

2Q FY2018 Earnings Announcement

Event Summary

Date : October 31, 2018

Venue : 21F, Akasaka Park Building, 5-2-20 Akasaka, Minato-ku, Tokyo 107-6121

Speakers : Akira Tanaka President

Noriaki Kuromizu Vice President

Presentation

Moderator: It is now time to begin the earnings announcement for the FY2018 second quarter for WOWOW INC. Thank you very much for taking the time to attend.

First I will introduce today's speakers. From your left is the company President, Akira Tanaka. And the Vice President, Noriaki Kuromizu.

We will now hear a description of the earnings highlights for the FY2018 second quarter from Mr. Tanaka. Thank you.

2Q FY2018 Earnings Highlights

Net cumulative subscriptions reached a record 2.934 million. Revenue increased, income decreased.

New Subscription

- The US Open, at which Naomi Osaka became the first Japanese to win a Grand Slam, Namie Amuro's Fukuoka performance on her final tour, *Tohoshinki's* live performance at Nissan Stadium and other programs contributed to new subscriptions.
- New subscriptions exceeded 100,000 in September alone. This is the first time a single month has had more than 100,000 subscriptions since Kei Nishikori took second in the US Open in September 2014.

(Thousands)

	2Q FY2017	2Q FY2018	Difference	YoY
Gross New Subscriptions	242	347	105	143.1%
Cancellations	247	290	43	117.5%
Net New Subscriptions	△4	57	61	—

Income & Expenditure (Consolidated)

- Revenue increased year-on-year due to the increase in net cumulative subscriptions, among other factors.
- Ordinary income decreased year-on-year due in part to investment in major content.

(Millions of yen)

	2Q FY2017	2Q FY2018	Difference	YoY
Revenue	40,204	40,684	479	101.2%
Operating Income	5,824	4,155	△1,668	71.4%
Ordinary Income	6,211	4,454	△1,756	71.7%

Figures rounded down to millions of yen.

Tanaka: Thank you for taking the time to join us today. I will now describe the financial results for the FY2018 second quarter. I will give the brief highlights, and then Kuromizu will explain in more detail.

If you look at the document you were given or the slide at the front, you can see that gross new subscriptions were at 347,000 and cancellations were at 290,000, for net new subscriptions of 57,000. With net cumulative subscriptions of 2.934 million, we have achieved the highest level to date.

At the head of contributing factors was the US Open tennis where athlete Naomi Osaka had her first victory and athlete Nishikori was also very prominent in the open. Next was the Toray Pan Pacific Open tennis in which Naomi Osaka competed that was broadcast after the US Open. This is the first year we have broadcast the US Open and these tennis opens brought in many new subscriptions.

In addition, in terms of the entire first half, major live music programs with musicians like Namie Amuro and Tohoshinki (TVXQ) brought in new subscriptions.

New subscriptions for the single month of September when the US Open tennis was broadcast surpassed 100,000. The last time we surpassed 100,000 in a single month was, looking back, September 2014 when athlete Kei Nishikori made it to the final and won runner up. We had not reached that level since September 2014. Many customers subscribed to WOWOW.

WOWOW

As a result, for consolidated income and expenditure, revenue was 40.684 billion. This is a 479 million increase in revenue over the previous year. Ordinary income was 4.454 billion, a profit decrease of 1.756 billion from the previous year. Revenue increased due to such factors as an increase in net cumulative subscriptions, but profits, as I just mentioned, dropped owing to investment in major programs and strategic investment.

Now I will let Kuromizu give more details about these numbers.

2Q FY2018 Subscription

(Thousands)

	2Q FY2017	2Q FY2018	Previous Period Comparison	
			Difference	YoY
Gross New Subscriptions	242	347	105	143.1%
Cancellations	247	290	43	117.5%
Net New Subscriptions	-4	57	61	-
Net Cumulative Subscriptions	2,819	2,934	115	104.1%
Of these, multi-subscriptions*1	420	418	-2	99.5%
Of these, hotel subscriptions*2	13	62	48	466.2%

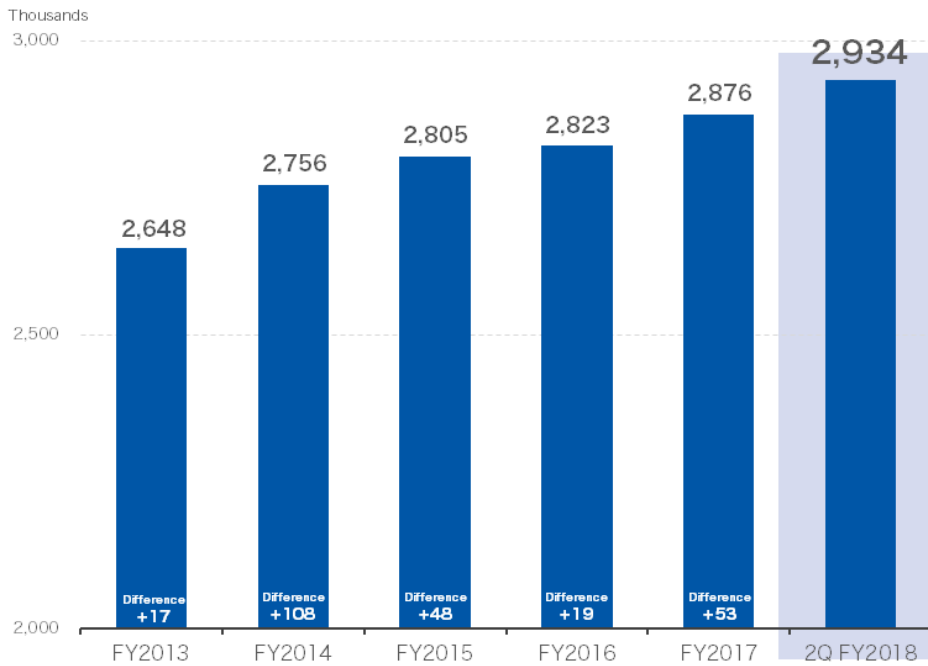
*1 Existing subscribers are granted two additional subscriptions for a discounted price (JPY900/month – the first subscription is JPY2,300/month, tax not included).

*2 Agreements with hotels and other accommodations for viewing in guest rooms.

Kuromizu: I will now give a detailed briefing about the figures. I will explain the contents on pages three to nine.

I will begin with page three. This is the status of subscriptions for the second quarter in FY2018. I will overlap somewhat with Tanaka. First is this part on new subscriptions in FY2018. As was just mentioned, there were 347,000 new subscriptions in the second quarter. Next, there were 290,000 cancellations, giving a net of 57,000 subscriptions. As for year-on-year differences, this is an increase of 105,000 subscriptions and an increase in 43,000 cancellations year-on-year. The balance, the net compared to the previous year; the previous year net number was minus 4,000, so this is an increase of 61,000. This brings net cumulative subscriptions to 2.934 million, an increase of 115,000 as the status for subscriptions in the second quarter.

Change in Net Cumulative Subscriptions



Next, here are changes in net cumulative subscriptions. As I just mentioned, this was 2.934 million in the FY2018 second quarter. This chart only shows the period from 2013, but, looking further back, there has been a net increase in net new subscriptions for 12 consecutive years from FY2006 to FY2017. This is a plot of the figures from 2013. Growth has continued for the past 12 consecutive years. The figure of 2.934 million is the highest to date.

2Q FY2018 Income & Expenditure

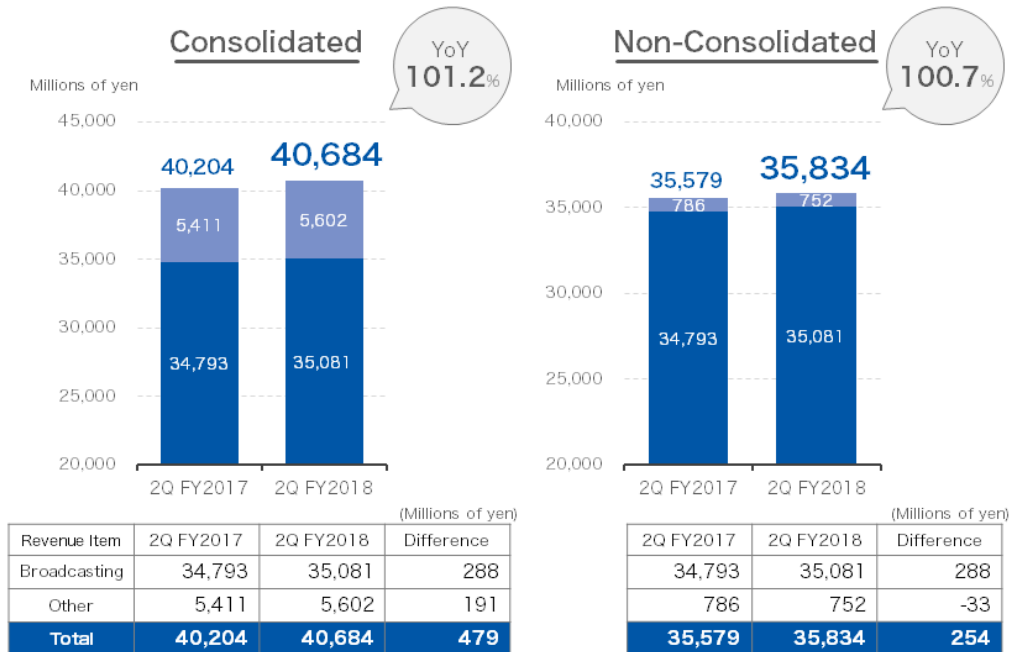
(Millions of yen)

		2Q FY2017		2Q FY2018		Previous Period Comparison	
		Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Consolidated	Revenue	40,204	100.0%	40,684	100.0%	479	101.2%
	Operating Income	5,824	14.5%	4,155	10.2%	-1,668	71.4%
	Ordinary Income	6,211	15.4%	4,454	10.9%	-1,756	71.7%
	Profit Attributable to Owners of Parent	4,285	10.7%	3,064	7.5%	-1,220	71.5%
Non-Consolidated	Revenue	35,579	100.0%	35,834	100.0%	254	100.7%
	Operating Income	5,632	15.8%	3,869	10.8%	-1,762	68.7%
	Ordinary Income	5,939	16.7%	4,319	12.1%	-1,619	72.7%
	Profit	4,100	11.5%	3,016	8.4%	-1,083	73.6%

Figures rounded down to millions of yen.

Next, I will share the status of income and expenditure for the FY2018 second quarter. I will focus on the consolidated results in the first half. Revenue was 40.684 billion, a year-on-year difference of 479 million. Operating income was 4.155 billion, a difference of 1.668 billion year-on-year. Ordinary income was 4.454 billion, a profit decrease of 1.756 billion compared to actual results. This is due to our strategic strengthening of programs. Quarterly net profits were 3.064 billion, a year-on-year difference of 1.22 billion. I will describe in more detail from the next page.

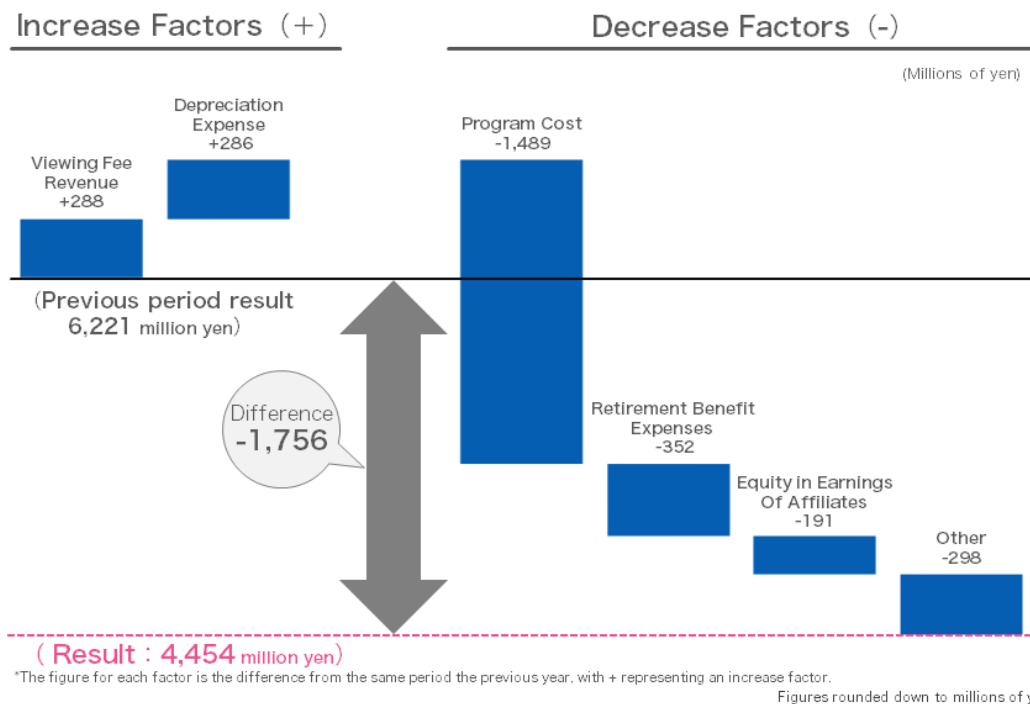
Revenue Compared to Previous Period



Figures rounded down to millions of yen.

Revenue is a year-on-year comparison. The left side shows the consolidated results. This part, the part on revenue, is for the FY2018 second quarter. Comparing year-on-year, this is a 479 million increase. As a breakdown, the lower dark blue part shows paid broadcasting revenue. This is a 288 million increase. The upper light blue part includes other revenue, outside revenue from subsidiaries, and revenue from events, for example. This part is an increase in 191 million. The main contribution to the figure for other revenue is telemarketing orders from existing outside customers for WOWOW COMMUNICATIONS, Inc. that is our consolidated subsidiary.

Consolidated Ordinary Income Factors in Difference from Previous Period



Next are the factors for the year-on-year difference in consolidated ordinary profit. As you can see here, there is a difference of 1.756 billion. Factors causing an increase are on the left and factors causing a decrease are on the right. One of the increase-contributing factors is an increase in revenue from viewing fees that is an increase in 288 million.

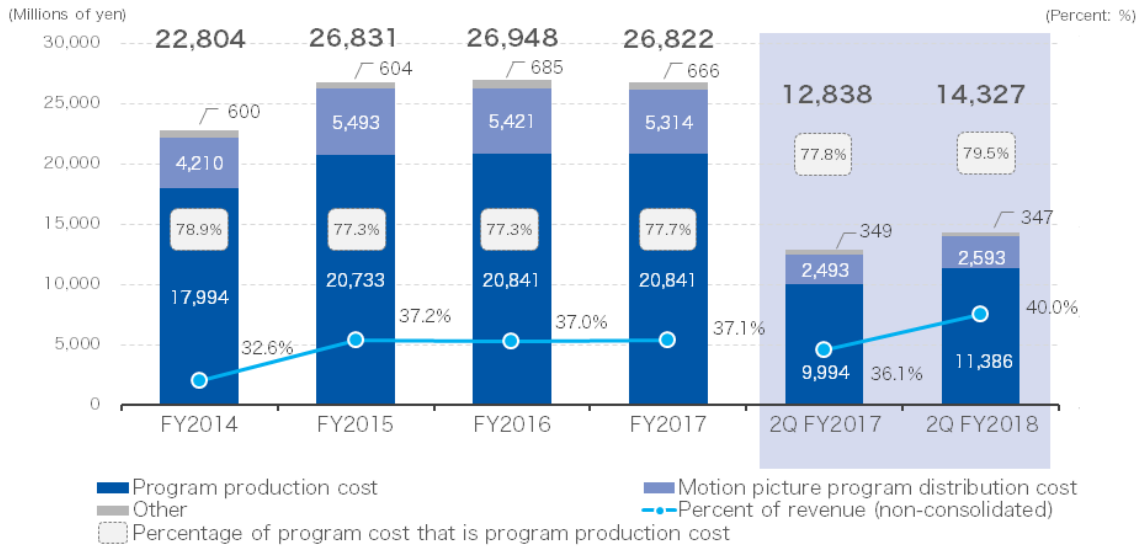
Next, depreciation expenses decreased, and this was a decrease of 286 million. As for the decrease-contributing factors on the right, the most significant is absolutely the increase in program expenses. This was 1.489 billion, and was an increase in expenses to strategically strengthen programming this fiscal year.

Another factor is retirement benefit costs that increased by 352 million. This cost increase is due to a change in the method of calculating retirement benefit costs from the previous simple method to the principle method, as the number of eligible employees at WOWOW now exceeds 300.

That and this 191 million that is a decrease in equity in net income of affiliates. Also, for other, there was a cost increase of 298 million yen. This is the result of launching a live tennis streaming service for TV in collaboration with acTVila as well as other trials aimed at further upgrading our services. For example, when broadcasting Celine Dion's concert in Japan, we tested our 4K simultaneous transmission for TV. These types of costs are included.

Change in Program Cost

Program cost increased year-on-year due in part to investment in major content



Program production cost: Original dramas, movies (except movies produced by US major studios), sports, music, etc.
Motion picture program distribution cost: Movies produced by US major studios
Other: Data broadcasting, etc.

*All figures are non-consolidated.
 Figures rounded down to millions of yen.

Here are changes in program expenses. Changes in program expenses are shown for 2014, 2015, and 2016. Where it says second quarter, there was a 1.489 billion increase overall from the previous year. The dark blue part shows paid program production costs. This has increased by 1.392 billion. The upper light blue part shows motion picture program distribution costs. These are mostly the costs for movies purchased from major Hollywood studios, and this part has increased by 99 million due to factors such as the exchange rate.

Income & Expenditure of Major Consolidated Earnings Companies

■ WOWOW COMMUNICATIONS (Telemarketing)

(Millions of yen)

	2Q FY2017		2Q FY2018		Previous Period Difference	
	Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Revenue	3,580	100.0%	4,262	100.0%	681	119.0%
Operating Income	36	1.0%	152	3.6%	115	415.0%
Ordinary Income	36	1.0%	152	3.6%	115	413.6%
Profit	24	0.7%	93	2.2%	68	378.0%

*WOWOW COMMUNICATIONS non-consolidated figures

■ WOWOW Plus Inc. (Broadcasting)

Revenue	2,560	100.0%	2,562	100.0%	2	100.1%
Operating Income	143	5.6%	97	3.8%	-46	67.8%
Ordinary Income	142	5.6%	97	3.8%	-45	68.2%
Profit	70	2.7%	77	3.0%	6	109.5%

*WOWOW Plus Inc. non-consolidated figures

Figures rounded down to millions of yen.

This is the income and expenditure for major consolidated companies. First is WOWOW COMMUNICATIONS, Inc. This is a telemarketing company. For the FY2018 second quarter, revenue was 4.262 billion, which is a year-on-year increase of 681 million. Operating income and ordinary income were both 152 million, which is a 115 million increase. In the second quarter, the quarterly profit was 93 million, which is a 68 million increase.

WOWOW PLUS INC. shown below is in the broadcasting field. Revenue was 2.562 billion, which is roughly the same as the previous year. Due to factors such as an increase in program production costs, operating income was 97 million, which is a 46 million decrease year-on-year. Same for ordinary income. The quarterly net profit was 77 million, which is a year-on-year increase of 6 million.

That is the end of my briefing for everyone. Thank you.

Moderator: We will now play a video of all the programs that will be broadcast from now, so please look at the screen in front of you.

Next, President Tanaka will explain the projected results for FY2018.

オリジナルコンテンツ及び主要ジャンルの強化①

テニスコンテンツが充実



生中継!
日清食品ドリームテニスNAGOYA
11月25日(日)



男子テニス
Nitto ATPファイナルズ
11月11日(日)~11月18日(日)
[WOWOWメンバーズオンデマンド限定配信]

新作ドラマがスタート



連続ドラマW
パンドラIV AI戦争
11月11日(日)スタート(全6話)[第1話無料放送]

大型ドキュメンタリーシリーズのシーズン3がスタート



IPC & WOWOW
パラリンピックドキュメンタリーシリーズ
WHO I AM
10月25日(木)スタート(シーズン3、全8回)
[第1回無料放送]

「WHO I AM」シーズン2が、第46回国際エミー賞のドキュメンタリー番組部門にノミネート。ドキュメンタリー番組部門へのノミネートはWOWOWの番組としては今回が初。

孤高のメス

連続ドラマW
孤高のメス
2019年1月放送決定

Tanaka: First, I will give some supplementary information on highlighted programs coming out that were introduced in the video just now.

As you could see on the video, we are further enhancing our tennis content. Continuously or this fall, many of our new WOWOW subscribers are tennis fans and customers who subscribed because they want to watch tennis. Although there are no major tournaments until around January, in addition to the tournaments we just showed you on the video, we are also planning several documentaries. We plan on broadcasting documentaries on athletes such as world-class tennis players like Roger Federer, Rafael Nadal, and Serena Williams as well as Japanese players, of course, like Naomi Osaka, Kei Nishikori, Shingo Kunieda, and Yui Kamiji.

We also showed on the video that we have started broadcasting season three of the WHO I AM documentary series. I am proud to say that the full series of season two broadcast last year was nominated for the documentary category in the 46th International Emmy Awards. This is the first time a program on WOWOW has received a nomination in the documentary category. The WHO I AM program is now in its third year and I am honestly very happy that people around the world are learning about the strengths of para athletes and magnificence of para sports through WHO I AM. The announcement of the award winners and the awards ceremony will be held on November 19, local time, and we will be going to New York for the event, to which I am greatly looking forward.

オリジナルコンテンツ及び主要ジャンルの強化②

♪ 大型アーティストのライブを放送



B'z LIVE-GYM Pleasure 2018 -HINOTORI-

11月24日(土)

ベスト選曲ツアー最終日・
味の素スタジアム公演を
WOWOWで独占放送。
B'zのライブがテレビで
放送されるのは、今回が初めて。



X JAPAN Live 日本公演 2018 ～紅に染まった夜～ Makuhari Messe 3Days

11月10日(土)



生中継! YOSHIKI CLASSICAL 2018 ～紫に染まった夜～ YOSHIKI with Philharmonic Orchestra

11月15日(木)

👉 主催イベントが続々



ディズニー・ブロードウェイ・ヒッツ

公演日程:2019年1月31日(木)、2月1日(金)
会場:パシフィコ横浜 国立大ホール



新日本製菓 presents SONGS&FRIENDS 小坂忠「ほうろう」

日程:11月26日(月)
会場:東京国際フォーラム ホールA

Next, this is not about a program, but I would like to tell you about an event we are hosting. You can see Disney Broadway Hits in the upper right corner of the slide. This is the event. In the past as well, WOWOW has hosted events that are distinctive of our company in conjunction with broadcasts. For example, we have held the traditional SONGS & FRIENDS event as well as a Tony Awards concert, Matthew Morrison concert, and other live concerts with world class artists you do not often see in Japan.

Today, I will tell you what this Disney Broadway Hits event is. It is an extremely rare concert that has been held only once each at the Boston Symphony Hall in the United States and at the Royal Albert Hall in England and will come to Japan next year for the first time.

Disney's musicals have all been huge hits in Broadway that puts on musicals like the Lion King and Beauty and the Beast. This is an event that introduces those magical hits from Disney musicals, and the people actually performing them are four Broadway stars who were in the original cast in major hit musicals and will come to Japan for the event. Also, as a guest singer from Japan, Naoto Kaiho who played a starring role in Aladdin and the Lion King with the Shiki Theatre Company will also be performing.

This is a performance that we, as a company that puts strength into musicals and has a strong relationship with Disney, requested and made into a reality. We strongly hope you will see it and also spread news of it to others.

ネット同時配信サービス開始

12月からの本サービスに先駆けて、10月よりPC・スマートフォン・タブレットで、
放送中の番組が視聴できるトライアルサービスがスタート

これからは、3つのサービスすべて合わせたものが、WOWOWです

放送	+	ネット同時配信	+	オンデマンド ライブ/見逃し/ライブラリ
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全てのサービスがご利用可能

月額 **2,300** 円(税別)

※ネット上でWOWOWに加入し、すぐに3チャンネルのネット同時配信をご覧いただけるサービスを、動画配信プラットフォーム「Paravi」上で開始予定です。

Next, I will discuss our simultaneous IP transmission service. As I have been saying for some time, we have launched this simultaneous IP transmission service from October as a trial service. We also mentioned in the mid-term management plan that we would be launching this service within this fiscal year, and we launched the trial on October 1. This simultaneous IP transmission service was added to the regular service, and the rate stays at 2,300 yen.

Right now, NHK and the JBA have been debating simultaneous IP transmission, but WOWOW is also a nationwide broadcaster, free from ads, and pay TV broadcaster. We used these strengths as leverage and launched our service ahead of the others.

One month has passed, and although we are still in the trial stage, we are grateful to say that it is progressing well without any technical hitches. We feel that it is progressing smoothly. The full service will be available from December 1, so we want to use this service for external marketing and have it lead to subscriptions.

FY2018 Subscription Plan (announced May 15, 2018)

(Thousands)

	FY2017	FY2018	Previous Period Comparison	
			Difference	YoY
Gross New Subscriptions	591	600	9	101.6%
Cancellations	537	570	33	106.1%
Net New Subscriptions	53	30	-23	56.4%
Net Cumulative Subscriptions	2,876	2,906	30	101.0%

This is the subscription forecast for FY2018. Figures have not changed from those announced in May. In the second half, we are working towards a target of 600,000 new subscriptions and 570,000 cancellations, bringing net new subscriptions to 30,000 and net cumulative subscriptions to 2.906 million.

FY2018 Income & Expenditure Plan (announced May 15, 2018)

(Millions of yen)

		FY2017		FY2018		Previous Period Comparison	
		Result	Percent of Revenue	Plan	Percent of Revenue	Difference	YoY
Consolidated	Revenue	81,574	100.0%	83,300	100.0%	1,725	102.1%
	Operating Income	9,875	12.1%	6,600	7.9%	-3,275	66.8%
	Ordinary Income	10,698	13.1%	7,100	8.5%	-3,598	66.4%
	Profit Attributable to Owners of Parent	7,360	9.0%	5,000	6.0%	-2,360	67.9%
Non-Consolidated	Revenue	72,202	100.0%	73,000	100.0%	797	101.1%
	Operating Income	9,588	13.3%	6,000	8.2%	-3,588	62.6%
	Ordinary Income	10,205	14.1%	6,500	8.9%	-3,705	63.7%
	Profit	7,025	9.7%	4,600	6.3%	-2,425	65.5%
Annual Dividend		80 yen per share		80 yen per share		-	100.0%

Note: Program costs forecast to be approximately 40.0% of non-consolidated revenue. Estimated foreign exchange rate: 1 USD = 115 yen. Figures rounded down to millions of yen.

This is the income and expenditure plan for consolidated results. These figures also have not changed from those announced in May. This period, as I have been saying from before, we are expecting an increase in revenue and decrease in profit. This increase in revenue is due to such factors as an increase in revenue from viewing fees, and the projected decrease in profit is due to strengthening of programs and investment in marketing reform costs. That is all from me.

Moderator: That is the end of our briefing.

Question & Answer

Moderator: We will now move on to the question and answer session. If you have a question, please raise your hand and we will bring you the microphone. Does anyone have any questions?

Participant: I have a few questions. For profit, ordinary income was about 650 million yen higher than expected in the plan for the first half. Could you give me additional information as to what happened compared to the initial plan, such as a delay in expense investment or some sort of sum? Could you give more information?

Kuromizu: I will answer. The reason for the swelling of profit in the first half is that some parts have shifted to the second half and so expenses will pile up in the second half. That part is the portion from the first half and is, in a sense, one of the reasons I can give for this upturn.

Participant: My next question is about the number of subscriptions. You said that there was a huge increase in September and, numerically, you have already surpassed the target for the whole financial year. With respect to this, could you give a little more information about your forecast and plans, for example, will the number fall somewhat in the second half, or instead, will you aim higher to a certain degree as a target?

Tanaka: Yes. We have already reported for the first half, but for the second half, we expect a reaction from the subscriptions in the first half; in other words, an increase in cancellations. In addition to this the enhancement of content planned for the second half, and, as you can see, we expect cancellations to increase in the second half, but I would like us to hit our initial plan for the entire financial year.

Participant: Some of the subscribers of whom we saw an increase in September will continue their subscriptions somewhat, and I think contribution to results will be seen in the second half. How do you see this? As you just mentioned, the numbers will fall somewhat, so do you see this as little change from the results initially projected or an actual impact of some sort? Or, as a target, do you have an impression that results are slightly stronger? Could you please give more detail on this point?

Kuromizu: As Tanaka just explained, often after a large jump in subscriptions, historically speaking, we see a slight trend towards cancellations. At present, we are not going over our initial projection, but we believe it is critical that we firmly reach our end-of-year target, so we are focusing on that.

Moderator: Does anyone else have any questions? As there appear to be no more questions, we will close this session.

We will end with a few words from President Tanaka.

Tanaka: Thank you for visiting today. I spoke earlier about the course for one month for

WOWOW

the simultaneous IP transmission service. As I said in the beginning, the competitive environment of the pay broadcasting sector is changing drastically with the popularization of foreign-owned videos and pay video streaming, for example. Within this climate, WOWOW also launched simultaneous IP transmission in view of changes in consumers' lifestyles and consumer needs. We see it as the trend of the times to provide an environment that lets customers enjoy WOWOW any time, any place, including on TV, your smartphone, or your tablet in your living room, your bedroom, outside, or anywhere else. As such, I believe that WOWOW being a broadcasting company can provide comprehensive services, providing simultaneous IP transmission utilizing our strengths as a broadcasting company.. We will strive to provide even better services in an even better environment and upgrade what we offer, and I hope you will continue to follow our activities.

Thank you for coming today.

Moderator: This brings us to the end of the earnings announcement for the FY2018 second quarter. As we request after every briefing, please fill out the questionnaire you were given. After completing it, please leave it on the table before you go. Please leave the visitor's pass that you received at reception on the table before you go.

Thank you very much for taking the time to attend this earnings announcement.

[END]
