

Nexyz.Group Corporation

4346 Tokyo Stock Exchange
First Section

16-Feb.-17

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and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Hideo Kakuta

■ Strong Advances in the Energy and Environment Business, Brangista <6176> (Digital Magazines, Smartphone Games) Sustaining Growth

Nexyz.Group Corporation <4346> (hereafter, also “the Company”) has been leveraging strategic planning and execution capabilities to broaden its business scope, including sales of mobile phones, satellite broadcasts, and other digital products. The Company listed shares on the Osaka Stock Exchange NASDAQ Japan market (now, JASDAQ) in 2002, and listed on the First Section of the Tokyo Stock Exchange in 2004. Nexyz. Group’s current main businesses are the Energy and Environment business, including LED lighting, launched in FY9/13, and the Electronic Media business handled by subsidiary, Brangista Inc. <6176>. The “*Kami no Te*” smartphone crane game released in June 2016 is attracting interest with its various collaborations with general producer Yasushi Akimoto, who is also the Company’s shareholder.

The Company’s primary business is rental service for LED lighting and other energy-saving products. This business, which Nexyz.Group started with a slogan of “lowering electricity costs in Japan,” has grown to be the main business over the past four years and reached about ¥8bn in net sales in FY9/16. The unique rental format, which sets initial costs at zero, is a good fit for the needs of restaurants, hotels, and other businesses, and Nexyz.Group has established a No.1 position in the industry. The Company increased the number of products it handles during FY9/16 and is seeing robust demand for the Nexyz. Zero series comprised of water-saving equipment, commercial refrigerators, commercial air conditioners and other products. Sales from products other than LED lighting have expanded to about 15% of the business.

Nexyz.Group booked sharply higher consolidated sales and profits in FY9/16 with net sales up 32.1% year on year (YoY) to ¥14,062mn and operating income up 69.4% to ¥1,716mn. This was the fifth straight annual increase in operating income. The Energy and Environment business continued to expand steadily and contributed to higher sales and profits through an increase in introductions, which account for about 40% of contracts, and diversification of the product line-up. Electronic Media business (mainly digital magazines) posted higher sales and profits too, and the Cultural Education business (kimono wearing schools) also secured profits. Nexyz.Group is delivering strong results in all of its businesses.

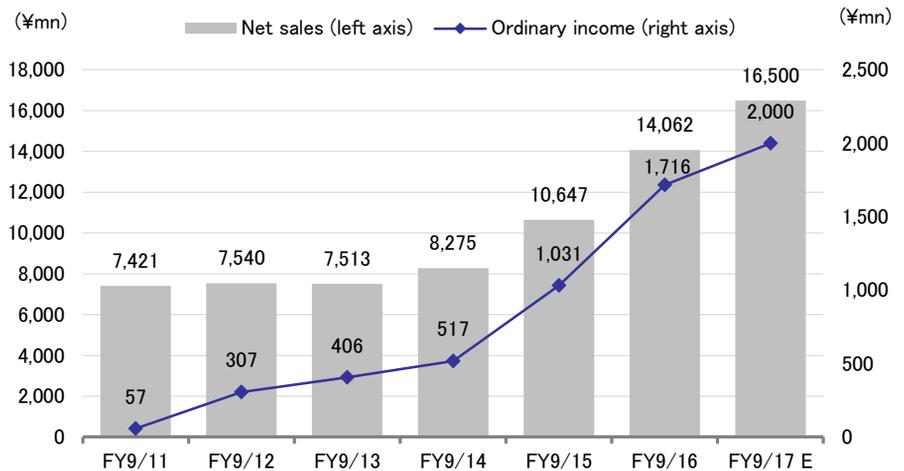
The Company’s FY9/17 forecast calls for ¥16,500mn in net sales (+17.3% YoY) and ¥2,000mn in operating income (+16.5%), with increased sales for a fourth straight year and profits for a sixth consecutive year. We think this is a slightly conservative plan considering healthy growth trends in the two core businesses and expect upward revisions during the fiscal year as in FY9/16. Nexyz. Group forecasts lower profit growth in FY9/17 due to its plan for investing over ¥500mn in advertising and promotions at Brangista Game Inc. as a special factor. However, the Company expects to book record-high profit, even with this investment of over ¥500mn, due to strong performance of LED lighting.

The “*Kami no Te*” smartphone crane game released in June 2016 has captured support from the “enthusiast” target segment users by providing premium prizes and various collaborative prizes produced by Yasushi Akimoto. Premium prizes include original merchandise from AKB48, EXILE, and other groups, and collaborative prizes made with idols participating in the Tokyo Idol Festival, the world’s largest idol festival. Many prizes have sold out on the first day of going on sale. A partnership project with a late-night variety program that airs on Fuji Television started in November 2016, and has been raising publicity of the game. We expect further acceleration in light of the planned investment of about ¥500mn toward advertising and promotions for “*Kami no Te*” in FY9/17.

Check Point

- Strong advances in rental service for energy-saving products
- Booked a fifth consecutive increase in operating income and steep sales gain in FY9/16
- Strengthening promotions for the “*Kami no Te*” smartphone crane game in FY9/17
- Improving shareholder returns with share buybacks and dividend hikes
- Targeting ¥16,500mn in net sales and a record-high ¥2,000mn in operating income in FY9/17

Trend in Fiscal Year Results



Company Overview

Corporate group led by “passionate venture capitalist” Takami Kondo

(1) History

The Company has its roots in door-to-door sales of touch-tone phones started in Osaka in 1987 by Takami Kondo, Representative Director, President, and Group Representative. In 1990, the “Tell-me system” for credit-based installment purchase of telephone line rights was a major hit, and the mobile phone version of the system released later also had significant success. The Company subsequently leveraged strategic planning and execution capabilities to broaden business scope, including sales of mobile phones, satellite broadcasts, and other digital products, received an investment from SOFTBANK INVESTMENT CORPORATION (now, SBI Investment Co., Ltd.) in 2000, listed shares on the Osaka Stock Exchange NASDAQ Japan market (now, JASDAQ) in 2002 and advanced to the First Section of the Tokyo Stock Exchange in 2004. The Company continued to expand business coverage by actively entering ISP services, financial products, video content, kimono schools and sales, and other areas through alliances and acquisitions. The Company’s current main businesses are the Electronic Media business handled by Brangista and the Energy and Environment business, including LED lighting, launched in 2012. Brangista started sales of the “*Kami no Te*” smartphone crane game in June 2016 and continues to pursue new challenges.



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President Kondo is a lifelong venture entrepreneur who started his first business when he was 19 years old. He overcame various setbacks, including a decision to suspend a listing on the TSE Mothers market due to the IT bubble collapse in 2000, and ultimately succeeded in listing on the First Section of the Tokyo Stock Exchange as the youngest founding executive at the time in 2004. He received the Minister of Economy, Trade and Industry Award, the highest prize, in the Japan Venture Award 2006's entrepreneur division in 2006. He actively encourages future entrepreneurs with his trademark passion through lectures (at Waseda University, University of Tokyo, and other universities) and publications. He also serves as Representative Director for Passion Leaders (3,800 members nationwide), Japan's largest business executive group.

Company History

Year	Main events
1987	Started home telephone sales business in Tennoji Ward, Osaka
1990	Established Nihon Telex Corporation (Suita City, Osaka) and announces the "Tell-me system," a revolutionary service for setting up a telephone line for just ¥2,000 a month
1991	Began sales of mobile phones using the Tell-me system
1992	Started the Tell-me Credit service through an alliance with Orient Corporation
1994	Moved the headquarters to Shibuya Ward, Tokyo
1999	Opened branches in Hiroshima and Fukuoka and expanded the nationwide network
2000	Started handling WOWOW (BS broadcast) service Received an investment from SOFTBANK INVESTMENT CORPORATION Changed the company name to Nexyz. Corp.
2002	Listed shares on the Osaka Stock Exchange NASDAQ Japan market Concluded a primary distributor contract with Softbank BB Corp. Established TT Nexyz. Corporation to supply rental service for satellite broadcasts free of charge
2004	Began sales of "Otoku Line" low-cost fixed-line phone service using consignment booths Listed shares on the First Section of the Tokyo Stock Exchange and First Section of the Osaka Stock Exchange
2005	Established Nexyz.Trade Co., Ltd. as a joint venture with E*TRADE SECURITIES Co., Ltd. (currently SBI SECURITIES Co., Ltd.) to provide financial product intermediary service Established Nexyz. Entertainment Corporation. to provide video content distribution service Nexyz.BB Corporation began ISP service
2006	Moved to a holding-company format with consolidated subsidiaries Nexyz.BB and SoftBank Mobile Corp. formed a business alliance and began sales of mobile handsets
2007	Established Brangista Inc. as a joint venture with entertainment production firm LesPros Entertainment Co., Ltd.
2008	Brangista and Rakuten Travel, Inc. formed a business alliance
2009	Acquired Hakubi School (Hakubi Corporation) as a subsidiary
2010	Started ASP service "EC Tencho" for EC malls Started service for travel web magazine "Tabihiro"
2013	Rakuten, Inc. acquired a stake in Brangista
2015	Brangista, a group subsidiary, listed shares on the Tokyo Stock Exchange Mothers market
2016	Change of the company name from Nexyz. Corporation to Nexyz.Group Corporation Downloads started for the "Kami no Te" god-like experience 3D crane game at Brangista

Source: Prepared by FISCO from the Company's website

Mainly operates the Energy and Environment business (rental service for energy-saving products) and Electronic Media business (digital magazines)

(2) Business overview

The Energy and Environment business is Nexyz.Group's primary segment and consists of the Nexyz. Zero series, a fast-growing rental service for LEDs and other energy-saving products, a health consulting business based on DNA analysis, and a leasing business. This segment drives overall income at 63.7% of net sales and 74.9% of operating income in FY9/16. It covers results from Nexyz. Corp., Nexyz. Zero Inc., and DiNA Inc.

The Electronic Media business produces and handles consignment of digital magazines, sells advertising, provides services that support E-commerce companies (such as website construction, operation, logistics, and translation), and runs a game business. This segment accounted for 21.5% of net sales and 21.3% of operating income in FY9/16. It covers Brangista, Brangista Game (established in October 2015), and Nexyz.Trade Co., Inc.

The Cultural Education business operates kimono-wearing schools and sells kimonos and Japanese accessories. This segment provided 14.8% of net sales and 3.8% of operating income in FY9/16. It covers Hakubi Corporation.



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FY9/16 Business content and results by segments

	Business content	Group companies	Net sales		Segment profit	
			FY9/16 (¥mn)	Share (%)	FY9/16 (¥mn)	Share (%)
Energy and Environment business	Provision of rental service for LED lighting and other equipment, customer acquisition and sales, health consulting service based on DNA analysis, etc.	Nexyz. Corp. Nexyz. Zero Inc. DINA Inc.	8,957	63.7%	1,998	74.9%
Electronic Media business	Consigned production of digital magazines and advertising sales, EC company support services (sales promotions, logistics), translation, games, financial product broker service, etc.	Brangista Inc. Brangista Game Inc. Nexyz.Trade Co., Ltd.	3,067	21.5%	566	21.3%
Cultural Education business	Operates a kimono-wearing school	Hakubi Corporation	2,085	14.8%	102	3.8%
Total			14,062	100.0%	2,667	100.0%

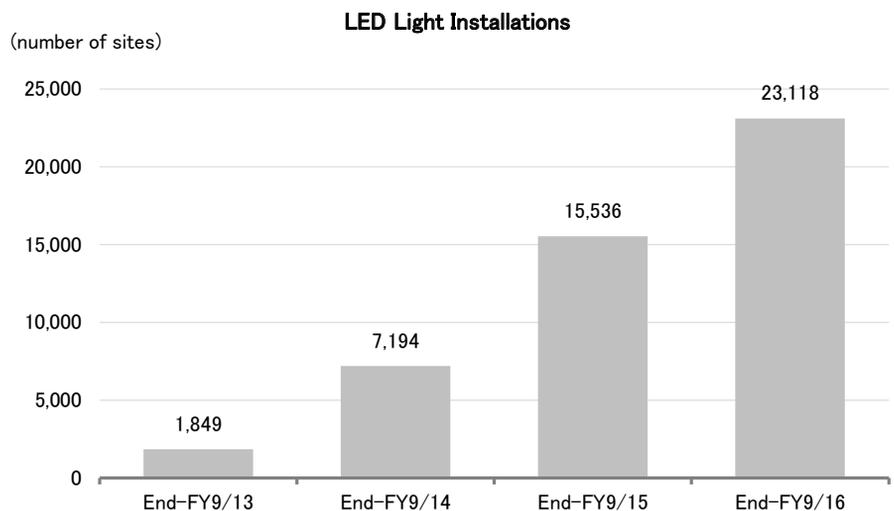
Source: Company's financial statements and FISCO Inc. analysis

* Prior to companywide profit adjustments

Strong advances fueled by the revolutionary rental format of “zero” initial investment

(3) Energy and Environment business: Rental service for energy-saving products

The Company's rental service for LED lighting and other energy-saving products started with a slogan of "lowering electricity costs in Japan" in FY9/13 and has grown to be the main business in the past four years. It targets domestic firms that have not installed LED lighting yet (about 3mn companies) and has established a No.1 position in the industry by using a unique rental format that eliminates hefty upfront costs, which had been the main barrier for weak adoption. The Company has close ties with restaurants and hotels through its various activities over the years, and restaurants account for about 60% of overall installations. This business started with nine sales people and has expanded to 11 sites around Japan and close to 300 sales people. Nexyz.Group is leveraging its strength of sales capabilities on a nationwide scale. The Nexyz. Zero series of rental service for water-saving equipment, commercial refrigerators, commercial air-conditioners, dishwashers, and other products ramped up in FY9/16 has performed well, and sales from products other than LED lighting have grown to about 15% of net sales. This business is currently at a stage of only offering other products to existing customers for LED rental service, and we expect a further rise in customer volume once the Company begins autonomous sales to firms other than the LED service. Installations (only LED lighting) have been steadily rising, including an increase of 7,582 sites from 15,536 sites at the end of FY9/15 to 23,118 sites at FY9/16.



The rental service uses a revolutionary approach that eliminates initial investments and uncertainty for customers. The biggest benefit for store operators (customers) is no initial charge for lights, installation and maintenance (five-year guarantee). It is more attractive than leases due to removing the need for credit provision and thereby any impact on borrowing leeway. Customers pay rental fees from their savings in electricity costs for the first five years and receive the installed equipment at no charge from the sixth year and will no longer need to pay rental fees. This format significantly lowers costs. Roughly 40% of acquired customers come from introductions by the Company's existing customers, attesting to robust customer satisfaction. Besides economic benefits, the service has been well received because of the appealing installations supported by selections from 3,000 types of LED lights by sales staff, who have lighting consultant credentials. Many major firms have installed LED lighting using the Company's service, including Daitan Holdings Co., Ltd., which operates Nadai Fuji Soba, SoftBank Corp., which runs mobile phone shops, car dealer TOKYO SUBARU INC., and restaurant operators Gyu-kaku and Diamond Dining. Otani Sanso, a traditional inn located in Yamaguchi Prefecture that hosted the recent Japan-Russia Summit Meeting, also installed LED lighting using the Company's service. We think this customer base reflects favorable assessment of service quality.

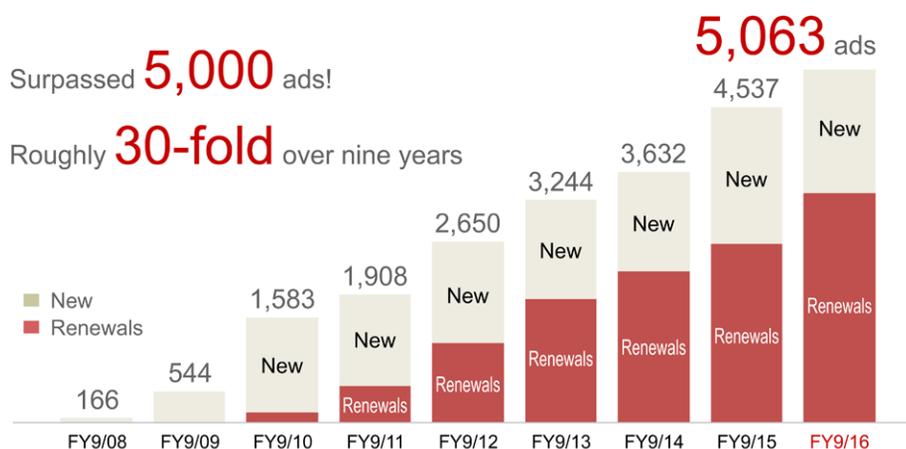
Issues digital magazines (19 magazines) that feature popular actors on the front page

(4) Electronic Media business (Brangista)

The Electronic Media business mainly consists of digital magazines, an area entered in 2007 by subsidiary Brangista. Digital magazines come under cross media that combine the strengths of magazines and the Internet in enabling users to view information, watch videos, search, and make reservations and purchases just by "flipping pages and clicking." This business currently publishes 19 digital magazines, including the "Tabiuro" travel magazine and "GOODA" men's fashion magazine, and every month 2mn users access the magazines for free. The Company is the No.1 domestic publisher of digital magazines that has its own planning, production, and sales functions. It holds an advantage from having a longstanding network with entertainment production firms that facilitates access to popular actors for magazine covers.

The Company utilizes two different business models to obtain income. One is obtaining advertisement fees mainly from restaurants and hotels, and the other is receiving production fees for delivering prepared contents to customers. Digital magazines do not face a physical limit in the number of ads from the page count, a key difference with paper magazines. Ad volume has been steadily rising each year and reached 5,063 ads in FY9/16, an increase of 526 from the previous year. The income model mainly uses annual contracts for advertising fees (¥300,000-960,000 per year), and the continuation rate is high at about 70%. This business thereby has repeat income attributes.

Number of Advertisements in Digital Magazines



Annual sales price for digital magazine ads **¥300,000-¥960,000** (¥25,000-¥80,000 per month) (tax exclusive)

■ Business Performance

Booked a fifth consecutive increase in operating income and steep sales gain in FY9/16

(1) Review of FY9/16 results

Nexyz.Group booked ¥14,062mn in net sales (+32.1% YoY), ¥1,716mn in operating income (+69.4%), ¥1,717mn in ordinary income (+66.5%), and ¥1,215mn in net income attributable to owners of parent (+44.4%) in FY9/16. Net sales rose sharply, and operating income reached a fifth straight annual high. Rental service for energy-saving products, which has been making significant advances, steadily expanded and contributed to higher sales and profits thanks to the rise in introduced deals and diversification of the product line-up. Earnings growth strengthened on a substantial lift from a 3.6 percentage points drop in the SG&A expenses ratio, despite increasing the number of sales people for the rental service that handles energy-saving products, because of the efficiency of its sales activities led by introductions.

Business Results in FY9/16

	FY9/15		FY9/16		YoY change (%)
	Results (¥mn)	Ratio to sales (%)	Results (¥mn)	Ratio to sales (%)	
Net sales	10,647	100.0%	14,062	100.0%	32.1%
Cost of sales	6,266	58.5%	8,412	59.8%	34.2%
Gross profit	4,381	41.1%	5,650	40.1%	28.9%
SG&A expenses	3,368	31.6%	3,934	27.9%	16.8%
Operating income	1,013	9.5%	1,716	12.2%	69.4%
Ordinary income	1,031	9.6%	1,717	12.2%	66.5%
Net income attributable to owners of parent	841	7.9%	1,215	8.6%	44.4%

Source: Prepared by FISCO from the Company's financial statements

Plans advertising investments for the “*Kami no Te*” game in FY9/17, though still forecasts for all-time high earnings

(2) FY9/17 outlook

Nexyz.Group forecasts for ¥16,500mn in net sales (+17.3% YoY), ¥2,000mn in operating income (+16.5%), ¥2,000mn in ordinary income (+16.4%), and ¥1,250mn in net income attributable to owners of parent (+2.8%) in FY9/17. It expects a fourth straight rise in net sales and a sixth consecutive year of profit gains. Targeted earnings are the highest levels ever for the Company as it marks the 28th fiscal year. We think this is a slightly conservative plan considering healthy growth trends in the core Energy and Environment and Electronic Media businesses and expect upward revisions during the fiscal year as in FY9/16. Nexyz.Group forecasts lower earnings growth in FY9/17 due to its plan for investing over ¥500mn in advertising and promotional costs at Brangista Game from this winter as a special factor.

Business Results Outlook for FY9/17

	FY9/16		FY9/17		YoY change (%)
	Results (¥mn)	Ratio to sales (%)	Forecast (¥mn)	Ratio to sales (%)	
Net sales	14,062	100.0%	16,500	100.0%	17.3%
Operating income	1,716	12.2%	2,000	12.1%	16.5%
Ordinary income	1,717	12.2%	2,000	12.1%	16.4%
Net income attributable to owners of parent	1,215	8.6%	1,250	7.6%	2.8%

Source: Prepared by FISCO from the Company's financial statements

Financial stability not a concern

(3) Financial conditions

Nexyz.Group was in healthy financial shape at the end of FY9/16. Total assets rose ¥1,165mn from the end of FY9/15 to ¥12,071mn. The main increase was ¥1,175mn in notes and accounts receivable - trade, reflecting strong momentum in rental business for energy-saving products. Liabilities climbed ¥2,069mn to ¥4,718mn due mainly to a ¥1,368mn increase in non-current liabilities and a ¥1,335mn rise in long-term loans payable.

Short-term and longer-term stability stands out in management indicators with the liquidity ratio at 272.4% and capital ratio at 40.5%.

Consolidated Balance Sheet and Management Indicators

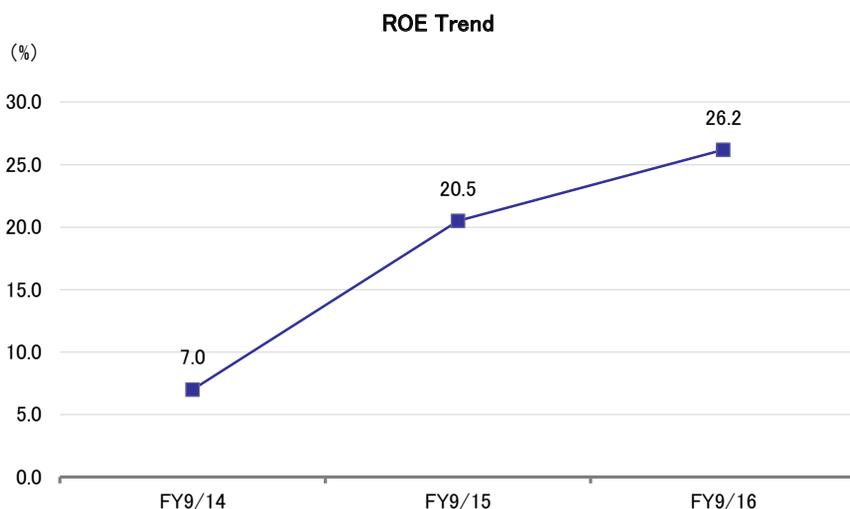
	The end of FY9/15	The end of FY9/16	Change
(Unit: ¥mn)			
Current assets	7,991	8,980	989
(Cash and deposits)	3,720	3,631	-89
(notes and accounts receivable - trade)	3,327	4,502	1,175
Non-current assets	2,915	3,091	176
Total assets	10,906	12,071	1,165
Current liabilities	2,595	3,297	701
Non-current liabilities	53	1,421	1,368
Liabilities (total)	2,649	4,718	2,069
Net assets (total)	8,257	7,353	-904
Liabilities and net assets (total)	10,906	12,071	1,165
Stability			
Current ratio (current assets ÷ current liabilities)	307.9%	272.4%	-
Equity ratio (Equity ÷ total assets)	40.1%	40.5%	-

Source: Prepared by FISCO from the Company's financial statements

■ ROE

Realizing high-efficiency operations at 26.2% ROE

Nexyz.Group has dramatically improved ROE since it began rental service for LED lighting and other energy-saving products. ROE rose from 7.0% in FY9/14 to 26.2% in FY9/16. This improvement confirms enhanced business efficiency. We expect the Company to maintain earnings level while increasing its investments in games business amid an ongoing growth phase for its core rental service for energy-saving products.



Policy on shareholder returns

Total return ratio increased to 50.3% in FY9/16 with a ¥15 annual dividend (up ¥5) and 15.4% dividend payout ratio

Nexyz.Group aims to effectively balance investments in growth and suitable profit return to shareholders. It paid a ¥15 annual dividend (up ¥5 YoY) for a 15.4% dividend payout ratio in FY9/16. It also aggressively purchased its own shares as part of shareholder returns with acquisitions of 228,600 shares through May 2016 and 200,000 shares through October 2016. These moves lifted total return ratio to 50.3%. Nexyz.Group forecasts for a ¥20 annual dividend (up ¥5 YoY) in FY9/17 including interim dividend of ¥10 and year-end dividend of ¥10. Just as in FY9/16, it plans to bolster shareholder returns in FY9/17 with share buybacks and increased dividend.

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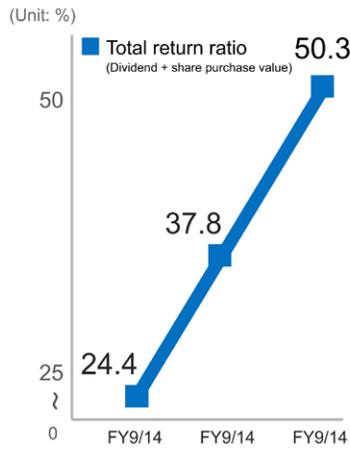
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Share Buyback Results and Total Return Ratio Trend (Consolidated)

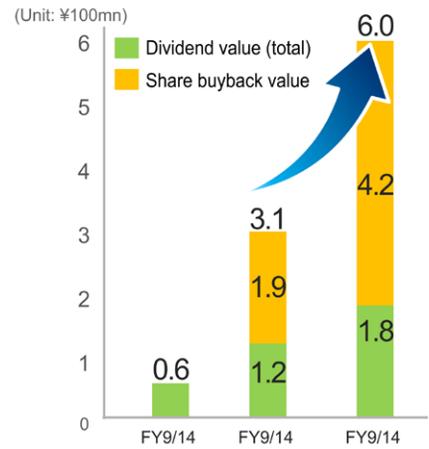
◆ Share purchase results

(1) Acquired 428,600 shares



(2) Total value of purchased shares ¥426mn

* Acquired 51,800 shares for ¥79mn during October 1-7, 2016



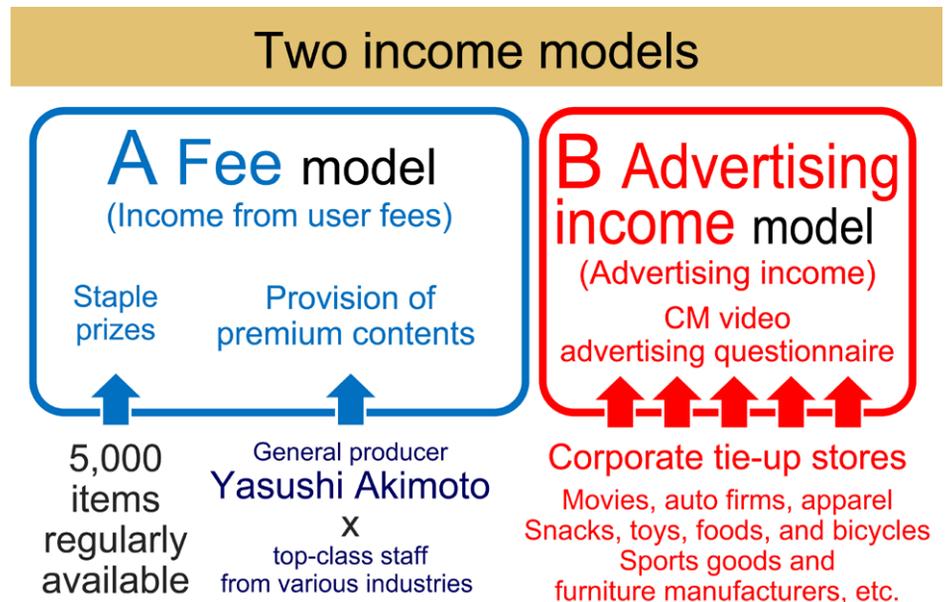
Growth Strategy

Investing in the “*Kami no Te*” smartphone crane game

Smartphone online games

Nexyz.Group released the “*Kami no Te*” smartphone crane game in June 2016. This is an online game played through a smartphone, and prizes are sent to the person’s home. The app is simple and expresses the feel in 3D of crane games that have been played for 86 years at game centers. Prize appeal is an important point. Premium gifts and collaborative efforts with anime and movies, which Yasushi Akimoto serves as the general producer, appeal to the target “mania” segment. The income model consists of fees and advertising. In the fee model, users can play at a game at ¥100 per play. This game offers a new type of experience of playing in the virtual world and receiving real-world prizes.

Game Income Model



Source: From the Company’s results briefing materials

The first round of prizes contained original items from the AKB48 general election, and the game has continued to utilize collaborative projects with AKB and other idol events, dramas and theater shows and released through the 17th round (as of December 16). Many items sold out on the first day, including collaborative prizes with idols participating in the Tokyo Idol Festival, the world’s largest idol event, and a joint project with a movie that features EXILE and Third-Generation JSB.

The “#Hi Poul” variety program airing from 1:25am on Friday mornings on Fuji TV since November 2016 includes a regular feature on “*Kami no Te*” hosted by Haruna Kojima (AKB48) and Daisuke Muramoto (Woman Rush Hour). The hosts receive proposals for “*Kami no Te*” prizes from the general public via the official site and SNS and goddess Haruna Kojima and servant Daisuke Muramoto make selections from the various proposals.

The Company did not invest heavily on advertising and promotions in the first six months due to giving priority to app revisions and prize loyalty. It plans to invest about ¥500mn in “*Kami no Te*” advertising and promotions from March 2017, and we expect these initiatives to further accelerate momentum.

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