



First Quarter of 2017  
Presentation of Results

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May 11, 2017  
F@N Communications, Inc.

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# First Quarter of 2017 Performance Highlights

## First Quarter of 2017: Key Points

### Performance Highlights

- **Q1 net sales were ¥9,870 million, a record high for the first time in six quarters.**
- **The operating margin was lower than in Q1 2016, but increased 0.2 percentage points compared with Q4 2016.**
- **CPC/Targeting services continued to underperform, but sales decreased more slowly than in 2016.**

# Consolidated Results of Operations

Performance  
Highlights

(¥ thousands)	2017 Q1	2016 Q1	Year-on-Year Change	% of Net Sales
Net sales	9,870,565	9,353,550	5.5%	100%
Operating income	1,546,148	1,477,438	4.7%	15.7%
Ordinary income	1,554,564	1,487,330	4.5%	15.7%
Profit attributable to owners of parent	1,094,808	953,476	14.8%	11.1%
Ordinary income margin	15.7%	15.9%	-0.2 points	-
Net income per share	¥14.27	¥12.33	15.7%	-
Diluted net income per share	¥14.24	¥12.29	15.9%	-

# Consolidated Balance Sheets

## Performance Highlights

(¥ thousands)	December 31, 2016	March 31, 2017
<b>Assets</b>		
<b>Current assets</b>	<b>20,896,081</b>	<b>20,364,879</b>
Cash and deposits	14,544,263	13,969,362
Notes and accounts receivable - trade	4,544,032	4,910,862
Securities	1,245,375	1,083,146
Other	576,172	413,542
Allowance for doubtful accounts	(13,761)	(12,034)
<b>Fixed assets</b>	<b>2,417,953</b>	<b>2,783,236</b>
Property and equipment	205,755	247,408
Intangible assets	268,171	289,887
Investments and other assets	1,944,026	2,245,940
<b>Total assets</b>	<b>23,314,035</b>	<b>23,148,116</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>	<b>6,513,452</b>	<b>6,644,022</b>
Notes and accounts payable - trade	4,738,384	5,039,820
Income taxes payable	841,825	421,779
Other current liabilities	933,242	1,182,420
<b>Long-term liabilities</b>	<b>162,697</b>	<b>156,543</b>
<b>Total liabilities</b>	<b>6,676,150</b>	<b>6,800,566</b>
<b>Total net assets</b>	<b>16,637,885</b>	<b>16,347,550</b>
<b>Total liabilities and net assets</b>	<b>23,314,035</b>	<b>23,148,116</b>

Main component was ¥2,026,989 thousand in investment securities.

Key factors in the change were a ¥420,046 thousand decrease in income taxes payable and a ¥301,436 thousand increase in notes and accounts payable – trade.

Net assets decreased despite net income of ¥1,094,808 thousand due mainly to dividend payments of ¥1,381,262 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)	2017 1Q Actual	Progress (% of Full-Year Forecast)
Net sales	<b>40,000 (6.6)</b>	<b>19,500 (3.9)</b>	<b>9,870</b>	<b>24.7%</b>
Operating income	<b>6,200 (6.4)</b>	<b>3,000 (2.4)</b>	<b>1,546</b>	<b>24.9%</b>
Ordinary income	<b>6,240 (5.8)</b>	<b>3,020 (1.3)</b>	<b>1,554</b>	<b>24.9%</b>
Profit attributable to owners of parent	<b>4,300 (9.9)</b>	<b>2,080 (6.4)</b>	<b>1,094</b>	<b>25.4%</b>

## Dividend Forecast

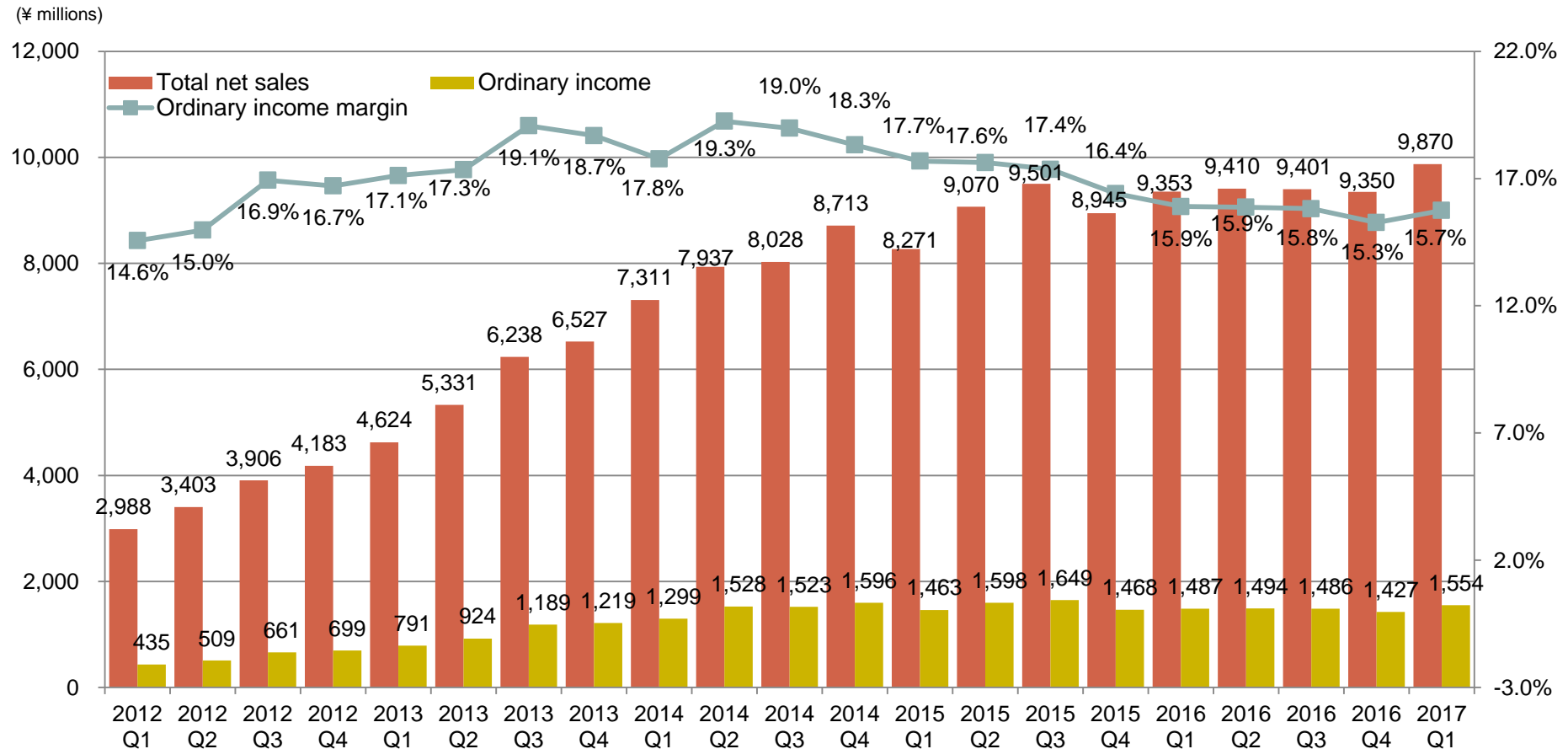
	2017 Forecast	2016 Actual
Year-end dividend per share	<b>¥19</b>	<b>¥18</b>

# Management Indicators (Quarterly Basis)



# Net Sales, Ordinary Income and Ordinary Income Margin

(Consolidated/Quarterly basis)

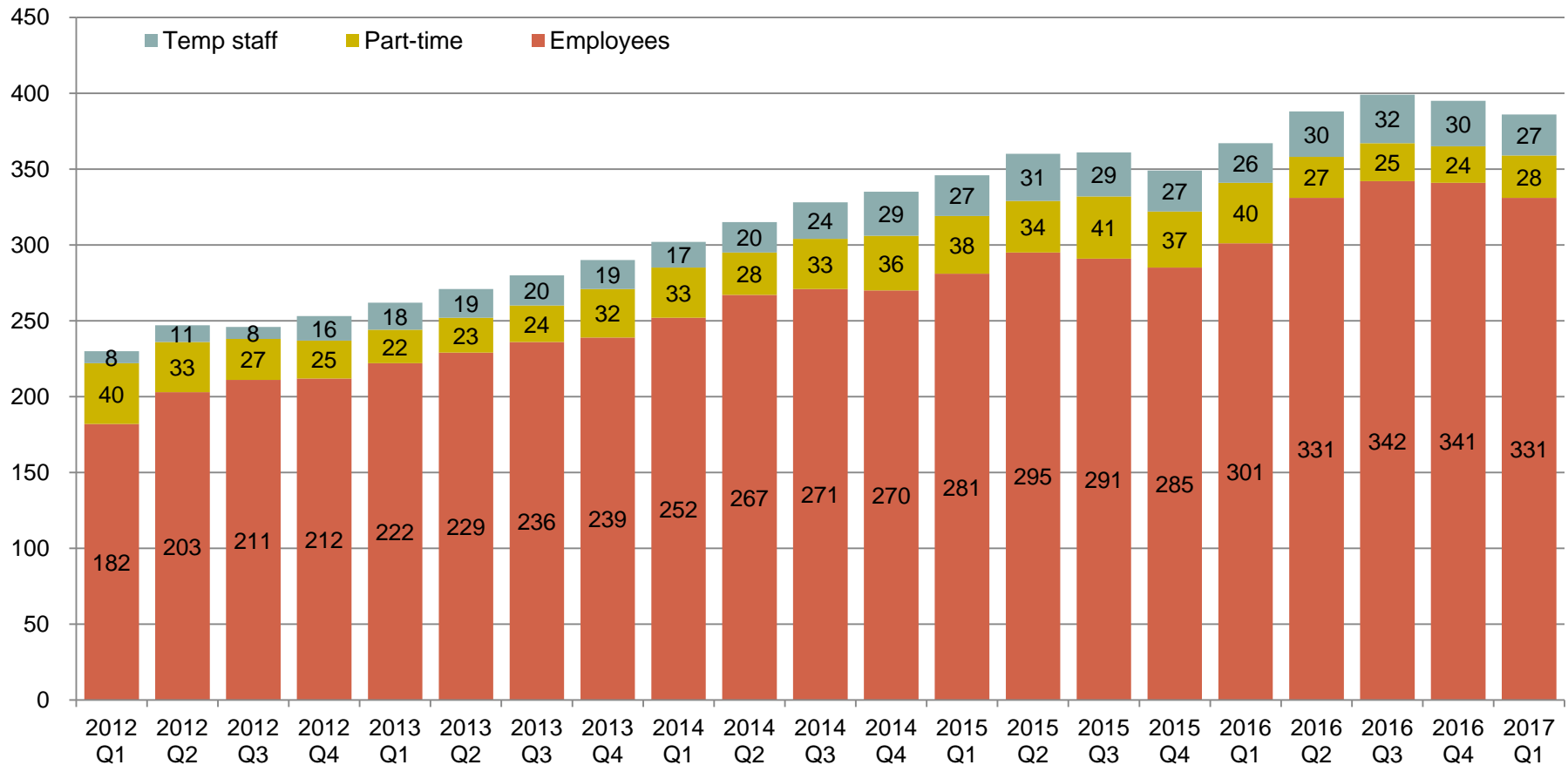


Net sales rose to a record high for the first time in six quarters. Ordinary income reached the ¥1.5 billion level for the first time in six quarters, and the ordinary income margin increased 0.4 percentage points quarter on quarter.

# Number of Employees

(Consolidated/Quarterly basis)

## Management Indicators

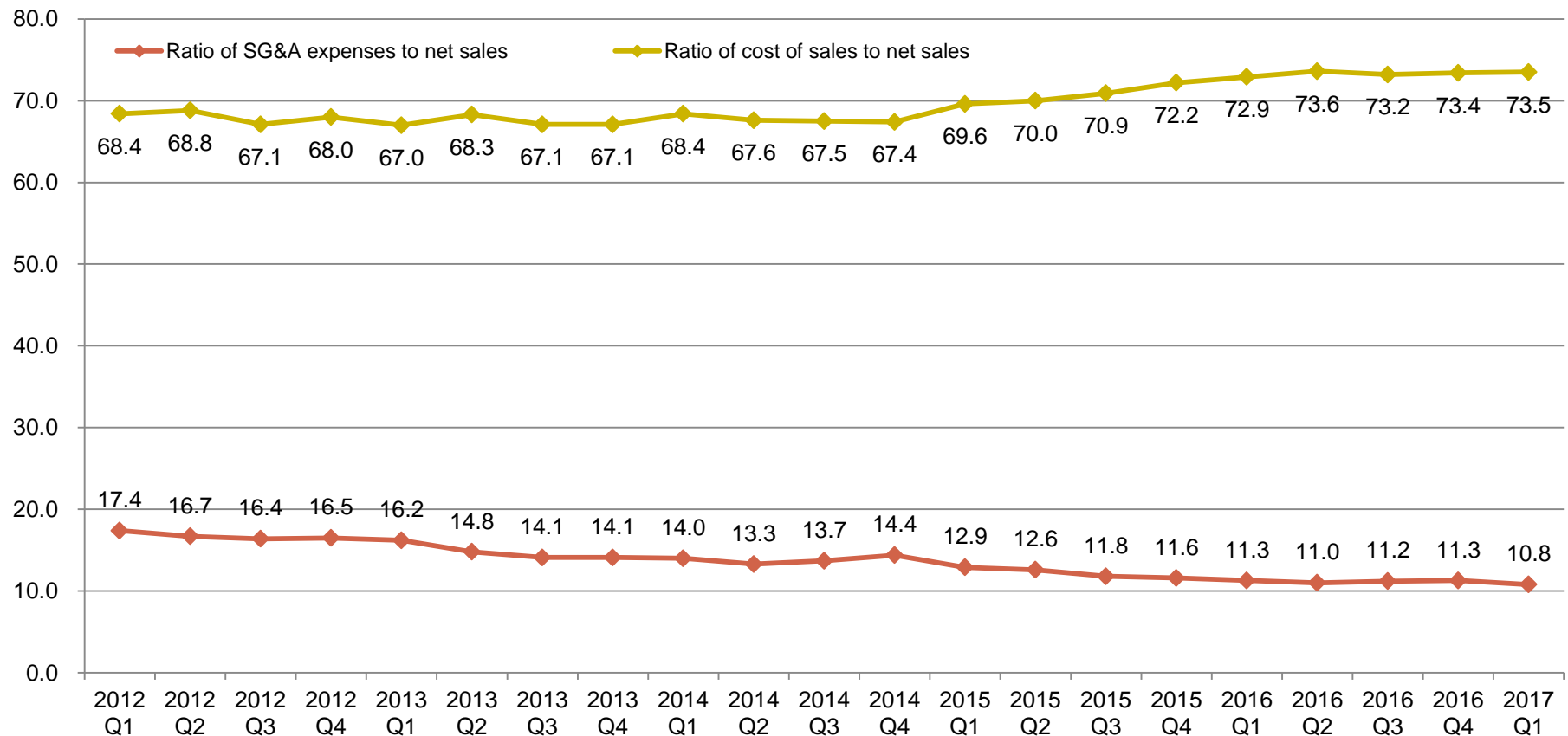


The total number of employees was 386, an increase of 19 from the same period of the previous year. Employees decreased by nine from the previous quarter due to factors including an absorption merger among subsidiaries.

# Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)

Management  
Indicators



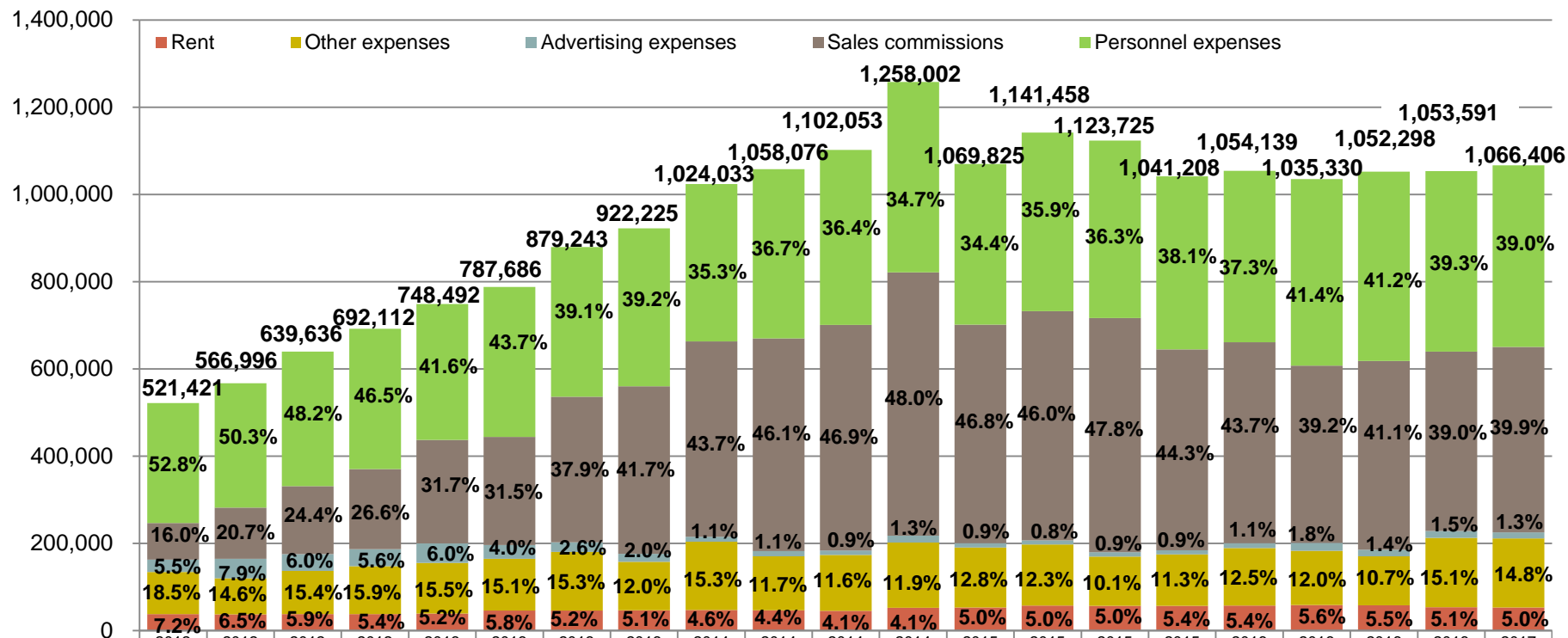
The cost of sales ratio increased 0.1 percentage points compared with 2016 Q4. The selling, general and administrative (SG&A) expenses ratio decreased 0.5 percentage points.

# Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management  
Indicators

(¥ thousands)



Personnel expenses	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	416,298
Sales commissions	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	425,127
Advertising expenses	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	13,954
Other expenses	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	158,064
Rent	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	52,961

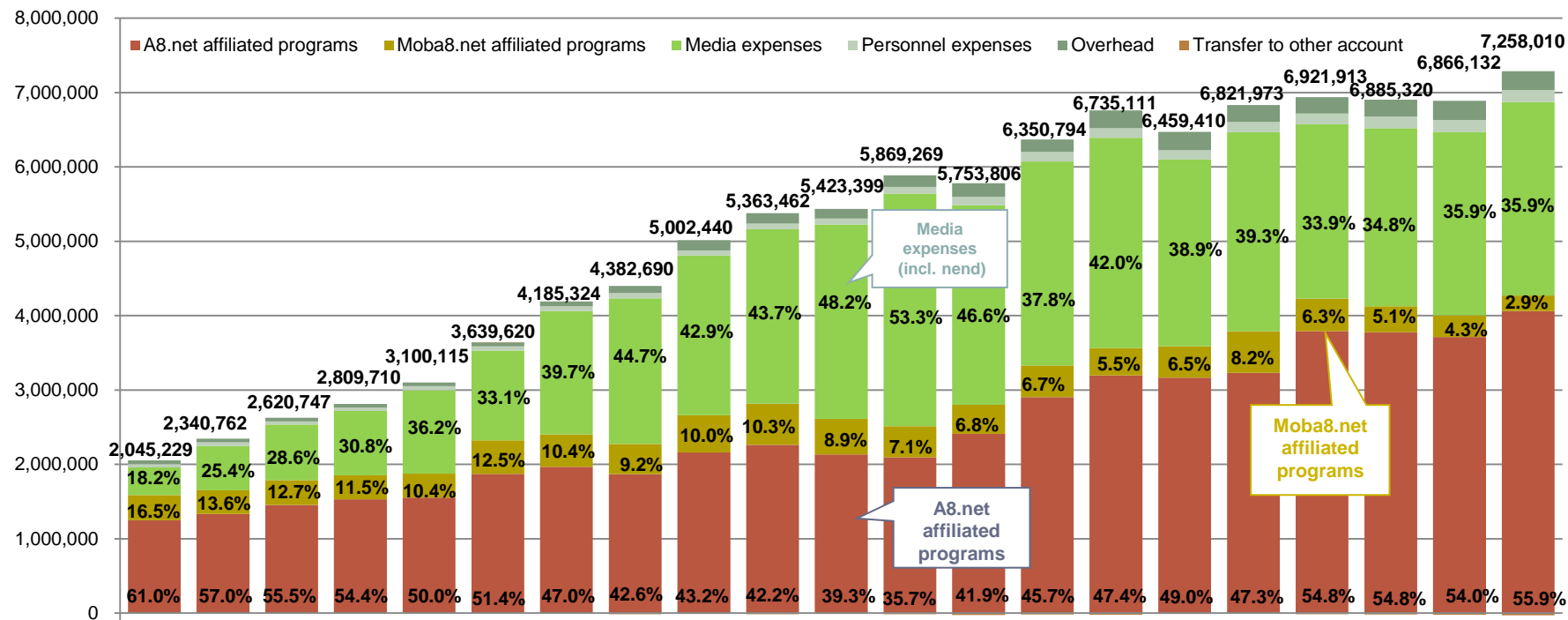
Other expenses consist largely of depreciation expenses, equipment and supplies expenses, recruiting and education expenses, and taxes (primarily corporate income taxes). Quarter-on-quarter change was on trend.

# Cost of Sales

(Consolidated/Quarterly basis)

## Management Indicators

(¥ thousands)



(1,000,000)

	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	2017 Q1
Transfer to other account	(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)	(30,889)
Overhead	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	256,538
Personnel expenses	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	157,102
Media expenses	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	2,605,158
Moba8.net affiliated programs	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	210,343
A8.net affiliated programs	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	4,059,757

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

Purchasing increased at A8.net due to higher sales. The overall expenses ratio was essentially unchanged.

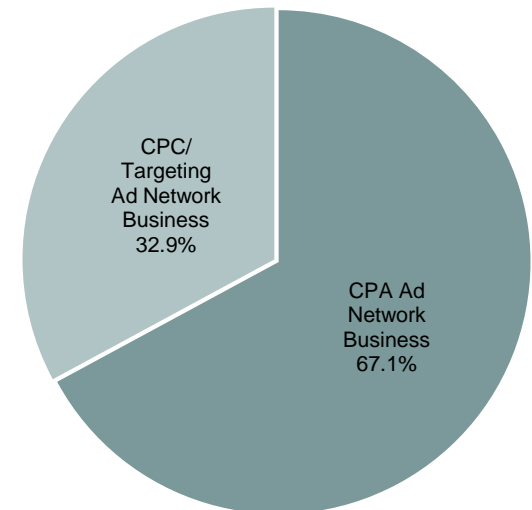
## Overview by Main Service Area

# Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)	2017 Q1 (Jan. – Mar.)	2016 Q1 (Jan. – Mar.)	Change
CPA Ad Network Business	<b>6,624,123</b>	<b>5,809,740</b>	<b>14.0%</b>
CPC/Targeting Ad Network Business	<b>3,246,442</b>	<b>3,543,810</b>	<b>-8.4%</b>
<b>Total net sales</b>	<b>9,870,565</b>	<b>9,353,550</b>	<b>5.5%</b>



Main services of CPA Ad Network Business: A8.net, Moba8.net, adcrops, seed App, own media operations, ad agency, others

Main services of CPC/Targeting Ad Network Business: nend, nex8, and medi8, others

\*Other companies' media and advertising sales and Fan Media Inc.'s own media business were formerly included in Other. Beginning 2017 Q1, they are included in CPA Ad Network Business and CPC/Targeting Ad Network Business.

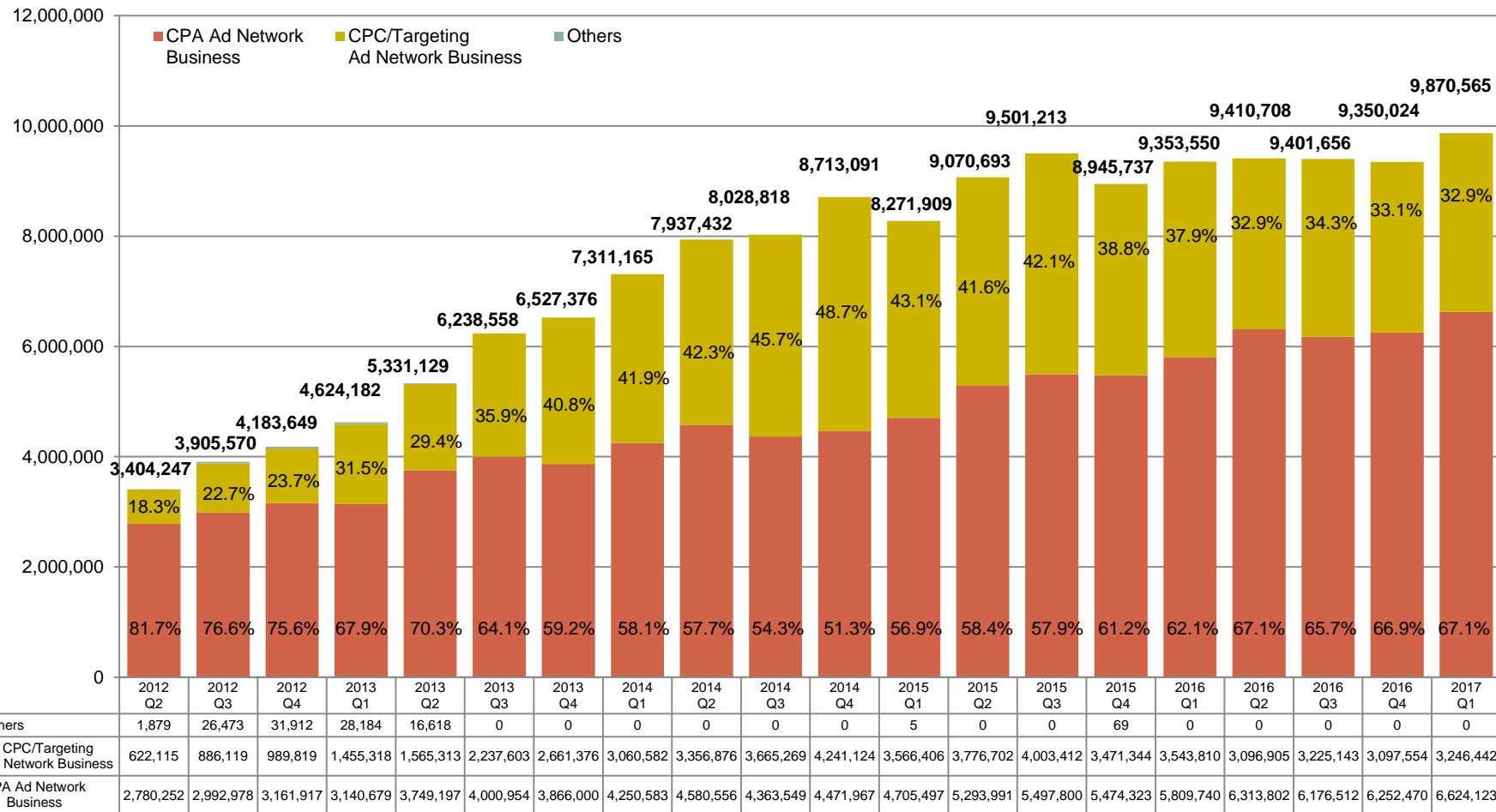
Sales before elimination of consolidated intercompany transactions

CPA Ad Network Business continued to grow while CPC/Targeting Ad Network Business continued to face challenges.

# Net Sales by Reportable Segment (Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)



Composition of net sales was essentially unchanged.



# A8.net Summary

	2017 Q1 (Jan. – Mar.)	2016 Q1 (Jan. – Mar.)	Change
Sales (¥ thousands)	<b>5,613,342</b>	<b>4,507,581</b>	<b>24.5%</b>
Number of operating advertiser IDs	<b>3,318</b>	<b>2,966</b>	<b>11.9%</b>
Number of registered partner sites	<b>2,207,629</b>	<b>2,006,787</b>	<b>10.0%</b>

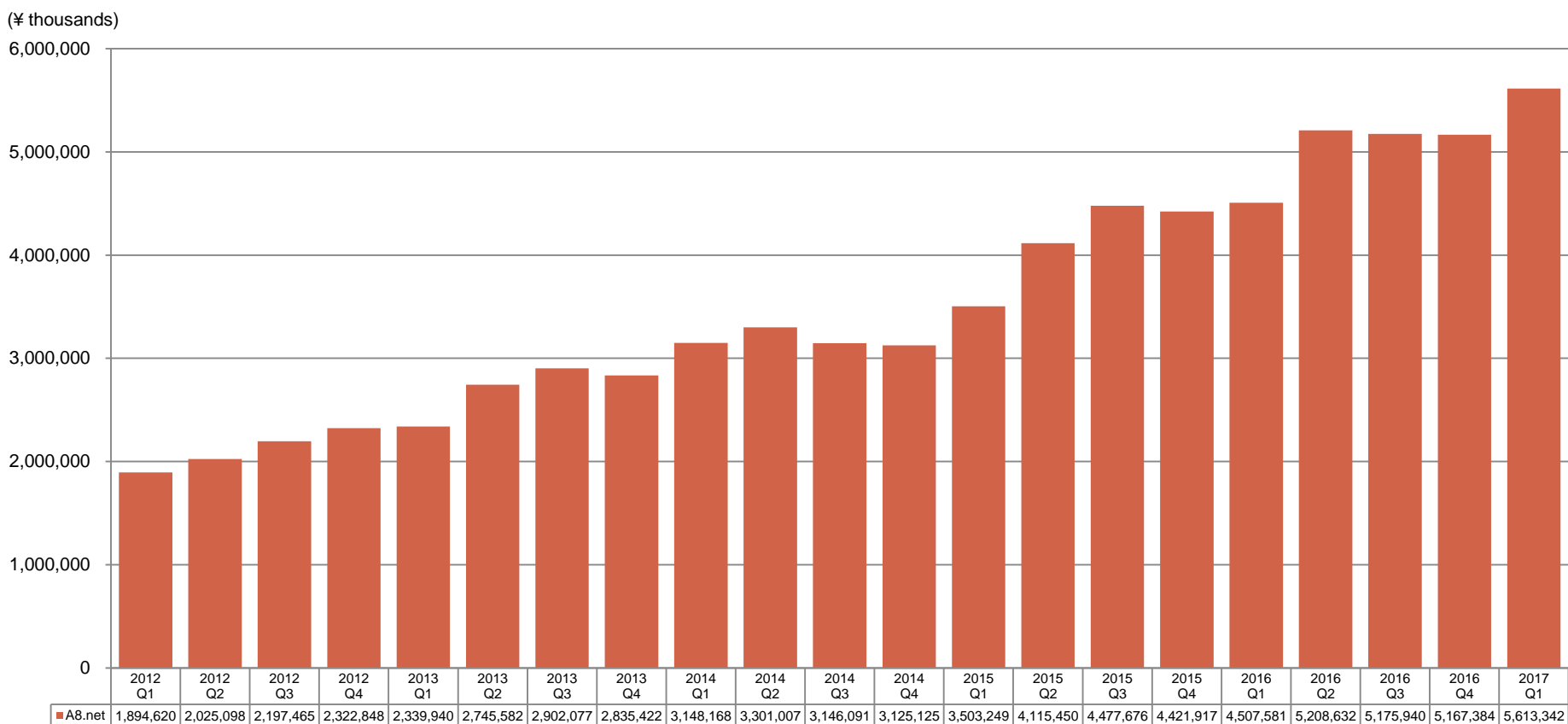
Sales before elimination of consolidated intercompany transactions.

The number of operating advertiser IDs increased by 352 from the same period of the previous year.

# A8.net

## Net Sales (Quarterly basis)

CPA Ad Network Business

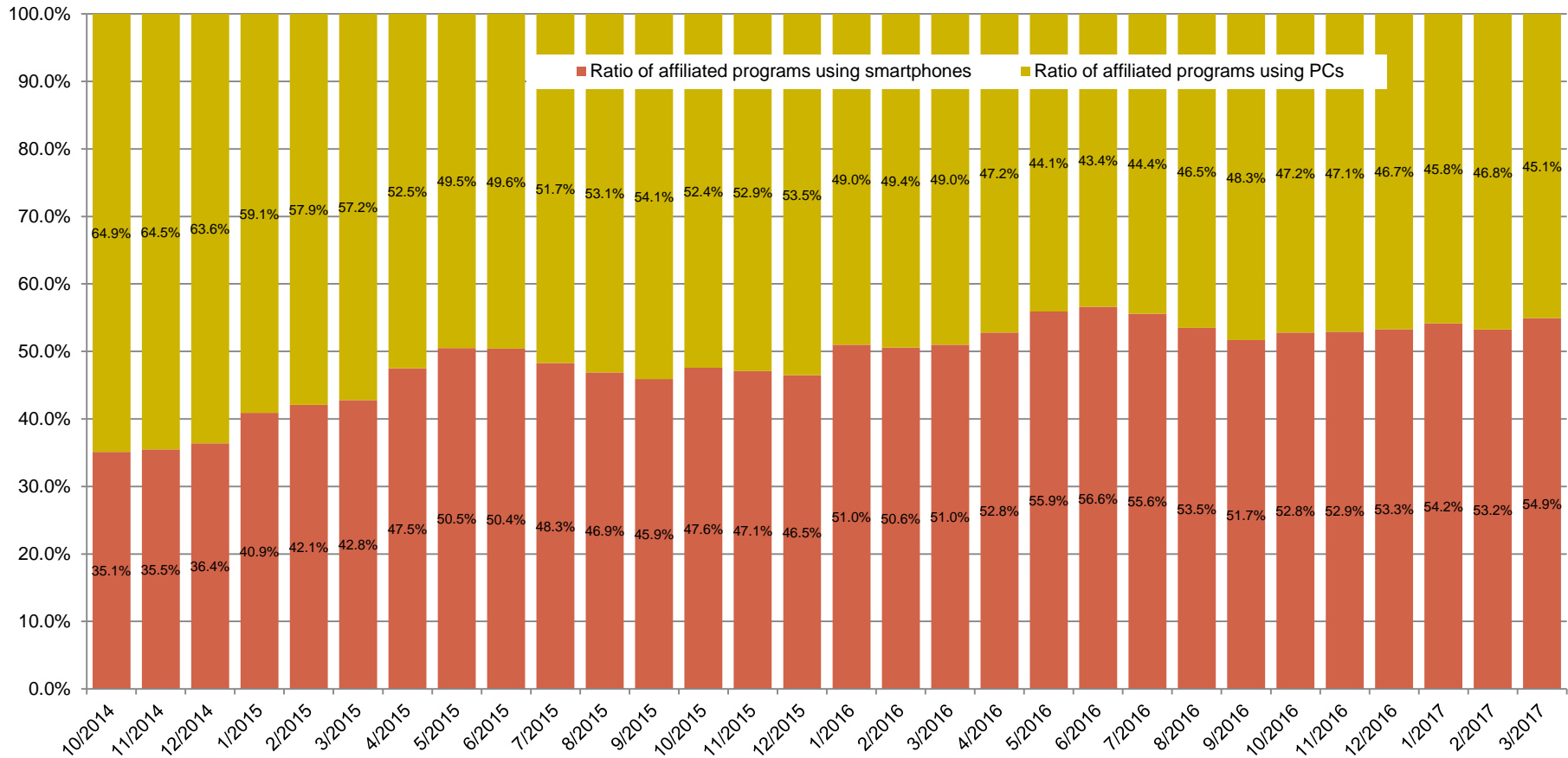


Sales before elimination of consolidated intercompany transactions.

Net sales rose to a record high. Demand increased in markets including health, beauty and finance.

A8.net

## Ratio of Smartphones in Affiliated Programs (Monthly basis)



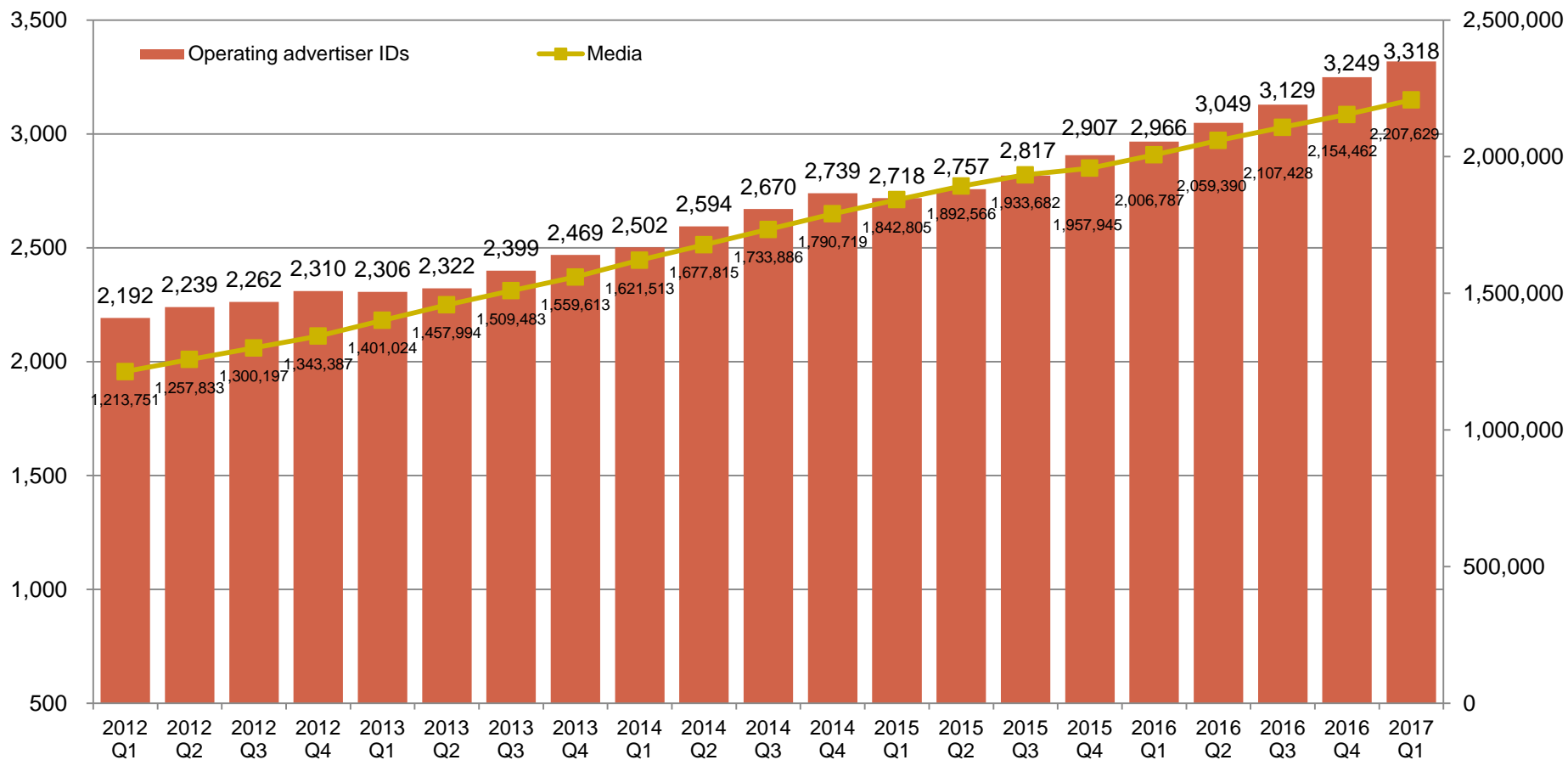
The ratio of affiliated programs using smartphones hasn't grown as much as expected since passing 50%.

Note: The above affiliated program ratios are not final and are subject to change.

A8.net

CPA Ad Network Business

## Number of Operating Advertisers and Media



Notes: 1. The number of operating advertisers is as of the final month of each quarter.

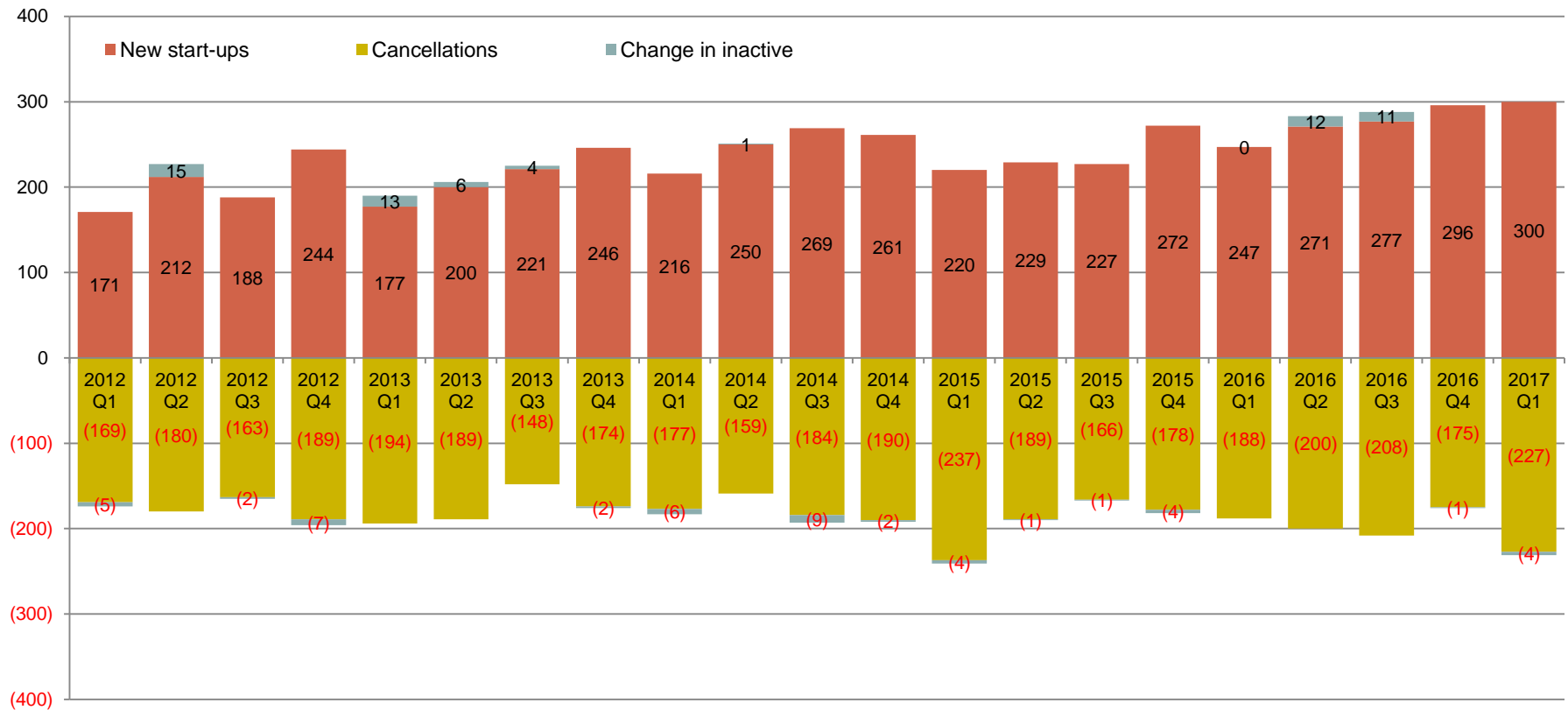
2. The number of overseas advertisers is included from 2014 Q3.

The number of operating advertisers increased by 69 from the previous quarter (12 were transferred from Moba8). Overseas operating advertisers decreased by eight from 2016 Q4 to 216.

A8.net

CPA Ad Network Business

## New Advertiser Start-ups and Cancellations



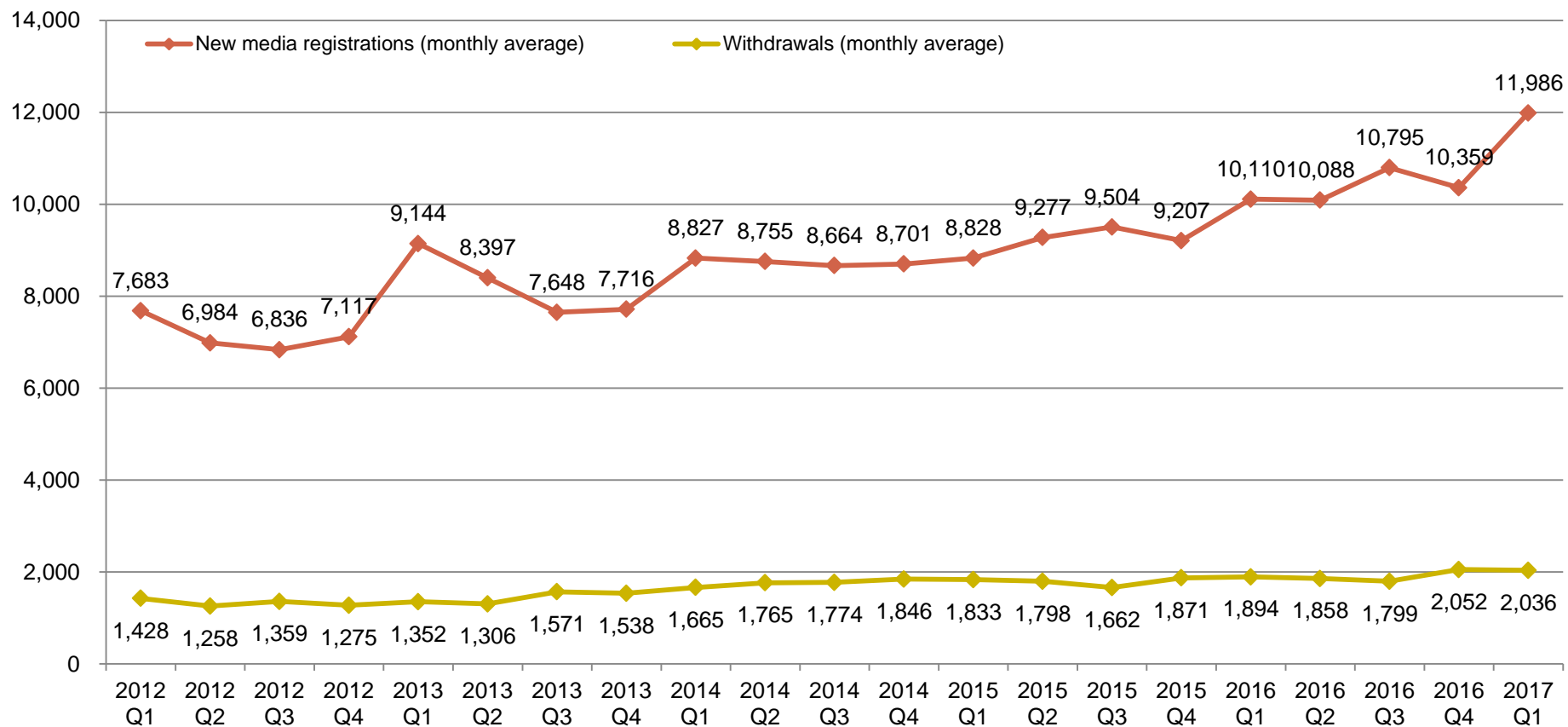
Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

New advertiser start-ups increased by 53 compared with 2016 Q1.

A8.net

CPA Ad Network Business

## Monthly Averages for New Media Registrations and Withdrawals

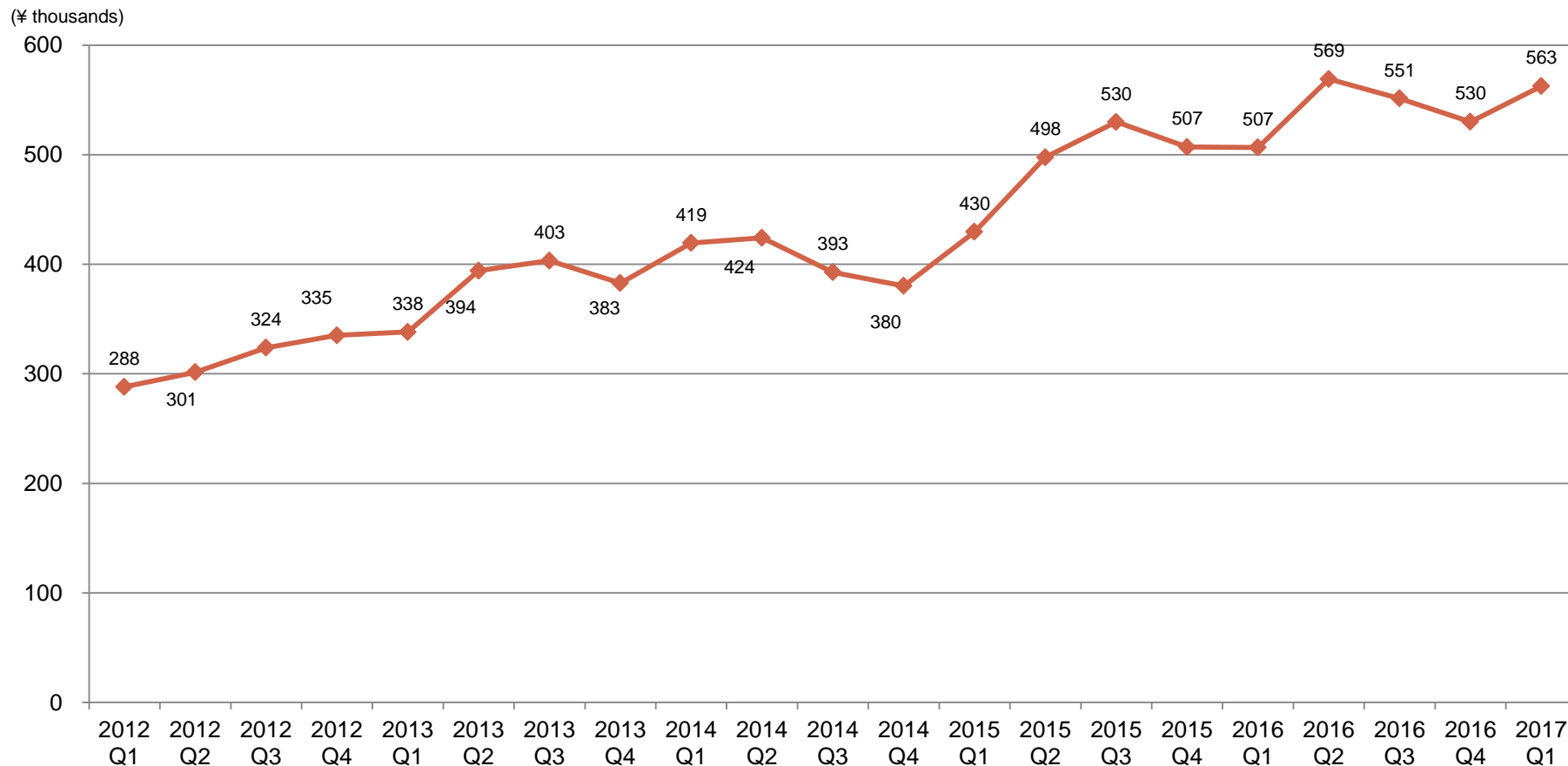


Monthly new media registrations are trending upward.

A8.net

CPA Ad Network Business

## Average Monthly Sales per Advertiser



Average monthly sales per advertiser are at record-high levels.

# Moba8.net Summary

	2017 Q1 (Jan. – Mar.)	2016 Q1 (Jan. – Mar.)	Change
<b>Sales (¥ thousands)</b>	<b>165,116</b>	<b>684,472</b>	<b>-75.9%</b>
<b>Number of operating advertiser IDs</b>	<b>320</b>	<b>1,135</b>	<b>-71.8%</b>
<b>Number of registered partner sites</b>	<b>280,540</b>	<b>265,418</b>	<b>5.7%</b>

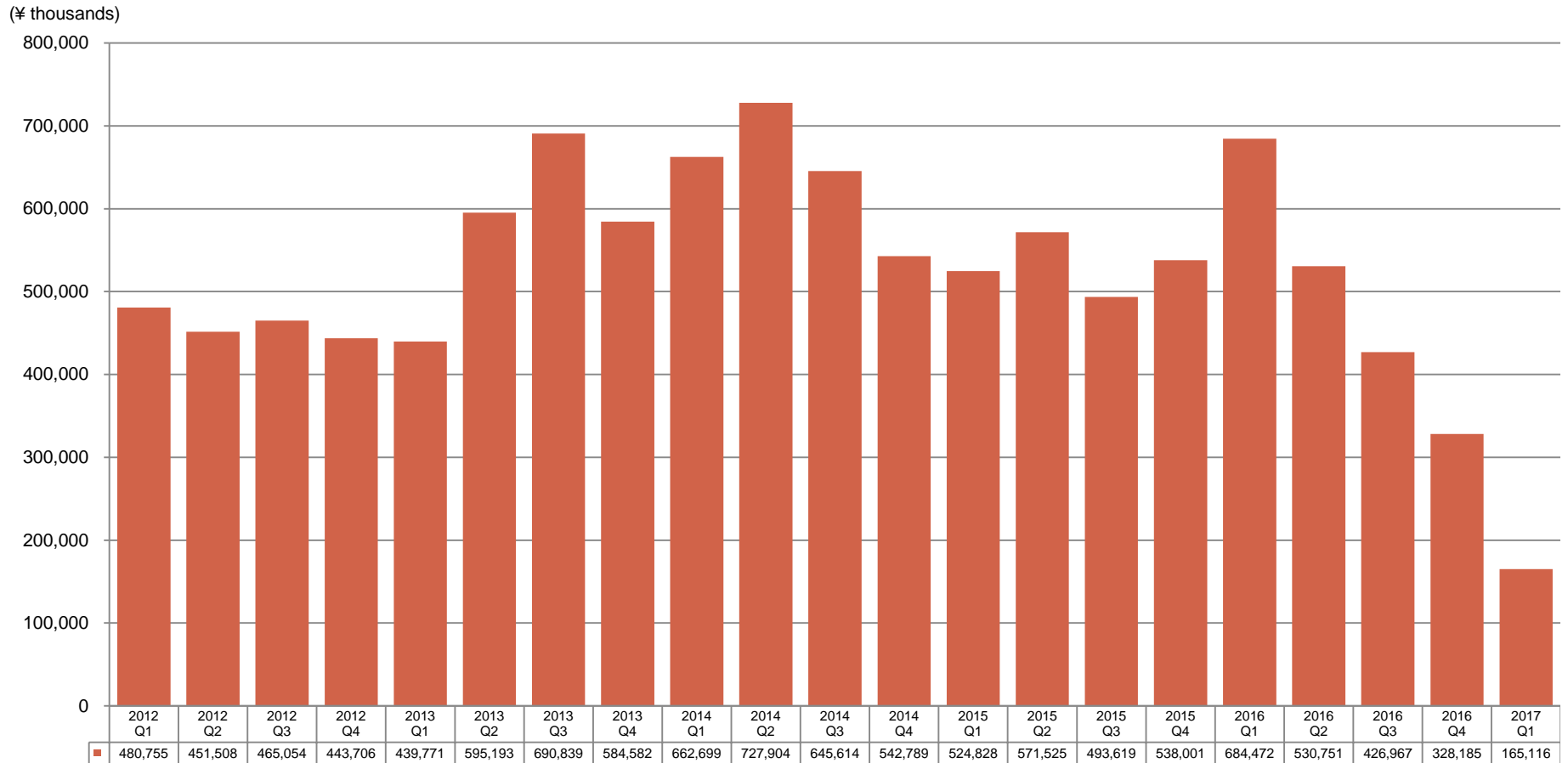
Sales before elimination of consolidated intercompany transactions.

The figures for sales are for Moba8.net only, and do not include sales of other services. Sales are scheduled to end and we have not acquired new services. We are migrating existing advertisers to A8.net.



# Moba8.net

## Net Sales (Quarterly basis)

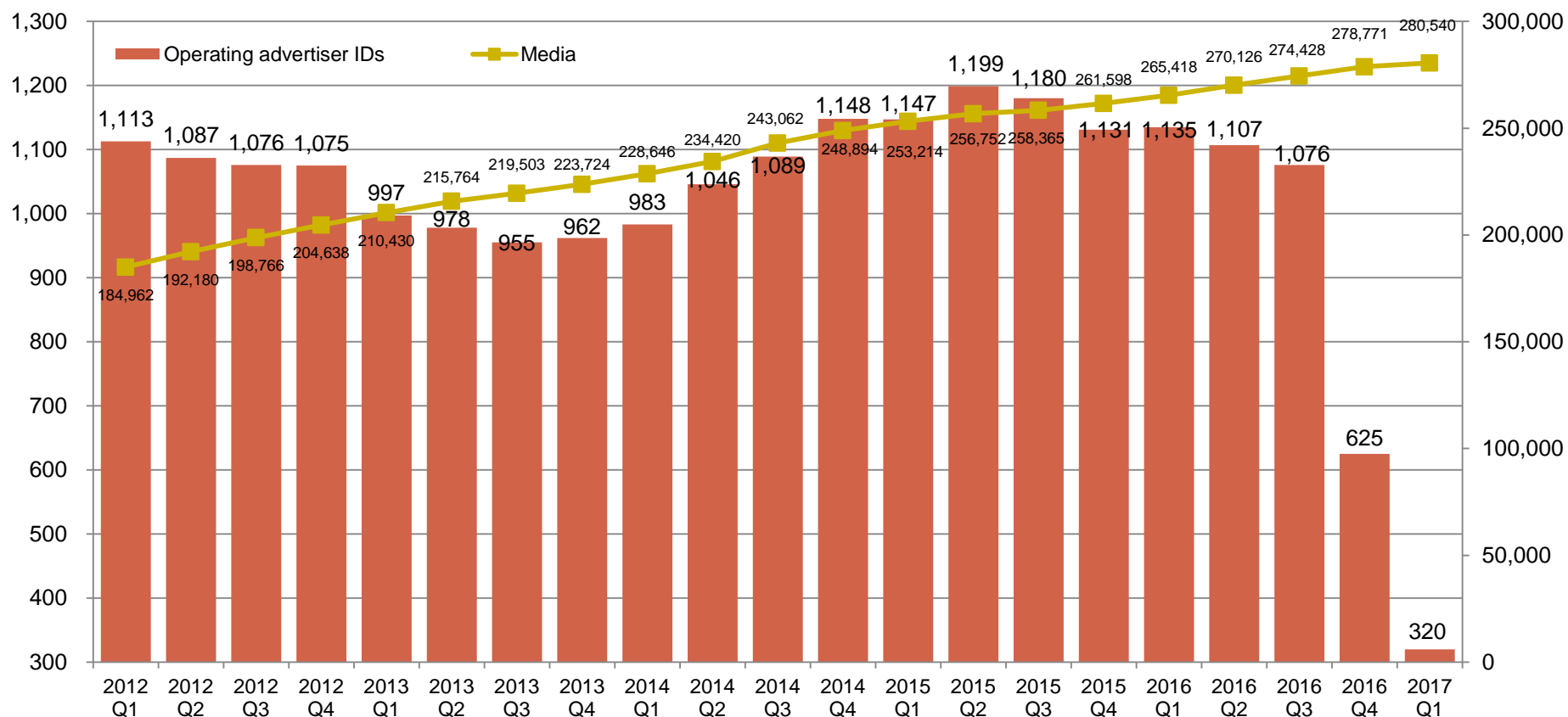


Sales before elimination of consolidated intercompany transactions.

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

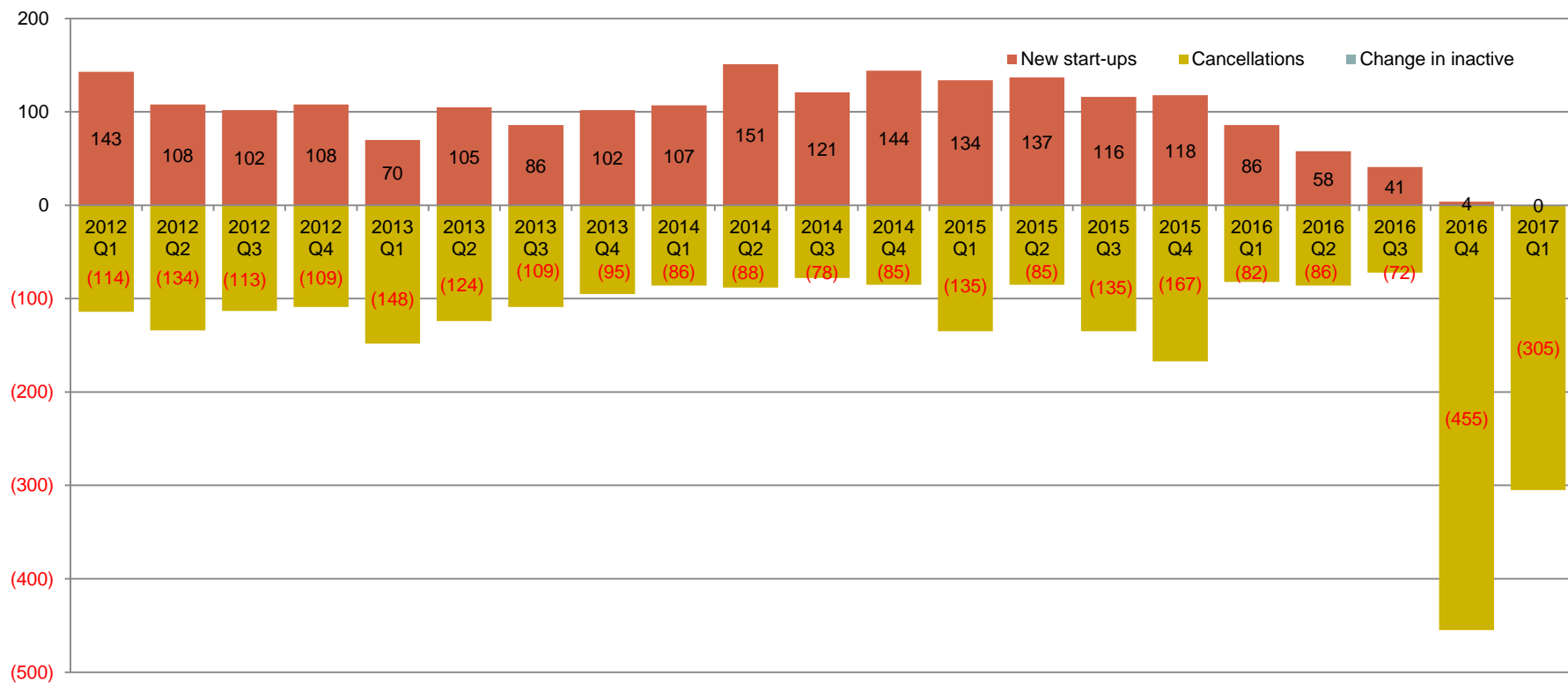
## Number of Operating Advertisers and Media (Quarterly Basis)



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

Moba8.net

## New Advertiser Start-ups and Cancellations (Quarterly basis)

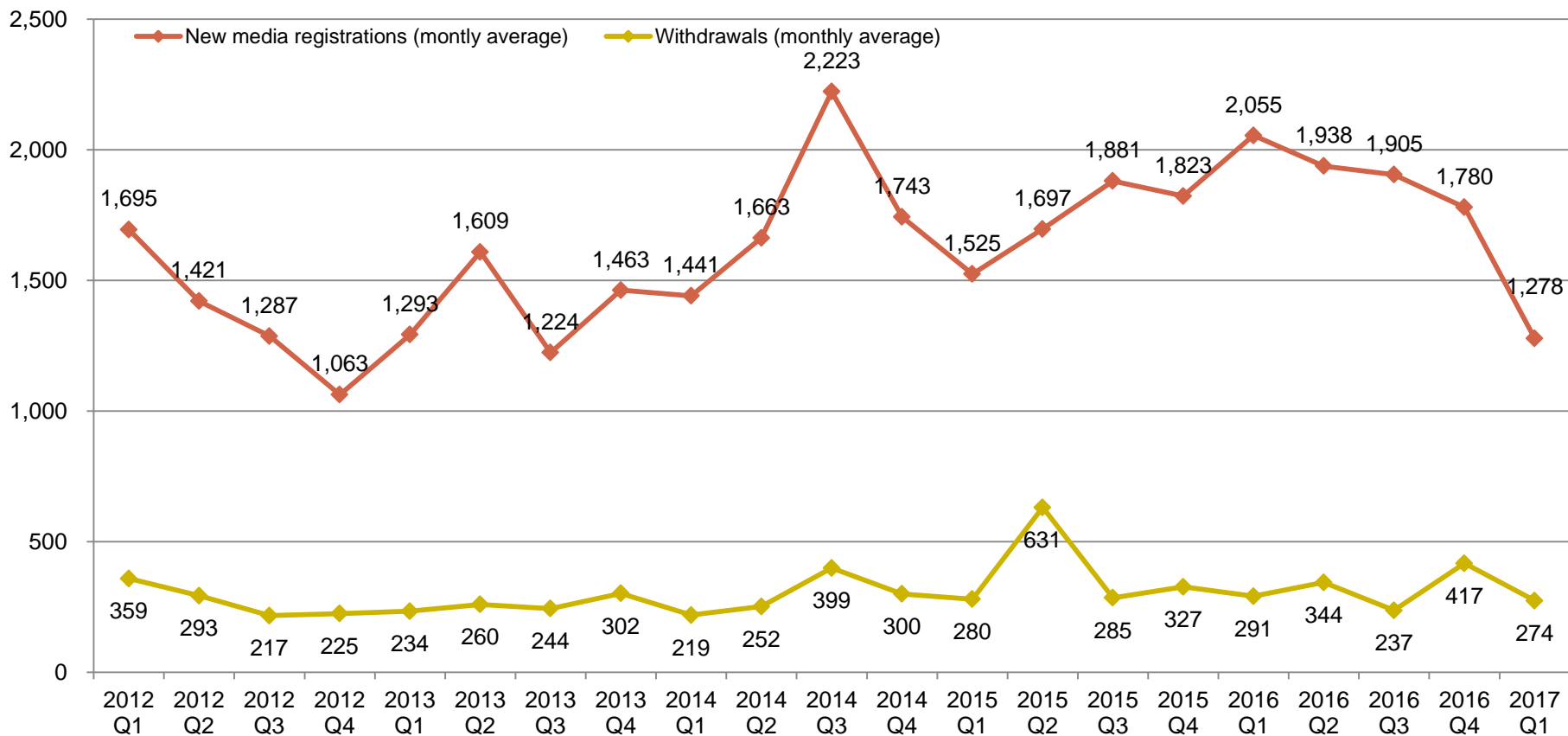


We are closing this business.

Moba8.net

CPA Ad Network Business

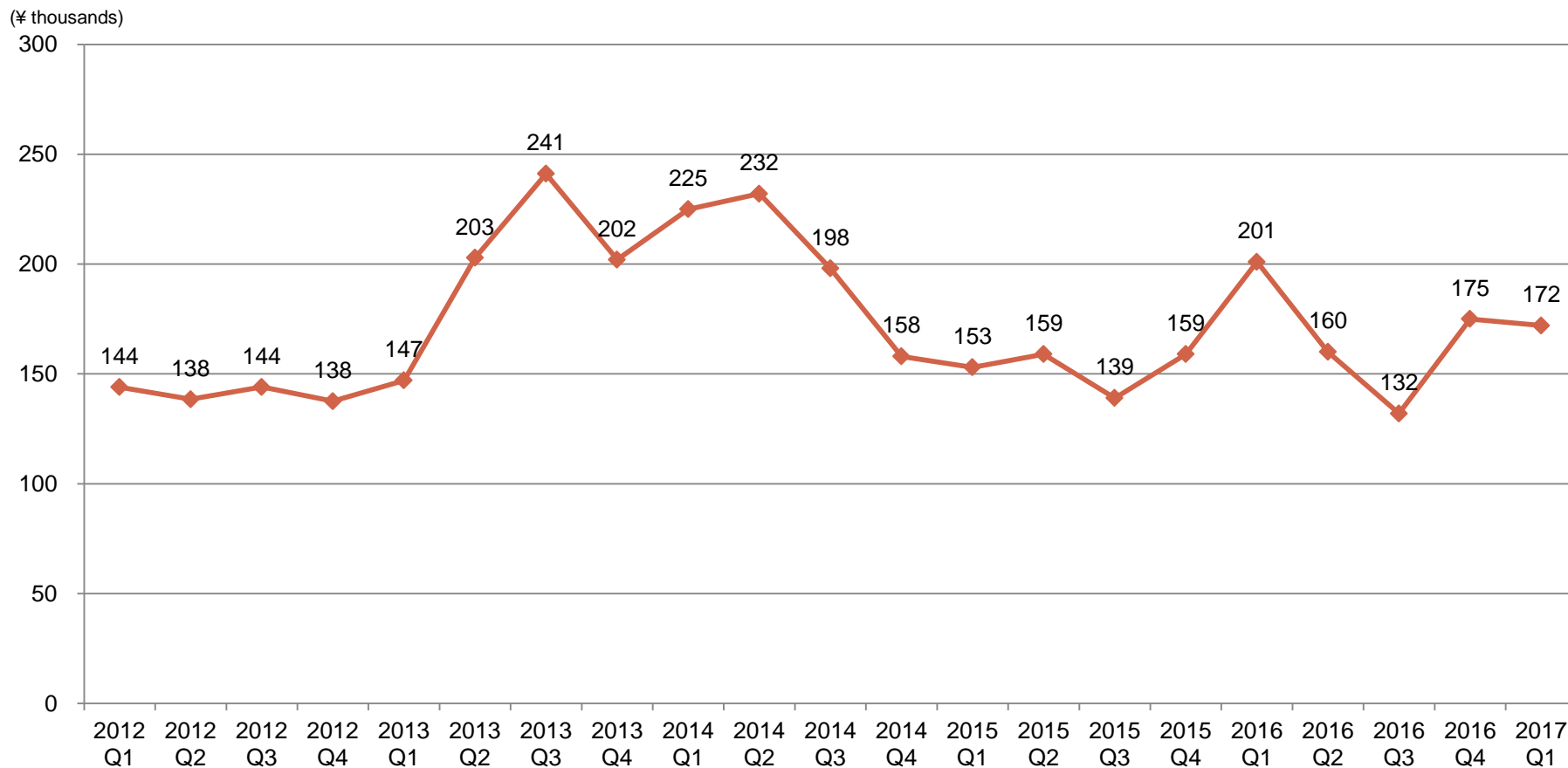
## Monthly Averages for New Media Registrations and Withdrawals



We are closing this business.

# Moba8.net

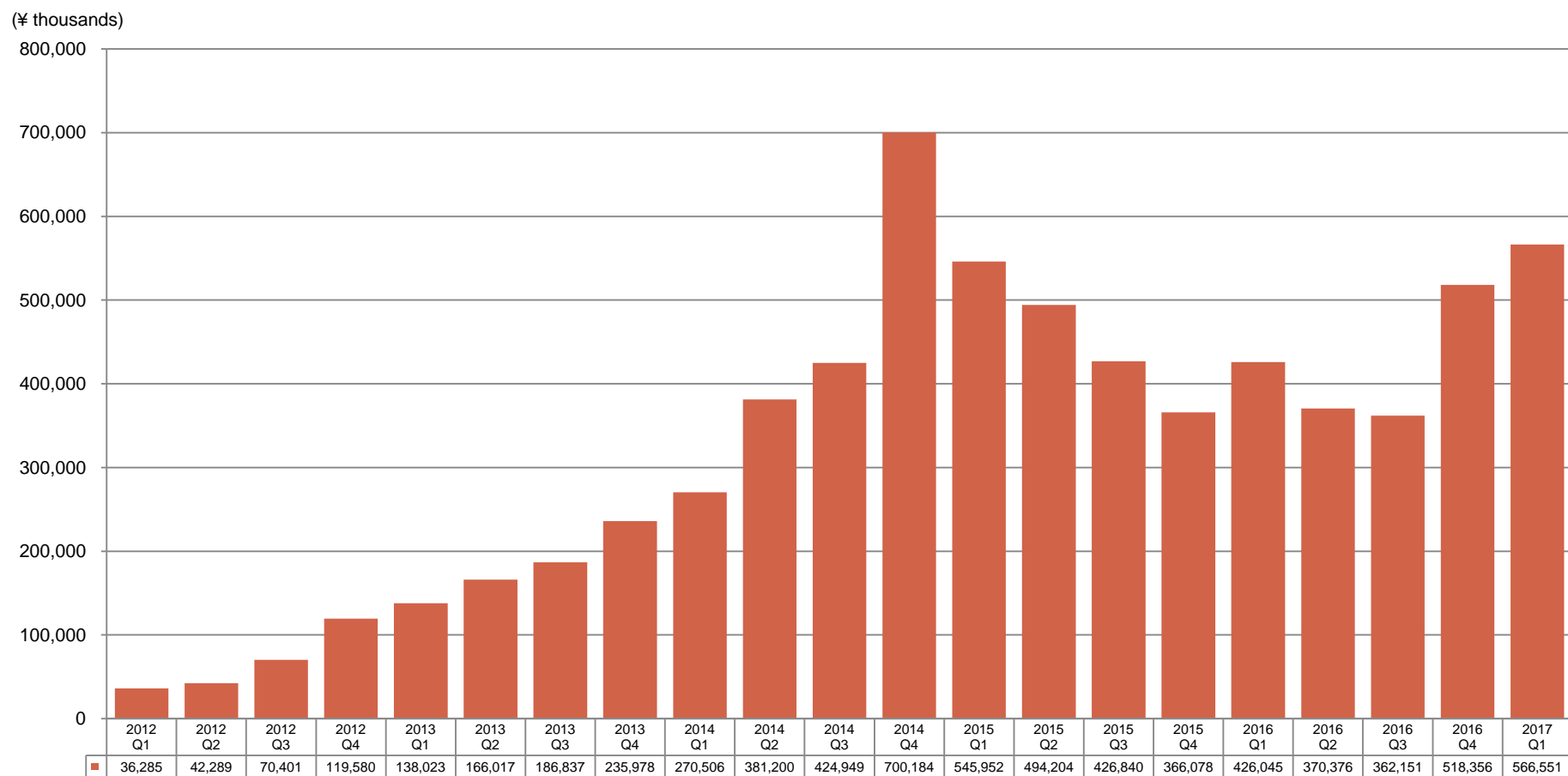
## Average Monthly Sales per Advertiser



We are closing this business.

# adcrops

## Net Sales (Quarterly basis)



Notes: 1. Figures through 2016 Q4 are sales prior to the absorption merger before elimination of consolidated intercompany transactions for 8crops only.  
2. adcrops sales are recognized in F@N Communications' CPA Ad Network Business.

# nend Summary

CPC/Targeting Ad  
Network Business

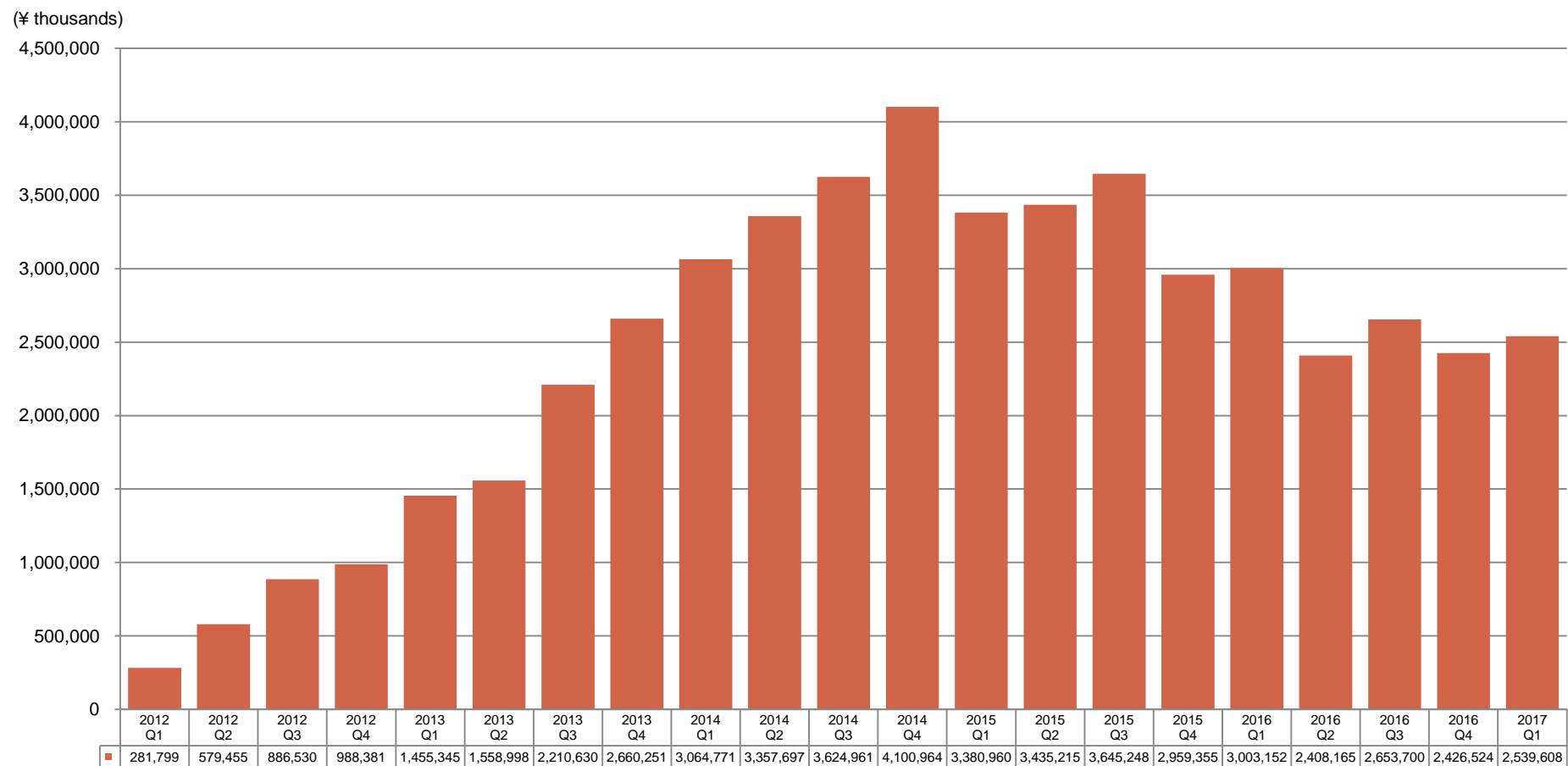
	2017 Q1 (Jan. – Mar.)	2016 Q1 (Jan. – Mar.)	Change
<b>Sales (¥ thousands)</b>	<b>2,539,608</b>	<b>3,003,152</b>	<b>-15.4%</b>
<b>Number of operating advertiser IDs</b>	<b>425</b>	<b>449</b>	<b>-5.3%</b>
<b>Number of registered partner sites</b>	<b>730,851</b>	<b>569,262</b>	<b>28.4%</b>

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 2016 1Q but the rate of decrease has slowed.

# nend

## Net Sales (Quarterly basis)

CPC/Targeting Ad  
Network Business



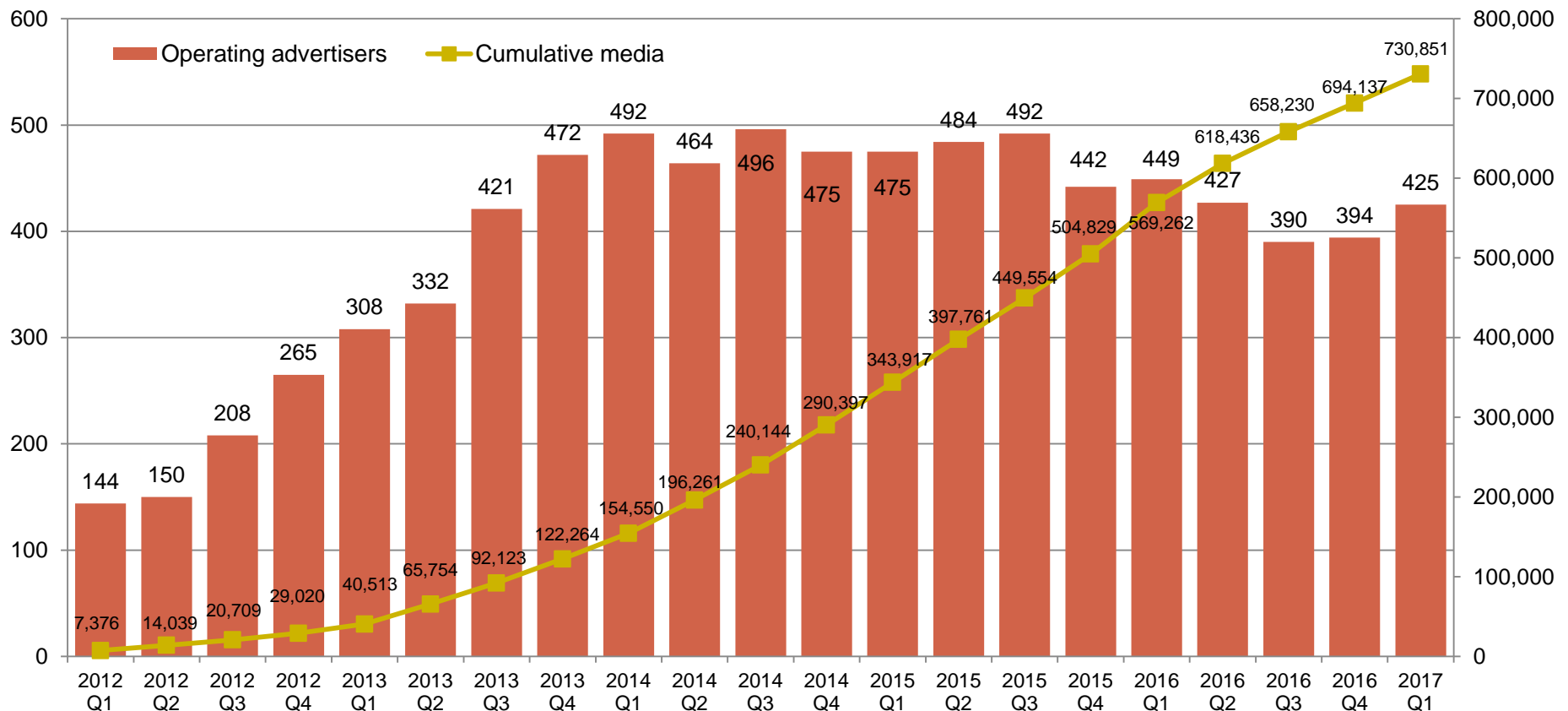
Sales before elimination of consolidated intercompany transactions.  
Net sales increased compared with 2016 Q4.



## CPC/Targeting Ad Network Business

nend

### Number of Operating Advertisers and Media (Quarterly basis)



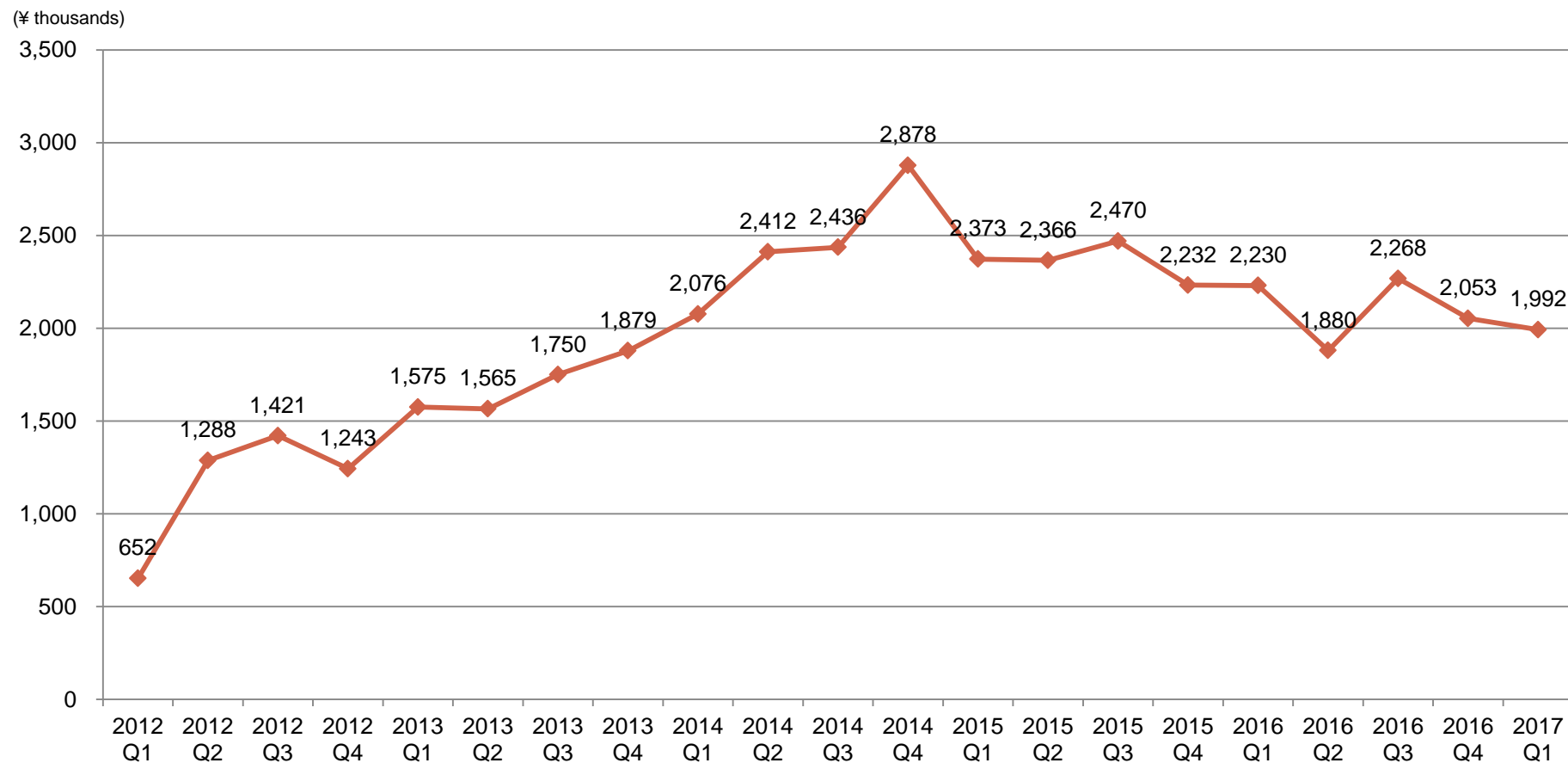
Note: The number of operating advertisers is as of the final month of each quarter.

The number of operating advertisers increased by 31 compared with the previous quarter.

# nend

## Average Monthly Sales per Advertiser

CPC/Targeting Ad  
Network Business

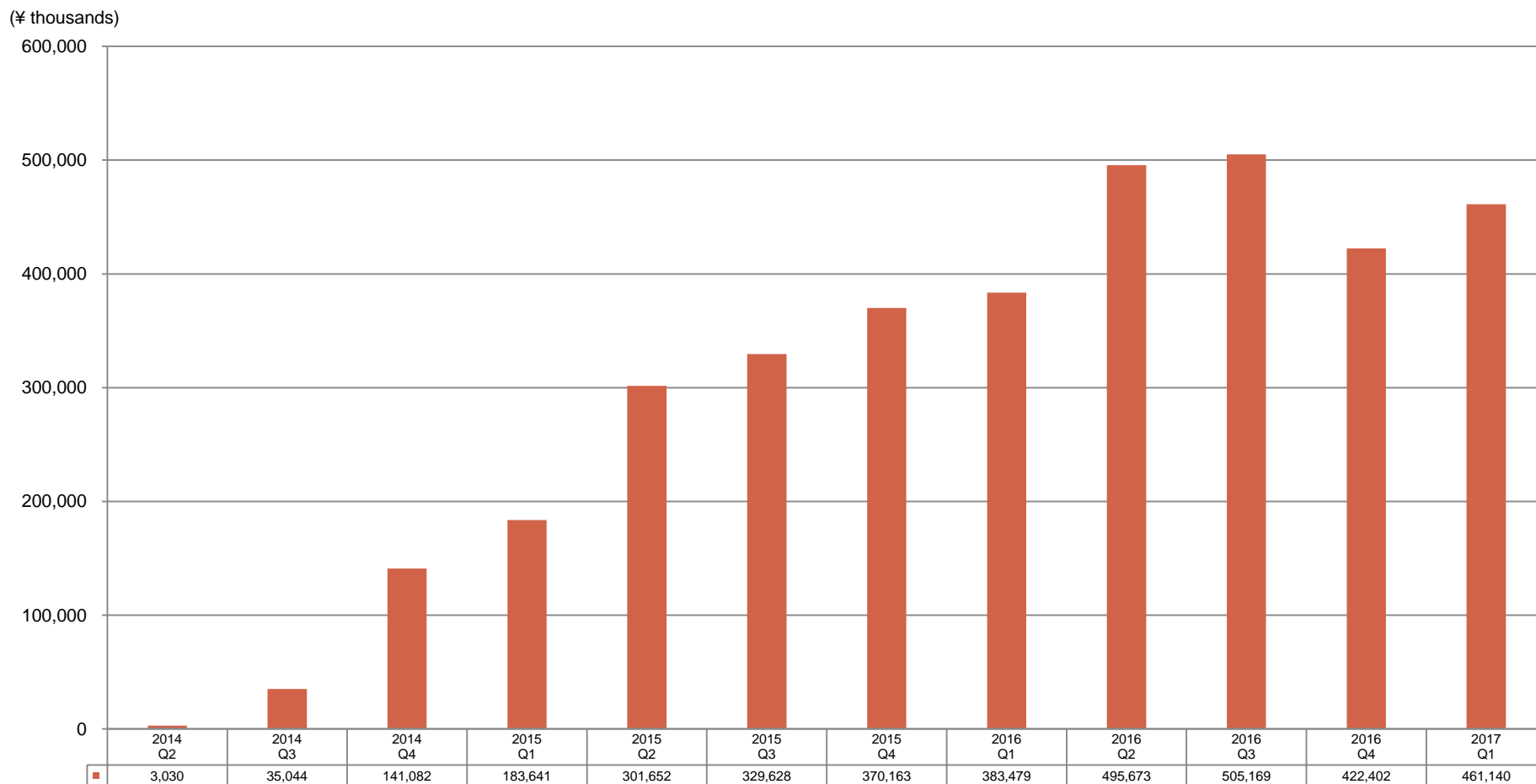


Average monthly sales per advertiser was ¥1,990 thousand.

# nex8

## Net Sales (Quarterly basis)

CPC/Targeting Ad  
Network Business



Sales before elimination of consolidated intercompany transactions.  
We are steadily adding operating advertisers.

## Consolidated Group Businesses

# 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)	2017 Q1	2016 Full Year
Net sales	<b>323,741</b>	<b>1,008,707</b>
Operating income	<b>16,876</b>	<b>71,827</b>
Profit attributable to owners of parent	<b>8,303</b>	<b>53,847</b>

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

# FAN MEDIA INC.

Note: Absorption merger planned for May 1, 2017

Established: September 12, 2000

Name changed from REALAS INC. and assumed the business of meetLabo, Inc. on April 1, 2014. (Wholly owned by F@N Communications)

## Businesses

Website and application media operation, content planning and editing, internet advertising



(¥ thousands)	2017 Q1	2016 Full Year
Net sales	<b>76,636</b>	<b>395,757</b>
Operating income (loss)	<b>(6,600)</b>	<b>(33,093)</b>
Profit (loss) attributable to owners of parent	<b>(7,977)</b>	<b>(35,533)</b>

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

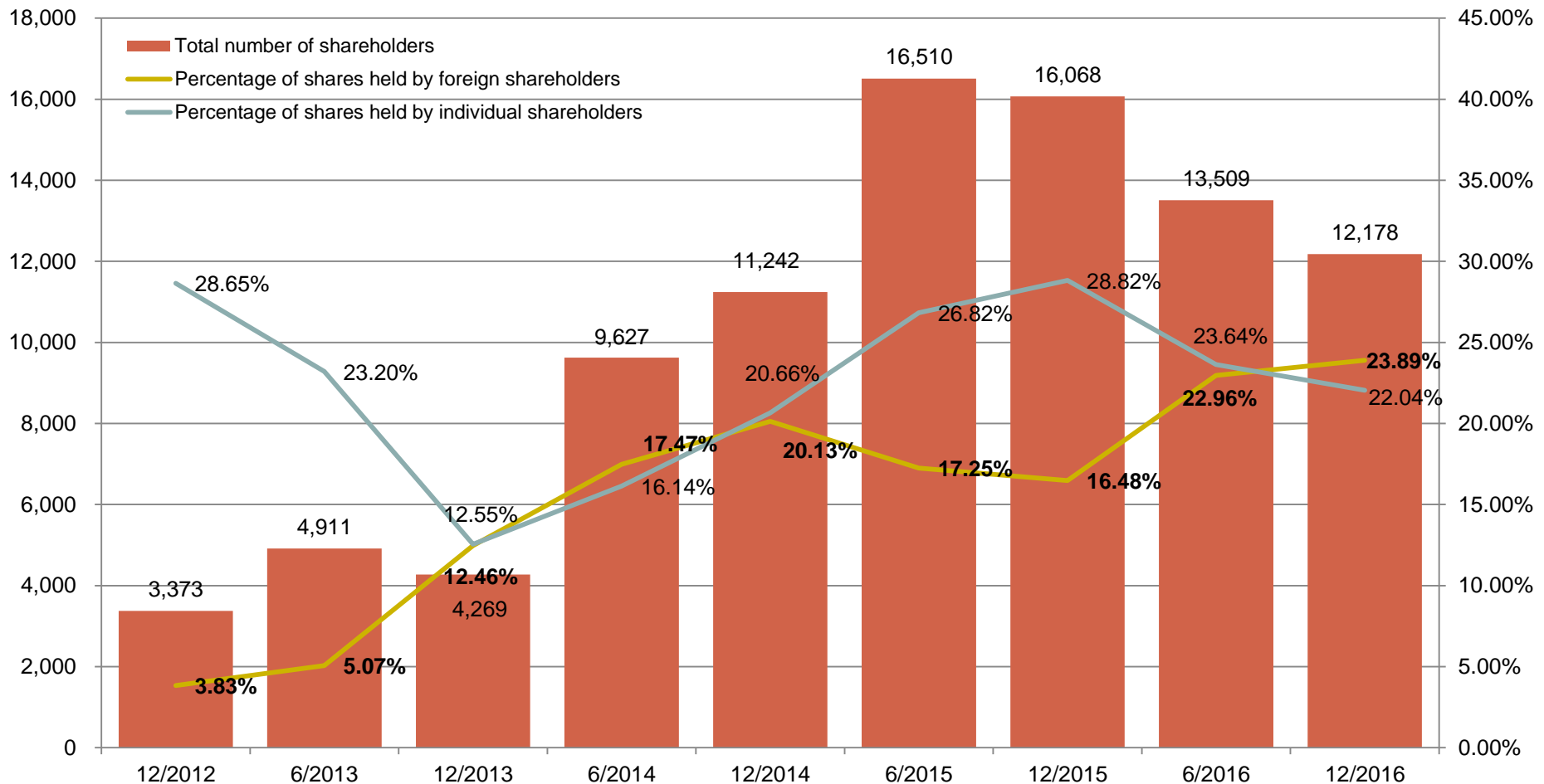


# Stock Information

# 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 in the world.

We build ad networks that bring a performance marketing advertising model to advertisers, affiliate site application developers (media), and consumers, resulting in optimal win-win-win relationships.

Our model provides 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 are the world's largest corporate group that structures ad networks committed to effective advertisements. We contribute to society by creating new added value in the cycle of production, sales, and consumption that is changing with the Internet.

# Company Overview

■ <b>Company name</b>	<b>F@N Communications, Inc.</b>
■ <b>Securities code</b>	<b>2461 (Tokyo Stock Exchange, First Section)</b>
■ <b>Fiscal year-end</b>	<b>December</b>
■ <b>Established</b>	<b>October 1, 1999</b>
■ <b>Capital</b>	<b>¥1,136.44 million (As of March 31, 2017)</b>
■ <b>President and Representative Director</b>	<b>Yasuyoshi Yanagisawa</b>
■ <b>Number of employees</b>	<b>Non-consolidated: 375</b> <b>Group total: 386</b> <small>(As of March 31, 2017; includes part-time and temp staff)</small>
■ <b>Headquarters</b>	<b>Aoyama Diamond Building</b> <b>1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan</b>
■ <b>Phone</b>	<b>+81-3-5766-3530 (IR)</b>
■ <b>Fax</b>	<b>+81-3-5766-3782</b>

# Disclaimer

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