

KADOKAWA DWANGO
Financial Results for the Fiscal Year
Ended March 31, 2017

May 11, 2017

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Results for the Fiscal Year Ended March 31, 2017

Unit: Million yen

	Results for the fiscal year ended March 31, 2016	Results for the fiscal year ended March 31, 2017	Announced on May 12,2016 Original forecast for the fiscal year ended March 31, 2017	Announced on November 10,2016 Revised forecast for the fiscal year ended March 31, 2017
Revenue	200,945	205,717	200,000	202,000
Operating income	9,124	8,419	3,100	6,000
Ordinary income	10,189	7,407	3,300	5,800
Profit attributable to owners of parent	6,845	5,767	1,750	4,000

Results for the Fiscal Year Ended March 31, 2017 (by segment)

Unit: Million yen

	Results for the fiscal year ended March 31, 2016		Results for the fiscal year ended March 31, 2017	
	Revenue	Operating income	Revenue	Operating income
Total	200,945	9,124	205,717	8,419
Web Services	33,136	4,638	31,275	2,815
Publication	105,199	6,282	113,012	8,342
Video and Game	44,284	3,614	44,402	3,312
Others	21,340	(1,011)	20,209	(1,635)
Eliminations/Corporate	(3,015)	(4,399)	(3,182)	(4,415)

Announced on May 12, 2016 Original forecast for the fiscal year ended March 31, 2017		Announced on November 10, 2016 Revised forecast for the fiscal year ended March 31, 2017	
Revenue	Operating income	Revenue	Operating income
200,000	3,100	202,000	6,000
32,000	2,700	32,000	2,500
107,000	4,400	109,000	6,900
44,000	2,500	44,000	3,200
20,000	(1,300)	20,000	(1,600)
(3,000)	(5,200)	(3,000)	(5,000)

Renewal of Niconico

On August 18, 2016, the maximum size of video that can be posted was increased to 1.5GB.

On October 27, 2016, a new HTML5 (β) page for watching videos was launched, and the waiting time before video playback was shortened.

On November 1, 2016, a new delivery function, New Delivery β, of Niconico Live began to be offered. Picture quality and speed have increased significantly.

Growth of Niconico Channel

The number of Niconico Channel dues-paying members increased significantly from the end of the previous fiscal year, partly due to the release of the Niconico Channel app. (Number of dues-paying members at the end of the fiscal year under review: 590,000, up 140,000 from the end of the previous fiscal year)

Release of RPG Atsumaru

In the four months after its release in November 2016, RPG Atsumaru recorded 3 million plays.

It has gained popularity due to its unique service, including its lineup of official games created by popular Niconico users and a function that allows users to enter comments.

Good progress made in the development of a new version, Niconico (<)

A new version, Niconico(<), is planned to be released in October 2017. The new version includes a new service for smartphones.

Successful initiatives in the paper books business

One Company KADOKAWA has produced results.

A system for making a constant profit has been established, maintaining the number of new publications instead of depending on big hits. The brand integration of KADOKAWA as a major publisher has increased the Company's pricing power in distribution and in the copyright business.

A new organizational structure facilitates cooperation between the sales and editing divisions. As a result, a system for producing and shipping appropriate numbers of copies based on supply and demand prospects has been established, and the system has improved the rate of returned books unsold and has reduced inventories.

The e-books business is continuing to perform well

Both e-books and e-magazines continued to perform well, reflecting growth in the market and efficient campaigns.

Improvement in magazines

Change in the business model, including a shift to the Web improved profitability.

Enhancement of the UGC-type posting site

The number of works submitted to the Kakuyomu posting site increased steadily, and 55 works became books in FY2016. The posting site has been growing more rapidly than expected.

Media-mix video products performing well

In addition to the distribution of revenue from the production committee, *Your Name*, the hit movie, contributed revenue from the movie related books in the Publication segment. Media-mix products centered around animations, including a theatrical version of *Kantai Korekushon*, which has gained a number of fans, *Bungo Stray Dogs*, and *Re:Zero – Starting Life in Another World* performed well. License business with video distributors has been growing.

Lower-than-expected profit from games

Sales from series such as *Danganronpa* and *Witcher*, and royalties and sales of download content of *DARK SOULS III*, which was released in the previous fiscal year, were strong. Meanwhile, social game titles performed badly. Overall, profit was lower than expected.

Strong performance in the education business

N High School (KADOKAWA DWANGO educational corporation), which opened in April 2016, took a number of steps including the launch of the “Commute Course.” In the second term, the school had 2,002 new students, and the total number of students was 3,782 in April 2017. The Company is also providing “N Preparatory School,” an original learning application that offers interactive lessons on the Internet.

Gaining users in gaming communities

The Company promoted the live coverage of e-sports and games in Japan by operating Niconico Channel, holding Game Party Japan 2017, and helping with live coverage of Tokyo Game Show 2016 as a special partner, and increased its users.

Evolution of Media Mix in the Internet Age

Creation of IP

In addition to real-world IP creation channels, such as production from popular writers and winners of rookie awards, Internet platforms Niconico and Kakuyomu create a large volume of IP reflecting active users' activities, including reading and viewing on the Internet and creating derivative works.

[KADOKAWA DWANGO will facilitate IP creation as an editor and engineer in the Internet age.](#)

Multi-faceted use of IP

KADOKAWA DWANGO changes the form of original IP into books, movies, animations, games, and goods, using its accumulated media-mix expertise, and as a result, the value of IP increases. The way to enjoy IP multiplies stimulated by Internet and even spreads to real-world events and experiences.

[KADOKAWA DWANGO will create forms of IP that will meet users' needs both in the real world and on the Internet.](#)

Media diversification

Interfaces between users and IP are expanding from brick-and-mortar facilities, including bookstores and movie theaters, to online media, including e-books, video distribution, and e-commerce.

[KADOKAWA DWANGO will multiplies interfaces with core users and opportunities to generate revenue.](#)

Real world × Internet

Launching a new version, Niconico (<)

We are not disclosing the details of the new service, but we can say that it will include a number of leading-edge functions that are unequalled in the worldwide streaming service.

Enhancing entertainment service

We will offer high-value-added entertainment services using AI to expand ARPU.

Strengthening collaboration among platforms

We will strengthen collaboration among Niconico, BOOK☆WALKER, and ComicWalker.

Continuing to publish 5,000 new titles

As a basis for IP creation, we will maintain a diversified portfolio including literary titles, graphic novels, how-to books for everyday life and comics, and will develop new categories using our marketing capability.

We will strive to increase our market share in new categories and categories where we have been strong.

Building new book production and distribution systems

We will undertake test production before the commencement of operation at a new plant in Tokorozawa and will begin the optimization of the production system and distribution bases.

Full-scale digitalization of information magazines

Information magazine *The Television* will turn itself into a database of television personalities. The *Walker* series of regional information magazines will continue to create a database for utilizing accumulated information and expertise for the inbound tourist business. *Mainichi Ga Hakken*, an information magazine for everyday life, will strengthen its mail-order function.

Video and Game

Further enhancement of media mix

We will promote second-order business expansion, including expansion into video distribution in Japan and overseas, merchandizing and events, taking advantage of our strong product lineup centered on animations.

In the field of live-action video, we will promote collaboration with overseas partners.

Establishment of game business strategies

We will strengthen our profitability from creation of game content leveraging KADOKAWA DWANGO's IPs and strategic development of unique gaming subsidiaries.

Others

Strengthening the merchandising business

We will strengthen our earning power through integrated production and sales management and will start to integrate EC site systems. We will enhance Niconico's merchandizing function to maximize revenue.

Combining content and events

We will accumulate expertise in the operation of our own events using our content to monetize the travel business whose subject matter is Japanese content and the event business at Tokorozawa Sakura Town (tentative name).

Over-seas

We will expand license sales and sales at overseas bases, making the most of our strengths in Japan. We will develop the inbound business by stimulating demand for tours to Japan.

We have reviewed our medium-term visions*, considering changes in the business environment and competitive environment and the planned release of a new Web service in October 2017. Because it is difficult to forecast medium-term performance accurately, we do not state numerical targets in our new medium-term vision.

*The medium-term vision that we announced on May 14, 2015 and the medium-term vision stated in the financial results for the fiscal year ended March 31, 2016 that was announced on May 12, 2016.

Unit: Million yen

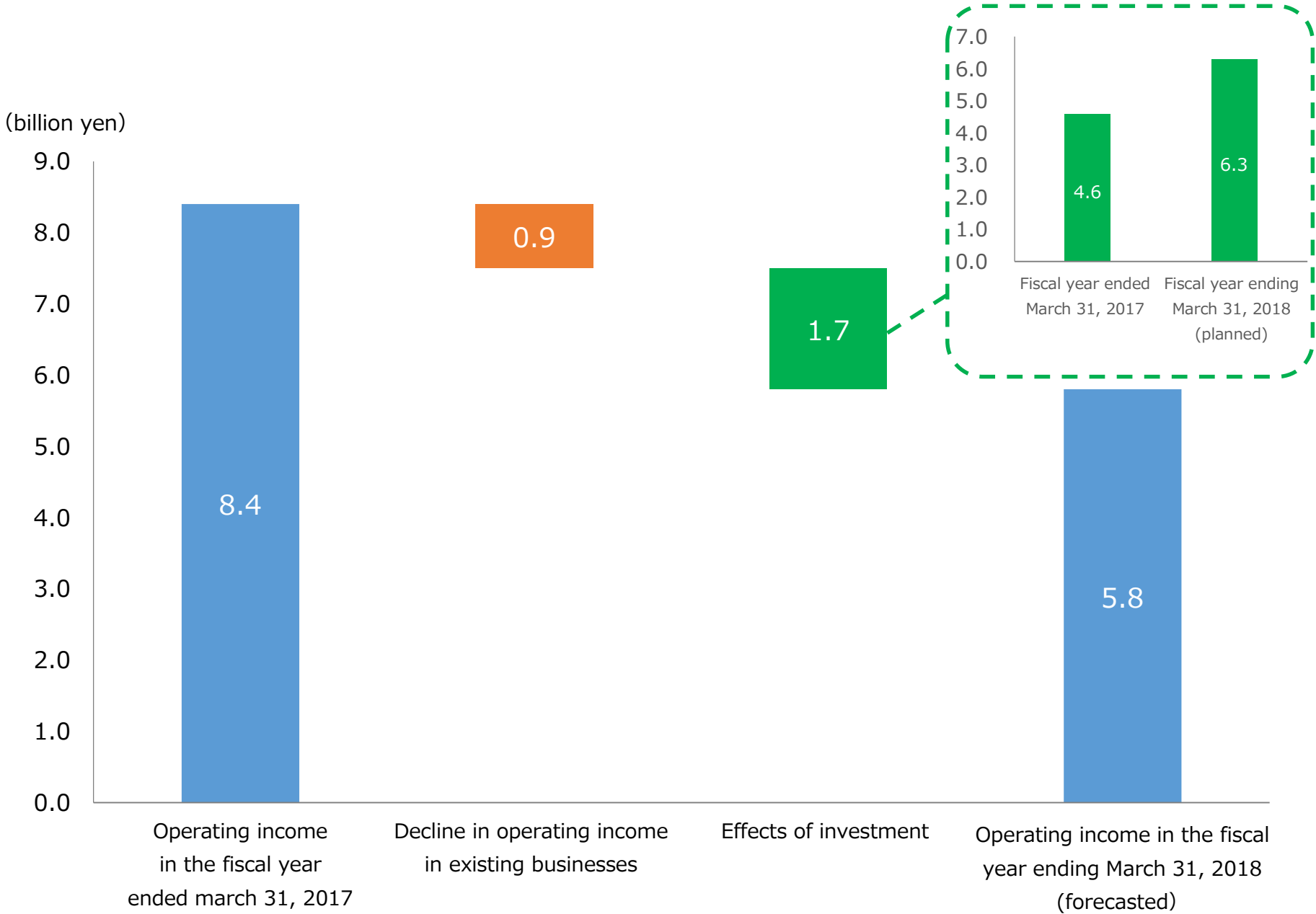
	Results for the fiscal year ended March 31, 2017	Forecasts for The fiscal year ending March 31, 2018	Change	Change in %
Revenue	205,717	212,000	6,282	3.1
Operating income	8,419	5,800	(2,619)	(31.1)
Ordinary income	7,407	6,200	(1,207)	(16.3)
Profit attributable to owners of parent	5,767	3,500	(2,267)	(39.3)

Forecasts for the Fiscal Year Ending March 31, 2018 (by segment)

Unit: Million yen

	Results for the fiscal year ended March 31, 2017		Forecasts for the fiscal year ending March 31, 2018		Change		Change in %	
	Revenue	Operating income	Revenue	Operating income	Revenue	Operating income	Revenue	Operating income
Total	205,717	8,419	212,000	5,800	6,282	(2,619)	3.1	(31.1)
Web Services	31,275	2,815	32,000	1,600	725	(1,216)	2.3	(43.2)
Publication	113,012	8,342	114,400	6,100	1,387	(2,243)	1.2	(26.9)
Video and Game	44,402	3,312	46,500	3,700	2,097	388	4.7	(11.7)
Others	20,209	(1,635)	22,300	(1,200)	2,091	436	10.3	—
Eliminations/ Corporate	(3,182)	(4,415)	(3,200)	(4,400)	(18)	16	—	—

Stance on Operating Income in the Fiscal Year Ending March 31, 2018



Changes in Officers (Planned)

Changes in officers are planned to be determined at the third ordinary general meeting of shareholders to be held on June 22, 2017 and at an extraordinary meeting of the Board of Directors immediately after the shareholders' meeting.

Director candidates

Nobuo Kawakami (Expected to become Representative Director and President)
 Tsuguhiko Kadokawa (Expected to become Chairman of the Board)
 Tatsuo Sato (Expected to become Director and Advisor)
 Takashi Araki
 Masaki Matsubara
 Koji Funatsu
 Koji Hoshino

Retiring directors

Hirokazu Hamamura (Expected to become an Executive Officer, Head of the Game Information Portal Business Division, and Head of the New Business Preparation Office (tentative name) at KADOKAWA DWANGO)
 Takeshi Natsuno (Expected to become a Director of Dwango)
 Yuriya Komatsu (Expected to become an Executive Officer and Head of the Administration Division at KADOKAWA DWANGO and Director and CFO at Dwango)
 Iwao Aso (Expected to become an outside Director of Dwango)

Reference Materials

Unit : Million yen

	Three months ended Dec. 31, 2015	Three months ended Mar. 31, 2016	Three months ended Jun. 30, 2016	Three months ended Sep. 30, 2016	Three months ended Dec. 31, 2016	Three months ended Mar. 31, 2017
Revenue	7,852	8,324	7,917	8,171	7,388	7,798
Operating expenses	6,830	7,568	7,468	6,875	6,765	7,350
Operating income	1,021	756	448	1,295	623	448

Note: The figures for the fiscal year ended March 31, 2017 are before auditing, presented for reference.

	Comparison			
	Revenue		Operating income	
	YoY	QoQ	YoY	QoQ
Portal	→	→	↘	↘
Live	→	↗	— deficit	— deficit
Mobile	↘	→	↘	↘

+5% or more
 from 0% to +5%
 from -5% to 0%
 -5% or less

■ Revenue

Revenue rose from the previous quarter, reflecting the contribution of Game Party Japan 2017.

■ Operating income

Operating income fell from the previous quarter due to expenses for Game Party Japan 2017 and an increase in mobile advertising expenses.



Niconico users data *as of Mar. 31, 2017

Premium members	2.43million
Issued IDs	64.30million
Gender	♂ 66% ♀ 34%

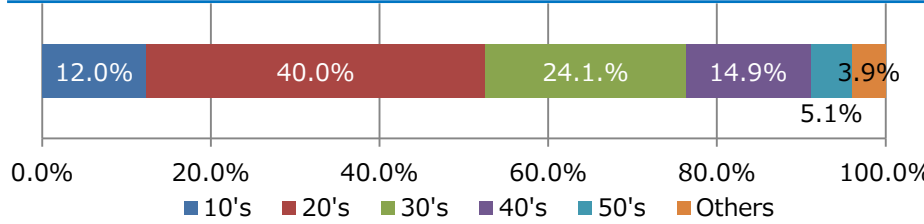
Niconico usage data
*average of Jan-Mar, 2017

MAU (million)	9.13
(average of Oct.-Dec, 2016)	9.19
DAU (million)	3.30
(average of Oct.-Dec, 2016)	3.31

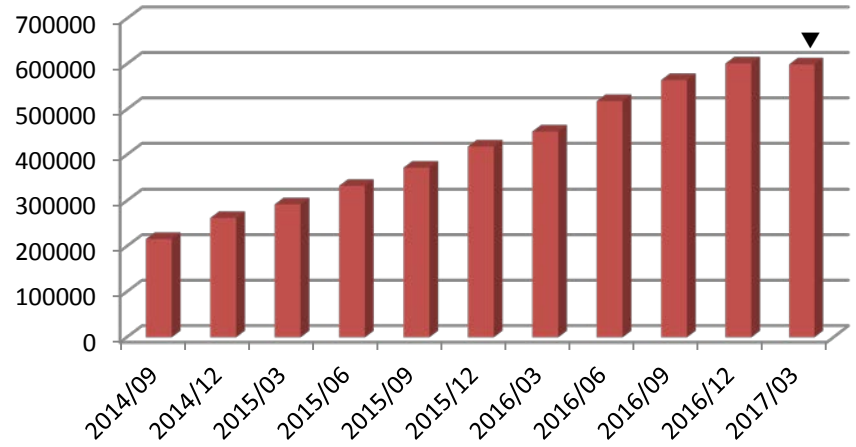
Niconico Channel users data *as of Mar. 31, 2017

Number of channels	7,863
Number of channels with monthly fee	1,147
Dues-paying members(thousand people)	590

Age *as of Mar. 31, 2017



ニコニコチャンネル niconico CHANNEL Changes in the number of dues-paying members



▼ A net decline due to compulsory cancellations because of the closure of a large channel.

Business results in the Publication segment

Unit : Million yen

	Three months ended Dec. 31, 2015	Three months ended Mar. 31, 2016	Three months ended Jun. 30, 2016	Three months ended Sep. 30, 2016	Three months ended Dec. 31, 2016	Three months ended Mar. 31, 2017
Revenue	28,499	28,268	25,952	27,791	28,835	30,433
Operating expenses	25,598	25,847	23,794	26,064	26,568	28,242
Operating income	2,900	2,420	2,157	1,726	2,266	2,191

Note: The figures for the fiscal year ended March 31, 2017 are before auditing, presented for reference.

	Comparison			
	Revenue		Operating income	
	YoY	QoQ	YoY	QoQ
Books				
e-books・e-magazines				
Magazines			— deficit	— deficit

+5% or more from 0% to +5%
 from -5% to 0% -5% or less

■ Revenue

Revenue from existing media-mix products and popular comics as well as the *Yojo Senki* series and *Inochi-no Shaso-kara* was strong.

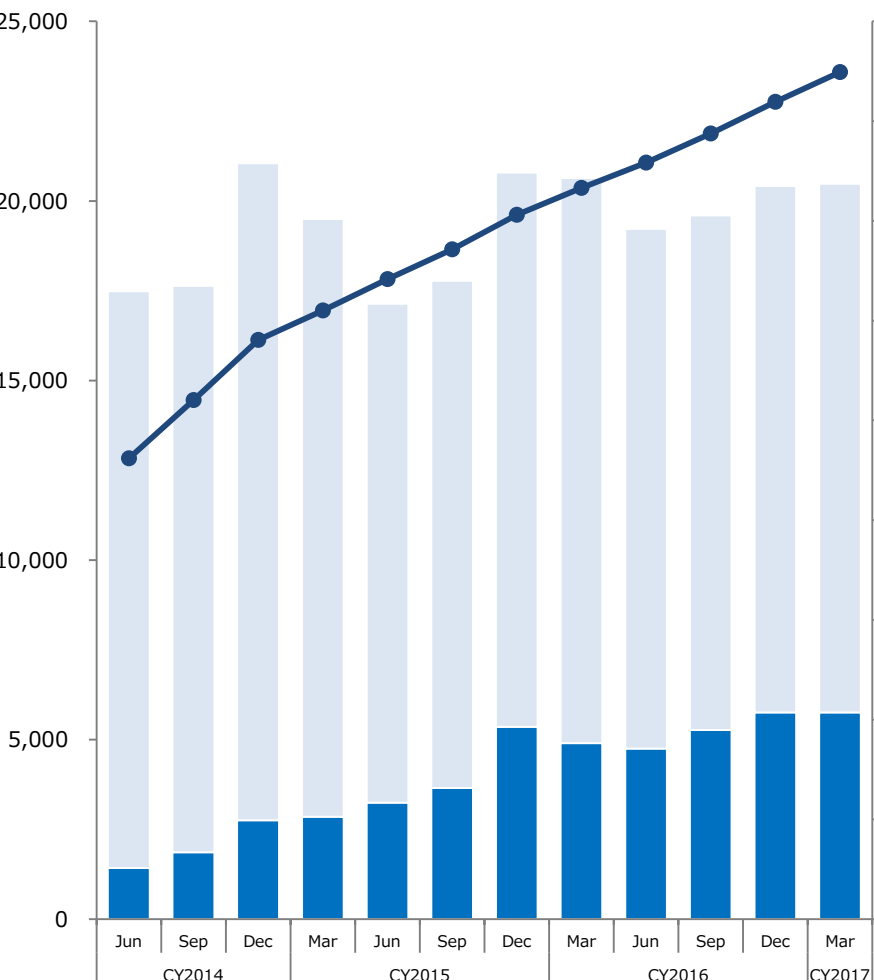
Revenue from e-books was roughly on a par with the level of the previous quarter, when Niconico KADOKAWA Festival 2016 made a contribution.

■ Operating income

Operating income declined from the previous quarter, reflecting a loss in Magazines and investment in the e-books platform.

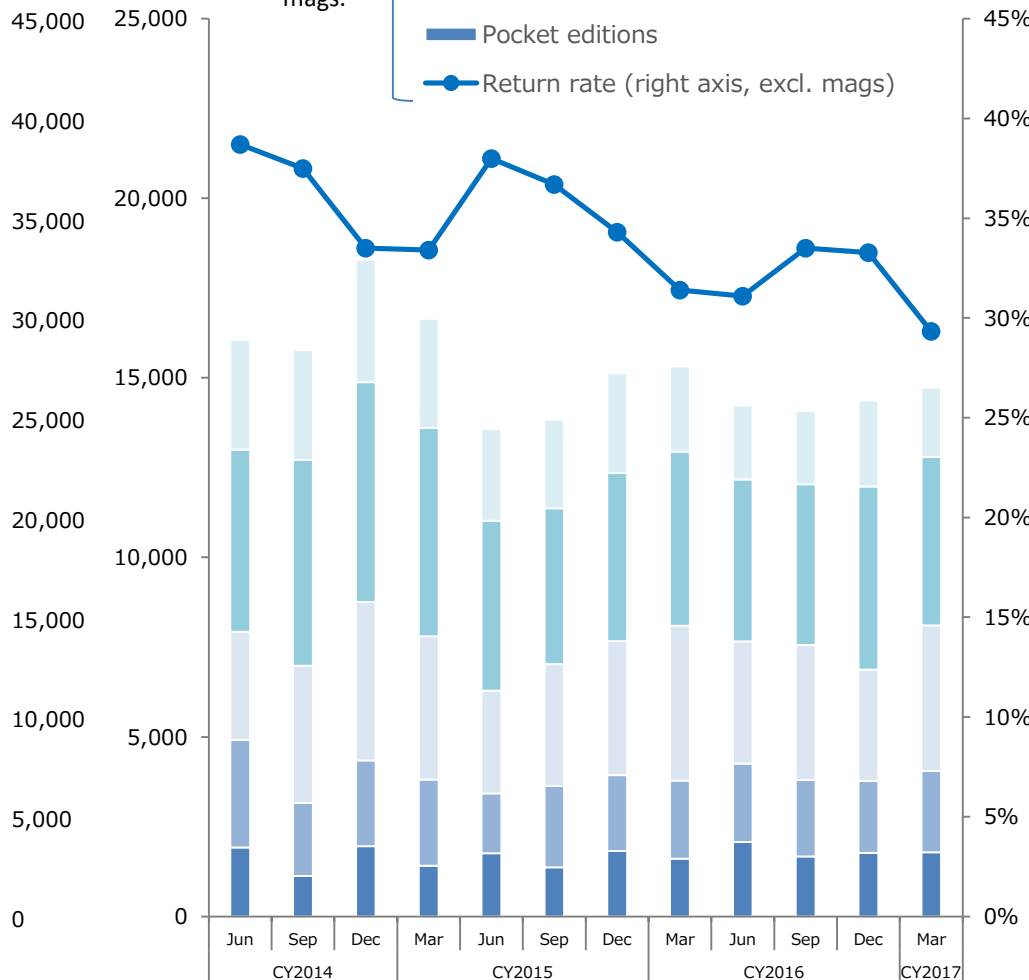
Business results in the Publication segment (reference)

- Revenue of books and magazines (Quarterly)
- Revenue of e-books/mags (Quarterly)
- Accumulated e-book titles (Right axis)



Sales of Books & mags.

- Magazines
- Regular books, Shinsho
- Comics
- Graphic novels
- Pocket editions
- Return rate (right axis, excl. mags)



*Revenue (quarterly) was the results for KADOKAWA CORPORATION before September 2014 and for KADOKAWA DWANGO CORPORATION after October 2014.

Business results in the Video & Game segment

Unit : Million yen

	Three months ended Dec. 31, 2015	Three months ended Mar. 31, 2016	Three months ended Jun. 30, 2016	Three months ended Sep. 30, 2016	Three months ended Dec. 31, 2016	Three months ended Mar. 31, 2017
Revenue	10,675	14,472	10,229	11,325	10,680	12,166
Operating expenses	10,553	12,430	9,176	11,066	9,320	11,526
Operating income	121	2,042	1,052	258	1,359	640

Note: The figures for the fiscal year ended March 31, 2017 are before auditing, presented for reference.

	Comparison			
	Revenue		Operating income	
	YoY	QoQ	YoY	QoQ
Video				
Game			— deficit	— deficit

+5% or more from 0% to +5%
 from -5% to 0% -5% or less

■ Revenue

Revenue rose from the previous quarter, reflecting an increase in revenue from the video studio and strong sales of *New Danganronpa V3*, *Konoyono Hatede Koiwo Utau Shoujo Yu-No*, *Re:Zero – Starting Life in Another World – DEATH OR KISS –*.

■ Operating income

Operating income declined from the previous quarter due to the concentration of income from *Your Name* in the previous quarter and social game titles performed badly.

Summary of Consolidated Quarterly Statements of Income

Unit: Million yen

	Three months ended Jun. 30, 2015	Three months ended Sep. 30, 2015	Three months ended Dec. 31, 2015	Three months ended Mar. 31, 2016	Three months ended Jun. 30, 2016	Three months ended Sep. 30, 2016	Three months ended Dec. 31, 2016	Three months ended Mar. 31, 2017
Revenue	46,906	47,020	52,112	54,906	49,014	50,780	50,633	55,289
Cost of revenue	33,107	32,892	36,728	38,416	34,178	36,412	35,090	39,994
Gross margin	13,799	14,127	15,383	16,490	14,836	14,367	15,542	15,294
SG&A	12,653	11,768	12,598	13,656	12,103	12,680	12,573	14,264
Operating income	1,145	2,359	2,785	2,834	2,732	1,687	2,969	1,030
Ordinary income	1,648	2,554	3,410	2,576	2,037	1,974	3,553	(158)
Profit attributable to owners of parent	(220)	2,134	3,410	1,521	1,059	1,961	2,565	181

Summary of Cost of Revenue / SG&A

Unit: Million yen

	Three months ended Jun. 30, 2015	Three months ended Sep. 30, 2015	Three months ended Dec. 31, 2015	Three months ended Mar. 31, 2016
Cost of revenue	33,107	32,892	36,728	38,416
Major accounts:				
Direct costs	15,881	16,770	17,315	17,626
Labor costs	5,232	5,273	5,239	5,532
Commission paid	1,352	1,250	1,298	1,192
Royalties	681	565	599	576
Outsourcing costs	2,525	2,370	2,536	3,211
Communication costs	820	804	815	821
SG&A	12,653	11,768	12,598	13,656
Major accounts:				
Promotion costs	2,804	2,931	3,488	3,605
Labor costs	4,202	4,116	4,255	4,538
Commission paid	1,281	1,560	1,266	1,815

	Three months ended Jun. 30, 2016	Three months ended Sep. 30, 2016	Three months ended Dec. 31, 2016	Three months ended Mar. 31, 2017
Cost of revenue	34,178	36,412	35,090	39,994
Major accounts:				
Direct costs	15,709	18,970	18,105	18,994
Labor costs	5,578	5,809	5,651	6,058
Commission paid	1,368	1,174	1,349	1,429
Royalties	408	449	472	457
Outsourcing costs	2,656	2,433	2,607	2,806
Communication costs	851	859	859	860
SG&A	12,103	12,680	12,573	14,264
Major accounts:				
Promotion costs	2,658	2,895	2,913	3,248
Labor costs	4,446	4,766	4,603	5,448
Commission paid	1,150	1,268	1,119	709

Summary of Consolidated Balance Sheet and Cash Flow Statement

Unit: Million yen

	As of Mar. 31, 2016	%	As of Mar. 31, 2017	%
Current assets	131,827	65.4%	174,880	70.8%
Non-current assets	69,781	34.6%	72,068	29.2%
<i>Tangible assets</i>	34,587	17.2%	35,800	14.5%
<i>Intangible assets</i>	6,534	3.2%	8,379	3.4%
<i>Investment and other assets</i>	28,659	14.2%	27,889	11.3%
Total assets	201,609	100.0%	246,949	100.0%

Current liabilities	61,459	30.5%	61,159	24.8%
Non-current liabilities	35,623	17.7%	74,065	30.0%
Shareholders' equity	102,659	50.9%	107,130	43.4%
Total equity	104,526	51.8%	111,724	45.2%
Total liabilities and equity	201,609	100.0%	246,949	100.0%

	Results for the Fiscal Year Ended March 31, 2017
Cash flows from operating activities	11,968
Cash flows from investing activities	(10,394)
Cash flows from financing activities	37,200
Cash and cash equivalents at the end of period	91,140

- Forward-looking statements such as results forecasts contained in this material are judgments of the Group based on currently available information.
- The forward-looking statements include various uncertainties, and actual results may differ from these values. Please refrain from making investment judgments, etc. by relying entirely on these values.