

Voltage Inc.

3639

Tokyo Stock Exchange First Section

29-Sept.-2017

FISCO Ltd. Analyst

Hiroyuki Asakawa



FISCO Ltd.

<http://www.fisco.co.jp>

■ Index

■ Summary	01
1. Promoting Three-Year Strategy initiatives with the aim of returning to a growth trajectory	01
2. Offering optimal products for each target group and narrowing down the number of releases with the aim of fostering major products	01
3. Expects to restore sales and profit growth in FY6/18 leveraging actions from FY6/17.....	01
■ Business overview	02
1. Business overview	02
2. Past business trends.....	03
■ Initiatives and progress to return to growth	04
1. Overview and progress of the Three-Year Strategy	04
2. Growth strategy initiatives: Targeting strategy.....	05
3. Growth strategy initiatives: Product strategy.....	07
4. Review of Voltage’s growth strategy	08
■ Business results trends and outlook	09
1. FY6/17 results	09
2. Outlook for FY6/18.....	11
■ Distribution of profits	14

Summary

Switched strategy to two-pronged “Casual” and “Casual Core/Core” approach in FY6/18, released the first major title for the Core segment at period-start and aims to return to a growth trajectory

Voltage Inc. <3639> (hereafter, “the Company”) is a supplier of mobile content. Based on its corporate philosophy of “Art & Business,” it has established a new genre of story-based entertainment called “Drama Apps” that are different from both games and manga. It has narrowed down its content themes to “Drama on Love and Challenge” and has an overwhelming presence in the field of romance drama apps.

1. Promoting Three-Year Strategy initiatives with the aim of returning to a growth trajectory

Voltage steadily expanded sales as a mobile contents supplier while overcoming changes in hardware, software, distribution platforms, and other aspects of the business environment. In recent years, however, income has been trending lower amid fierce competition. In order to break out of the current trend and return to a growth trajectory, Voltage is pursuing initiatives from the Three-Year Strategy adopted in FY6/17. It positioned FY6/17 as a time of preparation for restoring growth in future years, solidifying internal operations with organizational reforms and other activities and revamping the product strategy (including market analysis, customer analysis, and test product releases).

2. Offering optimal products for each target group and narrowing down the number of releases with the aim of fostering major products

In fundamental strategy, which influences future growth, Voltage switched from just catering to “Casual/Casual Core” to a two-pronged approach of “Casual” and “Casual Core/Core.” The Casual segment enjoys games as light entertainment, while the Core segment becomes obsessed with favorite games. Monthly spending levels respectively are a few thousand yen and ¥10,000 to a few tens of thousands of yen. The Casual Core segment fits in between the Casual and Core segments. In product strategy, Voltage is refining its target market categories, such as Japanese women, English-version, and hi-tech, based on market and customer analysis. It had been pursuing just Casual and Casual Core segments in the market for Japanese women previously, but is ramping up initiatives in the Core segment showing rapid market expansion recently. For specific initiatives, it is addressing Casual Core and Core segments jointly because of similarities in consumption behavior.

In target-specific policy, Voltage plans to release team drama apps for the Core segment and aggressively utilize advertising and promotions to foster major products. It intends to offer reading apps for the Casual segment and English-version market with many users and pursue income growth by increasing customer numbers and growing ARPPU.

3. Expects to restore sales and profit growth in FY6/18 leveraging actions from FY6/17

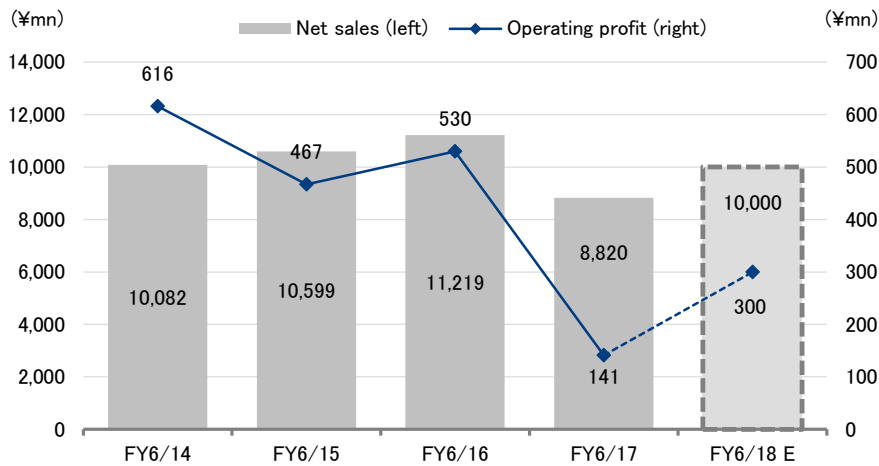
In FY6/17, Voltage completed solidification of the internal organization and launched multiple experiments to assess potential and developed products that could become future core offerings. While sales and profits fell sharply YoY in FY6/17 because of these efforts, this is what Voltage anticipated and we advise against excessive pessimism. In FY6/18, Voltage plans to release newly developed titles that factor in market and customer analysis results from FY6/17. It forecasts significantly stronger sales and earnings than in the previous year with these releases as drivers. Voltage hopes to return to a growth trajectory with bottoming out of income in FY6/18 as the first step.

Summary

Key Points

- Completed organizational reforms in FY6/17 and putting priority on growth strategy in FY6/18
- Releasing reading apps for the Casual segment and English-version market and team drama apps for the Core segment
- Expects higher sales and profits on new product releases, focus on “Anidol Colors” and reading app trends

Results trends



Source: Prepared by FISCO from the Company's financial results

Business overview

Pioneer in romance drama apps, obtained an overwhelming market share with its refinement of individual app components

1. Business overview

The Company's business model is to deliver content to smartphones and other mobile devices as a mobile content supplier and collect information fees from users. Under the industry structure, platform operators such as communications carriers and SNS operators collect information fees on the Company's behalf, so the Company itself is able to focus solely on content planning, development and production.

Contents strategy is Voltage's main characteristic. Voltage narrowed the themes to "Drama on Love and Challenge" and launched a mobile contents business specializing on romance drama apps. It is a pioneering presence in romance drama apps and has delivered many romance drama apps with top rankings. It boasts overwhelming strength in this field.

Business overview

Character design, story content, and placement of collection and cultivation components determine whether products become hits. We think Voltage's development of apps that handles all of these components well fueled its success in romance apps. Voltage makes effective use of in-house personnel, external designers, scenario writers, and other resources in its production. For characters, it accumulates data, including generational differences, on preferences of female users and constantly strives to accurately reflect customer preference. From a story perspective, we believe the multi-ending story approach has been a factor in its success. Multi-ending stories have different outcomes depending on app progression and events along the way. This format contributes to fostering conditions that emotionally captivate users. Careful development of these aspects provided the groundwork for Voltage's steady production of hit products.

Attained sustainable sales growth by meeting changes in the environment, but earnings stalled

2. Past business trends

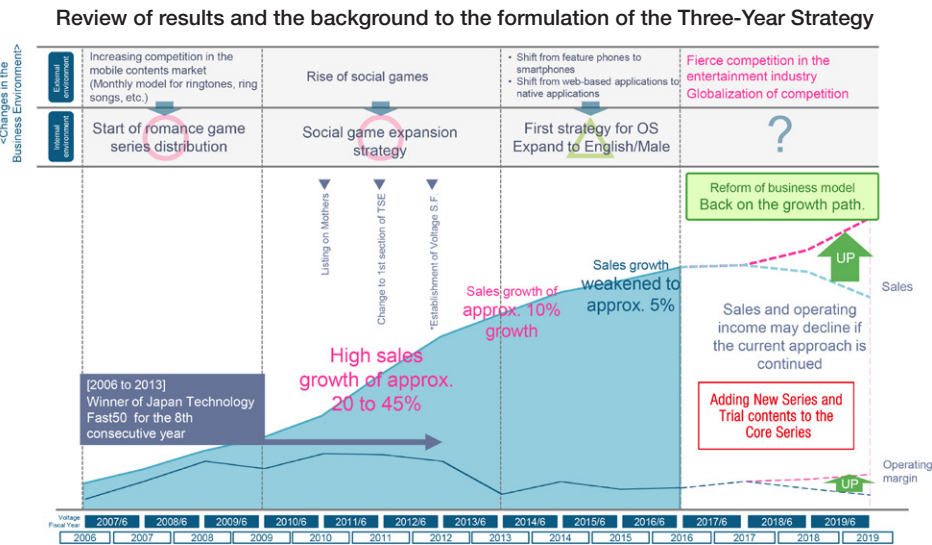
Technology advances rapidly for hardware and software in the industry to which Voltage belongs. For related companies, including Voltage, this means they have growth opportunities but also face risk of being left behind. Industry conditions have consistently changed over the past 10 years from feature phones to smartphones for devices and resulting transitions from dedicated social platforms to OS-based platforms for the distribution platform and from Web apps to native apps for app type.

In the several year period up to FY6/14, the Company has been progressing content for smartphones based on its slogan of "OS-based First." For a mobile contents supplier like the Company, the impact of changes to the delivery PF and app technologies are enormous, and there have been quite a few suppliers that have been unable to respond to the wave of changes and have been weeded out of the industry. Yet even in such a situation, although its growth rate has slowed, the Company has still been able to somehow respond to the environmental changes and has continuously achieved higher sales.

In earnings, meanwhile, Voltage has been unable to surpass the peak it reached in FY6/12. Stalled earnings growth in recent years can be attributed to delayed contributions to income from new businesses (suspense apps and overseas business) launched as new sources of growth amid difficulty producing hits in the core business of Japanese-version romance drama apps.

Given this situation, Voltage prepared the Three-Year Strategy aimed at returning to an earnings growth trajectory and mobilized efforts throughout the company to promote the strategy in FY6/17, the first year. This is where it currently stands.

Business overview



Source: financial results briefing materials

Initiatives and progress to return to growth

Completed organizational reforms in FY6/17 and putting priority on growth strategy in FY6/18

1. Overview and progress of the Three-Year Strategy

The Three-Year Strategy seeks to reform the business model to meet changes in the environment and returning to a growth trajectory. It consists of two main initiatives to accomplish these goals – revamping the product strategy and implementing organizational reforms. Product strategy revisions obviously equate to “growth strategy” targeting stronger earnings. Organizational reforms cover measures that solidify internal operations to support growth strategy and are essentially “restructuring reforms.”

Product strategy adjusted business categories and redefined target markets. Voltage is also revising the product creation process and use of advertising and promotional costs and developing a framework that enables its products to be profitable.

Organizational reforms restructure the organization into 15 autonomous units according to business segments, operations processes, and functions (including production, design, and attracting customers). They also go beyond just reorganization of teams to broadly revise personnel evaluation methods and internal key performance indicators (KPI) and implement work style reforms.

The Three-Year Strategy calls for fundamental business model reforms in the first two years (FY6/17 and FY6/18) and major advances in business results in FY6/19, the third year. Voltage mainly engaged in reforms to build a foundation for future growth in FY6/17, the first fiscal year, and FY6/17 results reflected this strategy (refer below for detailed values).

We encourage readers to review our complete legal statement on “Disclaimer” page.

Initiatives and progress to return to growth

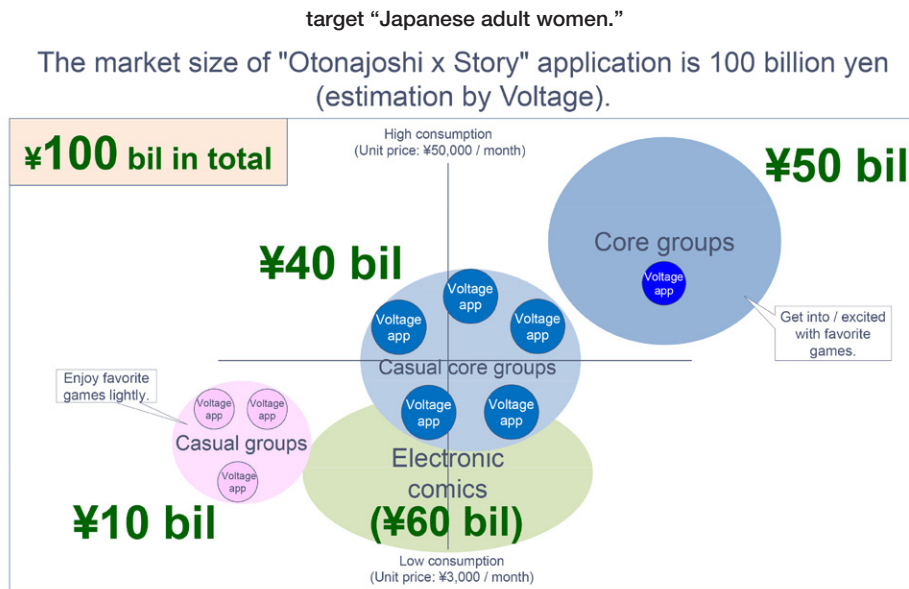
Nevertheless, the Three-Year Strategy has been steadily moving forward and Voltage explains that it already completed organizational reforms as planned. Voltage also formulated various product strategy initiatives during FY6/17 and intends to realize benefits in FY6/18. It aims to recreate FY6/18 results in an expanded fashion in FY6/19 and thereby return to a full-fledged earnings growth trajectory. This is currently the rough schedule.

Developing optimal products for target groups based on market and customer analysis

2. Growth strategy initiatives: Targeting strategy

Voltage revised business categories as part of the Three-Year Strategy as explained above. It transitioned to three categories from 2Q FY6/17 – Core Series, New Series, and Trial products (new location and others). These categories reflect the content of issues that need to be addressed, and market analysis is vital in determining the issues. Voltage naturally performed market and customer analysis as the basis for “targeting strategy” described below.

Romance drama apps target “Japanese adult women.” Within this segment, Voltage’s romance drama apps targeted the Casual segment with monthly spending of about ¥3,000 and interest in light entertainment from games. Other segments also exist within the overall of Japanese adult women with higher spending prospects than the Casual segment. Voltage refers to the segment that is very passionate and attached to games with spending in the range of a few tens of thousands of yen as the Core segment and the segment between the Casual and Core segments as the Casual Core segment.



Source: financial results briefing materials

Looking at features of the three target segments, while the Casual segment constitutes a market worth about ¥10bn, it has a very large participant population. Voltage holds a large share through its development of the romance drama app market for this segment.

Voltage Inc. | 29-Sept.-2017
 3639 Tokyo Stock Exchange First Section | <http://www.voltage.co.jp/en/>

Initiatives and progress to return to growth

The Casual Core segment has an estimated market value of ¥40bn. While idol cultivation games and puzzle games occupy a substantial presence in this segment, Voltage’s romance drama apps, such as “Tenka Touitsu Koi no Ran - Love Ballad,” have also been successful in attracting this segment.

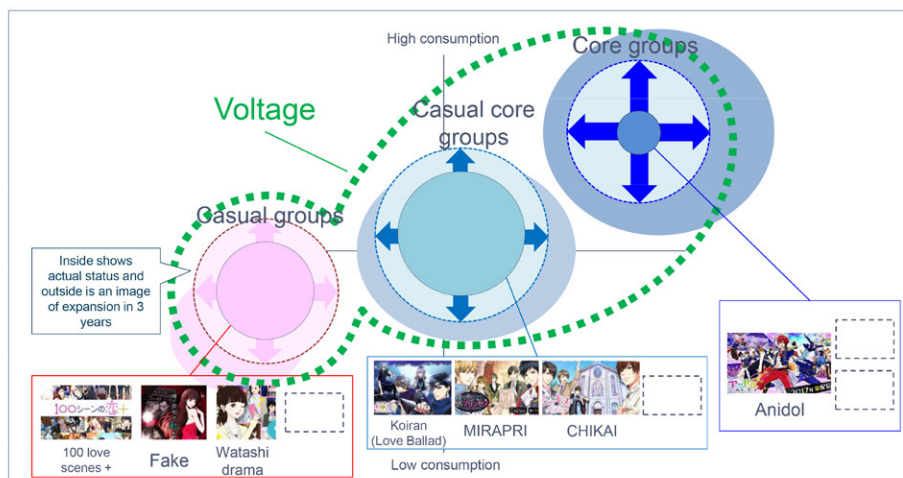
The Core segment offers an estimated market value of ¥50bn, despite its smaller participant population, highlighting large monthly consumption value. Many mobile contents companies hence have entered in this market, making it extremely competitive.

As mentioned earlier, Voltage recognizes that it lacks growth potential with just the Casual segment, its main area, and this realization prompted the formulation of the Three-Year Strategy. The natural conclusion from the analysis was putting reinforcement of products for Casual Core and Core segments at the center of its growth strategy. We review details in the next section, though Voltage released “Anidol Colors,” a new team drama app, for the Core segment on September 7, 2017.

Voltage is seeking business in the fiercely competitive Core segment as a target market because of the large income impact of attaining a hit in the Core segment. Furthermore, besides income from the app itself, Voltage is eyeing a strategy to expand income opportunities with stage performance, animation, goods, and other horizontal rollout.

target “Japanese adult women.”

From the conventional development of only for “Casual / Casual core” to the two-wheel development of “Casual” + “Casual core / Core” by adding Core groups.



Source: financial results briefing materials

Voltage is also addressing other target markets, besides Japanese adult women, as priority areas under the targeting strategy. These are the English-version market and hi-tech market.

In the English-version market, Voltage has already been developing, producing, and selling mobile contents in the North American market via its local entity in San Francisco (US). While it took more time than initially anticipated to ramp up this business, Voltage expects profitability in FY6/19. It aims to refine the product strategy and quickly solidify an income base.

Initiatives and progress to return to growth

The hi-tech market utilizes new technologies such as virtual reality (VR) and augmented reality (AR). This business comes under the Trial category (Voltage also refers to this area as “new location” in its materials). Voltage hopes to realize horizontal rollout for income opportunities that extend beyond the conventional drama app framework by leveraging VR and AR features. It established VoltageVR Inc. as a wholly owned subsidiary on February 1, 2017 as part of the reinforcement of operations in this field.

Releasing idol cultivation games for the Core segment and reading apps for the Casual segment and English-version market

3. Growth strategy initiatives: Product strategy

As explained thus far, Voltage revised its product creation process, changed business categories, conducted market and customer analysis, and adjusted its targeting strategy. It clarified product strategy for targets (by market, by customer segment, etc.) through these efforts and completed formulation of strategies for the various targets through FY6/17.

A key point evident in the overview of product strategies for individual targets is the shift to reading apps in the Japanese women market (Casual segment) and English-version market. Reading apps record multiple drama apps in a single app, similar to multiple manga stories published in a weekly manga magazine, and enable users to enjoy content via a fee plan that meets their interests. Voltage has potential to expand income because of easier access than individual downloads.

In the Japanese women market (Core segment), which is viewed as next-generation growth source, Voltage released its first team drama app this summer. This is a highly competitive market, as explained above, but hits generate much larger return than products for the Casual segment. Voltage is excited about its potential and allocating substantial personnel and equipment resources to development of products for this segment.

List of product strategies by targets

Targets		Product strategies
Japanese women	Casual segment	Shift to portal-type reading apps
	Casual Core and Core segments	Rollout of hit titles in goods, animation, stage performances, and VR
English		Shift to portal-type reading apps
Hi-tech		Horizontal rollout of existing apps, IP provision to other developers of VR games

Source: Prepared by FISCO from the Company's results briefing materials, interviews, etc.

Looking at specific titles and initiatives, it started preparing in 3-4Q FY6/17 and plans to ramp up title releases in FY6/18.

Voltage released “Watashi Drama” and “100 Love Scenes +” as new reading apps for the Casual segment. “Watashi Drama” stands out with its provision of motion-type contents that moves similar to animation. The “100 Love Scenes +” app contains many past leading titles from the Core Series.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Initiatives and progress to return to growth

“Love Ballad” has already established a certain presence in the Casual segment market, and Voltage aims to expand the customer base and bolster income with the release of the “Chapter of Moon” as a new chapter. Voltage links the new chapter to the previous Chapter of Flowers in an effort to retain existing users and also recruit new users by offering a multilayered story. It began nationwide commercials on August 8, 2017 and hopes to attract and retain new users.

Voltage released “Anidol Colors,” a new animal idol cultivation game, for the Core segment on September 7, 2017. This is a team drama with character design that combines animals and handsome men. Voltage started the official website in March 2017 and began advanced registration in May 2017. More than 170,000 users had registered ahead of time when the campaign finished on September 6, boosting expectations for post-release business.

In the English-version market, Voltage released the “Lovestruck: Choose Your Romance” reading app and distributed three new titles in the app. This is DRAGON (content with animation picture for the North American market) reading app, and Voltage plans to steadily add titles.

In the hi-tech market, Voltage developed an arcade version of “Isudon VR” for AEON Lake Town VR Center. It also announced “Kyoshiki VR” as its second VR app, following “Isudon VR,” and started the project in June. Voltage plans to unveil this app at the Tokyo Game Show 2017 in September.

List of content initiatives

Target	Content	Initiatives and schedule	Category
J a p a n e s e	Casual	100 Love Scenes + Jun. 1: Launched. Distribute stories of 13 titles with more than 30 characters	Core series Romance apps P2P
		Fake Apr. 18: Launched the iOS version. The first event was held in June, but there was a problem with KPI.	New series Seek drama
		Watashi Drama Apr. 25: Launched the iOS version. Jun. 19: Distributed the trial version of the 3rd title “Watashi Kaikaku.”	Trial product Motion
w o m e n	Casual Core	Love Ballad Held a joint battle event in combination of “Chapter of Flowers” and “Chapter of Moon” ARPPU (average revenue per paid user) increased during the event.	Core series Romance apps F2P
	Core	Anidol Jun. 29: Notified the decision to release CD. Sep. 7: Started distribution.	Trial product Team drama
English	Lovestruck	Jun. 15: Started the distribution of the pilot version of the 6th tile “Starship Promise.” Sales greatly increased compared with the 3Q result.	Trial product DRAGON
High-tech	Isudon VR	Started a real experience event at AEON Lake Town VR Center	New location
	Kyoshiki VR	Started a project in June for another offering to follow “Isudon VR”	New location
	Pokekare AR	Started new character distribution in April and developing a F2P model; plans to add characters when ready	New location

Source: Prepared by FISCO from the Company’s results briefing materials, interviews, etc.

Core and Casual segments likely to be growth engines for the time being

4. Review of Voltage’s growth strategy

Voltage has provided updates on initiative content and progress at quarterly results announcement after it unveiled the Three-Year Strategy in June 2016 and began fundamental reforms to the business model. However, we think the strategy is somewhat confusing due to various revisions since then, such as changes to business categories and expansion of the product series and genre. The following explanation reviews the growth strategy based on our understanding.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Initiatives and progress to return to growth

Voltage is generally targeting Japanese women, English-version, hi-tech, and male markets. The Japanese women market is currently its main source of earnings. Voltage expects to attain profitability in the English-version market in FY6/19, but we think it is likely to continue investments in hi-tech and male markets for a while. The Japanese women market hence deserves attention as a near-term growth engine.

Voltage categorizes customer and segment types in the Japanese women market as Casual, Casual Core, and Core and is focusing on entry into the Core segment. The Core segment is clearly one of Voltage's growth engines.

Growth potential slowed in the Casual segment (this recognition is why Voltage decided to implement the Three-Year Strategy as mentioned above). However, it appears that Voltage has changed its view of this segment with the shift to provision of reading apps as content. Voltage decided to adopt reading apps on the basis that this market could be a competitor to electronic comics. It believes that romance drama apps might attract electronic comic customers. Electronic comics constitute a market worth an estimated ¥60bn, a significantly larger opportunity than the Casual segment's ¥10bn, according to Voltage. In other words, Voltage might be capable of suddenly expanding potential market size by seven-fold just through revision of the app distribution format.

In individual content, Voltage is launching motion-type apps under the Trial category. These apps offer motion similar to animation and differ considerably from electronic comics and Voltage's traditional romance apps (which are similar to electronic picture cards). We think the addition of motion-type contents to Voltage's existing strengths in character design and multi-ending stories might concert Casual segment business into a growth engine.

"Love Ballad" still has growth potential for the Casual Core segment. Voltage is targeting further income growth by increasing customer numbers via the new chapter release effect. We think the success of "Love Ballad" is highly suggestive of future potential. Voltage did not release "Love Ballad" to target the Casual Core segment, but categorization by average spending per user showed overlap with this segment. This indicates that Voltage is capable of raising ARPPU in romance drama apps, its strength, by adjusting cultivation aspects and item charges. Voltage currently views this separately from the other two target markets from the standpoint of a growth engine because it is not strategically planning other content (following "Love Ballad") that targets the Casual Core segment from the outset. However, we think this area offers healthy growth potential.

■ Business results trends and outlook

Focused on organization reforms and future initiatives in FY6/17, no reason to be pessimistic about results

1. FY6/17 results

In its FY6/17 results, the Company reported lower sales and profits. Net sales were ¥8,820mn (down 21.4% YoY), operating profit was ¥141mn (down 73.4%), recurring profit was ¥158mn (down 67.5%), and net profit attributable to the owners of the parent company was ¥24mn (down 88.5%).

Voltage lowered its period-start forecast in February, but still missed these revised targets by ¥679mn in sales and ¥8mn in operating profit.

Voltage Inc. | 29-Sept.-2017
 3639 Tokyo Stock Exchange First Section | <http://www.voltage.co.jp/en/>

Business results trends and outlook

FY6/17 results overview

(¥mn)

	FY6/15		FY6/16		FY6/17		YoY
	Results	Vs sales	Results	Vs sales	Results	Vs sales	
Net sales	10,599	100.0%	11,219	100.0%	8,820	100.0%	-21.4%
Cost of sales	3,902	36.8%	4,364	38.9%	3,898	44.2%	-10.7%
Labor costs	1,877	17.7%	1,936	17.3%	1,690	19.2%	-12.7%
Outsourcing costs	1,254	11.8%	1,390	12.4%	1,138	12.9%	-18.1%
Other	770	7.3%	1,037	9.2%	1,068	12.1%	3.0%
Gross margin	6,697	63.2%	6,855	61.1%	4,922	55.8%	-28.2%
SG&A costs	6,229	58.8%	6,324	56.4%	4,780	54.2%	-24.4%
Advertising and promotional costs	1,491	14.1%	1,277	11.4%	555	6.3%	-56.5%
Sales commission	3,200	30.2%	3,404	30.3%	2,722	30.9%	-20.0%
Other	1,537	14.5%	1,642	14.6%	1,502	17.0%	-8.5%
Operating profit	467	4.4%	530	4.7%	141	1.6%	-73.4%
Recurring profit	485	4.6%	488	4.4%	158	1.8%	-67.5%
Net profit attributable to owners of the parent company	232	2.2%	210	1.9%	24	0.3%	-88.5%

Source: Prepared by FISCO from the Company's financial results

Delayed income contributions from products (particularly in the New Series and Trial categories) were the primary source of FY6/17 sales missing period-start and revised targets. One reason for this outcome was excessive curtailment of advertising amid revisions to the advertising strategy. Reduced advertising limited awareness of the apps and led to a hefty shortfall in sales versus the period-start view.

Earnings disparity with revised forecast, meanwhile, was relatively small thanks to cutting advertising and promotional costs to ¥555mn (6.3% sales ratio) through advertising curtailments. While cutbacks in advertising and promotional costs had opposing impacts on sales and profits, we have a negative view of excessive pullback from these outlays. Despite temporary profits, these earnings are unlikely to continue in the absence of top-line growth. We think advertising and promotional expenses are vital to Voltage's business model and should be allocated at a certain level (albeit while monitoring the cost-performance effect).

While FY6/17 results were disappointing as explained above, we advise against excessive concern or pessimism.

As noted earlier, the Three-Year Strategy being implemented by Voltage incorporates business restructuring to solidify internal operations and growth strategy that targets top-line growth. Voltage completed business restructuring with its organizational reforms, revisions to the personnel evaluation format, work style reforms, and other measures.

In growth strategy, Voltage engaged in product strategy revisions during FY6/17 as a "year of testing" and "period of crouching into position before a jump." It proceeded with market analysis and research on the Core Series with prospects of generating a certain amount of income when launched, prior to new releases. At the same time, it released Trial products for motion-type content as well as VR and AR content, developing new territory. We expect these measures to make a difference in new releases from FY6/18.

Business results trends and outlook

Quarterly sales breakdown by business category

	FY6/16			FY6/17				(¥mn)
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	
Core series	2,291	2,170	1,958	1,752	1,692	1,534	1,371	
New series	558	719	586	530	442	392	398	
Trial, others	20	27	103	187	170	154	193	
Total sales	2,870	2,918	2,648	2,469	2,305	2,081	1,963	

Source: Prepared by FISCO from Company materials

Expecting higher sales and profits on new product releases, focus on “Anidol Colors” and reading app trends

2. Outlook for FY6/18

For FY6/18, the Company is forecasting growth in sales and profits, with net sales of ¥10,000mn (up 13.4% YoY), operating profit of ¥300mn (up 112.5%), recurring profit of ¥300mn (up 89.0%), and net profit attributable to the owners of the parent company of ¥190mn (up 684.1%).

Above-mentioned new product releases are the primary basis for projecting higher sales and profits (YoY) in FY6/18. The main focus is the “Anidol Colors” released for the Japanese women market (Core segment). Pre-marketing events, such as the official site launch and advanced registration, offer some positive signs. Core segment business fosters a single title slowly into a large-scale product and increases income with rollouts to stage performances and goods for hit apps. Voltage refers to this as an “IP major rollout.”

Voltage is ramping up reading apps as the growth strategy for the Japanese women market (Casual segment) and English-version market. It released reading apps during FY6/17 and aims to expand sales by enhancing content and thereby increasing user numbers and ARPPU in FY6/18.

Voltage released a new chapter of “Love Ballad” for the Japanese women market (Casual Core segment). It also plans to launch “Kyoshiki VR” in the hi-tech market. We think “Love Ballad” is capable of increasing sales through retention of existing customers and acquisition of new customers.

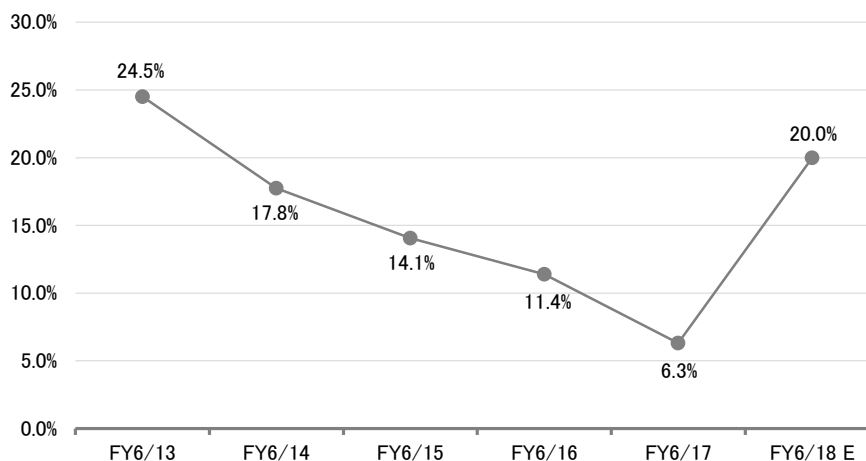
Advertising and promotional costs are another factor supporting the sales growth outlook. Voltage has been curtailing advertising and promotion costs in recent years amid sluggish sales growth and lowered this item to just 6.3% of sales in FY6/17. However, it plans to restore the budget to 15-20% in FY6/18.

Advertisements should mainly appear in mobile devices and on television, just as previously. We expect Voltage to adopt a stance of not hesitating from major outlays given the opportunity of timing, in contrast to activity through FY6/17, while also carefully assessing efficacy in line with revision to the advertising method outlined in the Three-Year Strategy.

Voltage Inc. | 29-Sept.-2017
 3639 Tokyo Stock Exchange First Section | <http://www.voltage.co.jp/en/>

Business results trends and outlook

Trend in the advertising-to-sales ratio



Source: Prepared by FISCO from the Company's financial results

Simplified income statement & major management indicators

	(¥mn)				
	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18 E
Net sales	10,082	10,599	11,219	8,820	10,000
YoY	10.9%	5.1%	5.8%	-21.4%	13.4%
Gross profit	6,699	6,697	6,855	4,922	-
Gross margin	66.4%	63.2%	61.1%	55.8%	-
SG&A cost	6,083	6,229	6,324	4,780	-
SG&A ratio	60.3%	58.8%	56.4%	54.2%	-
Operating profit	616	467	530	141	300
YoY	108.7%	-24.2%	13.6%	-73.4%	112.5%
Operating profit margin	6.1%	4.4%	4.7%	1.6%	3.0%
Recurring profit	646	485	488	158	300
YoY	88.1%	-24.9%	0.6%	-67.5%	89.0%
Net profit attributable to owners of the parent company	291	232	210	24	190
YoY	107.0%	-20.3%	-9.5%	-88.5%	684.1%
EPS (¥)	57.37	45.31	40.66	4.75	36.55
Dividend (¥)	19.00	15.00	15.00	15.00	-
BPS (¥)	701.00	731.67	744.49	731.77	-

Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

Voltage Inc. | 29-Sept.-2017
 3639 Tokyo Stock Exchange First Section | <http://www.voltage.co.jp/en/>

Business results trends and outlook

Simplified balance sheet

	(¥mn)				
	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17
Current assets	3,573	4,123	3,687	3,705	3,406
Cash and deposits	1,783	2,201	1,820	2,237	2,132
Accounts receivable	1,715	1,836	1,722	1,290	1,130
Fixed assets	748	908	1,311	1,199	1,023
Tangible fixed assets	224	241	343	209	146
Intangible fixed assets	248	364	555	473	367
Investments and other fixed assets	276	302	412	516	509
Total assets	4,322	5,031	4,999	4,905	4,429
Current liabilities	994	1,445	1,209	1,037	693
Accounts payable	90	155	194	188	123
Fixed liabilities	0	-	-	-	-
Shareholders' equity	3,307	3,545	3,707	3,868	3,715
Capital	887	908	922	936	936
Capital surplus	853	874	887	901	902
Retained earnings	1,566	1,762	1,897	2,031	1,977
Accumulated other comprehensive income	19	17	63	0	20
Subscription rights to shares	-	23	18	-	-
Total net assets	3,327	3,586	3,789	3,868	3,736
Total net assets & liabilities	4,322	5,031	4,999	4,905	4,429

Source: Prepared by FISCO from the Company's financial results

Statements of cash flow

	(¥mn)				
	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17
Cash flow from operating activities	258	894	424	920	241
Cash flow from investment activities	-572	-414	-763	-372	-206
Cash flow from financing activities	-73	-74	-90	-69	-177
Cash and deposits translation adjustment*	240	11	48	-61	37
Change in cash and deposits	-147	417	-380	417	-105
Cash and deposits at start of fiscal year	1,931	1,783	2,201	1,820	2,237
Cash and deposits at end of fiscal year	1,783	2,201	1,820	2,237	2,132

*FY6/13 cash and deposits translation adjustments include an increase in cash and deposits of ¥189mn in line with consolidation.

Source: Prepared by FISCO from the Company's financial results

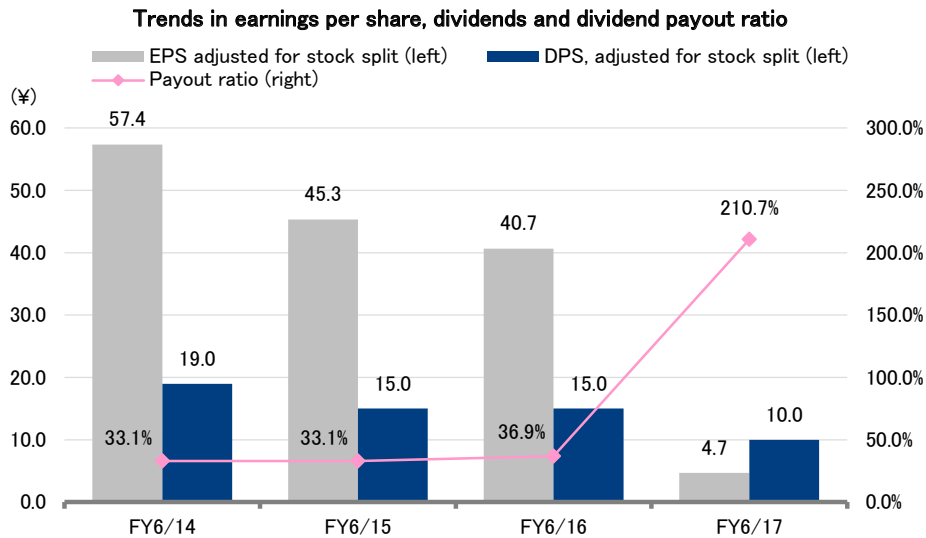
Distribution of profits

Dividend dropped in FY6/17, but might rise in FY6/18 if earnings meet forecast

The Company's basic dividend policy is to aim to achieve a balance between securing sufficient internal reserves to develop its businesses in the future and to strengthen its financial position, while also returning profits to shareholders.

Voltage paid a ¥10.0 dividend in FY6/17, a decline of ¥5.0 YoY, reflecting the 88.5% setback in net profit attributable to owners of the parent company to ¥24mn. Dividend payout ratio climbed from 36.9% in the previous year to 210.7%.

Voltage explained that it has not defined the FY6/18 dividend target at the start of the fiscal year. We expect a decision on the dividend value based on the above-mentioned basic policy in light of earnings progress. Voltage forecasts higher sales and profits in FY6/18, as explained above, and is likely to raise the dividend (YoY) if earnings make healthy advances as planned.



Source: Prepared by FISCO from the Company's financial results



Disclaimer

FISCO Ltd. (the terms “FISCO”, “we”, mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “JASDAQ INDEX” are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.