



Q4 FYE12/2016 Results Presentation – Q&A

The following is a summary of questions asked by attendees at the earnings presentation to investors held on February 6th, 2017. The questions are answered by Group CEO & Founder, Masatoshi Kumagai and CFO, Masahi Yasuda.

[Q1] For the online advertising segment, you talked about “new proprietary products,” but could you elaborate on those?

[A1] The online advertising market is quite volatile, so our main goal is to provide the necessary services with our in-house products.

[Q2] Since the beginning of the second quarter, the profit in Online Advertising has been improving steadily, but what’s the current outlook?

[A2] We’ve been producing more in-house products and sales are going well, so we’re on the road to recovery, but there has also been a slowdown in progress for our legacy products, so the overall growth rate seems less.

However, our organizational and product strength is much greater than it was in 2014 and 2015, and we believe that we’ll return to a constant trend of growth after our current products make a recovery.

[Q3] For Mobile Entertainment, can you share more about the current release schedule and the costs involved, including for promotions?

[A3] We are currently working on 2-3 releases, and expect the segment to be profitable in the second half of the year. I’d like to think more about promotions after seeing the KPIs.

[Q4] What’s the budget like for .shop promotions?

[A4] Profit and loss for .shop is flat, and we’re planning to take the revenue and reinvest it, which would make the investment in the range of a few hundred million yen, I suppose. In each country there are strong market leaders and we plan to grow registrations by partnering on advertising and promotion with these companies. We don’t plan on doing television commercials and other large scale promotions.

[Q5] As for the operating profit guidance for this term, how should we look at it on the segment level?

[A5] We don’t disclose data at the segment level, so I’ll answer with figures based roughly on those released by our listed group companies.

For Internet Infrastructure, there was an overall gain of 1.2 billion yen across our

listed group companies, and Online Advertising & Media saw an increase of 200 million yen. When you include unlisted companies related to these two segments, the total comes to around 2 billion yen.

We continue to maintain a conservative outlook on Online Securities and Mobile Entertainment, and there is currently no upside expected in the Incubation segment.

【Q6】 You said you'd like to invest more in .shop, but how many registrations are you aiming to have a year from now?

【A6】 I think we will be able to understand what sort of volume we can expect after the end of the Chinese New Year holiday, and I think that volume can still grow. It depends on marketing, but I would say to expect a range of 200-400 thousand domain registrations by the end of the year.

【Q7】 Were there any shifts in figures for .shop over the month January?

【A7】 Beginning domain sales in China on January 11th has had a huge impact. We're also testing out marketing in several other locations worldwide, so I think that will add to the momentum as well. I think once we get things rolling, sales will begin to pick up and become somewhat automated.

【Q8】 You said you're planning to invest a few hundred million yen in .shop, but I would think that it would be worth investing 1 or 2 billion yen in the business of you could acquire new registrations – what do you think?

【A8】 Since we're operating as a wholesale business, I think our options are limited. However, if local registrars do .shop promotions, there is a possibility we could collaborate.

We're thinking now about how to get a return on investments in advertising, so we'd like to decide the scale of investment after monitoring KPIs a little longer. Right now we are looking at a level of investment that we are able to recover within 1-2 years.

【Q9】 The Advertising and Media segments seemed like they were making a recovery, but how should we view the recent slump in your legacy products along with the increase of proprietary products?

【A9】 We believe our new in-house products will provide a slight return. The slump of our legacy products is not expected to continue, and we expect them to make a full recovery.

【Q10】 For the Online Securities segment, last year there were Brexit and the American

presidential election, with some of Trump's remarks affecting exchange rates, but have those factors influenced your financial results?

[A10] When there are large changes in exchanges rates, revenue can go in a good direction as well as in a not so good one. Because the rate given to customers is fixed, the spreading ability of the banks covering them fluctuates, and can in some cases lead to negative spreads.

Trade between the US Dollar and Japanese yen has been greatly affected by Trump's statements, and the shares related to that trading volume have increased. However, the dollar/yen combination is also a marketing commodity, and has a low profit margin, so the effect on our figures is minimal.

That being said, we have monthly trades of over 100 trillion yen going on, so I'd like to take a hold of this opportunity to reap a revenue through data analysis and accelerating our current systems.
