



GREE, Inc.

FY2017 First Quarter Financial Results

1 November, 2016

Executive Summary



Financial Results Overview

■ Net Sales ¥14.9 billion, Operating Income ¥2.5 billion

- QoQ profit growth on strong performance from new titles, successful cost control efforts

Business Overview

■ Native game new release blitz off to a good start

- Domestic native game business: Two new titles driving growth
- Overseas native game business: Targeting further growth through acquisition of hit titles
- Web game business: Game operation business strong

■ New businesses: Steady growth

- Implementing new initiatives to further develop all businesses
- Working with partners to expand development of VR business

FY17 1H Earnings Forecast

■ 1H net sales ¥30 billion, operating income ¥4.0 billion

- Net sales expected to turnaround QoQ
- Expect costs related to new releases and new title acquisitions

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview (Consolidated)



FY17 1Q Financial Results Overview

Net sales ¥14.9bn, operating income ¥2.5bn

Billions of yen

	FY17 1Q			FY16 4Q	FY16 1Q
		QoQ	YoY		
Net sales	14.91	-0.73	-4.40	15.63	19.31
EBITDA	2.71	-0.15	-2.04	2.86	4.75
Operating income	2.54	0.33	-1.84	2.22	4.39
Ordinary income	2.57	3.13	-1.42	-0.55	4.00
Net income	10.82	8.79	8.43	2.03	2.39

Notes:

- Breakdown of FY17 1Q net sales: Paid service sales ¥13.63 billion; ad media sales ¥1.28 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

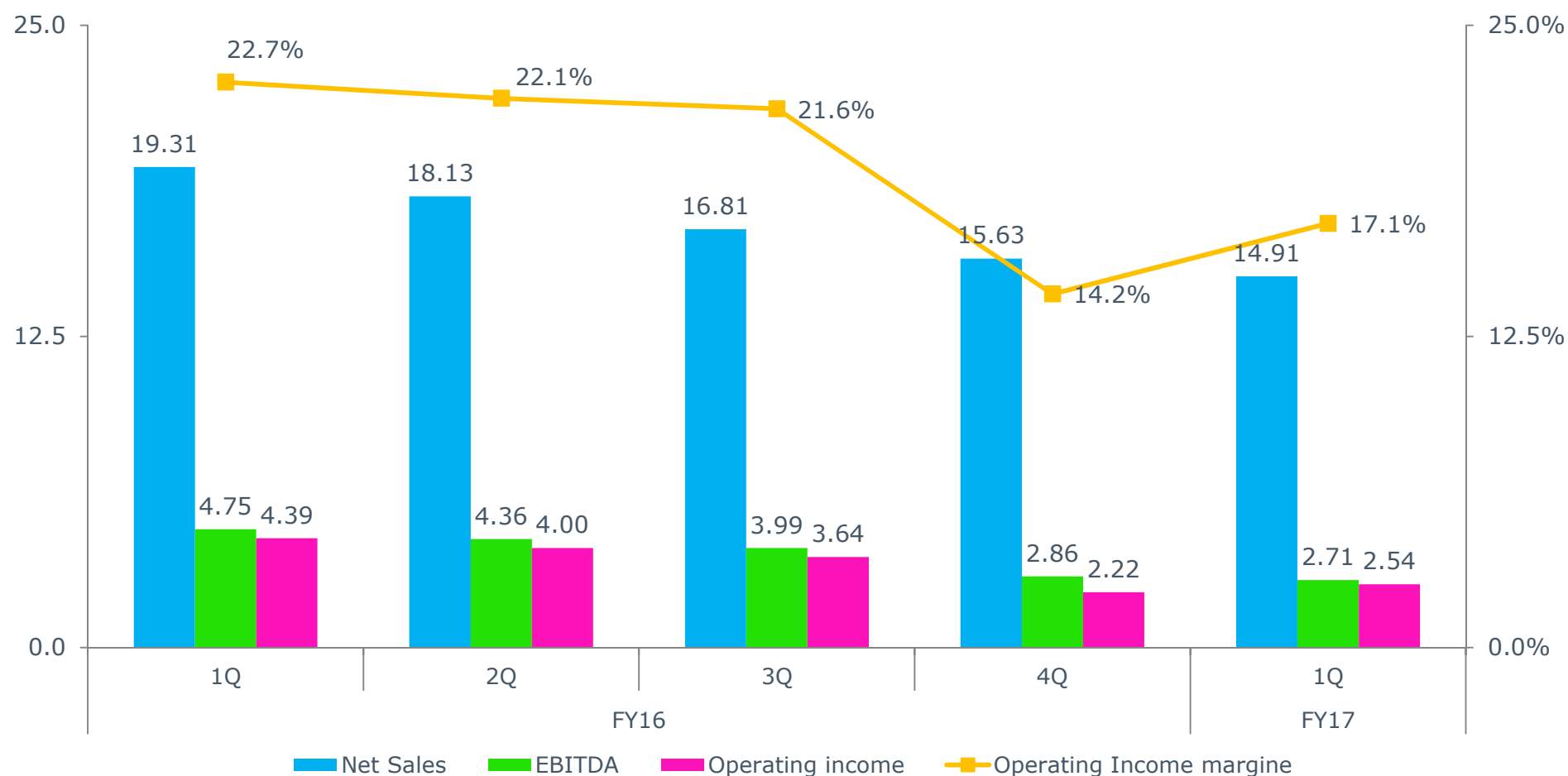
1. Financial Results Overview (Consolidated)



Net Sales, EBITDA, and Operating Income

Operating income margin up 2.9 percentage points to 17.1%

Billions of yen



1. Financial Results Overview (Consolidated)

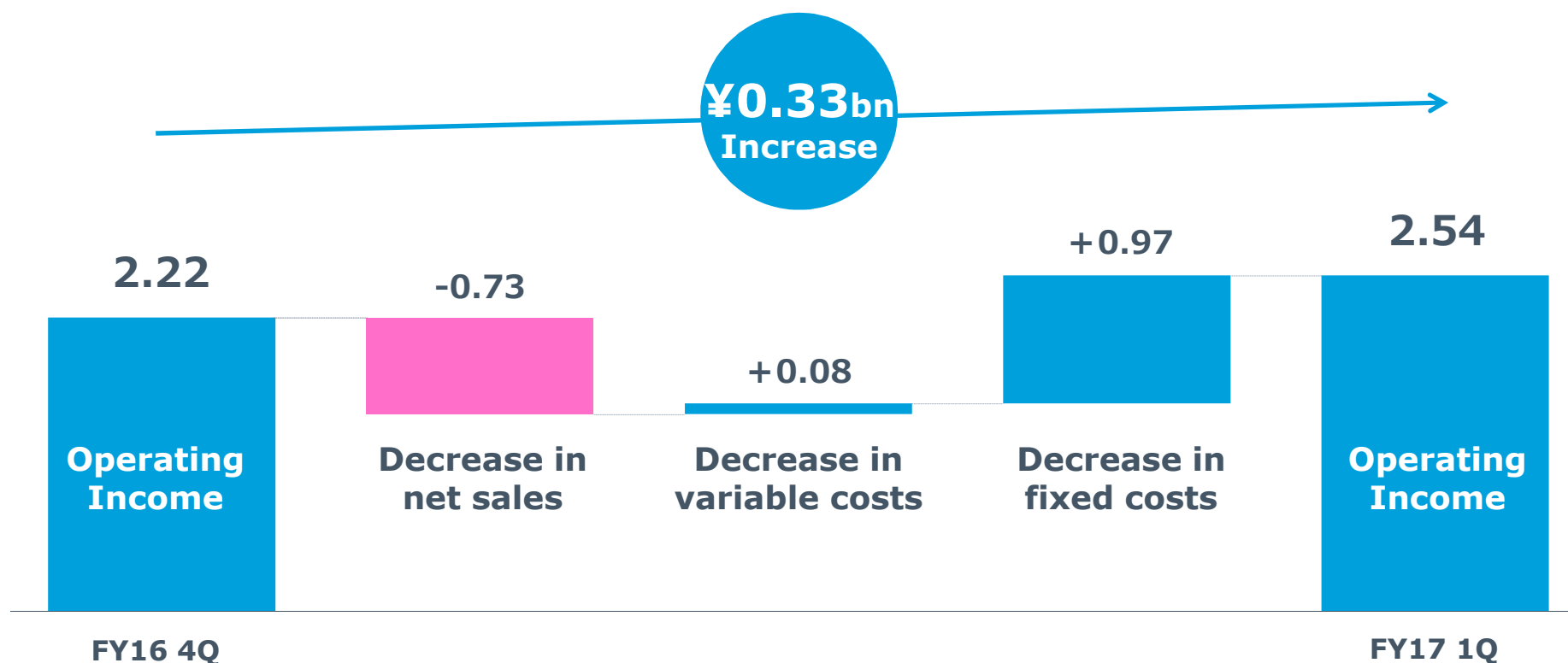


Operating Income Analysis

Sales down, but operating income up ¥330 million due to cost cutting measures

Fixed costs decline on rebound from one-off costs posted in 4Q

Billions of yen



1. Financial Results Overview (Consolidated)



FY17 1Q Cost Structure

Total costs decreased ¥1.1 billion QoQ to ¥12.4 billion

Billions of yen

		FY17 1Q	QoQ	YoY	Factors in change (QoQ)	FY16 4Q	FY16 1Q
	Advertising	0.63	-0.58	-0.58	Partly on rebound from one-off costs in 4Q	1.21	1.21
	Commission Fees	3.41	0.47	-0.47	Increase from costs related to new title launches	2.95	3.88
	Other	0.44	0.03	0.17	-	0.41	0.27
	Total variable costs	4.49	-0.08	-0.88		4.57	5.37
	Labor costs	3.77	-0.14	-0.78	Consolidated headcount: end-4Q: 1,425 → end-1Q: 1,422	3.91	4.55
	Rental costs	0.66	-0.33	-0.24	Partly on rebound from one-off costs in 4Q	0.99	0.90
	Depreciation	0.13	-0.06	-0.11	-	0.20	0.24
	Goodwill Amortization	0.03	-0.41	-0.09	Partly on rebound from one-off costs in 4Q	0.44	0.12
	Other	3.28	-0.03	-0.46	-	3.31	3.74
Total fixed costs		7.88	-0.97	-1.67		8.85	9.55
Total costs		12.36	-1.05	-2.56		13.42	14.92

1. Financial Results Overview (Consolidated)



1H FY17 Earnings Forecast

Net sales of ¥30bn, operating income of ¥4bn

Billions of yen

	1Q results	2Q forecast	1H FY17 forecast
Net sales	14.9	15.1	30.0
Operating income	2.5	1.5	4.0
Ordinary income	2.6	1.4	4.0
Net income	10.8	0.7	11.5

■ Top line

- In the domestic native game business, we have set conservative targets for growth in sales of existing titles and earnings contribution from new titles
- In the overseas native game business, we expect earnings contribution from recently acquired title *DragonSoul*
- In the web game business, we have set conservative targets based on historical trends

■ Costs

- We plan to make appropriate investments in advertising for titles that we think can benefit from ads
- We expect an increase in rental costs related to titles released in 1H FY17
- In the overseas native game business, we factor in goodwill amortization for recently acquired title *DragonSoul*

8

1. Financial Results Overview

2. Operational Overview

3. Appendix

2. Operational Overview: Summary



Review and Summary of 1Q

Business Plan			Review
Overall		Achieve turnaround in game business, invest in new businesses	<ul style="list-style-type: none"> New titles off to strong start, progress toward turnaround in game business
Game Business	Native Game	Japan	<ul style="list-style-type: none"> New release blitz QoQ top-line turnaround in Japan native game business Improving KPIs for <i>Memories of the Blue</i>, expect growth through partnership with LINE Partner titles off to a strong start Partnership with Bushiroad, joint development of titles leveraging IP
		Over-seas	<ul style="list-style-type: none"> Focus on title development Temporary decline in coin consumption on sale of some titles Expect top-line recovery on acquisition of <i>DragonSoul</i>
		Web	<ul style="list-style-type: none"> Achieve sustainable profitability Continued growth targeting FY17 game operation business coin consumption of 10bn
New Businesses		Continued investment in business growth	<ul style="list-style-type: none"> Home-related services platform: increased number of sales channels at Renoco Health & fitness platforms: launched new Lespas programs Ad media business: increased video ad sales VR business: worked with partners to expand development
Costs / Investments		Implement strict cost controls	<ul style="list-style-type: none"> Made progress in reducing fixed costs (down ¥1.7bn YoY)

2. Operational Overview: Game Business, Native Games (domestic market) Development Pipeline



Six titles in development, including original titles and IP-based titles

	FY17		
	Already released	To be released 2Q-4Q	Total for FY17
Wright Flyer Studios	2	3	5
Pokelabo	—	3	3

Notes:

- All titles in pipeline have received approval for development

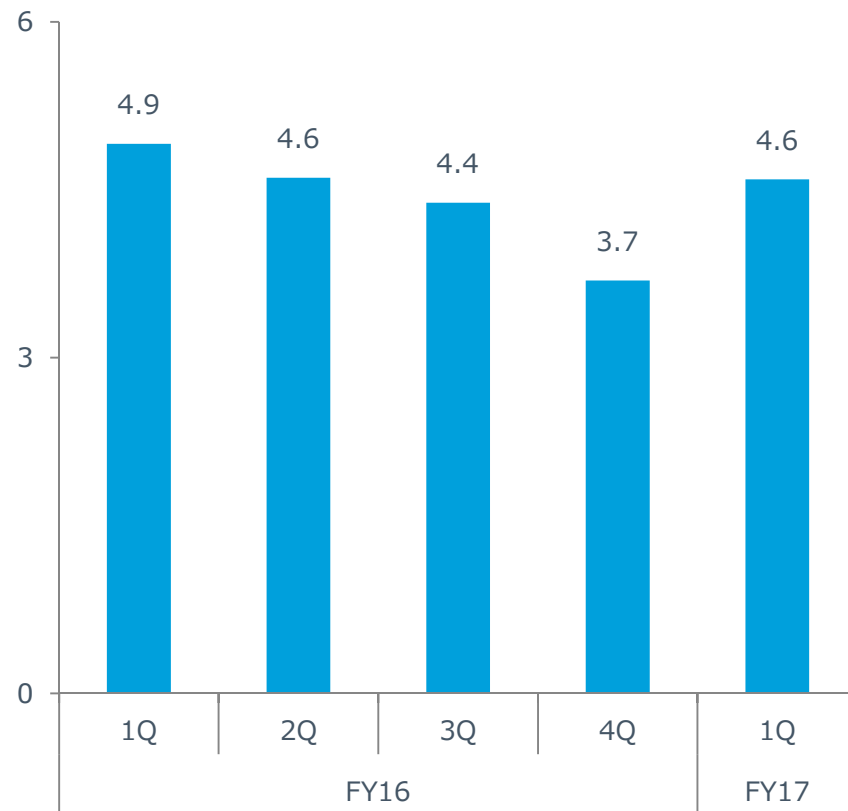
2. Operational Overview: Game Business, Native Games (domestic market)



Progress Made

Coin Consumption

Billions of yen



Topics

- Two new titles (including partner titles) off to strong start
 - *Memories of the Blue* released September 20
 - Improving KPIs, expect growth through tie up with LINE

2. Operational Overview: Game Business, Native Games (domestic market)



Title in Development

Senki Zesshou SYMPHOGEAR XD Unlimited



- Joint development by Bushiroad and PokeLabo, scheduled for launch in 2017
- Symphonic battle RPG that faithfully re-creates the world of anime series *Senki Zesshou SYMPHOGEAR*

Note: Screenshot is of development version

2. Operational Overview: Game Business, Native Games (domestic market)



Title in Development

Rara-MAGI



- Schoolgirl-themed RPG featuring music, magic, and an all-star cast of voice actors created in cooperation with leading Japanese animation studio A-1 Pictures

Note: Screenshot is of development version

14

2. Operational Overview: Game Business, Native Games (domestic market)



Title in Development

Another Eden: The Cat Who Goes Beyond Time



- Travel beyond time and space in this full-on RPG featuring an all-star development staff
- Currently under painstaking development in closed beta testing

Note: Screenshot is of development version

2. Operational Overview: Game Business, Native Games (domestic market)



Title in Development

A Farewell to Arms



- Players feel the thrill of trouncing their enemies in this 3D action game set in Japan in the year 2080
- Under development for closed beta testing

Note: Screenshot is of development version

2. Operational Overview: Game Business, Native Games (overseas market)

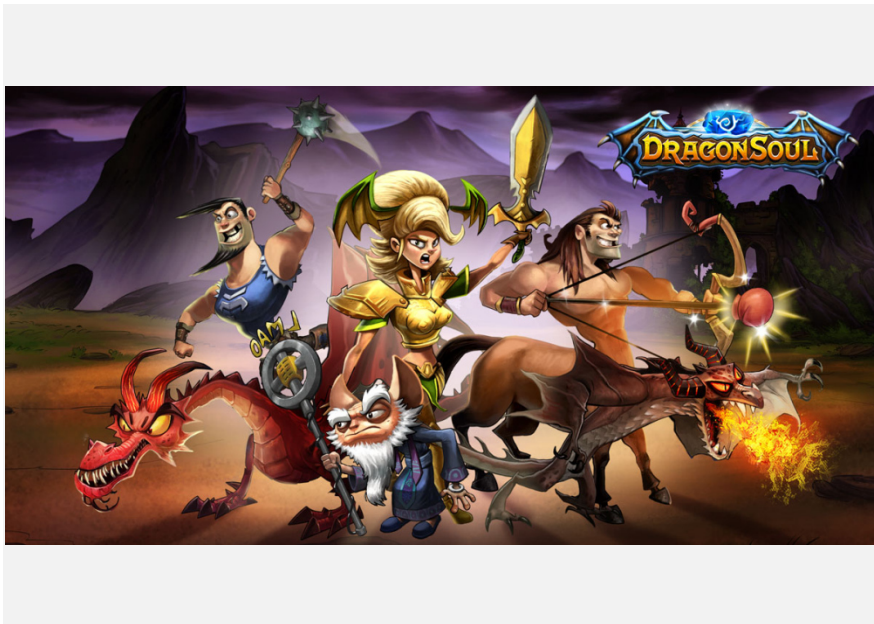


Acquisition of strong title

Up-and-coming title *DragonSoul* acquired on 6 October

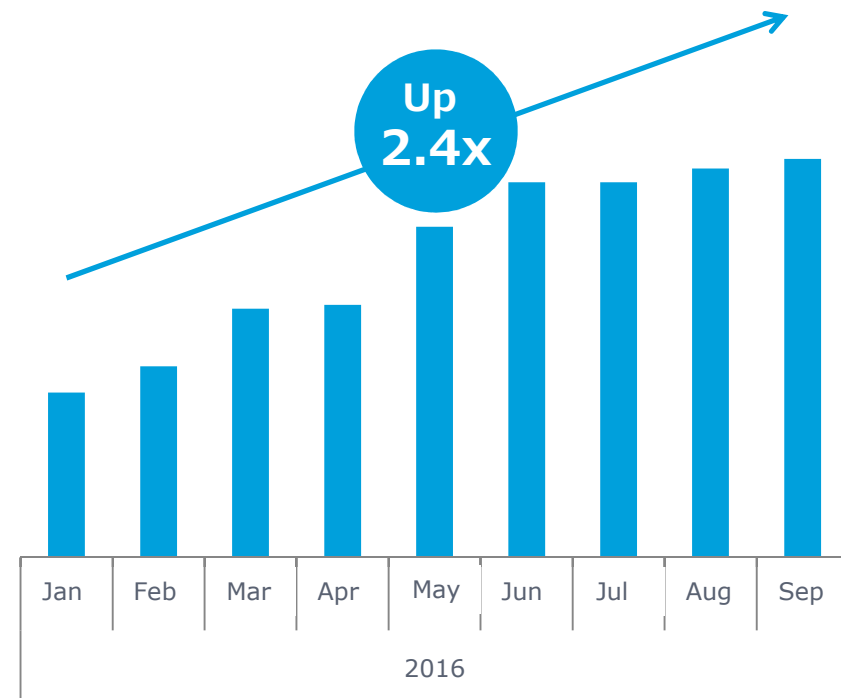
DragonSoul

RPG targeting mid-core gamers



Coin Consumption

Sustained growth



- Up-and-coming title with coin consumption up 2.4x since the beginning of this year
- Over 9mn total downloads since release in July 2015

2. Operational Overview: Game Business



Global Release of Licensed Titles

Naruto Shippuden: Ultimate Ninja Blazing

Global release



- Released in North America and Europe in August 2016
- Distributed by GREE and BANDAI NAMCO Entertainment Inc.

©2002 MASASHI KISHIMOTO/2007 SHIPPUDEN All Rights Reserved.
©GREE, Inc.
©BANDAI NAMCO Entertainment Inc.

One Punch Man

Distribution in Japan and China
scheduled to start in 2017



- Smartphone game based on anime popular in the US, Europe, and Asia
- To be distributed in Japan by GREE, in China by Ourpalm Co. Ltd.

©ONE, Yusuke Murata / Shueisha, Hero Association

Copyright © GREE, Inc. All Rights Reserved.

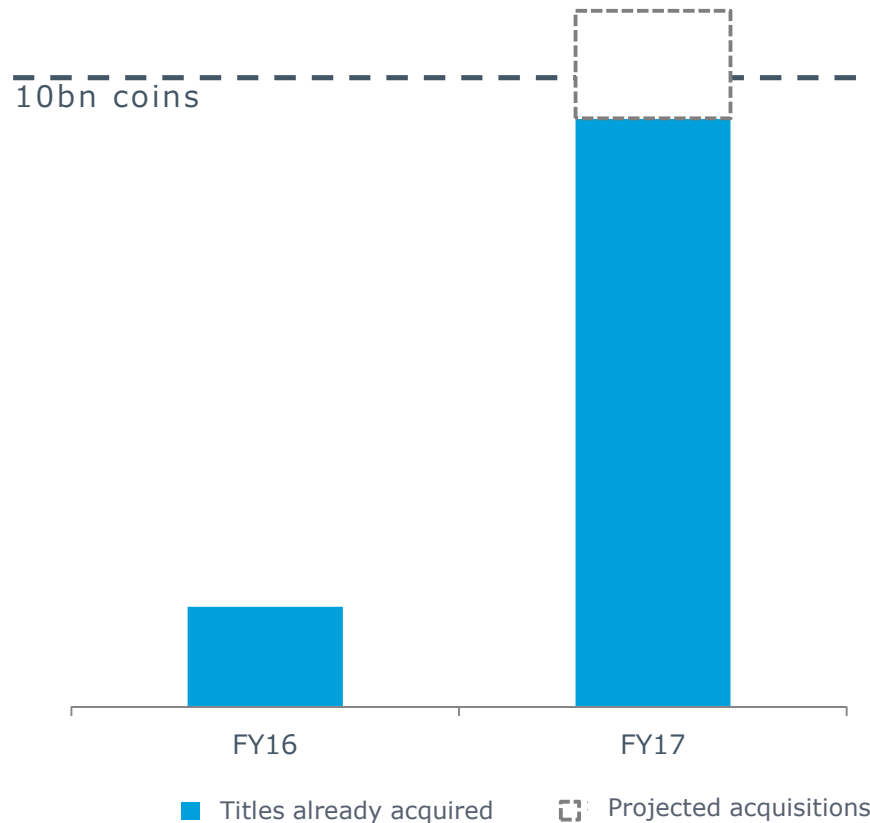
2. Operational Overview: Game Business



Game Operation Business

Coin consumption

Expect to reach 10bn coins



Topics

- Strong coin consumption in 1Q
 - Further growth expected in 2Q
- Full-scale entry into native game operation business
 - *Guruguru Shokan Magical Gear*
 - Pre-registration started on 20 October

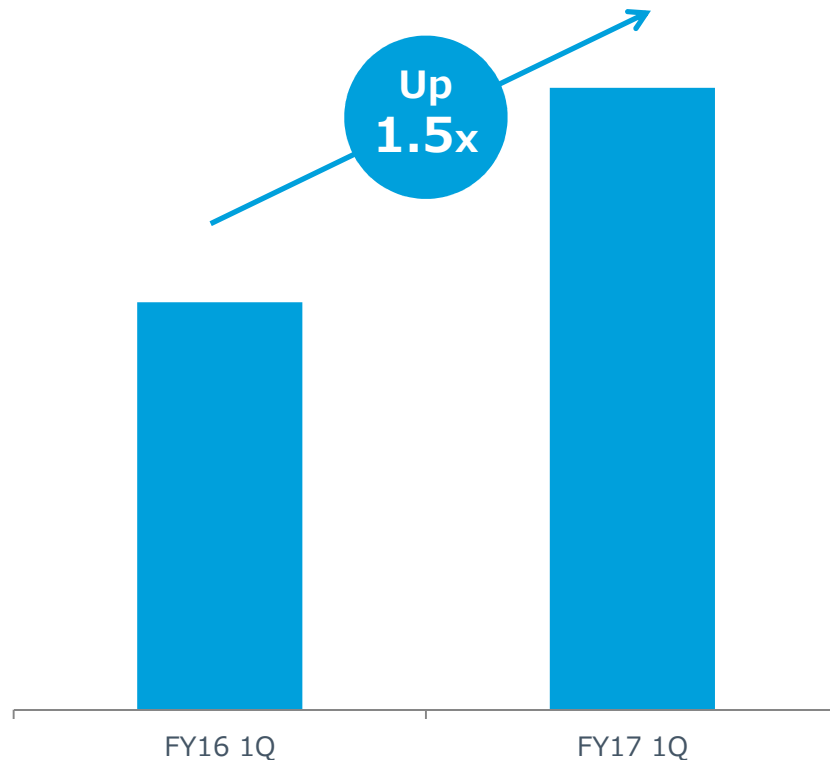
2. Operational Overview: New Businesses



Progress Made

Net sales

Up 1.5x YoY



Topics

- Home-Related Services Platform
 - Increased number of Renoco sales channels
 - Started sales through Yahoo! Shopping website
 - Started sales through Rakuten Reform website in late October
- Health & Fitness Platform
 - Lespas expanded network of affiliates
- Ad Media Business
 - Increase number of WOOZ partners
 - Launch of project with Label Gate
 - Development of joint venture with Shogakukan

2. Operational Overview: New Businesses



VR Business

Working with Partners to Expand Business

Tie up with ADORES

Opened VR amusement center



- Developing original VR game attractions
- To be installed HTC VIVE in amusement facilities

Joint development with SQUARE ENIX

Development of titles based on strong IP



- VR character command RPG
- Playable demo at Tokyo Game Show 2016

1. Financial Results Overview

2. Operational Overview

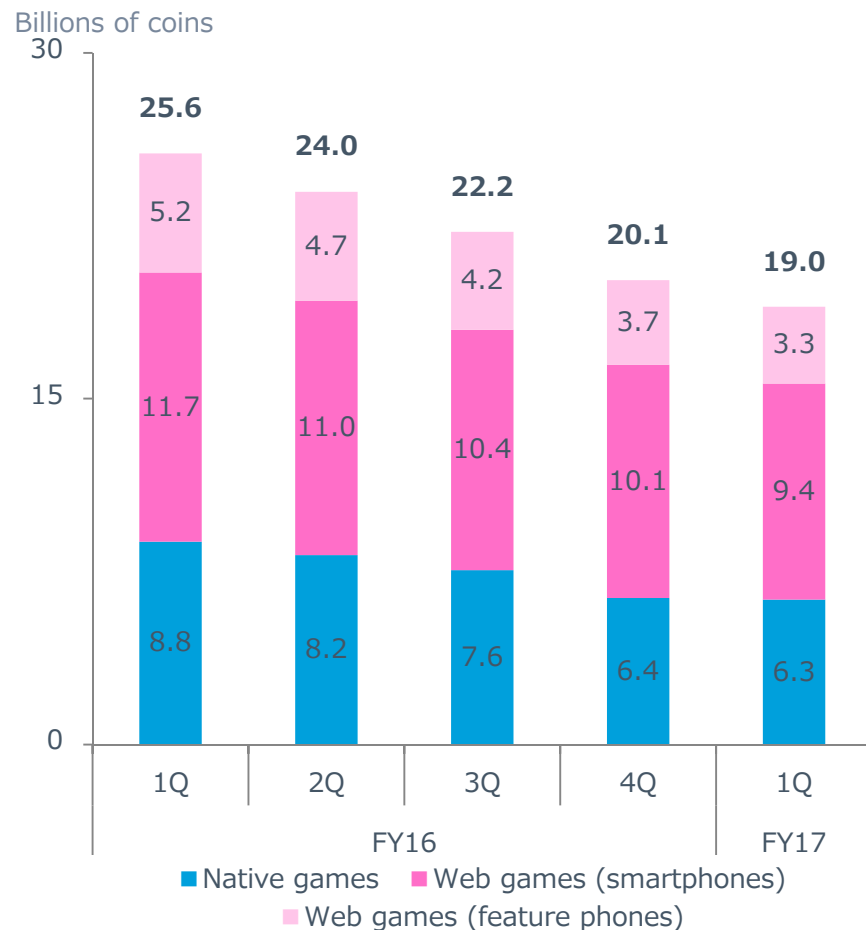
3. Appendix

3. Appendix

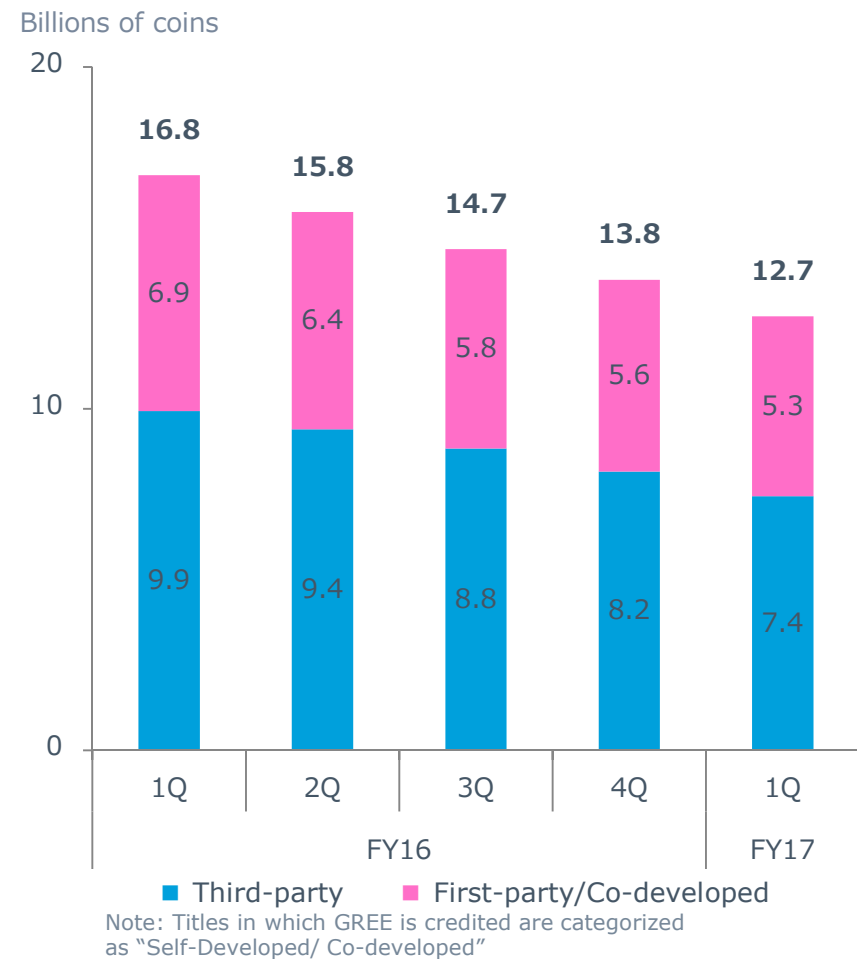


Coin Consumption (1)

Overall coin consumption



Web game coin consumption



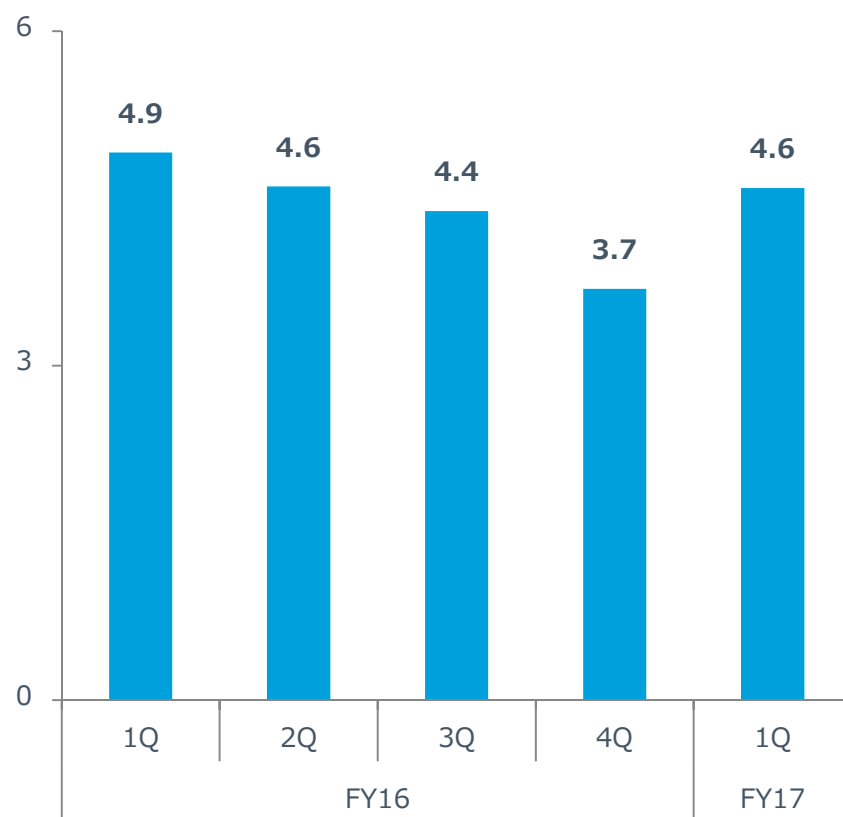
3. Appendix



Coin Consumption (2)

Japan Native Games

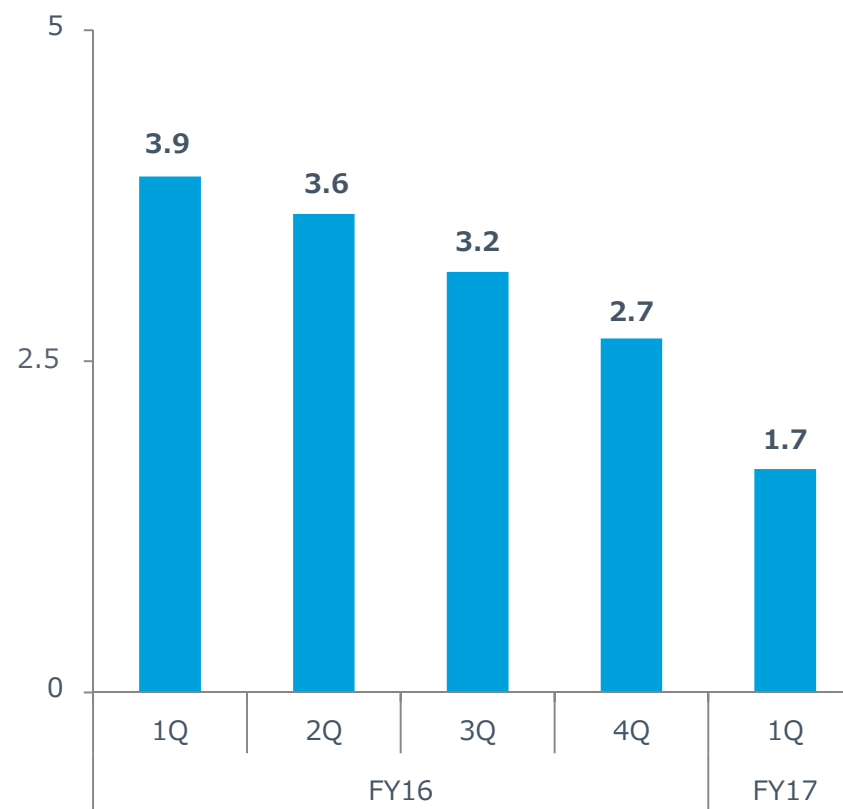
Billions of coins



Note: Classified by area of development

Overseas Native Games

Billions of coins



Coin consumption declined temporarily owing to the business transfer of some titles in 1Q FY17

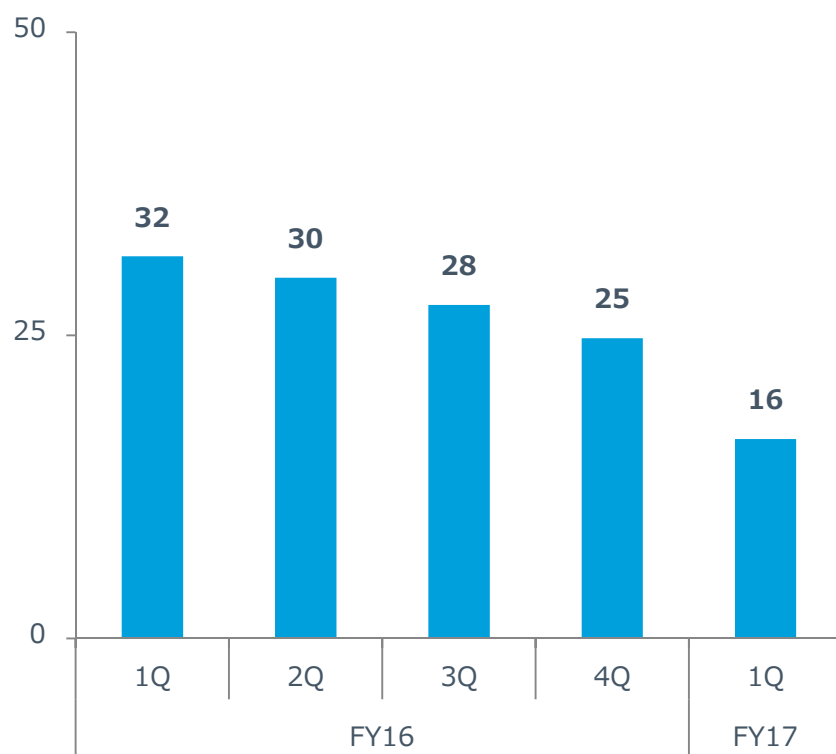
3. Appendix



Coin Consumption (3)

Overseas

Millions of U.S. dollars

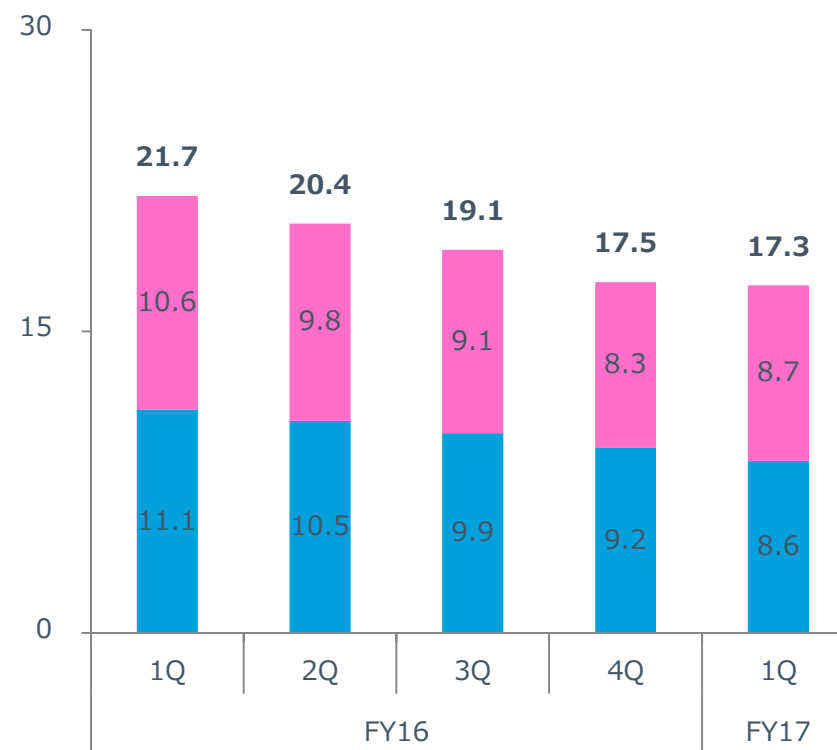


Note:

Coin consumption declined temporarily owing to the business transfer of some titles in 1Q FY17

Japan

Billions of coins



■ Third-party

■ First-party/Co-developed

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

3. Appendix



1Q FY17 Cost Structure

Millions of yen

		FY17 1Q	QoQ	YoY	FY16 4Q	FY16 1Q
	Rental charges	660	-330	-239	990	899
	Labor costs	2,130	-135	-552	2,265	2,682
	Others	1,794	319	203	1,475	1,590
	Cost of sales	4,584	-145	-588	4,729	5,172
	Advertising	631	-580	-581	1,211	1,212
	Commission fees	2,897	-50	-988	2,946	3,885
	Labor costs	1,644	-1	-227	1,644	1,871
	Others	2,607	-277	-176	2,884	2,783
	SG&A	7,778	-908	-1,973	8,686	9,751
	Total costs	12,362	-1,053	-2,561	13,415	14,923

3. Appendix



1Q FY17 Balance Sheet

Billions of yen

	FY17 1Q	QoQ	YoY	FY16 4Q	FY16 1Q
Current assets	103.91	9.22	15.6	94.69	88.31
Fixed assets	17.17	-0.52	-3.85	17.68	21.02
Total assets	121.08	8.71	11.75	112.37	109.33
Current liabilities	11.43	2.04	-2.28	9.39	13.71
Fixed liabilities	0.37	0.0	-0.33	0.37	0.7
Total liabilities	11.8	2.04	-2.61	9.77	14.41
Total net assets	109.27	6.67	14.36	102.60	94.92
Cash and cash equivalents – Interest-bearing debt	81.64	14.5	8.65	80.19	72.99
	0.0	-0.3	-0.76	0.03	0.76
Net cash	81.64	14.7	9.41	80.17	72.23
Goodwill	0.26	-0.3	-1.32	0.29	1.58

3. Appendix



New Business Services

Home-Related Services Platform



Ad Media Business



Health & Fitness Platform



VR Business



GREE VR Studio



3. Appendix



Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-1Q
Japan Game Business	-	832
Native Game Business	Pokelabo, Wright Flyer Studios	(427)
Web Game Business	funplex	(338)
Shared game depts.	ExPlay	(67)
Native Game Business (Overseas)	Includes GREE International Entertainment, Inc. (U.S. Studio), etc.	209
Commerce and Media, Investment, Advertising	Includes Glossom, SEKAIE, Limia, Lepas, etc.	214
Corporate, Headquarters	Includes GREE Business Operations	142
Engineering, Headquarters	-	70
Total	-	1,467

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



インターネットを通じて、世界をより良くする。

Making the world a better place through the power of the Internet.

- This document includes some forecasts, which are based on currently available information. Actual performance may differ due to various factors.
- When producing this document, we were careful to avoid errors or omissions, but the accuracy and completeness of the provided information is not guaranteed.