

**Q 3 , F Y 2 0 1 6**  
**From October 2016 to December 2016**

# **Financial Results**



**UNITED**

**United, Inc.**  
**(TSE Mothers, code 2497)**  
**January 31, 2017**

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# Our vision & mission

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## **Vision**

Become the leading  
internet firm in Japan



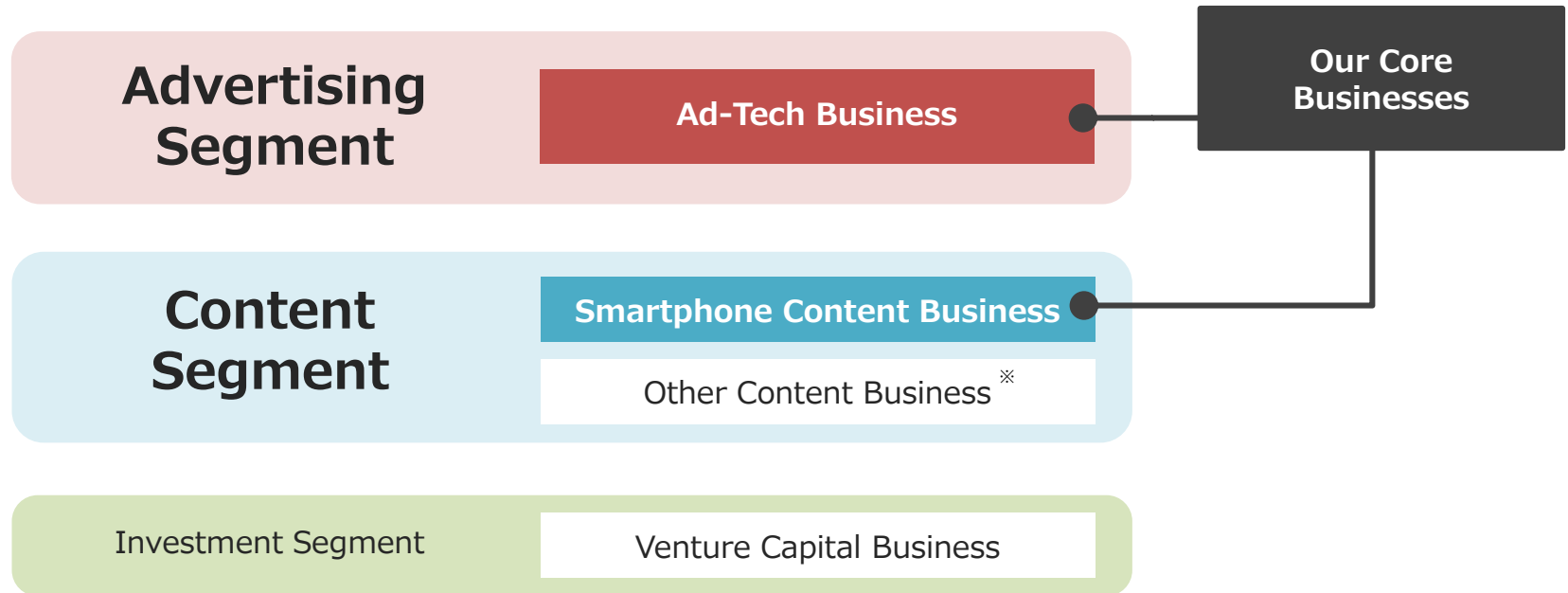
## **Mission**

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 YTD FY2016 (Nine Months Ended December 31, 2016)

Overall

## Consolidated Financial Results

**Sales** **¥10,248 million** (+28% YoY)  
**Operating Income** **¥757 million** (△43% YoY)

- YoY: Increase in sales however fall in operating income
- Per plan: Both sales and operating income exceeded the plan  
→**Revise up FY2016 forecast** (see details on page 8)

Core Businesses

## Ad-Tech Business

**Sales: ¥ 5,329 million** (+66% YoY)

Both "Bypass," a DSP and "AdStir," a SSP continued to grow

## Smartphone Content Business

**Sales : 2,936百万円** (+175%)

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

# Consolidated P/L Statement YTD FY2016 (Nine Months Ended December 31, 2016)

YoY: Increase in sales (+28%) however fall in operating income ( $\Delta$ 43%)

Advertising Segment: Rise in both sales and operating income. Continued to grow

**Content Segment: Increase in sales and operating income. Crash Fever has moved to the payback period and the segment turned from loss to profit**

(In H1 FY2016, Smartphone Content Business conducted large-scale advertising campaign, approx. ¥1,100 million)

Investment Segment: Decrease in sales and operating income. Significant amount of gain on sales of shares were recorded in the comparative period

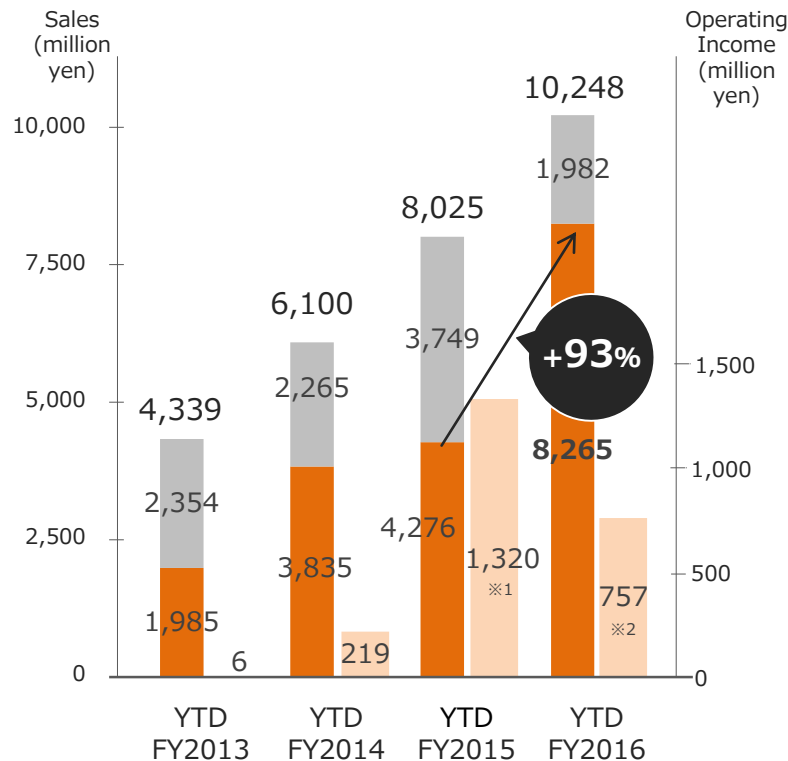
	FY2016 YTD (Nine months)	FY2015 YTD (Nine months)	YoY %	(million yen)
<b>Sales</b>	<b>10,248</b>	<b>8,025</b>	<b>+28%</b>	
Advertising Segment	5,908	4,351	+36%	
Content Segment	4,123	1,994	+107%	
Investment Segment	315	1,738	$\Delta$ 82%	
Adjustments	$\Delta$ 98	$\Delta$ 58	-	
<b>Gross Profit</b>	<b>2,566</b>	<b>2,812</b>	<b><math>\Delta</math>9%</b>	
Advertising Segment	1,232	810	+52%	
Content Segment	1,065	298	+257%	
Investment Segment	270	1,703	$\Delta$ 84%	
Adjustments	$\Delta$ 1	$\Delta$ 0	-	
<b>Selling, General &amp; Administrative</b>	<b>1,808</b>	<b>1,491</b>	<b>+21%</b>	
<b>Operating Income</b>	<b>757</b>	<b>1,320</b>	<b><math>\Delta</math>43%</b>	
Advertising Segment	749	384	+95%	
Content Segment	240	$\Delta$ 311	<b>Loss to profit</b>	
Investment Segment	227	1,658	$\Delta$ 86%	
Headquarter Expense	$\Delta$ 459	$\Delta$ 410	-	
<b>Ordinary Income</b>	<b>794</b>	<b>1,485</b>	<b><math>\Delta</math>47%</b>	
<b>Net Income attributable to owners of parents</b>	<b>368</b>	<b>1,403</b>	<b><math>\Delta</math>74%</b>	
Extraordinary profit and loss	$\Delta$ 76	294	-	
Taxes etc.	$\Delta$ 349	$\Delta$ 377	-	

# Sales and Operating Income Trend

## Trend for YTD (Nine Months Ended Dec. 31):

**Core Business**, namely Ad-Tech Business and Smartphone Content Business, **Sales +93% YoY**

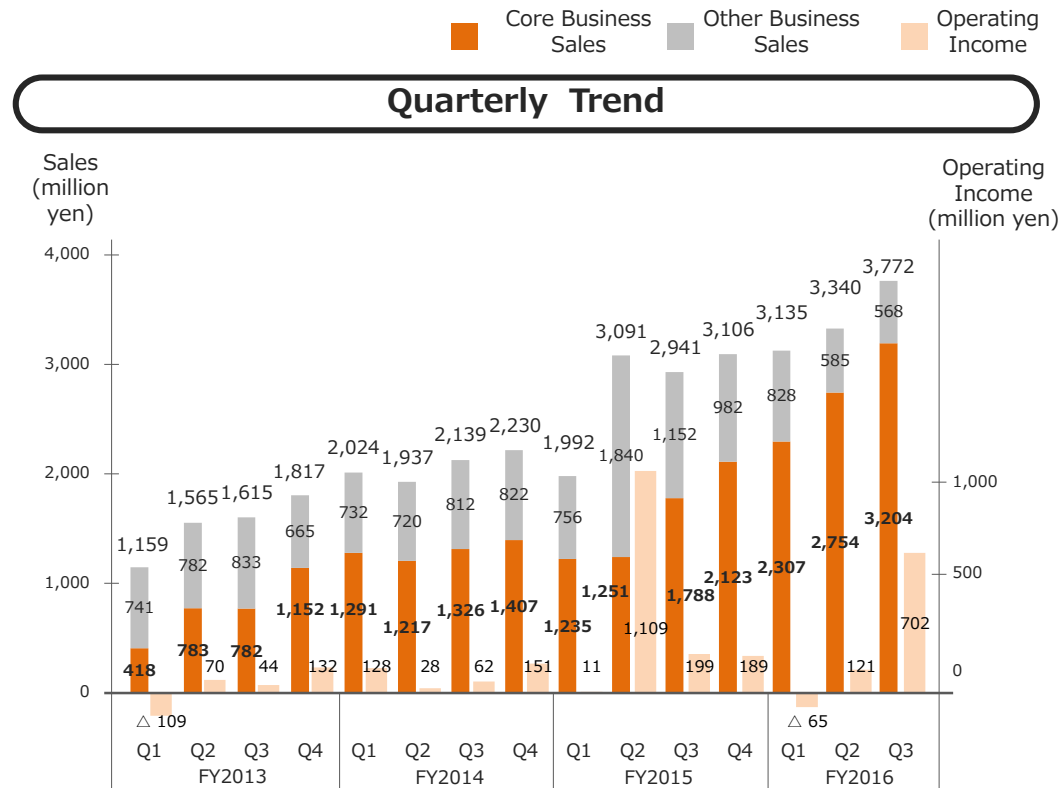
### Trend for YTD (nine months)



※1 Gain on sales of shares related to IPO of our investing companies etc. affected Investment Segment operating income by ¥1,658 million in YTD FY2015

※2 Investment Segment operating income in YTD FY 2016: ¥227 million

### Quarterly Trend





# Upward Revision of FY2016 Forecast

**Sales:** Revise upward upper limit and lower limit of the previous forecast by +¥500 million and by +¥1,000 million respectively

**Operating Income:** Raise upper limit and lower limit of the previous forecast by +¥300 million each

## Upward revision of FY2016 forecast

	<b>Previous Forecast</b> (As of Oct. 31, 2016)		<b>Revised Forecast</b> (As of Jan. 31, 2017)
<b>Sales</b>	¥ 13,000 million ~ ¥ 14,500 million	➔	¥ 14,000 million ~ ¥ 15,000 million
<b>Operating Income</b>	¥ 700 million ~ ¥ 1,000 million	➔	¥ 1,000 million ~ ¥ 1,300 million

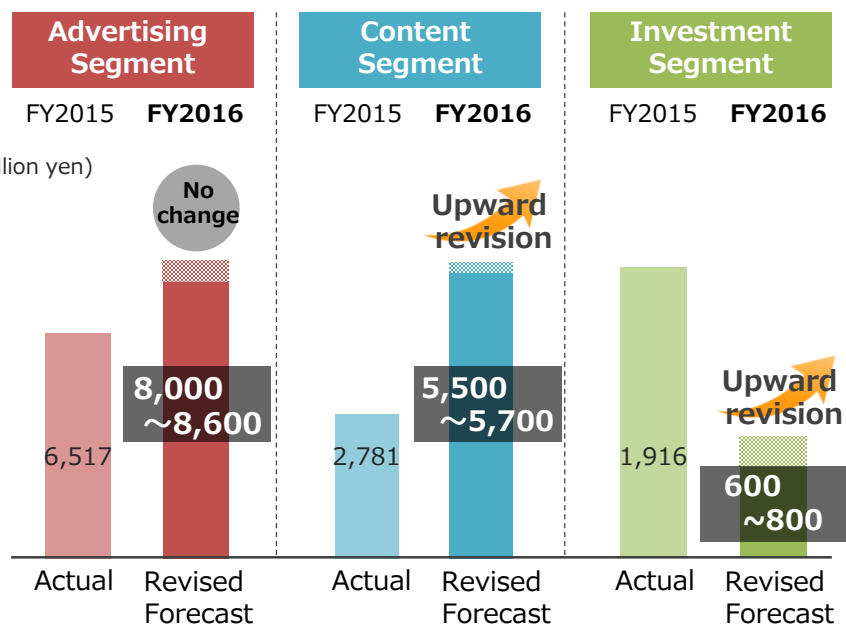
# Segment Forecast FY2016: Sales and Operating Income Comparison with FY2015

FY2016 (Forecast) : **Advertising and Content Segments** including core businesses **become major contributors of operating income**

FY2015 (Actual): Investment Segment generated majority of operating income  
(Invested cash generated from Investment Segment into Core Businesses)

## Sales

(million yen)



DSP and SSP preform as planned  
**No change in sales forecast**

Smartphone Content Business contributed to sales more than planned  
**Revise sales forecast upward**

Estimated fund profit increases compared to previous forecast  
**Revise sales forecast upward**

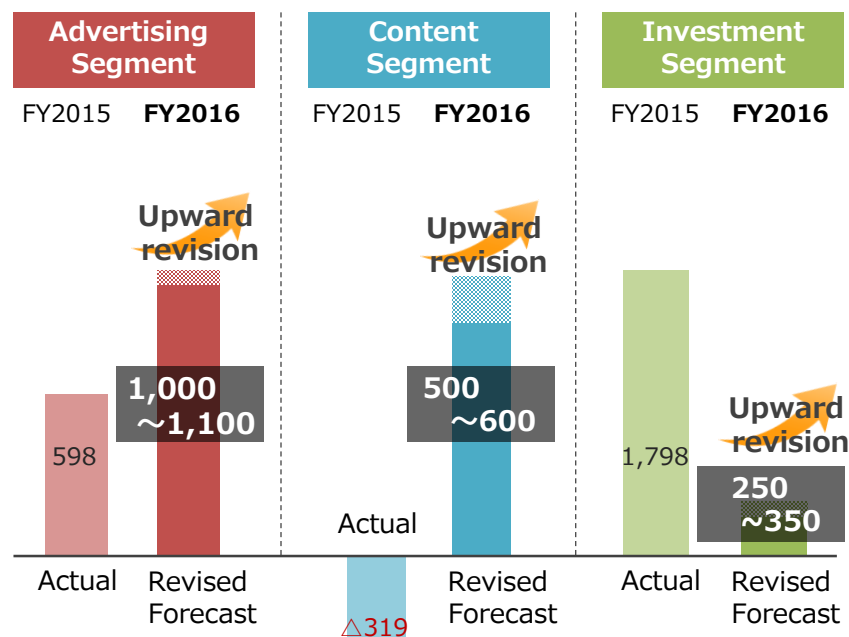
Adjustments

FY2015 Actual  
△84



FY2016 Revised Forecast  
△100

## Operating Income



Profit margin exceeds our plan  
**Revise up operating income forecast**

Smartphone Content Business contributed to profit more than planned  
**Revise up operating income forecast**

Estimated fund profit increases compared to previous forecast  
**Revise up operating income forecast**

Headquarter Expense

FY2015 Actual  
△568



FY2016 Revised Forecast  
△750

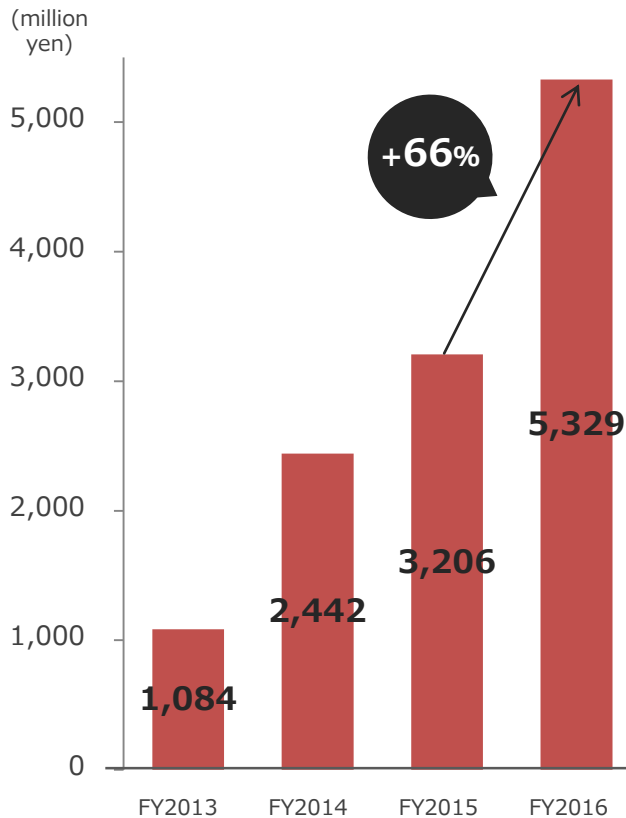
## **2. Ad-Tech Business**

# Ad-Tech Business: Sales Trend

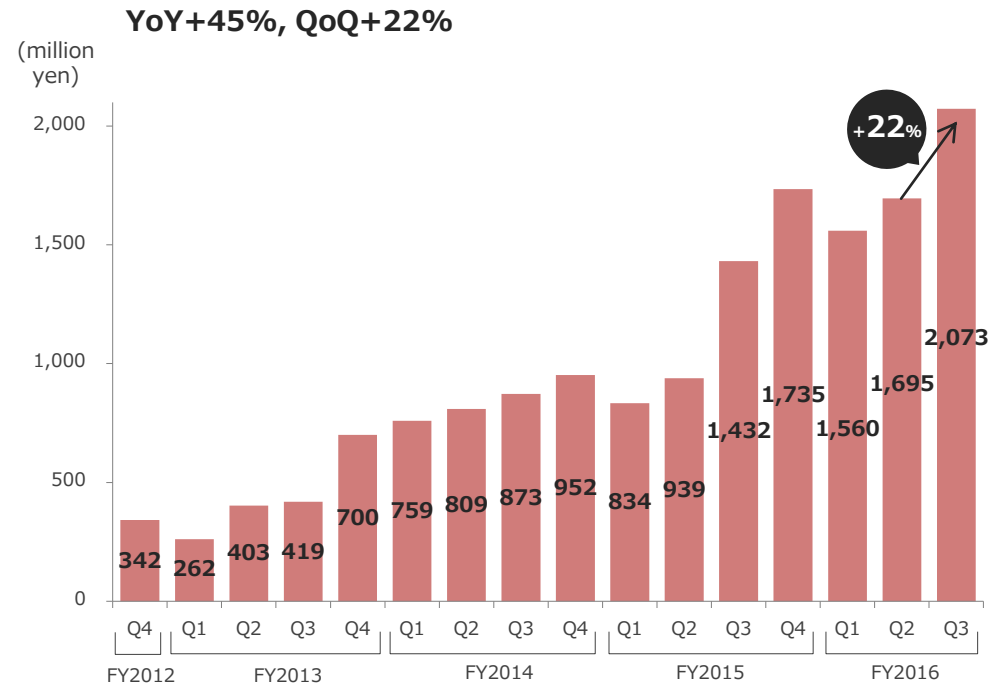
**Trend for YTD (Nine Months Ended Dec. 31): +66% YoY**

Both DSP "Bypass" and SSP "AdStir" grew

## Sales Trend for YTD (nine months)

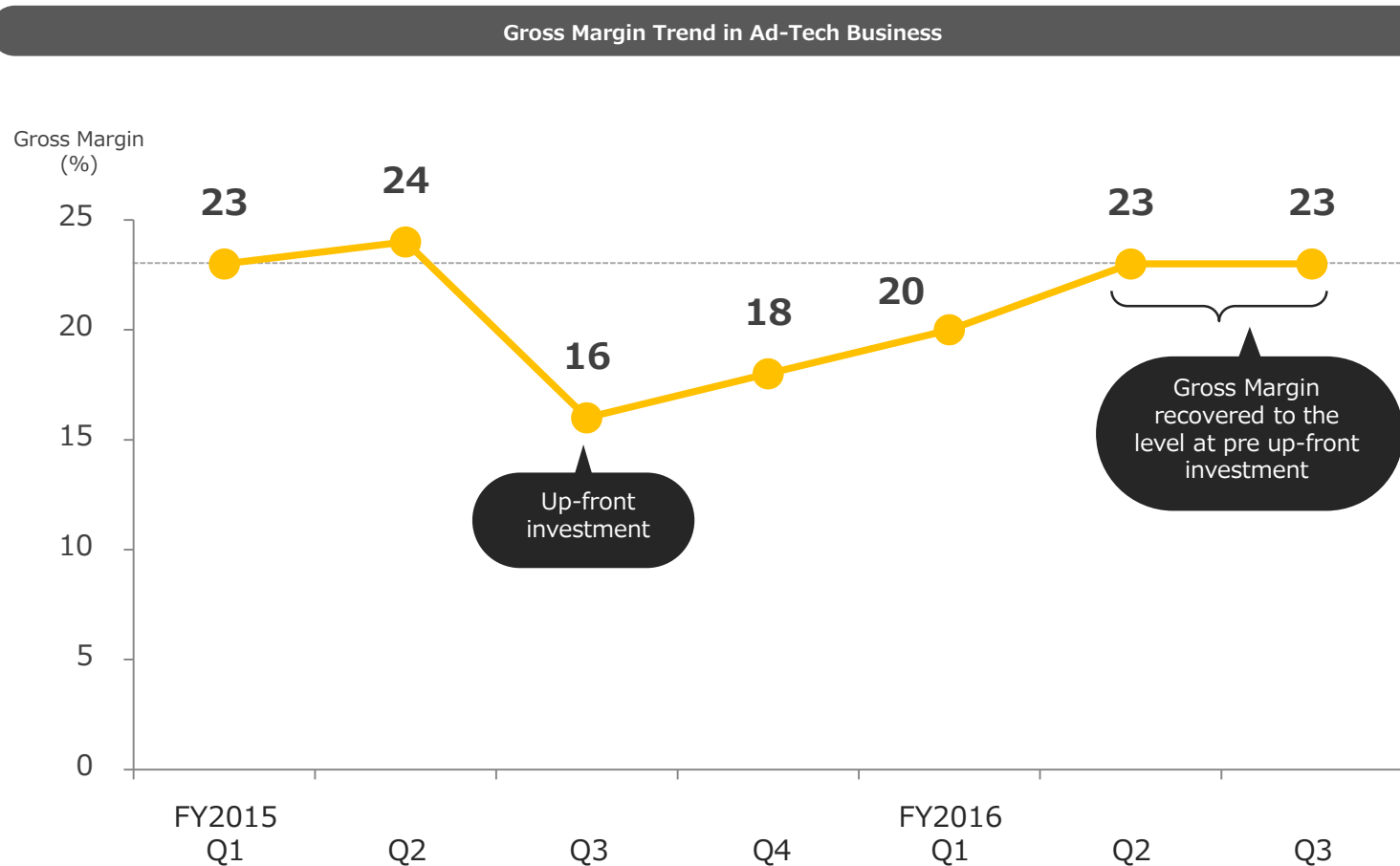


## Quarterly Trend



# Ad-Tech Business: Gross Margin Trend

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

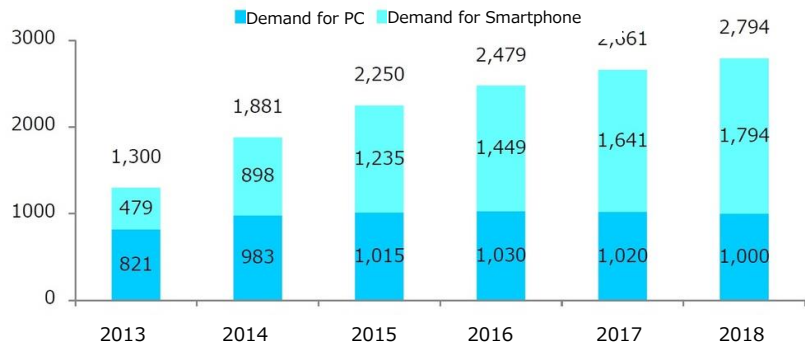


# Factors of Our Ad Tech Business Growth

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

# Toward Future Growth in Ad-Tech Business

Press release in January 2017:

**“AdStir” and “HDY PMP\_” by Hakuhodo DY digital Inc. started working together on PMP<sup>※</sup>**

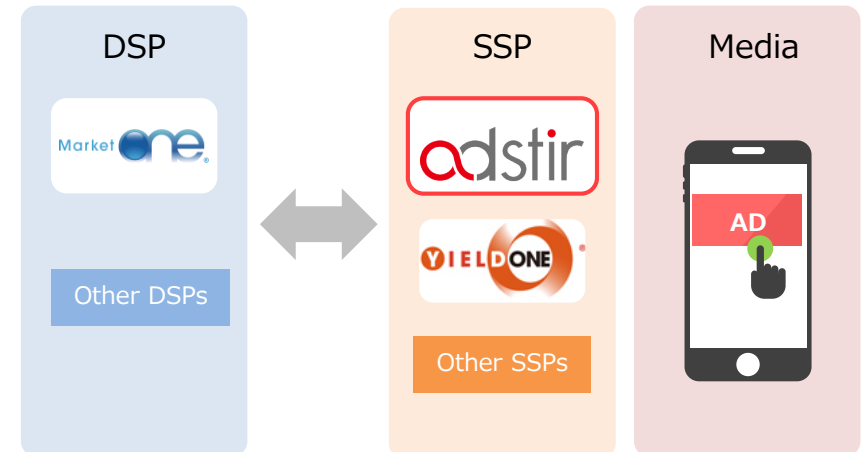
## Background

In the U.S., PMP spending have surged significantly among growing programmatic advertising  
Spending on PMP in 2016 estimated to grow by approx. 31% (eMarketer's forecast in 2014)

PMP market is expected to grow in Japan  
In January 2017, **“AdStir” and “HDY PMP\_” by Hakuhodo DY digital Inc. started working together on PMP**

## Overview

Able to receive distribution of branding ads in various formats from “HDY PMP\_”



**Accelerating further growth by successively releasing new products which jump on the bandwagon, in addition to growth in existing services**

### **3. Smartphone Content Business**

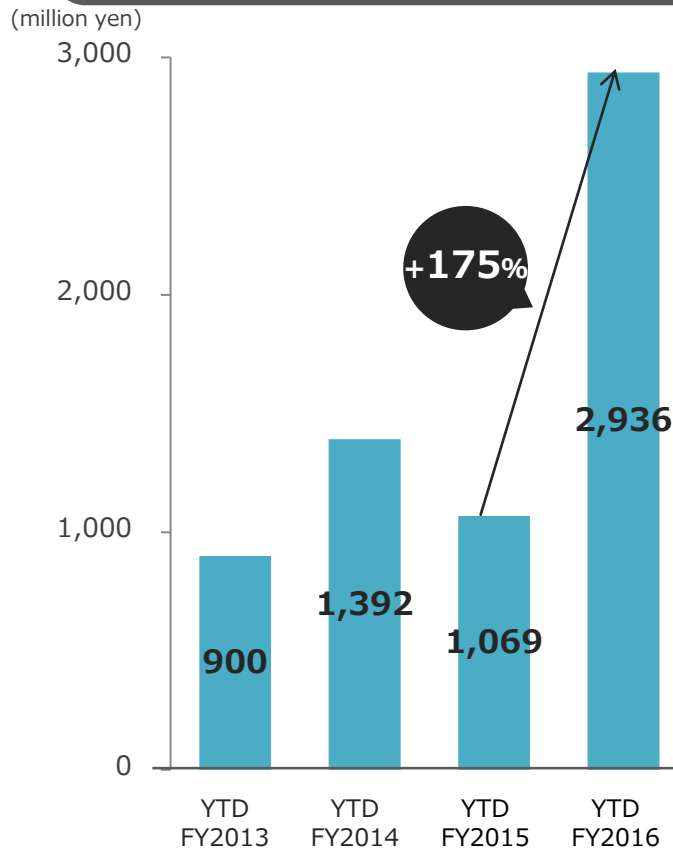


# Smartphone Content Business : Sales Trend

## YTD FY2016 YoY : +175%

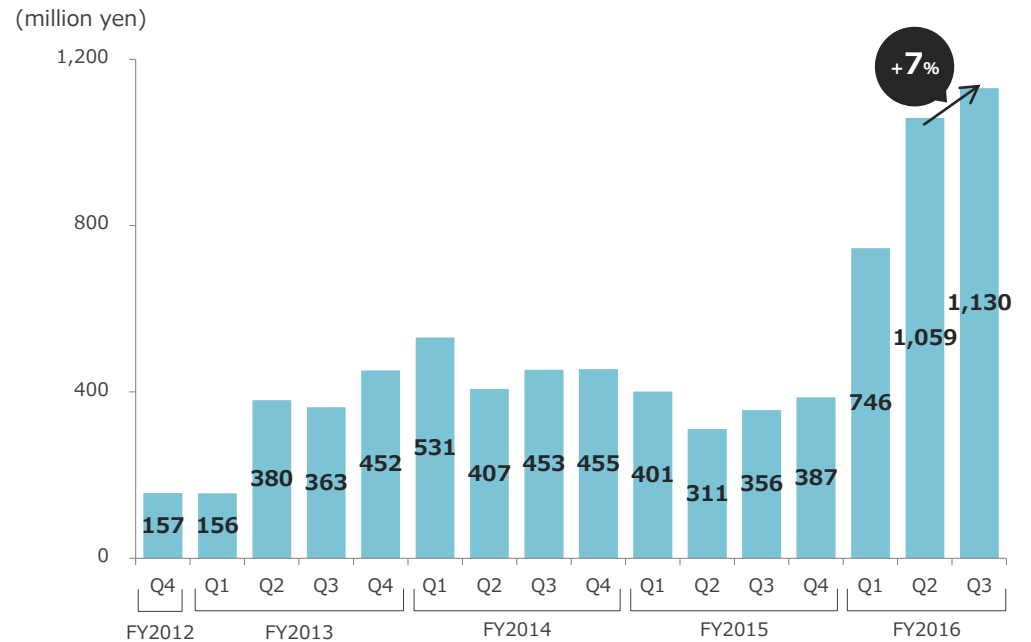
- "Crash Fever" and "SMART GAME" accounted for approx. 90% of increase in sales from the comparative period
- Goroo, Inc., which was acquired at the end of September 2016, was consolidated from Q3 FY2016

### Sales Trend for YTD (nine months)



### Quarterly Sales Trend

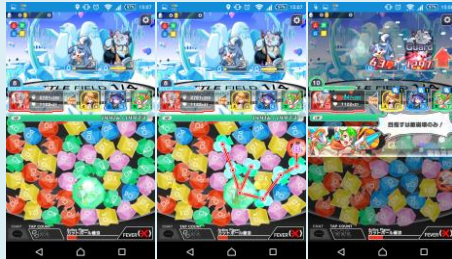
YoY +217%、QoQ+7%



# "Crash Fever"

Aiming to maximize profit with domestic and global effort from H2 FY2016

## About Crash Fever





RPG puzzler with matching & smashing same color panels and beating enemies

Features: Simple tap-based control, elaborate staging of music and the unique world, collaboratively playing with max. 4 players etc.

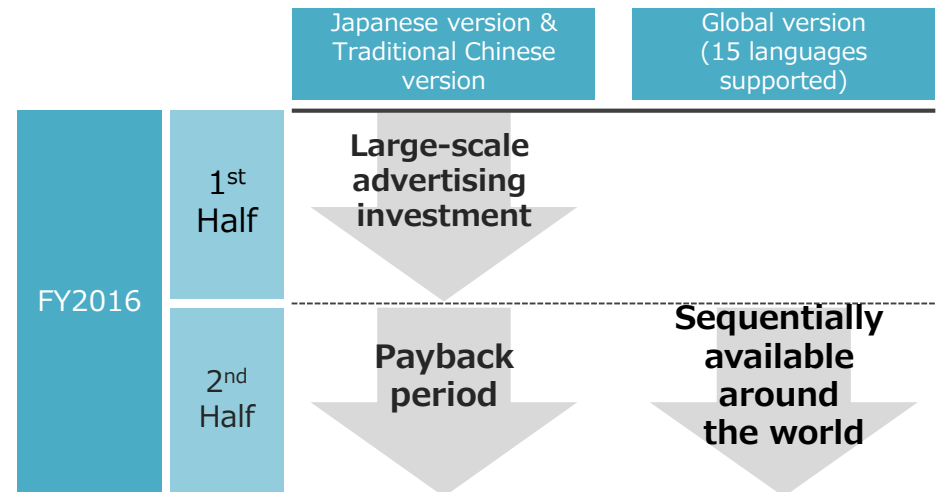
## Joint business scheme

Released in July 2015 as joint business with Wonderplanet, Inc., one of our investment portfolio companies

		
Development & operation	Bear part of development cost	In charge of all development and operation
Promotion	Share the cost between both companies	
Earnings	<b>Revenue share</b> United's sales are based on the amount from in-app purchases after deducting platform fees and the amount of Wonderplanet's revenue share	

## Topics

- Traditional Chinese version released in May 2016
- Japanese version: The 2<sup>nd</sup> TV ads aired from the end of August 2016
- Global version with 15 languages<sup>※</sup> launched in October 2016 and sequentially available around the world
- Reached over 7 million downloads worldwide in November 2016



※ English, Simplified Chinese, Traditional Chinese, Korean, Thai, Indonesian, Vietnamese, Malay, French, German, Portuguese, Spanish, Italian, Russian and Arabic

# Growth in Content Segment

Content Segment has made huge leap and contributed to sales and profit in FY2016, because of three initiatives

## Three Initiatives during FY2015 & FY2016

① New full scale entry into game business

② Operation for “CocoPPa Play” shifted to United

③ Three consolidated subsidiaries were added through M&A

## Achievements

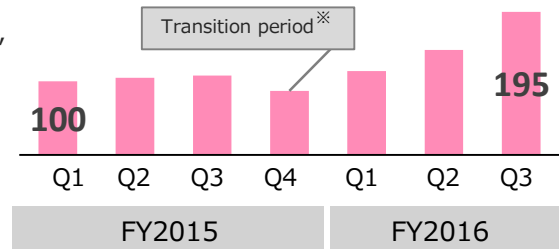
### Hit of “Crash Fever” and accumulated promotion know-how

- With large-scale advertising investment including TV ads, “Crash Fever” ranked at domestically 8<sup>th</sup> and 1<sup>st</sup> in Taiwan and Hong Kong in the overall top grossing chart in App Store
- Moved to the payback period. Recouped the aforementioned advertising investment in Q3 FY2016

### “CocoPPa Play” operated solely by United continues to grow

Former hipposlab’s staff, who have deep knowledge of game operation, contributed to the growth  
Hipposlab was acquired through M&A and then integrated into UNITED

Sales trend for “CocoPPa Play”(Index)



### Expanding business portfolio led by M&A

Added Smarprise, Inc. and KiRAMEX CORPORATION in February 2016, and Goroo, Inc. in September 2016 to our business portfolio  
Nurturing several profitable business pillars throughout United Group

**Smarpr!se** **KiRAMEX**

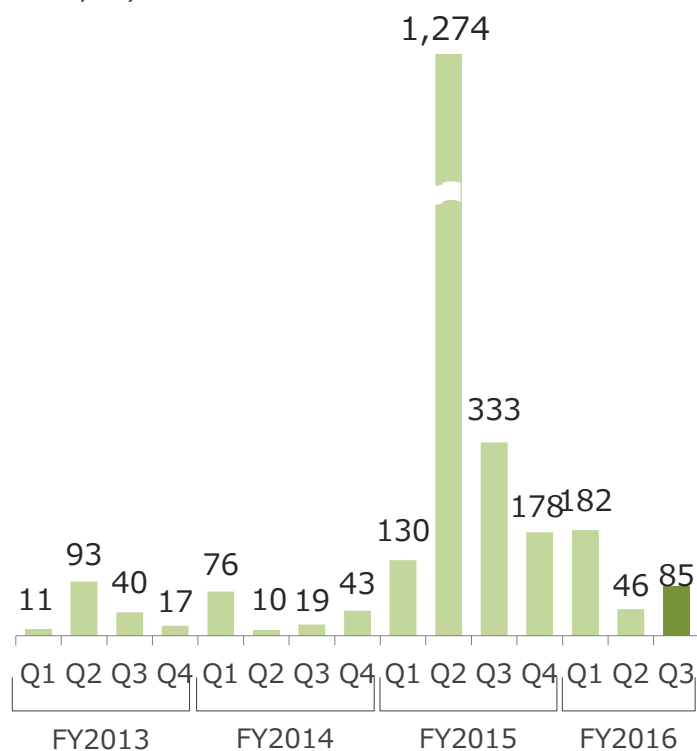
## **4. Investment Segment**

# Investment Segment

The amount of operational investment securities as of the end of Q3 FY2016: ¥2,720 million  
 Invested in dely, Inc. which operates "KURASHIRU," a recipe video media, in November 2016  
 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.	 <b>dely, Inc.</b> Operating "KURASHIRU," a recipe video media	 Social Wire Co., Ltd.	 Wonderplanet Inc.	 3bitter Inc.
 Orb, Inc.	 Translimit, Inc.	 Music Securities, Inc.	 Metaps Inc.	
 Fujisan Magazine Service Co., Ltd.	 Datasation Inc.	 Enigma Inc.	 mixi, Inc.	

## 5. Summary

# Overall Summary

	YTD FY2016 (Nine Months Ended Dec. 31, 2016 )	Q4 FY2016 Onward
Consolidated	<ul style="list-style-type: none"><li>• <b>Increase in sales but decrease in operating income year on year</b> (YoY changes, %)</li></ul> <p><b>Sales</b> ¥ 10,248 million (+28%)</p> <p><b>Operating Income</b> ¥ 757 million (△43%)</p>	<p><b>Upward revision of FY2016 forecast</b></p> <ul style="list-style-type: none"><li>• <b>FY2016 financial forecast (Revised forecast)</b></li></ul> <p><b>Sales</b> ¥ 13,500 million~ ¥ 15,000 million</p> <p><b>Operating income</b> ¥ 1,000 million~ ¥ 1,300 million</p>
Ad-Tech Business	<ul style="list-style-type: none"><li>• Both "Bypass," a DSP and "AdStir," a SSP grew</li><li>• Since Q2 FY2016, gross margin has recovered to the level before the up-front investment in Q3 FY2015</li></ul>	<ul style="list-style-type: none"><li>• Accelerating further growth by successively releasing new products which jump on the bandwagon, in addition to growth in existing services</li></ul>
Smartphone Content Business	<ul style="list-style-type: none"><li>• Record high sales for YTD "Crash Fever," and "SMART GAME" contributed to growth</li></ul>	<ul style="list-style-type: none"><li>• "Crash Fever" continues to be in the payback period</li><li>• Aiming to grow as a whole group, by strengthening each business in our extended business portfolio</li></ul>

## **6. Reference Material**



# Consolidated P/L Statement Q3 FY2016 (Three Months Ended December 31, 2016)

**YoY: Increase in sales (+28%) and operating income (+252%)**  
**QoQ: Growing sales (+13%) and operating income (+479%)**

(million yen)

	FY2016 Q3	FY2015 Q3	YoY %	FY2016 Q2	QoQ %
<b>Sales</b>	<b>3,772</b>	<b>2,941</b>	<b>+28%</b>	<b>3,340</b>	<b>+13%</b>
Advertising Segment	2,092	1,900	+10%	1,902	+10%
Content Segment	1,603	730	+120%	1,425	+12%
Investment Segment	85	333	△74%	46	+82%
Adjustments	△8	△22	-	△34	-
<b>Gross Profit</b>	<b>1,360</b>	<b>698</b>	<b>+95%</b>	<b>714</b>	<b>+91%</b>
Advertising Segment	470	273	+72%	413	+14%
Content Segment	811	93	+763%	257	+215%
Investment Segment	79	330	△76%	42	+87%
Adjustments	△1	0	-	0	-
<b>Selling, General &amp; Administrative</b>	<b>657</b>	<b>498</b>	<b>+32%</b>	<b>592</b>	<b>+11%</b>
<b>Operating Income</b>	<b>702</b>	<b>199</b>	<b>+252%</b>	<b>121</b>	<b>+479%</b>
Advertising Segment	307	124	+147%	245	+25%
Content Segment	494	△96	-	5	+9,648%
Investment Segment	65	315	△79%	28	+130%
Headquarter Expense	△165	△144	-	△157	-
<b>Ordinary Income</b>	<b>690</b>	<b>239</b>	<b>+188%</b>	<b>182</b>	<b>+279%</b>
<b>Net Income attributable to owners of parents</b>	<b>428</b>	<b>366</b>	<b>+17%</b>	<b>11</b>	<b>+3,572%</b>
Extraordinary profit and loss	△7	254	-	△61	-
Taxes etc.	△253	△127	-	△109	-

Large-scale advertising investment mainly for "Crash Fever" was conducted in Q2 FY2016. Growth rates of gross profit and operating income were higher than sale growth rate.

# Consolidated Balance Sheet for End of Q3 FY2016

- Current Assets  
Up ¥ 595 million mainly due to increase in cash & deposits (+ ¥ 443 million) caused by net income attributable to owners of parents, increase in operational investment securities (+ ¥ 117 million) etc.
- Non Current Assets  
Down ¥ 54 million following amortization of goodwill ( $\Delta$  ¥ 72 million), etc.
- Current Liabilities  
Up ¥ 75 million led by increase in income tax payable (+ ¥ 95 million) and so on

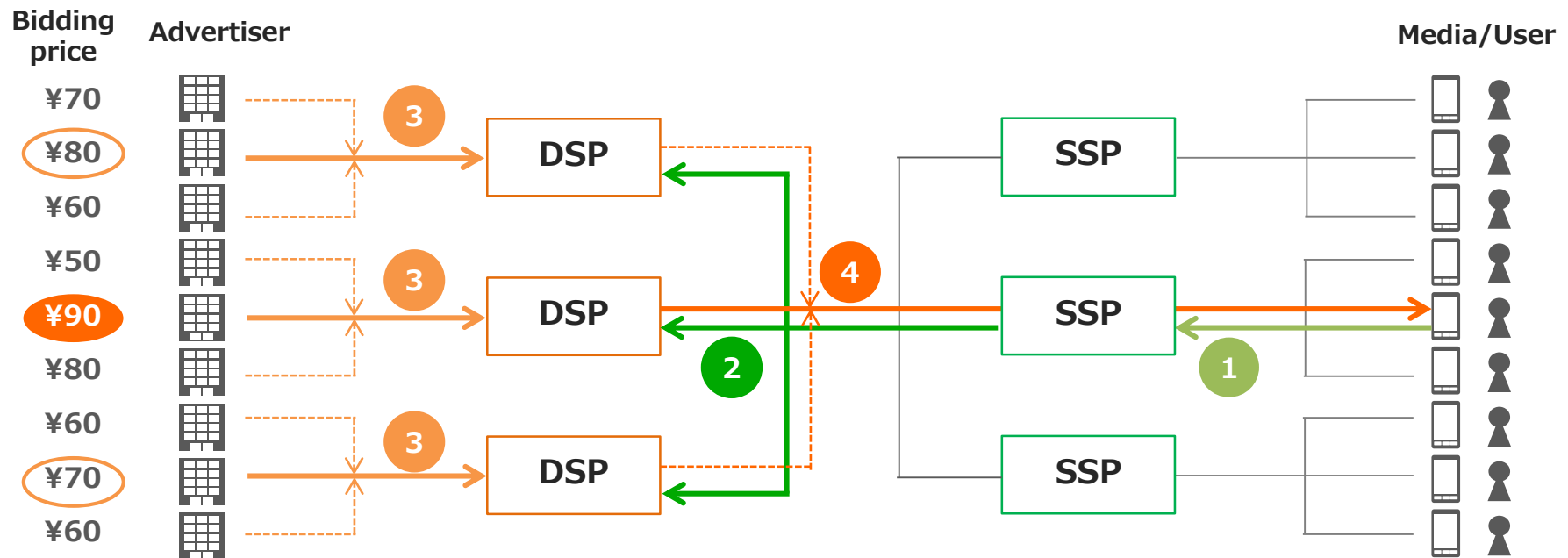
(million yen)

	End of Q3 FY2016 (Dec. 31, 2016)	End of Q2 FY2016 (Sept. 30, 2016)	Difference
<b>Current Assets</b>	9,295	8,699	+595
(Cash & Deposits)	4,107	3,664	+443
<b>Non Current Assets</b>	1,997	2,051	$\Delta$ 54
<b>Current Liabilities</b>	2,258	2,182	+75
<b>Non Current Liabilities</b>	14	15	$\Delta$ 1
<b>Net Assets</b>	9,019	8,552	+466

# 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