

Financial Results for the Fiscal Year Ended September 30, 2013

DWANGO Co., Ltd.

Nov 14, 2013

FY2013 Highlights

Net Sales: Grew in Portal and Live more than expected, the others decreased, stayed flat in total.

COGS : Outsourcing costs and royalties decreased, COGS rate decreased by 5 pt.

SGA : Advertisement cost (especially Q4), relocation expenses increased

OI : Increased 58%, income rate improved by 2.2 pt.

(¥million)

	FY2013	FY2012	YoY(%)	FY2013E	FY2013/FY2013E (%)
Net Sales	35,946	36,243	△0.8%	37,500	△4.1%
COGS	20,432	22,381	△8.7%	21,900	△6.7%
Gross Profit	15,513	13,862	+11.9%	15,600	△0.6%
SG&A	13,382	12,516	+6.9%	13,600	△1.6%
Operating Income	2,130	1,345	+58.3%	2,000	+6.5%
Ordinary Income	2,292	1,284	+78.4%	2,000	+14.6%
Net Income/Loss	2,273	△506	-	2,300	△1.2%

- Total assets increased by 4.2B yen, shareholders' equity by 1.8B yen
- With payback of debt and earnings growth, balance sheet improved
- Net income increased, OpCF increased by 1.7B yen
- InvCF, moving of head office, increase of server, R&D
- FinCF, payback of debt of 700M yen, dividend

	(¥million)				(¥million)		
	FY2012	FY2013	YoY(%)		FY2012	FY2013	YoY(%)
Current assets	14,754	18,297	3,543	Cash flows from operating activities	3,335	5,117	1,782
Non-current assets	9,898	10,556	657	Cash flows from investing activities	△ 2,138	△ 1,929	209
Tangible assets	2,048	2,258	209	Cash flows from financing activities	△ 2,036	△ 655	1,381
Intangible assets	3,083	2,484	△ 599				
Investment and other assets	4,766	5,813	1,046				
Total assets	24,653	28,853	4,200				
Current liabilities	6,003	7,367	1,363				
Non-current liabilities	388	750	361				
Shareholders' equity	18,214	20,078	1,863				
Total equity	18,260	20,736	2,475				
Total liabilities and equity	24,653	28,853	4,200				

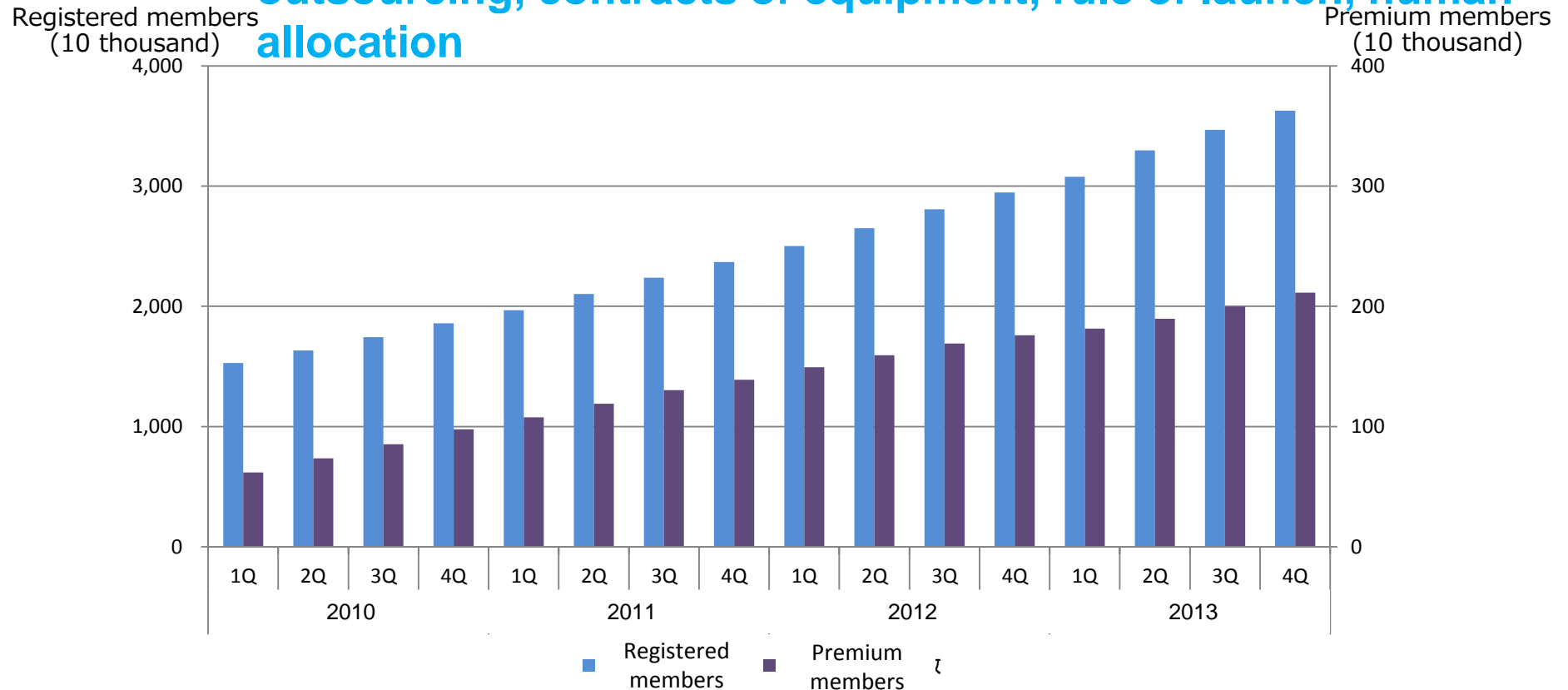
Segment revenue and profit

(¥million)

	Portal Business	Mobile Business	Game Business	Live Business	Other Businesses	Eliminations /Corporate	Total
Net Sales	16,044	13,313	4,136	1,153	1,908	△610	35,946
YoY(%)	+14.9%	△6.9%	△28.9%	+76.5%	△29.2%	—	△0.8%
COGS	9,452	5,108	2,552	1,488	1,833	△2	20,432
YoY(%)	+4.3%	△18.5%	△29.6%	+5.2%	△23.9%	—	△8.7%
Gross Profit	6,592	8,205	1,583	△335	75	△608	15,513
YoY(%)	+34.5%	+2.2%	△27.7%	△56.0%	△73.7%	—	+11.9%
SG&A	3,232	5,887	1,230	170	322	2,538	13,382
YoY(%)	+39.2%	+10.5%	△29.6%	△1.6%	△42.2%	+6.4%	+6.9%
Income/Loss before Allocated Cost	3,360	2,317	352	△506	△247	△3,146	2,130
YoY(%)	+30.2%	△14.2%	△20.5%	—	—	—	+19.6%
Allocated Cost	1,244	330	—	34	—	△1,609	—
YoY(%)	△2.9%	△27.3%	—	△8.3%	—	—	—
Operating Income/Loss	2,115	1,987	352	△540	△247	△1,537	2,130
YoY(%)	+62.8%	△11.5%	△20.5%	—	—	—	+58.3%

Implemented measures

- Increase of members by positive investment in niconicolike contents and efficient advertisement
- Focus on advertisement revenue
- Appropriate cost managing
 - Drastic improvement of promotion, content programming, outsourcing, contracts of equipment, rule of launch, human allocation



(¥million)

	FY2013	FY2012	YoY	YoY(%)	FY2013E	FY2013/FY2013E	FY2013/FY2013E (%)
Net Sales	16,044	13,961	+2,083	+14.9%	15,900	+144	+0.9%
COGS	9,452	9,058	+393	+4.3%	10,000	△547	△5.5%
Gross Profit	6,592	4,902	+1,689	+34.5%	5,900	+692	+11.7%
SG&A	3,232	2,322	+910	+39.2%	2,500	+732	+29.3%
Income/Loss before Allocated Cost	3,360	2,580	+779	+30.2%	3,400	△39	△1.2%
Allocated Cost	1,244	1,281	△36	△2.9%	1,200	+44	+3.7%
Operating Income/Loss	2,115	1,299	+816	+62.8%	2,200	△84	△3.8%

FY2013: Net Sales +14.9%, OI +62.8%

- Premium members : membership +350 thousand, revenue 11.8B yen (YoY+2B yen)
 - Affiliate advertisement increased in 2H
 - Popular contents (Den-nou-sen (Japanese chess), X-Japan)
- Adv sales 1.7B yen (YoY+0.3B yen) ,mainly network adv
- Business management
 - Active investment in niconicolike contents
 - Well-selected live programs, increase of programs with sponsors, production cost and outsourcing cost decreased
 - Maintain internal development environment, review regulations of launch judgment and software capitalization

Implemented measures

- Smartphone members increase
 - Efficient advertisement
 - Distribution service of high sound quality songs
- Feature phone members decrease but maintain market share
- Refrain cost increase other than advertisement cost



Dwango.jp



Animelo Mix



billboard



K-pop Life



Cho Animelo

(¥million)

	FY2013	FY2012	YoY	YoY(%)	FY2013E	FY2013/FY2013E	FY2013/FY2013E (%)
Net Sales	13,313	14,302	△989	△6.9%	15,000	△1,686	△11.2%
COGS	5,108	6,271	△1,163	△18.5%	6,200	△1,091	△17.6%
Gross Profit	8,205	8,031	+173	+2.2%	8,800	△594	△6.8%
SG&A	5,887	5,330	+557	+10.5%	6,100	△212	△3.5%
Income/Loss before Allocated Cost	2,317	2,700	△383	△14.2%	2,700	△382	△14.2%
Allocated Cost	330	454	△123	△27.3%	350	△19	△5.5%
Operating Income/Loss	1,987	2,246	△259	△11.5%	2,350	△362	△15.4%

FY2013: Net Sales -6.9%, OI -11.5%

- Smartphone members increase
 - Intensive promotion of 450M yen
- Total membership as of the end FY2013 : 2.56M (YoY-0.35M)
 - Feature phone members decrease
- Profit margin improved if calculated ignoring intensive promotion cost spent for FY2014
 - COGS -1.16B yen, variable cost such as royalties -1.0B yen
 - Apart from advertisement expenses of 450M yen, SG&A +100M yen YoY

Implemented measures

- **Customized development (alliance)**
 - Cultivate development capability and credentials
- **Tightening of profitability analysis in network game**
- **Development of proper IP : Dangan-Ronpa**
- **Integrate comprehensive advantages of whole group : promotion through niconico live program**

(¥million)

	FY2013	FY2012	YoY	YoY(%)	FY2013E	FY2013/FY2013E	FY2013/FY2013E (%)
Net Sales	4,136	5,816	△1,680	△28.9%	4,400	△263	△6.0%
COGS	2,552	3,624	△1,072	△29.6%	2,700	△147	△5.5%
Gross Profit	1,583	2,191	△607	△27.7%	1,700	△116	△6.9%
SG&A	1,230	1,747	△516	△29.6%	1,600	△369	△23.1%
Income/Loss before Allocated Cost	352	443	△90	△20.5%	100	+252	+253.0%
Allocated Cost	-	-	-	-	-	-	-
Operating Income/Loss	352	443	△90	△20.5%	100	+252	+253.0%

FY2013: Net Sales -29%, OI -20%

- Decline in revenue due to drop of popular proper IP titles, downsizing of network game business
- Cost
 - Drop of popular titles and decrease of network game lead to advertisement and outsourcing cost
 - Growth of overseas titles resulted in increase of royalties
- Dangan-Ronpa repeat order contributed directly to earnings.

Implemented measures

- **Decrease of deficit of niconico chokaigi**
 - Sales & marketing for sponsors, cost management
- **Fusion of internet and real world**
 - Machi-kaigi, new events
- **Branding of niconico**
 - Strengthen collaboration with local governments
 - Sponsored by national brand companies
 - Promote exposure boost



niconico
machi-kaigi



Nagasaki



Hokkaido



Kagoshima

(¥million)

	FY2013	FY2012	YoY	YoY(%)	FY2013E	FY2013/FY2013E	FY2013/FY2013E (%)
Net Sales	1,153	653	+500	+76.5%	1,100	+53	+4.8%
COGS	1,488	1,415	+73	+5.2%	1,500	△11	△0.8%
Gross Profit	△335	△762	+427	△56.0%	△400	+64	△16.2%
SG&A	170	154	+15	+10.3%	200	△29	△14.6%
Income/Loss before Allocated Cost	△506	△917	+411	△44.8%	△600	+93	△15.7%
Allocated Cost	34	37	△3	△8.3%	50	△15	△31.8%
Operating Income/Loss	△540	△954	+414	△43.4%	△650	+109	△16.9%

FY2013: Net Sales +76%, Op Loss decreased by 400M yen

■ Net Sales

- Sponsors and exhibitors in Chokaigi 2 more than expected, revenue +330M yen
- Machi-kaigi and nicofarre steady growth
- niconico head quarter transferred from Portal to Live dept.

■ Cost

- Increase of COGS only by 73M yen due to change of management system of event production cost and improvement of cost structure by impairment of nicoffare
- SGA +20M yen with well-selected advertisement

FY2014 Guidance

Environment surrounding Dwango

- Penetration of smartphone and high-spec devices
- Development of high-speed telecom network
- Diversification of preference of users and competition for disposable time
- Growth of network entertainment market

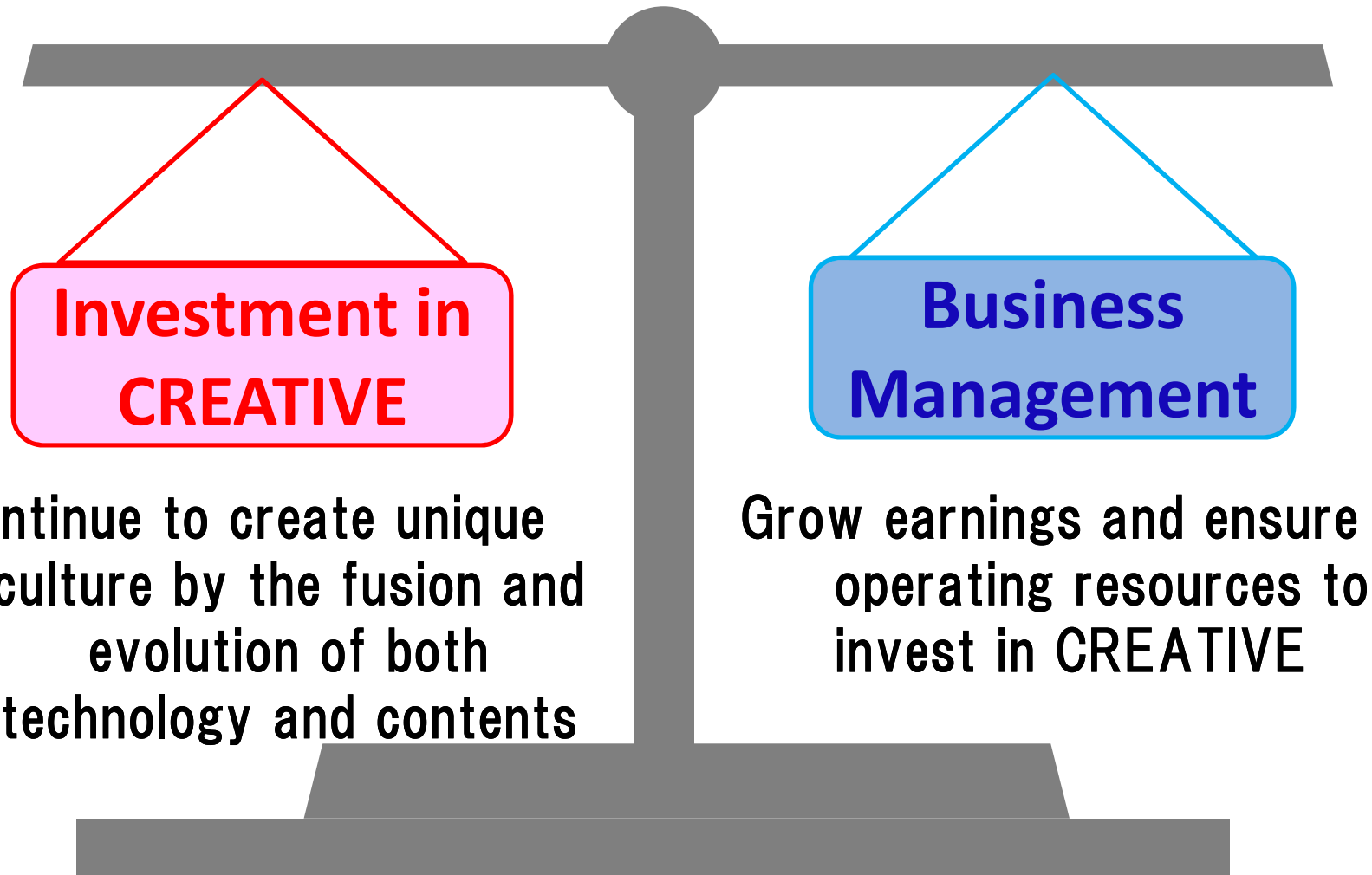
Portal	Mobile	Game	Live
<ul style="list-style-type: none">• Increase profit focusing on advertisement revenue• Create environment for long-term development	<ul style="list-style-type: none">• FP and total membership decrease• Maintain profit by saving promotion• Differentiated promotion with unique contents	<ul style="list-style-type: none">• Increase sales of packaged game• Profitability of network game• Strengthening of oversea business	<ul style="list-style-type: none">• Branding of Chokaigi• Make niconico head quarter valuable as billboard and acquire new customers

(¥million)

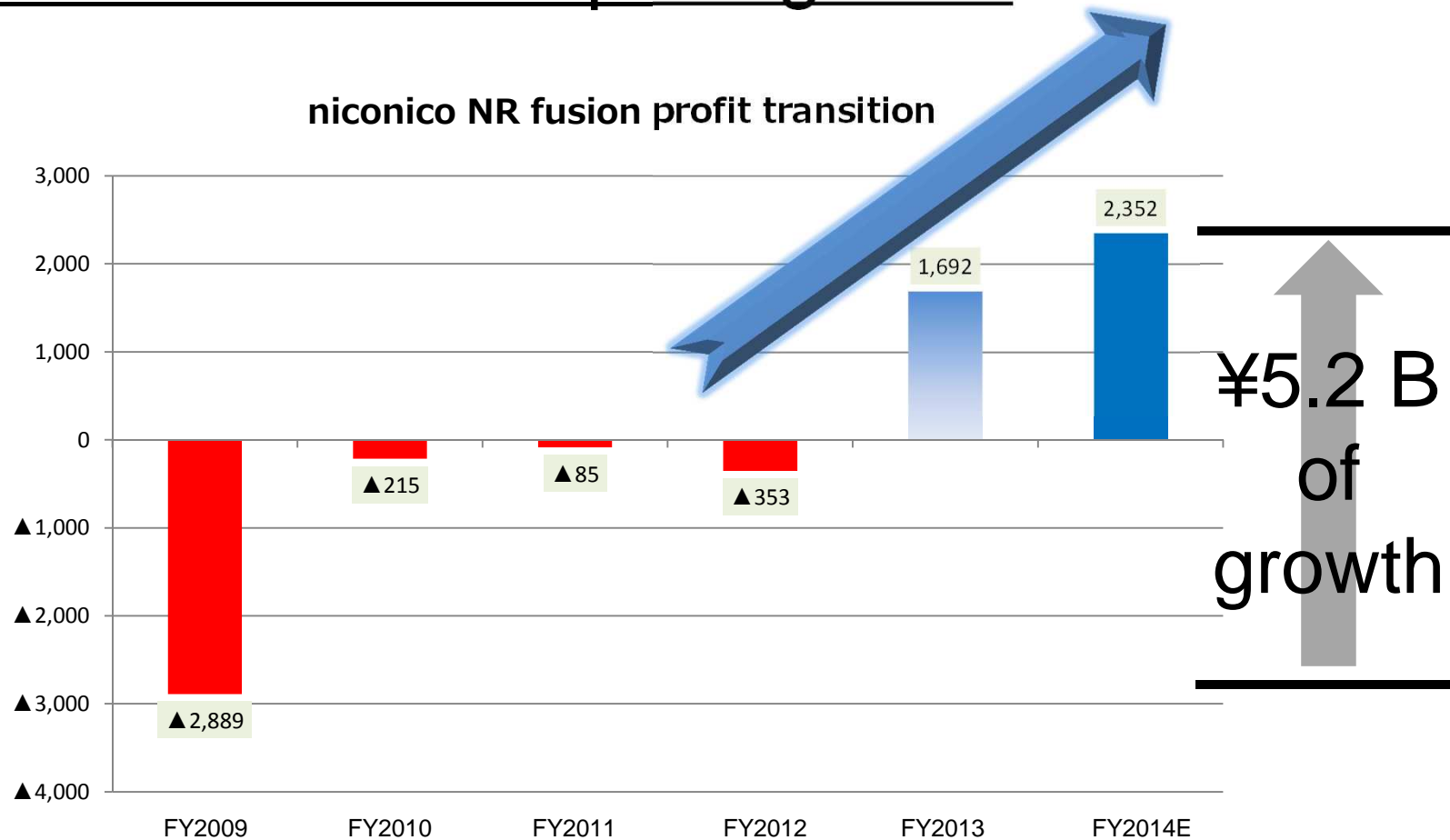
	Portal Business	Mobile Business	Game Business	Live Business	Other Businesses	Eliminations /Corporate	Total
Net Sales	18,950	11,740	4,517	1,082	1,742	△422	37,609
YoY(%)	+18.1%	△11.8%	+9.2%	△6.1%	△8.7%	—	+4.6%
COGS	10,612	4,604	2,999	1,594	1,507	74	21,390
YoY(%)	+12.3%	△9.9%	+17.5%	+7.1%	△17.8%	—	+4.7%
Gross Profit	8,338	7,135	1,518	△511	234	△496	16,218
YoY(%)	+34.5%	△13.0%	△4.1%	—	+212.9%	—	+4.5%
SG&A	3,821	4,756	1,218	200	288	2,820	13,103
YoY(%)	+18.2%	△19.2%	△1.0%	+17.7%	△10.6%	—	△2.1%
Income/Loss before Allocated Cost	4,517	2,379	300	△712	△53	△3,316	3,115
YoY(%)	+34.4%	+2.6%	△15.0%	—	—	—	+19.6%
Allocated Cost	1,313	330	—	67	—	1,710	—
YoY(%)	+5.5%	+9.1%	—	+98.0%	—	—	—
Operating Income/Loss	3,204	2,018	300	△780	△53	△1,574	3,115
YoY(%)	+51.4%	+1.6%	△15.0%	—	—	—	+46.2%

niconico the fusion of Internet and Real

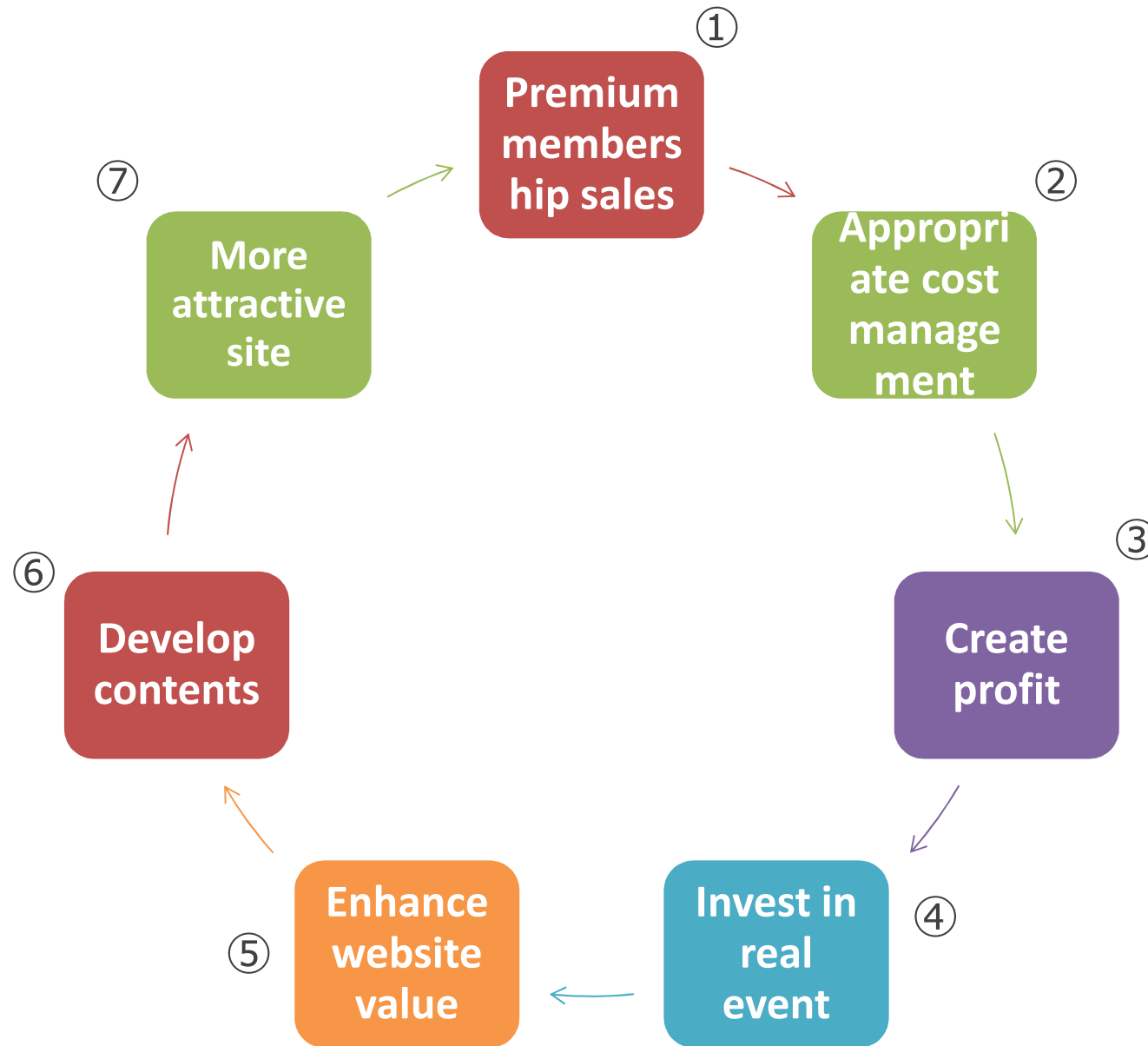
Creative leadership company Dwango



Live event + niconico = profit growth



This graph describes the total operating income of Portal business and Live business including impairments of niconico douga in 2009 and nicofarre in 2012.



Alliance

As of Sep 30, 2012

As of Sep 30, 2013

Shareholder's name	Rate (%)		Shareholder's name	Rate (%)
Avex Group Holdings Inc.	20.0		Nobuo Kawakami	16.8
Nobuo Kawakami	16.8		KADOKAWA CORPORATION	12.2
Kadokawa Group Holdings, Inc.	8.2		Avex Group Holdings Inc.	6.0
Goldman Sachs	6.8	<div style="background-color: red; color: white; border-radius: 50%; padding: 2px; display: inline-block;">New</div>	Nippon Television Network Corporation	4.9
Daisuke Yokosawa	3.1	<div style="background-color: red; color: white; border-radius: 50%; padding: 2px; display: inline-block;">New</div>	NIPPON TELEGRAPH AND TELEPHONE CORPORATION	4.9

About MAGES. Inc.

AG-ONE Inc., an affiliate of Dwango, merged with Dwango Planning and development Inc. in April 2010, and merged with 5pb. and changed name to MAGES. Inc. in June 2011.

Revenue 5.1 billion, OP 300 million, NI 200 million, in the fiscal year ended Sep 31, 2012.

Dwango will acquire 122 shares on Dec 2, 2013, and MAGES. will become a consolidated subsidiary of Dwango.

FY Sep-2012

business	Game	Crossmedia	Music	School	Talent	Shop
revenue	¥1,696 M	¥1,542 M	¥799 M	¥225 M	¥146 M	¥171 M
description	“Scientific Adventure Series” is a hit. Released its third title “ROBOTICS;NOTES” last year. Cumulative units sold with 100 thousand.	“Animelo Summer Live”, a concert of anime songs, had over 50 thousand visitors, (over 80 thousand this summer). Also holds “Mikupa”, a live party of Hatsune Miku.	Packaged CDs and download service of songs related to game business and own contents.	Runs a school to develop the skills necessary to voice actors and artists.	Talent agency for actors, voice actors, narrators, and artists.	Produces “AKIHABARA backstage pass”, a restaurant of idles.

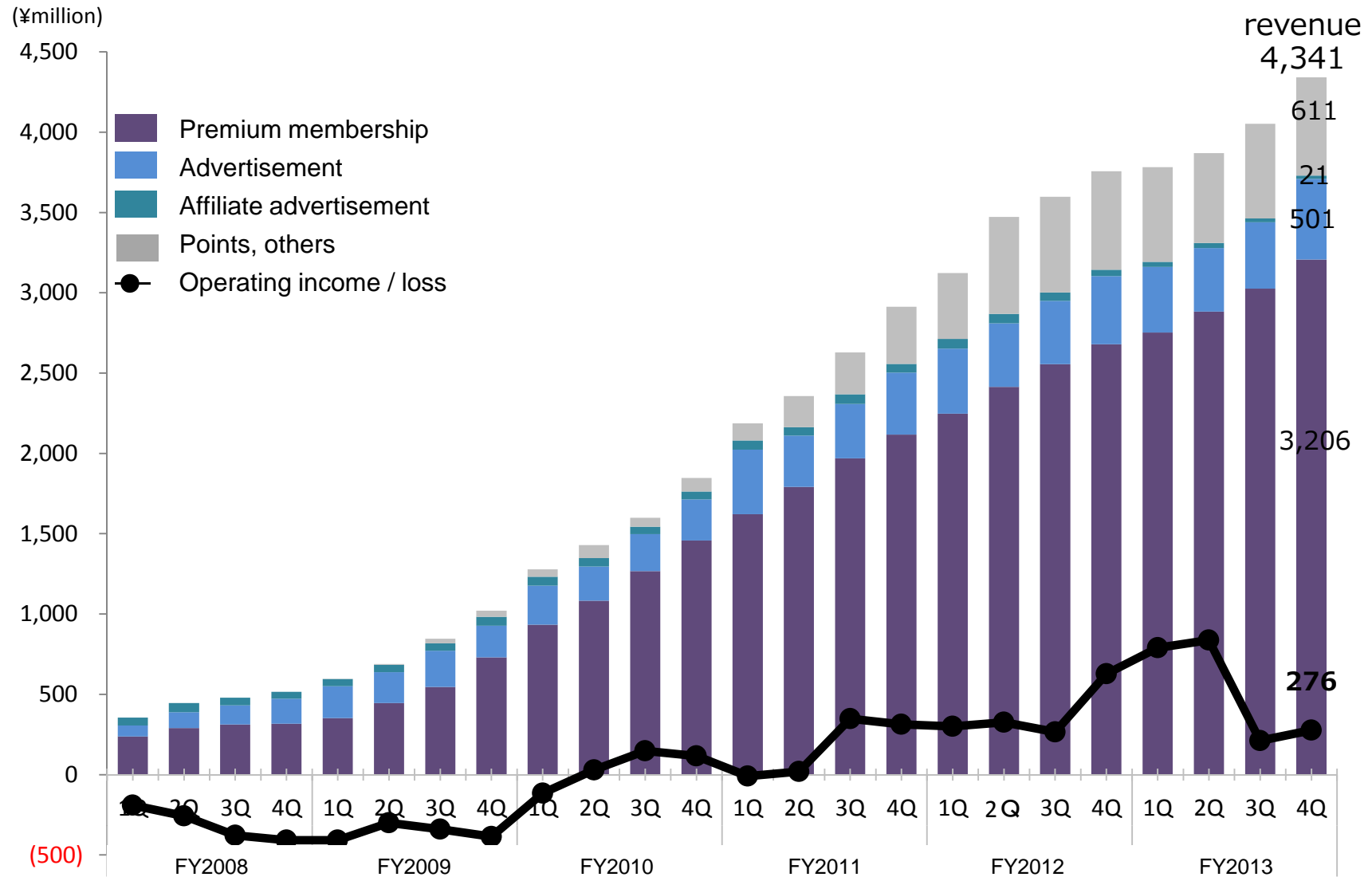
In conclusion

Open platform
in both internet and real world
developed by the comprehensive
technology of DWANGO group



Provide the best value
for users and content holders

Appendix



Average of Jul-Sep, 2013
(average of Apr-Jun, 2013)

niconico total

■ average PV per day

125.95 million (119.52)

■ average visitors per month

8.46 million (8.46)

■ average sojourn time per visitor per day

104.5 minutes (101.9)

niconico live

16.26 million (15.21)

3.32 million (3.15)

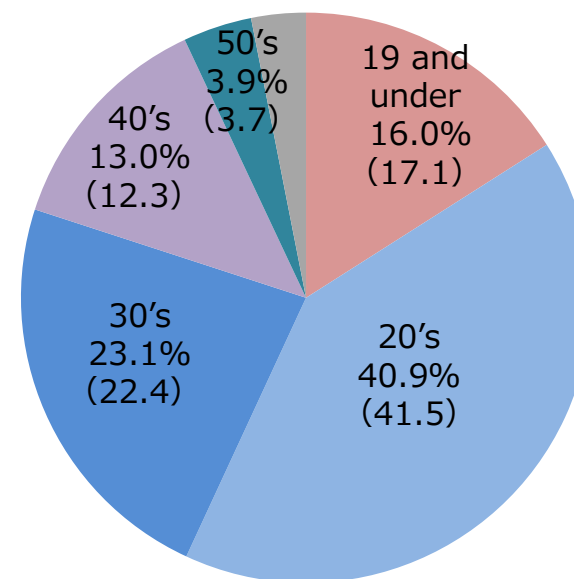
76.7 minutes (73.7)

gender

♂ 67% ♀ 33%

As of Sep 30, 2013

age



As of Sep 30, 2013

growth of members

registered members

36.26 million

As of Jun 30, 2013 : 34.68 mil

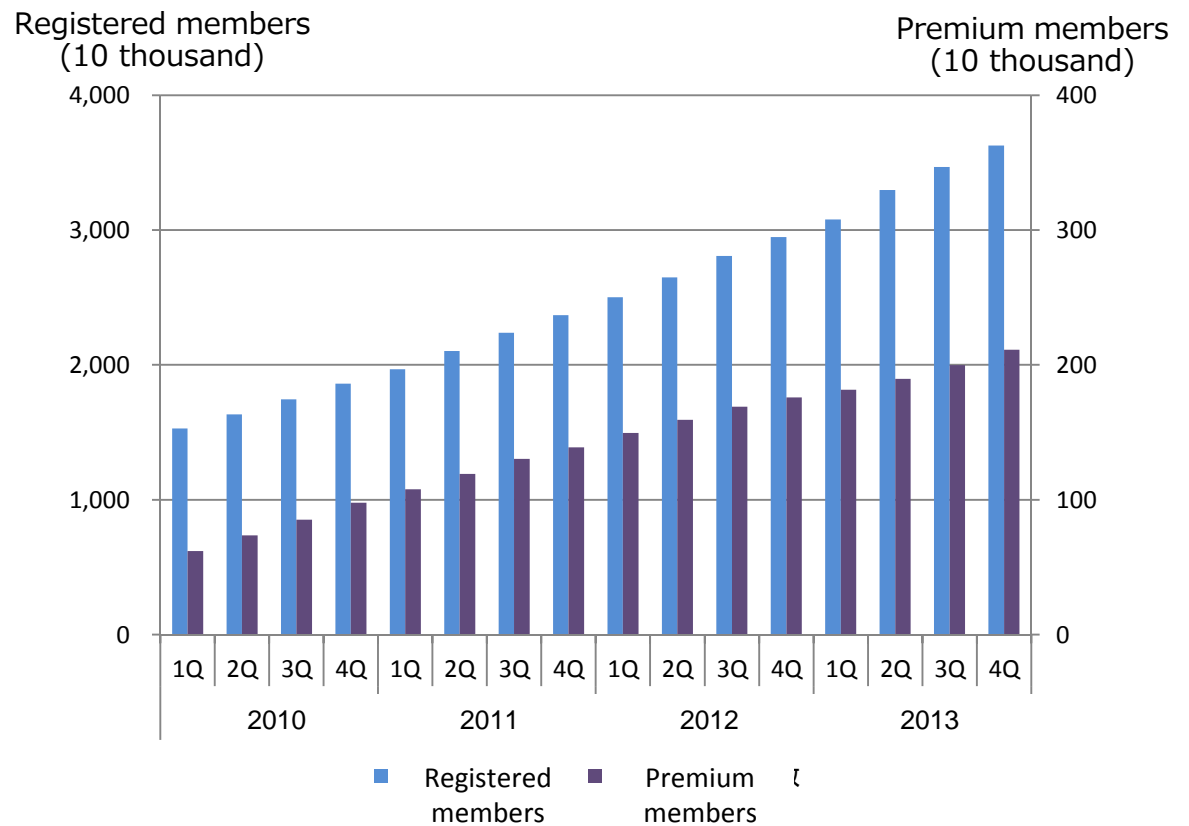
As of Sep 30, 2012 : 29.46 mil

premium members

2.11 million

As of Jun 30, 2013 : 2.00 mil

As of Sep 30, 2012 : 1.75 mil



contact

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- The forward-looking statements in this document, including earnings forecasts, are determined by the Dwango Group based on currently available information.
 - Future figures involve various uncertainties, and actual results may differ. Please refrain from making investment decisions based entirely on these forecasts.
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