



**GREE, Inc.**

FY2017 Third Quarter Financial Results

April 27, 2017

## Financial Results Overview

- **QoQ growth in both sales and income, with net sales of ¥15.9 billion and operating income of ¥1.5 billion**
  - Sales rose on contribution from domestic native game business

## Business Overview

- **Two titles released in 3Q, made progress in developing titles ahead of 4Q release blitz**
  - Released two first-party IP titles in 3Q, both off to a strong start
  - One of the four titles scheduled for launch in 4Q has already been released, off to a strong start
  - Began development of multiple titles scheduled for release in FY2018 or later
- **Focus on fast-growing video-related businesses**
  - Focus on advertising and media businesses that use video as a key component
  - New Group company 3Minute posted record-high monthly sales

## FY17 4Q Earnings Forecast

- **4Q net sales ¥15.9 billion, operating income ¥1.4 billion**
  - Net sales expected to be same as 3Q
  - 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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## **3. Appendix**

# 1. Financial Results Overview (Consolidated)



## FY17 3Q Financial Results Overview

Net sales ¥15.9bn, operating income ¥1.5bn

Billions of yen

	FY17 3Q			FY17 2Q	FY16 3Q
		QoQ	YoY		
Net sales	15.88	0.53	-0.93	15.35	16.81
EBITDA	2.21	0.14	-1.77	2.07	3.99
Operating income	1.55	0.05	-2.09	1.50	3.64
Ordinary income	0.85	-2.91	-1.72	3.76	2.58
Net income	1.56	-0.32	0.13	1.88	1.43

### Notes:

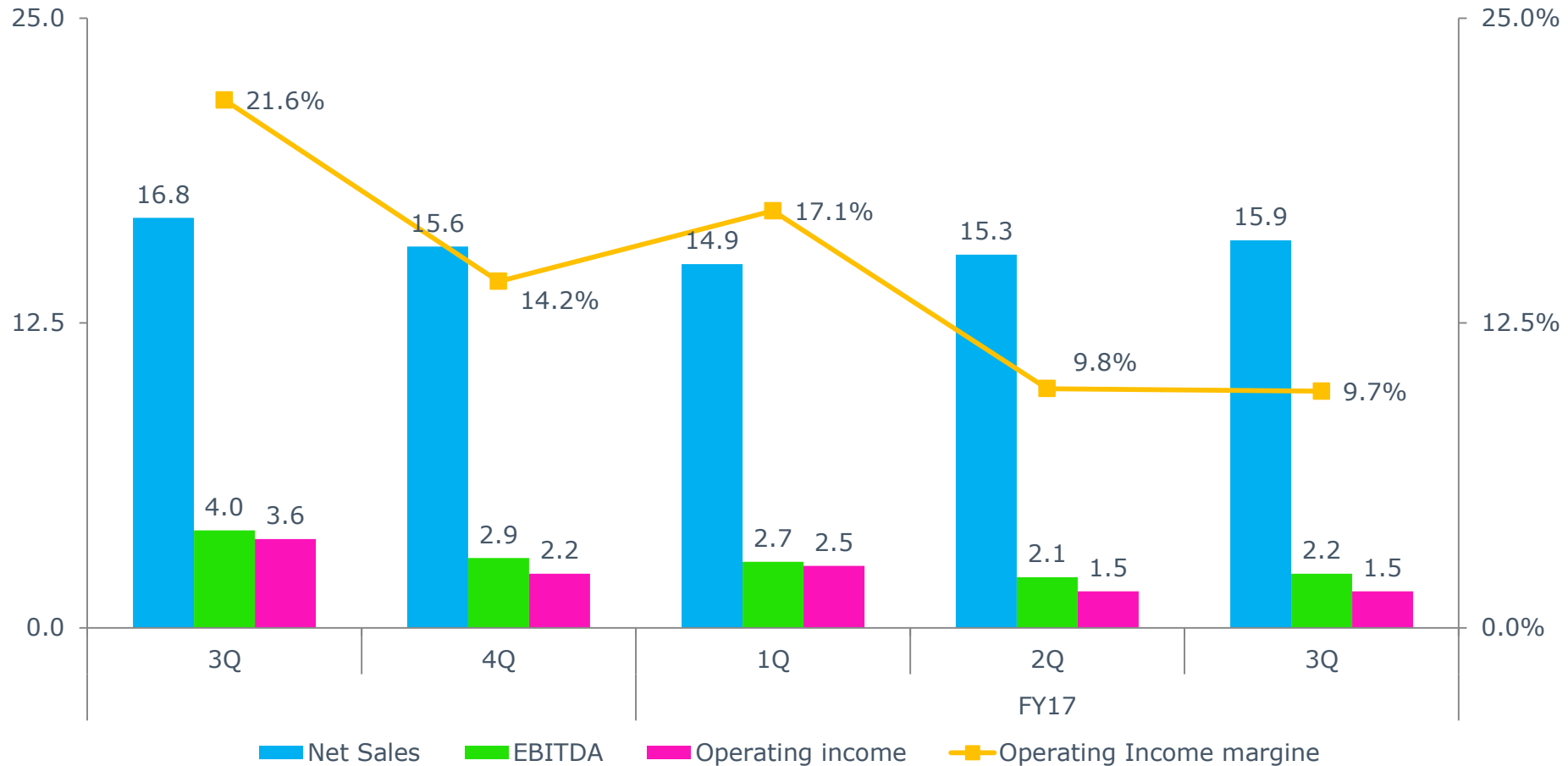
- Breakdown of FY17 3Q net sales: Paid service sales ¥14.37 billion; other ad media sales ¥1.51 billion
- EBITDA = Operating income/loss + depreciation costs + goodwill amortization

# 1. Financial Results Overview (Consolidated)

## Net Sales, EBITDA, and Operating Income

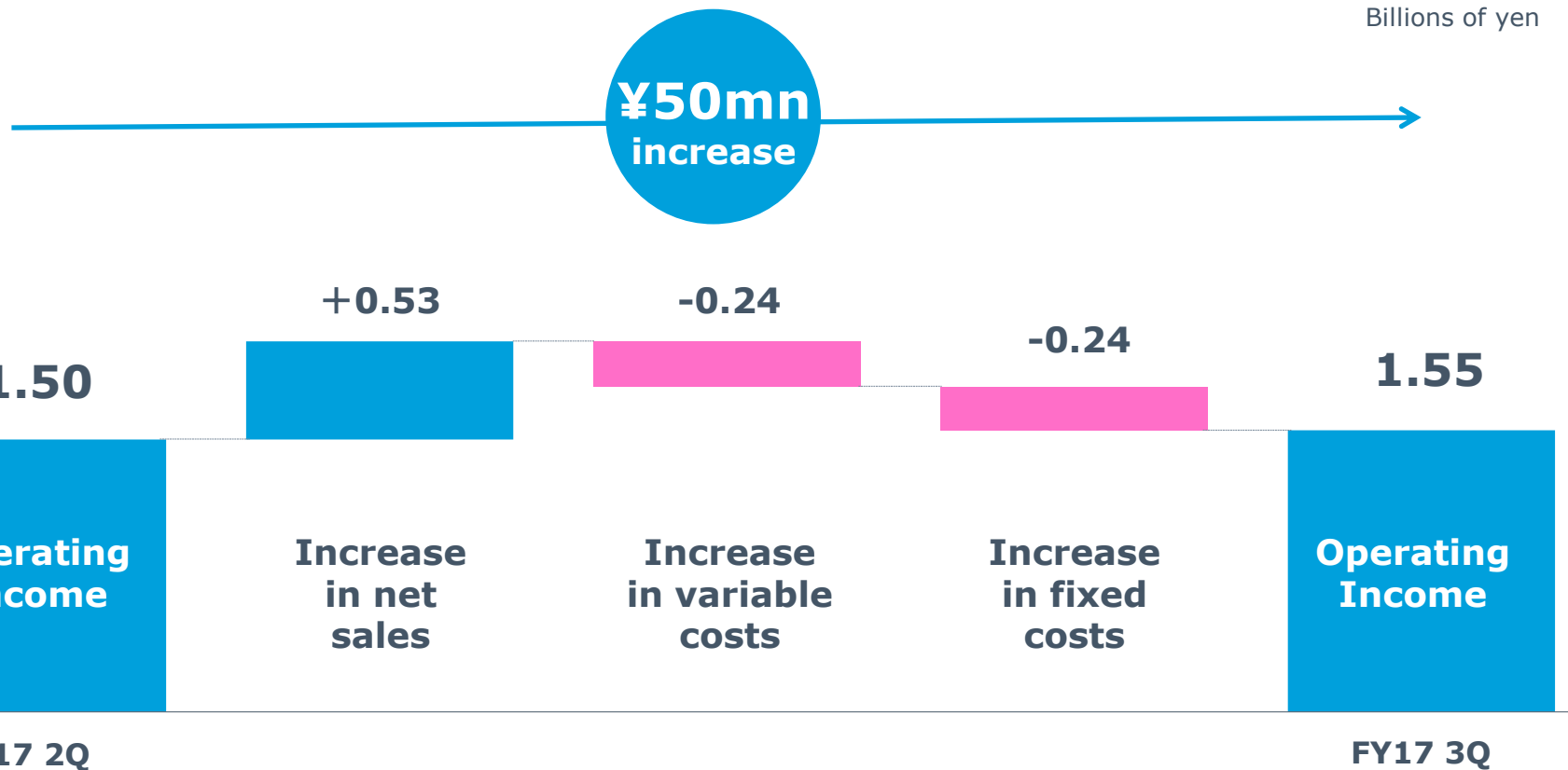
Sales continued to rise, increasing by ¥500 million QoQ

Billions of yen



## Operating Income Analysis

Operating income up ¥50 million due to sales growth



# 1. Financial Results Overview (Consolidated)

## FY17 3Q Cost Structure

Total costs increased ¥0.5 billion QoQ to ¥14.3 billion

Billions of yen

		FY17 3Q	QoQ	YoY	Factors in change (QoQ)	FY17 2Q	FY16 3Q
	Advertising	0.88	-0.18	-0.21	Decrease due to efficient reduction (ratio to net sales 2Q 6.9% → 3Q 5.5%)	1.06	1.09
	Commission Fees	4.04	0.43	0.73	Increase due to rise in sales	3.62	3.31
	Other	0.49	-	0.10	-	0.49	0.39
<b>Total variable costs</b>		<b>5.41</b>	0.24	0.62		5.17	4.79
	Labor costs	3.79	-0.05	-0.26	Consolidated headcount: end-2Q: 1,413 → end-3Q: 1,484	3.84	4.05
	Rental costs	0.78	0.02	0.06	-	0.76	0.72
	Depreciation	0.40	0.02	0.17	-	0.38	0.23
	Goodwill Amortization	0.27	0.08	0.15	Increase due to consolidation of 3Minute	0.19	0.12
	Other	3.68	0.17	0.42	Increased outsourcing costs	3.51	3.26
<b>Total fixed costs</b>		<b>8.92</b>	0.24	0.54		8.68	8.38
<b>Total costs</b>		<b>14.33</b>	0.49	1.16		13.85	13.17



# 1. Financial Results Overview (Consolidated)

## FY17 Earnings Forecast

Net sales of ¥62.0bn, operating income of ¥7.0bn

Billions of yen

	1Q	2Q	3Q	4Q	FY17
	Actual	Actual	Actual	Forecast	Forecast
Net sales	14.9	15.3	15.9	<b>15.9</b>	<b>62.0</b>
Operating income	2.5	1.5	1.5	<b>1.4</b>	<b>7.0</b>
Ordinary income	2.6	3.8	0.9	<b>1.4</b>	<b>8.6</b>
Net income	10.8	1.9	1.6	<b>0.8</b>	<b>15.0</b>

### ■ Top line

- Net sales expected to be same as 3Q
- 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 4Q

## 1. Financial Results Overview

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## 2. Operational Overview: Summary

# Review and Summary of 3Q

### Business Plan

### Review

Overall			Achieve turnaround in game business	- Increased domestic native game coin consumption, targeting continued growth
Game	Native	Japan	New release blitz	- Steady progress: released two first-party IP titles, and one third-party IP title for overseas market - Focusing on development of four titles for release in 4Q
		Overseas	Focus on title development	- Progress in development of four new titles scheduled for release in 4Q
	Web/Operation		Achieve sustainable profitability	- Game operation business progressing in line with plans
Advertising/Media			Continued investment in business growth	- New Group company 3Minute posted record-high monthly sales - Media page views up for LIMIA, MINE BY 3M
Costs/Investments			Implement strict cost controls	- Continued to control costs while investing in key areas

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

### Development Pipeline

Ten titles in development

	FY17		FY18 or later
	Already released	To be released in 4Q	
First-party IP	3 (1)	1 (1)	0 (0)
Third-party IP	1 (1)	3 (4)	6 (3)

Notes:

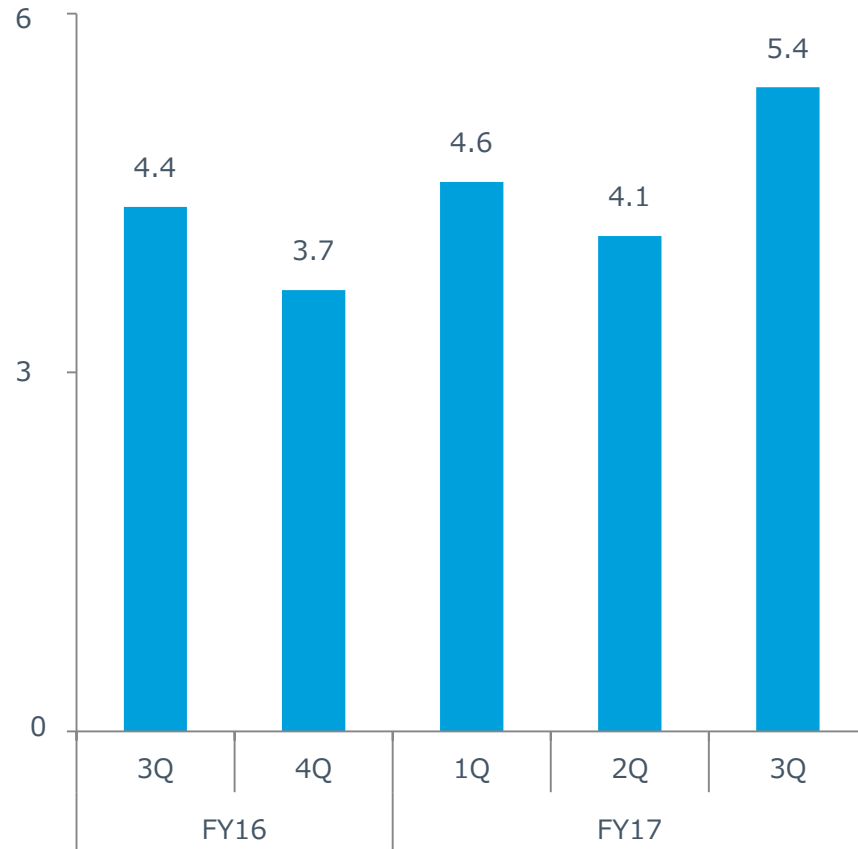
- All titles in pipeline have received approval for development; titles still under consideration are not included
- Some existing titles that are not included in the development pipeline will be distributed overseas and updated for overseas markets
- Figures in parentheses are numbers as of our 2Q FY2017 results announcement

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

### Progress Made

#### Coin Consumption

Billions of coins



#### Topics

- Impact of release blitz
  - Many new titles have entered top sales ranks
  - Favorable user reviews
- Developed third-party IP title for overseas market (January)
  - Driver of coin consumption growth in 3Q
- New title releases
  - *Rara-MAGI* January
  - *A Farewell to Arms* March
  - *Another Eden* April

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

### Progress Made

Impact of release blitz

	Ranking	User review scores	
		Google Play	App Store
 <i>Rara-MAGI</i>	46 <sup>th</sup>	4.5	4.7
 <i>A Farewell to Arms</i>	45 <sup>th</sup>	4.5	4.6
 <i>Another Eden: The Cat Who Goes Beyond Time</i>	6 <sup>th</sup>	4.7	4.8

- ※ Rankings indicate highest sales ranking reached as of April 26 in either the App Store or Google Play
- ※ User review scores as of April 24

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

### *Rara-MAGI*

Off to a strong start after January 25 launch, first *Rara-MAGI* TV commercials aired on April 27

**Over 1.5mn DLs**



**TV commercials aired**



- 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

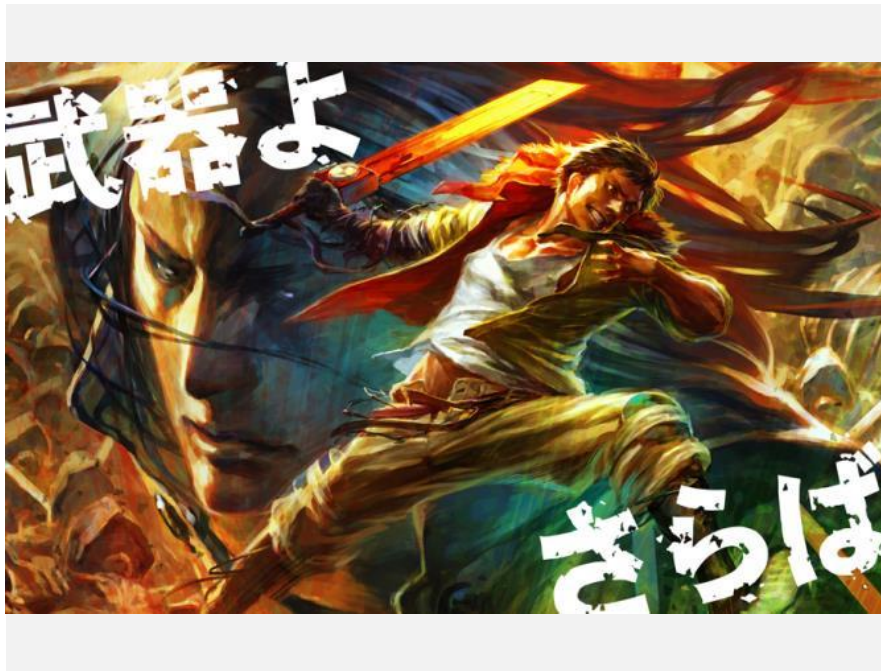
## 2. Operational Overview: Game Business, Native Games (domestic market)

### *A Farewell to Arms*

Off to a strong start after release on March 30

**Over a million DLs  
in first 2 weeks**

**In top 50 sales ranking**



100位

45<sup>th</sup>

Google Play top sales rankings  
Period: April 1-18

- Players feel the thrill of trouncing enemy hordes in this 3D hero action game



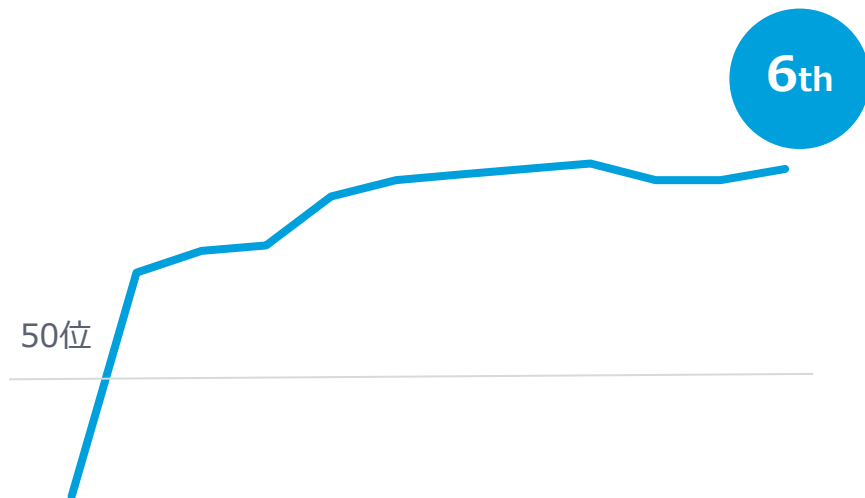
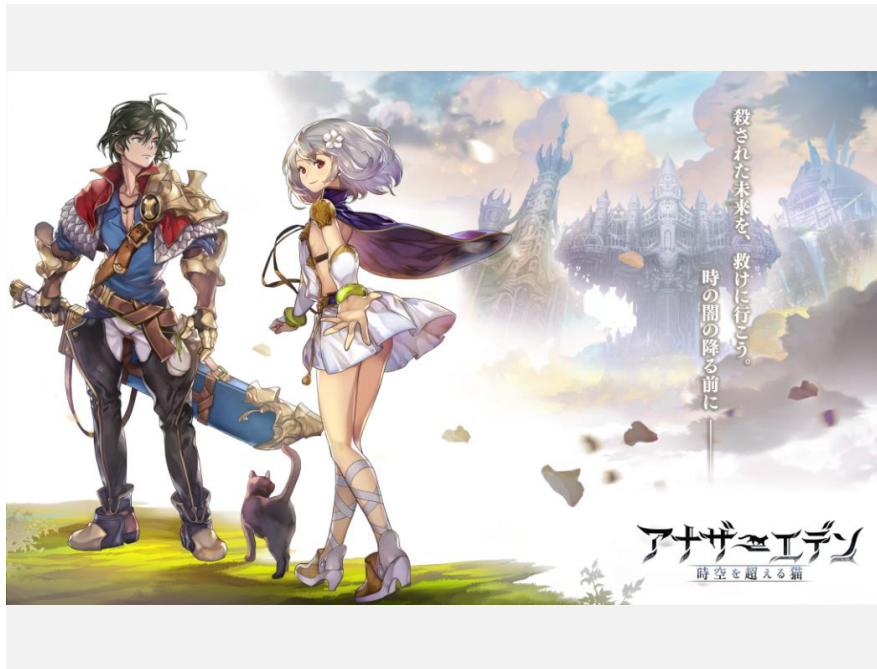
## 2. Operational Overview: Game Business, Native Games (domestic market)

### *Another Eden: The Cat Who Goes Beyond Time*

Off to a strong start after April 12 launch

**Released April 12**

**In top 10 sales ranking**



iOS top sales rankings  
Period: April 12-26

- Single play RPG from an all-star development staff

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

In Development

### ***AKB48 Stage Fighter 2 Battle Festival***

New version of AKB48 Stage Fighter (distributed by GREE), pre-registration underway



- Team up with fans of your favorite AKB48 member for real time battles of up to 16 versus 16



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

In Development

### *SINoALICE*

All-new smartphone game by Creative Director Taro Yoko jointly developed by GREE and SquareEnix, pre-registration underway



- Original story set in a unique and detailed world



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

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 (domestic market)

In Development

***Is It Wrong to Try to Pick Up Girls in a Dungeon: Memoria Freeze***

Release scheduled in summer of 2017, pre-registration underway



- Based on a very popular TV anime series which was based on an original series of light novels that sold over 7mn copies
- TV commercial airing during *Sword Oratoria Danmachi Gaiden* TV program



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

In Development

### *Library Cross Infinite*

Joint development by Idea Factory and Wright Flyer Studios, scheduled release in 2017



- All-new bittersweet romance puzzle RPG featuring an all-star cast of popular characters from Otomate (a division of Idea Factory)

Note: Screenshot is of development version

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

Progress in investment, development and market promotion

### Joint development with SQUARE ENIX

Development starting in spring of 2017



- Launch on Steam and VivePort scheduled for this spring
- Spectacular card battle game with 360° view

### Japan VR Summit

The largest VR conference in Japan



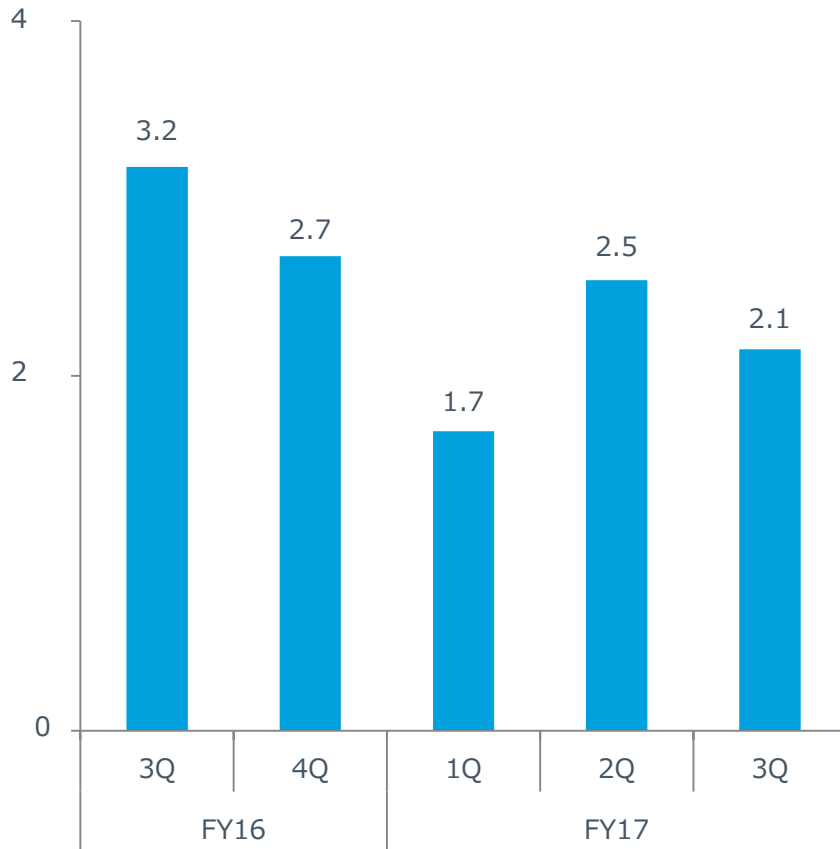
- JVRs3 follows JVRs2 (held in November, 2016)
- Featuring announcements regarding VR applications and latest trends in VR

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

### Progress Made

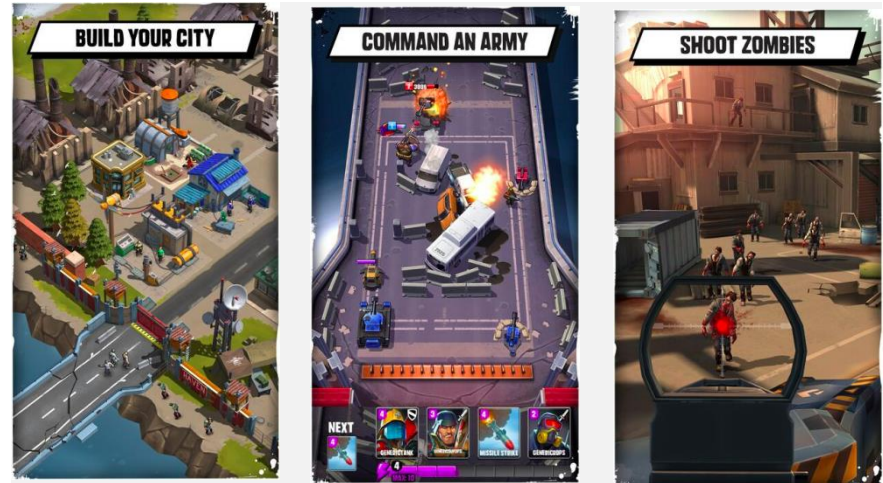
#### Coin Consumption

Billions of coins



#### Topics

- Integrating 3 different game engines
  - Scheduled for release in 4Q



Note: Screenshot is of development version



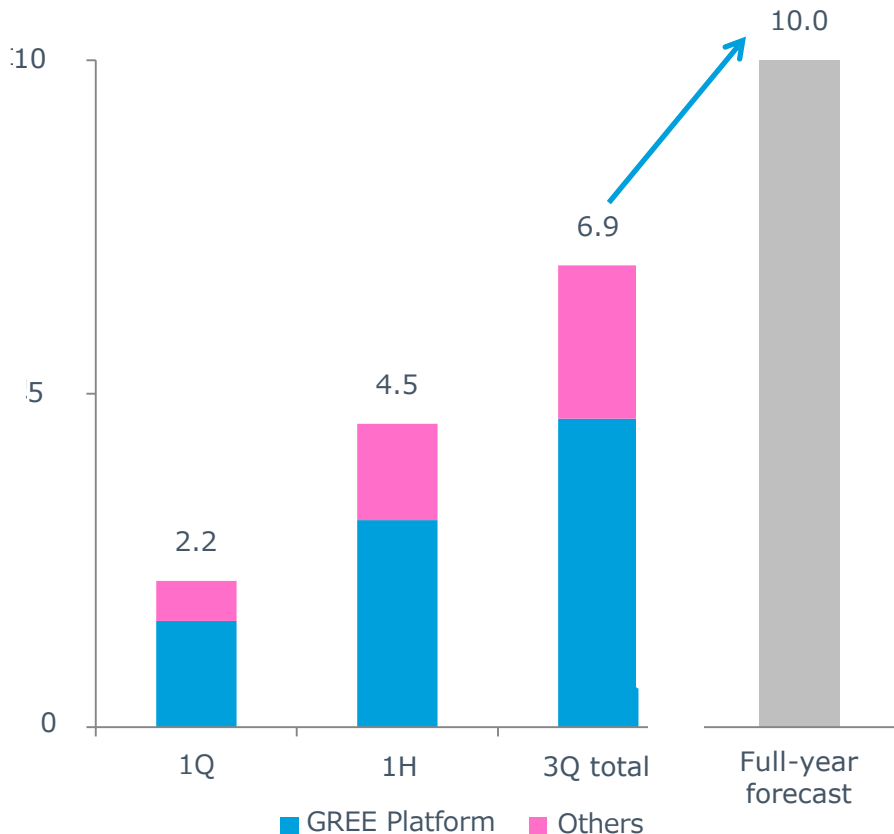
## 2. Operational Overview: Game Business, Game Operation Business



### Progress Made

#### Coin Consumption

Billions of coins



#### Topics

- Began operation of major third-party title in February
- Forecast FY17 coin consumption of 10bn

## 2. Operational Overview: Advertising and Media Businesses

### Focus on Video

Focus on advertising and media businesses that use video as a key component

#### Media businesses



#### Video ad technology



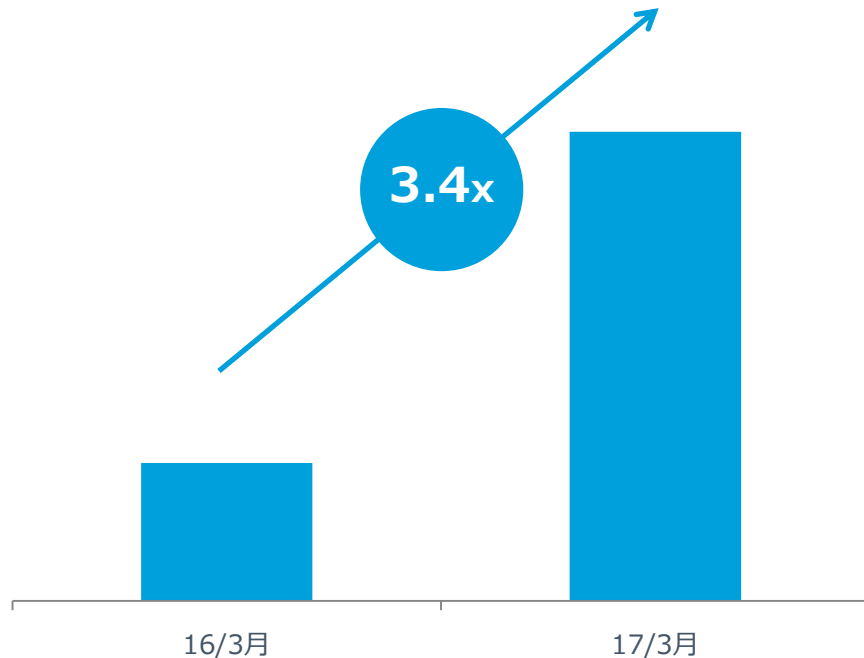
#### Video content production



### Progress Made

#### Sales growth at 3Minute

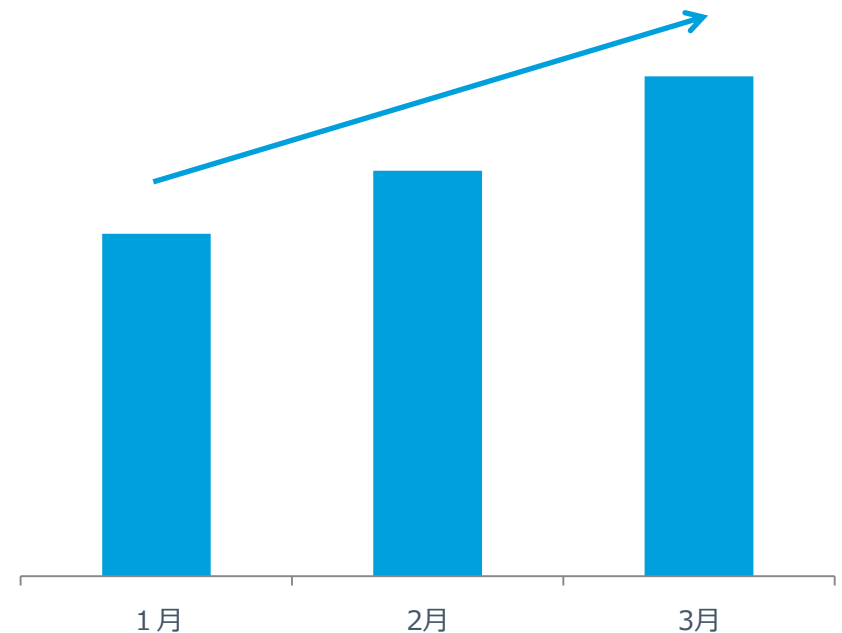
Record high sales in March



- Member of GREE Group since February 2017, consolidated subsidiary since March
- Launched second private brand, ETRÉ TOKYO, in March

#### Growth in media page views

Roughly 20% growth in monthly page views



- Growth in page views at websites including LIMIA and MINE BY 3M

## 1. Financial Results Overview

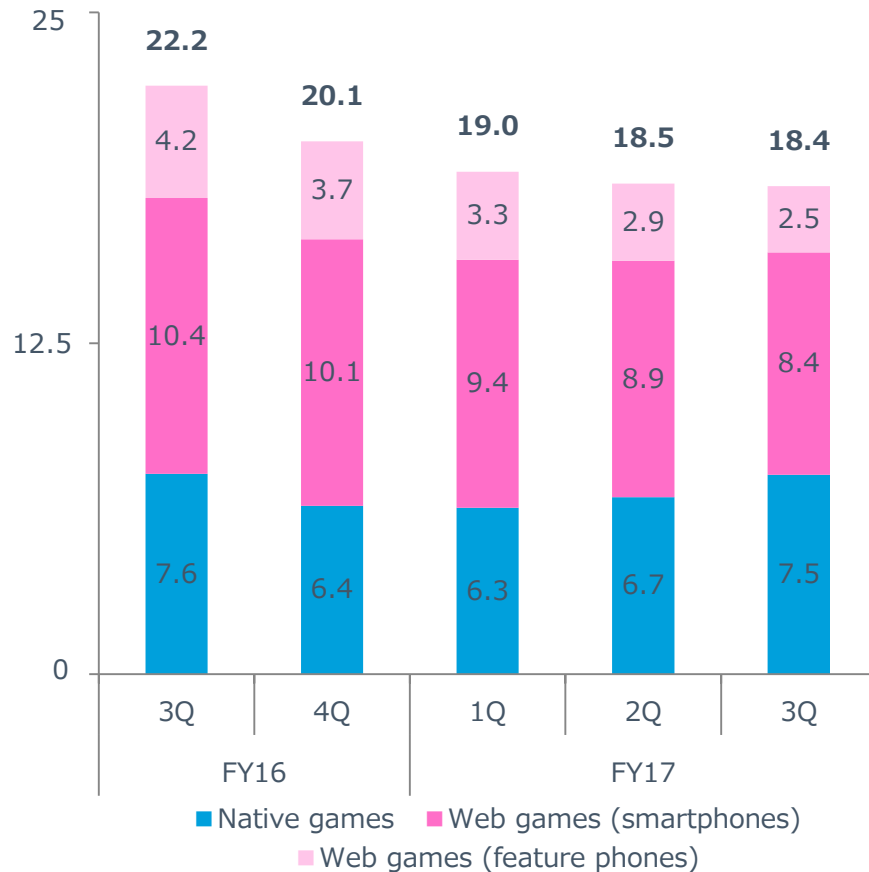
## 2. Operational Overview

## 3. Appendix

## Coin Consumption (1)

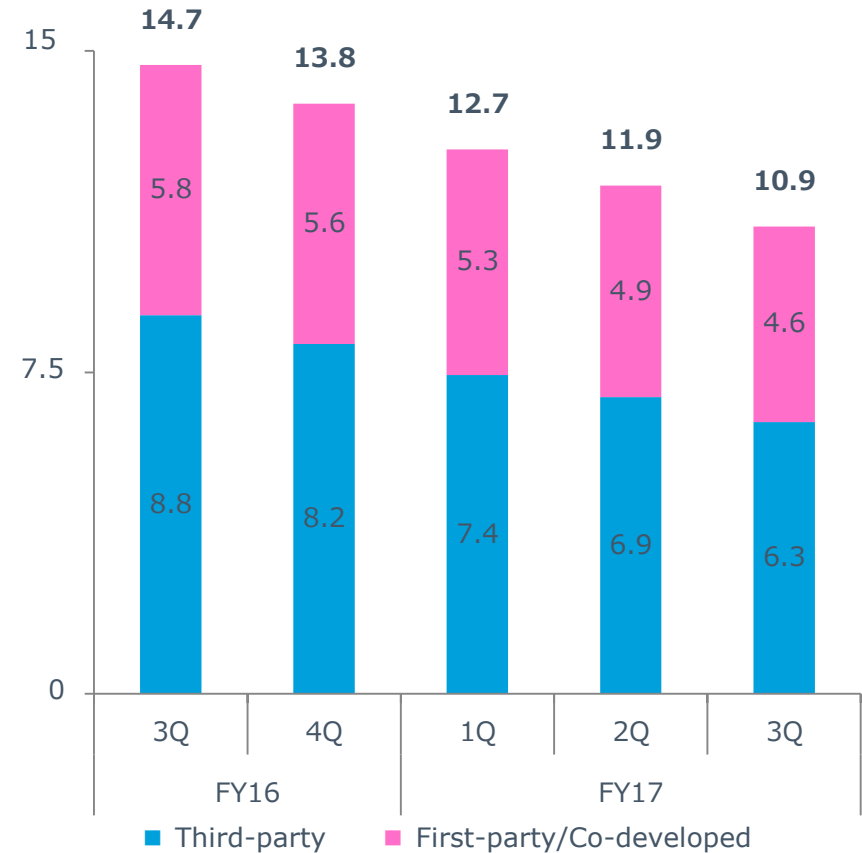
### Overall coin consumption

Billions of coins



### Web game coin consumption

Billions of coins

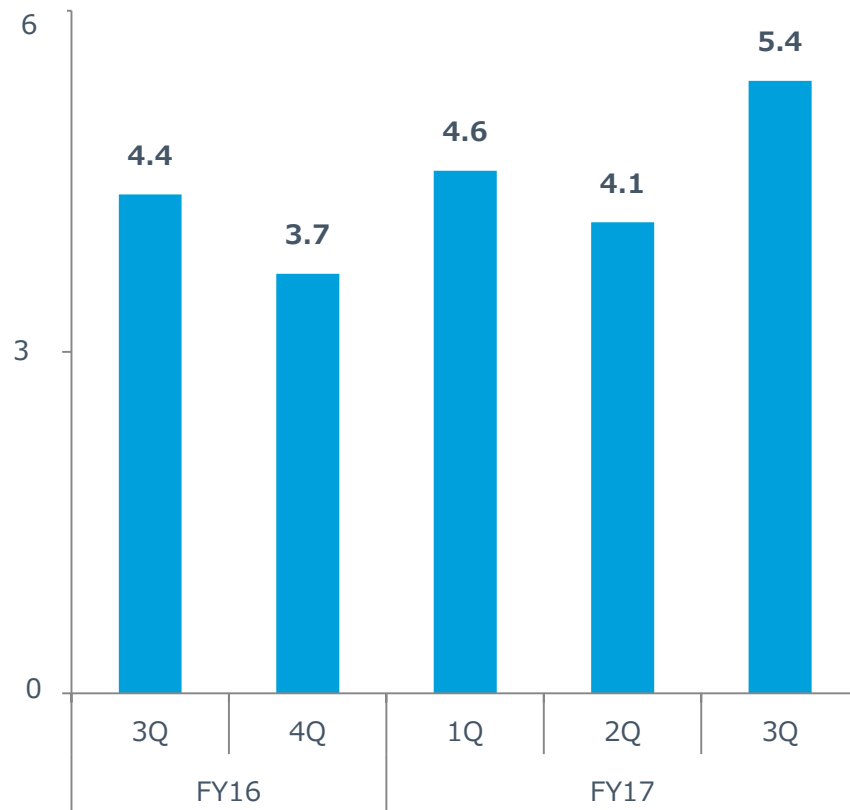


Note: Titles in which GREE is credited are categorized as "First-party/Co-developed"

## Coin Consumption (2)

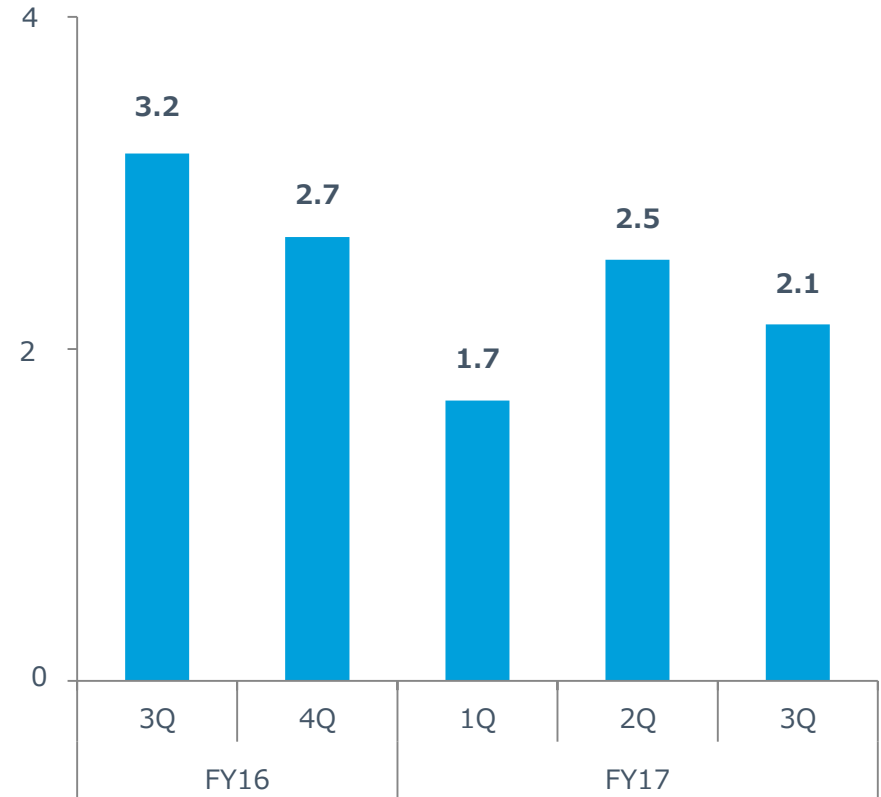
### Japan Native Games

Billions of coins



### Overseas Native Games

Billions of coins



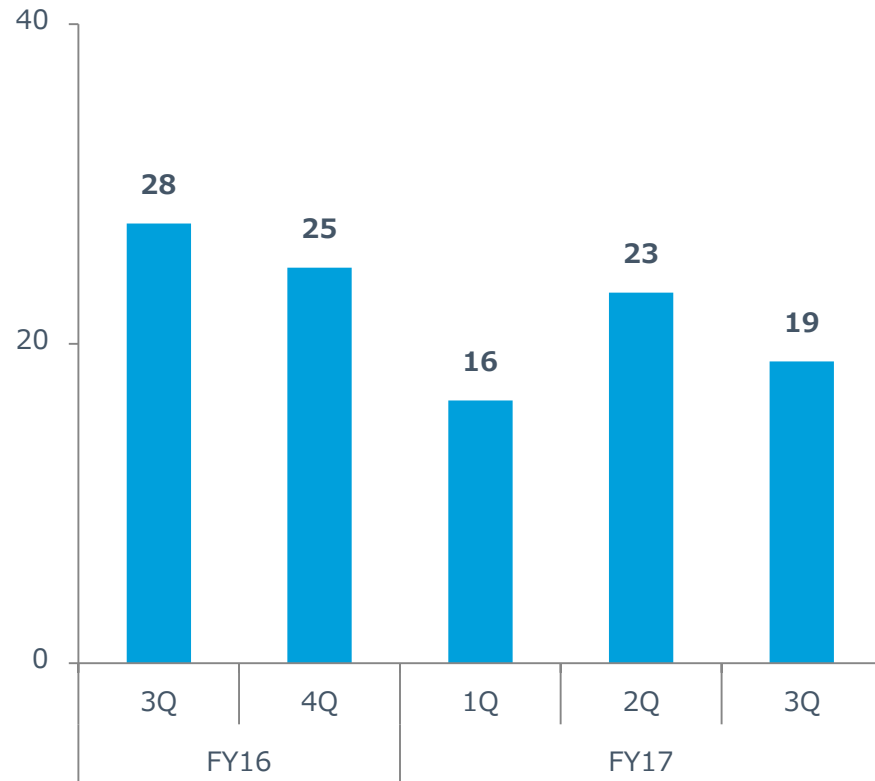
Note: Classified by area of development

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

## Coin Consumption (3)

### Overseas

Millions of U.S. dollars

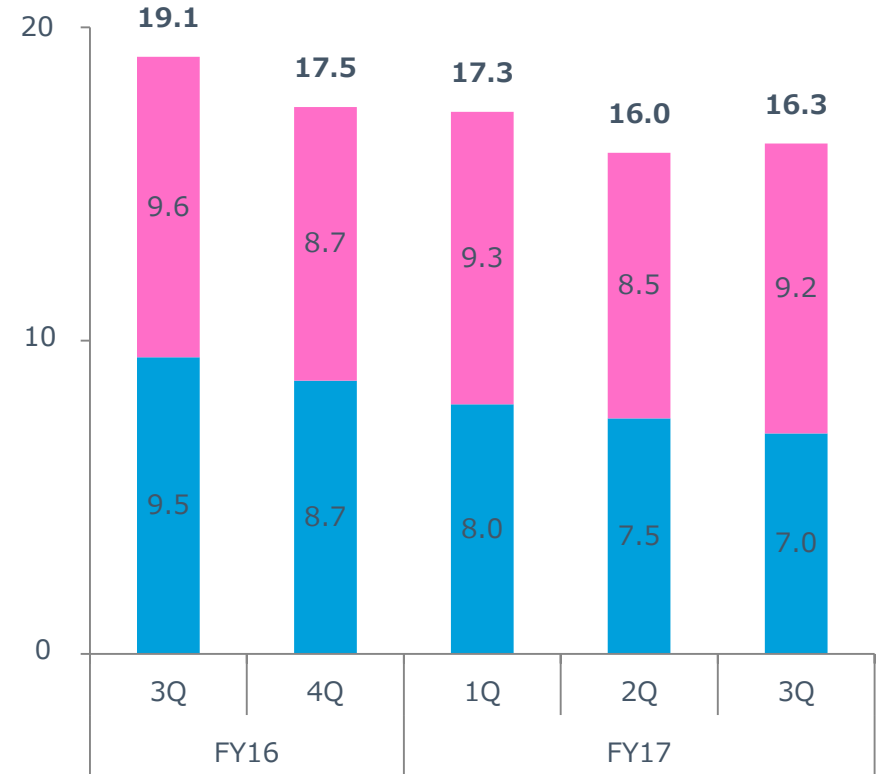


Notes:

- 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:

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

## 3Q FY17 Cost Structure

Millions of yen

		FY17 3Q	QoQ	YoY	FY17 2Q	FY16 3Q
	Rental charges	783	21	64	762	720
	Labor costs	2,120	1	-97	2,119	2,217
	Others	2,879	747	1,605	2,132	1,274
	Cost of sales	5,782	769	1,572	5,013	4,210
	Advertising	882	-183	-206	1,065	1,088
	Commission fees	3,123	43	-188	3,080	3,311
	Labor costs	1,672	-42	-165	1,714	1,837
	Others	2,876	-101	148	2,977	2,728
	SG&A	8,553	-283	-411	8,836	8,964
	<b>Total costs</b>	<b>14,335</b>	<b>486</b>	<b>1,161</b>	<b>13,848</b>	<b>13,174</b>



## 3Q FY17 Balance Sheet

Billions of yen

	FY17 3Q	QoQ	YoY	FY17 2Q	FY16 3Q
Current assets	<b>98.87</b>	-2.26	10.12	101.13	88.75
Fixed assets	<b>28.60</b>	3.33	6.54	25.27	22.06
Total assets	<b>127.47</b>	1.07	16.66	126.41	110.81
Current liabilities	<b>13.87</b>	0.08	3.58	13.79	10.29
Fixed liabilities	<b>1.44</b>	-0.01	0.81	1.45	0.63
Total liabilities	<b>15.31</b>	0.07	4.39	15.24	10.92
Total net assets	<b>112.16</b>	0.99	12.27	111.17	99.89
Cash and cash equivalents – Interest-bearing debt	<b>79.40</b> -	-2.78 -	2.05 -	82.19 -	77.36 -
Net cash	<b>79.40</b>	-2.78	2.05	82.19	77.36
Goodwill	<b>6.05</b>	3.87	4.70	2.18	1.35

## Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-3Q
Japan Game Business	-	877
Native Game Business	Pokelabo, Wright Flyer Studios	(407)
Web Game / Operation Business	funplex	(260)
Shared game depts.	ExPlay	(210)
Native Game Business (Overseas)	Includes GREE International Entertainment, Inc. (U.S. Studio), etc.	181
Media, Investment, Advertising	Includes Glossom, SEKAIE, Limia, Lespas, etc.	259
Corporate, Headquarters	Includes GREE Business Operations	138
Engineering, Headquarters	-	75
<b>Total</b>	-	<b>1,530</b>

Note: Includes non-consolidated group companies; as of March 31, 2017



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