



Q1 FY03/24

Message from Koji Obuchi, President and CEO of CROOZ Group

(August 7, 2023)

Earlier today, on August 7, 2023, we announced our financial results for Q1 FY03/24. As the representative of the Group, I would like to share my thoughts and impressions to give you a better understanding of our current situation.

Firstly, as I stated at the time of the previous financial results announcement, it is my opinion that turning around the fortunes of the SHOPLIST business alone will not be enough to stage an earnings recovery. As a major company-wide policy, we intend to actively rise to the challenge of entering new business domains outside of the SHOPLIST business. As a first step, we are pressing ahead with our expansion into the GameFi field, and accordingly, we have made some changes to our business segments from this fiscal year. We changed the name of the segment previously referred to as the “Game business” to the “GameFi business” and, in addition to the existing “Studio Z” game business, we added the “CROOZ Blockchain Lab” GameFi business. We also changed the name of the segment previously referred to as the “Online Advertising and Media business” to the “Media Business” in line with the policy of focusing on the Media business with Rank King.

For the whole Group, Q1 consolidated transaction value totaled JPY6,348mn (-16.5% YoY) and consolidated operating profit was approximately JPY271mn (+11.0% YoY). I would now like to explain the key points of results in each business segment.

In the Q1 results, the SHOPLIST business recorded transaction value of JPY4,225mn (-19.4% YoY) and operating profit of approximately JPY31mn (compared with an operating loss of about JPY45mn in Q1 FY03/23). The business environment remains challenging, with transaction value still lagging behind that of last year.

The primary reason for the year-on-year decline in transaction value is the continued decrease in the number of visitors. In turn, the decline in visitor numbers mainly owes to the drop in the number of visitors via SEO and advertisements, as mentioned in the previous financial results announcement. To summarize in a few words, I must admit that there are now more competitors in the apparel e-commerce space and it is becoming increasingly harder than ever before to attract customers. To achieve a full recovery in the number of visitors and transaction value in the SHOPLIST business, we would need to drastically overhaul the way we draw in customers. At the same time, we believe we must fundamentally change the company’s business model so that we no longer rely solely on the SHOPLIST business. As part of this business model transformation, we plan to aggressively take on the challenge of new businesses. More specifically, we will first



ramp up our expansion into the GameFi ecosystem.

As of end-Q1 FY03/24, CROOZ Blockchain Lab, which is participating in PROJECT XENO, our first game project for the GameFi space released on May 10, 2023, has been growing rapidly with sales of about JPY560mn and operating profit of approximately JPY230mn. Our revenue mainly comes from PROJECT XENO revenue and contract development fees for new GameFi titles currently in development. We have not disclosed individual revenue figures for PROJECT XENO as it has only just been released and there is still a lot of competition, but our most recent topic of note is that the Hikaru sale, which started on August 1, has been performing relatively well, recording the highest ever sales amount. Although PROJECT XENO was our first foray into the GameFi field, we're feeling a certain level of success, and we expect that it will continue to grow significantly in the future.

There are two measures that we will particularly focus on for PROJECT XENO in the future. The first measure is to boost credit card sales, which are currently the mainstay of sales. Because credit card sales have lower fees than what are called "store billing sales" on the App Store and the Google Play Store, a higher percentage of credit card sales directly translates to higher profits. We will continue to tweak our games to make them more fun and further strengthen anti-fraud measures to maximize credit card sales. As the sales rankings on the App Store and the Google Play Store do not represent the total amount of sales, it would make little sense to allow ourselves to be swayed only by the data presented there. Accordingly, as stated above, we will focus on measures to improve overall sales, including credit card sales.

The second measure is to acquire overseas users. Currently, PROJECT XENO has a very large domestic user base due to the fact that we have been focusing on promotions domestically, but going forward, we will focus on overseas promotions, aiming to increase the percentage of overseas users to over 50% by the end of this year. The areas we will particularly focus on are: 1) Japan, South Korea, Taiwan, North America, and China, which are the top five mobile game content markets in the world (Web 2.0 games); 2) the Philippines, which has become a catalyst for Web 3.0 games; and 3) the Middle East, which is leading the world in the e-sports field. We will aim to expand the market by forming a community with highly influential ambassadors and holding e-sports tournaments with high prize money. The most immediate activity will be to strengthen promotion in the Philippines and the Middle East from around mid-August. In the Philippines, we will launch a GCash (electronic money) distribution campaign in August with ambassador Manny Pacquiao and dozens of KOLs to expand recognition, and we will also collaborate with the game guild YGG Pilipinas for promotion and hold offline tournaments in the Philippines and Japan by November 2023 to acquire users. In the Middle East, our latest news is that Mohamed Ramadan, who is extremely popular in the Middle East with over 25 million followers on Instagram, over 23 million followers on Facebook, and over 100 million views on all of his recent music videos, has become an ambassador for PROJECT XENO. The signing



ceremony is scheduled to be held in mid-August with the cooperation of the Embassy of Japan in Egypt. The Middle East, particularly Saudi Arabia, is attracting attention due to its extremely strong investment appetite in the gaming sector, with the announcement of a plan to invest JPY5tn in the country's gaming and e-sports sector and a Saudi sovereign wealth fund becoming a major shareholder in a major Japanese gaming company. With the appointment of Mohamed Ramadan as ambassador, we have already set up several meetings with local partners in Saudi Arabia and Dubai. In terms of games, we are working on Arabic language support for our Whitepaper and apps, and we would like to hold an e-sports tournament next year. Through this, we are making a full-fledged effort to acquire users in the Middle East. We will announce the details as soon as they are finalized, but we are also negotiating to collaborate with multiple game and anime companies, aiming to attract more overseas users by transmitting Japan's strengths to the world.

As for the second and third GameFi projects to follow PROJECT XENO, namely, the original game Elemental Story World and a game called Ergosum that we are jointly developing with gumi Inc., we are making steady progress. We plan to present these two projects alongside PROJECT XENO at the 2023 Tokyo Game Show in September this year.

As mentioned above, the GameFi business, including PROJECT XENO, is performing well, and we feel that there is a possibility for further expansion as we focus on promotions not only in Japan but also globally. We will issue press releases with information related to the GameFi business as appropriate.

Rank King, the core of the Media business, showed steady growth, with Q1 transaction value of approximately JPY233mn (+20.3% YoY) and operating profit of about JPY63mn (roughly +27.8% YoY). We plan to use profits we generated to invest in expanding the transaction value of Rank King, and we will actively invest as necessary to further increase it. The reason for the year-on-year decrease in sales and operating profit in the Media business segment as a whole was, as was announced in February 2023, the termination of a contract with a large client in the advertising agency business, which was handled by a subsidiary other than Rank King. The representative of the subsidiary, which was mainly engaged in the advertising agency business, also serves as the representative of CROOZ Blockchain Lab. In order to focus on the GameFi business rather than the advertising agency business at a time when the GameFi business is performing well, we have decided for the future to focus more on Rank King in the Media business. We believe that the business as a whole can grow significantly over the medium to long term.

Finally, because the recovery in transaction value in the SHOPLIST business will still need more time, the company will once again actively embrace the challenge of new businesses. The businesses we intend to mainly focus on up ahead are Rank King and GameFi. In particular, we will mobilize all of the know-how we have hitherto honed in game development and endeavor to increase the probability of success in blockchain games in the GameFi field, considering that it is



a global market as well as a domestic one with the potential to bring in enormous profits in the future.

August 7, 2023

Koji Obuchi