



## **IGNIS / 3689**

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**How to read a Shared Research report:** This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

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## Executive summary

### Core businesses

- IGNIS plans, develops, and operates smartphone apps and provides related services. In the Community segment (15.2% of revenues in FY09/17) it operates a matchmaking service called “with.” In the Native Games segment (76.1% of revenues) it operates smartphone game “BOKU & DRAGONS.” The company has positioned the Community segment as a growth driver, and plans to develop it into a second earnings pillar (FY09/17 revenues increased roughly six-fold YoY). It also eyes a full-scale entry in new businesses leveraging VR (virtual reality), AI (artificial intelligence) and IoT (internet of things).
- The company is run by two people: Founder and President Qian Kun, a producer, and CTO Takaaki Suzuki, an engineer. Leveraging their respective strengths, the two choose which markets to enter and lead the development process. The company’s project management system keeps costs in check, as the company thoroughly reviews each project before committing to development and invests aggressively after a prototype is complete. Its development set-up prioritizes speed and quality.
- The company has shifted its development and operation strategy since its founding in 2010 to propel growth. Through FY09/14 IGNIS developed and operated more than 200 small-scale free utility apps (each developed by a small team in about one month), on which it placed advertisements, earning revenue from advertisers. As new competitors entered the smartphone app market, IGNIS reassessed its prevailing business model based on one-time advertising revenue, which required production of many small apps and was vulnerable to changes in advertisers’ budgets. The new recurring revenue business model is based on developing and operating medium- and large-sized apps that generate subscription fees from consumers, and building up subscriber numbers. IGNIS has been shifting its earnings model to focus on user fees to stabilize its earnings base.
- Smartphone game “BOKU & DRAGONS,” released in February 2015, was a hit, reaching over 3.5mn total downloads and fourth place in App Store sales rankings as of February 21, 2017. The social game took IGNIS around a year to develop. Game revenue in FY09/16 was JPY4.8bn, 2.9x FY09/15 figures. The company has not disclosed data for FY09/17, but Shared Research estimates revenue at roughly JPY4.0bn. (The game is free; revenue is generated by in-game purchases of additional characters, skills, or items used in battles.)
- The website version of the company’s matchmaking service “with” was launched in September 2015 and the smartphone version in March 2016. Basic registration is free but male users pay a monthly membership fee for upgraded features such as messaging (average of JPY3,000/month). The service is free for women. As of end June 2018, it had over 1,000,000 registered members. Although the company was a latecomer to the online matchmaking business, it has consistently ranked around 10th in research agency App Annie’s sales rankings for the domestic iOS social networking category. “with” differentiates by offering personality analysis using a mixture of pop psychology and statistics to find ideal partners for its members (discussed later). The service’s contributions to revenues are growing and it has become the company’s second-largest earnings pillar. In February 2018, the service became profitable on a monthly basis and the company expects expanded profit from increasing revenues.
- As a medium-term growth area, the company is actively investing in new businesses, such as its VR business. At its subsidiary Pulse Inc., IGNIS intends to accelerate in-house development of the Virtual Live Platform “INSPIX,” and start working on attracting well-known IPs, producing new IPs, and expanding overseas.

### Trends and outlook

IGNIS released a medium-term plan on November 11, 2016. The plan targets consolidated revenues of JPY15.0bn (2.7x FY09/16 figures) and operating profit of JPY6.0bn (4.1x) in FY09/20, the final year of the plan. The company aims to launch new titles in the Native Games segment and grow membership of “with” in the Community segment. It also expects earnings contributions from new businesses in emerging fields such as IoT\* and VR.

\*Internet of Things (IoT): Connecting various objects to the internet to enable automatic and remote operation of those objects.

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## Strengths and weaknesses

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Shared Research thinks that the company's strengths are high profitability due to using proprietary IP, creativity that allows it to design popular services, and flexible management. We think its weaknesses are over-reliance on "BOKU & DRAGONS," risk due to limiting its new game development pipeline to one title, and a management approach that tends to lack focus.

## Key financial data

Income statement (JPYmn)	FY09/13 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Est.	FY09/20 MTP
<b>Revenues</b>	<b>875</b>	<b>2,048</b>	<b>2,419</b>	<b>5,586</b>	<b>5,578</b>	<b>4,874</b>	<b>6,000</b>	<b>15,000</b>
YoY	-	134.1%	18.1%	130.9%	-0.1%	-12.6%	23.1%	
Gross profit	527	1,433	1,741	4,675	4,480	3,626		
GPM	60.2%	70.0%	72.0%	83.7%	80.3%	74.4%		
SG&A expenses	219	871	1,780	3,200	4,396	6,159		
YoY	-	298.4%	104.2%	79.8%	37.4%	40.1%		
SG&A ratio	25.0%	42.6%	73.6%	57.3%	78.8%	126.3%		
<b>Operating profit</b>	<b>308</b>	<b>562</b>	<b>-38</b>	<b>1,474</b>	<b>84</b>	<b>-2,533</b>	<b>30</b>	<b>6,000</b>
YoY	-	82.1%	-	-	-94.3%	-	-	
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%	-	-	40.0%
<b>Recurring profit</b>	<b>307</b>	<b>545</b>	<b>-149</b>	<b>1,465</b>	<b>71</b>	<b>-2,572</b>	<b>10</b>	
YoY	-	77.3%	-	-	-95.1%	-	-	
RPM	35.1%	26.6%	-6.1%	26.2%	1.3%	-	-	
<b>Net income attributable to parent company shareholders</b>	<b>201</b>	<b>310</b>	<b>-307</b>	<b>1,088</b>	<b>-36</b>	<b>-2,651</b>	<b>5</b>	
YoY	-	54.4%	-	-	-	-	-	
Net margin	22.9%	15.1%	-12.7%	19.5%	-0.6%	-	-	
<b>Per share data (JPY, adjusted for stock splits)</b>								
Shares issued (year end; '000)	10,800	12,078	12,267	12,471	13,412	13,676		
EPS	18.59	28.06	-25.22	88.29	-2.72	-197.25	0.37	
EPS (fully diluted)	-	27.97	-	84.42	-	-		
Dividend per share	-	-	-	-	-	-		
Book value per share	14.19	131.15	101.08	195.65	302.64	165.46		
<b>Balance sheet (JPYmn)</b>								
Current assets	369	1,891	1,050	3,086	4,737	2,097		
Cash and cash equivalents	155	1,204	452	2,170	2,173	480		
Accounts receivable	171	559	375	396	614	536		
Other current assets	43	129	223	520	1,950	1,081		
Fixed assets	149	248	917	1,246	1,555	2,666		
Tangible fixed assets	26	25	150	112	188	296		
Intangible fixed assets	1	41	209	486	476	414		
Investments and other assets	122	181	558	648	891	1,956		
Total assets	519	2,140	1,967	4,333	6,292	4,763		
Current liabilities	312	543	609	1,390	1,396	1,825		
Accounts payable	12	43	15	29	79	126		
Short-term debt	10	-	130	183	781	772		
Income taxes payable	198	257	179	814	22	103		
Other current liabilities	92	243	286	363	514	823		
Fixed liabilities	54	13	120	445	760	665		
Long-term debt	41	-	15	340	617	304		
Others	13	13	105	105	144	361		
Net assets	153	1,584	1,238	2,498	4,135	2,272		
Capital stock	1	559	563	622	1,505	1,622		
Capital surplus	-	558	562	620	1,390	1,528		
Retained earnings	154	464	157	1,245	1,198	-1,440		
Treasury stock	-	-	-52	-52	-52	-52		
Accumulated other comprehensive income	-2	2	6	-3	4	598		
Share subscription rights	-	-	3	3	5	17		
Non-controlling interests	-	-	-	63	84	-		
Total capital and liabilities	519	2,140	1,967	4,333	6,292	4,763		
<b>Statement of cash flows (JPYmn)</b>								
Cash flows from operating activities	230	94	-64	1,351	-1,931	-568		
Cash flows from investing activities	-79	-102	-777	-123	-666	-1,035		
Cash flows from financing activities	-19	1,047	87	497	2,594	8		
<b>Financial ratios</b>								
Interest-bearing debt	51	-	145	523	1,397	1,077		
Net cash	104	1,204	307	1,647	776	-596		
ROA (RP-based)	-	41.0%	-7.2%	46.5%	1.3%	-46.5%		
ROE	370.1%	35.7%	-21.8%	59.3%	-1.1%	-84.1%		
Current ratio	119%	348%	172%	222%	339%	115%		
Fixed ratio	97.4%	15.7%	74.1%	49.9%	37.6%	117.3%		
Equity ratio	29.5%	74.0%	62.8%	56.1%	64.3%	47.4%		

Source: Shared Research based on company data

Figures may differ from company materials due to differences in rounding methods.

IGNIS conducted a two-for-one stock split on December 1, 2017. Figures related to shares issued have been adjusted to reflect the impact of this stock split.

## Recent updates

### Highlights

On **December 10, 2018**, IGNIS LTD. announced that it would be making a private placement of new shares as well as its 18th series of stock acquisition rights (with provision to revise exercise price).

On December 10, 2018, the company's board of directors resolved to issue new shares as well as its 18th series of stock acquisition rights (with provision to revise exercise price) via a third-party allocation. The newly issued shares and warrants will be placed with an asset management company that is held jointly by IGNIS's president as well as with one of IGNIS's directors, which in effect represents a private placement with IGNIS's entire management team as well as related parties. The issue price of the new share was set as the closing price of the shares on the trading day prior to the approval of the issue by the board of directors; the exercise price for the warrants will be the closing price on the trading day immediately prior to the date when the stock acquisition rights become effective. No discount will be offered in either case. The new stock and warrant issue was approved based on the board of directors' determination that the funds to be raised would serve to further increase the enterprise value of the IGNIS group.

#### Third-party allocation

- ▷ Payment date: December 26, 2018
- ▷ Issue price: JPY1,411 per share (for a total JPY949,885,200 for new shares)
- ▷ Funds to be raised: JPY943,885,200 (net of fees)
- ▷ Allotment method: Third-party allocation to parties named below
  - QK Inc.\* 354,300 shares
  - SK Inc.\* 269,300 shares
  - Yusuke Sato\*\* 49,600 shares

\* QK Inc. and SK Inc. are asset management companies where IGNIS President Qian Kun concurrently serves as the representative director.

\*\* Yusuke Sato is one of IGNIS's directors.

#### 18th series of stock acquisition rights (with provision to revise exercise price)

- ▷ Allotment date: December 26, 2018
- ▷ Number of warrants to be issued: 2,126
- ▷ Issue price: JPY25 per warrant (total amount to be paid in: JPY53,150)
- ▷ Number of dilutive shares from the issuance: 212,600 shares (each warrant representing right to buy 100 shares); in the event the exercise price is revised, there is no upper limit on the price; the minimum exercise price is set at JPY988; even if the exercise price is set at the minimum price, the potential dilution from the 18th series of warrants is 212,600 shares
- ▷ Funds to be raised: JPY298,031,750 (net of fees, see note below)

Note: This represents the total amount of funds that would be raised in the event this series of warrants is exercised at the exercise price initially set. The total amount of funds actually raised could increase (or decrease) if the exercise price is higher (or lower) than the exercise price initially set. The amount of funds raised could also be less than the amount indicated above if the warrants are not exercised before expiration or are acquired and cancelled by the company.

- ▷ Exercise price and provision to revise exercise price: Initial exercise price JPY1,411  
The exercise price of these warrants will be revised to the closing price of the company's common shares on the Tokyo Stock Exchange on the trading day immediately prior to the date when stock acquisition rights become effective (in the event there is

no closing price on that date, the closing price on the date prior to that will be used). Should the exercise price set in this manner be less than the minimum exercise price, the minimum exercise price will become the exercise price.

▷ Allotment method: Third-party allocation with all warrants issued being placed with SY Inc.\*

\* SY Inc. is an asset management company where IGNIS President Qian Kun concurrently serves as the representative director.

#### Amount of capital to be raised

Total amount to be paid in: JPY1,249,916,950 less JPY8,000,000 in issuing expenses for net proceeds of JPY1,241,916,950

#### Planned use of funds to be raised

(1) JPY1,091mn to be used to hire personnel to develop and operate virtual reality business

(2) JPY150mn to be put into construction of own studio and other projects aimed at creating additional content

In both cases, the planned spending will take place during the period running from December 2018 through March 2021.\*

\* In the event the warrants are not exercised during the exercise period and the expected funding from the exercise of the warrants is not realized, investments in content creation will take priority and other means of financing investments, including borrowing, will be used.

Because the warrants issued in the 14th, 15th, and 16th series have not been exercised in line with initial expectations and stock market conditions are no longer conducive to raising funds from these warrant issues, part of the funds expected to be raised from the exercise of the warrants in the 18th series will be used to fund the JPY5.2bn in investments and spending that the company had previously expected to be funded by the exercise of the warrants in the 14th, 15th, and 16th series. As detailed in the securities registration statement filed by the company on March 5, 2018, the funds raised from the exercise of the warrants in the 14th, 15th, and 16th series were slated to be used to pay for the hiring of domestic and overseas personnel to develop and operate the company's Virtual Live Platform "INSPIX" (under its virtual reality business), the establishment of overseas offices, the construction of own studio and other projects that would help create additional content, and advertising and promotional spending to attract users. The funds expected to be raised from this time around will not cover all of the spending that was expected to be funded by the exercise of the warrants in the 14th, 15th, and 16th series (JPY5.2bn for INSPIX and the virtual reality business plus another JPY2.0bn for advertising and promotional spending to attract users at the Community business). However, the amounts allocated above are expected to cover funding needs in these areas for the time being.

Of the funds expected to be raised from the exercise of the warrants in the 14th, 15th, and 16th series, IGNIS had allocated a total of JPY206mn to be spent prior to November 2018 to cover the cost of hiring of domestic and overseas personnel to develop and operate the company's Virtual Live Platform "INSPIX", establishing overseas offices, the construction of own studio and other projects that would help create additional content, and advertising and promotional spending to attract users. Thanks to these investments, it was possible for INSPIX to hold virtual live concerts. However, because stock market conditions are no longer conducive to raising funds from the exercise of the warrants issued in the 14th, 15th, and 16th series, the company determined it would need to issue new shares as well as another series of warrants in order to secure the capital needed to make ongoing investments in INSPIX and other parts of its virtual reality business.

Assuming IGNIS is able to raise sufficient funds this time around, it would be beneficial for the company if the parties to whom the warrants in the 18th series were allocated hold on to the common shares after exercising the warrants. For that reason, the company said it may stop the exercise of the warrants in the 14th series by the allocated parties (for the 14th series), or may choose to cancel all or part of the remaining warrants in the 14th series after acquiring them from the allocated parties.

On **November 12, 2018**, the company announced full-year results for FY09/18 and booking of provisions for doubtful accounts and extraordinary losses; see the results section for details.

On **October 26, 2018**, the company announced the establishment of a joint venture between its subsidiary Pulse Inc. and Just Production Inc.

At a meeting of the board of directors on October 26, 2018, the company decided to establish Miracle Pro Inc., a joint venture between Pulse Inc. and Just Production Inc. (Just Pro).

#### Purpose of joint venture

IGNIS is positive on the prospects of cutting-edge virtual reality (VR) technology and is focusing on the VR business through Pulse. The subsidiary has developed INSPIX, a virtual live platform that will enable new forms of entertainment leveraging VR technology, and is creating intellectual property (IP) with virtual talents that perform on the platform. The company sees powerful performance content as necessary to grow INSPIX. With the establishment of Miracle Pro Inc., it aims to combine the talent production, content promotion, and licensing management expertise of Just Pro and the technical VR content production capability of Pulse to create and market attractive virtual talents. The company said that it planned to sign the joint venture agreement in early November 2018 and establish the joint venture company in mid-November 2018.

#### Future developments

Miracle Pro will be responsible for the creation and promotion of intellectual property (such as virtual talents) on Pulse's INSPIX virtual live platform. IGNIS touched upon IP to be developed via Miracle Pro in its Q3 FY09/18 results briefing materials as "3rd shot—Project B." The company is preparing to make a detailed announcement regarding IP creation. Currently it plans to create new IP in the genre of female characters rather than using existing IP. It will reveal the details of offering timing and promotion at a later date.

#### Overview of joint venture

- ▷ Name: Miracle Pro Inc.
- ▷ Business: Management, planning, and operation of virtual talents
- ▷ Capital: JPY10mn
- ▷ Ownership: Just Production Inc. (50%), Pulse Inc. (50%)

On **October 23, 2018**, Shared Research updated the report following interviews with the company.

On **October 1, 2018**, the company announced that U-NOTE, a consolidated subsidiary, transferred a portion of its businesses.

U-NOTE resolved to transfer its media segment to PR TIMES, Inc. on September 13, 2018. After concluding a transfer agreement on September 18, U-NOTE officially conducted the transfer on September 30.

U-NOTE had mainly been developing U-NOTE, information media designed for young business people, in its media segment and Jobgram, a job offer matching system that utilizes data concerning user personality traits, in its career segment. Amid a changing business environment, U-NOTE held internal discussions regarding the future of its media segment with the goal of selecting and focusing its operations. As a result of these discussions, U-NOTE resolved to transfer its media segment to PR TIMES, which is expanding its news release business, and concentrate its corporate resources in its career segment.

The impact of this transfer on FY09/18 consolidated financial results is minimal, and the company maintains that it will quickly disclose any related information warranting public release. Additionally, in accordance with this transfer, U-NOTE changed its company name to Gram Corporation as of October 1, 2018.

**For previous releases and developments, please refer to the News and topics section.**



## Trends and outlook

### Quarterly trends and results

Cumulative (JPYmm)	FY09/16				FY09/17				FY09/18				FY09/18 % of FY	FY Est. 4,400
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Revenues</b>	<b>1,322</b>	<b>2,611</b>	<b>4,036</b>	<b>5,586</b>	<b>1,417</b>	<b>2,829</b>	<b>4,110</b>	<b>5,578</b>	<b>1,290</b>	<b>2,470</b>	<b>3,637</b>	<b>4,874</b>		
YoY	443.8%	415.4%	260.3%	130.9%	7.2%	8.3%	1.8%	-0.1%	-9.0%	-12.7%	-11.5%	-12.6%		-21.1%
Gross profit	1,140	2,203	3,388	4,675	1,172	2,346	3,330	4,480	1,011	1,817	2,670	3,626		
GPM	86.2%	84.4%	84.0%	83.7%	82.7%	82.9%	81.0%	80.3%	78.4%	73.5%	73.4%	74.4%		
SG&A expenses	730	1,358	2,185	3,200	1,023	2,151	3,206	4,396	1,259	2,484	3,622	6,159		
YoY	304.2%	230.7%	135.2%	79.8%	40.1%	58.3%	46.7%	37.4%	23.0%	15.5%	13.0%	40.1%		
SG&A ratio	55.2%	52.0%	54.1%	57.3%	72.2%	76.0%	78.0%	78.8%	97.6%	100.5%	99.6%	126.3%		
<b>Operating profit</b>	<b>410</b>	<b>845</b>	<b>1,203</b>	<b>1,474</b>	<b>149</b>	<b>196</b>	<b>124</b>	<b>84</b>	<b>-248</b>	<b>-667</b>	<b>-951</b>	<b>-2,533</b>		na
YoY	-	-	-	-	-63.7%	-76.8%	-89.7%	-94.3%	-	-	-	-		
OPM	31.0%	32.3%	29.8%	26.4%	10.5%	6.9%	3.0%	1.5%	-	-	-	-		
<b>Recurring profit</b>	<b>406</b>	<b>840</b>	<b>1,198</b>	<b>1,465</b>	<b>136</b>	<b>185</b>	<b>113</b>	<b>71</b>	<b>-250</b>	<b>-1,348</b>	<b>-980</b>	<b>-2,572</b>		na
YoY	-	-	-	-	-66.5%	-78.0%	-90.6%	-95.1%	-	-	-	-		
RPM	30.7%	32.2%	29.7%	26.2%	9.6%	6.5%	2.7%	1.3%	-	-	-	-		
<b>Net income</b> attributable to parent company shareholders	<b>230</b>	<b>895</b>	<b>1,001</b>	<b>1,088</b>	<b>67</b>	<b>92</b>	<b>11</b>	<b>-36</b>	<b>-233</b>	<b>-856</b>	<b>-1,084</b>	<b>-2,651</b>		na
YoY	-	-	-	-	-70.7%	-89.7%	-98.9%	-	-	-	-	-		
Net margin	17.4%	34.3%	24.8%	19.5%	4.8%	3.2%	0.3%	-	-	-	-	-		
<b>Quarterly performance (JPYmm)</b>	FY09/16				FY09/17				FY09/18					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Revenues</b>	<b>1,322</b>	<b>1,289</b>	<b>1,425</b>	<b>1,550</b>	<b>1,417</b>	<b>1,412</b>	<b>1,281</b>	<b>1,468</b>	<b>1,290</b>	<b>1,181</b>	<b>1,167</b>	<b>1,237</b>		
YoY	443.8%	389.3%	132.2%	19.3%	7.2%	9.5%	-10.1%	-5.3%	-9.0%	-16.4%	-8.9%	-15.7%		
Gross profit	1,140	1,063	1,185	1,286	1,172	1,174	984	1,150	1,011	805	854	956		
GPM	86.2%	82.5%	83.2%	83.0%	82.7%	83.2%	76.8%	78.3%	78.4%	68.2%	73.2%	77.2%		
SG&A expenses	730	628	827	1,015	1,023	1,127	1,055	1,190	1,259	1,225	1,138	2,537		
YoY	304.2%	173.0%	59.5%	19.4%	40.1%	79.5%	27.7%	17.2%	23.0%	8.6%	7.8%	113.2%		
SG&A ratio	55.2%	48.7%	58.0%	65.5%	72.2%	79.8%	82.4%	81.0%	97.6%	103.7%	97.5%	205.0%		
<b>Operating profit</b>	<b>410</b>	<b>435</b>	<b>358</b>	<b>271</b>	<b>149</b>	<b>47</b>	<b>-72</b>	<b>-40</b>	<b>-248</b>	<b>-419</b>	<b>-285</b>	<b>-1,581</b>		
YoY	-	-	-	-1.2%	-63.7%	-89.2%	-	-	-	-	-	-		
OPM	31.0%	33.7%	25.2%	17.5%	10.5%	3.3%	-	-	-	-	-	-		
<b>Recurring profit</b>	<b>406</b>	<b>434</b>	<b>358</b>	<b>268</b>	<b>136</b>	<b>49</b>	<b>-72</b>	<b>-41</b>	<b>-250</b>	<b>-1,098</b>	<b>368</b>	<b>-1,592</b>		
YoY	-	-	-	8.2%	-66.5%	-88.8%	-	-	-	-	-	-		
RPM	30.7%	33.7%	25.1%	17.3%	9.6%	3.4%	-	-	-	-	-	-		
<b>Net income</b> attributable to parent company shareholders	<b>230</b>	<b>665</b>	<b>106</b>	<b>87</b>	<b>67</b>	<b>25</b>	<b>-81</b>	<b>-46</b>	<b>-233</b>	<b>-622</b>	<b>-228</b>	<b>-1,567</b>		
YoY	-	-	-	-36.1%	-70.7%	-96.3%	-	-	-	-	-	-		
Net margin	17.4%	51.5%	7.4%	5.6%	4.8%	1.7%	-	-	-	-	-	-		
<b>Revenue by segment (cumulative) (JPYmm)</b>	FY09/16				FY09/17				FY09/18					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Revenues</b>	<b>1,322</b>	<b>2,611</b>	<b>4,036</b>	<b>5,586</b>	<b>1,417</b>	<b>2,829</b>	<b>4,110</b>	<b>5,578</b>	<b>1,290</b>	<b>2,470</b>	<b>3,637</b>	<b>4,874</b>		
Community	17	36	60	137	136	336	557	849	336	726	1,170	1,733		
Native Games	1,233	2,411	3,699	5,048	1,168	2,300	3,247	4,247	800	1,545	2,188	2,817		
Media (Other)	71	164	276	401	112	193	305	482	154	198	279	324		
Native Social Games (old segment)	1,179	2,290	3,541	4,832	-	-	-	-	-	-	-	-		
Free Native Apps (old segment)	142	320	493	753	-	-	-	-	-	-	-	-		
YoY	443.8%	415.4%	260.3%	130.9%	7.2%	8.3%	1.8%	-0.1%	-9.0%	-12.7%	-11.5%	-12.6%		
Community	-	-	-	-	686.3%	842.0%	826.0%	521.3%	146.9%	115.8%	110.0%	104.2%		
Native Games	-	-	-	-	-5.3%	-4.6%	-12.2%	-15.9%	-31.6%	-32.8%	-32.6%	-33.7%		
Media (Other)	-	-	-	-	57.9%	17.5%	10.3%	20.2%	37.4%	2.6%	-8.5%	-32.7%		
Native Social Games (old segment)	-	-	552.1%	192.5%	-	-	-	-	-	-	-	-		
Free Native Apps (old segment)	-40.8%	-24.3%	-14.4%	-1.7%	-	-	-	-	-	-	-	-		
<b>Revenue by segment (quarterly) (JPYmm)</b>	FY09/16				FY09/17				FY09/18					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
<b>Revenues</b>	<b>1,322</b>	<b>1,289</b>	<b>1,425</b>	<b>1,550</b>	<b>1,417</b>	<b>1,412</b>	<b>1,281</b>	<b>1,468</b>	<b>1,290</b>	<b>1,181</b>	<b>1,167</b>	<b>1,237</b>		
Community	17	18	24	76	136	200	221	291	336	390	444	562		
Native Games	1,233	1,178	1,288	1,349	1,168	1,131	948	1,000	800	745	643	630		
Media (Other)	71	93	112	124	112	81	112	177	154	44	81	45		
Native Social Games (old segment)	1,179	1,111	1,251	1,291	-	-	-	-	-	-	-	-		
Free Native Apps (old segment)	142	178	173	260	-	-	-	-	-	-	-	-		
YoY	443.8%	389.3%	132.2%	19.3%	7.2%	9.5%	-10.1%	-5.3%	-9.0%	-16.4%	-8.9%	-15.7%		
Community	-	-	-	-	686.3%	988.1%	802.6%	283.3%	146.9%	94.7%	101.1%	93.1%		
Native Games	-	-	-	-	-5.3%	-4.0%	-26.4%	-25.9%	-31.6%	-34.1%	-32.2%	-37.0%		
Media (Other)	-	-	-	-	57.9%	-13.4%	-0.3%	42.8%	37.4%	-45.8%	-27.7%	-74.4%		
Native Social Games (old segment)	-	-	172.0%	16.4%	-	-	-	-	-	-	-	-		
Free Native Apps (old segment)	-40.8%	-2.7%	13.1%	36.8%	-	-	-	-	-	-	-	-		

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

## Full-year FY09/18 results (out November 12, 2018)

### Cumulative Q3 results

Revenues	JPY4.9bn (-12.6% YoY)
Operating loss	JPY2.5bn (versus profit of JPY84mn in FY09/17)
Recurring loss	JPY2.6bn (versus profit of JPY71mn in FY09/17)
Net loss*	JPY2.7bn (versus loss of JPY36mn in FY09/17)
*Net loss attributable to parent company shareholders	

Having designated FY09/18 as a year for making aggressive investments in future growth initiatives under its medium-term business plan, the company worked to build up existing businesses and internal infrastructure, and launch new businesses in FY09/18. Revenues finished ahead of plan thanks in large part to growth at the company's "with" matchmaking service under the Community segment and above-plan revenues of its "BOKU & DRAGONS" game under the Native Games segment.

The investment spending weighed heavily on earnings, though, as SG&A expenditures swelled on heavy spending on advertising and promotion and R&D, and a JPY1.5bn addition to provisions for doubtful accounts comprised largely of credit extended to VR-related companies and medical institutions under its SaaS (Software as a Service) business and other new business areas. The carrying value of certain fixed assets was also written down, resulting in a JPY103mn asset impairment loss booked as an extraordinary loss. The company still expects the new business areas to turn a profit, but uncertainty surrounding the timing of the return on its investment prompted it to make additional provisions for doubtful accounts and write down the carrying value of certain fixed assets to the amount deemed recoverable within a specified timeframe. With regard to the party or parties to whom the credit was extended that is now in doubt, the company did not disclose any names but did say that payments on promissory notes are not in arrears and that the party/parties in question are not preparing to file for bankruptcy but that it will be keeping a close eye on situation. As a result, the company booked an operating loss, recurring loss, and net loss attributable to parent company shareholders.

IGNIS has positioned, and is developing, its existing core businesses in three genres: (1) the Community segment, which runs the "with" matchmaking service, (2) the Native Games\*<sup>1</sup> segment, which operates the core game "BOKU & DRAGONS," and (3) "Other" segment that does not belong under either of the other two segments.

\*<sup>1</sup>Native game: An online game that is a subset of native apps. Can be played while communicating with other players, such as through group battles. Downloaded from platforms such as the App Store and Google Play.

IGNIS aims to commercialize cutting-edge technologies such as VR, AI, and IoT as new genres to be added to its portfolio, giving particular attention to VR and AI as investment businesses, and has actively deployed management resources in these areas from FY09/17. In the virtual reality business, the company is promoting research and development in the entertainment and medical fields. In particular, it has accelerated the development of and generated a range of new IPs for the Virtual Live Platform "INSPIX," which creates a new musical experience, and in the entertainment field is putting its energy into expanding overseas and creating new IPs including VR celebrities. Development of "INSPIX"—used for live performances of "ENOGU," a virtual-girl idol group belonging to IGNIS business partner iwamotocho geinoshia inc.—is steadily proceeding. In the medical field, IGNIS has begun joint research with Juntendo University in areas such as "clinical research for relief of chronic pain or stimulus through VR," but expects such research to extend into the long term.

IGNIS is also developing and testing the automation of inspection processes using AI-equipped robots in partnership with auto parts manufacturers in Toyota City, Aichi Prefecture. Although progress in automation of production processes at Japanese factories continues, inspection operations have not been completely automated. IGNIS wants to contribute to improving production efficiency in the manufacturing industry by developing and providing AI-equipped robots to manufacturers. IGNIS is conducting development, testing, and marketing with the aim of monetizing the new VR and AI genres as soon as possible.

In order to achieve the targets of its medium-term plan, the company aims to develop multiple businesses that will allow it avoid depending too much on any one business, thus creating a stable business portfolio. It targets further growth through dual earnings drivers: its strong recurring-revenue businesses and new businesses with the potential for explosive growth.

### Community segment

Revenues in the Community segment jumped 104.2% YoY to JPY1.7bn. The sharp gains were underpinned by strong growth in the number of users of the company's "with" matchmaking service, which soared in response to aggressive promotional spending and the addition of new features such as login verification using SMS. The "with" service ranked one of the top-selling social networking apps in its category. In order to make the "with" service stand out from similar services offered by competitors, IGNIS aimed for optimal matchmaking based on psychology, adding features such as "auto-generated self-introductions" and sponsoring events such as "seminars by Mentalist DaiGo." As online matchmaking services have rapidly become more common in Japan, "with" has been picking up new members not just through promotions, but also by word of mouth. As a result, the service is steadily growing, with 1.2mn registered members as of September 2018. The company aims to improve user satisfaction by constantly adding functions to improve the service's usability and the accuracy of its matching, and also holding events where users can get personality assessments.

### Native Games segment

At the Native Games segment, revenues of JPY2.8bn were down 33.7% YoY. "MEGA SMASH," a smartphone game app the company released in March 2018, had disappointing user retention and conversion rates. IGNIS added new characters and conducted various events, but was unable to improve either rate to any significant degree, so it ended the service in July 2018. In contrast, earnings from core game "BOKU & DRAGONS" remain favorable as it enters its fourth year, despite ever fiercer competition in the smartphone game app market. IGNIS also undertook new initiatives to improve the satisfaction of existing users and stabilize earnings, including holding more elaborate seasonal events, joint promotional campaigns undertaken in conjunction with various kinds of popular games and animations, and a joint campaign with the "d Delivery" food delivery site provided by NTT Docomo.

### Other segment<sup>\*2</sup>

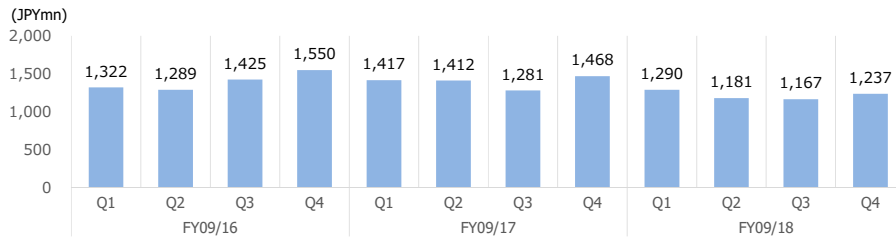
At the Other segment, revenues of JPY324mn were down 32.7% YoY. The Other segment is comprised of various businesses that do not really fit under the other two segments, including an information media business targeting business people, a job offer matching service that makes use of the user's personality profile data<sup>\*3</sup>, and the group's "TLUNCH" mobility service platform business<sup>\*4</sup> that is operated by subsidiary Mellow Inc.

\*2 The segment name was changed from "Media (Other)" to "Other" to reflect the increasing diversity of businesses included under the segment.

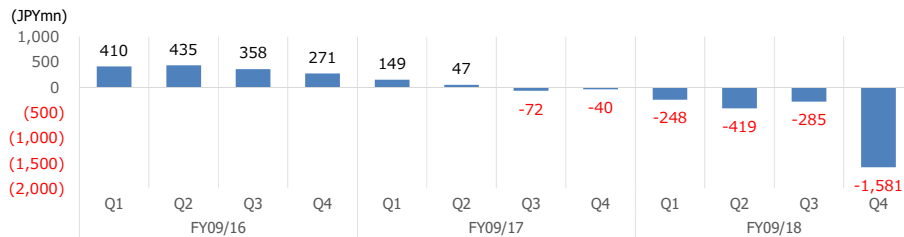
\*3 Subsidiary U-NOTE Inc. sold part of its "U-NOTE" media service business to PR TIMES Inc. on September 30, 2018. Effective October 1, 2018, U-NOTE Inc. changed its name to gram Inc.

\*4 As a result of the sale of shares in subsidiary Mellow Inc, which operates TLUNCH, during Q3, IGNIS's ownership stake in Mellow Inc. was reduced to the point where Mellow Inc. could no longer be counted as a consolidated subsidiary, making it an equity-method affiliate for accounting purposes effective Q4 FY09/18.

### Quarterly revenues



### Quarterly operating profit



Source: Shared Research based on company data

### Important information about going concern assumptions

In FY09/17, the IGNIS group reported a net loss attributable to parent company shareholders and had negative cash flow from operating activities. In FY09/18, it reported losses at both the operating and recurring profit levels, a net loss attributable to parent company shareholders, and negative cash flow from operating activities. As a result, there are now some serious doubts about the IGNIS group's ability to remain a going concern.

In order to remedy this situation, the company raised a total of JPY800mn in additional capital during the months of October and November 2018 and at the time of its FY09/19 results announcement, has put in place a plan to stabilize its financial position. Further, the company will also be working to maintain and grow revenues by strengthening its core businesses, select and reap profits from businesses in which it is investing aggressively through selection and concentration, stabilize its sources of funds and cash flow, and cut costs. As it intends to continue these improvement measures for as long as the situation necessitates, the company has determined that there are no serious doubts about its ability to remain a going concern.

**For details on previous quarterly and annual results, see the Historical financial statements section.**

## Full-year company forecast for FY09/19

Earnings (JPYmn)	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18		FY09/19	
	FY Act.	FY Act.	FY Act.	FY Act.	FY Act.	1H Act.	2H Act.	FY Est.	FY Est.
<b>Revenues</b>	<b>875</b>	<b>2,048</b>	<b>2,419</b>	<b>5,586</b>	<b>5,578</b>	<b>2,470</b>	<b>2,404</b>	<b>4,874</b>	<b>6,000</b>
YoY	-	134.1%	18.1%	130.9%	-0.1%	-12.7%	-12.6%	-12.6%	23.1%
<b>Operating profit</b>	<b>308</b>	<b>562</b>	<b>-38</b>	<b>1,474</b>	<b>84</b>	<b>-667</b>	<b>-1,866</b>	<b>-2,533</b>	<b>30</b>
YoY	-	82.1%	-	-	-94.3%	-	-	-	-
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%	-	-	-	0.5%
<b>Recurring profit</b>	<b>307</b>	<b>545</b>	<b>-149</b>	<b>1,465</b>	<b>71</b>	<b>-674</b>	<b>-1,898</b>	<b>-2,572</b>	<b>10</b>
YoY	-	77.3%	-	-	-95.1%	-	-	-	-
RPM	35.1%	26.6%	-6.1%	26.2%	1.3%	-	-	-	0.2%
<b>Net income attributable to parent company shareholders</b>	<b>201</b>	<b>310</b>	<b>-307</b>	<b>1,088</b>	<b>-36</b>	<b>-856</b>	<b>-1,795</b>	<b>-2,651</b>	<b>5</b>
YoY	-	54.4%	-	-	-	-	-	-	-
Net margin	22.9%	15.1%	-12.7%	19.5%	-0.6%	-	-	-	0.1%

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

For FY09/19, the company is forecasting full-year consolidated revenues of JPY6.0bn (+23.1% YoY), an operating profit of JPY30mn (versus loss of JPY2.5bn in FY09/18), a recurring profit of JPY30mn (versus loss of JPY2.5bn in FY09/18), and net income attributable to parent company shareholders of JPY5mn (versus loss of JPY2.7bn in FY09/18).

To meet the performance targets set out under its medium-term business plan, the company will be working to build a strong, stable, and diversified business portfolio so as not to depend too much on any single business. With respect to its existing core businesses, the company sees continued strong growth at its "with" matchmaking service under the Community segment and, as a result, sees the Community segment accounting for 35.5% of consolidated revenues in FY09/19 versus 15.2% in FY09/18. The company also expects its "with" matchmaking service to continue making large contributions to revenues and earnings going forward.

At the Native Games segment, the company is looking for steady growth as the domestic market for game apps for smartphones continues to expand and anticipates an additional boost from the expansion of domestic and overseas markets for online games (including game apps for smartphones). The company is also devising a number of different measures aimed at stabilizing revenues and earnings from "BOKU & DRAGONS" in FY09/19 and subsequent years. On the new games front, on October 22, 2018 the company disclosed a partial overview and began pre-release registration of "Demimen," its innovative new smartphone role-playing game targeting women. The company plans to release the game within 2018.

On the VR business front, the company is pushing ahead with R&D on products and services for the entertainment and medical fields. In the VR entertainment, the company is working to develop businesses along two different lines, one involving live-performance platform management services and the other engaged in IP (new talent, etc.) discovery, training, and production. The company believes that this approach (i.e., developing businesses along these two lines) will greatly distinguish it from other companies moving into the VR entertainment field.

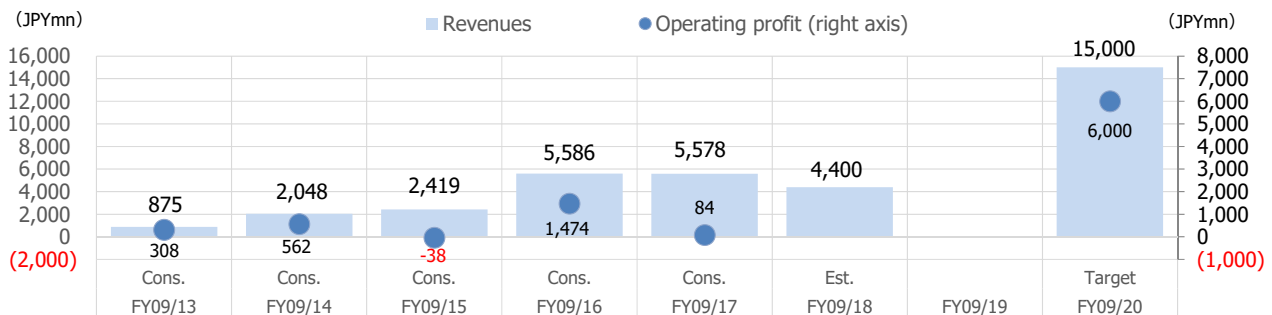
## Outlook

### Medium-term plan

IGNIS released a medium-term plan on November 11, 2016. It targets consolidated revenues of JPY15.0bn (2.7x FY09/16 levels) and operating profit of JPY6.0bn (4.1x) in FY09/20, the last year of the plan. The company aims to grow the OPM from 26.4% in FY09/16 to 40.0% in FY09/20 in light of expectations that the Community segment and other businesses expected to be launched will turn a profit by then.

In May 2018, the company revised its FY09/18 forecast for consolidated revenues down to JPY4.4bn from its initial forecast of JPY7.0bn (see the Full-year company forecasts section for details). The company has not made any changes to the FY09/20 targets in its medium-term plan.

#### Earnings trends and FY09/20 targets (as of revisions announcement in May 2018)



Source: Shared Research based on company data

The two key objectives of the medium-term plan are to strengthen profitability of existing businesses and to create new businesses.

### Strengthening profitability of existing businesses

The company aims to improve profitability of its existing businesses (Community, Native Games, and Other [mainly the media business]) by strengthening its existing services.

#### Community segment

IGNIS plans to make “with” (a matchmaking service) more user-friendly by incorporating additional features, improving user interface design, and enhancing services using algorithms. The company is aiming for even further growth in subscriber numbers for “with” by FY09/20.

#### Native Games segment

The company aims to solidify the long-term cash cow status of “BOKU & DRAGONS” by maintaining solid user numbers and ARPPU (average revenue per paying user). It also plans to design fewer titles and prioritize user experience, instead of spreading its resources too thinly across many titles. The company has been developing a new 3D action game (“MEGA SMASH,” formerly codename “GK”), which was released on March 28, 2018. (Note: On May 18, 2018, the company announced the termination of its “MEGA SMASH” service at 3:00 PM on July 18, 2018.\*)

\* According to the company, it will refund charges starting in July 2018.

#### Other segment

The company is aiming to maintain and even improve its earning capacity in the Other segment primarily through the U-NOTE media service for business people and the career-focused media service U-NOTE CAREER, which are both existing services.

## Creating new businesses

Under its medium-term plan through FY09/20, the company is working to develop new life hack and VR businesses, and a third business for which it has yet to disclose details. IGNIS intends to foster the new businesses other than the VR business to a level where they can contribute to earnings by FY09/20. According to company briefing materials for FY09/17 results, new businesses are projected to account for 15% of operating profit by FY09/19 and 30% by FY09/20.

### Life hack business

#### IoT-related

In the life hack business, equity-method affiliate Robit, an IoT\* venture, on July 13, 2016 launched automatic curtain controlling device “mornin’.” The inventive home appliance allows users to operate a curtain via a smartphone. The device is attached to a curtain rail, and a user can set a time for the curtain to open via an app, allowing one to wake up pleasantly to sunlight. As of the end of December 2017, more than 33,000 units had been sold (launch price was JPY3,985 including tax). In February 2018, the company released a “mornin’ plus” version with expanded functionality (launch price was JPY7,538 including tax), and concurrently launched themed versions (launch price was JPY9,980 including tax) consisting of collaborations with Nogizaka46 and other parties, which will only be available for a limited time.

\* IoT (Internet of Things): Connecting various objects to the internet to enable automatic and remote operation of the objects.

#### Food-related

IGNIS provides 54.2% of funding for consolidated subsidiary Mellow Inc.,\* which operates the food truck\*\* platform “TLUNCH,” which matches food truck operators with unused lots. Since its founding in February 2016, Mellow has continued to increase the number of available spaces (primarily in the Greater Tokyo area) and affiliated operators, growing “TLUNCH” into the largest food truck platform in Japan, and aims to further expand the transaction volume.

\*In its 1H FY09/18 earnings announcement, the company indicated that Mellow Inc. was no longer a consolidated subsidiary.

\*\*Food truck: New style of food service business in which restaurant chefs provide freshly cooked meals in a vehicle equipped to cook and sell food.

### VR business

In November 2016, IGNIS announced its entry into the VR business and the establishment of a subsidiary Pulse Inc. (representative director: IGNIS president Qian). Qian decided to enter the business after being impressed by VR. The company aims to plan, develop, and operate VR content. Pulse has attracted some high-profile investors such as noted songwriter Yasushi Akimoto, Yutaka Matsuo (Associate Professor at the University of Tokyo and a leading AI and deep-learning researcher in Japan), and Mentalist DaiGo (prominent pop psychologist in Japan).

In December 2016, Pulse announced the launch of a joint research project (dubbed “0th project”) about VR research technology with Professors Shigeo Horie and Suguru Kawato of Juntendo University. The project comprises research and development of VR content that prevents or delays the progression of dementia. Pulse is also conducting research into using VR technology for the alleviation of pain. The company says Juntendo University professors also announced the start of clinical trials on April 10, 2018. The three investors in Pulse are also involved in the planning and development of several other projects, although development of these projects appears to be proceeding cautiously to ensure high-quality services and content. The company said it would announce its progress as appropriate.

The company is focused on and, since FY09/17, has been actively investing management resources in its cutting-edge VR, AI and IoT technologies. Services that use these technologies are expected to grow and spread rapidly moving forward. IGNIS thinks the most important factor in the VR business is improving the quality of services. As such, it wants to spend sufficient time on development so the business can contribute to earnings in the future.

In November 2017, Pulse announced a business partnership with iwamotocho geinosha inc., the world’s first talent agency to specialize in the management of clients active primarily in the realm of VR. “ANTAMA” (common name for the VR idols Anzu Suzuki and Tamaki Shirafuji, who are handled by iwamotocho geinosha inc.) have been gaining popularity, and Pulse is providing iwamotocho geinosha inc. with broad support, in terms of both technology and capital, as it promotes the VR idol business. It is

currently planning multiple projects for offering users innovative experiences not yet available in the area of VR. iwamotocho geinoshia inc. has already announced (October 2017) that it will be using a live online broadcast to debut “ANTAMA”’s CD on the Universal Music label. In addition, Pulse has also announced its Virtual Live Platform “INSPIX” (February 2018), which is a major project being developed in-house. Three new members have joined the ANTAMA VR idol pair, starting a five-member VR idol group, ENOGU, which conducted its first live stream performance of original songs in May 2018.

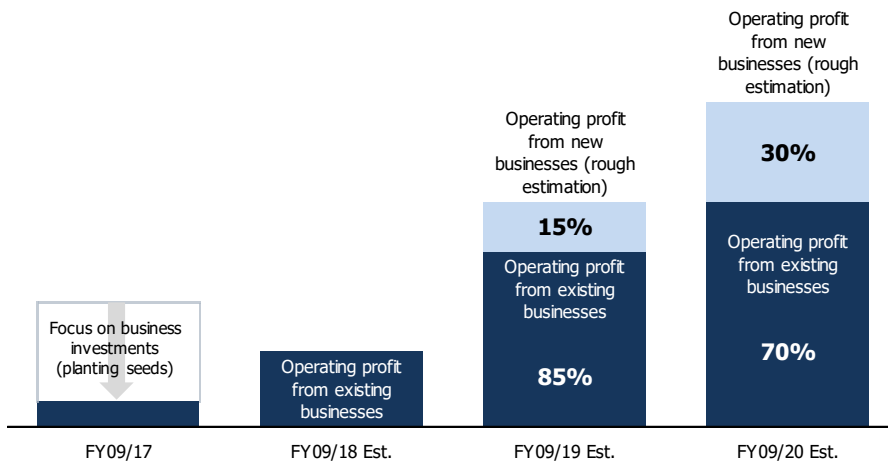
**New businesses**

On October 27, 2017, Robit Inc. announced a partnership with two auto parts manufacturers with head offices in Toyota City, Aichi Prefecture, a major hub for Japan’s auto industry, and says it has begun development and testing of automatic visual inspection equipment that uses machine learning. Although progress in automation of production processes at Japanese factories continues, inspection operations have not been completely automated and still often rely on inspectors’ five senses. It is getting harder each year to find an adequate number of inspectors as technicians get older and the overall working population shrinks. For these reasons, the automation of inspection processes is an important management issue for auto parts manufacturers. Conventional automatic visual inspection equipment requires the development of dedicated hardware for each part to be inspected, but the equipment developed by Robit, which uses machine learning and robotics, is more cost efficient and can respond to diverse parts and potential defects with comparatively small samples. Robit uses its strengths in designing both hardware and software to develop and test automatic visual inspection equipment. The announced partnership is a part of Toyota City’s open innovation program through which Robit intends to help improve productivity at manufacturers operating within the city, create new businesses, and contribute to resolving issues faced by society as a whole. In February 2018, Robit participated in DemoDay, an event where companies exhibit their achievements, and showcased an automatic visual inspection equipment demo unit, which we understand received high praise from a large number of manufacturers.

**Investment strategy**

Under its medium-term plan, IGNIS plans to change its earnings structure as shown in the following chart “to move away from its dependence on games.

**Growth steps (investment strategy)**



Source: Shared Research based on company data

**Financial strategy**

IGNIS believes fundraising is key to enabling it to invest in recruiting and training of personnel and in advertising to attract users, which in turn will help it develop services that support long-term growth.

**Issuance of stock acquisition rights**

On May 17, 2016, IGNIS announced that it would raise funds of roughly JPY4.3bn (net of expenses) by issuing shares via a third-party allotment (can only be exercised with the 10th rights issue) and entry into purchase agreements under the Target



Issue Program (TIP) with exercise permit provisions. This involves three tranches totaling 6,200 new stock acquisition rights and representing 620,000 potential shares, issued to the London Branch of Deutsche Bank on an allotment date of June 2, 2016.

Under the TIP, IGNIS set three desired target share prices, on which the exercise prices for the new shares were based (see following figure). This reflects the company's desire to issue new shares in three stages (target issue) in anticipation of growth through expanding its business and a rise in its share price.

	8th rights issue	9th rights issue	10th rights issue
Number of rights	1,550	2,170	2,480
Total issue value	JPY726,950	JPY438,340	JPY257,920
Issue price	JPY469	JPY202	JPY104
Exercise price	JPY3,600	JPY5,900	JPY10,000
Exercise price reset clause	No	No	Yes
Exercise period	Two years	Two years	Two years
Issuer's approval for exercise clause	Yes	Yes	Yes

Source: Shared Research based on company data

#### Planned use of funds from exercise of stock acquisition rights

Purpose of fundraising	Amount (JPYmn)	Timing of expenditure
Recruitment and training of engineers and other staff needed to expand smartphone app business	940	Jun 2016–Sep 2018
Advertising with the aim of attracting users in the Free Native Apps segment	1,118	Jun 2016–Sep 2018
Advertising and promotion with the aim of attracting users in the Native Social Games segment	2,256	Jun 2016–Sep 2018

Source: Shared Research based on company data

Of the three tranches above, the eighth and ninth issues had been exercised as of November 2016, from which IGNIS raised a total of more than JPY1.8bn.

On March 5, 2018, the company resolved to conduct its 14th, 15th and 16th issuances of stock acquisition rights through third-party allotment to Deutsche Bank's London branch and to conclude a stock acquisition rights purchase agreement with the allottee (target issue program [TIP]\* with provisions to suspend exercise of rights).

#### Details of the 14th, 15th, and 16th series of stock acquisition rights

Allocation Date	March 22, 2018
Number of stock acquisition rights issued	17,000 14th: 10,000 15th: 3,500 16th: 3,500
Issuing amount	Total amount: JPY12,061,500 (JPY790 for each SAR in 14th tranche, JPY677 for each SAR in 15th tranche, and JPY512 for each SAR in 16th tranche)
Potential dilution from exercise of stock acquisition rights	1,700,000 shares (equal to 12.67% of shares with voting rights outstanding) 14th: 1,000,000 shares 15th: 350,000 shares 16th: 350,000 shares
Amount to be raised	JPY7,262,061,500 (Net of fees: JPY7,242,161,500)
Exercise price	Initial exercise price 14th: JPY3,050 per share 15th: JPY5,000 per share

	16th: JPY7,000 per share
Subscription or allotment method (allotted party)	Third-party allotment to Deutsche Bank AG, London Branch
Exercise period	March 23, 2018 through March 22, 2021

Use of proceeds	Amount	Expected date of expenditures
Personnel expenses for recruiting domestic and overseas staff to develop and operate Virtual Live Platform "INSPIX"; starting up overseas operations, construction of own studio and other investments aimed at enhancing contents; advertising expenses aimed at bringing in new users	JPY5.2bn	March 2018 – March 2021
Advertising at Community segment aimed at bringing in new users	JPY2.0bn	

\*Target Issue Program (TIP): The 15th and 16th tranches of stock acquisition rights were issued under a Target Issue Program wherein the issuer establishes the desired target price at which the rights can be exercised and new shares issued. Under this program, the issuer can set a different exercise price for each tranche of stock acquisition rights issued in anticipation that its stock price will rise in the future, and thereby issue new shares in stages (thus the name "Target Issue"). The issuing agreement also contains a clause that allows the issuer to suspend the exercise of the rights for a specified period, giving the issuer the ability to control the timing of their exercise by designating periods during which the rights may not be exercised by the allotted party owing to the potential impact of new share issuance on the issuer's common stock price or other concerns. In principle, the exercise price for the 15th and 16th tranche has been set at the target price fixed by IGNIS, but in the case of the 16th tranche the company has retained the right to adjust the exercise price in the future. The 14th tranche is not part of the Target Issue Program, but the issuing agreement for 14th tranche contains a similar clause that allows IGNIS to suspend the exercise of the rights for a specified period of time.

### Stock split

On November 13, 2017, IGNIS announced a two-for-one stock split of common shares with November 30, 2017 as the record date and December 1, 2017 as the effective date.

## Business

### Description

#### Business model

IGNIS plans, develops, and operates smartphone apps. Its three segments are Community, Native Games, and Other\*.

\* From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) to the Community, Native Games, and Other segments. This change is intended to help the company focus on more profitable businesses.

Comments in this report referring to FY09/17 and later use the new segmentation, while comments regarding FY09/16 and before use the former segmentation.

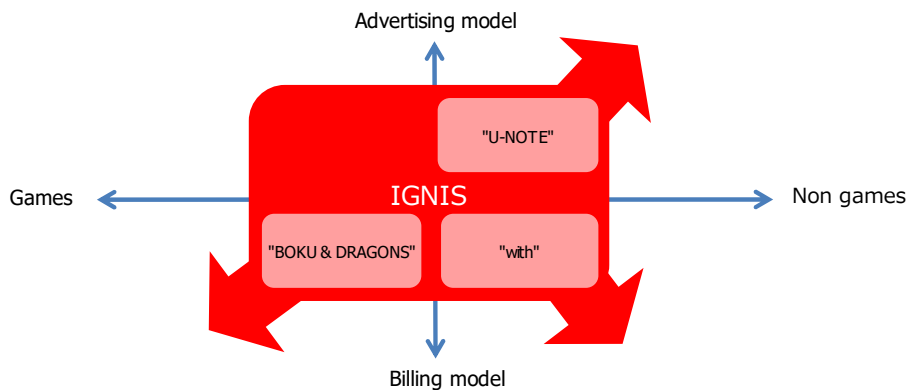
In the Native Games segment, subsidiary studioking Inc. plans, develops, and operates smartphone game “BOKU & DRAGONS,” a free-to-play social game. Players can buy rare characters and other items using a one-time payment system called “gacha,” generating revenue for the company.

In the Community segment, IGNIS and its subsidiary ib inc. plan, develop, and operate “with,” a matchmaking service (generates monthly membership fees from male users; the service is free for women).

The Media (Other) segment mainly comprises subsidiary gram Inc. (formerly U-NOTE Inc.), which provides media services targeting business-minded people (service name: “U-NOTE”). The company receives performance-based revenue primarily from companies that advertise on “U-NOTE.”

IGNIS’ revenues comprise fee revenue from consumers (around 90% of revenues in FY09/17) and ad revenue from corporations (roughly 10%). Each business is operated by a designated group company, to clarify the management responsibilities of each.

#### Business model of IGNIS



Source: Shared Research based on company data

**Revenue by segment**

Performance by segment (JPYmn)	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17
	Cons.	Cons.	Cons.	Cons.	Cons.
Revenues	875	2,048	2,419	5,586	5,578
Community	-	-	-	136	848
Native Games	-	-	-	5,048	4,247
Other	-	-	-	400	481
Old segments:					
Native Social Games	8	349	1,652	4,832	-
Free Native Apps	866	1,697	766	753	-
YoY	-	134.1%	18.1%	130.9%	-0.1%
Community	-	-	-	-	521.3%
Native Games	-	-	-	-	-15.9%
Other	-	-	-	-	20.2%
Old segments:					
Native Social Games	-	4,262.5%	373.4%	192.5%	-
Free Native Apps	-	96.0%	-54.9%	-1.7%	-
% of revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Community	-	-	-	2.4%	15.2%
Native Games	-	-	-	90.4%	76.1%
Other	-	-	-	7.2%	8.6%
Old segments:					
Native Social Games	0.9%	17.0%	68.3%	86.5%	-
Free Native Apps	99.0%	82.9%	31.7%	13.5%	-

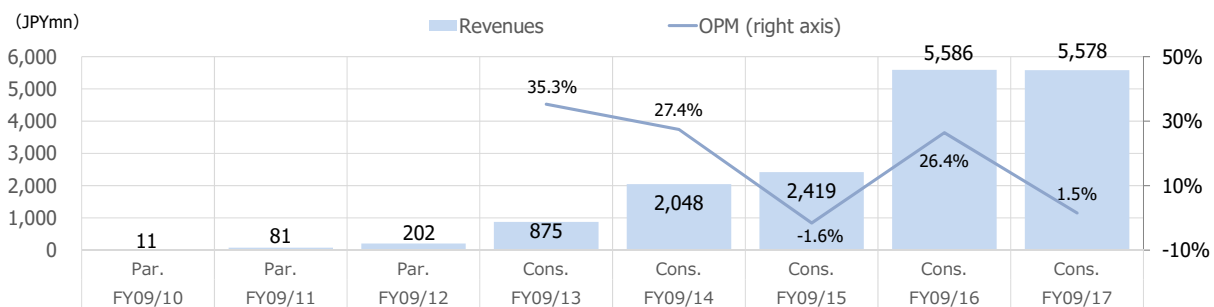
Source: Shared Research based on company data

In FY09/17, the Native Games segment accounted for 76.1% of revenues, the Community segment accounted for 15.2%, and the Other segment accounted for 8.6%. The Community segment has significant growth potential, and has already expanded from 2.4% of total revenue in FY09/16 to 15.2% in FY09/17. The company thus aims to nurture the segment as a key source of earnings.

**Maintained OPM of at least 25% from FY09/13 to FY09/16 (excluding FY09/15)**

IGNIS achieved six consecutive years of revenue growth between its founding in 2010 and FY09/16 (parent-only prior to FY09/12). Revenue growth has been driven by market growth during the golden era of smartphone app advertising and the company's hit social game "BOKU & DRAGONS." In FY09/17, the company put more focus on its Community segment, which achieved a 521.3% increase in revenues on growth of the "with" online matchmaking service. However, after more than two and a half years since launch, mainstay "BOKU & DRAGONS" saw lower revenues, so total FY09/17 revenues remained basically flat YoY.

OPM exceeded 25% from FY09/13 (when the company listed) to FY09/16, excluding FY09/15 when a shift in the business model led to a loss. Such a hefty OPM was driven by the company's high-margin smartphone apps (marginal profit ratio from fee revenue around 70% after deducting platform fees) and effective cost controls. The company started limiting the number of apps being developed from FY09/15. (The Native Games segment has only two apps under development.) In FY09/17, operating profit fell 94.3% on investment to reinforce existing businesses and upfront spending eyeing new product development and the establishment of new businesses.

**Consolidated results**


Source: Shared Research based on company data

## Changes to the business model

The company has changed direction multiple times since its founding in 2010. IGNIS experienced both success and failure as it tried its hand at advertising consulting and then as a developer and operator of small-scale smartphone apps. The company has flexibly adjusted its business model to overcome intensifying competition in the smartphone app market. The following section outlines the path leading to the company's current business portfolio.

### Founding phase: 2010 to mid-2012

In May 2010 Qian Kun (current president) founded the company based on his experience working at CA Mobile (subsidiary of CyberAgent; TSE1: 4751). While involved in advertising consulting, IGNIS planned, developed, and operated smartphone apps.

To develop smartphone apps, the company realized it would need talented engineers. In November 2011 it welcomed Takaaki Suzuki, a former director of First Type, as a director (current representative director and CTO). He was introduced to the company by internet expert Yusuke Sato (currently an outside director of IGNIS; effective February 1, 2018, became director and officer in charge of domestic advertising and new business domains at FreakOut Holdings [TSE Mothers: 6094]).

Subsequently, the company worked on the development of "peep," a group chat service. Development took place at the same time that LINE (TSE1: 3938, not listed at the time) was developing the LINE chat app (launched in June 2011). Qian traveled to San Francisco, Beijing, and Hong Kong with the idea of a simultaneous global rollout of "peep." However, the company's market launch lagged behind that of LINE, and it withdrew from "peep" two weeks after its release in May 2012.

### Establishment phase: mid-2012 to mid-2014

Reflecting upon the failure of "peep," Qian worked in collaboration with Suzuki to establish a development structure to grow the business. This led to the current dual management setup (Qian spearheads app design and idea generation and Suzuki offers technical expertise). May 2012 marks both the failure of "peep" and the launch of the company's new structure.

IGNIS subsequently established a personnel evaluation system for engineers and recruited additional engineers. The company accelerated development of smartphone apps with a focus on small-scale apps (that could be developed in one month by a small team). In May 2012 the company released a hit product spearheaded by Qian, "Saku for iPhone," an app that freed up smartphone device memory and restored operating speed. In the two years to mid-2014, the company developed over 200 smartphone apps, with more than 70% becoming hits with 100,000 downloads each.

The company also became involved in developing social games, which feature a relatively long lifecycle as they create player communities. In May 2013 IGNIS released its first social game (sold off in September 2014) called "Shinki-Kakusei!! Melty Maiden." In August 2013 IGNIS established Ignition, a company to develop and operate free hybrid apps.\* Ignition has released a comic reader app to read the comic series *Salaryman Kintaro*\*\* for free, among other comic reader apps.

\*Free hybrid app: With a free hybrid app, users can access the first issue of certain content (mainly comics) free of charge and purchase further volumes in the series. It is considered a hybrid because the operating company receives both ad revenue and fees paid by users.

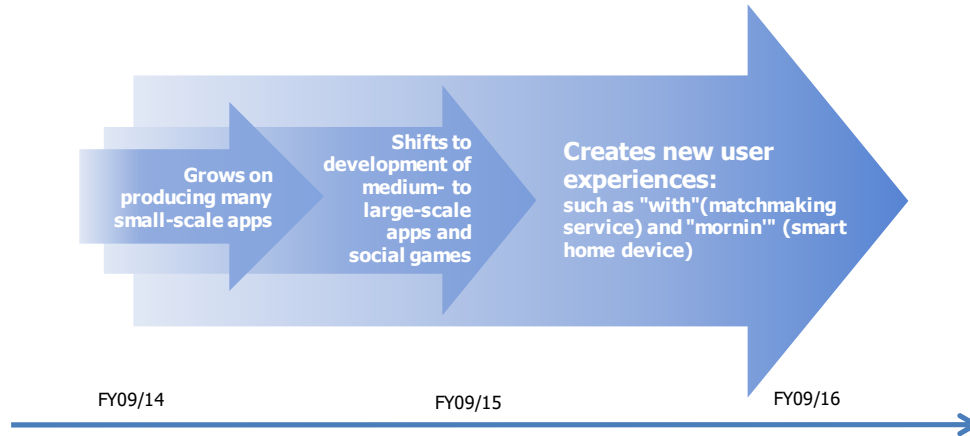
\*\**Salaryman Kintaro*: A popular comic series produced by Hiroshi Motomiya, serialized in *WEEKLY YOUNG JUMP* magazine since 1994.

### Transition phase: mid-2014 to mid-2016

While the market for smartphone apps continued to grow, competition intensified due to new entrants. Consumers demanded better quality apps, so the company found it more difficult than before to monetize small-scale apps. Furthermore, with the majority of earnings coming from advertising, the company felt that having an earnings model vulnerable to fluctuations in the advertising market was an issue. As a result, IGNIS shifted from a one-time revenue business model based on producing many small apps, to a recurring revenue business model. The new model hinged upon the development and operation of medium- and large-sized apps and increasing subscribers. The company has worked to stabilize its earnings base by shifting its earnings model to consumer fees.

The company then worked to develop its second social game app, “BOKU & DRAGONS,” which it released in February 2015, after spending around one year on development. IGNIS also developed “with,” a matchmaking service, releasing the website version in September 2015 and the smartphone version in March 2016. The combination of the long lifecycle of the social game and the monthly subscription fees from the matchmaking service form the base of its current recurring-revenue model.

**Changes in IGNIS' development style (from many small apps to a few large apps)**



Source: Shared Research based on company data

**Business territory expansion phase: from mid-2016**

The company is now concentrating almost all internal management resources on the development of large-scale apps. Developing large apps is more challenging than small apps, and the company says it experienced many failures before it finally created “BOKU & DRAGONS.” It has come to emphasize project management (balancing personnel, funds, equipment, and schedules) and is working to improve its success rate through analysis of the industry and of the capabilities of its team.

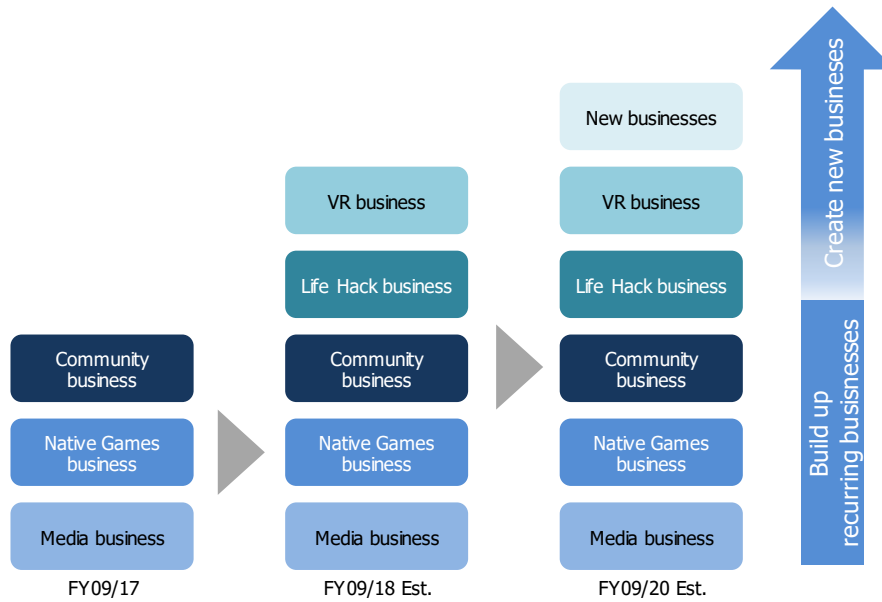
The company is leveraging its project management skills to expand beyond smartphone apps to new domains such as VR and smart devices using IoT (Internet of Things).

Working to end its dependence on “BOKU & DRAGONS,” IGNIS is promoting business expansion on numerous fronts, aiming to grow recurring revenue businesses (including “with,” “TLUNCH,” and “U-NOTE”), launch the new native game “MEGA SMASH” (formerly codename: “GK”), and establish new businesses related to VR and IoT.

**Business expansion plan**



Source: Shared Research based on company data

**Strategy under medium-term plan**


Source: Shared Research based on company data

## Company characteristics

### New business under dual leadership of producer Qian (CEO) and engineer Suzuki (CTO)

Both CEO Qian and CTO Suzuki run the company and lead the development process. CEO Qian has designed various apps, and spearheads new products and businesses. CTO Suzuki offers the technological capability that made “BOKU & DRAGONS” a success. When creating new businesses, the two choose which markets to enter and ensure speedy decision-making.

### Top management chooses target markets

At IGNIS, the two directors (CEO Qian and CTO Suzuki) lead development teams while staying abreast of the latest user needs and technological trends. When developing new businesses, they research the industry structure and conduct a thorough analysis comparing competitors’ development teams with their own. They only proceed with projects that have a high probability of success. IGNIS’ app developers, including the two directors, check which apps are trending so often that they are often described as “living in the app store.” This helps them stay on top of trends, which is necessary to create new hits.

### Speedy decision-making

Because the two directors lead development from the ground, they can quickly make decisions regarding necessary investments. This speedy decision-making enables them to quickly enter markets with high demand at the right time.

### Core policy when developing new services: “start small, grow big.” Prioritize low cost and high speed

IGNIS’ core policy in developing new services is to use as few personnel as possible (mainly three-person teams comprising a producer, an engineer, and a designer) to develop apps quickly and at low cost. This is following previous failures and given the company’s experience producing many small apps. IGNIS initially uses small development teams, which makes it nimbler compared to rivals who are slowed down by large teams of engineers and designers.

When developing software, IGNIS limits costs and does not aggressively invest resources prior to the prototype stage. The company channels management resources after it has a viable prototype. For example, the initial development of “BOKU & DRAGONS” involved just a few developers, but by the time of its release in February 2015 there were around 20 employees on the project and as of December 2016, roughly 40 personnel were involved.

## **On-the-job training for engineers**

### **Employee development through on-the-job training**

IGNIS uses small-scale app development as on-the-job training for engineers. The company has employees acquire experience by developing small apps in a relatively short time period and then promotes them to medium- and large-scale app development projects. The employees the company has trained are a driving force in its growth.

### **Evaluation system made by engineers**

An HR evaluation system is key to maintaining talented engineers. In the IT industry many engineers quit because they are dissatisfied with their evaluations. At IGNIS, CTO Suzuki, the top engineer, is responsible not just for overall group technology management and the game business, but also for training and recruitment.

IGNIS looks for engineers with the ability to improve the user experience and not just those with substantial technological abilities. This is because the company prioritizes user-driven development, and sees technology simply as a means to improve the user experience.

The company has many midcareer hires recruited from major Japanese and international IT companies. It has incorporated aspects of these companies' evaluation systems in creating its own, which has led to increased job satisfaction among its engineers. IGNIS holds events for engineers, designers, and analysts to exchange information and build on each other's knowledge.



## Overview by business

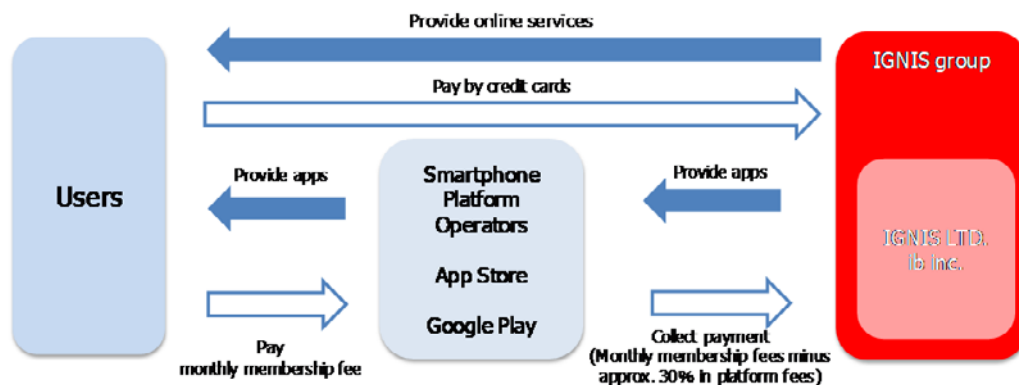
### Community segment

#### Business model

In the Community segment (15.2% of FY09/17 revenues), IGNIS and subsidiary ib plan, develop, and operate the matchmaking service “with.” This service authenticates users through Facebook and supports the search for a partner. Unlike dating apps, there are no fake accounts registered (as the company removes these accounts).

Basic registration on “with” is free but male users can pay a monthly membership fee for upgraded features such as messaging (the service is free for women). There are also additional features that can be purchased. The company provides services to users via websites and smartphones. Website users pay by credit card, while smartphone users pay via platform operators such as the App Store (Apple) and Google Play (Google). These platform operators charge IGNIS roughly 30% of fees received from users as commissions, and the remainder is booked as revenue by the company. “with” operates under a recurring revenue model: it generates monthly membership revenue, which increases by growing the number of members.

#### Business model in Community segment



Source: Shared Research based on company data

#### Overview and characteristics of “with”

The website version of “with” was released in September 2015 and the smartphone version in March 2016. Although a latecomer to the online matchmaking field, “with” has steadily climbed up the sales rankings. The sales ranking of “with” has reached the top four, coming after rival sites “pairs” run by Eureka (unlisted) and “Omiiai” operated by Net Marketing (TSE2: 6175), and on par with that of “Zexy” offered by Recruit Marketing Partners (as of December 14, 2017). The company’s app climbed up the ranks in a short time by offering seminars by pop psychology icon, Mentalist DaiGo, and setting the membership price lower than leading competitors’ prices. The company thinks its personality tests to find matches and tips provided by Mentalist DaiGo help distinguish it from competitors. For improved convenience, the app is also equipped with the functionality allowing users to easily prepare self-introduction statements utilizing proprietary algorithms. “with” also aims to improve user satisfaction by holding matchmaking events once or twice a month based on personality analysis such as the assessment of likes and dislikes. The service had reached 650,000 members as of end of September 2017. Many companies in addition to the top four (which includes IGNIS) offer online matchmaking services that use Facebook for authenticating users.

#### Lower membership prices than leading competitors

The membership price of “with” starts at JPY1,800 per month (varies by payment method and plan). This is lower than higher ranked services such as “pairs,” which costs JPY3,480 (varies by payment method and plan; details not disclosed), “Omiiai” (JPY2,780; varies by payment method and plan; see following table), and “Zexy Enmusubi” (JPY2,592; varies by payment method and plan; see following table). According to the company, “with” differentiates through matching capabilities based on Mentalist DaiGo’s pop psychology and statistics while keeping the price relatively low. While the company made frontloaded spending, the service is making steady progress as monthly revenues increase together with the number of paying members and in February 2018, achieved profitability on a monthly basis.

**Paid membership plans of matchmaking services (online credit card payment fees shown for comparison) as of December 2017**

Paid membership plan (JPY)	"with"		"Omiai"		"Zexy Enmusubi"	
	Monthly	One time	Monthly	One time	Monthly	One time
12 month plan	1,800	21,600	2,780 (tax included)	33,360 (tax included)	2,592 (tax included)	31,104 (tax included)
6 month plan	2,300	13,800	3,780 (tax included)	22,680 (tax included)	3,564 (tax included)	21,664 (tax included)
3 month plan	2,600	7,800	3,880 (tax included)	11,640 (tax included)	3,888 (tax included)	11,664 (tax included)
1 month plan	3,400		3,980 (tax included)		4,298 (tax included)	-

Source: Shared Research based on company data

**iOS social networking app rankings (as of December 14, 2017)**

Ranking	App name		Developer	Membership
	Overall	Matchmaking		
4	1	pairs	eureka, Inc.	Over 7.0mn (end-February 2018)
7	2	Omiai	Net Marketing Co., Ltd	Over 3.0mn (end-September 2018)
10	3	with	IGNIS LTD. ib inc.	Over 900,000 (end-March 2018)
15	4	Zexy Koimusubi	Recruit Marketing Partners Co., Ltd. (Recruit Group)	-
23	5	CROSS ME	Playmotion, Inc. (CyberAgent Group)	-
52	6	Matchbook	NIJIBOX Co., Ltd. (Recruit Group)	-

Source: Shared Research based on company data

Note: Only shows major matchmaking services that screen users via Facebook authentication

**How it works**

All matchmaking services are similar. "with" works as follows.

1. Users are screened for various items including hobbies, age, and location
2. Users can send a "like" to potential prospective partners
3. A match is made when the prospective partner returns a "like"
4. The ages of both parties are verified and a message can be sent
5. LINE ID and other details may be exchanged via a message

Men with a free membership can send only one message. If they want to send a second message or open a received message, they must pay the monthly subscription fee. Women can use the service for free, but can only send and open messages if they verify their age.

**Preventing fake accounts and protecting user privacy**

To avoid fake accounts, "with" requires members to have at least 10 Facebook friends before they can register an account. Members are registered under their initials, and registered members cannot be identified by other members on social networking services such as Facebook. IGNIS verifies user ages using official IDs such as driver's licenses, health insurance cards, or passports, or through the credit card payments, and also checks photographs.

**Community segment revenues**

The primary service provided in the Community segment is "with." The website was launched in September 2015 and the smartphone app in March 2016. In FY09/16, when the service was still relatively new, it had revenues of JPY136mn (2.4% of overall company revenues), but in FY09/17 revenues were up 521.3% at JP848mn (15.2% of overall company revenues). As of September 2017, there were over 650,000 members. IGNIS plans to continue focusing on "with" to grow it into an earnings pillar by increasing the member count.

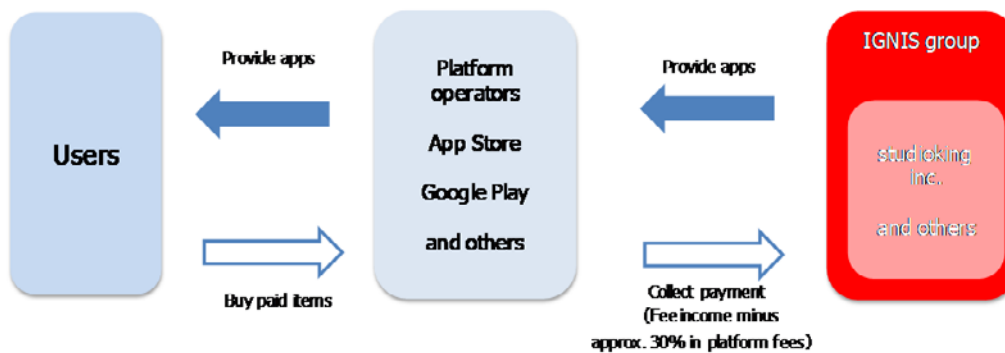
## Native Games segment

### Business model: Revenue from in-game purchases of items in free apps

In the Native Games segment (76.1% of FY09/17 revenues), the current earnings driver, subsidiary studioking, plans, develops, and operates social games (online games involving interaction with other players) for smartphones. In addition to mainstay “BOKU & DRAGONS,” April 2017 release “LINE Daifugo” surpassed 2.0mn total downloads by December 2017. In March 2018, the company released a new 3D action game (“MEGA SMASH,” formerly codename: “GK”) but announced that it will end services associated with the game on July 18 of the same year.

The company provides games through platform operators such as the App Store (Apple) and Google Play (Google). Games are free but users can pay to obtain characters, skills, or items necessary for battles. Roughly 30% of the fees paid by users go to platform operators in the form of commissions, and the remainder goes to IGNIS.

#### Business model in Native Games segment



Source: Shared Research based on company data

### Overview of “BOKU & DRAGONS”

The social game “BOKU & DRAGONS,” a real-time RPG (role playing game) was released in February 2015. It had surpassed 3.5mn total downloads as of the end of October 2017. IGNIS focused on developing a real-time RPG because, amid the plethora of RPG social games, few companies were developing real-time collaborative battle games, and the company thought it could differentiate in this niche market. Furthermore, based on historical industry data, IGNIS thought a game incorporating dragons had a higher likelihood of becoming a hit.

In FY09/16, revenues in the Native Games segment were JPY4.8bn. This solely comprised fee revenue from “BOKU & DRAGONS.”

“BOKU & DRAGONS” is the second social game IGNIS developed. The first was “Shinki-Kakusei!! Melty Maiden,” a casual card game RPG. “BOKU & DRAGONS,” meanwhile, is a full-fledged real-time collaborative battle RPG that took around a year to develop. The Android version of the game was released in February 2015 and the iOS version in March 2015. The game has been downloaded some 3.5mn times (as of October 2017) and reached fourth on the App Store sales ranking (as of February 21, 2017). In November 2015 So-net Entertainment Taiwan Limited released the game in Taiwan, Hong Kong, and Macau. It was responsible for distribution, operation, and promotion.

**“BOKU & DRAGONS” release timing and cumulative downloads**

Release timing and cumulative downloads		
Date		
2015	February	Android version
	March	iOS version
	June	Reaches 1mn downloads
	September	Reaches 2mn downloads
	November	Traditional Chinese version released in Taiwan, Hong Kong, and Macau
2016	August	Reaches 3mn downloads
2017	October	Reaches 3.5mn downloads

Source: Shared Research based on company data

**Characteristics of “BOKU & DRAGONS”**

“BOKU & DRAGONS” is a social game where players can battle in what are known as “guilds” (at set times three times a day) with as many as 20 teammates. It includes other games, such as one where defeating the “slime” that appears on the home screen can boost a player’s level or enable the player to collect items, and one where players can collect dragons by battling them. Via these games and “gacha” (one-time payments for special characters or skills), players can collect “orb” characters and dragons, which they raise and battle with other players in guilds.

According to the company, “BOKU & DRAGONS” differs from other games in that there is no “quest” that drives the story forward. The company has streamlined the pre-game tutorial, keeping explanations to the bare minimum, so players can start playing immediately after launching the app. This feature is rated highly by players. According to game review magazine *Famitsu App*, “BOKU & DRAGONS” stands out because a smartphone’s home screen itself is the playing field, so users can play in their spare time.

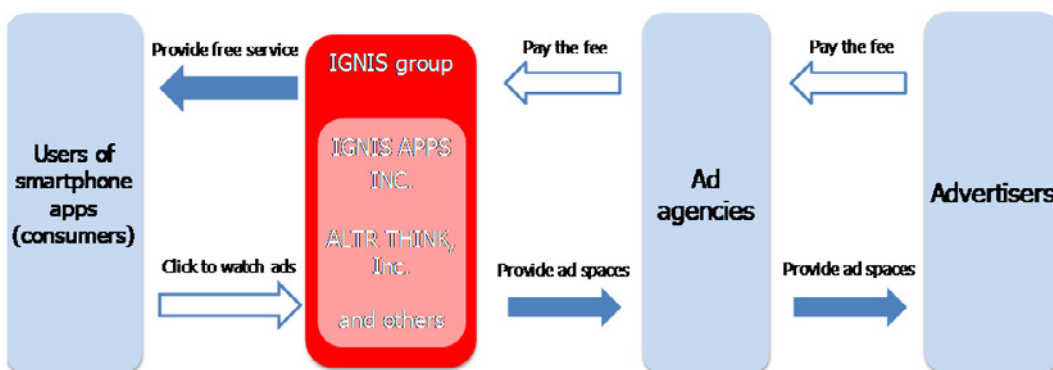
Because “BOKU & DRAGONS” is an online game played with other users and in teams, many players spend a great deal of time on it. Although users who make few purchases play infrequently, those who pay for added skills tend to remain in the game for a long time. As such, the ratio of fee-paying users (average conversion rate) to total active users is low, but the average spend of fee-paying users is high.

**Business model: ☺ Advertising revenues**

Other than mainstay “BOKU & DRAGONS,” in the Native Games segment, the company is primarily engaged in operating the company’s small apps developed to date.

The company provides small game and utility apps to users free of charge via the App Store (Apple) and Google Play (Google), and advertisers pay commissions to IGNIS when users click on ads posted on the apps. IGNIS offers ad space primarily through ad agencies.

**Business model of small apps**



Source: Shared Research based on company data

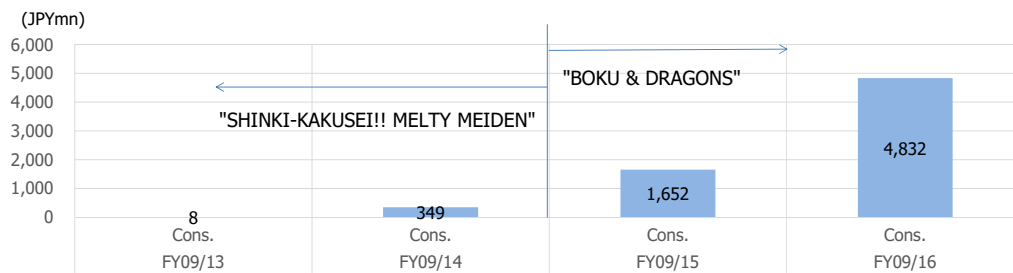
### Native Games segment revenues

Segment revenues were JPY5.0bn in FY09/16 and JPY4.2bn in FY09/17 (-15.9% YoY). The segment accounted for 90.4% of total revenues in FY09/16 and 76.1% in FY09/17. Revenues are derived from in-game purchases in mainstay “BOKU & DRAGONS” and “LINE Daifugo” and from advertising in small apps.

### Trends in old Native Social Games segment

In order to concentrate on developing “BOKU & DRAGONS,” in September 2014 the company sold “Shinki-Kakusei!! Melty Maiden” (released in May 2013) to Mynet (TSE1: 3928). Monthly revenues for “BOKU & DRAGONS” reached a record high of around JPY500mn in FY09/16, and appear to have been trending at around JPY400mn/month since October 2016.

### Native Games segment revenues



Source: Shared Research based on company data

\*The table shows revenues for the old Native Social Games segment. Revenues for the new Native Games segment were JPY5.0bn in FY09/16 and JPY4.2bn in FY09/17.

Generally, the “gacha”\* system is used to buy items, “orbs” (a type of character), or dragons needed for battle in the company’s social games. For “BOKU & DRAGONS,” 120 gems cost JPY120 (minimum) and 13,200 gems cost JPY11,800 (maximum).

\***Gacha:** Slang for the automatic vending machines that randomly dispense a toy inside a capsule when a coin is inserted. For online games, a fee is paid for each “gacha,” and players can obtain characters, items, and skills necessary to play the game at a set probability.

### Native Games segment strategy and strengths

IGNIS’ strategy in the Native Games segment is efficient development through project management. The company analyzes the industry structure and conducts further analysis to compare the strengths of its competitors’ development teams versus its own. It then proceeds with projects that have a high likelihood of success. As a result, IGNIS focuses on a limited number of development projects (only two as of December 2016: “BOKU & DRAGONS” and a new third title) to offer high-quality games to its customers.

In the Native Games segment the company uses small development teams until the prototype phase, which enables it to quickly change direction if necessary. For example, when “BOKU & DRAGONS” was under development there was a swift decision to remove the quest element.

## Other segment

### Overview of “U-NOTE”

“U-NOTE” is a media content aggregation site launched in July 2012 that provides business-related information. In addition to information such as book reviews, it offers a collection of various business-related content in fields ranging from lifestyle to fashion. The service primarily targets people in their 20s and 30s who are interested in business. IGNIS aims to boost the profitability of “U-NOTE” by providing its expertise in monetizing ads. U-NOTE Inc. has obtained permission to operate a new fee-based employment referral business and has established “jobgram” (formerly “U-NOTE.CAREER”) job-change media.

#### Business model

The Other segment (8.6% of total revenues in FY09/17) includes the media business. In the media business, “U-NOTE”—a website that targets businesspeople—is run by U-NOTE Inc., a subsidiary purchased in October 2015. The company supplies free news for readers and generates ad revenue from performance-based ads posted on the website. Additionally, the company foresees medium- to long-term growth in its businesses focused on the new field of VR, AI, and IoT technologies and is actively investing in them.

\*U-NOTE Inc. transferred a portion of the “U-NOTE” media service to PR TIMES Inc. on September 30, 2018. Effective October 1, 2018, U-NOTE Inc. changed its name to gram Inc.

### INSPIX

At its subsidiary Pulse Inc., IGNIS looks to accelerate in-house development of its Virtual Live Platform “INSPIX,” and start working on attracting well-known IPs, producing new IPs, and expanding overseas. It is aggressively investing in new businesses such as the VR business (via subsidiary Pulse), where it expects growth over the medium term. “INSPIX” is also a major project that is being developed in-house by Pulse. IGNIS expects total project expenditures of about JPY5.2bn through March 2021, covering personnel expenses to recruit domestic and overseas staff, investment aimed at enhancing content including startup of overseas operations and construction of own studio, and advertising expenses aimed at bringing in new users. To fund the project, the company will raise an estimated JPY7.3bn in capital by issuing its 14th, 15th, and 16th series of stock acquisition rights by third-party allotment (with provision to revise exercise price for the 16th series) (see Financial strategy under the Outlook section).

#### Virtual Live Platform “INSPIX”

Virtual Live Platform “INSPIX” is a platform that allows live performances to be held in a VR space. It offers unprecedented, interactive musical experiences that can only be delivered in a virtual live format, allowing users to instantaneously join live performances from any part of the world. Specifically, the vision for the platform is to have a large number of VR entertainers holding live performances attended by users (audience) around the world in real time. In other words, users will not have to travel to a physical venue to attend a live performance, but will be able to tune into a performance from the comfort of their homes. The company has also decided to provide the platform in China and North America to realize a virtual live platform that is accessible to fans and VR entertainers not only in Japan but also around the world.

\*The company has already applied for trademark registration for “INSPIX” and waiting for results.

#### Business model

Subsidiary Pulse Inc. appears to be discussing a monetization method of collecting commission revenue when it organizes a virtual live performance using its Virtual Live Platform, INSPIX. This earnings model resembles that of an app platform operator. Elsewhere, the company is supporting content-related activities and various types of production. The company also maintains that it will monetize its offering of non-replicable personal experiences. IGNIS is also planning to create IPs for INSPIX through in-house development at Pulse Inc. and collaboration with other companies such as iwamotocho geinosha inc. The company plans to generate revenues in this area through concert tickets, goods, music streams and fan club fees.

### Concept of Virtual Live

Virtual live performances refer to performances by artists, voice actors, or other entertainers that have been digitally recorded using motion capture technology\* and can subsequently be enjoyed (joined) by an audience in a VR space (virtual live setting). The performances are turned into interactive experiences that can only be delivered in a virtual live format by using a digital motion glow stick (tool resembling a penlight).

\* A technology that captures the movements of real objects or people in digital format.

The ultimate goal is to have users join live performances from their homes using a VR headset (third phase). However, consumer adoption of such headsets will require time, so the company envisions two preceding phases. The first consists of broadcasting live performances on existing video distribution websites, and the second of holding virtual live performances at predetermined venues such as movie theaters or amusement facilities, where users would gather.

The company has indicated that because the platform is supervised by Yasushi Akimoto (see table below), the general assumption is that it will be geared toward young entertainers (commonly referred to as idols). However, the platform will not necessarily be confined to idol activity, but may also feature live performances by a wide range of IPs and artists (the company envisions unlimited possibilities including performances by pop, rock, and hip hop musicians). Although fans of cartoon idol characters and those of traditional live performances of real idol groups such as AKB48 do not necessarily overlap, the virtual live platform makes it possible to deliver live performances that cater to both fan bases, and the use of digital motion and glow sticks opens up possibilities for special performances.

### Partners in Virtual Live Platform “INSPIX” project

The partners in the “INSPIX” project are shown below.

#### Virtual Live Platform “INSPIX”: Overview of partners

Role	Partner	Background
- Overall platform supervision - New IP production - Supervision of business development in China - Supervision of business development in North America	Yasushi Akimoto	Songwriter, broadcast writer, movie director, original author of manga comics; wrote almost all songs for AKB48 group, Nogizaka 64 and Keyakizaka46 as the producer; also plans programs and write scenario of dramas; member of Directors Guild of Japan
- Attracting well-known IPs	Koichiro Natsume	Served as CEO of Aniplex Inc., COO and corporate executive at Sony Music Entertainment (Japan) Inc. and director at A-1 Pictures Co., Ltd.; involved in planning of number of popular animation movies such as "Anohimita Hananonamae Bokutachiwa Madashiranai (We still do not know the name of flowers we saw on that day)," "Bakemonogatari (Mysterious stories)", "Mahoshojo Madoka Magica (Magic girl Madoka and Magica)", "Sword Art Online"
- Supervision of platform technologies	Yukata Matsuo	Associate professor at Department of Technology Management for Innovation, School of Engineering, The University of Tokyo; specializes in artificial intelligence, web engineering, deep learning; author of "Will AI go beyond humans: What lies beyond deep learning" (Japanese), and others
- Assistance of platform experience design - Assistance of new IP production	DaGo	Mentalist, author, research professor at Nigata University of Rehabilitation; author of books totaling over 1.5mn copies; active in various roles such as advisor to companies, management strategy partner, and lecturer
- Assistance of business development in China - Co-development of new IPs	UNLSH	-
- Development of devices for virtual live	Robit	-

Source: Shared Research based on company data

### Comprehensive partnership with Unleash Entertainment

In February 2018, Pulse entered into a basic agreement for a comprehensive business partnership with Unleash Entertainment (UNLSH). UNLSH is an entertainment company that manages influencers and other entertainers, and has a strong presence in the Chinese entertainment industry. As a partner in the development and operation of Virtual Live Platform “INSPIX,” it is expected to support content production and activities geared toward the Chinese market.

## Cost structure

### Consolidated cost structure

Consolidated cost structure (JPYmn)	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17
	Cons.	Cons.	Cons.	Cons.	Cons.
<b>Revenues</b>	<b>875</b>	<b>2,048</b>	<b>2,419</b>	<b>5,586</b>	<b>5,578</b>
Platform fees	5	138	481	1,399	1,368
Advertising expenses	124	395	654	948	1,391
Personnel expenses	140	313	488	550	635
Rents and depreciation	46	65	242	200	281
Others	251	575	592	1,015	1,819
<b>Operating profit</b>	<b>308</b>	<b>562</b>	<b>-38</b>	<b>1,474</b>	<b>84</b>
<b>% of revenues</b>					
Platform fees	0.6%	6.7%	19.9%	25.0%	24.5%
Advertising expenses	14.1%	19.3%	27.0%	17.0%	24.9%
Personnel expenses	16.0%	15.3%	20.2%	9.9%	11.4%
Rents and depreciation	5.3%	3.2%	10.0%	3.6%	5.0%
Others	28.7%	28.1%	24.5%	18.2%	32.6%
<b>OPM</b>	<b>35.3%</b>	<b>27.4%</b>	<b>-1.6%</b>	<b>26.4%</b>	<b>1.5%</b>

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

### Platform fees

The percent of revenues going to platform fees rose from 0.6% in FY09/13 to 24.5% in FY09/17. In the Native Games and Community segments, the company pays roughly 30% of revenue to the App Store (Apple), Google Play (Google) and others as platform fees, so due to the rising revenue contribution of the Native Games segment, which generates revenue from paying consumers, the ratio of platform fees to revenues has approached 30%.

### Advertising expenses

The percent of revenues going to advertising expenses grew from 14.1% in FY09/13 to 27.0% in FY09/15. This reflected the shift from developing small apps to developing medium and large apps and higher promotional expenses for “BOKU & DRAGONS,” which it released in February 2015. However, in FY09/16 the company focused on promoting “BOKU & DRAGONS” through online advertising and worked to control costs. As such, advertising expenses declined to 17% of revenues. In FY09/17, the percent of revenues going to advertising expenses was 24.9% due to advertising spending related to the “with” matchmaking service.

### Personnel expenses

The percent of revenues going to personnel expenses grew from 16.0% in FY09/13 to 20.2% in FY09/15. This reflected the shift in the company’s development systems from small apps to medium- and large-scale apps, and increased hiring to develop larger apps. In FY09/16, the personnel expense-to-revenue ratio shrank to 9.9% on the success of “BOKU & DRAGONS” and the impact of controlling costs by narrowing development to a few select titles. In FY09/17, the ratio grew to 11.4% as IGNIS worked to reinforce existing businesses and conducted upfront spending aimed at new product development and the establishment of new businesses.



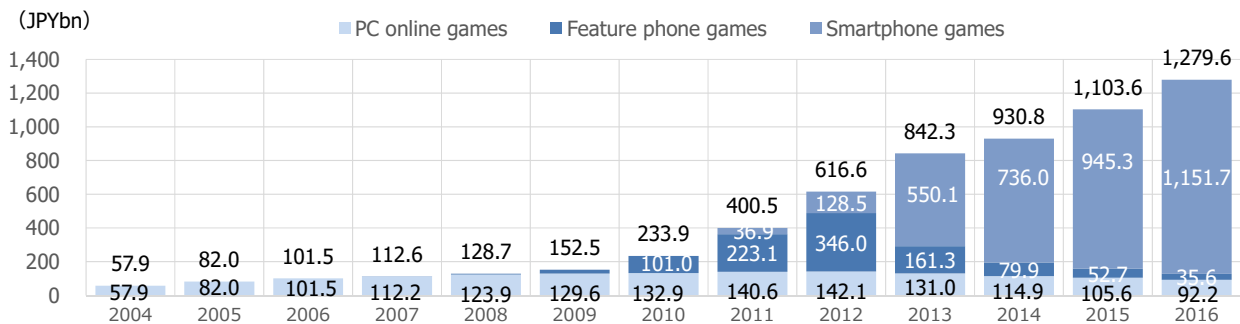
## Market and value chain

### Smartphone app market

#### Smartphone game market

According to the “JOGA Online Game Market Research Report 2017” (issued by Japan Online Game Association), the 2016 domestic online game market was up 16% YoY to JPY1.3tn. Within this market the online PC game market was worth JPY92.2bn (-13% YoY), the social game (mainly feature phones) market was worth JPY35.6bn (-32% YoY), and the smart device (smartphone and tablet) game market was worth JPY1.2tn (+22% YoY). The value of the game market is rising as a whole with the rise in smart devices, but the PC and feature phone markets continue to shrink.

#### Size of Japan's smartphone game market



Source: Shared Research based on JOGA data  
 Note: Smartphone games include tablets

Unlike game consoles and PCs, smartphone games are being consumed like daily goods. This market is easy to enter, as anyone with a smartphone can play for free, and pay a fee if they want value-added services.

Growth in users of smartphone games has been slowing. According to the “Famitsu Game White Paper 2017” report, the number of users, including Japanese free-to-play smartphone app players, was at 34.6mn in 2015, with a 2% increase YoY (out of 79.3mn aged 5 to 59). In 2016, however, the number grew to 35.5mn, an increase of 3% YoY (out of 79.1mn aged 5 to 59).

The 2017 Internet White Paper (Internet White Paper Editorial Committee) stated that the domestic online game market in 2016 further expanded user base with the worldwide hit title Pokémon GO and smartphone games using IPs of famous consumer games, and predicted market growth going forward. Meanwhile, the white paper also stated that the year provoked various thoughts surrounding games and their relations with the society and law. Specifically, it outlined issues such as playing manners, prepayment system and fund settlement methods, and the gambling aspect of RMT (Real Money Trade). The white paper concluded that, through the process of resolving these issues, whether online game companies can take pride in their growing industry, adapt to the society, and win status as providers of services that are truly desired by consumers will be key to the industry's future.

#### Banning of “Complete gacha”

This is a monetization model of awarding players who have obtained a complete set of gacha items with very rare items or cards that enable special functions. The Consumer Affairs Agency concluded that this model was potentially illegal as it incites a passion for gambling, and was checked against the Act against Unjustifiable Premiums and Misleading Presentations, resulting in these actions being found equivalent to slot machine “picture matching,” which is prohibited by law. Feature phone game software had web applications provided through SNS and specialized in “complete gacha” (awarding rare items only to players who bought other in-game items). This led to the growth of gacha systems.

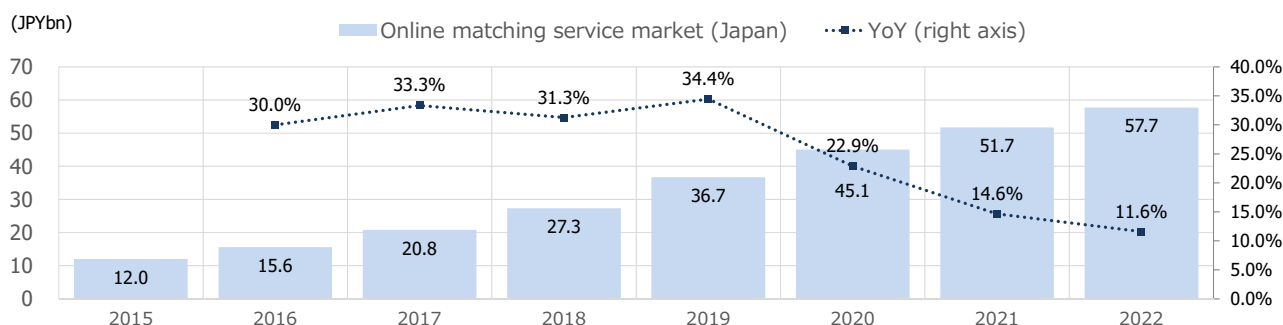
In 2012 the Consumer Affairs Agency issued a warning about the complete gacha framework. A social game platform liaison council made up of six platform operators drew up the Complete Gacha Guidelines, setting end June 2012 as the deadline for abolishing this type of model.

## Matchmaking services market

According to market research conducted jointly by MatchingAgent, Inc. (consolidated subsidiary of CyberAgent, Inc. [TSE1: 4751]), which operates the “Tapple Tanjo” matchmaking service, and Digital InFact, Inc., the domestic online matchmaking service\* market was worth JPY12.0bn in 2015. The report forecast that this figure would expand to JPY20.8bn in 2017 and JPY57.7bn in 2022. In Japan, there were PC-oriented online matchmaking services from about 2000, but compared to Europe and the US, there were far more users who had reservations about meeting people or disclosing their personal information online, so demand was limited. However, in the 2010s, with the increasing popularity of smartphones, the ease of smartphone apps, and the spread of social media, there has been greater understanding within Japanese society of online communication and the potential for meeting new people. Smartphone apps from major service providers have contributed significantly to market growth.

\*Online matchmaking service: Service for introducing potential partners for love or marriage. Matchmaking can be further divided into two categories: services targeting primarily those in their late teens and early 20s seeking romantic partners and services targeting those in their late 20s or older seeking marriage partners.

### Domestic matchmaking service market projections



Source: Market survey by MatchingAgent and Digital InFact

\*Online matchmaking service: Service for introducing potential partners for love or marriage.

The Japanese market for online matchmaking is growing rapidly. The leading domestic smartphone app for online matchmaking, “pairs,” had 2.0mn domestic members (total for Japan and Taiwan) in February 2015 and tripled the number to around 6.0mn in August 2017.

### Membership for rival site “pairs” (including Taiwan)

Period	Subscribers
2014	April: 0.8mn
	June: 1.0mn
	October: 1.5mn
2015	February: 2.0mn
	July: 2.5mn
	October: 3.0mn
2016	May: 4.0mn
	September: 4.5mn
2017	January: 5.0mn
	May: 5.7mn
	August: 6.0mn
2018	February: 7.0mn

Source: Shared Research based on eureka homepage

According to a report published in 2013 in the Proceedings of the National Academy of Sciences (<http://www.pnas.org/content/110/25/10135.full>) covering 19,131 people in the US married between 2005 and 2012, roughly one-third of the respondents had met online.

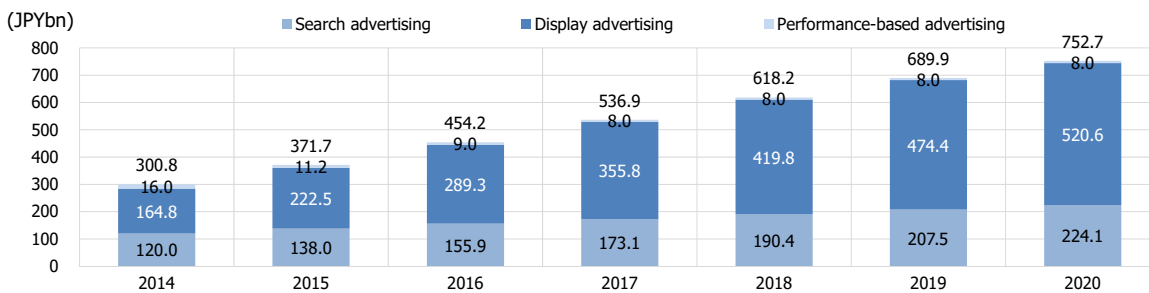
In Japan, according to IGNIS, the reluctance to meet people of the opposite gender online is waning, particularly among the younger generation, and it anticipates growth in the market for matchmaking services.

## Smartphone advertising market

According to a joint survey between CyberZ, inc. (a subsidiary of CyberAgent) and Seed Planning, in 2015 the smartphone advertising market was worth JPY371.7bn (+23.6% YoY). This comprised JPY222.5bn (+35.0%) for display ads such as banner ads; JPY138.0bn (+15.0%) for smartphone search-based ads; and JPY11.2bn (-30.0%) for performance-based ads. The ad revenue from small free apps (the company’s mainstay through FY09/14) came mainly from display advertising. Ad revenue for media “U-NOTE” is primarily performance-based.

CyberZ forecasts the smartphone ad market will continue growing, primarily in display ads, as the lineup of advertising products grows and the advertiser base widens. However, CyberZ expects performance-based advertising to continue declining due to falling prices amid intensifying competition.

### Japanese smartphone ad market



Source: Shared Research based on CyberZ data

## Industry peers and competitors

Currently, IGNIS’ portfolio comprises primarily smartphone games (“BOKU & DRAGONS”) and an online matchmaking service (“with”). While each business has numerous competitors in that domain, a simple comparison is difficult because no company has a similar business portfolio.

In the company’s Native Games segment, competitors include mixi (TSE Mothers: 2121), GungHo Online Entertainment (TSE1: 3765), and COLOPL (TSE 1: 3668). Companies involved in non-game businesses include Ateam (TSE1: 3662), which provides utility apps, and CyberAgent, which specializes in online advertising.

Competitors in the Community segment, in particular for matchmaking services, include eureka (unlisted), Net Marketing (TSE2: 6175), and Recruit Group (such as Recruit Marketing Partners).

The following are brief overviews of Ateam and CyberAgent, competitors who are also developing both game and non-game businesses, as well as matchmaking service competitor eureka.

### Ateam (TSE1: 3662)

Established in 2000 primarily as a contract developer for commercial systems, Ateam offers smartphone games in its Entertainment business (55.7% of revenues in FY07/17), moving, car-related, and other services in its Lifestyle Support business (38.6%), and a bicycle-specific e-commerce site (5.8%). Compared to IGNIS, it has more stability from an optimal balance

between game and non-game businesses. Although its ad expenses are greater than for IGNIS (ad expenses as a share of revenues were 40.5% in FY07/17 versus 24.9% for IGNIS in FY09/17), Ateam has a stable OPM of 10% or more.

#### **CyberAgent (TSE1: 4751)**

Established in March 1998, CyberAgent launched a banner ad service with guaranteed clicks (“CyberClick”) developed in partnership with On the Edge (precursor of former Live Door), led by Takafumi Horie. CyberAgent’s primary businesses are an online advertising business (56.1% of revenues in FY09/17) and a game business (37.8%). Compared to IGNIS, a balance between game and non-game businesses provides stability. However, GPM is lower than for IGNIS (80.3% for IGNIS in FY09/17 versus 33.1% for CyberAgent in FY07/17), while its SG&A ratio is also lower (78.8% for IGNIS in FY09/17 versus 24.8% for CyberAgent in FY07/17).

#### **eureka (unlisted)**

eureka, established in 2008, offers Japan’s leading online matchmaking service. It operates online matchmaking service “pairs,” which utilizes Facebook, and “couples,” a memory-sharing and messaging app for couples. It was acquired in May 2015 by Match Group, Inc. of IAC Group (US; NASDAQ IAC), owner of numerous online matchmaking services including “Match,” “OkCupid,” and “Tinder.”

#### **Net Marketing (TSE2: 6175)**

Established in 2004 as a web advertising agency, Net Marketing has an advertising business (75.6% of JPY9.9bn in revenues in FY06/17) and a media business (24.4%), through which it operates a matchmaking service. The media business operates a Facebook-based dating app, “Omiai,” and a social matchmaking service, “Switch.” The company is also developing a new matching app called “Qoon.”

**Similar listed companies and competitors**

Comparison of key financial data (JPYmn)	FY2012–2013	FY2013–2014	FY2014–2015	FY2015–2016	FY2016–2017	FY2017–2018
<b>IGNIS (3689)</b>	<b>FY09/13 Cons.</b>	<b>FY09/14 Cons.</b>	<b>FY09/15 Cons.</b>	<b>FY09/16 Cons.</b>	<b>FY09/17 Cons.</b>	<b>FY09/18 Est.</b>
Revenues	875	2,048	2,419	5,586	5,578	4,400
YoY	-	134.1%	18.1%	130.9%	-0.1%	-21.1%
Community	-	-	-	136	848	-
YoY	-	-	-	-	521.3%	-
Native Games	-	-	-	5,048	4,247	-
YoY	-	-	-	-	-15.9%	-
Other	-	-	-	400	481	-
YoY	-	-	-	-	20.2%	-
Old segments:						
Native Social Games	8	349	1,652	4,832	-	-
YoY	-	4262.5%	373.4%	192.5%	-	-
Free Native Apps	866	1,697	766	753	-	-
YoY	-	96.0%	-54.9%	-1.7%	-	-
Cost of revenues + SG&A expenses	566	1,486	2,458	4,112	5,494	na
% of revenues	64.7%	72.6%	101.6%	73.6%	98.5%	-
Platform fees	5	138	481	1,399	1,368	-
% of revenues	0.6%	6.7%	19.9%	25.0%	24.5%	-
Advertising expenses	124	395	654	948	1,391	-
% of revenues	14.1%	19.3%	27.0%	17.0%	24.9%	-
Personnel expenses	140	313	488	550	635	-
% of revenues	16.0%	15.3%	20.2%	9.9%	11.4%	-
Operating profit	308	562	-38	1,474	84	na
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%	-
Number of employees	33	76	114	139	195	-
Sales per employee	27	38	25	44	33	-
<b>Ateam (3662)</b>	<b>FY07/13 Cons.</b>	<b>FY07/14 Cons.</b>	<b>FY07/15 Cons.</b>	<b>FY07/16 Cons.</b>	<b>FY07/17 Cons.</b>	<b>FY07/18 Est.</b>
Revenues	10,989	12,036	15,828	22,967	34,603	40,000
YoY	72.3%	9.5%	31.5%	45.1%	50.7%	15.6%
Entertainment	6,632	6,169	7,914	12,559	19,259	-
YoY	102.3%	-7.0%	28.3%	58.7%	53.4%	-
Lifestyle Support	4,357	5,866	7,914	10,408	15,344	-
YoY	40.5%	34.6%	34.9%	31.5%	47.4%	-
Cost of revenues + SG&A expenses	9,272	10,584	13,741	20,755	30,526	35,300
% of sales	84.4%	87.9%	86.8%	90.4%	88.2%	88.3%
Platform fees	1,600	1,737	2,586	4,592	7,406	-
% of sales	14.6%	14.4%	16.3%	20.0%	21.4%	-
Advertising expenses	4,310	4,279	6,430	9,335	14,018	-
% of sales	39.2%	35.6%	40.6%	40.6%	40.5%	-
Personnel and hiring expenses	2,083	2,638	2,816	3,250	3,804	-
% of sales	19.0%	21.9%	17.8%	14.2%	11.0%	-
Operating profit	1,717	1,452	2,087	2,212	4,077	4,700
OPM	15.6%	12.1%	13.2%	9.6%	11.8%	15.3%
Number of employees	385	466	471	535	678	-
Sales per employee	29	28	34	46	57	-
<b>CyberAgent (4751)</b>	<b>FY09/13 Cons.</b>	<b>FY09/14 Cons.</b>	<b>FY09/15 Cons.</b>	<b>FY09/16 Cons.</b>	<b>FY09/17 Cons.</b>	<b>FY09/18 Est.</b>
Revenues	162,493	205,234	254,381	310,665	371,362	420,000
YoY	15.2%	26.3%	23.9%	22.1%	19.5%	13.1%
Game	47,900	50,700	87,066	122,638	140,301	-
YoY	64.0%	5.8%	71.7%	40.9%	14.4%	-
Internet Advertisement	83,200	113,800	142,887	175,449	208,182	-
YoY	17.8%	36.8%	25.6%	22.8%	18.7%	-
Cost of revenues + SG&A expenses	152,175	183,014	221,634	273,875	340,662	390,000
% of sales	93.7%	89.2%	87.1%	88.2%	91.7%	92.9%
Advertising expenses	11,479	10,582	13,445	25,300	31,800	-
% of sales	7.1%	5.2%	5.3%	8.1%	8.6%	-
Personnel expenses (SG&A)	15,100	17,600	20,100	21,500	26,400	-
% of sales	9.3%	8.6%	7.9%	6.9%	7.1%	-
Operating profit	10,318	22,220	32,747	36,790	30,700	30,000
OPM	6.3%	10.8%	12.9%	11.8%	8.3%	7.1%
Number of employees	2,661	3,059	3,432	3,858	4,416	-
Sales per employee	61	72	78	85	90	-

Source: Shared Research based on each company's data

## Strengths and weaknesses

### Strengths

- High profitability due to using proprietary IP:** The company's OPM is high compared to mid-sized smartphone game developers that utilize well-known IP. For example, KLab Inc. (TSE1:3656), a developer that actively utilizes IP, had an OPM of 10.5% in FY12/15, while IGNIS' OPM was 26.4% in FY09/16. According to the company, among hit smartphone games in 2016, its titles were among the very few that did not utilize well-known IP. Using popular IP makes it easier to attract users but is costly (Shared Research estimates IP license fees run about 20% of revenues). IGNIS prefers to create its own IP and has been successful in attracting customers through proprietary characters, such as panda character *Dapan*, since the days it developed small-scale apps. That said, in FY09/17 IGNIS' OPM fell to 1.5% on upfront spending to create a business foundation for achieving the goals of the company's medium-term plan.
- Creativity that facilitates the planning of popular services:** The company has created numerous hit smartphone apps (such as "Saku for iPhone") and other services. Services it is nurturing to become key earnings pillars—matchmaking service "with," and the VR business it is developing over the long term—are also based on internal planning. Unlike competitors in the matchmaking business, "with" matches members based on personality tests and is overseen by Mentalist DaiGo, a Japanese pop psychology icon. IGNIS' VR subsidiary has attracted investment from high-profile individuals such as Yasushi Akimoto (entertainment producer), Yutaka Matsuo (Associate Professor at the University of Tokyo and AI and leading deep-learning researcher), and Mentalist DaiGo, and its services are receiving attention even prior to release.
- Flexible management:** In a shifting business environment, IGNIS has been able to overcome challenges by being flexible in terms of management. The company has focused on areas with customer needs by anticipating market trends, planned new user experiences, concentrated investment of management resources, and adjusted its service offerings. The company shifted from services that earned ad revenue from small smartphone apps to services generating revenue from users of medium- and large-scale apps. While other companies that provide smartphone apps are in the red, IGNIS' management flexibility enables it to survive in the fast-changing internet industry.

### Weaknesses

- High reliance on "BOKU & DRAGONS":** In FY09/17 roughly 75% of IGNIS' revenues came from fee revenue of smartphone game "BOKU & DRAGONS." While the game is expected to generate steady cash flow long term, nearly three years have passed since its release in February 2015, so further growth from new users is limited. IGNIS aims to expand other recurring revenue businesses to move away from its dependence on "BOKU & DRAGONS."
- Risk due to limiting new smartphone game development to one title:** The company emphasizes user-driven app development, and focuses on a few titles instead of developing many titles. Competitors, in contrast, have multiple projects in their pipelines in order to increase the success rate. Limiting the development pipeline is effective in controlling costs but increases the risk of losses in the case of failure.
- Management approach that tends to lack focus:** The company has leveraged flexible management to respond to changes in the environment, but on the other hand has always been shifting to reflect trends of the times. As such, the company does not necessarily have a fixed core business area. IGNIS entered the social game industry as a smartphone advertising agency. Now it plans to expand into IoT and VR. Further, the company's business model of generating recurring revenue from users only started from FY09/15 and is not guaranteed to become a core business model. Shared Research thinks this lack of focus may be a hindrance to sustainable growth over the medium term. However, under the medium-term plan starting in FY09/17, IGNIS aims to build a portfolio of multiple sustainable businesses and establish a stable earnings platform.

## Historical financial statements

### Income statement

Income statement (JPYmn)	FY09/13 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.
<b>Revenues</b>	<b>875</b>	<b>2,048</b>	<b>2,419</b>	<b>5,586</b>	<b>5,578</b>
YoY	-	134.1%	18.1%	130.9%	-0.1%
Cost of revenues	348	615	678	911	1,098
Cost ratio	39.8%	30.0%	28.0%	16.3%	19.7%
<b>Gross profit</b>	<b>527</b>	<b>1,433</b>	<b>1,741</b>	<b>4,675</b>	<b>4,480</b>
GPM	60.2%	70.0%	72.0%	83.7%	80.3%
SG&A expenses	219	871	1,780	3,200	4,396
YoY	-	298.4%	104.2%	79.8%	37.4%
SG&A ratio	25.0%	42.6%	73.6%	57.3%	78.8%
<b>Operating profit</b>	<b>308</b>	<b>562</b>	<b>-38</b>	<b>1,474</b>	<b>84</b>
YoY	-	82.1%	-	-	-
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%
Non-operating income (expenses)	-1	-17	-110	-9	-13
Financial income (expenses)	-2	-1	1	1	-2
Equity in earnings of affiliates	-	-11	-109	-5	-2
Other	1	-4	-1	-5	-9
<b>Recurring profit</b>	<b>307</b>	<b>545</b>	<b>-149</b>	<b>1,465</b>	<b>71</b>
YoY	-	77.3%	-	-	-95.1%
RPM	35.1%	26.6%	-6.1%	26.2%	1.3%
Extraordinary gains (losses)	-	-	-	418	418
Income taxes	107	235	158	808	808
Implied tax rate	34.7%	43.1%	-106.5%	42.9%	165.3%
Minority interests	-	-	-	-13	-12
<b>Net income attributable to parent company shareholders</b>	<b>201</b>	<b>310</b>	<b>-307</b>	<b>1,088</b>	<b>-36</b>
YoY	-	54.4%	-	-	-
Net margin	22.9%	15.1%	-12.7%	19.5%	-0.6%

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

### Q3 FY09/18 results (out August 10, 2018)

#### Cumulative Q3 results

Revenues	JPY3.6bn (-11.5% YoY)
Operating loss	JPY951mn (versus operating profit of JPY124mn in Q3 FY09/17)
Recurring loss	JPY980mn (versus recurring profit of JPY113mn in Q3 FY09/17)
Net loss*	JPY1.1bn (versus net income of JPY11mn in Q3 FY09/17)

\*Net loss attributable to parent company shareholders

#### Booked operating losses due to active upfront spending

IGNIS booked operating losses due to increases in cost of revenues and SG&A expenses accompanying active upfront spending to enhance existing businesses and commercialize its cutting-edge technologies, initiatives that have been ongoing since FY09/17.

The company is focusing its efforts on two businesses: “with” in the Community segment and the virtual reality business. Of these, “with” in the Community segment has experienced growth in both revenues and user counts by implementing a multi-login feature (login verification feature using SMS\*<sup>1</sup>), and entered the phase in which it is reaping the rewards of investments. “with” in the Community segment comprised 38% of revenues in Q3 FY09/18 (April to June), versus 17% in Q3 FY09/17. On the other hand, in the virtual reality business, the launch dates for each project have become clear, and the business has reached the stage of launching VR content to market in earnest in September 2018 (details below).

Although the company will continue investing in these businesses, it stated that it has come close to gaining a return on investments in the “with” and virtual reality businesses. The company also expects to book an operating profit on a consolidated basis. The operating loss of Q3 FY09/18 (April to June 2018) has shrunk compared with that of Q2 FY09/18. In Q3 FY09/18, operating loss was JPY285mn, down from the JPY419mn operating loss in Q2 FY09/18, largely due to revenue growth in the “with” business and steady earnings gain in the “BOKU & DRAGONS” project in the Native Games business\*<sup>2</sup>.

\*<sup>1</sup>SMS (Short Message Service): A service which allows exchange of messages between mobile phones sent using phone numbers. “with” had previously used Facebook accounts for identity verification, but began using SMS as well to verify users, allowing them to log into the app using SMS.  
 \*<sup>2</sup>Native game: An online game that is a subset of native apps. Can be played while communicating with other players, such as through group battles. Downloaded from platforms such as the App Store and Google Play.

Revenues reached 82.7% of IGNIS’ full-year forecast (versus Q3 progress rate of 73.7% against full-year results in FY09/17).

From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) by organizing its smartphone apps business into three genres: Community, Native Games, and Media (Other). These three genres serve as the pillars of its existing business, and the company is also investing management resources in IoT, VR, and other areas as new genres to pursue.

### Existing businesses

IGNIS has positioned, and is developing, its existing businesses in three genres: (1) the Community segment, which runs the “with” matchmaking service, (2) the Native Games segment, which operates the core game “BOKU & DRAGONS,” and (3) the Media (Other) segment, which runs the “U-NOTE” content aggregation site and the “TLUNCH” mobility service platform.

### New businesses

IGNIS aims to commercialize cutting-edge technologies such as VR, AI, and IoT as new genres to be added to its portfolio, giving particular attention to VR and AI as investment businesses, and has actively deployed management resources in these areas from FY09/17. In the virtual reality business, the company is promoting research and development in the entertainment and medical fields. In particular, it has accelerated the development of and generated a range of new IPs for the Virtual Live Platform “INSPIX,” which creates a new musical experience, and in the entertainment field is putting its energy into expanding overseas and creating new IPs including VR talents. Development of “INSPIX”—used for live performances of “ENOGU,” a virtual-girl idol group belonging to IGNIS business partner iwamotocho geinoshia inc.—is steadily proceeding (see below for recent developments). In the medical field, IGNIS has begun joint research with Juntendo University in areas such as “clinical research for relief of chronic pain or stimulus through VR,” but expects such research to extend into the long term.

IGNIS is also developing and testing the automation of inspection processes using AI-equipped robots in partnership with auto parts manufacturers in Toyota City, Aichi Prefecture. Although progress in automation of production processes at Japanese factories continues, inspection operations have not been completely automated. IGNIS wants to contribute to improving production efficiency in the manufacturing industry by developing and providing AI-equipped robots to manufacturers. IGNIS is conducting development, testing, and marketing with the aim of monetizing the new VR and AI genres as soon as possible.

In order to achieve the targets of its medium-term plan, the company aims to develop multiple businesses that will allow it avoid depending too much on any one business, thus creating a stable business portfolio. It targets further growth through dual earnings drivers: its strong recurring-revenue businesses and new businesses with the potential for explosive growth.

### Results by segment

#### Community segment

Revenues in the Community segment increased sharply to JPY1.2bn (+110.0% YoY). IGNIS focused on operating services that create communities among users, centered on the “with” matchmaking service. Owing in part to aggressive upfront promotional spending to increase user numbers, “with” in 2017 was the fifth most downloaded app in the domestic matchmaking category and featured in the Top 30 domestic apps by revenue in the non-games category (source: App Annie). Recently it has also been climbing the sales ranking in the domestic social networking category. In order to make the “with” service stand out from similar services offered by competitors, IGNIS aims for optimal matchmaking based on psychology and regularly adds features such as “auto-generated self-introductions” and sponsors events such as “seminars by Mentalist DaiGo.” As online matchmaking services



have rapidly become more common in Japan, “with” has been picking up new members not just through promotions, but also by word of mouth. As a result, the service is steadily growing, with a million registered members as of May 2018. It has matched more than 7.7mn couples since it began operation. The company aims to improve user satisfaction by continuing to add functionality to improve the service’s usability and the accuracy of its matching.

#### Native Games segment

Revenues in the Native Games segment were JPY2.2bn (-32.6% YoY). “MEGA SMASH,” a smartphone game app the company released in March 2018, had disappointing user retention and conversion rates. IGNIS added new characters and conducted various events, but was unable to improve either rate to any significant degree, so it ended the service in July 2018. On the other hand, earnings from core game “BOKU & DRAGONS” remain favorable as it enters its fourth year, despite ever fiercer competition in the smartphone game app market. IGNIS has even undertaken new initiatives to improve the satisfaction of existing users, including enhanced seasonal events, “Attack on Titan Collaboration Campaign, Part 2,” and a collaborative campaign with the “d Delivery” food delivery site provided by NTT Docomo. It is also preparing other large IP collaborative campaigns to further improve user satisfaction and stabilize earnings.

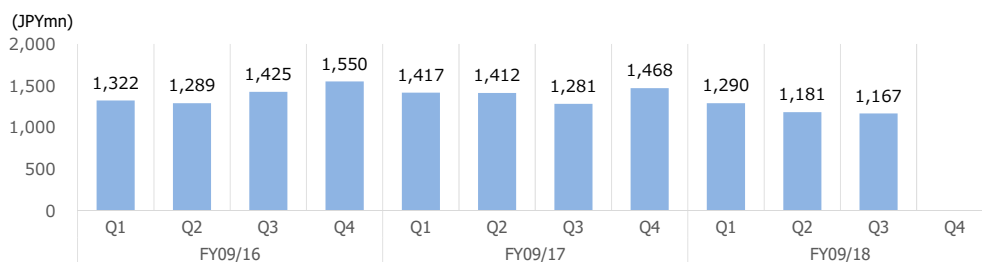
#### Media (Other) segment

Revenues in the Media (Other) segment were JPY279mn (-8.5% YoY). The segment comprises the “U-NOTE” media content aggregation site for users with an interest in business, the “TLUNCH” mobility service platform, and other services that do not fit any of the other genres. With regard to “TLUNCH,” the company has increased the number of available spaces it oversees (primarily in the Greater Tokyo area) and the number of registered food truck operators, and it is growing into the largest domestic player in this genre. It currently manages more than 70 spaces as of end-June 2018 (up 318% YoY). In new sectors, it is actively investing in businesses that focus on VR, AI, and IoT with an eye toward medium- to long-term growth.

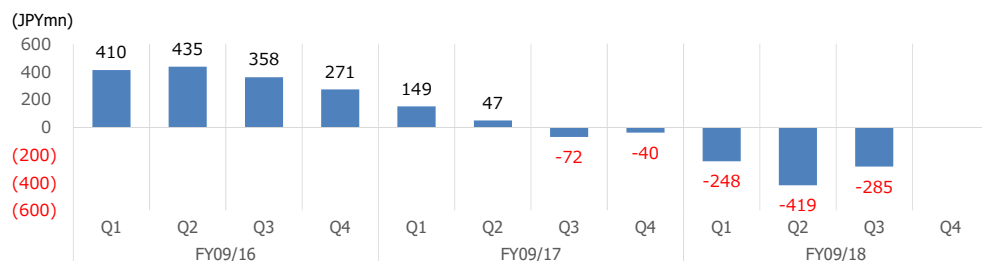
### Quarterly results

In Q3 FY09/18 (April to June 2018), revenues were JPY1.2bn (-8.9% YoY), down JPY14mn compared to Q2 FY09/18 (January to March 2018). However, in Q3 FY09/18, operating loss was JPY285mn, down from the JPY419mn operating loss in Q2 FY09/18, largely due to revenue growth in the “with” business and steady earnings gain in the “BOKU & DRAGONS” project in the Native Games business. In Q3, the company adjusted promotional expenses for “with,” which had grown in Q2, to an appropriate amount as well as limited promotional expenses for “BOKU & DRAGONS.” The company plans to control expenses as needed in the future.

#### Quarterly revenues



#### Quarterly operating profit



Source: Shared Research based on company data

## Developments in the virtual reality business

With an aim of “realizing completely new entertainment,” the company is working toward building a Virtual Live Platform in which it can hold concerts in a VR space. At the same time, the company is focusing on generating new IPs (e.g., VR talents) to launch in the VR space.

### INSPIX

The company plans to hold concerts by VR talents in real time for a worldwide audience (VR live concert participants) on the Virtual Live Platform “INSPIX.” The company has divided the development of INSPIX into three phases. Phase One involves live streaming concerts to existing video sites. Phase Two is holding virtual live concerts (live viewing) in which participants gather at specific places. Phase Three is participating in virtual live concerts using VR headsets. Using INSPIX, the company held its first VR concert by the VR idol group ENOGU (from iwamotocho geinosha inc.) in the Phase One and Phase Two formats on August 10, 2018.

### New IP (e.g., VR talents)

In order to spread the use of the Virtual Live Platform “INSPIX,” many performers are required to capture the attention of as many people as possible. As such, the company is producing VR talents including VR idols and VR artists through its subsidiary Pulse Inc. and collaborations with external partners. As noted above, the company has already started its first initiative with the VR idol unit ENOGU through a partnership with iwamotocho geinosha and is working on producing other VR talents. Further, the company made an announcement in September 2018 regarding developments in the new project to build an ecosystem to invigorate the virtual entertainment industry using INSPIX. The company will release information as needed in the future.

### VR talents market

The VR talents market does not exist as a market with a defined scope. The company estimates that the size of the idol market is several hundred billion yen, including real-life, physical idols, anime idols, and other idols. The domestic market for real-life idols, including Johnny’s and AKB48, is estimated at around JPY210.0bn (source: Yano Research Institute Ltd.’s *Cool Japan Market/Japan’s Otaku Market 2017*) and is continuing to expand. The market has also been expanding in recent years for two-dimensional, fictional idols which appear in anime or games. Of the multitude of content, Love Live! and THE IDOLM@STER are popular idols. According to the company, the market for two-dimensional idols and related content is tens of billions of Japanese yen in scale altogether. Although it is said that real-life idol fans and virtual idol fans seek varying values, the overall idol market is very large in Japan.

### VR talents market

Futuristic entertainment		
VR talents (idols)		
Physical idols	Two-dimensional idols	
<p><b>JPY210.0bn</b></p> <p>Johnny's, AKB48 group</p> <p>Source: Yano Research Institute, "Cool Japan Market: Complete Research on the Otaku market 2017"</p>	<p><b>"THE IDOLM@STER"</b></p> <p>Economic effect: JPY10.0bn</p> <p>Game app exceeded 19mn downloads</p> <p>Ranked 1st in Oricon song ranking; sold 89,000 CDs in the first week</p> <p><b>Generated spending of JPY34.1bn</b></p> <p>Source: Hakuodo DY Media Partners and Hakuodo, "Content Consumer Behavior Survey 2016"</p>	<p><b>"Love Live!"</b></p> <p>Appeared in the national popular year-end TV show</p> <p>Live show at Tokyo Dome, with audience over 110,000</p> <p>Game app exceeded 40mn downloads</p> <p><b>Generated spending of JPY42.3bn</b></p> <p>Source: Hakuodo DY Media Partners and Hakuodo, "Content Consumer Behavior Survey 2015"</p>

Source: Shared Research based on company data

Through its subsidiary Pulse Inc., the company aims to create a virtual entertainment industry by maximizing the power of VR technology, and promote VR talents (idols). It is also taking efforts to provide a hybrid music experience where the audience can enjoy the performance, communication, and visuals, for fans of both real-life and virtual entertainers.

### Business model

Shared Research thinks there are many ways the company can monetize this business, including using the same methods used by real-life entertainers to produce revenues, such as selling concert tickets, club memberships, CDs, merchandise, and games. However, the business model will remain unclear until the company experiments with different options and see which is the best. The company will work on developing the business while keeping all its options open. It is already selling VR concert tickets and merchandise for the VR idol unit ENOGU (see above) and is preparing to set up a fan club and CD sales\* for this unit.

\*The first single will be released on November 28, 2018 through Universal Music EMI Records. The ENOGU fan club began accepting early member registrations from August 13, 2018.

## 1H FY09/18 results (out May 14, 2018)

Revenues	JPY2.5bn (-12.7% YoY)
Operating loss	JPY667mn (versus operating profit of JPY196mn in 1H FY09/17)
Recurring loss	JPY674mn (versus recurring profit of JPY185mn in 1H FY09/17)
Net loss*	JPY856mn (versus net income of JPY92mn in 1H FY09/17)

\*Net loss attributable to parent company shareholders

From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) by organizing its smartphone apps business into three genres: Community, Native Games\*, and Other. These three genres serve as the pillars of its existing business, and the company is also investing management resources in IoT, VR, and other areas as new genres to pursue.

After reevaluating the recoverability of its deferred tax assets based on performance in FY09/18 and the outlook for full-year FY09/18, the company booked income taxes–deferred of JPY143mn after reversing a portion of those assets in Q2 FY09/18. The full impact and posting of income taxes–deferred following reversal of deferred tax assets are reflected in Q2 results.

IGNIS has positioned, and is developing, its existing businesses in three genres: (1) the Community segment, which runs the “with” matchmaking service, (2) the Native Games\* segment, which operates the core game “BOKU & DRAGONS,” and (3) “TLUNCH,” the food truck platform for effective utilization of unused lots of land to energize towns, and other.

\* Native game: An online game that is a subset of native apps. Can be played while communicating with other players, such as through group battles. Downloaded from platforms such as the App Store and Google Play.

IGNIS is considering cutting-edge fields such as VR, AI, and IoT as new genres to be added to its portfolio, and has actively deployed management resources in these areas from FY09/17. In virtual reality business, it started full-scale overseas roll-out of its new VR music experience in February 2018, accelerating development of the Virtual Live Platform “INSPIX,” and creating a range of new IPs. The company has a business partnership with iwamotocho geinoshia inc., a company specializing in VR popstar management. In addition, IGNIS is involved in multiple VR content development projects, including joint research with Juntendo University in areas such as “clinical research for relief of chronic pain or stimulus through VR.” In fields that leverage AI or IoT, the company is collaborating with auto part manufacturers in Toyota, Aichi Prefecture, in developing and testing of automatic visual inspection equipment that uses machine learning.

### Community segment

Revenues in the Community segment increased sharply to JPY727mn (+115.8% YoY). IGNIS focused on operating services that create communities among users, centered on the “with” matchmaking service. Owing in part to aggressive upfront promotional spending to increase user numbers, the “with” matchmaking service have consistently secured one of the top positions in research agency App Annie’s sales rankings for the domestic iOS social networking category. In addition, to distinguish “with” from similar offerings by other companies, IGNIS has successively developed additional functionality and events such as “auto-generated self-introductions,” the “Holiday Season compatibility diagnosis event,” and “seminars by Mentalist DaiGo” which aim to optimize matchmaking capabilities using pop psychology. Accordingly, the company aims to expand its user base by continuing to enhance the usability of its services and aggressive promotional activity.

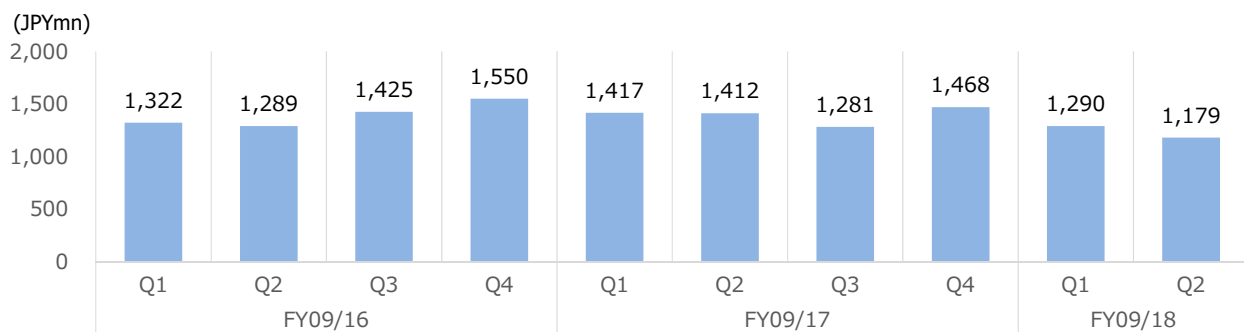
### Native Games segment

Revenues in the Native Games segment were JPY1.5bn (-32.8% YoY). The company is continuing to pursue a profit-oriented approach for "BOKU & DRAGONS." In terms of specific initiatives, the company introduced additional functions, such as "Maou-sama Lucky Box, and conducted various campaigns such as the "Third Anniversary Campaign", the "3.5 Million Downloads Campaign" and "THE KING OF FIGHTERS '98 Collaboration Campaign." IGNIS plans to expand and improve functionality and provide additional campaigns going forward, and thus looks to enhance user satisfaction and ensure stable earnings. It began distribution of its new title, "MEGA SMASH" (codename: GK) in March 2018.

### Other segment

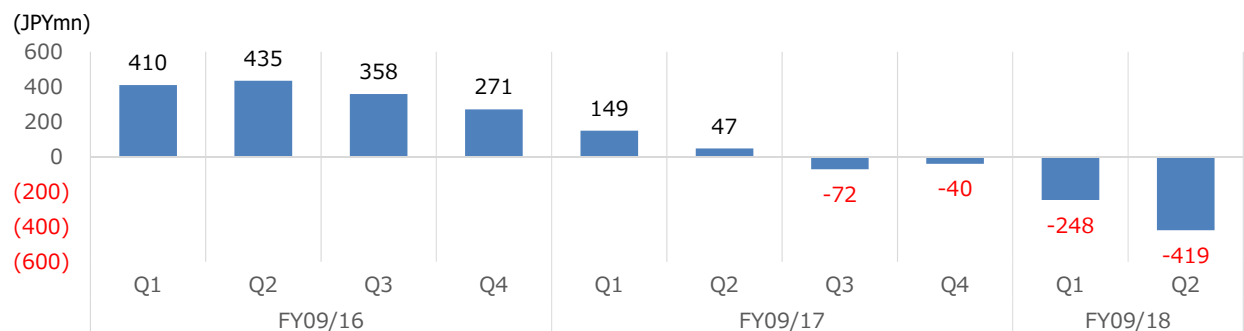
Revenues in the Other segment were JPY193mn (+2.6% YoY). The segment comprises the "U-NOTE" media content aggregation site for users with an interest in business, job-change media site "U-NOTE.CAREER, the "TLUNCH" food truck platform, and other services that do not fit any of the other genres. With regard to "TLUNCH," the company has increased the number of available spaces it oversees (primarily in the Greater Tokyo area) and the number of registered food truck operators, and it is growing into the largest domestic player in this space. It currently manages more than 60 spaces (up 300% versus end-1H FY09/17). In new sectors, it is actively investing in businesses that focus on VR, AI, and IoT with an eye toward medium- to long-term growth.

### Quarterly revenues



Source: Shared Research based on company data

### Quarterly operating profit



Source: Shared Research based on company data

### Revision to full-year forecasts

The company revised down its full-year revenues forecast from initial JPY7.0bn to JPY4.4bn at the same time with its announcement of the results for 1H FY09/18.

The reason for this revision is mainly that sales of "MEGA SMASH," released for smartphones in March 2018, have been disappointing. After examining current user trends and reassessing future strategy, the company expects full-year revenues to be lower than it originally forecasted. "MEGA SMASH's" performance in terms of user retention and conversion rate has been sluggish since release. IGNIS subsidiary studioking has added new characters and held various promotional events to address this,

but user metrics have not shown any material improvement. For that reason, the company has decided to review and scale back the operation with a view to terminating it.

Additional factors behind the revision to revenues forecast are that the subsidiary, Mellow Inc., became a non-consolidated subsidiary (equity-method affiliate) because it no longer met the requirements for consolidation in the accounts and that the start of services for the VR business's largest project, which utilizes INSPIX, has been pushed back.

IGNIS is looking to build up a stable earnings base and to develop various parts of the business for future growth. It is focusing on further development of its online matchmaking services which are viewed as a key growth area, and other services that utilize VR technology. In terms of selecting new sectors for growth and focusing its efforts appropriately, the company is currently considering shifting various resources currently allocated to "MEGA SMASH" to other projects.

The company has not released revised profits targets due to various uncertainties such as expenses from business investment.

## Q1 FY09/18 results (out February 13, 2018)

▷ Revenues	JPY1.3bn (-9.0% YoY)
▷ Operating loss	JPY248mn (versus operating profit of JPY149mn in Q1 FY09/17)
▷ Recurring loss	JPY250mn (versus recurring profit of JPY136mn in Q1 FY09/17)
▷ Net loss*	JPY233mn (versus net income of JPY67mn in Q1 FY09/17)

\*Net loss attributable to parent company shareholders

From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) by organizing its smartphone apps business into three genres: Community, Native Games, and Media (Other). These three genres serve as the pillars of its existing business, and the company is also investing management resources in IoT, VR, and other areas as new genres to pursue.

## Progress versus forecasts

Revenues reached 18.4% of IGNIS' full-year forecast (versus Q1 progress rate of 25.4% against full-year results in FY09/17). In FY09/18, IGNIS intends to pursue activities on two fronts: (1) strengthen recurring-revenue (stable) operations in the Community segment, the Media (Other) segment, and the life hack business; and (2) promote operations that can deliver explosive growth in the VR/AR (augmented reality) business, the AI business, the IoT business, and the games and entertainment business. The company has positioned FY09/18 as a year of investment (same as FY09/17). In Q1, it developed the new game "MEGA SMASH" (released on March 28, 2018), conducted promotion centered on its matchmaking service "with," and started work on a major in-house VR project (details discussed below). By segment, the Community segment and Media (Other) segment registered steady expansion, but the Native Games segment was sluggish owing to a slowdown in existing native games.\*<sup>1</sup>

\*<sup>1</sup> Native game: An online game that is a subset of native apps. Can be played while communicating with other players, such as through group battles. Downloaded from platforms such as the App Store and Google Play.

## YoY comparisons

In Q1 FY09/18, the company posted revenues of JPY1.3bn (-9.0% YoY) and an operating loss of JPY248mn (versus operating profit of JPY149mn in Q1 FY09/17). Overall revenues fell JPY127mn (-9.0%) as increases of JPY200mn (+146.9%) in the Community segment and JPY42mn (+37.4%) in the Media (Other) segment were outweighed by a JPY369mn (-31.6%) decline in the Native Games segment. In addition to the YoY drop in revenues, IGNIS continued to conduct upfront spending (underway since FY09/17) to strengthen existing businesses and enhance profitability for new businesses, and this contributed to the operating loss. The company intends to create a new business foundation all the while aiming for further growth, and is progressing as expected toward the goal.

The IGNIS group has positioned, and is developing, its existing businesses in three genres: (1) the Community segment, which runs the “with” matchmaking service, (2) the Native Games<sup>\*1</sup> segment, which operates the core game “BOKU & DRAGONS,” and (3) “U-NOTE,” a media content aggregation site for business-minded people.

IGNIS is considering cutting-edge fields such as VR, AI, and IoT as new genres to be added to its portfolio, and has actively deployed management resources in this direction from FY09/17. In November 2017, the company entered the VR entertainer market in earnest through a business partnership with iwamotocho geinosha inc., a company specializing in VR popstar management. In addition, IGNIS is involved in multiple VR content development projects, including joint research with Juntendo University that looks into how VR applications can help prevent dementia, delay the progression of the disease, and provide pain relief. In new fields that leverage AI or IoT, the company is collaborating with auto part manufacturers in Toyota City, Aichi Prefecture in the development and testing of automatic visual inspection equipment that uses machine learning. In the life hack field, the company is developing “TLUNCH,” a food truck platform that matches food truck operators with unused lots, as a business that aims to ensure effective utilization of unused lots and promote activity in city areas.

## Results by segment

### Community segment

Revenues in the Community segment increased sharply to JPY336mn (+146.9% YoY) from JPY136mn in Q1 FY09/17. IGNIS invested aggressively in promotion of its “with” matchmaking service partly because Q1 coincided with the Christmas season. Revenues for the service closed in on the top position in the domestic social networking category,<sup>\*2</sup> and users continued to grow.<sup>\*3</sup> In addition, to distinguish “with” from similar offerings by other companies, IGNIS successively developed additional functionality and events such as “auto-generated self-introductions” and the “Holiday Season compatibility diagnosis event,” which aim to optimize matchmaking capabilities using pop psychology. Turning to profit, the company is incurring promotional expenses (upfront spending), but it believes it can reach monthly profitability within FY09/18.

IGNIS looks to increase the number of users for its “with” service by continuing to enhance the usability of the service and conduct aggressive promotion. It is a partner in the Marriage Support Project (<https://kekkon-konkatsu.jp/>), which aims to support sound and active online matchmaking service.<sup>\*4</sup> The company hopes such initiatives will help spread a safe and healthy image of online matchmaking services throughout society. It believes such a development could improve the perception of online matchmaking services among TV stations, which in turn could pave the way for TV commercials.

<sup>\*2</sup> In 2017, the company’s “with” matchmaking service was the 5th most downloaded app in the domestic matchmaking category, and featured in the Top 30 domestic apps by revenue in the non-games category (Source: App Annie).

<sup>\*3</sup> Membership for “with” increased by 200,000 in one quarter from 650,000 at end-September 2017 to 850,000 at end-December 2017.

<sup>\*4</sup> To further promote a sound and active online matchmaking sector, the Marriage Support Project (MSPJ) on February 22, 2018, formulated self-regulation guidelines for online matchmaking services (“the Seven MSPJ Pledges”).

The self-regulation guidelines comply with the service operation guidelines formulated in July 2008 by the Service Productivity & Innovation for Growth (SPRING) Quality and Certification Committee of the Japan Productivity Center. The Seven MSPJ Pledges are: (1) thorough personal identification, (2) confirmation of user status as single, (3) monitoring of rule violations, (4) implementation of a blacklist (immediate membership cancellation), (5) sound quality standards (UI/UX), (6) user education and admonishment, and (7) ongoing service improvement. As of February 22, 2018, MSPJ had 28 partners, including IGNIS.

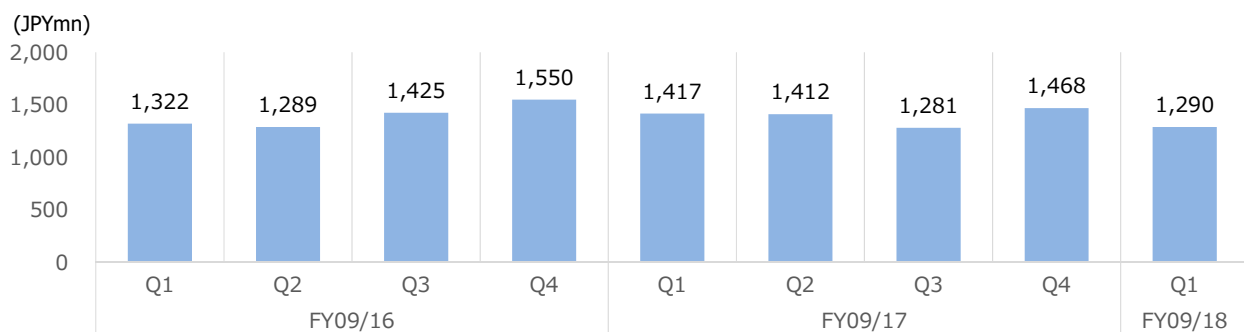
### Native Games segment

Revenues in the Native Games segment were JPY800mn (-31.6% YoY). “BOKU & DRAGONS” continued to perform steadily. Concrete initiatives included additional functionality such as “Maou-sama Lucky Box” and various campaigns such as “3.5 Million Downloads Campaign” and “THE KING OF FIGHTERS ’98 Collaboration Campaign.” IGNIS plans to expand and improve functionality and provide additional campaigns going forward, and thus looks to enhance user satisfaction and ensure stable earnings. As a new project, the company has worked on in-house development of “MEGA SMASH” (code name: GK), an original game title for which it began advance registration in December 2017. It released a closed beta version in February 2018, and launched the game on March 28, 2018.

### Media (Other) segment

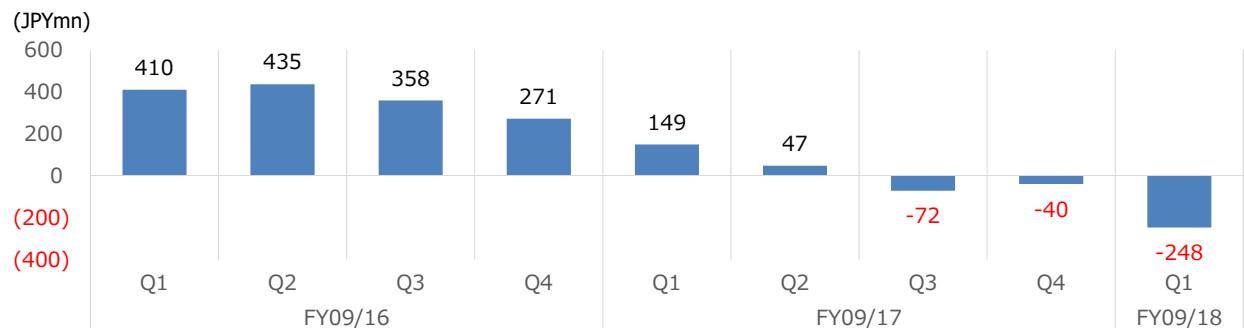
Revenues in the Media (Other) segment were JPY154mn (+37.4% YoY). The segment comprises the “U-NOTE” media content aggregation site for business-minded people, the “TLUNCH” food truck platform, and services that do not fit any of the other genres. IGNIS obtained a license as a fee-charging employment placement business provider for its job-change media site “U-NOTE.CAREER,” and started offering job-change agent services that utilize data on personality traits. As for “TLUNCH,” the company has increased the number of available spaces (primarily in the Greater Tokyo area) and the number of registered food truck operators, and it is growing into the largest domestic player in this field. As of February 2018, the total number of spaces had expanded to 60 (capacity to accommodate 60 food trucks), and IGNIS continues to increase that number at a monthly pace of about 10, according to the company. This makes the company the leader in this market. In new fields, the company is actively investing in businesses that focus on VR, AI, and IoT with an eye toward medium- to long-term growth (see the “INSPIX” section below).

#### Quarterly revenues



Source: Shared Research based on company data

#### Quarterly operating profit



Source: Shared Research based on company data

### QoQ comparisons

In Q1 FY09/18 (October–December 2017), revenues were down 12.2% from Q4 FY09/17 (July–September 2017). Revenues rose by double digits in the Community segment (+15.2% QoQ) driven by the “with” matchmaking service, but declined in the Native Games segment (-20.0%) and the Media (Other) segment (-12.8%). Owing to aggressive business investment underway since FY09/17, the operating loss widened by JPY208mn QoQ to JPY248mn.

### INSPIX

At its subsidiary Pulse Inc., IGNIS looks to accelerate in-house development of its Virtual Live Platform “INSPIX,” and start working on attracting well-known IPs, producing new IPs, and expanding overseas. It is aggressively investing in new businesses such as the VR business (via subsidiary Pulse), where it expects growth over the medium term. “INSPIX” is also a major project that is being developed in-house by Pulse. IGNIS expects total project expenditures of about JPY5.2bn through March 2021, covering personnel expenses to recruit domestic and overseas staff, investment aimed at enhancing content including startup of overseas operations and construction of own studio, and advertising expenses aimed at bringing in new users. To fund the project, the



company will raise an estimated JPY7.3bn in capital by issuing its 14th, 15th, and 16th series of stock acquisition rights by third-party allotment (with provision to revise exercise price for the 16th series) (see the Recent updates section).

### Virtual Live Platform “INSPIX”

Virtual Live Platform “INSPIX”<sup>\*</sup> is a platform that allows live performances to be held in a VR space. It offers unprecedented, interactive musical experiences that can only be delivered in a virtual live format, allowing users to instantaneously join live performances from any part of the world. Specifically, the vision for the platform is to have a large number of VR entertainers holding live performances attended by users (audience) around the world in real time. In other words, users will not have to travel to a physical venue to attend a live performance, but will be able to tune into a performance from the comfort of their homes. The company has also decided to provide the platform in China and North America to realize a virtual live platform that is accessible to fans and VR entertainers not only in Japan but also around the world.

<sup>\*</sup>The company has already applied for trademark registration for “INSPIX” and waiting for results.

### Business model

IGNIS subsidiary Pulse collects part of the sales revenue for live performance tickets and goods as commission fees. The business model is comparable to that of an app platform operator. In addition, Pulse will offer support with content-related activities and various productions. It believes it can generate earnings by delivering experiences that cannot be emulated by others.

### Concept of Virtual Live

Virtual live performances refer to performances by artists, voice actors, or other entertainers that have been digitally recorded using motion capture technology<sup>\*</sup> and can subsequently be enjoyed (joined) by an audience in a VR space (virtual live setting). The performances are turned into interactive experiences that can only be delivered in a virtual live format by using a digital motion glow stick (tool resembling a penlight).

<sup>\*</sup>A technology that captures the movements of real objects or people in digital format.

The ultimate goal is to have users join live performances from their homes using a VR headset (third phase). However, consumer adoption of such headsets will require time, so the company envisions two preceding phases. The first consists of broadcasting live performances on existing video distribution websites, and the second of holding virtual live performances at predetermined venues such as movie theaters or amusement facilities, where users would gather.

The company has indicated that because the platform is supervised by Yasushi Akimoto (see discussion below), the general assumption is that it will be geared toward young entertainers (commonly referred to as idols). However, the platform will not be confined to idol activity, but will also feature live performances by a wide range of IPs and artists (the company envisions unlimited possibilities including performances by pop, rock, and hip hop musicians). Although fans of cartoon idol characters and those of traditional live performances of idol groups such as AKB48 do not necessarily overlap, the virtual live platform makes it possible to deliver live performances that cater to both fan bases, and the use of digital motion and glow sticks opens up possibilities for special performances.

### Partners in Virtual Live Platform “INSPIX” project

The partners in the “INSPIX” project are shown below.



**Virtual Live Platform “INSPIX”: Overview of partners**

Role	Partner	Background
- Overall platform supervision - New IP production - Supervision of business development in China - Supervision of business development in North America	Yasushi Akimoto	Songwriter, broadcast writer, movie director, original author of manga comics; wrote almost all songs for AKB48 group, Nogizaka 64 and Keyakizaka46 as the producer; also plans programs and write scenario of dramas; member of Directors Guild of Japan
- Attracting well-known IPs	Koichiro Natsume	Served as CEO of Aniplex Inc., COO and corporate executive at Sony Music Entertainment (Japan) Inc. and director at A-1 Pictures Co., Ltd.; involved in planning of number of popular animation movies such as "Anohimita Hananonamae Bokutachiwa Madashiranai (We still do not know the name of flowers we saw on that day)," "Bakemonogatari (Mysterious stories)", "Mahoshojo Madoka Magica (Magic girl Madoka and Magica)", "Sword Art Online"
- Supervision of platform technologies	Yukata Matsuo	Associate professor at Department of Technology Management for Innovation, School of Engineering, The University of Tokyo; specializes in artificial intelligence, web engineering, deep learning; author of "Will AI go beyond humans: What lies beyond deep learning" (Japanese), and others
- Assistance of platform experience design - Assistance of new IP production	DaiGo	Mentalist, author, research professor at Niigata University of Rehabilitation; author of books totaling over 1.5mn copies; active in various roles such as advisor to companies, management strategy partner, and lecturer
- Assistance of business development in China - Co-development of new IPs	UNLSH	-
- Development of devices for virtual live	Robit	-

Source: Shared Research based on company data

**Comprehensive partnership with Unleash Entertainment**

In February 2018, Pulse entered into a basic agreement for a comprehensive business partnership with Unleash Entertainment (UNLSH). UNLSH is an entertainment company that manages influencers and other entertainers, and has a strong presence in the Chinese entertainment industry. As a partner in the development and operation of Virtual Live Platform “INSPIX,” it is expected to support content production and activities geared toward the Chinese market.

**Full-year FY09/17 results (out November 13, 2017)**

▷ Revenues	JPY5.6bn (-0.1% YoY)
▷ Operating profit	JPY84mn (-94.3% YoY)
▷ Recurring profit	JPY71mn (-95.1% YoY)
▷ Net loss*	JPY36mn (versus net income of JPY1.1bn in FY09/16)

\*Net loss attributable to parent company shareholders

From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) by organizing its smartphone apps business into three genres: Community, Native Games\*, and Other. These three genres serve as the pillars of its existing business, and the company is also investing management resources in IoT, VR, and other areas as new genres to pursue.

**Progress versus forecasts**

Revenues reached 93.0% of IGNIS’ full-year forecast, or 7.0% short of plan, largely due to falling revenues from native game\*<sup>1</sup> “BOKU & DRAGONS,” which was launched more than two and half years ago. On the other hand, revenues in the Community segment, which the company is giving particular attention, increased by 521.3% YoY primarily thanks to the “with” matchmaking service, increasing the segment’s share of total revenues to 15.2% (compared to just 2.4% in FY09/16). As a result, overall revenues were nearly flat YoY. According to IGNIS, investment to reinforce existing businesses and upfront spending eyeing new product development and the establishment of new businesses were conducted according to plan. The company has not released profit forecasts but says that “with” has helped to cover for the “BOKU & DRAGONS” falloff, and profits were therefore largely in line with its expectations.

## YoY comparisons

In FY09/17, revenues were JPY5.6bn (-0.1% YoY). Operating profit was JPY84mn (-94.3%). Although growth of the “with” matchmaking service helped to increase revenues, overall revenues declined slightly as Studioking Inc., which operates the native game\* “BOKU & DRAGONS” became subject to consumption tax\*\* from FY09/17. IGNIS had positioned FY09/17 as a year for investment targeting additional growth, and it actively conducted upfront spending in line with its medium-term plan to strengthen its existing business, organize internal systems, and establish new businesses. As a result, profits declined as SG&A expenses (chiefly advertising and promotion expenses and R&D spending) increased. As mentioned, the company conducted investment according to plan, including upfront spending aimed at new product development and the establishment of new businesses.

\*Native game: An online game that is a subset of native apps. Can be played while communicating with other players, such as through group battles. Downloaded from platforms such as the App Store and Google Play.

\*\*Subsidiaries becoming subject to consumption tax: In FY09/16 accounts, amounts equivalent to consumption tax (around JPY100mn) from consumption tax-exempt subsidiaries (mainly native game companies) were included under revenues. These subsidiaries became taxpaying entities in FY09/17, so the company booked revenues excluding the consumption tax equivalent.

## Community segment

Revenues in the Community segment increased sharply to JPY849mn (+521.3% YoY) from JPY137mn in FY09/16. IGNIS focused on operating services that create communities among users, centered on the “with” matchmaking service. Monthly download numbers (memberships) of the company’s “with” matchmaking service are growing due to aggressive upfront promotional spending and cumulative downloads surpassed 500,000 in September 2017. User numbers are closing in on the top position in the domestic social networking category. To distinguish “with” from other companies’ similar offerings, IGNIS worked to develop new functionality and continued to hold events to optimize its matchmaking capability using pop psychology.

## Native Games segment

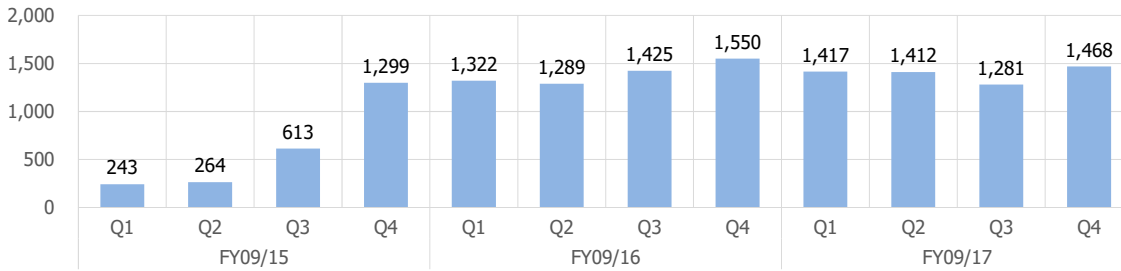
Revenues in the Native Games segment were JPY4.2bn (-15.9% YoY). “BOKU & DRAGONS” continued to perform steadily. The company continued to operate the game as a stable earnings platform, holding second anniversary and seasonal events and popular content collaborations, and incorporating additional features. As of December 2017, there had been over 2mn downloads of “LINE Daifugo” since its April 2017 release. The company also proactively expanded its business platform in other areas, and was aggressively investing in IoT and VR (virtual reality) services as longer-term growth areas, while simultaneously developing new products. The release date is still undecided, but IGNIS is currently developing a 3D action game and on December 18, 2017, announced that it had given codename: “GK” the official name “MEGA SMASH” and began advance registration. The game is currently in the final stage of development leading up to release although the release date is yet to be set.

## Other segment

Revenues in the Other segment were JPY482mn (+20.2%). The segment comprises business person-oriented media “U-NOTE” and services that do not fit any of the other genres. IGNIS is working to develop new media to expand the media business base and aims for reciprocal referrals of “U-NOTE” users with the establishment of job-change media “U-NOTE.CAREER.” The company is also actively investing in areas such as IoT and VR as genres expected to see long-term growth and is working to develop new products.

### Quarterly revenues

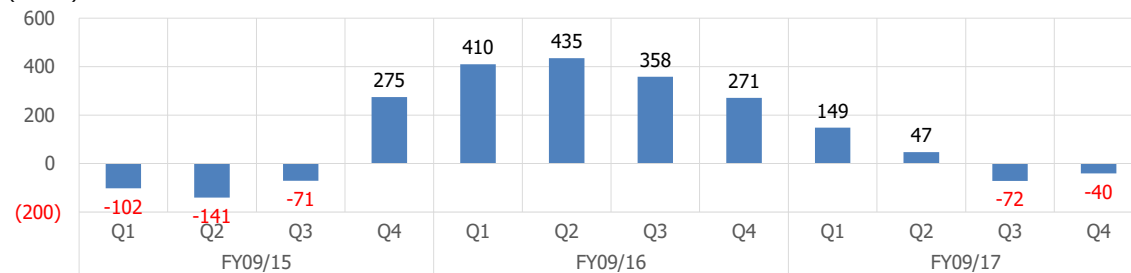
(JPYmn)



Source: Shared Research based on company data

### Quarterly operating profit

(JPYmn)



Source: Shared Research based on company data

### QoQ comparisons

In Q4 FY09/17 (July–September 2017), revenues were up 14.7% from Q3 (April–June 2017). Revenues rose by double-digits in the Community and Other segments (+31.9% and +59.3% QoQ, respectively) on solid growth in the “with” matchmaking service. Revenues also rose in the Native Games segment (+5.5% QoQ). There was an operating loss of JPY40mn due to active business investment, but the loss shrank JPY32mn QoQ.

## FY09/16 results (out November 11, 2016)

- ▷ Revenues JPY5.6bn (2.3x YoY)
- ▷ Operating profit JPY1.5bn (versus operating loss of JPY38mn in FY09/15)
- ▷ Recurring profit JPY1.5bn (versus recurring loss of JPY149mn in FY09/15)
- ▷ Net income\* JPY1.1bn (versus net loss of JPY307mn in FY09/15)

\*Net income attributable to parent company shareholders

### YoY comparisons

#### Revenues

In FY09/16, revenues were JPY5.6bn (up JPY3.2bn YoY). Revenues in the Free Native Apps segment\* were JPY754mn (down JPY13mn) and revenues in the Native Social Games segment\*\* were JPY4.8bn (up JPY3.2bn), driven by “BOKU & DRAGONS.”

\*Native apps: Apps downloaded from platforms such as the App Store and Google Play for use on specific devices such as Android or Apple devices. Native apps are more user-friendly than mobile websites, which need a separate network environment to run.

\*\*Native social games: A kind of native app in which an online game is played while communicating with other users, such as when engaging in battles.

### Native Social Games: JPY4.8bn (up 2.9x YoY)

Contributing to revenue growth in the Native Social Games segment were in-game events, collaborations with popular content, and added features to improve usability. Cumulative downloads of “BOKU & DRAGONS” following its February 2015 release surpassed the 3mn mark in August 2016.

The company has been working to revitalize its games through collaborations, such as having popular characters from *Attack on Titan*\*\*\* appear in “BOKU & DRAGONS” in July 2016.

\*\*\* *Attack on Titan* is a popular comic series that appears in *BESSATSU SHONEN MAGAZINE*, a magazine for young people published by Kodansha since 2009. The story features battles between humans and giants.

### Free Native Apps: JPY754mn (-1.7% YoY)

In October 2015 IGNIS made U-NOTE Inc., a media content company targeting business-minded people, into a consolidated subsidiary. This contributed to revenues, but segment revenues still dipped due to the company releasing fewer apps following its shift in FY09/15 from developing small-scale apps (roughly one month to develop) to medium- and large-scale apps (three months or longer to develop).

In the three months of Q4 FY09/16 revenues in the Free Native Apps segment were JPY260mn (+50.3% QoQ). This was mainly due to the launch of the smartphone version of “with,” the company’s matchmaking service (app for iOS launched in March 2016 and for Android in May 2016).

### Operating profit

FY09/16 operating profit was JPY1.5bn (up JPY1.5bn YoY). SG&A expenses increased by JPY1.4bn, primarily as advertising expenses and platform fees rose. Advertising expenses increased by JPY294mn to JPY948mn, mainly to promote “with.” Still, gross profit rose JPY2.9bn due to higher “BOKU & DRAGONS” revenue, driving operating profit growth. Platform fees rose by JPY917mn to JPY1.4bn as revenues from “BOKU & DRAGONS” grew.

Compared to Q3 (April–June), operating profit in Q4 FY09/16 (July–September) was down by JPY87mn to JPY271mn. Although gross profit rose by JPY101mn on higher revenue from “BOKU & DRAGONS” and “with,” operating profit declined as SG&A expenses rose by JPY188mn. A key factor in the rise in SG&A expenses was a JPY67mn increase in advertising expenses.

Platform fees were 25% of revenues in Q4 FY09/16 (in line with Q3), advertising expenses were 22% of revenues (+3pp from Q3), and personnel expenses were 9% of revenues (-1pp from Q3). The personnel expense-to-revenue ratio declined due to revenue growth, but the advertising expense ratio rose as the company heavily promoted “with.”

## FY09/15 results

▷ Revenues	JPY2.4bn (+18.1% YoY)
▷ Operating loss	JPY38mn (operating profit of JPY562mn in FY09/14)
▷ Recurring loss	JPY149mn (recurring profit of JPY545mn)
▷ Net loss	JPY307mn (net income of JPY310mn)

Revenues in the Free Native Apps segment fell by JPY717mn YoY and those in Free Hybrid Apps fell by JPY215mn due to a shift in the development and operating structure. Revenues in Native Social Games increased by JPY1.3bn to JPY1.7bn following the February 2015 release of “BOKU & DRAGONS.” Cumulative downloads of “BOKU & DRAGONS” reached 2.2mn (as of November 9, 2015) due to a strengthened development and business model. The operating loss came about mainly due to increased advertising and personnel expenses, and rents.

## Historical forecast accuracy

<b>Results vs. Initial Est.</b> <b>(JPYmn)</b>	<b>FY09/15</b> <b>Cons.</b>	<b>FY09/16</b> <b>Cons.</b>	<b>FY09/17</b> <b>Cons.</b>
Revenues (Initial Est.)	3,314	3,500	6,000
Revenues (Results)	2,419	5,586	5,578
<b>Results vs. Initial Est.</b>	<b>-27%</b>	<b>60%</b>	<b>-7%</b>
Operating profit (Initial Est.)	1,000	-	-
Operating profit (Results)	-38	1,474	84
<b>Results vs. Initial Est.</b>	<b>-</b>	<b>-</b>	<b>-</b>
Recurring profit (Initial Est.)	1,000	-	-
Recurring profit (Results)	-149	1,465	71
<b>Results vs. Initial Est.</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net income (Initial Est.)	600	-	-
Net income (Results)	-307	1,088	-36
<b>Results vs. Initial Est.</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

## Balance sheet

Balance sheet (JPYmn)	FY09/13 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.
<b>Current assets</b>	<b>369</b>	<b>1,891</b>	<b>1,050</b>	<b>3,086</b>	<b>4,737</b>
Cash and cash equivalents	155	1,204	452	2,170	2,173
Accounts receivable	171	559	375	396	614
Other	43	129	223	520	1,950
<b>Fixed assets</b>	<b>149</b>	<b>248</b>	<b>917</b>	<b>1,246</b>	<b>1,555</b>
Tangible fixed assets	26	25	150	112	188
Intangible fixed assets	1	41	209	486	476
Investments and other assets	122	181	558	648	891
<b>Total assets</b>	<b>519</b>	<b>2,140</b>	<b>1,967</b>	<b>4,333</b>	<b>6,292</b>
<b>Current liabilities</b>	<b>312</b>	<b>543</b>	<b>609</b>	<b>1,390</b>	<b>1,396</b>
Accounts payable	12	43	15	29	79
Short-term debt	10	-	130	183	781
Income taxes payable	198	257	179	814	22
Other current liabilities	92	243	286	363	514
<b>Fixed liabilities</b>	<b>54</b>	<b>13</b>	<b>120</b>	<b>445</b>	<b>760</b>
Long-term debt	41	-	15	340	617
Others	13	13	105	105	144
<b>Total liabilities</b>	<b>365</b>	<b>556</b>	<b>729</b>	<b>1,835</b>	<b>2,156</b>
<b>Net assets</b>	<b>153</b>	<b>1,584</b>	<b>1,238</b>	<b>2,498</b>	<b>4,135</b>
Capital stock	1	559	563	622	1,505
Capital surplus	-	558	562	620	1,390
Retained earnings	154	464	157	1,245	1,198
Treasury stock	-	-	-52	-52	-52
Accumulated other comprehensive income	-2	2	6	-3	4
Non-controlling interests	-	-	-	63	84
<b>Total capital and liabilities</b>	<b>519</b>	<b>2,140</b>	<b>1,967</b>	<b>4,333</b>	<b>6,292</b>
Working capital	159	516	360	366	535
Total interest-bearing debt	51	-	145	523	1,397
Net cash	104	1,204	307	1,647	776
Current ratio	119%	348%	172%	222%	339%
Fixed ratio	97.4%	15.7%	74.1%	49.9%	37.6%
Equity ratio	29.5%	74.0%	62.8%	56.1%	64.3%

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

### Assets

In FY09/17 the main categories of assets were cash and deposits (34.5% of the total) and items included in other current assets, including operating loans (20.4%), income taxes receivable (5.8%), software (6.3%), and investments and other assets (14.2%). In FY09/16 cash and deposits grew by JPY1.7bn YoY to JPY2.2bn as the company posted net income of JPY1.1bn due to its hit, "BOKU & DRAGONS," and inflows from long-term loans.

### Liabilities

In FY09/17 the main item in liabilities was interest-bearing debt (64.8% of the total). However, the company had JPY2.1bn in net cash and deposits (including operating loans under current asset) at the end of FY09/17, a JPY345mn increase YoY.

### Net assets

In FY09/17 net assets increased by JPY1.6bn YoY to JPY4.1bn, on the back of an increase in capital stock and capital surplus from stock issues on exercise of share subscription rights.

## Cash flow statement

Cash flow statement (JPYmn)	FY09/13 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.
<b>Cash flows from operating activities</b>	230	94	-64	1,351	-1,931
<b>Cash flows from investing activities</b>	-79	-102	-777	-123	-666
Free cash flow	151	-9	-842	1,228	-2,596
<b>Cash flows from financing activities</b>	-19	1,047	87	497	2,594
Net income attributable to parent company sharef	201	310	-307	1,088	-36
Depreciation	8	19	131	295	494
Amortization of goodwill	-	-	5	21	27
Purchase of tangible fixed assets	-20	-15	-117	-47	-165
Purchase of intangible fixed assets	-1	-44	-191	-399	-380
Change in working capital	159	358	-156	6	169
Free cash flow	28	-87	-322	951	-229
<b>Cash and cash equivalents (year end)</b>	<b>155</b>	<b>1,204</b>	<b>452</b>	<b>2,170</b>	<b>2,173</b>

Source: Shared Research based on company data  
 Figures may differ from company materials due to differences in rounding methods.

### Cash flows from operating activities

Cash flows from operating activities move largely in line with net income. However, in FY09/17 there was a net operating cash outflow of nearly JPY2.0bn due to an increase in income tax (after profit increased in FY09/16 on the success of “BOKU & DRAGONS”) and an increase in operating loans.

### Cash flows from investing activities

The main items in investing cash flows are outflows, primarily from the purchase of intangible fixed assets, and inflows from the sale of shares in affiliates. Outflows for the purchase of software and other intangible fixed assets were JPY191mn in FY09/15, JPY399mn in FY09/16, and JPY380mn in FY09/17.

### Cash flows from financing activities

Changes in interest-bearing debt and inflows from stock issuance have a major impact on the company’s financing cash flows. In FY09/14, there were inflows of JPY1.1bn from stock issuance for net inflows of JPY1.0bn. In FY09/17 there were inflows including JPY1.8bn from stock issuance and JPY874mn from an increase in long- and short-term loans. Net inflows were JPY2.6bn.

## Other information

### History

Date	Event
May 2010	Qian Kun establishes IGNIS in Shibuya, Tokyo, to plan, produce and operate smartphone native apps
Dec 2010	Launches smartphone app "Mousou-Denwa" on App Store
May 2012	Launches smartphone app "Saku for iPhone" on App Store
Sep 2012	Establishes ib inc. (now a consolidated subsidiary) to develop and operate free native apps
May 2013	Establishes IGNIS America Inc. (now a consolidated subsidiary) to develop and manage free native apps in the US
	Launches native social game "Shinki-Kakusei!! Melty Maiden" on App Store
Aug 2013	Establishes SwagApp Inc. (now consolidated subsidiary IGNIS APPS INC.) to develop and operate free native apps
Feb 2014	Establishes studioking Inc. (now a consolidated subsidiary) to develop and operate social games
Jul 2014	Lists on Tokyo Stock Exchange Mothers
Oct 2014	Acquires shares in ALTR THINK, Inc. (now a consolidated subsidiary), company involved in planning and developing smartphone apps
Feb 2015	Launches native app social game "BOKU & DRAGONS" on Google Play
Jun 2015	Establishes IGNIS KOREA LTD. (now consolidated subsidiary MEMORY Inc.) in Korea to develop and operate free native apps
Oct 2015	Acquires shares in U-NOTE, Inc. (now a consolidated subsidiary), a media company targeting businesspeople
Mar 2016	Began offering its online matchmaking service "with" (SP version)
Aug 2016	Invests in Robit Inc. (now an equity-method affiliate), company involved in design, manufacture, and sales of hardware and software
Nov 2016	Establishes VR content planning, development, and management company Pulse Inc.
Apr 2017	Began offering "LINE Daifugo"
Jul 2017	Began offering personality assessment service "Mentalist DaiGo-Choseikaku Bunseki-Kyukyoku no Aisho Shindan"
Oct 2017	Robit Inc.'s "mornin'" received the 2017 Good Design Award
Nov 2017	Pulse Inc. reached a business partnership agreement with iwamotocho geinoshia inc.
Mar 2018	Began offering MEGA SMASH, a native social game

Source: Shared Research based on company data

### News and topics

#### September 2018

On **September 6, 2018**, the company announced the listing of and factory, inc., the company's investee, on the Mothers section of the Tokyo Stock Exchange.

And factory, the company's investee, was newly listed on the Mothers section of the Tokyo Stock Exchange on September 6, 2018. IGNIS holds 4.54%\* of the shares of and factory.

\*IGNIS' shareholding ratio was calculated by dividing the number of shares the company has in and factory (210,520 shares) by the total number of issued shares of and factory (4,640,520 shares) as of September 6, 2018.

And factory mainly provides free smartphone apps containing mobile advertisements and jointly operates &AND HOSTEL, a smart hostel that has adopted IoT technology. As a "Smartphone Idea Company," and factory aims to provide services that can enrich everyday lives of users with the motto of "delivering & everyday." It is exploring potential of the smartphone business in



various areas such as entertainment, lodging, and healthcare. By leveraging its development speed and strengths in planning and marketing, and factory is developing multiple apps in collaboration with content holders including major publishing companies.

In addition to its current business endeavors, IGNIS is focused on developing a business that utilizes advanced technologies such as VR, AI, and IoT. In its efforts to develop such business, the company supports and invests in companies with which it believes it can create synergies. The company stated that it aims to continue supporting and investing in companies it can grow with.

### May 2018

On **May 14, 2018**, the company announced a revision to its full year forecasts and a reversal of deferred tax assets.

### March 2018

On **March 5, 2018**, the company announced plans to issue a series of stock acquisition rights.

On March 5, 2018, the board of directors approved the issuance of stock acquisition rights (14th, 15th, and 16th series with provision to revise exercise price for the 16th) via a third-party allotment to Deutsch Bank AG, London Branch (“DBL”) and the entry into purchase agreements with DBL with respect to the stock acquisition rights under a Target Issue Program\* (with a clause giving the issuer the right to suspend the exercise of the rights for a specified period of time).

#### Details of the 14th, 15th, and 16th series of stock acquisition rights

Allocation Date	March 22, 2018
Number of stock acquisition rights issued	17,000 14th: 10,000 15th: 3,500 16th: 3,500
Issuing amount	Total amount: JPY12,061,500 (JPY790 for each SAR in 14th tranche, JPY677 for each SAR in 15th tranche, and JPY512 for each SAR in 16th tranche)
Potential dilution from exercise of stock acquisition rights	1,700,000 shares (equal to 12.67% of shares with voting rights outstanding) 14th: 1,000,000 shares 15th: 350,000 shares 16th: 350,000 shares
Amount to be raised	JPY7,262,061,500 (Net of fees: JPY7,242,161,500)
Exercise price	Initial exercise price 14th: JPY3,050 per share 15th: JPY5,000 per share 16th: JPY7,000 per share
Subscription or allotment method (allotted party)	Third-party allotment to Deutsch Bank AG, London Branch
Exercise period	March 23, 2018 through March 22, 2021

Use of proceeds	Amount	Expected date of expenditures
Personnel expenses for recruiting domestic and overseas staff to develop and operate Virtual Live Platform “INSPIX”; starting up overseas operations, construction of own studio and other investments aimed at enhancing contents; advertising expenses aimed at bringing in new users	JPY5.2bn	March 2018 – March 2021
Advertising at Community segment aimed at bringing in new users	JPY2.0bn	

\*Target Issue Program (TIP): The 15th and 16th tranches of stock acquisition rights were issued under a Target Issue Program wherein the issuer establishes the desired target price at which the rights can be exercised and new shares issued. Under this program, the issuer can set a different exercise price for each tranche of stock acquisition rights issued in anticipation that its stock price will rise in the future, and thereby issue new shares in stages (thus the name “Target Issue”). The issuing agreement also contains a clause that allows the issuer to suspend the exercise of the rights for a specified period, giving the issuer the ability to control the timing of their exercise by designating periods during which the rights may not be exercised by the allotted party owing to the potential impact of new share issuance on the issuer's common stock price or other concerns. In principle, the

exercise price for the 15th and 16th tranche has been set at the target price fixed by IGNIS, but in the case of the 16th tranche the company has retained the right to adjust the exercise price in the future. The 14th tranche is not part of the Target Issue Program, but the issuing agreement for 14th tranche contains a similar clause that allows IGNIS to suspend the exercise of the rights for a specified period of time.

On **the same day**, the company also announced plans for the issuance of a 17th tranche of stock acquisition rights through a third-party allocation along with the establishment of trusts to carry out the issuance of stock acquisition rights under an at-the-market issuance program.

The company entered into three separate trust agreements covering the issuance of stock acquisition rights for at-the-market share issuance (with company President Qian Kun serving as the trustor and Mr. Ryuji Soga serving as the trustee) in connection with an employee incentive plan. Under the incentive plan, the company intends to make future grants of stock acquisition rights to directors and employees to help maintain and increase their motivation and to take steps that will help increase the enterprise value of the company over the medium to long term.

The incentive plan covers not only current directors but also individuals that may be employed as directors in the future. At the time grants of stock acquisition rights are made, the size of the grant may be based not only on the contributions the grantee has made to date but also the contributions expected from the grantee in the future. In this sense, this incentive plan is different from traditional stock option incentive plans used by other companies.

#### Details of the 17th series of stock acquisition rights

Allocation Date	March 22, 2018
Number of stock acquisition rights issued	7,511
Issuing amount	Total amount: JPY751,100 (price of JPY100 per stock acquisition right)
Potential dilution from exercise of stock acquisition rights	751,000 shares (equal to 5.60% of shares with voting rights outstanding)
Amount to be raised	JPY2,291,606,100 (Net of fees: JPY2,280,606,100)
Exercise price	JPY3,050 per share (fixed)
Subscription or allotment method (allotted party)	Third-party allocation to party serving as trustee
Exercise period of stock acquisition rights	December 31, 2020 through March 21, 2028

### November 2017

On **November 13, 2017**, the company announced a stock split.

With November 30, 2017 as the date of record, the company will execute a two-for-one stock split of common shares held by shareholders listed in the register of shareholders at the end of that day. By lowering the price per investment unit, the company aims to create an environment that makes it easier for investors to invest, expand the investor base, and increase the liquidity of its stock.

Details are as follows.

#### Number of shares increased by split

- ▷ Number of issued shares before split: 6,706,100
- ▷ Number by which share count increases due to split: 6,706,100
- ▷ Number of issued shares after split: 13,412,200
- ▷ Total number of issuable shares after split: 6,000,000,000

\*These figures are based on information as of November 13, 2017.

**Date of split**

- ▷ Notification of date of record: November 15, 2017 (planned)
- ▷ Date of record: November 30, 2017 (planned)
- ▷ Effective date: December 1, 2017 (planned)

**May 2017**

On **May 12, 2017**, the company announced that subsidiary Pulse Inc. would form a business partnership with Cluster Inc.

IGNIS decided at a board meeting on May 12, 2017 that its subsidiary Pulse Inc., which plans, develops, and operates VR content, would form a business partnership with Cluster Inc. Cluster operates a social-room app that lets users create virtual rooms to watch videos, participate in events, and share live experiences. (The official version was released on May 31, 2017.) The timing of the release of VR content by Pulse and Cluster has not yet been determined, according to IGNIS. However, the company said that it would prepare for the project with a long-term perspective.

## Corporate governance and top management

### Corporate governance structure (as of December 19, 2016)

Capital structure	
Controlling shareholder	None
Foreign shareholding	Over 30%
Organization type; director and auditor relationships	
Organization type	Company with Audit & Supervisory committee
Number of directors under Articles of Incorporation	9
Number of directors	7
Directors' terms under Articles of Incorporation	1 year
Chairman of the board of directors	President
Number of outside directors	3
Number of independent outside directors	3
Voluntary committee equivalent to Nomination Committee or Compensation Committee	None
Number of members of Audit & Supervisory committee	3
Number of independent members of Audit & Supervisory committee	3
Other	
Incentives for directors	Introduced stock options
Grantees of stock options	Inside directors, employees, subsidiaries' directors and subsidiaries' employees
Disclosure of directors' compensation	No individual disclosure
Policy on determining amount of compensation and calculation methodology	In place
Takeover defenses	None

Source: Shared Research based on company data

### President Qian Kun (born in 1982 in Beijing, China)

Impressed by the books written by CyberAgent president Susumu Fujita, in 2006 Qian joined CA Mobile (subsidiary of CyberAgent). After he helped launch and grow profitability of an advertising agent subsidiary, he established IGNIS in May 2010. In September 2012, he was appointed to his current role as representative director and president. As the top producer of IGNIS, he has led production of many hit apps. Currently, he is leading from the front by managing the Community segment, which operates matchmaking service "with," the VR business, and other businesses that should underpin the company's future earnings.

### Representative Director and CTO Takaaki Suzuki (born in 1986)

Suzuki joined CyberAgent in March 2009. In May 2011 he joined Jimoty, Inc., an advertising bulletin board website operator. In July 2011 he founded First Type and was appointed representative director. Suzuki joined IGNIS in September 2012 and was appointed head of the games business. In February 2014 he was appointed to his current position of representative director and CTO. As the top engineer, he is in charge of operational decisions and management. He is fluent in a wide variety of development languages used in full native apps.

## Dividend policy

The company did not pay a dividend through FY09/16 because it sees ample retained earnings as key to strengthening its financial position and funding expansion into new businesses. It also does not expect to pay dividends in FY09/17, but recognizes shareholder returns as a key management priority. As such, it aims to consider the business environment toward steady and continuous shareholders returns.

## Major shareholders (as of March 31, 2018)

Top shareholders	Number of shares held	Shareholding ratio (%)
Qian Kun	3,966,600	29.44
Takaaki Suzuki	3,966,600	29.44
Morgan Stanley MUFG Securities Co., Ltd.	222,950	1.65
Rie Yamada	192,200	1.42
Japan Securities Finance Co., Ltd.	179,000	1.32
Yusuke Sato	128,000	0.95
CREDIT SUISSE SECURITIES (EUROPE) LIMITED MAIN ACCOUNT	125,000	0.92
Akihiko Yamamoto	124,600	0.92
NOMURA INTERNATIONAL PLC A/C JAPAN FLOW	117,600	0.87
Yasuyuki Kashiwaya	100,000	0.74
Total number of shares issued	13,470,200	100.00

Source: Shared Research based on company data

## Main group companies (as of March 31, 2018)

Subsidiary	Location	Shareholding	Main business
ib inc.	Shibuya, Tokyo	100.00%	Planning, development, and operation of smartphone apps
IGNIS APPS INC.	Shibuya, Tokyo	100.00%	Planning, development, and operation of smartphone apps
IGNITION inc.	Shibuya, Tokyo	100.00%	Planning, development, and operation of smartphone apps
studioking Inc.	Shibuya, Tokyo	100.00%	Planning, development, and operation of smartphone apps
ALTR THINK, Inc.	Shibuya, Tokyo	100.00%	Planning, development, and operation of smartphone apps
U-NOTE Inc.	Shinagawa, Tokyo	70.9%	Planning, development, and operation of smartphone apps
IGNIS AMERICA, INC.	California, USA	100.0%	Planning, development, and operation of smartphone apps
Mellow Inc.	Shibuya, Tokyo	54.2%	Lunch space business and event business using food trucks
Pulse Inc.	Shibuya, Tokyo	74.3%	Planning, development, and operation of VR content

Source: Shared Research based on company data

## Employees

Consolidated employees	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17
	Cons.	Cons.	Cons.	Cons.	Cons.
IGNIS	33	72	77	19	28
IGNIS group companies	-	4	37	120	167
<b>Total</b>	<b>33</b>	<b>76</b>	<b>114</b>	<b>139</b>	<b>195</b>

Source: Shared Research based on company data

## Profile

<b>Company</b>	<b>Head office</b>
IGNIS LTD.	Ebisu Business Tower 12th floor 1-19-19 Ebisu, Shibuya-ku, Tokyo
<b>Phone</b>	<b>Listed on</b>
+81-3-6408-6820	Tokyo Stock Exchange Mothers
<b>Established</b>	<b>Exchange listing</b>
May 2010	July 15, 2014
<b>Website</b>	<b>Financial year-end</b>
<a href="http://1923.co.jp/en/">http://1923.co.jp/en/</a>	September
<b>IR Contact</b>	<b>IR Web</b>
-	<a href="http://1923.co.jp/en/ir/stock">http://1923.co.jp/en/ir/stock</a>

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ADJUVANT COSME JAPAN CO., LTD.	FURYU CORPORATION	PIGEON CORPORATION
Aeon Delight Co., Ltd.	Gamecard-Joyco Holdings, Inc.	RACCOON HOLDINGS, Inc.
Aeon Fantasy Co., Ltd.	GCA Corporation	RESORTTRUST, INC.
Ai Holdings Corporation	Grandy House Corporation	ROUND ONE Corporation
AnGes Inc.	Hakuto Co., Ltd.	RVH Inc.
Anicom Holdings, Inc.	Happinet Corporation	RYOHIN KEIKAKU CO., LTD.
Anritsu Corporation	Harmonic Drive Systems Inc.	SanBio Company Limited
Apaman Co., Ltd.	HOUSEDO Co., Ltd.	SANIX INCORPORATED
Arealink Co.,Ltd.	IDOM Inc.	Sanrio Company, Ltd.
Artspark Holdings Inc.	IGNIS LTD.	SATO HOLDINGS CORPORATION
AS ONE CORPORATION	Inabata & Co., Ltd.	SBS Holdings, Inc.
Ateam Inc.	Infocom Corporation	Seikagaku Corporation
Aucfan Co., Ltd.	Infomart Corporation	Seria Co.,Ltd.
AVANT CORPORATION	Intelligent Wave, Inc.	SHIP HEALTHCARE HOLDINGS, INC.
Axell Corporation	istyle Inc.	<b>SIGMAXYZ Inc.</b>
Azbil Corporation	Itochu Enex Co., Ltd.	SMS Co., Ltd.
AZIA CO., LTD.	JSB Co., Ltd.	Snow Peak, Inc.
BEENOS Inc.	JTEC Corporation	Solasia Pharma K.K.
Bell-Park Co., Ltd.	J Trust Co., Ltd	SOURCENEXT Corporation
Benefit One Inc.	Japan Best Rescue System Co., Ltd.	Star Mica Co., Ltd.
B-lot Co.,Ltd.	JINS Inc.	Strike Co., Ltd.
Canon Marketing Japan Inc.	JP-HOLDINGS, INC.	SymBio Pharmaceuticals Limited
Carna Biosciences, Inc.	KAMEDA SEIKA CO., LTD.	Synchro Food Co., Ltd.
CERES INC.	Kenedix, Inc.	TAIYO HOLDINGS CO., LTD.
Chiyoda Co., Ltd.	KFC Holdings Japan, Ltd.	Takashimaya Company, Limited
Chugoku Marine Paints, Ltd.	KI-Star Real Estate Co., Ltd.	Take and Give Needs Co., Ltd.
cocokara fine Inc.	Kumiai Chemical Industry Co., Ltd.	Takihyo Co., Ltd.
COMSYS Holdings Corporation	Lasertec Corporation	TAMAGAWA HOLDINGS CO., LTD.
CRE, Inc.	LUCKLAND CO., LTD.	TEAR Corporation
CREEK & RIVER Co., Ltd.	MATSUI SECURITIES CO., LTD.	<b>Tenpo Innovation Inc.</b>
Daiseki Co., Ltd.	Medical System Network Co., Ltd.	3-D Matrix, Ltd.
DIC Corporation	MEDINET Co., Ltd.	TKC Corporation
Digital Arts Inc.	Milbon Co., Ltd.	TOKAI Holdings Corporation
Digital Garage Inc.	MIRAIT Holdings Corporation	Tri-Stage Inc.
DIGITAL HEARTS HOLDINGS Co., Ltd	Monex Goup Inc.	VISION INC.
Don Quijote Holdings Co., Ltd.	NAGASE & CO., LTD	VISIONARY HOLDINGS CO., LTD.
Dream Incubator Inc.	NAIGAI TRANS LINE LTD.	VOYAGE GROUP, INC.
EARTH CHEMICAL CO., LTD.	NanoCarrier Co., Ltd.	WirelessGate, Inc.
Elecom Co., Ltd.	Net One Systems Co.,Ltd.	YELLOW HAT LTD.
Emergency Assistance Japan Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	YOSHINOYA HOLDINGS CO., LTD.
en-Japan Inc.	Nihon Denkei Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
euglena Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	Yume no Machi Souzou Iinkai Co., Ltd.
Evolable Asia Corp.	Nisshinbo Holdings Inc.	Yushiro Chemical Industry Co., Ltd.
Ferrotec Holdings Corporation	NS TOOL CO., LTD.	ZAPPALLAS, INC.
FIELDS CORPORATION	NTT URBAN DEVELOPMENT CORPORATION	
Financial Products Group Co., Ltd.	Oki Electric Industry Co., Ltd	
FreeBit Co., Ltd.	ONO SOKKI Co., Ltd.	

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