



**GREE, Inc.**

FY2018 First Quarter Financial Results

October 27, 2017

## Financial Results Overview

- **Net Sales ¥21.6 billion, Operating Income ¥2.7 billion, EBITDA ¥3.1 billion**
  - Achieved QoQ growth in both sales and income

## Business Overview

- **Began full-scale operation of hit titles and made progress in development of new hit titles**
  - Proactively implemented measures to ensure continued strong earnings from existing titles
  - Announced agreement with strong partners regarding the aggressive development and operation of games for overseas markets
  - Released one new title (in October) and made progress in developing five titles in our pipeline
- **Aggressively invested in media operations**
  - Made steady progress in expanding our user base by strengthening service operations
  - Carried out promotional activities including airing of TV commercials

## FY18 1H Earnings Forecast

- **1H net sales ¥40.5 billion, operating income ¥4.5 billion, EBITDA ¥5.2 billion**
  - These are forecasts that assume sales from existing titles will temporarily decline after initial strong performance

## **1. Financial Results Overview**

## **2. Operational Overview**

## **3. Appendix**

## **1. Financial Results Overview**

## **2. Operational Overview**

## **3. Appendix**

# 1. Financial Results Overview (Consolidated)



## FY18 1Q Financial Results Overview

Net sales ¥21.6bn, operating income ¥2.7bn

Billions of yen

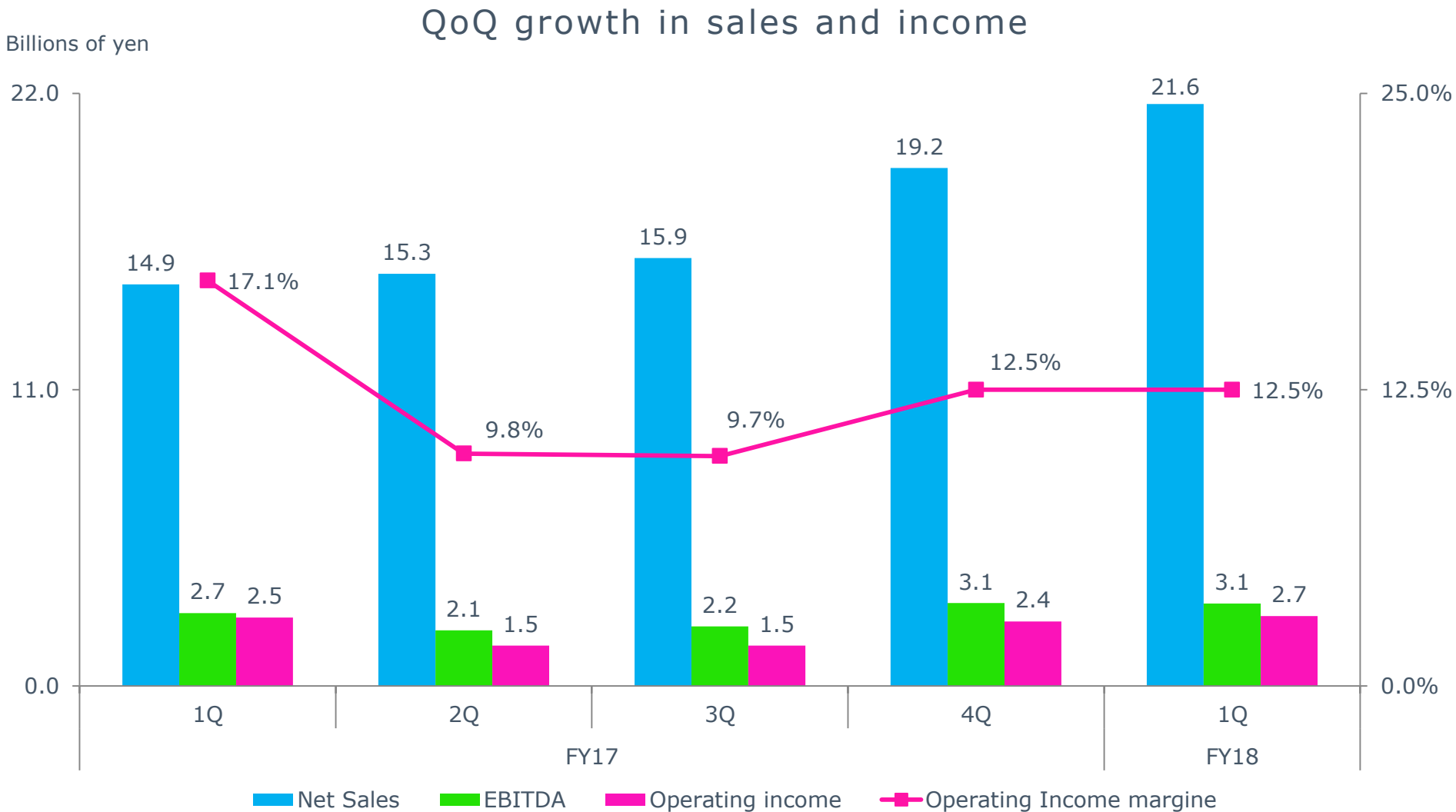
	FY18 1Q			FY17 4Q	FY17 1Q
		QoQ	YoY		
Net sales	<b>21.61</b>	2.38	6.71	19.23	14.91
EBITDA	<b>3.06</b>	-0.02	0.36	3.08	2.71
Operating income	<b>2.69</b>	0.29	0.15	2.41	2.54
Ordinary income	<b>3.02</b>	0.17	0.44	2.85	2.57
Net income	<b>1.90</b>	4.06	-8.92	-2.15	10.82

### Notes:

- Breakdown of FY18 1Q net sales: Paid service sales ¥20.10billion; ad media sales ¥1.51 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

# 1. Financial Results Overview (Consolidated)

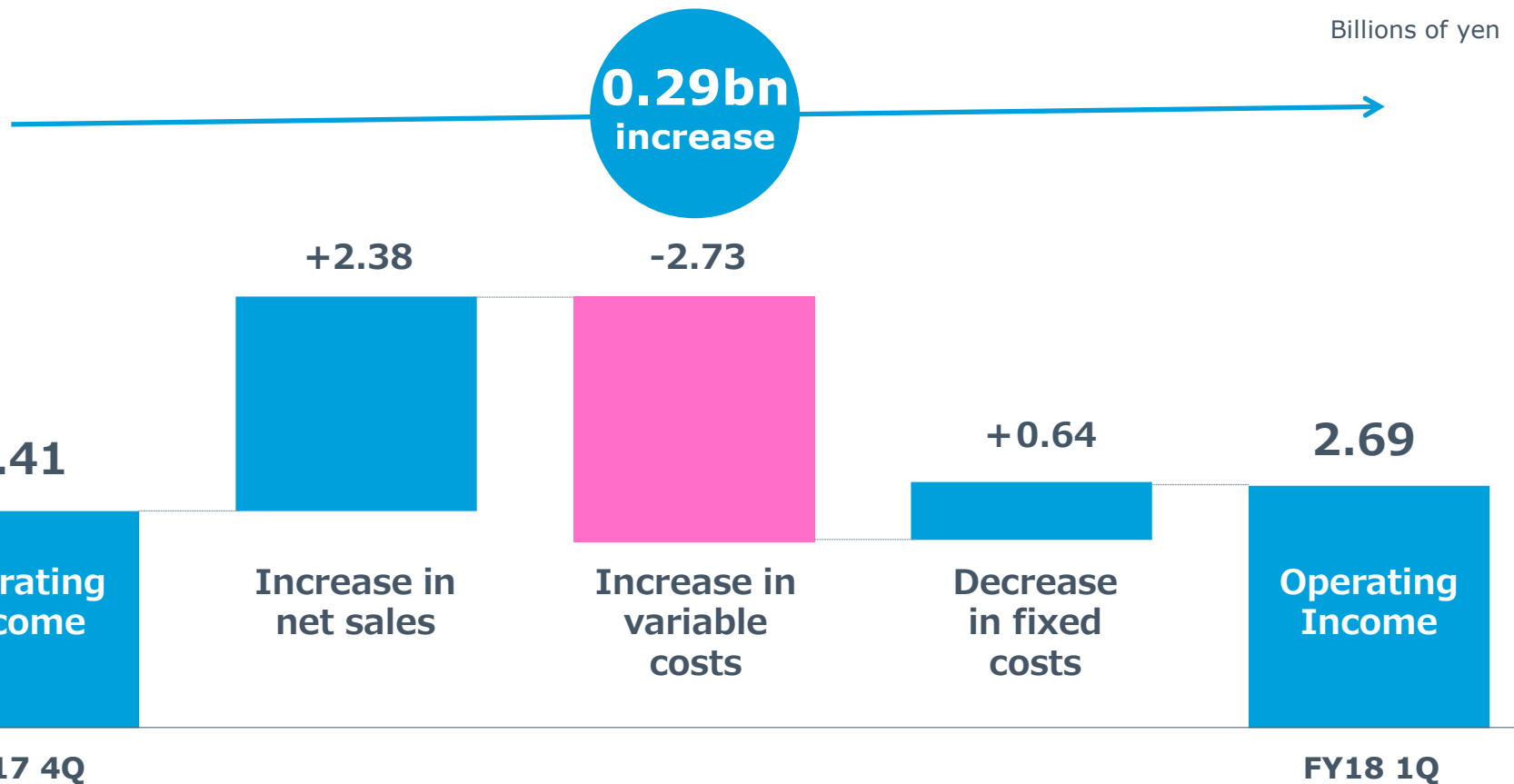
## Net Sales, EBITDA, and Operating Income



# 1. Financial Results Overview (Consolidated)

## Operating Income Analysis

Income up ¥300 million as sales growth and fixed cost cutting more than offset a rise in variable costs, including advertising costs



# 1. Financial Results Overview (Consolidated)

## FY18 1Q Cost Structure

Increased investment in growth businesses and advertising spending and cut labor costs by closing overseas bases

Billions of yen

		FY18 1Q	QoQ	YoY	Factors in change (QoQ)	FY17 4Q	FY17 1Q
	Advertising	2.33	0.56	1.70	Increase from investment in growth businesses (4Q: 9.2% → 1Q 10.8%)	1.77	0.63
	Commission Fees	7.56	1.92	4.15	Increase due to sales growth	5.64	3.41
	Other	0.43	0.25	-0.02	Increase due to sales growth	0.18	0.44
<b>Total variable costs</b>		<b>10.32</b>	2.73	5.83		7.59	4.49
	Labor costs	3.29	-0.62	-0.48	Decrease due to closing of overseas bases (consolidated headcount: end-4Q: 1,416 → end-1Q: 1,375)	3.91	3.77
	Rental costs	0.96	0.07	0.30	-	0.89	0.66
	Depreciation	0.16	-0.18	0.03	Declined due to posting of impairment loss (in FY17 4Q)	0.34	0.13
	Goodwill Amortization	0.21	-0.13	0.18	Declined due to posting of impairment loss (in FY17 4Q)	0.34	0.03
	Other	3.98	0.21	0.70	Increased due to higher outsourcing and subcontracting costs	3.77	3.28
<b>Total fixed costs</b>		<b>8.60</b>	-0.64	0.72		9.24	7.88
<b>Total costs</b>		<b>18.92</b>	2.09	6.56		16.83	12.36



# 1. Financial Results Overview (Consolidated)

## 1H FY18 Earnings Forecast

Net sales ¥40.5bn, operating income ¥4.5bn, EBITDA ¥5.2 billion

Billions of yen

	1Q results	2Q forecast	1H FY18 forecast
Net sales	21.6	18.9	<b>40.5</b>
Operating income	2.7	1.8	<b>4.5</b>
Ordinary income	3.0	1.8	<b>4.8</b>
Net income	1.9	1.1	<b>3.0</b>
EBITDA	3.1	2.1	<b>5.2</b>

### ■ Top line

- These are forecasts that assume sales from existing titles will temporarily decline after initial strong performance.
- We have set conservative targets for earnings contribution from new titles.

### ■ Costs

- We plan to make aggressive investments in advertising for businesses that we think can benefit from ads.

**1. Financial Results Overview**

**2. Operational Overview**

**3. Appendix**

## 2. Operational Overview: Summary

### Review and Summary of 1Q

FY18 Business Plan		Review
<b>Overall</b>		<p>Aggressive push forward with investment in growth businesses</p> <ul style="list-style-type: none"> <li>- Sustained growth in native games, made aggressive investments in media operations growth</li> </ul>
<b>Game/entertainment</b>	<b>Native games</b>	<p>"Game engine, IP, and global" strategies</p> <ul style="list-style-type: none"> <li>- Full-scale operation of existing titles through large-scale collaborations and updates</li> <li>- Signed basic joint publishing accord with strong overseas partners aimed at increasing overseas earnings</li> <li>- Released one new title (in October)</li> </ul>
	<b>Platform/game operation</b>	<p>Stable operation and earnings growth</p> <ul style="list-style-type: none"> <li>- Sustained stable operations as a base for companywide earnings</li> </ul>
<b>Advertising and media</b>		<p>"App, Video, and Investment" strategies</p> <ul style="list-style-type: none"> <li>- LIMIA app topped 1 million monthly active users</li> <li>- Aired first TV commercials for MINE BY 3M and LIMIA</li> </ul>

※ Business plan based on re-released summary of business plan announced in August 2017

## 2. Operational Overview: Game/entertainment business, Native games FY18 development pipeline



One title already released; total of five titles in development

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

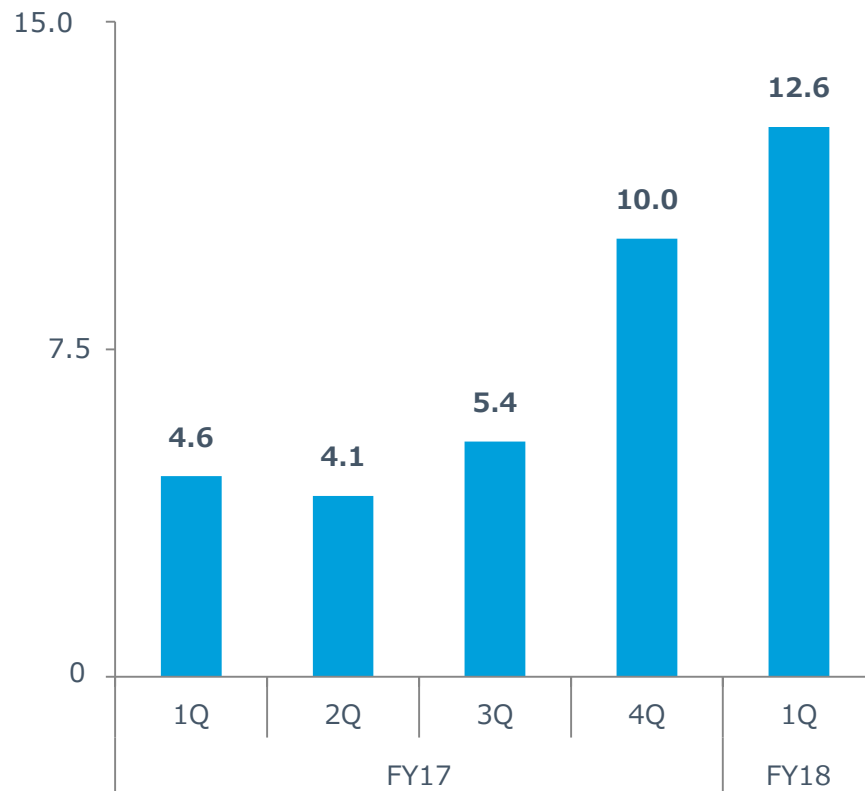
### Notes:

- 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 4Q FY2017 results announcement

## 2. Operational Overview: Game/entertainment business, Native Games Progress Made

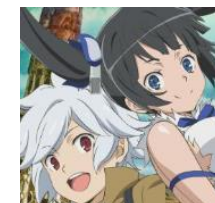
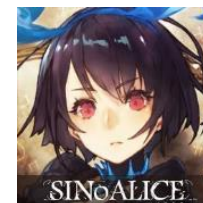
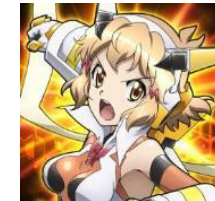
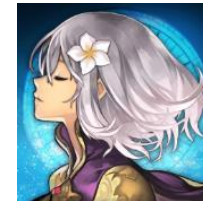
### Coin Consumption

Billions of coins



### Topics

- Existing titles driving growth in coin consumption
- Full-scale operation of titles released in previous quarter
  - Major updates
  - Large-scale collaborations
  - TV commercials, etc.



SINOALICE

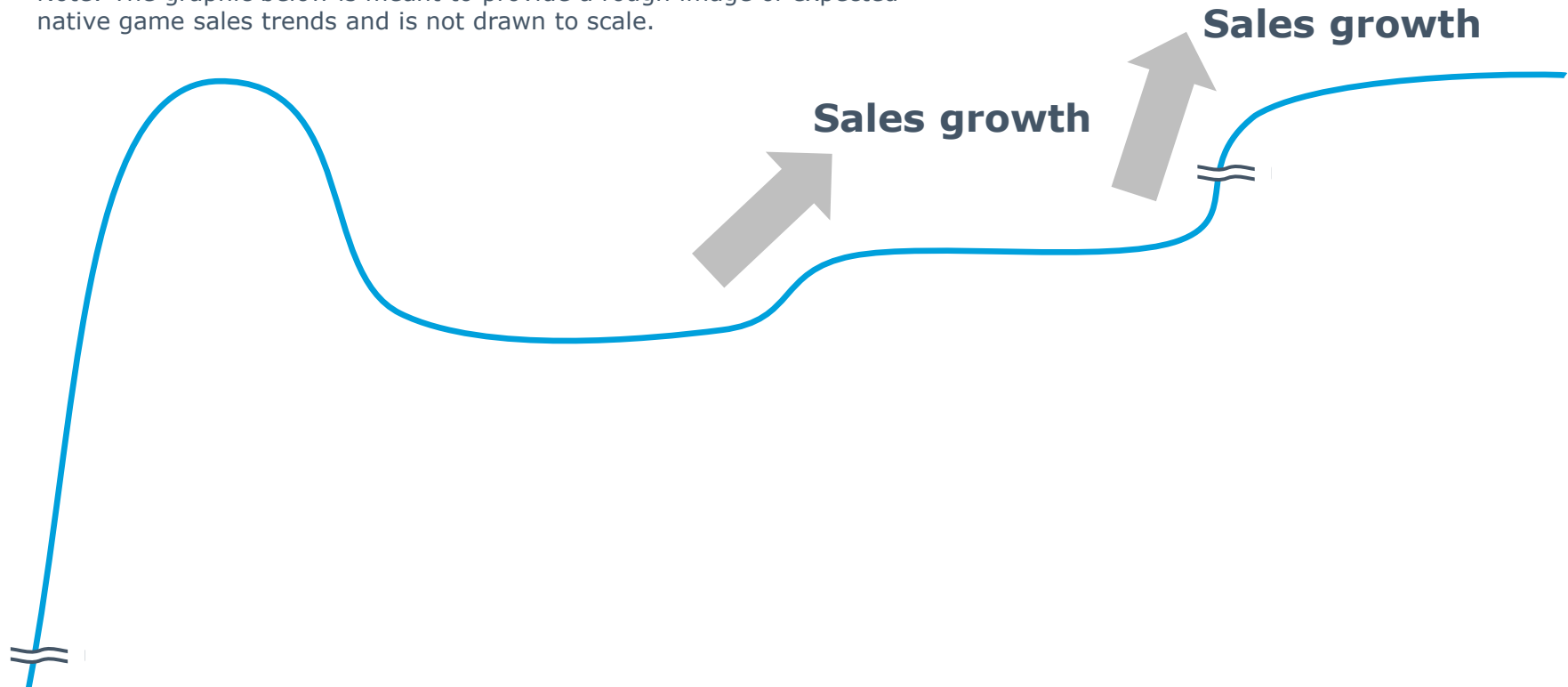
## 2. Operational Overview: Game/entertainment business, Native games Expected growth trend in native games



Sales growth through strengthening of operations and overseas development



Note: The graphic below is meant to provide a rough image of expected native game sales trends and is not drawn to scale.

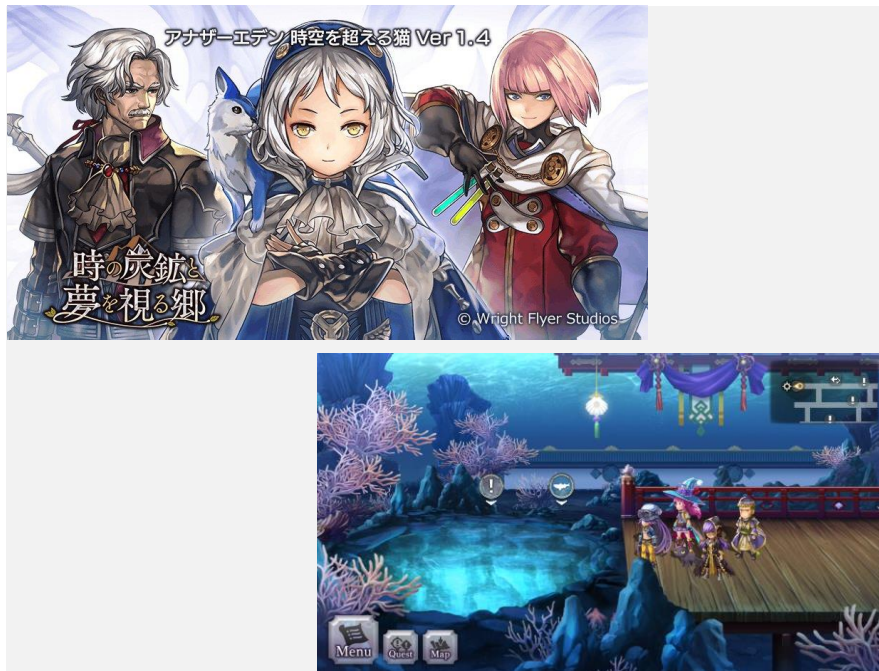


## 2. Operational Overview: Game/entertainment business, Native Games

Existing title ***Another Eden: The Cat Who Goes Beyond Time***

Strengthening operation through continuous updates and large-scale promotions

### Continuous updates



### Large-scale promotions



- We added more storylines, characters, and an in-app fishing mini-game and we plan to keep adding content so that users can continue to enjoy the game.
- We conducted promotional activities including airing TV commercials with large-scale advertising tie-ins using other media and launching a soundtrack for the game.



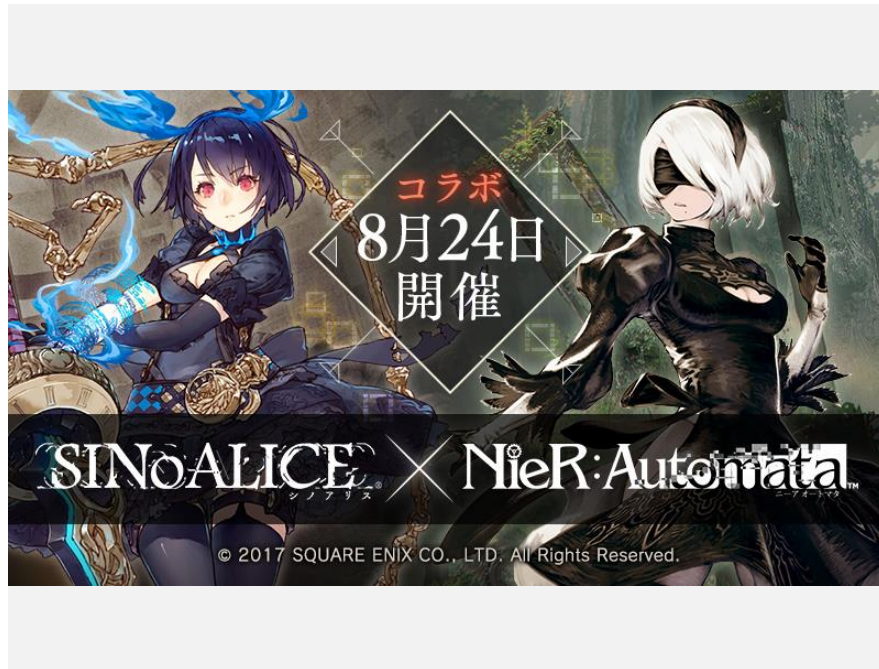
## 2. Operational Overview: Game/entertainment business, Native Games

Existing title

**SINoALICE**

Strengthened operations through large-scale collaboration and GvG event

### Large-scale collaboration



### Guild-versus-guild event



- Director Yoko Taro, Keiichi Okabe and MONACA from the *NieR* series have created new content.
- New Colosseum event, Gran Colosseum, held in October featuring full-on guild-versus-guild play.

The game now features a GvG (guild-versus-guild) system wherein players form guilds that battle against each other.  
©2017 Pokelabo Inc./SQUARE ENIX CO., LTD. All Rights Reserved.



## 2. Operational Overview: Game/entertainment business, Native Games

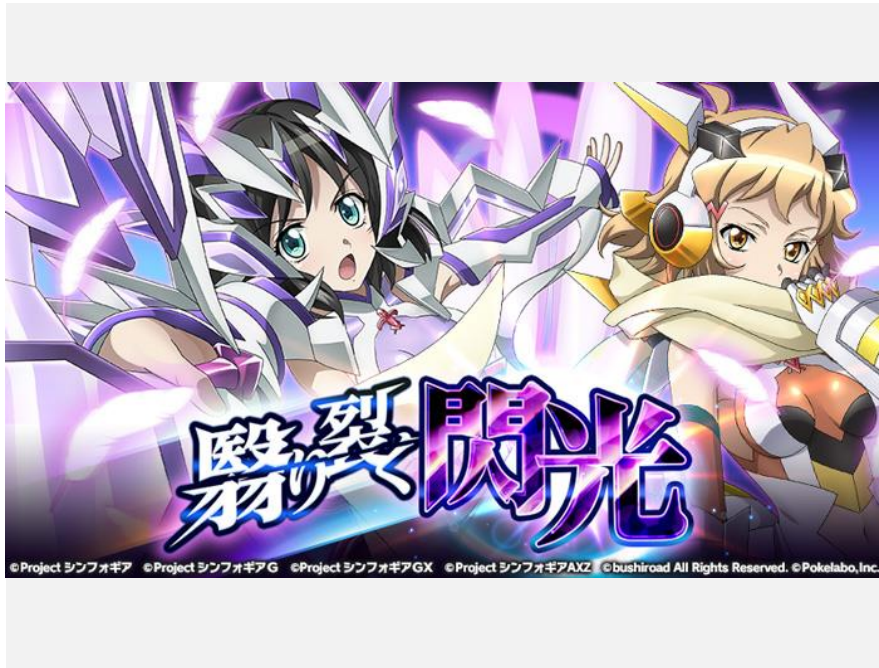


**Existing title** *Senki Zesshou SYMPHOGEAR XD Unlimited*

Features new content that closely conforms to the world of anime series *Senki Zesshou SYMPHOGEAR*

### Added original stories

### Continuously adding content



- Added new function allowing players to explore original stories in the *Senki Zesshou SYMPHOGEAR* universe.
- We plan to launch a character party formation function and add more playable characters.

## 2. Operational Overview: Game/entertainment business, Native Games



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

Planning overseas launch in early 2018 targeting overseas fans of the original novels and anime

**Launching overseas in cooperation  
with strong partners**

**Major updates**

### Business Partners



住友商事株式会社



crunchyroll™



- We have signed a basic accord on gamification of Japanese anime for overseas markets and joint publishing with Sumitomo Corporation and Elation.
- Update added additional storylines, characters, and events.



## 2. Operational Overview: Game/entertainment business, Native Games



New title

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

Planning to hold integrated in-game and real-world events

**Released on October 11**

**First integrated in-  
game/real-world event**



- 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 concept wherein fans support their favorite AKB48 members in the game and in real life.

## 2. Operational Overview: Game/entertainment business, Native Games



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



## 2. Operational Overview: Game/entertainment business, Native Games

Development

### *Puchiguru Love Live!*

New *Love Live!* series game for smartphones created in close collaboration with Sunrise. Pre-registration underway.



- All the  $\mu$ 's characters and Aqours characters from the *Love Live!* series appear as mini stuffed dolls.
- Tap puzzle game featuring popular songs and costumes from the  $\mu$ 's and Aqours music groups allowing players to enjoy unique skill effects.

Note: Screenshot is of development version

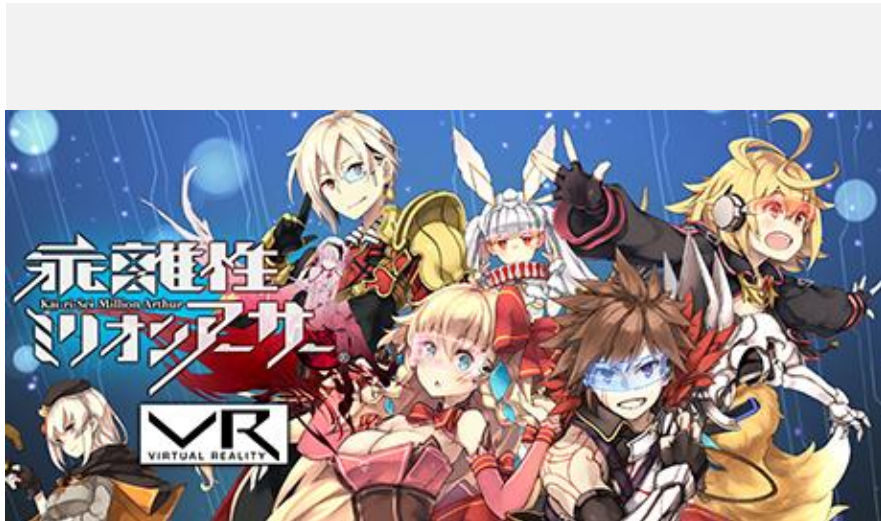
©2013 Project Love Live!, ©2017 Project Love Live! Sunshine!! ©Pokelabo, Inc.

## 2. Operational Overview: Game/entertainment business VR business

Progress in investment, development and market promotion

### Launch of version for the PlayStation®VR

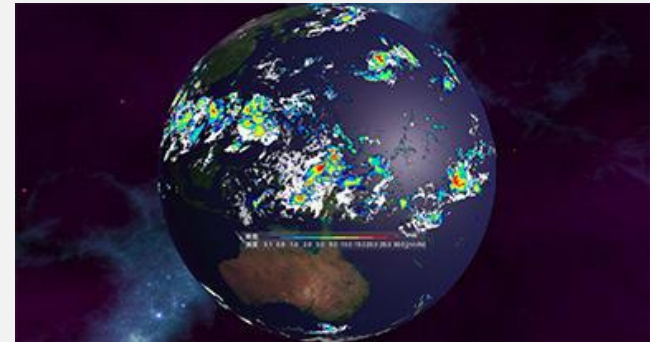
Developed jointly with Square Enix



- Multiplatform development
- Features a high-resolution 3D game environment

### VR image production partnerships

Tie ups with Toyoda High System and JAXA, etc.

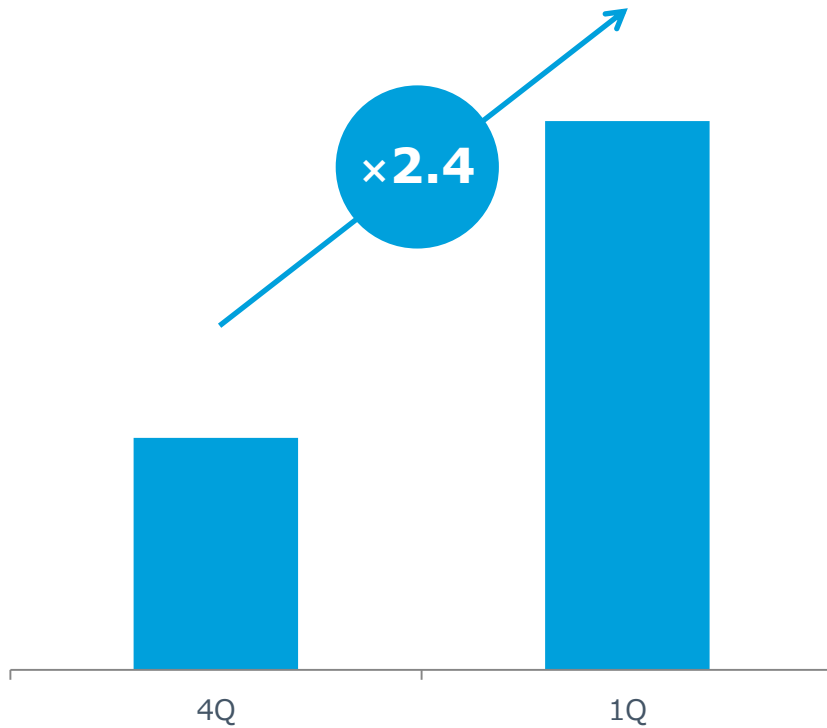


- Produced *VR Office Tour* with Toyoda High System
- Produced *World's Greatest Precipitation VR* with JAXA

## 2. Operational Overview: Advertising and media business Progress Made

### Growth in media page views

2.4x QoQ growth



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

### TV commercials aired

Strengthened promotions to expand user base



## 1. Financial Results Overview

## 2. Operational Overview

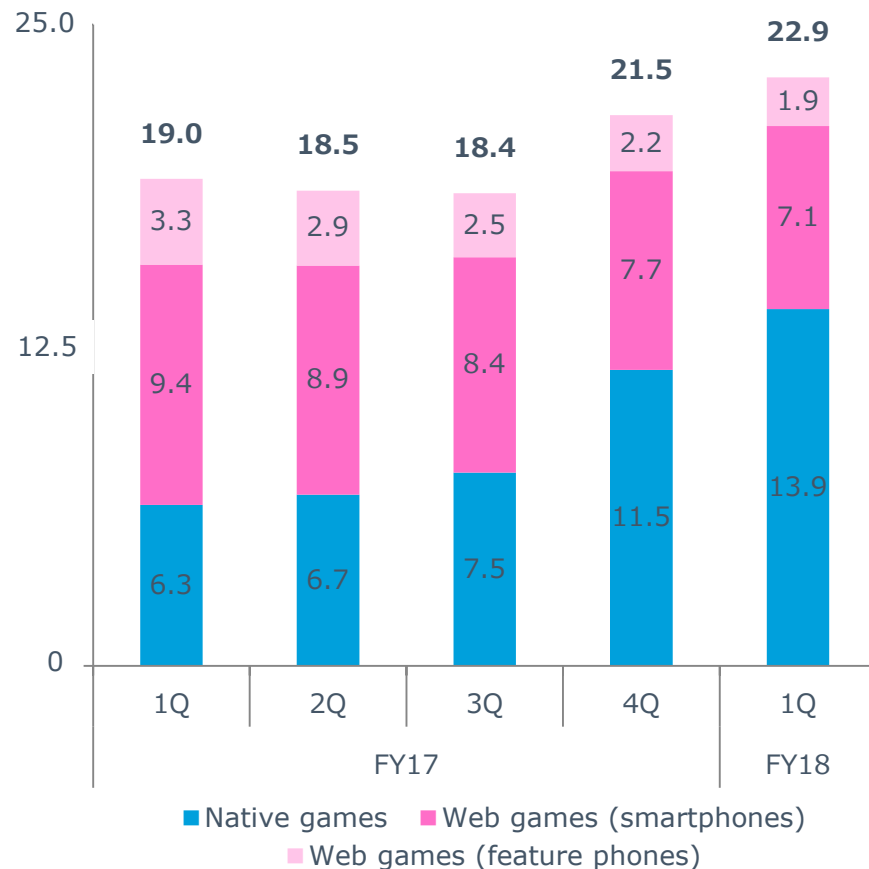
## 3. Appendix



## Coin Consumption (1)

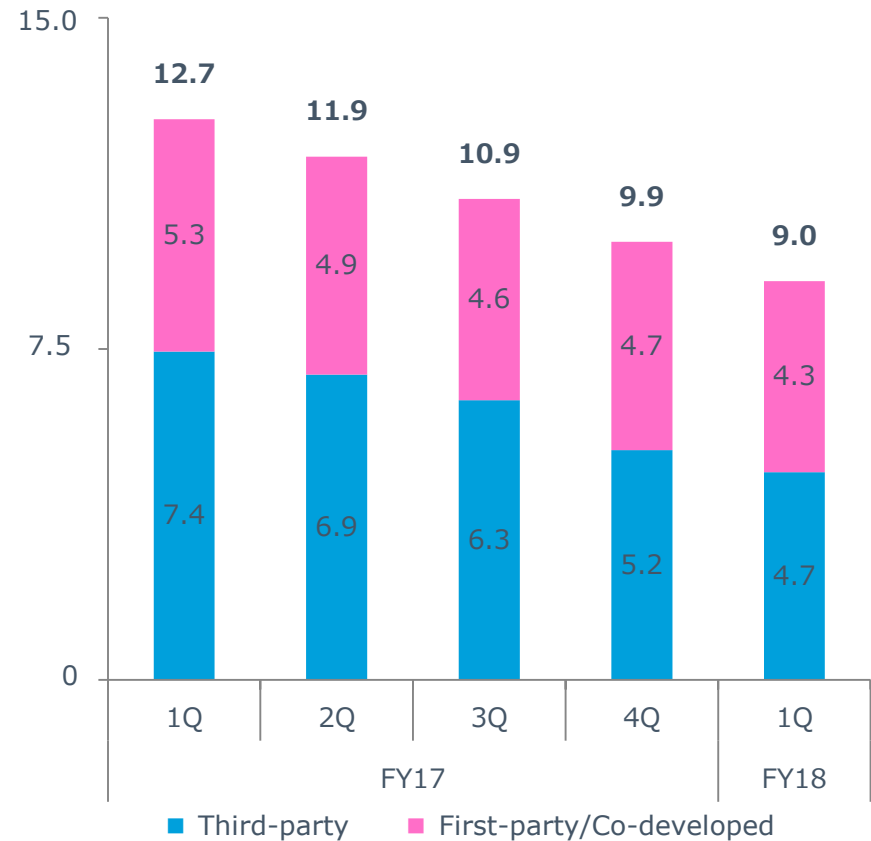
### Overall coin consumption

Billions of coins



### Web game coin consumption

Billions of coins

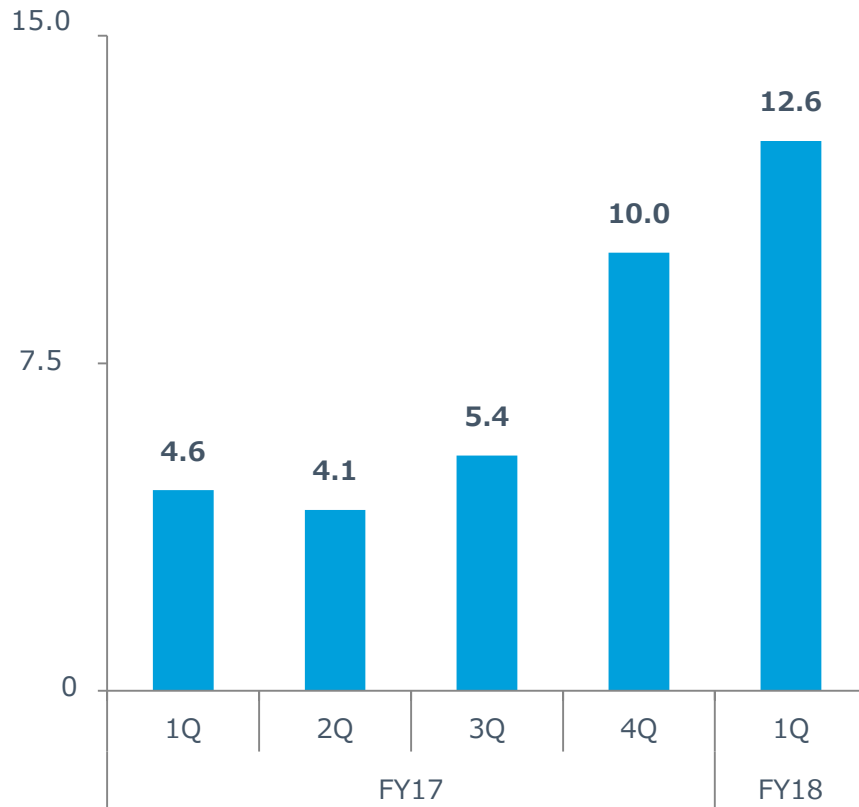


Note: Titles in which GREE is credited are categorized as "First-party/Co-developed"  
25

## Coin Consumption (2)

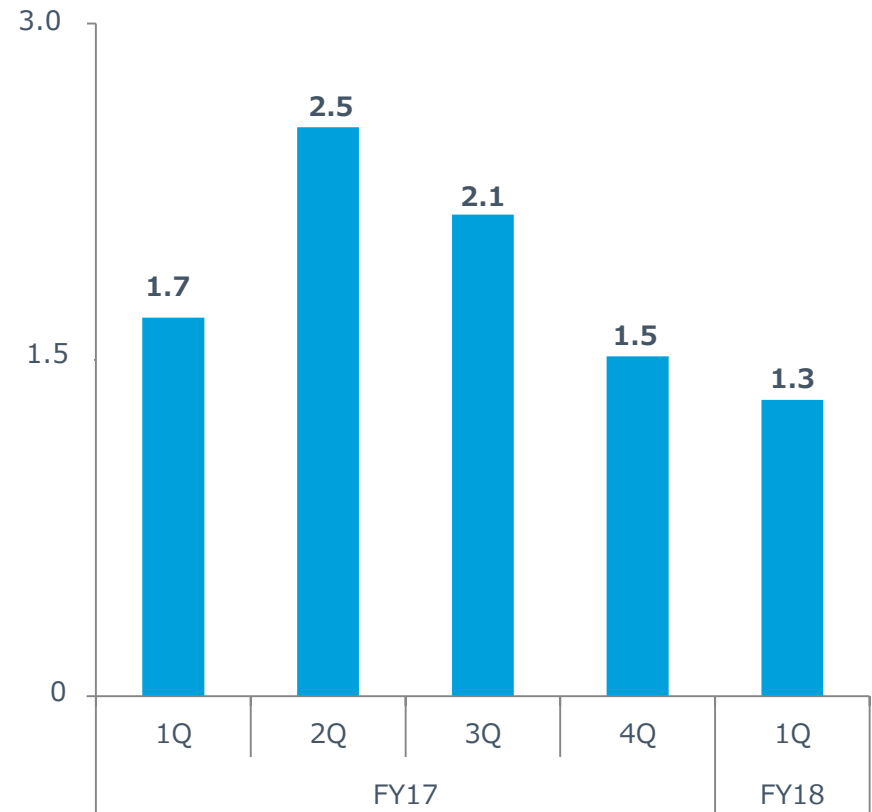
### Japan Native Games

Billions of coins



### Overseas Native Games

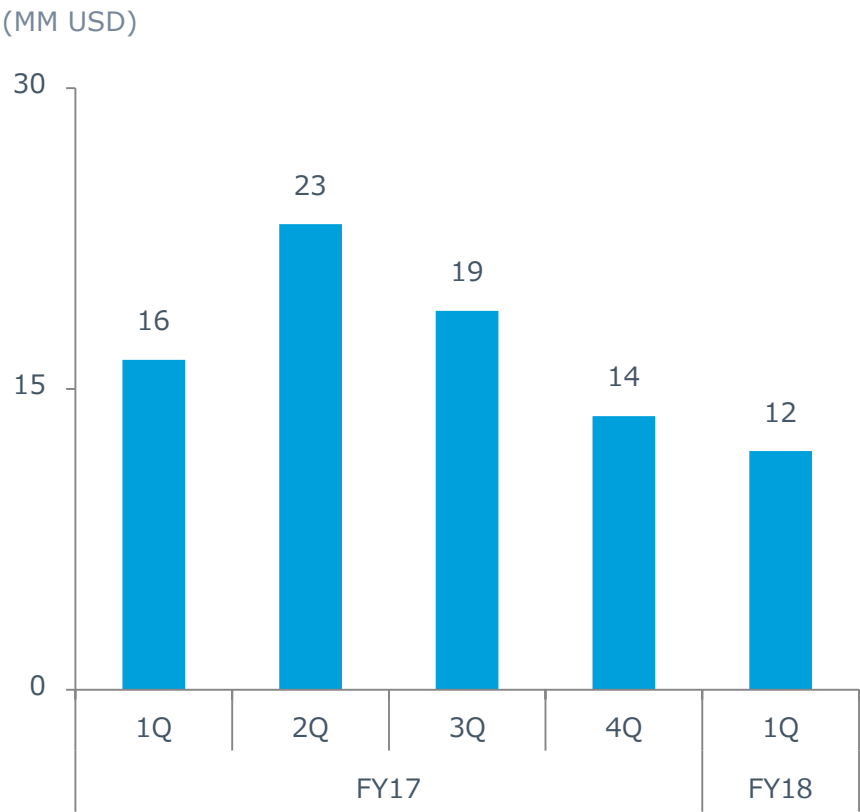
Billions of coins



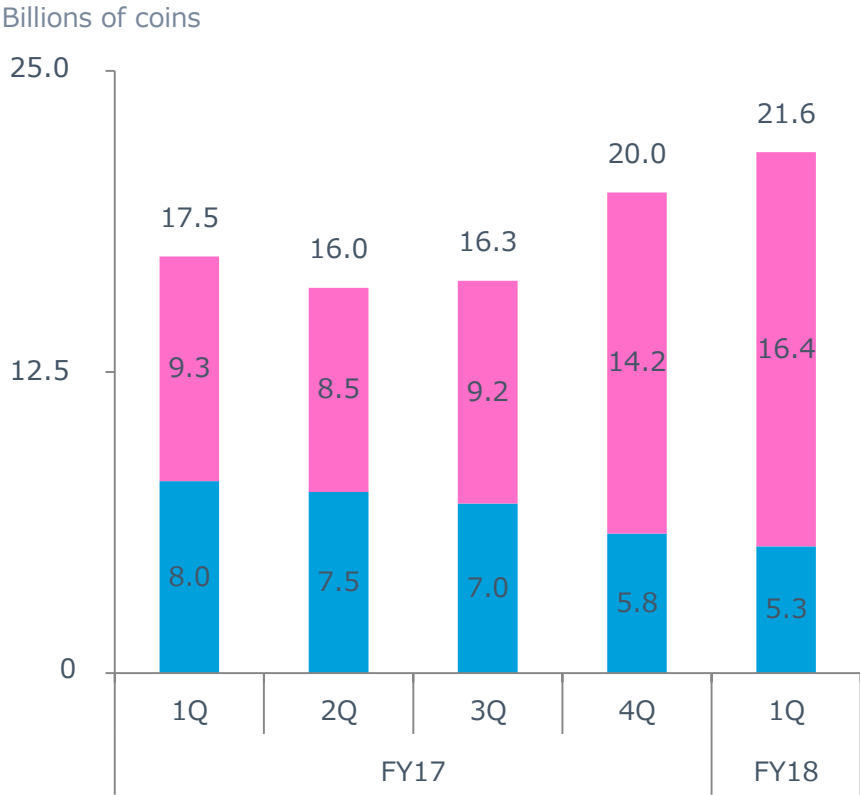
Note: Classified by area of development

### Coin Consumption (3)

#### Overseas



#### Japan



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

Note: Classified by area of development

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

### 3. Appendix

## 1Q FY18 Cost Structure

Millions of yen

		FY18 1Q	QoQ	YoY	FY17 4Q	FY17 1Q
	Rental charges	963	74	303	889	660
	Labor costs	2,082	-200	-48	2,283	2,130
	Others	5,045	1,657	3,252	3,389	1,794
	Cost of sales	8,090	1,530	3,507	6,560	4,584
	Advertising	2,328	563	1,697	1,765	631
	Commission fees	5,038	672	2,141	4,365	2,897
	Labor costs	1,208	-420	-436	1,628	1,644
	Others	2,256	-252	-351	2,507	2,607
	SG&A	10,830	563	3,051	10,266	7,778
	<b>Total costs</b>	<b>18,920</b>	2,094	6,558	16,827	12,362

### 3. Appendix

## 1Q FY18 Balance Sheet

Billions of yen

	FY18 1Q	QoQ	YoY	FY17 4Q	FY17 1Q
Current assets	<b>95.66</b>	-0.80	-8.25	96.46	103.91
Fixed assets	<b>27.04</b>	0.54	9.87	26.50	17.17
Total assets	<b>122.69</b>	-0.26	1.62	122.95	121.08
Current liabilities	<b>13.03</b>	0.53	1.60	12.49	11.43
Fixed liabilities	<b>0.55</b>	-0.03	0.18	0.58	0.37
Total liabilities	<b>13.58</b>	0.51	1.77	13.07	11.80
Total net assets	<b>109.12</b>	-0.77	-0.16	109.88	109.27
Cash and cash equivalents –	<b>81.94</b>	-0.44	0.30	82.38	81.64
Interest-bearing debt	-	-	-	-	-
Net cash	<b>81.94</b>	-0.44	0.30	82.38	81.64
Goodwill	<b>3.71</b>	-0.21	3.45	3.92	0.26

### 3. Appendix

## Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-1Q
Japan Game/Entertainment Business	-	902
Native Game Business	Pokelabo, Wright Flyer Studios	(384)
Web Game / Operation Business	funplex	(280)
Shared game depts.	ExPlay	(238)
Native Game Business (Overseas)	Includes GREE International Entertainment, Inc. (U.S. Studio), etc.	41
Advertising and Media Business	Includes Glossom, Limia, 3 Minutes, etc.	263
Corporate, Headquarters	Includes GREE Business Operations	140
Engineering, Headquarters	-	78
<b>Total</b>	-	<b>1,424</b>

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



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