

# SIR Corporate Report

May 17<sup>th</sup>, 2016

**IGNIS Ltd. (*TSE Mothers* : 3689)**

**IGNIS**



## **Business Outline**

•IGNIS (the Company) designs, develops and operates “Free Native Apps” and “Native Social Games” for smartphones. The Company has 8 affiliated companies (1 in the United States). They are expanding their business in different genres and overseas through each of these subsidiaries.

•The native social game “BOKU & DRAGONS” continued to perform favorably, and the Company achieved record high (since its listing on the TSE) sales and operating profits for two consecutive quarters.

•On April 25<sup>th</sup>, the Company revised its full year forecast (FYE September 2016) upward. The revised forecasts are sales of 4.7 billion yen, and operating profit of 1 billion yen.

•The Company focused their efforts on operating events for “BOKU & DRAGONS” in Q2, and achieved wide recognition among users and stabilized earnings. Moving forward, by implementing large scale promotions, they intend to proactively expand business which will strengthen their earnings capacity.



**Q2 was a time to ‘solidify the foundations’ of the Company. From now on, the focus will shift to proactive business development**

**(Review for Q2 FYE Sep 2016)**

Q2 FYE September 2016

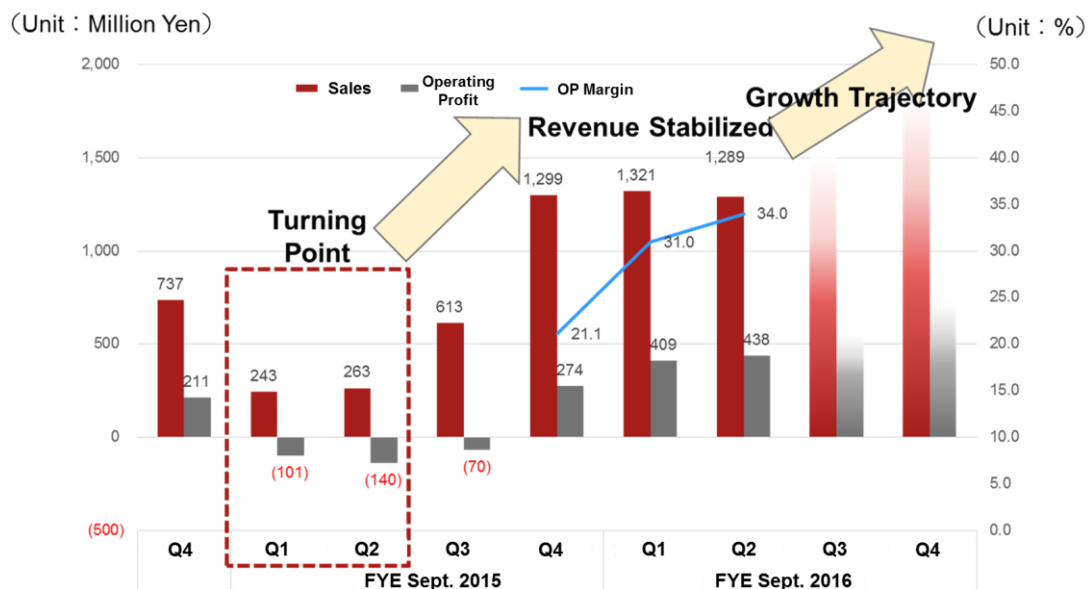
( Unit: Million JPY,%)

	FYE Sept 2016 Q2	QoQ	YoY	FYE Sept 2016 Q1	FYE Sep 2015 Q2
Sales	1,289	-2.5%	+389.3%	1,321	263
Free Native Apps	178	+24.9%	-2.6%	142	182
Native Social Games	1,111	-5.8%	+1276.7 %	1,179	80
Operating Profits	434	+6.1%	-	409	△140
<i>Operating Profit Margin</i>	<i>33.7%</i>	-	-	<i>31.0%</i>	-
Ordinary Profit	434	+6.9%	-	405	△155
<i>Ordinary Profit Margin</i>	<i>33.7%</i>	-	-	<i>30.7%</i>	-
Net Profit	664	+188.5%	-	230	△221
<i>Net Profit Margin</i>	<i>51.5%</i>	-	-	<i>17.4%</i>	-
Number of Releases During Q2	8	-	-	7	15

※ From the current fiscal year, we have decided to use 2 genres of “Free Native Apps” and “Native Social Apps”, and the sales of “Free Content Model ‘Hybrid’ Apps” are included under “Free Native Apps”

## 《Overview of Financial Results》

For Q2 FYE September 2016 (Jan.-Mar. 2016) , native social games “BOKU & DRAGONS” continued to perform favorably. While sales was flat QoQ at 1,289 million yen (97.5% QoQ) , operating profit was 434 million yen (QoQ 106.1%) and OP margin was 33.7%; this was the highest operating profit and OP margin since the Company’s listing on the TSE Mothers. They have continued to post increased sales and profits for 3 consecutive quarters since Q4 FYE Sep 2015(July-Sept 2015), confirming the V-shaped recovery of the Company’s performance.

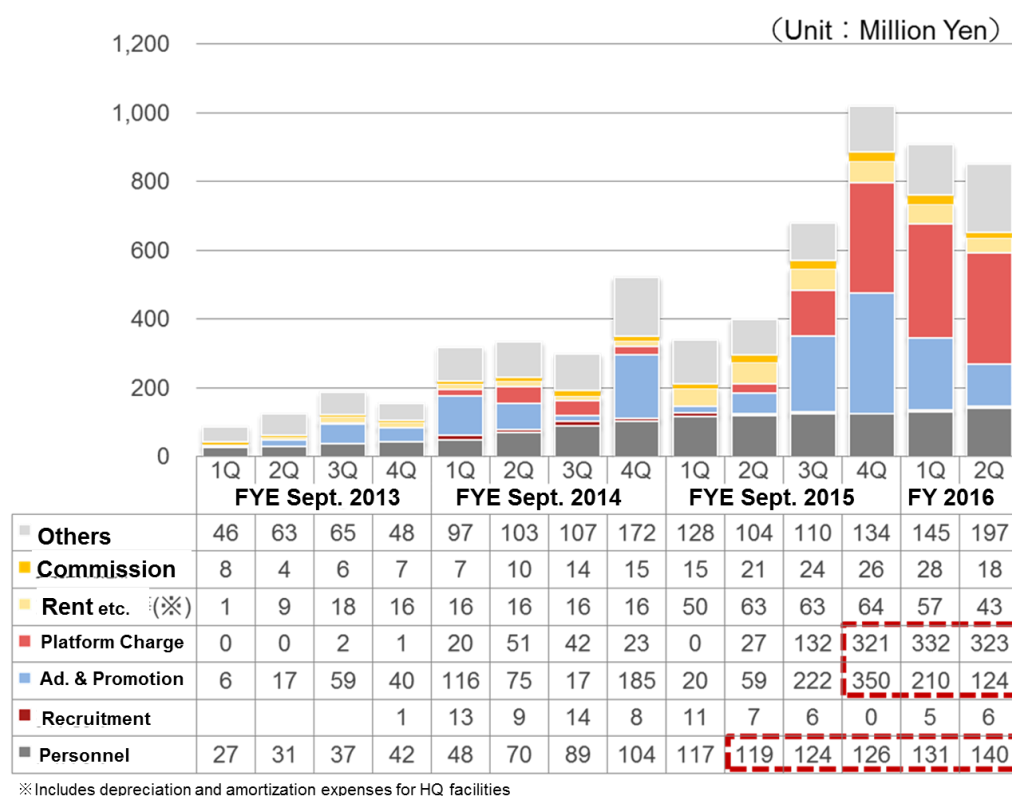


The Company used this Q2 to ‘solidify the foundations for future growth’. While allowing “BOKU & DRAGONS” to grow, they held periodic events to retain users and

worked on stabilizing earnings for “BOKU & DRAGONS”.

On the expense side, while platform fees have remained high (this amount correlates to billing revenue from users of native social games), advertising and promotion expenses decreased by 86 million yen QoQ to 124 million yen; it can be seen that expenses (including personnel expenses) are being appropriately controlled.

#### 【Quarterly trend on major expenses】



#### 《Upward revision of full year results》

The Company announced their upward revision of their full year forecast for the second time this year on April 25<sup>th</sup>. Under the revised forecast, sales is 4,700 million JPY (formerly 4,000 million JPY) and operating profit is 1,000 million JPY (formerly 700 million JPY)

These calculations were based on the following assumptions:

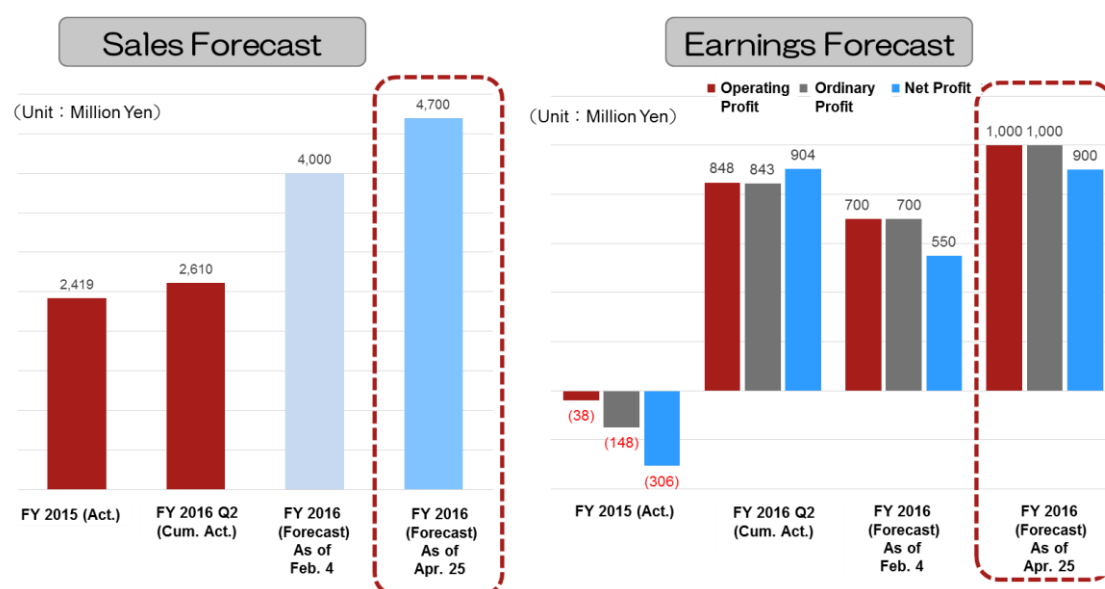
【Sales】 It is assumed that businesses existing in Q2 will continue as is, but the possible user expansion from large-scale campaigns planned for “BOKU & DRAGONS” and subsequent potential sales increases from those users are not included.

【Expenses】 In addition to the usual expenses, all possible expenses that could be envisaged are taken into account, such as advertising and promotion expenses (eg.

TV commercials) for “BOKU & DRAGONS” and increases in personnel expenses accompanying increase in staff.

This could be said as a very conservative forecast, based on a scenario where promotions are unsuccessful (ie. no incremental sales growth) even though there were large scale promotions (ie. large increases in expense).

Also, since the Company booked extraordinary profit from sales of shares in an affiliate company, their pre-tax profit is 1,590 million yen, but forecasted net profit is set at 900 million yen. This calculation is based on an effective corporate tax rate of 43.6%, which is also conservative.



## 《Progress in Businesses》

The Company has manifested its intention to “create services that will become the ‘Next Standard’”, and is endeavoring to introduce a new service by developing an app that is downloaded in the magnitude of hundreds of millions.

To achieve this goal, they have announced two key points to their growth strategy for this current fiscal year; first, to establish the foundation for a balanced business portfolio by strengthening the operating system of existing (already released) apps, and second, to further expand earnings of native social games.

【Key points on growth strategy for FYE Sept 2016】

Free Native Apps

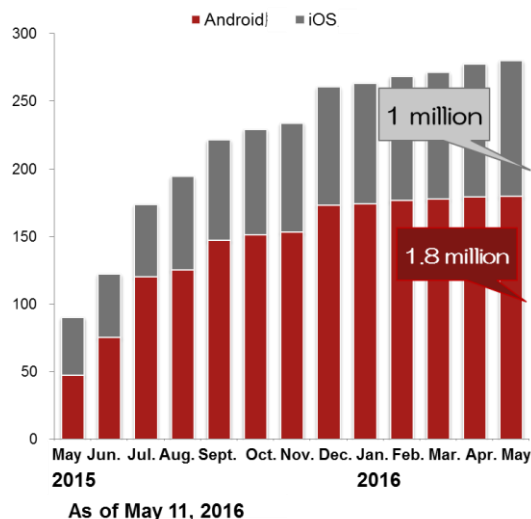
- Earnings growth due to operational improvement of renewal-type services particularly with a focus on “with”
- To create multiple income streams by developing a variety of casual games

Native Social Games

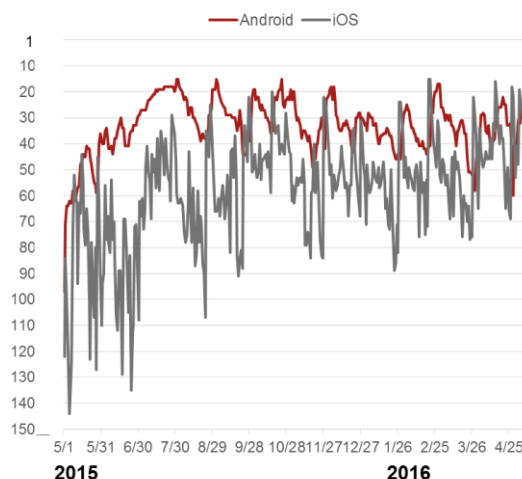
- Strengthen the development and operation system of “BOKU & DRAGONS” , and focus on expanding income through promotions besides internet advertising
- Develop the 3<sup>rd</sup> title (plan to release after 2017)

During this Q2, the free native app (casual game) “breaker” was able to put its operation on track, contributing to earnings, and “with” (dating/match-making service) released its iOS version (March 29<sup>th</sup> ; Android version to be released soon) forming the foundation for future earnings. As for “BOKU & DRAGONS” (native social games), periodic events have been successful and sales rankings have also been showing a stable trend.

Total Number of Monthly DLs



Trend of Domestic App Store Sales Rankings



《Future growth strategies : Implementing large scale promotions》

Given “BOKU & DRAGONS” has grown into a game attracting continuous support from users and built up a stable earnings base, the Company announced its intention

to implement large scale promotions including airing TV commercials and proactively expand the business. They plan to start test marketing in the Kanto region from end-May, and after analyzing results, air TV commercials on a major scale.

TVCM (image)



The Company has announced that after their V-shaped recovery they have solidified their earnings base in Q2, and in the second half of the fiscal year they will implement a major campaign for “BOKU & DRAGONS” to change course of their business to become more proactive and expansionary. SIR’s understanding is that the Company has shifted its stance from a ‘recovery phase’ to a ‘proactive business expansion phase’. SIR intends to carefully watch the Company’s operation and business, and report on the progress of their growth.

Yuichi Sekiguchi  
CEO, Strategic IR Insight, Inc.

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