

Drecom

(TSE Code: 3793)

First game title of the year was a downswing. Expectations are high for next 2 titles

GIR View

■ Highlights

Drecom announced its Q1 FY03/2025 financial results after the close of business on July 30, 2024. Sales declined 9.5% YoY to 2,122 million yen, with operating loss of 67 million yen, recurring loss of 88 million yen, and net loss attributable to owners of the parent of 153 million yen.

Although existing titles were generally stable, in-game billing for *Evil Prince and the Puppet*, an in-house IP released on June 3 this year was lower than expected, and the company's content business also incurred expenses in advance resulting in a decline in profit and loss.

Meanwhile, the full-year forecasts for the fiscal year FY03/2025 (net sales of 13.5 billion yen, operating income of 1 billion yen, ordinary income of 900 million yen, and net income attributable to owners of the parent of 400 million yen) were left unchanged from the numbers set from the beginning of the fiscal year. As initially planned, the second new game title, *Wizardry Variants Daphne*, is scheduled for release in October of this year, and the third "location-based IP title" is scheduled for release during the current fiscal year. Although the company has indicated in its earnings release that "the difficulty in achieving the earnings forecast is increasing," it believes there is no need to revise the forecast at this point, given the stable performance of existing game titles and the steady development of new game titles. In addition, sales in the content business (publishing and video) are holding strong.

KEY STATISTICS



Key Stock Statistics

Recent Price(yen) (07/30/2024)	622.00
52 week high/low (yen)	1217.00 / 457.00
Shares Outstanding (Excluding treasury stock)	28,608 thousand shares
Market Cap (yen)	17,806 million
PER	44.4 times
PBR	3.2 times
PSR	1.1 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/



The stock price has continued to fall since March, and there is little sense of overheating. However, given that *Evil Prince and the Puppet* fell short of expectations and that the full-year results will be skewed toward the second half of the year, the stock market's cues will likely be focused on the future of the two upcoming game titles.

Therefore, the pre-registration status of *Wizardry Variants Daphne* to start in August, Wizardry Variants Daphne's launch after its October release, the initiation of the Closed Beta Test (CBT) for "location-based IP title" scheduled between this summer to this fall, will be the most important factors to watch in the near future.

■ Q1 FY03/2015 Summary: Existing titles are stable, but *The Evil Princess and the Puppet* falls short of the company estimate

Sales were down 9.5% YoY at 2.122 billion yen, with operating loss of 67 million yen (vs. profit of 8 million yen in Q1 FY03/2024), recurring loss of 88 million yen (vs. profit of 2 million yen in Q1 FY03/2024), and net loss attributable to parent company shareholders of 153 million yen (vs. loss of 441 million yen in Q1 FY03/2024).

Despite existing game titles remaining largely unchanged, the company's original IP, *Evil Prince and the Puppet*, released on June 3 this year, faced higher advertising costs at launch and lower-than-expected in-game revenue. Additionally, the profit/loss situation worsened due to prior expenses in the content business.

Although the persistence rate for *Evil Prince and the Puppet* is favorable, the Company recognizes that there are issues with the design of in-game billing and other aspects of the game. Moving forward, the company plans to address these issues while continuing to develop merchandise and real-life events to enhance overall profitability.

The nine existing game titles, including the mainstays, remain profitable and stable. Additionally, sales in the content business (publishing, video, etc.) are steady.

In addition, the net loss attributable to shareholders of the parent company increased relative to the recurring loss. This is due to the recording of 41 million yen loss in income taxes-deferred due to the reversal of a part of deferred tax assets recorded up to the fiscal year ended March 31, 2024, resulting from the business performance for the first quarter of the fiscal year ending March 31, 2025, and other factors.

■ FY03/2025 Full-Year Earnings Forecast: Unchanged from the initial forecast. Two new titles to be released as planned

The company's full-year forecasts for the fiscal year ending March 31, 2025 (net sales of 13.5 billion yen, operating income of 1 billion yen, recurring income of 900 million yen, and net income attributable to shareholders of the parent company of 400 million yen) remain unchanged from the beginning of the period. As previously planned, the second new game title, *Wizardry Variants Daphne*, is scheduled for release in October of this year, and the third "location-based IP title" is scheduled for release during this fiscal year.

While the company acknowledged in its earnings release that "the difficulty of achieving the earnings forecast is increasing," it believes there is no need to revise the forecast at this time, due to the stable performance of existing game titles and the steady development of new titles.

However, it should be noted that future earnings progress is expected to be skewed towards the second-half of the year.

According to the company's financial results presentation, cumulative Q2 sales are expected to be about one-third of the full-year forecast (estimated by the author), and operating profit is expected to be slightly positive. In Q3, the company expects to incur advertising expenses for the release of *Wizardry Variants Daphne*. The progress in Q3 will be the key to the company's performance in the current fiscal year.

■ Key points for the future

The stock price has been falling since March, and there is little indication of overheating. However, given that *Evil Prince and the Puppet* fell short of expectations and that the company's full-year results will be skewed toward the second half of the year, the stock market's cues are likely limited to the future releases of the two game titles.

In light of the above, the following points require immediate attention.

- Pre-registration status for *Wizardry Variants Daphne*, which will begin in August.
- The launch of *Wizardry Variants Daphne* since its October release.
- Start of Closed Beta Test (CBT) of "Location-based IP Titles" scheduled for this summer and this fall, and the IP is known.
- Improved profitability of *Evil Prince and the Puppet*
- 3Q Results Trends



There are still two important game titles to be released in the current fiscal year, so there are still opportunities for recovery. We will continue to monitor its progress, focusing on the assorted points mentioned above.

Financial Data (Consolidated: Quarterly)

Figure 1 Statements of Income

(Millions of yen)

Accounting period	FY03/	FY03/	FY03/	FY03/	FY03/2024					FY03/2025	
	2020	2021	2022	2023							
	Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q4	Q1	Q2	Q3	Q4	CE	Q1	CE
Sales	10,150	11,840	10,528	10,800	2,346	2,745	2,546	2,141	9,779	2,122	13,500
YoY	-5%	17%	-11%	3%	-20%	-4%	-1%	-12%	-9%	-10%	38%
Net sales	2,192	3,996	3,796	4,558	683	1,145	868	706	3,404	624	
YoY	53%	82%	-5%	20%	-48%	-13%	-18%	-19%	-25%	-9%	
Net sales margin	21.6%	33.8%	36.1%	42.2%	29.1%	41.7%	34.1%	33.0%	34.8%	29.4%	
SG&A	1,575	1,944	2,205	2,276	675	681	551	593	2,501	692	
YoY	-22%	23%	13%	3%	37%	29%	-2%	-14%	10%	2%	
Operating income	617	2,052	1,591	2,281	8	463	317	113	903	-67	1,000
YoY	-	233%	-22%	43%	-99%	-41%	-36%	-37%	-60%	-	11%
Operating income margin	6.1%	17.3%	15.1%	21.1%	0.3%	16.9%	12.5%	5.3%	9.2%	-3.2%	7.4%
Ordinary income	635	2,019	1,541	2,192	2	451	275	63	793	-88	900
YoY	-	218%	-24%	42%	-100%	-39%	-42%	-62%	-64%	-	13%
Net income	711	1,624	807	1,159	-441	272	266	6	104	-153	400
YoY	-	128%	-50%	44%	-49%	142%	-186%	-91%		-	285%
Net income ratio	7.0%	13.7%	7.7%	10.7%	-18.8%	9.9%	10.5%	0.3%	1.1%	-7.2%	3.0%

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

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 flows from operating activities	846	-79	78	691	3,196	1,603	2,666	-473
Cash flows from investing activities	-456	-1,958	-123	-101	-1,140	-1,766	-2,017	-2,048
Cash flows 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.

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