

Financial Results Presentation for FY2016

Summary of the main questions and answers

Q1: Do you expect to see a continued drop in the number of paying subscribers and in non-virtual affiliate (RAF) advertising sales despite further promotion in business collaborations with MVNOs (*Note)?

A1: We believe that the number of new subscribers acquired by the three cellphone carriers has bottomed out. Given that the sales promotional activities for content were launched by MVNOs only recently, the number of subscribers will start to rise as our operations get underway in cellphone stores. At present, FREETEL (Operator: Plus One Marketing Ltd.) generates the largest number of subscribers by far. We believe that there is potential for growth in subscriber acquisitions through the efforts with MVNOs.

(*Note): MVNO is Mobile Virtual Network Operator, meaning a wireless communications services provider that provides PHS or cellphone services under its own brand name without owning the wireless network infrastructure.

Q2: Does the collaboration with Seishu Link in Wakayama Prefecture (Kinokuni medical corporation network) have any relevance to the capital alliance with Medipal Holdings Corporation?

A2: The collaboration with Seishu Link represents the unique nature of our initiatives. Another collaboration of a similar nature is currently underway with the Medical Association of Naha City, Okinawa. We have been developing the alliance with Medipal Holdings Corporation under its sales and other support related to the electronic maternal and child health handbook as well as the electronic medication record book services.

Q3: It appears that it is difficult for you to sell content to your customers who visit cellphone stores for the purpose of purchasing budget smartphones provided by MVNOs because your customers are largely price conscious. What do you make of this?

A3: It is true that many of our customers visit cellphone stores solely to purchase budget smartphones, but an increasing number of customers are signing up for our content services because the use of budget smartphones has become quite popular among customers.

Q4: As part of your initiatives to raise average revenue per user (ARPU), do you try to persuade your customers to sign up for the ¥300/month plan at the time of the

cellphone purchase in the expectation of user upgrades to high-billing content services?

A4: Many of our customers choose to sign up for high-billing content services upfront when they are offered the service menu by sales clerks in cellphone stores. When it comes to “music.jp,” in particular, there are multiple billing categories, including ¥400/month, ¥500/month, and ¥1,000/month. As a result, it is often up to the cellphone store’s marketing policy or the individual sales clerks’ marketing skills to determine which billing plan should be recommended to the customer. We always try to ensure that the upsell efforts will not lead to a higher withdrawal rate or shorten the service lifetime.

Q5: Unlike the web-based business, the healthcare business requires marketing techniques based on a physical or non-virtual approach. Do you plan to reassign human resources from content promotion to the healthcare service? Or would you prefer to hire extra staff for the healthcare service? Do you expect to see an increase in personnel costs as a result?

A5: When it comes to conducting marketing activities to attract cellphone stores, we have an adequate level of human resources to meet the requirements for the healthcare service in view of the current competitive situation, which has become less intense than in the past. We provide the assigned staff with training opportunities to develop their specialist expertise so that they will be successful with corporate sales activities for the CARADA Checkup packaged service, sport management service, and electronic medicine notebook service. This suggests that there will be no significant increase in labor costs, as we do not hire extra resources for the service.

Q6: Looking at the outlook for the fiscal year ending September 30, 2017, the decline in profit will be even more significant than it in sales. This could be interpreted as reflecting the President’s strong determination to take on a heavy investment burden related to the healthcare business during the year. How long do you think the investment phase will last?

A6: We have seen a significant increase in R&D expenses related to the healthcare service business because a range of new services are being developed one after another that were not offered within the framework of conventional smartphone services. We expect that the investment activities related to the service development will continue in FY2017 and FY2018.

During the transition phase from feature phones to smart phones, we launched our development activities from scratch for the smartphone service. As a result, we had to make a considerable investment related to service development over a few years. The level of investment has leveled off recently for the development

activities related to the smartphone service, and our investment activities are limited to maintenance services and some upgrading service operations. The same is true for investment activities regarding the healthcare service business.

Q7: Steps to achieve growth in orders for the CARADA Checkup packaged service would require the further enhancement of the RAF network in regional areas. Could you elaborate on the current situation with regard to this?

A7: The CARADA Checkup packaged service was initially developed as a packaged service product for corporate customers ranked medium or lower in terms of business size. Given this background, we expected that focusing on corporate customers would be an effective marketing strategy through the regional channels of distributors during the early period of the previous fiscal year when we started full-fledged sales activities. During the course of the sales activities, however, we have realized that we can even receive orders directly from big corporate customers without relying on the sales channels owned by regional distributors. We therefore believe that we will be able to achieve further growth in order inflows on the strength of the distributor channels as well as our own marketing efforts.

Q8: Some Companies purchase other manufacturers' mobile games that have become obsolete in the last stage of the product life cycle and relaunches them in the market. Could you comment on your policy of purchasing obsolete products for sale?

A8: We actually receive inquiries regarding such proposals for sale from time to time. We are going to take active steps regarding this business while closely examining the terms and conditions of individual deals.