

Voltage Inc.

3639 Tokyo Stock Exchange First Section

30-Nov.-15

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FISCO Ltd. Analyst
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■ An overwhelming presence in the field of Romance Apps

Voltage <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 Apps.

The Company has had a series of hits in its Japanese Romance Apps and is steadily expanding its business. Along with the changing times, the platforms on which to deliver content have also changed and the Company has been forced to respond to this. But it has overcome this hurdle and also cleared the barriers of the different generations of mobile devices and of the apps themselves, and has continually been the industry leader in the field of Romance Apps.

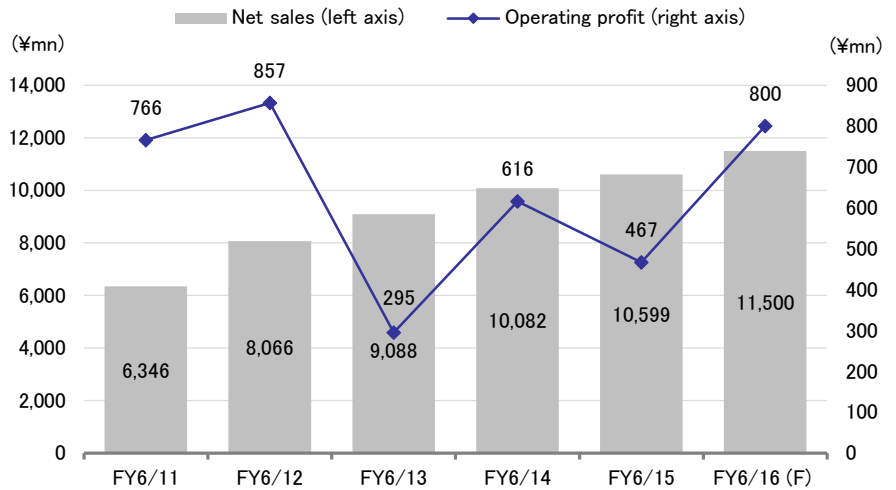
Currently, the Company has completed the technical challenge of so-called smartphone compatibility, and is in the middle of tackling even more fundamental challenges. Today, when it has established a certain position in the field of Japanese Romance Apps, the Company is tackling the following two issues toward expanding its target market; 1) establish a revenue base from English-version Romance Apps for the overseas market, and 2) domestically launch Suspense Apps and open-up this new area.

While up to the present time the Company has been taking it one step at a time for its overseas business development, it has achieved steady growth and is aiming to develop it even further for a new phase in the future. Conversely, it has continued a trial-and-error approach for its suspense apps, which has been a significantly negative factor for its business results. In FY6/16, steady growth was expected for the Company as a whole from the continued strong performance of its Japanese and English-version Romance Apps and from the new effects from the suspense apps. But while net sales increased in Q1, it recorded an operating loss from incurring prior expenses. Based on the fact that in a typical year the Company tends to record a loss in Q1 due to factors such as advertising and publicity expenses, we will be paying attention to whether it can turn around the situation from Q2 onwards.

■ Check Point

- Narrowed down themes and specializes in story-based mobile content
- Plans to expand sales in the strategic areas it has set for each market segment
- Important that it creates a flow of continuous profit growth from the next fiscal year onwards

Results trends



* Consolidated results from FY3/16

Voltage's characteristics and strengths

Narrowed down themes and specializes in story-based mobile content

(1) Voltage's characteristics

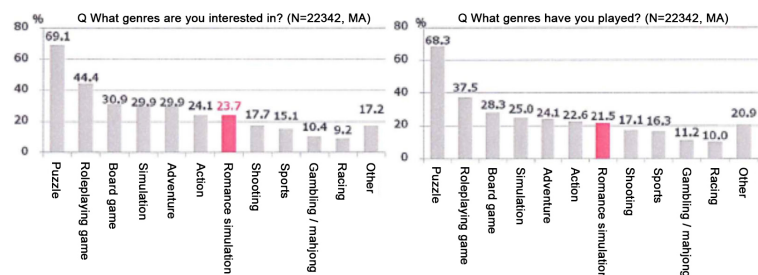
The Company's business model is to deliver content to smartphones and other mobile devices as a mobile content supplier and collect information fees from users. The industry structure is that the information fees are collected on the Company's behalf by platform operators, such as communication carriers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

The Company's greatest characteristic is its content strategy. It has narrowed down the themes of its content to "Drama on Love and Challenge" and is developing its business by specializing in story-based mobile content. In a survey conducted independently by the Company among women aged 19 years to 44 years, 43% of smartphone users responded that they play games practically every day, 1 in 5 answered that they had played a romance game, and approximately 24% answered that they were interested in romance games. So the survey confirmed that the level of awareness of romance games is high and that it is appealing as a market.

Penetration rate of romance games among women players

♥ 1 in 5 people have played a romance game

People who played games on their smartphone or on an older "Galapagos"-type phone were asked about the games they were interested in. The most selected genre was "Puzzle," (69.1%), then "Roleplaying game," (44.4%). 23.7% responded that they were interested in "romance simulation games." Also, the same as for the genres they were interested in, "Puzzle" was the genre that most respondents had actually played (68.3%). 21.5%, or 1 in 5 people, had played a "romance simulation game."



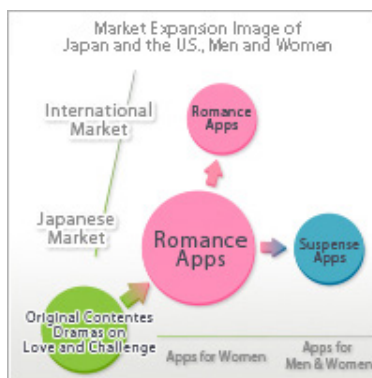
Source: Company materials (Market Research Report Vol. 1)

As a pioneer in Romance Apps, the Company had distributed many top ranking Romance Apps and has an overwhelmingly strong presence in this field. There are considered to be three factors that determine whether an app will be a hit: 1) characters, 2) story, and 3) game elements (particularly in the case of F2P-type apps). The Company's current success is based on its ability to produce apps capable of providing all three of these elements. The content director cooperates with production personnel, including in-house system engineers and designers, and liaises with external illustrators and scenario writers as appropriate. At its work sites, the Company is accumulating data on, for example, the characters and situations that women users like according to their age group, and it is constantly striving to not stray from those elements that will make a title a hit. In terms of story also, the Company's strength is its creation of "stories with multiple endings," which indicates that the end of the story will be different depending on how the user progresses through the app and the choices that she makes. This helps to create situations that easily generate feelings of empathy among the users. By steadily accumulating these elements, the Company is able to stably create hit Romance Apps.

Based on the success of its Japanese Romance Apps in the domestic market, the Company is currently progressing developments in two new directions, 1) developing its overseas business for romance drama apps for women in English-speaking countries, and 2) expanding the market for Suspense Apps while targeting men also. As the foundation on which to advance its overseas business development, the Company's strategy is to utilize the expertise it has cultivated up to the present time and aim to expand the target markets, and its conviction that demand for romance drama apps should not be limited to only within Japan (or only the Japanese) has become a powerful driving force. In addition to Romance Apps, whose users are currently practically 100% women, in the same way suspense apps would also seem to be a field where the Company should be able to effectively utilize its strengths when considering how to capture men as users.

More details will be given later, but basically the English-version Romance Apps are the many top ranking titles translated into English whose original Japanese versions were very popular and competitive. On the other hand, the Company continues to struggle with its Suspense Apps and we will be paying attention to the steps it takes to rebuild this business in the future.

The Voltage market expansion strategy



(2) Voltage's strengths

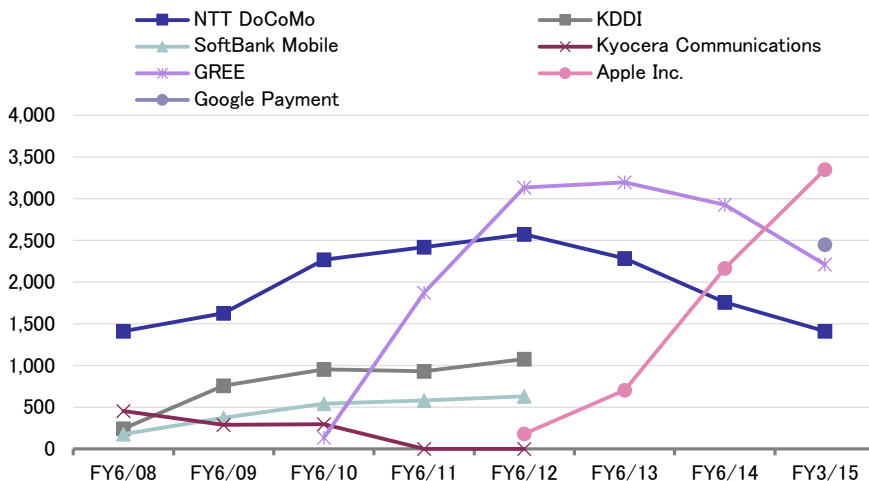
It is difficult to express the Company's strengths in just a few words. But when searching for its strengths, some very interesting data emerges; namely, the trends in net sales according to sales channel. From FY6/08 to FY6/09, net sales were mainly from mobile carriers, led by NTT DoCoMo <9437>. The content it delivered during this period was monthly fee-type Web apps. Subsequently, from FY6/11 to FY6/14, sales to GREE <3632> grow rapidly. GREE is a company that provides a so-called social networking service (SNS) platform (PF) and although the contents on this platform are the same as Web apps, the major difference is that the billing system is not a monthly fee, but free to play (F2P). The transition from providing services to carriers to providing them to SNS PF was the first major turning point for the Company as a mobile content supplier, but it was able to steadily clear this barrier.

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Changes in Voltage's top four customer companies



The Company's second turning point as a mobile content supplier was achieving so-called smartphone compatibility. As a result of achieving smartphone compatibility, the content greatly changed from Web apps to native apps or hybrid native apps. On the point of the billing system, F2P is the same as the era of SNS PF, but there is a major difference between Web app engineers and native app engineers to the extent it is like comparing runners and swimmers. Therefore, the Company faced many difficulties for aspects like acquiring human resources and establishing and maintaining the system. However, although it has struggled with smartphone compatibility, it earnestly worked to achieve it and the results of these efforts are especially apparent in the rapid increase in net sales from two companies, Apple Inc. and Google Payment Corp.

Trends in Voltage sales by sales channel

	(¥mn)	FY6/08	FY6/09	FY6/10	FY6/11	FY6/12	FY6/13	FY6/14	FY6/15
NTT DoCoMo	1	1,411	1,626	2,270	2,420	2,571	2,284	1,758	1,412
KDDI		241	759	959	930	1,078	---	---	---
SoftBank Mobile		178	374	542	582	690	---	---	---
Kyocera Communications		455	289	295	---	---	---	---	---
GREE		---	---	135	1,873	3,136	3,194	2,926	2,212
Apple Inc.	2	---	---	---	---	180	705	2,163	3,351
Google Payment		---	---	---	---	---	338	1,330	2,448

Source: data is from the financial results summary

In this way, even when speaking only of mobile content, the Company was forced to carry out major reforms for the content it provides due to factors such as the technological advance of mobile devices and changing user needs. There were quite a few companies that were unable to clear these hurdles and had to change or reduce their business strategies, or even withdraw from this business. But Voltage succeeded in clearing these hurdles and has maintained its position as the leading company in the genre of Romance Apps across multiple generations of platforms and apps. This trend clearly indicates the competence of the Company.

According to a survey by the Ministry of Internal Affairs and Communications, the household penetration rate of smartphones at the end of 2013 was 62.6%. At the present time in the middle of 2015, there is no question that this percentage has risen even higher. Also, the smartphone ownership rate among the Company's target audience of women in their 20s to 40s is estimated to be even higher than the household penetration rate. Responding to this situation, the Company is developing new types of apps focusing on F2P-type OS-related apps (the type of apps that are used on downloading them from the App Store or Google Play).

List of drama apps by billing type and by distribution platform

App type	F2P (Free-to-Play)		P2P (Pay-to-Play)	
		Downloaded from the App Store or Google Play. Content for users to enjoy drama while chatting with friends. Also delivered to social networking service PF, such as GREE, Mobage, mixi, and Ameba.		Contents enjoyed individually. Downloaded from App Store or Google Play for smartphones and also delivered as a monthly-fee service to the carriers' official sites.
Delivery platform	SNS		OS	
	Delivery via SNS platforms to the members of each SNS service		Delivery via app market sites, like the App Store and Google Play	
Billing method	SNS		OS	
	Basic play is free and usage-based billing is according to the number of items used		Billing for each content downloaded	
How the game is progressed	SNS		OS	
	Basically is the same as P2P, but adds "playing with social features (avatars, mini games, etc.)"		Basically entails the collection of a fixed monthly fee, but on some sites this is combined with individual usage-based billing according to the number of contents used.	
How the game is progressed	SNS		OS	
	Basically is the same as P2P, but adds "playing with social features (avatars, mini games, etc.)"		After selecting the content (title), you select the characters and play the game. The aim is to achieve a happy ending through the selection of options during the game.	

Source: prepared by FISCO from interviews, etc.

■ **Romance Apps**

Plans to expand sales through measures in four strategic areas

(1) The Japanese market

Romance Apps are the Company's core business, but within it, the largest source of revenues is the Japanese-language market, targeting users within Japan. In FY6/15, in 1H the Company achieved hits with 2 titles, "Room Share Sugao no Kare - Love Days" and "Joshi to Himitsu no 2LDK," and in 2H with "Tenka Touitsu Koi no Ran - Love Ballad" (hereafter, "Love Ballad"), which drove the results. Each of these titles were released in the past for official carrier sites and were then re-released after being converted to full native or hybrid native for iPhone and Android devices. User groups for sustained long-selling titles were further expanded through achieving smartphone compatibility, resulting in them becoming hits again today. Moreover, the creation of new hit titles from F2P, such as "The Princess in the Mirror - Love Palace" launched in 2H, had a major impact on results.



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Ranking of Japanese romance drama apps

F2P		P2P	
App Store Games "Simulation" Compiled as of August 7, 2015		App Store "Entertainment" Compiled as of August 7, 2015	
Ranking	Application Name	Ranking	Application Name
1	LINE PCP2	1	LINE Fortune-Telling
2	Biosoft/Redden Tetsuhara Toa	2	Coeop
3	Candy Crush Soda	3	hiconos
4	Ange Verge	4	SHOWROOM
5	Hilol Tantei Carrie	5	Tweetandrefer
6	Candy Crush	6	Takichu Rank AS Hokki de Ataru Fortune-Telling
7	LINE Get Rich	7	Joshi to Himitsu no 2LDK
8	Nyaniko Daizensho	8	Yome Collection
9	Hay Day	9	Binn Kookuu Chikyubowelw LOVE GAME!
10	Farm Hero	10	Kiss Mischvous in a Suite Room
11	Kunon Gassen	11	Shinya Reji Sugao no Shitsuji
12	Coltop	12	Video containers
13	Tenka Toitsu Koi no Ran Love Ballad	13	My Forged Wedding
14	Pocket Night (RPG with Salt)	14	Kogei Genki Ataru Fortune-Telling
15	Hana Yori Dango First Kiss with F4	15	Getters Iida no Uranai
16	Kamon Rider Robabout	16	Ataru Uranashi Ryujyu Yuta Haru
17	Shin Sangoku Shuter	17	CHIEFZ
18	Bubbis Wish	18	My Sweet Bodyguard
19	Divina Cute	19	Otona no Hataukoi Hajimemasu
20	Gummy Drop!	20	The Mysterious Kiss Tonight
21	Station Mamonos!	21	Special Investigation Team
22	The Princess in the Mirror Love Palace	22	Saigoro Koi Bokun/Kudasai
23	Room Share Sugao no Kare Love Days	23	Seducing in the Sleepless City
24	DINO DOMINION	24	Pirates in Love
25	Gundam Masters	25	Class Trip Crush
26	Shinkansen Valleyrie	26	Ataru Uranashi Ryujyu Yuta Haru
27	Pocket Land	27	Shinya Reji Sugao no Shitsuji
28	Inashino Megamito Hosokino Shashu	28	Shinden Toku/Uranae
29	Daisy Magician Chronicle	29	Room Share Sugao no Kare
30	My Forged Wedding Love Ring	30	Futoko Kimura (Kouji no Gokuj)

Source: FY6/15 financial reports briefing materials

For FY6/16, the Company has launched a plan for measures in four strategic areas to expand sales to the next level by capturing new users and improving the ARPPU (Average Revenue Per Paid User) of existing users. The main measures toward capturing new users are introducing masterpiece IP titles (titles that utilize the intellectual property of other companies) and deliveries to LINE GAME. The masterpiece IP title introduced in this fiscal year was “Hana Yori Dango First Kiss with F4” (hereafter, “Hana-Dan”), which was launched in July. Around the end of Q1, while initially it performed strongly and as anticipated in terms of capturing users from among non-gamers, subsequently, the capturing of users and the KPI (key performance indicators) slumped, and the situation is one of waiting for the Company to turn around this situation in the future. However, the reaction to the future development potential from having the masterpiece IP titles obtainable from “Hana-Dan” was considerable, and currently, in parallel with the efforts aimed at profit growth from this title, the Company has also begun to consider the next title. In addition, it began deliveries of “10 days with My Devil - Heaven’s Kiss” (hereinafter, “Devil”), the first in LINE GAME, but although the number of pre-registrations steadily grew, the speed of DL stalled partly due to problems after delivery. You can tell that “Devil” is struggling more than anticipated from the fact that the title has not risen up to the top of the rankings, but it is aiming to regain momentum from full-fledged customer referrals from the LINE GAME side that are expected after the system upgrade. It plans to improve ARPPU from existing users by introducing VIP items and a points system, promoting characters, and launching a new series.

FY6/16 business strategy for Japanese romance drama apps

Objective	Segment	Item	Products & Sales
Capturing new users	F2P Hybrid	(1) Launch masterpiece IP titles	Capture non-game users • Launch “Hana Yori Dango First Kiss with F4” • Explore the next IP title
	F2P Native	(2) LINE GAME Distribution	Capture casual game users • Launch “10 Days with My Devil Heaven’s Kiss” • Improve the KPI for “Devil” and consider the launch of the second series
Improve ARPPU for existing users	P2P Native	(3) Consider introduction of VIP items & points system	Development of core users
	F2P Native	(4) Launch of a new series of recommended characters	Unearth new needs for romance apps users

Source: FY6/15 financial reports briefing materials

(2) The international market

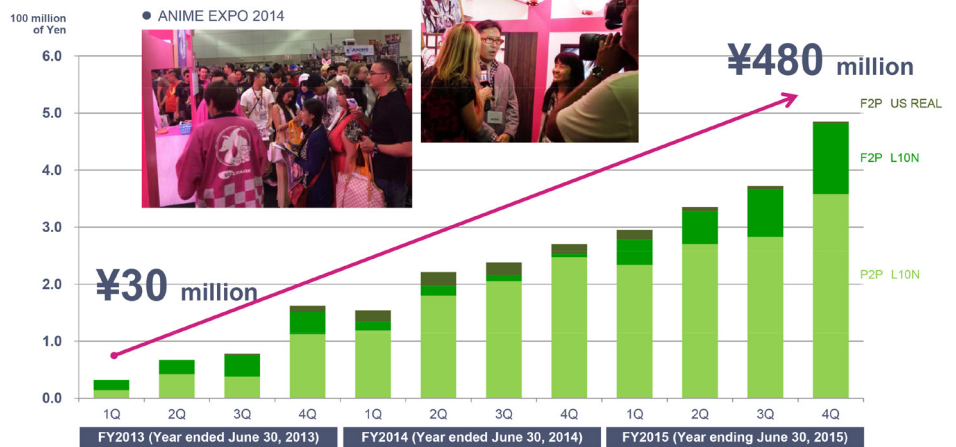
The Company is actively implementing measures to develop its Romance Apps for the international market. The main market is expected to be the United States, but the potential target market can also be said to include other English-speaking countries, like the United Kingdom and Canada, and also the many countries and regions with a population of people interested in Japanese culture. It has prepared three product types for the international market (but as there are F2P and P2P for each type, they can be further subdivided to create six types). Currently, the largest revenue source for the Company is the category called "L10N." This is Japanese Romance Apps translated into English, and as they are comparatively simple to produce, it has many new releases in this category. As the target customer even for the translated versions are those people who already have an interest in Japanese culture, these customers can be captured without the need for any additional marketing measures. This is one of the reasons for the strong performance of L10N.

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Progress made in English romance drama apps

Sales grew 16 times in FY 3 years, thanks to the favorable performance of P2P and L10N.



Source: FY6/15 financial reports briefing materials

Rankings of English romance drama apps

The U.S. [USA Flag]		Singapore [SG Flag]	
Ranking	Application Name	Ranking	Application Name
1	Hulu	1	Star Wars: Card Trader
2	HBO NOW	2	Toggle.sg
3	Star Wars: Card Trader	3	YY - 最大视频直播互动社区
4	Mods for Minecraft Pocket Edition	4	My Forged Wedding
5	Crandyroll	5	Star-Crossed Myth
6	Akinator the Genie	6	Metro PD: Close to You
7	Colorfy: Coloring Book for Adults	7	MusicX - Free Unlimited Music Streamer & MP3 Player
8	Kissed by the Baddest Bidder	8	Scandal in the Spotlight
9	PRANKDIAL	9	歌王全网独播 - 电影出道的香港德
10	Meez Nation	10	Latin Fling - online casual dating personals app
11	Disney Karaoke: Descendants	11	Kissed by the Baddest Bidder
12	Disney Junior Appisodes	12	Labyrinths of Astoria
13	Lonely Chat Room	13	Mods for Minecraft Pocket Edition
14	Adult Emoji Icons	14	My Wedding and 7 Rings
15	Instameter for Instagram	15	DramaFever - Dramas & Movies
16	Star-Crossed Myth	16	Love Letter From Thief X
17	DramaFever - Dramas & Movies	17	Our Two Bedroom Story
18	Golf Media - Tyler, the Creator	18	Colorfy: Coloring Book for Adults - Free
19	Scandal in the Spotlight	19	Class Trip Crush
20	Disney Princess Palace Pets	20	In Love: Memories Can't Wait
21	Gun Builder ELITE	21	Shall we date?: Destiny Ninja
22	My Forged Wedding	22	Shall we date?: THE NIFLHEIM+
23	Lifetime Movie Club	23	Horoscope and Tarot
24	Our Two Bedroom Story	24	Talking Tom & Ben News
25	Palace Pets in Whisker Haven	25	Mobile VR Station
26	Plex	26	All-in-One Translator
27	Metro PD: Close to You	27	Morph FaceBooth
28	Words with free EZ Cheats	28	Balance Scale - Digital Scale - Weight Scale - Simple Scale - Pocket Scale
29	YY - 最大视频直播互动社区	29	Movies & TV Shows
30	Class Trip Crush	30	Finally in Love Again




Source: FY6/15 financial reports briefing materials

Going forward in this sort of environment, the Company expects growth in two directions, "DRAGON" and "US REAL." While it goes without saying that L10N will continue to achieve growth, the Company recognizes that the accumulation of earnings from these two categories is essential if it is to achieve the full-fledged takeoff of its English-version Romance Apps business.

Both DRAGON and US REAL are titles produced for English-speaking countries, particularly the United States, but the major difference between the two is the type of illustration. DRAGON is illustrated in an anime style for the North American market, while US REAL uses realistic images. For DRAGON, the first title to be launched was a new title, “Labyrinths of Astoria” (hereafter, “Astoria”), which was released in July and its KPI have trended strongly. For US REAL, in the same way the first title was a new F2P title, “Kisses and Curses” (hereafter, “Curses”), which was test released in August.

Further, in September the Company began deliveries of the L10N F2P title “Gossip Girl: PARTY Style Your Love” (hereafter, “Gossip Girl”). Gossip Girl was originally a TV drama in the United States and the Company is delivering a Japanese Romance Apps based on this TV drama. The current release is, so to speak, a “reverse export” that has been translated into English. If it is a success, Gossip Girl fans will be added to the user structure that has previously been centered on fans of Japanese anime, and so the user groups themselves will be expanded somewhat. By steadily accumulating successes in this way, the Company expects the profitability of its overseas business (English-version Romance Apps business) to improve in the near future.

The six types of English romance drama apps and business strategy

		F2P	P2P
Animated picture	L10N 	Plan to launch 3 new apps	Plan to launch 7 new apps
	DRAGON 	Begin consideration	Launch Labyrinths of Astoria First animated picture for the North American market
Realistic picture	US REAL 	Launch Curses (Plan for a test release in August) First real picture F2P	Temporary suspension

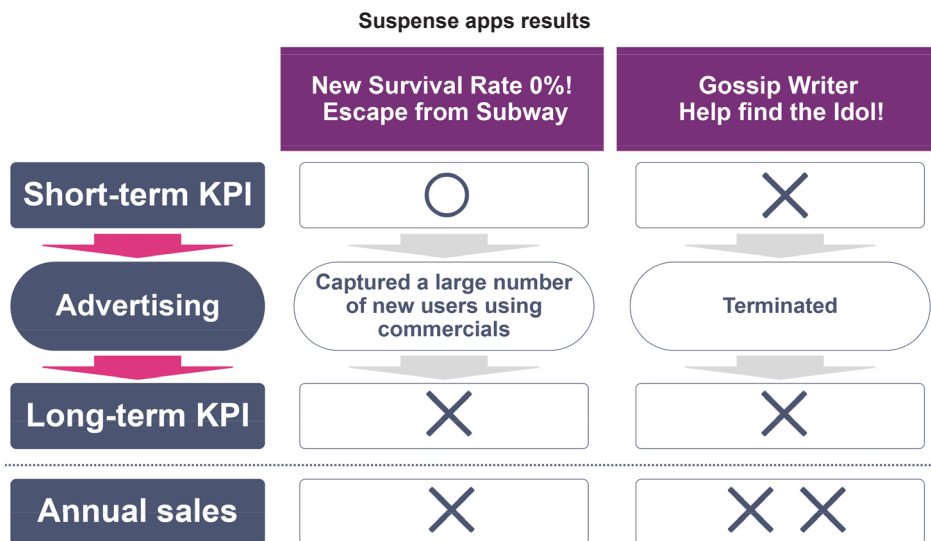
Source: FY6/15 financial reports briefing materials

As described above, FY6/16 is a year for which there are major expectations for English-version Romance Apps as one business turning point. At the stage of the end of Q1 FY6/16, both positive and negative aspects had appeared. The positive aspects were that “Gossip Girl” and “Astoria” achieved strong results as expected. But the negative aspects were the sluggish growth and decline of the MAU and ARPPU of “Sleepless Cinderella: PARTY,” which had made a solid start as a F2P in L10N. Also, the Company continued to work to improve the quality of “Curses” and decided to postpone its launch in the main North America market. To summarize, while revenues from English-version Romance Apps are steadily improving, it seems that we will need to keep an eye on developments in the English versions from now on to see whether the Company can recover their results.

■ Suspense Apps

Opening-up the suspense market as the second business area

The Company is currently working to develop “Suspense Apps” to be a new business area in addition to “Romance Apps.” However, the results of both of the two titles it has released so far have been disappointing. In particular, the performance of the second title, “Gossip Writer Help find the Idol,” was significantly below expectations, and this was a major factor behind the downward revision of the FY6/15 results forecasts during the fiscal year.



Source: FY6/15 financial reports briefing materials

The Company plans to release the third suspense app, “Roppongi Sadistic Knight” (hereafter, “Roppongi”) in Q2 2015. There are major expectations for this title but at the same time, its success or failure will likely bring into view a complete review of the Suspense Apps business from the ground up, so the Company is set to be faced with a major resolution. It decided to postpone the release of this title from the initially planned date in order to drastically brush-up elements such as story, character settings, and game structure, which seems to express this resolution.

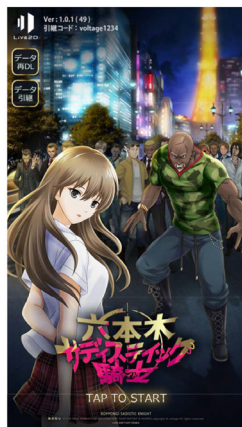
The Company seems confident that “Roppongi” will be a success based on the major changes it is making to the game elements compared to the previous two titles. While “Roppongi” is F2P the same as the previous two titles, one change that should be noted is that men are being targeted as the users for this new title. In conjunction with this, character designs that will be preferred by men are being emphasized. The second point is the change to the concept itself. While the previous two titles were mystery-solving types, “Roppongi” includes elements of collection-and- training type gaming, while remaining centered on the story. The collection and training is the most basic method of monetizing F2P-type apps. The first title of “New Survival Rate 0%! Escape from Subway” initially achieved steady growth in terms of the number of downloads, but this did not translate into profits. “Roppongi” improves on this point and the number of downloads will more directly translate into an increase in the Company’s earnings. It is difficult to predict at this time whether this approach will be a success or failure. But for example, looking at just the one element of character design, since this element has clearly been changed from the last two titles, our current impression at FISCO is that we can also expect the results to also be different than from the previous titles.

Comparison of the positions of the suspense apps

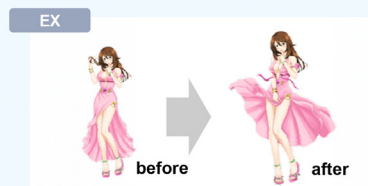
		F2P	
		Mystery-solving type	Collection-and-training type
Target	For men and women	First title, “New / survival rate of 0%! Escape from the Subway”	
	For men	Second title, “Gossip Writer Saves the Missing Idol”	Third title, “Roppongi Sadistic Knight”

Source: prepared by FISCO from the FY6/2015 financial reports briefing materials

New suspense app “Roppongi Sadistic Knight”



Brushing up of illustrations, story, character setting and game structure in progress to match the taste of target users



* Pictures are still in development.

Source: Q1 FY6/15 financial reports briefing materials

■ Business results trends

Important that it creates a flow of continuous profit growth from the next fiscal year onwards

(1) FY6/15 results

In FY6/15 (July 2014 to June 2015), net sales were ¥10,599mn (up 5.1% YoY), operating profit was ¥467mn (down 24.2%), recurring profit was ¥485mn (down 24.9%), and net profit was ¥232mn (down 20.3%). The Company downwardly revised its full-year forecasts when announcing its interim results in January 2015, but these results exceeded the revised forecasts.

Overview of results

(unit: ¥mn)

	FY6/14		FY6/15				
	Results	Initial forecast		Revised forecast		Result	
			YoY	YoY	YoY	YoY	YoY
Net sales	10,082	11,500	14.1%	10,500	4.1%	10,599	5.1%
Operating profit	616	600	-2.6%	200	-67.5%	467	-24.2%
Recurring profit	646	600	-7.1%	200	-69.0%	485	-24.9%
Net income	291	300	3.1%	0	-	232	-20.3%

Source: financial results summary

Note: percentages indicate rate of change YoY

The Company's results greatly improved in Q3 and Q4 after it downwardly revised its full-year forecasts. There are thought to be 3 factors behind this: 1) after making more strict its investment-recovery criteria, it invested in advertising and also in F2P titles and established a CM recovery pattern; 2), it brushed-up the theory behind making new F2P titles a hit; and 3), L10N maintained its strong performance in the English-version Romance Apps business for the overseas market. On the other hand, the slumping performance of the Suspense Apps, which was a major reason why it had to downwardly revise the forecasts, continued in 2H.

Looking at the results by market segment, the main business of Japanese Romance Apps achieved net sales of ¥8,900mn and operating profit of ¥1,204mn, for an operating profit margin of 13.5%. Elsewhere, the extent of the loss recorded by the English-version Romance Apps business was reduced, but remained at an operating loss ratio of more than 10%. In addition, Suspense Apps net sales were no more than around 25% of the target.

Break down of net sales / operating profit by market segment

(unit: ¥mn)

	Net sales		Operating profit
		Percentages	
Japanese romance drama apps	8,900	84%	1,204
English romance drama apps	1,493	14%	-218
Suspense apps	206	2%	-517

Source: FY6/15 financial reports briefing materials

(2) FY6/16 Q1 results and outlook
(i) Q1 results

The FY6/16 Q1 results announced on October 29 were net sales of ¥2,782mn (up 5.1% YoY), an operating loss of ¥75mn (compared to a loss of ¥41mn in the previous fiscal year), a recurring loss of ¥83mn (a loss of ¥35mn), and a net loss of ¥75mn (a loss of ¥46mn). So although sales increased, the losses also rose.

Summary of 1H FY6/16 results

(unit: ¥mn)

	FY6/15		FY6/16		
	Q1	Sales ratios	Q1	Sales ratios	YoY
Net sales	2,647	100.0%	2,782	100.0%	5.1%
Cost of sales	899	34.0%	1,068	38.4%	18.7%
Labor expenses	446	16.9%	506	18.2%	13.4%
Outsourcing expenses	280	10.6%	357	12.9%	27.4%
Other	172	6.5%	203	7.3%	18.4%
Gross profit	1,747	66.0%	1,714	61.6%	-1.9%
SG&A expenses	1,788	67.6%	1,789	64.3%	0.0%
Advertising and publicity expenses	626	23.7%	499	18.0%	-20.3%
Sales commissions	790	29.9%	853	30.7%	7.9%
Other	370	14.0%	436	15.7%	17.7%
Operating profit	-41	-1.6%	-75	-2.7%	-
Recurring profit	-35	-1.3%	-83	-3.0%	-
Net income	-46	-1.8%	-75	-2.7%	-

Source: prepared by FISCO from 1H FY6/16 financial reports briefing materials

Note: YoY shows the rate of change from the previous year

Breaking down these results, what is noticeable in Japanese Romance Apps is that while net sales rose 6% YoY, operating profit fell significantly, decreasing 70%. This was because although the “Love Ballad” and “Hana-Dan” apps performed strongly, the contribution to profits of “Devil” for LINE was greatly below expectations due to the problems in the initial period after its launch. In addition costs were pushed-up by royalty payments following the launch of masterpiece IP titles. In English-version Romance Apps, net sales greatly increased 38% YoY, and the impact of the negative factor of the postponement of the release of “Curses” was absorbed. The only noticeable result in Suspense Apps was the operating loss resulting from the timing of prior development costs toward a release in December 2015.

Breakdown of net sales /operating profit by market segment

(unit: ¥mn)

	Net sales			Operating profit	
		Percentages	YoY		YoY
Japanese romance drama apps	2,373	85%	6%	84	-70%
English romance drama apps	407	15%	38%	-84	-
Suspense apps	2	0.1%	-98%	-75	-

Source: prepared by FISCO from 1H FY6/16 financial reports briefing materials

Note: YoY shows the rate of change from the previous year



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Factors behind the changes compared to initial targets

Content	Factor	Change from Plan	
		Sales	Operating income
Japanese Romance App	Love Ballad	◎	△
	Hana-Dan	○	×
	LINE Devil	×	×
	Doubt	○	○
English version Romance Apps	Curses	△	△
Suspense Apps	Roppongi	△	△

Source: FY6/16Q1 financial reports briefing materials

(ii) Full-year outlook

For FY6/16, the Company is forecasting net sales of ¥11,500mn (up 8.5% YoY), operating profit of ¥800mn (up 71.2%), recurring profit of ¥800mn (up 64.8%), and net profit of ¥400mn (up 72.0%). Based on the Q1 FY6/16 results, no particular changes to the forecasts were made.

Trends according to market segment



Source: FY6/15 financial reports briefing materials

If the Company can proceed as expected with all the titles to be released as new projects, and also if they perform as hoped, it should be able to achieve the level of profits set in its FY6/16 forecasts. But the possibility remains that the results for the period will not necessarily be as targeted due to the actual timing of the releases, and we think that FY6/16 results will likely be heavily influenced by this factor.



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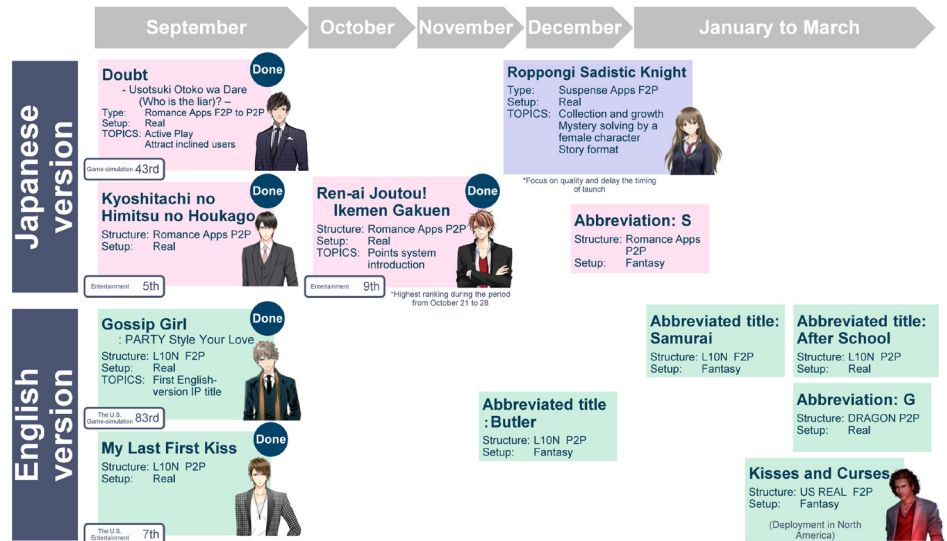
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As described above, at FISCO, we estimate that the Company cannot obtain profits in Q1 FY6/16 to the extent of the initial forecasts. Therefore, we think that it will be necessary to some extent keep a close watch on its Q2 and full-year FY6/16 results compared to the forecasts. In particular, while the hurdles in Q2 on a stand-alone basis are high, the releases of new apps are scheduled from the second half of Q2 to Q3, so based on this we think particular attention will need to be paid to the Q2 results.

However, an even more important viewpoint than the Company's results in this fiscal period is whether it can create a flow of continued profit growth from the next fiscal period onwards. In Japanese Romance Apps, it is important to establish pathways to masterpiece IP titles and to the new field of LINE. In particular, in apps for LINE, it is essential that the apps' structures match the unique characteristics of LINE (for example, friendships in LINE are also real friendships). In English-version Romance Apps, in addition to further widening the pathway to L10N, which is already on track, the key will be whether the Company can to a certain extent leave behind a track record of successes for DRAGON and US REAL. In particular, following the significant postponement of the release of "Curses," much attention will likely be paid to US REAL in terms of deciding the success or failure of its business development in North America. In addition, as was previously described, the Company faces a challenge for suspense apps that will determine if this business advances or retreats.

Plan for Launch of New Applications



* Ranking in the Japan App Store Top Grossing iPhone Game Simulation and the Japan App Store Top Grossing iPhone Entertainment. Ranking in the U.S. App Store Top Grossing iPhone Game Simulation and the U.S. App Store Top Grossing iPhone Entertainment. Each of the rankings is the highest during the period from July 1 to September 30, 2015 (researched by App Annie).

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Source: 1H FY6/15 financial reports briefing materials

The negative factors described above, namely the postponement of the timing of releases of Suspense Apps and English-version Romance Apps, and the poor performance of LINE GAME apps, has strengthened the sense of caution about Q2 results. However, from Q2 though Q3, the Company plans to launch several large-scale, highly anticipated apps, which should make a recovery in 2H fully possible in an ordinary year. On the other hand, currently the new title launched in Q1, "Doubt - Usotsuki Otoko wa Dare (Who is the liar)?" is exceeding expectations in terms of the number of downloads and is attracting a lot of attention. Unlike romance apps up to the present time (that entail falling in love with an idealized male character), in this title, the player eliminates attractive but untrustworthy men while collecting evidence, and this concept, which has not been seen before, seems to be resonating with users.

Also, while it is not directly connected to results, in the popular TV drama "Otona Joshi (Adult Woman)" broadcast by Fuji Television, the heroine works at a romance app production company, and the Company is cooperating with the production of this program. In the long run, this may help to improve the levels of recognition of the Company's name and also of Romance Apps.

Simplified income statement and main indicators

(unit: ¥mn)

	FY6/12	FY6/13	FY6/14	FY6/15	FY6/16	
					1H (F)	Full year (F)
Net sales	8,066	9,088	10,082	10,599	5,600	11,500
YoY	27.1%	-	10.9%	5.1%	7.2%	8.5%
Gross profit	6,317	6,343	6,699	6,697	-	-
Gross margin	78.3%	69.8%	66.4%	63.2%	-	-
SG&A expenses	5,460	6,048	6,083	6,229	-	-
Ratio of SG&A expenses to net sales		66.5%	60.3%	58.8%	-	-
Operating profit	857	295	616	467	200	800
Operating profit margin	10.6%	3.2%	6.1%	4.4%	3.6%	7.0%
YoY	11.9%	-	108.7%	-24.2%	774.9%	71.2%
Recurring profit	859	343	646	485	200	800
YoY	12.9%	-	88.1%	-24.9%	270.5%	64.8%
Net profit	511	140	291	232	50	400
YoY	15.2%	-	107.0%	-20.3%	-	72.0%
Earnings per share (¥)	103.38	28.20	57.37	45.31	9.70	77.59
Dividend per share (¥)	19.00	19.00	19.00	15.00	-	-
Net assets per share (¥)	652.03	660.97	701.00	731.67	-	-

Source: consolidated results from FY6/13

Note: percentages show rate of change from previous year

A 3-for-1 stock split was implemented on January 1, 2011, and per-share data was retroactively adjusted

Consolidated balance sheet

(unit: ¥mn)

	FY6/11	FY6/12	FY6/13	FY6/14	FY6/15
Current assets	3,562	3,835	3,573	4,123	3,687
Cash and deposits	2,010	1,931	1,783	2,201	1,820
Accounts receivable	1,468	1,847	1,715	1,836	1,722
Inventories	27	0	0	0	0
Other	57	57	75	86	145
Fixed assets	334	566	748	908	1,311
Tangible fixed assets	39	63	224	241	343
Intangible fixed assets	95	119	248	364	555
Investments, etc.	200	383	276	302	412
Total assets	3,897	4,402	4,322	5,031	4,999
Current liabilities	1,068	1,160	994	1,445	1,209
Accounts payable	95	88	90	155	194
Short-term debt	38	0	0	0	0
Other	935	1,072	904	1,290	1,015
Fixed liabilities	6	0	0	0	0
Long-term debt	6	0	0	0	0
Other	0	0	0	0	0
Shareholders' equity	2,822	3,242	3,307	3,545	3,707
Capital	866	877	887	908	922
Capital surplus	832	843	853	874	887
Retained earnings	1,123	1,522	1,566	1,762	1,897
Treasury stock	0	0	0	0	0
Total accumulated other comprehensive income	0	0	19	17	63
Minority interests	0	0	0	0	0
Share options	0	0	0	23	18
Net assets	2,822	3,242	3,327	3,586	3,789
Total liabilities and net assets	3,897	4,402	4,322	5,031	4,999

Consolidated cash flow statement

(unit: ¥mn)

	FY6/11	FY6/12	FY6/13	FY6/14	FY6/15
Cash flow from operating activities	428	409	258	894	424
Cash flow from investing activities	-134	-354	-572	-414	-763
Cash flow from financing activities	820	-135	-73	-74	-90
Cash and deposits translation adjustment, etc.	0	0	50	11	48
Change in cash and deposits	1,114	-79	-336	417	-380
Cash and deposits balance at start of fiscal year	896	2,010	1,931	1,783	2,201
Cash and deposits balance at end of fiscal year	2,010	1,931	1,783	2,201	1,820

"Cash and deposits adjustments, etc." in FY6/13 includes the increase in cash and deposits of ¥189mn due to the new consolidation.

Returns to Shareholders

Pays a dividend while maintain a balance between securing internal reserves and returning profits to shareholders

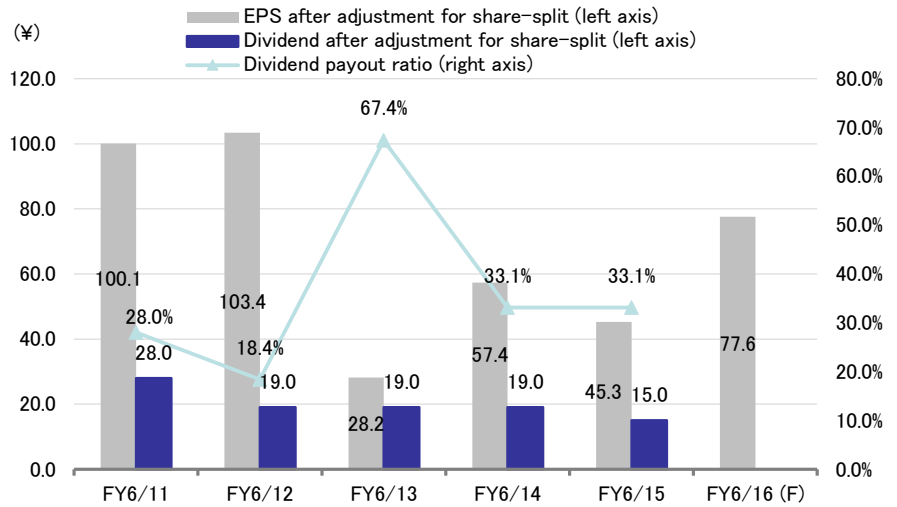
The Company's basic dividend policy is to aim to achieve a balance between securing sufficient internal reserves to develop its businesses in the future and to strengthen its financial position, while also returning profits to shareholders. In FY6/15, it paid a dividend of ¥15, which is a reduction of ¥4 from the previous fiscal year, but the dividend payout ratio was basically unchanged at 33.1%. The Company has not announced a dividend forecast for FY6/16, but the same as up to the present time, it will determine the dividend amount after considering the dividend payout ratio and other relevant factors, while maintaining its basic policy of stably paying dividends.

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Trends in earnings per share, dividends, and dividend payout ratio



A 3-for-1 stock split was implemented on January 1, 2011, and per-share data was retroactively adjusted

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