

Aeria Inc.

3758

TSE JASDAQ

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FISCO Ltd.

<http://www.fisco.co.jp>

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Summary

IP business driving growth

Aeria <3758> (hereinafter referred to as “the Company”) has three main business areas - IT services, contents, and asset management. The IT services business handles data services and an affiliate platform, the contents business develops smartphone games and handles related businesses, and the asset management business consists of real estate business, leasing management business, and accommodations facility planning and operation. The Company expanded contents business and asset management business by leveraging M&A supported by stable income from IT services business in past years. However, contents business growth has taken off thanks to a major hit in the A3! Smartphone game and the acquisition of CYBIRD Co., Ltd. that owns the Ikemen (Handsome) series. Game-related business that utilizes intellectual property (IP) rights cultivated by games, such as selling character goods and various CDs and holding theater performances, is rapidly expanding.

The Company is currently striving to improve growth in IP business. It also promotes initiatives in new markets, technologies, and other new areas that have synergies with existing businesses. Subsidiary Celebrate Message Co., Ltd. started a service that lets anyone freely and easily order personal messages for birthdays, weddings, and other events from celebrities, famous people, and other CASTs (video message providers) who have many fans. In the fast-growing VTuber* (Virtual YouTuber) market, a male bilingual YouTuber comments on content enjoyment, subculture, and other topics for a global audience.

* Vtuber: Virtual character that distributes videos and other information on YouTube.

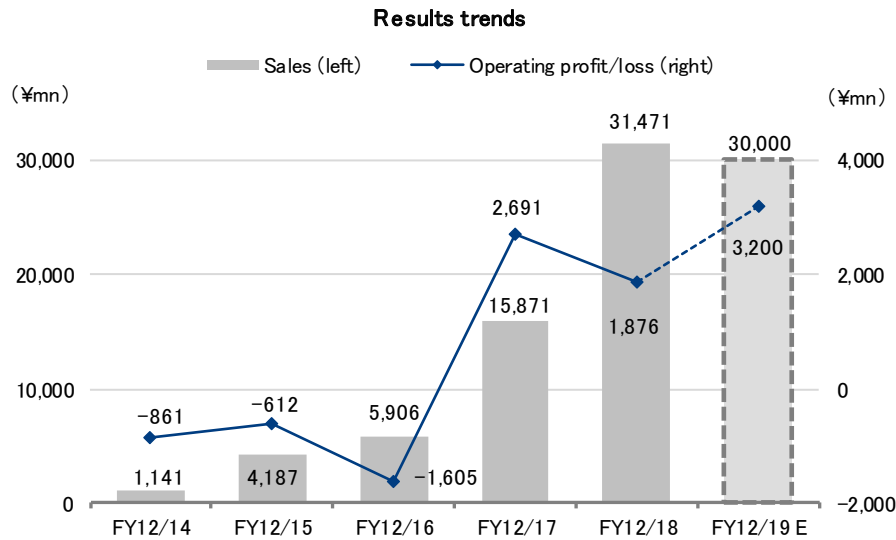
The Company reported 1H FY12/19 results with ¥14,404mn in net sales (+6.3% YoY) and ¥1,846mn in operating profit (+9.7%). Contents business posted sharply higher sales and profits with ¥8,571mn in net sales (+61.3%) and ¥1,490mn in operating profit (+47.4%), driven by continued upbeat income trends in A3! and Soen No Kantai and the addition of CYBIRD to the Group. However, sales and profits weakened in other businesses with IT services slipping to ¥2,678mn in net sales (-21.0%) and ¥260mn in operating profit (-16.8%), despite a generally stable income environment, on decline in affiliate advertising income and asset management dropping to ¥3,155mn (-29.5%) in net sales and ¥102mn in operating profit (-73.3%) due to strengthening risk controls in light of elevated prices in the real estate market.

In FY12/19 guidance, the Company targets ¥30,000mn in net sales (-4.7% YoY) and ¥3,200mn in operating profit (+70.5%). It lowered net sales by ¥2,000mn and raised operating profit by ¥1,000mn compared to the period-start outlook. The sales reduction mainly reflects decline in affiliate advertising income in IT services business and the impact of risk controls in asset management business. The higher operating profit target, meanwhile, factors in healthy trends in A3! and Soen No Kantai businesses, stronger income at CYBIRD than expected, and distribution of two new game titles. Contents business has emerged as the Company’s earnings driver recently, and we expect it to continue lifting profits over the medium term too.

Key Points

- A3! hit and CYBIRD acquisition strengthened contents business
- Stimulating growth through reinforcement of peripheral businesses that utilize its IP
- Raised FY12/19 profit guidance on upbeat momentum in contents business

Summary



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

Company profile

Promotes businesses accompanying advances in the network society

1. Company profile

The Company has three main business areas - IT services, contents, and asset management. The IT services business handles data services, system development business, and an affiliate* platform that specializes in online electronic publications. The contents business develops, distributes, and operates smartphone and tablet games, sells drama CDs, voice CDs, and character goods, and holds theater performances and other events. The asset management business consists of real estate business, leasing management business, accommodations facility planning, operation, control, and management business, consulting business related to these areas, and investments in domestic and overseas companies. The Company aims to “become an essential presence, similar to air, in the network society” by moving in the direction of network society advances and harnessing Internet and mobile technologies. With this spirit, it has taken on challenges in many businesses since being founded.

* Affiliate: An advertising technique wherein a blogger receives compensation from the seller if the write-up of the product leads to a sale.

Company profile

M&A-driven expansion → Reorganization and pursuit of synergies → Expansion of peripheral businesses

2. History

Takayuki Nagashima, chairman and representative director, and Yusuke Kobayashi, president and representative director, founded predecessor Communications Online to deliver Internet-related information provision services in Chiba Prefecture in 1998. The Company entered the game industry (online games) with the acquisition of Game Pot (GMO Group) in 2001, established Aeria in 2002, and listed shares on the Osaka Stock Exchange's Hercules market (now Tokyo Stock Exchange JASDAQ market) in 2004. Leveraging income from IT services business Air Internet Service Co., Ltd. acquired in 2005, it expanded to smartphone games and online sales sites. It launched the asset management business in light of growing minpaku demand in 2017. The Company is promoting business reorganization with emphasis on options and focus in pursuit of synergies after exhaustion of recent M&A activities aimed at future growth and synergies. Furthermore, since it has successfully cultivated game characters and other IP into a major income source, the Company is also moving forward in expansion of peripheral businesses that utilize its IP.

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. (now First Penguin) 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	Completed transition of Arithmetic Inc. as a wholly owned subsidiary through simple share exchange
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

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Company profile

Date	Event
August 2017	Acquired eitarosoft, inc. through simple share exchange, making it a wholly owned subsidiary
September 2017	Acquired 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
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
June 2018	Acquired CYBIRD Co., Ltd., making it a wholly owned subsidiary
January 2019	Sold eitarosoft, Inc. and Seisyou
January 2019	Established Aeria Contents Holdings Inc. as an intermediate holding company in the contents business
January 2019	Established Aeria One Inc. as an external alliance contact point for group company assets
April 2019	Established Celebrate Message Inc. that lets users submit an offer to famous CASTs that requests a personal message

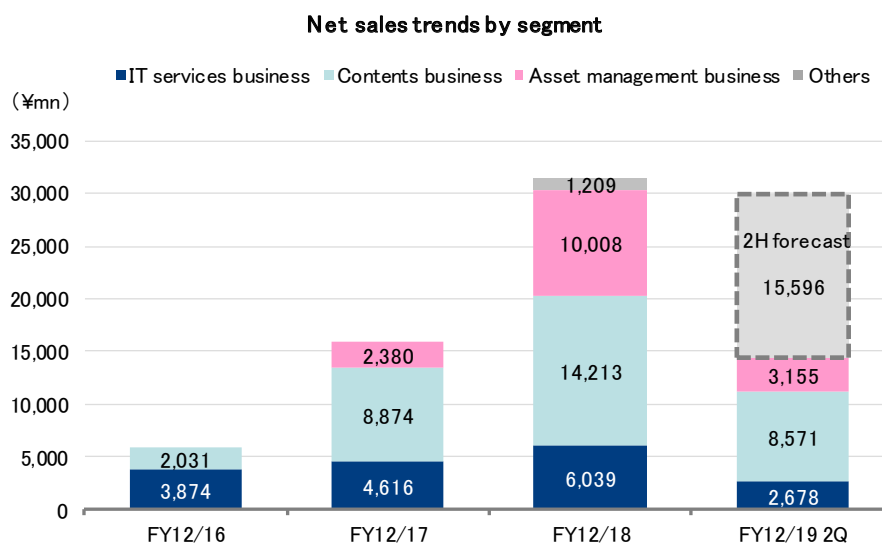
*Twist Inc. was a limited liability company at the time it was acquired but has since been converted to a corporation
Source: Prepared by FISCO from the Company's website

Business overview

3 Effective portfolio that consists of three main businesses

1. Business description

In IT services business, mainstay AIR Internet Service Co., Ltd. and First Penguin Inc. are sustaining stable growth. In contents business, Liber Entertainment Inc. has steadily delivered smartphone game hits with A3! and Soen No Kantai and started receiving income contributions from acquired CYBIRD. In asset management business, while one-time income quickly expanded after the launch in 2017, the Company has been applying stricter risk controls recently in light of real estate market conditions. While segment net sales composition in FY12/18 consisted of IT services at 20.0%, contents at 47.0%, and asset management at 33.0%, the mix changed to 18.6%, 59.5%, and 21.9% respectively in 1H FY12/19 due to differences in the various business environments. We think Aeria has put together an effective business portfolio for dealing with business risks.



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

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Stable income source supporting the Company's new initiatives

2. IT services business

Under the IT services segment there are two main companies, AIR Internet Service and First Penguin. AIR Internet Service operates a data service business while First Penguin operates an affiliate platform business. Other subsidiaries under the IT services segment include Grey Cells, Inc., which offers system solutions and consulting services, and CyberZero Ltd., whose services include social app development and support services for companies uses social media. AIR Internet Service provides various internet services for businesses, including its cloud-based email solutions service (All in One Mail), a cloud-based reservations management system (Reserve Keeper) for restaurants, proprietary WEBooth hosting services (which comes with its own online storage service), and ISP services for domain registration and other website-related services. With the bulk of its business stemming from its data center operations, AIR Internet Service generates an exceptionally steady stream of revenues and earnings. First Penguin operates diversified businesses, including the affiliate platform business, advertising, content creation/sales, media management, overseas trading, and overseas and domestic employment assistant businesses. It newly entered payment agency business in 2018. Affiliate platform business is the main area. It operates the infotop portal site, which sells information materials (information itself is the product, such as guides on asset management and self-improvement guides that have been screened through rigorous examination). The infotop site has over three million cumulative registered sellers, buyers, and introducers and sells more than 80,000 materials. This site stably generates strong income. While the business model has some resemblance to Rakuten, infotop significantly differs in terms of its handling of single-category information materials, management of commercial flow, and the presence of introducers (affiliate partners).

Releasing two proprietary titles in 2H

3. Contents business

In contents business, the Company has supplied various games to the market for the platforms of each era, including PCs, mobile phones, and smartphones. Smartphone games are currently the most popular offerings. While the Company has developed smartphone games for some time, it has delivered a succession of major hits in recent years. It also acquired CYBIRD with the Ikemen Series, a major offering. The Company has established a holding entity for contents business with the aim of promoting interaction of personnel and knowhow among the various companies and improving game development speed, quality, and profitability. Furthermore, the Company is shifting this business from simple fee income to an IP business that utilizes characters cultivated in these titles in other areas besides games too.

(1) Liber Entertainment

Liber Entertainment is a core company in the contents business that develops and operates social games, develops consumer games, and operates consulting business for games. It has achieved success by focusing on development of Ikemen training games for women and delivered a hit with the I★Chu smartphone game in 2015 and a major hit with A3! in the 2017. It is also expanding business scope to peripheral businesses that utilize its IP. Hit products have an effect for three years, and broadening to peripheral businesses can extend the period even more. This is a well-performing subsidiary currently in a growth phase.

Business overview

a) A3!

This is an Ikemen training game in which the player assumes the role of director at a run-down theater on the verge of closing and trains new Ikemen actors through rehearsals and makes the production a success. The entire series is dubbed with voices, and minigames have been recorded to generate additional income. Service began with free basic play and item charges in January 2017. Leveraging its success with I★Chu, the Company attained a massive hit that was at six and a half million downloads as of September 2019. As an IP business, it has launched numerous products, including CDs and comic anthologies. Also, it developed the stage version MANKAI STAGE A3! from June 2018, and this event has been well received. The Company has decided to create a third segment of the main story and develop animation in 2020. This game is becoming a very long seller through synergies with IP business. Furthermore, it is eagerly promoting overseas rollout, including distribution starts of the traditional-Chinese version (Taiwan, Hong Kong, and Macau) and an English version distributed globally and the launch of a simplified-Chinese version (China) in November 2019.

| * 2.5D: Original works and concepts from “2D” anime and video games converted into “3D” live stage productions. |

Concept image for A3! (left) and a picture of the A3! event (right)



Source: The Company's results briefing materials

b) Other products from Liber Entertainment

I★Chu is a love rhythm adventure game in which the player is a teacher and producer who trains the “Ichu,” an idol egg, to become a full-fledged idol. It began official service in June 2015 and generates income from item charges. Basic play is free. Downloads are still rising and are currently at 1.3mn. Real-world products have done well too because of this success. The Company supplies music CDs, comic anthologies, short stories, fan books, and other items. I★Chu The Stage is a 2.5D* version and has been conducted more than 10 times thus far. The game is enjoying a very long run, including collaboration events with Hello Kitty and the possibility of a new series. Soen No Kantai is a full-fledged naval battle game in which the player becomes the general commander of the Soen fleet and battles with a mysterious enemy, the shadow fleet. It was the Company's first hit with male players. Service started with free basic play and item charges in September 2017. It is steadily attracting interest and has surpassed one million downloads. Other consignment and development cooperation titles include Kai-ri-Sei Million Arthur, Rebellion Run: Dash or Capture!!, and ONE PIECE ROMANCE DAWN Boken-no-Yoake.

Images for I★Chu, (left) and Soen No Kantai (right)



Source: The Company's results briefing materials

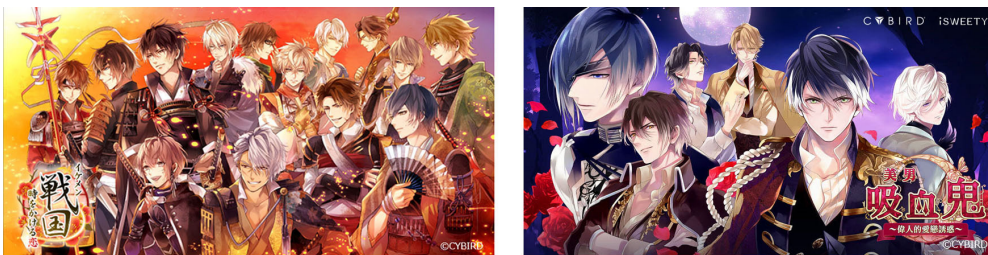
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Business overview

(2) Contents business besides Liber Entertainment

The Company acquired CYBIRD, a longstanding smartphone game provider with the story-type female-oriented romance game Ikemen series that is highly popular with women, as a subsidiary in June 2018. It is also well respected in escape game and fortune-telling segments. The Ikemen series is a blockbuster game with 25 million cumulative downloads and 13 distributed titles. It provides a large income base in the game market for women and also offers synergies in overseas rollout and contents promotion for the Company's other games and characters in light of CYBIRD's robust track record in overseas business and character IP management. The Company also owns numerous well-received products, including Arithmetic Inc.'s DYNAMIC CHORD.

**Ikemen Sengoku Toki Wo Kakeru Koi (left)
 and traditional-Chinese Ikemen Vampire Ijintachi to Koi no Yuuwaku (right)**

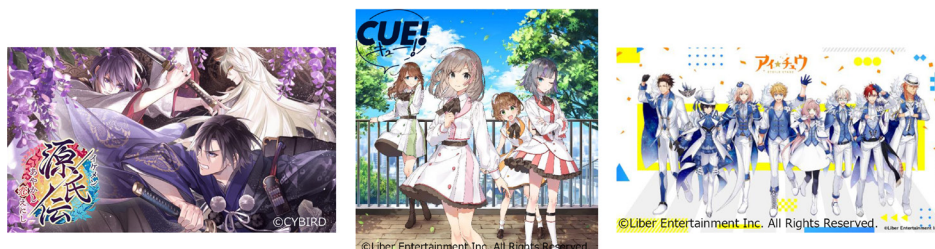


Source: The Company's results briefing materials

(3) New titles in 2H

The Company has increased hit titles over the past few years and released two new titles in 2H. CYBIRD started distribution of Ikemen Genjiden Ayakashi Koi e nishi in August. This is a female-oriented romance simulation game in which the player, a pharmacist that has obtained the power of a fox, fights rebel forces led by Minamoto no Yoshitsune in response to a request of cooperation from Minamoto no Yoritomo. A major work that commemorates the seventh anniversary of the Ikemen series, it attracted over 100,000 pre-release registrants. CUE! is a male-oriented beautiful voice actress training game developed by Liber Entertainment as its fourth self-developed title. This game offers excellent entertainment features that facilitate enjoyment transcending the real and virtual divide through recruitment and training of a new voice actress. The Company hopes to quickly expand peripheral businesses. Pre-registration ultimately exceeded 300,000 people, and distribution started on October 25, 2019. I★Chu Etoile Stage is an idol training game that is the next release in the I★Chu series and provides qualities to make the I★Chu world even more enjoyable by redoing visuals and conducting a full voice version and full rewriting of the main story. While this title will not contribute to 2H because the Company changed the launch of distribution from fall 2019 to spring 2020, we expect an income boost in FY12/20 with pre-registrants totaling over 70,000 people and a decision to make an animated version. We think these titles have potential to become big hits.

**New titles from the Group companies
 (From the left, Ikemen Genjiden Ayakashi Koi e nishi, CUE!, and I★Chu Etoile Stage)**



Source: The Company's results briefing materials

Strong expectations for synergies and increased demand

4. Asset management business

Asset management business mainly consists of Impression Inc., Total Management Corporation, and Twist Inc. Impression develops investment-purpose condominiums harnessing its strength in investment property sales, sells residence real estate, and handles renovation business. Total Management excels at development of standalone home units and income-earning properties, implements used condominium renovations and property sales, and provides consulting services. Twist offers minpaku operation agent service to individuals and others. These companies already generated relatively firm profits, and the Company also aims to implement collaboration with contents business IP, combine services with IT services business as “real estate tech,” and achieve other synergies. Furthermore, we think these businesses offer significant potential given the prospect of increase in the number of foreigners visiting Japan even after the 2020 Tokyo Olympics and Paralympics supported by a national policy to strengthen Japan as a major country for tourism. However, it appears that the Company faces difficult conditions in the real estate market prior to the Tokyo Olympics and Paralympics.

Management policy

Solidifying positions in new markets and technologies

1. Business philosophy and management stage

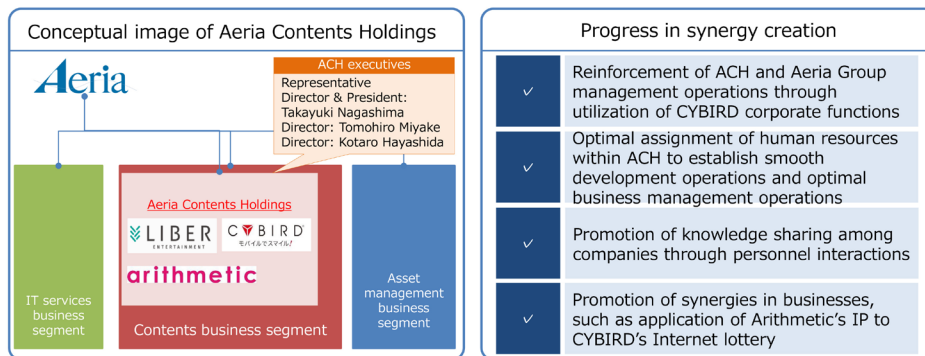
Since its founding, the Company promoted a concept of “becoming an essential presence, similar to air, in the network society” and “aggressively developing businesses in areas with rapid growth” in order to sustain a position as an essential firm. It aims to develop businesses centering on the development of smart phone games over the longer term by keeping pace with advances in the network society, including blockchain, AI, VR/AR, and other new technologies, and harnessing new areas, such as growth in lodging demand from foreigners visiting Japan. In the business cycle of acquiring business assets that generate stable income, aggressively investing in growth markets, bolstering its foundation in growth markets, and establishing positions in new markets and technologies, we believe the Company is shifting from a stage of bolstering its foundation through options and focus to establishing positions in new markets and technologies.

Leveraging business assets within the Group

2. M&A strategy and business reorganization

The Company's M&A strategy aims to not only acquire management resources and teams and boost their motivation, but also obtain business assets capable of creating synergies. In recent years, the Company acquired multiple companies, including First Penguin, in pursuit of stable income in the IT services business, and Liber Entertainment targeting smartphone games, a growth market, in the contents business. It also ramped up an asset management business through acquisitions as a counterweight to inevitable rise-and-fall of contents business. Confidence has grown in games and IP and peripheral businesses as near-term drivers, against this backdrop, thanks to the major hit with A3! after initial challenges and acquisition of the Ikemen series. The Company is strengthening IP business with these successes as catalysts and has been consolidating expanded scope through options and focus. These efforts prepare it to acquire new markets and technologies. Since 2Q FY12/18, it started reorganizing businesses with goodwill impairment charges, mergers, and business sales. In the contents business, which has substantially broadened scope, the Company established Aeria Contents Holdings (ACH) Co., Ltd., an intermediate holding company, to support a shift to higher quality game production and establishment of an efficient business model that leverages synergies. Furthermore, it established Aeria One Inc. to promote alliances and synergy creation that capitalizes on business assets within the group, such as IP, IT technology, and real estate.

Conceptual image of Aeria Contents Holdings and synergy effect



Source: The Company's results briefing materials

Incorporating new technologies and growth markets

3. Direction of the contents business

The Company, which started to substantially broaden the scope of contents business from games to peripheral businesses after reorganizing, is accelerating inclusion of new markets and technologies again with AI, VR/AR, and 5G. These technologies fit well with peripheral businesses, and the Company has already started initiatives as individual businesses.

Management policy

(1) Widening of the contents business

However, the Company's approach to contents business has changed considerably since the A3! hit and acquisition of Ikemen series. While games offer appeal as fee-based business, they are even more attractive as IP business utilizing characters because of significant room to expand income beyond just the games to goods, CDs, 2.5D stage events, and other areas. Furthermore, characters have a longer lifecycle than games and generate high royalties. Platform changes have less impact on IP than games. With new usage styles due to broad adoption of smartphones, interest in characters originating from games has risen and animation developed from games, which previously was not that common, is increasing too. The Company's direction in game development has shifted from high-volume output aimed at obtaining fee income to careful development with emphasis on IP business since the hit with A3! and acquisition of the Ikemen series.

(2) Contents business broadening scope further

The Company established Celebrate Message in April 2019 and started a service in September that lets anyone freely and easily order personal messages for birthdays, weddings, and other events from celebrities, famous people, and other CASTs (video message providers) who have many fans. Participating CASTs at this point have over 70mn total followers and include Japan national team football player Yuto Nagatomo, professional wrestlers Riki Choshu and Akira Maeda, popular model and talent Yuki Poyo (Yuki Kimura), and American model and singer Celine Farach. The site provides restricted projects by CASTs, secret VVIP CASTs, and other programs too. The digital voice assistant market, meanwhile, currently has 2.5bn users with Amazon Echo and Google Home smart speakers and other devices, and some forecasts project more than three-fold expansion over the next five years. CYBIRD has ramped up Voice UI business in this market. It is a pioneer in Japan's Voice UI market and already supplies 22 digital voice services to a variety of platforms. Management hopes to design attractive voice experiences as a "voice tech" company using its own IP from the Ikemen series and leading IP from other companies in anticipation of a future voice computing era.



(3) Accelerating entry into new areas aimed at 5G potential

In contents business, the Company intends to continue actively adding new markets and technologies. CYBIRD has already taken the lead in overseas rollout with the Ikemen series, and the Company plans to apply this knowhow to other businesses within the Group. In A3! business, the Company started distribution in the US and has plans to begin distribution in China in November 2019. Nevertheless, while scenario-style games, such as the Ikemen series, are well received in other countries, training games along the lines of A3! are still unknown and might need additional time. In the fast-growing Vtuber market, CYBIRD started the "I'm Sora Project" in which a male bilingual (Japanese and English) YouTuber drawn by a popular illustrator discusses content enjoyment, "otaku" news, subculture, and other trendy information geared toward women as a global service. The service also plans to have a Japanese and English classroom that utilizes its bilingual capabilities and a music distribution feature. These initiatives are being designed in preparation for the transition to a 5G mobile communications system with high data capacity and speed. We think management expects 5G capabilities to enhance sophistication and complexity of games and also IP itself and hopes to further segmentize and expand peripheral businesses. We anticipate fewer game releases for the time being as the Company focuses on game development with higher quality, but resulting stronger emphasis on development of peripheral businesses.

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Management policy

A3! overseas opportunities

		Coverage regions			
		Japan	North America	Hong Kong, Taiwan, etc.	China
Liber Entertainment's 『A3!』  <small>©Liber Entertainment Inc. All Rights Reserved.</small>	Released	Released	Released	Coming soon	
	CYBIRD's 『Ikemen series』  <small>©CYBIRD</small>	Released (Total of 13 copies)	Released (Total of 6 copies)	Released (Total of 6 copies)	Released (Total of 3 copies)

Source: The Company's results briefing materials

Results trends

Contents business driving income

1. 1H FY12/19 results trends

The Company reported 1H FY12/19 results with ¥14,404mn in net sales (+6.3% YoY), ¥1,846mn in operating profit (+9.7%), ¥1,745mn in recurring profit (+13.1%), and ¥1,044mn in profit attributable to owners of parent (+952.2%). The Internet-related market covered by the Company's businesses is steadily growing on increase in Internet user volume with inroads by smartphones and other mobile devices and expansion of the EC market. Contents business has been continuously expanding with service diversification, but needs to deliver attractive contents and applications in order to survive. Service content hence is becoming more complicated and sophisticated, and this puts upward pressure on development costs and personnel expenses and fuels tougher competition among companies. Given these conditions, the Company has built a foundation that focuses heavily on a niche market targeting female players leveraging the strengths of its subsidiaries. While the IT services business continued to secure stable income, the asset management business promoted stricter risk controls due to rising real estate prices.

1H FY12/19 results

	1H FY12/18	Ratio to sales	1H FY12/19	Ratio to sales	Change
	(¥mn, %)				
Net sales	13,555	100.0	14,404	100.0	6.3
Gross profit	5,247	38.7	6,769	47.0	29.0
SG&A expenses	3,564	26.3	4,923	34.2	38.1
Operating profit	1,682	12.4	1,846	12.8	9.7
Recurring profit	1,543	11.4	1,745	12.1	13.1
Profit attributable to owners of parent	99	0.7	1,044	7.2	952.2

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

Results trends

In the results by segment, the IT services business slipped to ¥2,678mn in net sales (-21.0%) and ¥260mn in operating profit (-16.8%) due to a decline in affiliate advertising income, despite stable income at First Penguin and AIR Internet Service. Contents business posted ¥8,571mn in net sales (+61.3%) and ¥1,490mn in operating profit (+47.4%), driven by continued upbeat income trends in A3! and Soen No Kantai smartphone games and the addition of CYBIRD to the Group. Asset management business dropped to ¥3,155mn (-29.5%) in net sales and ¥102mn in operating profit (-73.3%) due to strengthening risk controls in light of real estate market conditions.

1H FY12/19 results by segment

(¥mn, %)					
Net sales	1H FY12/18	Ratio to sales	1H FY12/19	Ratio to sales	Change
IT services business	3,391	25.0	2,678	18.6	-21.0
Contents business	5,314	39.2	8,571	59.5	61.3
Asset management business	4,475	33.0	3,155	21.9	-29.5
Others	374	2.8	-	-	-

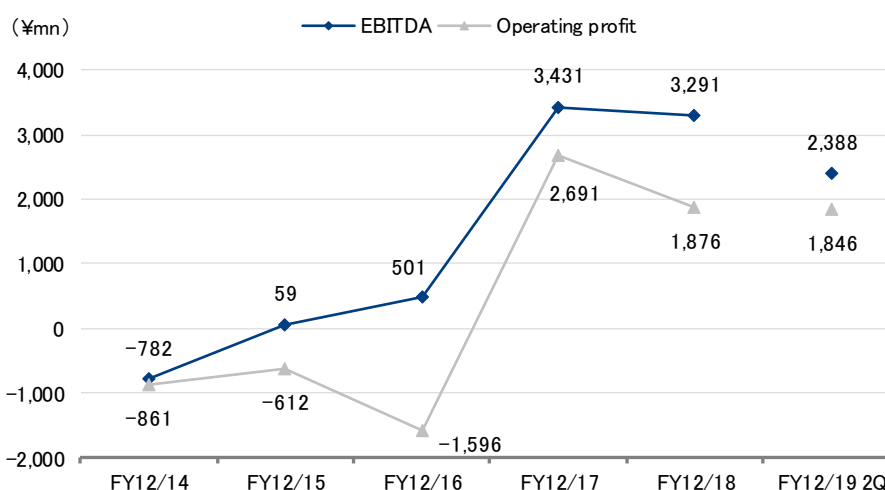
Operating profit before adjustment	1H FY12/18	Ratio to sales	1H FY12/19	Ratio to sales	Ratio to sales
IT services business	312	9.2	260	9.7	-16.8
Contents business	1,011	19.0	1,490	17.4	47.4
Asset management business	384	8.6	102	3.2	-73.3
Others	-4	-1.1	-	-	-

*Others includes cleaning business, chemicals business, etc.

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

Since the Company aims to strengthen and expand the business foundation by aggressively utilizing M&A, it uses EBITDA (operating profit + depreciation costs + goodwill amortization costs), which demonstrates cash soundness, as a profitability indicator. The Company has clearly been sustaining upbeat profitability in recent years in terms of EBITDA. In 1H FY12/19, the ¥2,388mn in EBITDA (+8.8% YoY) and ¥1,401mn in net profit before goodwill amortization (profit attributable to owners of parent + goodwill amortization costs) were both positive results.

Trends in EBITDA and operating profit



Source: Prepared by FISCO from the Company's results briefing materials

Expectations for two new releases in 2H

2. FY12/19 outlook

For FY12/19, the Company forecasts ¥30,000mn in net sales (-4.7% YoY), ¥3,200mn in operating profit (+70.5%), ¥3,000mn in recurring profit (+85.8%), and ¥2,000mn in net profit attributable to owners of parent (vs. a ¥1,380mn loss in FY12/18). It lowered net sales by ¥2,000mn and raised operating profit by ¥1,000mn, recurring profit by ¥1,000, and net profit attributable to owners of parent by ¥600mn, compared to the period-start outlook. The net sales reduction mainly reflects decline in affiliate advertising income in IT services business and the impact of risk controls in response to elevated real estate prices in asset management business. The higher operating profit target, meanwhile, factors in healthy trends in A3! and Soen No Kantai businesses, upbeat income at CYBIRD that was added as a consolidated unit in FY12/18, and anticipated contributions from two new game titles released since 3Q.

FY12/19 outlook

	FY12/18	Ratio to sales	FY12/19 E	Ratio to sales	Change
Net sales	31,471	100.0	30,000	100.0	-4.7
Operating profit	1,876	6.0	3,200	10.7	70.5
Recurring profit	1,615	5.1	3,000	10.0	85.8
Net profit (loss) attributable to owners of parent	-1,380	-4.4	2,000	6.7	-

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

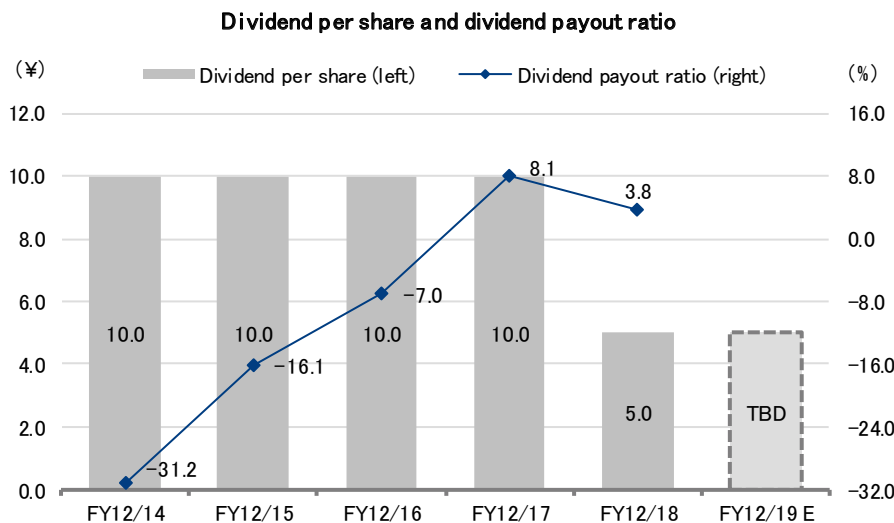
In the FY12/19 segment outlook, while IT services business is likely to continue providing stable income, asset management business cannot readily benefit from passage of the Integrated Resort (IR) Promotion Act and Residential Accommodation Business Act because expensive prices are creating difficult conditions for buying property inventory. We expect contents business to strongly drive expansion of the Company's profits with existing popular titles and enhancement of peripheral businesses, improved profitability by sharing knowhow and implementing other activities via the intermediate holding company, and releases of two new titles. Furthermore, while Ikemen Genjiden Ayakashi Koi e nishi should attract a certain amount of demand as the new release in an existing series, male-oriented beautiful voice actress training game CUE! might generate more popularity than expected with the newness of its game system (as well as the large volume of advance registrations). We see a strong prospect of contents business, which has moved into a phase of having multiple growth drivers, not only lifting near-term profits, but also long-term growth.

Shareholder return policy

Undecided FY12/19 dividend

1. Dividend

The Company acknowledges that returning profits to shareholders is an important management issue, but wants to expand profit retention in light of efforts to improve and strengthen operations and future business initiatives. It intends to use retained profit funds mainly for M&A and other capital alliances, R&D activities, and new business plans. While the Company had a basic policy of paying a continuous stable dividend from surplus funds in FY12/18, it ended up lowering the annual dividend outlay by ¥5 YoY to ¥5 (no interim dividend), including the impact of lowering profit guidance during the period. Despite raising profit guidance during the period, the Company has not decided the FY12/19 dividend yet.



Note: The Company made a 2-for-1 share split on July 1, 2017.
 Source: Prepared by FISCO from the Company's financial results

QUO cards for the popular A3! title as a shareholder benefit

2. Shareholder benefit program

The Company provides a shareholder benefit each year with the aim of deepening shareholder understanding of its businesses and encouraging share ownership over the longer term. It sends the benefit with notification of resolutions for the general shareholder meeting typically mailed in late March to shareholders on the ledger as of the shareholder benefit standard date (at the end of December). The shareholder benefit in FY12/18 was QUO cards for the popular A3! title, with expected distribution of ¥300 for 100 shares up to less than 1,000 shares, ¥500 for 1,000 shares up to less than 5,000 shares, ¥700 for 5,000 shares up to less than 10,000 shares, and ¥1,000 for 10,000 shares or more. This is not decided yet for FY12/19.

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