

Interspace (2122)

Consolidated FY (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY09/2010		7,806	209	216	65	2,008	0	50,778
FY09/2011		9,462	362	372	435	13,368	650	63,607
FY09/2012CoE		11,765	510	507	221	6,588	-	-
FY09/2011	YoY	21.2%	72.7%	72.1%	569.4%	-	-	-
FY09/2012CoE	YoY	24.3%	40.7%	36.1%	(49.3%)	-	-	-
Consolidated Quarter (Million Yen)		Sales	OP	RP	NP	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY09/2011		2,208	80	80	25	-	-	-
Q2 FY09/2011		2,324	127	130	309	-	-	-
Q3 FY09/2011		2,429	71	83	48	-	-	-
Q4 FY09/2011		2,501	84	79	53	-	-	-
Q1 FY09/2012		2,449	81	79	31	-	-	-
Q2 FY09/2012		3,201	205	205	124	-	-	-
Q3 FY09/2012		3,169	136	135	18	-	-	-
Q4 FY09/2012CoE		2,946	88	88	48	-	-	-
Q1 FY09/2012	YoY	10.9%	1.1%	(1.6%)	25.2%	-	-	-
Q2 FY09/2012	YoY	37.8%	62.0%	57.7%	(59.9%)	-	-	-
Q3 FY09/2012	YoY	30.5%	92.6%	62.7%	(62.5%)	-	-	-
Q4 FY09/2012CoE	YoY	17.8%	4.8%	11.4%	(9.4%)	-	-	-

Source: Company Data

1.0 Executive Summary (31 August 2012)

Smartphone & Real Affiliate

Interspace sees strengths with its earnings, driven by surging sales associated with Smartphone in the mainstay Affiliate Business. Out of this segment, 15% of sales were related to Smartphone in Q1 FY09/2012, 25% in Q2 and 33% in Q3, showing a steady growth trend, on a sequential basis. Given an advent of Smartphone as a new device on top of PC, pay-per-click income on the existing affiliate service side are increasing favorably, while the Company also benefits from increasing volume of Smartphone at retailing stores for mobile phones, where it runs *real affiliate* by means of using the stores' marketing capability as media. Meanwhile, the Company is anticipated to start making money on Media Business in FY09/2013, as the stage of front-loaded investments in developing social game titles are almost completed.

In Q3 FY09/2012, sales came in at ¥3,169m (up 30.5% YoY) and operating profit ¥136m (up 92.6%). In the mainstay Affiliate Business, pay-per-click income increased favorably on the PC affiliate side, where the Company is mainly exposed to financial, securities and E-commerce industries as own advertisers, while sales on the mobile affiliate side were also enhanced, where the Company is mainly involved with *real affiliate*, almost dedicated to promotion service for mobile contents providers. The Company is making operating losses in Media Business, as it is still in the stage of front-loaded investments. Nevertheless, the Company, as a whole, sees surging earnings, mainly driven by surging sales on the mainstay Affiliate Business.

The Company is likely seeing steady earnings, longer-term, too. On the Affiliate Business side, the Company had finished integrating own organization for some time, and now is able to offer more integrated service proposals to each client (advertiser) than before. Going forward, the Company plans to be increasingly more involved with peripheral advertising media etc. that should strengthen the existing affiliate service, and thus to expand own business domains. On top of this, the Company should benefit from increasing businesses overseas in a long-term view, having started up operations in China in August 2012. Meanwhile, the Company holds a target to make Media Business to account for 30% of operating profit with the Company in FY09/2015, in line with increasing earnings from social game.

The Company's IR contacts: MD Mr. Keita Iwabuchi (+81-3-6821-0711, ir-info@interspace.ne.jp)

2.0 Company Profile

Running "ACCESS TRADE" as Affiliate Service Provider

Company Name	Interspace Co., Ltd. Company Website (Japanese only) IR Information (Japanese only) Share Price 
Established	8 November 1999
Listing	19 September 2006 (Tokyo Stock Exchange Mothers:2122)
Capital	¥971m (As of the end of June 2012)
No. of Shares	34,464 shares, including 920 treasury (As of the end of June 2012)
Main Features	<ul style="list-style-type: none"> ● Running "ACCESS TRADE" as affiliate (pay-per-click advertising) provider ● Pulling out of loss-making operations ● Entering the market for social apps (mainly social game)
Businesses	I. Affiliate Business II. Media Business
Top Management	President & Representative Director: Shinichiro Kawabata
Shareholders	Shinichiro Kawabata 43.0%, Junpei Kawabata 7.6%, Yuriko Fujita 7.6% (As of the end of March 2012)
Headquarters	Shijuku-ku, Tokyo JAPAN
No. of Employees	Consolidated: 274, Unconsolidated: 205 (As of the end of June 2012)

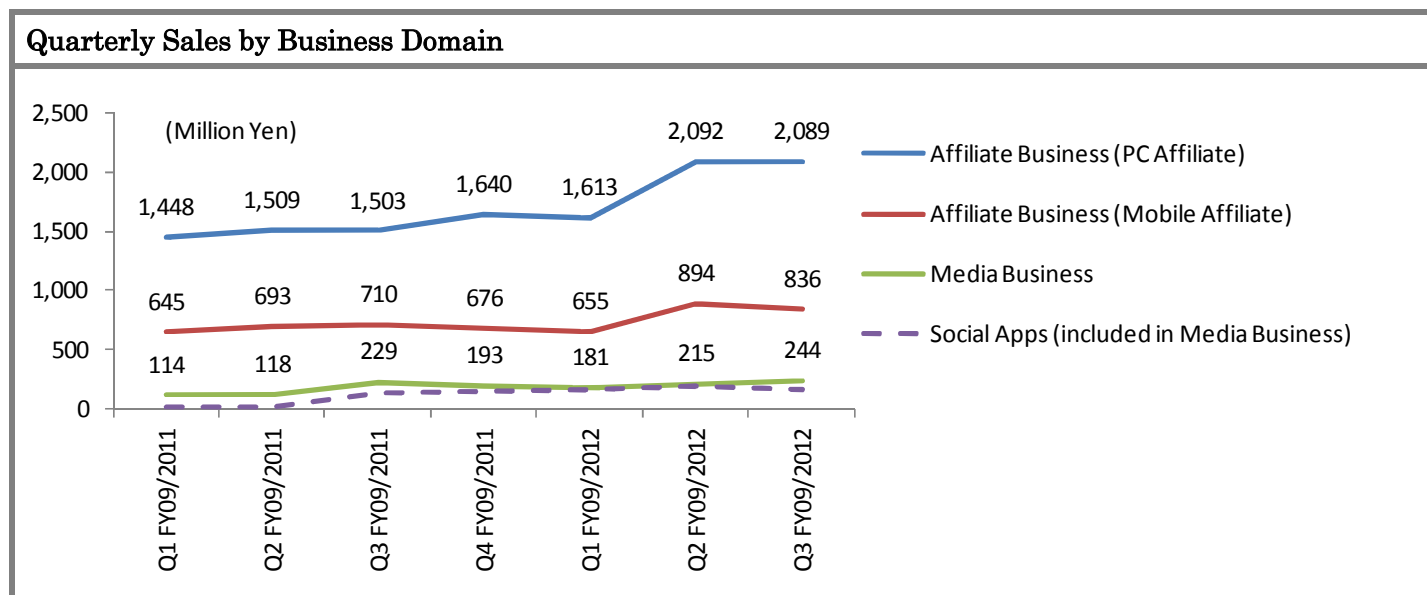
Source: Company Data

3.0 Recent Trading & Prospects

Q3 FY09/2012 Results

In Q3 FY09/2012, sales came in at ¥3,169m (up 30.5% YoY), operating profit ¥136m (up 92.6%), recurring profit ¥135m (up 63.1%) and net profit ¥18m (down 62.5%). The Company saw high year-on-year sales growth in Q2, when own clients (advertisers) increase spending on advertising due to seasonal factors. Sales with the Company were supposed to sequentially slow down in Q3 compared to Q2, but there were no major adjustments, having resulted in high year-on-year growth in Q3.

Through Q2 to Q3, sales associated with Smartphone nicely expanded, having accounted for 33% of sales in the mainstay Affiliate Business in Q3 versus 25% in Q2. It seems this is the main reason for the strengths for sales with the Company in Q3. On the PC affiliate side, accesses by Internet users to own partner sites increased not only via PC but also via Smartphone, while sales in *real affiliate*, mainly involved with promotion of contents for Smartphone, continued steady growth.

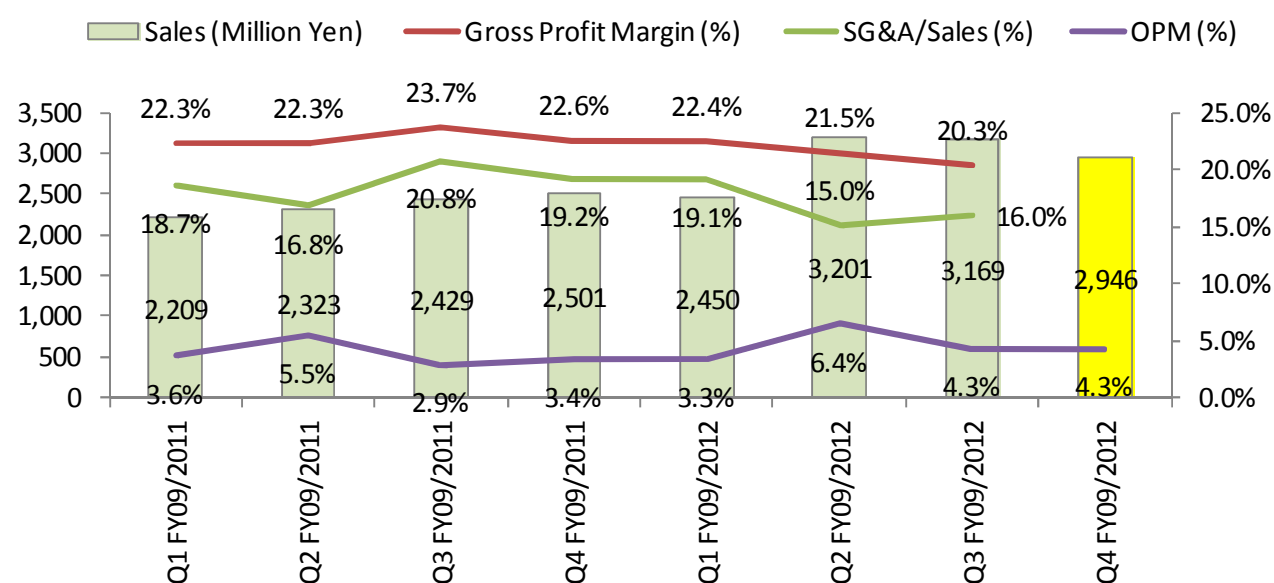


Source: Company Data, WRJ Calculation

Operating profit margin came in at 4.3%, up 1.4% points compared with 2.9% in Q3 FY09/2011 results. Gross profit margin came down by 3.4% points to 20.3% from 23.7%, while lowering ratio of SG&A expenses to sales, by 4.8% points to 16.0% from 20.8%, contributed to operating profit margin.

In the mainstay Affiliate Business, ratio of COGS to sales is inclined to increase in line with increasing costs for partners and for those associated with market share enhancement strategy. Meanwhile, in Media Business, operating loss came in at ¥53m, having increased by only ¥3m YoY, in spite of ongoing front-loaded investments. In Q3 FY09/2011, the Company suffered from operating loss from businesses that had been already sold.

Quarterly Trends (Sales, Gross Profit Margin, SG&A/Sales and Operating Profit Margin)



Source: Company Data, WRJ Calculation

Although recurring profit came in at ¥135m (up 63.1% YoY), net profit came in at ¥18m (down 62.5%). This is because the Company saw adjustments of income tax to temporarily reduce tax rates in Q3 FY09/2011, while this did not reappear two years in a row. On top of this, increasing losses from subsidiary, to which consolidated taxation is not applied, had an impact to raise effective tax rates with the Company.

Segmented Information

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 09/2011	Q2 09/2011	Q3 09/2011	Q4 09/2011	Q1 09/2012	Q2 09/2012	Q3 09/2012		
Affiliate Business	2,094	2,204	2,216	2,314	2,268	2,986	2,925	+708	
Media Business	114	120	219	180	181	215	244	+25	
Sales	2,209	2,323	2,436	2,494	2,450	3,201	3,169	+733	
Affiliate Business	144	174	121	117	94	217	190	+69	
Media Business	(64)	(47)	(50)	(33)	(13)	(11)	(53)	(3)	
Operating Profit	80	127	71	84	81	206	136	+65	
Affiliate Business	6.9%	7.9%	5.4%	5.1%	4.1%	7.3%	6.5%	+1.0%	
Media Business	(55.6%)	(39.1%)	(22.7%)	(18.3%)	(7.0%)	(5.0%)	(21.5%)	+1.2%	
Operating Profit Margin	3.6%	5.5%	2.9%	3.4%	3.3%	6.4%	4.3%	+1.4%	

Source: Company Data, WRJ Calculation

Income Statement

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3		YoY
(Million Yen)	09/2011	09/2011	09/2011	09/2011	09/2012	09/2012	09/2012		Net Chg.
Sales	2,209	2,323	2,429	2,501	2,450	3,201	3,170		+740
CoGS	1,717	1,806	1,853	1,937	1,900	2,514	2,525		+672
Gross Profit	492	517	576	564	550	688	644		+68
SG&A	412	390	505	480	469	482	508		+3
Operating Profit	80	127	71	84	81	206	137		+66
Recurring Profit	81	129	83	79	79	205	136		+53
Net Profit	25	309	48	53	32	123	19		(29)
Sales YoY	-	-	-	-	+10.9%	+37.8%	+30.5%		-
Operating Profit YoY	-	-	-	-	+1.1%	+62.0%	+92.6%		-
Recurring Profit YoY	-	-	-	-	(1.6%)	+58.1%	+63.1%		-
Net Profit YoY	-	-	-	-	+25.2%	(60.2%)	(60.5%)		-
Gross Profit Margin	22.3%	22.3%	23.7%	22.6%	22.4%	21.5%	20.3%		(3.4%)
SG&A / Sales	18.7%	16.8%	20.8%	19.2%	19.1%	15.0%	16.0%		(4.8%)
Operating Profit Margin	3.6%	5.5%	2.9%	3.4%	3.3%	6.4%	4.3%		+1.4%

Source: Company Data, WRJ Calculation

FY09/2012 Company Forecasts

In FY09/2012 Company forecasts, prospective sales are ¥11,765m (up 24.3% YoY), operating profit ¥510m (up 40.7%), recurring profit ¥507m (up 36.1%) and net profit ¥221m (down 49.3%). Prior to the release of Q3 results on 7 August, the Company revised up its full-year Company forecasts to these levels, on 3 August. Compared with initial projections, made on 8 November 2011, prospective sales have been upgraded by 14.7%, operating profit 21.7% and recurring profit 23.7%, while prospective net profit has remained unchanged.

The Company delivered ¥650 per share with shareholders as dividend in FY09/2011, implying payout ratio 4.9%, while prospective dividend per share in FY09/2012 remains undecided. Still, it seems that the Company can afford paying dividend in FY09/2012, when it is taken into account that total assets stood at ¥4,105m, net assets ¥2,259m, net cash ¥2,001m, capital ratio 55.0% as of the end of Q3 FY09/2012, while implying ROE 9.8% (net profit ¥221m / net assets ¥2,259m) in FY09/2012.

Given that the Company achieved a massive top-line growth (up 37.8% YoY) in Q2 when advertising demand (of own clients or advertisers) peaks (on a quarterly basis in a year), there used to be a concern that the Company may suffer corrections of trading in Q3 just after Q2. Nevertheless, there were no major corrections in reality, and thus full-year prospective sales in FY09/2012 are now expected to rise by 24.3% YoY. The key driver for this strength is that Smartphone-related sales are so buoyant as a result of the Company's strategy to develop businesses based on Smartphone as a new device, since FY09/2011.

Meanwhile, the Company is starting up its operations in a new subsidiary, set up in Shanghai, in August 2012, implying positive impacts to sales and earnings in FY09/2013 from here.

Better-than-expected sales are leading to better-than-expected earnings with the Company. Still, prospective net profit in FY09/2012 has remained unchanged, as tax charges are to be larger than initially

expected. Meanwhile, in FY09/2011, net profit came in at ¥435m versus recurring profit ¥372m, as net profit was boosted by one-off factor, having resulted in net profit larger than recurring profit. Due to this, net profit in FY09/2012 is expected to be ¥221m (down 49.3% YoY), although recurring profit is expected to be ¥507m (up 36.1%), enforcing the Company to see major corrections at the net level.

Long-Term Prospects

The Company aims at long-term earnings growth by offering comprehensive advertising service rather than just being affiliate service provider and by making money as a provider of social game software titles. Most recently, the Company succeeds in enhancing sales by developing *real affiliate* service on top of existing affiliate service. Going forward, the Company has a plan to enter other advertising media and extend own business field.

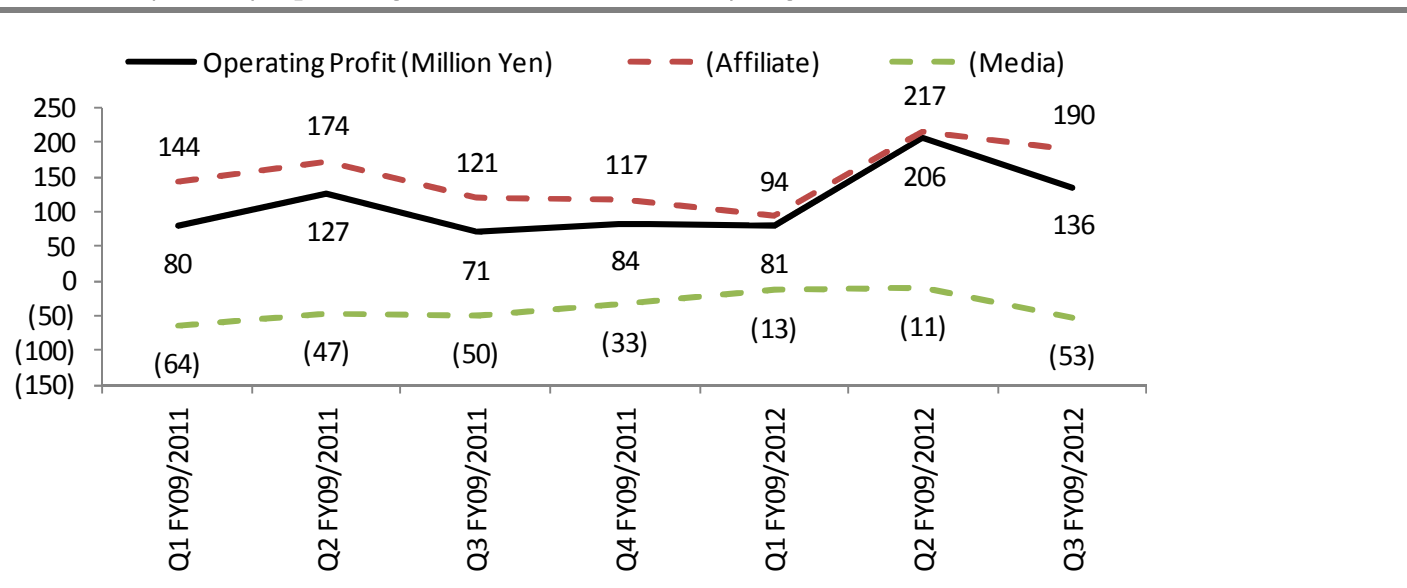
Until most recently, the Company used to be a pure domestic player, but it has just started to be involved with overseas markets, implying increasing benefits from here in a long-term view. Meanwhile, the Company is trying to improve its profitability with social game, anticipating that Media Business accounts for 30% of operating profit in FY09/2015.

4.0 Business Model

Affiliate Business & Media Business

The Company runs two businesses by segment, i.e., Affiliate Business and Media Business. Affiliate Business accounted for 92% of sales in Q3 FY09/2012, while having accounted for more than 100% of operating profit. In here, the Company is involved with PC affiliate (66% of sales) where major advertisers are those of financial, securities and E-commerce industries, as well as with mobile affiliate (26%) which mainly relates to running *real affiliate* for mobile contents providers.

Trends of Quarterly Operating Profit & Contributions by Segment

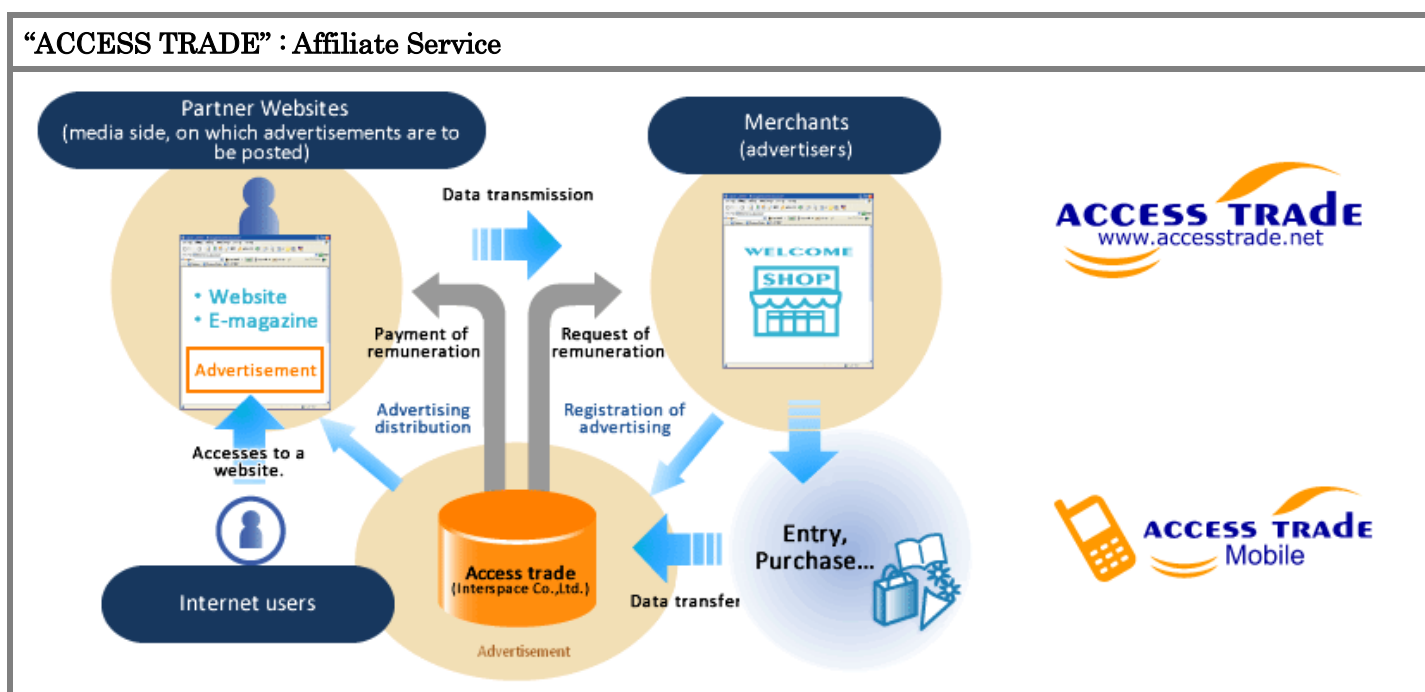


Source: Company Data, WRJ Calculation

The remaining 8% of sales is accounted for by Media Business. In here, the Company had sold its free paper business by the end of FY09/2011, while a new subsidiary more games Co. Ltd. operates to develop social apps which is, currently, main business contents in Media Business.

“ACCESS TRADE”

The Company’s mainstay Affiliate Business is to run “ACCESS TRADE” as affiliate service provider. As of the end of Q3 FY09/2012, the number of partner sites stood at some 270,000 on the PC affiliate side and some 56,000 on the mobile affiliate side, while some 6,000 and some 2,000, respectively, in terms of the number of advertisers’ programs in active. In the same way as in peers, the Company runs Internet advertizing service for advertisers through using partner sites to post advertisements. General business model of affiliate service is that advertisers pay the partner websites through ACCESS TRADE system when the ad is clicked and ordered. On the mobile affiliate side, there is a high exposure to *real affiliate*, as much as some 75% in sales, in Q3 FY09/2012.



Source: Company Data

Social Game

Media Business effectively relates to developments of social apps (mainly social game), developing diversified social game software titles to be launched on to social game platforms. For the time being, the Company is to dedicate itself to develop new titles, categorized as dating simulation and on-line card battle. In regards to simulation game, the Company develops it internally, while it is often the case that the Company ties up with TOMY COMPANY LTD. as for on-line card battle game. The Company has a plan to further develop this business and to eventually set this up as the second earnings pillar, by means of supplying more diversifying platforms and enhancing tie-up releases with famous titles as well as developments for own titles.

“Goddess Masters”

Card Battle Game – Phase 2
(Launched on 3 April 2012)



“Love Gossip – Secret Between Us –”

Dating Simulation Game
(Launched on 21 August)



Source: Company Data

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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