



GREE, Inc.

FY2017 Second Quarter Financial Results

February 2, 2017

Financial Results Overview

- **QoQ sales growth achieved first time in 4 years with net sales of ¥15.3 billion and operating income of ¥1.5 billion**
 - Sales grew due to contribution from native games
 - Depreciation costs increased with the acquisition of *DragonSoul*, as well as with investment in ad spending to promote it's growth

Business Overview

- **Progress in development of native games to be released in 2H**
 - Domestic market: released major update to *Shometsu Toshi 2*, doubling coin consumption. Progress in development of new titles
 - Overseas markets: *DragonSoul* remained strong. Made progress in development of new titles
 - Growth in game operation business, with QoQ growth in coin consumption
- **New businesses: strengthened video related and VR business**
 - Sales increased owing to efforts to strengthen video-related businesses
 - VR business began supplying games to amusement facilities

FY17 3Q Earnings Forecast

- **3Q net sales ¥15.3 billion, operating income ¥1.2 billion**
 - Net sales expected to be same as 2Q
 - By launching and generating new titles, we aim to increase net sales

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview

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1. Financial Results Overview (Consolidated)



FY17 2Q Financial Results Overview

Net sales ¥15.3bn, operating income ¥1.5bn

Billions of yen

	FY17 2Q			FY17 1Q	FY16 2Q
		QoQ	YoY		
Net sales	15.35	0.44	-2.78	14.91	18.13
EBITDA	2.07	-0.64	-2.29	2.71	4.36
Operating income	1.50	-1.04	-2.50	2.54	4.00
Ordinary income	3.76	1.19	-0.75	2.57	4.51
Net income	1.88	-8.94	-0.66	10.82	2.54

Notes:

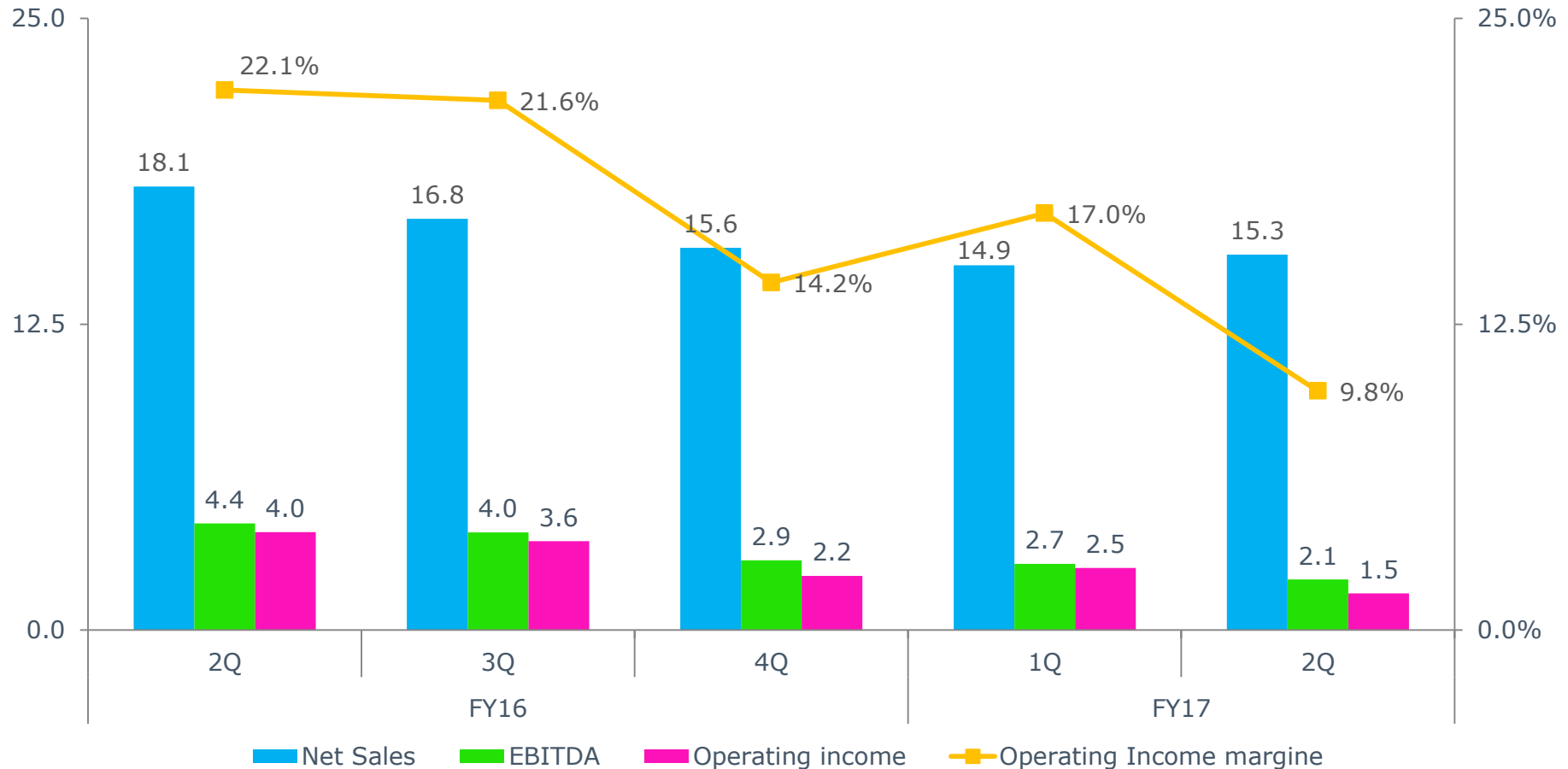
- Breakdown of FY17 2Q net sales: Paid service sales ¥13.92 billion; other ad media sales ¥1.43 billion
- EBITDA = Operating income/loss + depreciation costs + goodwill amortization

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

QoQ net sales growth achieved first time in 4 years to ¥15.3bn

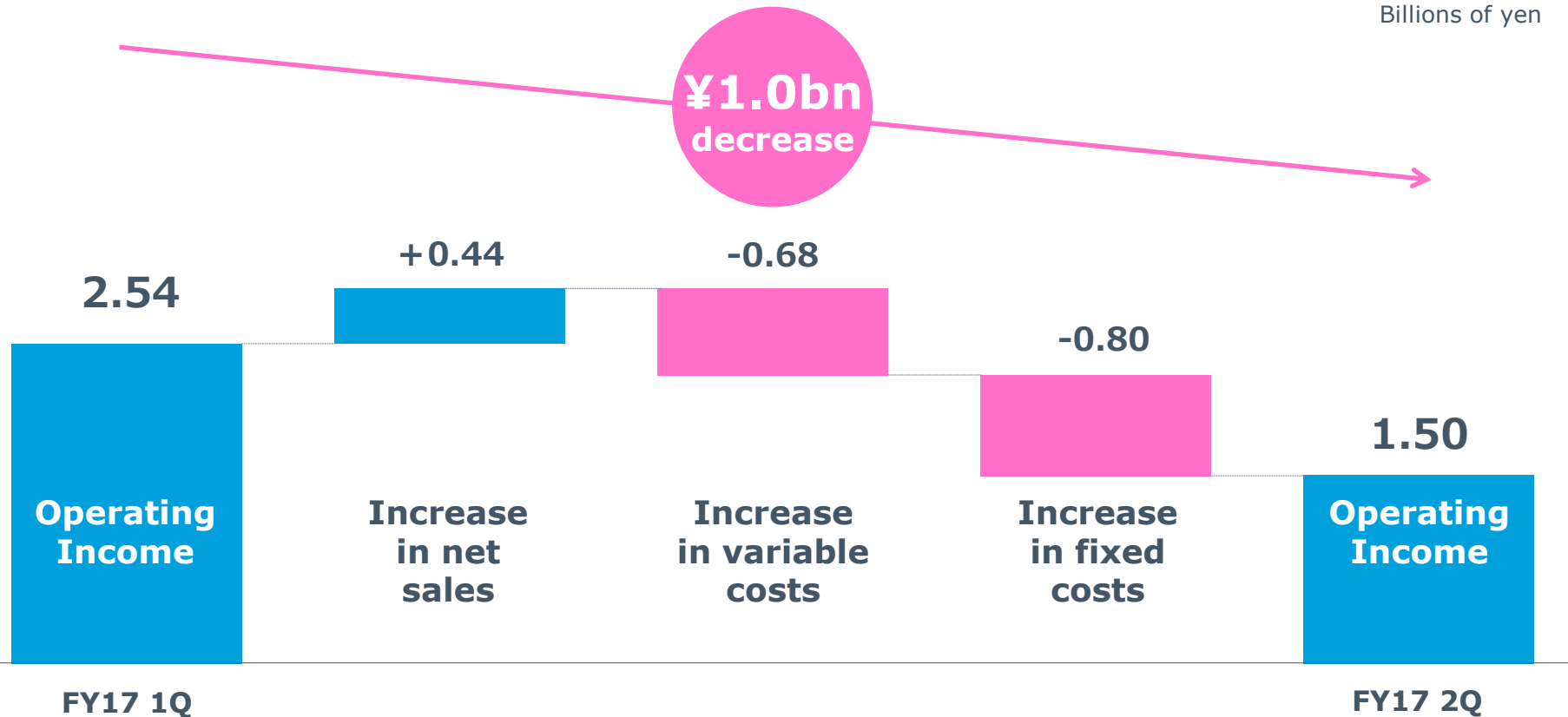
Billions of yen



Operating Income Analysis

Operating income down ¥1.0bn due to investment in advertising and depreciation costs associated with new title acquisitions

Billions of yen



1. Financial Results Overview (Consolidated)

FY17 2Q Cost Structure

Total costs increased ¥1.5 billion QoQ to ¥13.8 billion

Billions of yen

		FY17 2Q	QoQ	YoY	Factors in change (QoQ)	FY17 1Q	FY16 2Q
	Advertising	1.06	0.43	-0.55	Invested in advertising for titles with strong potential	0.63	1.61
	Commission Fees	3.62	0.20	-0.02	Increase due to sales growth	3.41	3.63
	Other	0.49	0.05	0.06	-	0.44	0.43
Total variable costs		5.17	0.68	-0.50		4.49	5.67
	Labor costs	3.84	0.06	-0.17	Consolidated headcount: end-1Q: 1,422 →end-2Q: 1,413	3.77	4.01
	Rental costs	0.76	0.10	-0.08	Increase due to title releases in 1Q	0.66	0.85
	Depreciation	0.38	0.25	0.15	Increase due to acquisition of title	0.13	0.24
	Goodwill Amortization	0.19	0.16	0.06	Increase due to acquisition of title	0.03	0.12
	Other	3.51	0.23	0.27	Increased outsourcing costs	3.28	3.24
Total fixed costs		8.68	0.80	0.22		7.88	8.45
Total costs		13.85	1.49	-0.28		12.36	14.13

1. Financial Results Overview (Consolidated)

3Q FY17 Earnings Forecast

Net sales of ¥15.3bn, operating income of ¥1.2bn

Billions of yen

	FY17 2Q	FY17 3Q	Difference
	Actual	Forecast	
Net sales	15.3	15.3	0
Operating income	1.5	1.2	-0.3
Ordinary income	3.8	1.2	-2.6
Net income	1.9	0.3	-1.6

■ Top line

- Net sales expected to be same as 2Q
- By launching and generating new titles, we aim to increase net sales

■ Costs

- We expect an increase in fixed costs related to new titles released in 2H

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2. Operational Overview: Summary

Review and Summary of 2Q

Business Plan

Review

Overall			Achieve turnaround in game business, invest in new businesses	<ul style="list-style-type: none">Made progress in development of new native game titles to be released in 2H
Game Business	Native Game	Japan	New release blitz	<ul style="list-style-type: none">Made final preparations for January release of <i>Rara-MAGI</i>Focused on ensuring 2H release of new titles in development
		Over-seas	Focus on title development	<ul style="list-style-type: none">Acquired <i>DragonSoul</i> in October, achieved upturn in top lineFocused on ensuring 2H release of new titles in development
	Game Operation Business		Achieve sustainable profitability	<ul style="list-style-type: none">Added native games to game operation business portfolio
New Businesses			Continued investment in business growth	<ul style="list-style-type: none">Increased sales by strengthening video-related businessesVR business began providing two attractions to VR PARK TOKYO
Costs/ Investments			Implement strict cost controls	<ul style="list-style-type: none">Continued to control costs while investing in key areas

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

Development Pipeline

Ten titles in development, including four newly added titles

	FY17		FY18 or later
	Already released	To be released in 2H	
First-party IP	1	3 (3)	0 (0)
IP owned by partners	1	4 (3)	3 (0)

Notes:

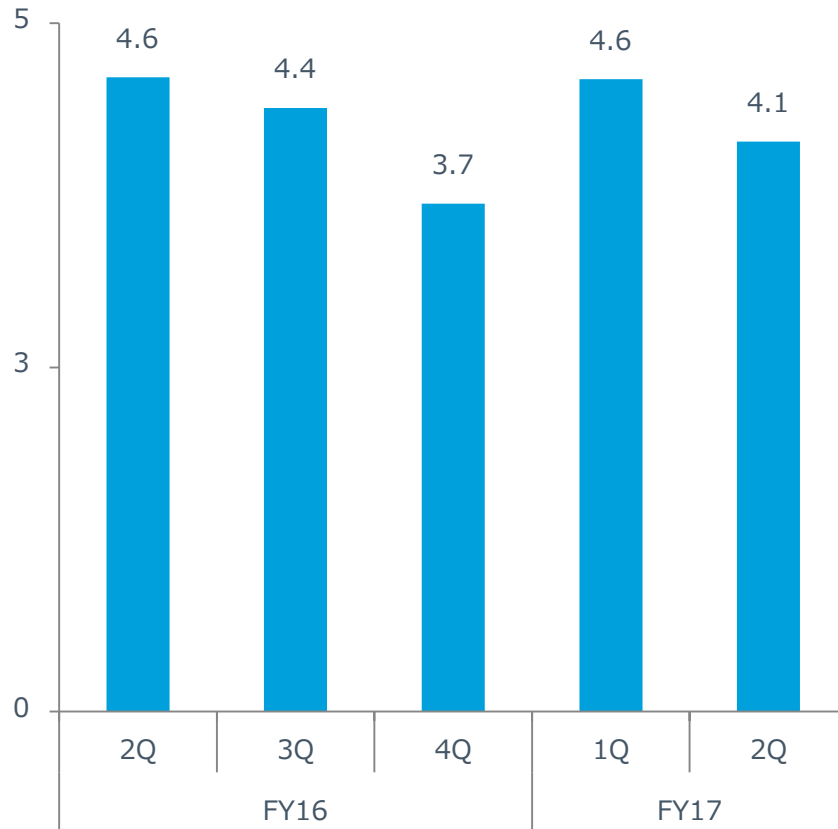
- All titles in pipeline have received approval for development; titles still under consideration are not included
- Some existing titles that are not included in the development pipeline will be distributed overseas and updated for overseas markets
- Figures in parentheses are numbers as of our 1Q FY2017 results announcement

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

Progress Made

Coin Consumption

Billions of coins



Topics

- Released major update to *Shometsu Toshi 2*
 - Total of 8 million downloads
 - User numbers and coin consumption more than doubled
- Released *Rara-MAGI*
 - Launched in January
 - Off to a smooth start, promotion is fully in progress
- Announced partnership with ForwardWorks Corporation*
 - Announced joint development of new smartphone version of *Wild Arms*, a hit RPG for the PlayStation®

Note:

ForwardWorks Corporation is a subsidiary of Sony Interactive Entertainment

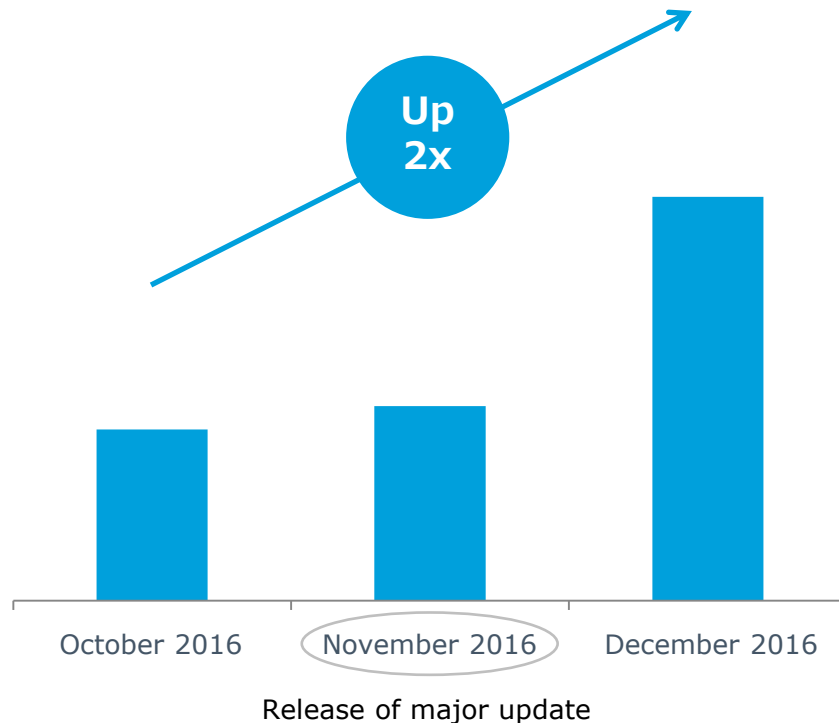
2. Operational Overview: Game Business, Native Games (domestic market)

Existing Titles



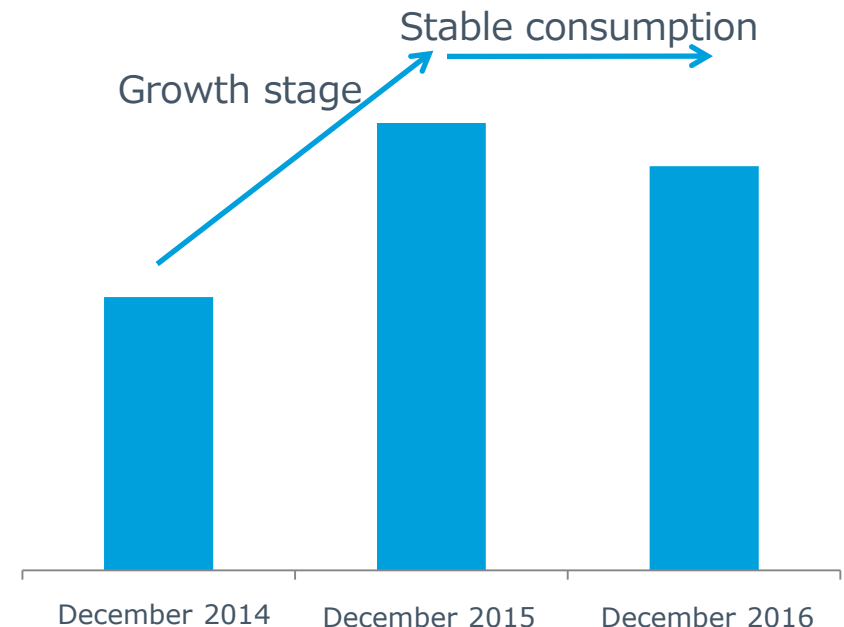
Growth restarted with major update

Coin consumption doubled



Stable operation over long term

Stable coin consumption,
even in 3rd year



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

New Titles

Rara-MAGI



- Launched on January 25. Off to a smooth start, promotion is fully in progress
- 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

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

Titles 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
- Release scheduled in this coming Spring

Note: Screenshot is of development version

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

Titles in Development

A Farewell to Arms



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

Note: Screenshot is of development version

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

Titles in Development

Senki Zesshou SYMPHOGEAR XD Unlimited



- Joint development by Bushiroad and PokeLabo, pre-registration underway
- 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 (overseas market)

Progress Made



Coin Consumption

Billions of coins



Topics

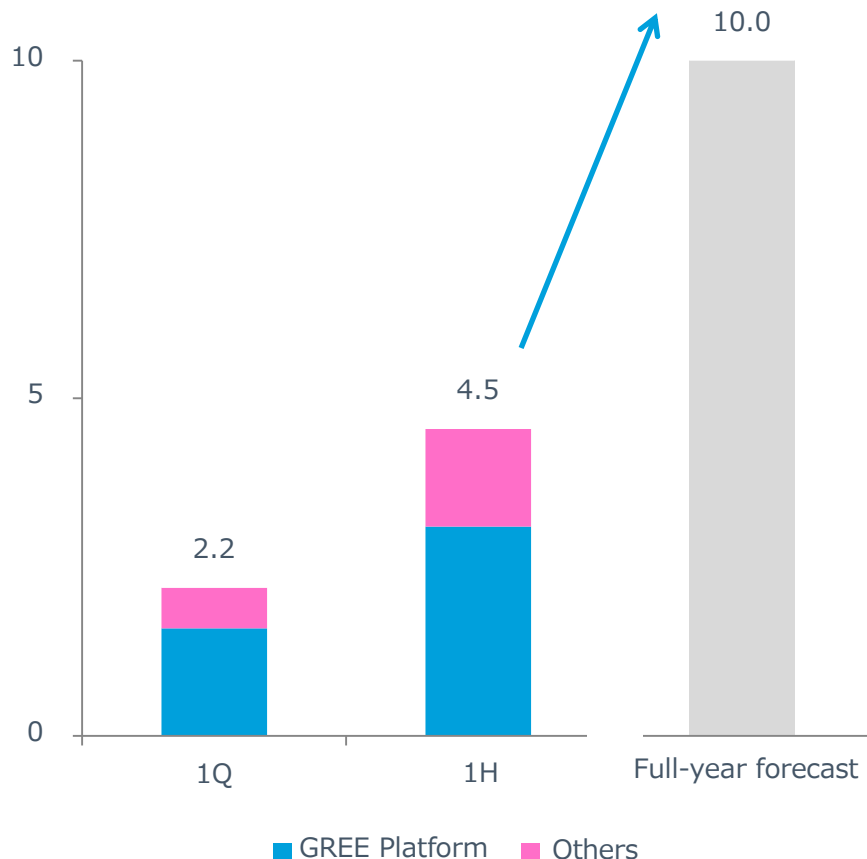
- Strong Performance by *DragonSoul*
 - Acquired in October 2016
- Progress in development of new 3D game based on first-party IP
 - Release scheduled for 2H

2. Operational Overview: Game Business, Game Operation Business

Progress Made

Coin Consumption

Billions of coins



Topics

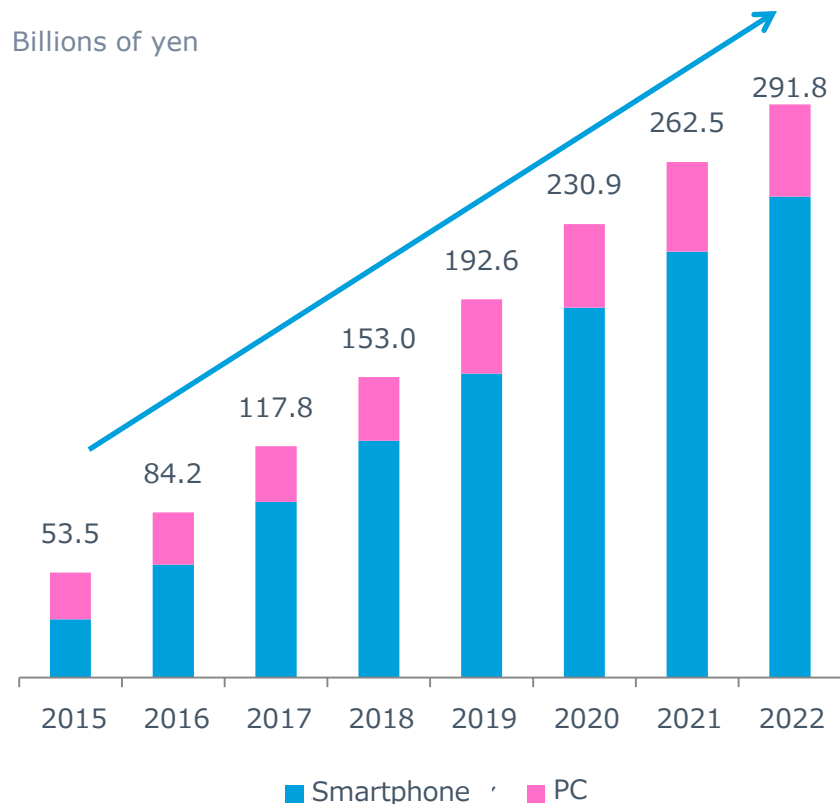
- Began operation of native games
 - *Naruto: Shinobi Collection Shippu Ranbu*
 - Began operation in November
 - *Guruguru Shokan Magical Gear*
 - Began operation in November
- Expect to reach 10bn coins in FY2017

2. Operational Overview: New Businesses

Video Market Operating Environment

Video Ad Market Expected to Grow

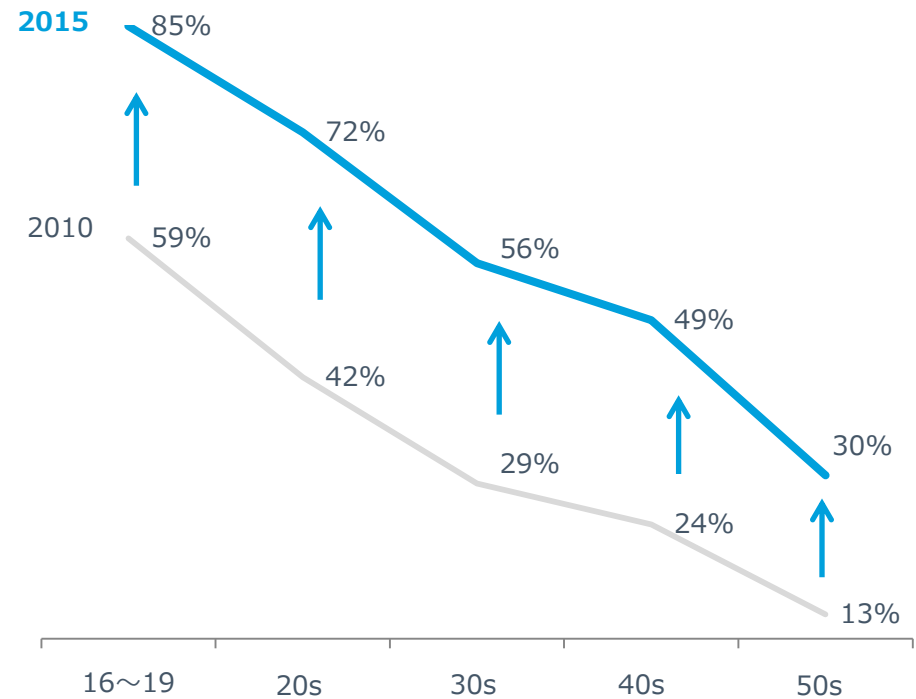
Could reach ¥200bn in 2020



Source: From CyberAgent Surveys of the Japanese Market of Video Ads (Copyright © CyberAgent, Inc. All Rights Reserved.)

Steady Growth in Video Viewership

Ratings rising sharply for all age categories

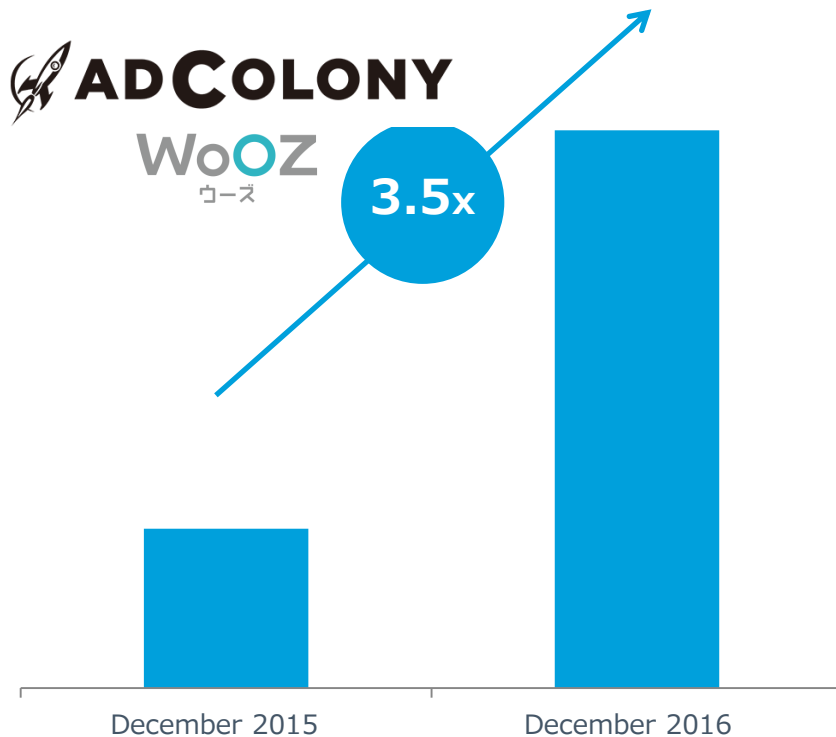


Source: From The NHK Monthly Report on Broadcast Research, January, 2016; ratio of people with viewing frequencies of one time per week or higher

Video-related Business Activities

Video-related Sales Growth

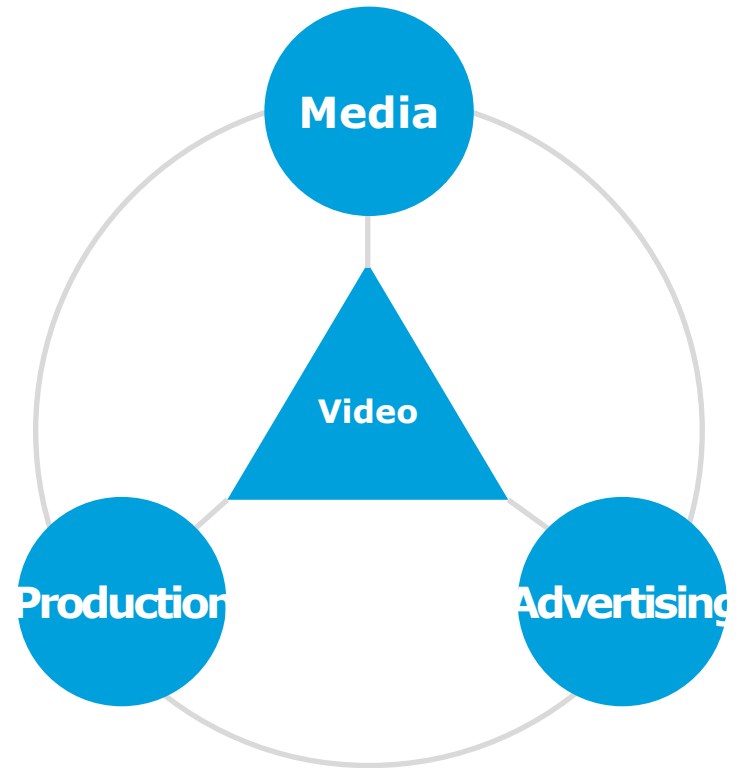
Strong growth of annual monthly sales



Note: GREE group's total video-related sales

Video-related Business Activities

Accelerating business development



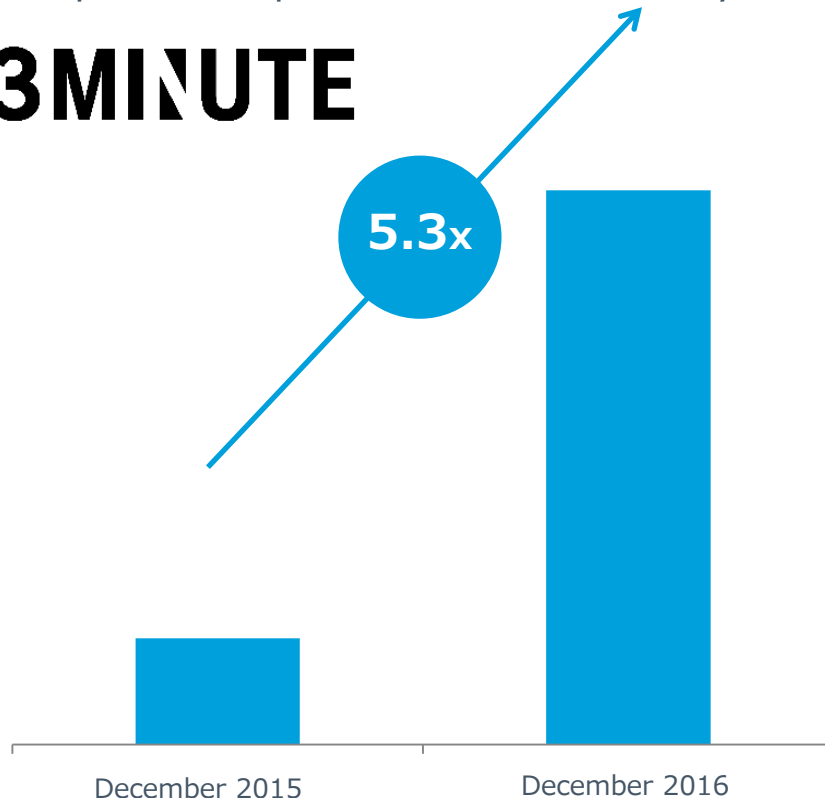
Added 3Minute to The Group

Added to Group in February;
accelerating growth in video-related businesses

Rapid Sales Growth

Expanded operations in second year

3MINUTE



Total users:
2mn

**Operation of fashion
video media website
MINE**

Monthly reach:
75mn

**One of the largest
influencer networks in
Japan**

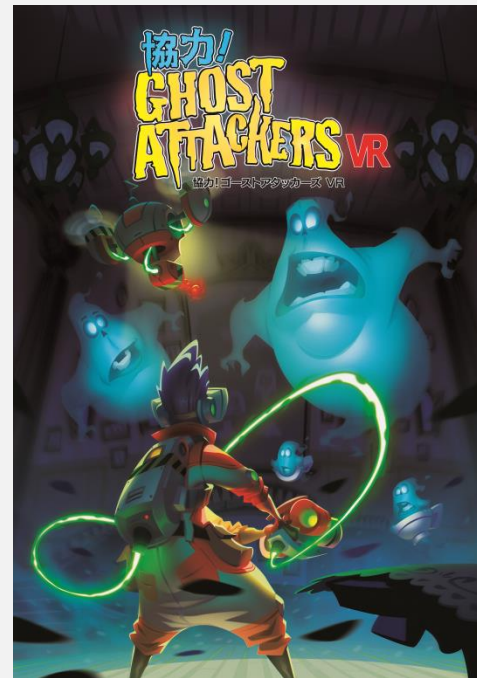
**100mn videos
viewed/month**

**Production of original
video content**

Note: Including dispersed distribution

VR Business

GREE and ADORES Team Up to Develop VR Attractions



- VR amusement park VR PARK TOKYO opened in Shibuya, December 16th
- 2 of the 7 attractions at the facility were developed by GREE VR Studio

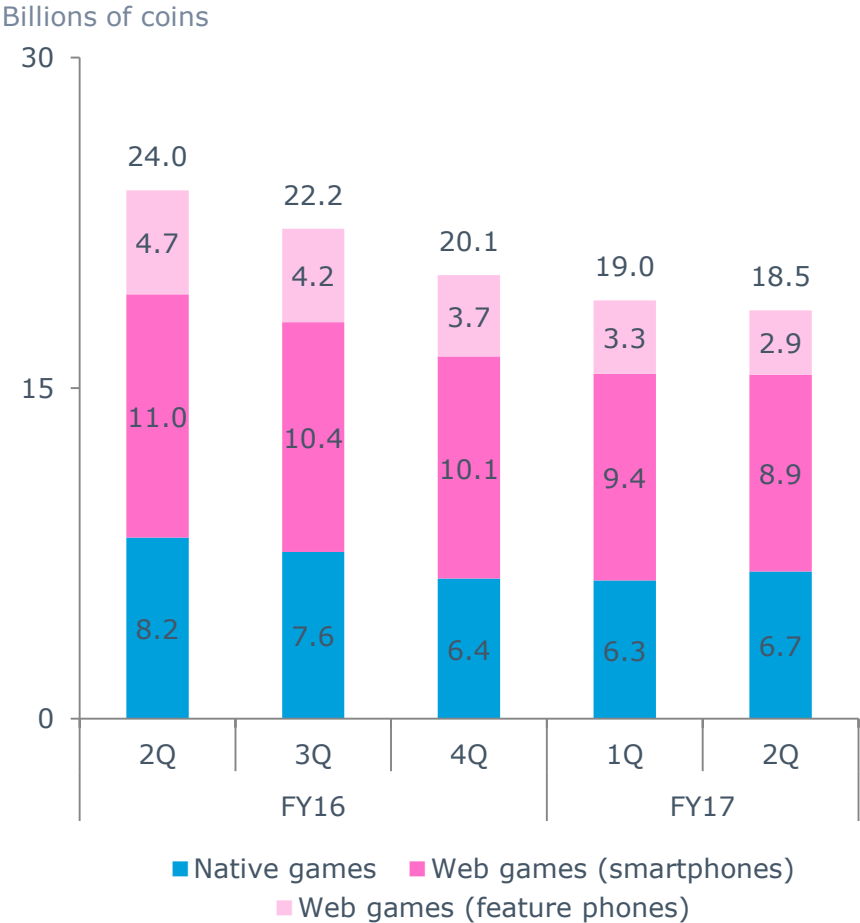
1. Financial Results Overview

2. Operational Overview

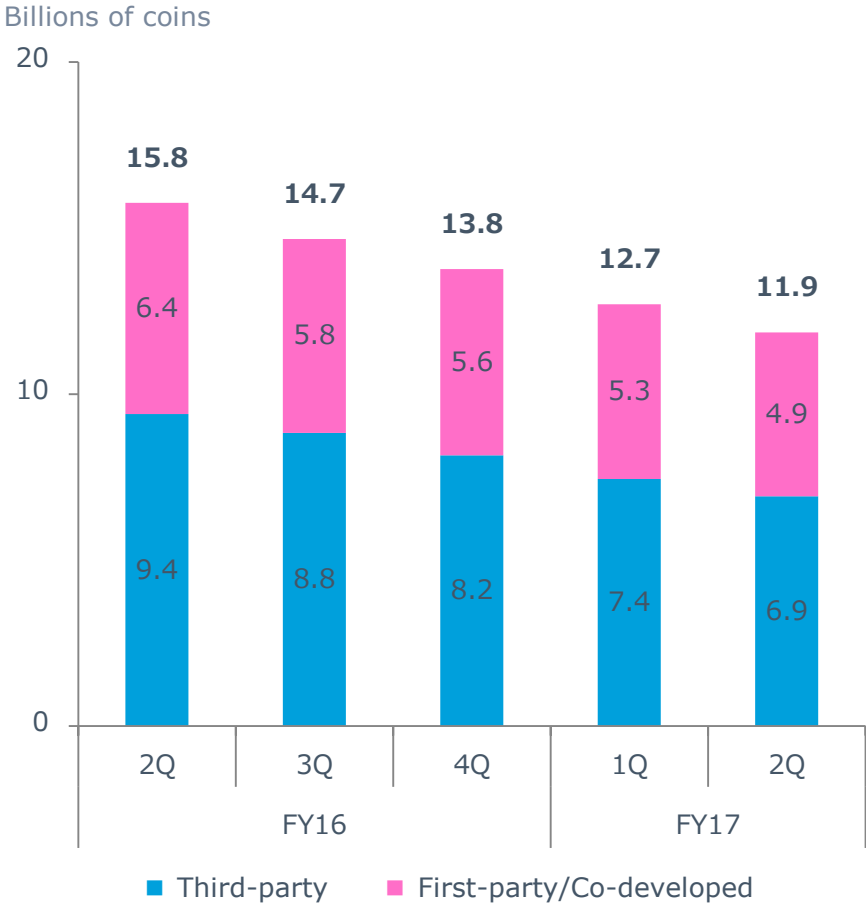
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Coin Consumption (1)

Overall coin consumption



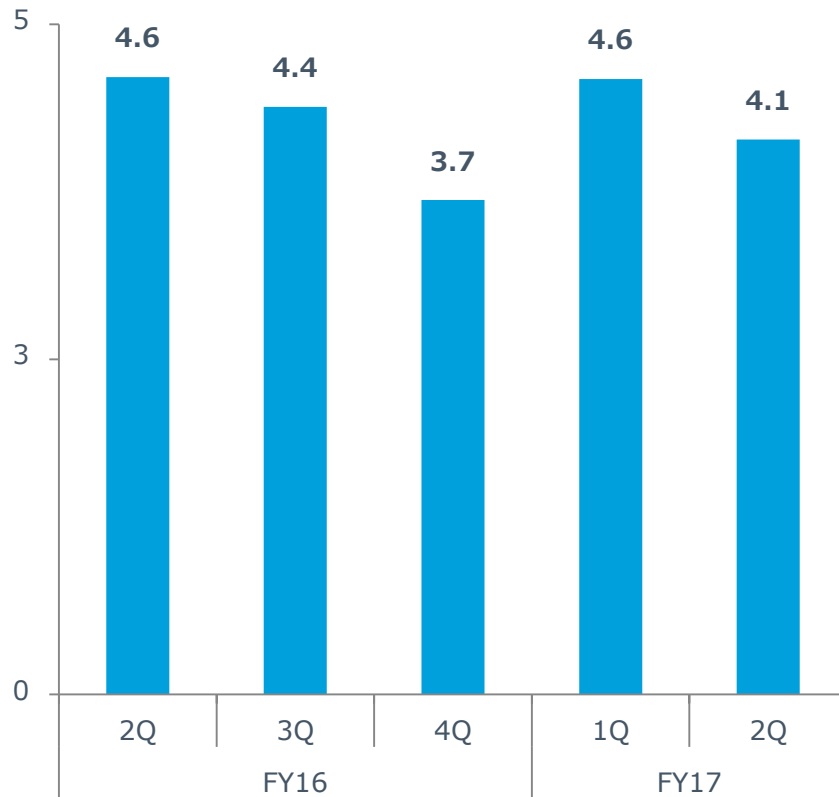
Web game coin consumption



Coin Consumption (2)

Japan Native Games

Billions of coins



Overseas Native Games

Billions of coins



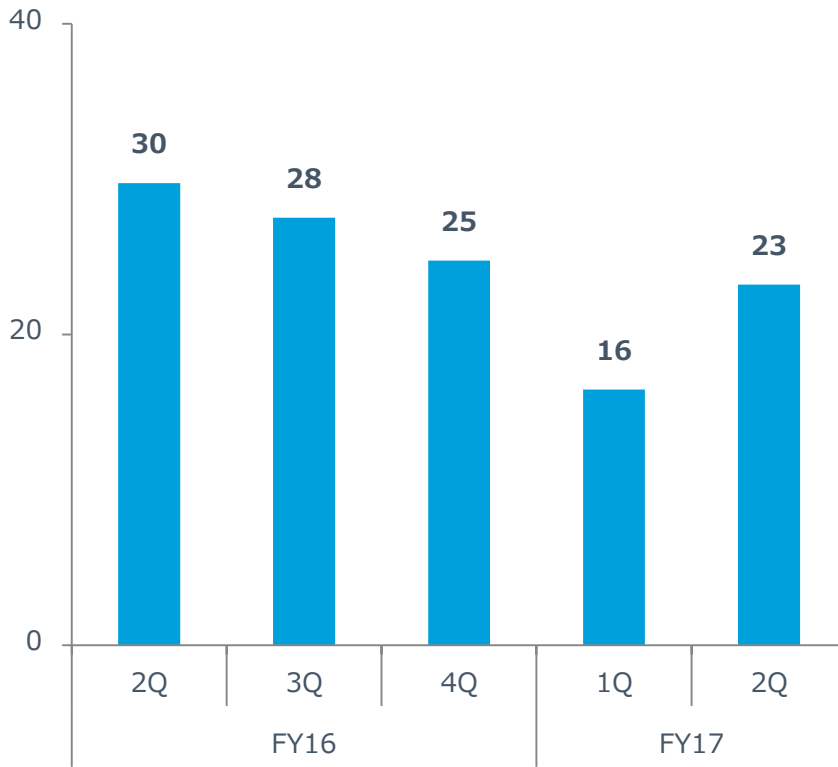
Note: Classified by area of development

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

Coin Consumption (3)

Overseas

Millions of U.S. dollars

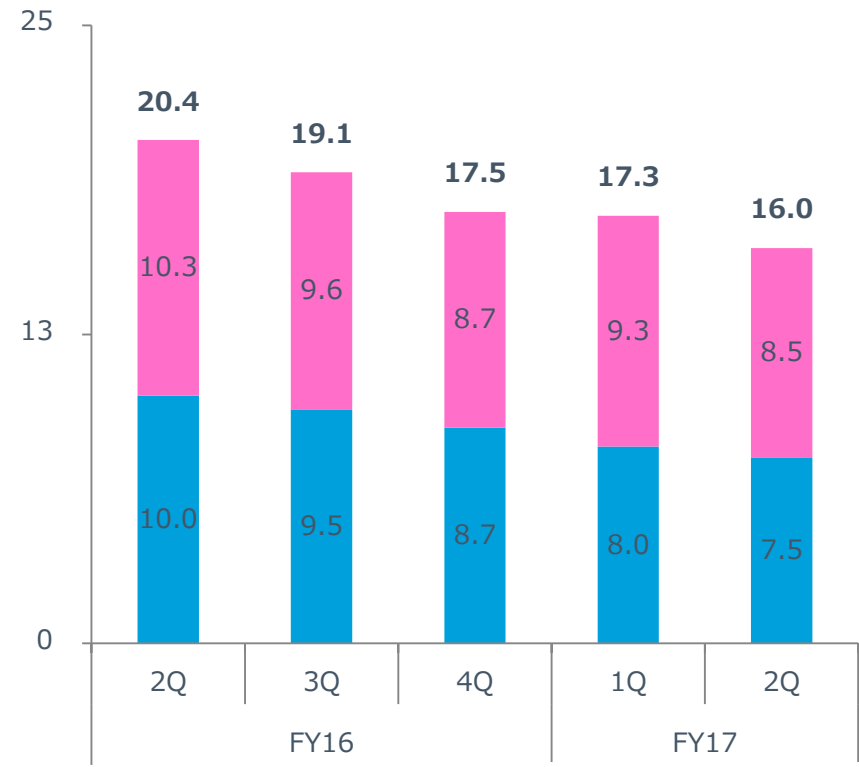


Notes:

- Coin consumption declined temporarily owing to the business transfer of some titles in 1Q FY17
- Classified by area of development

Japan

Billions of coins



Notes:

- Titles in which GREE is credited are categorized as "First-party/Co-developed"
- Some titles have been transferred to different categories

2Q FY17 Cost Structure

Millions of yen

		FY17 2Q	QoQ	YoY	FY17 1Q	FY16 2Q
	Rental charges	762	102	-83	660	846
	Labor costs	2,119	-12	-162	2,130	2,280
	Others	2,132	338	614	1,794	1,517
	Cost of sales	5,013	429	369	4,584	4,643
	Advertising	1,065	434	-549	631	1,614
	Commission fees	3,080	184	-550	2,897	3,631
	Labor costs	1,714	71	-11	1,644	1,725
	Others	2,977	370	462	2,607	2,515
	SG&A	8,836	1,058	-648	7,778	9,484
	Total costs	13,848	1,487	-279	12,362	14,128

2Q FY17 Balance Sheet

Billions of yen

	FY17 2Q	QoQ	YoY	FY17 1Q	FY16 2Q
Current assets	101.13	-2.78	10.49	103.91	90.64
Fixed assets	25.27	8.11	3.84	17.17	21.43
Total assets	126.41	5.33	14.33	121.08	112.07
Current liabilities	13.79	2.36	-0.18	11.43	13.97
Fixed liabilities	1.45	1.08	0.77	0.37	0.68
Total liabilities	15.24	3.43	0.58	11.80	14.66
Total net assets	111.17	1.90	13.75	109.27	97.42
Cash and cash equivalents – Interest-bearing debt	82.19 -	0.55 -	5.26 -	81.64 -	76.93 -
Net cash	82.19	0.55	5.26	81.64	76.93
Goodwill	2.18	1.92	0.70	0.26	1.48

New Business Services

Home-Related Services Platform



Ad Media Business



Health & Fitness Platform



VR Business

GVR Fund



GREE VR Studio



Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-2Q
Japan Game Business	-	834
Native Game Business	Pokelabo, Wright Flyer Studios	(421)
Web Game Business	funplex	(253)
Shared game depts.	ExPlay	(160)
Native Game Business (Overseas)	Includes GREE International Entertainment, Inc. (U.S. Studio), etc.	216
Commerce and Media, Investment, Advertising	Includes Glossom, SEKAIE, Limia, Lespas, etc.	200
Corporate, Headquarters	Includes GREE Business Operations	139
Engineering, Headquarters	-	71
Total	-	1,460

Note: Includes non-consolidated group companies; as of December 31, 2016



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