Financial Results for the Fiscal Year Ended September 30, 2014

DWANGO Co., Ltd.

Nov 13, 2014

Financial results overview

dwango

(¥million)

	FY2013	FY2014	FY2014E	YoY	FY2014 /FY2014E
Net Sales	35,946	41,484	42,251	15.4%	(1.8%)
COGS	20,432	23,595	23,961	15.5%	(1.5%)
Gross Profit	15,513	17,888	18,290	15.3%	(2.2%)
SGA	13,382	14,694	15,125	9.8%	(2.8%)
Operating Income	2,130	3,193	3,165	49.9%	0.9%
Ordinary Income	2,292	3,364	3,224	46.7%	4.3%
Net Income	2,271	2,199	2,463	(3.2%)	(10.7%)

- Net Sales : MAGES. consolidated and increase of premium members, +15.4% YoY
- COGS : increase of outsourcing cost in Game and Live Business
- SGA : increase of labor cost due to MAGES. consolidated
- Operating Income : revenue increase in Portal Business, +49.9% YoY
- Net Income : increase of corporate tax due to clearing loss carried forward

Segmental summary

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(¥million)

	Portal Business	Mobile Business	Game Business	Live Business	Other Businesses	Eliminations /Corporate	Total
Net Sales	18,469	11,674	6,783	2,483	2,642	(568)	41,484
YoY	2,424	(1,639)	2,646	1,330	733	41	5,538
YoY	15.1%	(12.3%)	64.0%	115.4%	38.5%	-	15.4%
Operating Income	3,282	2,364	524	(715)	(360)	(1,901)	3,193
YoY	1,166	377	171	(175)	(113)	(364)	1,062
YoY	55.1%	19.0%	48.6%	-	-	-	49.9%

- Portal Business : premium members +240 thousand, total revenue +¥2.4B; revenue increase and loss of temporary increase of amortization in 3Q FY2013, OpI +¥1.1B
- Mobile Business : increase of SP members overwhelmed by decrease of FP members, total revenue +¥1.6B; control of promotion cost and decrease of royalties, OpI +¥377M
- Game Business : Strong sales of “Shingeki-no-Kyojin” by Spike Chunsoft, MAGES. revenue added, total revenue +¥2.6B; some unprofitable titles in 2H, OpI +¥171M
- Live Business : “Animelo Summer Live” by MAGES. added, total revenue +¥1.3B; occupancy rate down at “nicofarre” and increase of restructuring cost, Op Loss +¥175M
- Other Businesses : MAGES. revenue such as school business added, total revenue +¥733M; increase of animation production cost, Op Loss +¥113M

Quarterly financial results overview

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(¥million)

	FY2014			
	1Q	2Q	3Q	4Q
Net Sales	9,619	10,817	9,994	11,052
COGS	4,941	5,979	5,663	7,010
Gross Profit	4,677	4,838	4,330	4,041
SGA	3,478	4,013	3,238	3,963
Operating Income	1,198	824	1,092	78

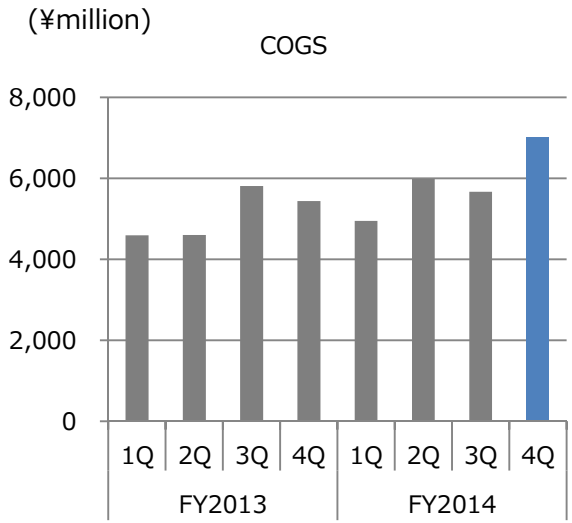
Reasons for lower level Operating Income in 4 Q

- increase of live programs related cost in Portal business
- revenue decrease and slight increase of promotion cost in Mobile business
- some unprofitable titles in Game business
- deficit increase in Other businesses due to animation production cost

Cost of goods sold

(¥million)

	FY2013	FY2014	FY2014E	YoY	FY2014 /FY2014E
COGS	20,432	23,595	23,961	15.5%	(1.5%)
Major Accounts					
Labor Cost	5,615	6,065	5,760	8.0%	5.3%
Commission and Fees Paid	2,480	3,007	3,075	21.3%	(2.2%)
Royalties	3,776	3,071	3,762	(18.7%)	(18.4%)
Outsourcing Cost	4,038	6,989	7,209	73.1%	(3.1%)
Communication Cost	2,750	2,762	2,835	0.4%	(2.6%)

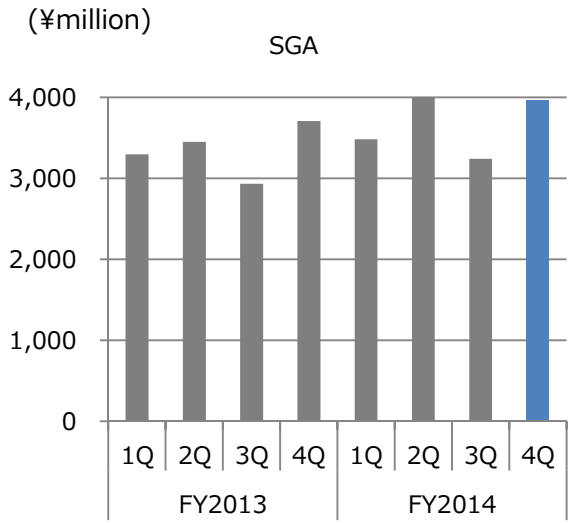


■Commission and Fees Paid : increase of royalties in Game business, +21.3% YoY
■Royalties : decrease of music download in Mobile business, -18.7% YoY
■Outsourcing Cost : increase by ¥1.5B associated with IP titles in Game business, and increase by ¥0.8B on “Niconico Chokaigi” and “Animelo Summer Live” events in Live business, +73.1% YoY

SGA

(¥million)

	FY2013	FY2014	FY2014E	YoY	FY2014 /FY2014E
SGA	13,382	14,694	15,125	9.8%	(2.8%)
Major Accounts					
Promotion Cost	5,025	5,125	5,191	2.0%	(1.3%)
Labor Cost	2,463	3,212	3,398	30.4%	(5.5%)
Commission and Fees Paid	3,604	3,922	4,021	8.8%	(2.5%)



- Promotion Cost : decrease in Mobile business, but increase in Portal and Game business, +2.0% YoY
- Labor Cost : MAGES. consolidated, +30.4% YoY
- Commission and Fees Paid : increase of premium members in Portal business, +8.8% YoY

Segment revenue and profit

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(¥million)

	Portal Business	Mobile Business	Game Business	Live Business	Other Businesses	Eliminations /Corporate	Total
Net Sales	18,469	11,674	6,783	2,483	2,642	(568)	41,484
/Total Net Sales	44.5%	28.1%	16.4%	6.0%	6.4%	(1.4%)	100.0%
COGS	10,104	4,207	4,625	2,530	2,233	(106)	23,595
/Segment Net Sales	54.7%	36.0%	68.2%	101.9%	84.5%		56.9%
Gross Profit	8,365	7,466	2,157	(47)	400	(453)	17,888
/Segment Net Sales	45.3%	64.0%	31.8%	(1.9%)	15.1%		43.1%
SGA	3,769	4,740	1,633	600	760	3,189	14,694
/Segment Net Sales	20.4%	40.6%	24.1%	24.2%	28.8%		35.4%
Income before Allocated Cost	4,595	2,725	524	(647)	(360)	(3,643)	3,193
/Segment Net Sales	24.9%	23.3%	7.7%	(26.1%)	(13.6%)		7.7%
Allocated Cost	1,313	360	-	67	-	(1,741)	-
/Segment Net Sales	7.1%	3.1%		2.7%			
Operating Income	3,282	2,364	524	(715)	(360)	(1,901)	3,193
/Segment Net Sales	17.8%	20.3%	7.7%	(28.8%)	(13.6%)		7.7%

Portal business

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(¥million)

	FY2013	FY2014	FY2014E	YoY	YoY	FY2014 /FY2014E	FY2014 /FY2014E
Net Sales	16,044	18,469	18,985	2,424	15.1%	(515)	(2.7%)
COGS	9,452	10,104	10,685	652	6.9%	(580)	(5.4%)
Gross Profit	6,592	8,365	8,299	1,772	26.9%	65	0.8%
SGA	3,232	3,769	4,226	537	16.6%	(457)	(10.8%)
Income before Allocated Cost	3,360	4,595	4,072	1,235	36.8%	522	12.8%
Allocated Cost	1,244	1,313	1,313	68	5.5%	0	0.0%
Operating Income	2,115	3,282	2,759	1,166	55.1%	522	18.9%

■ **Net Sales : +15.1% YoY**

・Premium members : 2.36M as of Sep 30, 2014, +240K YoY, revenue +¥2B YoY, with draw live programs with over 1M viewers such as “PUZZLE & DRAGONS walkthrough”, “AKB48 general election”, and “Denousen”

■ **Operating Income : +55.1% YoY**

・increase of engineers, live programs related cost, and promotion cost overwhelmed by revenue increase and loss of temporary increase of software amortization in 3Q FY2013

Mobile business

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(¥million)

	FY2013	FY2014	FY2014E	YoY	YoY	FY2014 /FY2014E	FY2014 /FY2014E
Net Sales	13,313	11,674	11,741	(1,639)	(12.3%)	(67)	(0.6%)
COGS	5,108	4,207	4,535	(900)	(17.6%)	(327)	(7.2%)
Gross Profit	8,205	7,466	7,206	(739)	(9.0%)	259	3.6%
SGA	5,887	4,740	4,724	(1,147)	(19.5%)	16	0.3%
Income before Allocated Cost	2,317	2,725	2,481	407	17.6%	243	9.8%
Allocated Cost	330	360	360	30	9.1%	0	0.0%
Operating Income	1,987	2,364	2,120	377	19.0%	243	11.5%

■ **Net Sales : -12.3% YoY**

・total membership -340K YoY (FP -450K, SP +110K)

■ **Operating Income : +19.0% YoY**

・decrease of royalties and collection agency fee caused by membership decrease

・decrease of promotion cost in order to acquire SP members

Game business

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(¥million)

	FY2013	FY2014	FY2014E	YoY	YoY	FY2014 /FY2014E	FY2014 /FY2014E
Net Sales	4,136	6,783	6,540	2,646	64.0%	242	3.7%
COGS	2,552	4,625	3,891	2,072	81.2%	733	18.8%
Gross Profit	1,583	2,157	2,649	574	36.3%	(491)	(18.5%)
SGA	1,230	1,633	1,848	402	32.7%	(214)	(11.6%)
Income before Allocated Cost	352	524	800	171	48.6%	(276)	(34.5%)
Allocated Cost	-	-	-	-	-	-	-
Operating Income	352	524	800	171	48.6%	(276)	(34.5%)

■ **Net Sales : +64.0% YoY**

・Strong sales of ”Shingeki-no-Kyojin”, “Dangan-Ronpa 1&2 Reload”, both by Spike Chunsoft, and MAGES. consolidated, total annual sales units increased

■ **Operating Income : +48.6% YoY**

・increase of outsourcing cost and promotion cost associated with IP titles, and some unprofitable titles in 2H, overwhelmed by revenue increase

Live business

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(¥million)

	FY2013	FY2014	FY2014E	YoY	YoY	FY2014 /FY2014E	FY2014 /FY2014E
Net Sales	1,153	2,483	2,451	1,330	115.4%	32	1.3%
COGS	1,488	2,530	2,541	1,042	70.0%	(10)	(0.4%)
Gross Profit	△335	(47)	(89)	288	-	42	-
SGA	170	600	435	429	251.7%	164	37.8%
Income before Allocated Cost	△506	(647)	(525)	(141)	-	(122)	-
Allocated Cost	34	67	67	33	98.0%	0	0.0%
Operating Income	△540	(715)	(592)	(175)	-	(122)	-

■ **Net Sales : +115.4% YoY**

・revenue increase of “Niconico Chokaigi”

・MAGES.’s live events such as “Animelo Summer Live” added

■ **Operating Loss : 715M in FY2014**

・decrease of events at “nicofarre”

・increase of restructuring cost

Balance sheet, Cash flow statement

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(¥million)

	FY2013	/Total assets	FY2014	/Total assets	YoY
Current assets	18,297	63.4%	23,730	69.3%	5,433
Non-current assets	10,556	36.6%	10,536	30.7%	(19)
Tangible assets	2,258	7.8%	2,884	8.4%	626
Intangible assets	2,484	8.6%	2,653	7.7%	169
Investment and other assets	5,813	20.1%	4,999	14.6%	(814)
Total assets	28,853	100.0%	34,267	100.0%	5,414
Current liabilities	7,367	25.5%	10,095	29.5%	2,728
Non-current liabilities	750	2.6%	2,057	6.0%	1,307
Shareholders' equity	20,078	69.6%	21,757	63.5%	1,679
Total equity	20,736	71.9%	22,115	64.5%	1,379
Total liabilities and equity	28,853	100.0%	34,267	100.0%	5,414

	FY2013	FY2014	YoY
Cash flows from operating activities	5,117	3,783	(1,334)
Cash flows from investing activities	(1,929)	(2,311)	(382)
Cash flows from financing activities	(655)	718	1,373

- **Current assets** : increase of cash and deposits, and inventory
- **Current liabilities** : increase of accounts payable
- **Shareholders' equity** : net income added to retained earnings
- **CF from operating activities** : increase of accounts receivable
- **CF from investing activities** : acquirement of tangible assets
- **CF from financing activities** : increase of long-term debt

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Operating profit is supposed to grow around 40% YoY. However, we've decided the execution of about ¥1.7B of impact on P&L in upfront investment.

- enforcement of engineers
- development and release of new service
- relocation of niconico headquarters to Ikebukuro in Oct 2014

Without upfront investment…

- **Portal business : revenue increase ＞ cost increase**
  premium members +210K YoY, content acquisition cost increase, strengthen communication line
- **Mobile business : revenue decrease ＜ cost reduction ; OP +¥400M YoY**
  membership -580K YoY, promotion cost control more than ever
- **Game business : revenue increase ＞ cost increase ; OP +¥500M YoY**
  Spike Chunsoft stay flat, MAGES. contribute with popular title release
- **Live business : revenue increase ≒ cost increase**
  "Niconico Chokaigi 2015" and "Niconico Kunikaigi" take place
- **Other businesses : revenue decrease ＜ cost reduction**
  cost reduce
- **Eliminations & corporate cost : eliminations decrease due to reorganization**

Action plan

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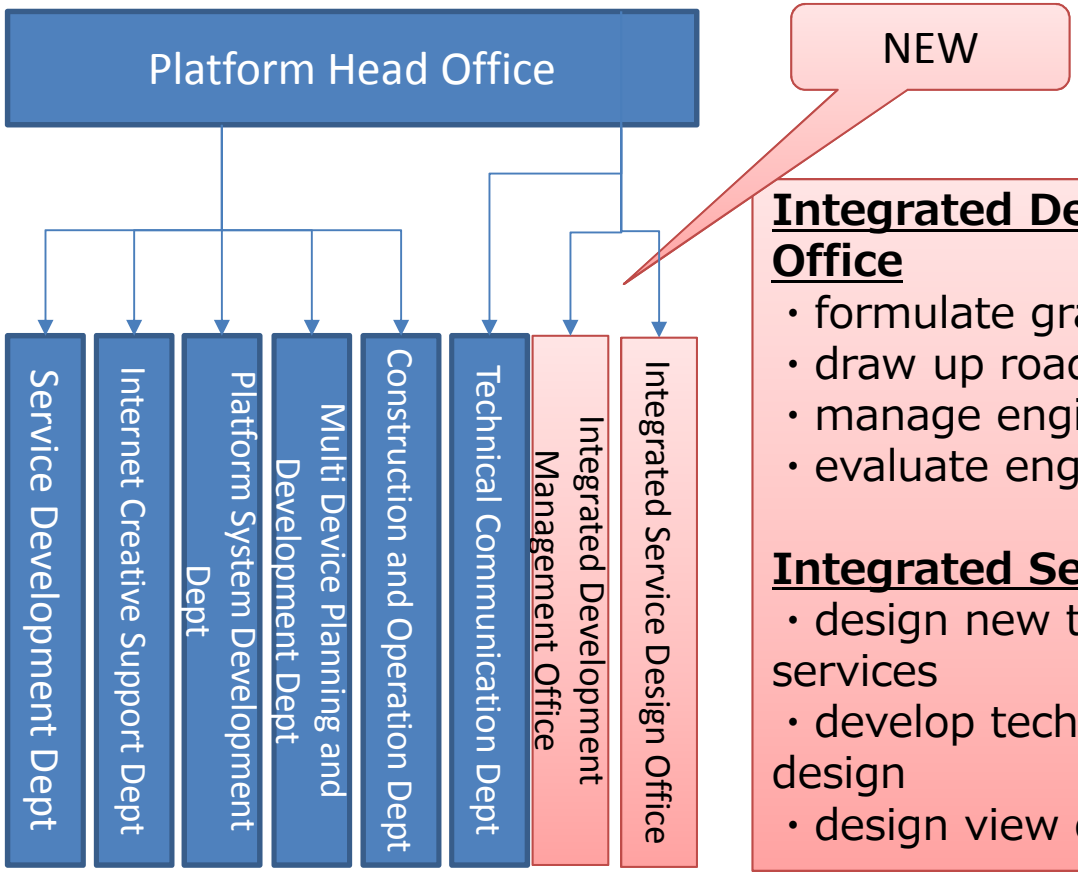
- niconico platform being modified as scheduled
- reorganization for enforcement of development management system and development optimization



Integrated Development Management Office

- formulate grand design of development
- draw up road map, monitor
- manage engineer resources
- evaluate engineers

Integrated Service Design Office

- design new technology into smartphone services
- develop technology from perspective of design
- design view of niconico world

Appendix

Portal business

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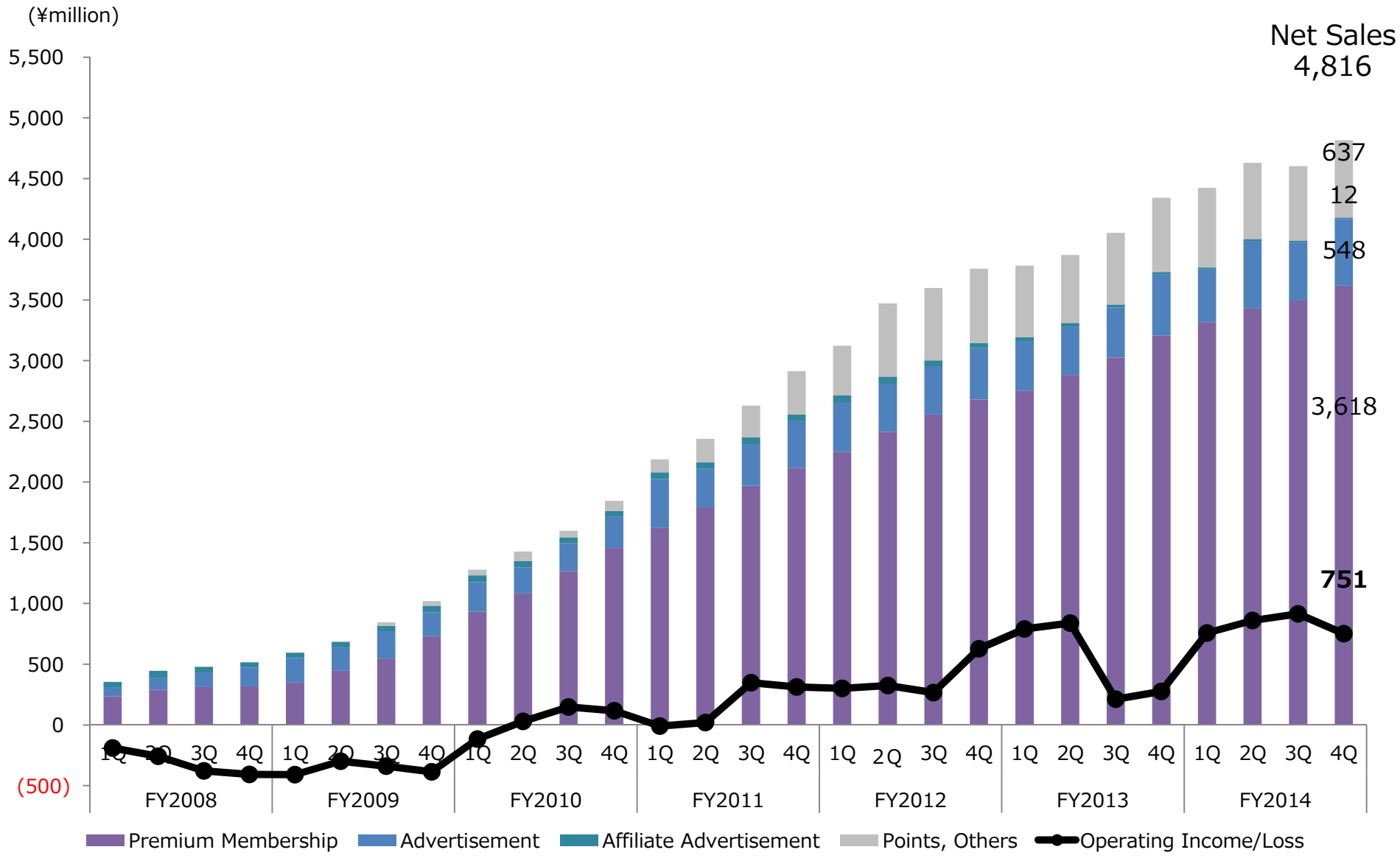


niconico members data

As of September 30, 2014

registered members

43.20 million

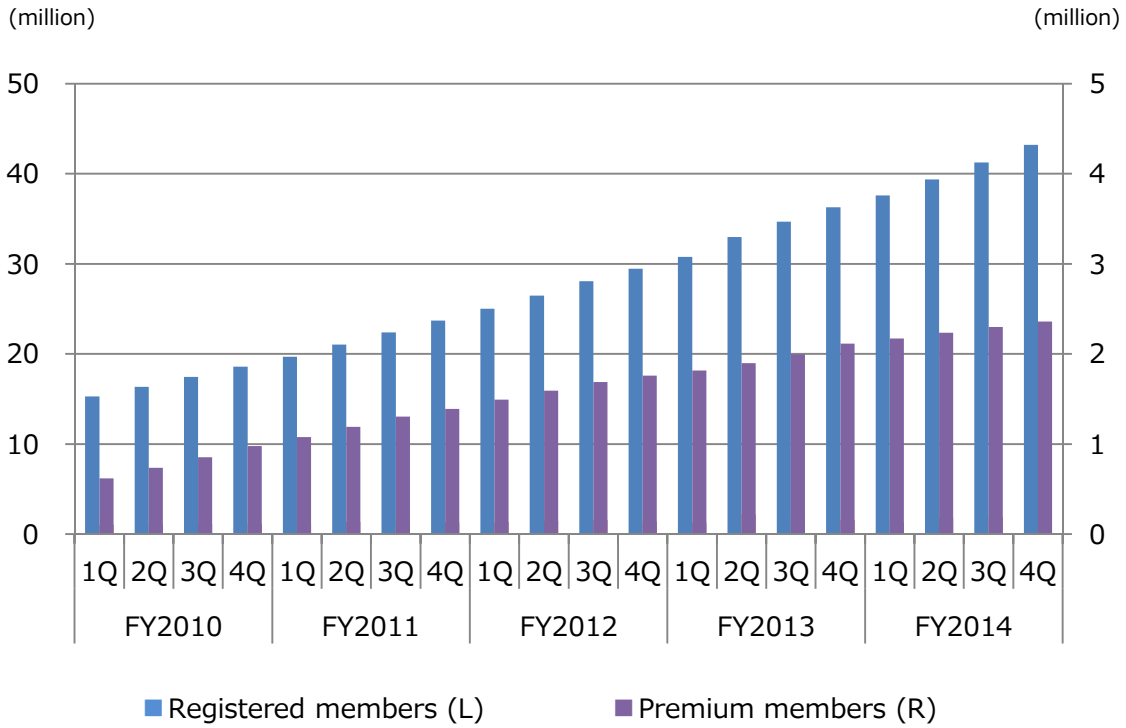
As of Jun 30, 2014 : 41.24

premium members

2.36 million

As of Jun 30, 2014 : 2.29 mil

growth of members



niconico usage data and members profile

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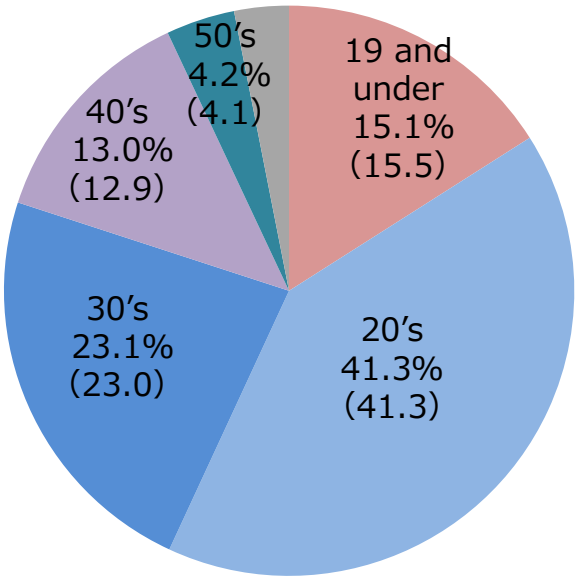
Average of Jul-Sep, 2014
(average of Apr-Jun, 2014)

niconico total	niconico live
■average PV per day	
152.16 million (140.36)	19.54 million (18.48)
■average visitors per month	
8.54 million (8.49)	3.88 million (3.58)
■average sojourn time per visitor per day	
114.3 minutes (110.5)	90.2 minutes (95.0)

gender ♂66% ♀34%

As of Sep 30, 2014

age



niconico live programs

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- The forward-looking statements in this document, including earnings forecasts, are determined by the Dwango Group 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.