

Financial Result Presentation for FY2014 1Q

Summary of the main questions and answers

Here is a summary of the main questions and answers given at the financial result presentation for FY2014 1Q, held on February 7, 2014.

Q1. Earnings forecast for the first half has been revised, but why does the forecast for the full business year remain unchanged?

A1. The full year forecast requires establishing such factors as activity in the peak period of selling season (March), market activity from the third quarter onward, and the state of operations; therefore, the initial forecast has been left as is at this stage.

Q2. Will all categories of MTI services be included in the integration of the company's main download services? What is behind the timing chosen for this move?

A2. MTI is considering the integration of popular services for the smartphone: music, movies, and e-books. Smartphone use now exceeds 50% of the population. The late majority is the next sector to change from feature phones to smartphones, so MTI's service target will also shift to this late majority. And in order to appeal to it, the services provided must, above all else, be easily understood and considered worth using. Furthermore, at the beginning of this year the publishing industry suddenly abandoned its cautiousness regarding the digitizing of books, and an increase in the number of contract publishers has seen a subsequent increase in the array and number of novels now on offer. So it was against this background that the integration of the main download services is to be undertaken.

Q3. What is the current state regarding upcoming sales of the cancer gene testing kit?

A3. Cancer gene information must be approached with the utmost care, so we are at the stage of procuring information from a wide range of sources and carefully studying it. As the first step, we are moving forward with preparatory in-house testing in preparation for the eventual service launch.

Q4. Streaming services are seeing growth overseas, so what is the current state of MTI's streaming service?

A4. The music industry in Japan is maintaining a very cautious stance in regard to streaming, so getting permission from labels to stream J-pop is unlikely. MTI has put a temporary stop to its streaming service, and is currently working on re-launching it as a radio-style service streaming pre-selected musical programs.

Q5. For the number of paying subscribers for smartphone services, the number of iPhone users has increased since the end of the last period. Will this impact negatively on MTI?

A5. Compared to the iPhone, Android has, for the time being, been losing share in the wake of NTT's September 2013 launch of its iPhone service. However, this does not mean that increasing the number of paying subscribers for smartphone services has become difficult; so we do not believe the iPhone is having a negative impact.

Q6. In the case of members signing up at cellphone shops, does MTI have any control over the proportion of content that comes from itself and from other providers?

A6. MTI limits the degree of control it exercises in this regard in view of client preferences.

Q7. Has MTI considered acquiring exclusive e-book distribution rights for famous authors' works?

A7. Our e-book line-up comprises works whose rights were acquired directly from the author or by way of the publishing company. The publishing industry suddenly abandoned its cautiousness regarding the digitizing of books, so we have recently been bolstering our line-up by going through the publishing companies. However, from here on in we plan to differentiate ourselves by focusing on obtaining exclusive distribution rights to famous individual authors' works.

Q8. How are you planning to appeal to customers with the integration of the main download services?

A8. The target sector for our services will shift to the late majority, so it is absolutely essential that the services provided be easily understandable and considered worth using. Specifically, we must offer content that people are already acquainted with, feel familiar with, and trust; and the content offered must be matched to the various regional needs.

Q9. A number of carriers impose self-restrictions on providing customers with content at cellphone shops. What impact do you see this having on MTI in the medium to long term?

A9. This prohibition is aimed at cellphone shops that try to force customers into signing up to content services, and will have the effect of reducing the number of such shops. As a result, unscrupulous sales practices will also be reduced, meaning that the impact on the numbers of paying subscribers will be limited. Furthermore, there is no sign that other carriers are considering imposing such restrictions on cellphone shops.

Q10. What categories do real affiliates get the most inquiries about?

A10. Most inquiries are regarding music, movies and e-books.

Q11. What is the outlook for March selling season?

A11. It looks likely to be on a smaller scale than March last year, but in the context of the full year, it will be the most active period. Moreover, the peak in sales of new devices can be expected to continue in April onward.

Q12. What is happening with *mopita*?

A12. The number of IDs is steadily growing. In the future, we will be testing measures with the aim of consolidating our business model.

Q13. What are the quarterly trends in results for the real affiliate business?

A13. We are planning a quarterly increase in real affiliate sales of 300 millions of yen starting October 2014. Sales in the first quarter were 90% of the target but look set to grow according to plan from the second quarter.

Q14. What are the projected advertising expenses for the second quarter that includes selling season?

A14. March isn't expected to see the same level of activity last March, but we are definitely looking at bigger expenses than for the first quarter.

Q15. How big is the paying subscribers for the e-book service?

A15. There are about 600,000 paying subscribers to the e-book service, including comics.