



GREE, Inc.

FY2017 Fourth Quarter Financial Results

August 3, 2017

Executive Summary



FY17 Actual	Full-year	<ul style="list-style-type: none">■ Net sales ¥65.4 billion, operating income ¥8.0 billion, EBITDA ¥10.1 billion<ul style="list-style-type: none">- Created many hit titles in release blitz, achieved turnaround in game business- Leveraged operational capabilities to stabilize sales of long-running titles- Game operation business transactions reached around 10 billion coins- Focused on advertising and media businesses that use video as a key component
	4Q	<ul style="list-style-type: none">■ Net sales ¥19.2 billion, operating income ¥2.4 billion, QoQ growth in sales and income<ul style="list-style-type: none">- Released four new native games, all reached top 20- Strategic pivot in overseas business to localizing titles developed in Japan
FY18 Plan		<ul style="list-style-type: none">■ Aggressive push in preparation for medium-to-long-term leap forward<ul style="list-style-type: none">- Game and entertainment business<ul style="list-style-type: none">▪ Drive earnings growth through game engine, IP, and global strategies- Advertising and media business<ul style="list-style-type: none">▪ Increase our media power through “App, Video, and Investment” strategies

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview (Consolidated)

FY17 Full-Year and 4Q Financial Results Overview

FY17 net sales of ¥65.4 billion, operating income of ¥8.0 billion
4Q FY17 net sales of ¥19.2 billion, operating income of ¥2.4 billion

Billions of yen

	FY17		FY17 4Q		FY16	FY17 3Q
		YoY		QoQ		
Net sales	65.37	-4.51	19.23	3.35	69.88	15.88
EBITDA	10.08	-5.87	3.08	0.87	15.95	2.21
Operating income	8.00	-6.24	2.41	0.86	14.24	1.55
Ordinary income	10.04	-0.50	2.85	2.00	10.53	0.85
Net income (loss)	12.12	3.71	-2.15	-3.72	8.40	1.56

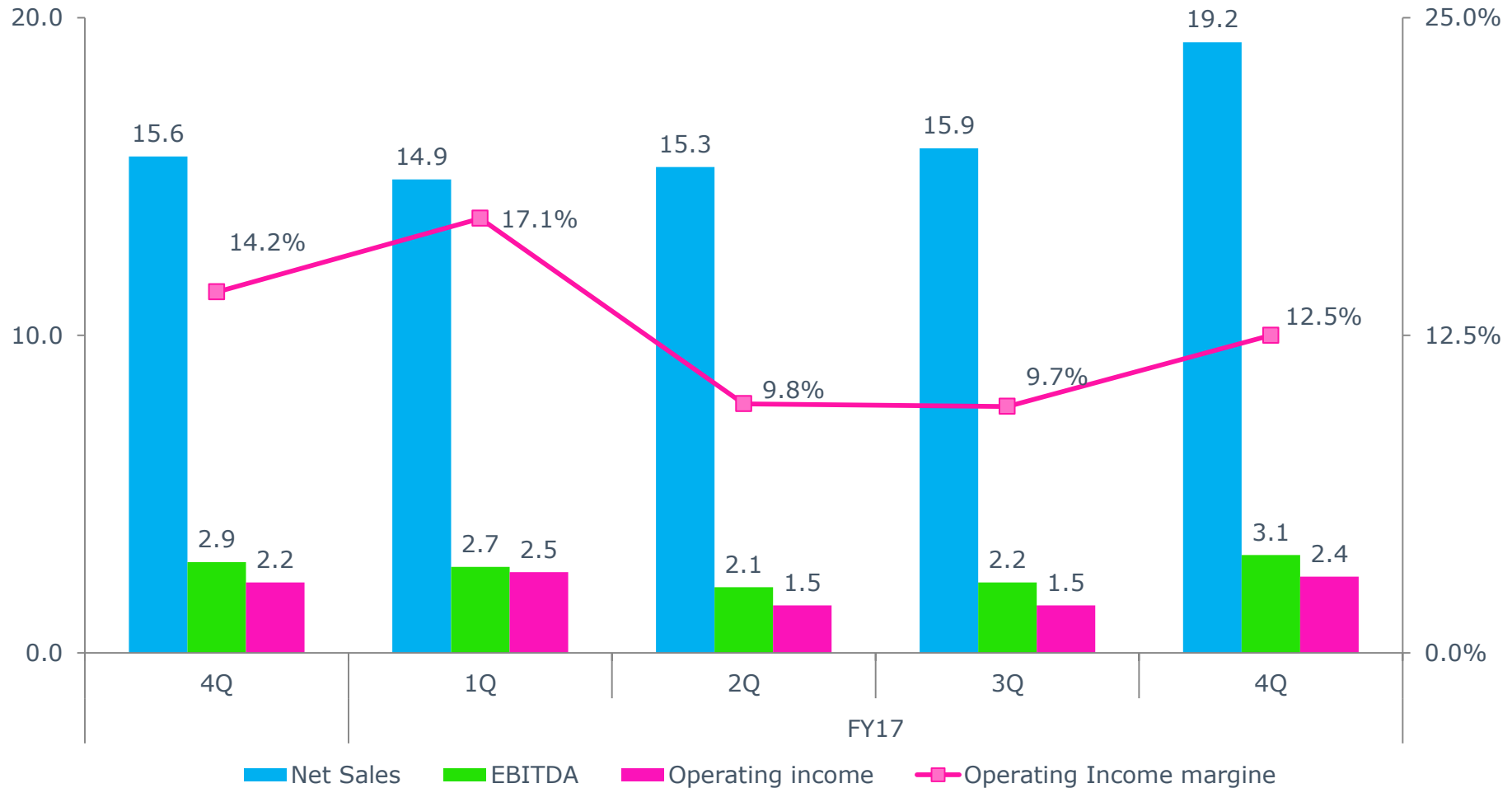
- Breakdown of FY17 4Q net sales: Paid service sales ¥18.04 billion; ad media sales ¥1.19 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

Growth in quarterly sales and income both QoQ and YoY

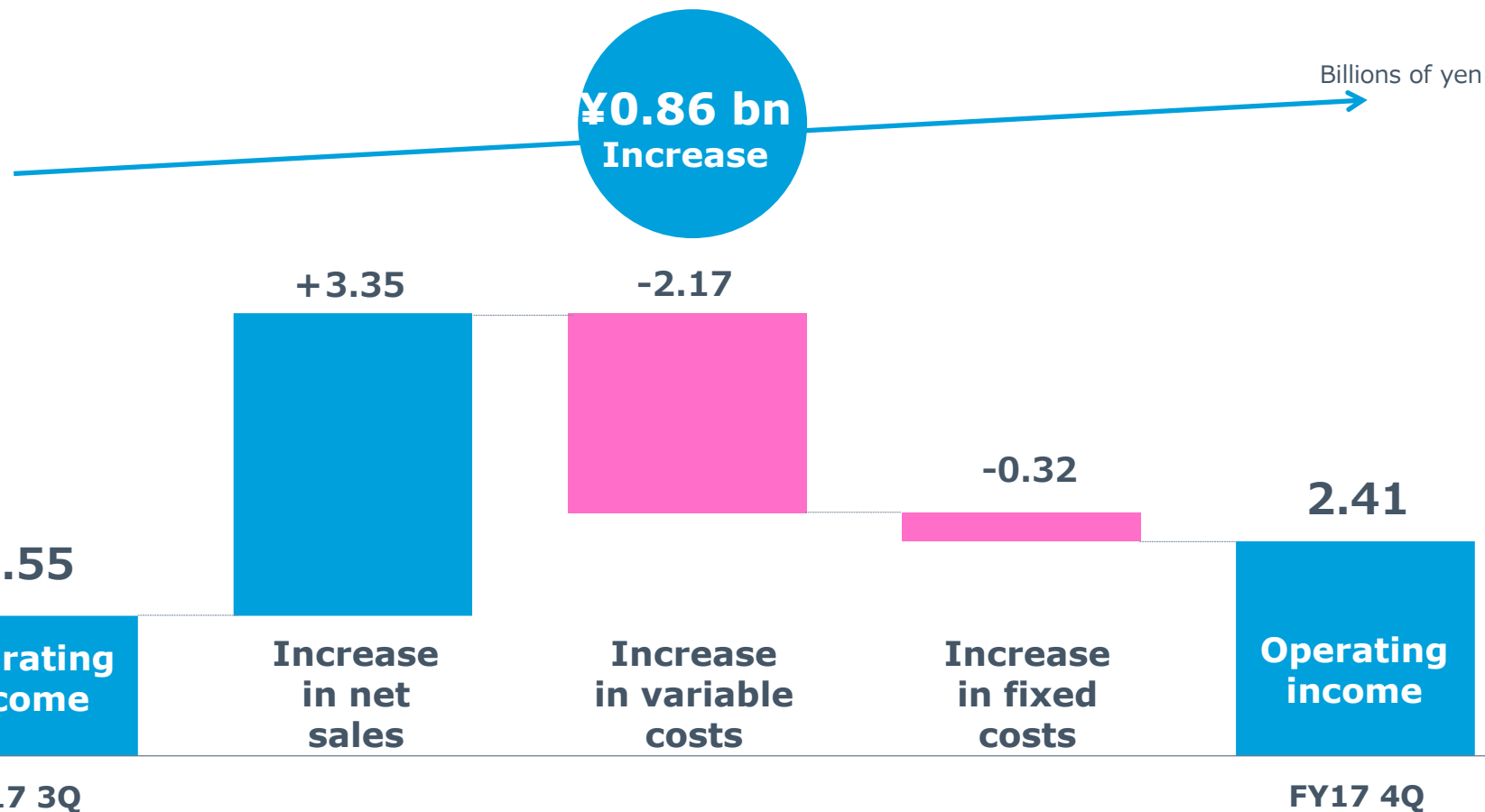
Billions of yen



1. Financial Results Overview (Consolidated)

Operating Income Analysis

Operating income increased by ¥0.86 billion due to sales growth



1. Financial Results Overview (Consolidated)

FY17 4Q Cost Structure

Invested aggressively in advertising for hit titles

Billions of yen

		FY17 4Q	QoQ	YoY	Factors in change (QoQ)	FY17 3Q	FY16 4Q
	Advertising	1.77	0.88	0.56	Increase from investment in ads for hit titles (3Q: 5.5% → 4Q: 9.2%)	0.88	1.21
	Commission Fees	5.64	1.60	2.69	Increase due to sales growth	4.04	2.95
	Other	0.18	-0.31	-0.23	Decrease due to transfer of subsidiary	0.49	0.41
Total variable costs		7.59	2.17	3.02		5.41	4.57
	Labor costs	3.91	0.12	-0.00	Consolidated headcount: end-3Q: 1,484 → end-4Q: 1,416	3.79	3.91
	Rental costs	0.89	0.11	-0.10	Server fees increased due to new titles released	0.78	0.99
	Depreciation	0.34	-0.06	0.14	-	0.40	0.20
	Goodwill amortization	0.34	0.07	-0.10	-	0.27	0.44
	Other	3.77	0.09	0.46	-	3.68	3.31
Total fixed costs		9.24	0.32	0.39		8.92	8.85
Total costs		16.83	2.49	3.41		14.33	13.42

1. Financial Results Overview (Consolidated)



Difference between Results and Forecast

Net sales up ¥3.4 billion, operating income up ¥1.0 billion

Billions of yen

	FY17		
	Actual	Forecast	Difference
Net sales	65.4	62.0	3.4
Operating income	8.0	7.0	1.0
Ordinary income	10.0	8.6	1.4
Net income	12.1	11.0	1.1

- **Top line**
 - All native games released in Japan in 4Q reached top 20
- **Operating income**
 - Operating income rose on sales growth despite aggressive investment in advertising

1. Financial Results Overview (Consolidated)



Fiscal Year-End Dividend

Plan to pay dividend of ¥11 per share

	FY17 Forecast	FY16 Actual
Record date	June 30, 2017	June 30, 2016
Dividend per share	¥11	¥8
Total amount	¥2.586 billion	¥1.875 billion
Payout ratio (consolidated)	21.3%	22.3%
Effective date	September 27, 2017	September 28, 2016

- FY2017 dividend amount is subject to approval at the annual shareholders' meeting scheduled for September 26, 2017

1. Financial Results Overview (Consolidated)



FY18 1Q Earnings Forecast

Net sales ¥20.5 billion, operating income ¥1.5 billion, EBITDA ¥1.9 billion

Billions of yen

	FY17 4Q	FY18 1Q	Difference
	Actual	Forecast	
Net sales	19.2	20.5	1.3
Operating income	2.4	1.5	-0.9
Ordinary income	2.8	1.5	-1.3
Net income (loss)	-2.2	1.0	3.2
EBITDA	3.1	1.9	-1.2

- **Top line**

- We expect earnings contribution from titles released in FY17

- **Costs**

- We plan to make aggressive up-front investments in businesses that can benefit from such investment

1. Financial Results Overview

2. Operational Overview

3. Appendix

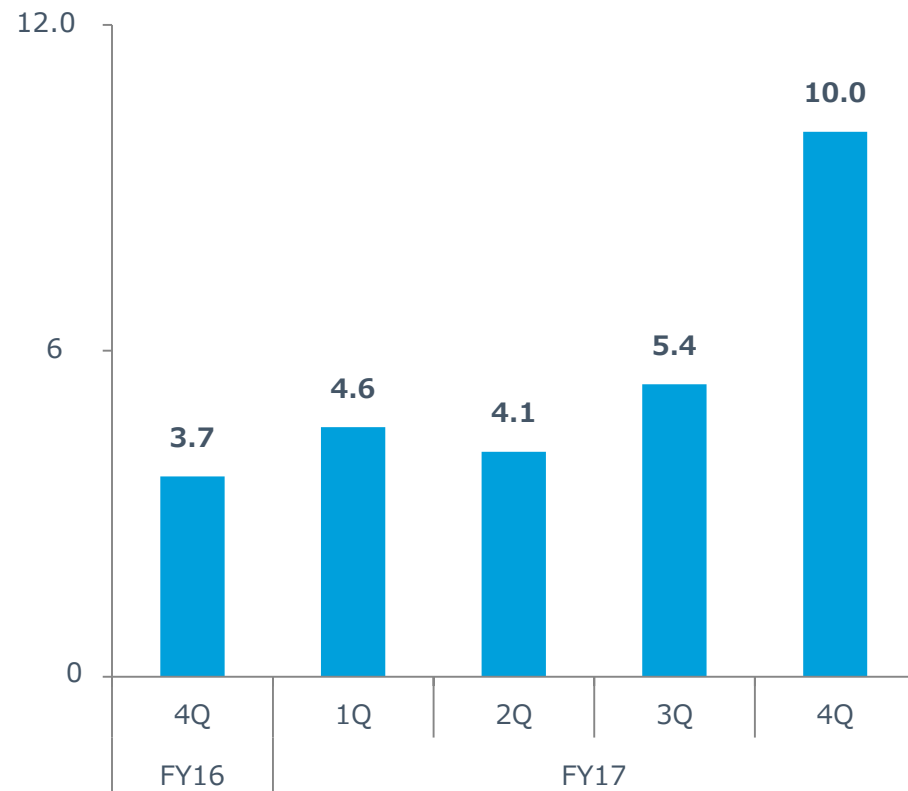
2. Operational Overview: Game Business, Native Games

4Q Topics

Progress Made

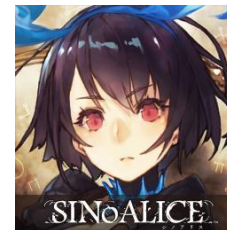
Coin Consumption

Billions of coins



Topics

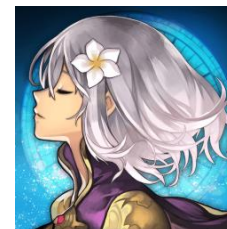
- Four new titles released, all reached top 20



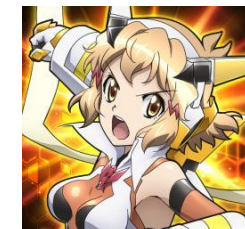
No. 1



No. 8



No. 6



No. 12

※ Rankings indicate highest sales ranking reached as of July 31 in either the App Store or Google Play

2. Operational Overview: Game Business, Native Games



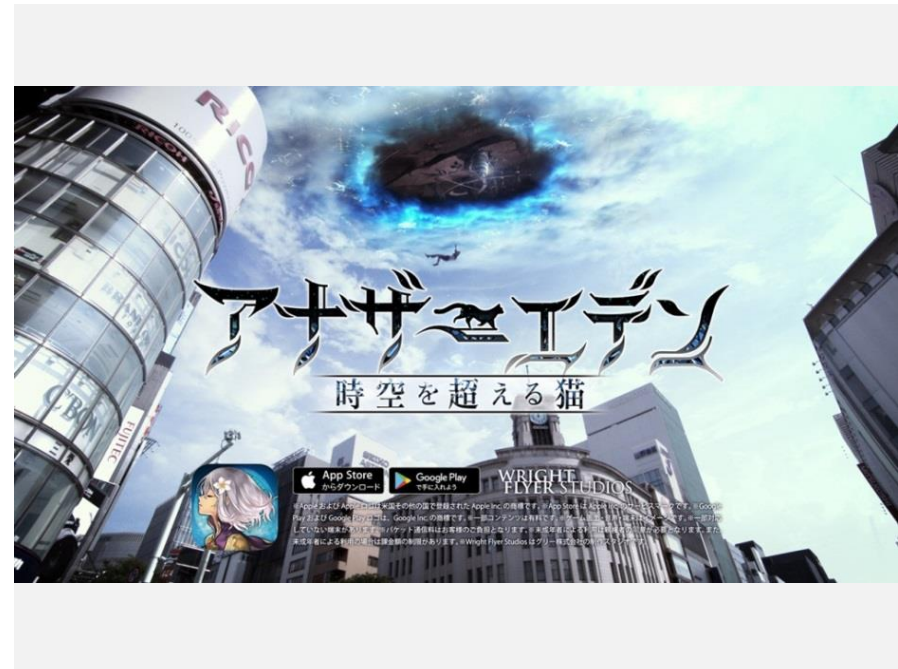
4Q Topics

Another Eden: The Cat Who Goes Beyond Time

Released April 12; TV commercials aired starting July 21 to bolster major update

Major update

TC commercials airing



- Single play RPG from an all-star development staff

2. Operational Overview: Game Business, Native Games

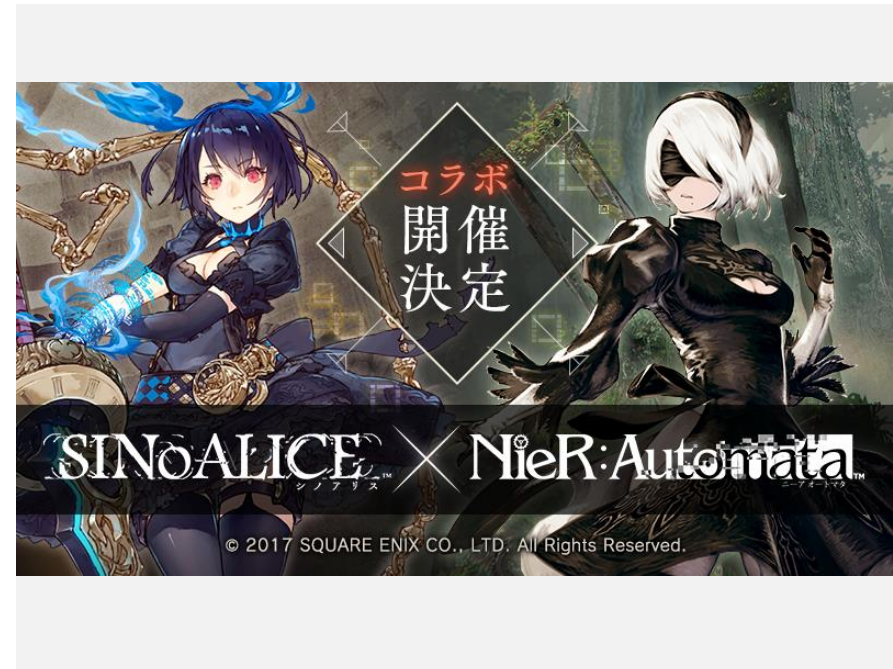
4Q Topics

SINoALICE

Released June 6; planning to further strengthen operations through large-scale collaborations, etc.

Over 2 million downloads

Plan to launch large-scale collaboration



- Battle fantasy RPG for smartphones developed jointly by PokeLabo and Square Enix (distributed by PokeLabo)
- Director Yoko Taro, Keiichi Okabe and MONACA from the *NieR* series have teamed up again to create a smartphone version

2. Operational Overview: Game Business, Native Games

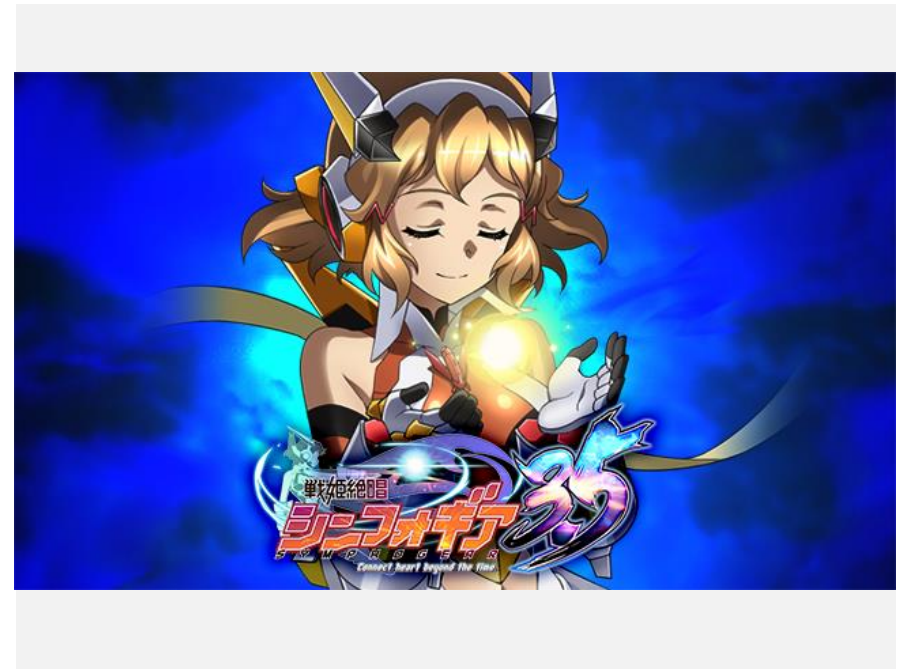
4Q Topics

Senki Zesshou SYMPHOGEAR XD Unlimited

Released June 26; full-scale media mix promotion

TV commercials airing during anime series broadcast

Created new storyline for game



- Symphonic battle RPG that faithfully re-creates the world of anime series *Senki Zesshou SYMPHOGEAR*
- Includes many dramatic battle scenes from the anime series and characters' songs boost the thrill of battle

2. Operational Overview: Game Business, Native Games

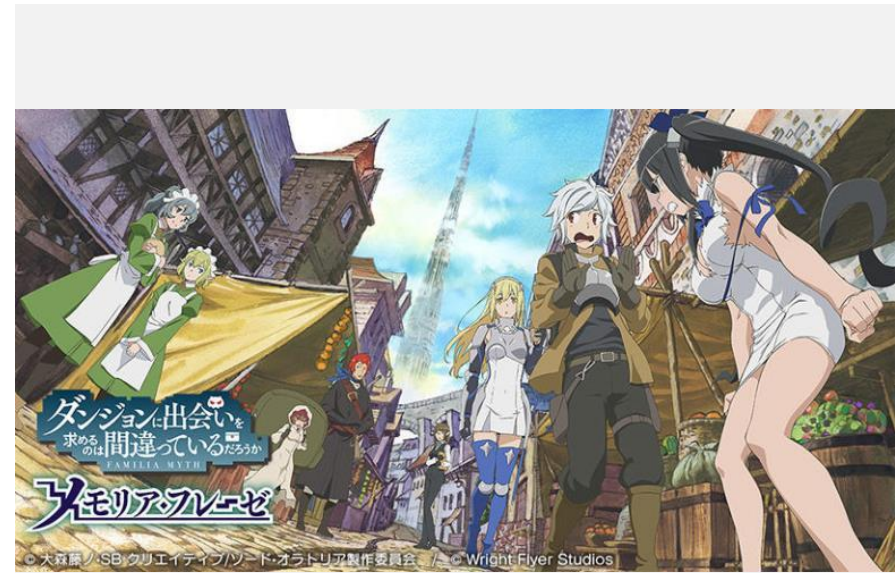
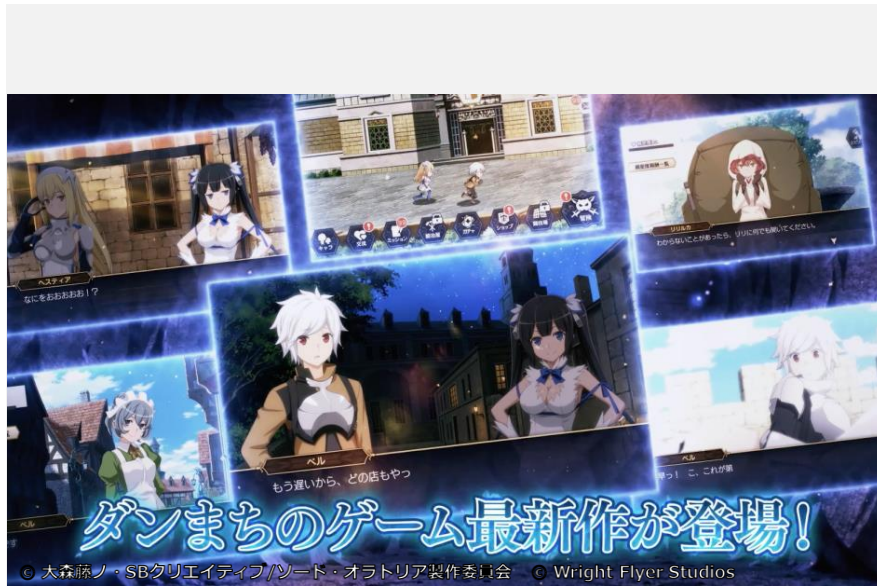
4Q Topics

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

Released June 19 after successful pre-release media mix promotion

TV commercials aired during anime series broadcast

Over 3 million downloads



- Smartphone game based on a very popular TV anime series which was based on an original series of light novels that sold over 8mn copies
- Full-on, fully voiced RPG based on a story created under the close supervision of Fujino Omori, creator of the novels and anime series

2. Operational Overview: Game Business, VR

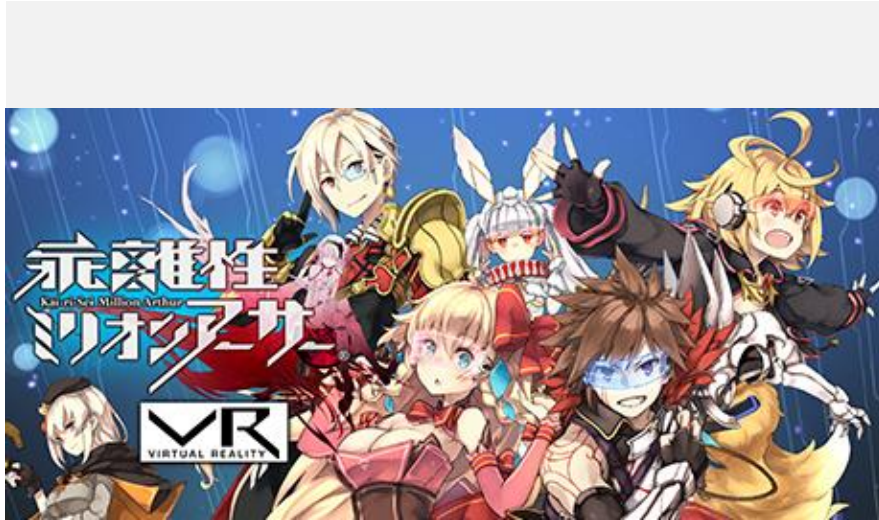
4Q Topics

Progress Made

Progress in investment, development and market promotion

No. 1 ranked VR game on Steam

Developed jointly with Square Enix



- Began distribution on Steam in May; launching in more languages and regions
- Planning multiplatform development

Hosted Japan VR Summit in Nagoya

The largest VR conference in Japan



- It follows JVRS2 (held in November, 2016)
- Featuring announcements on use of VR/AR by game developers and manufacturers

※ Ranking indicates highest Steam VR title sales ranking reached as of July 31

2. Operational Overview: Review and Summary of FY17 Summary



FY17 Review

FY17 Business Plan

Review

Overall			Achieve turnaround in game business	- 4Q coin consumption up sharply QoQ
Game business	Native game	Japan	Release blitz	- Released eight titles, one of which was developed for overseas markets - Multiple titles in top 50 sales rankings
		Over-seas	Focus on title development	- Strategic pivot to localizing titles developed in Japan
	Web/ game operation		Sustainable profit generation	- Contributed as base for companywide earnings - Game operation business transactions reached 10 billion coins
Advertising and media			Continue to invest in growth	- Focused on advertising and media businesses that use video as a key component - Integrated video pioneer 3Minute into Group
Costs/ investments			Implement cost controls	Cut fixed costs by ¥600 million even as outsourcing costs increased owing to release blitz

※ Business plan based on re-released summary of business plan announced in August 2016

2. Operational Overview: Review and Summary of FY17

FY17 Review

Release Blitz

Multiple titles in top 50 sales rankings

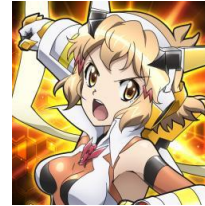
Ranking

Ranking



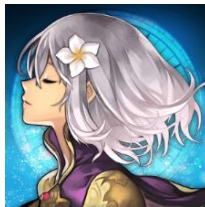
SInoALICE

1st



*Senki Zesshou SYMPHOGEAR XD
Unlimited*

12th



*Another Eden:
The Cat Who Goes Beyond Time*

6th



A Farewell to Arms

45th



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

8th



Rara-MAGI

46th

※ Rankings indicate highest sales ranking reached as of July 31 in either the App Store or Google Play

2. Operational Overview: Review and Summary of FY17

FY17 Review

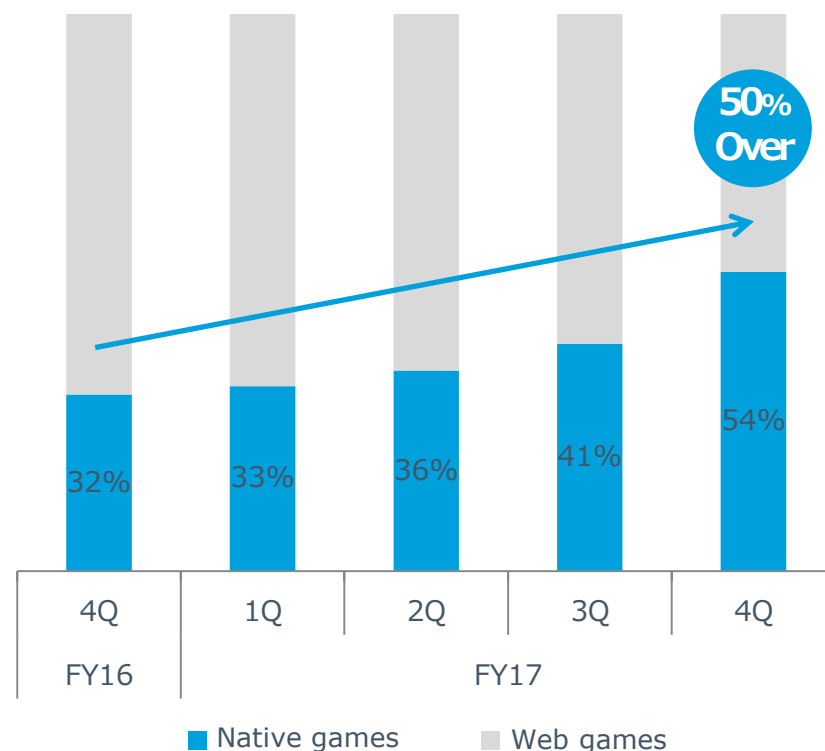
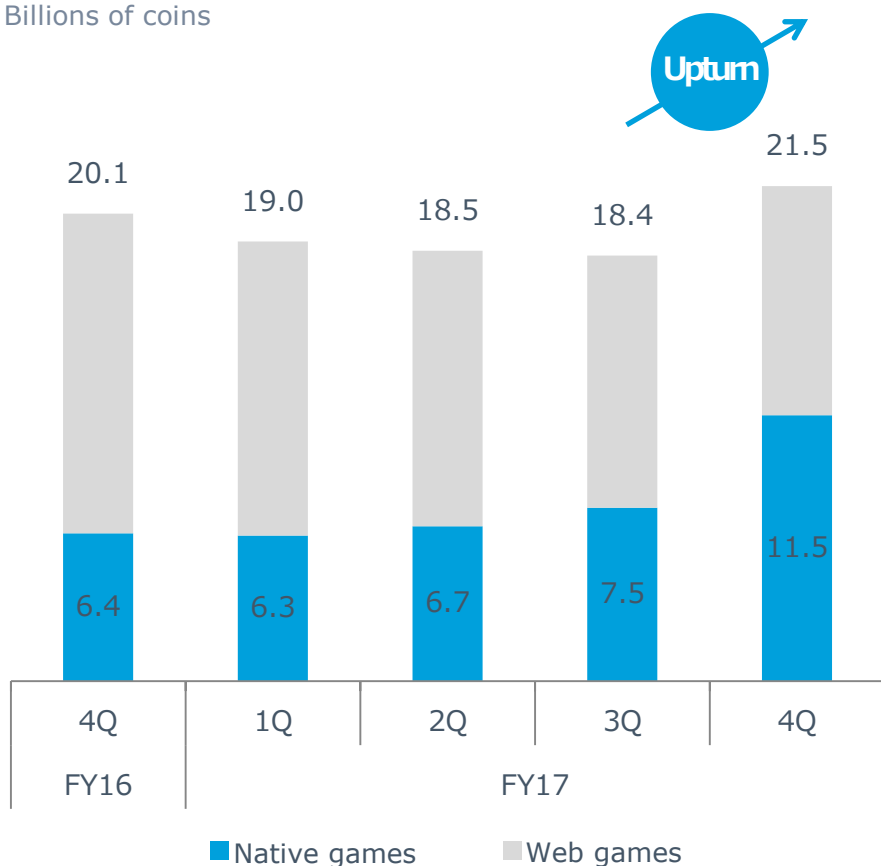
Turnaround in game business

Achieved upturn in coin consumption, especially in native games

Coin consumption turned upward in 4Q

Native games account for over 50% of coin consumption

Billions of coins



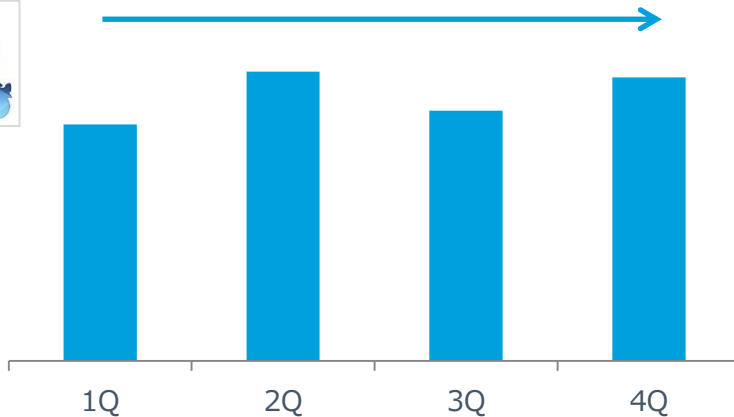
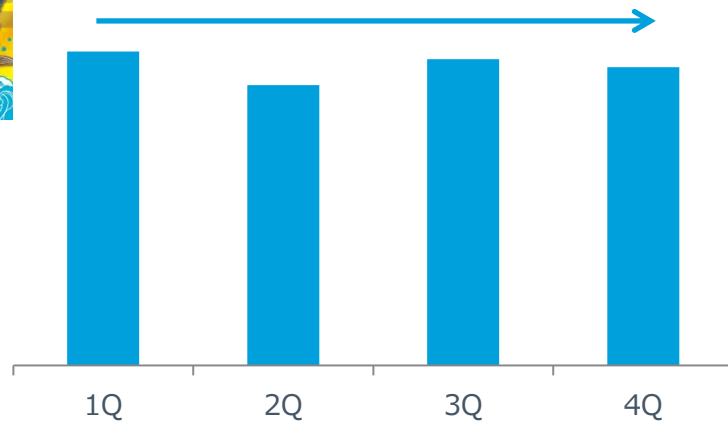
※ Ratio of total coins consumed by native games

2. Operational Overview: Review and Summary of FY17

FY17 Review **Achieved solid results with long-running titles**

Anniversary campaigns stabilized coin consumption for long-running titles

Coin consumption stable throughout the year



Anniversary campaigns



2. Operational Overview: Review and Summary of FY17

FY17 Review

Strategic pivot in overseas business

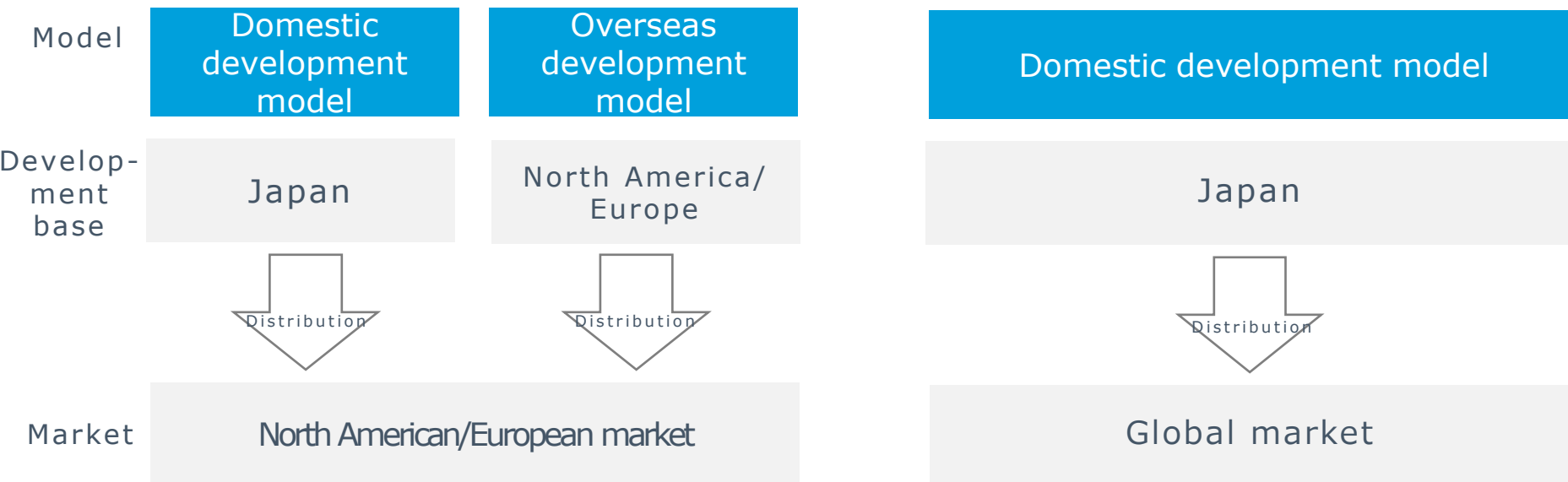
Establishing system to adapt/operate titles developed in Japan for global markets;
increase number of globally distributed titles

Pre-FY18 model: development in Japan and overseas

- Develop in Japan/North America/Europe;
distribute in North America/Europe
- Some successes achieved with domestic
development model

FY18 onward: Focus on development in Japan

- Development/operation in Japan
targeting global market
- Increase number of globally
distributed titles



2. Operational Overview: Review and Summary of FY17

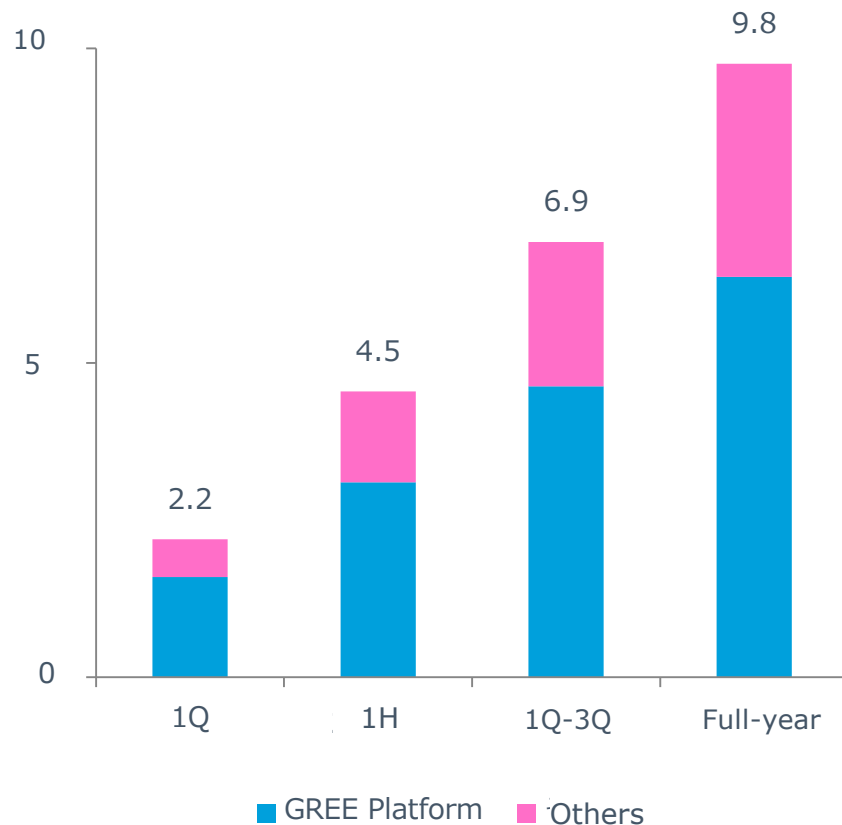


FY17 Review

Growth in game operation business

Coin Consumption

Billions of coins



Topics

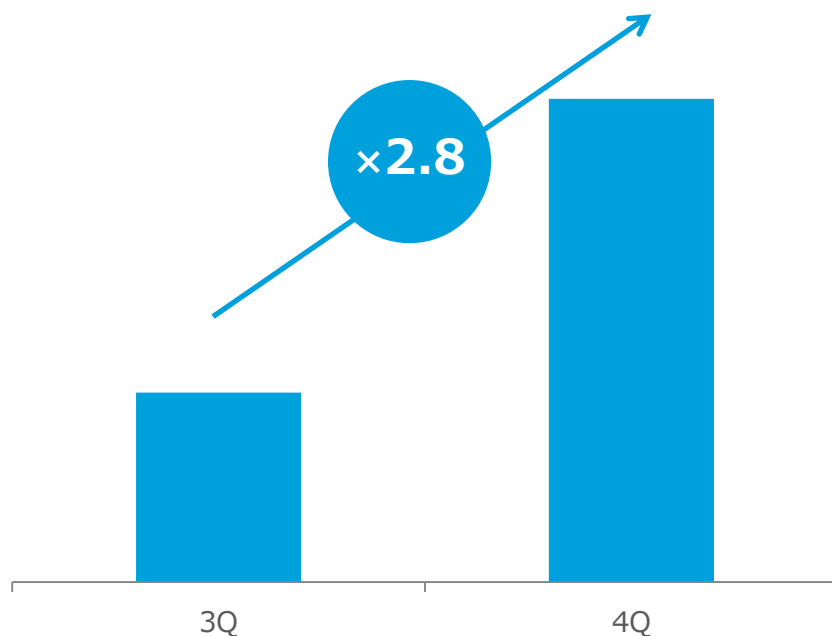
- Transaction volume grew sharply to nearly 10 billion coins
- Business operates 13 titles

2. Operational Overview: Review and Summary of FY17

FY17 Review Narrowing focus of advertising and media business

Growth in media page views

2.8x QoQ growth



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

LIMIA app ranked top in its category

App Store (free)



Google Play (free)



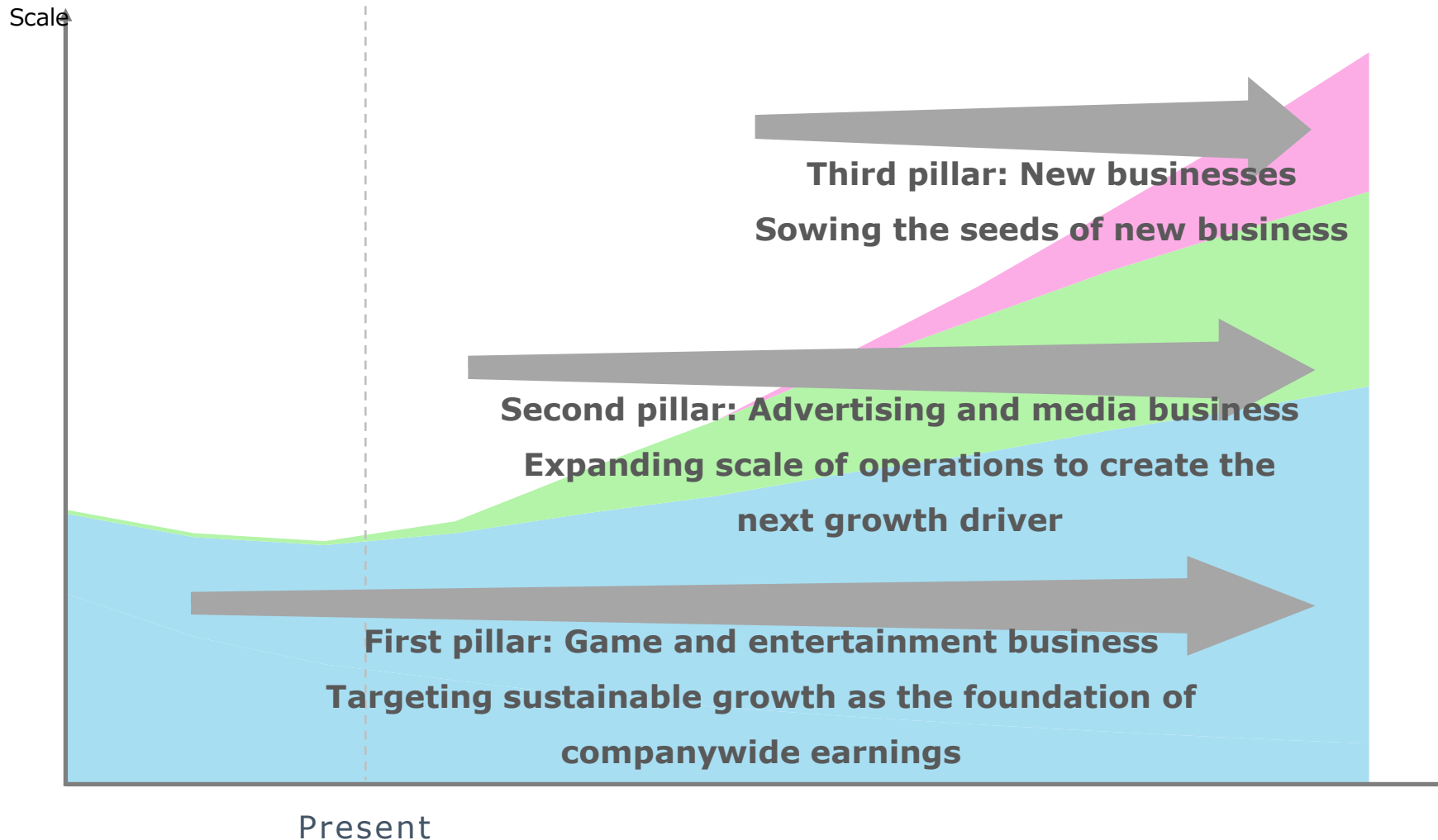
※ Ranking indicates highest sales ranking reached in the App Store catalog category and the Google Play interior category

2. Operational Overview: Medium-Term Plan

Medium-Term Plan

Targeting Medium-Term Growth

Targeting sustainable growth as we build three earnings pillars



2. Operational Overview: FY18 Business Strategy



FY18 Strategy

Summary

Overall		<ul style="list-style-type: none">- Aggressive push in preparation for medium-to-long-term leap forward- Continue strategic investment in growth businesses
Game/entertainment	Native game	<ul style="list-style-type: none">- Drive earnings growth through “game engine, IP, and global” strategies
	Platforms/operation	<ul style="list-style-type: none">- Long-term, stable operation of platforms as base for profit generation, increase earnings in game operation business
Advertising/media		<ul style="list-style-type: none">- Increase our media power through “App, Video, and Investment” strategies

Game engine, IP, and global

Engines

×

IP

×

Global

Increase our sustainable competitive advantage

Increase hit rate and profitability

Increase earnings from IP-based titles

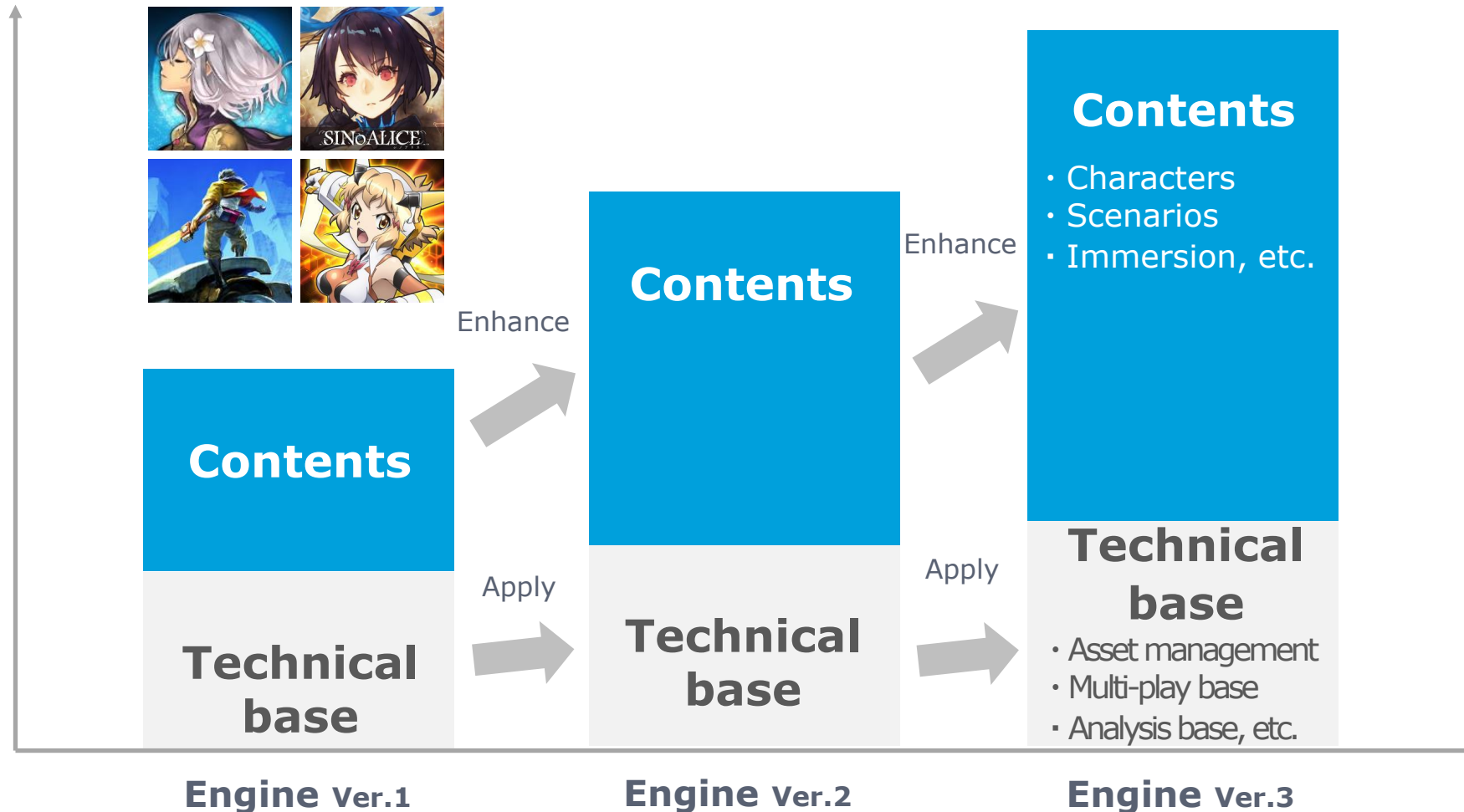
2. Operational Overview: FY18 Business Strategy

FY18 Strategy

Strategy 1: Game engine strategy

Increase our sustainable competitive advantage
and achieving differentiation through quality

Game quality

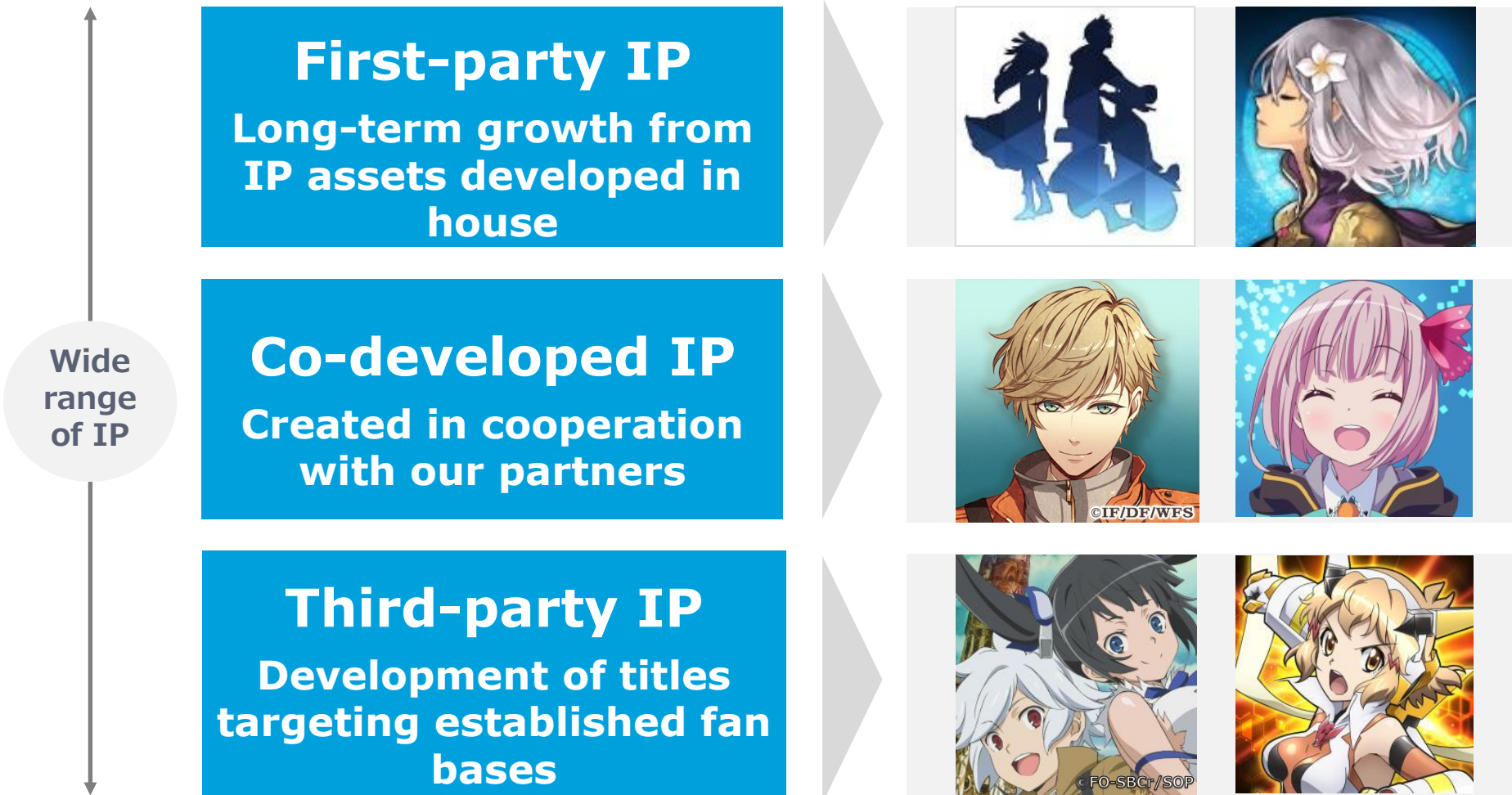


2. Operational Overview: FY18 Business Strategy

FY18 Strategy

Strategy 2: IP strategy

Increase hit rate and profitability and make well-balanced use of a wide range of IP



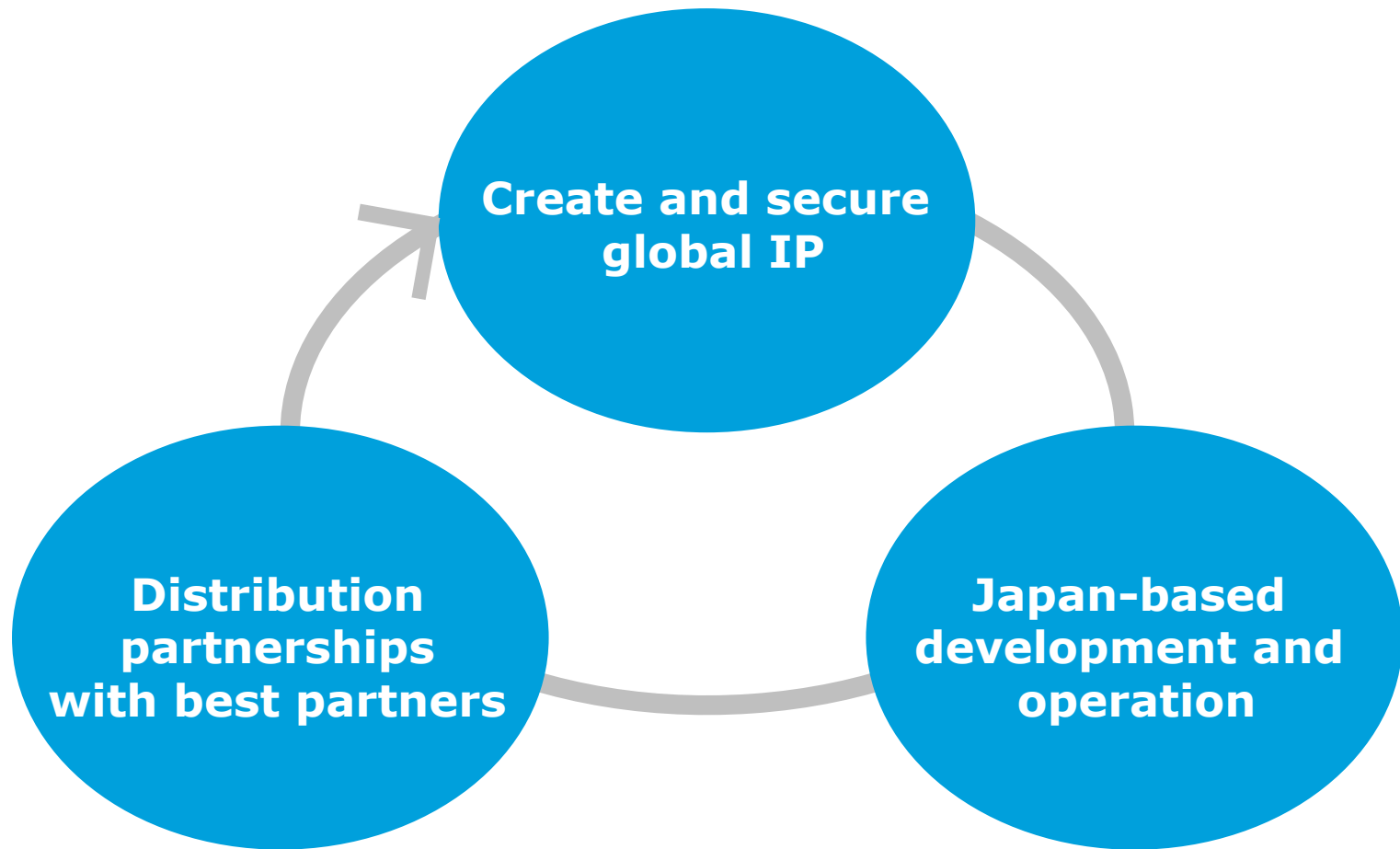
2. Operational Overview: FY18 Business Strategy



FY18 Strategy

Strategy 3: Global strategy

Increase earnings from IP-based titles through our globally targeted Japan-based development system and by working with our partners



2. Operational Overview: FY18 Business Strategy

FY18 Strategy

Example of “game engine, IP, and global” strategy

Boosting earnings by leveraging engines to maximize appeal of globally effective IP and developing the global market

Engines

Engines that enhance the appeal of IP

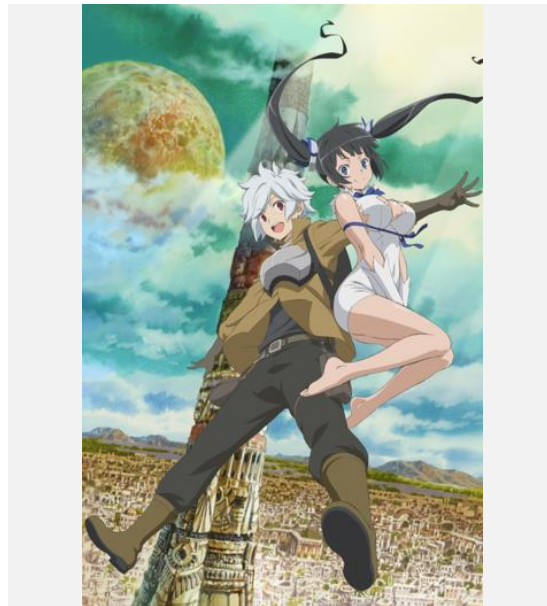


*Another Eden:
The Cat Who Goes
Beyond Time*

×

IP

Japan-based IP that is effective globally



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

×

Global

Approach fan bases of Japan-based IP



※ Image sample

2. Operational Overview: FY18 Business Strategy



FY18 Strategy

Development Pipeline

Six titles in development

	1H	2H	F18 full-year
First-party IP Co-developed IP	1 (1)	0 (0)	1 (1)
Third-party IP	1 (1)	4 (4)	5 (5)

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 3Q FY2017 results announcement

2. Operational Overview: FY18 Business Strategy



In Development

AKB48 Stage Fighter 2 Battle Festival

New smartphone 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
- Integrated in-game and real-world promotion wherein fans support their favorite AKB48 members in the game and in real life

Note: Screenshot is of development version

2. Operational Overview: FY18 Business Strategy



In Development

Library Cross Infinite

Joint development by Idea Factory and Wright Flyer Studios, pre-registration underway



- All-new bittersweet romance puzzle RPG featuring an all-star cast of popular characters from Otomate (a division of Idea Factory)
- Fully voiced modern fantasy game with multiple endings to the main storyline

Note: Screenshot is of development version

App, Video, and Investment

App

×

Video

×

Investment

Establish media management system with high continuation rate

Accumulate high quality video production know-how

Establish our position in multiple genres

1. Financial Results Overview

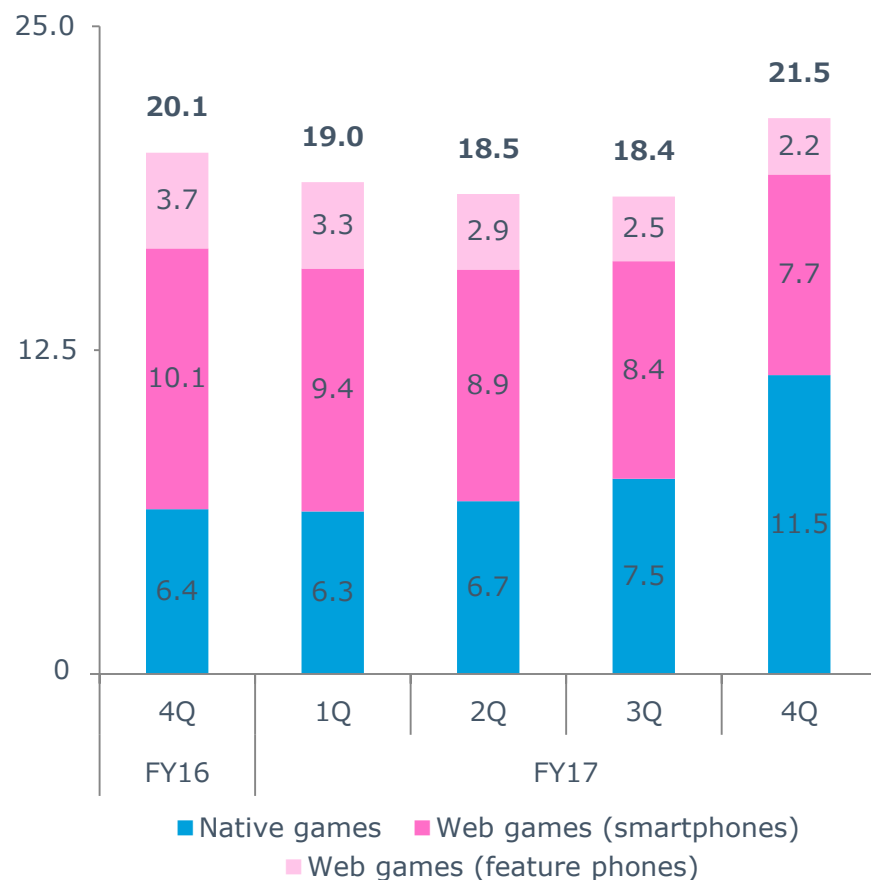
2. Operational Overview

3. Appendix

Coin Consumption (1)

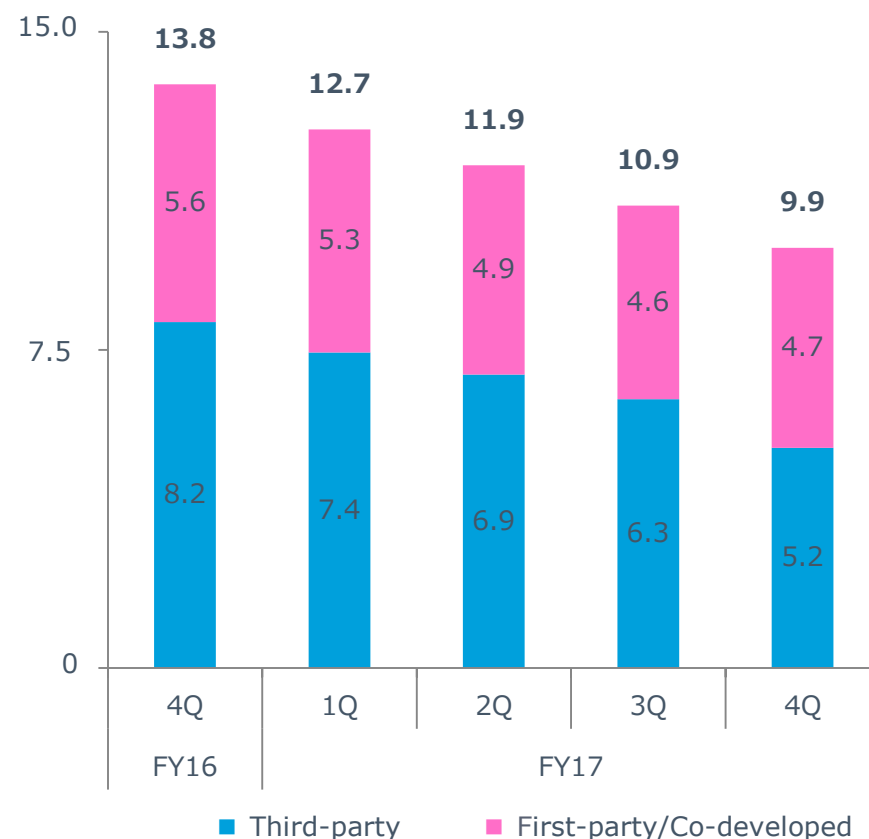
Overall coin consumption

Billions of coins



Web game coin consumption

Billions of coins

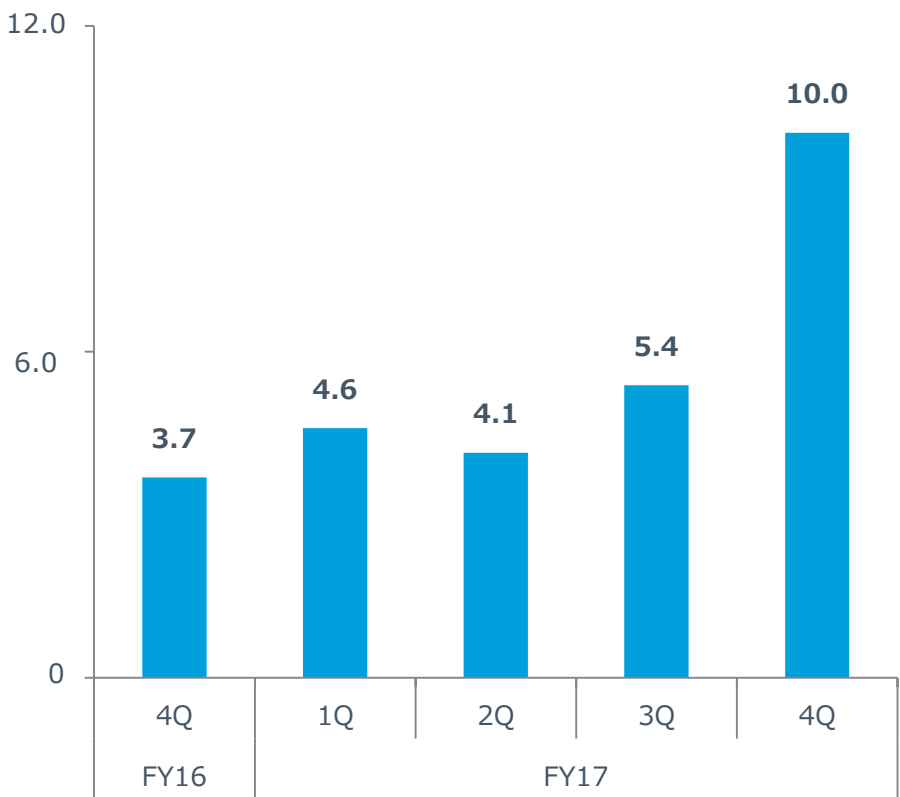


Note: Titles in which GREE is credited are categorized as "First-party/Co-developed"

Coin Consumption (2)

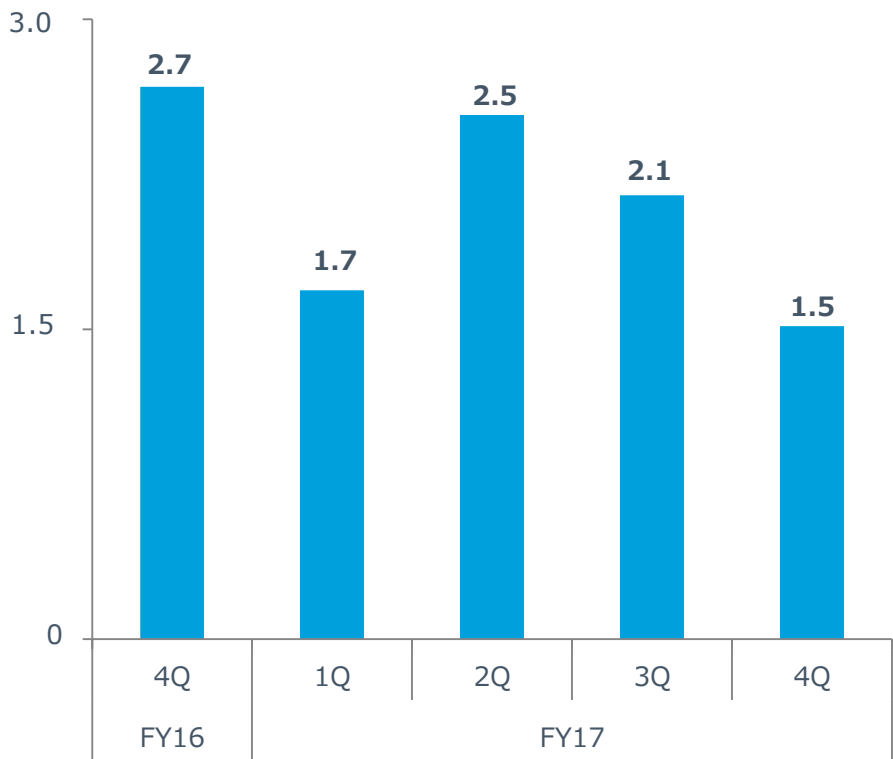
Japan Native Games

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

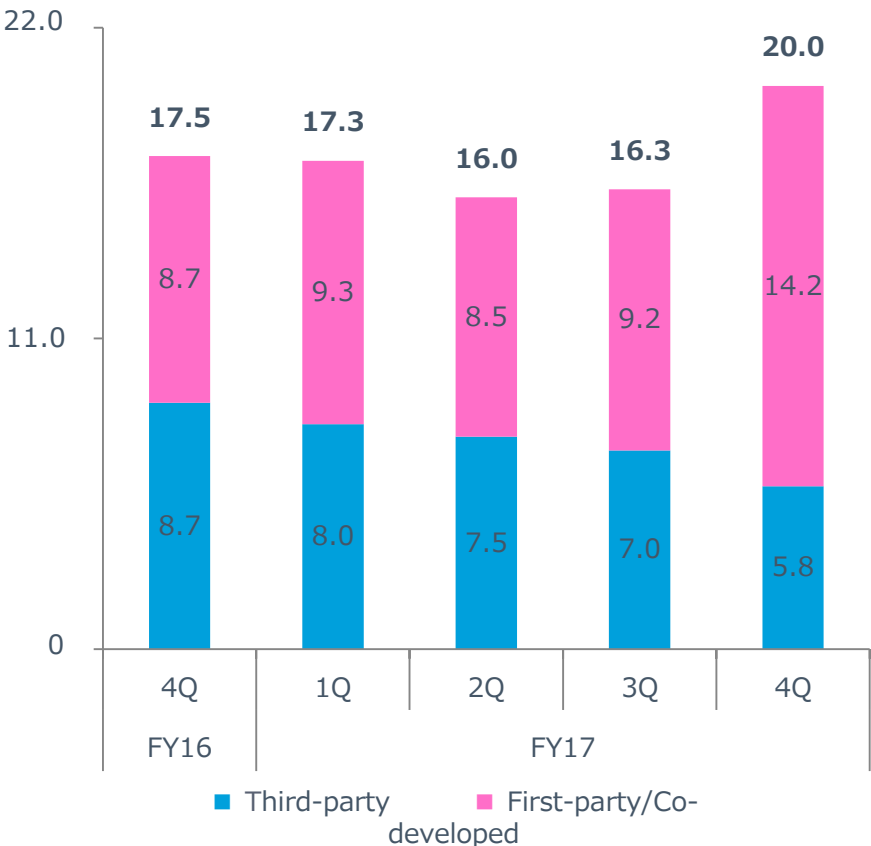
Millions of U.S. dollars



- 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



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

3. Appendix

4Q FY17 Cost Structure

Millions of yen

		FY17 4Q	QoQ	YoY	FY17 3Q	FY16 4Q
	Rental charges	889	105	△101	783	990
	Labor costs	2,283	163	18	2,120	2,265
	Others	3,389	510	1,914	2,879	1,475
	Cost of sales	6,560	779	1,831	5,782	4,729
	Advertising	1,765	883	554	882	1,211
	Commission fees	4,365	1,242	1,419	3,123	2,946
	Labor costs	1,628	△44	△16	1,672	1,644
	Others	2,507	△368	△377	2,876	2,884
SG&A		10,266	1,713	1,580	8,553	8,686
Total costs		16,827	2,492	3,411	14,335	13,415

3. Appendix

4Q FY17 Balance Sheet

Billions of yen

	FY17 4Q	QoQ	YoY	FY17 3Q	FY16 4Q
Current assets	96.46	-2.41	1.77	98.87	94.69
Fixed assets	26.50	-2.10	8.82	28.60	17.68
Total assets	122.95	-4.51	10.58	127.47	112.37
Current liabilities	12.49	-1.38	3.10	13.87	9.39
Fixed liabilities	0.58	-0.86	0.21	1.44	0.37
Total liabilities	13.07	-2.24	3.31	15.31	9.77
Total net assets	109.88	-2.27	7.28	112.16	102.60
Cash and cash equivalents –	82.38	2.98	2.19	79.40	80.19
Interest-bearing debt	-	-	-0.03	-	0.03
Net cash	82.38	2.98	2.22	79.40	80.17
Goodwill	3.92	-2.13	3.63	6.05	0.29

3. Appendix

Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-4Q
Japan Game Business	-	885
Native Game Business	Pokelabo, Wright Flyer Studios	(378)
Web Game / Operation Business	funplex	(277)
Shared game depts.	ExPlay	(230)
Native Game Business (Overseas)	Includes GREE International Entertainment, Inc. (U.S. Studio), etc.	124
Advertising and Media Business	Includes Glossom, Limia, 3 Minutes, etc.	238
Corporate, Headquarters	Includes GREE Business Operations	141
Engineering, Headquarters	-	75
Total	-	1,463

Note: Includes non-consolidated group companies; as of June 30, 2017



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.