Consolidated Financial Results

Nihon Enterprise Co.,Ltd.

NIHON ENTERPRISE

1Q FY2017 ending May

（From June 2016 to Aug. 2016）

Released 3rd October 2016

（TSE code: 4829）

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Overview of Earnings Summary
(Q1 FY2017)

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Highlights

（MN Yen）

	1Q FY2017	YoY
Sales	1,245	▲5.6%
Operating profit	67	18.1%
Ordinary profit	80	33.4%

Contents Service Segment

Lifestyle	Good progress in forming “contents-platform” centering around “Women’s Diary” and “Dealing”
Traffic Info.	With stable sales in contents provision on carrier platforms（B-to-C）, carried out traffic Info. distribution to enterprises (B-to-B) through strengthening alliances
Entertainment	Innovative challenge in producing hit contents, while focusing on existing long run hit “Chokotto Game” and E-book service “BOOKSMART”

Solutions Segment

Solutions (consigned development and others)	Good performance in total solution service including consigned development and debug. Newly released “e-Manabi”, a package service to support employee education
Advertising agent service	Despite negative impact of administrative regulation, stable sales due to measures such as new ad plan. At the same time focused on developing sales channel
Overseas	In lower market growth, hit QoQ record owing strong performance in B-to-B sales of mobile device and broadband

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Consolidated PL

（MN Yen）

	FY2017 Q1	FY2016 Q1	YoY Difference	YoY Growth rate
Sales	1,245	1,319	▲ 74	▲5.6%
COGS	728	728	0	▲0.0%
Gross profit	516	590	▲ 74	▲12.6%
SG&A	449	533	▲ 84	▲15.8%
Operating profit	67	57	10	18.1%
Non-operating profit	14	3	10	323.2%
Non-operating expense	1	0	0	409.0%
Ordinary profit	80	60	20	33.4%
Extraordinary profit	19	17	1	9.4%
Extraordinary loss	1	-	1	-
Pre-tax profit	98	78	19	25.6%
Total amount of corporation tax and others	29	46	▲ 17	▲37.3%
Net profit	68	31	37	118.5%
Net profit attributable to non-controlling interest	13	7	5	76.1%
Net profit attributable to the parent company	55	24	31	131.8%

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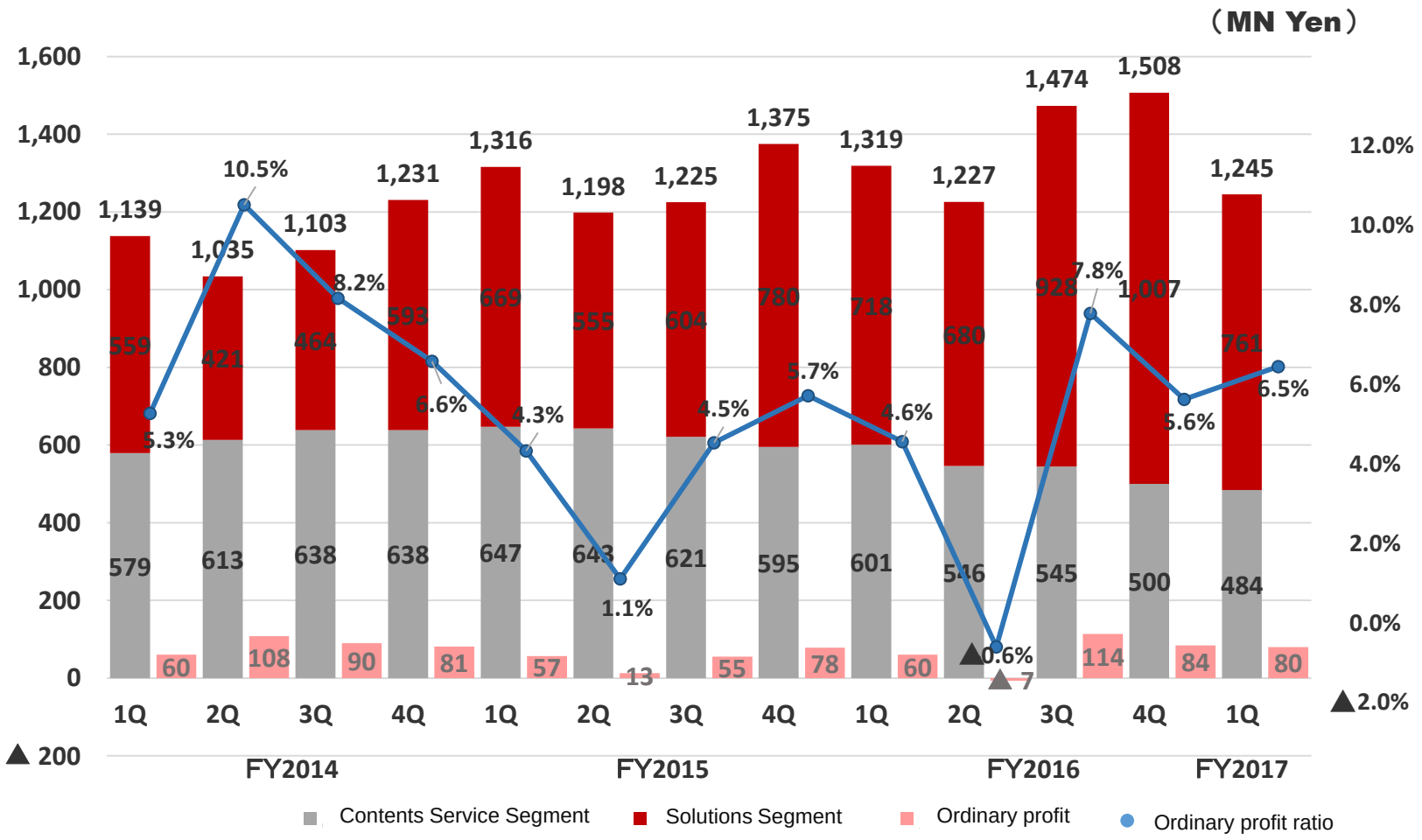
Q/Q growth

Good progress towards full year forecast



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Sales

■ Y/Y Growth

- **Contents Service Segment, sales 19.5% down due to negative impact of carriers' policy change in "fixed rate service" and others**
- **Solutions Segment, rose steadily by 6.0%**

（MN Yen）

	FY2017 1Q	FY2016 1Q	YoY Difference	YoY Growth rate
Contents Service Segment	484	601	▲ 117	▲19.5%
Solutions Segment	761	718	42	6.0%
Total	1,245	1,319	▲ 74	▲5.6%

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Sales (Contents Service Segment)

■ Y/Y Growth

- **Entertainment, decreased 33.4% due to less profitability in carrier service, despite increase of subscribers**
- **In all genre, focusing on business fields expansion through alliances!**

（MN Yen）

	FY2017 1Q	FY2016 1Q	YoY Difference	YoY Growth rate
Traffic Info.	213	215	▲ 1	▲0.9%
Entertainment	205	309 (※1)	▲ 103	▲33.4%
Lifestyle	64	76	▲ 11	▲15.5%
Contents Service Segment	484	601	▲ 117	▲19.5%

（※１）Includes sales by Beijing YZH Wireless Net technology Co., Ltd.

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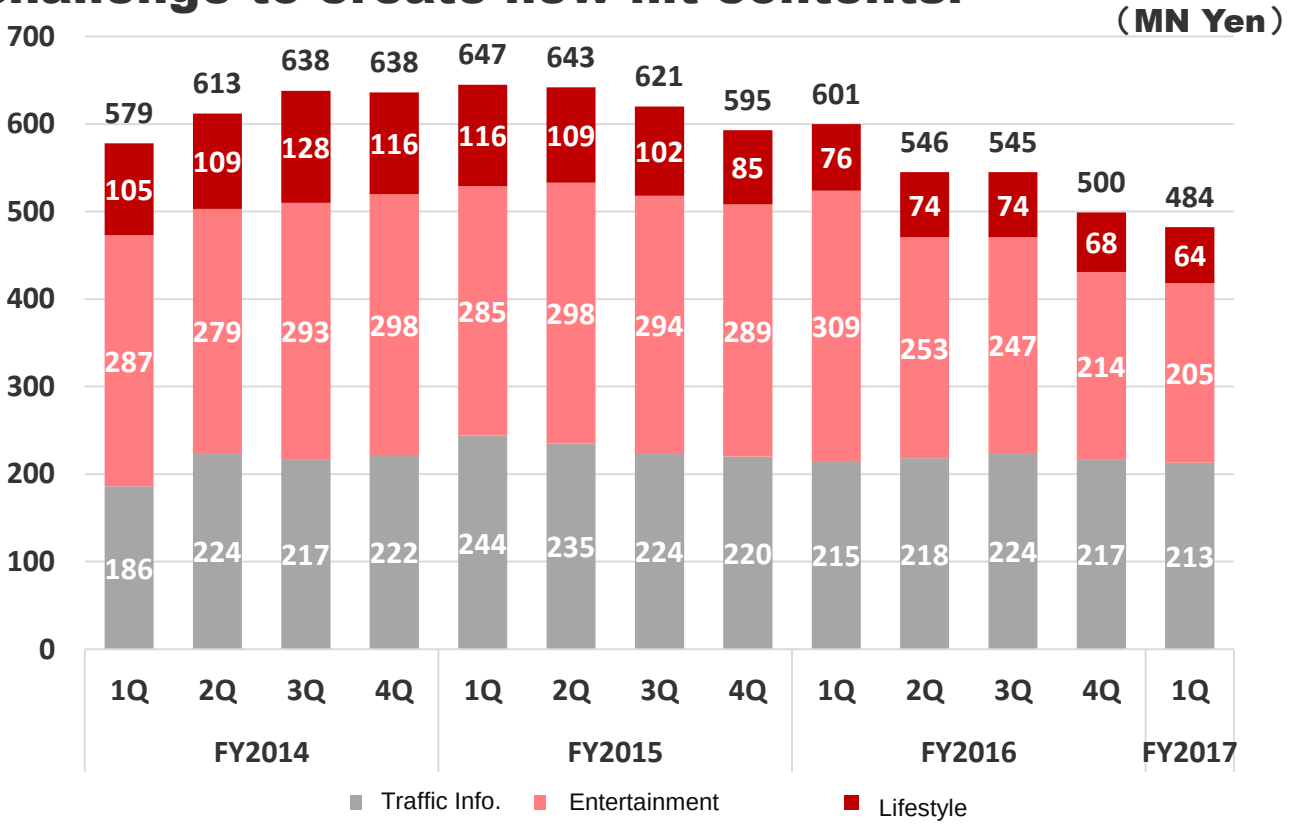
Sales (Contents Service Segment)

■ Q/Q Growth

- **Decreasing trend due to lower profitability in carrier service and others**
- **While obtaining stable sales&profit in existing hit contents, keep challenge to create new hit contents!**



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Sales (Solutions Segment)

■ Y/Y Growth

- **Solutions(consigned development and others) , 5.1% down.**
  Preferable order entries (acceptance inspection is scheduled 2Q)
- **Advertising Agent Service, 21.8% up despite negative impact of administrative regulation**
- **Overseas, strong performance with 16.6% up.**
  As a whole Solutions Segment increased 6.0%

（MN Yen）

	FY2017 1Q	FY2016 1Q	YoY Deffirence	YoY Growth rate
Solutions	384	404	▲ 20	▲5.1%
Advertising Agent Service	263	216	47	21.8%
Overseas	113	97	16	16.6%
Solutions Segment	761	718	42	6.0%

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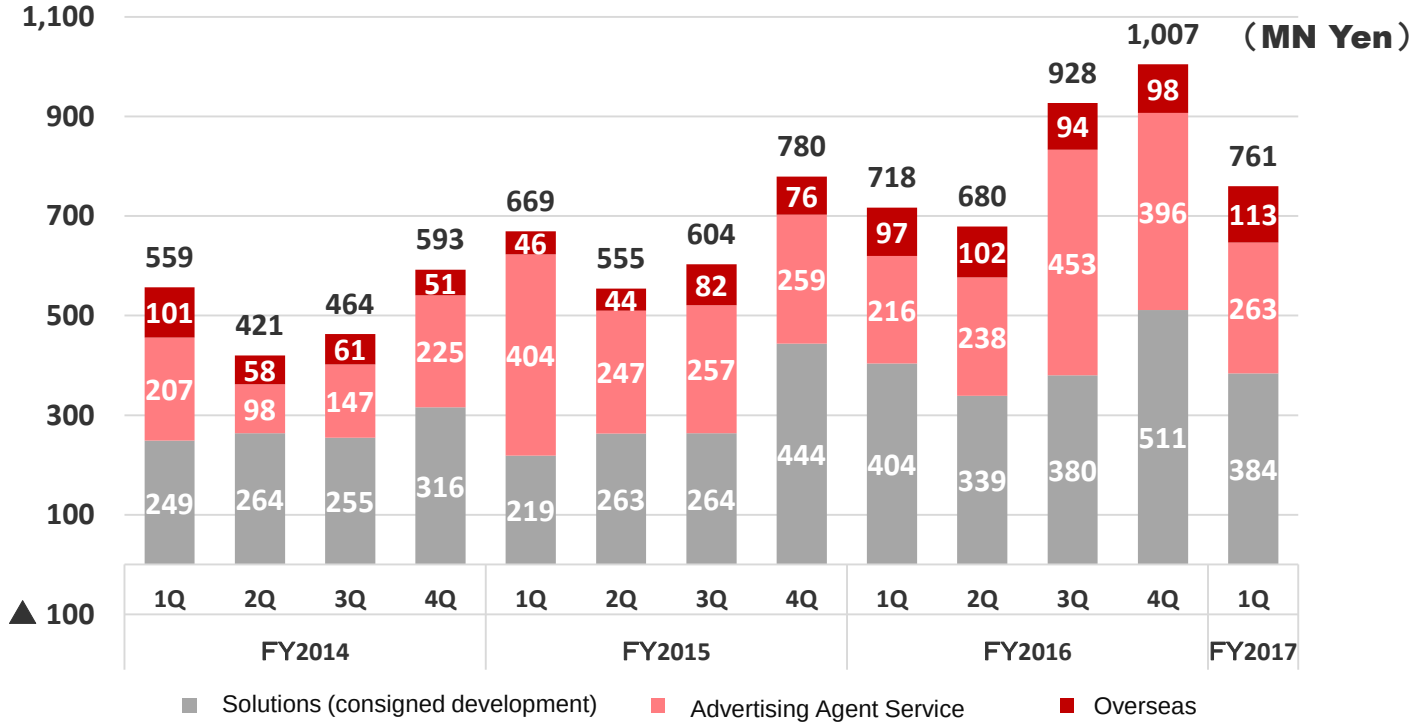
Sales (Solutions Segment)

■ Q/Q Growth

- **Strong performance in Solutions (consigned development and others), despite down in comparison to 4Q (order entries are increased due to many Japanese company's' year end)**
- **Advertising Agent Service, stable despite down in comparison to 3Q and 4Q FY2016**
- **Overseas, hit the YoY record in lower market growth due to successful sales measures**



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COGS

■ Y/Y Growth

COGS rose 3.3% due to increase of Solutions Segment sales ratio

（MN Yen）

	FY2017 1Q	FY2016 1Q	YoY Difference	YoY Growth rate
COGS	728	728	▲ 0	▲0.0%
COGS ratio	58.5%	55.2%	-	-

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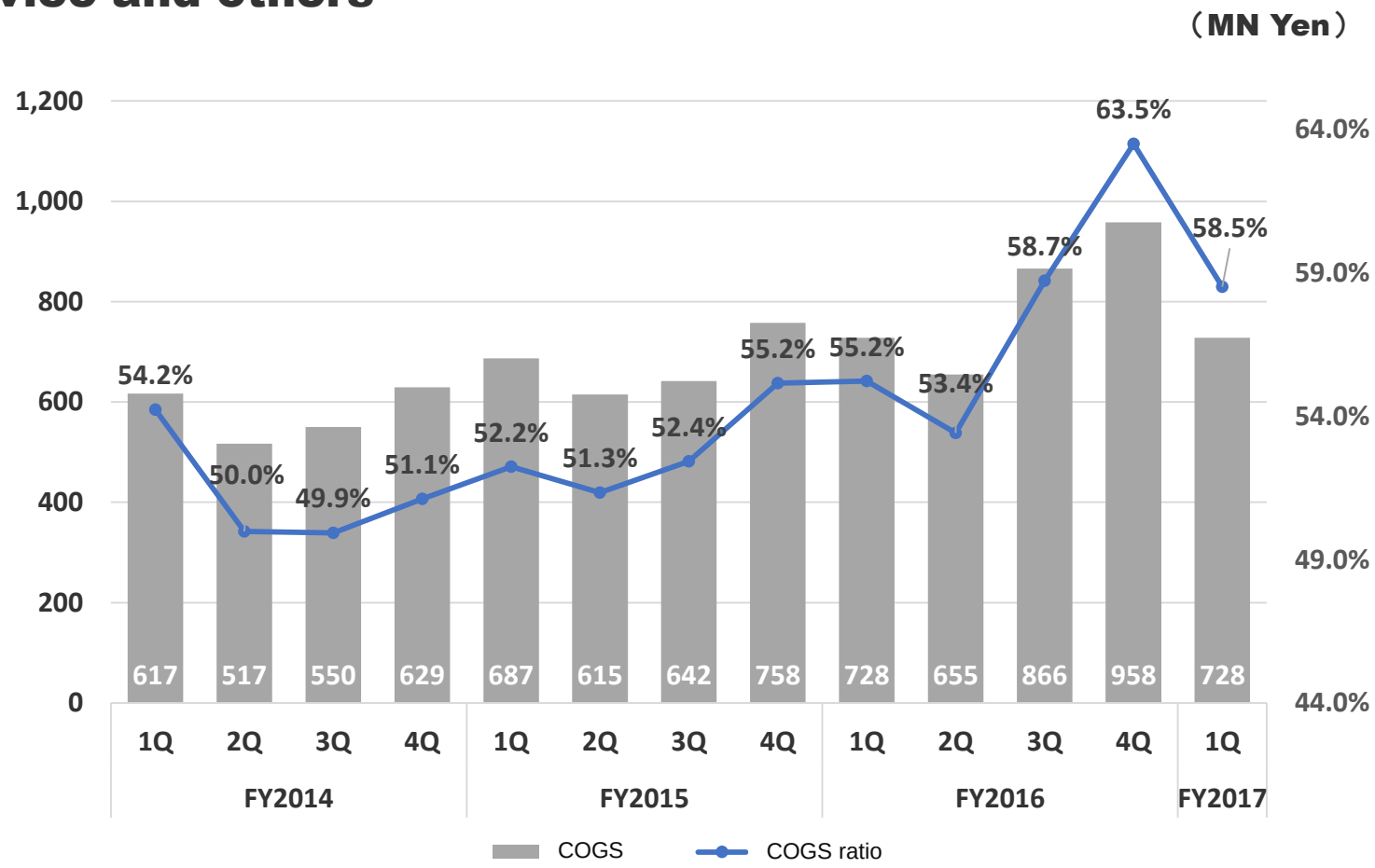
COGS

■ Q/Q Growth

COGS improved due to sales decrease in Advertising Agent Service and others



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SG&A

■ Y/Y Growth

SG&A dramatically improved as advertising expenses decreased 47.6%

（MN Yen）

	FY2017 1Q	FY2016 1Q	YoY Difference	YoY Growth rate
(Advertising expenses)	72	138	▲ 65	▲47.6%
(Others)	376	395	▲ 18	▲4.8%
SG&A	449	533	▲ 84	▲15.8%
SG&A ratio	36.1%	40.4%	-	-

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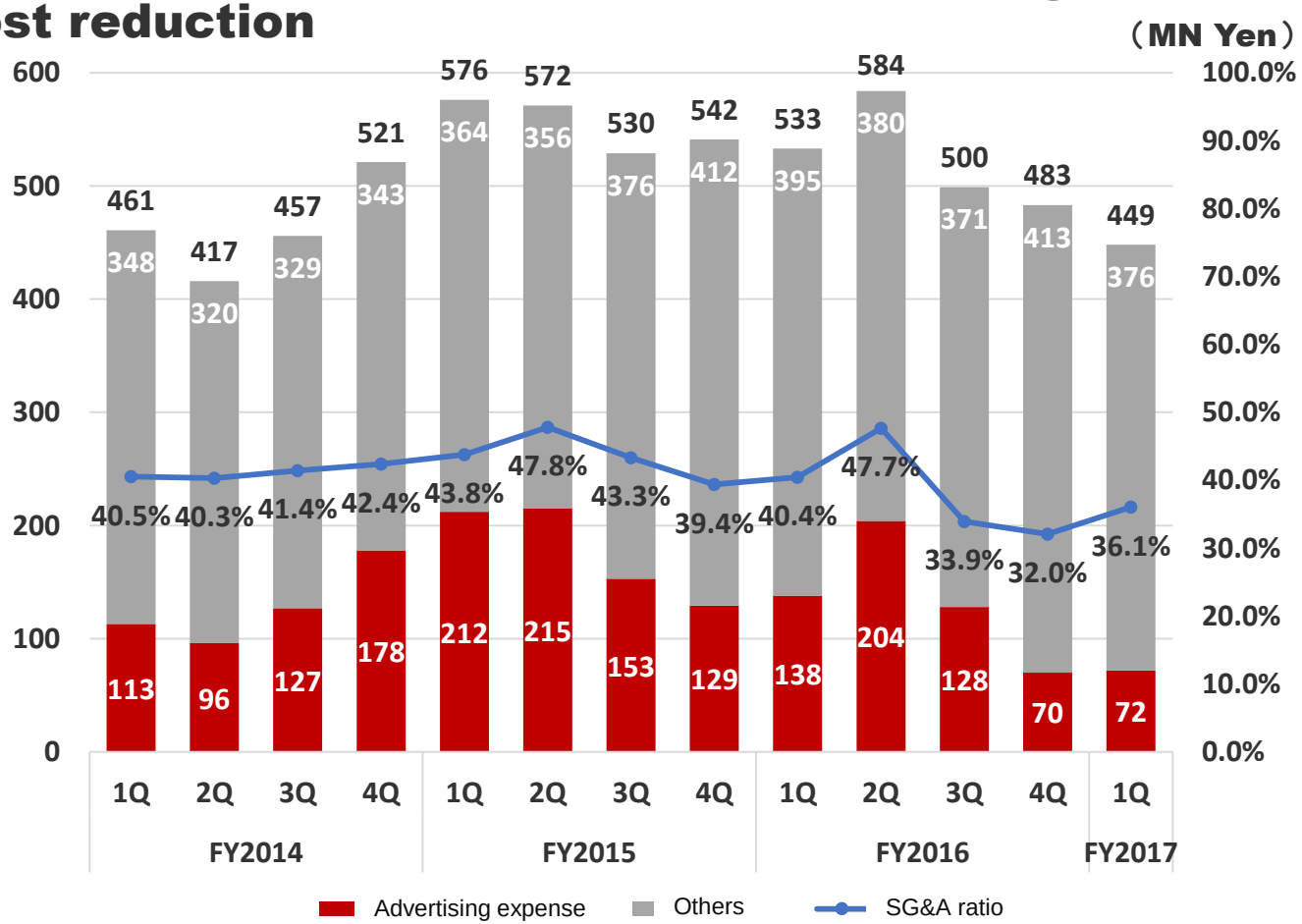
SG&A

■ Q/Q Growth

- SG&A ratio increased due to sales down
- SG&A decreased due to optimized advertising investment & cost reduction



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2. Contents Service Segment
Q1 achievements

Strategy by segment

Promote to create hit contents and to form a “contents platform” by strengthen alliance, new contents distribution and service expansion

Expanding services centering major contents



Healthcare
『Woman's Diary』



Flea-market
『Dealing』



Messenger App
『Fivetalk』



Traffic Info.
『Traffic Info. Service』



E-Book
『BOOKSMART』



Casual game
『Chokotto Game』

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Lifestyle

Proceed to form a “Contents platform” centering around “Woman's Diary”,” Dealing” and “Fivetalk”

Strengthen alliance to expand business fields

“Woman’s Diary”（healthcare App）

Started joint operation with Excite Japan Co., Ltd.
・Completed necessary updates for joint operation, and started ad space sales
(Since August)

Completed Phase1 development to start new service w/monthly charge
・A stock model to increase sales volume and stability

Expansion of service
・Mutual contents link through alliance

“Dealing”s（flea market App）

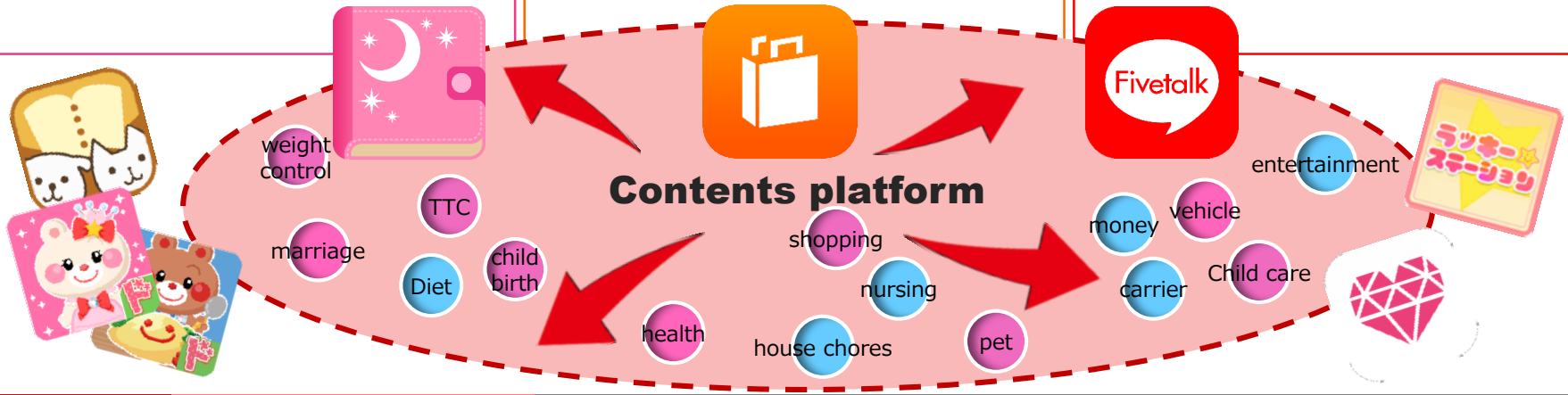
Expansion of service
・Enhanced usability by adapting new payment methods
・Focused on alliance to increase transaction number × unit price

New service development based on escrow system
・Promoted new services including C-to-C EC and sharing economy

“Fivetalk”（chat App）

・Newly opened ”Tomodachi hiroba” contributed to good DAU trends





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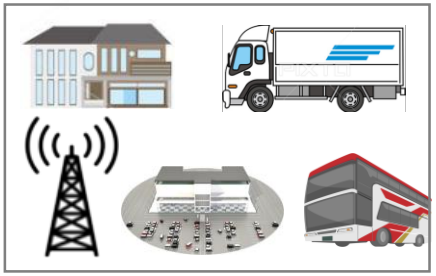
Traffic Information



A long ran hit content on carrier platform

Expanded distribution channel

・”App Store” (August 2016)
・ Robot App for ”Pepper” (September 2016)



Focused on B-to-B through alliances

・Cloud service for cargo transportation company
・Distribution for “shopping mole”, “bus location system”, “digital broadcasting” and “Michino-eki”

Entertainment



Focused on an existing popular game “Chokkot game”



“BOOKSMART” to increase subscriber

・Service expansion including rental service, web browser and others (June 2016)
・Tighten partnership with Tokyo-Shoten commercial union and publishers (June 2016)

Innovative challenge to produce a new hit content!

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3. Solutions Segment
Q1 achievements



Strategy by segment

Expand solution business by offering a total solution, from App development, system implementation, voice and new technologies, at one stop shop

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Group synergy

4QUALIA

to Advance Knowledge for Humanity
AIZULAB

and One

Promote

ive

山口再エネファクトリー

ENTERISE

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Solutions (Consigned development and others) 1/2

Good performance in System integration, App development and debug

- Customer management system + App development for a recycle shop dedicated to apparel
- Proceeded disaster prevention system development
- WEB service development for local air line company, and others

Voice technology “Primus”(※1)

・Delivered to a construction and building company for tunnel constructions
・Dialing restriction & voice recording function contributed to acquire financial securities companies as new clients

Local revitalization and sharing economy

Local revitalization
(consecutive operation)

ちば MyStyleDiary
marriage, pregnant, delivery and child care (in Chiba)



Info. sharing
（Yokoshiba Hikar ）



Child care support
（Shimoda city）

Smartvalue Co., Ltd.
(business and capital tie-up)

Proceeded joint projects of contents provision, such as marring hunting, marriage, pregnancy, child birth and child care, to local governments

Provided pregnancy and child birth related contents for ”implementation, operation and maintenance of child care support application project” (Nagoya Pref./Aug. 2016)

New service
(under planning and developing)

Promote local revitalization by creating “environment where women can live their lives vigorously” based on sharing-economy

Superior environment for carrier and child care



Cloud for tourism business operators, “Yubisashi Navi!”

Consecutively operated History Explorer AR Navi ”Shiroishi Shiro-Shiro Navi” and “Aizu Wakamatsu city Navi” and others



指さしナビ®



(※1) “Aplos one” is OEM product developed by a consolidated subsidiary “and One Inc.”

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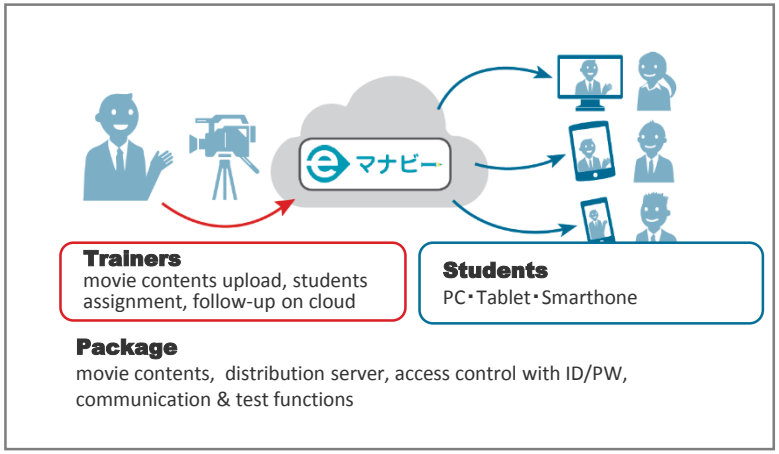
Solutions (Consigned development and others) 2/2

Package service

- **Released a new service, “e-Manabi” (June 2016)**
- **Promoted sales activities in market needs w/increase of employee education cost**
- **Delivered to a large restaurant chain-store (Aug. 2016)**

Contents development (w/gamification) + distribution platform

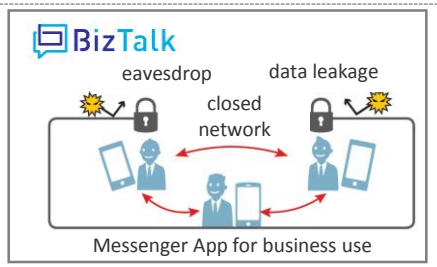


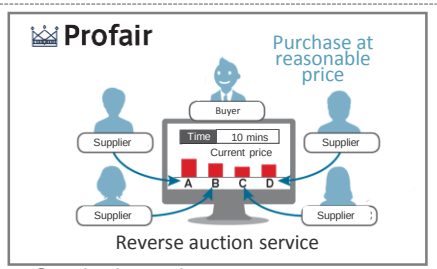
Survey on education and training cost for employee in FY2015

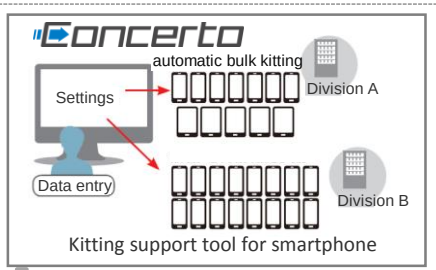
scale and industry	number of company	total cost for education (10thousand yen)		cost per employee (yen)		
		FY2014 result	FY2014 forecast	FY2015 result	FY2015 forecast	result /forecast
total	106	4,533	5,651	36,877	47,170	1.28[1.27]
less than 1000	40	9,862	12,214	43,775	53,525	1.22[1.28]
from 300 up to 999	39	1,902	2,379	34,077	41,513	1.22[-]
less than 299	27	437	655	30,704	45,926	1.5[-]
manufacture	41	5,403	6,269	32,415	39,073	1.21[1.20]
non manufacture	65	3,984	5,261	39,692	52,277	1.32[1.31]

（source：SANRO Research Institute,Inc.） http://www.e-sanro.net/jinji/j_research/j_research05/pr_1510/









Reviewed pricing and sales channel to promote sales

Continuing sales to government sector and private enterprises

Strengthen sales channel measures

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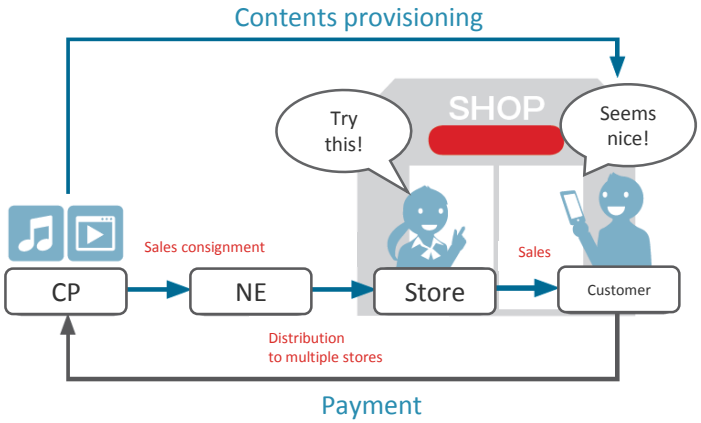
Advertising Agent Service

- **Negative impact of administrative regulation at the store**
  - •Competitive against carriers' contents
  - •Self imposed regulations at many store



- **(for contents provider) Plan lowering the barrier to place ad**
- **(for store) Attractive incentive plan**

} **Introduced**

- **Focused on developing sales channel**

Overseas

- **Despite decreasing smartphone market trends in China, sales to enterprises contributed to 20% up in number of smartphone sold**



Shanghai Telecom, Yu Qiao Store

- **Opened Yu Qiao Store** (started operation in April 2016)
  - •With location merits(business city and newly developing residential area) taking convenience style of operation in addition to broadband sales to households

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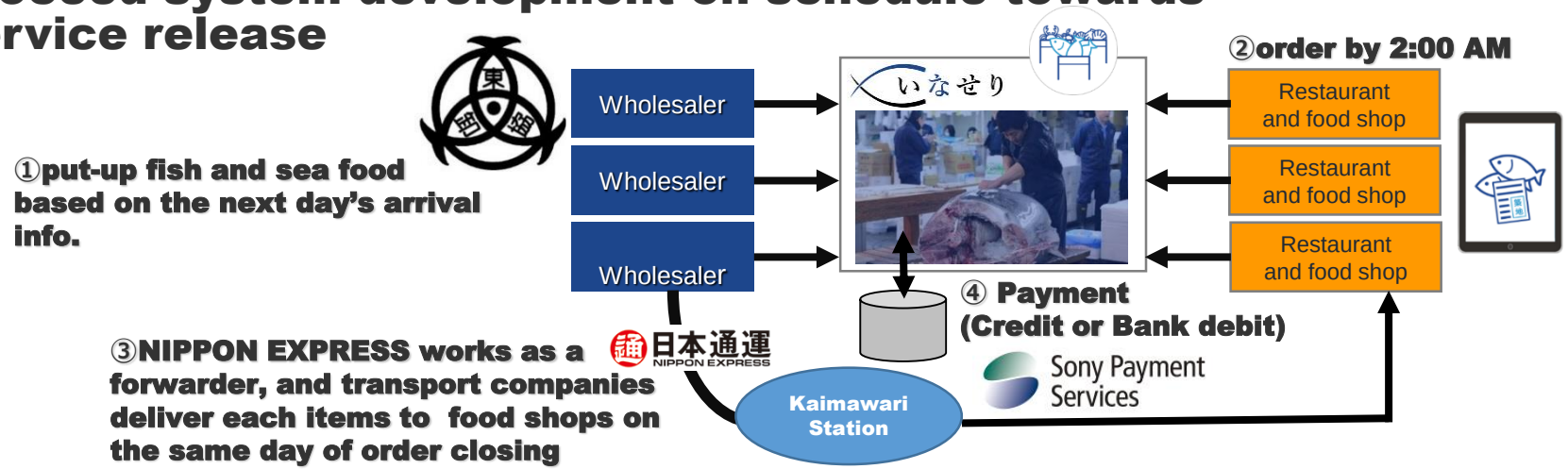
EC service “Inaseri”

- **Established Inaseri Co.,Ltd. (June 2016) and announced joint operation with WHOLESALES CO-OPERATIVE OF TOKYO FISH MARKET for its first official EC service “Inaseri”**



- **Proceed system development on schedule towards service release**



Initiatives

IoT	Smart Agri.	Energy	Wired drone
•Started joint development of an IoT brand “GEMS” with Takasho TAKASHO CORPORATION (July 2016) •”Fivetalk” for IoT	Developed App and system for Aizu-Wakamatsu’s “next generation food production trial business” Enlarged empirical survey is on going	Started the operation of “Higashikiwa solar power plants” (May 2016). Promoted local revitalization based on solar power generation and IT	• W/Aizu Univ Jointly developed drone control tech. which enables longer flight time and aggregated payload •Started a project with a manufacture for industrialization

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Forecast and Strategy

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Forecast and progress

**Good progress, referring to 1Q ratio in YoY trends,
23.5% for sales, 20.5% for operating profit, 23.0% for ordinary profit**

（MN Yen）

	FY2017 (Forecast)	FY2016 (Result)	YoY		Progress
			Difference	Growth rate	
Sales	5,300	5,530	▲ 230	▲4.2%	23.5%
Operating profit	330	219	110	50.2%	20.5%
Ordinary profit	350	252	97	38.6%	23.0%
Net profit attributable to the parent company	135	327	▲ 192	▲58.7%	41.2%

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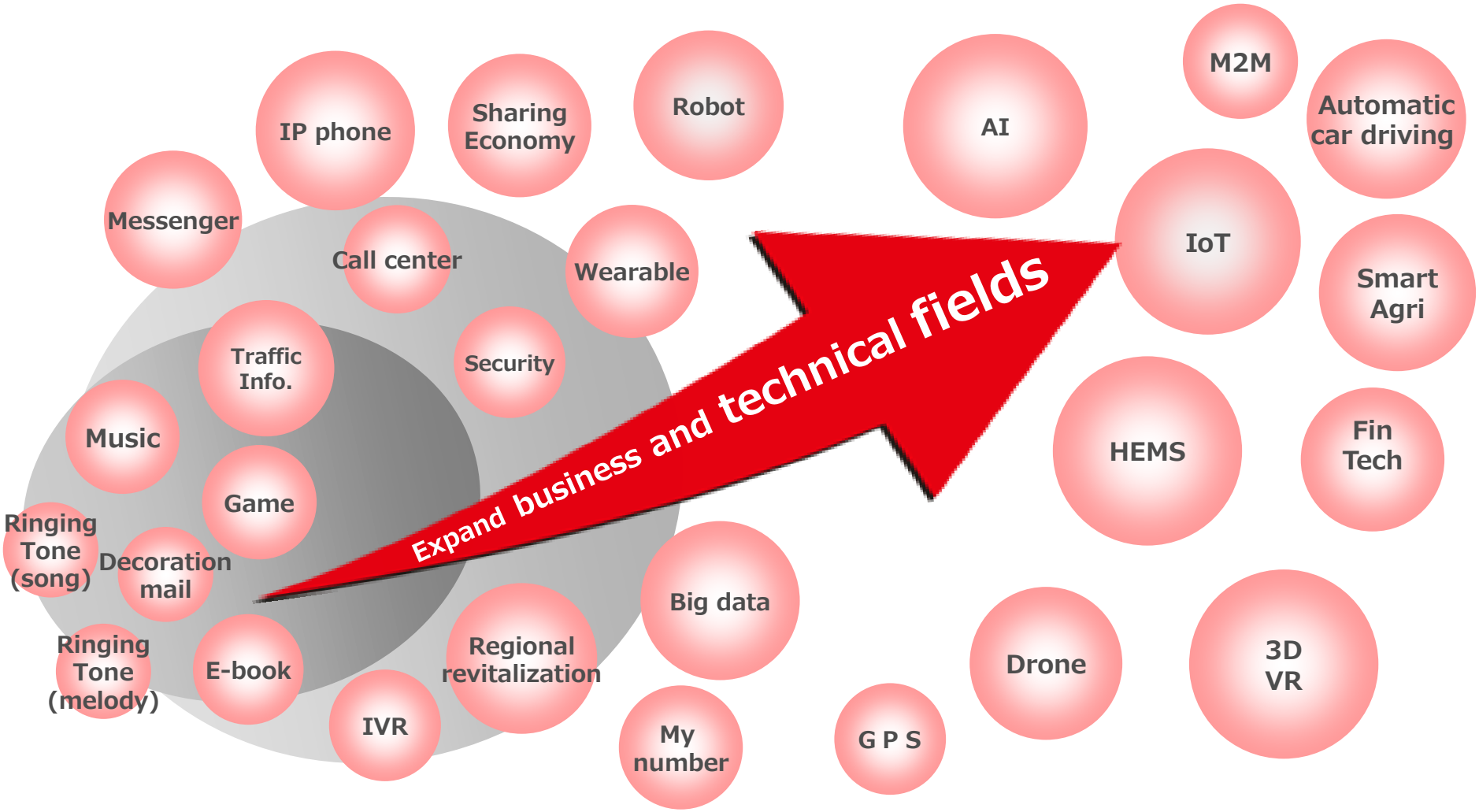
Roadmap

Expansion of business fields in smart devise eras



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（Appendix）Business Domain

Contents Service

Distributing information and entertainment contents on platform including App Store, Google Play, carries' fixed rate service

- Lifestyle
- Traffic Info.
- Entertainment

Solutions

With the expertise obtained through contents operation, offering IT solution service and Advertising Agent service and others locally and globally

- Solutions (consigned development and others)
- Advertising Agent Service
- Overseas

10 consolidated subsidiaries

- 因特瑞思(北京)信息科技有限公司
- 瑞思創智(北京)信息科技有限公司

4 non consolidated subsidiaries

- 瑞思放送(北京)数字信息科技有限公司

(※) at the LOUNGE was merged with 4QUALIA Co., Ltd. on 1st Oct 2016.

NE group operates two major businesses with group synergy

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

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