Well Investments Research
www.wellinvestmentsresearch.com
whistleblower@wellinvestmentsresearch.com
Director of Research: Yuki Arai

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 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.

Disclaimer:

Our research and reports express our opinions, which we have based upon generally available public information, field research, inferences and deductions through our due diligence and analytical process. To the best of our ability and belief, all information contained herein is accurate and reliable, and has been obtained from public sources we believe to be accurate and reliable, and who are not insiders or connected persons of the stock covered herein or who may otherwise owe any fiduciary duty or duty of confidentiality to the issuer. We strive for accuracy and completeness to support our opinions, and we have a good-faith belief in everything we write. However, all such information is presented "as is," without warranty of any kind – whether express or implied. Well Investments Research makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use.

You agree that the use of Well Investments Research is at your own risk. In no event will Well Investments Research or any affiliated party be liable for any direct or indirect trading losses caused by any information available on this report. Well Investment Research is not registered as an investment advisor in any jurisdiction. This report does not represent an investment advice or a recommendation or a solicitation to buy any securities. Think critically about our opinions and do your own research and analysis before making any investment decisions. You should seek the advice of a security professional regarding your stock transactions.

You should assume that as of the publication date of our reports and research, Well Investments Research, as well as our clients and/or investors, may have a short position in the stock (and/or options, swaps, and other derivatives related to the stock) covered herein, and therefore may stand to realize significant gains in the event that the price of the covered stock, options or other securities rises or declines. We may continue transacting in the securities of the company covered in this report, and we may buy, sell, cover or otherwise change the form or substance of our position in the issuer regardless of our initial views set out herein.

This is not an offer to sell or a solicitation of an offer to buy any security, nor shall Well Investments Research offer, sell or buy any security to or from any person through this site or reports on this site. Well Investments Research is not registered as an investment advisor in any jurisdiction. You agree to do your own research and due diligence before making any investment decision with respect to the securities discussed herein. You represent to Well Investments Research that you have sufficient investment sophistication to critically assess the information, analysis and opinions in this report.

We are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about public companies that we research is in the public interest. This report and all statements contained herein are the opinion of Well Investments Research and are not statements of fact. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. All opinions are subject to change without notice, and Well Investments Research does not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them.

You agree that use of Well Investments Research's research is at your own risk. You further agree to do your own research and due diligence before making any investment decision with respect to securities covered herein. You represent to Well Investments Research that you have sufficient investment sophistication to critically assess the information, analysis and opinion on Well Investments Research's site and in this report. You further agree that you will not communicate the contents of this report to any other person unless that person has agreed to be bound by these same terms of service.

By opening this report you knowingly and independently agree: (i) to abide by the terms of service posted on our website, which are hereby fully incorporated herein, (ii) that any dispute arising from your use of this report or viewing the material herein shall be governed by the laws of Japan, without regard to any conflict of law provisions; (iii) to submit to the personal and exclusive jurisdiction of the superior courts located within Japan and waive your right to any other jurisdiction or applicable law; and (iv) that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to use of this website or the material herein must be filed within one (1) year after such claim or cause of action arose or be forever barred. The failure of Well Investments Research to exercise or enforce any right or provision of this disclaimer shall not constitute a waiver of this right or provision. If any provision of this disclaimer is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties' intentions as reflected in the provision and rule that the other provisions of this disclaimer remain in full force and effect, in particular as to this governing law and jurisdiction provision.