



Fourth Quarter of 2016
Presentation of Results

February 9, 2017

F@N Communications, Inc.

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Fourth Quarter of 2016 Performance Highlights

Fourth Quarter of 2016: Key Points

- **Sales were higher and earnings were lower year on year, and both were lower quarter on quarter.**
- **The CPA Ad Network Business was firm, but the CPC/Targeting Ad Network Business remained slow.**

Consolidated Results of Operations

Performance
Highlights

(¥ thousands)	2016 Full Year	2015 Full Year	Year-on-Year Change	% of Net Sales
Net sales	37,515,940	35,789,555	4.8%	100%
Operating income	5,825,240	6,114,214	-4.7%	15.5%
Ordinary income	5,896,376	6,179,856	-4.6%	15.7%
Profit attributable to owners of parent	3,912,146	3,950,014	-1.0%	10.4%
Ordinary income margin	15.7%	17.3%	-1.6 points	-
Net income per share	¥50.89	¥50.95	-0.1%	-
Diluted net income per share	¥50.77	¥50.70	0.1%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2015	December 31, 2016
Assets		
Current assets	18,949,251	20,896,081
Cash and deposits	12,507,446	14,544,263
Notes and accounts receivable - trade	4,331,781	4,544,032
Securities	1,766,002	1,245,375
Other	359,034	576,172
Allowance for doubtful accounts	(15,012)	(13,761)
Fixed assets	2,284,428	2,417,953
Property and equipment	275,499	205,755
Intangible assets	223,702	268,171
Investments and other assets	1,785,225	1,944,026
Total assets	21,233,679	23,314,035
Liabilities and Net Assets		
Current liabilities	6,349,889	6,513,452
Notes and accounts payable - trade	4,344,564	4,738,384
Income taxes payable	1,172,093	841,825
Other current liabilities	833,230	933,242
Long-term liabilities	142,540	162,697
Total liabilities	6,492,429	6,676,150
Total net assets	14,741,250	16,637,885
Total liabilities and net assets	21,233,679	23,314,035

Main component was ¥1,714,984 thousand in investment securities.

Increase in affiliated programs due to factors including growth in A8.net sales.

Main component was long-term guarantee deposits.

Dividend payments of ¥1,319,175 thousand and acquisition of treasury shares valued at ¥687,563 thousand offset net income of ¥3,912,146 thousand.

Consolidated Performance Forecast

Performance
Highlights

(¥ millions)	2017 Full-Year Forecast (% Change from Same Period of Previous Year)	2017 Interim Period Forecast (% Change from Same Period of Previous Year)	2016 Full Year Results
Net sales	40,000 (6.6)	19,500 (3.9)	37,515
Operating income	6,200 (6.4)	3,000 (2.4)	5,825
Ordinary income	6,240 (5.8)	3,020 (1.3)	5,896
Profit attributable to owners of parent	4,300 (9.9)	2,080 (6.4)	3,912

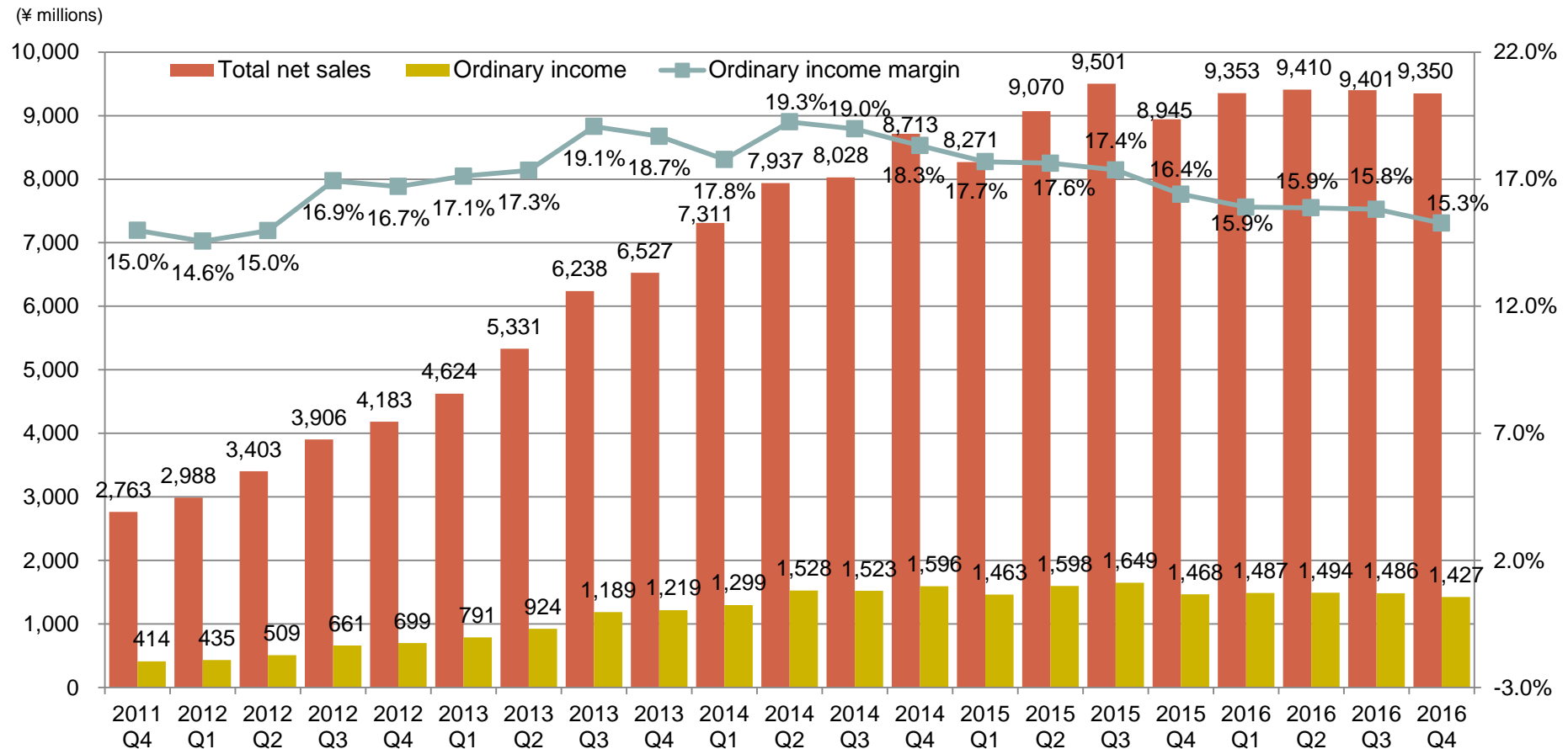
Dividend Forecast

	2017 Forecast	2016 Planned
Year-end dividend per share	¥19	¥18

Management Indicators (Quarterly Basis)

Net Sales, Ordinary Income and Ordinary Income Margin

(Consolidated/Quarterly basis)

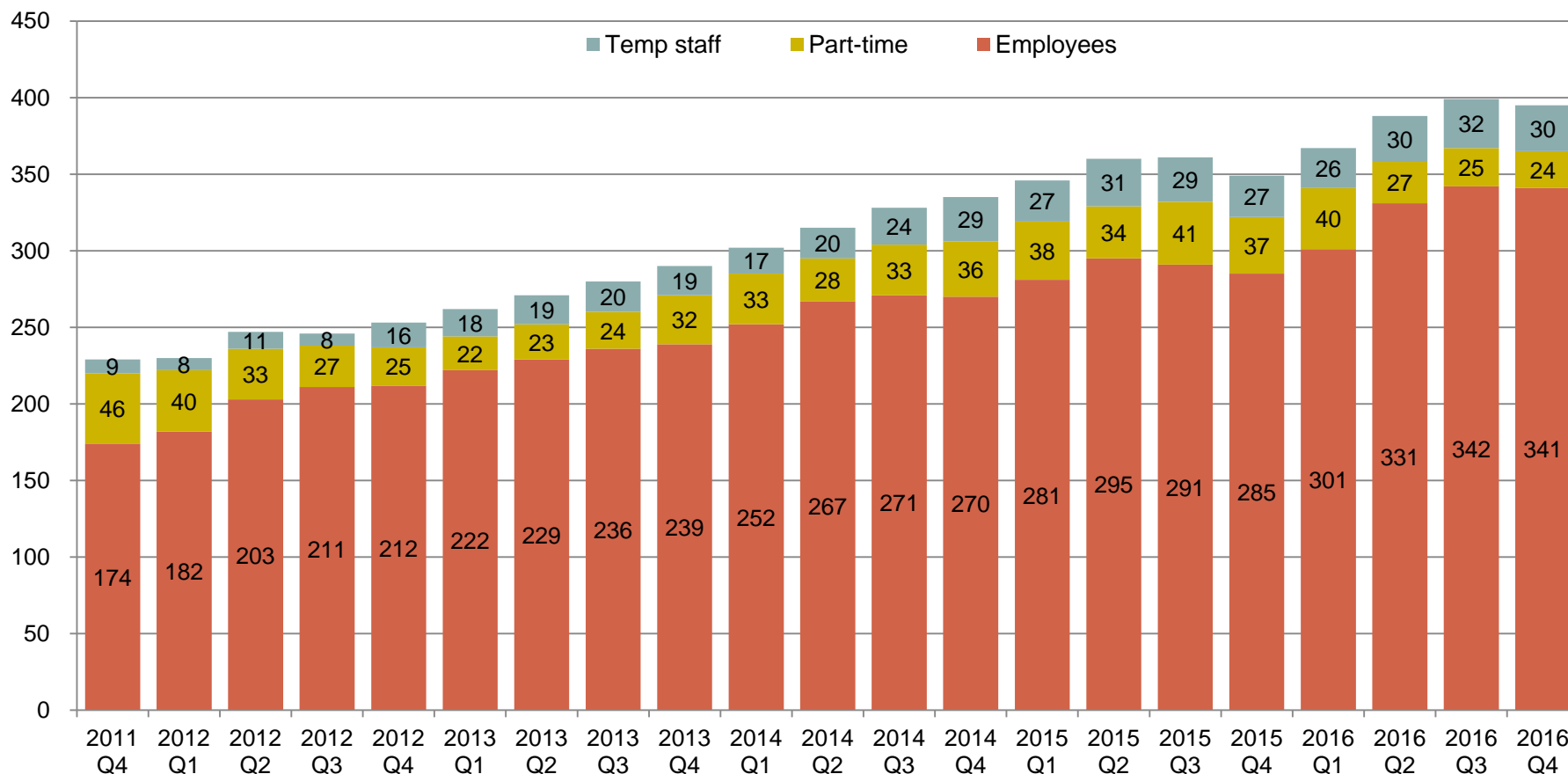


Sales were essentially unchanged quarter on quarter, but the ordinary income margin decreased 0.5 points. It was the lowest for the year.

Number of Employees

(Consolidated/Quarterly basis)

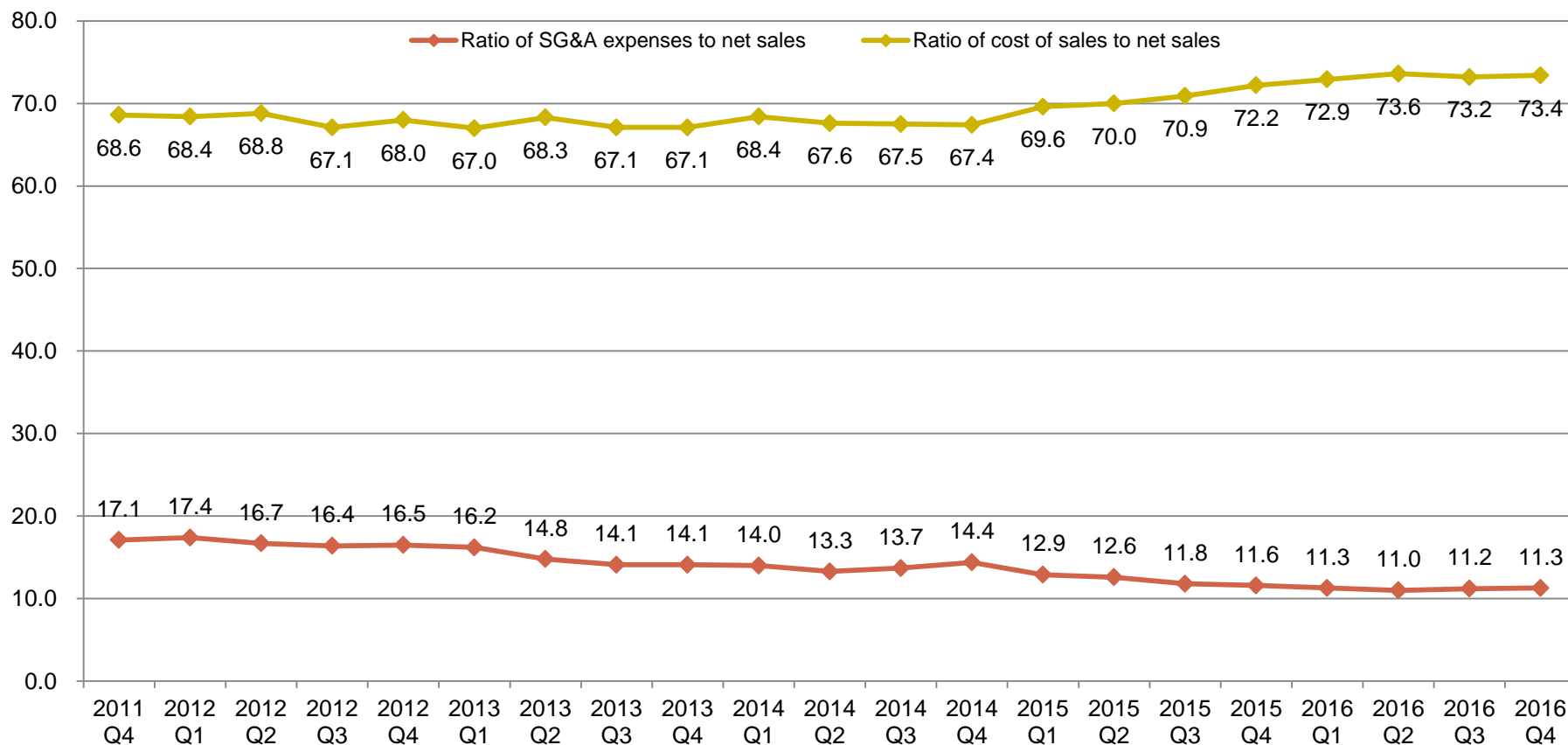
Management
Indicators



The total number of employees in the Group was 395, an increase of 46 from the same period of the previous year but a decrease of 4 compared with the previous quarter.

Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)



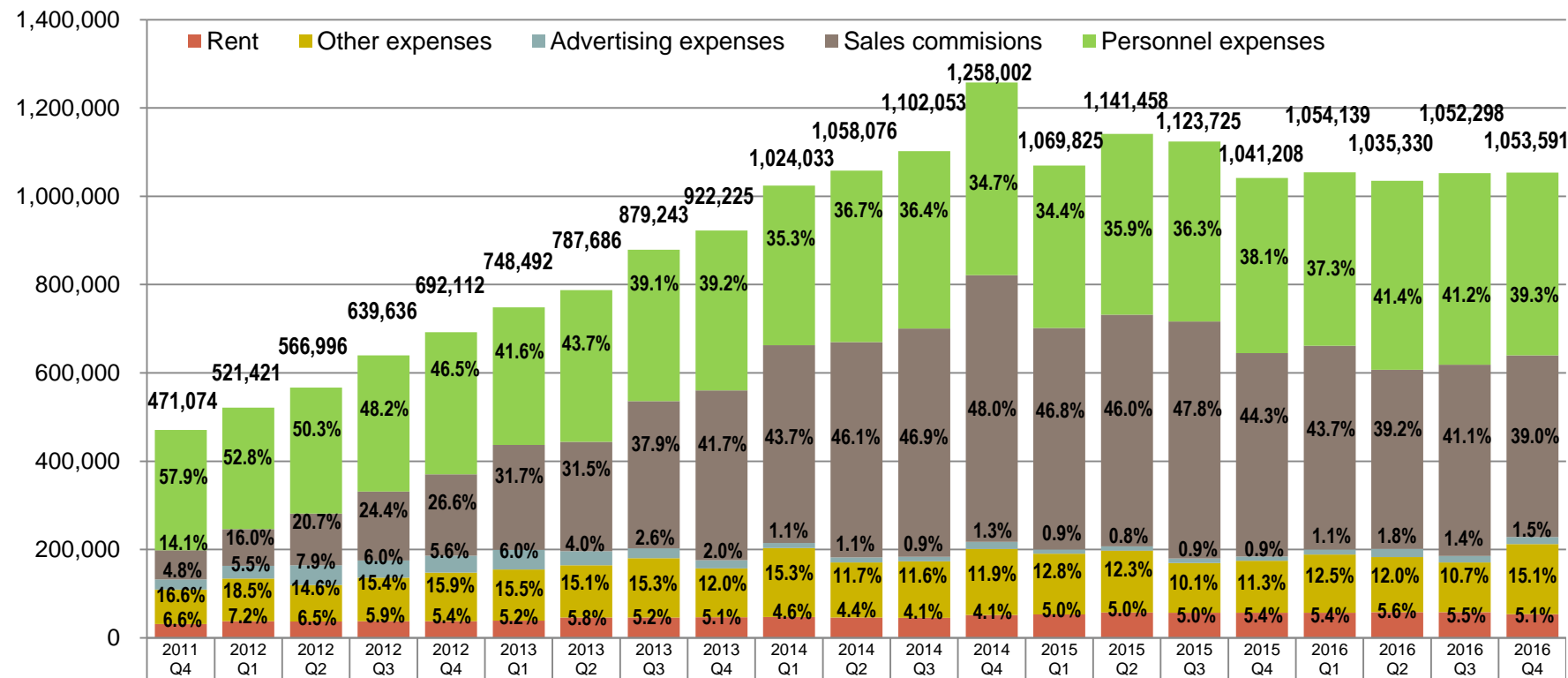
The cost of sales ratio increased 0.2 percentage points compared with 2016 Q3. The selling, general and administrative (SG&A) expenses ratio increased 0.1 percentage points.

Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management Indicators

(¥ thousands)



Personnel expenses	272,600	275,098	285,348	308,586	321,728	311,474	343,828	343,361	361,854	361,087	388,197	401,289	436,566	368,167	409,340	407,434	396,416	392,927	428,168	433,990	414,172
Sales commissions	66,238	83,443	117,196	156,051	183,991	237,408	247,729	333,271	384,525	447,747	487,438	517,151	604,200	501,190	525,038	536,587	460,743	461,030	405,918	432,741	411,202
Advertising expenses	22,781	28,539	44,726	38,474	38,641	44,671	31,814	22,529	18,278	11,619	11,951	10,153	15,747	10,014	9,566	10,081	9,553	11,300	18,250	15,067	15,582
Other expenses	78,327	96,715	82,651	98,619	110,017	116,034	118,601	134,369	110,721	156,606	124,238	127,878	149,550	137,310	139,960	112,995	117,887	131,870	124,585	112,569	159,091
Rent	31,126	37,624	37,072	37,904	37,735	38,902	45,712	45,711	46,846	46,971	46,249	45,578	51,937	53,141	57,551	56,626	56,606	57,008	58,406	57,929	53,543

Other expenses consist largely of depreciation expenses, equipment and supplies expenses, recruiting and education expenses, and taxes (primarily corporate income taxes).

While change was comparatively minor, other expenses increased because of the retirement of equipment due to relocation of a subsidiary and event costs at A8.net.

Cost of Sales

(Consolidated/Quarterly basis)

(¥ thousands)

8,000,000

7,000,000

6,000,000

5,000,000

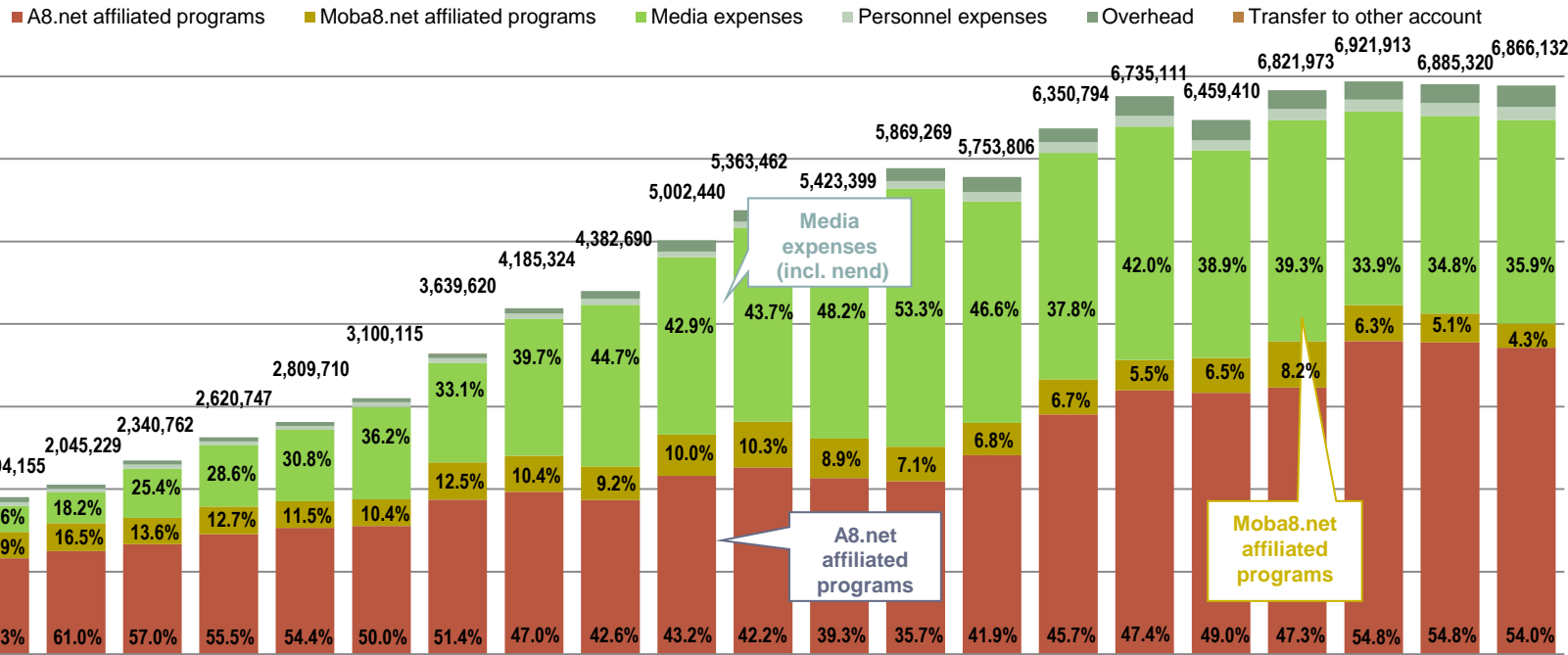
4,000,000

3,000,000

2,000,000

1,000,000

0



(1,000,000)

	2011 Q4	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Transfer to other account	(9,149)	(7,039)	(4,610)	(6,963)	(2,884)	(2,420)	90	(5,228)	(15,286)	(10,313)	(16,030)	(11,882)	(15,778)	(27,600)	(19,591)	(24,282)	(12,417)	(8,732)	(16,422)	(18,846)	(24,480)
Overhead	61,870	49,158	49,782	50,387	47,797	50,086	53,697	66,541	95,241	136,481	140,800	128,387	152,976	183,567	170,335	237,116	247,798	228,268	218,538	229,152	259,866
Personnel expenses	46,390	45,761	49,678	40,765	47,826	56,935	56,537	61,750	70,400	67,686	78,056	79,960	90,632	112,932	128,742	130,556	126,468	135,177	145,974	154,345	158,396
Media expenses	313,974	372,491	594,770	750,680	864,672	1,122,067	1,204,996	1,659,546	1,960,683	2,147,395	2,345,331	2,614,524	3,129,333	2,682,124	2,741,405	2,828,754	2,510,981	2,680,168	2,347,429	2,394,630	2,466,943
Moba8.net affiliated programs	320,232	337,235	317,307	331,691	323,522	322,583	453,356	437,186	404,245	501,055	554,355	478,888	415,362	392,287	427,125	367,442	420,076	558,996	434,707	350,080	295,131
A8.net affiliated programs	1,160,836	1,247,620	1,333,834	1,454,190	1,528,774	1,550,862	1,870,940	1,965,527	1,867,407	2,160,132	2,260,948	2,133,520	2,096,742	2,410,493	2,902,774	3,195,522	3,166,500	3,228,092	3,791,684	3,775,956	3,710,244

Media expenses consist of nend, nex8, adcrops, medi8, and other companies. The seed App is included in Moba8.net affiliated programs. Overhead expenses include infrastructure expenses such as data center expenses.

The cost of sales ratio continues to improve at A8.net. Overhead expenses increased due mainly due to higher infrastructure expenses such as data center rent. Media expenses increased due to higher sales at adcrops and other companies.

Overview by Main Service Area

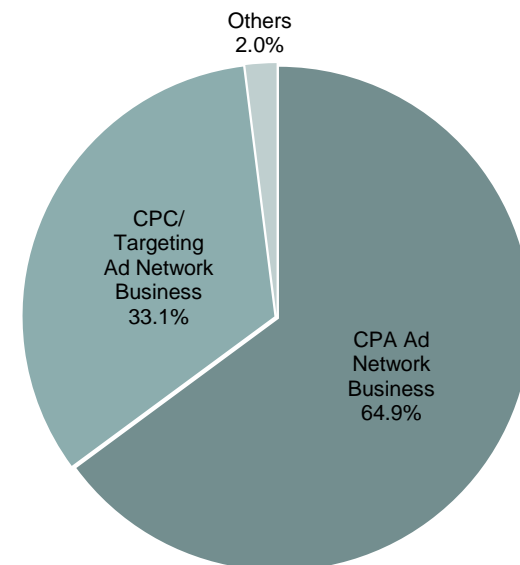
Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

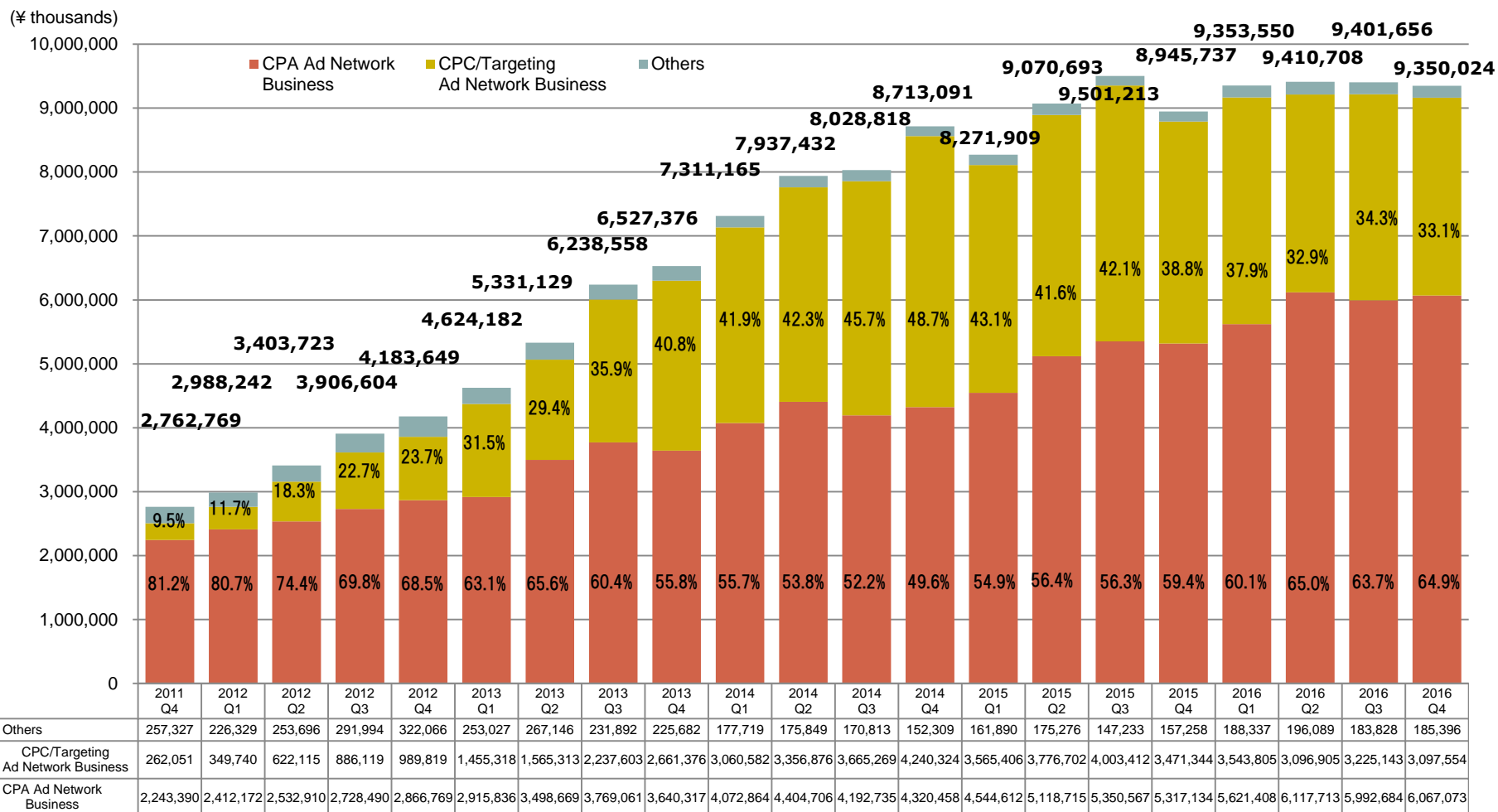
(¥ thousands)	2016 Q4 (Oct. – Dec.)	2015 Q4 (Oct. – Dec.)	Change
CPA Ad Network Business	6,067,073	5,317,134	14.1%
CPC/Targeting Ad Network Business	3,097,554	3,471,344	-10.8%
Others	185,396	157,258	17.9%
Total net sales	9,350,024	8,945,737	4.5%

Main services of CPA Ad Network Business: A8.net, Moba8.net, adcross, seed App
 Main services of CPC/Targeting Ad Network Business: nend, nex8
 Main services of Others: Own media operations, advertising agency, others



Net Sales by Reportable Segment

(Consolidated/Quarterly basis)



CPC/Targeting Ad Network Business decreased as a percentage of net sales quarter on quarter.

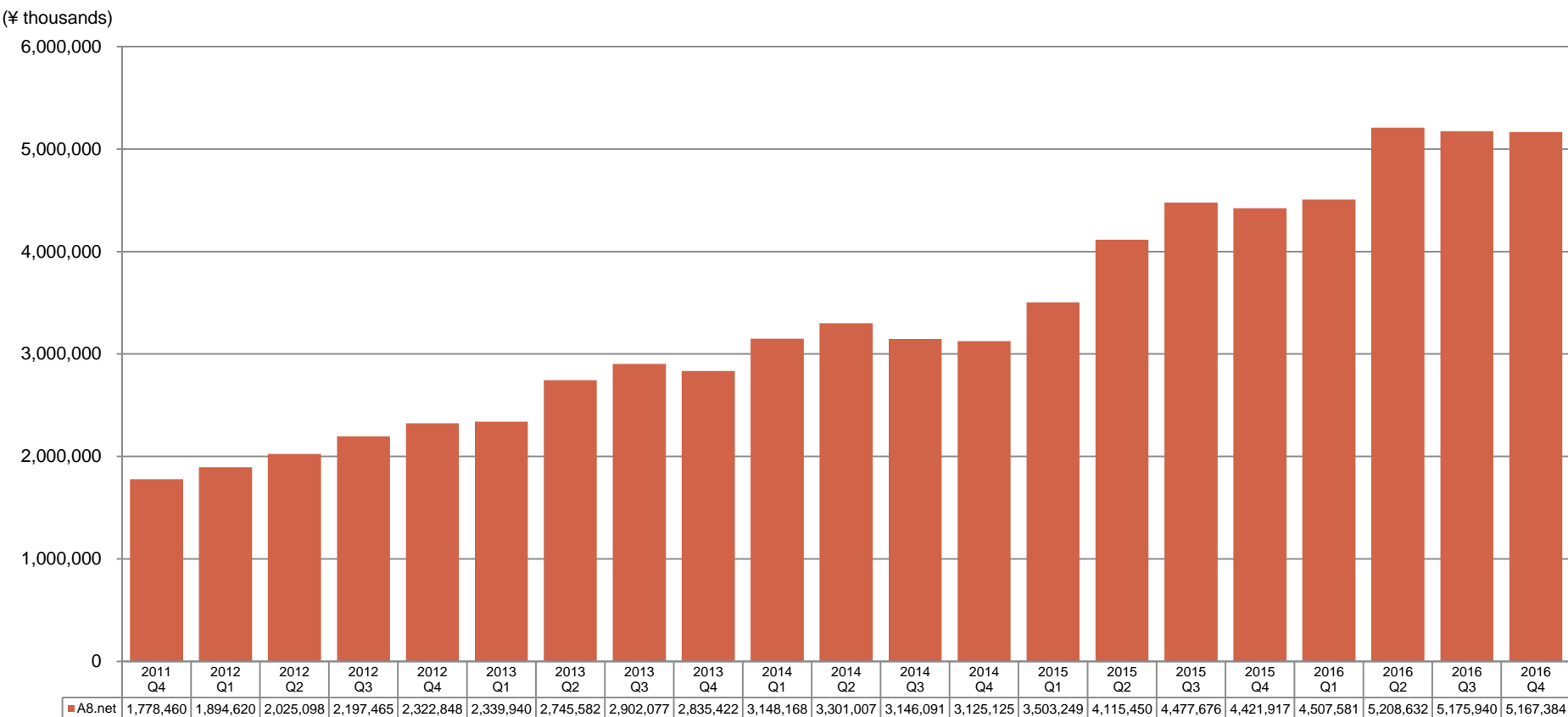
「A8.net」 Summary

	2016 Q4 (Oct. – Dec.)	2015 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	5,167,384	4,421,917	16.9%
Number of operating advertiser IDs	3,249	2,907	11.8%
Number of registered partner sites	2,154,462	1,957,945	10.0%

Sales before elimination of consolidated intercompany transactions

The number of operating advertiser IDs increased by 342 from 2015 Q4.

「A8.net」 Net Sales (Quarterly basis)

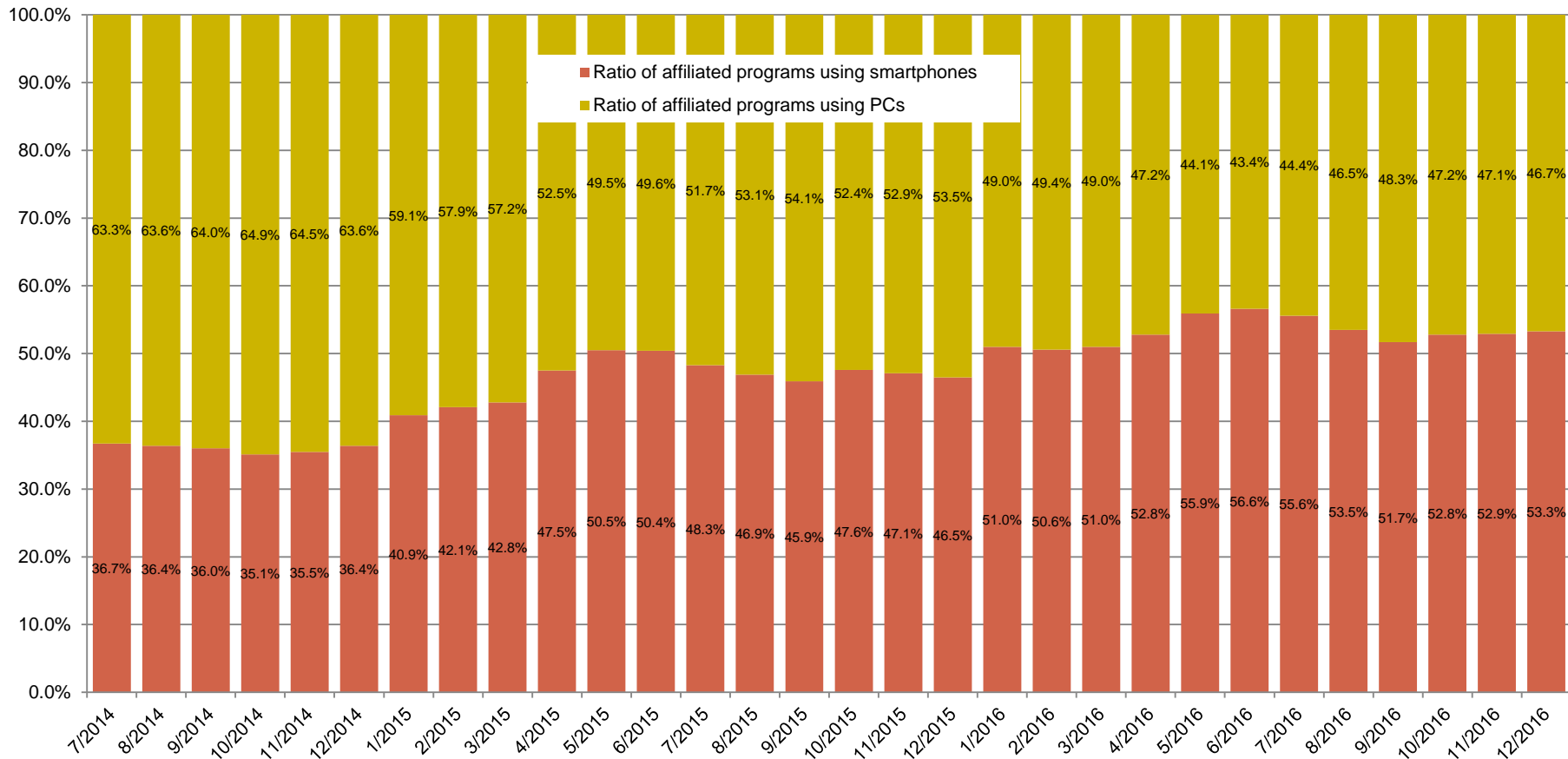


Sales before elimination of consolidated intercompany transactions

Sales were essentially unchanged quarter on quarter. Demand for electronic commerce and other services increased due to consumption at the end of 2016 and beginning of 2017.

「A8.net」

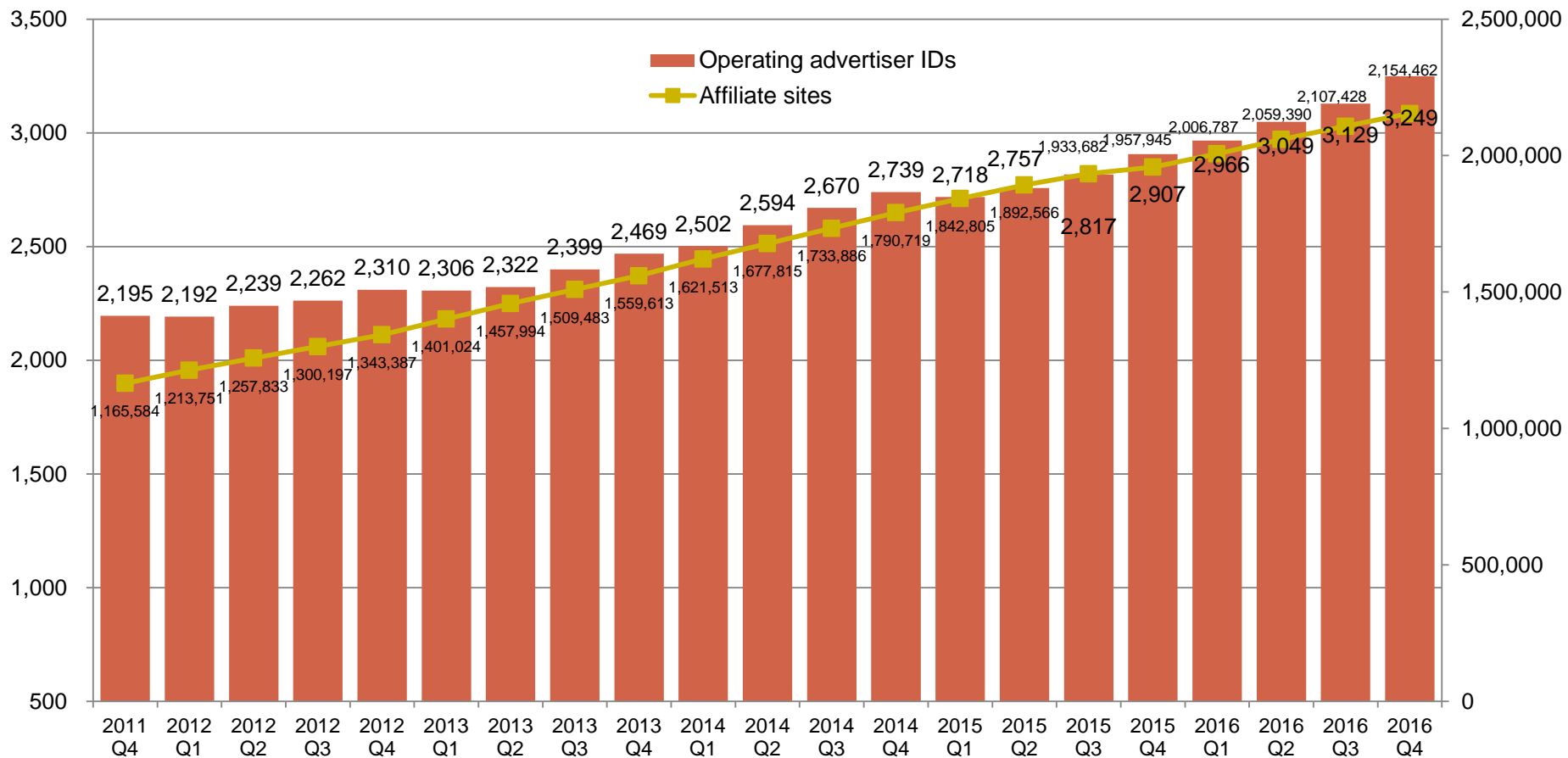
Ratio of Smartphones in Affiliated Programs (Monthly basis)



The ratio of affiliated programs using smartphones hasn't grown as much as expected since passing 50%.
 Note: The above affiliated program ratios are not final and are subject to change.

「A8.net」

Number of Operating Advertisers and Affiliate Sites (Quarterly basis)

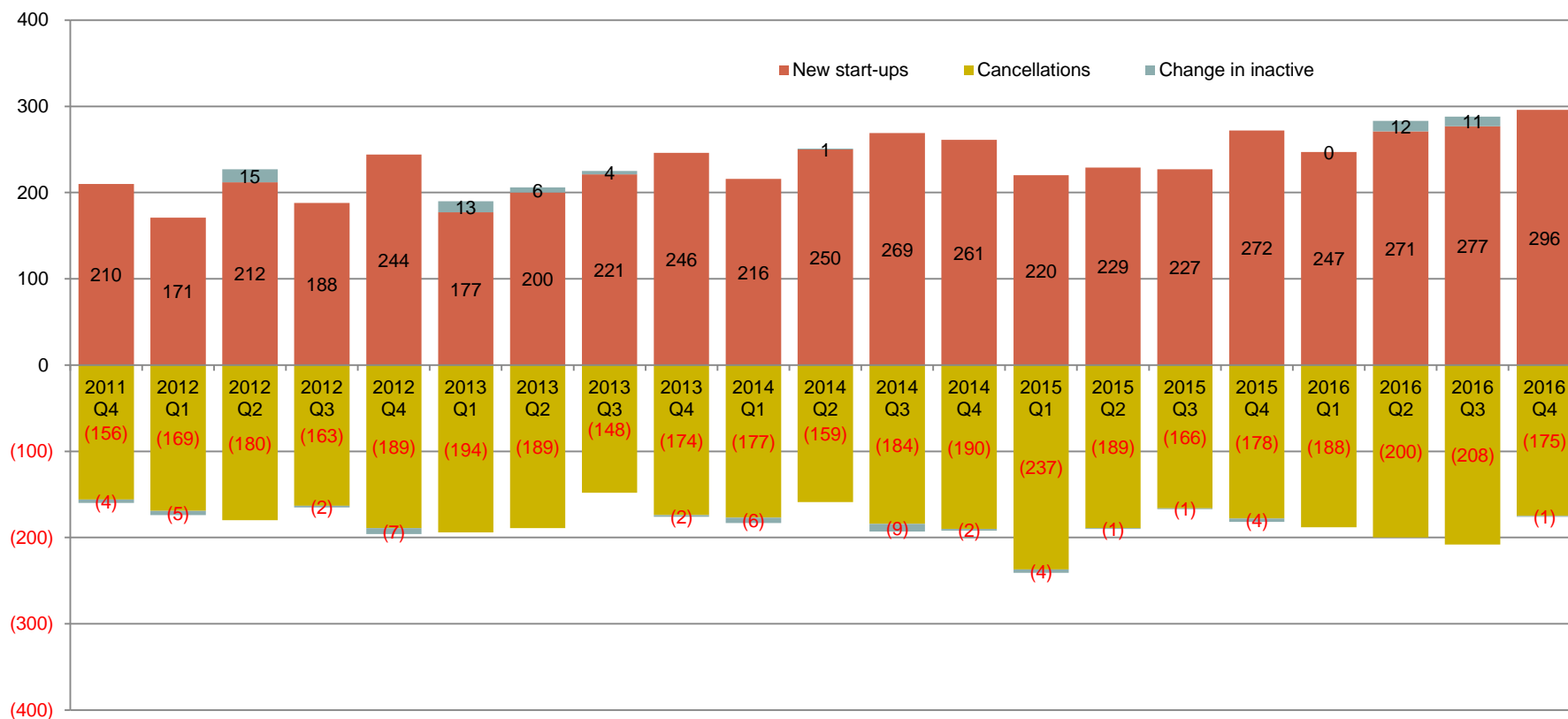


Notes: 1. The number of operating advertisers is as of the final month of each quarter.
2. The number of overseas advertisers is included from 2014 Q3.

The number of operating advertisers increased by 120 from 2016 Q3 (55 advertisers migrated from Moba8).
The number of overseas operating advertisers increased by 31 from 2016 Q3 to 224.

「A8.net」

New Advertiser Start-ups and Cancellations

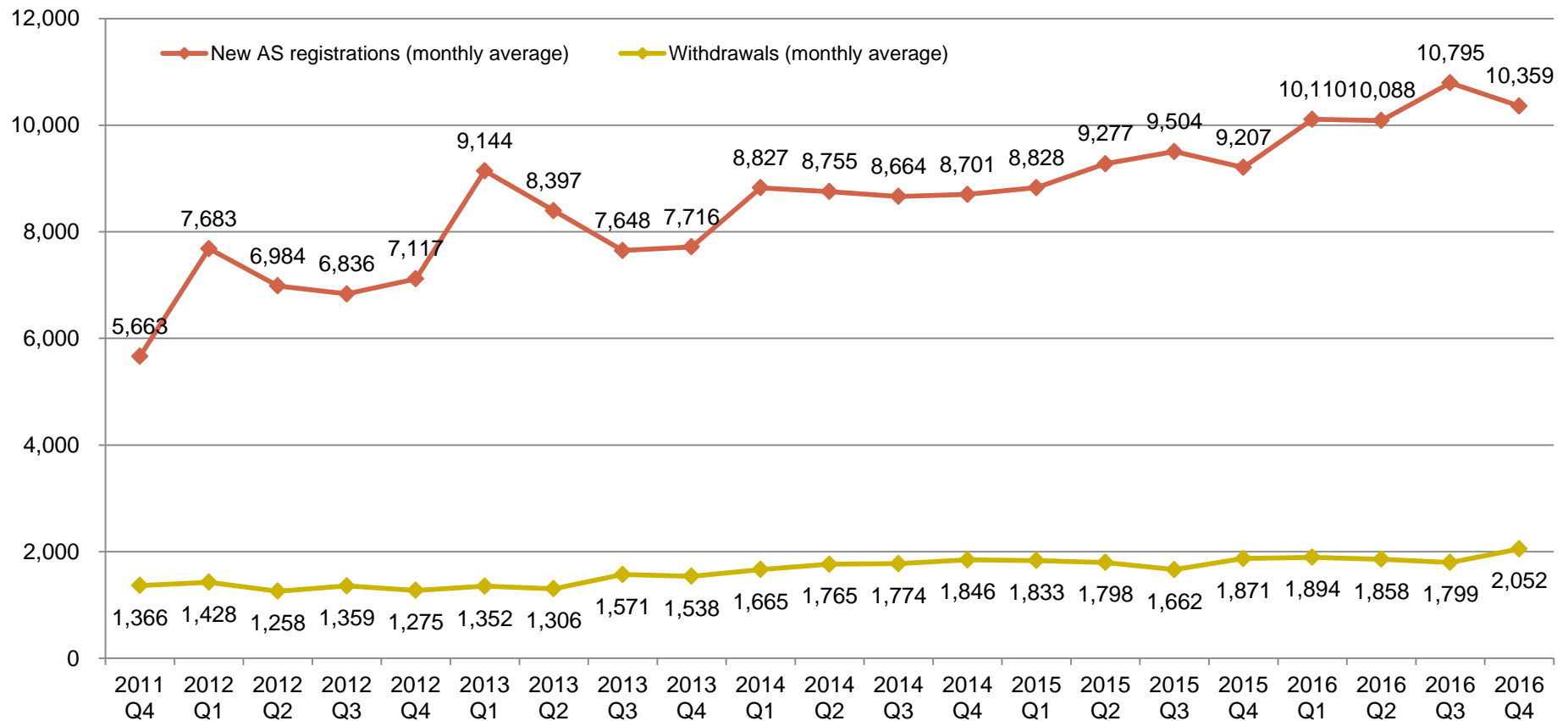


Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

Advertiser start-ups increased by 24 compared with 2015 Q4.

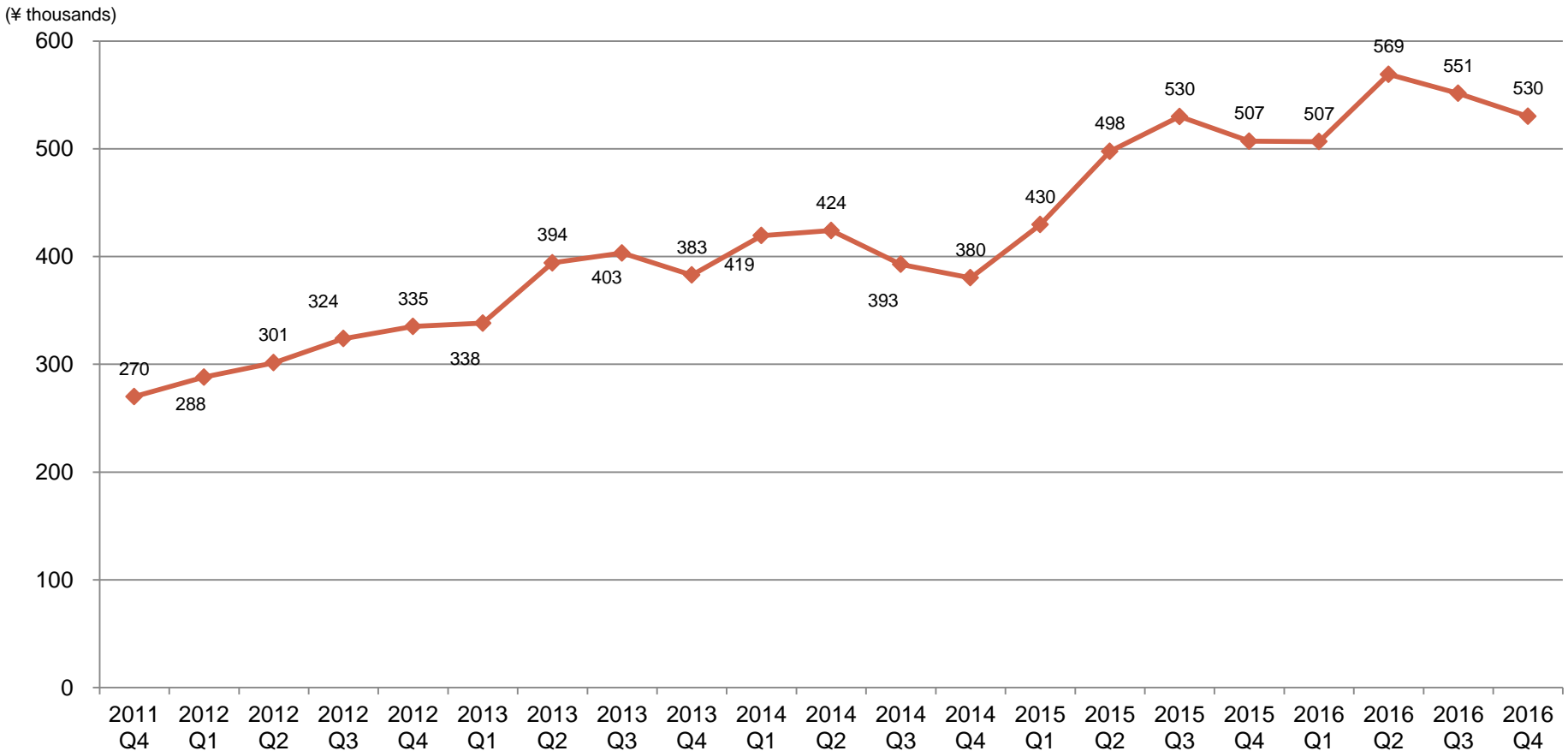
「A8.net」

Average Monthly New Affiliate Site (AS) Registrations and Withdrawals



New monthly registrations are trending upward.

「A8.net」 Average Monthly Sales per Advertiser



Average monthly sales per advertiser decreased somewhat to ¥530,000.

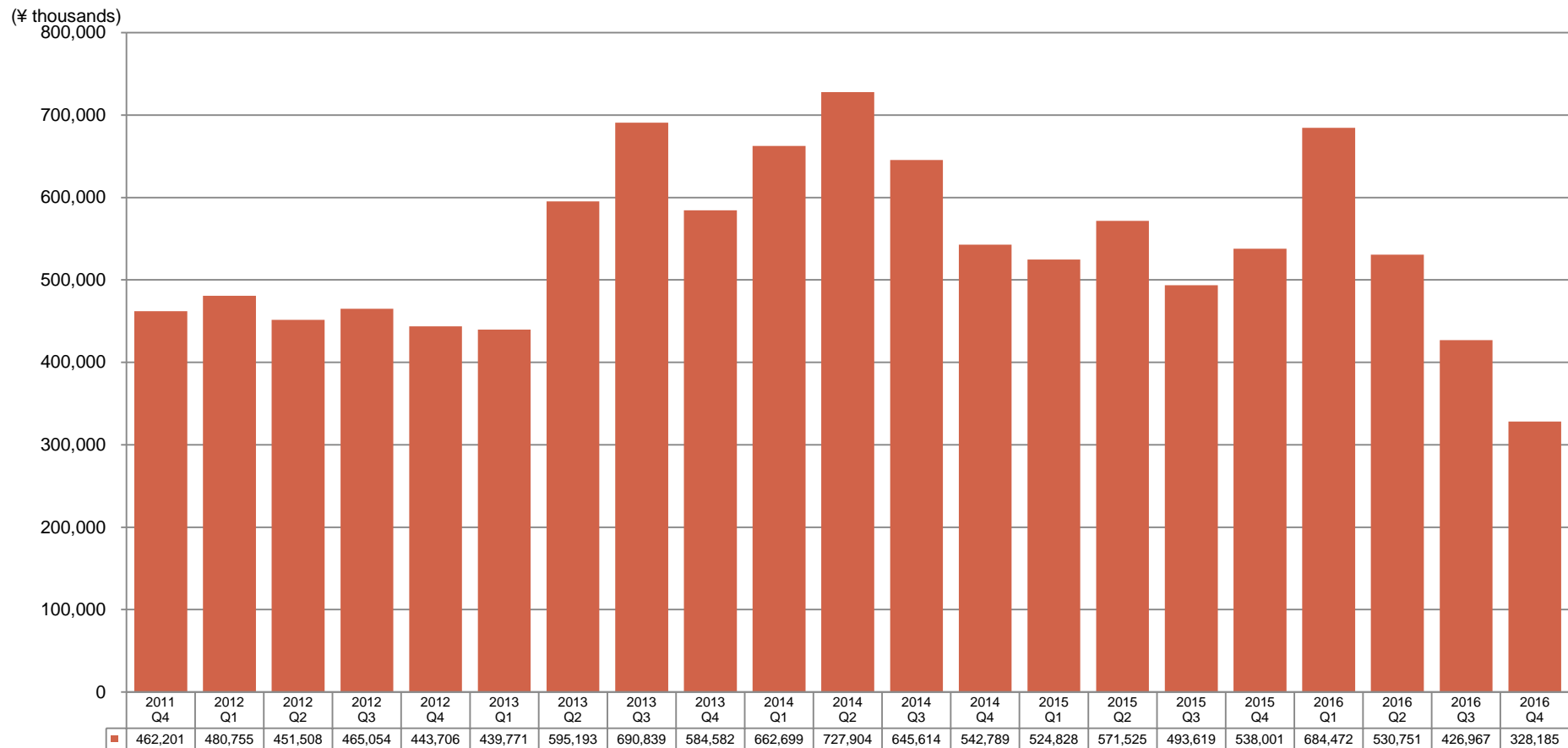
「Moba8.net」 Summary

	2016 Q4 (Oct. – Dec.)	2015 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	328,185	538,001	-39.0%
Number of operating advertiser IDs	625	1,131	-44.7%
Number of registered partner sites	278,771	261,598	6.6%

Sales are before elimination of consolidated intercompany transactions. The figures for sales are for Moba8.net only, and do not include sales of other services.

We do not plan to replace advertisers who terminate service. Also, we are migrating existing advertisers to A8.net.

「Moba8.net」 Net Sales (Quarterly basis)

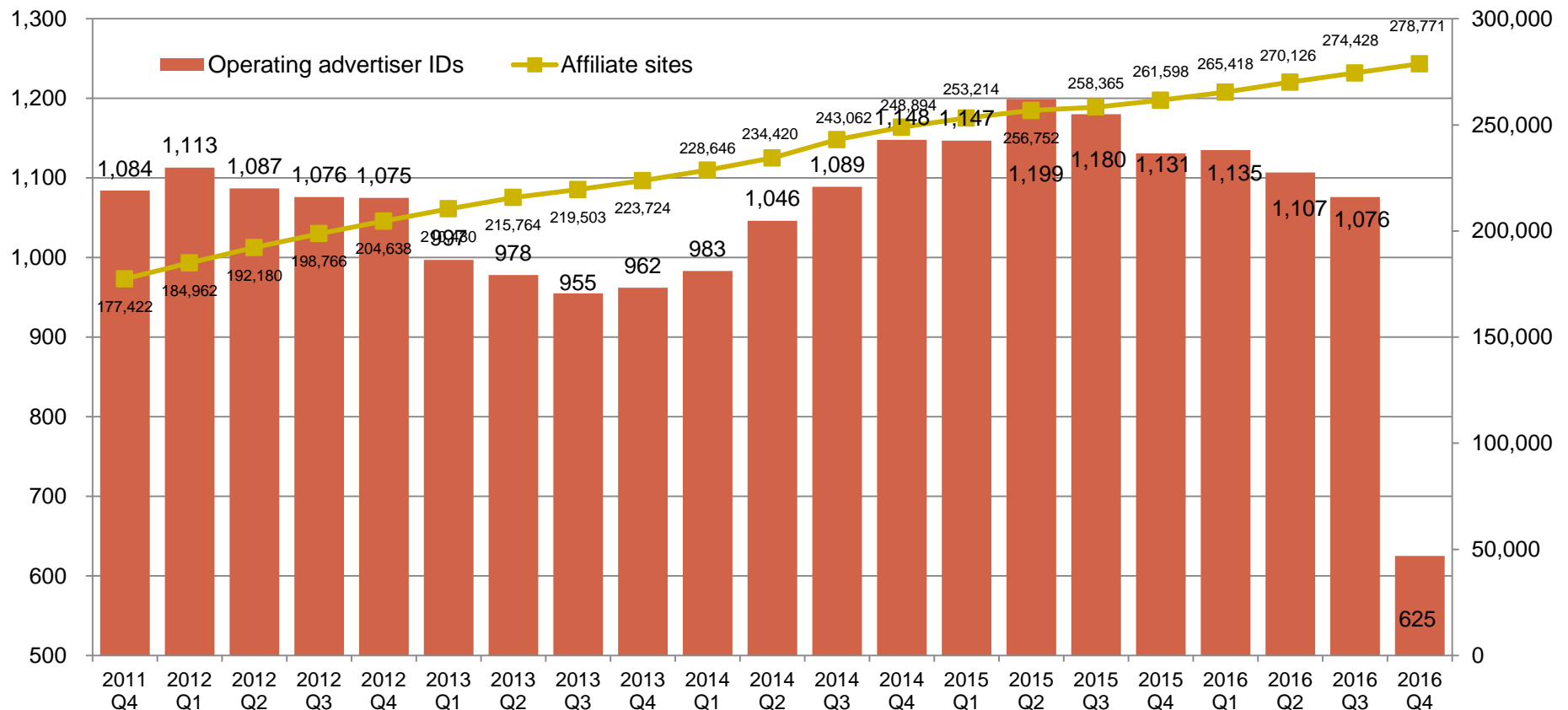


Sales are before elimination of consolidated intercompany transactions. The figures for sales are for Moba8.net only, and do not include sales of other services.

We are optimizing the allocation of Moba8.net's sales resources to other services.

「Moba8.net」

Number of Operating Advertisers and Affiliate Sites (Quarterly basis)

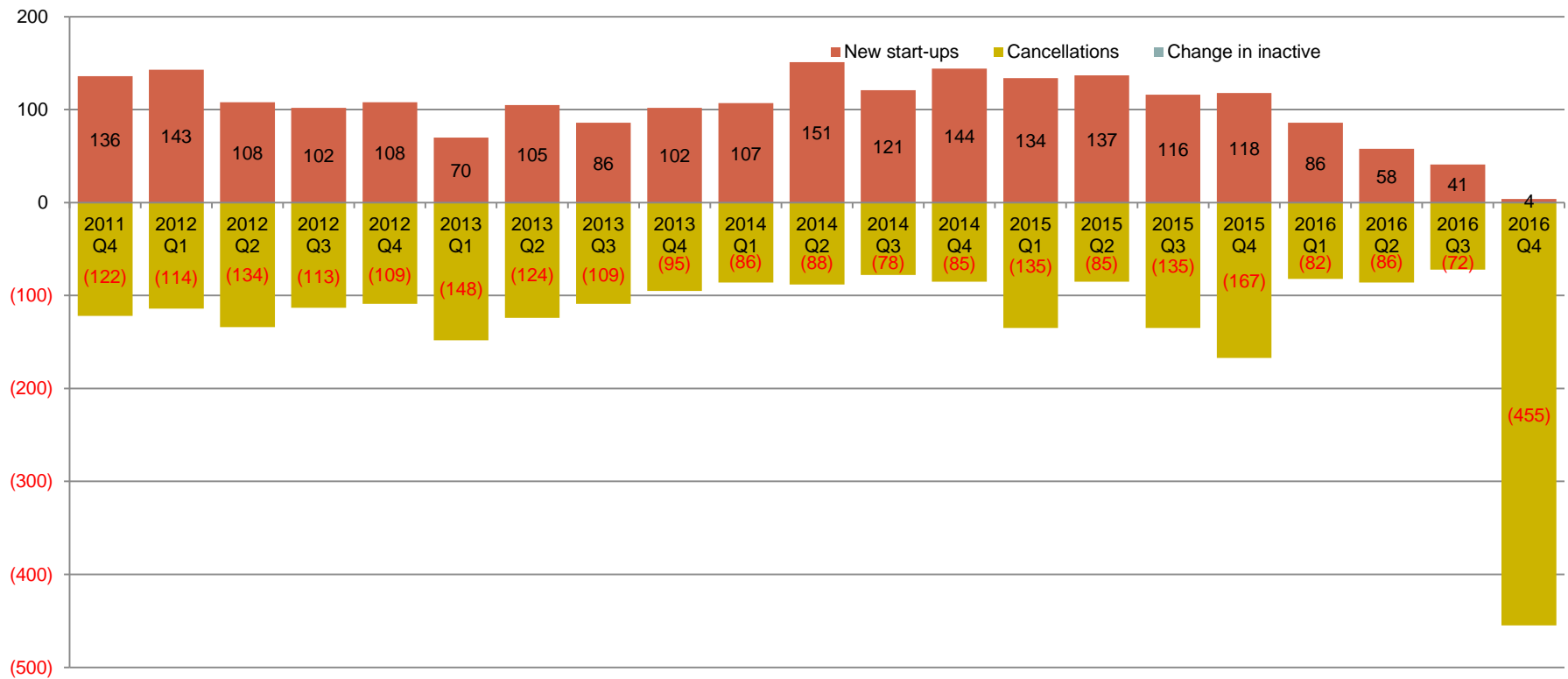


Note: The number of operating advertisers is as of the final month of each quarter.

The number of operating advertisers has decreased greatly.

「Moba8.net」

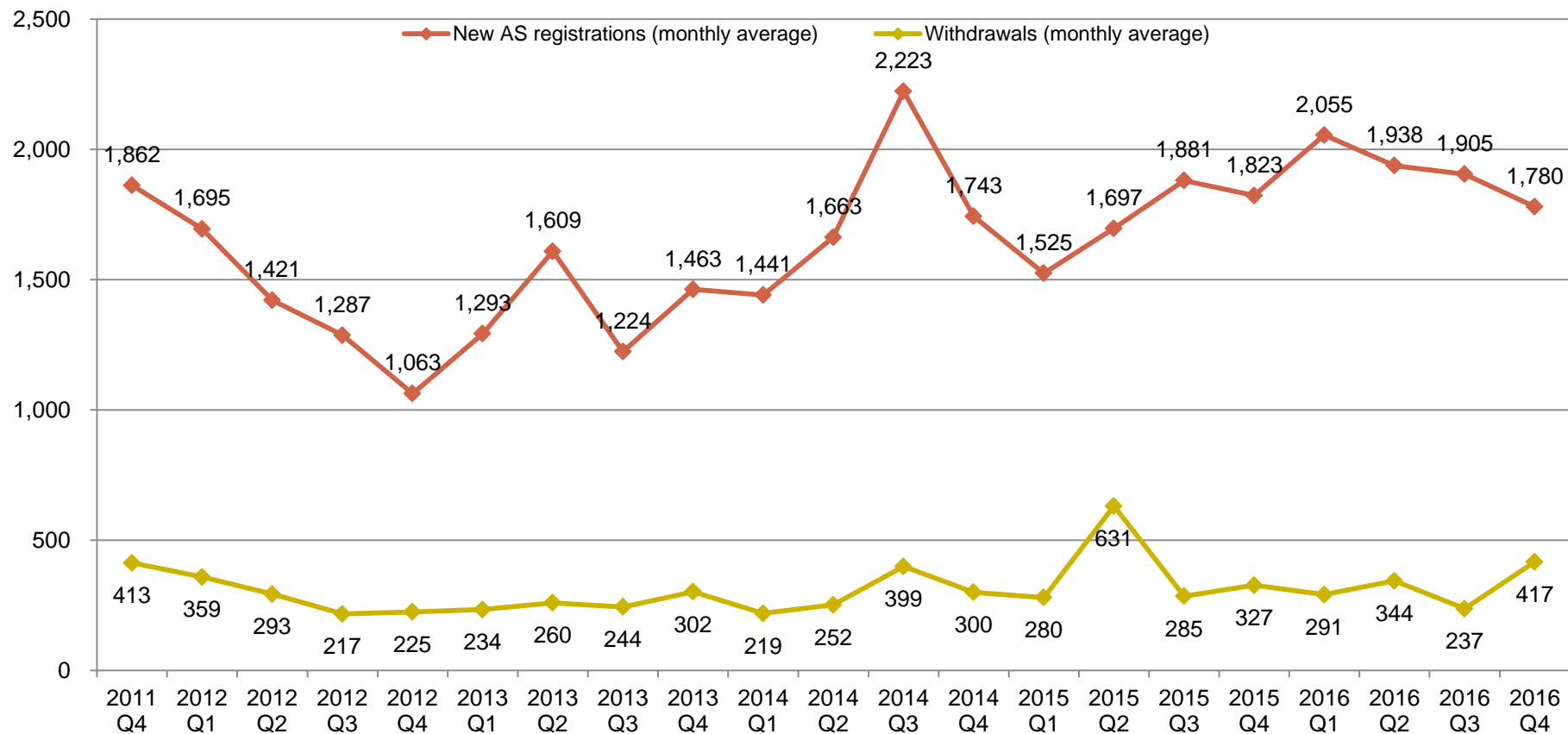
New Advertiser Start-ups and Cancellations (Quarterly basis)



We are closing this business.

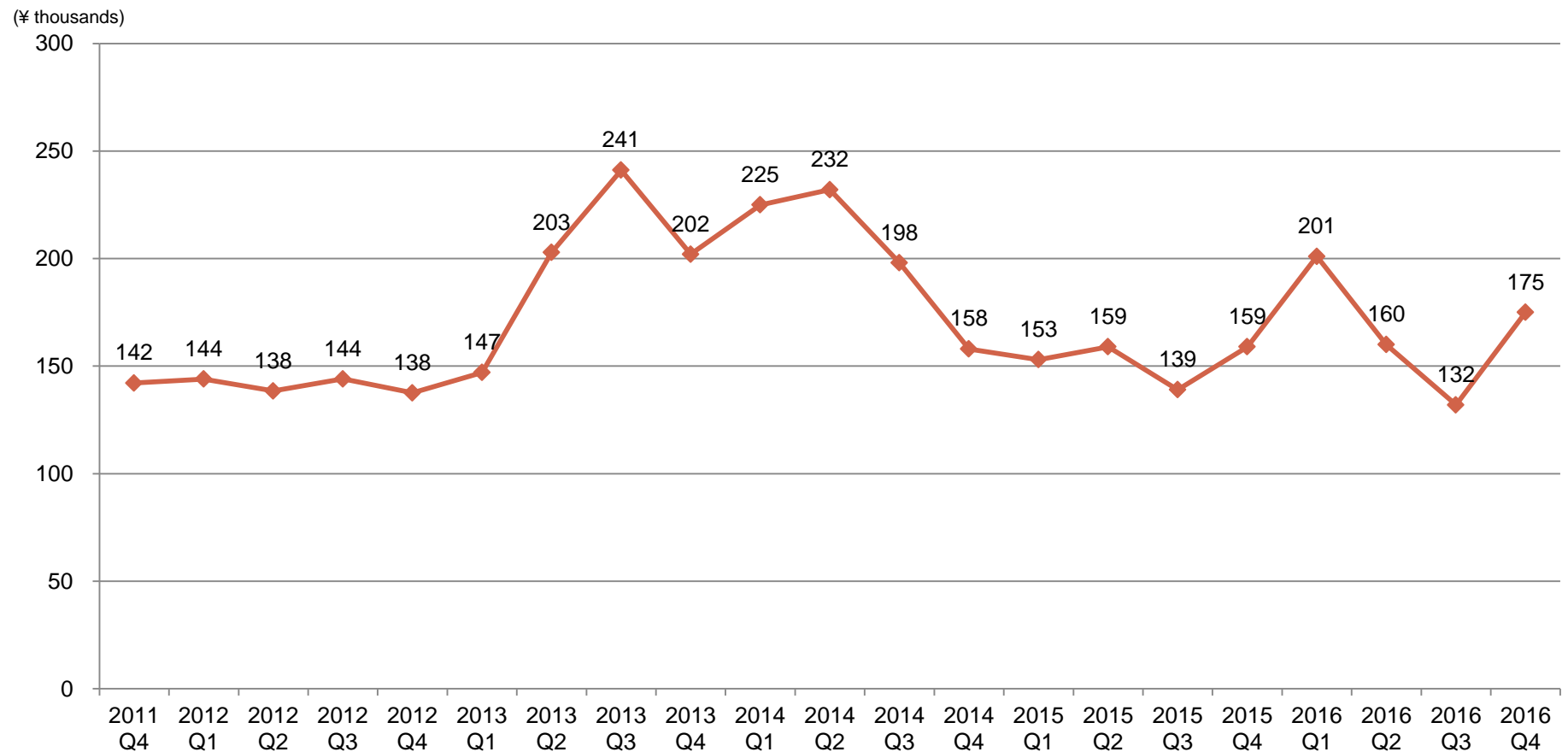
「Moba8.net」

Average Monthly New Affiliate Site (AS) Registrations and Withdrawals



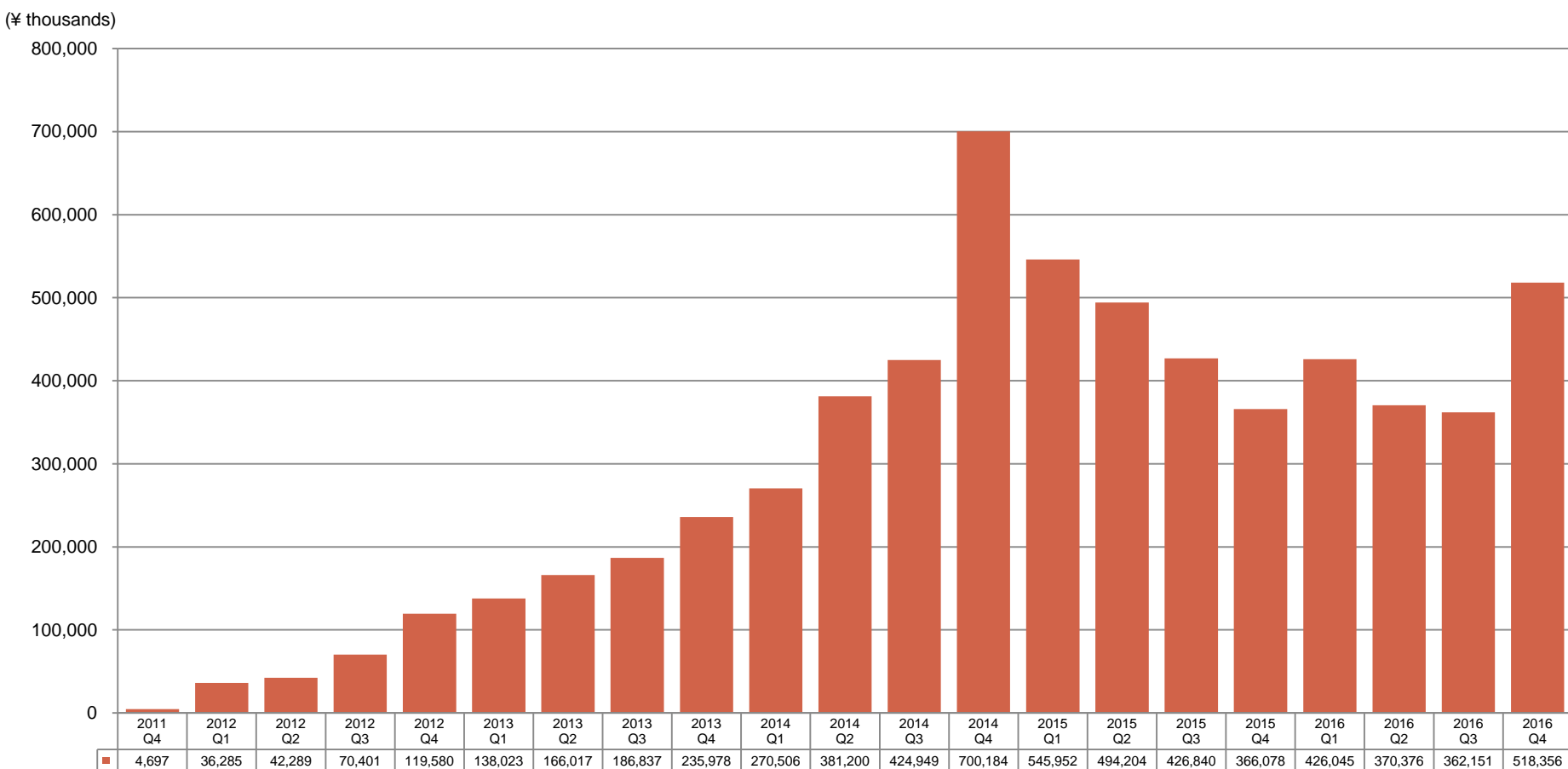
The number of new registrations is trending downward.

「Moba8.net」 Average Monthly Sales per Advertiser



The number of operating advertisers rebounded.

「8crops」 Net Sales (Quarterly basis)



Notes: 1. The above figures are non-consolidated net sales of 8crops Inc. before elimination of consolidated intercompany transactions.
2. Sales of 8crops are recorded in "CPA Ad Network Business" in the consolidated sales of F@N Communications.

Reward advertising transaction volume has decreased and is migrating largely to general media and store media ad networks.

「nend」 Summary

CPC/Targeting
Ad Network Business

	2016 Q4 (Oct. – Dec.)	2015 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	2,426,524	2,959,355	-18.0%
Number of operating advertiser IDs	394	442	-10.9%
Number of registered partner sites	694,137	504,829	37.5%

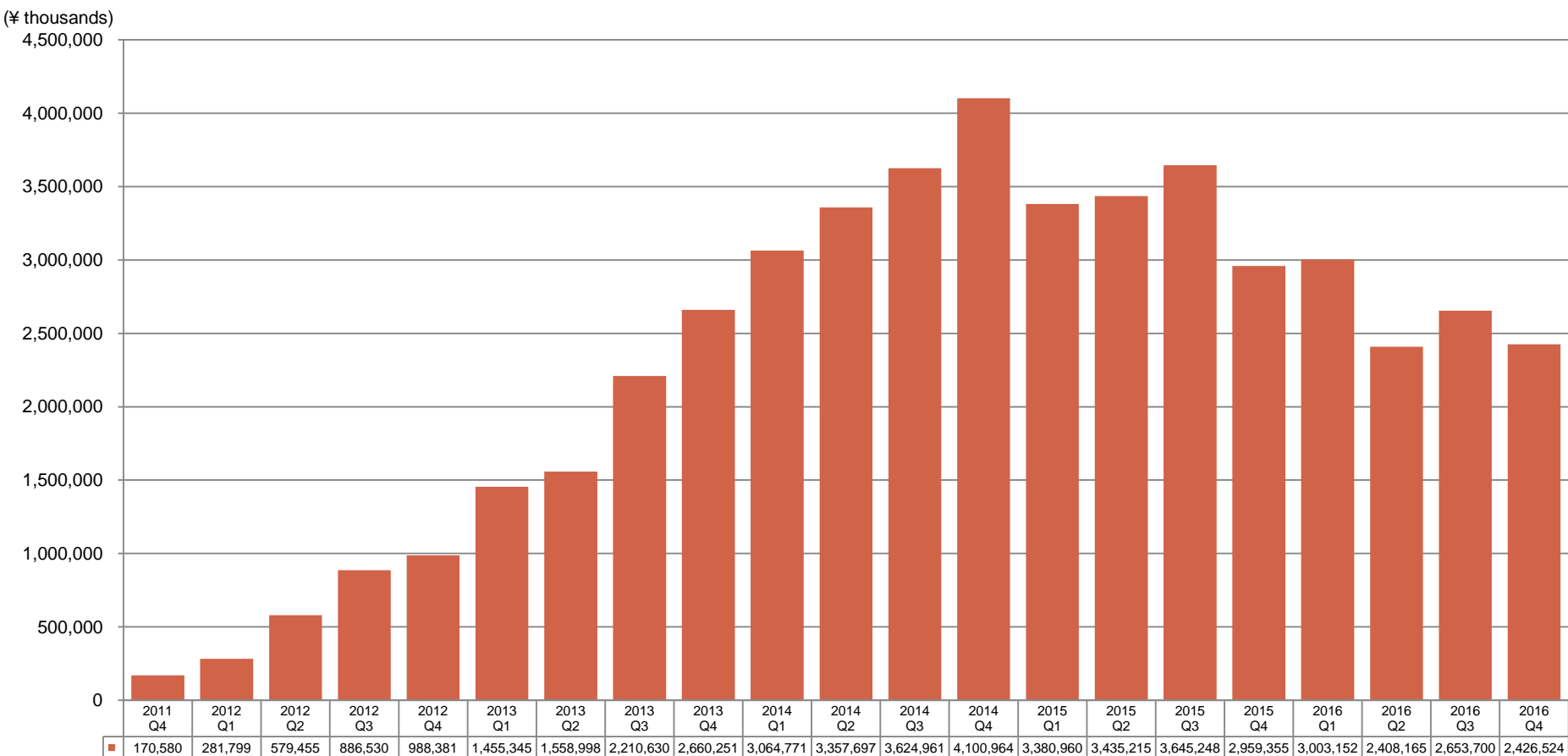
Sales before elimination of consolidated intercompany transactions

Note: Figures are those of nend only, and do not include other services.

Results were down compared with 2015 4Q.

CPC/Targeting Ad Network Business

「nend」 Net Sales (Quarterly basis)



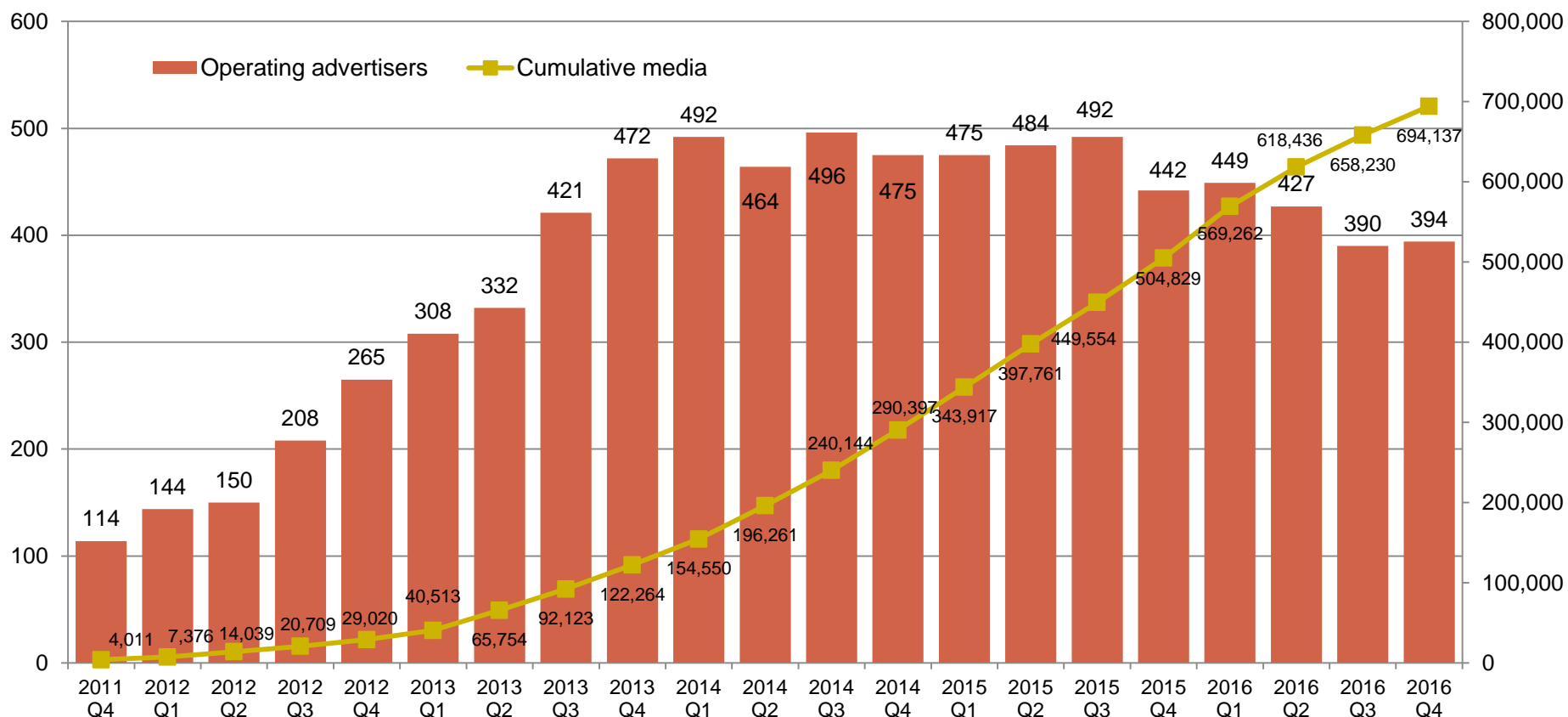
Sales before elimination of consolidated intercompany transactions

Net sales decreased somewhat quarter on quarter.

CPC/Targeting Ad Network Business

「trend」

Number of Operating Advertisers and Media (Quarterly basis)

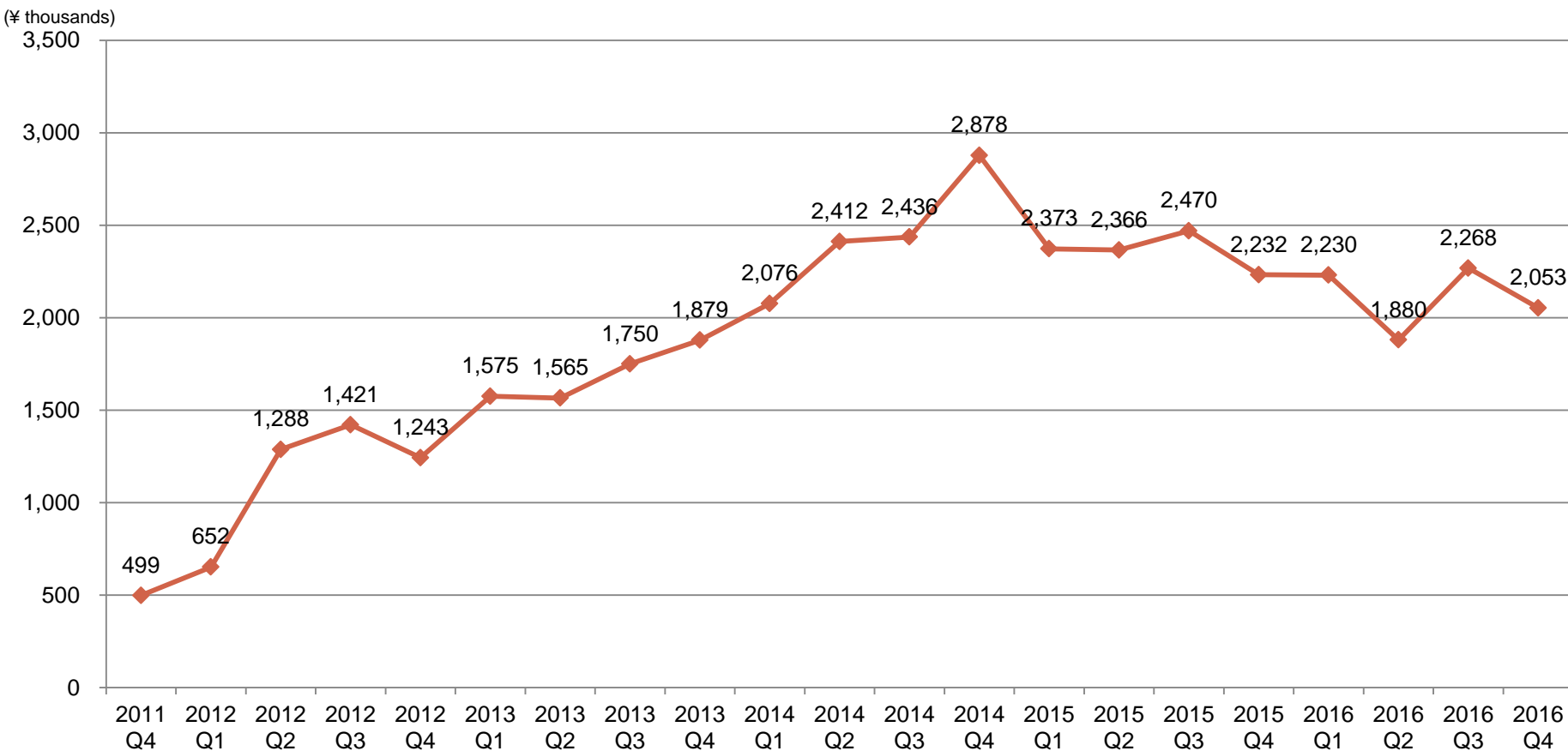


Note: The number of operating advertisers is as of the final month of each quarter.

The number of operating advertisers increased by 4 quarter on quarter.

CPC/Targeting Ad Network Business

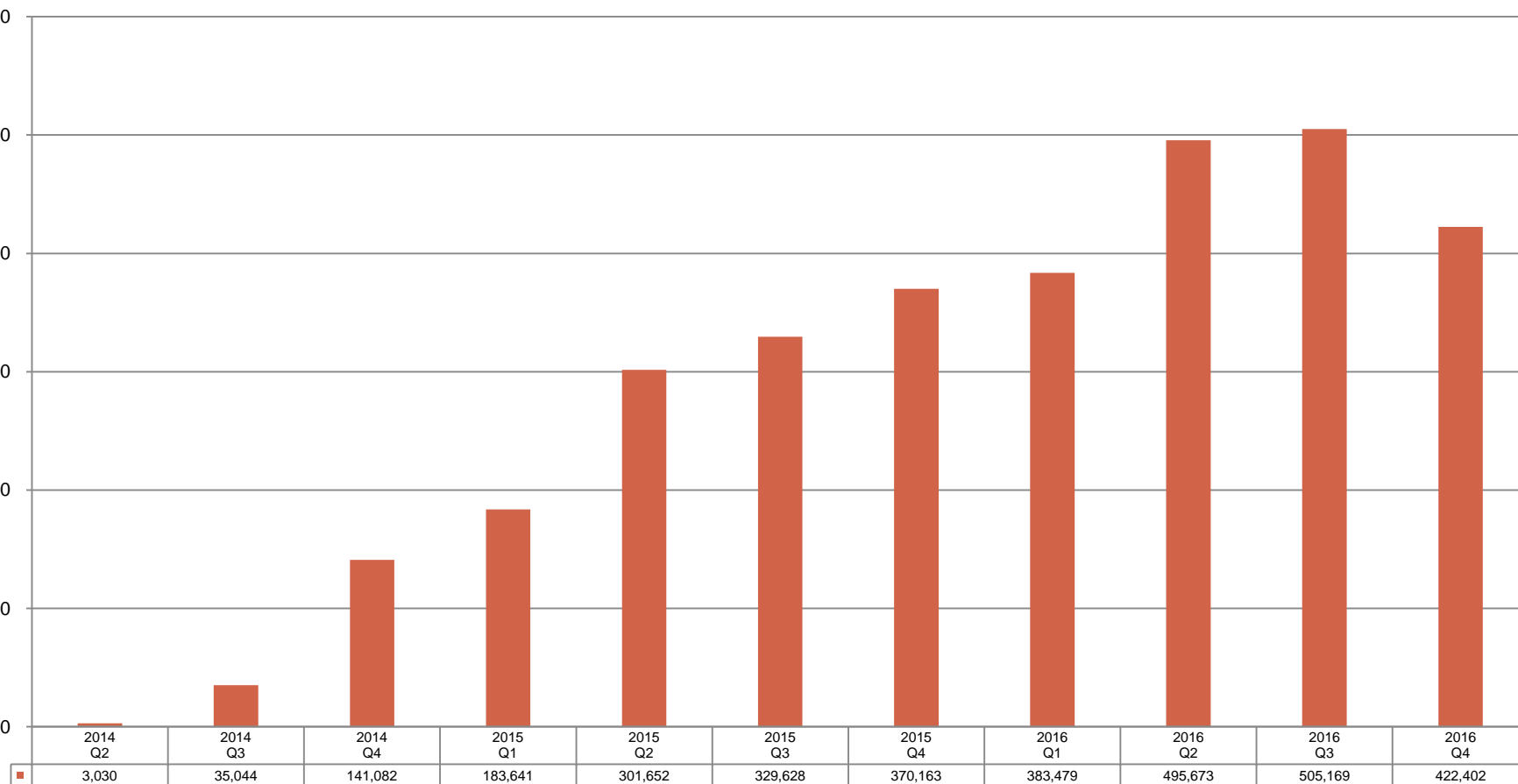
「rend」 Average Monthly Sales per Advertiser



Average monthly sales per advertiser was ¥2,050 thousand.

「nex8」 Net Sales (Quarterly basis)

(¥ thousands)



Sales before elimination of consolidated intercompany transactions

Cancellations by large advertisers presented a challenge, but our strengths include a large base of advertisers.

Consolidated Group Businesses

8crops Inc.

Note: Absorption merger on January 1, 2017

Established: August 1, 2011
(Wholly owned by F@N Communications)

Main Business

Operation of ad crops CPI* advertising services for smartphone applications

* Cost Per Install



(¥ thousands)	2016 Full Year	2015 Full Year
Net sales	1,676,929	1,833,074
Operating income	119,175	176,560
Profit attributable to owners of parent	60,897	111,245

Note: The above figures are before elimination of consolidated intercompany transactions.

Ad Japon Inc.

Established: March 1, 2012
(Wholly owned by F@N
Communications)

Main Business

Design and operation of an integrated platform for global ad networks, multilingual affiliate services and a media localization business



(¥ thousands)	2016 Full Year	2015 Full Year
Net sales	1,008,707	911,371
Operating income	71,827	69,002
Profit attributable to owners of parent	53,847	43,545

Note: The above figures are before elimination of consolidated intercompany transactions.

FAN MEDIA INC.

Note: Absorption merger planned for March 1, 2017

Established: September 12, 2000
 Name changed from REALUS INC.
 and business transferred from
 meetLabo, Inc. on April 1, 2014
 (Wholly owned by F@N
 Communications)

Main Business
 Operation of net media



(¥ thousands)	2016 Full Year	2015 Full Year
Net sales	395,757	328,121
Operating income (loss)	(33,093)	(19,836)
Profit (loss) attributable to owners of parent	(35,533)	(65,333)

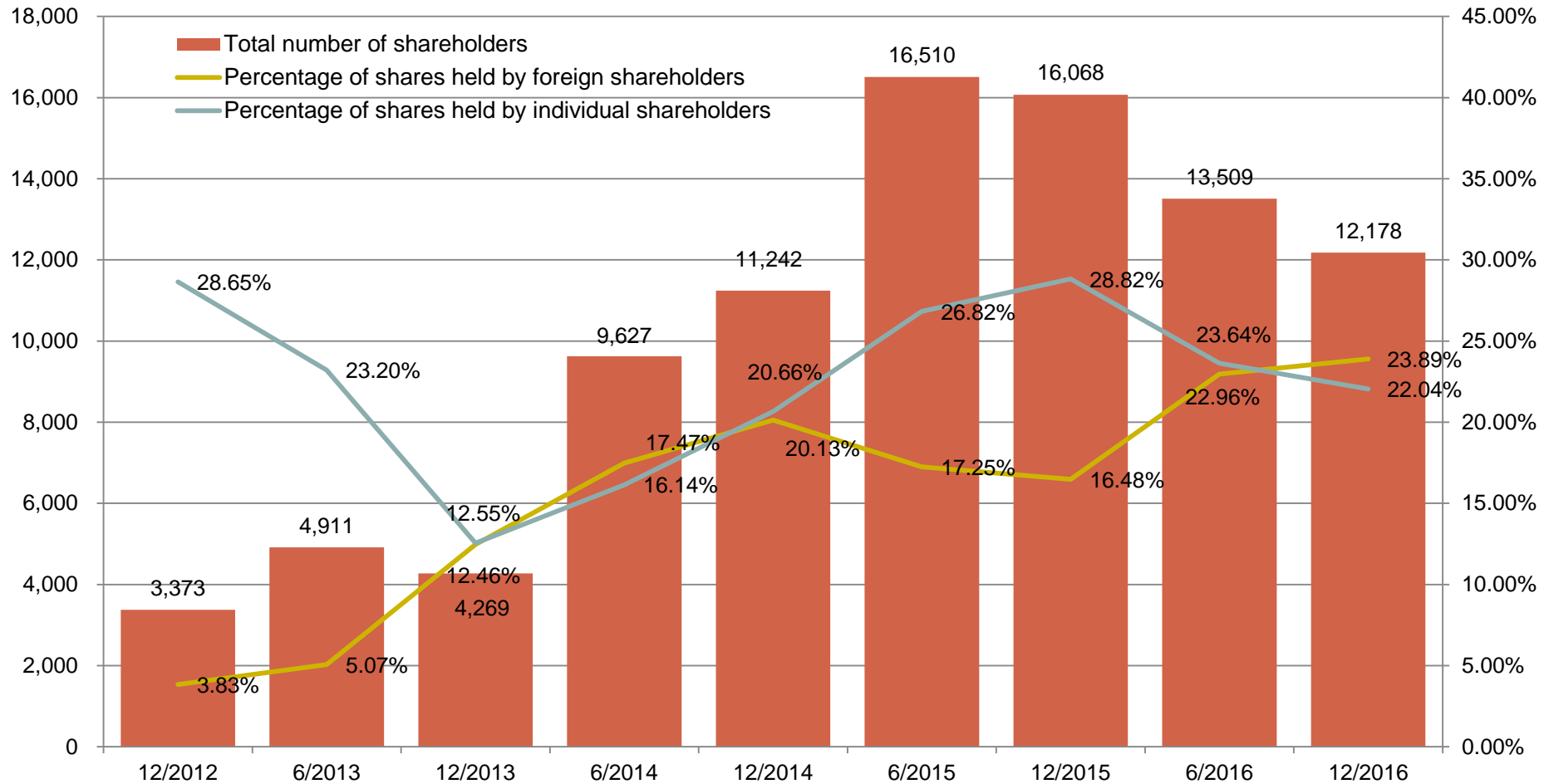
Note: The above figures are before elimination of consolidated intercompany transactions.

Stock Information

Stock Information

Stock Information

Number of Individual Shareholders and Percentage of Shares Held by Foreign Shareholders



Reference Materials

Management Vision

F@N seeks to become one of the largest affiliated program network corporate groups on the globe.

We will implement our affiliate program advertising model among advertisers, affiliate site application developers (media), and consumers in order to build ad networks that result in the largest and most optimized win-win relationships.

Our model will provide sustainable benefits such as the optimization of marketing costs for advertisers, the maximization of profit for affiliate site application developers, and the reduction of consumption costs and enhanced quality of service for consumers.

We will continue to expand our global presence by involving ourselves in the production, sales and consumption cycles best suited to the Internet Era, and create added value that contributes to society.

Company Overview

■ Company name	F@N Communications, Inc.
■ Securities code	2461 (Tokyo Stock Exchange, First Section)
■ Fiscal year-end	December
■ Established	October 1, 1999
■ Capital	¥1,135.91 million (As of December 31, 2016)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 380 Group total: 395 (As of December 31, 2016; includes part-time and temp staff)
■ Headquarters	Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan
■ Phone	+81-3-5766-3530 (IR)
■ Fax	+81-3-5766-3782

Disclaimer

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