

SIR CORPORATE REPORT

IGNIS LTD. (TSE Mothers : 3689) May 19th, 2015

IGNIS

Business Profile



- IGNIS provides “Free Native Apps” (Applications for Smart Phone from ranging from “weight control” tool-type apps to casual games apps), “Free Content Hybrid Apps” (where one can read comics for free up to 30 minutes a day, and charged beyond those 30 minutes) and “Native Social Games”. These services are provided through 6 subsidiaries including one in the US.
- Their “Free Native Apps” obtained 800 thousand MAU (Monthly Active Users). For “Free Content Hybrid Apps”, the Company has released famous comic titles and are mainly raising revenue from advertisement fees from their clients.
- For the last fiscal year, 65% of revenue were from advertisements and 23% were from billing(fees). This is a feature of the Company, that the majority of their income is raised from advertising, which is different to other major game companies whose income is mainly raised from user charges.
- The Company released their second native social game title, “BOKU (Me) & Dragons” in February 2015, and achieved 800 thousand downloads. This title is expected to become the next pillar of their future income.
- Because of intensified competition, the profitability of “Free Native Apps” and “Free Content Hybrid Apps” has sharply declined. The Company revised their earnings forecasts downwards and are trying to shift their business structure.
- IGNIS positions at the core of its business, the ability to provide “tools” (regardless of device, or specific areas) to enhance communication among people, and is striving to develop new genres in this regard.



The most important issue is whether the company can regain their income generating ability through realigning their business and improving their income structure

-Financial review of Q2 FYE September, 2015 -

[Results of Q2 FYE Sep. 2015]

Overview

(unit : Million Yen)

	Q2 FYE Sep. 2015 (cumulative)	Q2 FYE Sep. 2014 (cumulative)	yoy	Margin
Net Sales	506	787	(35.7%)	(281)
Free Native Apps	392	461	(15.0%)	(69)
Free Content Model Hybrid Apps	31	194	(83.9%)	(163)
Native Social Game	83	131	(36.6%)	(47)
Operating Profit	(242)	130	-	(373)
<i>Operating Profit Margin</i>	-	16.6%		-
Ordinary Profit	(273)	130	-	(403)
<i>Ordinary Profit Margin</i>	-	16.5%		-
Net Profit	(311)	73	-	(384)
<i>Net Profit Margin</i>	-	9.3%		-

(unit : title)

	Q2 FYE Sep. 2015 (cumulative)	Q2 FYE Sep. 2015 (cumulative)	Margin
Released No. of New Titles	23	22	1
Free Native Apps	19	19	0
Free Content Model Hybrid Apps	3	3	0
Native Social Game	1	0	1

Financial results of Q2 were as above.

Net Sales were 506 million yen (35.7% decline yoy) and operating profit (loss) was a negative 242 million yen.

The main reasons were as follows:

1) Change in the user-needs for "Free Native Apps"

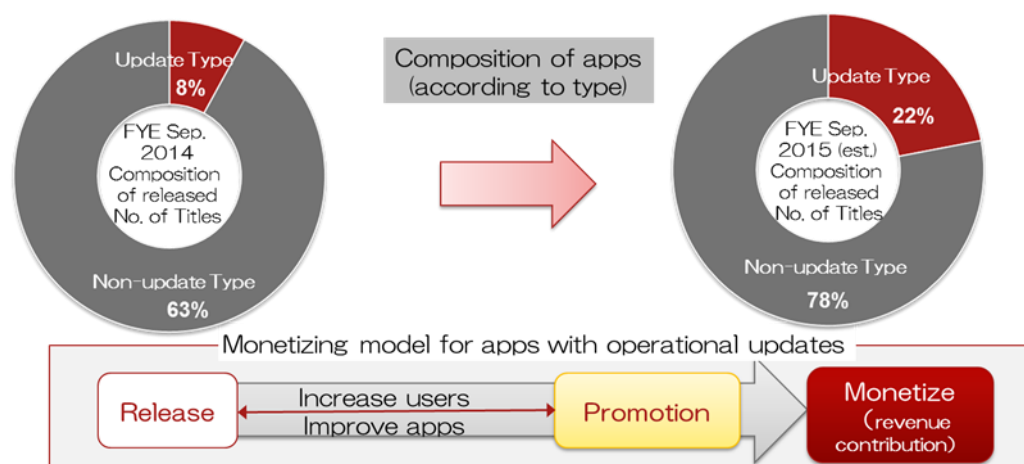
The users of "small size apps" (apps developed within 1 month) or apps "without revision" (ie. those apps which are not updated or upgraded once they are released) have declined sharply. Also, as there were fewer advertisement listings of overseas developers (those who develop games), advertising revenue declined by 40%. As the Company foresaw this situation in Q1, they reformed their development structure to shift resources from small size apps into medium and large size apps.

However, since it takes longer to develop medium and large size apps (as explained above), it also took longer to release the titles compared to the originally forecasted schedule.

Furthermore, unlike the former apps, the new apps were made to require continuous revision to satisfy users for a longer "Life Time". While this helps

retain more users over a long period of time, the flipside is that users are “accumulated” over time, which means that sales tend to be lower in the beginning. This resulted in lower sales in Q2.

The company intends to further restructure their business model in this field of “Free Native Apps” in order to create a more stable income. And they will realize this by introducing “operating type” of apps (ie. apps with updates), focusing on the communications with the users, even after the initial release of the apps.



*Update type apps : Apps where there are several updates a month in order to add functions, adjust glitches and improve stability etc.

10

2) Low revenue contribution of “Free Content Hybrid Apps”

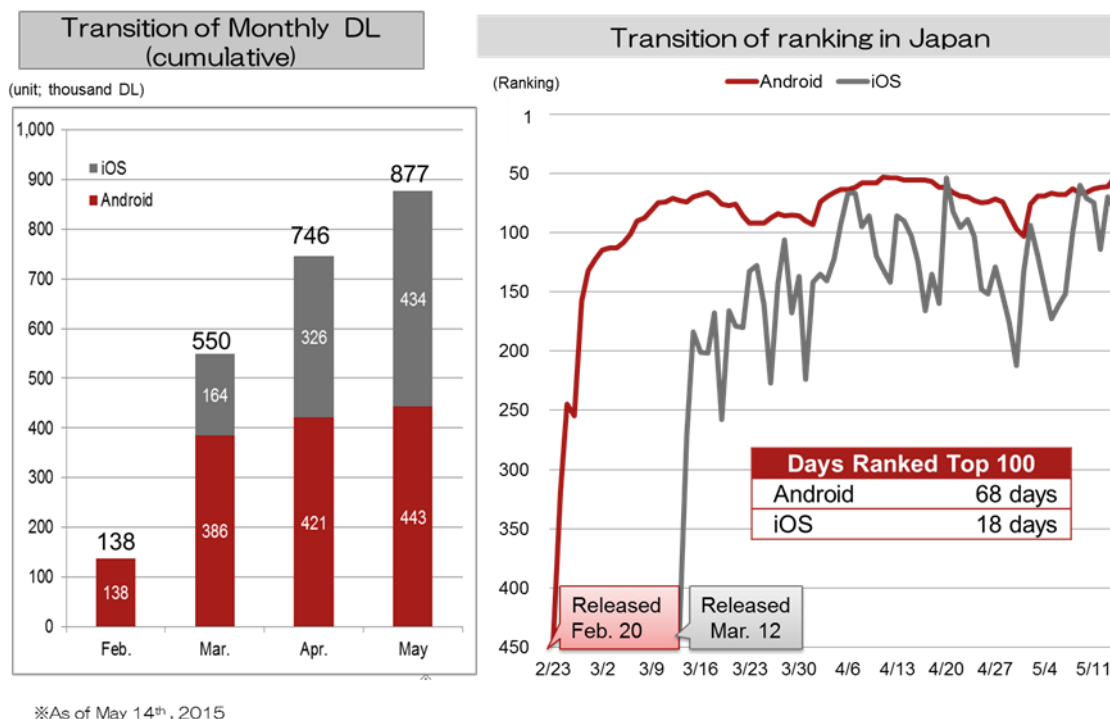
Since Q4 of FYE September 2014, the company has been providing “Store Type” free apps that allow the user to read comics for free for 30 minutes a day (fees are charged thereafter). Basically 4 titles are included in this app, and titles are renewed every 3 months. Revenue is generated from advertisement and the fees from those charged to the users, after the initial 30 minutes. For this business, revenue was much lower as expected, and recorded a mere 31 million yen (83.9% decline yoy).

The Company believes that the largest reason for this decline, or the backdrop to this is that as free comic apps became more widespread in recent months, their billing model became less acceptable to users. The Company therefore shifted their development resources to create a new business model and to expand their overseas operations during this Q1. As for the first step of operations overseas, the Company is planning to introduce their Free Content Model Hybrid apps in

Korea from late May, 2015

3) Situation of "Social Native Games"

Although the release of "BOKU & Dragons" (the second social native game released by the Company) was delayed, they are showing favorable performance in acquiring users and hence, sales. (Shown as below)



Based on the fact that the apps are recording favorable figures in the number of downloads and sales, one can expect this title to become a main pillar for the next fiscal year.

Further, the company is considering to release another game by utilizing their know-how gained from their previous game, which could lead to further income from the next fiscal year.

Based on the situation mentioned above, the Company revised their earnings forecast as below.

(Unit: ¥MM)

	FYE Sep. 2014 (actual)	FYE Sep. 2015		FYE Sep. 2015				
		Original Forecasts	yoy	Revised Forecasts	% Change from Original Forecasts	Margin from Original Forecasts	% Change yoy	yoy
Net Sales	2,047	3,314	+61.9%	1,700	(48.7%)	(1,614)	(17.0%)	(347)
Operating Profit	561	1,000	+78.1%	(504)	-	(1,504)	-	(1,065)
OP Margin	27.4%	30.2%	+2.8pts	-				
Ordinary Profit	545	1,000	+83.5%	(553)	-	(1,554)	-	(1,098)
Ordinary Profit Margin	26.6%	30.2%	+3.6pts	-				
Net Profit	309	600	+93.6%	(582)	-	(1,182)	-	(892)
Net Profit Margin	15.1%	18.1%	+3.0pts	-				
EPS	¥56.1	¥99.4	+77.1%	(¥95.6)	-	(¥195.0)	-	(¥151.7)

Compared to the original forecast that was made in November 2014, sales is expected to be half that amount, and operating profit is expected to decline by 1.5 billion yen, resulting in an operating loss of 504 million yen. This clearly shows that the Company's revenue structure is undergoing major changes.

When we look at the Company's corporate mission of "Creating new standards, over and over again", we see the Company's resolve to strive to provide "tools" (regardless of device, or specific areas) to enhance communication among people, and to position such business at the core of its growth. In order to achieve this, the Company has continuously made challenges to take on new areas as well as create new business models. The shift in business structure that the Company has taken in the last quarter is indeed in line with the Company's mission, and it is expected that it will contribute to the further expansion of the Company's business.

SIR wishes to carefully follow how the company will emerge into their "next stage".

Yuichi Sekiguchi
CEO
Strategic IR Insight, Inc.

Global Disclaimer

This document has been prepared by Strategic IR Insight Inc. (hereafter "SIR"). This document is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or would subject SIR to any registration or licensing requirement within such jurisdiction. It is published solely for information purposes; it is not an advertisement nor is it a solicitation or an offer to buy or sell any financial instruments or to participate in any particular trading strategy. No representation or warranty expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained in this document ('the Information'), except with respect to Information concerning SIR. The Information is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. SIR does not undertake to update or keep current the Information. Any opinions expressed in this document may change without notice and may differ or be contrary to opinions expressed by other business areas or groups of SIR. Any statements contained in this report attributed to a third party represent SIR's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation has not been reviewed by the third party.

Nothing in this document constitutes a representation that any investment strategy or recommendation is suitable or appropriate to an investor's individual circumstances or otherwise constitutes a personal recommendation. Investments involve risks, and investors should exercise prudence and their own judgment in making their investment decisions.

Research will initiate, update and cease coverage solely at the discretion of SIR. The analysis contained in this document is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting market information.

SIR specifically prohibits the redistribution of this document in whole or in part without the written permission of SIR and SIR accepts no liability whatsoever for the actions of third parties in this respect. Images may depict objects or elements that are protected by third party copyright, trademarks and other intellectual property rights. All rights reserved.