



Integrity & Sustainability

May 13, 2022

Sector : IT/Telecom

Drecom (3793)

FY2022 Full Year Results
April 1, 2021 – March 31, 2022

GIR Earnings View

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DRECOM
with entertainment

Summary of Full Year
Financial Results for
the Fiscal Year Ending
March 31, 2022

- The company announced its full-year results for the fiscal year ending March 31, 2022, after the close of trading on May 12, 2022. Full-year sales declined 11.1% YoY to 10.53 billion yen, operating profit fell 22.5% YoY to 1.59 billion yen, and net income fell 50.3% YoY to 810 million yen. In the fourth quarter (January-March), sales declined 8.7% YoY to 2.45 billion yen, operating profit fell 53.6% to 170 million yen, and net loss was 46 million yen.
- Compared to the company's full-year forecast announced in January, net sales fell short of the forecast by 3.4% (370 million yen), operating income by 6.4% (110 million yen), and net income by 19.3% (190 million yen), respectively. The main reasons for the shortage were (1) the impact of lower-than-expected sales of new titles, (2) the advance recording of 60 million yen in operating expenses for the current fiscal year, that was at a risk of occurring in the next fiscal year, and (3) the recording of a total of 310 million yen in extraordinary losses, including impairment losses on game-related assets and losses on the revaluation of investment securities. This was mainly due to the early handling of the problem caused by the softer performance of new titles.
- The announcement of the first dividend (5 yen) at the same time as the full-year results is a noteworthy change, and can be seen as a sign of the company's confidence in its ability to generate cash in a stable manner.

- The company's forecast for fiscal year ending March 31, 2023, announced simultaneously with the current full-year results, calls for sales of 13.0 billion yen (+23.5% YoY), operating profit of 2.0 billion yen (+25.7% YoY), and net income of 1.2 billion yen (+48.6% YoY). The company had previously announced forecasts only for the following quarter, but switched to a full-year basis in FY23/3. This is likely due to the fact that the company has settled on a stable outlook for the game business.
- The FY 23/3 is likely to get off to a solid start with the anniversary events of mainstay titles coinciding in the first quarter. The company expects a total of three new releases, including Wizardry VA (tentative), to contribute to earnings in the second half of the year. The company expects operating income of 2.0 billion yen, close to its record high (2.05 billion yen in FY21/3), despite increased expenses, including a 480 million yen increase in advertising costs associated with the release of new titles and a 390 million yen increase in R&D costs for new businesses.

Outlook for FY2023

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GIR Earnings View (cont.)

- As for new businesses, the publishing business plans to release more than 10 new titles in 2H, and "Rooot," a Twitter-based fan community promotion service, is expected to continue to grow steadily. Although the company does not expect its Web3 businesses to produce revenue this fiscal year, it has several projects underway, including the development of blockchain games and an NFT project, which aims to create IP.

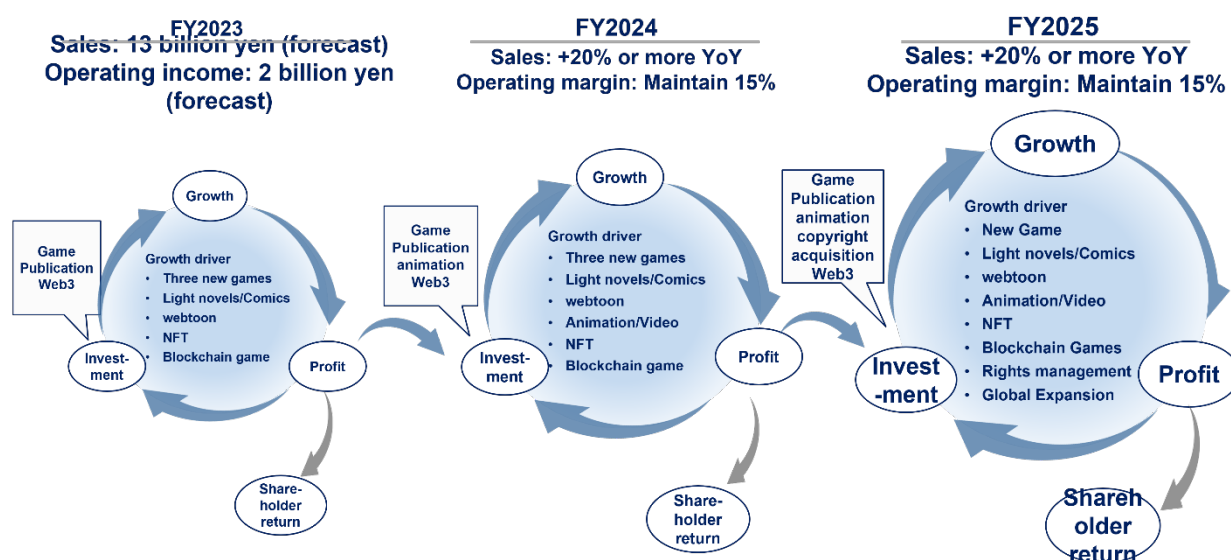
Outlook for FY2023 (cont.)

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Future Development

- The company's mid-term goal is "to become a comprehensive entertainment company that provides a wide variety of digital entertainment content globally with focus on IP." As seen above, the company's forecast for FY23/3 is 13 billion yen in sales (+23.6% YoY) and 2 billion yen in operating profit (operating profit margin of 15.4%). As shown in the chart below, the company plans to maintain a revenue growth rate of over 20% and an operating profit margin of 15%, by actively investing the cash generated from the game business while continuing to return profits to shareholders until FY25/3. "Rooot" is already becoming profitable, and several concrete projects are underway in the publishing and Web3 businesses. We will keep a close eye on future developments.

Entering performance expansion phase



Source: Global IR, Inc. from company data (Financial Results for the Fiscal Year Ended March 31, 2022), p20 (<https://drecom.co.jp/ir/140120220512542564.pdf>)



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Performance Index (Consolidated: Quarterly)

Income Statement (JPY mn)													
Year Ending	FY20/03	FY21/03					FY22/03					FY23/03	
	1Q-4Q	1Q	2Q	3Q	4Q	1Q-4Q	1Q	2Q	3Q	4Q CE	Q4 Actual	1Q-4Q CE	1Q-4Q Actual
Accounting Standard	Japanese GAAP												
Sales	10,150	3,303	2,882	2,971	2,685	11,841	2,661	2,524	2,893	2,822	2,450	10,900	10,529
YoY	-5.3%	46.6%	28.9%	19.7%	-15.5%	16.7%	-19.4%	-12.4%	-2.6%	5.1%	-8.7%	-7.9%	-11.1%
Gross Profit	2,192	1,067	889	1,120	921	3,997	1,040	957	1,023	-	776	-	3,797
YoY	52.87%	87.1%	60.1%	90.8%	92.0%	82.32%	-2.5%	7.7%	-8.7%	-	-15.7%	-	-5.0%
Gross Profit Margin	21.6%	32.3%	30.9%	37.7%	34.3%	33.8%	39.1%	37.9%	35.4%	-	31.7%	-	36.1%
SG&A	1,575	443	461	488	552	1,944	536	494	570	-	605	-	2,205
YoY	-21.7%	0.3%	31.1%	25.7%	40.4%	23.4%	20.9%	7.2%	16.8%	-	9.6%	-	13.4%
Operating income	617	624	428	632	369	2,053	504	463	453	280	171	1,700	1,591
YoY	-	-386.4%	110.1%	218.3%	326.8%	232.7%	-19.2%	8.1%	-28.4%	-24.1%	-53.6%	-17.2%	-22.5%
Operating income margin	6.1%	18.9%	14.9%	21.3%	13.7%	17.3%	18.9%	18.4%	15.6%	9.9%	7.0%	15.6%	15.1%
Ordinary income	636	609	423	622	366	2,019	492	449	440	268	161	1,649	1,542
YoY	-	-301.4%	194.6%	183.8%	200.8%	217.5%	-19.1%	6.1%	-29.3%	-26.6%	-56.0%	-18.3%	-23.6%
Net income	711	467	359	473	326	1,625	301	311	241	147	-46	1,000	807
YoY	-	-282.4%	291.7%	167.3%	1.6%	128.4%	-35.6%	-13.3%	-49.0%	-55.0%	-114.1%	-38.4%	-50.3%
Net income margin	7.0%	15.0%	13.0%	16.0%	12.1%	13.7%	11.3%	12.3%	8.3%	5.2%	-1.9%	9.2%	7.7%

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

Note: CE=Company Estimate. Rounded under JPY mn. Rounded to one decimal place. *Calculated by Global IR, Inc.

Financial Data (Consolidated, Full Year)

Per-Share Data (Consolidated)						
Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
Total No. of Shares outstanding (,000)	14,371	28,742	28,819	28,894	28,976	29,073
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3
Adjusted EPS	29.7	-	-	25.0	56.9	28.3
BPS	113.2	106.7	47.9	74.2	132.9	159.1
DPS	0	0	0	0	0	5

Cash Flow (JPY mn)						
Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
Depreciation	214	299	462	382	626	537
Sales Cash Flow	846	-79	78	691	3,196	1,603
Investment Cash Flow	-456	-1,958	-123	-101	-1,140	-1,766
Financial Cash Flow	1,345	2,288	-271	-1,188	968	-388

Financial Data (%)						
Year Ending	FY 17/3	FY 18/3	FY 19/3	FY 20/3	FY 21/3	FY 22/3
ROA	16.7	-0.4	-16.8	9.5	25.2	16.0
ROE	35.5	-6.6	-78.2	41.0	55.0	19.4
Equity Ratio	47.0	33.2	19.6	32.9	39.5	46.9

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

Note: Rounded under JPY mn. Rounded to one decimal place. *Calculated by Global IR, Inc.



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