



GREE, Inc.

FY2018 Second Quarter Financial Results

February 2, 2018

Financial Results Overview

- **Net Sales ¥19.5 billion, Operating Income ¥2.3 billion, EBITDA ¥2.7 billion**
 - Surpassed our targets for both sales and income

Business Overview

- **Strengthened operation of existing titles and made progress in development of new titles**
 - Implemented measures to restart growth in existing titles with a focus on strengthening operations
 - Released *Library Cross Infinite* (January), off to a strong start
 - Made progress in development of 5 titles in our development pipeline
- **Entered console game business**
 - Global release of first console title, *Fishing Star* for the Nintendo Switch™

FY18 3Q Earnings Forecast

- **3Q net sales ¥19.5 billion, operating income ¥2.5 billion, EBITDA ¥2.8 billion**
 - Net sales expected to be same as 2Q

1. Financial Results Overview

2. Operational Overview

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1. Financial Results Overview

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1. Financial Results Overview (Consolidated)



FY18 2Q Financial Results Overview

Net sales ¥19.5bn, operating income ¥2.3bn

Billions of yen

	FY18 2Q			FY18 1Q	FY17 2Q
		QoQ	YoY		
Net sales	19.46	-2.15	4.11	21.61	15.35
EBITDA	2.71	-0.36	0.64	3.06	2.07
Operating income	2.34	-0.35	0.84	2.69	1.50
Ordinary income	2.69	-0.33	-1.07	3.02	3.76
Net income	1.99	0.08	0.11	1.90	1.88

Notes:

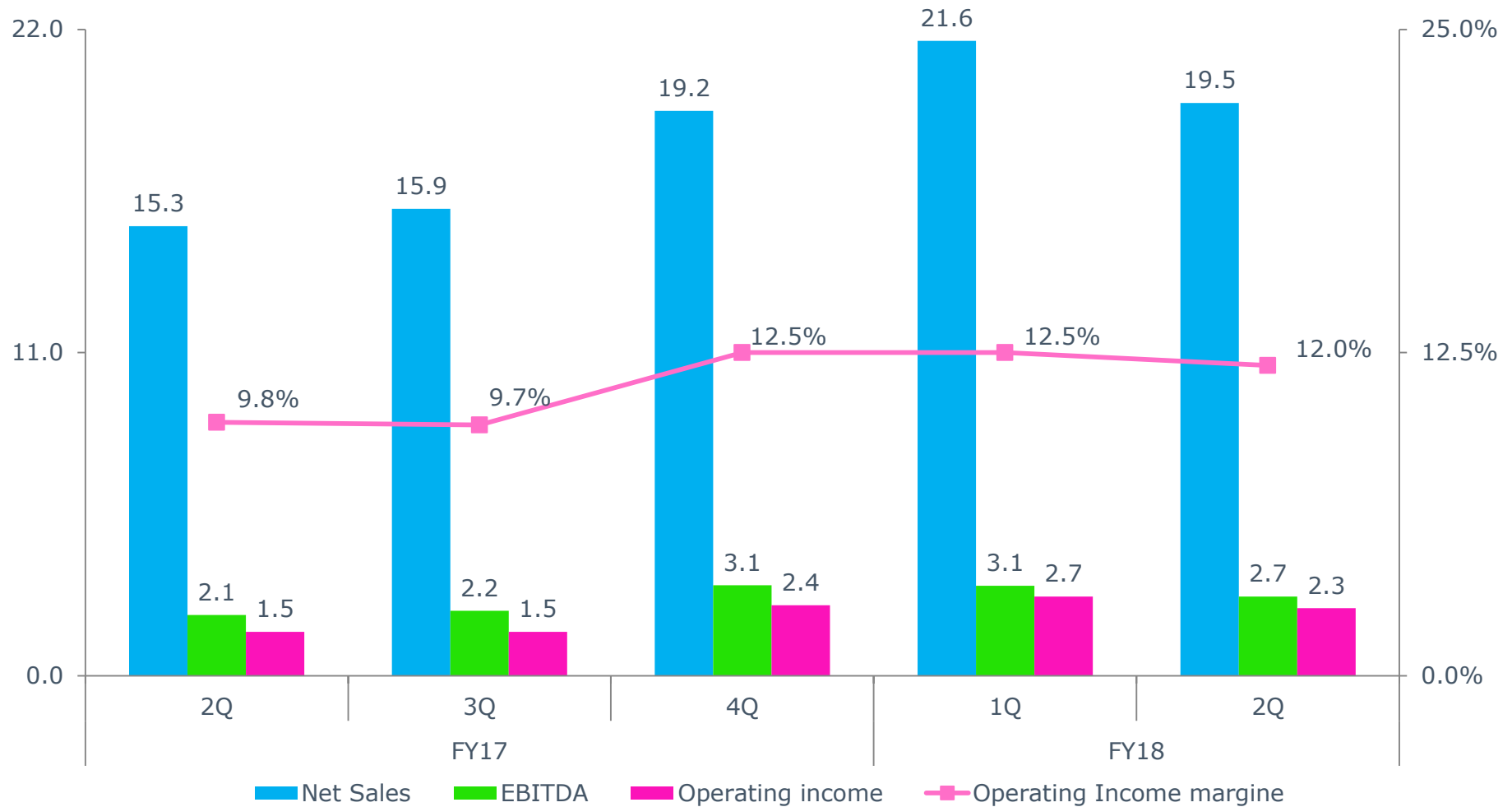
- Breakdown of FY18 2Q net sales: Paid service sales ¥17.21 billion; ad media sales ¥2.25 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

Operating margin narrowed by 0.5 percentage points QoQ to 12.0%

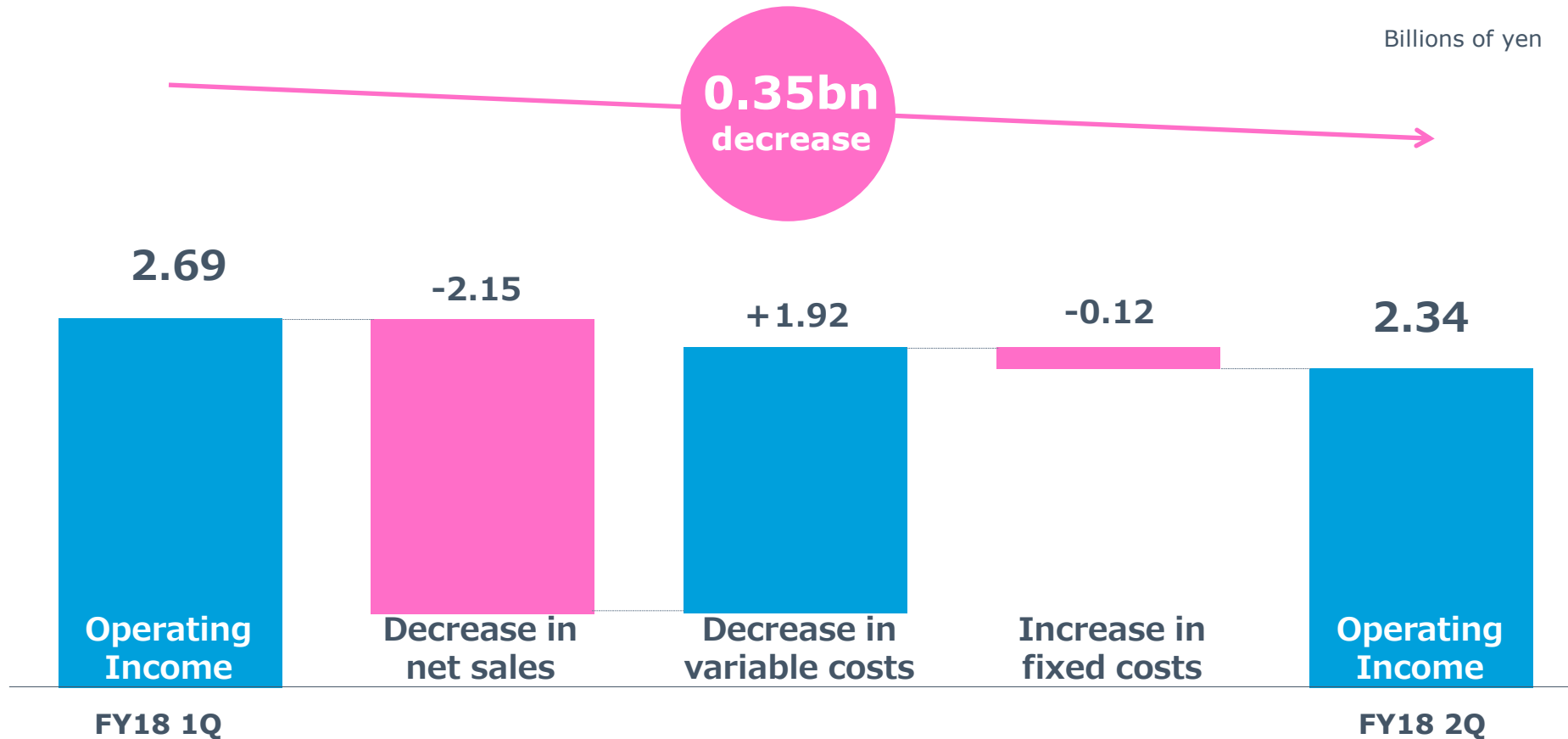
Billions of yen



1. Financial Results Overview (Consolidated)

Operating Income Analysis

Operating income down ¥400 million to ¥2.3 billion, mainly on sales decline



1. Financial Results Overview (Consolidated)

FY18 2Q Cost Structure

Total costs down ¥1.8 billion QoQ to ¥17.1 billion

						Billions of yen	
		FY18 2Q	QoQ	YoY	Factors in change (QoQ)	FY18 1Q	FY17 2Q
	Advertising	1.43	-0.90	0.37	Decreased due to use of more efficient advertising (1Q 10.8% → 2Q 7.4%)	2.33	1.06
	Commission Fees, etc.	6.38	-1.19	2.76	Decreased due to sales decline	7.56	3.62
	Other	0.60	0.17	0.11	Increase due to sales growth	0.43	0.49
Total variable costs		8.40	-1.92	3.23		10.32	5.17
	Labor costs	3.01	-0.28	-0.83	Decreased due to closing of overseas bases (consolidated headcount: end-1Q: 1,375 → end-2Q: 1,360)	3.29	3.84
	Rental costs	0.75	-0.21	-0.01	Progress made in reducing server leasing fees	0.96	0.76
	Depreciation	0.16	-0.00	-0.23	-	0.16	0.38
	Goodwill Amortization	0.21	0.00	0.02	-	0.21	0.19
	Other	4.59	0.61	1.08	Increased due to higher outsourcing and subcontracting costs	3.98	3.51
Total fixed costs		8.72	0.12	0.04		8.60	8.68
Total costs		17.12	-1.80	3.27		18.92	13.85

Note: Breakdown of 2Q FY2018 commission fees, etc.: commission fees: ¥4.31 billion, royalties: ¥2.07 billion

1. Financial Results Overview (Consolidated)

3Q FY18 Earnings Forecast

Net sales ¥19.5bn, operating income ¥2.5bn, EBITDA ¥2.8bn

Billions of yen

	1Q results	2Q results	3Q forecast	1Q-3Q forecast
Net sales	21.6	19.5	19.5	60.6
Operating income	2.7	2.3	2.5	7.5
Ordinary income	3.0	2.7	2.5	8.2
Net income	1.9	2.1	1.6	5.5
EBITDA	3.1	2.7	2.8	8.6

■ Top line

- Net sales expected to be same as 2Q

■ Costs

- We continue cost controlling such as advertising

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2. Operational Overview: Summary

Review and Summary of 2Q

FY18 Business Plan		Review
Overall	Aggressive push forward with investment in growth businesses	<ul style="list-style-type: none"> - Continued to invest in measures to restart growth in existing titles - Entered console games market
Game/entertainment	Mobile	<ul style="list-style-type: none"> - Added new scenarios to existing titles, strengthened operations through large-scale collaborations - Made progress toward selection of partners in overseas development efforts - Released <i>Library Cross Infinite</i> (January)
	Console, etc.	<ul style="list-style-type: none"> - Made progress in development of <i>Fishing Star</i> for the Nintendo Switch™
	Platform/game operation	<ul style="list-style-type: none"> - Sustained stable operations as a base for companywide earnings
Advertising and media	"App, Video, and Investment" strategies	<ul style="list-style-type: none"> - Achieved steady growth in LIMIA and MINE BY 3M platforms - Increased number of valuable clients

Notes:

- Business plan based on re-released summary of business plan announced in August 2017
- Created Console, etc. business segment following our entry into the console games market and changed name of Native games segment to Mobile segment
- Nintendo Switch is a trademark of Nintendo Co., Ltd.

2. Operational Overview: Game/entertainment business

Entry into console games market

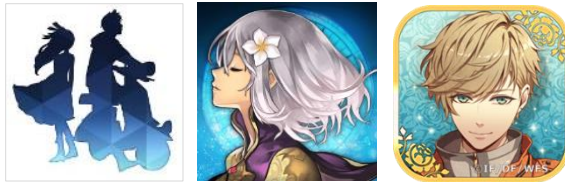
Extending “game engine, IP, and global” strategies to console games

Global release of 1st console title, *Fishing Star* for the Nintendo Switch™, in 2018

Further development of game engines



First-party IP
Co-developed
IP



Third-party
IP



1st title: *Fishing Star*

Use of many
types of IP

in future titles

Mobile game engine

Console game engine

Notes:

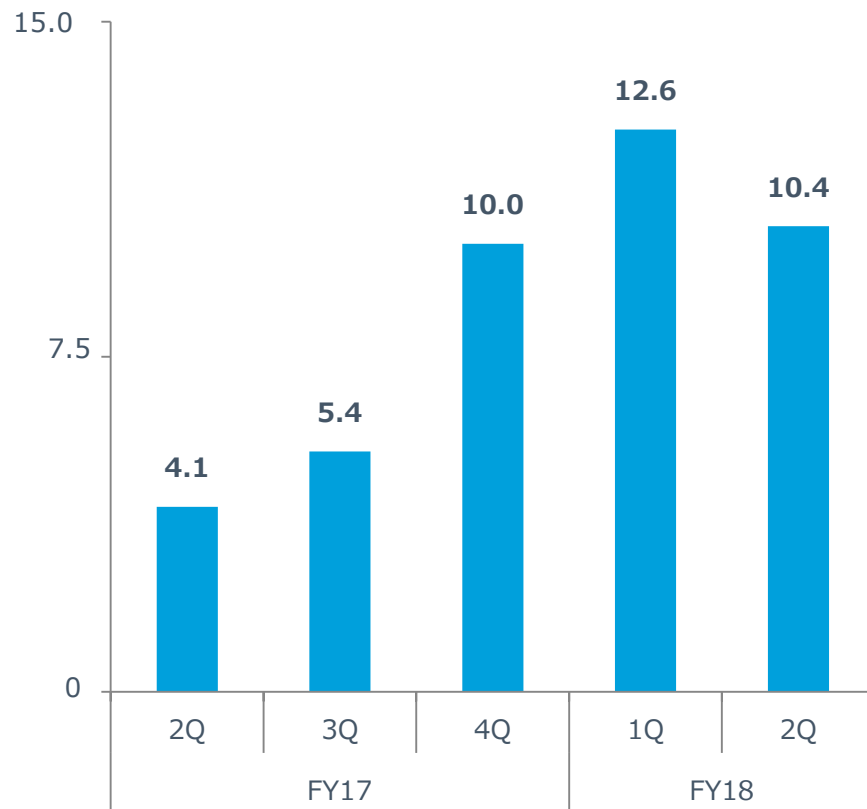
- Nintendo Switch is a trademark of Nintendo Co., Ltd.

2. Operational Overview: Game/entertainment business - Mobile Progress Made



Coin Consumption(Mobile)

Billions of coins



Topics

- Strengthened operation of existing titles
 - Added new scenarios
 - Entered into large-scale collaborations
- Released *Library Cross Infinite*
 - January launch
 - Off to a strong start

2. Operational Overview: Game/entertainment business - Mobile Expected growth trend

Sales growth through strengthening of operations and overseas development



2. Operational Overview: Game/entertainment business - Mobile Development pipeline



Two titles already released; total of five titles in development
Considering development of several existing titles for overseas markets

	FY18		FY19 and onward
	Already released	In development	
First-party IP Co-developed IP	1 (1)	0 (0)	0 (-)
Third-party IP	1 (1)	3 (4)	2 (-)

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 FY2018 results announcement

2. Operational Overview: Game/entertainment business - Mobile

Topics

Existing title

Added content such as new scenarios and storylines

Another Eden: The Cat Who Goes Beyond Time

Added new scenarios



- First part of version 1.5 released in November 2017
- New maps and background music also released with new scenarios

Danmachi: Memoria Freeze*

Added new storylines



- New *Sword Oratoria* version and new storylines released with new scenarios in November 2017
- New marketing activities conducted and new maps and background music related to new content released

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

2. Operational Overview: Game/entertainment business - Mobile Topics

Existing title

Continued to strengthen operations, add new content such as new scenarios and storylines, and update functions

SINoALICE

Added new scenarios



- Released new scenario, *Reality Arc* in December 2017
- Continued to hold guild-versus-guild events and undertake large-scale collaborations

Notes:

- The game features a GvG (guild-versus-guild) system wherein players form guilds that battle against each other.
- ©2017, 2018 Pokelabo Inc./SQUARE ENIX CO., LTD. All Rights Reserved.
- © Project Symphogear © Project SymphogearG © Project SymphogearGX © Project SymphogearAXZ © bushiroad All Rights Reserved. © Pokelabo, Inc.

Senki Zesshou SYMPHOGEARXD Unlimited

Hosted new storyline event



- Released new storylines different from the original series
- Developed and released new content related to storylines

2. Operational Overview: Game/entertainment business - Mobile

New titles

Library Cross Infinite

Featuring an all-star cast of popular characters from Otomate (a media brand popular with women)

January 25 release

First collaboration with Otomate



- 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.

2. Operational Overview: Game/entertainment business - Mobile

In Development

Puchiguru Love Live!

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



- All the μ'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 μ's and Aqours music groups allowing players to enjoy unique skill effects.

Notes: Screenshot is of development version; ©2013 Project Love Live!, ©2017 Project Love Live! Sunshine!! ©Pokelabo, Inc.

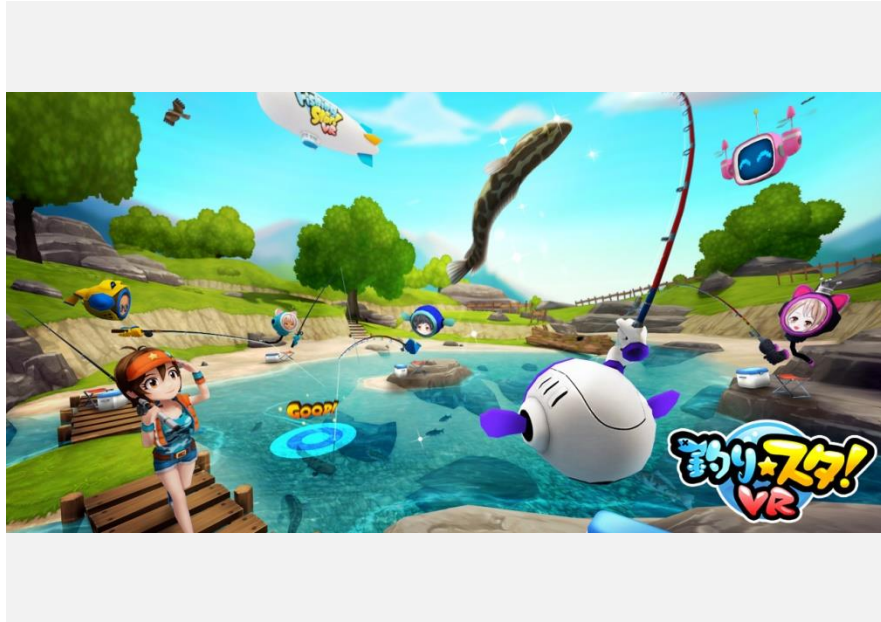
2. Operational Overview: Game/entertainment business – Consoles, etc. VR business



Progress in investment, development and market promotion

Released Daydream version of *Fishing Star*

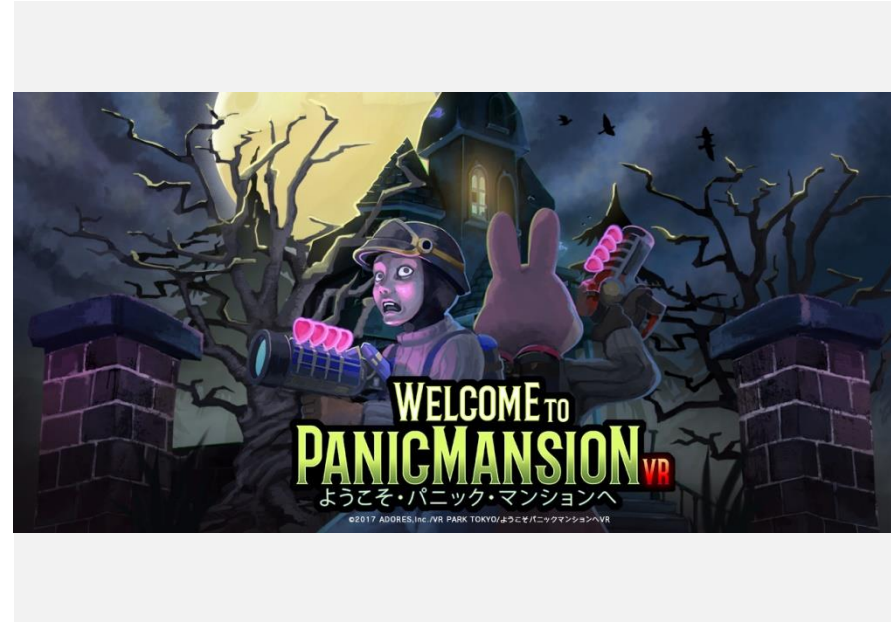
Global release



- Features multiplayer fishing tournaments with up to six players
- Released in Japan, Australia, India, South Korea, and Taiwan

Providing new attractions

New amusement machine for VR PARK TOKYO

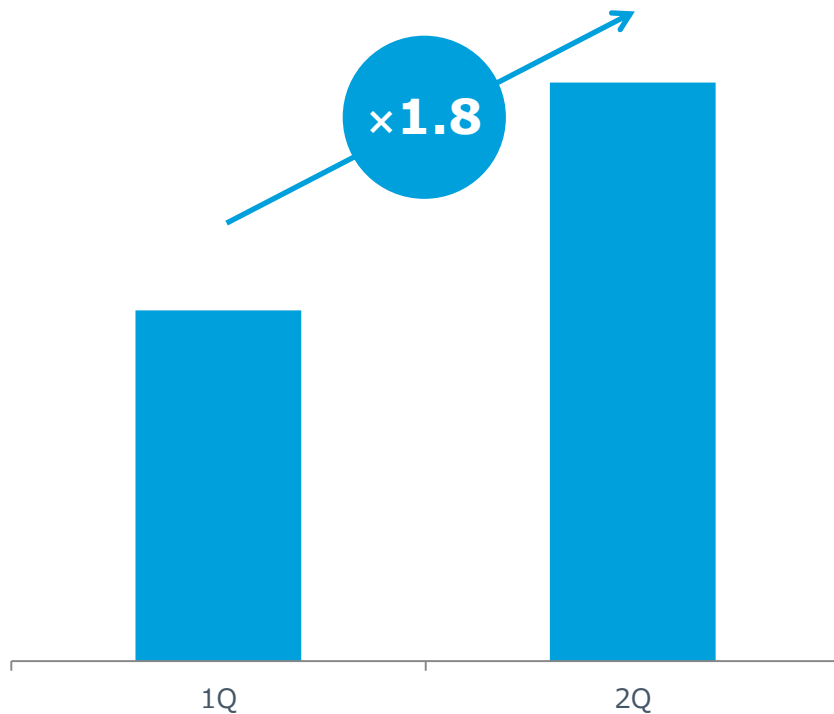


- Simple production of 3D faces based on photographs
- Multiplayer functionality using VR avatars

2. Operational Overview: Advertising and media business Progress Made

Growth in media page views

1.8x QoQ growth



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

Growth in number of valuable clients

Growth in number of advertisers on
MINE BY 3M and LIMIA

MINE BY 3M



花王様



BAYCREW'S GROUP様

LIMIA



イトーヨーカドー様



サンゲツ様



高島屋様

1. Financial Results Overview

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Game engine, IP, and global

Engines

×

IP

×

Global

Increase our sustainable competitive advantage

Increase hit rate and profitability

Increase earnings from IP-based titles

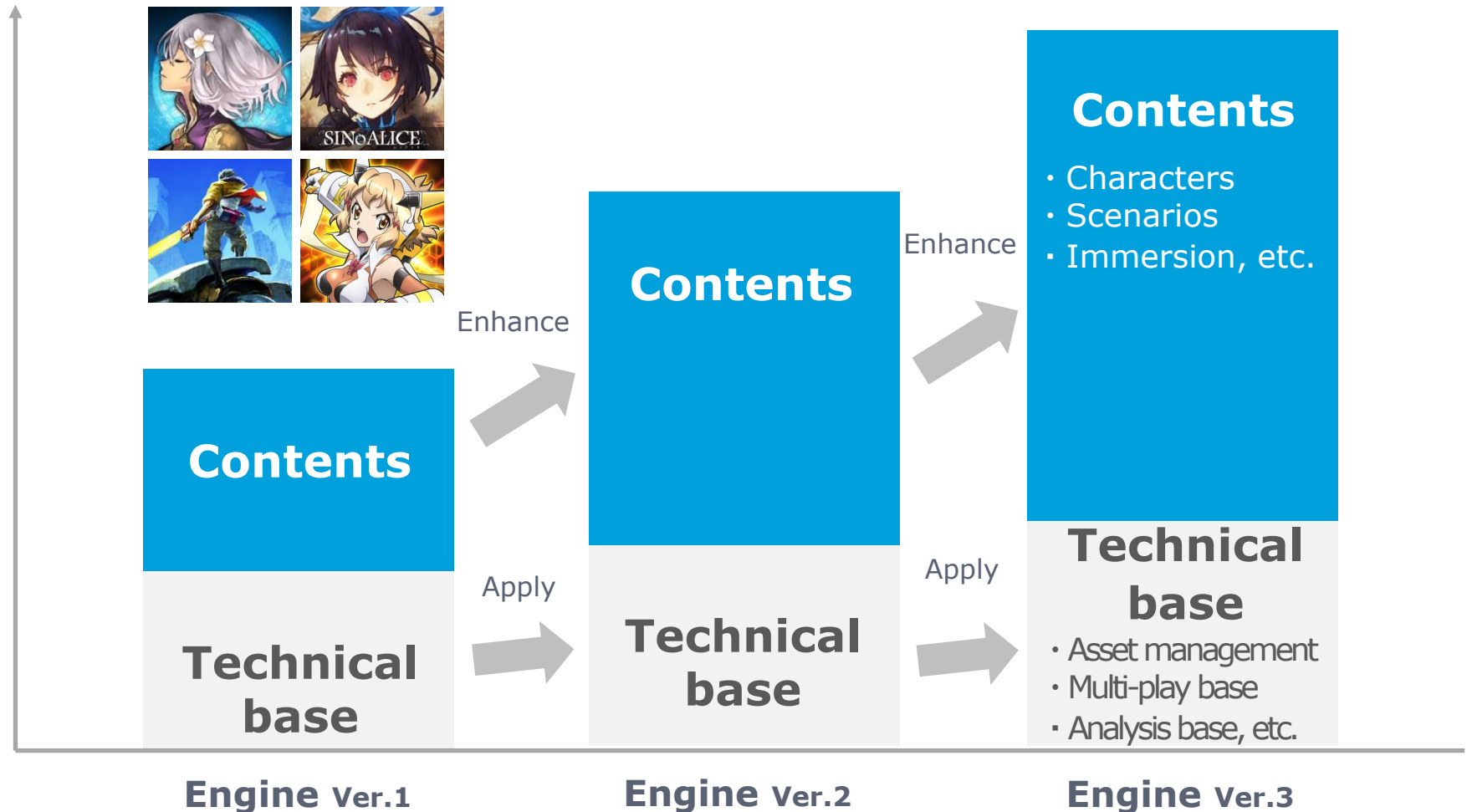
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FY18 Strategy

Strategy 1: Game engine strategy

Increase our sustainable competitive advantage
and achieving differentiation through quality

Game quality

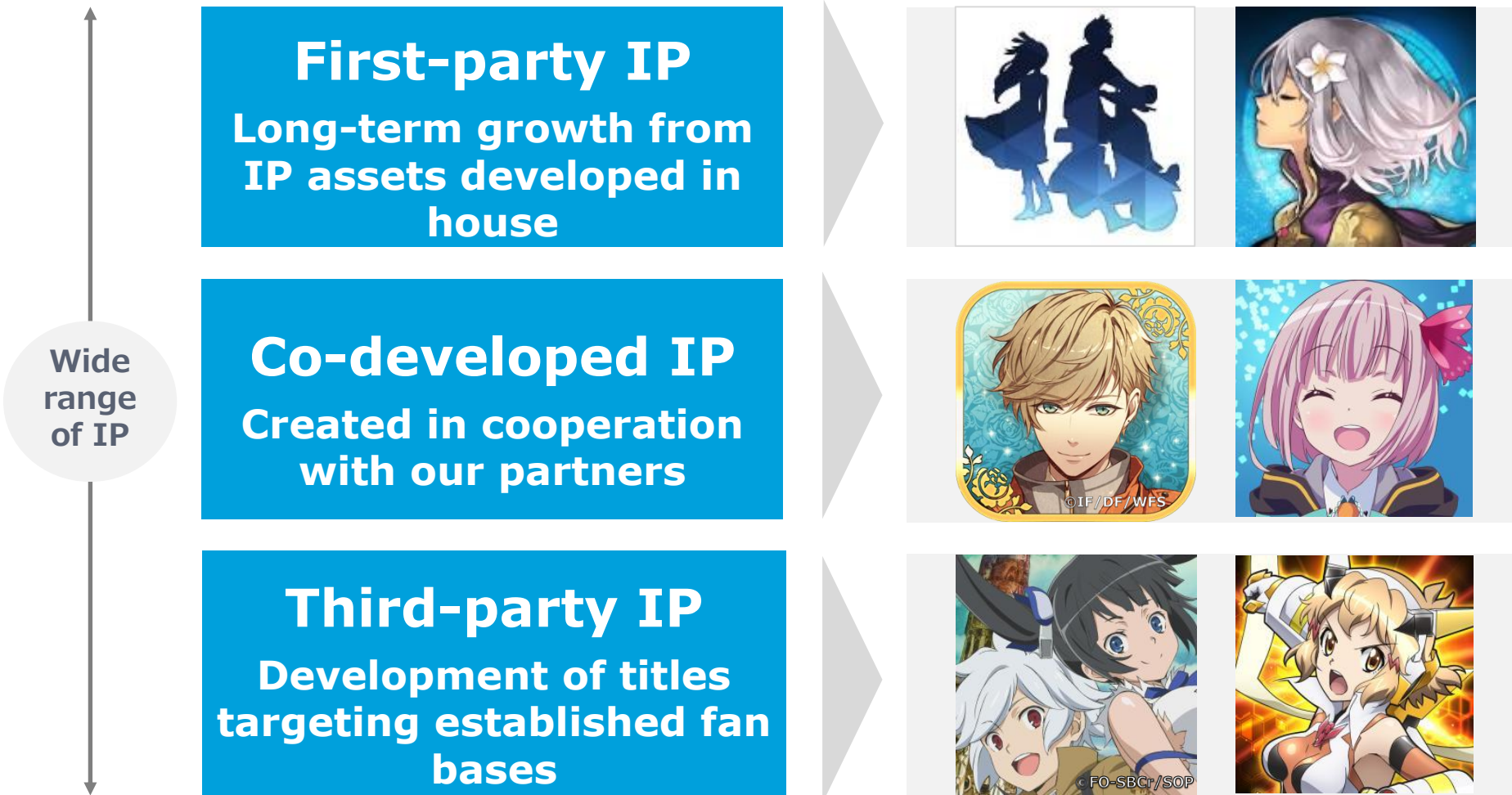


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FY18 Strategy

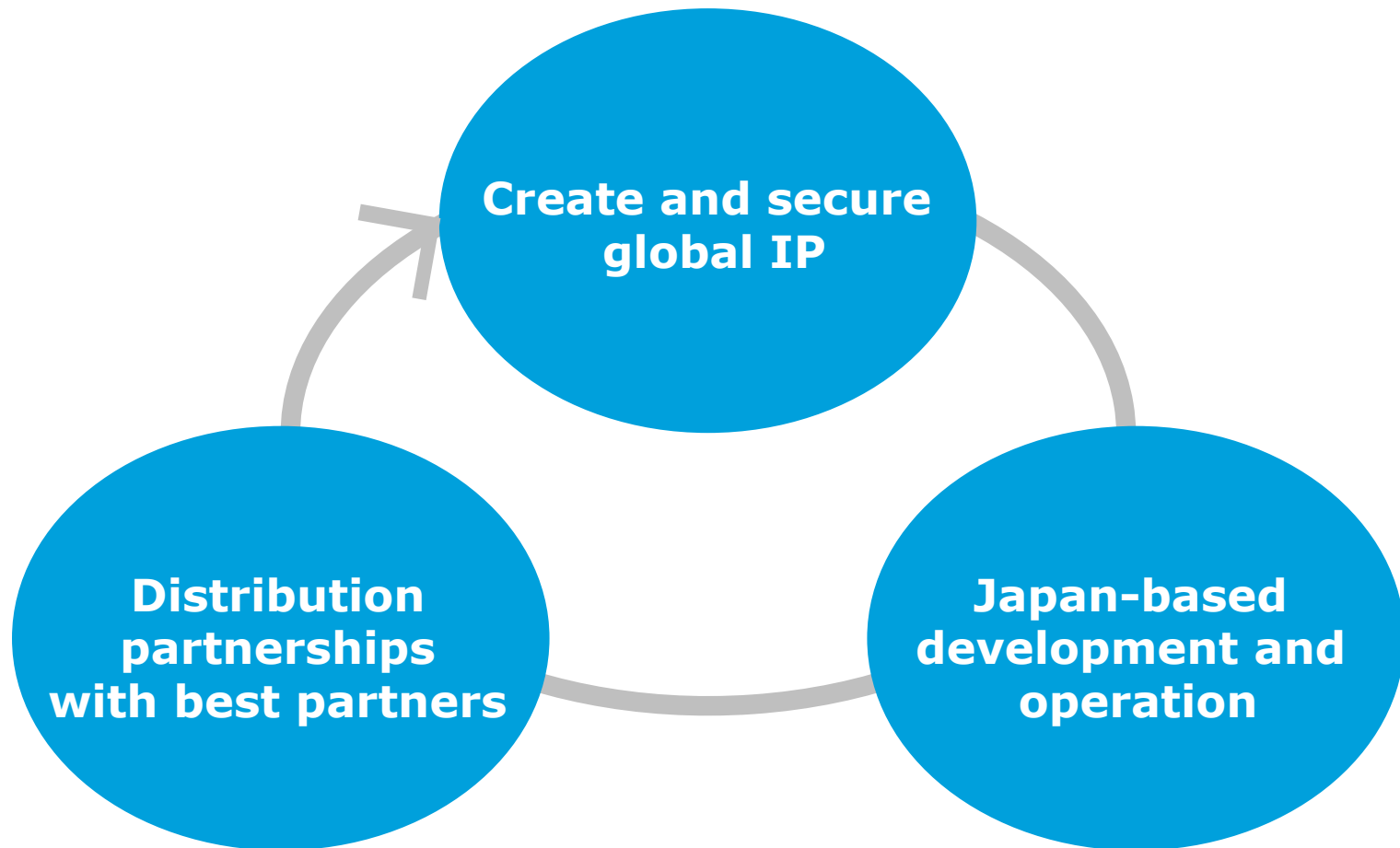
Strategy 2: IP strategy

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



Strategy 3: Global strategy

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

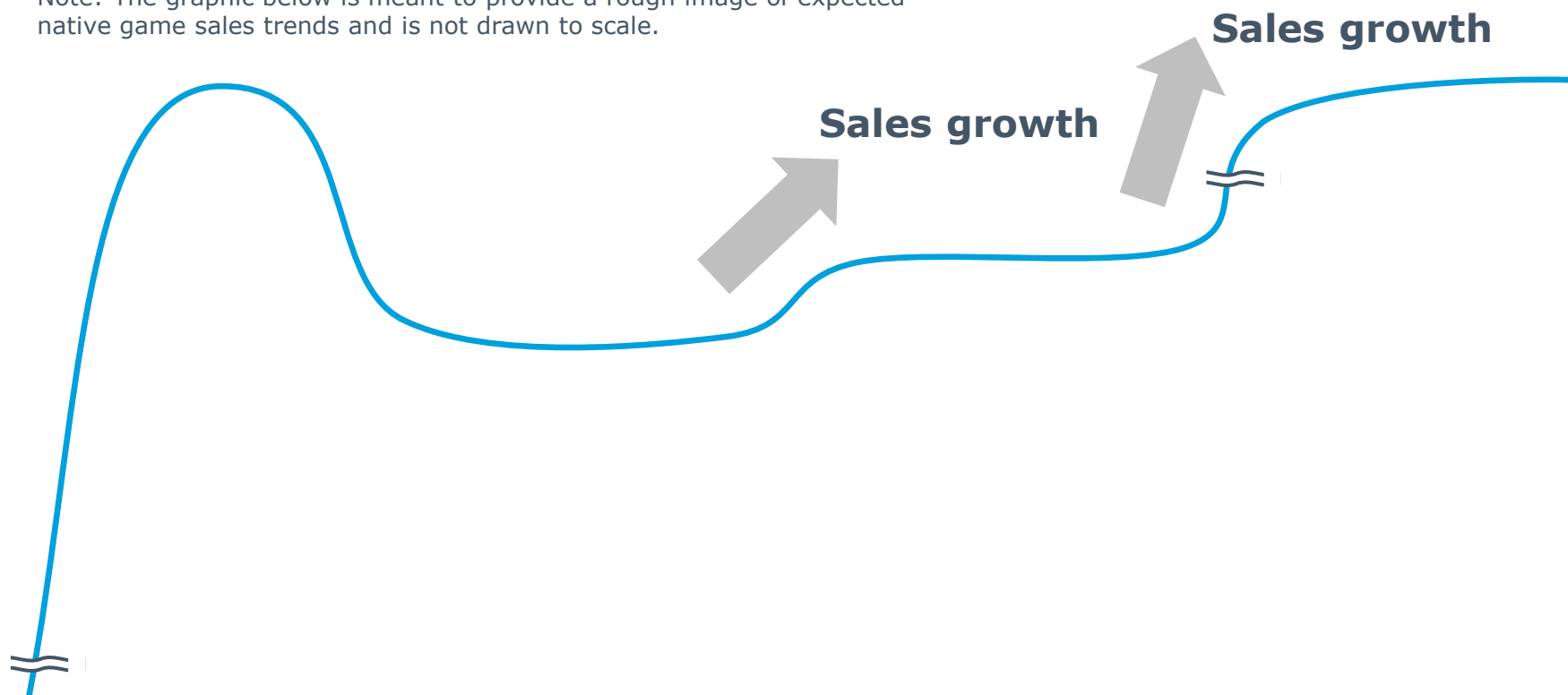


Expected growth trend in mobile games

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.



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

Main media brands



Fashion video magazine



Informational media on housing and lifestyles



**Beauty media based on the theme of
“finding your ideal self”**



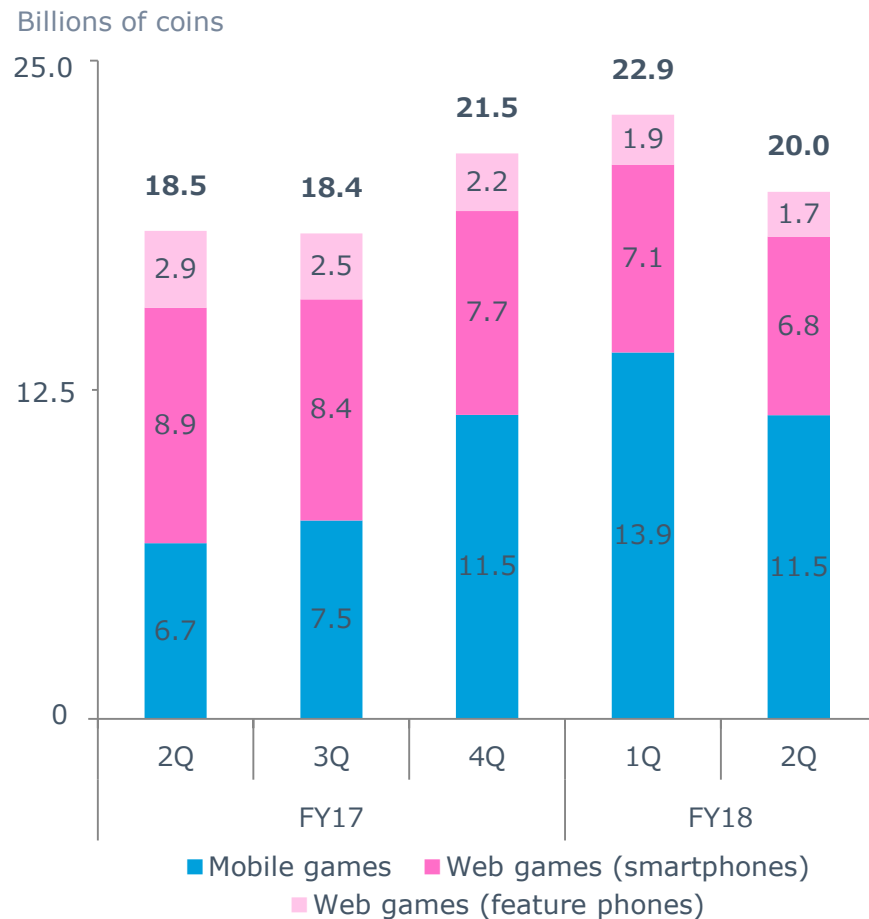
**Outing and travel media based on the theme of
“making every day fun”**

Notes:

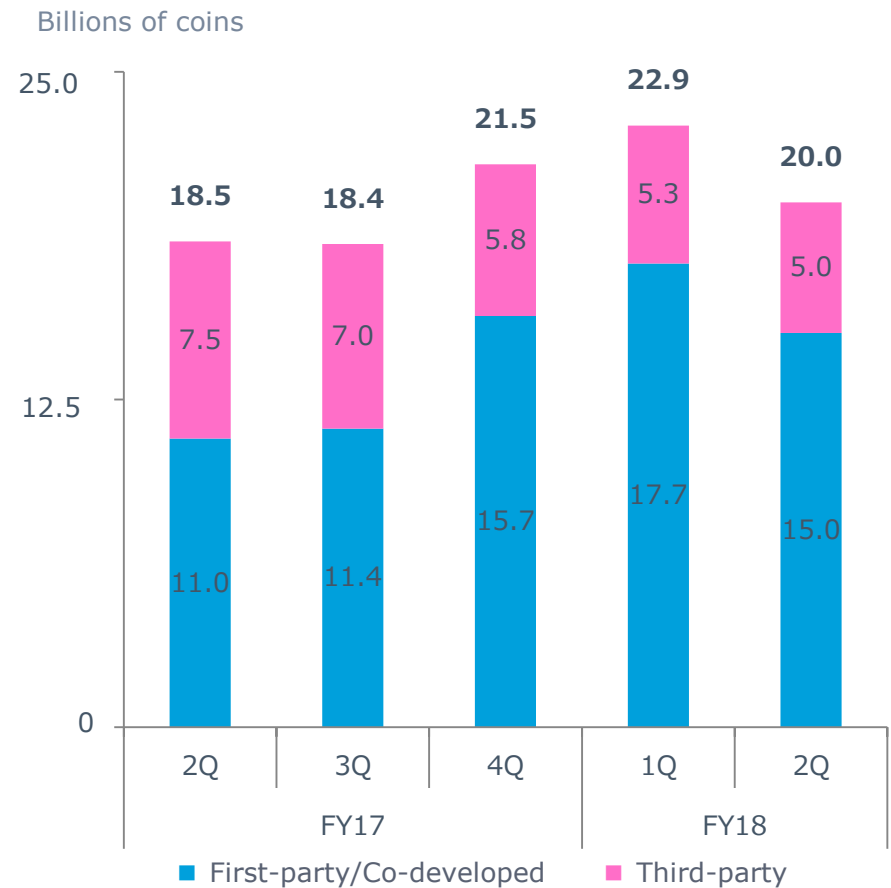
- The above is a list of main media brands operated by GREE as of December 31, 2017.
- We are considering launching other digital media brands.

Coin Consumption (1)

Overall coin consumption (1)



Overall coin consumption (2)

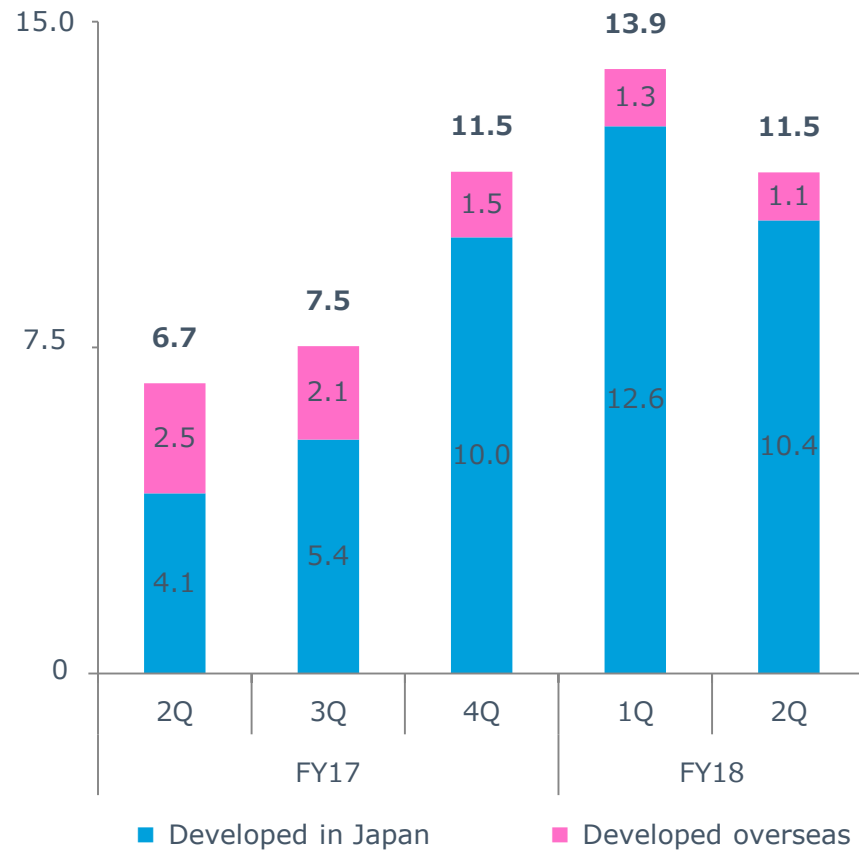


Note: Titles in which GREE is credited are categorized as "First-party/Co-developed" 30

Coin Consumption (2)

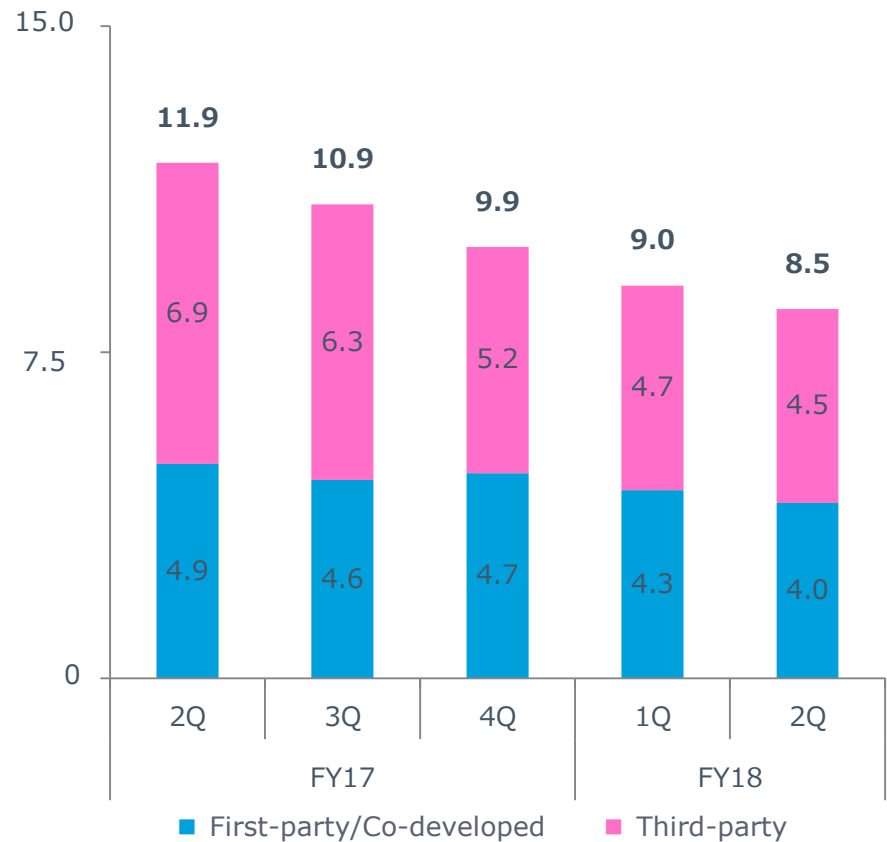
Native Games

Billions of coins



Web games

Billions of coins



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

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2Q FY18 Cost Structure

Millions of yen

		FY18 2Q	QoQ	YoY	FY18 1Q	FY17 2Q
	Rental charges	766	-196	4	963	762
	Labor costs	1,977	-105	-141	2,082	2,119
	Others	5,036	-9	2,905	5,045	2,132
	Cost of sales	7,780	-311	2,767	8,090	5,013
	Advertising	1,431	-897	366	2,328	1,065
	Commission fees	4,310	-728	1,229	5,038	3,080
	Labor costs	1,032	-176	-683	1,208	1,714
	Others	2,568	313	-408	2,256	2,977
	SG&A	9,341	-1,489	505	10,830	8,836
	Total costs	17,121	-1,800	3,272	18,920	13,848

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2Q FY18 Balance Sheet

Billions of yen

	FY18 2Q	QoQ	YoY	FY18 1Q	FY17 2Q
Current assets	96.03	0.37	-5.10	95.66	101.13
Fixed assets	27.36	0.32	2.09	27.04	25.27
Total assets	123.39	0.70	-3.02	122.69	126.41
Current liabilities	11.39	-1.64	-2.40	13.03	13.79
Fixed liabilities	0.59	0.05	-0.86	0.55	1.45
Total liabilities	11.98	-1.60	-3.26	13.58	15.24
Total net assets	111.41	2.29	0.24	109.12	111.17
Cash and cash equivalents –	83.04	1.09	0.85	81.94	82.19
Interest-bearing debt	-	-	-	-	-
Net cash	83.04	1.09	0.85	81.94	82.19
Goodwill	3.50	-0.21	1.32	3.71	2.18

Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-2Q
Game/Entertainment Business	-	915
Native Game Business	Pokelabo, Wright Flyer Studios	(382)
Web Game / Operation Business	funplex	(276)
Shared game depts.	ExPlay	(257)
Advertising and Media Business	Includes Glossom, Limia, 3 Minutes, etc.	276
Corporate, Headquarters	Includes GREE Business Operations	135
Engineering, Headquarters	-	81
Total	-	1,407

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



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