Nihon Enterprise Co., Ltd.

Nihon Enterprise Co., Ltd.

Q1 FY2018 (ending May) Earnings Summary

Table of contents

1. Overview of Earnings Summary (Q1 FY2018)

Revised reporting segment

**Expanding business fields to meet change in business surroundings.
To provide company info. properly,
we have changed reporting segment since this FY**

## Change of business surroundings

service evaluation

Since middle of 2010's new services such as FinTech、sharing economy, AR/VR, flea market app and personal data store has been breaking out. （ref.）

one devise for one. smartphone as key devise in IoT era

smartphone as core for personal data distribution

growth of related innovative service and app

personal data store

AR/VR

sharing economy

FinTech

flea ma app

smartphone penetration

personal identification

use cases in public (education・medical・disaster protection)

fusion of cyber space and real space

news　app

game

music distribution

eBook

net movie

map and navigation

app market

fixed rate service

real time-zation

growth of related service and app

SNS (text based)

social media (graphic, animation)

customer-ization

Penetration of internet and mobile phone

Payment (Suica)

e-commerce

imode

mobile commerce

net ad.

Info. search

IoT era

time

Internet and mobile phone era

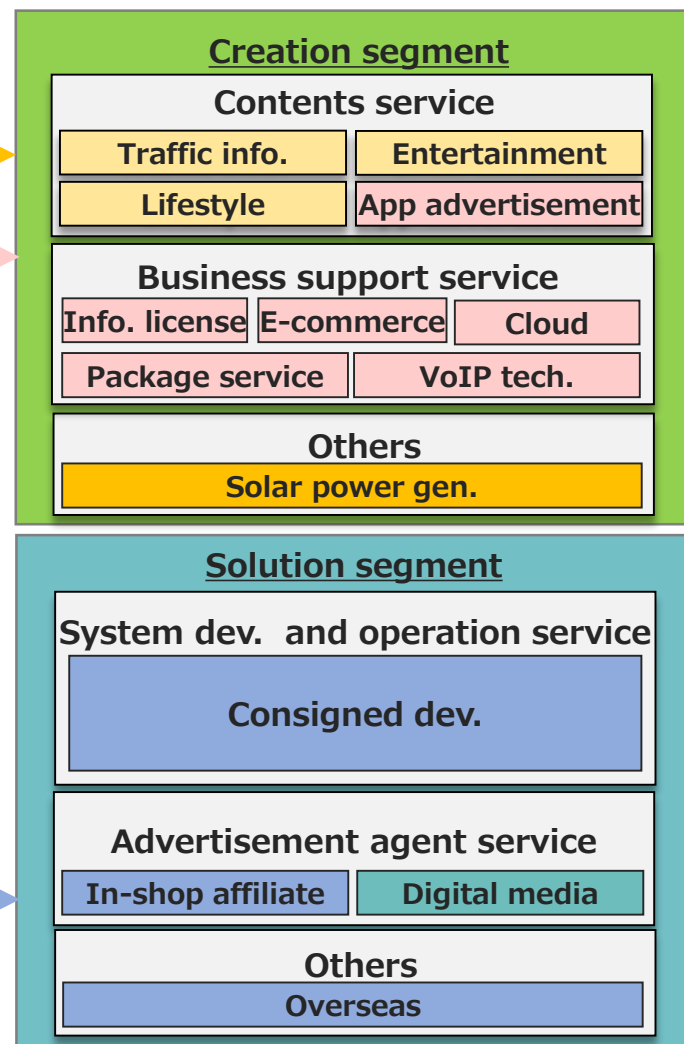**smartphone era**

<Overview of smartphone related services and apps>

(source) Ministry of Internal Affairs and Communications Research on present and feature of smartphone economy (2017)
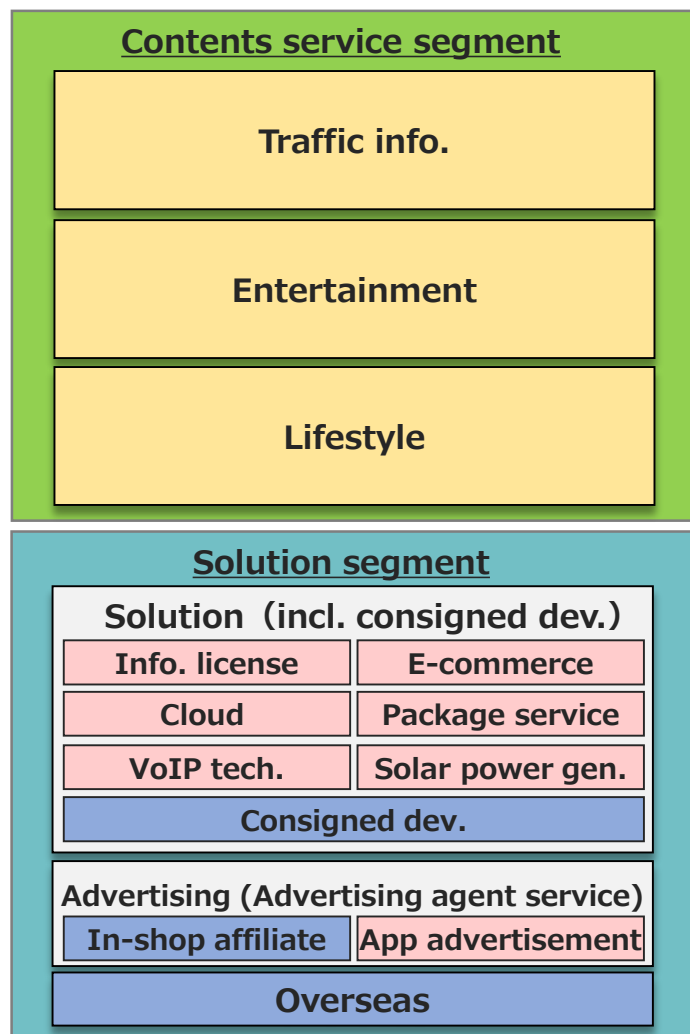
New segment

Highlights

(MN Yen)

|	FY2018 (Forecast)	FY2017 (Result)	YoY Difference	YoY Growth rate
S a l e s	4,770	4,838	▲ 68	▲1.4%
Operating profit	250	192	57	30.2%
Ordinary profit	255	229	25	10.9%
Net profit attributable to the parent company	105	99	5	5.5%

Creation segment

- To expand smartphone apps user and to create hit contents
- To OEM smartphone apps for business use
- To promote cloud service such as e-learning, tourism and vehicle dynamic management
- To promote sales of mobile kitting in up-demanding of out sousing service
- To purse new business such as flesh seafood e-commerce "Inasri", electricity transaction by block chain

Solution segment

- To build up royal clients and to develop new clients/
- To focus on CRM (※1) and e-commerce with upward sales trends
- To ensure cost management and to improve operating profit

（※1）"Customer Relationship Management", a method for sales promotion through empowering customer relationship by management combining customer attribute and touch history data
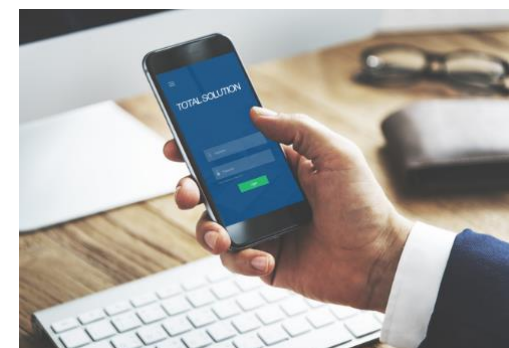
Consolidated PL（summary）

(MN Yen)

	FY2018 1Q	FY2017 1Q	YoY Difference	YoY Growth rate
S a l e s	974	1,245	▲ 271	▲21.8%
G O G S	584	728	▲ 144	▲19.8%
Gross profit	389	516	▲ 126	▲24.6%
S G & A	356	449	▲ 92	▲20.6%
Operating profit	33	67	▲ 34	▲50.6%
Non-operating profit	4	14	▲ 9	▲65.4%
Non-operating expense	1	1	▲ 0	▲13.9%
Ordinary profit	37	80	▲ 43	▲53.7%
Extraordinary profit	-	19	▲ 19	-
Extraordinary loss	0	1	▲ 1	▲98.3%
Pre-tax profit	37	98	▲ 60	▲62.2%
Total amount of corporation tax and others	25	29	▲ 3	▲13.1%
Net profit	11	68	▲ 57	▲83.0%
Net profit attributable to non-controlling interest	7	13	▲ 5	▲40.0%
Net profit attributable to the parent company	3	55	▲ 51	▲93.2%

Q/Q growth

While strong sales in system development and cloud service,
sales totaled down QoQ17.0 and
ordinary profit improved with 3.8%

Legend: Creation segment | Solution segment | Ordinary profit | Ordinary profit ratio
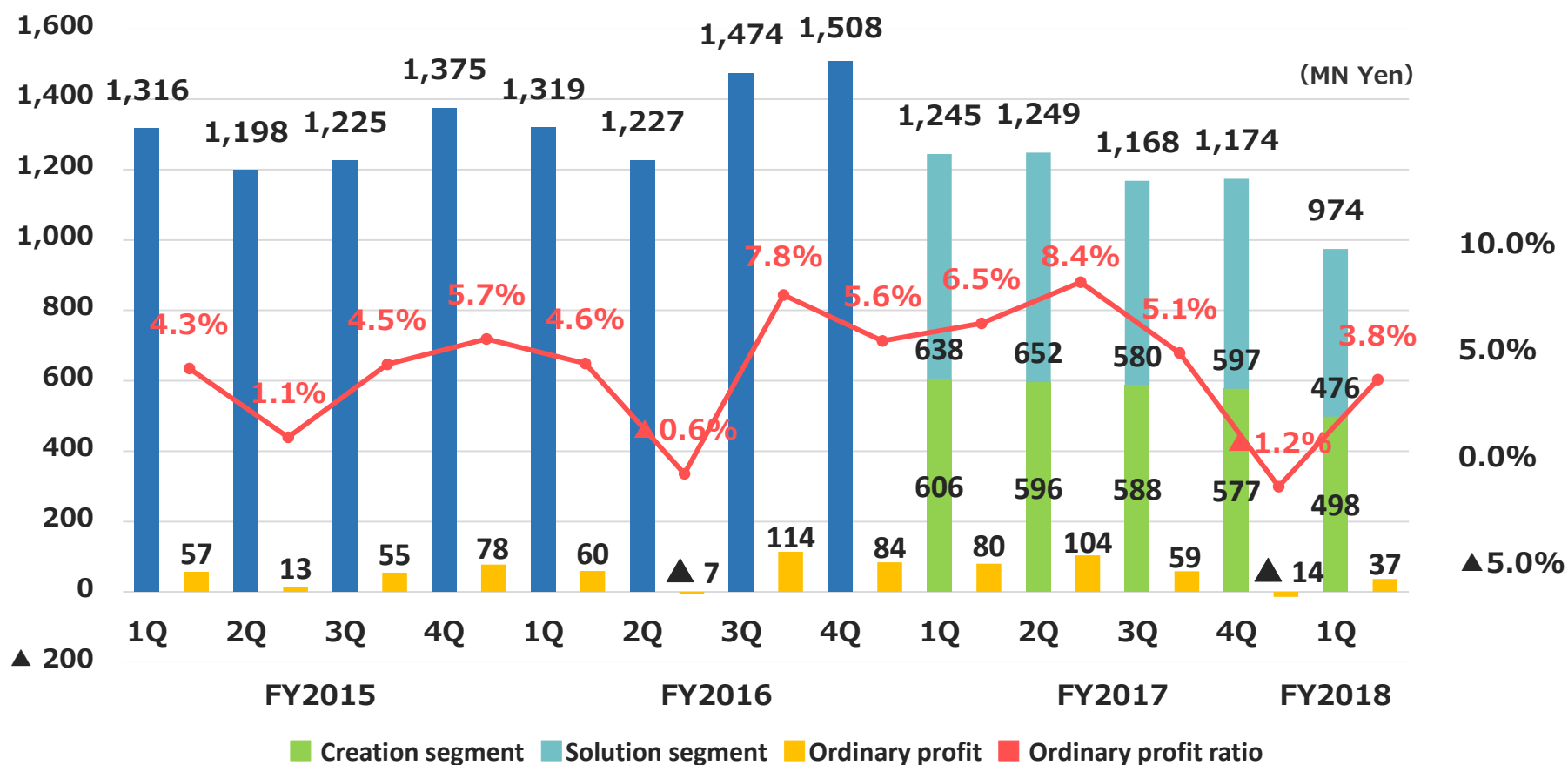
（※）Revised segment since FY2018. Data shows post recombination comparison

Sales （Y/Y）

（MN Yen）

	FY2018 1Q	FY2017 1Q	YoY Difference	Growth rate
Creation segment	498	606	▲ 108	▲17.9%
Solution segment	476	638	▲ 162	▲25.4%
T o t a l	974	1,245	▲ 271	▲21.8%

- ■ Creation segment
  Sales down 17.9% influenced by decline in services for carrier platform, while upward in "business support service"
- ■ Solution segment
  Sales totaled down 25.4%, by shrinking "Advertising agent service" market and down in overseas while sales increase in system development and managed service

Creation segment sales（Y/Y）

（MN Yen）

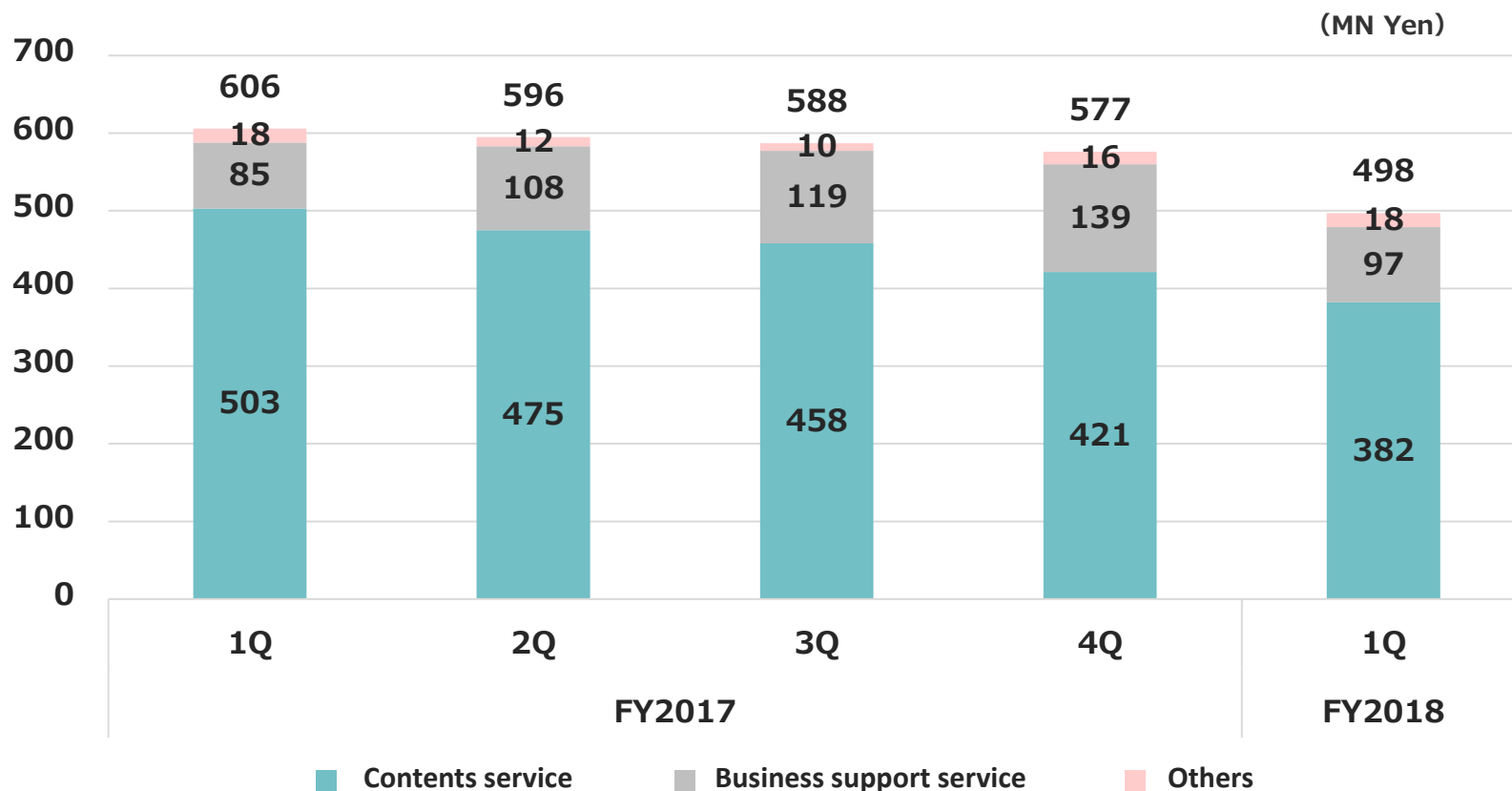|	FY2018 1Q	FY2017 1Q	YoY Difference	Growth rate
Contents service	382	503	▲ 120	▲24.0%
Business support service	97	85	11	13.5%
Others	18	18	0	3.2%
Total	498	606	▲ 108	▲17.9%

- ■ **Contents service**
  Sales down by 24.0% due to shrinking carrier platform market
- ■ **Business support service**
  Sales increased by 13.5% driven by services to enterprise customers including business app and cloud, which are developed based on company's contents property

Creation segment sales（Q/Q）

> **Downward trend in services for carrier platform.**
> **To accelerate sales expansion in "Google Play" and "App Store"**
> **and to focus on "business support service"**
> **with YoY 13.5% increase**

(MN Yen)

	1Q	2Q	3Q	4Q	1Q
Total	606	596	588	577	498
Others	18	12	10	16	18
Business support service	85	108	119	139	97
Contents service	503	475	458	421	382
	FY2017				FY2018

Legend: Contents service ■ Business support service ■ Others

Solution segment sales （YoY）

<div align="right">（MN Yen）</div>

	FY2018 1Q	FY2017 1Q	YoY Difference	YoY Growth rate
System development and managed service	296	268	28	10.6%
Advertising agent service	173	256	▲ 83	▲32.4%
O t h e r s	6	113	▲ 107	▲94.7%
T o t a l	476	638	▲ 162	▲25.4%

■System development and managed service
   Good start with 10.6% sales up, backed by market expansion through active IT investments

■Advertising agent service
   32.4% sales down influenced by decreasing number of shops due to content sales policy change at shop

■Others
   94.7% down influenced by shrinking China smartphone market and by restraining unprofitable sales
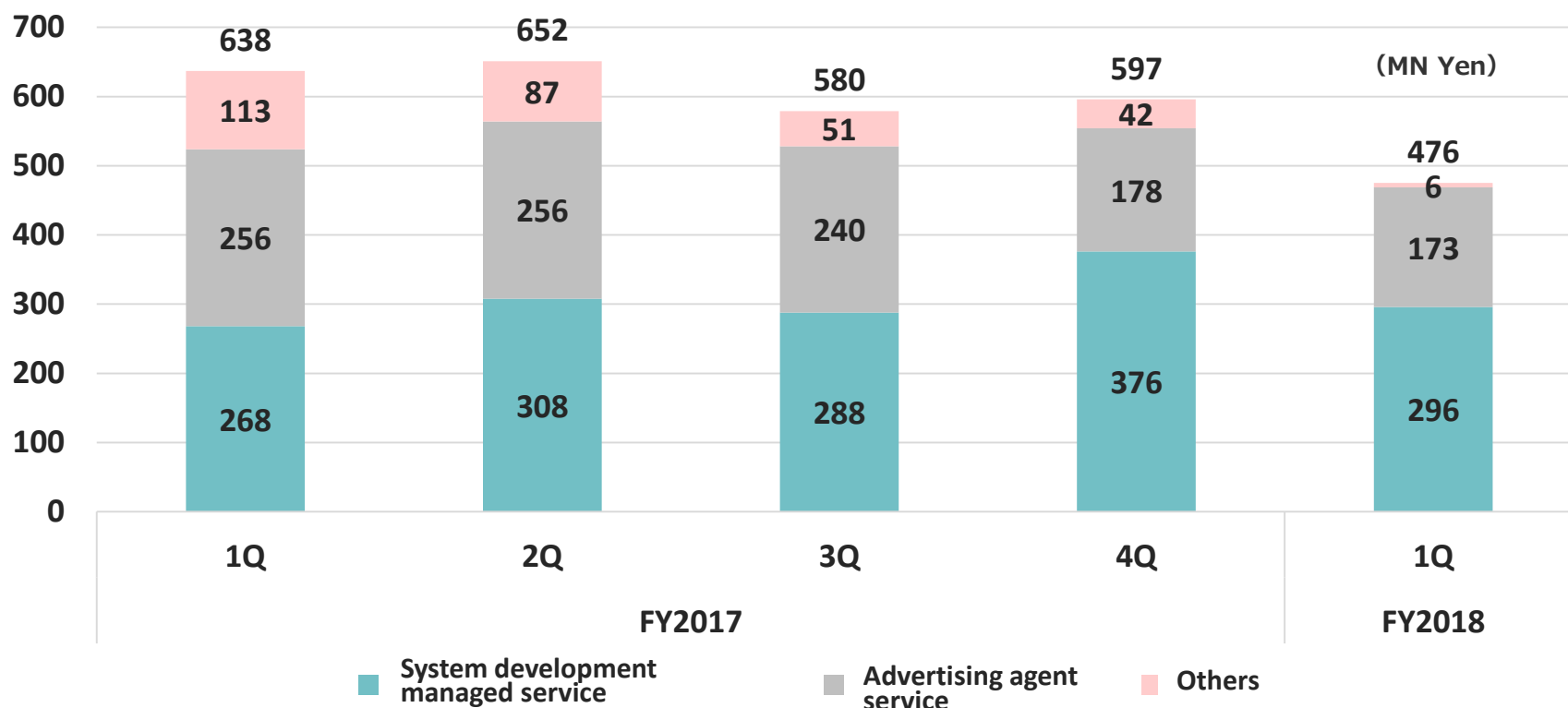
Solution segment sales （QoQ）

System development and managed service
  Upward trend with YoY10.6% while QoQ 21.3% down as previous quarter, Q4 is the season for order increase.
  Q4 includes FY end for most Japanese companies
Advertising agent service
  Remained almost flat with QoQ2.7 down in severe market status

	1Q	2Q	3Q	4Q	1Q
Total	638	652	580	597	476
Others	113	87	51	42	6
Advertising agent service	256	256	240	178	173
System development managed service	268	308	288	376	296

(MN Yen)

FY2017 (1Q–4Q) FY2018 (1Q)

Legend:
■ System development managed service
■ Advertising agent service
■ Others

COGS （Y/Y）

(MN Yen)

	FY2018 1Q	FY2017 1Q	YoY Difference	Growth rate
C O G S	584	728	▲ 144	▲19.8%
C O G S r a t i o	60.0%	58.5%	-	-

■**COGS**
　Decreased due to unprofitable device sales in China and decrease in "Advertising agent service"
■**COGS ration**
　1.5 point up due to increase by server relocation fee and amortization of software

COGS（Q/Q）

> **COGS improved by 0.9 point due to restraining unprofitable devise sales in China and continus cost reduction**

	FY2015				FY2016				FY2017				FY2018
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
COGS	687	615	642	758	728	655	866	958	728	744	688	715	584
COGS ratio	52.2%	51.3%	52.4%	55.2%	55.2%	53.4%	58.7%	63.5%	58.5%	59.6%	58.9%	60.9%	60.0%

(MN Yen)

■ COGS   ■ COGS ratio

SG&A（Y/Y）
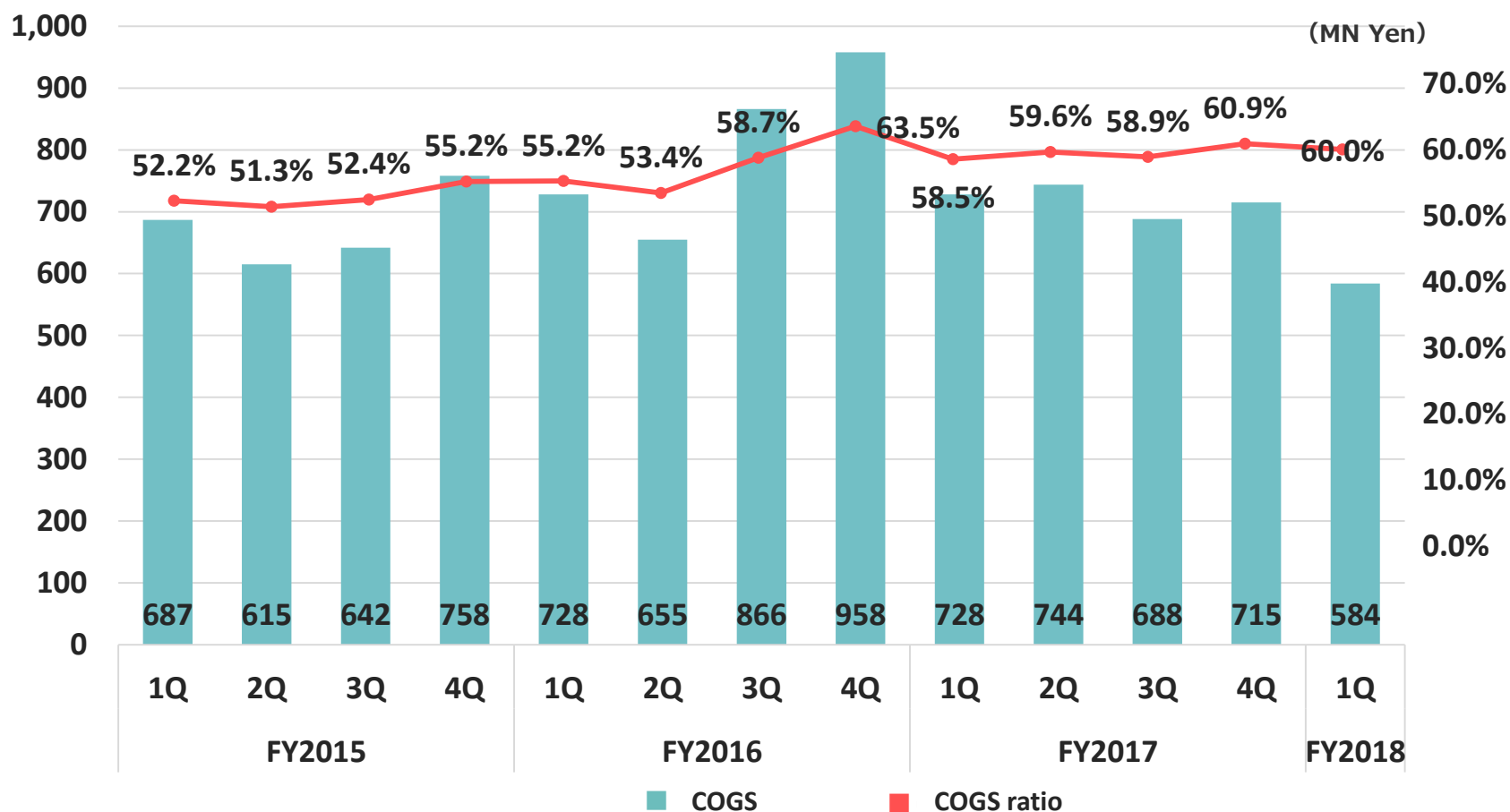
（MN Yen)

	FY2018 1Q	FY2017 1Q	YoY Difference	YoY Growth rate
（Adverting expense	28	72	▲ 44	▲61.2%
（ O t h e r s ）	328	376	▲ 48	▲12.9%
S G & A	356	449	▲ 92	▲20.6%
S G & A r a t i o	36.6%	36.1%	-	-

20.6% improved due to mainly Ad cost control in services for carrier platform, and cost reduction.
SG&A ratio 0.5 point up

SG&A（Q/Q）

QoQ down dramatically by continues Ad cost control, radical cost reduction and pealing off of allowance for doubtful accounts booked in previous quarter.
SG&A ratio 5.4 point improved
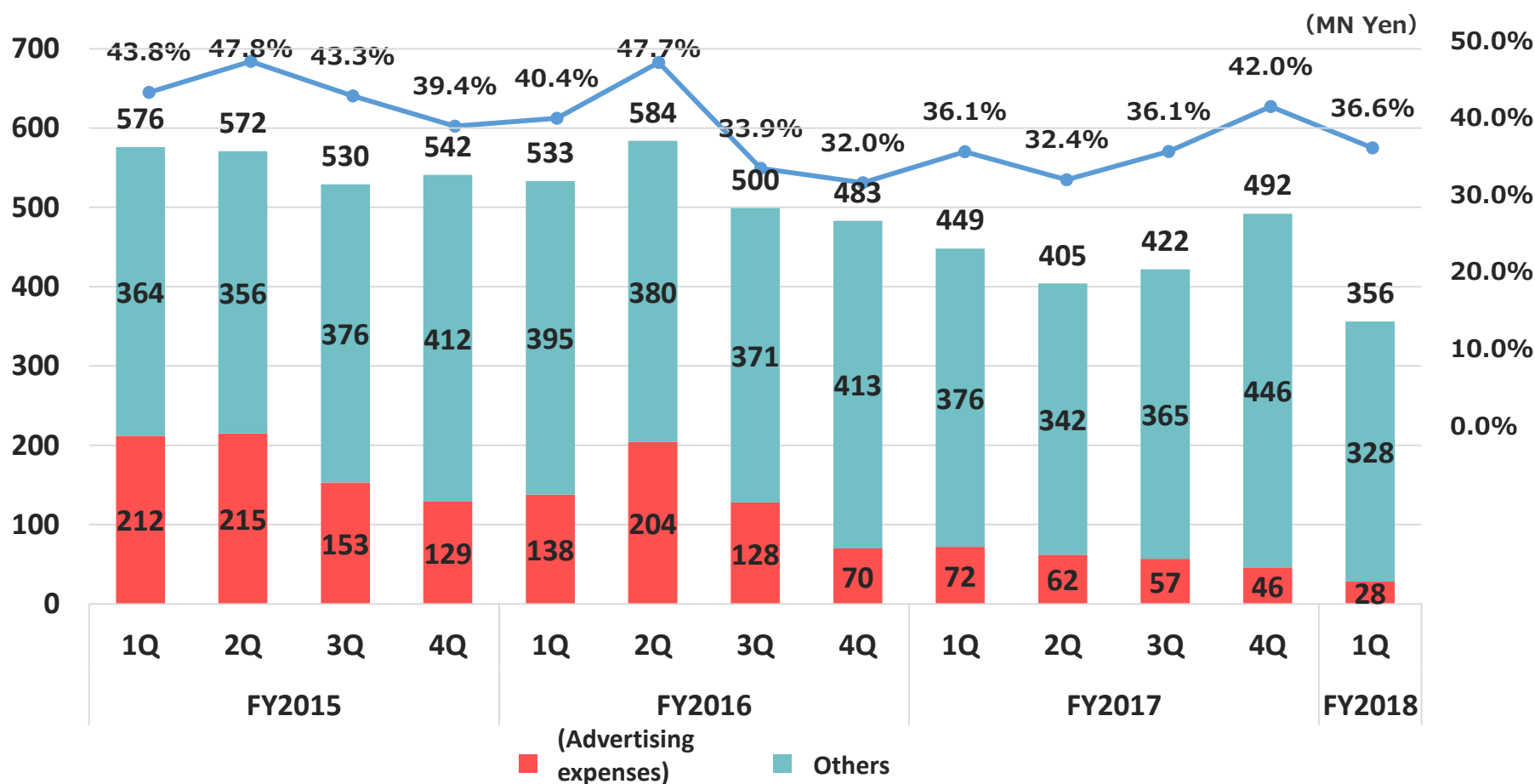
2.Business status by segment

Creation segment

To crate new lifestyle and business style through in-house develop service

Solution segment

To propose additional value to clients through IT solution development

Creation segment major services

Contents service

- Flea market "Flea-ma jp"
- Health care "Women's dairy"
- Traffic. info. "ATIS traffic info."
- e-book "BOOKSMART"
- Portal game "Chokkot game"

Business support service

- Business messenger "BizTalk"
- IP phone app. "AplosOne"
- Distance learning cloud "e-manabi"
- Vehicle dynamics cloud "iGPS on NET"
- Tourism cloud "Yubisasi navi "
- Reverse auction "Profair "
- Flesh fish E-commerce "Inaseri "
- Traffic info. license
- Chat IF "Fivetalk"
- IP voice series "Primus"
- mobile kitting "Certino"
- Vilification program
  (incd. IoT、brockchain)

Others

- Solar power generation

Creation segment topics①

Contents service

- **"Women's dairy"** (healthcare)
  - Number of new member increased by QoQ 26.0%, backed by growing interest in health log management such as weight and menstrual cycle

- **"Flea-ma jp"** (flea-market)
  - Built up comfortable and secure shopping environment
  - Revised sales commission charge from 10% to 8% (w/free standard selling fee)

  (※ Re-named from "Dealing" to "Flea-ma jp" in August)

- **"BOOKSMART"** (e-book w/all genre)
  - Stable growing but competitive e-book market
  - Proceeded alliance and service enhancement

- **"ATIS traffic info. service"** (traffic info.) / **"Chokkot game"** (portal game)
  - Stable operation in carrier monthly charged／fixed rate service

- **Continues efforts to develop new hit contents**

Creation segment topics②

Business support service

App for business use／Cloud／Voice／Kitting

line up services aggressively and, focus on sales promotion

- **"AplosOne"** (IP phone app) ・ **"BizTalk"** (business messenger)
  ・ OEMed, and started delivery

- **"e-managi"** (e-leaning cloud)
  ・ Strengthen sales structure, having know-how in animation producing as differentiation

- **"iGPS on NET"** (Vihecle dynamic management cloud)
  ・ Expanded sales to transportation companies such as concreate mixing car
  ・ Proceeding new version

- **"Fivetalk"** (Chat interface)
  ・ Proceeding development as interface to chat BoT

- **"Primus"** (IP voice series)
  ・ Strong sales results due t tighten alliance with sales distributors

- **"Certino"** (mobile kitting)
  ・ Strong performance backed by increasing demand of out sourcing service

Business support service

Flesh fish distribution revolution by IT

いなせり

Established "Inaseri Co., Ltd." to exclusively operate fish and seafood EC by "Metropolitan Central Wholesale Market Cooperative Association", which is the union with over 500 members belongings to Tsukiji Market. In corporation with the union the company proceeds EC service operation , distribution optimization and customer development including restaurant operators
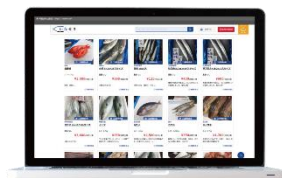
June 2016
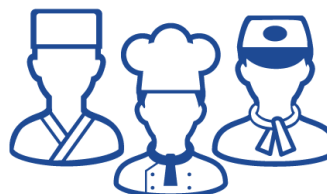Joint press announcement

Dec. 2016
Released service

Sep. 2017
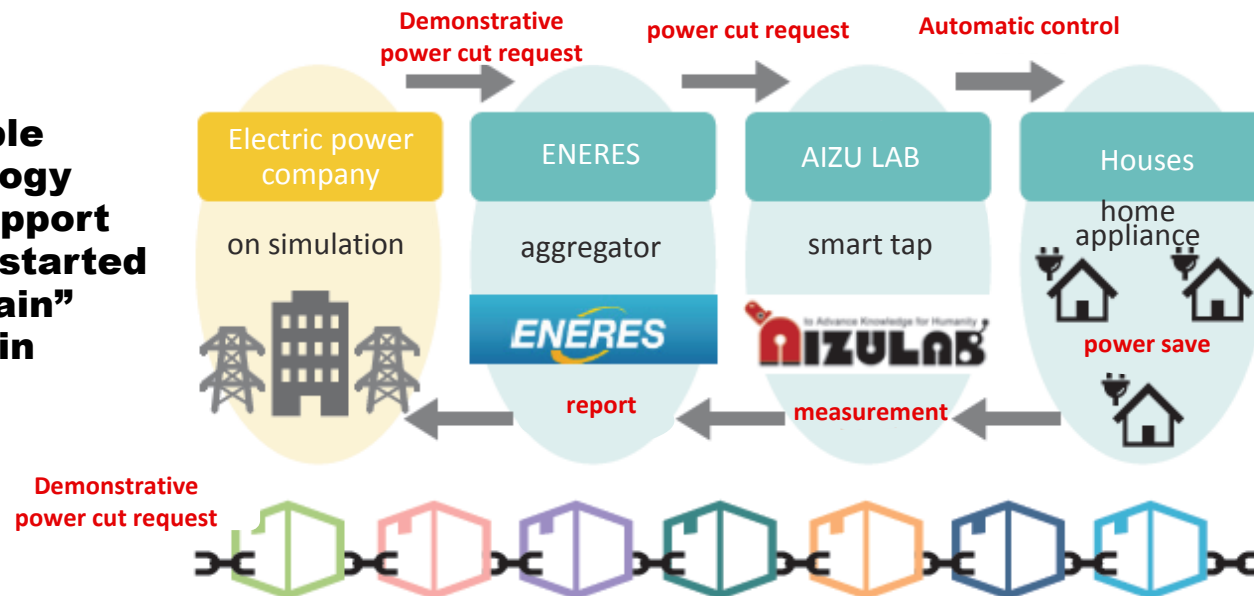Direct delivery to customers from Tsukiji Market

Toyosu Market

● **Distribution optimization**

● **Customer development**

● **Area expansion**

Creation segment topics④

Business support service

Electricity transaction based on blockchain

Selected as "Renewable energy related technology evaluation research support project",(June 2017) and started of "Electricity blockchain" with ENERES Co., Ltd. in Fukushima

Demonstrative power cut request → **power cut request** → **Automatic control** →

Electric power company	ENERES	AIZU LAB	Houses
on simulation	aggregator	smart tap	home appliance

← **report** ← **measurement** ← power save

Demonstrative power cut request

①set "smart tap" (developed by Aizu Lab) at houses in Fukushima prof.	→	②record electricity data onto blockchain ledger technology, while monitoring	→	③demonstrative power supply and cut request experiment	→	④verify effectiveness of blochchain for electricity transaction

Business support service

Facility inspection by wired drone

Developed drone wired with power supply which enables longer flight time.
Started joint evaluation for commercialization such as power plant inspection

Others（Solar power generation）

Solar panels for elementary and junior high

Promoting local vitalization based on renewable energy in Yamaguchi pref. through "Ube smart community promotion support program"
As part of this program, educational environment for students to learn environment and renewable energy through solar panel facilities built on the roof of school gym is on the way to set

(Aug. 2018)
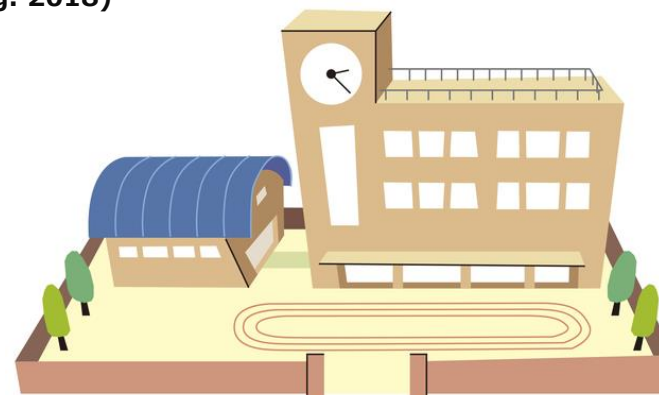
System development and operation service

- ・Consigned development
- ・Managed
- ・Debug
- ・Customer support
- ・Consulting

Advertisement agent service

- ・In-store affiliate
- ・Digital advertisement

Others

- ・Overseas

Solution segment topics①

System development and managed service

Under market expansion with active IT investment, good performance in receiving order entries as the results that expertise in smartphone app and server development are highly evaluated

consulting

planning development design

Total solution

evaluation

operation & audit

user support
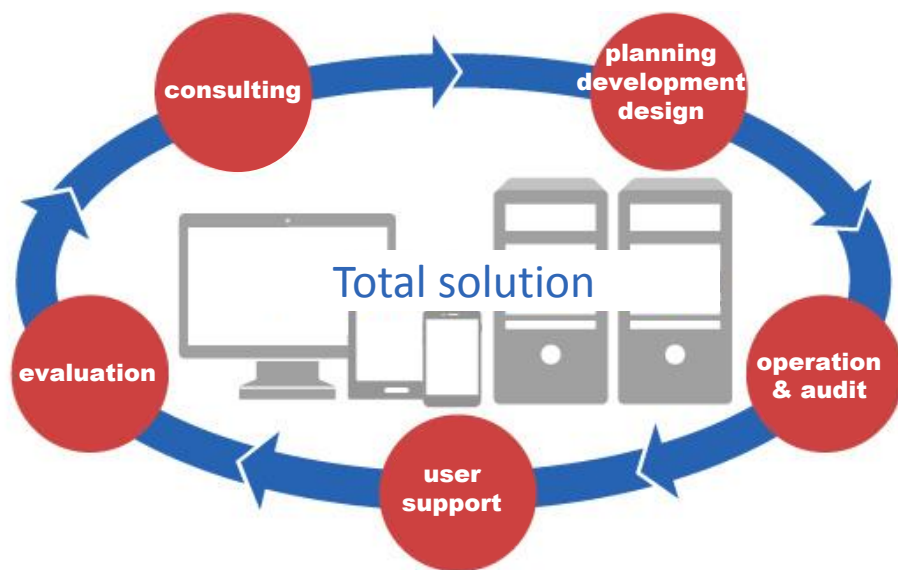
■**major achievements**
- app development
- e-commerce
- point management
- chat support
- customer analysis
- carrier payment
- quality management
- debug
- MSP(managed)
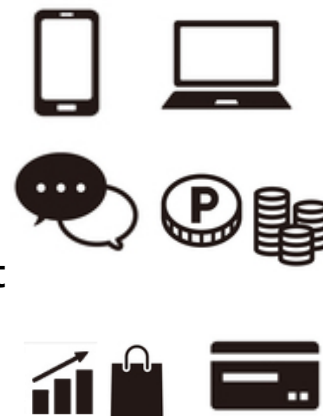
■**Clients**
- distribution
- retail
- service
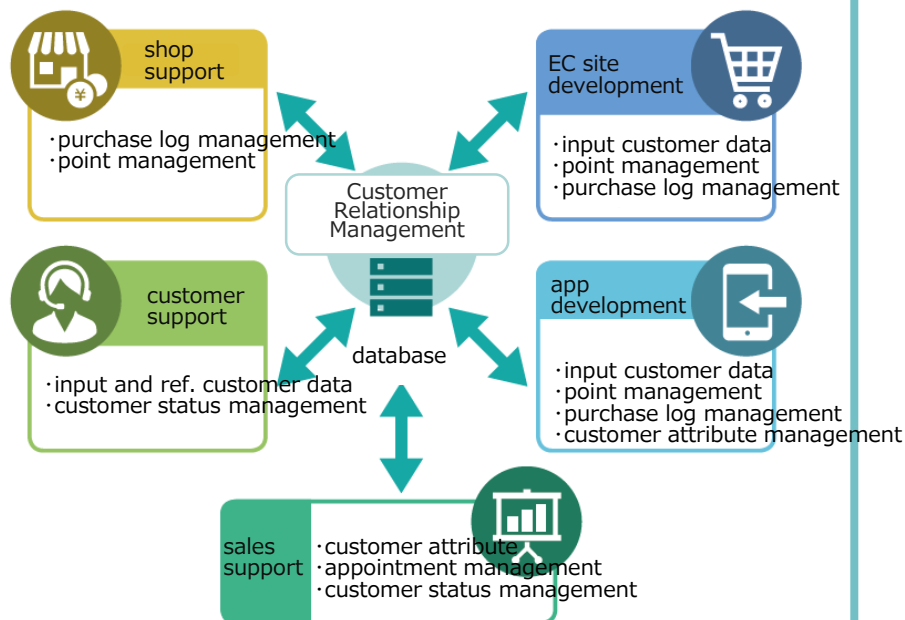- information and telecom
- local government

System development and managed service

CRM system development

＜Case study of consigned development＞
・CRM system for reuse shop operator

shop support
・purchase log management
・point management

EC site development
・input customer data
・point management
・purchase log management

Customer Relationship Management

customer support
・input and ref. customer data
・customer status management

database

app development
・input customer data
・point management
・purchase log management
・customer attribute management

sales support
・customer attribute
・appointment management
・customer status management

Advertising agent service

In-store affiliate

・Decreasing number of shops due to content sales policy change at shop
・Strong performance in sales of industry NO.1 security software
・Media expansion（In-store＋digital）

3. Consolidated forecast and business strategy

Consolidated forecast and progress

(MN Yen)

	FY2018 (forecast)	FY2017 (result)	YoY		FY2018	1Q progrss
			Difference	Growth rate	1Q (result)	
S a l e s	4,770	4,838	▲ 68	▲1.4%	974	20.4%
O p e r a t i n g p r o f i t	250	192	57	30.2%	33	13.3%
O r d i n a r y p r o f i t	255	229	25	10.9%	37	14.6%
Net profit attributable to the parent company	105	99	5	5.5%	3	3.6%

**Good progress towards Q1 forecast.
To pursue sales through both "Creation segment" and "Solution segment" for last half increasing (with March's year end demands) order entries**

and One Inc.
- development and sales of IP-PBX "Primus"
- development and sales of VoIP engine "Primus SDK"
- development of open source based software

4QUALIA Co.,Ltd.
- development and operation of app/WEB
- design, planning
- devise rental, debug, user support

(China)
Enterprise (Beijing) Information Technology Co., Ltd.
Rice CZ (Beijing) information technology Co., Ltd.
**Rise MC (Beijing) Digital Information Technology Co., Ltd.**
- sales of smart phone and fiber telecommunication service and its distributer business
- consulting business expansion in China (for Japanese enterises)
- mobile contents business

NE YinRun Co.,Ltd.
- mobile contents planning, development and operation

Promote, Inc.
- smartphone automatic test and kitting support
- app/web development and operation
- system engineering service
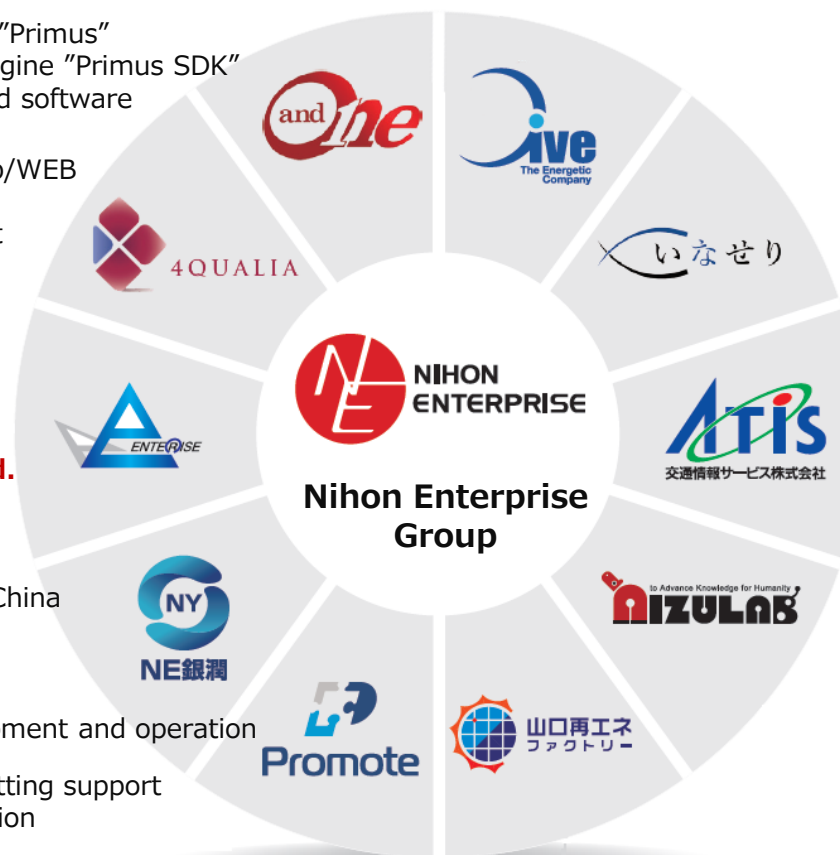
Dive Co.,Ltd.
- voice service
- advertising・affiliate
- app/web planning, development And operation

Inaseri Co.,Ltd.
- planning, development and operation of Metroporitan Central WholesaleMarket Cooerative's official EC service "Inaseri

ATIS CORPORATION
- info. service cauterizing traffic info.

Aizu Laboratory, Inc.
- iOS/Android app development, WEB system development, 3DCG, graphics and movie production
- research and development of new fileds such as EMS, smart agri. , drone
- Tourism cloud "Yubisashi navi"

Yamaguchi renewable energy factory Co.,Ltd.
- power generation business such as solar power, and its management and maintenance
- sales of electricity

Nihon Enterprise Group

Expanding business fields with group synergy.
To proceed sales expansion both in "in-house and cosigned development" and "creation of new service"

(※) Icld. consolidated and unconsolidated

**Head for continues growth
by taking chances at turn of tide**

Creation segment

Solution segment

| Nihon enter | 検索 |

http://www.nihon-e.co.jp/

Earnings results, IR info., news release,
and company profile are available on our web.
IR info. and news release are mailed
by "Timely disclosure alert mail service" upon request.

※View and forecast contained in this document are based on our
assessment at the time of document issuance, and accuracy of
the information is not guranteed.
Please note that actual outcomes and results may differ materially
from the information due to any changes caused by various factors.
※In this document there are some rounding variances happen less
than hundred thousand.