

# Drecom



(TSE Code: 3793 / Sector: Information and communication)

## Preserve financial strength and further enhance the completion of new titles

### GIR View

#### ■ Highlights

Drecom announced Q3 FY03/2024 results and "Notice Concerning Revision of Full-Year Earnings Forecasts and Revision of Dividend Forecast (No Dividend)" after the close of business on January 30, 2024.

The main points are that the releases of "Wizardry Variants Daphne" and "Evil Prince and the Puppet" have been pushed back to the new fiscal year of 2025, the current business results including the decision to postpone the releases are reflected in the full-year forecast (sales were revised downward, but profit was revised upward), and the company has also decided not to pay a dividend for the full year, which was previously undecided (the dividend per share will be reduced from 5 yen per share in the previous year).

Considering the fact that the revised full-year forecast is for lower sales and profits compared to the previous year, it must be said that there are few positive points among the contents of this earnings announcement.

However, the company has been able to continue to generate a certain level of revenue mainly from existing titles, and the closed beta test of "Wizardry Variants Daphne" conducted in October of last year seemed to be well received. Furthermore, progress is being made in the

blockchain game and media businesses.

In the midst of a mature and challenging environment for the mobile game business, the company will use its operating cash flows to improve the quality of its next mainstay titles and develop its own IP, rather than paying dividends at this point. This financial results announcement can be reinterpreted in this way, and this decision can be considered supportive.

Needless to say, the current focus is on the release date and completion of "Wizardry Variants Daphne."

#### ■ Overview of the third quarter of the fiscal year ending March 31, 2024

In Q3 (October-December), sales were 2.5 billion yen (-1% YoY), operating income was 317 million yen (-36% YoY), recurring income was 275 million yen (-42% YoY), and net income was 266 million yen (+142% YoY). In addition to lower sales and profits YoY, the company was profitable despite lower sales and profits in Q2 as well.

The company has been able to maintain solid revenues from existing titles in general, although there is some setback from the previous fiscal year in which the main title "ONE PIECE TREASURE CRUISE" performed very well.

## ■ Revision of full-year forecasts for the fiscal year ending March 31, 2024

The company has now revised its full-year forecasts.

Sales forecast was revised downward by 1.5 billion yen from 11.5 billion yen to 10.0 billion yen mainly due to the postponement of the release of two titles, "Wizardry Variants Daphne" and "Evil Prince and the Puppet".

On the other hand, the company upwardly revised its operating income from 500 million yen to 800 million yen, recurring income from 450 million yen to 700 million yen, and net income attributable to shareholders of the parent company from zero to 100 million yen. While excluding the profit contribution from the release of new titles, the company factored in the profit contribution from existing titles, which are performing better than expected, and the improved earnings outlook for new businesses.

If we follow this revised forecast, Q4 (January-March) profits would be modest, but this is likely due to the seasonally weak quarter, as usual.

In FY2023, the dividend was 5 yen per share, but for FY2024, the dividend has been revised from undecided to no dividend.

## ■ Progress of the project and future points

It is unfortunate that the release of two planned game titles has been postponed. However, progress is being made in the company's pipeline.

"Wizardry Variants Daphne" has already been tested twice, and user reviews appear to be favorable. While it is not desirable for the release of the game to be postponed, it should be considered imperative to pursue quality that meets the current mobile game market's demanding standards as much as possible. The most important thing to watch for in the future will be the confirmation of the release of this title, its degree of completion, and the marketing strategy to maximize its potential.

As for "Wizardry"-related publishing, the first volume of the "BLADE & BASTARD" comic book was published in October, followed by the second volume in December, and the total number of copies sold has surpassed 100,000.

The blockchain game "Eternal Crypt -Wizardry BC" has been available since October 19, 2023, and is scheduled to begin the second and third phases of the pre-release period in February 2024, to be followed by the official release in the form of mobile app and web-browser game.

Next, as for "Evil Prince and the Puppet" a small-scale user test has already been conducted, and it is planned to be released in 2024.

In the publishing and video domain, a comic book label has been launched in addition to a light novel label, with a cumulative total of more than 50 titles published.

The capital market would start to evaluate potential value of Drecom's titles of novel and webtoon when they move into phase of animated films and game adaptations. As described above, the seeds are being planted on multiple fronts toward the company's vision of becoming a comprehensive entertainment company with its own IP at its core.

To this end, we can honestly evaluate the company's management stance of accumulating financial reserves and allocating resources for the company's growth, even if it has to temporarily suspend dividend payments.

The primary question is whether the successful release of "Wizardry Variants Daphne" will be an opportunity for the company to scale up. Attention will continue to focus on whether the next financial results will be a "turning point."



## Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY	FY	FY	FY23/03					FY24/03				
	03/20	03/21	03/22	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE
	Q1-Q4	Q1-Q4	Q1-Q4										
Sales	10,150	11,840	10,528	2,927	2,873	2,579	2,420	10,800	2,346	2,745	2,546		10,000
YoY	-5%	17%	-11%	10%	14%	-11%	-1%	3%	-20%	-4%	-1%		-7%
Net sales	2,192	3,996	3,796	1,308	1,320	1,058	870	4,558	683	1,145	868		
YoY	53%	82%	-5%	26%	38%	3%	12%	20%	-48%	-13%	-18%		
Net sales margin	21.6%	33.8%	36.1%	44.7%	45.9%	41.0%	36.0%	42.2%	29.1%	41.7%	34.1%		
SG&A	1,575	1,944	2,205	491	529	565	690	2,276	675	681	551		
YoY	-22%	23%	13%	-8%	7%	-1%	14%	3%	37%	29%	-2%		
Operating income	617	2,052	1,591	817	790	492	180	2,281	8	463	317		800
YoY	-	233%	-22%	62%	71%	9%	5%	43%	-99%	-41%	-36%		-65%
Operating income margin	6.1%	17.3%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	0.3%	16.9%	12.5%		8.0%
Ordinary income	635	2,019	1,541	810	737	477	167	2,192	2	451	275		700
YoY	-	218%	-24%	64%	65%	9%	4%	42%	-100%	-39%	-42%		-68%
Net income	711	1,624	807	521	534	110	-7	1,159	-441	272	266		100
YoY	-	128%	-50%	74%	72%	-54%		44%		-49%	142%		-91%
Net income ratio	7.0%	13.7%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	-18.8%	9.9%	10.5%		1.0%

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: CE=Company Estimate.

Figure 2 Per Share Data

(Consolidated)

Accounting period	FY 17/03	FY 18/03	FY 19/03	FY 20/03	FY 21/03	FY 22/03	FY 23/03
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073	29,130
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3	40.7
EPS Adjusted	29.7	-	-	25.0	56.9	28.3	40.6
BPS	113.2	106.7	47.9	74.2	132.9	159.1	195.7
DPS	0.0	0.0	0.0	0.0	0.0	5.0	5.0

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place \*Calculated by Global IR, Inc.

**Figure 3 Cash flows**

(Millions of yen)

Accounting period	FY 17/03	FY 18/03	FY 19/03	FY 20/03	FY 21/03	FY 22/03	FY 23/03
Depreciation and amortization	214	299	462	382	627	537	269
Cash flows from operating activities	846	-79	78	691	3,196	1,603	2,666
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766	-2,017
Cash flows from financing activities	1,345	2,288	-271	-1,188	969	-388	659

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place \*Calculated by Global IR, Inc.

**Figure 4 Financial Data**

(%)

Accounting period	FY 17/03	FY 18/03	FY 19/03	FY 20/03	FY 21/03	FY 22/03	FY 23/03
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0	20.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4	22.9
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9	45.6

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

Note: Rounded to the nearest million yen, rounded to one decimal place \*Calculated by Global IR, Inc.

## Disclaimer

This report has been prepared by Global IR, Inc. (GIR) under a contractual arrangement with the company described in this report (“the company”). The report is provided for informational purposes only. It is not intended to solicit or recommend investment in the company’s securities. While the information and views contained in this report have been obtained from sources that GIR believes to be reliable, or created on the basis of publicly available information, no guarantee is offered with regard to their accuracy or completeness. Our analysis is in any case provided with an emphasis on accuracy and objectivity and pays the utmost attention to neutrality and independence. In addition, based on discussions with the relevant business owners, and others, and original on research, perspectives that we consider important to investors have been provided, on the basis that they are GIR's own opinions. GIR is not responsible for any loss or damage resulting from the use of this report. Investment decisions in the relevant corporate stock are at the reader's own judgment and responsibility.