



First Quarter of 2018
Presentation of Results

May 9, 2018
F@N Communications, Inc.

Contents

First Quarter of 2018 Performance Highlights	.....	P3
Management Indicators (Quarterly Basis)	.....	P8
Overview by Main Service Area	.....	P14
▪ CPA Ad Network Business		
▪ CPC/Targeting Ad Network Business		
Consolidated Group Businesses	.....	P31
Stock Information	.....	P34
Reference Materials	.....	P36

First Quarter of 2018 Performance Highlights

First Quarter of 2018: Key Points

Performance Highlights

- **Net sales and ordinary income slightly exceeded those in 2017 Q4, but they are still in a difficult situation.**
- **Net sales and operating income have been close to the forecasts at the beginning of the year.**
- **We have been swiftly and carefully adjusting to the specification changes in ITP and search engine and changes in ad network environment.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2018 Q1	2017 Q1	Year-on-Year Change	% of Net Sales
Net sales	9,035,240	9,870,565	-8.5%	100%
Operating income	1,207,628	1,546,148	-21.9%	13.4%
Ordinary income	1,226,226	1,554,564	-21.1%	13.6%
Profit attributable to owners of parent	818,649	1,094,808	-25.2%	9.1%
Ordinary income margin	13.6%	15.7%	-2.1 points	-
Net income per share	¥10.65	¥14.27	-25.4%	-
Diluted net income per share	¥10.64	¥14.24	-25.3%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2017	March 31, 2018
Assets		
Current assets	22,431,074	21,822,961
Cash and deposits	16,822,087	16,061,384
Notes and accounts receivable - trade	4,202,825	4,457,801
Securities	997,031	965,951
Other	422,514	351,005
Allowance for doubtful accounts	-13,383	-13,181
Fixed assets	3,654,283	3,568,256
Property and equipment	263,718	332,402
Intangible assets	926,507	893,646
Investments and other assets	2,464,057	2,342,207
Total assets	26,085,358	25,391,218
Liabilities and Net Assets		
Current liabilities	6,393,164	6,354,064
Notes and accounts payable - trade	4,642,423	4,667,043
Income taxes payable	675,112	384,513
Other current liabilities	1,075,627	1,302,505
Long-term liabilities	148,715	147,315
Total liabilities	6,541,879	6,501,379
Total net assets	19,543,479	18,889,838
Total liabilities and net assets	26,085,358	25,391,218

Main component was ¥1,984,160 thousand in investment securities.

A key factor in the change was a ¥290,598 thousand decrease in income taxes payable.

Net assets decreased despite net income of ¥818,649 thousand due mainly to dividend payments of ¥1,460,758 thousand.

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)	2018 1Q Actual	Progress (% of Full-Year Forecast)
Net sales	38,500 (-1.5)	18,600 (-6.3)	9,035	23.5%
Operating income	5,000 (-13.0)	2,300 (-25.7)	1,207	24.1%
Ordinary income	5,020 (-13.3)	2,310 (-25.7)	1,226	24.4%
Profit attributable to owners of parent	3,470 (-17.9)	1,590 (-31.8)	818	23.6%

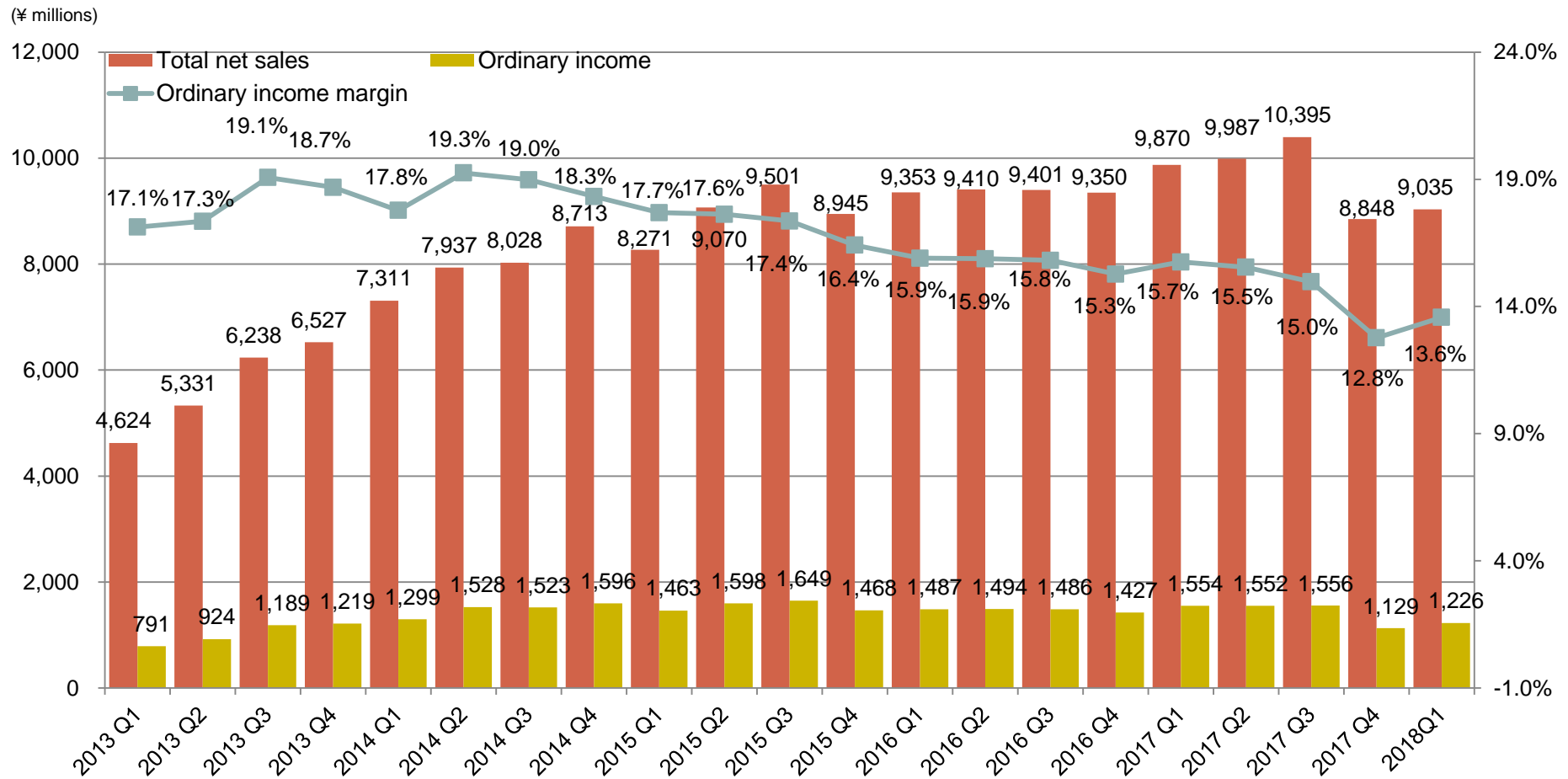
Dividend Forecast

	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

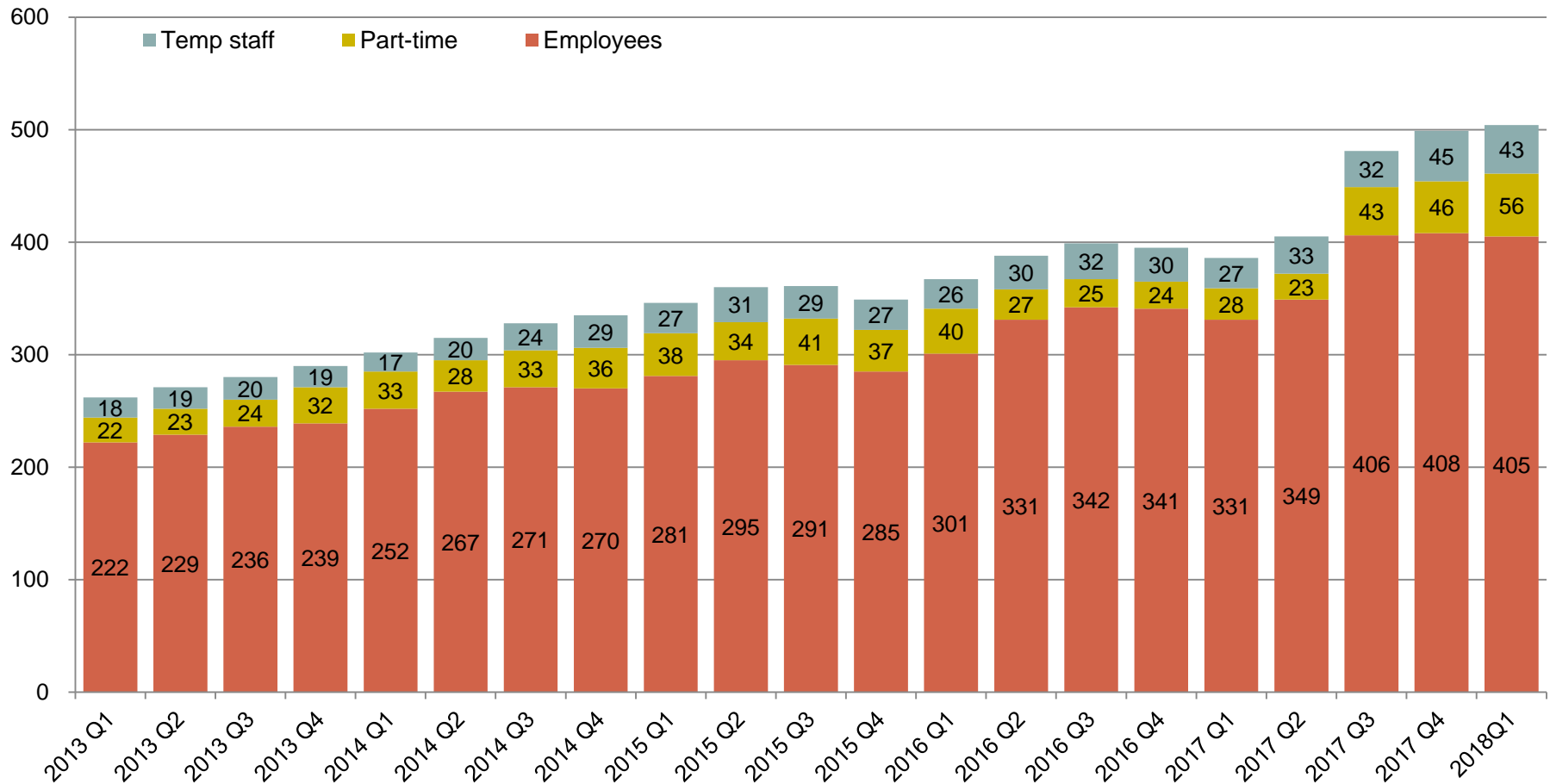


Ordinary income margin increased by 0.8 percentage points quarter on quarter to 13.6%.

Number of Employees

(Consolidated/Quarterly basis)

Management Indicators

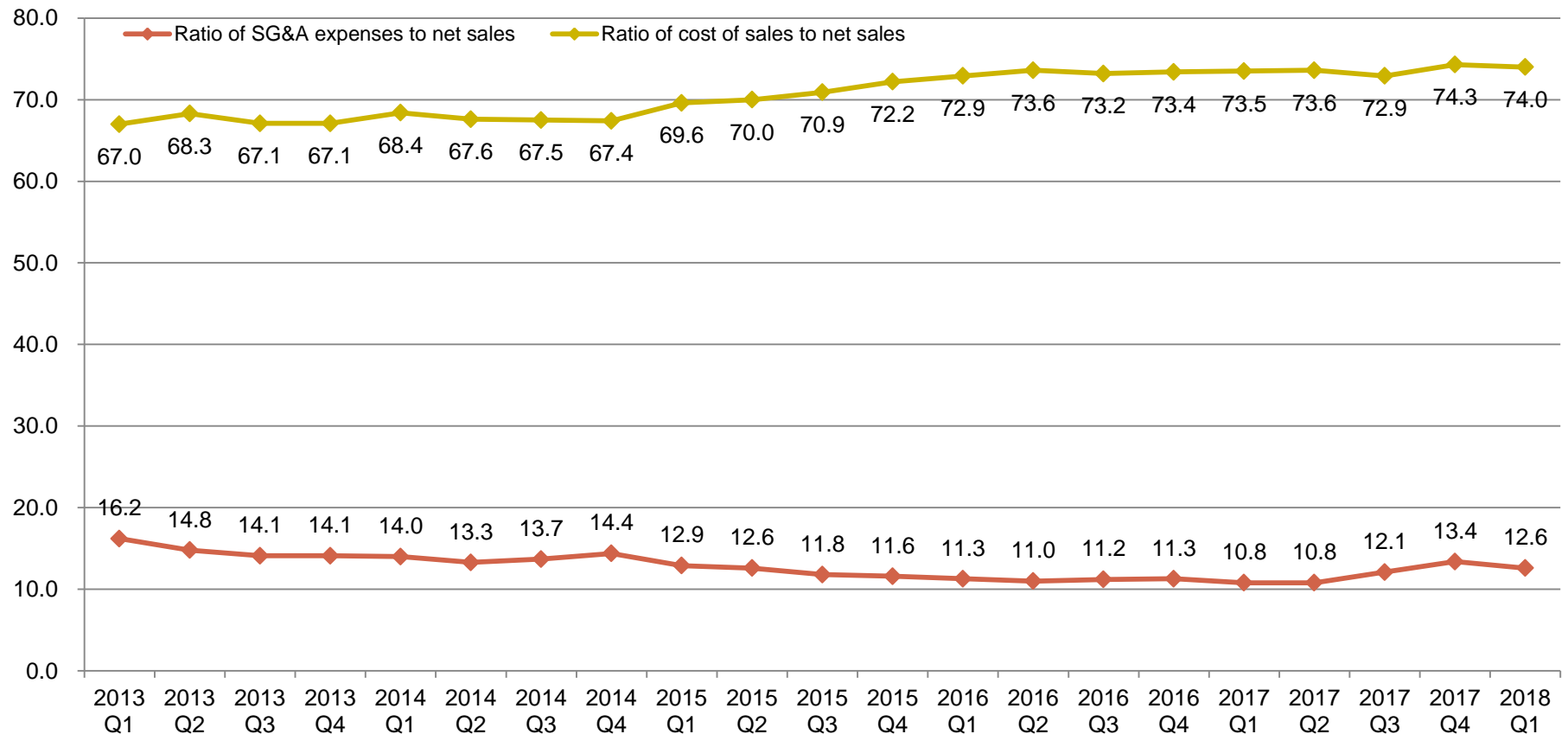


The total number of employees was 504, an increase of 118 from the same period of the previous year. Employees increased by five from the previous quarter.

Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)

Management Indicators



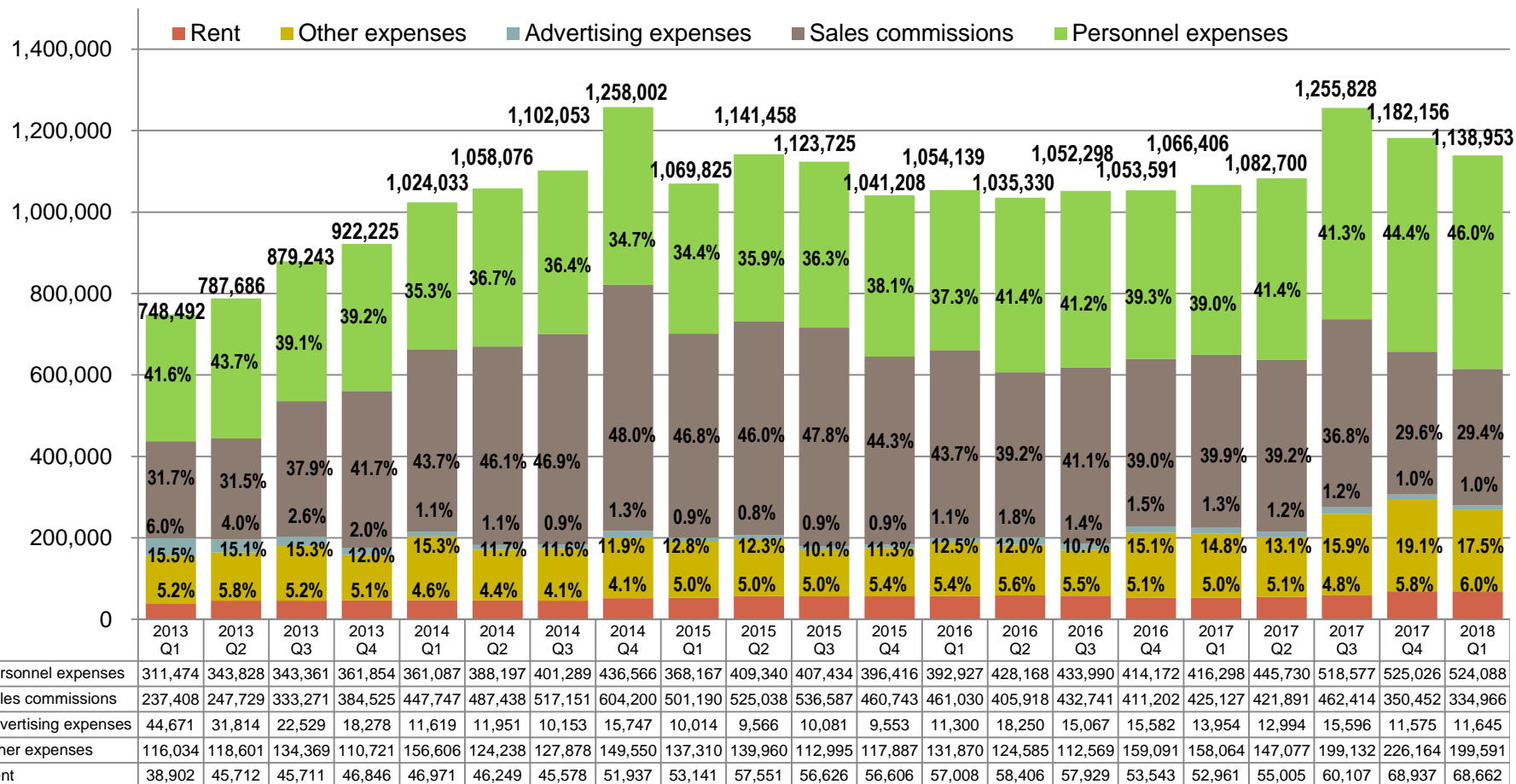
The cost of sales ratio decreased 0.3 percentage points compared with 2017 Q4 due to an increase of net sales. The selling, general and administrative (SG&A) expenses ratio also decreased 0.8 percentage points.

Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management Indicators

(¥ thousands)



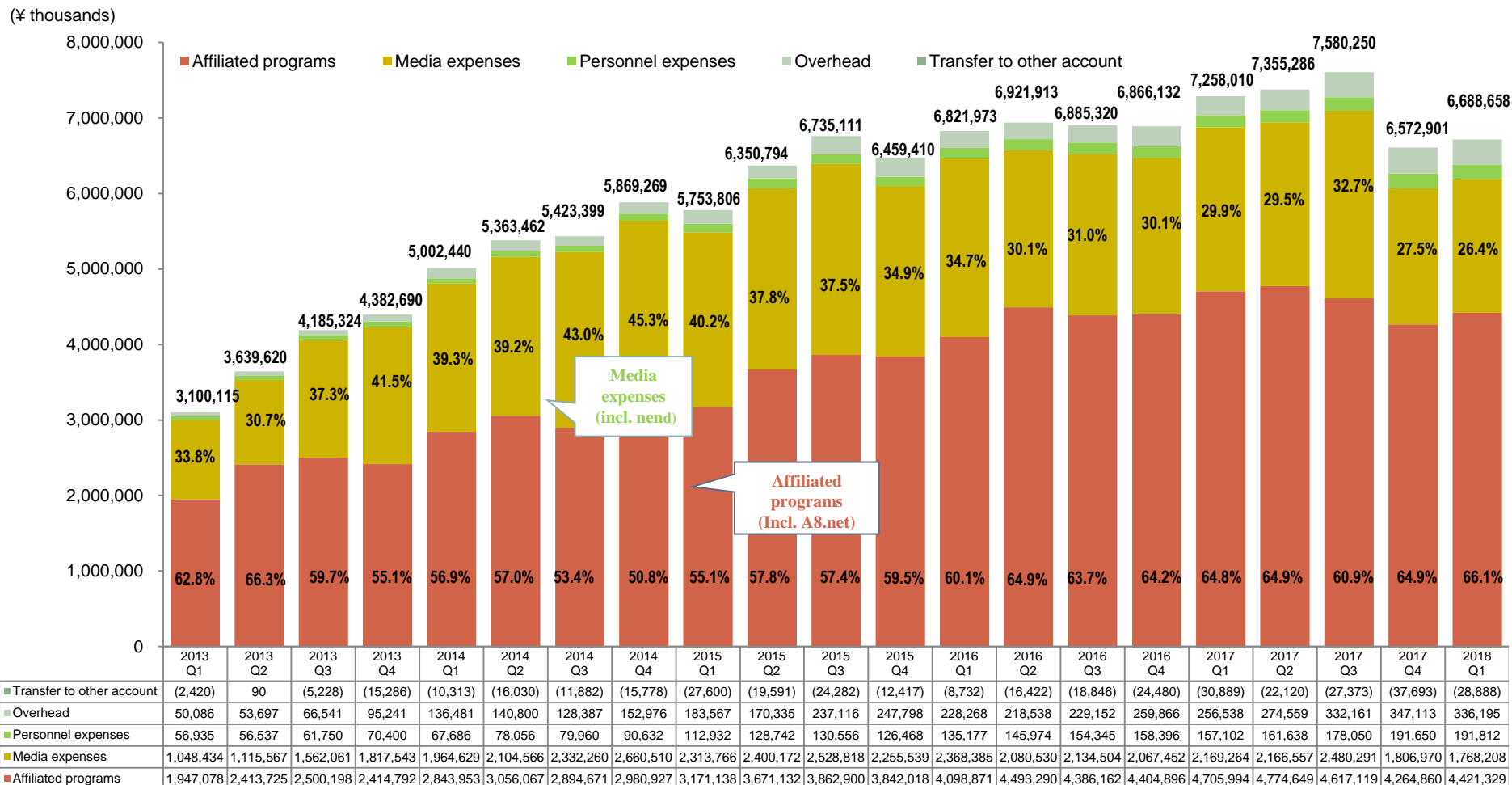
Other expenses consist largely of amortization of goodwill, depreciation expenses, equipment and supplies expenses, recruiting and education expenses, and taxes (primarily corporate income taxes).

There was no significant change compared with 2017 Q4. Personnel expenses for temp staff were continuously needed to adjust to the specification changes in ITP.

Cost of Sales

(Consolidated/Quarterly basis)

Management Indicators



Affiliated programs have included A8.net, seedApp, ad crops and others, and media expenses have included nend, nex8 and others since 2018 Q1. Overhead expenses include infrastructure expenses such as data center expenses. Media expenses and affiliated programs increased following an increase in sales, and there has been no significant change in their ratios.

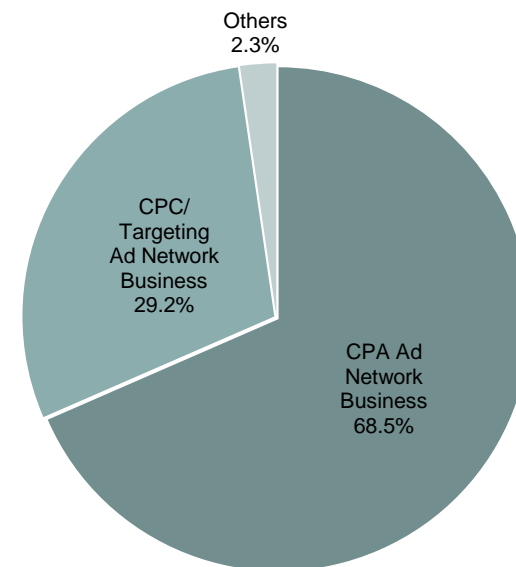
Overview by Main Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)	2018 Q1 (Jan. - Mar.)	2017 Q1 (Jan. - Mar.)	Change
CPA Ad Network Business	6,185,493	6,624,123	-6.6%
CPC/Targeting Ad Network Business	2,640,933	3,246,442	-18.7%
Others	208,812	-	-
Total net sales	9,035,240	9,870,565	-8.5%



Main services of CPA Ad Network Business: A8.net, seedApp, ad crops, own media operations, ad agency, others

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

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

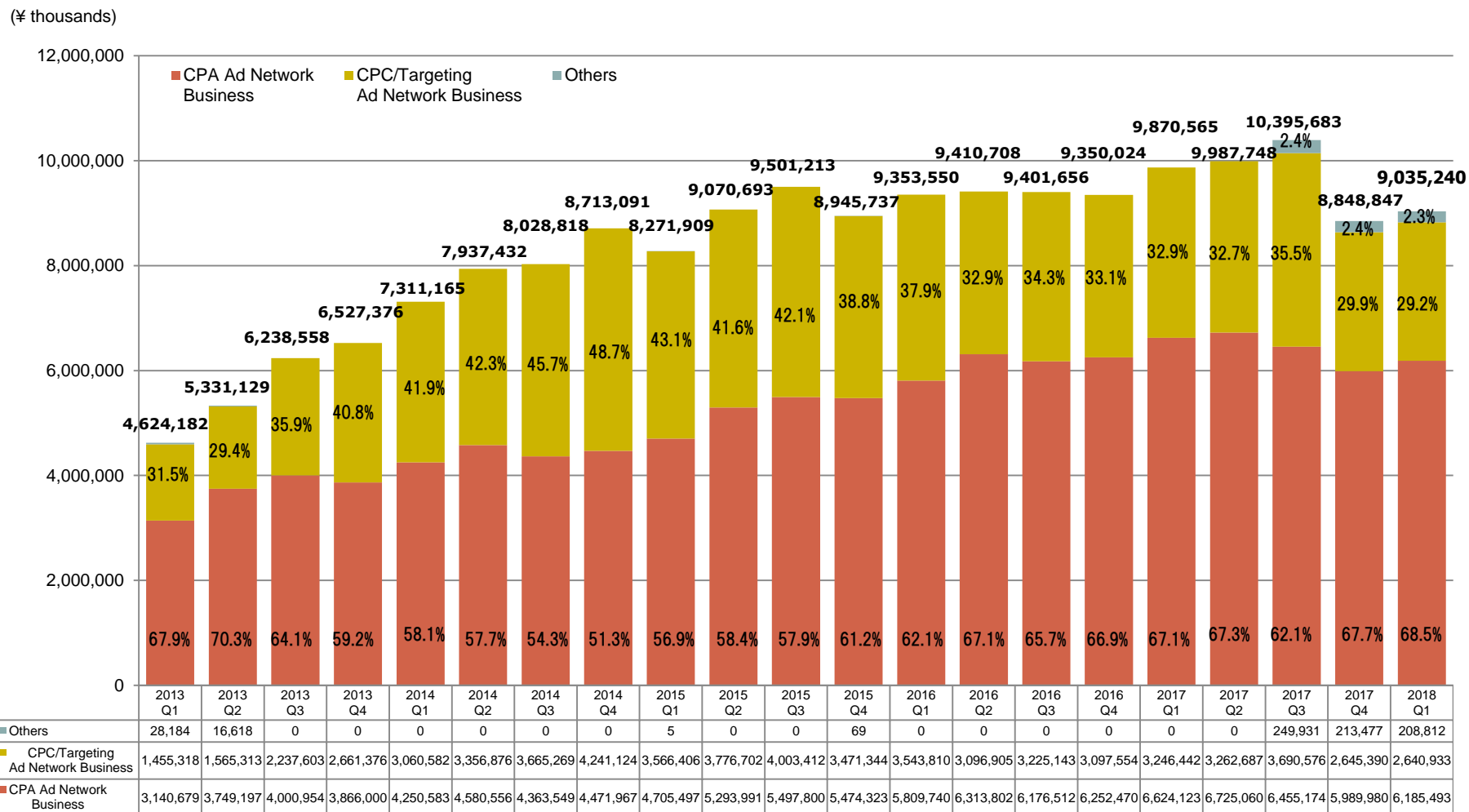
Sales after elimination of consolidated intercompany transactions.

Sales in the CPA Ad Network Business decreased 6.6%, and sales in the CPC/Targeting Ad Network Business dropped a substantial 18.7% year-on-year.

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area



“Others” consist of the sales of subsidiary Seesaa Inc.

The ratio of the CPA Ad Network Business slightly increased compared with 2017 Q4

A8.net Summary

CPA Ad Network Business

	2018 Q1 (Jan. – Mar.)	2017 Q1 (Jan. – Mar.)	Change
Sales (¥ thousands)	5,583,199	5,613,342	-0.5%
Number of operating advertiser IDs	3,412	3,318	2.8%
Number of registered partner sites	2,412,716	2,207,629	9.3%

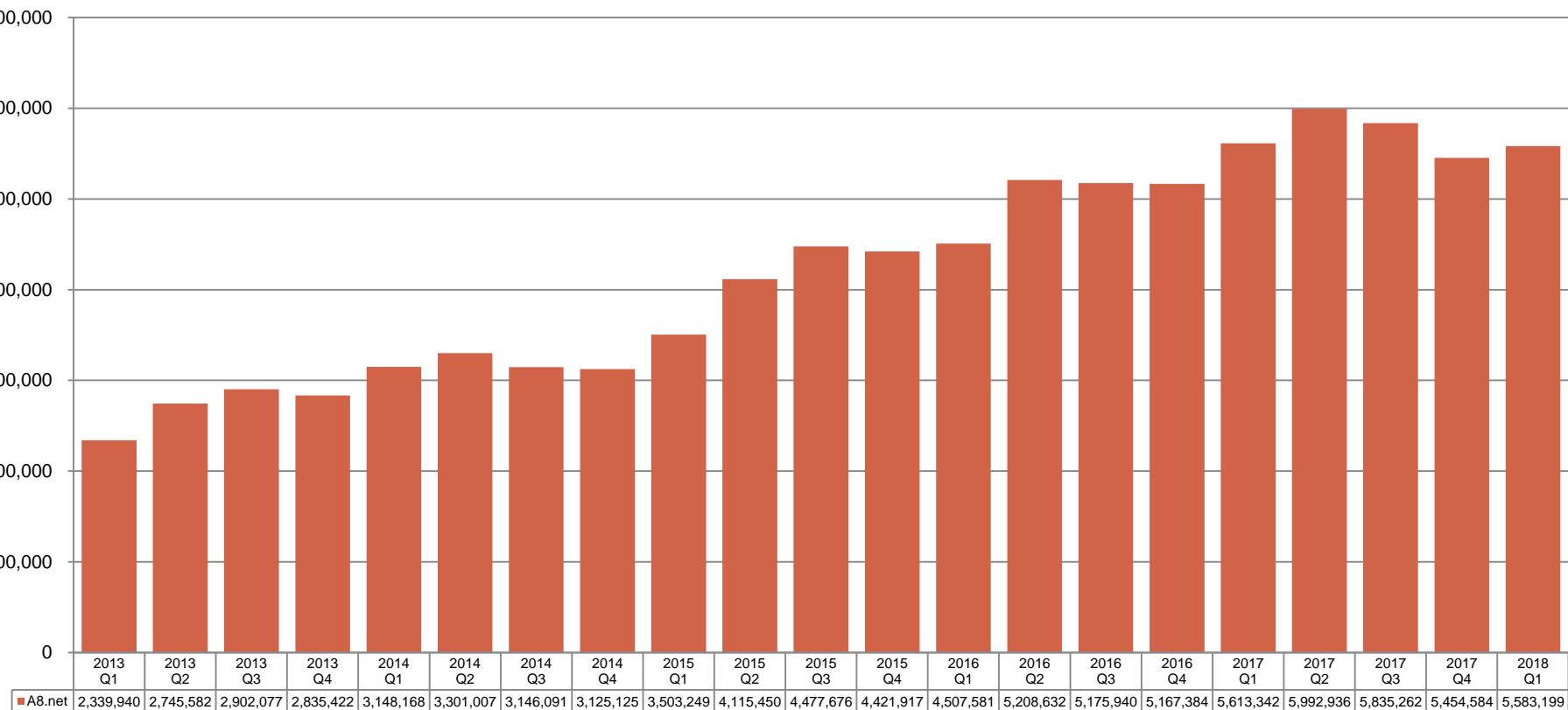
Sales before elimination of consolidated intercompany transactions
 The number of operating advertiser IDs increased by 94 from the same period of the previous year.

A8.net

CPA Ad Network Business

Net Sales (Quarterly basis)

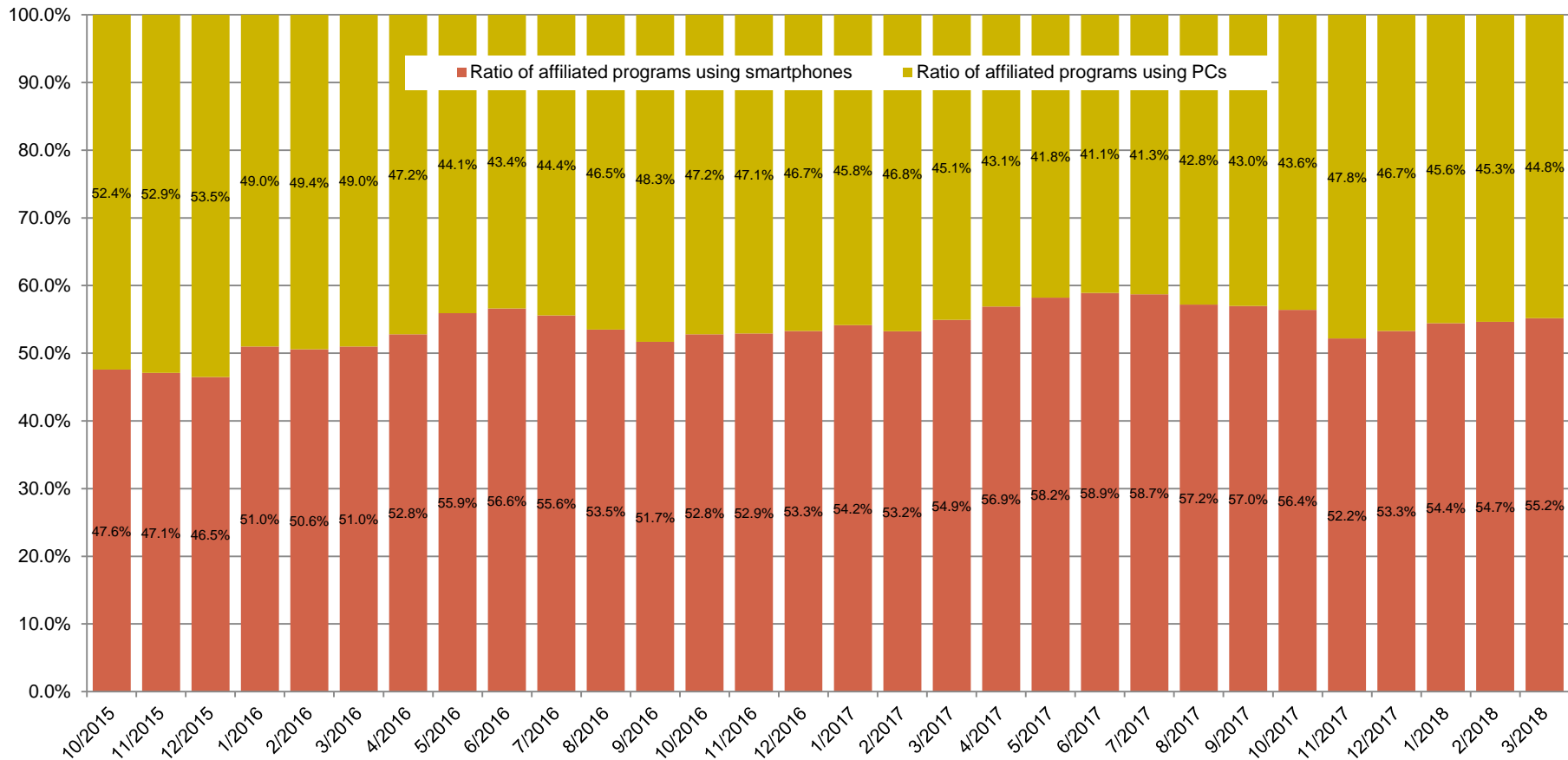
(¥ thousands)



Sales before elimination of consolidated intercompany transactions.

Sales slightly decreased compared with the same period of the previous year, but increased compared with 2017 Q4.

Ratio of Smartphones in Affiliated Programs (Monthly basis)

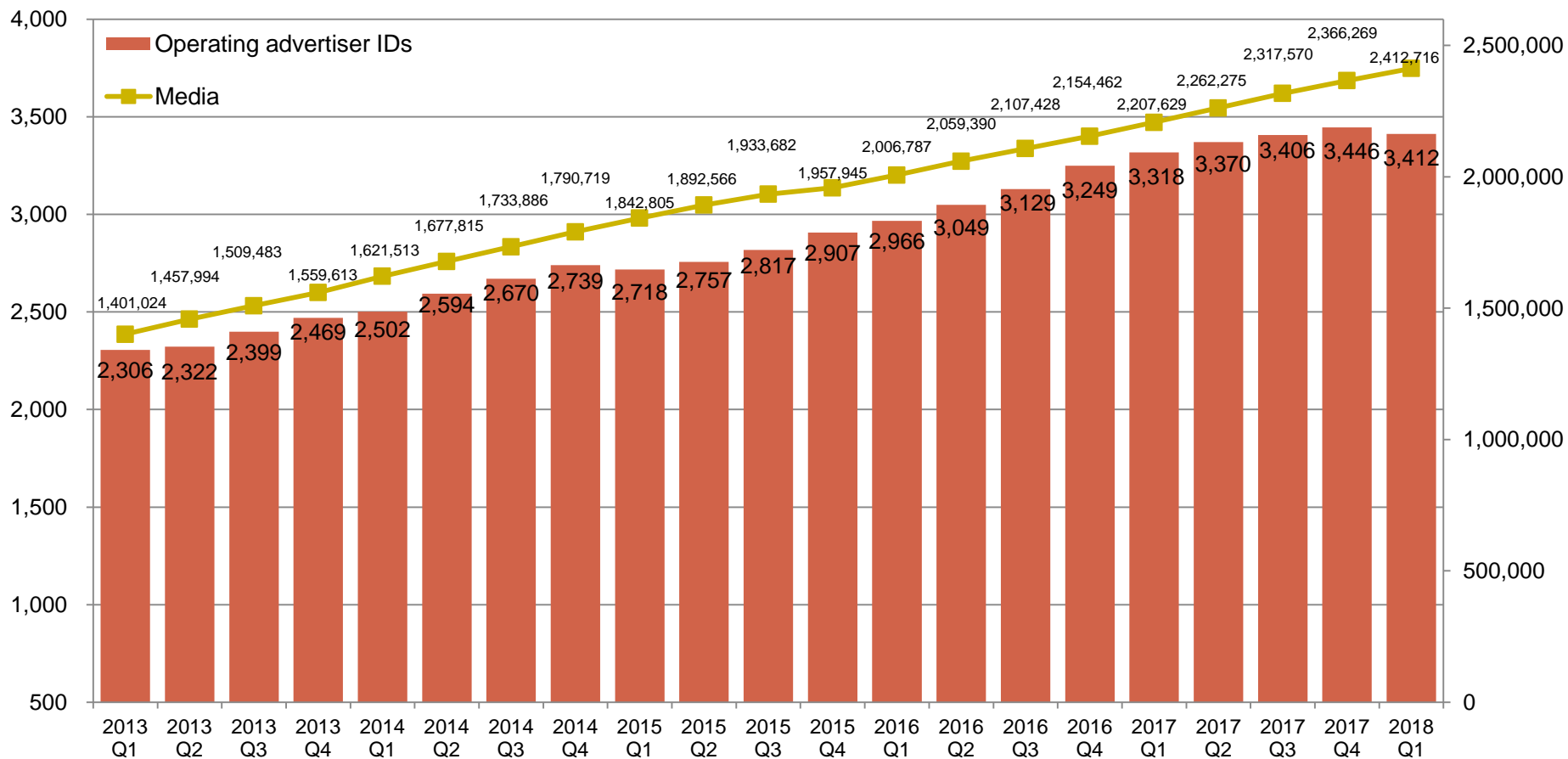


Note: The above affiliated program ratios are not final and are subject to change.

A8.net

CPA Ad Network Business

Number of Operating Advertisers and Media (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.

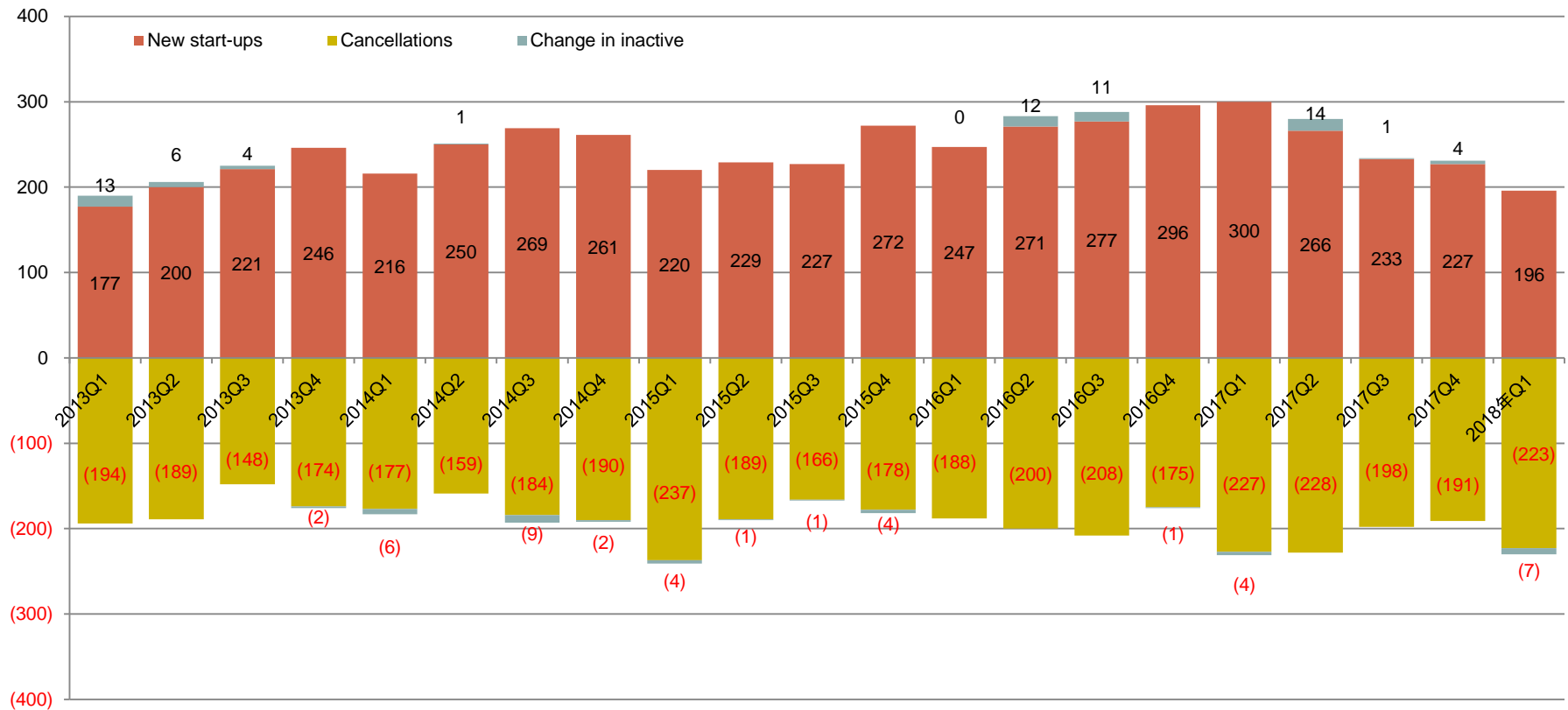
The number of operating advertisers decreased by 34 from 2017 Q4.

The number of overseas operating advertisers increased by six from 2017 Q4 to 2018 Q1.

A8.net

CPA Ad Network Business

New Advertiser Start-ups and Cancellations



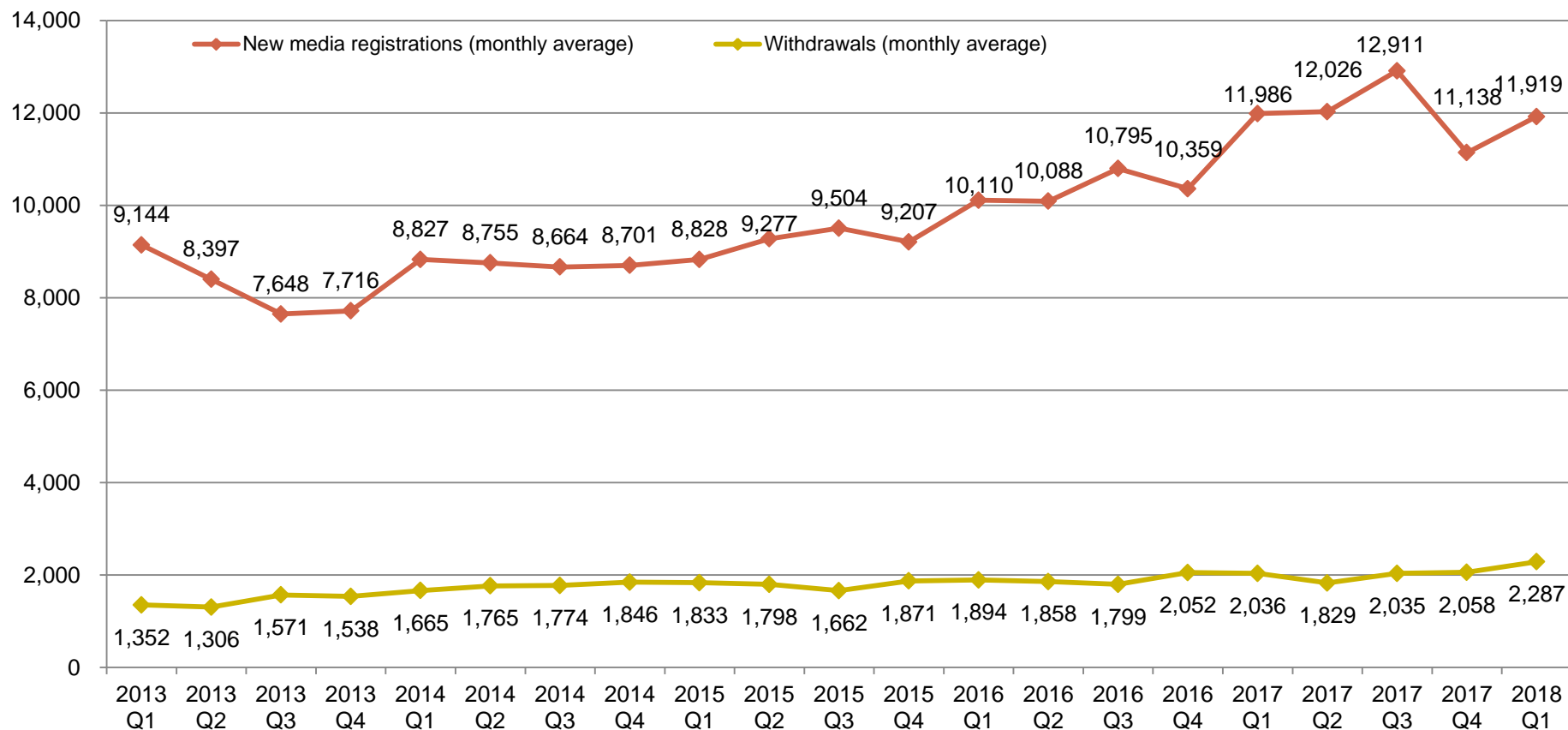
Note: "Change in inactive" is the difference in the number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

New advertiser start-ups were sluggish.

A8.net

CPA Ad Network Business

Average Monthly New Media Registrations and Withdrawals



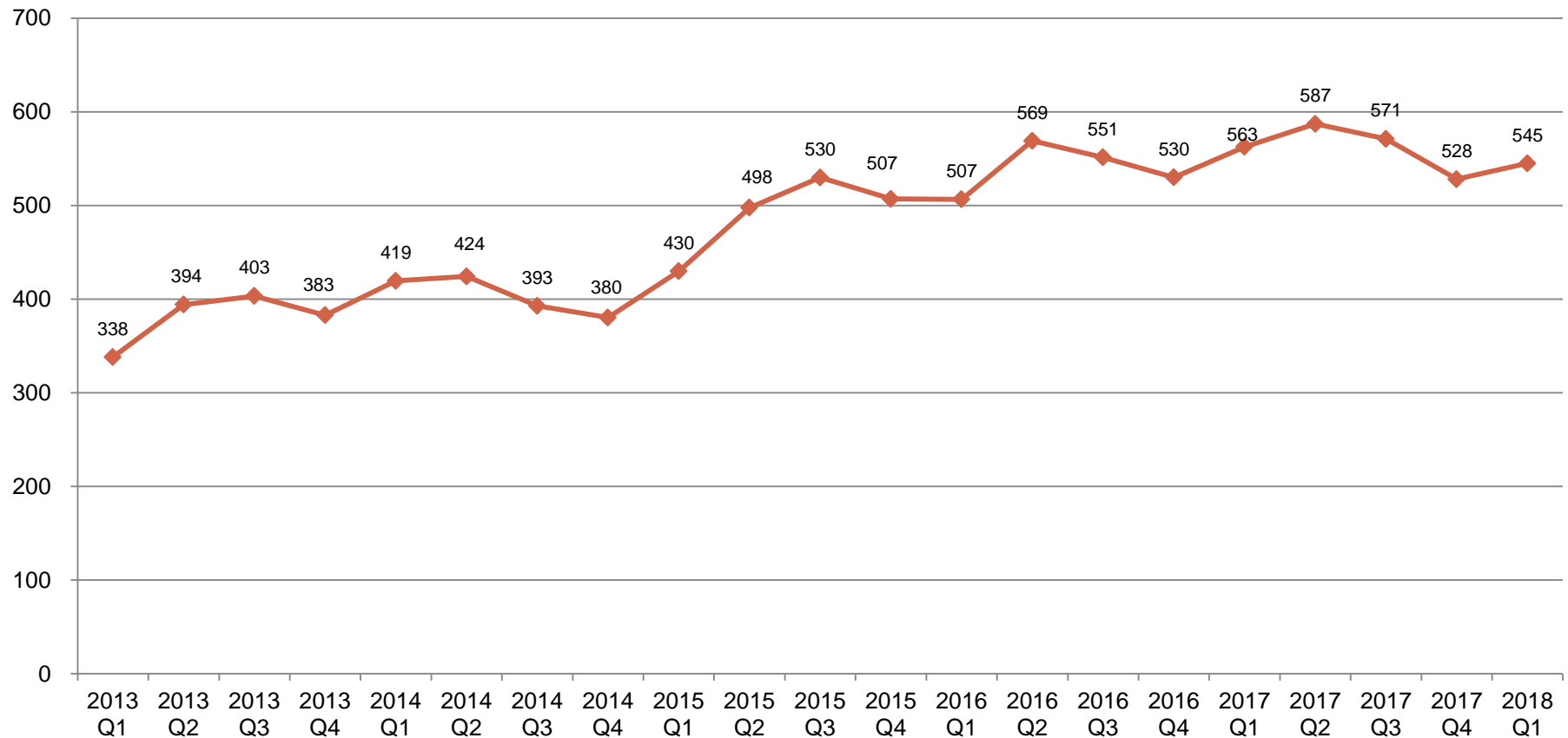
The number of monthly new media registrations slightly increased.

A8.net

CPA Ad Network Business

Average Monthly Sales per Advertiser

(¥ thousands)



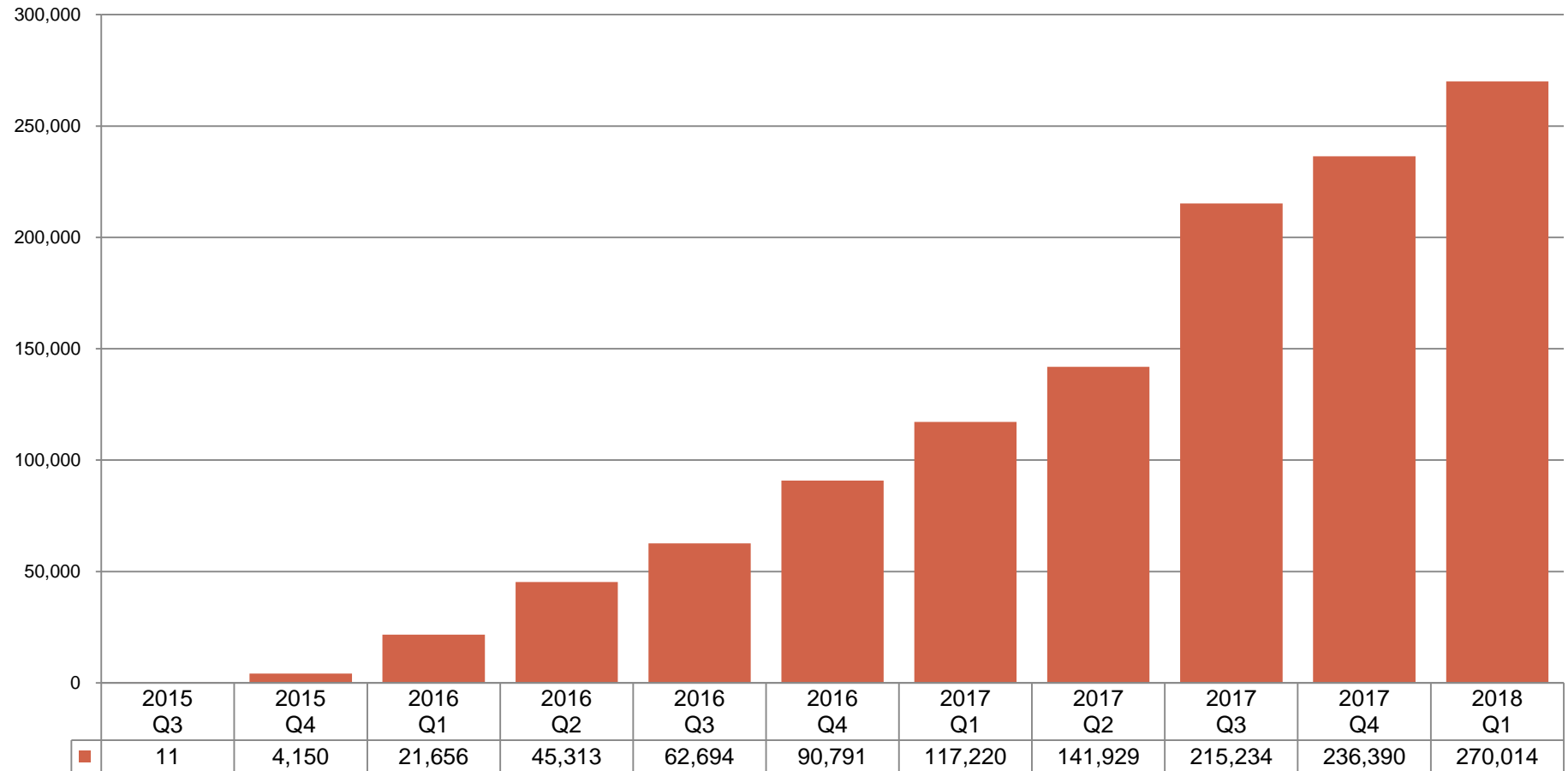
Average monthly sales per advertiser are around 550 thousand yen and there has been no significant change.

seedApp

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)

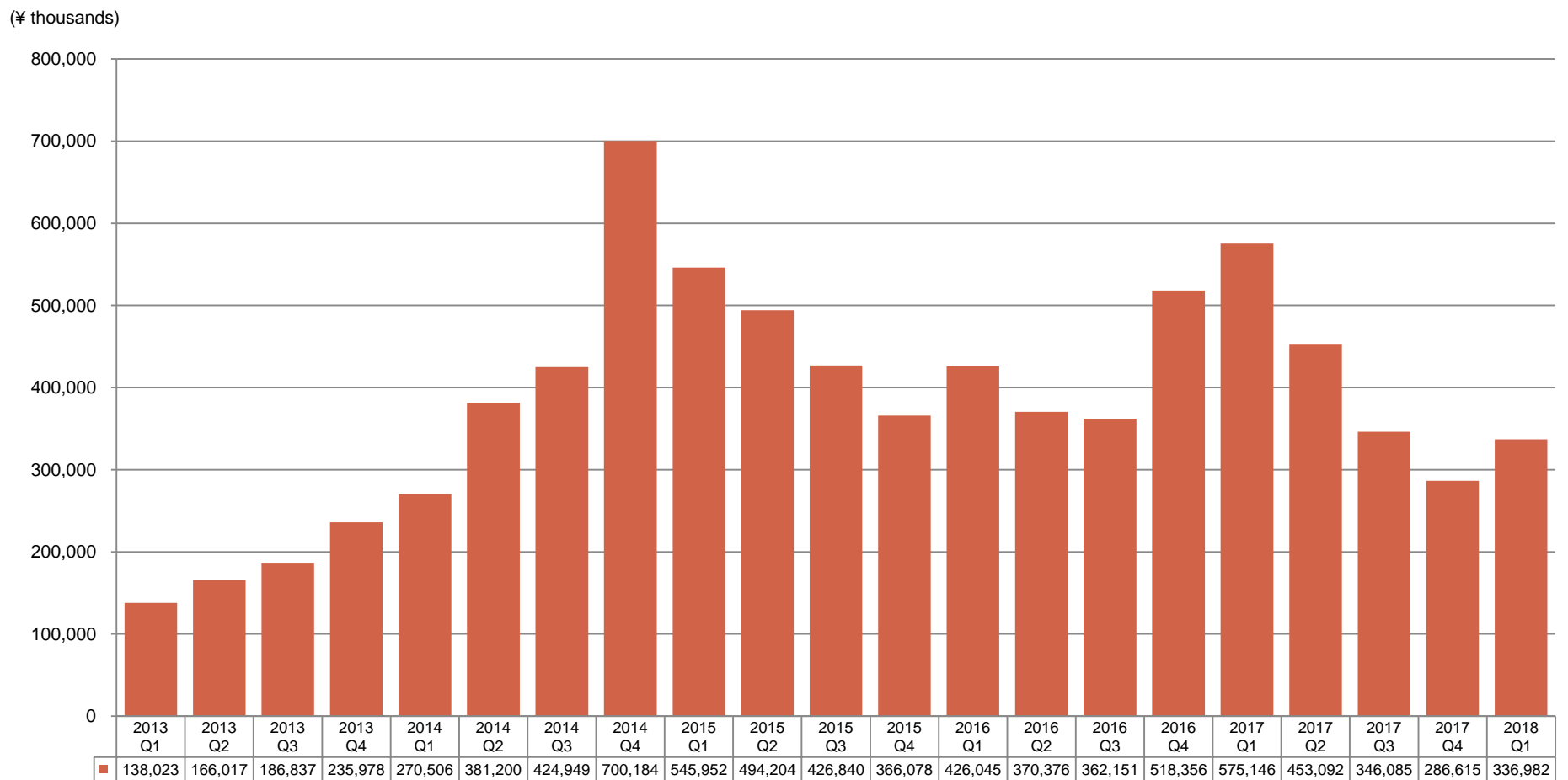


Note: Sales before elimination of consolidated intercompany transactions

adcrops

Net Sales (Quarterly basis)

CPA Ad Network Business



Notes: 1. Figures through 2016 Q4 are sales prior to the absorption merger before elimination of consolidated intercompany transactions for 8crops only.

2. Sales before elimination of consolidated intercompany transactions

3. adcrops sales are recognized in F@N Communications' CPA Ad Network Business.

nend

Summary

CPC/Targeting Ad Network Business

	2018 Q1 (Jan. – Mar.)	2017 Q1 (Jan. – Mar.)	Change
Sales (¥ thousands)	2,102,071	2,539,608	-17.2%
Number of operating advertiser IDs	368	425	-13.4%
Number of registered partner sites	859,026	730,851	17.5%

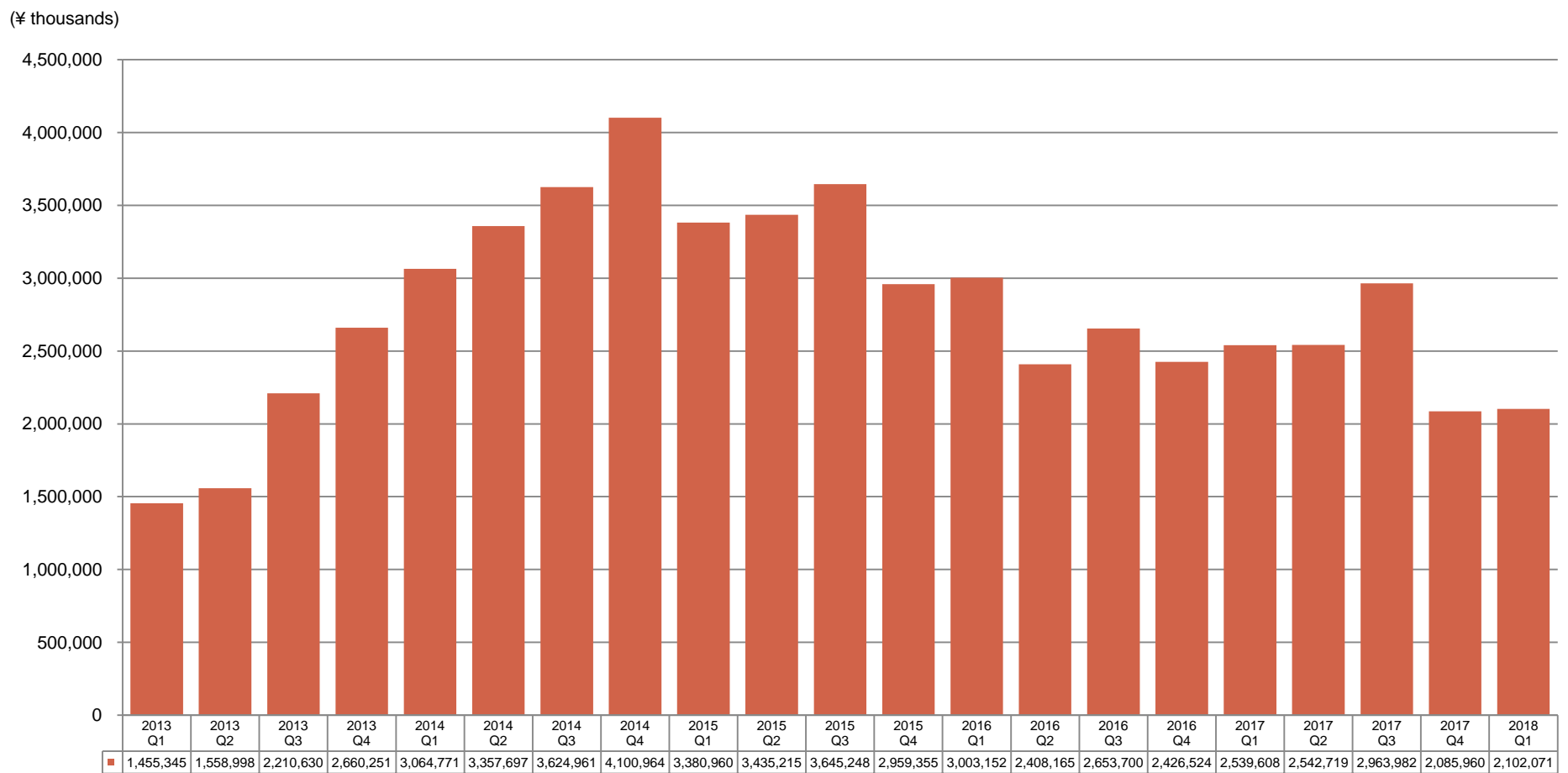
Sales before elimination of consolidated intercompany transactions.
Note: Figures are those of nend only, and do not include other services.

Sales results decreased by 17.2% compared with 2017 1Q.

nend

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

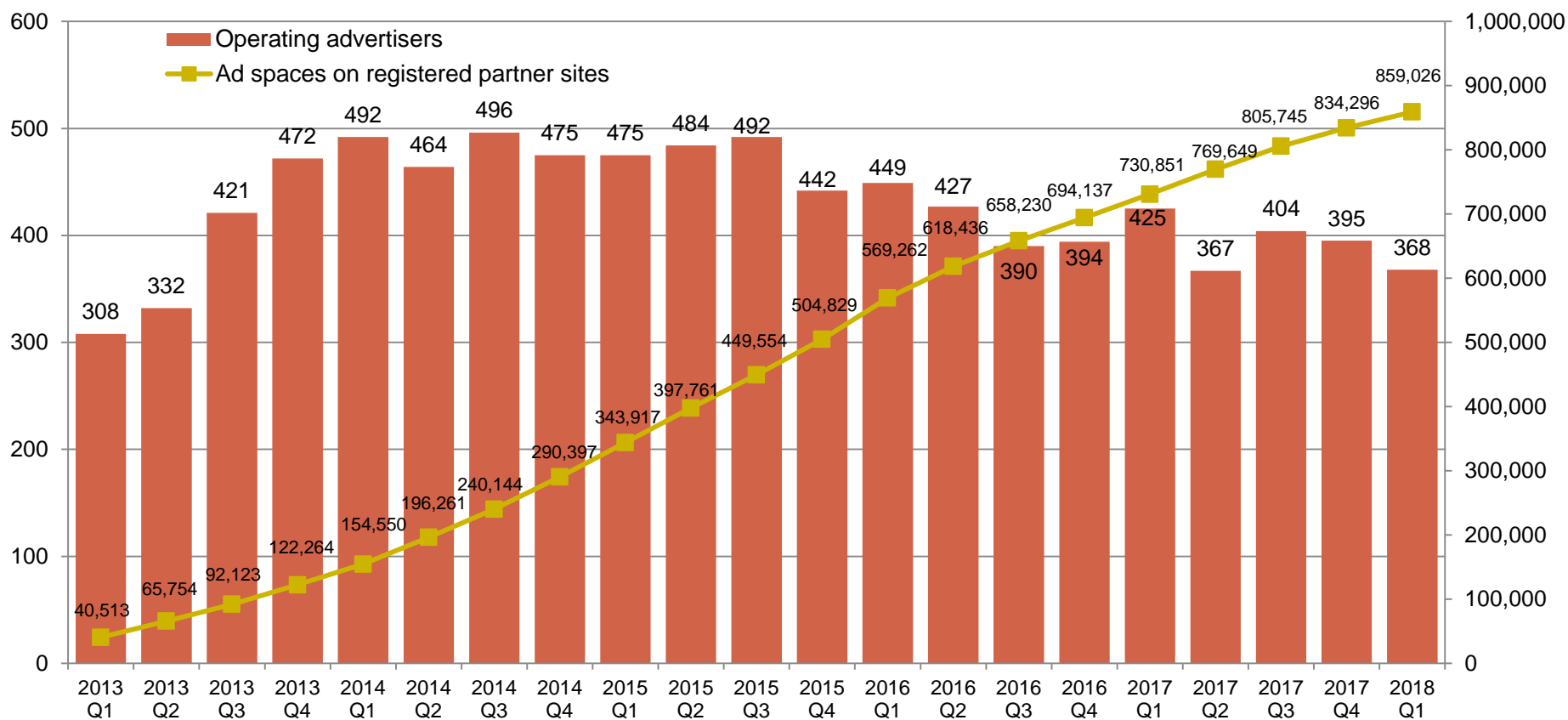


Sales before elimination of consolidated intercompany transactions
Sales slightly increased from 2017 Q4.

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.

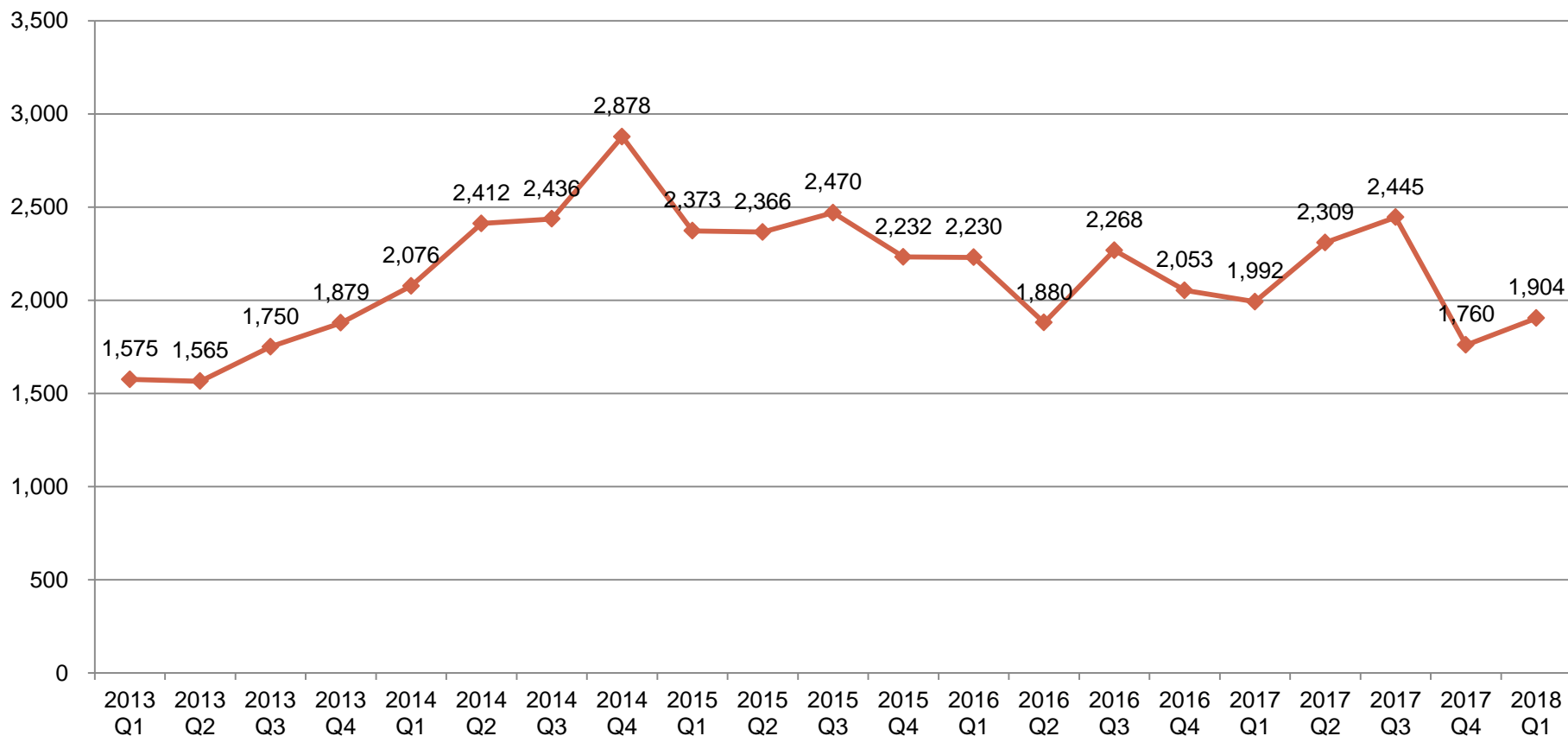
The number of operating advertisers decreased by 27 from 2017 4Q. However, this does not signify a major shift in the trend.

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business

(¥ thousands)



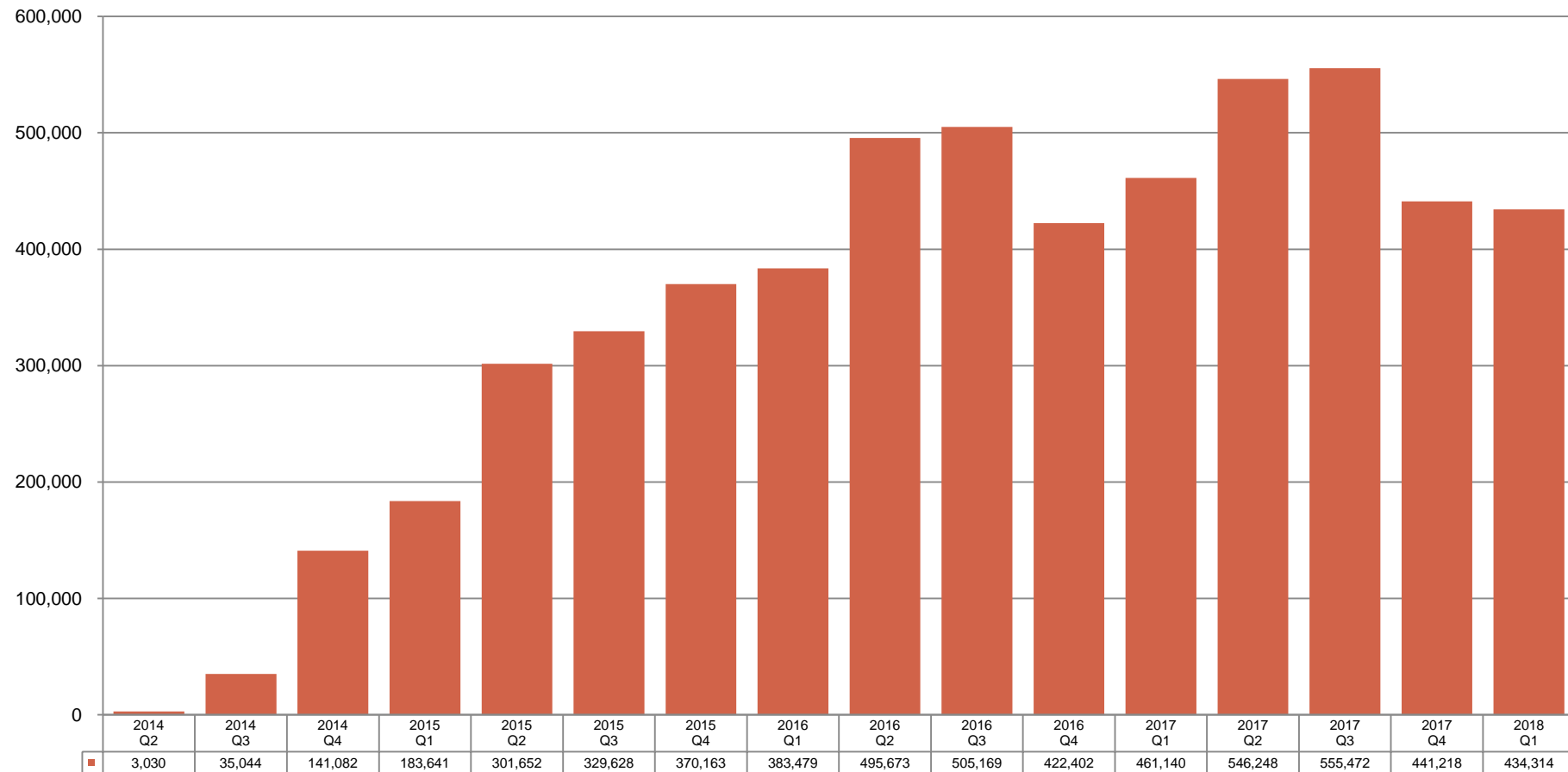
Average monthly sales per advertiser was ¥1.90 million.

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)	2018 Q1	2017 Full Year
Net sales	169,297	1,016,436
Operating income	-12,929	-21,587
Profit attributable to owners of parent	-20,351	-26,059

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)	2018 Q1	Cumulative total for July-Dec. 2017
Net sales	213,781	472,501
Operating income	38,359	94,828
Profit attributable to owners of parent	25,341	66,918

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

2. The above figures are before elimination of consolidated intercompany transactions.

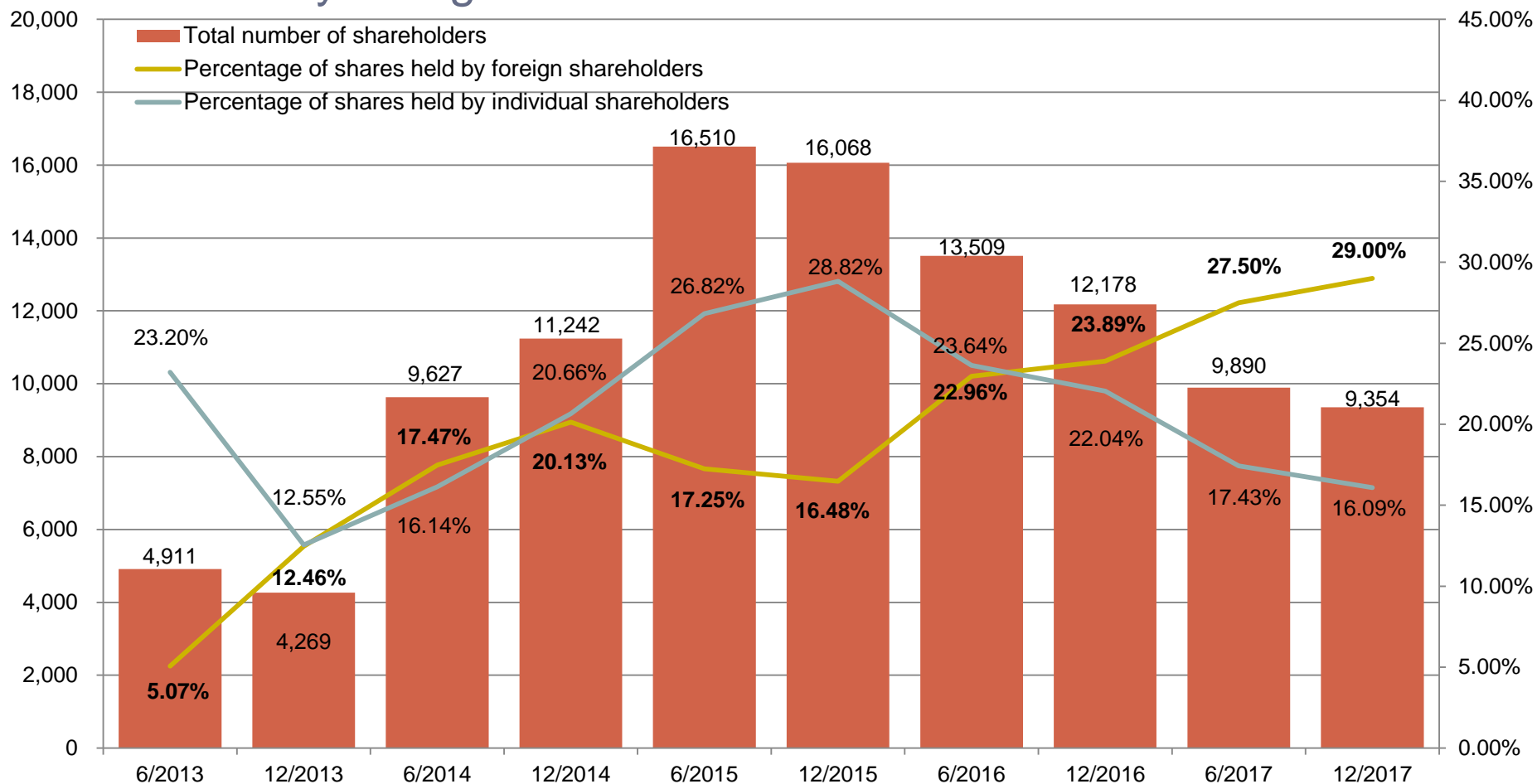


Stock Information

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

■ 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 March 31, 2018)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 414 Group total: 504 <small>(As of March 31, 2018; includes part-time and temp staff)</small>
■ Headquarters	Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan
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■ Fax	+81-3-5766-3782

Disclaimer

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