



**GREE, Inc.**

FY2019 First Quarter Financial Results

October 26, 2018

## Financial Results Overview

- **Net Sales ¥18.2 billion, Operating Income ¥1.6 billion, EBITDA ¥1.9 billion**
  - Operating income surpassed forecast

## Business Overview

- **Expanded overseas and multiplatform distribution**
  - After releasing *Danmachi* in North America, expanded distribution to South Korea and Taiwan, etc. (October)
  - Began distribution of titles based on first-party IP for LINE QUICK GAME platform
- **Released new title**
  - Began distribution of *Wild Arms: Million Memories*
- **Accelerated development of live entertainment business**
  - Launched REALITY, a livestreaming platform for VTubers

## FY19 2Q Earnings Forecast

- **Net Sales ¥17 billion ~ ¥18 billion, Operating Income ¥1 billion ~ ¥1.5 billion.**
  - Our estimates of the likely range of earnings trends based on the expected impact from the performance of existing titles and newly developed overseas titles.

Notes:

*DanMachi* = *DanMachi - MEMORIA FREESE*

## **1. Financial Results Overview**

## **2. Operational Overview**

## **3. Appendix**

## **1. Financial Results Overview**

## 2. Operational Overview

## 3. Appendix

# 1. Financial Results Overview (Consolidated)



## FY19 1Q Financial Results Overview

Net Sales **¥18.2 billion**, operating income **¥1.6 billion**  
and EBITDA **¥1.9 billion**

Billions of yen

	FY19 1Q	QoQ	YoY	FY18 4Q	FY18 1Q
Net sales	<b>18.16</b>	-0.82	-3.46	18.98	21.61
Operating income	<b>1.62</b>	0.01	-1.08	1.61	2.69
Ordinary income	<b>2.17</b>	0.24	-0.85	1.92	3.02
Net income	<b>2.08</b>	3.16	0.18	-1.07	1.9
EBITDA	<b>1.85</b>	-0.03	-1.21	1.88	3.06

### Notes:

- Breakdown of FY19 1Q net sales: Paid service sales ¥14.87 billion; Other sales (ad, CS, license, VR, etc.)
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

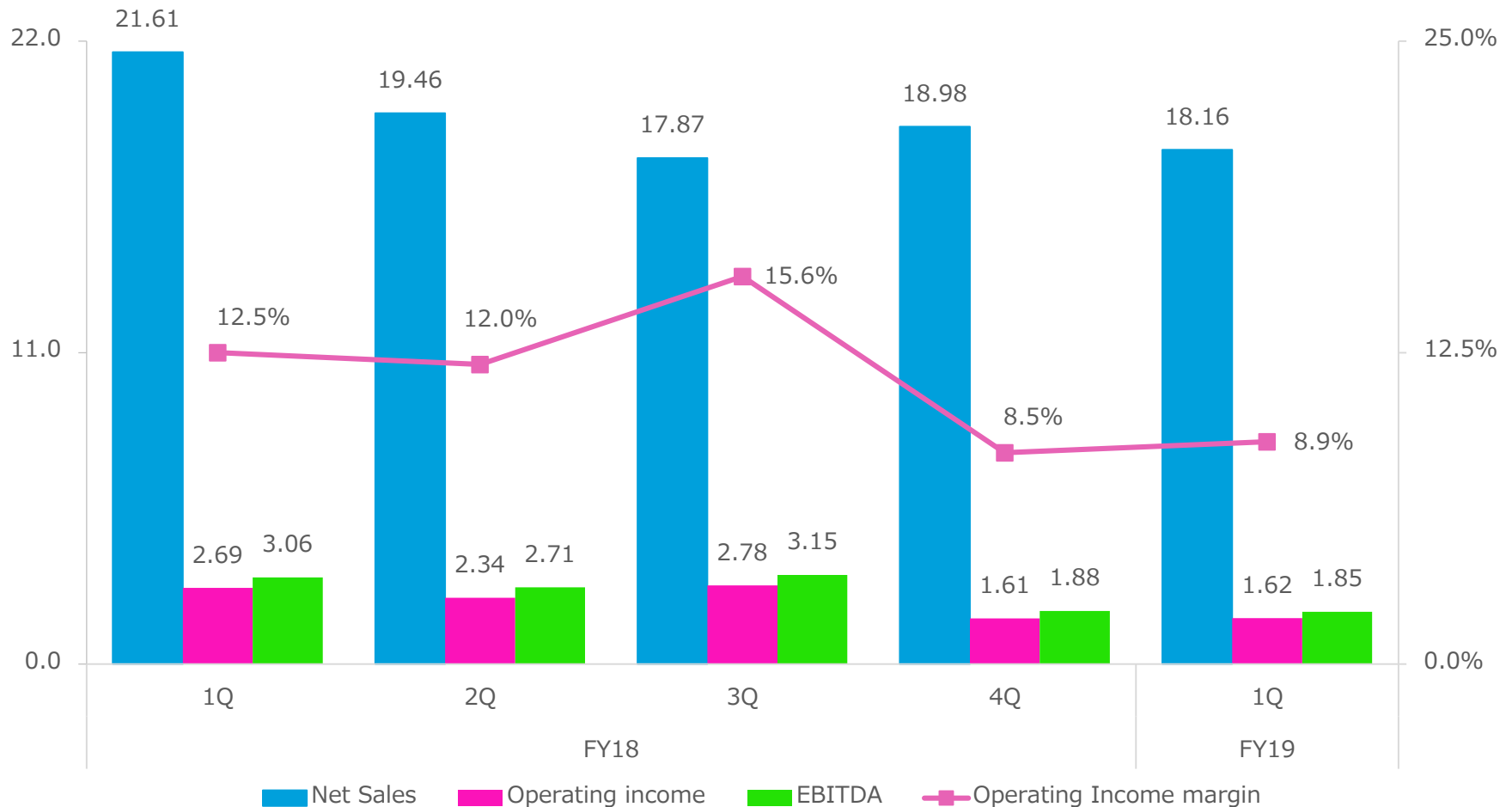
# 1. Financial Results Overview (Consolidated)



## Net Sales, EBITDA, and Operating Income

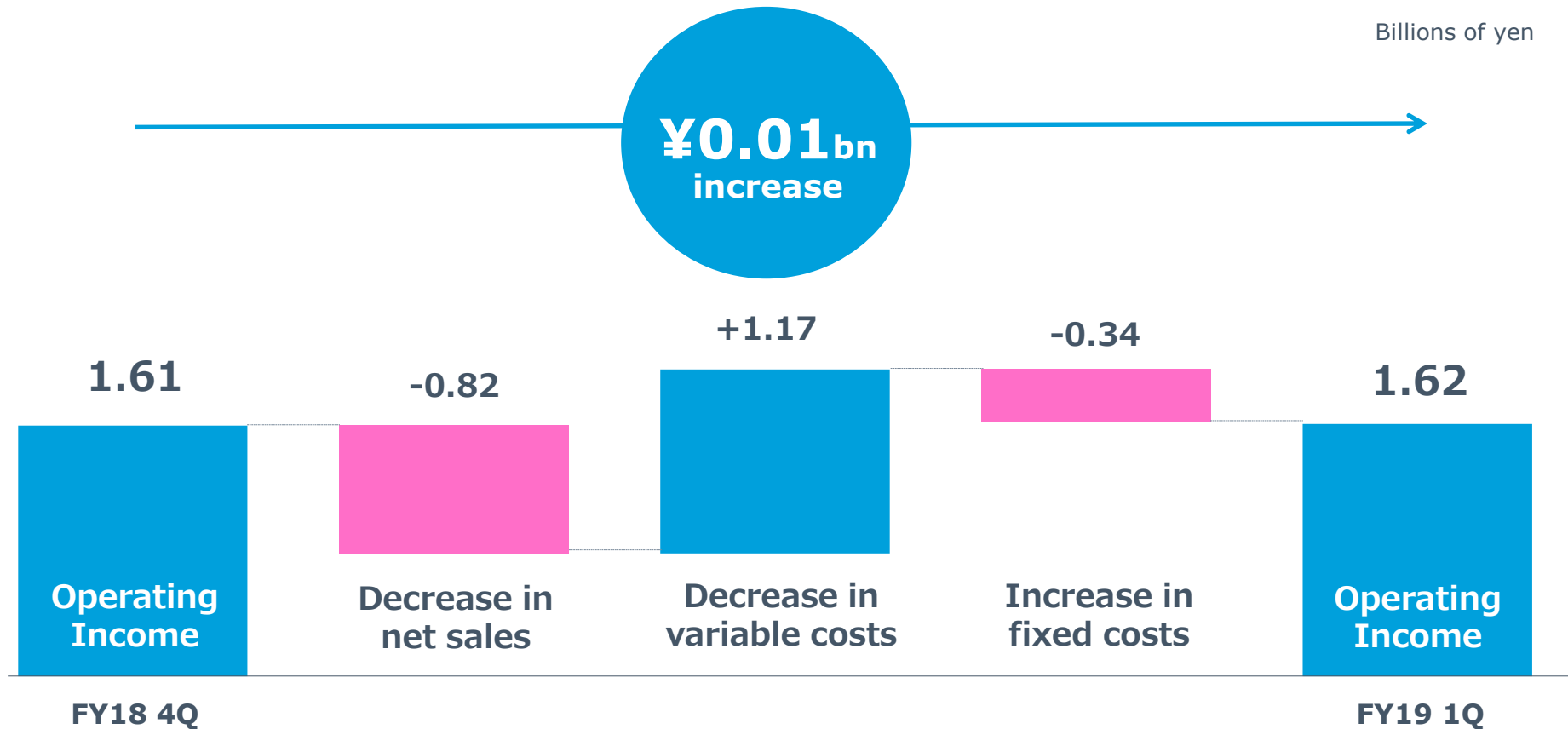
Operating income margin up 0.4 percentage points QoQ, to **8.9%**

Billions of yen



## Operating Income Analysis

Offset decline in net sales with reduction in variable costs to keep operating income basically steady at **¥1.6 billion**



# 1. Financial Results Overview (Consolidated)



## FY19 1Q Cost Structure

Total costs down ¥800 million QoQ, to **¥16.5 billion**

Billions of yen

		FY19 1Q	QoQ	YoY	Factors in change(QoQ)	FY18 4Q	FY18 1Q
	Advertising	1.28	-0.36	-1.05	Decrease from efficient investment (4Q: 8.6% → 1Q: 7.0%)	1.64	2.33
	Commission Fees	5.48	-0.78	-2.08	Decrease due to sales decline	6.26	7.56
	Other	0.75	-0.03	0.33	-	0.78	0.43
<b>Total variable costs</b>		<b>7.51</b>	-1.17	-2.81		8.68	10.32
	Labor costs	3.33	0.19	0.04	Consolidated headcount: end-4Q: 1,480 → end-1Q: 1,604	3.14	3.29
	Rental costs	0.68	0.03	-0.28	-	0.65	0.96
	Depreciation	0.16	0.03	0.00	-	0.13	0.16
	Goodwill Amortization	0.07	-0.07	-0.14	-	0.14	0.21
	Other	4.78	0.16	0.80	Increase due to increased outsourcing	4.63	3.98
<b>Total fixed costs</b>		<b>9.03</b>	0.34	0.43		8.69	8.60
<b>Total costs</b>		<b>16.54</b>	-0.83	-2.38		17.37	18.92

Note: Breakdown of 1Q FY2019 commission fees: commission fees: ¥3.77 billion, royalties: ¥1.71 billion



## 2Q FY19 Earnings Forecast

Plan : Net Sales **¥17.0 billion~¥18.0 billion**,  
Operating income **¥1.0 billion ~ ¥1.5billion**

Billions of yen

	1Q Results	2Q Forecast
Net sales	18.2	17.0~18.0
Operating income	1.6	1.0~1.5
Ordinary income	2.2	1.0~1.5
Net income	2.1	0.5~1
EBITDA	1.9	1.2~1.7

- Earnings forecasts are based on recent trends in each of GREE's businesses.
- Our estimates of the likely range of earnings trends based on the expected impact from the performance of existing titles and newly developed overseas titles.

## 1. Financial Results Overview

## 2. Operational Overview

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## 2. Operational Overview: Summary



### Review and Summary of 1Q

			FY19 Business Plan	Review
Overall			Strengthen 3 earnings pillars	- Made progress on measures to grow our businesses
Game/entertainment	Game	Mobile	“Game engine, IP, and global” strategies	- Began distribution of <i>Wild Arms: Million Memories</i> - Secured new user base by running our first TV ad for <i>SINoALICE</i> - Expanded <i>DanMachi</i> overseas distribution area to include South Korea and Taiwan
		Console, etc.	Expansion of distribution platform	- Began distribution of 2 titles based on first-party IP for LINE QUICK GAME platform
	Live entertainment, etc.		Expand ecosystem	- Launched REALITY, a livestreaming platform for Vtubers
Advertising and media			Strengthen media potential	- Strengthened media potential by energizing fan communities and expanding content

Notes:  
 Business plan refers to the republished summary business plan announced in August 2018  
*DanMachi* = *DanMachi* - *MEMORIA FREESE*

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



### Development pipeline

One title already released; total of five titles in development

	FY19		FY20 and onward
	Already released	In development	
First-party IP Co-developed IP	<b>0</b> (0)	<b>1</b> (1)	<b>1</b> (1)
Third-party IP	<b>1</b> (0)	<b>0</b> (1)	<b>3</b> (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 for overseas and multi-platform
- Figures in parentheses are numbers as of our 4Q FY2018 results announcement

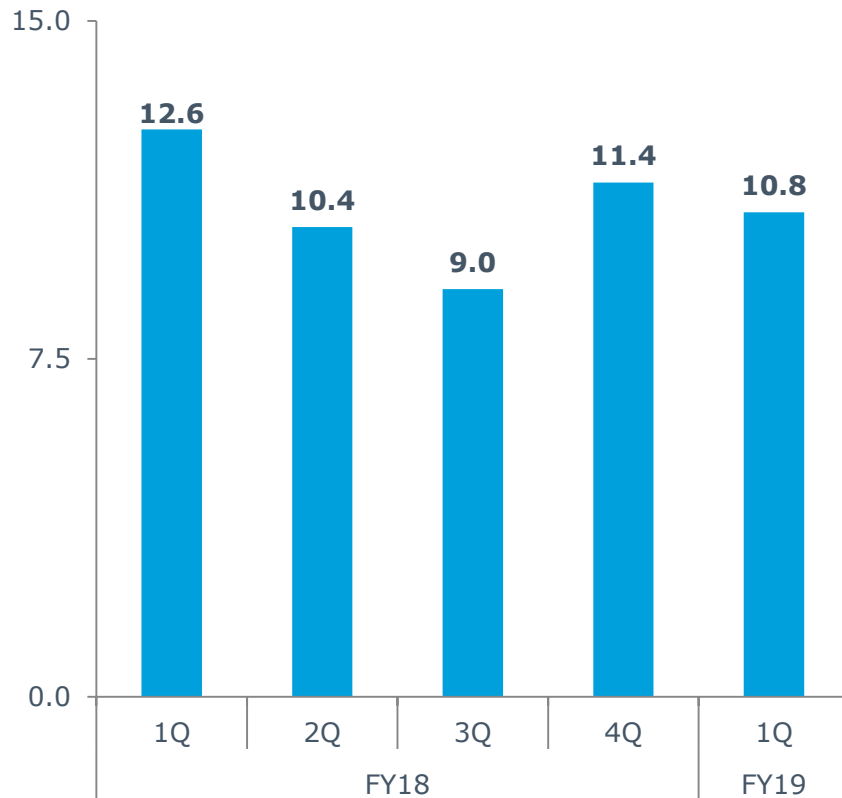
## 2. Operational Overview: Game/entertainment business - Consoles, etc.



### Progress Made

#### Coin Consumption

Billions of coins



#### Topics

- Existing titles
  - Reactive decline following four-year anniversary event
- Aired TV ad for *SINoALICE*
  - Aired nationwide July 20 - August 19
- Released new titles
  - Released *Wild Arms* in September

Note: *Wild Arms* = *Wild Arms: Million Memories*

## 2. Operational Overview:

Game/entertainment business - Consoles, etc.



New title

### Development/improvement of game engines

Released *Wild Arms: Million Memories* a masterpiece RPG for the PlayStation® on September 26



- Newest title in the *Wild Arms* series, featuring main characters from past titles and new characters
- Akifumi Kaneko returned as supervisory designer; music by Michiko Naruke



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

### Nurturing first-party IP over long term

Developing in-game universes through multichannel distribution,  
thereby creating more fan contact points

#### *Shoumetsu Toshi*

Created anime for TV



- Moving forward with preparations for airing in 2019

#### *Another Eden*

Developed Colabo-café event, game guide, and merchandise, etc.



- Created more contact points with fans through stores, books, and merchandise, etc.

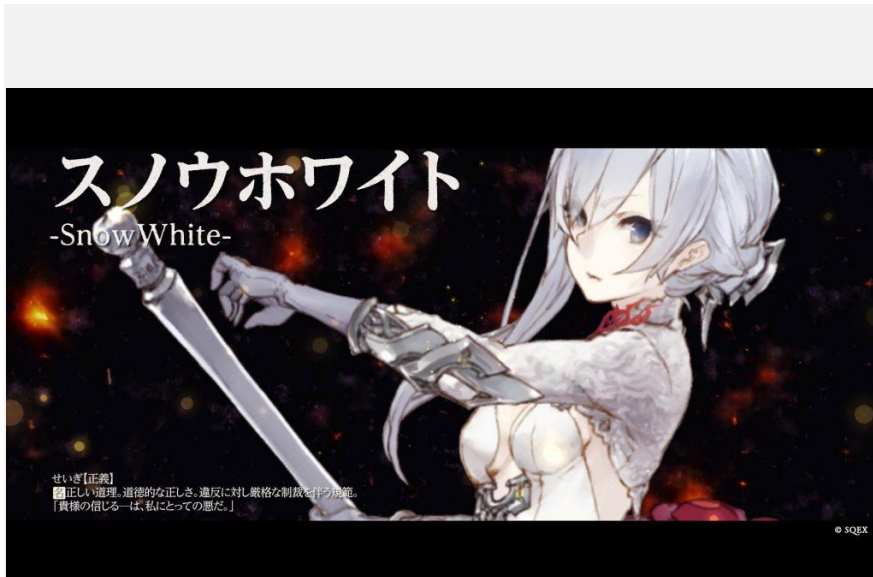
## 2. Operational Overview: Game/entertainment business - Consoles, etc.

### Expanding fan communities ①

Expanding fan communities through promotions and IP collaborations

#### *SINoALICE*

Aired TV ad



- Secured new fan base by running our first TV ad for *SINoALICE*

#### *Shoumetsu Toshi 2*

Collaboration



- Secured new fan base through collaboration with strong IP



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

### Expanding fan communities ②

Expanding fan communities by integrating real-world events with anniversary celebrations

#### *Senki Zesshou SYMPHOGEAR XD*

Special performance at Tokyo Game Show 2018



- Stirring up anticipation among fans by announcing content of fourth anime series and news regarding game development

#### *In Love with NEWS*

Celebration of NEWS' 15th anniversary



- Secured new fan base by releasing special content

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

### Full-scale overseas development

Continuing to release existing titles overseas

#### ***DanMachi - MEMORIA FREESE***

October 25 release



- Following North American release (in March), release in South Korea, Taiwan, and Hong Kong
- Distributed by GREE

Notes:

- *DanMachi* = *DanMachi - MEMORIA FREESE*
- Pre-registration numbers as of October 25
- © 2017, 2018 Pokelabo Inc./SQUARE ENIX CO., LTD. All Rights Reserved

#### ***SINoALICE***

Over 100,000 pre-registered






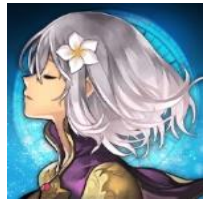
- To be released in Hong Kong, Taiwan, and Macau in 2018
- Distribution partner: KOMOE GAME

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

### Overseas development plans

Continuing to work toward global releases

#### Distribution region

	Japan	North America/ Europe	South Korea, Taiwan, etc.	China	Partnership agreement status
	Already released	Already released  Business partners  住友商事	<b>Released 10/25</b>  Self Distribution	Preparing for release  Distribution by partners	<b>Agreement signed</b>
	Already released	Preparing for release  Distribution by partners	Preparing for release  Distribution by partners <b>Planned release in 2018</b>	Preparing for release  Distribution by partners	<b>Agreement signed</b>
	Already released	Preparing for release  Self Distribution	Preparing for release  Self Distribution	Preparing for release  Distribution by partners	<b>Agreement signed</b>
Titles to be released in FY19	Preparing for release	Preparing for release  Self Distribution	Preparing for release  Self Distribution	-	-



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



### Multiplatform development

Developed titles based on first-party IP for LINE QUICK GAME platform  
Developing *Fishing Star* and *Another Eden* for Nintendo Switch™ platform

#### ***Fishing Star QUICK***

Began distribution on August 13



- Expanding multiplatform distribution on mobile, VR, and Facebook instant game platforms

#### ***Driland Brave Hunters***

Began distribution on September 3



- First multiplatform development for the *Driland* series

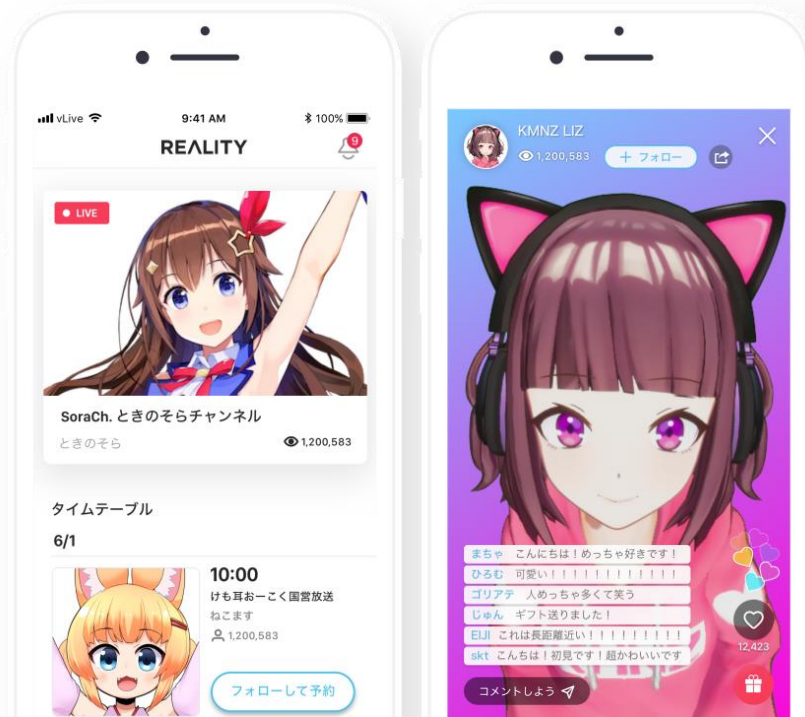
Note: Nintendo Switch is a trademark of Nintendo Co., Ltd.

## 2. Operational Overview: Game/entertainment business - Live, etc.



### Started distribution of REALITY

Livestreaming platform for VTubers launched August 7



Many popular VTubers streaming daily

Anyone can stream as a VTuber  
using a smartphone

Real-time communication using gifts

## 2. Operational Overview: Game/entertainment business - Live, etc.



### Vtuber Fund Project

Moving forward on cooperation with multiple strong partners

#### **KING RECORDS**

Established RK music, a joint venture music label specializing in VTuber music

- Joint production with VTubers with popular IP
- Working together to produce music and live concerts



Established joint venture REALITY Factory to develop  
Vtuber projects targeting young women

- Holding regular meet-and-greet VTuber events

## 2. Operational Overview: Advertising and media business

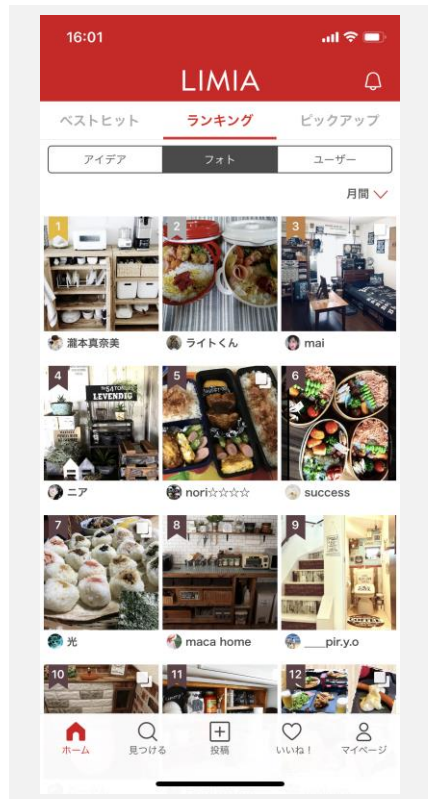


### Strengthened media potential

Strengthened media potential by energizing fan communities and expanding content

#### LIMIA

Measures to energize fan community



#### MINE

Expanded content with  
topic-focused special editions





## 1. Financial Results Overview

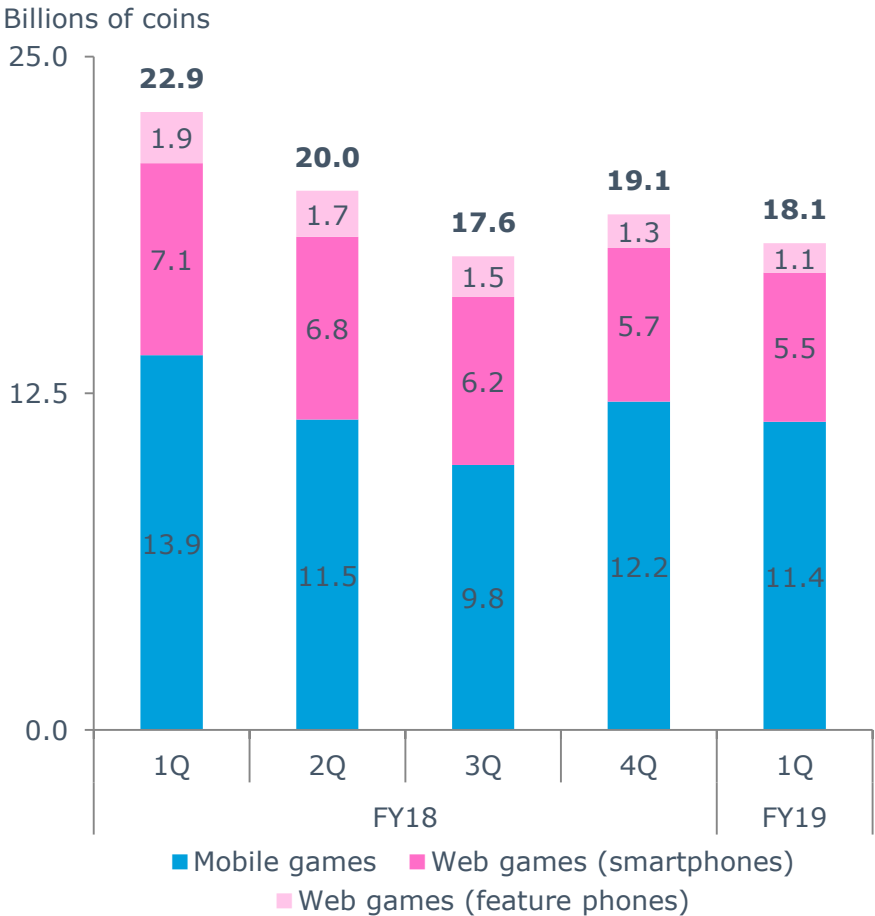
## 2. Operational Overview

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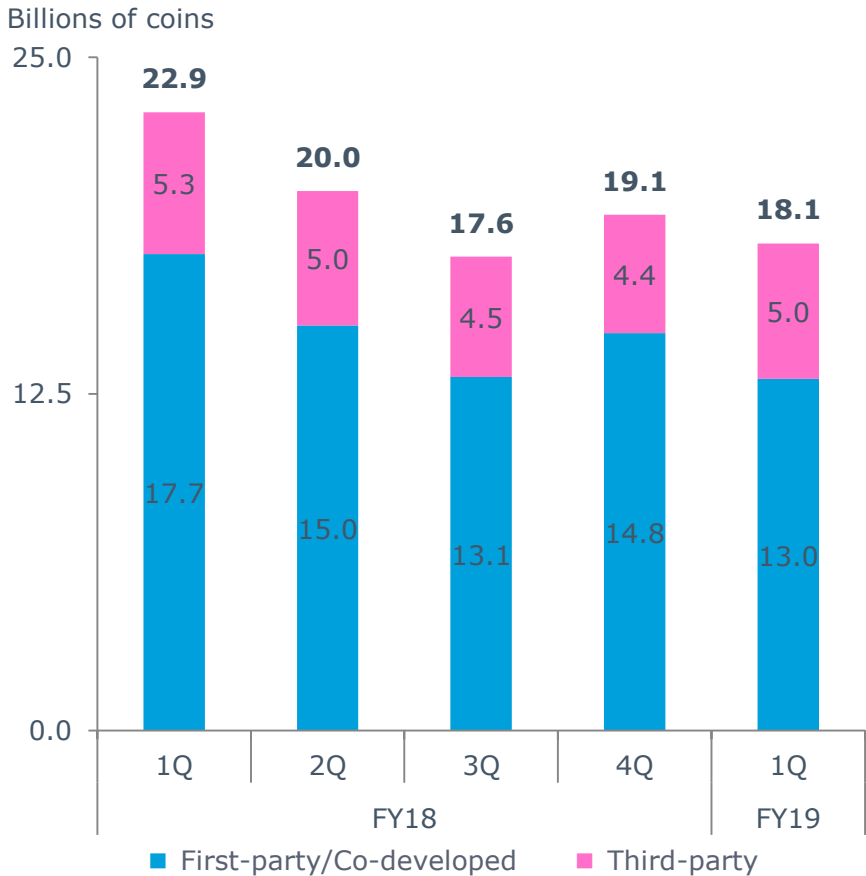


### Coin Consumption (1)

Overall coin consumption (1)



Overall coin consumption (2)



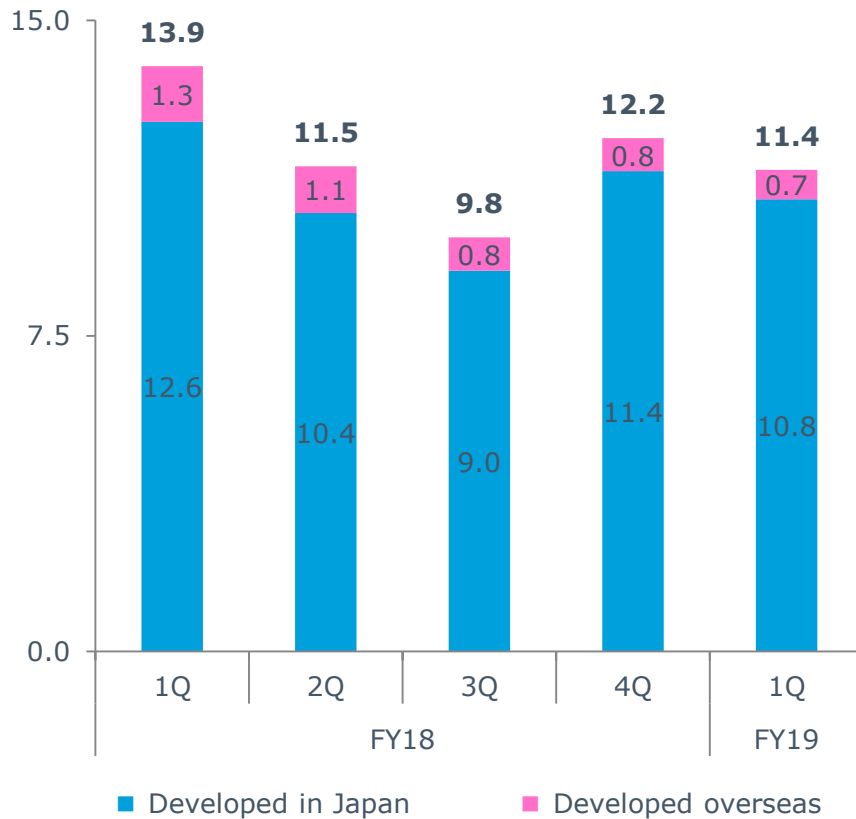
Note: Titles in which GREE is credited are categorized as "First-party/Co-developed"

## 3. Appendix

### Coin Consumption (2)

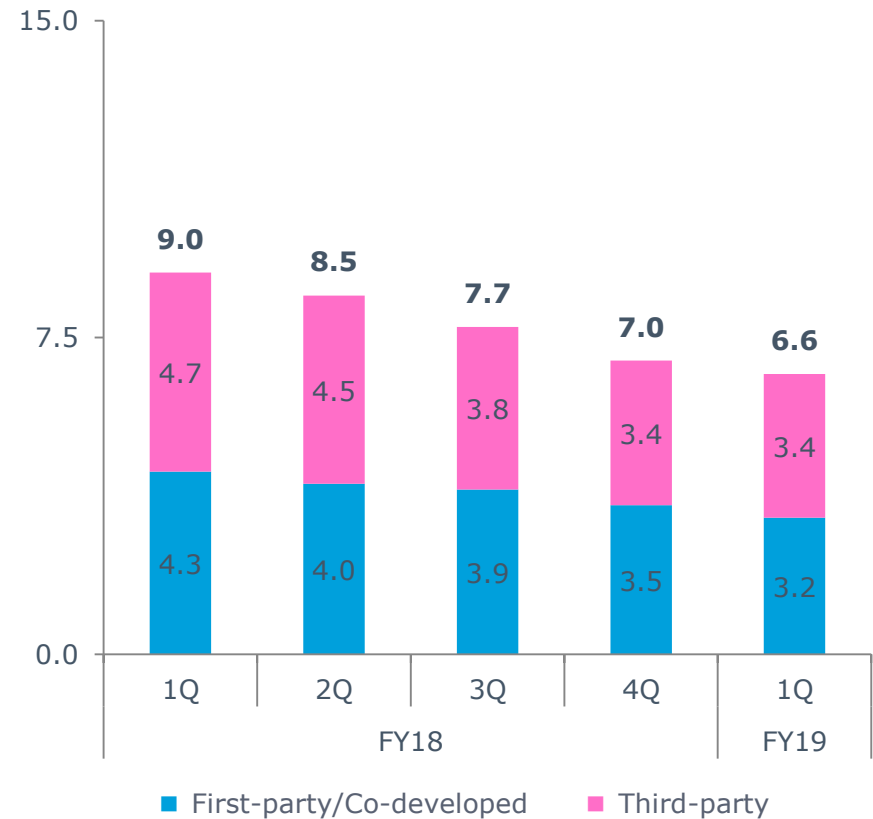
#### Mobile games

Billions of coins



#### Web games

Billions of coins



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

## 3. Appendix

### 1Q FY19 Cost Structure

Millions of yen

		FY19 1Q	QoQ	YoY	FY18 4Q	FY18 1Q
	Rental charges	691	Δ2	Δ272	693	963
	Labor costs	2,304	205	222	2,099	2,082
	Others	4,868	Δ288	Δ177	5,156	5,045
	Cost of sales	7,863	Δ85	Δ228	7,948	8,090
	Advertising	1,278	Δ363	Δ1,050	1,641	2,328
	Commission fees	3,773	Δ450	Δ1,265	4,223	5,038
	Labor costs	1,039	Δ4	Δ169	1,043	1,208
	Others	2,588	71	333	2,517	2,256
	SG&A	8,679	Δ746	Δ2,151	9,424	10,830
	<b>Total costs</b>	<b>16,541</b>	<b>Δ830</b>	<b>Δ2,379</b>	<b>17,372</b>	<b>18,920</b>

## 1Q FY19 Balance Sheet

Billions of yen

	FY19 1Q	QoQ	YoY	FY18 4Q	FY18 1Q
Current assets	<b>95.87</b>	-4.46	0.21	100.33	95.66
Fixed assets	<b>28.83</b>	3.80	1.79	25.03	27.04
Total assets	<b>124.70</b>	-0.66	2.01	125.36	122.69
Current liabilities	<b>11.71</b>	0.11	-1.32	11.60	13.03
Fixed liabilities	<b>0.97</b>	0.25	0.42	0.72	0.55
Total liabilities	<b>12.68</b>	0.35	-0.90	12.32	13.58
Total net assets	<b>112.02</b>	-1.02	2.90	113.04	109.12
Cash and cash equivalents –	<b>84.54</b>	-2.65	2.60	87.20	81.94
Interest-bearing debt	<b>0.12</b>	0.12	0.12	-	-
Net cash	<b>84.43</b>	-2.77	2.49	87.20	81.94
Goodwill	<b>0.68</b>	0.35	-3.04	0.33	3.71

## Breakdown of Group Headcount

		Number of employees
	Group companies	Headcount at end-1Q
Game/Entertainment Business	funplex, Pokelabo, WFS, Wright Flyer Live Entertainment, etc.	1,048
Advertising and Media Business	Glossom, Limia, 3 Minutes, aumo, QUANT, etc.	388
Other businesses	Includes GREE Business Operations	225
<b>Total</b>	-	<b>1,661</b>

Note: Includes non-consolidated group companies; as of September 30, 2018



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