FY2017 Review

Financial Results Briefing

August 14, 2017

Voltage Inc.
TSE 1st. Section Securities Code: 3639

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Full Year Results

Summary for Full Year

Sales and net income declined 21% and 73% year on year, respectively.
Contribution of various preparations carried out as part of organizational reform to performance is expected to take effect in next term or thereafter.

[Millions of Yen]

	FY2017			FY2016	
	Full year	% to sales	YoY	Full year	% to sales
Sales	8,820	100.0%	78.6%	11,219	100.0%
Cost of sales	3,898	44.2%	89.3%	4,364	38.9%
Labor cost	1,690	19.2%	87.3%	1,936	17.3%
Outsourcing cost	1,138	12.9%	81.9%	1,390	12.4%
Others	1,068	12.1%	103.0%	1,037	9.2%
SG&A expenses	4,780	54.2%	75.6%	6,324	56.4%
Advertising expenses	555	6.3%	43.5%	1,277	11.4%
Sales commission	2,722	30.9%	80.0%	3,404	30.3%
Others	1,502	17.0%	91.5%	1,642	14.6%
Operating income	141	1.6%	26.6%	530	4.7%
Ordinary income	158	1.8%	32.5%	488	4.4%
Net income for the term attributable to owners of parent	24	0.3%	11.5%	210	1.9%

Balance Sheet & Cash Flow Statement

Balance Sheet

[Millions of Yen]

	End of FY2017	End of FY2016	% to End of FY2016
Current assets	3,406	3,705	91.9%
Non-current assets	1,023	1,199	85.3%
Total assets	4,429	4,905	90.3%
Current liabilities	693	1,037	66.8%
Non-current liabilities	-	-	-
Total liabilities	693	1,037	66.8%
Shareholders' equity	3,715	3,868	96.0%
Accumulated other comprehensive income	20	0	-
Subscription rights to shares	-	-	-
Net assets	3,736	3,868	96.6%
Total liabilities and net assets	4,429	4,905	90.3%

Decline primarily in cash, deposits, and accounts receivable

Decline in accrued expenses due to the reduced payment of advertising expenses, etc.

Cash Flow Statement

[Millions of Yen]

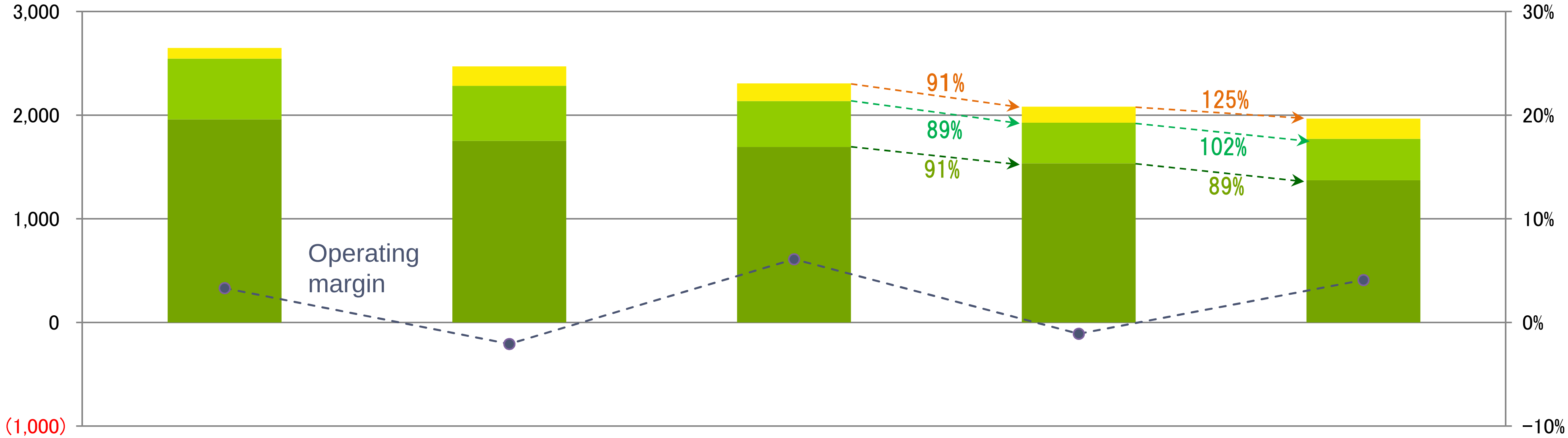
	FY2017	FY2016
CF from operating activities	241	920
CF from investment activities	△206	△372
CF from financial activities	△177	△69
Gain / loss in cash and cash equivalents	△105	417
Year-end balance of cash and cash equivalents	2,132	2,237

Decline primarily in income before income taxes and collection of accounts receivable

Quarterly Sales by Business Segment

For 4Q, "Trial product" increased 25% on YoY basis due mainly to steady sales of "DRAGON series."
In contrast, "Core series" continued to decline due mainly to slow sales of
Romance App "F2P series" for OS-related PF.

[Millions of Yen]

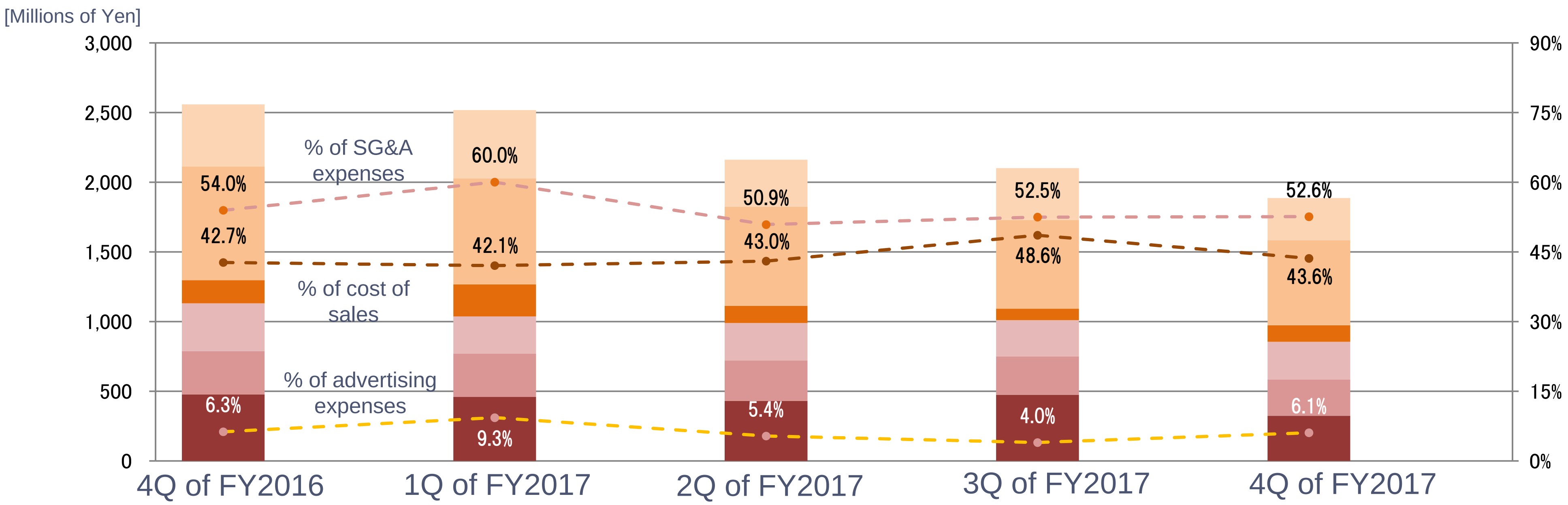


	4Q of FY2016		1Q of FY2017			2Q of FY2017			3Q of FY2017			4Q of FY2017		
	Results	YonY	Results	YonY	QonQ	Results	YonY	QonQ	Results	YonY	QonQ	Results	YonY	QonQ
Core series	1,958	88%	1,752	75%	89%	1,692	74%	97%	1,534	71%	91%	1,371	70%	89%
New series	586	122%	530	128%	91%	442	79%	83%	392	55%	89%	398	68%	102%
Trial product • Others*	103	877%	187	1,151%	181%	170	847%	91%	154	553%	91%	193	188%	125%
Total for Company	2,648	97%	2,469	89%	93%	2,305	80%	93%	2,081	71%	90%	1,963	74%	94%

* "Other" includes titles with the new technology that were launched in the 2nd quarter of FY2017.

Quarterly Expenses and Operating Income

Reduced total expenses by 74% on YoY basis by controlling advertising expenses, etc.



	Results	YonY	Results	YonY	QonQ	Results	YonY	QonQ	Results	YonY	QonQ	Results	YonY	QonQ
Cost of sales	1,131	108%	1,038	97%	92%	991	91%	95%	1,011	94%	102%	856	76%	85%
Labor cost	478	95%	459	91%	96%	430	89%	94%	475	102%	110%	324	68%	68%
Outsourcing cost	310	91%	311	87%	100%	290	78%	93%	275	78%	95%	261	84%	95%
Others	343	170%	267	131%	78%	270	118%	101%	260	100%	96%	270	79%	104%
SG&A expenses	1,428	99%	1,482	83%	104%	1,173	78%	79%	1,092	68%	93%	1,032	72%	94%
Advertising expenses	166	75%	230	46%	138%	123	43%	54%	82	26%	67%	119	72%	144%
Sales commission	816	98%	760	89%	93%	712	84%	94%	638	72%	90%	611	75%	96%
Others	446	116%	491	113%	110%	337	94%	69%	371	93%	110%	302	68%	81%
Total expenses	2,560	103%	2,521	88%	98%	2,165	84%	86%	2,104	78%	97%	1,888	74%	90%
Operating income	87	36%	△51	–	–	140	49%	–	△22	–	–	74	85%	–

Quarterly Balance Sheets

[Millions of Yen]

	1Q of FY2017			2Q of FY2017			3Q of FY2017			4Q of FY2017		
	Results	Change from previous quarter	Q-to-Q %	Results	Change from previous quarter	Q-to-Q %	Results	Change from previous quarter	Q-to-Q %	Results	Change from previous quarter	Q-to-Q %
Current assets	3,464	△241	93%	3,517	53	102%	3,498	△19	99%	3,406	△92	97%
Non-current assets	1,203	3	100%	1,160	△42	96%	1,082	△78	93%	1,023	△59	95%
Total assets	4,667	△237	95%	4,678	11	100%	4,581	△97	98%	4,429	△151	97%
Current liabilities	1,038	1	100%	911	△127	88%	878	△32	96%	693	△185	79%
Non-current liabilities	—	—	—	—	—	—	—	—	—	—	—	—
Total liabilities	1,038	1	100%	911	△127	88%	878	△32	96%	693	△185	79%
Shareholders' equity	3,633	△235	94%	3,736	102	103%	3,678	△57	98%	3,715	37	101%
Accumulated other comprehensive income (loss)	△4	—	—	31	—	—	23	△7	75%	20	△2	88%
Subscription rights to shares	—	—	—	—	—	—	—	—	—	—	—	—
Net assets	3,629	△238	94%	3,767	138	104%	3,702	△65	98%	3,736	34	101%
Total liabilities and net assets	4,667	△237	95%	4,678	11	100%	4,581	△97	98%	4,429	△151	97%

18th Term Review, Organizational Reform, Main Themes of Each Quarter

VOLTAGE

In the 18th Term, a major organizational reform was carried out to form the base in order for the company to get on a growth track again.

	First Half		Second Half	
Main themes	- 15 leaders - Autonomous organization	- Eagerness for "New" - Rules for investment in trial product	- Core series: Reorganize products / organization for Japanese women	- Draw up business plans for each unit.

Organizational operation

▼ Reform the personnel appraisal system
Organization of duties and job classification

▼ System design for "Working-style" reform
telework, flexible work patterns, refresh leave

Introduction

Business category

From July 1, 2016

- Core model
  - Existing model development
  - New development
- New model
- New genre

From December 1, 2016

- Core series
- New series
- Trial product
- New genre

From July 1, 2017

		Core	Trial
Japanese women	Casual	★	★
	Casual core	★	★
	Core		★
English / men			★
New genre			★

Initiatives in 4Q and Schedule

Target	Content		Initiatives and schedule	Category
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. Although the event was held in early June but there is 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
Casual core		Koiran (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. Aug. 1: Number of preliminary registrants reached 100,000. Expected to reach 150,000 in a few days.	Trial product Team drama
English		Lovestruck	Jun. 15: Started the distribution of the pilot version of the 6th title "Starship Promise." Sales greatly increased compared with the 3Q result.	Trial product DRAGON

High-tech / IP development in the 18th term

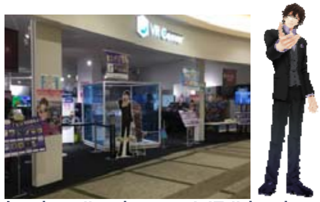
VR

Sep. 15-18, 2016
Exhibition in TGS


▲ Gained great popularity. Numbered tickets were all distributed in 10 minutes and people waited for cancellation more than 60 minutes to enter.

Apr. 24- Jun. 30, 2017
Exhibition in AEON Lake Town VR Center

Koshigaya



▲ Developing "Intimate VR" in the shopping arcade


▲Collaboration with other makers' VR games

Jun. 23 – Jul. 31, 2017
Exhibition in ADORES VR PARK TOKYO

Shibuya


▲Also popular among non-Voltage users.

Goods

Nov. 5-6, 2016
First exhibition in AGF

▲Acrylic key holders and bromides were popular.
From Dec. 23: Resold some goods in After AGF.

Jun. 8-21, 2017
Opened Voltage Shop.

Ikebukuro

▲Over 100 people waited in line although it was a week day.

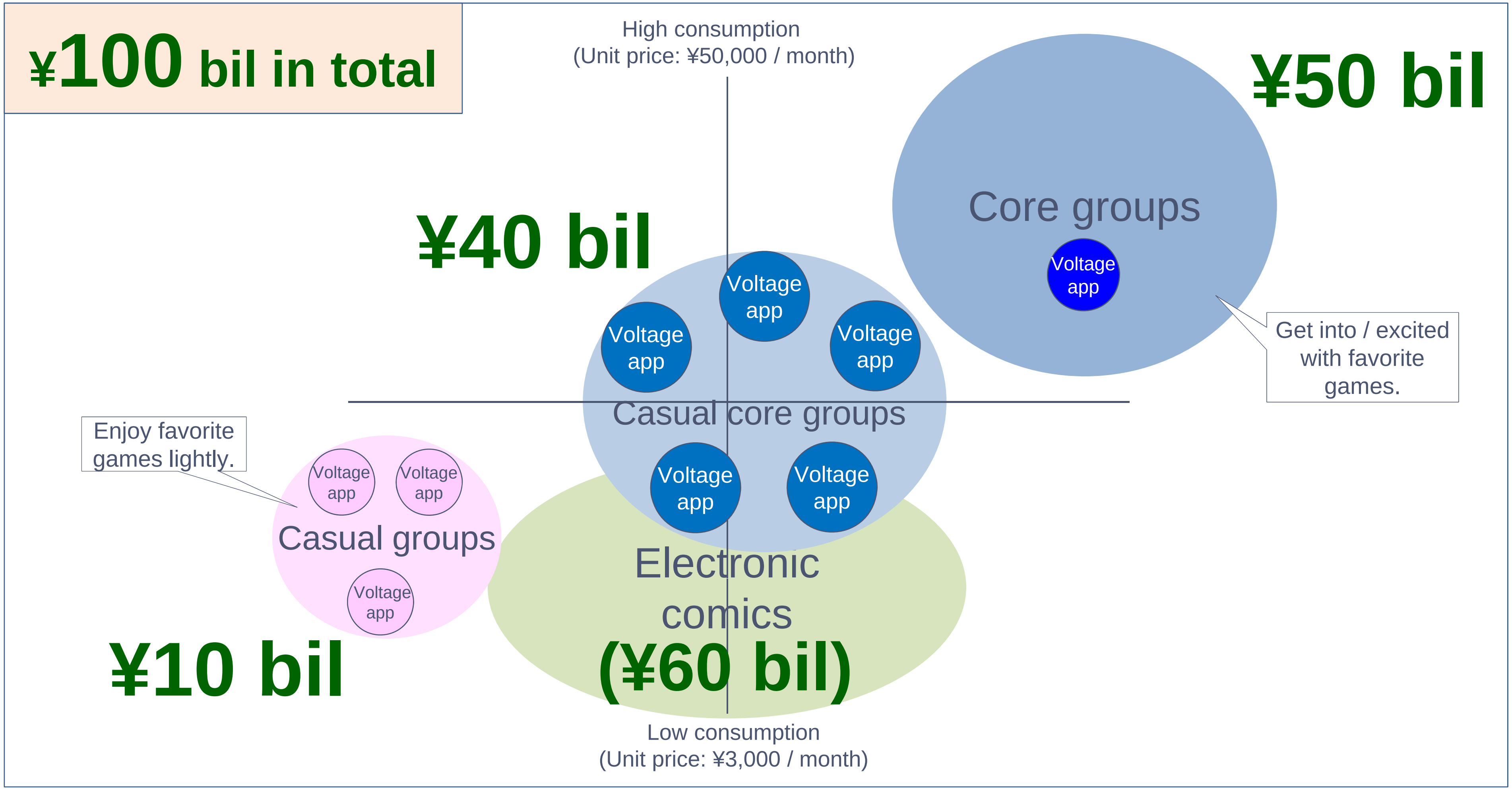
Ⅱ

Plans for the term ending June 2018 and beyond

3-year Strategy (1) Market environment

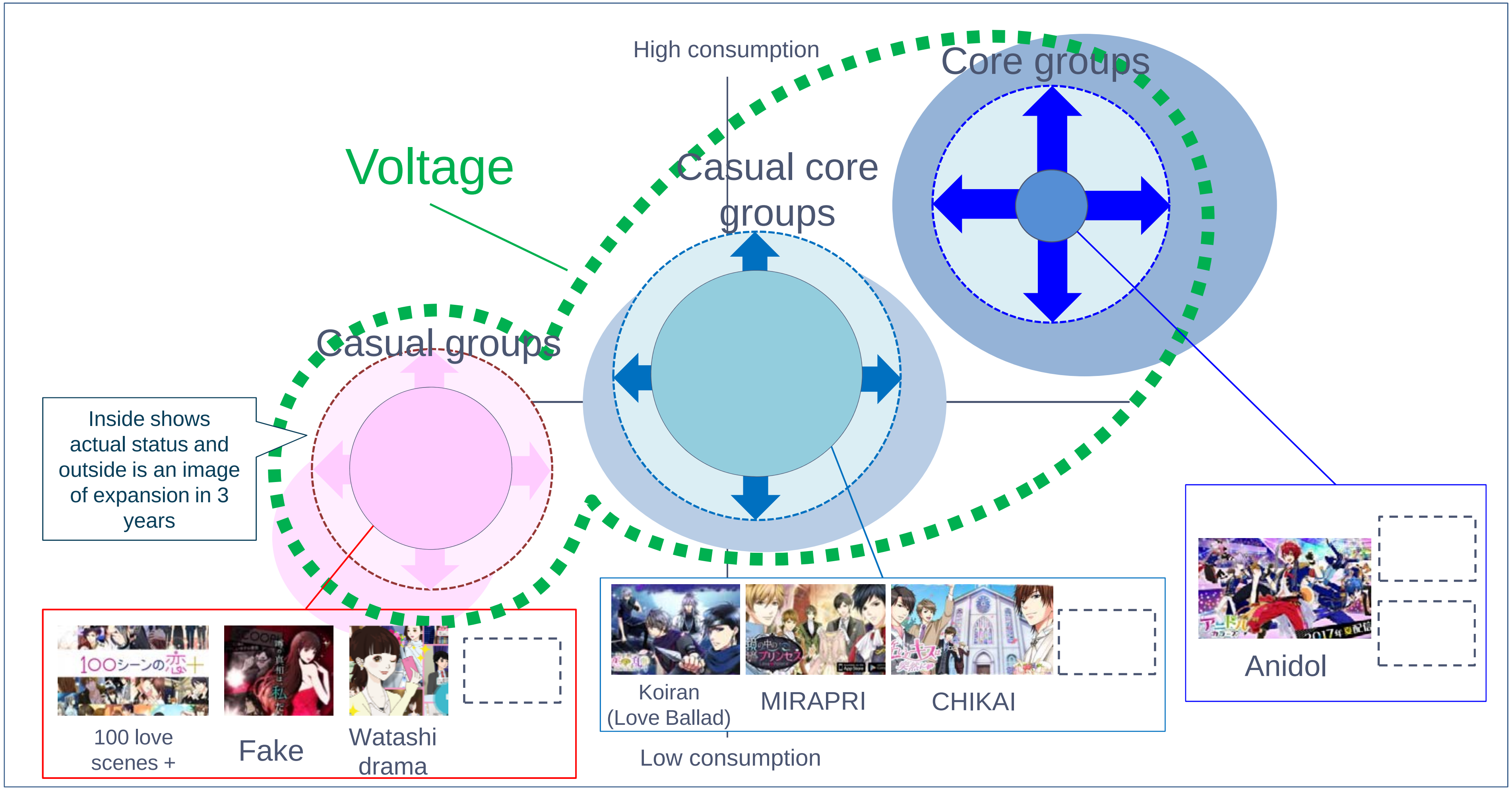
* The term ending June 2018 falls on the second year of the 3-year Strategy.

The market size of "Otonajoshi x Story" application is 100 billion yen (estimation by Voltage).



■ 3-year Strategy (2) Basic strategy

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

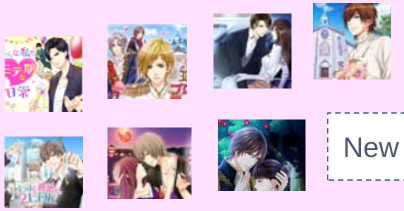


3-year Strategy (3) Development according to Casual / Core

Develop "Reading app" for Casual groups and
greatly develop IP for Casual core / Core groups.

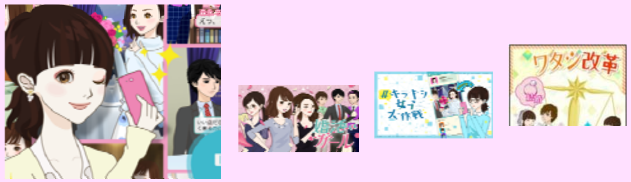
For Casual groups

Develop with "Reading app."
Add stories as appropriate
in the reading app.



New titles

100 love scenes +



New titles

Watashi drama

For Casual core / Core groups

Expansion by "IP great development"
Develop hit titles to goods / animation.

To VR

To comics

To animation

Goods development

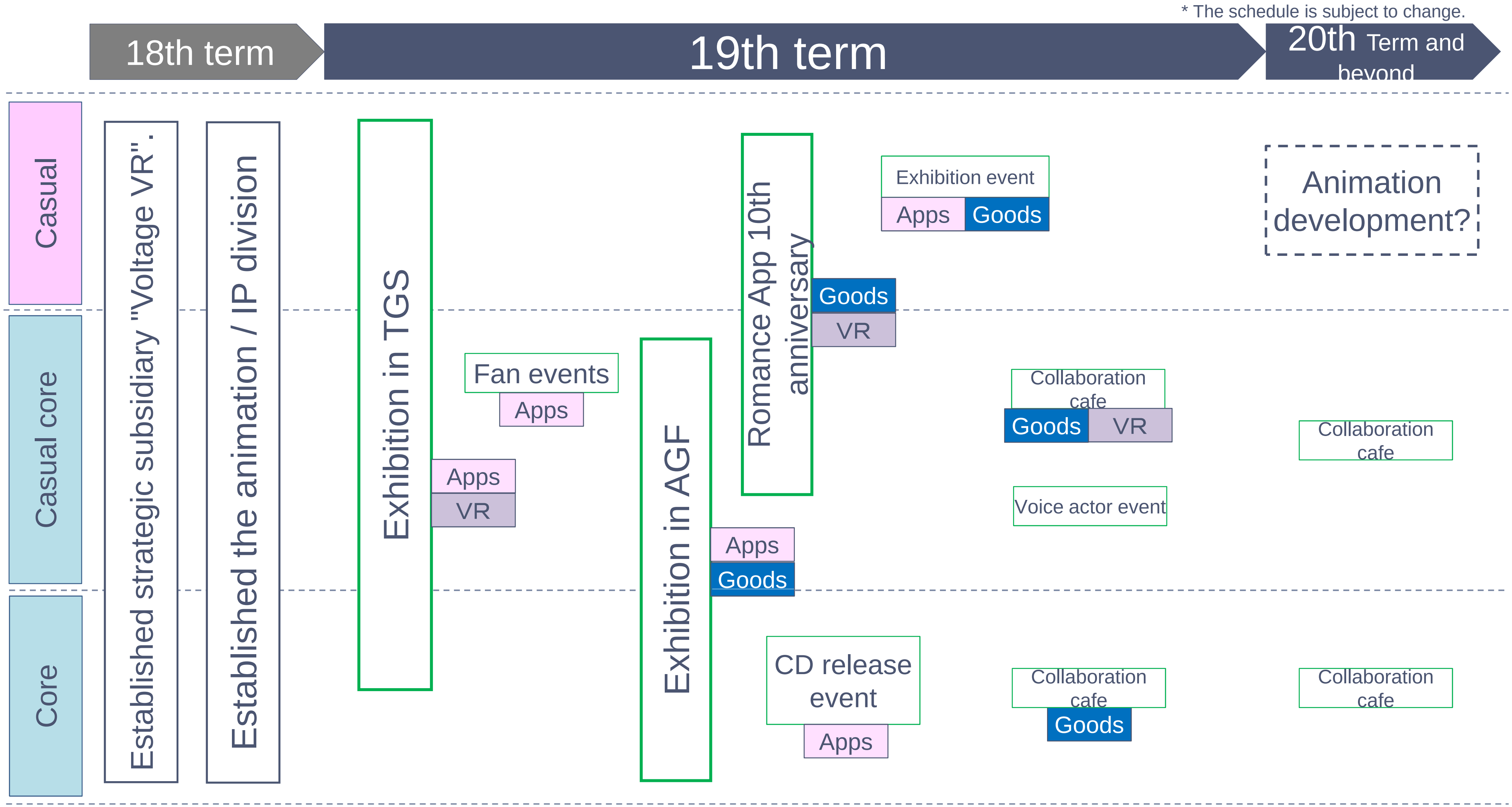
Apps

Koiran
(Love Ballad)

Anidol

3-year Strategy (4) Animation / Goods / VR

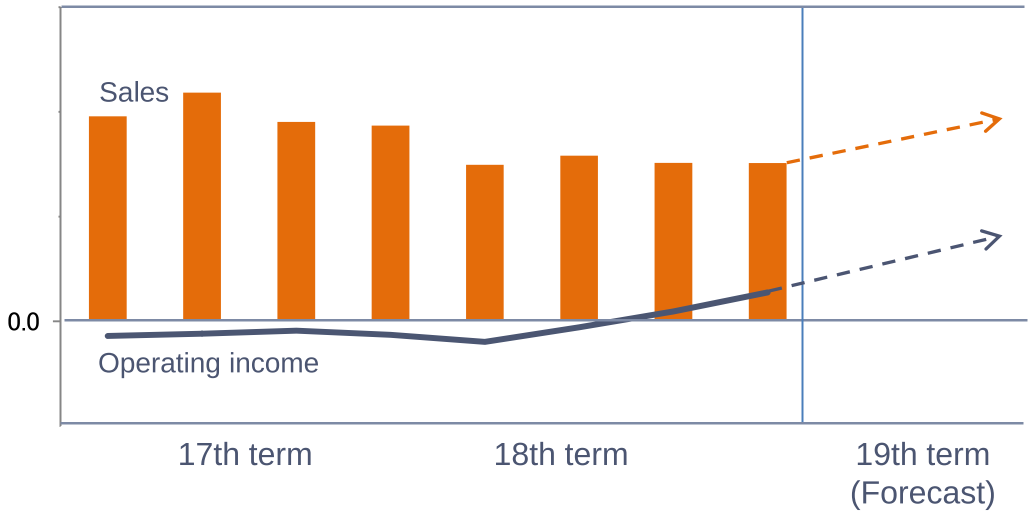
Develop with focus on TGS, AGF, and Romance App 10th anniversary event



3-year Strategy (5) English

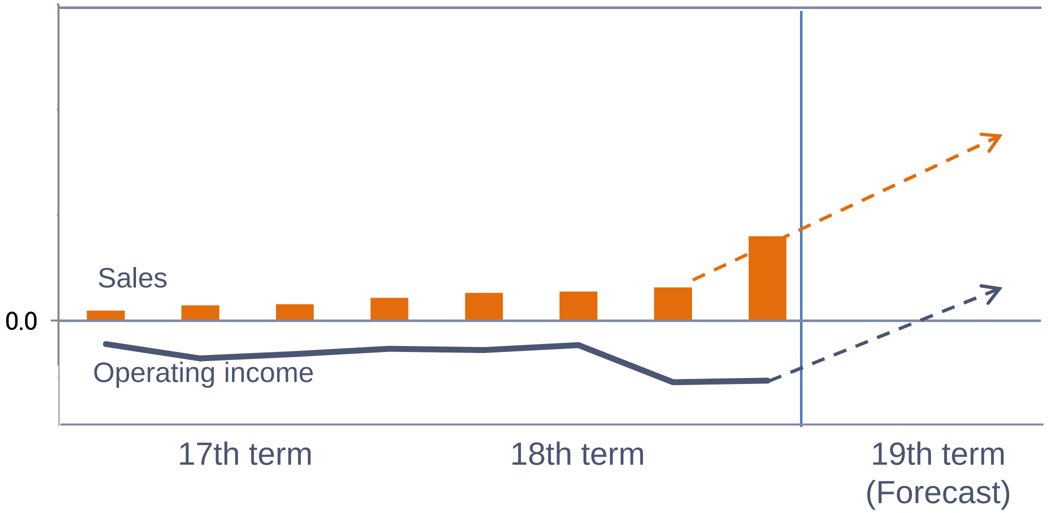
"L10N" is already producing profit.
"DRAGON" is also expected to produce profit in the 19th term.

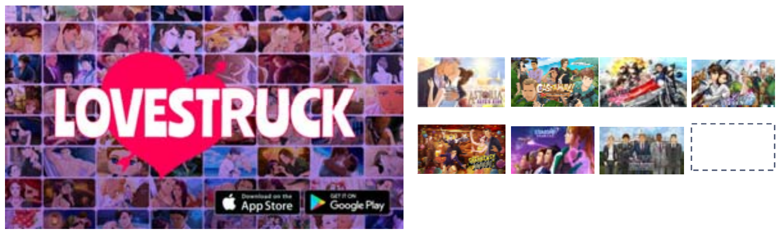
(Ebisu studio)
L10N



▲Expand sales centering on well-selling "Samurai"
(Translation version of "Tenka Toitsu Koi no Ran -- Love Ballad")

(SF studio)
DRAGON





▲Added some titles to Reading App "Lovestruck."

New Apps to be Launched

Target | Apr. 4Q of fiscal year ending June 30, 2017 | Jul. 1Q of fiscal year ending June 30, 2018 | Oct.

Casual

- Released June 1 — Core series / Romance App P2P — 100 Love Scenes +

- Released June 1 — Core series / Romance App P2P — My Popular Days

- Released July 3 — Core series / Romance App P2P — Taisho Romance -- The person of destiny

- Core series / Romance App P2P — 100シーンの恋+ — Abbreviation: S

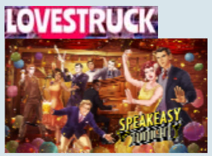
Casual core

Core

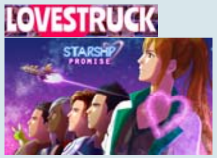
- Trial product -- Japanese women / Team drama — Anidol Colors

English

- Released May 2 — Trial product – English / women / DRAGON — Speakeasy Tonight



- Released June 15 — Trial product – English / women / DRAGON — Starship Promise



- Released July 25 — Trial product – English / women / DRAGON — To Love&Protect

- Trial product – English / women / DRAGON — LOVESTRUCK — Abbreviation: H

New genre

- Released April 10 — Hi-tech / A R — Pokekare AR (Character added)

- Released June 22 — Hi-tech / A R — Pokekare AR (Character and function added)

19th Term Performance Forecast

Forecast for the term ending June 2018 is ¥10 bil in sales and ¥300 mil in operating income

[Unit: mil yen]

	Consolidated	
	Full year	YoY
Sales	10,000	113.4%
Operating income	300	212.5%
Ordinary income	300	189.0%
Net income for the term attributable to owners of parent	190	784.1%
Net income per share	36.55 yen	—

* Net income per share was calculated based on the total number of issued shares as of the end of the term ended June 2017 (5,197,774 shares).

Return to Shareholders (Dividends of surplus)

The basic policy of Voltage on dividend distribution is to keep balance between securing of retained earnings for future business development as well as strengthening of financial position and return of surplus to shareholders.
Specifically, we consider dividend payout ratio and stability to decide the amount of dividends.
For the term under review, although the situation was severe as net income for the term attributable to owners of parent dropped by 88.5% on YoY basis, we are going to distribute the ordinary dividend of 10 yen per share as year-end dividend since both sales and income are expected to increase for next term and we should value the basic policy on dividend distribution.

	Amount decided (Term ended June 2017)	Result of the previous term (Term ended June 2016)
Record date	June 30, 2017	June 30, 2016
Dividend per share	10 yen	15 yen
Total amount of dividends	51,062,460 yen	77,933,130 yen
Consolidated dividend payout ratio	210.7%	36.9%
Effective date	September 29, 2017	September 30, 2016

* The dividend for the term ended June 2017 is stated assuming that it will be approved by the annual general meeting of shareholders to be held on September 28, 2017.
* The dividend for the term ending June 2018 is not yet determined. We are going to consider appropriate return of surplus in accordance with the foregoing policy.

Definition of Terms

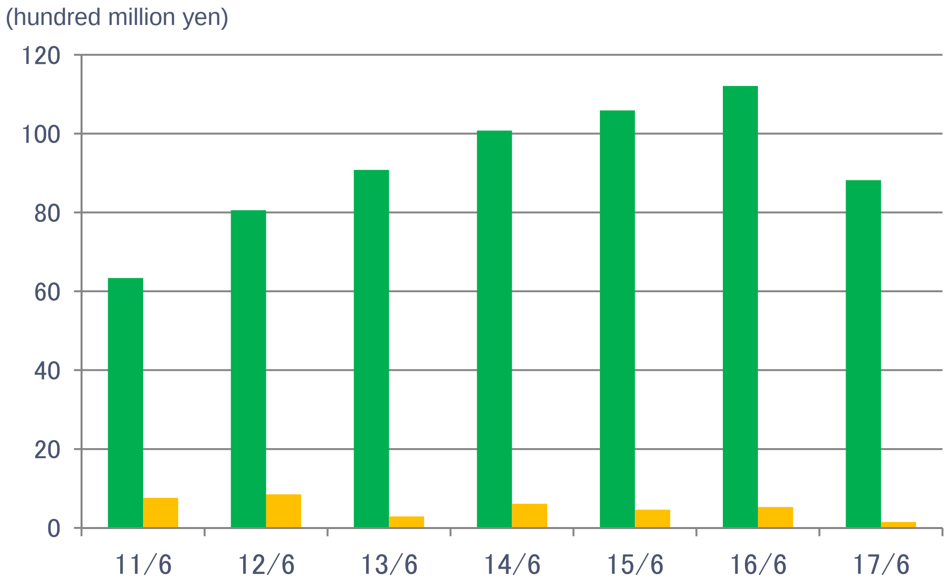
Term	Meaning
OS related PF	App market, such as App Store and Google Play
Core series	Of the Romance Apps, those distributed under the F2P series and the P2P series.
New series	Series group in which the target group and production technology are derived from the core series. The “Seek” series and the “L10N” series apply for the fiscal year ending June 30, 2017.
Trial product	The series group in which the target group and production technology are different from those of the core series and the new series. 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.
New location	New initiatives for which the target group and production technology are different from those of the core series and the new series. New initiatives in the year ending June 30, 2017 included “high-tech” using VR and AR technologies and “live” fields such as goods and theater.
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 drama	A series of stories where the heroine collects evidence and reveals lies and falsehood in the world.
L10N	Content with animation pictures for the North American market. Japanese Romance Apps were translated into English. Abbreviation for localization.
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”.
Team drama	Contents for characters mutually enjoy story development, unlike romance drama apps where the user plays the hero/heroine and enjoys romance with the character.

Reference Material (Corporate Profile)

Company name	Voltage Inc.
Representative Director & President	Yuji Tsutani
Business philosophy	Art & business
Foundation	September 1999
Date of listing	First section of TSE : June 2011 TSE Mothers : June 2010
Capital	936 million yen (as of the end of June 2017)
Number of employees	462 (as of the end of June 2017)
Subsidiaries	Overseas: Voltage Entertainment USA, Inc. Japan : Volmo Inc., Volsta Inc., VoltageVR Inc.

Reference material (Financial highlights and share information)

-Recent sales and operating income



	11/6	12/6	13/6	14/6	15/6	16/6	17/6
Sales	63.4	80.6	90.8	100.8	105.9	112.1	88.2
Operating income	7.6	8.5	2.9	6.1	4.6	5.3	1.4

- Share information (as of the end of Jun. 2017)

Total number of authorized shares	15,120,000 shares
Total number of issued shares	5,197,774 shares
Number of shareholders (only for share unit holders)	3,757 persons

- Major shareholders (as of the end of Jun. 2017)

Shareholders	Number of shares (shares)	Ownership ratio (%)
Yuji Tsutani	967,800	18.95%
Nanako Tsutani	368,200	7.21%
Trustee of specific securities SMBC Trust Bank Ltd.	200,000	3.92%
SBI Securities Co., Ltd.	193,800	3.80%
Tadahiro Kanbayashi	131,700	2.58%
Matsui Securities Co., Ltd.	116,400	2.28%
Japan Securities Finance Co., LTD	109,700	2.15%
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	107,340	2.10%
CHASE MANHATTAN BANKGTS CLIENTS ACCOUNT ESCROW	102,154	2.00%
Third Street Inc.	100,000	1.96%

Voltage Inc.

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