



Consolidated Financial Results for the Six Months Ended September 30, 2021
(Under Japanese GAAP)

October 28, 2021

Listed company name: Drecom Co., Ltd.
 Listing: Tokyo Stock Exchange
 Code number: 3793
 URL: <https://drecom.co.jp/>
 Representative: President and Representative Director: Yuki Naito
 Contact person: Board of Directors: Hideki Goto (TEL) +81 (0)50-3101-9977
 Scheduled date to file quarterly securities report: November 8, 2021
 Scheduled start date to commence dividend payments: —
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results briefings: Yes

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the six months ended September 30, 2021 (From April 1, 2021 to September 30, 2021)

(1) Consolidated financial results (cumulative) (% is Year-on-year rate of increase / decrease)

Six months ended	Net sales		Operating Income		Ordinary income		Attributable to owners of parent quarterly net income	
		%		%		%		%
September 30, 2021	5,184	-16.2	967	-8.1	941	-8.8	612	-25.9
September 30, 2020	6,184	37.8	1,052	216.8	1,032	249.5	825	286.4

Note: Comprehensive income For the six months ended September 30, 2021 ¥613 million yen (-25.9%)
 For the six months ended September 30, 2020 ¥826 million yen (284.7%)

Six months ended	Quarterly Net earnings per share	Quarterly Diluted net earnings per share
	Yen	Yen
September 30, 2021	21.41	21.38
September 30, 2020	29.01	28.96

(2) Consolidated financial Condition

Six months ended	Total Assets	Net Assets	Equity-to-asset ratio	Net assets per share
	million yen	million yen	%	Yen
September 30, 2021	9,672	4,532	46.3	156.21
Fiscal year ended March 31, 2021	9,610	3,855	39.5	132.91

Reference: **Equity capital** As of September 30, 2021 ¥4,477 million
 As of March 31, 2020 ¥3,794 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended	JPY	JPY	JPY	JPY	JPY
March 31, 2021	—	0.00	—	0.00	0.00
March 31, 2022	—	0.00	—	0.00	0.00
March 31, 2022 (Forecast)	—	—	—	0.00	0.00

Note: Revision to the forecast of cash dividends most recently announced: None



3. Forecast of consolidated financial results for the nine months ending December 31, 2021

(April 1, 2021 – December 31, 2021)

(% increase or decrease from the same period of previous year)

	Sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
		%		%		%		%	
Nine months total	8,000	-12.6	1,300	-22.8	1,300	-21.4	900	-30.7	8,000

Note: Revisions to the most recently announced earnings forecasts: None

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and re-display of amendments

(i) Changes in accounting policies due to revisions to accounting standards: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements and Key Notes and Main Notes

(4) Notes on quarterly consolidated financial statements

(Change in accounting policy)" on p11 of the attached material.

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2021	29,072,696 shares
As of March 31, 2021	28,976,700 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2021	408,666 shares
As of March 31, 2021	428,366 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2021	28,584,587 shares
Six months ended September 30, 2020	28,469,938 shares

(Note) 385,600 shares of the Company (3,856 voting rights) owned by Custody Bank of Japan, Ltd. (hereinafter referred to as "ESOP Trust Unit") are included in the number of treasury stock at the end of the above period.

*Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

*Proper use of earnings forecasts, and other special matters

(Notes on future descriptions)

The forecasts above are based on information currently available and certain assumptions deemed reasonable by the Company as of the date of release of this document. Actual future results may differ from forecasts figures due to various factors

(How to obtain supplementary explanatory materials for financial results)

The Company is scheduled to hold a briefing for financial results targeting institutional investors and analysts on October 28, 2021. The financial results presentation materials to be distributed at this briefing will be posted on the Company's website immediately after the briefing.

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1. Qualitative Information on Consolidated Financial Results for the Second Quarter Ended September 30, 2021

(1) Explanation of business results

The environment surrounding the Internet service industry, to which our group belongs, continues to undergo rapid changes. According to the 2020 Telecommunications Usage Trends Survey, as of the end of August 2020, the percentage of households with smartphones continued to increase, reaching 86.8%, surpassing the percentage of households with PCs (70.1%) and fixed-line phones (68.1%). Smartphones are now positioned as the most important information and communication devices in our daily lives. As of the end of August 2020, the percentage of people using smartphones to access the Internet reached 68.3%, and along with PCs (50.4%), smartphones are now positioned as a major device for Internet use. In response to the rapid spread of smartphones and their increasing importance as Internet devices, the Internet service industry has seen the creation of new services for smartphones one after another, and the market continues to expand and competition intensifies.

Under such an environment, the Group has positioned the provision of services for smartphones as its main business and is focusing on the expansion of existing services and the development of new services. In the mainstay gaming business, we are working to expand our business by increasing profits from IP games in operation and developing new IP games, utilizing the know-how we have accumulated through the development and operation of IP games over the years. In the media business, we are also working on the development and operation of new services with the aim of creating the next generation of mainstay businesses.

In the first half of the current fiscal year, IP game applications in their seventh year of release performed well, driven by the events held in September. In addition, many of the titles under operation continued to post stable profits from the first quarter, and the mainstay gaming business continued to improve in profitability, increasing the stability of the business.

Net sales decreased from the same period of the previous year due to the weakening demand from stay at home consumption slowdown, the closing out on several titles in operation, and the withdrawal from the advertising business. However, the decrease in revenue exceeded the decrease in expenses. Operating income (loss), ordinary income (loss), and net income (loss) attributable to shareholders of the parent company all decreased from the same period of the previous year, as a result of the decrease in revenue exceeding the decrease in expenses.

As a result, the Group's consolidated net sales for the first half of the current fiscal year were 5,184,850 thousand yen (down 16.2% year on year), operating income was 967,370 thousand yen (down 8.1% year on year), ordinary income was 941,288 thousand yen (down 8.8% year on year), and net income attributable to shareholders of the parent company was 612,061 thousand yen (down 6.5% year on year). Net income attributable to shareholders of the parent company was 612,061 thousand yen (down 25.9% year on year). Results by segment for the first half of the current fiscal year are as follows.

Game Business

The main business of this segment is the development and operation of games, and we are engaged in the development and operation of third-party IP games, game platforms, and original IP games.

As for third-party IP games, the IP game app, one of our mainstay titles, saw a strong performance from the event held in September, contributing to revenue at a level close to the anniversary event held in May. As for other titles, although many of them maintained strong sales, the demand on stay at home consumption weakened from the previous fiscal year, the decrease in the number of titles in operation due to the closing of several titles, and the aging of the titles since their release also contributed to the decline in sales compared to the same period last year.

As for profits, expenses decreased compared to the same period of the previous year thanks to the continued efforts made to improve the efficiency of operating expenses and an increase in the amount of assets recorded as a result of progress in the development of new titles. However, this was not enough to compensate for the impact of the decline seen in revenue, resulting in a year-on-year decrease in profit.

As a result, segment sales were 5,119,378 thousand yen (down 16.4% from the same period last year), and segment income was 1,110,970 thousand yen (down 10.1% from the same period last year).

We will continue to strive to increase sales and operating income in this segment, our core business.

Media Business

In the media business, under the "DRIP (Drecom Invention Project)", which is part of our efforts to create the next

generation of mainstay businesses, we launched new services on a trial basis, utilizing our knowledge of Internet services, and repeated trials for commercialization. In addition to the commercialization of our mainstay "AROW", an AR smartphone application building platform that uses location information and 3D real maps, and the development of new titles using "AROW", we also launched "AKROGLAM", a new trial in the music domain, "Roooot", a new service that we have developed in the past. a marketing service using twitter, and "load testing service," which leverages the know-how we have accumulated through the development and operation of large-scale services in the past.

However, as many new services are still in the business development stage and costs continue to be upfront, segment sales were 21,202 thousand yen (down 65.5% from the same period last year) and segment loss was 82,698 thousand yen (segment loss of 91,082 thousand yen in the same period last year).

In the future, we will work to further improve the profitability of our mainstay game business, focus on the development and marketing of services in order to achieve hits with several new titles scheduled for the second half of the year, and focus on the development of new businesses in the entertainment field other than games aiming to achieve the Group's medium- to long-term goal of becoming a comprehensive entertainment company with a focus on IP.

In the current fiscal year, we will continue to recognize the epidemic of the new coronavirus infection as a major risk to our business, and place priority on generating stable profits and securing cash flow. We will strive to achieve balanced management by actively investing in the future, while at the same time maintaining a conservative stance based on the premise of not putting pressure on profits and cash flow. As for "Roooot," the number of companies using the service exceeded was 20 in August 2021, and the service is steadily expanding.

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the first half of the current fiscal year totaled 7,108,580 thousand yen, a decrease of 560,565 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 338,686 thousand yen in cash and deposits and a decrease of 239,740 thousand yen in accounts receivable-trade. Fixed assets totaled 2,563,965 thousand yen, an increase of 622,688 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 718,460 thousand yen in software in progress.

As a result, total assets amounted to 9,672,545 thousand yen.

(Liabilities)

Current liabilities at the end of the first half of the current fiscal year totaled 2,525,921 thousand yen, a decrease of 655,962 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 232,324 thousand yen in income taxes payable and a decrease of 150,414 thousand yen in asset retirement obligations. Noncurrent liabilities totaled 2,614,292 thousand yen, an increase of 41,070 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 100,000 thousand yen in asset retirement obligations, despite a decrease of 79,250 thousand yen in long-term loans payable.

As a result, total liabilities amounted to 5,140,214 thousand yen.

(Net assets)

Total net assets at the end of the first half of the current fiscal year were 4,532,331 thousand yen, an increase of 677,015 thousand yen compared to the end of the previous fiscal year. This was mainly due to the recording of net income attributable to shareholders of the parent company of 612,061 thousand yen.

As a result, the equity ratio was 46.3% (39.5% at the end of the previous consolidated fiscal year).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Six months ended September 30, 2021 (September 30, 2021)
ASSETS		
Current assets		
Cash and deposits	5,288,132	4,949,446
Notes and accounts receivable	1,841,939	1,602,199
Work in progress	7,077	37,231
Prepaid expenses	174,067	173,246
Other	357,928	346,456
Total current assets	7,669,146	7,108,580
Fixed assets		
Tangible Fixed Asset		
Buildings	259,203	257,457
Accumulated depreciation	-173,499	-29,414
Buildings (net)	85,704	228,043
Tools, furniture & fixtures	82,817	66,235
Accumulated depreciation	-67,283	-28,534
Tools, furniture & fixtures (net)	15,534	37,700
Lease assets	61,853	39,966
Accumulated depreciation	-48,190	-32,233
Lease assets (net)	13,663	7,733
Total tangible fixed assets	114,901	273,477
Intangible assets		
Software	407,586	198,933
Software suspense account	471,118	1,189,578
Total intangible assets	878,704	1,388,512
Investments and other assets		
Investment securities	7	96,297
Deferred tax assets	434,953	273,979
Deposit	318,138	318,138
Other	194,571	213,560
Other investments and other assets	947,671	901,975
Total fixed assets	1,941,277	2,563,965
Total assets	9,610,423	9,672,545

(Unit: thousand yen)

	Previous consolidated fiscal year (March 31, 2021)	Six months ended September 30, 2021 (September 30, 2021)
LIABILITIES		
Current liabilities		
Accounts payable	363,542	495,723
Short-term debit	100,000	200,000
Long-term debt due within one year	640,000	677,750
Lease obligations	14,773	11,043
Accounts payable	660,610	517,545
Income taxes payable	398,455	166,130
Bonus payment reserve	174,055	121,048
Asset retirement obligations	150,414	-
Other	680,033	336,679
Total current liabilities	3,181,884	2,525,921
Fixed liabilities		
Long-term debt	2,430,000	2,350,750
Lease obligations	6,387	912
Asset retirement obligation	34,060	134,060
Other	102,774	128,569
Total fixed liabilities	2,573,222	2,614,292
Total liabilities	5,755,106	5,140,214
Net assets		
Shareholders' equity		
Capital	1,761,208	1,792,991
Capital surplus	2,017,979	2,050,152
Retained earnings	146,380	758,441
Treasury stock	-131,058	-124,080
Total shareholders' equity	3,794,509	4,477,504
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	-92	0
Total accumulated other comprehensive income (loss)	-92	0
Stock acquisition rights	58,651	53,262
Non-controlling interests	2,247	1,563
Total net assets	3,855,316	4,532,331
Total liabilities and net assets	9,610,423	9,672,545

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

Quarterly Consolidated Statement of Income
(Six months ended September 30, 2020 and 2021)

(Unit: Thousand yen)

	Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Sales	6,184,699	5,184,850
Cost of sales	4,228,431	3,187,220
Gross profit	1,956,268	1,997,629
Selling, general and administrative expenses	904,064	1,030,259
Operating income	1,052,203	967,370
Non-operating revenue		
Interest received	13	25
Gain on investments in capital	8,072	-
Other	1,474	247
Total non-operating income	9,559	272
Non-operating expenses		
Interest expense	15,011	22,791
Payment fee	-	500
Interest on bonds	259	-
Foreign exchange loss	13,297	2,050
Other	1,090	1,013
Total non-operating expenses	29,659	26,354
Ordinary income	1,032,103	941,288
Extraordinary loss		
Impairment loss	-	4,957
Total extraordinary loss	-	4,957
Net income before income taxes and minority interests	1,032,103	936,331
Corporate, inhabitant and enterprise taxes	217,383	162,402
Income taxes-deferred	-12,245	160,933
Total income taxes	205,138	323,335
Quarterly net income	826,965	612,996
Net income attributable to noncontrolling interests	988	934
Net income attributable to owners of the parent	825,977	612,061

Consolidated quarterly statements of comprehensive income

(Cumulative period for consolidated first quarter, six months ended September 30, 2021)

(Unit: Thousand yen)

	Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Quarterly net income or loss	826,965	612,996
Other comprehensive income		
Other securities valuation difference	16	93
Total other comprehensive income	16	93
Quarterly comprehensive income	826,982	613,089
(Breakdown)		
Quarterly comprehensive income for owners of parent	825,993	612,154
Quarterly comprehensive income for non-controlling shareholders	988	934

(3) Quarterly Consolidated Statement of Cash Flows

	(Unit: Thousand yen)	
	Six months ended September 30, 2020 (April 1, 2020 to September 30, 2020)	Six months ended September 30, 2021 (April 1, 2021 to September 30, 2021)
Cash flow from operations		
Quarterly net income before taxes	1,032,103	936,331
Depreciation	288,247	301,275
Stock compensation expense	18,795	21,600
Impairment loss	-	4,957
Interest received and dividends received	-8,841	-25
Interest expense	15,011	22,791
Interest on corporate bond	259	-
Increase/decrease in notes and accounts receivable-trade)	-136,039	239,740
Increase/decrease in inventories	-280	-29,927
Increase/decrease in accounts receivable-other	117,168	-126,423
Increase/decrease in prepaid expenses	222,451	9,894
Increase/decrease in notes and accounts payable-trade	-47,858	132,181
Increase/decrease in accrued expenses	26,906	-22,415
Increase /decrease in accrued consumption tax, etc.	52,318	-195,413
Increase/decrease in advances received	-	-136,190
Increase/decrease in reserve for bonuses	61,362	-52,584
Other	26,991	-23,056
Subtotal	1,668,596	1,082,734
Receipts of interest and dividends	8,841	270
Interest payments	-19,397	-22,478
Payment of corporate taxes, etc.	-39,369	-395,264
Income taxes refunded	-	8,567
Net cash provided by operating activities	1,618,671	673,829
Cash flow from investment activities		
Payments for acquisition of tangible fixed assets	-4,773	-49,692
Payments for acquisition of intangible fixed assets	-208,120	-777,680
Payments for purchase of investment securities	-	-96,290
Payments for acquisition of shares in subsidiaries resulting in change in scope of consolidation	-164,000	-129,813
Other	-2,000	-11,917
Net cash provided by investing activities	-378,893	-1,065,394
Cash flow from financial activities		
Net increase / decrease in short-term loans payable	-888,000	100,000
Proceeds from long-term loans payable	1,000,000	299,000
Payments for long-term debt	-375,663	-340,500
Payments for redemption of bonds	-45,000	-
Other	-15,349	-5,622
Net cash provided by financing activities	-324,012	52,877
Cash and cash equivalents increased or decreased	915,764	-338,686
Cash and cash equivalents at beginning of period	2,258,707	5,283,892
Cash and cash equivalents at the end of the quarter	3,174,471	4,945,206

(4) Notes on quarterly consolidated financial statements

(Notes on going concern assumptions)

Nothing applicable.

(Notes on significant changes in the amount of shareholders' equity)

Nothing applicable.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Accounting Standard for Revenue Recognition") and other related standards have been applied from the beginning of the current first quarter, the Company will recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer. As a result of this change, with respect to billing revenue from general users, we have changed from recording sales at the time of consumption of in-game currency to recording sales based on the nature of the items provided.

The items provided by the Group to general users are generally consumable items (consumed by certain actions of general users and do not provide continuous benefits to general users), and the period between the purchase and consumption of items is extremely short, so sales are recorded at the time of item sales. As a result, sales are recorded at the time of sale.

The application of the revenue recognition accounting standard, etc., in accordance with the transitional treatment prescribed in the proviso of paragraph 84 of the revenue recognition accounting standard, has no impact on retained earnings at the beginning of the first quarter and on profit and loss for the first half of the current fiscal year. In addition, in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method.

(Information by Segment)

Segment Information

I. Previous six months ended, from April 30, 2020 to September 30, 2020, consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
(1) Sales to external customers	6,123,307	61,391	6,184,699	-	6,184,699
(2) Intersegment sales and transfers	-	496	496	-496	-
Total	6,123,307	61,888	6,185,196	-496	6,184,699
Segment profit or Loss	1,235,530	-183,326	1,052,203	-	1,052,203

Note: 1. Adjustments to net sales are adjustments for internal transactions.

2. Segment income /loss is adjusted with operating income in the quarterly consolidated statements of income.

II. Six months ended, from April 30, 2021 to September 30, 2021, consolidated period

Information on the sales, profits or losses per reporting segment

(Unit: Thousand yen)

	Reporting Segment			Adjustment	Quarterly consolidated income statement amount
	Game business	Media Business	Total		
Sales					
(1) Sales to external customers	5,119,378	65,471	5,184,850	-	5,184,850
(2) Intersegment sales and transfers	-	-	-	-	-
Total	5,119,378	65,471	5,184,850	-	5,184,850
Segment profit or Loss	1,110,970	-143,599	967,370	-	967,370

Note: Segment income / loss is adjusted with operating income in the quarterly consolidated statements of income.

(Significant subsequent events)

Not applicable