IGNIS / 3689

COVERAGE INITIATED ON: 2017.05.01
LAST UPDATE: 2018.04.25

Shared Research Inc. has produced this report by request from the company discussed in the report. The aim is to provide an "owner's manual" to investors. We at Shared Research Inc. make every effort to provide an accurate, objective, and neutral analysis. In order to highlight any biases, we clearly attribute our data and findings. We will always present opinions from company management as such. Our views are ours where stated. We do not try to convince or influence, only inform. We appreciate your suggestions and feedback. Write to us at sr_inquiries@sharedresearch.jp or find us on Bloomberg.

INDEX

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.

Executive summary ---- **3**
Key financial data ---- **5**
Recent updates ---- **6**
Highlights ---- 6
Trends and outlook ---- **8**
Quarterly trends and results ---- 8
Outlook ---- **16**
Business ---- **20**
Description ---- 20
Overview by business ---- 26
Cost structure ---- 32
Market and value chain ---- 33
Strengths and weaknesses ---- 38
Historical financial statements ---- **39**
Income statement ---- 39
Balance sheet ---- 51
Cash flow statement ---- 52
Other information ---- **53**
History ---- 53
News and topics ---- 53
Corporate governance and top management ---- 54
Dividend policy ---- 55
Major shareholders (as of September 30, 2017) ---- 55
Main group companies (as of September 30, 2017) ---- 56
Employees ---- 56
Profile ---- 57

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 virtual reality (VR), artificial intelligence (AI), and Internet of Things (IoT).
- 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 (survey by research company App Annie) 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-December 2017, it had over 850,000 registered members. Although the company was a latecomer to the online matchmaking business, it has consistently ranked around 10th in domestic App Store sales rankings for the 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 is still a small contributor to revenues, but the company wants it to become a core contributor in the future.
- 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. 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 (for more details, see the Q1 FY09/18 section).

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.

Strengths and weaknesses

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 tendency 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 Est.
Revenues	**875**	**2,048**	**2,419**	**5,586**	**5,578**	**7,000**
YoY	-	134.1%	18.1%	130.9%	-0.1%	25.5%
Gross profit	527	1,433	1,741	4,675	4,480	
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%	
Operating profit	**308**	**562**	**-38**	**1,474**	**84**	
YoY	-	82.1%	-	-	-94.3%	
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%	
Recurring profit	**307**	**545**	**-149**	**1,465**	**71**	
YoY	-	77.3%	-	-	-95.1%	
RPM	35.1%	26.6%	-6.1%	26.2%	1.3%	
Net income attributable to parent company shareholders	**201**	**310**	**-307**	**1,088**	**-36**	
YoY	-	54.4%	-	-	-	
Net margin	22.9%	15.1%	-12.7%	19.5%	-0.6%	
Per share data (JPY, adjusted for stock splits)						
Shares issued (year end; '000)	10,800	12,078	12,267	12,471	13,412	
EPS	18.59	28.06	-25.22	88.29	-2.72	
EPS (fully diluted)	-	27.97	-	84.42	-	
Dividend per share	-	-	-	-	-	
Book value per share	14.19	131.15	101.08	195.65	302.64	
Balance sheet (JPYmn)						
Current assets	369	1,891	1,050	3,086	4,737	
Cash and cash equivalents	155	1,204	452	2,170	2,173	
Accounts receivable	171	559	375	396	614	
Other current assets	43	129	223	520	1,950	
Fixed assets	149	248	917	1,246	1,555	
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	
Total assets	519	2,140	1,967	4,333	6,292	
Current liabilities	312	543	609	1,390	1,396	
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	
Fixed liabilities	54	13	120	445	760	
Long-term debt	41	-	15	340	617	
Others	13	13	105	105	144	
Net assets	153	1,584	1,238	2,498	4,135	
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	
Share subscription rights	-	-	3	3	5	
Non-controlling interests	-	-	-	63	84	
Total capital and liabilities	519	2,140	1,967	4,333	6,292	
Statement of cash flows (JPYmn)						
Cash flows from operating activities	230	94	-64	1,351	-1,931	
Cash flows from investing activities	-79	-102	-777	-123	-666	
Cash flows from financing activities	-19	1,047	87	497	2,594	
Financial ratios						
Interest-bearing debt	51	-	145	523	1,397	
Net cash	104	1,204	307	1,647	776	
ROA (RP-based)	-	41.0%	-7.2%	46.5%	1.3%	
ROE	370.1%	35.7%	-21.8%	59.3%	-1.1%	
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.
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 **April 25, 2018,** Shared Research updated the report following interviews with IGNIS LTD.

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

On **February 13, 2018,** announced earnings results for Q1 FY09/18; see the results section for details.

For corporate releases and developments more than three months old, see the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY09/16 Q1	Q2	Q3	Q4	FY09/17 Q1	Q2	Q3	Q4	FY09/18 Q1	Q2	Q3	Q4	FY09/18 % of FY	FY Est.
Revenues	**1,322**	**2,611**	**4,036**	**5,586**	**1,417**	**2,829**	**4,110**	**5,578**	**1,290**				**18.4%**	**7,000**
YoY	443.8%	415.4%	260.3%	130.9%	7.2%	8.3%	1.8%	-0.1%	-9.0%					25.5%
Gross profit	1,140	2,203	3,388	4,675	1,172	2,346	3,330	4,480	1,011					
GPM	86.2%	84.4%	84.0%	83.7%	82.7%	82.9%	81.0%	80.3%	78.4%					
SG&A expenses	730	1,358	2,185	3,200	1,023	2,151	3,206	4,396	1,259					
YoY	304.2%	230.7%	135.2%	79.8%	40.1%	58.3%	46.7%	37.4%	23.0%					
SG&A ratio	55.2%	52.0%	54.1%	57.3%	72.2%	76.0%	78.0%	78.8%	97.6%					
Operating profit	**410**	**845**	**1,203**	**1,474**	**149**	**196**	**124**	**84**	**-248**					**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%	-19.2%					
Recurring profit	**406**	**840**	**1,198**	**1,465**	**136**	**185**	**113**	**71**	**-250**					**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%	-19.4%					
Net income attributable to parent company shareholders	**230**	**895**	**1,001**	**1,088**	**67**	**92**	**11**	**-36**	**-233**					**na**
YoY	-	-	-	-	-70.7%	-89.7%	-98.9%	-	-					
Net margin	17.4%	34.3%	24.8%	19.5%	4.8%	3.2%	0.3%	-0.6%	-18.1%					

Quarterly performance (JPYmn)	FY09/16 Q1	Q2	Q3	Q4	FY09/17 Q1	Q2	Q3	Q4	FY09/18 Q1	Q2	Q3	Q4
Revenues	**1,322**	**1,289**	**1,425**	**1,550**	**1,417**	**1,412**	**1,281**	**1,468**	**1,290**			
YoY	443.8%	389.3%	132.2%	19.3%	7.2%	9.5%	-10.1%	-5.3%	-9.0%			
Gross profit	**1,140**	**1,063**	**1,185**	**1,286**	**1,172**	**1,174**	**984**	**1,150**	**1,011**			
GPM	86.2%	82.5%	83.2%	83.0%	82.7%	83.2%	76.8%	78.3%	78.4%			
SG&A expenses	**730**	**628**	**827**	**1,015**	**1,023**	**1,127**	**1,055**	**1,190**	**1,259**			
YoY	304.2%	173.0%	59.5%	19.4%	40.1%	79.5%	27.7%	17.2%	23.0%			
SG&A ratio	55.2%	48.7%	58.0%	65.5%	72.2%	79.8%	82.4%	81.0%	97.6%			
Operating profit	**410**	**435**	**358**	**271**	**149**	**47**	**-72**	**-40**	**-248**			
YoY	-	-	-	-1.2%	-63.7%	-89.2%	-	-	-			
OPM	31.0%	33.7%	25.2%	17.5%	10.5%	3.3%	-5.6%	-2.7%	-19.2%			
Recurring profit	**406**	**434**	**358**	**268**	**136**	**49**	**-72**	**-41**	**-250**			
YoY	-	-	-	8.2%	-66.5%	-88.8%	-	-	-			
RPM	30.7%	33.7%	25.1%	17.3%	9.6%	3.4%	-5.6%	-2.8%	-19.4%			
Net income attributable to parent company shareholders	**230**	**665**	**106**	**87**	**67**	**25**	**-81**	**-46**	**-233**			
YoY	-	-	-	-36.1%	-70.7%	-96.3%	-	-	-			
Net margin	17.4%	51.5%	7.4%	5.6%	4.8%	1.7%	-6.3%	-3.2%	-18.1%			

Revenue by segment (cumulative) (JPYmn)	FY09/16 Q1	Q2	Q3	Q4	FY09/17 Q1	Q2	Q3	Q4	FY09/18 Q1	Q2	Q3	Q4
Revenues	1,322	2,611	4,036	5,586	1,417	2,829	4,110	5,578	1,290			
Community	17	36	60	137	136	336	557	849	336			
Native Games	1,233	2,411	3,699	5,048	1,168	2,300	3,247	4,247	800			
Media (Other)	71	164	276	401	112	193	305	482	154			
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%			
Community	-	-	-	-	686.3%	842.0%	826.0%	521.3%	146.9%			
Native Games	-	-	-	-	-5.3%	-4.6%	-12.2%	-15.9%	-31.6%			
Media (Other)	-	-	-	-	57.9%	17.5%	10.3%	20.2%	37.4%			
Native Social Games (old segment)	-	-	552.1%	192.5%	-	-			-			
Free Native Apps (old segment)	-40.8%	-24.3%	-14.4%	-1.7%	-	-			-			

Revenue by segment (quarterly) (JPYmn)	FY09/16 Q1	Q2	Q3	Q4	FY09/17 Q1	Q2	Q3	Q4	FY09/18 Q1	Q2	Q3	Q4
Revenues	1,322	1,289	1,425	1,550	1,417	1,412	1,281	1,468	1,290			
Community	17	18	24	76	136	200	221	291	336			
Native Games	1,233	1,178	1,288	1,349	1,168	1,131	948	1,000	800			
Media (Other)	71	93	112	124	112	81	112	177	154			
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%			
Community	-	-	-	-	686.3%	988.1%	802.6%	283.3%	146.9%			
Native Games	-	-	-	-	-5.3%	-4.0%	-26.4%	-25.9%	-31.6%			
Media (Other)	-	-	-	-	57.9%	-13.4%	-0.3%	42.8%	37.4%			
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.

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[*1].

*[1]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 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 alliance with iwamotocho geinosha inc., a company specializing in VR talent 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[*2], and users continued to grow[*3]. 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[*4]. 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.

*2 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).
*3 Membership for "with" increased by 200,000 in one quarter from 650,000 at end-September 2017 to 850,000 at end-December 2017.
*4 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.

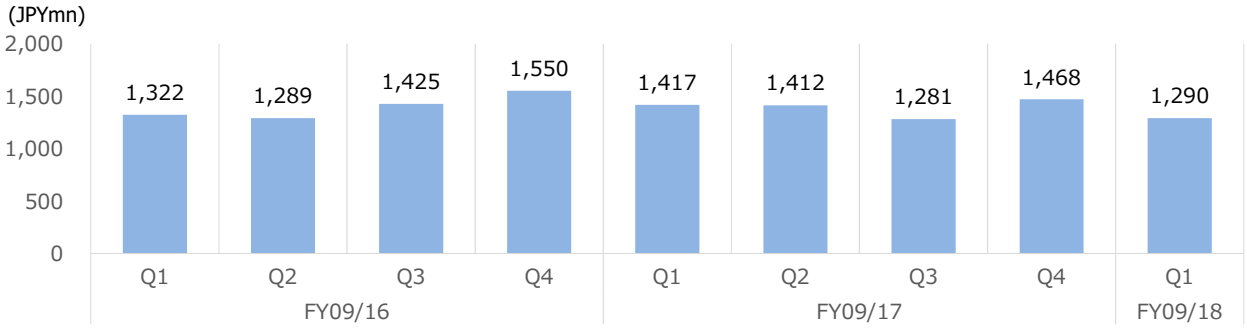
Native Games segment

Revenues in the Native Games segment were JPY800mn (-31.6% YoY). "BOKU & DRAGONS" continued to perform steadily. Concrete initiatives included additional functionality such as "Mao-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

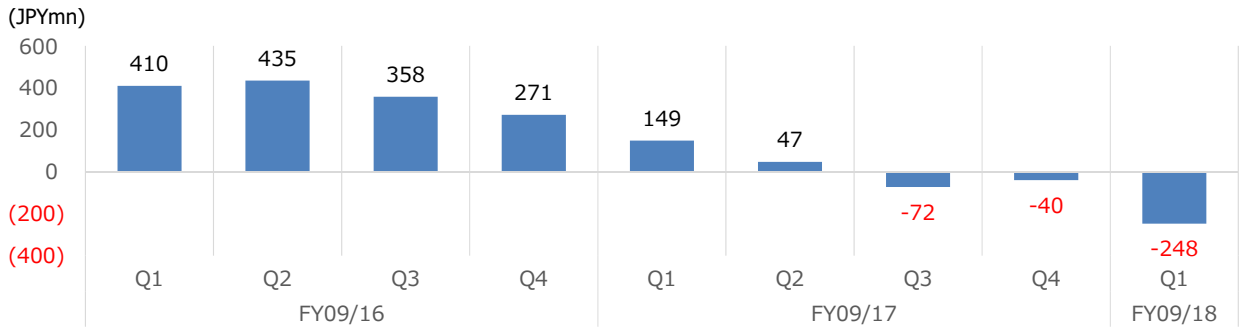
Revenues in the Media (Other) segment were JPY154mn (+37.4% YoY). The segment comprises the "U-NOTE" media content aggregation site for business-minded people, the "TLUNCH" food truck platform, and services that do not fit any of the other genres. IGNIS obtained a license as a fee-charging employment 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 adverting 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"* 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

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 platform-providing apps. 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* 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 through the use of 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 Hananonamaeo 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 alliance 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.

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

Full-year company forecasts

Earnings (JPYmn)	FY09/13 FY Act.	FY09/14 FY Act.	FY09/15 FY Act.	FY09/16 1H Act.	FY09/16 2H Act.	FY09/16 FY Act.	FY09/17 1H Act.	FY09/17 2H Act.	FY09/17 FY Act.	FY09/18 FY Est.
Revenues	**875**	**2,048**	**2,419**	**2,611**	**2,975**	**5,586**	**2,829**	**2,749**	**5,578**	**7,000**
YoY	-	134.1%	18.1%	415.4%	55.5%	130.9%	8.3%	-7.6%	-0.1%	25.5%
Operating profit	**308**	**562**	**-38**	**845**	**630**	**1,474**	**196**	**-112**	**84**	
YoY	-	82.1%	-	-	208.6%	-	-76.8%	-	-94.3%	
OPM	35.3%	27.4%	-1.6%	32.3%	21.2%	26.4%	6.9%	-4.1%	1.5%	
Recurring profit	**307**	**545**	**-149**	**840**	**625**	**1,465**	**185**	**-113**	**71**	
YoY	-	77.3%	-	-	402.0%	-	-78.0%	-	-95.1%	
RPM	35.1%	26.6%	-6.1%	32.2%	21.0%	26.2%	6.5%	-4.1%	1.3%	
Net income attributable to parent company shareholders	**201**	**310**	**-307**	**895**	**193**	**1,088**	**92**	**-128**	**-36**	
YoY	-	54.4%	-	-	4,361.4%	-	-89.7%	-	-	
Net margin	22.9%	15.1%	-12.7%	34.3%	6.5%	19.5%	3.2%	-4.6%	-0.6%	

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

Targeting 25.5% YoY growth in revenues in FY09/18

The company's medium-term plan calls for FY09/20 revenues of JPY15.0bn and operating profit of JPY6.0bn. In order to achieve these targets, the company is actively working to expand the revenue bases of its existing businesses and investing in new businesses. In light of the steady growth shown by services into which it injected a significant portion of its management resources during FY09/17, chiefly the "with" matchmaking service, IGNIS forecasts FY09/18 consolidated revenues of JPY7.0bn (+25.5% YoY). The company had yet to disclose forecasts for operating profit, recurring profit, and net income attributable to parent company shareholders because there were still too many uncertainties about the outlook at the time it announced its FY09/17 earnings results.

Strengthening the business model by revising portfolio

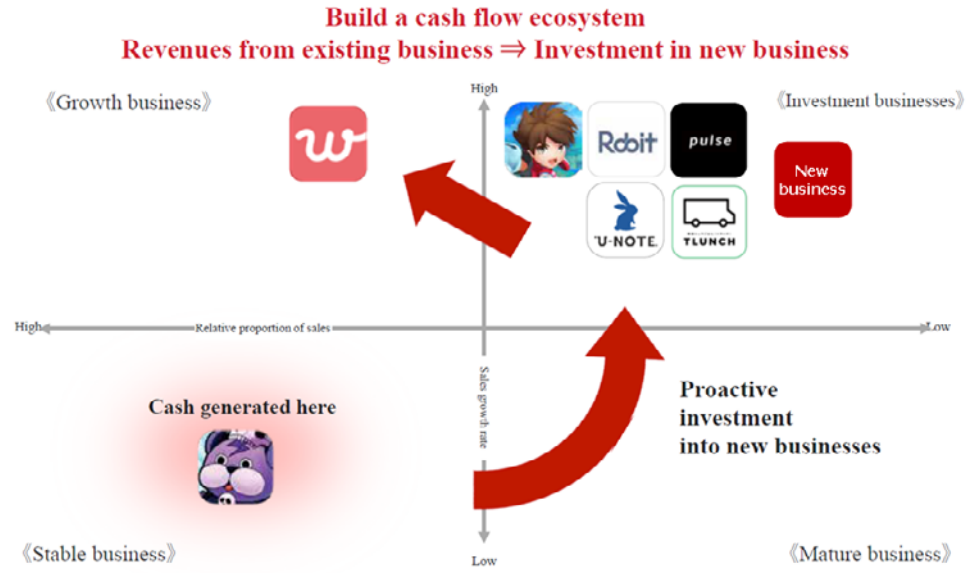
From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) to Community, Native Games, and Media (Other). These three genres serve as the pillars of the company's existing business, and it is also investing management resources in IoT, VR, and other areas as it works to pursue new genres. The change in segmentation is intended to help the company focus on more profitable businesses.

According to IGNIS, it conducted upfront spending in FY09/17 to expand its business portfolio, establishing a life hack business and beginning to determine the direction its VR business will take. IGNIS will channel the cash earned from "BOKU & DRAGONS" in the Native Games segment to the Community segment (operates the "with" matchmaking service), which it sees as the next growth driver, and to new businesses, such as the life hack and VR businesses. In FY09/18, it will work to expand the Community segment's "with" service and "TLUNCH" (food truck platform for matching food truck operators with unused lots; for detail see the Outlook section) and media content site "U-NOTE" as recurring revenue businesses. It plans to add functionality to "with" that will provide users with experiences only available through this service. Membership is steadily increasing, and the company will focus on improving its matching algorithms so that it can provide the best matching opportunities in response to diverse user needs. Using a team comparable to the team that developed its popular "BOKU & DRAGONS," the company has been developing the new native game "MEGA SMASH" (formerly codename "GK"), which was released on March 28, 2018. IGNIS will also target growth in new businesses related to IoT and AI.

According to the company, it breaks down its FY09/18 revenue target of JPY7.0bn by segment as follows: Community segment with revenue of JPY2.0bn (about 29% of total revenues), Native Games segment with JPY4.0bn (about 57%), and Other segment with JPY1.0bn (about 14%). In regard to Native Games, this means a contraction of about 6% from the JPY4.2bn in segment revenues it achieved in FY09/17.

IGNIS has not released profit forecasts because there are too many uncertainties. However, a chart shown at its FY09/16 earnings briefing indicates it expects profits to increase YoY. Shared Research believes the main factors likely to affect profits are whether or not television commercials will be possible for the Community segment (if so, advertising expenses would increase) and how much the company will end up spending on advertising related to the launch of the new native game "MEGA SMASH."

Cash flow under the new business portfolio from FY09/17



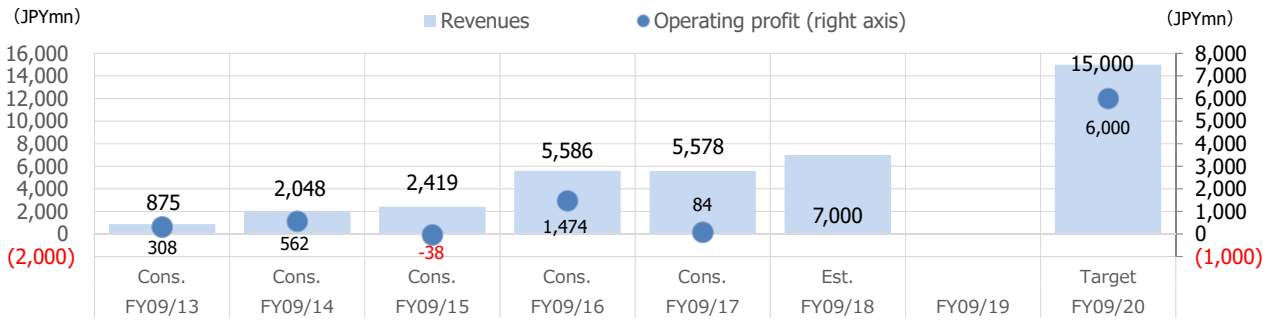
Source: Company data

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.

Earnings trends and FY09/20 targets



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 leveraging AI. The company aims to significantly grow 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 Average Revenue Per Paying User (ARPPU). 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.

Media (Other) segment

In the Media (Other) segment, IGNIS plans to expand content for "U-NOTE," its media site for business-minded people, and grow the site to a scale where the company can guarantee advertising effects. IGNIS intends to provide its advertising expertise and management resources to further monetize "U-NOTE." The company has also set up "U-NOTE.CAREER," a new media business providing career-related information. It has acquired a fee-charging employment placement business license and started offering job-change agent services that utilize data on personality traits. It will aim to maintain and enhance profitability.

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 the new businesses except the VR business to contribute to earnings by FY09/20 (new businesses to make up 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 smart 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" for matching 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.

*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 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.

As of December 2017, it appeared that the VR market would require some time to substantially take off due to a lack of content that can drive market growth and conservative production by manufacturers, resulting in some equipment running out of stock. In these circumstances, 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 alliance 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 entertainers 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 geinosha 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.

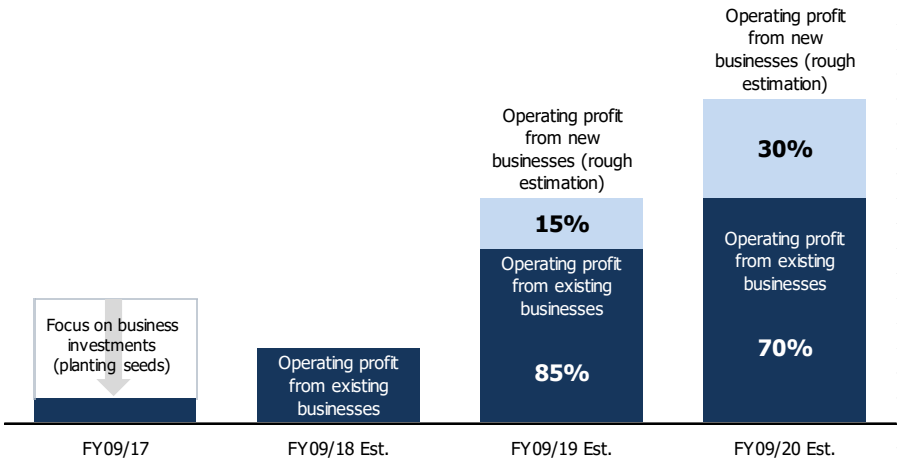
New businesses

On October 27, 2017, Robit Inc. announced an alliance 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. At present, much visual inspection relies on inspectors' senses, and 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 alliance 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.

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 Media (Other)*.

* From FY09/17, IGNIS changed its segmentation (formerly Free Native Apps and Native Social Games) to the Community, Native Games, and Media (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.

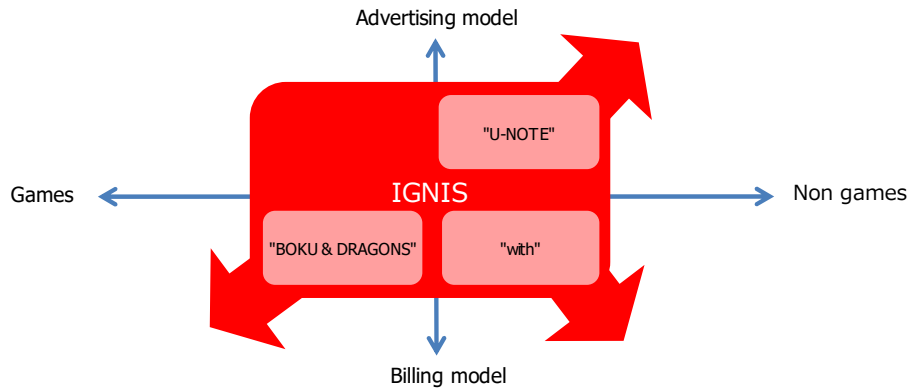
In the Native Games segment, subsidiary studioking Inc. plans, develops, and operates smartphone game “BOKU & DRAGONS,” a free-to-play social game. Players can buy rare characters and other items using a one-time payment system called “gacha,” generating revenue for the company.

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 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 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 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

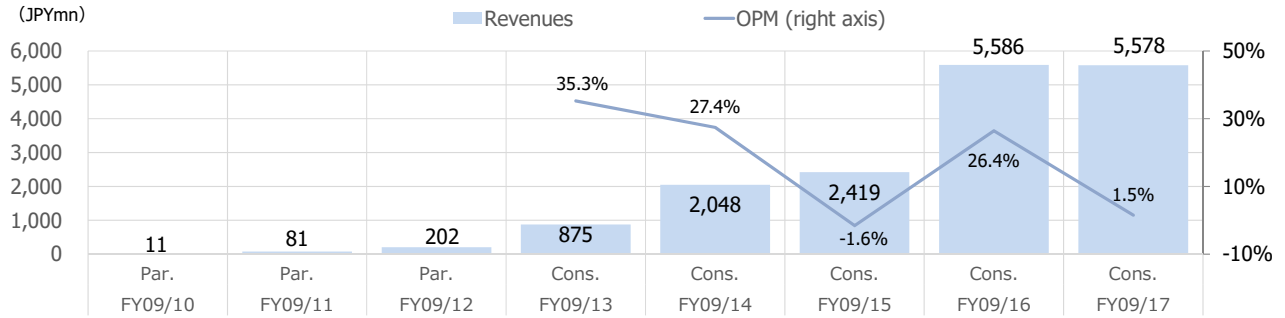
In FY09/17, the Native Games segment accounted for 76.1% of revenues, the Community segment accounted for 15.2%, and the Other segment accounted for 8.6%. The Community segment has significant growth potential, and has already expanded from 2.4% of total revenue in FY09/16 to 15.2% in FY09/17. The company 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 eying 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, who had substantial knowledge of the industry (currently an outside director of IGNIS; CEO of FreakOut Holdings [TSE Mothers: 6094] effective January 4, 2017).

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 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.

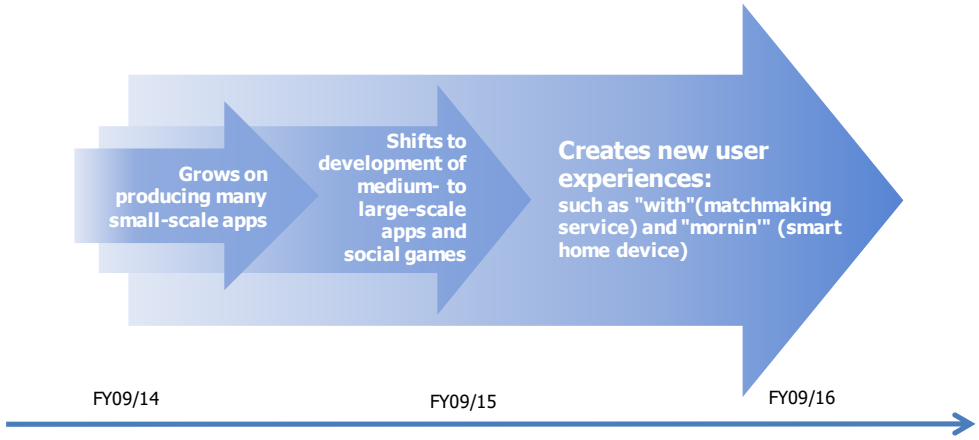
** *Salaryman Kintaro*: A popular comic series produced by Hiroshi Motomiya, serialized in *WEEKLY YOUNG JUMP* magazine since 1994.

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

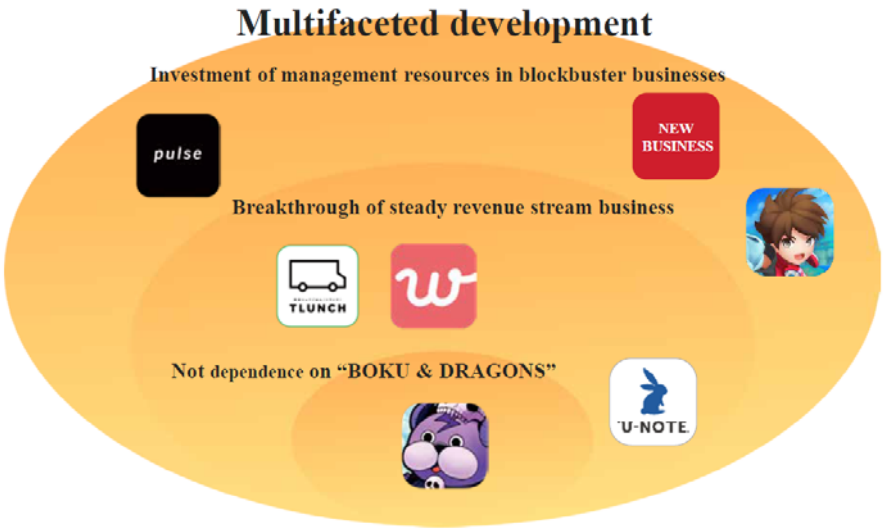
Business territory expansion phase: from mid-2016

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).

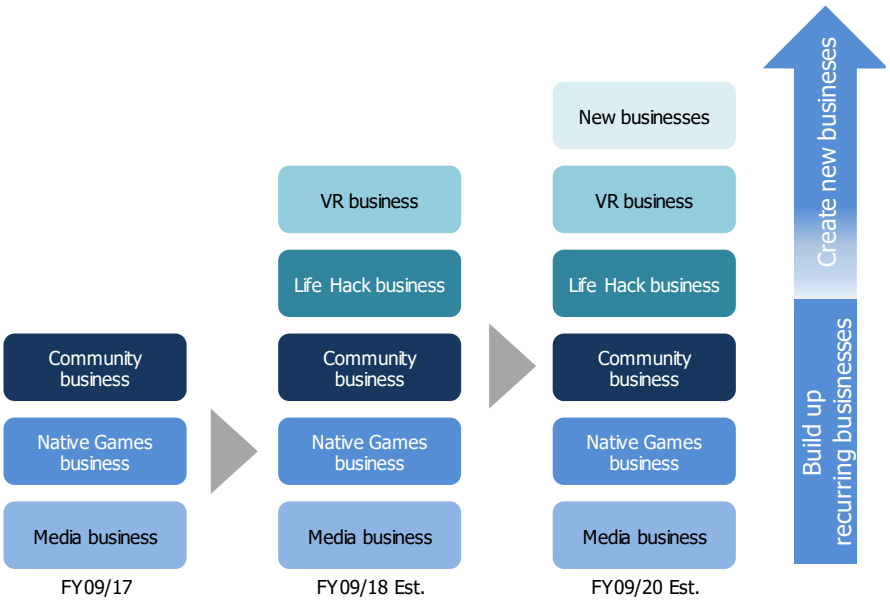
Working to end its dependence on “BOKU & DRAGONS,” IGNIS is promoting business expansion on numerous fronts, aiming to grow recurring revenue businesses (including “with,” “TLUNCH,” and “U-NOTE”), launch the new native game “MEGA SMASH” (formerly codename: “GK”), and establish new businesses related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

Business expansion plan



Source: 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 more nimble 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

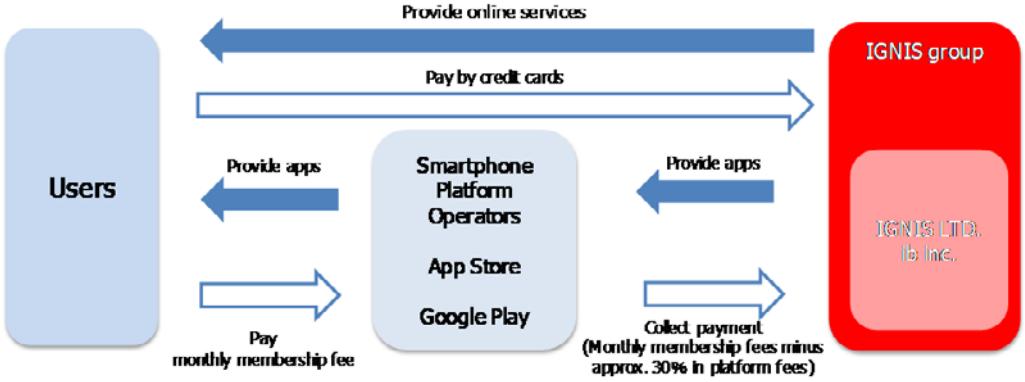
Community segment

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 "Omiai" operated by Net Marketing (TSE JASDAQ: 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), "Omiai" (JPY2,780; varies by payment method and plan; see following table), and "Zexy Enimusubi" (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. Due to upfront spending, the service has yet to reach the breakeven point, but it is making steady progress as monthly revenues increase together with the number of paying members.

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

Paid membership plan	"with"		"Omiai"		"Zexy Enmusubi"	
(JPY)	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	2,800		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 6.0mn (end August 2017)
7	2	Omiai	Net Marketing Co., Ltd	Over 2.5mn (end September 2017)
10	3	with	IGNIS LTD. ib inc.	Over 650,000 (end September 2017)
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.

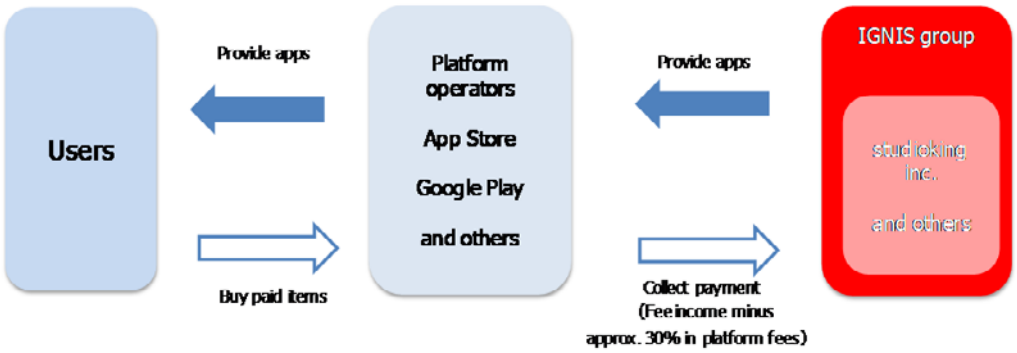
Native Games segment

Business model: ①Revenue 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. Although the release date is still undecided, the company is currently developing a new 3D action game ("MEGA SMASH," formerly codename: "GK"), with development now in the final stage.

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

Date		Release timing and cumulative downloads
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.

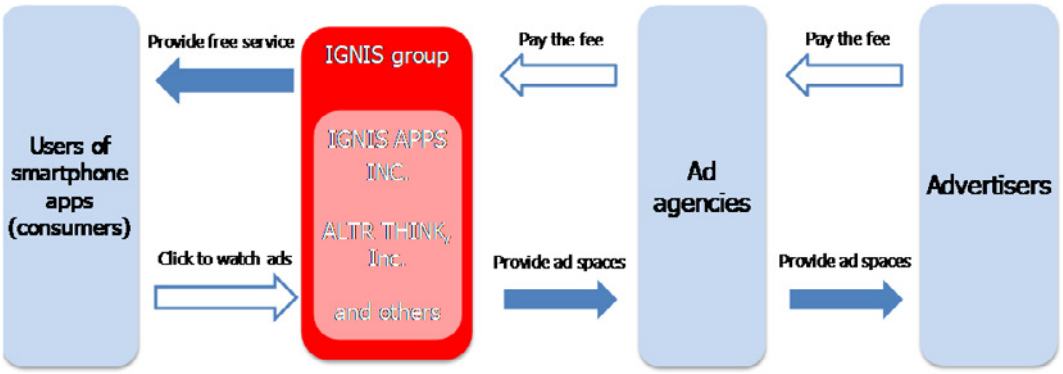
Because "BOKU & DRAGONS" is an online game played with other users and in teams, many players spend a great deal of time on it. Although users who make few purchases play infrequently, those who pay for added skills tend to remain in the game for a long time. As such, the ratio of fee-paying users to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

Business model: ②Advertising 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

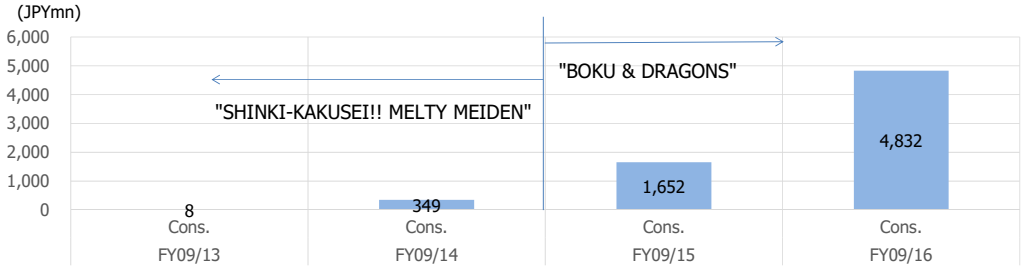
Native Games segment revenues

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

Business model of media business

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.

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 a permit to operate a new recruitment agency business and has established "U-NOTE.CAREER" job-change media to propel that business in earnest.

Cost structure

Consolidated cost structure

Consolidated cost structure (JPYmn)	FY09/13 Cons.	FY09/14 Cons.	FY09/15 Cons.	FY09/16 Cons.	FY09/17 Cons.
Revenues	**875**	**2,048**	**2,419**	**5,586**	**5,578**
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
Operating profit	308	562	-38	1,474	84
% of revenues					
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%
OPM	35.3%	27.4%	-1.6%	26.4%	1.5%

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.

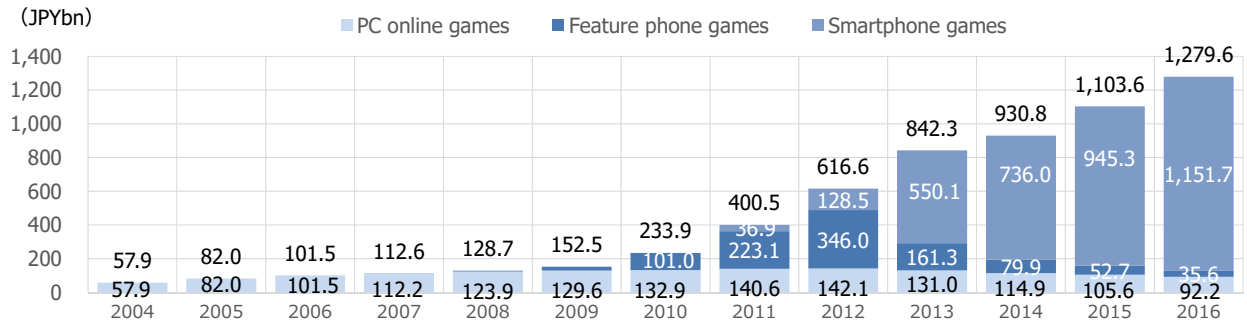
Market and value chain

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 or not 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 a 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.

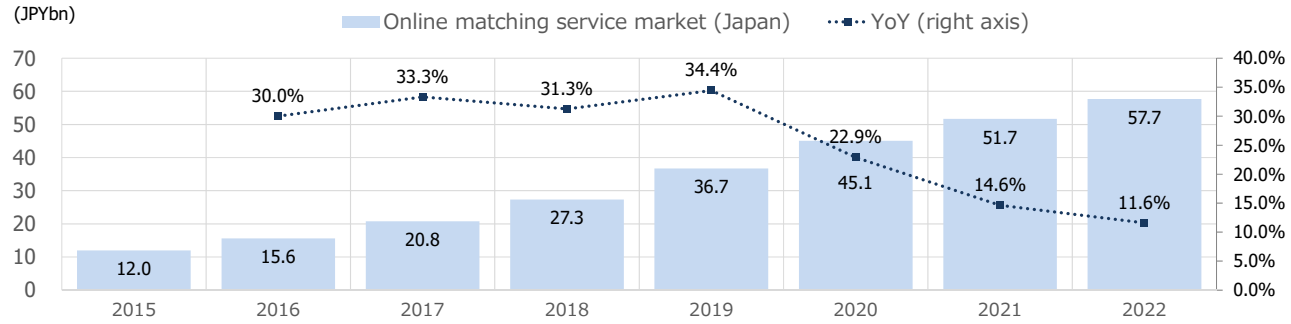
In 2012 the Consumer Affairs Agency issued a warning about the complete gacha framework. A social game platform liaison council made up of six platform operators drew up the Complete Gacha Guidelines, setting end June 2012 as the deadline for abolishing this type of model.

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

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.

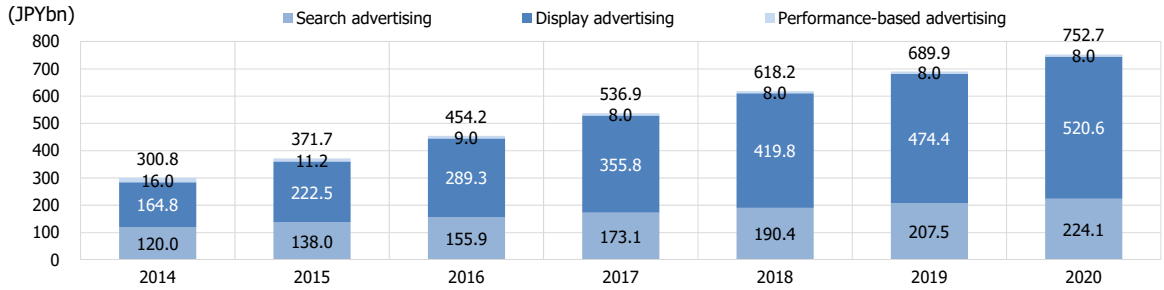
In Japan, according to IGNIS, the reluctance to meet people of the opposite gender online is waning, particularly among the younger generation, and it anticipates growth in the market for matchmaking services.

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 (TSE JASDAQ: 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 (TSE JASDAQ: 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."

Similar listed companies and competitors

Comparison of key financial data (JPYmn)	FY2012–2013	FY2013–2014	FY2014–2015	FY2015–2016	FY2016–2017	FY2017–2018
IGNIS (3689)	**FY09/13 Cons.**	**FY09/14 Cons.**	**FY09/15 Cons.**	**FY09/16 Cons.**	**FY09/17 Cons.**	**FY09/18 Est.**
Revenues	875	2,048	2,419	5,586	5,578	7,000
YoY	-	134.1%	18.1%	130.9%	-0.1%	25.5%
Community	-	-	-	136	848	
YoY	-	-	-	-	521.3%	
Native Games	-	-	-	5,048	4,247	
YoY	-	-	-	-	-15.9%	
Media (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	
Ateam (3662)	**FY07/13 Cons.**	**FY07/14 Cons.**	**FY07/15 Cons.**	**FY07/16 Cons.**	**FY07/17 Cons.**	**FY07/18 Est.**
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	
CyberAgent (4751)	**FY09/13 Cons.**	**FY09/14 Cons.**	**FY09/15 Cons.**	**FY09/16 Cons.**	**FY09/17 Cons.**	**FY09/18 Est.**
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.
- **Tendency 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.
Revenues	**875**	**2,048**	**2,419**	**5,586**	**5,578**
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%
Gross profit	**527**	**1,433**	**1,741**	**4,675**	**4,480**
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%
Operating profit	**308**	**562**	**-38**	**1,474**	**84**
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
Recurring profit	**307**	**545**	**-149**	**1,465**	**71**
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
Net income attributable to parent company shareholders	**201**	**310**	**-307**	**1,088**	**-36**
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.

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

- ▷ Revenues JPY5.6bn (-0.1% YoY)
- ▷ Operating profit JPY84mn (-94.3%)
- ▷ Recurring profit JPY71mn (-95.1%)
- ▷ Net loss* JPY36mn (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*[1] "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 eying 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*[1] "BOKU & DRAGONS" became subject to consumption tax*[2] 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.

*[1]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.

*[2]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

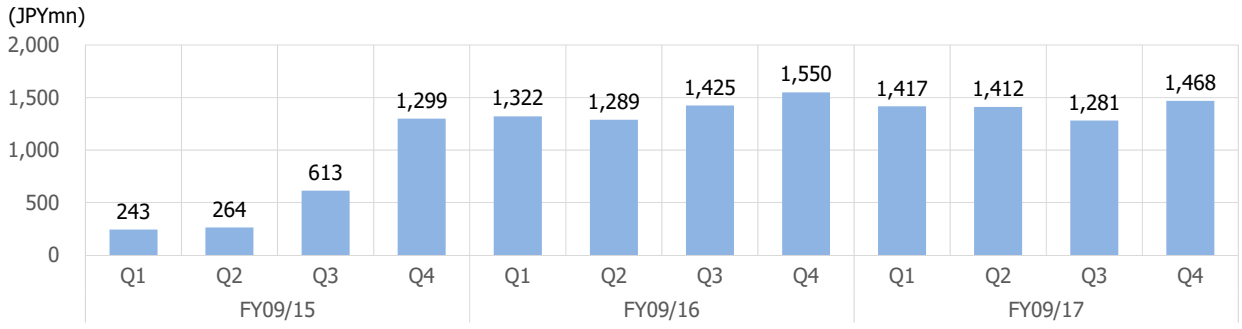
Revenues in the Native Games segment were JPY4.2bn (-15.9% YoY). "BOKU & DRAGONS" continued to perform steadily. The company continued to operate the game as a stable earnings platform, holding second anniversary and seasonal events and popular content collaborations, and incorporating additional features. 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

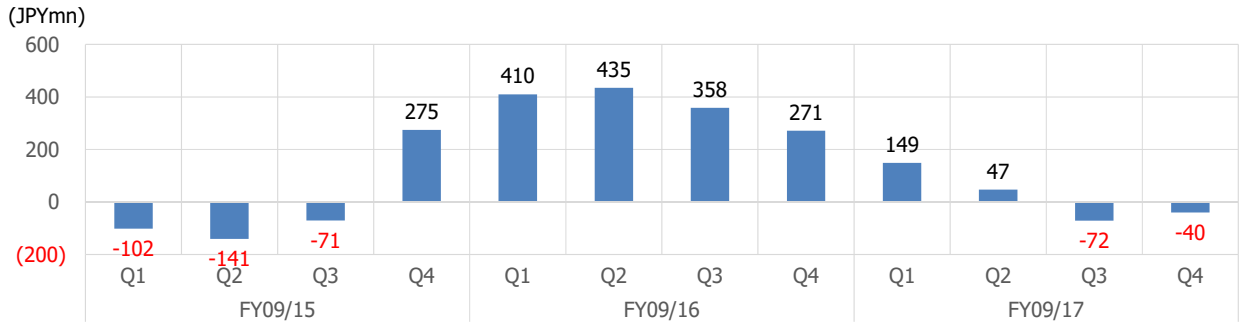
Revenues in the Other segment were JPY482mn (+20.2%). The segment comprises business person-oriented media "U-NOTE" and services that do not fit any of the other genres. IGNIS is working to develop new media to expand the media business base and aims for reciprocal referrals of "U-NOTE" users with the 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



Source: Shared Research based on company data

Quarterly operating profit



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.

Q3 FY09/17 results (out August 10, 2017)

- ▷ Revenues JPY4.1bn (+1.8% YoY)
- ▷ Operating profit JPY124mn (-89.7%)
- ▷ Recurring profit JPY113mn (-90.6%)
- ▷ Net income* JPY11mn (-98.9%)

*Net income attributable to parent company shareholders

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

Progress versus forecasts

In cumulative Q3 FY09/17, revenues reached 68.5% of IGNIS' full-year forecast (72.2% in Q3 FY09/16). According to the company, revenues were largely in line with expectations.

YoY comparisons

In cumulative Q3 FY09/17, revenues were JPY4.1bn (+1.8% YoY). Operating profit was JPY124mn (-89.7%). Revenues grew 1.8% YoY, with sharp growth of the Community segment compensating for the decline in the mainstay Native Social Games segment. Operating profit fell 89.7% YoY as cost of revenues and SG&A expenses increased as a result of aggressive business investment along with increased R&D spending with the aim of developing and launching new products and new businesses.

Revenues

Community segment

Revenues in the Community segment increased sharply to JPY557mn (+826.0% YoY) from JPY60mn in cumulative Q3 FY09/16. Download numbers (memberships) of the "with" matchmaking service are growing due to aggressive upfront promotional spending. IGNIS optimizes its matchmaking service using pop psychology to distinguish it from other companies' similar offerings.

Native Games segment

Revenues in the Native Games*[1] segment were JPY3.2bn (-12.2% YoY). The main factors leading to lower revenues were the effect of subsidiaries converting to entities subject to consumption taxes*[2] and the slump of "BOKU & DRAGONS" in May and June, due in part to the release of rivals' new titles. The company plans to maintain the game as a stable earnings platform via events and popular content collaborations and incorporating additional features. The company noted that on top of the new release of rival titles, some content collaborations were not as effective as expected. Trends started to improve slightly in July, which the company aims to boost by collaborations with popular IP in Q4. Additionally, "LINE Daifugo" released by IGNIS in April 2017 has reached downloads of over 1mn.

Other segment

Revenues of the Other segment were JPY304mn (+10.3% YoY).

In addition to the three existing businesses, IGNIS is also proactively expanding its platform in other areas, and is aggressively investing in IoT and VR services as longer-term growth areas, while simultaneously developing new products.

(JPYmn)	Cumulative Q3 FY09/16	Cumulative Q3 FY09/17	YoY	Factors affecting changes
Revenues	4,035	4,110	1.8%	Community segment ("with") mainly contributed to revenue growth
Community	60	557	826.0%	Increased membership
Native Games	3,698	3,247	-12.2%	Impact of consumption tax and sluggish growth of new user numbers
Other	276	304	10.3%	Contribution of media business "U-NOTE"
Operating profit	1,203	124	-89.7%	Profit decline on upfront spending in R&D and advertising
OPM	29.8%	3.0%	-	

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

*[1] 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.

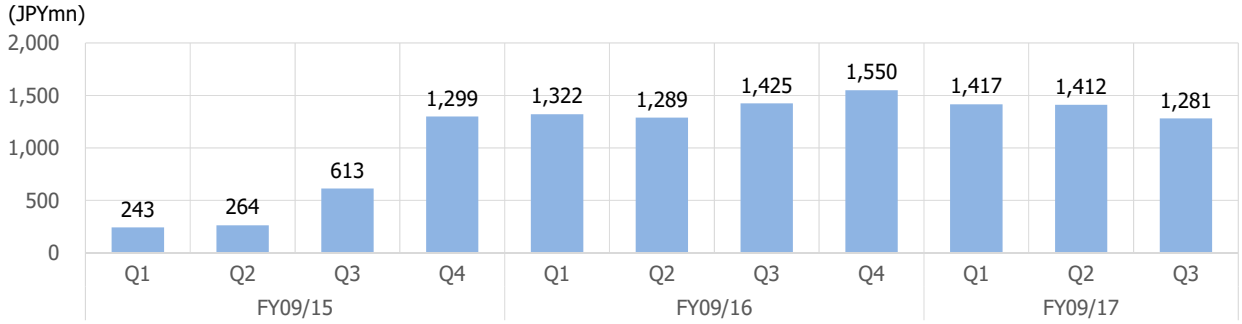
*[2] Subsidiaries becoming subject to consumption tax: In FY09/16, IGNIS' consumption tax-exempt subsidiaries (mainly native game companies) booked amounts equivalent to consumption tax (around JPY100mn) under revenues. Since these entities became subject to consumption tax as of FY09/17, their revenues no longer include the amounts equivalent to consumption tax.

Operating profit

In cumulative Q3 FY09/17, operating profit was JPY124mn (-89.7 YoY). Cost of revenues rose 20.4% YoY and SG&A expenses 46.7% as a result of aggressive upfront spending. The increases were mainly in R&D expenses for developing and launching new products (JPY294mn in cumulative Q3 FY09/17 versus JPY11mn in cumulative Q3 FY09/16), advertising expenses mainly for online matchmaking service "with" (+68.4%), personnel expenses (+10.7%), and rent (+28.4%). Platform commission fees* slightly rose (+1.7%) due to growing revenues from "BOKU & DRAGONS" and "with."

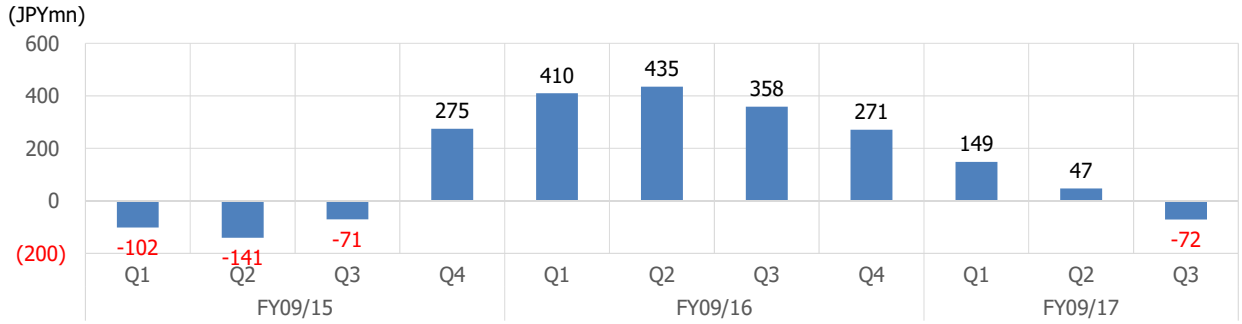
*Platform commission fees: Commissions paid by a game operator to game distributors such as Apple's App Store and Google's Google Play for their billing services.

Quarterly revenues



Source: Shared Research based on company data

Quarterly operating profit



Source: Shared Research based on company data

QoQ comparisons

In Q3 FY09/17 (April–June 2017), revenues were down 9.3% from Q2 FY09/17 (January– March 2017). While revenues rose in the Community segment on solid growth in the "with" matchmaking service, operating profit fell due to aggressive investment.

(JPYmn)	Q2 FY09/17	Q3 FY09/17	QoQ	Factors affecting changes
Revenues	1,412	1,281	-9.3%	
Community	200	220	10.2%	Increased membership
Native Games	1,131	947	-16.3%	Effect of consumption tax and sluggish growth of new user numbers
Other	80	111	38.5%	
Operating profit	47	-72	-	Profit decline due to lower Native Games revenues and increased SG&A expenses
OPM	3.3%	-5.5%	-	

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

QoQ comparisons by segment

Community segment: JPY220mn (+10.2% QoQ)

In the Community segment, the number of subscribers to online matchmaking service "with" (for users of iOS and Android) rose and contributed to revenue growth. The service had around 400,000 members at end-March 2017, increasing to 500,000 at end-June 2017.

IGNIS aggressively increased membership by improving the quality of its matchmaking service by the addition of its "ultra personality analysis" feature in January 2017, which provides a detailed analysis of the personalities of men and women. The company also stepped up advertising in social media such as Facebook and on outdoor video screens. According to App Annie, "with" consistently ranks among the top 20 in the iOS social media rankings in Japan.

Native Games segment: JPY947mn (-16.3% QoQ)

The Native Games segment posted a QoQ revenue decline due to aforementioned factors.

"BOKU & DRAGONS"

For mainstay title "BOKU & DRAGONS," IGNIS collaborated with popular content.

The company ran a campaign in collaboration with FAIRY TAIL – DRAGON CRY (Theater version) *(FAIRY TAIL* is a comic by Hiro Mashima, which has been serialized in the *WEEKLY SHONEN MAGAZINE* since 2006) from April 10–23, 2017. Another campaign ran from June 14–27, 2017 in collaboration with *THE KING OF FIGHTERS '98* (one of the *KING OF FIGHTERS* series that was popular in the 1990s, when fighting games were a big hit in game arcades around the country). The company is continuing measures to revitalize its content.

Casual game "LINE Daifugo"

On April 20, 2017, the company began providing "LINE Daifugo," a casual game that runs on the gaming platform of LINE Corporation's (TSE: 3938) communication app LINE. The game is an online version of the classic Japanese card game *Daifugo*. It recorded a total of 1mn downloads as of end-May 2017.

New titles

The company has reinforced its team for a new 3D action game (codename: GK; release timing unconfirmed) and is continuing to focus on improving game development quality.

Other segment: JPY111mn (+38.5% QoQ)

Revenues of the Other segment (mainly "U-NOTE," a media service for business people) increased QoQ.

Aside from the three existing businesses, the company started aggressively investing in new IoT and VR businesses with a view to growth in the longer term.

Business partnership between subsidiary Pulse and Cluster

In May 2017, the company announced 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 for meetings, to watch videos, participate in events, and share live experiences. The timing of the release of VR content by Pulse and Cluster is yet to be determined, according to IGNIS. However, the company said that it would prepare for the project with a long-term perspective. The service provided by Cluster holds promise of new VR experiences.

Equity-method loss: JPY1mn (versus JPY4mn profit in previous quarter)

Equity-method profit in the previous quarter turned to a loss in Q3. The company's equity-method affiliate Robit sold over 30,000 units of the smartphone-operated wake-up curtain controlling device "mornin'" since its release in July 2016 up to end-July 2017, as Robit worked to expand revenue channels. Revenues from "mornin'" remain strong.

1H FY09/17 results (out May 12, 2017)

Profits drop on aggressive investment

- ▷ Revenues JPY2.8bn (+8.3% YoY)
- ▷ Operating profit JPY196mn (-76.8%)
- ▷ Recurring profit JPY185mn (-78.0%)
- ▷ Net income* JPY92mn (-89.7%)

*Net income attributable to parent company shareholders

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

Progress versus forecasts

Revenues reached 47.1% of IGNIS' full-year forecast (46.7% in 1H FY09/16), largely in line with company expectations.

YoY comparisons

Revenues

In 1H FY09/17, revenues were JPY2.8bn (+8.3% YoY). The Native Game segment saw a JPY111mn YoY decline in revenues, but the Community segment had a JPY301mn increase because of a rise in the number of paying subscribers of an online matchmaking service, "with." As for the Native Game segment, revenues rose marginally excluding the impact of subsidiaries becoming subject to consumption tax**.

*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 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.

(JPYmn)	1H FY09/16	1H FY09/17	YoY change	Factors affecting changes
Revenues	2,611	2,829	218	Community segment ("with") mainly contributed to revenue growth
Community	36	336	301	Increased membership
Native Games	2,411	2,300	-111	Minor revenue growth adjusted for consumption tax effect
Other	164	193	29	Revenue growth, mainly of media business "U-NOTE"
Gross profit	2,203	2,346	143	Profit growth due to revenue growth effect of Community

				segment and others
Operating profit	845	196	-649	Profit decline on forward investment in R&D and advertising
OPM	32.3%	6.9%	-	

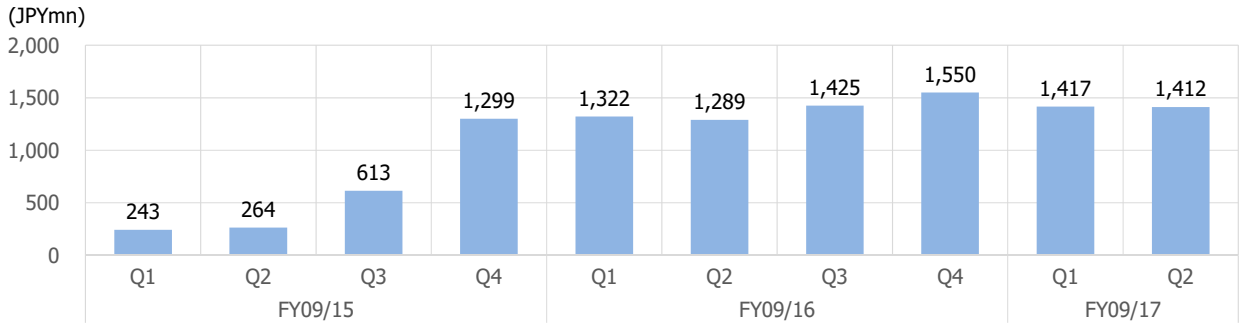
Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Operating profit

1H operating profit was JPY196mn (-JPY649mn YoY) in FY09/17. While gross profit rose by JPY143mn YoY, operating profit fell as SG&A expenses rose by JPY792mn due to aggressive spending. Advertising expenses were up by JPY357mn, primarily to promote the "with" online matchmaking service. R&D expenses rose by JPY196mn due to spending on new titles and new businesses. Platform commission fees* rose by JPY75mn due to growing revenues from "BOKU & DRAGONS" and "with."

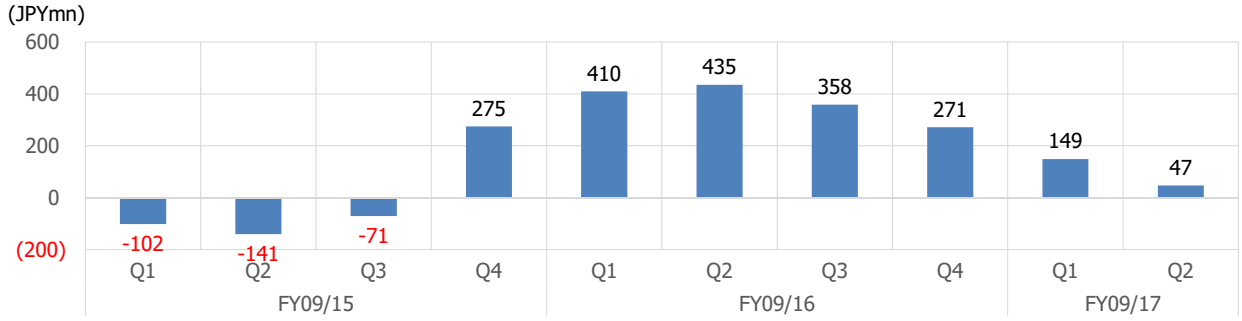
*Platform commission fees: Commissions paid by a game operator to game distributors such as Apple's App Store and Google's Google Play for their billing services.

Quarterly revenues



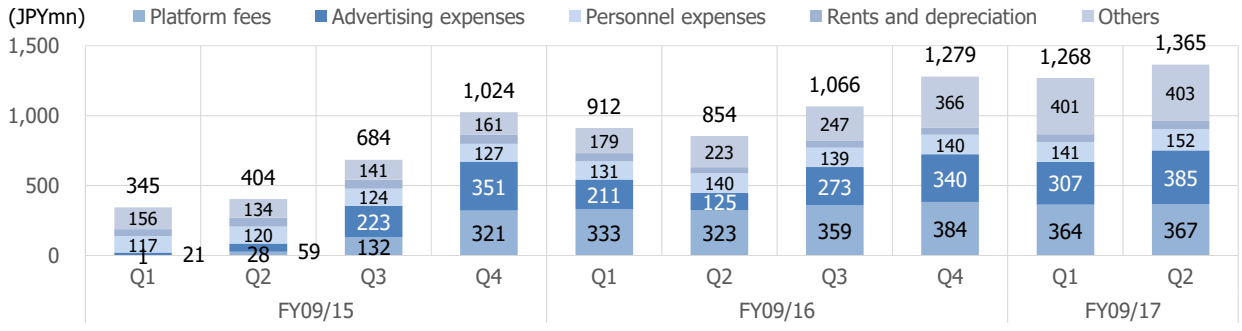
Source: Shared Research based on company data

Quarterly operating profit



Source: Shared Research based on company data

Quarterly expenses



Source: Shared Research based on company data

QoQ comparisons

In Q2 FY09/17 (January–March 2017), revenues were almost unchanged from Q1 FY09/17 (October–December 2016). While revenues rose in the Community segment, they fell in the Native Games segment and in the Other segment. Operating profit fell due to an increase in advertising expenses.

(JPYmn)	Q1 FY09/16	Q2 FY09/17	QoQ	Factors affecting changes
Revenues	1,417	1,412	-5	
Community	136	200	64	Increased membership
Native Games	1,168	1,131	-37	Marginal revenue decline due to seasonal and other factors
Other	112	81	-32	Revenue decline, mainly of media business "U-NOTE"
Gross profit	1,172	1,174	3	
Operating profit	149	47	-102	Profit decline due to lower Native Games revenues and increased SG&A expenses
OPM	10.5%	3.3%	-	

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

QoQ comparisons by segment

Community segment: JPY200mn (+47.4% QoQ)

In the Community segment, the number of subscribers to online matchmaking service "with" rose and contributed to revenue growth. The service had less than 300,000 members at end-December 2016, increasing to around 400,000 members at end-March 2017. The company started charging new members joining in the Christmas 2016 season, which made a significant contribution to revenue growth.

IGNIS aggressively increased membership by improving the quality of its matchmaking service by the addition of its "ultra personality analysis" feature in January 2017, which provides a detailed analysis of the personalities of men and women. The company also stepped up advertising in social media such as Facebook and on outdoor video screens.

Native Games segment: JPY1.1bn (-3.2% QoQ)

The Native Games segment posted a QoQ revenue decline due to seasonal and other factors.

"BOKU & DRAGONS"

For mainstay title "BOKU & DRAGONS," IGNIS hosted second-year anniversary campaigns and seasonal events, and collaborated with popular content.

The company held two second-year anniversary campaigns from 20–27 February and 12–23 March, 2017. The February campaign contributed the game's sales ranking in the App Store climb to fourth on February 21, 2017. A collaboration between "BOKU & DRAGONS" and popular content *Sengoku Enbu – Kizna* (a smartphone card game set in the Warring States era in Japanese history) ran from 20–26 March. As a result, total "BOKU & DRAGONS" downloads topped 3.3mn as of March 2017.

In Q3, the company plans to continue measures to revitalize its content, including a campaign in collaboration with the movie FAIRY TAIL – DRAGON CRY (*FAIRY TAIL* is a comic by Hiro Mashima, which has been serialized in the *WEEKLY SHONEN MAGAZINE* since 2006) from April 10–23, 2017.

Casual game "LINE Daifugo"

On April 20, 2017, the company began providing "LINE Daifugo," a casual game that runs on the gaming platform of LINE Corporation's (TSE: 3938) communication app LINE. The game is an online version of the classic Japanese card game *Daifugo*. It recorded a total of 770,000 downloads as of May 15, 2017.

New titles

The company has reinforced its team for its new 3D action game (codename: GK; release timing unconfirmed) and is continuing to focus on improving quality in game development.

Other segment: JPY81mn (-28.1% QoQ)

Revenues of the Other segment (mainly "U-NOTE", a service for business people) declined QoQ. The company started aggressively investing in new IoT and VR businesses in Q1 FY09/17 with a view to growth in the longer term.

Business partnership between subsidiary Pulse and Cluster

In May 2017, the company announced 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 for meetings, to watch videos, participate in events, and share live experiences. 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. The service provided by Cluster holds promise of new VR experiences.

Equity-method profit: JPY4mn (versus JPY3mn loss in previous quarter)

Equity-method profit/loss improved from a loss in Q1 to a profit in Q2. As of April 2017, sales volume of the smartphone-operated wake-up curtain controlling device "mornin'" provided by equity-method affiliate Robit totaled more than 20,000 units since its launch in July 2016 due to sales route expansion, and is continuing to grow.

FY09/16 results (out November 11, 2016)

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

*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 (OP of JPY562mn in FY09/14)
- ▷ Recurring loss JPY149mn (RP 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.

FY09/14 results

- ▷ Revenues JPY2.0bn (2.3x YoY)
- ▷ Operating profit JPY562mn (+82.1%)
- ▷ Recurring profit JPY545mn (+77.3%)
- ▷ Net income JPY310mn (+54.4%)

Revenues in the Free Native Apps segment grew by JPY575mn YoY to JPY1.4bn and those in free hybrid apps were JPY256mn (nil in FY09/13), and up JPY341mn in Native Social Games to JPY349mn. Monthly active users (number of users that use the app once or more a month) in Free Native Apps surpassed 7.7mn as development lines were bolstered to grow advertising revenue. A number of comic apps were provided in the free hybrid apps business. The main contributor to earnings in the Native Social Games segment was "Shinki-Kakusei!! Melty Maiden" (released on November 11, 2013, and sold on September 30, 2014, to Mynet). The main driver of operating profit growth was higher revenues.

Historical forecast accuracy

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

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.
Current assets	**369**	**1,891**	**1,050**	**3,086**	**4,737**
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
Fixed assets	149	248	917	1,246	1,555
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
Total assets	**519**	**2,140**	**1,967**	**4,333**	**6,292**
Current liabilities	**312**	**543**	**609**	**1,390**	**1,396**
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
Fixed liabilities	**54**	**13**	**120**	**445**	**760**
Long-term debt	41	-	15	340	617
Others	13	13	105	105	144
Total liabilities	**365**	**556**	**729**	**1,835**	**2,156**
Net assets	**153**	**1,584**	**1,238**	**2,498**	**4,135**
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
Total capital and liabilities	**519**	**2,140**	**1,967**	**4,333**	**6,292**
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.
Cash flows from operating activities	230	94	-64	1,351	-1,931
Cash flows from investing activities	-79	-102	-777	-123	-666
Free cash flow	151	-9	-842	1,228	-2,596
Cash flows from financing activities	-19	1,047	87	497	2,594
Net income attributable to parent company shareh	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
Cash and cash equivalents (year end)	**155**	**1,204**	**452**	**2,170**	**2,173**

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 a consolidated subsidiary) 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
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.

Source: Shared Research based on company data

News and topics

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 September 30, 2017)

Top shareholders	Number of shares held	Amount held (%)
Qian Kun	1,983,300	29.57
Takaaki Suzuki	1,983,300	29.57
Akihiko Yamamoto	108,700	1.62
Rie Yamada	96,100	1.43
Yusuke Sato	76,000	1.13
Yasuyuki Kashiwaya	59,500	0.88
Japan Trustee Services Bank, Ltd (Trust account)	33,000	0.49
Trust & Custody Services Bank, Ltd. (Securities investment trust account)	30,000	0.44
Shingo Watanabe	30,000	0.44
Nomura International Plc London Security Lending	25,500	0.38
Total number of shares issued	6,706,100	100.00

Source: Shared Research based on company data

Main group companies (as of September 30, 2017)

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

Source: Shared Research based on company data

Profile

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

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

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

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

Disclaimer: This document is provided for informational purposes only. No investment opinion or advice is provided, intended, or solicited. Shared Research Inc. offers no warranty, either expressed or implied, regarding the veracity of data or interpretations of data included in this report. We shall not be held responsible for any damage caused by the use of this report. The copyright of this report and the rights regarding the creation and exploitation of the derivative work of this and other Shared Research Reports belong to Shared Research. This report may be reproduced or modified for personal use; distribution, transfer, or other uses of this report are strictly prohibited and a violation of the copyright of this report. Our officers and employees may currently, or in the future, have a position in securities of the companies mentioned in this report, which may affect this report's objectivity.

Japanese Financial Instruments and Exchange Law (FIEL) Disclaimer: The report has been prepared by Shared Research under a contract with the company described in this report ("the company"). Opinions and views presented are ours where so stated. Such opinions and views attributed to the company are interpretations made by Shared Research. We represent that if this report is deemed to include an opinion by us that could influence investment decisions in the company, such opinion may be in exchange for consideration or promise of consideration from the company to Shared Research.

Contact Details
Shared Research Inc.
3-31-12 Sendagi Bunkyo-ku Tokyo, Japan
URL: https://sharedresearch.jp
Phone: +81 (0)3 5834-8787
Email: info@sharedresearch.jp