

FY2018 Earnings Announcement

Event Summary

Date : May 15, 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: Now it's time to start the briefing on the financial results of WOWOW INC. for FY2018. Thank you very much for your attendance today.

Please note that the contents of this briefing will be distributed via an external organization and posted on our website.

First of all, let me introduce Mr. Akira Tanaka, President, and Noriaki Kuromizu, Vice President.

Now, Mr. Tanaka, our president, will explain the financial highlights for FY2018. Thank you.

FY2018 Earnings Highlights ①

Net new subscriptions increased for the thirteenth consecutive period

New Subscription

- The number of net cumulative subscriptions reached 2.901 million, marking a new year-end record.
- Tennis, in which Naomi Osaka won her second consecutive Grand Slam title, and music programs such as live performances by [Namie Amuro](#), [Tohoshinki](#) and [B'z](#), contributed to new subscriptions.
- We launched IP simulcast in December 2018 and began [Paravi](#) for WOWOW in February 2019.

(Thousands)

	FY2017	FY2018	YoY
Gross New Subscriptions	591	660	111.8%
Cancellations	537	635	118.2%
Net New Subscriptions	53	25	47.1%
Number of Net Cumulative Subscriptions	2,876	2,901	100.9%

Tanaka: Thank you very much for your attendance today. Let me explain the highlights of our financial results for FY2018. Please refer to the materials on hand or the screen in front.

This shows the number of subscriptions and cancellations. The gross new subscriptions were 660,000 and the cancellations was 635,000, thus the net new subscriptions totaled 25,000, bringing the number of net cumulative subscriptions to 2.901 million. This was the 13th consecutive net increase in subscriptions, and the net cumulative subscriptions reached a record high at the end of the fiscal year.

The Grand Slam Tennis Championships, at which Naomi Osaka won two consecutive Grand Slam Titles, and a large-scale live music program of Namie Amuro, Tohoshinki, and B'z contributed to new subscriptions.

Highlights include the IP simulcast service of the WOWOW Channels, which was outlined in the Medium-Term Management Plan. This service began in December 2018. In addition, WOWOW services became available on the Paravi platform from February, enabling to view the IP simulcast of the WOWOW Channels through online registration.

FY2018 Earnings Highlights ②

Revenue increased while income decreased from the previous period; revenue hit a new record

Income & Expenditure (Consolidated)

- Revenue increased from the previous period due to factors such as growth in net cumulative subscriptions.
- Ordinary income decreased from the previous period due to increased program cost based on strategic content enhancement.

(Millions of yen)

	FY2017	FY2018	YoY
Revenue	81,574	82,623	101.3%
Operating Income	9,875	6,779	68.6%
Ordinary Income	10,698	7,531	70.4%
Profit Attributable to Owners of Parent	7,360	5,182	70.4%

Dividends

- Annual dividend per share of 80 yen as initially forecast

Figures rounded down to millions of yen.

Next, let me explain the consolidated income and expenditures. Net sales increased, however profits decreased compared to the previous fiscal year, and net sales reached a record high. Net sales increased 1.049 billion yen from the previous fiscal year due to an increase in paid broadcasting revenues, resulting in sales of 82.623 billion yen.

Ordinary income was 7.531 billion yen, a decrease of 3.167 billion yen from the previous fiscal year, mainly due to an increase in program expenses caused by an attempt to strategically enhance our content.

Then, the bottom row is the dividend. The year-end dividend per share was 80 yen, in line with the initial forecast.

The details of the figures will be explained by Mr. Kuromizu, Vice President.

FY2018 Subscription

(Thousands)

	FY2017	FY2018	Previous Period Comparison	
			Difference	YoY
Gross New Subscriptions	591	660	70	111.8%
Cancellations	537	635	98	118.2%
Net New Subscriptions	53	25	-28	47.1%
Net Cumulative Subscriptions	2,876	2,901	25	100.9%
Of these, multi-subscriptions ^{*1}	417	415	-2	99.5%
Of these, hotel subscriptions ^{*2}	61	64	4	105.8%

^{*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.

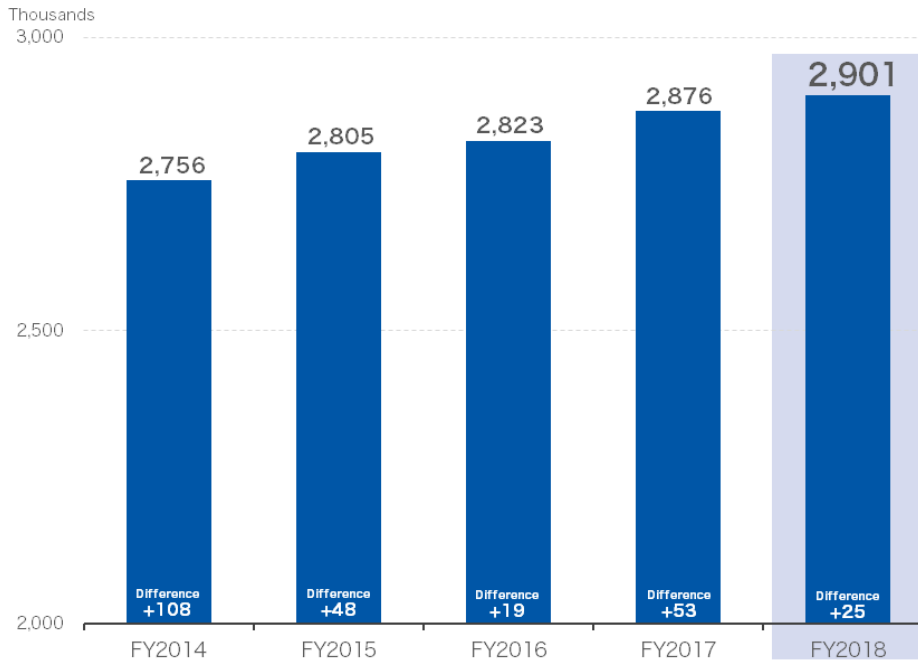
Kuromizu: Let me give you a detailed explanation. Please note that there may be duplications of figures in my explanation.

First of all, we see the number of subscriptions in FY2018. Let me explain the difference from the previous fiscal year. In FY2018, the number of new subscriptions was 660,000, an increase of 70,000 from the previous fiscal year. The US Open tennis Championship and the Australian Open tennis Championship, at which Naomi Osaka played a major role, and the live music programs of Namie Amuro, Tohoshinki, and B'z have driven new subscriptions.

The number of cancellations was 635,000, an increase of 98,000 from the previous fiscal year.

Net new subscriptions were 25,000, a decrease of 28,000 from the previous fiscal year. The number of net cumulative subscriptions was 2.901 million, an increase of 25,000 from the previous fiscal year.

Change in Net Cumulative Subscriptions



The next graph above shows the trends of the number of net cumulative subscriptions. This graph plots the figures for 2014-18, but it has increased for 13 consecutive years from FY2006 to FY2018.

FY2018 Income & Expenditure

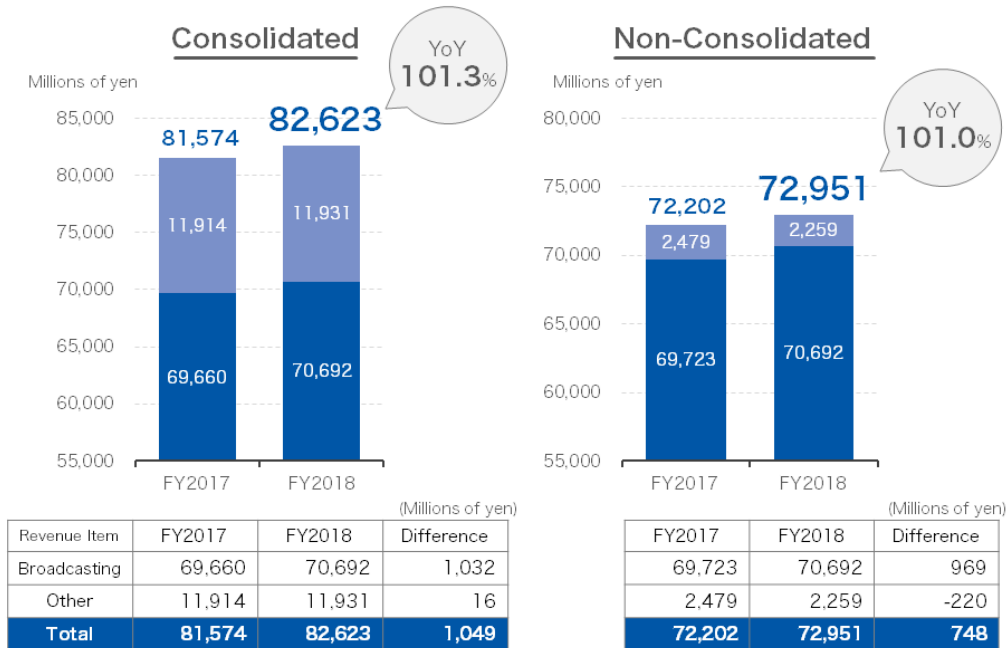
(Millions of yen)

		FY2017		FY2018		Previous Period Comparison	
		Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Consolidated	Revenue	81,574	100.0%	82,623	100.0%	1,049	101.3%
	Operating Income	9,875	12.1%	6,779	8.2%	-3,096	68.6%
	Ordinary Income	10,698	13.1%	7,531	9.1%	-3,167	70.4%
	Profit Attributable to Owners of Parent	7,360	9.0%	5,182	6.3%	-2,177	70.4%
Non-Consolidated	Revenue	72,202	100.0%	72,951	100.0%	748	101.0%
	Operating Income	9,588	13.3%	6,237	8.6%	-3,350	65.1%
	Ordinary Income	10,205	14.1%	7,048	9.7%	-3,157	69.1%
	Profit	7,025	9.7%	4,883	6.7%	-2,141	69.5%
Annual Dividend		80 yen per share		80 yen per share		—	100.0%

Figures rounded down to millions of yen.

We will continue to look at the balance of income and expenditures for FY2018. I would like to explain the consolidated income and expenditure shown at the top of this report. In FY2018, sales increased, however profits decreased compared to the previous fiscal year. Net sales were 82.623 billion yen. This represents an increase of 1.049 billion yen from the previous fiscal year. Ordinary income was 7.531 billion yen, a decrease of 3.167 billion from the previous fiscal year. Details are provided on the following pages.

Revenue Compared to Previous Period



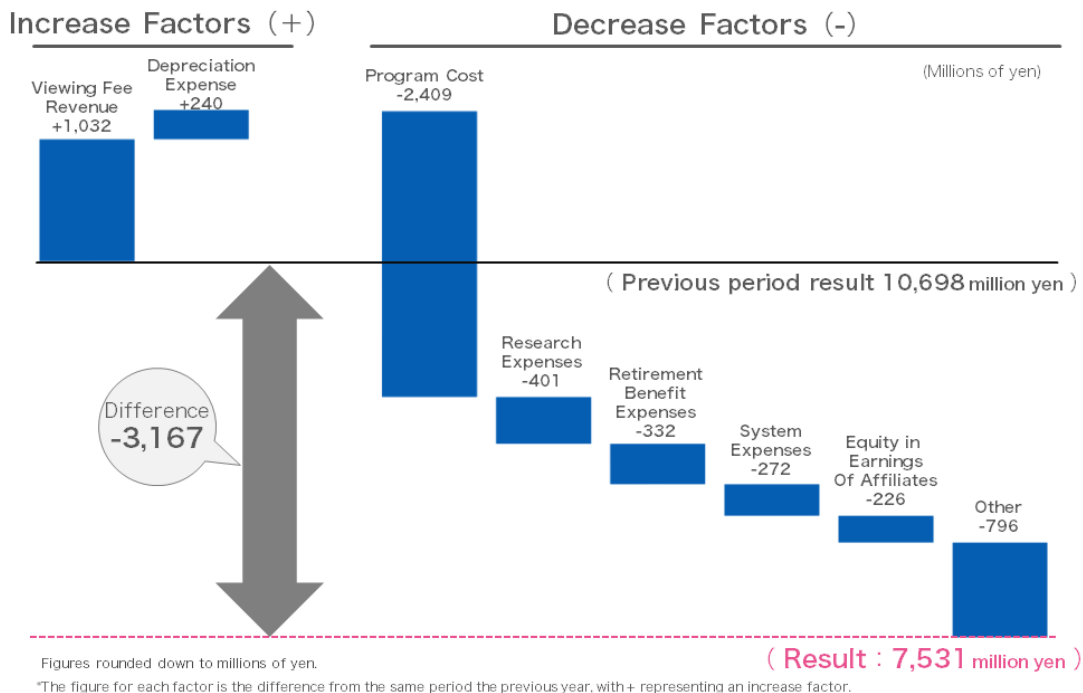
Figures rounded down to millions of yen.

Comparison of sales to the previous year. Consolidated and non-consolidated net sales are compared to the previous fiscal year. I would like to explain the consolidated net sales on the left side of the slide above.

Consolidated net sales increased 1.049 billion yen from the previous fiscal year. Breakdown: the dark blue part shows a paid broadcasting revenue. This was a year-on-year increase of 1.032 billion yen, mainly due to an increase of the number of net cumulative subscriptions.

Other revenue, which is the light blue part, includes revenue from external sales of subsidiaries and revenue from events. Other revenues declined on a non-consolidated basis, but WOWOW Communications, a subsidiary, posted an increase of 16 million yen from the previous fiscal year due to an increase in telemarketing orders from existing external customers.

Consolidated Ordinary Income Factors in Difference from Previous Period



We will continue to explain the consolidated ordinary income, in terms of the factors behind the difference between the current fiscal year and the previous fiscal year. The left side of the above slide shows the factors of increase, and the right side shows the factors of decrease.

First of all, there are two main factors contributing to the increase. This represents an increase of 1.032 billion in revenues from viewer fees. And the decrease in depreciation and amortization of 240 million yen made the increase factor. Depreciation and amortization of broadcasting equipment was decreased.

Next, we see the decrease factors on the right side of the slide above. As you can see, the biggest element is the cost of programs. This is 2.409 billion yen. We have invested in large-scale programs.

In addition, research costs. This is 401 million yen. A live transmission service that uses data broadcasting and an Actvila system towards the U.S. open tennis broadcasting. Further sophistication of services such as the commencement of these services. We have spent money here.

The third factor is retirement benefits. This is 332 million yen. The simplified method used to calculate retirement benefits had been used, but the number of eligible employees exceeded 300, and from the current fiscal year, the Company has adopted the Projected Benefit Obligations. This is the increase in expenses.

Under that, system costs increased by 272 million yen. Costs related to WOWOW

WOWOW

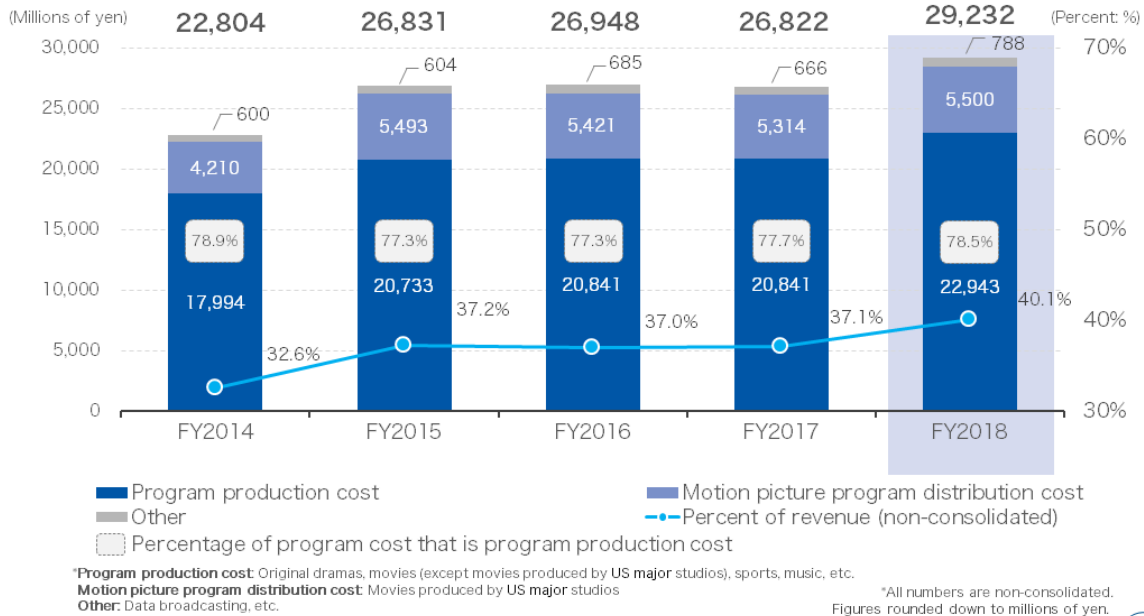
Members on Demand increased due to the launch of IP simulcast service.

Next, equity in earnings of unconsolidated subsidiaries and affiliates decreased 226 million yen. This was due to a decrease in profits of B-SAT, an equity-method affiliate.

Finally, this is 796 million yen in others. We are rebuilding some of the buildings of our broadcasting centers to prepare for the start of 4K broadcasting. Increases in commissions, such as an increase in administrative expenses for office buildings and an increase in the number of subscriptions via cables, etc., were also included.

Change in Program Cost

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



The following shows the trend of program expenses. We have strategically invested in large-scale content, which is the main factor behind the increase in program expenses in FY2018. Program expenses increased 2.409 billion yen from the previous fiscal year due to spending on large-scale content

The main breakdown of program expenses is the dark blue part. This is the cost of pay-TV programs. Expenses for programs other than U.S. major studios productions. In FY2018, we invested strategically in large-scale content, etc., resulting in a year-on-year increase of 2.101 billion yen.

The light blue part is the movie program cost. This is the cost of films we procure from U.S. major studios. In FY2018, net sales increased 185 million yen year-on-year, mainly due to the impact of foreign exchange rates.

Income & Expenditure of Major Consolidated Earnings Companies

■ WOWOW COMMUNICATIONS (Telemarketing)

(Millions of yen)

	FY2017		FY2018		Previous Period Difference	
	Result	Percent of Revenue	Result	Percent of Revenue	Difference	YoY
Revenue	7,709	100.0%	8,917	100.0%	1,207	115.7%
Operating Income	136	1.8%	358	4.0%	222	263.4%
Ordinary Income	134	1.7%	369	4.1%	235	275.0%
Profit	56	0.7%	244	2.7%	187	431.3%

*WOWOW COMMUNICATIONS non-consolidated figures

■ WOWOW Plus Inc. (Broadcasting)

Revenue	5,082	100.0%	5,060	100.0%	-22	99.6%
Operating Income	195	3.8%	177	3.5%	-17	90.9%
Ordinary Income	195	3.8%	178	3.5%	-16	91.6%
Profit	117	2.3%	135	2.7%	18	115.9%

*WOWOW Plus Inc. non-consolidated figures

Figures rounded down to millions of yen.

This is followed by major consolidated subsidiaries and affiliates. First, telemarketing by WOWOW Communications. Sales in FY2018 were 8.917 billion yen. Ordinary income was 369 million yen. Increases in telemarketing orders from existing customers resulted in higher sales and profits compared with the previous fiscal year.

The lower row in the above slide is WOWOW Plus. Sales in FY2018 were 5.060 billion yen. Ordinary income was 178 million yen. Although net sales remained almost unchanged, ordinary income decreased from the previous fiscal year due to an increase in program production costs and other factors.

This concludes my explanation.

Moderator: President Tanaka will explain our business plans for FY2019.

Summary of FY2019 Business Plan

Becoming a Comprehensive Entertainment Media Group

1 Thoroughly distinguish content

- ▶ Enrich original content in quality and quantity
- ▶ Line up content that contributes to obtaining and maintaining new subscription

2 Promote measures to expand profits

- ▶ Increase viewing fee revenue by developing new subscription routes
- ▶ Promote content multi-use and expand ancillary business

3 Promote information communication technology (ICT) measures

- ▶ Aim to enhance WOWOW Members On Demand, centering on IP simulcast

4 Enhance WOWOW Group synergy

- ▶ Rebuild group management structure by promoting operational reform
- ▶ Advance group-wide communication reform by promoting work-style reform

Tanaka: Only a summary of the FY2019 business plan will be mentioned first, and we would like to introduce the content of interest in the near future in the VTR.

In FY2019, we will continue to implement the basic strategies outlined in the Medium-Term Management Plan to realize the "Comprehensive Entertainment and Media Group" and solidify our earnings base by increasing the number of subscriptions.

We have identified four specific issues. The first is the thorough differentiation of content. In addition to enhancing the quality and quantity of original content, we will strive to differentiate ourselves from competitors by offering a lineup of content that contributes to acquiring new subscriptions and curbing churn.

Second is the promotion of measures to expand earnings. Increase viewer revenue by developing new routes for subscription that have not been distributed to date and promote multi-use of content. In addition, we will aim to increase earnings by expanding incidental businesses.

Third is the promotion of ICT strategies. In December last year, we launched an IP simulcast service, and with this service at the core, we will improve the "WOWOW Members On Demand" service. In addition, we will promote initiatives for online-related measures utilizing ICT.

The fourth is to grow as a WOWOW group. In order to grow as a WOWOW Group, we will

WOWOW

promote business reforms and implement them on a Group-wide basis. In addition to restructuring the Group's management system, we will promote group-wide communication and reform through work style innovation.

Moderator: Now, we will show a video to introduce the upcoming programs.

徹底的なコンテンツの差別化①

🏆 世界最高峰のスポーツをお届け		🏆 トニー賞授賞式を生中継
 <p>全仏オープンテニス 5月26日(日)～6月9日(日)連日生中継</p> <small>井上尚弥・伊藤雅雪撮影 © Getty Images</small>	 <p>井上尚弥・伊藤雅雪参戦! 2週連続 ビッグマッチ生中継 5月19日(日)、26日(日)</p>	 <p>生中継! 第73回トニー賞授賞式 6月10日(月) ナビゲーター:井上芳雄 スペシャル・ゲスト:堂本光一</p> <hr/> <p>トニー賞直前SP 2019 ～僕たちのブロードウェイ物語～ ナビゲーターの井上芳雄とスペシャル・ゲストの堂本光一が トニー賞授賞式直前のニューヨークを訪ね、 熱気あふれるブロードウェイを紹介する特別番組 5月25日(土)</p> <small>第73回トニー賞授賞式 © Getty Images</small>
 <p>LPGA女子ゴルフツアー2019 メジャー第2戦!全米女子オープン 5月31日(金)～6月2日(日)</p> <small>井上尚弥・伊藤雅雪撮影 © Getty Images</small>	 <p>UEFA U-21 サッカー欧州選手権 2019 ～東京五輪 欧州最終予選～ 6月16日(日)～30日(日)</p>	

Tanaka: I would like to supplement the VTR.

Since May, we have been introducing all of the Roland-Garros Tennis Championships that Naomi Osaka and Kei Nishikori are expected to play. We will also broadcast Wimbledon Tennis from July.

Then, Boxing, the star of boxing expectations introduced in the VTR, and Naoya Inoue's games finally come to the morning on Sunday this week. This time, we will relay the big matches of Mr. Inoue and Mr. Masayuki Ito, the two Japanese champions for two consecutive weeks.

In addition, I would like to introduce one sport that I did not refer to on the VTR. It's soccer. UEFA U-21, Football European Championship 2019. This will be broadcast live and live in June. This competition is also the European preliminary race for the Tokyo Olympics next year. Of the twenty-one games, 16 live games will be broadcast on WOWOW channel, and all twenty-one games will be live on the WOWOW Members On Demand.

徹底的なコンテンツの差別化②

👤 オリジナルドラマが充実



WOWOW×東海テレビ 共同製作連続ドラマ
連続ドラマW

ミラー・ツインズ Season2

東海テレビ [HD]・Season1
4月6日(土)スタート(全8話)

W.O.W.O.W: Season2
6月8日(土)スタート(全4話)
[第1話無料放送]

WOWOW×東海テレビ共同製作ドラマ第2弾。
藤ヶ谷太輔が生き別れた双子を、
一人二役で演じるサスペンスドラマ

🎵 大型アーティストのライブを放送



星野源 DOME TOUR 2019 『POP VIRUS』

5月18日(土)



連続ドラマW 神の手

6月23日(日)スタート(全5話)[第1話無料放送]



連続ドラマW 悪党 ~加害者追跡調査~

5月12日(日)スタート(全6話)[第1話無料放送]



LUNA SEA 結成30周年 WOWOWスペシャル

5月29日(水)、6月1日(土)

Gen Hoshino, his first five largest dome tour to be introduced. We will also broadcast the Anniversary Performance of LUNA SEA.

FY2019 Subscription Plan

(Thousands)

	FY2018	FY2019	Previous Period Comparison	
			Difference	YoY
Gross New Subscriptions	660	610	△50	92.4%
Cancellations	635	580	△55	91.3%
Net New Subscriptions	25	30	5	119.6%
Net Cumulative Subscriptions	2,901	2,931	30	101.0%

We intend to offer these powerful content throughout the season, and based on these strategies, the plan for this fiscal year is for 610,000 new subscription and 580,000 cancellations. The net new subscriptions of 30,000 and net cumulative subscriptions of 2.931 million. We aim to achieve net additions for 14 consecutive years.

FY2019 Income & Expenditure Plan

(Millions of yen)

		FY2018		FY2019		Previous Period Comparison	
		Result	Percent of Revenue	Plan	Percent of Revenue	Difference	YoY
Consolidated	Revenue	82,623	100.0%	83,500	100.0%	876	101.1%
	Operating Income	6,779	8.2%	7,600	9.1%	820	112.1%
	Ordinary Income	7,531	9.1%	8,000	9.6%	468	106.2%
	Profit Attributable to Owners of Parent	5,182	6.3%	5,600	6.7%	417	108.0%
Non-Consolidated	Revenue	72,951	100.0%	73,400	100.0%	448	100.6%
	Operating Income	6,237	8.6%	7,100	9.7%	862	113.8%
	Ordinary Income	7,048	9.7%	7,600	10.4%	551	107.8%
	Profit	4,883	6.7%	5,400	7.4%	516	110.6%
Annual Dividend		80 yen per share		80 yen per share		–	100.0%

Note: Program costs forecast to be approximately 40% of non-consolidated revenue. Estimated foreign exchange rate: 1 USD = 115yen. Figures rounded down to millions of yen.

This is our FY2019 income and expenditure plan. Both sales and profits are expected to increase.

Consolidated net sales are projected to increase due to an increase in viewer fee income and other factors.

Ordinary income increases about 416 million yen due to an increase in depreciation. However, the Company recorded retirement benefit expenses of 332 million yen as a result of a change in the calculation method in the previous fiscal year. This is not in the current term.

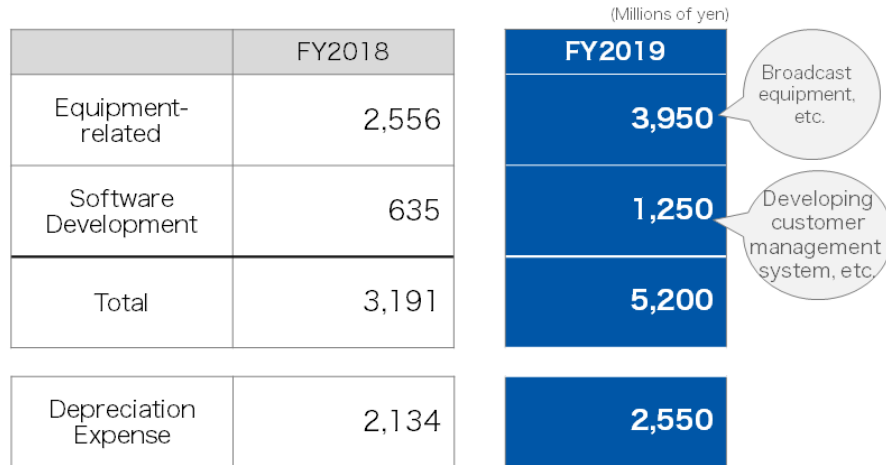
In addition, we plan to increase profits through cost reductions and thorough efficiency improvements.

Program expenses are expected to be approximately 40% of non-consolidated net sales, the same level as in FY2018.

We also expect the exchange rate to be 115 yen to the U.S. dollar.

Based on our basic policy of continuously paying stable dividends, we plan to pay an annual dividend of 80 yen per share, the same amount as in the previous fiscal year.

FY2019 Investment Plan (Non-Consolidated)



Figures rounded down to millions of yen.

Finally, I would like to explain the investment plan. In FY2019, we plan to continue to invest in the upgrading of broadcasting facilities, IP simulcast services, and related improvements to customer management systems in preparation for the BS4K of broadcasting scheduled to begin in December 2020, as in the previous fiscal year.

This is my explanation.

Question & Answer

Moderator: If you have any questions, please let us know by hand. The staff will bring a microphone.

Questioner A: I'd like to ask about the IP simulcast service that the president mentioned. You said that there was a response from the viewers, please elaborate on this? For example, was there any increase in number of online member registrations after the launch of the IP simulcast service?

Tanaka: We began the service in December 2018 mainly for those with broadcast subscriptions to be able to watch and enjoy IP simulcast on WOWOW Members On Demand without paying an additional fee. Then in February 2019, we began offering the service on a platform called Paravi where users can subscribe to WOWOW and watch IP simulcast

Regarding the number of subscriptions via Paravi, we don't disclose such information alone, but overall, the number of people and time spent enjoying WOWOW on smartphones and tablets has increased.

Furthermore, looking at the type of customers, those who are subscribing to Paravi are 10 to 15 years younger than those who subscribed to WOWOW's TV broadcasting. All of this is what I meant when I said that there was a response from the viewers.

Moderator: Thank you. Are there any other questions?

Questioner B: I have three questions. First, the income through the third quarter of FY2018 and the income for FY2018 are nearly the same. This makes it look like the fourth quarter (January to March) generated almost no income. Could you explain this?

Second, the ratio of program cost to FY2019 revenue was around 40%, the same level as last year, but FY2018 program cost increased from FY2017 due to major content, so can you give some specific examples of major content in FY2019?

Finally, and I think this relates to IP simulcast as well, but you recently newly invested in a company providing a CDN (Content Delivery Network) service. Could you talk about the reasons for that decision?

Kuromizu: I'll answer your first question. The main reason that income did not significantly increase in the fourth quarter, which was according to plan, was that program cost and advertisement expenses were weighted toward the fourth quarter, meaning that income

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stayed at nearly the same level as at the third quarter.

Tanaka: As for your second question on the program cost of around 40% and the major content, aside from what was mentioned earlier, we have not yet released such information on the major content. We plan to disclose the details when the time comes.

Third, we invested in JOCDN Inc. in April. JOCDN itself aims to distribute content nationwide, and in addition to flagship stations, we also want to participate in this, albeit belatedly, to reduce and stabilize the cost of nationwide distribution as well as collaborate with other domestic companies, so that's why we decided to make this investment.

Moderator: We don't seem to have any questions, so we'll finish here. Finally, President Tanaka, please.

Tanaka: Thank you very much today.

This morning, the Board of Directors meeting was held, and a release regarding the officer appointment was announced at that meeting. The appointment of directors is unprecedented. I would like to explain the background and objectives of this process.

As you know, the business climate surrounding WOWOW and the business climate surrounding the pay TV industry are changing dramatically. In order to maintain growth over the next 10 years, we have identified four challenges. This is the same as the four items described earlier in the Outline of Business Plans for FY2019.

The goal of the new management system to overcome these challenges is to overcome the four challenges. The aim is to achieve this goal.

There are three major points. The first is dynamic generational change and metabolism. It will respond flexibly and swiftly to rapid changes in the business environment. This is the first goal.

Second, by strengthening collaboration with the three terrestrial broadcasting companies, which are also shareholders, we are able to produce content and develop content. I would like to dramatically enhance this. Our relationships with three key terrestrial broadcasting companies are our strengths. By making the most of this pipeline, we will develop original content, which is our challenge, and promote the multi-use of content.

Third is strengthening group companies. Currently, the President and Chief Executive Officer of Actvila Corporation of WOWOW Communications serves concurrently as a director of WOWOW. By eliminating this situation, we intend to appoint the President and Representative Director of each company to work on the growth and strengthening of each group company.

WOWOW

We would like to ask for your continued support in this fiscal year. Thank you very much for your attendance today.

[END]