



Fourth Quarter of 2017
Presentation of Results

February 9, 2018

F@N Communications, Inc.

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Fourth Quarter of 2017 Performance Highlights

2017 Q4: Key Points

Performance Highlights

- **Q4 net sales were ¥8,848 million, falling 14.9% compared with 2017 Q3 and 5.4% compared with 2016 Q4.**
- **Q4 ordinary income declined sharply to ¥1,129 million, down 27.4% compared with 2017 Q3 and 20.9% compared with 2016 Q4.**
- **Conditions in the online advertising market are changing dramatically, forcing us to make changes to our performance marketing business model.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2017 Full Year	2016 Full Year	Year-on-Year Change	% of Net Sales
Net sales	39,102,844	37,515,940	4.2%	100%
Operating income	5,749,303	5,825,240	-1.3%	14.7%
Ordinary income	5,793,113	5,896,376	-1.8%	14.8%
Profit attributable to owners of parent	4,228,230	3,912,146	8.1%	10.8%
Ordinary income margin	14.8%	15.7%	-0.9 points	-
Net income per share	¥55.06	¥50.89	8.2%	-
Diluted net income per share	¥54.94	¥50.77	8.2%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2016	December 31, 2017
Assets		
Current assets	20,896,081	22,431,074
Cash and deposits	14,544,263	16,822,087
Notes and accounts receivable - trade	4,544,032	4,202,825
Securities	1,245,375	997,031
Other	576,172	422,514
Allowance for doubtful accounts	(13,761)	(13,383)
Fixed assets	2,417,953	3,654,283
Property and equipment	205,755	263,718
Intangible assets	268,171	926,507
Investments and other assets	1,944,026	2,464,057
Total assets	23,314,035	26,085,358
Liabilities and Net Assets		
Current liabilities	6,513,452	6,393,164
Notes and accounts payable - trade	4,738,384	4,642,423
Income taxes payable	841,825	675,112
Other current liabilities	933,242	1,075,627
Long-term liabilities	162,697	148,715
Total liabilities	6,676,150	6,541,879
Total net assets	16,637,885	19,543,479
Total liabilities and net assets	23,314,035	26,085,358

Main component was ¥2,102,429 thousand in investment securities.

The main factor in the decrease was a ¥166,713 thousand decrease in income taxes payable.

The main factor in the increase was a ¥2,846,967 thousand increase in retained earnings.

Consolidated Performance Forecast

Performance Highlights

(¥ millions)	2018 Full-Year Forecast (% Change from Same Period of Previous Year)	2018 Interim Period Forecast (% Change from Same Period of Previous Year)	2017 Full-Year Results
Net sales	38,500 (-1.5)	18,600 (-6.3)	39,102
Operating income	5,000 (-13.0)	2,300 (-25.7)	5,749
Ordinary income	5,020 (-13.3)	2,310 (-25.7)	5,793
Profit attributable to owners of parent	3,470 (-17.9)	1,590 (-31.8)	4,228

Dividend Forecast

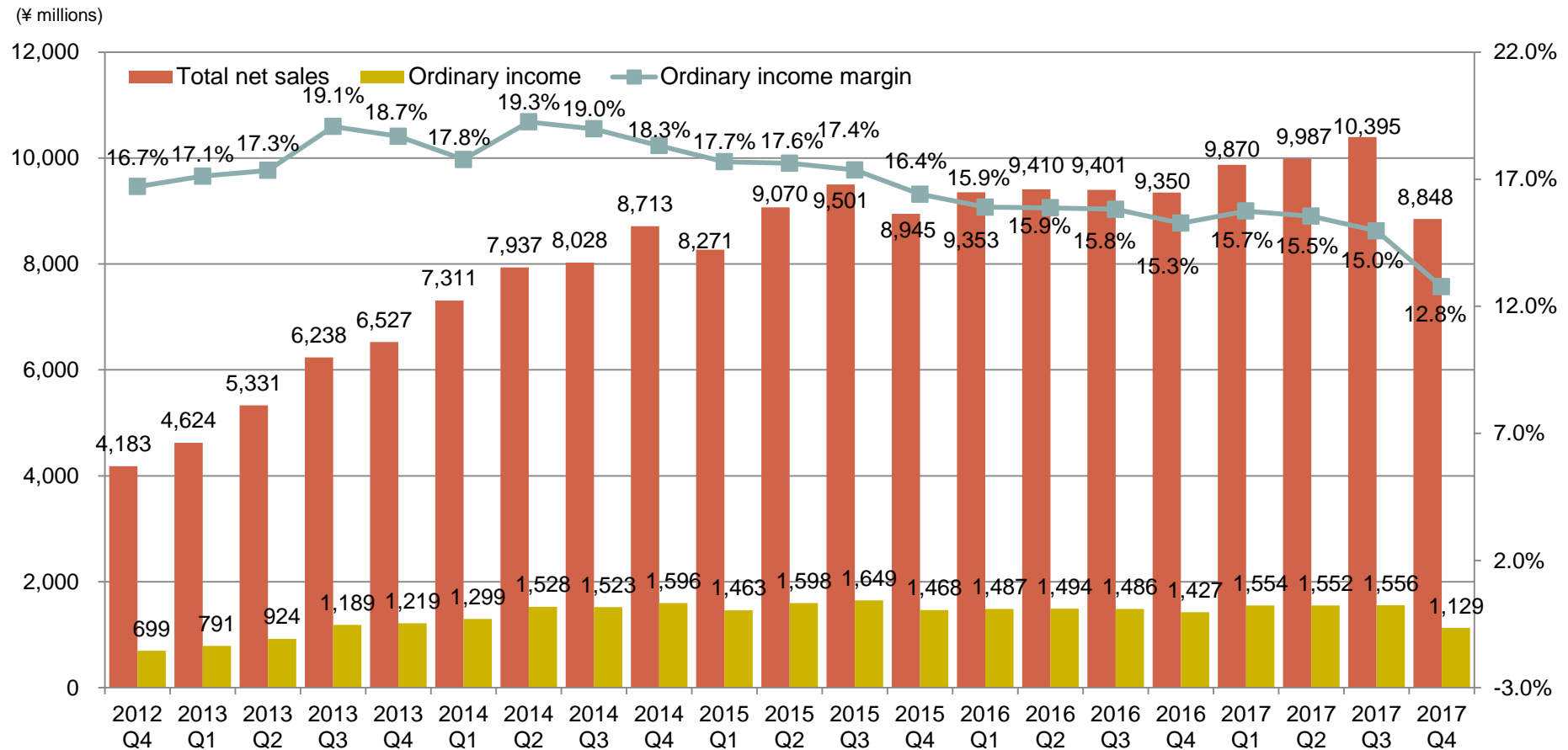
	2018 Forecast	2017 Actual
Year-end dividend per share	¥19	¥19

Management Indicators (Quarterly Basis)

Net Sales, Ordinary Income and Ordinary Income Margin

(Consolidated/Quarterly basis)

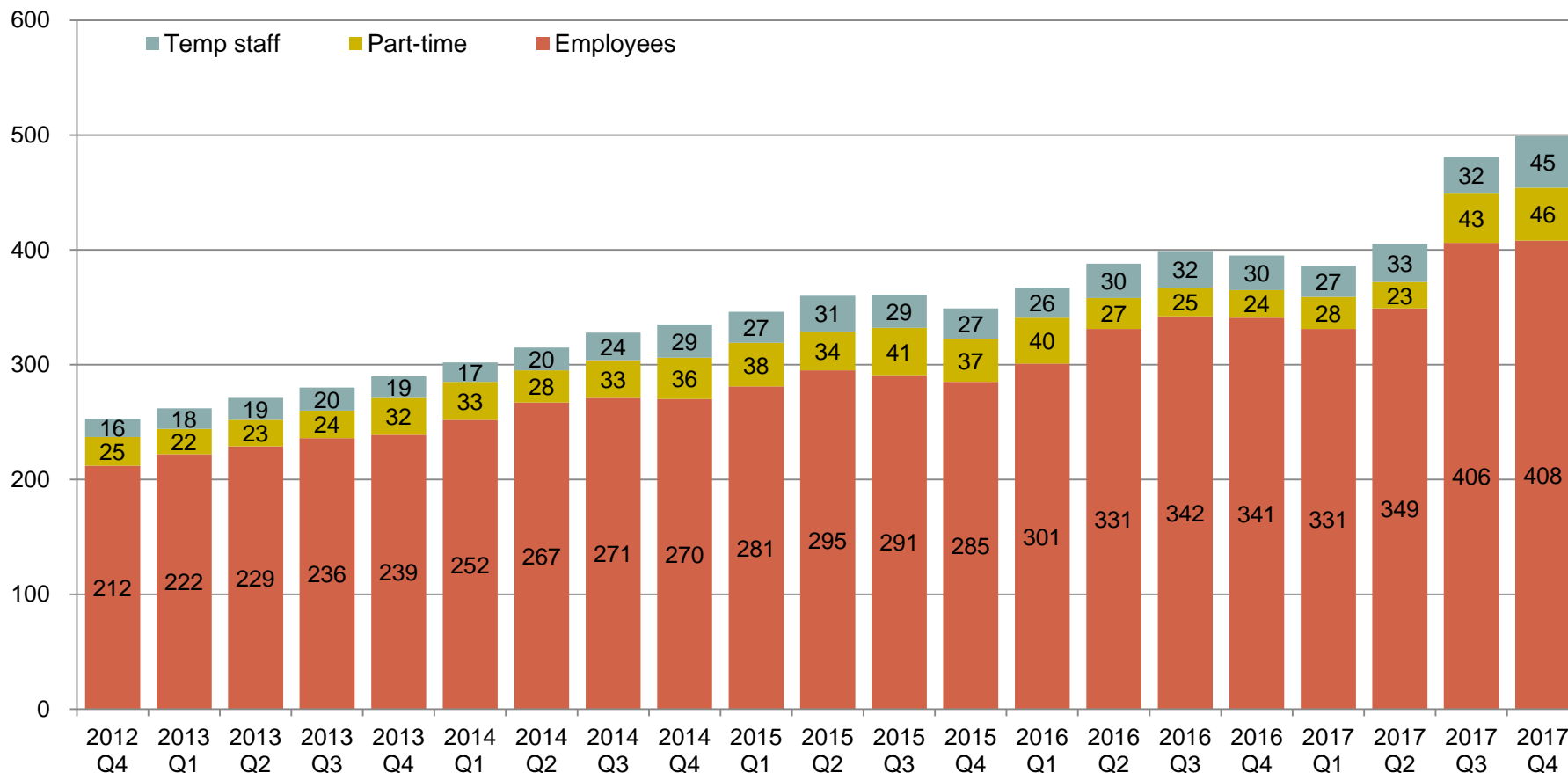
Management
Indicators



The ordinary income margin of 12.8% was the lowest level since we went public.

Number of Employees

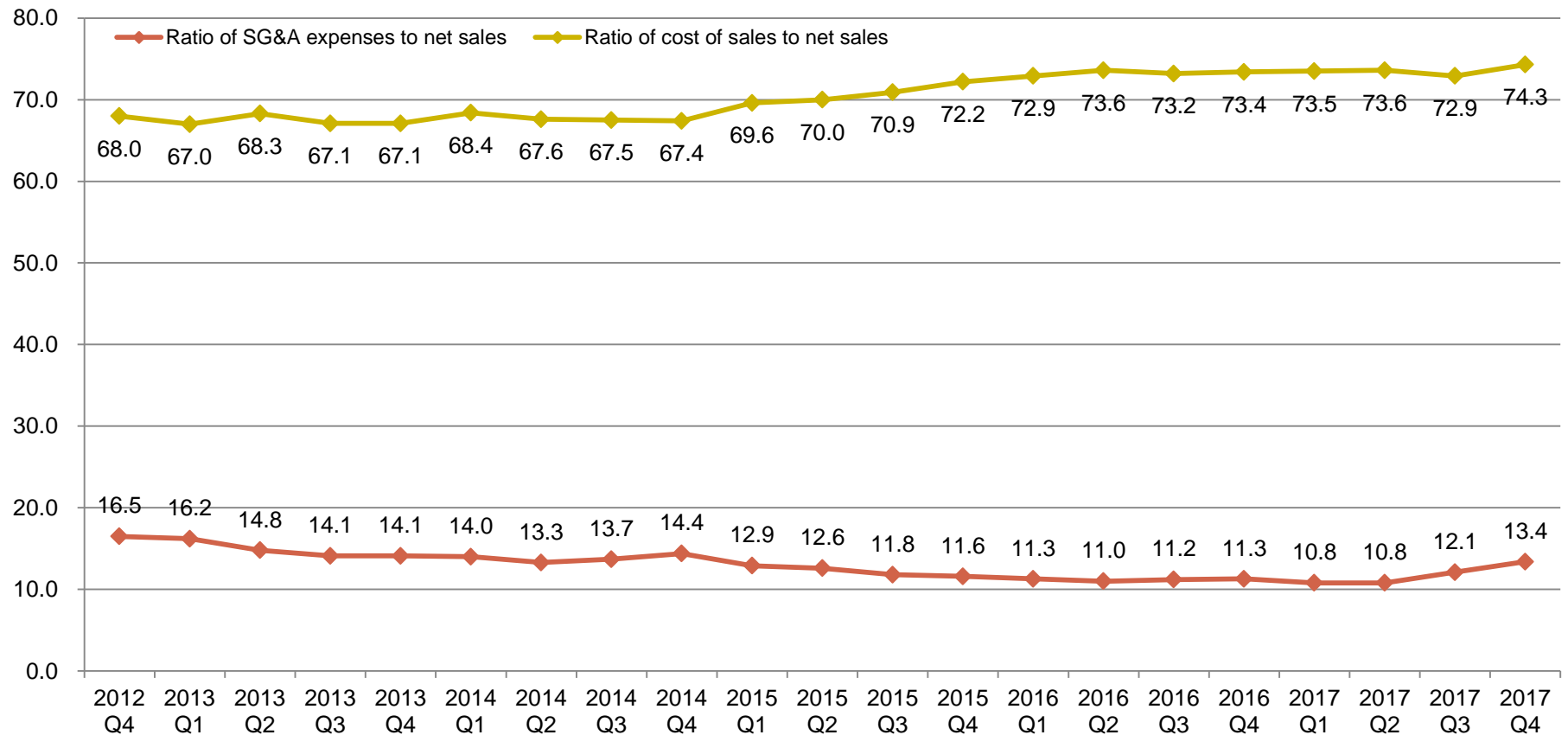
(Consolidated/Quarterly basis)



The total number of employees in the Group was 499, an increase of 104 from the same period of the previous year, and an increase of 18 from the preceding quarter.

Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)

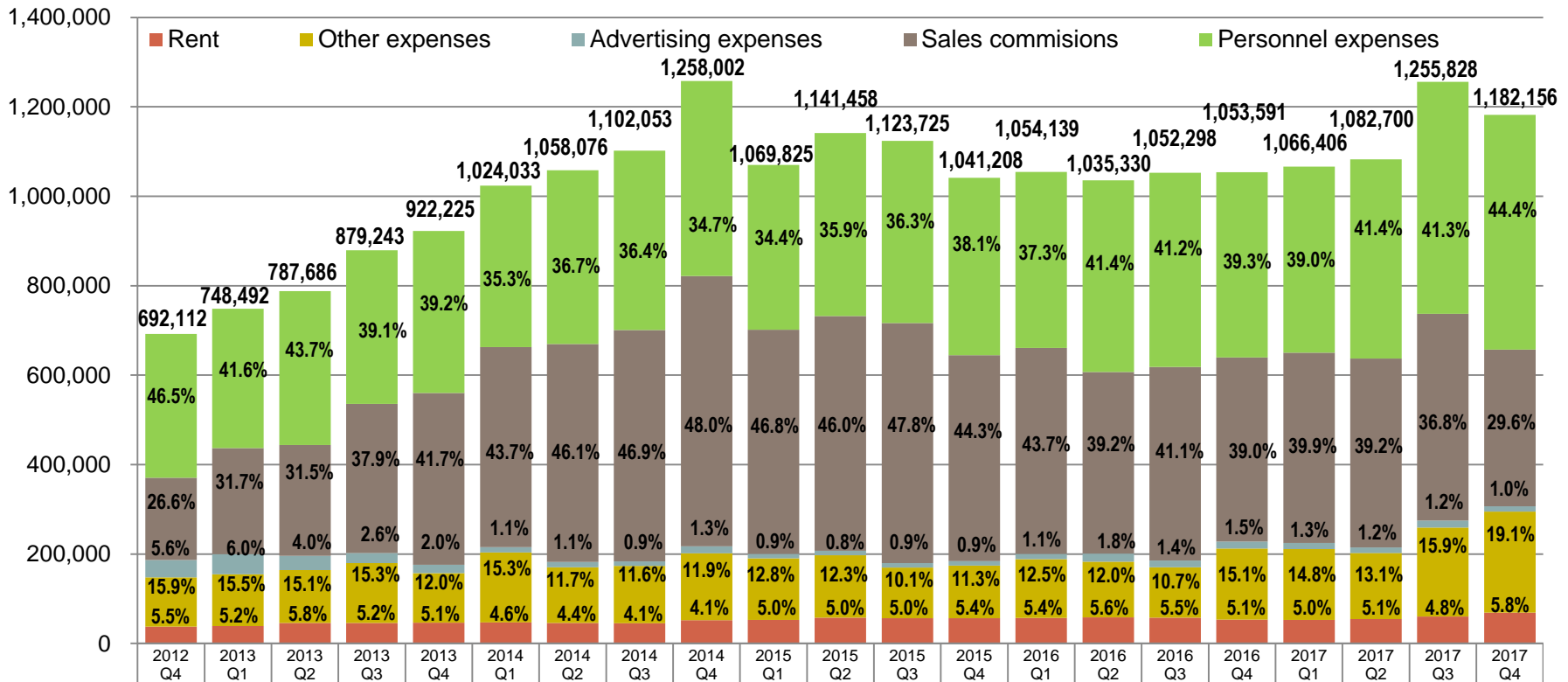


The cost of sales ratio increased 1.4 percentage points compared with 2017 Q3. The increase occurred mainly because sales declined while fixed costs were unchanged. The selling, general and administrative (SG&A) expenses ratio increased 1.3 percentage points. The increase in the SG&A expenses ratio was due to temporary expenses.

Management Indicators

Selling, General and Administrative Expenses (Consolidated/Quarterly basis)

(¥ thousands)

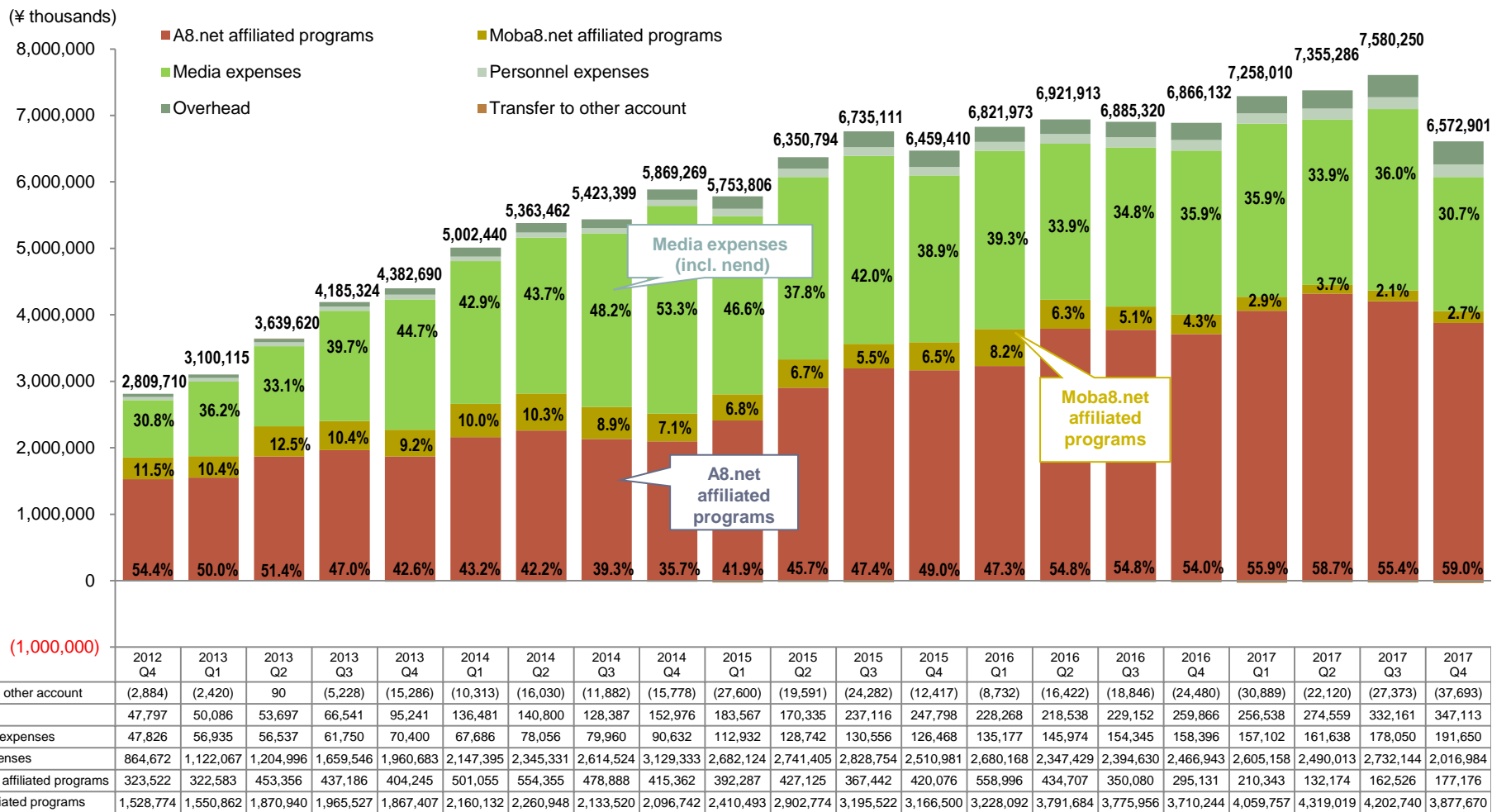


Personnel expenses	321,728	311,474	343,828	343,361	361,854	361,087	388,197	401,289	436,566	368,167	409,340	407,434	396,416	392,927	428,168	433,990	414,172	416,298	445,730	518,577	525,026
Sales commissions	183,991	237,408	247,729	333,271	384,525	447,747	487,438	517,151	604,200	501,190	525,038	536,587	460,743	461,030	405,918	432,741	411,202	425,127	421,891	462,414	350,452
Advertising expenses	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	12,994	15,596	11,575
Other expenses	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	147,077	199,132	226,164
Rent	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	55,005	60,107	68,937

The increase in personnel expenses was due to the cost of temporary staff to deal with ITP. Other expenses consisted largely of expenses for overseas training that began in this period, and the purchase of furniture and fixtures due to an expansion of floor space. Rent increased with the addition of two floors.

Cost of Sales

(Consolidated/Quarterly basis)



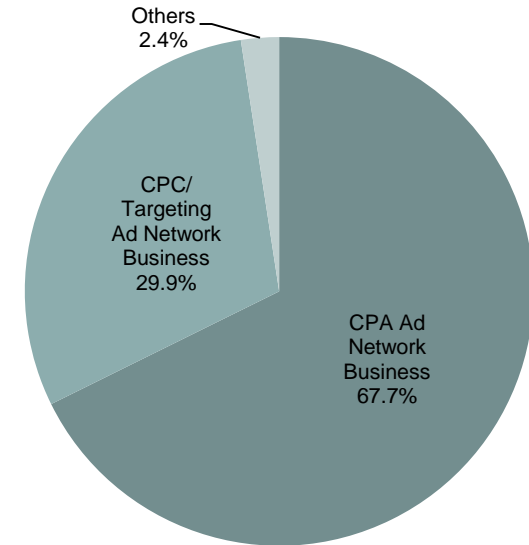
Media expenses consist of nend, nex8, ad crops, medi8, and other companies. seedApp is included in Moba8.net affiliated programs. The rise in personnel expenses is due to an increase in temporary staff in technology departments. We are investing in development of video and new services.

Overview by Main Service Area

Overview by Service Area

Net Sales by Reportable Segment (Consolidated/Quarterly basis)

(¥ thousands)	2017 Q4 (Oct. – Dec.)	2016 Q4 (Oct. – Dec.)	Change
CPA Ad Network Business	5,989,980	6,252,470	-4.2%
CPC/Targeting Ad Network Business	2,645,390	3,097,554	-14.6%
Others	213,477	-	-
Total net sales	8,848,847	9,350,024	-5.4%



Main services of CPA Ad Network Business: A8.net, Moba8.net, adcrops, seedApp, operation of our own media, advertising agency, and other services
 Main services of CPC/Targeting Ad Network Business: nend, nex8, medi8, viidle, and other services

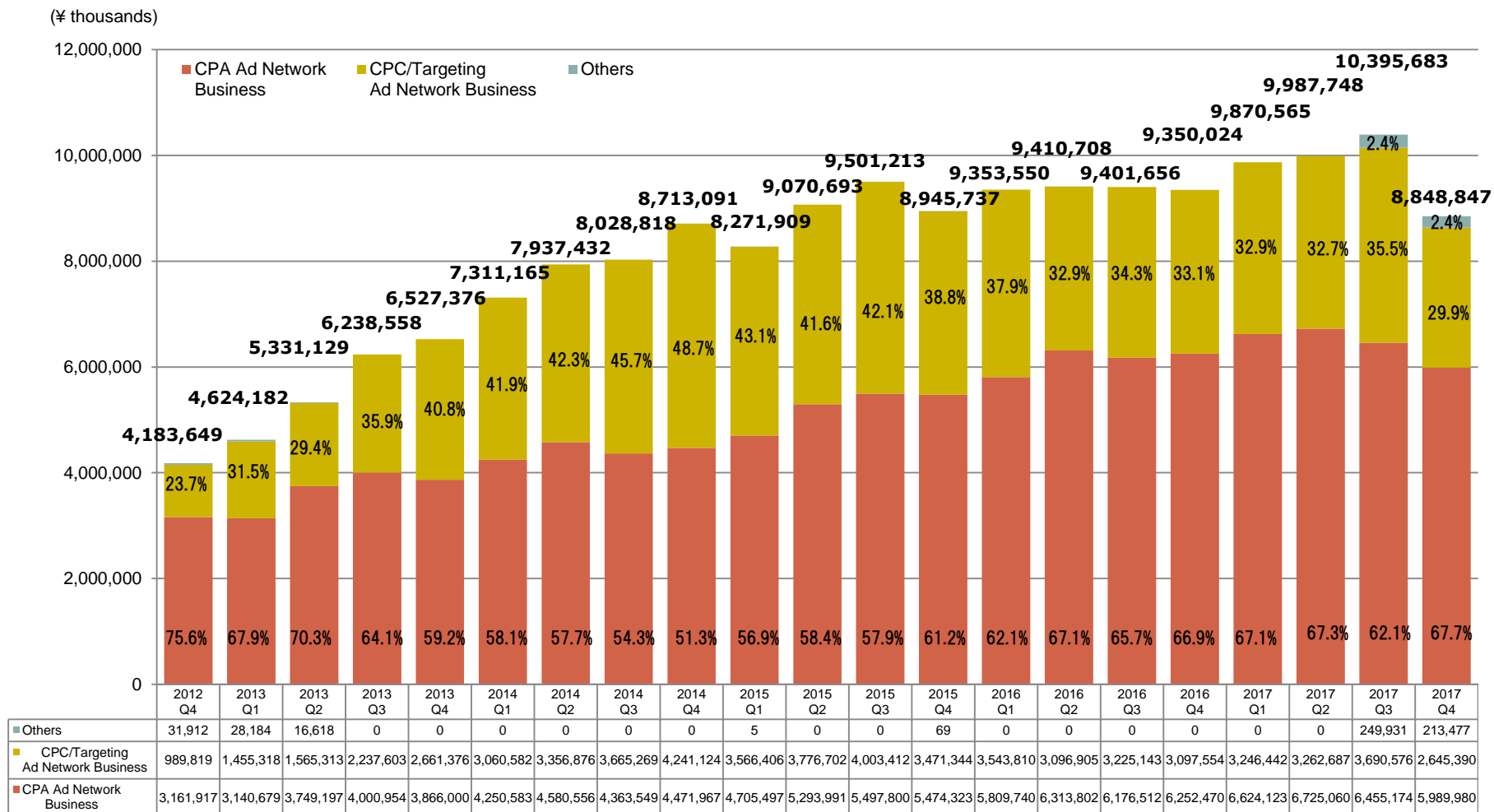
Note: "Others" consists of the sales of subsidiary Seesaa Inc.

Sales after elimination of consolidated intercompany transactions.

Sales in the CPA Ad Network Business decreased 4.2%, and sales in the CPC/Targeting Ad Network Business dropped a substantial 14.6%.

Overview by Service Area

Net Sales by Reportable Segment (Consolidated/Quarterly basis)



The share of sales from CPC/targeting services fell sharply to below 30%.

A8.net

Summary

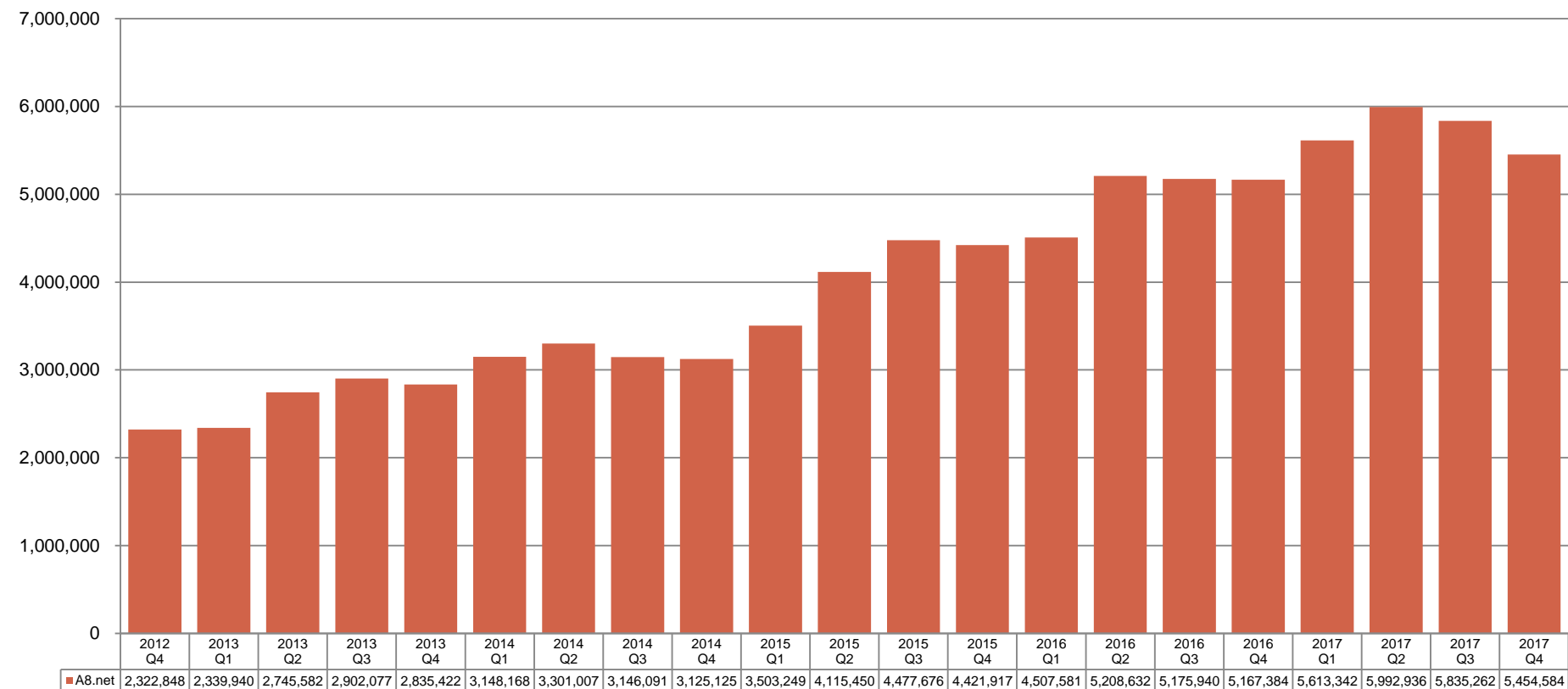
	2017 Q4 (Oct. – Dec.)	2016 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	5,454,584	5,167,384	5.6%
Number of operating advertiser IDs	3,446	3,249	6.1%
Number of registered partner sites	2,366,269	2,154,462	9.8%

Sales before elimination of consolidated intercompany transactions
 The number of operating advertiser IDs increased by 197 from 2016 Q4.

A8.net

Net Sales (Quarterly basis)

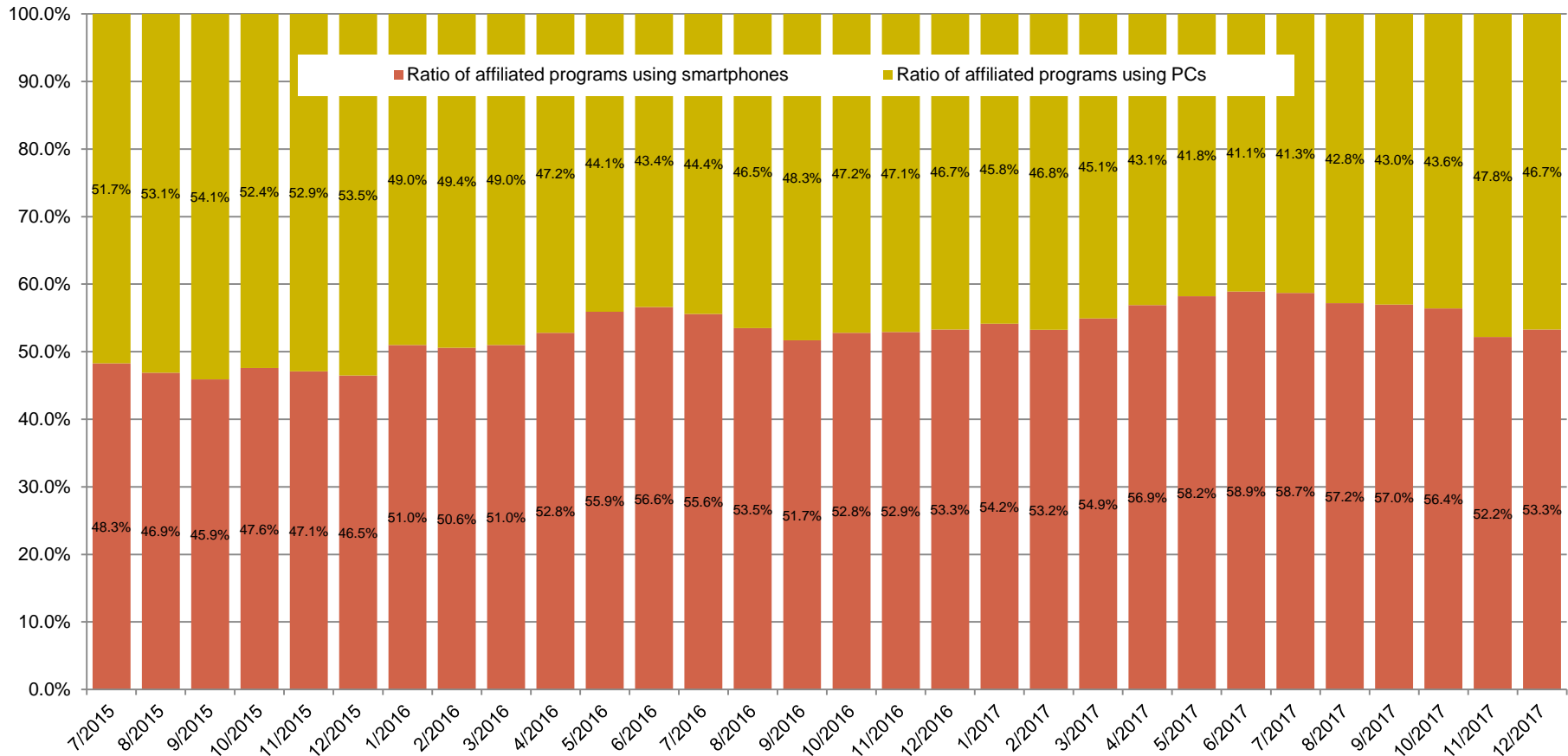
(\u00a5 thousands)



Sales before elimination of consolidated intercompany transactions
 Sales were up compared with 2016 Q4, but decreased from the preceding quarter.

A8.net

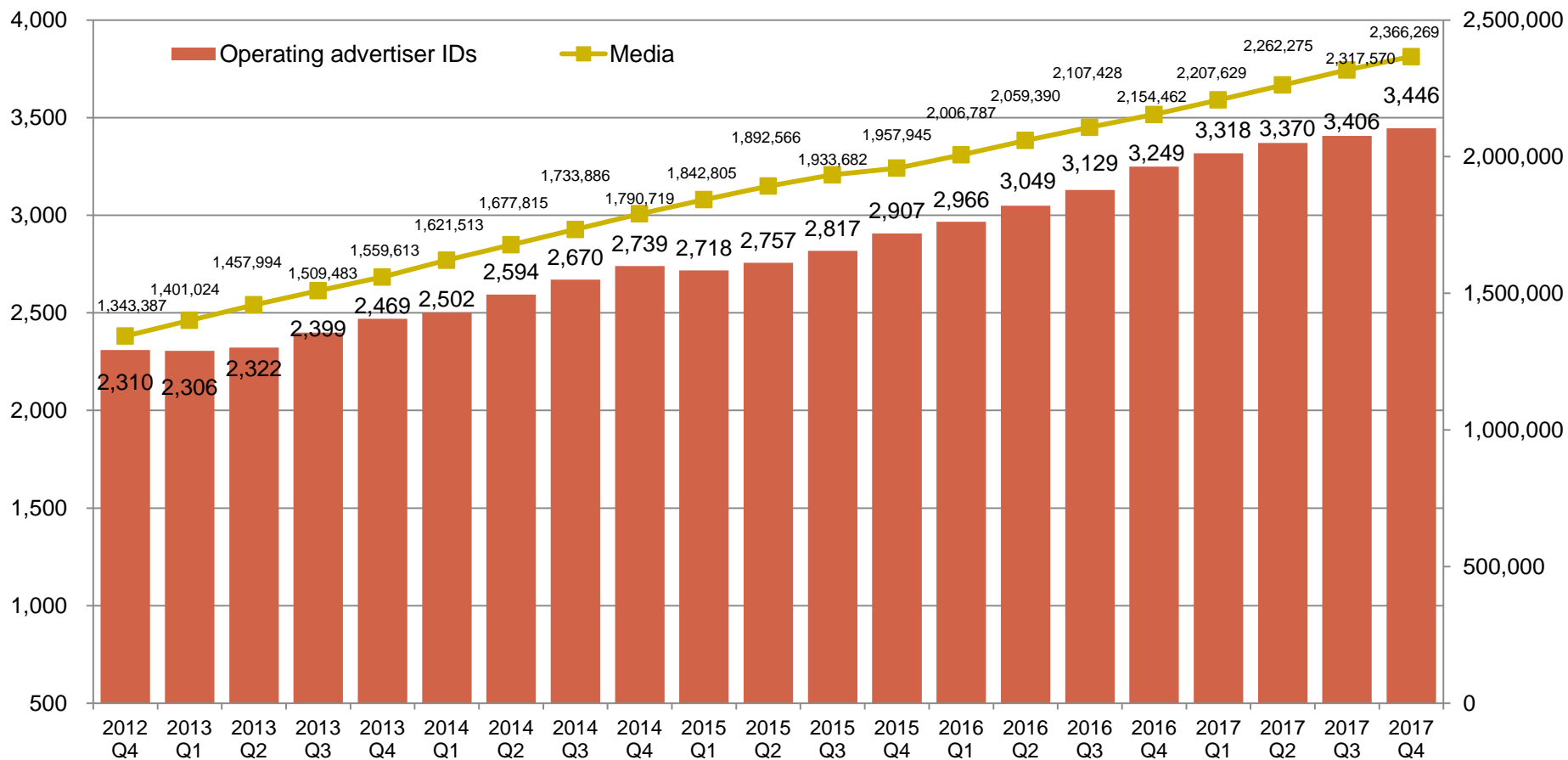
Ratio of Smartphones in Affiliated Programs (Monthly basis)



Although we want to further increase affiliated programs using smartphones, they have been declining recently.
 Note: The above affiliated program ratios are not final and are subject to change.

A8.net

Number of Operating Advertisers and Media (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 40 from 2017 Q3.
 The number of overseas operating advertisers decreased by seven from 2017 Q3 to 202.

A8.net

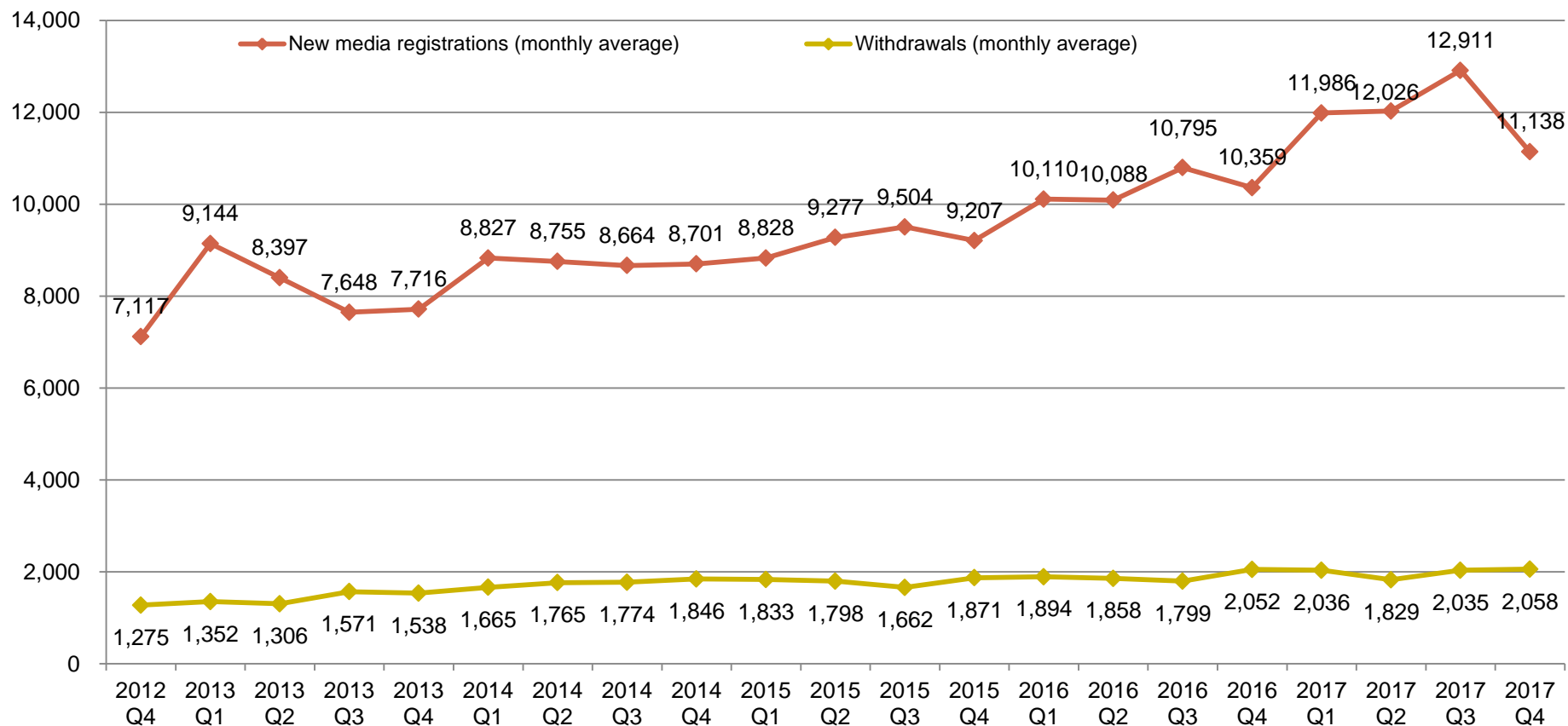
New Advertiser Start-ups and Cancellations



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 were sluggish.

A8.net

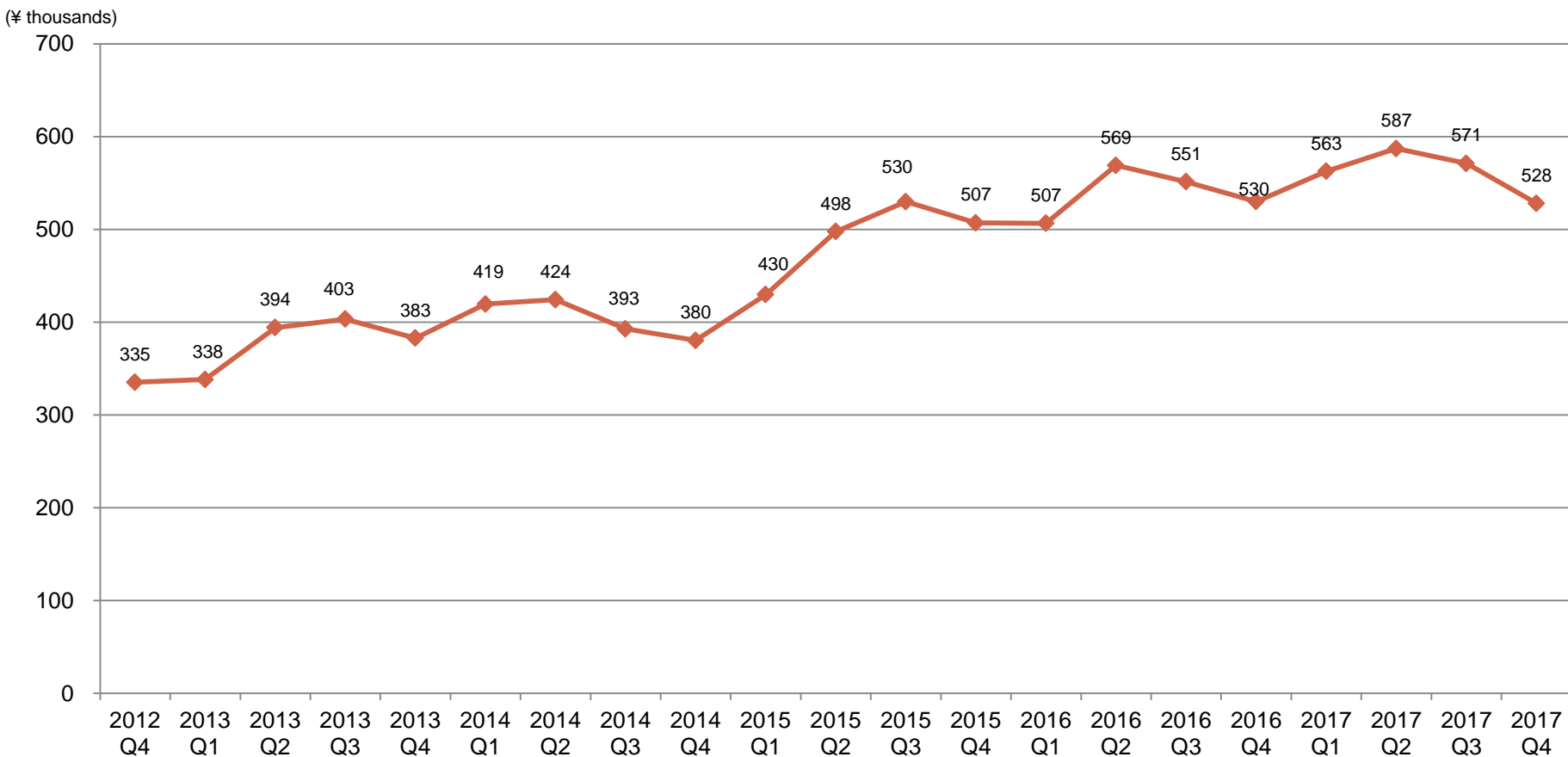
Average Monthly New Media Registrations and Withdrawals



Monthly new media registrations dipped.

A8.net

Average Monthly Sales per Advertiser

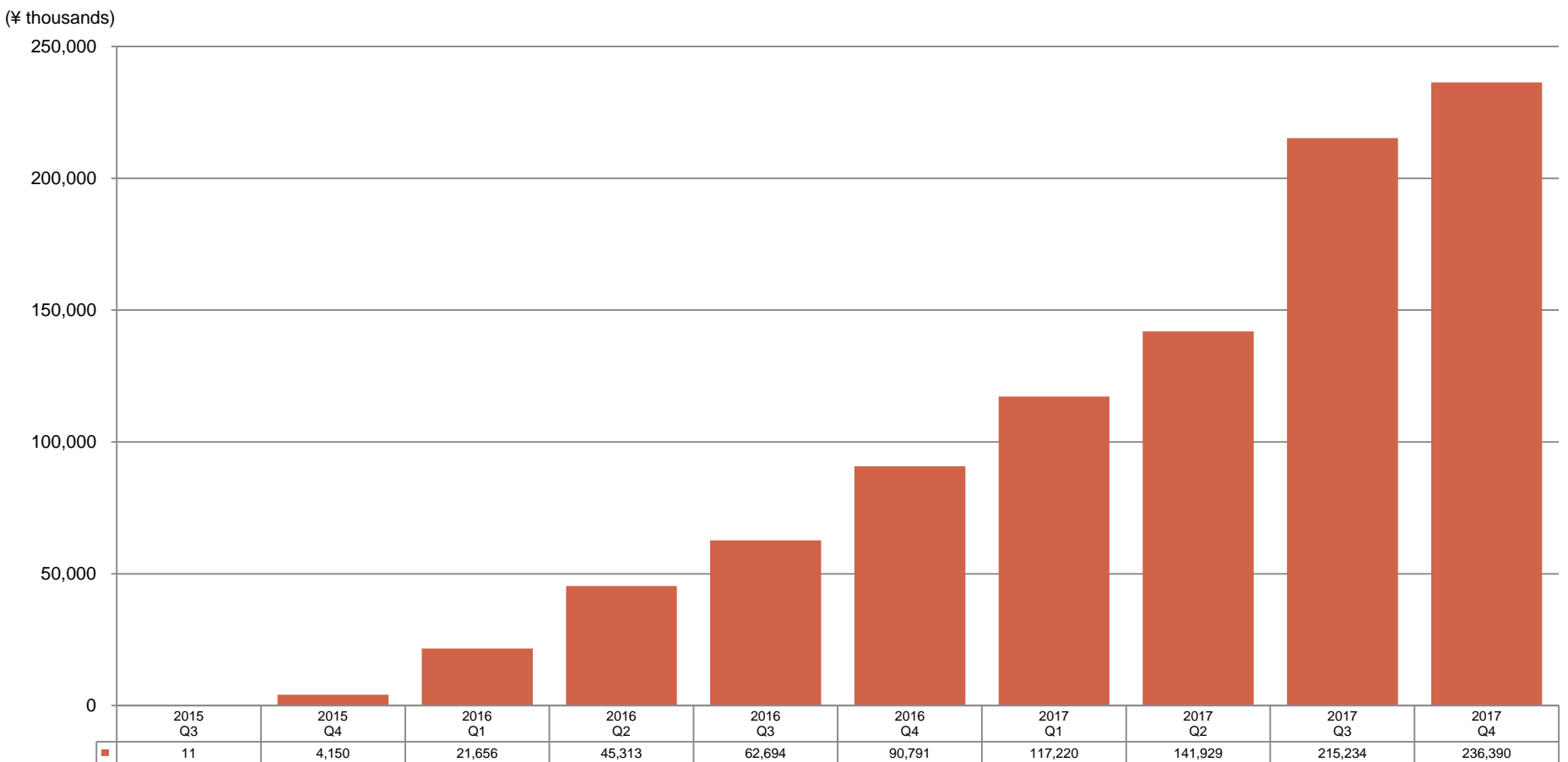


Average monthly sales per advertiser declined.

seedApp

CPA Ad Network Business

Net Sales (Quarterly basis)

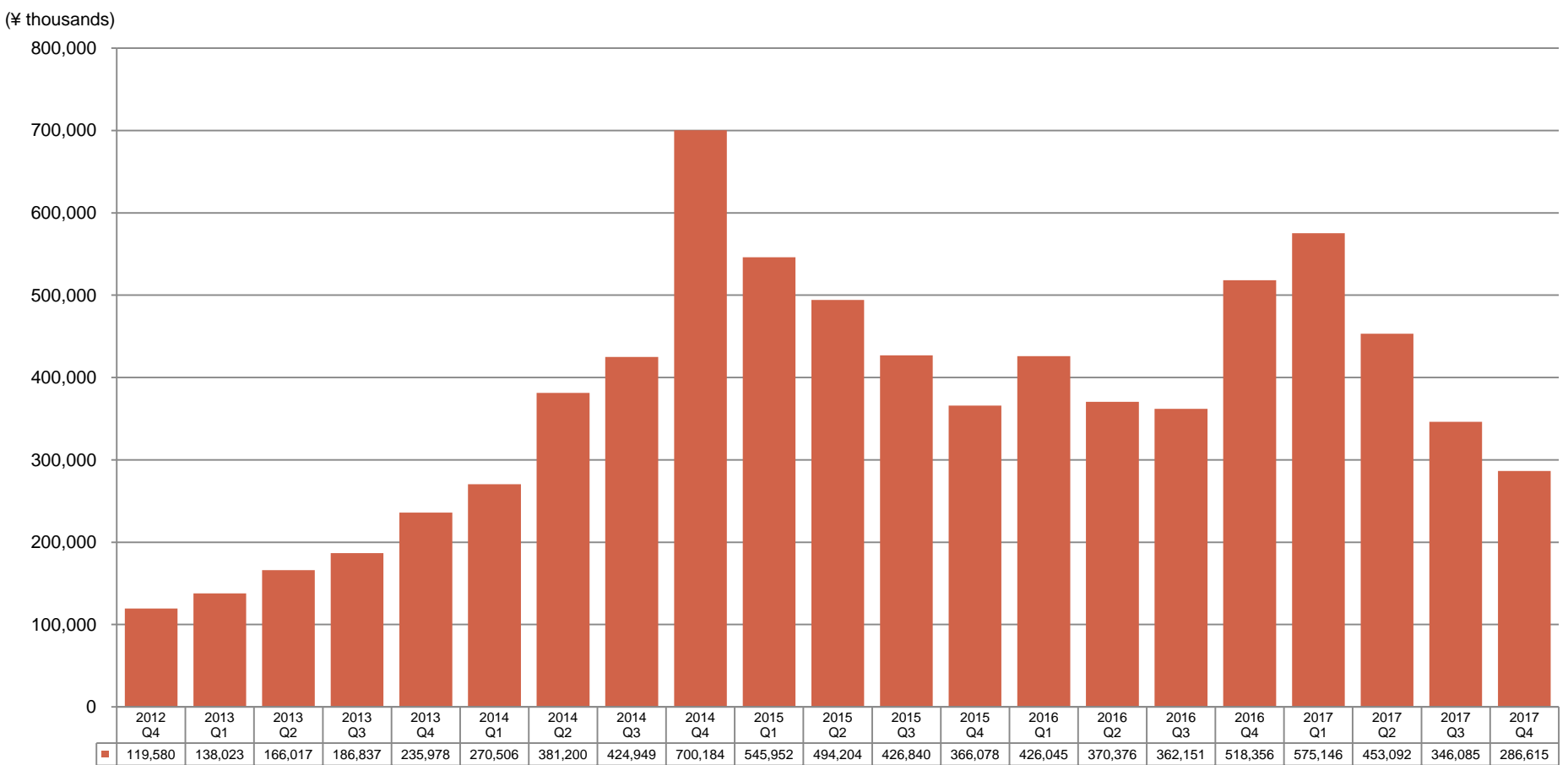


Note: Sales before elimination of consolidated intercompany transactions

adcrops

CPA Ad Network Business

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 Q4 (Oct. – Dec.)	2016 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	2,085,960	2,426,524	-14.0%
Number of operating advertiser IDs	395	394	0.3%
Number of ad spaces on registered partner sites	834,296	694,137	20.2%

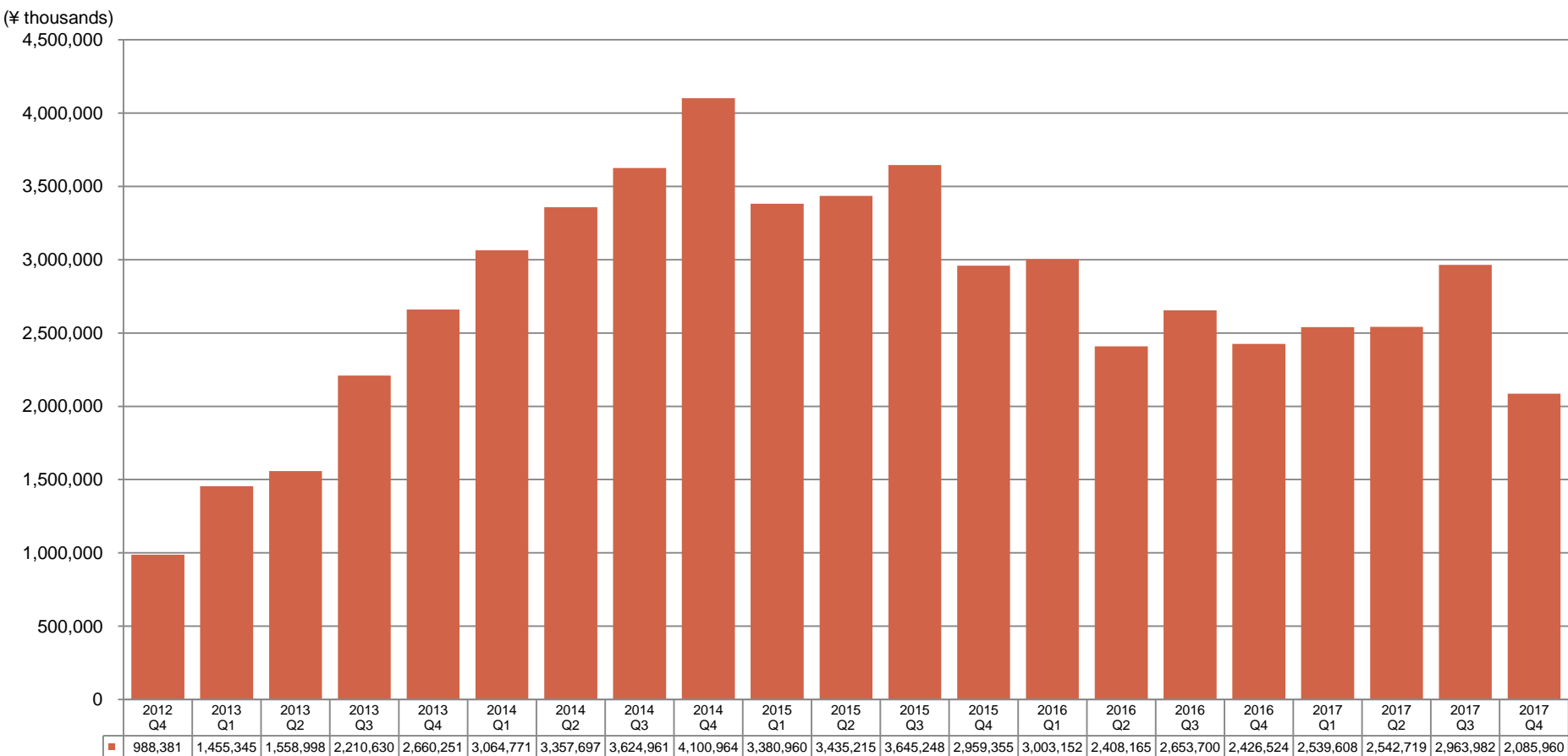
Sales before elimination of consolidated intercompany transactions
Note: Figures are those of nend only, and do not include other services.

Sales declined 14% compared with 2016 Q4.

CPC/Targeting Ad Network Business

nend

Net Sales (Quarterly basis)

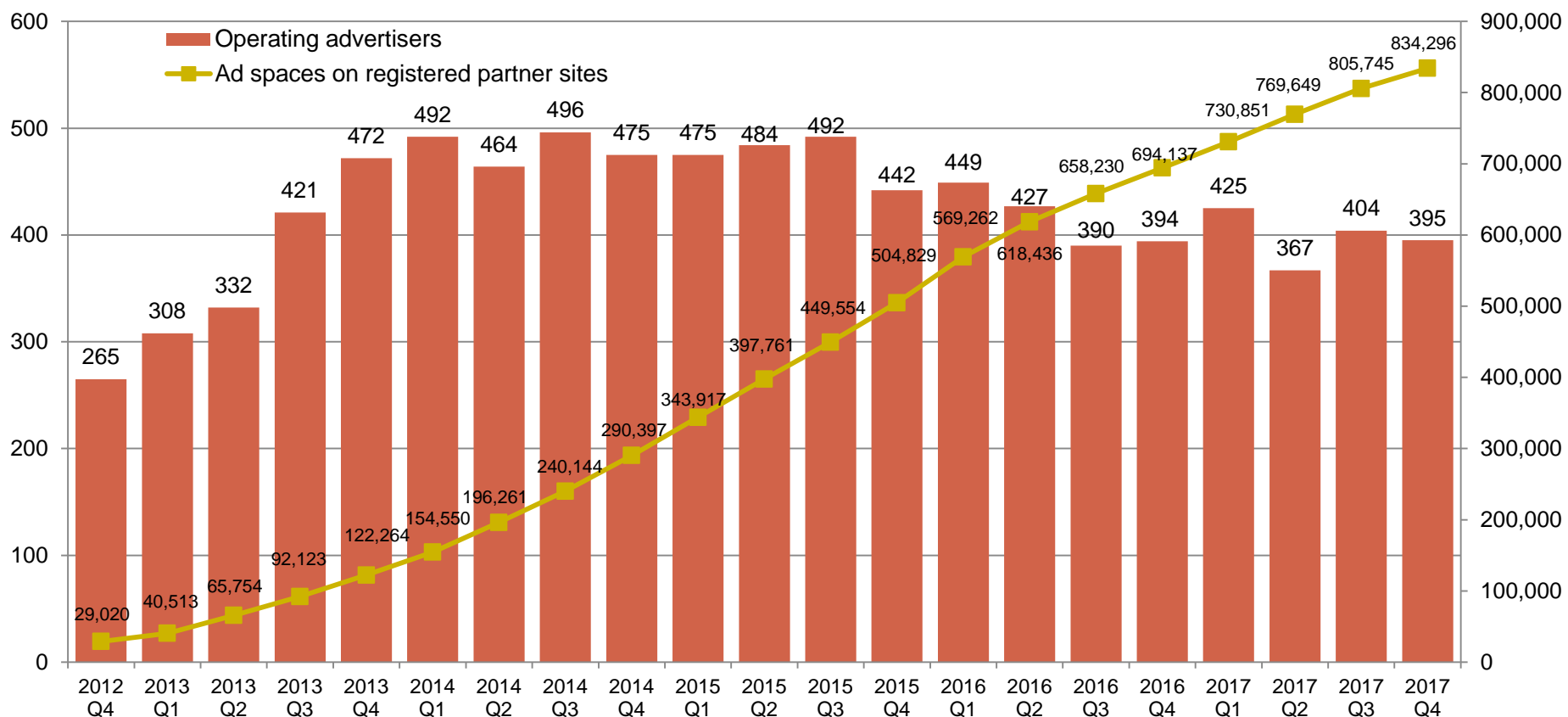


Sales before elimination of consolidated intercompany transactions
Sales declined ¥870 million from 2017 3Q.

nend

Number of Operating Advertisers and Ad Spaces on Registered Partner Sites (Quarterly basis)

CPC/Targeting
Ad Network Business



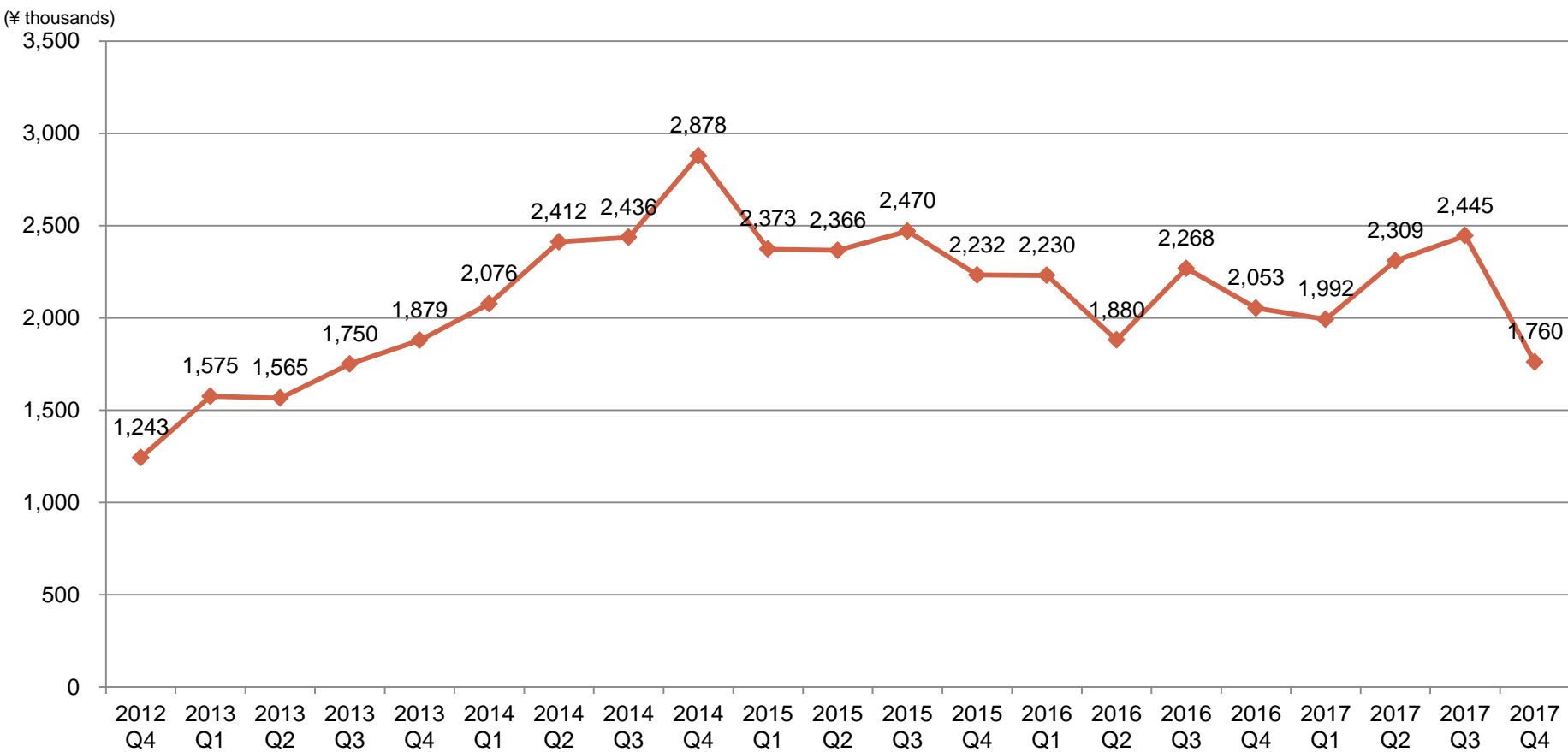
Note: The number of operating advertisers is as of the final month of each quarter.

The number of operating advertisers decreased by nine from 2017 3Q. However, this does not signify a major shift in the trend.

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business



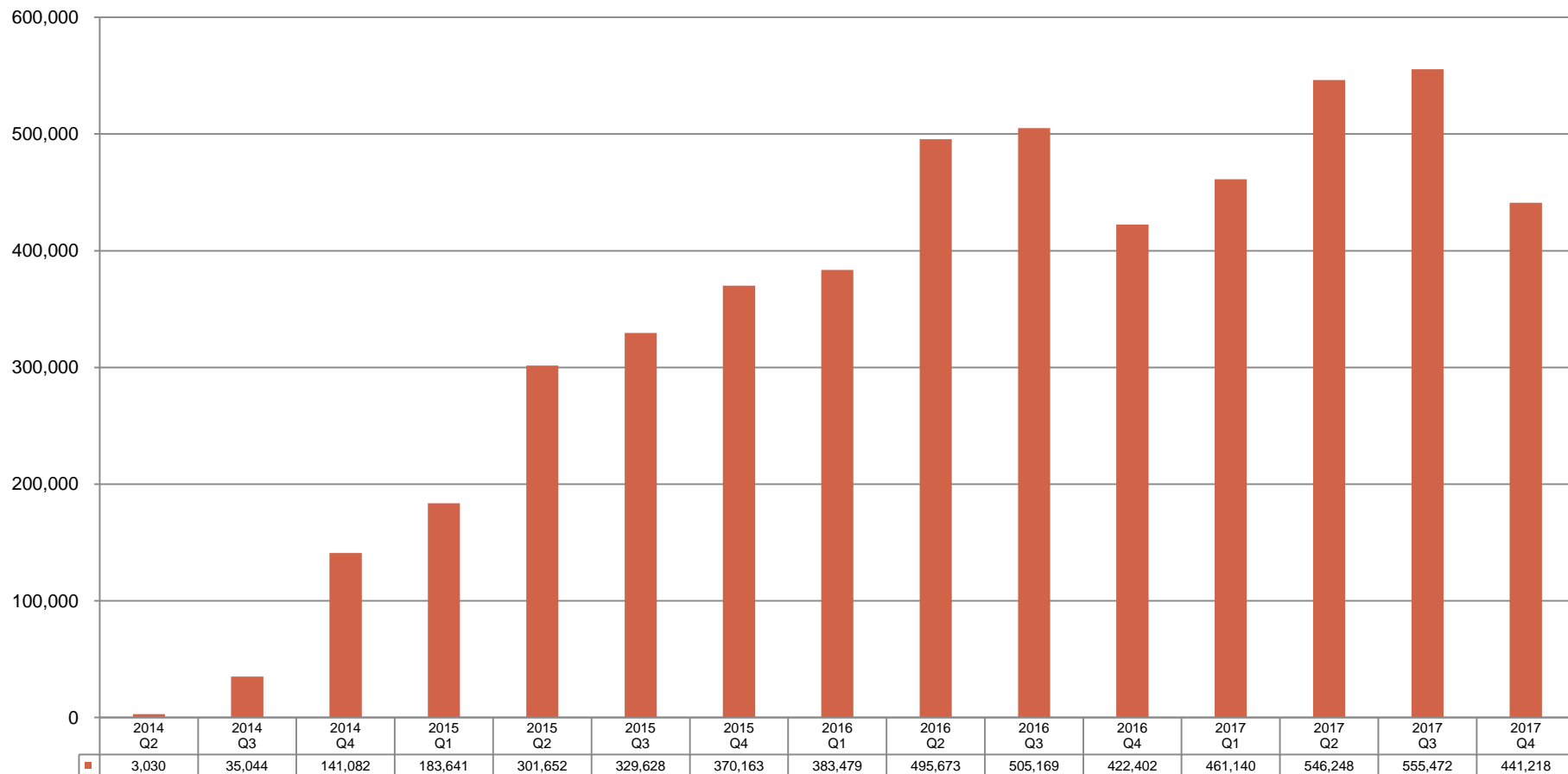
Average monthly sales per advertiser was ¥1.76 million.

nex8

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

(¥ thousands)



Sales before elimination of consolidated intercompany transactions
Dynamic retargeting was impacted by ITP.

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 Full Year	2016 Full Year
Net sales	1,016,436	1,008,707
Operating income (loss)	(21,587)	71,827
Profit (loss) attributable to owners of parent	(26,059)	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 Business

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



(¥ thousands)	Cumulative total for July-Dec. 2017	Year ended Sept. 30, 2016
Net sales	472,501	883,224
Operating income	94,828	207,347
Profit attributable to owners of parent	66,918	143,608

Notes: 1. Became a consolidated subsidiary In July 2017.

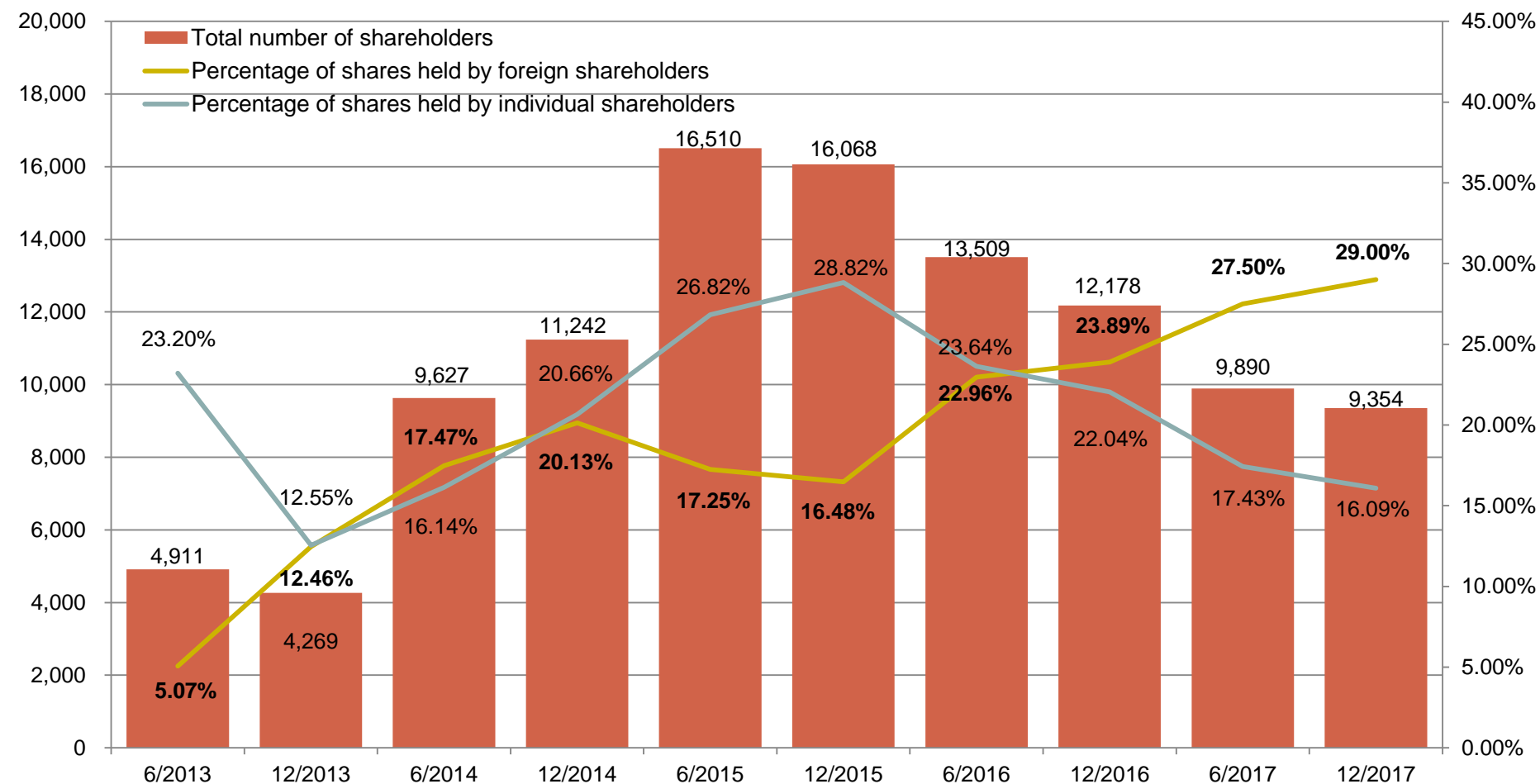
2. Cumulative totals for July-December 2017 are the amounts before elimination of consolidated intercompany transactions.



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	¥1,168.94 million (As of December 31, 2017)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 413 Group total: 499 (As of December 31, 2017; 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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