

Financial Results Presentation for Q2 FY2018
Summary of the main questions and answers

Q1. Video Market Corporation became a consolidated subsidiary in March 2017. What contribution did it make to the financial results for the first half?

A1. Its net sales for the first half amounted to 1.35 billion yen, and operating loss was 0.22 billion yen.

Q2. What is the sales figure of the healthcare-related services business?

A2. If healthcare-related services business is defined as the new business excluding the monthly paying services of Luna-Luna and KARADAmédica, the sales are around several hundred million yen.

Q3. Video Market Corporation made a loss, although it had made some profit before it became a consolidated subsidiary. Does that mean it is making an upfront investment?

A3. Yes, it does.

Q4. The number of subscribers to existing monthly paying services is on a downward trend, while ARPU continues to rise. This increase is due to the reorganization of Video Market Corporation into a consolidated subsidiary. Will the upward trend continue in the second half?

A4. The upward trend of ARPU will continue to increase. It rose sharply from Q2 to Q3 because Video Market Corporation became a consolidated subsidiary. The upward trend thereafter is due chiefly to the fact that music.jp continued to gain high-unit-priced subscribers.

Q5. What is the estimated number of subscribers at the end of the fiscal year?

A5. At the beginning of the fiscal year, we forecast that we would have 6 million subscribers at the end of fiscal year, but we revised it to 5.7 million in consideration of the current trend. We saw subscriber numbers shrink by 0.4 million during the first six months of the fiscal year, and we foresee that they will decrease at the same pace in the second half as well.

Q6. Roughly when do you think the downward trend of paying subscribers will stop?

A6. We assume that it will come to an end sometime, but we forecast that this trend will continue for some time to come.

Q7. What will your timetable look like in connection with the possible discontinuation of mobile carriers' services for feature phones in the near future?

A7. The timing of the discontinuation of services is likely to vary from carrier to carrier, but we anticipate that they will close down gradually over the next couple of years. Accordingly, the number of subscribers to our paid services for the feature phone platform will gradually diminish and then fall sharply at the time of discontinuation.

Q8. I believe that you have not spent any money to advertise your existing pay services for feature phones because these services now obtain few new subscribers. I suppose that the negative impacts of the future possible loss of these paying subscribers on profits may not be small. How do you feel about that?

A8. The loss of paying subscribers to services on feature phones will have a negative impact on our financial results, but we think that the impact will be limited given that the service fees are low. The majority of services for feature phones are in the low price range, such as the dictionary and the weather forecast information at 100 yen per month and *Luna-Luna* at 180 yen. On the other hand, content services for smartphones are priced at 400 yen and more per month.

Q9. With respect to the financial results for the first half, profits in particular exceeded the projected levels. However, the earnings forecast for the second half was kept on hold. Will the gap between the results and the forecast for the first half be appropriated to new investment?

A9. We have not changed the forecast operating income figure in the full-year consolidated earnings forecast. We will continue to invest in the healthcare-related services business. In association with Clinical Platform Inc., which became a consolidated subsidiary in this last March, we anticipate that goodwill amortization will take place and that the subsidiary will make a loss. In addition, the cost of sales was forecast to be 6.4 billion yen on a full-year basis at the beginning of fiscal year, and it is now 6.6 billion yen. Meanwhile, advertising expenses may be lower than budgeted. In consideration of all these matters, the full-year earnings forecast was kept on hold.

Q10. What are the scale and the period of investment in the healthcare-related services business for the fiscal year ending September 2019 and later years?

A10. We will be basically continuing to invest in the healthcare-related services business. Around 2012, we had to independently develop the mechanisms of ID management, billing and others at the time of the transition from feature phones to smartphones because existing mobile carriers did not offer them. As a result, planning, development, labor and other expenses soared. These expenses stopped rising in 2014, and no new investment was required in 2015. Expenses were incurred solely for improvements. The same occurs in the healthcare-related services business. Now we need to develop special things that we have

never developed before, such as the management and integration of IDs for different healthcare-related services business and linkage with external services and systems and between different user IDs. We do not believe that the phase of the development of these solutions will end within the current fiscal year, but that it will last until around the end of the next fiscal year. In the meantime, it is necessary to improve the efficiency of operating expenses. In the phase during the next fiscal year, our investment will continue while operating efficiency will increase.

Q11. I assume that the number of paying subscribers includes subscribers to the music.jp music services. What is the trend of music.jp subscriber numbers? Is there any impact of other companies offering streaming services?

A11. The number of paying subscribers to music.jp is decreasing: 2.64 million at the end of March 2017 and 2.32 million at the end of March 2018. On the other hand, ARPU was on the increase because music.jp gained paying subscribers to services costing them 1,000 yen or 2,000 yen per month, and consequently, sales have not fallen. On music.jp, users can enjoy not only music but also videos, books and comics. These days, an increasing number of users enjoy video content. We believe that this suggests that the value of the music.jp content services to users is shifting to video. It is possible that music.jp will succeed in capturing users wishing to view new movie titles because it offers an extensive array of new movie titles.