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T-Gaia Corporation
3738 Tokyo Stock Exchange First Section

4-Jun.-15

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# Boosted Earnings to Complete a Solid FY3/15

T-Gaia (3738) is Japan's leading primary mobile phone distributor, with a market share of approximately 13% for domestic mobile phone sales. The company had 2,178 sales bases as of March 31, 2015, including agents' shops operated by its secondary distributors. T-Gaia also runs a solutions business for corporate clients and a prepaid settlement service business involving electronic money.

In FY3/15, T-Gaia reported a decline in revenues and an increase in earnings, with consolidated net sales decreasing 9.2% year on year to ¥642,095mn, but operating income climbing 12.1% to ¥14,306mn. Although the company sold 5.12 million mobile phones, down 8.5%, sales were solid for tablets, accessories, and other smartphone related products. Profitability improved on the strength of companywide structural reforms, including for mobile phone shops. Operating income therefore exceeded management's initial target.

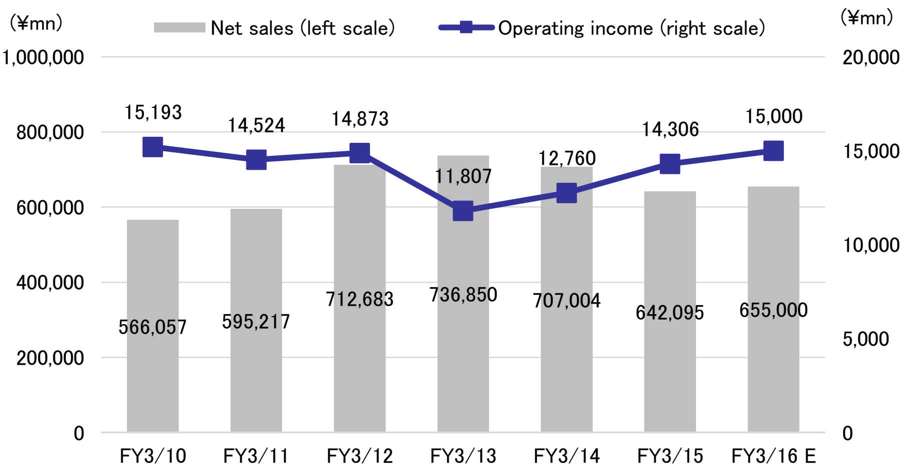
For FY3/16, T-Gaia looks to achieve growth in both revenues and earnings, with net sales to increase 2.0% to ¥655,000mn and operating income rising 4.8% to ¥15,000mn. The company anticipates a 3.5% gain in unit sales of mobile phones and expects to maintain favorable sales of tablets and other related products, expanding sales of its Mobile Telecommunications Business. Management forecasts higher earnings for the Solutions Business for corporate clients and the Settlement Services Business.

In keeping with its corporate slogan of "Realization of Smartphone World", the company established the Smart Life Business in April 2014, consolidating accessories and other related products and settlement services within that business as part of a policy of bolstering smartphone related operations. In the solutions business for corporate clients, the company will launch Hikari Collaboration services with the TG's brand name to expand services to corporate clients.

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

# Check Point

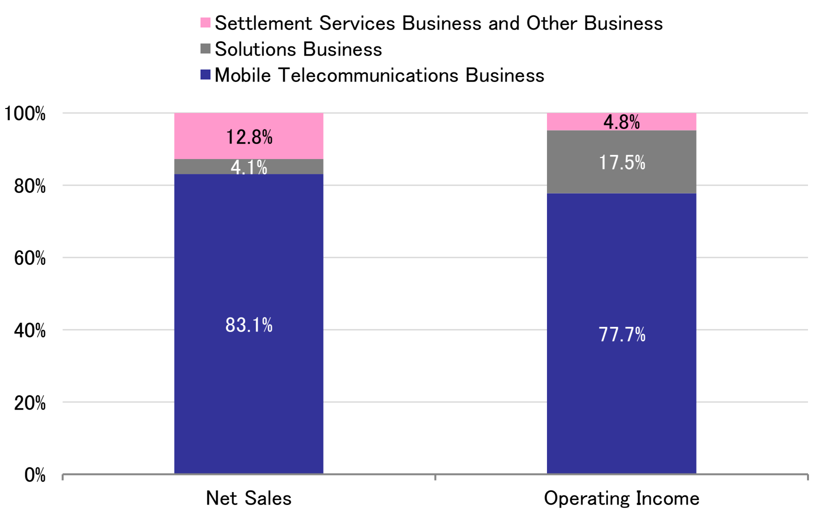
- Well-balanced sales of the devices of major telecom carriers in Japan
- Boosting earnings on expanded sales of smart devices and related products and from the results of structural reforms
- Looking to increase revenues and earnings in FY3/16 as well as further enhance margins




* Consolidated results since FY3/12

## Business Overview

T-Gaia has three business segments. The first is the Mobile Telecommunications Business, which mainly conducts sales of mobile phones, smart devices and other related products to consumers, along with agency operations. The second is the Solutions Business, which encompasses mobile solutions business for corporate clients and network operations. The third is the Settlement Services Business and Other Business, covering online settlement methods involving electronic money and overseas businesses. The graph below shows that the Mobile Telecommunications Business accounts for 83.1% of net sales and 77.7% of operating income, making it the company's core business. The breakdown of each business segment is as follows.



## Well-Balanced Sales of the Devices of Major Telecom Carriers in Japan

### (1) Mobile Telecommunications Business

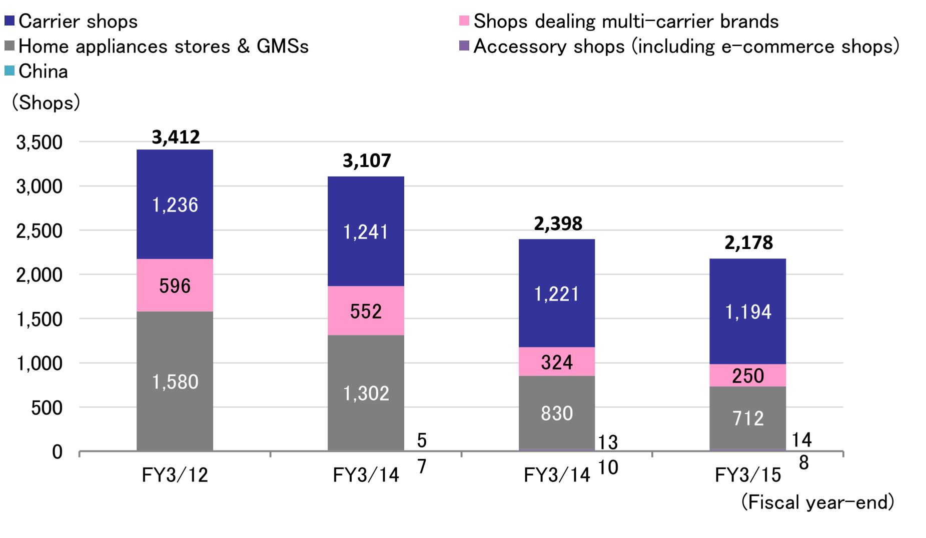
The Mobile Telecommunications Business, the core business of T-Gaia, primarily consists of contract agency operations for mobile phone carriers and other telecommunications services and sales of smart devices and other device-related products, mainly for consumers. Net sales in the Mobile Telecommunications Business are divided into agency commission revenue received based on the agreements with telecom carriers and device sales. In terms of the sales mix, device sales revenue represents more than half of the whole.

Contract agency operations for telecommunication services are based on agency agreements with NTT DOCOMO (9437), the KDDI Group (9433), the SoftBank Group (9984) and other telecommunication carriers. Commissions received are defined by specific commission rates and commission payment periods that carriers set. For this reason, this segment has an earnings structure that is not swayed solely by mobile phone sales. In this sense, it is stable stock- type of business with recurring revenues from an established customer base.

With regard to the sale of mobile devices including smartphones, etc., T-Gaia purchases the merchandise from various carriers and sells to customers via its directly managed shops. In addition, T-Gaia wholesales mobile phones to the Group's agency distributors, as well as home electric appliance stores and general merchandise stores. T-Gaia also procures various accessory products from manufacturers and trading companies and sells these products, mainly through directly managed accessory shops and carrier shops. The company also wholesales accessories through its agency distributors.

As of March 2015, the number of sales bases was 2,178, including its agency distributors, with a nationwide network stretching across the breadth of Japan from Hokkaido in the north to Okinawa in the south. These shops consisted of 1,194 carrier shops, 250 shops dealing multi-carrier brands, 712 home appliance stores and GMSs, and 14 accessory shops as well as 8 China Unicom shops in China. T-Gaia has the industry's largest number of sales bases in Japan. The profit and loss items of the China business are included in the Settlement Services Business and Other Business.

Number of shops



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T-Gaia leads its industry in Japan, with a market share of about 13%. Placed second is CONEXIO Corporation (9422), which mainly sells NTT DOCOMO devices. Third and fourth, respectively, are HIKARI TSUSHIN, INC. (9435), and Bell-Park Co., Ltd. (9441), which mainly sell SoftBank offerings. T-Gaia is noteworthy for a well-balanced lineup covering devices from major carriers NTT DOCOMO, au, and SoftBank.

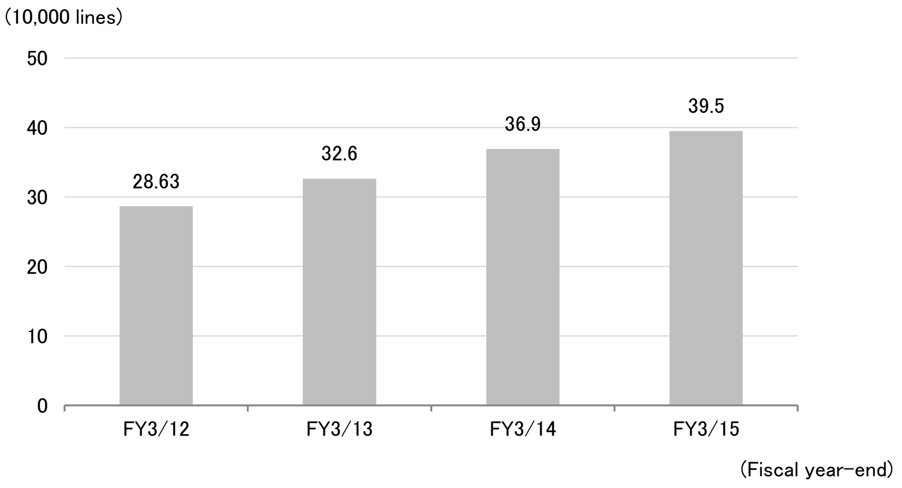
## Steadily Expanding Number of Lines Subscribing to movino star Service

**(2) Solutions Business**

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

Among these services, the sales of mobile phones follow more or less the same business model as the Mobile Telecommunications Business. The terminal and line management services provide usage management, charge settlement, payment agency and other services related to various telecommunication devices used by corporate clients, such as mobile phones, smartphones and tablets. These solution services are bundled into the "movino star" application service provider (ASP) managed service provided by the company. The number of lines subscribing to movino star service has steadily expanded, reaching 395,000 as of March 2015.

Number of lines subscribing to movino star service




The company also provides T-GAIA Smart SUPPORT as total solution package services including Mobile Device Management (MDM) services relating to integrated management of mobile device configuration settings and information to security measures to deal with matters such as theft or loss of devices, kitting services (services to perform initial setup so that devices can be used immediately after purchase), help desk and security desk services, and movino star services.

WAM!NET Japan provides cloud computing services that corporate clients use to ensure safe transmission, sharing and storage of large volumes of data. The mainstay service in this lineup is GigaCC, which had the top share of sales in FY3/14 for the physical storage-type online file-sharing market. This service has been widely adopted among mainly medium- and large-scale enterprises in Japan as a tool to safely and securely transfer and share files between companies.

## Selling Electronic Money-Based Merchandise and Gift Cards mainly through Convenience Stores Nationwide

**(3) Settlement Services Business and Other Business**

The Settlement Services Business involves sales of electronic money-based merchandise and gift cards using PIN sales systems* through major convenience stores and other retail outlets throughout Japan. Currently, the business has exceeding 50,000 sales bases in Japan for PIN and gift cards combined.

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

The merchandise handled includes Amazon and BitCash gift cards, as well as WebMoney and Visa branded V-preca cards in PIN merchandise. The method of recording net sales differs for gift cards and PIN merchandise. For gift cards, the company records only the commission received from the operators as net sales, while for PIN merchandise the total transaction amount (face value amount) is recorded as net sales.

Other Businesses include overseas businesses such as operation of China Unicom shops based on an agency agreement with major Chinese telecommunications carrier China Unicom, solution services for Japanese companies in Shanghai, and gift card sales operations in Singapore.

# Financial Results Trends

## Boosting Earnings on Favorable Sales of Tablets and Related Products as well as Impact of Structural Reforms and Other Factors

**(1) FY3/15 results**

In FY3/15, the company recorded a decline in revenue and an increase in earnings. Net sales declined 9.2% year on year to ¥642,095mn. Operating income rose 12.1% to ¥14,306mn, ordinary income increased 12.1% to ¥14,194mn, and net income was up 13.3% to ¥7,748mn.

**Consolidated Results in FY3/15**

(¥mn)

| | FY3/14 | | FY3/15 | | | | |
|---|---|---|---|---|---|---|---|
| | Actual | Ratio to net sales | Management targets | Actual | Ratio to net sales | YOY | Compared with management targets |
| Net sales | 707,004 | - | 720,000 | 642,095 | - | -9.2% | -10.8% |
| Gross margin | 63,310 | 9.0% | 65,000 | 61,984 | 9.7% | -2.1% | -4.6% |
| Selling, general and administrative expenses | 50,550 | 7.1% | 52,000 | 47,677 | 7.4% | -5.7% | -8.3% |
| Operating income | 12,760 | 1.8% | 13,000 | 14,306 | 2.2% | 12.1% | 10.0% |
| Ordinary income | 12,665 | 1.8% | 12,800 | 14,194 | 2.2% | 12.1% | 10.9% |
| Extraordinary gains/losses | -16 | - | - | -345 | - | - | - |
| Net income | 6,835 | 1.0% | 7,250 | 7,748 | 1.2% | 13.3% | 6.9% |

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TG Group sales of mobile phones declined 8.5% to 5.12 million units, while the Settlement Services Business saw sales revenues drop amid a shift in demand from PIN merchandise to gift cards, leading to a decrease in net sales. At the same time, the company posted double-digit earnings gains owing to favorable sales of tablets and related products, and the impact of companywide structural reforms, centered on mobile phone shops. Profits exceeded management's initial targets. With regard to the impact of structural reforms, the company strengthened companywide education and training as well as promoting human resource investment for making temporary and contract workers into regular employees and direct hiring. As a result, personnel cost per employee increased 7% from FY3/14. On the other hand, gross margin increased by around 10%, as it appears that productivity per employee is increasing.

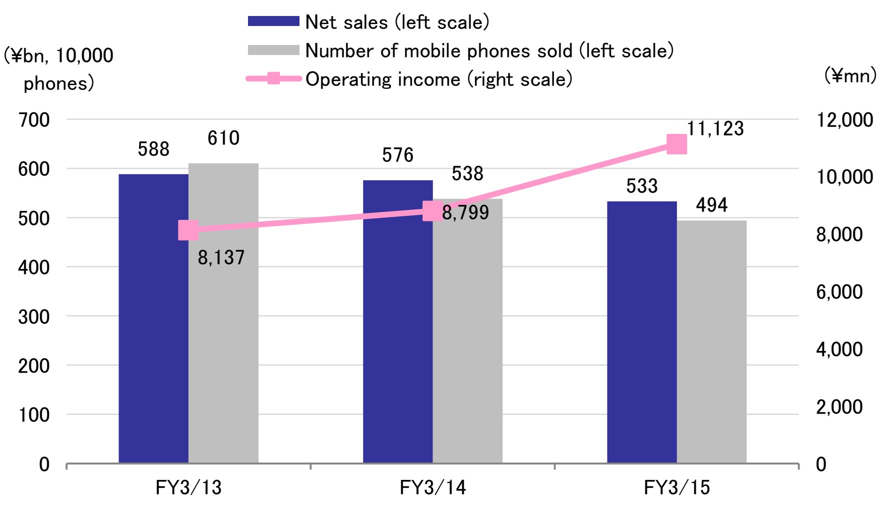
## Operating Income of Mainstay Mobile Telecommunications Business Rose for Second Straight Year

**(2) Business segment trends**

**○Mobile Telecommunications Business**

Net sales of this segment decreased 7.4% year on year, to ¥533,593mn, but operating income rose 26.4% to ¥11,123mn. This was mainly because unit sales of mobile phones declined around 8% to 4.94 million units. There was a sales fallback early in the year from a surge in demand in 4Q FY3/14 associated with changes in sales promotions by telecom carriers, but sales volume recovered from June 2014 as the main telecom carriers completed roll-outs of new phone charge plans, with the launches of the iPhone 6 and other new models contributing.

Mobile Telecommunications Business Results




Operating income increased for the second straight year, with the segment operating margin rising from 1.5% to 2.1%. This reflected cost efficiencies stemming from efforts to streamline the operations of mobile phone shops and other channels. Another factor was enhanced training and education programs at the TG Academy training and education institute to boost the customer service skills of sales staff and the productivity of shops. Also contributing was improved profitability from favorable sales of offerings in addition to mobile phones, notably tablets and related products. Sales volume of tablets rose 1.7 times year on year, and net sales from related merchandise were up 1.3 times. Especially, net sales climbed 2.2 times from the 14 directly managed accessory shops, which include the e-commerce site, owing to solid demand for films, case covers, speakers, and other items.

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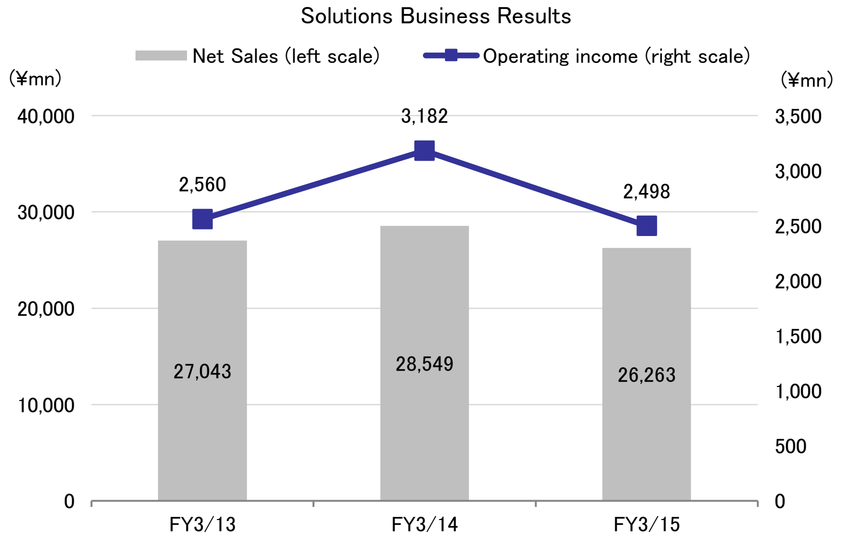
### ○Solutions Business

The Solutions Business recorded declines in both revenues and earnings. Net sales were ¥26,263mn, down 8.0% year on year. Operating income was ¥2,498mn, down 21.4%. Mobile solutions services performed well. Among them was movino star, which expanded steadily to 395,000 contracts. Offsetting this growth, however, was that there were fewer large orders than those posted in FY3/14, causing the number of phones sold to corporate clients to decline 13.6% to 184,000 units. Another factor was that sales of FTTH and other fixed-line merchandise remained sluggish. WAM!NET Japan had a positive effect on consolidated earnings.

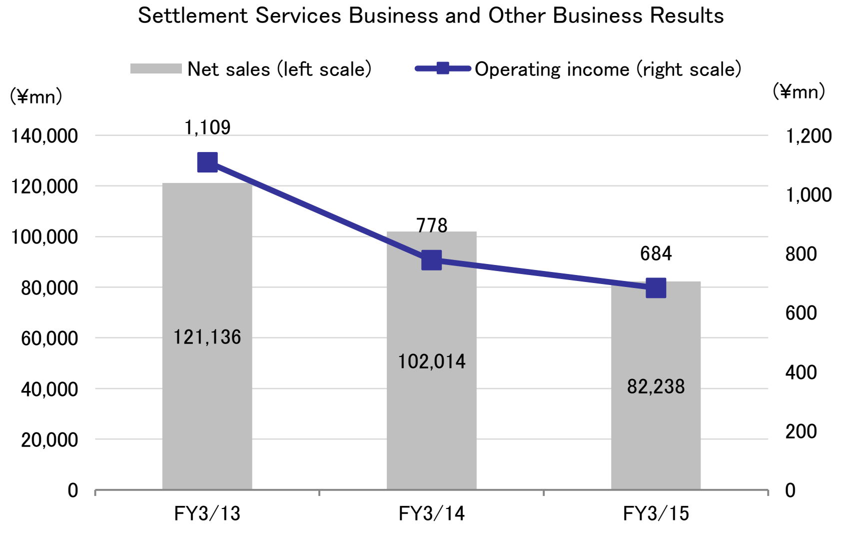



### ○Settlement Services Business and Other Business

Net sales in this segment declined 19.3% year on year to ¥82,238mn. Operating income was down 12.0% to ¥684mn. This was because although the number of shops handling offerings for this segment increased to around 52,000, there was a shift in demand from PIN merchandise, where the face value amount is recorded as net sales , to gift cards, where only the received commission is recorded as net sales . Another factor was a decline in transactions for electronic money-based merchandise.

Overseas, the Chinese mobile phone shops business runs eight China Unicom shops in Shanghai. These operations are becoming profitable. T-Gaia concluded an agency agreement for the corporate business with China Unicom, a leading telecom carrier in China. This was in keeping with efforts to cultivate corporate clients and to step up multi-carrier brand proposals.

T-Gaia expanded the number of stores handling gift cards in Singapore, steadily increasing sales.




## Outlook

### Looking to Increase Revenues and Earnings in FY3/16 as well as Further Enhance margins

**(1) Financial forecasts for FY3/16**

For FY3/16, T-Gaia projects increases in both revenues and earnings, with a 2.0% increase in net sales to ¥655,000mn and a 4.8% rise in operating income to ¥15,000mn. Management looks for mobile phone unit sales to rise 3.5% to 5.3 million. It also anticipates higher sales of tablets and other related products, while companywide structural reforms should continue to bear fruit. The company forecasts that the operating margin will further increase from 2.2% to 2.3%.

By business segment, the Mobile Telecommunications Business targets a 3.1% increase in net sales to ¥550,000mn, a 3.7% decrease in operating income to ¥10,700mn, and a 3.2% increase in unit mobile phone sales to 5.1 million units. T-Gaia expects the market to be stimulated by the start of new Hikari Collaboration services from NTT DOCOMO and SoftBank, which package fiber-optic services through fiber access wholesaling agreements, enabled by NTT's starting to wholesale fiber access services. Management anticipates that the addition of fiber-optic service contract charges will expand earnings opportunities.

With TG Academy having provided advance education and training, T-Gaia is apparently rolling out its Hikari Collaboration business well. At the same time, management expects that increased customer traffic at shops will increase sales not just for mobile phones but also for tablets and related merchandise.

Although the number of directly managed mobile phone shops should remain basically unchanged from FY3/15, the company plans to increase the number of accessory shops, for which sales remain solid, from 14 at the end of FY3/15 to 40 as soon as possible in FY3/16.

The forecasts for the Solutions Business are for increases in both revenues and earnings, with a 3.0% increase in net sales to ¥27,000mn and a 14.4% rise in operating income to ¥2,850mn. Mobile solution services are continuing to expand, and the company will launch corporate Hikari Collaboration services in April under the TG brand name, so it looks for fixed-line related merchandise demand to recover. The ratio of smartphones among mobile phone subscriptions in Japan at the end of December 2014 was more than half at 52.3%. By comparison, the ratio for corporate subscriptions was only 26%, and is forecast to increase steadily going to 39% in one years' time, and 46% after three years (MM Research Institute, Ltd.) Smartphones are considered to offer higher profitability per unit than feature phones, and the increase in the ratio of smartphones for corporate subscribers is expected to contribute to the Solutions Business achievement of its full-year earnings targets.

The forecasts for the Settlement Services Business and Other Business are for a 5.1% increase in net sales to ¥78,000mn and a 113.2% rise in operating income to ¥1,450mn. Notwithstanding an ongoing shift from PIN merchandise to gift cards, management aims to boost earnings by bolstering merchandise and sales channels to take advantage of an expanding market for electronic-based money.

Internationally, the company looks to enhance earnings by reducing losses from mobile phone shop operations in China and stepping up multi-carrier brand proposals in solution services for corporate clients.

Management anticipates significantly improved results for overseas operations, including for the solidly performing settlement services business in Singapore.

## Deploying a Smartphone-Driven Growth Strategy

**(2) New initiatives**

Smartphones accounted for 72.4% of the Japanese mobile phone market's unit sales in 2014, but they represented just 52.3% of cumulative subscriptions. Smartphones thus remain promising, and demand for smart devices including tablets should continue to grow.

Taking such change of market environment into consideration, T-Gaia put up the corporate slogan of "the Realization of Smartphone World" and pushing ahead with a smartphone-driven growth strategy. In FY3/15, these smart devices accounted for 73.2% of the company's mobile phone subscriptions, which was apparently above the industry average.

T-Gaia will reinforce its strategic efforts for FY3/16 by establishing the Smart Life Business. The company aims to bolster smartphone-related operations by having this business oversee accessories and other smart device-related merchandise and other operations that the Settlement Services Business and other areas previously handled.

Another new initiative was to spin off and merge TG Academy, which provides education and training for sales staff at mobile phone and other shops, with J-COM Co., Ltd., a subsidiary of J-COM Holdings Co., Ltd. (2462), a major temporary staffing company, to create Career Design Academy Co., Ltd. in April 2015. T-Gaia has an 80% equity stake in the new entity.

That subsidiary leverages the education and training expertise of both partners, and will offer advanced services to corporate clients, centered on mobile phone sales operations. Mobile phone shops play more important roles today because of the advanced functionality of smartphones and growing service diversity. Staff skills greatly shape the productivity of shops, making education and training even more important.

T-Gaia has positioned Career Design Academy to broaden its client base among enterprises engaging in not only mobile phone sales but also in various retail businesses, thereby diversifying the company's earnings sources.

# Financial Status and Shareholder Return Policy

## Steadily improving stability benchmarks and maintaining an ROE of well above 20%

### (1) Financial status

At March 31, 2015, total assets stood at ¥90,080mn, down 14,512mn from a year earlier. The principal factors in this decline were decreases, at the current assets level, of ¥3,653mn in trade receivable, ¥7,534mn in merchandise inventory, and ¥645mn in other accounts receivable. At the fixed assets level, goodwill was down ¥1,663mn.

Fixed liabilities decreased ¥20,084mn to ¥60,794mn, largely because interest-bearing debt was down ¥18,383mn. Net assets were up ¥5,573mn to ¥29,286mn, reflecting a rise in retained earnings.

There were noteworthy improvements in the equity ratio and interest-bearing debt ratio, which are key stability indicators. The company maintained an ROE of well above 20%, while the operating margin steadily improved.

**Consolidated balance sheet**

(¥mn)

| | FY3/14 | FY3/15 | Changes |
|---|---|---|---|
| Current assets | 88,227 | 75,029 | -13,198 |
| (Cash and deposits) | 3,490 | 2,085 | -1,405 |
| (Merchandise inventory) | 45,146 | 37,612 | -7,534 |
| Fixed assets | 16,364 | 15,051 | -1,313 |
| Total assets | 104,592 | 90,080 | -14,512 |
| Current liabilities | 68,427 | 54,243 | -14,184 |
| Fixed liabilities | 12,450 | 6,550 | -5,900 |
| (Interest-bearing debt) | 50,934 | 32,551 | -18,383 |
| Total liabilities | 80,878 | 60,794 | -20,084 |
| Shareholder's equity | 23,464 | 28,860 | 5,396 |
| (Stability ratios) | | | |
| Current ratio | 128.9% | 138.3% | |
| Equity ratio | 22.6% | 32.3% | |
| Interest-bearing debt ratio | 215.9% | 111.8% | |
| (Profitability ratios) | | | |
| ROE (net income / shareholders' equity) | 26.4% | 29.4% | |
| Operating income to sales ratio | 1.8% | 2.2% | |

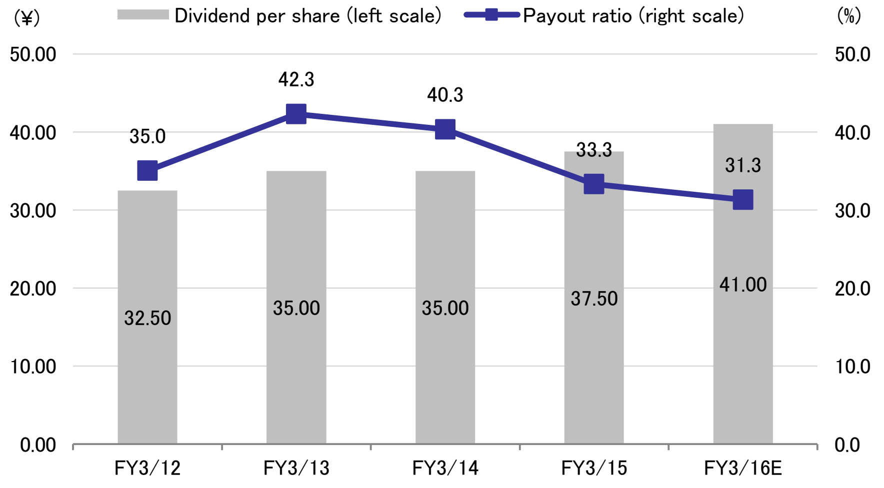
Note: Since FY3/14, T-Gaia has offset trade receivables and payables for transactions with carriers and agency distributors.

## Dividend Set to Increase for Second Straight Year in Keeping with Shareholder Returns Policy of maintaining Dividend Payout Ratio Above 30%

### (2) Shareholder returns policy

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

Dividend per share and dividend payout ratio



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