

SIR Corporate Report February 15th, 2016

IGNIS Ltd. (TSE Mothers : 3689)



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 Company’s advertising revenue has been declining since September 2015 as the competitive environment for free native apps is becoming increasingly fierce. However, the native social game “BOKU & DRAGONS” released February 2015 continued to perform favorably, bolstering earnings for this quarter, and the Company has achieved record high sales and operating profit for the quarter (since its listing on the TSE).

•On February 4th, the Company revised its full year forecast (FYE September 2016) upward. It forecasts sales of 4 billion yen, and operating profit of 700 million yen.

•In January 2016 the Company sold, for 590 million yen, its shareholdings in M.T. Burn, a native apps advertising operating company for smartphones. The Company is currently implementing measures to restructure the group in order to strengthen their apps development business.



Achieved record high sales and operating profit (since its listing on the TSE)

(Review of Q1 FYE September 2016)

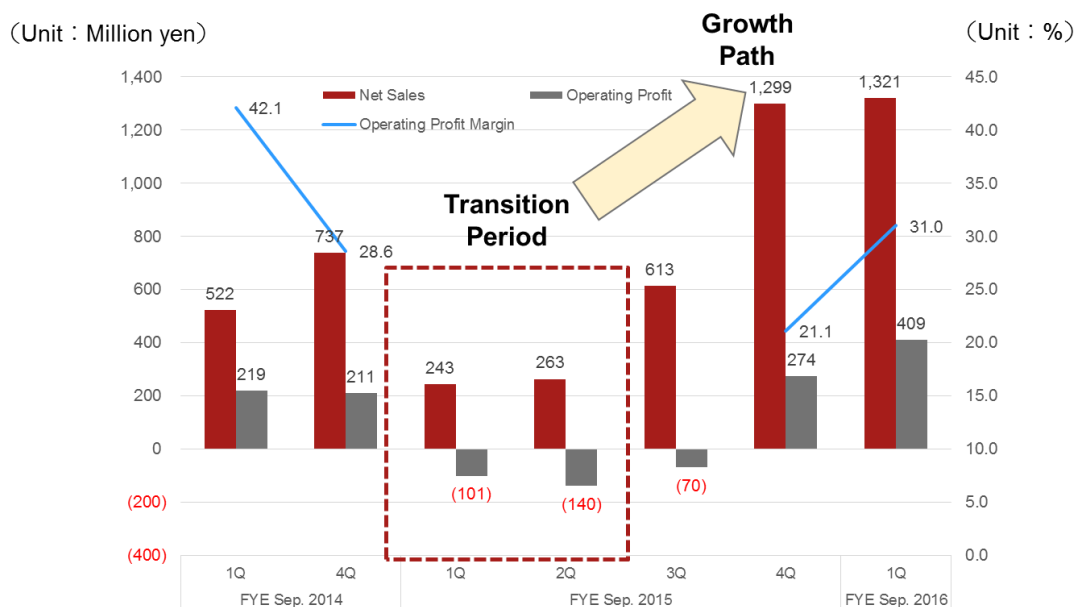
(Unit; Million Ten)

	FY2016 Q1	FY2015 Q1 (YoY)	FY2015 Q4 (QoQ)
Sales	1,321	1,299	243
Free Native Apps	142	190	239
Native Social Games	1,179	1,109	2
Operating Profits	409	274	△101
<i>Operating Profit Margin</i>	<i>31.0%</i>	<i>21.1%</i>	-
Net Profit	230	136	△89
<i>Net Profit Margin</i>	<i>17.4%</i>	<i>10.5%</i>	-

《Overview of Results》

For Q1 FYE September 2016 (October-December 2015), the native social game “BOKU & DRAGONS” continued perform favorably. This led to Q1 sales of 1,321 million yen, and operating profit of 409 million yen, the highest sales and operating profit since the Company’s listing on the Tokyo Stock Exchange.

Observing trends in quarterly sales and operating profit (chart below), one can see that the Company hit bottom in Q1 and Q2 of FYE September 2015, but has since been on the track of achieving a rapid “V-shaped” recovery.

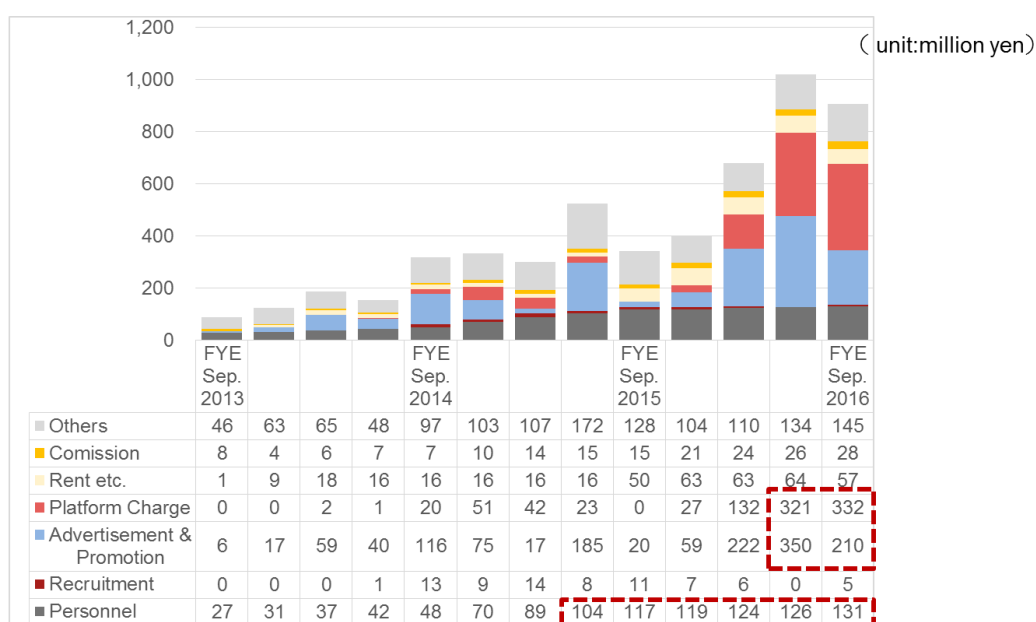


This has been the result of a stark change in the competitive environment for free native apps since January 2015 which led to a sharp decline in the Company’s advertising revenue, while the app “BOKU & DRAGONS” also released in February

2015 started to contribute to revenue from Q3 last fiscal year (April- June 2015). In other words, the substantial improvement in earnings reflect the Company's efforts to restructure its business and organization. With the Company's main source of revenue shifting from advertising revenue to billing revenue, the Company has been transforming its organization from focusing on releasing the *quantity* of apps (generally small-sized apps), to *extending the lifetime* of apps released through operational renewals.

As a result of this restructuring, now 90% of sales are generated from billing revenue and OP margin has recovered to the 30% level; with this, the Company has been able to reposition itself once again to post high OP margins.

As for the Company's cost structure, platform fees paid to Apple and Google are on an increasing trend as billing revenue increases as a proportion of total revenue. However, other expenses such as labor/personnel costs are stably managed, which shows that a smooth business restructuring/transitioning is taking place without incurring additional costs.

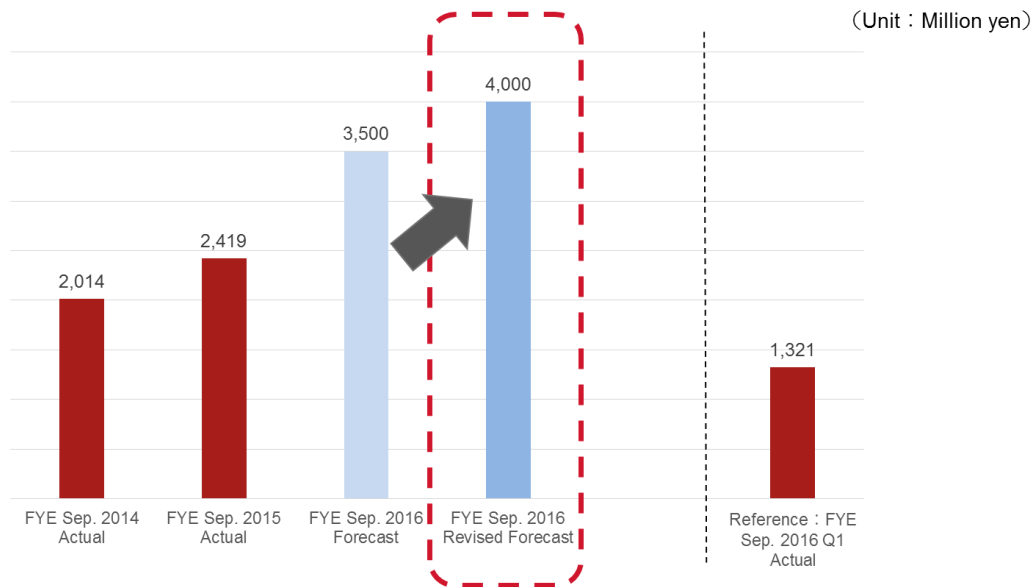


※Includes depreciation and amortization expenses for HQ facilities

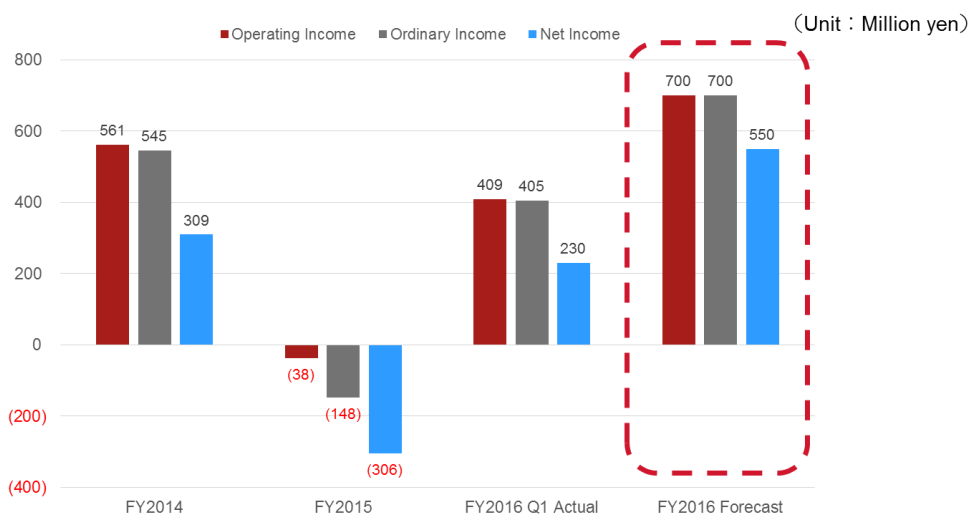
《Upward revision of earnings forecast》

Preceding their disclosure for Q1 figures, the Company revised its FYE September 2016 full year forecast on February 4th. Forecast for sales for the full year is now 4,000 million yen (up from 3,500 million yen) and operating profit is now 700 million yen (originally not disclosed).

Forecast revision① Sales



Forecast revision ② Profit



Full year forecast figures seem conservative judging from the level of their Q1 results. However, sales for Q1 is heavily dependent on “BOKU & DRAGONS”, and ① the monetization of the free native apps —the other (expected) revenue base— is still unclear, also, ② if ‘BOKU & DRAGONS’ is positioned as this fiscal year’s main source of revenue, some increase in expenses pertaining to sales and other promotions could be expected. Therefore the current forecast can be considered to be at a level that is achievable with certainty.

《Towards future growth》

The Company has been presenting its mission as “Creating new standards, over and over again”, and aims to provide a new service by developing an application which will be downloaded by more than 100 million people. Towards this target, the Company intends to strengthen its operation system for the apps already released, and establish a foundation for a balanced business portfolio. The Company has identified the following two areas as important initiatives for this fiscal year:

Free Native Apps

To constantly improve applications by strengthening the operations of renewal type apps (especially in the communication genre)

Native Social Games

Strengthen the development and operation system of “BOKU & DRAGONS”.
Focus on expanding income through promotions besides internet advertising

(from the company’s presentation)

For free native apps, the Company has achieved ①1 million cumulative downloads globally for the casual game app ‘breaker’, and ②1 million downloads for the communication app ‘Hima Chat’ (cumulative 1 billion messages sent); these apps whose lifetime is expected to be longer than previous ones are performing favorably. Also, in February 2016, the Company released ‘with’, a communication app which utilizes psychology and statistics to do match-making between users, and are expanding their business into the area of dating/ match-making.

The issue moving forward is how to capture advertising revenue from these apps.

For ‘BOKU & DRAGONS’, the game has continuously been in the top 50 in the Google Play game rankings, and a stable operating foundation is already set up. The Company will need to continue its efforts to expand the lifetime of the app through acquiring new users and retaining active users while maintaining its current profitability, and so the steady implementation of the measures above during Q2 and beyond is expected.

《Implementing reorganization within the group》

The Company continues to concentrate their efforts and strengthen their core business base of developing and operating apps, and to this end, is moving forward in implementing group reorganization measures.

In January 2016, the Company sold for 590 million yen, its shareholdings in M.T.Burn, an affiliated company in the business of operating smartphone advertising. The Company announced that they will allocate the proceeds to investment that will expand its business base.

While the Company has been implementing various measures such as acquiring companies such as 'U-NOTE' (a curation media operating company) in October 2015 to strengthen its operating capacity, the most recent selling of this affiliated company's shares show that the Company has clarified the direction of their business towards meeting their medium term target. This shows that the Company has more closely aligned its organization to its business strategy.

SIR believes that the Company's source of growth comes from its flexible business operating structure to respond to changes in situations as seen in its recent earnings' improvement. SIR intends to continue to carefully monitor the Company's operations and progress in its business and report on their growth path.

Yuichi Sekiguchi

CEO, Strategic IR Insight, Inc.

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