



GREE, Inc.

FY2018 Third Quarter Financial Results

April 27, 2018

Financial Results Overview

- **Net sales ¥17.9 billion, operating income ¥2.8 billion, EBITDA ¥3.2 billion**
 - Surpassed operating income target despite sales falling short of target

Business Overview

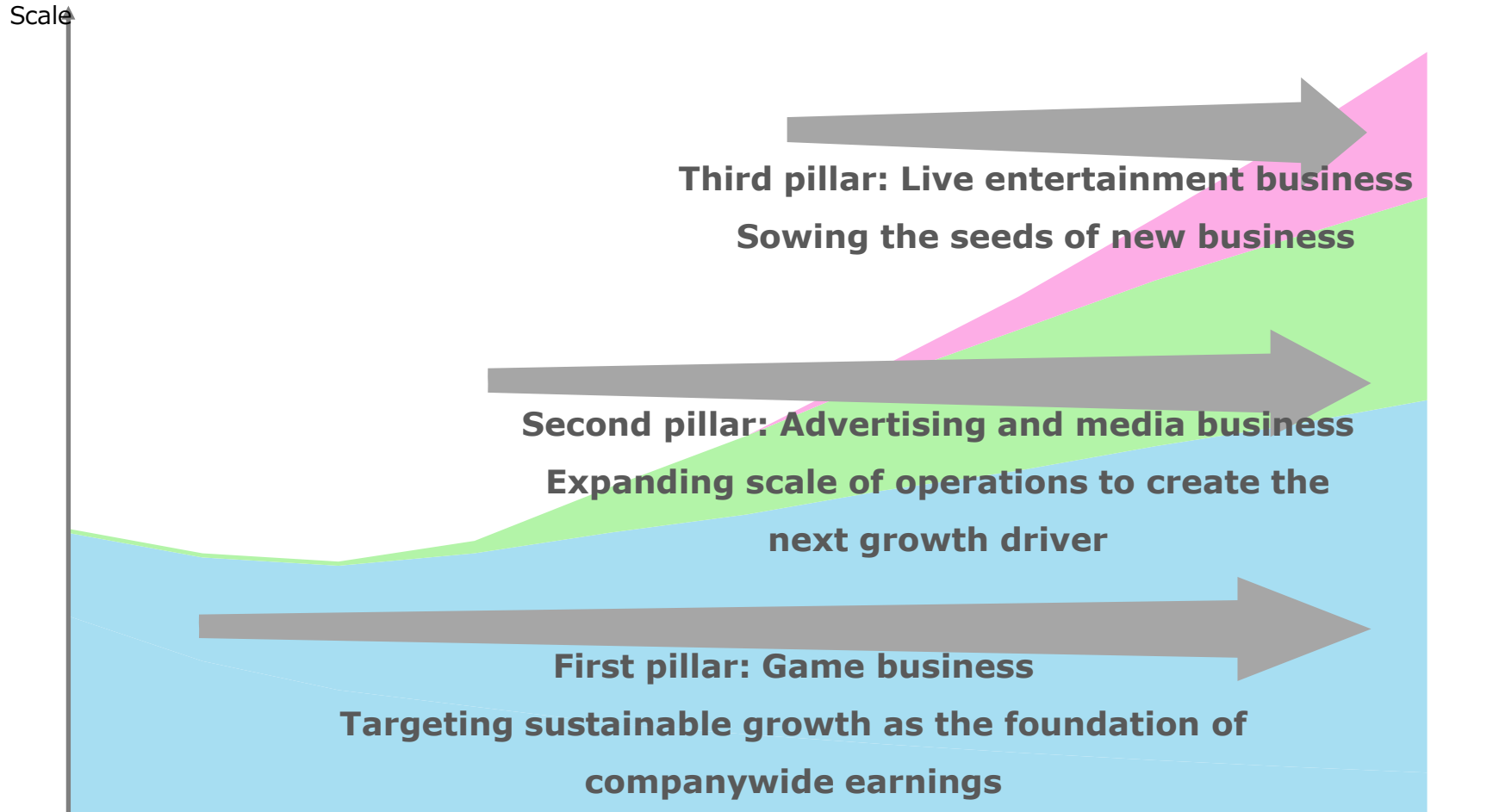
- **Overseas development, new titles off to a strong start**
 - Release of North American version of DanMachi (end-March), overseas sales off to a strong start
 - Release of In Love with News (end-March), off to a strong start
 - Release of Puchiguru Love Live! (end-April), off to a strong start
 - Continued to strengthen operation of existing titles, signs of improvement in some titles
- **Entered live entertainment business to create a third earnings pillar**
 - Planned investment of roughly ¥10 billion, development not only in Japan, but also on a global scale

FY18 4Q Earnings Forecast

- **4Q net sales ¥18.5 billion, operating income ¥2.2 billion, EBITDA ¥2.5 billion**
 - We expect earnings contribution from strengthening of operations, launching for overseas release, and already-released new titles
 - We expect both sales and income to increase YoY in FY2018 (full-year basis)

Targeting Medium-Term Growth

Targeting sustainable growth as we build three earnings pillars



1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview

2. Operational Overview

3. Appendix

1. Financial Results Overview (Consolidated)



FY18 3Q Financial Results Overview

Net sales ¥17.9bn, operating income ¥2.8bn

Billions of yen

	FY18 3Q			FY18 2Q	FY17 3Q
		QoQ	YoY		
Net sales	17.87	-1.59	1.99	19.46	15.88
EBITDA	3.15	0.45	0.94	2.71	2.21
Operating income	2.78	0.44	1.23	2.34	1.55
Ordinary income	2.69	0.0	1.84	2.69	0.85
Net income	1.89	-0.10	0.32	1.99	1.56

Notes:

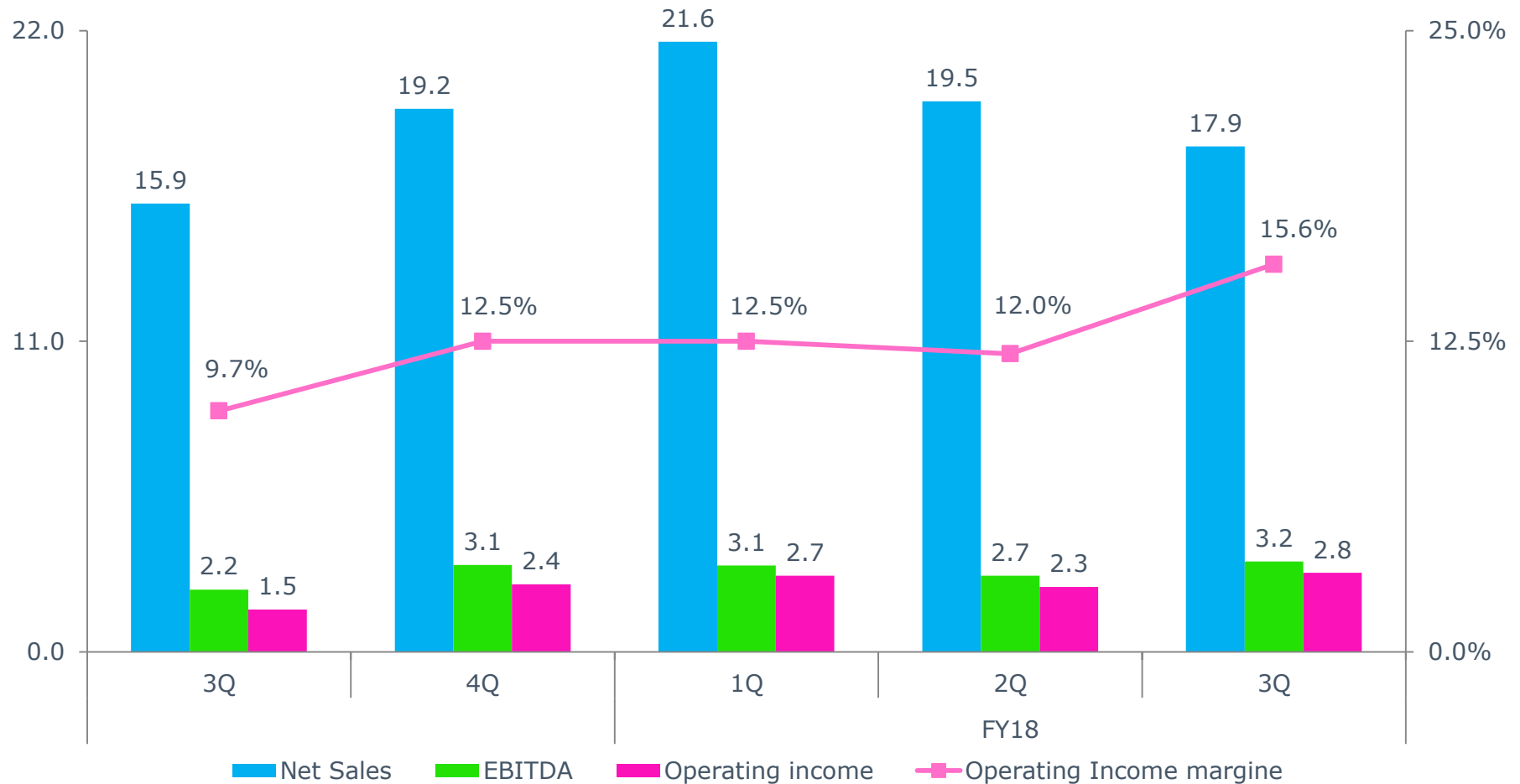
- Breakdown of FY18 3Q net sales: Paid service sales ¥15.50 billion; ad media sales ¥2.37 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, EBITDA, and Operating Income

Operating margin expanded by 3.6 percentage points QoQ to 15.6%

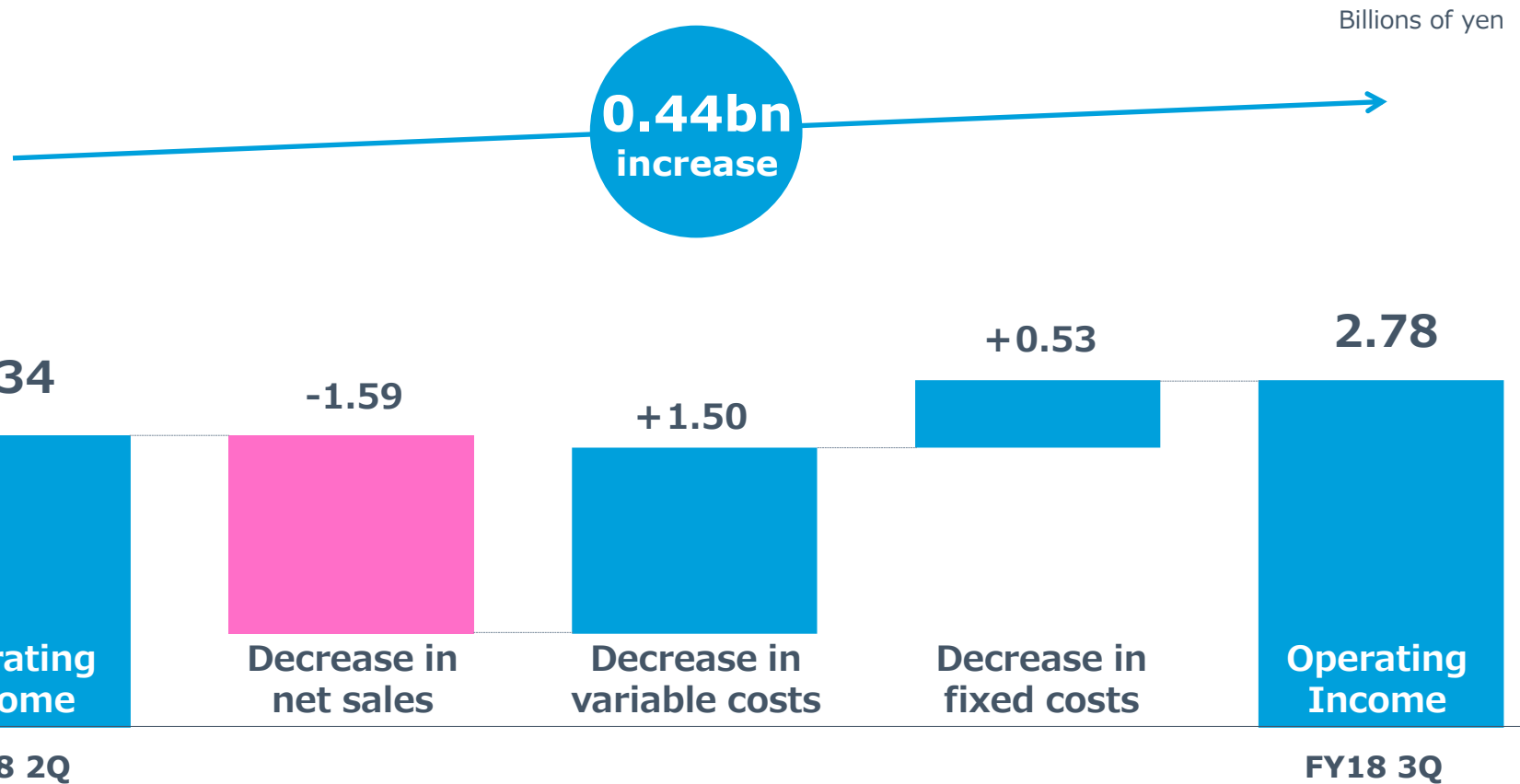
Billions of yen



1. Financial Results Overview (Consolidated)

Operating Income Analysis

Operating income up ¥400 million to ¥2.8 billion on cost cutting



1. Financial Results Overview (Consolidated)

FY18 3Q Cost Structure

Total costs down ¥2.0 billion QoQ to ¥15.1 billion

Billions of yen

		FY18 3Q	QoQ	YoY	Factors in change (QoQ)	FY18 2Q	FY17 3Q
	Advertising	0.83	-0.60	-0.06	Decreased due to use of more efficient advertising (2Q 7.4% → 3Q 4.6%)	1.43	0.88
	Commission Fees, etc.	5.48	-0.89	1.44	Decreased due to sales decline	6.38	4.04
	Other	0.60	0.00	0.11	-	0.60	0.49
	Total variable costs	6.91	-1.50	1.49		8.40	5.41
	Labor costs	2.99	-0.02	-0.80	Consolidated headcount: end-2Q: 1,360 → end-3Q: 1,381	3.01	3.79
	Rental costs	0.65	-0.10	-0.13	Made more efficient use of server leasing fees	0.75	0.78
	Depreciation	0.16	0.00	-0.24	-	0.16	0.40
	Goodwill Amortization	0.21	0.00	-0.06	-	0.21	0.27
	Other	4.17	-0.41	0.49	Decreased due to lower outsourcing costs	4.59	3.68
	Total fixed costs	8.18	-0.53	-0.74		8.72	8.92
Total costs		15.09	-2.03	0.76		17.12	14.33

Note: Breakdown of 3Q FY2018 commission fees, etc.: commission fees: ¥3.82 billion, royalties: ¥1.66 billion

1. Financial Results Overview (Consolidated)



FY18 Earnings Forecast

Net sales ¥77.5bn, operating income ¥10.0bn, EBITDA ¥11.5bn

Billions of yen

	1Q results	2Q results	3Q results	4Q forecast	Full-year forecast
Net sales	21.6	19.5	17.9	18.5	77.5
Operating income	2.7	2.3	2.8	2.2	10.0
Ordinary income	3.0	2.7	2.7	2.1	10.5
Net income	1.9	2.0	1.9	1.2	7.0
EBITDA	3.1	2.7	3.2	2.5	11.5

■ Top line

- We expect sales contribution from strengthening of operations and launching for overseas, and already-released new titles in March to April

■ Costs

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

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2. Operational Overview: Summary

Review and Summary of 3Q

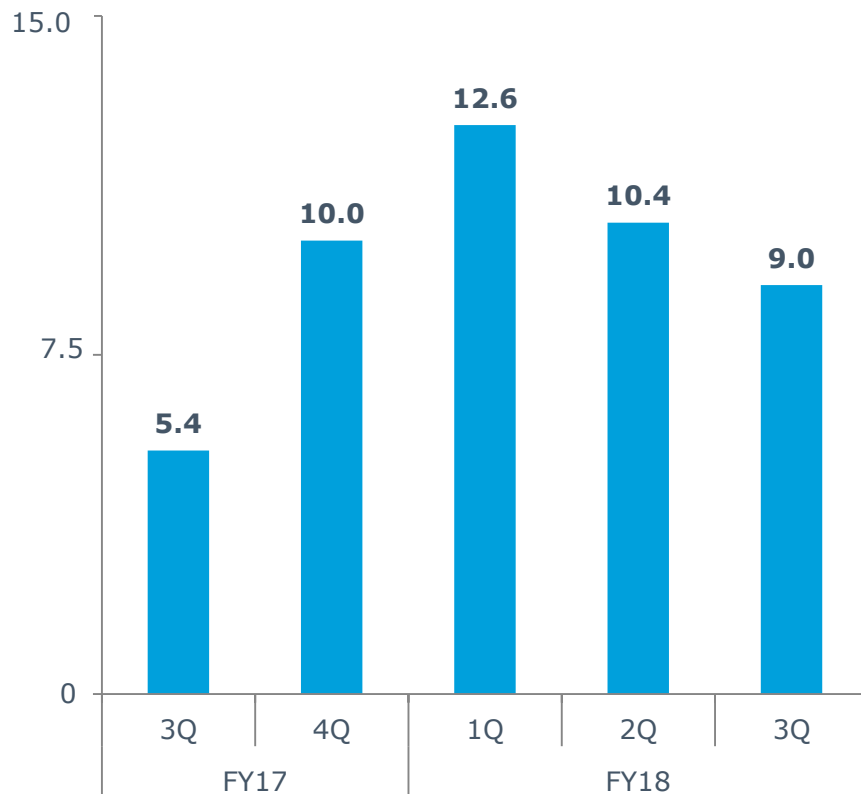
FY18 Business Plan		Review
Overall	Aggressive push forward with investment in growth businesses	- Entered live entertainment business as third earnings pillar
Game/entertainment	Mobile	<ul style="list-style-type: none"> - Released North American version of <i>DanMachi</i> (late March) - Released In Love with News (end-March) - Continued to strengthen operations of existing titles through large-scale collaboration, etc.
	Console, etc.	- Expanded VR content offerings through cooperation on projects with other companies
	Platform/game operation	- Sustained stable operations as a base for companywide earnings
	Live entertainment, etc.	- Started project to discover and develop VTubers
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 clients

Notes: Business plan includes additions to the business plan announced in August 2017

2. Operational Overview: Game/entertainment business Progress Made

Domestic Coin Consumption (Mobile)

Billions of coins



Topics

- Strengthened operation of existing titles
 - Released major updates
 - Entered into collaborations, etc.
- Released *In Love with News*
 - Released in March
 - Off to a strong start

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

Four titles already released; total of six titles in development
Progress made in preparing of existing titles for overseas markets

	FY18		FY19 and onward
	Already released	In development	
First-party IP Co-developed IP	1 (1)	0 (0)	2 (0)
Third-party IP	3 (1)	1 (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 2Q FY2018 results announcement

2. Operational Overview: Game/entertainment business - Mobile

Expected growth trend

Sales growth through strengthening of operations and overseas development

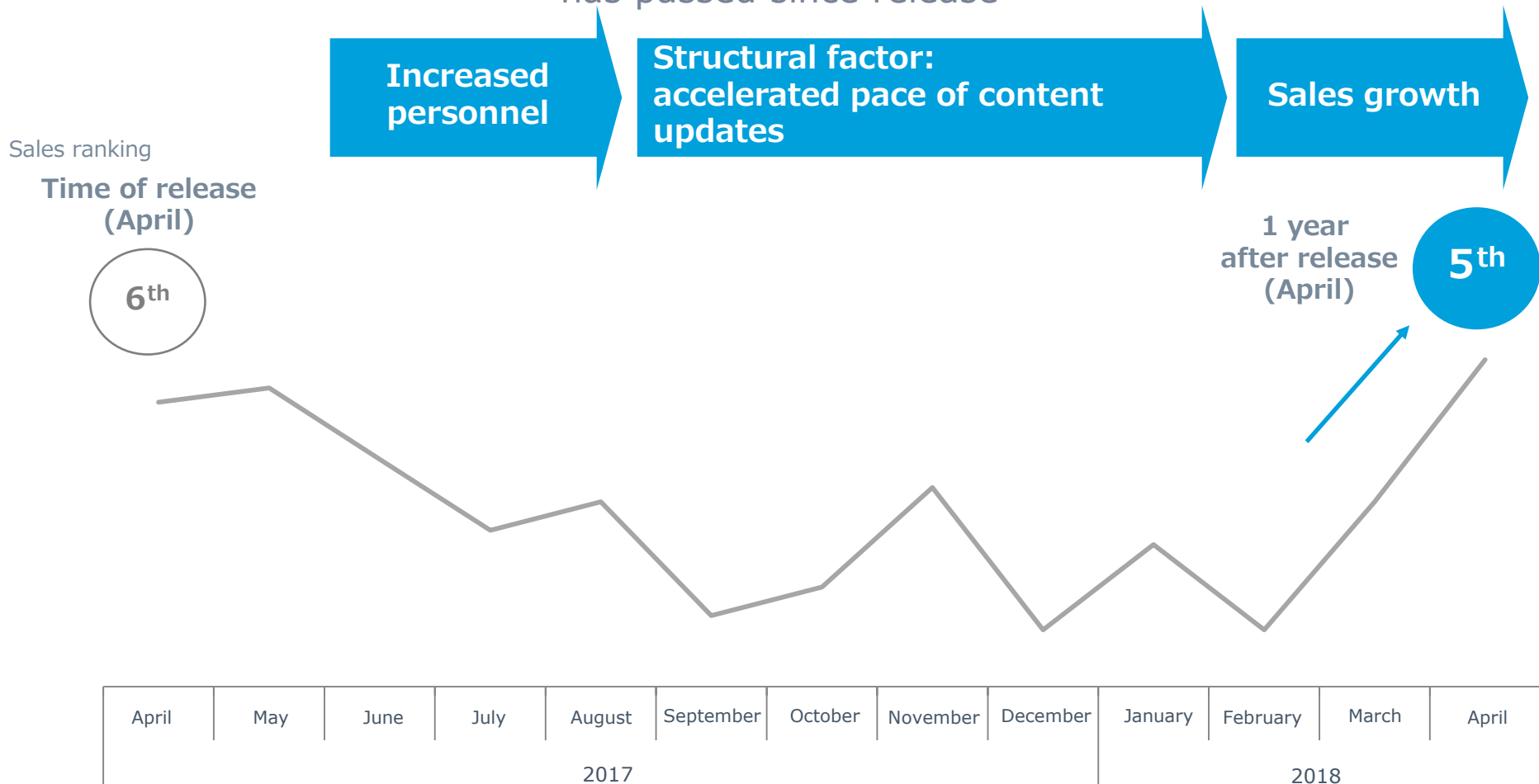


2. Operational Overview: Game/entertainment business - Mobile



Strengthening operations for *Another Eden*

Record-high ranking (5th) in April driven by rising update cycle even though a year has passed since release



Note:

Rankings indicate highest sales ranking reached as of April 24 in either the App Store or Google Play (each month)

Number of updates indicates number of times characters or storylines were added to the game

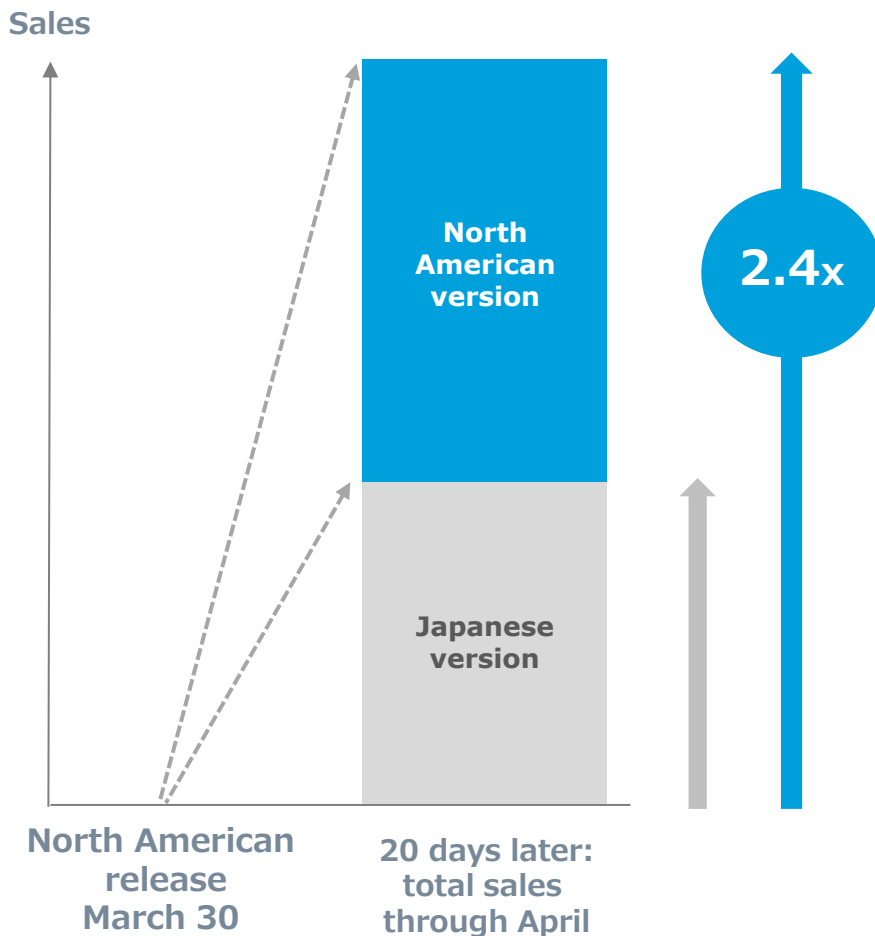
2. Operational Overview: Game/entertainment business - Mobile



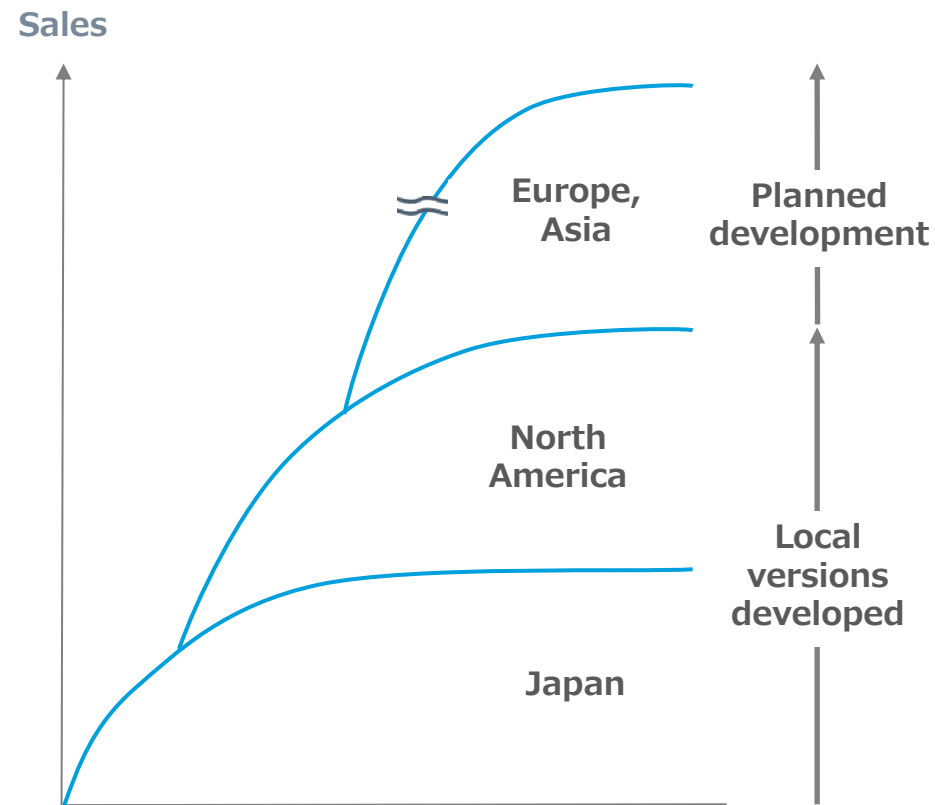
Development of *DanMachi* for overseas markets

April North American launch even stronger than Japan launch; expect further growth in global market

Sales off to a strong start



Sales growth from development for overseas markets



2. Operational Overview: Game/entertainment business - Mobile

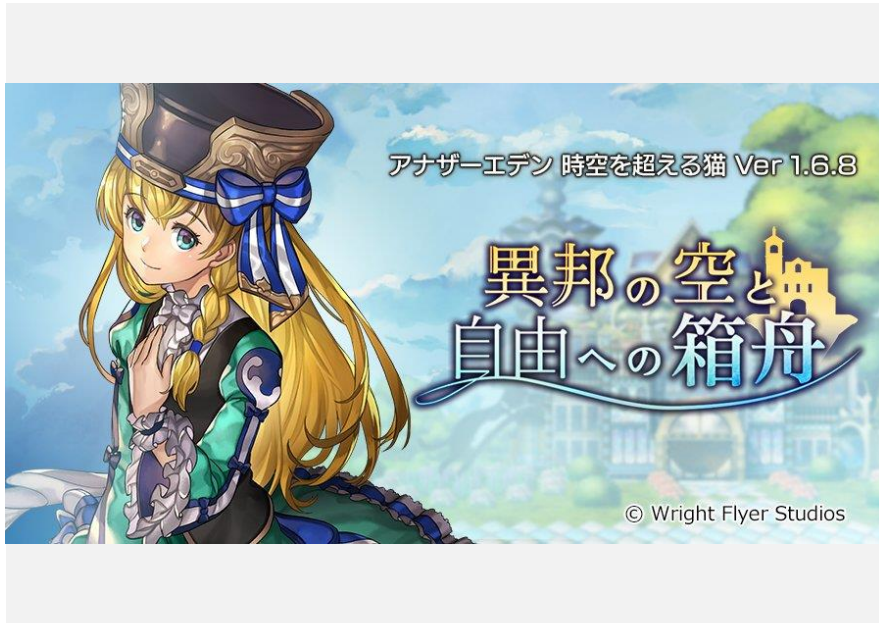
Existing title

3Q Topics

Large-scale updates and additional content

Another Eden: The Cat Who Goes Beyond Time

Continuous updates



- Continuously updated twice a month
- Added new countries, characters, side stories, and functions, etc.

DanMachi Memoria Freese*

Large-scale update



- Held events and added functions related to base story
- Tie-ins with announcements of movie and season 2 of TV series

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

2. Operational Overview: Game/entertainment business - Mobile

Existing title

3Q Topics



Collaborations with major titles and media mix campaigns

SINoALICE

Collaboration events



- Held Drag On Dragoon 3 event in March
- Announced new info including new characters in official live broadcasts

Senki Zesshou SYMPHOGEAR XD Unlimited

Campaigns integrated with real-world events



- Held SYMPHOGEAR LIVE 2018 integrated campaign
- Continuously developed unique content for the app

2. Operational Overview: Game/entertainment business - Mobile

In Love with News



New titles

Live-action dating simulation game featuring News, reached top 20 in app rankings

Released March 27

Off to a strong start



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User reviews

Google Play

App Store

4.5

4.7

Ranking

17th

- First official game app featuring photos and voice clips from popular idol group News
- Promoted via TV commercials starting on April 5 during programs featuring appearances by News

Notes:

Rankings indicate highest sales ranking reached as of April 25 in either the App Store or Google Play

User reviews as so April 25

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2. Operational Overview: Game/entertainment business - Mobile

Puchiguru Love Live!



New titles

Launch of new Love Live! game created in close collaboration with Sunrise,
reached top 20 in app rankings

Released April 24

Off to a strong start



User reviews

Google Play

App Store

4.4

4.6

Ranking

31th

- 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: Rankings indicate highest sales ranking reached as of April 25 in either the App Store or Google Play. User reviews as so April 25
©2013 Project Love Live!, ©2017 Project Love Live! Sunshine!! ©Pokelabo, Inc.

2. Operational Overview: Game/entertainment business

Expansion of console business

Application of "Game engine, IP, and global" strategies to console games
Second step: release of *Another Eden* for the Nintendo Switch announced on April 19

Expansion of game engine development



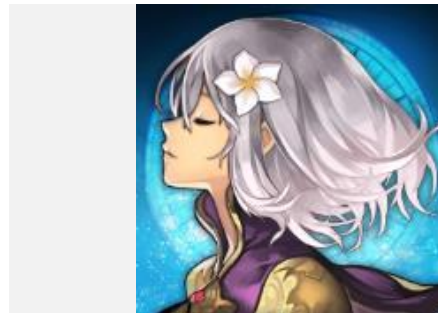
Mobile games

Console games

1st step:
Fishing Star



2nd step
Another Eden



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

VR business

Progress in investment, development and market promotion

Development of VR games for children

Joint project with AEON fantasy



- Developed 3 machines for amusement facilities
- Started operations at 300 Molly Fantasy shops in Japan and China

Providing VR use promotion tools

Produced *VR Office Tour* with Toyoda High System

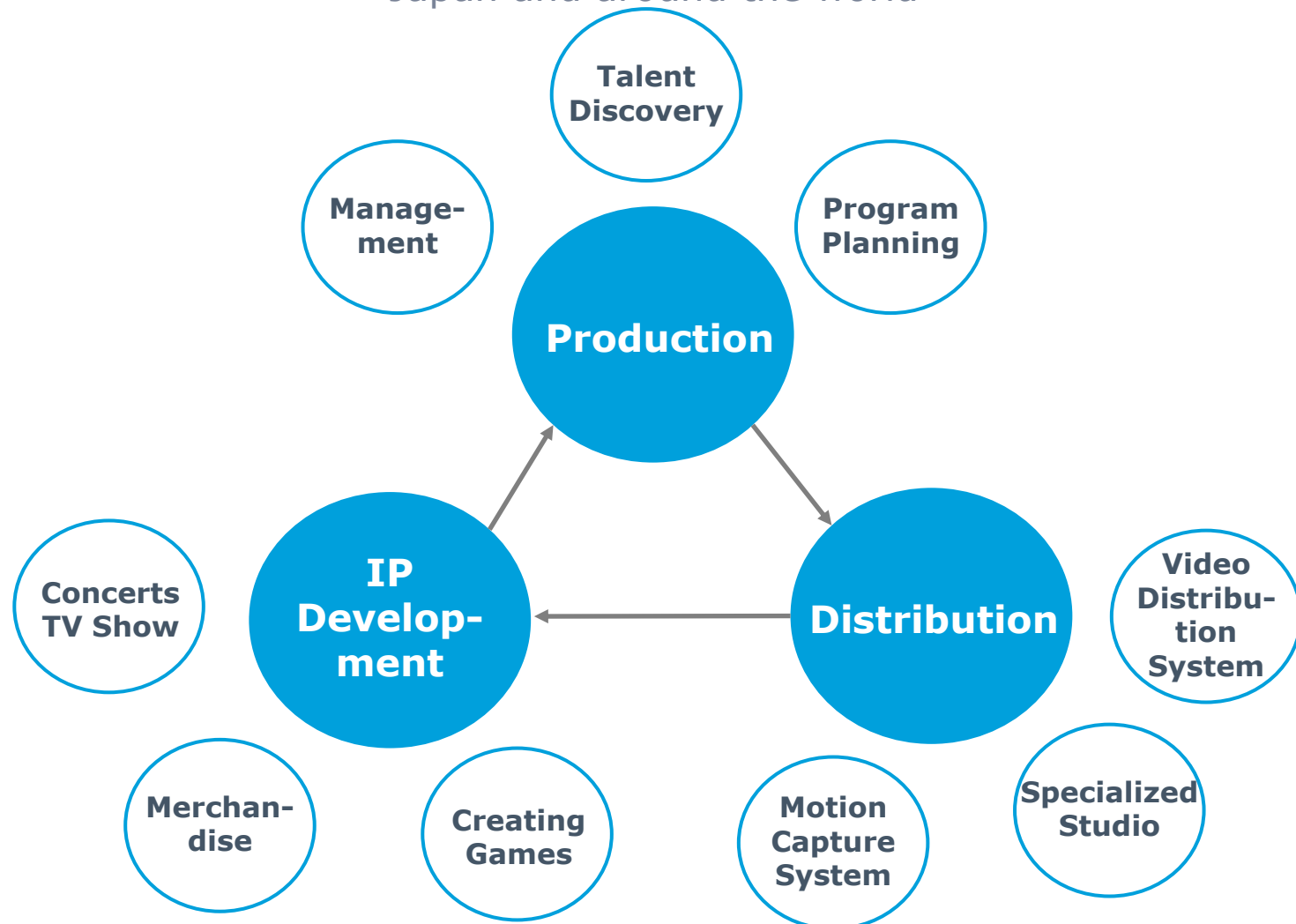


- Installed in Shiru cafe free coffee shops for university students all around Japan
- Provides information on companies to students seeking jobs

2. Operational Overview: Live entertainment, etc.

Entered the live entertainment business

Planning investment of roughly ¥10bn in business specializing in virtual YouTubers in Japan and around the world



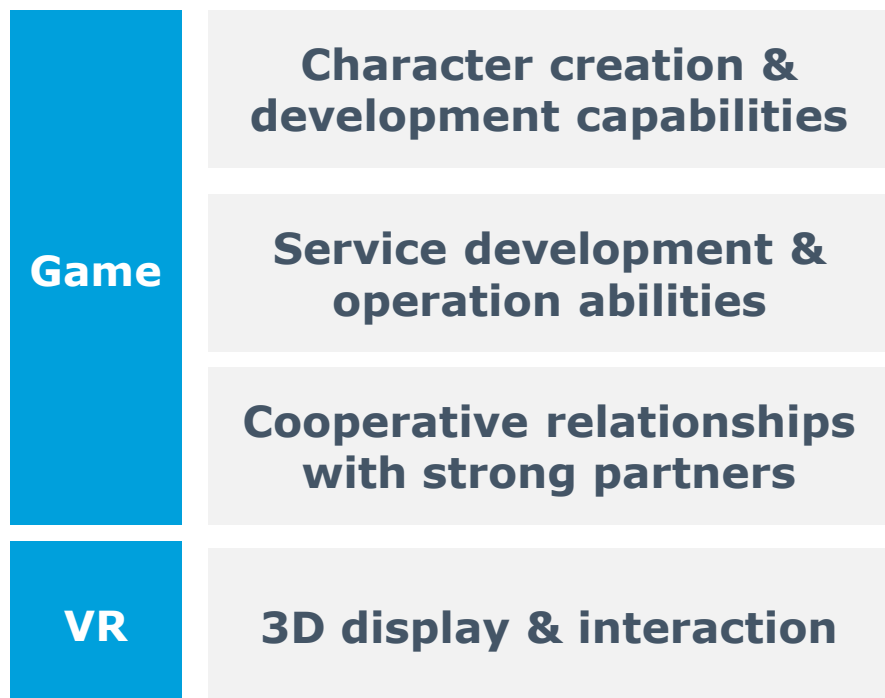
2. Operational Overview: Live entertainment, etc.



Business development that utilizes our strengths

Accelerating business growth by leveraging our strengths including game and VR business knowhow and large-scale investment capabilities

Accumulated knowhow related to existing businesses



Large-scale investment capabilities

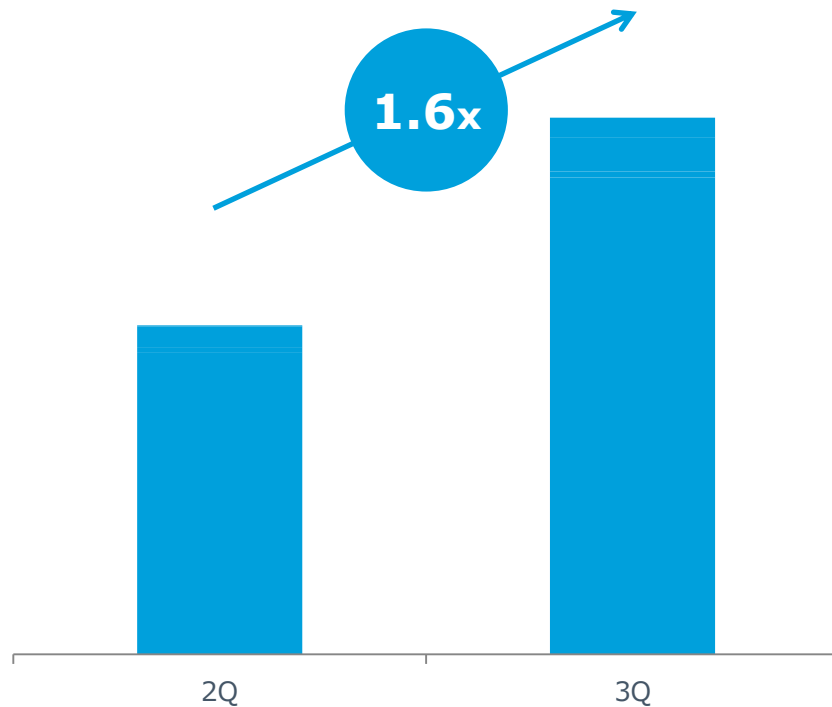


Achieving synergies with games business

2. Operational Overview: Advertising and media business Progress Made

Growth in media page views

1.6x QoQ growth



- Steady growth in page views on all media

Growth in number of clients

Further growth in number of advertisers
from growth in scale of media

KANEBO

Kanebo
Cosmetics Inc.

^{NTT}
docomo
bike share

DoCoMo Bike Share, Inc.
Dinos Cecile Co., Ltd.

dinos

 TOKYU HOTELS

Tokyu Hotels

 IPSA

IPSA
CO.,Ltd.

 **enish**
Link with Fun

enish, inc.

 Wendy's
First Kitchen

Wendy's First Kitchen

 **なだ万** Japanese Restaurant
NADAMAN

Nadaman
Co., Ltd.

OIZUMI
FOODS
IN FOOD WE TRUST

OIZUMI FOODS

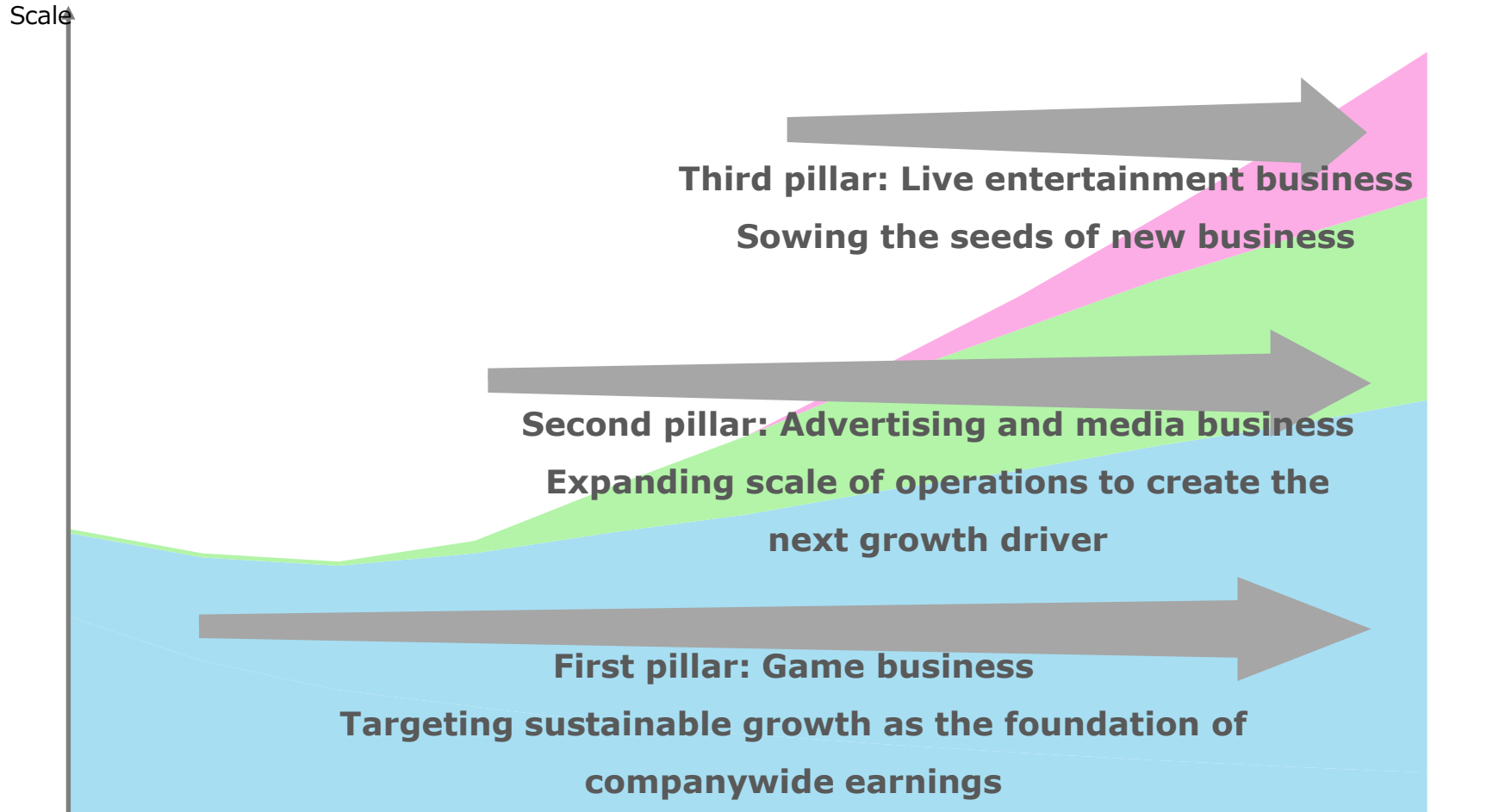
1. Financial Results Overview

2. Operational Overview

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Targeting Medium-Term Growth

Targeting sustainable growth as we build three earnings pillars



Game engine, IP, and global

Engines

×

IP

×

Global

Increase our sustainable competitive advantage

Increase hit rate and profitability

Increase earnings from IP-based titles

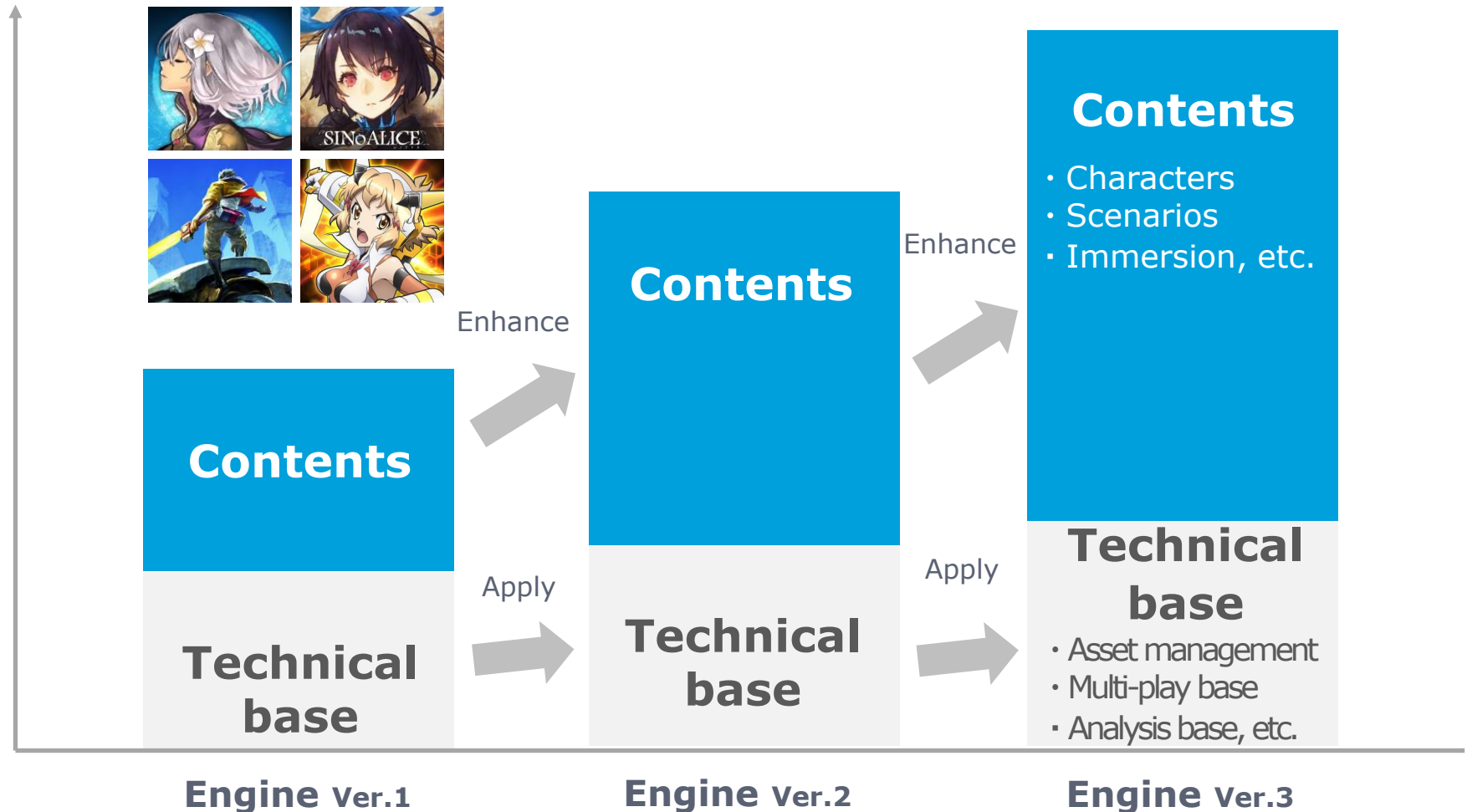
3. Appendix

FY18 Strategy

Strategy 1: Game engine strategy

Increase our sustainable competitive advantage
and achieving differentiation through quality

Game quality



3. Appendix

FY18 Strategy

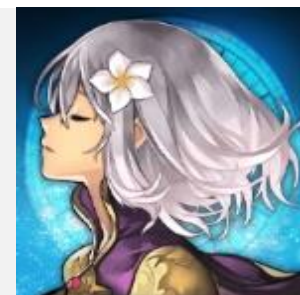
Strategy 2: IP strategy

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

Wide
range
of IP

First-party IP

Long-term growth from
IP assets developed in
house



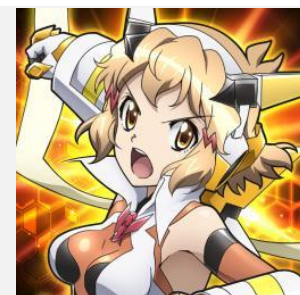
Co-developed IP

Created in cooperation
with our partners



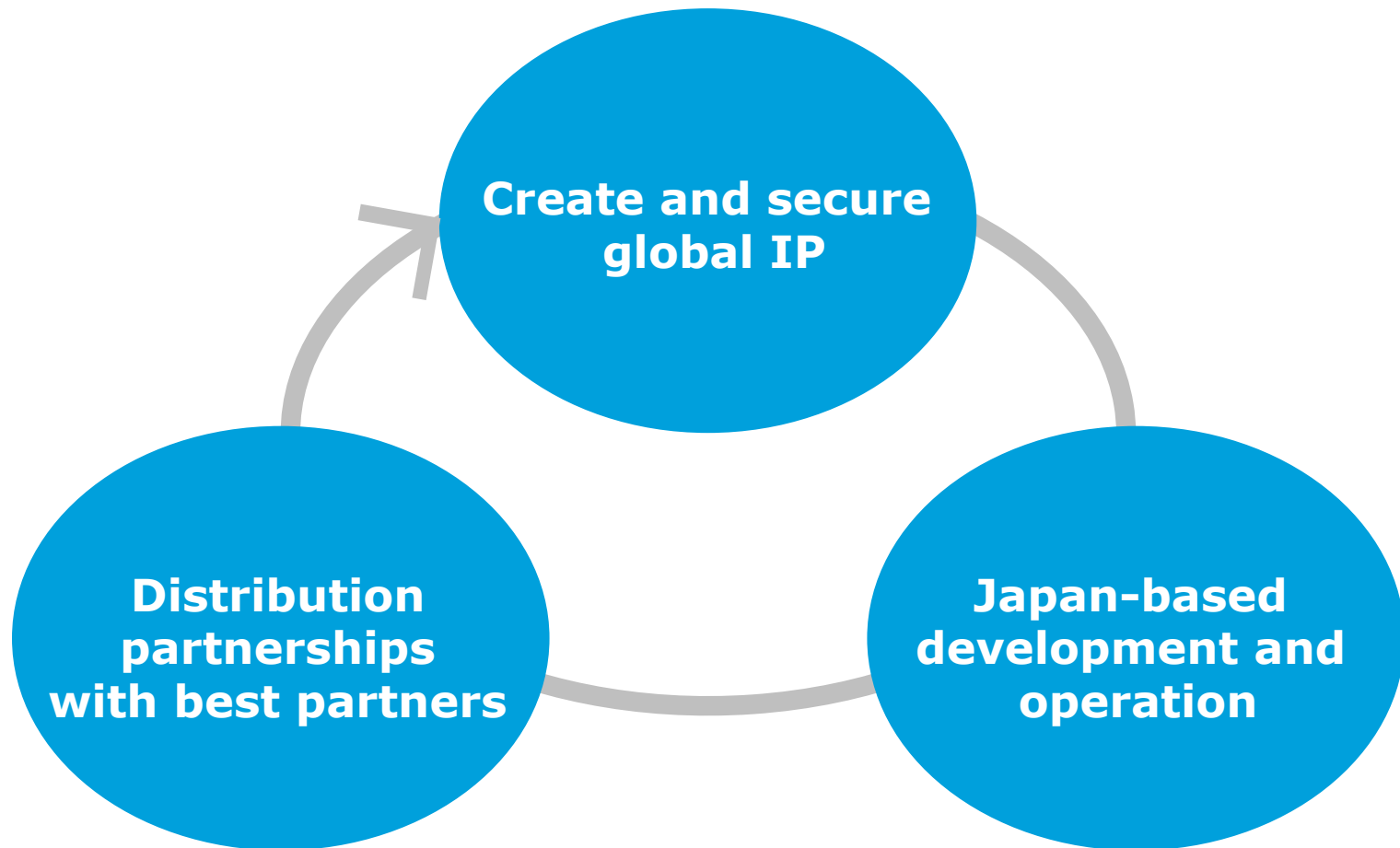
Third-party IP

Development of titles
targeting established fan
bases



Strategy 3: Global strategy

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

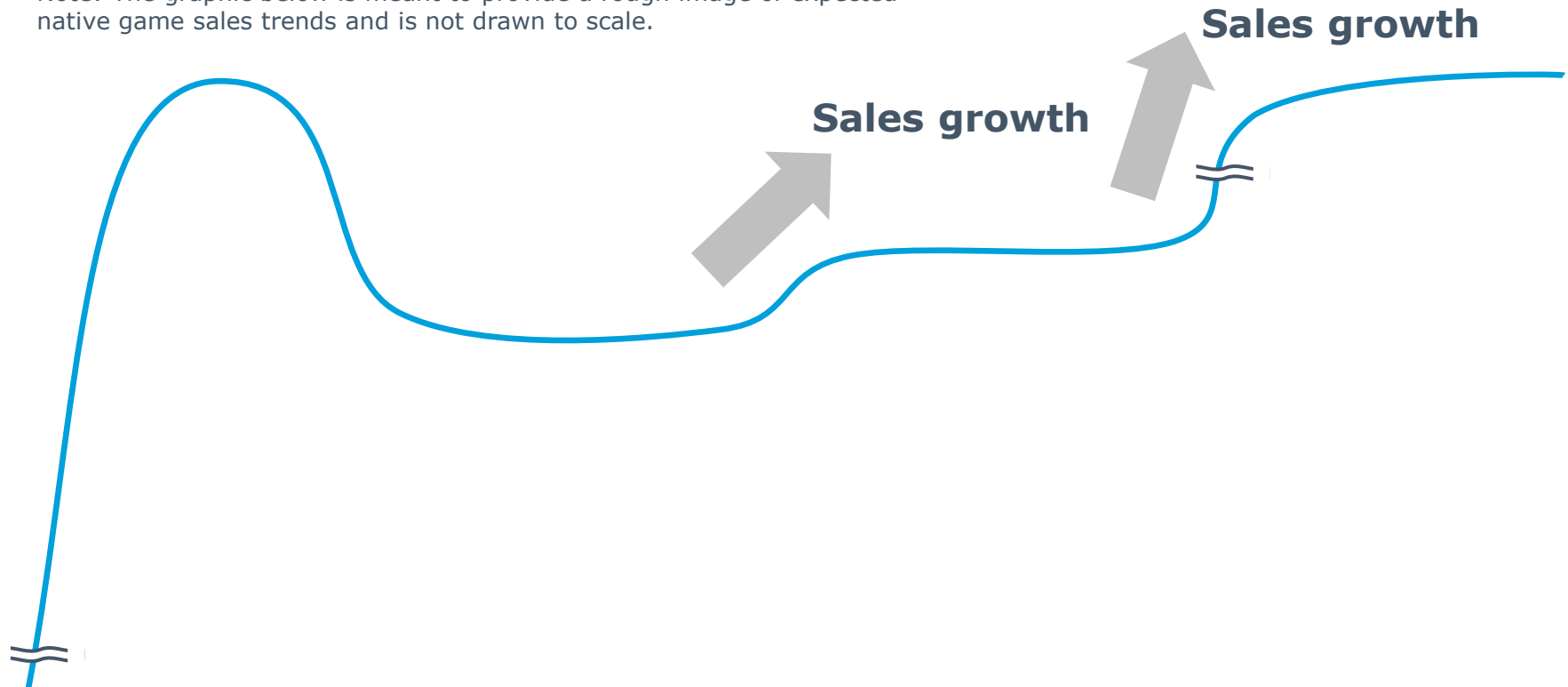


Expected growth trend in mobile games

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”**



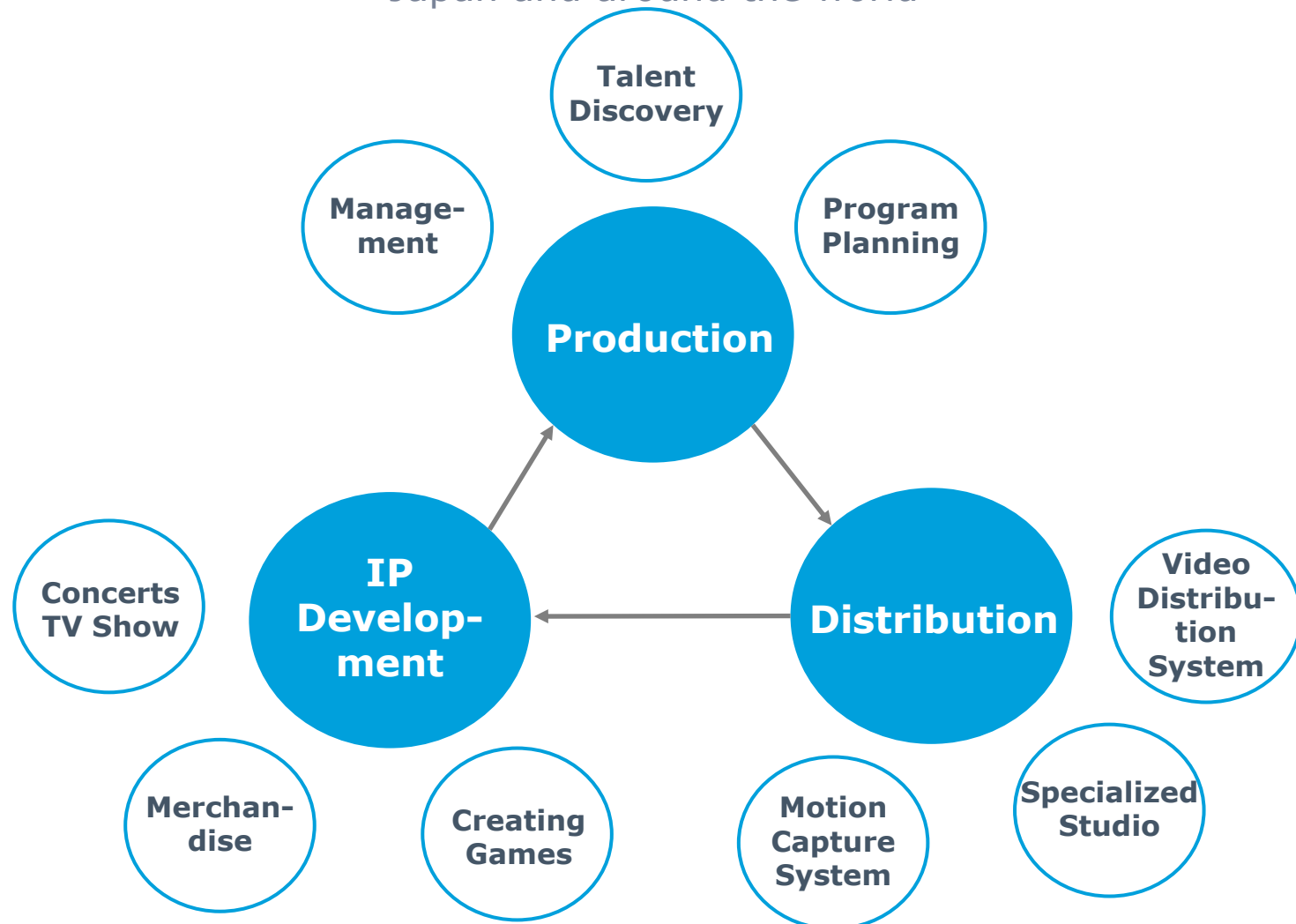
**Outing and travel media based on the theme of
“making every day fun”**

Notes:

- The above is a list of main media brands operated by GREE as of March 31, 2018.
- We are considering launching other digital media brands.

Entered the live entertainment business

Planning investment of roughly ¥10bn in business specializing in virtual YouTubers in Japan and around the world



3. Appendix

Business development that utilizes our strengths

Accelerating business growth by leveraging our strengths including game and VR business knowhow and large-scale investment capabilities

Accumulated knowhow related to existing businesses

Game	Character creation & development capabilities
	Service development & operation abilities
	Cooperative relationships with strong partners
VR	3D display & interaction

Large-scale investment capabilities

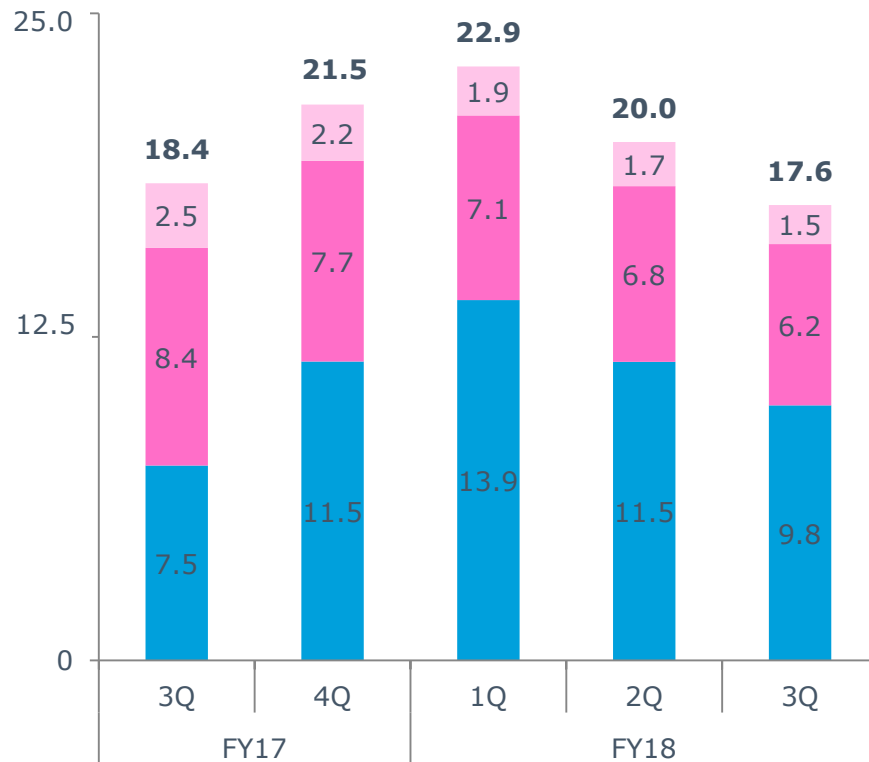
Financing power	Ample capital
Earnings power	Earnings power of games businesses

Achieving synergies with games business

Coin Consumption (1)

Overall coin consumption (1)

Billions of coins



■ Mobile games ■ Web games (smartphones)
■ Web games (feature phones)

Overall coin consumption (2)

Billions of coins



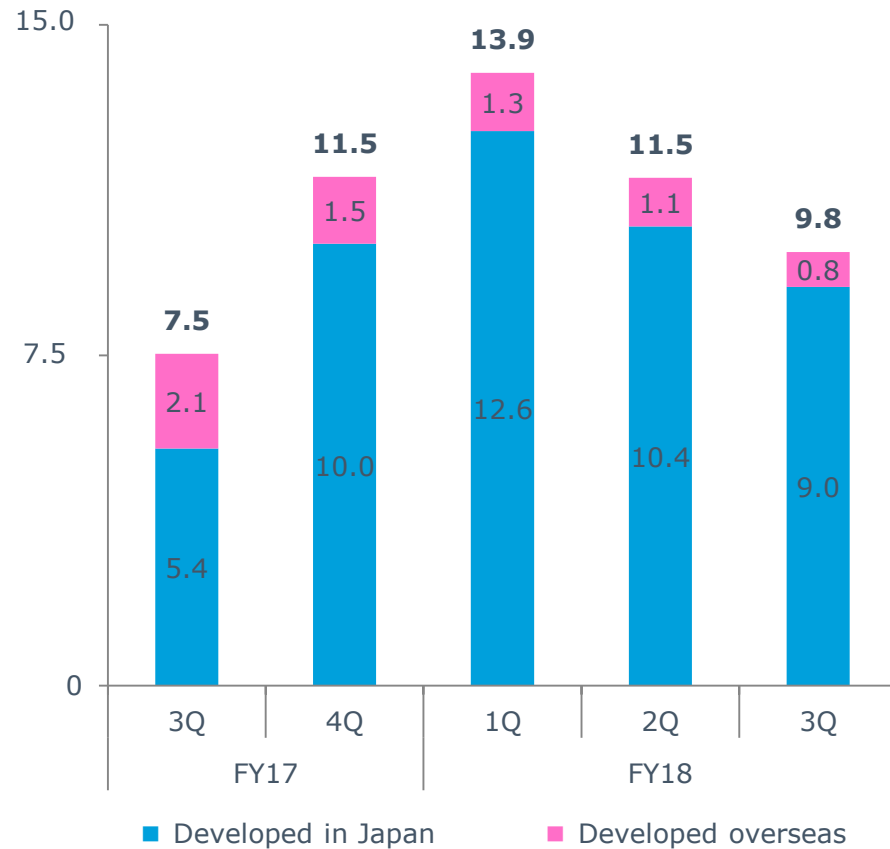
■ First-party/Co-developed ■ Third-party

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

Coin Consumption (2)

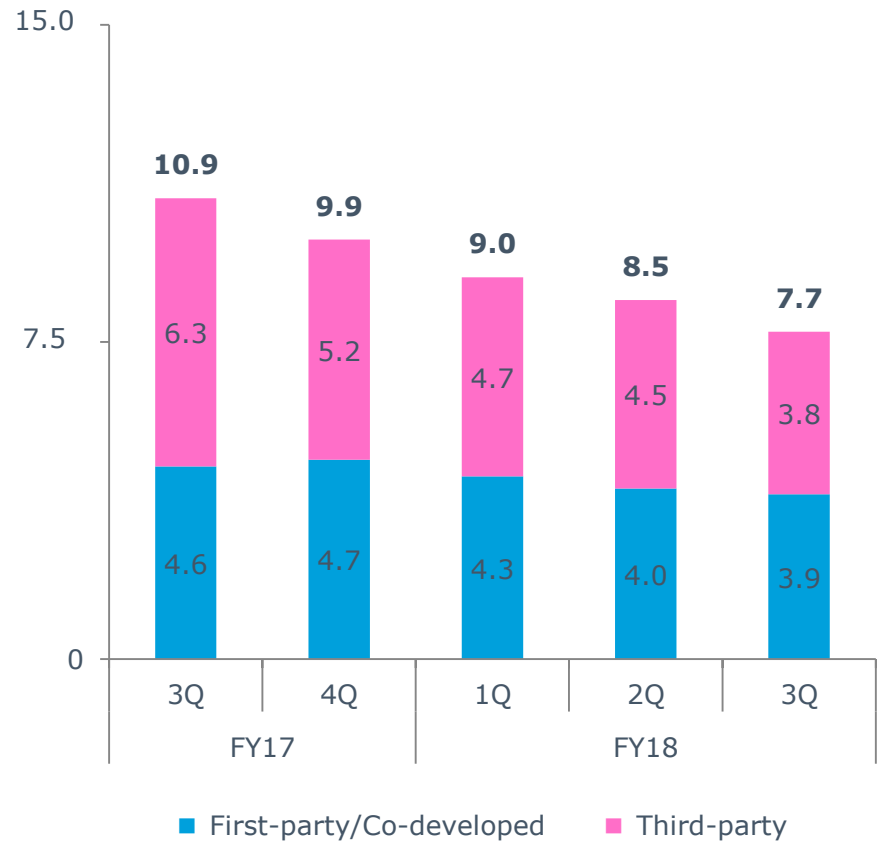
Mobile games

Billions of coins



Web games

Billions of coins



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

3Q FY18 Cost Structure

Millions of yen

		FY18 3Q	QoQ	YoY	FY18 2Q	FY17 3Q
	Rental charges	686	-80	-97	766	783
	Labor costs	1,974	-3	-146	1,977	2,120
	Others	4,346	-690	1,468	5,036	2,879
	Cost of sales	7,007	-773	1,225	7,780	5,782
	Advertising	827	-604	-55	1,431	882
	Commission fees	3,824	-486	701	4,310	3,123
	Labor costs	1,014	-17	-658	1,032	1,672
	Others	2,419	-149	-456	2,568	2,876
	SG&A	8,085	-1,256	-469	9,341	8,553
	Total costs	15,091	-2,030	756	17,121	14,335

3Q FY18 Balance Sheet

Billions of yen

	FY18 3Q	QoQ	YoY	FY18 2Q	FY17 3Q
Current assets	98.48	2.45	-0.38	96.03	98.87
Fixed assets	27.56	0.20	-1.04	27.36	28.60
Total assets	126.04	2.66	-1.42	123.39	127.47
Current liabilities	11.71	0.32	-2.16	11.39	13.87
Fixed liabilities	0.64	0.05	-0.79	0.59	1.44
Total liabilities	12.36	0.38	-2.95	11.98	15.31
Total net assets	113.69	2.28	1.53	111.41	112.16
Cash and cash equivalents – Interest-bearing debt	85.80 -	2.77 -	6.40 -	83.04 -	79.40 -
Net cash	85.80	2.77	6.40	83.04	79.40
Goodwill	3.29	-0.21	-2.76	3.50	6.05

Breakdown of Group Headcount

Number of employees

	Group companies	Headcount at end-3Q
Game/Entertainment Business	-	901
Mobile Game Business	Pokelabo, Wright Flyer Studios	(370)
Platform/Operation Business	funplex	(262)
Shared game depts.	ExPlay	(269)
Advertising and Media Business	Includes Glossom, Limia, 3 Minutes, aumo, etc.	308
Corporate, Headquarters	Includes GREE Business Operations	136
Engineering, Headquarters	-	84
Total	-	1,429

Note: Includes non-consolidated group companies; as of March 31, 2018



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- When producing this document, we were careful to avoid errors or omissions, but the accuracy and completeness of the provided information is not guaranteed.