T-Gaia

As mobile phone distributors consolidate, investing in staff and shops for future growth

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Business

Top domestic mobile phone distributor diversifying into business solutions, payment

Largest primary distributor of mobile phones in Japan: T-Gaia is Japan's largest primary distributor of mobile phones (13% share of units sold in FY03/16). It had 1,230 "carrier shops" (282 directly managed) where it sells telecoms carriers' service contracts, mobile devices, and accessories (as of end-September 2016). It also handles service plan changes, payment collections, and fiber-optic broadband services. Main earnings source for the Mobile business for consumers is commissions from carriers for selling service contracts and mobile devices. The Mobile business made up 84% of total sales, 75% of OP (FY03/16).

Diversifying into Solutions and Settlement businesses: Solutions business provides telecoms solutions to businesses. Settlement business sells eGift cards in Japan and overseas.

Earnings

FY03/17 profits temporarily stagnant due to investments for future growth

1H FY03/17 earnings: Sales were JPY256.4bn (-10.0% YoY) and operating profit was JPY6.0bn (-8.1%). In the mainstay Mobile business, profits were generally flat YoY despite handset unit sales dropping 4.8% YoY due to higher selling prices as telecoms regulations tightened (such as limiting mobile device subsidies). Operating profit fell due to strategic spending and a change in the Solutions segment business model.

FY03/17 forecast: Targets sales of JPY616.0bn (-0.7% YoY) and operating profit of JPY15.0bn (-4.3%). The key lies in whether sales reach targets during the peak shopping period in March. It plans to invest in personnel and expand sales channels through opening, relocating, and enlarging stores.

Medium-term strategy

Strengthen and develop core businesses, invest in staff and stores

Entrench leading industry position and grow core businesses: T-Gaia has released medium-term goals but no numerical sales or profit targets. It aims to entrench its position as the leading mobile phone distributor, grow existing core businesses (Solutions, Settlement, and Overseas businesses), and develop new mobile and internet business opportunities. The company plans to maintain a dividend payout ratio of at least 30%.

Stand out with value propositions: Conditions in the mobile device industry are growing tougher, with sluggish mobile device unit sales as subscriber churn slows and telecoms regulations tighten. Since T-Gaia is the top distributor, it has more resources and value proposition capabilities (explain increasingly sophisticated telecoms services and devices, and propose products that meet consumer needs). Shared Research thinks T-Gaia stands to gain from the expected industry consolidation.

Trends and results

Trends and results		Sales (JPYmn)	YoY	Operating profit (JPYmn)	YoY	Recurring profit (JPYmn)	YoY	Net income (JPYmn)	YoY	EPS (JPY)	BPS (JPY)	ROA	ROE
FY03/07	Parent	355,401	18.2%	7,314	16.4%	7,330	16.2%	4,115	16.0%	62.54	244.73	11.2%	27.9%
FY03/08	Cons.	375,524	na	7,324	na	7,327	na	4,028	na	61.14	280.03	9.1%	23.3%
FY03/09	Parent	431,331	na	12,401	na	11,965	na	6,364	na	77.11	253.20	10.0%	28.6%
FY03/10	Parent	566,057	31.2%	15,193	22.5%	14,968	25.1%	8,135	27.8%	79.39	303.10	10.1%	28.5%
FY03/11	Parent	595,217	5.2%	14,524	-4.4%	14,395	-3.8%	7,554	-7.1%	92.42	347.77	9.6%	22.7%
FY03/12	Cons.	712,683	na	14,873	na	14,843	na	7,933	na	92.75	332.80	8.2%	28.3%
FY03/13	Cons.	736,850	3.4%	11,807	-20.6%	11,691	-21.2%	6,586	-17.0%	82.76	356.89	5.7%	23.4%
FY03/14	Cons.	707,004	-4.1%	12,760	8.1%	12,665	8.3%	6,835	3.8%	86.74	343.41	6.3%	26.4%
FY03/15	Cons.	642,095	-9.2%	14,306	12.1%	14,194	12.1%	7,748	13.4%	112.68	423.19	9.8%	29.4%
FY03/16	Cons.	620,074	-3.4%	15,666	9.5%	15,621	10.1%	9,498	22.6%	138.11	520.80	17.8%	29.3%
FY03/17	Cons. Est.	616,000	-0.7%	15,000	-4.3%	14,950	-4.3%	9,700	2.1%	172.72	-	-	-

Source: Shared Research based on company data

Note: Figures rounded to nearest JPYmn (company rounds down figures under JPY1mn)

Strengths and weaknesses

Strengths

Accumulated sales expertise: Focus on employee training, accumulating in-house sales expertise to propose products that meet customer needs as devices become more sophisticated and stores handle more devices.

Favorable position to conduct M&A as the largest domestic distributor: Can take M&A initiative in a consolidating industry that is seeing falling handset unit sales.

Balanced mix of all three major carriers: Unlike competitors, T-Gaia sells a well-balanced mix of products from all three major carriers, so it can tap into a larger business territory and stabilize its earnings structure.

Weaknesses

Dependent on carriers and impacted by regulations: Telecoms regulations and carrier sales policies impact sales agents like T-Gaia.

Experience from mobile device sales not enough to expand to other areas: Whether the company can use its accumulated sales experience from mobile phones to expand outside of the telecoms sector is an issue.

Profit growth drivers

[Currently] Mobile device and service sales

[Medium term] Mobile device and service sales + non-telecoms businesses (smartphone accessory sales; Solutions business; TG fiber-optics related; improved Settlement business)

Indicators

Index	
Market capitalization	JPY138.5 bn
Stock price (Dec. 9, 2016)	JPY1,752
Issued shares	79,074,000 shares
Foreign stockholding ratio	15.36 %
BPS (FY03/16)	JPY520.80
PBR (FY03/16)	3.36 x
PER (FY03/17 Est.)	10.1 x
Dividend (FY03/17 Est.)	JPY52.00
Dividend yield (FY03/17 Est.)	2.97 %
ROE (03/17 Est.)	33.2 %
Net debt/Equity ratio (FY03/16)	57.1 %

Source: Shared Research based on company data

*Share numbers include treasury stock

Business

Top primary mobile phone distributor in Japan diversifying into Solutions, Settlement segments

Company overview

Largest primary distributor of mobile phones in Japan

T-Gaia is Japan's largest primary distributor of mobile phones (roughly 13% of total domestic units sold in FY03/16). As a sales agent for telecoms carriers, it sells mobile service contracts and devices, and handles service plan changes, payment collections, and fiber-optic broadband access. T-Gaia sells retail through single-brand "carrier shops" for DoCoMo, au, and Softbank (282 directly operated out of 1,230 total sales outlets as of end-September 2016) and wholesale through secondary distributors such as multi-carrier dealers and electronics retailers (T-Gaia also manages and supervises these distributors). Main source of earnings in the Mobile segment (for consumers) is commissions from selling carriers' services and products; minor earnings contribution from sales of its own accessories such as smartphone cases, protective films for screens, and memory cards. The mainstay Mobile business accounted for 84% of sales and 75% of operating profit in FY03/16.

Diversifying into Solutions and Settlement businesses

In the Solutions business T-Gaia uses expertise cultivated in the Mobile business (for consumers) to provide telecoms solutions and mobile phone devices to businesses. It also provides fiber-optic broadband services such as FTTH to businesses and individuals. In the Settlement business it sells eGift cards for shopping on websites operated by Apple, Google, and Amazon at convenience stores in Japan and abroad.

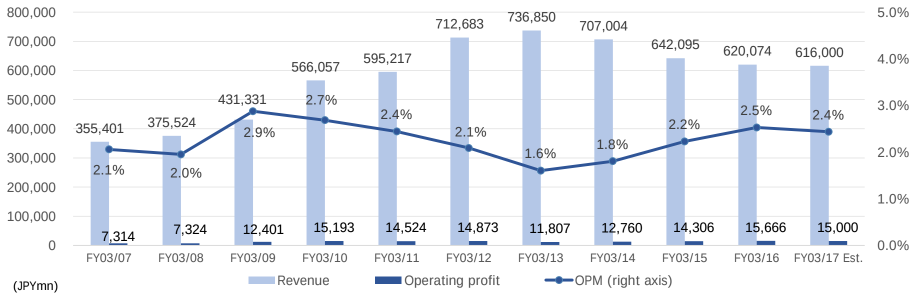
Operating profit increased through FY03/16

The operating environment is difficult as handset unit sales decline, but operating profit increased through FY03/16 (from JPY11.8bn in FY03/13 to JPY15.7bn in FY03/16). At end-FY03/16 T-Gaia had 4,292 full-time employees.

Company overview

- ▶Largest primary mobile phone distributor in Japan
- ▶Diversifying into Solutions and Settlement businesses
- ▶Operating profit on a uptrend

Sales, operating profit, and OPM



Source: Shared Research based on company data (rounded to nearest JPYmn)

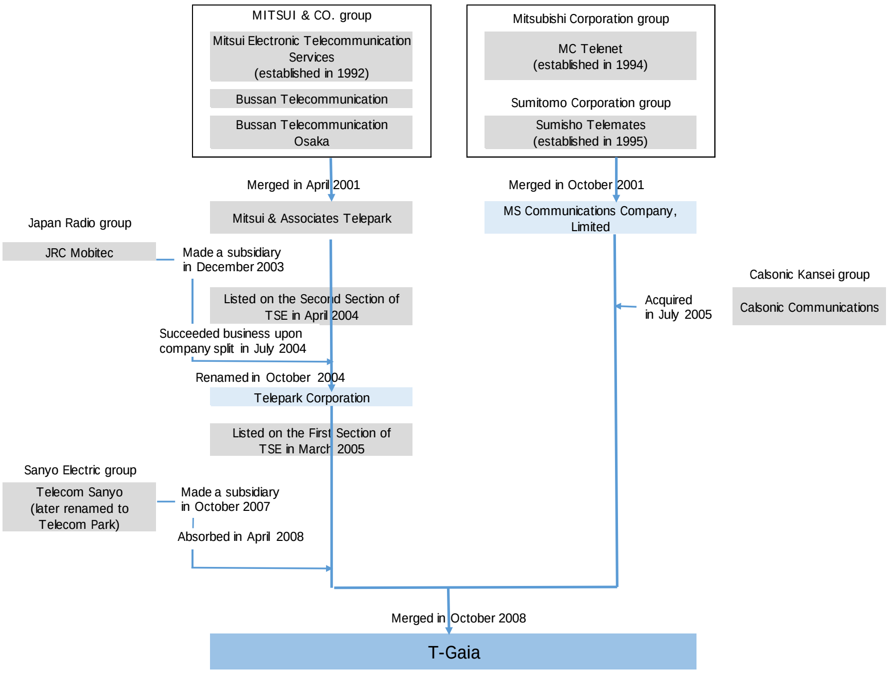
Company origin

T-Gaia is the result of a number of M&A deals primarily involving mobile phone distributors (three distributors from the Mitsui & Co. group, one from Mitsubishi Corp. and one from Sumitomo Corp.). Following changes to their respective business portfolios, Mitsui and Mitsubishi exited the shareholder register after selling their stakes. Sumitomo is now the major shareholder (41.89% stake excluding treasury shares as of end-September 2016).

Result of a number of M&A deals: predecessors were mobile phone distributors of Mitsui, Mitsubishi, and Sumitomo; Sumitomo is now major shareholder (after Mitsui and Mitsubishi exited)

One of T-Gaia's forerunners was Mitsui Electronic Telecommunication Services (spinoff of the sales division of Mitsui's information and communications business) established in 1992. In April 2001, it merged with Mitsui-affiliated mobile phone distributors Bussan Telecommunication and Bussan Telecommunication Osaka, changing its name to Mitsui & Associates Telepark. In December 2003, it made JRC's JRC Mobitec a consolidated subsidiary. In April 2004 it listed on the TSE Second Section. In July 2004, it took over businesses from JRC Mobitec excluding operations in Kyushu and Okinawa, and made the remaining operations into an unconsolidated subsidiary, Mobitec. In October of that year, Mitsui & Associates Telepark changed its name to Telepark. It transferred its listing to TSE First Section in March 2005. In April 2008, it changed the name of Telecom Sanyo, a consolidated subsidiary of the Sanyo Electric group acquired in October 2007, to Telecompark, and then absorbed Telecompark.

Company origin



Source: Shared Research based on company data

Another forerunner was MS Communications, formed from a merger of Mitsubishi's MC Telenet and Sumitomo's Sumisho Telemates in October 2001. In July 2005, the company made Calsonic Kansei's Calsonic Communication into a subsidiary.

The two forerunners (Telepark and MS Communications), who had been competing for market leadership in the mobile phone sales industry, merged in October 2008 to become the current company, T-Gaia.

Business model

The business models of each segment are as shown below. According to T-Gaia, one-time sales commissions make up over 40% of total gross profit; recurring commissions, under 30%; commissions for services such as service plan changes, under 20%; and network access, payment services, and others, around 10%.

- **Mobile business (84.1% of sales, 74.8% of OP, OPM of 2.2%: FY03/16):** In this segment T-Gaia sells products and services of mobile telecoms carriers such as NTT DoCoMo, KDDI, and Softbank, acting as an intermediary. It also handles service plan changes, payment collections, and fiber-optic broadband services.

  T-Gaia sells service contracts and mobile devices of telecoms carriers at 282 directly operated carrier shops nationwide (DoCoMo, 172; au, 70; Softbank, 36, Y!mobile, 1, and Rakuten Mobile, 3), and sells through a total of 1,230 carrier shops (figures as of end-September 2016). It also sells service plans and handsets through secondary distributors such as multi-brand dealers and electronics retailers. In addition, T-Gaia directly manages stores called Smart Labo where it sells its own smartphone accessories.

  The main source of earnings is commissions from telecoms carriers for selling their

Mobile segment is core business

- Mobile: Main earnings source is commissions from telecoms operators for selling mobile service contracts and handsets
- Solutions: Provides businesses with mobile services, handsets, and fixed line networks; earnings come from telecoms commissions, earnings from fiber-optic wholesale and secondary wholesale activities, and provision of movino star (service for managing telecom networks and invoicing IDs)
- Settlement and Other: Earnings come from a fixed commission on transaction value of prepaid eGift cards and the Overseas business

service contracts and products. Commissions include one-time sales commissions*; recurring commissions (a share of subscriber fees for network access); and other commissions (for store operations such as handling service plan changes and payment collections).

* One-time sales commissions: Amounts vary depending on the carrier, but Shared Research understands that they are generally subject to complex rules based on sales terms. Telecoms carriers procure devices and related products from manufacturers, which distributors buy and then sell to consumers through carrier shops and other outlets. It is our understanding that prices for handsets sold to consumers are sometimes set lower than their procurement price from the telecoms carriers. When they are lower, one-time sales commissions received from the telecoms carriers cover the gap between the sales price and the procurement price. The remainder becomes gross profit for the distributor.

T-Gaia: directly managed stores and agents by region, total mobile phone subscribers per shop (end-September 2016)

(Subscribers, stores)	Hokkaido	Tohoku	Kanto and Koshinetsu	Hokuriku	Chubu	Kansai	Chugoku	Shikoku	Kyushu	Total
Directly managed and agency stores	44	66	260	35	195	244	97	35	254	1,230
% of total	3.6%	5.4%	21.1%	2.8%	15.9%	19.8%	7.9%	2.8%	20.7%	100.0%
No. of directly managed stores	19	27	90	12	39	25	31	13	26	282
No. of agency stores	25	39	170	23	156	219	66	22	228	948
Total subscribers for the three mobile carriers ('000)	5,330	8,425	78,511	2,890	16,001	22,359	7,501	3,748	14,781	159,548
% of total	3.3%	5.3%	49.2%	1.8%	10.0%	14.0%	4.7%	2.3%	9.3%	100.0%
NTT DoCoMo	2,366	4,015	37,206	1,376	6,230	9,298	3,559	2,007	6,886	72,943
KDDI (au)	1,917	2,775	20,035	885	5,371	7,799	2,409	1,110	4,938	47,237
Softbank	1,047	1,636	21,271	629	4,400	5,263	1,534	631	2,957	39,368
Total subscribers per T-Gaia store ('000)	121	128	302	83	82	92	77	107	58	130

Source: Shared Research based on Telecommunications Carriers Association and company data

- **Solutions business (4.1% of sales, 15.0% of operating profit, OPM of 9.2%)**: In this segment the company provides businesses with mobile services, handsets, and related products. It also provides mobile device management (MDM)[1], kitting[2], security, help desk and call center support, as well as movino star—a telecoms network and ID management service that includes centralized invoicing—as an ASP[3] (442,000 invoicing IDs as of end-September 2016). T-Gaia also provides fiber-optic broadband internet such as FTTH to both companies and individuals. In April 2015, it began offering TG Hikari, where it leases fiber-optic broadband access (Flet's Hikari) from NTT East and NTT West and wholesales it under the Hikari collaboration business model.[4] It also conducts secondary wholesale of fiber-optic access to more than 100 electrical contractors as a Fixed Virtual Network Enabler (FVNE). This entails collaboration with electrical contractors specializing in telecoms construction, maintenance, and support who have numerous SME customers, and leads to ongoing revenue streams for T-Gaia[5].

  Profits come from commissions from mobile phone carriers (NTT DoCoMo, KDDI, Softbank etc.) and fixed line operators (NTT East and NTT West), earnings from wholesaling and secondary wholesaling of fiber-optics, and revenue from solution services such as movino star.

1. MDM (Mobile Device Management): Centralized management of devices such as smartphones and tablets used in business
2. Kitting: Installation of computers, peripheral equipment, and networks involving assembly, layout, wiring, installation of operating systems, and other necessary software and setup work. By outsourcing to a specialist provider, customers can save time and costs, and avoid installation mistakes
3. ASP (Application Service Provider): Operator that supplies application software and other services (or functions) over networks
4. Hikari collaboration: A business model entailing bundling fiber-optic access leased from NTT East and NTT West with proprietary telecoms services to offer a more convenient service to end-users
5. T-Gaia was shifting from the previous business model of relying mainly on one-time commissions to one based on recurring revenue streams through wholesaling and secondary wholesaling products

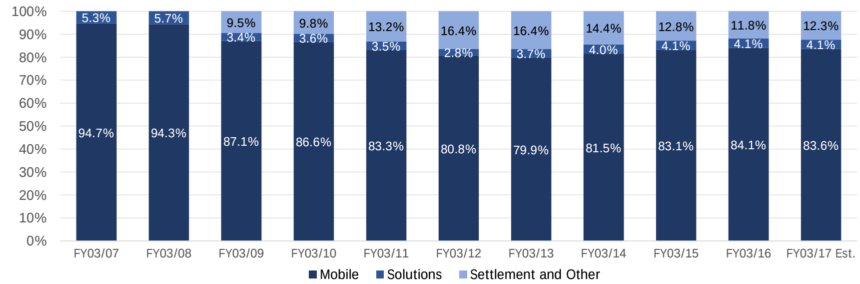
Industry-specific initiatives in the Solutions business

- **Collaboration with SRJ (education industry):** T-Gaia acquired a 40% stake in SRJ, a subsidiary of major tutoring company With-us Corp, on March 31, 2016. The aim is to cooperate in the tablet solutions business. T-Gaia will provide tablets as well as device support and SRJ will provide tablet solutions. SRJ established a new company, V-Growth, to provide one-stop bundled services comprising tablets, telecoms access, and operations monitoring. The two companies plan to conduct joint marketing, primarily to private schools. T-Gaia also aims to offer industry-specific tablet solutions to areas where ICT use is expected to grow, such as the medical and nursing care fields.
- **Tie-up with US-based Diary (healthcare industry):** On November 14, 2016, T-Gaia concluded an exclusive sales agreement with The Diary Corporation (US), a healthcare service provider. Both parties agreed to jointly run the Solutions segment, which links medical treatment, nursing, and home care.
- **Settlement and Other businesses (11.8% of sales, 10.2% of operating profit, OPM of 2.2%):** This segment comprises the Settlement and Overseas businesses. In the Settlement business the company sells prepaid eGift cards for shopping on websites operated by Apple, Google, and Amazon at convenience stores in Japan and Singapore. At convenience stores in Japan it also sells prepaid electronic money (WebMoney and BitCash) that use PINs.

  Profits mainly come from commissions as a percentage of the transaction value in the Settlement business.

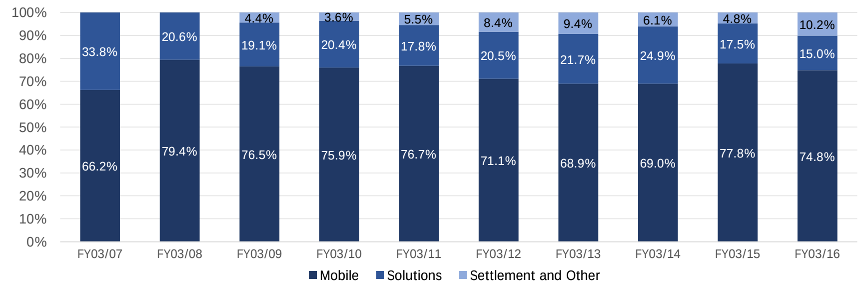
  Note: The accounting treatment of gift card and PIN-enabled electronic money differs. For gift cards, only commissions are recorded as sales, whereas for PIN-enabled electronic money, the entire transaction value is recorded as sales. In recent years there has been a shift in the sales mix from electronic money to gift cards, so it appears that segment sales are declining (FY03/14–16, see the Earnings section), but total transaction volume was steadily growing for both electronic money and gift cards.

Sales breakdown by segment



Source: Shared Research based on company data

Operating profit breakdown by segment



Source: Shared Research based on company data

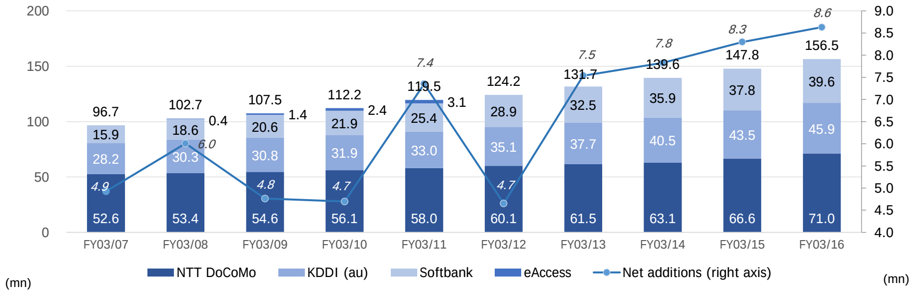
Market conditions

Mobile services market in Japan

As of the end of September 2016, the number of mobile device subscribers in Japan (160mn) outpaced the Japanese population of 127mn people. This reflects multiple mobile device ownership (tablets with internet access and smartphones), as well as an increase in MVNO (mobile virtual network operator) subscribers. While net subscriber additions were slowing for Softbank and KDDI (au), they were on an upswing for NTT DoCoMo. The industry overall was showing upward trends in the number of subscribers, but most of this growth stemmed from multi-device ownership (tablets) and more MVNO subscribers, not an increase in primary device service contracts.

Domestic mobile phone subscriber numbers: 157mn as of the end of June 2016, exceeding the Japanese population of 127mn

Mobile phone subscriber numbers and growth trends in Japan (mn people)



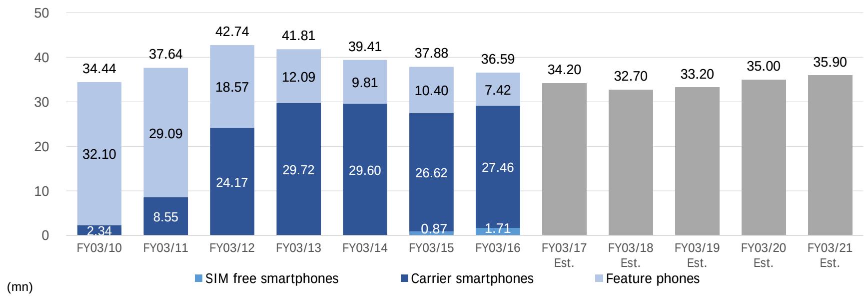
Source: Shared Research based on Telecommunications Carriers Association data
Note: FY03/07 and FY03/08 figures for KDDI (au) include data for Tu-Ka

Mobile device shipments

According to a report published on MM Research Institute's website in May 2016 "Overview of domestic mobile phone shipments for FY 2015" (Japanese language link: https://www.m2ri.jp/news/detail.html?id=12), in fiscal 2015, domestic mobile phone shipments fell by 5.6% YoY to 36.6mn units, falling for the fourth consecutive year. MM Research Institute forecasts a recovery starting in fiscal 2019 ahead of the full-scale rollout of 5G mobile services.

Domestic mobile phone shipments: downward trend following FY03/12 peak

Domestic mobile phone shipments (mn units)



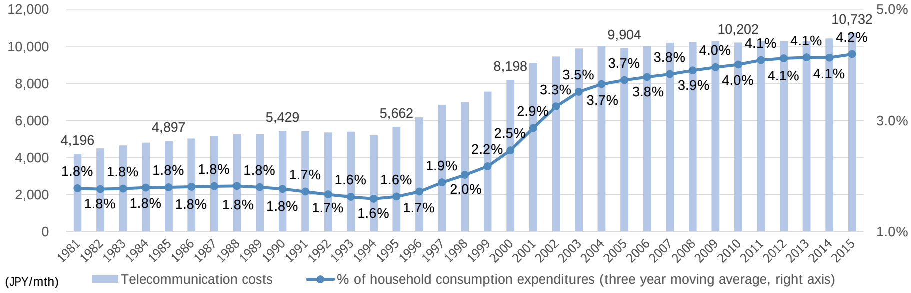
Source: Shared Research based on MM Research Institute data

Telecoms costs' share of household consumption expenditures

Telecoms costs as a share of household consumption expenditure have been increasing since 1997 (from 1.7% in 1997 to 4.2% in 2015), accompanying the spread of mobile phones and smartphones. As such, the Japanese government and Ministry of Internal Affairs and Communications have been urging mobile phone operators to lower their service prices.

Telecoms costs' share of household consumption expenditure rising since 1997. Japanese government and Ministry of Internal Affairs and Communications urging mobile phone operators to lower their service prices

Telecoms costs as a share of household consumption expenditure



Source: Shared Research based on Family Income and Expenditure Survey data from Ministry of Internal Affairs and Communications

Telecoms regulations

Moves to tighten mobile device sales regulations: revised Telecommunications Business Law, guidelines on appropriate smartphone sales subsidies, and guidelines from Japan Fair Trade Commission

Activities by sales agents of telecoms carriers are controlled by laws and regulations including the Telecommunications Business Law, Antimonopoly Act (Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade), Premiums and Representations Act (Act Against Unjustifiable Premiums and Misleading Representations), and Act on the Protection of Personal Information.

- **Revised Telecommunications Business Law** (effective May 21, 2016): New consumer protection provisions were introduced, specifically, the obligation to provide documentation (obligation of telecoms operators to supply documentation without delay following the signing of a contract), introduction of a cooling-off period (enabling consumers to unilaterally cancel a contract within eight days of receiving documentation), prohibition of misrepresentation, prohibition of continued solicitation, obligation to provide training for distributors (telecoms operators required to provide guidance to distributors). As a result, T-Gaia now spends an average of 20 more minutes with each customer, which it is handling by ensuring appropriate personnel allocation. The company also established the National Association of Mobile-phone Distributors to provide a safe and secure consumer environment (chaired by T-Gaia advisor, Tetsuro Takeoka). As of September 31, 2016, there were 132 members and 6,933 stores (roughly 83% of all carrier shops). The association approved the introduction of a safe shop certification system on September 8, 2016, while maintaining neutrality, and certification stickers were slated to be issued starting January 2017.
- **Guidelines regarding appropriate subsidies for smartphones**: Addresses excessive discount sales of smartphones through sales subsidies (prohibits sale of effectively free devices).
- **Antimonopoly Act:** Cases that possibly violated the Antimonopoly Act summarized in the guidelines by Japan Fair Trade Commission (August 2016). Under scrutiny was bundling of contracts and handsets; telecoms carriers fixing handset sales prices by model and through installment payment contracts to restrict flexible handset pricing by distributors; limiting preinstallation of other companies' apps and default installation of proprietary apps; handset manufacturers restricting telecoms carriers from conducting trade-ins and sale of pre-owned handsets in Japan; and telecoms carriers buying pre-owned handsets at unreasonably high prices.

Competition

Competitors include Conexio, Hikari Tsushin, ITX, Kanematsu Communications, TDmobile, Bell-Park, and Fujitsu Personal System

There are numerous mobile device distributors. Under telecoms carriers are primary distributors (who directly procure handsets etc. from carriers and sell these products themselves, or wholesale them to secondary distributors and below) and secondary distributors (who sell handsets etc. procured from primary distributors). Many of the carrier shops for DoCoMo, au, and Softbank are operated by primary distributors.

Primary distributors deal directly with carriers, so they need the funding capacity to procure large volumes of mobile devices, which they hold as inventory. In the past large corporations such as major trading houses* and phone manufacturers operated distributors. Now, the industry is consolidating and distributors are merging.

Major companies that operate primary distributors (competitors) are as follows.

- Conexio (9422): Formerly ITC Networks (Itochu, Hitachi, and Panasonic affiliated) distributor primarily for NTT DoCoMo
- MX Mobiling (not listed): Consolidated subsidiary of Marubeni (8002; Marubeni and NEC affiliated), distributor primarily for NTT DoCoMo
- Hikari Tsushin (9435): Independent distributor mainly for Softbank and KDDI (au)
- Kanematsu Communications: Consolidated subsidiary of Kanematsu (8020; Kanematsu and Mitsubishi Electric affiliated), distributor primarily for NTT DoCoMo. Plans to merge with Diamondtelecom
- Diamondtelecom: Wholly owned subsidiary of Kanematsu (8020) acquired Diamondtelecom from Mitsubishi Electric in April 2016 in absorption-type merger. Plans to merge with Kanematsu Communications
- ITX (not listed): Consolidated subsidiary of Nojima (7419; Sojitz and Olympus affiliated), distributor mainly for NTT DoCoMo and KDDI (au)
- TDmobile: Consolidated subsidiary of Toyota Tsusho (8015) and equity-method affiliate of Denso (6902), distributor primarily for NTT DoCoMo and KDDI (au)
- Bell-Park (9441): Independent, distributor mainly for Softbank

*T-Gaia was created from the telecoms distributors of three trading companies (Mitsui, Mitsubishi, and Sumitomo). These three trading companies were also investors in the New Common Carriers or NCCs at the time of their establishment. NCC is an umbrella term for companies that were formed in 1985 during telecoms deregulations as new rivals to NTT. T-Gaia, formed out of investee companies of the three trading companies, originally had close ties to the NCCs, while Itochu and Marubeni had strong ties with NTT.

Major mobile device distributors (by sales volume in 2015)

	Ticker	FY	Sales (JPYmn)	OP (JPYmn)	OPM	ROA	ROE	Equity ratio	BPS (JPY)	EPS Est. (JPY)	Description (incl. M&A history)
T-Gaia Corporation	3738	FY03/16	620,074	15,666	2.5%	17.8%	29.3%	41.7%	138.11	172.72	Group companies for MITSUI & CO., Mitsubishi Corporation, Sumitomo Corporation, as well as Japan Radio, Sanyo Electric, Calsonic Kansei
Conexio Corporation	9422	FY03/16	281,307	9,203	3.3%	9.3%	22.1%	30.8%	667.23	127.41	Former ITC Network (ITOCHU, Hitachi, and Panasonic)
MX Mobiling Co., Ltd.	Not listed	FY03/17	284,500	na	na	na	na	na	na	na	Consolidated subsidiary of Marubeni (8002), merged with Marubeni Telecom in February 2014 (Marubeni and NEC)
HIKARI TSUSHIN, INC.	9435	FY03/16	574,523	37,483	6.5%	9.5%	15.3%	40.6%	3,588.96	645.61	Independent; SHOP segment (sales:JPY271.4bn, OP: JPY13.6bn)
Kanematsu Communications Limited	Not listed	FY03/16	139,065	na	na	na	na	na	na	na	Consolidated subsidiary of Kanematsu (8020); plans merger with Diamondtelecom
Diamondtelecom, Inc.	Not listed	FY03/16	na	na	na	na	na	na	na	na	Wholly owned subsidiary of Kanematsu (8020) acquired Diamondtelecom from Mitsubishi Electric in April 2016 in absorption-type merger. Plans to merge with Kanematsu Communications
ITX Corporation	Not listed	FY03/16	178,862	3,765	2.1%	3.2%	34.4%	18.9%	na	na	Consolidated subsidiary of Nojima (7419) (Sojitz and Olympus)
TD mobile Corporation	Not listed	FY03/16	106,800	na	na	na	na	na	na	na	Consolidated subsidiary of Toyota Tsusho (8015) and equity-method affiliate of Denso (6902)
Bell-Park Co., Ltd.	9441	FY12/15	90,145	3,212	3.6%	11.5%	11.6%	53.8%	2,531.41	233.87	Independent

Source: Shared Research based on company website data
Note: Kanematsu Communications and Diamondtelecom are listed above ITX Corporation since both companies will have a higher combined sales volume after merging

Earnings trends

FY03/17 profits temporarily may stagnate due to investments for future growth

FY03/16 earnings

FY03/16 earnings: Sales down -3.4% YoY, operating profit up 9.5%
・OP up in Mobile, Settlement and Other businesses

Sales were JPY620.1bn (-3.4% YoY), operating profit JPY15.7bn (+9.5%), recurring profit JPY15.6bn (+10.0%), and net income attributable to parent company shareholders

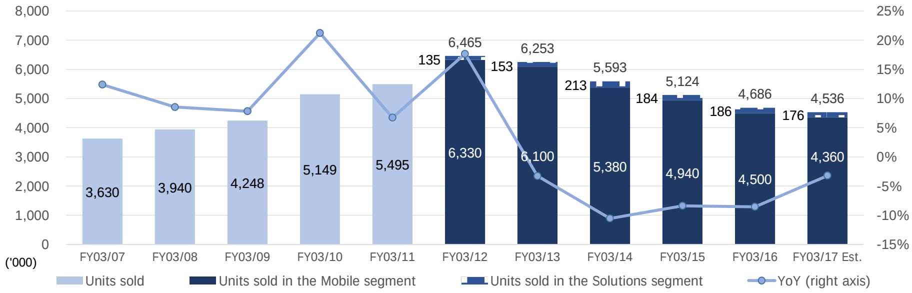
JPY9.5bn (+22.6%), with record high profits. The share of smartphone sales increased 1.3pp YoY to 64.4% of total sales, and tablet sales rose 2.2pp to 13.8%.

Mobile business

The mainstay Mobile business (84.1% of total sales and 74.8% of operating profit) saw sales of JPY521.2bn (-2.3% YoY) and operating profit of JPY11.7bn (+5.3% YoY). As the mobile phone industry matures and excessive price competition subsides, subscriber churn is slowing, causing handset unit sales to decline (-8.9% YoY). On the other hand, the average price per mobile phone* was rising (+9.2% YoY) after the adjustment of mobile phone subsidies (to prevent sales of effectively free devices). The decline in handset unit sales was a large reason for the 2.3% drop in segment sales. However, the company increased average customer spend by providing a variety of products and services such as accessories, tablets, and fiber-optic broadband access that meet customer needs. As a result, segment operating profit increased 5.3%.

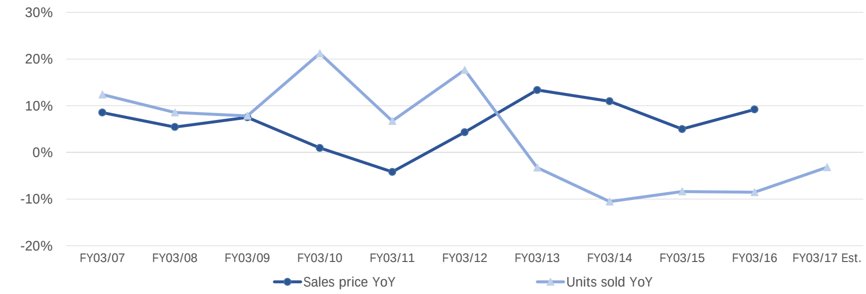
*Average sales of mobile phone in the Mobile business divided by the number of units sold.

Number of mobile devices sold (units)



Source: Shared Research based on company data

Average mobile device sales price, units sold (YoY)



Source: Shared Research based on company data

Solutions business

Segment sales were JPY25.6bn (-2.5%) and operating profit was JPY2.4bn (-5.6%). The sales decline is due to a decline in new contracts for conventional fiber-optic broadband services as the company changes its fixed-line product business model. The operating profit decline is a result of spending on developing personnel and updating systems.

Settlement and Other businesses

Segment sales were JPY73.2bn (-10.9% YoY) and operating profit was JPY1.6bn (+132.6%). The sales decline is attributable to changes in the product mix from PIN-enabled electronic money (where the total value is booked as sales) to gift cards (where only the commissions are booked as sales). Operating profit growth is due to robust gift card sales, one-time earnings, and improved results in the Overseas business.

1H FY03/17 earnings

1H FY03/17 earnings: Sales down 10.0% YoY, OP down 8.1%

Sales were JPY256.4bn (-10.0% YoY), operating profit JPY6.0bn (-8.1%), recurring profit JPY6.0bn (-7.7%), and net income attributable to parent company shareholders JPY4.0bn

(+5.1% due to gains on the sale of securities and lower corporate taxes). The share of smartphone sales increased 0.8pp YoY to 65.1% of total sales, and the share of tablet sales increased 2.2pp to 11.4%.

Mobile business

Segment sales were JPY213.7bn (-8.8% YoY), and operating profit was JPY4.5bn (+0.6%). Handset unit sales were 2.0mn (-4.8%), and the number of domestic sales locations was roughly 2,100 (-2.2%). Sales declined YoY, but the company worked on improving customer service and profitability by improving its value-added proposals of accessories, tablets, and fiber-optic broadband services. Operating profit rose as excessive sales competition calmed and handset selling prices stabilized, increasing the company's gross profit per unit.

Solutions business

Segment sales were JPY10.4bn (-23.0% YoY), and operating profit was JPY829mn (-39.8%). The sales drop is attributable to lower mobile device unit sales (-26.8%) and the change in the business model of fixed-line products from one-time sales to a recurring revenue model. Operating profit fell due to sales of TG Hikari (sales of leased fiber-optic broadband service), sales promotion costs for secondary wholesaling of fiber-optics to partner companies, and investments to improve support systems.

Settlement business

Segment sales were JPY32.2bn (-13.1% YoY), and operating profit was JPY694mn (-0.3%). Sales dropped as the product mix changed, but gift card sales were robust, and the overall transaction value (total gift card value) increased YoY.

FY03/17 earnings forecast

FY03/17 company forecasts: Sales up 0.7% YoY, OP down 4.3%
Heavy spending on personnel and stores

The company forecasts full-year sales of JPY616.0bn (-0.7% YoY), operating profit of JPY15.0bn (-4.3%), recurring profit of JPY15.0bn (-4.3%), and net income attributable to parent company shareholders of JPY9.7bn (+2.1%). It also estimates handset sales volume of 4.5mn units (-3.2% YoY). Despite projected improvement in the CoGS-to-sales ratio, it expects operating profit to fall because of a rise in the SG&A expenses due strategic spending on personnel and systems for future growth in each segment, in addition to opening, relocating, renovating, and enlarging stores. Note that 1H sales reached 41.6% of the company's full-year FY03/17 target but have room to grow since the peak shopping period is in March. The company said that through end-Q2, sales were slightly below its target, but profits were generally as expected.

Segment performance (sales)

Subsegment performance	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17 Est.
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total sales	355,401	375,524	431,331	566,057	595,217	712,683	736,850	707,004	642,095	620,074	616,000
YoY	18.2%	5.7%	14.9%	31.2%	5.2%	19.7%	3.4%	-4.1%	-9.2%	-3.4%	-0.7%
Mobile	-	-	-	-	-	568,793	588,670	576,439	533,593	521,221	515,000
(former Mobile)	336,538	354,297	375,777	490,217	495,707	575,738	-	-	-	-	-
YoY	17.2%	5.3%	6.1%	30.5%	1.1%	16.1%	3.5%	-2.1%	-7.4%	-2.3%	-1.2%
% of total sales	94.7%	94.3%	87.1%	86.6%	83.3%	80.8%	79.9%	81.5%	83.1%	84.1%	83.6%
Mobile phones	157,439	180,169	208,843	255,539	261,307	314,017	343,040	335,716	323,670	321,933	
YoY	22.0%	14.4%	15.9%	22.4%	2.3%	20.2%	9.2%	-2.1%	-3.6%	-0.5%	
% of segment sales	44.3%	48.0%	48.4%	45.1%	43.9%	44.1%	46.6%	47.5%	50.4%	61.8%	
Mobile phones units sold ('000)	3,630	3,940	4,248	5,149	5,495	6,330	6,100	5,380	4,940	4,500	4,360
YoY	12.4%	8.5%	7.8%	21.2%	6.7%	15.2%	-3.6%	-11.8%	-8.2%	-8.9%	-3.1%
Mobile phone sales price (JPY/unit)	43,372	45,728	49,163	49,629	47,554	49,608	56,236	62,401	65,520	71,541	
YoY	8.5%	5.4%	7.5%	0.9%	-4.2%	4.3%	13.4%	11.0%	5.0%	9.2%	
Agency commissions	179,098	174,127	166,934	234,677	234,399	261,720	245,629	240,723	209,922	199,288	
YoY	13.4%	-2.8%	-4.1%	40.6%	-0.1%	11.7%	-6.1%	-2.0%	-12.8%	-5.1%	
% of segment sales	50.4%	46.4%	38.7%	41.5%	39.4%	36.7%	33.3%	34.0%	32.7%	38.2%	
No. of domestic sales locations	-	-	-	3,487	3,573	3,412	3,101	2,388	2,170	2,147	
YoY	-	-	-	na	2.5%	-4.5%	-9.1%	-23.0%	-9.1%	-1.1%	
Carrier shops	-	-	-	1,168	1,199	1,236	1,241	1,221	1,194	1,241	
YoY	-	-	-	na	2.7%	3.1%	0.4%	-1.6%	-2.2%	3.9%	
% of total locations	-	-	-	33.5%	33.6%	36.2%	40.0%	51.1%	55.0%	57.8%	
Dealers	-	-	-	720	646	596	552	324	250	232	
YoY	-	-	-	na	-10.3%	-7.7%	-7.4%	-41.3%	-22.8%	-7.2%	
% of total locations	-	-	-	20.6%	18.1%	17.5%	17.8%	13.6%	11.5%	10.8%	
Mass retailers	-	-	-	1,599	1,728	1,580	1,302	830	712	661	
YoY	-	-	-	na	8.1%	-8.6%	-17.6%	-36.3%	-14.2%	-7.2%	
% of total locations	-	-	-	45.9%	48.4%	46.3%	42.0%	34.8%	32.8%	30.8%	
Accessory stores	-	-	-	na	na	na	6	13	14	13	
YoY	-	-	-	na	na	na	na	116.7%	7.7%	-7.1%	
% of total locations	-	-	-	na	na	na	na	0.5%	0.6%	0.6%	
Sales per location	-	-	-	141	140	165	181	210	234	241	
YoY	-	-	-	na	-0.1%	17.4%	9.7%	16.2%	11.5%	3.1%	
No. of domestic sales locations (old standard)	2,112	2,422	3,444	3,514	-	-	-	-	-	-	
YoY	na	14.7%	42.2%	2.0%	-	-	-	-	-	-	
Directly managed stores	na	na	394	371	-	-	-	-	-	-	
Agency stores	1,027	1,218	1,476	1,544	-	-	-	-	-	-	
Mass retailers	1,085	1,204	1,574	1,599	-	-	-	-	-	-	
Sales per employee	266	184	151	na	na	109	98	87	91	100	
No. of employees	234	371	371	na	776	569	913	1,097	1,204	1,279	
No. of temporary employees	1,137	2,110	2,120	na	4,823	4,441	6,074	5,128	4,263	3,697	
Solutions	-	-	-	-	-	26,902	27,043	28,549	26,263	25,618	25,000
(former Network)	18,863	21,227	14,630	20,529	21,036	19,765	-	-	-	-	-
YoY	37.8%	12.5%	-31.1%	40.3%	2.5%	na	36.8%	5.6%	-8.0%	-2.5%	-2.4%
% of total sales	5.3%	5.7%	3.4%	3.6%	3.5%	2.8%	3.7%	4.0%	4.1%	4.1%	4.1%
Other businesses	6,597	10,689	21	129	-	-	4,254	6,150	7,572	8,937	
YoY	707.5%	62.0%	-99.8%	514.3%	nm	nm	nm	44.6%	23.1%	18.0%	
% of segment sales	35.0%	50.4%	0.1%	0.6%	0.0%	0.0%	15.7%	21.5%	28.8%	34.9%	
Agency commissions	12,266	10,537	14,609	20,399	21,036	19,765	22,789	22,399	18,690	16,680	
YoY	-4.7%	-14.1%	38.6%	39.6%	3.1%	-6.0%	15.3%	-1.7%	-16.6%	-10.8%	
% of segment sales	65.0%	49.6%	99.9%	99.4%	100.0%	100.0%	84.3%	78.5%	71.2%	65.1%	
Mobile phones units sold ('000)	na	na	na	na	na	135	153	213	184	186	176
YoY	na	na	na	na	na	na	13.3%	39.2%	-13.6%	1.1%	-5.4%
movino star ID holders ('000)	na	na	na	na	228	286	326	369	395	493	na
YoY	na	na	na	na	na	25.4%	14.0%	13.2%	7.0%	24.8%	na
Settlement and Other	-	-	-	-	-	116,987	121,136	102,014	82,238	73,234	76,000
(former Prepaid Settlement Service)	-	-	40,923	55,311	78,473	117,180	-	-	-	-	-
YoY	-	-	na	35.2%	41.9%	na	3.5%	-15.8%	-19.4%	-10.9%	3.8%
% of total sales	-	-	9.5%	9.8%	13.2%	16.4%	16.4%	14.4%	12.8%	11.8%	12.3%
Other businesses	-	-	38,473	54,650	78,244	116,875	117,801	95,622	75,055	64,408	
YoY	-	-	na	42.0%	43.2%	49.4%	0.8%	-18.8%	-21.5%	-14.2%	
% of segment sales	-	-	94.0%	98.8%	99.7%	99.7%	97.2%	93.7%	91.3%	87.9%	
Agency commissions	-	-	2,449	660	229	304	3,335	6,392	7,182	8,825	
YoY	-	-	na	-73.1%	-65.3%	32.8%	997.0%	91.7%	12.4%	22.9%	
% of segment sales	-	-	6.0%	1.2%	0.3%	0.3%	2.8%	6.3%	8.7%	12.1%	
PIN and gift card sellers	-	-	na	na	na	na	na	49,600	52,200	53,000	
Stores selling PIN-enabled electric money	-	-	na	39,766	41,225	42,670	na	na	51,600	51,400	
Stores selling gift cards	-	-	na	na	na	na	na	na	600	1,600	
China Unicom shops	-	-	-	-	-	-	7	10	8	8	
YoY	-	-	-	-	-	-	na	42.9%	-20.0%	0.0%	
Major carriers											
KDDI	74,075	77,475	78,743	115,296	108,963	119,356	108,497	109,536	95,624	97,168	
% of total sales	20.8%	20.6%	18.3%	20.4%	18.3%	16.7%	14.7%	15.5%	14.9%	15.7%	
NTT DoCoMo	41,048	39,041	59,019	70,376	73,954	87,098	86,079	75,462	66,981	59,472	
% of total sales	11.5%	10.4%	13.7%	12.4%	12.4%	12.2%	11.7%	10.7%	10.4%	9.6%	

Source: Shared Research based on company data

Segment performance (operating profit)

Operating profit by segment	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17 Est.
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Operating profit	7,314	7,324	12,401	15,193	14,524	14,873	11,807	12,760	14,306	15,666	15,000
YoY	16.4%	0.1%	69.3%	22.5%	-4.4%	2.4%	-20.6%	8.1%	12.1%	9.5%	-4.3%
OPM	2.1%	2.0%	2.9%	2.7%	2.4%	2.1%	1.6%	1.8%	2.2%	2.5%	2.4%
Mobile	-	-	-	-	-	10,569	8,137	8,799	11,123	11,718	11,400
(former Mobile)	4,844	5,816	9,484	11,534	11,144	11,147	-	-	-	-	-
YoY	-	-	nm	21.6%	-3.4%	na	-23.0%	8.1%	26.4%	5.3%	-2.7%
% of operating profit	66.2%	79.4%	76.5%	75.9%	76.7%	71.1%	68.9%	69.0%	77.8%	74.8%	76.0%
OPM	1.4%	1.6%	2.5%	2.4%	2.2%	1.9%	1.4%	1.5%	2.1%	2.2%	2.2%
Solutions	-	-	-	-	-	3,054	2,560	3,182	2,498	2,357	2,470
(former Network)	2,470	1,507	2,367	3,104	2,582	2,441	-	-	-	-	-
YoY	-	-	nm	31.1%	-16.8%	na	-16.2%	24.3%	-21.5%	-5.6%	4.8%
% of operating profit	33.8%	20.6%	19.1%	20.4%	17.8%	20.5%	21.7%	24.9%	17.5%	15.0%	16.5%
OPM	13.1%	7.1%	16.2%	15.1%	12.3%	11.4%	9.5%	11.1%	9.5%	9.2%	9.9%
Settlement and Other	-	-	-	-	-	1,249	1,109	778	684	1,591	1,130
(former Prepaid Settlement Service)	-	-	549	553	797	1,284	-	-	-	-	-
YoY	-	-	na	0.7%	44.1%	na	-11.2%	-29.8%	-12.1%	132.6%	-29.0%
% of operating profit	-	-	4.4%	3.6%	5.5%	8.4%	9.4%	6.1%	4.8%	10.2%	7.5%
OPM	-	-	1.3%	1.0%	1.0%	1.1%	0.9%	0.8%	0.8%	2.2%	1.5%

Source: Shared Research based on company data

Quarterly performance

Cumulative (JPYmn)	FY03/16 Q1 Consolidated	Q2	Q3	Q4	FY03/17 Q1 Consolidated	Q2	Q3	Q4
Total sales	135,936	284,994	453,284	620,074	123,067	256,355		
YoY	7.1%	-0.8%	-2.3%	-3.4%	-9.5%	-10.0%		
Mobile	108,941	234,411	378,593	521,221	102,003	213,740		
YoY	10.2%	1.3%	-0.9%	-2.3%	-6.4%	-8.8%		
% of total sales	80.1%	82.3%	83.5%	84.1%	82.9%	83.4%		
Mobile phones units sold ('000)	980	2,070	3,270	4,500	930	1,970		
YoY	1.0%	-6.8%	-8.7%	-8.9%	-5.1%	-4.8%		
No. of domestic sales locations	2,178	2,147	2,161	2,147	2,116	2,100		
YoY	-6.6%	-4.3%	-3.2%	-1.1%	-2.8%	-2.2%		
Carrier shops	1,233	1,237	1,239	1,241	1,223	1,230		
Dealers	236	224	236	232	223	213		
Mass retailers	696	672	672	661	657	645		
Accessory stores	13	14	14	13	13	12		
Solutions	7,777	13,533	18,760	25,618	5,095	10,416		
YoY	14.9%	2.0%	-2.6%	-2.5%	-34.5%	-23.0%		
% of total sales	5.7%	4.7%	4.1%	4.1%	4.1%	4.1%		
Mobile phones units sold ('000)	54	97	136	186	33	71		
YoY	17.4%	6.6%	-	1.1%	-38.9%	-26.8%		
movino star ID holders ('000)	402	415	424	433	446	442		
YoY	7.2%	11.3%	10.1%	9.6%	10.9%	6.5%		
Settlement and Other	19,216	37,050	55,930	73,234	15,968	32,198		
YoY	-9.8%	-13.3%	-11.1%	-10.9%	-16.9%	-13.1%		
% of total sales	882.3%	1725.7%	2588.2%	3411.0%	754.6%	1533.2%		
PIN and gift card sellers	54,300	54,600	55,200	55,300	56,100	56,800		
YoY	na	6.8%	6.8%	5.9%	3.3%	4.0%		
China Unicom shops	8	8	7	8	7	7		
YoY	-20.0%	-20.0%	-36.4%	0.0%	-12.5%	-12.5%		
CoGS	121,398	255,175	408,184	556,693	108,916	227,194		
YoY	7.6%	-1.1%	-2.7%	-4.0%	-10.3%	-11.0%		
CoGS ratio	89.3%	89.5%	90.1%	89.8%	88.5%	88.6%		
Gross profit	14,537	29,818	45,099	63,381	14,151	29,160		
YoY	2.5%	1.5%	0.7%	2.3%	-2.7%	-2.2%		
GPM	10.7%	10.5%	9.9%	10.2%	11.5%	11.4%		
SG&A expenses	11,475	23,304	35,291	47,714	11,492	23,171		
YoY	-1.5%	-0.8%	0.6%	0.1%	0.1%	-0.6%		
SG&A-to-sales ratio	8.4%	8.2%	7.8%	7.7%	9.3%	9.0%		
Operating profit	3,062	6,514	9,808	15,666	2,659	5,989		
YoY	21.0%	11.0%	1.2%	9.5%	-13.2%	-8.1%		
OPM	2.3%	2.3%	2.2%	2.5%	2.2%	2.3%		
Mobile	1,884	4,439	7,110	11,718	1,943	4,465		
YoY	8.0%	2.4%	-3.8%	5.3%	3.1%	0.6%		
OPM	1.7%	1.9%	1.9%	2.2%	1.9%	2.1%		
% of operating profit	61.5%	68.1%	72.5%	74.8%	73.1%	74.6%		
Solutions	868	1,377	1,698	2,357	371	829		
YoY	23.6%	7.2%	-8.0%	-5.6%	-57.3%	-39.8%		
OPM	11.2%	10.2%	9.1%	9.2%	7.3%	8.0%		
% of operating profit	28.3%	21.1%	17.3%	15.0%	14.0%	13.8%		
Settlement and Other	309	697	998	1,591	343	694		
YoY	267.9%	176.6%	120.8%	132.6%	11.0%	-0.4%		
OPM	1.6%	1.9%	1.8%	2.2%	2.1%	2.2%		
% of operating profit	10.1%	10.7%	10.2%	10.2%	12.9%	11.6%		
Recurring profit	3,084	6,513	9,785	15,621	2,683	6,014		
YoY	21.8%	11.6%	1.5%	10.0%	-13.0%	-7.7%		
RPM	2.3%	2.3%	2.2%	2.5%	2.2%	2.3%		
Net income	1,838	3,807	5,888	9,498	1,817	4,003		
YoY	38.4%	19.5%	10.4%	22.6%	-1.1%	5.1%		
Net margin	1.4%	1.3%	1.3%	1.5%	1.5%	1.6%		

Quarterly (JPYmn)	FY03/16 Q1 Consolidated	Q2	Q3	Q4	FY03/17 Q1 Consolidated	Q2	Q3	Q4
Total sales	135,936	149,058	168,290	166,790	123,067	133,288		
YoY	7.1%	-7.1%	-4.8%	-6.3%	-9.5%	-10.6%		
Mobile	108,941	125,470	144,182	142,628	102,003	111,737		
YoY	10.2%	-5.3%	-4.2%	-6.0%	-6.4%	-10.9%		
% of total sales	80.1%	84.2%	85.7%	85.5%	82.9%	83.8%		
Mobile phones units sold ('000)	980	1,090	1,200	1,230	930	1,040		
YoY	1.0%	-12.8%	-11.8%	-9.6%	-5.1%	-4.6%		
Solutions	7,777	5,756	5,227	6,858	5,095	5,321		
YoY	14.9%	-11.5%	-12.8%	-2.0%	-34.5%	-7.6%		
% of total sales	5.7%	3.9%	3.1%	4.1%	4.1%	4.0%		
Mobile phones units sold ('000)	54	43	39	50	33	38		
YoY	17.4%	-4.4%	-13.3%	4.2%	-38.9%	-11.6%		
movino star ID holders ('000)	7	13	9	9	13	-4		
YoY	na	nm	-25.0%	-10.0%	85.7%	-130.8%		
Settlement and Other	19,216	17,834	18,880	17,304	15,968	16,230		
YoY	-9.8%	-16.7%	-6.6%	-10.4%	-16.9%	-9.0%		
% of total sales	14.1%	12.0%	11.2%	10.4%	13.0%	12.2%		
PIN and gift card sellers	2,100	300	600	100	800	700		
YoY	na	na	0.0%	-80.0%	-61.9%	133.3%		
CoGS	121,398	133,777	153,009	148,509	108,916	118,278		
YoY	7.6%	-7.9%	-5.2%	-7.6%	-10.3%	-11.6%		
CoGS ratio	89.3%	89.7%	90.9%	89.0%	88.5%	88.7%		
Gross profit	14,537	15,281	15,281	18,282	14,151	15,009		
YoY	2.5%	0.6%	-0.8%	6.2%	-2.7%	-1.8%		
GPM	10.7%	10.3%	9.1%	11.0%	11.5%	11.3%		
SG&A expenses	11,475	11,829	11,987	12,423	11,492	11,679		
YoY	-1.5%	-0.2%	3.5%	-1.4%	0.1%	-1.3%		
SG&A-to-sales ratio	8.4%	7.9%	7.1%	7.4%	9.3%	8.8%		
Operating profit	3,062	3,452	3,294	5,858	2,659	3,330		
YoY	21.0%	3.4%	-13.9%	27.0%	-13.2%	-3.5%		
OPM	2.3%	2.3%	2.0%	3.5%	2.2%	2.5%		
Mobile	1,884	2,555	2,671	4,608	1,943	2,522		
YoY	8.0%	-1.3%	-12.7%	23.5%	3.1%	-1.3%		
% of operating profit	61.5%	74.0%	81.1%	78.7%	73.1%	75.7%		
OPM	1.7%	2.0%	1.9%	3.2%	1.9%	2.3%		
Solutions	868	509	321	659	371	458		
YoY	23.6%	-12.5%	-42.9%	1.1%	-57.3%	-10.0%		
% of operating profit	28.3%	14.7%	9.7%	11.2%	14.0%	13.8%		
OPM	11.2%	8.8%	6.1%	9.6%	7.3%	8.6%		
Settlement and Other	309	388	301	593	343	351		
YoY	267.9%	131.0%	50.5%	155.6%	11.0%	-9.5%		
% of operating profit	10.1%	11.2%	9.1%	10.1%	12.9%	10.5%		
OPM	1.6%	2.2%	1.6%	3.4%	2.1%	2.2%		
Recurring profit	3,084	3,429	3,272	5,836	2,683	3,331		
YoY	21.8%	3.7%	-13.9%	28.1%	-13.0%	-2.9%		
RPM	2.3%	2.3%	1.9%	3.5%	2.2%	2.5%		
Net income	1,838	1,969	2,081	3,610	1,817	2,186		
YoY	38.4%	5.9%	-3.0%	49.5%	-1.1%	11.0%		
Net margin	1.4%	1.3%	1.2%	2.2%	1.5%	1.6%		

Source: Shared Research based on company data

Medium-term strategy

Strengthen and develop core businesses, invest in staff and stores

Core strategies

T-Gaia has released medium-term objectives but not numerical sales or profit targets.

Medium-term objectives

- Entrench position as the leading mobile device distributor in Japan
- Grow core businesses (Solutions, Settlement, and Overseas businesses)
- Develop new mobile and internet business opportunities

The company also aims to maintain a dividend payout ratio of at least 30%.

Company-wide strategies

To reach these objectives, T-Gaia has set out the following company-wide strategies, and plans to implement concrete measures daily.

- Train, promote, leverage, and retain personnel, maximizing the potential of each employee
- Continually and strategically manage costs and adopt a cost structure that can respond to market changes
- Flexibly optimize the organization and systems to maximize company-wide results

Sales strategy

Based on these medium-term objectives and company-wide strategies, T-Gaia is developing sales strategies for each business, incorporating them into the strategies of each sales division, and working to implement these measures on a daily basis.

M&A strategy

The company thinks that there is limited scope for organic growth in its mainstay Mobile business. It expects that industry consolidation will accelerate starting with the consolidation of the 8,500 carrier shops in Japan. T-Gaia is considering M&A related to the Mobile business, including mergers with major competitors and acquisitions of prominent local mobile phone distribution companies and businesses.

M&A strategy:
- Limited scope for organic growth in the key Mobile business. With consolidation projected to accelerate, T-Gaia aims to reap the benefits of being a survivor of the shakeout via aggressive investments in personnel and bigger stores

Consolidation among telecoms carriers

Following telecoms deregulation in Japan in 1985, a large number of NCCs (New Common Carriers) entered the market as competitors to the incumbent NTT. Telecoms carriers rarely sell their own services and devices directly to consumers, and instead rely on distributors, leading to the birth of multiple distribution companies such as T-Gaia. Although the policies by the Ministry of Internal Affairs and Communications aimed to promote competition and grow the number of businesses, free competition resulted in a further oligopoly of the three major carriers (NTT, KDDI, and Softbank). Yet despite the accelerating industry consolidation, there are still many distributors.

Chance to reap survivor benefits on the consolidation of distributors

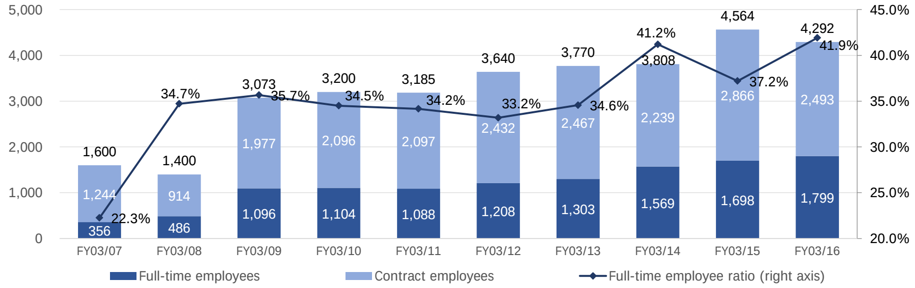
In light of market developments and regulatory changes, Shared Research thinks that consolidation in the mobile phone industry will persist. Slowing mobile phone subscriber growth and carrier changes, as well as changes in the environment for mobile services and handset sales, will likely cause sluggish handset unit sales. Smaller industry peers, which rely heavily on sales volume (leading to low prices and margins), may be acquired by T-Gaia, since it is the largest distributor with the resources to handle the increasing sophistication and functions of telecoms services and devices. Given its plans to invest in personnel and larger shops, we think that T-Gaia stands to gain from the industry consolidation.

Investment in human resources

The company has been increasing the ratio of its full-time employees to develop a stable work force and bring on talented personnel. With a joint investment from J-Com, the company has established a training program called Career Design Academy, spawned from TG Academy (opened in April 2012). This program teaches salespeople of T-Gaia and its agents how to autonomously solve problems that arise on the sales floor, improve customer interactions, and increase product and service knowledge to provide sophisticated explanations and proposals to customers. Further, T-Gaia is continually building up its in-house expertise of how to streamline store operations. T-Gaia plans to market its training program to other companies.

Investment in personnel: growing full-time employee numbers to deal with the increasing sophistication and functions of telecoms services and devices and investing in strengthening its sales force through Career Design Academy; laying the groundwork for M&A activity

Employee count



Source: Shared Research based on company data

Investing in larger shops

As consolidation of carrier shops continues amid the slump in handset demand, customer visits per store is projected to increase. T-Gaia is investing in consolidating, enlarging, and opening new stores, as well as investing in personnel to improve customer service and profit margins.

Investing in consolidating stores and developing larger stores to cope with increasing customer store visitors as the industry consolidates

Business portfolio strategy

In addition to its key Mobile business, T-Gaia aims to nurture the Solutions, Settlement, and Overseas businesses as core businesses. In the Solutions business, one of these focus areas, the company plans to offer businesses a one-stop service that includes handsets and solutions, and expand the TG Hikari wholesale and secondary wholesale businesses. In the Solutions business, it functions as an FVNO and FVNE to be more independent from carriers than typical sales agents. The company is also working on increasing earning capacity and diversifying its revenue sources by expanding its product lineup and expanding its sales channels primarily for gift cards in the Settlement business.

Business portfolio strategy:
- Nurturing the Solutions, Settlement and Overseas businesses as future core businesses

Strengths and weaknesses

Strengths

- **Accumulated sales capabilities and expertise:** With a slowdown in subscriber churn and more telecoms industry regulations (such as limiting mobile device subsidies), handset unit sales are expected to fall. Telecoms carriers are moving away from sales strategies that are based on fierce subscriber churn to ones prioritizing customer lifetime value. In addition, mobile devices are becoming more sophisticated and complicated, and sales agents must be able to handle an increasing number of products and services. In this environment, T-Gaia focuses on employee training and is increasing the proportion of full-time employees to accumulate the expertise to propose products that match customer needs. The company is also working on differentiating itself from peers in terms of service quality.

[Strengths]
- Accumulated sales experience and expertise
- Favorable position for M&A as largest domestic distributor
- Balance of three major telecoms carriers

[Weaknesses]
- Dependent on telecoms carriers and impacted by regulations
- Sales experience from mobile devices not enough to expand to other areas

- **Favorable position for M&A as the largest domestic mobile phone distributor:** T-Gaia is the largest domestic mobile phone distributor (13% share of units sold in Japan in FY03/16), putting it in a favorable position for M&A in an industry where handset sales are falling. With M&A it could further enjoy economies of scale. Following deregulation of the Japanese telecoms industry in 1985, a large number of NCCs (New Common Carriers) entered the market as competitors to incumbent NTT. However, the result of free competition was industry consolidation, with the three major telecoms carriers (NTT, KDDI, and Softbank) dominating. Yet despite the industry consolidation, many distributors of telecoms products and services still remain.
- **Balanced mix of all three major carriers:** Most of the company's competitors operate shops and sell mobile devices for one or two telecoms carriers, but T-Gaia works with all three major carriers. As of end-September 2016, the company had 279 stores for DoCoMo, 432 for au, and 457 for Softbank (62 additional stores for non-major carriers). This enables it to reap economies of scope and lessens the risk of earnings fluctuations due to any particular carrier. Some of T-Gaia's smartphone accessory stores also handle multiple MVNO brands. It also operates Rakuten Mobile stores to target the price-sensitive MVNO-user demographic such as early adopters.

Weaknesses

- **Dependent on telecoms carriers and impacted by regulations:** Distributors are significantly affected by telecoms regulations and carriers' sales policies. While telecoms carriers have variable sales costs, distributors must have fixed personnel to a certain extent since it is the salespeople that give them a competitive edge. When subscriber churn is high, fixed costs are not necessarily a problem, but when subscriber churn slows these costs may become a burden.
- **Sales experience from mobile devices not enough to expand to other areas**: The Mobile business accounted for 84% of total sales and 78% of operating profit (FY03/16). Whether the company can use the accumulated expertise from selling mobile devices to expand outside the telecoms sector is an issue.

Income statement

Income statement											
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17 Est.
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	355,401	375,524	431,331	566,057	595,217	712,683	736,850	707,004	642,095	620,074	616,000
YoY	18.2%	5.7%	na	31.2%	5.2%	na	3.4%	-4.1%	-9.2%	-3.4%	-0.7%
CoGS	328,417	344,354	382,574	504,167	533,933	646,859	670,169	643,694	580,111	556,693	551,150
YoY	18.6%	4.9%	na	31.8%	5.9%	na	3.6%	-4.0%	-9.9%	-4.0%	-1.0%
CoGS ratio	92.4%	91.7%	88.7%	89.1%	89.7%	90.8%	91.0%	91.0%	90.3%	89.8%	89.5%
Gross profit	26,984	31,169	48,757	61,890	61,284	65,823	66,681	63,310	61,984	63,381	64,850
YoY	13.7%	15.5%	na	26.9%	-1.0%	na	1.3%	-5.1%	-2.1%	2.3%	2.3%
GPM	7.6%	8.3%	11.3%	10.9%	10.3%	9.2%	9.0%	9.0%	9.7%	10.2%	10.5%
SG&A expenses	19,669	23,845	36,355	46,697	46,759	50,950	54,873	50,550	47,677	47,714	49,850
YoY	12.7%	21.2%	na	28.4%	0.1%	na	7.7%	-7.9%	-5.7%	0.1%	4.5%
SG&A-to-sales ratio	5.5%	6.3%	8.4%	8.2%	7.9%	7.1%	7.4%	7.1%	7.4%	7.7%	8.1%
Operating profit	7,314	7,324	12,401	15,193	14,524	14,873	11,807	12,760	14,306	15,666	15,000
YoY	16.4%	0.1%	na	22.5%	-4.4%	na	-20.6%	8.1%	12.1%	9.5%	-4.3%
OPM	2.1%	2.0%	2.9%	2.7%	2.4%	2.1%	1.6%	1.8%	2.2%	2.5%	2.4%
Recurring profit	7,330	7,327	11,965	14,968	14,395	14,843	11,691	12,665	14,194	15,621	14,950
YoY	16.2%	0.0%	na	25.1%	-3.8%	na	-21.2%	nm	12.1%	10.1%	-4.3%
RPM	2.1%	2.0%	2.8%	2.6%	2.4%	2.1%	1.6%	1.8%	2.2%	2.5%	2.4%
Net income	4,115	4,028	6,364	8,135	7,554	7,933	6,586	6,835	7,748	9,498	9,700
YoY	16.0%	-2.1%	na	27.8%	-7.1%	na	-17.0%	3.8%	13.4%	22.6%	2.1%
Net margin	1.2%	1.1%	1.5%	1.4%	1.3%	1.1%	0.9%	1.0%	1.2%	1.5%	1.6%
Depreciation and amortization of goodwill	713	829	2,096	2,955	2,944	2,905	2,910	2,880	3,221	2,715	na
EBITDA	8,027	8,153	14,497	18,148	17,468	17,778	14,717	15,640	17,527	18,381	na

Source: Shared Research based on company data (rounded to nearest JPYmn)

Breakdown of SG&A expenses

SG&A expenses breakdown (JPYmn)										
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
SG&A expenses	19,669	23,845	36,355	46,697	46,759	50,950	54,873	50,550	47,677	47,714
Directors' compensation	87	157	195	224	184	192	191	197	205	207
Salaries and allowances	1,763	2,084	4,096	5,023	5,136	5,458	6,243	6,723	8,176	8,708
Temporary employees' salaries	4,396	5,603	9,269	12,521	12,787	9,667	9,615	9,024	8,772	9,118
Provision for bonuses	361	397	1,571	1,249	1,271	1,341	1,439	1,410	1,660	1,677
Staffing expenses	3,621	4,608	3,643	3,959	4,998	9,466	10,285	7,206	4,576	3,618
Transportation expenses	583	605	643	595	549	594	567	425	373	324
Other selling expenses	-	-	2,630	3,550	3,619	5,373	6,589	6,347	4,152	4,512
Rent expenses on real estates	1,408	1,730	3,308	4,224	4,073	4,068	4,167	4,313	4,469	4,464
Depreciation	611	639	2,097	2,955	2,944	1,359	1,322	1,305	1,371	1,392
Amortization of goodwill	-	-	-	-	-	1,546	1,588	1,575	1,719	1,191
Outsourcing expense	491	645	951	1,317	952	991	1,133	1,000	822	691
Other	6,343	7,377	7,947	11,080	10,241	10,891	11,730	11,019	11,378	11,807
<% of sales>										
SG&A-to-sales ratio	5.2%	5.5%	6.4%	7.8%	6.6%	6.9%	7.8%	7.9%	7.7%	7.7%
Directors' compensation	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Salaries and allowances	0.5%	0.5%	0.7%	0.8%	0.7%	0.7%	0.9%	1.0%	1.3%	1.4%
Temporary employees' salaries	1.2%	1.3%	1.6%	2.1%	1.8%	1.3%	1.4%	1.4%	1.4%	1.5%
Provision for bonuses	0.1%	0.1%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%
Staffing expenses	1.0%	1.1%	0.6%	0.7%	0.7%	1.3%	1.5%	1.1%	0.7%	0.6%
Transportation expenses	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other selling expenses	0.0%	0.0%	0.5%	0.6%	0.5%	0.7%	0.9%	1.0%	0.7%	0.7%
Rent expenses on real estates	0.4%	0.4%	0.6%	0.7%	0.6%	0.6%	0.6%	0.7%	0.7%	0.7%
Depreciation	0.2%	0.1%	0.4%	0.5%	0.4%	0.2%	0.2%	0.2%	0.2%	0.2%
Amortization of goodwill	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.2%	0.2%	0.3%	0.2%
Outsourcing expense	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%	0.2%	0.2%	0.1%	0.1%
Other	1.8%	2.0%	1.8%	2.0%	1.7%	1.5%	1.6%	1.6%	1.8%	1.9%
<No. of employees and avg. temporary employees>										
No. of employees (A)	356	486	1,096	1,104	1,088	1,208	1,303	1,569	1,698	1,799
Average no. of temporary employees (B)	1,227	2,227	5,996	5,699	4,997	4,667	6,370	5,485	4,576	4,012
Temporary employee ratio (B / (A+B))	77.5%	82.1%	84.5%	83.8%	82.1%	79.4%	83.0%	77.8%	72.9%	69.0%

Source: Shared Research based on company data (rounded to nearest JPYmn)

Balance sheet

Balance sheet										
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Cash and deposits	177	1,431	2,690	1,465	1,304	1,766	1,997	3,490	2,085	3,314
Accounts receivable	45,242	45,692	69,433	72,882	76,291	106,482	99,719	97,706	22,622	19,012
Advanced received	10	-	16	17	1	0	-	-	-	-
Inventories	16,832	19,981	34,521	35,437	37,791	54,654	49,999	45,277	37,683	36,007
Prepaid expenses	255	0	520	609	487	0	0	0	0	0
Deferred tax assets	1,034	841	1,507	1,355	1,329	1,224	1,288	1,245	1,354	1,337
Accounts receivable-other	4,123	13,259	18,117	16,171	18,576	25,103	31,241	34,874	10,621	11,438
Other	226	504	185	104	285	653	645	687	675	1,169
Allowance for doubtful accounts	-53	-41	-56	-37	-14	-17	-17	-16	-13	-4
Total current assets	67,849	81,669	126,938	128,007	136,055	189,867	184,875	183,266	75,029	72,276
Tangible fixed assets	752	979	3,348	3,121	3,151	3,171	3,160	3,152	3,148	3,212
Buildings	442	642	1,911	1,676	1,980	1,939	1,987	2,017	1,989	1,928
Vehicles	0	0	1	0	0	1	0	0	1	1
Furniture and fixtures	260	288	1,066	1,090	815	843	814	781	782	908
Land	48	48	369	353	353	353	353	353	353	353
Construction in progress	0	0	0	0	0	33	4	-	22	20
Intangible fixed assets	276	3,762	11,153	9,702	7,973	7,999	6,344	6,339	5,027	3,678
Goodwill	268	3,750	10,353	8,824	7,305	7,135	5,547	5,365	3,701	2,510
Other	7	12	799	875	666	862	795	972	1,323	1,166
Investment, other fixed assets	2,821	3,505	6,980	6,559	6,628	7,195	6,858	6,872	6,874	6,762
Investment securities	394	440	269	383	332	626	311	401	451	603
Deferred tax assets	473	586	1,257	1,145	1,389	1,626	1,703	1,642	1,607	1,563
Lease and guarantee deposits	1,518	2,033	4,447	4,244	4,045	4,234	4,261	4,319	4,313	4,111
Other	177	545	1,069	838	907	726	590	516	506	488
Allowance for doubtful accounts	-65	-102	-67	-54	-49	-18	-9	-8	-5	-5
Total fixed assets	3,851	8,247	21,482	19,383	17,752	18,366	16,362	16,364	15,051	13,653
Total assets	71,701	89,917	148,420	147,390	153,808	208,233	201,238	199,631	90,080	85,930
Accounts payable	40,841	41,649	59,615	65,681	65,081	90,628	74,213	82,187	10,305	7,803
Short-term debt	5,200	7,400	14,500	10,500	15,600	35,100	30,567	28,566	14,408	1,002
Current portion of long-term debt	-	-	3,328	9,328	3,352	3,264	2,555	12,100	13,768	8,128
Accounts payable-other	5,898	13,366	22,485	21,553	24,793	31,458	37,121	35,120	10,313	10,523
Income taxes payable	1,703	1,662	4,227	2,938	3,501	3,442	1,871	3,286	3,133	3,116
Provision for bonuses	361	397	1,571	1,249	1,271	1,344	1,439	1,427	1,678	1,696
Allowance for early cancellation losses	222	146	104	114	150	137	180	218	172	179
Other	815	1,144	480	369	488	496	564	560	465	505
Total current liabilities	55,043	65,766	106,313	111,736	114,240	165,871	148,512	163,466	54,243	32,955
Long-term debt	-	5,000	14,672	3,344	1,740	12,159	22,368	10,268	4,375	14,747
Net defined benefit liability	494	561	651	447	438	428	421	389	400	384
Asset retirement obligations	-	-	-	-	1,016	1,048	1,115	1,178	1,234	1,308
Other	46	132	836	801	731	675	643	614	540	515
Total fixed liabilities	541	5,693	16,160	4,593	3,927	14,311	24,548	12,450	6,550	16,956
Total liabilities	55,584	71,460	122,474	116,329	118,167	180,183	173,061	175,917	60,794	49,911
Shareholder's equity	15,933	18,330	25,912	30,974	35,583	27,997	28,105	23,464	28,860	35,573
(Treasury stock)	-	-	-	-	-	-12,740	-	-8,755	-8,755	-8,755
Accumulated other comprehensive income	182	127	34	86	57	52	71	130	244	243
Non-controlling interests	-	-	-	-	-	-	-	119	181	201
Net assets	16,116	18,457	25,946	31,061	35,640	28,050	28,177	23,713	29,286	36,018
Net debt	5,023	10,969	29,810	21,707	19,388	48,757	53,493	47,444	30,466	20,563
Working capital	21,243	24,024	44,355	42,655	49,002	70,508	75,505	60,796	50,000	47,216

Source: Shared Research based on company data (rounded to nearest JPYmn)

Per-share data (JPY)

Per share data (JPY, after stock split adjustment)										
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Shares issued (year end)	65,856,400	65,910,800	102,473,400	102,479,000	102,483,800	102,483,800	78,952,800	79,005,600	79,074,000	79,074,000
EPS	62.54	61.14	77.11	79.39	92.42	92.75	82.76	86.74	112.68	138.11
EPS (fully diluted)	62.12	61.08	77.06	79.35	92.37	92.69	82.72	86.67	0.00	0.00
Dividend per share	22.50	25.00	27.50	30.00	27.50	32.50	35.00	35.00	37.50	43.00
Book value per share	244.73	280.03	253.20	303.10	347.77	332.80	356.89	343.41	423.19	520.80

Source: Shared Research based on company data

Cash flow statement

Cash flow statement										
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
(JPYmn)	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities	2,562	2,388	13,678	12,019	6,093	-10,054	2,698	19,834	21,896	14,628
Cash flows from investing activities	-564	-5,259	-2,419	-844	-827	-3,803	-1,031	-2,223	-2,610	-1,882
Cash flows from financing activities	-2,156	4,125	-10,608	-12,400	-5,426	14,318	-1,436	-16,119	-20,690	-11,518

Source: Shared Research based on company data (rounded to nearest JPYmn)

Financial ratios

Financial ratios										
	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16
	Parent	Cons.	Parent	Parent	Parent	Cons.	Cons.	Cons.	Cons.	Cons.
ROA	11.2%	9.1%	10.0%	10.1%	9.6%	8.2%	5.7%	6.3%	9.8%	17.8%
ROE	27.9%	23.3%	28.6%	28.5%	22.7%	28.3%	23.4%	26.4%	29.4%	29.3%
Inventory turnover	20.1	18.7	14.0	14.4	14.6	14.0	12.8	13.5	14.0	15.1
Fixed assets turnover	435.0	433.9	199.4	175.0	189.8	225.5	232.8	224.0	203.8	195.0
Current ratio	123.3%	124.2%	119.4%	114.6%	119.1%	114.5%	124.5%	112.1%	138.3%	219.3%
Net assets ratio	22.5%	20.5%	17.5%	21.0%	23.2%	25.2%	24.7%	22.6%	32.3%	41.7%

Source: Shared Research based on company data

Policy on shareholder returns

The company's basic policy is to return profits to shareholders with a dividend payout ratio of at least 30%, reflecting business performance, while retaining sufficient internal reserves for future business development and strengthening the business foundations.

Shareholders

As of September 30, 2016

Shareholders	Shares	Stake
Sumitomo Corporation	23,345,400	41.9%
HIKARI TSUSHIN, INC.	11,933,400	21.4%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,614,400	2.9%
Japan Trustee Service Bank, Ltd. (Trust account)	1,377,300	2.5%
infoservice, inc.	1,143,000	2.1%
T-Gaia Employees' Stockholding Association	741,800	1.3%
Nomura Securities Co., Ltd.	725,100	1.3%
NOMURA PB NOMINESS LIMITED OMNIBUS-MARGIN (CASHPB) (Standing proxy: Nomura Securities Co., Ltd.)	675,295	1.2%
Japan Trustee Service Bank, Ltd. (Trust account9)	534,400	1.0%
MSIP CLIENT SECURITIES (Standing proxy: Morgan Stanley MUFG Securities)	509,045	0.9%
Shares outstanding	55,728,243	100.0%

Source: Shared Research based on company data (rounded to nearest JPYmn)
Note: Share numbers exclude treasury stock

Corporate governance

Form of organization and capital structure	
Controlling shareholder	Sumitomo Corporation
Parent company ticker	8053
Directors	
Number of directors under Articles of Incorporation	12
Directors' terms under Articles of Incorporation	1 year
Number of independent outside directors	3
Audit & Supervisory Board	
Number of members of Audit & Supervisory Board under Articles of Incorporation	5
Number of independent outside members of Audit & Supervisory Board	2
Other	
Number of independent outside officers (directors and members of Audit & Supervisory Board)	5
Participation in electronic voting platform	None
Other initiatives to enhance voting rights of investors	In place
Providing convocation notice in English	In place
Disclosure of directors' compensation	None
Disclosure of executive officers' compensation	N/A
Policy on determining amount of compensation and calculation methodology	In place
Takeover defenses	None

Source: Shared Research based on company data (rounded to nearest JPYmn)

Contact Details

Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
http://www.sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp