

KADOKAWA DWANGO  
Financial Results  
for the First Quarter  
Ended June 30, 2015

August 6, 2015

---

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	49,715	50,851	46,906
Cost of Revenue	35,314	37,367	33,107
Gross Margin	14,400	13,483	13,799
SG&A	12,548	13,944	12,653
Operating Income	1,851	(460)	1,145
Ordinary Income	2,603	(131)	1,648
Profit Attributable to Owners of Parent	26,078	(12,022)	(220)

#### ■ Revenue

Portal and Game business grew, while Books & IP and Information Media business declined QoQ.

#### ■ Operating Income

Portal and Mobile business contributed, and Game business turned into profit. Allowance for doubtful accounts from smaller subscription agents increased in Books & IP business.

#### ■ Profit Attributable to Owners of Parent

Corporate tax increased due to reversal of deferred tax assets associated with payment of restructuring expenses posted last fiscal year.

(Yen in Millions)

	Three Months Ended Dec. 31, 2014		Three Months Ended Mar. 31, 2015		Three Months Ended Jun. 30, 2015	
	Revenue	Operating Income	Revenue	Operating Income	Revenue	Operating Income
Total	49,715	1,851	50,851	(460)	46,906	1,145
Books and IP Business	19,418	1,705	18,924	1,332	17,515	287
Information Media Business	8,022	(437)	7,930	(726)	6,491	(615)
Video and IP Business	8,239	817	7,627	169	5,794	259
Portal Business	4,810	731	4,754	646	4,822	610
Live Business	492	(269)	699	(189)	1,329	(271)
Mobile Business	2,540	987	2,426	768	2,313	956
Game Business	4,021	240	3,147	(1,255)	3,671	535
Others	3,447	(163)	6,172	(162)	6,058	136
Eliminations/Corporate	(1,278)	(1,759)	(830)	(1,043)	(1,090)	(755)

# Cost of Revenue, SG&A

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Cost of Revenue	35,314	37,367	33,107
Major Accounts:			
Direct Costs	18,556	18,930	15,881
Labor Costs	5,339	5,435	5,232
Commission Paid	1,256	1,168	1,352
Royalties	727	677	681
Outsourcing Costs	1,735	2,146	2,525
Communication Costs	820	844	820

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
SG&A	12,548	13,944	12,653
Major Accounts:			
Promotion Costs	3,021	3,382	2,804
Labor Costs	3,885	4,223	4,202
Commission Paid	1,717	1,253	1,281

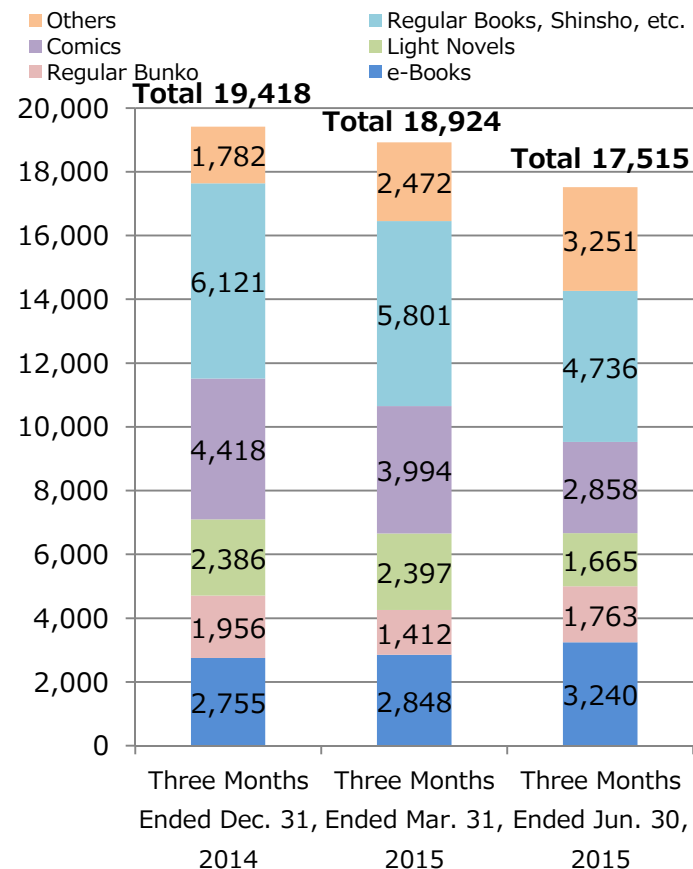
# Segment Information

(Yen in Millions)

	Books and IP	Information Media	Video and IP	Portal	Live	Mobile	Game	Others	Eliminations /Corporate	Total
Revenue	17,515	6,491	5,794	4,822	1,329	2,313	3,671	6,058	(1,090)	46,906
Cost of Revenue	12,000	5,488	4,386	2,770	1,383	808	2,448	4,515	(693)	33,107
percentage	68.5%	84.5%	75.7%	57.4%	104.1%	34.9%	66.7%	74.5%	-	70.6%
Gross Margin	5,515	1,003	1,408	2,052	(54)	1,505	1,223	1,542	(397)	13,799
percentage	31.5%	15.5%	24.3%	42.6%	-	65.1%	33.3%	25.5%	-	29.4%
SG&A	5,227	1,618	1,148	1,442	216	548	687	1,405	357	12,653
percentage	29.8%	24.9%	19.8%	29.9%	16.3%	23.7%	18.7%	23.2%	-	27.0%
Operating Income	287	(615)	259	610	(271)	956	535	136	(755)	1,145
percentage	1.6%	-	4.5%	12.7%	-	41.3%	14.6%	2.3%	-	2.4%

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	19,418	18,924	17,515
Cost of Revenue	12,907	12,116	12,000
Gross Margin	6,511	6,808	5,515
SG&A	4,805	5,475	5,227
Operating Income	1,705	1,332	287

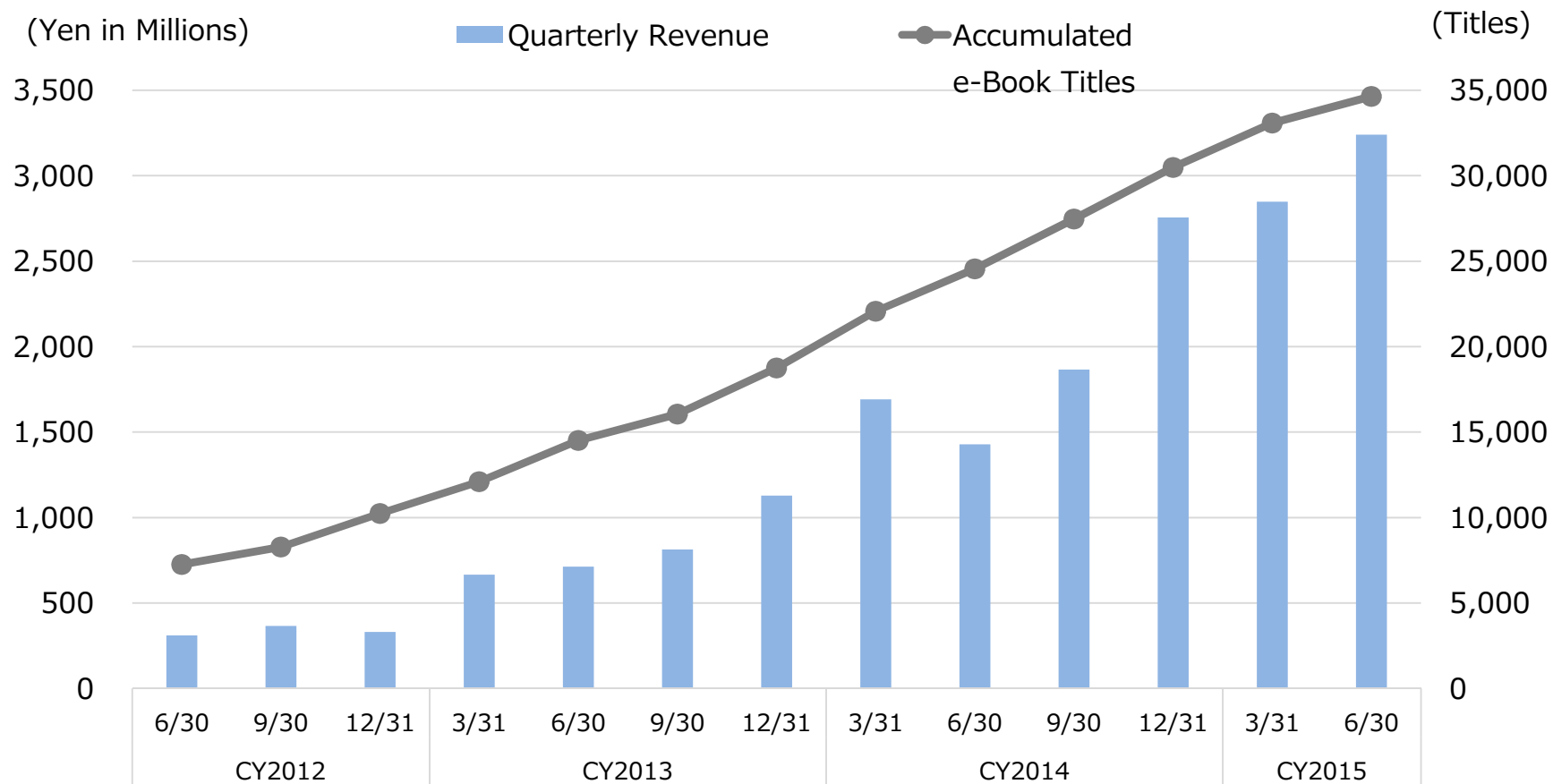


## ■ Revenue

“Shika-no-Ou”, awarded for best recommendation of booksellers, and some hits of regular books contributed. But light novels and comics struggled due to not enough media mix titles. E-books including d magazine grew steadily.

## ■ Operating Income

E-books grew in terms of operating income as well. In view of recent industry situation, allowance for doubtful accounts from smaller subscription agents increased 0.7 billion yen.

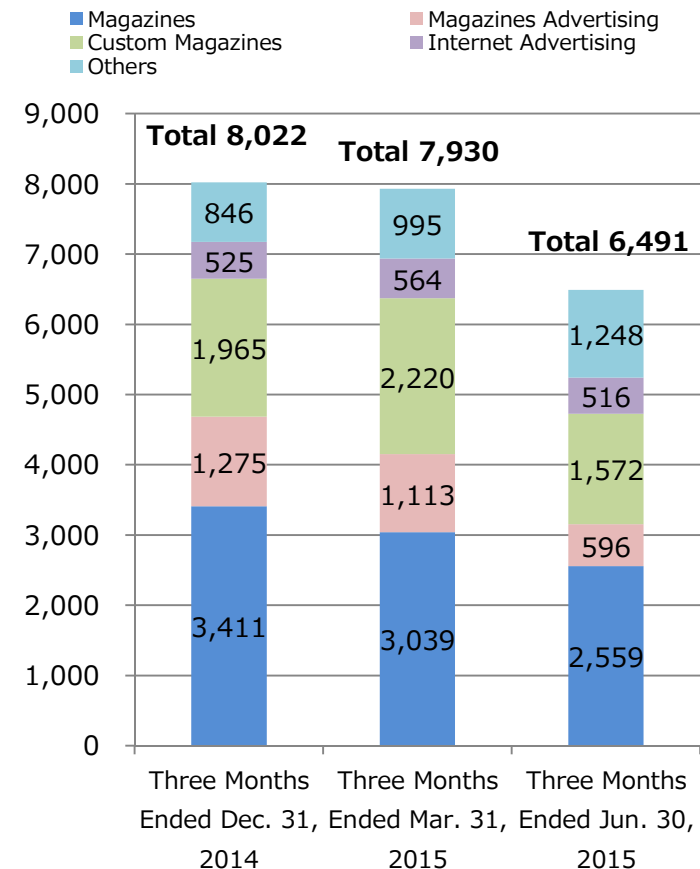


	CY2012			CY2013				CY2014				CY2015	
	6/30	9/30	12/31	3/31	6/30	9/30	12/31	3/31	6/30	9/30	12/31	3/31	6/30
Quarterly Revenue	310	365	330	665	713	813	1,129	1,692	1,429	1,865	2,755	2,848	3,240
Accumulated e-Book Titles	7,259	8,280	10,233	12,089	14,516	16,055	18,751	22,074	24,543	27,467	30,481	33,083	34,642

\*Quarterly revenue is of KADOKAWA until Sep 2014, of KADOKAWA DWANGO after Oct 2014.

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	8,022	7,930	6,491
Cost of Revenue	6,678	6,662	5,488
Gross Margin	1,343	1,268	1,003
SG&A	1,781	1,995	1,618
Operating Income	(437)	(726)	(615)



## ■ Revenue

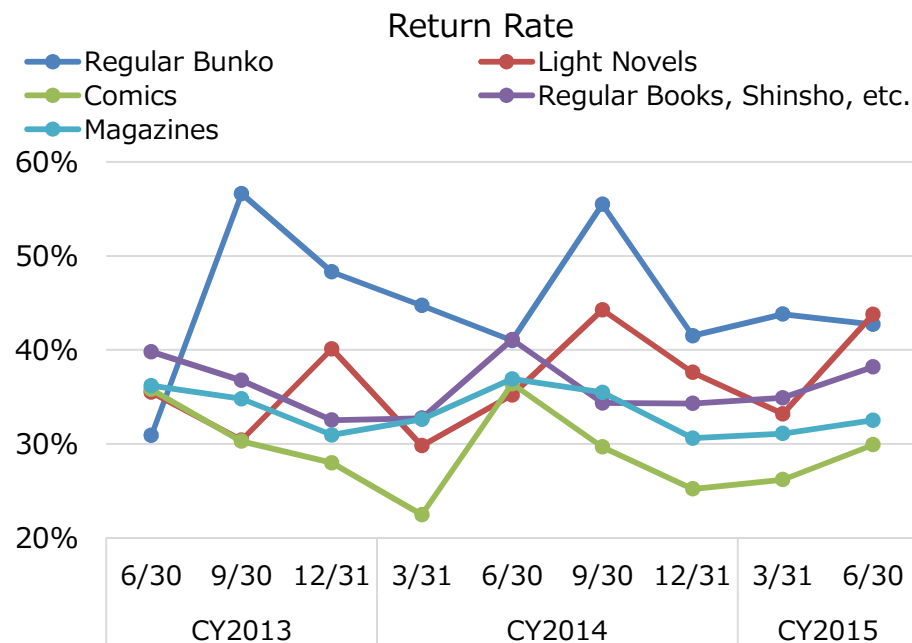
Magazines declined with digitalizing paper-based magazine. Magazines advertising decreased.

## ■ Operating Income

SG&A reduced by restructuring.



# Books and Magazines Return Rate



	KADOKAWA DWANGO	Industry Benchmark
<b>Return Rate of Books</b>		
FY2012	33.5%	37.5%
FY2013	34.7%	37.6%
FY2014	35.8%	37.5%
FY2015	38.0%	40.0%
<b>Return Rate of Magazines</b>		
FY2012	34.8%	37.9%
FY2013	33.6%	39.6%
FY2014	33.6%	40.2%
FY2015	32.5%	44.2%

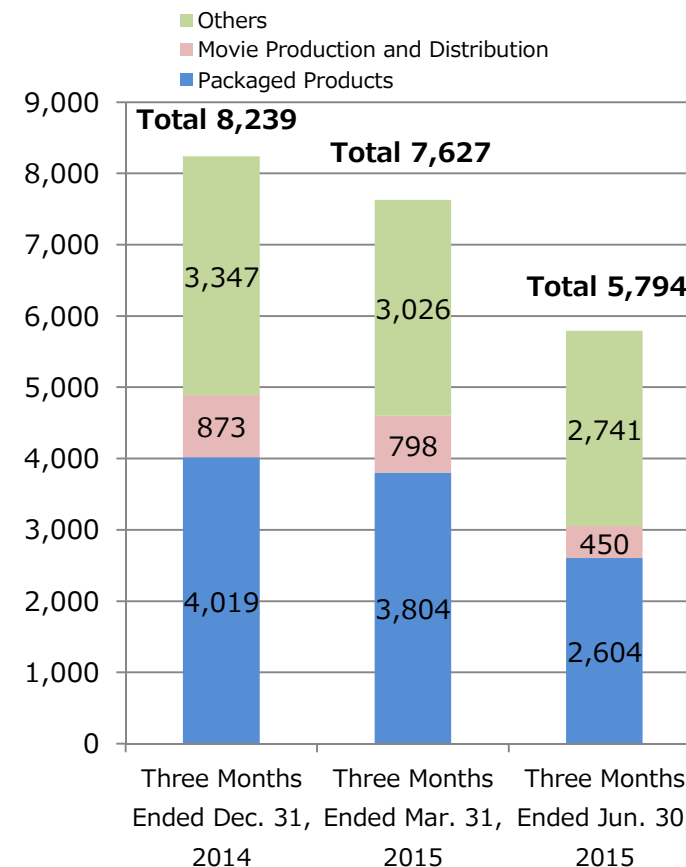
\*The industry benchmark figures are from A Month Report of Publications and Annual Report on the Publication Market from the All Japan Magazine and Book Publisher's and Editor's Association and the Research Institute for Publications. The data on FY2015 are for the period from Apr to Jun.

(Yen in Millions)

		CY2013			CY2014			CY2015		
		6/30	9/30	12/31	3/31	6/30	9/30	12/31	3/31	6/30
Regular Bunko	Revenue	2,986	1,355	1,800	1,651	1,926	1,128	1,956	1,412	1,763
	Return Rate	30.9%	56.6%	48.3%	44.7%	41.0%	55.5%	41.5%	43.8%	42.7%
Light Novels	Revenue	2,980	3,337	2,639	3,406	2,992	2,029	2,386	2,397	1,665
	Return Rate	35.5%	30.4%	40.1%	29.8%	35.2%	44.3%	37.6%	33.2%	43.8%
Comics	Revenue	3,518	3,948	4,106	4,870	3,010	3,828	4,418	3,994	2,858
	Return Rate	35.8%	30.3%	28.0%	22.5%	36.4%	29.7%	25.2%	26.2%	29.9%
Regular Books, Shinsho, etc.	Revenue	5,280	5,380	6,685	6,411	5,071	5,732	6,121	5,801	4,736
	Return Rate	39.8%	36.8%	32.5%	32.7%	41.1%	34.3%	34.3%	34.9%	38.4%
Magazines	Revenue	3,408	3,439	3,974	3,380	3,051	3,054	3,411	3,039	2,559
	Return Rate	36.2%	34.8%	30.9%	32.6%	36.9%	35.5%	30.6%	31.1%	32.5%

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	8,239	7,627	5,794
Cost of Revenue	6,248	6,197	4,386
Gross Margin	1,991	1,429	1,408
SG&A	1,174	1,259	1,148
Operating Income	817	169	259



## ■ Revenue

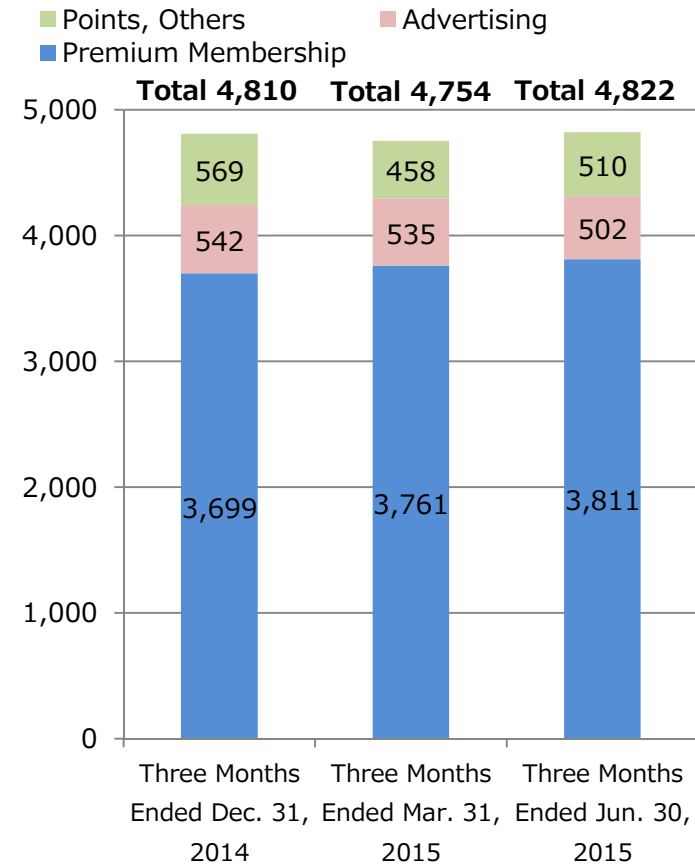
Some movies with underreached expected revenue, and reschedule of release in movie production and distribution. No big hit titles in packaged products.

## ■ Operating Income

Packaged products such as movie “Yo-kai Watch” contributed.

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	4,810	4,754	4,822
Cost of Revenue	2,738	2,761	2,770
Gross Margin	2,072	1,992	2,052
SG&A	1,341	1,346	1,442
Operating Income	731	646	610



## ■ Revenue

Increase of Premium members contributed. Premium members stood at 2.48 millions as of Jun 30, 2015.

## ■ Operating Income

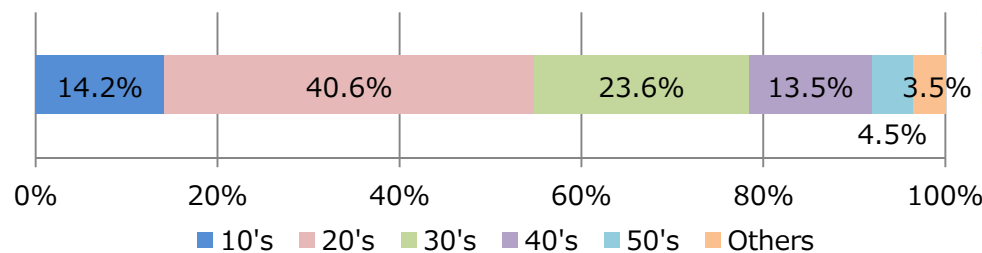
Labor related costs increased due to increase of engineers.

niconico live programs

niconico Users Data *as of Jun 30, 2015	
Premium Members	2.48 million
Issued IDs	49.17 million
Gender	♂66% ♀34%

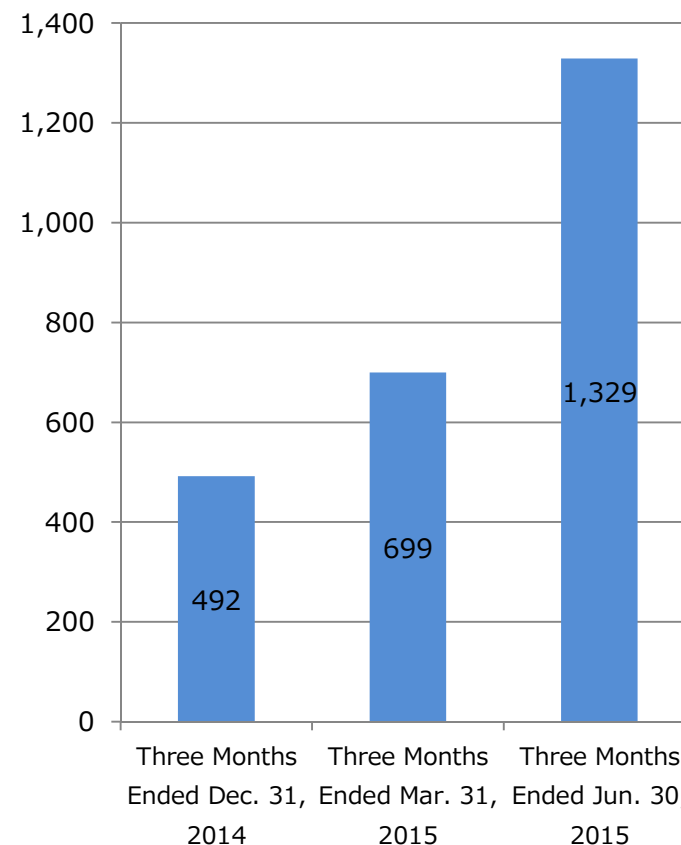
niconico Usage Data *average of Apr-Jun, 2015	
MAU (million)	873
(average of Jan-Mar, 2015)	(843)
Sojourn time per visitor per day (minute)	109.0
(average of Jan-Mar, 2015)	(115.4)

Age \*as of Jun 30, 2015



(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	492	699	1,329
Cost of Revenue	633	714	1,383
Gross Margin	(140)	(15)	(54)
SG&A	129	174	216
Operating Income	(269)	(189)	(271)



### ■ Revenue

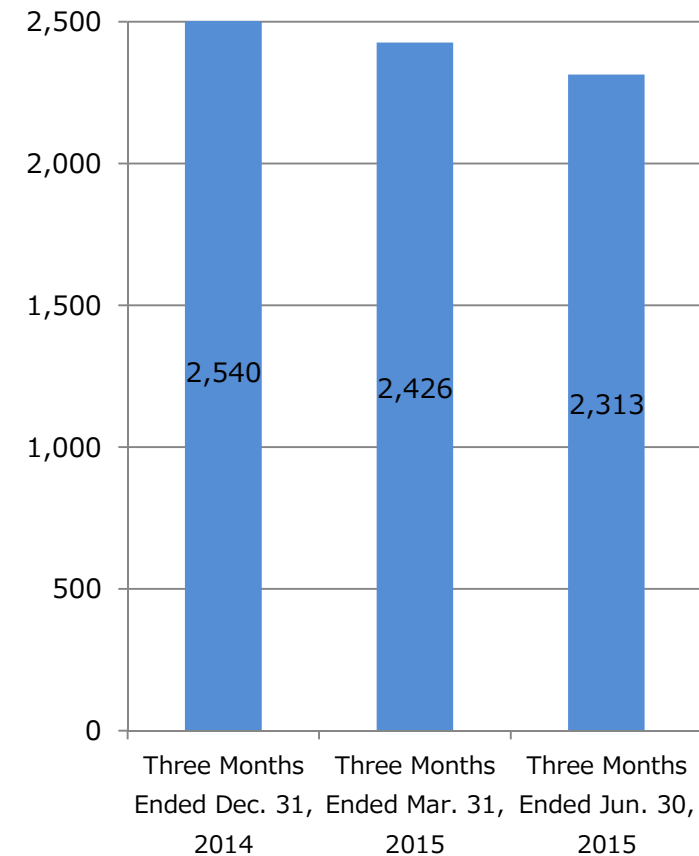
“niconico Chokaigi 2015” took place. Visitors with over 150 thousand exceeded the last year’s.

### ■ Operating Income

Though outsourcing costs and commission associated with “niconico Chokaigi 2015” increased, media exposure contributed to PR of “niconico”.

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	2,540	2,426	2,313
Cost of Revenue	926	898	808
Gross Margin	1,613	1,527	1,505
SG&A	626	759	548
Operating Income	987	768	956



■ **Revenue**

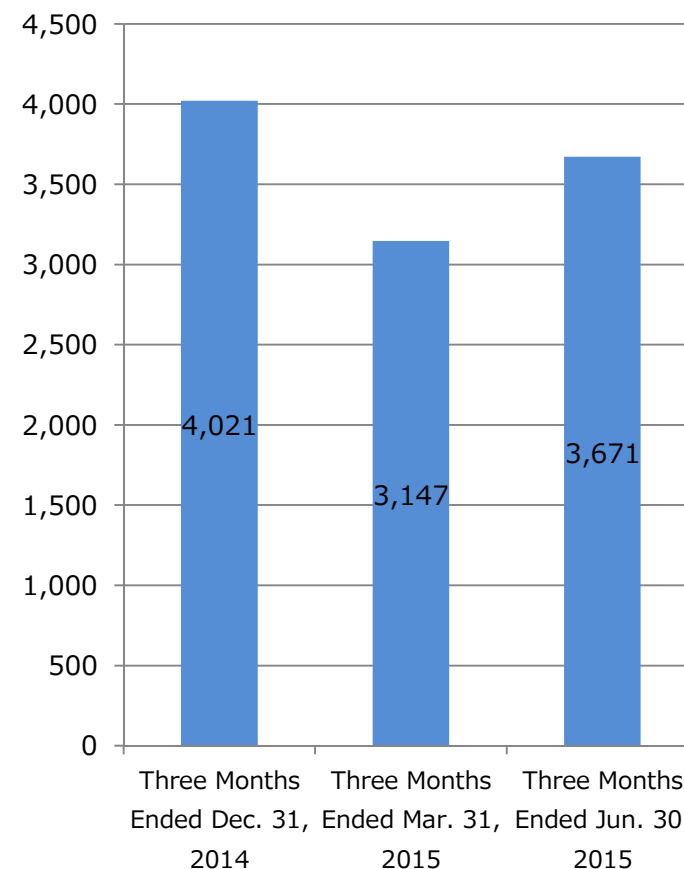
Both SP and FP members continued to decrease.

■ **Operating Income**

Despite revenue down, operating income increased due to downhold of promotion costs and overall well-conducted cost control.

(Yen in Millions)

	Three Months Ended Dec. 31, 2014	Three Months Ended Mar. 31, 2015	Three Months Ended Jun. 30, 2015
Revenue	4,021	3,147	3,671
Cost of Revenue	3,041	3,626	2,448
Gross Margin	980	(478)	1,223
SG&A	739	777	687
Operating Income	240	(1,255)	535



## ■ Revenue

“The Witcher wild hunt”, “The Legend of Heroes –Sora no Kiseki-”, “Furai-no-Shiren 5 plus” contributed.

## ■ Operating Income

Showed significant growth derived from three hit titles mentioned above, and contingent fee for “Bloodborne”.

# Balance Sheet, Cash Flow Statement

(Yen in Millions)

	Mar 31, 2015	Percentage	Jun 30, 2015	Percentage		Jun 30, 2015
Current Assets	131,200	63.8%	117,246	61.2%	Cash Flows from Operating Activities	(4,172)
Non-Current Assets	74,473	36.2%	74,457	38.8%	Cash Flows from Investing Activities	(4,589)
Tangible Assets	36,350	17.7%	36,135	18.8%	Cash Flows from Financing Activities	(866)
Intangible Assets	5,997	2.9%	6,138	3.2%	Cash and Cash Equivalents at End of Period	49,649
Investment and Other Assets	32,124	15.6%	32,183	16.8%		
<b>Total Assets</b>	<b>205,673</b>	<b>100.0%</b>	<b>191,703</b>	<b>100.0%</b>		
Current Liabilities	63,316	30.8%	50,152	26.2%		
Non-Current Liabilities	38,108	18.5%	37,581	19.6%		
Shareholders' Equity	101,946	49.6%	101,025	52.7%		
<b>Total Equity</b>	<b>104,248</b>	<b>50.7%</b>	<b>103,969</b>	<b>54.2%</b>		
<b>Total Liabilities and Equity</b>	<b>205,673</b>	<b>100.0%</b>	<b>191,703</b>	<b>100.0%</b>		



(Yen in Millions)

	Fiscal Year Ending Mar. 31, 2016		Segment Breakdown	
			Revenue	Operating Income
Revenue	200,500	Total	200,500	7,000
Operating Income	7,000	Books and IP Business	70,000	4,900
Ordinary Income	6,800	Information Media Business	34,200	(1,200)
Profit Attributable to Owners of Parent	4,000	Video and IP Business	28,500	1,300
		Portal Business	21,000	2,100
		Live Business	3,500	(1,000)
		Mobile Business	7,900	2,600
		Game Business	18,200	2,500
		Others	20,500	800
		Eliminations/Corporate	(3,300)	(5,000)

- The forward-looking statements in this document, including earnings forecasts, are determined by KADOKAWA DWANGO CORPORATION based on currently available information.
  - Future figures involve various uncertainties, and actual results may differ. Please refrain from making investment decisions based entirely on these forecasts.
-