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Company Research and Analysis Report
FISCO Ltd.
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KADOKAWA DWANGO CORPORATION

9468 Tokyo Stock Exchange First Section

1-Oct.-15

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Unique Service Creation Capabilities for Integrating the Internet and Real-World Events

KADOKAWA DWANGO <9468> was formed in October 2014 from the merger of major publishing house KADOKAWA CORPORATION and DWANGO Co., Ltd, which manages one of Japan's largest video community services, "niconico." The Company is both a mega-content publisher and digital content platformer. The Company has a wide range of businesses including books and e-books; magazines and advertising; motion picture planning, production, and distribution; video community services; mobile content distribution; game software planning, development, and sales; and operation of vocational schools. The Company's strengths lie in its ability to create unique services, including editing capabilities honed in the fields of publishing and videos, expertise in developing unique content across multimedia formats to maximize earnings, and generation of original network services based on advanced networking technologies and integration of these services with real-world events.

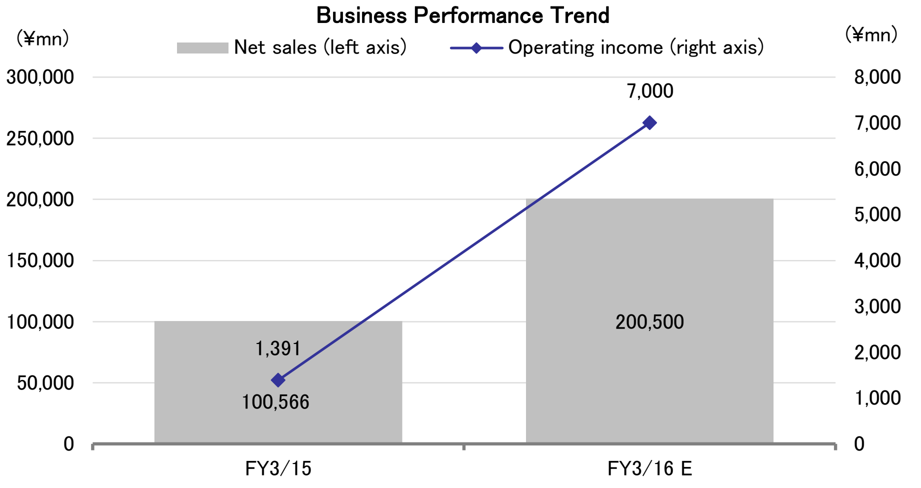
For Q1 FY3/16 (April-June, 2015) the Company recorded net sales of ¥46,906mn, operating income of ¥1,145mn, ordinary income of ¥1,648mn, and loss attributable to owners of the parent of ¥220mn, the latter reflecting an increase in corporate taxes due to a reversal of deferred tax assets associated with the payment of restructuring expenses posted in FY3/15. Although sales of paper media such as books and magazine came under pressure with the shift to digital formats, e-books and the portal business performed steadily and the effects of restructuring conducted in FY3/15 also became apparent. As a result, we consider that the Company has achieved a strong start towards achieving its FY3/16 plan targets (net sales ¥200,500mn, operating income ¥7,000mn).

In May 2015, the Company announced its medium-term management plan (FY3/16 to FY3/18). Under the plan, the Company is targeting net sales of ¥230,000mn, operating income of between ¥18,000mn and ¥20,000mn for FY3/18. The plan has four basic strategies for business expansion: (1) growth of books and IP business (2) growth of game information portal business (3) growth of portal business, and (4) entry into educational business. The Group will make full use of its resources in all of these businesses, positioning them as growth drivers, creating and providing new services that integrate the real-world and the Internet.

We believe the Company's ability to achieve its medium-term plan targets will depend heavily on the new president, Nobuo Kawakami, who was appointed in June 2015. Mr. Kawakami has a background starting up the new businesses for mobile phone ring tones and "niconico Douga" video community service and building DWANGO into an operating company of the leading Japanese video community service "niconico." We believe the main point to watch will be the various new services created going forward in the four businesses, including the game information portal business, and their subsequent development.

Check Point

- Integration of a major publisher and a video community service operating company
- e-book business continues strong performance, including growth of "d magazine"
- FY 3/16 positioned as a time for aggressive investment in new businesses and services



* FY3/15 is a six-month period

Company Profile and History

Integration of a Major Publisher and a Video Community Service Operating Company

KADOKAWA DWANGO is a joint holding company established on October 1, 2014 through a share transfer. The Company aims to create and grow new businesses in the fields of game information portals, e-books, and the education business through synergies between the major publisher KADOKAWA and DWANGO, the operator of the leading Japanese video community service "niconico".

The history of the management integration goes back to October 2010, when KADOKAWA GROUP HOLDINGS, INC. and DWANGO Co., Ltd. formed a comprehensive business alliance relating to e-books and distribution of various content. In May 2011, the relationship progressed to a capital alliance, and in November 2011 they began providing the "KADOKAWA niconico A" service. The relationship between the two companies quickly became closer and in March 2013, they established an advertising joint venture, smiledge Co., Ltd. (dissolved in December 2014 due to the end of its function following a strategic shift in the advertising business associated with the integration, and liquidated in July 2015). The integration followed in October 2014. On October 1, 2015, the company name has been changed in Japanese (to Kadokawa Kabushiki Kaisha*) but the English name will remain KADOKAWA DWANGO CORPORATION.

* Kadokawa is a combination of the sounds in names of the Group's constituent companies, KADOKAWA and DWANGO ("Ka" from KADOKAWA, followed by "Do" from DWANGO, which is pronounced "Do-wan-go" in Japanese, followed by "Ka" from KADOKAWA, and "Wa" from DWANGO.) The name is intended to strongly present the integration internally and externally.

History

Oct. 2010	DWANGO and KADOKAWA GROUP HOLDINGS entered into a comprehensive business alliance relating to digital books and distribution of various content.
May 2011	A capital alliance was concluded between KADOKAWA GROUP HOLDINGS and DWANGO.
Nov. 2011	The Internet comic, "KADOKAWA niconico A," a collaboration between "niconico Douga" and "BOOK ☆ WALKER" was started.
Mar. 2013	The advertising joint venture smiledge Co., Ltd. was established.
Oct. 2014	KADOKAWA and DWANGO established the joint holding company KADOWAWA DWANGO through a joint share transfer.

● Profile and History of KADOKAWA

KADOKAWA SHOTEN, predecessor of KAWODAWA CORPORATION, was established in November 1945. Initially it was a literary publishing company with strengths in books on national history and literature. However, as media advanced and the needs of the times changed, KADOKAWA responded with a media mix strategy designed to meet these needs accurately, while evolving its business form and continuing to grow.

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Entering the 1970s, KADOKAWA changed from its founding direction of literature to general publishing. In 1976, it entered the movie business, and expanded its business platform with a media mix created by linking KADOKAWA Paperback and KADOKAWA Pictures. In the 1980s, KADOKAWA started “Weekly The Television” in September 1982 and went on to launch a variety of informational magazines. In March 1990, the urban information magazine “Tokyo Walker” was launched, establishing KADOKAWA’s reputation as a leading information magazine publisher. In 1994, KADOKAWA began to promote itself as a “mega software publisher” and started to develop multimedia operations. With further entry into IT field, including the Internet, digital content, and broadband, KADOKAWA transformed itself into a mega content provider.

After entering the 2000s, KADOKAWA responded to the popularization of broadband by shifting from a general media corporation in publishing and motion pictures to a structure consisting of three business lines—publishing, motion pictures, and broadband Internet. In April 2003, KADOKAWA HOLDINGS, INC. was established (company name changed to KADOKAWA GROUP HOLDINGS, INC. in July 2006), and KADOKAWA SHOTEN was established as the operating company for the core business of publishing. The Group proceeded to make swift business structure changes in response to the needs of the times. In October 2010, KADOKAWA GROUP HOLDINGS, INC. entered a comprehensive business alliance with DWANGO on e-books and content distribution. In June 2013, KADOKAWA GROUP HOLDINGS changed its corporate name to KADOKAWA and in October KADOKAWA absorbed nine of its subsidiaries by merger to change to a “One Company” organization. The company was listed on the Second Section of the Tokyo Stock Exchange in November 1998, and changed its listing to the First Section of the Tokyo Stock Exchange in September 2004.

History of KADOKAWA

Nov. 1945	Kadokawa Shoten was founded.
Sep. 1982	The magazine “Weekly The Television” was launched.
Mar. 1990	The magazine “Tokyo Walker” was launched.
Nov. 1998	KADOKAWA SHOTEN was listed on the Second Section of the Tokyo Stock Exchange.
Apr. 2003	KADOKAWA HOLDINGS was established by an incorporation-style company split through the holding-company method.
Sep. 2004	KADOKAWA HOLDINGS was listed on the first section of the Tokyo Stock Exchange.
Jul. 2006	KADOKAWA HOLDINGS changed its corporate name to KADOKAWA GROUP HOLDINGS.
Oct. 2010	Entered a comprehensive business alliance with DWANGO relating to e-books and distribution of various content.
Jun. 2011	Received a third-party allocation of shares of DWANGO for increasing its capital.
Jun. 2013	KADOKAWA GROUP HOLDINGS changed its corporate name to KADOKAWA CORPORATION.
May 2014	Concluded an integration agreement with DWANGO.

● Profile and History of DWANGO

DWANGO is an entertainment content provider with about 50,000,000 registered members and about 2,500,000 premium members. It operates the leading Japanese video community service“niconico” (including “niconico Douga,” and “niconico Live”), conducts music distribution, ring tone, email decorations, and popular theme websites for mobile phones, and plans, develops, and sells game software.

In August 1997, DWANGO was established as an operating company to undertake planning, development, operation, and support of network game systems, as well as provide consultation. Subsequently, DWANGO developed a business foundation by working on system operation for game companies such as SEGA ENTERPRISES, Ltd. (currently SEGA CORPORATION), Sony Communication Network Corporation, and Nintendo Co., Ltd. <7974>, as well as games for mobile phones such as i-mode. In April 2001, DWANGO established Composite Inc. to develop and manage content services for mobile phones (converted to a wholly owned subsidiary in November 2002 to strengthen the collaboration framework). In June 2001, DWANGO started distribution of the “16 Melomix” through a ring tone website for i-mode, setting the company on a growth trajectory.

In July 2003, DWANGO listed on the Tokyo Stock Exchange Mothers Market (the listing changed to the First Section of the Tokyo Stock Exchange in September 2004). Subsequently, its expansion strategy accelerated through M&As as well as alliances and cooperation with major content holding companies and others. To strengthen its network game development, and mobile phone content, and other functions, DWANGO converted the game software developer CHUNSOFT Co., Ltd. into a subsidiary in April 2005, followed in November by Spike Co., Ltd. In February 2006, DWANGO formed a business and capital alliance with Avex Group Holdings Inc. <7860> by issuing new shares through a third-party allocation.

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In December 2006, DWANGO started the “niconico Douga” service, and in May 2008 cooperated with Yahoo Japan Corporation <4689> in “niconico Douga.” In October 2010, DWANGO entered a comprehensive business alliance with KADOKAWA regarding e-books and distribution of various content, and in July 2013 entered a business alliance with Nippon Telegraph and Telephone Corporation <9432> relating to research in fields such as network technology. As a result of these alliances, DWANGO transformed itself into a general entertainment company providing diverse entertainment content over the Internet.

In December 2014, as part of its education business development, DWANGO converted the fashion, hair and makeup, motion picture, game, and anime creator development school operator Vantan Inc. into a consolidated subsidiary.

History of DWANGO

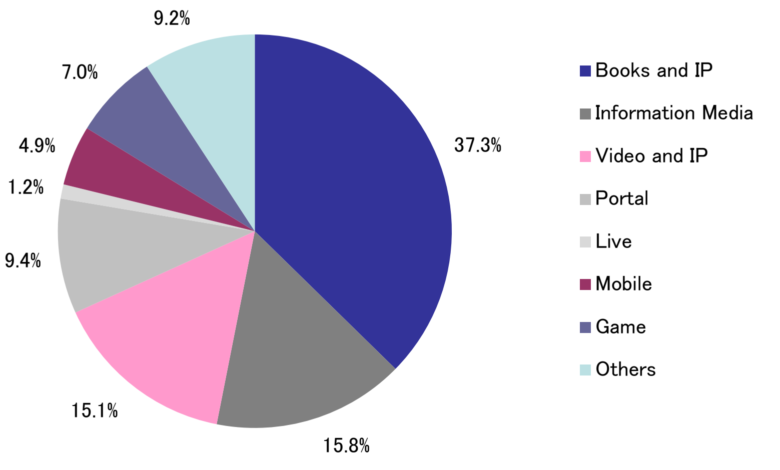
Aug. 1997	DWANGO was established to plan, develop, operate, and support network game systems as well as provide consultation.
Apr. 2001	Established Composite Inc. with goals to plan, develop, and manage content services for mobile phones.
Nov. 2002	Made Composite Inc. into a wholly owned subsidiary to strengthen the cooperation framework on content services for mobile phone users.
Jul. 2003	Listed on the Tokyo Stock Exchange Mothers Market.
Sep. 2004	Changed the listing of shares to Tokyo Stock Exchange First Section.
Apr. 2005	Converted CHUNSOFT Co., Ltd. into a subsidiary
Feb. 2006	Entered into a business and capital alliance with Avex Group Holdings Inc.
May 2008	Collaborated with Yahoo Japan Corporation on “niconico Douga,” a video community services.
Oct. 2010	Entered into a comprehensive business alliance with KADOKAWA GROUP HOLDINGS, INC. relating to digital books and a distribution of various content.
Jun. 2011	Conducted a third party allocation of new shares to KADOKAWA GROUP HOLDINGS, INC.
Jul. 2013	Entered a business alliance with Nippon Telegraph and Telephone Corporation
May 2014	Concluded an integration agreement with KADOKAWA.
Dec. 2014	Made the education business operator Vantan into a wholly owned subsidiary.

■ Business Operations

Core Operations are the Books and IP Business and Portal Business

The KADOKAWA DWANGO Group comprises 33 consolidated subsidiaries including KADOKAWA and DWANGO, and 13 equity-method associates (as of March 31, 2015). The Group has eight segments: the Books and IP (Intellectual Property) Business, the Information Media Business, the Video and IP Business, the Portal Business, the Live Business, the Mobile Business, the Game Business, and Others. The composition of net sales for FY3/15 (an irregular six-month accounting period) by segment was as follows: Books and IP Business 37.3%, Information Media Business 15.8%, Video and IP Business 15.1%, Portal Business 9.4%, Live Business 1.2%, Mobile Business 4.9%, Game Business 7.0%, and Others 9.2%.

Net Sales Composition by Segment (FY3/15)



Note: The composition is calculated based on external sales

* The promotion ran from October 1, 2014 to March 31, 2015, and featured programs linking DWANGO services with KADOKAWA content, including Internet distribution of special offers on items purchased at stores, special programs on the "niconico Live" service, and special in-store events.

(1) Books and IP Business

In this business, the Company publishes and sells paper-based books including regular books, regular bunko, light novels, and comics, as well as e-books. In sales of paper-based books, the Company has a strong background in developing products through its media mix, and is also the industry leader in light novels. The Company has long experience in working to achieve appropriate production and shipping based on marketing, and the rate of product returns (FY3/15 35.8%) is lower than the industry average (FY3/15 37.5%).

In e-books, the Company makes direct sales through its e-book distribution platform "BOOK ☆ WALKER" and is also focusing on sales expansion in external e-book stores such as "Amazon Kindle" by conducting the "niconico Kadokawa Fairs"* sales promotion and simultaneously releasing new publications in paper and e-book format, among other measures. The cumulative number of books converted to digital format as of June 30, 2015 stood at 34,642, with almost all current publications now converted. Net sales in the Books and IP Business for FY3/15 (before elimination of inter-segment sales) were ¥38,343mn (operating income (before elimination of inter-segment income) was ¥3,038mn). The segment sales composition was e-books 14.6%, regular bunko 8.8%, light novels 12.5%, comics 21.9%, regular books, shinsho, etc., 31.1%, and others 11.1%.

(2) Information Media Business

In addition to magazines such as "WEEKLY THE TELEVISION", "WEEKLY FAMITSU", and "LETTUCE CLUB", and mooks, in this business, the Company also produces custom media such as "WEEKLY GEORGIA" and "Hikari TV Guide", as well as selling magazine and Internet advertising.

With the conversion of existing paper media to Internet and digital formats, the mainstay magazine sales revenue has slumped, and the associated decline in advertising sales continues. To deal with this harsh environment, the Company is eliminating and rationalizing unprofitable departments while actively taking steps to migrate from paper-based to digital media, such as the launch of the game information portal service. The magazine return rate is 33.6%, lower than the industry average of 40.2%, as with books. Net sales in the Information Media Business in FY3/15 were ¥15,953mn (operating loss was ¥1,164mn). The segment sales composition was magazines and mooks 40.4%, magazine advertising 15.0%, custom magazines 26.2%, Internet advertising 6.8%, and others 11.5%.

(3) Video and IP Business

In this business, the Company sells packaged software such as DVDs and Blu-ray discs, as well as conducting planning, production, and distribution of movies. The Company is focusing on creating video from the Group IP generated in the Books and IP Business and the Game Business, and on production and distribution of live-action films and anime products. Recently, the Company has also been working actively on video distribution. Net sales in the Video and IP Business for FY3/15 were ¥15,866mn (operating income was ¥987mn). The segment sales composition was packaged software sales 49.3%, movie planning, production and distribution 10.5%, and others 40.2%.

(4) Portal Business

The Portal Business is a core earnings pillar alongside the Books and IP Business. The Company provides various "niconico" video community services including "niconico Douga," "niconico Live," and "niconico Seiga." Sales include revenues from premium memberships, that enable members to watch videos and live feeds comfortably, as well as advertising revenues from website banners and so forth, and revenues from points used to watch pay-to-view videos.

As of March 31, 2015, there were 2,440,000 premium members (2,480,000 as of June 30, 2015) and 47,060,000 registered members (49,170,000 as of June 30, 2105). However, premium members surpassed 2,500,000 in July and registered members surpassed 50,000,000 in August. Net sales in the Portal Business for FY3/15 were ¥9,565mn (operating income was ¥1,377mn). The segment sales composition was revenues from premium memberships 78.0%, advertising revenues 11.2%, and revenues from points and others 10.7%.

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(5) Live Business

In the Live Business, the Company plans and operates various kinds of events, leases event venues, and so forth. The business often functions as a way to promote "niconico." The Company plans and operates "niconico Chokaigi"*1 and "Animelo Summer Live". It also operates the live music venue "nicofarre", a new entertainment format that realizes a fusion of Internet and the real-world. The Company also operates the niconico showroom "niconico Honsha"*2, which had its grand renewal opening in Ikebukuro, Tokyo in October 2014. Net sales in the Live Business for FY3/15 were ¥1,191mn (operating loss was ¥459mn).

(6) Mobile Business

The Mobile Business has made a significant contribution to DWANGO's earnings with its core operation of music distribution to mobile phones and smartphones. While the overall scale of the business is contracting due to a decline in the number of feature phone members associated with the recent shift from feature phones to smartphones, it is still an important cash cow business. In this business, the Company operates "dwango.jp," which distributes single songs, ring tones, and so forth, as well as "animelo." Net sales in the Mobile Business for FY3/15 were ¥4,966mn (operating income was ¥1,756mn).

(7) Game Business

In the Game Business, the Company's four consolidated subsidiaries, FromSoftware, Inc., Spike Chunsoft Co., Ltd., KADOKAWA GAMES, LTD., and MAGES. Inc. conduct planning, development, and sales of packaged game software and network games. Previous hit titles include "Dark Souls", "Bloodborne" (FromSoftware), "Kantai Collection", "Derby Stallion" (KADOKAWA GAMES), "Kenka Bancho", "Danganronpa", "Shiren the Wanderer" (Spike Chunsoft), and "Steins;Gate" (MAGES). Net sales in the Game Business for FY3/15 were ¥7,169mn (operating loss of ¥1,015mn).

(8) Others

Others comprises businesses such as e-commerce sales of character merchandise and pop idol CDs, copyright revenues and sales of CDs of featuring content created from anime or "niconico", and revenues from operation of schools for nurturing human resources to work in creative fields in and outside of Japan. Net sales in Others for FY3/15 were ¥9,620mn (operating loss was ¥326mn).

Segment Businesses and Main Relevant Companies

Business Sector	Business Operations	Main Relevant Companies
Books and IP	Publishing and sales, etc. of books and e-book	KADOKAWA CORPORATION, BOOK WALKER Co., Ltd., Building Book Center Co., Ltd.
Information Media	Publishing of magazines, sales, etc. of magazine and Internet advertising	KADOKAWA CORPORATION
Video and IP	Sales of DVDs and other packaged software, planning, production, and distribution, etc. of movies	KADOKAWA CORPORATION, KADOKAWA DAIEI STUDIO CO., LTD., DOCOMO ANIME STORE, INC.
Portal	Operation of video community services	DWANGO Co., Ltd.
Live	Planning and operation of various events, lease of event venues, etc.	DWANGO Co., Ltd., MAGES. Inc.
Mobile	Distribution, etc. of mobile content	DWANGO Co., Ltd.
Game	Planning, development, and sale, etc. of game software and network games	KADOKAWA GAMES, LTD., Spike Chunsoft Co., Ltd., FromSoftware, Inc., MAGES. Inc.
Others	Management and operation of music copyrights and neighboring rights, planning, production, and sale of music and videos, management of record production and publishing, etc.	DWANGO Co., Ltd.
	Production and sale, etc. of music and other audio components for digital content, discovery of voice talent and singers, and operation of schools for their development, etc.	MAGES. Inc.
	Operation of schools specializing in creative fields, supporting independence of graduates, etc.	Vantan Inc.
	Sale of anime and pop idol merchandise, etc.	KADOKAWA CORPORATION, chara-ani corporation

*1 The largest "niconico" event, held at Makuhari Messe with the concept of "recreating everything of 'niconico' on the ground." All participating users are the "main actors" in various events that integrate the Internet with the real world. The "niconico Chokaigi" was held on April 25 and 26, 2015, with 151,115 visitors to the venue and 7,940,495 total online visitors.

*2 A facility mainly for use of "niconico Douga" and "niconico Live." The facility had its grand opening in April 2011 in Harajuku and subsequently relocated to Ikebukuro with a renovation.

Strengths and Business Risks

Maximizing Profit by Developing Unique Content across Multimedia Formats

The Company's strengths include, for example, its ability to create unique services, including editing capabilities honed in the fields of publishing and videos, expertise in developing unique content across multimedia formats to maximize earnings, and generation of original network services based on advanced networking technologies and integration of these services with real-world events.

Business risks include a case where the contraction of the paper-based book market proceeds more quickly than the Company has anticipated in the Books and IP Business, which is currently the Company's largest earnings pillar, while the rapidly growing e-book market encounters a slowdown and does not achieve growth at the pace envisaged by the Company. In addition, if the Company were to lose market share in its envisaged future earnings driver, the Portal Business, due to market entry of new players, it could have a negative impact on the Company's earnings.

Business Performance Trend

e-book Business Continues Strong Performance, Including Growth of "d Magazine"

● Business Results for FY3/15 (Irregular Six-Month Period from October 2014 to March 2015)
Net sales were ¥100,566mn, operating income was ¥1,391mn, and net income was ¥14,055mn.

Net sales were ¥100,566mn. The Company experienced 1) an increase in e-book sales, 2) strong sales of DVDs such as "Yokai Watch" and expansion in sales of anime copyrights overseas, and 3) strong performance in the Portal Business atop steady growth in the number of premium members. These trends outweighed the negative factor of challenges for the Information Media Business due to a slump in paper magazine sales and an associated decline in advertising revenue, and for the Mobile Business, which saw a decline in membership.

On the other hand, operating income was only ¥1,391mn, mainly reflecting integration expenses and the Game Business recording a loss due to a pull-out from development of unprofitable titles. Net income was ¥14,055mn, as the Company recorded a gain on negative goodwill as extraordinary income that covered negative factors such as an extraordinary loss of ¥5,038mn* associated with a second career support program at KADOKAWA and an extraordinary loss of ¥5,610mn as impairment loss of goodwill for Vantan, TrisTa Co., Ltd., and MAGES. at DWANGO.

* KADOKAWA faces an adverse environment as the publishing market continues to contract, while its past company restructuring initiatives (acquisitions, mergers, splits) resulted in overlapping functions, personnel imbalances, and so forth. To resolve the issue and realize a strong organization structure, KADOKAWA conducted a program to provide special financial support and outplacement support through a support company. The Company called for applications from 300 regular employees aged 41 or over as of March 31, 2015, and having at least five consecutive years of service. The Company recorded a loss as a result of 232 people applying for the program.

● Company Plan for FY3/16
In its plan for FY3/16 the Company is projecting net sales of ¥200,500mn, operating income of 7,000mn, and profit attributable to owners of parent of ¥4,000mn.

Plan for FY3/16

(¥mn)

	FY3/15		FY3/16 E	
	Actual result	% of sales	Actual result	% of sales
Net sales	100,566	-	200,500	-
Cost of sales	72,682	72.3%		
SG&A expenses	26,493	26.3%		
Operating income	1,391	1.4%	7,000	3.5%
Ordinary income	2,472	2.5%	6,800	3.4%
Profit attributable to owners of parent	14,055	14.0%	4,000	2.0%

By segment, compared to FY3/15 (six-month period), the Books and IP Business, Video and IP Business, Portal Business, Mobile Business are projected to continue recording a profit, the Game Business and Others Business are projected to return to profitability, while the Information Media Business and Live Business are projected to continue recording losses. Furthermore, the loss in the Information Media Business is expected to be only around the same amount as in FY3/15 (six-month period) due to the expected emergence of business restructuring effects, and to begin gradually contracting.

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Plans and Initiatives by Business Segment

(¥mn)

		FY3/15 full-year	FY3/16 full-year	Initiatives
Books and IP	Sales	38,343	70,000	The Group will focus on IP creation. In the main regular bunko label, “Kadokawa Library”, the Group will aim to increase the hit rate by adopting more stringent selection at the planning stage from a medium-term perspective. In the light novel field, the Group will strengthen its media mix strategy and continue to improve the merchandise return rate. In the e-book business, the Group will increase the number of e-book titles and conduct simultaneous distribution with paper book releases.
	Operating income	3,038	4,900	
Information Media	Sales	15,953	34,200	In magazines, the Group will strengthen its brand strategy by shifting the decision-making focus from individual media to brands. The Group will also work to stimulate customer activity by renewing magazines, while diversifying its revenue by moving existing brands over to digital format. In addition, the Group will aim to complete the cutover to the game information portal business.
	Operating income	-1,164	-1,200	
Video and IP	Sales	15,866	28,500	The Group will focus on creating video from the Group IP generated in the Books and IP Business and the Game Business, and on production and distribution of live-action films and anime production. At the same time, it will develop the video distribution business, for which the market is expected to grow in the future.
	Operating income	987	1,300	
Portal	Sales	9,565	21,000	In the video community service “niconico,” the Group will work to enhance advertising and point revenues by increasing recognition of the service as a media channel. To this end, the Group will leverage its innovative ideas and advanced network technology capabilities to provide appealing services and content found nowhere else.
	Operating income	1,377	2,100	
Live	Sales	1,191	3,500	The Group will work to create new entertainment enabling users to experience “niconico” content in real-world spaces, through “niconico Chokaigi” (general event), “niconico Chokaigi” (town event), “niconico Honsha”, and “nicofarre”.
	Operating income	-459	-1,000	
Mobile	Sales	4,966	7,900	The Group will aggressively promote provision of new services and contents for smartphones, and work to differentiate itself from other companies by enhancing its acquisition of popular music and “niconico”-generated content, among other measures. Moreover, the Group will work to increase the satisfaction of all users by providing new services, functions and other offerings based on innovative ideas.
	Operating income	1,756	2,600	
Game	Sales	7,169	18,200	With a primary focus on planning, development, and sale of original packaged game software, the Group will optimize its management resources and execute its business strategy flexibly, seeking to adapt to the market environment, including diversification of platforms and user needs.
	Operating income	-1,015	2,500	
Others	Sales	9,620	20,500	
	Operating income	-326	800	
Eliminations/ corporate	Sales	-2,109	-3,300	
	Operating income	-2,803	-5,000	
Net sales Operating income	Sales	100,566	200,500	
	Operating income	1,391	7,000	

● Business Results for Q1 FY3/16 (April to June, 2015)

Net sales were ¥46,906mn, operating income was ¥1,145mn, and loss attributable to owners of parent was ¥220mn. By segment, the Books and IP Business, Video and IP Business, Portal Business, Mobile Business, and Others recorded operating profits. Meanwhile, the Information Media Business and Live Business recorded operating losses.

Overview of Business Results for Q1 FY3/16 (April – June 2015)

(¥mn)

	Q1 FY3/16	
	Actual result	% of sales
Net sales	46,906	-
Cost of sales	33,107	70.6%
SG&A expenses	12,653	27.0%
Operating income	1,145	2.4%
Ordinary income	1,648	3.5%
Loss attributable to owners of parent	-220	-0.5%

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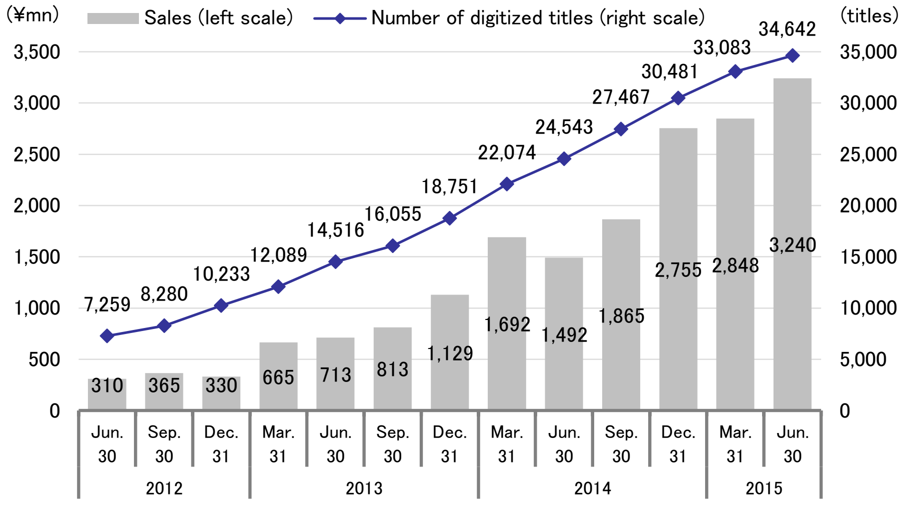
In the Books and IP Business, sales were ¥17,515mn (compared to ¥18,924mn for January – March of FY3/15) and operating income of ¥287mn (compared to ¥1,332mn). Sales and operating income both declined from the January-March period of FY3/15 (“q-o-q”). The e-books business continued to perform strongly, with sales growing by 117.2% q-o-q to ¥3,240mn, mainly reflecting expansion of “d magazine”. Meanwhile, there was the hit title “Shika no O”, awarded for the Honya Grand Prize, in regular books, and regular bunko performed well. However, this factor was outweighed by negative factors of a lack of sufficient media mix products and struggling sales of light novels and comics. The main reason that operating income was only ¥287mn was because the Group accumulated around ¥700mn in allowance for doubtful accounts from smaller subscription agents due to the publishing agent Kurita Shuppan Hanbai Co., Ltd. filing an application under the Civil Rehabilitation Act,

Sales of e-Books and Number of Digitized e-Book Titles (Cumulative)



In the Information Media Business, sales were ¥6,491mn (compared to ¥7,930mn for January – March of FY3/15) and operating loss was ¥615mn (compared to ¥726mn). Sales were declined in magazines, with an attendant decrease in magazine advertising revenue, in line with the migration of paper media to Internet and digital formats. As a result, the Group was unable to avoid a decline of over ¥1,000mn compared with the previous quarter. However, selling, general and administrative (SG&A) expenses were lower q-o-q, and the beneficial effect of business structure reforms was also apparent in terms of costs, helping to reduce the operating loss. As with the Books and IP Business, allowance for doubtful accounts from smaller subscription agents increased by around ¥100mn.

In the Video and IP Business, sales were ¥5,794mn (compared to ¥7,627mn for January – March of FY3/15) and operating income was ¥259mn (compared to ¥169mn). The q-o-q decline in sales was partly due to negative factors such as failure to reach some of the targets in movie production and distribution, while the q-o-q increase in operating income reflects the contribution from package products such as the movie “Yokai Watch”.

In the Portal Business, sales were ¥4,822mn (compared to ¥4,754mn for January – March of FY3/15) and operating income was ¥610mn (compared to ¥646mn). Sales increased due to a rise in premium membership revenue in line with steady growth in the number of premium members to 2,480,000 as of June 30, 2015 (2,440,000 as of March 31). However, income was down slightly q-o-q due to the negative effects of an increase in personnel costs attendant on an increase in the number of engineers.

In the Live Business, sales were ¥1,329mn (compared to ¥699mn for January – March of FY3/15) and operating loss was ¥271mn (compared to ¥189mn). Sales were boosted by “niconico Chokaigi 2015”, increasing significantly compared to the previous two quarters. Conversely, operating loss increased compared to the previous two quarters, mainly due to negative factors such as the increase of outsourcing cost and commission fees of “niconico Chokaigi 2015.” Nevertheless, the Company considered that the event had a promotional effect due to media exposure and that it contributed to higher satisfaction among “niconico” users.

In the Mobile Business, sales were ¥2,313mn (compared to ¥2,426mn for January – March of FY3/15) and operating income was ¥956mn (compared to ¥768mn). Sales declined unavoidably q-o-q due to a decrease in the number of members for both smartphone and feature phone services. However, operating income increased q-o-q, mainly due to reduced advertising expenditure and the emergence of beneficial effects of overall cost control enhancement.

In the Game Business, sales were ¥3,671mn (compared to ¥3,147mn for January – March of FY3/15) and operating income was ¥535mn (compared to operating loss of ¥1,255mn). The segment achieved a dramatic increase in income, reflecting the absence of negative factors due to withdrawal from development of unprofitable titles in FY3/15, as well as strong sales of “The Witcher wild hunt”, “The Legend of Heroes –Sora no Kiseki”, and “Furai-no-Shiren 5 plus” as well as a contingent fee for “Bloodborne”.

In Others, sales were ¥6,058mn (compared to ¥6,172mn for January – March of FY3/15) and operating income was ¥136mn (compared to operating loss of ¥162mn). The move from operating loss in the previous quarter to operating income reflected a contribution from the positive effect of making Vantan a subsidiary.

The Company faces a risk of a downturn in the Video and IP Business and Game Business due to title launches and distribution periods being postponed to the following fiscal year. However, we believe that the Company has made a good start towards achieving its targets for FY3/16; the beneficial effects of structural reforms conducted in FY3/15 have begun to emerge in terms of costs, e-book sales continue to perform well, and the increase in allowance for doubtful accounts from smaller subscription agents that occurred in Q1 FY3/16 is not expected to occur in Q2 and onward.

Net Sales and Operating Income by Segment

(¥mn)

		FY3/15		FY3/16
		Oct.-Dec. 2014	Jan.-Mar. 2015	Apr.-Jun. 2015
Books and IP	Sales	19,418	18,924	17,515
	Operating income	1,705	1,332	287
Information Media	Sales	8,022	7,930	6,491
	Operating income	-437	-726	-615
Video and IP	Sales	8,239	7,627	5,794
	Operating income	817	169	259
Portal	Sales	4,810	4,754	4,822
	Operating income	731	646	610
Live	Sales	492	699	1,329
	Operating income	-269	-189	-271
Mobile	Sales	2,540	2,426	2,313
	Operating income	987	768	956
Game	Sales	4,021	3,147	3,671
	Operating income	240	-1,255	535
Others	Sales	3,447	6,172	6,058
	Operating income	-163	-162	136
Eliminations/corporate	Sales	-1,278	-830	-1,090
	Operating income	-1,759	-1,043	-755
Net sales	Sales	49,715	50,851	46,906
Operating income	Operating income	1,851	-460	1,145

Financial Status

Keeping Management Safety Indicators at Healthy Levels

On June 30, 2015, total assets were ¥191,703mn, down ¥13,969mn from March 31, 2015. This mainly reflected a decline of ¥6,808mn in cash and deposits due to business restructuring expenses and payment of notes and accounts payable – trade, among other factors. The balances of the principal items were cash and deposits of ¥56,399mn, notes and accounts receivable – trade of ¥34,810mn, and total current assets of ¥117,246mn. Total non-current assets was ¥74,457mn with total property, plant and equipment of ¥36,135mn and total investment and other assets of ¥32,183mn.

In the liabilities section, total liabilities were ¥87,734mn, down ¥13,690mn from the end of FY3/15 mainly because of a decrease in notes and accounts payable – trade. This comprised, total current liabilities of ¥50,152mn and total non-current liabilities of ¥37,581mn. Total net assets was ¥103,969mn, the same level as the previous fiscal year-end.

Looking at management indicators, despite having procured ¥30,000mn of long-term debt during FY3/15 to fund investments in new businesses and for reserve funds, at the end of FY3/15 the Company’s current ratio, an indicator of management safety, was 207.2%, and its equity ratio was 50.2%–both at what is generally considered a healthy level. On the other hand, looking at profitability, the operating margin was 1.4% in FY3/15 and 2.4% in Q1 FY3/16 (April-June)—both low levels. The task for management now is to improve profitability through execution of the medium-term business plan.

Consolidated Balance Sheets

(¥mn)

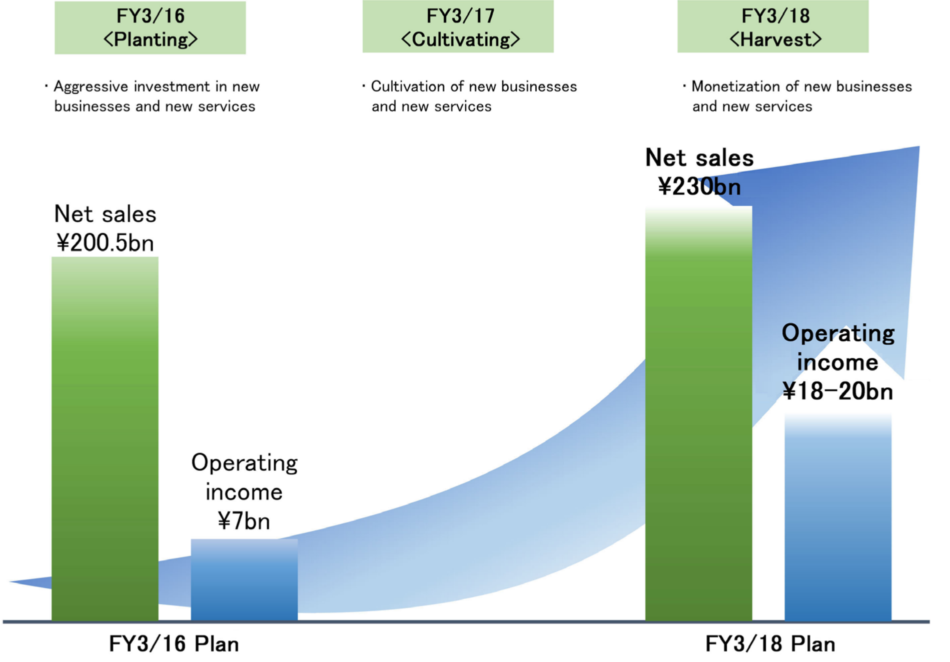
	FY3/15	Q1 FY3/16	Change
Current assets	131,200	117,246	-13,954
Cash and deposits	63,207	56,399	-6,808
Notes and accounts receivable - trade	40,997	34,810	-6,187
Inventories	15,918	16,501	583
Non-current assets	74,473	74,457	-16
Property, plant and equipment	36,350	36,135	-215
Intangible assets	5,997	6,138	141
Goodwill	366	298	-68
Investments and other assets	32,124	32,183	59
Investment securities	20,504	21,056	552
Total assets	205,673	191,703	-13,969
Current liabilities	63,316	50,152	-13,164
Short-term loans payable	2,258	2,288	30
Notes and accounts payable - trade	25,070	21,435	-3,635
Non-current liabilities	38,108	37,581	-527
Long-term loans payable	29,340	28,888	-452
Total liabilities	101,425	87,734	-13,690
Equity capital	103,206	102,589	-617
Net assets	104,248	103,969	-278
Total liabilities and net assets	205,673	191,703	-13,969

Medium-Term Management Plan

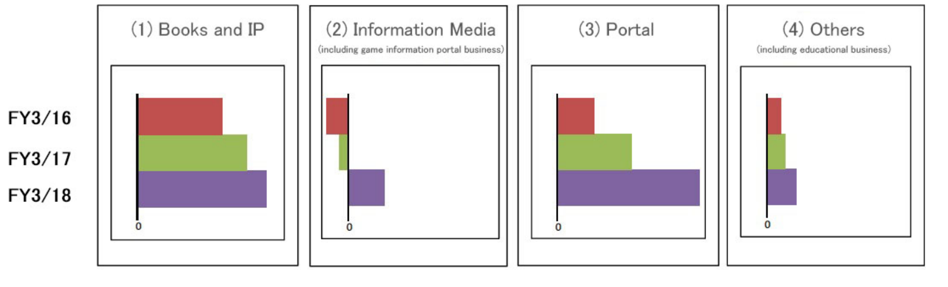
FY 3/16 Positioned As a Time for Aggressive Investment in New Businesses and Services

In May 2015, the Company announced its medium-term management plan (Medium-Term Vision for the Year Ending March 2016 to Year Ending March 2018 —New Challenges and Progress into Growth Markets—). Under the plan, the Company has positioned FY3/16 as a period for active investment in new businesses and services, and FY3/17 as a period for cultivating them. FY3/18 is the period for harvest, when the Company is targeting net sales of ¥230,000mn, operating income of between ¥18,000mn and ¥20,000mn. The plan has four basic strategies for business expansion: (1) growth of books and IP business (2) growth of game information portal business (3) growth of portal business, and (4) entry into educational business.

Outline of the Medium-Term Vision



Change in Operating Income for Each Segment



1) Growth of the Books and IP Business

In the Books and IP Business, which is currently the Group's earnings pillar, the Company has unified the business under one company, conducted structural reforms entailing staff reductions, and restructured the business into genre-specific organizations. This has established a structure for creating and cultivating new IP from FY3/16 onward. The Company's strategy is to increase ultra-high added value from IP creation, and to drive business expansion with the e-books business and overseas business. In particular, the Company is planning to accelerate its growth by various means including 1) achieving growth through reinforcement of existing measures, positioning "BOOK ☆ WALKER" as the core strategy for e-books, such as sales promotion campaign measures, promotion of simultaneous delivery, and start of overseas distribution; and 2) creating a new viewer and platform to delivery unparalleled content through UGC*.

* User Generated Content: content produced and generated by the users of a website. UGC is used as a general term for content written or posted on Electronic Bulletin Board Services (BBS), blogs, profile sites, wiki, SNS, video sharing sites, photo sharing sites, and so forth.

2) Growth of Game Information Portal Business

The Company will start preparations for the launch of a game information portal that has not yet been established in Japan (service is scheduled to start during FY3/16). By directing users of game-related media (offline media such as "Weekly Famitsu" and "Dengeki PS", and online media such as "Famitsu.com" and "Dengeki Online") and platforms ("niconico", etc.) within the Group to other in-Group media and platforms on a reciprocal basis, the Company aims to build the leading game community in Japan with a user count of approximately 20 million. As well as increasing page views, the Company also plans to provide new services to game community users.

As a prelude to this initiative, the Group held "Game Party Japan 2015," a two-day event from January 31 to February 1, 2015, held at Makuhari Messe. 35,786 people visited the venue and 5,746,338 people visited online, demonstrating the actual size of the game commentary movement and strengthening the Company's relationships with game companies. Through the significant success of this initiative, the Company was able to verify the response to the growth potential of the game information portal business.

The Company is also drawing attention as the only company in Japan capable of holding e-sports contests and similar events, for which the market is expected to grow in future.

3) Growth of the Portal Business

The Company plans to augment the number of engineers to 400 by March 2016, and to 1) strengthen the development of existing services and 2) develop new services. In strengthening the development of existing services, the Company will add user advantages and invest to improve the efficiency of servers and communication lines, aiming to maintain premium membership revenue growth and control fixed costs with the goal of establishing a foundation for profit growth. Then, by providing new services not previously available on video sites to add a growth foundation, the Company will grow the Portal Business into an earnings pillar alongside the Books and IP Business.

4) Entry into Educational Business

In DWANGO's educational business, the Company has been distributing educational content on "niconico" (distribution of educational content by educational live broadcasts and on channels by universities and preparatory schools). With the consolidation of Vantan, the Company has started proving work-related education opportunities to "niconico" users. The Company will now provide new services combining work-related education and IT, and aims to build new business models and launch new services by utilizing the "niconico" user base (54.8% of which is aged between 10 and 29 as of June 30, 2015) along with DWANGO's technological capabilities and the expertise in UGC.

Basic Policy on Profit Distribution and Shareholder Returns

The Company Recognizes Returning Profits to Shareholders as an Important Management Priority and is Also Engaging in Share Buybacks

The Company's first priority is to ensure continuity of business management by building up internal reserves to strengthen the corporate constitution and prepare for future business development. The Company also considers it important to conduct sustainable distribution of profits to shareholders and other stakeholders, and recognizes return of profits to shareholders as an important management priority. The business performance of each period is taken into account when deliberating on shareholder returns.

The dividend for FY3/15 was ¥10 per share, for a dividend payout ratio of 5.0%. For FY3/16, the Company plans to pay a dividend of ¥20 per share, for a dividend payout ratio of 35.7%. Furthermore, as part of the Company's return to shareholders, it conducts share buybacks in addition to paying dividends. In August 2015, the Company announced a planned share buyback of 3,000,000 shares (an upper limit of 4.24% of total issued shares, excluding treasury stock), for a total acquisition price of ¥5,000mn. The announced acquisition period is from August 10 to October 30, 2015, and the Company is currently carrying out the buyback.

The Company also has a shareholder reward system. Shareholders who hold 100 shares or more continuously for one year or more (shareholders listed at least three consecutive times on the shareholders' register) are given a gift of either three regular bunko, three shinsho, two regular books, two movie tickets, 2,500 e-book purchase points, or set of DVDs or Blu-ray Discs, of one of the Company's subsidiaries. Shareholders that have held their shares for three years or more (shareholders listed at least seven consecutive times on the shareholders' register) receive an additional gift of either two regular bunko, one regular book, one movie ticket, or 1,500 e-book purchase points, of one of the Company's subsidiaries.

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