



GREE, Inc.

FY2016 Second Quarter Financial Results

February 4, 2016

Financial Results Overview

- **Surpassed targets with net sales of ¥18.1 billion, operating income of ¥4.0 billion**
 - Net sales beat expectations, advertising and fixed costs successfully controlled

Operational Overview

- **Progress in development of native games to be released in 2H**
 - Energized existing titles by boosting popularity of domestic native game business through TV ads, etc.
 - Progress in restructuring overseas native game business, signs that coin consumption is stabilizing
 - Launched full-scale effort to create new sales drivers in the web games business
- **Steady growth in new businesses**
 - Strong sales growth in home-related services platform business, new services also launched
 - Steady growth in health & fitness platform business

FY16 1H Earnings Forecast

- **Net sales ¥72.0bn, operating income ¥14.0bn**
 - Conservative forecast based on 1H sales trends and progress in title development
 - Investing in areas with growth potential while continuing to implement strict cost controls

1. Financial Results Overview

2. Operational Overview

3. Appendix

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2. Operational Overview

3. Appendix

1. Financial Results Overview (Consolidated)



FY16 2Q Financial Results Overview

Net sales ¥18.1bn, operating income ¥4.0bn

Billions of yen

	FY16 2Q			FY16 1Q	FY15 2Q
		QoQ	YoY		
Net sales	18.13	-1.18	-6.0	19.31	24.12
EBITDA	4.36	-0.39	-1.82	4.75	6.18
Operating income	4.00	-0.39	-0.73	4.39	4.73
Ordinary income	4.51	0.52	-2.49	4.00	7.00
Net income	2.54	0.15	10.20	2.39	-7.66

Notes:

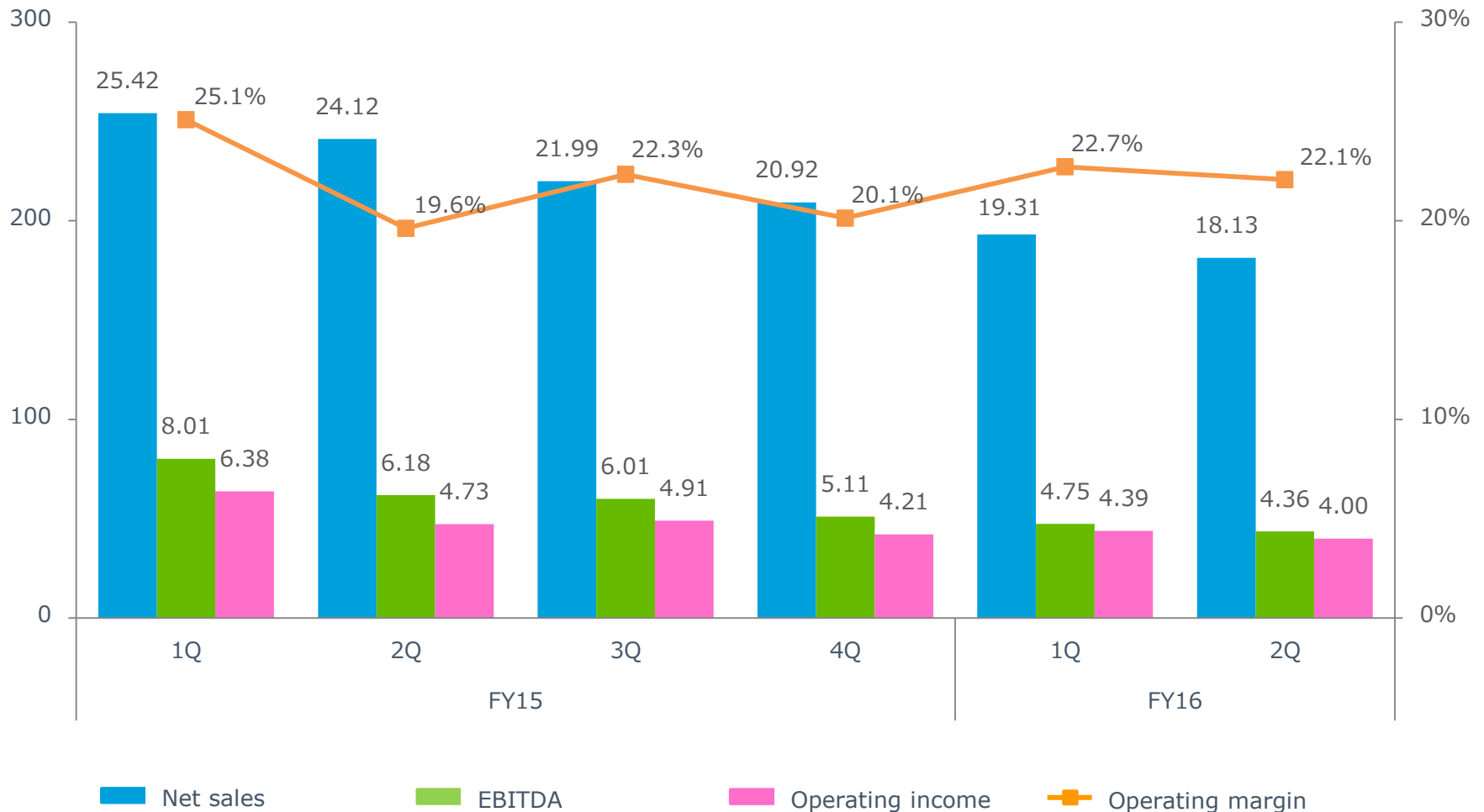
- Breakdown of FY16 2Q net sales: Paid service sales ¥17.09 billion; ad media sales ¥1.03 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

Operating margin narrowed by 0.6 percentage points to 22.1%

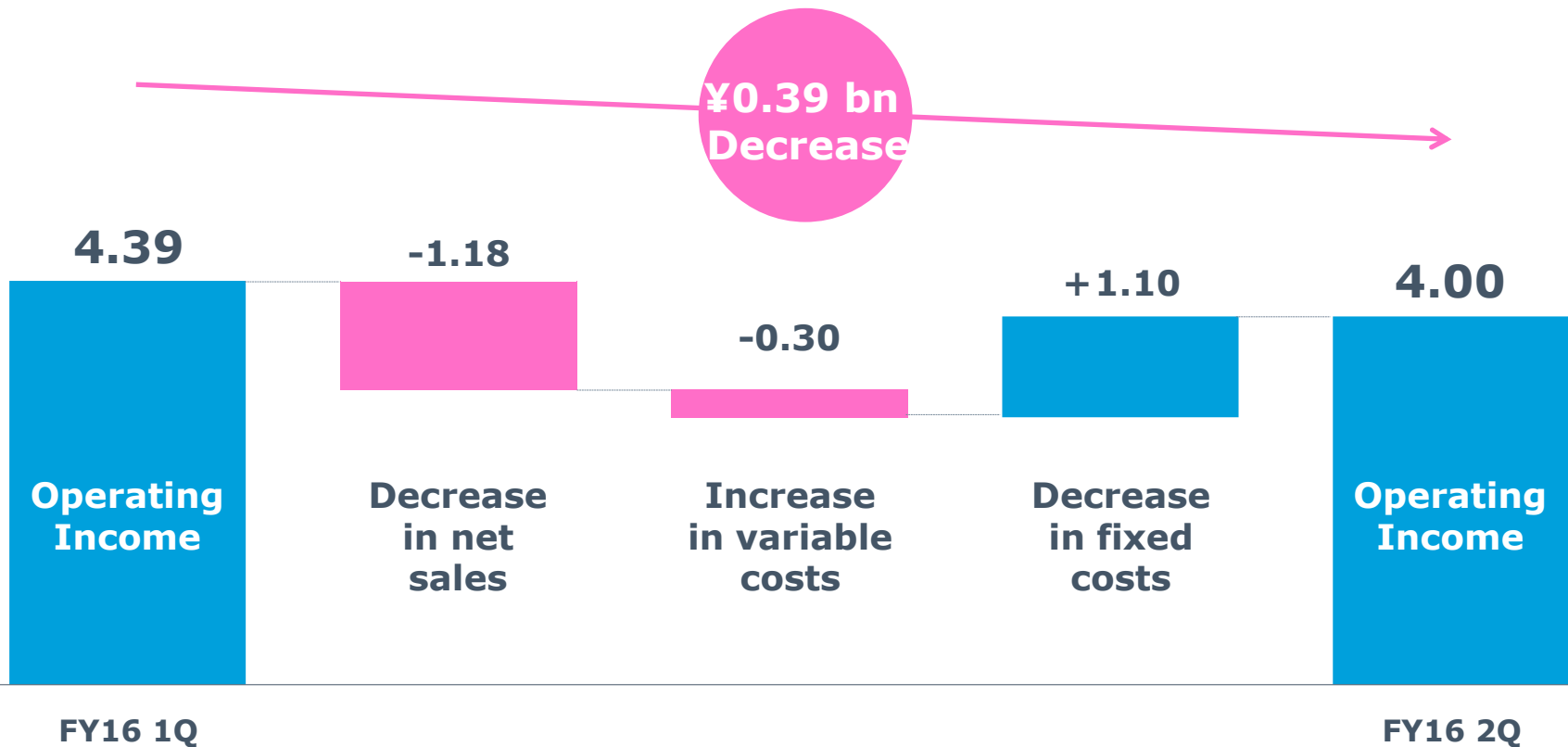
Billions of yen



Operating Income Analysis

Operating income decreased by ¥0.39 billion due to lower sales

Billions of yen



1. Financial Results Overview (Consolidated)

FY16 2Q Cost Structure

Total costs decreased by ¥0.8 billion to ¥14.1 billion

Billions of yen

		FY16 2Q	QoQ	YoY	Factors in change (QoQ)	FY16 1Q	FY15 2Q
	Advertising	1.61	0.40	- 1.54	Mass-media promotion costs (ratio to net sales: 1Q 6.3% → 2Q 8.9%)	1.21	3.15
	Commission fees	3.63	- 0.25	- 0.98	Decreased on lower sales	3.88	4.61
	Other	0.43	0.15	0.43	Home-related services platform	0.27	0.0
	Total variable costs	5.67	0.30	- 2.09		5.37	7.76
	Labor costs	4.01	- 0.55	- 0.61	Consolidated headcount: end-1Q: 1,475 → end-2Q 1,459	4.55	4.62
	Rental costs	0.85	- 0.05	- 0.10	Progress made in reducing server leasing fees	0.90	0.94
	Depreciation	0.24	- 0.0	- 0.63	-	0.24	0.86
	Goodwill amortization	0.12	- 0.0	- 0.46	-	0.12	0.59
	Other	3.24	- 0.49	- 1.37	Reduced outsourcing costs	3.74	4.62
	Total fixed costs	8.45	- 1.10	- 3.17		9.55	11.63
Total costs		14.13	- 0.80	- 5.26		14.92	19.39

1. Financial Results Overview (Consolidated)

FY16 Earnings Forecast

Net sales of ¥7.2bn, operating income of ¥14.0bn

Billions of yen

	FY16		
	1H results	2H forecast	FY16 forecast
Net sales	37.4	34.6	72.0
Operating income	8.4	5.6	14.0
Ordinary income	8.5	5.5	14.0
Net income	4.9	3.1	8.0

■ Top line

- In the native game business, we have set conservative targets for growth in sales of existing titles and earnings contribution from new titles
- In the web game business, we have set conservative targets based on 1H trends

■ Costs

- We plan to invest in advertising for titles that we think can benefit from ads
- We will continue to control fixed costs such as server costs and outsourcing costs
- We will invest to expand businesses that have growth potential

1. Financial Results Overview

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Review and Summary of 2Q

		Business Plan	Review
Native game business	Japan	Launch new titles and generate hit titles	<ul style="list-style-type: none"> Increased sales from <i>Shometsu Toshi</i> by running TV ad Made progress toward 2H release of <i>memories of the Blue</i>
	Over-seas	Business restructuring	<ul style="list-style-type: none"> Stabilized coin consumption by improving existing titles Development of European version of <i>Knights & Dragons</i> progressing smoothly
Web game business		Maintain profitability over medium term	<ul style="list-style-type: none"> Launched game operation business to create new source of sales Smooth launch of new titles based on IP
New businesses		Create new sources of income	<ul style="list-style-type: none"> Home-related services platform: continued growth in sales at Renoco Health & fitness platforms: Further increased number of Lespas affiliate studios
Costs/ investments		Implement strict cost controls	<ul style="list-style-type: none"> Made progress in reducing fixed costs (down ¥3.2bn YoY)

2. Operational Overview: Summary

Native Game Pipeline

Currently 11 titles in development pipeline

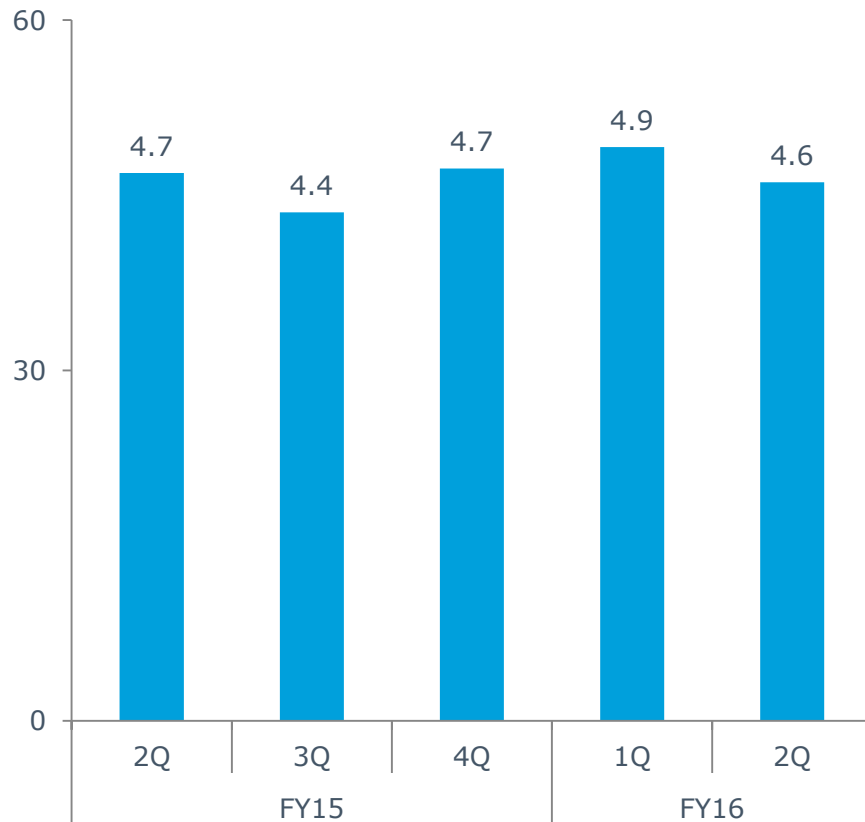
Market	FY16		FY17
	Already released	2H	1H
Japan	<p><i>Fatal Seeker</i> (co-developed)</p>  <p><i>Guardian Clash</i> (co-developed)</p> 	<p>Approx. 3 titles</p> <p>1st party: 2 titles Co-developed: 1 title</p>	<p>Approx. 7 titles</p> <p>4 titles 3 titles</p>
Overseas	<p><i>Knights & Dragons</i> (European version) (co-developed)</p> 	<p>Approx. 1 title</p> <p>1st party: 0 titles Co-developed: 1 title</p>	<p>Approx. 0 titles</p> <p>0 titles 0 titles</p>

- 1st party titles in pipeline have received approval for development
- 1st party titles are being developed in GREE's studios in Japan, North America, and South Korea
- Co-developed titles are developed in cooperation with partners (cooperation in planning, development, distribution and operations)

Progress Made

Coin Consumption

Billions of coins



Topics

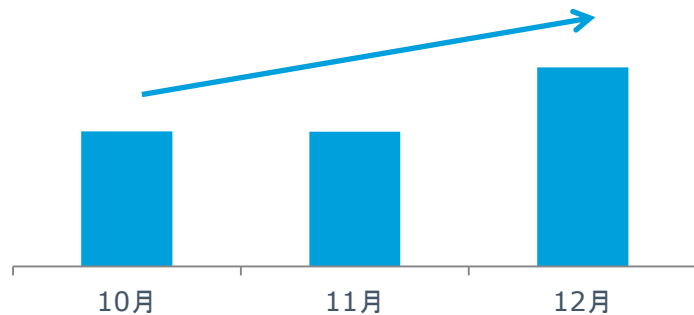
- *Shometsu Toshi* TV ad successfully boosted sales
 - Posted highest-ever monthly sales
- *The SAMURAI Kingdom* posting strong sales
 - First TV ad aired in January
- Plan to add new functions to *Naruto Shinobi Collection Shippu Ranbu* to re-ignite growth
- *LINE TOWER RISING* continues to improve
 - First major update completed at end-January
- Steady progress toward 2H release of *memories of the Blue*

2. Operational Overview: Native Games (Japan)

Energizing Existing Titles

Shometsu Toshi

Set monthly sales record



- Aired TV ad in collaboration with famous musicians
- Further increased sales by broadening user base

The SAMURAI Kingdom

Aired first TV ad



- Still posting strong sales more than 2 years after release
- Aired first TV ad featuring IP, targeting further sales growth through broadening user base

Development of New Titles(1)

Developing *memories of the Blue* for release in 2H



LINE



Epic Voyage



- High-quality action gameplay was well received by users at Game Party Japan 2016
- Marketing partnership with LINE

Development of New Titles(2)

Soul Arms scheduled for release in early spring, started pre-registration sales on January 28



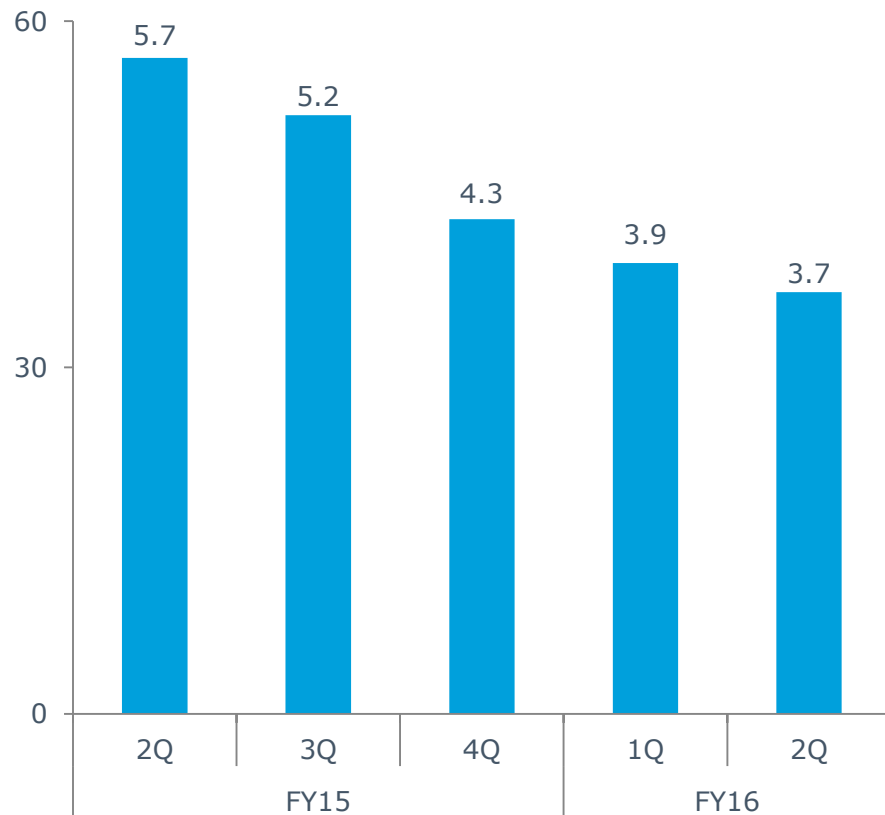
- Players strive to become the ultimate warrior in this full-blown action RPG from Wright Flyer Studios featuring various battle actions and a wide range of in-game items

2. Operational Overview: Native Games (Overseas)

Progress Made

Coin Consumption

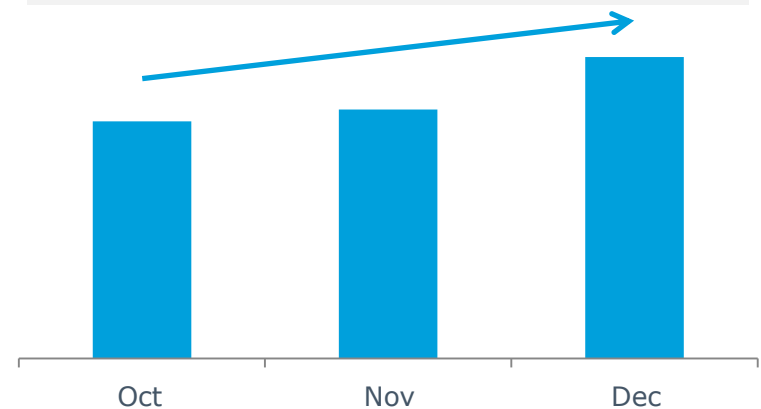
Billions of coins



Topics

- European version of *Knights & Dragons* released in October
- Signs of stabilization in overseas coin consumption

2Q Monthly coin consumption trend



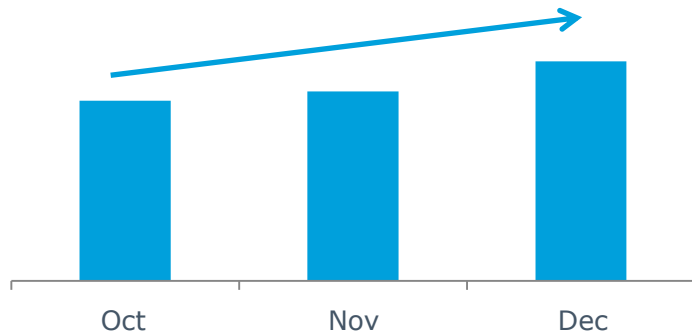
2. Operational Overview: Native Games (Overseas)

Topics

Steady growth in Europe

Knights & Dragons

Expanding sales in European market



- Strong sales in US and Europe following release of European version
- Aim to win market share in Europe by continuing to strengthen our marketing strategy

League of War Mercenaries

Under development for release in 2H



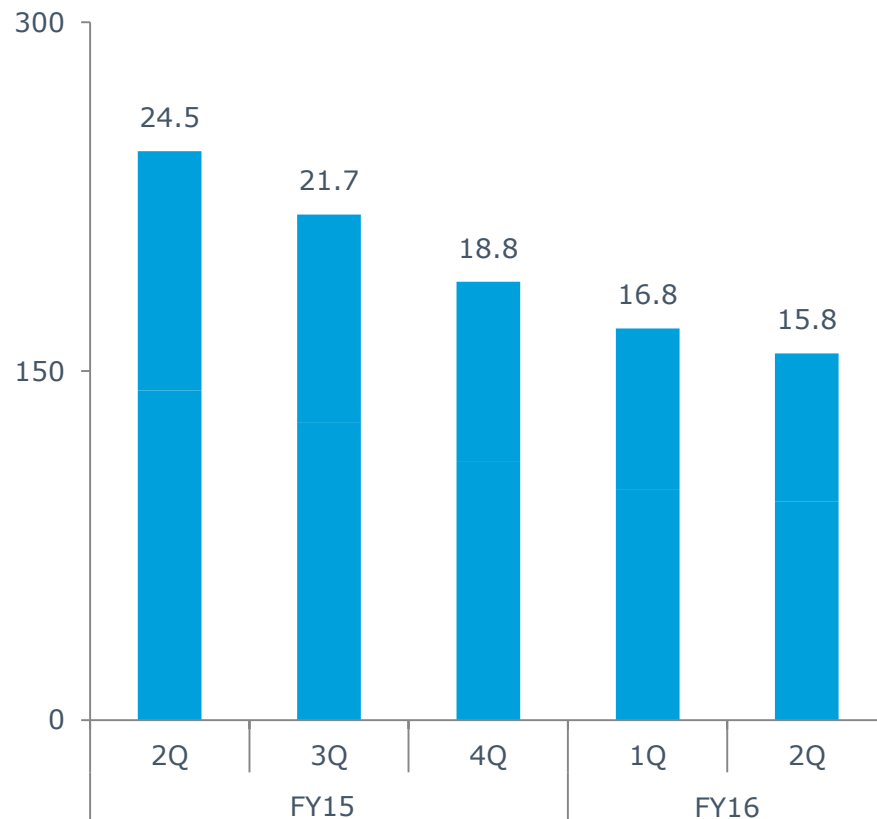
- Players create the ultimate mercenary team in a real-time strategy military action game filled with high-quality 3D battle scenes

2. Operational Overview: Web Games

Progress Made

Coin Consumption

Billions of coins



Topics

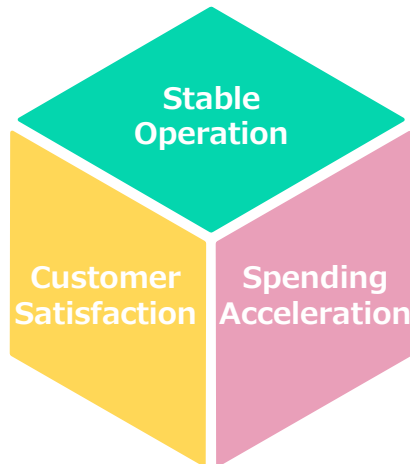
- Launched game operation business
 - Aiming to achieve sales growth in the game operation business market
 - Established Funplex, Inc.
 - Partnership with Mynet Inc.
- New IP-based titles off to a strong start
 - Continuing to launch titles based on strong IP
- Progress in developing multiplatform versions of popular 1st party titles

2. Operational Overview: Web Games

Topics

Established game operation business

Full-scale entry into game operation market



- Supplying high quality service by leveraging our game operation knowhow in our platform

Development of new IP based titles

Danmachi X.I
Silbird



©Fujino Omori-SB Creative Corp/Danmachi Project

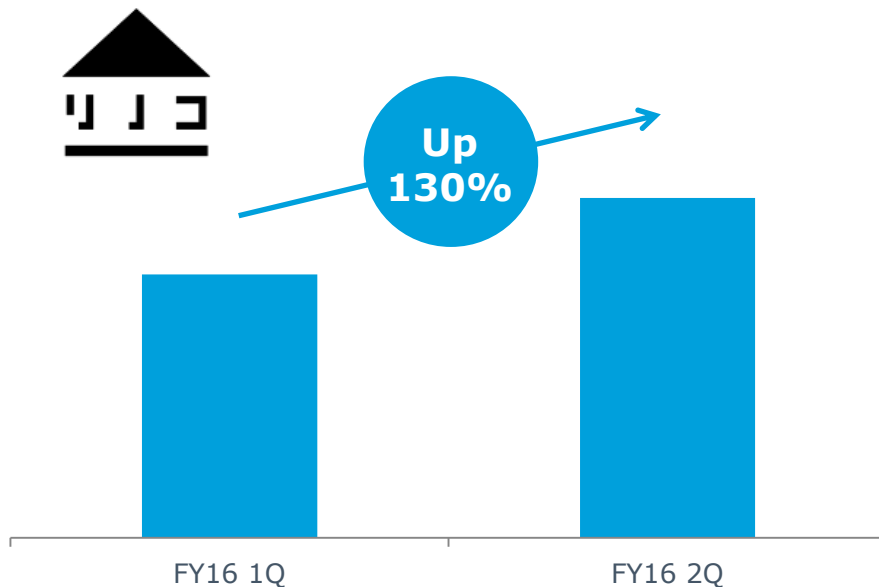
- One of the largest 3rd party title launches this year off to a strong start

2. Operational Overview: Home-related Business

Topics

Increased sales at Renoco

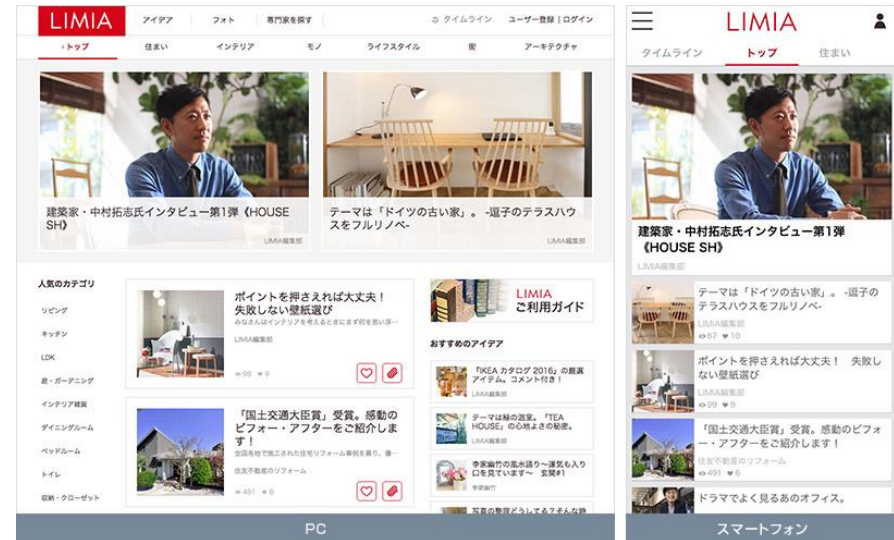
Online renovation service



- Sales up QoQ on growth in B2B orders
- Targeting FY2018 sales of ¥10bn in home-related services platform business

Launch of LIMIA service

Home visualization platform

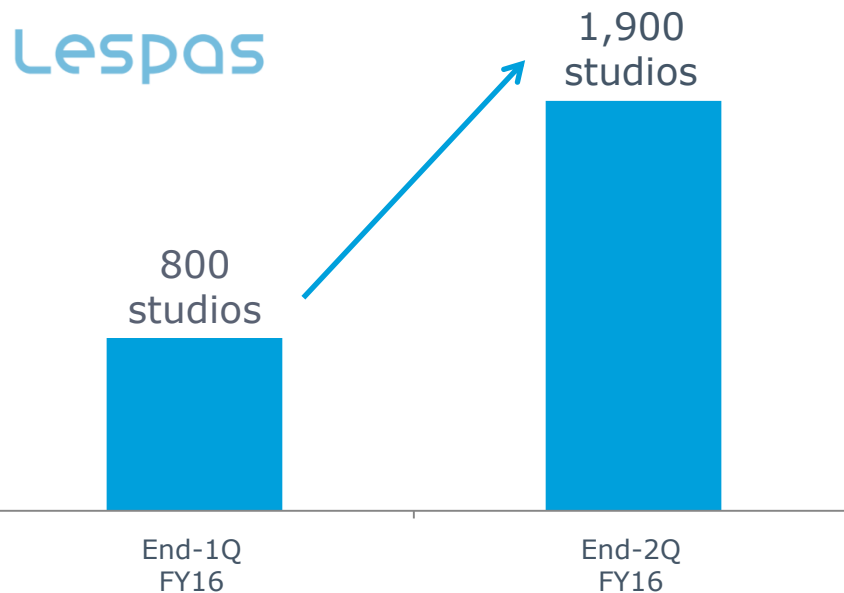


- Providing information related to homes and lifestyles
- Already over 1,000 specialists registered, targeting 10,000 by end-2016

Topics

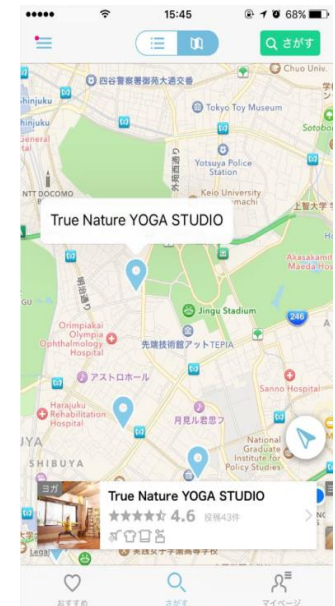
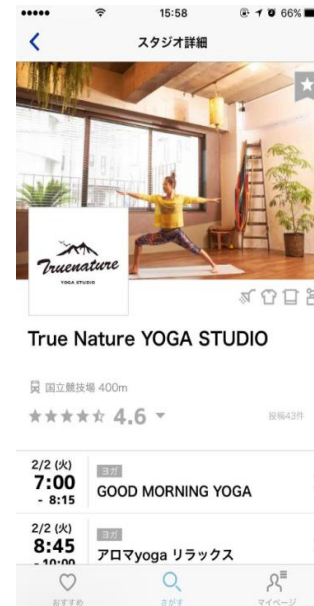
Increased number of Lespas affiliate studios

Free lesson pass service



Expanding service

Released apps for iPhone and Android



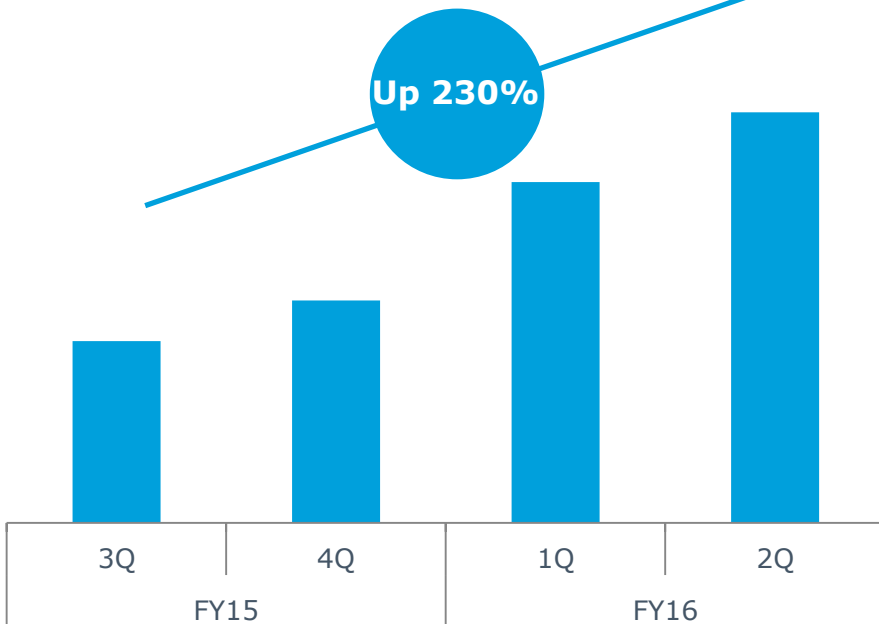
- Expanding network in Kansai and Chukyo area
- Targeting FY2018 sales of ¥2bn

- Released apps on February 1. Aiming to further expand user base.

Topics

Steady growth at AdColony

Video advertising distribution platform



- Steady progress in attracting valuable media owners and advertisers
- Aiming for further growth in transaction volume in high-growth-potential video advertising market

Launch of video marketing service

Video production and casting service



- Providing full range of services including video ad production, casting, distribution, and operational support

2. Operational Overview: VR Business

Topics

Establishment of GREE VR Studio



GREE VR Studio

- Entry in the early stage of VR market, an area with medium-term growth potential
- Accumulate development knowhow and boosting competitiveness in the market

Exhibition and distribution of VR content

Sydney and The King of Tomb



Sarah and The Viper's Crown



- Distributing GREE VR Studio's first VR title for smartphones, *Sydney and The King of Tomb*
- Unveiled escape-themed puzzle game *Sarah and The Viper's Crown* at the Tokyo Game Show in September

1. Financial Results Overview

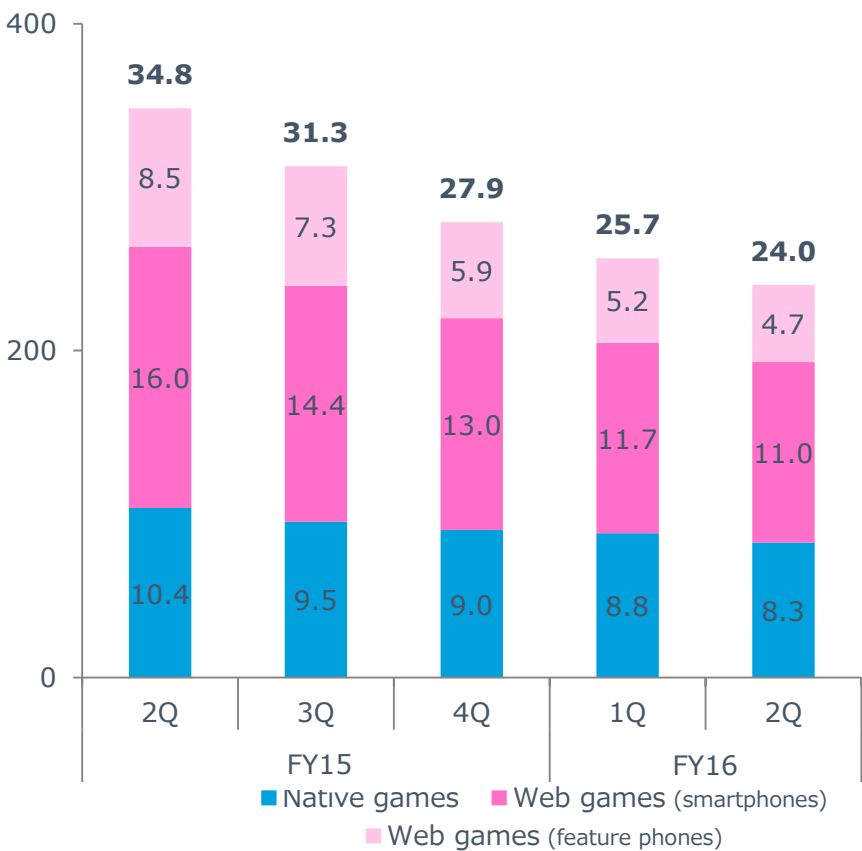
2. Operational Overview

3. Appendix

Coin Consumption (1)

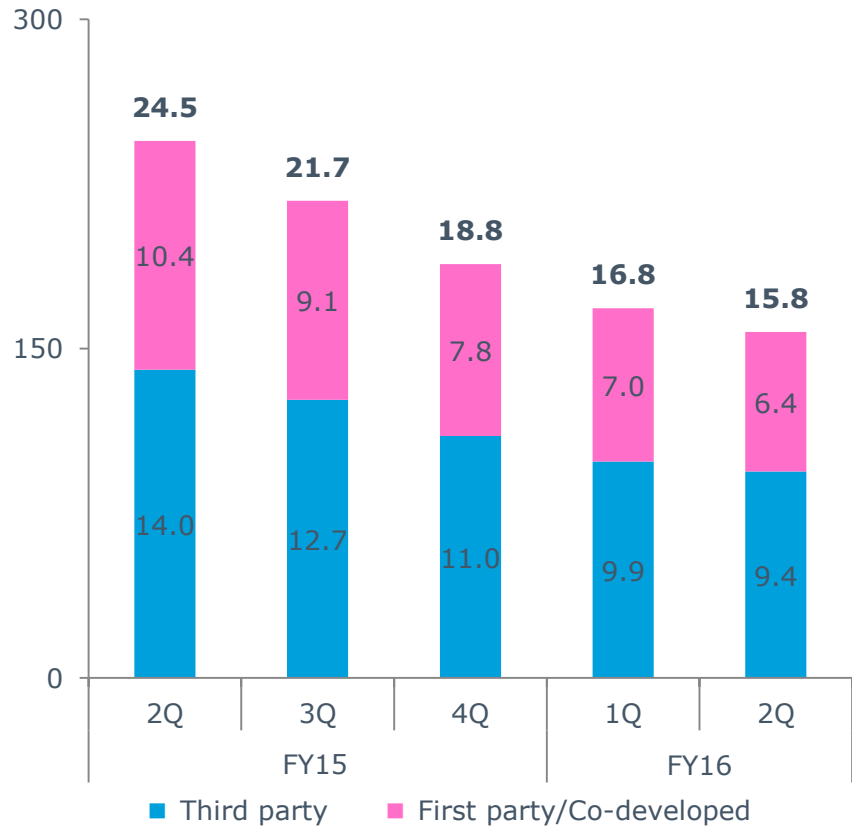
Overall coin consumption

Billions of coins



Web game coin consumption

Billions of coins

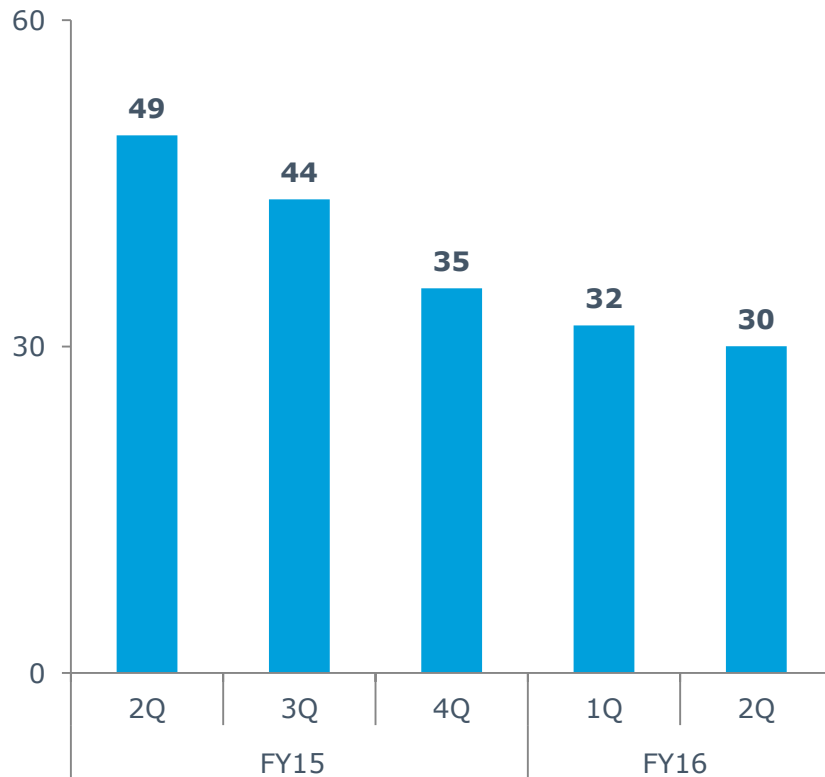


Note:
Titles in which GREE is credited are categorized as "First-party/ Co-developed" 25

Coin Consumption (2)

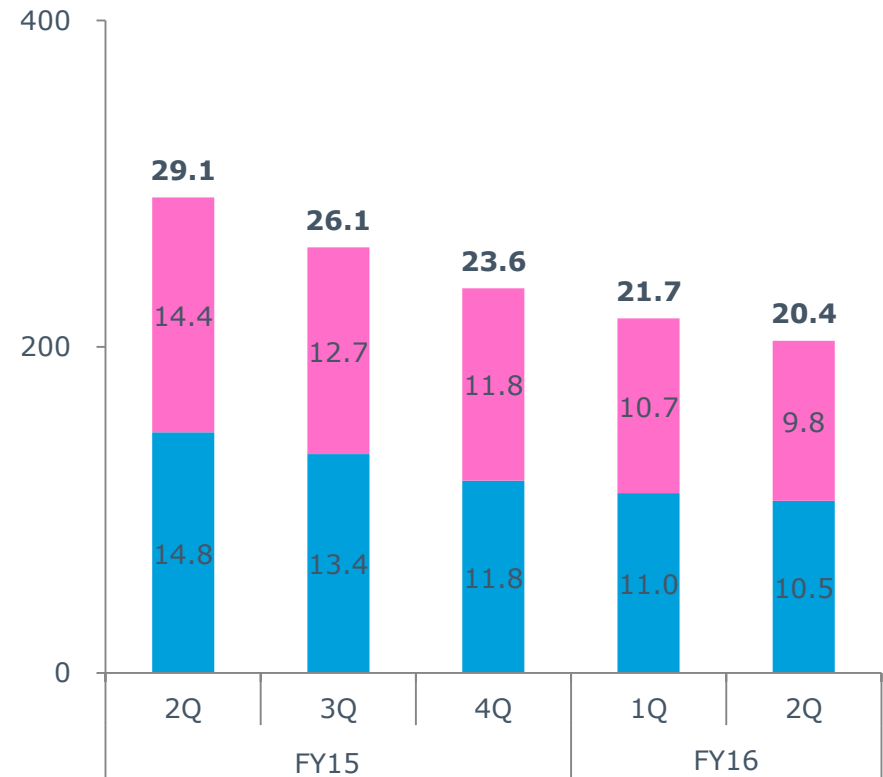
Overseas

Millions of U.S. dollars



Japan

Billions of coins



Notes:

- Classified by region of consumption
- Titles in which GREE is credited are categorized as "First-party/Co-developed"

■ Third-party

■ First-party/Co-developed

FY16 2Q Cost Structure

Millions of yen

		FY16 2Q	QoQ	YoY	FY16 1Q	FY15 2Q
	Rental charges	846	- 54	- 97	899	943
	Labor costs	2,280	- 402	- 764	2,682	3,044
	Others	1,517	- 73	- 1,136	1,590	2,653
	Cost of sales	4,643	- 529	- 1,997	5,172	6,640
	Advertising	1,614	401	- 1,536	1,212	3,150
	Commission fees	3,631	- 254	- 981	3,885	4,612
	Labor costs	1,725	- 146	153	1,871	1,573
	Others	2,515	- 268	- 902	2,783	3,417
	SG&A	9,484	- 267	- 3,267	9,751	12,751
	Total costs	14,128	- 795	- 5,263	14,923	19,391

FY16 2Q Balance Sheet

Billions of yen

	FY16 2Q	QoQ	YoY
Current assets	90.64	2.33	- 11.04
Fixed assets	21.43	0.41	- 16.46
Total assets	112.07	2.75	- 27.51
Current liabilities	13.97	0.26	-14.34
Fixed liabilities	0.68	- 0.02	- 1.32
Total liabilities	14.66	0.24	- 15.67
Total net assets	97.42	2.50	- 11.84

FY16 1Q	FY15 2Q
88.31	101.69
21.02	37.89
109.33	139.58
13.71	28.32
0.70	2.01
14.41	30.32
94.92	109.26

Cash and cash equivalents	76.93	3.95	2.71
- Interest-bearing debt	-	- 0.76	-6.62
Net cash	76.93	4.71	9.33

72.99	74.22
0.76	6.62
72.23	67.60

Goodwill	1.48	- 0.11	- 11.69
Assets related to titles	0.14	- 0.05	- 0.57

1.58	13.16
0.19	0.71

3. Appendix

Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at End-2Q
Japan Game Business	-	863
Native Game Business	Pokelabo, Wright Flyer Studios	(490)
Web Game Business	-	(233)
Shared game depts.	-	(140)
Native Game Business (Overseas)	Includes GREE International (U.S. Studio), GREE Korea (Korea Studio), etc.	205
Commerce and Media, Investment, Advertising	Includes Glossom, sekaie, LessonPass, etc.	235
Corporate, Headquarters	Includes GREE Business Operations	147
Engineering, Headquarters	-	92
Total	-	1,542

Note: Includes non-consolidated group companies; as of September 30, 2015



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