T-Gaia Corporation
3738 Tokyo Stock Exchange First Section

11-Dec.-15

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Boosting Earnings in All Segments in Q2 FY 3/16

T-Gaia (3738) is Japan's leading primary mobile phone distributor, with a market share of approximately 12% for domestic mobile phone sales. The company had 2,155 sales bases as of September 30, 2015, including agents' shops operated by its secondary distributors and smartphone accessory shops. In addition, T-Gaia runs solutions business for corporate clients and prepaid settlement service business involving electronic money.

On November 12, T-Gaia announced its consolidated financial results for 1H FY3/16 (April to September 2015). Net sales decreased slightly year on year to ¥284,994mn and operating income increased 11% to ¥6,514mn for 1H FY3/16.The earnings of all businesses seems to have exceeded targets. Although unit sales of mobile phones were down slightly, earnings of the mainline Mobile Telecommunications Business were up on the strength of favorable demand for smartphone accessories and other related products and ongoing efforts to improve productivity at mobile phone shops. Earnings were also supposed to be higher in the Solutions Business and in the Settlement Service and Other Business segments.

Turning to full-year forecasts for FY3/16, T-Gaia has maintained its initial forecasts, with net sales projected to increase 2.0% year on year to ¥655,000mn and operating income projected to increase 4.8% to ¥15,000mn.Although management is setting the bar a little high in projecting a 3.5% increase in unit sales of mobile phones, we think that the company can exceed forecasts. That is in view of sales of accessories and other related products remaining favorable and efforts to enhance companywide profitability and constrain indirect costs may prove fruitful.

With smartphones accounting for a gradually increasing proportion of the mobile phones, T-Gaia is diversifying its lineup of accessories and related products and is handling fiber-optic line and other services. Bolstering its marketing capabilities for such offerings will be one of the important factors in efforts to pursue greater growth. The company is endeavoring to boost customer satisfaction and attract more customers through larger carrier shops by providing more education and training for staff at its own and agencies' shops. Such current endeavors suggest to us that management is progressing in bolstering profitability. We look for the company to continue growing steadily as industry consolidation proceeds amid intensifying competition.

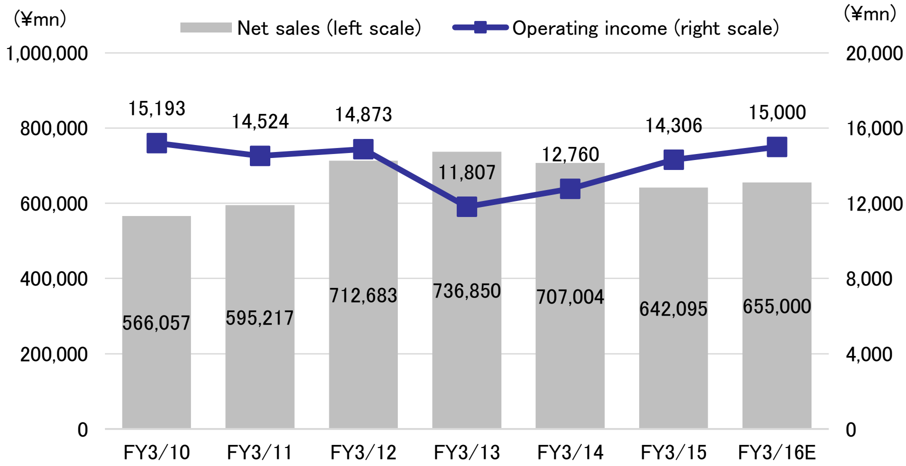
T-Gaia has announced a policy of returning profits to shareholders based on a dividend payout ratio target of 30% or more. Accordingly, for FY3/16 the company plans to increase its dividend for two consecutive years to ¥41.0 per share, up ¥3.5 year on year (for a payout ratio of 31.3%).

The stock has been selected in the JPX-Nikkei Index 400 three consecutive times on the strength of such factors as its return on equity, operating income, and other criteria.

Points to be checked

- Mobile Telecommunications Business enjoying expanded sales of tablets and other new merchandise
- In Q2 FY3/16, revenues were down slightly while profits were up, putting earnings on track to exceed management's forecast
- Enhancing customer satisfaction by offering a diverse merchandise lineup, attracting more customers to shops and boosting profitability

Business Performance Trend



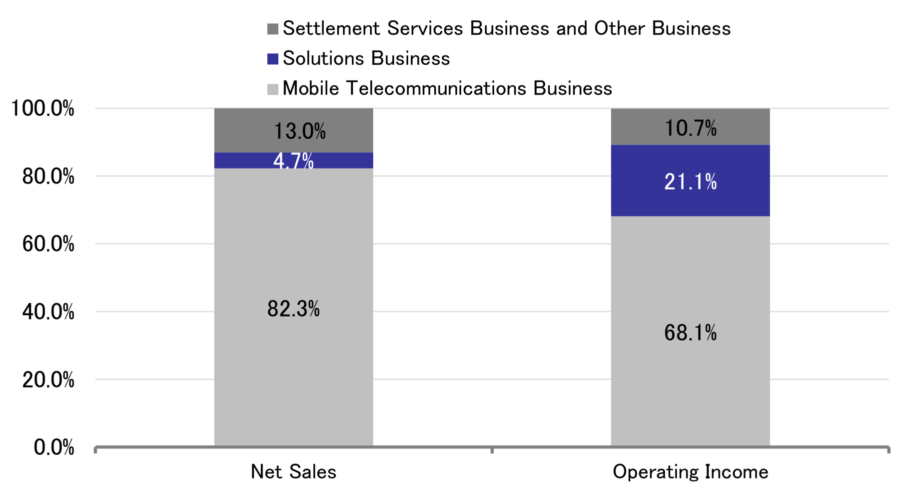
*Consolidated results since FY3/12

Business Overview

Mobile Telecommunications Business enjoying expanded sales of tablets and other new merchandise

T-Gaia has three business segments. The first is the Mobile Telecommunications Business, which mainly conducts sales of mobile phones and other related products to consumers, along with agency operations. The second is the Solutions Business, which serves corporate clients through the sale of mobile phones and other related products, the provision of solutions services, and contract agency operations for optical fiber and other fixed-line services. The third is the Settlement Services and Other Business, covering the sale of electronic-money based merchandise, comprising online payment methods such as PINs and gift cards, as well as overseas business. The graph below shows that the Mobile Telecommunications Business accounts for just over 80% of net sales and just under 70% of operating income, making it the company's core business.

Net Sales and Operating Income by Business Segment (Q2 FY3/16)



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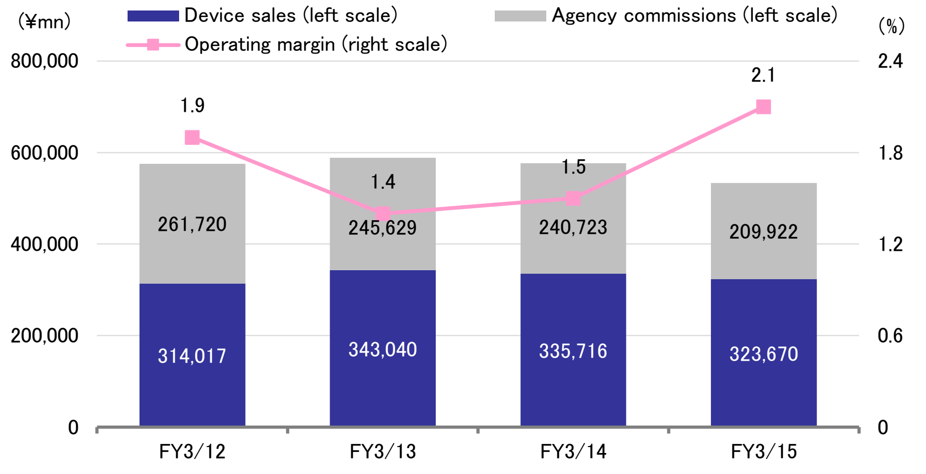
○ Mobile Telecommunications Business

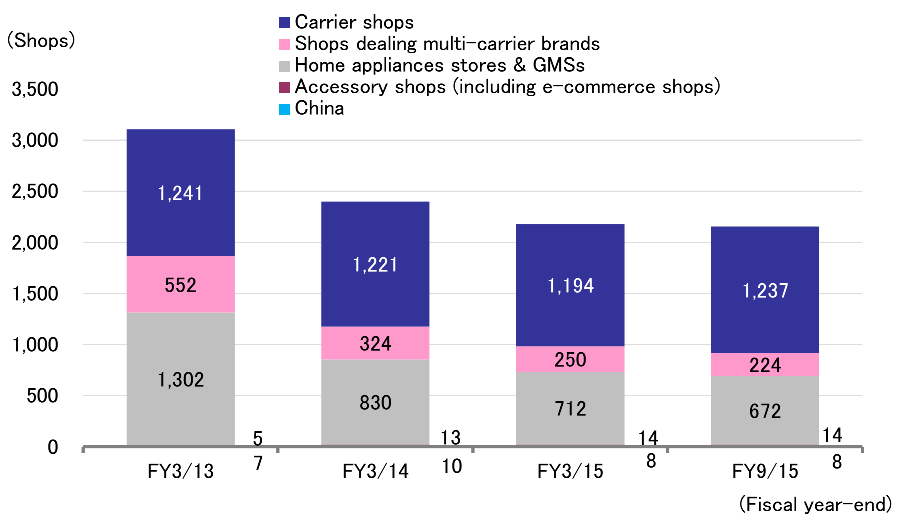
Net sales of this business encompass such telecommunication device as consumer mobile phones and tablets, accessories and other merchandise, as well as received commission for services based on agency agreements with telecommunications carriers. In FY3/15, device and commission accounted for around 60% and 40% of net sales respectively. Device has accounted for a gradually rising proportion of sales in recent years. This is likely because the company has expanded sales of such new merchandise as tablets and accessories. Although the mobile phone and other contracts and carrier commission policies affect the operating margin, it risen over the past few years as a result of successful sales channel normalization and business efficiency efforts.

Mobile Telecommunications Net Sales and Operating Margin



The Mobile Telecommunications Business had 2,155 sales bases at the end of September 2015 (including agencies operated by its secondary distributors). This network included 1,245 carrier shops (of which eight were in China), 224 shops dealing multicarrier brands, 672 home appliance stores and GMSs, and 14 accessory shops (of which one on an e-commerce site). The number of home appliances stores and GMS's and shops dealing multi-carrier brands has trended slightly downward in recent years. The company has the largest number of sales bases in Japan. It has the top market share, accounting for around 12% of the total mobile phone unit sales in Japan. It is worth noting that the company has well-balanced inner share among NTT DoCoMo <9437>, au (KDDI) <9433>, and the SoftBank Group <9984> in terms of its mobile phone unit sales.

Number of shops

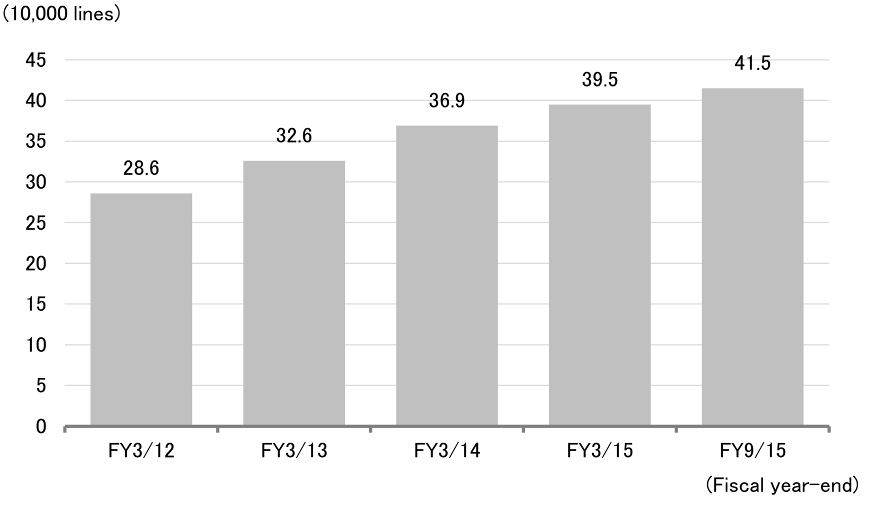


○ Solutions Business

The Solutions Business includes solution services for corporate clients such as sales of mobile phones and solutions services such as terminal and line management services; optical fiber agency services, such as FTTH for both corporations and consumers; and high volume data transmission services utilizing the cloud infrastructure of WAM!NET Japan, which became its subsidiary in March 2014.

Among these services, the sales of mobile phones follow more or less the same business model as the consumer-oriented Mobile Telecommunications Business. The terminal and line management services provide usage management, charge settlement, simulations of an ideal pricing plan, payment agency and other services related to various telecommunication devices used by corporate clients, such as mobile phones, smartphones, tablets and fixed lines. These solution services are bundled into the “movino star” application service provider (ASP) managed service provided by the company, which is a service that enhances operational efficiency at its corporate clients and cuts their costs. The number of movino star subscriber lines has steadily expanded, reaching 415,000 as of September 2015.

Number of lines subscribing to movino star service



○Settlement Services Business and Other Business

The Settlement Services Business involves sales of electronic money-based merchandise and gift cards using PIN sales systems* through major convenience stores and other retail outlets throughout Japan. As of the end of September 2015, the business has about 54,600 sales bases in Japan for PIN and gift cards combined, with about 600 additional bases in Singapore. The merchandise handled includes Amazon and BitCash gift cards, as well as WebMoney and Visa branded V-preca cards in PIN merchandise.

* PIN (Personal Identification Number) sales system: An electronic payment system enabling online purchases without using a credit card simply by entering a PIN.

The method of calculating net sales differs for gift cards and PIN merchandise. For gift cards, the company records only the commission received from the operators as net sales, while for PIN merchandise the total transaction amount (face value amount) is recorded as net sales. Sales are trending downward, as demand has recently shifted from PINs to gift cards, but earnings remain solid because the company is enjoying double-digit growth in gift card transactions.

Overseas, the company runs eight China Unicom shops in Shanghai through an agency agreement with that carrier. Also in China, the company sells mobile phones and solutions services to the local units of Japanese companies. In Singapore, the company sells gift cards through convenience and electronics stores.

Financial Results Trends

In 1H FY3/16, Revenues were down slightly while Earnings were Up, Putting Earnings on Track to Exceed Management's Forecasts

(1) Overview of 1H FY3/16 Results

In 1H FY3/16, the company recorded a slight decline in revenues and an increase in earnings. Net sales declined 0.8% year on year to ¥284,994mn. Operating income rose 11.0% to ¥6,514mn, ordinary income increased 11.6% to ¥6,513mn, and net income attributable to owners of the parent was up 19.5% to ¥3,807mn. Although the company did not disclose its forecasts for 1H FY3/16, earnings seems to have exceeded management's forecasts. While the company's unit sales of mobile phones were down 6.5% year-on-year to 2,160,000 units, smartphones and tablets accounted for 75% of this total, up 7.2 percentage points, underscoring the rising popularity of smart devices. Sales were again solid for tablets, accessories and other merchandise, while companywide structural reforms to streamline operations enhanced profit margins by constraining selling, general and administrative and other expenses.

Consolidated Financial Results in 1H FY3/16

(¥mn)

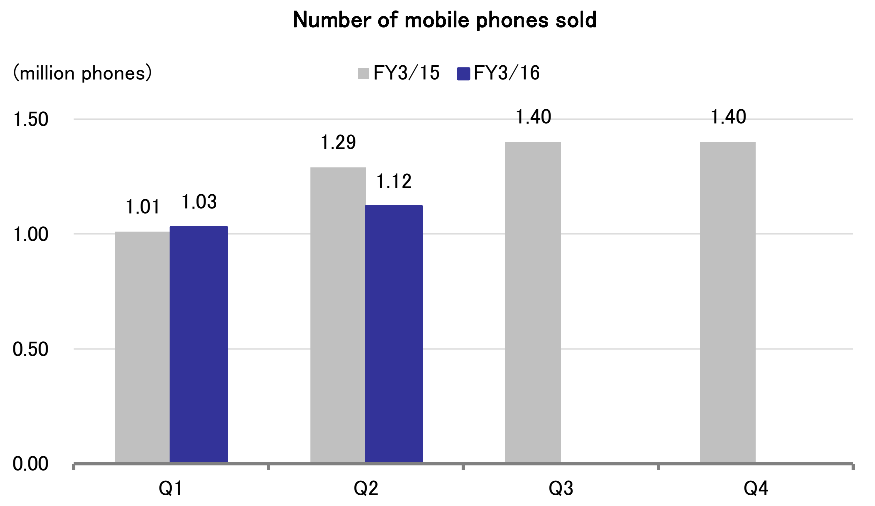
	1H FY3/15		1H FY3/16			
	Actual	Ratio to net sales	Actual	Ratio to net sales	YoY	Compared with full-year forecasts
Net sales	287,348	-	284,994	-	-0.8%	43.5%
Gross margin	29,364	10.2%	29,818	10.5%	1.5%	47.0%
Selling, general and administrative expenses	23,495	8.2%	23,304	8.2%	-0.8%	48.0%
Operating income	5,869	2.0%	6,514	2.3%	11.0%	43.4%
Ordinary income	5,838	2.0%	6,513	2.3%	11.6%	43.7%
Net income attributable to owners of the parent	3,187	1.1%	3,807	1.3%	19.5%	42.3%

Consolidated Financial Results in Q1 FY3/16

(¥mn)

	Q1 FY3/15		Q1 FY3/16			
	Actual	Ratio to net sales	Actual	Ratio to net sales	YoY	Compared with full-year forecasts
Net sales	126,959	-	135,936	-	7.1%	20.8%
Gross margin	14,179	11.2%	14,537	10.7%	2.5%	22.9%
Selling, general and administrative expenses	11,647	9.2%	11,475	8.4%	-1.5%	23.7%
Operating income	2,531	2.0%	3,062	2.3%	21.0%	20.4%
Ordinary income	2,531	2.0%	3,084	2.3%	21.8%	20.7%
Extraordinary gains/losses	-2	-	-	-	-	-
Net income attributable to owners of the parent	1,328	1.0%	1,838	1.4%	38.4%	20.4%

On a quarterly basis, the company is enjoying favorable unit sales of mobile-phones, centered on smart devices. While Q1 sales were up only slightly, they were down from a year earlier in Q2. This was apparently because of a rather lull in sales competition in the market and the launch of the new iPhone on September 25, which was around a week later than last year.

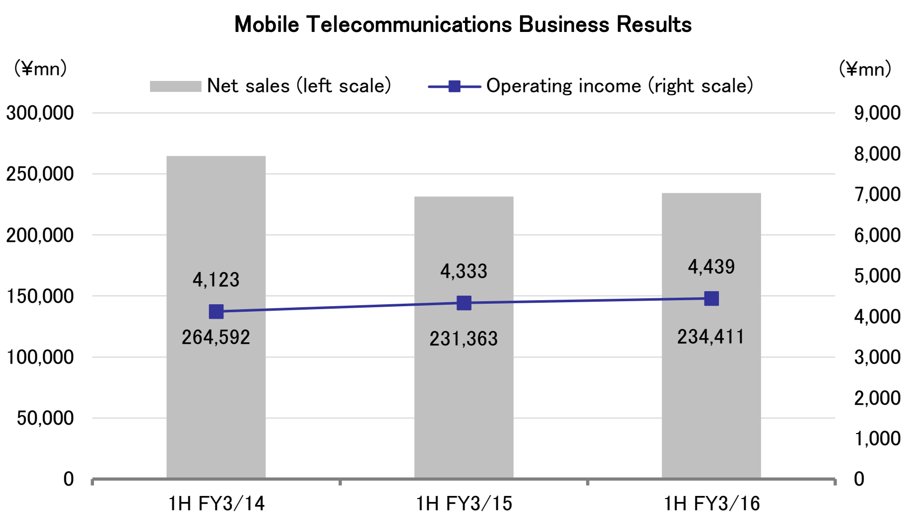


Note: Including tablets

(2) Business Segment Trends

○ **Mobile Telecommunications Business**

Segment posted increases in both revenues and earnings. Net sales rose 1.3% year on year to ¥234,411mn, while operating income advanced 2.4% to ¥4,439mn. Although sales of mobile phones declined 7.2% to 2,060,000 units, sales of tablets and accessories and other related merchandise were strong, driving revenue growth.



Unit sales of tablets rose 25% from a year earlier on stronger marketing proposals, particularly to carrier shops. Secondary distributors also increased sales, contributing to overall growth for the T-Gaia group. Sales of accessories and other merchandise continued to mark high growth, rising 41% year on year. Accessory sales were especially favorable, and both customer numbers and sales continued to improve. Key factors were higher sales of cases and protective films and greater demand for SD cards used in data backup. With the launches of new Smart Labo smartphone dedicated accessory shops in July in Namba Ebisubashi, Osaka, and Kobe Sannomiya, Hyogo, the company now has 14 of these directly managed shops, including one on an e-commerce site.

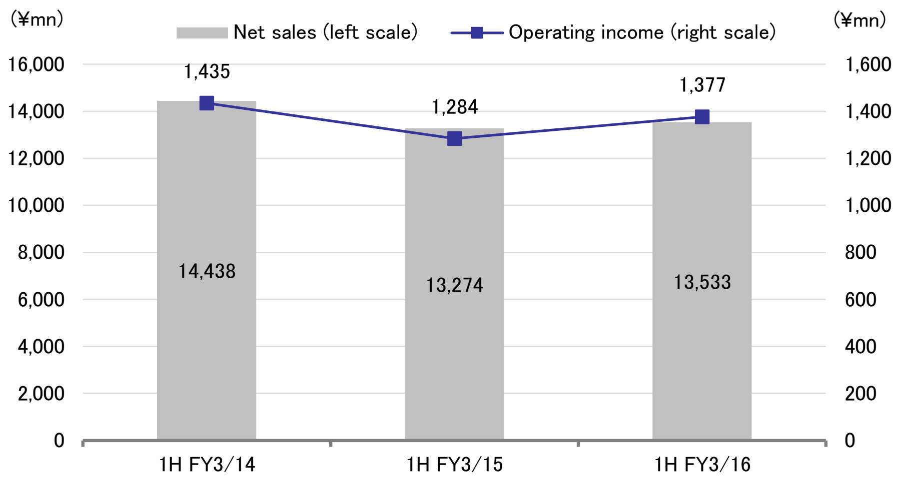
Higher sales of tablets and accessories and other merchandise drove earnings gains. A focus on boosting the productivity and efficiency of shop operations also contributed to profitability improvements.

From the start of this year, operations stabilized at carrier shops for discount services packaged with fiber-optic lines, and demand will remain solid for the packaged services.

○ **Solutions Business**

Segment posted increases in both revenues and earnings. Net sales increased 2.0% year on year to ¥13,533mn, while operating income rose 7.2% to ¥1,377mn. This was mainly due to an 8.8% increase in sales volume of mobile phones for corporate clients to 99,000 units and solid demand for T-GAIA Smart SUPPORT total solution package services, which accommodate diverse needs for mobile phones and other devices. The number of subscribers for movino star, the company's application service provider service, also expanded steadily from 373,000 at the end of September 2014 to 415,000. For fixed-line merchandise contributed to higher earnings for Hikari collaboration services, reflecting efforts to promote ISP and other fiber-optic collaboration services. This fiscal year, the company apparently released TG Hikari, through which it resells its fiber-to-the-home services.

Solutions Business Financial Results



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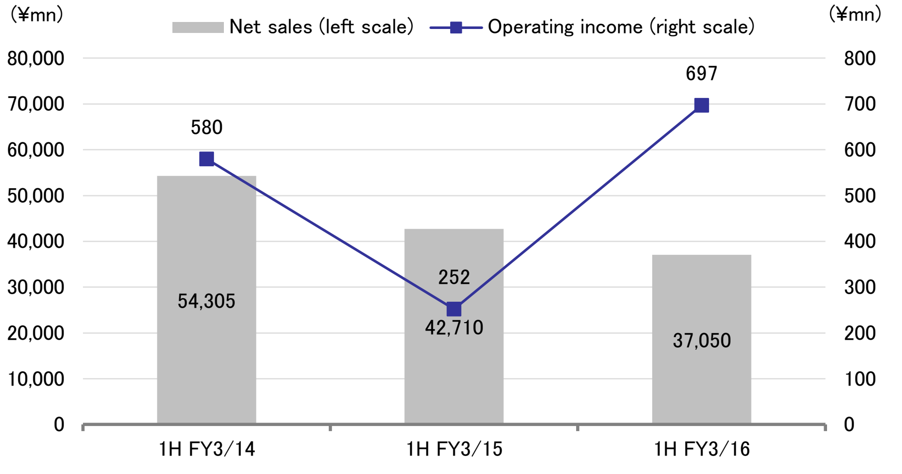
○ **Settlement Services Business and Other Business**

Net sales in this segment declined 13.3% year on year to ¥37,050mn. Operating income was up 176.6% to ¥697mn. The decline in net sales was mainly caused by a shift in demand from PIN merchandise, where the face value amount of all transactions is recorded as net sales, to gift cards, where only the received commission is recorded as net sales. In line with this shift, net income has decreased but gross sales of gift cards are increasing.

Factors in higher earnings include favorable sales of gift cards in this business segment and rising sales and profits in overseas operations. The company steadily improved the earnings of its mobile phone sales operations in Shanghai by streamlining efficiency and enhancing productivity to lower administrative costs. The settlement services business in Singapore maintained solid sales of gift cards.

Settlement Services Business and Other Business Financial Results



■ Outlook

Maintaining its Initial Forecasts to Achieve Growth in both Revenues and Earnings

(1) Financial forecasts for FY3/16

For FY3/16, T-Gaia aims to increase net sales 2.0% to ¥655,000mn, with operating income gaining 4.8% to ¥15,000mn, ordinary income climbing 5.0% to ¥14,900mn, and net income attributable to owners of the parent advancing 16.2% to ¥9,000mn and maintaining its initial forecasts. Although management looks for unit sales of mobile phones to rise 3.5% to 5.3 million units, the first increase in four years, sales competition in the marketplace has quietened, making it somewhat difficult to attain such growth. Earnings apparently exceeded forecasts through Q2. We think that the company will very likely reach its targets, as in H2 sales are expected to remain favorable for accessories and related merchandise, with earnings slated to continue rising for the Solutions Business and the Settlement Services and Other Business.

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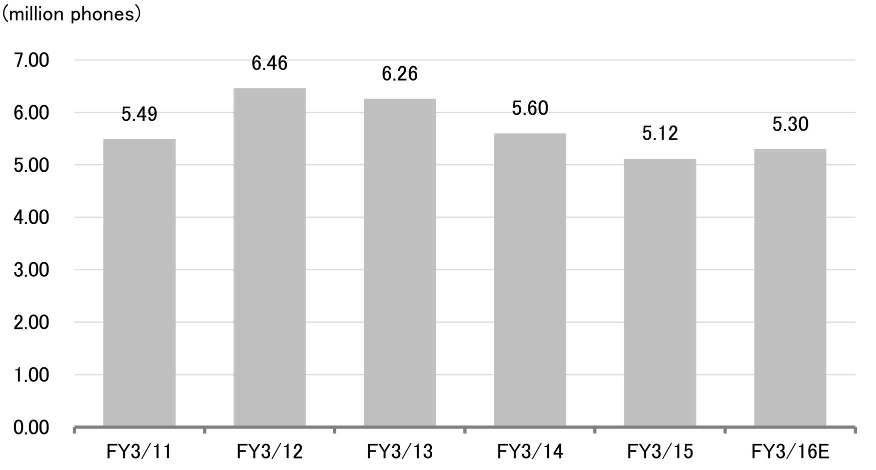
Consolidated Financial Results in FY3/16

(¥mn)

	FY3/15		FY3/16 (E)		
	Actual	Ratio to net sales	Full-year Forecasts	Ratio to net sales	YoY
Net sales	642,095	-	655,000	-	2.0%
Gross margin	61,984	9.7%	63,500	9.7%	2.4%
Selling, general and administrative expenses	47,677	7.4%	48,500	7.4%	1.7%
Operating income	14,306	2.2%	15,000	2.3%	4.8%
Ordinary income	14,194	2.2%	14,900	2.3%	5.0%
Net income attributable to owners of the parent	7,748	1.2%	9,000	1.4%	16.2%

Number of mobile phones sold



Note: Including Wi-Fi tablets

By business segment, the Mobile Telecommunications Business expects an increase of around 3.1% in net sales to ¥550,000mn year on year and a 3.8% decrease in operating income to ¥10,700mn. One factor is that the company will invest extensively in human resources and shops to reinforce profitability and drive future growth. While it may be somewhat unrealistic for the company to reach its mobile phone target of a 3.2% rise in unit sales to 5.1 million units, we believe that it is amply positioned to reach its earnings goals in case tablets, accessories and related merchandise remain favorable in H2, with business efficiencies continuing to be effective.

The forecasts for the Solutions Business are for an increase of 2.8% in net sales to ¥27,000mn and a 14.1% rise in operating income to ¥2,850mn. T-Gaia looks for mobile solution services for corporate clients to continue expanding in H2. With these clients extensively deploying smart devices, the company will leverage its strengths in providing one-stop solutions encompassing everything from deployment assistance through support. T-Gaia aims to lift mobile phone sales from 184,000 units in FY3/15 to 200,000 units in FY3/16. For movino star, the company added a new feature from November 2015 to manage customers' Wi-Fi-based tablets, notebook PCs, and other non-telecom devices, licenses, and other assets. The goal is to bolster services to enhance purchasing capabilities so the company can attract new clients. The company aims to increase the number of IDs (subscriber lines) from 415,000 at the end of September 2015 to 500,000 by end-September 2016. T-Gaia took advantage of the diversification of fiber-optic services to announce the deployment of its new services including TG Hikari, TG Wi-Fi, and TG.NET services for corporate clients.

The forecasts for the Settlement Services and Other Business are for a 5.2% decrease in net sales to ¥78,000mn and a 112.0% rise in operating income to ¥1,450mn. As mentioned before, net sales would decline amid an ongoing shift to gift cards, where only the received commission is recorded as net sales, however, we predict growth in gross sales. The company is expanding its sales channels among retail shops other than convenience stores while cultivating new merchandise. For its Chinese mobile phone sales business, it aims to strengthen existing shops and improve operational efficiency. Management looks for gift card sales to remain solid in Singapore, with earnings continuing to improve overseas.

Net Sales by Business Segment

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16 E	YoY
Mobile Telecommunications	588,670	576,439	533,593	550,000	3.1%
Solutions	27,043	28,549	26,263	27,000	2.8%
Settlement Services and Other Business	121,136	102,014	82,238	78,000	-5.2%
Total	736,850	707,004	642,095	655,000	2.0%

Operating Income by Business Segment

(¥mn)

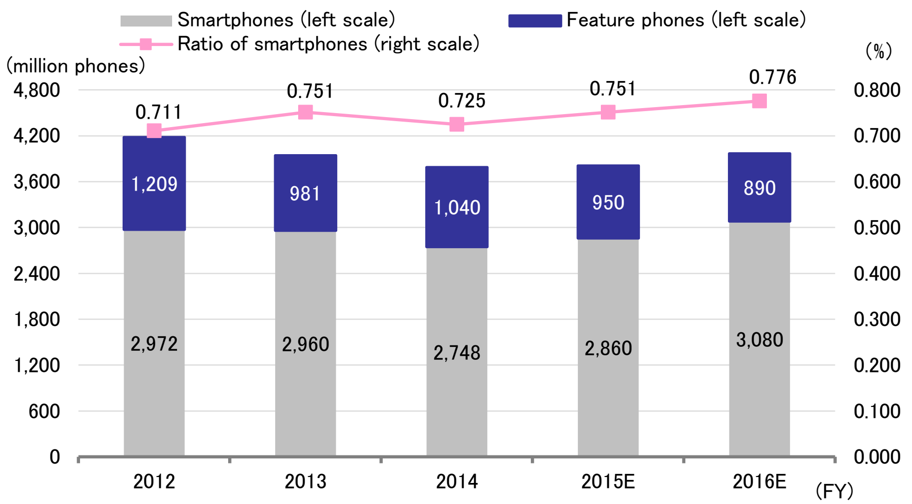
	FY3/13	FY3/14	FY3/15	FY3/16 E	YoY
Mobile Telecommunications	8,137	8,799	11,123	10,700	-3.8%
Solutions	2,560	3,182	2,498	2,850	14.1%
Settlement Services and Other Business	1,109	778	684	1,450	112.0%
Total	11,807	12,760	14,306	15,000	4.8%

Enhancing Customer Satisfaction by Offering a Diverse Product Lineup, Attracting More Customers to Shops and Boosting Profitability

(2) Growth Strategy

The emergence of mobile virtual network operators, the spread of product sales, insurance, electric power, and other offerings through carrier shops, and service competition through point programs are set to transform the Japanese mobile phone market. We expect intensified competition and consolidation among mobile phone distributors. It is noteworthy that telecommunications carriers have recently focused promotional efforts more on results, challenging the capabilities of carrier shops more than ever before.

Number of mobile phones sold in Japan



Source: MM Research Institute

It is against that backdrop that the company maintains a clear strategy. It is augmenting smartphones, tablets, and other smart devices, accessories, and fiber-optic lines with items that have solid demand potential. From this diverse product and service range, it is stepping up training of shop personnel so they can provide optimal customer proposals in accordance with customer needs and is relocating, renovating, and enlarging shops so it can better satisfy and attract more customers. Such efforts to drive future growth should help T-Gaia boost average shop earnings, while improvements from the previous fiscal year in the profitability of the Mobile Telecommunications Business is already steadily bearing fruit.

Career Design Academy Co., Ltd. (in which T-Gaia has an 80% equity stake), a company spilt-up from internal education and training unit TG Academy is spearheading efforts to cultivate shop personnel. These people have recently been spending more time interacting with customers because of the greater complexity of charge plans and the diversification of product offerings, including for fiber-optic lines. Gaps in shop staffer abilities to serve customers seem to have an increasingly direct impact on shop productivity and efficiency. For that reason, T-Gaia is devoting considerable effort to employing highly talented people as regular employees. One of the company’s strengths is that it was among the first in its industry to reinforce its employee education and training system. In extending that approach to secondary distributors, the company should, in our view, maintain a superior position.

At the same time, the deployment of a strategy of relocating, renovating, and enlarging shops should enable T-Gaia to expand floor space for selling accessories and other merchandise, bolstering the lineup and increasing sales. By leveraging concepts that match regional preferences and creating spaces that customers and their families can comfortably spend time, the company should be able to accommodate customer needs while better satisfying and attracting customers. Management thus seeks to push ahead in strategic spending to relocate, renovate, or enlarge shops.

The company plans to bolster the products and services of Smart Labo and other shops selling popular smartphone and tablet accessories. At the Smart Labo Namba Ebisubashi shop, opened in July this year, T-Gaia set up new sections on the third floor in November for mobile virtual network operator and SIM-free devices. The company thus embarked on selling SIM cards, a first for the company, and SIM-free devices as part of efforts to match the diverse needs of domestic customers while catering to tourists. The company looks to accommodate the diversifying products and services of carrier shops while bolstering its own offerings in accessory shops to expand earnings.

In its Chinese mobile phone sales business, the company will continue streamlining operations while enhancing profitability. Given that the gift card business in Singapore is enjoying solid sales, management has started exploring expansion into other countries in Asia.

In November this year, T-Gaia unveiled its medium-term targets toward FY3/20. By reaching the objectives below, management looks to materialize ongoing growth and meet the expectations of shareholders, employees, and all other stakeholders.

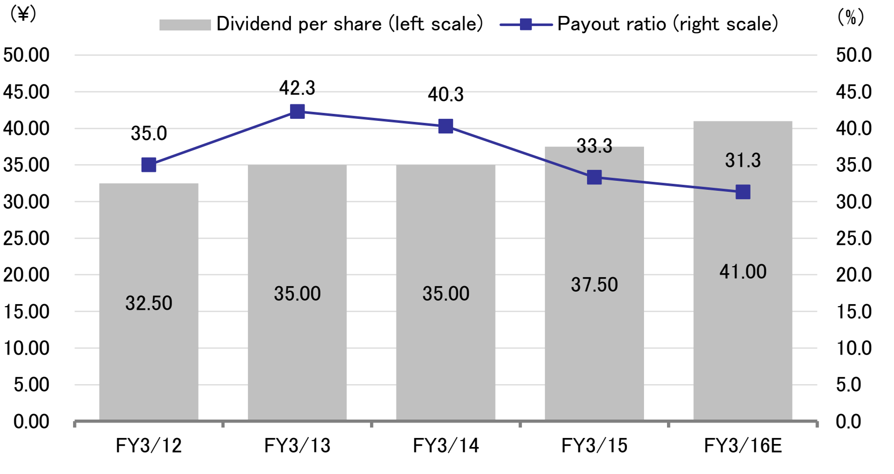
○ Firmly maintain a position as a leading company in the core mobile- phone distribution business
○ Nurture and grow solution business for corporate clients, settlement service and overseas business as its strong core businesses
○ Create and explore new business opportunities in the mobile and internet industries
○ Maintain the dividend payout ratio of over 30%

Shareholder Returns Policy

Returning Profits Based on a Dividend Payout Ratio of Over 30%, while Retaining Internal Reserves

The company's shareholder returns policy is mainly to return profits to shareholders through dividends. Regarding the level of dividends, as mentioned before in the medium term target, the company's policy is to decide the level by aiming for a dividend payout ratio of over 30%, while retaining internal reserves needed for future business development and to strengthen the management base. For FY3/16, the company plans to lift the annual dividend by ¥3.5 per share to ¥41.0 (dividend payout ratio of 31.3%), representing a second straight rise. The dividend could increase further if earnings greatly exceed the full-year forecasts to maintain a payout ratio of over 30%.

Dividend per share and dividend payout ratio



Moreover, during the annual review of brands comprising the Tokyo Stock Exchange's JPX Nikkei Index 400 mainly due to ROE and operating profit levels, the company was selected in August for the third consecutive time, attracting attention for being a company with a high level of profitability and capital efficiency.

Disclaimer