1Q FY2017

(Year ending June 30, 2017)
Financial Results Briefing

November 2, 2016

Voltage Inc.

TSE 1st. Section Securities Code: 3639

1Q Results

1Q Summary

Sales fell 11.2% due to a decline in the core model (existing development).
Meanwhile, losses decreased mainly due to reduction of advertising expenses.

[Millions of Yen]

	Current year			Previous year	
	1Q Results	% to sales	YoY	1Q Results	% to sales
Sales	2,469	100.0%	88.8%	2,782	100.0%
Cost of sales	1,038	42.1%	97.2%	1,068	38.4%
Labor cost	459	18.6%	90.7%	506	18.2%
Outsourcing cost	311	12.6%	87.1%	357	12.9%
Others	267	10.8%	131.1%	203	7.3%
SG&A expenses	1,482	60.0%	82.8%	1,789	64.3%
Advertising expenses	230	9.3%	46.0%	499	18.0%
Sales commission	760	30.8%	89.1%	853	30.7%
Others	491	19.9%	112.6%	436	15.7%
Operating loss	-51	-2.1%	-	-75	-2.7%
Ordinary loss	-62	-2.5%	-	-83	-3.0%
Loss attributable to owners of parent	-57	-2.3%	-	-75	-2.7%

Decrease mainly due to curtailment of TV commercials

Balance Sheet

[Millions of Yen]

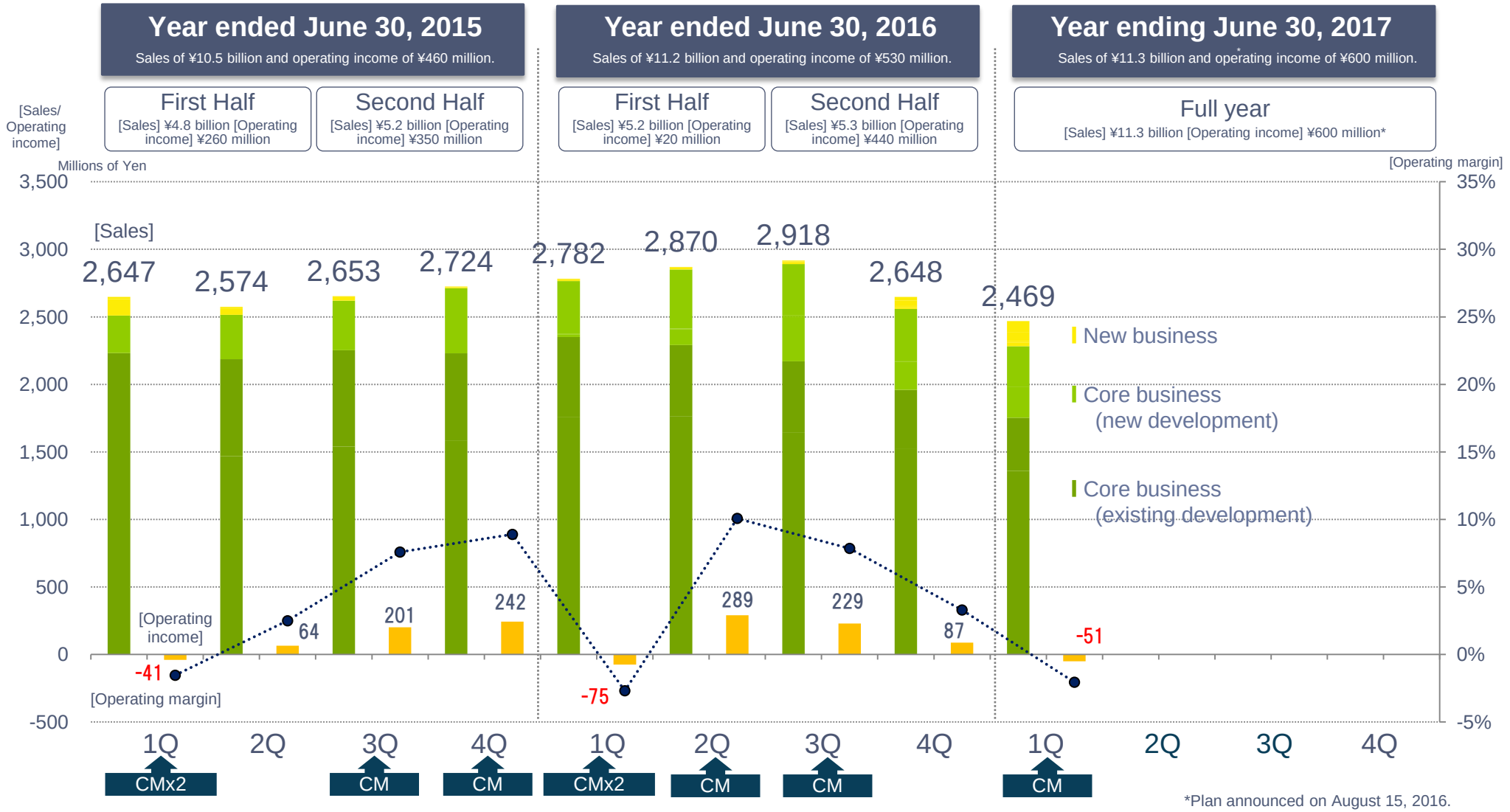
	End of 1Q	End of FY2016 (June 30, 2016)	% to End of FY2016
Current assets	3,464	3,705	93.5%
Non-current assets	1,203	1,199	100.3%
Total assets	4,667	4,905	95.2%
Current liabilities	1,038	1,037	100.1%
Non-current liabilities	-	-	-
Total liabilities	1,038	1,037	100.1%
Shareholders' equity	3,633	3,868	93.9%
Accumulated other comprehensive income (loss)	-4	0	-
Subscription rights to shares	-	-	-
Net assets	3,629	3,868	93.8%
Total liabilities and net assets	4,667	4,905	95.2%

Decrease in cash and deposits due mainly to acquisition of treasury shares and payment of dividends

Decrease in retained earnings due to recording of net loss and payment of dividends; decrease in connection with the acquisition of treasury shares

Quarterly Summary of Consolidated Results

Sales of new model increased from the previous quarter, but the increase was not enough to cover the decline in sales of existing model.



*Plan announced on August 15, 2016.

* In connection with classification changes effective the 1Q of the year ending June 30, 2017, results for the previous fiscal years are presented also after reclassification.

Sales and Operating Income by Business Segment for the 1Q (Management Accounting Basis)

Operating income of Existing Development increased although sales declined year on year. New Development and new model continue to post losses due to being in the investment phase.

[Millions of Yen]

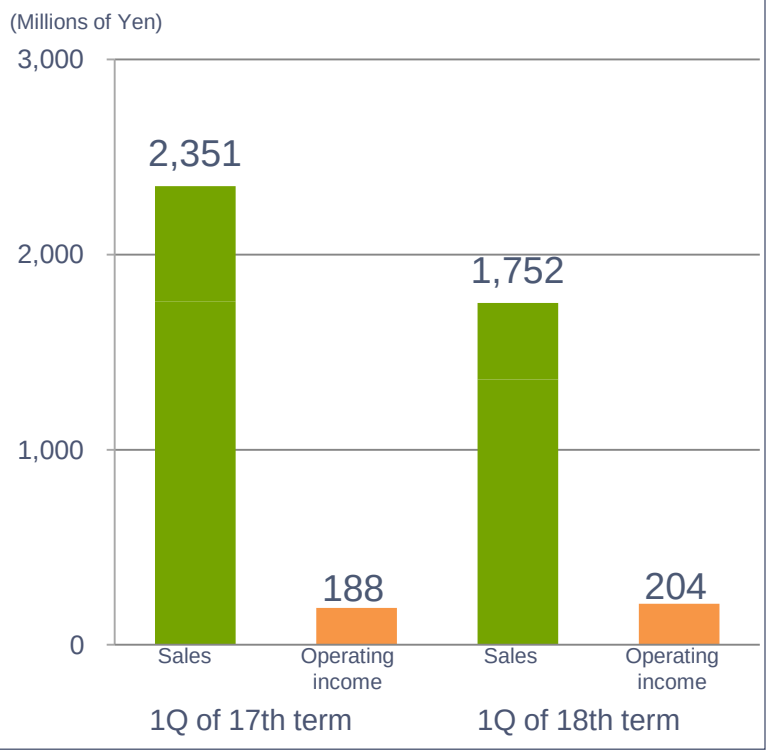
	1Q Sales			1Q Operating Income	
		% to total sales	YoY		YoY
Core model (Existing development)	1,752	71%	75%	204	109%
Core model (New development)	530	21%	128%	-125	(-122)
New model	187	8%	1,151%	-130	(-141)

*Figures in parentheses are results of the same period in the previous fiscal year.

TOPICS Core Model (Existing Development)

1Q Summary

- **Sales decreased 25% year-on-year to ¥1,752 million**
  "Romance apps F2P" for social-only platform and "Romance apps P2P" for OS-based platform continue to weaken
- **Operating income increased 9% year-on-year to ¥204 million**
  Owing to reduction of expenses, including curtailment of commercials



*Figures are on a management accounting basis.

MAIN TOPICS

Romance Apps F2P

- **Implementation of new horizontal measures in September to replace the horizontal measures terminated in the 4Q**
- **Improvement of ARPPU based on horizontal deployment of successful measures**

Sample Title

"Tenka Toitsu Koi no Ran Love Ballad"

Renewal of big-hit titles distributed by GREE, launch as smartphone apps

Launch on September 27, 2016

"Ojisama no Propose (Be My Princess) Eternal Kiss"

Romance Apps P2P

- **More-than-expected decrease in sales of titles for which update will no longer be made**

Sample Title

" Sweet Room de Itazura na Kiss " (Love Trap)

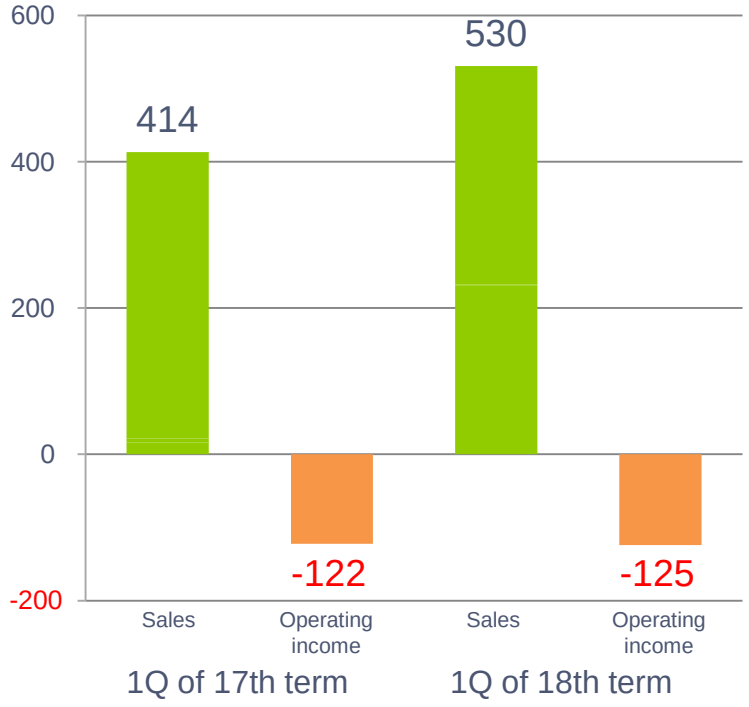
" Shinsengumi ga Aishita Onna "

TOPICS Core Model (New Development)

1Q Summary

- **Sales increased 28% year-on-year to ¥530 million**
  Expansion of “Seek” despite some sluggish titles in the “L10N” series
- **Operating income was comparable to a year earlier at ¥-125 million**
  Increase in expenses due mainly to the placement of commercial for “Doubt”

(Millions of Yen)



*Figures are on a management accounting basis.

MAIN TOPICS

Seek

- **Commercial placement for “Doubt” in August**
- **Production under way for launching a series**

Sample Title

“Doubt - Usotsuki Otoko wa Dare?”
(Liar! Uncover the Truth)

L10N

- **Favorable effects of advertisements placed in new media**
- **Sluggish sales of some titles**

Sample Title

“ Samurai Love Ballad: PARTY”

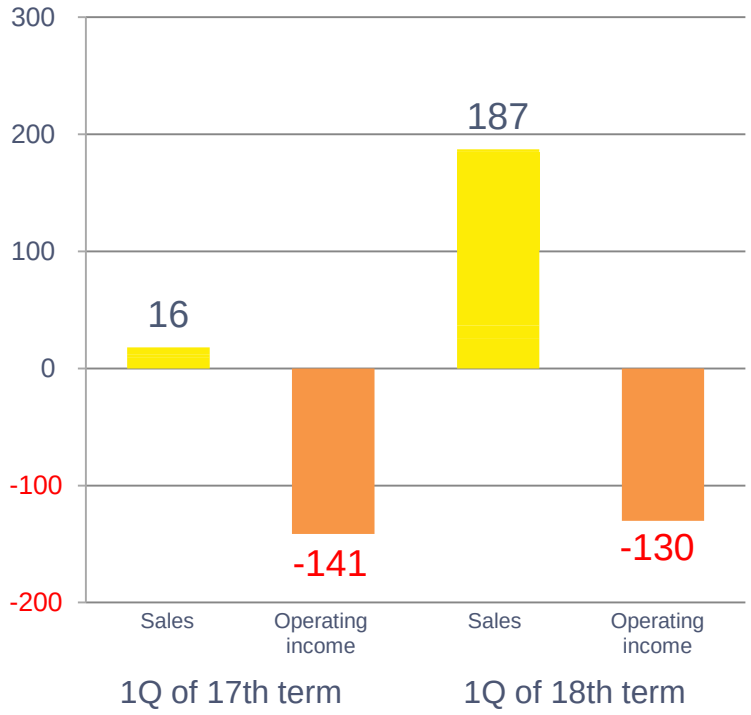
“ Kissed by the Baddest Bidder”

TOPICS New Model

1Q Summary

- **Sales increased 1,051% year-on-year to 187 million**
  Mainly owing to the expansion of “suspense” and steady results of “puzzle”-based game products
- **Operating income was comparable to a year earlier at -130 million**
  Increase in expenses due mainly to the launch of “puzzle”-based game products

(Millions of Yen)



*Figures are on a management accounting basis.

MAIN TOPICS

P2P DRAGON

- **Launch of the third title of the series**

Sample Title

“Astoria: Fate’s Kiss”

“Castaway! Love's Adventure”

Suspense

- **Advertisements placed in trains & stations led to favorable return rate**

Sample Title

“Roppongi Sadistic Knight”

Puzzle

- **Prospect for establishing a return model by adjusting the advertisement volume**

Sample Title

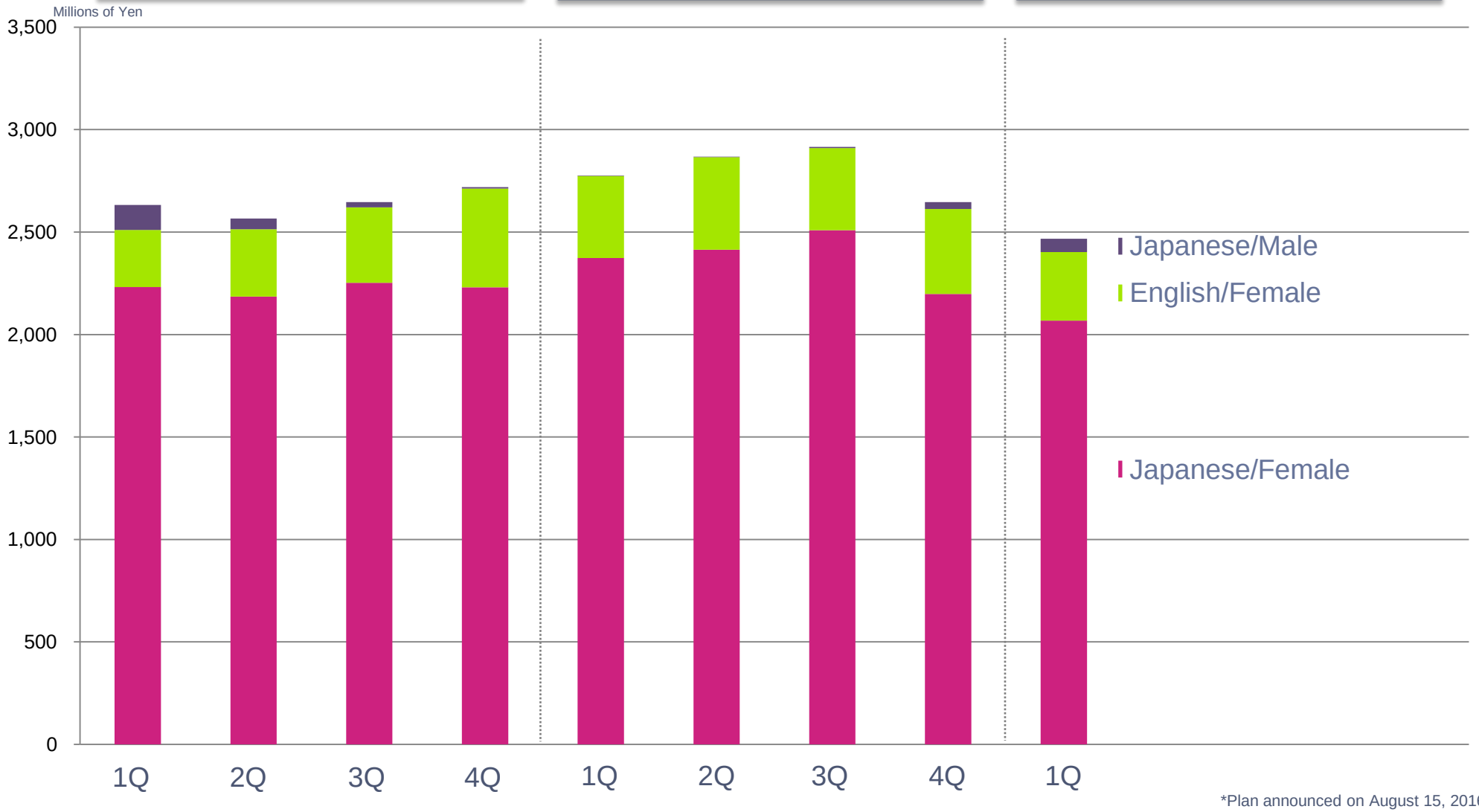
“ LOVE ☆ Scramble”

(Reference) Sales by Targetn

Year ended June 30, 2015
Sales of ¥10.5 billion

Year ended June 30, 2016
Sales of ¥11.2 billion

Year ending June 30, 2017
Sales of ¥11.3 billion*



*Plan announced on August 15, 2016.

TOPICS Participation in Major Events

Anime Expo 2016 (July 1-4, 2016 in L.A.)

- Booth exhibit to present the world of “Code”
  - 2,000 or more visitors

- Product sales and new titles become topics of conversation
  - First-time introduction of “Liar ! (translated version of “Doubt”)”
  - Favorable product sales as last year

C3 CharaExpo 2016 (July 9-10, 2016 in Singapore)

- First-time participation in an Asian event
  - Held for the first time in 2015; participation in an event attracting animation/game fans in Asia for the first time

Tokyo Game Show 2016 (September 15-18, 2016)

- Famous exhibit: “Real Romance Apps experience”
  - Booths for “Doubt” and “Tenka Toitsu Koi no Ran Love Ballad”; extremely popular - up to 250 minutes of waiting

- Voltage’s first “*Isu Don* ” VR (attractive boy slamming his hand on a chair)
- Completed distribution of numbered tickets in 10 minutes; stand-by for cancellations of 60 minutes or longer

TOPICS Participation in Major Events

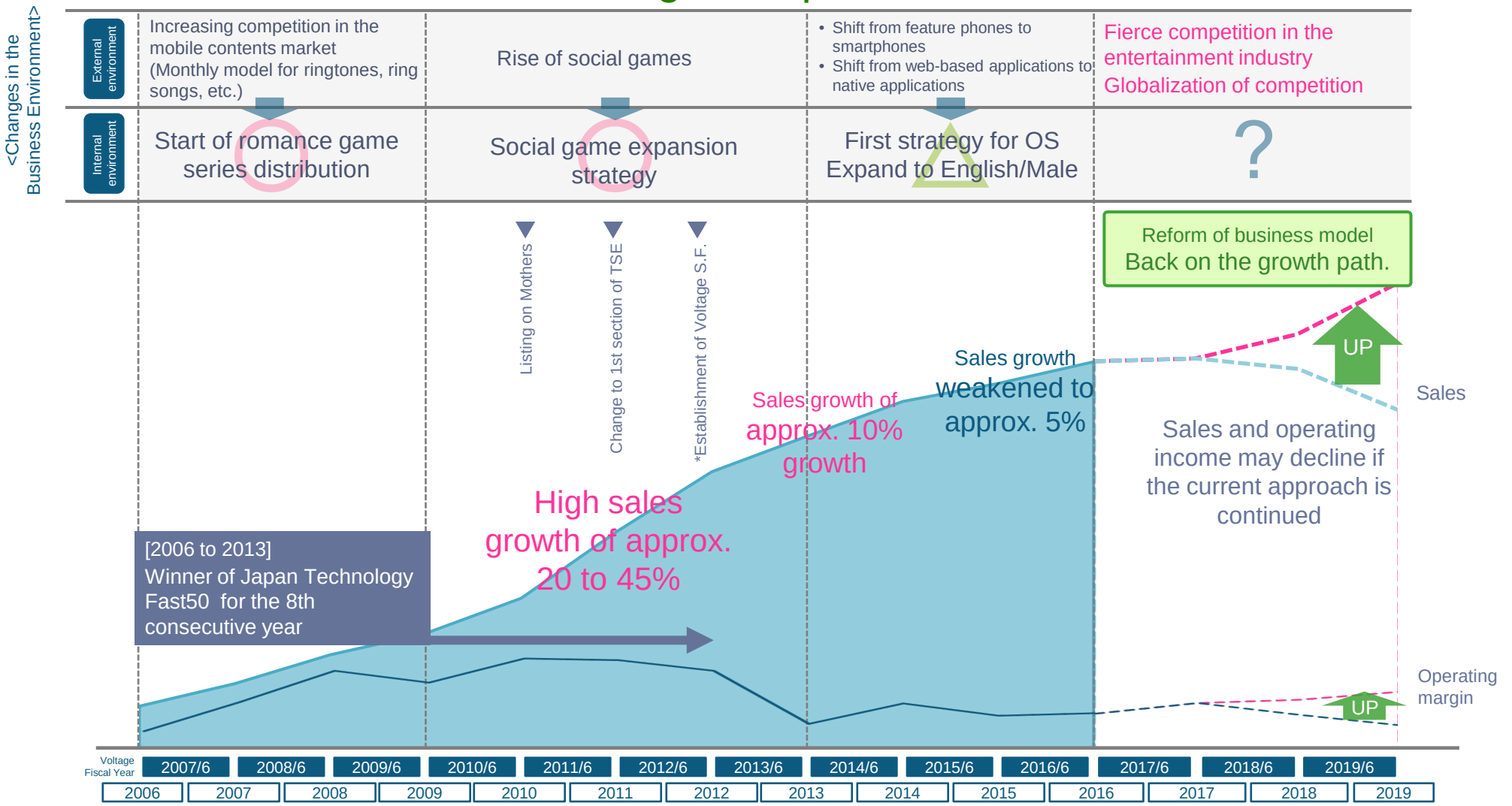
MOVIE

TOKYO GAME SHOW

Measures for 2Q and Beyond

Three-Year Strategy: Background of Strategy Formulation

Reform of business model in line with the changes in the environment. Back on the growth path.

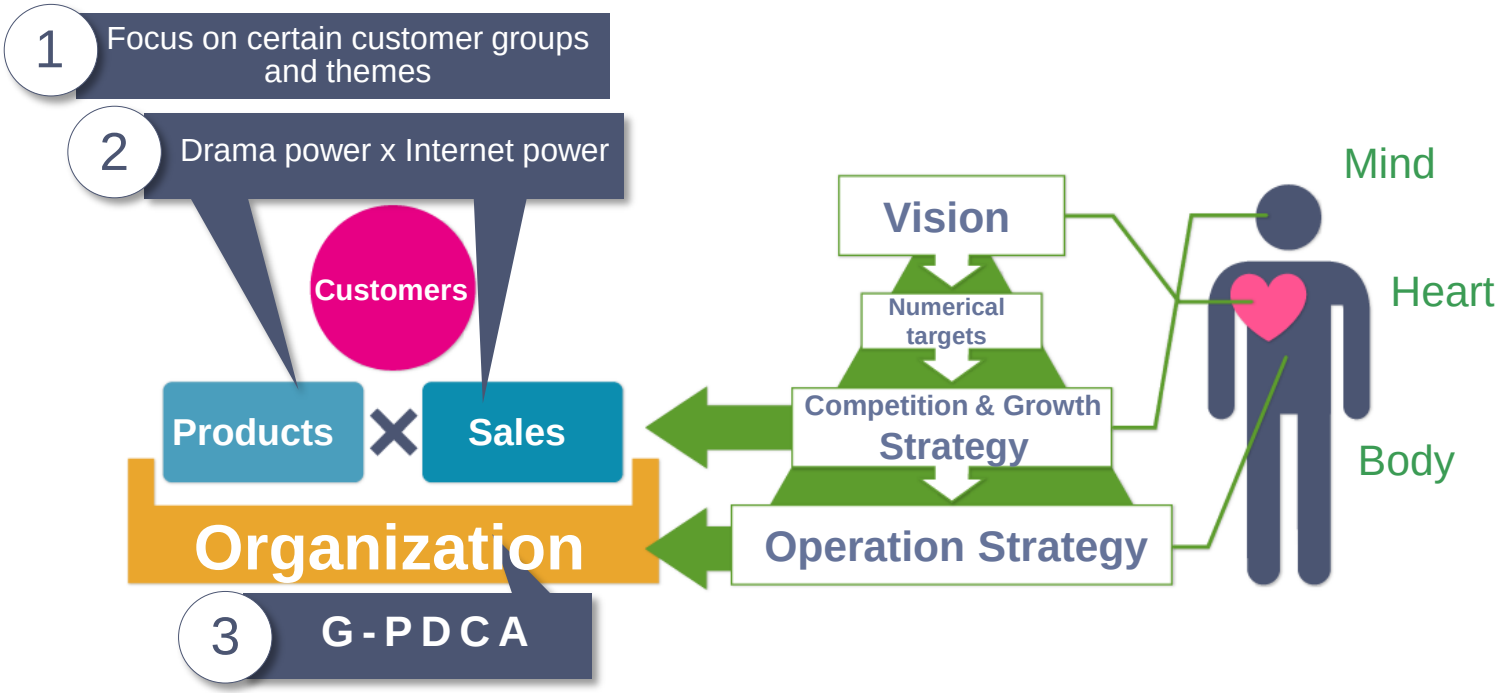


*Voltage S.F. = Voltage Entertainment USA, Inc.

*Trends between June 2017 to June 2019 represent the projected growth stage at this time and are not based on the earnings forecast, etc.

*"Deloitte Touche Tohmatsu LLC Japan Technology Fast50" (Awarded consecutively from 2006 to 2013 for the business performance for fiscal years June 2003 to June 2012. Calculation is as follows.)
A ranking program based on applicants from Japanese companies (listed and unlisted) with high growth rates in earnings (net sales) for the recent three years in the TMT industry. The top 50 firms are selected.
For details on Fast50, please see the following: http://www2.deloitte.com/jp/ja/pages/technology-media-and-telecommunications/topics/fast50-fast500.html

Three-Year Strategy: Advancement of Driving Force that Supported the High Growth Over the Past Decade



①Focus on certain customer groups and themes

Focus on users aged 18 to 45 who like stories and dramas and concentrate management resources on drama-based content with “love and challenge” as the theme.

②Drama power x Internet power

Develop highly original content by leveraging Voltage’s proprietary “drama creating skills and Internet application skills”.

③G-PDCA

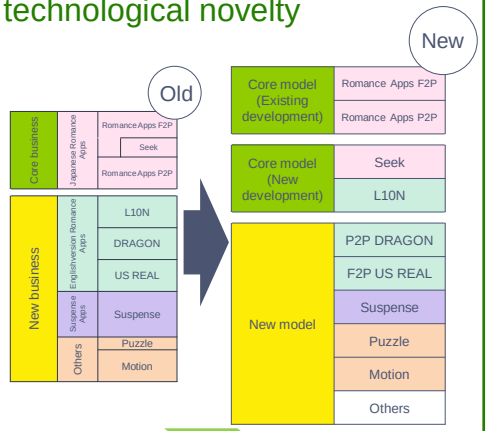
Set targets by organizational unit, implement the PDCA cycle to continue improving the content and sales methods.

Three-Year Strategy: Entrance of Reform

Revision of business classification

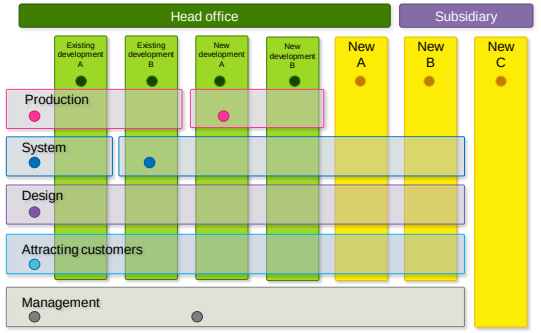
Reclassify business models into three types, depending on the customer group and the degree of technological novelty

Technology \ Customer group	Core model (Existing development)	Core model (New development)	New model
Core model (Existing development)	Romance Apps F2P Romance Apps P2P	L10N	P2P DRAGON F2P US REAL Suspense
Core model(New development)	Seek		
New model	Puzzle Motion		New location High-tech/Real



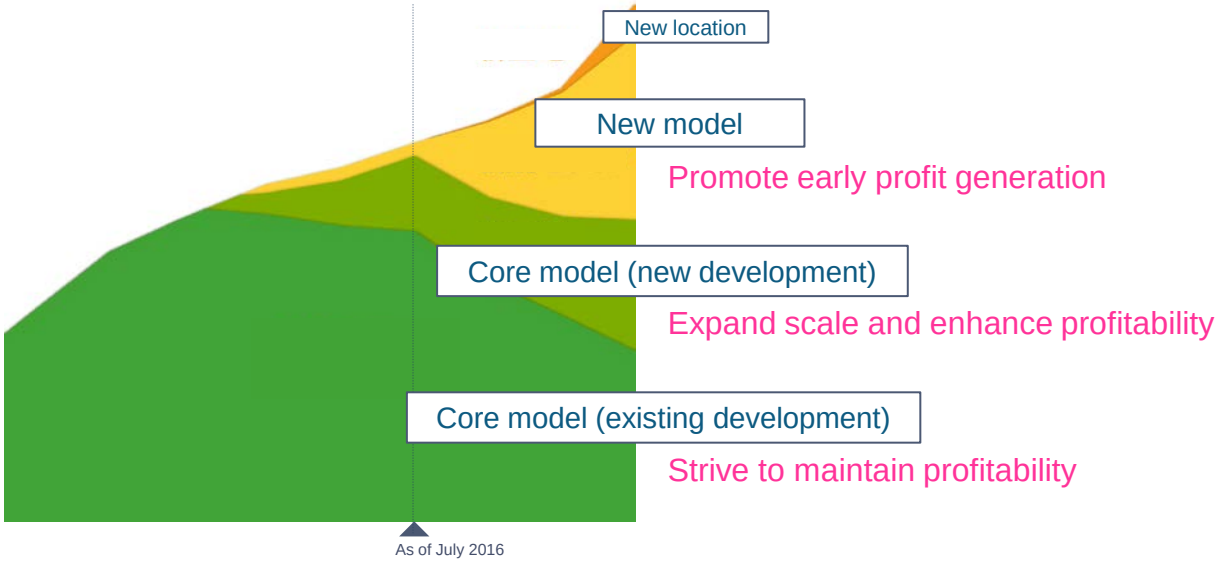
Reorganization into 15 autonomous organizational units

Develop 15 leaders and promote mastering the profit-generating skills



Promote the establishment of autonomous organization also in terms of rules

Add “new development”,“new model” and “new location” with an eye on the gradualdecrease of “existing development”.

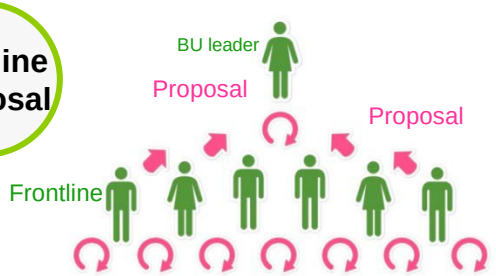


Three-Year Strategy: Core Model (New Development) and New Model

Building a structure for creating and developing a new business model and generating profits

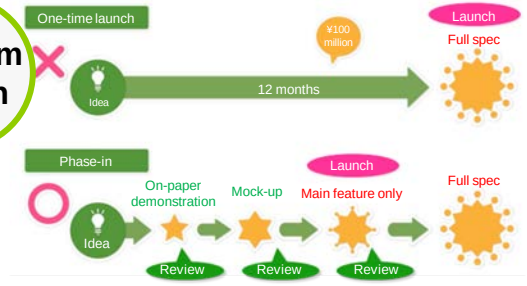
Small search

Frontline proposal



- ✓ Review proposal meetings
- ✓ Develop ideas by utilizing collaborative software (groupware)

Minimum launch



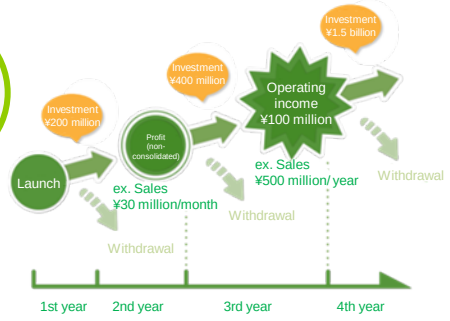
- ✓ Production of a small prototype
- ✓ Speedy capture of market response

Small experiment/selection

Model creation

- ✓ Create a new earnings model using prototype-based experimenting

Withdrawal rule



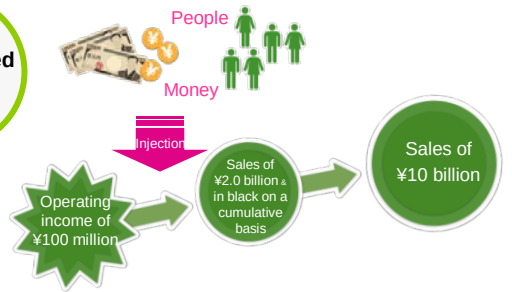
- ✓ Clarification of withdrawal rules for a new model

Large-scale deployment

Series launch

- ✓ Maximize profits by distribution of titles by series

Concentrated launch

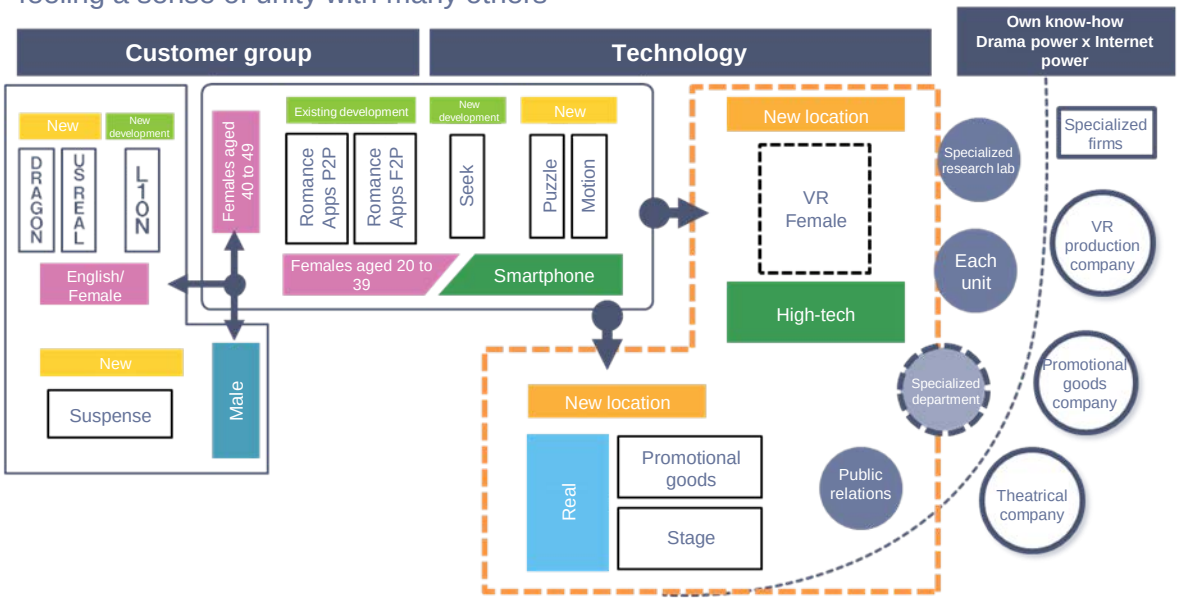


- ✓ Concentrated launch of management resources in an earnings model with high future potential

Three-Year Strategy: New Location

Take on challenges into “High-tech” and “Real” segments to expand the driver for attaining returns

- Promote expansion of business coverage by collaborating with specialized firms instead of recklessly expanding core competence
- Human nature is such that as high-tech and individualization advances, there is demand for coming in contact with nature and animals or feeling a sense of unity with many others



High-tech

From September

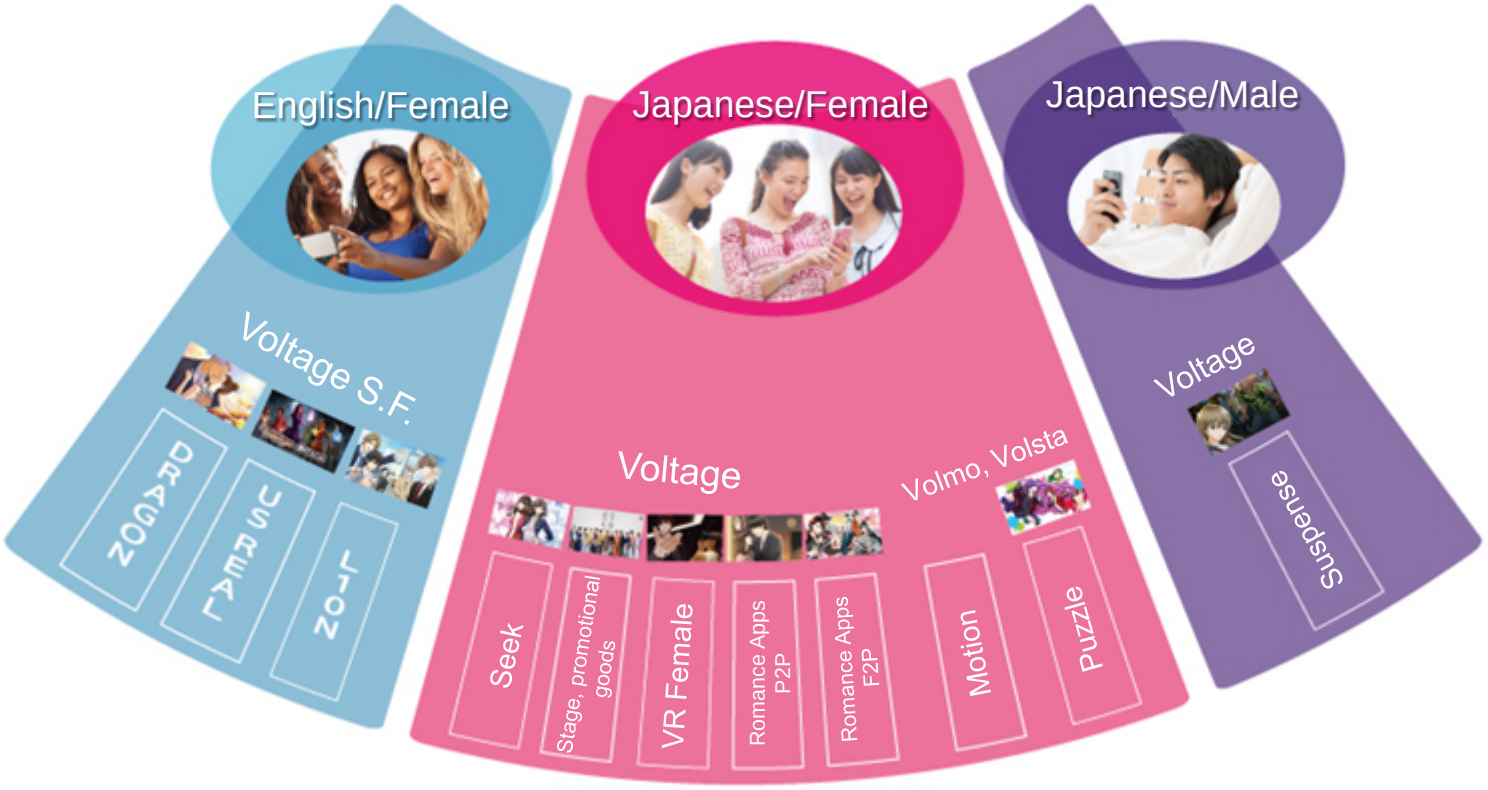
Initial launch on TGS

Search business potential first through test production & test sales

Real

October

Three-Year Strategy: Evolution of Group Structure



On November 1, 2016, third strategic subsidiary

Establishment of Volsta, Inc.

(Voltage + Stadium)

- Voltage's executive officer was appointed as Representative Director.
- Production of collection & nurturing-type content for females.

Strategic subsidiary

First subsidiary (From 2012)

Production of English-version content

Second subsidiary (From July 1, 2016)

Production of motion-type content

Important Tasks for 2Q of FY2017 (Year Ending June 30, 2017) and Beyond

Classification		Important tasks
Core model (Existing development)	Romance Apps F2P	Improve ARPPU through dissemination of successful measures to other BUs and prepare next IP titles
	Romance Apps P2P	Enhance ARPPU and strengthen customer-attracting model through implementation of new events
Core model (New development)	Seek	Develop new titles and introduce the series through improvement of “Doubt”
	L10N	Make partial improvement of existing title base and maximize sales of “Liar!”
New model	P2P DRAGON	Further attract customers through the AmeMix series
	F2P US REAL	Strengthen the operation of “Curses” events and consider the introduction of its series
	Suspense	Implement improvement measures by “Roppongi” user segment
	Puzzle	Expand MAU through reinforcing promotional activities
	Motion	Start with minimum launch

New Applications Launch Schedule

1Q of fiscal year ending June 30, 2017 | 2Q of fiscal year ending June 30, 2017

July | October | January

Core model (Existing development)

Done on Sept. 27

Romance Apps F2P

Ojisama no Propose (Be My Princess) Eternal Kiss

Done on October 4

Romance Apps P2P

Anoyorukara Kimi ni Koishiteta

Romance Apps P2P

Abbreviation: O

Core model (New development)

Done on October 3

F2P L10N

Liar! Uncover the Truth

P2P L10N

Abbreviation: S

New model

Done on September 1

P2P DRAGON

Castaway! Love's Adventure

Earnings Forecast

No change from the previous announcement.

[Millions of Yen]

	Consolidated	
	Full year	
		Year-on-year
Sales	11,300	100.7%
Operating income	600	113.0%
Ordinary income	600	122.9%
Net income attributable to owners of parent	340	161.6%
Net income per share	66.61 yen	-

*Effective FY2017, consolidated earnings forecast is disclosed only for the full-year.

Definition of Terms

Term	Meaning
Core model (existing development)	Of the Romance Apps, those distributed under the F2P series and the P2P series.
Core model (new development)	Series group in which the target group and production technology are derived from the core model (existing development). The “Seek” series and the “L10N” series apply for the fiscal year ending June 30, 2017.
New model	Series group in which the target group and production technology are different from those of the core model. The “P2P DRAGON” series, “F2P US REAL” series, “suspense for males” series, “puzzle action-based games” and “motion” series apply for the fiscal year ending June 30, 2017.
F2P	Abbreviation of “Free-to-Play”. Free game play with item-charging content.
P2P	Abbreviation of “Pay-to-Play”. Content charged individually by story.
Seek	Content created based on the specification of “Doubt - Usotsuki Otoko wa Dare (Liar! Uncover the Truth)?” This series is clearly different from the conventional Romance Apps. It has diverse elements including story, investigation and judgement.
L10N	Content with animation picture for the North American market. Japanese Romance Apps were translated into English. Abbreviation for localization.
US REAL	Content with realistic pictures targeting the North American market (Term previously used: US original).
DRAGON	Content with animation pictures designed for the North American market. The name originates from the dragon roll, sushi arranged for North America. Referred to as AmeMix for users.
Motion	Motion-type contents that are being produced by Volmo Co., Ltd. Effective the 1Q of the fiscal year ending June 30, 2017, the name was changed from “animation”.
Social-only platform	SNS platform such as GREE, Mobage, mixi and Ameba.
IP title	Title based on the intellectual property of other companies.
ARPPU	Abbreviation for “Average Revenue Per Paid User”. Amount of average sales per charged user.
MAU	Abbreviation for Monthly Active Users. The number of users who indicated use or activity during a certain month.

Voltage Inc.

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