

# Drecom



(TSE Code: 3793 / Sector: Information and communication)

## Effect of Structural Revamp Surfacing, Awaiting the Release of New Titles

### GIR View

#### ■ Highlights

Drecom announced Q2 FY03/2024 results and "Notice of Recording Operating Expenses and Extraordinary Losses" after the close of business on October 26, 2023.

At the time of the Q1 results release, the company announced that it would suspend one of its titles, revise its full-year earnings forecast downward, and place priority on strengthening its business structure. The second quarter results showed signs of a strengthened corporate structure.

Although sales and profits were still down significantly YoY in 1H, the company's mainstay title "ONE PIECE Treasure Cruise" continues to perform well and cost rationalization has progressed, resulting in an increase in sales and profits in the July-September period versus the April-June period.

In the July-September period, the company decided to suspend "GGGGG" and to discontinue development of "Project BEAT," which is still under development. This resulted in new operating expenses and extraordinary losses, but the company maintained its full-year forecasts thanks to the strengthened corporate structure.

"Wizardry Variants Daphne", which is still awaiting release, had a closed beta test in October with approximately 5,000 participants and seems to be getting a good response. There are no other changes in the development pipeline, and "Evil Prince and the Puppet" is

scheduled for release during this fiscal year. Progress in the three areas of publishing, video, and the Web3 is also on track.

The immediate focus is on whether the release of "Wizardry Variants Daphne" will go smoothly by the end of the current fiscal year. We are waiting to see what kind of partners will be brought together to maximize the potential of this title.

#### ■ Overview of the second quarter of the fiscal year ending March 31, 2024

In Q2 (July-September), sales were 2.7 billion yen (-4% YoY), operating income was 463 million yen (-41% YoY), recurring income was 451 million yen (-39% YoY), and net income was 272 million yen (-49% YoY). In Q2, sales and profits decreased YoY. However, both metrics showed positive growth on a QoQ basis.

Earnings were supported by the continued strong performance of the mainstay title "ONE PIECE Treasure Cruise" and effective cost control.

As part of the review of its operations and development portfolio, the company has decided to suspend "GGGGG" and discontinue development of "Project BEAT" currently under development, and has recorded related operating expenses of 9 million yen and an impairment loss of 192 million yen. However, the company has not revised its full-year forecasts at this time.

In addition, the media business, although still in the red, is



at the expected line, and trials toward commercialization are continuing.

#### ■ Key points for the second half of the fiscal year ending March 31, 2024

According to company data, the two titles "Wizardry Variants Daphne" and "Evil Prince and the Puppet" are likely to be released in Q4. Therefore, Q3 is expected to be a normal year for the game business, especially for major titles, with a high progress rate of operating profit towards the full-year forecast. On the other hand, in Q4, costs associated with the release of new titles are expected to precede the contribution to sales.

In light of the above, the following points will be the focus of future attention.

First, will existing game titles remain unmodulated?

Second, will "Wizardry Variants Daphne" be released by the end of the fiscal year as currently envisioned based on the results of the closed beta test? If so, what partners and in what form will it sit with to maximize its potential?

Next, "Evil Prince and the Puppet" has about 120,000 X-followers as of October. Will this game be released during this fiscal year as expected? Also, will there be any changes in the development pipeline for other games?

#### ■ Approaching milestone on the trajectory of scaling up

For the company, the future of "Wizardry," which was trademarked in 2020 and is being developed as its own IP in a multimedia format, is important. The success of the release of "Wizardry Variants Daphne" is, to put it bluntly, the company's destiny. We will continue to pay the greatest attention to the progress of this project.

In the "Wizardry" area, the comic "BLADE & BASTARD 1" was released on October 25. In the blockchain game "Eternal Crypt -Wizardry BC-," a special NFT was sold prior to the game's release in October, and the first release version was launched on October 19. The company appears to be making progress in terms of forming partnerships with key players. While there are many uncertainties regarding the contribution to earnings, it should be noted that the company continues to be aggressive in maximizing "Wizardry" related revenue opportunities.

In the publishing and video domain, progress is also being made, with the launch of a comic book label in addition to a light novel label.

The company continues to aim for annual sales growth of more than 20% and operating profit margin of 15% in the next fiscal year and beyond. As the company's efforts to strengthen its management structure are beginning to bear fruit, it will be interesting to see whether the successful release of "Wizardry Variants Daphne" will be the catalyst for the company's transformation into a comprehensive entertainment company with its own IP at its core.

## Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY 03/20 Q1-Q4	FY 03/21 Q1-Q4	FY 03/22 Q1-Q4	FY23/03					FY24/03				
				Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE
Sales	10,150	11,840	10,528	2,927	2,873	2,579	2,420	10,800	2,346	2,745			11,500
YoY	-5%	17%	-11%	10%	14%	-11%	-1%	3%	-20%	-4%			6%
Net sales	2,192	3,996	3,796	1,308	1,320	1,058	870	4,558	683	1,145			
YoY	53%	82%	-5%	26%	38%	3%	12%	20%	-48%	-13%			
Net sales margin	21.6%	33.8%	36.1%	44.7%	45.9%	41.0%	36.0%	42.2%	29.1%	41.7%			
SG&A	1,575	1,944	2,205	491	529	565	690	2,276	675	681			
YoY	-22%	23%	13%	-8%	7%	-1%	14%	3%	37%	29%			
Operating income	617	2,052	1,591	817	790	492	180	2,281	8	463			500
YoY	-	233%	-22%	62%	71%	9%	5%	43%	-99%	-41%			-78%
Operating income margin	6.1%	17.3%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	0.3%	16.9%			4.3%
Ordinary income	635	2,019	1,541	810	737	477	167	2,192	2	451			450
YoY	-	218%	-24%	64%	65%	9%	4%	42%	-100%	-39%			-79%
Net income	711	1,624	807	521	534	110	-7	1,159	-441	272			0
YoY	-	128%	-50%	74%	72%	-54%		44%		-49%			
Net income ratio	7.0%	13.7%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	-18.8%	9.9%			0.0%

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

Note: CE=Company Estimate.

Figure 2 Per Share Data

(Consolidated)

Accounting period	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
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	40.7
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

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 Global IR, Inc.

**Figure 3 Cash flows**

(Millions of yen)

Accounting period	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
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

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 Global IR, Inc.

**Figure 4 Financial Data**

(%)

Accounting period	FY 03/17	FY 03/18	FY 03/19	FY 03/20	FY 03/21	FY 03/22	FY 03/23
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 and company IR materials.

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

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