

Financial Result Presentation for FY2014 Q3

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 Q3, held on August 8, 2014.

Q1. What is your vision regarding income in FY2015 and FY2016?

A1. We are still developing our budgets, but in terms of our vision, we would like to achieve operating income of more than 3.0 billion yen in FY2015. As for FY2016, we would like to achieve income exceeding 3.7 billion yen, which is the highest-ever income that we posted in FY2011.

Q2. It will initially cost money to increase the number of paying subscribers to content from MTI itself. Do you expect that income through the non-virtual affiliate business will increase, while income from your own content will remain flat?

A2. While we are increasing the number of paying subscribers to our own content, income will decline in the short term due to an increase in advertising expenses. When the number of such subscribers has increased, however, we will start to post income from them. In other words, our own content will start contributing to income later than the non-virtual affiliate business, so we expect it to start contributing to income in FY2016 or later. Speaking from a short-term point of view, or around FY2015, we will increase our overall income by expanding the non-virtual affiliate business, reducing deficits from new businesses, and optimizing costs continuously.

Q3. With regard to expansion to local regions through the establishment of sales offices, are there any competitors who already operate a non-virtual affiliate business? How much competition risk does the business involve?

A3. We are adjusting the ratio between our own content and content from other providers to some extent in consideration of income. In the long run, our own content will make a greater contribution to income than content from the third parties. However, if the ratio of content from other providers is too low, regional enterprises will enter the competition. We are therefore making moderate adjustments. With regard to dealers affiliated with trading companies, we will struggle somewhat. For the time being, however, we believe it is important to cover cellphone shops we have yet to visit and provide a sufficient level of support, because there are many such shops. If cellphone shops conclude contracts with us, they will develop expertise in the introduction of content, and as a result, the rate of withdrawal will decline. This is highly beneficial for cellphone shops too, so we believe it will enable us to differentiate ourselves sufficiently from our competitors.

Q4. How much demand is there from clients, such as content providers? Will the demand become greater as you increase the number of sales offices?

A4. There is currently a lot of demand. We believe that there is sufficient demand because some large-scale clients consume their budgets earlier than planned, and in such cases, the subsequent budgets are increased.

Q5. What is your vision regarding the number of paying subscribers for smartphone services as of the end of September 2014?

A5. We expect the number to be between 7.9 million and 8.0 million as of the end of September 2014. With regard to the number as of the end of September 2015, we will consider the forecast in light of the sales trends for smartphones, the shop operation rate, and the status of the improvement of the subscriber rate.

Q6. How many paying subscribers are there for the e-book service?

A6. The total number of paying subscribers is slightly below 800,000. The number of those for smartphone services is slightly over 700,000. The vast majority of paying subscribers for the e-book

service are those for smartphone services.

Q7. How many people work in the sales offices that were newly established? Will you continue to increase their number?

A7. A total of around 130 people, including back office personnel, work there. We divide the contracted cellphone shops into groups based on their aggressiveness in promoting subscriptions to content. Among them, we mainly approach those that are highly aggressive in terms of promotion. We have yet to visit all of them, so we believe it is worthwhile to continue approaching them. Concerning the withdrawal rate, which worsened in reaction to the cash back campaign in March, we implemented an improvement measure in April. As a result, we were able to improve the rate significantly. Considering this effect, we believe that a further increase in personnel will be effective.

Q8. What was the extraordinary loss?

A8. We posted an extraordinary loss of 250 million yen for the third quarter. This includes 150 million yen from the retirement of software assets. We are planning to optimize costs, review new businesses, and cancel services, and we retired the software as part of these objectives. The remaining 100 million yen is from the sale of Playground Publishing Holdings B.V., a consolidated subsidiary in Europe, in MBO in April. These are temporary losses, so we believe that the amount of extraordinary loss to be posted for the fourth quarter onward will be smaller.

Q9. What are the proportions of content from MTI itself and content from other providers? When do they contribute to income?

A9. We will continue to keep their proportions almost equal. Accordingly, if the number of new members via non-virtual affiliates increases, both types of content will increase at the same rate. Content from other providers is reflected in income step by step, so income from it increases linearly as the number of new members increases. For our own content, the costs are the advance investments we make, but the income increases in the medium term as the number of paying subscribers increases.