

# Nihon Enterprise Co., Ltd.

## Presentation materials for the 3Q of FY2014 ending 31<sup>st</sup> May



As of March 2014





## Summary of earnings results 【 3 Q 】



### Operating review 【 Domestic 】

for the 3Q of FY2014



### Operating review 【 Overseas 】

for the 3Q of FY2014



### Outlook for FY2014 【 Earnings forecasts 】

## Content service business

- Contents lineup for “carriers' fixed rate services” increased
- The number of subscribers utilizing monthly charged contents for smartphone stayed the same
- The number of smartphone App users increased

## Solution business

- Moved to accelerate measures of sales growth arising from in-store affiliate (\*)
- Inquiries and orders (including development of smartphone Apps) from enterprises increased
- Product development of IP phone

## Overseas business (China)

- Distribution channels of digital comic titled "九鼎記" expanded
- The manga titled “<sup>BuBuShengLian</sup>步步生蓮”, started to publish serially in a magazine
- Sales of mobile phone by China Telecom fall

※ in-store affiliate means performance based sales of contents through the alliances with cell phone distributors (real affiliate).

# Consolidated income statements

(million of yen)

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			volume	percentage
Sales	<b>3,004</b>	<b>3,277</b>	<b>273</b>	<b>9.1%</b>
CGS	<b>1,623</b>	<b>1,686</b>	<b>62</b>	<b>3.9%</b>
Gross income	<b>1,380</b>	<b>1,591</b>	<b>210</b>	<b>15.3%</b>
SG&A	<b>1,107</b>	<b>1,335</b>	<b>228</b>	<b>20.6%</b>
Operating income	<b>272</b>	<b>255</b>	<b>▲17</b>	<b>▲6.3%</b>
Ordinary income	<b>285</b>	<b>259</b>	<b>▲26</b>	<b>▲9.3%</b>
Net income	<b>156</b>	<b>414</b>	<b>257</b>	<b>164.0%</b>

# YY sales comparison

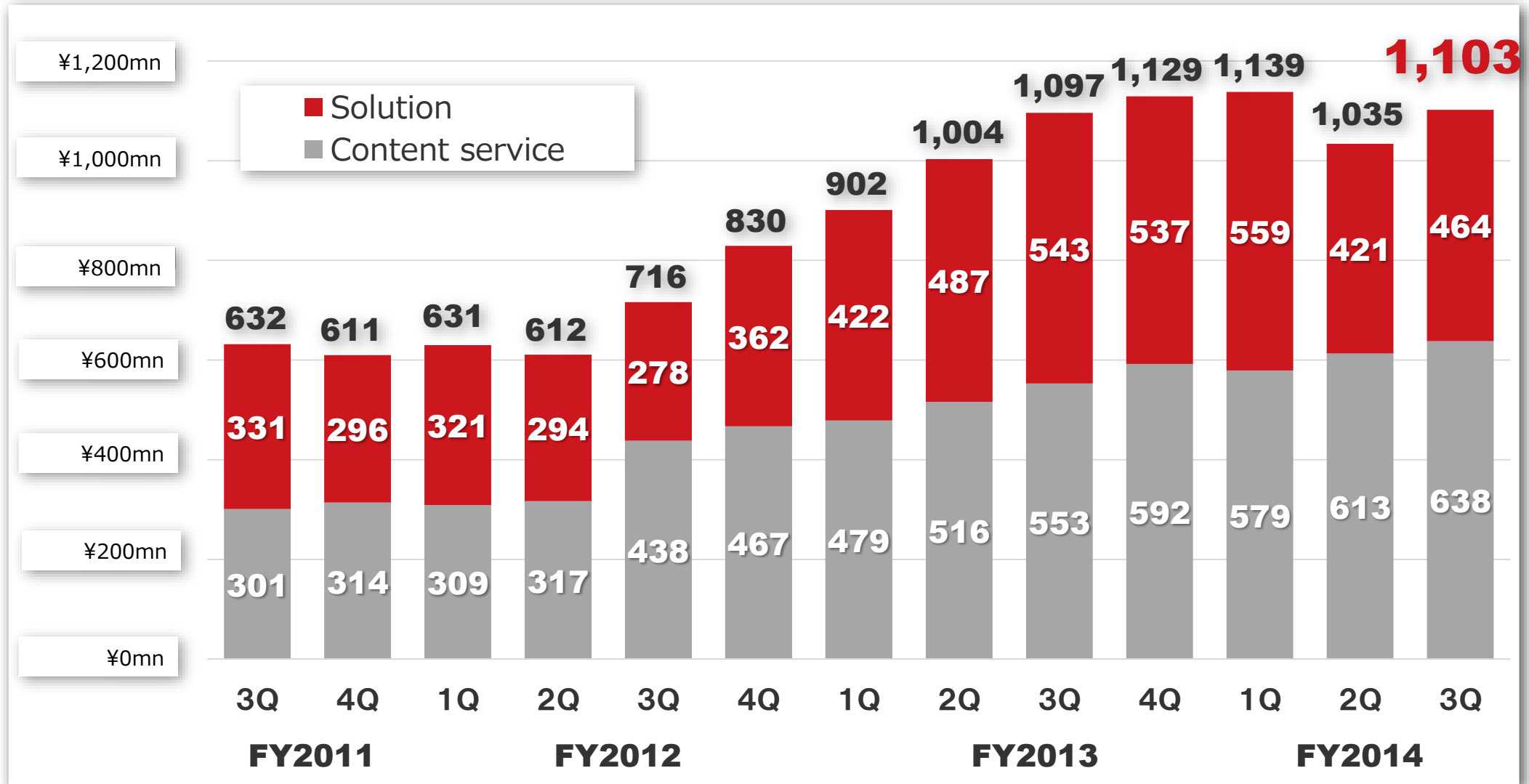
- Sales of content service business increased

(million of yen)

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			value	percentage
Content service business	<b>1,550</b>	<b>1,831</b>	<b>280</b>	<b>18.1%</b>
Solution business	<b>1,453</b>	<b>1,445</b>	<b>▲7</b>	<b>▲0.5%</b>
Total	<b>3,004</b>	<b>3,277</b>	<b>273</b>	<b>9.1%</b>

# Quarterly sales trends

- Sales of content service business accelerated  
Solution business moved toward recovery



# YY sales comparison of content service business

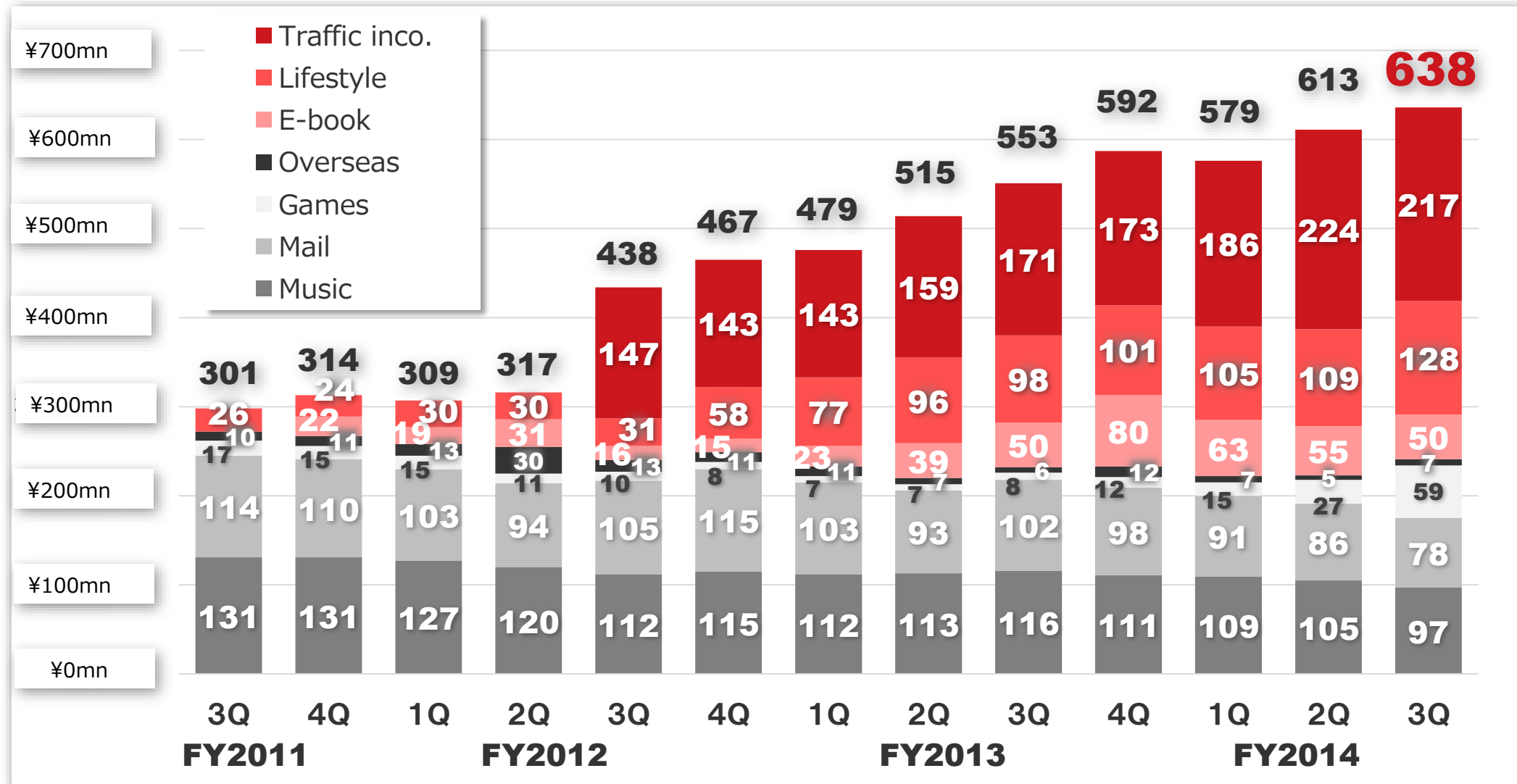
■ Traffic information, Games, Lifestyle and E-book grow

(million of yen)

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			value	percentage
Traffic information	<b>474</b>	<b>628</b>	<b>153</b>	<b>32.3%</b>
Lifestyle	<b>272</b>	<b>342</b>	<b>69</b>	<b>25.6%</b>
E-book	<b>113</b>	<b>169</b>	<b>56</b>	<b>49.7%</b>
Overseas	<b>25</b>	<b>20</b>	<b>▲5</b>	<b>▲20.8%</b>
Games	<b>23</b>	<b>102</b>	<b>79</b>	<b>341.7%</b>
Mail	<b>298</b>	<b>256</b>	<b>▲42</b>	<b>▲14.2%</b>
Music	<b>342</b>	<b>312</b>	<b>▲29</b>	<b>▲8.7%</b>
Total	<b>1,550</b>	<b>1,831</b>	<b>280</b>	<b>18.1%</b>

# Quarterly sales trends of content service business

## ■ Growth in games and lifestyle (Quarterly comparison)



# YY sales comparison of solution business

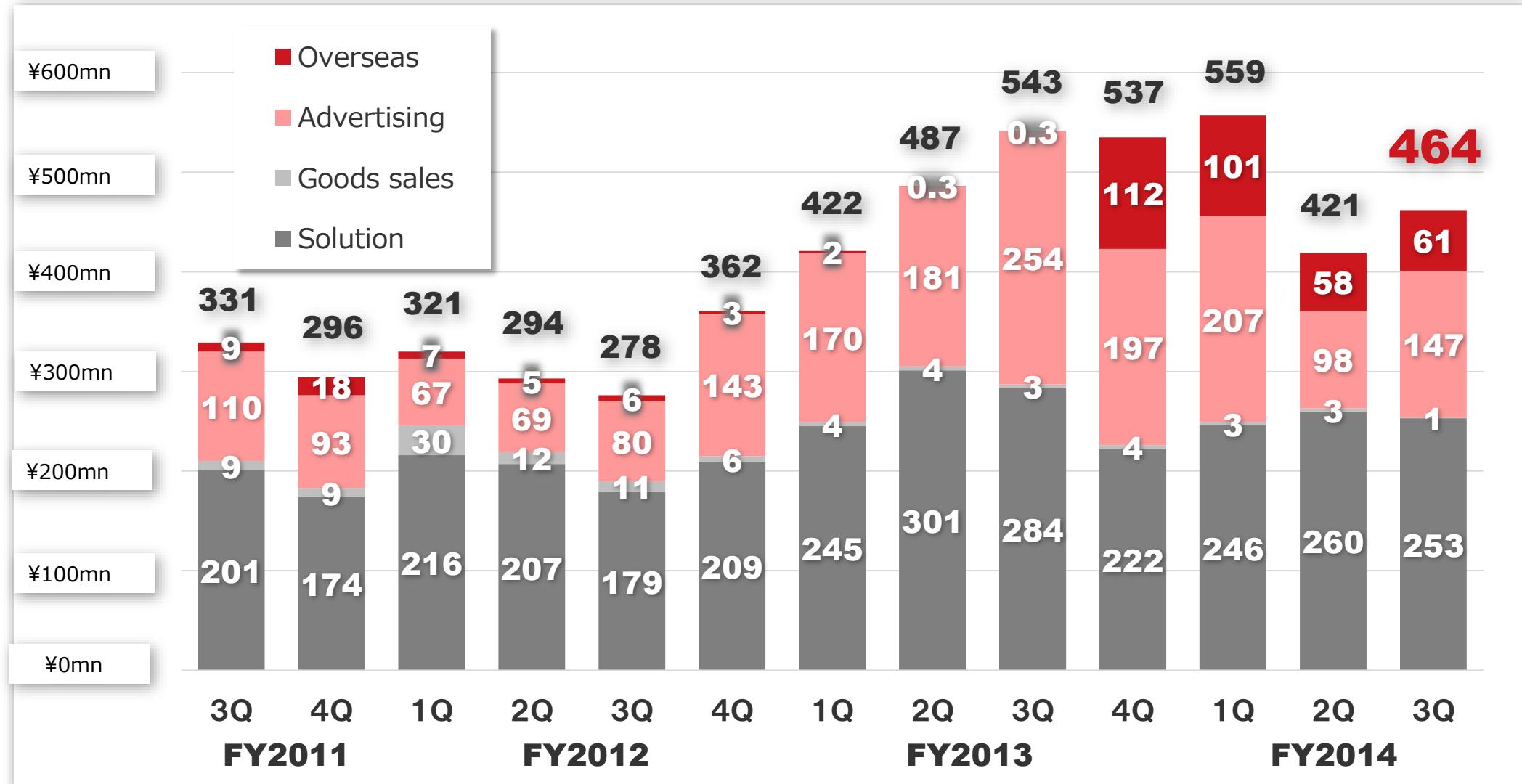
## ■ Sales of overseas (China) business grow

(million of yen)

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			value	percentage
Overseas	<b>2</b>	<b>221</b>	<b>218</b>	<b>7,730.9%</b>
Advertising	<b>606</b>	<b>454</b>	<b>▲152</b>	<b>▲25.1%</b>
Goods sales	<b>12</b>	<b>9</b>	<b>▲3</b>	<b>▲28.1%</b>
Solution	<b>831</b>	<b>760</b>	<b>▲70</b>	<b>▲8.5%</b>
Total	<b>1,453</b>	<b>1,445</b>	<b>▲7</b>	<b>▲0.5%</b>

# Quarterly sales trends of solution business

- Sales of solution business grew steadily
- Advertising business and overseas business moved to recovery



# YY CGS and SG&A comparison

## ■ Cost of sales rose due to;

- increase of advertising expenditure resulting from the aggressive investment (in content service business)
- increase of labor cost in China (e.g. for the sales clerks for mobile stores in China) (million of yen)

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			value	percentage
CGS	<b>1,623</b>	<b>1,686</b>	<b>62</b>	<b>3.9%</b>
Cost of sales margin	<b>54.0%</b>	<b>51.4%</b>	—	—

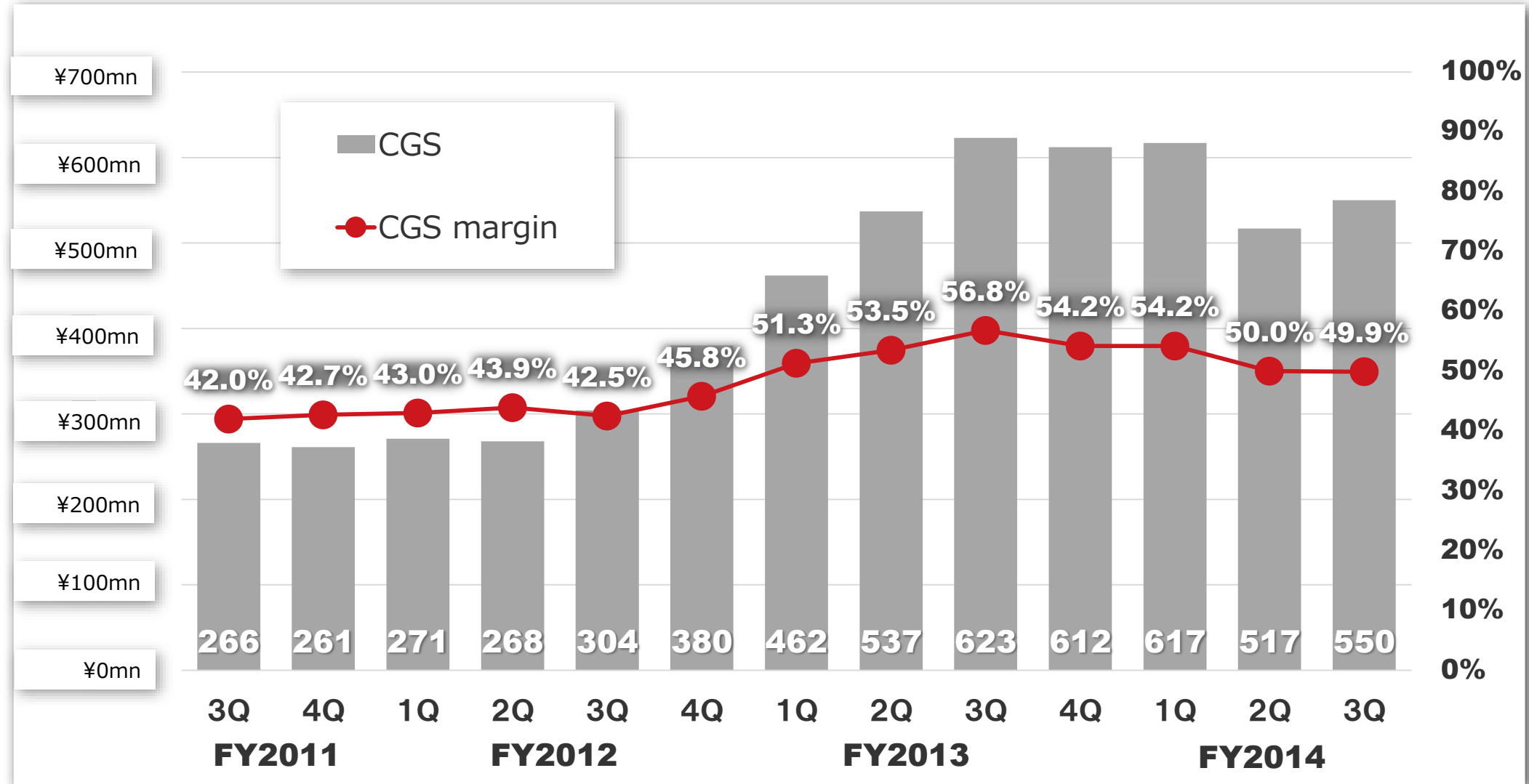
  

	1 – 3Q FY5/2013	1 – 3Q FY5/2014	YY change	
			value	percentage
(Advertising)	<b>224</b>	<b>337</b>	<b>113</b>	<b>50.4%</b>
(Others)	<b>883</b>	<b>998</b>	<b>115</b>	<b>13.0%</b>
SG&A	<b>1,107</b>	<b>1,335</b>	<b>228</b>	<b>20.6%</b>
SG&A margin	<b>36.9%</b>	<b>40.7%</b>	—	—

# Quarterly CGS trends

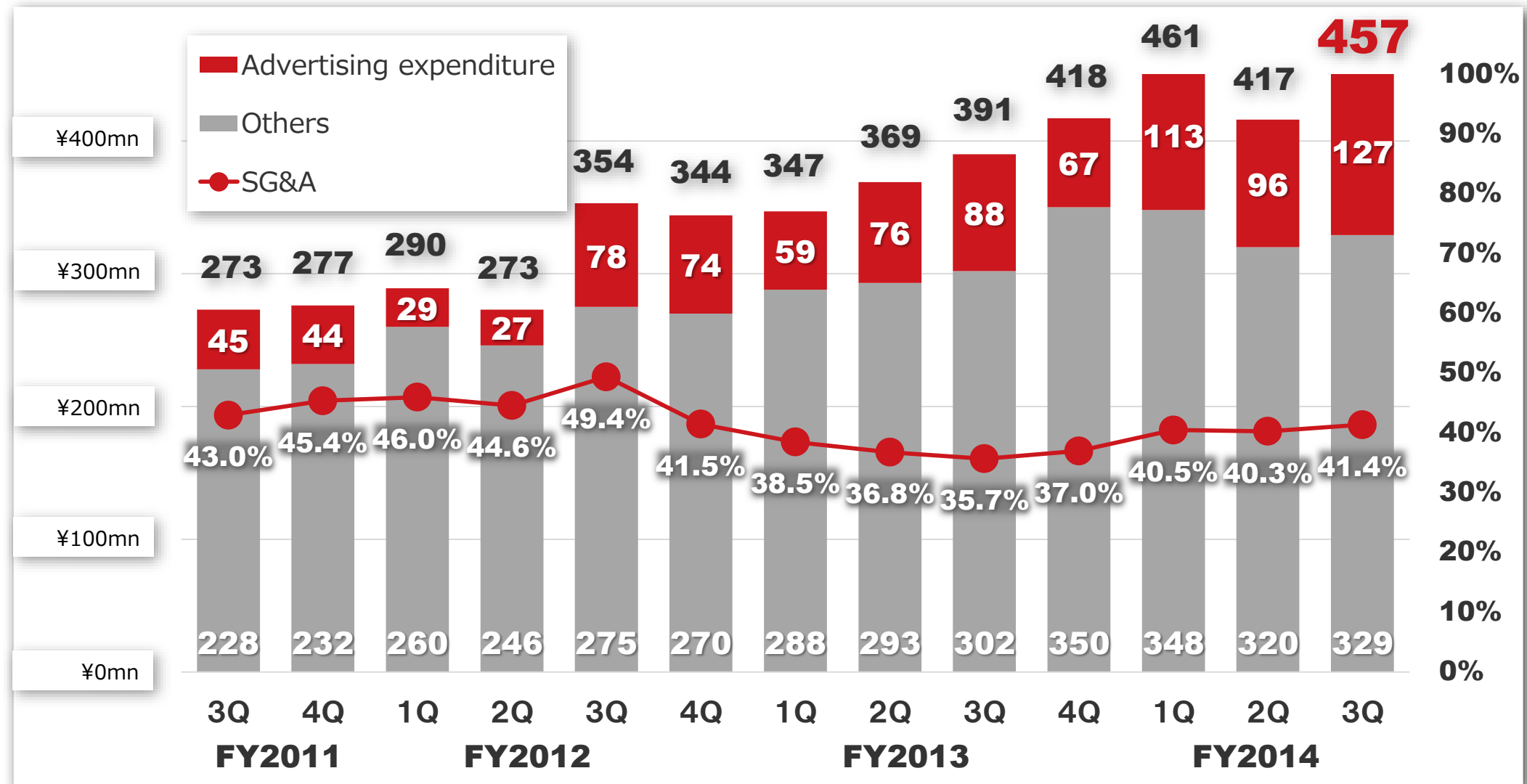
## ■ CGS margin improved

- driven by increase in sales of content service business (especially through the "carriers' flat rate services")



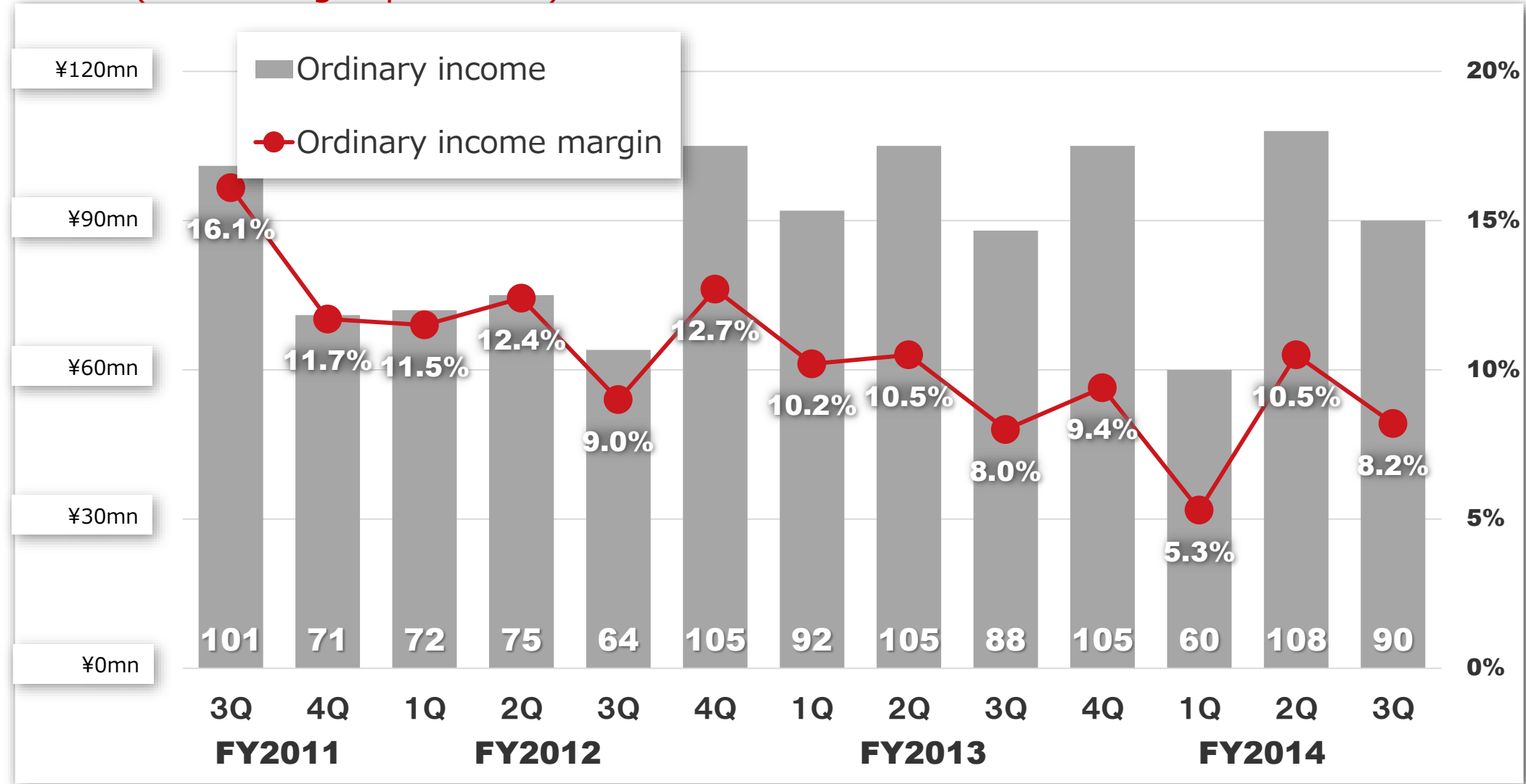
# Quarterly SG&A trends

- Conducted aggressive advertising and promotions for the growth of content service business



# Quarterly Ordinary income trends

■ Quarterly ordinary income decreased due to the aggressive investment in content service business (advertising expenditure)





**Summary of earnings results 【 3Q 】**



**Operating review 【 Domestic 】**



**Operating review 【 Overseas 】**

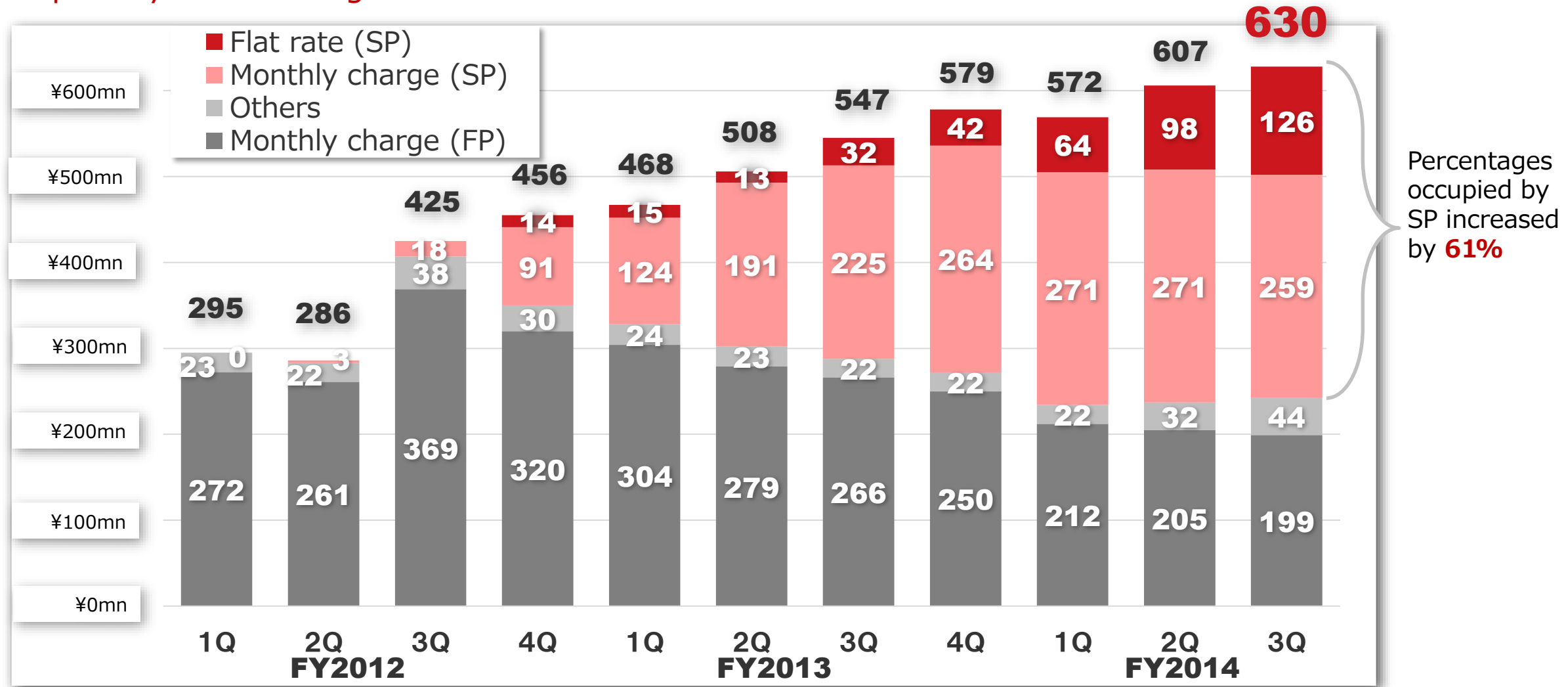


**Outlook for FY2014 【 Earnings forecasts 】**

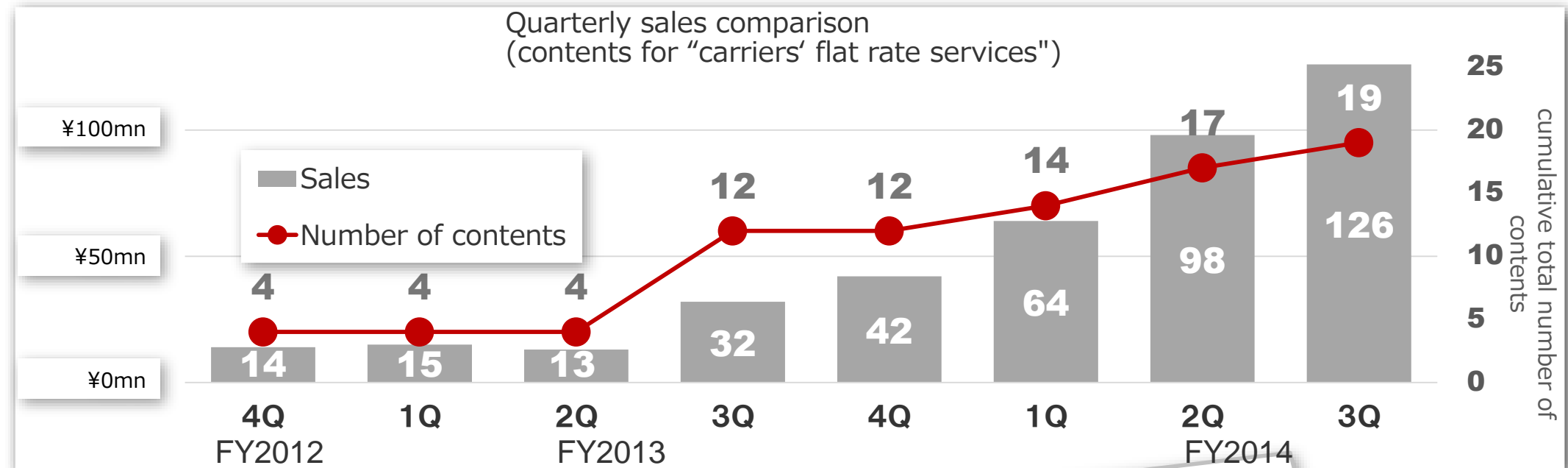
# Operating review [ Domestic ]

## Content service business (adapted for smartphone)

■ Smooth shift from feature phone to smartphone at the earliest stage  
Especially sales arising from "carriers' flat rate services" increased



- Pursued aggressive expansion of contents line-up and promotions for “carriers' flat rate services”



NTT docomo  
SUGOTOKU-Contents



Chokotto games

au Smart Pass



Natsume Yujin Cho,  
Let's hang out with Nyanko sensei

au Smart Pass



Leisure and parking lots info.

au Smart Pass



Couple note

Continuous sales growth for the 4Q arising from additional contents release and aggressive promotions

### ■ User demands for healthcare Apps increased

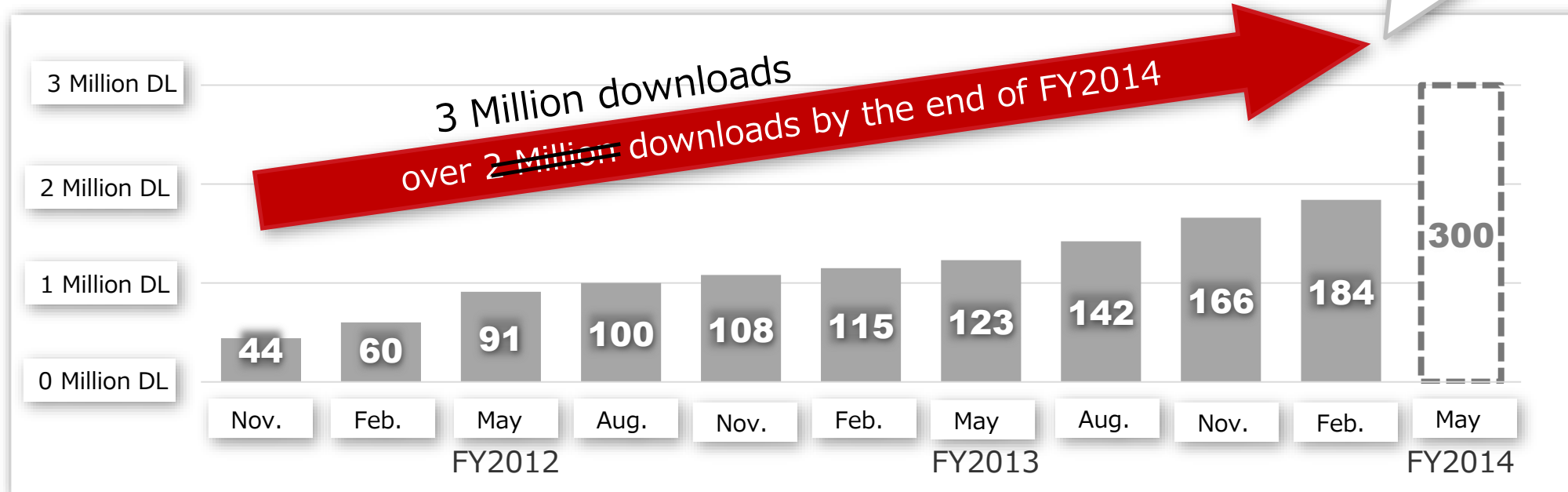
the App to support women's mental and physical health



「Women's Diary」  
(Free)



Already achieved 2 million the downloads!  
The number of downloads has been accelerated since March



### ■ User demands for messenger Apps increased

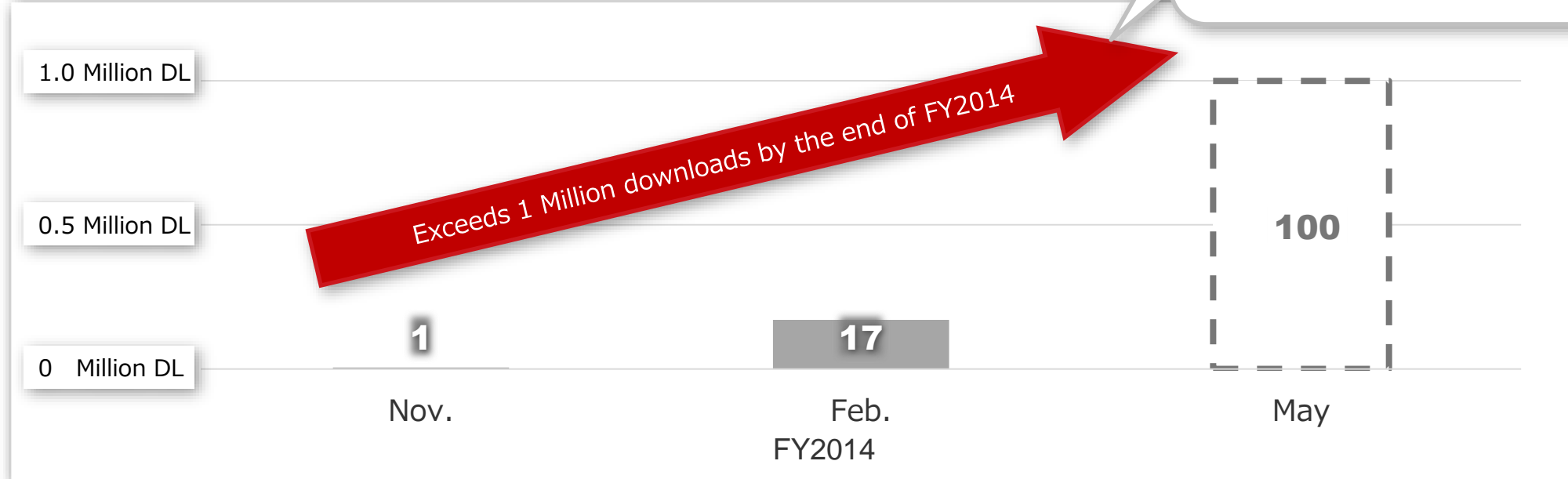


the Messenger App  
「Fivetalk」  
(Free)  
Released in Oct. 2013



the messenger App with a variety of functions such as hand drawing & greeting cards

Already achieved **2 hundred thousand** downloads!  
The number of downloads has been accelerated since March.



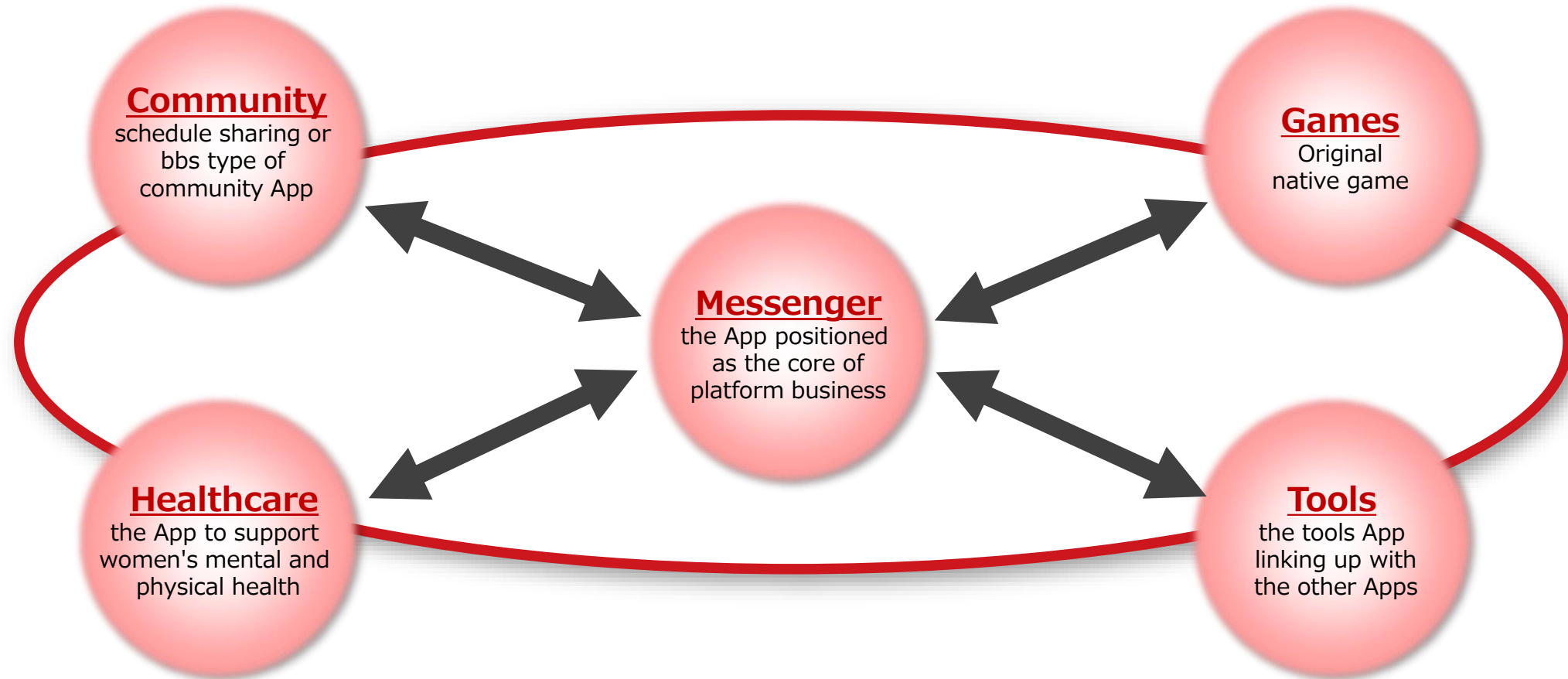
### ■ Established a subsidiary

- ( 1 ) Company name : HighLab Co.,Ltd.
- ( 2 ) Company headquarters : 1-17-8 Shibuya, Shibuya-ku Tokyo, Japa
- ( 3 ) Representative : Koichi Sugiyama (concurrently managing director of Nihon Enterprise Co.,Ltd.)
- ( 4 ) Main business : mobile contents business focusing on native Apps<sup>(\*)</sup>
- ( 5 ) Paid-in capital : 50 million yen (capital reserve:50 million yen)
- ( 6 ) Founded : 1st April 2014
- ( 7 ) Fiscal year end : 31st May
- ( 8 ) Capital ownership : 100% owned by Nihon Enterprise Co.,Ltd.



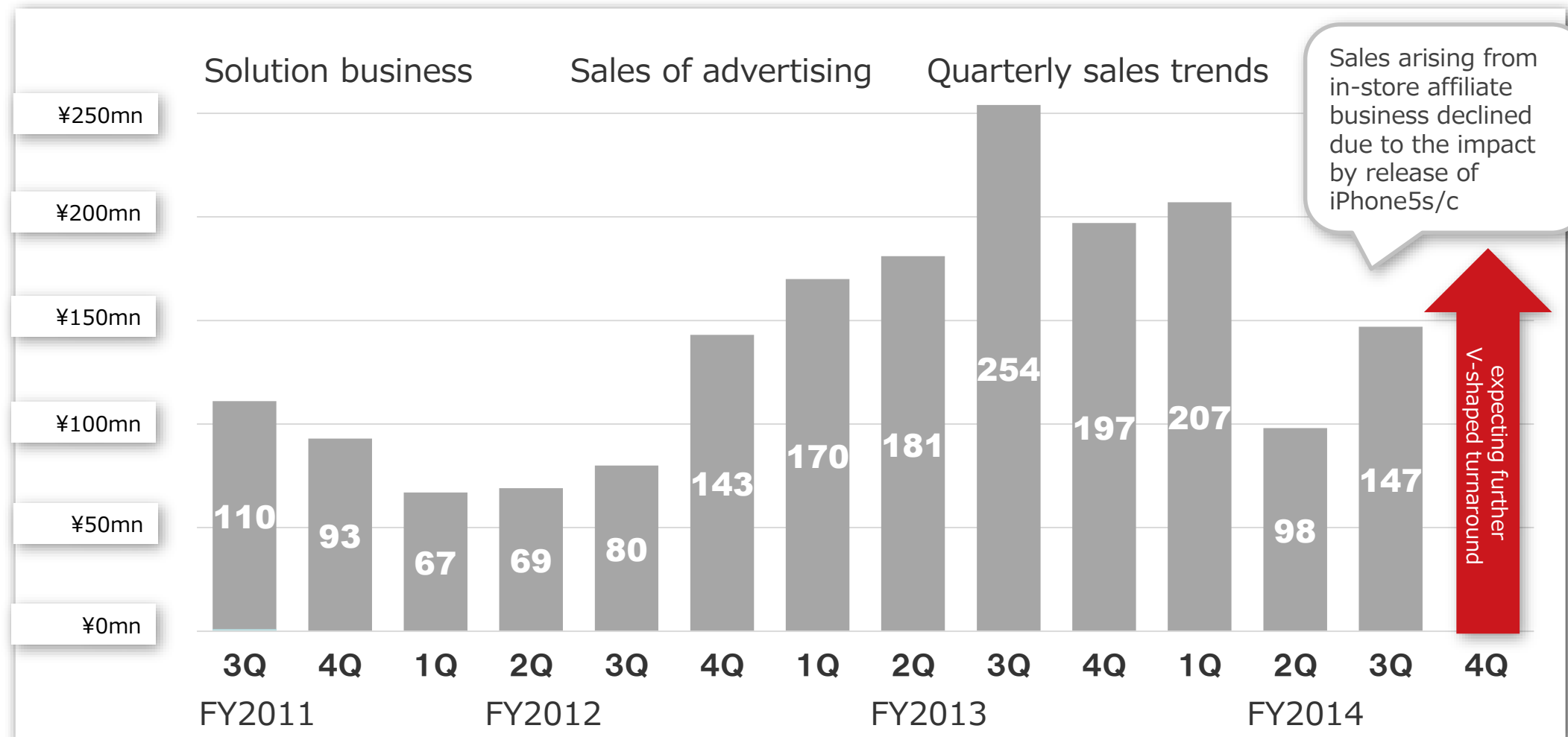
※native App means the application developed by programs running on smartphone, which can be downloaded at App markets such as AppStore and GooglePlay.

■ Business strategy



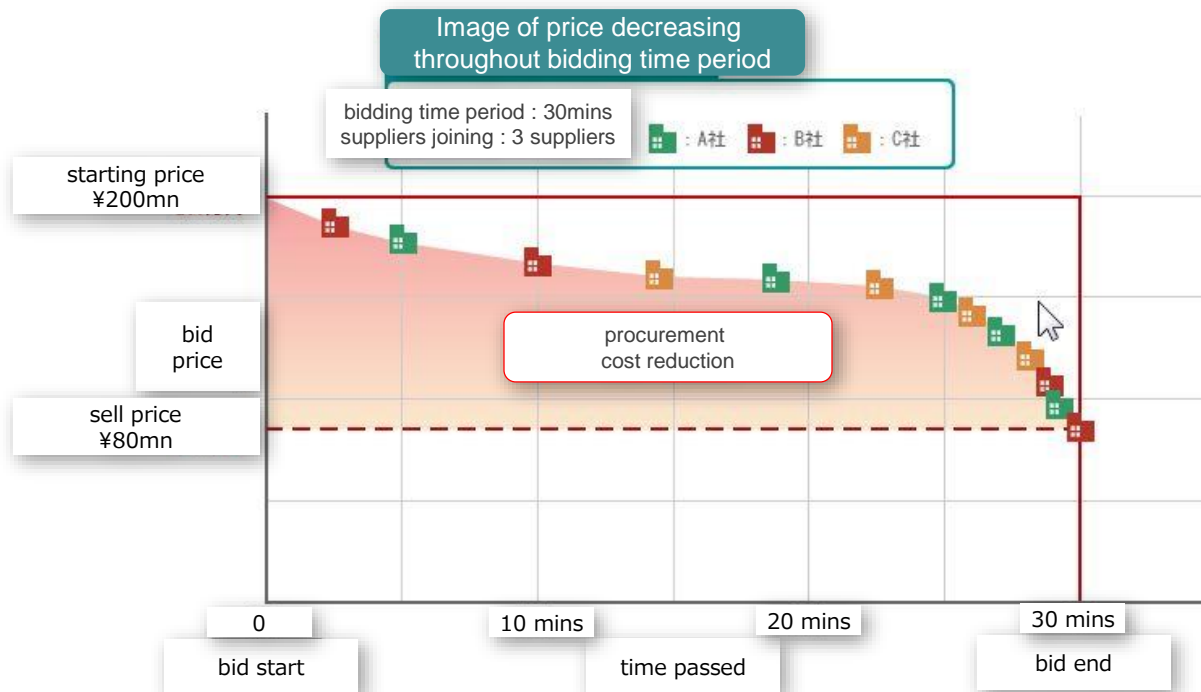
- To create smartphone games based on native application to win a big market!
- To create the worldwide contents platform originated from Japan!

### ■ In-store affiliate business had a V-shaped turnaround



Start to develop new alliance partners (mobile phone distributors) (in coming March) to increase the number of participating mobile shops

### ■ Implementations of reverse auction service expanded



※As a successful use case of Profair,  
one of our customer achieved more than  
1 billion yen of annual cost reduction

## Profair

ASP type of service  
reverse auction & quotation collection system

Customized system for utilization  
in buyers' data center

↓  
On premise (in house operation) type of service  
developed to meet buyers' demands

## Profair-SP

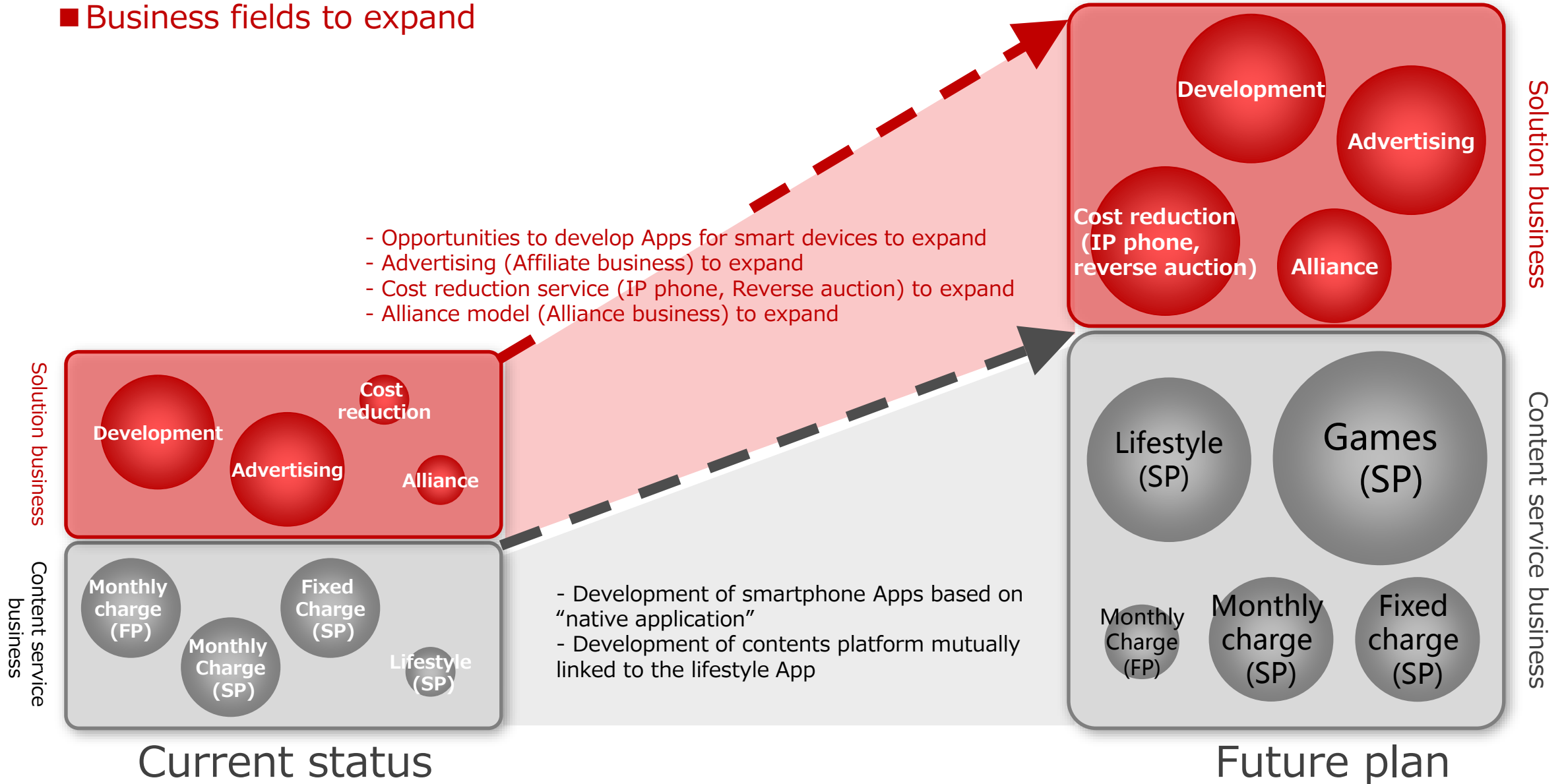
on premise type of service  
reverse auction & quote collection system

- Communication service for the corporate clients by using highly qualified softphones pursued



# Outlook 【Domestic】 - Future business plan

## ■ Business fields to expand





**Summary of earnings results 【 3Q 】**



**Operating review 【 Domestic 】**



**Operating review 【 Overseas 】**



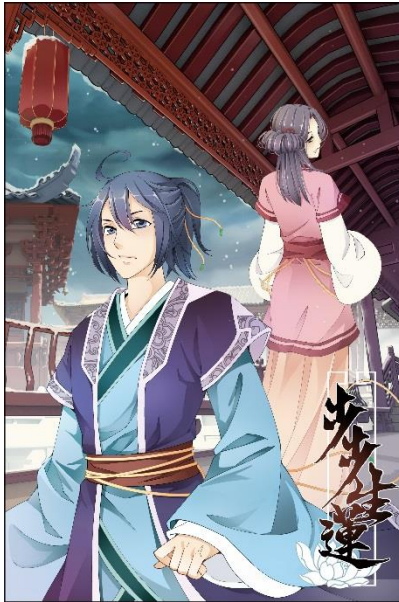
**Outlook for FY2014 【 Earnings forecasts 】**

BuBuShengLian

- New title "步步生蓮" started to publish serially in a magazine

BuBuShengLian

## The second title 「步步生蓮」



- a manga sold over 10 million copies
- will be started to publish serially in a magazine named “漫品” in Feb.

( future plan )  
Comic book to be published  
(paper book)

Digital comic to be distributed

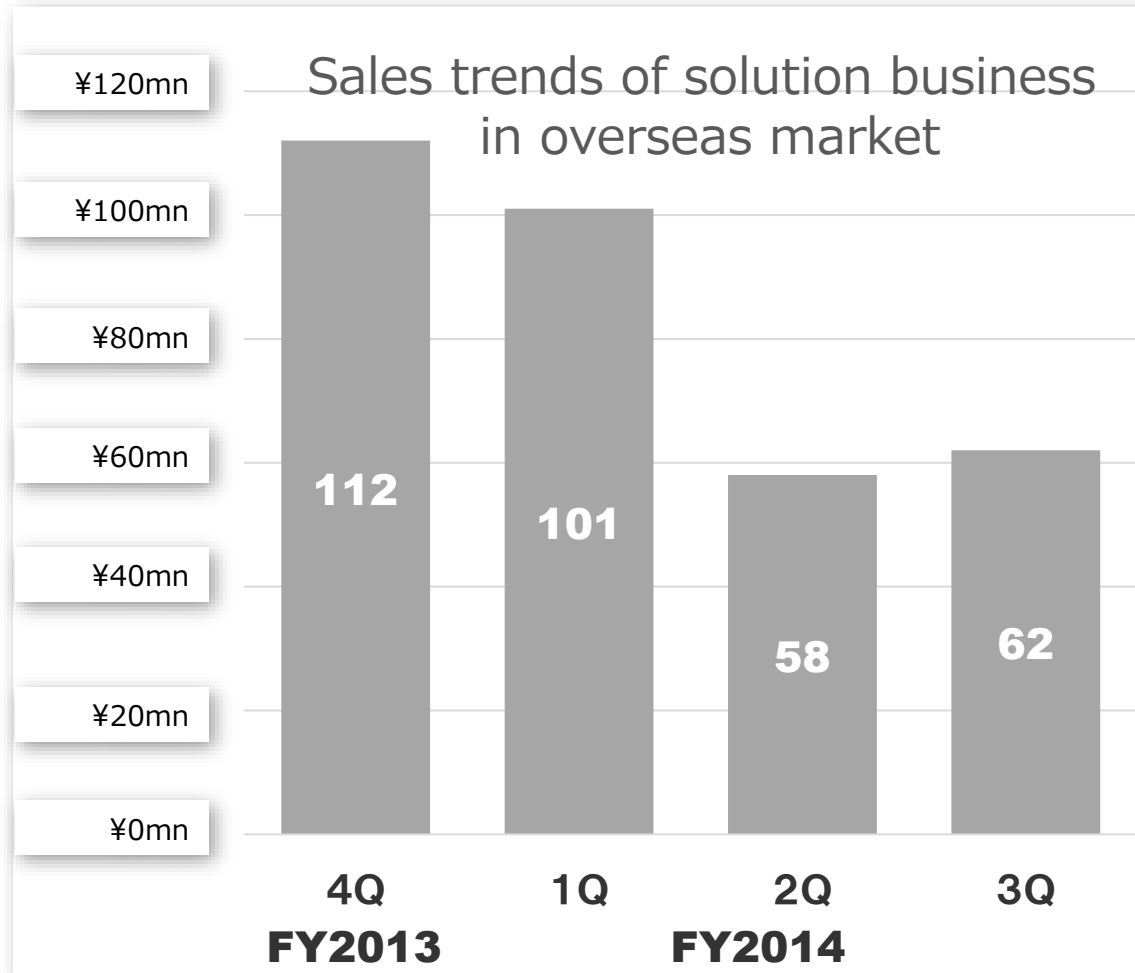


※Business model of content service business in China (digital comic)  
Popular novels in China → Publish them in form of Manga →  
Distribute them in form of digital comic

JiuDingJi

※The first title "九鼎記": has been distributed on several platforms including  
TengXunDongMan  
“騰訊動漫” (achieved 10 million views totally)

### ■ Sales of mobile phone at the mobile stores (China Telecom)



China Telecom  
東方路店  
(existing / big stores)

China Telecom  
黄金城道店  
(to be open  
in April 2013)

To increase sales and  
monetize the business

※The subsidiary in China completes its fiscal year at the end of December. The provisional accounts as of the end of March are used in the creation of the consolidated financial accounts. Necessary adjustments for any remarkable transactions occurred between this day and the consolidated accounting closing date were taken place.



**Summary of financial earnings 【 3Q 】**



**Operating review 【 Domestic 】**



**Operating review 【 Overseas 】**



**Outlook for FY2014 【 Earnings forecasts 】**

# Outlook for 2014 [ Earnings forecasts ]

## ■ Consolidated Earnings forecasts

(million of yen)

	1 – 4Q FY5/2013	1 – 4Q FY5/2014	YY change	
			value	percentage
Sales	<b>4,134</b>	<b>5,000</b>	<b>865</b>	<b>20.9%</b>
Operating Income	<b>372</b>	<b>520</b>	<b>147</b>	<b>39.7%</b>
Ordinary Income	<b>391</b>	<b>500</b>	<b>108</b>	<b>27.7%</b>
Net Income	<b>354</b>	<b>569</b>	<b>214</b>	<b>60.3%</b>

Forecast for dividends per share:2 yen ※  
On 1st Dec, 2013 the company conducted  
a 100-for-1 stock split of share

# **Nihon Enterprise group promises to bring happiness and touched experience to all the customers through our content service business**

Statements made in this presentation with respect to Nihon Enterprise's current plans, estimates, strategies and other information which is not historical data are forward-looking statements about the future business performance. These future business performance are based upon our sales activities and business operations, various occurrences and conditions which include "conviction," "expectations," "plans," "strategies," "outlook," "forecasts," and "possibilities" but are not limited to these factors. They may also include information regarding forecasts communicated both verbally and in written form, and published widely in other forms of media. These statements are based upon the decisions of management using the most through information available at the time of their creation. And because our actual earnings results may differ largely from our earnings estimates due to various important factors, we strongly recommend that viewers of this document should not rely solely upon this document and seek out other available sources of information in assessing our Company.

\* This document is a translation of Japanese original. In case of that there is any discrepancy between Japanese original and this document, the Japanese original is assumed to be correct.