



1H FY03/24

Message from Koji Obuchi, President and CEO of CROOZ Group

November 8, 2023

Earlier today, on November 8, 2023, we announced our financial results for 1H FY03/24. As president and CEO of the Group, I would like to share my thoughts and impressions to give you a better understanding of our current situation.

First of all, as I stated previously, I believe turning around the fortunes of the SHOPLIST business alone will not be enough to stage an earnings recovery. For this reason, as a major companywide policy, we are actively taking on the challenge of entering new business domains outside the SHOPLIST business. As a first step, we are pressing ahead with our expansion into the GameFi field.

In 1H FY03/24, the Group posted consolidated transaction value of JPY12,556mn (-15.9% YoY), consolidated operating profit of JPY546mn (+463.7% YoY), and consolidated net profit*¹ of JPY1,070mn (net loss of JPY8mn in 1H FY03/23). In Q2 (three months), we reported consolidated transaction value of JPY6,219mn (-15.3% YoY), consolidated operating profit of JPY275mn (operating loss of JPY149mn in Q2 FY03/23), and consolidated net profit of JPY677mn (net loss of JPY176mn in Q2 FY03/23). I would like to share key takeaways from each business segment results, as below.

In the SHOPLIST business, in 1H FY03/24, transaction value came to JPY8,339mn (-20.7% YoY) and operating profit to JPY112mn (operating loss of JPY91mn in 1H FY03/23). In Q2 (three months), transaction value was JPY4,114mn (-21.9% YoY) and operating profit was JPY81mn (operating loss of JPY45mn in Q2 FY03/23). The business continued to struggle, with transaction value remaining below the year-ago levels.

The main reason for the year-on-year decline in transaction value was an ongoing decrease in the number of visitors, which in turn was caused by a drop in the number of visitors through SEO and advertisements, as mentioned in the previous year's results briefing. To summarize, competition in the apparel e-commerce field has intensified, and it has become even more difficult than ever to attract customers. To achieve a full recovery in the number of visitors and transaction value in the SHOPLIST business, we would not only need to drastically overhaul the way we draw in customers, but also must fundamentally change our business model, rather than relying solely on the SHOPLIST business. As part of efforts to transform our business model, we plan to actively venture into new business areas. More specifically, we will ramp up business development in the GameFi domain.

¹ Net profit/loss attributable to owners of the parent.



In Q2 FY03/24, the CROOZ Blockchain Lab, which is in charge of GameFi operations, reported sales of JPY560mn and operating profit of JPY195mn. Sales grew steadily, but were largely unchanged from the amount recorded in Q1, and operating profit was slightly down from JPY230mn posted in Q1. However, the profit decline here was within expectations, and was due to an increase in development expenses as a new title under development neared its release date. The GameFi business is a new endeavor for us, and since the business got on somewhat of a growth trajectory, we believe it is now at the start line for further expansion, through promotions and trial and error.

In order to significantly grow PROJECT XENO and further increase sales, we believe we need to acquire a large number of new users, and to do so, we have launched several large promotions and began collaborating with a major IP from Q2.

Regarding promotions in particular, starting with our participation in Tokyo Game Show 2023 in September, we rolled out large-scale promotions in October, which are still ongoing, primarily in Japan, including TV commercials, ads on the large video screens overlooking Shibuya Scramble Crossing, and hosting of Hikaru Cup, the first e-sports event of PROJECT XENO. It is still too early to evaluate the effectiveness of these promotions as they have just started, but we are already seeing some results, including the number of daily installations, which has more than doubled in the early weeks of the promotions, and expect to see greater results going forward. Because we are new to the GameFi field, we are not entirely sure which promotional measures would work, and in some sense, we are still exploring and testing out various measures. Nevertheless, we intend to continue actively exploring various means of promotions for GameFi. Further, we collaborated with the smartphone app “MEGA MAN x DiVE Offline” developed by CAPCOM Taiwan Co, Ltd. The collaboration has been well received by users, and we intend to continue collaborating with other major IPs going forward.

The development of the second and third blockchain games to follow PROJECT XENO—*Elemental Story World* and *Ergosum*, the latter jointly developed with gumi Inc.—is proceeding on schedule. For *Elemental Story World* in particular, we held the first presale event in September, and the game was extremely well received. We plan to begin promotions in December, and officially release the title two to three weeks after that. Currently, members of the development team for *Elemental Story World* and *Ergosum* are doing their best to make these titles as interesting as, if not more than, PROJECT XENO. I myself am also thrilled to see what they will turn out to be.

GameFi is a global market, and to aim for even greater success, we intend to aggressively invest in the GameFi business, rather than being overly concerned about short-term profits. We ran major promotional events in October, including TV commercials, which may weigh on profits in Q3 onward. However, we are seeing potential for further growth in the GameFi business, including new titles to be released in the future, and will aggressively invest in the business to capture substantial profits in the medium to long term, albeit this may mean forgoing short-term profits.

We will make timely disclosures as necessary regarding developments in the GameFi business.



Rank King, the core of the Media business, grew steadily, posting sales of JPY480mn (+26.6% YoY) and operating profit of JPY130mn (+80.8% YoY) in 1H FY03/24, and sales of JPY246mn (+33.2% YoY) and operating profit of JPY67mn (+197.9% YoY) in Q2 (three months). We intend to allocate profit generated to efforts aimed at expanding the transaction value of Rank King, and to further increase the transaction value, we will make additional investments in the business as necessary. As in Q1, sales and operating profit for the Media business overall fell year-on-year, but as announced in February 2023, this was because a contract with a major client came to an end in the advertising agency business, which was handled by a subsidiary other than Rank King. We have positioned Rank King as the mainstay business for the Media business, and with the end of the contract with a major client, we will withdraw from the advertising agency business and further concentrate on Rank King. We anticipate the Media business to grow sharply in the medium to long term.

For several years now, we have been investing in startups, through funds and other means, and we are beginning to see meaningful results of our investments. We recorded profit of JPY210mn in Q1 FY03/24 and JPY750mn in Q2, for a total of JPY960mn in 1H (recorded as non-operating income). The gains here were capital gains resulting from the sale of our stake in investees when they reached the stage of M&A or IPO. A number of investees are currently working toward an IPO in the next couple of years, and we expect to see profit contributions from them accordingly.

Lastly, our focus going forward is Rank King and GameFi. For blockchain games in the GameFi field in particular, which is a global market, as well as a domestic one, we will fully utilize the know-hows we have cultivated to date in game development to increase the probability of success, as the business has the potential to bring in enormous profits in the future.

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Koji Obuchi