

T-Gaia Corporation3738 Tokyo Stock Exchange First
Section

1-Sept.-15

Important disclosures
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at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato**■ Off to a Good Start in Q1 FY 3/16, Boosting Earnings in All Segments**

T-Gaia (3738) is Japan's leading primary mobile phone distributor, with a market share of approximately 12% for domestic mobile phone sales. The company had 2,186 sales bases as of June 30, 2015, including agents' shops operated by its secondary distributors. Other businesses T-Gaia runs include a solutions business for corporate clients and a prepaid settlement service business involving electronic money.

The company recently announced its consolidated financial results for Q1 FY3/16 (April to June 2015). Net sales increased 7.1% year on year to ¥135,936mn, and operating income increased 21.0% to ¥3,062mn. Unit sales of mobile phones and other devices were up 2.0% to 1.03 million, a solid result that reflected expanded tablet demand. Sales of accessories and other merchandise related to smart devices remained strong, climbing around 40%. Earnings of the Mobile Telecommunications Business were up. This was mainly because smartphones, tablets, and other smart devices accounted for a higher proportion of sales, while ongoing structural reforms to improve productivity at mobile phone shops proved fruitful. Earnings were also higher in the Solutions Business as well as Settlement Service and Other Business segments, rounding out a good start to the year.

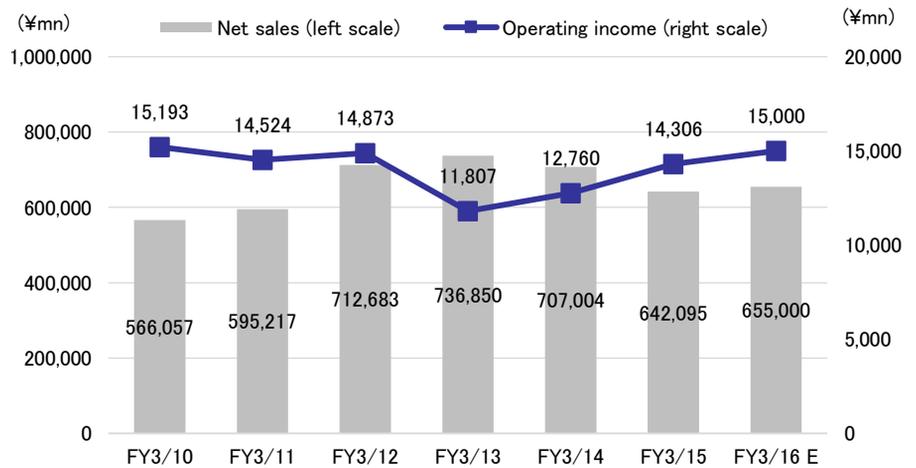
For FY3/16, T-Gaia looks to achieve growth in both revenues and earnings, with net sales to increase 2.0% to ¥655,000mn and operating income rising 4.8% to ¥15,000mn. The company anticipates a 3.5% increase in unit sales of mobile phones and expects to maintain favorable sales of accessories and other related products. Management expects to post lower Mobile Telecommunications Business earnings owing to reinforced investments in mobile phone shops and human resources to drive future growth and enhance customer satisfaction. Management forecasts higher earnings for the Solutions Business for corporate clients and the Settlement Services Business and Other Business, however, boosting overall profits.

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

■ Check Point

- Mobile Phone Sales and Agency Operations Driving Mobile Telecommunications Business
- Looking to Increase Full-Year Revenues and Earnings on Higher Sales of Tablets and Related Merchandise
- Planning to Increase Dividends for a Second Straight Year

Business Performance Trend



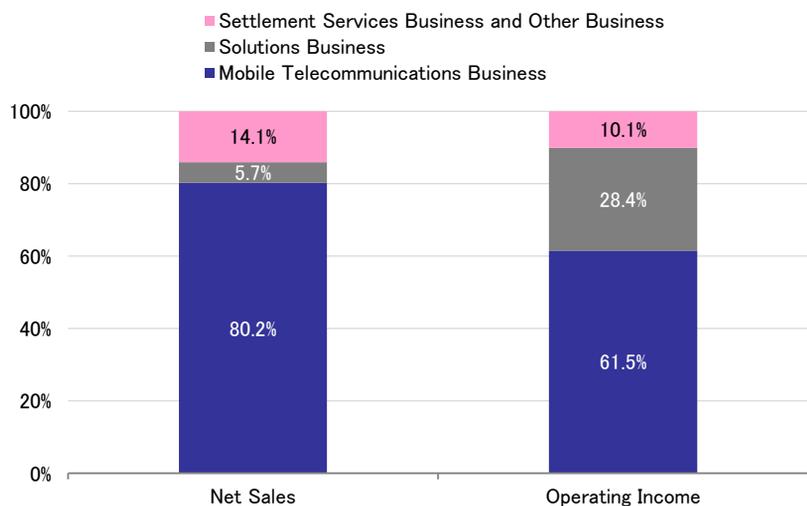
* Consolidated results since FY3/12

Business Overview

Mobile Phone Sales and Agency Operations Driving Mobile Telecommunications Business

T-Gaia has three business segments. The first is the Mobile Telecommunications Business, which mainly conducts sales of mobile phones and other related products to consumers, along with agency operations. The second is the Solutions Business, which serves corporate customers through the sale of mobile phones and other related products, the provision of solutions services, and contract agency operations for optical fiber and other fixed-line services. The third is the Settlement Services and Other Business, covering the sale of electronic-money based merchandise, comprising online payment methods such as PINs and gift cards, as well as overseas business. The graph below shows that the Mobile Telecommunications Business accounts for 80.2% of net sales and 61.5% of operating income, making it the company's core business.

Net Sales and Operating Income by Business Segment (Q1 FY3/16)



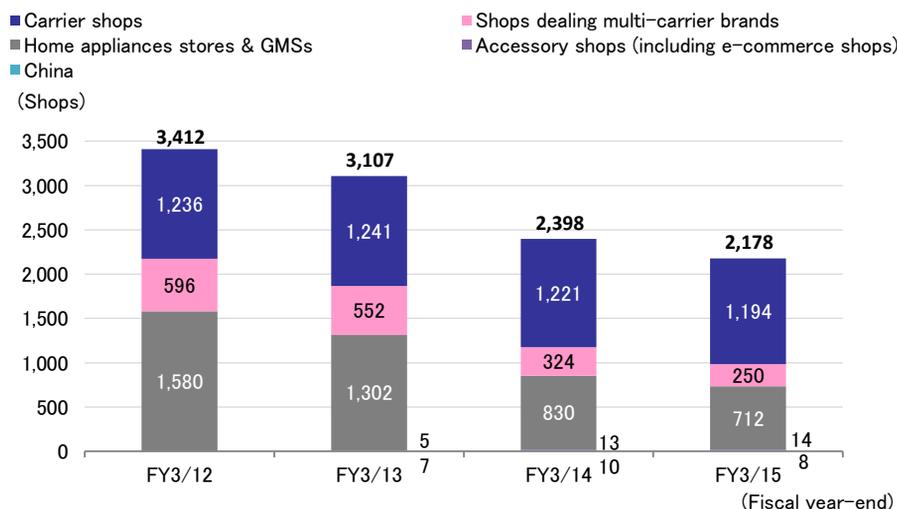
The core Mobile Telecommunications Business had 2,186 sales bases at the end of June 2015. This network included 1,241 carrier shops (of which eight were in China) and 276 directly managed shops. The number of home appliances stores and GMS's and shops dealing multi-carrier brands has trended downward in recent years amid intensifying market competition and industry consolidation moves. Carrier shops have engaged in store roll-out strategies that focus on enhancing customer satisfaction and operational efficiencies, with stores gradually becoming larger.

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Number of shops



■ Financial Results Trends

Higher Revenue and Earnings in Q1 FY3/16

(1) Q1 FY3/16 Results

In Q1 FY3/16, consolidated net sales increased 7.1% year on year to ¥135,936mn. Operating income rose 21.0% to ¥3,062mn, ordinary income gained 21.9% to ¥3,084mn, and net income attributable to owners of the parent climbed 38.5% to ¥1,838mn. Operating income in the mainstay Mobile Telecommunications Business increased 8.0% year on year. The other two segments, the Solutions Business and the Settlement Services Business and Other Business, also boosted operating income, underscoring a solid start to the year.

Consolidated Results in Q1 FY3/16

	Q1 FY3/15		Q1 FY3/16			Compared with management targets
	Actual	Ratio to net sales	Actual	Ratio to net sales	YOY	
Net sales	126,959	-	135,936	-	7.1%	20.8%
Gross margin	14,179	11.2%	14,537	10.7%	2.5%	-
Selling, general and administrative expenses	11,647	9.2%	11,475	8.4%	-1.5%	-
Operating income	2,531	2.0%	3,062	2.3%	21.0%	20.4%
Ordinary income	2,531	2.0%	3,084	2.3%	21.9%	20.7%
Extraordinary gains/losses	-2	-	-	-	-	-
Net income attributable to owners of the parent	1,328	1.0%	1,838	1.4%	38.5%	20.4%

(¥mn)



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Quarterly Net Sales by Business Segment

	(¥mn)					
	Q1 FY3/15	Q2 FY3/15	Q3 FY3/15	Q4 FY3/15	Q1 FY3/16	YoY
Mobile Telecommunications	98,890	132,473	150,536	151,694	108,941	10.2%
Solutions	6,770	6,504	5,992	6,997	7,777	14.9%
Settlement Services and Other	21,298	21,412	20,215	19,313	19,216	-9.8%
Total	126,959	160,389	176,744	178,003	135,936	7.1%

Operating Income by Business Segment

	(¥mn)					
	Q1 FY3/15	Q2 FY3/15	Q3 FY3/15	Q4 FY3/15	Q1 FY3/16	YoY
Mobile Telecommunications	1,744	2,589	3,060	3,730	1,884	8.1%
Solutions	702	582	562	652	868	23.7%
Settlement Services and Other	84	168	200	232	309	264.0%
Total	2,531	3,338	3,824	4,613	3,062	21.0%

○Mobile Telecommunications Business

Net sales of this core segment rose 10.2% to ¥108,941mn, while operating income advanced 8.1% to ¥1,884mn. Sales of mobile phones increased 1.0% to 980,000 units, with the proportion of smart devices such as smartphones and tablets, growing. Sales of accessories and other related merchandise remained strong, climbing around 40% on a year-on-year basis, driving revenue growth.

Tablet sales have exceeded the industry average, stemming from a program, centered on carrier shops, that the company deployed more than a year ago to enhance selling skills. At directly managed shops, for example, tablets apparently accounted for more than 20% of sales in Q1 FY3/16, up from around 15% a year earlier. In accessories, the company has enjoyed particularly strong sales of smartphone cases, intensified protection films, and average spending per customer in shops continues to rise as functions of accessories become more advanced and more luxury offerings are available.

Increased revenues from tablets and related merchandise boosted earnings, while enhanced productivity from operational efficiencies at mobile phone shops and other structural reforms also contributed to profit gains.

○Solutions Business

Segment net sales increased 14.9% year on year to ¥7,777mn, while operating income rose 23.7% to ¥868mn. Demand for fixed-line merchandise was firm, while smart devices for corporate customers rose as a proportion of sales. The number of subscribers for movino star, the company's application service provider service, rose from 375,000 at the end of June 2014 to 401,000. Demand was also solid for T-GAIA Smart SUPPORT total solution package services, which accommodate diverse needs for mobile phones and other devices.

○Settlement Services and Other Business

Net sales in this segment declined 9.8% year on year to ¥19,216mn. Operating income was up 264.0% to ¥309mn. The decline in net sales was mainly caused by a shift in demand from PIN merchandise, where the face value amount of all transactions is recorded as net sales, to gift cards, where only the received commission is recorded as net sales. In line with this shift, net income has decreased but sales of gift cards are increasing.

Strong gift card sales in the Settlement Services Business contributed to higher earnings, as did the improved profitability of overseas operations. The Chinese mobile phone sales business runs eight China Unicom shops in Shanghai, successfully reinforcing existing shops to increase the number of profitable ones. Settlement services operations in Singapore have continued to perform steadily.



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Looking to Increase Full-Year Revenues and Earnings on Higher Sales of Tablets and Related Products

(2) Financial forecasts for FY3/16

For FY3/16, T-Gaia aims to increase net sales 2.0% to ¥655,000mn, with operating income gaining 4.8% to ¥15,000mn, ordinary income climbing 5.0% to ¥14,900mn, and net income attributable to owners of the parent advancing 16.2% to ¥9,000mn. Management seeks to boost companywide mobile phone unit sales 3.5% to 5.3 million units, increasing sales of tablets and related products while benefiting from companywide restructuring efforts.

The MM Research Institute, Ltd., forecasts that unit shipments in Japan's overall mobile phone market will expand 0.6% this year to 38.1mn units. T-Gaia will draw on Career Design Academy Co., Ltd., to extend its internal education and training program to its secondary distributors and other entities. At the same time, it will push ahead in elevating highly talented contract workers to regular employee status while reinforcing its sales capabilities in mobile phones, tablets, and other devices and endeavoring to boost unit sales.

T-Gaia will invest in human resources to enhance the operational quality of shop staff. It also aims to increase customer satisfaction and attract more customers by investing extensively in shops through relocations and major renovations.

T-Gaia also plans to aggressively roll out shops. They include Smart Labo smartphone accessory shops, whose sales have remained favorable. The company looks to augment the 13 directly managed accessory shops (including one on an e-commerce site) as of the end of June this year by deploying franchise ones, lifting the number of accessory shops to 40 as soon as possible. The company opened one shop each in Osaka and Kobe in July. The Namba Ebisubashi shop in Osaka sells cases and accessories on the ground and second floors, and has an acoustics section on the third floor where visitors can watch videos and listen to music. There is also a SIM card-free device section, which it plans to open in late August, which will be the first in the Smart Labo network to have such a section.

Another new sales approach was T-Gaia's rollouts of Smart Labo Wagons in July within outlet malls in Gotemba, Shizuoka Prefecture, and in Rinku Town in Osaka. Deploying such wagons in the streets of large shopping malls incurs low investments, making it possible to engage in test marketing and other initiatives, so the company plans to deploy more of these wagons in various other mall formats.

T-Gaia plans to greatly increase its shop-related investments this fiscal year to deploy such new accessory shops as well as mobile phone shops.

By business segment, the Mobile Telecommunications Business expects an increase of around 3.1% in net sales and a 3.7% decrease in operating income. The key factors in such results would be expanded investments in human resources and shops. That said, we believe that actual results may exceed these forecasts when sales remain favorable for tablets and related products and in case restructuring efforts bear fruit beyond Q2.

The forecasts for the Solutions Business are for an increase of 3.0% in net sales and a 14.4% rise in operating income. In mobile solution services, T-Gaia looks to boost the number of corporate clients by steadily expanding support services while enhancing convenience through movino star, which it plans to upgrade in fall. Specific changes will include not only enhancing telecommunications line management but also adding new features to enable management of such areas as customers' intangible assets and applications.

The forecasts for the Settlement Services and Other Business are for a 5.1% decrease in net sales and a 113.2% rise in operating income. As mentioned before, net sales would decline amid an ongoing shift from PIN products, where the face value amount is recorded as net sales, to gift cards, where only the received commission is recorded as those. In light of such factors as sales channel expansion and new product development, however, we predict more than 20% growth year on year in transactions. We also anticipate an ongoing improvement in earnings of the mobile phone sales business in China.



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Career Design Academy (in which T-Gaia has an 80% equity stake) was established in April 2015 as a joint venture with J-COM Holdings Co., Ltd. Although Career Design Academy will focus for the foreseeable future on providing education and training to enhance overall sales skills for the T-Gaia group, it has begun receiving inquiries from other industries. That firm will probably increase opportunities to supply high-quality training and educational services to a wide range of retail businesses beyond the mobile phone sales sphere.

Net Sales by Business Segment

	(¥mn)				
	FY3/13	FY3/14	FY3/15	FY3/16E	Change (%)
Mobile Telecommunications	588,670	576,439	533,593	550,000	3.1%
Solutions	27,043	28,549	26,263	27,000	3.0%
Settlement Services and Other	121,136	102,014	82,238	78,000	-5.1%
Total	736,850	707,004	642,095	655,000	2.0%

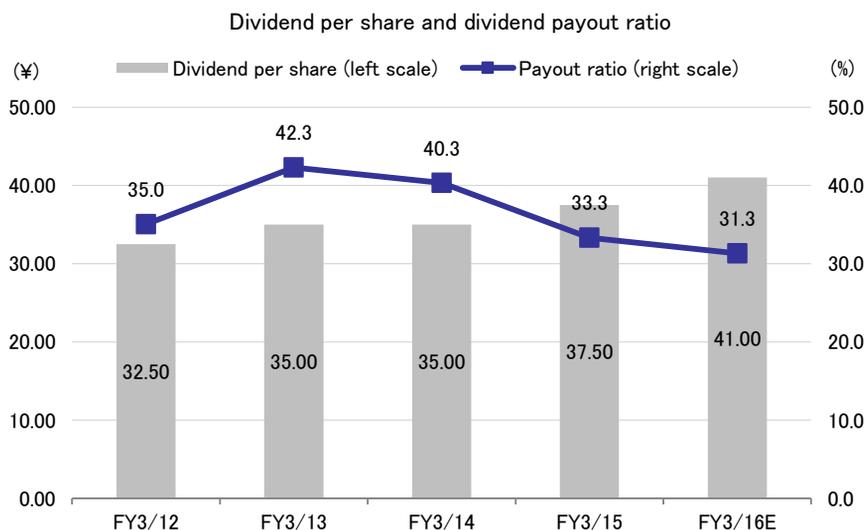
Operating Income by Business Segment

	(¥mn)				
	FY3/13	FY3/14	FY3/15	FY3/16E	Change (%)
Mobile Telecommunications	8,137	8,799	11,123	10,700	-3.7%
Solutions	2,560	3,182	2,498	2,850	14.4%
Settlement Services and Other	1,109	778	684	1,450	113.2%
Total	11,807	12,760	14,306	15,000	4.8%

■ Shareholder Returns Policy

Planning to Increase Dividends for a Second Straight Year

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 further if earnings exceed management's target to maintain a payout ratio of over 30%.



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