Fiscal Year Ended June 30, 2016

Financial Results Briefing

August 15, 2016

Voltage Inc.

TSE 1st. Section Securities Code: 3639

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Results of the Fiscal Year Ended June 30, 2016

FY2016 Summary

Although results fell below the projections announced at the beginning of FY2016, sales increased from a year earlier.

[Millions of Yen]

	Current year			Previous year	
	FY2016 (12 months)	% to sales	YoY	FY2016 (12 months)	% to sales
Sales	11,219	100.0%	105.8%	10,599	100.0%
Cost of sales	4,364	38.9%	111.8%	3,902	36.8%
Labor cost	1,936	17.3%	103.1%	1,877	17.7%
Outsourcing cost	1,390	12.4%	110.8%	1,254	11.8%
Others	1,037	9.2%	134.6%	770	7.3%
SG&A expenses	6,324	56.4%	101.5%	6,229	58.8%
Advertising expenses	1,277	11.4%	85.6%	1,491	14.1%
Sales commission	3,404	30.3%	106.4%	3,200	30.2%
Others	1,642	14.6%	106.8%	1,537	14.5%
Operating income	530	4.7%	113.6%	467	4.4%
Ordinary income	488	4.4%	100.6%	485	4.6%
Net income attributable to owners of parent	210	1.9%	90.5%	232	2.2%

Increase due to a rise in the number of contents and an increase in royalty for masterpiece IP titles.

Decrease in transfer to other account mainly due to a fall in development and operation of new contents.

Decrease mainly due to restrained mobile advertising expenses.

Increase mainly due to higher sales of products for OS-based platforms.

Record of foreign exchange losses due to a strong yen and a weak dollar.

Record of impairment loss for contents “LINE Devil.”

Balance Sheet and Statement of Cash Flows

Balance Sheet

[Millions of Yen]	Consolidated		
	End of FY2016 (June 30, 2016)	End of FY2015 (June 30, 2015)	% to End of FY2015
Current assets	3,705	3,687	100.5%
Non-current assets	1,199	1,311	91.5%
Total assets	4,905	4,999	98.1%
Current liabilities	1,037	1,209	85.8%
Non-current liabilities	-	-	-
Total liabilities	1,037	1,209	85.8%
Shareholders' equity	3,868	3,707	104.3%
Accumulated other comprehensive income (loss)	0	63	-
Subscription rights to shares	-	18	-
Net assets	3,868	3,789	102.1%
Total liabilities and net assets	4,905	4,999	98.1%

Decrease in accrued expenses mainly due to restraints on advertising

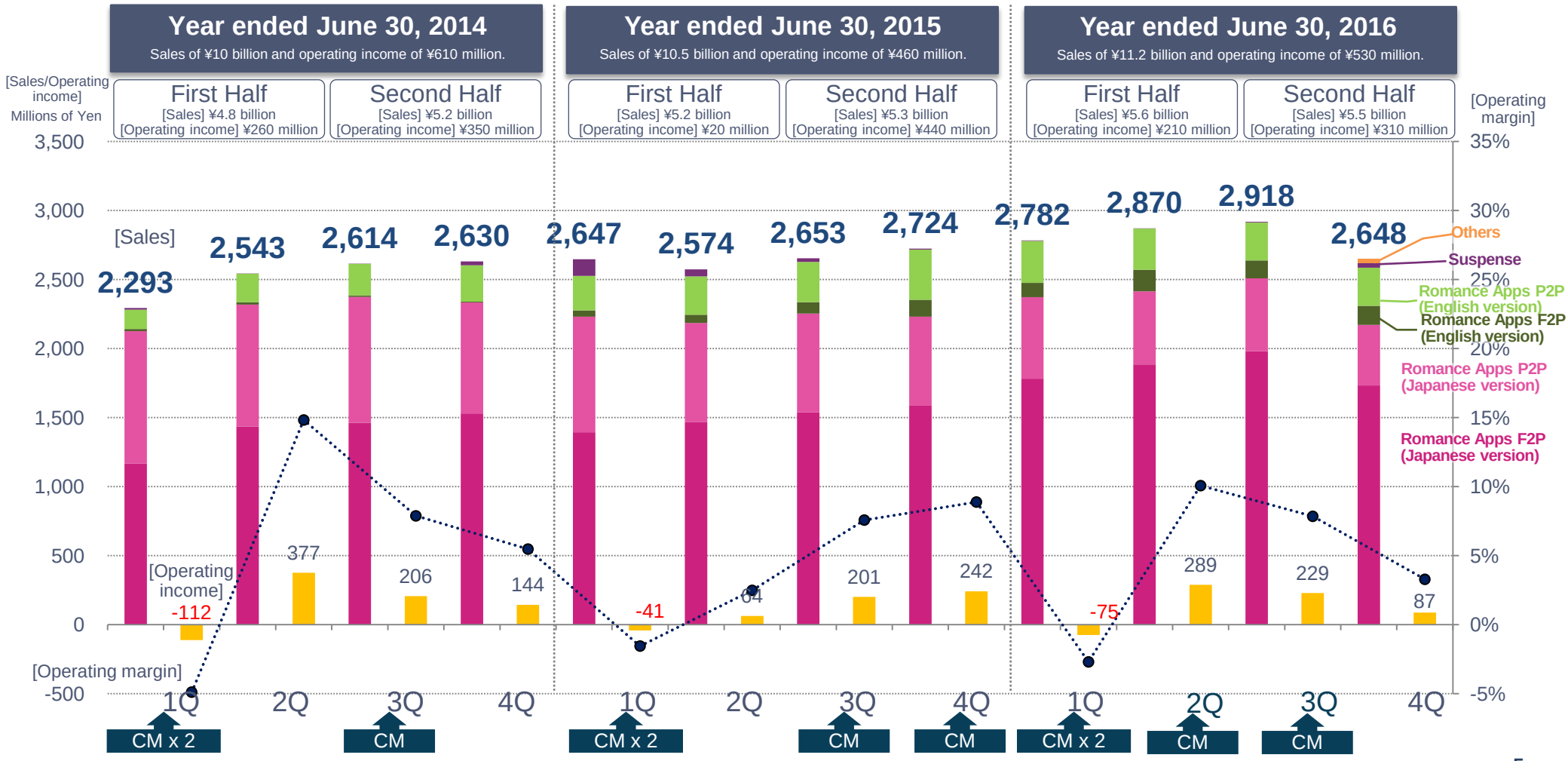
Statement of Cash Flows

[Millions of Yen]	Consolidated	
	Current year	Previous year
CF from operating activities	920	424
CF from investment activities	-372	-763
CF from financial activities	-69	-90
Changes in cash and cash equivalents	417	-380
Balance of cash and cash equivalents at the end of the fiscal year	2,237	1,820

Decrease in notes and accounts receivable-trade

Quarterly Summary of Consolidated Results

Both sales and operating income decreased for 4Q mainly due to overall decline in Romance Apps as a result of discontinuation of cross-departmental strategies, backrush to Doubt commercials, postponed launch of Love Scramble.



Sales and Operating Income by Market Segment for FY2016 (Management Accounting Basis)

In the core business, both sales and operating income remained strong.
In the new business, sales of English-version Romance Apps increased year on year.
However, sales of some Apps decreased and some investments increased, resulting in the growth of the deficit.

[Millions of Yen]

		Sales for FY2016 (12 months)			Sales for FY2016 (12 months)	
			% to total sales	YoY		YoY
Core business	Japanese Romance Apps	9,467	84%	106%	1,356	113%
New business	English-version Romance Apps	1,680	15%	113%	-384	Results - (-218)
New business	Suspense Apps	43	0.4%	21%	-305	Results - (-517)
New business	Other business*	27	0.3%	-	-134	-

Note: Mainly including puzzle-based action games and animation-type contents that are being produced by Volmo Co., Ltd.

Factors Underlying FY2016 Change from the Plan

Content			Factor	Change from Plan	
				Sales	Operating income
Core business	Japanese Romance Apps	Love Ballad	Favorable due to events and voice insertion	◎	◎
		Doubt	Slowdown in 4Q as backlash to highly favorable commercials	◎	○
		Hana Yori Dango	Unfavorable KPI	△	×
		LINE Devil	Sluggish in installation and KPI	×	×
New business	English version Romance Apps	L10N series	Sluggish in new titles	△	△
		Astoria	Restraints on advertising due to unfavorable KPI	×	△
		Curses	Unfavorable KPI	×	×
	Suspense Apps	Roppongi	Temporal restraints on advertising for improvement of the base	×	△
	Others	Love Scramble	Launch postponed	×	△

TOPICS Japanese Romance Apps

“Doubt - Usotsuki Otoko wa Dare (Who is the liar)?”

Game - simulation 11st

Slowdown in 4Q as backlash to highly favorable commercials in February where a number of users were acquired.

Aim to improve the long-term attach rate.

“Tenka Toitsu Koi no Ran Love Ballad”

Game - simulation 4th

Events for 1st year anniversary and voice insertion were well received.

Steady throughout the year.

“The Princess in the Mirror Love Palace”

Game - simulation 11st

Well-performed in the first F2P only area.

Voice insertion is confirmed for the 1st year anniversary.

*The highest ranking in “iOS Top App Charts Grossing Games_Simulation” during the period from April 1 to June 30, 2016 (researched by App Annie).

TOPICS Japanese Romance Apps

“Hana Yori Dango First Kiss with F4”

Game - simulation 16th

Although non-game users were steadily captured at the beginning, the KPI did not improve thereafter.

“10 Days with My Devil Heaven's Kiss”

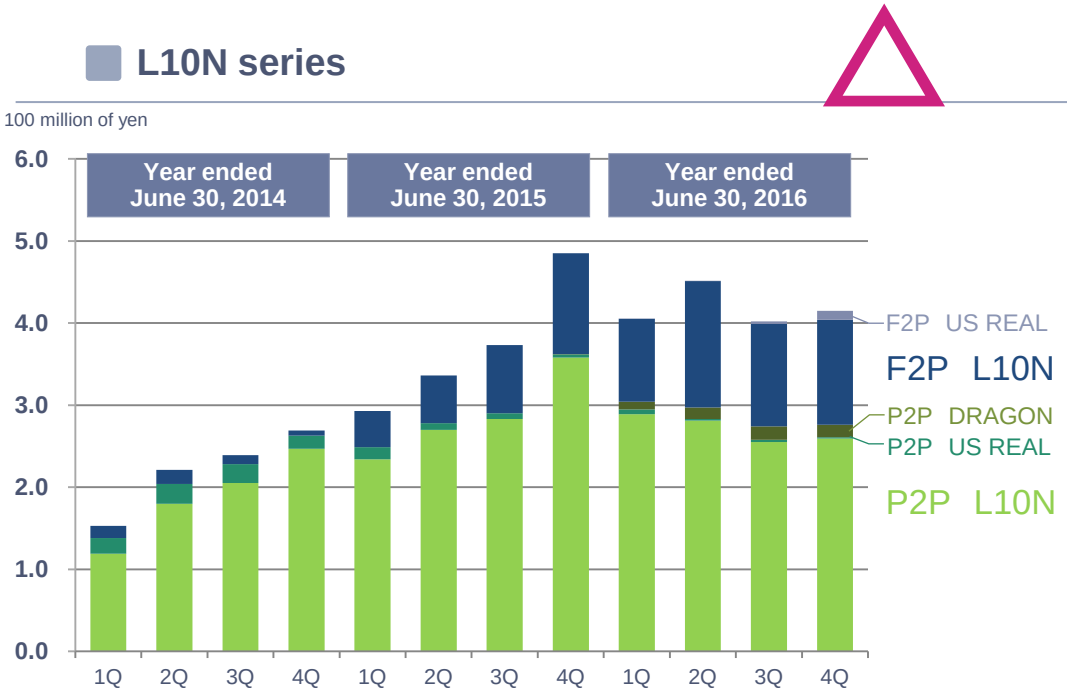
Game - simulation 150th

Failure to achieve targets in both the number of users captured and the KPI because of the difficulty in the affinity with LINE game users and operational issues.

*The highest ranking in “iOS Top App Charts Grossing Games_Simulation” during the period from April 1 to June 30, 2016 (researched by App Annie).

TOPICS English-version Romance Apps

L10N series



Downturn trend continued due to unfavorable performance of some new titles, despite a hit of Samurai launched in 4Q. Sales nearly levelled off for 12 months of FY2016.

F2P
"Samurai Love Ballad: PARTY"

The U.S. Game-simulation 69th

F2P
"Gossip Girl: PARTY Style Your Love"

The U.S. Game-simulation 62th

P2P
"Scandal in the Spotlight"

The U.S. Entertainment 41th

*Sources of ranking in the U.S. are "iOS Top App Charts Grossing Games_Simulation" and "iOS Top App Charts Grossing Entertainment".
Each of the rankings is the highest during the period from April 1 to June 30, 2016 (researched by App Annie).

TOPICS English-version Romance Apps

DRAGON P2P Series

First title: “Astoria: Fate’s Kiss”

The U.S. Entertainment 40th

Second title: “Gangsters in Love”

The U.S. Entertainment 31th

Two stories of the series were launched.

The number of unique users steadily increased, forming AmeMix fan base.

US REAL series

The U.S. Entertainment 19th

iOS deployment in the U.S. completed in February.

Although the target KPI was not achieved, cost reduced thanks to off-shore development.

*The highest ranking in “iOS Top App Charts Grossing Entertainment” during the period from April 1 to June 30, 2016 (researched by App Annie).

TOPICS Suspense Apps

“Roppongi Sadistic Knight”

Game - simulation 50th

△

Change of boss battle specs

Insertion of ”beyond the limit” feature

Both sales and operating income failed to achieve targets. Meanwhile, the KPI including the 7-day attach rate improved due to the continuous base improvement.

*The highest ranking in “iOS Top App Charts Grossing Games_Simulation” during the period from April 1 to June 30, 2016 (researched by App Annie).

TOPICS puzzle-based action game

“LOVE ☆ Scramble” △

The first puzzle-based action game was released in April.

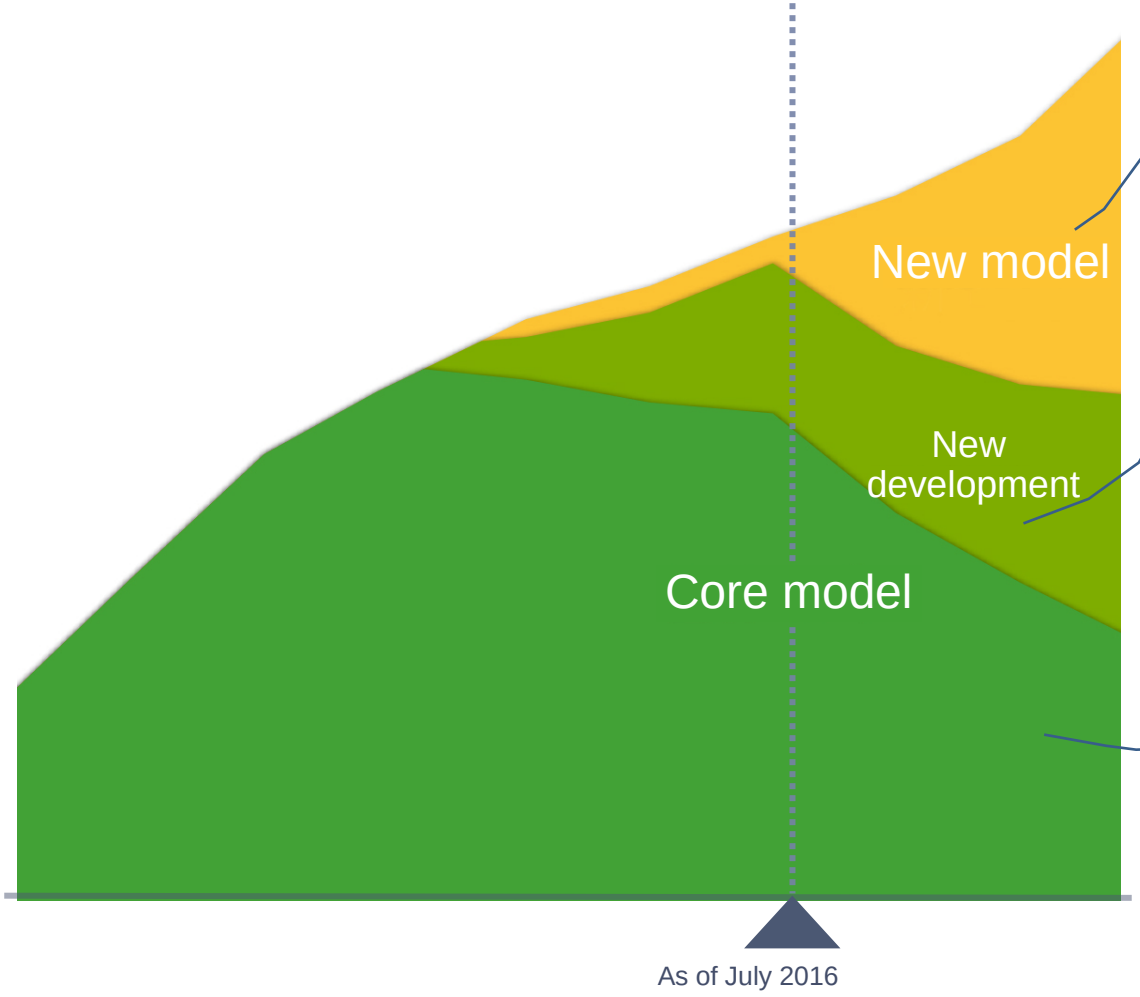
Although the target was not achieved due to postponed launch, the KPI of core users grew steadily.

*The highest ranking in “iOS Top App Charts Grossing Games_Simulation” during the period from April 1 to June 30, 2016 (researched by App Annie).

II Plan after FY2017 (Year Ending June 30, 2017)

3-Year Strategies (No. 1) Building up Business Models

Add “new development” and “new model”
with an eye on the gradual decrease of “core model.”



New model

Series group in which the target group and production technology are different from those of the core model

- Expand the scale and enhance profitability

Core model (new development)

Series group in which the target group and production technology are derived from the existing development

- Enhance profitability

Core model (existing development)

Romance Apps that have been distributed as current F2P and P2P

- Strive to maintain profitability

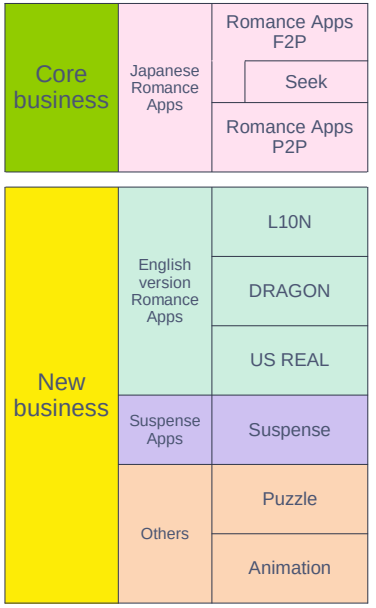
Business Classification after FY2017 (Year Ending June 30, 2017)

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

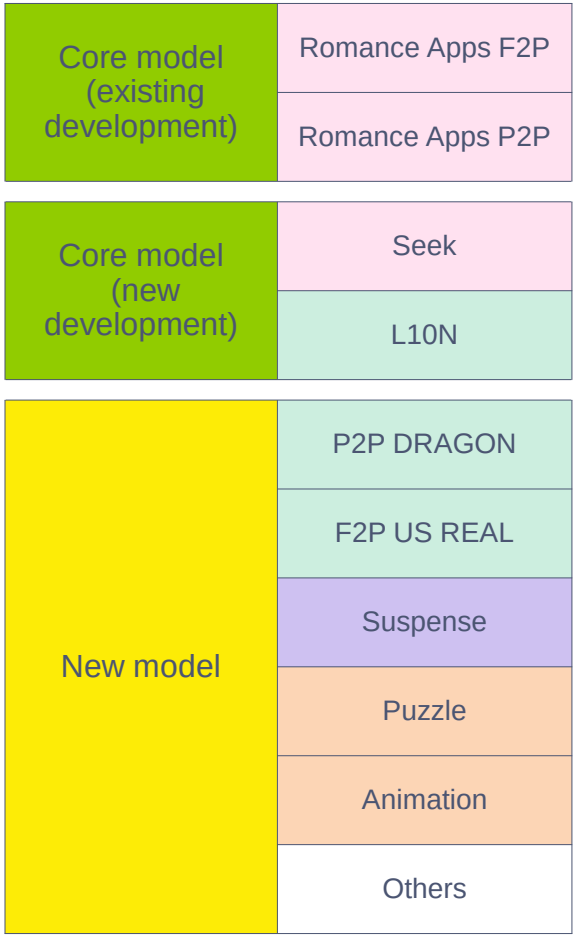
Policy of business classification

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 Animation		

Previous classification



New classification



Three-year Strategies (No. 1)

Acquire the flexibility to respond to changes, aiming to sustainable growth

Current issues

Core model

Obsolescence of profitable framework (processes and manuals) and loss of its substance

New model

Lack of dedicated management, brake for greater loss and knowhow of continuous creation

Four reforms

A

(1) Establish 15 self-directed organizations

B

(2) Develop a system that produces new development and model

(3) Develop a system that cultivates business and produces profit

C

(4) Evolve the group framework

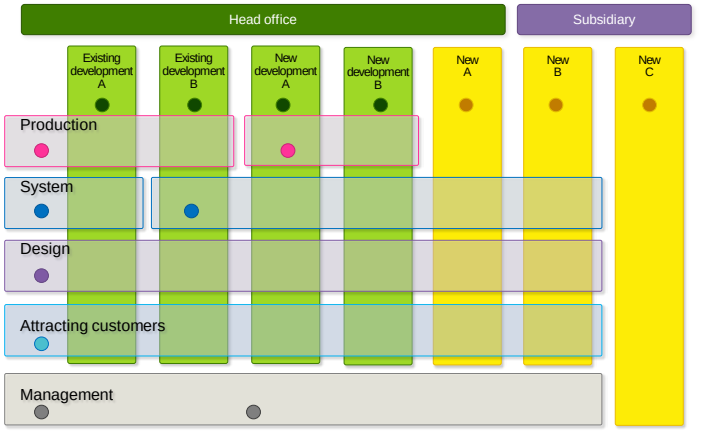
Note: Necessary measures will be added to the Three-year Strategies, where appropriate.

Reform (1) -Establish 15 self-directed organizations

Establish self-directed organizations, centering on young leaders that have the capability to earn profit

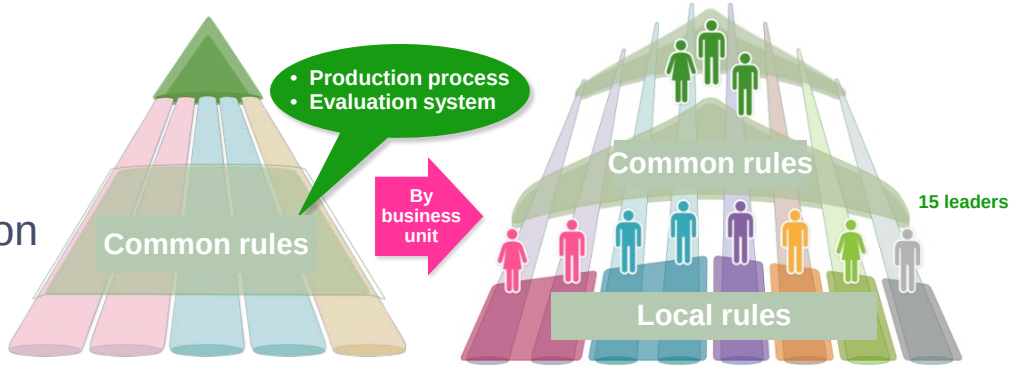
Train 15 leaders

- The number of members of the biggest organization should not be more than 100 persons. Select and train 15 leaders.
- Acquire the capability to earn profit by gaining experience to establish business, etc.



Promote self-directed organizations

- Set the most appropriate local rules for each business unit
- Keep good balance between common rules and local rules

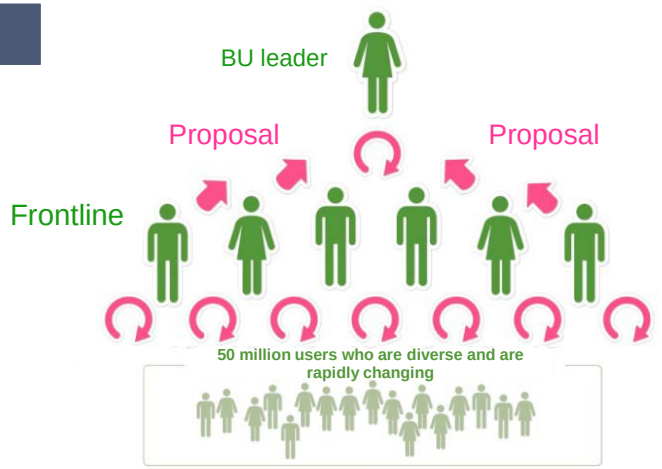


Reform (2) -Develop a system that produces new development and model

Create new series through further acceptance of proposals from local staff based on the principle of “act locally.”

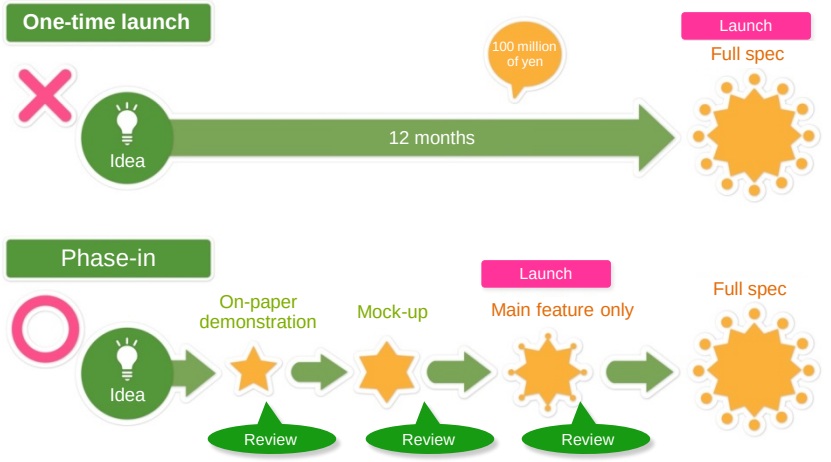
Further acceptance of proposals from local staff

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



Phase-in launch process

- Produce a prototype at lower cost
- Speedily capture market response
- Prompt GO/Not GO decision

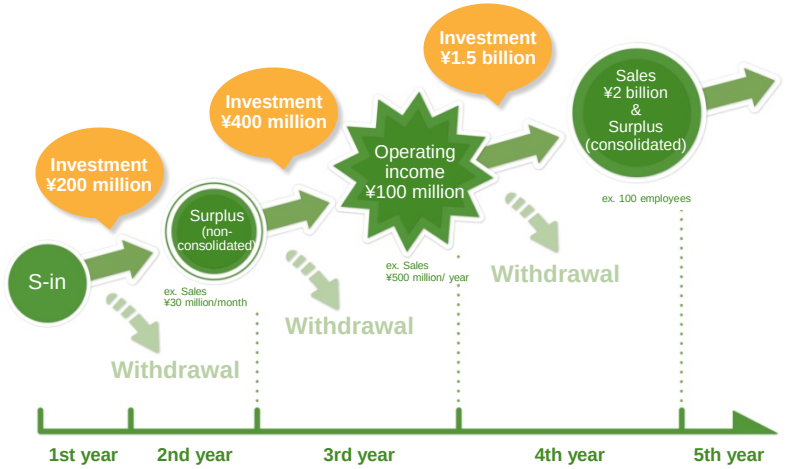


Reform (3) -Develop a system that cultivates business and produces profit

Develop business by setting clear goals and Try & Shakeout scheme

Set clear goals

- Set the clear passing line for new model
  Cultivate the base that will grow to ¥10 billion level
  (1) Surplus (non-consolidated) within 24 months
  (2) Annual operating income of ¥100 million in the 3rd year
  (3) Annual sales of ¥2 billion in the 4th year & surplus (consolidated)



Phase-in Try & Shakeout scheme

- Regular review of business feasibility and cost management
- Frequent operating adjustment

	Development	Launch	Operation
Product development	• AB test • User review		• KPI plan/actual • Product improvement
Investment/ collection	• Cost management • Three-year earning forecast		• Strategy roadmap • Plan/actual management

Reform (4) -Evolve the group framework

Promote “modest tie-up between small autonomous organizations.”

- Group a certain business areas and establish strategic subsidiaries based on the variance of the target customer group and production technology
- Juggle with optimization of approach to each target customer group and scale expansion

On July 1, 2016, the second strategic subsidiary
“Volmo Co., Ltd.” was established
(Voltage+motion)

- Voltage’s executive officer was appointed as Representative Director.
- Produce animation-type contents

Important tasks for FY2017 (Year Ending June 30, 2017)

Classification		Important tasks
Core model (existing development)	Romance Apps F2P	Improve ARPPU through dissemination of successful strategies to other BUs and prepare next IP titles
	Romance Apps P2P	Strengthen the planning capability and improvement of ARPPU through implementation of new events
Core model (new development)	Seek	Develop new titles and introduce the series through improvement of “Doubt”
	L10N	Carefully choose titles, improve profitability and launch “Liar!” (Japanese title: “Doubt”)
New model	P2P DRAGON	Further attract customers through development of portal site for AmeMix series
	F2P US REAL	Promote events/strengthen the operation of “Curses” and consider the introduction of the series
	Suspense	Reduce development personnel expenses by enhancing operating efficiency of “Roppongi.”
	Puzzle	Increase the charging rate by adding “Love Scramble” characters and main story and strengthen advertising
	Animation*	Start with minimum launch

* Animation-type contents that are being produced by Volmo Co., Ltd.

New Applications Launch Schedule

	April	May	June	18th term July	August	September	From October
F2P						Abbreviation: Prince II Setup:Fantasy	
P2P				Suspect (Yogishatachi no amai takurami) Setup: Real Entertainment 9th Done			Abbreviation: Y Setup: Real
Seek							
L10N DRAGON US REAL	[P2P L10N] Bad Boys Do It Better! Setup: Real The U.S. Entertainment 23rd Done		[P2P L10N] Era of Samurai: Code of Love Setup: Fantasy The U.S. Entertainment 40th Done			[P2P DRAGON] Abbreviation: C Setup: Real	[F2P L10N] Liar! - Uncover the Truth - Setup: Real TOPICS: “Doubt” translated in English
Suspense puzzle Animation				LOVE ☆ Scramble Setup: Fantasy Game - simulation 39th Done			

*Sources of ranking in Japan are “iOS Top App Charts Grossing Games_Simulation” and “iOS Top App Charts Grossing Entertainment.”
Sources of ranking in the U.S. are “iOS Top App Charts Grossing Games_Simulation” and “iOS Top App Charts Grossing Entertainment.”
Each of the rankings is the highest during the period from April 1 to June 30, 2016 (researched by App Annie).

Earnings Forecast

FY2017 is the first year of the organizational reform. Forecasting sales of ¥11.3 billion and operating income of ¥600 million.

[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	65.44 yen	-

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

Profit distribution (dividends from surplus)

The Company's basic dividend policy is to promote a good balance between returning profits to shareholders and securing internal reserves for future business development and reinforcing the management structure.
Specifically, we intend on maintaining stable dividend payments and determining the dividend amount by taking into account the dividend payout ratio and other factors.
Based on the above basic policy, the Company plans on distributing a year-end ordinary dividend of 15 yen per share.

	Amount Determined (Fiscal Year Ended June 30, 2016)	Pervious year's results (Fiscal Year Ended June 30, 2015)
Record Date	June 30, 2016	June 30, 2015
Dividend per share	15 yen	15 yen
Total dividends	77,933,130 yen	77,322,585 yen
Dividend payout ratio	36.9%	33.1%
Effective date	September 30, 2016	September 30, 2015

*Dividend for the year ended June 30, 2016 is indicated on assumption that it is approved at the annual general meeting of shareholders on September 29, 2016.
*Dividend for the year ending June 30, 2017 is not yet decided. The Company plans on considering appropriate return to shareholders in accordance with the above basic policy.

Profit Distribution (Purchase of Treasury Shares)

The Company will proceed to acquire its own shares with a view to enhancing capital efficiency and returning profits to shareholders as well as being able to carry out flexible capital policy in response to a change in management environment.

Details of purchase of treasury shares (except from a material disclosed today)

(1) Class of shares to be purchased: Common stock
(2) Total number of shares to be purchased: 100,000 shares (max.)
(3) Total purchase cost: ¥100 million (max.)
(4) Period for purchase: August 17, 2016 - September 30, 2016

Execution of purchase of treasury shares	After acquiring 100,000 shares	As of today
Total number of shares issued (including treasury shares)	5,195,770 shares	5,195,770 shares
Number of shares acquired on and after August 17, 2016	100,000 shares	-
Number of treasury shares	100,228 shares	228 shares
Holding ratio	1.929%	0.004%

Definition of Terms

Term	Meaning
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 series	A series produced based on the specification of “Doubt - Usotsuki Otoko wa Dare (Who is the liar)?” 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 picture targeting the North American market (Term previously used: US original).
DRAGON	Content with animation picture designed for the North American market. The name originates from the dragon roll, sushi arranged for North America. Referred to as AmeMix for users.
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.

Voltage Inc.

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