

7844

TSE2

MarvelousAQL, Inc.

Summary of Q3 FY3/12 Business Results Meeting and Trias Follow-up Interview

On February 10, 2012, MarvelousAQL, Inc. (hereinafter MAQL or the Company) held its Q3 FY3/12 Business Results Meeting. Since this was the first business results announced following the merger of Marvelous Entertainment Co., Ltd. (hereinafter MMV), AQ Interactive, Inc. (hereinafter AQI) and Liveware Co., Ltd. (hereinafter LW), Trias Corporation interviewed Shuichi Motoda, MAQL Representative and CEO, on the Business Results Meeting as well as on the Company's future initiatives.

Summary of Q3 FY3/12 Consolidated Business Results

For MAQL, FY3/12 will be an irregular fiscal year in that Q3 will be comprised of the total results for MMV, AQI and LW, the first half limited solely to MMV's business results, and the second half will only incorporate the post-merger results of the three partner-firms.

Table 1 compares the simple sum of the Q3 FY3/11 performances of MMV and AQI versus the combined results of the newly merged MAQL posted in the same quarter this year. Judging by the data supplied by pre-merger AQI for its fiscal year ended March 2011, it appears that net sales and incomes for MAQL declined in Q3 FY3/12 due to the fact that LW posted net sales of ¥696 million and operating income of ¥43 million in fiscal 2011.

One of the major reasons for the net sales and income declines was the effort to clean out such negative legacies as unprofitable titles and operations in the domains of pre-merger online and consumer business divisions. However, a one-time income of ¥2,208 million occurred from the negative goodwill generated from the merger, the MAQL was able to post an extraordinary income of ¥2,129 million even after assuming the costs of integrating offices; the Company therefore managed to report a dramatic upswing in profits this quarter.

MAQL also finds itself on significantly better financial footing following the merger. The Company's equity ratio, for example, jumped from a mere 8.5% (for MMV as of the end of September 2011) to 65.5% by December 31, 2011.

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.

●【Table 1】 Q1-Q3 FY3/12 Consolidated Business Results Summary
(Simple Sum of MMV and AQI)

(¥ million)	Q1-Q3 FY3/11		Q1-Q3 FY3/12		YoY Change		Full Year on Feb. 9
	Actual	Weighting	Actual	Weighting	Amount	Ratio	
Net sales	11224	100.0%	10251	100.0%	(973)	-8.7%	10000
Gross profit	4199	37.4%	4441	43.3%	242	5.8%	-
SG&A expenses	2926	26.1%	3553	34.7%	627	21.4%	-
Operating income	1271	11.3%	886	8.6%	(385)	-30.3%	1030
Ordinary income	1184	10.5%	845	8.2%	(339)	-28.6%	1000
Net income	670	6.0%	2714	26.5%	2044	305.1%	3140

Note: Table prepared by Trias Co. with data disclosed by MAQL
No disclosed data for Liveware, Inc. as it was unlisted.

Business Results Trends by Segment

In order to view quarterly trends by business segment, Trias Corp. created Table 2 through the simple addition of Q1 and Q2 business results of MMV and AQI that MAQL has disclosed.

●【Table 2】 FY3/12 Quarterly Trends by Business Segment
(Q1&Q2: Simple Sum of MMV and AQI)

(¥ million)	Online Business					Consumer Game Business					Audio and Visual Business				
	Q1	Q2	1H	Q3	Q4	Q1	Q2	1H	Q3	Q4 Fcst.	Q1	Q2	1H	Q3	Q4 Fcst.
Net sales	1,187	1,413	2,600	1,581	1,845	753	1,542	2,295	959	1,125	705	718	1,423	910	765
Former MMV	74	99	173	-	-	227	987	1,214	-	-	705	718	1,423	-	-
Former AQI	1,113	1,314	2,427	-	-	526	555	1,081	-	-	0	0	0	-	-
Operating income	366	391	757	313	595	82	(215)	(133)	182	146	173	106	279	173	46
Former MMV	(30)	(169)	(199)	-	-	31	189	220	-	-	173	106	279	-	-
Former AQI	396	560	956	-	-	51	(404)	(353)	-	-	0	0	0	-	-

Note 1: Online Business: MAQL Online Business=former MMV Digital Content Business+former AQI Network Content Business
+former Liveware

Note 2: Consumer Game Business: MAQL Consumer Game Business=former MMV Digital Content Business
+former AQI Consumer Game Business+former AQI Arcade Game Business

Note 3: Audio and Visual Business: MAQL Audio and Visual Business=former MMV Audio and Visual Business
+former MMV Stage Performance Business

Online Business Division

MAQL expects the online game market to continue growing as the major SNS providers make their business more accessible and a greater number of blue-chip game makers are entering the market, while the billing price per user has been increasing. On the other hand, the saturation of the title market is advancing, with a clear polarity emerging between those titles that sell well and those that do not.

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

Given this operating environment, the simple sum of the H1 results of MMV and AQI was net sales of ¥2,600 million and operating income of ¥757 million (and a profit margin of 29.1%). For Q3 FY3/12 alone, however, the Company reported post-merger business results of ¥1,581 million in net sales and ¥313 million (profit margin of 19.7%), buoyed on the backs of AQI's launch of a host of new titles. Sales of AQI's core titles—"Browser Sangokushi (Romance of the Three Kingdoms)" and "Browser Puro-yakyu (Pro Baseball)"—continue to perform well, while new titles released in fiscal 2012 are also contributing to new sales. Higher operating costs resulting from the diversification of game platforms and increasing costs of developing new title were the leading factors in driving down the division's operating profit margin.

Consumer Game Business Division

The consumer game market in 2011 declined by 8% on a year-on-year basis, with the software market contracting 13.7%, while the game console market grew 2.4%, pointing to a market entering into a contraction phase. Nintendo 3DS was a major success during the holiday shopping season in the game console market, while PS Vita, released on December 17, 2011, is also expected to help drive the market.

In this division, the simple sum of the H1 results of MMV and AQI was net sales of ¥2,295 million; it also posted an operating loss of ¥133 million (and a profit margin of -5.7%). However, in Q3, the Company posted net sales of ¥959 million and operating income of ¥182 million (18.9%), transitioning back to profitability. The recovery was due primarily to repeat orders of previously marketed software, as well as to the strength of new package orders for the "Pokemon Battorio V" game unit introduced in December 2011. In addition, given the operating environment in which sales of new game consoles are on the rise, orders for the Company's outsourced software development projects have progressed smoothly, contributing to the recovery in sales and profits.

Audio and Visual Business Division

The music software market, which includes music videos, has remained anemic, falling by over 10% on a year-on-year basis until 2010. In 2011, however, sales of music video software increased by 120% year-on-year, meaning the market has basically remained the same in terms of size. Given this operating environment, the division released the film version of "PRECURE," a core theater production, along with a DVD set of previous PRECURE productions, which sold well; additionally, the musical, "MUSICAL THE PRINCE OF TENNIS: Seigaku vs. Hyotei!" drew an audience of some 78,000 people. As a result, the unit posted net sales of ¥910 million and operating income of ¥173 million (18.9% profit margin), continuing with the solid performance from the term's first half.

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.

FY3/12 Earnings Forecast

As seen in Table 3, MAQL has revised its forecast of consolidated net sales for FY3/12, from the initial projection of ¥12 billion to ¥10 billion. This downward revision was influenced in large part by delays in the release of some titles, as well as sales of some titles failing to meet targeted figures. However, the Company has determined that the sales decline will not adversely affect incomes, and the forecast for an operating income of ¥1,030 million, ordinary income of ¥1,000 million, and net income of ¥3,140 million were left unchanged.

●【Table 3】 FY3/12 Earnings Forecast

(¥ million)	1H FY3/11		1H FY3/12		Q3 FY3/12		Q4 FY3/12		FY3/12 Full Year	
Up until 1H FY3/12 former MMV + former AQI	Actual	Weighting	Actual	Weighting	Actual	Weighting	Actual	Weighting	Actual	Weighting
Net sales	8,162	100.0%	6,801	100.0%	3,450	100.0%	3,737	100.0%	10,000	100.0%
Online Business	1,604	19.7%	2,600	38.2%	1,581	45.8%	1,846	49.4%	3,600	36.0%
Consumer Game Business*2	3,718	45.6%	2,776	40.8%	959	27.8%	1,126	30.1%	3,300	33.0%
Audio and Visual Business	2,838	34.8%	1,423	20.9%	910	26.4%	766	20.5%	3,100	31.0%
Operating income	1,206	100.0%	424	100.0%	462	100.0%	538	100.0%	1,030	100.0%
Online	901	74.7%	757	178.5%	313	67.7%	596	110.8%	710	68.9%
Consumer Game Business*2	271	22.5%	(9)	-2.1%	182	39.4%	147	27.3%	550	53.4%
Audio and Visual Business	535	44.4%	280	66.0%	173	37.4%	47	8.7%	500	48.5%
Eliminations	(500)	-41.5%	(602)	-142.0%	(207)	-44.8%	(252)	-46.8%	(730)	-70.9%
Ordinary income	1,125	13.8%	401	5.9%	457	13.2%	530	14.2%	1,000	10.0%
Net income	657	8.0%	265	3.9%	2,449	71.0%	684	18.3%	3,140	31.4%

Note 1: FY3/12 forecasts announced on February 9, 2012.

Note 2: Table prepared by Trias Co. with data disclosed by MAQL.

Note 3: Consumer Game Business includes Arcade Game Systems Business.

The forecast by segment for Q4 is as follows:

Online Business Division

MAQL projects that business results will continue to perform well in the quarter as unprofitable titles are weeded out, which the division began in the current fiscal year, and marketing campaigns planned for Q4 kick in. As for game titles, sales of "Browser Puro Yakyu" is expected to benefit by the incorporation of new players, while a new service for PCs that include such titles as "Ikki-Tousen" and "Logres of Swords and Sorcery" will be launched. The division is also moving as quickly as possible to meet demand from multiple devices, including smartphones and future phones.

Consumer Games Business Division

The division is planning to roll out the latest version of its hit "HARVEST MOON" series, "HARVEST

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility.

MOON 3D (working title),” in the quarter. When the original version was released, 97,000 copies were sold, but 110,000 orders for the latest version have already been placed. Nevertheless, the division has opted for a conservative forecast of Q4 sales of ¥1,125 million and operating income of ¥146 million.

Audio and Visual Business Division

The division expects the release of music and video products from its “PRECURE” series; ticket sales of the musical “MUSICAL THE PRINCE OF TENNIS” theater production, as well as DVD sets of the production; and “Stage Yowamushi Pedal” and “VISUALIVE Persona4”—two new theater productions—will contribute to earnings.

MAQL’s Operating Environment and Future Growth Strategy

MAQL was launched with a management philosophy seeking to develop new entertainment solutions that instills the world with wonder and inspiration. Its corporate vision is to become a contents provider that “astonishes” a global audience; its core strategy is to embrace multiple content for multiple uses over multiple devices—in other words, to create a broad range of content in a variety of entertainment fields, including games, music, animation, and films, and to provide this content on a global basis through various devices.

To achieve this, the Company has assigned top priority on building up an intellectual property (IP) base consisting of its proprietary titles and characters. Among the most renowned examples of a successful IP strategy is Disney and Mickey Mouse, Nintendo and Mario, Pokemon, Anpanman and so on. By possessing a dynamic IP base recognized throughout the world, MAQL aims to broaden its entertainment business across various media and devices.


As part of its IP base-building strategy, the Company’s online and consumer games business divisions have launched a host of new initiatives. The online division, for example, has entered into a co-development project with mobile game service Mobage! that is known as the “Super Creators (hereinafter SC)”. As seen in Table 4, five of very popular game creators in Japan are currently developing social network games for smartphone use that are slated for release as each game is completed.

Moreover, the consumer games division has recruited Keiji Inafune, a game creator and character designer who is a member of the SC team, to develop “KAIO,” a proprietary title for MAQL. As the first major IP asset for the Company, KAIO is slated for a 2013 release. At this time, MAQL is pushing ahead plans to develop marketing strategies and content for KAIO on a multimedia basis, and is eyeing the possibility of entering into various corporate alliances.

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

● Table 4 Participating “Super Creators” Artists

Participated Creator	Major Title	
Mr. Keiji Inafune (Video Game Creator, Character Designer) The ex-Capcom director CEO of Comsept Inc. and Intercept Inc.	STREET FIGHTER	
	MEGAMAN	
	Resident Evil 2	
	Onimusha	
	MegaMan NT Warrior	
	Engage in SC project "J.J.ROCKETS (tentative)" and also develop original IP battle video game "KAIO" with MAQL	
Mr. Yuji Naka (Video Game Creator) The former head of Sonic Team at Sega CEO of Prope Ltd.	Fist of the North Star	
	Phantasy Star	
	Sonic the Hedgehog	
	Engage in SC project "Buddy Monster (tentative)" with MAQL	
Mr. Yoshifumi Hashimoto (Video Game Producer) Exective Officer of Marvelous AQL, Inc.	HARVEST MOON series	
	Engage in SC project "HARVEST MOON for SmartPhone (tentative)" with MAQL	
Mr. Goichi Suda (Director of Video Game Designer, Scenario Writer) CEO of Grasshopper Manufacture Inc.	Fire Pro Wrestling series	
	Syndrome series	
	The Silver Case	
	Flower, Sun and Rain	
	Samurai Champloo	
	michigan	
	killer7	
	BLOOD+ ONE NIGHT KISS	
	NO MORE HEROES series	
	Engage in SC project "No More Heros for Mobage (tentative)" with MAQL	
	Mr. Noritaka Funamizu (Video Game Creator) Director of Crafts & Meister Co., Ltd.	STREET FIGHTER
		The Legend of Zelda
Engage in SC project "Konbokimaru (tentative)" with MAQL		

The Company is moving forward to establish a framework incorporating its IP strategy and core strategy of developing multiple content for multiple uses over multiple devices, launching a new Digital Content Business Division on February 1, 2012. This initiative seeks to remove the organizational structures of the online and consumer games divisions, which were based around specific devices. Among the projects sharing content between devices that are scheduled for release are “HARVEST MOON” and “NO MORE HEROES” for smartphone use (see Table 4), and "Browser Sangokushi (Romance of the Three Kingdoms)" for the Vita. In addition, MAQL also launched the Overseas Business Division on January 1, 2012, allowing the Company to begin distributing titles developed in Japan online or overseas. In the future, MAQL is looking to establish development centers abroad as well. Through these initiatives, the Company has started to seriously embrace the challenge of moving beyond the domain of games and emerge as a provider of globally recognized and profitable entertainment. 

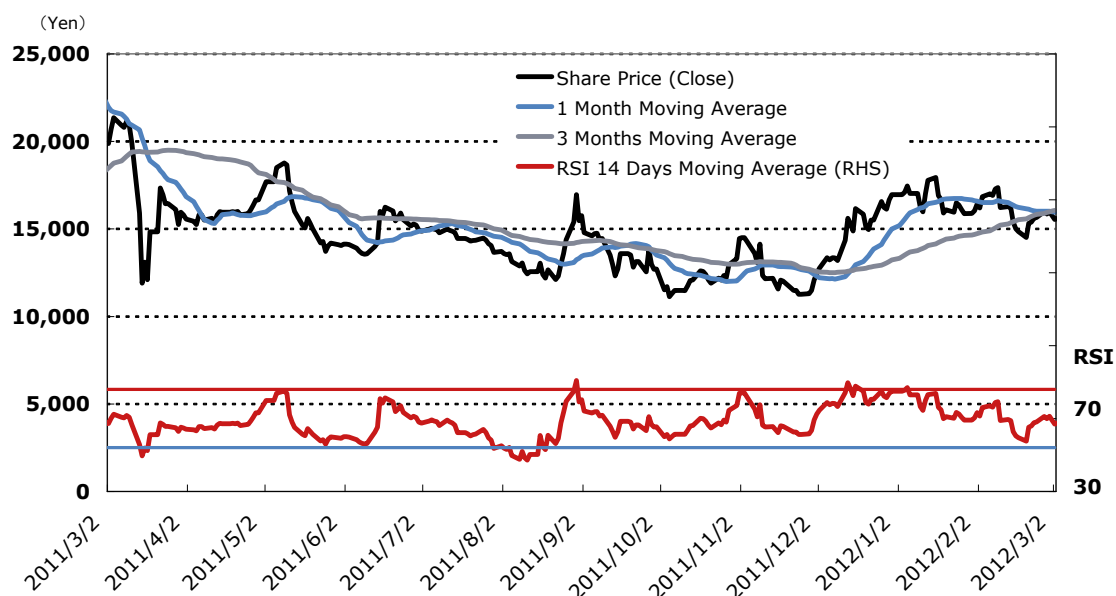
This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility

Reference
● Key Stock Indicators/Financial Data and Business Results (Consolidated)

Key Stock Indicators			Key Financial Data		
No. of Shares Issued	Dec. 2011	535,931	Total Assets (¥million)	Dec. 201	12,254
No. of Treasury Stock	Dec. 2011	1,380	Shareholders' Equity (¥million)	Dec. 201	8,027
Market Value (¥million)	Mar. 2 2012	8,328	Interest-Bearing Debt (¥million)	Dec. 201	1,317
BPS (¥)	Dec. 2011	14,978.90	Equity Ratio (%)	Dec. 201	65.5
ROE (%)	Dec. 2011	n.a.	Ratio of Interest-Bearing Debt (%Dec. 201	16.4	
ROA (%)	Dec. 2011	n.a.	Free Cash Flows (¥million)	Dec. 201	n.a.
PER (times)	FY3/12 est.	2.7	Note ROE=Current Net Income÷Shareholders' Equity		
PCFR(times)	Dec. 2011	n.a.	ROA=Current Net Income÷Total Assets		
PBR (times)	Dec. 2011	1.0	PCFR=Maket Value÷(Current Net Income+Depreciation)		
Share Price (¥)	Mar. 2 2012	15,540	Ave. Daily Volume=ADV for the last 12 months		
Unit Share (shares)	Mar. 2 2012	1	Ratio=Interest-Bearing Debts÷Shareholders' Equity		
Average Daily Volume (share: Mar. 2 2012		2,253	Free Cash Flows=Operating CF+Investment CF		

Consolidated (¥million)	Net Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
FY3/08	12,387	352	326	791	9,369.00	750.00
FY3/09	10,139	(1,238)	(1,308)	(1,221)	(14,567.00)	0.00
FY3/10	8,284	(1,668)	(1,725)	(1,623)	(13,618.00)	0.00
FY3/11	6,965	202	147	131	1,076.00	0.00
FY3/12 1H fcst.	2,812	30	13	7	58.41	-
FY3/12 fcst.	10,000	1,030	1,000	3,140	5,874.09	600.00

Note: FY3/12 forecasts announced on February 9, 2012

● Stock Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices.

In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI=averaged share price appreciation for N days÷(averaged share price appreciation for N days + averaged share price decline for N days) x100

This Memo is for reference purposes only and is not intended as a solicitation for investment. The contents contained herein are prepared based on reliable information that already exists in the public domain. The Company, however, does not guarantee complete accuracy. Any opinion or information contained in the Memo is relevant as of the day of the Information Meeting and/or Company Visit, although the views and/or facts may be altered without prior notification. Final investment decisions shall be made by investors themselves based solely on their own judgment and responsibility