



Second Quarter of 2017  
Presentation of Results

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August 9, 2017

F@N Communications, Inc.

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## Second Quarter of 2017 Performance Highlights

# Second Quarter of 2017: Key Points

## Performance Highlights

- Q2 net sales were a record ¥9,987 million.
- Net sales and operating income for the first six months of 2017 increased to record highs.
- A8.net maintained robust growth in sales, which increased 15.4% year on year.
- CPC/targeting services continued to underperform, but sales increased year on year.

# Consolidated Results of Operations

## Performance Highlights

(¥ thousands)	2017 Q2	2016 Q2	Year-on-Year Change	% of Net Sales
Net sales	19,858,313	18,764,259	5.8%	100%
Operating income	3,095,910	2,930,903	5.6%	15.6%
Ordinary income	3,107,093	2,981,452	4.2%	15.6%
Profit attributable to owners of parent	2,331,595	1,954,302	19.3%	11.7%
Ordinary income margin	15.6%	15.9%	-0.3 points	-
Net income per share	¥30.38	¥25.38	19.7%	-
Diluted net income per share	¥30.31	¥25.30	19.8%	-

# Consolidated Balance Sheets

## Performance Highlights

(¥ thousands)	December 31, 2016	June 30, 2017
<b>Assets</b>		
<b>Current assets</b>	<b>20,896,081</b>	<b>21,636,098</b>
Cash and deposits	14,544,263	15,505,102
Notes and accounts receivable – trade	4,544,032	4,792,102
Securities	1,245,375	996,956
Other	576,172	354,989
Allowance for doubtful accounts	(13,761)	(13,052)
<b>Fixed assets</b>	<b>2,417,953</b>	<b>3,114,525</b>
Property and equipment	205,755	276,499
Intangible assets	268,171	296,198
Investments and other assets	1,944,026	2,541,828
<b>Total assets</b>	<b>23,314,035</b>	<b>24,750,623</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>	<b>6,513,452</b>	<b>6,993,675</b>
Notes and accounts payable – trade	4,738,384	5,084,563
Income taxes payable	841,825	815,592
Other current liabilities	933,242	1,093,517
<b>Long-term liabilities</b>	<b>162,697</b>	<b>153,415</b>
<b>Total liabilities</b>	<b>6,676,150</b>	<b>7,147,090</b>
<b>Total net assets</b>	<b>16,637,885</b>	<b>17,603,533</b>
<b>Total liabilities and net assets</b>	<b>23,314,035</b>	<b>24,750,623</b>

Main component was ¥2,319,317 thousand in investment securities.

Key factors in the change were a ¥346,179 thousand increase in notes and accounts payable – trade.

Net assets increased because profit attributable to owners of parent of ¥2,331,595 thousand more than offset 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 Interim Period Actual	Progress (% of Full-Year Forecast)
<b>Net sales</b>	<b>40,358 (7.6)</b>	<b>19,858 (5.8)</b>	<b>19,858</b>	<b>49.2%</b>
<b>Operating income</b>	<b>6,295 (8.1)</b>	<b>3,095 (5.6)</b>	<b>3,095</b>	<b>49.2%</b>
<b>Ordinary income</b>	<b>6,327 (7.3)</b>	<b>3,107 (4.2)</b>	<b>3,107</b>	<b>49.1%</b>
<b>Profit attributable to owners of parent</b>	<b>4,551(16.3)</b>	<b>2,331 (19.3)</b>	<b>2,331</b>	<b>51.2%</b>

Note: Adjusted full-year forecast as of August 1, 2017

## Dividend Forecast

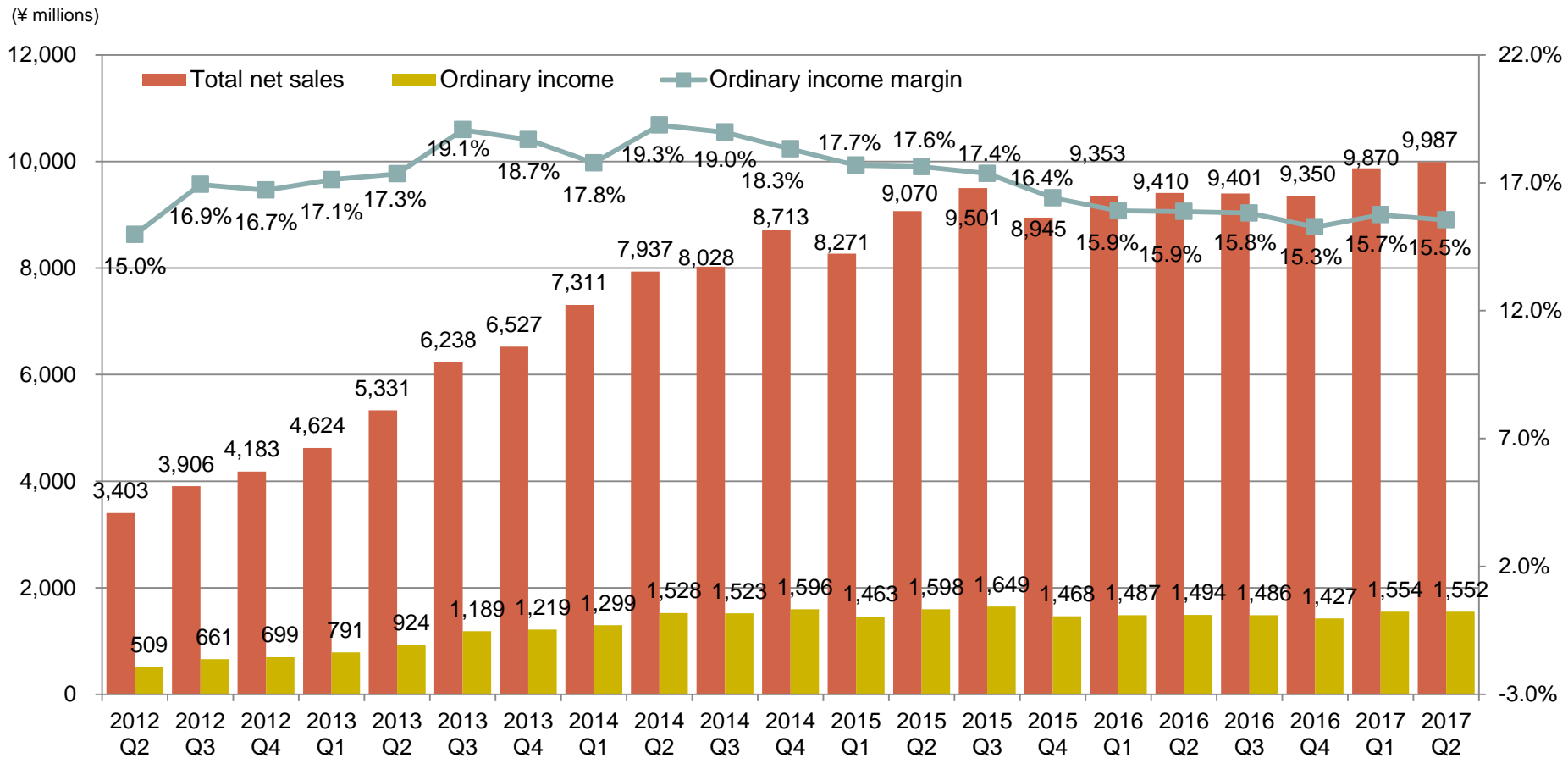
	2017 Forecast	2016 Actual
<b>Year-end dividend per share</b>	<b>¥19</b>	<b>¥18</b>

## Management Indicators (Quarterly Basis)



# Net Sales, Ordinary Income and Ordinary Income Margin(Consolidated/Quarterly basis)

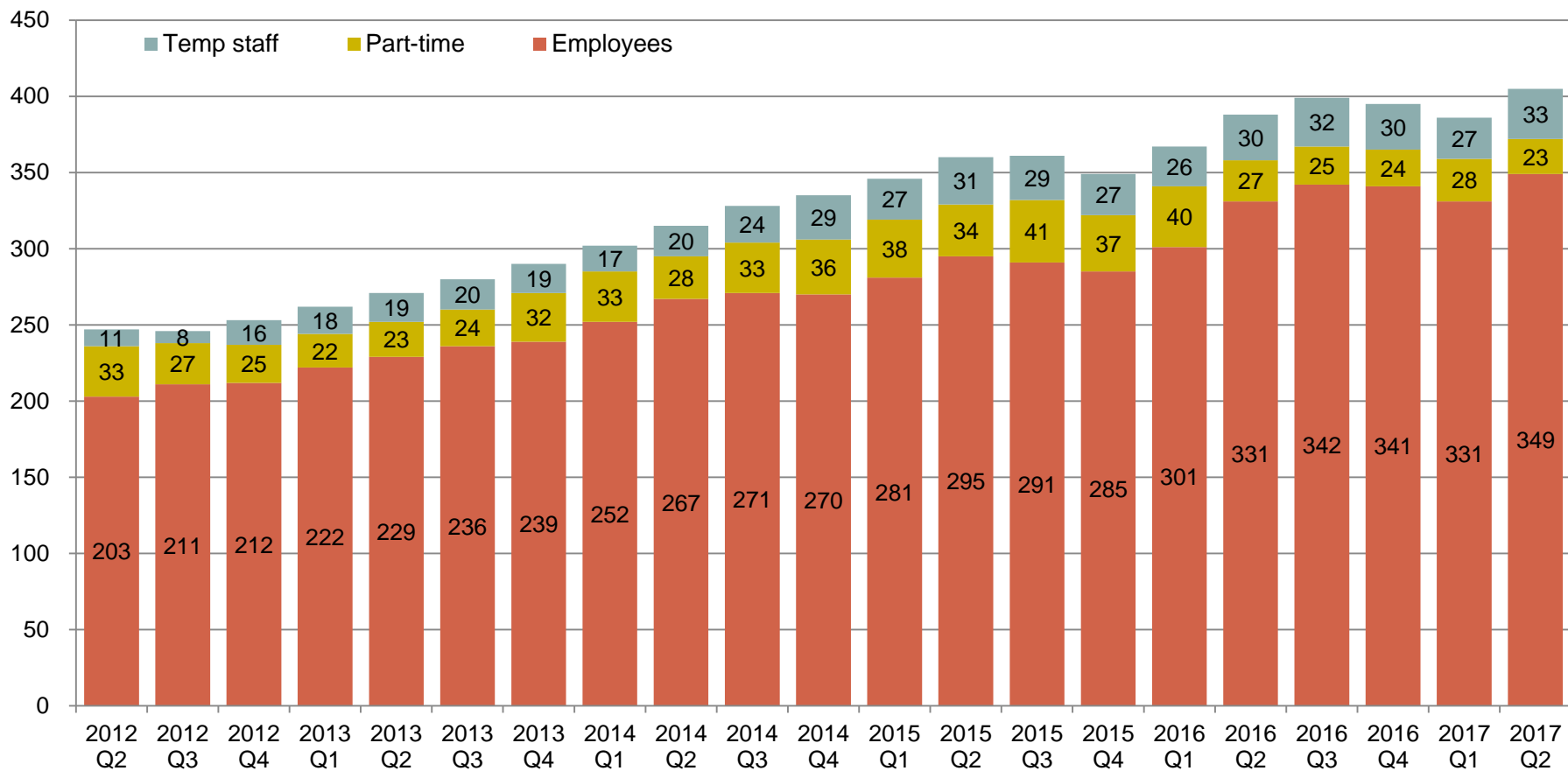
Management Indicators



Net sales increased to a record high for the second consecutive quarter. The ordinary income margin decreased 0.2 percentage points compared with 2017 Q1.

# Number of Employees

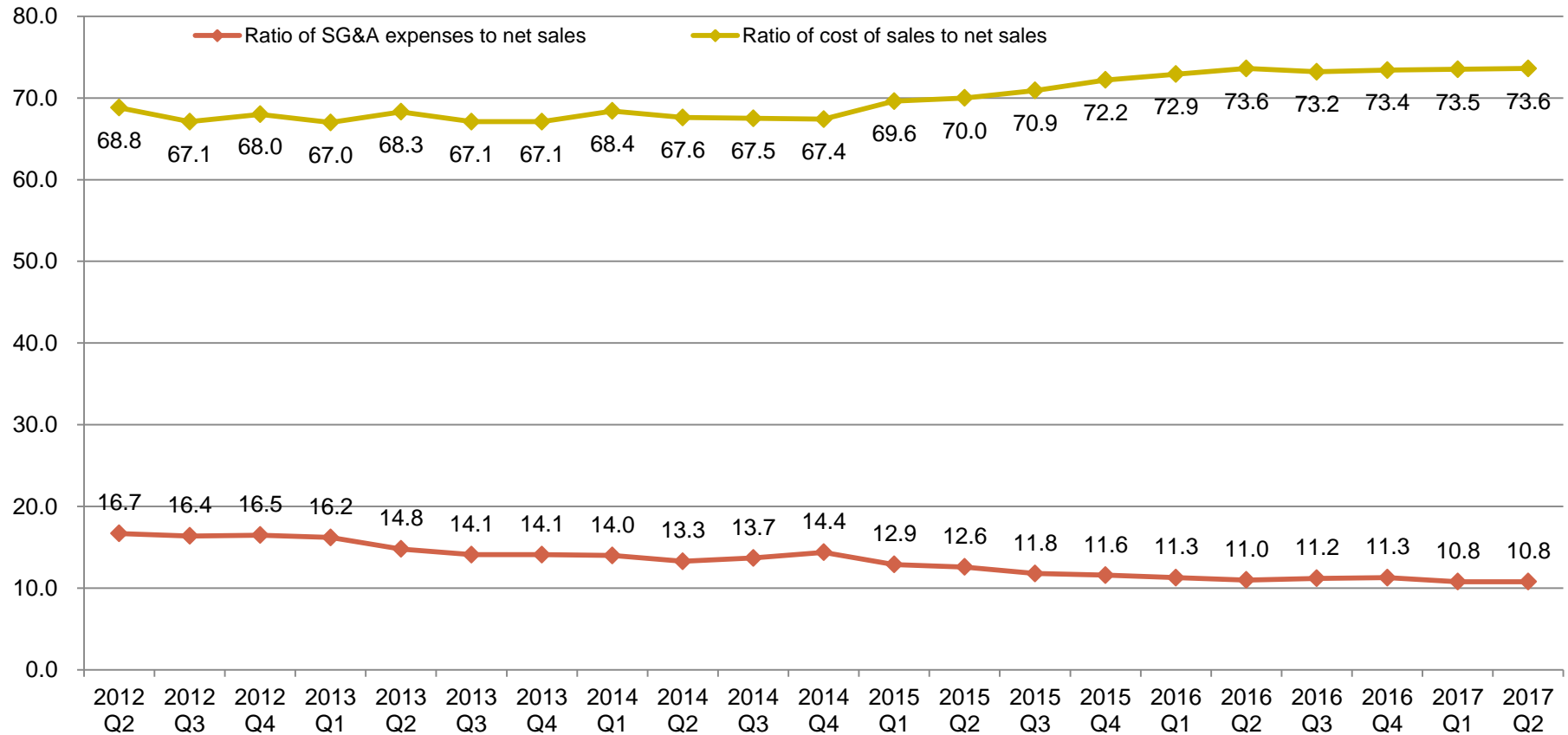
## (Consolidated/Quarterly basis)



The total number of employees in the Group was the highest ever at 405, an increase of 17 compared with 2016 Q2 and an increase of 19 compared with 2017 Q1.

# Cost of Sales Ratio and SG&A Expenses Ratio(Consolidated/Quarterly basis)

Management Indicators



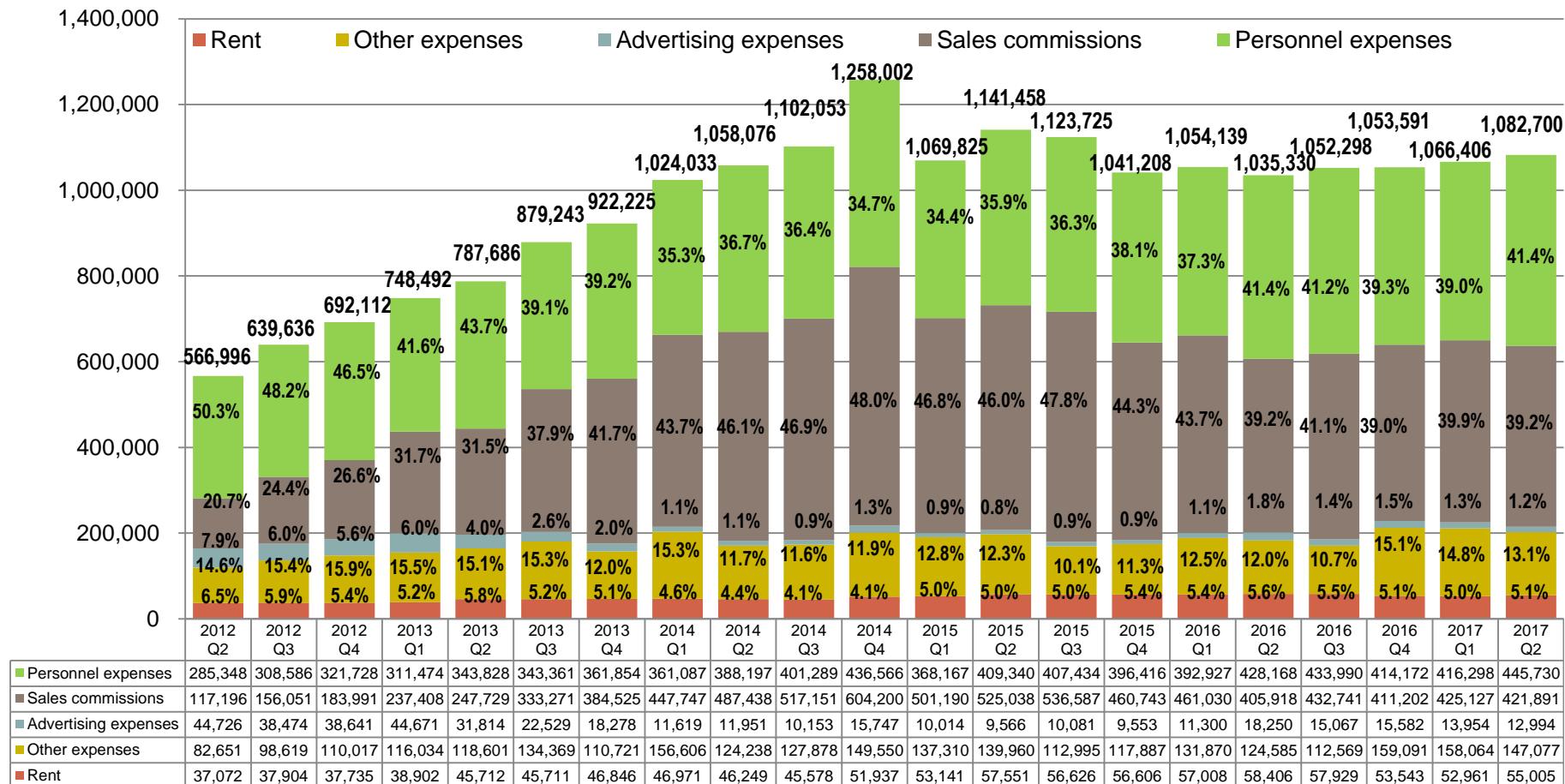
The cost of sales ratio increased 0.1 percentage points compared with 2017 Q1. The selling, general and administrative (SG&A) expenses ratio was unchanged.

# Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management  
Indicators

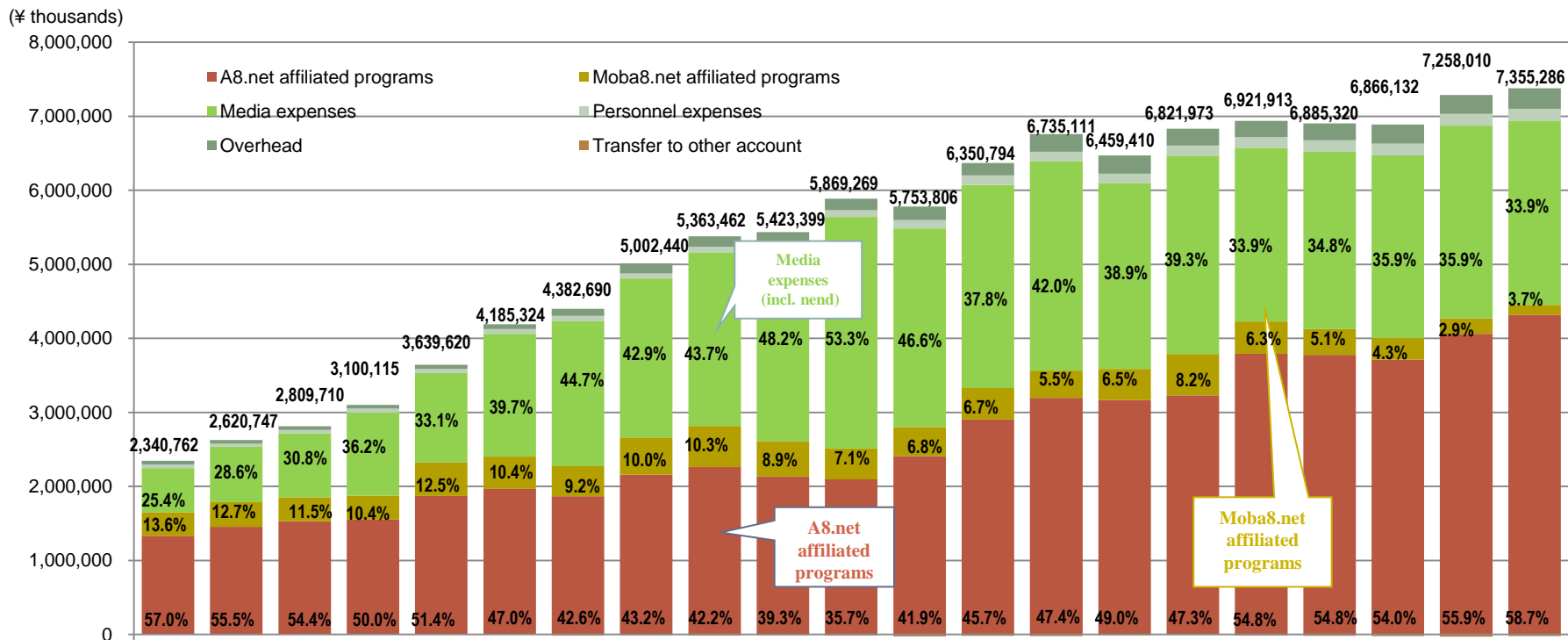
(¥ thousands)



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

Personnel expenses increased due to factors including the addition of 22 new employees and higher salaries.

# Cost of Sales (Consolidated/Quarterly basis)



(1,000,000)

	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	2017 Q2
Transfer to other account	(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)	(22,120)
Overhead	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	274,559
Personnel expenses	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	161,638
Media expenses	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	2,490,013
Moba8.net affiliated programs	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	132,174
A8.net affiliated programs	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	4,319,019

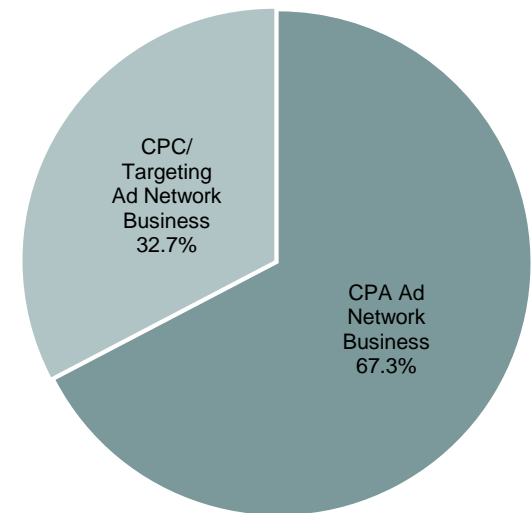
Media expenses consist of nend, nex8, adrops, medi8, and other companies. The seed App is included in Moba8.net affiliated programs.  
Purchasing increased at A8.net due to higher sales and accounted for a larger percentage of net sales.

## Overview by Main Service Area

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

## Overview by Service Area

(¥ thousands)	2017 Q2 (April – June)	2016 Q2 (April – June)	Change
CPA Ad Network Business	<b>6,725,060</b>	<b>6,313,802</b>	<b>6.5%</b>
CPC/Targeting Ad Network Business	<b>3,262,687</b>	<b>3,096,905</b>	<b>5.4%</b>
Total net sales	<b>9,987,748</b>	<b>9,410,708</b>	<b>6.1%</b>



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

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

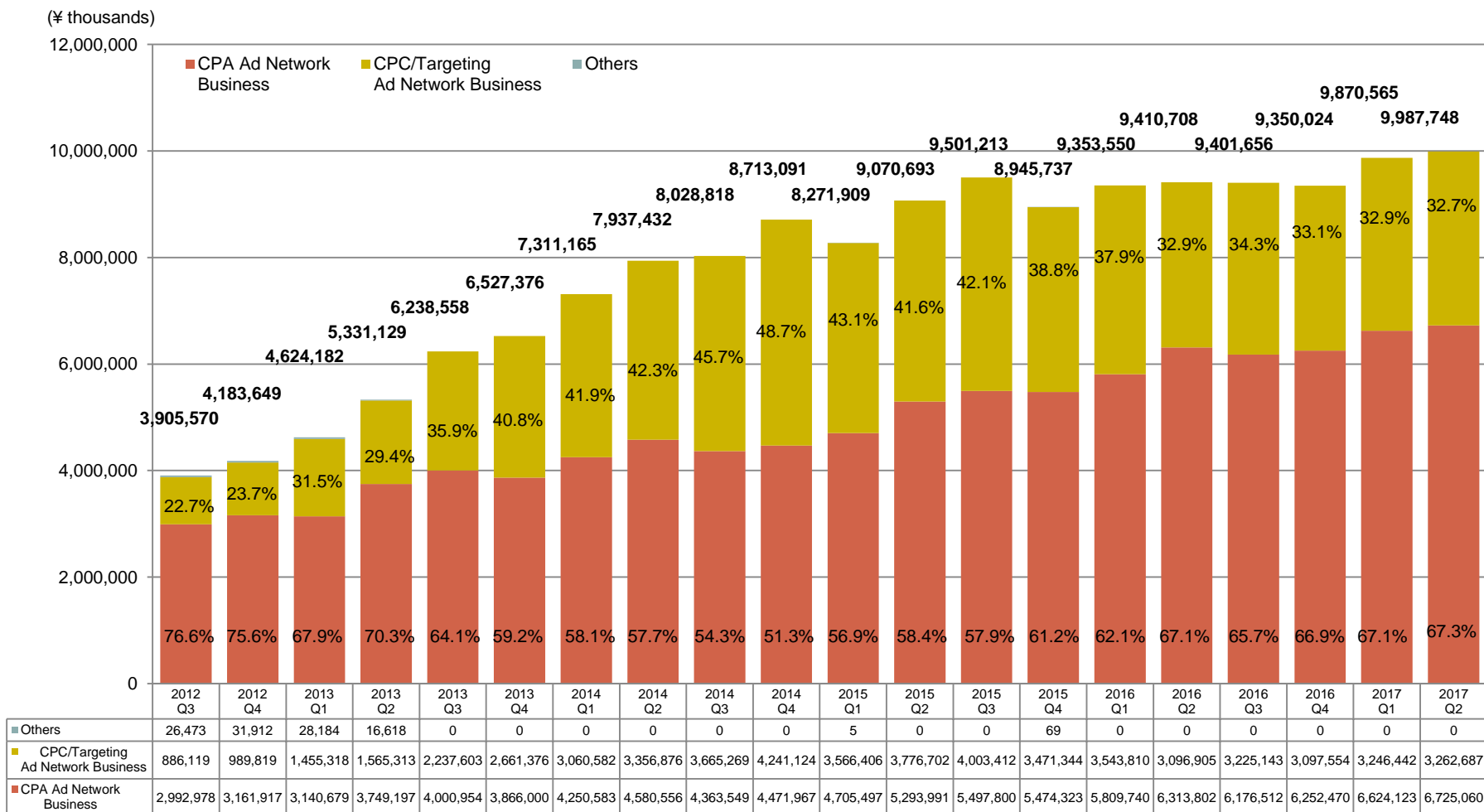
Note: Other companies' media and advertising sales and Fan Media Inc.'s own media business were formerly included in Others. Beginning 2017 Q1, they are included in CPA Ad Network Business and CPC/Targeting Ad Network Business.

Sales before elimination of consolidated intercompany transactions.

The CPC/Targeting Ad Network Business transitioned to growth in net sales. Factors including the termination of Moba8.net, lower demand for A8.net's seasonal advertising, and changes in search engine algorithms limited growth in net sales in the CPA Ad Network Business to 6.5%.

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

## Overview by Service Area



The CPA Ad Network Business accounted for a slightly larger share of net sales.



# A8.net Summary

	2017 Q2 (April – June)	2016 Q2 (April – June)	Change
Sales (¥ thousands)	<b>5,992,936</b>	<b>5,208,632</b>	<b>15.1%</b>
Number of operating advertiser IDs	<b>3,370</b>	<b>3,049</b>	<b>10.5%</b>
Number of registered partner sites	<b>2,262,275</b>	<b>2,059,390</b>	<b>9.9%</b>

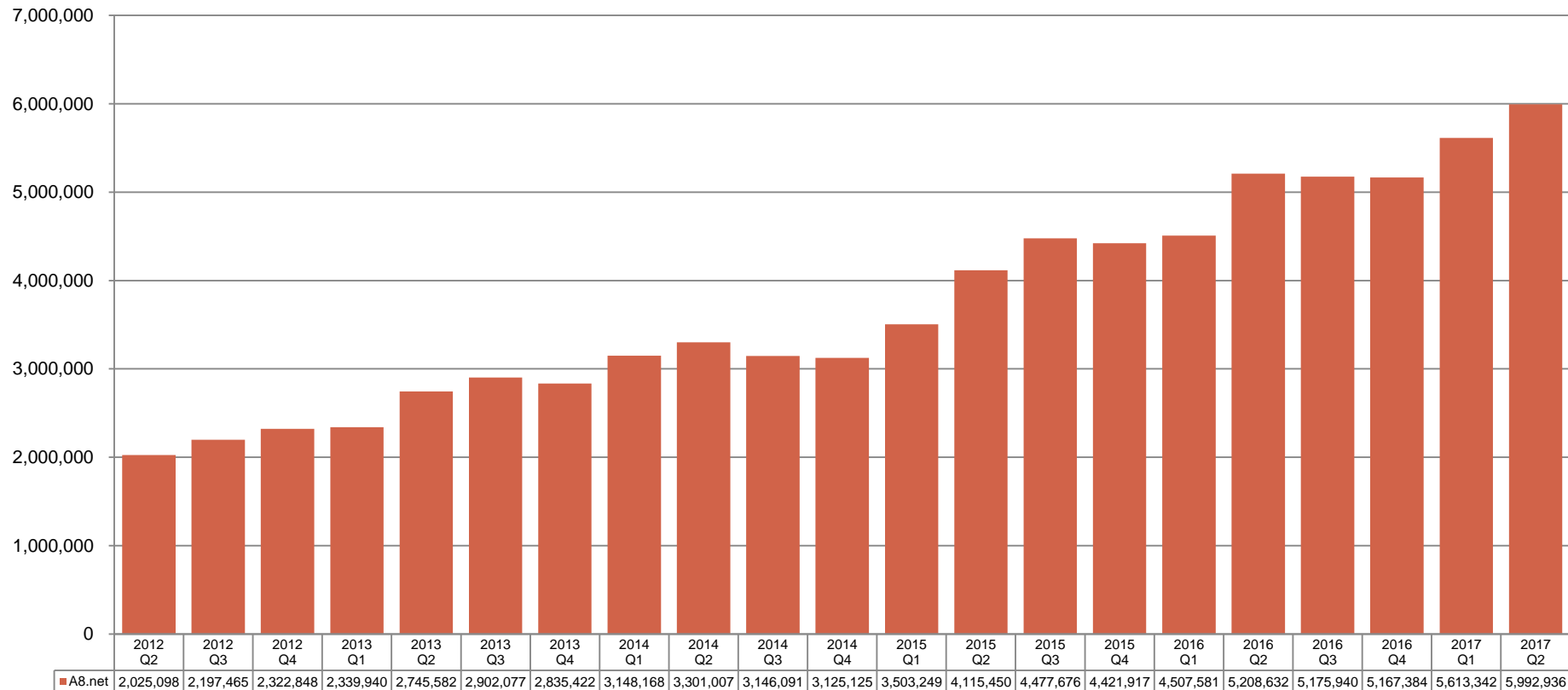
Sales before elimination of consolidated intercompany transactions  
 The number of operating advertiser IDs increased by 321 from the same period of the previous year.

A8.net

CPA Ad Network Business

## Net Sales (Quarterly basis)

(¥ thousands)

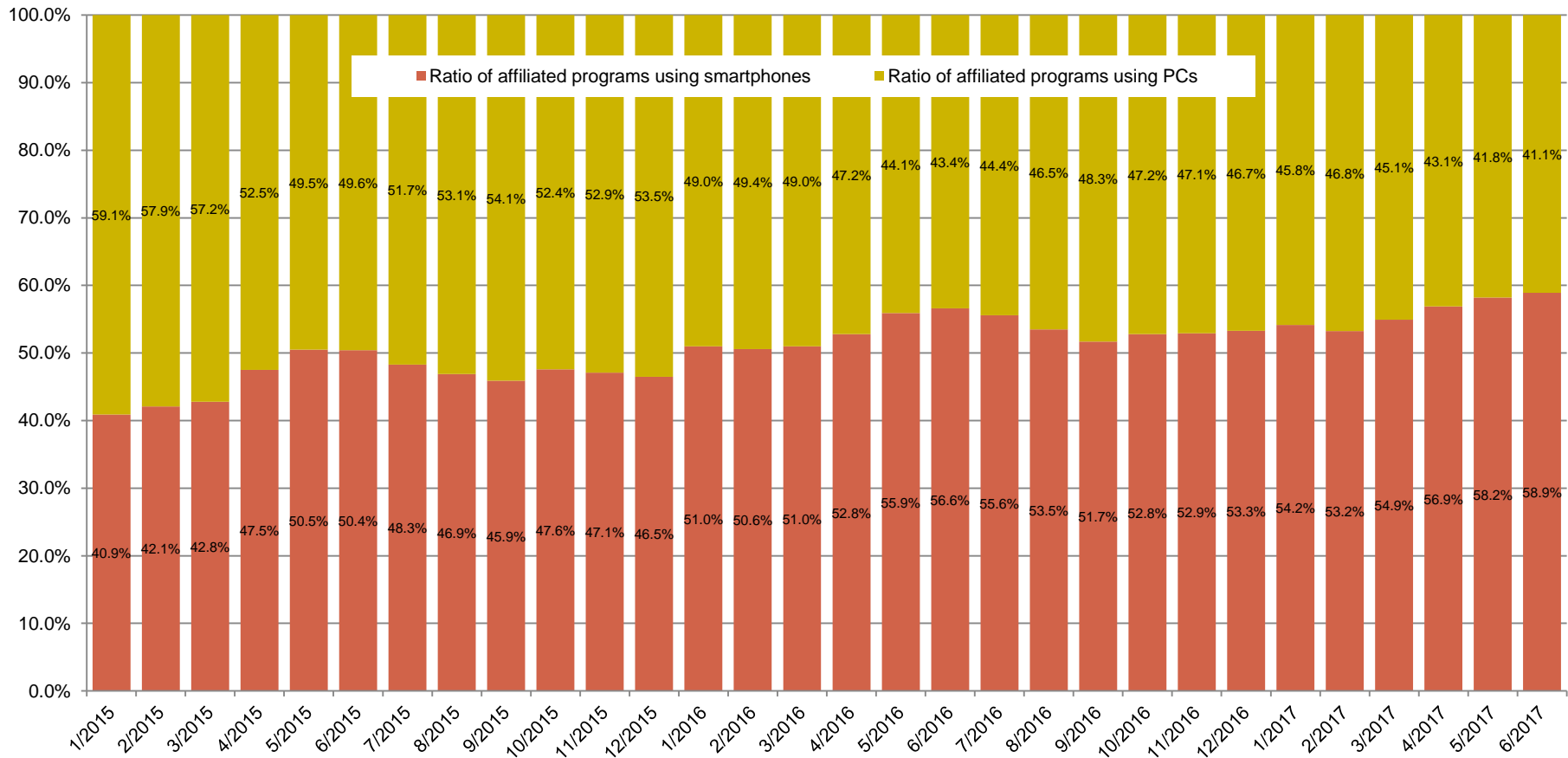


Sales before elimination of consolidated intercompany transactions.  
Net sales rose to a record high.

A8.net

CPA Ad Network Business

# Ratio of Smartphones in Affiliated Programs (Monthly basis)

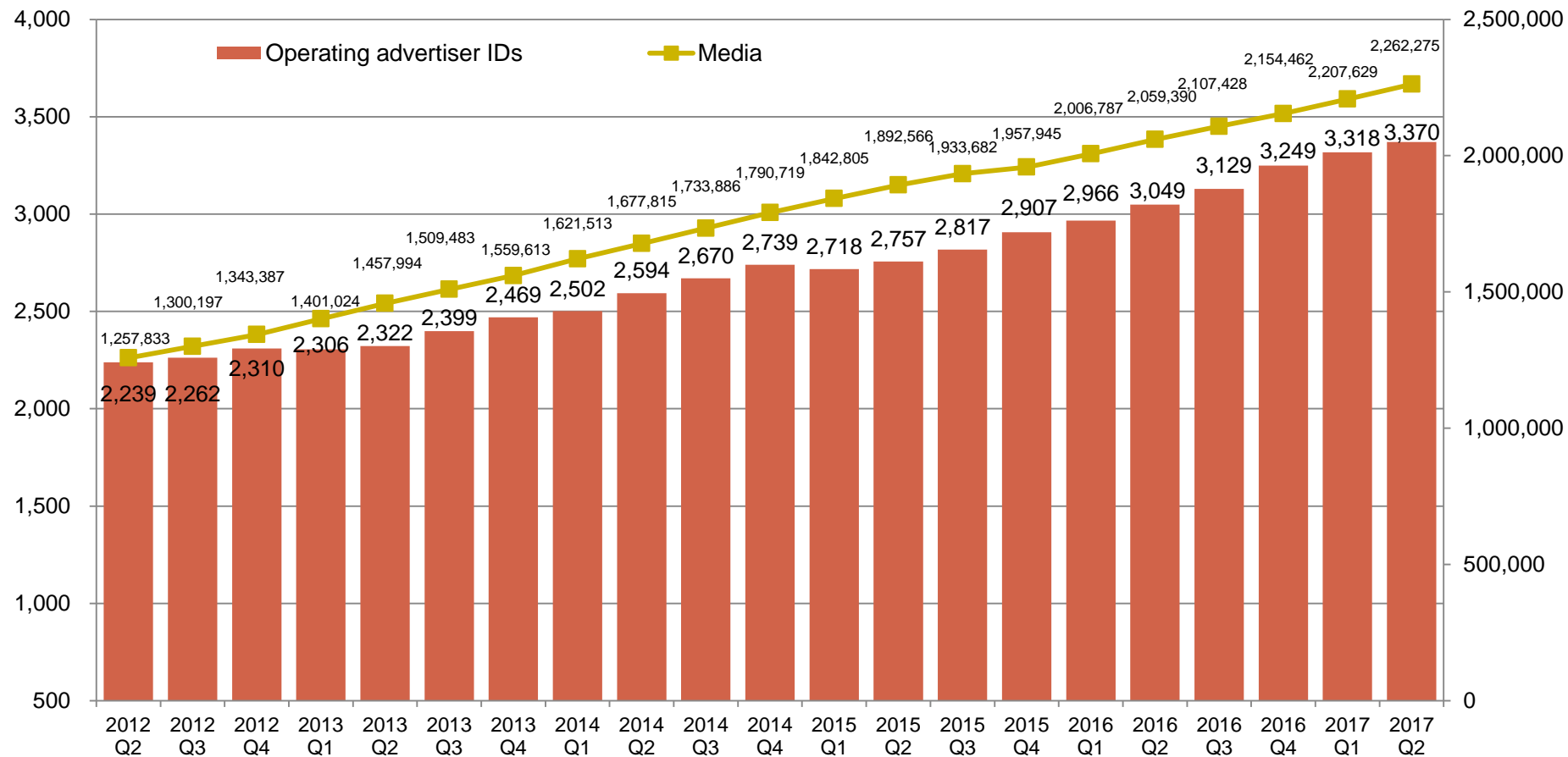


The ratio of affiliated programs using smartphones increased to about 60%. We continue to emphasize smartphones.  
 Note: The above affiliated program ratios are not final and are subject to change.

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.

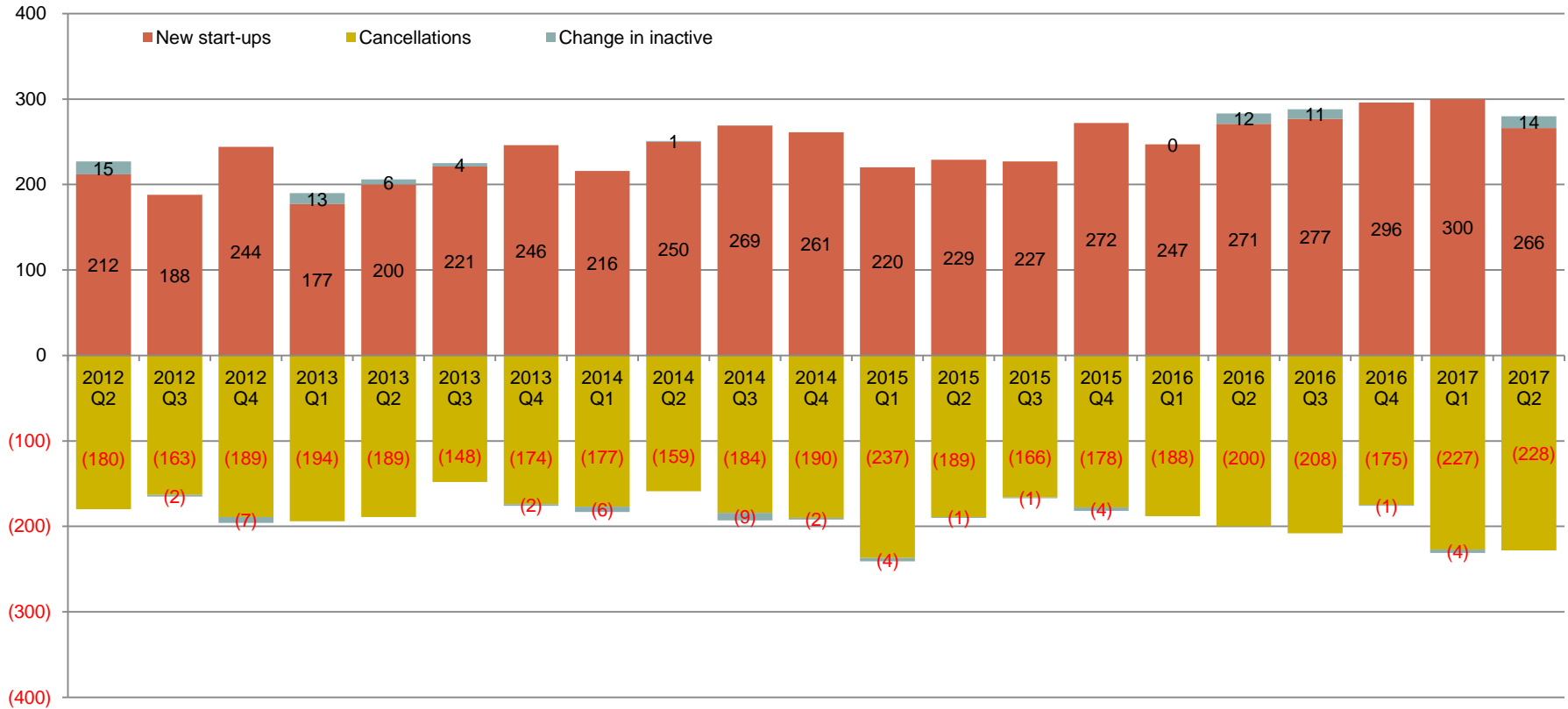
The number of operating advertisers increased by 52 from the previous quarter.

The number of overseas operating advertisers increased by 7 from 2017 Q1 to 220. Net sales were approximately ¥60 million.

A8.net

CPA Ad Network Business

# New Advertiser Start-ups and Cancellations



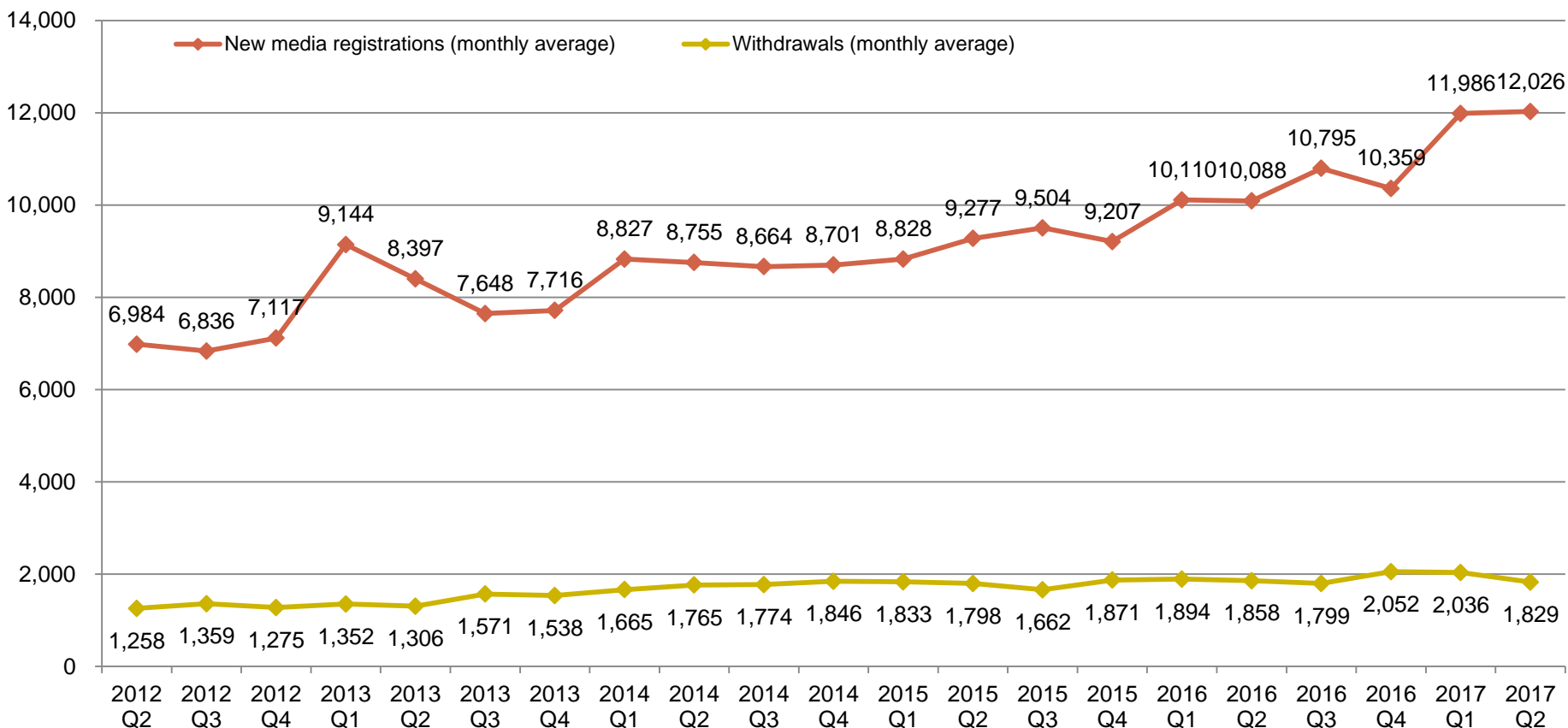
Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

New advertiser start-ups dipped.

A8.net

CPA Ad Network Business

# Monthly Averages for New Media Registrations and Withdrawals



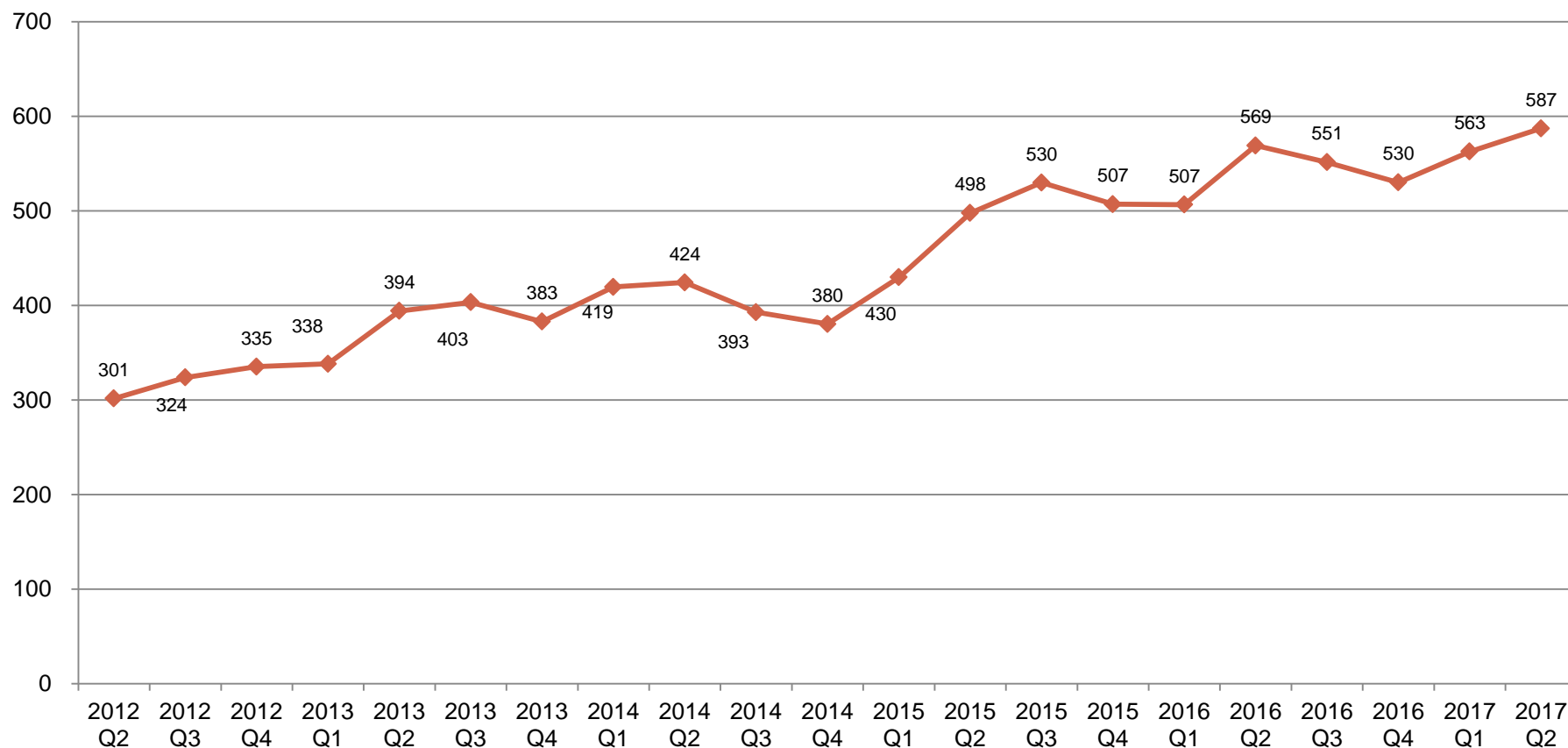
Monthly new media registrations are trending upward.

A8.net

CPA Ad Network Business

# Average Monthly Sales per Advertiser

(¥ thousands)



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

# Moba8.net Summary

CPA Ad Network Business

	2017 Q2 (April – June)	2016 Q2 (April – June)	Change
Sales (¥ thousands)	<b>42,691</b>	<b>530,751</b>	<b>-92.0%</b>
Number of operating advertiser IDs	<b>102</b>	<b>1,107</b>	<b>-90.8%</b>
Number of registered partner sites	<b>279,122</b>	<b>270,126</b>	<b>3.3%</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.

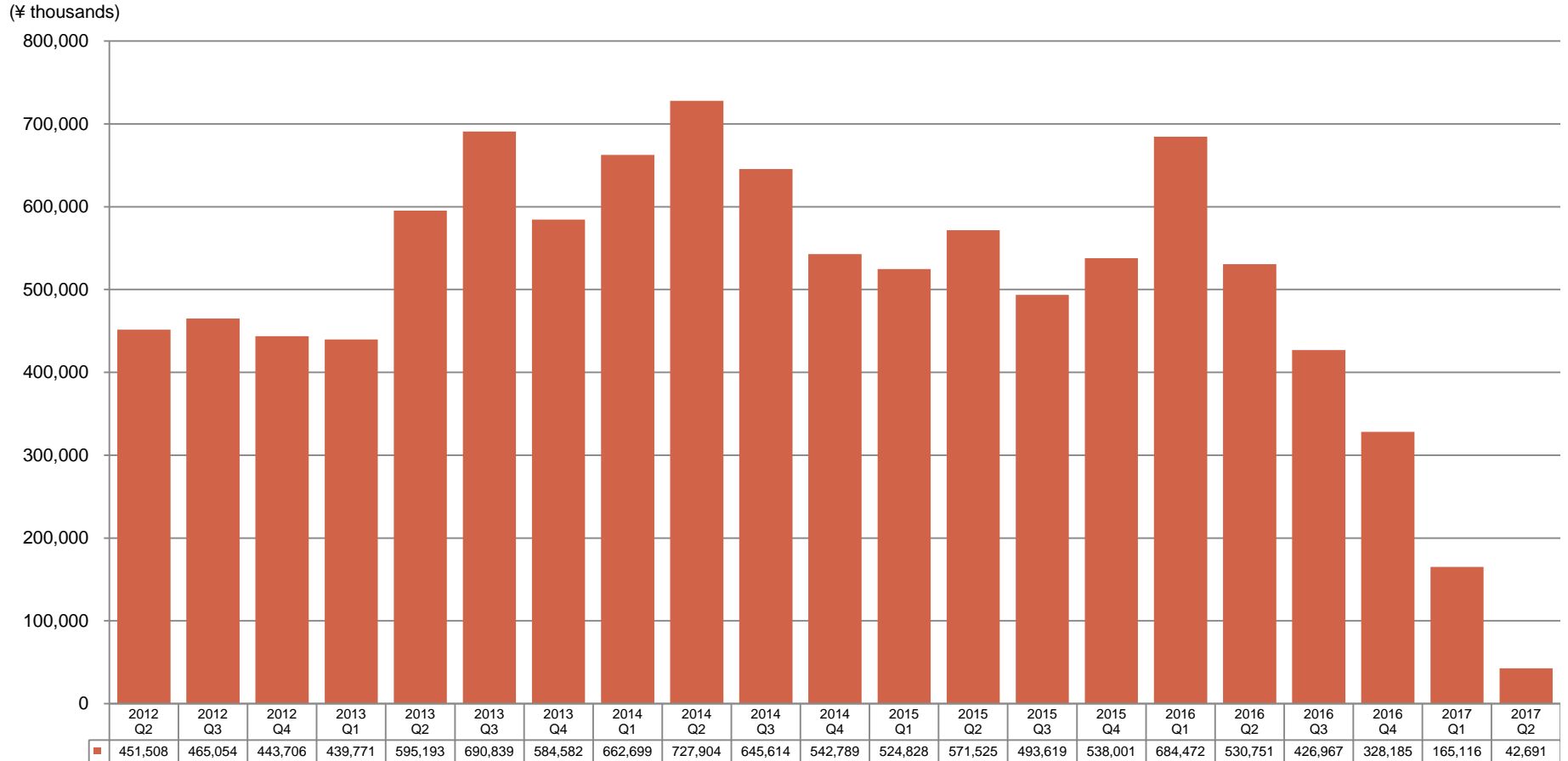
Sales are scheduled to end and we have not acquired new services. We are migrating existing advertisers to A8.net.



# Moba8.net

## CPA Ad Network Business

### Net Sales (Quarterly basis)



Sales before elimination of consolidated intercompany transactions.

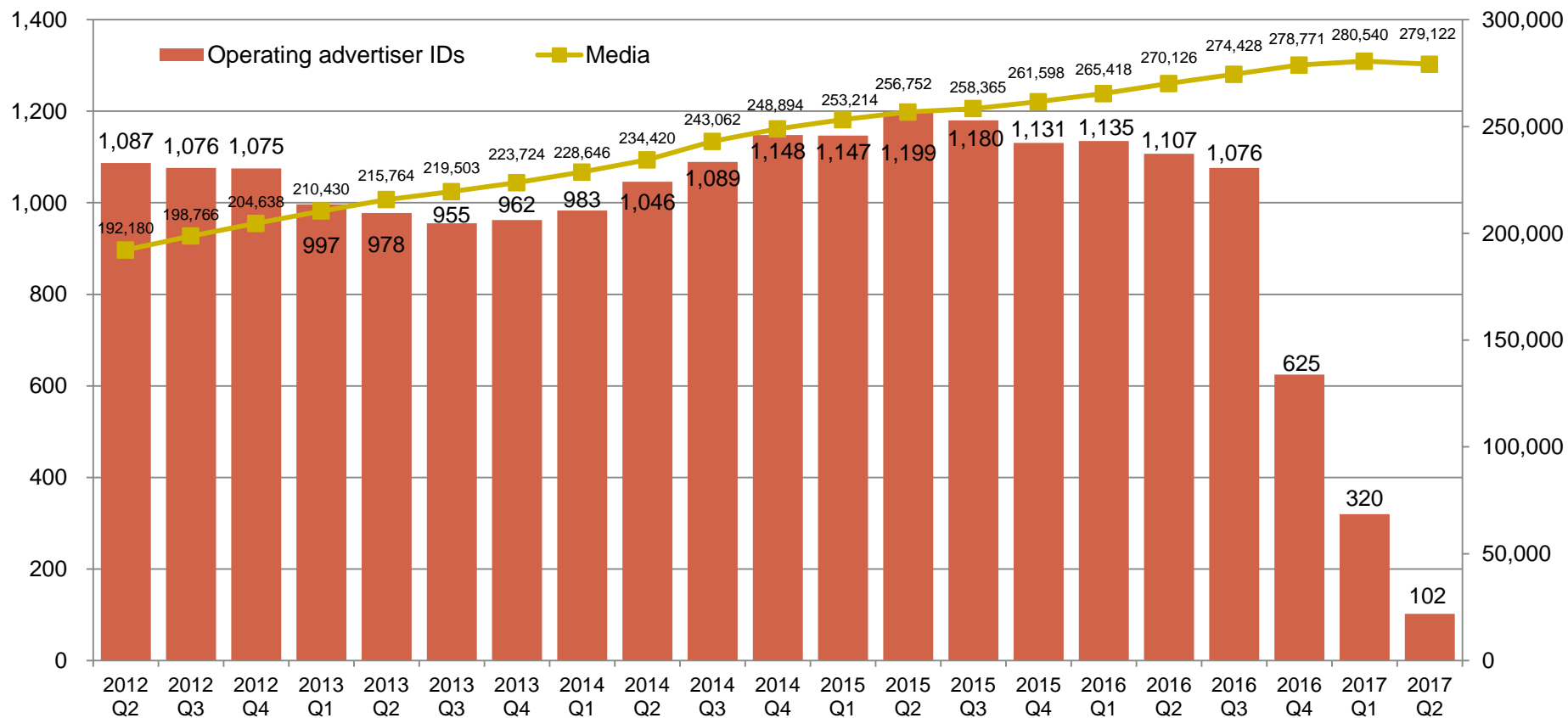
The figures for sales are for Moba8.net only, and do not include sales of other services.

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

Moba8.net

CPA Ad Network Business

## Net Sales (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

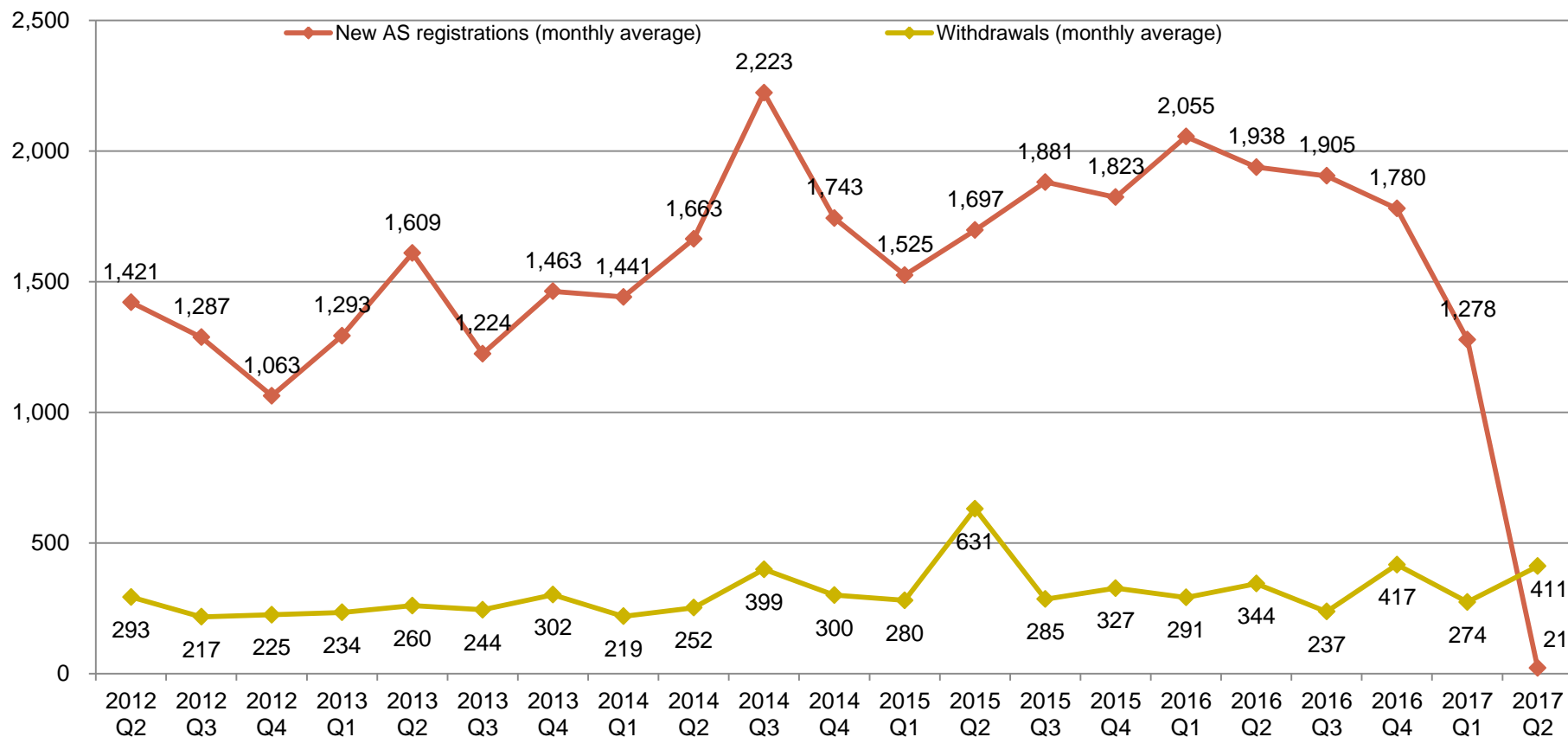
(Quarterly basis)



We are closing this business.

Moba8.net

# Monthly Averages for New Media Registrations and Withdrawals



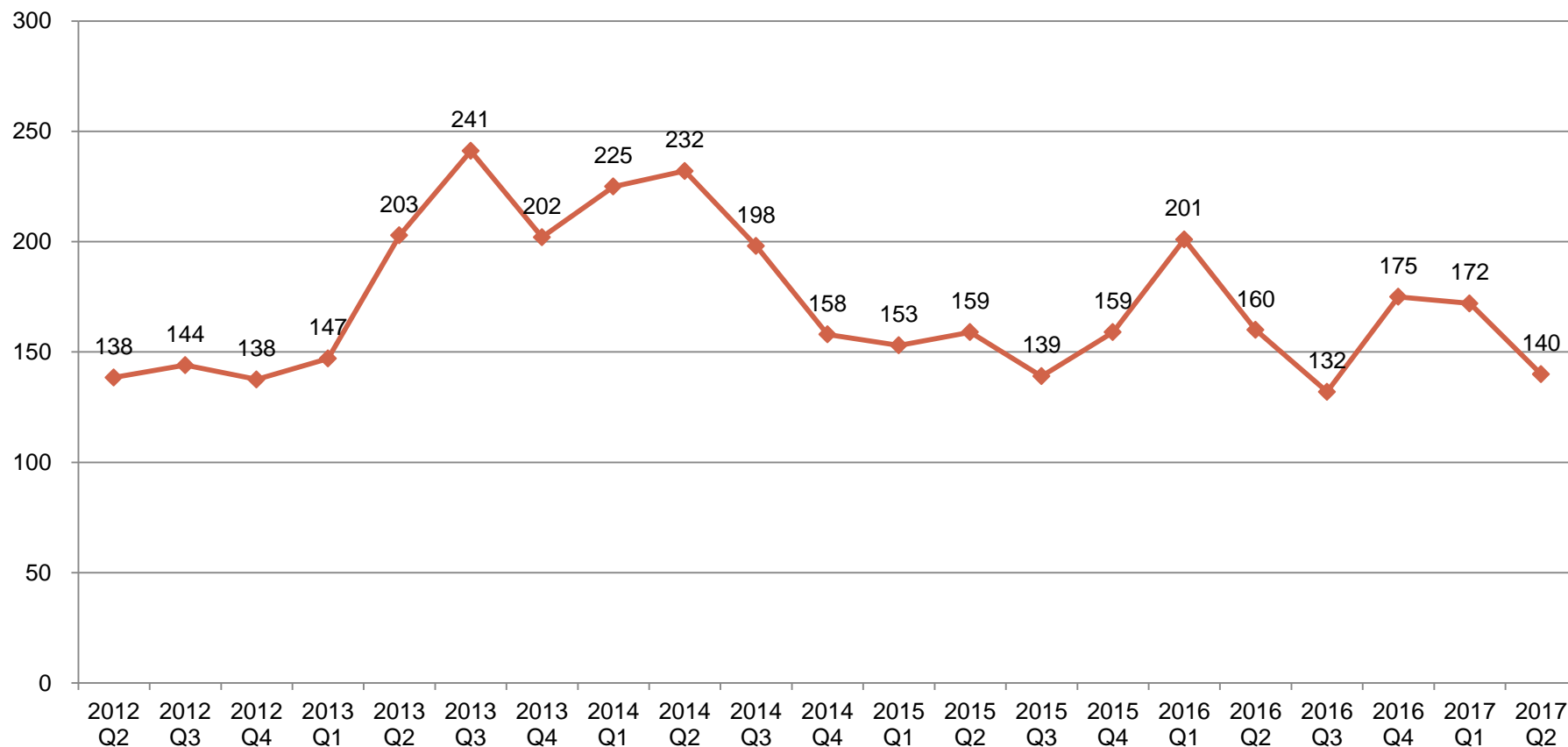
We are closing this business.

Moba8.net

CPA Ad Network Business

## Average Monthly Sales per Advertiser

(¥ thousands)

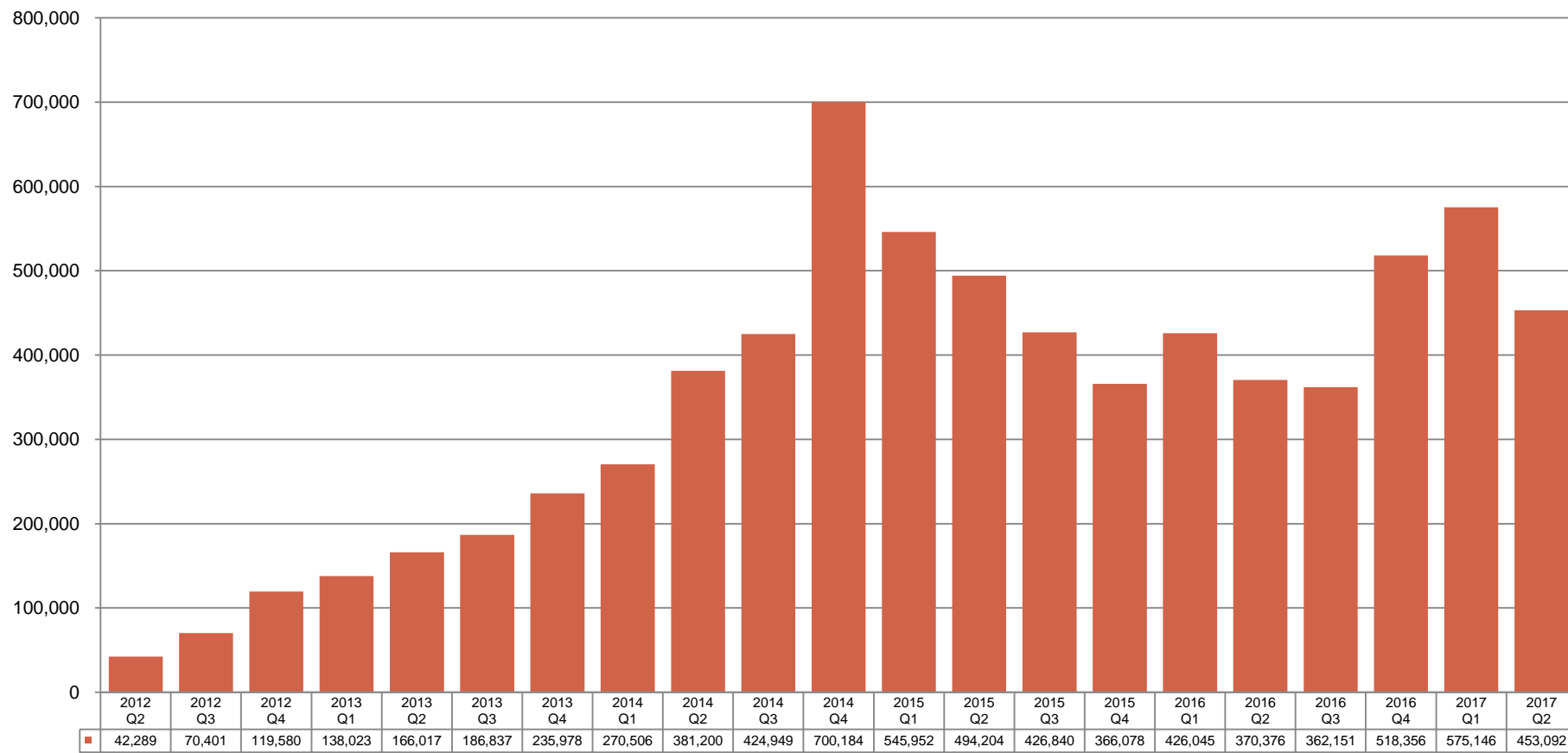


We are closing this business.

adcrops

## Net Sales (Quarterly basis)

(¥ thousands)



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 Q2 (April – June)	2016 Q2 (April – June)	Change
Sales (¥ thousands)	2,542,719	2,408,165	5.6%
Number of operating advertiser IDs	367	427	-14.1%
Number of registered partner sites	769,649	618,436	24.5%

Sales before elimination of consolidated intercompany transactions.  
Note: Figures are those of nend only, and do not include other services.

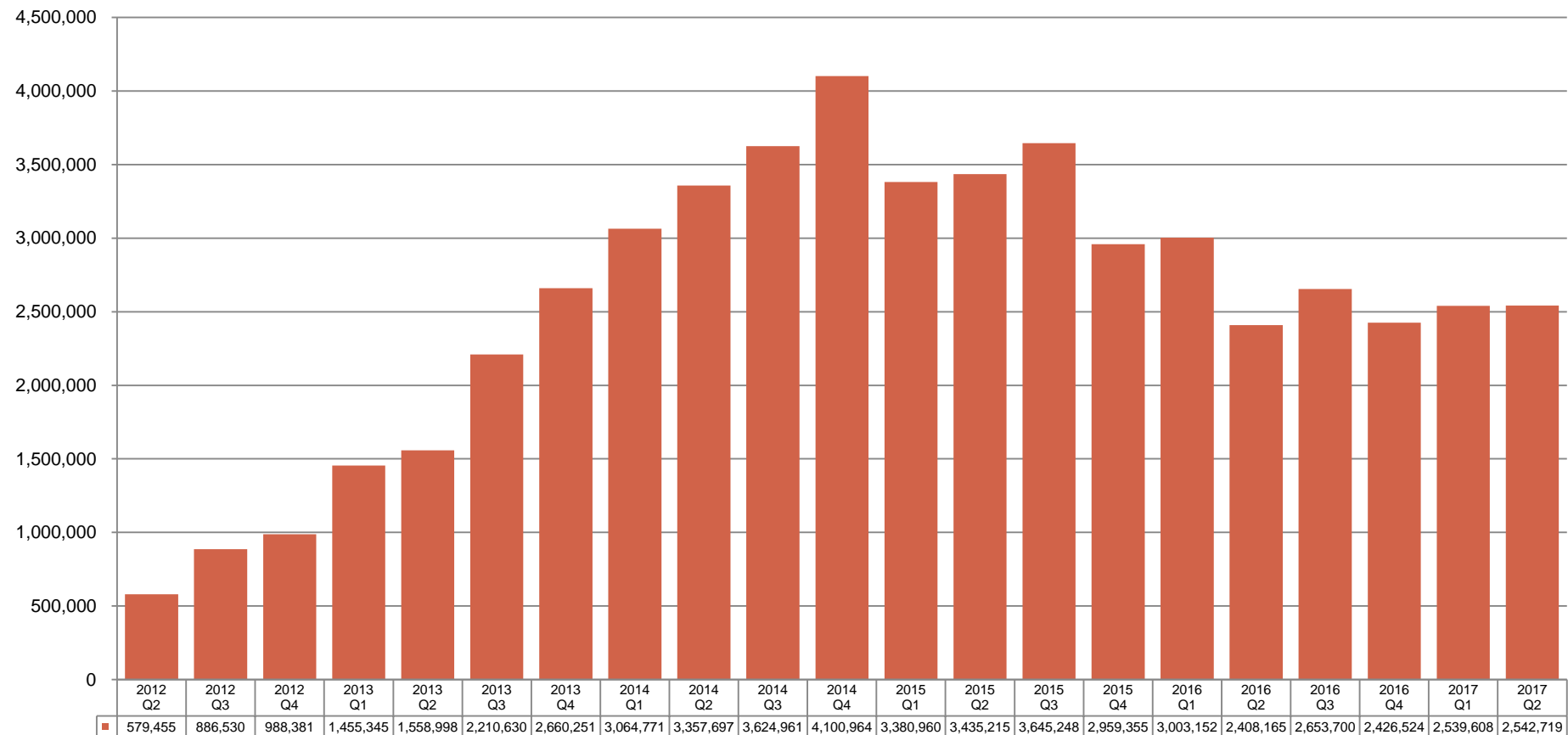
Sales increased compared with the same period of the previous year, though slightly.

nend

# Net Sales (Quarterly basis)

CPC/Targeting Ad  
Network Business

(¥ thousands)



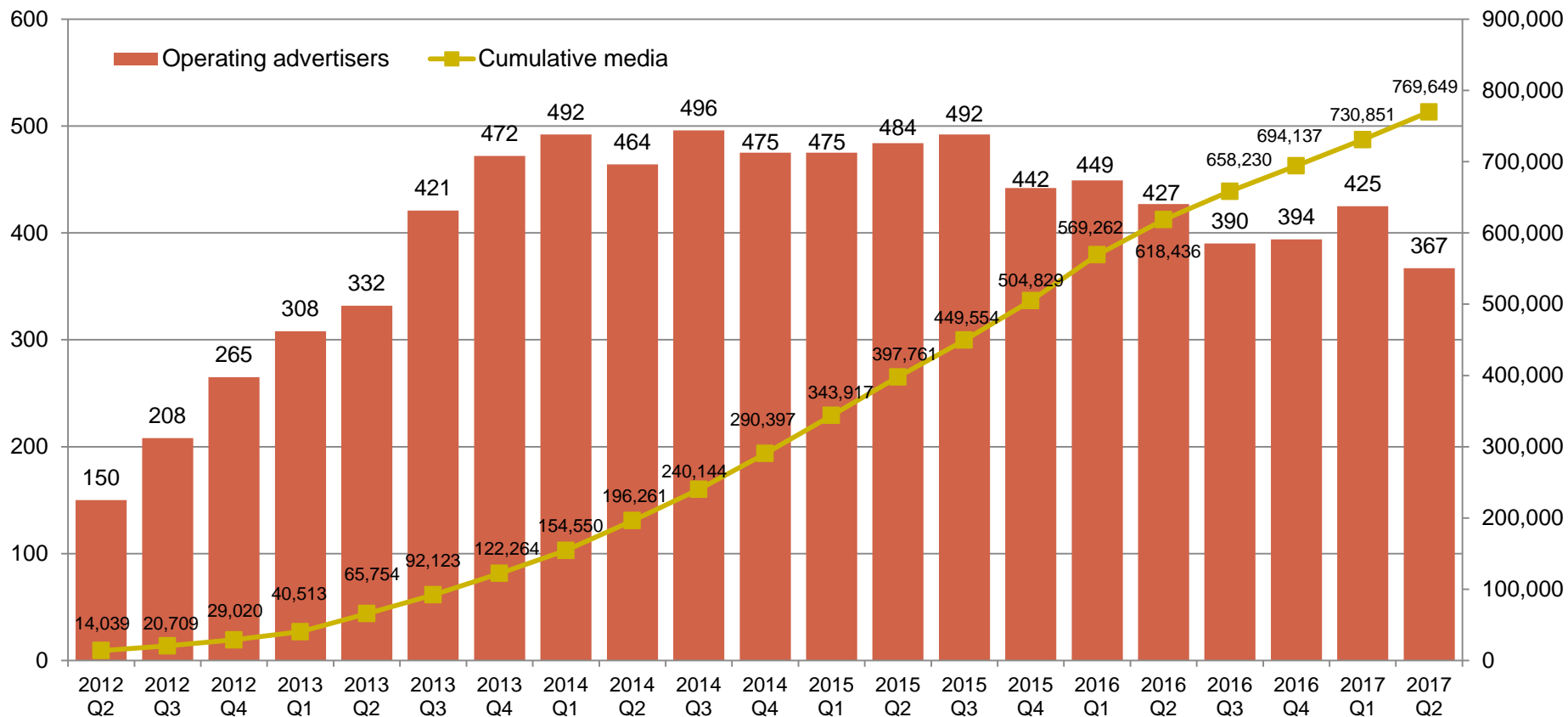
Sales before elimination of consolidated intercompany transactions.  
Net sales increased compared with 2017 Q1.



nend

CPC/Targeting Ad  
Network Business

# Number of Operating Advertisers and Media (Quarterly basis)



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

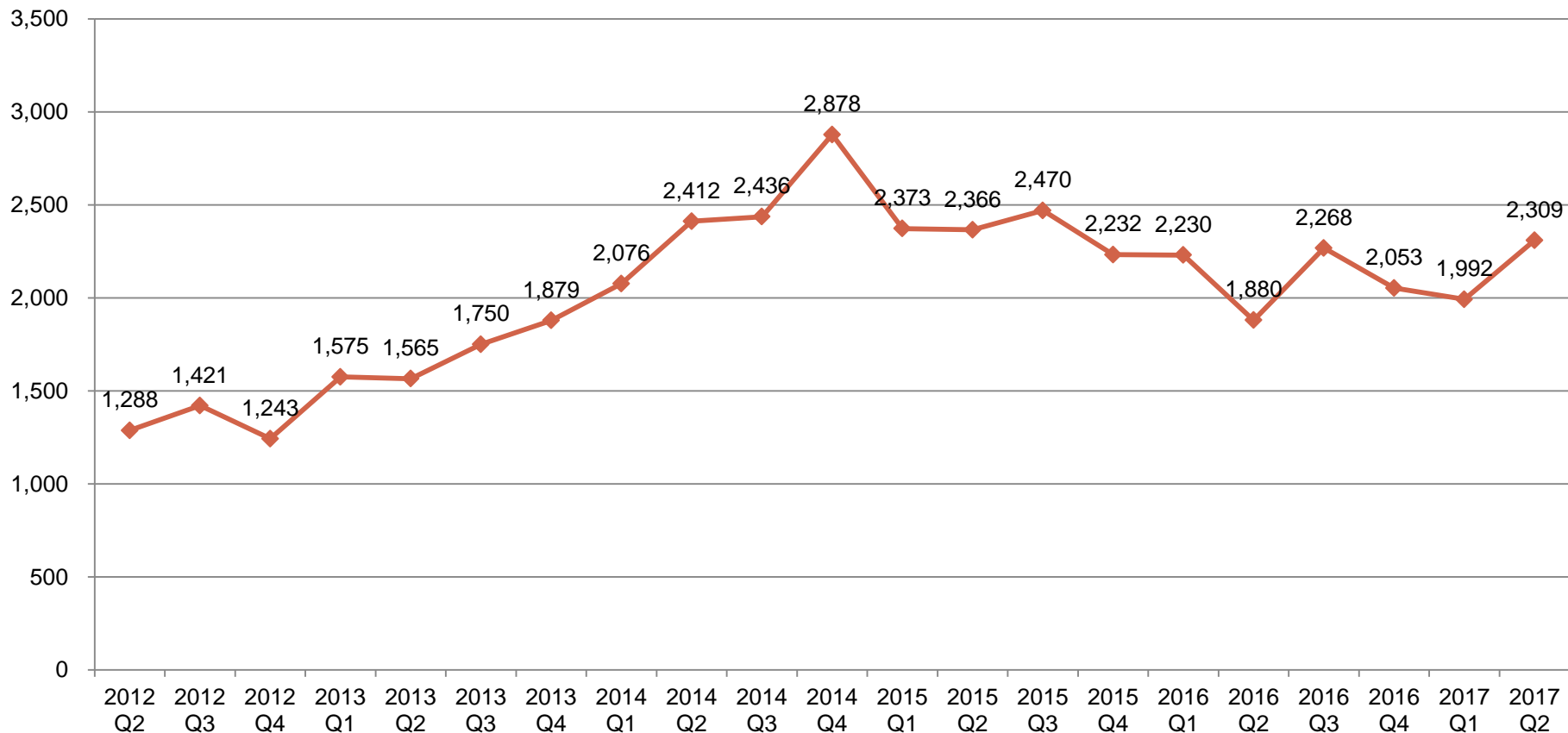
The number of operating advertisers decreased by 58 compared with the previous quarter. On a monthly basis, however, the number of operating advertisers was 348 for January, 371 for February, 425 for March, 386 for April, 368 for May, 367 for June and 385 for July. The trend was basically unchanged aside from the spike in demand at the end of the fiscal year for many operating advertisers.

nend

CPC/Targeting Ad  
Network Business

## Average Monthly Sales per Advertiser

(¥ thousands)



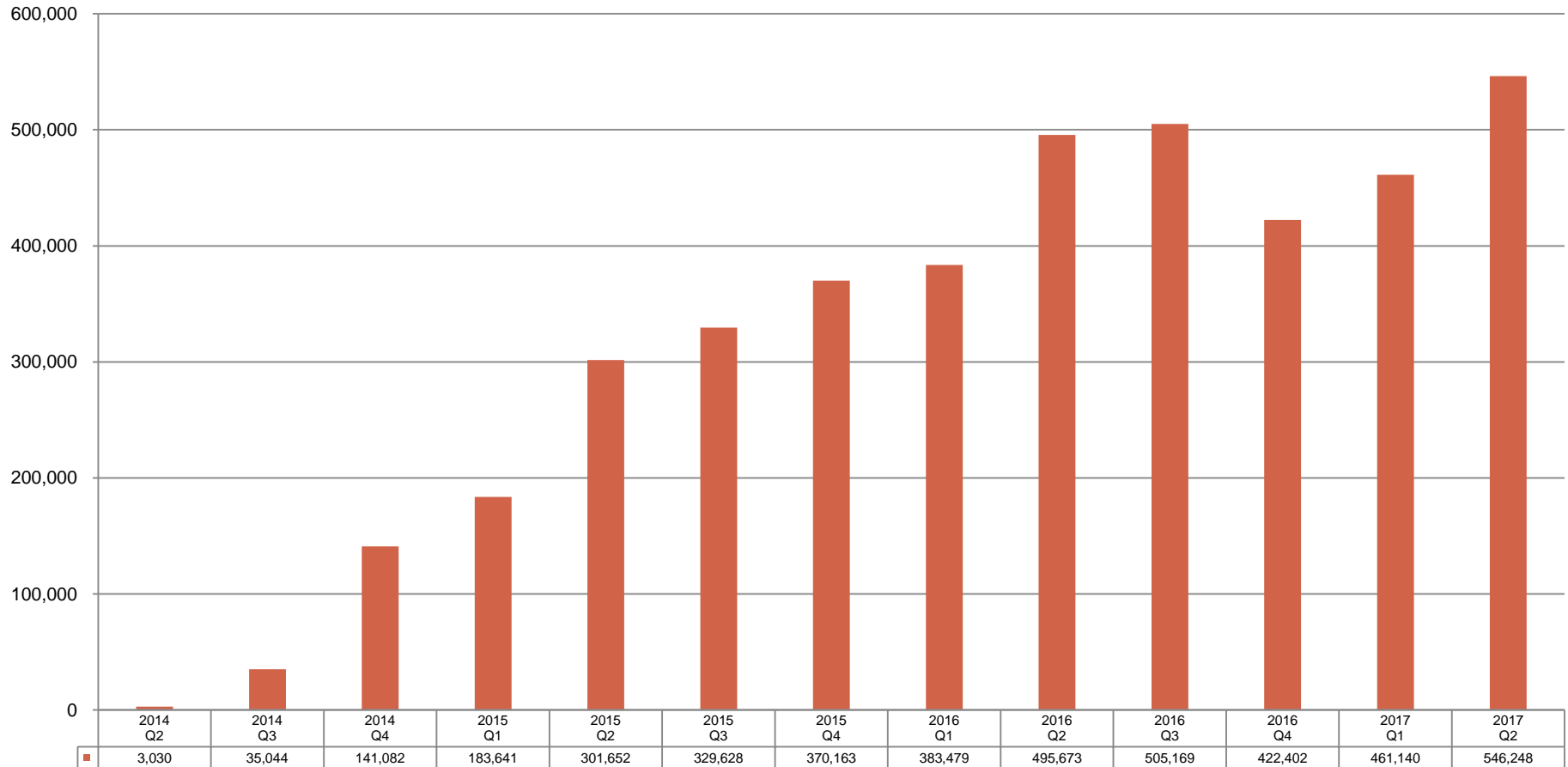
Average monthly sales per advertiser was approximately ¥2,300 thousand.

nex8

# Net Sales (Quarterly basis)

CPC/Targeting Ad  
Network Business

(¥ thousands)



Sales before elimination of consolidated intercompany transactions.  
We are steadily adding operating advertisers with a focus on dynamic retargeting.

## Consolidated Group Businesses

# Ad Japon Inc.

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

## Main Businesses

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



(¥ thousands)	2017 First Two Quarters	2016 Full Year
Net sales	577,246	1,008,707
Operating income (loss)	(226)	71,827
Profit (loss) attributable to owners of parent	(3,615)	53,847

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

# FAN MEDIA INC.

Absorption merger on 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)

## Main Businesses

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

(¥ thousands)	2017 Q1	2016 Full Year
Net sales	<b>98,132</b>	<b>395,757</b>
Operating income (loss)	<b>(7,309)</b>	<b>(33,093)</b>
Profit (loss) attributable to owners of parent	<b>331,011</b>	<b>(35,533)</b>

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



# Seesaa Inc.

Became a subsidiary on July 3, 2017

Established: October 2003  
(Wholly owned by F@N Communications)

## Main Businesses

Development, operation and sales of blog systems, planning, development and sales of smartphone applications, and management of own media

(¥ thousands)	Year ended Sept. 30, 2016	Year ended Sept. 30, 2015
Net sales	<b>883,224</b>	<b>867,655</b>
Operating income	<b>207,347</b>	<b>281,882</b>
Profit attributable to owners of parent	<b>143,608</b>	<b>181,360</b>

Note: The above results are prior to consolidation.



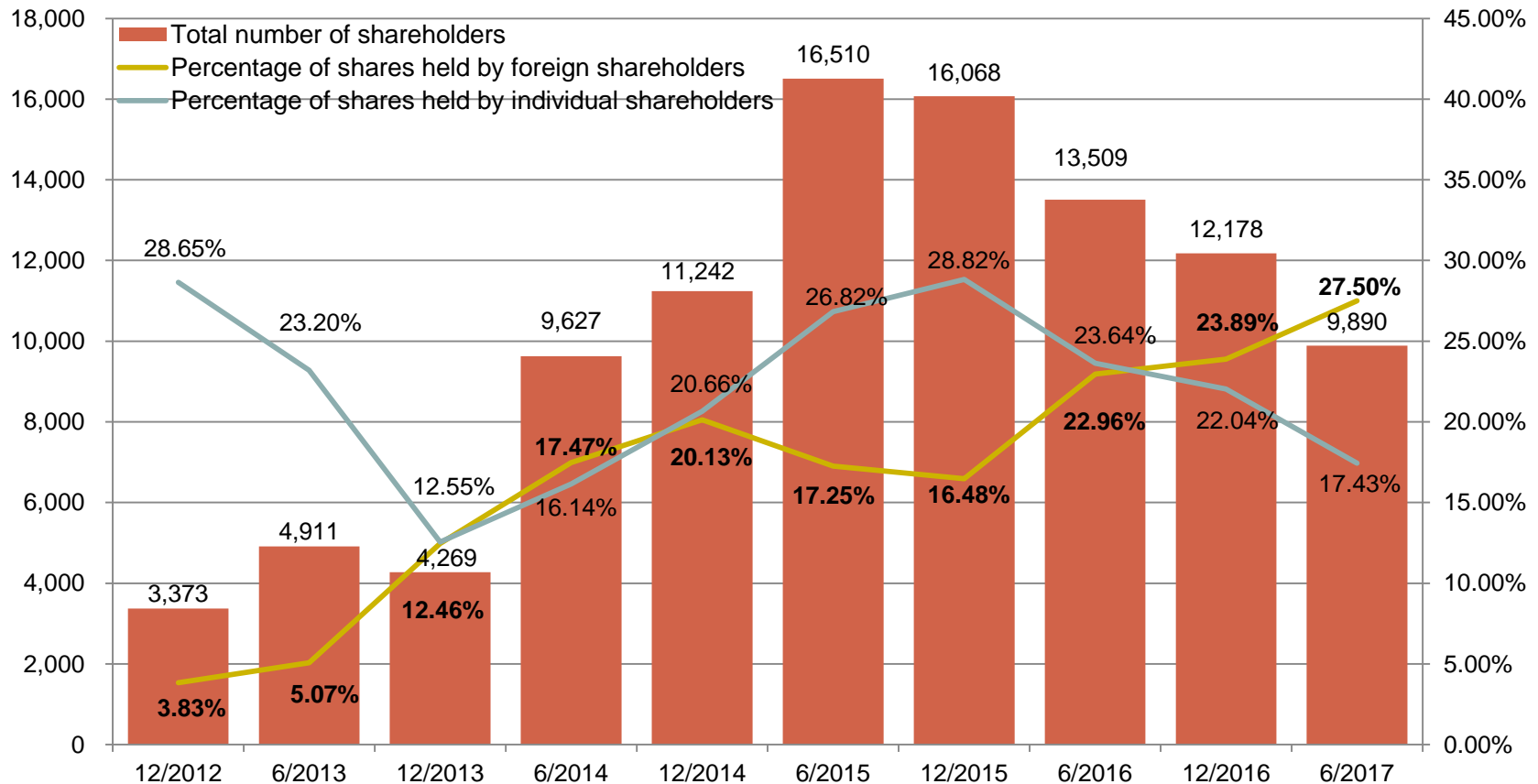

# Stock Information



# 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

■ Company name	<b>F@N Communications, Inc.</b>
■ Securities code	<b>2461 (Tokyo Stock Exchange, First Section)</b>
■ Fiscal year-end	<b>December</b>
■ Established	<b>October 1, 1999</b>
■ Capital	<b>¥1,142.16 million (As of June 30, 2017)</b>
■ President and Representative Director	<b>Yasuyoshi Yanagisawa</b>
■ Number of employees	<b>Non-consolidated: 403</b> <b>Group total: 415</b> <small>(As of June 30, 2017; includes part-time and temp staff)</small>
■ Headquarters	<b>Aoyama Diamond Building</b> <b>1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan</b>
■ Phone	<b>+81-3-5766-3530 (IR)</b>
■ Fax	<b>+81-3-5766-3782</b>

# Disclaimer

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