

Nihon Enterprise Co., Ltd.

Q2 2016 ending May



Quarterly Earnings Summary

(From 1st June 2015 to 30th November 2015)

12th January 2016

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Overview of Earnings Summary

(Q2 FY2016)

1 Overview of Earnings Summary

Highlights

Consolidated Summary

S a l e s : 2,547M_{Nyen}

Y o Y : 1.3%up

**Ordinary
p r o f i t : 52M_{Nyen}**

Y o Y : 24.9%down

Contents Service Segment

Traffic Info.

Acquired over 200 thousand paid subscribers owing to successful joint promotion with mobile phone distributors

Entertainment

Strong performance in “Chokotto game” keeping top ranking at NTT “Sugotoku Contents”

Lifestyle

- Expanded genre centering around “Women’s Diary” (intellectual education and pet)**
- Purchased assets of flea market App “Dealing”**

Solution Segment

Solution

- Good performance in distributed processing server integration and debug service for game Apps**
- Carried on regional revitalization projects (Incl. countermeasures against low birth rate and tourism) and joint R&D (Incl. renewable energy and AI) with enterprise and univ.**

Advertising

Remained steady owing to tighten alliance with mobile phone distributors and procurement of attractive contents

Overseas

In China number of mobile phones sold kept higher standard by strengthening sales to enterprises

1 Overview of Earnings Summary

Consolidated PL

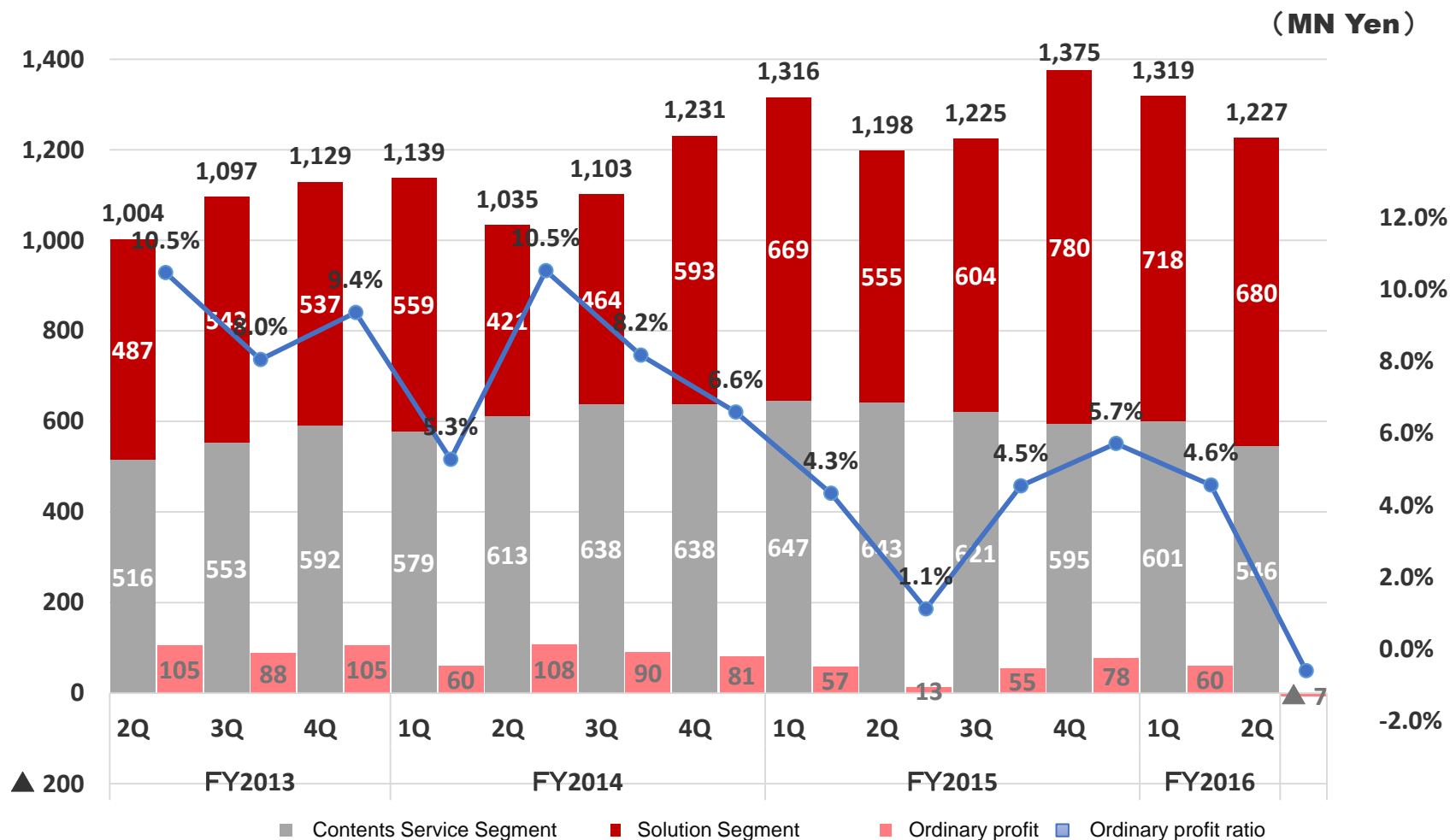
(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	Difference	Growth rate
Sales	2,514	2,547	32	1.3%
COGS	1,303	1,384	81	6.3%
Gross profit	1,211	1,162	▲ 49	▲4.1%
SG&A	1,149	1,118	▲ 30	▲2.7%
Operating profit	62	43	▲ 18	▲29.8%
Non-operating profit	8	9	1	15.7%
Non-operating expense	0	0	0	54.0%
Ordinary profit	70	52	▲ 17	▲24.9%
Extraordinary profit	331	35	▲ 295	▲89.3%
Extraordinary loss	8	14	5	65.4%
Pre-tax profit	392	73	▲ 319	▲81.2%
Total amount of corporation tax and others	218	▲ 0	▲ 218	▲100.2%
Net profit	174	74	▲ 100	▲57.5%
Net profit attributable to non-controlling interest	15	4	▲ 10	▲70.1%
Net profit attributable to the parent company	159	69	▲ 89	▲56.3%

1 Overview of Earnings Summary

Q/Q growth

**While sales and ordinary profit down
QoQ basis, sales slightly up by 2.4% YoY**



1 Overview of Earnings Summary

Sales

■ Y/Y Growth

(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	Difference	Growth rate
Contents Service Segment	1,290	1,148	▲ 142	▲11.0%
Solution Segment	1,224	1,399	174	14.3%
Total	2,514	2,547	32	1.3%

**Steady sales growth in Solution Segment
contributed sales increase
by 1.3% on a whole**

1 Overview of Earnings Summary

Sales (Contents Service Segment)

■ Y/Y Growth

(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	Difference	Growth rate
Traffic Info.	479	434	▲ 45	▲9.5%
Entertainment	584	563	▲ 21	▲3.7%
Lifestyle	226	150	▲ 75	▲33.3%
Contents Service Segment	1,290	1,148	▲ 142	▲11.0%

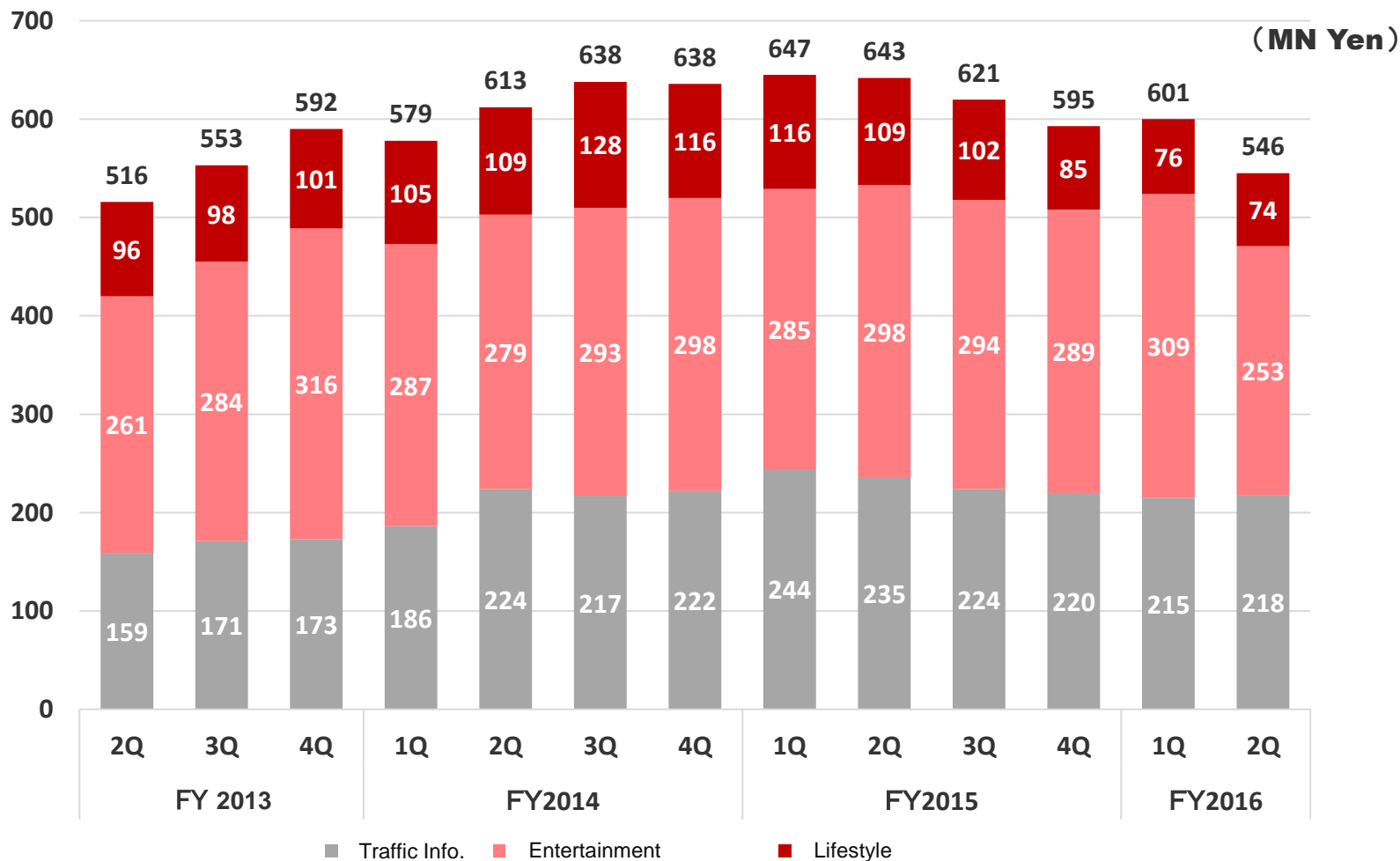
Extent of decrease in “monthly charged service” (particularly feature phone) **surpassed steady growth in “Carriers’ fixed rate service”.**
As a result sales down by 11.0% YoY

1 Overview of Earnings Summary

Sales (Contents Service Segment)

■ Q/Q Growth

Entertainment decreased due to sales of Beijing YZH Wireless Net technology Co., Ltd. and other reasons. Traffic Info. had a modest rebound at Q2, returning to profitability



※ "Entertainment" includes "Games", "Mail", "Music", "E-book" and "Overseas"

1 Overview of Earnings Summary

Sales (Solution Segment)

■ Y/Y Growth

(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	Difference	Growth rate
Solution	483	744	261	54.1%
Advertising Agent Service	651	454	▲ 196	▲30.2%
Overseas	90	200	110	122.0%
Solution Segment	1,224	1,399	174	14.3%

Increasing trends in consigned development and debug service, and sales from newly owned subsidiaries contributed to sales growth in Solution (consigned development and others).

Advertising Agent Service declined in comparison to Q1 FY2015, or a special procurements period.

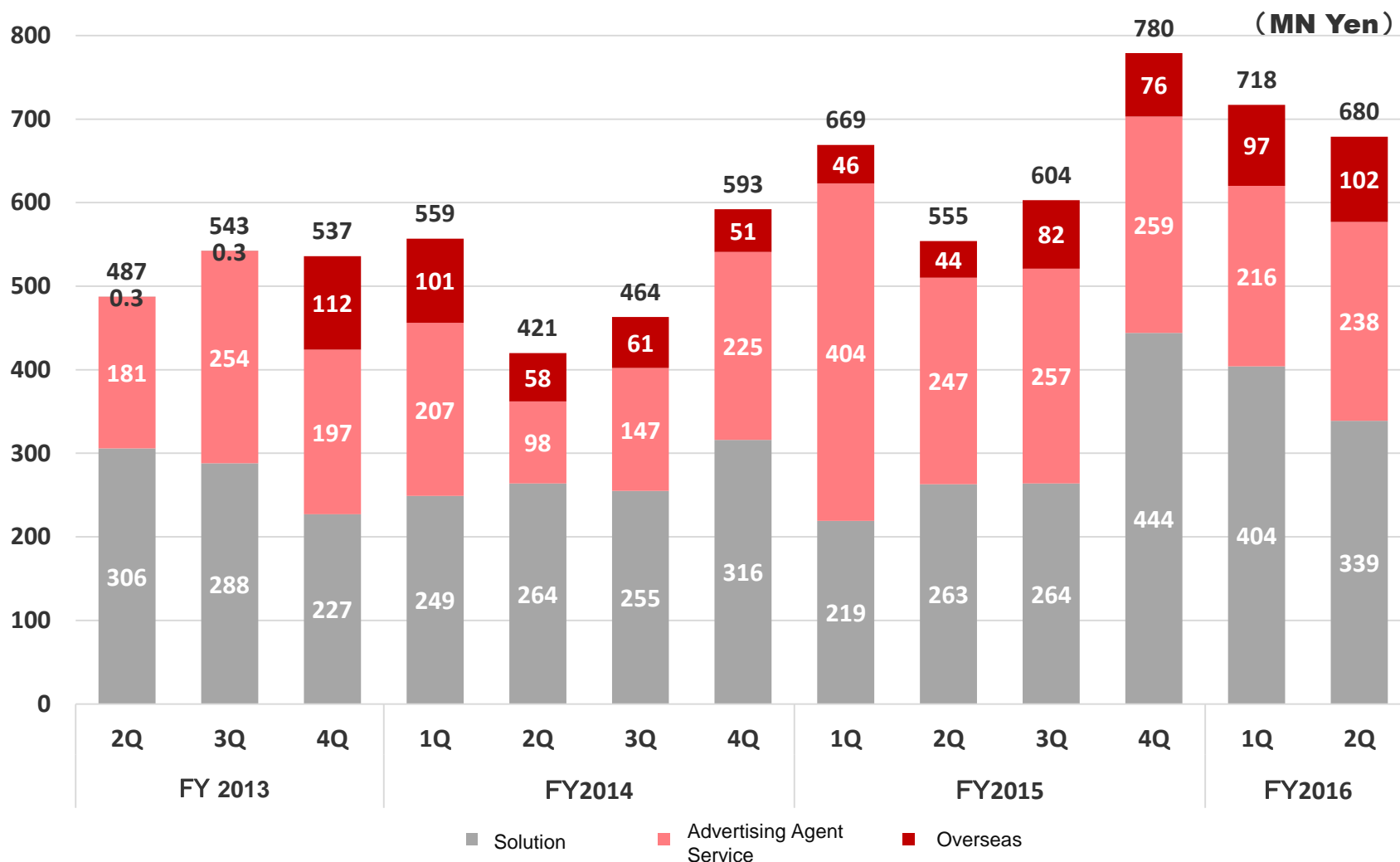
Good performance in mobile phone sales in Overseas category (China)

1 Overview of Earnings Summary

Sales (Solution Segment)

■ Q/Q Growth

Strong sales growth in Overseas and Advertising Agent Service respectively. Solution (consigned development and others) hit Q2 record with steady growth, while down QoQ basis



1 Overview of Earnings Summary

COGS

■ Y/Y Growth

(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	Difference	Growth rate
COGS	1,303	1,384	81	6.3%
COGS ratio	51.8%	54.4%	-	-

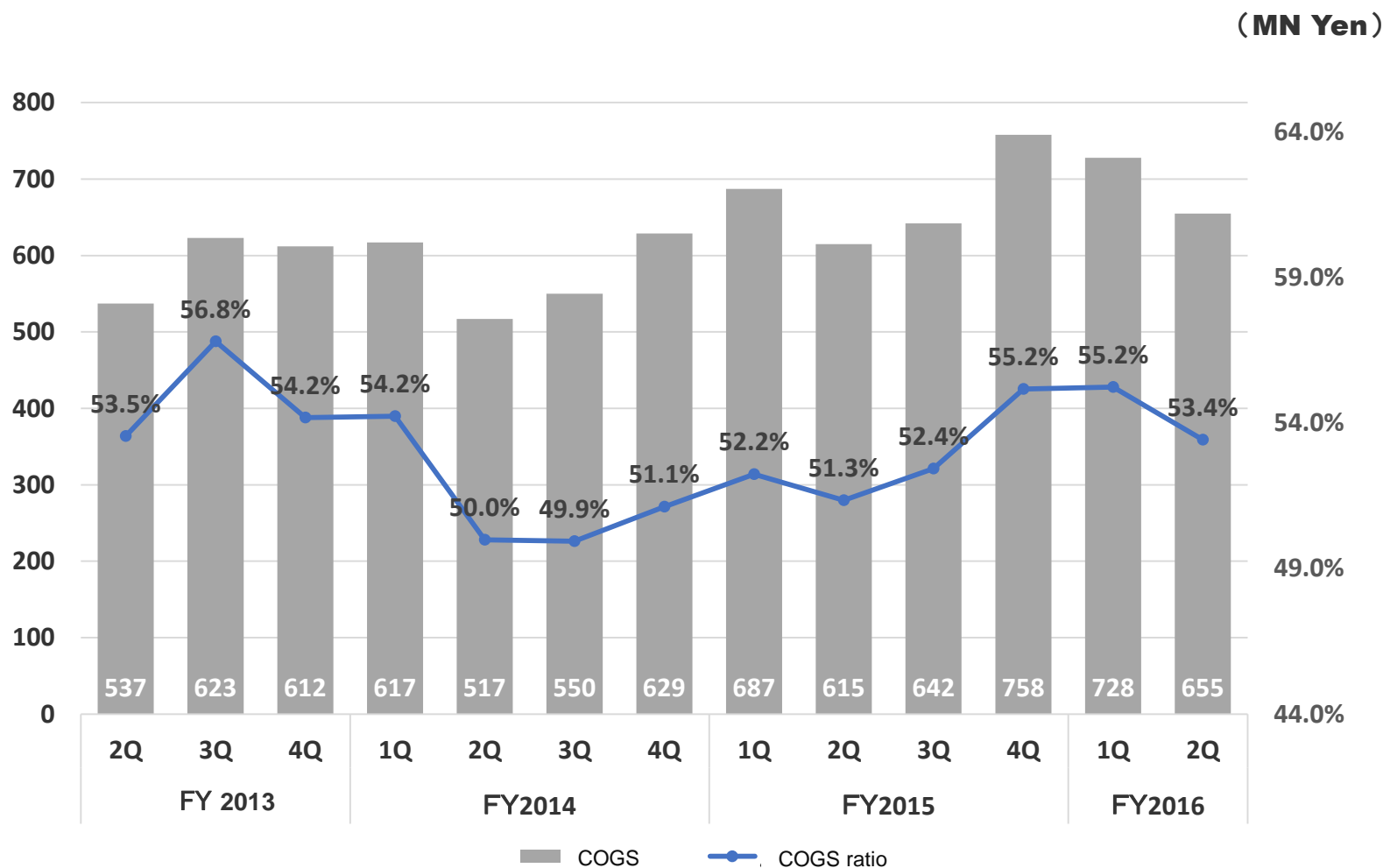
**COGS ratio increased
due to sales growth in Solution Segment**

1 Overview of Earnings Summary

COGS

■ Q/Q Growth

GOGS improved due to sales of capital contribution for Beijing YZH Wireless Net technology Co., Ltd.



1 Overview of Earnings Summary

SG&A

■ Y/Y Growth

(MN Yen)

	FY2015	FY2016	YoY	
	Q1 / Q2	Q1 / Q2	difference	Growth rate
(Advertising expenses)	428	342	▲ 85	▲19.9%
(Others)	721	775	54	7.6%
SG&A	1,149	1,118	▲ 30	▲2.7%
SG&A ratio	45.7%	43.9%	-	-

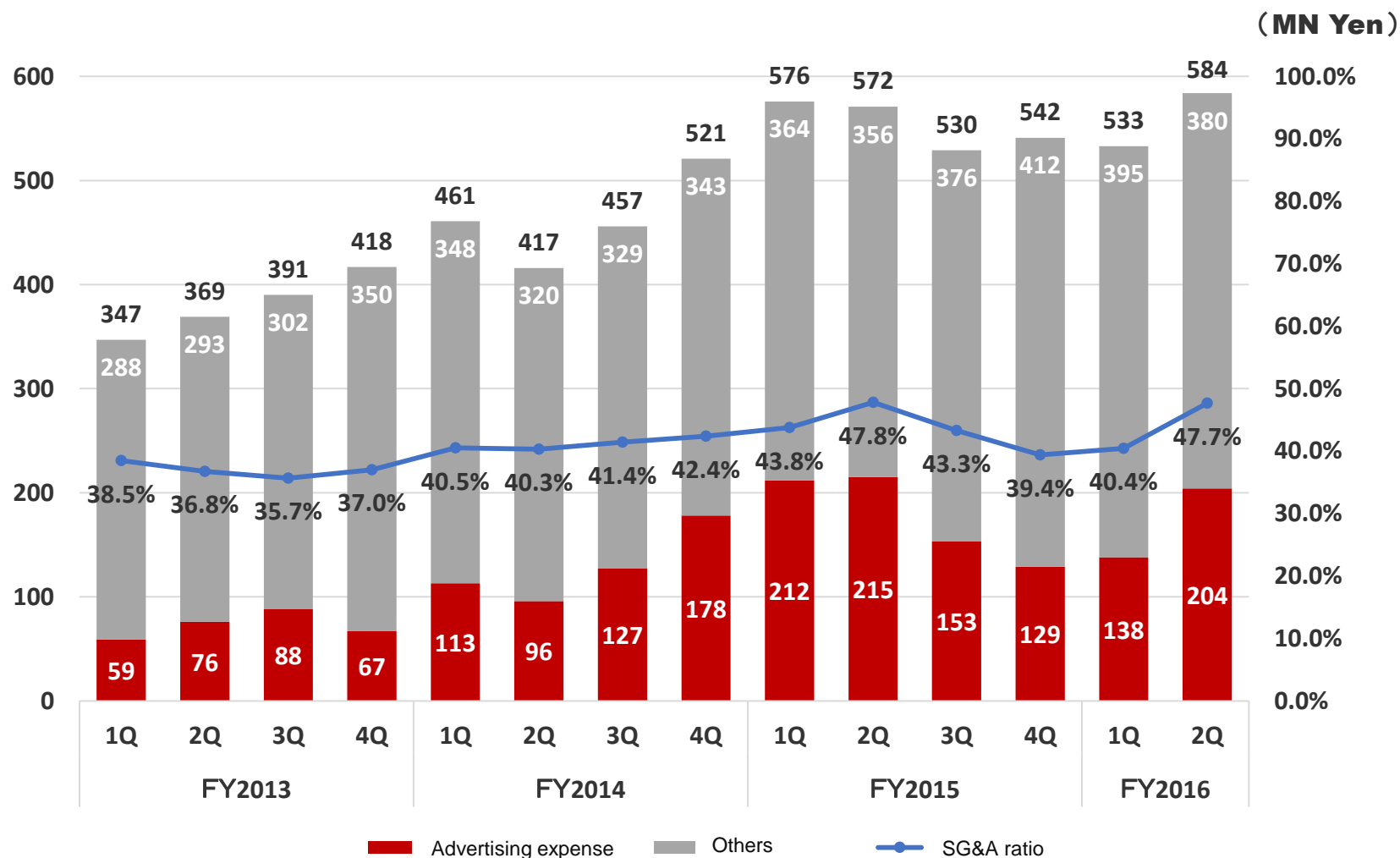
Others (personnel expenses) **increased**
owing to business fields expansion.
Advertising expenses decreased
by 19.9% YoY due to lower adverting
investment in native Apps

1 Overview of Earnings Summary

SG&A

■ Q/Q Growth

SG&A increased due to strengthening advertising investment in Contents Service Segment (Traffic info.)



2Q achievements

Reorganization

(effective date: 1st Dec. 2015)

■ Business units segmented by business segment

- to perform business activities featuring on each of specific fields
- to enhance flexibility in business operation

Contents Business Division

Alliance Business Dept.

- Strengthening business alliances to accelerate “life support platform” strategy
- Business fields expansion

Contents Business Dept.

- Continuous contents distribution on carrier platforms (profitable business foundation for short to middle term)

Global Sales Dept.

- Propelling global cross-sectional business alliances

Solution Business Division

Media Solution Dept.

- Propelling flexible sales activities, taking advantage of tighten partnership with mobile phone distributors

Business Solution Dept.

- Increase of new sales opportunities in expanding solution market

Tokai Solution Dept.

- Focusing on Tokai and Kansai area

Technical Dept.

- Reinforcement of system development and operating capability
- Enhancement of sales support capability
- Quality enhancement of own operating package services
- Propelling joint R&D in the field of leading edge technologies

Contents Service Segment

(Q2 achievements)



Traffic Information

Major contents and achievements

ATIS Traffic Information Service

- Acquired over 200 thousand paid subscribers through successful joint promotion conducted prior to competitors
- Enhanced customer engagement by “Traffic information mail” and SNS “Participatory traffic report”, encouraging longer period utilization
- Released two Apps, “ATIS Traffic Information” and “Leisure and Parking lots information” at “App Pass” (8th October 2015)



The service, offering road & traffic information, live congestion monitoring and parking lots search, makes your "outing" more convenient and fun! ATIS CORPORATION distributes its contents not only to smartphone users but also to large shopping malls and TBS's "next generation smart TV".

2 Contents Service Segment

Entertainment

Major contents and achievements

■ “Chokotto game” ; Kept top ranking at game category of NTT “Sugotoku Contents”

■ E-Book “BOOKSMART” ; Released PC service in addition to smartphone and tablet

(8th September 2015)

■ Released “Kokoro to karada music ♪” at “App Pass” (4th November 2015) and

“So-kai majan! iishanten” at “ App Store ” (11th November 2015)

■ Sold capital contribution for Beijing YZH Wireless Net technology Co., Ltd., as advantages in holding ICP license^(※) became lower.

ちこっとゲーム



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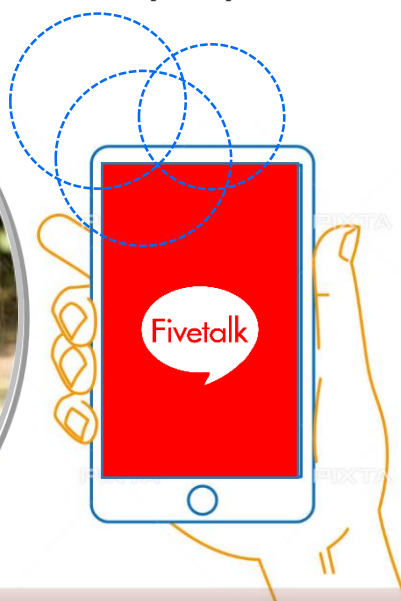
※ ICP(Internet Content Provider) license means contents distribution license required to operate mobile contents business in China

2 Contents Service Segment

Lifestyle (1/2)

Messenger App "Fivetalk"

- DAU increased firmly due to usability and quality enhancement
- Started joint development. "Fivetalk" as an interface for conversation with Artificial Intelligence (AI) and with products (IoT)



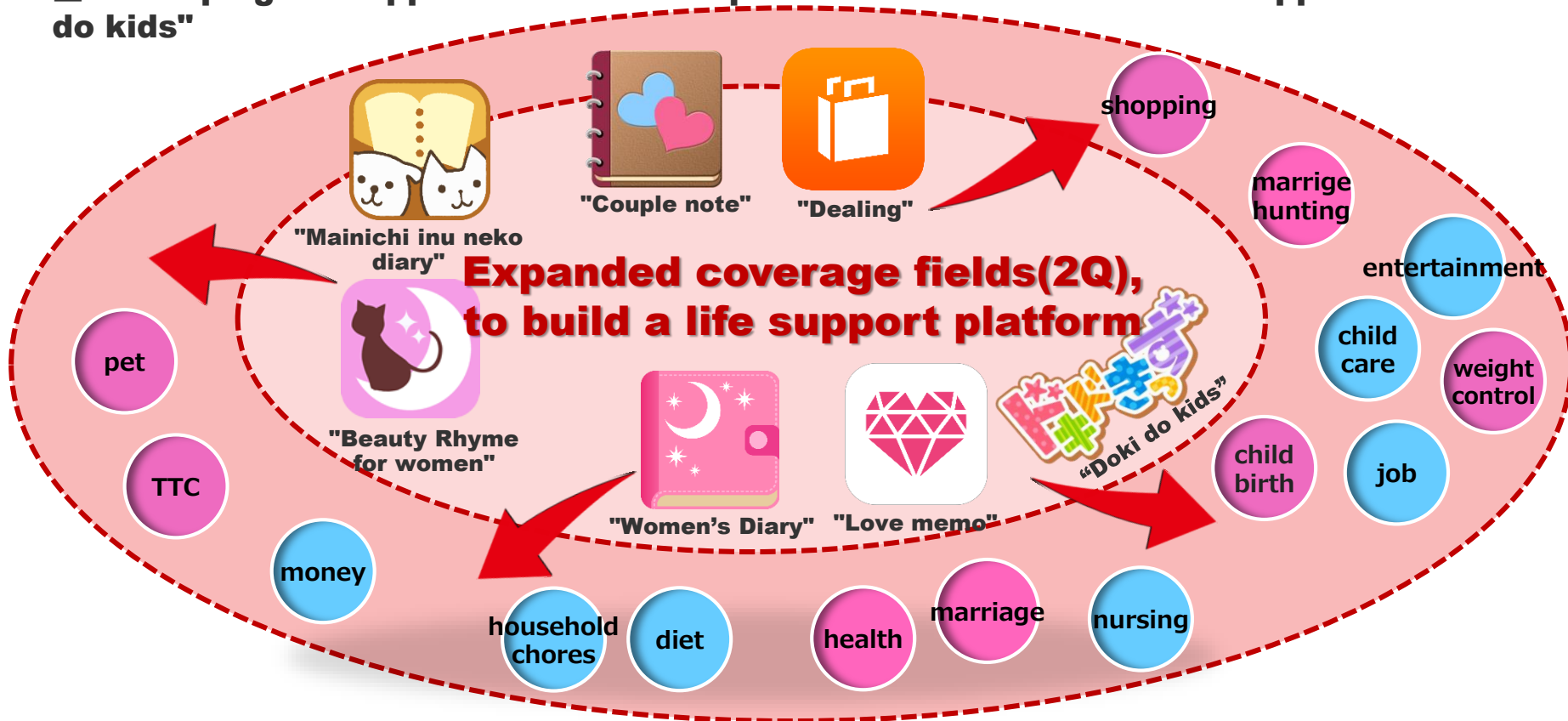
**To build a communication platform
to connect the future (Strategy)**



2 Contents Service Segment

Lifestyle (2/2)

- Purchased assets of flea market App “Dealing” from CROOZ, Inc. (1st December 2015)
- Released “Love memo” at “App Store” and “Google Play” (2nd October 2015), and “Mainichi Inu Neko Diary” at “NTT DoCoMo”, “au” and “Softbank” (since October 2015)
- “Women’s Diary”; DAU increased firmly. Developed a new function “App to device connection” (body composition and fat scale) through business alliance
- Developing two Apps on schedule as part of intellectual education App series “Doki do kids”





2 Contents Service Segment

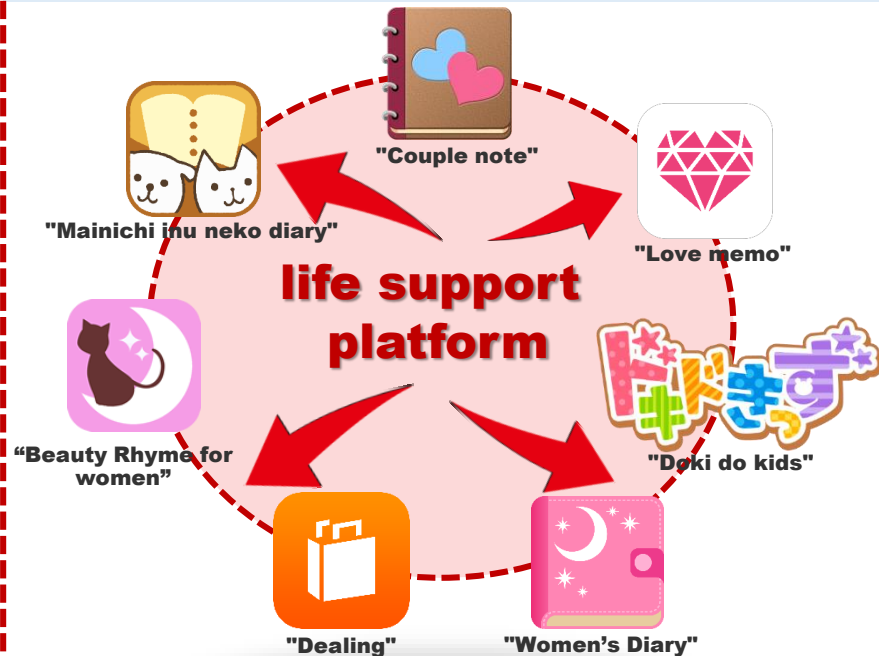
“Dealing”

Business environment: Smartphone e-commerce market size grows rapidly

- Embarked in "flea market App" market quickly, minimizing initial cost

Strategy

① As a core service of “life support platform”



② To develop new alliance business by utilizing escrow



Solution Segment

(Q2 achievements)

3 Solution Segment

Solution (Consigned development and others)

Consigned development

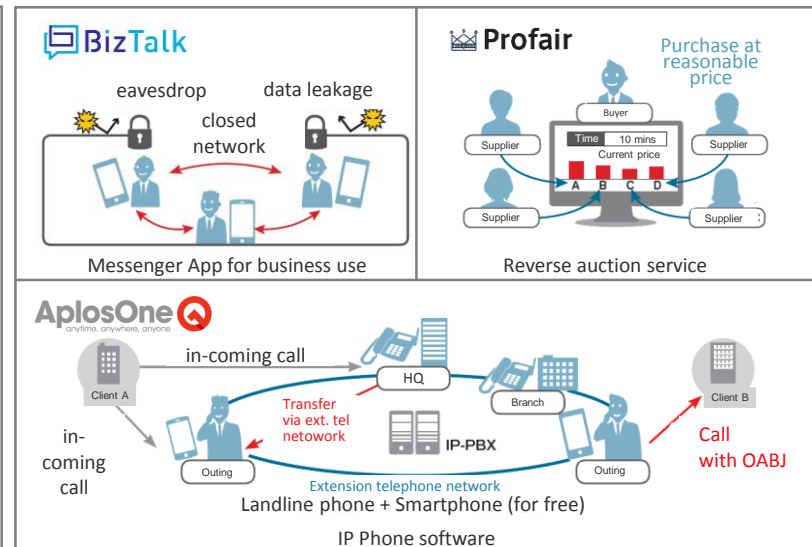
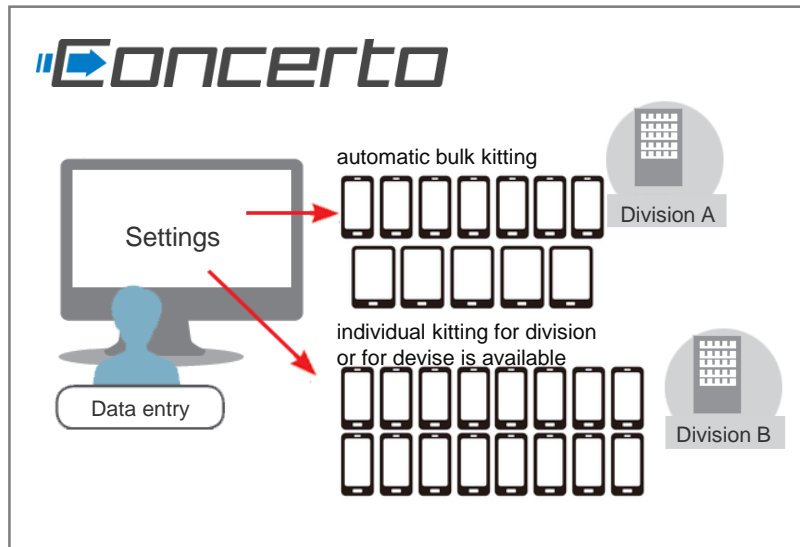
Business environment: Investment in IT system by enterprises are expanding and regional revitalization projects by self-governing bodies are increasing

- Good results in distributed processing server system integration and debug service to major game companies
- Providing server design, integration and operating service to a major publishing company
- Received order entries such as server monitoring robot, AR App (Shiraishi castle in Miyagi pref. "Shiro meguri") and "Factory tour navigation App" (based on "Yubisashi-navi")
- Carried on cosigned development and R&D projects related to "regional revitalization" (countermeasures against lower birthrate·information sharing· new energy·smart agriculture)

Own operating services

Business environment: Business use of smartphone and tablet at enterprises are accelerated

- Commercialized kitting tool "Concerto" (Promote, Inc.)

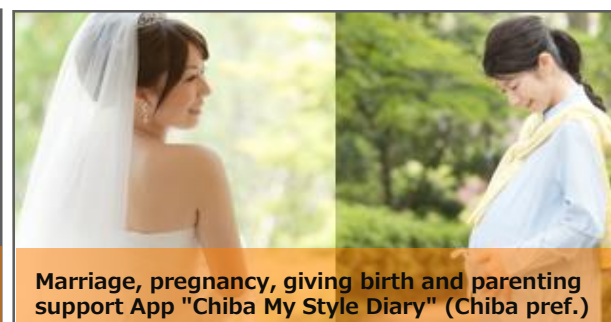


3 Solution Segment

Solution (regional revitalization)

Business environment: “Community·People·Job revitalization comprehensive strategy” by Ministry of Internal Affairs and Communications vitalizes activities by local governments

• Carrying on projects in the fields of smart agriculture, countermeasures against lower birthrate, renewable energy and tourism

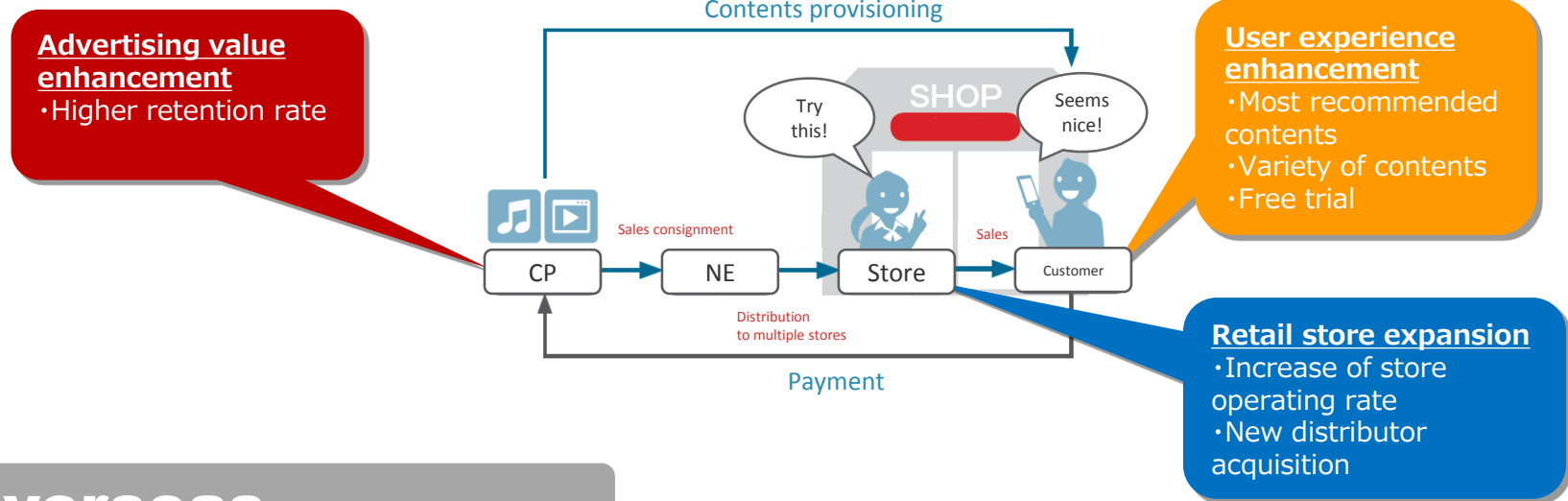


3 Solution Segment

Advertising Agent Service

Business environment: Intense competition with carrier contents and administrative regulations on telecom services

- Formed strong partnership with stores through attentive support, which enables to adapt to market changes such as competition with carrier contents
- Steady performance in procurement and sales of attractive contents (w/expectation of longer utilization) such as "Music-streaming" and "Traffic information"



Overseas

Business environment: In China market smartphone replacement demands are increasing especially among affluence

- Strengthen sales to enterprises and number of smartphone sold was doubled YoY, keeping higher standard
- Established NE YinRun Co., Ltd. (2nd October 2015)

3 Solution Segment

NE YinRun Co., Ltd.

- **Company name** : **NE YinRun Co., Ltd.**
- **President & CEO** : **Katsunori Ueda**
- **Office** : 〒150-0002 Matsuoka Shibuya Bldg. 1-17-8 Shibuya Shibuya-ku
- **Establishment** : **2nd October 2015**
- **Capital contributed rate** : **Nihon Enterprise Co., Ltd. 51.0%**
NEW INSIGHT HOLDINGS GROUP LIMITED 49.0%
- **Business** : **(1)Wholesale business**
(2)Business development support business



■Our position in China

In 2002 NE established a local company in China. Since then taking advantage of business expertise and strong personal relations the company has conducted the business below.

①mobile contents distribution business ②Mobile phone shop operation ③consulting business bridging Japanese companies and Chinese companies

■Background of establishment and purpose

NE had been providing consulting service for YinRun (President&CEO:LIAO,CHUN RONG/ Address: 1438 Hongqiao Road, Changning District, Shanghai, China/ Capital:50 million RMB) to open the amusement park "Hello Kitty Park"(located in Anji County, Zhejiang Province, China) through license agreement with Sanrio Company, Ltd. Consequently the park had a grand opening in July 2015. To strengthen park operating structure such as stable supply of related character goods NE YinRun Co., Ltd. was established in October 2015. With expanding demands for Japanese commodities in China, the company conducts wholesale business and business development support business

■Hello Kitty Park

The first China arrived theme park with Sanrio Characters including Hello Kitty. Two metropolitans, Shanghai and Hangzhou, open the park as a part of the international resort construction project. It has approximately 1 hundred thousand square meter in area targeting one hundred MN visitors

Purpose and business strategy

Forecast and Strategy

4 Forecast and Strategy

Forecast

Downward revision

(MN Yen)

	FY2016 (Focused on 10 th July)	FY2016 (Revised on 8 th Jan.)	Difference	Growth rate
Sales	6,100	5,240	▲ 860	▲14.1%
Operating profit	450	210	▲ 240	▲53.3%
Ordinary profit	470	230	▲ 240	▲51.1%
Net profit attributable to the parent company	190	140	▲ 50	▲26.3%

Revised forecast based on current business status

Contents Service Business ... lower impact of contents advertising for “monthly charged service” and schedule delay in contents release for “Carriers’ fixed rate service”

Solution Business ... Partial scale down in larger development projects and consideration of market status around Advertising Agent Service which currently remains firm

Forecast and progress

	FY2015	FY2016 (Revised on 8 th Jan.)	YoY		Progress
			Difference	Growth rate	
Sales	5,116	5,240	123	2.4%	48.6%
Operating profit	189	210	20	10.7%	20.9%
Ordinary profit	204	230	25	12.4%	23.0%
Net profit attributable to the parent company	177	140	▲ 37	▲21.2%	49.7%

Annual dividend per stock (Forecast for FY2016) : 3.00Yen

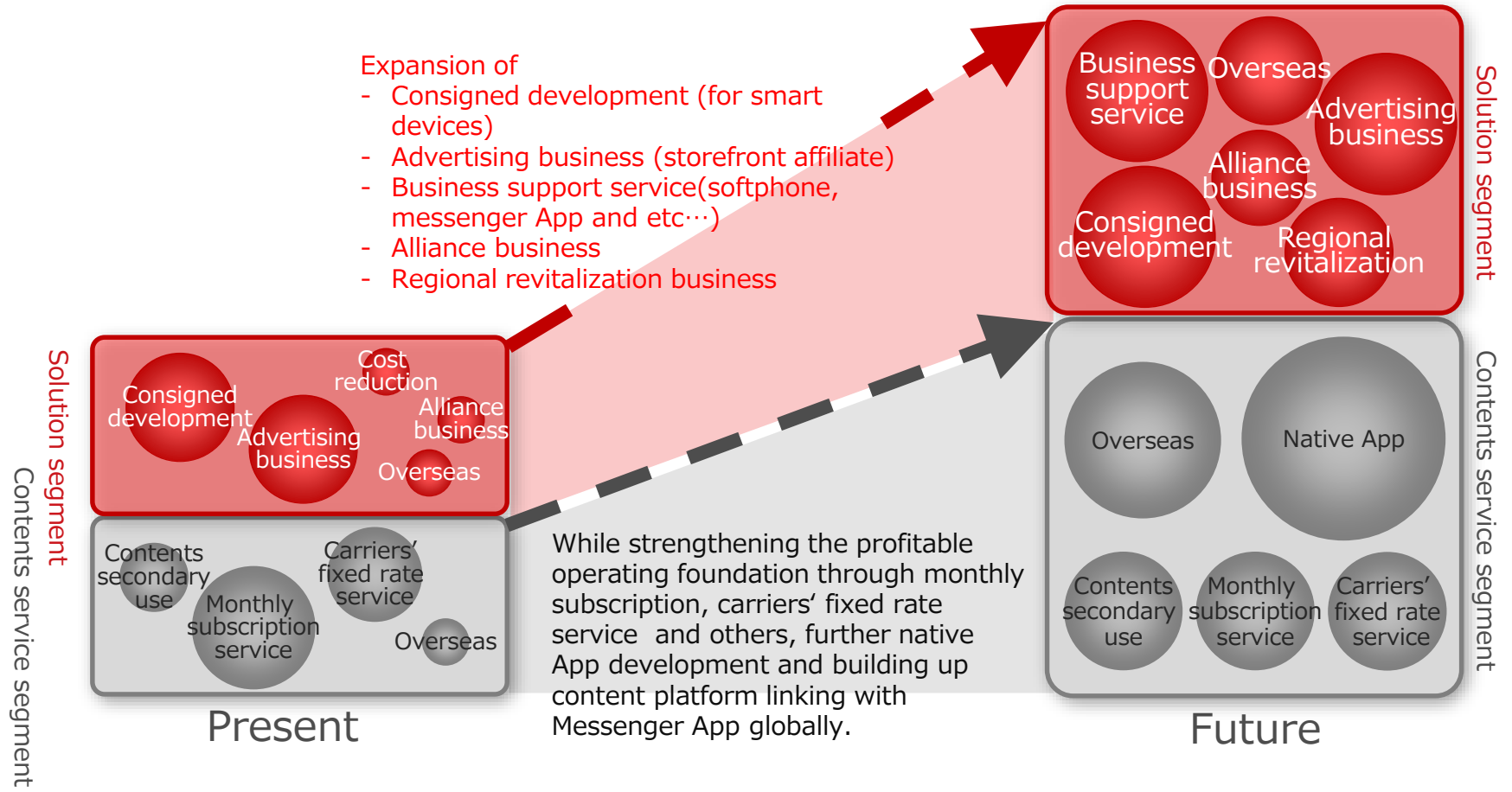
Conducts steady promotion of current business, especially consigned development business aggressively taking advantage of expanding trends of IT system investment by enterprises.

Also extends business fields via regional revitalization projects and accelerates ongoing new business creation

4 Forecast and Strategy

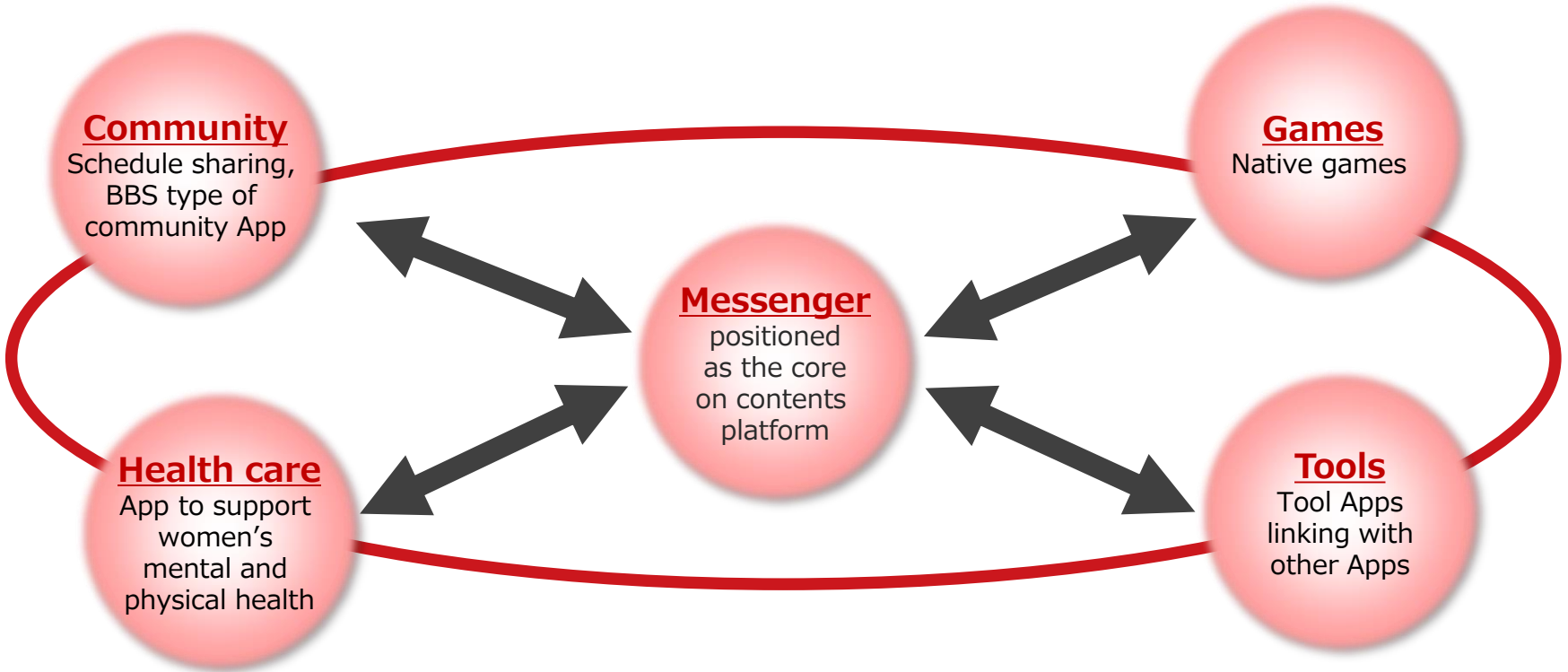
Strategy (1/3)

Expansion of Business Volume



Strategy (2/3)

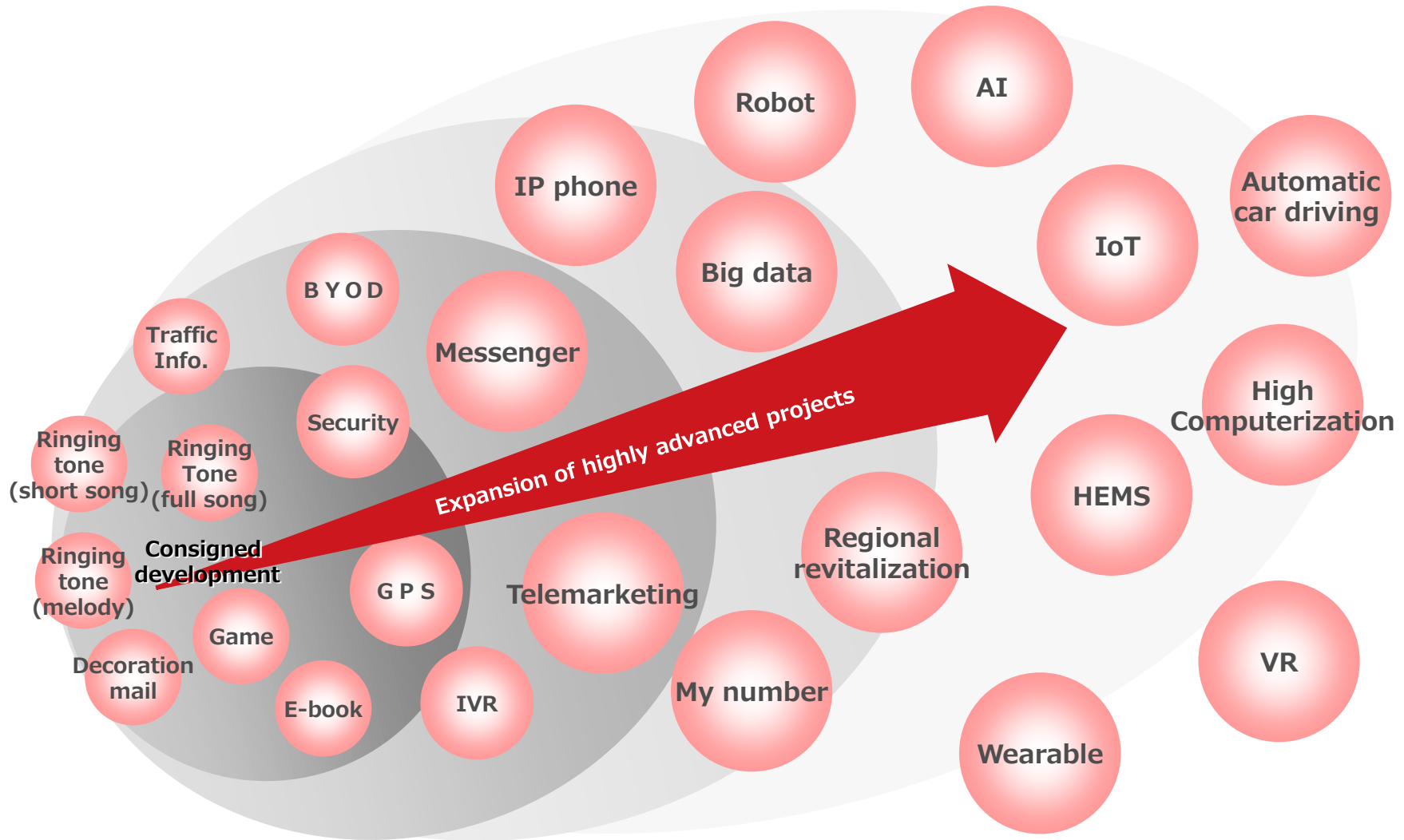
Business Plan of Native Apps



4 Forecast and Strategy

Strategy (3/3)

Expansion of Business Fields in smart device era



日本エンタ

検索

<http://www.nihon-e.co.jp/ir/>

Earnings results, IR presentation materials, press release,
and company information are available at www.nihon-e.co.jp/ir/
also delivered via "timely disclosure alert mail" service.

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