

# Consolidated Financial Results for 1Q FY2015 (First 3 months ended June 30, 2015)



Internet Initiative Japan Inc.  
TSE1(3774), NASDAQ(IIJI)  
August 7, 2015

Ongoing Innovation



# Agenda

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**I . Summary of 1Q FY2015 Financial Results**

**II . Consolidated Financial Results for 1Q FY2015**

**III . Reference Materials**

# I . Summary of 1Q FY2015 Financial Results

	< 1Q15 Results >		< FY15 Targets >		%: YoY change
Revenues	JPY31.46 billion	up 14.2%	JPY139.0 billion	up 13.0%	
Gross margin	JPY5.66 billion	up 13.2%	JPY25.1 billion	up 13.7%	
Operating income	JPY1.14 billion	up 48.5%	JPY6.5 billion	up 28.1%	
Net Income attributable to IIJ	JPY0.72 billion	up 46.8%	JPY4.0 billion	up 20.4%	

Revenue accumulated at an accelerated pace:

3-month revenue grew by 14.2% YoY(1Q15), 11.7% YoY(4Q14), 8.2% YoY(3Q14)

YoY: comparison with previous year

## ◆ Enterprise and consumer mobile led the growth

- Subscription (unit: thousand): total 811 (up 138 QoQ), consumer 527 (up 97 QoQ), MVNE 104 (up 36 QoQ)
- Increasing number of sales partners including over 40 CATV operators, Aeon's 209 stores handling MNP transaction from July
- Temporary positive cost impact of approx. JPY0.27 billion in 1Q15, applying supposed annual charge decrease rate of 15% to our mobile infrastructure usage during FY14. (Recognized the same temporary positive impact of approx. JPY0.29 billion in 2Q14)

QoQ: 1Q15 compared to 4Q14

Subscription as of June 30, 2015

## ◆ Systems operation and maintenance revenues increased by 23.5% YoY

- Continuous contribution from systems construction projects migrated to operation and maintenance
- Construction order received grew by 44.1% YoY, had a large network integration project of approx. JPY2.1 billion in 1Q15

## ◆ Newly developed cloud and network services will be offered from fall

- New cloud services "IIJ GIO Infrastructure P2" should promote hybrid cloud systems
- New network services "IIJ Omnibus Services" incorporates SDN/NFV technologies for faster implementation of network elements

## ◆ Rapid increase in demands for Internet security services and solutions

- Providing multi-layered security solutions including DDoS protection service, widely used by mega banks & governmental organizations
- Newly launched "IIJ Unified Security Solution" which quickly responds to cyber-attacks

## ◆ Continuous focus on overseas business, especially Asia

- 1Q15 revenue approx. JPY1.2 billion, deficit approx. JPY0.22 billion (1Q14 revenue approx. JPY1.2 billion, deficit approx. JPY0.23 billion)
- Creating more and more business opportunities in Asia including container DC export projects, cloud business in Indonesia

## ◆ Business investments to further expand business scale

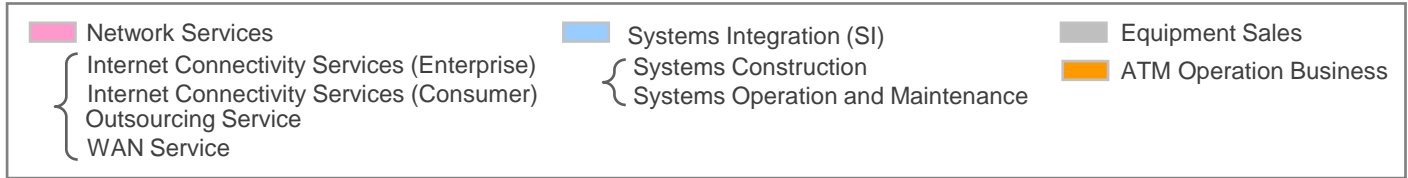
- Hired 155 new graduates in Apr. 2015 (129 in 2014, 136 in 2013), personnel-related expenses up 13.5% YoY
- Operating costs and expenses and up 13.2% YoY

## II - 1. Consolidated Financial Results for 1Q FY2015

Unit: JPY billion

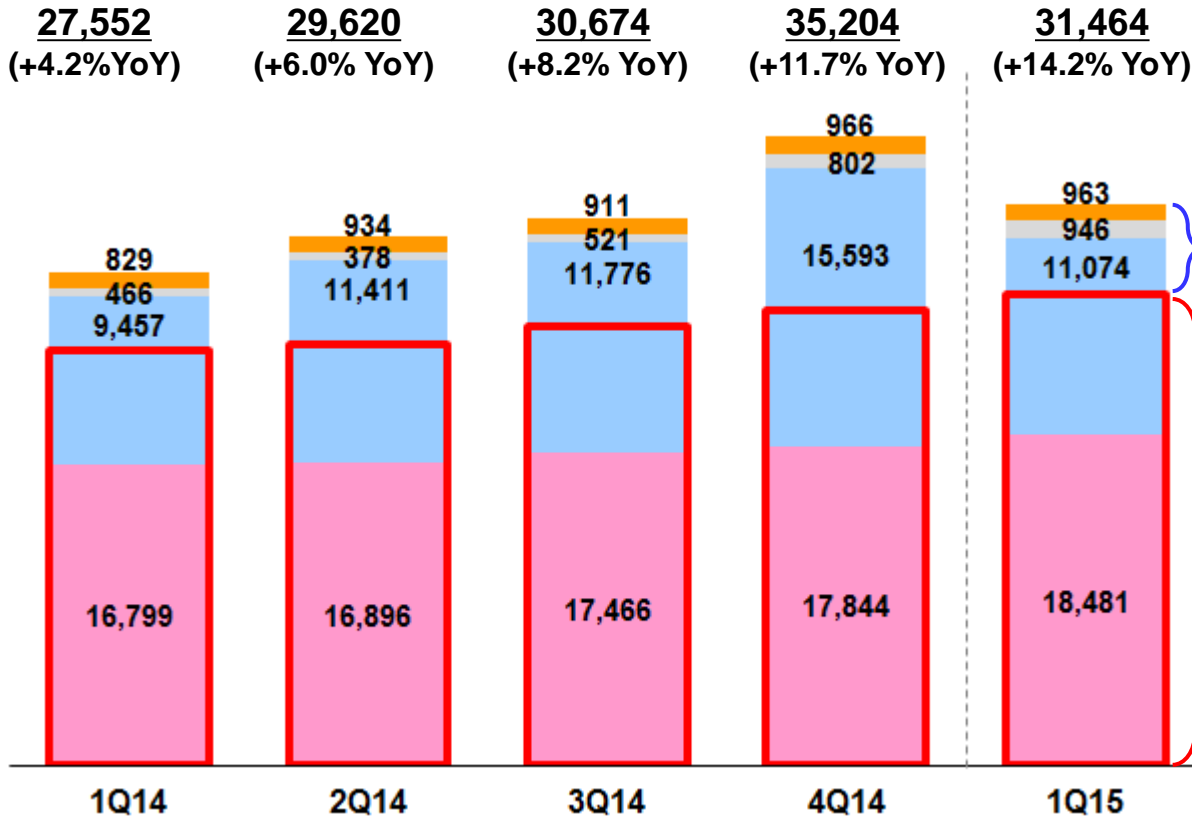
	% of Revenues	% of Revenues	YoY Change in %	% of Revenues	YoY Change in %
	1Q15 (Apr. 2015 -Jun. 2015)	1Q14 (Apr. 2014 -Jun. 2014)		FY15 Target (Apr. 2015 -Mar. 2016)	
Total Revenues	31.5	27.6	+14.2%	139.0	+13.0%
Total Cost of Revenues	82.0% 25.8	81.9% 22.6	+14.4%	81.9% 113.9	+12.8%
Gross Margin	18.0% 5.7	18.1% 5.0	+13.2%	18.1% 25.1	+13.7%
SG&A/R&D	14.4% 4.5	15.4% 4.2	+6.8%	13.4% 18.6	+9.4%
Operating Income	3.6% 1.1	2.8% 0.8	+48.5%	4.7% 6.5	+28.1%
Income before Income Tax Expense	4.1% 1.3	3.0% 0.8	+54.5%	4.6% 6.4	+24.5%
Net Income attributable to IIJ	2.3% 0.7	1.8% 0.5	+46.8%	2.9% 4.0	+20.4%

# II - 2. Revenues



Unit: JPY million  
 YoY = 1Q15 compared to 1Q14

**FY14: 123,050**



**One-time Revenue \***  
 1Q15: JPY4,148 million (up 16.8% YoY)  
 (13.2% of 1Q15 revenue)

\* Revenue which is recognized when systems or equipment are delivered and accepted by customers

1. Systems Construction
2. Equipment Sales

**Recurring Revenue\***  
 1Q15: JPY26,352 million (up 13.7% YoY)  
 (83.8% of 1Q15 revenue)

\* Represents the following monthly recurring revenues

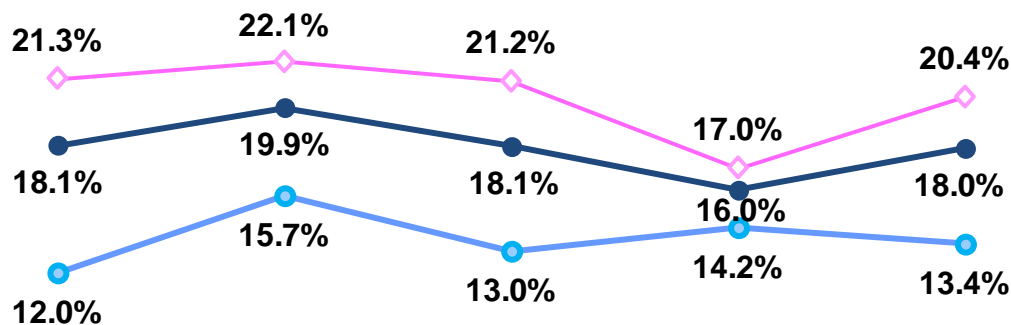
1. Internet Connectivity Services (Enterprise)
2. Internet Connectivity Services (Consumer)
3. Outsourcing Services
4. WAN Services
5. Systems Operation and Maintenance

## II - 3. Cost of Revenues and Gross Margin Ratio

Cost of revenues : Network Services (Pink), Systems Integration (SI) (Light Blue), Equipment Sales (Grey), ATM Operation Business (Orange)  
 Gross margin ratio : Network Services (Pink Diamond), Systems Integration (SI) (Light Blue Circle), Total Revenues (Dark Blue Circle)

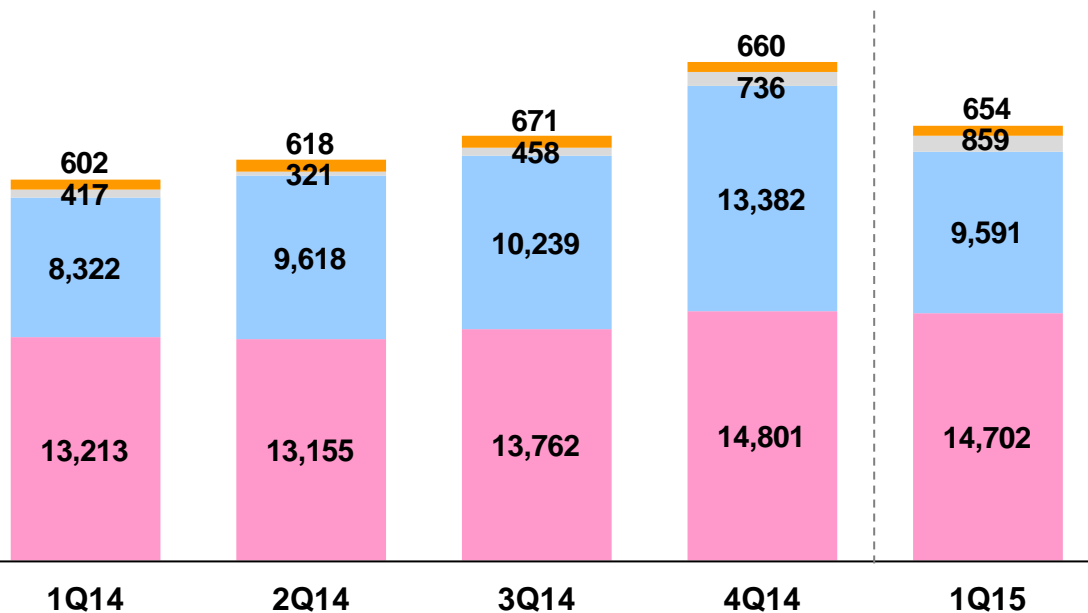
Unit: JPY million

YoY = 1Q15 compared to 1Q14



**FY14: 100,978**

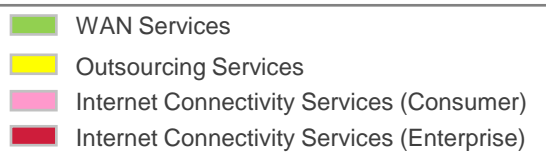
**22,554      23,713      25,130      29,580      25,805**



### 1Q15 Gross Margin

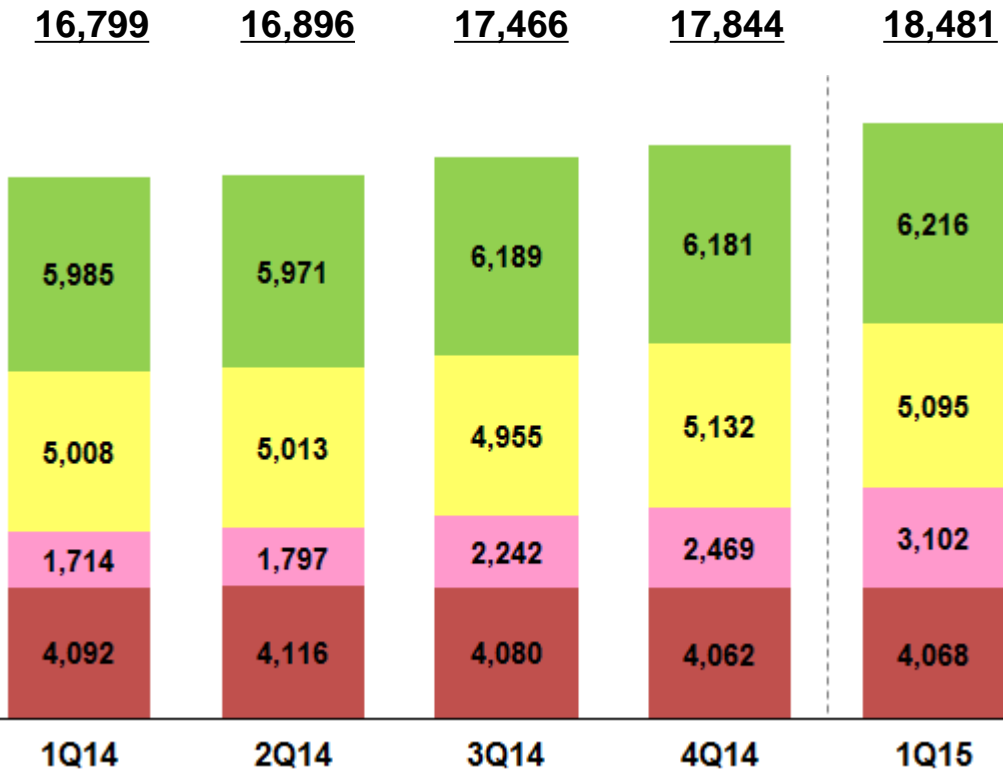
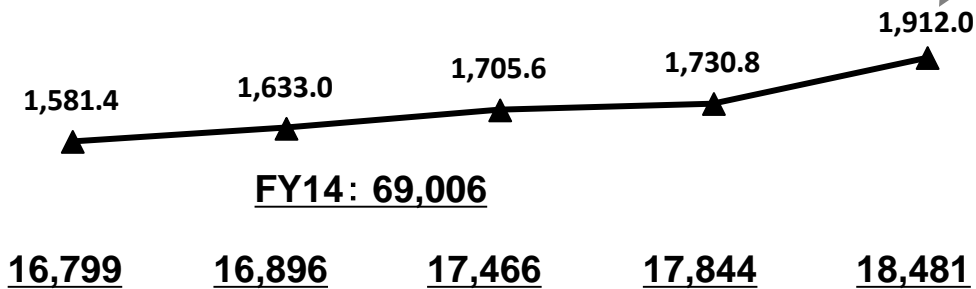
- ◆ **Total Gross Margin:**
  - JPY5,658 million (up JPY661 million, up 13.2% YoY)
  - Gross margin ratio: 18.0% (down 0.1 points YoY)
- ◆ **Network Service Gross Margin**
  - JPY3,779 million (up JPY193 million, up 5.4% YoY)
  - Gross margin ratio: 20.4% (down 0.9 points YoY)
- ◆ **SI Gross Margin:**
  - JPY1,483 million (up JPY347 million, up 30.6% YoY)
  - Gross margin ratio: 13.4% (up 1.4 points YoY)
- ◆ **ATM Operation Business Gross Margin:**
  - JPY310 million (up JPY83 million, up 36.4% YoY)
  - Gross margin ratio: 32.1% (up 4.8 points YoY)

# II - 4. Network Services (1)Revenues



Unit: JPY million  
 YoY = 1Q15 compared to 1Q14  
 QoQ = 1Q15 compared to 4Q14

Total Contracted Bandwidth (Gbps)

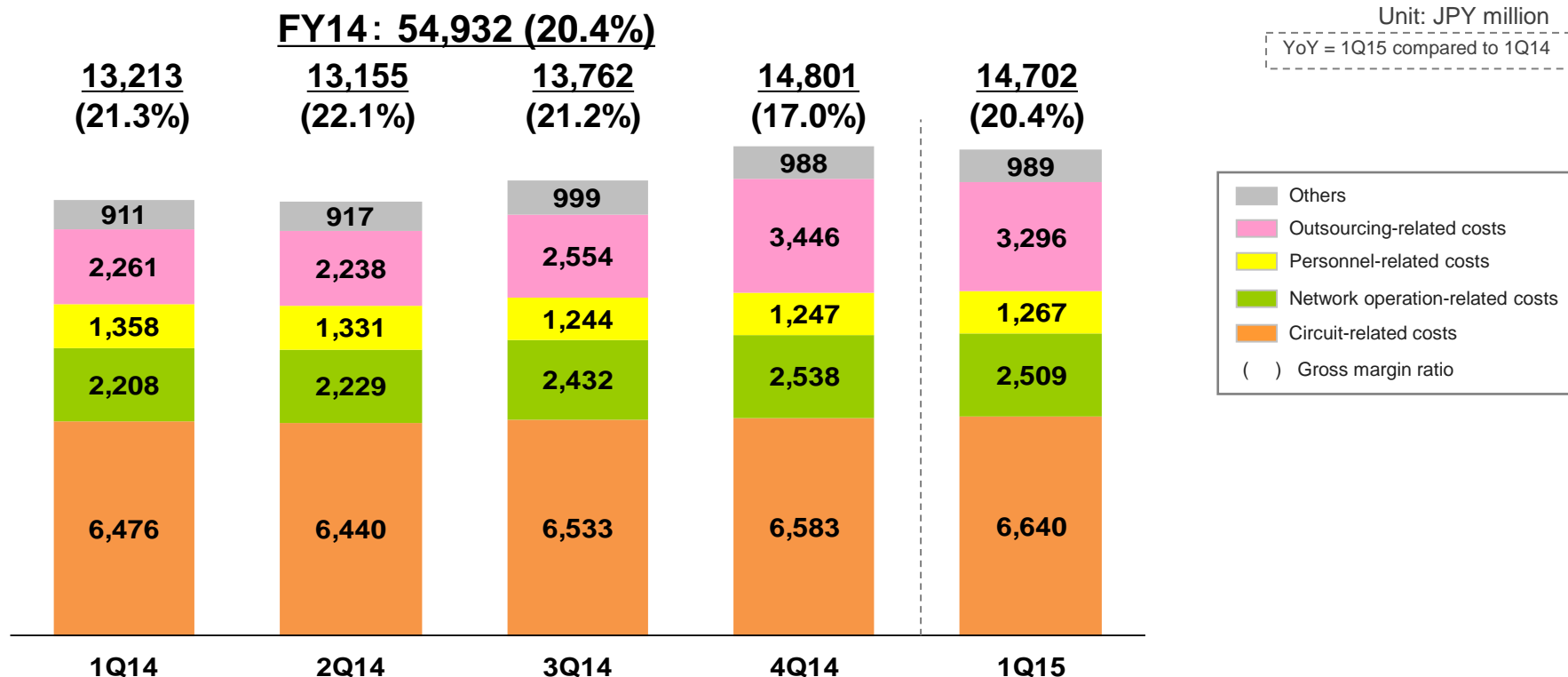


- ◆ **Internet Connectivity (Enterprise)**
  - JPY4,068 million (down JPY25 million, down 0.6% YoY)
    - Mobile service revenue continued to increase
    - Over 1Gbps contracts:
      - ✓ As of 1Q15-end: 334 contracts
      - ✓ As of 1Q14-end: 284 contracts
      - ✓ As of 4Q14-end: 340 contracts
- ◆ **Internet Connectivity (Consumer)**
  - JPY3,102 million (up JPY1,338 million, up 81.0% YoY)
    - IJmio mobile services continued to accumulate
      - ✓ 1Q15-end subscription: 527 thousand (up 310 thousand YoY, up 97 thousand QoQ)
      - ✓ 1Q15 revenue: JPY2.09 billion (up 1.40 billion YoY, up 0.58 billion QoQ)
- ◆ **Outsourcing Services**
  - JPY5,095 million (up JPY87 million, up 1.7% YoY)
    - Game customers' revenue decreased QoQ
- ◆ **WAN Services**
  - JPY6,216 million (up JPY231 million, up 3.9% YoY)
  - No major revenue decrease from large customers

## II - 4. Network Services (2) Cost of Revenues

Unit: JPY million

YoY = 1Q15 compared to 1Q14



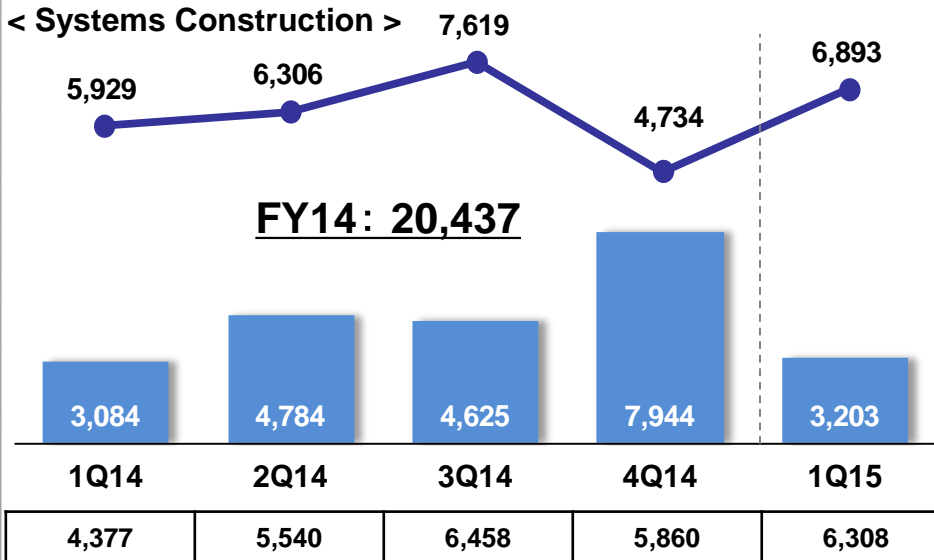
◆ 1Q15 Cost of Network Services: up JPY1,489 million, up 11.3% YoY

- Mobile-related cost (recognized in outsourcing-related costs) increased along with the increase in mobile services subscription and traffic volume
- Regarding NTT Docomo's ("Docomo") mobile interconnectivity cost recognition:
  - Docomo's interconnectivity telecommunications service charge which was calculated by Docomo's FY13 mobile-related cost was fixed in March 2015 and it decreased by 23.5% from a year ago.
  - The same charge based on Docomo's FY14 mobile-related cost should be fixed in Mar. 2016. In the meantime, Docomo's bill for FY15 mobile interconnectivity usage has been 25% off temporarily from Apr. 2015.
  - During FY2015, IIJ calculates its mobile interconnectivity cost by applying supposed annual decrease rate of 15%
  - In 1Q15, IIJ recognized a temporary positive cost impact of approx. JPY0.27 billion for FY14 mobile interconnectivity usage by applying supposed annual decrease rate of 15%. The same positive impact of approx. JPY0.29 billion was recognized in last year's 2Q for FY13 usage.
- Circuit-related costs increased by JPY0.16 billion YoY mainly due to an increase in WAN services revenue



# II - 5. Systems Integration (SI) (1)Revenues

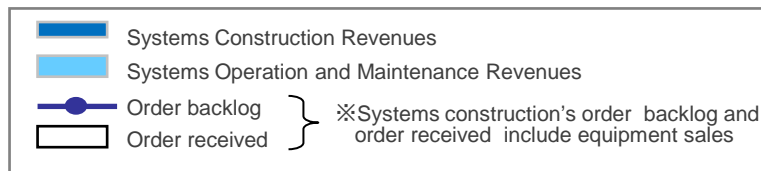
## < Systems Construction >



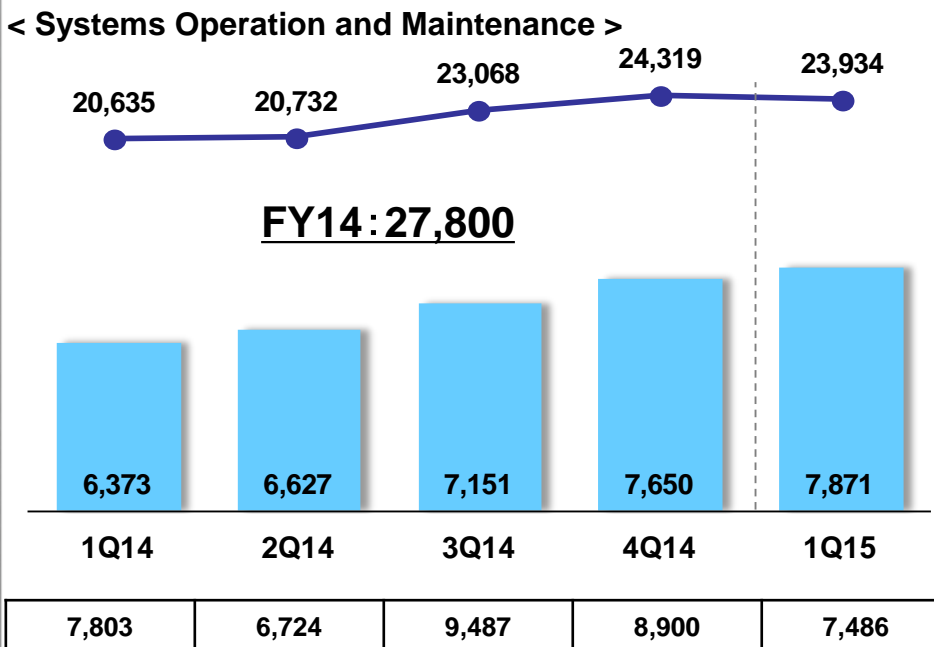
**FY14: 20,437**

YoY = 1Q15 compared to 1Q14

Unit: JPY million



## < Systems Operation and Maintenance >



**FY14: 27,800**

### Systems construction revenues

- ◆ 1Q15 revenue: up JPY118 million, up 3.8% YoY
- ◆ 1Q15 order received: up JPY1,930 million, up 44.1% YoY
- ◆ Revenue increased due to an expansion in projects scale
  - Large-scale projects orders received in 1Q15:
    - Network integration project (approx. JPY2.1 billion)
    - MVNO service platform including billing, customer management systems for a company entering MVNO business
    - Renewal of Internet gateway for a major retail company
    - Construction of hybrid cloud systems for a prominent service company etc.

### Systems operation and maintenance revenue

- ◆ 1Q15 revenue: up JPY1,498 million, up 23.5% YoY
  - Adding RYUKOSHA's revenue from 3Q14 (1Q15 JPY352 million)
  - 85% of 1Q15 cloud-related revenue is recognized in systems operation and maintenance revenues (15% in outsourcing)
  - Systems construction projects which migrated to operation and maintenance phase contributed to revenues

### < Overseas business >

1Q15 revenue: approx. JPY 1.2 billion (almost same as 1Q14), business enterprise covered large game customers' decrease

## II - 5. Systems Integration (SI) (2) Cost of Revenues

Unit: JPY million

**FY14: 41,562 (13.8%)**

YoY = 1Q15 compared to 1Q14  
QoQ = 1Q15 compared to 4Q14

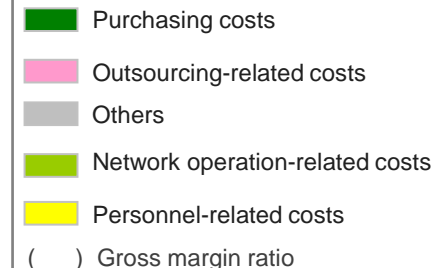
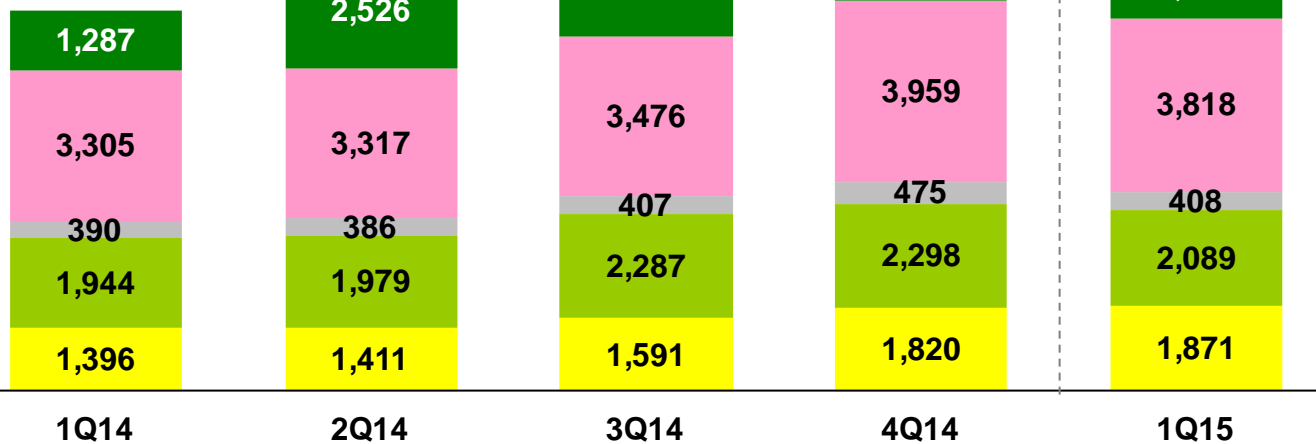
**8,322**  
**(12.0%)**

**9,618**  
**(15.7%)**

**10,239**  
**(13.0%)**

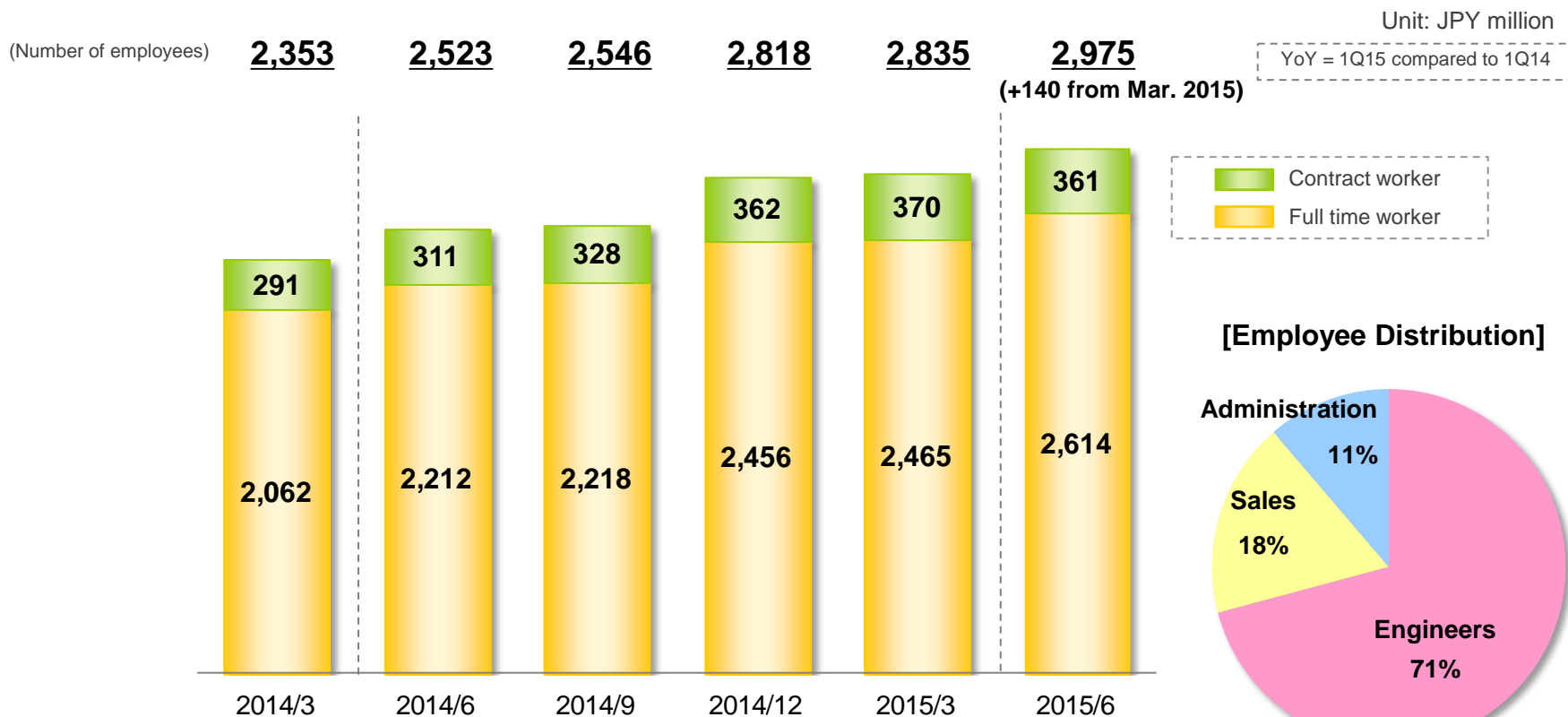
**13,382**  
**(14.2%)**

**9,591**  
**(13.4%)**



- ◆ 1Q15 Cost of SI: up JPY1,269 million, up 15.3% YoY
  - Number of outsourcing personnel as of June. 2015: 985 personnel (up 175 personnel YoY, up 16 personnel QoQ)
  - Purchasing costs and outsourcing-related costs increased as number and scale of construction projects increased

## II - 6. Number of Employees



Personnel related costs & expenses (% of revenue)	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
	<b>4,408</b> (14.0%)	<b>4,641</b> (16.8%)	<b>4,643</b> (15.7%)	<b>4,704</b> (15.3%)	<b>5,114</b> (14.5%)	<b>5,266</b> (16.7%)

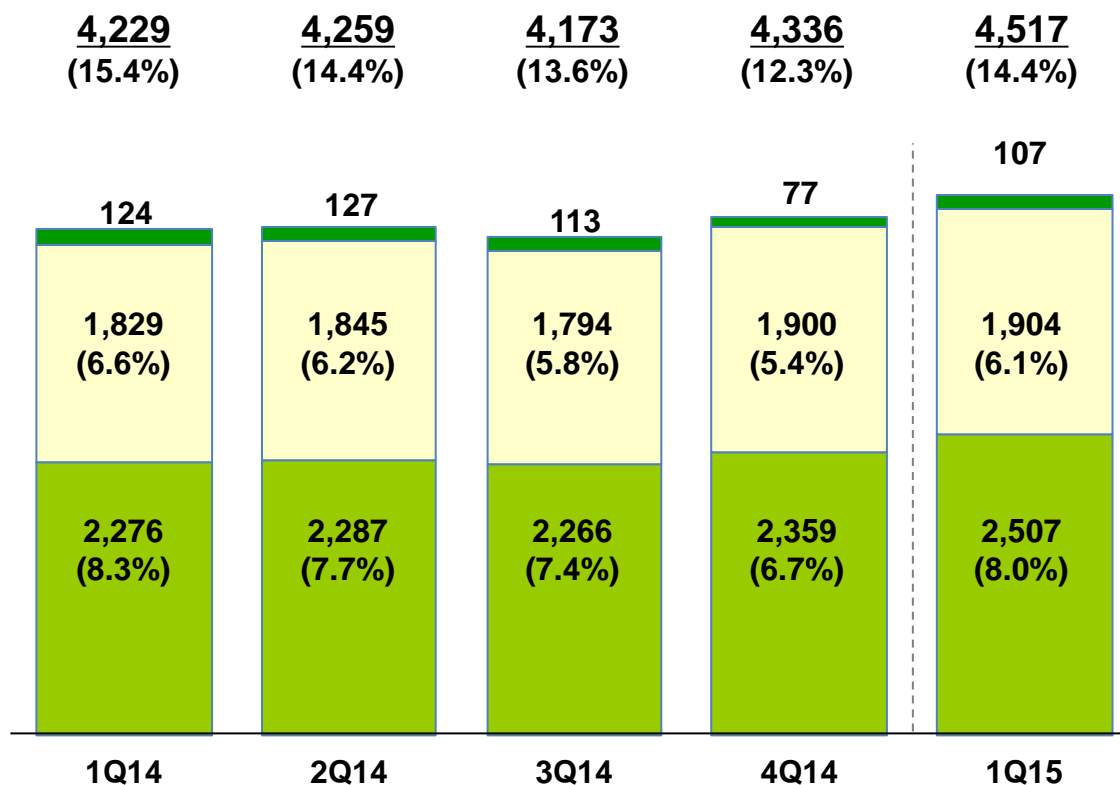
- ◆ 1Q15 personnel-related costs and expenses: up JPY624 million, up 13.5% YoY
- ◆ Acquired RYUKOSHA in 3Q14 , the number of employees increased by 264 personnel and personnel-related expenses increased
- ◆ Hired 155 new graduates in Apr. 2015 (129 in Apr. 2014, 136 in Apr. 2013, 75 in Apr. 2012)

## II - 7. SG&A Expenses/R&D

Unit: JPY million

YoY = 1Q15 compared to 1Q14

**FY14: 16,997(13.8%)**



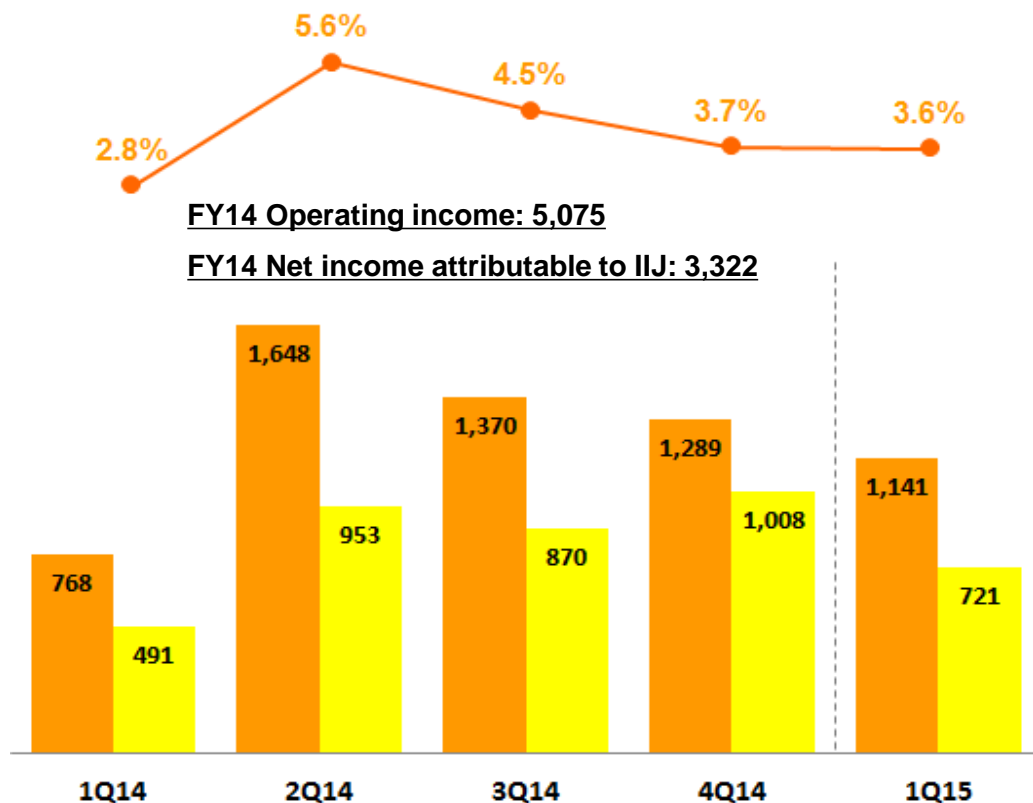
- ◆ 1Q15 SG&A Expenses/R&D: up JPY288 million, up 6.8% YoY
  - Personnel-related, outsourcing-related and mobile services' sales commission expenses increased
- ◆ SG&A related to ATM operation business:
  - 1Q15:JPY44.9 million, 4Q14:JPY73.4 million, 3Q14:JPY45.9 million, 2Q14:JPY45.4 million, 1Q14:JPY37.6 million
  - Placed 1,081 ATMs as of June. 30, 2015

## II - 8 Operating Income and Net Income

Operating Income    Net Income Attributable to IIJ    Operating Margin Ratio

Unit: JPY million

YoY = 1Q15 compared to 1Q14



### ◆ Income before income tax expenses:

- 1Q15: JPY1,278 million  
(up JPY451 million, up 54.5% YoY)
  - Dividend income: JPY63 million
  - Foreign exchange gains: JPY27 million
  - Gains from fund investments: JPY96 million
  - Interest expense: JPY57 million

### ◆ Net income attributable to IIJ:

- 1Q15: JPY721 million  
(up JPY230 million, up 46.8% YoY)
  - Mainly due to equity in net income of Internet Multifeed: JPY61 million
  - Net income attributable to noncontrolling interests including Trust Networks: JPY57 million

1Q14	2Q14	3Q14	4Q14	1Q15	
220	624	523	319	450	Current income tax expense
132	98	36	(55)	111	Deferred tax expense (benefit)
34	35	46	40	61	Equity in net income of equity method investees
(18)	(24)	(15)	(18)	(57)	Less: Net income attributable to noncontrolling interests

## II - 9. Consolidated Balance Sheets (Summary)

Unit: JPY million

	March 31, 2015	June 30, 2015	Changes
Cash and Cash Equivalents	21,094	20,004	(1,089)
Accounts Receivable	22,252	19,181	(3,070)
Inventories and Prepaid Expenses (Current and Noncurrent)	7,835	10,083	+2,248
Investments in Equity Method Investees	2,561	2,590	+30
Other Investments	6,661	7,067	+406
Property and Equipment	29,370	29,745	+375
Goodwill and Other Intangible Assets	10,111	10,015	(96)
Guarantee Deposits (Current and Noncurrent)	2,800	2,797	(3)
<b>Total Assets</b>	<b>108,705</b>	<b>107,292</b>	<b>(1,413)</b>
Accounts Payable	13,626	11,854	(1,771)
Income Taxes Payable	499	205	(294)
Bank Borrowings (Short-term)	9,250	9,250	-
Capital Lease Obligations (Current and Noncurrent)	7,863	7,478	(384)
<b>Total Liabilities</b>	<b>45,862</b>	<b>44,092</b>	<b>(1,770)</b>
Common Stock	25,500	25,500	-
Additional Paid-in Capital	36,014	36,028	+14
Accumulated Deficit	(556)	(340)	+216
Accumulated Other Comprehensive Income	1,939	2,005	+66
<b>Total IJ Shareholders' Equity</b>	<b>62,504</b>	<b>62,800</b>	<b>+295</b>

➤ Total IJ Shareholders' Equity to Total Assets: 57.5% as of Mar. 31, 2015 and 58.5% as of June 30, 2015

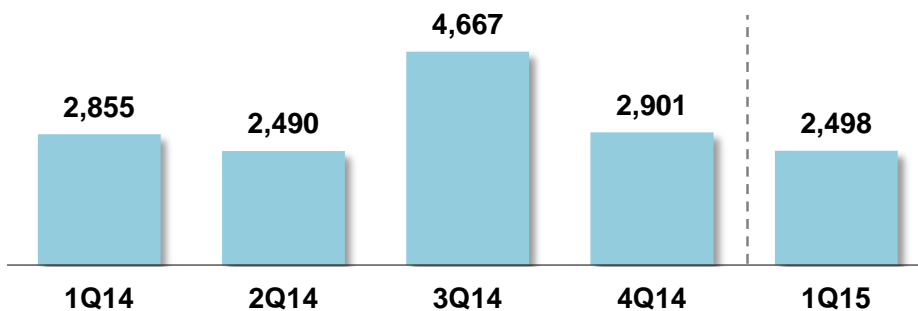
## II - 10. Consolidated Cash Flows

Unit: JPY million

YoY = 1Q15 compared to 1Q14

### < Operating Activities >

**FY14: 12,912**

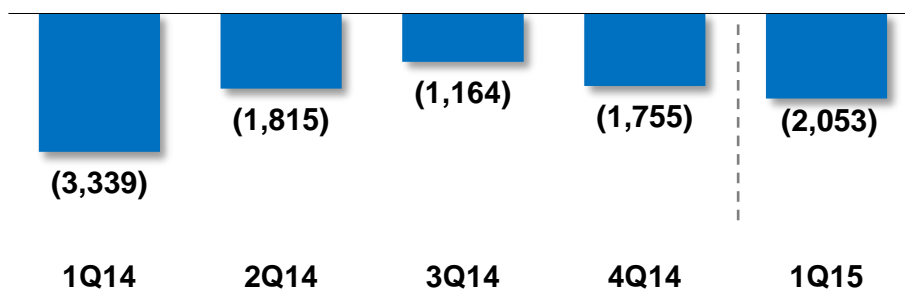


#### Operating Activities

	<u>1Q15</u> <u>Breakdown</u>	<u>YoY Change</u>
Net income	778	+269
Prepaid expenses (software license fee, bonus etc.)	1,753	(345)

### < Investing Activities >

**FY14: (8,073)**

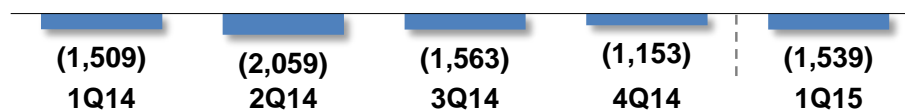


#### Investing Activities

	<u>1Q15</u> <u>Breakdown</u>	<u>YoY Change</u>
Purchases of property and equipment	2,370	(434)

### < Financing Activities >

**FY14: (6,283)**

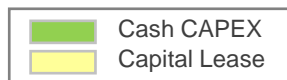


#### Financing Activities

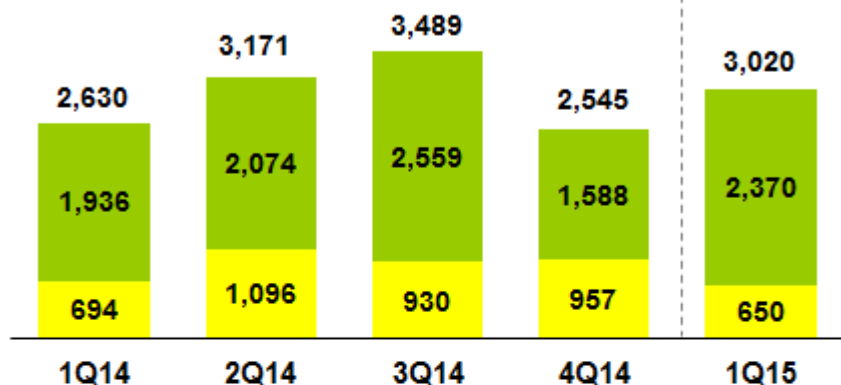
	<u>1Q15</u> <u>Breakdown</u>	<u>YoY Change</u>
Principal payments under capital leases	1,034	(30)
Dividends paid	505	(0)

## II - 11. Other Financial Data (CAPEX etc.)

### < CAPEX >



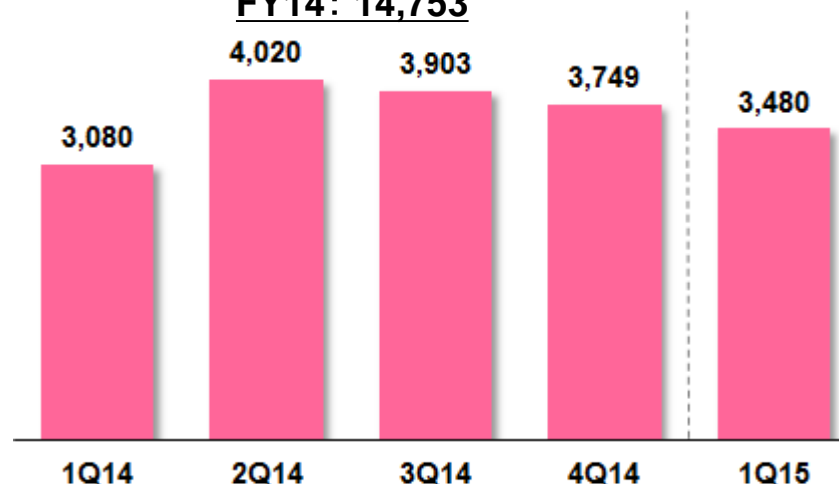
**FY14: 11,835**



### < Adjusted EBITDA >

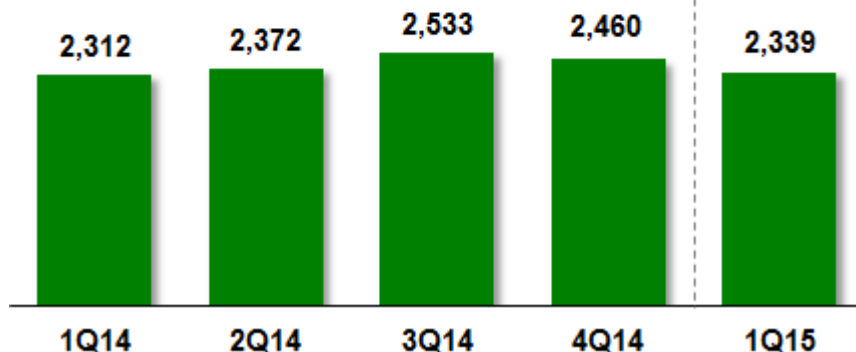
Unit: JPY million

**FY14: 14,753**



### < Depreciation and Amortization >

**FY14: 9,677**





# III-1. Cloud Business Developments

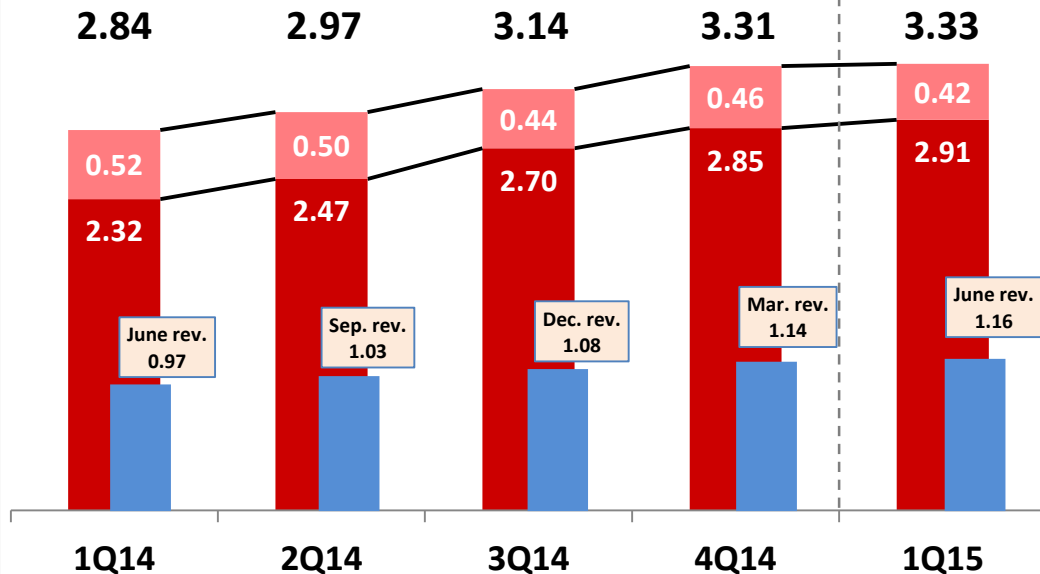
## Cloud-related revenue

(Unit: JPY billion)

- Large game customers
- Business enterprise customers

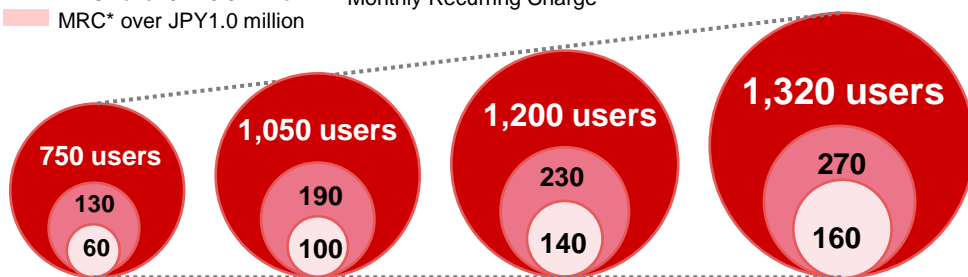
1Q15 cloud-related revenue recognition:  
85% in systems operation and maintenance, 15% in outsourcing

**FY14: JPY12.26 billion**



## Cloud customer base

- MRC\* over JPY0.5 million
  - MRC\* over JPY1.0 million
- \*Monthly Recurring Charge

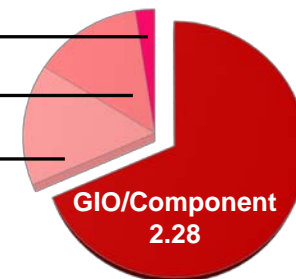


As of June 2012    As of June 2013    As of June 2014    As of June 2015

## Breakdown of 1Q15 revenue

(Unit: JPY billion)

- General purpose SaaS 0.08 (groupware etc.)
- Task-specific SaaS 0.46 (FX, POS etc.)
- GIO/Hosting 0.51



## Business progress

### ➤ 1Q15 revenue:

- ✓ Large game customers' revenue decreased and 1Q seasonal factor
- ✓ FX (Foreign Exchange) SaaS revenue increased along with transaction increase

### ➤ New cloud service:

Developed "IIJ GIO Infrastructure P2" which will be launched in 2015/10, enabling flexible system composition by in-house developed SDN products and cloud orchestrator(\*)

### ➤ BigData-related projects:

Accumulating orders including operation data visualization for a prominent logistics company

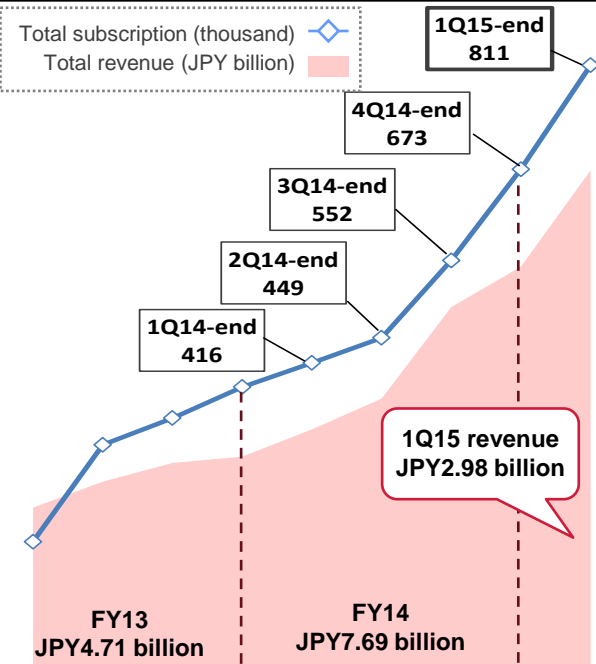
### ➤ SAP business:

Continuously accumulating orders by leveraging sales partnership

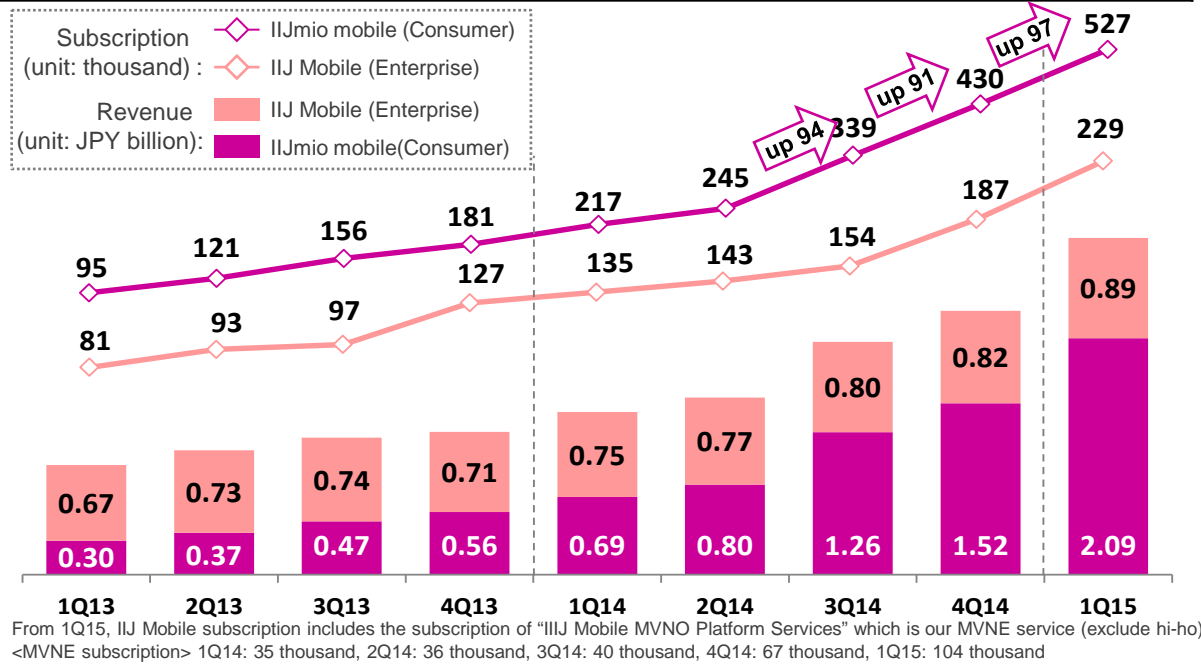
(\*) Cloud orchestrator enables automatic implementation and management of complex computing systems including virtual servers.

# III-2. Mobile Business Developments

## Total subscription & revenue



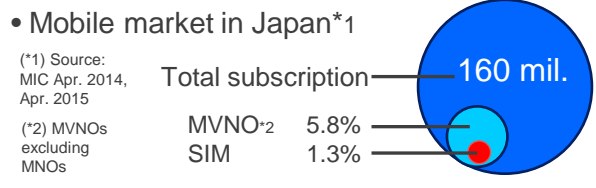
## IIJmio mobile & IIJ Mobile subscription & revenue



From 1Q15, IIJ Mobile subscription includes the subscription of "IIJ Mobile MVNO Platform Services" which is our MVNE service (exclude hi-ho <MVNE subscription> 1Q14: 35 thousand, 2Q14: 36 thousand, 3Q14: 40 thousand, 4Q14: 67 thousand, 1Q15: 104 thousand

## Market

- MVNO receiving market recognition\*1  
✓Dec. 2014 69.5% (up 20.1point YoY)
- In May, government mandated mobile phone carriers to remove lock from SIM cards after 6 months from purchase, Expect to see impact from Nov. 2015
- Mobile market in Japan\*1



(\*1) Source: MIC Apr. 2014, Apr. 2015  
(\*2) MVNOs excluding MNOs

Enterprise	<ul style="list-style-type: none"> <li>➢ Demands for MVNE continues to be strong:                     <ul style="list-style-type: none"> <li>✓1Q15 revenue: approx. JPY0.3 billion (up 248.7% YoY)</li> <li>✓1Q15-end subscription: 104 thousand (up 69 thousand YoY)</li> <li>✓Over 40 cable TV operators as sales partners, prominent contents distributor leading the growth. Awarded as the best MVNE for reliable connectivity &amp; skilled network operation</li> </ul> </li> <li>➢ Continuously accumulating orders for M2M including security camera related projects: 1Q15 revenue: approx. 0.12 billion (up approx. 20% YoY)</li> </ul>	YoY = 1Q15 compared to 1Q14
Consumer	<ul style="list-style-type: none"> <li>➢ Strong subscription accumulation continued in 1Q15 mainly due to our competitive price plan, BIC CAMERA's 35 sales counters nationwide, and spring seasonality</li> <li>➢ Maintained high user satisfaction with continuous infrastructure expansion</li> <li>➢ Further business development from July                     <ul style="list-style-type: none"> <li>✓Aeon handing MNP transaction in their 209 stores nationwide</li> <li>✓IIJ started offering SIM-lock free devices through our webpage</li> <li>✓Enhanced lineups for pre-paid SIM card services for foreigners visiting Japan</li> </ul> </li> </ul>	

## ※ Forward-looking statements

Statements made in this presentation regarding IIJ's or managements' intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IIJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding revenues, operating and net profitability are subject to various risks, uncertainties and other factors that could cause IIJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include but not limited to:

- a decrease of corporate spending or capital expenditure due to depression in the Japanese economy and/or corporate earnings decreased,
- an inability to achieve anticipated results and cause negative impact on profitability,
- a possibility that less of reliability for our services and loss of business chances due to interrupt or suspend of our services,
- an excess increase and fluctuation in network-related cost, mobile-related cost, outsourcing cost, personnel cost etc,
- a possibility to lose business opportunity due to our inadequate resources in personnel and others,
- an increase in competition and strong pricing pressure,
- the recording of an impairment loss as a results of an impairment test on the non-amortized intangible assets such as goodwill,
- a decline in value and trending value of our holding securities.

Please refer to IIJ's filings on Form 20-F of its annual report and other filings with the United States Securities and Exchange Commission ("SEC") for other risks.

## ※ Contact Information

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