

Drecom

(TSE Code: 3793)

New fiscal year, we aim to return to a growth path by releasing three game titles

GIR View

■ Highlights

Drecom announced its financial results for the fiscal year ended March 31, 2024, after the close of business on May 13, 2024.

Full-year results showed declines in both sales and profits. However, although sales fell slightly short of the revised forecast announced at the time of the Q3 announcement, profits were strong, confirming that existing game titles are generating steady revenues.

The company's forecast for the fiscal year ending March 31, 2025, which is the focus of much attention, calls for an increase in both sales and profit. Specifically, sales increased by 38% year-on-year to 13.5 billion yen, Operating income increased by 11% to 1 billion yen and net income attributable to shareholders of the parent company increased by 284% to 400 million yen. In the previous fiscal year, the company focused on developing titles in the latter stages of development, but in the new fiscal year of 2025 it plans to release three titles, including *Wizardry Variants Daphne* (release date to be disclosed soon) and *Evil Prince and the Puppet* (to be released on June 3). The company has stated that these titles have been tested more carefully than in the past, and as a result, they have been built more thoroughly. Although certain uncertainties remain (e.g., the level of billing), the company expects these titles to have a smooth launch.

The low rate of increase in profits relative to the sales forecast is noticeable, but this is due to the fact that marketing costs and capitalized depreciation for new title releases will begin to be amortized. In other words, it should be noted that this burden becomes less from the second year onwards.

KEY STATISTICS



Key Stock Statistics

Recent Price(yen) (05/13/2024)	786.00
52 week high/low (yen)	1217.00 / 457.00
Shares Outstanding (Excluding treasury stock)	28,608 thousand shares
Market Cap (yen)	22,486 million
PER	56.2 times
PBR	4.0 times
PSR	1.7 times
Dividend (Dividend Yield) (yen)	00.00 (0.00 %)

Sector

Sector	Information and communication
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Financials (FY03/2025 CE)

Sales (yen)	13,500 million
Operating income margin (%)	7.4%
EBITDA margin (%)	13.3%

Management

President & CEO	Naito Yuki
URL	https://drecom.co.jp/en/



Stock prices have been falling since the beginning of May, and there is little spark. As sales of the three titles scheduled for release steadily increase, expectations for medium-term profit growth and a return to a growth path will increase, and the stock price is expected to positively respond to these expectations. The success or failure of the three highly anticipated new titles will be a key focus of attention.

■ FY03/2024 Full-Year Summary: Defensive measures paying off

In Q4 (Jan-Mar), sales were 2.1 billion yen (-12% YoY), operating income was 113 million yen (-37% YoY), ordinary income was 63 million yen (-62% YoY), and net income was 6 million yen (return to profitability). Q4 has always been a calm period in terms of the seasonality of the company's business. In this situation, sales fell slightly short of the revised forecast, but profits exceeded the revised forecast due to the strong performance of existing titles and successful cost control.

One title was terminated during the quarter. Nine long-term titles are currently in operation, all of which are profitable.

■ FY03/2025 Full-Year Earnings Forecast: Three New Titles to be Released

The company has positioned the new fiscal year of 2025 as a year in which it aims to once again raise the level of its sales and profit base and has stated its forecasts based on the release of three newly released titles.

Specifically, sales are expected to increase by 38% year-on-year to 13.5 billion yen, Operating income increase by 11% to 1 billion yen and net income attributable to shareholders of the parent company increase by 284% to 400 million yen.

The sales assumption is based on stable operations of existing titles, plus sales from three new titles. The newly released titles are *Wizardry Variants Daphne* (in-house distribution; release date to be announced soon), *Evil Prince and the Puppet* (in-house distribution; to be released on June 3), and a "location-based IP title". *Evil Prince and the Puppet* has received positive results from a closed beta test followed by a public beta test, and pre-registration started at the end of April 2024, with the number of registrations steadily increasing. *Wizardry Variants Daphne* has also undergone a private beta test followed by a public beta test with positive results, and due to the high intensity of user interest in the public test, the company has been expanding the content. The company is now at a stage where it will be able to announce a release date for this title in the near future. The company has also decided to conduct a publicly solicited beta test for a "location-based IP title," and is making steady progress. If the three titles were to make a full-year contribution, this would amount to a 36-month contribution, but half of it, for the 18-months have been factored into the sales forecast for FY03/2025.



Profit growth is low relative to the sales forecast, with operating income increase by +11% to 1.0 billion yen.

Factors include the positive impact from closing unprofitable titles and the profit contribution from the media business, as well as the conservative outlook on the profit contribution from the existing game business and the low profit contribution from new titles.

Among the reasons for the low profit contribution from newly released titles are the high platform payment fees associated with self-published titles, the occurrence of fixed operating costs, the increased advertising expenses at the time of release, and the amortization over 24 months of amounts previously capitalized as “software in progress.” However, if sales proceed smoothly, advertising expenses will peak out starting next fiscal year, and software amortization expenses will begin to decline the year after next. Therefore, it should be noted that if new titles are successful, the structure is such that profits will increase gradually over time.

Furthermore, as previously mentioned, discussions are progressing with multiple companies regarding collaboration that involves accepting investments on a project-by-project basis. When such investments are accepted, they will be treated as a reduction in software assets. In this case, it may lead to a reduction in net debt on the balance sheet and a reduction in software asset amortization. Therefore, future developments are eagerly anticipated.

■ Other points regarding financial results

Here is a brief list of other points.

In addition to the three titles scheduled for release, the game development pipeline includes one mobile game and two titles for PC and consoles (one of which is *Tokyo Stories -working title-*).

"Drecom Media", which handles publishing and video production, two titles have exceeded a total of 100,000 copies sold and are developing steadily. Additionally, they released the blockchain game *Eternal Crypt -Wizardry BC-* utilizing the “Wizardry” IP in March 2024, and are currently exploring its monetization.

Lastly, regarding the guidance for the Q1, sales are expected to perform reasonably due to the anniversary event of a major title and the release of a new self-published title. However, profit progress is expected to be modest due to increases in advertising and promotional expenses associated with the release."



■ Future points

The stock price has declined since the beginning of May, there seems to have little spark in relation to the company's potential at present.

As sales of the three titles scheduled for release in the new fiscal year of 2025 steadily increase, this should foster expectations of medium-term profit growth with improved profit margins. It is anticipated that the stock price will positively reflect this. The company's transformation into an entertainment content company centered around its own IP should also come into view.

We would like to raise the level of attention to the success or failure of the three long-awaited new titles.

Regarding dividends, there will be no interim dividend as before, and the year-end dividend is undecided. While the company positions dividends as an important shareholder return, given that the contribution of new titles is limited at the beginning of the fiscal year and that it is natural for a growing company to prioritize internal reserves, there is little need to place excessive attention on the dividend outlook.

Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY03 /2020	FY03/ 2021	FY03/ 2022	FY03/2023					FY03/2024					FY03/ 2025 CE
	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	Q1	Q2	Q3	Q4	Q1-Q4	CE
Sales	10,150	11,840	10,528	2,927	2,873	2,579	2,420	10,800	2,346	2,745	2,546	2,141	9,779	13,500
YoY	-5%	17%	-11%	10%	14%	-11%	-1%	3%	-20%	-4%	-1%	-12%	-9%	38%
Net sales	2,192	3,996	3,796	1,308	1,320	1,058	870	4,558	683	1,145	868	706	3,404	
YoY	53%	82%	-5%	26%	38%	3%	12%	20%	-48%	-13%	-18%	-19%	-25%	
Net sales margin	21.6%	33.8%	36.1%	44.7%	45.9%	41.0%	36.0%	42.2%	29.1%	41.7%	34.1%	33.0%	34.8%	
SG&A	1,575	1,944	2,205	491	529	565	690	2,276	675	681	551	593	2,501	
YoY	-22%	23%	13%	-8%	7%	-1%	14%	3%	37%	29%	-2%	-14%	10%	
Operating income	617	2,052	1,591	817	790	492	180	2,281	8	463	317	113	903	1,000
YoY	-	233%	-22%	62%	71%	9%	5%	43%	-99%	-41%	-36%	-37%	-60%	11%
Operating income margin	6.1%	17.3%	15.1%	27.9%	27.5%	19.1%	7.5%	21.1%	0.3%	16.9%	12.5%	5.3%	9.2%	7.4%
Ordinary income	635	2,019	1,541	810	737	477	167	2,192	2	451	275	63	793	900
YoY	-	218%	-24%	64%	65%	9%	4%	42%	-100%	-39%	-42%	-62%	-64%	13%
Net income	711	1,624	807	521	534	110	-7	1,159	-441	272	266	6	104	400
YoY	-	128%	-50%	74%	72%	-54%		44%	-49%	142%	-186%		-91%	285%
Net income ratio	7.0%	13.7%	7.7%	17.8%	18.6%	4.3%	-0.3%	10.7%	-18.8%	9.9%	10.5%	0.3%	1.1%	3.0%

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	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Total number of shares issued and outstanding (thousand shares)	14,371	28,742	28,819	28,894	28,976	29,073	29,130	29,224
EPS	29.7	-7.2	-60.5	25.0	57.0	28.3	40.7	3.6
EPS Adjusted	29.7	-	-	25.0	56.9	28.3	40.6	3.6
BPS	113.2	106.7	47.9	74.2	132.9	159.1	195.7	196.3
DPS	0.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0

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	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Depreciation and amortization	214	299	462	382	627	537	269	269
Cash flow s from operating activities	846	-79	78	691	3,196	1,603	2,666	-473
Cash flow s from investing activities	-456	-1,958	-123	-101	-1,140	-1,766	-2,017	-2,048
Cash flow s from financing activities	1,345	2,288	-271	-1,188	969	-388	659	2,413

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	FY03/2017	FY03/2018	FY03/2019	FY03/2020	FY03/2021	FY03/2022	FY03/2023	FY03/2024
Return on Assets (ROA)	16.7	-0.4	-16.8	9.5	25.2	16.0	20.0	6.0
Return on Equity (ROE)	35.5	-6.6	-78.3	41.0	55.0	19.4	22.9	1.9
Capital adequacy ratio	47.0	33.2	19.6	32.9	39.5	46.9	45.6	39.7

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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