Third quarter fiscal year ending March 31, 2024
Financial results presentation

Drecom Co., Ltd.

January 30, 2024

Please refer to the Fact Sheet on our website for trends in consolidated financial results, cost of sales, SG&A expenses, and billing sales in the game business. https://drecom.co.jp/ir/factsheet_202403Q3.pdf

Summary

Q3 FY2023 (Apr-Dec) Actual	**Existing operational titles continue to generate stable revenues** • **Q3 Actual** Sales: 7,637 million yen (-8.9% YoY) Operating income: 789 million yen (-62.4% YoY) Ordinary income 729 million yen (-64.0% YoY) Net income 97 million yen (-91.7% YoY)[1]
Forecast for FY2023	**Revised full-year forecasts due to changes in outlook for two new releases** • Revised forecast to not include contribution of future new title releases in FY2024 • Revised forecast (announced on January 30, 2024): Sales 11,500 million yen -> 10,000 million yen, Operating income 500 million yen -> 800 million yen Ordinary income 450 million yen -> 700 million yen, Net income 0 million yen -> 100 million yen[2]
Business Progress	**Steady progress in each business developed with aim of strengthening IP production capabilities and diversifying** • "Blade & Bastard", flagship title in publishing and visual business domain, has surpassed cumulative series total of 100,000 copies. • "Eternal Crypt - Wizardry BC-", Jointly developed blockchain game was pre-released and INO ready

*1 Net quarterly loss attributable to owners of the parent *2 Net income attributable to owners of the parent **2**

1. Review of Q3 (Oct-Dec) FY2023

2. Forecast for FY2023

3. Medium-term goals

4. Appendix

Summary of business results third quarter of FY2023

DRECOM with entertainment

Existing titles in operation continue to perform well

(Millions of yen)	FY2023					FY2022			
	Q1 (Apr-Jun)	Q2 (Jul-Sep)	Q3 (Oct-Dec)	QoQ	Q3 Total (Apr-Dec)	Q3 (Oct-Dec)	YoY	Q3 Total (Apr-Dec)	YoY (Total)
Net sales	2,346	2,745	2,546	-199	7,637	2,579	-33	8,380	-742
Operating income	8	463	317	-146	789	492	-175	2,100	-1,311
Operating profit ratio	0.4%	16.9%	12.5%	-	10.3%	19.1%	-	25.1%	-
EBITDA$_{*1}$	82	500	332	-168	915	556	-223	2,341	-1,425
EBITDA Margin	3.5%	18.2%	13.1%	-	12.0%	21.6%	-	27.9%	-
Ordinary income$_{*2}$	2	451	275	-176	729	477	-202	2,025	-1,296
Net income (loss)$_{*3}$ attributable to shareholders of the parent company	-441	272	266	-6	97	110	+156	1,166	-1,069

*1 EBITDA = operating income + amortization of goodwill + depreciation
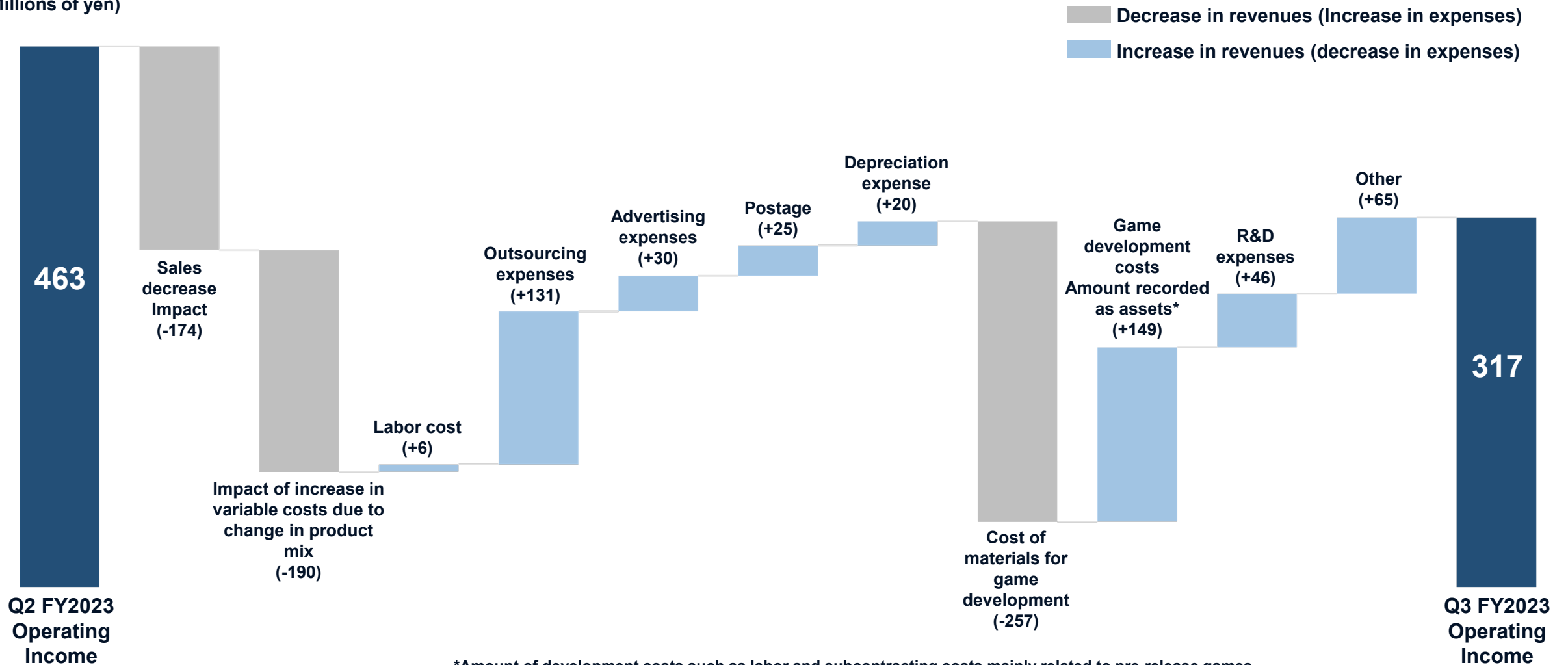*2 Non-operating expenses of 31 million yen were recorded in Q3 due to borrowing (syndicated loan contract).
*3 Reviewing the operation/development portfolio, an extraordinary loss of 609 million yen was recorded in 1H.

4

Q3 FY2023 Operating income (QoQ comparison)

Fixed costs decreased due to closure of unprofitable titles, despite lower sales compared to the previous quarter, which was strong.

(Millions of yen)

◾ Decrease in revenues (Increase in expenses)
◾ Increase in revenues (decrease in expenses)

- **463** — Q2 FY2023 Operating Income
- Sales decrease Impact (-174)
- Impact of increase in variable costs due to change in product mix (-190)
- Labor cost (+6)
- Outsourcing expenses (+131)
- Advertising expenses (+30)
- Postage (+25)
- Depreciation expense (+20)
- Cost of materials for game development (-257)
- Game development costs Amount recorded as assets* (+149)
- R&D expenses (+46)
- Other (+65)
- **317** — Q3 FY2023 Operating Income

*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".

5

Q3 FY2023 Revenue from operational game titles

Improved profitability by closing unprofitable titles 1H

Profit/loss of operational 10 titles* (Q3 Oct-Dec 2023)

Loss ← → ← Profit →
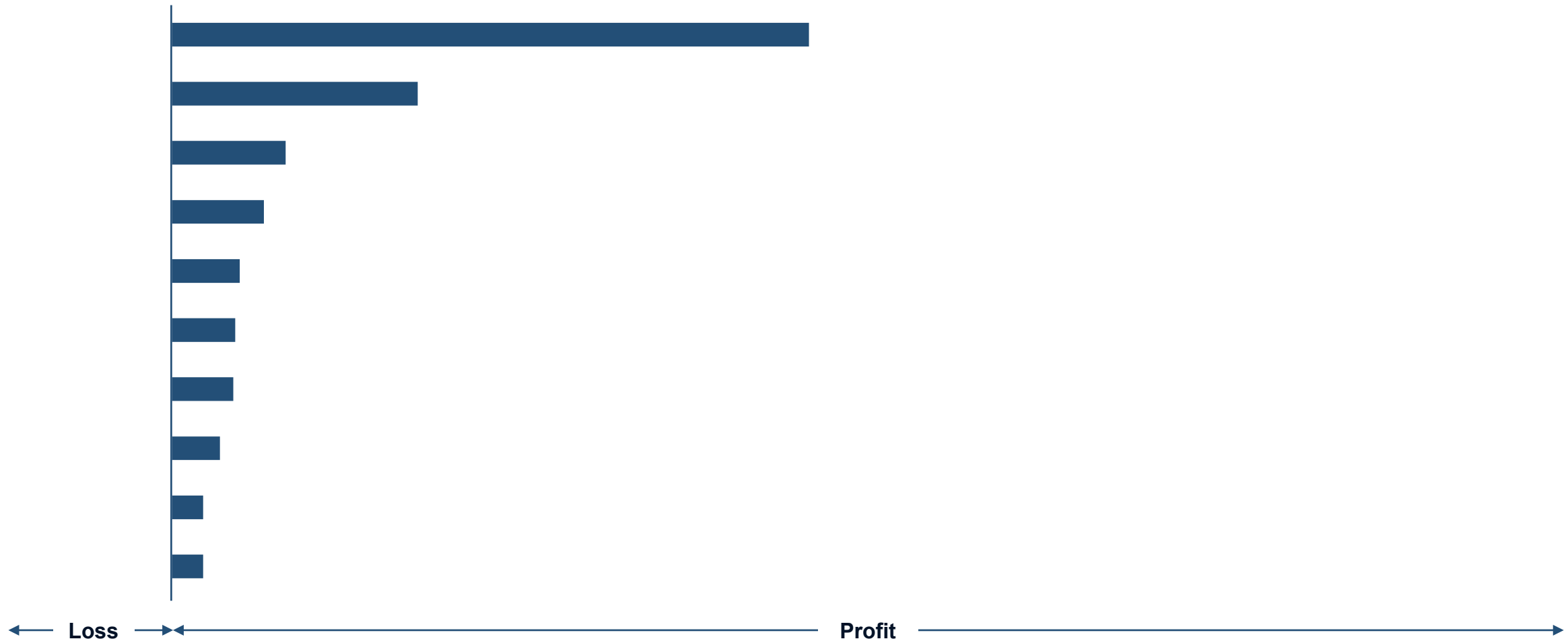
* Series titles and titles developed for overseas are counted as one title. Number of titles in operation as of Dec 31, 2023. Including two enza titles and BOKU & DRAGONS.

Topics of each business

DRECOM
with entertainment

Game business	**Existing operational titles continue to generate stable revenues** • The flagship IP titles that performed well in Q2 experienced subdued trend in Q3 but it continues to make steady progress. **User testing conducted for two titles currently in development** • "Wizardry Variants Daphne" with an open application format. "Evil Prince and the Puppet" within a small users group.
Media business	**Publishing/Video Area: Comic book label "DRE Comics" to begin publication in Oct 2023.** • The publication of first two volumes of mainstay "BLADE & BASTARD" comic also contributed to segment sales in Q3. • Webtoons label "DRE STUDIOS" launched, releasing its first work "Beyond breaking an engagement" in November 2023. **Web3 area: "Eternal Crypt - Wizardry BC-", was pre-released and INO* ready** • NFT sales revenue by INO was recorded as segment sales in Q3. Contribution to overall performance • Continuation rate during pre-release period better than expected. Partial revision of future plans based on results of first phase **Continue to develop/provide new services utilizing know-how from existing businesses** • Operating fan marketing support services "Rooot" and "Fanflu", Load Testing Service "Mx.Load" • "Rooot" has been installed in more than 250 services.

*INO: Abbreviation for Initial NFT Offering. Special NFTs are sold before the game is released with the aim of forming a core fan community. **7**

Progress on future measures

Reinforcement of measures for newly released titles and review of investment plans, as a year of rebuilding for next fiscal year

Future measures (reiterated)	State of progress
• Improve quality of new titles to be released and review marketing plans • Greater emphasis on evaluation in pre-release game verification and user testing	• **"Wizardry Variants Daphne" has been tested twice. To ensure game is in perfect condition, we are fixing bugs, developing additional content, and redesigning marketing plan to ensure it is in good condition.** • **Small users group test of "Evil Prince and the Puppet" conducted. A second test will be conducted Spring 2024 after modifications.** • Small-scale testing of "Location-based IP Titles" planned for Spring 2024
• Aim to improve probability of success and reduce risk by collaborating with multiple companies and accepting investment on project-by-project basis	• **Decided to deploy for PC/console (title unannounced)**

*Other measures: "Review overall strategy for unannounced/prototype mobile game titles" and "Curb R&D investment in new business areas". Company-wide cost reduction and investment plan review" continues to make progress and is omitted from this report.

9

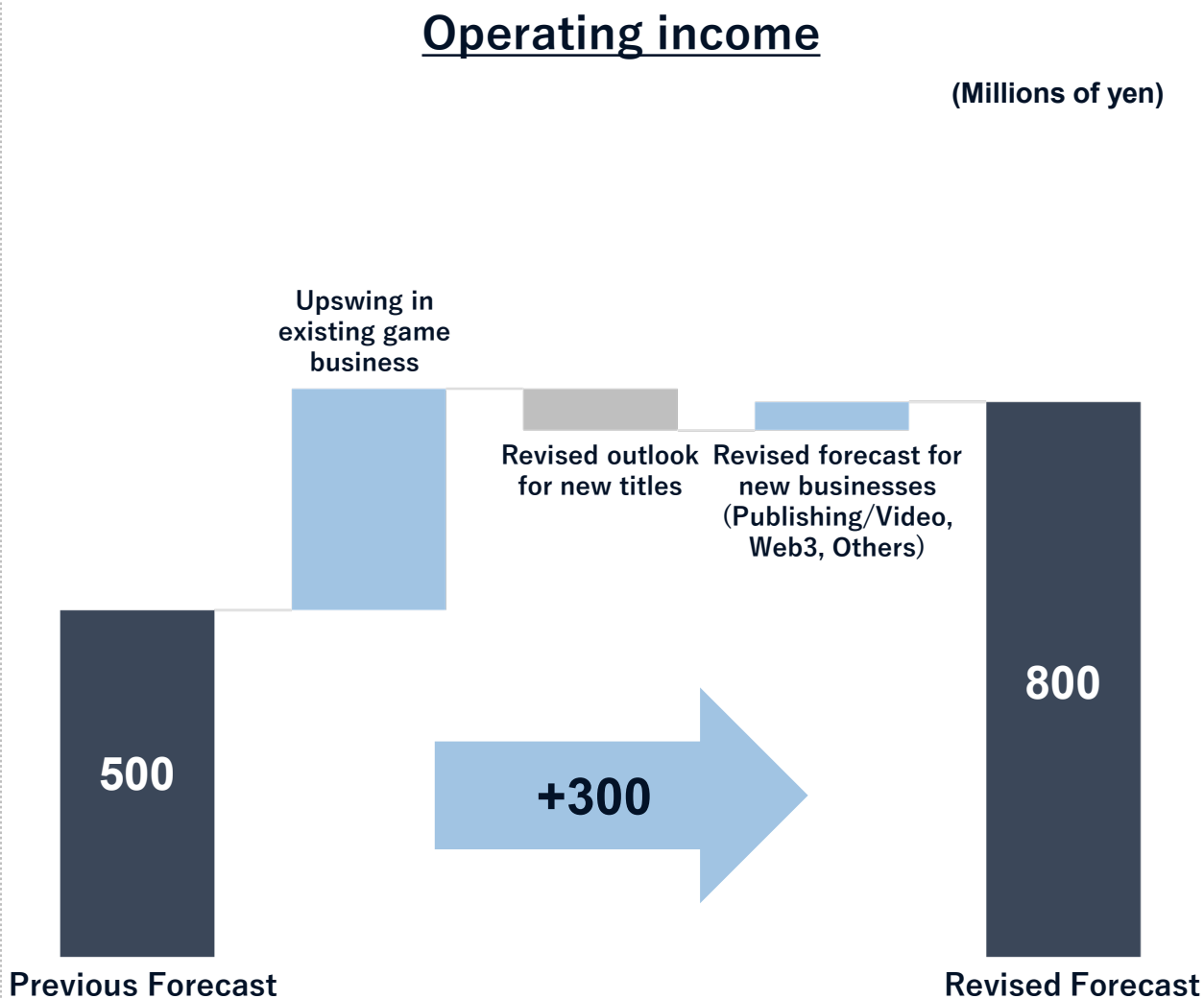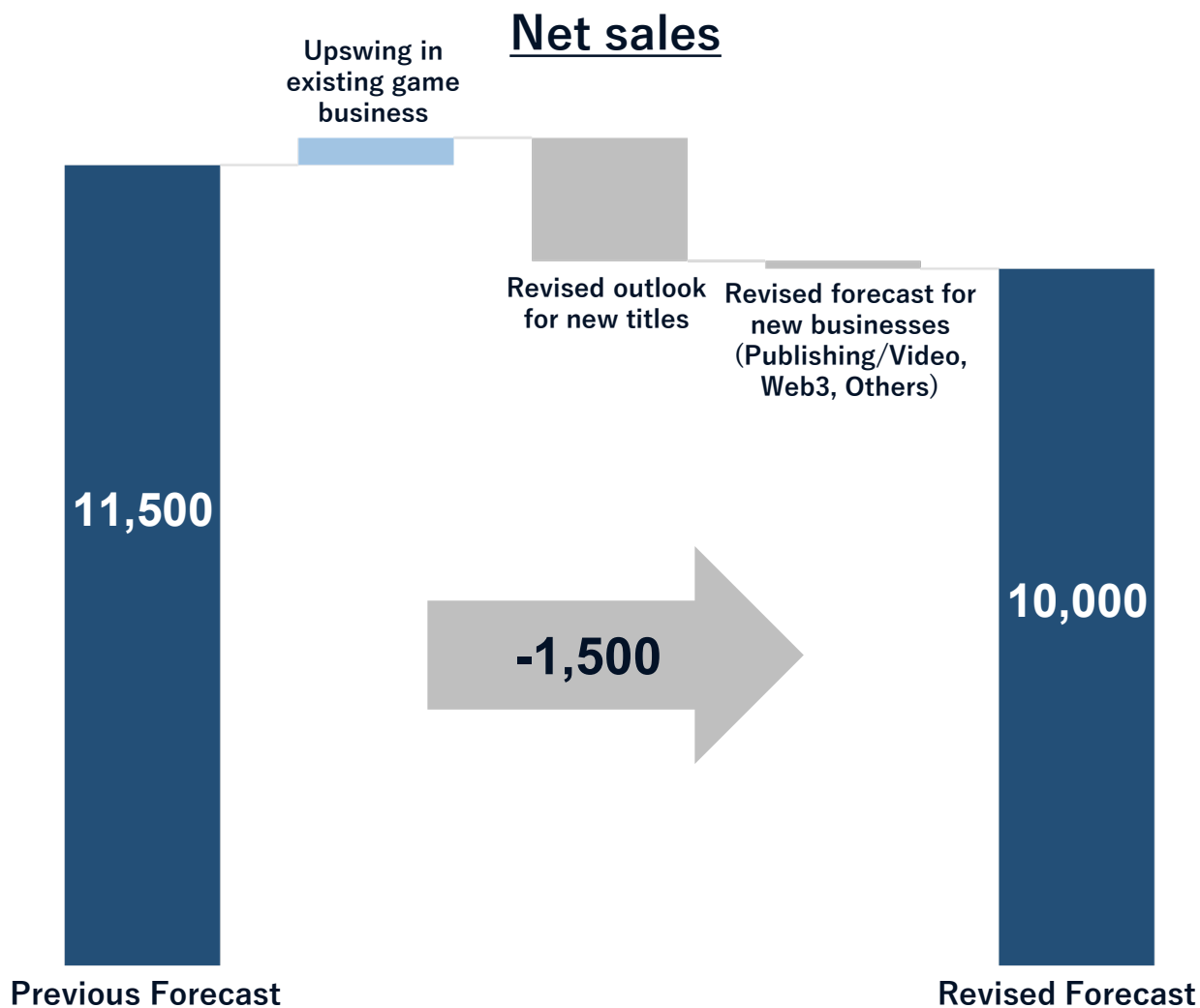# Revision : Summary of full-year forecasts for FY2023

Revised full-year forecasts due to upswings in existing titles and changes in forecasts for two new titles

(Millions of yen)	Previous Forecast (Announced on July 27, 2023)	Revised Forecast (Announced on January 30, 2024)	Change from previous forecast	Main Factors
Net sales	**11,500**	**10,000**	**-1,500**	• **Contributions from new title releases are no longer expected to be included in this fiscal year**
Operating income	**500**	**800**	**+300**	• **Upswing of existing titles** • **Change in outlook to not include contributions from new title releases in the current fiscal year**
Ordinary income	**450**	**700**	**+250**	**-**
Net income attributable to shareholders of the parent company	**0**	**100**	**+100**	· Extraordinary loss of 609 million yen due to the closure of "Dachimen Densetsu G" and "GGGGG" and the discontinuation of development of "Project BEAT".
per share dividend (Unit: Yen)	**undecided**	**0**	**-**	• For details, please refer to the " Notice of Revision of Full-Year Earnings Forecasts and Revision of Dividend Forecasts (No Dividend)" released today (January 30, 2024).

*The previous forecast (announced on July 27, 2023) was revised from the forecast announced at the beginning of the period (announced on May 11, 2023).

Revision : Summary of full-year forecasts for FY2023

■ Decrease in Net sales / Operating income

■ Increase in Net sales / Operating income

Net sales

(Millions of yen)

Upswing in existing game business

Revised outlook for new titles

Revised forecast for new businesses (Publishing/Video, Web3, Others)

11,500

-1,500

10,000

Previous Forecast

Revised Forecast

Operating income

Upswing in existing game business

Revised outlook for new titles

Revised forecast for new businesses (Publishing/Video, Web3, Others)

500

+300

800

Previous Forecast

Revised Forecast

Summary: FY2023 full-year forecasts

(Millions of yen)	FY2023							FY2022
	Q1(Apr-Jun)	Q2(Jul-Sep)	Q3(Oct-Dec)	Total (Apr-Dec)	Rate of progress	Q4 Forecast (Jan-Mar)	Full Year Forecast	Actual
Net sales	2,346	2,745	2,546	7,637	76.4%	2,362	10,000	10,800
Variable cost	351	340	506	1,197	73.9%	423	1,621	1,386
Fixed cost	1,987	1,940	1,722	5,650	74.6%	1,927	7,578	7,132
Advertising expenses	141	81	50	272	71.6%	108	380	208
R&D expenses	82	140	94	318	76.9%	95	413	354
Game development costs charged to assets*	-498	-494	-643	-1,636	78.1%	-457	-2,094	-1,999
Operating income	8	463	317	789	98.7%	10	800	2,281
Operating profit ratio	0.4%	16.9%	12.5%	10.3%	-	0.4%	8.0%	21.1%
Ordinary income	2	451	275	729	104.2%	-29	700	2,192
Net income attributable to shareholders of the parent company	-441	272	266	97	97.4%	2	100	1,159

*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".

Three years to scale up

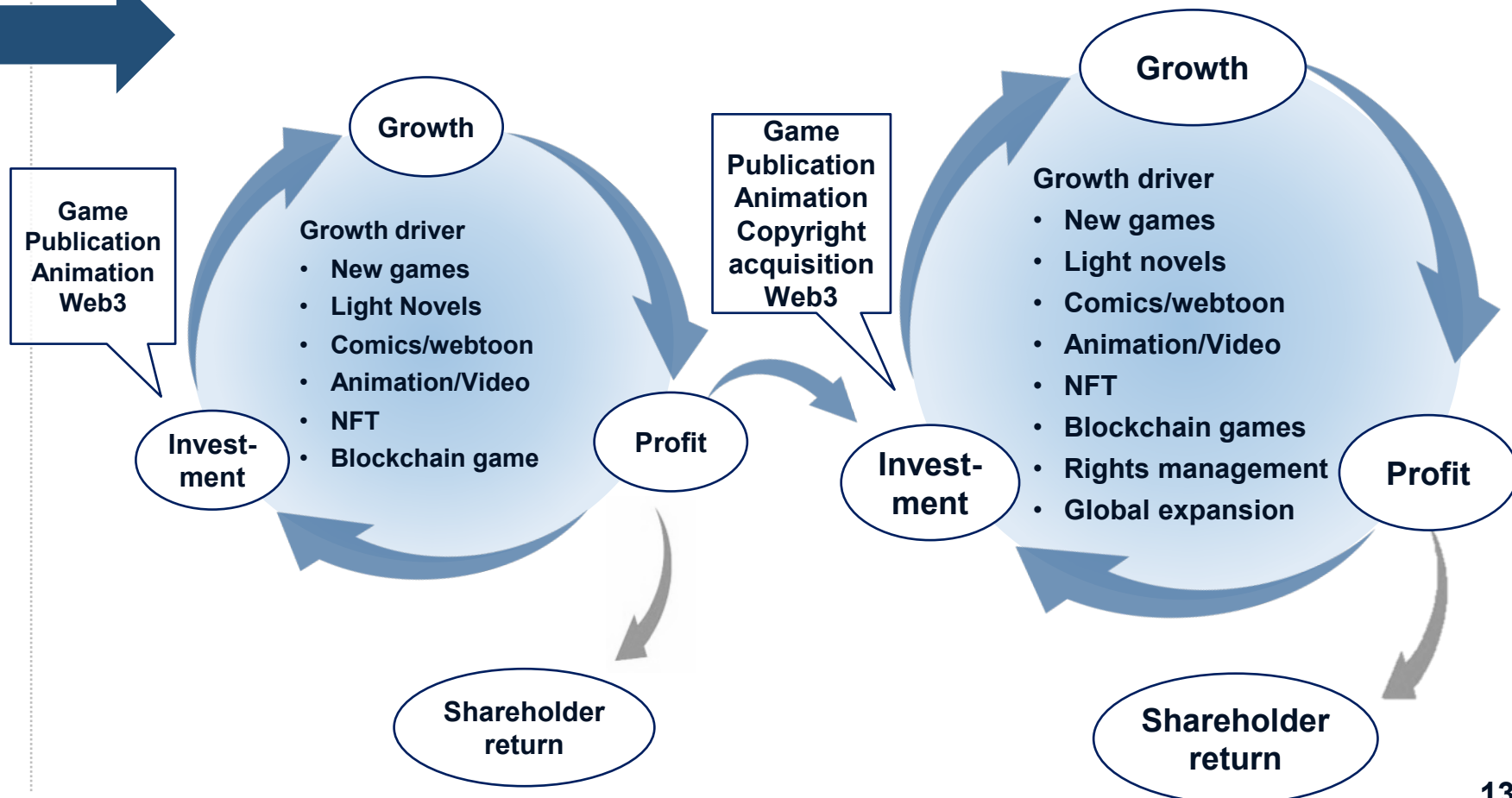**Finish rebuilding by end FY March 2024; aim for growth in FY March 2025 and beyond.**

FY2023

Sales: 10 billion yen
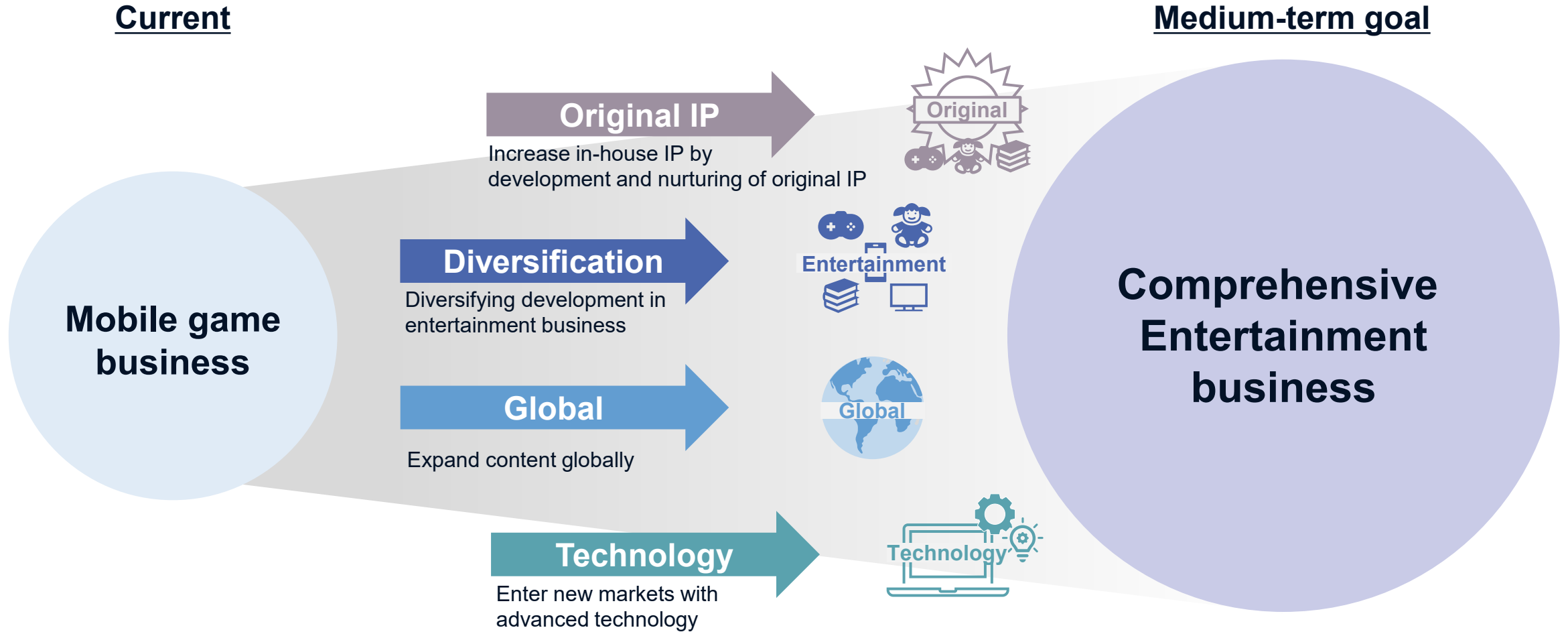**Operating income: 0.8 billion yen**

Rebuilding for next fiscal year

- Improve profitability of existing businesses
- Review investment plans
- Company-wide cost reductions
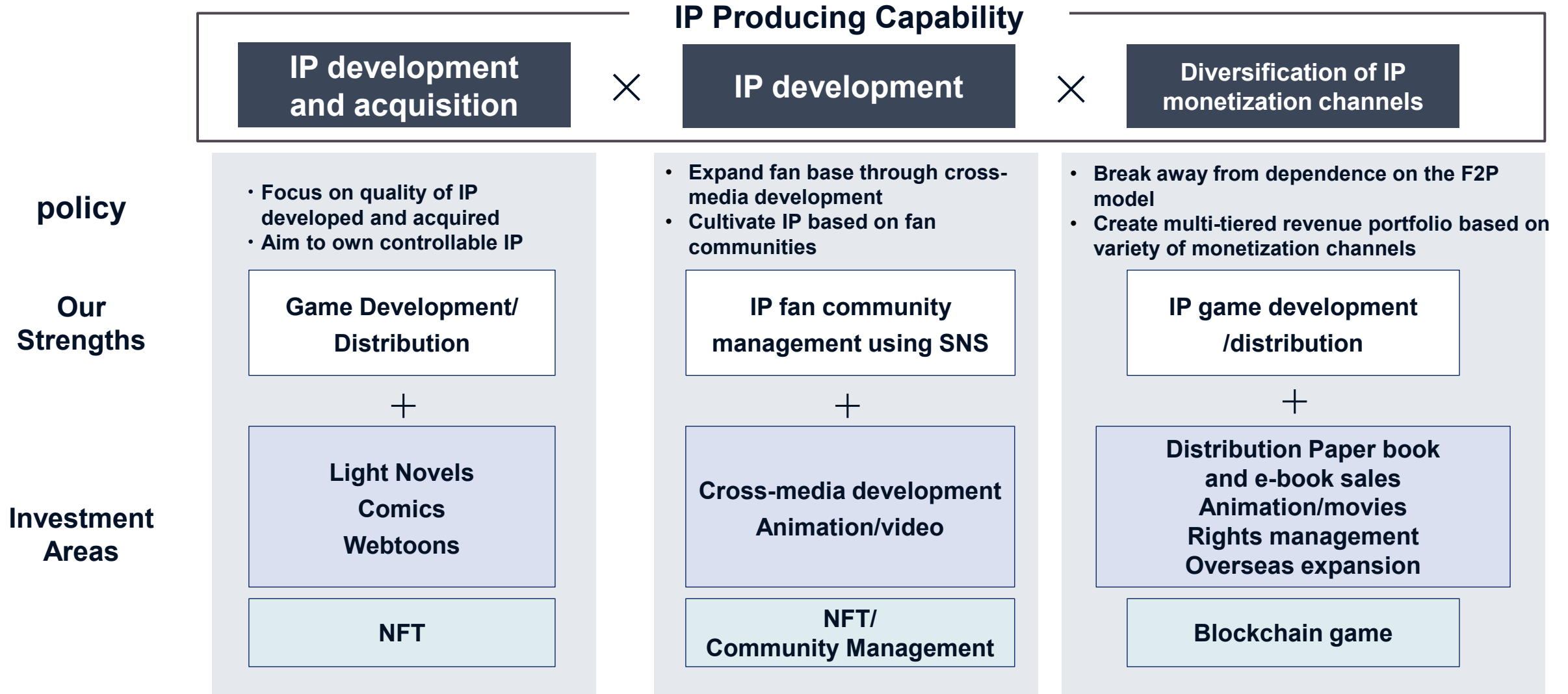- Collaborating with other companies involving investment and acceptance on project-by-project basis

FY2024 – FY2025

Sales: CAGR over 20%
Operating margin: Maintain 15%

Game Publication Animation Web3

Growth

Growth driver
- New games
- Light Novels
- Comics/webtoon
- Animation/Video
- NFT
- Blockchain game

Invest-ment

Profit

Shareholder return

Game Publication Animation Copyright acquisition Web3

Growth

Growth driver
- New games
- Light novels
- Comics/webtoon
- Animation/Video
- NFT
- Blockchain games
- Rights management
- Global expansion

Invest-ment

Profit

Shareholder return

1. Review of Q3 (Oct-Dec) FY2023

2. Forecast for FY2023

3. Medium-term goals

4. Appendix

Transformation into comprehensive entertainment company

Current

Medium-term goal

Mobile game business

Original IP

Increase in-house IP by development and nurturing of original IP

Original

Diversification

Diversifying development in entertainment business

Entertainment

Global

Expand content globally

Global

Technology

Enter new markets with advanced technology

Technology

Comprehensive Entertainment business

15

Strengthen IP production capabilities

Elevate IP production capabilities by embracing "our strength" with support of "investment areas - publishing, video business and Web3 area."

IP Producing Capability

IP development and acquisition	×	IP development	×	Diversification of IP monetization channels

policy

- Focus on quality of IP developed and acquired
- Aim to own controllable IP

- Expand fan base through cross-media development
- Cultivate IP based on fan communities

- Break away from dependence on the F2P model
- Create multi-tiered revenue portfolio based on variety of monetization channels

Our Strengths

Game Development/ Distribution	IP fan community management using SNS	IP game development /distribution

+

Investment Areas

Light Novels Comics Webtoons	Cross-media development Animation/video	Distribution Paper book and e-book sales Animation/movies Rights management Overseas expansion
NFT	NFT/ Community Management	Blockchain game

16

Status of in-house IP development and nurturing: *Wizardry*

DRECOM®
with entertainment

Acquire copyrights and trademarks of a popular IP and make them our own IP, and then enhance IP value through multimedia development

Wizardry

Portal site: https://wizardry.info/

From 2022 onward -
- Novelization and comic book adaptation by Drecom Media
  Blade & Bastard
- Mobile Gaming
  Wizardry Variants Daphne
- Blockchain Gaming
  Eternal Crypt-Wizardry BC-

- PC games by other companies (remakes and derivative works)
  *Wizardry Legacy -BCF,CDS & 8-*1*
  *Wizardry Gaiden: The Five Ordeals *2*
  *Wizardry: Proving Grounds of the Mad Overlord *3*

From 2020
- Drecom acquired trademark rights.
- Mobile Game Development Announcement

From 2009
- Gamepot, Inc. acquired trademark rights
- Derivative Series Development

From 1981
- First software released for PC.
- Series development until about 2001

Blade & Bastard

Wizardry Variants Daphne

Eternal Crypt-Wizardry BC-

1981   2009   2020   Image of IP value enhancement

*1: Distributed by D4 Enterprises, Inc.   *2: Distributed by IID, Inc. on Steam
*3: Distributed by Digital Eclipse on Steam. Classic Wizardry 1-5 is copyrighted by Sirtech Entertainment Corp. and developed under license.

"Wizardry": "Wizardry Variants Daphne," the latest in the series

Closed beta test in October 2023. Survey report available on official website.

Conducted closed beta test (October 10-19, 2023)

- More applications received than initially expected, with approximately 5,000 people participating.
- **Survey results good. Report available at** https://wizardry.info/daphne/cbt-report/
  Satisfaction: 89.1% of respondents answered "good, somewhat good
  Intention to play: 89.5% said they "would play, somewhat would play".
- Currently evaluating preparatory contents and timing of release
  Improvement of remaining issues and development to expand the volume of content, aiming for a fully-fledged release.
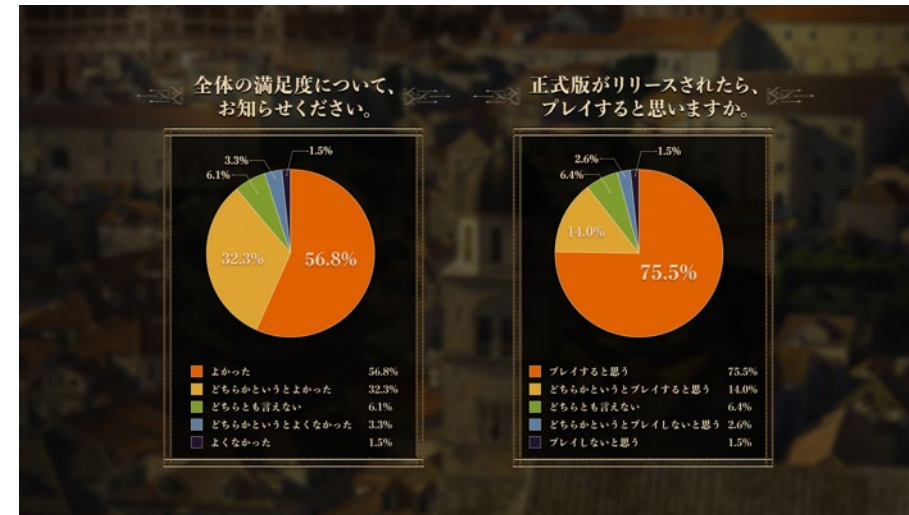
"Wizardry": novel and comic "Blade & Bastard"

First volume of comics published in October, followed by second volume in December. Cumulative circulation of series exceeded 100,000 copies.

Series has sold over 100,000 copies

- Mainstay products of publishing and video business
- Aiming to further increase recognition and establish series as an IP through a series of media mix projects.

Display contest held
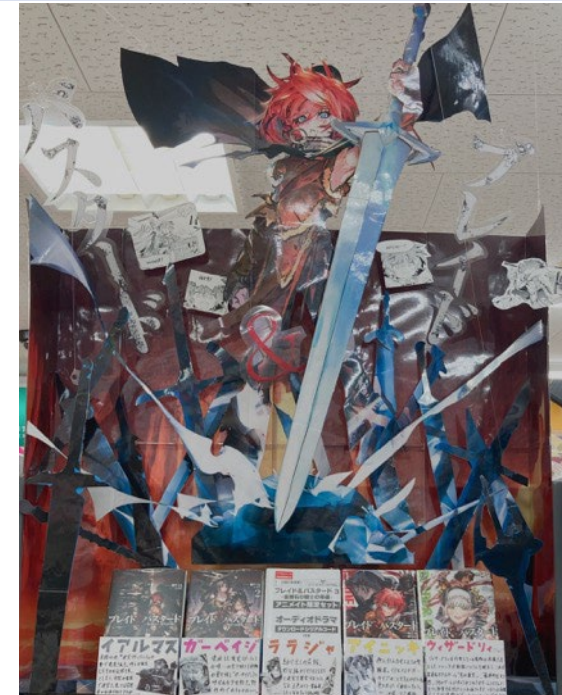
- Calling on bookstores nationwide to participate in display contest
  (Photo: Animate Hiroshima, winner of the Grand Prize)

19

"Wizardry": blockchain game "Eternal Crypt - Wizardry BC-"

Preparations for official release of this title, being developed in collaboration with Turingum K.K., including additional development, are in progress. 2nd and 3rd phases of pre-release period will begin Feb 2024. After that, official release will be scheduled together with application version.

Reference:"Eternal Crypt - Wizardry BC –" Offical website https://wiz-eternalcrypt.com/
*"Q1-2024" on this image is for the period from January to March 2024.
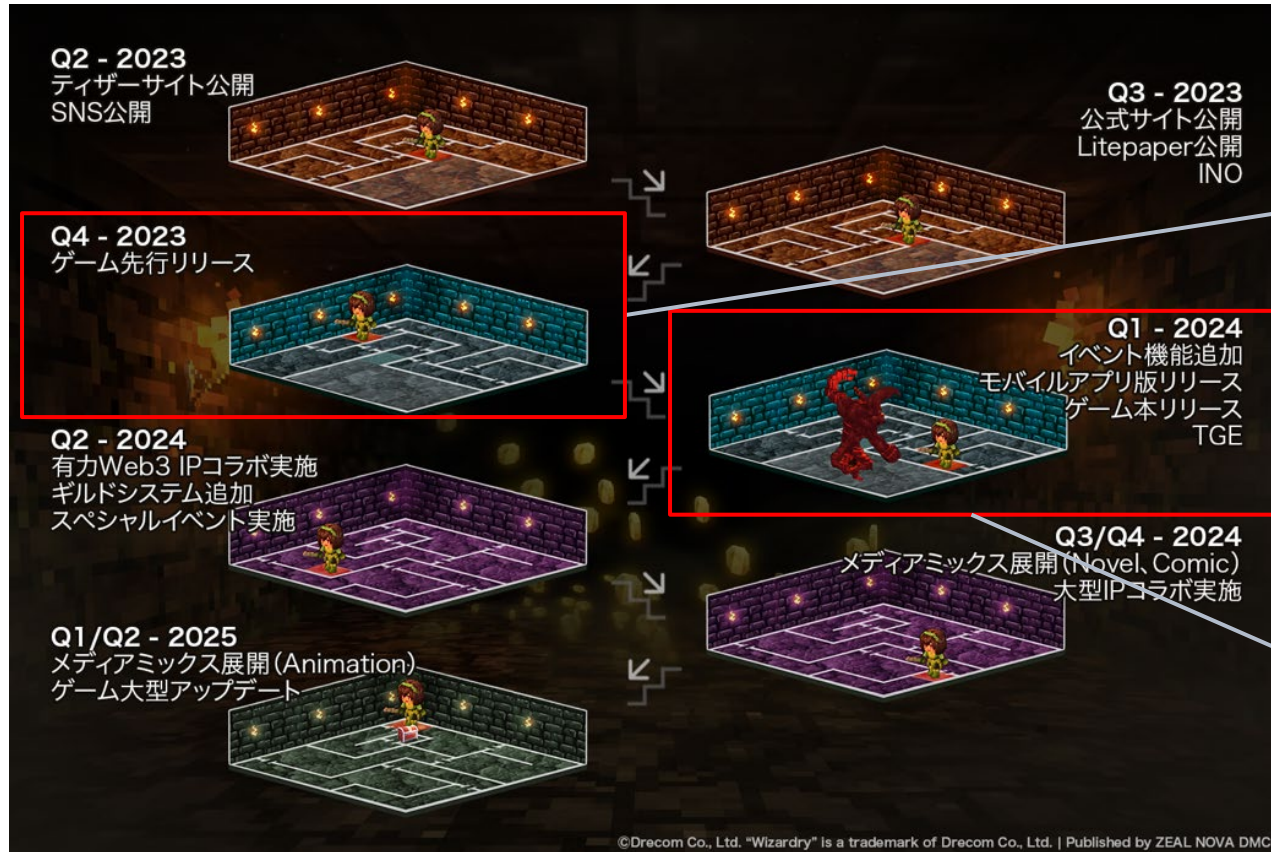
Pre-release period began October 2023.
- Pre-play period limited to NFT holders sold at INO
- **Played with high intensity and better than expected continuation rate**
- However, deviation from originally envisioned game experience and, Due to some problems that made it impossible to proceed, Revised schedules and carried out modifications and additional development.

Phase 2 of pre-release scheduled to begin in Feb 2024
- Additional development and other measures largely completed
- Official release of app and browser version scheduled after the end of preliminary release period
- Once in operation, NFT sales from events and collaborations are expected to be main source of revenue.(A certain percentage of sales related to this title will be received from publishers as revenue sharing)

Wizardry": New goods on sale at online store

Official online store "DRECOM SHOP" opened January 2024. Started selling new "Wizardry" goods.

We plan to continue to handle a variety of goods from our own IP and other content.

■DRECOM SHOP：https://drecomshop.com/

- Positioned as important for strengthening IP production capabilities over the medium to long term, Aiming for continuous business operation and expansion of scale
- The impact on business performance at this point is negligible.

WizardryロゴTシャツ — Wizardryロゴパーカー — Wizardryロゴマグカップ — Wizardryロゴアクリルキーホルダー

※画像はイメージです

*The reservation period for "Wizardry" merchandise has already ended.

Status of in-house IP development and nurturing: *Evil Prince and the Puppet*

Initiatives to create fan communities from SNS operations, nurture IP, and develop it in multiple areas, including goods creation and game development
Under development for mobile game release by end of 2024

悪魔王子と
操り人形
Evil Prince and the Puppet

2024 (planned)
- **Mobile gaming**

November 2022
- **Game information released**
- **Real Event Exhibit**

Approx. 100,000

OFFICIAL
ONLINE
SHOP
is NOW OPEN!

April 2021
- **Goods now on sale at official online store.**

November 2019
Project Presentations

Approx. 60,000

SNS followers: approx. 10,000

2019

2021

2022

2024

Image of IP value enhancement

Status of development, acquisition and nurturing of in-house IP: Drecom Media, a publishing and video brand

DRECOM
with entertainment

Comic book label began publishing October 2023, with cumulative total of more than 50 titles published. Steadily cultivating the seeds of our own IP

Number of series
(As of end of Jan. 2024, duplicates exist)

Light Novels → **Comics/webtoons** → **Media mix**

21 Series   **7** Series / **1** Series   in preparation

Total number publications

60
12
50
8
35
31
27
25
17
18
10

	Q1	Q2	Q3	Q4(forecast)

FY2022   **FY2023**

■ Light Novels (FY2022)   ■ Light Novels (FY2023)   ■ Comics (FY2023)
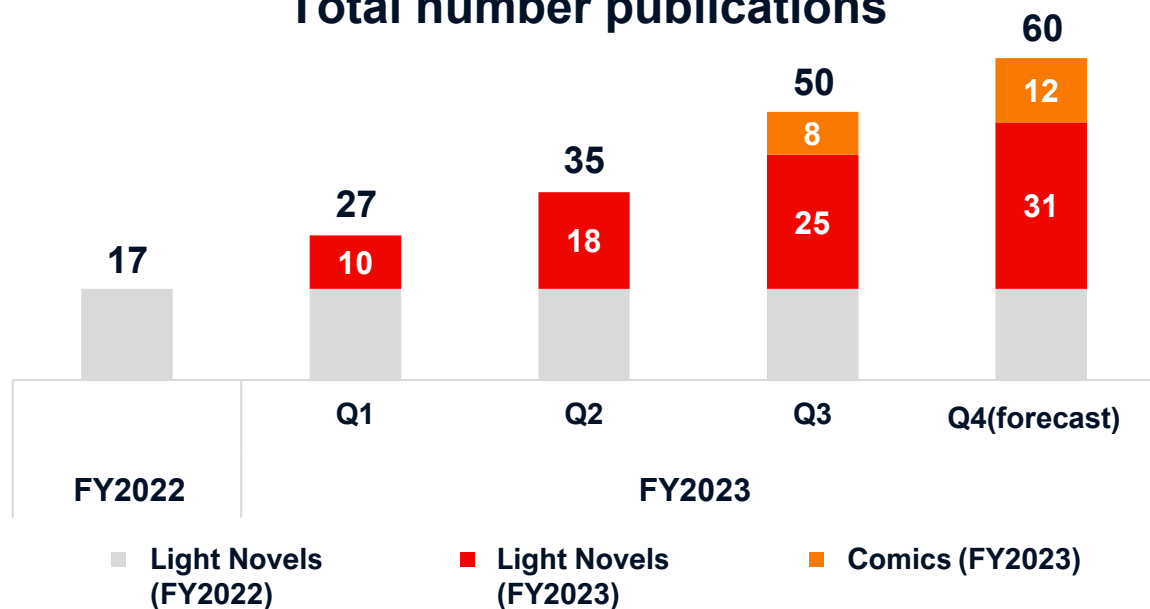
Published in Q3 FY2023
Main Works

Piccoma women's comics ranking
1st place
*October 27, 2023

"I'm a looped daughter who was condemned 99 times, but this life I'm in "super-loved mode"!? 1
-The 100th life that begins with the awakening of true power-"
Comics: Roharu Kai, Original story: Yuji Yuji
Character draft: Nami Hidaka
Release date: October 25, 2023
Label: DRE Comics

I've been told that I have only six months to live, so I'm going to learn "light magic" and break the curse with a will to die.1
-The Cursed Prince's Re:Cure-
Comics: Sumi Suzukaze
Original story: Genkotsu Kumano
Character draft: Fal_maro
Release date: October 25, 2023
Label: DRE Comics

23

1. Review of Q3 (Oct-Dec) FY2023

2. Forecast for FY2023

3. Medium-term goals

4. Appendix

Game business: Market overview and business strategy

As domestic mobile game market matures, we will make investments that are not an extension of past to further strengthen our business foundation

Maturation of domestic mobile game market

- ✓ Smartphone-owning population reaching the ceiling.
- ✓ Competition with other content such as videos, comics, social networking sites
- ✓ Users are fixated by long hit titles

Size of Japan's mobile game market and smartphone ownership

100 Millions of yen

Maturation

Mobile Game Market Size   Smart phone owning household ratio
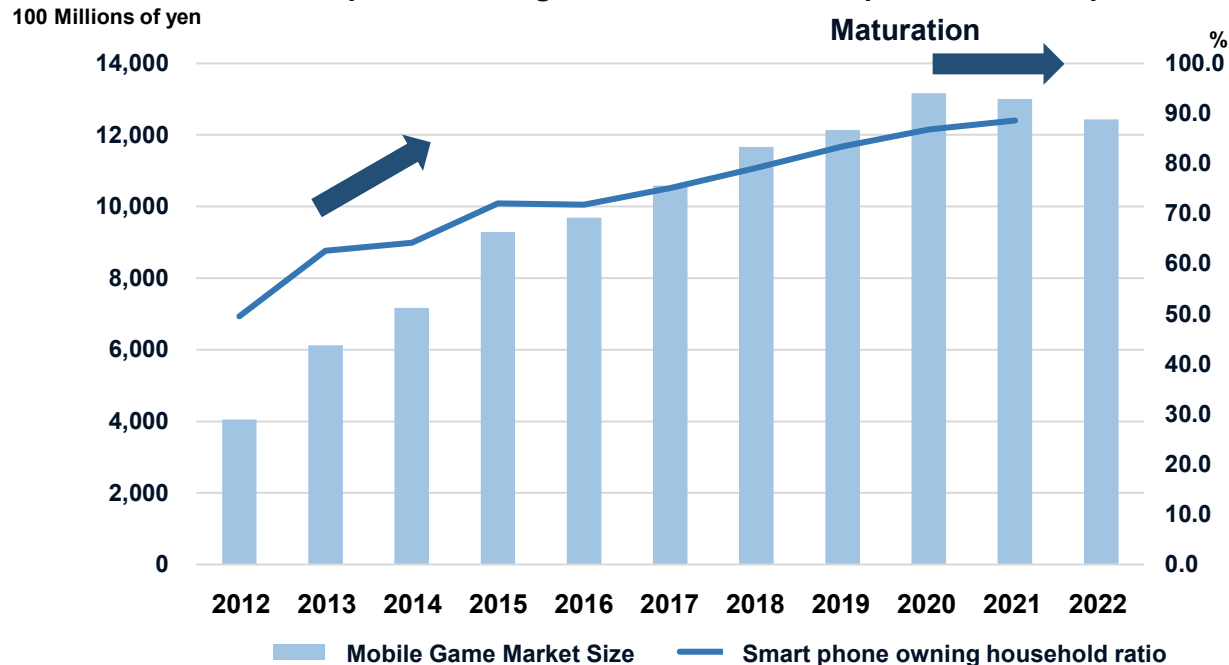
Strategy of our game business

■Additional investment in titles under operation and strengthen system

- Re-examine development potential of each title without assuming attenuation
- Renovation and maintenance to withstand long-term operation

■Diversification and layering of revenue sources

- Expansion into growing global markets.
- Deployment to other platforms such as PC/consoles.
- Introduction of revenue models other than Free to Play/Pay to Win type such as outright purchase.

Source: Famitsu game white paper, ministry of internal affairs and communications white paper on information and communications

Game business: Pipeline of operational and development titles

Secure long-term earnings by making additional investments for existing titles
Aim for diversification with release of new titles with different initiatives

2011 - 2023   After 2024

Titles in operation

10 *

Additional investment and system reinforcement
->Securing long-term stable earnings

Titles under development

4

Scheduled for release in fiscal year ending March 31, 2025: 4

- *Wizardry Variants Daphne*
- *Evil Prince and the Puppet*
- **Location-based IP titles using "AROW"**
- Unannounced title (developed by Drecom)

New initiatives in each title
->Diversification and layering
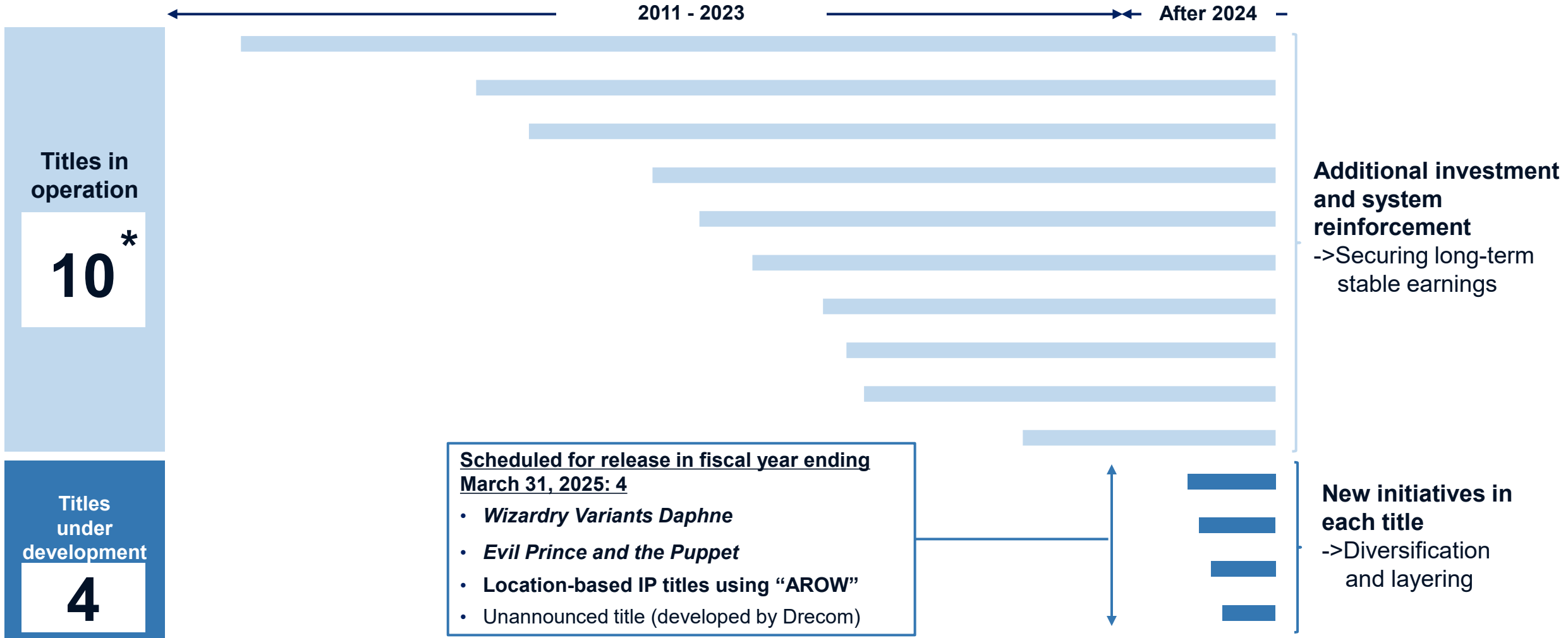
* Series titles and titles developed overseas are counted as one title. Titles for PC and consoles are not included.

Game business: Pipeline of operational and under development titles

Business	Status		Definition	Number of projects	Details
Game	**Operation**		Titles in operation	**10** *	➢ **Other company distribution: 5 titles** ➢ **In-house distribution: 5 titles**

	Development	**Commercialized development**	Titles under development with prospect for release
			
			Titles for Smartphones
				4	• *Wizardry Variants Daphne*
					  -> 3D dungeon RPG
					• *Evil Prince and the Puppets*
					  -> Dark fantasy adventure
					• **Location-based IP titles using "AROW"**
					• Unannounced title (developed by Drecom Co., Ltd.)

			Titles for PC and consoles	**2**	• *Tokyo Stories -working title-* • Unannounced title (NEW)
		Prototype	Titles at stage before commercialization development	**Several**	➢ **Multiple projects in progress**

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

Title for PC and consoles: *Tokyo Stories*

An initiative to develop original titles for PCs and consoles on outright purchase basis

Highly regarded internationally, X has over 100,000 followers

Tokyo Stories -working title-

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

Revenue status of titles in operation (by release date)

Total sales of titles under operation

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022 2023
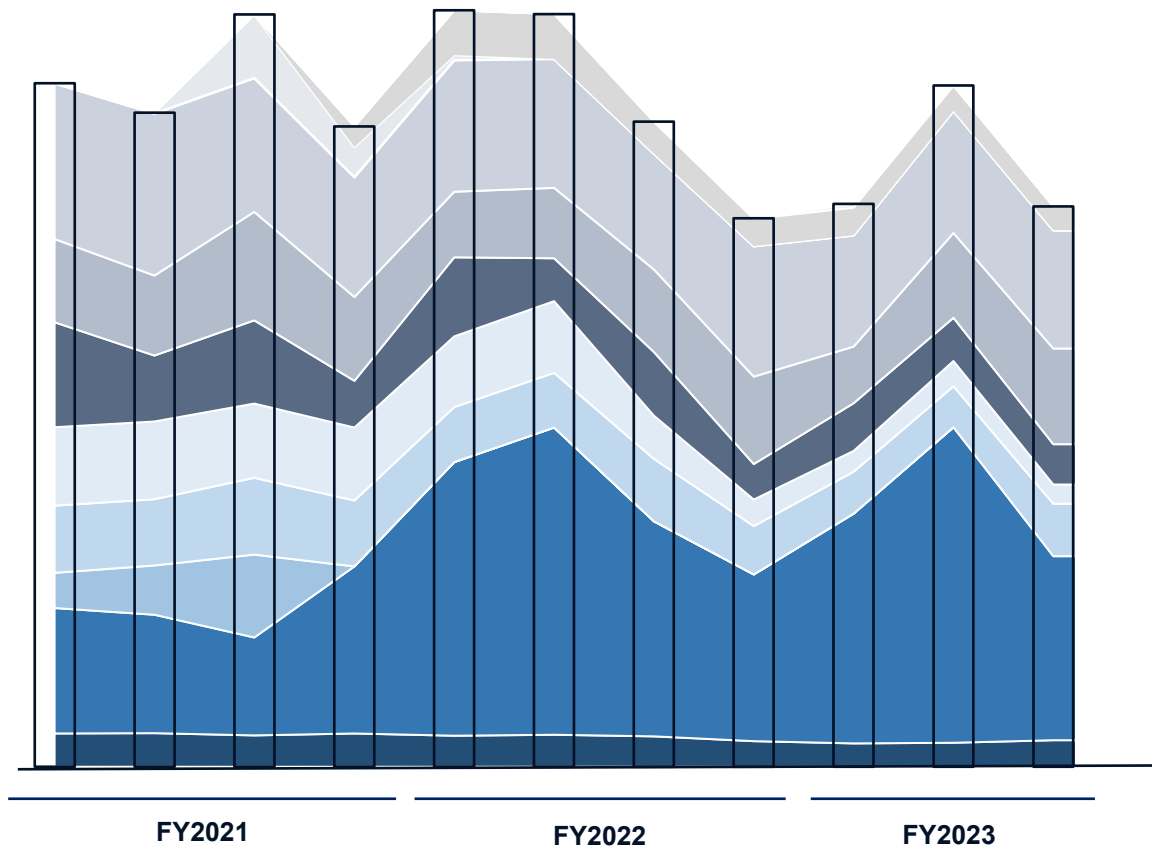
Total business profit transition of titles under management

■ 2011 ■ 2014 ■ 2015 ■ 2016 ■ 2017 ■ 2018 ■ 2019 ■ 2020 ■ 2021 2022 2023

FY2021 FY2022 FY2023

FY2021 FY2022 FY2023
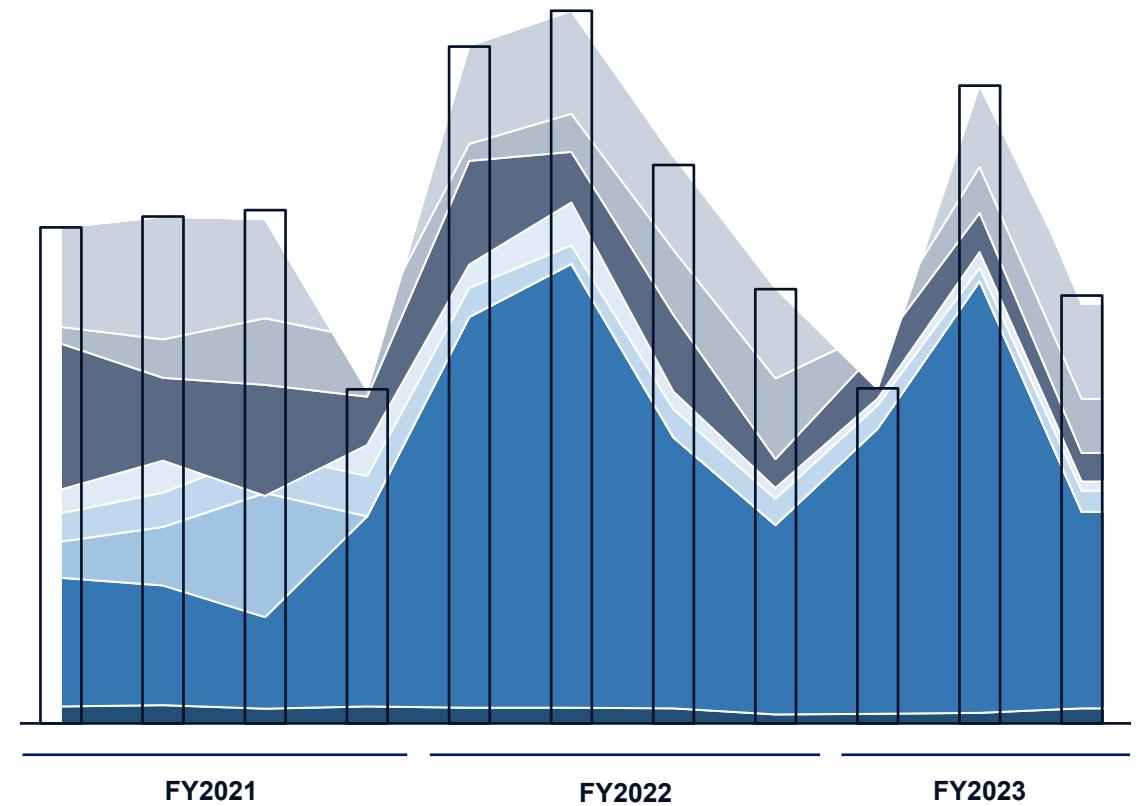
*Please refer to fact sheet posted on our website for consolidated business performance trends, cost of sales, SG&A expenses, and game business billing sales trends.

https://drecom.co.jp/ir/factsheet_202403Q3.pdf

Game titles in operation

Game title	Distributor	Service start date
Chokotto Farm	Drecom Co., Ltd.	Jan 2011
ONE PIECE Treasure Cruise	BANDAI NAMCO Entertainment Inc.	May 2014
BOKU & DRAGONS	studiorex Co., Ltd. [*1]	Feb 2015
Derby Stallion: Masters	Drecom Co., Ltd.	Nov 2016
Everybody's Golf	Forward Works Corporation	Jul 2017
THE IDOLM@STER SHINY COLORS	BANDAI NAMCO Entertainment Inc.	Apr 2018
NEKO & DRAGONS	studiorex Co., Ltd.*	Apr 2019
Super Robot Wars DD	BANDAI NAMCO Entertainment Inc.	Aug 2019
Disgaea: Hour of Darkness RPG	Drecom Co., Ltd.	Nov 2019
New Japan Pro-Wrestling Strong Spirits	Bushiroad Inc.	Feb 2022

*1 studiorex, Co., Ltd. joined our group in March 2020.

Purpose of entry into entertainment x Web3

Aim to create system that benefits both users and management by combining FT/NFT and existing digital entertainment content to form secondary distribution market

Example: Online game x Web3

Web 2.0 General online games

Diamond (In-game currency)

Weapons and Armor (In-game item)

=>

↑↓

XX Sword (In-game item)

Diamond (In-game currency) × **x-FT**

secondary distribution market

Cryptocurrency exchange

xNFT

NFT market place
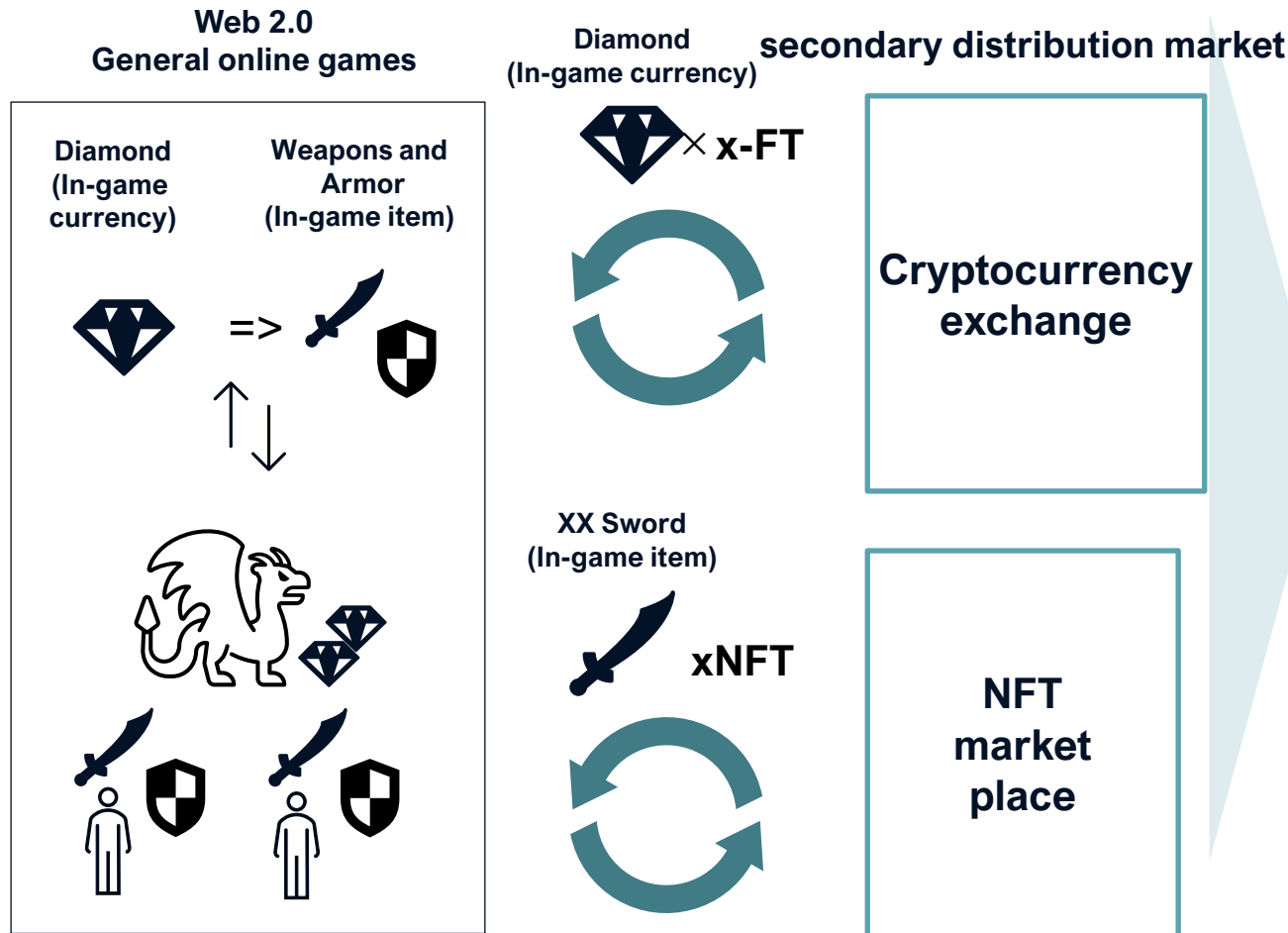
System that benefits both users and management
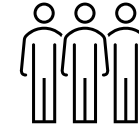
From the user's perspective,
Easy to buy because you can sell them when you no longer need them
New entertainments will be created from price movements of secondary distribution, buying and selling.
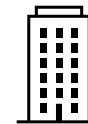
From the management perspective,
Primary sales will become more active.
Commission income from secondary distribution also contributes to earnings stability.
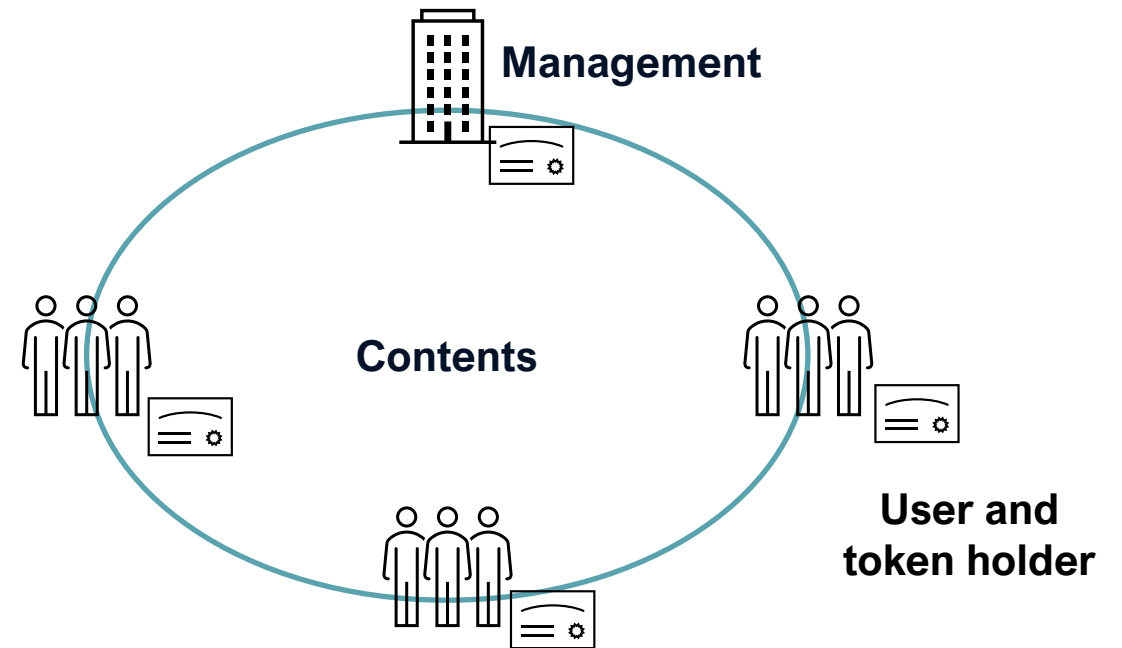
Purpose of entry into entertainment x Web3

Web3 creates highly engaged fan community where users are part of project

Old Entertainment (Web 2.0)

Management

Contents

Offer | a consideration

User

Entertainment x Web3

Management

Contents

User and token holder
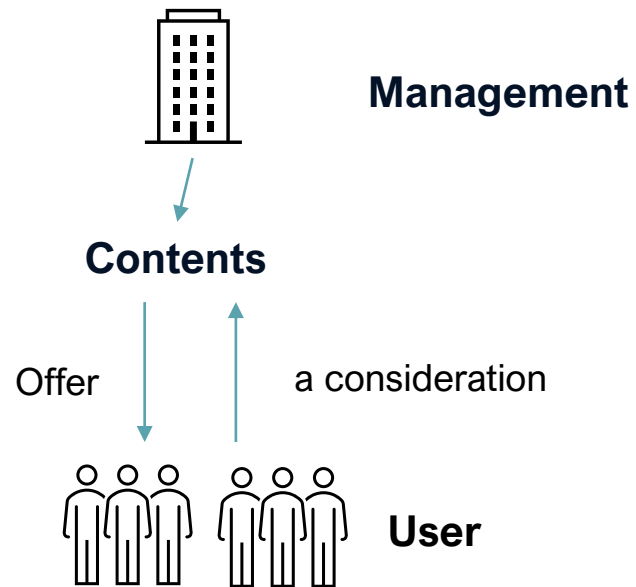
- ➢ **Relationship with management is one-way.**
- ➢ **Community formation is spontaneous**

- ➢ **Users are also a part of project as investors**
- ➢ **Highly engaging fan communities are formed.**

Glossary

Terminology	Meaning
Games distributed in-house	Games for which Drecom is 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 distributor, Drecom.
Net sales	The amount of money distributed from distributor to the developer, Drecom.
Developer	A company responsible for 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".
R&D 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 introduction of many new measures and contents

For trends in consolidated financial results, cost of sales/ SG&A expenses, and sales of game business billing,

Please see the fact sheet posted on our website.

https://drecom.co.jp/ir/factsheet_202403Q3.pdf