



Integrity & Sustainability

May 12, 2023

Sector: Information and communication

## Drecom (3793)

FY03/2023 Fourth Quarter Financial Results  
January 1 – March 31, 2023

### GIR Earnings View



**DRECOM**  
with entertainment

Summary of financial result  
for the fourth quarter,  
FY2023

- The company announced Q4 FY03/23 results and full-year FY03/24 forecasts after the close of trading on May 11, 2023. The sales and profits exceeded the latest forecast that the company revised in the Q3 results announcement.
- Thanks to the strong performance of the mainstay IP title *ONE PIECE Treasure Cruise*, full-year sales were 10.8 billion yen (+3% YoY), operating income was 2.28 billion yen (+43% YoY), recurring income was 2.19 billion yen (+42% YoY), and net income attributable to owners of the parent was 1.16 billion yen (+44% YoY). Operating income and ordinary income reached record highs.
- In the fourth quarter (January-March), sales were 2.4 billion yen (-1% YoY), operating income was 180 million yen (+5% YoY), recurring income was 170 million yen (+4% YoY), and net income attributable to shareholders of the parent company was a loss of 7 million yen. The company's profit was up YoY, despite the high expenses that usually occur in the current quarter.
- The company initially planned to release three new in-house distributed game titles in the fiscal year, whose release dates were changed when it announced results. Of these, GGGGG was released at the end of March.
- Considering the profit/loss of each of the 11 titles in operation, the disclosure materials indicate that the company is steadily generating profits except for the latest title mentioned above. The annual dividend per share remains 5 yen per share.

- The company disclosed its full-year forecast for the fiscal year ending March 31, 2024. No interim forecast was disclosed.
- This is an increase in sales and a decrease in profit forecast. Specifically, the company forecasts full-year sales of 15 billion yen (+39% YoY), operating income of 2 billion yen (-12% YoY), recurring income of 1.9 billion yen (-13% YoY), and net income attributable to shareholders of the parent company of 1.1 billion yen (-5% YoY).
- The contributors to the sales growth forecast are (1) the lifecycle management of solid titles in operation for an extended period and (2) the release of the long-awaited new in-house distributed game titles. Of these new titles, *DACHIMEN DENSETSU G* developed by subsidiary Studiorex is scheduled for release in May, following the already released GGGGG.

Company forecast for year  
ending March 31, 2024

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## GIR Earnings View (cont.)

- The remaining new title, *Wizardry Variants Daphne* , will be released at a suitable time during the fiscal year. Although the company does not disclose the size of sales of each new title, we believe that the contribution of this title is noteworthy.
- Regarding the decrease in operating income, key factors are: (1) the increase in variable and fixed costs associated with the full-scale launch of new titles of games distributed by the company, and (2) the increase in upfront investment and R&D for new businesses such as publishing, video, and Web3, which are expected to grow continuously in the medium term.
- We believe that the company's plan for higher sales and lower profits should not necessarily be unfavorable, as it is natural for a growing company to allocate top-line growth to investments for sustained growth.

Company forecast for year  
ending March 31, 2024  
(cont.)

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Outlook  
for the first quarter of  
the fiscal year ending  
March 31, 2024

- The company does not disclose quarterly company forecasts, but its IR materials show outlook for the first quarter.
- This quarter's sales and operating income are likely to be lower than usual as a percentage of the full-year forecast, due to the start-up cost of *GGGGG* and *DACHIMEN DENSETSU G* and the increase in costs related to new businesses. This is different from previous years.
- In particular, it should be noted that the first quarter profit figures in the previous fiscal year were strong, setting tough year-over-year comparison.
- However, we would like to think that such advance guidance will reduce the risk of major turmoil in the stock market.



## GIR Earnings View (cont.)

- The first is the release date and revenue potential of new titles, particularly *Wizardry Variants Daphne*. The title has been released in beta and is in the finishing stages. Whether or not this will be a competitive title and lead to revenue traction will be the biggest focus of this fiscal year.
- Second is the progress of new business. Now that the light novel label is on track, the company plans to launch a comic/webtoon label next. It will be very interesting to see if this will be a success and open up prospects for further visualization and game production. We also look forward to the acquisition of knowledge and results in the search for Web3-related commercialization.
- Third is the development and release of future game titles. In particular, *Evil Prince and the Puppet* is scheduled for release by the end of the fiscal year.
- Fourth is risk management. In this regard, if the release schedule of a significant game title distributed by the company were to change, or if the response after release were to deviate from expectations, would the company be able to strike a balance between revenue management and development and continue its growth strategy? We will also draw attention and have high expectations for the company in risk management competency, including dialogue with the stock market participants.

Future highlights

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Summary

- In this new fiscal year ending March 2024, the market will finally see if the company will monetize its three new in-house distributed game titles. The first key point is whether the company can achieve solid sales growth in line with its forecast.
- If the monetization goes smoothly, the company will gain business experience and a financial foothold that would help push itself from a mobile game company to a diversified entertainment company with original IPs and media mix capability. Another important point is whether the business potential of the new business can be further visualized.
- If this scenario becomes more compelling, we would like to think that the stock market would look beyond the company's forecast of higher sales and lower profits.



Financial Data (Consolidated: Quarterly)

| Statements of Income    |               |               |           |        |        |         |        |           |       |        |       | (Millions of yen) |             |
|-------------------------|---------------|---------------|-----------|--------|--------|---------|--------|-----------|-------|--------|-------|-------------------|-------------|
| Accounting period       | FY<br>03/2020 | FY<br>03/2021 | FY03/2022 |        |        |         |        | FY03/2023 |       |        |       |                   | FY<br>03/24 |
|                         | Q1-Q4         | Q1-Q4         | Q1        | Q2     | Q3     | Q4      | Q1-Q4  | Q1        | Q2    | Q3     | Q4    | Q1-Q4             | CE          |
| Sales                   | 10,150        | 11,841        | 2,661     | 2,523  | 2,893  | 2,450   | 10,528 | 2,927     | 2,873 | 2,579  | 2,420 | 10,800            | 15,000      |
| YoY                     | -5.0%         | 17.0%         | -19.0%    | -12.0% | -3.0%  | -9.0%   | -11.0% | 10.0%     | 14.0% | -11.0% | -1.0% | 3.0%              | 39.0%       |
| Net sales               | 2,192         | 3,997         | 1,040     | 957    | 1,023  | 776     | 3,797  | 1,308     | 1,321 | 1,058  | 871   | 4,558             | -           |
| YoY                     | 53.0%         | 82.0%         | -3.0%     | 8.0%   | -9.0%  | -16.0%  | -5.0%  | 26.0%     | 38.0% | 3.0%   | 12.0% | 20.0%             | -           |
| Net sales margin        | 21.6          | 33.8          | 39.1%     | 38.0%  | 35.4%  | 31.7    | 36.1%  | 44.7%     | 46.0% | 41.0%  | 36.0% | 42.2%             | -           |
| SG&A                    | 1,575         | 1,944         | 536       | 494    | 570    | 605     | 2,205  | 491       | 530   | 566    | 690   | 2,277             | -           |
| YoY                     | -22.0%        | 23.0%         | 21.0%     | 7.0%   | 17.0%  | 10.0%   | 13.0%  | -8.0%     | 7.0%  | -1.0%  | 14.0% | 3.0%              | -           |
| Operating income        | 617           | 2,053         | 504       | 463    | 452    | 171     | 1,591  | 817       | 790   | 492    | 180   | 2,281             | 2,000       |
| YoY                     | -             | 233.0%        | -19.0%    | 8.0%   | -28.0% | -54.0%  | -22.0% | 62.0%     | 71.0% | 9.0%   | 5.0%  | 43.0%             | -12.0%      |
| Operating income margin | 6.1%          | 17.3%         | 18.9%     | 18.4%  | 15.6%  | 7.0%    | 15.1%  | 27.9%     | 27.5% | 19.1%  | 7.5%  | 21.1%             | 13.3%       |
| Ordinary income         | 636           | 2,019         | 492       | 448    | 439    | 160     | 1,541  | 810       | 737   | 477    | 167   | 2,192             | 1,900       |
| YoY                     | -             | 218.0%        | -19.0%    | 6.0%   | -29.0% | -56.0%  | -24.0% | 64.0%     | 65.0% | 9.0%   | 4.0%  | 42.0%             | -13.0%      |
| Net income              | 711           | 1,625         | 300       | 311    | 241    | -45     | 807    | 521       | 534   | 110    | -7    | 1,159             | 1,100       |
| YoY                     | -             | 128.0%        | -36.0%    | -13.0% | -49.0% | -114.0% | -50.0% | 74.0%     | 72.0% | -54.0% | -     | 44.0%             | -5.0%       |
| Net Income Ratio        | 7.0%          | 13.7%         | 11.3%     | 12.3%  | 8.3%   | -1.8%   | 7.7%   | 17.8%     | 18.6% | 4.3%   | -0.3% | 10.7%             | 7.3%        |

Source: Prepared by Global IR, Inc. based on company securities reports and company IR materials.

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

Financial Data (Consolidated: Full Year)

| Per Share Data (Consolidated)                                   |           |           |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| accounting period   | FY03/2017 | FY03/2018 | FY03/2019 | FY03/2020 | FY03/2021 | FY03/2022 | FY03/2023 |
| Total number of shares issued and outstanding (thousand shares) | 14,371    | 28,742    | 28,819    | 28,894    | 28,976    | 29,073    | 29,130    |
| EPS   | 29.7      | -7.2      | -60.5     | 25.0      | 57.0      | 28.3      | 40.6      |
| EPS Adjusted  | 29.7      | -         | -         | 25.0      | 56.9      | 28.3      | 40.6      |
| BPS   | 113.2     | 106.7     | 47.9      | 74.2      | 132.9     | 159.1     | 195.7     |
| DPS   | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 5.0       | 5.0       |

| Cash flows (Millions of yen)         |           |           |           |           |           |           |           |
|--------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| accounting period                    | FY03/2017 | FY03/2018 | FY03/2019 | FY03/2020 | FY03/2021 | FY03/2022 | FY03/2023 |
| Depreciation and amortization        | 214       | 299       | 462       | 382       | 627       | 537       | 269       |
| Cash flows from operating activities | 846       | -79       | 78        | 691       | 3196      | 1603      | 2666      |
| Cash flows from investing activities | -456      | -1,958    | -123      | -101      | -1140     | -1766     | -2017     |
| Cash flows from financing activities | 1,345     | 2,288     | -271      | -1,188    | 969       | -388      | 659       |

| Financial Data (%)     |           |           |           |           |           |           |           |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| accounting period      | FY03/2017 | FY03/2018 | FY03/2019 | FY03/2020 | FY03/2021 | FY03/2022 | FY03/2023 |
| Return on Assets (ROA) | 16.7      | -0.4      | -16.8     | 9.5       | 25.2      | 16.0      | 20.0      |
| Return on Equity (ROE) | 35.5      | -6.6      | -78.3     | 41.0      | 55.0      | 19.4      | 22.9      |
| Capital adequacy ratio | 47.0      | 33.2      | 19.6      | 32.9      | 39.5      | 46.9      | 45.6      |

Source: Prepared by Global IR, Inc. based on company securities reports.

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