

**Q 2 , F Y 2 0 1 6**  
From July 2016 to September 2016

# **Financial Results**



**UNITED**

**United, Inc.**  
(TSE Mothers, code 2497)  
October 31, 2016

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# Our vision & mission

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## **Vision**

Become the leading internet firm in Japan



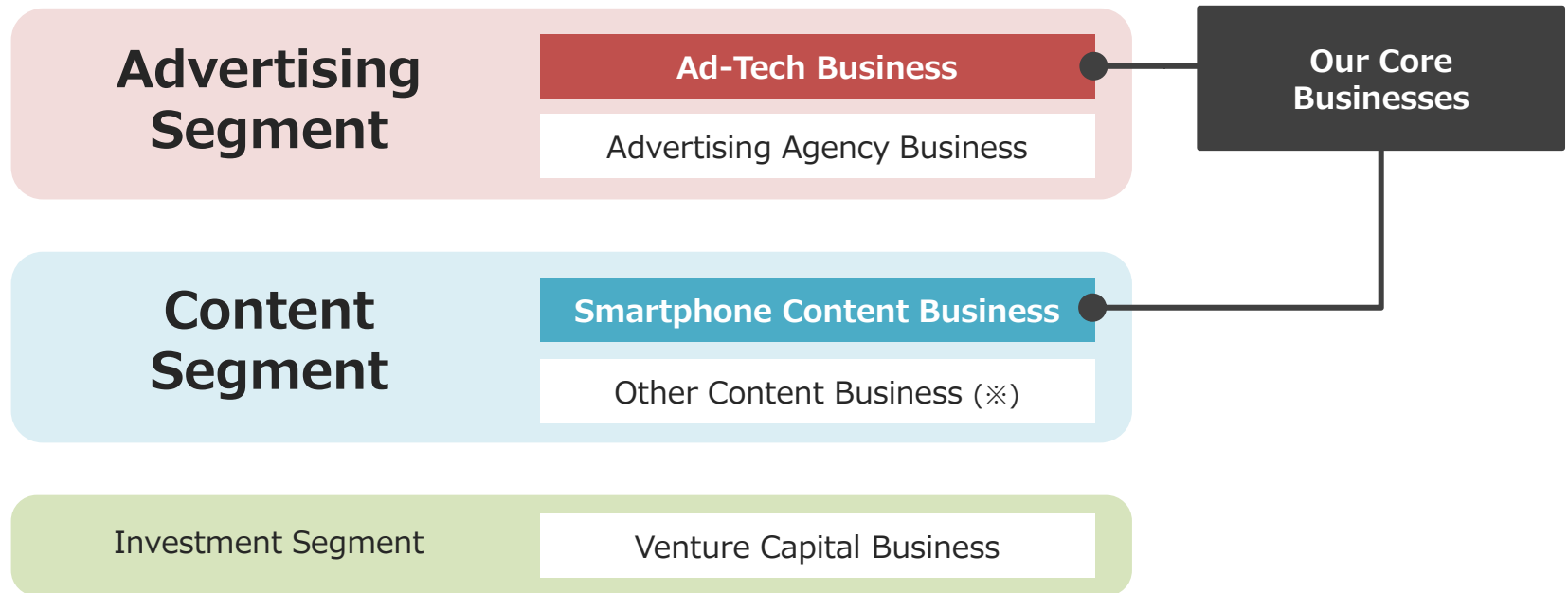
## **Mission**

Create new value through continued challenges and contribute to society

# Our Core Businesses

Focusing on **Ad-Tech Business** and **Smartphone Content Business** in markets which are expected to grow

Striving to actively invest in those businesses and nurture new businesses



※ Including online programming courses, e-mail advertising, sports marketing etc.

# 1. Financial Highlight

# Financial Highlights for H1 FY2016 (Six Months Ended Sept. 30, 2016)

Overall

## Consolidated Financial Results

**Sales** **¥ 6,476 million** (+27% YoY)  
**Operating Income** **¥ 55 million** (-95% YoY)

- **Operating Income: Achieved profit, although loss was budgeted**  
All segments, namely Advertising, Content and Investment Segments, performed better than planned
- **Increased sales but fall in operating income year on year**  
(see details on page 7)

Core  
Businesses

## Ad-Tech Business

- **Sales: ¥3,256 million** (+84% YoY)

Both "Bypass," a DSP and "AdStir," a SSP grew

Continued to improve gross margin, which returned to the level before the up-front investment in Q3 FY2015

## Smartphone Content Business

- **Sales: ¥1,805 million** (+153% YoY)

"Crash Fever," a social game app and "SMART GAME," a platform service related to in-app purchases in iOS led to sales growth

"CocoPPa Play," an avatar app, also contributed to rise in sales

# Consolidated P/L Statement H1 FY2016 (Six Months Ended Sept. 30, 2016)

Increase in sales (+27% YoY) however drop in operating income (-95% YoY)

Advertising Segment: Increase in both sales and operating income. Continue to grow

Content Segment: Rise in sales but fall in operating income. Plan to move to payback period in H2 FY2016

Investment Segment: Decrease in both sales and operating income. Significant amount of gain on sales of shares in H1 FY2015

(million yen)

	FY2016 H1	FY2015 H1	YoY %
<b>Sales</b>	<b>6,476</b>	<b>5,084</b>	<b>+27%</b>
Advertising Segment	3,815	2,451	+56%
Content Segment	2,520	1,263	+99%
Investment Segment	229	1,404	-84%
Adjustments	-89	-35	-
<b>Gross Profit</b>	<b>1,206</b>	<b>2,114</b>	<b>-43%</b>
Advertising Segment	761	537	+42%
Content Segment	254	204	+24%
Investment Segment	190	1,372	-86%
Adjustments	-0	-0	-
<b>Selling, General &amp; Administrative</b>	<b>1,150</b>	<b>992</b>	<b>+16%</b>
<b>Operating Income</b>	<b>55</b>	<b>1,121</b>	<b>-95%</b>
Advertising Segment	442	260	+70%
Content Segment	-253	-215	-
Investment Segment	161	1,342	-88%
Headquarter Expense	-294	-266	-
<b>Ordinary Income</b>	<b>104</b>	<b>1,245</b>	<b>-92%</b>
<b>Net Income attributable to owners of parents</b>	<b>-60</b>	<b>1,036</b>	<b>-</b>
Extraordinary profit and loss	-68	40	-
Taxes etc.	-95	-250	-

Loss on valuation of investment securities, etc.

# Segment Sales and Operating Income (YoY)

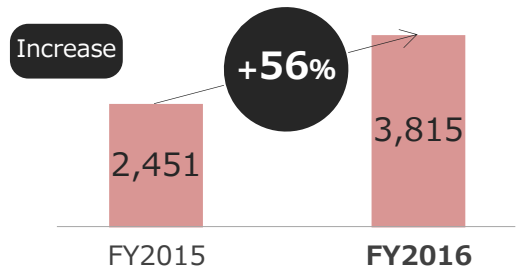
In FY2015, we invested cash generated from Investment Segment into Core Businesses  
 In FY2016, Core Businesses, which have grown more than expected, have become major contributors of operating income(Content business will move to the payback period)

## Sales

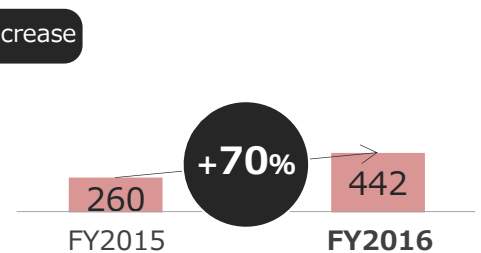
## Operating Income

(million yen)

Advertising Segment

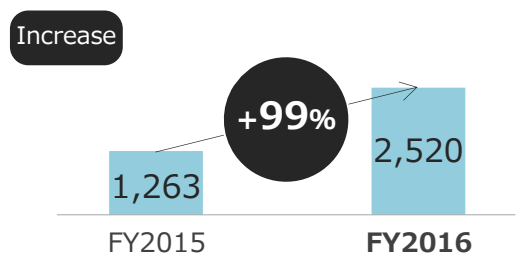


Increase

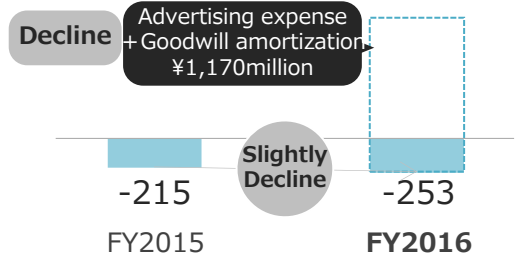


Both "Bypass," a DSP and "AdStir," a SSP grew  
 Continued to improve gross margin

Content Segment

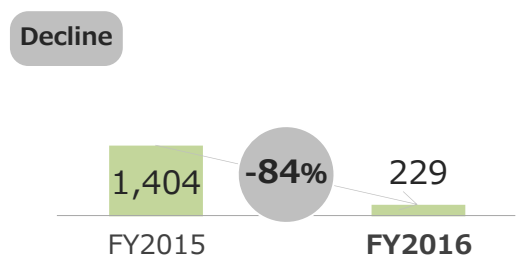


Decline

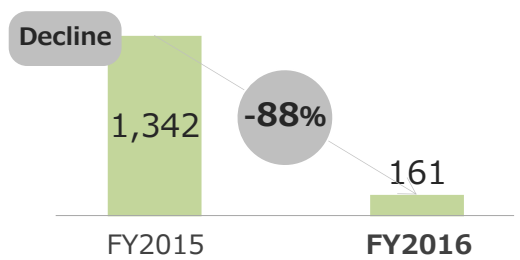


"Crash Fever," and "SMART GAME," led to sales growth  
 Slightly enlarged deficit in operating income for Advertising expense (About ¥1,100million) & Goodwill amortization(\*) (About ¥70million) (Plan to recovery in the H2 FY2016)

Investment Segment



Decline



Gain on sales of shares related to IPO of Fujisan Magazine Service Co.,Ltd., our investing company, etc. affected sales, gross profit and operating income in H1 FY2015

(※) Amortization related to KIRAMEX CORPORATION and Smarprise, Inc., which became consolidated companies as at the end of March 2016

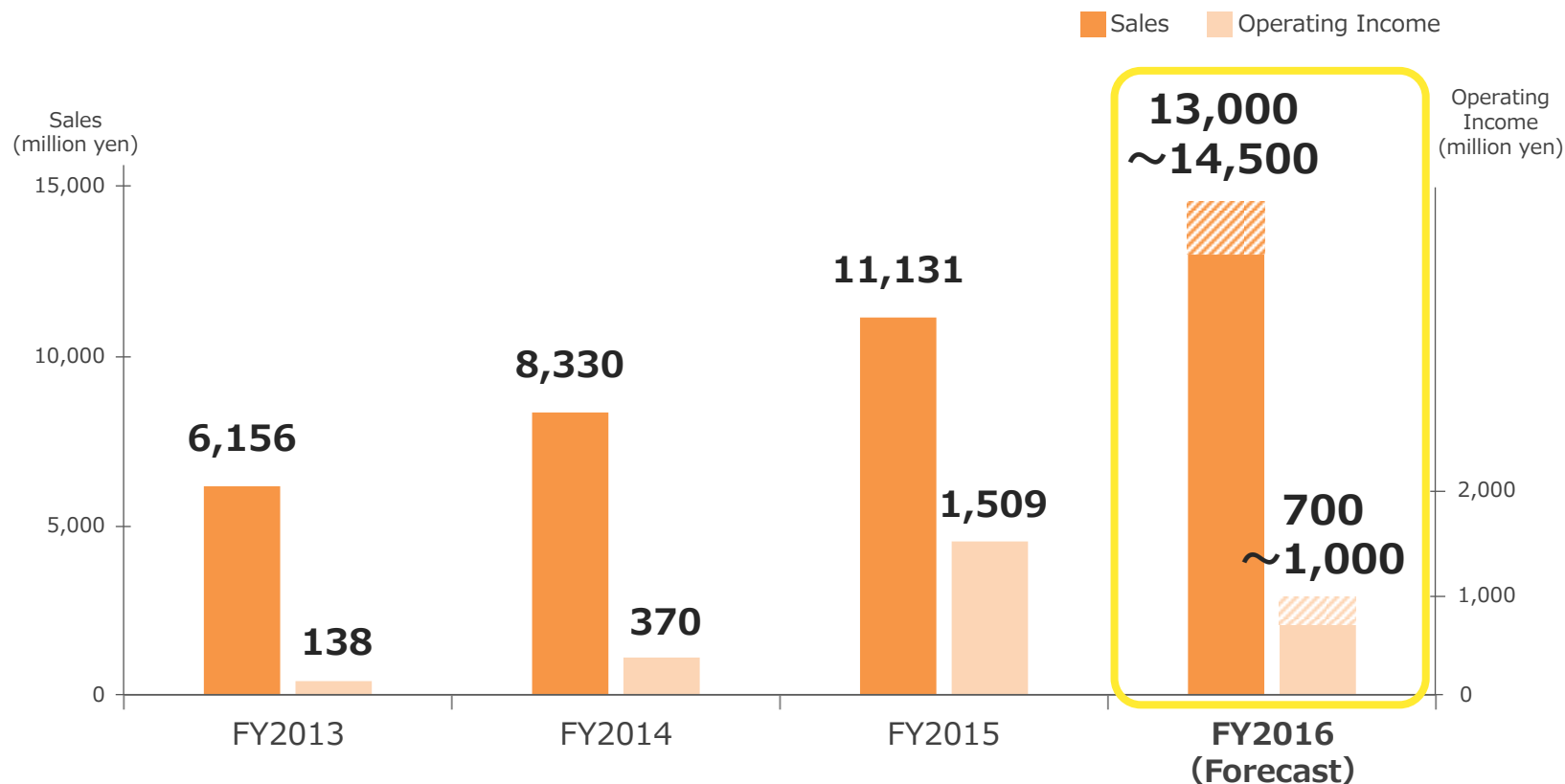


# Financial Forecast for FY2016

Financial Forecast for FY2016 (April 2016-March 2017)

- **Sales: ¥13,000 million~¥14,500 million(+17%~+30% YoY)**
- **Operating Income: ¥700 million~¥1,000 million(-54%~-34% YoY)**

## Trend and Forecast of Sales and Operating Income



# Segment Forecast for FY2016

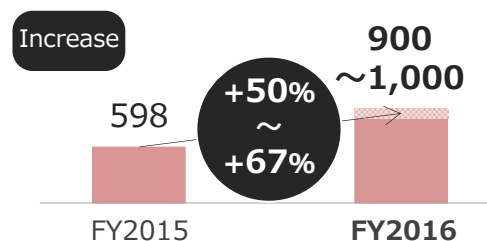
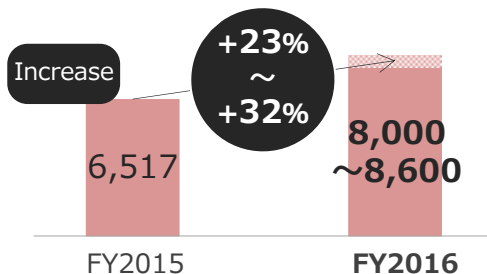
Advertising and Content Segment will increase sales and operating income by the growth of core businesses and have become major contributors of operating income

## Sales

## Operating Income

(million yen)

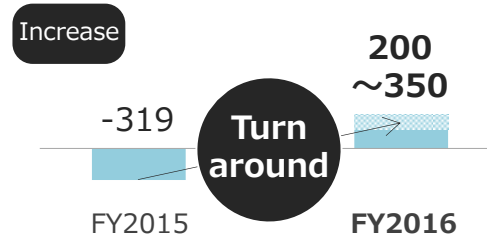
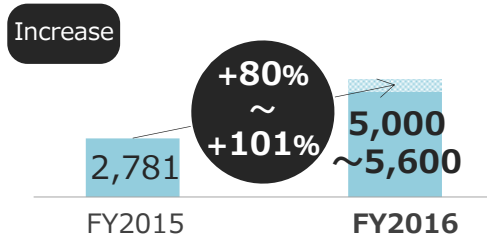
Advertising Segment



DSP and SSP will grow more than decline caused by Agency business withdrawal(※)

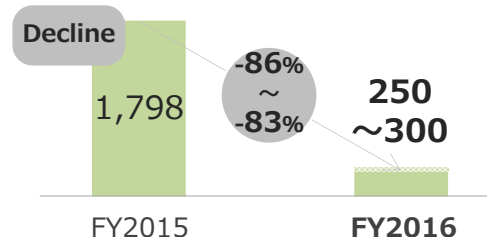
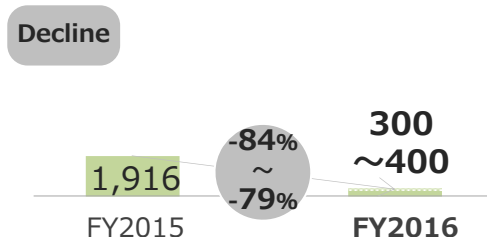
※Agency business FY2015  
Sales : ¥2,717million  
Operating income : ¥152million

Content Segment



“Crash Fever” will move to the payback period in H2 FY2016

Investment Segment



Gain on sales of shares related to IPO of Fujisan Magazine Service Co.,Ltd., our investing company, etc. affected sales, gross profit and operating income in FY2015

Other

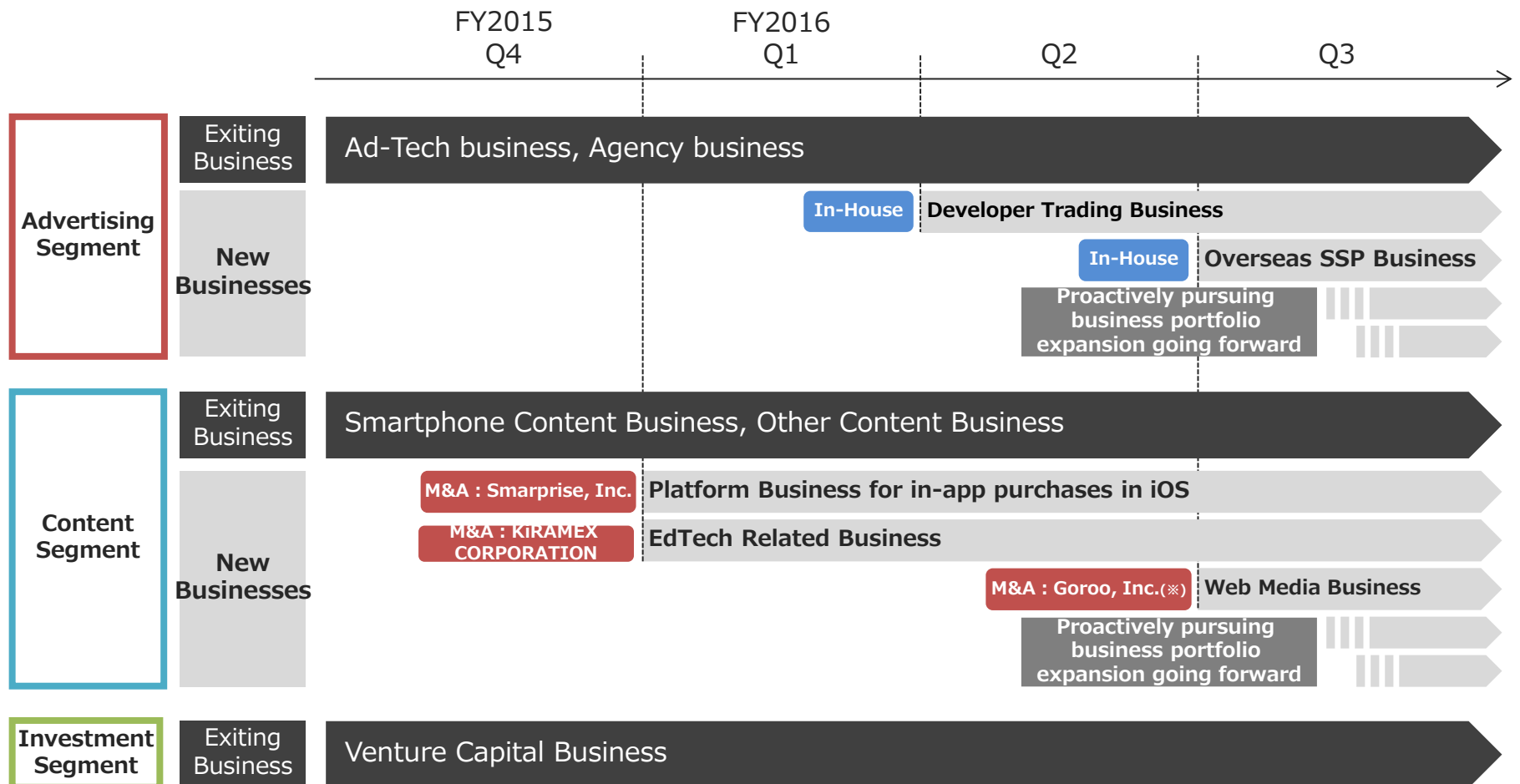
<Adjustments>  
FY2015 : -84 → FY2016 : -300~-100

<Headquarter Expense>  
FY2015 : -568 → FY2016 : -650

# Action for further growth

In addition to existing businesses, expanding business portfolio in order to nurture several new profitable business pillars. Aiming for further future sales and profit growth

## Expansion of Business Portfolio



(※) See the details in the release regarding "acquiring shares of Goroo, Inc." on September 29, 2016.

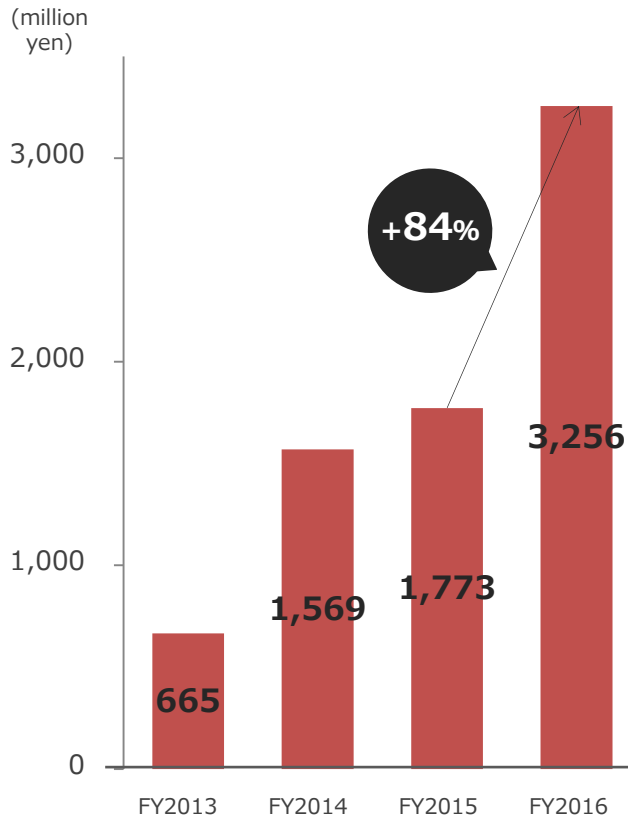
## **2. Ad-Tech Business**

# Ad-Tech Business: Sales Trend

**Trend for H1 (Six Months Ended Sept. 30): : +84% YoY**

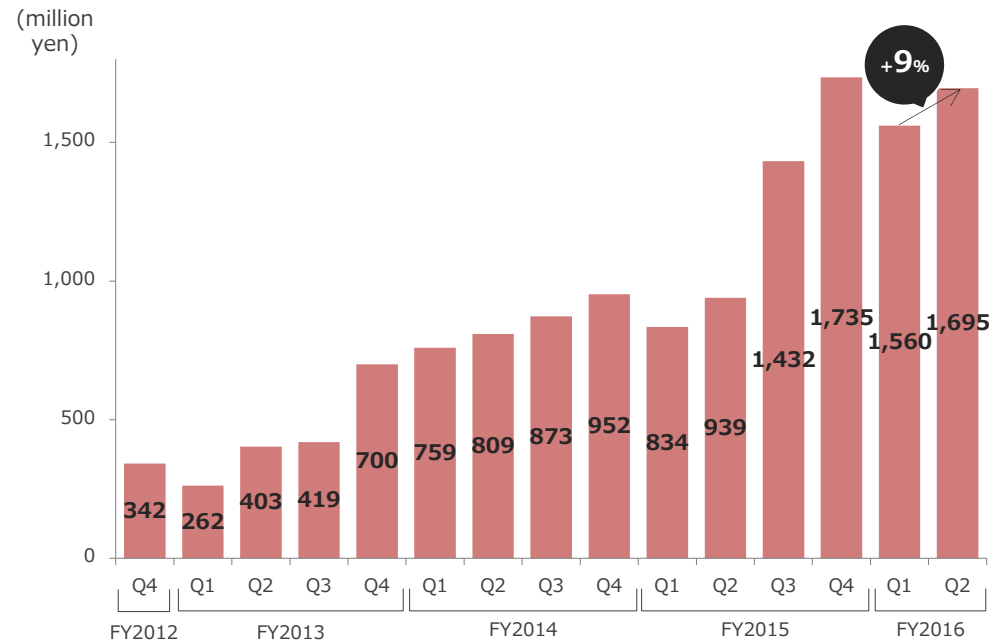
Both DSP "Bypass" and SSP "AdStir" grew

## Trend for H1



## Quarterly Trend

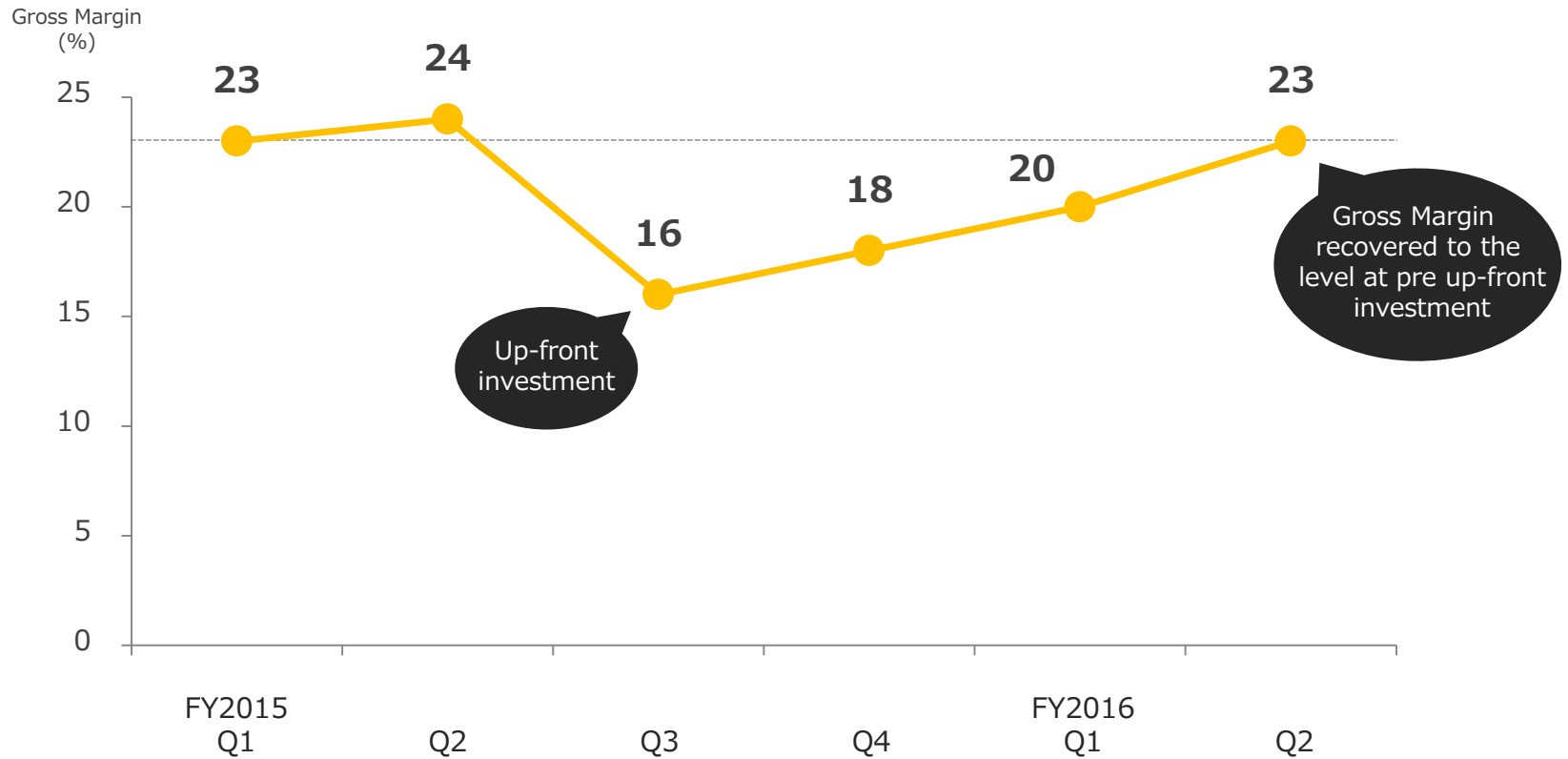
YoY+80%、QoQ+9%



# Ad-Tech Business: Gross Margin Trend

Gross Margin dropped in Q3 FY2015 due to the up-front investment, however has continuously improved since  
**Consequently Gross Margin in Q2 FY2016 returned to the level at pre up-front investment**

## Gross Margin Trend in Ad-Tech Business

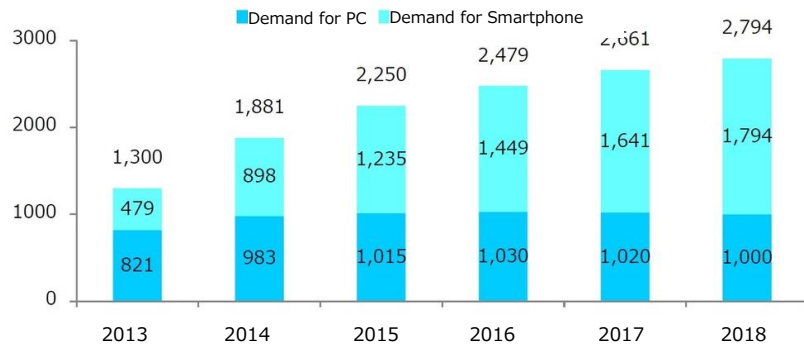


# Factors of Our Ad Tech Business Growth

Our Ad Tech Business with unique features is continuously growing

## Feature 1: Specializing in the smartphone segment, a growing market

< Estimate/forecast of programmatic market size by device (unit: 100 million yen) >



(Source: Joint survey by VOYAGE GROUP/Seed Planning in August 2015)

### Advantages

#### DSP 「Bypass」

- Accumulation of knowhow on bidding & CPA optimization logic in smartphone DSP
- Quick adjustment to new distribution technique in smartphone DSP

#### SSP 「AdStir」

- The largest-scale inventory of smartphone ads in Japan (over 30 billion imp./month) acquired from the early stage of the start of the services ahead of other companies
- Quick adjustment to advertising format unique to smartphone

## Feature 2: Open platform strategy

We have DSP and SSP within the company and have direct contact with both advertisers and publishers.

### Advantages

- Functions can be developed/improved from multiple viewpoints including opinions of advertisers and media
- Trials and effect validation of new functions can be quickly completed internally

## Feature 3: Open platform strategy



Connection with external SSP & DSP has been proactively promoted for our DSP & SSP since the service launch in April 2012.

### Advantages

- DSP & SSP grew as products by winning in fierce market competition
- Both market expansion and competitor increase can be used advantageously  
→ Example: New competitor entry in DSP segment leads to the scale expansion of SSP

# Initiatives for Further Growth Q3 FY2016 onward

Aiming to accelerate growth by **focusing on App Segment** which has growth potential in addition to the ongoing initiatives

	Ongoing Initiatives	Additional Initiatives: Focusing on App Segment
	<p>Continuously improve bidding and CPA optimization logic</p>	<p><b>Enhance functions for retention ads(※)</b>            ※Targeting inactive app users            Expected to grow, as app advertisers show great interests on retention ads as a measure to re-engage existing users</p>
	<ul style="list-style-type: none"> <li>• Increase ad inventories</li> <li>• Enhance automated distribution function aiming to maximize media's revenues</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Enlarge app ad inventories</b></li> <li>• <b>Launch the Developer Trading Business to support app media's monetization</b></li> </ul>



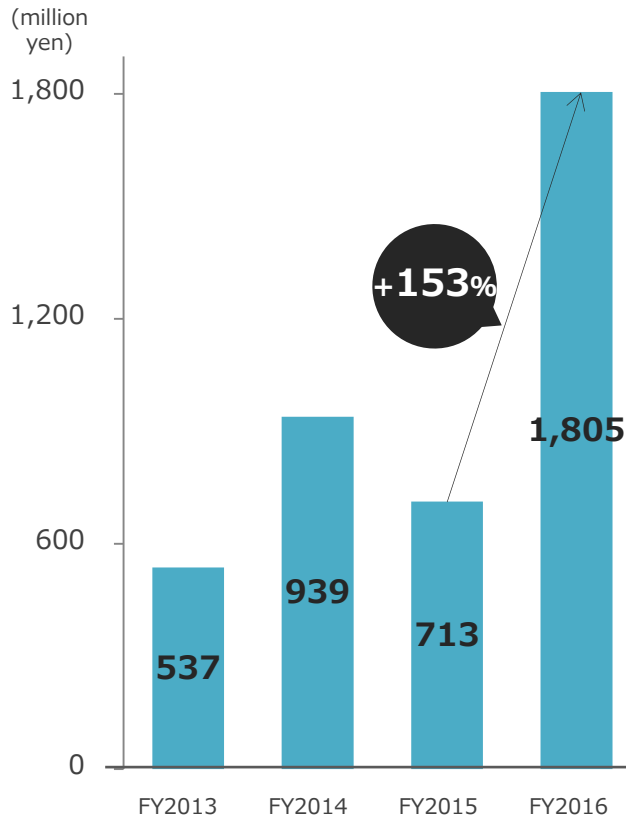
# **3. Smartphone Content Business**

# Smartphone Content Business: Sales Trend

## Trend for H1 (Six Months Ended Sept. 30): : +153% YoY

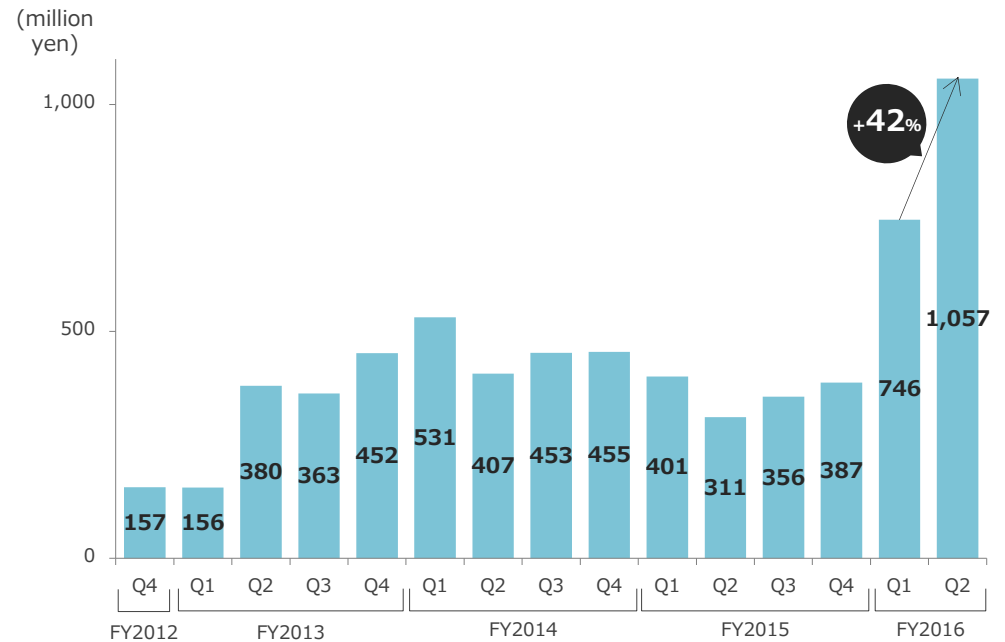
- "Crash Fever," a social game app and "SMART GAME," a platform service related to in-app purchases in iOS led to sales growth
- "CocoPPa Play," an avatar app, also contributed to rise in sales

### Trend for H1



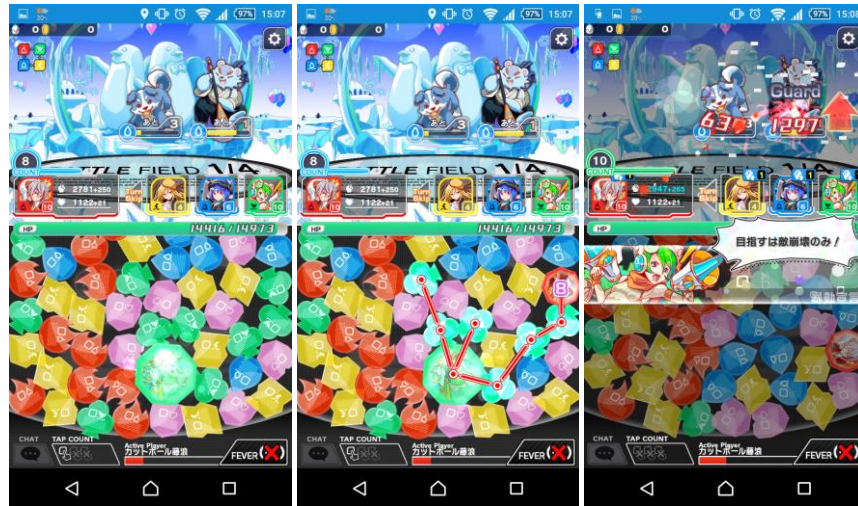
### Quarterly Trend

YoY+240%、QoQ+42%





# “Crash Fever”: Joint Business and Game Contents

Released in July 2015 as joint business with our investing company Wonderplanet, Inc.



- A puzzle role-playing game to clear panels by connecting panels in the same color to beat enemies.
- Characteristic game properties such as easy operation of tapping the screen, elaborate staging of music and the unique world, and collaborative play with maximum 4 players
- Achieved 6 million downloads in September 2016

## ■ Joint Business Scheme

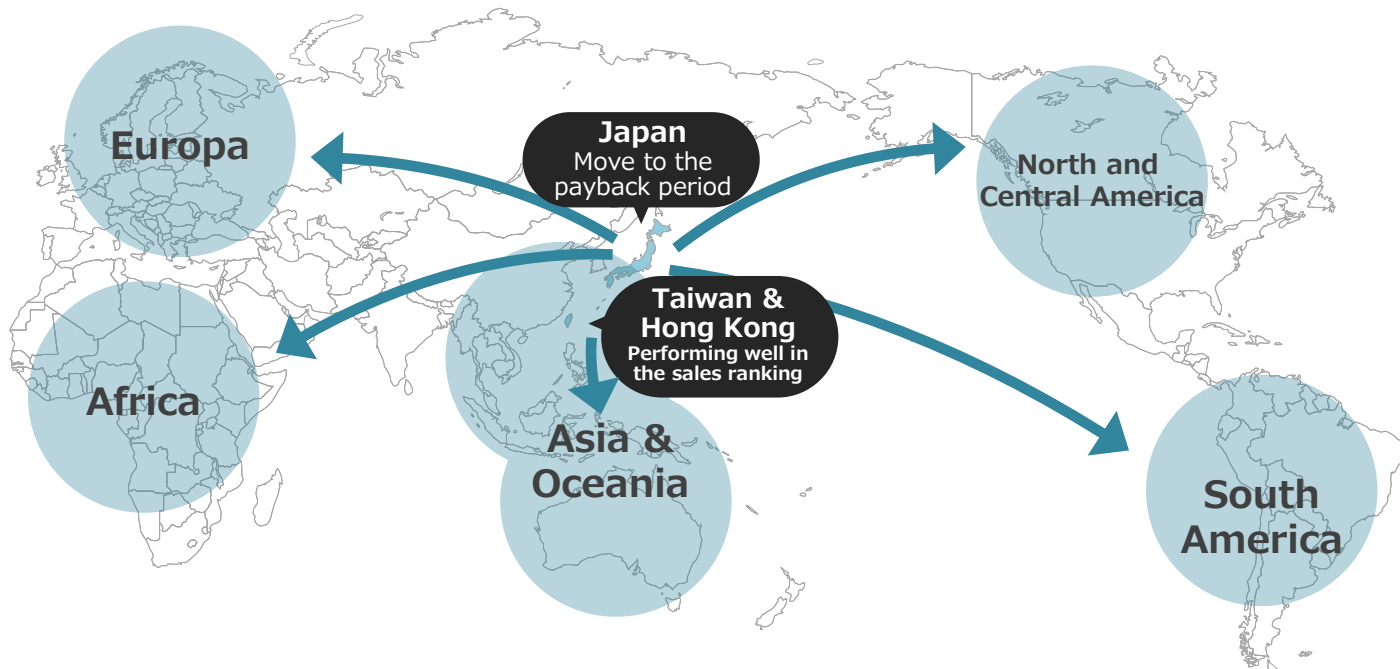
		
Development & operation	Pay for part of development cost	In charge of all development & operation process
Promotion	Cost are shared by both	
Earnings	Revenue share Charge amount of users excluding platform commission and the revenue share of Wonderplanet is booked as sales of United	

# Future direction of “Crash Fever”

Japan: 2nd TV ads aired from the end of August. Moving to the payback period and aiming to maximize profit.  
Overseas: Traditional Chinese version is performing well achieving 1st in the top grossing app chart in Taiwan and Hong Kong.  
Plan to release additional 15 language versions(※) and sequentially be available around the world from late October. Aiming for further growth.

## Future direction of “Crash Fever”

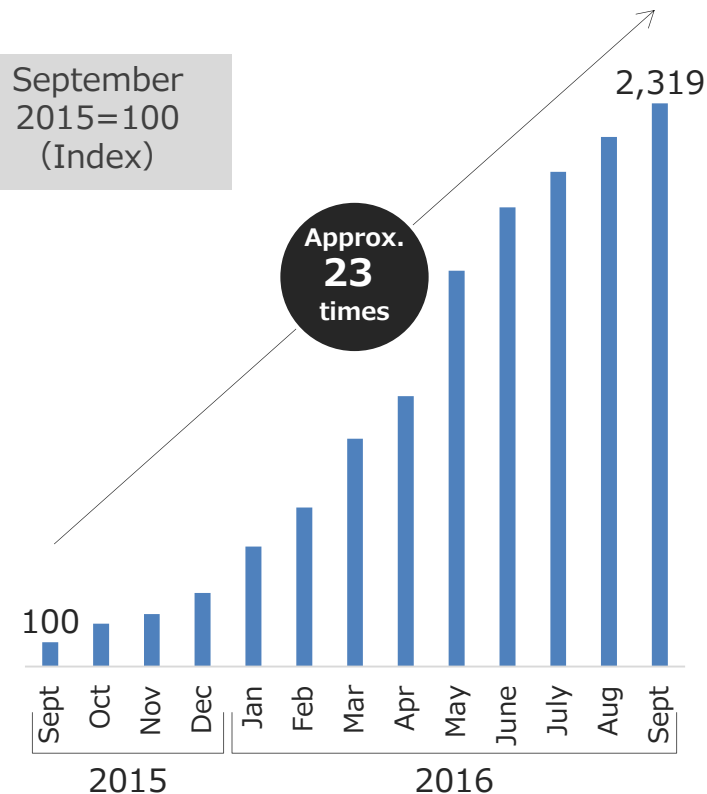
Plan to be available around the world in order from late October.



# About "SMART GAME"

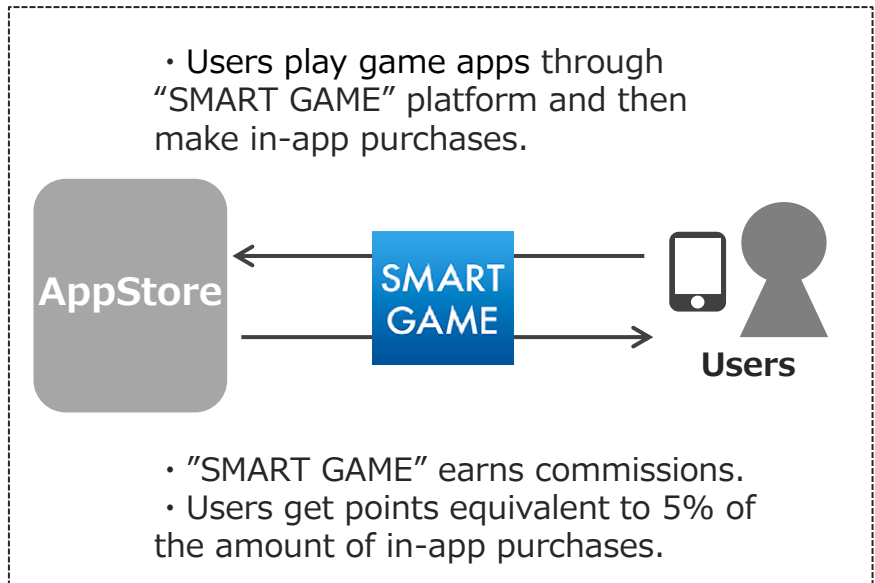
Number of users continue to increase. Released U.S. version on October 2016

## Trend of SMART GAME users



## Overview of "SMART GAME"

Unique usage of iTunes affiliate provided by Apple Inc. (Not applicable for Android due to a lack of this type of program)

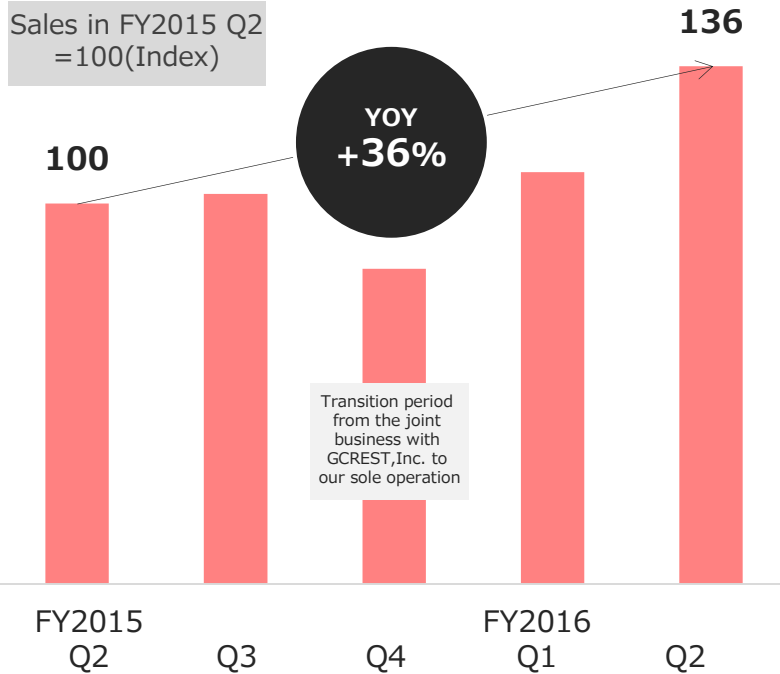


# About “CocoPPa Play”

An avatar app launched in March 2014

Ongoing improvement triggered sales growth trend and sales in Q2 FY2016 reached a record high (Former hipposlab’s staff, who have deep knowledge of game operation, contributed to the growth. Hipposlab was integrated into UNITED in March 2016.)

## Sales Trend



## Ongoing Improvement Example

- Decreased initial user drop-off rate by renewing usability for changing initial choice of avatar and account sign up, improving UI, etc.

### Screenshots for Initial Avatar Creation



- With continuous improvement such as event contents and enhancing rewards, DAUs and retention rate increased

“CocoPPa Play” allows users to create and decorate their “avatar” with cute outfits and accessories, to customize fashion shows and to communicate with other users. Business model is mainly based on in-app purchases for avatars’ outfits etc.

## **4. Investment Segment**

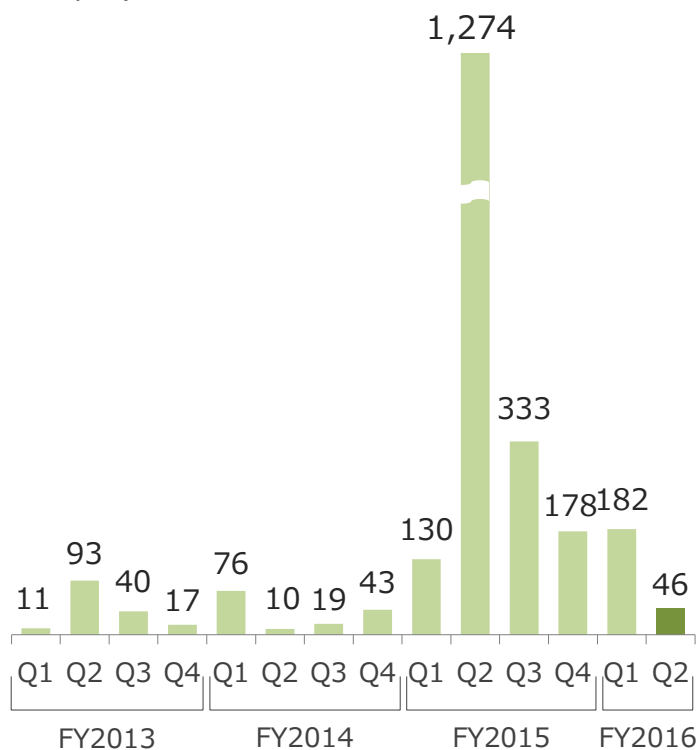
# Investment Segment

The amount of operational investment securities as of the end of September 2016: ¥2,602 million













Expect sales and profit contribution from the current investment portfolio and new investments in seed and early stage ventures

## Quarterly Sales Trend in Investment Segment

(million yen)



## Major Investments

 Mercari, Inc.	 Social Wire Co., Ltd.	 Wonderplanet Inc.	 3bitter Inc.
 Orb, Inc.	 Translimit, Inc.	 Music Securities, Inc.	 Metaps Inc.
 Fujisan Magazine Service Co., Ltd.	 Datasection Inc.	 Enigma Inc.	 mixi, Inc.



# 5. Summary

# 全体まとめ

## H1 FY2016 (Six Months Ended Sept. 30, 2016)

## Q3 FY2016 Onward

### Consolidated Financial Performance

- Increase in sales but decrease in operating income year on year (YoY changes, %)  
Sales ¥6,476 million (+27%)  
Operating Income ¥55 million (-95%)

- FY2016 Financial Forecast  
Sales ¥13,000 million~¥14,500 million  
Operating Income ¥700 million~¥1,000 million
- Expand business portfolio by acquiring shares of Goroo, Inc. as a consolidated subsidiary. Nurture new business pillars targeting sales and profit growth

### Ad-Tech Business

- Both "Bypass," a DSP and "AdStir," a SSP grew
- Gross margin recovered to the level before the up-front investment in Q3 FY2015

- Aim to accelerate growth by focusing on App Segment which has growth potential in addition to the ongoing initiatives

### Smartphone Content Business

- Record high sales for H1 FY2016  
"Crash Fever," "SMART GAME" and "CocoPPa Play" contributed

- "Crash Fever": Japanese version move to the payback period  
Adding to successful traditional Chinese version, other language versions start to be released  
Targeting further growth

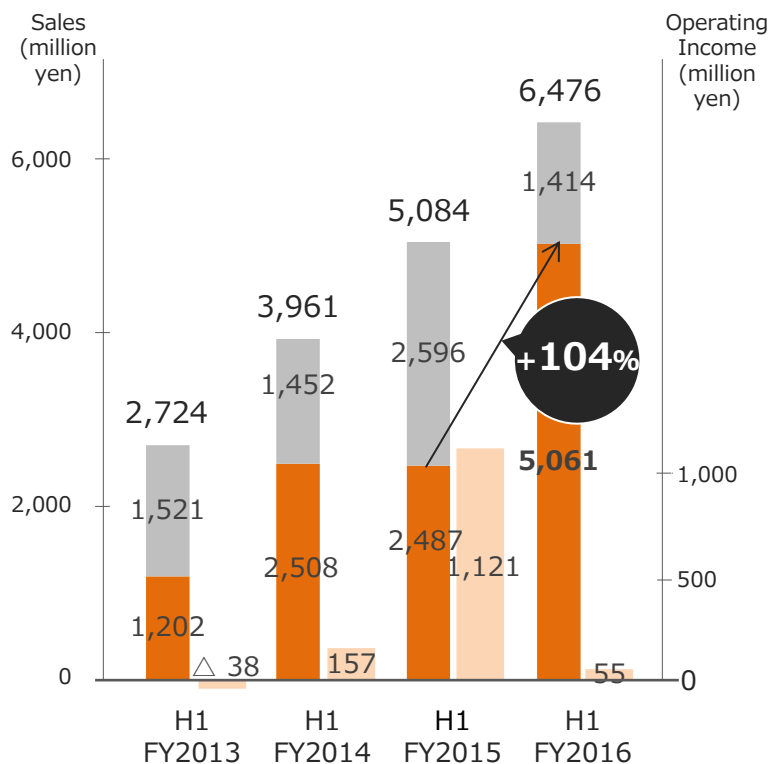
# 6. Reference Material

# Sales and Operating Income Trend

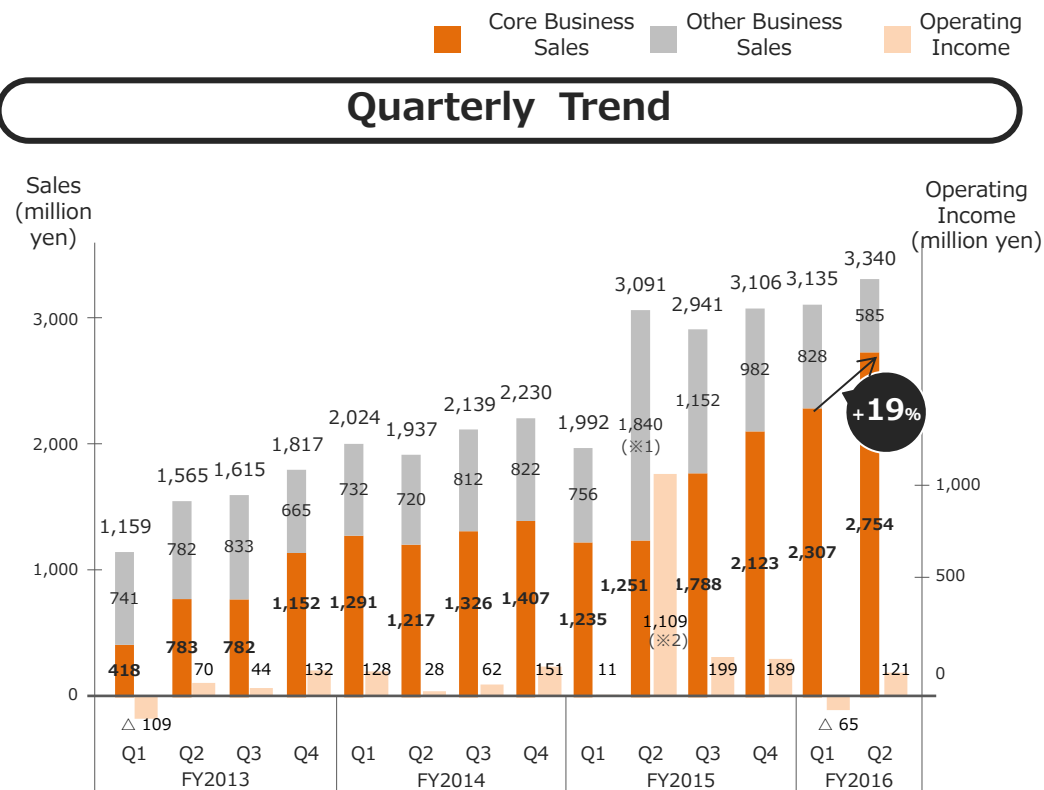
**Trend for H1 (Six Months Ended Sept. 30): Core Business**, namely Ad-Tech Business and Smartphone Content Business, **Sales +104% YoY**

**Quarterly Trend, Q1→Q2 FY2016: Core Business Sales +19% QoQ**, Consolidated operating income moving back into black (+¥186 million QoQ)

## Trend for H1



## Quarterly Trend



(※1,2) Gain on sales of shares related to IPO of our investing companies etc. affected Investment Segment sales and operating income by ¥1,274 million and ¥1,217 million respectively.

# Consolidated P/L Statement Q2 FY2016 (Three Months Ended Sept. 30, 2016)

**YoY: Increase in sales (+8%) but fall in operating income (-89%)**  
**QoQ: Rise in both sales (+7%) and operating income (moved into black)**

(million yen)

	FY2016 Q2	FY2015 Q2	YoY %	FY2016 Q1	QoQ %
<b>Sales</b>	<b>3,340</b>	<b>3,091</b>	<b>+8%</b>	<b>3,135</b>	<b>7%</b>
Advertising Segment	1,902	1,240	+53%	1,913	-1%
Content Segment	1,425	589	+142%	1,094	+30%
Investment Segment	46	1,274	-96%	182	-74%
Adjustments	-34	-12	-	-55	-
<b>Gross Profit</b>	<b>714</b>	<b>1,593</b>	<b>-55%</b>	<b>492</b>	<b>+45%</b>
Advertising Segment	413	267	+55%	347	+19%
Content Segment	257	80	+219%	-3	Loss to profit
Investment Segment	42	1,245	-97%	147	-71%
Adjustments	-0	-0	-	0	-
<b>Selling, General &amp; Administrative</b>	<b>592</b>	<b>484</b>	<b>22%</b>	<b>557</b>	<b>+6%</b>
<b>Operating Income</b>	<b>121</b>	<b>1,109</b>	<b>-89%</b>	<b>-65</b>	<b>Move into black</b>
Advertising Segment	245	126	+93%	196	+25%
Content Segment	5	-114	-	-258	Loss to profit
Investment Segment	28	1,231	-98%	132	-78%
Headquarter Expense	-157	-134	-	-136	-
<b>Ordinary Income</b>	<b>182</b>	<b>1,223</b>	<b>-85%</b>	<b>-78</b>	<b>-</b>
Net Income attributable to owners of parents	<b>11</b>	<b>1,028</b>	<b>-99%</b>	<b>-72</b>	<b>-</b>
Extraordinary profit and loss	-61	-1	-	-7	-
Taxes etc.	-109	-194	-	13	-

Though "Bypass," a DSP and "AdStir," a SSP grew, the segment sales decreased slightly due to the withdrawal of Agency Business. Growth in DSP and SSP with higher profit margins led to increase in gross profit and operating income.

# Consolidated Balance Sheet for Q2 FY2016

- Current Assets  
Down ¥515 million as cash & deposits decreased (- ¥714 million) mainly related to acquiring shares of Goroo, Inc. although accounts receivable increased
- Non Current Assets  
Up ¥762 million mainly due to increase in goodwill for the aforementioned acquisition
- Current Liabilities  
Up ¥265 million led by increase in income tax payable, rise in accounts payable, etc.

(million yen)

	End of Q2 FY2016 (Sept. 30, 2016)	End of Q1 FY2016 (June 30, 2016)	Difference QoQ
<b>Current Assets</b>	8,699	9,215	-515
(Cash & Deposits)	3,664	4,379	-714
<b>Non Current Assets</b>	2,051	1,289	+762
<b>Current Liabilities</b>	2,182	1,917	+265
<b>Non Current Liabilities</b>	15	17	-1
<b>Net Assets</b>	8,552	8,570	-17

# Consolidated Cash Flow Statement H1 FY2016

- Cash Flow from Operating Activities  
-¥310 million including income tax paid (-¥347 million)
- Cash Flow from Investing Activities  
+¥1,911 million led by mainly withdrawal of time deposit (+¥2,800 million) despite purchase of investments in subsidiary, Goroo, Inc., resulting in a change of scope of consolidation (-¥758 million)
- Cash Flow from Financing Activities  
-¥116 mainly due to cash dividend payment (-¥114 million)

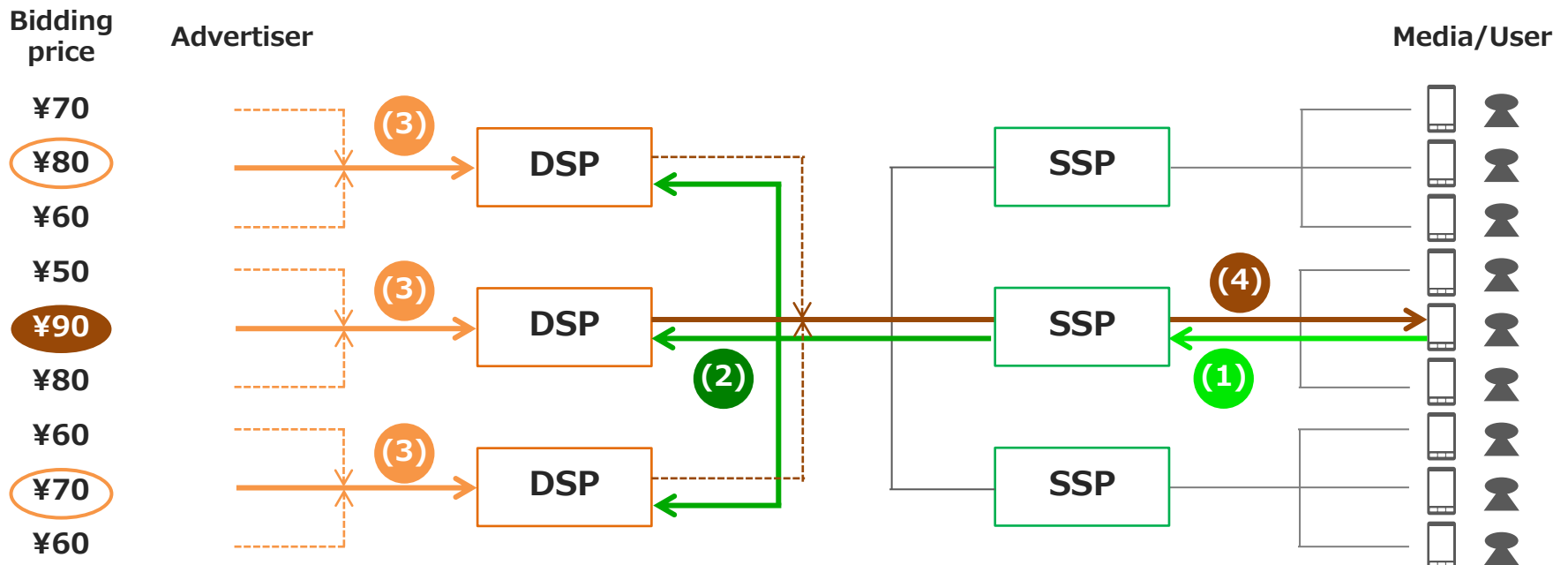
(million yen)

	H1 FY2016 (Six Months Ended Sept. 30, 2016)
Cash Flow from Operating Activities	-310
Cash Flow from Investing Activities	1,911
Cash Flow from Financing Activities	-116
Net Increase in Cash and Cash Equivalents	1,472
Cash and Cash Equivalents at End of Period	3,664

# Flow of RTB Advertisement

**Flow of RTB Advertisement Transaction until Closing [(1) to (4) below take place within 0.05 second]**

- (1) Impression occurs
- (2) Through SSP, device (browser) information such as frame size and user ID is sent to DSP as a bid request.
- (3) Based on information of the bid request, an auction takes place at a preset price within DSP, selecting the advertiser with the highest bidding price.
- (4) The advertiser with the highest bidding price among DSPs wins the bidding and their ad is displayed.



## Advantages for advertisers

Able to efficiently place ads for each impression only to users they wish to display ads

## Advantages for media

Able to offer ad space for bidding to multiple advertisers and maximize profits