

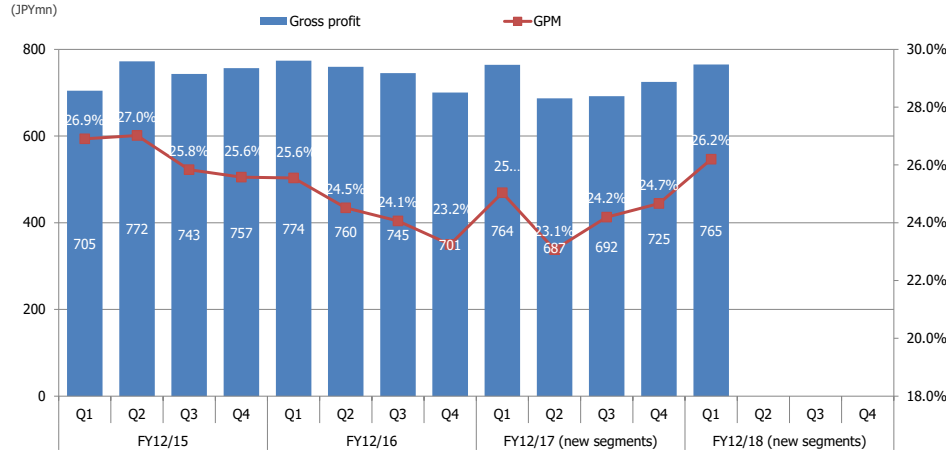
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On **May 10, 2018**, WirelessGate, Inc. announced earnings results for Q1 FY12/18.

Quarterly performance (JPYmn)	FY12/15				FY12/16				FY12/17				FY12/17					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,619	2,859	2,877	2,958	3,029	3,100	3,096	3,014	3,053	2,978	2,861	2,940	2,921			24.3%	12,034	
YoY	28.0%	32.4%	21.4%	16.8%	15.7%	8.4%	7.6%	1.9%	0.8%	-3.9%	-7.6%	-2.5%	-4.3%					
Gross profit	705	772	743	757	774	760	745	701	764	687	692	725	765					
YoY	18.7%	28.0%	17.4%	15.5%	9.9%	-1.6%	0.2%	-7.4%	-1.2%	-9.6%	-7.1%	3.5%	0.1%					
GPM	26.9%	27.0%	25.8%	25.6%	25.6%	24.5%	24.1%	23.2%	25.0%	23.1%	24.2%	24.7%	26.2%					
SG&A expenses	496	474	472	469	469	427	396	437	547	467	429	503	441					
YoY	28.7%	17.4%	3.3%	5.7%	-5.4%	-9.8%	-16.2%	-6.9%	16.6%	9.3%	8.3%	15.2%	-19.5%					
SG&A ratio	18.9%	16.6%	16.4%	15.9%	15.5%	13.8%	12.8%	14.5%	17.9%	15.7%	15.0%	17.1%	15.1%					
Operating profit	208	299	271	288	305	333	349	264	217	220	263	222	325			31.7%	1,024	
YoY	0.2%	49.5%	54.3%	35.9%	46.3%	11.5%	28.9%	-8.2%	-28.6%	-33.9%	-24.6%	-15.9%	49.3%				11.0%	
OPM	8.0%	10.4%	9.4%	9.7%	10.1%	10.7%	11.3%	8.8%	7.1%	7.4%	9.2%	7.6%	11.1%				8.5%	
Recurring profit	208	298	271	285	245	290	311	253	178	181	224	200	285			32.3%	883	
YoY	0.5%	49.6%	55.8%	36.0%	17.7%	-2.7%	14.9%	-11.3%	-27.4%	-37.8%	-28.1%	-20.6%	60.3%				12.9%	
RPM	7.9%	10.4%	9.4%	9.6%	8.1%	9.4%	10.0%	8.4%	5.8%	6.1%	7.8%	6.8%	9.8%				7.3%	
Net income attrib. to parent company shareholders	131	191	174	189	150	181	195	168	95	107	136	124	191			33.4%	572	
YoY	3.6%	45.3%	58.7%	43.4%	14.1%	-5.5%	12.2%	-11.1%	-36.8%	-40.6%	-30.5%	-26.0%	102.0%				24.0%	
Net margin	5.0%	6.7%	6.0%	6.4%	4.9%	5.8%	6.3%	5.6%	3.1%	3.6%	4.7%	4.2%	6.5%				4.8%	
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	2,619	5,477	8,354	11,312	3,029	6,129	9,225	12,240	3,053	6,030	8,891	11,831	2,921					
YoY	28.0%	30.3%	27.1%	24.2%	15.7%	11.9%	10.4%	8.2%	0.8%	-1.6%	-3.6%	-3.3%	-4.3%					
Gross profit	705	1,477	2,220	2,977	774	1,534	2,279	2,980	764	1,451	2,143	2,868	765					
YoY	18.7%	23.4%	21.3%	19.8%	9.9%	3.9%	2.7%	0.1%	-1.2%	-5.4%	-5.9%	-3.7%	0.1%					
GPM	26.9%	27.0%	26.6%	26.3%	25.6%	25.0%	24.7%	24.3%	25.0%	24.1%	24.1%	24.2%	26.2%					
SG&A expenses	496	970	1,442	1,911	469	896	1,292	1,729	547	1,014	1,443	1,946	441					
YoY	28.7%	22.9%	15.7%	13.1%	-5.4%	-7.6%	-10.4%	-9.5%	16.6%	13.1%	11.6%	12.5%	-19.5%					
SG&A ratio	18.9%	17.7%	17.3%	16.9%	15.5%	14.6%	14.0%	14.1%	17.9%	16.8%	16.2%	16.4%	15.1%					
Operating profit	208	507	778	1,065	305	638	987	1,251	217	438	701	923	325					
YoY	0.2%	24.3%	33.4%	34.0%	46.3%	25.8%	26.9%	17.4%	-28.6%	-31.4%	-29.0%	-26.2%	49.3%					
OPM	8.0%	9.3%	9.3%	9.4%	10.1%	10.4%	10.7%	10.2%	7.1%	7.3%	7.9%	7.8%	11.1%					
Recurring profit	208	507	777	1,062	245	535	846	1,099	178	358	582	782	285					
YoY	0.5%	24.6%	33.9%	34.5%	17.7%	5.7%	8.9%	3.5%	-27.4%	-33.0%	-31.2%	-28.8%	60.3%					
RPM	7.9%	9.2%	9.3%	9.4%	8.1%	8.7%	9.2%	9.0%	5.8%	5.9%	6.5%	6.6%	9.8%					
Net income attrib. to parent company shareholders	131	322	496	684	150	330	525	693	95	202	337	461	191					
YoY	3.6%	24.8%	34.9%	37.2%	14.1%	2.5%	5.9%	1.4%	-36.8%	-38.9%	-35.8%	-33.4%	102.0%					
Net margin	5.0%	5.9%	5.9%	6.1%	4.9%	5.4%	5.7%	5.7%	3.1%	3.3%	3.8%	3.9%	6.5%					

Source: Shared Research based on company data
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: Company forecasts are the most recent figures

Quarterly gross profit and GPM



Source: Shared Research based on company data

Overview

In Q1 FY12/18, sales were JPY2.9bn (-4.3% YoY), operating profit JPY325mn (+49.3%), recurring profit JPY285mn (+60.3%), and net income attributable to parent company shareholders JPY191mn (+102.0%). On a quarterly basis, gross profit has improved after hitting bottom at 23.1% in Q2 FY12/17, and reached 26.2% in Q1 FY12/18 (+1.2pp versus Q1 FY12/17).

Compared to the company's full-year forecasts for FY12/18, the progress rate for Q1 sales was 24.3% (25.8% of full-year result in Q1 FY12/17), operating profit 31.7% (23.6%), recurring profit 32.3% (22.7%), and net income attributable to parent company shareholders 33.4% (20.5%). Profits recorded higher progress rates YoY.

Wireless Business Domain (a B2B business) achieved two-digit sales growth. Subsidiary LTE-X also has been receiving various inquiries. On the other hand, Wireless Broadband (a B2C business) saw sales decline due to an increasingly competitive environment. However, the number of members for WirelessGate Wi-Fi + WiMAX at end-Q1 FY12/18 grew from end-FY12/17 as the company worked on acquiring new members and preventing membership cancellations.

Each profit item rose significantly YoY, with operating profit increasing by 49.3%. The increase in operating profit was due to effective initiatives to acquire new members and prevent membership cancellations while holding down expenses in the B2C business. A YoY increase in retrospective refunds (recorded in March every year) following changes in the unit cost of bandwidth borrowed from NTT Docomo, Inc. (TSE1: 9437) also contributed to OP growth. The company amortized goodwill of its equity-method affiliate as it did in FY12/17 and booked an equity-method investment loss of JPY39mn (same amount as Q1 FY12/17) as a non-operating expense; however, owing to a gain on forfeiture of unclaimed dividends of JPY1mn, recurring profit was up 60.3% YoY.

In order to clarify sales to corporate customers, the company changed its management classifications for sales starting with Q4 FY12/16. The following table shows changes in segment sales.

Sales by segment

Quarterly (JPYmn)	FY12/15 (old segments)				FY12/16 (old segments)				FY12/17 (new segments)				FY12/18 (new segments)				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Consolidated sales	2,619	2,859	2,877	2,958	3,029	3,100	3,096	3,014	3,053	2,978	2,861	2,940	2,921				
YoY	28.0%	32.4%	21.4%	16.8%	15.7%	8.4%	7.6%	1.9%	0.8%	-3.9%	-7.6%	-2.5%	-4.3%				
Wireless Broadband Services	2,585	2,724	2,829	2,900	2,982	3,022	3,004	2,940	2,929	2,842	2,834	2,829	2,784				
YoY	28.2%	27.5%	21.9%	18.1%	15.3%	10.9%	6.2%	1.4%	-1.7%	-6.0%	-5.6%	-3.8%	-5.0%				
Mobile Internet Service	2,381	2,527	2,640	2,716	2,803	2,850	2,838	2,781	2,749	2,667	2,665	2,665	2,625				
YoY	33.0%	31.9%	25.3%	20.9%	17.8%	12.8%	7.5%	2.4%	-1.9%	-6.4%	-6.1%	-4.2%	-4.5%				
Public Wireless LAN Service	204	197	189	184	178	171	165	159	154	149	144	140	135				
YoY	-10.3%	-11.2%	-11.6%	-11.7%	-12.7%	-12.9%	-12.8%	-13.6%	-13.5%	-13.0%	-12.7%	-12.3%	-12.4%				
Option Service	-	-	-	-	-	-	-	-	26	25	25	24	24				
YoY	-	-	-	-	-	-	-	-	-	-	-	-	-				
Wireless Platform Services	28	28	30	39	40	30	53	34	-	-	-	-	-				
YoY	26.7%	44.8%	-30.8%	-40.3%	41.3%	10.3%	74.7%	13.0%	-	-	-	-	-				
Wireless Business Domain Services	-	-	-	-	-	-	-	-	112	129	21	41	128				
YoY	-	-	-	-	-	-	-	-	499.6%	262.1%	110.3%	78.1%	14.7%				
Authentication Platform Service	-	-	-	-	-	-	-	-	47	51	59	64	18				
YoY	-	-	-	-	-	-	-	-	287.2%	221.1%	38.5%	28.9%	-61.9%				
Other Corporate Services	-	-	-	-	-	-	-	-	65	189	203	238	111				
YoY	-	-	-	-	-	-	-	-	888.7%	275.1%	147.7%	98.4%	69.7%				
Other	5	107	17	19	8	48	40	40	11	7	6	70	9				
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Consolidated sales	2,619	5,477	8,354	11,312	3,029	6,129	9,225	12,240	3,053	6,030	8,891	11,831	2,921				
YoY	28.0%	30.3%	27.1%	24.2%	15.7%	11.9%	10.4%	8.2%	0.8%	-1.6%	-3.6%	-3.3%	-4.3%				
Wireless Broadband Services	2,585	5,309	8,138	11,038	2,982	6,003	9,007	11,947	2,929	5,771	8,605	11,434	2,784				
YoY	28.2%	27.8%	25.7%	23.6%	15.3%	13.1%	10.7%	8.2%	-2.7%	-4.7%	-5.3%	-5.2%	-5.0%				
Mobile Internet Service	2,381	4,908	7,547	10,263	2,803	5,653	8,492	11,273	2,749	5,416	8,081	10,746	2,625				
YoY	33.0%	32.5%	29.9%	27.4%	17.8%	15.2%	12.5%	9.8%	-1.9%	-4.2%	-4.8%	-4.7%	-4.5%				
Public Wireless LAN Service	204	401	590	775	178	350	515	674	154	303	448	587	135				
YoY	-10.3%	-10.7%	-11.0%	-11.2%	-12.7%	-12.8%	-12.8%	-13.0%	-13.5%	-13.2%	-13.1%	-12.9%	-12.4%				
Option Service	-	-	-	-	-	-	-	-	26	52	76	100	24				
YoY	-	-	-	-	-	-	-	-	-5.8%	-5.0%	-5.7%	-6.7%	-9.8%				
Wireless Platform Services	28	56	86	125	40	70	123	157	-	-	-	-	-				
YoY	26.7%	35.1%	1.1%	-16.9%	41.3%	25.9%	43.2%	25.7%	-	-	-	-	-				
Wireless Business Domain Services	-	-	-	-	-	-	-	-	112	241	262	302	128				
YoY	-	-	-	-	-	-	-	-	499.6%	262.1%	110.3%	78.1%	14.7%				
Authentication Platform Service	-	-	-	-	-	-	-	-	47	51	59	64	18				
YoY	-	-	-	-	-	-	-	-	287.2%	221.1%	38.5%	28.9%	-61.9%				
Other Corporate Services	-	-	-	-	-	-	-	-	65	189	203	238	111				
YoY	-	-	-	-	-	-	-	-	888.7%	275.1%	147.7%	98.4%	69.7%				
Other	5	113	130	149	8	56	95	135	11	19	24	95	9				

Source: Shared Research based on company data

Note: In order to clarify sales to corporate customers, the company reviewed its classifications for sales starting from Q4 FY12/16. Comparisons for Q4 FY12/17 figures versus the previous year are based on classifications after the changes.

Wireless Broadband (sales: JPY2.8bn, -5.0% YoY)
Mobile Internet Services (sales: JPY2.6bn, -4.5% YoY)

The number of members for Wireless Gate Wi-Fi + WiMAX at end-Q1 FY12/18 increased from end-FY12/17. While focusing on acquiring customers via sales channels other than mass-market electronics retailers, the company also conducted sales campaigns at mass-market electronics retailers to win new customers, and made additional efforts to prevent membership cancellations among existing customers. These combined initiatives contributed to the membership increase.

As for WirelessGate SIM, the company worked on promoting sales of pre-paid SIM cards to foreign visitors to Japan. From Q2 FY12/18 onward, it will seek to expand sales by continuing to strengthen sales of these pre-paid SIM cards.

Public Wireless LAN Services (sales: JPY135mn, -12.4% YoY)

Sales fell in FY12/17 as the company struggled to win new customers at mass-market electronics retailers. From Q2 onward, WirelessGate will seek to expand sales by conducting bulk sales for corporations.

Option Services (sales: JPY24mn, -9.8% YoY)

This business includes remote telephone services and smart answering machine services via mass-market electronics retailers. From Q2 onward, the company will seek to expand sales by introducing new services.

Wireless Business Domain (sales: JPY128mn, +14.7% YoY)

Since subsidiary LTE-X has been receiving various inquiries, WirelessGate will work to transform these inquiries into results.

Authentication platform service business (sales: JPY18mn, -61.9% YoY)

This business provides authentication platforms to other telecoms carriers. While the company booked sales of large-scale projects in Q1 FY12/17, sales in Q1 FY12/18 were solely from small projects.

Other corporate services (sales: JPY111mn, +69.7% YoY)

This business offers Wi-Fi infrastructure, IoT services, SIM services for corporate users, and security services. This business has been gradually increasing the number of facilities and customers.

Other (sales: JPY9mn, -22.2% YoY)

In this segment, the company mainly sells MAMORIO, an IoT device to track lost items.

This note is the most recent addition to the [full report](#).

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