

3Q FY2018 Earnings Announcement

Event Summary

Date : January 31, 2019

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

Speakers : Akira Tanaka President

Noriaki Kuromizu Vice President

Presentation

Moderator: As scheduled, we will hold a briefing session for the third quarter of FY 2018 for WOWOW Inc. Thank you very much for taking time out to attend today. Please be advised that the contents of the meeting and the Q&A session will be distributed in full through an external organization and posted on our website.

First of all, I would like to introduce you to those here today. From the left, Mr. Akira Tanaka, President and Representative Director of the Company.

Tanaka: Thank you.

Moderator: Mr. Noriaki Kuromizu, Executive Vice President of the Board of Directors.

Kuromizu: Thank you.

Moderator: The president, Mr. Tanaka, will explain the financial highlights of the third quarter of FY2018.

3Q FY2018 Earnings Highlights

Net cumulative subscriptions reached a record 2.901 million. Revenue increased, income decreased.

New Subscription

- The US Open Tennis Championships, at which Naomi Osaka became the first Japanese to win a Grand Slam, and live music program of Namie Amuro, Tohoshinki, and B'z first TV broadcast ever, contributed to new subscriptions.

(Thousands)

	3Q FY2017	3Q FY2018	Difference	YoY
Gross New Subscriptions	419	489	70	116.7%
Cancellations	384	465	80	120.9%
Net New Subscriptions	35	25	-10	70.9%

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)

	3Q FY2017	3Q FY2018	Difference	YoY
Revenue	60,635	61,378	743	101.2%
Operating Income	9,396	6,764	-2,632	72.0%
Ordinary Income	9,912	7,315	-2,596	73.8%

Figures rounded down to millions of yen.

Tanaka: My name is Tanaka. Thank you very much for taking the time to come here today while it is cold. First of all, I would like to briefly describe the highlights of our quarterly financial results. As in the materials or the screen at the front, first are the subscriptions. There were 489,000 new subscribers, 465,000 cancellations, making for 25,000 net subscribers, for a total of 2.901 million net subscribers.

The other day, Naomi Osaka won a dramatic victory in the Australian Open. I remember that in the third quarter, Osaka won the Grand Slam for the first time as a Japanese tennis player, and Kei Nishikori became the fourth best player in the U.S. Open. This sports content drove new subscriptions. There were also large live music performances. The final tour of Namie Amuro and a live event by TVXQ. And B'z first live TV broadcast. These factors also contributed to new enrollment.

For the consolidated income and expenditure based on this, net sales were 61.378 billion yen. This was a year-on-year increase of 743 million, mainly due to an increase in the cumulative net subscriber base. Ordinary income was 7.315 billion yen. This was a decrease of 2.596 billion yen compared to the same period of the previous fiscal year. As I have always stated, this is the result of our strategic investment in large-scale content compared to the same period of the previous fiscal year.

I would like Kuromizu, the Executive Vice President of the Company, to explain the details of the figures.

3Q FY2018 Subscription

(Thousands)

	3Q FY2017	3Q FY2018	Previous Period Comparison	
			Difference	YoY
Gross New Subscriptions	419	489	70	116.7%
Cancellations	384	465	80	120.9%
Net New Subscriptions	35	25	-10	70.9%
Net Cumulative Subscriptions	2,858	2,901	43	101.5%
Of these, multi-subscriptions*1	419	417	-3	99.4%
Of these, hotel subscriptions*2	59	63	3	105.7%

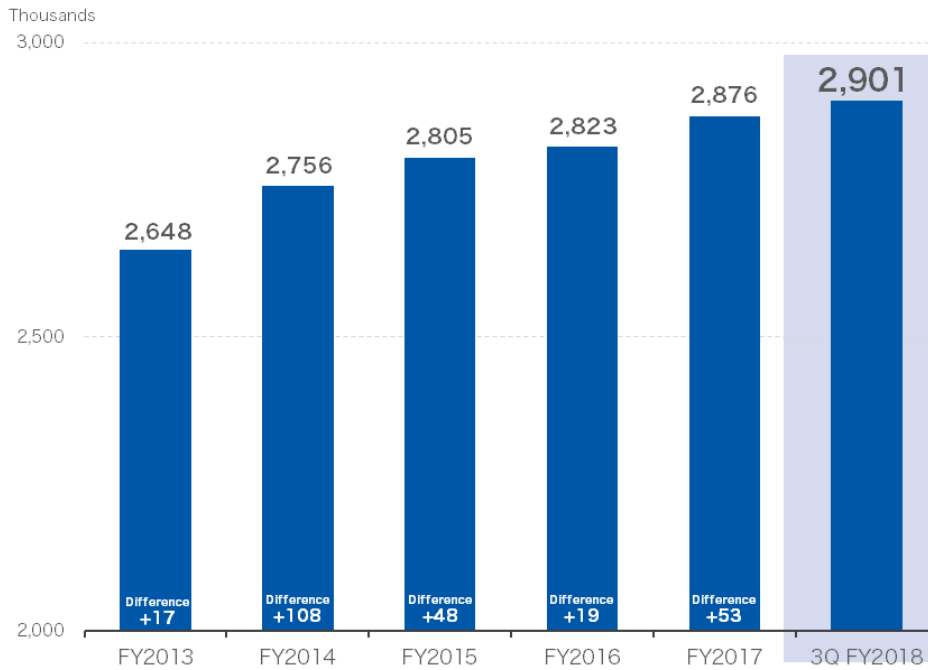
*1 Existing subscribers are granted two additional subscriptions for a discounted price (JPY900/month – the first subscription is JPY2,300/month, tax not included).

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

Kuromizu: I'm Kuromizu and I'll explain things from pages 3 to 9. First of all, I would like to explain page 3, which overlaps with the subscription status in the third quarter of FY2018 and some of the current topics. During the third quarter of FY2018, the number of new subscribers totaled 489,000, an increase of 70,000 from the same period of the previous fiscal year. New subscriptions were driven by the U.S. Open, Namie Amuro, TVXQ, and B'z live.

The number of cancellations totaled 465,000, an increase of 80,000 from the same period of the previous fiscal year. Net subscriber additions totaled 25,000, a decrease of 10,000 compared to the previous year. Cumulative net subscriptions totaled 2.901 million, an increase of 43,000 from the same period of the previous fiscal year.

Change in Net Cumulative Subscriptions



Continuing on, the development of the total number of subscribers. The table below shows the cumulative number of net subscribers since FY2013. Cumulative net subscriber additions increased for the twelfth consecutive year from FY2006 to FY2017. As I mentioned earlier, the cumulative total of net subscribers in the third quarter of FY2018 was 2.901 million.

3Q FY2018 Income & Expenditure

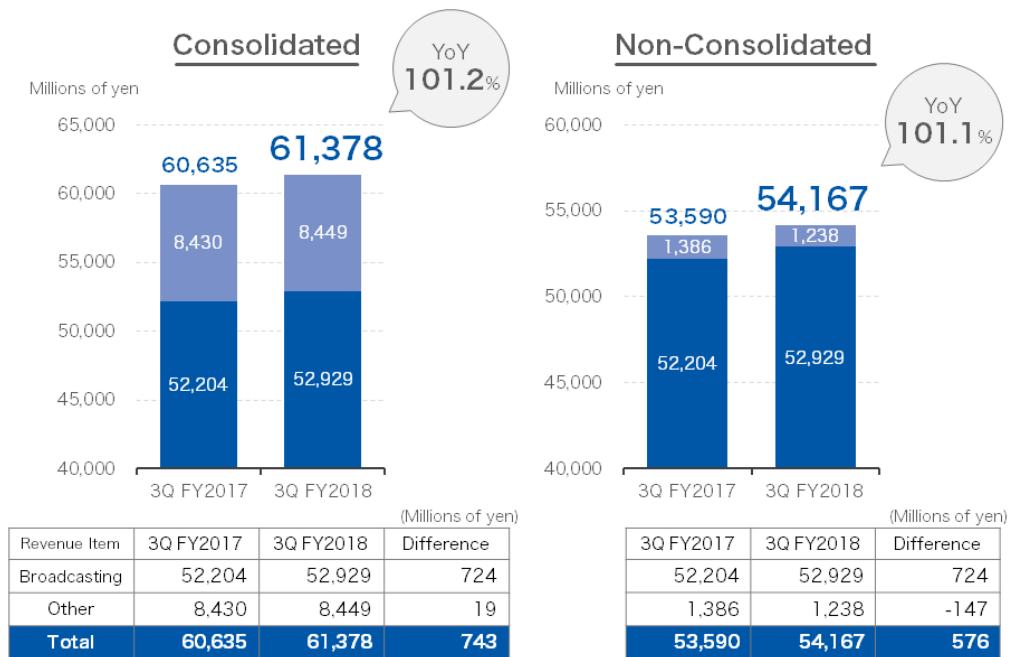
(Millions of yen)

		3Q FY2017		3Q FY2018		Previous Period Comparison	
		Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Consolidated	Revenue	60,635	100.0%	61,378	100.0%	743	101.2%
	Operating Income	9,396	15.5%	6,764	11.0%	-2,632	72.0%
	Ordinary Income	9,912	16.3%	7,315	11.9%	-2,596	73.8%
	Profit Attributable to Owners of Parent	6,870	11.3%	5,006	8.2%	-1,863	72.9%
Non-Consolidated	Revenue	53,590	100.0%	54,167	100.0%	576	101.1%
	Operating Income	9,039	16.9%	6,343	11.7%	-2,696	70.2%
	Ordinary Income	9,397	17.5%	7,025	13.0%	-2,371	74.8%
	Profit	6,486	12.1%	4,867	9.0%	-1,618	75.1%

Figures rounded down to millions of yen.

This is followed by revenue and expenditure for the third quarter of FY2018. The following is an explanation of the consolidated results of operations. In the third quarter of FY2018, sales increased but profits decreased compared with the same period of the previous fiscal year. Sales rose 743 million yen to 61.378 billion yen. Ordinary income decreased by 2.596 billion yen from the same period of the previous fiscal year to 7.315 billion yen. Details are provided on the following pages and beyond.

Revenue Compared to Previous Period

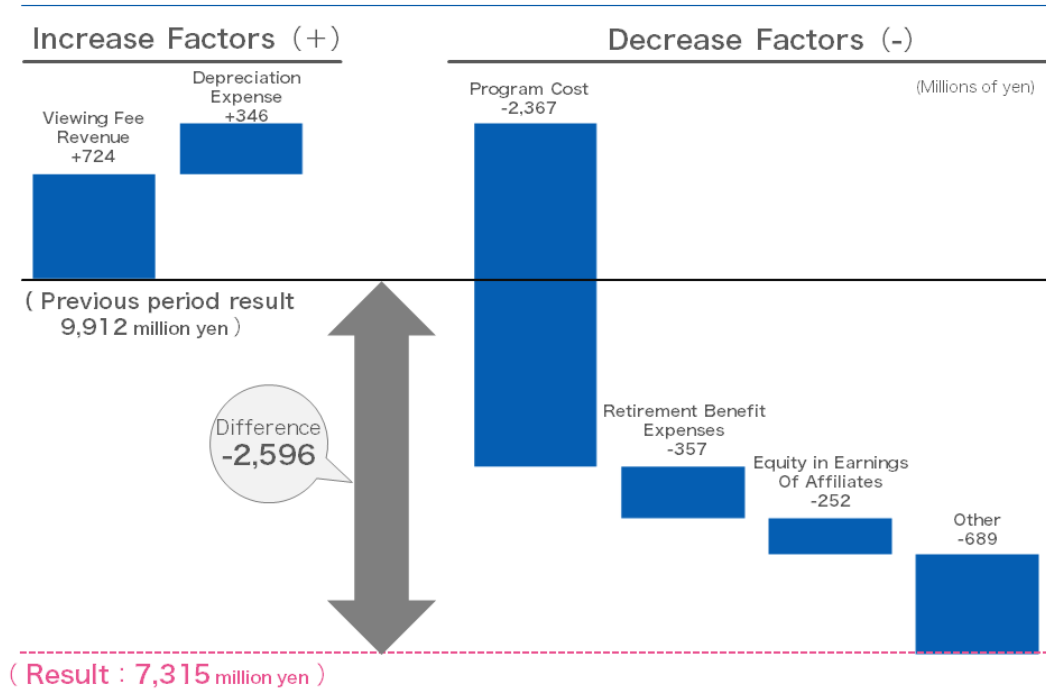


Figures rounded down to millions of yen.

This is a comparison of net sales from the same period of the previous year. This is a comparison of consolidated and non-consolidated net sales. I would like to explain the consolidated net sales on the left. Consolidated net sales increased 743 million yen year on year. The breakdown in dark blue shows an increase of 724 million yen year-on-year due to paid broadcasting revenues from an increase in cumulative net subscribers.

Other income, which is the light blue portion, includes external sales of subsidiaries and event income. Other income decreased on a non-consolidated basis. However, the consolidated subsidiary WOWOW COMMUNICATIONS, Inc. got more orders for telemarketing services from existing external customers, which resulted in an increase of 19 million yen in consolidated sales compared to the same period of the previous fiscal year.

Consolidated Ordinary Income Factors in Difference from Previous Period



Continuing on, consolidated ordinary income. This section explains the reasons for the year-on-year change. The left-hand side shows the main causes of the increase in profits, while the right-hand side shows the main causes of the decrease in profits.

First of all, the main factor behind the increase on the left side was an increase in subscription fee revenue. This was an increase of 724 million yen. The sales increase was due to an increase in the cumulative number of net subscribers. The other is the decrease in depreciation expenses. This was 346 million yen. Compared with the same period of the previous fiscal year, the decrease in the depreciation of broadcasting equipment is shown as a number.

Next, I'll talk about the factor behind the decrease in ordinary income. The increase in program expenses was 2.367 billion yen. We have invested in large-scale programs, and I would like to explain the details on the next page. One more is retirement benefit expenses. 357 million yen. This change was due to the change of the method of calculating retirement benefits from the simplified method to the principle method, due to the fact that the number of retired employees exceeded 300.

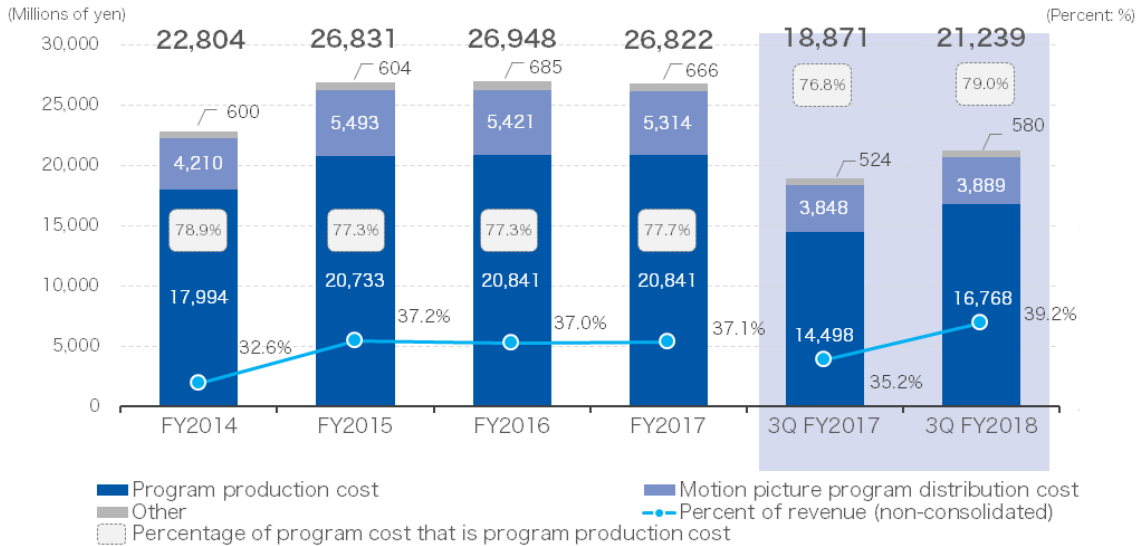
This was followed by a decrease in equity in earnings of affiliates of 252 million. This was due to a decrease in income of B-SAT, an equity-method affiliate. Finally, there was an increase in costs of 689 million yen. For example, the cost of providing more sophisticated services, such as data-broadcasting acTVila and live television services that use the system,

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in combination with the U.S. Open, or costs associated with the start of simultaneous distribution. These are the main reasons.

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.

Programming expenses follow. Programming expenses increased 2.367 billion yen from the same period of the previous fiscal year, mainly due to investments in large-scale content.

The main breakdown of program expenses is the dark blue portion. This is the cost of the paid broadcast programming. This is the cost of programs other than Hollywood majors. Net sales increased by 2.270 billion yen year-on-year in the third quarter, mainly due to investment costs for large-scale content. The light blue portion is the movie program distribution expenses. Expenses for movies procured from major Hollywood film makers, etc. Net sales increased 41 million yen year on year in the third quarter, mainly due to the effect of foreign exchange rates.

Income & Expenditure of Major Consolidated Earnings Companies

■ WOWOW COMMUNICATIONS (Telemarketing)

(Millions of yen)

	3Q FY2017		3Q FY2018		Previous Period Difference	
	Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Revenue	5,528	100.0%	6,472	100.0%	944	117.1%
Operating Income	143	2.6%	281	4.3%	137	195.6%
Ordinary Income	143	2.6%	283	4.4%	140	197.4%
Profit	97	1.8%	183	2.8%	86	188.4%

*WOWOW COMMUNICATIONS non-consolidated figures

■ WOWOW Plus Inc. (Broadcasting)

Revenue	3,786	100.0%	3,791	100.0%	4	100.1%
Operating Income	157	4.2%	122	3.2%	-35	77.8%
Ordinary Income	157	4.2%	123	3.2%	-34	78.3%
Profit	88	2.3%	87	2.3%	-0	98.9%

*WOWOW Plus Inc. non-consolidated figures

Figures rounded down to millions of yen.

This is followed by major consolidated subsidiaries income and expenditure. The top table is the WOWOW Communications, Inc. segment and the Telemarketing segment. Net sales and ordinary income for the third quarter were 6.472 billion yen and 283 million yen, respectively. Both sales and profits increased compared with the same period of the previous fiscal year, mainly due to an increase in orders received for telemarketing services from existing customers.

The lower table is WOWOW Plus INC. This is a segment of broadcasting. Net sales and ordinary income for the third quarter were 3.791 billion yen and 123 million yen, respectively. Although net sales were essentially flat, ordinary income decreased compared with the same period of the previous fiscal year mainly due to an increase in program production costs. That's all.

Moderator: I'll show you a video that summarizes the programs that will be broadcast in the future. Please look at the front screen.

Moderator: Now, the company President, Mr. Tanaka, will explain our business outlook for FY2018.

オリジナルコンテンツ及び主要ジャンルの強化①

映画界最大の祭典を独占生中継



生中継!
第91回アカデミー賞
授賞式
2月25日(月)

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世界最高峰の音楽の祭典を独占生中継



生中継!
第61回グラミー賞
授賞式
2月11日(月・祝)

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日本独占初放送の海外ドラマ全3作がスタート



日本独占初放送!
最新海外ドラマ 字幕版全10話先行一挙放送!
スティーヴン・キング×J・J・エイブラムス
「キャッスルロック」
2月2日(土)、3日(日)[第1話無料放送]

“ホラーの帝王”スティーヴン・キングと、
希代のヒットメーカーJ・J・エイブラムスが仕掛ける、
恐ろしくも魅惑的なダーク・ミステリーの超大作

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キリング・イヴ/Killig Eve

2月6日(水)スタート(全8話)[第1話無料放送]
美しく冷酷な暗殺者と優秀な捜査官との
スリリングな攻防を描くスタイリッシュかつ
ユニークなノンストップサスペンス。

カウンターパート/暗躍する分身

2月12日(火)スタート(全10話)[第1話無料放送]
国連諜報機関で働く男が、自身とうり二つの
諜報員に出会い、組織が隠す秘密を知る。
陰謀と裏切りに満ちた新感覚スパイスリラー。

Tanaka: I would like to start by making some additional points to the video. As you have seen in the video, in February we will have exclusive live broadcasts of two awards ceremonies. The 61st Grammy Award on February 11. On February 25, we will exclusively broadcast the 91st Academy Award Ceremony.

Regarding the Academy Award, two Japanese productions were introduced in the video. The first was the nomination of director Kore-eda's Shoplifters for Academy Award for Best Foreign Language Film, the first nomination since Departures in 2008. In addition, Mirai no Mirai is nominated for Academy Award for Best Animated Feature Film, which is such a brilliant accomplishment and the first nomination as Japanese films outside of Studio Ghibli. We are hoping it will win the award.

In addition, we plan to jointly broadcast Academy Award-related works with WOWOW and its group company, Cinefil WOWOW, at higher volumes than in the previous year, and to develop joint promotions for movie fans.

オリジナルコンテンツ及び主要ジャンルの強化②

👤 オリジナルドラマが充実



連続ドラマW
それを愛とまちがえるから
2月9日(土)スタート(全5話)【第1話無料放送】



連続ドラマW
東野圭吾「ダイイング・アイ」
3月16日(土)スタート(全6話)【第1話無料放送】



WOWOW×東海テレビ共同製作連続ドラマ
ミラー・ツインズ
[Season1] 東海テレビ・フジテレビ系全国ネット オトナの土ドラ
4月6日(土)～5月25日(土)(予定)<全8話>
[Season2] WOWOW 連続ドラマW
6月8日(土)スタート(予定)<全4話>

🏆 世界最高峰のスポーツをお届け



男子テニス ATPツアー
2019シーズン「男子テニスATPツアー」計37大会を、
WOWOWメンバーズオンデマンドで限定ライブ配信



生中継!
ラグビー欧州6カ国対抗戦 シックス・ネーションズ
2月2日(土)～3月16日(土)

🎵 大型アーティストのライブを放送



L'Arc~en~Ciel LIVE 2018 L'ArChristmas
2月23日(土)

And then the original drama, Drama W, and I touched upon Keigo Higashino's original production Dying Eye in the video. Here, I will touch on the Mirror Twins production.

This is the second drama jointly produced by Fuji Television and Tokai Television. As you may remember, the drama Crime Syndrome, which was broadcast in the spring of 2017, has been well received by our customers. This is the second part of Mirror Twins, season 1 of which started on Tokai TV and Fuji TV nationwide network on April 6, and season 2 will continue after that as our successor Drama W, which is scheduled to be broadcast from Saturday, June 8.

When it comes to sports, definitely tennis. In the Australian Open, we were able to broadcast a truly impressive game in which Naomi Osaka won the two Grand Slam tournaments. We will continue to focus on tennis throughout this season. The four Grand Slam Games, of course, and the men's ATP tour. Last year, we started limited live distribution on members' demand for last season. Last year, we distributed 32 games, but this year we have increased that to 37 games. We will distribute more volumes than last year.

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%

Continuing on, the enrollment plan, which is expected to be completed in FY2018, remains unchanged from the figures announced in May. 600,000 new subscribers, 570,000 cancellations, and 30,000 net subscribers. We expect to have a total of 2.906 million net subscribers, and we intend to work hard towards the achievement of this plan in the remaining two months.

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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.

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Based on this, we have a revenue and expenditure plan. These figures are unchanged from those announced in May. As I have stated many times, we expect sales to increase but profits to decrease in the current fiscal year. Consolidated net sales are expected to increase due to an increase in subscription fee revenue and other factors, while profits are expected to decrease due to expenses for content enhancement and marketing reforms. That is the end of my presentation.

Question & Answer

Moderator: We'll now move to the Q&A session. Please let us know if you have any questions. The clerk will bring the microphone. Is there anybody who would like to ask a question?

Questioner A: Could I ask two questions? Firstly, as the progress rate of ordinary income exceeds 100%, could you comment on whether it is supplementary or delayed?

Kuromizu: I will answer your question. Although the ordinary income has been increasing, the major factor behind it was a delay in terms, as pointed out. Therefore, although the current figures are increasing, a slight adjustment will be made at the final stage. This is a delay in terms.

Questioner A: Another point is the commencement of online distribution in December. Could you please tell us about the situation and the expected impact on future earnings, etc.

Tanaka: Three channels were distributed simultaneously, and the service was launched on a trial basis in October, and full-scale services began in December. However, at present, the simultaneous distribution associated with broadcasting contracts has not reached the stage at which customers can conclude contracts solely for the simultaneous distribution of broadcasts. However, the use of the simultaneous distribution of WOWOW members' on-demand, i.e., the number of users, is steadily increasing.

The contact time and the number of contacts among WOWOW subscribers is clearly increasing, and we expect this to be a factor that will certainly lead to new enrollment and deter cancellations. We intend to further enhance the number of contacts. I would like to ask you to take the specific number into consideration.

Questioner B: I have three questions. The first is regarding the numbers for net cumulative subscriptions. As of the end of the third quarter, the number of net cumulative subscriptions stands at 2,910,000, currently short of FY2018 target of 2,906,000 net cumulative subscriptions by 5,000. At this time, do you think you are on track to achieve this target?

As for my second question, I understand that IP simulcast service on Paravi is yet to begin. What is the reason for the delay?

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Finally, I'd like to ask about 4K broadcasting. The launch of the 4K broadcasting is planned for December 2020, but BS Nippon TV has moved up its planned launch three months from December 2019 to September. I'm sure there are matters of equipment and other challenges, but based on the state of the 4K broadcast market, are you considering moving up your own launch?

Tanaka: Regarding subscriptions, we aim to achieve the forecasts explained in the presentation in the remaining two months. We intend to achieve them steadily without upward or downward revision. As you have mentioned, we have yet to launch IP simulcast service on Paravi. The reasons for this include technical aspects between Paravi and WOWOW, and we are in the middle of testing for bugs and other issues. We are still preparing for launch within the fiscal year.

As for whether we are considering moving up our launch of 4K broadcasting, at this time, we are preparing the equipment and other elements for launch in December 2020 as planned.

Moderator: Are there any other questions?

Questioner C: Naomi Osaka's two Grand Slam wins back-to-back seem to have given WOWOW a greater boost than usual, but there is some time before the next French Open. Do you have plans to broadcast any special programs in the interim?

Tanaka: First I'd like to reiterate our congratulations to Naomi Osaka on her brilliant accomplishment. We've decided to broadcast a special program entitled "Two Grand Slam Championships: Naomi Osaka's Road to the Australian Open"(English translated title) on February 3.

Moderator: Is there anybody else with any questions? As there are no questions, I'll finish the briefing here. Finally, Mr. Tanaka, President, could you say something?

Tanaka: Thank you very much for today. Again, I am truly pleased to have been able to broadcast live the historic achievement of Naomi Osaka at the Australian Open. NHK, the terrestrial broadcaster, also broadcast it at the same time, and I heard that the audience rate was high. If the children who watched such broadcasts were to become the next Ms. Osaka and the next Mr. Nishikori, and the tennis population increased, and the Japanese tennis culture developed further, that would be something I would be grateful to this company for doing.

As for the Australian Open broadcast, WOWOW has been relaying it since we started, and we were able to broadcast the championship scenes of Japanese player for the 28th time in the 28th year. I think that one of the things that terrestrial broadcasters can't do is to

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nurture contents, and I think that is also the role of WOWOW. We will continue to produce not only tennis, but also a variety of other forms of entertainment as paid broadcasting, so I would like to ask for your support for that. Thank you very much for today.

Moderator: That concludes our financial results briefing for the third quarter of fiscal 2018. Please fill out the questionnaire you have on hand. Please leave it on the table after completing it. Please also leave the admission certificate handed out at the reception desk on the table. Thank you very much for attending today's financial results briefing.

[END]