

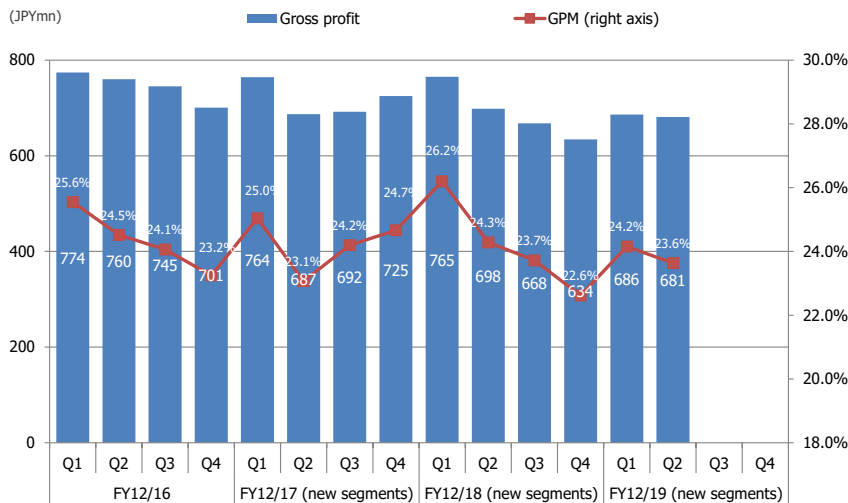
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On **Aug 14, 2019**, WirelessGate, Inc. announced earnings results for 1H FY12/19.

Quarterly performance (JPYmn)	FY12/17				FY12/18				FY12/19				FY12/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	3,053	2,978	2,861	2,940	2,921	2,876	2,816	2,804	2,840	2,882				
YoY	0.8%	-3.9%	-7.6%	-2.5%	-4.3%	-3.4%	-1.6%	-4.6%	-2.8%	0.2%				
Gross profit	764	687	692	725	765	698	668	634	686	681				
YoY	-1.2%	-9.6%	-7.1%	3.5%	0.1%	1.7%	-3.5%	-12.5%	-10.4%	-2.5%				
GPM	25.0%	23.1%	24.2%	24.7%	26.2%	24.3%	23.7%	22.6%	24.2%	23.6%				
SG&A expenses	547	467	429	503	441	700	718	716	664	648				
YoY	16.6%	9.3%	8.3%	15.2%	-19.5%	50.0%	67.5%	42.3%	50.7%	-7.5%				
SG&A ratio	17.9%	15.7%	15.0%	17.1%	15.1%	24.4%	25.5%	25.5%	23.4%	22.5%				
Operating profit	217	220	263	222	325	-2	-51	-82	22	33				
YoY	-28.6%	-33.9%	-24.6%	-15.9%	49.3%	-	-	-	-93.2%	-				
OPM	7.1%	7.4%	9.2%	7.6%	11.1%	-	-	-	0.8%	1.2%				
Recurring profit	178	181	224	200	285	-42	-91	-1,237	20	26				
YoY	-27.4%	-37.8%	-28.1%	-20.6%	60.3%	-	-	-	-93.1%	-				
RPM	5.8%	6.1%	7.8%	6.8%	9.8%	-	-	-	0.7%	0.9%				
Net income attrib. to parent company shareholders	95	107	136	124	191	-42	-71	-2,185	16	18				
YoY	-36.8%	-40.6%	-30.5%	-26.0%	102.0%	-	-	-	-91.8%	-				
Net margin	3.1%	3.6%	4.7%	4.2%	6.5%	-	-	-	0.6%	0.6%				
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	3,053	6,030	8,891	11,831	2,921	5,797	8,613	11,417	2,840	5,722			49.8%	11,500
YoY	0.8%	-1.6%	-3.6%	-3.3%	-4.3%	-3.9%	-3.1%	-3.5%	-2.8%	-1.3%				0.7%
Gross profit	764	1,451	2,143	2,868	765	1,464	2,132	2,766	686	1,367				
YoY	-1.2%	-5.4%	-5.9%	-3.7%	0.1%	0.8%	-0.6%	-3.6%	-10.4%	-6.6%				
GPM	25.0%	24.1%	24.1%	24.2%	26.2%	25.2%	24.7%	24.2%	24.2%	23.9%				
SG&A expenses	547	1,014	1,443	1,946	441	1,141	1,859	2,575	664	1,311				
YoY	16.6%	13.1%	11.6%	12.5%	-19.5%	12.5%	28.9%	32.4%	50.7%	15.0%				
SG&A ratio	17.9%	16.8%	16.2%	16.4%	15.1%	19.7%	21.6%	22.6%	23.4%	22.9%				
Operating profit	217	438	701	923	325	323	272	191	22	56			135.9%	41
YoY	-28.6%	-31.4%	-29.0%	-26.2%	49.3%	-26.3%	-61.2%	-79.3%	-93.2%	-82.7%				-78.5%
OPM	7.1%	7.3%	7.9%	7.8%	11.1%	5.6%	3.2%	1.7%	0.8%	1.0%				0.4%
Recurring profit	178	358	582	782	285	243	152	-1,084	20	46			121.4%	38
YoY	-27.4%	-33.0%	-31.2%	-28.8%	60.3%	-32.2%	-73.9%	-	-93.1%	-81.0%				-
RPM	5.8%	5.9%	6.5%	6.6%	9.8%	4.2%	1.8%	-	0.7%	0.8%				0.3%
Net income attrib. to parent company shareholders	95	202	337	461	191	149	78	-2,107	16	34			147.8%	23
YoY	-36.8%	-38.9%	-35.8%	-33.4%	102.0%	-26.0%	-76.8%	-	-91.8%	-77.2%				-
Net margin	3.1%	3.3%	3.8%	3.9%	6.5%	2.6%	0.9%	-	0.6%	0.6%				0.2%

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

1H FY12/19 results

- ▷ In 1H FY12/19, sales were JPY5.7bn (-1.3% YoY), operating profit JPY56mn (-82.7% YoY), recurring profit JPY46mn (-81.0% YoY), and net income attributable to parent company shareholders JPY34mn (-77.2% YoY).
- ▷ Progress versus forecasts: In 1H FY12/19, sales reached 49.8% of full-year forecasts (1H FY12/18 sales reached 50.8% of full-year FY12/18 results), operating profit 135.9% (169.3%), recurring profit 121.4% (versus recurring loss of JPY1.1bn in FY12/18), and net income 147.8% (net loss of JPY2.1bn in FY12/18).
- ▷ Sales down 1.3% YoY: Wireless Business Domain business (a B2B business) sales declined 12.0% YoY and Wireless Broadband business (a B2C business) sales declined 1.2% YoY. The WirelessGate Wi-Fi + WiMAX business continued to perform well due to the implementation of measures aimed at preventing membership cancellations. The number of users increased in Q2 (April–June 2019) over Q1 (January–March 2019).
- ▷ Operating profit down 82.7% YoY: GPM decreased 1.4pp YoY to 23.9% while the SG&A-to-sales ratio rose 3.2pp YoY to 22.9% as sales expenses increased as a result of the company entering into a new consignment sales agreement with Yodobashi Camera in August 2018, and OPM deteriorated 4.6pp YoY to 1.0%.

Sales by segment

Quarterly (JPYmn)	FY12/16 (old segments)				FY12/17 (new segments)				FY12/18 (new segments)				FY12/19 (new segments)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consolidated sales	3,029	3,100	3,096	3,014	3,053	2,978	2,861	2,940	2,921	2,876	2,816	2,804	2,840	2,882		
YoY	15.7%	8.4%	7.6%	1.9%	0.8%	-3.9%	-7.6%	-2.5%	-4.3%	-3.4%	-1.6%	-4.6%	-2.8%	0.2%		
Wireless Broadband	2,982	3,022	3,004	2,940	2,929	2,842	2,834	2,829	2,784	2,790	2,781	2,761	2,758	2,747		
YoY	15.3%	10.9%	6.2%	1.4%	-1.7%	-6.0%	-5.6%	-3.8%	-5.0%	-1.8%	-1.9%	-2.4%	-0.9%	-1.6%		
Mobile Internet Services	2,803	2,850	2,838	2,781	2,749	2,667	2,665	2,665	2,625	2,636	2,631	2,614	2,615	2,605		
YoY	17.8%	12.8%	7.5%	2.4%	-1.9%	-6.4%	-6.1%	-4.2%	-4.5%	-1.2%	-1.3%	-1.9%	-0.4%	-1.2%		
Public Wireless LAN Services	178	171	165	159	154	149	144	140	135	131	128	125	122	120		
YoY	-12.7%	-12.9%	-12.8%	-13.6%	-13.5%	-13.0%	-12.7%	-12.3%	-12.4%	-11.8%	-10.9%	-10.1%	-9.5%	-9.1%		
Option Services	-	-	-	-	26	25	25	24	24	23	22	21	21	22		
YoY	-	-	-	-	-	-	-	-	-9.8%	-10.6%	-11.8%	-12.0%	-13.0%	-3.0%		
Wireless Platform	40	30	53	34	-	-	-	-	-	-	-	-	-	-		
YoY	41.3%	10.3%	74.7%	13.0%	-	-	-	-	-	-	-	-	-	-		
Wireless Business Domain	-	-	-	-	112	129	21	41	128	74	26	33	66	113		
YoY	-	-	-	-	-	-	-	-	14.7%	-42.3%	22.8%	-18.2%	-49.0%	52.0%		
Authentication Platform Service	-	-	-	-	47	51	59	64	18	17	8	9	14	9		
YoY	-	-	-	-	287.2%	221.1%	38.5%	28.9%	-61.9%	-66.4%	-86.2%	-85.7%	-21.2%	-45.8%		
Other Corporate Services	-	-	-	-	65	189	203	238	111	57	18	24	51	103		
YoY	-	-	-	-	888.7%	275.1%	147.7%	98.4%	69.7%	-69.9%	-91.3%	-89.9%	-53.5%	81.6%		
Other	8	48	40	40	11	19	6	70	9	11	9	10	16	22		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Consolidated sales	3,029	6,129	9,225	12,240	3,053	6,030	8,891	11,831	2,921	5,797	8,613	11,417	2,840	5,722		
YoY	15.7%	11.9%	10.4%	8.2%	0.8%	-1.6%	-3.6%	-3.3%	-4.3%	-3.9%	-3.1%	-3.5%	-2.8%	-1.3%		
Wireless Broadband	2,982	6,003	9,007	11,947	2,929	5,771	8,605	11,434	2,784	5,574	8,355	11,115	2,758	5,505		
YoY	15.3%	13.1%	10.7%	8.2%	-2.7%	-4.7%	-5.3%	-5.2%	-5.0%	-3.4%	-2.9%	-2.8%	-0.9%	-1.2%		
Mobile Internet Services	2,803	5,653	8,492	11,273	2,749	5,416	8,081	10,746	2,625	5,261	7,891	10,505	2,615	5,220		
YoY	17.8%	15.2%	12.5%	9.8%	-1.9%	-4.2%	-4.8%	-4.7%	-4.5%	-2.9%	-2.3%	-2.2%	-0.4%	-0.8%		
Public Wireless LAN Services	178	350	515	674	154	303	448	587	135	267	395	521	122	242		
YoY	-12.7%	-12.8%	-12.8%	-13.0%	-13.5%	-13.2%	-13.1%	-12.9%	-12.4%	-12.1%	-11.7%	-11.3%	-9.5%	-9.3%		
Option Services	-	-	-	-	26	52	76	100	24	46	68	89	21	43		
YoY	-	-	-	-	-5.8%	-5.0%	-5.7%	-6.7%	-9.8%	-10.2%	-10.7%	-11.0%	-13.0%	-8.1%		
Wireless Platform	40	70	123	157	-	-	-	-	-	-	-	-	-	-		
YoY	41.3%	25.9%	43.2%	25.7%	-	-	-	-	-	-	-	-	-	-		
Wireless Business Domain	-	-	-	-	112	241	262	302	128	203	229	262	66	178		
YoY	-	-	-	-	499.6%	262.1%	110.3%	78.1%	14.7%	-15.7%	-12.6%	-13.4%	-49.0%	-12.0%		
Authentication Platform Service	-	-	-	-	47	51	59	64	18	35	43	52	14	23		
YoY	-	-	-	-	287.2%	221.1%	38.5%	28.9%	-61.9%	-31.7%	-26.8%	-18.3%	-21.2%	-33.3%		
Other Corporate Services	-	-	-	-	65	189	203	238	111	168	185	209	51	155		
YoY	-	-	-	-	888.7%	275.1%	147.7%	98.4%	69.7%	-11.4%	-8.5%	-12.1%	-53.5%	-7.5%		
Other	8	56	95	135	11	19	24	95	9	20	30	40	16	39		

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: JPY5.5bn, -1.2% YoY)

Mobile Internet Services (sales: JPY5.2bn, -0.8% YoY)

- ▷ For Wireless Gate Wi-Fi + WiMAX, the number of subscribers increased in Q2 over Q1 as a result of the implementation of measures aimed at preventing membership cancellations among existing customers, which allowed the company to secure sales on par with 1H FY12/18.

- ▷ As for WirelessGate SIM, amid declining monthly fee revenue, WirelessGate worked to expand sales by promoting pre-paid SIM cards to foreign visitors. Yet sales in Q2 were about 10% below the level in Q1.
- ▷ The company plans to acquire new subscribers in 2H FY12/19 through measures such as 10-year anniversary campaign.

Public Wireless LAN Services (sales: JPY242mn, -9.3% YoY)

Sales fell 9.3% YoY as the company struggled to win new customers at mass-market electronics retailers. From Q3, the company plans to continue expanding sales by selling services via channels other than mass-market electronics retailers.

Option Services (sales: JPY43mn, -8.1% YoY)

This business includes remote telephone services and smart answering machine services via mass-market electronics retailers. From Q3, the company plans to continue expanding sales with the ZoneAlarm Japan Edition mobile security application for individuals, a new service launched on March 14 (an iOS version) and June 20 (an Android version).

Wireless Business Domain (sales: JPY178mn, -12.0% YoY)

Authentication platform service business (sales: JPY23mn, -33.3% YoY)

This business provides authentication platforms to other telecoms carriers.

Other corporate services (sales: JPY155mn, -7.5% YoY)

This business offers Wi-Fi infrastructure, IoT services, SIM services for corporate users, and security services.

Other (sales: JPY39mn, +92.1% YoY)

In this segment, the company mainly offers a rental router service and sells MAMORIO, an IoT device to track lost items.

Full-year company forecasts

(JPYmn)	FY12/17			FY12/18			FY12/19		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	6,030	5,800	11,831	5,797	5,620	11,417	5,722	5,778	11,500
YoY	-1.6%	-5.1%	-3.3%	-3.9%	-3.1%	-3.5%	-1.3%	2.8%	0.7%
Cost of sales	4,579	4,383	8,962	4,333	4,318	8,651	4,355		
Gross profit	1,451	1,417	2,868	1,464	1,302	2,766	1,367		
YoY	-5.4%	-2.0%	-3.7%	0.8%	-8.1%	-3.6%	-6.6%		
GPM	24.1%	24.4%	24.2%	25.2%	23.2%	24.2%	23.9%		
SG&A expenses	1,014	932	1,946	1,141	1,434	2,575	1,311		
SG&A ratio	16.8%	16.1%	16.4%	19.7%	25.5%	22.6%	22.9%		
Operating profit	438	485	923	323	-132	191	56	-15	41
YoY	-57.8%	-20.9%	-26.2%	-26.3%	-	-79.3%	-82.7%	-	-78.5%
OPM	7.3%	8.4%	7.8%	5.6%	-	1.7%	1.0%	-	0.4%
Recurring profit	358	424	782	243	-1,327	-1,084	46	-8	38
YoY	-33.0%	-24.8%	-28.8%	-32.2%	-	-	-81.0%	-	-
RPM	5.9%	7.3%	6.6%	4.2%	-	-	0.8%	-	0.3%
Net income attrib. to parent company shareholders	202	260	461	149	-2,256	-2,107	34	-11	23
YoY	-38.9%	-28.4%	-33.4%	-26.0%	-	-	-77.2%	-	-

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

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Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<https://sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp