

SEPTENI HOLDINGS (4293)

Consolidated Fiscal Year (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY09/2012		41,358	1,527	1,638	677	26.9	5.0	256.9
FY09/2013		45,982	1,593	1,752	1,207	47.9	7.0	300.3
FY09/2014CoE		54,160	2,253	2,329	1,517	60.0	9.0	-
FY09/2013	YoY	11.2%	4.3%	7.0%	78.3%	-	-	-
FY09/2014CoE	YoY	17.8%	41.4%	32.9%	25.7%	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY09/2014		12,532	682	737	413	-	-	-
Q2 FY09/2014		14,246	611	642	375	-	-	-
Q3 FY09/2014		13,580	410	399	398	-	-	-
Q4 FY09/2014CoE		13,800	550	550	330	-	-	-
Q1 FY09/2014	YoY	15.1%	134.9%	118.2%	121.4%	-	-	-
Q2 FY09/2014	YoY	23.2%	27.4%	18.5%	(31.6%)	-	-	-
Q3 FY09/2014	YoY	17.6%	26.7%	16.7%	129.1%	-	-	-
Q4 FY09/2014CoE	YoY	15.3%	10.2%	3.8%	11.3%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (8 September 2014)

Incorporating Growth Domains

SEPTENI HOLDINGS, being involved with sales of Internet advertising as the key earnings pillar, is seeing steady earnings growth. Increasing penetrations of Smartphones and social media are driving demand in the market for Internet advertising associated with those domains. That is to say, advertisers or the Company's customers are aggressively increasing advertising in those domains, while the Company has been well incorporating increasing demand from here. At the same time, sales associated with overseas advertisers who would like to enhance advertising in Japan are starting to take off on a full-fledged basis, in line with ongoing own cultivations of overseas markets. All those trends in recent trading are to persist in the foreseeable future, while the Company is trying to get at accelerating earnings growth, in a long-term view, by means of fostering contents businesses, e.g., manga (comics) and games as the second earnings pillars to additionally drive earnings with the Company.


In Q3 (April to June) FY09/2014, sales came in at ¥13,580m (up 17.6% YoY), operating profit ¥410m (up 26.7%) and operating profit margin 3.0% (up 0.2% points). In regards to Internet Marketing Business, being basically involved with sales of Internet advertising, sales came in at ¥12,048m (up 20.7%), operating profit ¥554m (up 24.9%) and operating profit margin 4.6% (up 0.2% points). Operating profit of this business segment accounted for no less than 110.7% of operating profit ¥500m (before elimination negative ¥90m) with the Company. The key contributor for this was that sales of Smartphone advertising increased no less than 2.1 times over the year up to ¥6,146m and accounted for more than 50% of sales in this business segment. Operators of Internet services and other advertisers appear substantially increasing advertising to

be browsed through Smartphones. In particular, sales associated with advertising on social media, represented by “Facebook”, “Twitter” and “Line”, increased as much as 3.3 times over the year up to ¥1,493m. On top of this, incoming demand from overseas advertisers is increasing even more rapidly. Although absolute sales amounts are not disclosed, sales in here increased 7.2 times over the year and appear to have reached an impactful level in terms of amounts. On the other hand, rest of the businesses, collectively, saw operating loss equating to 10.7% of operating profit with the Company. Expenses for all those frontloaded investments were key negative factors for this, including those to develop mobile games to be launched in the near future and those to make manga (comics) contents business commercially viable in the foreseeable future.

FY09/2014 Company forecasts are going for prospective sales ¥54,160m (up 17.8% YoY), operating profit ¥2,253m (up 41.4%) and operating profit margin 4.2% (up 0.7% points). As mentioned above, the Company is suffering from expenses to carry out frontloaded investments in developments of mobile games and manga (comics) contents business, but substantial increases of sales and earnings as a whole are to be achieved and marginal increases for operating profit margin. As far as we could see, the Company is meaningfully competitive in the mainstay operations of Internet advertising sales, while developments of new businesses to be followed as new sources for earnings are steadily progressed. By means of steadily incorporating increasing demand in the three domains of “mobile”, “social” and “global”, the Company is calling for “doubled earnings” to be achieved as early as possible in its midterm management policy. Assuming operating profit in FY09/2013 as the basis for prospective “doubled earnings”, the Company is to achieve “1.4 times earnings” in FY09/2014, which is the first year of the periods for the midterm management policy, literally implying early achievement of the target, i.e., “doubled earnings” in the near future.

2.0 Company Profile

Independent Internet Advertising Company

Company Name	SEPTENI HOLDINGS CO., LTD. Company Website IR Information Share Price	
Established	29 October 1990	
Listing	9 August 2001: Tokyo Stock Exchange JASDAQ Standard (Ticker:4293)	
Capital	¥2,046m (as of the end of June 2014)	
No. of Shares	27,123,400 shares, including 1,784,600 treasury (as of the end of June 2014)	
Main Features	<ul style="list-style-type: none"> ● Sales of Internet advertising, the mainstay earnings source ● Successful developments in “mobile (Smartphones)”, “social (“Facebook”, etc.) and “global (overseas markets)” ● In manga (comics) contents business, starting to foster and promote artists while running specialty website 	
Businesses	<ul style="list-style-type: none"> . Internet Marketing Business . Media Content Business . Other 	
Top Management	President and Representative Director: Koki Sato Chairman of the Board and Representative Director: Mamoru Nanamura	
Shareholders	Village Seven Co., Ltd. 13.0%, Japan Trustee Services Bank, Ltd. (trust account) 11.0%, Mamoru Nanamura 10.8% (as of the end of March 2014)	
Headquarters	Shinjuku -ku, Tokyo JAPAN	
No. of Employees	Consolidated full-time headcounts 798 and overall headcounts 948 (as of the end of June 2014)	

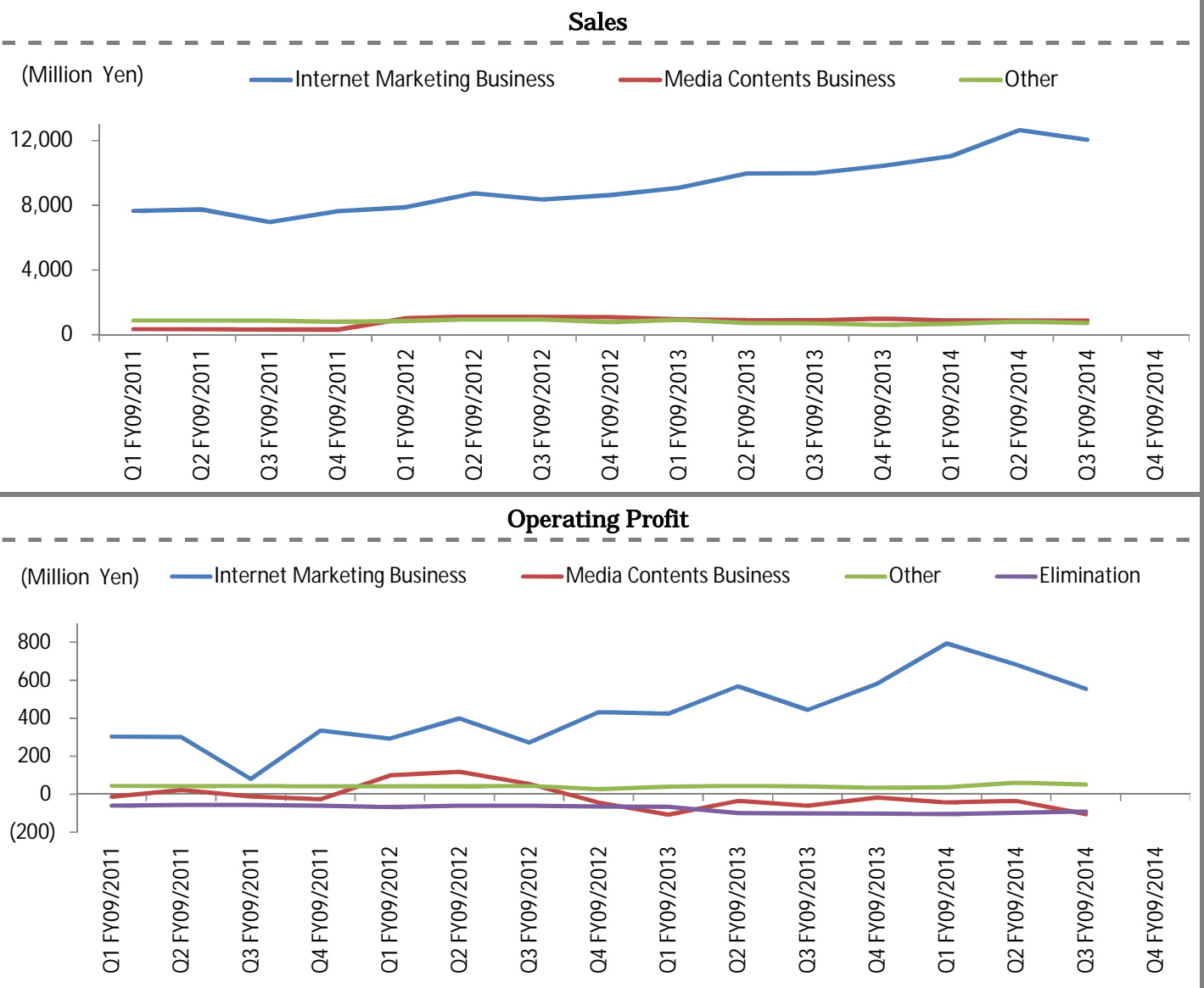
Source: Company Data

3.0 Recent Trading & Prospects

Q3 FY09/2014 Results

In Q3 FY09/2014 (April to June), sales came in at ¥13,580m (up 17.6% YoY), operating profit ¥410m (up 26.7%), recurring profit ¥399m (up 16.7%) and net profit ¥398m (up 129.1%). Compared with Company forecasts, released on 1 May 2014, sales were exceeded ¥81m (0.6%), operating profit ¥60m (17.2%), recurring profit ¥40m (11.1%) and net profit ¥179m (81.3%).

Quarterly Performance by Business Segment



Source: Company Data, WRJ Calculation

The Company makes it a rule to disclose Company forecasts for the subsequent quarter when releasing every quarterly result, where upcoming business performance based on projects to have been confirmed to book sales in the subsequent quarter only are effectively incorporated and thus newly-added projects are supposed to make some add-ons. In fact, this was the case in Q3. Meanwhile, Company forecasts in Q3 were far exceed in net profit that has increased substantially over the year at the same time. This was due to unexpected reductions of tax charges, stemming from application to adopt consolidated taxation system to start up in FY09/2015.

At the moment, earnings with the Company heavily hinge on the performance of Internet Marketing Business. More importantly, the Company has been seeing earnings keeping on increasing quarter on quarter as an underlying trend in line with business performance of Internet Marketing Business.

Meanwhile, sales of Internet Marketing Business in Q3 (April to June) did adjust over Q2 (January to March) just before. This had a lot to do with one-off factor on top of seasonal adjustments and thus quarter-on-quarter growth as an underlying trend is effectively persisting in our view. In the first place, sales are meaningfully concentrated in Q2 every year, as demand for advertising is concentrated in Q2 out of all the four quarters in a year, resulting in adjustments of sales in Q3 (April to June) over Q2 (January to March) on a regular basis. In regards to FY09/2014, there were adjustments in Q3 (April to June) over Q2 (January to March), also from elsewhere, i.e., large-sized projects were concentrated in Q2 (January to March).

In terms of operating profit, an underlying trend of quarter-on-quarter growth is also persisting, when irregularities quarter to quarter are excluded. For example, adjustments in Q3 (April to June) over Q2 (January to March) are supposed to take place every year, affected by increasing number of headcounts (from 831 to 948 in terms of FY09/2014 results) over the same period, due mainly to hiring of new graduates. Meanwhile, there are some swing factors, as in Q1 (October to December) FY09/2014, where the Company saw a one-off issue to have massively driven gross profit and thus operating profit.

In Internet Marketing Business, SEPTENI CO., LTD., which is the key company of the SEPTENI HOLDINGS (the Company) group, runs sales of Internet advertising and this accounts for the bulk of sales in this business segment while earnings as well. Being an independent Internet advertising company, SEPTENI CO., LTD. offers services for some 1,500 corporate customers or advertisers, mainly comprising financials, real estate, cosmetics, E-Commerce, Internet services (media, telecom, games, etc.) by sector. Most recently, the number of customers is rather on the decreases, but this is far more than compensated for by increasing sales per customer. Meanwhile, by sector, the Company sees increasing demand associated with Internet services including games in particular, as far as we could gather.

The Company entered the market for Internet advertising in 2000 and the market size increased some 16 times by 2013 to ¥938.1bn from ¥59.0bn, according to “Advertising in Japan” by DENTSU INC. The market has been surging on the expense of markets for all those existing media, comprising televisions, newspapers, magazines, radios, etc., while the Company well incorporated demand increasing in the market.

Most recently, the Company allocates own management resources quickly and flexibly to growth domains, i.e., Smartphones and social media, being an independent player as own strengths, in line with increasing penetrations by them. As a result, the Company well succeeds in incorporating increasing demand in there, while having reasonably cultivated overseas markets to date.

For cultivations of overseas markets, the Company claims for establishment of cross-border transaction scheme among own marketing bases on a global basis, currently comprising those in Seoul, Singapore, San Francisco and London, i.e., across Asia, U.S.A. and Europe, on top of ones in Japan.

Currently, the Company is mainly coping with increasing needs for advertisers based in U.S.A. and Europe to run advertising in Japan, mainly driving overseas sales with the Company. Having set up aforementioned collective four overseas marketing bases, the Company also implements capital injections in local companies to eventually establish the cross-border transaction scheme. Most recent issue is that the Company injected capital in JNJ INTERACTIVE INC. in July 2014, while having made this own consolidated subsidiary at the same time. This is a Korea-based Internet advertising company, known as a player with cutting edge technology in “Facebook” advertising. This operation is expected to be included in the Company’s consolidated accounts, starting in FY09/2015, generating meaningful add-ons to sales with the Company, even short-term, but not much to earnings due to goodwill write-offs, etc. for the time being.

Meanwhile, in Media Contents Business, where the bulk of sales is accounted for by those of AXEL MARK INC. (a consolidated subsidiary 54.9% held by the Company) basically in charge of developing mobile game contents, sales came in at ¥879m (down 1.1%), operating loss ¥104m (operating loss ¥60m over the year) and operating profit margin negative 11.9% (down 5.1% points). This business segment continues making operating loss, as the businesses in here are basically in the processes of frontloaded investments, including another constituent of manga (comics) contents business in this business segment.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY	
(Million Yen)	09/2013	09/2013	09/2013	09/2013	09/2014	09/2014	09/2014	09/2014	09/2014	Net Chg.
Sales	10,891	22,458	34,010	45,982	12,532	26,779	40,360	-	-	+6,350
Cost of Sales	8,713	18,077	27,451	37,106	9,954	21,685	32,807	-	-	+5,356
Gross Profit	2,178	4,380	6,558	8,875	2,578	5,094	7,552	-	-	+993
SG&A Expenses	1,887	3,609	5,464	7,281	1,895	3,800	5,848	-	-	+384
Operating Profit	290	770	1,094	1,593	682	1,293	1,703	-	-	+609
Non Operating Balance	47	109	128	159	55	86	75	-	-	(52)
Recurring Profit	338	880	1,222	1,752	737	1,380	1,779	-	-	+556
Extraordinary Balance	0	265	261	246	(6)	(6)	(46)	-	-	(308)
Pretax Profit	338	1,145	1,484	1,999	731	1,373	1,733	-	-	+248
Tax Charges, etc.	169	421	571	766	309	560	530	-	-	(41)
Minorities' Interests	(18)	(11)	1	25	9	23	14	-	-	+12
Net Profit	186	736	910	1,207	413	789	1,187	-	-	+277
Sales YoY	+23.3%	+26.3%	+31.2%	+11.2%	+15.1%	+19.2%	+18.7%	-	-	-
Operating Profit YoY	+5.5%	+31.8%	+71.0%	+4.3%	+134.9%	+67.9%	+55.8%	-	-	-
Recurring Profit YoY	+27.2%	+56.1%	+85.1%	+7.0%	+118.2%	+56.8%	+45.5%	-	-	-
Net Profit YoY	+46.6%	+150.8%	+158.5%	+78.3%	+121.4%	+7.1%	+30.5%	-	-	-
Gross Profit Margin	20.0%	19.5%	19.3%	19.3%	20.6%	19.0%	18.7%	-	-	(0.6%)
SG&A / Sales	17.3%	16.1%	16.1%	15.8%	15.1%	14.2%	14.5%	-	-	(1.6%)
Operating Profit Margin	2.7%	3.4%	3.2%	3.5%	5.4%	4.8%	4.2%	-	-	+1.0%
Recurring Profit Margin	3.1%	3.9%	3.6%	3.8%	5.9%	5.2%	4.4%	-	-	+0.8%
Net Profit Margin	1.7%	3.3%	2.7%	2.6%	3.3%	3.0%	2.9%	-	-	+0.3%
Tax Charges etc. / Pretax Profit	50.2%	36.8%	38.5%	38.3%	42.2%	40.8%	30.6%	-	-	(7.9%)
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	
	09/2013	09/2013	09/2013	09/2013	09/2014	09/2014	09/2014	09/2014	09/2014	Net Chg.
Sales	10,891	11,566	11,552	11,971	12,532	14,246	13,580	-	-	+2,028
Cost of Sales	8,713	9,364	9,374	9,655	9,954	11,730	11,122	-	-	+1,748
Gross Profit	2,178	2,202	2,178	2,316	2,578	2,516	2,458	-	-	+280
SG&A Expenses	1,887	1,722	1,854	1,817	1,895	1,905	2,048	-	-	+193
Operating Profit	290	479	323	499	682	611	410	-	-	+86
Non Operating Balance	47	62	19	30	55	31	(10)	-	-	(29)
Recurring Profit	338	542	342	529	737	642	399	-	-	+57
Extraordinary Balance	0	265	(4)	(14)	(6)	0	(39)	-	-	(35)
Pretax Profit	338	807	338	514	731	641	360	-	-	+21
Tax Charges, etc.	169	251	150	194	309	251	(30)	-	-	(180)
Minorities' Interests	(18)	6	13	23	9	13	(8)	-	-	(22)
Net Profit	186	549	174	296	413	375	398	-	-	+224
Sales YoY	+23.3%	+29.2%	+42.0%	+37.5%	+15.1%	+23.2%	+17.6%	-	-	-
Operating Profit YoY	+5.5%	+55.4%	+483.8%	+72.8%	+134.9%	+27.4%	+26.7%	-	-	-
Recurring Profit YoY	+27.2%	+82.0%	+5.7%	+65.8%	+118.2%	+18.5%	+16.7%	-	-	-
Net Profit YoY	+46.6%	+230.6%	+197.1%	+285.8%	+121.4%	(31.6%)	+129.1%	-	-	-
Gross Profit Margin	20.0%	19.0%	18.9%	19.4%	20.6%	17.7%	18.1%	-	-	(0.8%)
SG&A / Sales	17.3%	14.9%	16.1%	15.2%	15.1%	13.4%	15.1%	-	-	(1.0%)
Operating Profit Margin	2.7%	4.2%	2.8%	4.2%	5.4%	4.3%	3.0%	-	-	+0.2%
Recurring Profit Margin	3.1%	4.7%	3.0%	4.4%	5.9%	4.5%	2.9%	-	-	(0.0%)
Net Profit Margin	1.7%	4.8%	1.5%	2.5%	3.3%	2.6%	2.9%	-	-	+1.4%
Tax Charges etc. / Pretax Profit	50.2%	31.1%	44.5%	37.8%	42.2%	39.3%	-	-	-	-

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1 to Q4	
(Million Yen)	09/2013	09/2013	09/2013	09/2013	09/2014	09/2014	09/2014	09/2014	09/2014	Net Chg.
Internet Marketing Business	9,066	19,037	29,017	39,458	11,044	23,685	35,733	-	-	+6,716
Media Contents Business	940	1,834	2,724	3,714	873	1,729	2,609	-	-	(115)
Other	912	1,630	2,327	2,922	671	1,482	2,198	-	-	(128)
Elimination	(27)	(44)	(58)	(113)	(56)	(117)	(180)	-	-	(122)
Sales	10,891	22,458	34,010	45,982	12,532	26,779	40,360	-	-	+6,350
Internet Marketing Business	+15.2%	+14.6%	+16.2%	+17.4%	+21.8%	+24.4%	+23.1%	-	-	-
Media Contents Business	(7.4%)	(14.8%)	(16.1%)	(14.3%)	(7.1%)	(5.7%)	(4.2%)	-	-	-
Other	+8.9%	(8.5%)	(14.2%)	(16.2%)	(26.4%)	(9.1%)	(5.5%)	-	-	-
Sales (YoY)	+12.2%	+9.5%	+10.1%	+11.2%	+15.1%	+19.2%	+18.7%	-	-	-
Internet Marketing Business	83.0%	84.6%	85.2%	85.6%	87.7%	88.1%	88.1%	-	-	-
Media Contents Business	8.6%	8.2%	8.0%	8.1%	6.9%	6.4%	6.4%	-	-	-
Other	8.4%	7.2%	6.8%	6.3%	5.3%	5.5%	5.4%	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Internet Marketing Business	423	991	1,435	2,016	793	1,476	2,030	-	-	+595
Media Contents Business	(107)	(142)	(202)	(219)	(42)	(77)	(181)	-	-	+20
Other	39	84	125	160	36	97	147	-	-	+22
Operating Profit (Before Elimination)	355	933	1,358	1,958	788	1,495	1,996	-	-	+638
Elimination	(65)	(163)	(264)	(364)	(105)	(202)	(292)	-	-	(28)
Operating Profit	290	770	1,094	1,593	682	1,293	1,703	-	-	+609
Internet Marketing Business	+44.4%	+43.1%	+48.9%	+44.5%	+87.3%	+48.9%	+41.5%	-	-	-
Media Contents Business	-	-	-	-	-	-	-	-	-	-
Other	(2.9%)	+2.8%	(0.9%)	+4.2%	(7.1%)	+15.5%	+17.7%	-	-	-
Operating Profit (YoY)	(20.7%)	(11.0%)	(7.0%)	+4.3%	+134.9%	+67.9%	+55.8%	-	-	-
Internet Marketing Business	119.1%	106.2%	105.7%	103.0%	100.7%	98.7%	101.7%	-	-	-
Media Contents Business	(30.2%)	(15.2%)	(14.9%)	(11.2%)	(5.4%)	(5.2%)	(9.1%)	-	-	-
Other	11.0%	9.0%	9.2%	8.2%	4.6%	6.5%	7.4%	-	-	-
Operating Profit (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Internet Marketing Business	4.7%	5.2%	4.9%	5.1%	7.2%	6.2%	5.7%	-	-	+0.7%
Media Contents Business	(11.4%)	(7.8%)	(7.4%)	(5.9%)	(4.8%)	(4.5%)	(7.0%)	-	-	+0.5%
Other	4.3%	5.2%	5.4%	5.5%	5.4%	6.5%	6.7%	-	-	+1.3%
Elimination	(0.6%)	(0.7%)	(0.8%)	(0.8%)	(0.8%)	(0.8%)	(0.7%)	-	-	+0.1%
Operating Profit Margin	2.7%	3.4%	3.2%	3.5%	5.4%	4.8%	4.2%	-	-	+1.0%

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q4	
(Million Yen)	09/2013	09/2013	09/2013	09/2013	09/2014	09/2014	09/2014	09/2014	09/2014	Net Chg.
Internet Marketing Business	9,066	9,970	9,980	10,441	11,044	12,641	12,048	-	-	+2,068
Media Contents Business	940	894	889	990	873	855	879	-	-	(9)
Other	912	718	696	595	671	811	715	-	-	+19
Elimination	(27)	(16)	(13)	(55)	(56)	(61)	(62)	-	-	(48)
Sales	10,891	11,566	11,552	11,971	12,532	14,246	13,580	-	-	+2,028
Internet Marketing Business	+15.2%	+14.1%	+19.4%	+20.9%	+21.8%	+26.8%	+20.7%	-	-	-
Media Contents Business	(7.4%)	(21.5%)	(18.5%)	(9.1%)	(7.1%)	(4.3%)	(1.1%)	-	-	-
Other	+8.9%	(23.9%)	(25.1%)	(23.1%)	(26.4%)	+12.9%	+2.8%	-	-	-
Sales (YoY)	+12.2%	+7.1%	+11.4%	+14.3%	+15.1%	+23.2%	+17.6%	-	-	-
Internet Marketing Business	83.0%	86.1%	86.3%	86.8%	87.7%	88.3%	88.3%	-	-	-
Media Contents Business	8.6%	7.7%	7.7%	8.2%	6.9%	6.0%	6.4%	-	-	-
Other	8.4%	6.2%	6.0%	5.0%	5.3%	5.7%	5.2%	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Internet Marketing Business	423	567	443	581	793	682	554	-	-	+110
Media Contents Business	(107)	(34)	(60)	(16)	(42)	(35)	(104)	-	-	(43)
Other	39	44	41	35	36	60	50	-	-	+9
Operating Profit (Before Elimination)	355	577	424	599	788	707	500	-	-	+75
Elimination	(65)	(98)	(101)	(100)	(105)	(96)	(90)	-	-	+10
Operating Profit	290	479	323	499	682	611	410	-	-	+86
Internet Marketing Business	+44.4%	+42.2%	+63.7%	+34.5%	+87.3%	+20.2%	+24.9%	-	-	-
Media Contents Business	-	-	-	-	-	-	-	-	-	-
Other	(2.9%)	+8.3%	(7.7%)	+27.8%	(7.1%)	+35.4%	+22.0%	-	-	-
Operating Profit (YoY)	(20.7%)	(3.8%)	+4.2%	+41.9%	+134.9%	+27.4%	+26.7%	-	-	-
Internet Marketing Business	119.1%	98.3%	104.4%	97.0%	100.7%	96.4%	110.7%	-	-	-
Media Contents Business	(30.2%)	(6.0%)	(14.2%)	(2.8%)	(5.4%)	(5.0%)	(20.8%)	-	-	-
Other	11.0%	7.7%	9.8%	5.8%	4.6%	8.6%	10.1%	-	-	-
Operating Profit (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-
Internet Marketing Business	4.7%	5.7%	4.4%	5.6%	7.2%	5.4%	4.6%	-	-	+0.2%
Media Contents Business	(11.4%)	(3.9%)	(6.8%)	(1.7%)	(4.8%)	(4.1%)	(11.9%)	-	-	(5.1%)
Other	4.3%	6.2%	6.0%	5.9%	5.4%	7.5%	7.1%	-	-	+1.1%
Elimination	(0.6%)	(0.8%)	(0.9%)	(0.8%)	(0.8%)	(0.7%)	(0.7%)	-	-	+0.2%
Operating Profit Margin	2.7%	4.2%	2.8%	4.2%	5.4%	4.3%	3.0%	-	-	+0.2%

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	YoY Net Chg.
	Q1 09/2013	Q2 09/2013	Q3 09/2013	Q4 09/2013	Q1 09/2014	Q2 09/2014	Q3 09/2014	Q4 09/2014		
Cash & Deposit	4,822	5,762	6,100	6,670	6,771	7,335	7,391	-	-	+1,291
Accounts Receivables	5,697	6,494	5,975	6,370	6,240	7,777	7,411	-	-	+1,436
Inventory	76	32	55	22	13	28	19	-	-	(35)
Other	593	411	396	439	709	457	679	-	-	+283
Current Assets	11,190	12,700	12,526	13,502	13,735	15,598	15,502	-	-	+2,975
Tangible Assets	335	300	278	257	231	239	222	-	-	(55)
Intangible Assets	755	658	692	677	664	629	588	-	-	(103)
Investments & Other Assets	1,875	1,518	1,518	1,585	1,594	1,603	1,675	-	-	+157
Fixed Assets	2,967	2,477	2,489	2,520	2,490	2,472	2,487	-	-	(2)
Total Assets	14,157	15,178	15,016	16,023	16,225	18,070	17,989	-	-	+2,973
Accounts Payable	4,577	4,986	4,815	5,069	5,091	6,288	5,774	-	-	+958
Short Term Debt	788	773	757	842	911	871	968	-	-	+210
Other	1,350	1,477	1,315	1,677	1,513	1,808	1,751	-	-	+436
Current Liabilities	6,715	7,237	6,889	7,590	7,516	8,968	8,495	-	-	+1,605
Long Term Debt	83	58	33	-	-	-	-	-	-	(33)
Other	78	45	44	52	43	43	43	-	-	(1)
Fixed Liabilities	162	103	78	52	43	43	43	-	-	(34)
Total Liabilities	6,877	7,340	6,967	7,643	7,560	9,012	8,538	-	-	+1,571
Shareholders' Equity	6,544	7,095	7,269	7,572	7,811	8,224	8,625	-	-	+1,355
Other	735	741	779	808	852	833	826	-	-	+46
Total Assets	7,279	7,837	8,048	8,380	8,664	9,058	9,451	-	-	+1,402
Total Liabilities & net Assets	14,157	15,178	15,016	16,023	16,225	18,070	17,989	-	-	+2,973
Equity Capital	6,535	7,093	7,274	7,574	7,840	8,247	8,643	-	-	+1,369
Interest Bearing Debt	871	831	791	842	911	871	968	-	-	+177
Net Debt	(3,951)	(4,931)	(5,309)	(5,828)	(5,860)	(6,463)	(6,423)	-	-	(1,114)
Equity Capital Ratio	46.2%	46.7%	48.4%	47.3%	48.3%	45.6%	48.0%	-	-	(0.4%)
Net-Debt-Equity Ratio	(60.4%)	(69.5%)	(73.0%)	(77.0%)	(75.0%)	(78.6%)	(74.5%)	-	-	(1.4%)
ROE	11.5%	21.7%	17.7%	17.2%	21.4%	20.0%	19.5%	-	-	+1.9%
ROA	9.5%	11.9%	11.1%	11.5%	18.3%	16.2%	14.0%	-	-	+2.9%
Quick Ratio	157%	169%	175%	172%	173%	168%	174%	-	-	-
Current Ratio	167%	175%	182%	178%	183%	174%	182%	-	-	-

Source: Company Data, WRJ Calculation

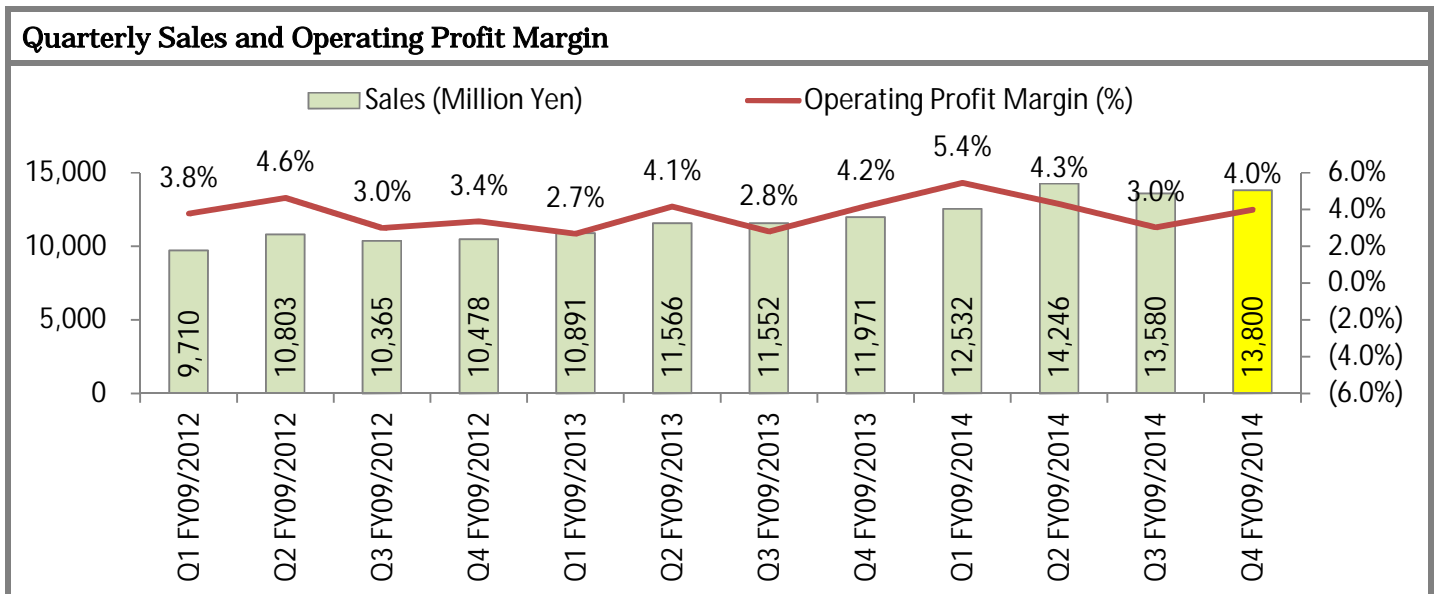
Cash Flow Statement (Cumulative, Quarterly)

Cash Flow Statement (Million Yen)	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	YoY Net Chg.
	Q1 09/2013	Q1 to Q2 09/2013	Q1 to Q3 09/2013	Q1 to Q4 09/2013	Q1 09/2014	Q1 to Q2 09/2014	Q1 to Q3 09/2014	Q1 to Q4 09/2014		
Operating Cash Flow	(202)	28	466	1,094	202	785	845	-	-	+379
Investing Cash Flow	(49)	692	628	417	1	(477)	(577)	-	-	(1,205)
Operating CF + Investment CF	(251)	721	1,094	1,511	204	307	268	-	-	(826)
Financing Cash Flow	(62)	(103)	(145)	(85)	(118)	(158)	(63)	-	-	+81
Cash Flow Statement (Million Yen)	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	Cons. Act	YoY Net Chg.
	Q1 09/2013	Q2 09/2013	Q3 09/2013	Q4 09/2013	Q1 09/2014	Q2 09/2014	Q3 09/2014	Q4 09/2014		
Operating Cash Flow	(202)	231	437	627	202	582	59	-	-	(378)
Investing Cash Flow	(49)	741	(64)	(211)	1	(479)	(99)	-	-	(35)
Operating CF + Investment CF	(251)	973	373	416	204	103	(39)	-	-	(413)
Financing Cash Flow	(62)	(40)	(42)	59	(118)	(39)	94	-	-	+136

Source: Company Data, WRJ Calculation

FY09/2014 Company Forecasts

FY09/2014 Company forecasts, released in line with the release of Q3 FY09/2014 results, are going for prospective sales ¥54,160m (up 17.8% YoY), operating profit ¥2,253m (up 41.4%), recurring profit ¥2,329m (up 32.9%) and net profit ¥1,517m (up 25.7%). Operating profit margin is expected to be 4.2% (up 0.7% points). At the same time, the Company has revealed that it is to deliver ¥9.0 per share as dividend, implying payout ratio 15.0%, in FY09/2014. Compared with ¥7.0, implying payout ratio 14.6%, in FY09/2013, the Company is going to increase dividend per share ¥2.0, while payout ratio edging up over the year. Thus, the Company is to increase dividend per share two years in a row.



Source: Company Data, WRJ Calculation

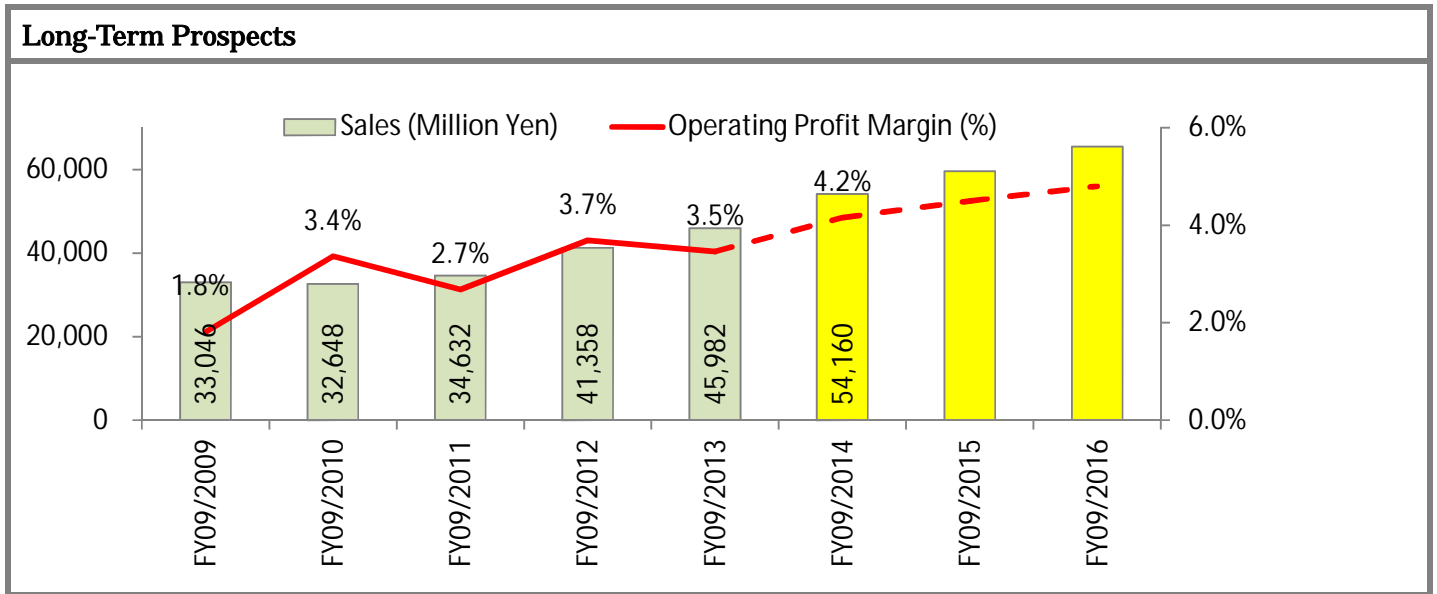
Meanwhile, in regards to Q4 (July to September), Company forecasts are going for prospective sales ¥13,800m (up 15.3% YoY) and operating profit ¥550m (up 10.2%). However, projects to have been already confirmed only have been incorporated in here, as suggested earlier. Thus, Company forecasts are likely to be exceeded due to contributions from new projects to occur towards the end of Q4.

In regards to Internet Marketing Business where the main operations are represented by sales of Internet advertising, recent trading has remained buoyant and this trend is expected to persist, leading to increases of sales and earnings over the year. On the Media Contents Business side, the Company forecasts assume increasing operating loss over the year, due to ongoing frontloaded investments in mobile games and manga (comics) contents. In regards to mobile games, collective 5 titles are currently under developments, mainly comprising those based on full-spec native apps scheme, but all of them will be launched later than the beginning of FY09/2015. “Dragon Parade (provisional)” will be the first title based on full-spec native apps scheme and is to be launched in Q1 FY09/2015, which has been co-developed with SEGA Networks Co., Ltd.

In regards to manga (comics) contents business, the Company released new manga delivering services, called “GANMA!”, in December 2013, while the number of downloads of apps stood at more than half million as of the end of July 2014. To date, however, billing revenues have remained insignificant and this just cannot compensate for expenses to run “Route M” which is a program to foster and support new manga artists and those to enrich the delivering services. On the other hand, going forwards, the Company plans to release the titles by manga artists on “GANMA!” as Tankobon Hardcover, while entering extensive IP (Intellectual Property) businesses based on future hit titles. Thus, all those businesses could be major sources of earnings with the Company. Meanwhile, “GANMA!” is expected to get increasingly valuable as advertising media in line with increasing number of users and that of titles available, going forwards, suggesting future advertising income generation as an operator of media for the Company.

Long-Term Prospects

On 5 November 2013, the Company revealed its midterm management policy for periods after FY09/2013 in its Q4 (full-year) FY09/2013 results meeting. Although there were no specifications in figures for the periods, etc., the Company reveals its plan to see “doubled earnings”, as early as possible, as a concept, by means of a) “sales mix improvements” and b) “setting up new earning pillars”. It was also revealed that the Company was to focus on “mobile”, “social” and “global” by domain.



Source: Company Data, WRJ Calculation

Long-term earnings growth is nothing but accumulated results of short-term business performance, e.g., on a quarterly basis and thus the issue to be pursued is just steady earnings growth every quarter, which is a basic idea with the Company, at present. Due to this, the Company does not specify timing, etc. for its target of midterm management policy on top of hesitating to disclose full-year Company forecasts at the beginning of the year.

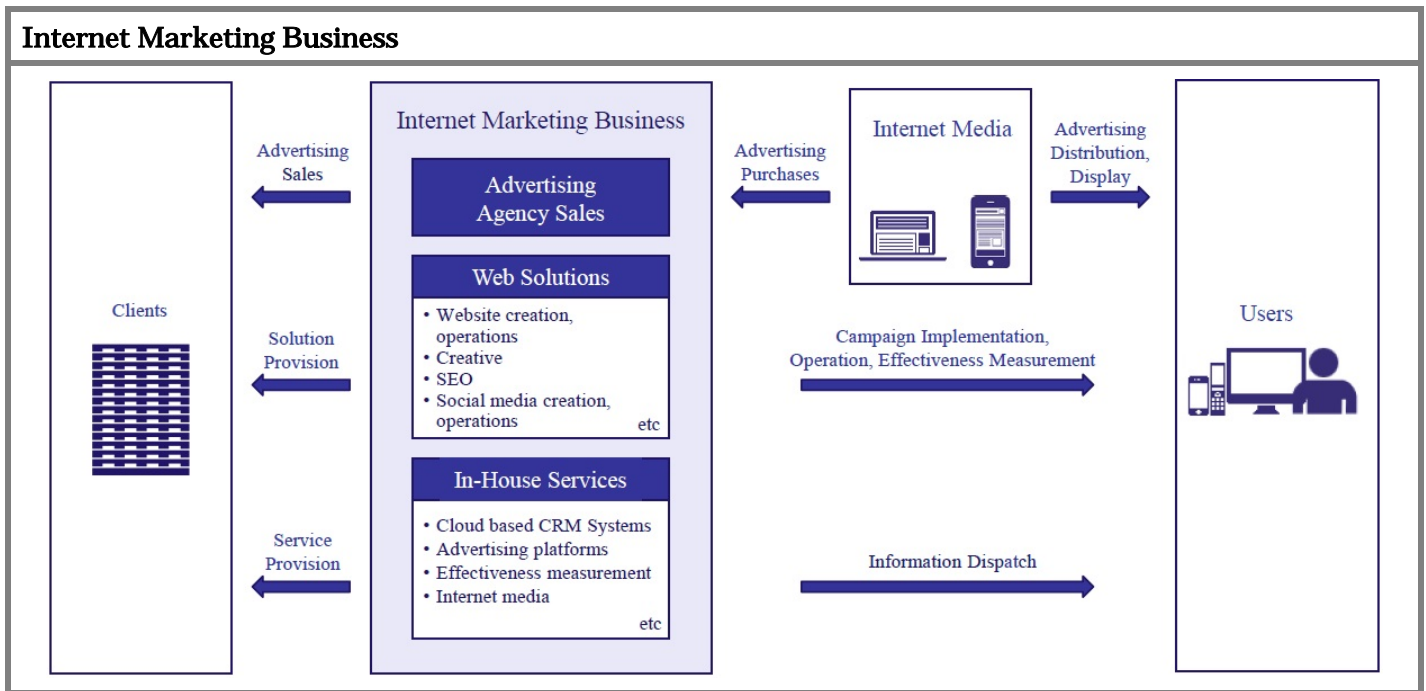
On the other hand, it has been clearly disclosed that steady progresses have been made on “mobile”, “social” and “global” domains as discussed earlier. Assuming operating profit in FY09/2013 as the basis for prospective “doubled earnings”, the Company is to achieve “1.4 times earnings” in FY09/2014, which is the first year of the periods for the midterm management policy, literally implying early achievement of the target, i.e., “doubled earnings” in the near future.

In regards to a) “sales mix improvements” and b) “setting up new earning pillars”, however, the Company has failed to see meaningful achievements to date. Sales of Internet advertising associated with social media to carry relatively high gross profit margin are surging, which is nothing but a contributor to a) “sales mix improvements”. Nevertheless, gross profit margin with the Company is not steadily improving as an underlying trend. One of the reasons here is that the Company is aggressively implementing frontloaded investments in mobile games and manga (comics) contents for the sake of b) “setting up new earning pillars”.

4.0 Business Model

Sales of Internet Advertising

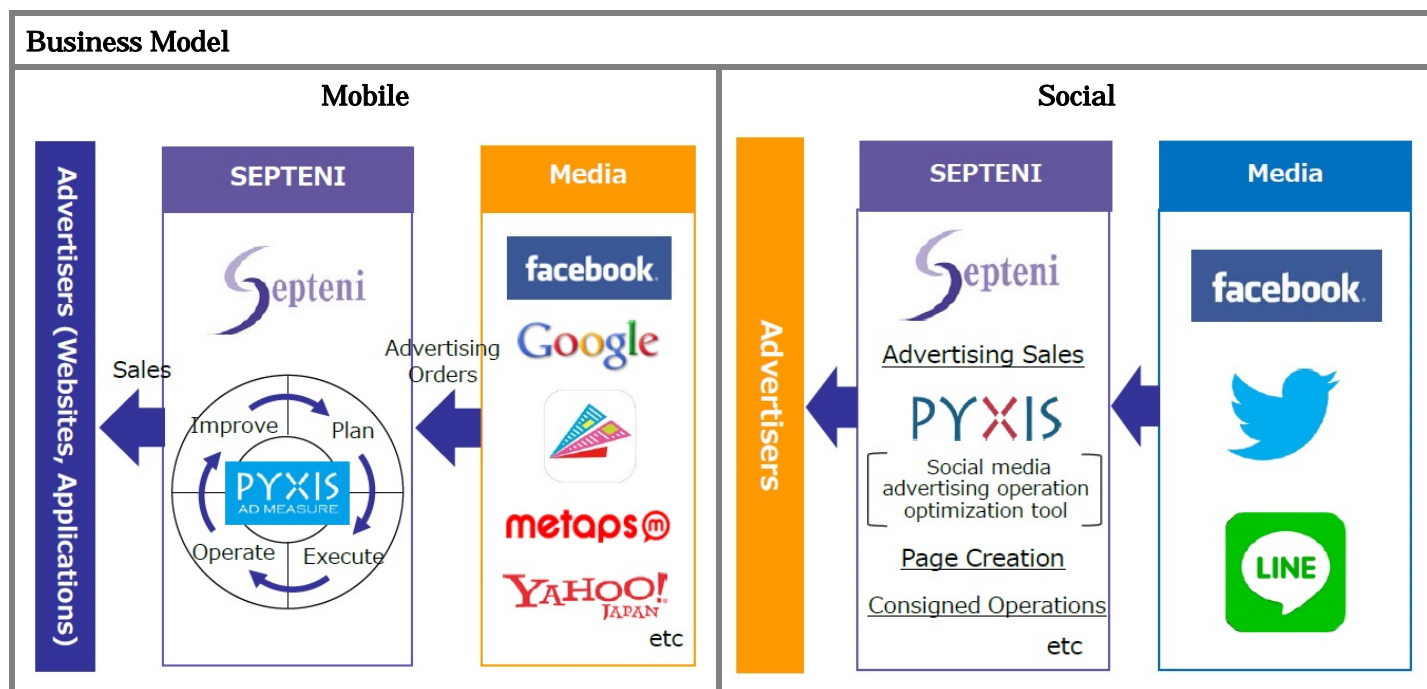
The bulk of earnings with the Company come from Internet Marketing Business where sales of Internet advertising are the mainstay. This business was effectively inaugurated by Koki Sato (born in 1975) in 2000, who is currently president and representative director with the Company. In Q1 to Q3 FY09/2014, this business segment accounted for 88.1% of sales with the Company and 101.7% of operating profit (before elimination) with the Company.



Source: Company Data

In Internet Marketing Business, the Company is involved with comprehensive marketing support services based on the use of Internet for corporate customers. Out of here, overwhelming proportions of sales and earnings are represented by operations of Internet advertising where the Company procures Internet advertising frames from diverse Internet media (such as “Facebook”, “Google”, “YAHOO! JAPAN”, etc.), while selling them to customers, i.e., advertisers and being involved with operations of advertising as well. All those operations collectively account for some 95% of sales in this business segment, while the remaining 5% is accounted for by those of own services comprising various web solutions, Cloud-based CRM systems, etc. Generally speaking, the latter carries higher gross profit margin than the former, but the latter accounts for just a tiny proportion of sales in this business segment, likely remaining insignificant as a factor to driver earnings for this business segment and thus the Company.

In sales of Internet advertising, diverse operational-type Internet advertising is offered for customers, i.e., advertisers, comprising mainly paid listing, ad network, etc. In a view of advertisers, it is not very easy to distinguish the Company from competitors like CyberAgent, Inc., OPT, Inc. and IREP Co., Ltd. in terms of features, etc. However, as far as we could gather, the Company well succeeds in persistently increasing own shares in the market for Internet advertising, focusing on developments of “mobile”, “social” and “global” domains, almost exclusively relying on own sales forces as an independent player in the market.



Source: Company Data

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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