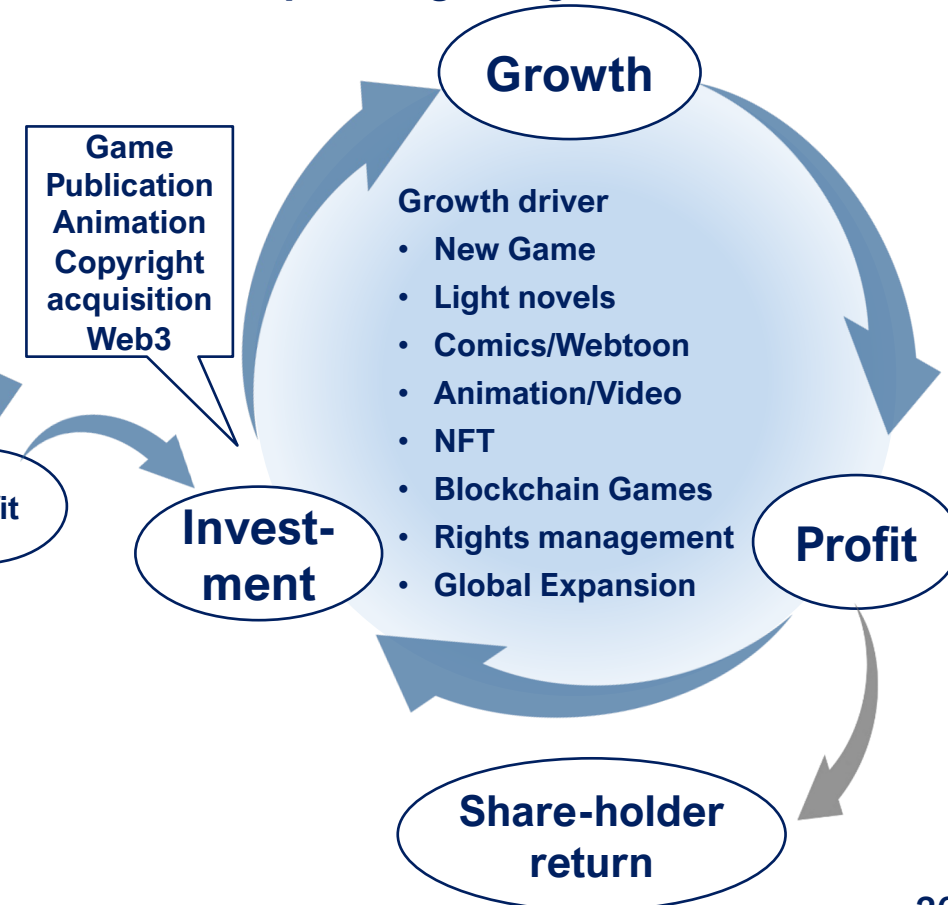
FY03/2024

Net sales: +20% or more YoY
 Operating margin: maintain 15%



FY03/2025

Net sales: +20% or more YoY
 Operating margin: maintain 15%



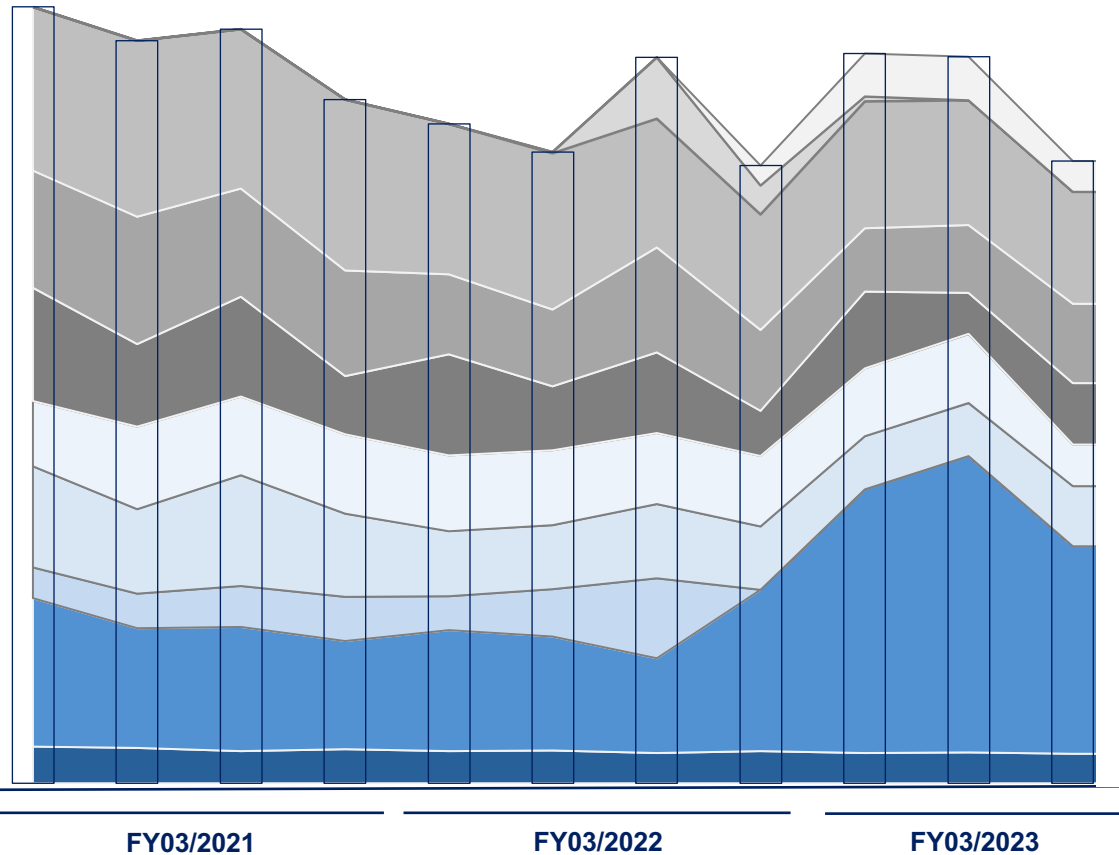
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Revenue status of titles in operation (by release date)

The game business is not dependent on a small number of hit titles, but rather on the accumulation of multiple titles to generate revenue.

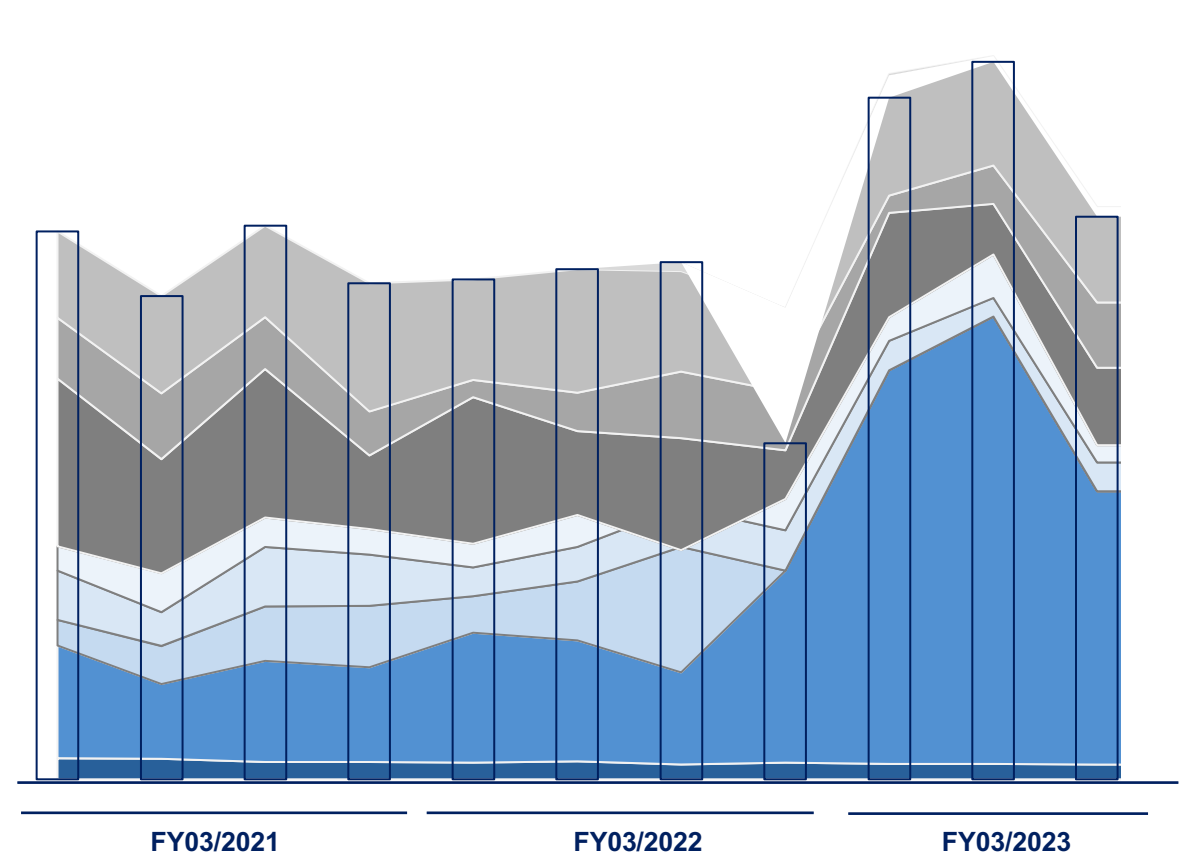
Total sales of titles under operation

■ 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_202303Q3.pdf

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 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 FY03/2022 and 24 meetings were held annually for FY03/2021.

List of game titles in operation

| Game title | 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> | studiorex Co., Ltd. ^{*2} | 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> ^{*1} | Aniplex Corporation | Dec 2017 |
| <i>THE IDOLM@STER SHINY COLORS</i> | BANDAI NAMCO Entertainment Inc. | Apr 2018 |
| <i>NEKO & DRAGONS</i> | studiorex Co., Ltd. ^{*2} | 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 |

*1: *Kirara Fantasia* service is scheduled to end on February 28, 2023

*2: studiorex, Co., Ltd. will join our group in March 2020.

| 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 |

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_202303Q3.pdf



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.