

MOTHERS  
3632

Greelnc.

Sector; Information & Communication

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## An SNS company which continues to serve as a bridge between reality and virtual

SNS for mobile phones and billing services of the game website "GREE" are favorable

Worldwide recession Possibility of a slowdown in advertising business

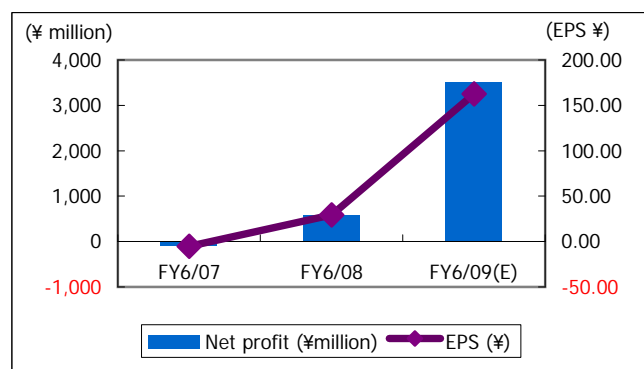
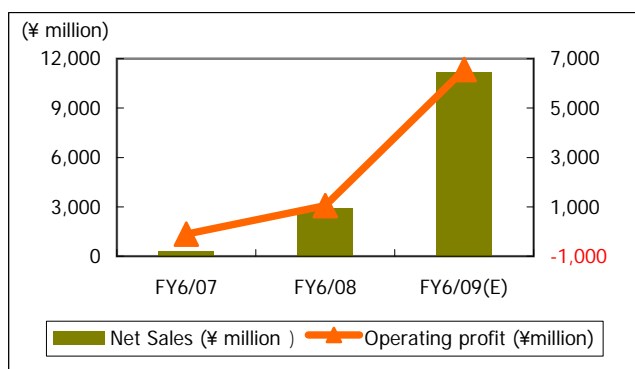
Response to structural changes in the Japanese mobile phone industry s business model (vertical integration type) is the key

Company Profile	URL: <a href="http://www.gree.co.jp/">http://www.gree.co.jp/</a>
Representative	Yoshikazu Tanaka
Head Office	4-1-4 Roppongi, Minato-ku, Tokyo, Japan
Established	December 2004
Listed	December 2008
Business line	Internet media business including operation of a social networking site.
Major Holders	Yoshikazu Tanaka 62.40%, RECRUIT CO.,LTD. 6.89%, KDDI CORPORATION 6.89%, Kotaro Yamagishi 6.75%, Apax Globis Japan Fund, L.P. 4.93%
Shares issued	21,102,000 shares (9/30/2008)
	Special owners 100.0%, Foreign owners 11.4%, Japanese Funds 0.0%

Stock price indication	2009/1/30
Stock price (¥)	6,050
Market cap (¥ million)	134,927
1 day turnover(¥ million)	415
PER(X)	220.34
PBR(X)	134.70
ROE(%)	88.05



Income	Net Sales (¥ million)	YoY (%)	Operating profit (¥million)	YoY (%)	Recurring profit (¥million)	YoY (%)	Net profit (¥million)	YoY (%)	EPS (¥)	Dividend (¥)
FY6/07	323	201.9%	-104	-	-103	-	-100	-	-5.06	-
FY6/08	2,937	809.3%	1,049	-	1,051	-	582	-	29.30	-
FY6/09(E)	11,200	281.3%	6,560	525.4%	6,530	521.3%	3,500	501.4%	162.75	455.5%
FY12/08(Interim)	4,890		3,230		3,200		1,710		82.52	



Peer comparison :		Net Sales (¥ million)	YoY (%)	Operating profit (¥million)	YoY (%)	Operating profit ratio (%)	EPS (¥)	YoY (%)
Gree	FY6/09	11,200	281.3%	6,560	525.4%	58.6%	162.75	455.5%
mixi, Inc. (2121)	FY3/09	13,000	29.3%	3,800	1.0%	29.2%	13,544.58	0.7%
DeNA Co., Ltd. (2432)	FY3/09	37,000	24.4%	14,600	13.9%	39.5%	16,050.51	14.8%

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### Industry Trend

The size of the market for the Japanese SNS (Social Networking Service) in 2007 was 27,620 million yen (307.9% YoY), in 2008 was 41,380 million yen (149.8% YoY) and in 2009, it is estimated that the size of the market will reach 54,440 million yen (131.5% YoY).

The number of SNS users browsing websites via PCs is sluggish while browsing websites via mobile phones are increasing rapidly, substantially exceeding the web-browsing via PCs.

SNS earnings model mainly consists of advertising sales (banner advertising, search-linked advertising, etc.), billing sales (sales of content, sales of digital items, etc.) and EC (Electronic Commerce). Recently, advertising sales are sluggish while billing sales are increasing rapidly (28.5% in 2007 → 34.6% in 2009, both are estimates).

Especially, sales of digital items related to users' alter ego called "avatar" for mobile phones are surging.

The future issues include shifting from introduction system to open registration system, openSNS provided by API (Application Program Interface) like the U.S. Facebook and business operation overseas.

(Source: "SNS (Social Networking Service) Market 2008" (Yano Research Institute Ltd.); "Cyberplayground SNS "Mixi" forced to make progress

### Business Strategy

Gree Inc. operates a website "GREE" combining SNS and games. In July 2006, KDDI (9433) purchased shares through private placement and au began developing SNS service for mobile phones in November 2006. Now, NTT DoCoMo (9437) and Softbank (9984) are also developing SNS service for mobile phones and the number of members and page views via mobile phones are increasing rapidly. Sales in the year ended June 2008 are composed of advertising media revenue: revenue from paid charges = 43:57 and mainly sales of fee-based services and digital items are larger compared with banner advertising and tie-up type plan advertising. Especially, sales of digital items (dress-up profile materials) related to users' alter ego called "avatar" for mobile phones are surging.

Gree will continue to strengthen services for mobile phones while developing services for people in their 40's or over.

The forecast for FY6/09 is for sales of 11.2 billion yen (up 281.3% YoY), ordinary income of 6.53 billion yen (521.3% YoY) and net income of 3.5 billion yen (501.4% YoY).

The company name "GREE" is derived from the statistics and sociology hypothesis called "Six Degrees of Separations".

(Source: Gree website; "Interview with Gree President about the secret of nine-fold sales growth" (CNET Japan December 18, 2008), etc.)

### Corporate analysis by IR STREET

#### Strength

Equity and business alliance with KDDI (9433) → Start SNS service for mobile phones

Billing revenue from mobile phone services (avatar)

Services and in-house development

#### Weakness

Number of SNS members (7.16 million as of Oct. 31, 2008; Mixi (2121) has 15.68 million members and DeNA (2432) has 11.64 members (both are as of Sept. 30, 2008))

Unbalanced sales composition (advertising revenue: billing revenue = 43:57 (FY6/08))

Development of new services and businesses (content, EC (Electronic Commerce), expand SNS overseas, etc.)

#### Opportunity

Expand market for mobile phone services (SNS, games, avatars, digital items, etc.)

Expand market for Internet advertising (expects to exceed news paper ads in a few years)

Expand Internet business for people in their 40's or over

#### Risk

Tightening of regulations by public institutions (filtering regulations, ban on mobile phones in educational institutions, etc.)

Occurrence of system failure (eg.: equipment failure at datacenter → access failure)