



**GREE, Inc.**

FY2016 Fourth Quarter Financial Results

4 August, 2016

# Executive Summary



FY16 Actual	Full-Year	<ul style="list-style-type: none"><li>■ <b>Net sales ¥69.9 billion, operating income ¥14.2 billion</b></li><li>- Native game business: Made progress on development of new titles</li><li>- Web game business: Operations off to a smooth start</li><li>- New businesses: Launched services for home visual platform LIMIA</li></ul>
	4Q	<ul style="list-style-type: none"><li>■ <b>Net sales ¥15.6 billion, operating income ¥2.2 billion</b></li><li>- Strengthened native game development system through restructuring of Pokelabo</li><li>- Released one new co-developed title</li><li>- Increased number of third-party titles operated by funplex</li></ul>
FY17 Plan		<ul style="list-style-type: none"><li>■ <b>Targeting an upturn in sales through the creation of hit native game titles</b></li><li>- Native game business: New release blitz</li><li>- Web game business: Creation of sustainable source of earnings through growth in game operation business</li><li>- New businesses: Expand businesses to build new earnings pillars</li></ul>

## **1. Financial Results Overview**

## **2. Operational Overview**

## **3. Appendix**

## **1. Financial Results Overview**

## 2. Operational Overview

## 3. Appendix

# 1. Financial Results Overview (Consolidated)

## FY16 Full-Year and 4Q Financial Results Overview

FY16 net sales of ¥69.9 billion, operating income of ¥14.2 billion  
 4Q FY16 net sales of ¥15.6 billion, operating income of ¥2.2 billion

Billions of yen

	FY16		FY16 4Q			FY16 3Q	FY15 4Q
		YoY		QoQ	YoY		
Net sales	<b>69.88</b>	-22.58	<b>15.63</b>	-1.18	-5.29	16.81	20.92
EBITDA	<b>15.95</b>	-9.36	<b>2.86</b>	-1.13	-2.25	3.99	5.11
Operating income	<b>14.24</b>	-5.99	<b>2.22</b>	-1.42	-1.99	3.64	4.21
Ordinary income	<b>10.53</b>	-14.47	<b>-0.55</b>	-3.13	-5.56	2.58	5.01
Net income (loss)	<b>8.40</b>	18.72	<b>2.03</b>	0.60	9.85	1.43	-7.81

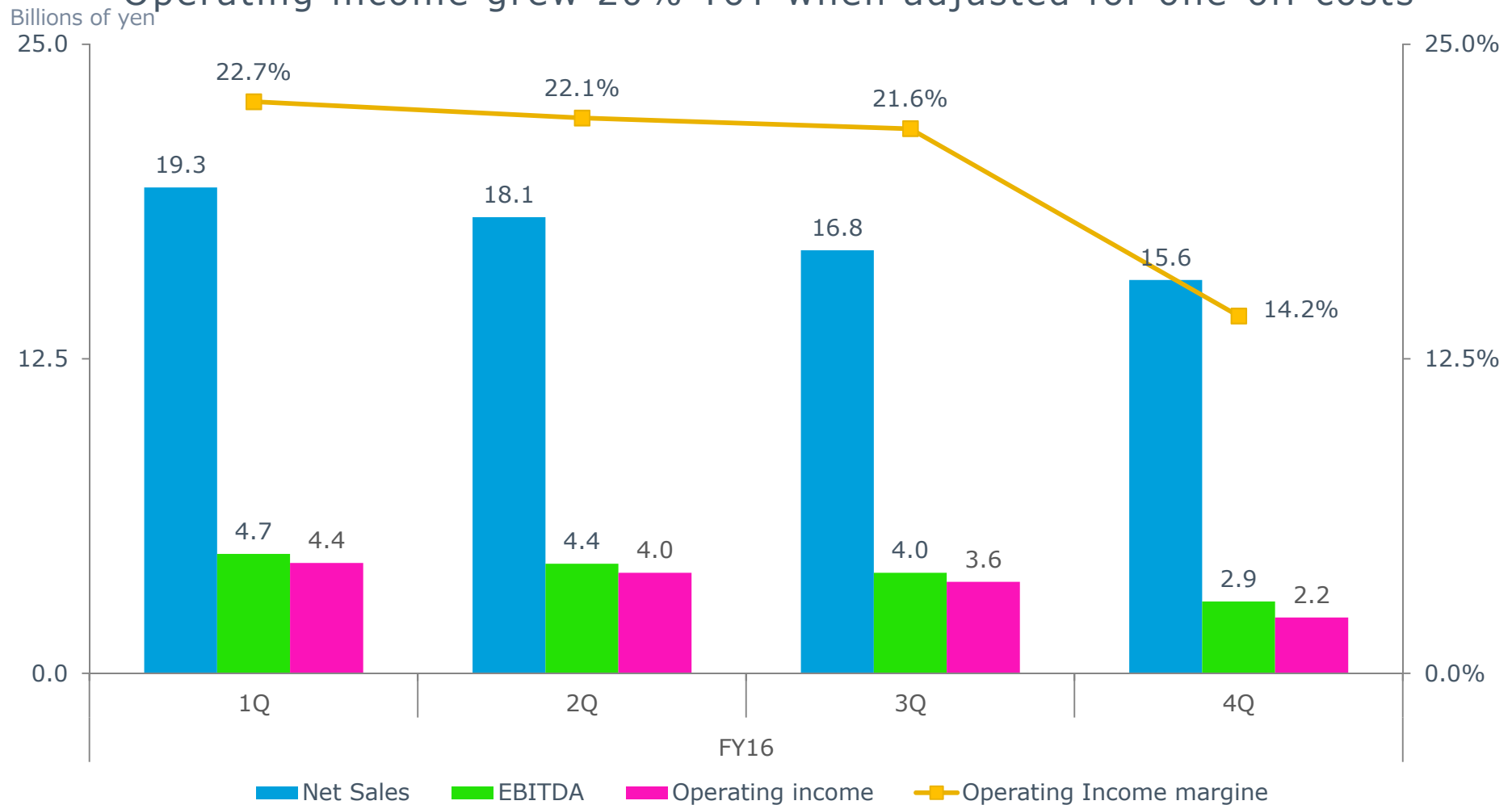
- Breakdown of FY16 4Q net sales: Paid service sales ¥14.37 billion; ad media sales ¥1.27 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

# 1. Financial Results Overview (Consolidated)

## Net Sales, EBITDA, and Operating Income

Posted one-off costs, including up-front investments, of ¥1.0 billion

Operating income grew 20% YoY when adjusted for one-off costs

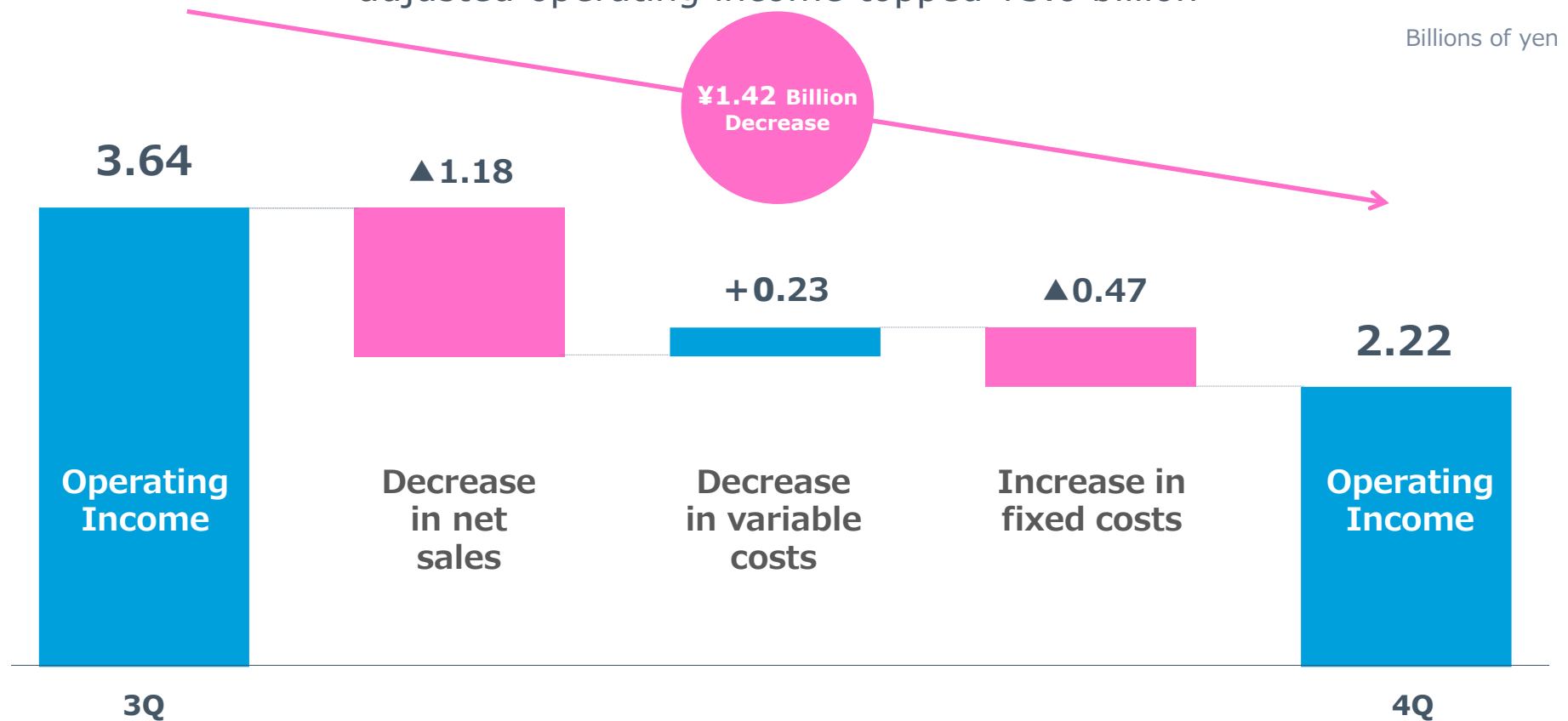


# 1. Financial Results Overview (Consolidated)



## Operating Income Analysis

Operating income decreased by ¥1.4 billion to ¥2.2 billion, mainly due to sales decline  
Fixed costs declined by ¥0.3 billion when adjusted for one-off costs,  
adjusted operating income topped ¥3.0 billion



# 1. Financial Results Overview (Consolidated)



## FY16 4Q Cost Structure

Total costs decreased ¥0.2 billion QoQ to ¥13.4 billion

Posted one-off costs, including up-front investments, of ¥1.0 billion Billions of yen

	FY16 4Q	QoQ	YoY	Factors in change (QoQ)	FY16 3Q	FY15 4Q
Advertising	1.21	0.12	-0.52	Increase in platform advertising costs (ratio to net sales 3Q 6.5% → 4Q 7.7%)	1.09	1.73
Commission Fees	2.95	-0.37	- 1.16	Decrease due to sales decline	3.31	4.11
Other	0.41	0.01	0.16	-	0.39	0.25
<b>Total variable costs</b>	<b>4.57</b>	-0.23	- 1.52		4.79	6.09
Labor costs	3.91	-0.14	-0.84	Consolidated headcount: end-3Q: 1,467 → end-4Q: 1,425	4.05	4.75
Rental costs	0.99	0.27	-0.23	Investment made in order to reduce server leasing fees in FY17	0.72	1.22
Depreciation	0.20	-0.03	-0.36	-	0.23	0.56
Goodwill Amortization	0.44	0.32	0.10	One-time amortization of goodwill, reduction of depreciation/amortization costs through posting of impairment loss	0.12	0.34
Other	3.31	0.05	-0.44	-	3.26	3.75
<b>Total fixed costs</b>	<b>8.85</b>	0.47	- 1.77		8.38	10.62
<b>Total costs</b>	<b>13.42</b>	0.24	- 3.29		13.17	16.71



# 1. Financial Results Overview (Consolidated)

## Difference between Results and Forecast

Net sales of ¥69.9 billion and operating income of ¥14.2 billion

Billions of yen

	FY16		
	Actual	Forecast	Difference
Net sales	69.9	<b>70.0</b>	<b>-0.1</b>
Operating income	14.2	<b>14.0</b>	<b>0.2</b>
Ordinary income	10.5	<b>12.5</b>	<b>-2.0</b>
Net income	8.4	<b>11.5</b>	<b>-3.1</b>

- **Ordinary income**
  - Posted forex loss of due to yen appreciation
- **Net loss**
  - Posted valuation loss on investment securities

# 1. Financial Results Overview (Consolidated)

## Fiscal Year-End Dividend

Plan to pay dividend of ¥8 per share

	FY16 Forecast	FY15 Actual
Record date	<b>June 30, 2016</b>	June 30, 2015
Dividend per share	<b>¥8</b>	¥10 (memorial dividend)
Total amount	<b>¥1.875 billion</b>	¥2.335 billion
Payout ratio (consolidated)	<b>22.3%</b>	-
Effective date	<b>September 28, 2016</b>	September 30, 2015

- FY2016 dividend amount is subject to approval at the annual shareholders' meeting scheduled for September 27, 2016

# 1. Financial Results Overview (Consolidated)



## FY17 1Q Earnings Forecast

FY17 1Q forecast: net sales of ¥13.5 billion;  
operating income of ¥1.0 billion

Billions of yen

	FY16 4Q	FY17 1Q	
	Actual	Forecast	Difference
Net sales	15.6	<b>13.5</b>	<b>-2.1</b>
Operating income	2.2	<b>1.0</b>	<b>-1.2</b>
Ordinary income	-0.6	<b>1.0</b>	<b>1.6</b>
Net income (loss)	2.0	<b>0</b>	<b>-2.0</b>

### ■ Top line

- Earnings decline from the closing down and transfer of some hit titles factored in to forecast
- Earnings contribution from new titles not factored in to forecast

### ■ Costs

- We plan to make up-front investments to expand our game operation business

## 1. Financial Results Overview

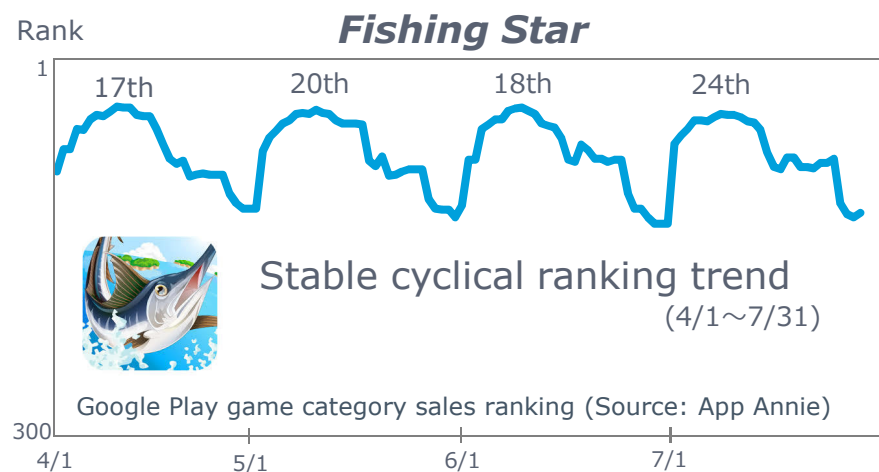
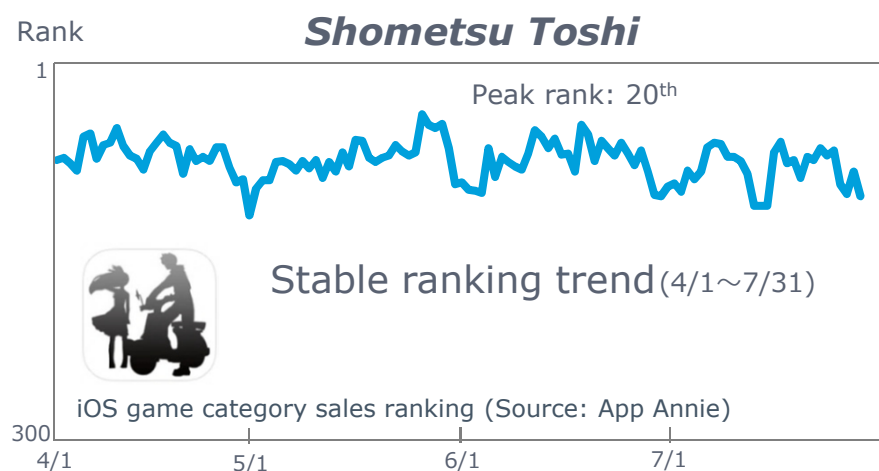
## 2. Operational Overview

## 3. Appendix

## 2. Operational Overview: 4Q Topics

### Native Games

#### Steady contribution from existing titles



#### Topics

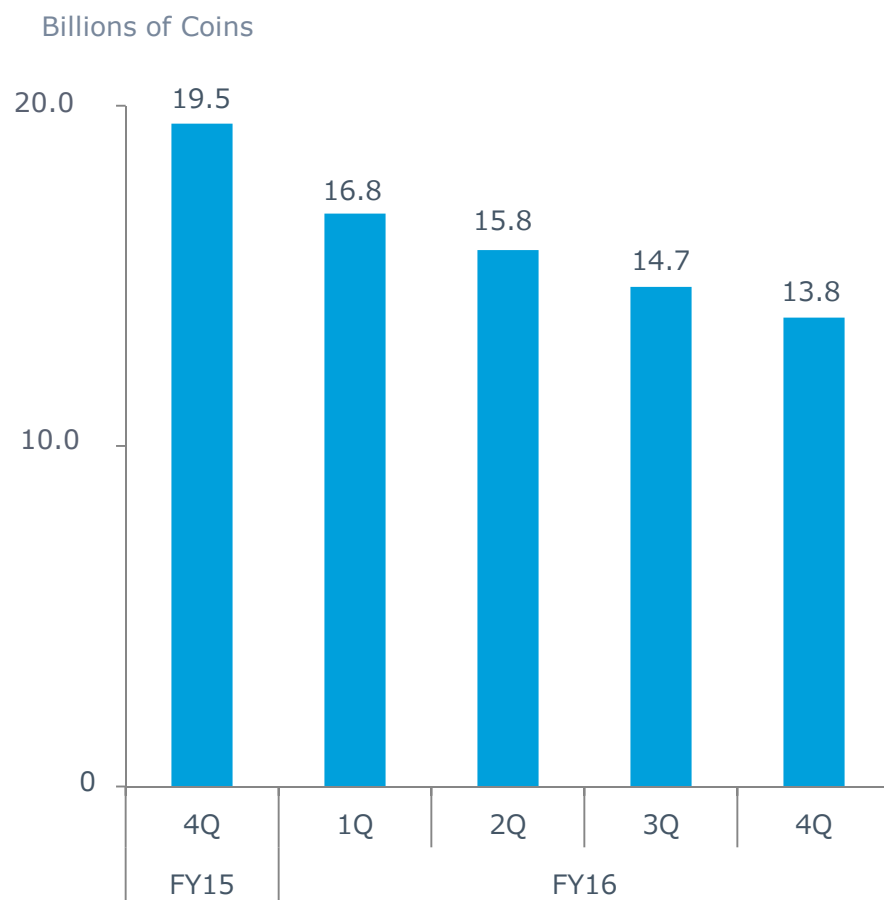
- In final stages of preparation for upgrade release with improved quality
  - Conducting closed beta testing of *Memories of the Blue*
  - Conducting open beta testing of *Crash Fight*
- Progress in development of new overseas titles
  - Focus on development ahead of release in FY2016
- Strengthening development system
  - Creation of system focused on development of new titles through transfer of existing titles operated by Pokelabo

## 2. Operational Overview: 4Q Topics



### Web Games

#### Coin Consumption



#### Topics

- Start of growth in the game operation business
  - Funplex contributing to earnings through growth in portfolio of titles operated
- Multiple titles contributing to coin consumption
  - Multiple titles contributing to QoQ growth in coin consumption
  - Contribution from new title, *Nogikoi*
- Adding new hit titles
  - Release of *Granblue Fantasy* on July 12

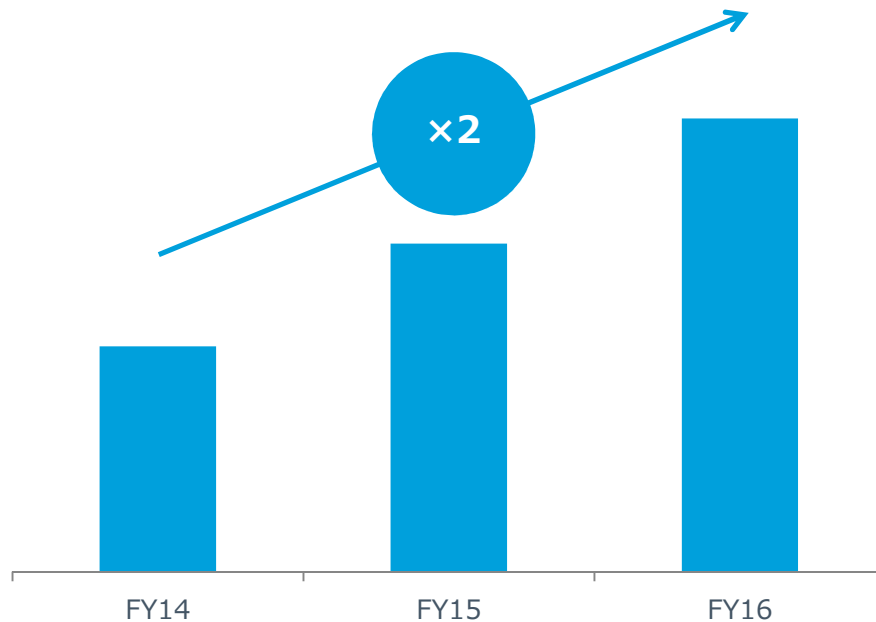
## 2. Operational Overview: 4Q Topics



### Home-related Business

#### Renoco

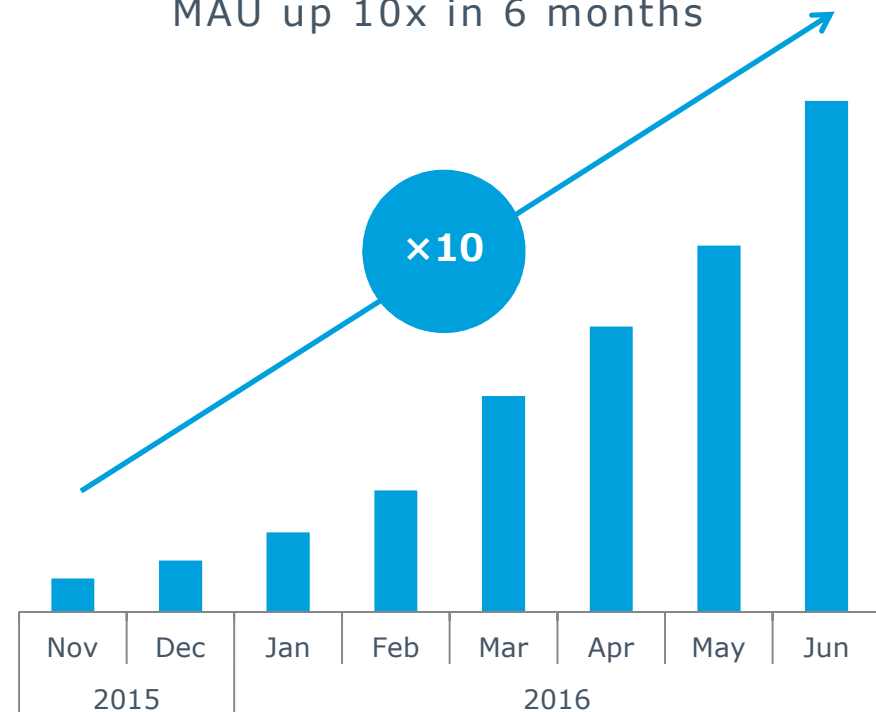
Steady growth in number of orders



- Earnings growth achieved by increasing average sale price
- Major contractors have signed up

#### LIMIA

MAU up 10x in 6 months



- Number of specialists registered doubled QoQ to 4,000

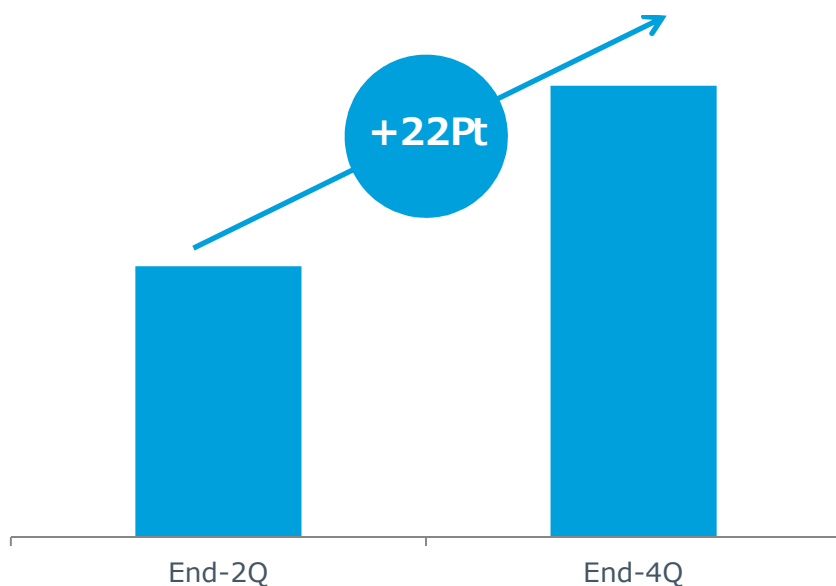
## 2. Operational Overview: 4Q Topics



### Health & Fitness Business

#### Lespas

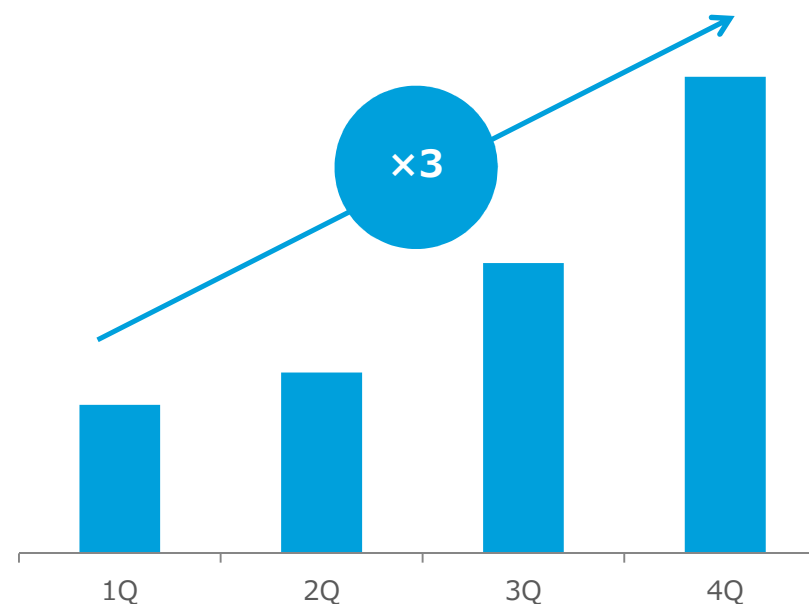
Ratio of repeat users (3 months)  
rising



- Growth in paying members
- Expanding network of affiliates, now over 2,200

#### Smart Sitter

Steadily growth in number of  
registered sitters



- Number of childcare facilities increasing on growth in number of registered sitters



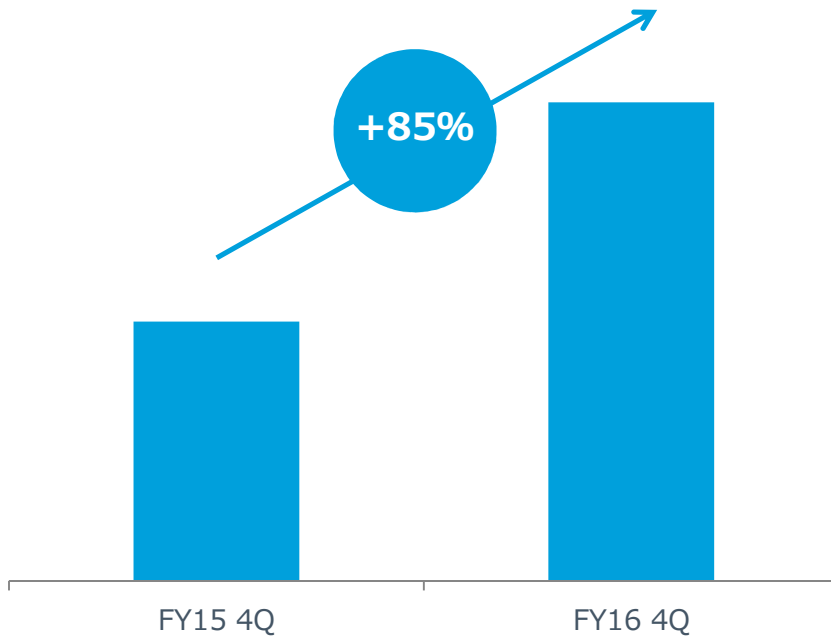
## 2. Operational Overview: 4Q Topics



### Ad Media Business

#### AdColony

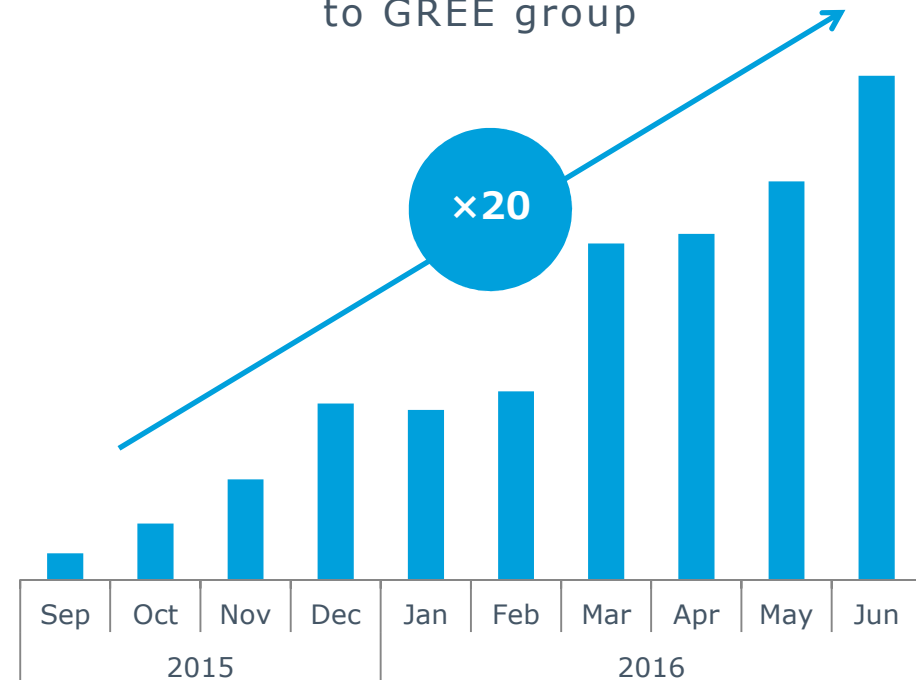
Steady sales growth



- Sales growth achieved by increasing the number of media owners and advertisers

#### ADFULLY

High-growth company added to GREE group



- Video ad sales grew by 20x in less than a year

## 2. Operational Overview: 4Q Topics

### VR Business



#### Establishment of VR Fund

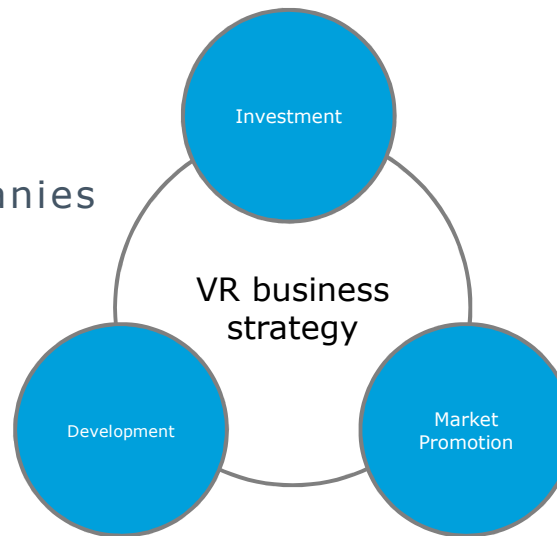
GVR Fund

Investing in the top VR companies  
in North America

#### *Tomb of the Golems*



First global VR release by a  
Japanese developer



#### Japan VR Summit



First summit: May 10, 2016

#### F×G VR WORKS



Tie up with Fuji Television

## 2. Operational Overview: Review and Summary of FY16



FY16 Review

### Summary

Focus on title development following shift to native games

FY16 Business Plan		Review
<b>Overall</b>	<ul style="list-style-type: none"> <li>Achieve upturn in sales by generating hit titles</li> </ul>	<ul style="list-style-type: none"> <li>Sales have not turned upward</li> </ul>
<b>Native game business</b>	<b>Japan</b> <ul style="list-style-type: none"> <li>Maximize sales by revitalizing development and operational capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Limited sales contribution owing to delayed release</li> <li>Making progress on development for FY17 release</li> </ul>
	<b>Over-seas</b> <ul style="list-style-type: none"> <li>Improve profitability and re-structure businesses</li> </ul>	<ul style="list-style-type: none"> <li>Reduced fixed costs through restructuring measures</li> <li>Focused on development of new titles</li> </ul>
<b>Web game business</b>	<ul style="list-style-type: none"> <li>Develop new businesses and streamline operations</li> </ul>	<ul style="list-style-type: none"> <li>Established funplex and started game operation business</li> <li>Contributed as base for companywide earnings</li> </ul>
<b>New businesses</b>	<ul style="list-style-type: none"> <li>Invest resources to make new businesses dominant</li> </ul>	<ul style="list-style-type: none"> <li>Launched LIMIA new media business</li> <li>Growth in video ad business</li> </ul>
<b>Costs/ investments</b>	<ul style="list-style-type: none"> <li>Implement strict cost controls</li> </ul>	<ul style="list-style-type: none"> <li>Greatly reduced fixed costs</li> <li>Deployed advertising costs efficiently</li> </ul>

- Business plan based on re-released summary of business plan announced in August 2015

## 2. Operational Overview: Medium-Term Plan



### Medium-Term Plan Targeting Medium-Term Growth

Targeting medium- to long-term growth in our three main business segments as we revitalize our business base



## 2. Operational Overview: FY17 Business Strategy

FY17 plan

### FY17 Business Strategy

<b>Overall</b>	<ul style="list-style-type: none"> <li>■ Achieve a turnaround in game businesses and continue to invest in new businesses to achieve medium- to long-term growth</li> </ul>
<b>Native Game Business</b>	<ul style="list-style-type: none"> <li>• Japan business               <ul style="list-style-type: none"> <li>- Strong focus on development ahead of new release blitz</li> <li>- Develop and revitalize proven game engines used in original titles and IP-based titles to shorten development time and boost our hit ratio</li> </ul> </li> <li>• Overseas businesses               <ul style="list-style-type: none"> <li>- Focus resources on development of new titles</li> </ul> </li> </ul>
<b>Web Game Business</b>	<ul style="list-style-type: none"> <li>• Continue to contribute to profit by serving as a base for companywide profit               <ul style="list-style-type: none"> <li>- Continuously generate earnings through stable operation of existing titles</li> <li>- Boost coin consumption to 10 billion through growth in game operation business</li> </ul> </li> </ul>
<b>New Businesses</b>	<ul style="list-style-type: none"> <li>• Continue investment in business growth to create future earnings generators               <ul style="list-style-type: none"> <li>- Expand earnings base through video ads in ad media business</li> <li>- Develop different types of content with strong partners in VR business</li> </ul> </li> </ul>
<b>Cost control</b>	<ul style="list-style-type: none"> <li>• Continue to cut costs and invest aggressively in growth fields</li> </ul>

## 2. Operational Overview: FY17 Business Strategy

FY17 plan

### Native Games (domestic market)



## 2. Operational Overview: FY17 Business Strategy

### **Native Games (new titles)**

FY17 plan

*Naruto Shippuden: Ultimate Blazing* released July 14



- First smartphone game in the Narutamate home console game series, which has shipped over 15 million units
- Sold/distributed by GREE, developed/operated by BANDAI NAMCO Entertainment Inc.

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## 2. Operational Overview: FY17 Business Strategy

### **Native Games (new titles)**

FY17 plan

*memories of the Blue*



- The ultimate 2D action RPG from a splendid team of creators
- In closed beta testing. Currently making final adjustments in preparation for release including marketing in partnership with LINE.

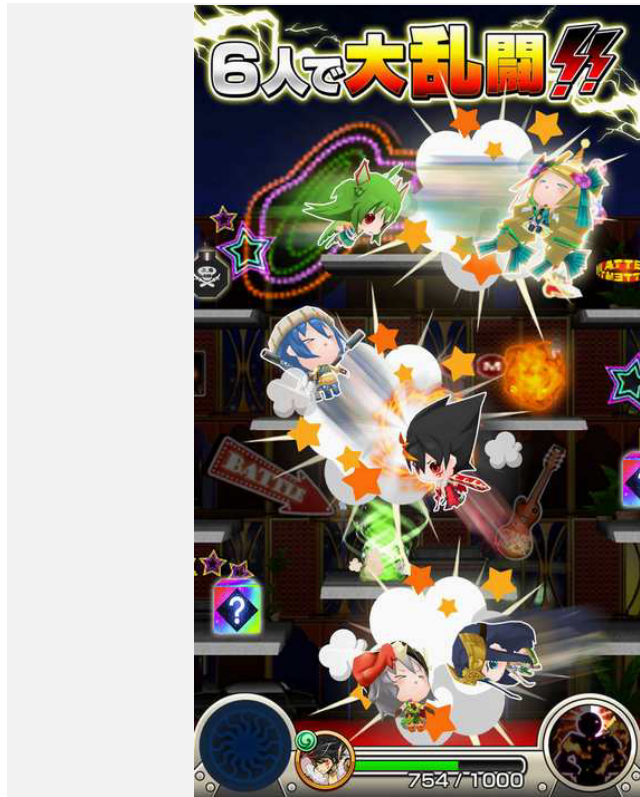


## 2. Operational Overview: FY17 Business Strategy

### **Native Games (new titles)**

FY17 plan

### *Crash Fight*



- Real-time battle game for up to 6 players
- Android version currently in open beta testing in order to make final adjustments ahead of official launch

## 2. Operational Overview: FY17 Business Strategy

### Web Games

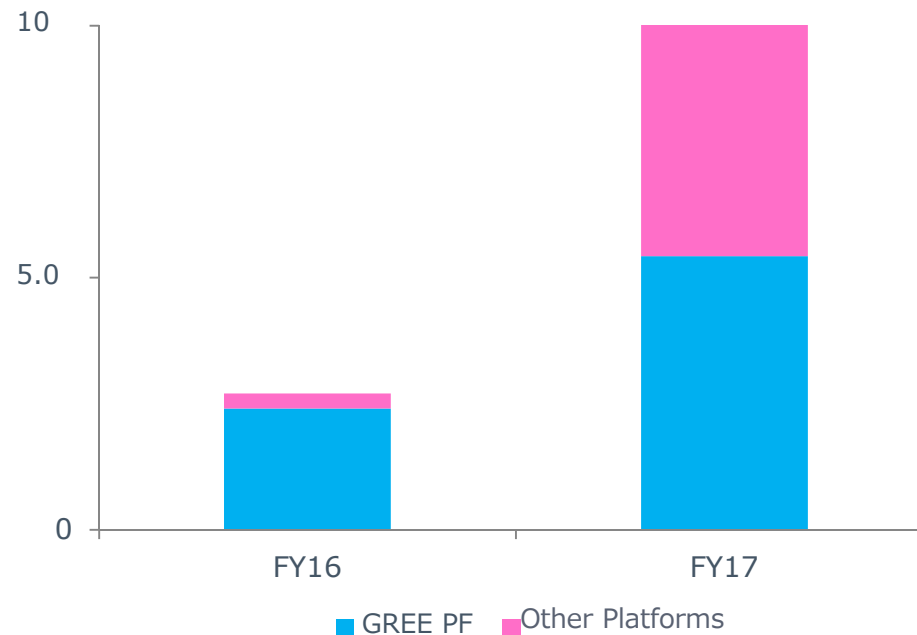
FY17 plan

Further growth expected in game operation business

#### Game Operation Business

Scale of business

Billions of coins



- Steady progress toward coin consumption of 10 billion in FY17

#### Platform Business

Creating new sources of income



- Release of *Granblue Fantasy* on July 12
- Operations stable and new titles being launched

Note: The ratio of GREE platform games to other platform games is based on our current estimate

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## 2. Operational Overview: FY17 Business Strategy

FY17 plan

### New Businesses

Continue investment in business growth to create future earnings generators

#### Strengthen Platforms

##### Home-Related Services Platform

Steady business expansion



##### Health & Fitness Platform

Improve earnings

Lespas

[スマートシッター]  
smart**sitter**

#### Core businesses with strong potential

##### Ad Media Business

Aggressively expand  
scale of business



WoOZ  
ウーズ

##### VR Business

Tie ups with strong partners

GVR Fund  FXG VR WORKS



GREE VR Studio



## 1. Financial Results Overview

## 2. Operational Overview

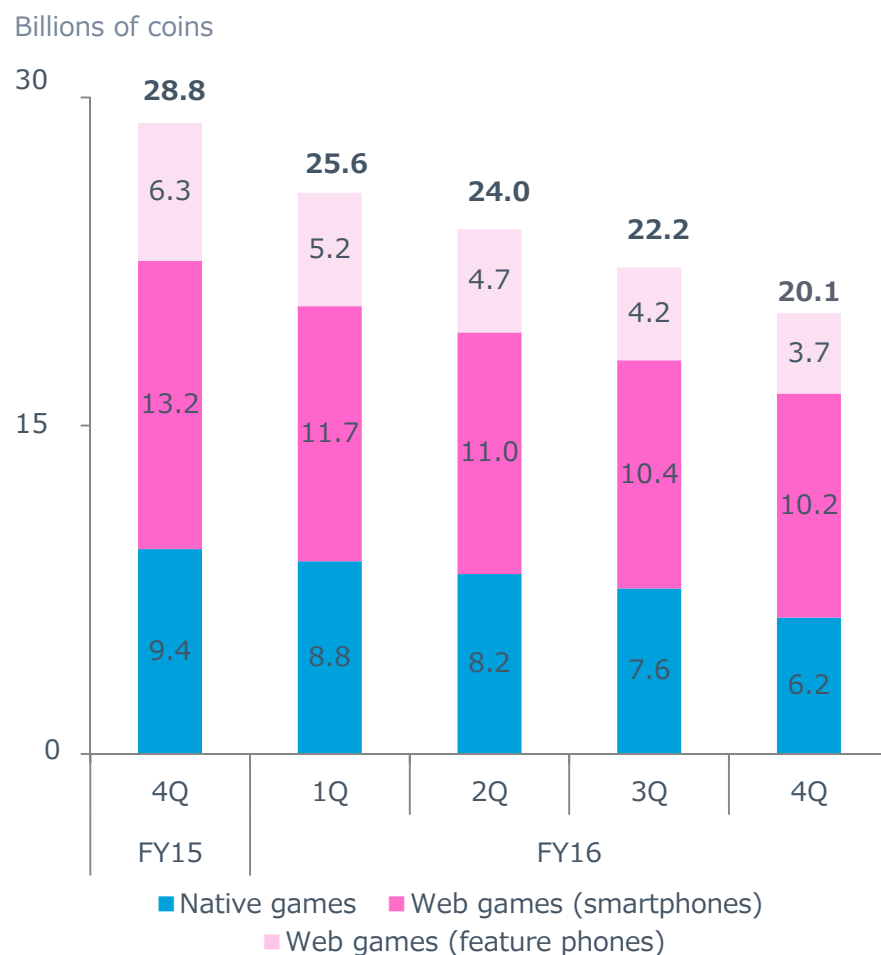
## 3. Appendix

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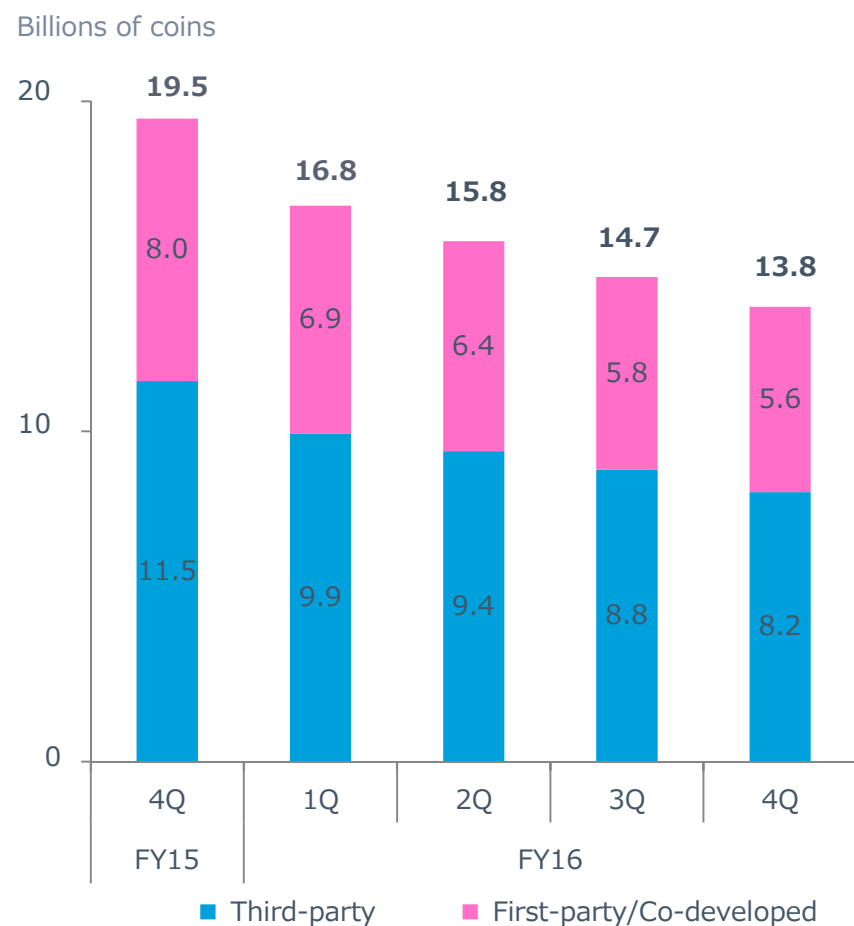


## Coin Consumption (1)

### Overall coin consumption



### Web game coin consumption



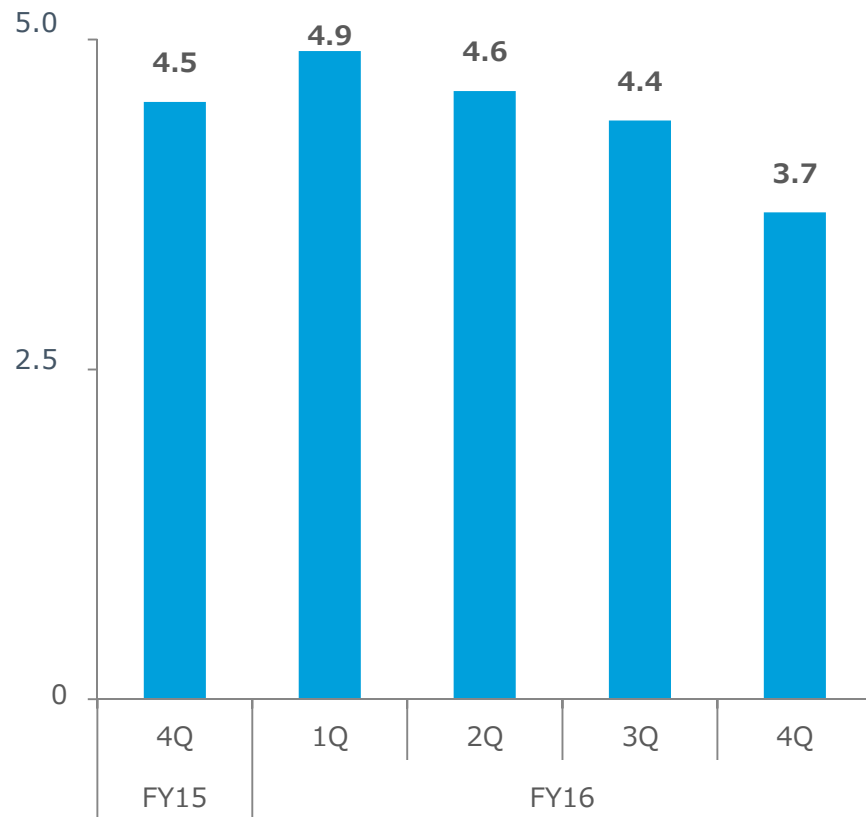
### 3. Appendix



## Coin Consumption (2)

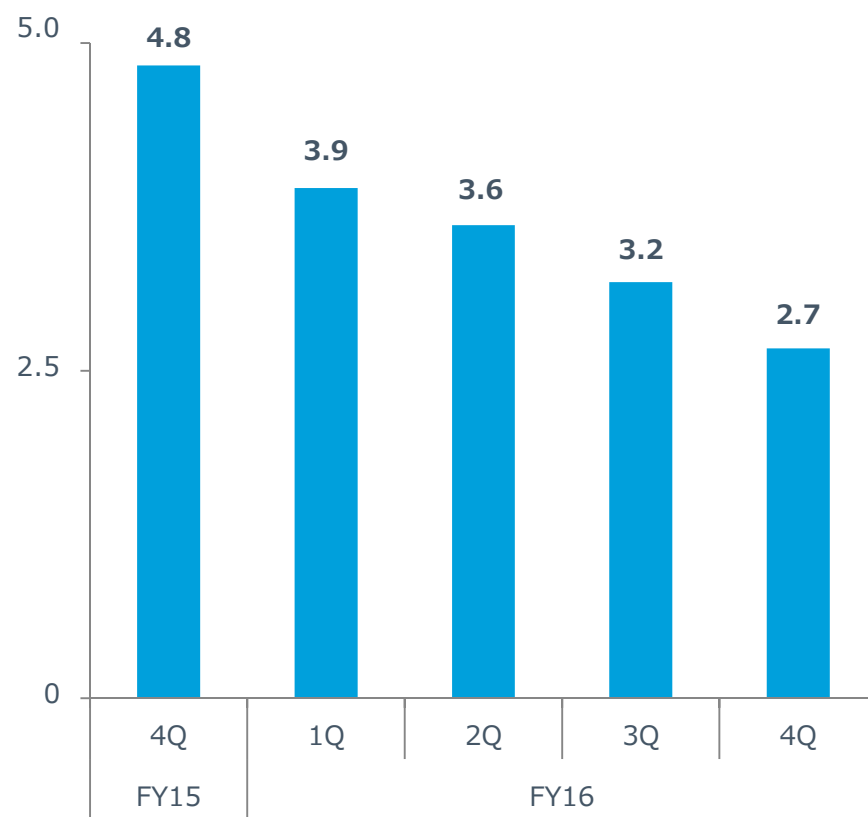
### Japan Native Games

Billions of coins



### Overseas Native Games

Billions of coins



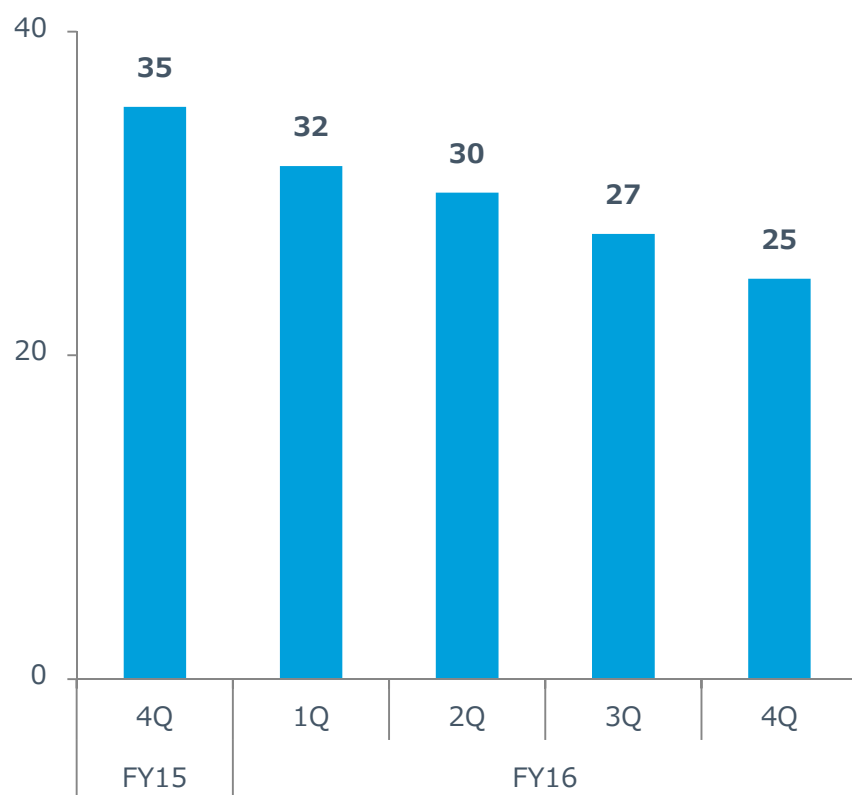
### 3. Appendix



## Coin Consumption (3)

### Overseas

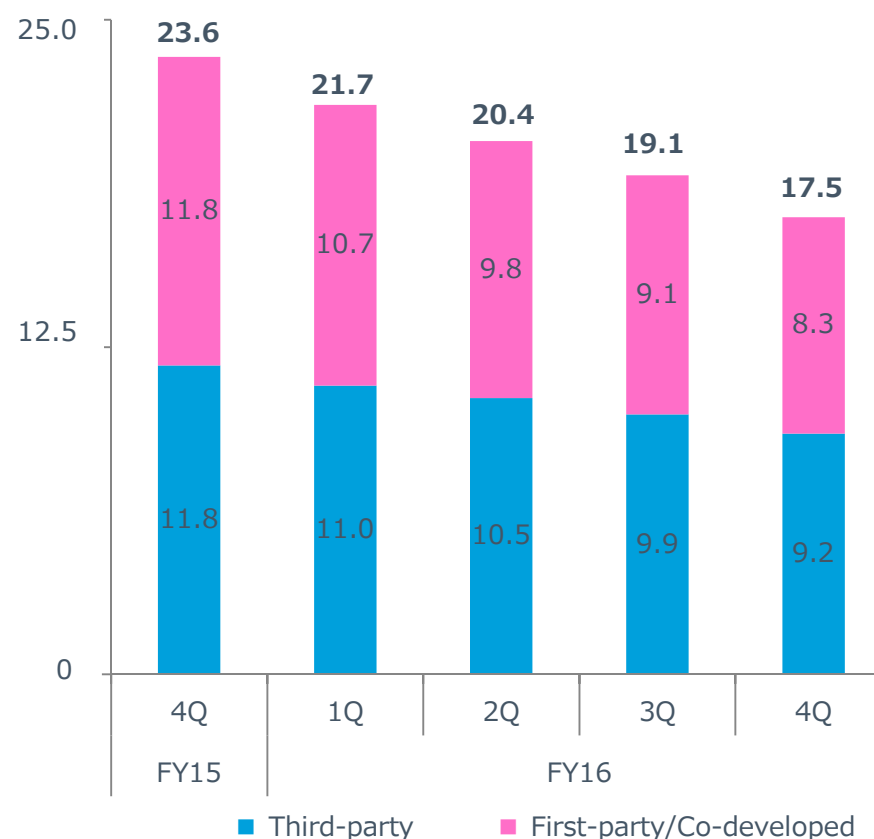
Millions of U.S. dollars



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

### Japan

Billions of coins



■ Third-party ■ First-party/Co-developed

### 3. Appendix



## FY16 4Q Cost Structure

Millions of yen

		FY16 4Q	QoQ	YoY	FY16 3Q	FY15 4Q
	Rental charges	990	270	- 234	720	1,223
	Labor costs	2,265	48	- 644	2,217	2,909
	Others	1,475	201	- 764	1,274	2,239
	Cost of sales	4,729	519	- 1,642	4,210	6,371
	Advertising	1,211	123	- 518	1,088	1,729
	Commission fees	2,946	- 365	- 1,165	3,311	4,111
	Labor costs	1,644	- 193	- 196	1,837	1,840
	Others	2,884	156	226	2,728	2,658
	SG&A	8,686	- 278	- 1,653	8,964	10,339
	<b>Total costs</b>	<b>13,415</b>	<b>241</b>	<b>- 3,295</b>	<b>13,174</b>	<b>16,710</b>



### 3. Appendix



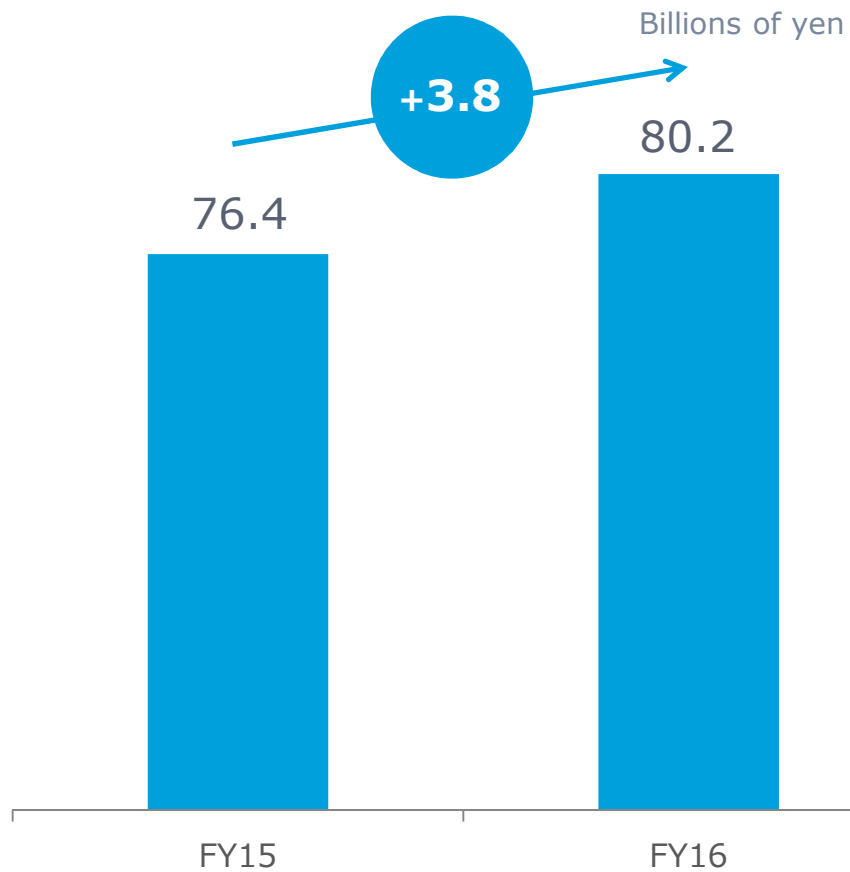
## FY16 4Q Balance Sheet

Billions of yen

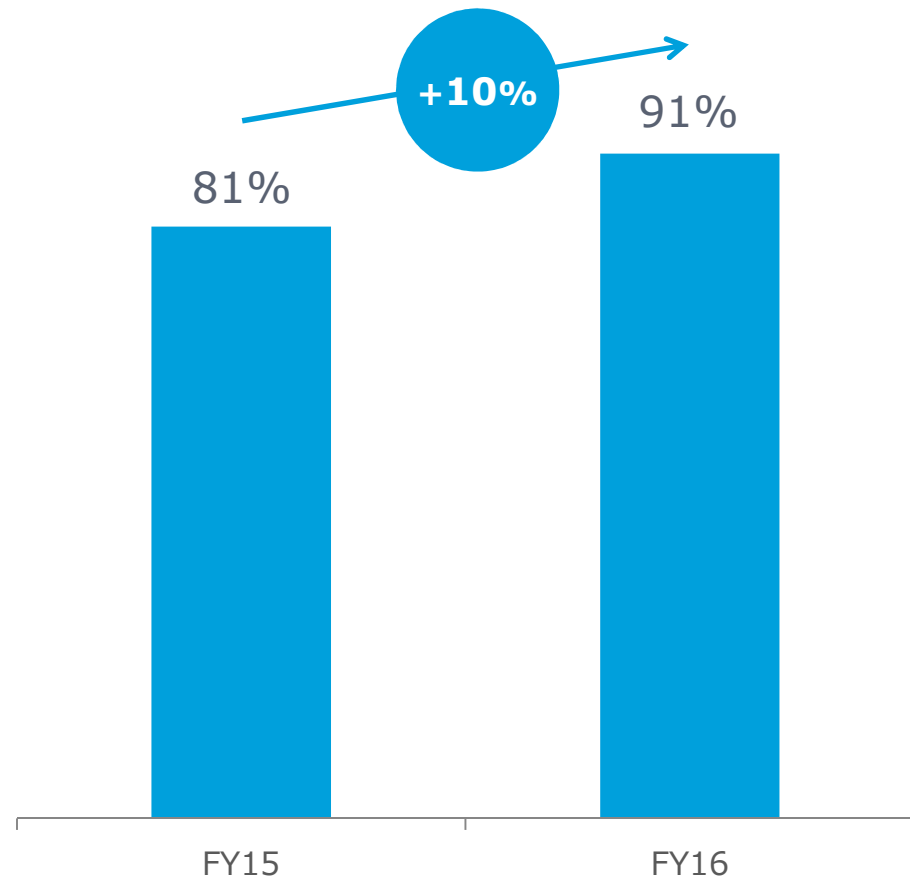
	FY16 4Q	QoQ	YoY	FY16 3Q	FY15 4Q
Current assets	<b>94.69</b>	5.94	-2.20	88.75	96.89
Fixed assets	<b>17.68</b>	-4.37	-3.07	22.06	20.75
Total assets	<b>112.37</b>	1.56	-5.27	110.81	117.64
Current liabilities	<b>9.39</b>	-0.89	-12.50	10.29	21.89
Fixed liabilities	<b>0.37</b>	-0.26	-0.35	0.63	0.73
Total liabilities	<b>9.77</b>	-1.15	-12.85	10.92	22.62
Total net assets	<b>102.60</b>	2.72	7.59	99.89	95.02
Cash and cash equivalents	<b>80.19</b>	2.83	2.23	77.36	77.96
- Interest-bearing debt	<b>0.03</b>	0.03	-1.58	0.0	1.60
Net cash	<b>80.17</b>	2.81	3.80	77.36	76.36
Goodwill	<b>0.29</b>	-1.06	-1.00	1.35	1.29

## Strengthening of Financial Base

### Increase in net cash



### Increase in shareholders' equity ratio



### 3. Appendix



## Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at End-4Q
Japan Game Business	-	836
Native Game Business	Pokelabo, Wright Flyer Studios	(446)
Web Game Business	-	(234)
Shared game depts.	-	(156)
Native Game Business(Overseas)	Includes GREE International (U.S. Studio), etc.	197
Commerce and Media, Investment, Advertising	Includes Glossom, SEKAIE, Lespas, etc.	217
Corporate, Headquarters	Includes GREE Business Operations	148
Engineering, Headquarters	-	68
<b>Total</b>	-	<b>1,466</b>

Note: Includes non-consolidated group companies; as of June 30, 2016



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- When producing this document, we were careful to avoid errors or omissions, but the accuracy and completeness of the provided information is not guaranteed.