Nihon Enterprise Co., Ltd.
Q2 2016 ending May

Quarterly Earnings Summary

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

12th January 2016

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Table of Contents

1 Overview of Earnings Summary (Q2 FY2016)

- Highlights P.4
- PL P.5
- Quarterly Growth P.6
- Sales (Contents Service Segment) P.7
- Sales (Solution Segment) P.8
- COGS P.10
- SG&A expenses P.12
  ..... P.14

2 Contents Service Segment (Q2 achievements)

- Reorganization P.17
- Traffic Information P.19
- Entertainment P.20
- Lifestyle (1/2) Communication Platform P.21
- Lifestyle (2/2) Life Support Platform P.22
- Individual trades (flea market App.) "Dealing" P.23

3 Solution Segment (Q2 achievements)

- Solution (consigned development and others) P.25
- Regional revitalization P.26
- Advertising Agent Service (storefront affiliate) P.27
- About NE YinRun Co., Ltd. P.28

4 Forecast and Strategy

- Forecast P.30
- Strategy (1/3) Expansion of Business Volume P.31
- Strategy (2/3) Business Plan of Native Apps P.32
- Strategy (3/3) Expansion of Business Fields in smart device era P.33

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Overview of Earnings Summary
(Q2 FY2016)

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Highlights

Consolidated Summary

Sales	:	2,547MNyen	YoY :	1.3%up
Ordinary profit	:	52MNyen	YoY :	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

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Consolidated PL

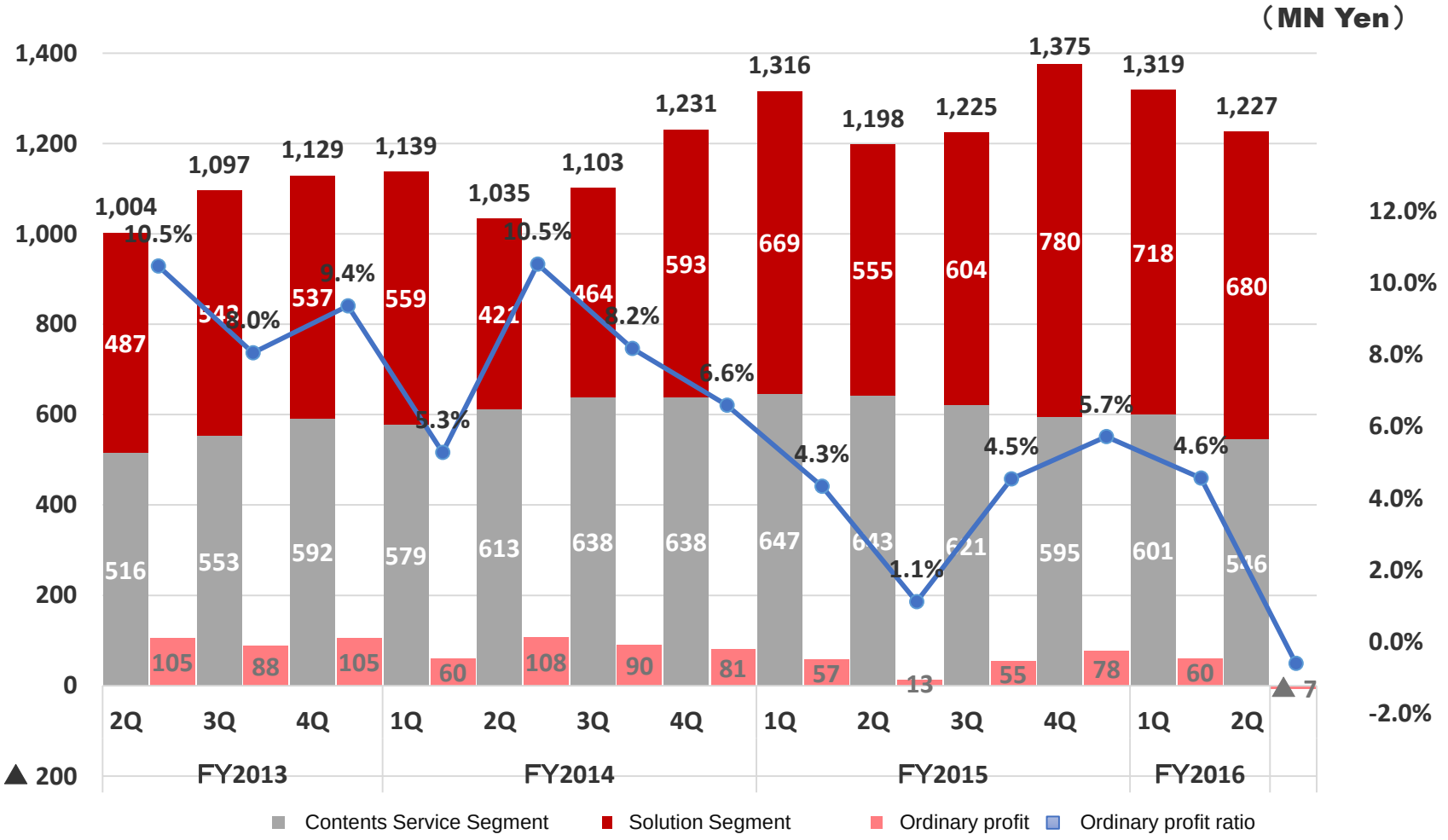
（MN Yen）

	FY2015 Q1 / Q2	FY2016 Q1 / Q2	YoY Difference	YoY 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%

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Q/Q growth

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



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Sales

■ Y/Y Growth

（MN Yen）

	FY2015 Q1 / Q2	FY2016 Q1 / Q2	YoY Difference	YoY 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

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Sales (Contents Service Segment)

■ Y/Y Growth

（MN Yen）

	FY2015 Q1 / Q2	FY2016 Q1 / Q2	YoY Difference	YoY 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

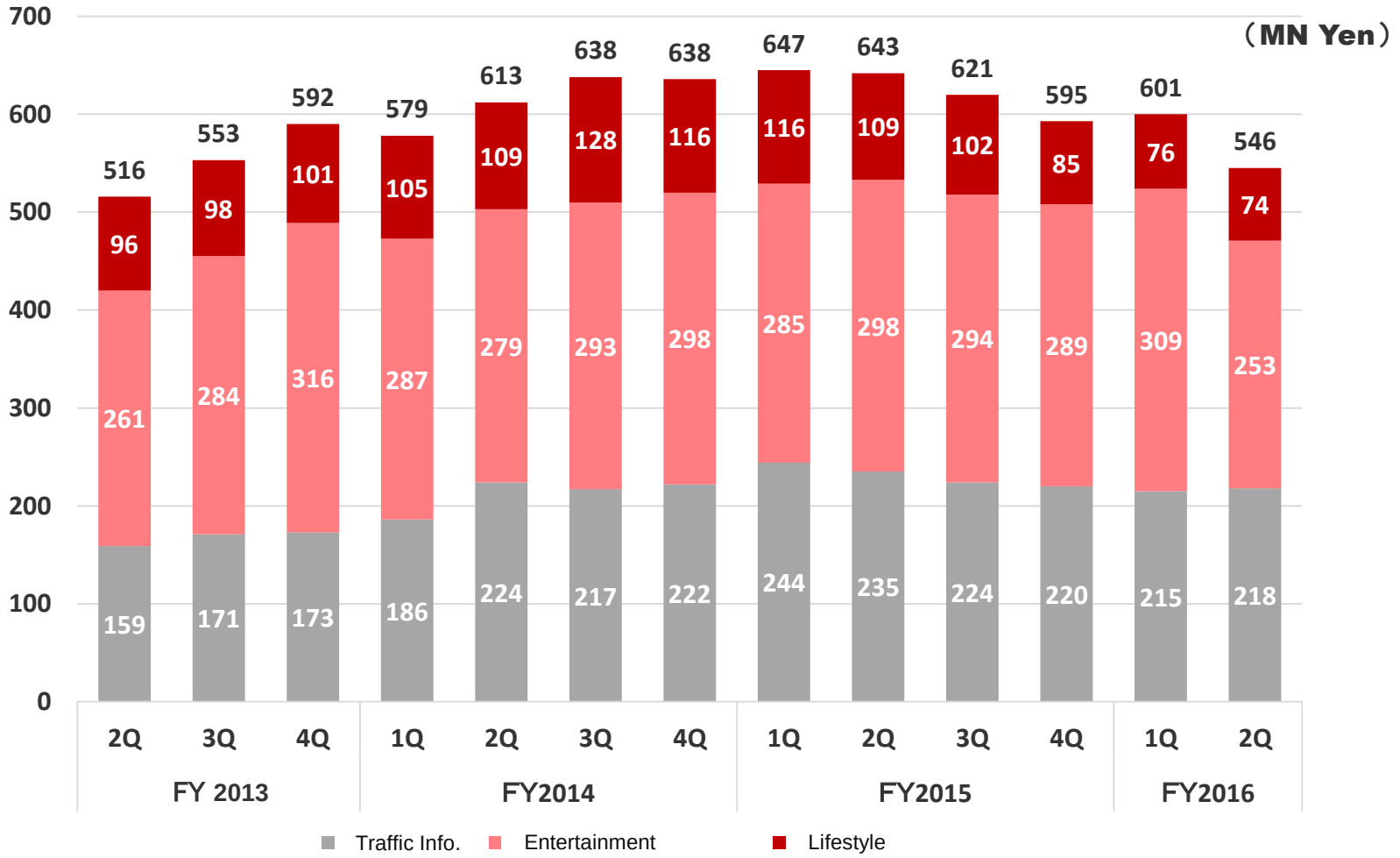
※ “Entertainment” includes “Games”, “Mail”, “Music”, “E-book” and “Overseas”

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Sales (Contents Service Segment)

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

■ Q/Q Growth



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

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Sales (Solution Segment)

■ Y/Y Growth

（MN Yen）

	FY2015 Q1 / Q2	FY2016 Q1 / Q2	YoY Difference	YoY 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.

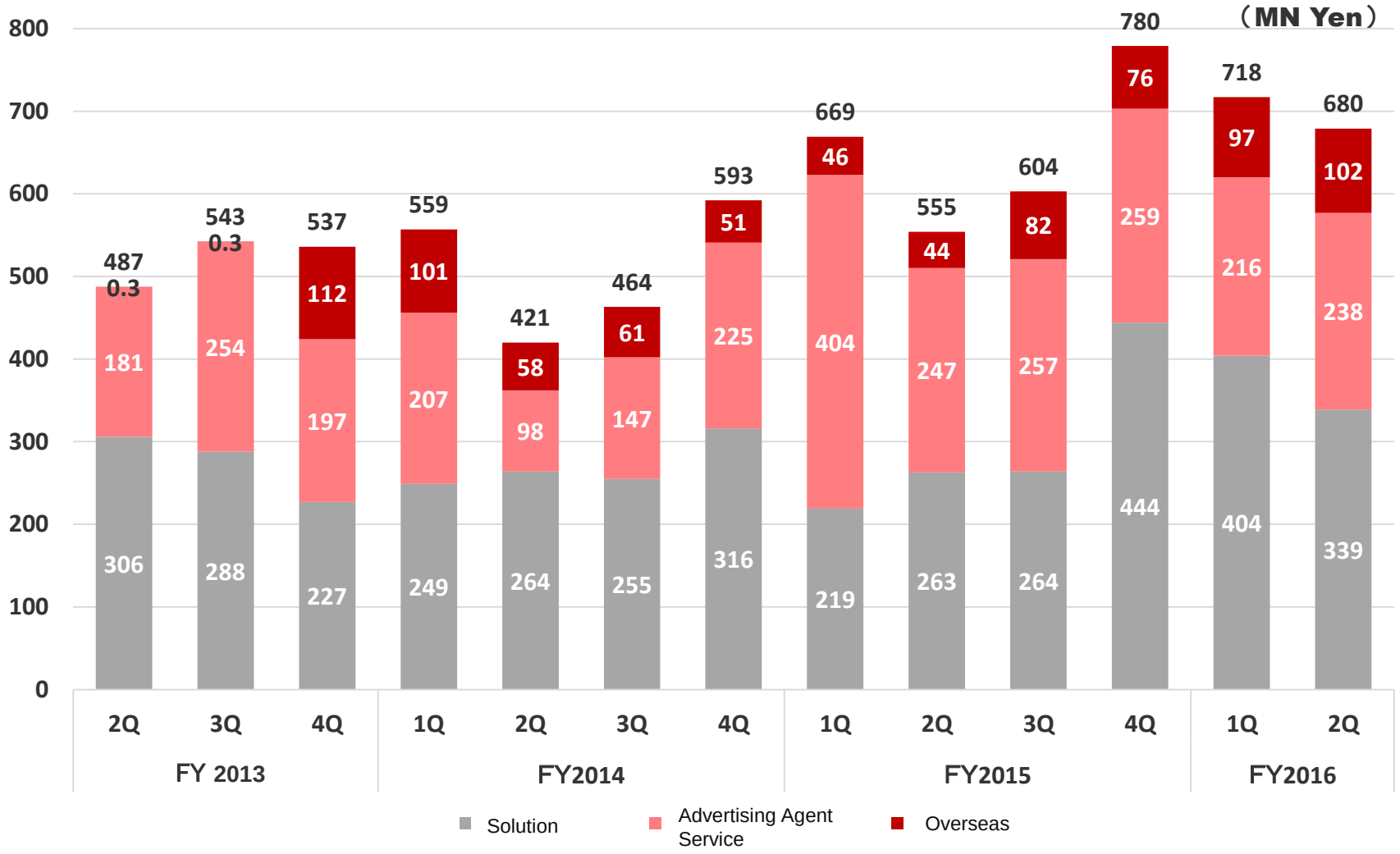
Good performance in mobile phone sales in Overseas category (China)

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Sales (Solution Segment)

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

■ Q/Q Growth



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COGS

■ Y/Y Growth

（MN Yen）

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

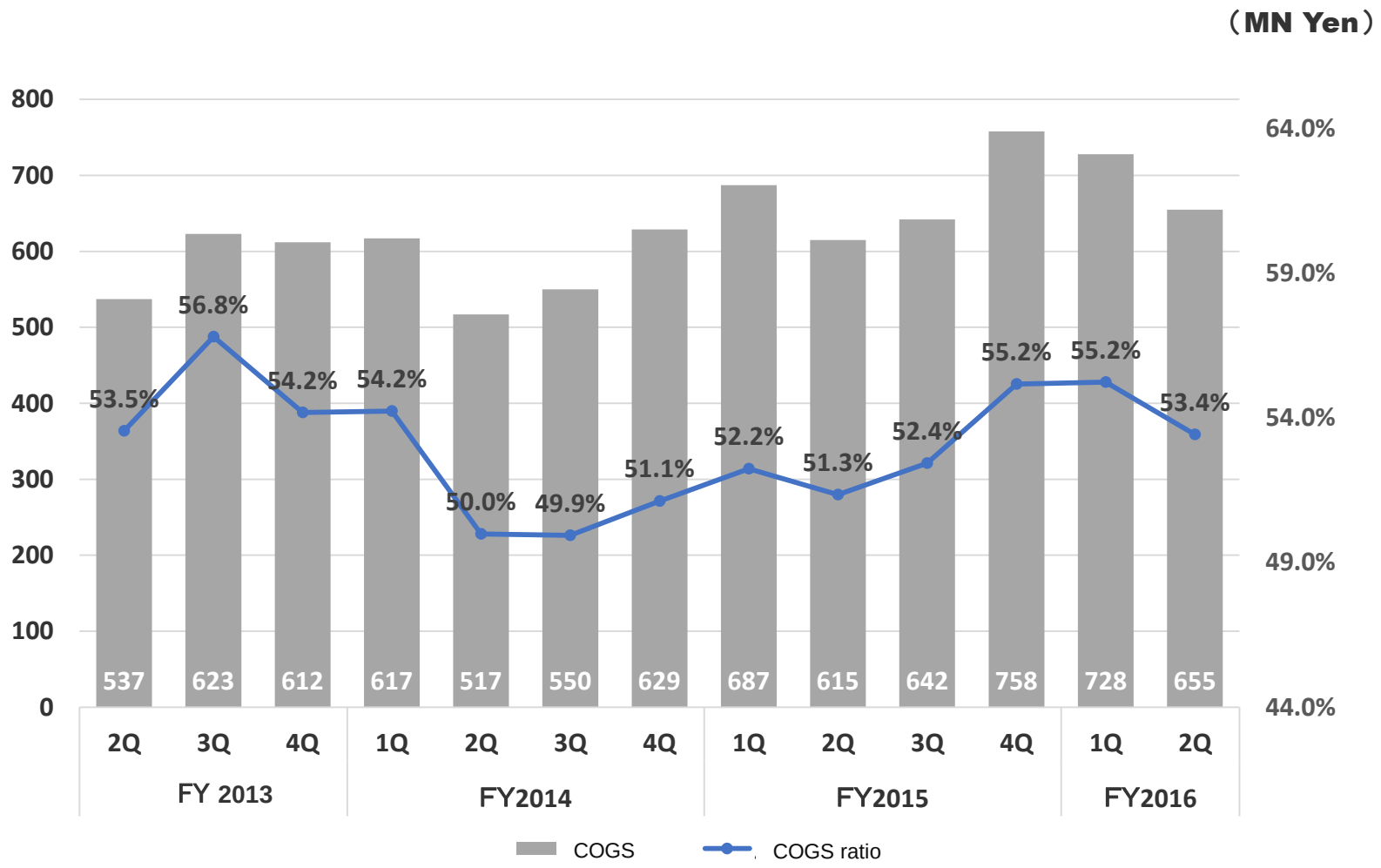
COGS ratio increased due to sales growth in Solution Segment

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COGS

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

■ Q/Q Growth



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SG&A

■ Y/Y Growth

（MN Yen）

	FY2015 Q1 / Q2	FY2016 Q1 / Q2	YoY difference	YoY 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%	-	-

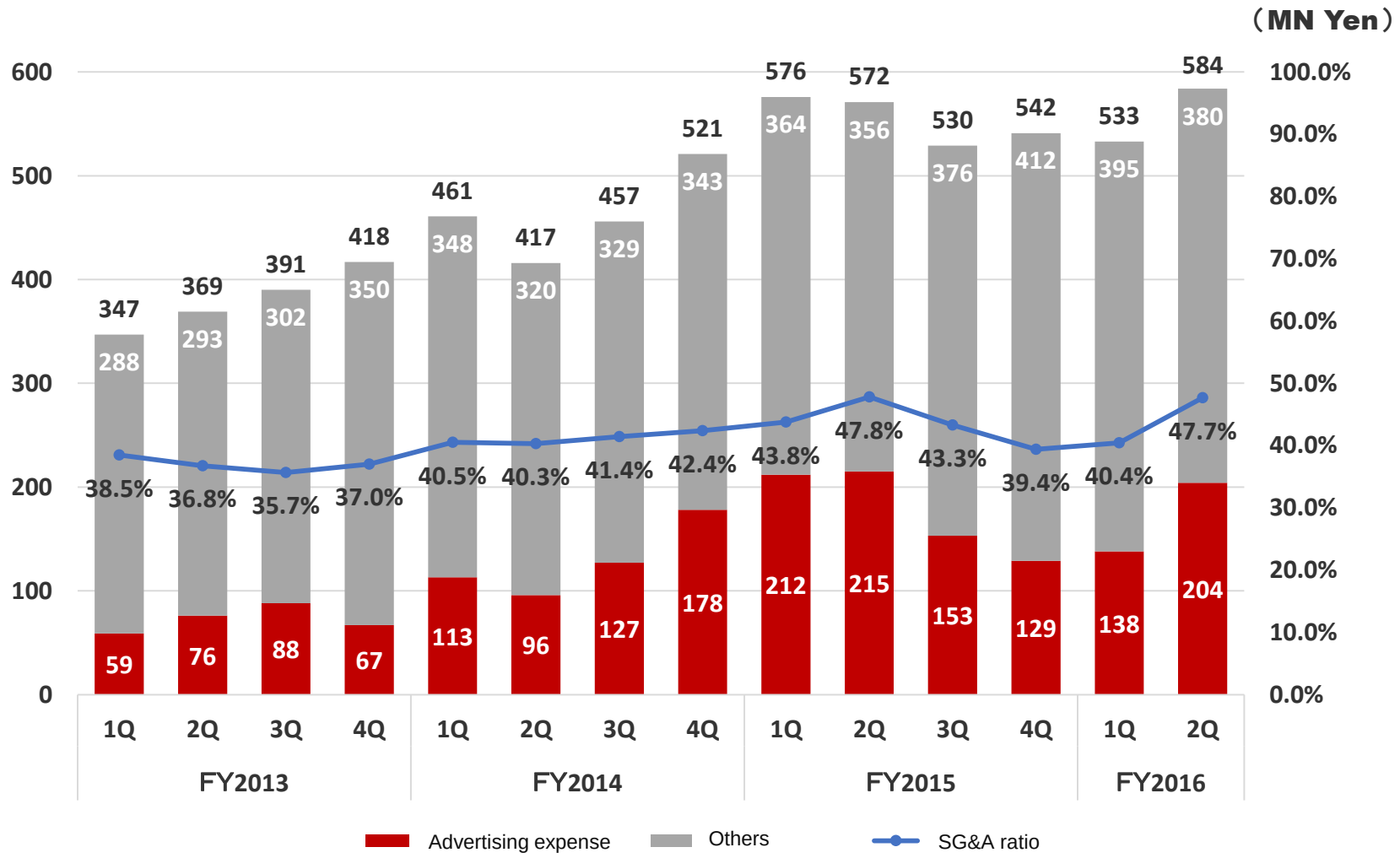
Others (personnel expenses) increased owing to business fields expansion. Advertising expenses decreased by 19.9% YoY due to lower adverting investment in native Apps

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SG&A

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

■ Q/Q Growth



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2Q achievements

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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 • Quality enhancement of own operating package services
•Enhancement of sales support capability • Propelling joint R&D in the field of leading edge technologies

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Contents Service Segment

(Q2 achievements)



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Traffic Information

Major contents and achievements

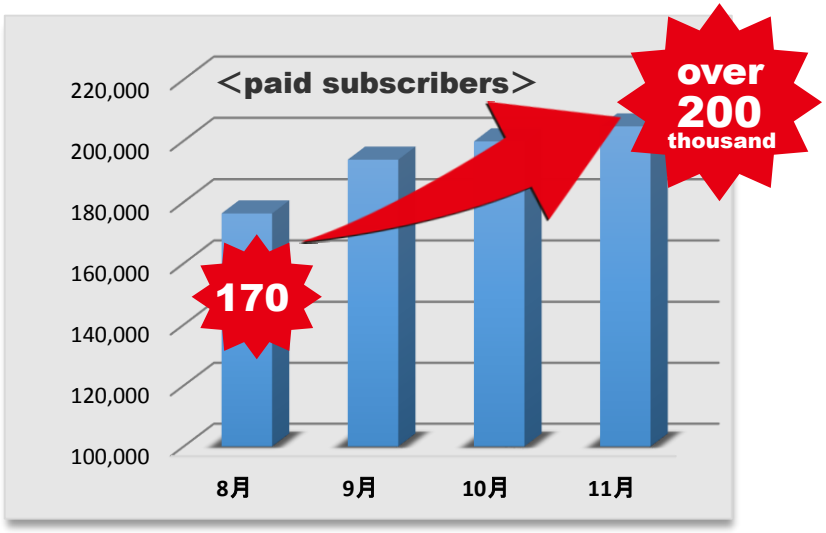
Traffic Information Service

■**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)**





交通情報

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".

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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.





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

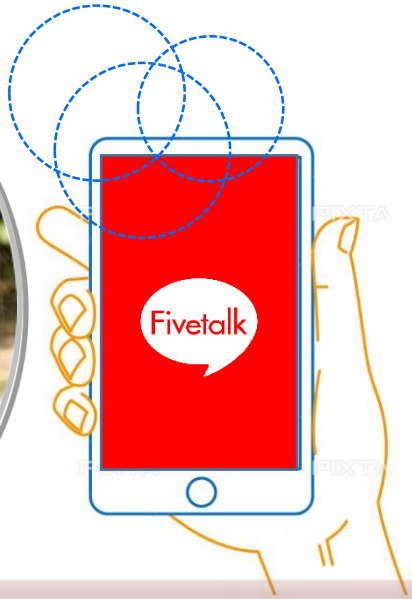
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Lifestyle (1/2)

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)



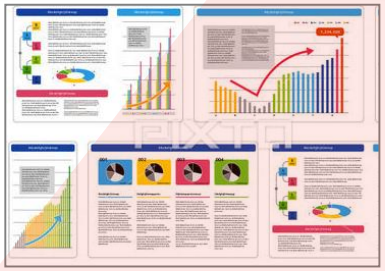


Car
T-connect
TOYOTA's leading edge telematics service



(Since 6th June 2015)

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



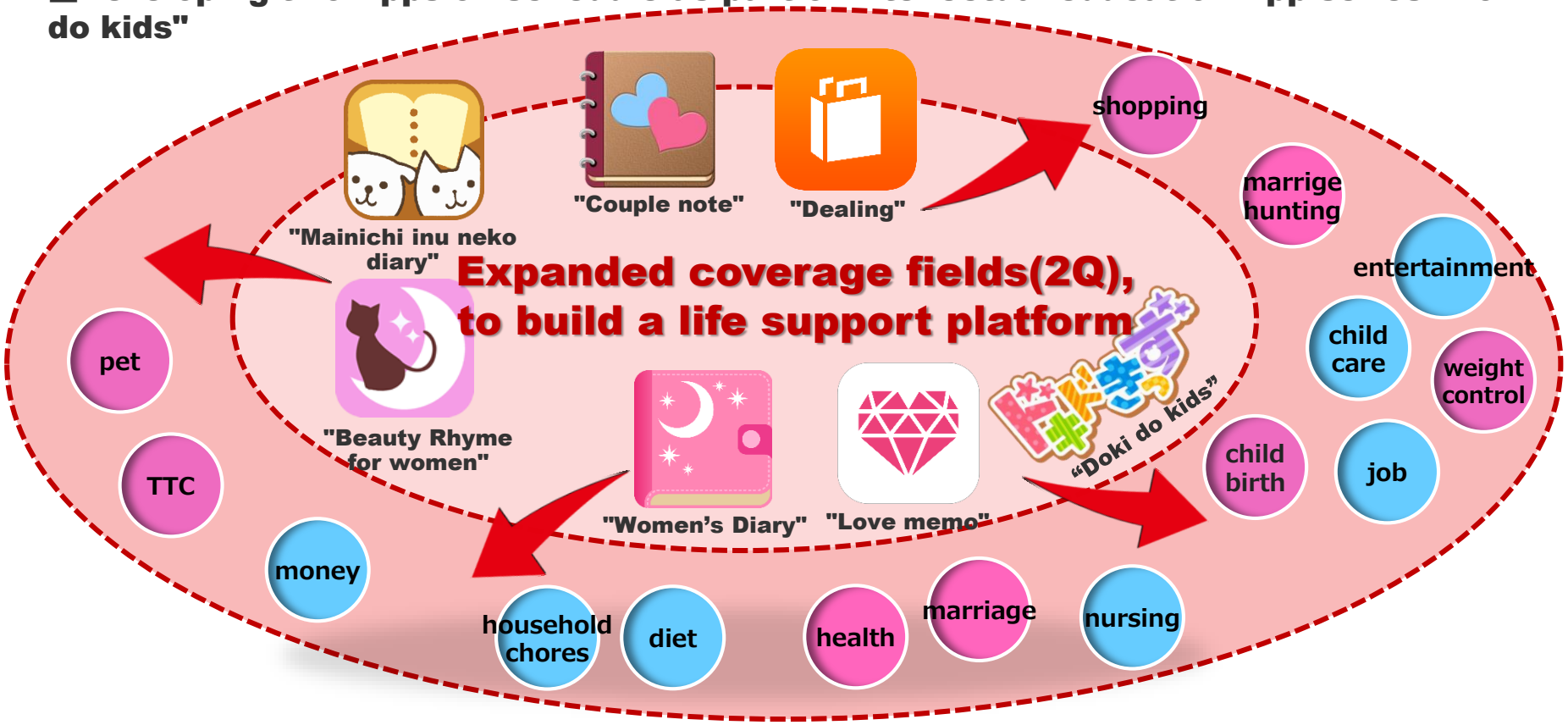




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Lifestyle (2/2)

■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 “Mainich 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"



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Dealing

“Dealing”

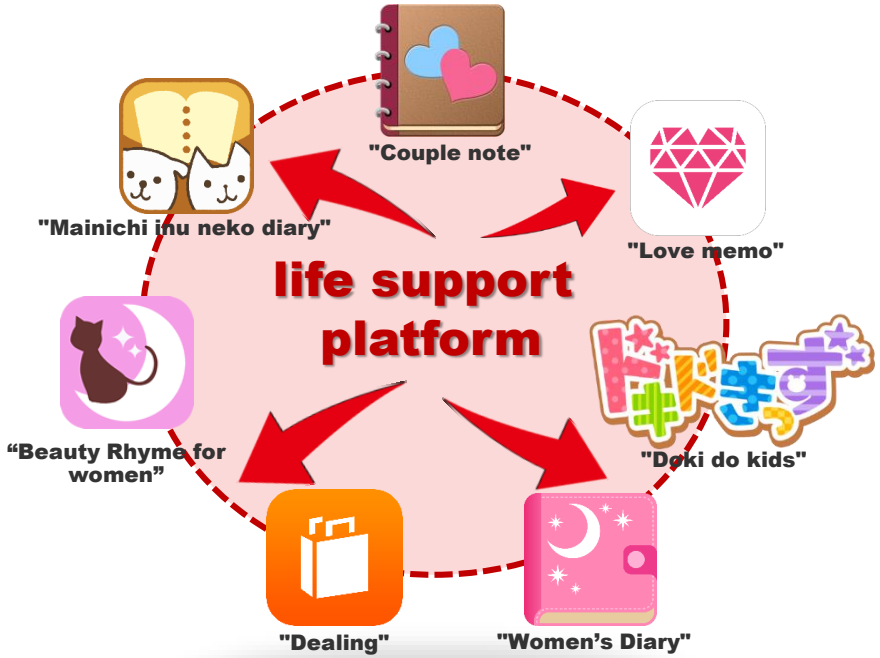
Business environment: Smartphone e-commerce market size grows rapidly

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



Strategy

① As a core service of “life support platform"



②To develop new alliance business by utilizing escrow



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Solution Segment
(Q2 achievements)

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Solution (Consigned development and others)

Consigned development

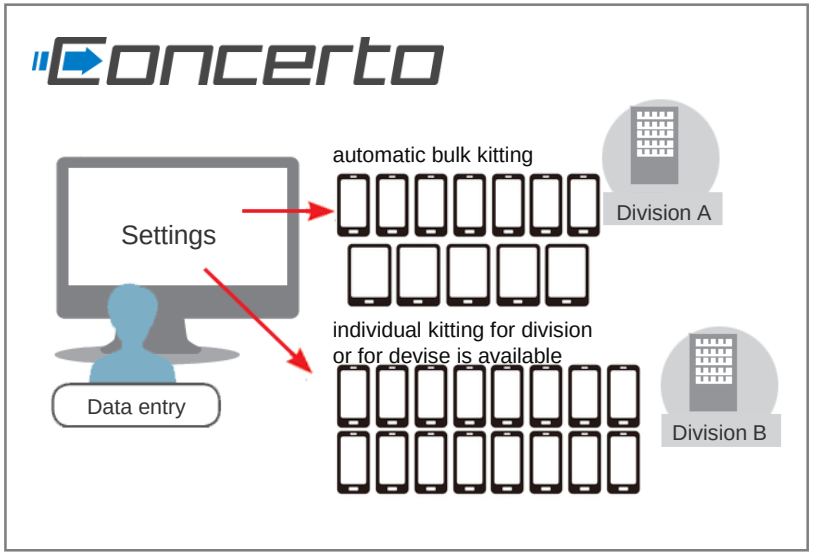
Business environment: Investment in IT system by enterprises are expanding and regional revitalization projects by self-governing bodies are increasing

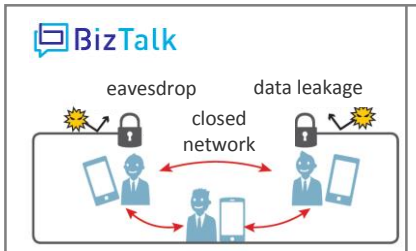
- Good results in distributed processing server system integration and debug service to major game companies
- Providing server design, integration and operating service to a major publishing company
- Received order entries such as server monitoring robot, AR App (Shiraishi castle in Miyagi pref. "Shiro 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)

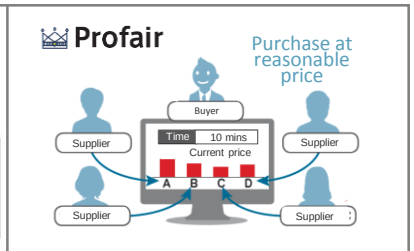
Own operating services

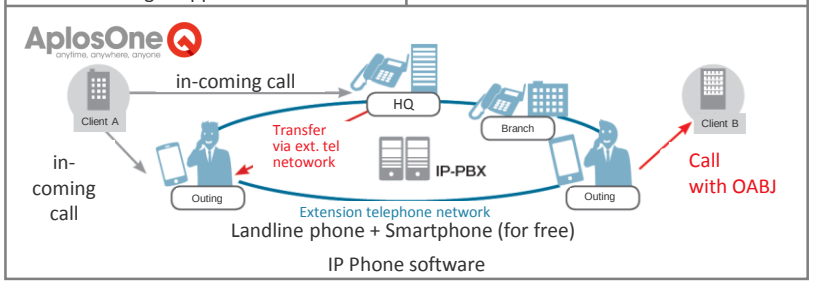
Business environment: Business use of smartphone and tablet at enterprises are accelerated

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









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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**


Smart agriculture
(AizuWakamatsu, Fukushima pref.)

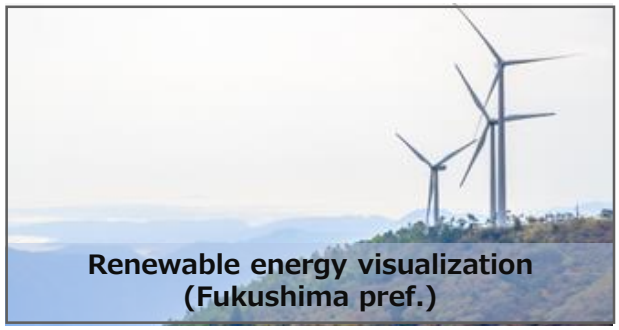

Parenting support App "Shimoda Kodomo Diary" as countermeasures against lower birthrate (Shimoda, Shizuoka pref.)


Marriage, pregnancy, giving birth and parenting support App "Chiba My Style Diary" (Chiba pref.)


ICT community services
center around solar photovoltaic generation
(Ube, Yamaguchi pref.)


Navigation App "Yubisashi navi" for tourism
(From Fukushima pref. to all of Japan)


History exploring AR navigation for tourism
"Shiraishi shiro shiro navi"
(Shiroishi, Miyagi pref.)


Renewable energy visualization
(Fukushima pref.)


Factory tour App for tourism (inbound)
(Saitama pref.)

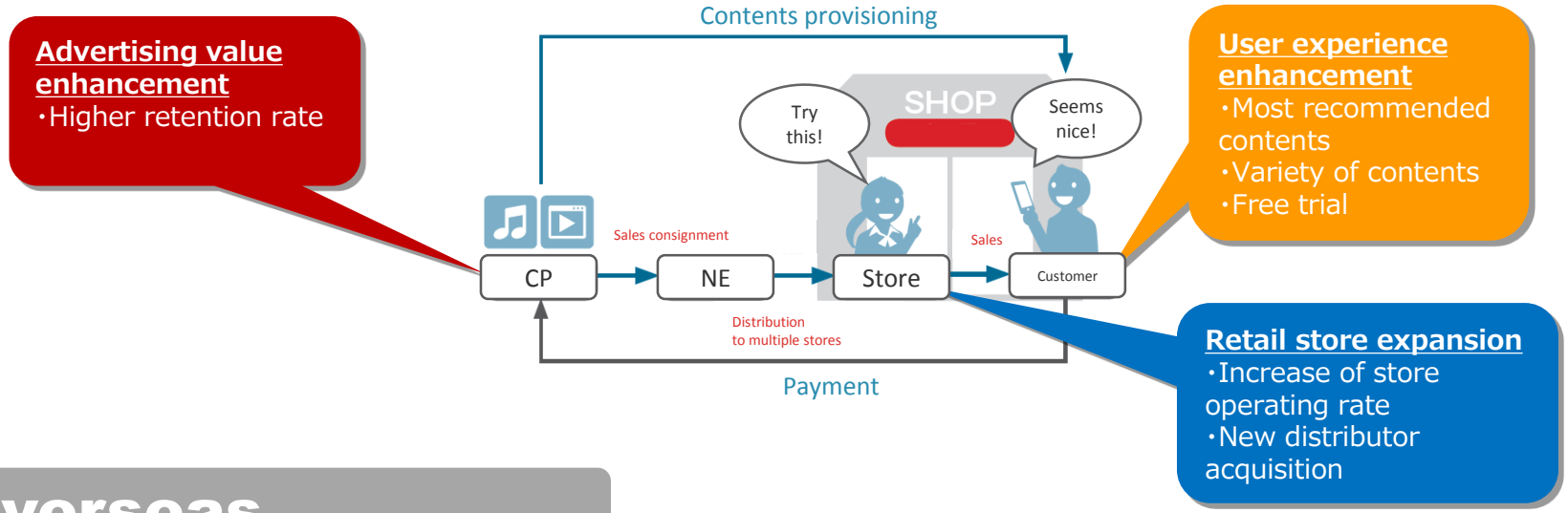

Navigation App "Aruku dobutsu navi" for tourism
(Sunan, Yamaguchi pref.)

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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)**

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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

NE銀潤

Purpose and business strategy

■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) throuagh 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

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Forecast and Strategy

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Forecast

Downward revision

（MN Yen）

	FY2016 (Focused on 10th July)	FY2016 (Revised on 8th 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

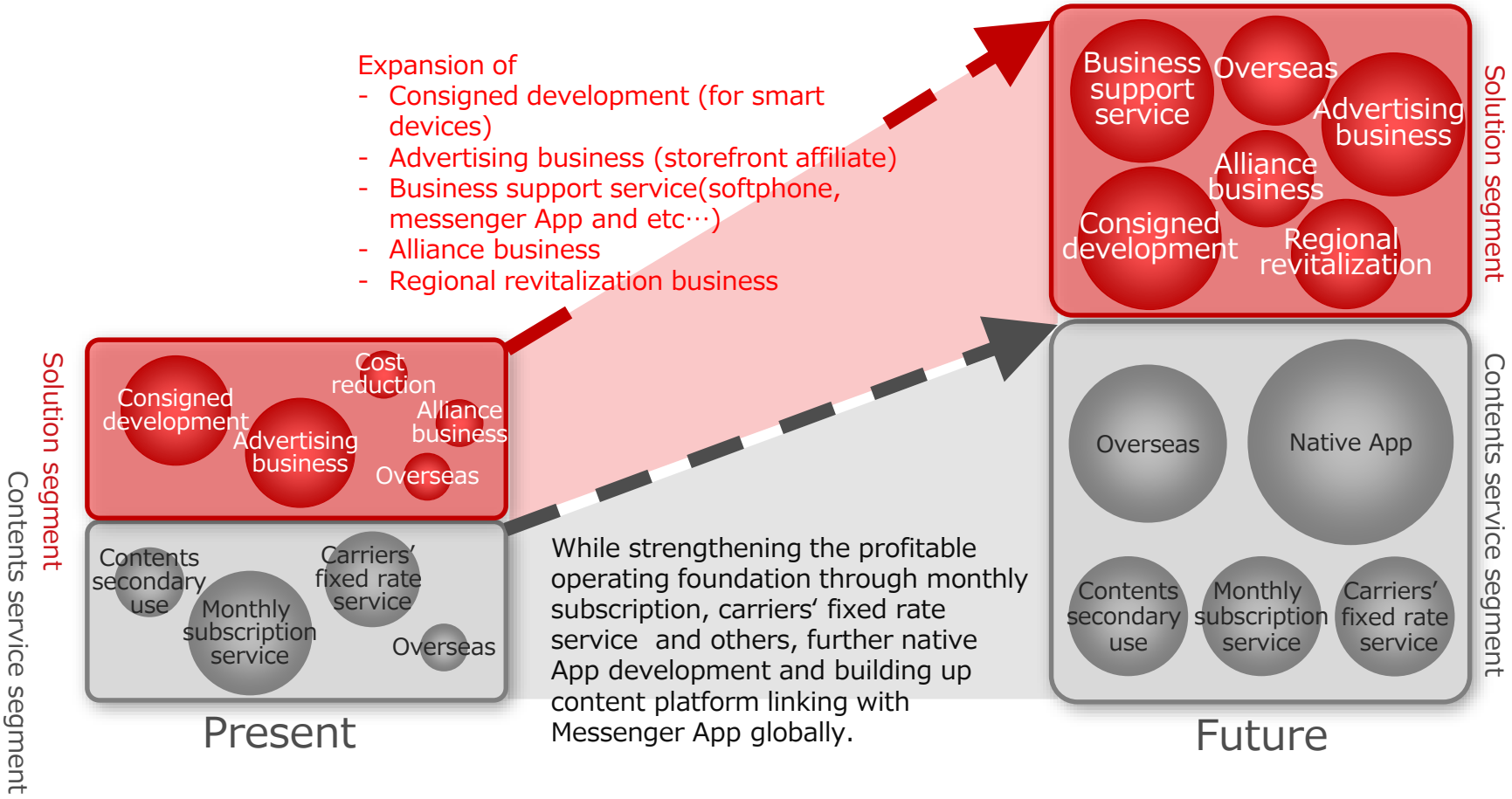
	FY2015	FY2016 (Revised on 8th Jan.)	YoY Difference	YoY Growth rate	Progress
Sales	5,116	5,240	123	2.4%	48.6%
Operating profit	189	210	20	10.7%	20.9%
Ordinary profit	204	230	25	12.4%	23.0%
Net profit attributable to the parent company	177	140	▲ 37	▲21.2%	49.7%

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

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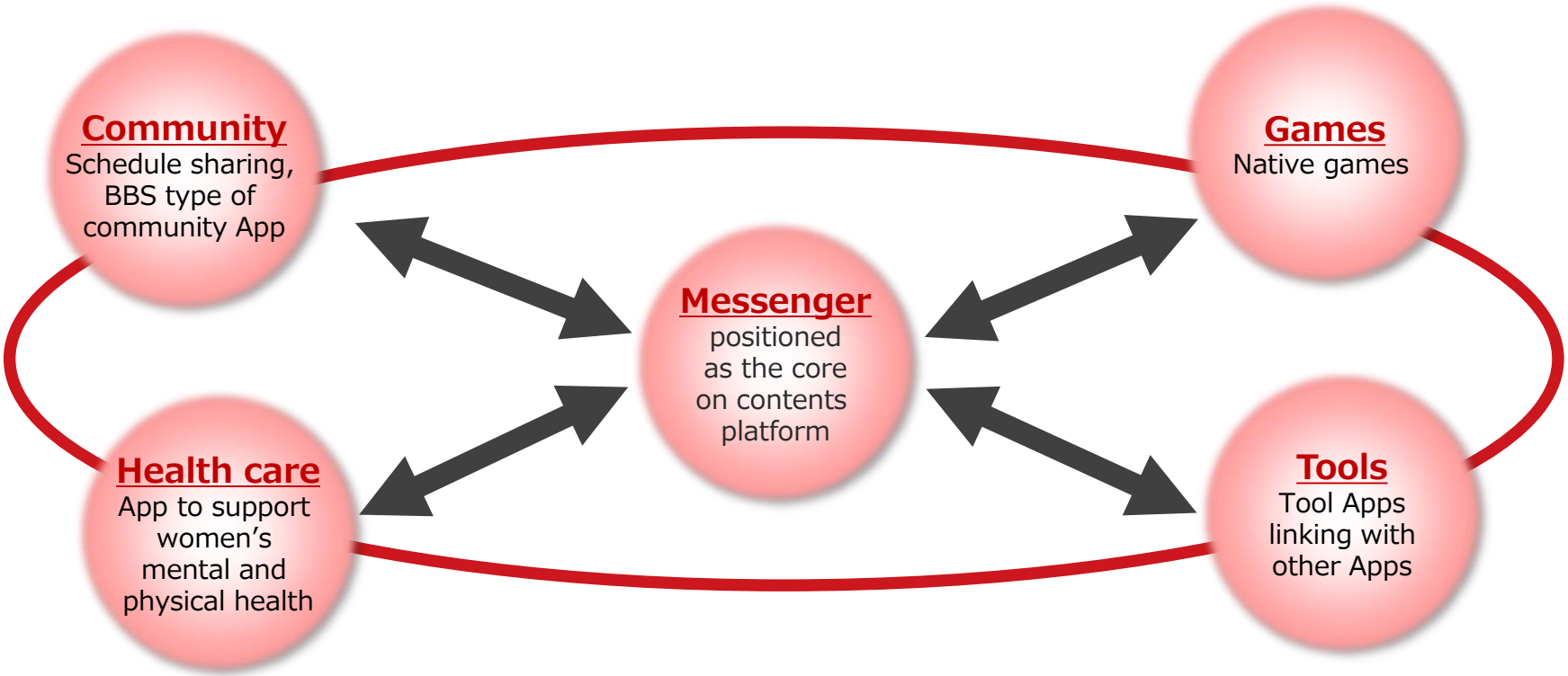
Strategy (1/3) Expansion of Business Volume



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Strategy (2/3)

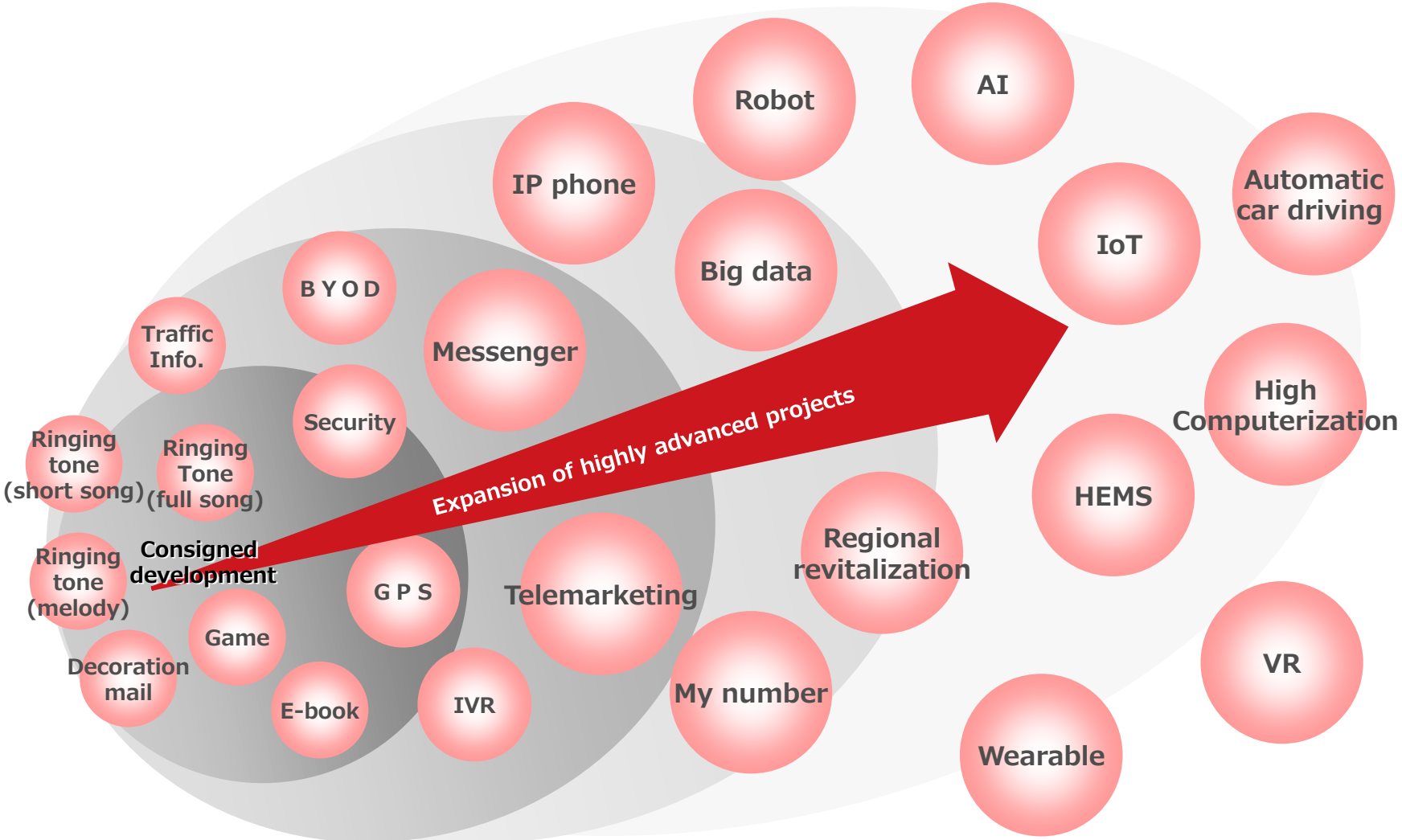
Business Plan of Native Apps



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Strategy (3/3)

Expansion of Business Fields in smart devise era



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日本エンタ 検索

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

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also delivered via "timely disclosure alert mail" service.

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