



GREE, Inc.

FY2019 Second Quarter Financial Results

February 4, 2019

Financial Results Overview

- **Net Sales ¥17.7 billion, Operating Income ¥1.0 billion, EBITDA ¥1.2 billion**
 - Net sales and operating income were in line with our forecast

Business Overview

- **Overseas development proceeded smoothly**
 - Expanded *DanMachi* distribution area to include Hong Kong and Taiwan (October)
 - Began overseas distribution of *SINoALICE* in Hong Kong and Taiwan (November)
 - Began distribution of *Another Eden* in 8 countries and regions (January)
- **Made progress in multiplatform development**
 - Began distribution of *Fishing Star* for Nintendo Switch™ platform (January)
- **Accelerated development of live entertainment business**
 - Launched REALITY Avatar, a livestreaming app for VTubers

FY19 3Q Earnings Forecast

- **Net Sales ¥16.5 billion ~ ¥17.5 billion, Operating Income ¥0.3 billion ~ ¥0.8 billion**
 - Expected impact from the sales contribution of overseas titles and full-scale development investment for new titles.

Notes:

- *DanMachi* = *DanMachi - MEMORIA FREESE*
- Nintendo Switch is a trademark of Nintendo Co., Ltd.

1. Financial Results Overview

2. Operational Overview

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FY19 2Q Financial Results Overview

Net Sales **¥17.7 billion**, Operating Income **¥1.0 billion**
and EBITDA **¥1.2 billion**

Billions of yen

	FY19 2Q			FY19 1Q	FY18 2Q
		QoQ	YoY		
Net sales	17.73	-0.43	-1.73	18.16	19.46
Operating income	0.97	-0.65	-1.37	1.62	2.34
Ordinary income	0.79	-1.38	-1.90	2.17	2.69
Net income	0.15	-1.93	-1.83	2.08	1.99
EBITDA	1.20	-0.65	-1.50	1.85	2.71

Notes:

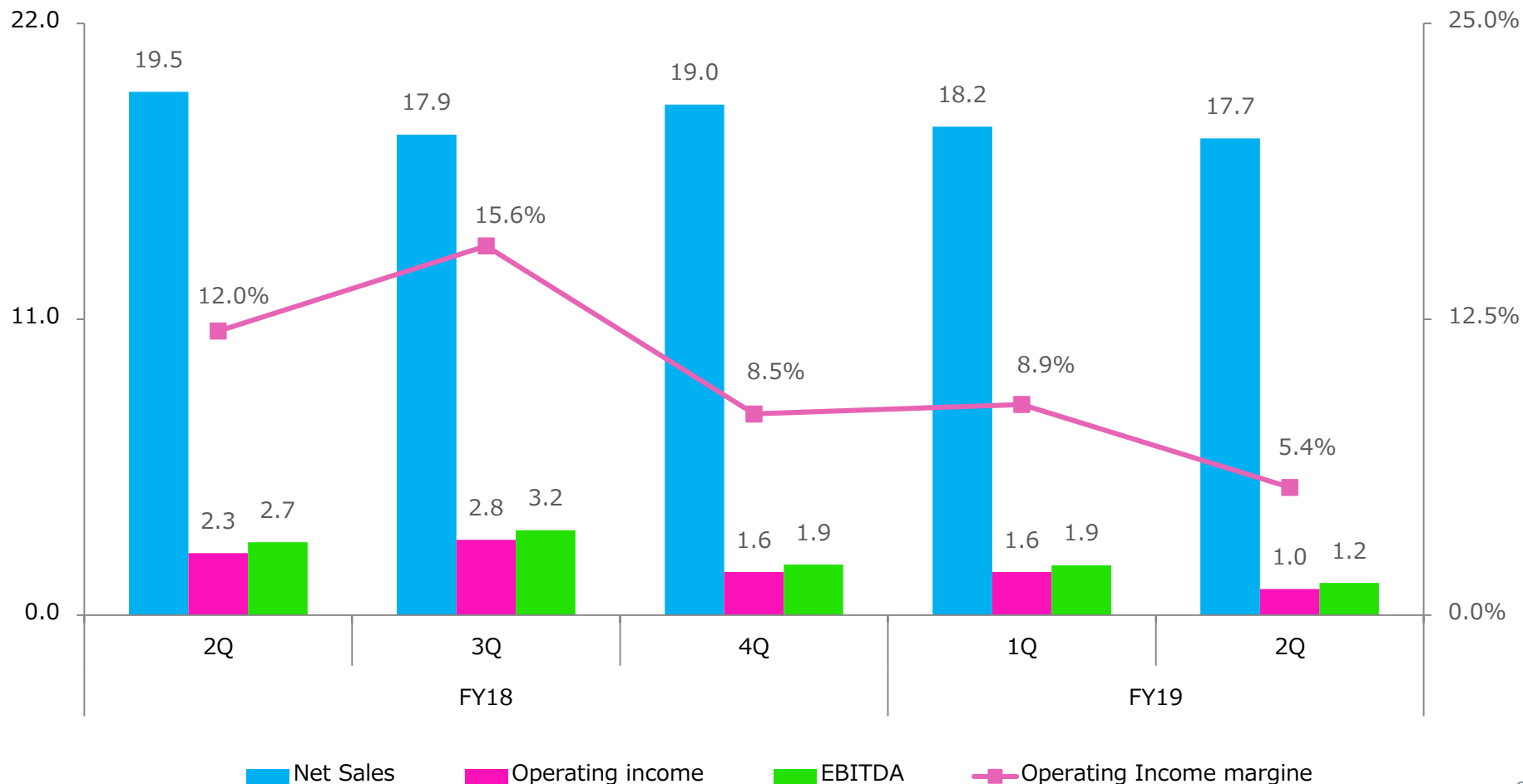
- Certain variable cost transactions conducted in 1Q FY19 and earlier have been revised, resulting in the posting of ¥160 million in costs in 2Q. Without the revision operating income of FY19 2Q is 1.13 billion yen.
- Breakdown of FY19 2Q net sales: Paid service sales ¥14.07 billion; Other sales (ad, CS, license, VR, etc.) ¥3.66 billion
- EBITDA = Operating income/loss + depreciation costs + amortization of goodwill

1. Financial Results Overview (Consolidated)

Net Sales, Operating Income, and EBITDA

Full-scale development investment for new titles. Operating income 5.4%

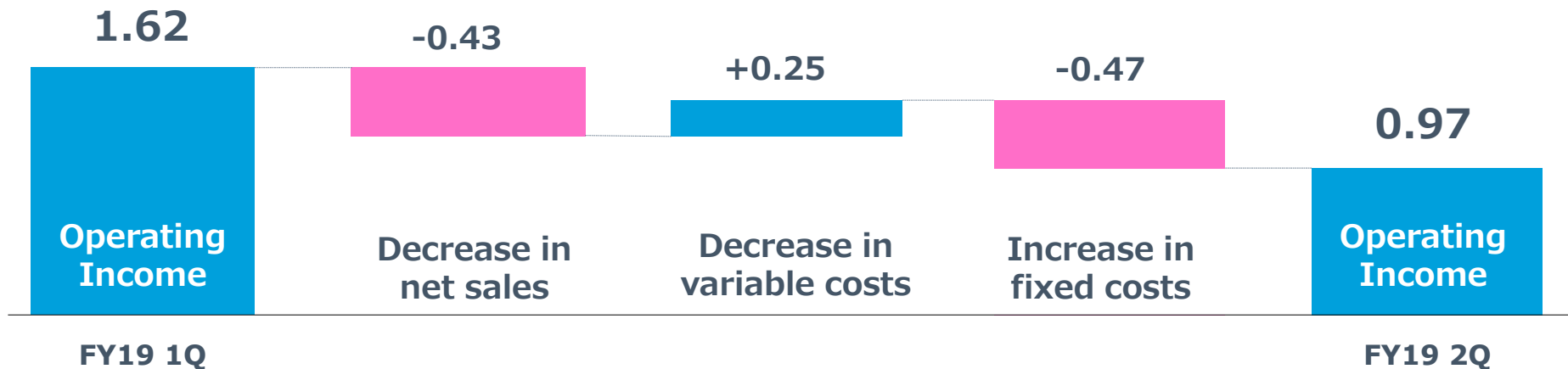
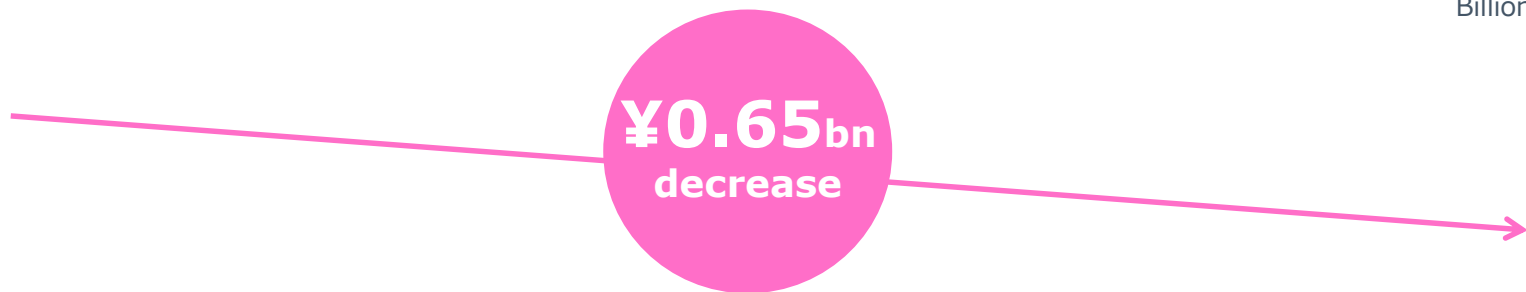
Billions of yen



Operating Income Analysis

Operating income declined by ¥0.7 billion to **¥1.0 billion** due to the impact of full-scale development investment, and of revision in variable costs.

Billions of yen



1. Financial Results Overview (Consolidated)



FY19 2Q Cost Structure

Total costs up ¥200 million QoQ, to ¥16.8 billion

Billions of yen

		FY19 2Q	QoQ	YoY	Factors in change (QoQ)	FY19 2Q	FY18 2Q
	Advertising	0.89	-0.39	-0.54	Decrease from efficient investment(FY19 1Q:7.0%→FY19 2Q: 5.0%)	1.28	1.43
	Commission Fees	5.46	-0.02	-0.92	Impact from revision to certain variable cost transactions conducted in 1Q FY19 and earlier	5.48	6.38
	Other	0.92	0.17	0.32	Increase due to sales growth	0.75	0.60
	Total variable costs	7.27	-0.25	-1.14		7.51	8.40
	Labor costs	3.34	0.01	0.34	Consolidated headcount: end-FY19 1Q:1,604 → end-FY19 2Q:1,645	3.33	3.01
	Rental costs	0.70	0.02	-0.05	-	0.68	0.75
	Depreciation	0.17	0.00	0.01	-	0.16	0.16
	Goodwill Amortization	0.07	0.00	-0.14	-	0.07	0.21
	Other	5.22	0.43	0.63	Increase due to increased outsourcing related to development of new titles	4.78	4.59
	Total fixed costs	9.50	0.47	0.78		9.03	8.72
	Total costs	16.76	0.22	-0.36		16.54	17.12

Notes:

- Breakdown of 2Q FY19 commission fees: commission fees: ¥3.47 billion, royalties: ¥1.98 billion
- Certain variable cost transactions conducted in 1Q FY19 and earlier have been revised, resulting in the posting of ¥160 million in costs in 2Q (impacting commission fees).

3Q FY19 Earnings Forecast

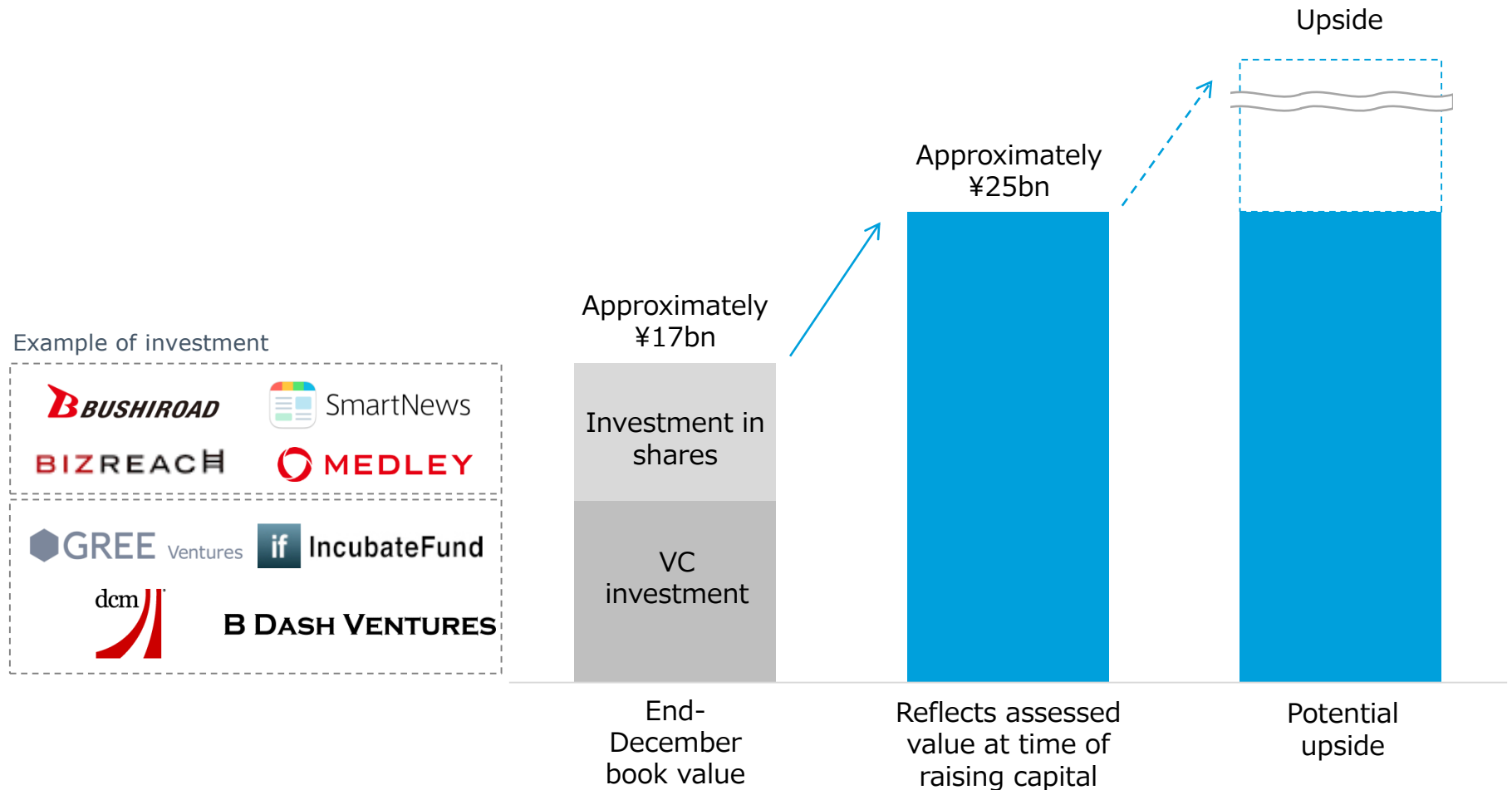
Plan: Net Sales ¥16.5 billion~¥17.5 billion,
Operating income ¥0.3 billion ~ ¥0.8 billion

Billions of yen

	1Q Results	2Q Results	3Q Forecast
Net sales	18.2	17.7	16.5~17.5
Operating income	1.6	1.0	0.3~0.8
EBITDA	1.9	1.2	0.5~1.0

- Overseas expansion of *Another Eden*.
- Withdraw from unprofitable titles to improve the profitability of the operation business.
- Full-scale development investment for new titles.

Investment securities held



Notes:

- Assessed value at time of raising capital reflects the valuation of each company at a different point in time in the past and therefore does not represent valuations as of end-December.
- Valuation of shares of unlisted companies is based on the assessed value of companies at the time of raising capital and valuation of VC investments is based on the assessed value of companies at the time of raising capital through VC investment.

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Review and Summary of 2Q

			FY19 Business Plan	Review
Overall			Strengthen 3 earnings pillars	- Made steady progress in distributing games overseas
Game/entertainment	Game	Mobile	“Game engine, IP, and global” strategies	-Overseas distribution of <i>DanMachi</i> and <i>SINoALICE</i> off to a strong start -Began distribution of first-party IP <i>Another Eden</i> -Made progress on development in preparation for global simultaneous release of new title <i>Shoumetsu Toshi</i>
		Console, etc.	Expand distribution platform	-Began distribution of <i>Fishing Star</i> for Nintendo Switch™ platform (January)
	Live entertainment, etc.		Expand ecosystem	- Launched REALITY Avatar, a livestreaming app for VTubers
Advertising and media			Strengthen media potential	-Strengthened media potential, made progress in securing clients in various media

Notes:

- Business plan refers to the republished summary business plan announced in August 2018
- *DanMachi* = *DanMachi - MEMORIA FREESE*
- Nintendo Switch is a trademark of Nintendo Co., Ltd.

2. Operational Overview: Game/entertainment business - Mobile

Development pipeline

Five titles in development

	FY19		FY20 and onward
	Already released	In development	
First-party IP Co-developed IP	0 (0)	1 (1)	1 (1)
Third-party IP	1 (1)	0 (0)	3 (3)

Notes:

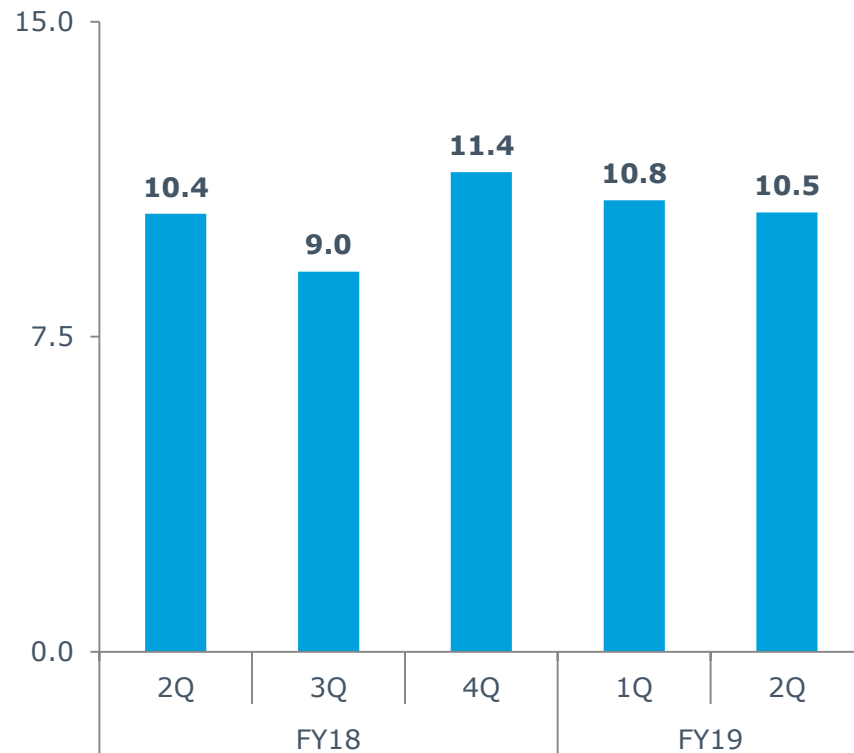
- All titles in pipeline have received approval for development; titles still under consideration are not included
- Some existing titles that are not included in the development pipeline will be distributed for overseas and multi-platform
- Figures in parentheses are numbers as of our 1Q FY19 results announcement

2. Operational Overview: Game/entertainment business - Mobile

Progress Made

Domestic coin consumption (mobile games)

Billions of coins



Topics

- Existing titles
 - Continued to strengthen operations by adding content, etc.
- *DanMachi - MEMORIA FREESE*
 - Expanded distribution area to South Korea, Taiwan, and Hong Kong

2. Operational Overview:

Game/entertainment business - Mobile

Nurturing first-party IP over long term ①



Strengthening our IP with large-scale releases of additional content

Another Eden

Additions to main storyline



- Began distribution of Version 2.0: *Toho-izo* on December 25

Shoumetsu Toshi

Additions to new story "0."



- Began distribution of *Shoumetsu Toshi 0.* on November 25

2. Operational Overview:

Game/entertainment business - Mobile

Nurturing first-party IP over long term ②



In April, we distribute the newest game of *Shoumetsu Toshi* worldwide and also broadcast the anime TV show to increase IP recognition.

FY14~

Long-term operation over 5-year period

Shoumetsu Toshi



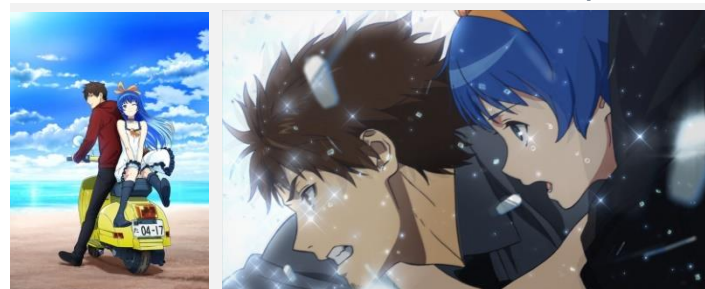
FY19

Distribute the newest series game worldwide and broadcast of anime TV show to domestic

Shoumetsu Toshi - AFTERLOST



Anime TV show starts in April



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FY20

All-new 3D version game now in development

New *Shoumetsu Toshi* Project



2. Operational Overview: Game/entertainment business - Mobile

Expanding fan communities ①

Attracting fans through real-world events and IP collaborations

SINoALICE

Held concert



- Deepening experience of in-game universe through real-world events

DanMachi - MEMORIA FREESE

Hosted collaboration event



- Attracting new fans through strong IP collaborations

Note:

DanMachi = DanMachi - MEMORIA FREESE

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2. Operational Overview: Game/entertainment business - Mobile

Expanding fan communities ②

Expanding fan communities through media mixing

Senki Zesshou SYMPHOGEAR XD

In-game broadcast of radio programs



- TV anime casts host the program
Senki Zesshou SYMPHOGEAR RADIO.

In Love with NEWS

Held birthday events for NEWS members



- Released special birthday content

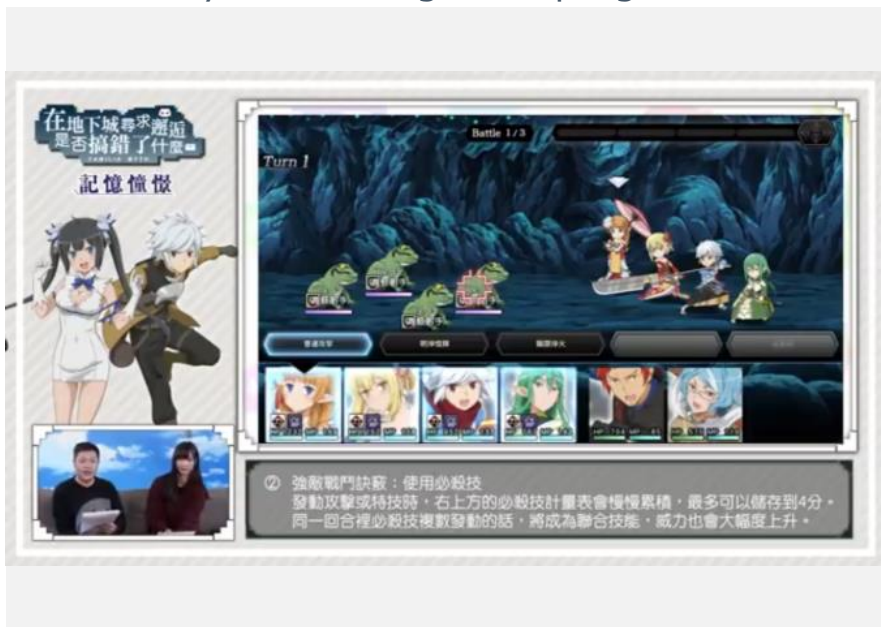
2. Operational Overview: Game/entertainment business - Mobile

Full-scale overseas development ①

Further increased sales by releasing *DanMachi* in more regions

DanMachi

Began overseas marketing
by distributing radio programs.



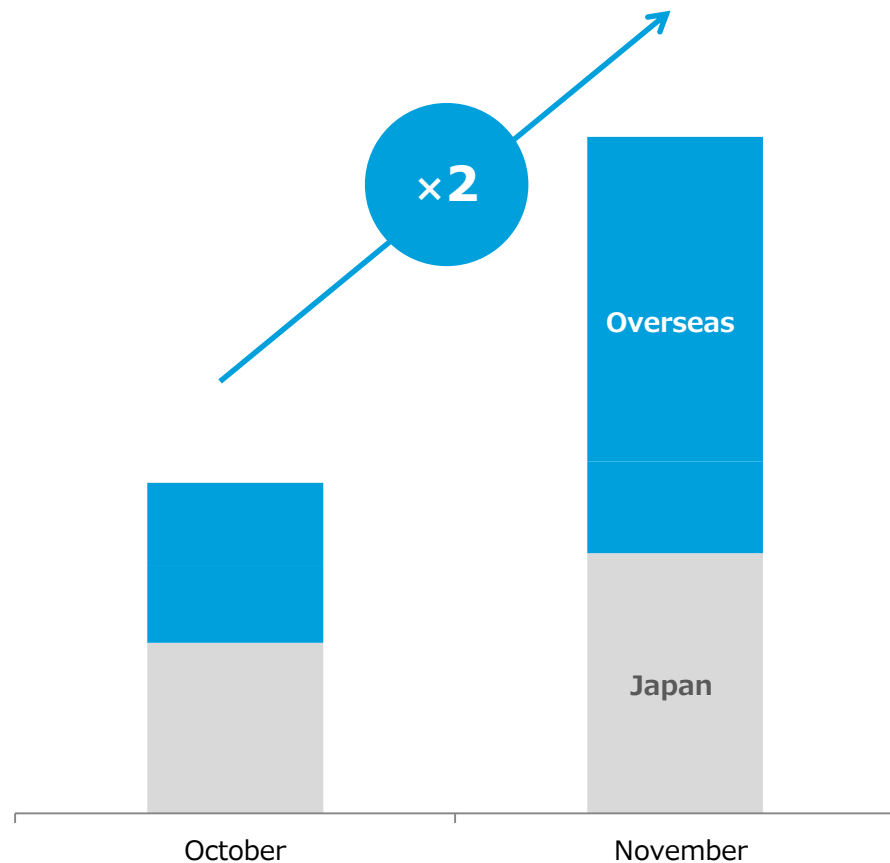
- Following North American release, released in South Korea, Taiwan, and Hong Kong
- Self-distribution and well-received

Note:

- *DanMachi* = *DanMachi - MEMORIA FREESE*

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Sales rising



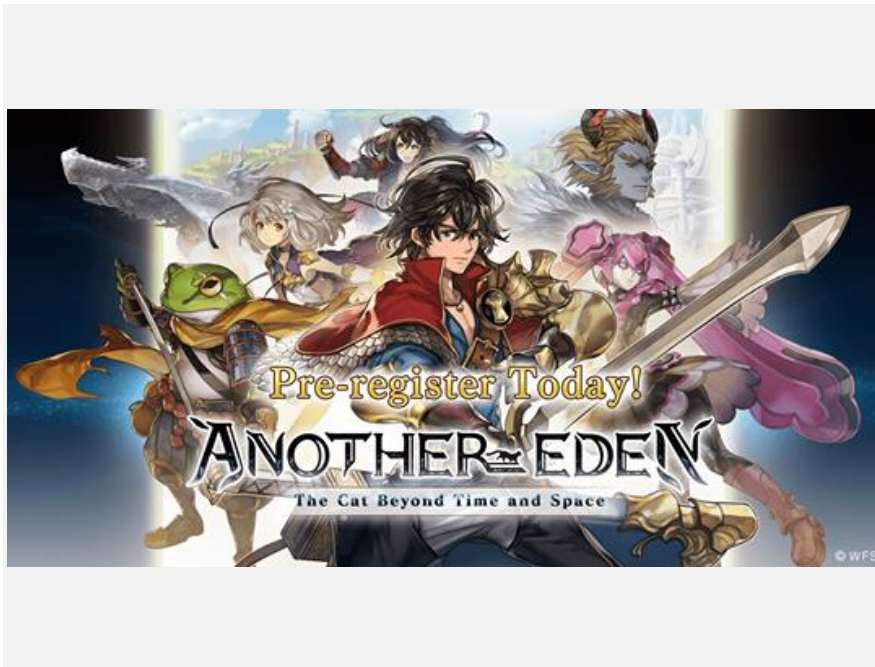
2. Operational Overview: Game/entertainment business - Mobile

Full-scale overseas development ②

Began self distribution of first-party IP title *Another Eden*

Another Eden

Began distribution January 29



- Released in 8 countries and regions
- Over 220,000 pre registrations

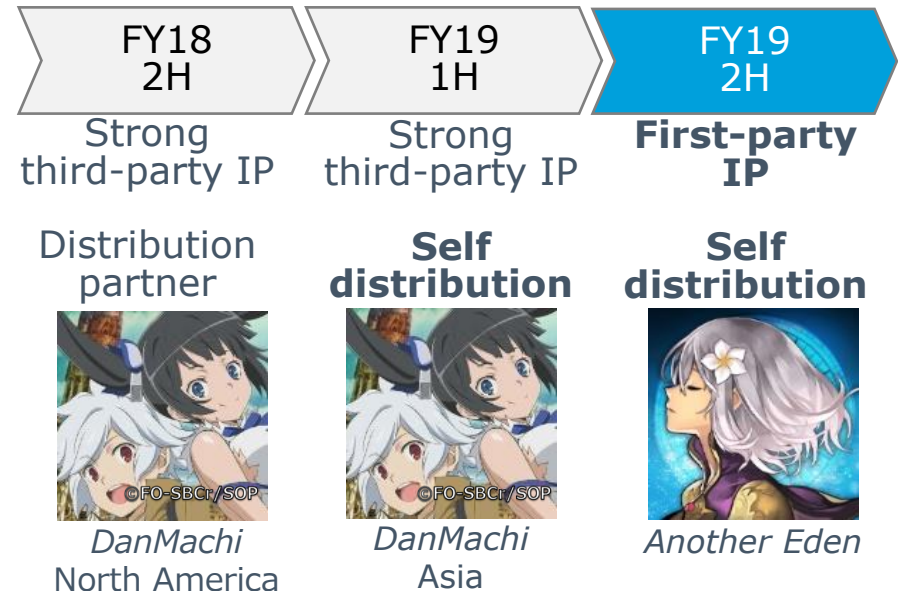
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Increasing overseas potential

Accumulating knowhow related to self distribution



Shoumetsu Toshi

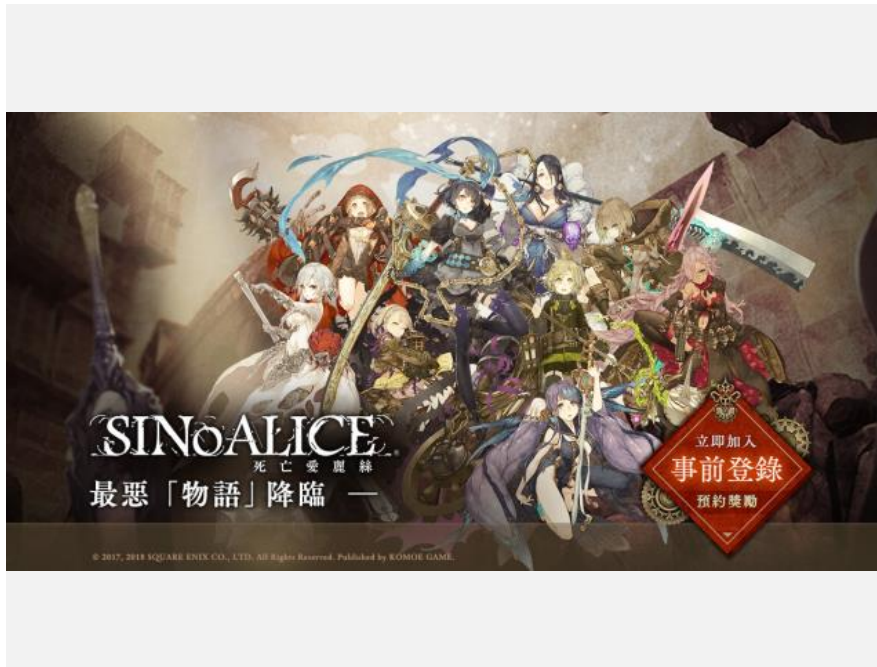
2. Operational Overview: Game/entertainment business - Mobile

Full-scale overseas development ③

Overseas development of *SINoALICE* off to a smooth start

SINoALICE in Hong Kong, Taiwan, etc.

Started distribution on November 28



- Distribution partner: KOMOE GAME
- Over 150,000 pre registrations

Note:

- NEXON Korea Corporation to distribute globally with the exception of Japan, China, Taiwan, Hong Kong, and Macau

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SINoALICE in North America and Europe

Distribution scheduled to start in 2019







- Planning global distribution in over 150 countries and regions
- Distribution partner: NEXON Korea Corporation

2. Operational Overview: Game/entertainment business - Mobile

Overseas development plants

Steady progress in overseas development, continuing to prepare for releases

	Distribution region					Partnership agreement status
	Japan	North America	Europe	Hong Kong, Taiwan, etc.	China	
	Already released	Already released Distribution by partners	Preparing for release Self Distribution	Released 10/25 Self Distribution	Preparing for release Distribution by partners	Agreement signed
	Already released	Preparing for release Distribution by partners	Preparing for release Distribution by partners	Released 11/28 Distribution by partners	Preparing for release Distribution by partners	Agreement signed
	Already released	Planned release in 2019 Released 1/29 Self Distribution	Preparing for release Self Distribution	Planned release in 2019 Released 1/29 Self Distribution	Preparing for release Distribution by partners	Agreement signed
	Preparing for release	Preparing for release Self Distribution	Preparing for release Self Distribution	Preparing for release Self Distribution	-	-
Titles to be released in FY17	Already released	Preparing for release	Preparing for release	Preparing for release	Preparing for release	Under consideration

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

Multiplatform development

Began distribution of *Fishing Star* for Nintendo Switch™ platform on January 31



- Our first title for the Nintendo Switch™, distributed in 38 countries and regions
- Players use the Joy-Con controller as a rod and reel in this realistic full-on action-packed fishing game

Note:

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

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

Began distribution of REALITY Avatar

Began distribution of livestreaming app for VTubers on October 22



- With this simple app, all users need is one smartphone to create 3D avatars and livestream as a VTuber.
- VTuber livestreams created on REALITY Avatar can be viewed on our REALITY VTuber viewing app.

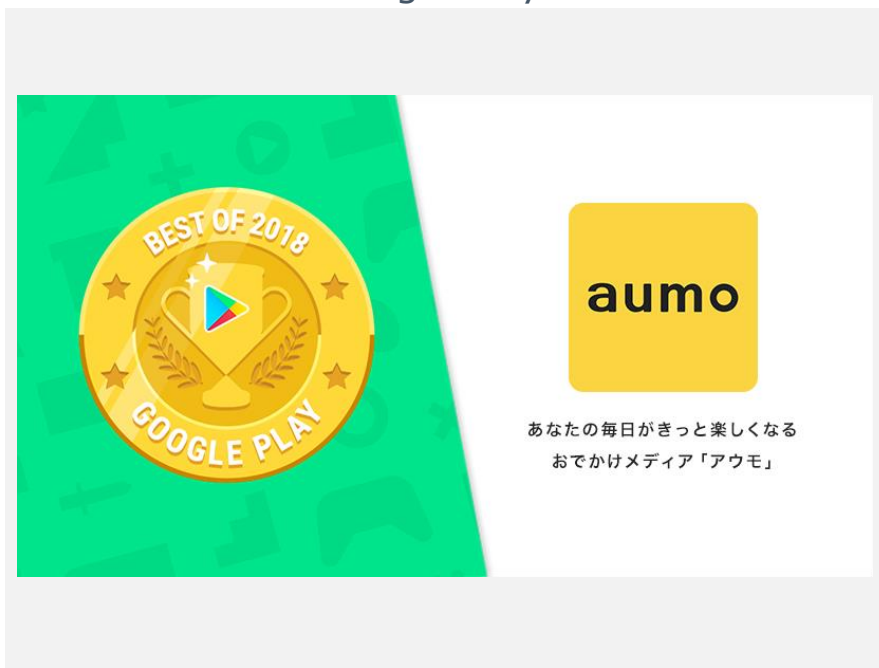
2. Operational Overview: Advertising and media business

Strengthened media potential

Strengthened media potential, made progress in securing clients in various media

aumo app won award for excellence

Selected for Google Play Best of 2018



Received award for excellence in the
“Best Daily Helpers” category

Secured more clients

Number of advertisers increased as media
potential strengthened



Mitsui Fudosan
Retail
Management



Global Style Japan
Co. Ltd.



LUMINE
CO.,LTD.

1. Financial Results Overview

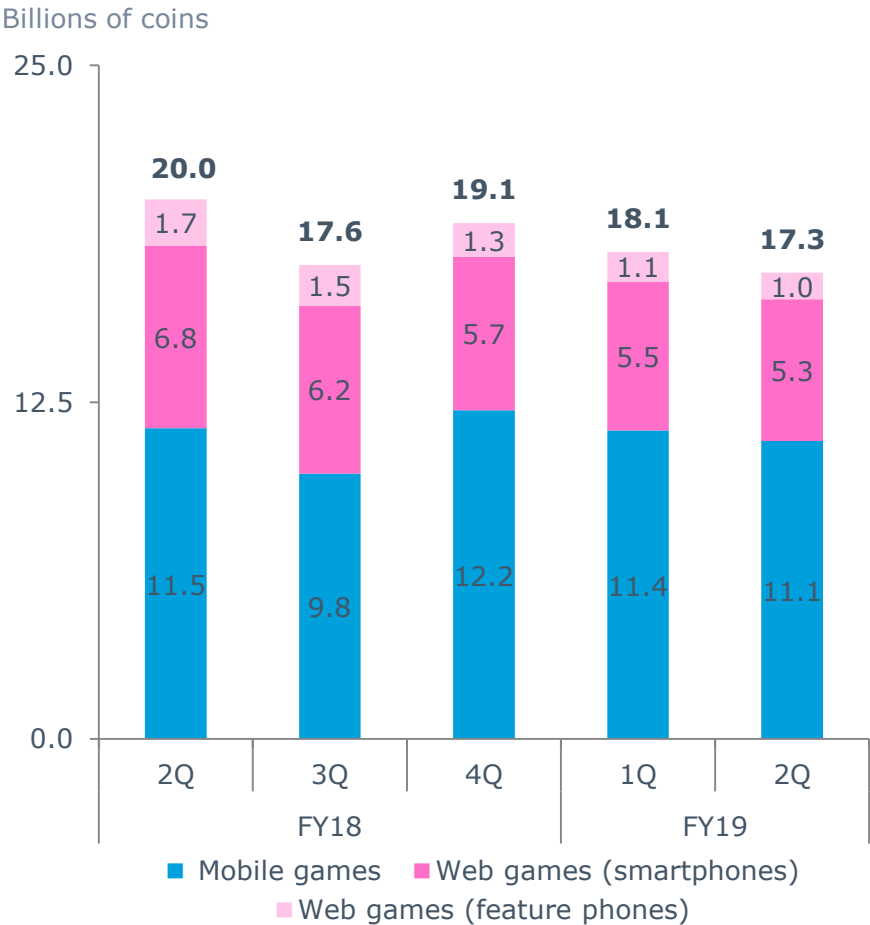
2. Operational Overview

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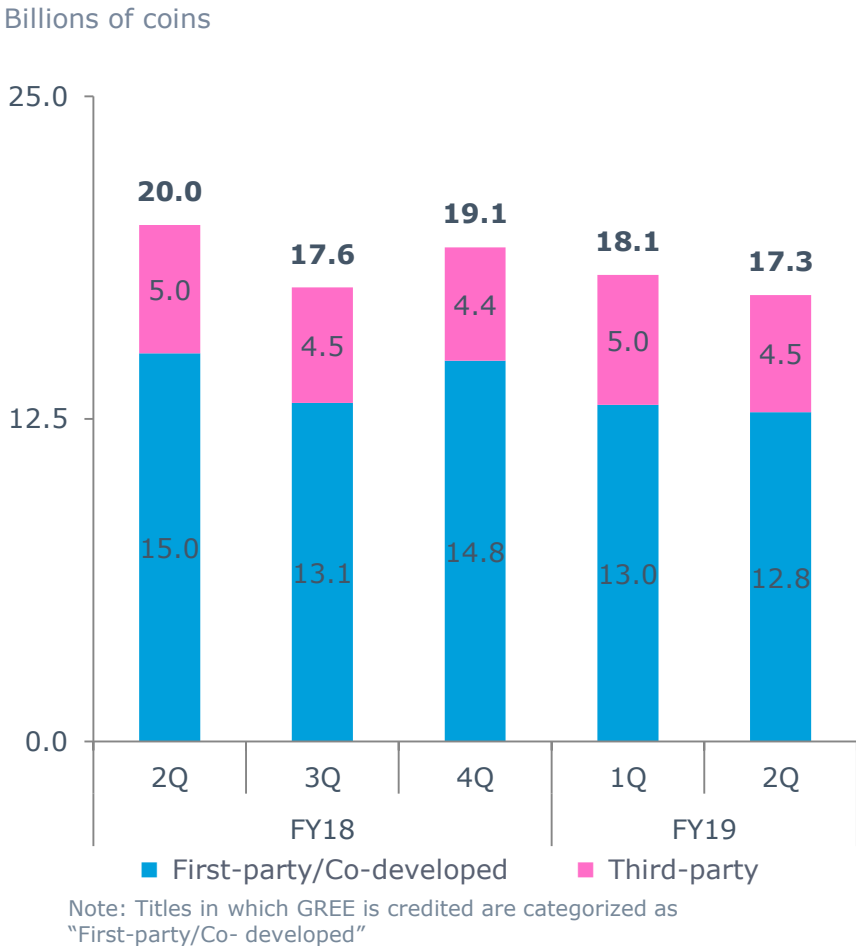
Coin Consumption (1)

Strengthened media potential, made progress in securing clients in various media

Overall coin consumption (1)



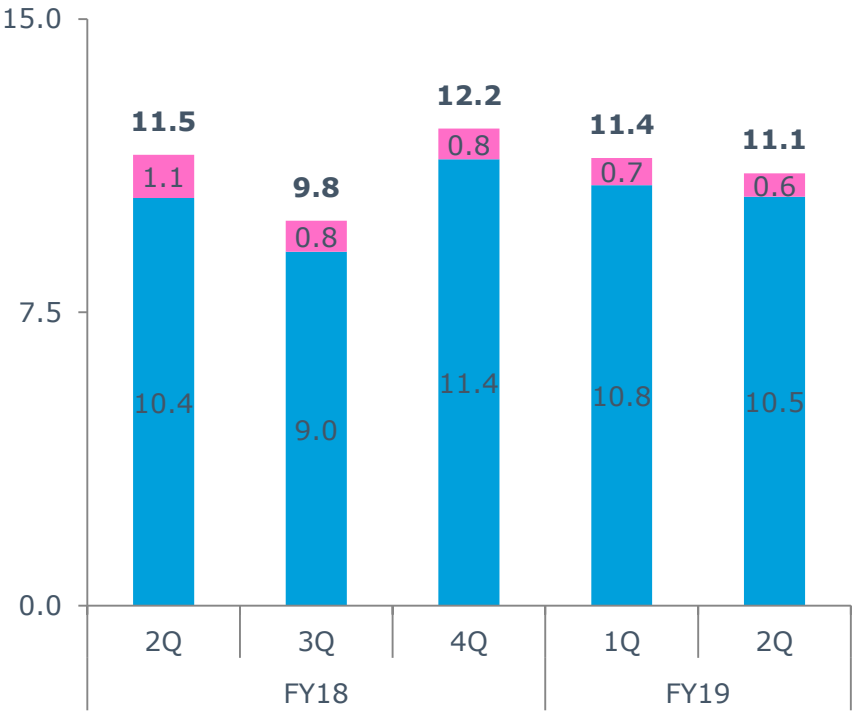
Overall coin consumption (2)



Coin Consumption (2)

Mobile games

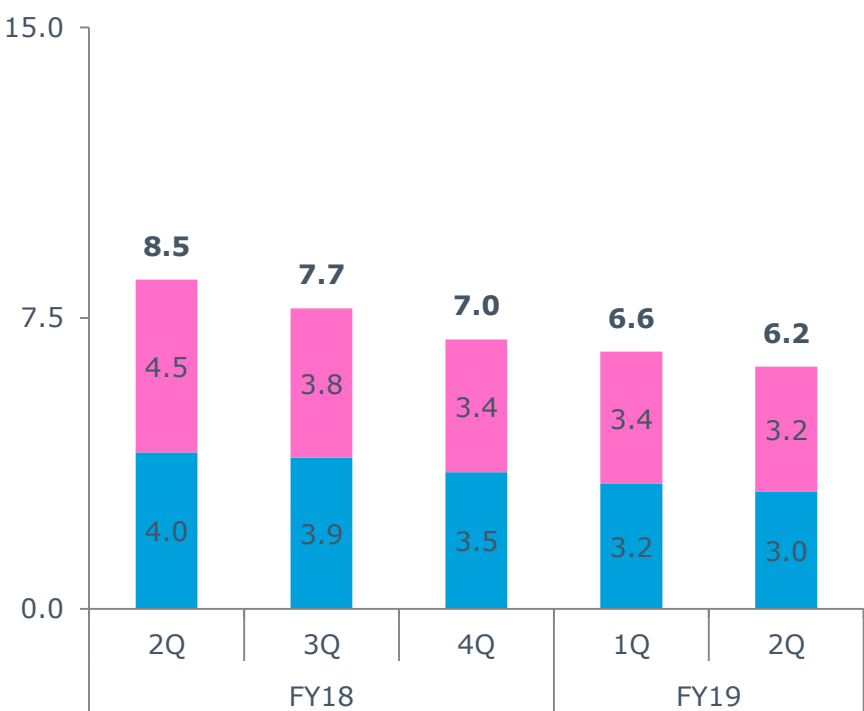
Billions of coins



■ Developed in Japan ■ Developed overseas

Web games

Billions of coins



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

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

2Q FY19 Cost Structure

Millions of yen

		FY19 2Q	QoQ	YoY	FY19 1Q	FY18 2Q
	Rental charges	704	13	-63	691	766
	Labor costs	2,210	-94	233	2,304	1,977
	Others	5,526	658	490	4,868	5,036
	Cost of sales	8,440	577	660	7,863	7,780
	Advertising	890	-388	-541	1,278	1,431
	Commission fees	3,472	-302	-838	3,773	4,310
	Labor costs	1,133	106	101	1,026	1,032
	Others	2,829	228	261	2,601	2,568
	SG&A	8,323	-356	-1,018	8,679	9,341
	Total costs	16,763	222	-358	16,541	17,121

Note:

- The compilation category of labor costs have been changed from FY19 2Q and also the labor costs of FY19 1Q was completed due to the change accordingly.

2Q FY19 Balance Sheet

Billions of yen

	FY19 2Q	QoQ	YoY	FY19 1Q	FY18 2Q
Current assets	96.28	0.41	3.41	95.87	92.87
Fixed assets	29.17	0.34	-1.35	28.83	30.52
Total assets	125.45	0.75	2.06	124.70	123.39
Current liabilities	12.24	0.53	0.85	11.71	11.39
Fixed liabilities	0.90	-0.07	0.31	0.97	0.59
Total liabilities	13.14	0.46	1.16	12.68	11.98
Total net assets	112.31	0.29	0.90	112.02	111.41
Cash and cash equivalents –	86.99	2.45	3.95	84.54	83.04
Interest-bearing debt	0.9	-0.2	0.9	1.2	-
Net cash	86.90	2.47	3.86	84.43	83.04
Goodwill	0.60	-0.07	-2.90	0.68	3.50

Note:

- The figures of the total amount of current assets and fixed assets of FY18 2Q have been adapted to current accounting standards in accordance with partial change from FY19 1Q

Breakdown of Group Headcount

		Number of employees
	Group companies	Headcount at end-2Q
Game/Entertainment Business	funplex, Pokelabo, WFS, Wright Flyer Live Entertainment, etc.	1,069
Advertising and Media Business	Glossom, Limia, 3 Minutes, aumo, QUANT, etc.	398
Other businesses	Includes GREE Business Operations	234
Total	-	1,701

Note:

- Includes non-consolidated group companies; as of December 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.