

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



**Business Profile**

•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, contributing to the record high operating profit (since its listing on the TSE) for the 9 months for FYE Sep 2016.

•On August 12<sup>th</sup> the Company revised its full year (FYE September 2016) forecast upward. The revised forecasts are sales of 5.5 billion yen (800million yen increase to the previous forecast), and operating profit of 1.2 billion yen (200 million yen increase).

•With the increase in sales, incremental (marginal) profit will be 500 million yen. 300 million yen will be invested for businesses, in order to accelerate building a business portfolio which is not dependent on “BOKU & Dragons”.



**With favorable business performance as its backdrop, will start to implement investment for the next leap**

**(Review for Q3 FYE Sep 2016)**

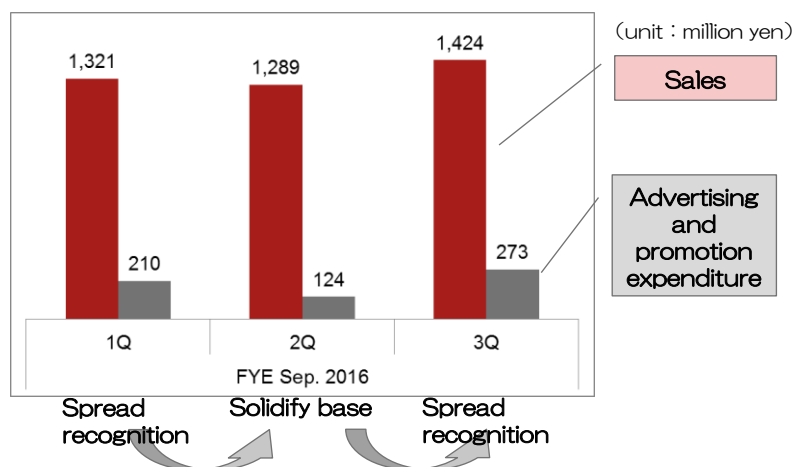
(unit: million yen)

Q3 FYE September 2016	FYE Sept 2016 Q 3	QoQ	YoY	FYE Sep 2016 Q2	FYE Sep 2015 Q3
Sales	1,424	110.5%	232.2%	1,289	613
Free Native Apps	172	97.1%	112.6%	178	152
Native Social Games	1,251	112.6%	272.2%	1,111	459
Operating Profits	358	82.4%	-	434	Δ70
Operating Profit Margin	25.2%	-	-	33.7%	-
Ordinary Profit	357	82.4%	-	434	Δ122
Ordinary Profit Margin	25.1%	-	-	33.7%	-
Net Profit	105	15.9%	-	664	Δ132
Net Profit Margin	7.4%	-	-	51.5%	-
Ad Expenses	273	219.1%	122.5%	124	222

### 《Overview of Results》

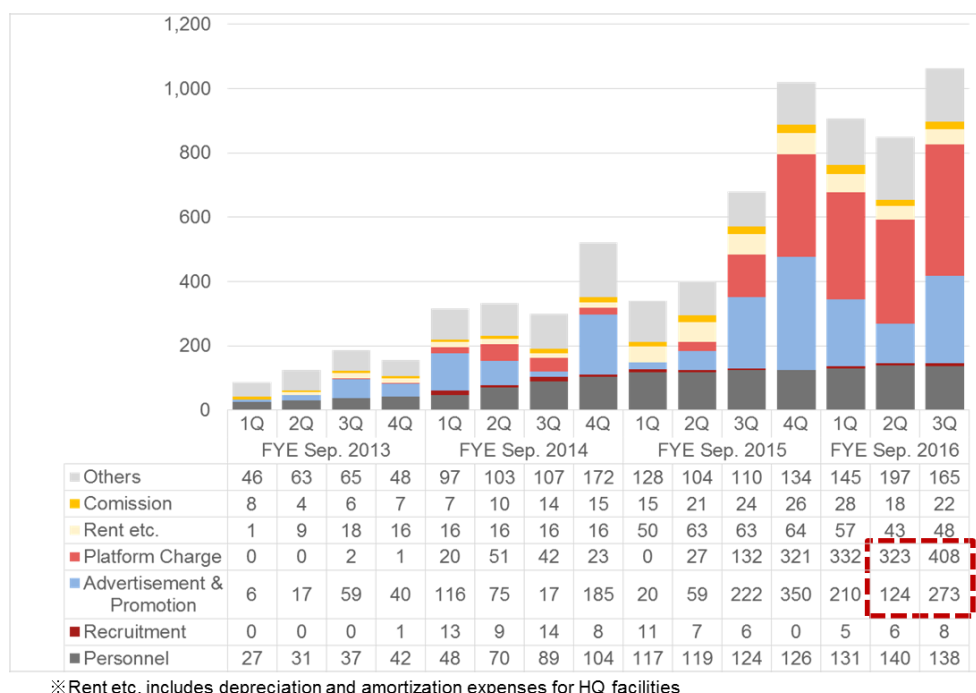
Q3 for FYE September 2016 (April~ June 2016) saw the native social game “BOKU & Dragons” continue to perform well, and sales increased by 10.5% qoq to 1,424 million yen. Operating profit, which in Q2 posted a record high for a quarter (since its listing on the TSE), was 358 million yen for Q3 (a 17.6% decrease qoq). This however was a result of an increase in advertising and promotional expenses (149 million yen increase qoq); had Q3 advertising and promotional expenses been around the same level as Q2, operating profit would be calculated at 507 million yen, which would have been a record high quarterly operating profit.

The Company positioned this Q3 as the “time to step up existing services, with “BOKU & Dragons” at its core”, and has made investments into advertising and promotion, especially with focus on internet advertising. For this fiscal year, Q1 was the phase to “expand recognition”, and Q2 was a phase to “solidify their base”; by such strategic business operations, the Company succeeded in steadily increasing their sales.



On the other hand, expenses were firmly managed (with the exception of platform

charges which increase in proportion to sales (PF charges are 30% of sales).



### 《Upward revision of Full year forecast》

Together with the announcement of the Q3 results, The Company announced that they will revise (upwards) their full year forecast for the 3<sup>rd</sup> time. While the past two revisions were extremely conservative, reflecting how management was mindful that unforeseen events may rapidly make their products obsolete, this time, the Company seemed confident that business profits from “BOKU & Dragons” were well established, increasing the sales forecast by 800 million yen to 5,500 million yen (Q4 sales is forecasted at 1,465 million yen, around the same level as Q3 sales) . For operating profit, while incremental (marginal) profit from increased sales is expected to be 500 million yen (marginal profit rate 62.5%), the Company intends to allocate 300 million yen to promotional expenses for existing businesses and investment into new businesses. Therefore the revised profit level was the remaining 200 million yen (previous forecast 1,000 million yen⇒Revised forecast 1,200 million yen).

The forecast for net profit remains unchanged at 900 million yen. The breakdown of this is as follows: add to the 1,200 million yen of ordinary profit the extraordinary profit of 590 million yen (from the sale of investment holdings in its former affiliated company M.T. Burn), and subtract the extraordinary loss of 100 million yen provisioning for allowance for doubtful accounts (of affiliated company) as well as

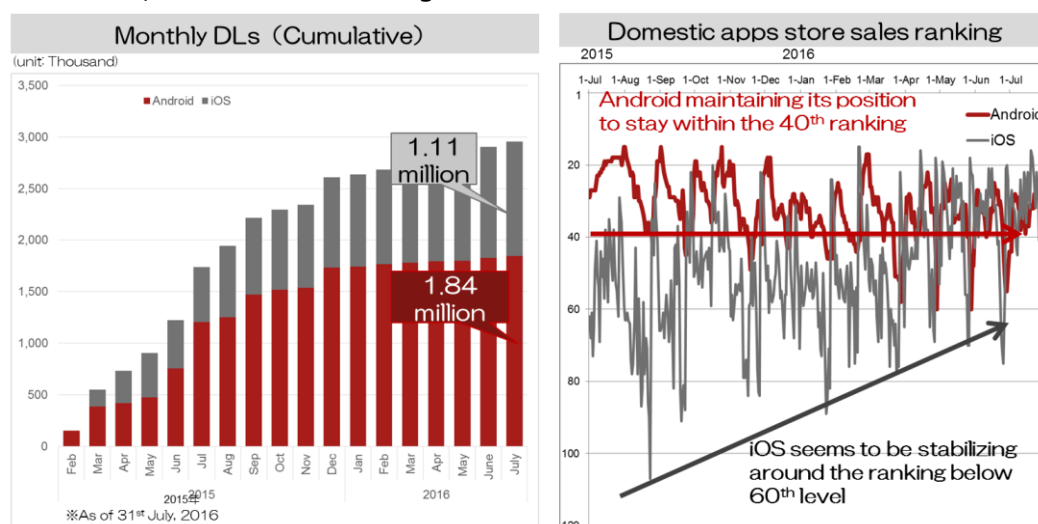
corporate taxes of 790 million yen.

For corporate taxes, since the Company adopts the non-consolidated taxation system, ie. cannot account for profit/losses on a consolidated basis, effective corporate tax is estimated at a higher level. The Company will adopt the consolidated taxation system from next fiscal year, so this situation should be improved.

## 《Progress of business》

### ■ Native social game “BOKU & Dragons”

Cumulative downloads have exceeded 2.95 million. For the sales ranking, as can be seen below, ranking in Android is steady at above 40<sup>th</sup>, and they still seem to be rising for the iOS. It has been 1 year and 5 months since the release, and “BOKU & Dragons” seems to have established a firm position in the domestic native social game market, and set to be a longtime seller.



Many games which rank around the same position as “BOKU & Dragons” have done mass promotion and advertising through TV commercials etc., but the Company has established their current position just through internet advertising and conducting events in the games, succeeding in operating on a highly cost-effective basis, something which is very rare.

In their collaboration event with “Attack on Titan” towards the end of July, the Company was able to acquire a large number of new users in addition to the increase in sales which they were initially expecting. They expressed their intention to concentrate on promotions utilizing this know-how which focuses on implementing similar events. Initially, the Company was planning to start airing a nation-wide TV commercial for “BOKU & Dragons” in Q3, but have decided not to

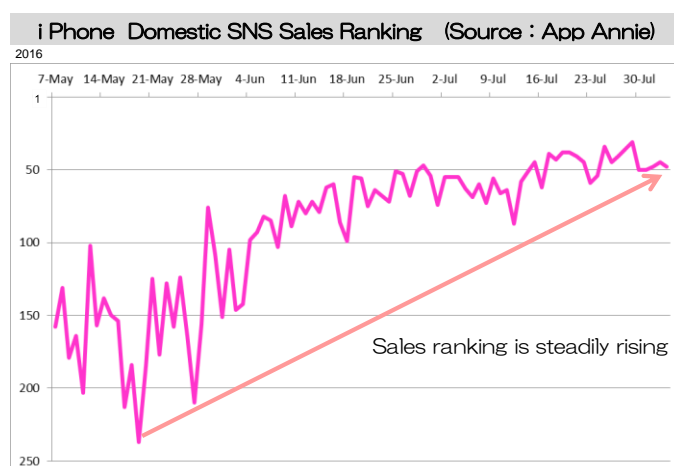
implement mass advertising for the time being, and to expand their promotion strategy with emphasis on cost-effectiveness. This clearly differentiates the Company from other game companies which tend to respond in a not-necessarily-rational manner, and seems to be a sound approach, separating themselves from the perceivably highly volatile nature the game business.

#### ■ Native social game “LINE Phantom Thief Nyanko”

This is the first collaboration game application with LINE, released June 30<sup>th</sup>. As this is an advertising revenue type business model, the main KPI will be user numbers. For the month of July, the app ranked 1<sup>st</sup> for 7 days and above 10<sup>th</sup> for 22 days for Android, and continued to remain above 50<sup>th</sup> for 21days for iOS, showing that it is steadily growing its business. The Company has indicated that they will continue to actively engage in similar collaborative projects.

#### ■ Free native app “with”

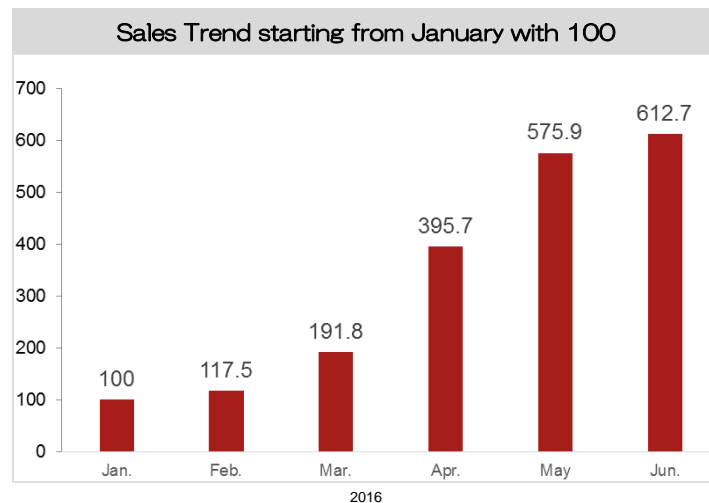
The sales ranking in the domestic SNS genre is showing a steady rise (see graph below)



This is a reflection of increased support by the users, and it is hoped that further growth be achieved by expansion of user base through active promotions.

#### ■ Curation media for business people “U NOTE”

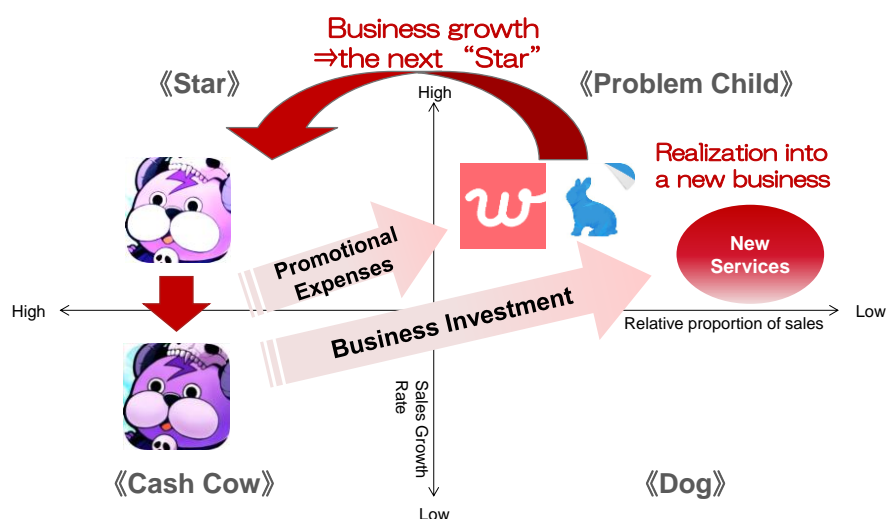
This is an advertising revenue type business model. Sales are steadily increasing since January this year.



The same could be said for this business; by increasing user recognition and expanding the user base, media value should increase, which should lead to further profits.

### 《Growth strategy : Building a business portfolio》

If we look at the Company's business structure from a PPM (product portfolio management) perspective, while the main service "BOKU & Dragons" makes up a high proportion of sales, it is also expected to grow further, and therefore it would be positioned as a "Star"; however, as the service matures, it is gradually transitioning into a "cash Cow". Under this situation, the Company intends to circulate the profit from "BOKU & Dragons" to services like "with" and "U-NOTE" which show signs of growth – the "Problem Child" (those businesses which have growth potential but still immature to generate strong sales). By so doing, the Company is endeavoring to transition these services into the next "Star".



The Company is also seeking to create a new source of income by making business investments into new service developments. This is indicated by the Company announcing that they will allocate an additional 300 million yen in expenses/investment for the rest of the fiscal year.

At the same time, the Company has resolved to issue a Target Issue Program for share subscription rights (total planned financing amount: approximately 4.3 billion yen) with Deutsche Bank on May 17<sup>th</sup> 2016 (details below) , and are planning the financing for business needs in the medium term.

#### **Outline of the Target Issue Program**

Share subscription rights	Number of shares	Exercise Price
8th rights issue	155,000 shares	3,600 yen
9th rights issue	217,000 shares	5,900 yen
10th rights issue	248,000 shares	10,000 yen
Total number of share subscription rights issued	620,000 shares	
Total (planned) financing amount	4,314,923,210 yen	

Note) The amount financed is calculated as the sum of the total amount paid for the share subscription rights and the amount of assets which will be contributed at the time of the rights exercise, and deducting expenses related to the issuance of the new share subscription rights. If the exercise price is changed or adjusted, the financing amount may increase or decrease. Also, if the share subscription rights are not exercised within the exercise period, or if the Company cancels the subscription rights which they acquired, the financing amount will decrease.

**The Company, in their efforts to recover their performance, has endeavored to continuously grow their core business of “BOKU & Dragons”. At the same time, they are not confining themselves to the framework of just another game company; in order to stabilize the business as well as to strive for further growth, they are trying to build and strengthen their business portfolio which transcends the game genre.**

**The Company is rare, in that it continues to pursue high growth as an internet company while simultaneously stabilizing their financial volatility amid this increasingly uncertain business environment. SIR intends to closely watch the Company’s operation and business developments, and report on their growth process.**

**Yuichi Sekiguchi**

**CEO, Strategic IR Insight, Inc.**

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