Netyear Group
3622 TSE Mothers

2-Sept.-15

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Recorded highest ever operating income in previous fiscal year due to major omni-channel projects

The Netyear Group <3622> (hereinafter "the Group") operates a digital marketing support business utilizing Internet technologies. Its customers are primarily major corporations. Its subsidiary Tribal Media House is an industry leader in the social media analysis and consulting sector.

In its consolidated results in the fiscal year ended March 2015 (FY3/15), the Group achieved major gains in both sales and profits, with net sales increasing 35.3% y-o-y to 7,239 million yen and operating income 134.8% to 442 million yen, both record highs. The growth in scale of omni-channel projects contributed significantly to profits, while the marketing support business that utilizes social media operated by the subsidiary Tribal Media House also performed strongly.

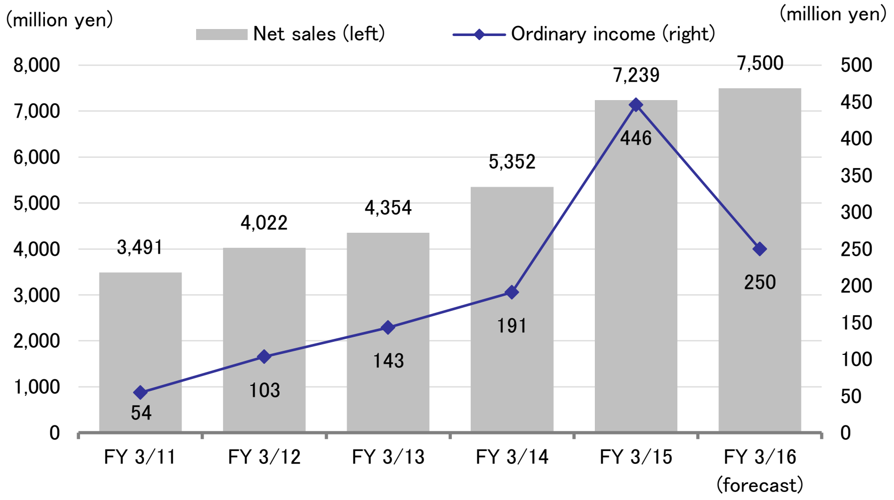
An increase in sales but a decline in profits is forecast for the consolidated results for FY3/16, with net sales expected to rise 3.6% y-o-y to 7,500 million yen, but operating income to fall 43.6% to 250 million yen. The reason for this net sales forecast is that the Group has not yet been able to sufficiently develop new projects due to its concentrated investment of human resources in major omni-channel projects. The reason for the decline in profits is that to rapidly respond to this situation, it plans to recruit about 100 additional staff, construct a recruitment system, increase spending on education and training after recruitment, and furthermore to increase spending on developing new services and on strengthening security.

Along with the spread of smartphones and SNS, companies' desire to invest in the digital marketing area, including in the omni-channel, has been growing year by year, and the Group is aiming to strengthen its personnel structure to capture demand from this growing market. In addition, it has adopted a strategy of enhancing its service lineup and expanding its target customer groups from major corporations to mid-sized corporations and SMEs. In this fiscal period, it will carry out the fully fledged launch of "Salesforce Marketing Cloud," which has been installed by more than 10,000 companies worldwide as a marketing automation tool. In addition, for light users, such as small and medium-sized stores, it plans to release new products it has developed in-house in the first half of the fiscal year and depending on how well these products sell, its results can be expected to trend upwards.

Check Point

- Developing a digital marketing support business utilizing Internet technology
- The Group is highly regarded for its progressive initiatives and many of its customers are major corporations that lead their industries
- Major projects will complete their course this fiscal year

Business trends



Summary of the Business

Developing a digital marketing support business utilizing Internet technology

(1) Company profile

The Group mainly operates a digital marketing support business utilizing Internet technology. There are three Group subsidiaries: Netyear Craft (established 2006), which produces and manages websites; Tribal Media House (made into a subsidiary through a stock acquisition in 2009), which offers marketing support and analysis and consulting utilizing social media; and Nihon Gigei (made into a subsidiary through a stock acquisition in August 2013), which provides a Cloud service for groupware software. More than 85% of Netyear Craft's sales are from the Netyear Group, but the other two subsidiaries are developing their businesses independently. Employee numbers are increasing year by year alongside the expansion in business scale and reached 372 employees on a consolidated basis by the end of March 2015.

The Group's largest shareholder (capital contribution ratio, 31.1%) is TIS Inc., which is a subsidiary of IT Holdings Corporation < 3626 >, but it has no business relationship with the Group.

Consolidated subsidiaries (business description, capital contribution ratio)

Name	Capital contribution ratio (%)	Major business
Netyear Craft	100.0	Web site production and management
Tribal Media House	92.6	Social media marketing support
Nihon Gigei	51.0	Packaged software development and sales

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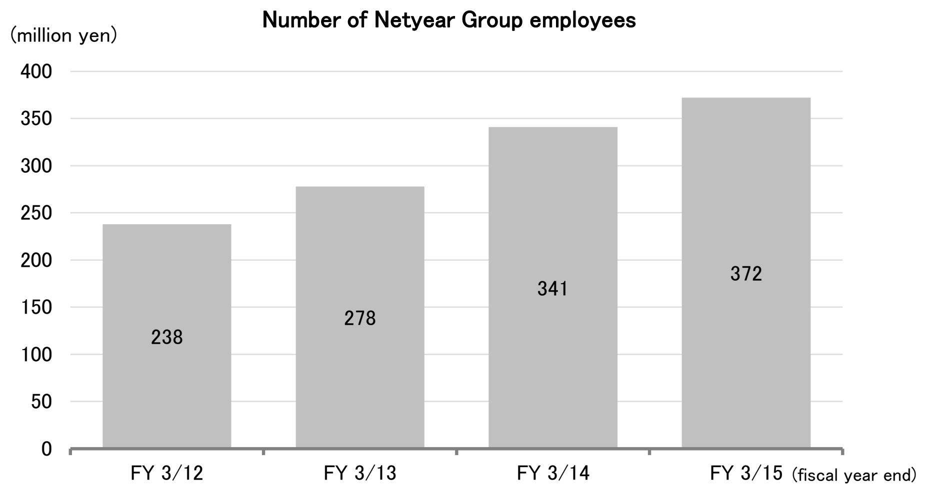

Note) The total represents officers, full-time employees, and temporary employees

The Group is highly regarded for its progressive initiatives and many of its customers are major corporations that lead their industries

(2) Description of businesses

Netyear Group's business area is digital marketing. Digital marketing refers to the marketing techniques in corporate activities that are centered on the web site of the company and tied in with existing media and marketing, call centers, stores, etc. These services are for clients such as corporations and local governments, and propose and implement new digital marketing strategies to produce the outcomes the client wants to achieve, including improved brand power, sales growth and the promotion of business transformations.

A characteristic of the Group is that it is engaged in systems development and design with the focus on improving the "user experience (UX)" on the web. Here, "user experience" does not refer to the standard meaning in English, but rather indicates "what users experience when they visit our company's web site, and what they become interested in after experiencing the site." Therefore, the final goal is to improve the "user experience" to get customers to purchase products or become fans of the corporation.

Due to the arrival of the digital information society, there is an abundance of information and we can conclude that as the media and device tools for obtaining that information become increasingly diverse, improving the "user experience" has become more important than ever before.

For this reason, services will become customized for each client. Generally, the development period is about three months and even a long development period is about one year. Project management is also comparatively easy, and cases in which the development deadline is delayed are rare. Furthermore, the majority of the systems development part of a project is outsourced. The unit price of orders varies depending on the content of the project, ranging from 100,000 yen at the low end to more than 100 million yen at the top end. Recently, however, demand for marketing techniques incorporating "data analysis and utilization" has been increasing and the unit price of the projects has been getting larger.

The strengths of the Group include its many human resources with strong planning ability and a progressive sensibility toward marketing. Furthermore, its customers highly evaluate its project management capacity and the stability, reliability, etc. of its systems.

Other than customized services, the Group is focusing on the sales of products it develops in-house. These include Tribal Media House's social media integrated management tool, "Engage Manager," and its co-creation marketing platform, "cocosquare," and also "rakumo," which is the business-use groupware software of Nihon Gigei that was made into a subsidiary in August 2013. It also sells and provides installation support for the product line-ups of third parties, including the marketing automation tools of U.S. companies like Salceforce.com and Oracle, and Google and Adobe access analysis tools. The business model for the products it develops in-house is a stock-type model with monthly billing and the sales ratio of these products in FY3/15 was at the 9.0 % level.

List of services covering all points of contact with customers

Source: Financial reports briefing materials

The Group has clients in a wide range of industries, including retail, manufacturing, finance, and information and communication services. It has around 200 corporate customers on a non-consolidated basis, but the consolidated Group as a whole has approximately 1,000 such customers, with the subsidiary Tribal Media House having around 230 and Nihon Gigei approximately 600. In particular, as the Netyear Group operates a progressive digital marketing support business, the majority of its clients are major corporations that lead their industries.

■ Financial Highlights

Achieved a record high operating income in the previous fiscal year for the first time in seven fiscal years and obtained major orders through its omni-channel strategy

(1) Consolidated results in the fiscal year ended March 2015

The consolidated results for FY3/15 announced on May 11 were for major increases in both sales and profits, with net sales increasing 35.3% y-o-y to 7,239 million yen, operating income 134.8% to 442 million yen, ordinary income 133.9% to 446 million yen, and net income 25.1% to 73 million yen. Net sales were a record high for the second consecutive period, while both operating income and ordinary income reached record highs for the first time in seven fiscal years. The main reason for these results was the acquisition of a large order for an omni-channel project from major distribution companies, with this project contributing the majority of the increases in sales and profits in the fiscal year.

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Consolidated results in the fiscal year ended March 2015

(Million yen)

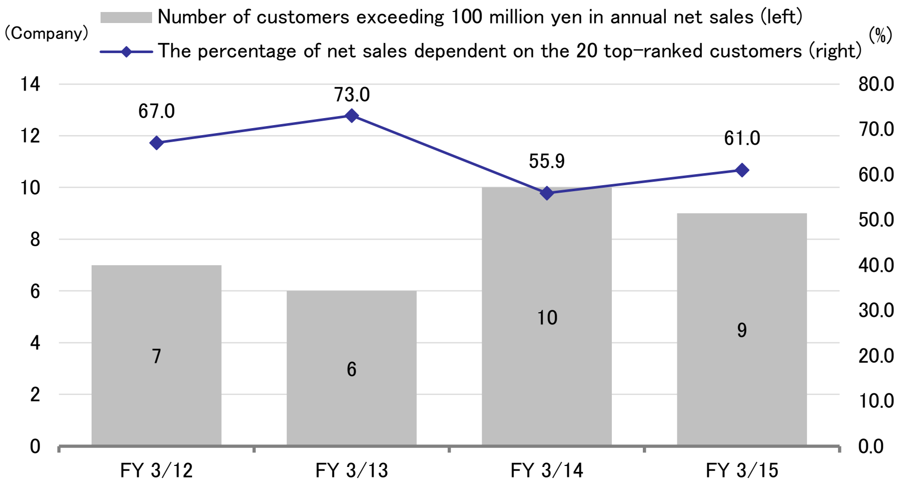
	FY 3/14		FY 3/15				
	Result	Ratio to sales	Company plan	Result	Ratio to sales	Year-on-year	Relative to plan
Net sales	5,352	100.0%	5,900	7,239	100.0%	35.3%	22.7%
Cost of sales	4,240	79.2%	-	5,744	79.3%	35.5%	-
SG&A expenses	923	17.2%	-	1,051	14.5%	13.9%	-
Operating income	188	3.5%	210	442	6.1%	134.8%	110.5%
Ordinary income	191	3.6%	210	446	6.2%	133.9%	112.4%
Extraordinary income and loss	-23	-	-	-187	-		-
Net income	59	1.1%	100	73	1.0%	25.1%	-27.0%

Note: Company forecasts as of May 2014

The number of customers who have an annual transaction total in excess of 100 million yen, which is a key performance indicator (KPI) for the Group's net sales, fell by 1 company y-o-y to 9 companies. But the unit price per customer for the group of customers with an annual transaction total of around 50 million yen increased, and it is considered that customers are becoming increasingly willing to invest in the digital marketing area. In the previous fiscal year, the average order amount per project was around 10 to 20 million yen, but in the fiscal year under review, it has increased to the 30 to 50 million yen range. The reason for this is that while in the past the orders were primarily for the creation of websites, recently there has been an increase in orders for additional functions, such as data analysis.

Also, the percentage of sales dependent on the 20 top-ranked customers rose by 5 percentage points to 61% due to the effects of the acquisition of major projects.

Trends in net sales' KPI

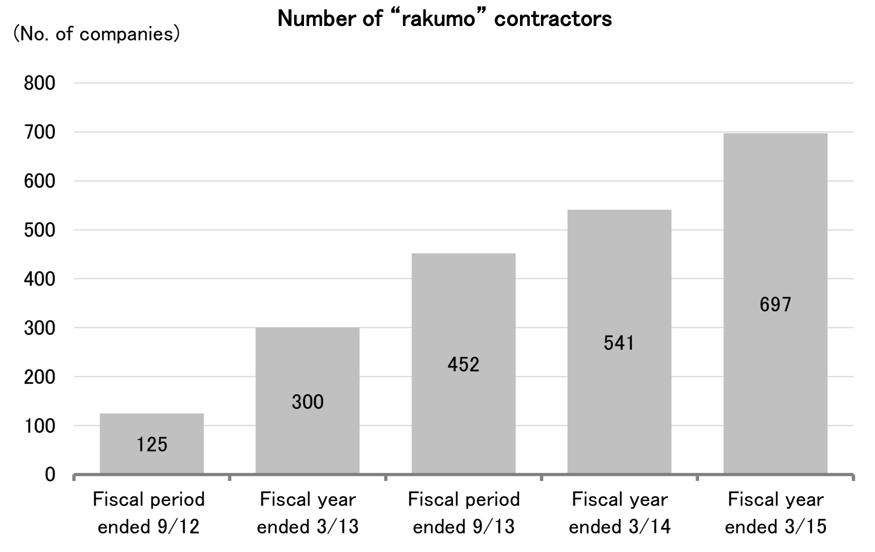


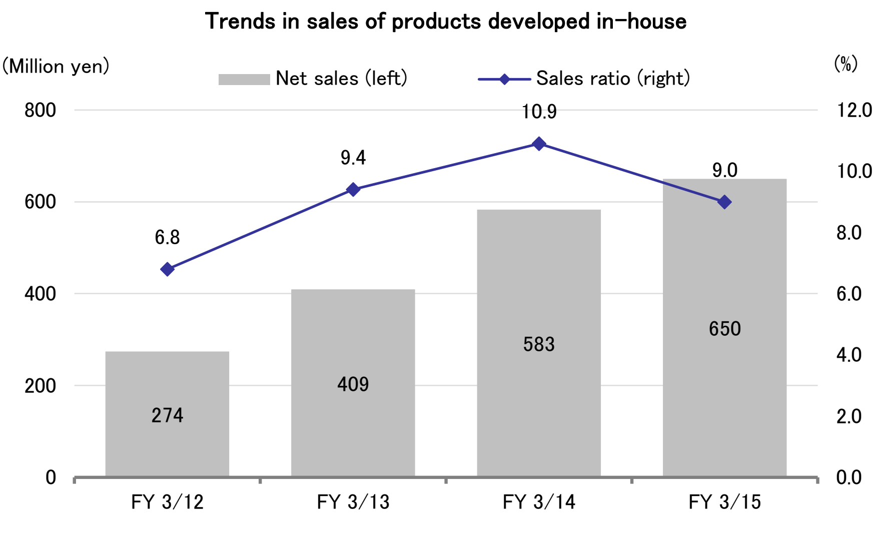
Operating income grew significantly, as the increase in outsourcing expenses and personnel expenses due to the acquisition of major projects was absorbed by the effects of the higher sales. As an extraordinary loss, 187 million yen was recorded as an impairment loss on goodwill relating to the subsidiary Nihon Gigei. This is thought to be because of the decline in profitability of the Project Commissioning Department in Nihon Gigei and the intensification of competition in the industry around its main product "rakumo" meant that it became difficult to achieve growth at the speed originally anticipated.

Looking at results on a non-consolidated basis and by consolidated subsidiaries alone, on a non-consolidated basis the Group's net sales increased 41.4% y-o-y to 5,772 million yen and operating income rose 212.6% to 452 million yen. Orders for major omni-channel projects contributed significantly to this performance, and if these projects are excluded, net sales were basically unchanged y-o-y. This was due to the fact that the Group concentrated its limited human resources into these projects, so was unable to make much progress in developing new customers.

Conversely, the subsidiaries' net sales, calculated by subtracting the non-consolidated result from the consolidated result, increased 16% y-o-y to 1,467 million yen, while their operating loss was 9 million yen (compared to operating income of 44 million yen in the previous fiscal year). Within these amounts, Tribal Media House increased both sales and profits thanks to its solid performance in the sales and management of "Engage Manager" and "cocosquare". Nihon Gigei also steadily increased its number of "rakumo" contracts, which contributed to its higher sales and profits. On the other hand, Netyear Craft, which relies on the parent company for the majority of its sales, recorded a loss following a decline in sales, mainly due to the reduction in orders for website production projects.

The net sales of the products that the Group is currently focusing on (including products of other companies), grew steadily 11% y-o-y to 650 million yen, centered on the social media-related tool provided by Tribal Media House. However, as the sales ratio contains the major omni-channel projects, these products' sales ratio fell from 10.9% in the previous fiscal year to 9.0%. Nihon Gigei has aimed to expand its "rakumo" service menu, including by releasing "rakumo keihi" in November 2014 as a new service, and as of the end of March 2015, the number of companies with "rakumo" contracts had grown steadily to 697 companies.





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Further improving financial soundness and steadily improving profitability

(2) Financial position and management indicators

The financial position at the end of March 2015 was that the balance of total assets increased by 209 million yen from the end of the previous fiscal year to 3,352 million yen. The main factors behind this increase were a rise in cash and deposits of 431 million yen in conjunction with the higher profits that exceeded the recording of an impairment loss on goodwill of 247 million yen.

On the other hand, liabilities came to 1,380 million yen, a 146 million yen increase compared to the end of the previous fiscal year. This was because while interest-bearing debt fell 127 million yen, accounts payable increased by 111 million yen and consumption tax payable by 128 million yen. Net assets also rose by 63 million yen to 1,972 million yen, mainly due to the increase in the capital surplus.

Looking next at the management indicators, the Group continues to repay the interest-bearing debt it procured to fund the acquisition of shares in Nihon Gigei in FY3/14, and the interest-bearing debt ratio improved from 20.7% in the previous fiscal year to 13.6%. In addition, the equity ratio declined slightly as the increase in liabilities was greater than the rise in net assets. But it remains at the high level of 58.4% and moreover the current ratio exceeds 200%, so we can conclude that it sufficiently maintained financial soundness. Looking at profitability, both sales and profits grew significantly and each of ROA, ROE, and the operating income ratio rose compared to the previous fiscal year, indicating that profitability is steadily improving.

Consolidated Balance Sheet

(Million yen)

	FY 3/12	FY 3/13	FY 3/14	FY 3/15	Change
Current assets	2,184	2,225	2,495	2,947	452
(Cash and deposits)	863	1,051	1,031	1,463	432
Fixed assets	264	229	647	405	-242
Total assets	2,448	2,455	3,143	3,352	209
Current liabilities	660	610	957	1,220	263
Non-current liabilities	13	0	276	159	-117
(Interest-bearing debt)	53	13	393	266	-127
Total liabilities	660	610	1,234	1,380	146
Net assets	1,774	1,844	1,909	1,972	63
(indicators of financial strength)					
Current ratio	330.8%	364.8%	260.6%	241.6%	-19.0pt
Equity ratio	72.3%	74.9%	60.4%	58.4%	-2.0pt
Interest-bearing debt ratio	3.0%	0.7%	20.6%	13.5%	-7.1pt
(indicators of profitability)					
ROA (return on assets)	4.3%	5.9%	6.8%	13.8%	7.0pt
ROE (return on equity)	3.7%	5.0%	3.2%	3.8%	0.6pt
Operating income on sales	2.7%	3.3%	3.5%	6.1%	2.6pt

■ Future Outlook

Aiming to strengthen sales by securing human resources and to reach 50% for the ratio of in-house products

(1) Current issues and policies for FY3/16

The Group currently faces the following two management issues. The first is that within the context of the increase in companies' willingness to invest in the digital marketing field, it is unable to sufficiently capture this demand due to a lack of human resources. In its FY3/15 results, the Group achieved record highs in net sales and operating income. But this was due to the contribution of the major omni-channel-related projects, and as a consequence of it allocating its human resources to these projects it has been unable to fully develop new customers.

To resolve this issue, in the current fiscal year the Group is actively implementing its plan to recruit new employees and to strengthen its sales structure. Specifically, it plans to increase the number of Group employees on a consolidated basis by around 100 people, from 372 employees at the end of the previous fiscal year to 467 employees (of who, 15 will be new graduates). Its policy is particularly to strengthen its recruitment in the commissioning field. In terms of the objectives for increasing recruitment and bolstering education and training, it is implementing a fully fledged expansion of its personnel by creating a new organizational structure and from April 2015, it newly created a Human Resources Department (previously, Personnel and General Affairs Department) and began recruiting managers as recruitment specialists.

The second management issue is the sluggish growth of the ratio of in-house products (including products of other companies). The Group's medium- to long-term strategy is to aim to raise the sales ratio of in-house products to around 50%. But currently, despite the increase in sales, it seems that the speed of growth of this ratio is below the value that was expected. Therefore, in this fiscal year it has newly launched organizations specializing in the development of new services and products and is aiming to accelerate the increase in sales in this area and achieve a sales ratio in excess of 10%.

The new organizations are the omni-channel Cloud business division and the digital business design business division that were launched in April 2015, with over 10 employees having been deployed between both business divisions. The omni-channel Cloud business division has become the sales force for "Salesforce Marketing Cloud," which is the marketing automation tool of Salesforce.com, Inc. Demand is from customers (from major to medium-sized corporations) that are considering investing in the omni-channel, but because a fully fledged investment in it would be too costly, first they want to install a simple automation tool and analyze its effects.

"Salesforce Marketing Cloud" is a marketing automation tool that has been installed by more than 10,000 companies around the world. It is a product that makes possible various effects in accordance with the company's size and structure, from the "optimization of email" to expansion to the Web, mobile, and SNS. As this tool has a multitude of functions, it is sold after being reconfigured into a package optimized to each customer's needs. The aim is to install it in 30 companies in the first year.

Conversely, the digital business design business division is aiming to develop and sell marketing automation tools to small- and medium-sized stores that do not have their own customer foundation. While the omni-channel strategy represents an important marketing strategy for companies, constructing the system from scratch requires an enormous investment. Therefore, the market environment is not yet in place to continuously generate major projects as in the previous fiscal year, and consequently expanding customers, including medium-sized companies and SMEs, is considered important for the Group.

The Group is developing in-house a simple automation tool for low-end customers like small- and medium-sized stores and plans to release it during the first half of fiscal 2015. For example, it is thought it will be a service enabling advertising information for sales promotions to be easily created and sent from a smartphone app on an individual store basis.

The Group will utilize its expertise in omni-channel commissioning services and its policy is to expand this area going forward.

Major projects will complete their course in this fiscal year

(2) Results forecasts for FY3/16

The forecast consolidated results for FY3/16 are that net sales will increase 3.6% y-o-y to 7,500 million yen, operating income will decline 43.6% to 250 million yen, ordinary income will fall 44.1% to 250 million yen, and net income will rise 102.7% to 150 million yen.

The omni-channel projects that contributed to results in the previous fiscal year will nearly all be completed during the first half of the fiscal year and therefore over the full year this will have a negative impact on sales to the level of hundreds of millions of yen. While there is the possibility that additional omni-channel projects will be ordered in the future, there may also be an increase in costs depending on the progress of projects. As there are many uncertainties at the current stage, it is considered that conservative performance targets have been created.

Looking at the factors that may cause operating income to rise or fall, it is expected to increase due to the effects of higher sales (50 million yen), the contribution of "rakumo" to profits (24 million yen), and the reduction in the amortization of goodwill (44 million yen), but to decline because of spending to bolster the project development structure (120 million yen), to construct a development and sales structure for new services (100 million yen), and to strengthen in-house security (50 million yen). Personnel expenses are expected to increase following the recruitment of around 100 personnel this fiscal year, but outsourcing expenses will decline by around the same amount, so these two items are likely to cancel each other out in terms of profit or loss.

(3) Trends regarding the subsidiaries

○Tribal Media House

Tribal Media House is forecast to continue to expand sales in the social media area and to increase both sales and profits. In particular, the co-creation marketing platform "cocosquare" service that it launched in 2013 had been adopted by more than 10 companies by March 2015. Going forward, it is also anticipated to be installed by an increasing number of companies.

It is an ASP service that provides a forum for sharing information between companies and customers via Facebook. Not only does it create a venue for developing fans, such as through new product information and invitations to various types of events, it also enables customers to participate in new product planning and development and is attracting attention as a new marketing method for building medium- to long-term relationships with customers and for maximizing customer lifetime value (LTV).

In this fiscal year, it is anticipated that more than 10 companies will newly introduce the service and its net sales are forecast to grow and double the 60 million yen it achieved in the previous fiscal year. This service is a stock-type business with monthly billing, so it can also be expected to contribute to improving the stability of profitability.

○Nihon Gigei

Nihon Gigei is progressing developments to strengthen its "rakumo" service and plans to release an improved version of it during this fiscal year to further expand the number of companies in which it has been installed. For the current development, it has taken experts in UI design from the Netyear Group into the development team and plans to create a product that is even more user friendly than in the past.

In addition, the Project Commissioning Department, whose results have continued to slump, has integrated its business with Netyear Craft, including their respective personnel, and thereby strengthening its profit structure.

○Netyear Craft

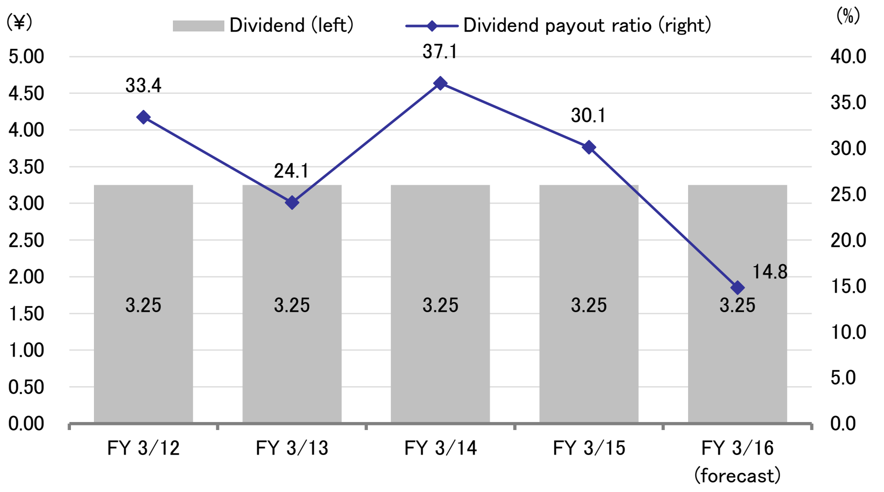
Netyear Craft's results have deteriorated and in response to this, it is continuing to reconstruct its value chain. The majority of its sales come from the Netyear Group, its parent company. But in the last two years a gap has emerged between the skills its employees actually possess and the skills they need to have as members of a production department, and this has been a factor behind the decline in orders. To address this problem, for its recruitment from the current fiscal year it has created a clear recruitment policy, including clarifying the skills its employees require, and is strengthening its personnel structure. In this way, it plans to restore profitability.

Measures for Returning Profits to Shareholders

Stable payment of dividends

The Group is paying out dividends as a measure for returning profits to shareholders. The Group's basic policy regarding dividends is to pay stable and continuous dividends while ensuring the internal reserves that are necessary for future business development and the strengthening of the Group's business structures. For this reason, dividends per share have been fixed at 3.25 yen from the fiscal year ended March 2008 onward. However, the Group intends to introduce performance-linked dividends in the future if the internal reserves are enhanced further and stable cash flow can be obtained every period.

Dividends per share and dividend payout ratio



Consolidated Profit and Loss Statement

(million yen, %)

Fiscal period	Fiscal year ended 3/12	Fiscal year ended 3/13	Fiscal year ended 3/14	Fiscal year ended 3/15	Fiscal year ending 3/16 (forecast)
Net sales	4,022	4,354	5,352	7,239	7,500
(percentage change from last year)	15.2	8.3	22.9	35.3	3.6
Cost of sales	3,230	3,421	4,240	5,744	
(relative to sales)	80.3	78.6	79.2	79.3	
SG&A expenses	683	791	923	1,051	
(relative to sales)	17.0	18.2	17.3	14.5	
Operating income	108	142	188	442	250
(percentage change from last year)	73.2	31.6	32.7	134.8	-43.6
(relative to sales)	2.7	3.3	3.5	6.1	3.3
Ordinary income	103	143	191	446	250
(percentage change from last year)	89.6	39.4	32.8	133.9	-44.1
(relative to sales)	2.6	3.3	3.6	6.2	3.3
Extraordinary income	0	0	0	0	
Extraordinary loss	14	0	23	187	
Net income before income taxes	89	143	167	258	
(percentage change from last year)	-	61.3	16.6	54.5	
(relative to sales)	2.2	3.3	3.1	3.6	
Income taxes	22	52	105	181	
(Effective tax rate)	25.8	36.4	63.0	70.1	
Minority interest	1	1	3	3	
Net income	64	89	59	73	150
(percentage change from last year)	-	39.6	-34.2	25.1	102.7
(relative to sales)	1.6	2.1	1.1	1.0	2.0
Major indicators					
Average number of outstanding shares during the fiscal year (1,000 shares)	6,656	6,656	6,744	6,842	6,853
Earnings per share (yen)	9.67	13.49	8.76	10.81	21.89
Dividends per share (yen)	3.25	3.25	3.25	3.25	3.25
Net assets per share (yen)	265.8	276.1	279.0	285.9	-

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