

Second quarter of fiscal year ending March 31, 2024
Financial results presentation



DRECOM[®]
with entertainment

Drecom Co., Ltd.
October 26, 2023

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_202403Q2.pdf

**1H FY2023
(Apr-Sep)
Actual**

Mainstay IP titles performed well in Q2 amid continued difficult market conditions

- **1H Actual** Sales: 5,091million yen (-12.2% YoY) Operating income: 472million yen (-70.6% YoY)
Ordinary income: 453million yen (-70.7% YoY)
※¹ Net loss -169million yen (vs. net income of 1,056 million yen in the same period last year)
- Review of management/development portfolio resulted in extraordinary loss of 192 million yen (609 million yen in 1H cumulative total)

**Forecast for
FY2023**

Consolidated full-year forecasts remain unchanged

- Expect increase in sales and expenses due to start of distribution of new titles in Q4. Ensuring sound and well-timed release may take some time; currently examining details of preparatory materials.
- Full-year forecasts (announced on July 27, 2023):
Sales 11,500 million yen, Operating income 500 million yen, Ordinary income 450 million yen, Net income 0 million yen ※²

**Business
Progress**

Steady progress in each business with aim of strengthening IP production capabilities and diversifying

- Comic book label "DRE Comics" to begin publication in paperback and e-book format on October 25.
- Blockchain Game "Eternal Crypt - Wizardry BC-" Has INO; Pre-Release Version Launched October 19

1. Review of Q2 (Jul-Sep) FY2023

2. Forecast for FY2023

3. Medium-term goals

4. Appendix

Summary of business results for the second quarter of FY2023

Mainstay IP titles performed well in Q2 amid continued difficult market conditions

(Millions of yen)

FY2023					FY2022			
	Q1 (Apr-Jun)	Q2 (Jul-Sep)	QoQ	1H (Apr-Sep)	Q2 (Jul-Sep)	YoY	1H (Apr-Sep)	YoY (1H)
Net sales	2,346	2,745	+399	5,091	2,873	-127	5,800	-708
Operating income	8	463	+455	472	790	-326	1,607	-1,135
<i>Operating profit ratio</i>	0.4%	16.9%	-	9.3%	27.5%	-	27.7%	-
EBITDA ^{*1}	82	500	+417	582	875	-375	1,784	-1,202
<i>EBITDA Margin</i>	3.5%	18.2%	-	11.4%	30.5%	-	30.8%	-
Ordinary income	2	451	+448	453	737	-285	1,547	-1,094
Net income (loss) ^{*2} attributable to shareholders of the parent company	-441	272	+714	-169	534	-262	1,056	-1,226

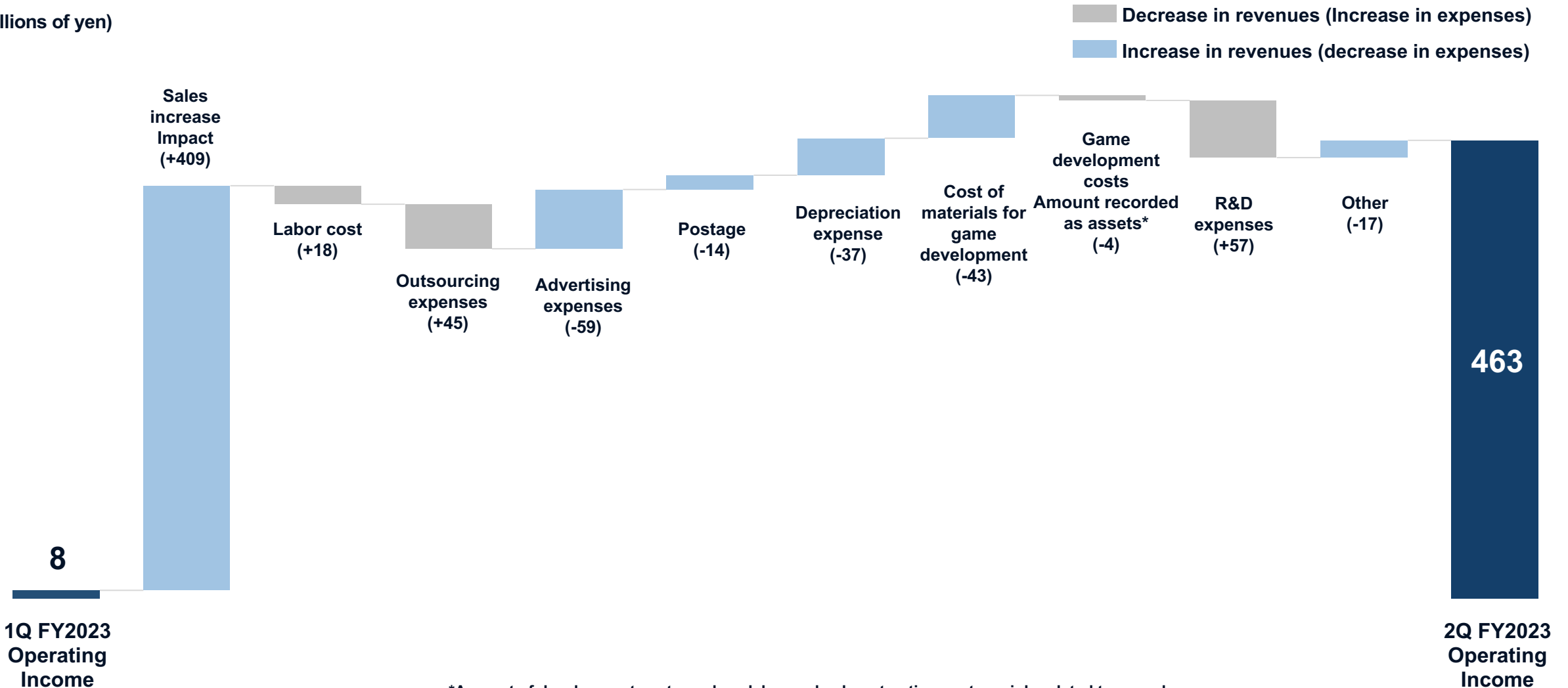
*1 EBITDA = operating income + amortization of goodwill + depreciation

*2 Reviewing the operation/development portfolio, an extraordinary loss of 192 million yen was recorded in Q2 (609 million yen in 1H cumulative total).

2Q FY2023 Operating income (QoQ comparison)

QoQ increase due to higher revenues from mainstay titles with high marginal profitability

(Millions of yen)

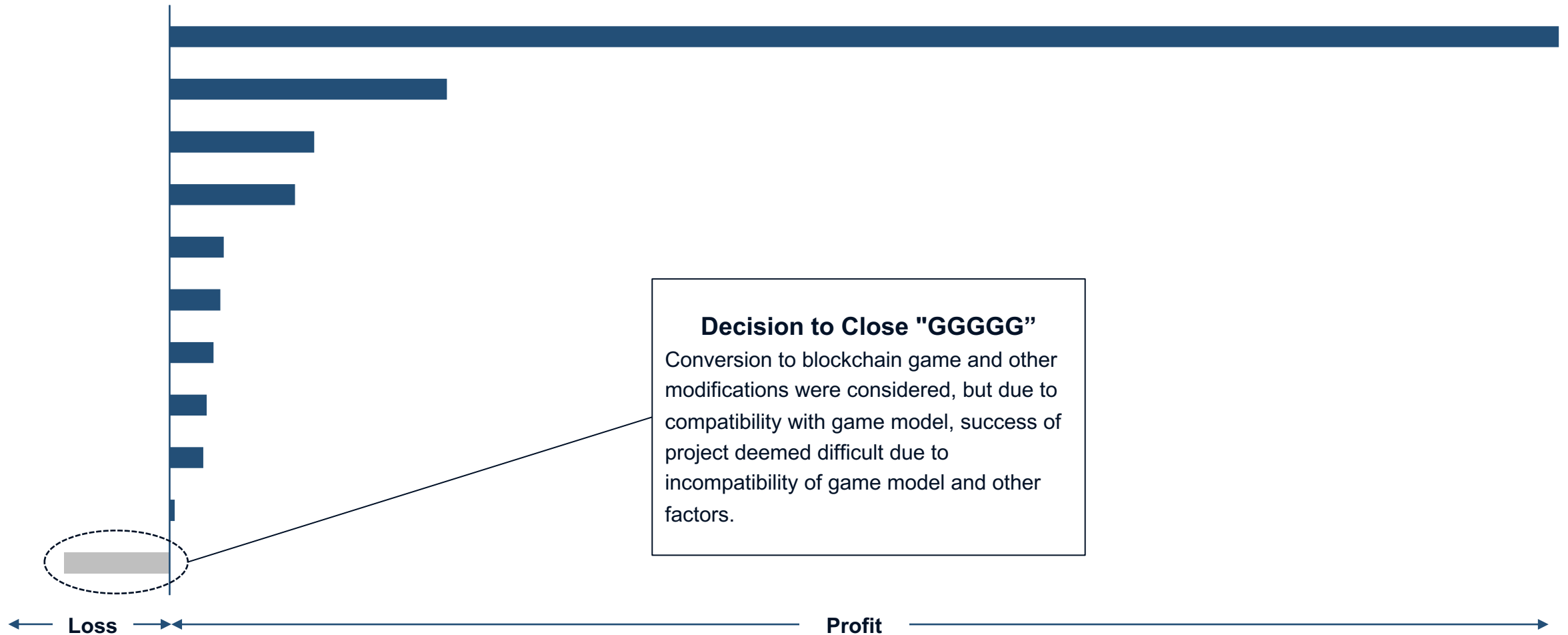


*Amount of development costs such as labor and subcontracting costs mainly related to pre-release games deducted from manufacturing costs and transferred to assets as "Software in progress".

Q2 FY2023 Revenue from game titles under management

Decision to close “GGGGG,” game released at end of the fiscal year ending March 31, 2023

Profit/loss of 11 titles under management* (Q2 Jul-Sep 2023)



* Series titles and titles developed for overseas are counted as one title. Number of titles in operation as of Sep 30, 2023. Including two enza titles and BOKU & DRAGONS.

Topics of each business

Game business

- **In existing titles under management, mainstay IP titles performed well**
- **"Wizardry Variants Daphne" is in closed beta testing**
→The event attracted more applications than initially expected, with approximately 5,000 participants. Preliminary indications and feedback on social networking sites, were favorable.
- **Review of operations/development portfolio in light of difficult conditions in mobile game market**
→Closing of operational title "GGGGG" and discontinuation of development of "Project BEAT".
→Together with impairment loss of 416 million yen in Q1, extraordinary loss of 609 million yen was recorded for the cumulative Q2 period.

Media business

- **Publishing/Video Area: Comic Book Label Launched; 2nd Novel Contest also received more entries than the previous contest**
→Comic book label "DRE Comics" to begin publication in paperback and e-book format on October 25, 2023
→"The 2nd Drecom Media Grand Prix" received 3,487 entries (2,008 entries in 1st Drecom Media Grand Prix)
- **Web3 area: "Eternal Crypt - Wizardry BC-" has an INO*; pre-release on October 19.**
→Total of 2,300 units were sold and distributed, resulting in an INO of approximately 150 million yen.
→Market environment in Web3 industry is calmer than it has been for a while, but we are off to a good start
- **Continue to develop/provide new services utilizing know-how from existing businesses**
→Operating fan marketing support services "Rooot" and "Fanflu", "Load Testing Service"

1. Review of Q2 (Jul-Sep) FY2023
- 2. Forecast for FY2023**
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Current status and future measures (reiterated)

Current Status

- New mobile games performed worse than expected.
- Impact of severe market conditions impacted existing titles.
- Company-wide increase in costs, including R&D expenses.

Future Measures

- **Improve quality of titles scheduled for release during fiscal year ending March 31, 2024; revise marketing plans**
- **Greater emphasis on evaluation in pre-release game verification and user testing**
 - Decide whether to conduct additional development and whether to release products according to results of user testing.
 - *User testing dates: Wizardry Variants Daphne in Fall 2023, Evil Prince and the Puppet within the year 2023, and "Location-based IP Titles" in Spring 2024.*
- **Review overall strategy for unannounced/prototype stage mobile game titles**
- **Aim to improve probability of success and reduce risk by collaborating with multiple companies and accepting investment on project-by-project basis.**
- **Control/reduce R&D investment in new business areas such as publishing, video and Web3**
- **Review of company-wide cost reduction and investment plans**

Progress on future measures

Rebuilding for next fiscal year: Strengthening measures for newly released titles and reviewing investment plans

Future measures (reiterated)	State of progress
<ul style="list-style-type: none"> • Improve quality of titles scheduled for release during fiscal year ending March 31, 2024 and revise marketing plans • More emphasis on evaluation in pre-release verification and user testing of games 	<ul style="list-style-type: none"> • User testing of "Wizardry Variants Daphne" conducted in October 2023 • Evaluation for "Evil Prince and the Puppet" scheduled to be implemented by end of 2023, and for "Location-based IP Titles," in spring of 2024.
<ul style="list-style-type: none"> • Review overall strategy for unannounced/prototype stage mobile game titles 	<ul style="list-style-type: none"> • Unannounced/prototype stage "Project BEAT" development was cancelled. • Based on recent situation of new titles, difficult to exceed certain level of profitability in terms of number of installations and persistence rate, and decision to discontinue development made based on judgment that it is risky to continue development
<ul style="list-style-type: none"> • Aim to improve probability of success and reduce risk by collaborating with multiple companies and accepting investment on a project-by-project basis. 	<ul style="list-style-type: none"> • Projects in Web3 domains, as well as projects in publishing and imaging business domains, will be implemented.
<ul style="list-style-type: none"> • Curtail R&D investment in new business areas 	<ul style="list-style-type: none"> • Decided to scale back or cancel some projects
<ul style="list-style-type: none"> • Review of company-wide cost reduction and investment plans 	<ul style="list-style-type: none"> • Reduction of company-wide overhead and other costs

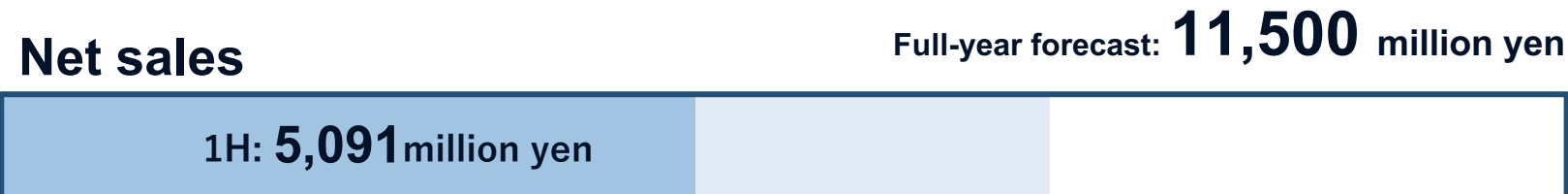
Progress in third quarter of FY2023

■ Q3

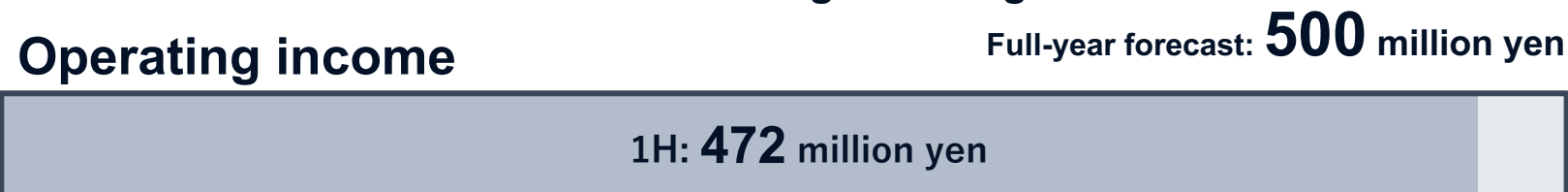
- In game business, sales expected to be in line with previous year, centered on existing titles
- Media business expected to see increase in sales due to start of comics publication and blockchain game operations

■ Q4

- Sales and expenses expected to increase due to start of distribution of new titles
Note it may take some time before release to ensure that everything is in perfect condition, and details of future preparations are under scrutiny



Q3 Progress image



Q3 Progress image

Summary of full-year forecasts for FY2023

(Millions of yen)	FY2023					FY2022
	Q1(Apr-Jun)	Q2(Jul-Sep)	1H (Apr-Sep)	Rate of progress	Full Year Forecast	Actual
Net sales	2,346	2,745	5,091	44.3%	11,500	10,800
Variable cost	351	340	691	31.6%	2,192	1,386
Fixed cost	1,987	1,940	3,927	44.6%	8,808	7,132
Advertising expenses	141	81	222	24.5%	906	208
R&D expenses	82	140	223	39.4%	567	354
Game development costs charged to assets*	-498	-494	-993	39.3%	-2,523	-1,999
Operating income	8	463	472	94.5%	500	2,281
Operating profit ratio	0.4%	16.9%	9.3%	-	4.3%	21.1%
Ordinary income	2	451	453	100.8%	450	2,192
Net income attributable to shareholders of the parent company	-441	272	-169	-	0	1,159

Three years to scale up

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

FY2023

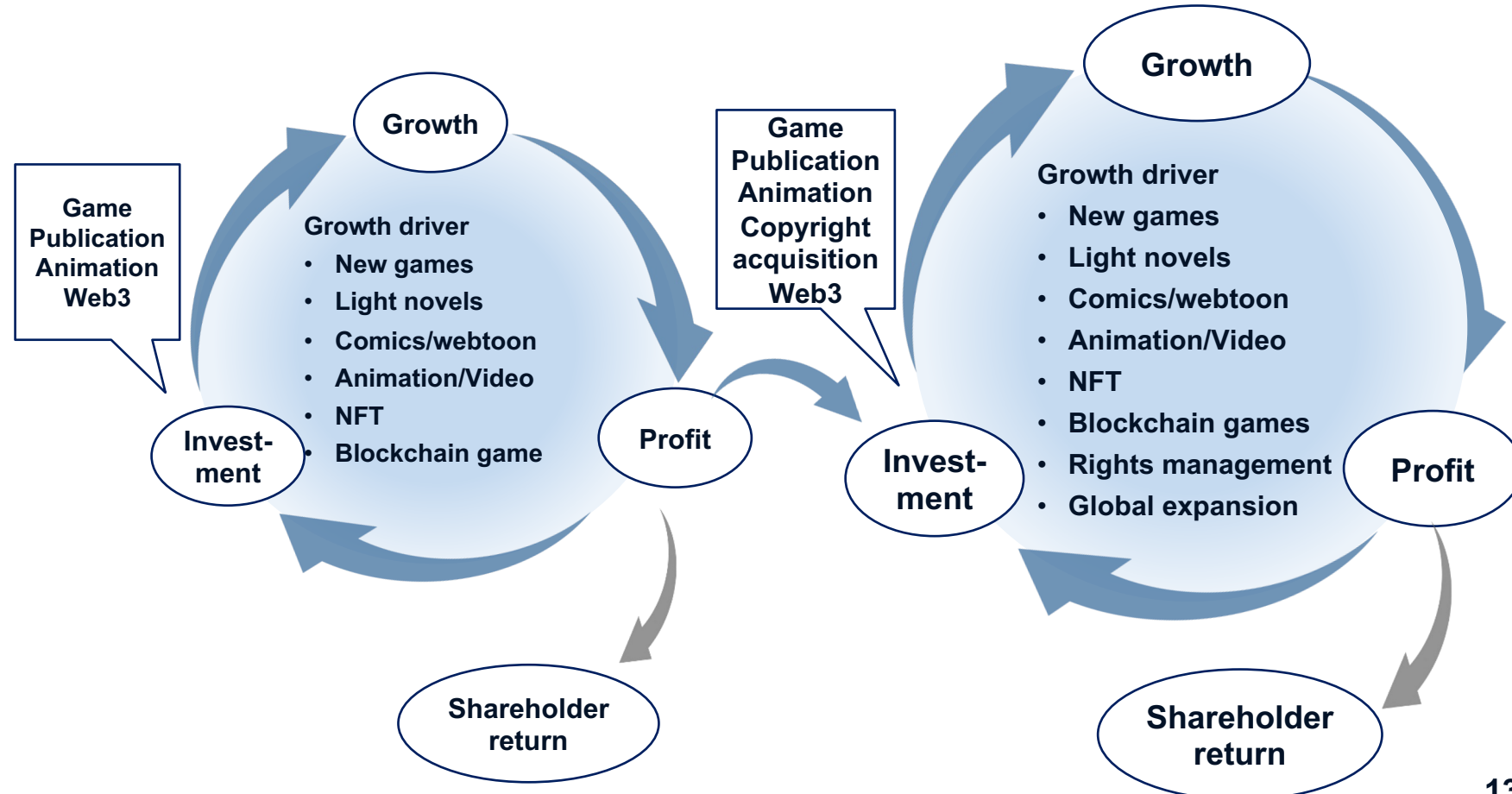
Sales: 11.5 billion yen
Operating income: 0.5 billion yen

FY2024 – FY2025

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

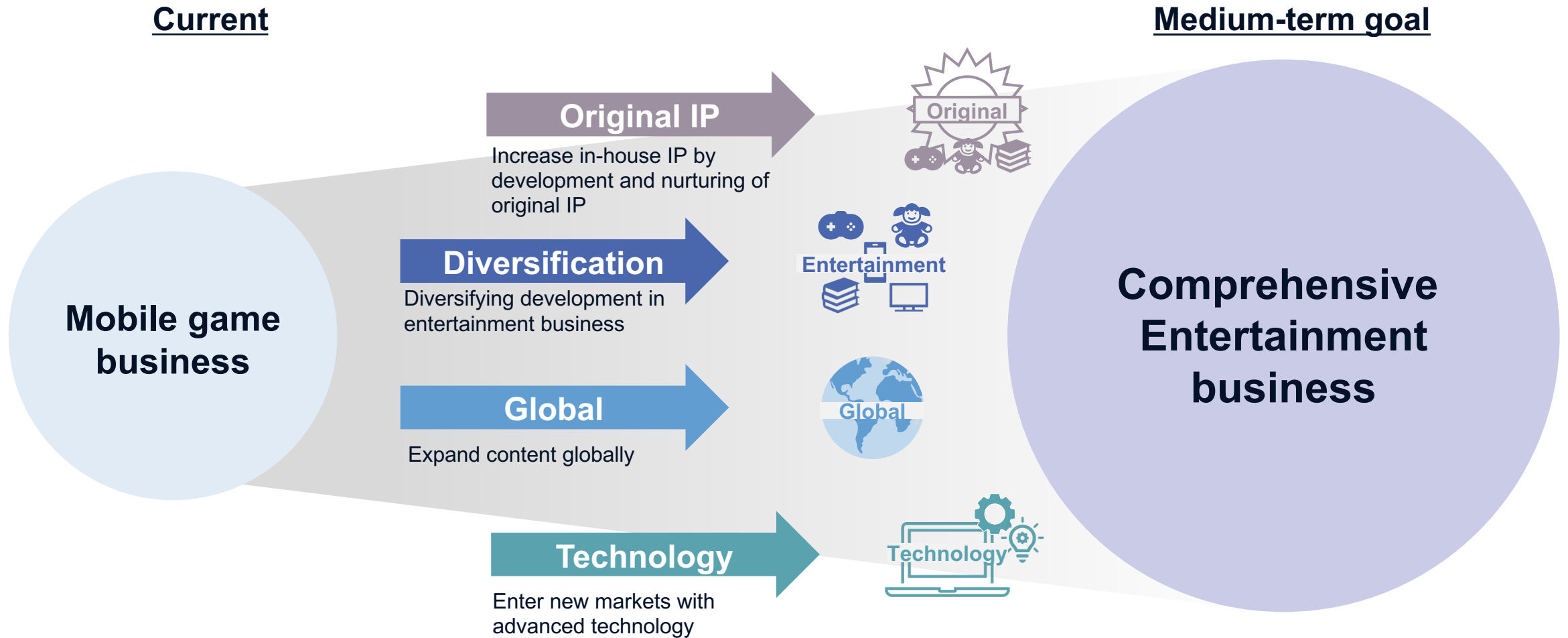
Rebuilding for next fiscal year

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



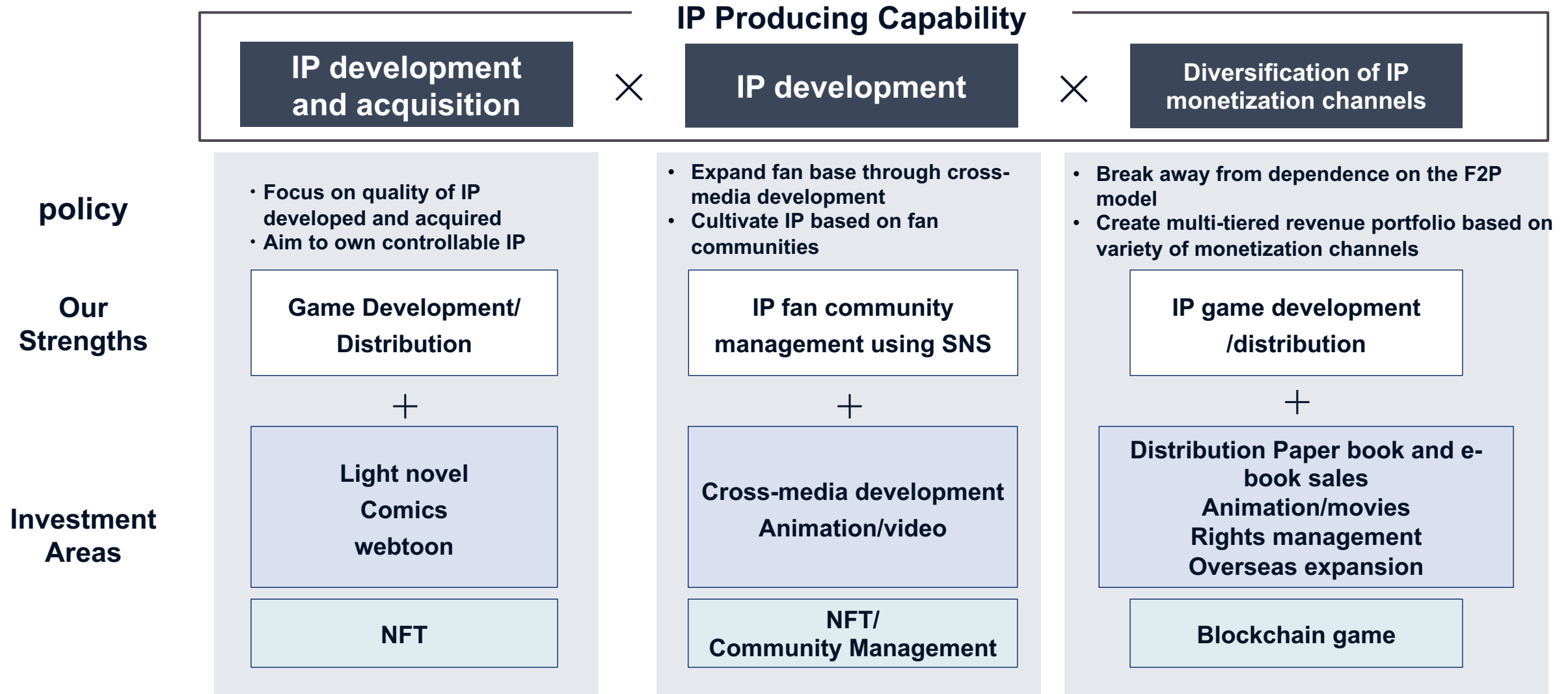
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Transformation into comprehensive entertainment company



Strengthen IP production capabilities

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



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

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-



Blade & Bastard

- **(NEW) 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.

From 2009 • Mobile Game Development Announcement

- Gamepot, Inc. acquired trademark rights

1981~: Derivative Series Development

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



Wizardry Variants Daphne



Eternal Crypt-Wizardry BC-

1981

2009

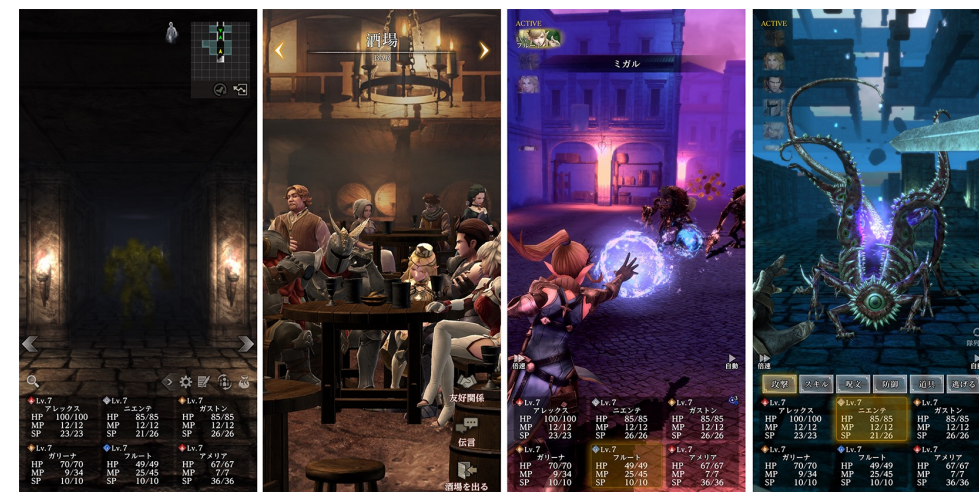
Year 2020

Image of IP value enhancement

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

Closed beta test in October 2023. Good feedback on preliminary indicators and social networking sites

- **Conducted closed beta test** (October 10-19, 2023)
 - More applications were received than initially expected, with approximately 5,000 people participating.
 - Preliminary results of indicators and feedback on SNS were favorable.
 - Currently evaluating preparatory contents and timing of release. Possibility of spending time on bug fixes, additional development, marketing plan redesign to ensure that everything is in perfect condition.



*The closed beta test recruitment and play period has already ended.

"Wizardry": novel and comic "Blade & Bastard"

First volume of comics released on October 25. Number of pre-orders exceeded expectations and comic reprinted before its release. Steady start.

- **Comic "BLADE & BASTARD 1" was released on October 25**
 - First issue lineup of comic book label "DRE Comics"
 - Wizardry logo sticker included as first shipment bonus
 - Due to strong pre-order numbers, comic to be reprinted before its release.
- **Latest three novels are scheduled for release on December 8.**
 - Limited edition with audio drama written by author also available
- **Campaign with cooperation of various bookstores**
 - Posters, promotional videos on the sales floor



Blade & Bastard 2
-Wireframe Dungeon & Dragon
with Red Dead-"
Bookstore at time of release
(June 2023)

Shosen Book Tower, 8th floor
(Akihabara, Tokyo)



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

INO was implemented, and amidst a calmer market environment in the Web3 industry than at one time, a strong start was made

- **Special NFT sales to precede game release** (October 3-10, 2023)
 - Total of **2,300** NFTs sold and distributed (including those distributed through campaigns, those held by management, and those held in reserve).
 - Each piece sold at price equivalent to US\$500. INO amounted to approximately **150 million yen** (certain percentage of sales related to this title received from publisher as a revenue share).
- **Pre-release version launched** (October 19, 2023-)
 - Only those who own the NFT "Adventurer Genesis Collection" sold at time of INO will be eligible.
 - Official release will be made after advance period, scheduled to last about one month.



- Title: "Eternal Crypt - Wizardry BC -"
- Genre: Dungeon attack x Cookie clicker
- Supported platforms: Browser (PC/mobile) *At time of distribution
- Price: Free to play (with in-game purchases)
- Distributor: ZEAL NOVA DMCC
- Developer: Drecom CO., Ltd.
- Country of distribution: Worldwide (Japan and overseas)
- Languages: Japanese/English *At time of distribution

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

In Web3 area, entered into business alliances and partnerships with leading companies, not limited to "Eternal Crypt - Wizardry BC-".

Blockchain Game Development Partners



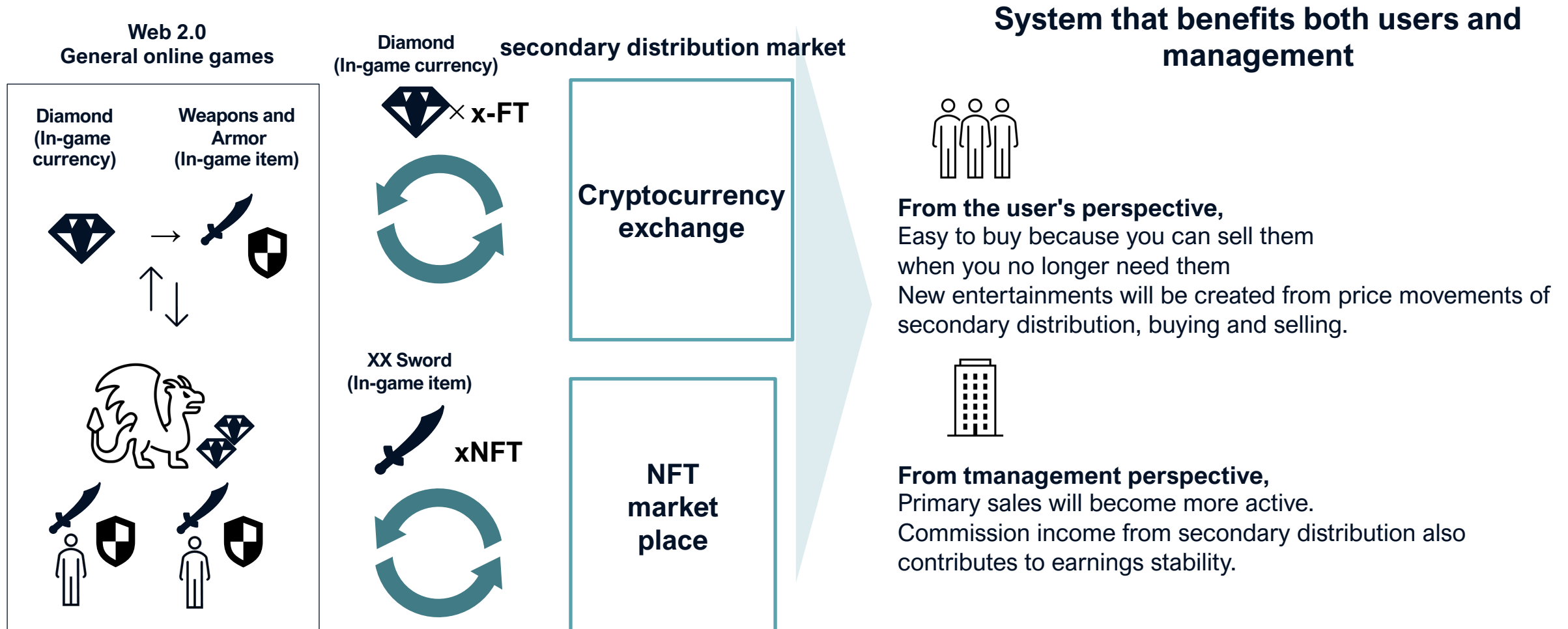
NFT Sales Partners



(Supplemental) 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

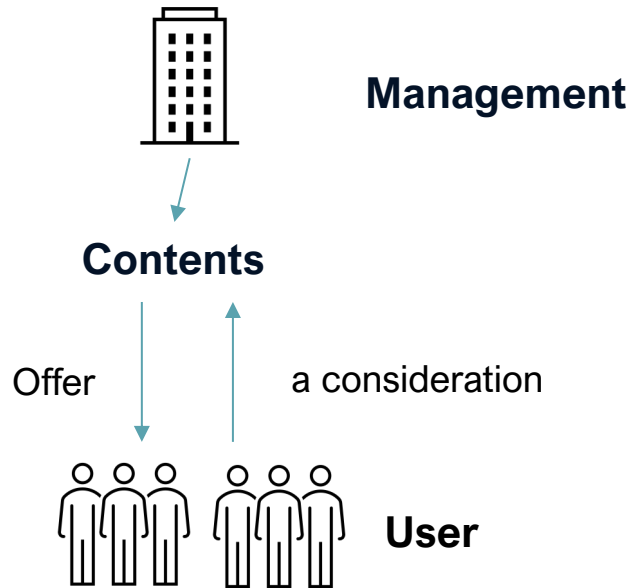
Example: Online game x Web3



(Supplemental) Purpose of entry into the entertainment x Web3

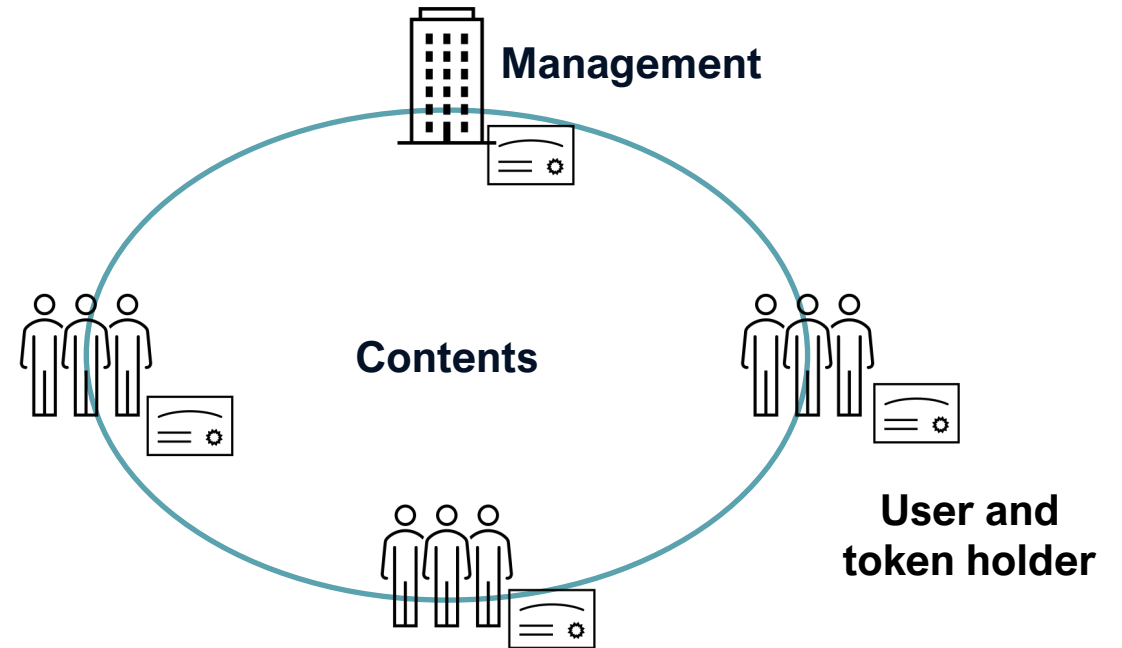
Web3 creates highly engaged fan community where users are part of project

Old Entertainment (Web 2.0)



- Relationship with management is one-way.
- Community formation is spontaneous

Entertainment x Web3

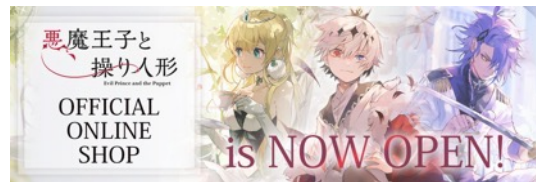


- Users are also a part of project as investors
- Highly engaging fan communities are formed.

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

Approx. 120,000 X followers as of October 2023



April 2021

- Goods now on sale at official online store.

November 2019

- Project Presentations

Approx. 60,000

SNS followers: approx. 10,000



November 2022

- Game information released
- Real Event Exhibit

Approx. 100,000



- From 2023 (planned)
- Mobile gaming

Development and nurturing of in-house IP: *Tokyo Stories*

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

Highly acclaimed overseas, with more than 100,000 followers on X

Tokyo Stories -working title-



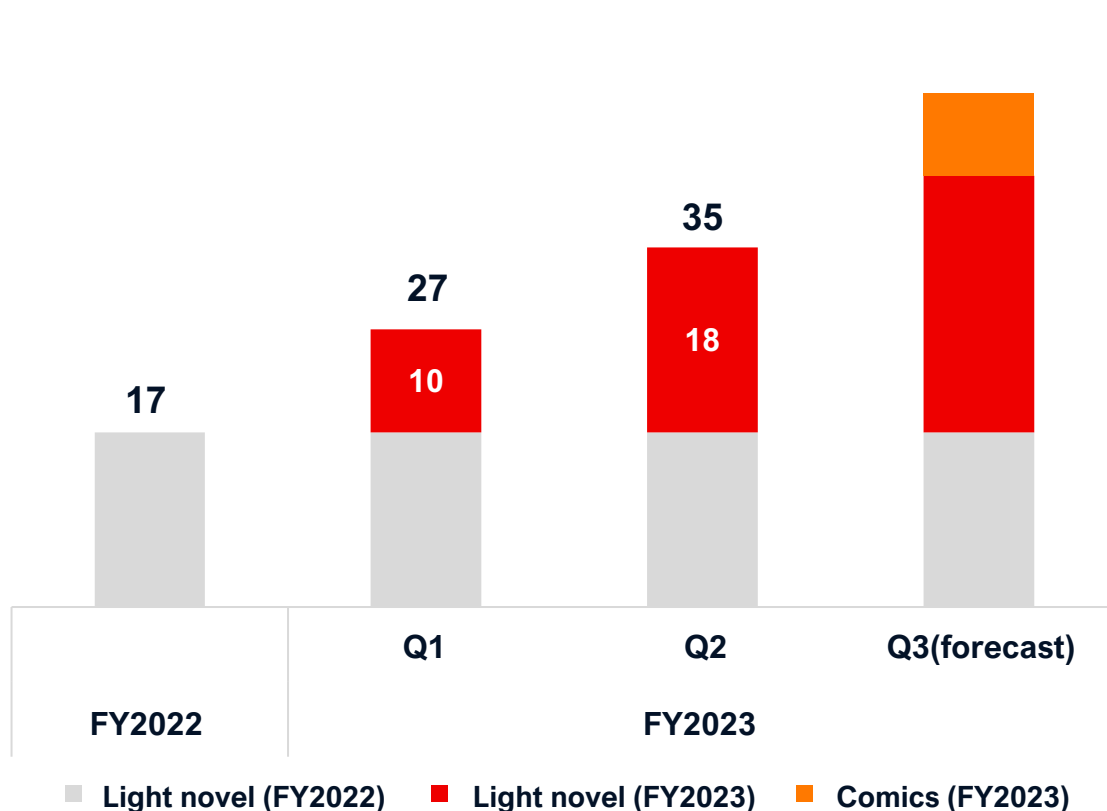
- **Genre:** Adventure
- **Compatibility:** PC (Steam) / Console (platform to be determined)
- **Release date:** Undecided
- **Price:** Undecided
- **Planning/Development/Sales:** Drecom Co., Ltd.
- **Country of distribution:** Worldwide (Japan and overseas)
- **Language:** Undecided
- **Copyright Notice:**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



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

One year has passed since launch of light novel label, with 19 series and total of 35 works published. Comic label launched in Q3 FY2023, focusing on comicalization of light novel works.

Publishing and Video Business Cumulative Total Number of Productions



Published in Q2 FY2023 Main Works



"My fiancé eloped with his cheating partner. I'm so happy to be doted upon by His Highness the Prince that I don't want to be told that he wants to come back now. 3"

Author: Mikoto Sakurai
Illustration: kuroyuki
Release date: August 9, 2023
Price: 1,430 yen (1,300 yen + tax)
Label: DRE Novels



"The Villainous Daughter Goes on a Trip in a Camper -Self-deportation to enjoy with your cat-"

Author: Punichan
Illustration: canarinu
Release date: September 8, 2023
Price: 1,430 yen (1,300 yen + tax)
Label: DRE Novels

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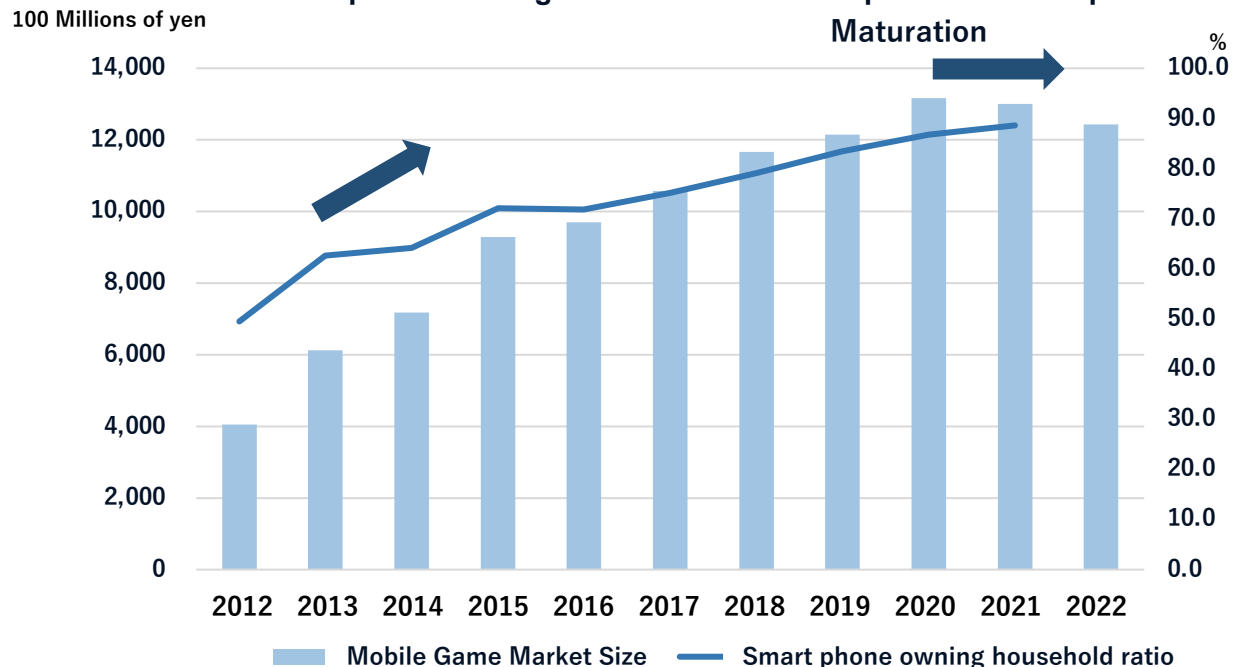
Game business: Market overview and business strategy

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



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

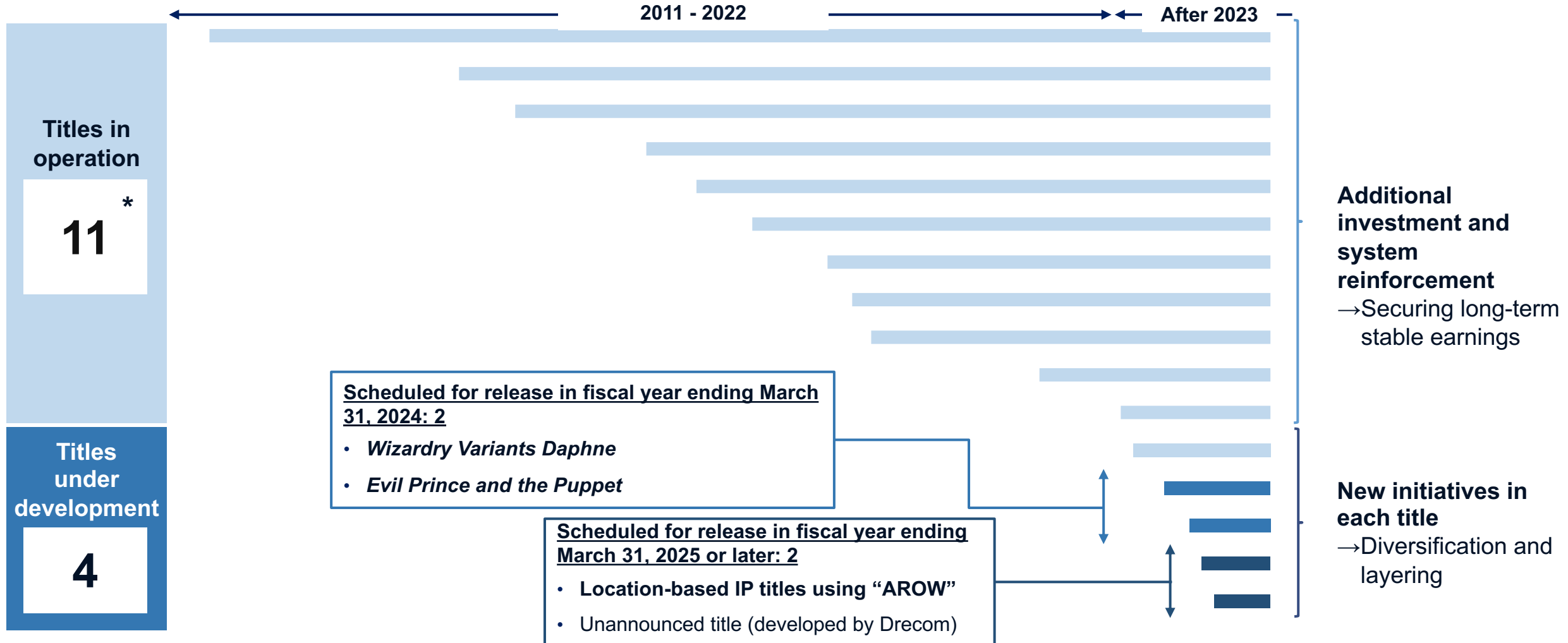
■ Diversification and layering of revenue sources

- 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.

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



* Series titles and titles developed overseas are counted as one title. Titles for PC and consoles are not included. One title will be closed.

Game business: Pipeline of operational and under development titles

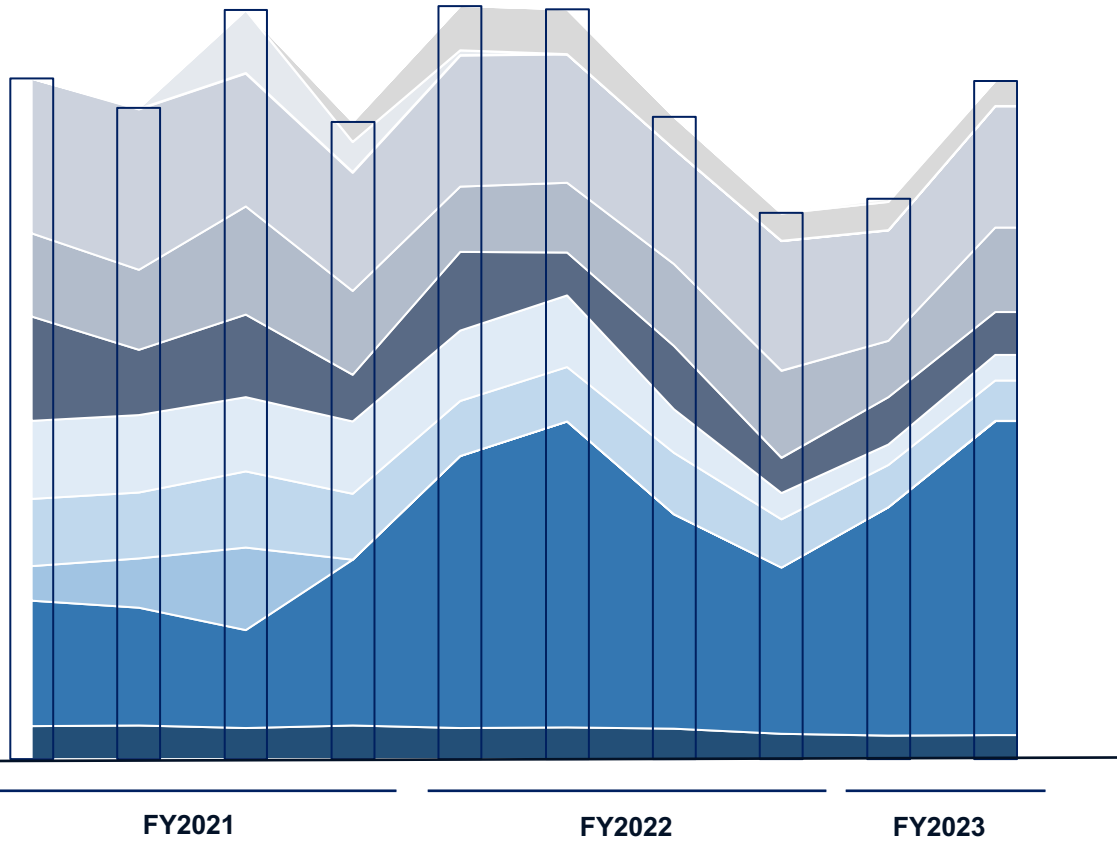
Business	Status	Definition	Number of projects	Details	
Game	Operation	Titles in operation	11 *	<ul style="list-style-type: none"> ➤ Other company distribution: 5 titles ➤ In-house distribution: 6 titles 	
	Development	Commercialized development	Titles under development with prospect for release Titles for Smartphones	4	<ul style="list-style-type: none"> • <i>Wizardry Variants Daphne</i> → 3D dungeon RPG • <i>Evil Prince and the Puppets</i> → Dark fantasy adventure • Location-based IP titles using “AROW” • Unannounced title (developed by Drecom Co., Ltd.)
			Titles for PC and consoles	1	<ul style="list-style-type: none"> • <i>Tokyo Stories -working title-</i>
		Prototype	Titles at stage before commercialization development	Several	<ul style="list-style-type: none"> ➤ Reviewed overall strategy.

* Series titles and titles developed overseas are counted as one title. One title will be closed.

Revenue status of titles in operation (by release date)

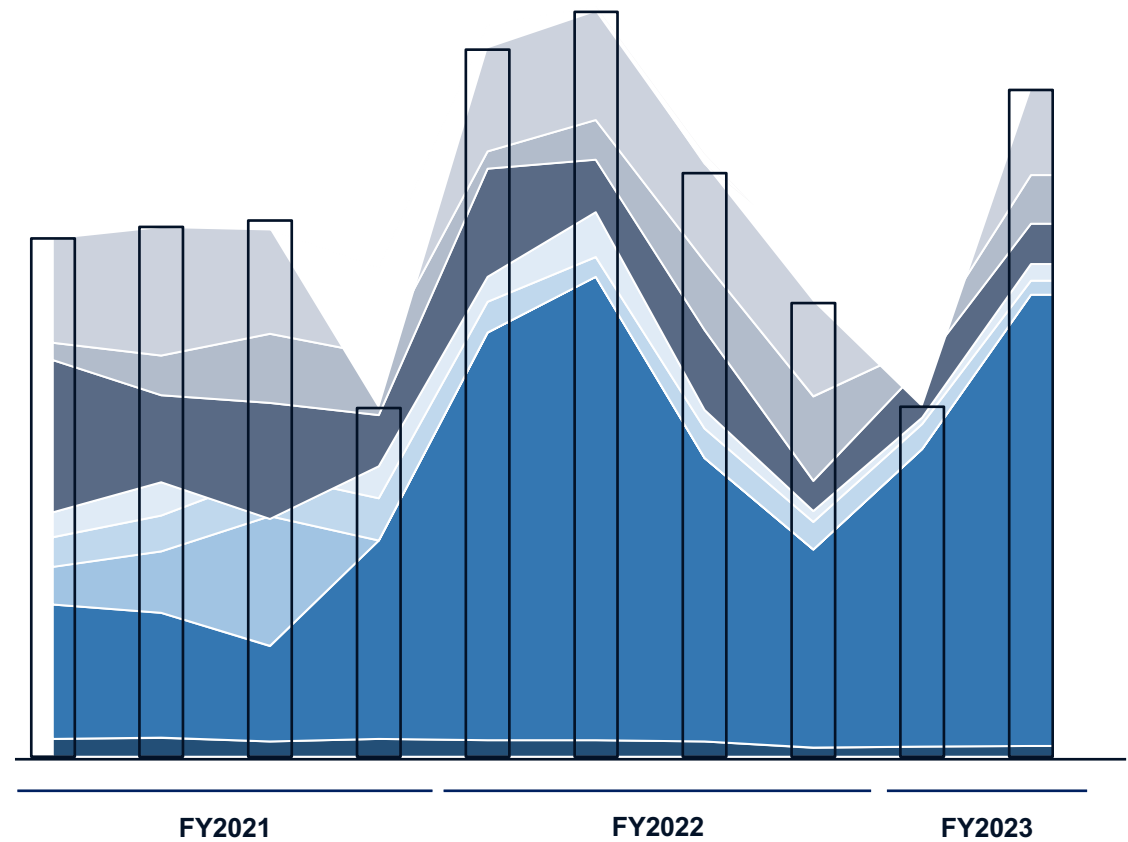
Total sales of titles under operation

■ 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



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

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. ^{*1}	Feb 2015
<i>Derby Stallion: Masters</i>	Drecom Co., Ltd.	Nov 2016
<i>Everybody's Golf</i>	Forward Works Corporation	Jul 2017
<i>THE IDOLM@STER SHINY COLORS</i>	BANDAI NAMCO Entertainment Inc.	Apr 2018
<i>NEKO & DRAGONS</i>	studiorex Co., Ltd.*	Apr 2019
<i>Super Robot Wars DD</i>	BANDAI NAMCO Entertainment Inc.	Aug 2019
<i>Disgaea: Hour of Darkness RPG</i>	Drecom Co., Ltd.	Nov 2019
<i>New Japan Pro-Wrestling Strong Spirits</i>	Bushiroad Inc.	Feb 2022
<i>GGGGG</i> ^{*2}	Drecom Co., Ltd.	Mar 2023

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

*2 "GGGGG" will be closed.

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".
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 the 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_202403Q2.pdf



Among the perceptions, strategies, plans, 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.