



Third Quarter of 2017
Presentation of Results

November 10, 2017

F@N Communications, Inc.

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Third Quarter of 2017
Performance Highlights

2017 Q3: Key Points

- **Q3 net sales were a record ¥10,395 million.**
- **Ordinary income for the quarter was ¥1,556 million, the highest thus far in 2017, but the ordinary income margin was 15%, the lowest level of the year.**
- **Sales from CPC/targeting services were steady, growing 14.2% compared with 2016 Q3, and 13.1% compared with 2017 Q2.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2017 Q3	2016 Q3	Year-on-Year Change	% of Net Sales
Net sales	30,253,997	28,165,915	7.4%	100%
Operating income	4,655,514	4,394,940	5.9%	15.4%
Ordinary income	4,663,280	4,468,409	4.4%	15.4%
Profit attributable to owners of parent	3,416,495	2,970,238	15.0%	11.3%
Ordinary income margin	15.4%	15.9%	-0.5 points	-
Net income per share	¥44.51	¥38.61	15.3%	-
Diluted net income per share	¥44.40	¥38.51	15.3%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2016	September 30, 2017
Assets		
Current assets	20,896,081	21,256,517
Cash and deposits	14,544,263	15,156,184
Notes and accounts receivable - trade	4,544,032	5,001,702
Securities	1,245,375	798,408
Other	576,172	319,324
Allowance for doubtful accounts	(13,761)	(19,103)
Fixed assets	2,417,953	4,072,535
Property and equipment	205,755	269,478
Intangible assets	268,171	949,773
Investments and other assets	1,944,026	2,853,283
Total assets	23,314,035	25,329,053
Liabilities and Net Assets		
Current liabilities	6,513,452	6,456,808
Notes and accounts payable - trade	4,738,384	5,028,165
Income taxes payable	841,825	341,852
Other current liabilities	933,242	1,086,789
Long-term liabilities	162,697	151,815
Total liabilities	6,676,150	6,608,623
Total net assets	16,637,885	18,720,429
Total liabilities and net assets	23,314,035	25,329,053

Main component was
¥ 2,479,199 thousand in
investment securities.

The main factor in the decrease
was a ¥499,973 thousand
decrease in income taxes payable,
which exceeded the ¥289,781
thousand increase in notes and
accounts payable – trade.

Net assets increased because
profit attributable to owners of
parent of ¥3,416,495 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 Third Quarter Actual	Progress (% of Full-Year Forecast)
Net sales	40,358 (7.6)	30,253	75.0%
Operating income	6,295 (8.1)	4,655	73.9%
Ordinary income	6,327 (7.3)	4,663	73.7%
Profit attributable to owners of parent	4,551 (16.3)	3,416	75.1%

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

Dividend Forecast

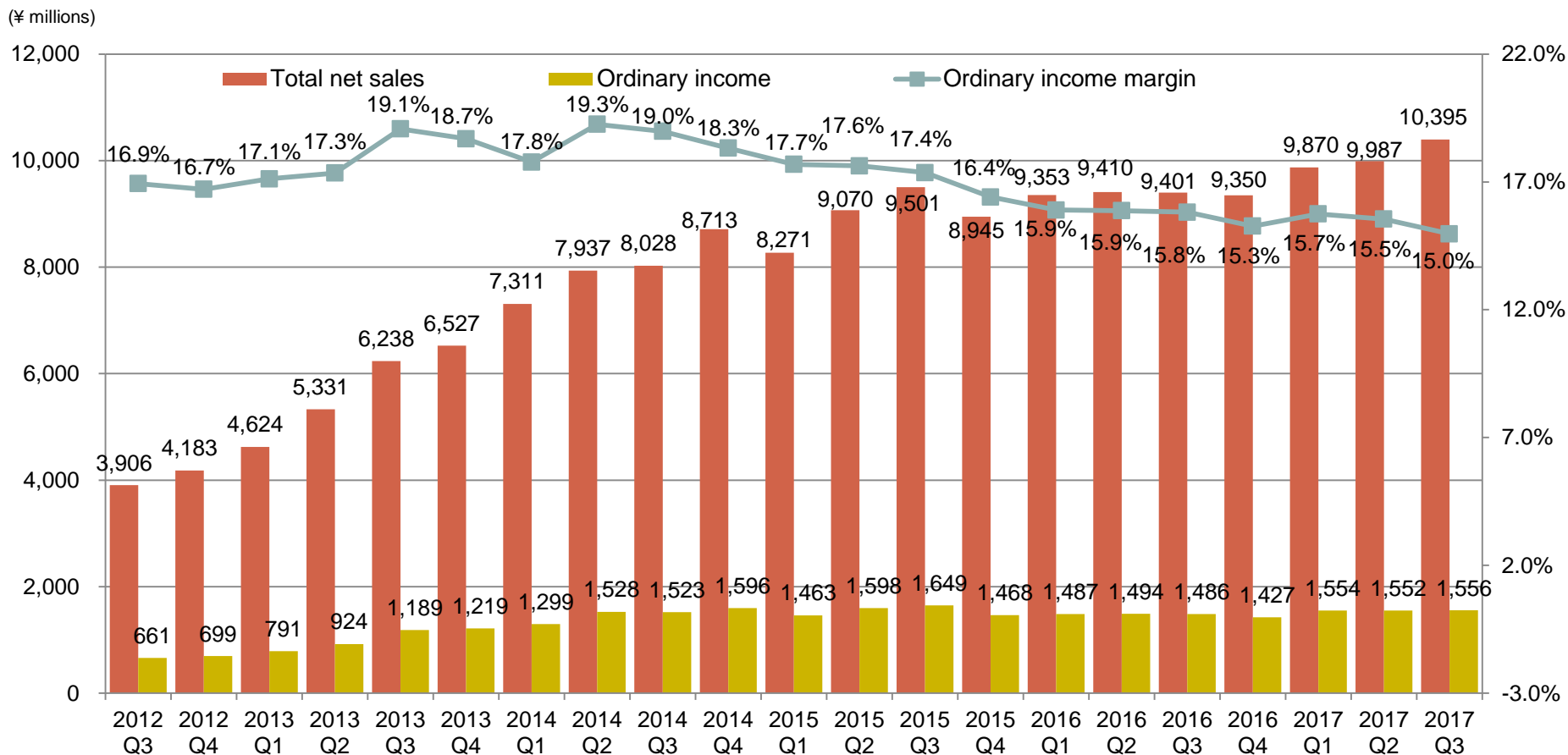
	2017 Forecast	2016 Actual
Year-end dividend per share	¥19	¥18

Management Indicators (Quarterly Basis)

Net Sales, Ordinary Income and Ordinary Income Margin

(Consolidated/Quarterly basis)

Management Indicators

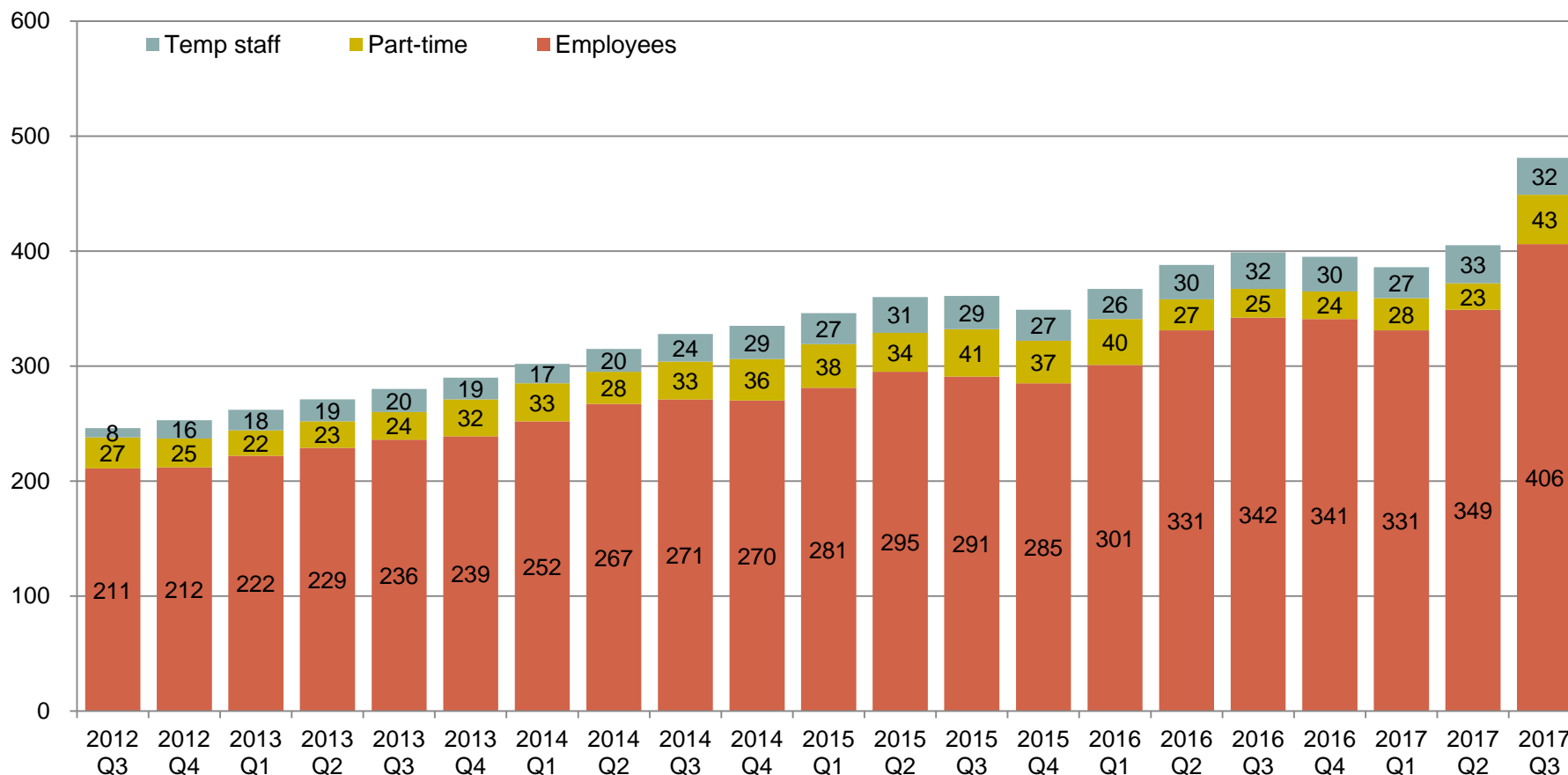


Net sales increased to a record high for the third consecutive quarter.

The ordinary income margin decreased 0.5 percentage points compared with 2017 Q2.

Number of Employees

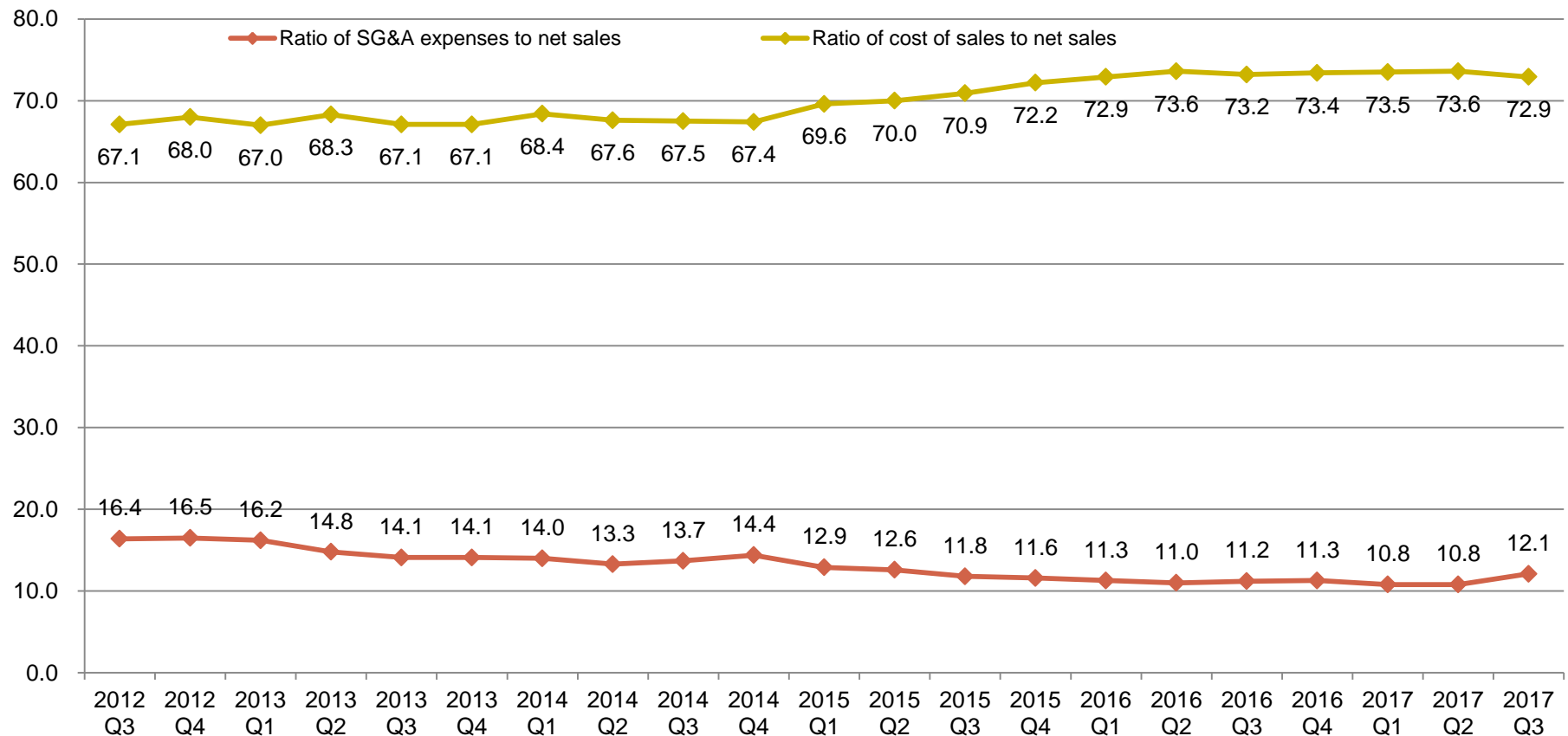
(Consolidated/Quarterly basis)



The addition of Seesaa Inc. as a consolidated subsidiary in Q3 increased the number of employees by 74, bringing the total number of employees for the Group overall to 481. This was an increase of 82 compared with 2016 Q3, and an increase of 76 compared with 2017 Q2.

Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)



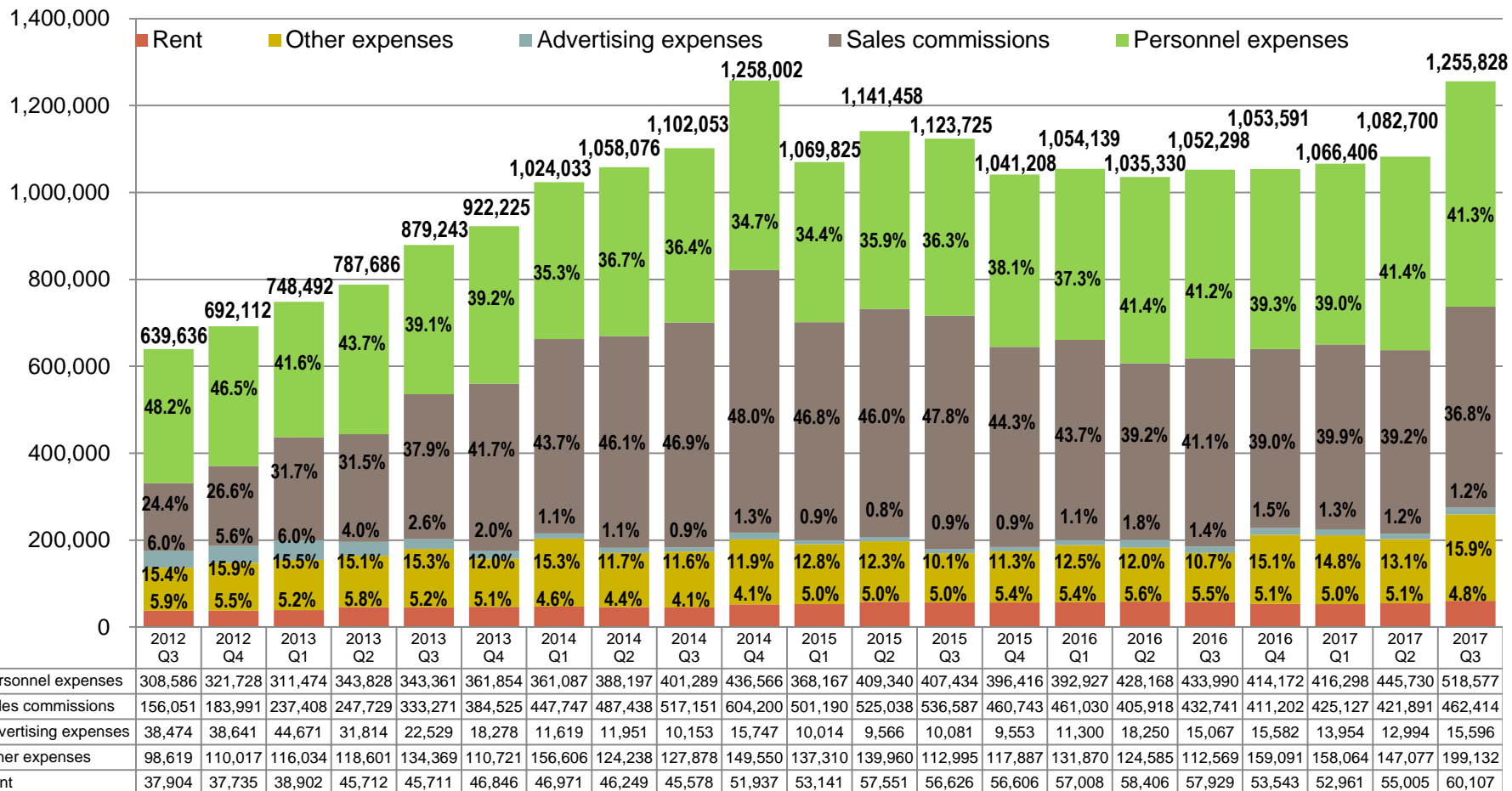
The cost of sales ratio decreased 0.7 percentage points compared with 2017 Q2.

The selling, general and administrative (SG&A) expenses ratio increased 1.3 percentage points.

Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

(¥ thousands)

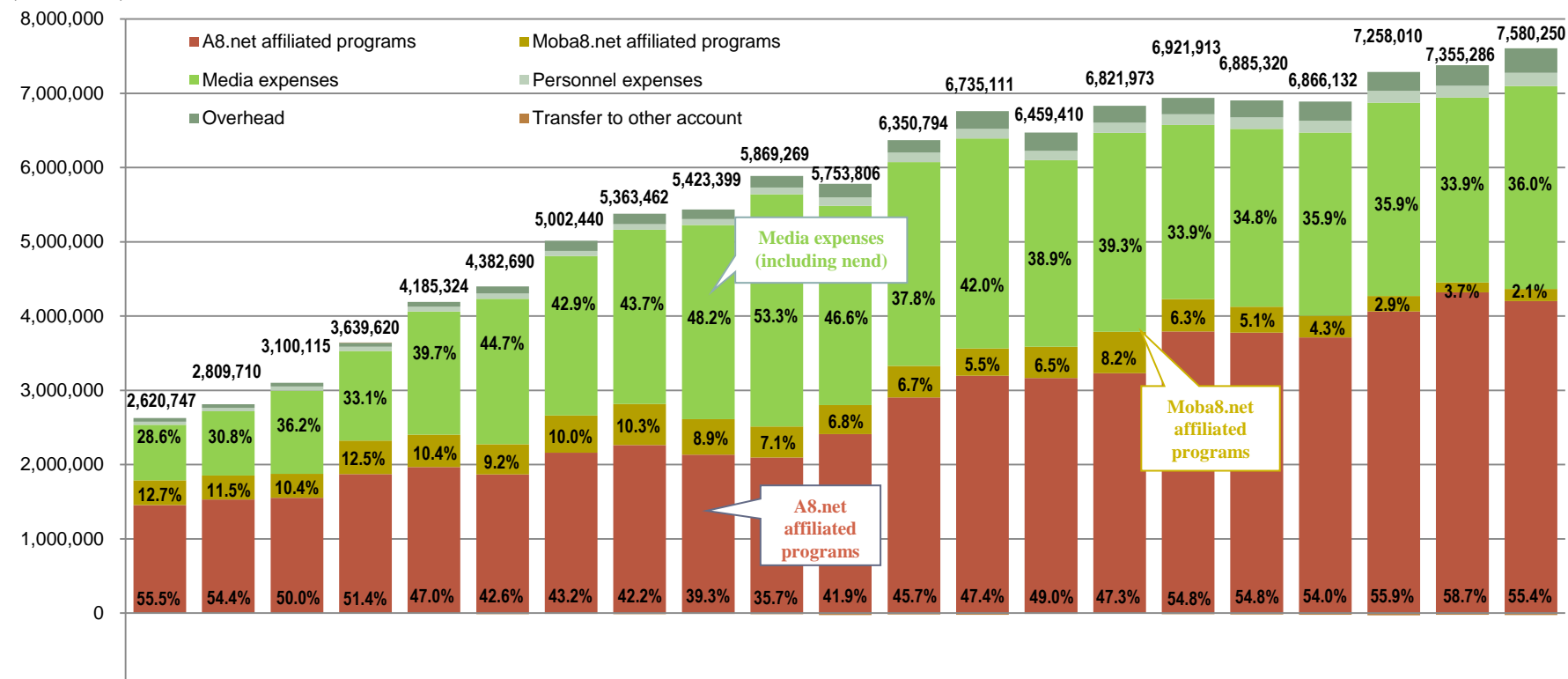


Other expenses increased by ¥52 million from the previous quarter due to expenses including goodwill of Seesaa Inc., which we acquired, and expenses related to the acquisition of Seesaa Inc., pushing up SG&A expenses.

Cost of Sales

(Consolidated/Quarterly basis)

(¥ thousands)



(1,000,000)

	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	2017 Q3
Transfer to other account	(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)	(27,373)
Overhead	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	332,161
Personnel expenses	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	178,050
Media expenses	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	2,732,144
Moba8.net affiliated programs	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	162,526
A8.net affiliated programs	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	4,202,740

Media expenses consist of nend, nex8, ad crops, medi8, and other companies. The seed App is included in Moba8.net affiliated programs. The proportion of media expenses grew larger as a result of the increase in sales of nend.

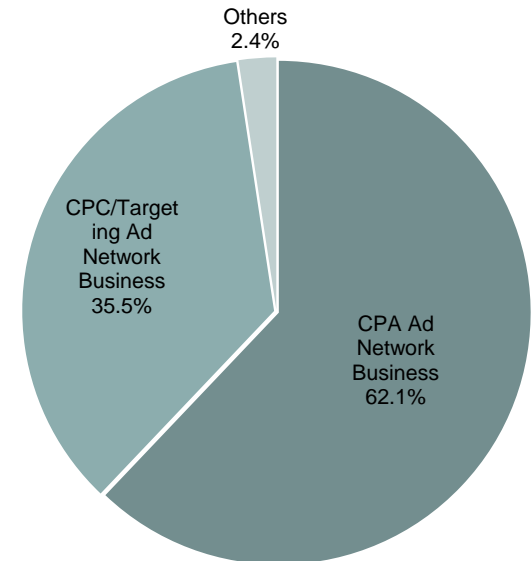
Overview by Main Service Area

Overview by Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

(¥ thousands)	2017 Q3 (July-September)	2016 Q3 (July-September)	Change
CPA Ad Network Business	6,455,174	6,176,512	4.5%
CPC/Targeting Ad Network Business	3,690,576	3,225,143	14.4%
Others	249,931	-	-
Total net sales	10,395,683	9,401,656	10.6%



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

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

Note: "Others" consists of the sales of Seesaa Inc.

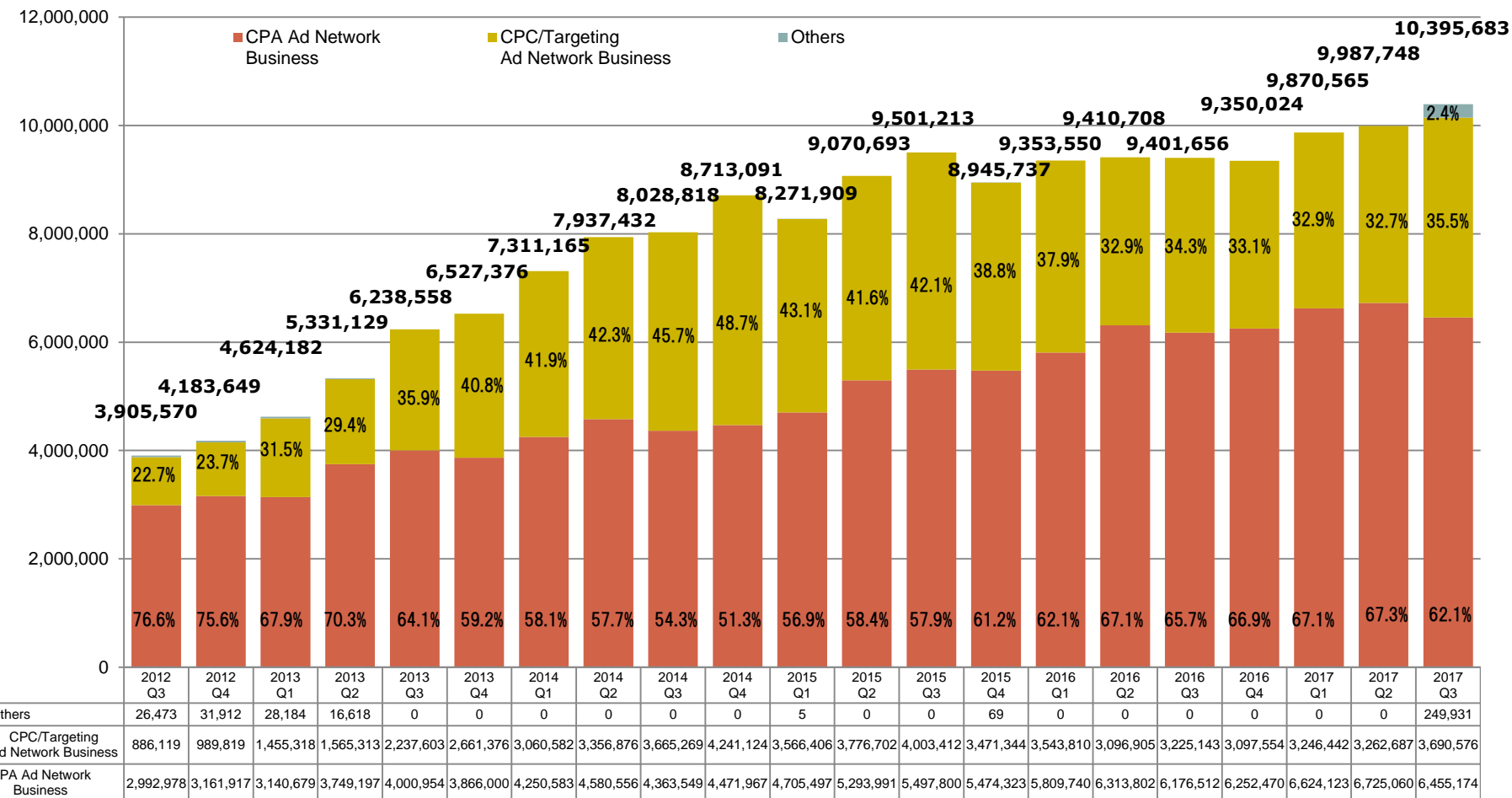
Sales before elimination of consolidated intercompany transactions.

The CPA Ad Network Business slowed to a 4.5% increase, partly due to the termination of the moba8.net service.

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

(¥ thousands)



The share of sales from CPC/targeting services increased, exceeding 35% for the first time in six quarters.

A8.net Summary

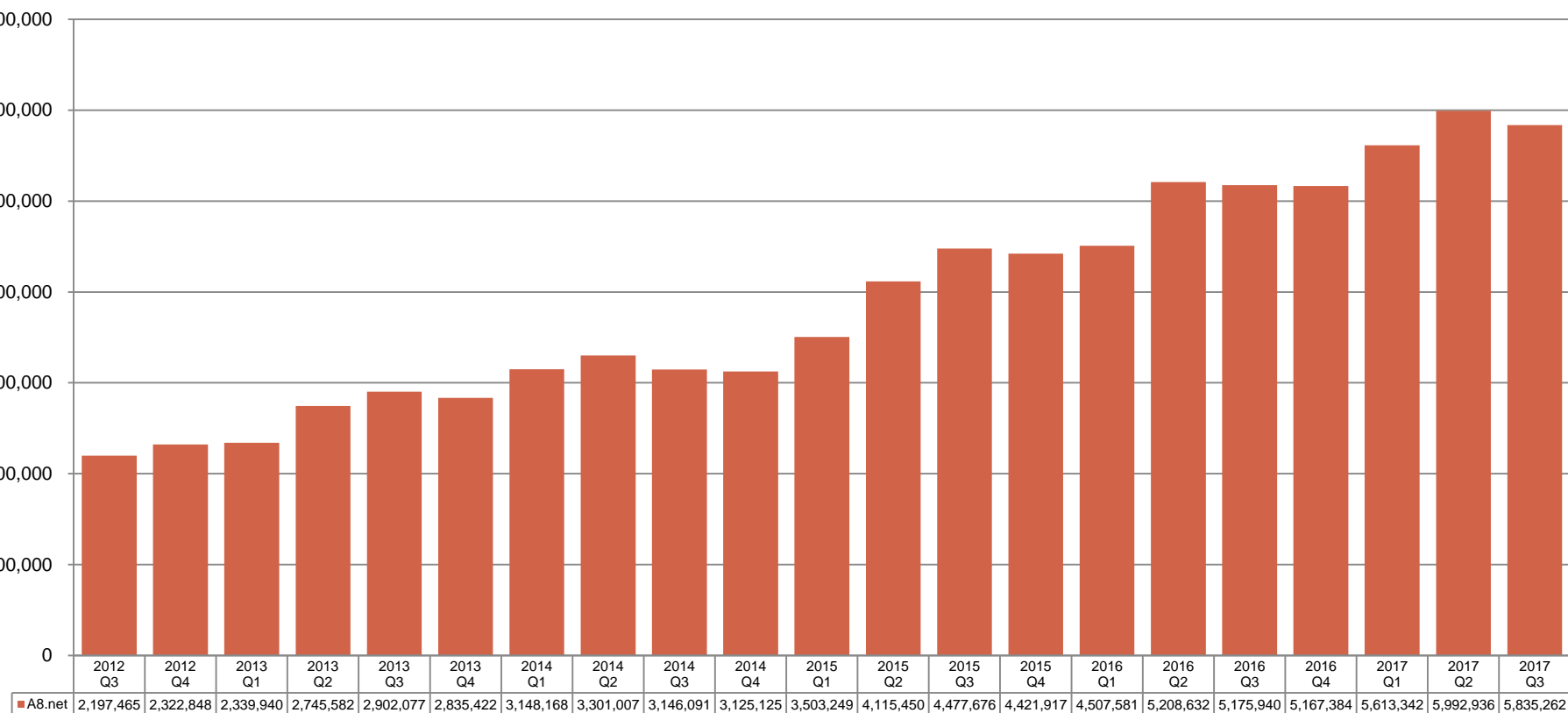
(¥ thousands)	2017 Q3 (July – September)	2016 Q3 (July – September)	Change
Sales	5,835,262	5,175,940	12.7%
Number of operating advertiser IDs	3,406	3,129	8.9%
Number of registered partner sites	2,317,570	2,107,428	10.0%

Sales before elimination of consolidated intercompany transactions
The number of operating advertiser IDs increased by 277 from 2016 Q3.

A8.net

Net Sales (Quarterly basis)

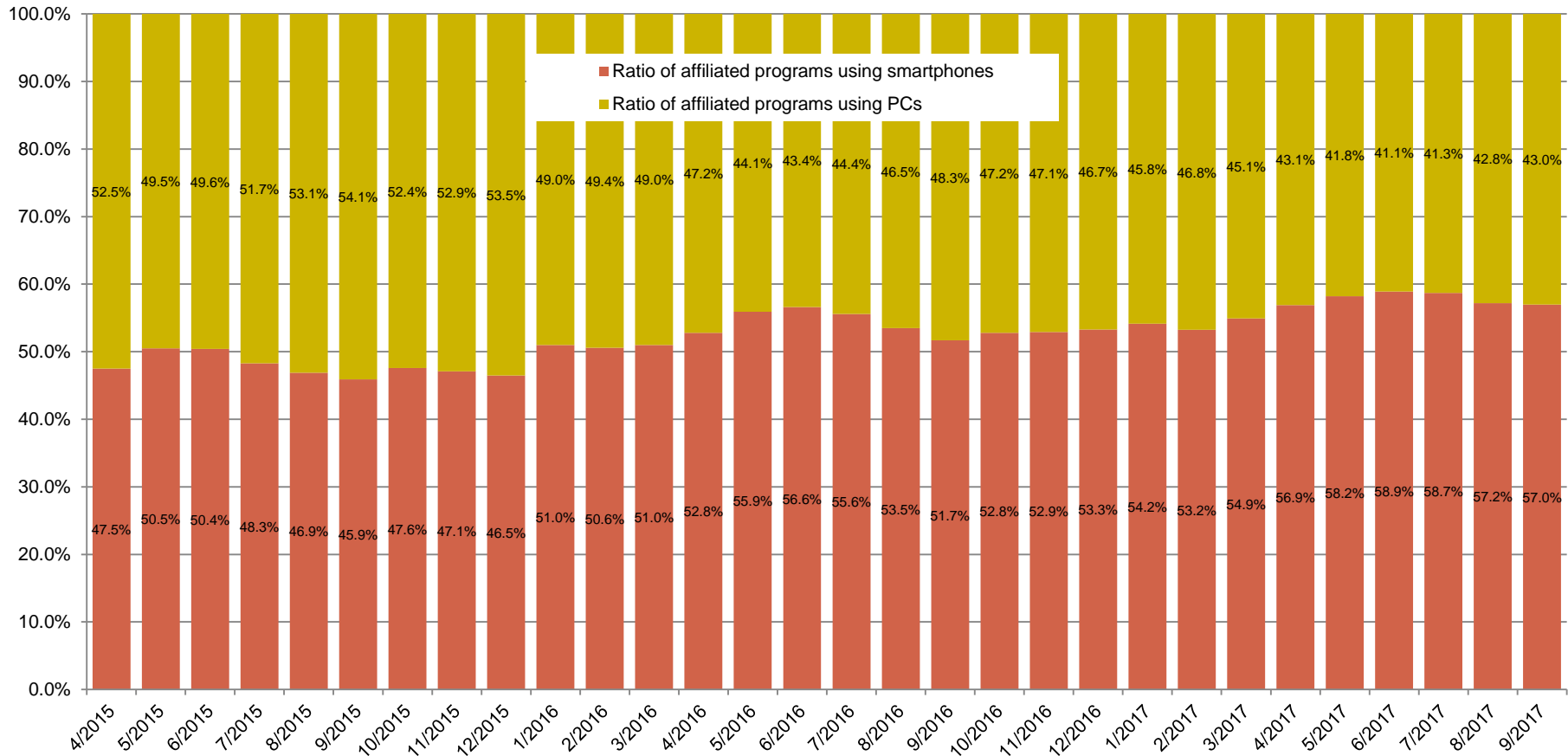
(¥ thousands)



Sales before elimination of consolidated intercompany transactions
Sales fell short of the figure of the preceding quarter.

A8.net

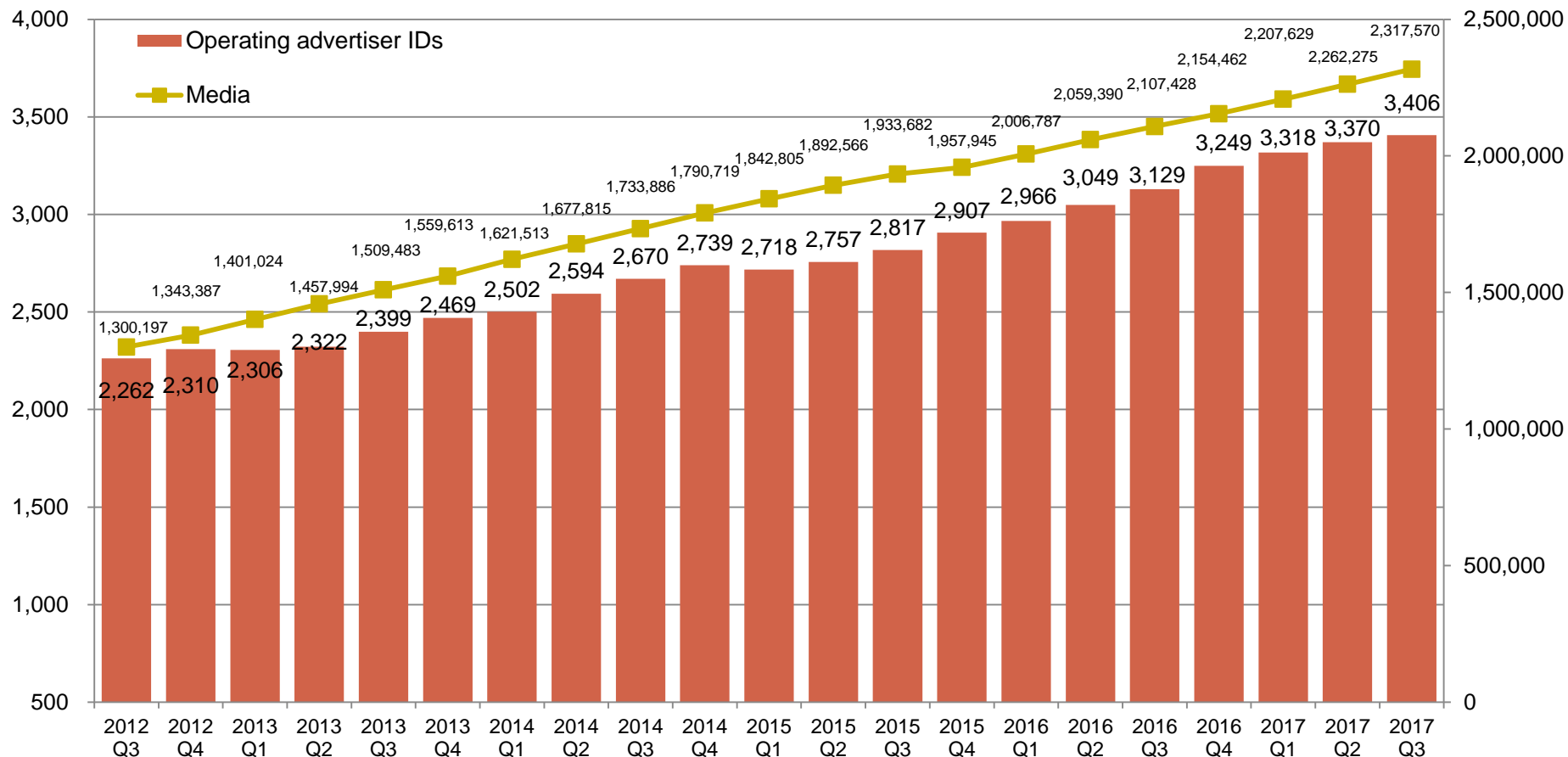
Ratio of Smartphones in Affiliated Programs (Monthly basis)



There has been no significant change in the ratio of affiliated programs using smartphones, which remains near 60%, but we want to raise this ratio further.
 Note: The above affiliated program ratios are not final and are subject to change.

A8.net

Number of Operating Advertisers and Media



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

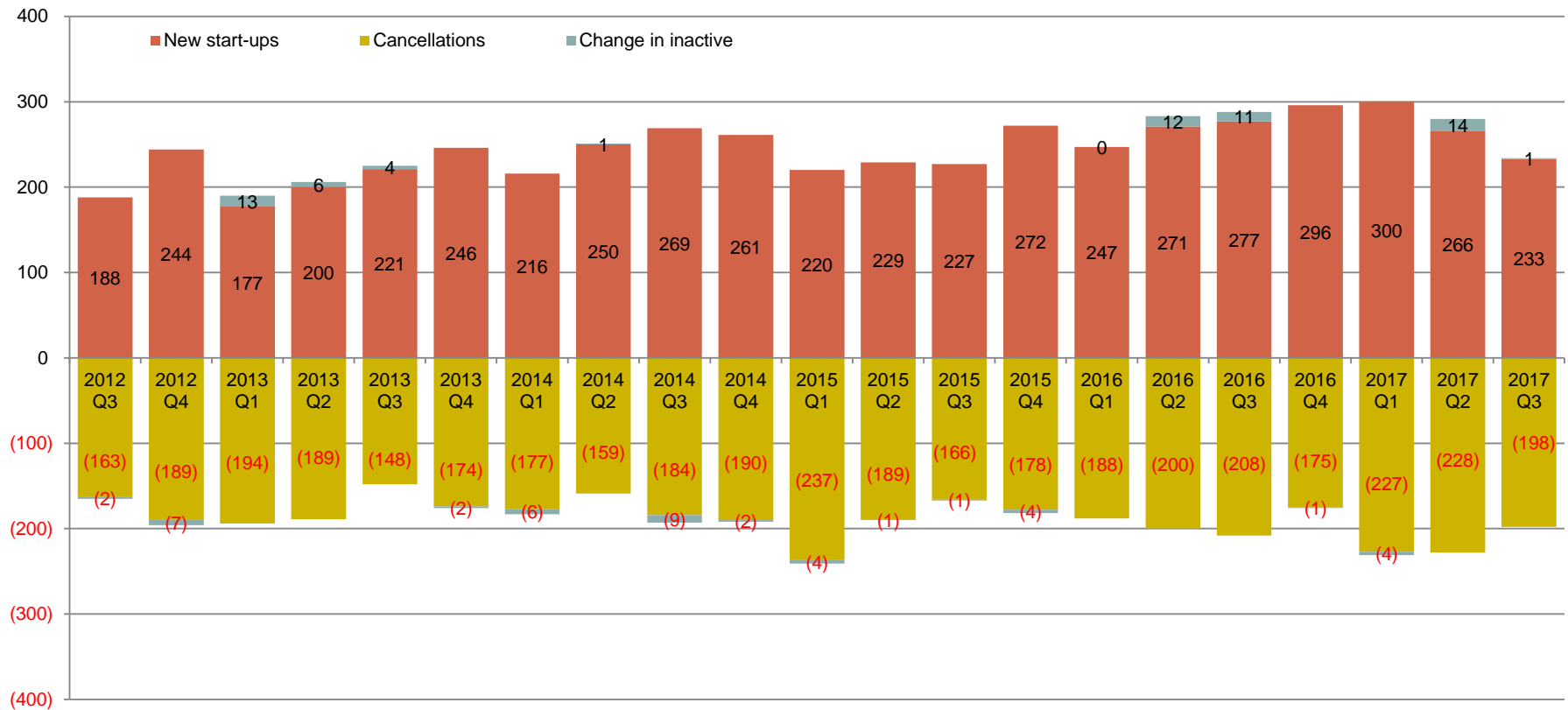
2. The number of overseas advertisers is included from 2014 Q3.

The number of operating advertisers increased by 36 from the previous quarter.

The number of overseas operating advertisers decreased by 5 from 2017 Q2 to 209.

A8.net

New Advertiser Start-ups and Cancellations



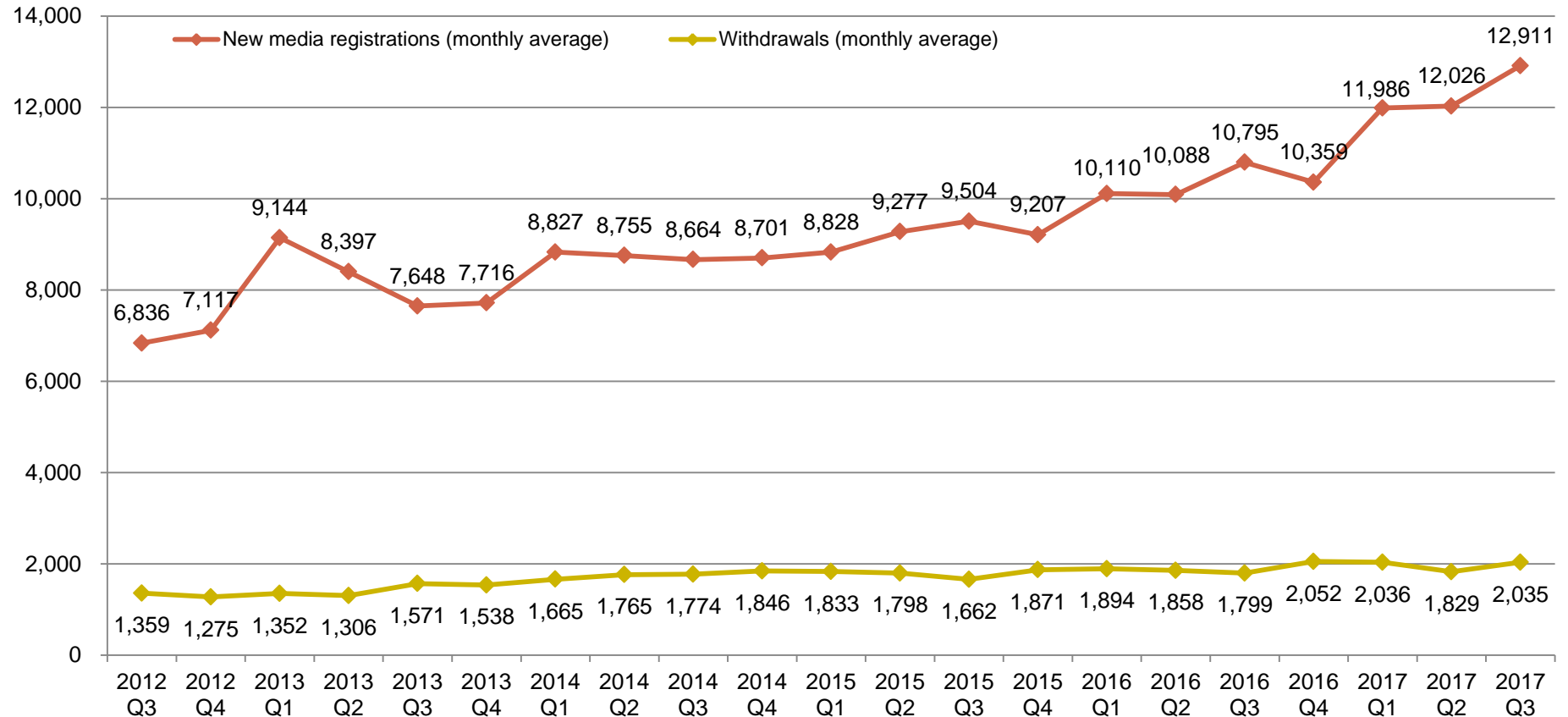
Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

New advertiser start-ups dipped.

A8.net

CPA Ad Network Business

Monthly Averages for New Media Registrations and Withdrawals

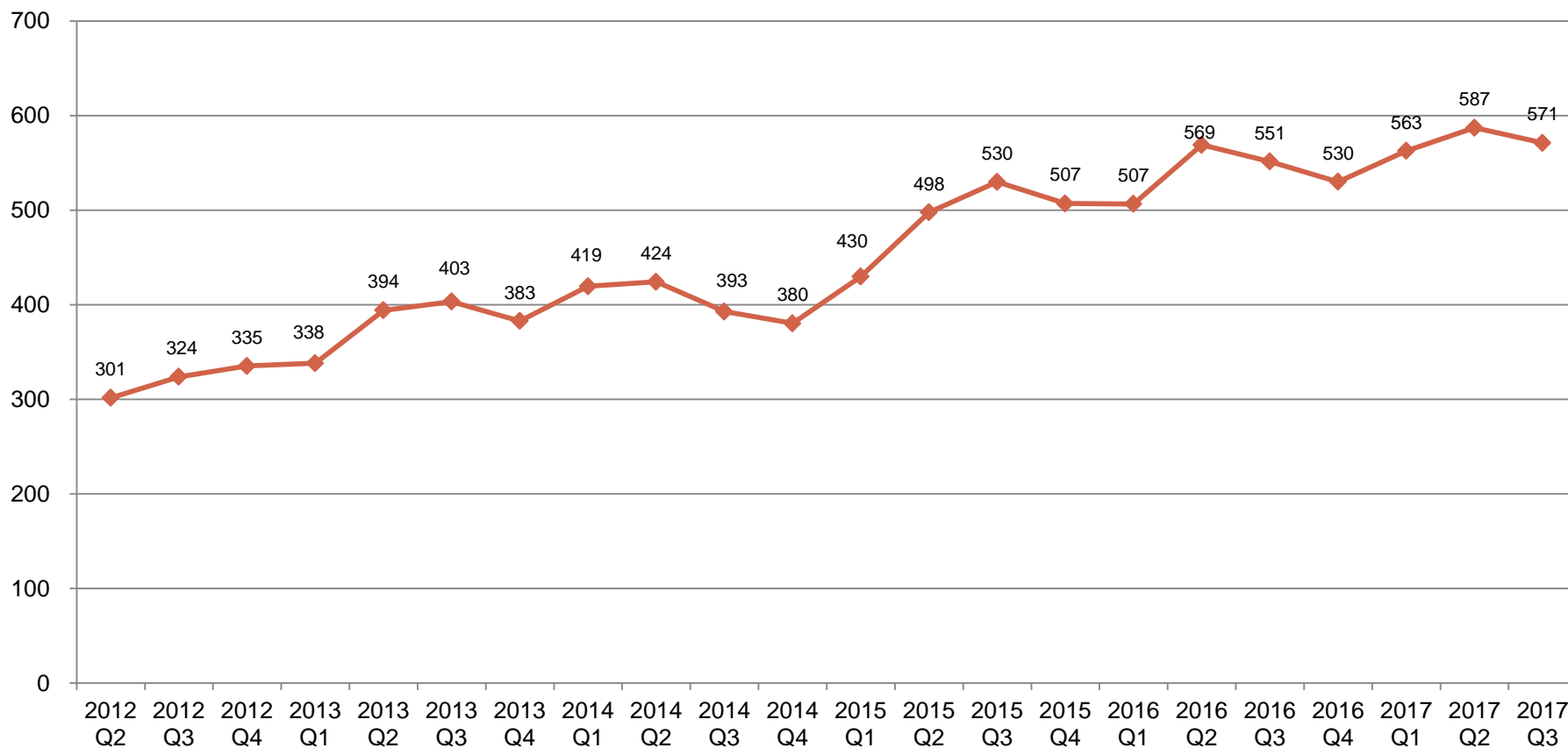


Monthly new media registrations are trending upward.

A8.net

Average Monthly Sales per Advertiser

(¥ thousands)



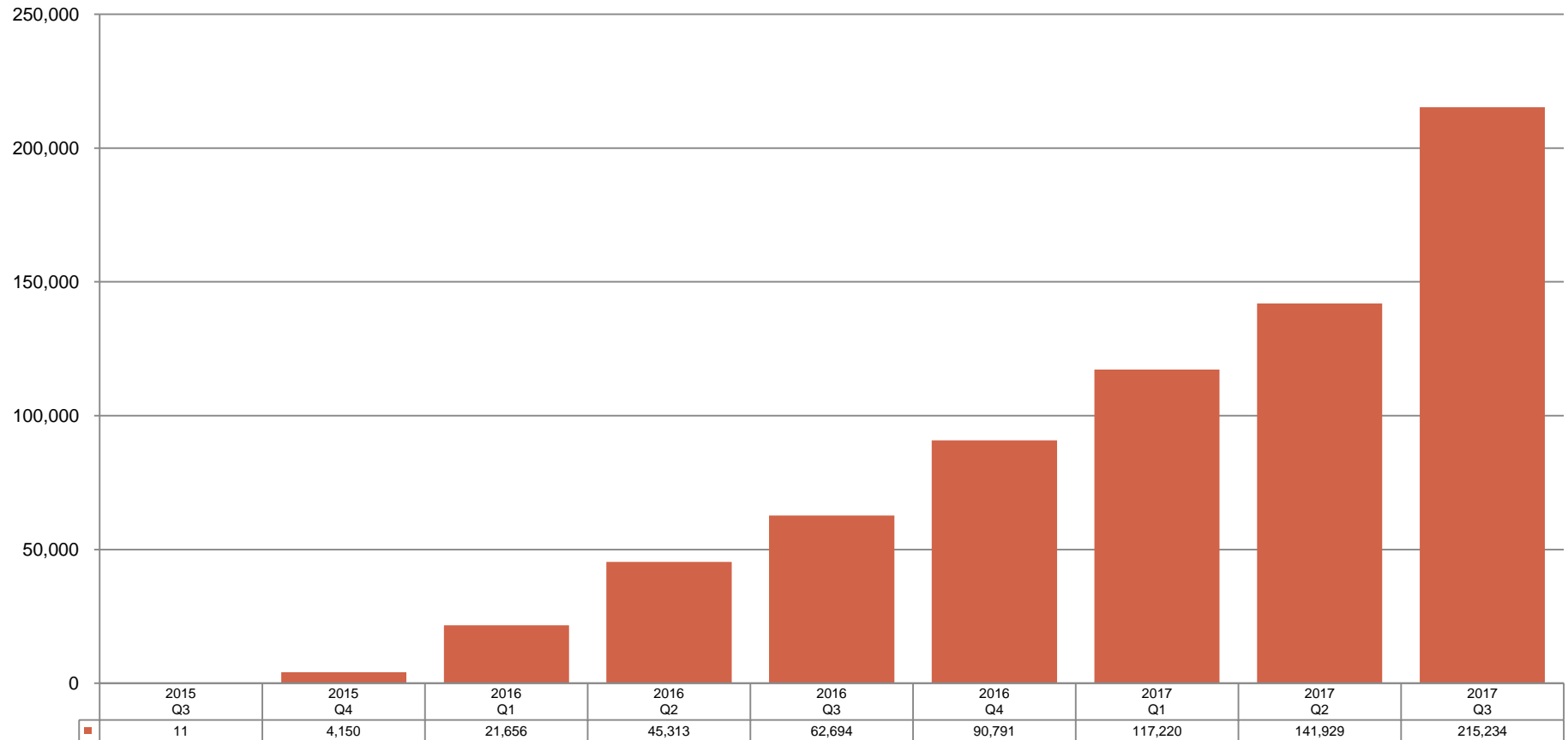
Average monthly sales per advertiser are at record-high levels.

seedApp

CPA Ad Network Business

Net Sales (Quarterly basis)

(¥ thousands)



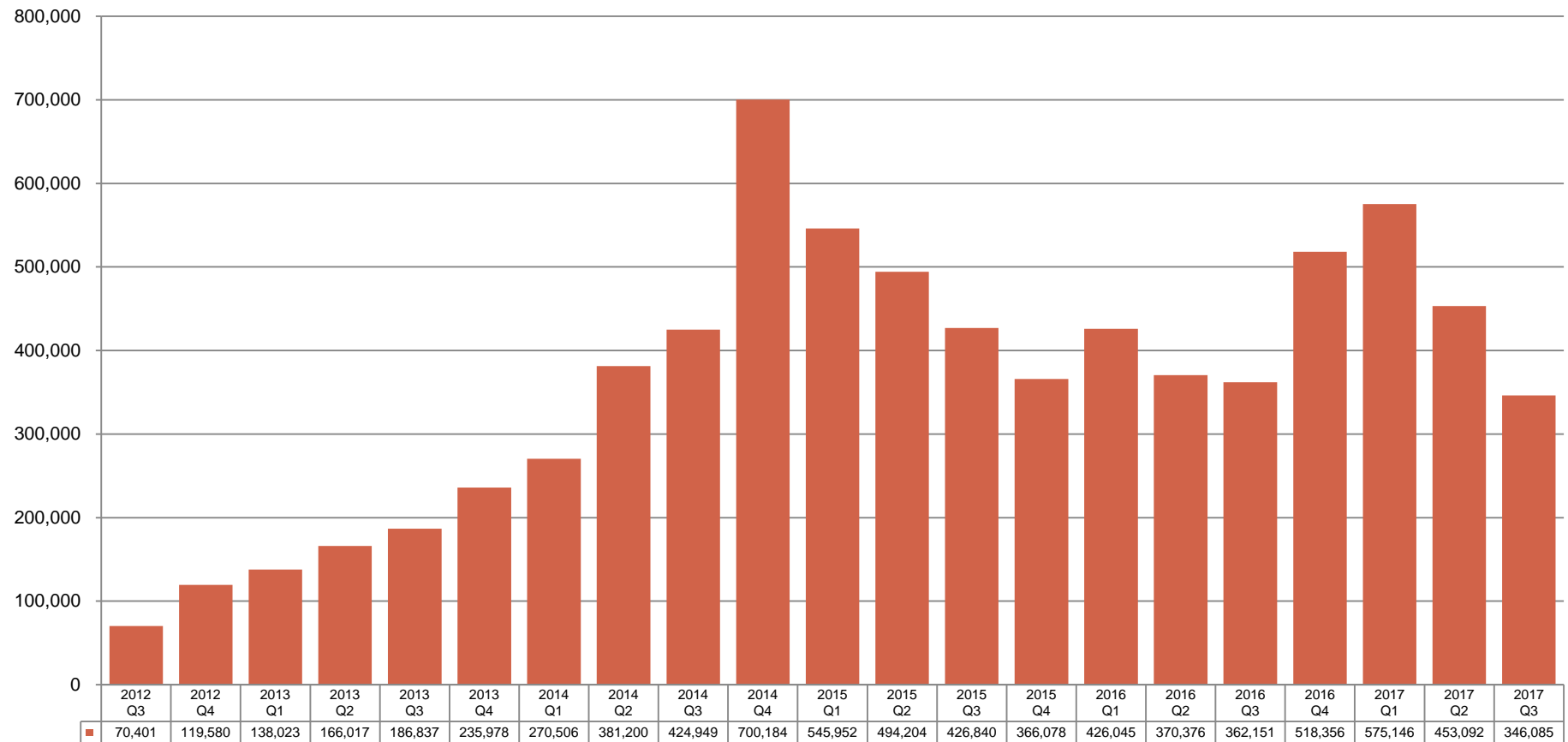
Note: Sales before elimination of consolidated intercompany transactions

adcrops

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ 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

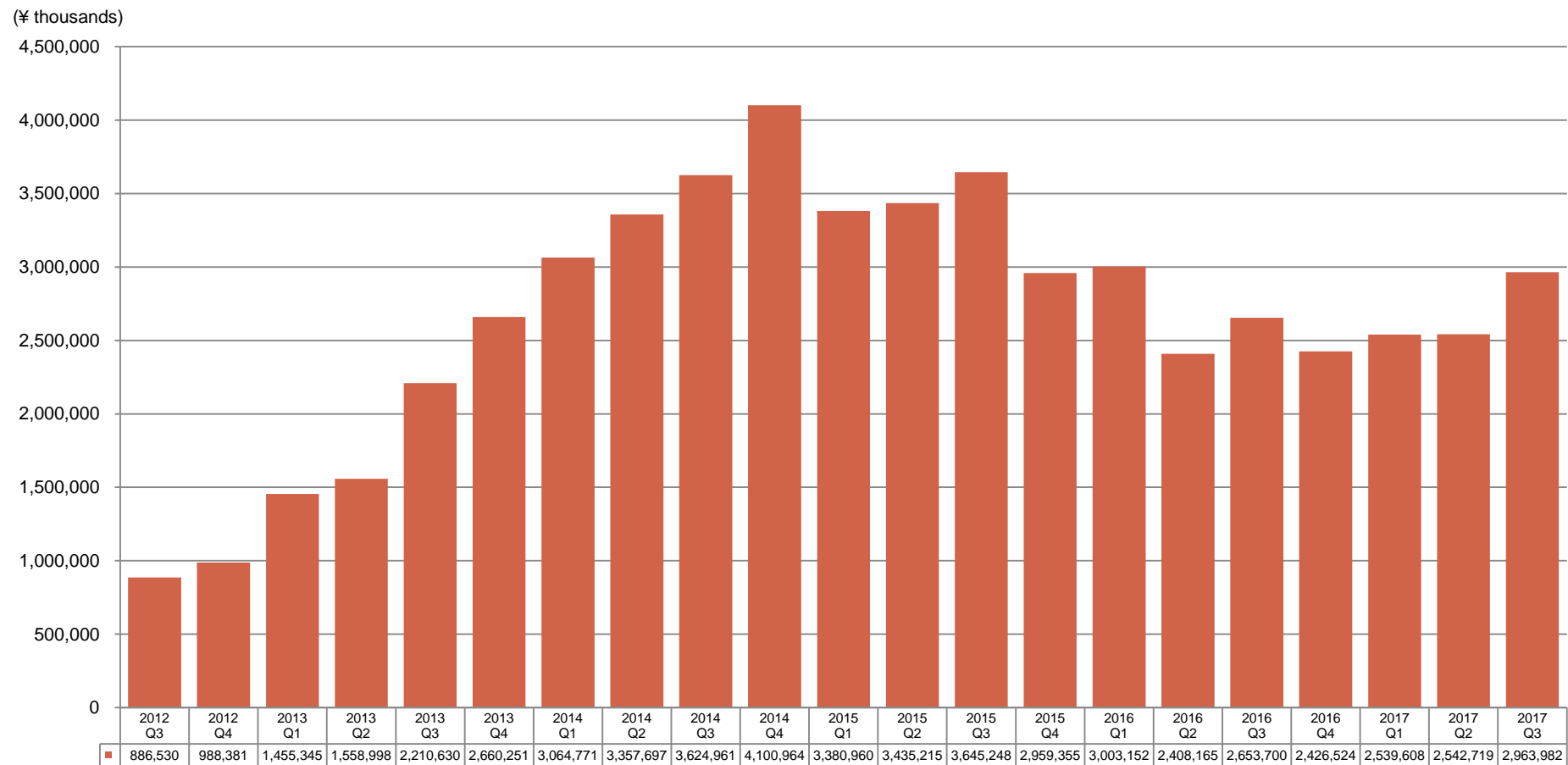
(¥ thousands)	2017 Q3 (July – September)	2016 Q3 (July – September)	Change
Sales	2,963,982	2,653,700	11.7%
Number of operating advertiser IDs	404	390	3.6%
Number of registered partner sites	794,434	658,230	20.7%

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

Sales increased by double digits year-on-year for the first time in a long time.

CPC/Targeting Ad Network Business

nend Net Sales (Quarterly basis)

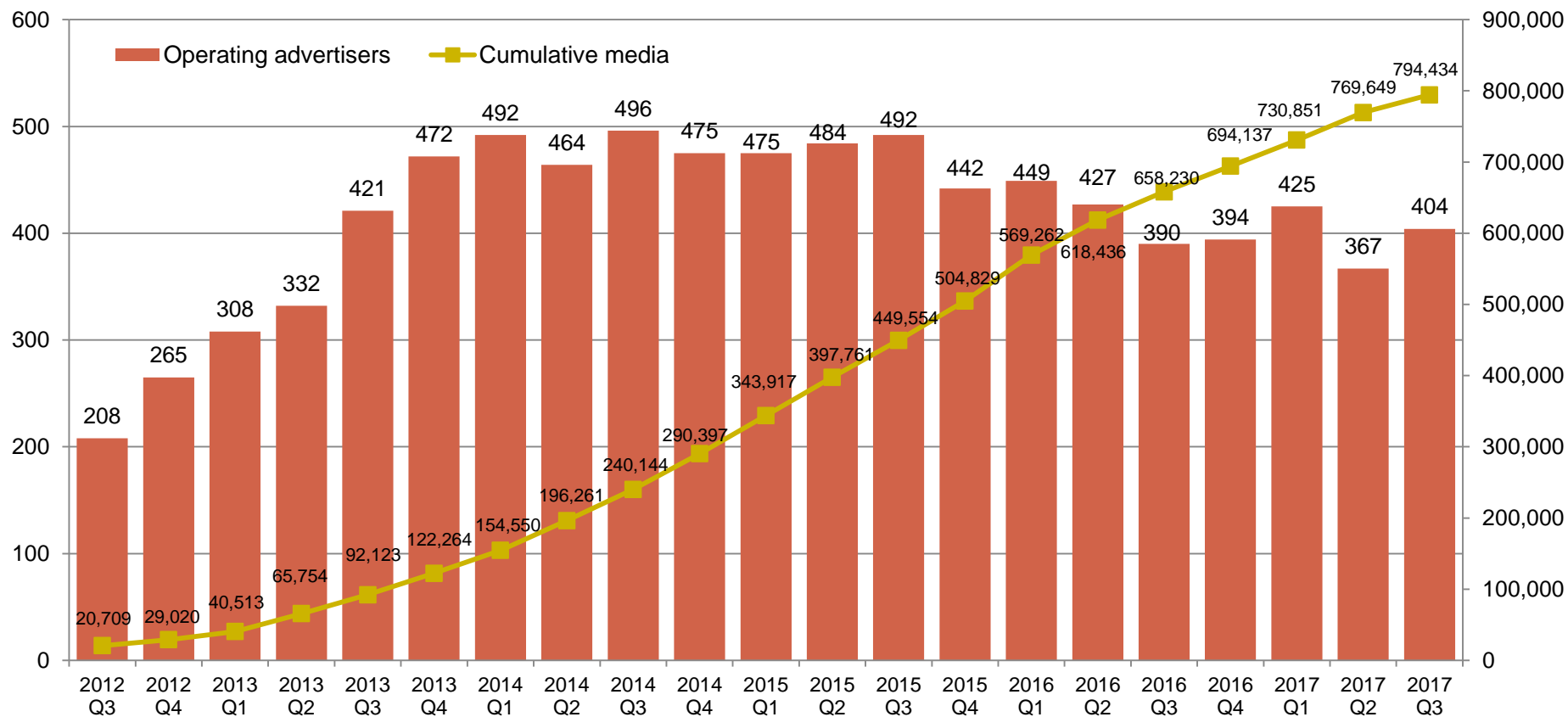


Sales before elimination of consolidated intercompany transactions.
Sales increased by about ¥420 million compared with the preceding quarter.

CPC/Targeting Ad Network Business

nend

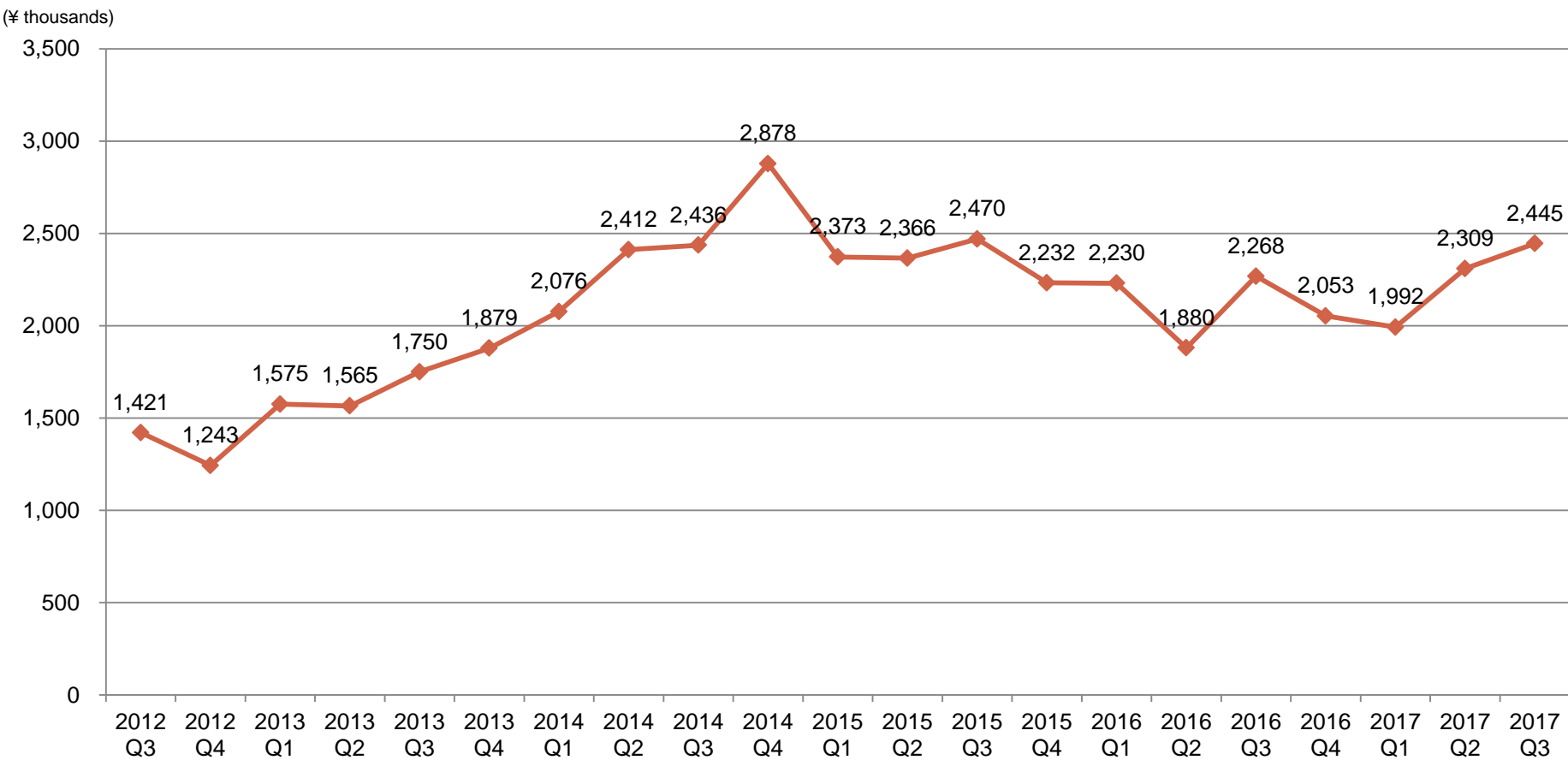
Number of Operating Advertisers and Media (Quarterly basis)



Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers increased by 37 compared with 2017 Q2. However, this does not signify a major shift in the trend.

CPC/Targeting Ad Network Business

nend Average Monthly Sales per Advertiser



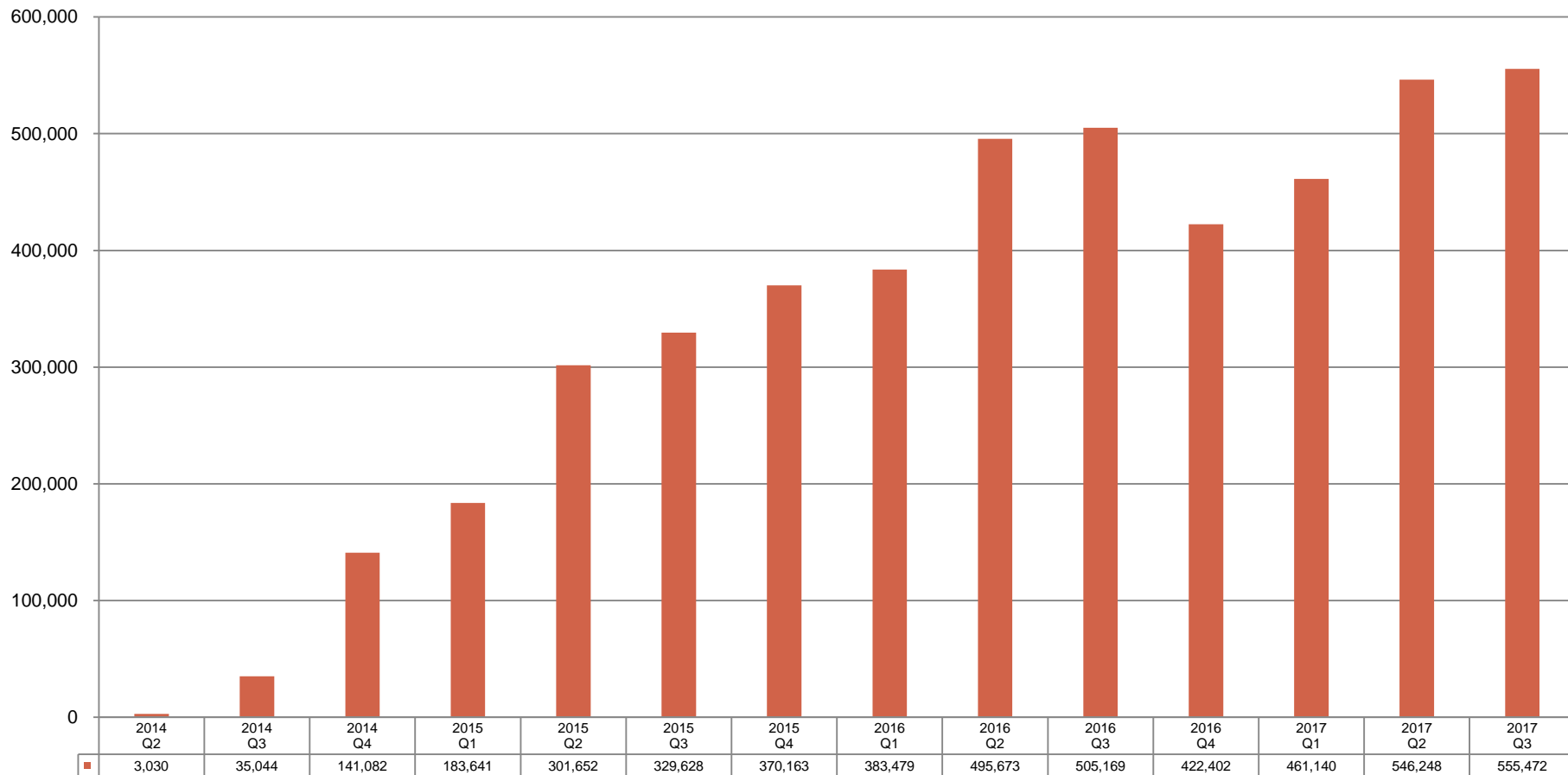
Average monthly sales per advertiser was approximately ¥2,400 thousand.

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 January-September	2016 Full Year
Net sales	829,931	1,008,707
Operating income (loss)	(7,758)	71,827
Profit (loss) attributable to owners of parent	(11,945)	53,847

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)	2017 July-September	Year ended Sept. 30, 2016
Net sales	254,423	883,224
Operating income	66,246	207,347
Profit attributable to owners of parent	48,098	143,608

Notes: Became a consolidated subsidiary In July 2017.

The above figures are before elimination of consolidated intercompany transactions.



Impact of the ITP Problem and Our Response

Impact of the ITP Problem and Our Response

What Is the ITP Problem?

In iOS 11, which was rolled out in September, a new set of standards restricts the use of cookies in Safari 11, the standard browser. The Intelligent Tracking Prevention (ITP) problem refers to the resulting partial loss of functionality of the tracking system we use to track advertising effectiveness.

(This is a problem of the online advertising market overall, not just our company.)

We have prepared these estimations to inform our investors about the risks to our business results in the next six months, based on data collected through our services since installs of iOS 11 began.

At present, there are still many uncertainties, but at the same time we will also take countermeasures, so please be aware that these are the biggest possible risks.

Also, the recent install rate of iOS 11 was roughly 60%, but we are looking at the risks as if the rate of use of iOS 11 was already 100%.

In addition, the functioning of ITP is a black box because the tags of each advertising company are determined by Apple's machine learning function, and we believe the conditions differ for each device.

Therefore, these estimations are based on the assumption that the ITP function is applied to all users.

Impact of the ITP Problem and Our Response

The six advertising trade groups below

- Interactive Advertising Bureau (IAB)
- American Association of Advertising Agencies (4A's)
- American Advertising Federation (AAF)
- Association of National Advertisers (ANA)
- Data & Marketing Association (DMA)
- Network Advertising Initiative (NAI)

published an open letter to Apple, stating that “Apple’s unilateral and heavy-handed approach is bad for consumer choice and bad for the ad-supported online content and services consumers love. Blocking cookies in this manner will drive a wedge between brands and their customers, and it will make advertising more generic and less timely and useful. Put simply, machine-driven cookie choices do not represent user choice; they represent browser-manufacturer choice. As organizations devoted to innovation and growth in the consumer economy, we will actively oppose any actions like this by companies that harm consumers by distorting the digital advertising ecosystem and undermining its operations.”

Impact of the ITP Problem and Our Response

Impact on Financial Results

On a quarterly basis from the fourth quarter of 2017 through the first quarter of 2018, net sales could decrease by as much as ¥1.0 billion (10% of projected net sales), and operating income could decrease by as much as ¥0.3 billion (20% of projected operating income).

Main Reasons for the Impact on Financial Results

1. CPA advertising will decrease because cookies can no longer be used for tracking for more than 24 hours.
2. Advertisers may recognize the reduced effectiveness of web advertising due to the limitations on tracking, which could lead them to withdraw their ads or cut their budgets.
3. Advertisers may restrain their budgets until accurate tracking is possible again.
4. We will incur labor and time costs for development, testing and other work involved in switching to new tracking and conversion measurement functions.
5. The lead time for launching new advertising and promotions could become longer.

We will disclose changes to the performance forecast as soon as the numerical figures are clear.

Impact of the ITP Problem and Our Response

Impact on A8.net

In the case of A8.net, the ratio of affiliated programs using smartphones is currently around 60%, of which the share of iOS users is 60%. Due to the new limitations, **some** tracking functions are no longer possible for more than 24 hours from the time the desired action occurs. Consequently, the rate of action occurring within the first 24 hours will determine the extent of the impact. Currently, that rate is about 73%.

Therefore, the maximum extent of the impact on A8.net will be $60\% \times 60\% \times 27\% =$ approximately 10%. Specified action payments (not settled) were approximately ¥2.0 billion in August, before ITP began. The amount after deducting payments received due to “self-back” is ¥1.82 billion, so the maximum impact will be 10% of ¥1.82 billion, or ¥182 million. If we assume that our fees will be added after the specified action is verified, the maximum extent of the impact is in the range of ¥150 million per month.

How A.8net Is Responding

1. Will change all of its tracking methods in cooperation with advertisers. Work on this already started in October, with the aim of completing it by March 2018.
2. Will revise the CPA pricing model and the content of promotions in cooperation with advertisers, and will make organizational efforts to minimize the risk of a decline in the revenues of media.
3. Will proactively explain the effect of the ITP problem to advertisers in an effort to limit the decline in their willingness to use promotions.

Impact of the ITP Problem and Our Response

Impact on nend

At nend, the share of iOS is also around 60%, and it uses targeting with cookies. Some of its services are affected by the ITP problem.

However, since the bulk of nend's business is app-based, the impact is fairly limited.

Specifically, the range of services and amount of sales that are impacted are as follows:

1. In SSPs connected to DSPs, monthly sales will decrease by as much as ¥10 million.
2. In retargeting, monthly sales will decrease by as much as ¥10 million.
3. In app engagement, monthly sales will decrease by as much as ¥20 million.
4. Advertising budgets may be cut because advertisers have judged that accurate measurement of ad effectiveness and effective promotions are no longer possible due to the switch to iOS 11 and the ITP problem. Because of this and other possibilities, monthly sales could decrease by up to about ¥100 million.

How nend Is Responding

1. Changed its conversion measurement method for cookies provided for Web advertisements in October to enable it to capture conversions after 24 hours.
2. Will make organizational efforts to boost conversions within 24 hours by enhancing ad formats and ad creativity.
3. Will further develop logic that delivers ads to the right users at the right time using data analysis based on device IDs.
4. Will make further efforts in ongoing research and development of device recognition technology for tracking.

Impact of the ITP Problem and Our Response

Impact on nex8

nex8 is a DSP that provides service based on retargeting, so the problem of being unable to capture tracking after 24 hours is likely to have an impact on the entirety of this service corresponding to the 60% share of iOS. In addition, a key aspect of this service is that the amount spent on ad placement is decided while looking at cost effectiveness, which is determined by conversion measurement. If conversions cannot be measured accurately, that will influence the budget decisions of advertisers. Consequently, monthly sales could decrease by as much as ¥80 million.

How nex8 Is Responding

1. By strengthening data analysis using advertising identifiers such as IDFA and GAID, will improve retargeting functions that do not rely on conventional tracking.
2. Changed its iOS 11 conversion measurement method on October 26. Addressed capturing conversions after 24 hours.
3. Will increase the precision of conversion measurement by strengthening linkage between the measurement tools used by nex8 and advertisers, and by having advertisers place retargeting tags on a landing page.

Impact of the ITP Problem and Our Response

Impact on ad crops and seedApp

There is very little impact because more than 99% of conversions happen within 24 hours, and tracking uses fingerprinting technology (device recognition).

Impact of the ITP Problem and Our Response

Background of the ITP Problem

The ITP problem is the issue of how to deal with cookies, a basic technology of web browsers, but it has also involved the issues of security and privacy, so the attention being focused on the handling of cookies is nothing new.

Platform providers have also been shifting decidedly toward user protection. They have established a validity period of 24 hours for third-party cookies used by marketing companies as well as a 30-day limit for login cookies.

This can be seen as a judgment that cookies are not necessarily a plus for users of browsers on small screens. For example, the rapid proliferation of smartphones has been accompanied by an increase in media operators that seek ad revenue through dishonest means such as retargeting ads that track users persistently and ad fraud.

Still, there is no doubt that the engine for enhancing Web content is advertising, and unless advertising businesses, platform providers and users can co-exist, the networked society has no future. As a company, we endorse the open letter published by leading advertising trade groups in the United States.

However, as smartphone use has grown, the balance of benefits that advertisers, media and consumers gain through the networked society is collapsing, and the advertising agencies that support that ecosystem must try to maximize the benefits for each group in a balanced fashion.

Impact of the ITP Problem and Our Response

Merits of the ITP Problem

Ever since we launched our service, we have conducted a performance marketing advertising business based on our philosophy of “connecting advertisers, media and consumers in a win-win-win relationship, and maximizing the advantages for each.”

At present, the ITP problem is undoubtedly a significant impediment to our business model of capturing advertising effectiveness, but the age of smartphone advertising has arrived, and if the balance between the three parties mentioned in our philosophy is collapsing, we see it as a good opportunity to rethink our business model and build a stronger win-win-win relationship. By maintaining our commitment to performance, we want to optimize marketing costs and return the resulting profits to society.

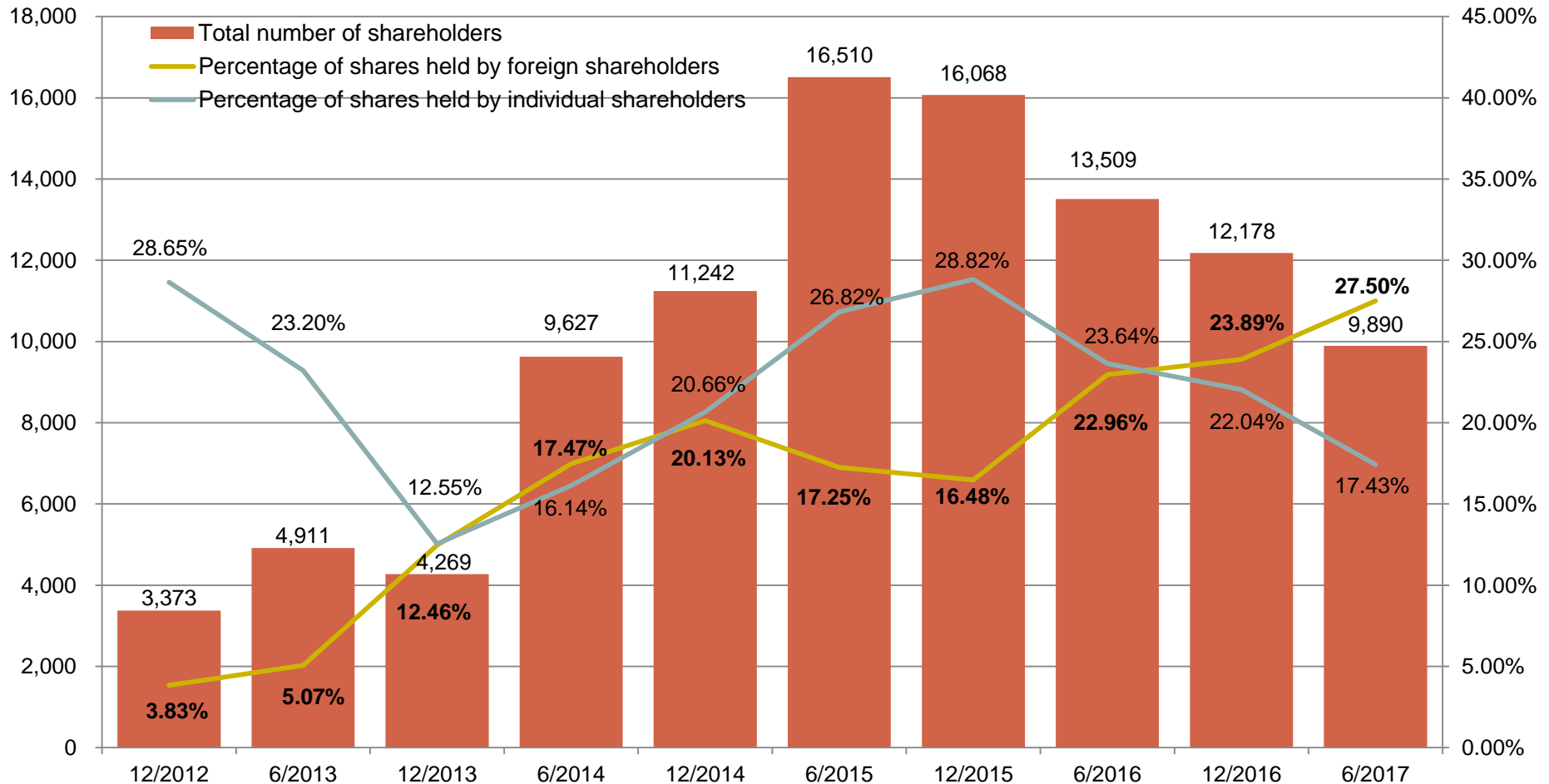
Opportunities for Our Company

1. It will be an opportunity to increase tracking precision and prevent tracking omissions.
2. It will be an opportunity to conduct marketing with advertisers and media that results in greater advertising effectiveness.
3. It will be an opportunity to eliminate malicious media, such as advertising formats aimed at dishonest media and accidental clicks, by shortening the retention period of cookies.
4. It will be an opportunity for the ad-tech centric advertising delivery market to be restructured and for ad networks that are clearly visible to both advertisers and media to be reevaluated.

Stock Information

Stock Information

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



Reference Materials

Management Vision

F@N aims to become the world's largest performance marketing ad network corporate group.

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 the advertiser, maximized income for affiliate site application developers (media), and the reduction of costs and improved quality of service to consumers.

We are the world's largest corporate group that makes ad networks committed to effective advertising. 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	F@N Communications, Inc.
■ Securities code	2461 (Tokyo Stock Exchange, First Section)
■ Fiscal year-end	December
■ Established	October 1, 1999
■ Capital	¥1,159.70 million (As of September 30, 2017)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 393 Group total: 481 (As of September 30, 2017; includes part-time and temp staff)
■ Headquarters	Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan
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