



Financial Results for the 3rd Quarter of Fiscal Year Ending December 31, 2015 [Japanese GAAP] (Consolidated)

October 29, 2015

Name of listed company: GungHo Online Entertainment, Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 3765

URL: <http://www.gungho.co.jp/>

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Quarterly securities report issuing date: November 6, 2015

Dividend payment date: -

Supplemental information for quarterly financial statements: Yes

Quarterly financial results briefing session: Yes (For institutional investors and analysts)

(Amounts are rounded off to the nearest million yen)

1. Consolidated financial results for the third quarter of fiscal year ending December 31, 2015 (January 1, 2015 through September 30, 2015)

(1) Consolidated operating results (accumulated) (Percentages indicate the changes from previous year)

	Net sales		Operating profit		Ordinary profit		Quarterly net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2015	119,219	Δ10.2	58,858	Δ19.9	59,063	Δ18.5	37,251	Δ25.1
Nine months ended September 30, 2014	132,828	14.3	73,441	7.2	72,504	5.6	49,715	16.7

(Note) Comprehensive income
 Nine months ended September 30, 2015 36,185 million yen Δ23.4%
 Nine months ended September 30, 2014 47,258 million yen 9.3%

	Quarterly net profit per share	Diluted quarterly net profit per share
	Yen	Yen
Nine months ended September 30, 2015	34.51	34.51
Nine months ended September 30, 2014	43.28	—

(Note) Diluted net quarterly profit per share is not indicated since no diluted shares exist for the nine months ended on September 30, 2014.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Nine months ended September 30, 2015	95,723	84,049	86.0
Fiscal year ended December 31, 2014	161,081	131,203	80.0

(Note) Shareholders' equity
 Nine months ended September 30, 2015 82,288 million yen
 Fiscal year ended December 31, 2014 128,906 million yen

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2014	—	0.00	—	3.00	3.00
Fiscal year ending December 31, 2015	—	0.00	—		
Fiscal year ending December 31, 2015 (Forecast)				—	—

(Note) Revision of forecasts for dividends most recently announced : No

*Dividend for the fiscal year ending December 31, 2015 has yet to be determined.

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2015 (From January 1, 2015 to December 31, 2015)

The GungHo Group engages in the content business that is highly volatile in nature and is subject to facing sudden, short-term changes during the operation. Since this makes it difficult to calculate proper and rational earnings forecasts, the Company adopts the policy of providing timely disclosure of financial results and summary of operations on a quarterly basis while refraining from disclosing its full-year consolidated earnings forecast.

*Notes

- (1) Changes in significant subsidiaries during the period : No
- (2) Adoption of any particular accounting methods for the preparation of quarterly consolidated financial statements : No
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 - 1) Changes in accounting policies due to revisions of accounting standards : Yes
 - 2) Changes in accounting policies due to reasons other than 1) : No
 - 3) Changes in accounting estimates : No
 - 4) Restatements : No

(4) Number of shares of common stock issued

1) Number of shares of common stock outstanding at the end of the period (including treasury shares)	As of September 30, 2015	1,057,892,400 shares	Fiscal year ended December 31, 2014	1,152,010,000 shares
2) Number of treasury shares at the end of the period	As of September 30, 2015	98,417,678 shares	Fiscal year ended December 31, 2014	4,300,000 shares
3) Average number of shares during the first quarter	As of September 30, 2015	1,079,448,850 shares	As of September 30, 2014	1,148,720,004 shares

- * Presentation regarding the execution of the quarterly review process
 - This quarterly Summary of Consolidated Financial Results (Quarterly “Tanshin”) is outside the scope of the external auditor’s quarterly review procedure required by the Financial Instruments and Exchange Act. Therefore, the quarterly review process required by the Financial Instruments and Exchange Act has not been completed at the time of this summary’s disclosure.
- * Appropriate use of earnings forecast and other matters to note
 - This document contains forward-looking statements including forecasts in relation to the results of operations and they are based on information available to the Company at the time of preparing the document along with assumptions that are deemed to be rational. Actual results may differ materially from those expressed or implied by this statement due to various factors. For the assumptions underlying the earnings forecast presented and other information regarding the use of such forecasts, please refer to “Information Related to the Consolidated Earnings Forecast and Other Future Projections” on page 2 of the Appendix.
 - The Company plans on holding a financial results briefing session for investors as follows. All documents, videos, etc. distributed at the session will be posted on the Company’s website after the session is held.
 - Financial results briefing session for institutional investors and analysts: Wednesday, October 29, 2015

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1. Qualitative Information Concerning Consolidated Financial Results for the Quarter under Review

(1) Description of Operating Results

In the current business environment surrounding the Company's group, the growth in the contract volume of smartphones slowed in Japan. On the other hand, in the game industry, "Tokyo Game Show 2015," held in September this year, ended with a record-high number of exhibitors (480 in total). A majority of these exhibitors were overseas companies (246 exhibitors) as this game show has expanded to become an international game exhibition. The contents have also been growing which included smartphone games that are already widespread in Japan, VR (virtual reality (*1)) creating new possibilities for games, and live game streaming (in which gamers can broadcast what they are playing live), on top of conventional home-use game machines, offering many ways to enjoy games, showing the further upsurge in Japan's game market.

Under such environment, the Company has aimed to maintain and increase the number of users by using MAU (Monthly Active User (*2)) as its important management index, successfully managing and operating the games we provide.

As for smartphone games, the Company has installed a new game element called "Ranking Dungeon" into its main title "Puzzle and Dragons" (hereinafter referred to as "P&D"), adding a new way to play P&D so there is more to enjoy for high-level users as well. Three and a half years have already passed since the launch of P&D, and gamers are now more familiar with how to play it. As a result, pay rate have declined, but MAU still remains at a high level.

On the other hand, the number of downloads of "Summons Board" has continued to grow well as the Company has successfully accelerated the acquisition of new customers thanks to TV commercials that have been continuously aired since the 2nd quarter. Moreover, the Company's "Divine Gate" has also attracted loyal fans with its deep game's world view and the character settings, and now a television animation of this game is on its way to be broadcasted starting in January 2016. The Company will continue to launch this franchise on multi-platform, while having the game at its core.

As for overseas business development, the launch of Chinese version of P&D is well underway. As game playing habits and preferences differ between Japanese and Chinese smartphone game users, the Company has changed a majority part of the P&D that is currently distributed in Japan. The Company then started to provide test services in the Chinese market from July, and is currently preparing for official services. As for a North American version of P&D, the Company started to air TV commercials in North America from September 28, aiming to acquire new players.

In regards to new product development, the release of two games, one for smartphone and another, called "LET IT DIE", for PlayStation®4 have been postponed from the year 2016 as the Company has decided to pursue more enjoyable gaming features.

As a result of all the factors above, net sales for the first nine months of the fiscal year under review amounted to 119,219 million yen (a decrease of 10.2% year on year). Operating profit was 58,858 million yen (a decrease of 19.9% year on year), ordinary profit was 59,063 million yen (a decrease of 18.5% year on year), and net profit came to 37,251 million yen (a decrease of 25.1% year on year).

The GungHo Group is a single-segment company; therefore, no segment information is disclosed.

*1 VR stands for virtual reality, which is a technology to artificially create a sense of reality by combining computer graphics and sound effects.

*2 MAU (Monthly Active User) refers to users who log in to the game at least once a month.

(2) Description of Financial Position

Total assets for the period under review resulted in ¥95,723 million, a decrease of ¥65,357 million from the end of the previous fiscal year. This was mainly due to the decrease in cash and deposit by 63,206 million yen when the Company acquired the treasury shares from SoftBank Corporation by tender offer. The name of SoftBank Corporation has changed into SoftBank Group Corporation as of July 1, 2015.

Total liabilities amounted to ¥11,673 million, a decrease of ¥18,203 million from the end of the previous fiscal year. This was primarily attributable to a decrease in income taxes payable by ¥14,884 million due to the payment of income taxes

payable.

Net assets were ¥84,049 million, a decrease of ¥47,154 million from the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥37,251 million as a result of steady movement of sales from smartphone games. Also, because the Company acquired the treasury shares, net assets have decreased by 79,999 million yen.

(3) Information Related to the Consolidated Earnings Forecast and Other Future Projections

The GungHo Group engages in the content business that is highly innovative in nature and is subject to facing sudden, short-term changes in the operating environment. Since this makes it difficult to calculate proper and rational earnings forecasts, the Company adopts the policy of providing timely disclosure of financial results and summary of operations on a quarterly basis while refraining from disclosing its full-year consolidated earnings forecast.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the quarter under review

N/A

(2) Adoption of any particular accounting methods for the preparation of quarterly consolidated financial statements

N/A

(3) Changes in accounting policies, changes in accounting estimates and restatements

Changes in accounting policies

(Application of the Accounting Standard for Business Combinations and other standards)

As the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013; the "Business Combinations Accounting Standard"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013; the "Consolidated Accounting Standard"), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013; the "Business Divestitures Accounting Standards"), and other standards became applicable from the beginning of the consolidated fiscal years commencing on or after April 1, 2014, the Company has applied these accounting standards (excluding the provisions stated in Clause 39 of the Consolidated Accounting Standard) from the first quarter of fiscal year ending December 31, 2015, changing the accounting method to record the difference caused by the changes in equity in subsidiaries remaining under the Company's control as capital surplus and to record acquisition related costs as expenses for the fiscal year in which such costs are incurred. With regard to business combinations carried out on or after the first quarter of fiscal year ending December 31, 2015, the Company changed the accounting method to reflect the adjustments to the acquisition cost allocation due to the finalization of provisional accounting treatment in the quarterly consolidated financial statements for the quarter containing the date of such business combinations.

The Business Combinations Accounting Standard and other standards are being applied transitionally as specified in Clause 58-2 (4) of the Business Combinations Accounting Standard, Clause 44-5 (4) of the Consolidated Accounting Standard, and Clause 57-4 (4) of the Business Divestitures Accounting Standard. While these standards have been applied since the beginning of the first quarter of the fiscal year 2015, the changes are slight on the quarterly consolidated financial statement for the period under review and consolidated statement of income for the third quarter of the fiscal year 2015.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of December 31, 2014)	3rd quarter of this Fiscal Year (As of September 30, 2015)
Assets		
Current assets		
Cash and deposits	132,099	68,892
Accounts receivable-trade	16,094	13,669
Short-term investment securities	543	953
Merchandise	33	19
Work in process	63	83
Deferred tax assets	1,295	383
Other	836	855
Allowance for doubtful accounts	△60	△62
Total current assets	150,905	84,794
Fixed assets		
Property, plant and equipment	405	271
Intangible assets		
Goodwill	1,493	1,266
Software	1,778	1,107
Software in progress	1,158	2,272
Other	53	77
Total intangible assets	4,484	4,724
Investments and other assets		
Investment securities	2,629	2,636
Deferred tax assets	652	564
Other	2,135	2,852
Allowance for doubtful accounts	△131	△120
Total investments and other assets	5,285	5,933
Total non-current assets	10,175	10,929
Total assets	161,081	95,723

(Millions of yen)

	Previous Fiscal Year (As of December 31, 2014)	3rd quarter of this Fiscal Year (As of September 30, 2015)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	579	593
Short-term loans payable	243	146
Payable within this year against long-term loans	232	934
Corporate income taxes payable	19,612	4,728
Provision for bonuses	11	26
Other	7,785	4,581
Total current liabilities	28,466	11,009
Fixed liabilities		
Long-term loans payable	1,009	198
Liabilities for retirement benefits	11	12
Other	389	452
Total fixed liabilities	1,411	663
Total liabilities	29,877	11,673
Net assets		
Shareholders' equity		
Capital stock	5,338	5,338
Capital surplus	5,471	5,471
Retained earnings	120,414	113,756
Treasury shares	△2,780	△42,314
Total shareholders' equity	128,443	82,251
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	71	261
Foreign currency translation adjustment	391	△224
Total accumulated other comprehensive income	462	37
Stock Options	—	100
Minority interests	2,297	1,660
Total net assets	131,203	84,049
Total liabilities and net assets	161,081	95,723

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Statements of Income

Nine-months Period

	(Millions of yen)	
	3rd quarter of the Fiscal Year 2014 (From January 1, 2014 to September 30, 2014)	3rd quarter of the Fiscal Year 2015 (From January 1, 2015 to September 30, 2015)
Net sales	132,828	119,219
Cost of sales	42,791	39,336
Gross profit	90,037	79,882
Selling, general and administrative expenses	16,595	21,023
Operating profit	73,441	58,858
Non-operating profit		
Interest income	97	120
Foreign exchange gains	—	157
Other	13	46
Total non-operating profit	111	324
Non-operating expenses		
Interest expenses	19	36
Equity in losses of affiliates	1,021	—
Treasury stock acquisition costs	0	58
Foreign exchange losses	6	—
Other	0	25
Total non-operating expenses	1,048	119
Ordinary profit	72,504	59,063
Extraordinary profit		
Gains on sales of shares of subsidiaries and associates	7,591	—
Total extraordinary income	7,591	—
Extraordinary loss		
Impairment loss	223	204
Total extraordinary loss	223	204
Profit before income taxes and minority interests	79,872	58,858
Corporate income tax, residential taxes and enterprise tax	28,272	21,085
Corporate income taxes-deferred	2,170	999
Total corporate income taxes Profit before minority	30,443	22,084
Profit before minority interests	49,428	36,774
Minority interests in loss	△287	△477
Net profit	49,715	37,251

Quarterly Statements of Comprehensive Income
 Nine-months Period

	(Millions of yen)	
	3rd quarter of the Fiscal Year 2014 (From January 1, 2014 to September 30, 2014)	3rd quarter of the Fiscal Year 2015 (From January 1, 2015 to September 30, 2015)
Quarterly profit before minority interests	49,428	36,774
Other comprehensive income		
Valuation difference on available-for-sale securities	—	190
Foreign currency translation adjustment	247	△779
Share of other comprehensive income of entities accounted for using equity method	△2,417	—
Total other comprehensive income	△2,170	△588
Quarterly comprehensive income	47,258	36,185
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	47,444	36,825
Quarterly comprehensive income attributable to minority interests	△186	△640

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes on the Going-concern Assumption)

N/A

(Notes on Any Significant Changes to the Amount of Shareholders' Equity)

Third quarter of the fiscal year 2014 (from January 1, 2014 to September 30, 2014)

1. Dividend payments

Date of resolution	Type of shares	Source of dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
February 3, 2014 Board of Directors	Common stock	Retained earnings	2,880	2.50	December 31, 2013	March 10, 2014

(Note) The Company conducted a 100-for-1 stock split of its common shares effective January 1, 2014.

The dividend per share is indicated the dividend after the stock split.

2. Note regarding treasury shares

The Company purchased 4,300,000 treasury shares based on a resolution at the Board of Directors meeting held on February 3, 2014, resulting in ¥27.80 million increases in treasury shares during the third quarter of the fiscal year ending December 31, 2014. As a result, treasury shares at the end of the third quarter of the fiscal year 2015 amounted to ¥27.80 million.

Third quarter of the fiscal year 2015 (from January 1, 2015 to September 30, 2015)

1. Dividend payments

Date of resolution	Type of shares	Source of dividend	Total dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
February 3, 2015 Board of Directors	Common stock	Retained earnings	3,443	3.00	December 31, 2014	March 9, 2015

2. Note regarding treasury shares

The Company has acquired 188,235,300 treasury shares from SoftBank Corporation via making a tender offer, based on the Board of Directors resolution on April 28, 2015. Also, based on the resolution from the Board meeting held on June 24, 2015, 94,117,600 of the treasury shares have been cancelled. As a result, the treasury shares increased by 39,533 million yen during the third quarter of the fiscal year 2015 and marked as 42,314 million yen at the end of the third quarter of the fiscal year 2015.

Also, the name of SoftBank Corporation has changed into SoftBank Group Corporation as of July 1, 2015.

(Segment Information)

Segment Information

I. Third quarter of the fiscal year 2014 (from January 1, 2014 to September 30, 2014)

Segment information has been omitted as the GungHo Group is comprised of a single segment.

II. Third quarter of the fiscal year 2015 (from January 1, 2015 to September 30, 2015)

Segment information has been omitted as the GungHo Group is comprised of a single segment.

(Significant Subsequent Events)

N/A