



Second Quarter of 2018
Presentation of Results

August 9, 2018

F@N Communications, Inc.

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Second Quarter of 2018 Performance Highlights

Second Quarter of 2018: Key Points

Performance Highlights

- **The quarterly net sales slightly increased from 2018 Q1, but the business environment still remains severe.**
- **The quarterly ordinary income margin decreased from 2018 Q1.**
- **We are promptly and carefully responding to the changes in the advertising market.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2018 Q2	2017 Q2	Year-on-Year Change	% of Net Sales
Net sales	18,393,669	19,858,313	-7.4%	100%
Operating income	2,279,352	3,095,910	-26.4%	12.4%
Ordinary income	2,418,672	3,107,093	-22.2%	13.1%
Profit attributable to owners of parent	1,624,451	2,331,595	-30.3%	8.8%
Ordinary income margin	13.1%	15.6%	-2.5 points	-
Net income per share	¥21.13	¥30.38	-30.4%	-
Diluted net income per share	¥21.11	¥30.31	-30.4%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2017	June 30, 2018
Assets		
Current assets	22,431,074	23,255,815
Cash and deposits	16,822,087	17,336,636
Notes and accounts receivable – trade	4,202,825	4,453,154
Securities	997,031	1,109,817
Other	422,514	368,193
Allowance for doubtful accounts	(13,383)	(11,986)
Fixed assets	3,654,283	3,412,995
Property and equipment	263,718	307,298
Intangible assets	926,507	859,665
Investments and other assets	2,464,057	2,246,031
Total assets	26,085,358	26,668,810
Liabilities and Net Assets		
Current liabilities	6,393,164	6,824,098
Notes and accounts payable – trade	4,642,423	5,083,724
Income taxes payable	675,112	810,960
Other current liabilities	1,075,627	929,412
Long-term liabilities	148,715	153,145
Total liabilities	6,541,879	6,977,244
Total net assets	19,543,479	19,691,566
Total liabilities and net assets	26,085,358	26,668,810

Main component was ¥1,924,640 thousand in investment securities.

Key factors in the change were a ¥441,301 thousand increase in notes and accounts payable – trade and a ¥135,848 thousand increase in Income taxes payable.

Net assets increased despite dividend payments of ¥1,460,758 thousand due mainly to net income of ¥1,624,451 thousand.

Consolidated Performance Forecast

Performance Highlights

(¥ millions)	2018 Full-Year Forecast (% Change from Same Period of Previous Year)	2018 Interim Period Actual	Progress (% of Full-Year Forecast)
Net sales	38,293 (-2.1)	18,393	48.0%
Operating income	4,979 (-13.4)	2,279	45.8%
Ordinary income	5,128 (-11.5)	2,418	47.2%
Profit attributable to owners of parent	3,504 (-17.1)	1,624	46.3%

Note: Adjusted full-year forecast as of August 1, 2018

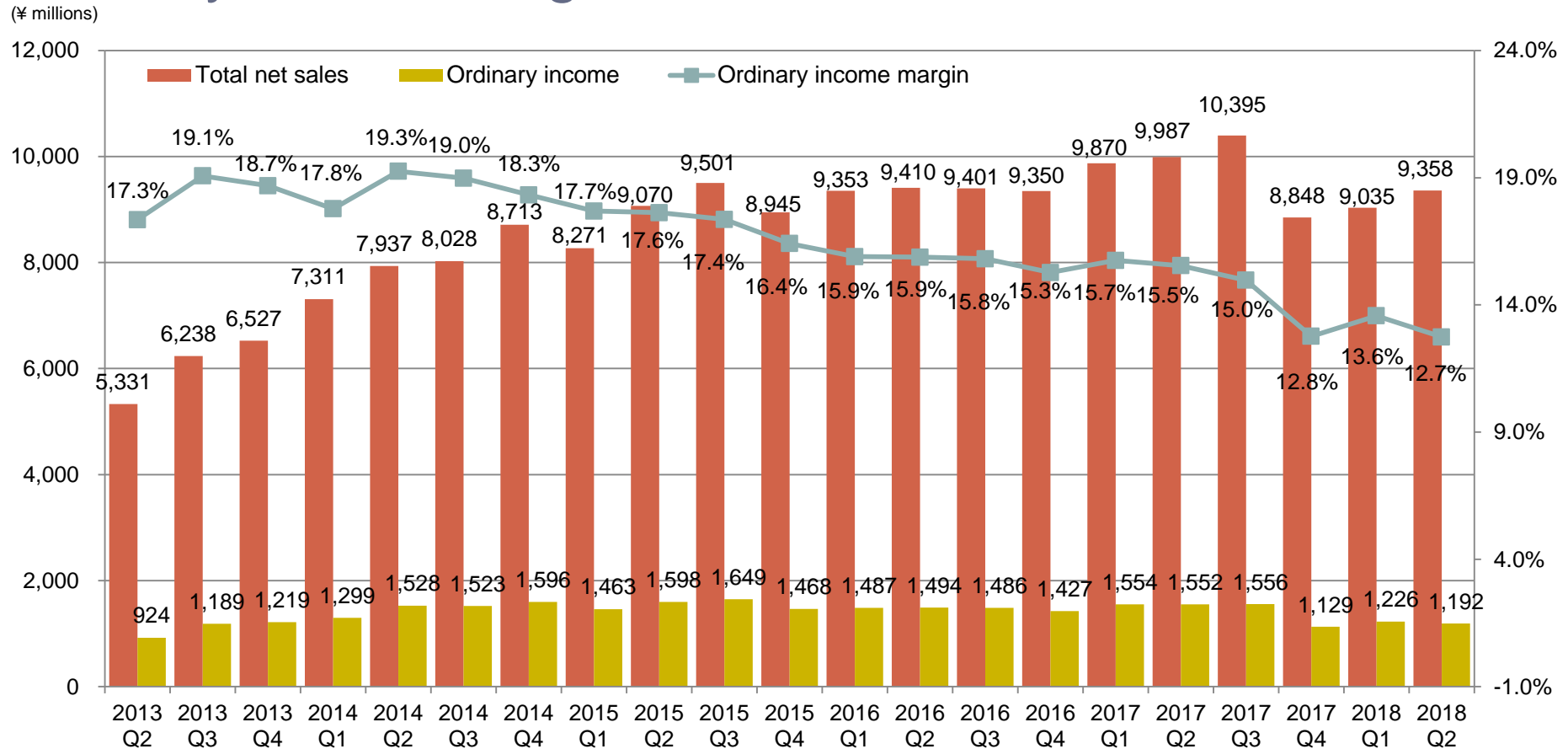
Dividend Forecast

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

Management Indicators (Quarterly Basis)

Management Indicators

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

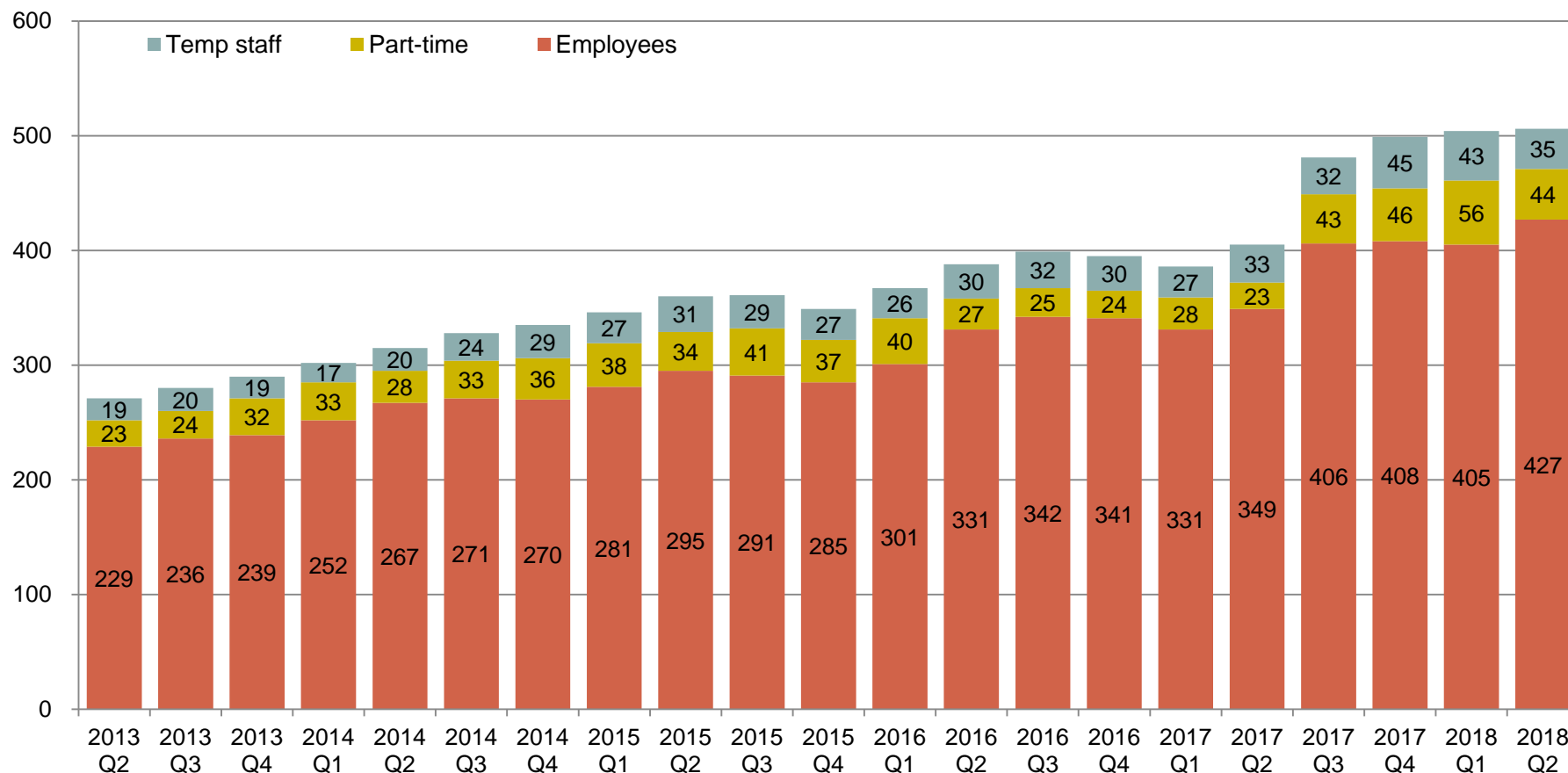


The ordinary income margin was 12.7%, a decrease of 0.9 percentage points from 2018 Q1 .

Number of Employees

(Consolidated/Quarterly basis)

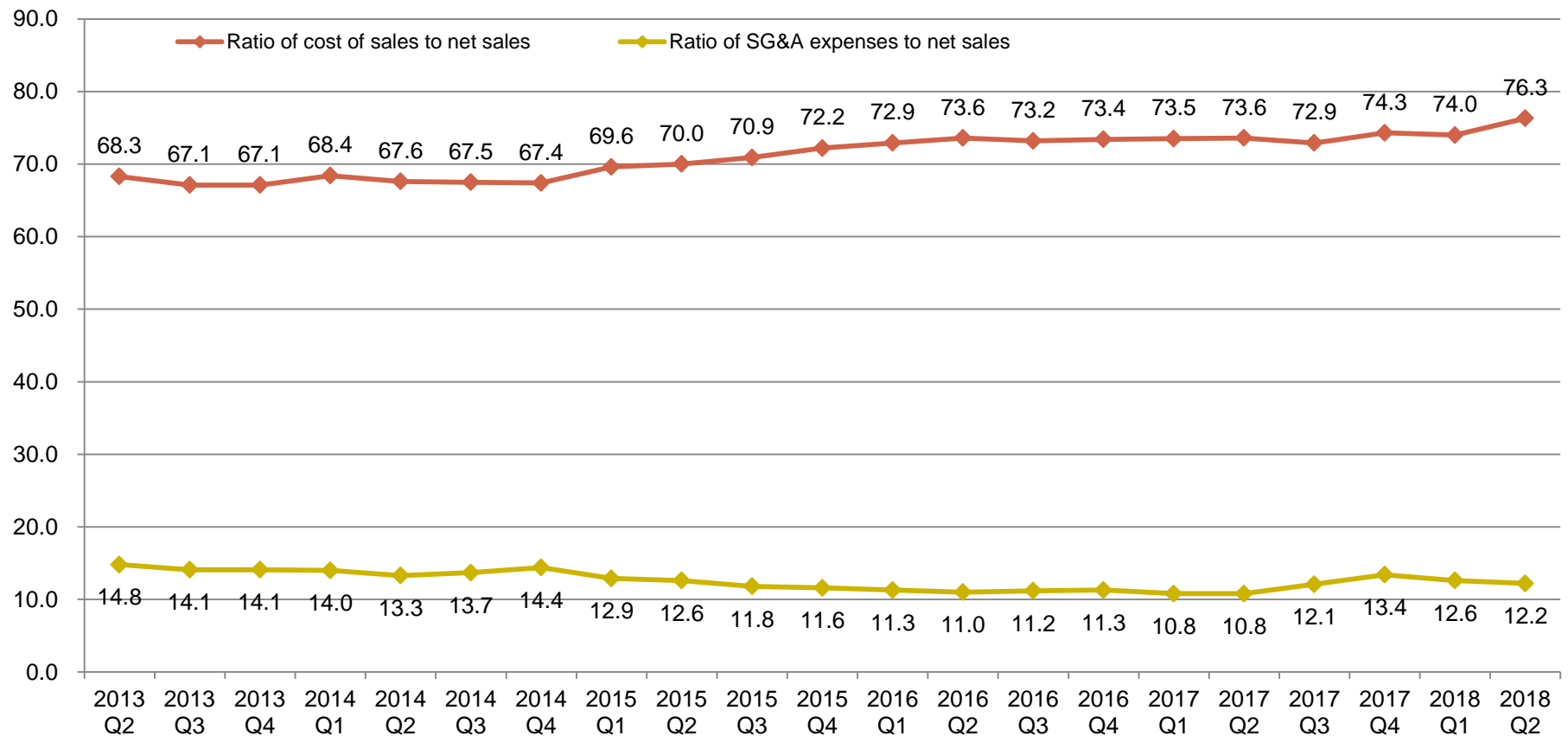
Management Indicators



The total number of employees in the Group was 506, an increase of 101 compared with 2017 Q2 and an increase of 2 compared with 2018 Q1.

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

Management Indicators



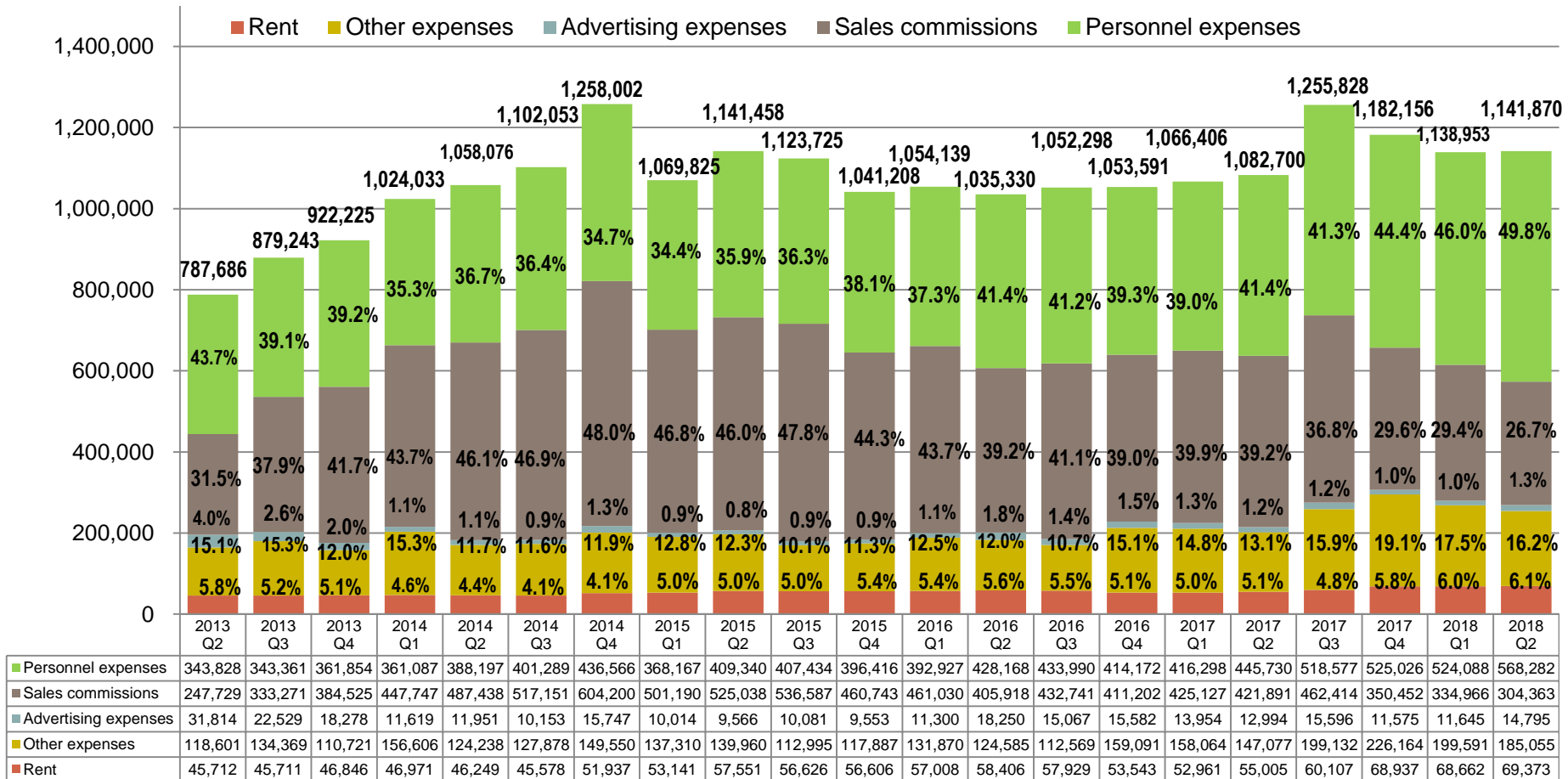
The net sales increased but the cost of sales ratio increased 2.3 percentage points compared with 2018 Q1. The selling, general and administrative (SG&A) expenses ratio decreased 0.4 percentage points.

Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management Indicators

(¥ thousands)

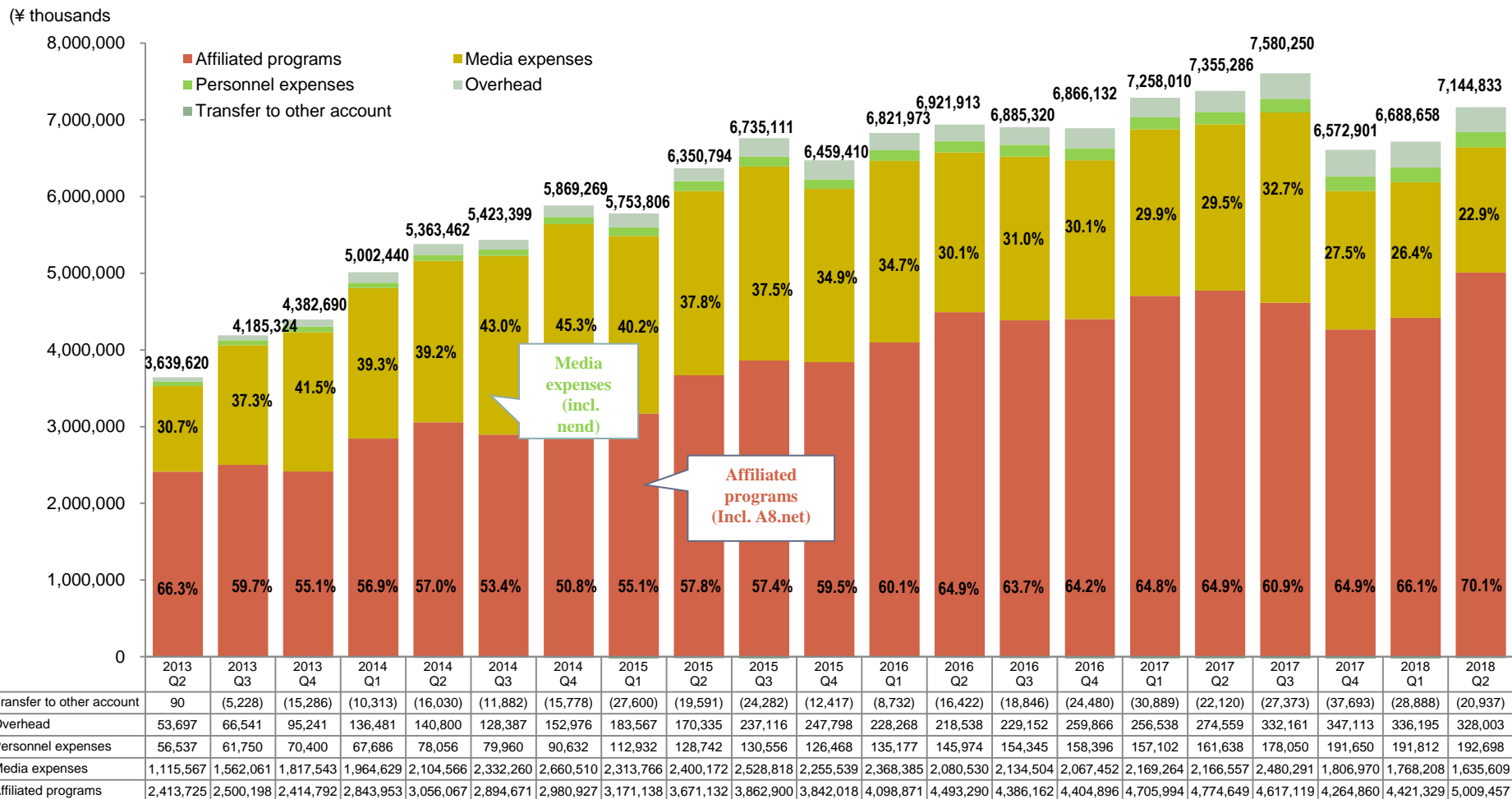


Other expenses consist largely of depreciation expenses, recruiting and education expenses, and taxes (primarily size-based business taxes). Personnel expenses increased due to factors including the addition of new employees in April and higher salaries. Sales commissions decreased due to the decrease in sales of CPC/Targeting Ad Network Business.

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 includes infrastructure expenses such as data center expenses. Affiliated programs increased because A8.net's sales ratio increased and at the same time, the advertising budget increased seasonally.

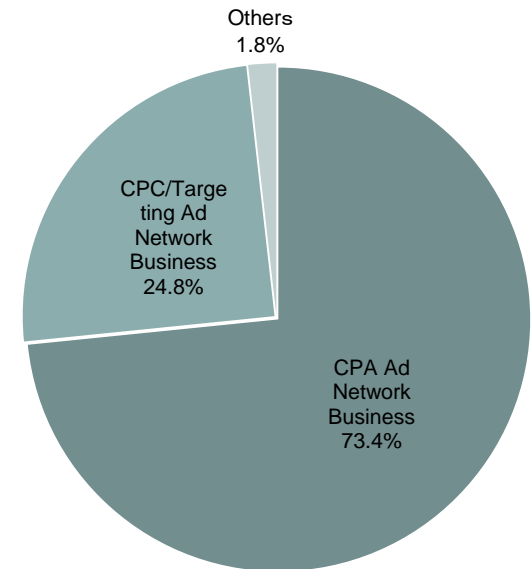
Overview by Main Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)	2018 Q2 (April – June)	2017 Q2 (April – June)	Change
CPA Ad Network Business	6,868,524	6,725,060	2.1%
CPC/Targeting Ad Network Business	2,322,065	3,262,687	-28.8%
Others	167,838	-	-
Total net sales	9,358,428	9,987,748	-6.3%



Main services of CPA Ad Network Business: A8.net, seedApp, ad crops
 Main services of CPC/Targeting Ad Network Business: nend, nex8

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

Sales before elimination of consolidated intercompany transactions

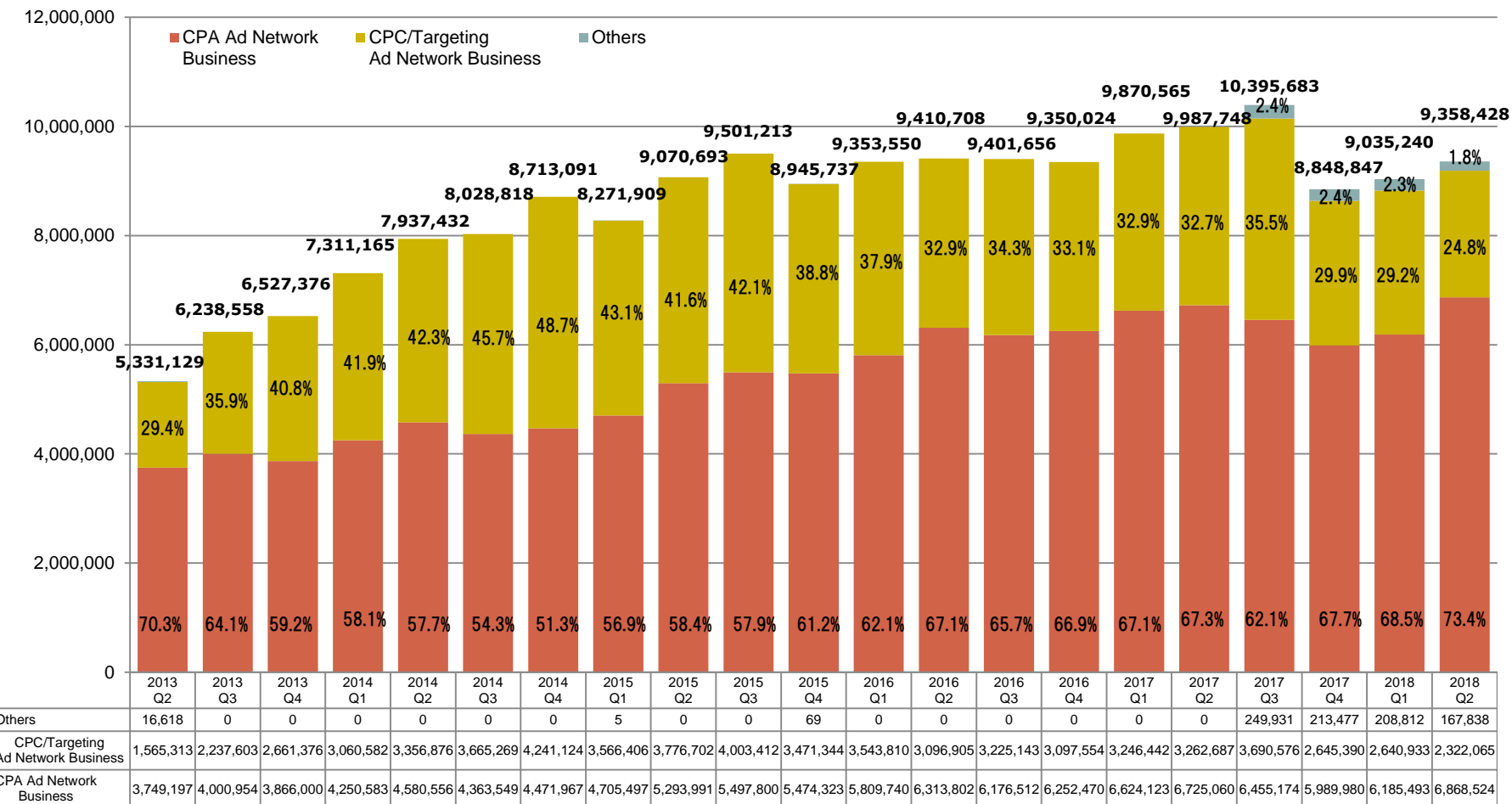
Net sales of CPA Ad Network Business increased 2.1 percentage points compared with 2017 Q2, and net sales of CPC/Targeting Ad Network Business significantly decreased 28.8 percentage points. compared with 2017 Q2.

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)



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

The ratio of the CPA Ad Network Business significantly increased compared with 2018 Q1.

A8.net Summary

CPA Ad Network Business

	2018 Q2 (April – June)	2017 Q2 (April – June)	Change
Sales (¥ thousands)	6,357,378	5,992,936	6.1%
Number of operating advertiser IDs	3,407	3,370	1.1%
Number of registered partner sites	2,457,667	2,262,275	8.6%

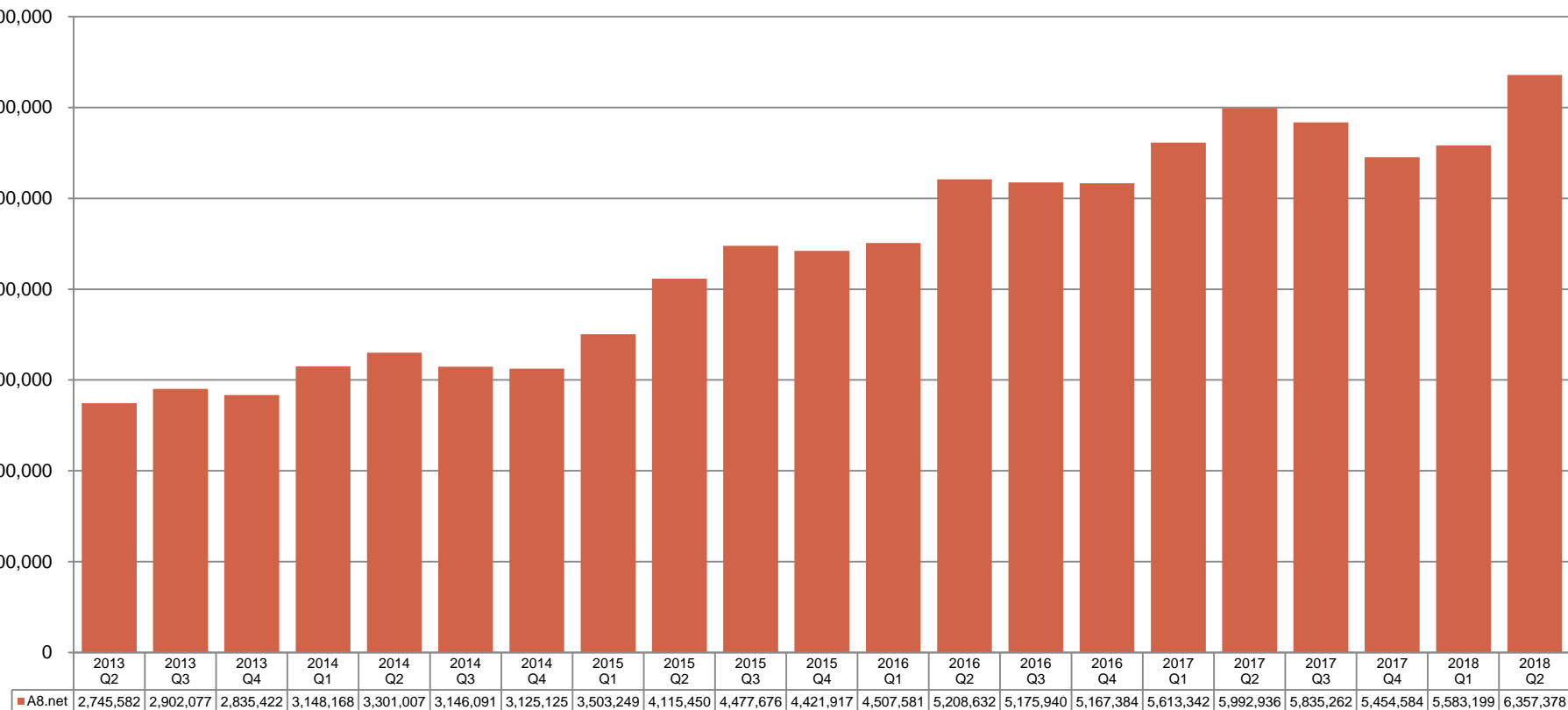
Sales before elimination of consolidated intercompany transactions
 The number of operating advertiser IDs increased by 37 from the same period of the previous year.

A8.net

CPA Ad Network Business

Net Sales (Quarterly basis)

(¥ thousands)



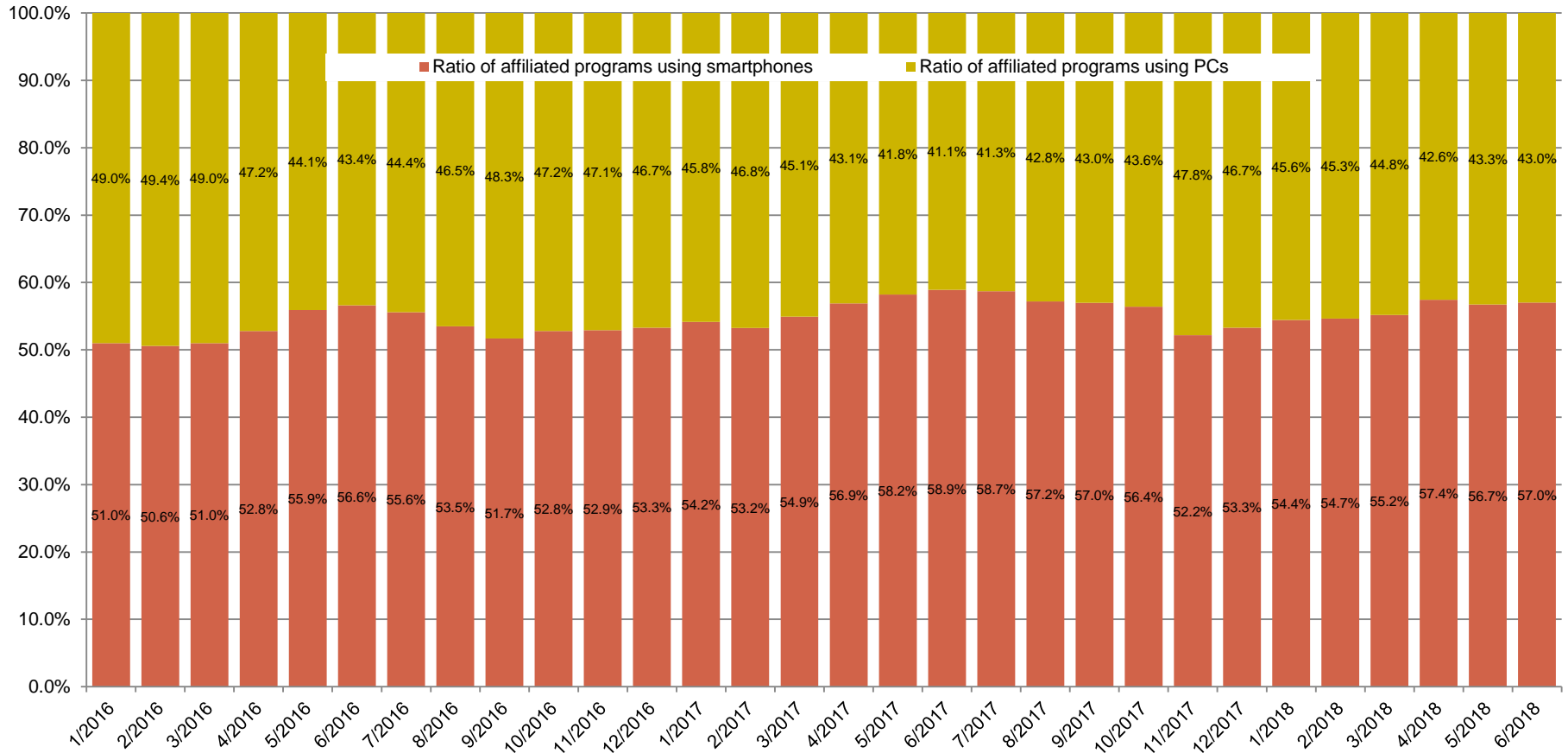
Sales before elimination of consolidated intercompany transactions.

Net sales rose to a record high because we could successfully acquire a seasonal advertising budget.

A8.net

CPA Ad Network Business

Ratio of Smartphones in Affiliated Programs (Monthly basis)

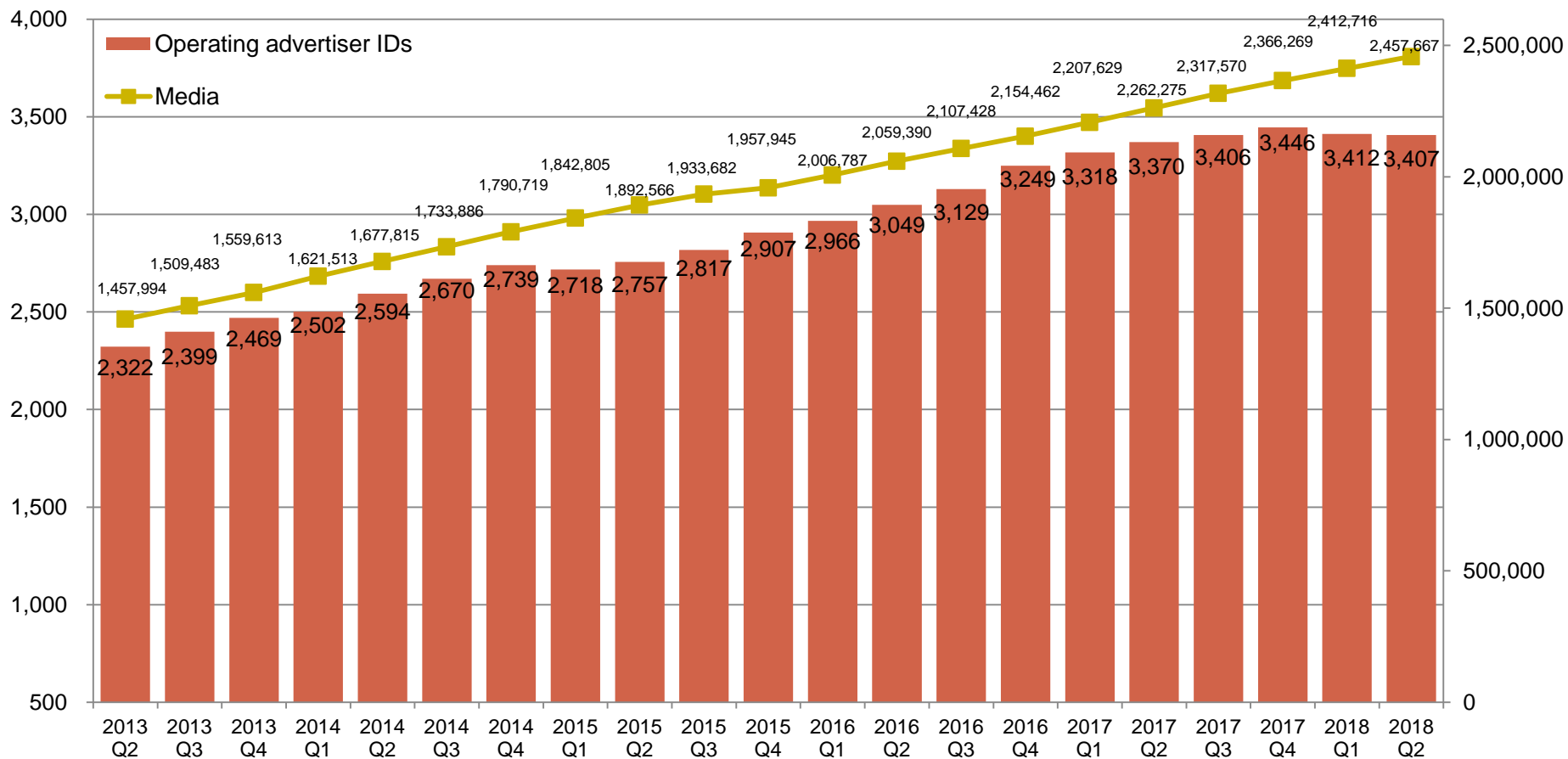


Note: The above affiliated program ratios are not final and are subject to change.

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.

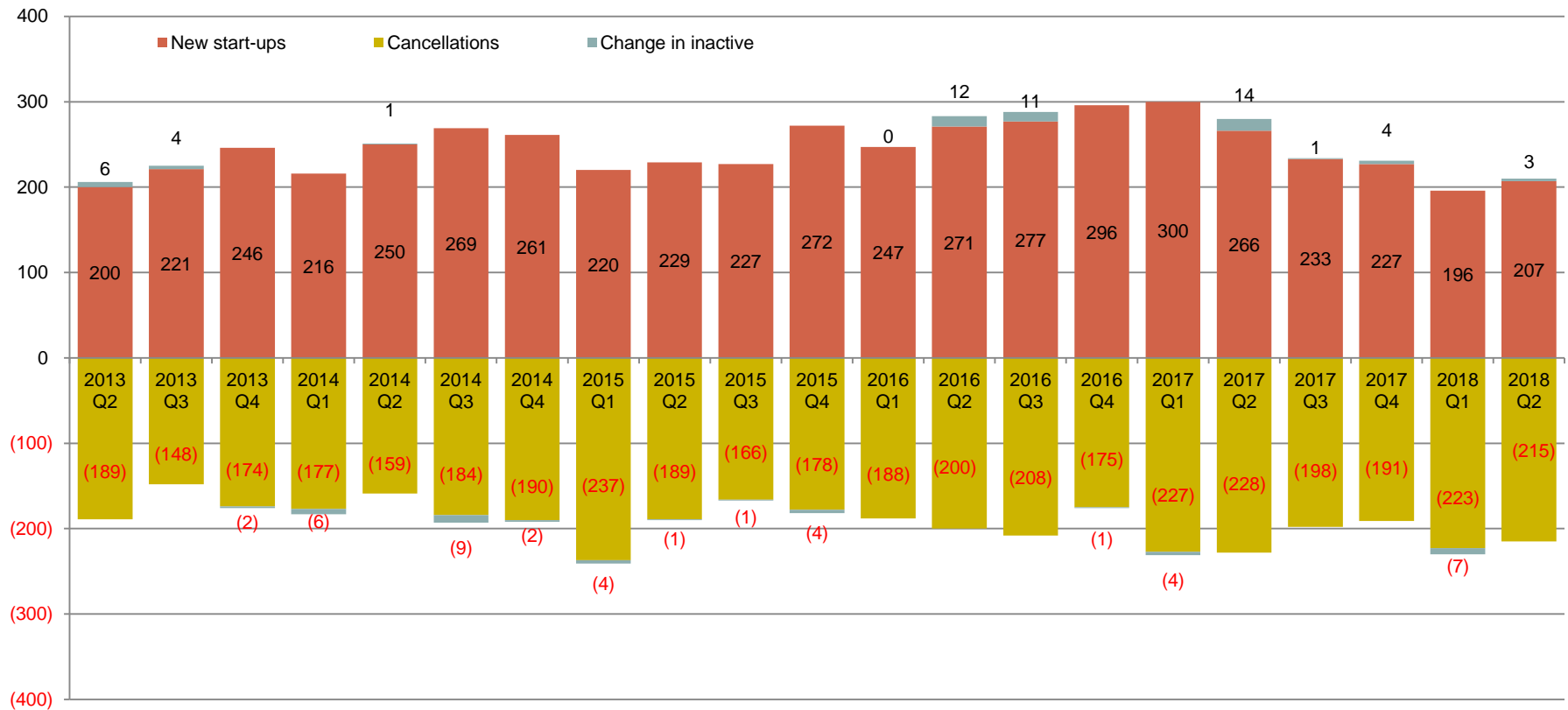
The number of operating advertisers decreased by 5 from 2018 Q1.

The number of overseas operating advertisers increased by 2 from 2018 Q1 to 206.

A8.net

CPA Ad Network Business

New Advertiser Start-ups and Cancellations



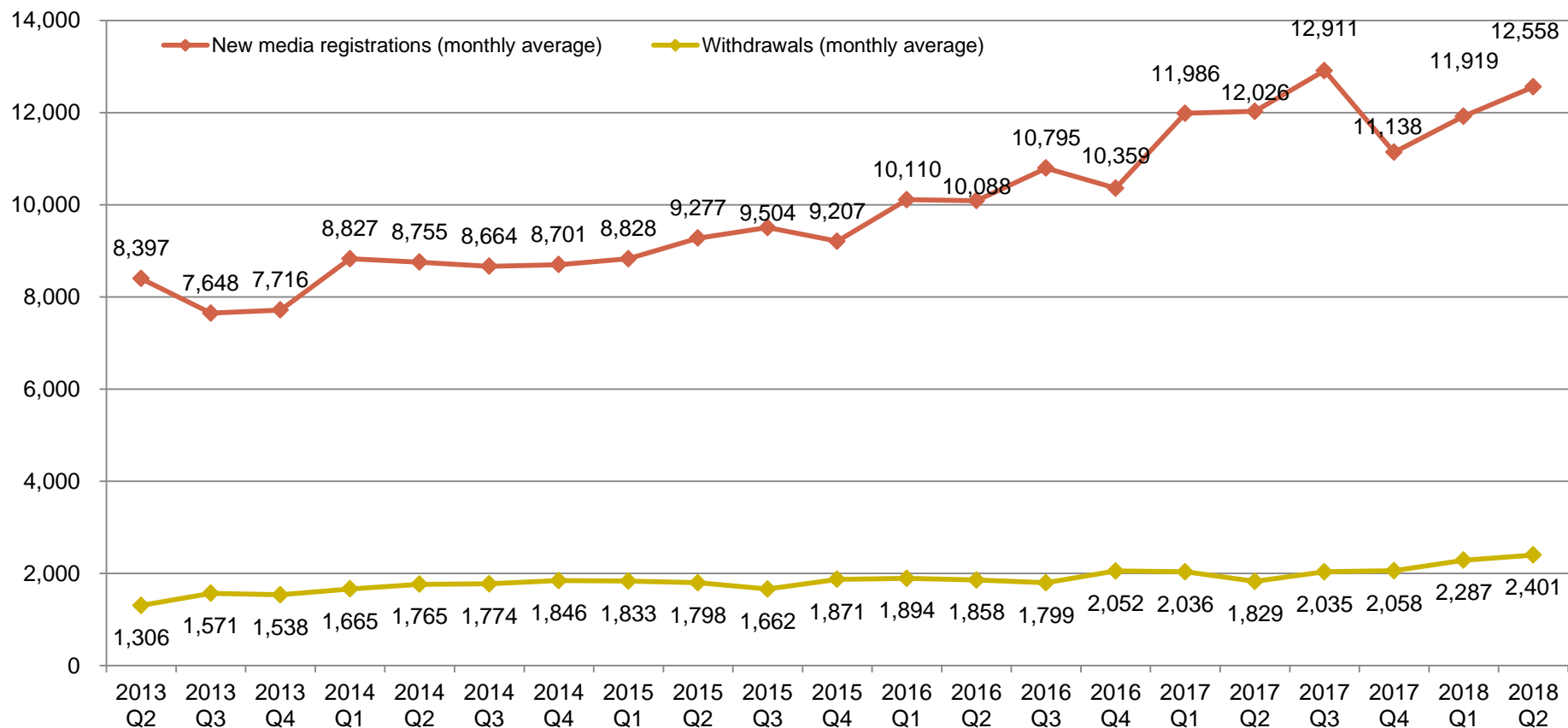
Note: "Change in inactive" is the difference in the number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

New advertiser start-ups were continuously sluggish.

A8.net

CPA Ad Network Business

Average Monthly New Media Registrations and Withdrawals

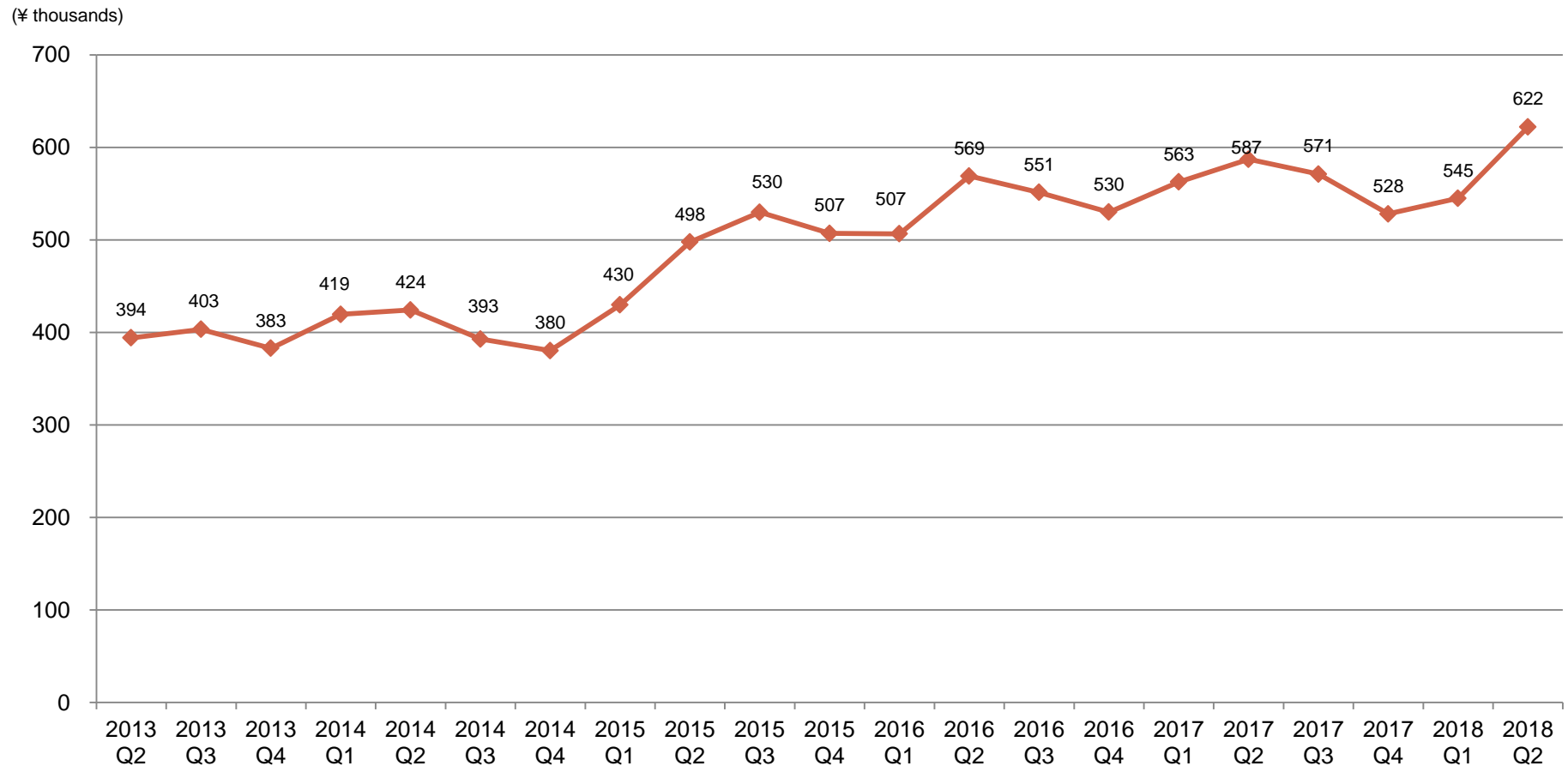


The number of monthly new media registrations slightly increased.

A8.net

CPA Ad Network Business

Average Monthly Sales per Advertiser



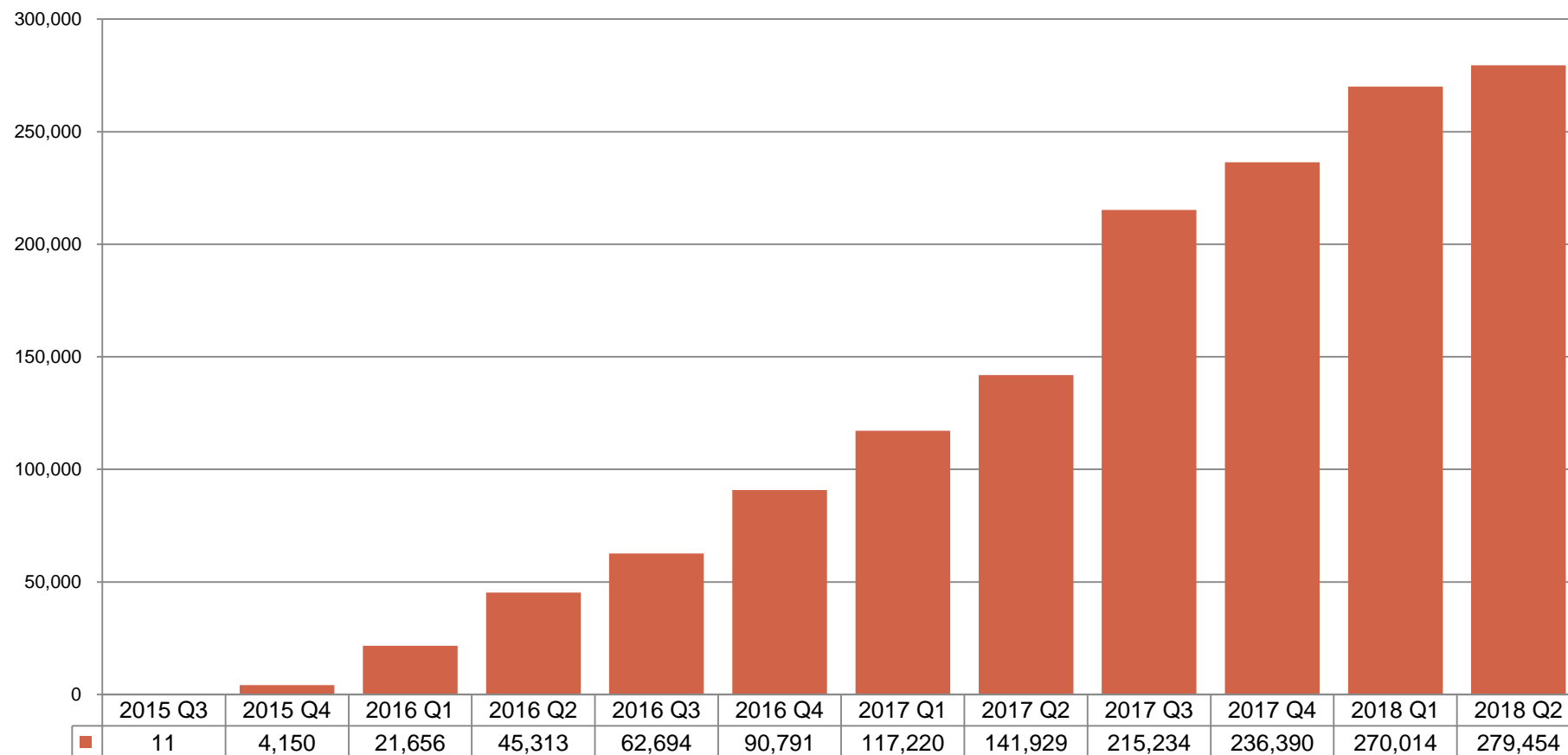
Average monthly sales per advertiser are around 620 thousand yen and there has been no significant change.

seedApp

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)



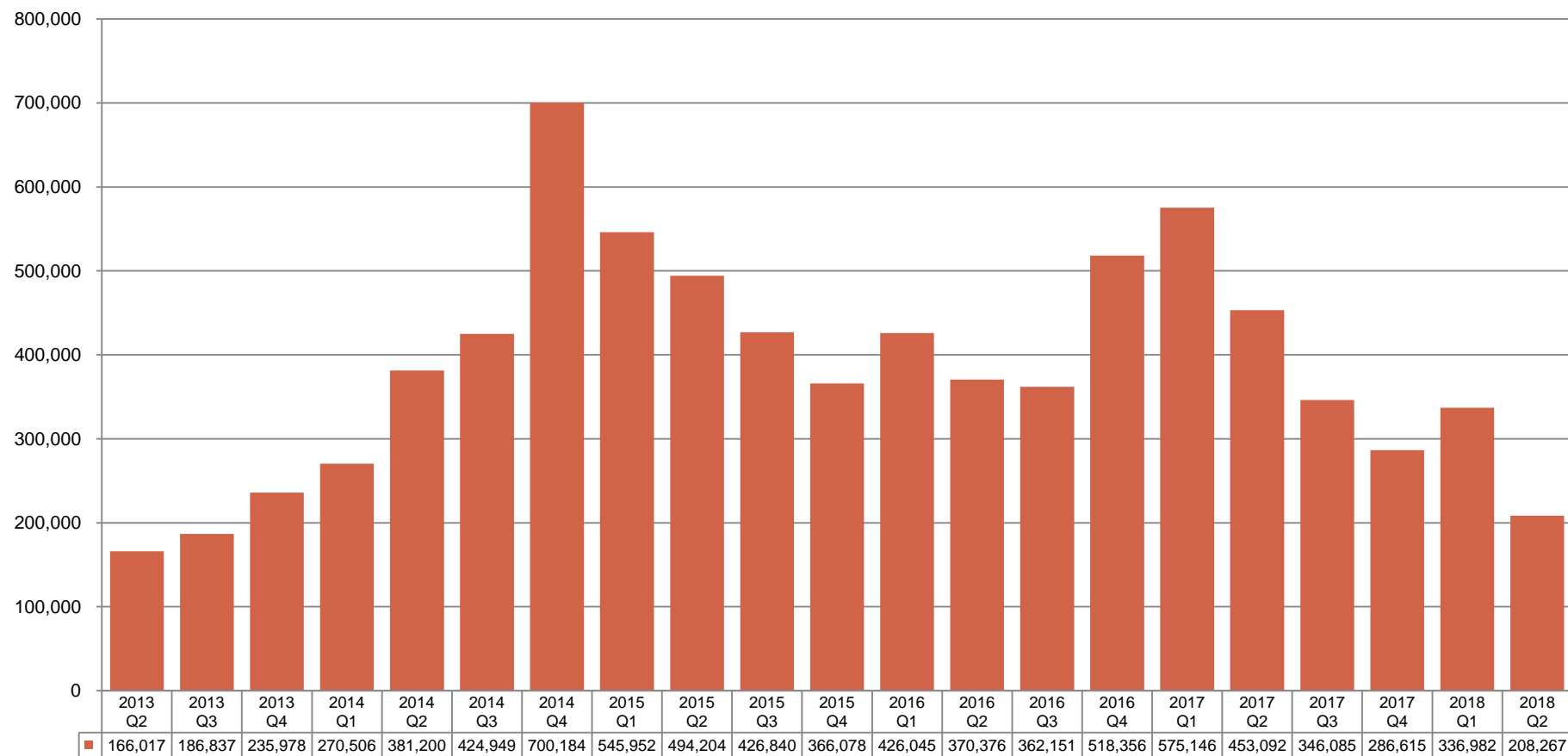
Note: Sales before elimination of consolidated intercompany transactions

adcrops

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)



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

nend

Summary

CPC/Targeting Ad Network Business

	2018 Q2 (April – June)	2017 Q2 (April – June)	Change
Sales (¥ thousands)	1,888,221	2,542,719	-25.7%
Number of operating advertiser IDs	344	367	-6.3%
Number of ad spaces on registered partner sites	887,029	769,649	15.3%

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

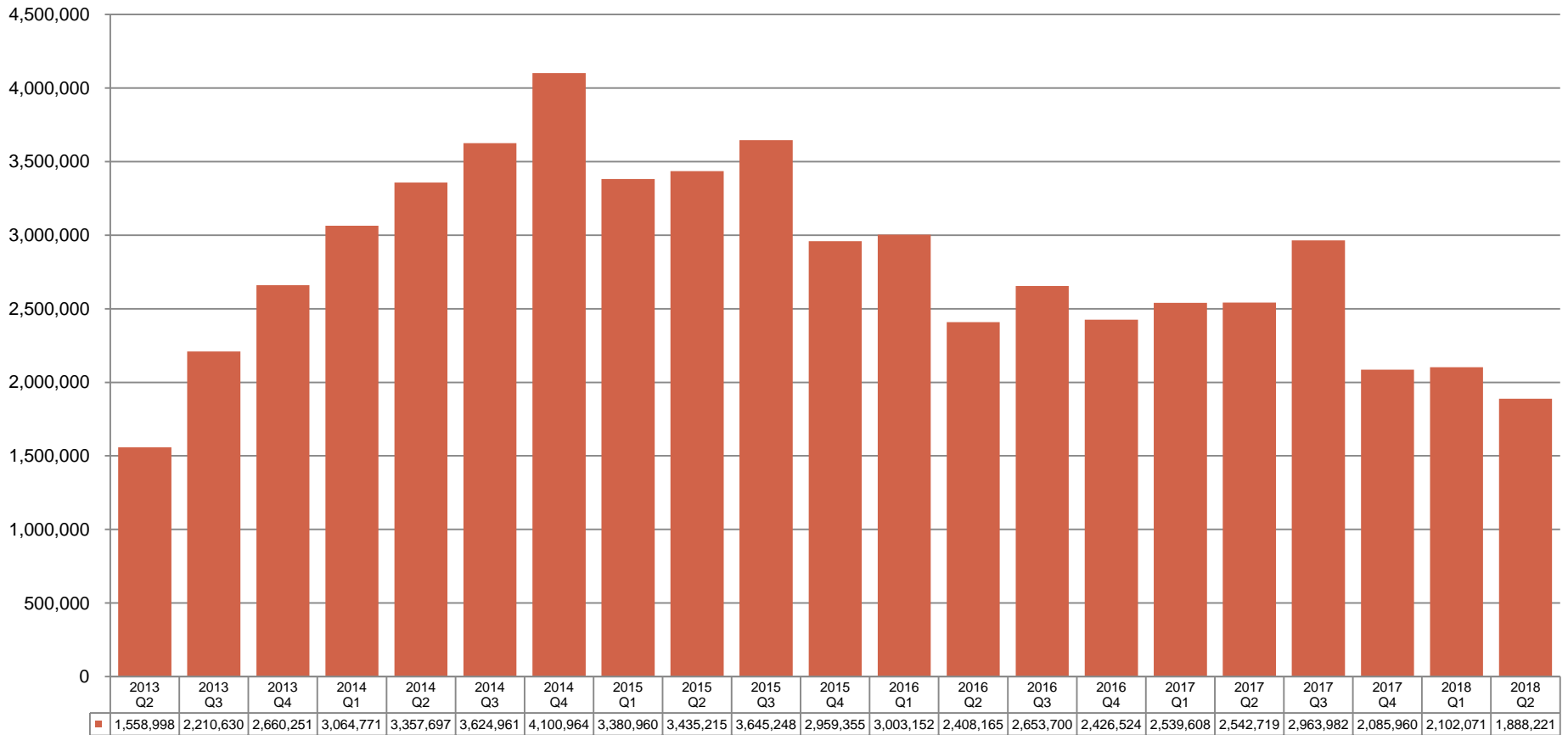
Sales results decreased by 25.7% compared with 2017 2Q.

nend

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

(¥ thousands)

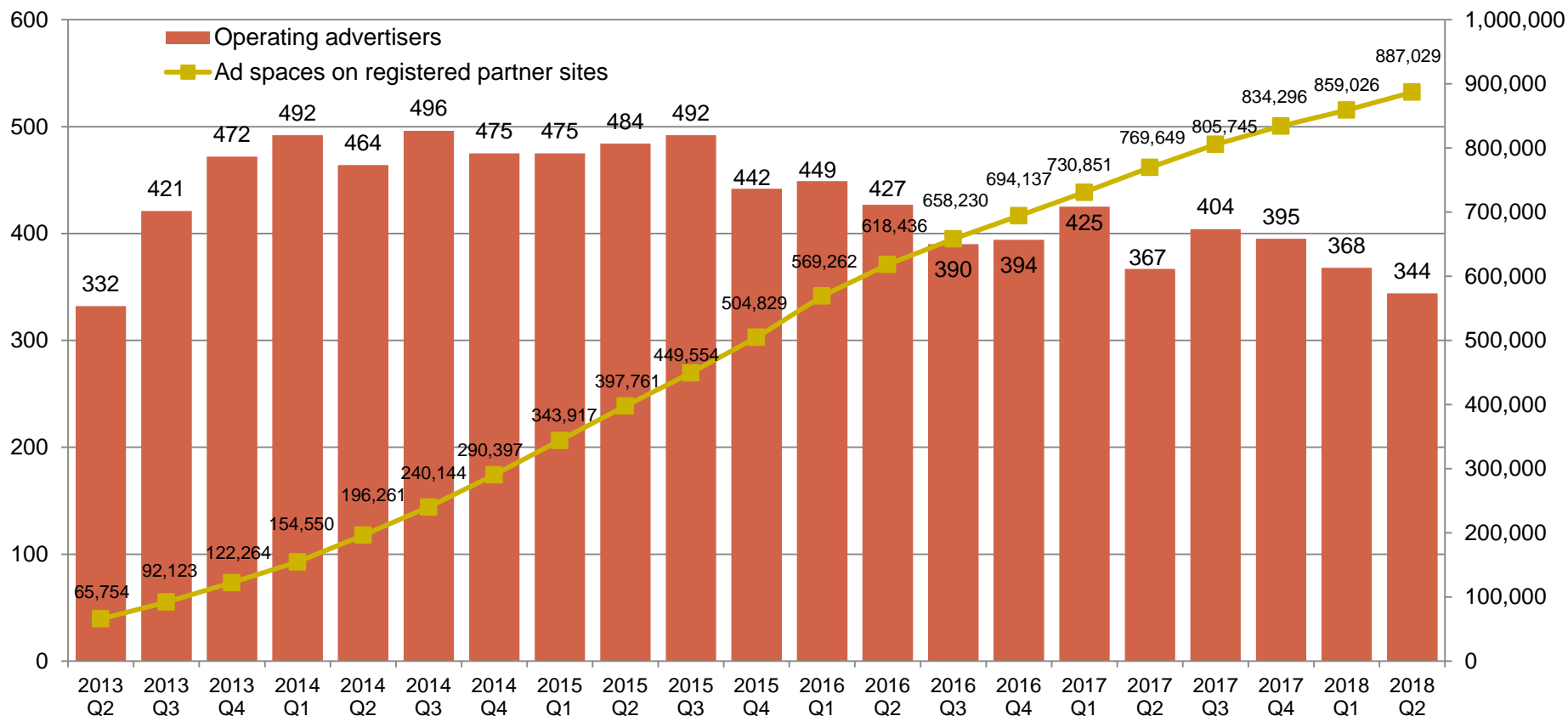


Sales before elimination of consolidated intercompany transactions

nend

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

CPC/Targeting
Ad Network Business



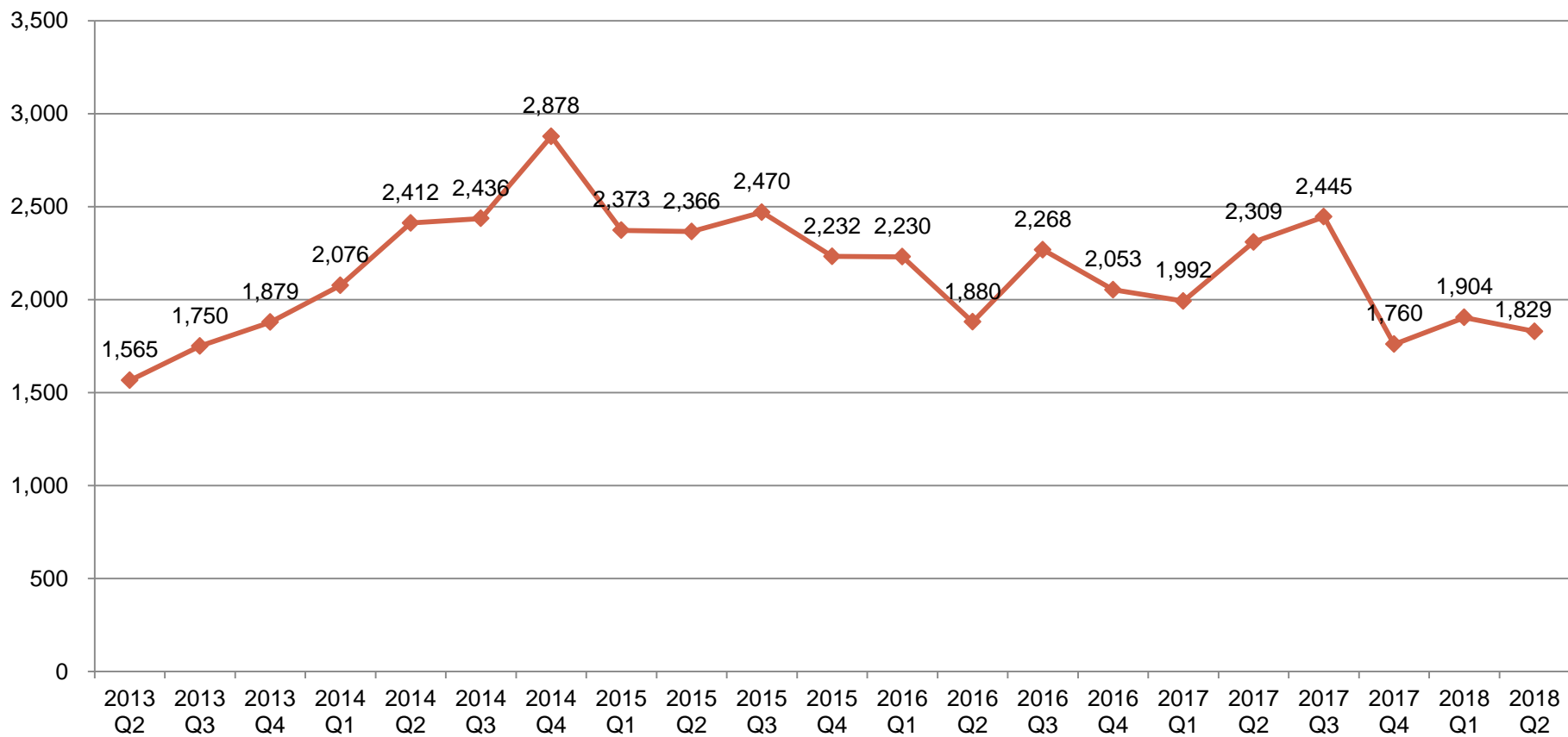
Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers decreased by 24 from 2018 1Q

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business

(¥ thousands)



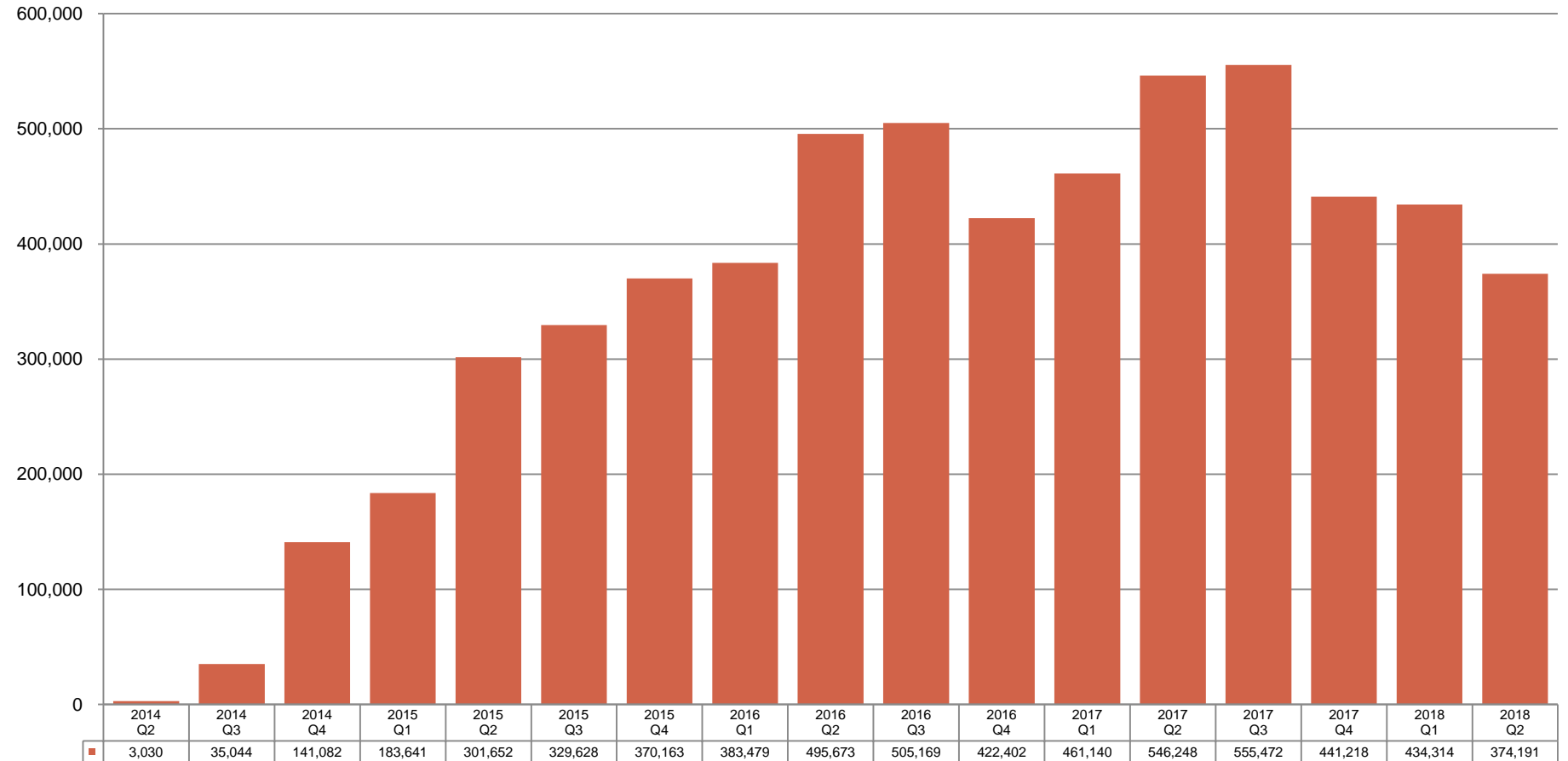
Average monthly sales per advertiser were ¥1.82 million.

nex8

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

(¥ thousands)



Sales before elimination of consolidated intercompany transactions

Consolidated Group Businesses

Ad Japon Inc.

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

Main Business

Providing a platform service enabling integrated management of ad networks from countries all over the world.



(¥ thousands)	2018 First Two Quarters	2017 Full Year
Net sales	305,591	1,016,436
Operating income	-42,840	-21,587
Profit attributable to owners of parent	-45,431	-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 First Two Quarters	Cumulative total for July-Dec. 2017
Net sales	400,376	472,501
Operating income	34,730	94,828
Profit attributable to owners of parent	23,196	66,918

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

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

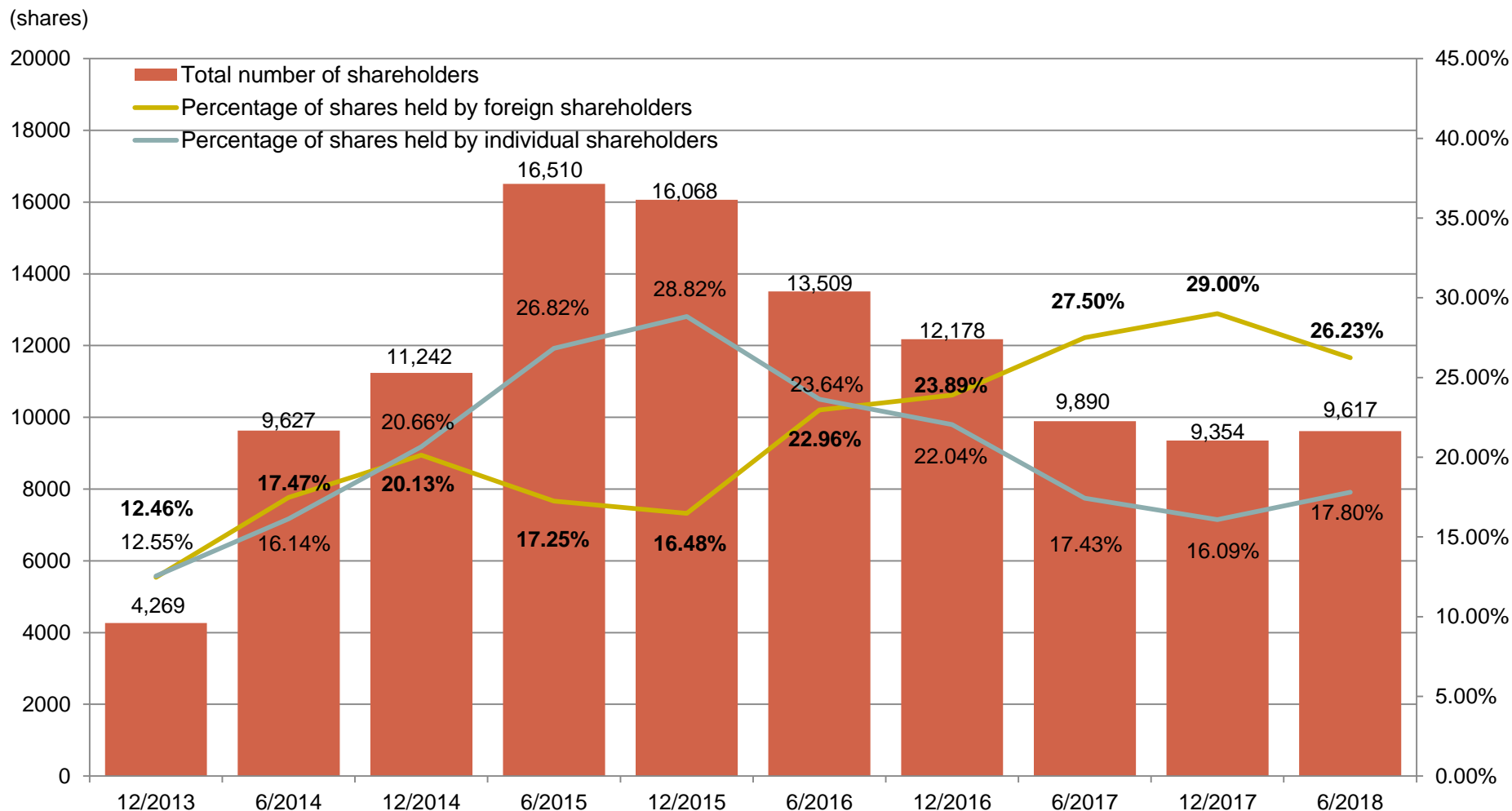


Stock Information

Stock Information

Stock Information

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



Note: Percentage of shares held by individual shareholders and percentage of shares held by foreign shareholders were calculated based on the figures excluding the number of shares held by our directors and employees.

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	¥1169.26 million (As of June 30, 2018)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 416 Group total: 506 <i>(As of June 30, 2018; includes part-time and temp staff)</i>
■ 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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