

The question of whether LINE will be listed this year: Strong results with a blind spot



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On January 29, 2015, LINE released its business results for the entire business year of 2014 as well as for October–December 2014. According to these results, sales for the entire business year of 2014 were 86.3 billion JPY (an increase of 114% from the 40.4 billion JPY of the entire previous business year), while sales for October–December 2014 were 26.1 billion JPY (an increase of 78% from the previous year). In addition, sales for the LINE project, the core of the company, were 77.4 billion JPY (an increase of 126%), which was more than double the 34.5 billion JPY of the previous year. The results from October–December 2014 were also strong at 23.6 billion JPY (an increase of 84% over the same period the previous year). Finally, the results of overseas rollouts were also favorable, particularly in developing Asian countries.

1. The number of active users is steadily increasing

The number of monthly active users (MAUs) of LINE is approximately 181 million, which is a significant increase from the 170 million users at the end of September 2014. The three countries with the top shares (i.e., Japan, Thailand, and Taiwan) have more than 92 million users. Now that the number of registered users exceeds 10 million in Turkey as well, the number of countries with more than 10 million users is 13. The number of users, in this case, refers to the number of registered users, not the number of daily active users.

Europe also includes some countries, such as Spain, with large numbers of users. Now that the number of users has exceeded 10 million in Turkey, it is expected that there will also be increases in users in Germany and other European regions with considerable numbers of Turkish immigrants.



2. The games, stickers, and advertising that support LINE

Charges for games that comprise 60% of LINE's project sales, while the company's official accounts and sponsor stickers comprise 25%, and sticker charges (including creators' stickers) comprise approximately 15%. The business model, in which profits are increased by attracting customers to the LINE messenger application after which they start using the games, has not changed.

The game business

As part of the company's game business, six new titles, including three titles in which LINE characters appear, were released in Q4 2014. In Asia, especially in Japan, Thailand, and Taiwan, TVCM and online marketing were carried out for LINE Get Rich and LINE Rangers (as in the previous period), both expanding the player base of LINE games and contributing to sales of the game business. Furthermore, in October 2014, LINE: Disney TsumTsum topped 30 million downloads and drove sales as a hit title, gaining new users in the United States, Taiwan, and Korea in particular.

The company has announced that, in the future, it projects that these casual games will maintain the top sales ranking, and plans to release titles in the middle core genre such as RPGs (Role Playing Games) during the first half of the year. In addition, it will work together with local game companies in Asian markets, such as Thailand and Taiwan, releasing specialized game titles in each market and expanding the number of overseas users of LINE games.

The sticker business

In the sticker business, results have been favorable for animation stickers (moving stickers), mainly in Asia, and the company continues to sell these stickers based on the culture and trends of various countries in Europe and the U.S. Moreover, in November 2014, six months after commencing service in May 2014, the number of registered creators on the "LINE Creators Market," in which stickers created by users can be bought and sold around the world, reached 270,000 people in 145 countries. With average sales for the top ten creators exceeding 36.8 million JPY, the platform has grown into a profitable one for individual creators with excellent concepts and ideas.

The advertising business

In the advertising business, the iPhone version of the "LINE Free Coin" incentive service, previously available only for Android, went on sale in December 2014. In Thailand and Taiwan as well as in Japan, use by a wide range of companies (mainly game companies) has increased. In particular, there has been an increase in companies using "LINE Free Coin Video," a video viewing incentive service that makes up one part of the "LINE Free Coin" advertising menu, and the service has come to be used as a new marketing tool for companies. Furthermore, the "LINE@" business account aimed at small retail stores and mid-sized businesses, which was released in Taiwan in September 2014, is growing rapidly, with 130,000 registered shops as of the end of 2014. In the future, "LINE@" will be rolled out around the globe and the number of users will expand as it is made available not only to corporations but also individuals.

Other businesses

In the future, the company aims to strengthen its base of platforms in various business fields. Some examples include the following: providing a mobile remittance/payment service "LINE Pay," which will form the core of the LINE platform's development; creating a food delivery service "LINE WOW" (Japan only); establishing a new game company; acquiring the radio-style music distribution company "MixRadio;" and offering the video distribution service "LINE TV" in Thailand as well as the shopping service "LINE LUXURY DEAL" in Korea as part of its localization of services.



3. Comments from CEO Morikawa

According to CEO Morikawa, “Looking back on 2014, LINE stepped outside the bounds of messaging and started making efforts to become a world leader in platforms through the ‘LIFE’ platform and the ‘Entertainment’ platform, making this year a turning point. On this basis, as a strategy for growing the user base on a global scale from Q4 2014 onward, in addition to Japan, Thailand, and Taiwan, which have the top shares, in countries where we are in the position of being able to aim for the top, like Indonesia and the Philippines in Southeast Asia and Mexico and Colombia in South America, as well as challenging countries like America where we are attempting to develop the market, LINE is transitioning to a strategy of actively investing in high-priority markets.”

Furthermore, CEO Morikawa states, “In 2015, regarding new businesses, we will actively expand O2O (online to offline) services like ‘LINE@,’ focusing on ‘LINE Pay,’ which was released in December 2014. Also, by expanding the music distribution business and globally rolling out ‘LINE Manga,’ an electronic comic service for smartphones, which is available in Japan now, we will also enhance our services in the entertainment field” (From a release by LINE).

4. Will LINE be accepted in the U.S.?

Ultimately, is LINE targeting markets in emerging nations outside of Japan? LINE is also important in Southeast Asian countries, such as Indonesia and the Philippines, where it is heading toward the top position with its messenger application, and in South American countries like Mexico and Colombia. However, this raises the question of how much will this contribute to increasing the company’s profits in these regions. In these emerging nations, it is likely that most users will simply use the messenger application for free. However, it is unlikely that charges for games and stickers will lead to large increases in profit in these emerging nations. Users will likely play games, but it will be a major challenge to convert such activities into charges for these items. For this to take place, a wider range of payment procedures and billing methods will be required.

CEO Morikawa speaks of “challenging countries like America where we are attempting to develop the market.” LINE runs television commercials in the U.S., but there is no talk of considerable growth in the number of LINE users there. Thus, will LINE be accepted in the U.S.?

There are many messenger applications around the world. Some examples include the following: WhatsApp (700 million users worldwide); Facebook (1.39 billion users); Facebook Messenger (500 million users); and Instagram (300 million users). In the U.S., the majority of the population use WhatsApp and Facebook Messenger as communication platforms. In light of this situation, it is unlikely that LINE will be able to attract these users to its messenger application. If this is the case, then LINE’s business model of charging users for additional stickers and games for a free messenger application will not work in the U.S.

LINE planned to go public in 2014; however, it did not do so. Not only did it apply to be listed on the Tokyo Stock Exchange, but the American Securities and Exchange Commission (SEC) reported that it applied to list its stock on the New York market as well. LINE may have postponed the listing due to the sluggish growth among U.S. users, and because it saw no prospects of increasing profits in the country. Even now, there is no source from which LINE can hope to gain profits in the U.S.



5. control of a profitable company?

What type of strategy should LINE take in the U.S. market? In the messenger application area, the U.S. is a more mature market than Japan. It is already difficult to imagine that LINE will replace WhatsApp or Facebook Messenger. The most realistic way for LINE to increase its presence in this situation is to acquire a company that is currently profitable or whose business is stable in the U.S., and to proceed to develop its business with the company under LINE's control. For instance, one strategy might involve LINE increasing its influence by acquiring a company whose name is already recognized in the game or O2O area. It appears that it should proceed to make such an investment while it has the capital to spare.

6. LINE as a business whose spring has to be constantly wound: Disaster is a single step away

Presently, LINE's business is heading in a favorable direction, but the strong results will not necessarily continue forever. Despite having approximately 181 million users active worldwide, its yearly sales are 86.3 billion JPY. To provide an idea of how low these sales are, NTT DoCoMo has 50 million users in Japan and about four trillion JPY in yearly sales.

Although LINE has 181 million active users, it is unclear how many of these spend money on games and stickers. However, this author estimates that the number is not high. Moreover, since LINE relies mostly on games for income, it must constantly attract users with new games. If it develops a new game and releases it to the market, but the game fails to sell, then it must release a new game. Often, there are many failures (cases in which the game does not sell) that occur until the company manages to release a successful product. In other words, it is a business whose spring has to constantly be wound. LINE's businesses cannot be expected to produce stable income each month, like telecommunications vendors, such as DoCoMo and KDDI. There are many messenger applications that could replace LINE and there are many other games in the market. It seems that what LINE needs to do now is to secure a stable income every month. If LINE wants to be listed this year as a profitable company, it would first have to secure a stable income.

LINE is looking ahead to what will come after the messenger application, and it has announced the "LIFE" platform and the "Entertainment" platform in an attempt to change its focus to platforms. However, even without LINE, people can still go on with their lives. There are many elements whose future is unclear and to be certain, this is a business where disaster is a single step away.

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Nature of Operations	<ol style="list-style-type: none">1 Global research regarding the information and communications industries2 Research and analysis regarding information/communication-related markets (e.g. Internet, e-commerce)3 Proposal and formulation of regional IT plans and consulting in connection therewith4 Consulting and research related to information system development5 Formulation of management strategy and consulting in connection therewith6 Various information provision services pertaining to information/commu

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