



Integrity & Sustainability

January 27, 2022

Sector: IT / Telecom

Drecom (3793)

FY2022 Third Quarter Result
Oct 31, 2021 – Dec 31, 2021

GIR Earnings View



DRECOM
with entertainment

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Summary of Financial
Results for
the Nine Months Ended
December, 2021

- The company announced its Q3 FY2022 results after the close on January 27, 2022. Cumulative Q3 sales fell 11.8% YoY to 8.08 billion yen, operating profit fell 15.7% YoY to 1.42 billion yen, and net income fell 34.3% YoY to 850 million yen. The decrease in sales compared to the previous year was mainly due to the impact of the withdrawal from the titles and advertising business that were terminated in the previous year. In addition to the above-mentioned decrease in sales, the main reason for the YoY decline in profit was a one-time cost of 130 million yen (recorded as a cost of sales) for a game production project using a committee system.
- Compared to the company's forecast announced in October, sales were 1.0% above forecast and operating profit was 9.2% above forecast, exceeding expectations, but net profit was 5.2% below forecast due to an extraordinary loss associated to withdrawal from offices. Sales exceeded the forecast due to the continued strong performance of several applications, especially the IP title *ONE PIECE Treasure Cruise* (currently distributed by Bandai Namco Entertainment Inc.), which is in its seventh year of operation. Despite the 130 million yen in one-time expenses related to the aforementioned game production project, the company's operating profit and recurring profit were stronger than expected due to higher sales and reduction in fixed cost, so it can be said that the company's performance was stronger than it appeared.

- The company's forecast for the fourth quarter (cumulative total), announced together with the third quarter results, was for net sales of 10.9 billion yen (-7.9% YoY), operating income of 1.7 billion yen (-17.2% YoY), and net income of 1.0 billion yen (-38.4% YoY). Comparing the company's forecast for the fourth quarter (January-March) with the third quarter (October-December), sales are expected to decline slightly by 2.5%. This decline of sales is partially due to the loss of anniversary event sales of several titles that took place in Q3, but is lessened by the company's plan to release *New Japan Pro-Wrestling Strong Spirits* (to be distributed by Bushiroad Co., Ltd.) and *mikonote Hare Tokidoki Kegare* in Q4. The 38.1% QoQ decline in operating profit is more due to higher advertising costs for new titles and upfront costs for investments in the publishing business to generate IP rather than to the above-mentioned decline in sales. There is no need to view this as a negative, but rather as a positive decrease in profit.

Forecast for the Fiscal
Period, 4Q, 2022

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Outlook

- In addition to *Wizardry VA* (tentative), *Evil Prince and the Puppets* and three location-based IP titles using “AROW”, the company plans three unannounced original titles in the pipeline for next fiscal year and beyond.
- With regard to the launch of the Publishing Business Division announced at the previous Q2 financial results briefing, the company announced more specifically that it plans to sequentially release more than 10 new titles from the Publishing Business from the second half of FY2023 onward, and it seems to be starting up smoothly.
- In addition to the above, at the financial results briefing, the company also announced that sales of its Twitter-based fan community promotion service, "Rooot," have steadily expanded by 4.7 times compared to the same period last year. We can see that the company is making steady progress toward its mid-term goal of becoming a comprehensive entertainment company that provides a wide variety of digital entertainment content globally with a focus on IP.

Performance Index (Consolidated, Quarterly)

Income statement (JPY mn)															
Year Ending	FY03/20					FY 03/21					FY03/22				
	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4QCE	1Q-4Q CE
Accounting Standard	Japanese GAAP														
Sales	2,254	2,235	2,483	3,178	10,150	3,303	2,882	2,971	2,685	11,841	2,661	2,524	2,893	2,822	10,900
YoY	-21.3%	-17.1%	4.0%	14.6%	-5.3%	46.6%	28.9%	19.7%	-15.5%	16.7%	-19.4%	-12.4%	-2.6%	5.1%	-7.9%
Gross Profit	570	556	587	479	2,192	1,067	889	1,120	921	3,997	1,040	957	1,023		
YoY	57.0%	152.3%	102.7%	-14.6%	52.9%	87.1%	60.1%	90.8%	92.0%	82.3%	-2.5%	7.7%	-8.7%		
Gross Profit Margin	25.3%	24.9%	23.6%	15.1%	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%	39.1%	37.9%	35.4%		
SG&A	442	352	389	393	1,575	443	461	488	552	1,944	536	494	570		
YoY	-43.4%	-7.8%	-6.6%	-9.4%	-21.7%	0.3%	31.1%	25.7%	40.4%	23.4%	20.9%	7.2%	16.8%		
Operating Income	128	204	198	86	617	624	428	632	369	2,053	504	463	453	280	1,700
YoY	-	-	-	-32.2%	-	386.4%	110.1%	218.3%	326.8%	232.7%	-19.2%	8.1%	-28.4%	-24.1%	-17.2%
Operating Income Margin	5.7%	9.1%	8.0%	2.7%	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%	18.9%	18.4%	15.6%	9.9%	15.6%
Ordinary Income	152	144	219	121	636	609	423	622	366	2,019	492	449	440	268	1,649
YoY	-	-	-	-	-	301.4%	194.6%	183.8%	200.8%	217.5%	-19.1%	6.1%	-29.3%	-26.6%	-18.3%
Net income	122	92	177	321	711	467	359	473	326	1,625	301	311	241	147	1,000
YoY	-	-	-	-	-	282.4%	291.7%	167.3%	1.6%	128.4%	-35.6%	-13.3%	-49.0%	-55.0%	-38.4%
Net Income Margin	5.4%	4.1%	7.1%	10.1%	7.0%	14.1%	12.5%	15.9%	12.1%	13.7%	11.3%	12.3%	8.3%	5.2%	9.2%

Source: Global IR, Inc. based on company's annual securities report

Note: Rounded to the nearest million yen and one decimal place, as determined by Global IR.



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Financial Data (Consolidated: Full Year)

Per-Share Data

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Total No. of Shares outstanding (,000)	14,371	28,742	28,819	28,894	28,976
EPS	29.7	-7.2	-60.5	25.0	57.0
After EPS adjustment	29.67	-	-	24.98	56.85
BPS	113.2	106.7	47.9	74.2	132.91
DPS	0	0	0	0	0

Cashflow

(JPY mn)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
Depreciation	214	299	462	382	626
Sales Cash Flow	846	-79	78	691	3,196
Investment Cash Flow	-456	-1,958	-123	-101	-1,140
Financial Cash Flow	1,345	2,288	-271	-1,188	968

Financial Data

(%)

Fiscal Year	2017/3	2018/3	2019/3	2020/3	2021/3
ROA	11.9	-2.2	-24.7	11.1	19.1
ROE	35.5	-6.6	-78.3	41.0	44.8
Capital Adequacy Ratio	47.0	33.2	19.6	32.9	39.5

Source: Global IR, Inc. based on company's annual securities report

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