FY2018 Review

Financial Results Briefing

August 14, 2018

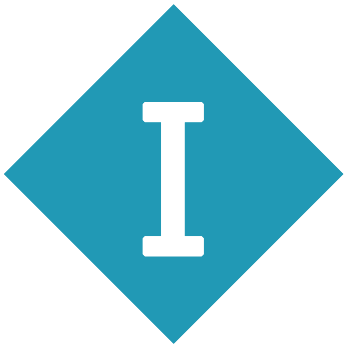
Voltage Inc.

TSE 1st. Section Securities Code: 3639

Executive Summary

FY2018 Financial Results	*Business structure reforms that we began in FY2018 as part of our three-year strategy are ongoing. ■ Revenues and profits have declined with sales at 7.39 bil yen, and operating income at △1.04 bil yen. While sales of our Japanese language women apps continue to decline, the English language women apps and men-focused apps (and others) are doing well, producing surpluses for the full year.
Looking back on FY2018	■ First half: Focus on app superiority; optimization of advertisement scale; and development of new models We have maintained sales levels by making ongoing improvements to our app superiority and optimizing the scale of our advertisement programs. ■ Second half: Optimization of app design; improved ad precision; and streamlined organization Game designs were optimized for each user segment. Steps were taken to improve ad precision. Steps were taken to reduce fixed costs, including cutbacks in hiring.
Themes scheduled for FY2019	■ Continue with our "smart operations and next step for growth" We will be taking ongoing steps to achieve smart operations and establish original know-how with regard to the Japanese language women group. ■ We will be maximizing UX for the Japanese language women segment in conjunction with non-app initiatives. Carry out initiatives including events, merchandise sales, and video renditions, etc.
Performance forecast	■ Our forecast for FY2019 is 3.6 bil yen in sales and △250 mil yen in profits. (Only accumulated period for 2Q to be disclosed)

FY2018



Financial Results

Full Year Financial Results Overview

Sales declined 16% year-over-year to 7.39 bil yen, and operating income was at △1.04 bil yen due to declining sales.

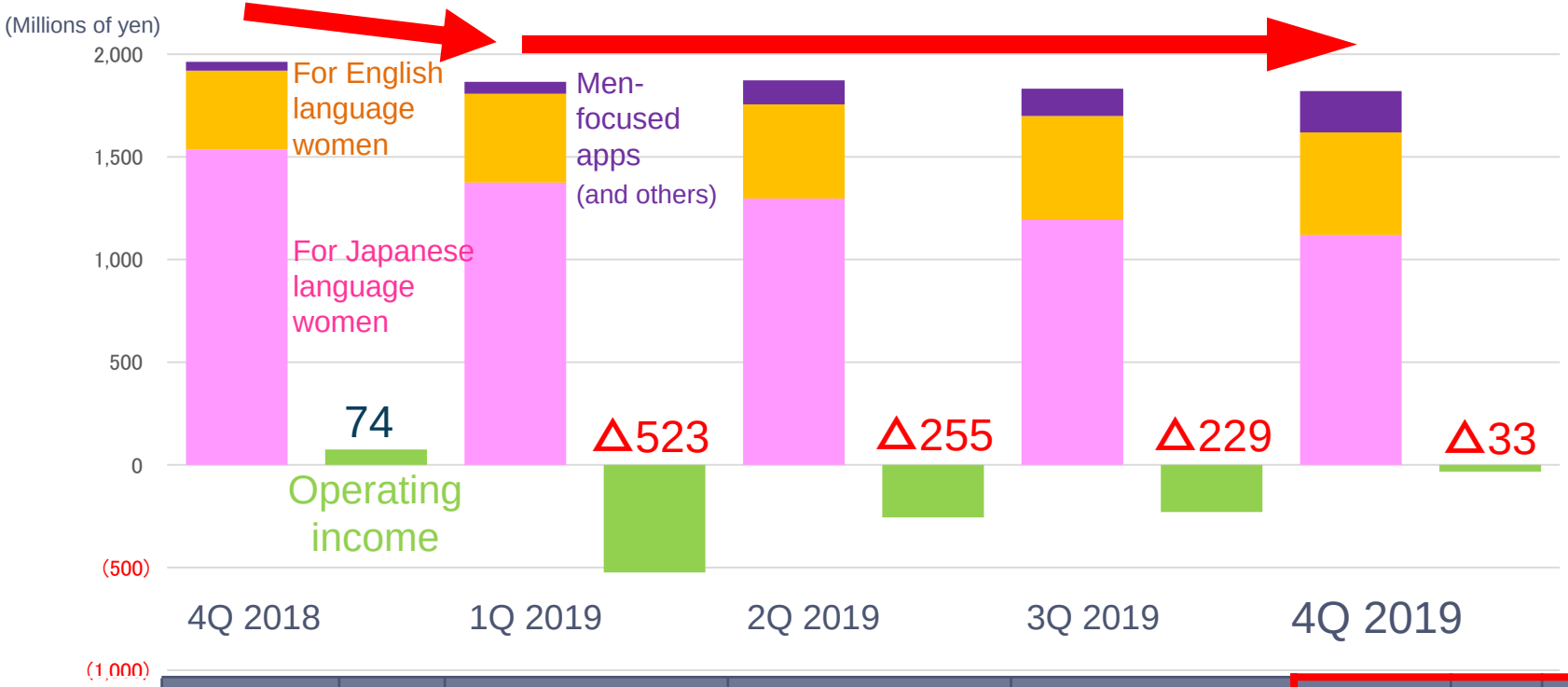
(Millions of yen)	FY2018 Full FY accumulated	FY2018 % to sales	FY2018 YoY	FY2017 Full FY accumulated	FY2017 % to sales
Sales	7,391	100.0%	83.8%	8,820	100.0%
Cost of sales	3,339	45.2%	85.7%	3,898	44.2%
Labor cost	1,539	20.8%	91.0%	1,690	19.2%
Outsourcing cost	904	12.2%	79.5%	1,138	12.9%
Others	895	12.1%	83.8%	1,068	12.1%
SG&A expenses	5,094	68.9%	106.6%	4,780	54.2%
Advertising expenses	1,611	21.8%	290.1%	555	6.3%
Sales commissions	2,299	31.1%	84.4%	2,722	30.9%
Others	1,183	16.0%	78.8%	1,502	17.0%
Operating income	△1,042	—	—	141	1.6%
Current income	△1,067	—	—	158	1.8%
Net income for the quarter attribute to parent company shareholders	△1,328	—	—	24	0.3%

Due to increased scale of advertisement

Booked impairment losses mainly associated with software assets, as well as corporate tax adjustments stemming from drawdowns of deferred tax assets booked in FY2017 and the first and second quarters of FY2018.

Sales Figures by Quarter

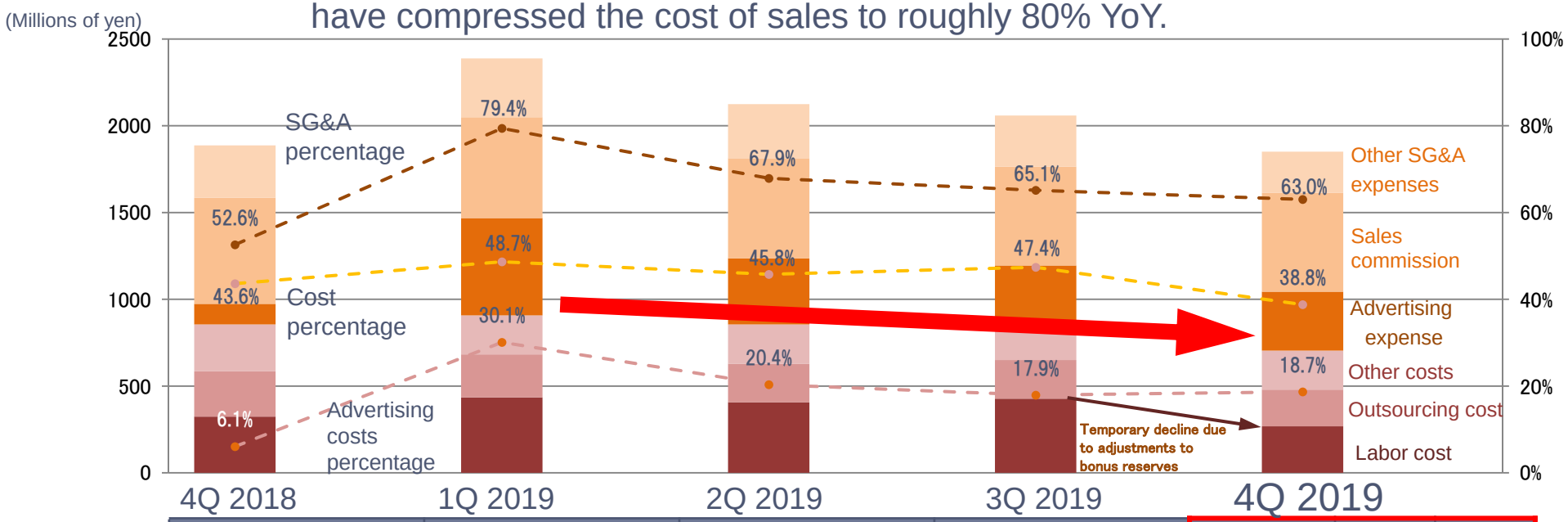
The decline in sales was halted in 1Q and has since leveled out. English language women and men-focused apps (and others) grew to 40%.



	Performance	Composition ratio	Performance	Performance	Performance	Performance	Composition ratio	YonY	QonQ
Japanese language women	1,536	78%	1,375	1,296	1,192	1,120	62%	73%	94%
English language women	384	20%	432	458	507	498	27%	130%	98%
Men-focused apps (and others)	43	2%	57	116	132	201	11%	469%	152%
Total sales	1,963	100%	1,866	1,871	1,832	1,820	100%	93%	99%
Operating income	74	–	△523	△255	△229	△33	–	–	–

Expense Figures by Quarter

Starting in 2Q, we moved forward with cost expenses reductions and have compressed the cost of sales to roughly 80% YoY.



	Performance	Performance	Performance	Performance	Performance	YonY	QonQ
Cost of sales	856	908	856	868	706	82%	81%
Labor cost	324	435	407	427	268	83%	63%
Outsourcing cost	261	247	222	223	211	81%	94%
Other	270	225	226	217	225	84%	104%
SG&A expenses	1,032	1,482	1,270	1,193	1,147	111%	96%
Advertising expenses	119	561	381	328	340	286%	104%
Sales commission	611	581	577	570	569	93%	100%
Other	302	339	312	294	238	79%	81%
Total expenses	1,888	2,390	2,127	2,062	1,854	98%	90%

Balance Sheet & Cash Flow Statement

Balance Sheet

(Millions of yen)

	End of FY2018	End of FY2017	% to End of FY2017
Current assets	2,360	3,406	69.3%
Non-current assets	728	1,023	71.1%
Assets	3,088	4,429	69.7%
Current liabilities	724	693	104.5%
Non-current liabilities	—	—	—
Total liabilities	724	693	104.5%
Shareholders' equity	2,347	3,715	63.2%
Accumulated other comprehensive income	17	20	84.1%
Subscription rights to shares	—	—	—
Net assets	2,364	3,736	63.3%
Total liabilities and net assets	3,088	4,429	69.7%

Cash and deposits declined mainly due to the decline in income.

Retained earnings declined due to booking a net loss for FY2018.

Cash Flow Statement

(Millions of yen)

	FY2018	FY2017
CF from operating activities	△718	241
CF from investment activities	△261	△206
CF from financial activities	△40	△177
Gain/loss in cash and cash equivalents	△1,024	△105
Ending balance of cash and cash equivalents for the FY	1,107	2,132

Due mainly to net loss for the FY before income taxes, etc.

FY2019

Ⅱ Immediate and Near Future Objectives

Reflections on FY2019

We seek to achieve an "independent style" in parallel with our priority focus of regaining surplus

First Half

Business category

2017.7~

		Backbone	Experimental
Japanese language women	Casual	★	★
	Casual-core	★	★
	Core		★
English language and men			★
New segments			★

Focus themes

- Larger apps
- Aggressive marketing

Organizational operations

Promote the implementation of "working practices reforms"
(Teleworking, flexible employment categories, fresh-up holidays)

Second Half

Business category

2018.1~

Japanese language women	Casual	Reading apps
	Casual-core	Avatar apps
	Core	Card apps
English language women		
Men-focused(and others)		
Non-app		Merchandise, events, videos

Focus themes

- As for apps, focus is on superiority.
- Optimize scale of advertisement.

- Optimize game designs for each app group.
- Improve ad precision.
- Streamline the organization.
- Enhance management of non-app activities.

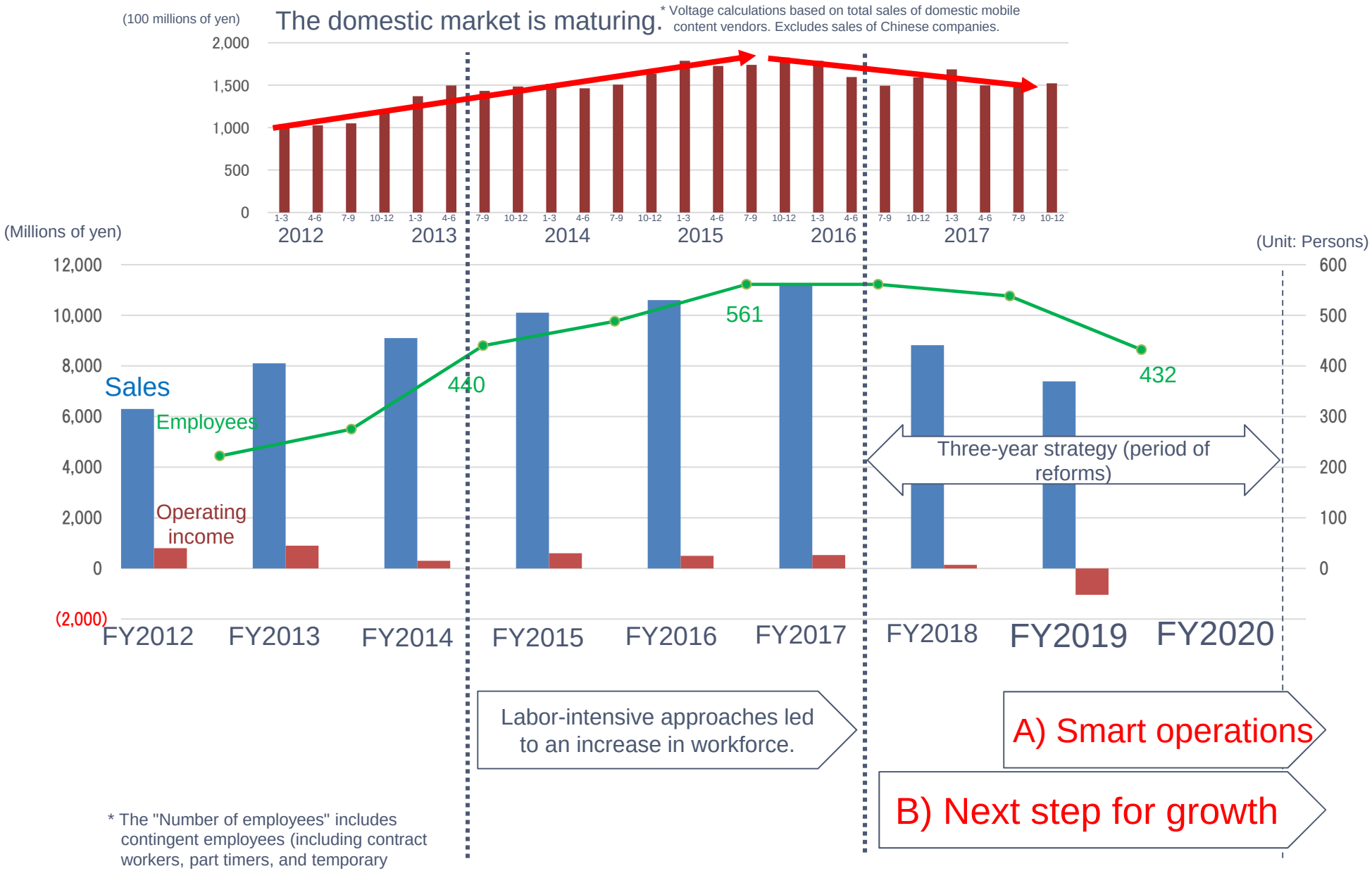
Organizational operations

BU system ⇒ Introduce TU system

Create PD lists (segmentation of job types) and career paths.

* BU = Business unit
TU = Title unit

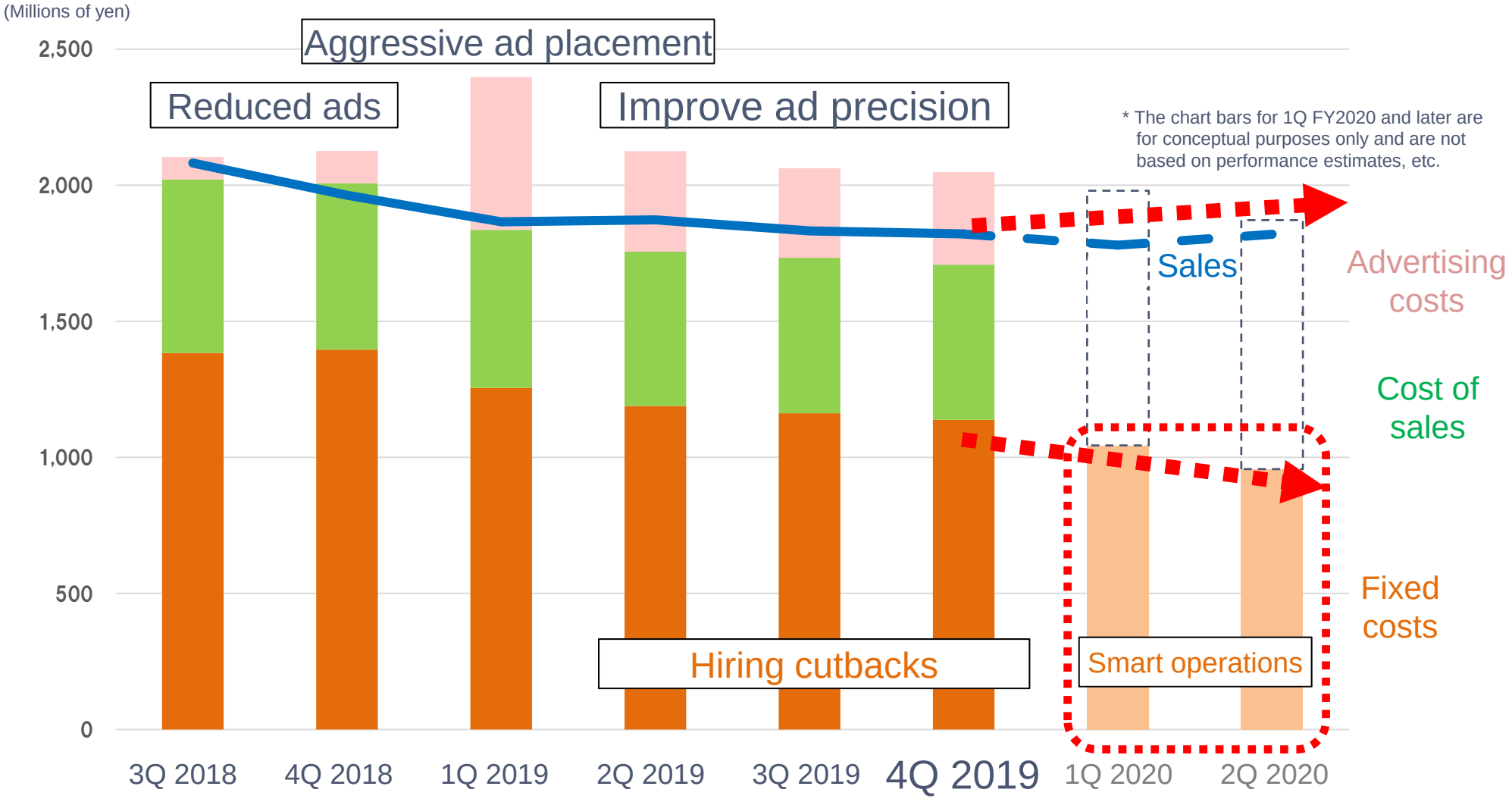
Market Environment, and Immediate and Near Future Objectives



* The "Number of employees" includes contingent employees (including contract workers, part timers, and temporary employees).

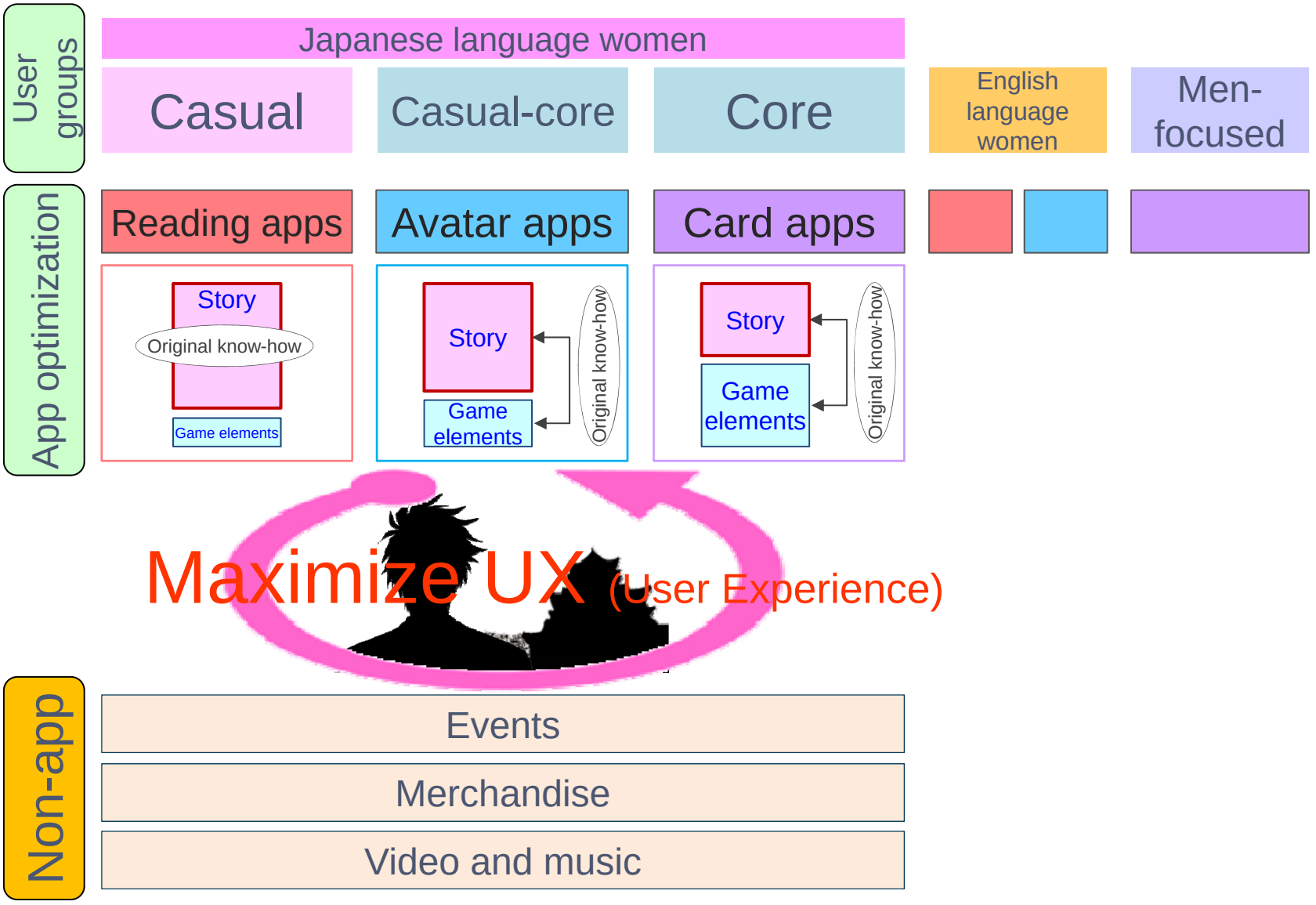
A) Smart operations

We will continue with our smart operations for the near future, and achieve both fixed cost streamlining and small-scale sales growth.



B) Next step for growth

Optimize apps for each user group, and enhance non-app activities to maximize UX.



Specific Initiatives by Title

Apps (for Japanese language women)

Casual | Reading app

100 love scenes+

May: Began distribution of "Masquerade Kiss – "Kiken na kakehiki" (MasKiss for short)

MasKiss is off to a good start.
The "100 love scenes+" series as a whole is also growing steadily.

Core | Card app

Anidol

April: Added Part 2 of the story, and implemented extensive renewals.

App usability has improved but KPI for charging is an area for improvement moving forward.

Apps (for English language women and men-focused)

English language women

Lovestruck

June: Launched "Astoria: Lost Kisses," the 10th production.

Seven years after the foundation of our SF studio, this title has produced its first surplus for the full year!

Men-focused

Roppongi

Pushing for greater appeal under efficient operations.

Two and a half years after launch, this title has produced its first surplus for the full year!

Non-App (events)

Event

Anidol

June: 2.5 Dimensional Stage is held (Korakuen)

This was the first stage enactment, and proved to have potential as IP.

Event

Love365

July: Participated in Anime Expo 2018 (Los Angeles)

First fan meeting outside of Japan.
Filled to 300-seat capacity.

Non-App (events)

Event

MIRAPRI

May: Presented an exhibit in the Island Festa (Hakkeijima Sea Paradise)

Also conducted karaoke collaborations and cake sales for its third anniversary.

Event

Wedding VR

April: SEGA VR AREA AKIHABARA (Akihabara)

June: VR Cafe Bar (Shibuya)

Aggressive expansion into amusement facilities

Non-App (merchandise, video)

Merchandise

Avatar apps in general

April: Voltage Shop 4th Edition (Ikebukuro)

Merchandise associated with characters that ranked high in user popularity votes were sold on site.

Video

Koiran (Love Ballad) anime

May: Began distribution of anime shorts.

Also held commemorative events with appearances by voice-over actors.

1Q 2020 and Later

Event

Koiran (Love Ballad)

The “Natsu Koishi Tenka no Utage" is scheduled to be held (Ginza)

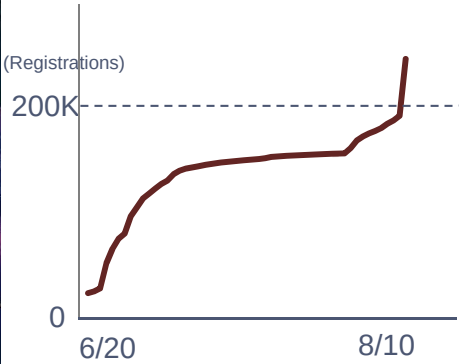
Sales of event-original merchandise are also scheduled.

Casual-core Card apps

Ayakashi Koi Meguri

Distribution to begin this autumn! Currently conducting pre-launch promotions.

Early registration numbers



Early registration began on June 20 and has attracted over 200K registrations.

Timeline of Scheduled New Title Launch Events

Events for 4Q FY2018 have been completed.

Events scheduled for 1Q FY2019 and later

Apr. | Jul.

Japanese language women

Casual

May
Masquerade Kiss
Fatal Maneuvers

Abbreviation: S

Casual-core

This autumn
Ayakashi Koi Meguri

Core

Apr.
Anidol Colors
(Additional and renewed main part)

English language women

Jun.
Kings of Paradise

Jun.
Astoria Lost Kisses

Abbreviation: I

Abbreviation: L

Abbreviation: D

Men-focused

Non-app

Jun.
Anime short
Tenka Toitsu Koi no Ran

Jun.
Anidol Colors
Cure Stage

Jul.
Anime Expo 2018
(Love365 and others)

Aug.
Koiran" anime short
CD+DVD

Aug.
Natsu Koishi
Tenka no Utage

FY2019 Performance Forecast

As it is difficult to make a forecast for FY2019,
we are disclosing a forecast for only 1H.
We forecast sales at 3.6 bil yen and operating income at △250 mil yen.

(Millions of yen)	Consolidated 1H	YoY
Sales	3,600	96.3%
Operating income	△250	–
Current income	△250	–
Net income for the quarter attributable to parent company shareholders	△260	–
Net income for the quarter per share	-円	–

Shareholder return (surplus funds dividends)

◇Our basic policies regarding dividends

It is indispensable that we secure internal reserves to ensure our capability to carry out future operational expansions and strengthen our corporate constitution. To our shareholders, we are committed to provide returns on profits that are in balance with our internal reserve amounts. Specifically, we will be determining our dividend amounts taking into account our dividend payout ratio and long term consistency of dividend amounts.

◇For FY2018

FY2018 has been a very difficult period of time with FY losses attributable to parent company shareholders reaching 1.328 bil yen. Therefore, it is with great regret that we have decided not to make dividend payments.

◇For FY2019

While these matters are yet to be decided at this point in time, we will be reviewing the possibility of appropriate returns according to the above policy.

	Determined amount (FY2018)	Performance for previous FY (FY2017)
Reference date	June 30, 2018	June 30, 2017
Dividend per share	¥0	¥10
Dividend amount	-	¥51,062,460
Consolidated dividend payout ratio	-	210.7%
Effective date	-	Sep. 29, 2017

Explanation of Terms

Terms	Definition
Casual group	Users who enjoy their favorite games casually. Monthly per user consumption is several thousands of yen.
Core group	Highly enthusiastic users who immerse themselves in their favorite games. Monthly per user consumption ranges from ten to several tens of thousands of yen.
Casual-core group	Users who fall between the Casual and Core groups.

Reference Material (company profile)

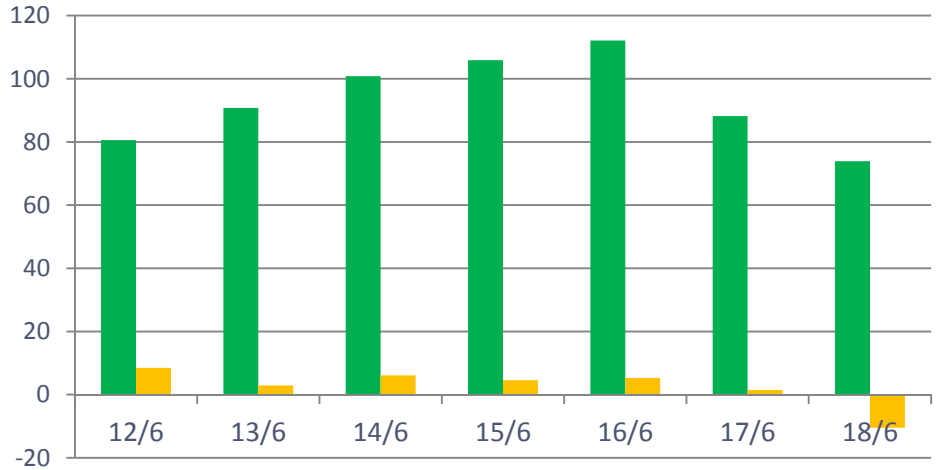
Company name	Voltage Inc.
Representative Director & President	Yuji Tsutani
Business philosophy	Contribute to the world with "arts and business.“ Pursue an independent style of "love and battle dramas."
Foundation	September 1999
Date of listing	First Section of the Tokyo Stock Exchange: June 2011 TSE Mothers: June 2010
Capital	941 mil yen (as of the end of June 2018)
Number of employees	362* (as of the end of June 2018)
Subsidiaries	Overseas: Voltage Entertainment USA ,Inc. Japan: Voltage VR Inc., and Voltage Pictures Inc.

* Does not include part timers or temporary employees.

Reference Material (financial highlights and share information)

-Recent sales and operating income

(Oku [100 millions] yen)



	12/6	13/6	14/6	15/6	16/6	17/6	18/6
Sales	80.6	90.8	100.8	105.9	112.1	88.2	73.9
Operating income	8.5	2.9	6.1	4.6	5.3	1.4	△10.4

- State information(as of the end of June 2018)

Total number of authorized shares	15,120,000 shares
Number of shares issued shares	5,230,075 shares
Number of Shareholders (only for share unit holders)	4,886

- Major shareholders (as of the end of June 2018)

Shareholders	Number of shares (shares)	Ownership Ratio(%)
Yuji Tsutani	967,800	18.50%
Nanako Tsutani	368,200	7.04%
Trustee of specific securities SMBC Trust Bank Ltd.	200,000	3.82%
Matsui Securities Co., Ltd	144,100	2.75%
Tadahiro Kamibayashi	131,700	2.51%
Third Street Incorporation	100,000	1.91%
Voltage Inc.	91,581	1.75%
The Master Trust Bank of Japan (account in trust)	79,700	1.52%
Naoki Yoshikawa	70,200	1.34%
Japan Trustee Services Bank, Ltd. (Trust account 5)	69,300	1.32%

Voltage Inc.

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