

## Drecom (3793)

FY 3/2023 Second Quarter Result  
July 1st – September 30, 2022

### GIR Earnings View



- After the close of trading on October 27, 2022, the company announced its financial results for the second quarter of the fiscal year ending March 31, 2023, which were favorable.
- In the Q2 (July-September), sales increased 13.9% YoY to 2.87 billion yen and operating income increased 70.7% YoY to 790 million yen, continuing the strong performance of the first quarter. As a result, 1H operating income, recurring profit, and net income attributable to shareholders of the parent company all reached record highs on a 1H basis.
- The IP title *ONE PIECE Treasure Cruise* appears to continue to drive companywide earnings. Following the global anniversary events held in Q1, timely release of the movie “ONE PIECE FILM RED” in August, contributed to the company's Q2 performance. Of the 11 game titles in operation, nine have steadily posted profits, and two unprofitable titles have posted only small losses. In contrast to this strong performance of the game business, the media business has been losing money despite an increase in revenue. However, this is a business under development, and its financial impact on the entire company was extremely limited.
- Next, looking at the percentage of progress toward the company's initial full-year forecasts, the profit side is particularly making a remarkable headway. Operating income, recurring income, and net income attributable to owners of the parent are 80.4%, 81.5%, and 88.1%, respectively. The sales progress rate was only 44.6%, but this was due to the fact that the company had factored in the effect of launching three in-house distributed game titles that will post gross sales in the second half of the fiscal year. The company did not disclose its 1H forecasts, but it is highly likely that they exceeded the company's internal plan.

Summary of Financial Result  
for  
the Six Months Ended,  
September 2022

- Despite extremely strong advancement on the profit front, the company maintained its full-year forecasts.
- First, in terms of sales, the company expects that the strong performance of existing games will continue to a certain extent in the second half of the fiscal year. However, the company decided not to revise its full-year sales forecast at this time because the launch of some of the three in-house distributed titles had been pushed back by about three months from its previous forecast.

Forecasts for  
the 3Q and beyond  
for the year ending,  
March 31, 2023

## GIR Earnings View (cont.)

- In terms of profits, the company expects to sufficiently spend advertising and promotional expenses when launching the new titles, while associated revenue would be smaller than originally expected due the delay. Together with steady profits from existing games expected in the second half, the company has decided not to change its full-year profit forecast at this time.
- While the company left its full-year forecast unchanged in spite of the remarkable progress in first-half profits, we think this decision is reasonable and take it as positive news. Two points.
- First, according to the company's explanation, the delay in launching new game titles results from product quality improvement, so this should be regarded as positive. It is inferred that there are no negative events occurring with neither existing games nor with new projects.
- Second, we believe that by releasing the new titles with higher perfection while there is a tailwind from the existing game titles, chances are better for them to become the next earnings pillars, generating sustained profit growth from this fiscal year to the next.
- Regarding the new titles, GGGGG is scheduled to be released during 2022 according to the company's press release dated September 20, 2022. The reservations have begun in the app store. Another title, *Wizardry Variants Daphne*, is also scheduled for release by the end of March 2023, according to the company's press release of October 26, 2022.

Forecasts for  
the 3Q and beyond  
for the year ending,  
March 31, 2023  
(cont.)

# 3

## New Game Titles and New Business Progress

- Steady progress can be seen in all areas.
- First, in terms of new game titles, three titles are in full development for release during FY03/2024.
- Second, in the publishing business, the company received over 2,000 submissions for the "Drecom Media Grand Prix," a novelist award, and it awarded one gold and three silver prizes. These novels will be developed into books, comic books, webtoons, voice dramas, and other formats in 2023 and beyond. In addition, the light novel label "DRE Novels" launched three new titles on October 7. A total of nine works are scheduled to be published by the end of this year, and comic book adaptations are also planned. In addition, a collaboration with Korean company Contents Lab. Blue has been decided in order to promote webtoon.



## New Game Titles and New Business Progress (cont.)

- In addition, "Rooot," a Twitter-based fan community promotion service, continues to grow steadily, and the company is also making progress in its search for commercialization in the Web3 domain.

- The company's Q2 and 1H results have been strong, driven by existing game titles.
- It should be noted that the launch of three new games is delayed and that the full-year guidance was not revised. That said, we would like to note that these new titles would deliver steady earnings growth towards the next fiscal year and beyond, if they are completed to a high degree of perfection and launched during the current fiscal year.
- At the Q3 announcement, we would like to monitor whether the current year's earnings momentum does not change and the new games are in good shape to drive solid profits going forward.

## Summary

4

### Financial Data (Consolidated: Quarterly)

Statements of Income										(Millions of yen)
Year Ending	FY03/2020	FY03/2021	FY03/2022				FY03/2023			
	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q1-Q4 CE
Accounting Standard	Japanese GAAP									
Sales	10,150	11,841	2,661	2,524	2,893	2,450	10,529	2,927	2,873	13,000
YoY	-5.3%	16.7%	-19.4%	-12.4%	-2.6%	-8.7%	-11.1%	10.0%	13.9%	23.5%
Gross Profit	2,192	3,997	1,040	957	1,023	776	3,797	1,308	1,321	-
YoY	52.9%	82.3%	-2.5%	7.7%	-8.7%	-15.7%	-5.0%	25.8%	37.9%	-
Gross Profit Margin	21.6%	33.8%	39.1%	37.9%	35.4%	31.7%	36.1%	44.7%	46.0%	-
SG&A	1,575	1,944	536	494	570	605	2,205	491	530	-
YoY	-21.7%	23.4%	20.9%	7.2%	16.8%	9.6%	13.4%	-8.4%	7.2%	-
Operating income	617	2,053	504	463	453	171	1,591	817	791	2,000
YoY	-	232.7%	-19.2%	8.1%	-28.4%	-53.6%	-22.5%	62.1%	70.7%	25.7%
Operating income margin	6.1%	17.3%	18.9%	18.4%	15.6%	7.0%	15.1%	27.9%	27.5%	15.4%
Ordinary income	636	2,019	492	449	440	161	1,542	811	737	1,900
YoY	-	217.5%	-19.1%	6.1%	-29.3%	-56.0%	-23.6%	64.6%	64.2%	23.2%
Net income	711	1,625	301	311	241	-46	807	522	535	1,200
YoY	-	128.4%	-35.6%	-13.3%	-49.0%	-114.1%	-50.3%	73.5%	71.8%	48.6%
Net income margin	7.0%	13.7%	11.3%	12.3%	8.3%	-1.9%	7.7%	17.8%	18.6%	9.2%

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 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Total number of shares issued and outstanding (thousand shares)	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
EPS Adjusted	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 flows from operating activities						(Millions of yen)
Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Depreciation and amortization	214	299	462	382	626	537
Cash flows from operating activities	846	-79	78	691	3,196	1,603
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766
Cash flows from financing activities	1,345	2,288	-271	-1,188	968	-388

Financial Data						(%)
Year Ending	FY 3/2017	FY 3/2018	FY 3/2019	FY 3/2020	FY 3/2021	FY 3/2022
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0
Return on Equity (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: Prepared by Global IR, Inc. based on company securities reports

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



*Integrity & Sustainability*

October 28, 2022

## **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.