FY2022 Review

Financial Results (- First Quarter)

November 5, 2021

Voltage Inc.

TSE 1st Section Securities Code: 3639

Executive Summary

FY2022 1Q Financial results	■Sales: 1.39 bil. yen, Operating Loss: 0.22 bil. yen Decrease in revenues and income on a QonQ basis affected by changes in social environment, a decrease in advertising accuracy and changes to accounting standards.
FY2022 1Q Topics	■Sales of apps for Japanese women decreased due to under-performance, etc. of customer acquisition through advertising and promotional measures for apps. ■Sales and Operating Income decreased by 0.1 bil. yen respectively due to adoption of “Accounting Standard for Revenue Recognition”. (This will be offset in about a year and a half.) ■Sales in new areas (e-Comics, consumer businesses) are basically stable, through recorded a slight decrease.
Growth Strategy	■We partially fine-tuned our basic strategy. We reduced “main businesses” from 5 to 3 (story apps, e-Comics, and consumer businesses). ■We will continue to strengthen “app evolution”, “fandom” and “diversification” strategies. ■Our immediate focuses are “reinforcement of apps for Japanese women” and “investment in new areas”.
FY2022 Earnings forecast	■We are not disclosing this information as the increasingly intense market environment has made it difficult to calculate reliable figures.

I FY 2022 Financial results

Performance Summary

1Q started with disappointing results. Sales decreased by 18% on a QonQ basis (real decrease of 12% excluding the impact of changes to accounting standards), affected by changes to accounting standards (sales deferring) as well.

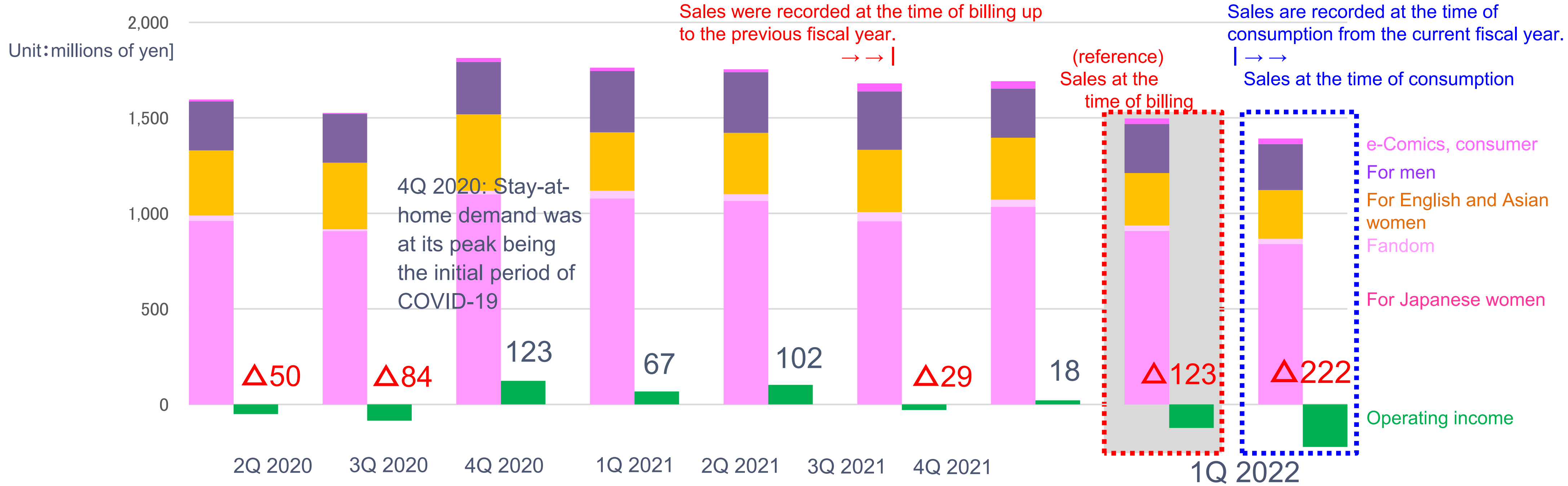
[Unit: millions of yen]

	FY2021				FY2022		
	1Q	2Q	3Q	4Q	1Q	YonY	QonQ
Sales	1,762	1,763	1,683	1,692	1,391	79%	82%
Cost of sales	571	555	622	622	612	107%	98%
Labor cost	268	266	289	309	291	109%	94%
Outsourcing cost	207	204	241	214	227	110%	106%
Others	96	85	91	98	93	97%	95%
SG&A expense	1,123	1,105	1,090	1,051	1,001	89%	95%
Advertising expenses	411	400	397	340	359	87%	106%
Sales commissions	528	525	496	506	438	83%	87%
Others	183	179	197	205	204	112%	100%
Operating profit	67	102	△29	18	△222	–	–
Current profit	61	90	△3	29	△218	–	–
Yearly net profit attributable to shareholders of the parent company	44	91	△17	43	△224	–	–

Sales Figures by Quarter

Sales of apps for Japanese women and English women decreased substantially.
Sales of apps for men and new areas were stable.

Deferred sales and operating income due to changes to accounting standards are 0.1 bil. yen, respectively.

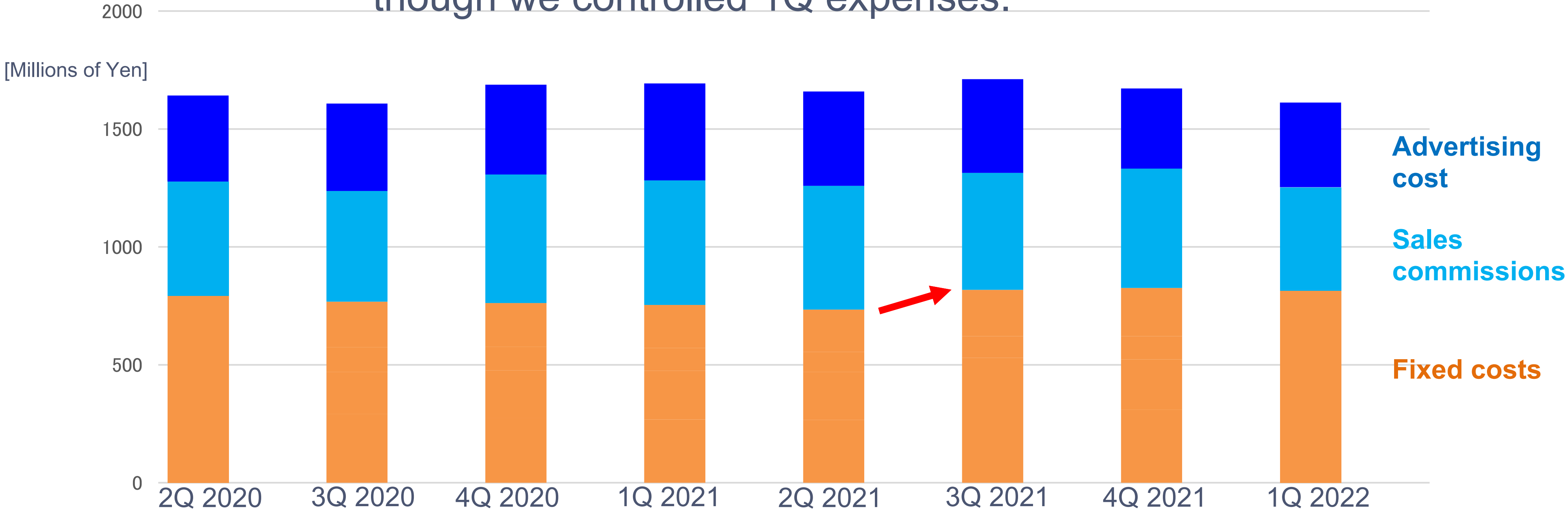


	2Q 2020 Results	3Q 2020 Results	4Q 2020 Results	1Q 2021 Results	2Q 2021 Results	3Q 2021 Results	4Q 2021 Results	1Q 2022 Results (billing)	YonY	QonQ	1Q 2022 Results (consumption)	YonY	QonQ
Japanese language women	961	907	1,099	1,078	1,075	975	1,033	907	84%	88%	839	78%	81%
Fandom	28	10	19	40	35	48	38	29	73%	77%	27	68%	72%
English and Asian women	340	347	399	305	320	326	323	274	90%	85%	254	83%	79%
For Men	255	256	274	320	317	306	257	255	80%	99%	241	75%	94%
e-Comics and consumer businesses	10	5	20	17	14	42	39	29	169%	76%	28	165%	74%
Total sales	1,595	1,526	1,813	1,762	1,763	1,680	1,692	1,496	85%	88%	1,391	79%	82%
Operating income	△50	△84	123	67	102	△29	18	△123	—	—	△222	—	—

*management accounting base

Expense Figures by Quarter

The fixed costs remain high due to increase in investment for growth, though we controlled 1Q expenses.

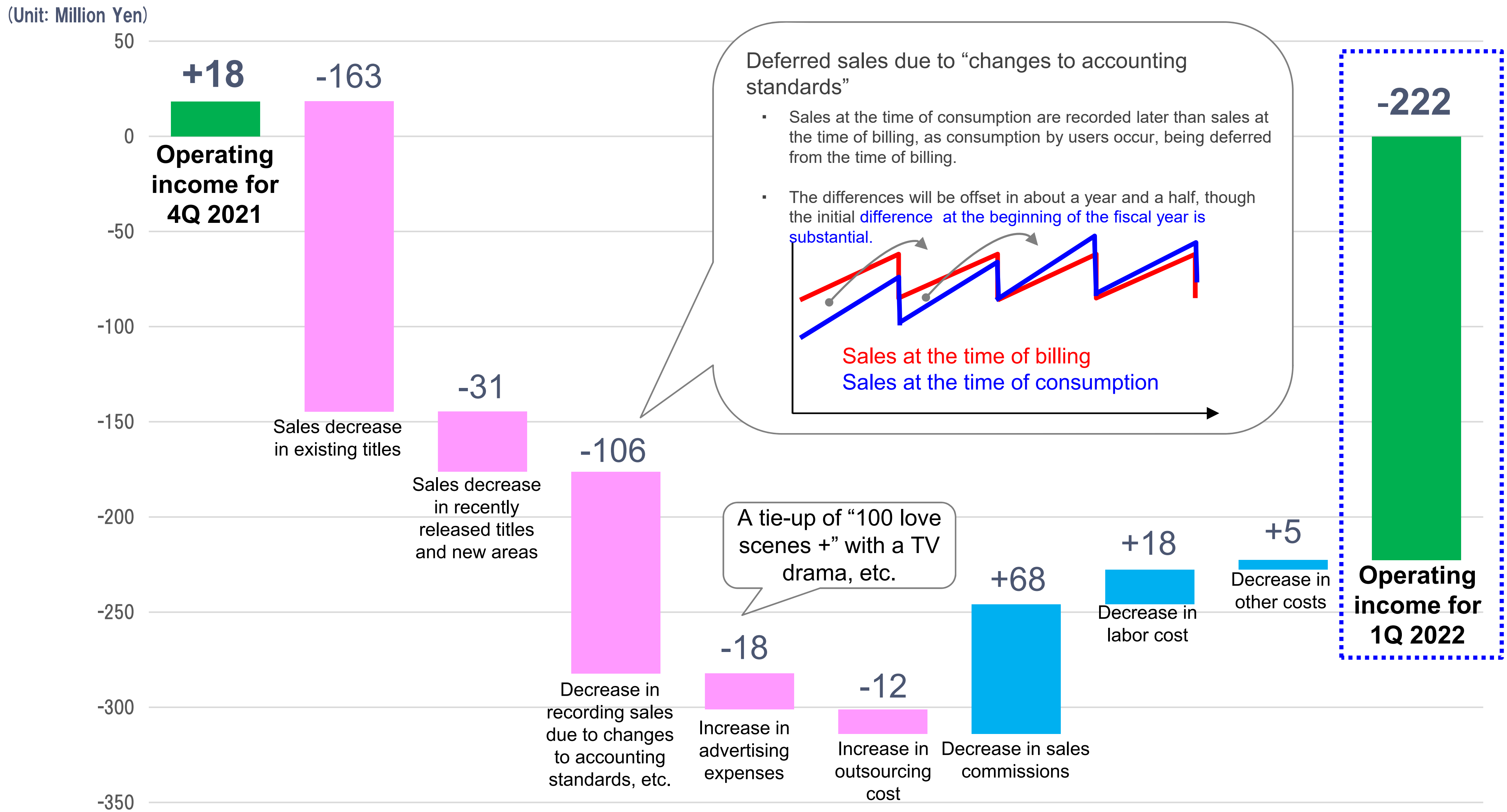


		Results	Results	Results	Results	Results	Results	Results	Results	YonY	QonQ
PA costs*	Advertising expenses	365	371	381	411	400	397	340	359	87%	106%
	Sales commissions	485	469	545	528	525	496	506	438	83%	87%
Fixed costs	Labor cost	271	292	274	268	266	289	309	291	109%	94%
	Outsourcing cost	192	178	202	207	204	241	214	227	110%	106%
	Others	330	298	287	279	265	288	303	298	107%	98%
	Subtotal	794	770	763	755	735	819	827	817	108%	99%
Total expenses		1,645	1,610	1,690	1,694	1,661	1,713	1,673	1,614	95%	96%

※Platorm＆Advertising

Operating income fluctuation analysis on a QonQ basis

Operating income was affected by sales decrease in existing titles (Japanese women and English women) and changes to accounting standards.



(Reference) Changes to accounting standards *described again

In FY22, changes will be made to accounting standards and expense recording rules that affect profit and loss.

1) Changes to when to record sales

In accordance with the new "Accounting Standard for Revenue Recognition," the time to record sales will be changed from the time of “billing" to the time of "consumption."

	FY21 and earlier	FY 22 and onward
When to record sales	When a user purchases in-app currency = When we “bill."	When a user exchanges in-app currency for an item = When a user "consumes." (Note): * The unconsumed portion of currency will be recorded as sales roughly 12 months later.
PF fees	Roughly 30% of the billed amount when a user “purchases” in-app currency. (a fee rate)	

Impact on sales: In the short term (especially during 1Q 2022), it is expected that recorded sales will be deferred (by a few percent). However, this will be offset in about a year and a half.

Impact on operating profits: PF fees will continue to be recorded at the time of “billing,” which will put pressure on profits in the short term (especially during 1Q 2022). Again, this will be offset in about a year and a half.

(Note) In case one year or more elapses after a user last logs in.

2) Changes to bonus reserve allocation rules

To level our expenses, the monthly allocation of bonus reserves will be changed from the "semi-annually fixed" amount to the "full-year fixed" amount.

	FY21 and earlier	FY 22 and onward
Monthly bonus reserve amount	Determine a fixed amount “every six months”	Determine a fixed amount “for the full FY”
	More reserves were allocated in the second half.	Labor costs are expected to increase in the first half and decrease in the second half comparing to previous years. * Note that differences versus actual payment will be adjusted for in 4Q.

* If any of the changes described on this page is found to have a significant impact on business performance, we will disclose this information as necessary in a timely manner.

Balance sheet

Our financial condition remains favorable, though net assets decreased by about 270 million yen.

[Millions of Yen]

	End of 1Q 2022	End of FY2021	Comparison
Current assets	2,568	2,896	89%
Fixed assets	642	617	104%
Assets	**3,211**	**3,513**	**91%**
Current liabilities	735	761	97%
Fixed liabilities	112	113	99%
Total liabilities	**847**	**875**	**97%**
Shareholders' equity	2,335	2,611	89%
Accumulated other comprehensive income	21	19	108%
Subscription rights to shareholders	6	6	100%
Net assets	**2,363**	**2,637**	**90%**
Total liabilities and net assets	**3,211**	**3,513**	**91%**

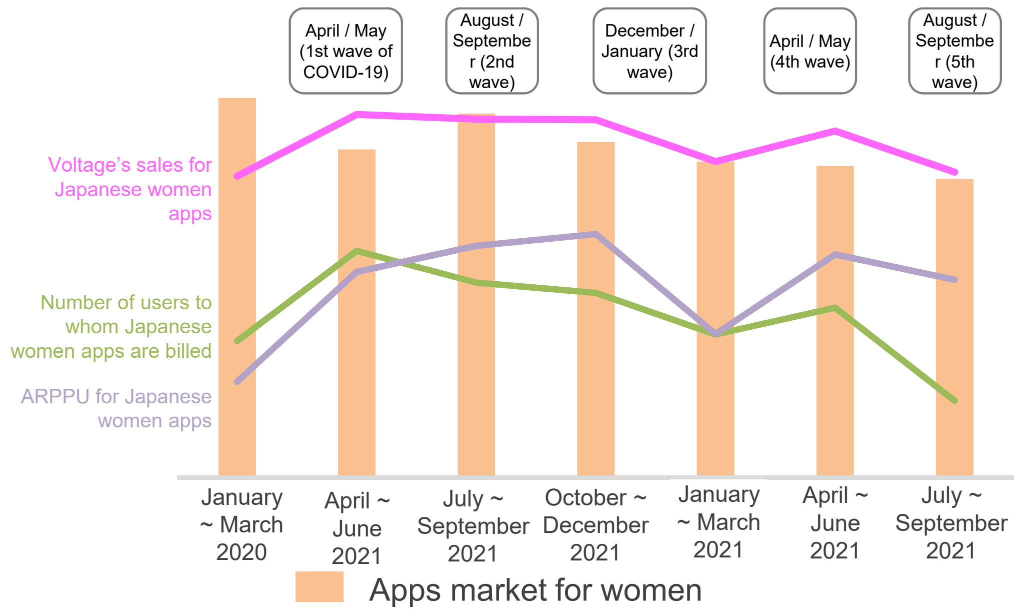
Decrease in retained earnings

Ⅱ Growth Strategy and Basic Direction by Business

Reviewing business environment / Fine-tuning basic strategies / Cost optimization

Significant changes in business environment including changes in consumption due to decrease in stay-at-home demand under COVID-19, restrictions with iOS, etc. Will select businesses to invest our management resources.

Market for apps for women and our sales trend (only for long-life titles)



*Only for long-life titles which started before 2019
*Estimated by our company based on various data

Cost optimization – Will prepare and execute within 3 ~ 6 months.

	Estimated benefit per quarter after its execution
Review of unprofitable businesses	About 40 million yen
Reduction of PF costs	About 10 million yen
Reduction of production fixed costs	About 5 million yen
Reduction of office space	About 15 million yen
Total	About 70 million yen

(Factors / hypotheses for 1Q sales decrease)

- Decrease in stay-at-home demand under COVID-19. Changes in social environment (Olympic games, the 5th wave of COVID-19).
- Advertising accuracy decreased due to tracking control with iOS14.
- Unfavorable performance of promotional measures for major titles.
- Degrading revenue at SF studio due to unfavorable sales.

(Company direction)

Immediate direction

- Promotional measures for year-end: anniversary actions and across-the-board actions for all the titles. Year-end promotions as usual.
- Customer acquisition: Focus on advertising accuracy improvement and customer acquisition through non-advertising activities.
- Accounting standards: The gap between billing and consumption is diminishing.
- Office space: Reduced by 30% thanks to implementation of work-from-home (to be accounted from January).

Long-term direction

Reviewing our long-term strategy responding to changes in business environment.

- To strictly evaluate unprofitable businesses. To select businesses with growth potential to invest our management resources.
- To develop real events and web videos as fandom factors, not as independent businesses.

↓↓↓

To partially fine-tune our basic strategy

> To reduce "main businesses" from 5 to 3
> (story apps, e-Comics, and consumer businesses).

(Direction by business)

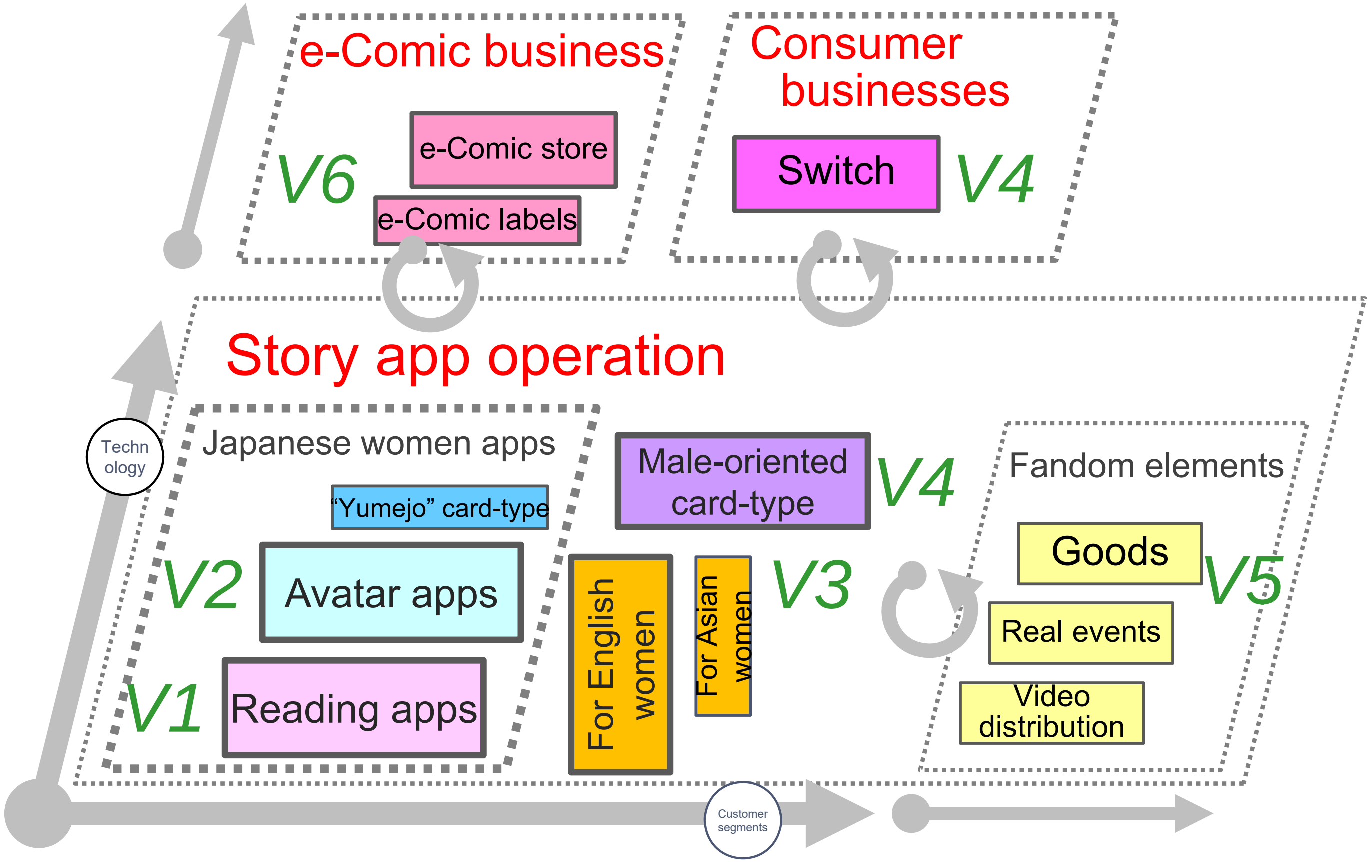
- Story apps: Started measures to improve an operating income with cost optimization such as reducing PF costs, etc. To respond to apps and needs for fandom under the new normal lifestyle.
- e-Comics / consumer businesses: To continue to invest proactively.

Basic Business Strategies (Partially fine-tuned)

Incorporate **growth elements** into our "Story apps" to achieve growth!

Three strategies

1. Story apps x evolution (app evolution strategy)
2. Story apps x real events (fandom strategy)
3. Story know-how x growth markets (diversification strategy)



Our immediate focus

②Investment in new areas – e-Comics, Switch

➕

①Reinforcing Japanese women apps – Japanese women apps x fandom

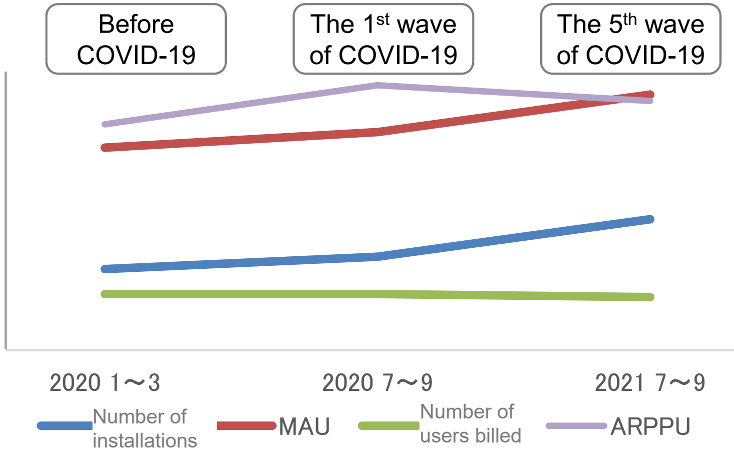
Vx: Set up quasi-companies and business companies for each specific area of know-how.

Focus [1]: Invest in Japanese women apps 1Q results / directions

Japanese women apps – **Reader Type**

The current user attitude differs from the attitude before COVID-19 and also at the initial period of COVID-19.

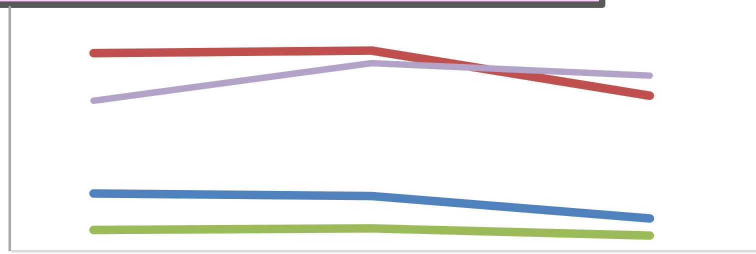
Title A



1Q results	・Acquired more new users than initially expected due to the tie-up with a TV drama and increased advertising. MAU also increased significantly. ・Released a new app having a new taste in 100 love scenes+.
Direction for 2Q onward	・To enhance billing to newly acquired users. ・To strengthen promotional measures for existing users.

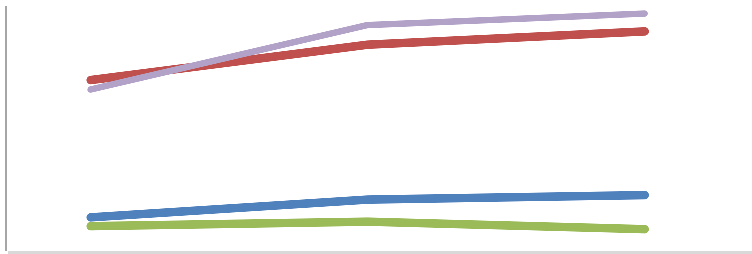
Japanese women apps – **Avatar Type**

Title B



1Q results	・The number of installations decreased due to degrading advertising efficiency ・The number of MAU decreased due to low retention rate of new users. ARPPU was stable.
Direction for 2Q onward	・To find an appropriate method to evaluate advertising efficiency. To strengthen non-advertising measures for customer acquisition. ・To take measures to improve persistency rate and ARPPU.

Title C



1Q results	・The number of installations increased due to favorable customer acquisition. ・The number of accumulated users did not increase due to low persistency rate.
Direction for 2Q onward	・To take measure to improve paid user rate and ARPPU.

*The KPI situation and directions differ substantially depending on the title.

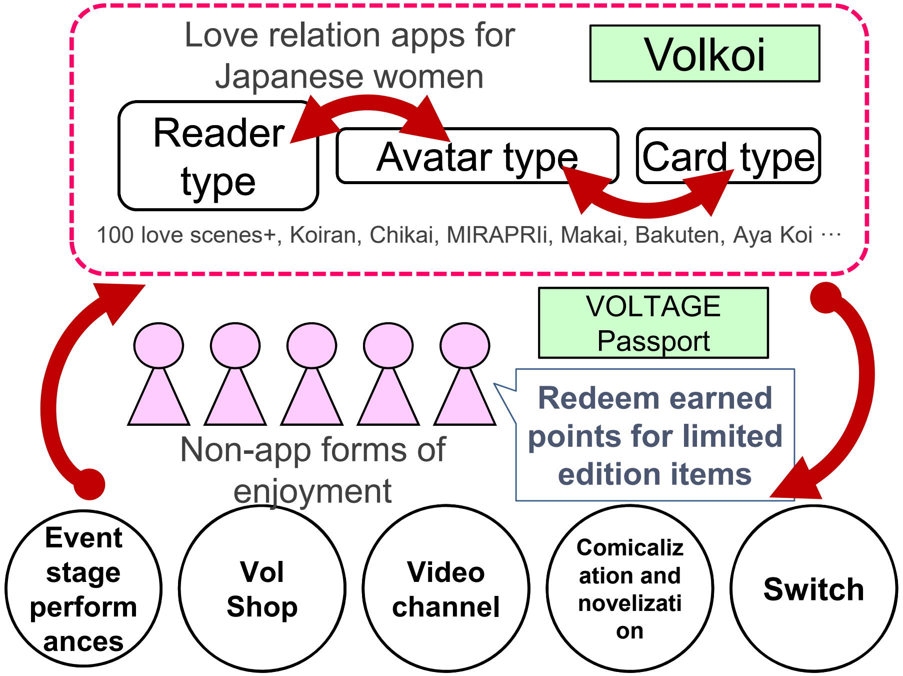
Foster fandom

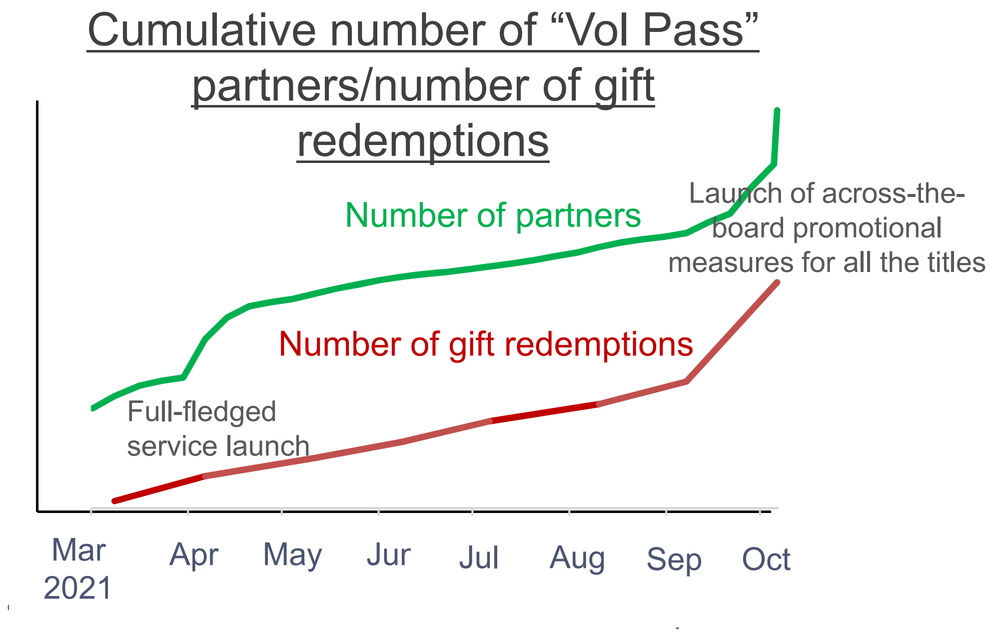
Scheduled investment: 250 mil. yen

1Q results	・Improved the recognition of apps whose series name was “Volkoi”. ・The number of “Vol Pass” partners exceeded 100,000. The gift redemption became active and started contributing to LTV.
Direction for 2Q onward	・To increase the number of partners through coordination of across-the-board promotional measures for all the titles and “Vol Pass”. ・To enhance goods sales through seasonal fairs at the Vol Shop.

Our aim is to increase user enjoyment and improve LTV.

- Offer non-app forms of enjoyment, such as events, merchandise, videos, and comics.
- Offer other forms of enjoyment such as from limited items and earning points.





Fandom: Fan groups who identify with and support Voltage content
Volkoi: A general moniker for voltage romance dramas
Vol Pass: A point service for members where their daily “butterflies-in-stomach” experiences are accumulated as points.

* Scheduled investments represent the projected cumulative losses incurred from the time of launch to when surplus is achieved.

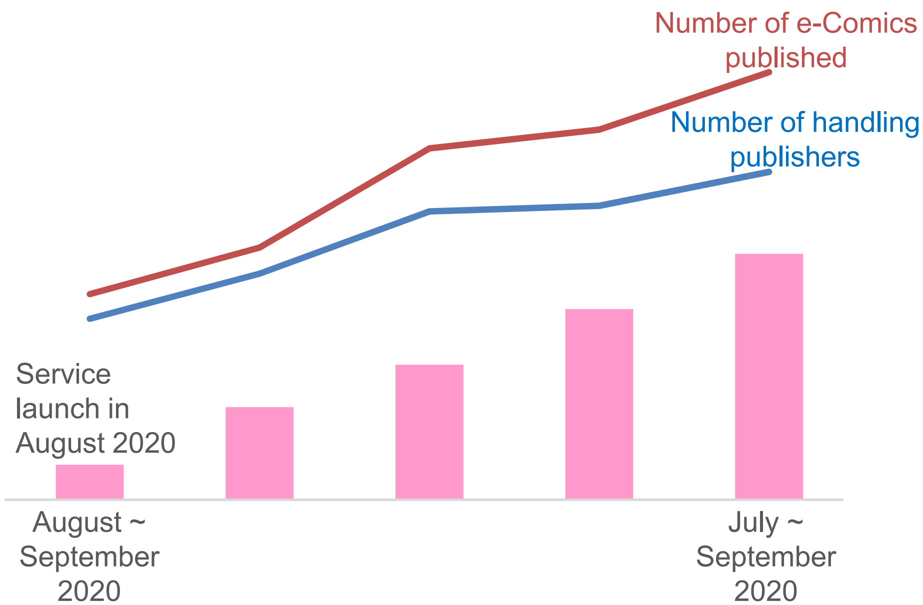
Focus [2]: New area – e-Comic business

e-Comic store

Planned investment: 300 million yen

1Q results	･Daily sales increased due to promotional measures for the 1st anniversary. ･The number of active users increased after releasing a viewer application in August. ･The number of handling publishers increased by 6 to 58 in total.
Direction for 2Q onward	･To enhance sales of original e-Comics. ･To improve a success rate of campaigns for publishers' e-Comics.

Trend for number of active users for "Vol Komi"



e-Comic label

1Q results	･Three large stores were added to the sales channel and the number of total stores is now 31.
Direction for 2Q onward	･To continue creating e-Comics based on "Volkoi" (our gaming app) ･To strengthen promotional measures at large stores. ･To enter Webtoon (vertical-scrolling, color e-comics) market.

	December 2020	September 2021
Number of e-Comics	16	28
Sales channel (number of stores)	23	31

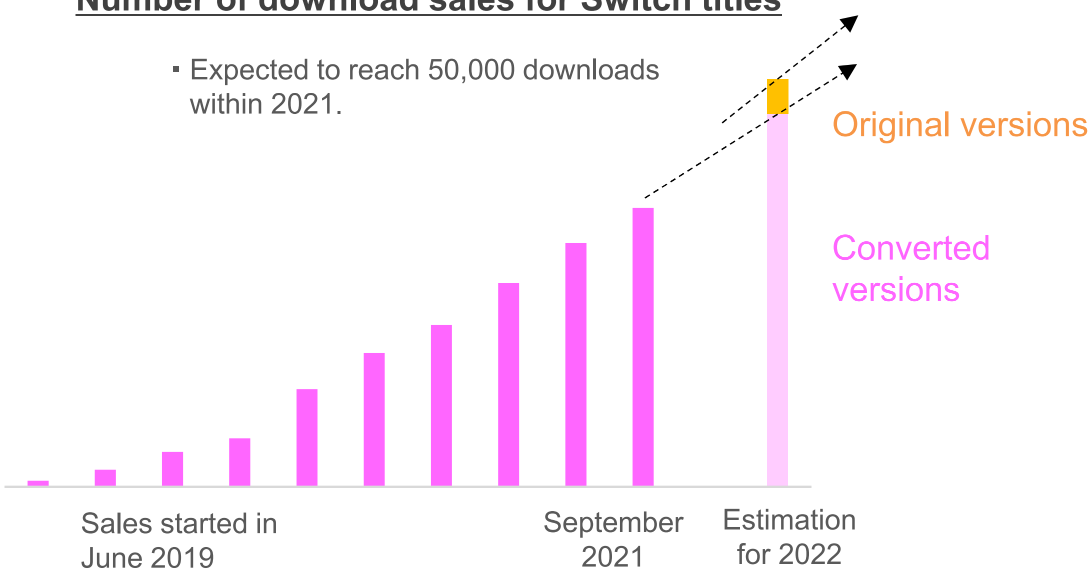
Focus [2]: New area – Consumer businesses

Consumer businesses

Planned investment: 200 million yen

1Q results	・Business of Switch converted versions keeps making profits. ・Switch converted versions sell well in summer, which makes a seasonal sale a regular sales approach.
Direction for 2Q onward	・To start creating original versions in addition to converted versions as the next investment phase. ・Scheduled to introduce the 1st original version in 2022.

Number of download sales for Switch titles



*The above chart is made on management accounting base.

Ⅲ

Actions of different business operations

Story app operation (1) for Japanese women

"100 love scenes+”
has entered a tie-in deal with Fuji TV's July Thursday Theater program "Oshi no Ohji-Sama"!

▪We collaborated with a TV drama where a story develops at an IT company developing games for women by creating the game appearing in the drama as a mega-hit game.
▪It can be actually played in “100 love scenes+” app.

▪Successfully acquired more new users than expected.

Started distributing a new story app “Class S Love Story” in September

▪A love story drama with delightful love & comedy and an unexpected twist.
Aims to create an innovative story with unprecedented taste.

▪Most of users played the app are highly satisfied and we aim to develop as a long-life title.

Story app operation (2) for Japanese women

"Tenka Touitsu Koi no Ran –Love Ballad"

Made a collaboration with "Rilakkuma" of San-X Co., Ltd.

- Distributed memorial log-in bonuses, and a special gacha and events where "Rilakkuma" appears.
- Particularly well accepted by existing users and achieved our profit target.

"A Prince's Proposal"

Distributed as anniversary project in September

- Distributed new stories and made a campaign in collaboration with SNS and "Vol Pass" commemorating the 5th and the 8th anniversaries.
- It was well accepted though it is an old and long-life title and the billing KPI has kept a good trend.

"Roppongi Sadistic Night"

July ~ September: Carried out special collaboration with illustrator.

- Participating illustrators
  July: the 1st edition, illustrator: Nan Yaegashi
  August: the 2nd edition, illustrator: Chisaku Kaga
  September: the 3rd edition, illustrator: Itaru Hinoue

- Its recognition increased such as increase in the number of followers on Twitter, etc.

Promotional measures for "fandom" went into full swing.

- Opened its official YouTube channel in September.
- Decided to launch a voice drama with a participation of popular voice actors and to release its music CD.

- The number of subscribers for the YouTube channel exceeded 6,000, which is a better start than expected.

For Nintendo Switch

Decided to launch our first original title globally in 2022.
“even if TEMPEST – Yoiyami ni kaku Katariki Majo”

- Dark fantasy adventure game having “witch trial” and “shini-modori – time travel through death” as themes.
- A game with a participation of popular artists and creators such as Ayane Ushio as scenario writer and Norita-san as illustrator, etc.
- Scheduled to distribute globally to overseas users as well (except for certain areas) in the same manner as converted versions.
- Will announce the latest information in the radio program named “Tetsuya Kakihara, Yu Hatanaka, Bokura ga Kimi wo Shiawase ni suru Radio” (Nippon Cultural Broadcasting Inc.).
- From now on, we plan to develop this business having two pillars: original titles, and converted versions which will be continuously launched as well.

e-Comic business

"Vol-Com" e-comics store

August: First anniversary and viewer app delivery begins

- Released a viewer application on August 2nd.
- Made an original free offer and an original campaign commemorating its 1st anniversary.
- In 1Q, six publishers including Akita Publishing Co., Ltd. and Libre Inc. started its distribution.

e-Comic label – original label / licensing-out

Expanding sales stores and continuously publishing original stories of "Volkoi"!

- Such large stores as Renta! and Piccoma newly started selling.

- Newly published "Konna Yoru demo Onaka ha Sukukara" made a good start.
- Original stories of "Vol-Koi" have been published on digitalmargaret of Shueisha Inc.

APPENDIX

IV

Company Information

Company profile

Company name	Voltage Inc.
Representative	Representative chairman and president: Yuji Tsutani
Business Philosophy /Vision	Make contributions in the areas of art and business. Bring excitement to people's lives through dramas of love and conflicts. Develop individuals and organizations that autonomously grow under their own initiative and responsibility.
Foundation	September 1999
Date of listing	First Section of the TSE：June 2011 TSE Mothers：June 2010
Capital	1,250 mil. (as of the end of September 2021)
Number of employees	234* (as of the end of September 2021)
Subsidiaries	Overseas: Voltage Entertainment USA ,Inc. Japan: Voltage VR Inc., and Voltage Pictures Inc.

* Excluding temporary employees (such as fixed-term contract employees, part-time employees, and workers from temporary staffing agencies)

History and business operations

We have expanded our customer segments and technologies in sync with the changes in the market.

2019: We launch our **operations for Asian females, e-book operations,** operations for browsers, and consumer initiatives.

We will aim to diversify by leveraging our strengths.

2017: Full-fledged **events and rights** operations begin.

Our aim is to create a synergy between apps and real operations.

2013: We launch our operations for **men**.

2011: We launch our operations for **English women**.

Expanded our target audience and succeeded in growing our profitability further.

2006: We launch our operations for **Japanese women.**

Launched our current "Love drama app" series with a focus on Japanese women. It’s a great hit, and our growth soars.

2019: Company's 20th anniversary

2018: The number of "love app" titles hits 100.

2012: The SF Studio, our US subsidiary, is founded.

2011: We change our market to the 1st section of the TSE.

2010: The company is listed in Mothers.

1999: The company is founded.

Business segments and strengths

Business segments (2Q and later)

Segments		Categories	Primary titles
Story apps	Japanese women	Reading material type	100 love scenes+, Doubt
		Avatar type	Koiran, Chikai, Cinde, MIRAPRI, Oji, Makai, Bakuten, 2LDK
		Card type	Aya Koi, Anidol
		Fandom	Vol SHOP (goods) Vol Fes, collaborative cafes 2.5D stage shows, fan meetings Video distribution
	English and Asian females	Reading material type	Love365 and Lovestruck for Thailand, China, and Taiwan
	Men	Card type	Roppongi
e-Comics / Consumer businesses		e-Comics	(Store) Vol-Comi (Label) otona Cinderella
		Consumer	For Nintendo Switch

Voltage's strengths

1. Reading material app production capability
2. In tune with women's needs

Products

Sales

Organization

3. Autonomous PDCA

Story apps x Global/real events

	Global expansion						Fandom actions(scheduled for this FY)		
	Japan	English	China	Hong Kong & Taiwan	SE Asia	Europe	User interaction (alternative online/ combined events)	Stage shows (alternative online/ combined events)	Video
100 Love Scenes+	○	○ Love3	―	―	―	○ Love3	○ Shops, fests	○ Recited drama	○ Niconico videos
Doubt	○	○ Liar!	○ 揭穿	○ Doubt	―	―	―	―	―
Koiran (Love Ballad)	○	○ Samurai	―	―	―	―	○ Shops, fests	―	―
Makai	○	○ Darkness	―	―	―	―	○ Shops, fests	―	―
Aya Koi	○	○ Ayakashi	―	―	Thailand ○ Ayakashi	―	○ Shops, fests	―	―
Anidol	○	―	―	―	―	―	○ Shops, fests	○ 2.5D stage shows, fan meetings	○ TV･Youtube
LoveST	―	○ LoveST	―	―	―	○ LoveST	―	―	―

* Excluding titles for Nintendo Switch

Voltage is committed to actively engage with the SDGs towards the realization of a sustainable world.

Our initiatives	Applicable SDGs targets
Environment ■ Transition to paperless ■ Paper recycling	
Social ■ Accepting student visits ■ Flexible work system and active participation of female managers	
Governance ■ Set up and maintain systems for achieving compliance and risk management. ■ Set up contact points for various notifications and reporting. ■ Build relationships with shareholders (IR staff, contact point for inquiries).	

ESG and SDGS related initiatives [2] Active participation by women

We are focusing on "creating an organization where women can play an active role."

Actual results

2021 Survey on the Active Participation of Women in Corporations, Nikkei WOMAN
140th overall
21st in the "Information and Communications" industry

	Overall	"Information and Communications" industry
2021	**140th**	**21st**
2020	152nd	24th
2019	206th	25th
2018	198th	22nd

We came in at 140th place overall and 21st in the "Information and Communications" industry in the 2021 Nikkei WOMEN Survey on the Active Participation of Women in Corporations which ranked corporations on how comfortably women are able to work at these companies.

5th place in the "300 to less than 1,000 Employees Category" in the Forbes JAPAN WOMEN AWARD 2017

This award recognizes companies that are actively creating an environment where motivated women are able to work comfortably.

Percentage of female managers
46% compared to the national average of 7.8% *

	FY2017	FY2018	FY2019
Women	19	14	13
Overall	46	32	28
Percentage (women/overall)	41%	44%	46%

* From the Aug 17, 2020 "Survey on Corporate Awareness on the Appointment of Women" by the Teikoku Databank, Ltd.

Other initiatives

- Shorter working hours
- Child nursing leave
- Early return allowance
- Child support leave
- Moms' lunch parties
- Childcare facility fee subsidies for post-illness children

Please see our website for details.
https://www.voltage.co.jp/recruit/woman/

Explanation of Terms

Terms	Definition
Reading type	A type of application in which users may mainly enjoy reading the story.
Avatar type	A type of application in which the main contents are stories, combined with gameplay elements such as user avatars.
Card type	A type of application that has the factors of collecting and fostering cards.
Fandom	Fan culture generated based on deep, positive emotional connection to our titles. Refers to a community of fans who are not just consumers but share love of our titles and support their success. Also refers to non app forms of entertainment to foster the above-mentioned culture and community.
LTV	Acronym for Life Time Value. This refers to profits that can be earned throughout the lifetime of a particular customer.
Events and rights activities	Activities outside of apps that use our title IPs. These are mainly categorized into the implementation of real events such as stage shows and collaborative cafes, merchandise sales, cinematic adaptations, and video/music activities such as CD sales.

Voltage Inc.

- This document contains forward-looking statements, which include judgments made by the Company based on the information available at the time of preparation of this report, but such judgments are not intended to guarantee the accuracy of information. Actual results may differ significantly due to changes in various factors.
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