

Aeria Inc.

3758

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■ Summary

Hit game *A3!* and entry into *minpaku* business put Aeria on growth track

Aeria <3758> is developing businesses through subsidiaries operating under its IT services segment, contents segment, and asset management segment. The IT services segment provides a stable source of revenues and earnings with businesses including data services, an affiliate platform business, and *AIRSIM mobile*, an inexpensive MVNO SIM service. At the contents segment, businesses include developing, distributing, and operating smartphone games and online games, and sales of related character goods, drama CDs, voice CDs, and other goods. The asset management segment, established in 2017, is engaged in real estate leasing and sales, and is also developing a *minpaku* business (short-term rentals of private residences).

At the IT services segment, the data service business operated by subsidiary AIR Internet Service Co., Ltd. has provided a stable source of revenues and earnings for many years. Aeria added another steady earner in 2015 with its acquisition of First Penguin Inc., which operates an affiliate platform business whose primary focus is its shopping website Infotop, which offers a wide range of informational products. Infotop has a high-profit earnings structure and is similar to Rakuten Market, though differs greatly when it comes to its approach to distribution and its use of introducing agents.

At the Contents segment, a representative subsidiary is Liber Entertainment Inc., which develops social games and also runs social game operating services. Liber Entertainment is known for *I★Chu*, a major hit game in 2015 and still popular today, but scored another big hit in 2017 with the rollout of *A3!*, a handsome young actor training game that easily surpassed *I★Chu* in downloads not long after service was started. With *A3!* still very popular, Liber Entertainment is looking at broadening sales of related real goods, adapting it for a live theatrical performance, and expanding into the Chinese market.

In 2017 Aeria acquired four companies in the real estate business in quick succession. One of these was Twist Incorporated. Primarily an operations agent for Airbnb, Twist is a one-stop shop for *minpaku*-related services, from the selection of properties promising good returns, to interior makeovers by professional designers to create a property suitable for short-term rentals, to 24-hour multi-lingual support services, to property cleaning and management. Twist has also started listing its *minpaku* properties on Agoda, Asia's largest online lodging reservation website. Going forward, Aeria is looking to grow the *minpaku* business of Twist and generate synergies by coordinating the efforts of Twist and the other three real estate companies in real estate development and other areas.

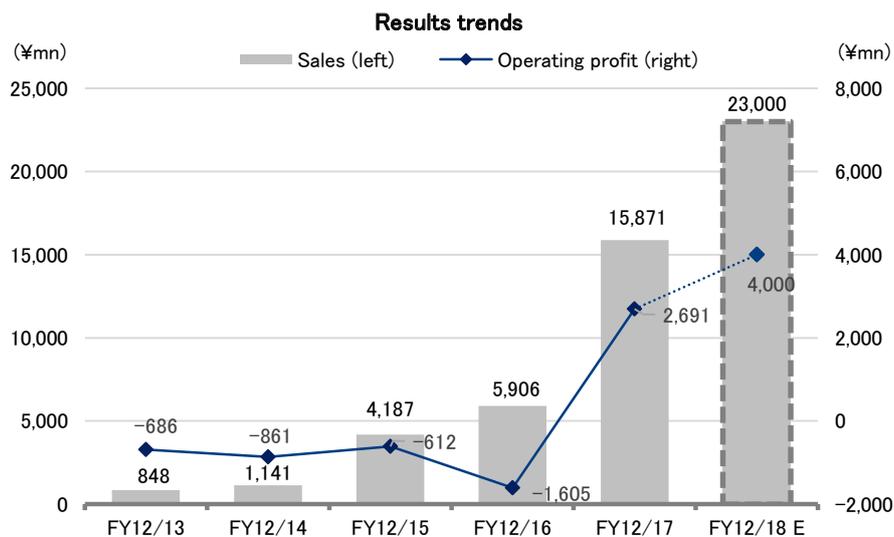
For FY12/17, Aeria reported extremely strong growth in sales and earnings, with sales rising 168.7% YoY to ¥15,871mn and operating profit jumping to ¥2,691mn, up ¥4,296mn from losses the previous year. The IT services segment saw continued steady growth in earnings at AIR Internet Service and First Penguin. The contents segment served as the main growth driver as Liber Entertainment scored a major hit with *A3!*, sparking a sharp jump in sales and earnings at not only the contents segment but at consolidated group level as well. The asset management segment just got started in FY12/17 but is already contributing to sales.

Summary

For FY12/18, Aeria is forecasting sales of ¥23,000mn (+44.9% YoY) and an operating profit of ¥4,000mn (+48.6%), with growth expected to be driven by the ongoing popularity of *A3!* and growing contributions to sales and earnings from asset management. These projections look a bit conservative, in our view, as they do not appear to fully reflect the earnings likely to be generated by *A3!* during its second year on the market or from its extension into the Chinese market. Looking ahead over the medium term, we expect to see Aeria remain on the growth track with the help of continued strong growth in revenues from *A3!*, moves into new technologies and new services areas and the expansion of its *minpaku* businesses.

Key Points

- Backed by stable revenue stream from IT services, Aeria developing promising growth businesses in contents and asset management
- Moves into the black in FY12/17 as earnings rising sharply on popularity of new game *A3!*, a handsome young actor training game
- Company outlook for double-digit growth in FY12/18 earnings looks a bit conservative. *A3!* and *minpaku* business expected to drive growth over medium term



Source: Prepared by FISCO from the Company's financial results

■ Company profile

Backed by stable revenue stream from IT services, Aeria developing promising growth businesses in contents and asset management

1. Company profile

Aeria is holding company with a total of 13 consolidated subsidiaries and two equity-method affiliates. Backed by the stable earnings stream coming from IT services, Aeria is developing a contents business and asset management business. IT service businesses include an affiliate platform business whose primary business is the operation of an online shopping website that handles informational products, and a data service business that includes managed hosting services, systems development and management, and website operation. At the contents segment, business lines include developing, distributing, and operating smartphone games, online games for tablet computers and other devices, and sales of related character goods, drama CDs, voice CDs, and other goods. The asset management segment is engaged in real estate leasing and sales, invests in domestic and overseas companies, and also operates a *minpaku* business.

Starting from foundation in IT services, but trying its hand in other businesses

2. History

Takayuki Nagashima, the current Chairman of the Board, and Yusuke Kobayashi, the President and CEO, joined together in back in 1998 to form Communications Online Limited (the predecessor to Aeria). Located in Chiba Prefecture, Communications Online provided internet-related information services. In 2001, Communications Online entered the online game business with the addition of subsidiary Gamepot Inc. (now the GMO Group). This was followed in 2002 by the establishment of Aeria, which went on to a 2004 listing on the Osaka Stock Exchange's Hercules Market (now the Jasdac Market on the Tokyo Stock Exchange). Following its stock exchange listing, in 2005 Aeria acquired AIR Internet Service Co., Ltd. and its IT services business and, with this as the foundation, expanded into other areas including smartphone games and online shopping websites. Seeing growing demand in the *minpaku* market, Aeria started up an asset management business in 2017.

Company profile

History

Date	Event
May 1998	Established Communication Online Ltd.
September 1999	Established internetcom K.K. (merged with US-based Jupitermedia, capitalized at ¥20mn)
May 2001	Established Gamepot Inc. (merged with Gagamel.com (Korea); capitalized at ¥20mn)
October 2002	Established Aeria Inc. (through spin-off)
December 2004	Listed on Osaka Stock Exchange's Hercules Market (stock code: 3758)
November 2005	Acquired 100% of shares in AIR Internet Service Co., Ltd., making it a wholly owned subsidiary
December 2005	Listed Gamepot Inc. on Sapporo Stock Exchange's Ambitious Market
December 2005	Established Aeria Finance Inc. as wholly owned subsidiary to run investment business
April 2006	Acquired 20% stake in Yutaka Shoji Co., Ltd., making it an equity-method affiliate
August 2006	Acquired 50.1% stake in ACQUIRE Corp., making it a subsidiary
August 2006	Established Aeria Games & Entertainment, Inc.
October 2006	Established Aeria IPM, Inc. as wholly owned subsidiary to oversee copyrights
June 2007	Acquired 100% of shares in Kurezo Co., Ltd., making it a wholly owned subsidiary
June 2007	Acquired 41.3% stake in Taiko Holding Co., Ltd. (owner Akatsuki Securities), making it a subsidiary
January 2008	Began offering email delivery ASP services through AIR Internet Service
March 2008	Added vulnerability detection tool (<i>Retina</i>) as part of standard service through AIR Internet Service
April 2008	Transferred all shares in consolidated subsidiary Gamepot Inc. to So-net Entertainment Corp.
July 2008	Acquired Daito Me Co., Ltd. through share exchange, making it a wholly owned subsidiary
July 2008	Began offering carbon offset support program through AIR Internet Service
August 2008	Established European subsidiary as subsidiary of US-based Aeria Games & Entertainment, Inc.
September 2008	Began business partnership with aprecio Corporation
March 2009	Began offering groupware ASP for Cybozu Office 8 through AIR Internet Service
July 2010	Began offering cloud-based service to help prevent misdirected email through AIR Internet Service
December 2012	Removed Aeria Games & Entertainment, Inc. from subsidiaries by establishing AGGP Holdings, Inc. as an intermediary holding company
December 2014	Acquired Gamania Digital Entertainment Inc. through share exchange, making it a wholly owned subsidiary
April 2015	Acquired Infotop Capital Corp. through share exchange, making it a wholly owned subsidiary and making Infotop Corp. a second-tier subsidiary
June 2015	Acquired Liber Entertainment Inc. through share exchange, making it a wholly owned subsidiary
October 2015	Acquired ASGARD Co., Ltd. through share exchange, making it a wholly owned subsidiary
December 2015	Acquired GESI Co., Ltd. through share exchange, making it a wholly owned subsidiary
June 2017	Acquired GESI Co., Ltd. through simple share exchange, making it a wholly owned subsidiary
July 2017	Acquired GOODVISION CORPORATION through simple share exchange, making it a wholly owned subsidiary
July 2017	Acquired Twist Inc., making it a subsidiary
August 2017	Acquired Impression inc. through simple share exchange, making it a wholly owned subsidiary
August 2017	Acquired Sakuragate Inc. as wholly owned subsidiary through simple share exchange
September 2017	Acquire Xenoverse Inc. through simple share exchange, making it a wholly owned subsidiary
October 2017	Acquired GG7 Inc. through simple share exchange, making it a wholly owned subsidiary
October 2017	Acquired eitarosoft, inc. through simple share exchange, making it a wholly owned subsidiary
October 2017	Established joint venture with Edia Co., Ltd.
November 2017	Acquired Total Management Corporation, making it a subsidiary
January 2018	Entered into agreement to establish joint venture company with Wanin International Co., Ltd.
February 2018	Acquired shares of Seisyou Co., Ltd., making it a subsidiary

Source: Prepared by FISCO from the Company's website

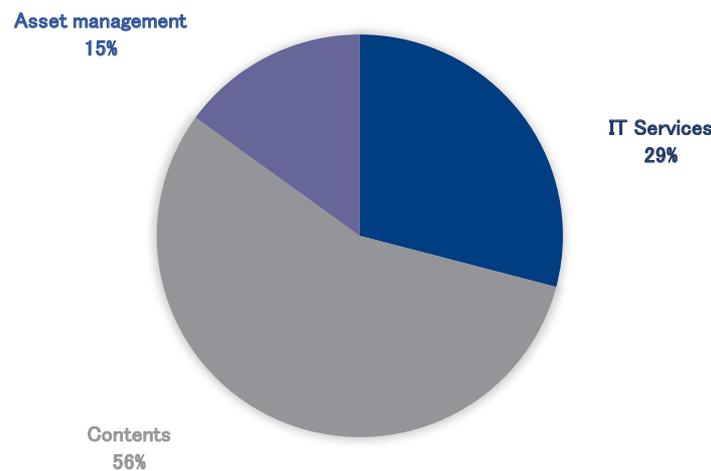
■ Business overview

IT Services provides stable revenue stream while contents segment contributes to top-line

1. Business description

In FY12/17, the IT segment accounted for 29% of sales, the contents segment 56%, and the asset management segment 15%. At the IT services segment, First Penguin and AIR Internet Service both continued to see steady growth in sales and earnings. The contents segment had a very good year, enjoying strong sales from games by Liber Entertainment and ASGARD aimed at young women, with *A3!* for smartphones becoming a big hit. The asset management segment just got underway in 2017 but still made progress at its *minpaku* business, most of which is run by Twist.

SALES BREAKDOWN BY SEGMENT (FY12/17)



Source: Prepared by FISCO from the Company's financial results

IT Services segment provides stable revenue stream

2. IT Services

(1) AIR Internet Service

AIR Internet Service provides various internet services for businesses, including its cloud-based email solutions service (All in One Mail) and a cloud-based reservations management system (Reserve Keeper) for restaurants. With the bulk of its business stemming from its data center operations, AIR Internet Service generates a steady stream of revenues and earnings. It divides its services lines broadly into three areas: business cloud services, managed hosting services, ISP services.

Business overview

AIR Internet Service: sales and earnings trends (for reference)

	(¥mn)			
	2013	2014	2015	2016
Sales	659	709	692	681
Recurring profit	42	83	69	67
Net profit	25	52	43	44
Net assets	491	544	587	610
Total assets	614	684	716	741

Source: Prepared by FISCO from the Company's securities report, etc.

a) Business cloud services

Under business cloud services, in addition to All in One Mail and Reserve Keeper, AIR Internet Service offers Cybozu ASP Service, an ASP service that eliminates the need for server management when using the popular Cybozu Office (said to be the number one groupware product in Japan). It also offers Garoon Operator Service, which provides a dedicated server environment that is ideal when there are 300 or more users, and Mail Delivery ASP Service which, depending user settings can deliver email only to individual users that have opted-in to receive emails.

b) Managed hosting services

A managed dedicated server is a service that provides superior performance and stability by providing a server environment from a single provider, covering everything from design and construction to ongoing operation, management and recovery. WEBooth is AIR Internet Service's hosting service; WEBooth comes with its own self-developed online storage service and thus is an ideal hosting service for business concerned about security. AIR Internet Service also operates a domain registration service that handle new registration for the "jp" and other domains as well as website management services.

c) Other services

As an internet service provider (ISP), AIR Internet Service provides fixed IP connection services and other internet connection services, mainly to individuals. Through one of its subsidiaries (AIR Communication), it also offers *AIRSIM mobile*, an inexpensive MVNO SIM service. As of the end of February 2018, *AIRSIM mobile* was running a campaign to allow users to play games with no monthly charge, which could probably be regarded as a campaign typical of the Company's subsidiary.

(2) First Penguin

First Penguin operates a number of different businesses, including the affiliate platform business, advertising, content creation/sales, media management, overseas trading, and overseas and domestic employment assistant businesses. The largest of these its affiliate platform business, which operates Infotop, a web portal for selling informational products (educational materials, etc.). Earnings from this area are both high and stable.

First Penguin: sales and earnings trends (for reference)

	(¥mn)			
	2013	2014	2015	2016
Sales	1,830	1,992	2,323	3,227
Recurring profit	493	532	299	396
Net profit	292	323	195	240
Net assets	815	1,120	59	291
Total assets	2,722	3,410	2,626	2,657

Source: Prepared by FISCO from the Company's securities report, etc.

Business overview

a) Affiliate platform business

The affiliate platform business operated by First Penguin has a business model that is similar to that of Rakuten Market. Rakuten Market has an extremely large number of categories in its ecommerce mall but it captures only the information exchanged between the seller and the buyer while leaving the distribution and account settlement up to the individual merchants. In contrast, Infotop's ecommerce mall has a single category, called informational products*, but it encompasses every aspect of the dealings between buyers and sellers, not only the digit information but the distribution and account settlement as well. In other words, First Penguin serves as an intermediary for the seller, the buyer, and the introducing agent, managing the payments for sales and commissions between the seller and the introducing agent, and also managing the account settlement and the product delivery between the seller and the buyer. There is a big difference between Infotop and Rakuten Market when it comes to how distribution is handled, but the biggest difference between the two is there is the presence of introducing agents (affiliates, affiliate partners**) at Infotop whereas Rakuten Market has none. By putting introducing agents in the picture, First Penguin has increased the searchability of Infotop for even long-tail informational products. [In this respect, Infotop provides the same kind of chaotic enjoyment that people previously obtained from looking for long-tail products on Rakuten Market.

* Informational products: Information that is primarily bought and sold over the internet. The information itself is the product, such as study guides for foreign language, guides on asset management, and self-improvement guides. While on rare occasions such guide books are said to be pyramid schemes or make fraudulent claims, Infotop's careful examination of the materials sold through its website leaves very little room for disreputable operators to sell their wares.
 ** Affiliate: An advertising technique wherein a blogger or magazine receives compensation from the seller if the write-up of the product leads to a sale. Unlike the average affiliate, affiliate partners are involved in the business.

Infotop website (left) and business model (right)



Source: The Company's website

Infotop does not care whether the informational products and other digital contents and other products sold through its website are from private individuals or from companies. For the seller, Infotop offers an easy and inexpensive way to try to sell his idea or expertise. For the buyer (website visitor), Infotop provides a ready means of acquiring high-quality, up-to-date information about a topic of interest. And for the introducing agent, Infotop provides a way to be highly compensated for promoting the product. In short, Infotop is a portal site that creates a win-win-win proposition for the parties involved. Particularly from the perspective of the seller, Infotop is a highly cost-effective sales channel since there are no upfront costs and all remuneration to other parties is paid based on performance, and the seller is able to directly provide the information to potential buyers whose interest has been piqued by an introducing agent (such as an email magazine or blogger).

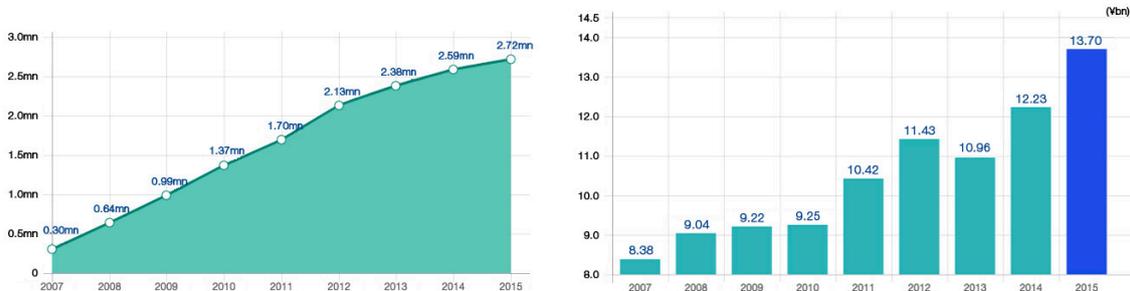
We encourage readers to review our complete legal statement on "Disclaimer" page.

Business overview

Amid a growing market for informational products, Infotop is the leading player thanks to a combination of customer service, security, seller/product inspections, and ease of use. Infotop has a cumulative total of more than 2.0mn sellers, buyers, and introducing agents, and has more than 60,000 different offerings of informational products for sale that cover a wide range of subjects that are useful in everyday life, from languages, to romance, to beauty advice. Infotop also accepts a variety of payment methods, including bank transfers, credit cards, Bitcash (digital currency), and the various money transfer systems available at convenience stores. And, because as an ecommerce mall Infotop handles a large amount of personal data, it has created an impenetrable security framework using Verisign SSL that has received the PrivacyMark certification from Japan Information Processing Development Corporation.

Perhaps most important is Infotop's strict inspection process that helps buyers avoid the risks associated with digital contents (i.e., the inability to see ahead of time what is there) and the anonymity of internet transactions. Infotop carefully inspects not only the informational products being offered for sales, it also has dedicated staff that conduct thorough background checks on the sellers, including verification of any claims they may make about themselves and checking whether they have ever violated the Specified Commercial Transactions Law. In the case of sellers who are listing products for the first time, Infotop always verifies the contact number provided and also verifies the physical address through written correspondence. For buyers, Infotop's ease of use makes it different from competing websites. Infotop scrutinizes the opinions expressed by users and the nature of customer support provided in the past and makes almost daily updates to its manual and FAQ list; it also operates a call center to field inquiries about membership registration, purchasing options, and other subjects. And, for those buyers that are not particularly adept at using a computer, it also has a telephone order service and customer support structure that includes remote operations services.

Infotop: members (left) and transaction volume processed (right)



Source: The Company's website

b) Other businesses

Other businesses include advertising. First Penguin's advertising business is not just involved in internet advertising, it is also makes proposal for affiliate promotions and digital marketing, and provides solutions that will help clients meet the rapidly changing online marketplace. First Penguin also has a content production/sales business, where it finds a topic that has value (like language learning, asset management, self development) then works together with an expert in that field to create original online classes or seminars. First Penguin also has an overseas trading business that imports and exports distinctive goods, trading mainly with Asia and North America. First Penguin also has an employment assistance business, which in Japan provides referrals for new grads to small and medium-sized companies.

Business overview

First Penguin's overseas employment assistance services business, which goes under the name CoCoCarat, has grown rapidly in recent years. CoCoCarat specializes in employment assistance services for people looking to work in Southeast Asia. It currently has partnerships with personnel placement agencies in the seven major countries in Southeast Asia and serves as the registration agent for the job application with the local placement agency. In December 2017, CoCoCarat entered into a business alliance with Forval Corporation <8275> that will allow it to work with Forval's personnel placement businesses in Southeast Asia (primarily in Cambodia, Myanmar, Vietnam, and Indonesia), and is looking to further expand its business in this area going forward.

(3) Other IT service businesses

Other IT service businesses include Grey Cells Inc., which provides system solution services that cover everything from website and application planning, designing, and development, to operational support and maintenance; Grey Cells also provides consulting services to support website and application development teams. Another business is CyberZero Ltd., whose services include social app development, support services for companies utilizing social media, Android and iPhone app development, production and development work using Flash Lite for mobile phones, web app development, and smartphone-optimized website design.

Liber Entertainment scores big hit with A3!

3. Contents segment

(1) ASGARD

ASGARD manufactures and sells CD/PC software for young women, doing studio recording and manufacturing and selling consumer game software under two labels (where there have been releases) using a single studio. At its mainstay honeybee label, ASGARD produces CDs aimed at women, such as the *DYNAMIC CHORD* series, does some collaborative CD featuring well-known artists from other companies targeting for women; in this manner, it has managed to release two to three CDs a month. Other series include *Starry☆Sky*, *Hitsuji de Oyasumi (Go to Sleep with Sheep)*, and *Mitsubachi Shuppan (Honey Bee Publishing)* series. These and other products are sold through an online shopping website (honey shop) that ASGARD operates. The ASGARD studio has two rooms for recording, one large and one small; this setup allows it to do a wide variety of recording, from games, narration, and dramas, and to music. It has also turned *DYNAMIC CHORD* into an animated TV series.

Asgard hit series: *DYNAMIC CHORD* (left) and "Honeybee" brand site (right)



Source: The Company's results briefing materials

Business overview

(2) Liber Entertainment

Liber Entertainment is involved in social game development and operation, consumer game development, and also has a consulting business that provides consulting services for other companies in the game business. It has had two big hits in quick succession, *I★Chu* and *A3!*. As the impact of major hits is said to last about three years, it is likely that Liber Entertainment will see continued growth in sales and earnings this year.

Liber Entertainment: sales and earnings trends (for reference)

	2013	2014	2015	2016
	(¥mn)			
Sales	250	824	277	837
Recurring profit	-74	158	-90	51
Net profit	-74	130	-92	31
Net assets	-69	60	-32	25
Total assets	129	261	206	300

Note: Sharp increase in earnings expected in 2017 owing to popularity of *A3!*
 Source: Prepared by FISCO from the Company's securities report, etc.

a) *I★Chu*

I★Chu is a romance rhythm adventure in which the player is a teacher-cum-producer and must train an idol wannabe to be a fully-fledged entertainer (I Chu) into a full-fledged star. Service for *I★Chu* officially started in June 2015; free-to-play and charging for in-game items. In January 2017 *I★Chu* recorded more than 1.0mn downloads, making it a major hit. The popularity of *I★Chu* spurred sales of related real products, leading to the release of a total of nine music CDs (five singles, four albums), two comic anthologies, three novels, as well as fan books and other character goods. In addition to these spin-off products, *I★Chu* was also made into a live theater production (*I★Chu The Stage*) that ran a total of 12 performances between August and September 2017.

b) *A3!*

A3! is a handsome young actor training game in which the player assumes the role of the general manager of run-down, collapsing theatrical company that has to train a new group of young, would-be actors to be successful stage performers. Because all episodes are done in "full voice," mini-games have also been available to earn more money for the theatrical company. Service for the game was started in January 2017; free-to-play and charging for in-game items. Leveraging its experience with *I★Chu*, Liber Entertainment turned *A3!* into an even bigger hit with some 4.5mn downloads in the month of November 2017. Sales of related real products include nine CDs (one single, eight mini albums), two comic anthologies, and a large number of other goods. With the game having just introduced a second group of would-be actors in February 2018, plans call for taking *A3!* to the live stage with a show titled "MANKAI STAGE *A3!* — SPRING & SUMMER 2018" that will run between June and November 2018. As Liber Entertainment is also working with Bilibili with plans to start distribution service in China this coming August, it is unlikely that the popularity of *A3!* will fade anytime soon.

Image cards for *A3!* (left) and *I★Chu* (right)



Source: The Company's results briefing materials

Business overview

c) Other products from Liber Entertainment

Another game from Liber Entertainment is *Soen No Kantai*, a realistic naval battle game in which the player is the commander of a naval battle group that must fight a mysterious opponent. Service for the game was started in September 2017; there is no basic charge to play the game but players must pay to acquire certain extras. Pre-registration for *Soen No Kantai* is said to have come around 100,000. Other titles that Liber Entertainment has either developed under contract or development cooperated include *Kai-ri-sei Million Arthur*, *Dairansoh Dasshu* or *Dasshu*, *One Piece ROMANCE DAWN Dawn of Adventure*.

(3) Contents segment: other subsidiaries

Aeria has a large number of other subsidiaries that are also involved in developing social games. Aeria Games & Entertainment, Inc. plans, develops, and operates games for smartphones. Most of the titles are for *STARLY GIRLS – Hoshi musu -*, a next-generation training simulation game. Developed by Kadokawa Games, *STARLY GIRLS* began service in December 2016; there is no basic charge to play the game but players must pay to acquire certain extras. Plans calls for rolling out service in Taiwan, Hong Kong, Macau, and China. Subsidiary AGE Inc. is in the process of moving from online games for PCs to games for smartphones, and has been able to make progress towards stabilizing its revenue and earnings stream by increasing its contract development work. Major titles from AGE include *Astral Stairways*, a classical role playing game, and two pet rearing simulation games, *Tenohira Puppy* and *Tenohira Kitty*. Subsidiary Arithmetic Inc. develops and operates social games, develops and operates game engines and platforms. Arithmetic titles include *90 Days to Fall In Love with You* (a romance simulation game with a YouTuber); it also attracted a lot of attention after releasing a game using *10 count* and other intellectual properties that are popular among young women. Subsidiary Team Zero inc. distributes two VR rhythm game series, *FuluBearVR* and *Symphony Line VR*.

Aeria also acquired many new subsidiaries involved in game development during 2017. These include Sakuragate Inc., which designs and develops slot games for online/ land-based casinos, provides gaming-related consulting services, and designs, developments, and operates social games. It also acquired GOODVISION CORPORATION, which designs, develops, and operates social games. GOODVISION has a long track record in game development, including joint development of *Hot-Dog PALACE* with Kodansha. Another acquisition was eitarosoft, inc., which is distributing *Time Bokan 24 Bokan Meka Battle!* under a licensing agreement with Tatsunoko Production; eitarosoft is also known for *Dance Trips*, which it co-developed with Idea Factory (which own Otomate, a romance game for women). In 2017 Aeria also acquired Xenoverse Inc., the game division of the MAJOR LTD. Group (primarily distributes mobile games in North America), as well as GG7 Inc., which has expertise in the creation and marketing of character contents. It was announced that the game *Secret Inn*, which GESI Co., Ltd. started service for in May 2017 (with free-to-play and charging for in-game items) would terminate service no earlier than March 2018. Since in most cases the service for a title is ended early when it fails to become a hit, the extension of the service this long might be considered as something that sets GESI apart from other companies.

Business overview

Past major titles and future pipeline

Date	Producer/ Distributor	Description	Platform
May 2003	Gamepot	Began distributing game contents thru BREW mobile phone handset from KDDI	
August 2004	Gamepot	Began distributing online golf game, <i>Sukatto Golf Pang Ya</i>	PC
March 2006	Gamepot	Began distributing <i>Kunshu</i> MMORPG (Massively Multiplayer Online Role-Playing Game)	PC
December 2006	Gamepot	Began distributing <i>Fantasy Earth Zero</i> MMORPG	PC
February 2007	Aeria Games	Began distributing <i>Last Chaos</i> MMORPG in US and Canada	PC
April 2008	ACQUIRE	Public website opened for " <i>Sword, Magic, and School Story</i> "	PS/PSP/3DS
July 2008		<Japan debut on iPhone (SoftBank Mobile)>	
January 2009	Aeria Games	Began distributing " <i>Shin Megami Tensei IMAGINE</i> " MMORPG	PC
May 2009	Aeria Games	Officially started service for " <i>Shin Megami Tensei IMAGINE</i> " MMORPG in Germany	PC
May 2009	Aeria Games	Officially started service for " <i>Grand Fantasia: Spirit Legend</i> " MMORPG	PC
June 2009	Aeria Games	Officially started service for " <i>Shin Megami Tensei IMAGINE</i> " MMORPG	PC
July 2009		<Japan debut on Android OS smartphones (NTT DoCoMo)>	
September 2009	Aeria Games	Officially started service for " <i>Mystic Stone: Runes of Magic</i> " MMORPG	PC
November 2009	Aeria Games	Officially started service for " <i>Grand Fantasia: Spirit Legend</i> " MMORPG on Hangame	PC
January 2010	Aeria Games	Officially started service for " <i>Grand Fantasia: Spirit Legend</i> " MMORPG on GungHo games	PC
January 2010	Aeria Games	Officially started service for " <i>Mystic Stone: Runes of Magic</i> " MMORPG on hangame	PC
February 2010	Aeria Games	Started of sales of " <i>Grand Fantasia: Spirit Legend</i> " as packaged software product by CyberFront Corp.	PC
February 2010	Aeria Games	Started of sales of " <i>Mystic Stone: Runes of Magic</i> " as packaged software product by CyberFront Corp.	PC
February 2010	Aeria Games	Started channeling service for " <i>Mystic Stone: Runes of Magic</i> " on Hangame	PC
April 2010	Aeria Games	Officially started service for " <i>Shin Megami Tensei IMAGINE</i> " MMORPG by Ningbo Success Multimedia Communication Co., Ltd.	PC
June 2010	Aeria Games	Officially started service for " <i>Rappelz</i> " MMORPG by China's Ningbo Success Multimedia Communication Co., Ltd.	PC
September 2010	Aeria Games	Officially started service for self-developed title " <i>Guillotine House</i> "	browser
October 2010	Aeria Games	Officially started service for " <i>Nine Tail Online: Spirit Legend Side-story</i> "	PC
October 2010	Aeria Games	Began offering " <i>Let's Build Kitty Town II</i> " on GREE platform	
June 2013	Aeria Games	Officially started service for " <i>Dragon's Prophet</i> " MMORPG	PC
July 2013	Aeria Games	Officially started service for realistic war fighting game, " <i>Battle Rush!</i> "	iPhone/Android
November 2013	Aeria Games	Officially started service for " <i>Blacksmith and Dragons</i> " RPG	iPhone/Android
December 2013	Aeria Games	Officially started service for " <i>Various Monsters</i> ," an exciting new rhythm RPG	iPhone/Android
April 2014	Aeria Games	Officially started service for " <i>Klee: From the Town of Dancing Moon Drops</i> ," a classic online RPG	iPhone/Android
June 2015	Liber Entertainment	Officially started service for " <i>★Chu</i> " love rhythm and adventure game	iPhone/Android
December 2016	Aeria Games	Officially started service for " <i>STARLY GIRLS: -Hoshimusu-</i> " next-generation training simulation game	iPhone/Android
January 2017	Liber	Officially started service for <i>A3!</i> , handsome actor training game	iPhone/Android
May 2017	GESI	Began distributing " <i>Secret Inn</i> ," a heart-warming RPG where players live with the hero	iPhone/Android
July 2017	Team-0	Released first game in " <i>Fulu Beat VR</i> " VR rhythm game series	iPhone/Android
September 2017	Liber	Officially started service for " <i>Soen No Kantai</i> " realistic navel battle game	iPhone/Android
December 2017	AGE	Officially started service for " <i>Everyone's Casino</i> " social casino game for everyone	iPhone/Android
January 2018	Team-0	Officially released second game in " <i>Symphony Line VR</i> " VR rhythm game series	iPhone/Android
Undecided	eitarosoft	" <i>Dance Trips</i> " had a booth at the Tokyo Game Show 2017 to accept advance registrations	
Undecided	eitarosoft	Exhibited " <i>Magical Days</i> " magic puzzle and adventure game at Tokyo Game Show 2017	
Undecided	Arithmetic	Started pre-release registration for " <i>10 count</i> " BL game	
Undecided	ASGARD	Started pre-release registration and promotional gift campaign for new title " <i>DYNAMIC CHORD JAM&JOIN!!!!</i> "	
Undecided	eitarosoft	Notification of postponement of start of service for " <i>Dance Trips</i> "	
Undecided	ASGARD	Run second promotional gift campaign for new title " <i>DYNAMIC CHORD JAM&JOIN!!!!</i> "	
Undecided	Arithmetic	Start pre-release registration campaign for " <i>Etokare: Why the Cat Was Left Out of the Chinese Zodiac Calendar</i> "	
Undecided	eitarosoft	Working together with Mobcast, co-develop new game based on characters from popular television anime series " <i>Yu☆Yu☆Hakusho</i> "	
Undecided	Liber	Beautiful girl training program (name undecided) under development, <i>A3!</i> for men	

Source: Prepared by FISCO from the Company's website

* As of the end of February 2018

Expanding business rapidly in pursuit of *minpaku* market

4. Asset management segment

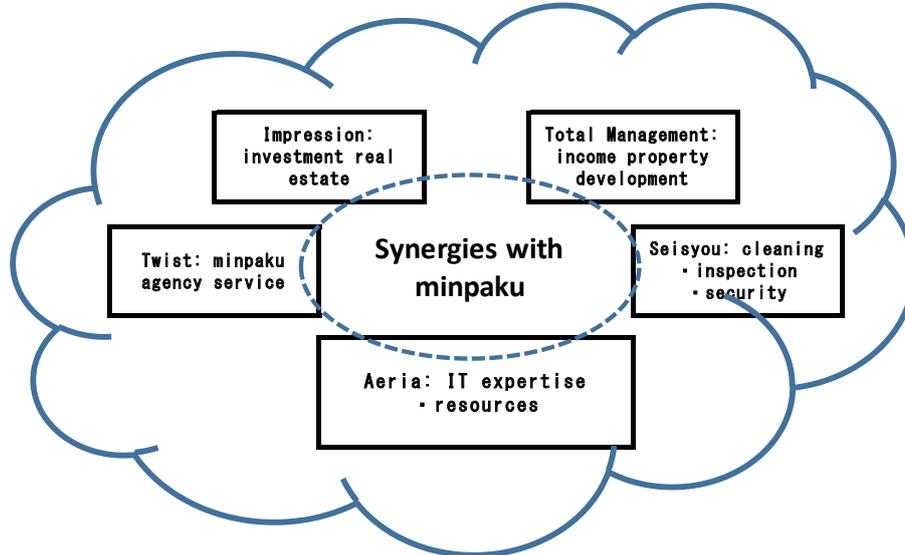
In 2017 Japan saw inbound tourist traffic jump 19.3% YoY to 28.69mn visitors. With help from government policies aimed at making Japan more tourist friendly, inbound tourism is expected to continue rising in the years ahead as we approach the 2020 Tokyo Olympics. At the same time, Japan still finds itself desperately short of lodging accommodations to handle all these tourists, leading to the rise of *minpaku* arrangements to fill the gap. The term *minpaku* implies that visitors will stay at the residences of ordinary people and, in the past, it was hoped that travelers could be accommodated in this manner by people acting out of a sense of goodwill rather than for money. However, after seeing how much money was to be made by intermediaries like Airbnb that runs a dedicated website where people can find and book short-term accommodations in private residences overseas, the goal of *minpaku* shifted to renting out private residences (including vacant houses, condominiums bought as investment properties) to overseas tourists and other looking for short-term accommodations. There are still many legal aspects of the *minpaku* business that have yet to be determined, but expectations are running high that the action will be taken on the part of both the government and the private sector that will allow the *minpaku* market to expand enough to accommodate the sharp increase in the number of overseas tourists that are expected to visit Japan in the years ahead.

Attracted by prospects in the *minpaku* business, Aeria acquired four real estate-related companies in quick succession starting around the middle of 2017, acquiring Twist Inc. and July 2017, Impression inc. in August, Total Management Corporation in November, and Seisyou Co., Ltd in February 2018. Of these, Twist is already engaged in the *minpaku* business, overseeing *minpaku* property operations in the capacity of an agent. Twist primary serves as operations agent on behalf of Airbnb, but has established itself as a one-stop shop for all *minpaku*-related services, from the selection of properties promising good returns, to interior makeovers by professional designers to create a property suitable for short-term rentals, to 24-hour multi-lingual support services, to property cleaning and management. Twist has also started listing its *minpaku* properties on Agoda, Asia's largest online reservation website for lodging.

In contrast, Impression's strength lies in its investment property sales capabilities, based on which it has branched out into investment property development (condominiums), residential real estate sales, and home renovation. Total Management's strength lies in real estate development (single-family homes and income properties), but it also involved in renovation of pre-owned condominiums, real estate sales, and consulting. Total Management is distinguished by its focus of low-risk properties, many of which people have inherited. Seisyou Co., Ltd. started out in the cleaning business, specializing in cleaning pachinko parlors. It still has its cleaning business, but has also branched out into facilities maintenance and inspection (including electrical systems and fire extinguishing systems), environmental hygiene management, and building security services. One of Seisyou's most rapidly growing businesses at this time is contract cleaning services for printing equipment; it also sees promising growth prospects in the manufacture and sale of custom-order cleaning equipment. By combining the strengths of Impression in investment property sales, Total Management in real estate development (single-family homes and income properties), and Seisyou in cleaning, maintenance, and security, Aeria has all the makings to create a comprehensive asset management business. by combining this with the *minpaku* business of Twist, it will also be possible for Aeria to utilize some of the properties it owns as *minpaku* facilities. Also, by combining its asset management business with its expertise in IT technology, Aeria aims to boost growth even further by enhancing the convenience of its real estate services through the application of technology.

Business overview

Synergies within asset management segment



Source: Prepared by FISCO from the Company's website

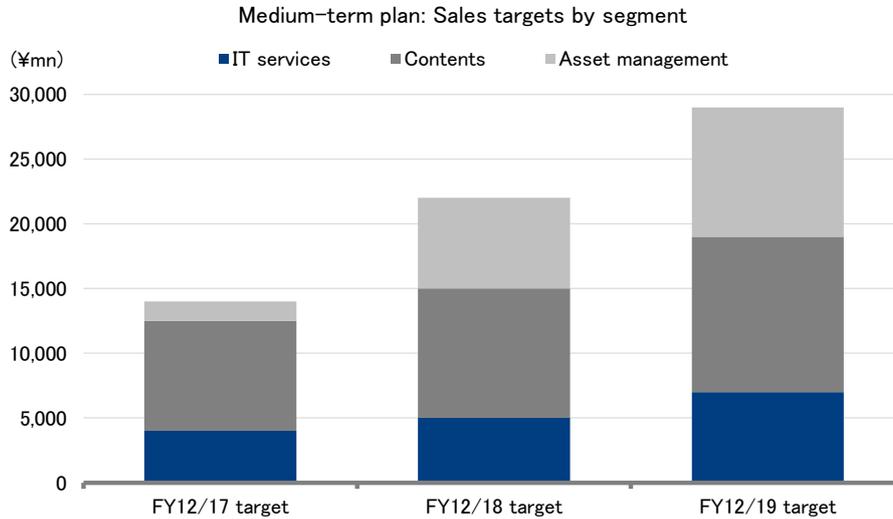
Medium-term business plan

Make active use of M&A in pursuit of growth

1. Business plan and M&A strategy

Going back to its inception, Aeria has a long history of using M&A not only to keep in step with the development of networking companies but also as a way of trying its hand in many other businesses. With new technology such as IoT and VR/AR developing rapidly, Aeria has recently stepped up its M&A activity in order to better position itself to develop businesses in rapidly growing fields. Driving all its acquisitions is Aeria's goal of 1) creating a solid revenue base that benefits from the reduction in risk that comes from diversification and the synergies realized when group companies work together, and 2) further expanding its businesses both in Japan and overseas over the medium term. In IT services, Aeria is looking to build stronger relationships with client companies while at the same time acquiring new clients and further stabilizing its revenue and earnings stream. At its contents business, Aeria is looking to become a bigger player in the market for games and other contents aimed at women while at the same time branching out into new markets, including overseas market and online casino games. In asset management, Aeria is looking to take advantage of the growing demand for *minpaku* services that will come as inbound tourist traffic increases in the years ahead, and also find ways to make use of the group's technological expertise and the contents IP of other group companies.

Medium-term business plan



※ Based on Company forecast as of November 2017
 Source: FISCO, based on Company presentation materials, "Business Plan & M&A Strategy"

Looking to generate synergies with M&A

2. Strategic goal of M&A

Aeria's M&A activity has two strategic goals, the first is to increase the size and motivation of its management team. The second is to acquire the business assets that will lead to the creation of synergies among group companies. To achieve both of these goals simultaneously, Aeria makes a point of doing acquisitions not through cash transaction but through share exchanges. In this manner, it assures that the management teams of every company that joins the group is committed to growing not only the sales and earnings of their own business but growing the sales and earnings of the group as a whole. When Aeria is able to acquire business assets where synergies are likely to be generated, it can lead to the expansion of the revenue base of all segments and can also open up the door for the group to enter new growth markets. At the asset management business, for example, Aeria is planning to use its expertise in IT to enhance its *minpaku* services, and also draw on its contents business to create new tourism experiences such as theater performances and live events and lead to the sale of special event goods.

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Medium-term business plan

Inter-segment synergies created by M&A



Source: Image from Company presentation materials, "Business Plan & M&A Strategy"

Results trends

After many years of ups and downs, earnings break out to record high in 2017

1. Historical trends in sales and earnings

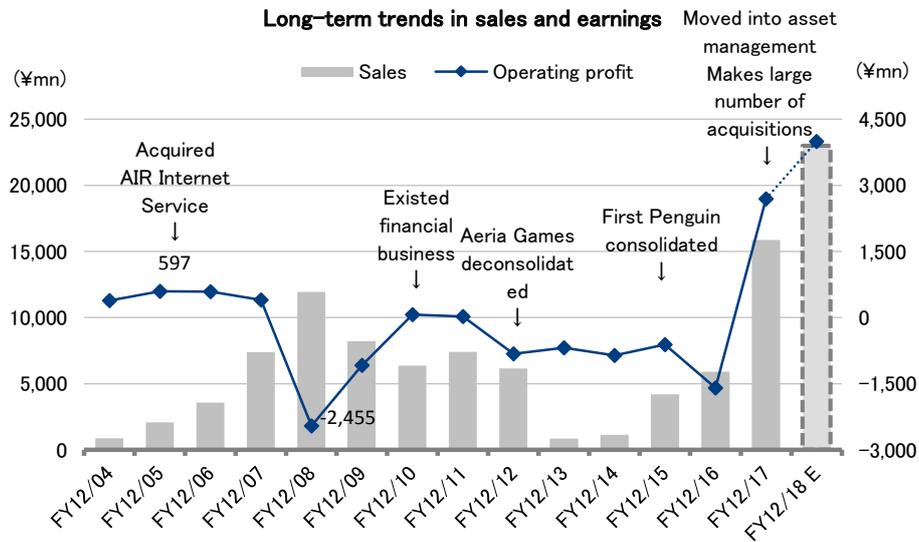
Aeria consistently turned a profit in the years after its inception but fell deeply into the red in FY12/08 as the Lehman Shock rocked the financial industry, hurting its main client base. By FY12/10 Aeria was back in black as earnings recovered quickly following the shift in its orientation from the financial sector to online games for PCs. Unfortunately, in FY12/12 it slipped back into the red again as competition intensified in the smartphone game market and, with development costs hard to recoup, stayed in the red as operating losses became the norm through FY12/16. The turnaround in earnings came last year as A3! became a major hit. In FY12/17 operating profit not only moved out of the red and into the black, it surpassed the previous high mark to set a new record high, and is forecast to continue rising in FY12/18.

Although overall sales and earnings have seen many ups and downs over the years, we believe it is fair to say that the IT services business has been a steady earner while the contents business has experienced most of the volatility. Early on, AIR Internet Service gave the IT services business stability in relative terms while the online PC games business made most of the money. However, 2008 brought more than just the Lehman Shock, it also saw the launch of the iPhone. With the iPhone being followed in 2009 by the debut of Android smartphones, the operating environment in the online game market underwent a dramatic change as more and more online games began shifting platforms from consoles and PCs to smartphones. With the dawning of the new market for smartphone games, startup companies took center stage, at least for a while. However, by 2012 large game makers saw that the smartphone game market had enough growth potential to make it worthwhile and one after another starting putting their financial resources and their also very substantial IP resources (i.e., well-established characters) into the smartphone game market. As competition in smartphone game market intensified as the big boys came in, more than a few of the small and medium-sized companies that otherwise had superior game development capabilities were forced to downsize.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

Aeria sold its first smartphone game in 2013 but, as mentioned previously, was still not earning enough to cover the costs of game development (it continued developing online games for PCs until 2015). Even while game industry experienced these many ups and downs during the first decade of the 21st century and on into the second, Aeria was able to continue bringing first-rate, quality games to the market thanks to the steady stream of revenues and earnings from its IT service businesses. The Company's patience finally paid off last year when it brought *A3!* to the market and it became a big hit soon after its debut in January 2017. Although the momentum of *A3!* is expected to continue for a while longer, Aeria also took a big step towards reducing risk during 2017 by diversifying into asset management, which stands to benefit from growing demand in the *minpaku* lodging market.



Source: Prepared by FISCO from the Company's securities report

A3! reaches No. 2 spot in iOS sales rankings for 2017

2. FY12/17 results trends

For FY12/17, Aeria reported sales of ¥15,871mn (+168.7% YoY), an operating profit of ¥2,691mn (+¥4,296mn versus loss the previous year), recurring profit of ¥2,760mn (+¥4,189mn versus loss the previous year), and net profit attributable to parent company shareholders of ¥2,080mn (+¥4,228mn versus loss the previous year). EBITDA, another important metric used by Aeria, rose 584.0% YoY to ¥3,431mn. During 2017 the internet market showed continued strong growth and the mobile contents market continued growing as well. However, as the competition between companies to attract users became more and more intense, development, personnel, and other costs began to rise as companies put more money into developing distinctive contents and applications that would attract users, as well as into upgrades and expanded service plans.

Results trends

FY12/17 results

	FY12/16 (¥mn)	Ratio to net sales (%)	FY12/1 (¥mn)	Ratio to net sales (%)	Change (%)
Sales	5,906	100.0	15,871	100.0	168.7
Gross profit	2,254	38.2	8,155	51.4	261.7
SG&A expenses	3,859	65.3	5,463	34.4	41.2
Operating profit	-1,605	-27.2	2,691	17.0	Moved into black
Recurring profit	-1,428	-24.2	2,760	17.4	Moved into black
Net profit attributable to parent company shareholders	-2,147	-36.4	2,080	13.1	Moved into black

Source: Prepared by FISCO from the Company's financial results

The IT services segment reported sales of ¥4,616mn (+19.1% YoY) and an operating profit of ¥440mn (+39.2%). In addition to an steady, ongoing stream of revenues and earnings, most of which came from First Penguin and Infotop, the segment continued working to diversify into new business lines with the aim of boosting top-line growth. AIR Internet Services also saw continued steady growth in revenues and earnings, most of which were derived from its data center operations. At the MVNO business's *AIRSIM mobile*, the launch of its inexpensive SIM appears to have been well received.

The contents segment reported sales of ¥8,874mn (+336.8% YoY) and an operating profit of ¥2,420 (+¥4,321mn versus losses the previous year). The sharp jump in earnings is attributable in large part to the launch of *A3!*, a handsome young actor training game that quickly became a major hit, breaking through 4.0mn download mark as early as August, hitting the No.2 spot in the iOS game sales rankings and also named in Google Play's Best of 2017 list (of top games and applications). The theme song CD for *A3!*, *MANKAI★Kaika Sengen*, made it to the top of the sales rankings for "original content" albums, sales of related character goods have been running strong, and sales of real peripheral goods are already gaining ground. Sales and earnings also benefited from the ongoing popularity of *I★Chu*, first released back in 2015, and contributions from an early live stage adaption of "A3!" in 2017.

The asset management segment, having just been established in FY12/17, reported sales of ¥2,380mn and an operating loss of ¥94mn.

Compared with the forecast issued by the Company at the time of its interim results announcement, full-year sales finished ¥1,871mn above while operating profit came in ¥808mn below plan. The above-plan sales reflected strong-than-expected sales from *A3!* and additions from consolidated subsidiaries that were acquired during the course of the year. Operating profit came in short of expectations as the jump in sales at the contents segment led to larger-than-expected increases in spending on advertising and commissions paid to fee collection agents. With regard to the additional spending on advertising, one could make the case that the added spending during 2017 represents a front-loaded expenditure whose benefits will be realized in 2018 and subsequent years. The decline in the gross profit margin is attributable to the acquisitions made during the year, as the new consolidated subsidiaries had different earnings structures. The SG&A expense ratio came down, however, as the top-line gains more than offset the rise in costs at the contents segment. At the extraordinary loss level, the Company reported an asset impairment loss of ¥32mn, ¥12mn in special retirement payments, and ¥50mn in losses from writing off bad debt.

Results trends

FY12/17 results by segment

Segment sales	FY12/16 (¥mn)	Ratio to net sales (%)	FY12/17 (¥mn)	Ratio to net sales (%)	Change (%)
IT services	3,874	65.6	4,616	29.1	19.1
Contents	2,031	34.4	8,874	55.9	336.8
Asset management	-	-	2,380	15.0	-

Segment Operating profit	FY12/16 (¥mn)	Margin (%)	FY12/17 (¥mn)	Margin (%)	Change (%)
IT services	316	8.1	440	9.5	39.2
Contents	-1,900	-91.4	2,420	27.1	Moved into black
Asset management	-13	-	-94	-4.0	-
Adjustments	-6	-	-74	-	-

Source: Prepared by FISCO from the Company's financial results

Company forecast for FY12/18 looking conservative in light of prospects for second good year of sales for A3!

3. FY12/18 outlook

For FY12/18, the Company is forecasting sales of ¥23,000mn (+44.9% YoY), an operating profit of ¥4,000mn (+48.6%), recurring profit of ¥4,000mn (+44.9%), and net profit attributable to parent company shareholders of ¥3,000mn (+44.2%). At the IT service segment, the Company is looking to expand dealings with existing clients and add new clients. At the contents segment, the Company is looking to adapt games so they can be played on different platforms, upgrade existing titles, and also develop new titles and content. At the asset management business, the Company plans to make a full-scale push into real estate leasing, sales, and *minpaku* services.

FY12/18 outlook

	FY12/17 (¥mn)	Ratio to net sales (%)	FY12/18 E (¥mn)	Ratio to net sales (%)	Change (%)
Sales	15,871	100.0	23,000	100.0	44.9
Gross profit	8,155	51.4	-	-	-
SG&A expenses	5,463	34.4	-	-	-
Operating profit	2,691	17.0	4,000	17.4	48.6
Recurring profit	2,760	17.4	4,000	17.4	44.9
Net profit	2,080	13.1	3,000	13.0	44.2

Source: Prepared by FISCO from the Company's financial results

We see the contents segment serving as the main growth driver in FY12/18. With both Liber Entertainment and ASGARD turning out titles that are popular with women, the Group is looking to increase its presence in this niche market and become the top game maker in this niche market in Japan and overseas with the help of Arithmetic's platform and overseas expansion expertise. At the contents segment, the Company sees sales of A3! related products and revenues from other sources (such as live stage productions) gaining momentum and accelerating earnings growth. In addition, we note that bilibili, which is scheduled to begin distributing A3! in China this year, is well-versed in the operation of games from Japan as it is already operating the Chinese version of a large number of other hit titles from Japanese game makers (including *I★Chu*). This, together with the fact that romance simulation games are also growing in popularity in China, makes it likely that A3! will be a hit in the Chinese market as well.

Results trends

There are also a number of new titles that are expected to be released by companies that Aeria acquired in 2017. However, of greater interest is the preparations that are underway to adopt new technologies in the near future. Smartphone game developer eitarosoft, which is currently distributing *Time Bokan 24 Bokan Meka Battle!*, is focusing its R&D efforts on 3D technology for online games. GOODVISION has plans to grow its business by investing more in virtual reality-related businesses. Sakuragate, which develops slot games for both for online/ land-based casinos, is rolling out titles like *Evangelion Slots* in Europe. Having entered into a domestic PR contract with *PokerStars* (the world's largest live poker brand), Sakuragate is also undertaking poker branding activity in anticipation of the opening Japanese casinos in the future.

Aeria has also made a lot of moves whose real payoff can be expected in the medium term, like its move into the *minpaku* business. However, even before that we would note that its forecast for FY12/18 appears overly conservative, especially considering the fact that most hit games for smartphones tends to remain popular for as much as three years, and revenues from sales of related real goods and from live theatrical performances and other events does not usually kick in until the second year. Also, in the case of *A3!*, the game is set to be launched in China. In this relation, we would also note that the Company's past results presentation materials (from its Q2 FY12/17 results presentation meeting) indicated that its FY12/18 forecast incorporated contributions to higher sales and earnings from the asset management business but said nothing about additional contributions from *A3!*. In any case, we believe FY12/18 results are likely to exceed the Company's forecast.

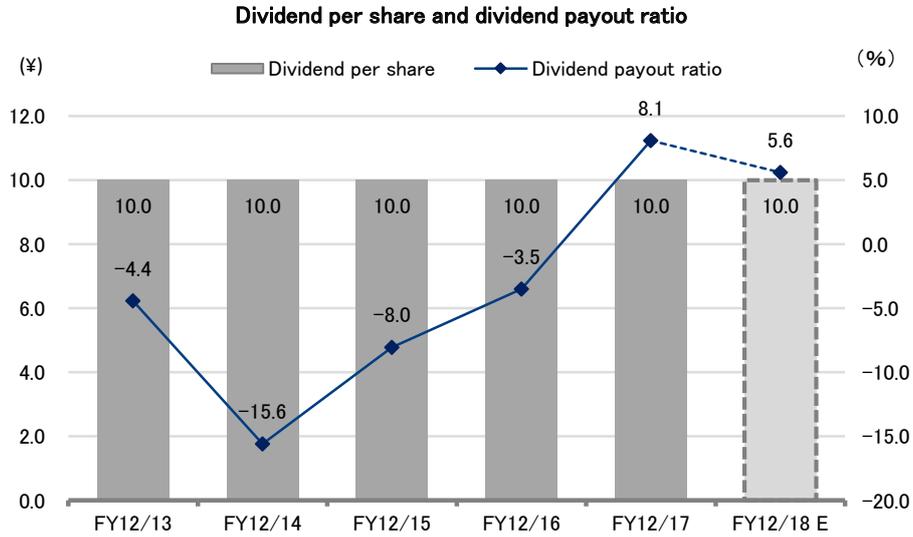
■ Shareholder return policy

Company maintains stable annual dividend of ¥10 per share

● Dividend policy

The Company recognizes that returning profits to shareholders is an important management concern but is also looking to build up internal capital reserves to help fund future growth initiatives and further strengthen its business position. The Company also plans to draw on internal reserves to help fund M&A and other capital alliances, R&D spending, and investment spending (especially on new businesses). With regard to dividends paid out of retained earnings, based on its policy of maintaining a stable dividend, in FY12/18 the Company plans to pay an annual dividend of ¥10 per share (with no interim dividend), unchanged from FY12/17. As an additional reward to shareholders, the Company plans to send QUO Cards (gift cards) for the popular ASGARD title *DYNAMIC CHORD JAM&JOIN!!!!* based on the size of individual shareholdings.

Shareholder return policy



Source: Prepared by FISCO from the Company's financial results

Information security

In the course of business, some Aeria Group companies require that individual users registering for online services provide personal information, including their name, address, telephone number, and email address. Personal information may also be collected and held temporarily by client companies with the consent of the provider of that personnel information. Such personal data is treated as confidential by the Group, with internal access subject to restrictions and additional measures in place to prevent unauthorized external access. Aeria does not store any personal information stemming from sales made through App Store or Google Play.



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