



November 13, 2017

Aeria (3758):

Our responses to Aeria's press release dated Oct. 26th

1. Aeria admits that their downloads are far less than they advertised

In Aeria's response to our report, they admit that we are right and that they had substantially and materially overstated the number of *A3!* downloads by including marathon resets.

Thus, it's clear to see that in including the marathon resets, Aeria purposefully misled investors into believing that the game was far more popular than it was; also through substantially increasing the number of users. This was false!

After misleading investors, Aeria are now trying to justify their actions but claiming that the marathon resets are important, although not encouraged, and show just how popular the game is. This is deeply misleading in terms of earnings outlook; Aeria had told shareholders that there were an additional 500,000 downloads each month when it was closer to 40,000. It is hard to sustain, never mind grow, revenue when a game is no longer attracting many new users. Investors were led to believe that *A3!* was gaining many more users than it was.

2. Aeria's claim that *A3!* is still very popular is dubious

In their response, Aeria claimed that they are managing to keep *A3!* very popular. If this is true then why according to the app analytics sites, *A3!* posted its lowest revenue in October 2017 since its first full month in February 2017?

A3! is obviously not as popular as Aeria is telling investors.

3. Aeria do not deny that they have made poor acquisitions

Aeria made ten acquisitions in 2017 including a number of real estate related acquisitions. It is hard to believe that they would be this active in M&A in such a short period of time if they did not fear that their current performance and stock price was unsustainable.

We pointed out that Aeria had taken a 50% write-down on its acquisitions in FY16 within just one year of making six acquisitions. Aeria did not deny this in their response, in fact they proved the point by trying to argue that two of the six acquisitions have made profit so Aeria are themselves admitting that only a third of their acquisitions generate any profit.

It is worth noting that on February 1, 2017, Aeria announced a reduction of directors' remuneration as a sign of responsibility for the write-down. Sadly, it does not look like they learnt their lesson.

In light of their previous failures, we find it hard to believe that Aeria could have spent enough time on due diligence when it made 10 acquisitions within just six months from April 2017. There is little chance of any success from these acquisitions and all shareholders will have is further dilution of their shares and more value destruction.

4. Aeria does not deny our thesis that *Ichu* generated minimal profit in China

We claimed that *Ichu* made no money when it was distributed in China and as a result shareholders should not expect *A3!* to perform any better as it will be distributed by the same company. Aeria corrected our claim by stating that they received the minimum guarantee (**without disclosing how much!**) from the Chinese distributor. This tactic of avoiding a clear explanation of the scale of China sales and also avoiding giving a clear statement on whether this action generated profit, leads us to believe that the game's Chinese sales did not make a noticeable profit contribution.

Aeria's comments again support our view that *A3!* is unlikely to generate any meaningful profit from the royalty in China except perhaps the minimum guarantee, the amount of which has not been disclosed.

5. Low expectations for new games

We noted in the report that Aeria's newest game *Soen no Kantai* has had an underwhelming debut but in their response Aeria claim that it is performing above expectations and will become a pillar of earnings following *Ichu* and *A3!*.

This is a shocking and misleading statement. In September 2017, the month of its debut, *Soen No Kantai* had a total of 41,368 downloads and revenue of US\$500,000 (about 56.5 million yen). The following month, the total number of downloads was just 15,284 and revenue at US\$300,000 (about 33.9 million yen). This does not look like a new earnings pillar. If it really did exceed Aeria's expectations then they must have had extremely low expectations.

6. Change of auditor rationale still unclear

Aeria did not provide a satisfactory answer for its downgrade of auditor from Shin Nihon to the much smaller firm Avantia which has audited some suspicious companies.

Aeria made some abstract statements, such as: "Size is not the only measure of an audit company," and "We select an audit corporation with a focus on being able to disclose information in a form that is more secure and which does not mislead investors." However, there was no response to our report's claims that since changing auditor Aeria continues to mislead investors in its disclosure.

We also note that the change of auditor was made at the AGM on March 30, 2017. This was just one month before Aeria began its spending spree resulting in 10 acquisitions within six months.

7. The Accounting Standards Foundation

We find Aeria's claim that they did not join in order to save on costs to be laughable. Only 5% of companies have not joined and we are shocked that their first cost cuts are to accounting related memberships.

The company claims that they did not join the annual membership fee of the Financial Accounting Standards Organization as a way to save costs, but this is a laughable excuse. Approximately 95% of the listed companies are members, while the annual fee is just 300,000 yen (US\$2,600). The fact that this item was seen as high-priority in cost cutting by the company should give investors cause for concern regarding the attitude current management shows towards disclosure.

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