



Third Quarter of 2018
Presentation of Results

November 9, 2018

F@N Communications, Inc.

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Third Quarter of 2018 Performance Highlights

2018 Q3: Key Points

Performance Highlights

- **The quarterly net sales decreased by 5.7% from 2018 Q2 and by 15.1% from 2017 Q3, which was unfavorable results.**
- **The ordinary income margin further decreased from 2018 Q2 to 11.9%, which was the worst in this fiscal year.**
- **Amidst the sluggish net sales, we are earnestly working on business restructuring, and selection and concentration.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2018 Q3	2017 Q3	Year-on-Year Change	% of Net Sales
Net sales	27,222,815	30,253,997	-10.0%	100%
Operating income	3,328,003	4,655,514	-28.5%	12.2%
Ordinary income	3,472,586	4,663,280	-25.5%	12.8%
Profit attributable to owners of parent	2,260,551	3,416,495	-33.8%	8.3%
Ordinary income margin	12.8%	15.4%	-2.6pt	-
Net income per share	¥29.42	¥44.51	-33.9%	-
Diluted net income per share	¥29.40	¥44.40	-33.8%	-

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2017	September 30, 2018
Assets		
Current assets	22,431,074	22,145,061
Cash and deposits	16,822,087	16,520,608
Notes and accounts receivable – trade	4,202,825	3,930,784
Securities	997,031	1,101,631
Other	422,514	603,480
Allowance for doubtful accounts	-13,383	-11,444
Fixed assets	3,654,283	3,455,541
Property and equipment	263,718	359,738
Intangible assets	926,507	770,424
Investments and other assets	2,464,057	2,325,377
Total assets	26,085,358	25,600,602
Liabilities and Net Assets		
Current liabilities	6,393,164	5,691,427
Notes and accounts payable – trade	4,642,423	4,535,324
Income taxes payable	675,112	286,086
Other current liabilities	1,075,627	870,014
Long-term liabilities	148,715	159,045
Total liabilities	6,541,879	5,850,473
Total net assets	19,543,479	19,750,129
Total liabilities and net assets	26,085,358	25,600,602

Main component was ¥1,990,106 thousand in investment securities

Key factors in the change were a ¥389,025 thousand decrease in notes and accounts payable – trade and a ¥107,098 thousand decrease in Income taxes payable.

Net assets increased due to the inclusion of ¥2,260,551 thousand of profit attributable to owners of parent despite a ¥1,460,758 thousand decrease because of dividend payment.

Consolidated Performance Forecast

Performance Highlights

(¥ millions)	2018 Full-Year Forecast (% Change from Same Period of Previous Year)	2018 Third Quarter Actual	Progress (% of Full-Year Forecast)
Net sales	38,293 (-2.1)	27,222	71.1%
Operating income	4,979 (-13.4)	3,328	66.8%
Ordinary income	5,128 (-11.5)	3,472	67.7%
Profit attributable to owners of parent	3,504 (-17.1)	2,260	64.5%

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

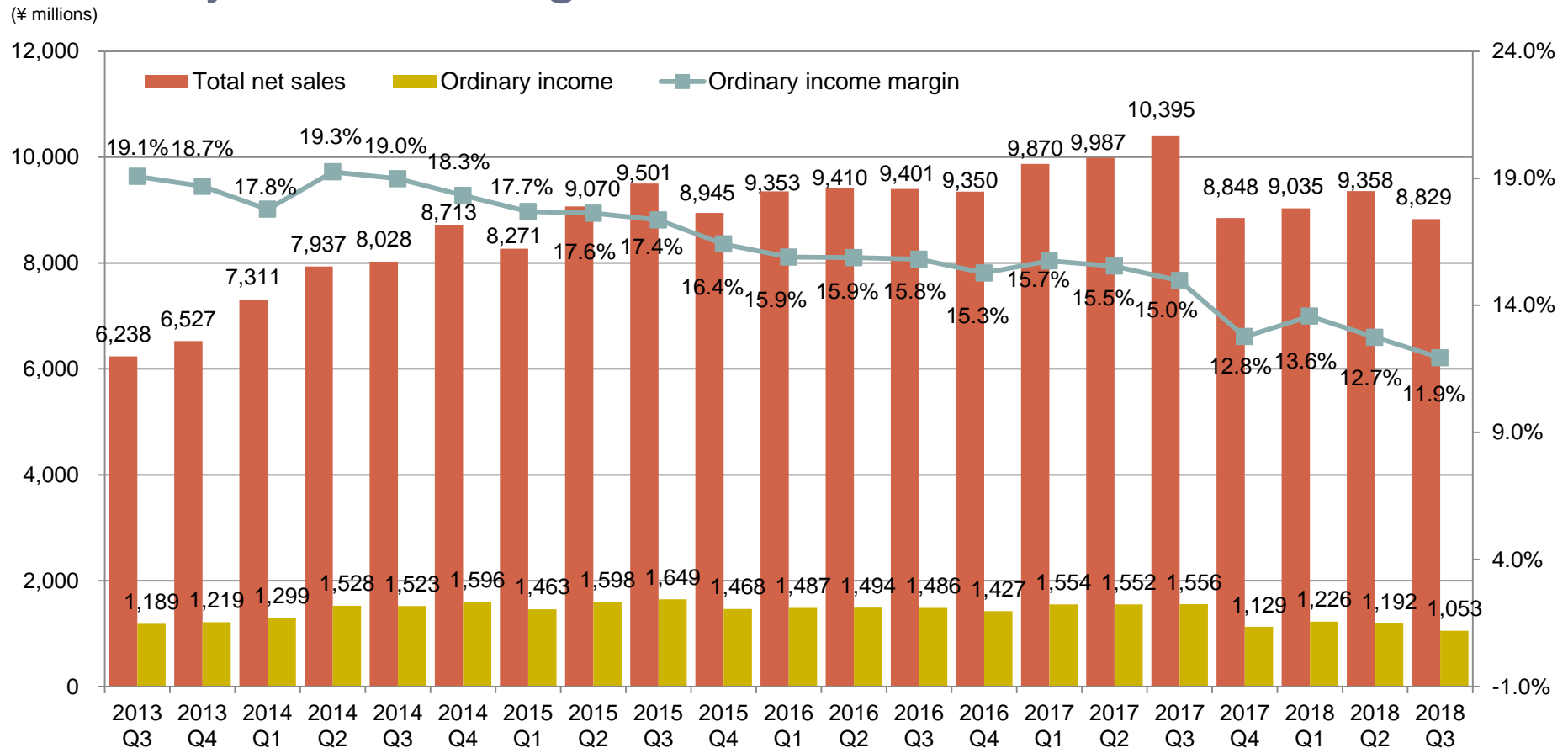
Dividend Forecast

	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)

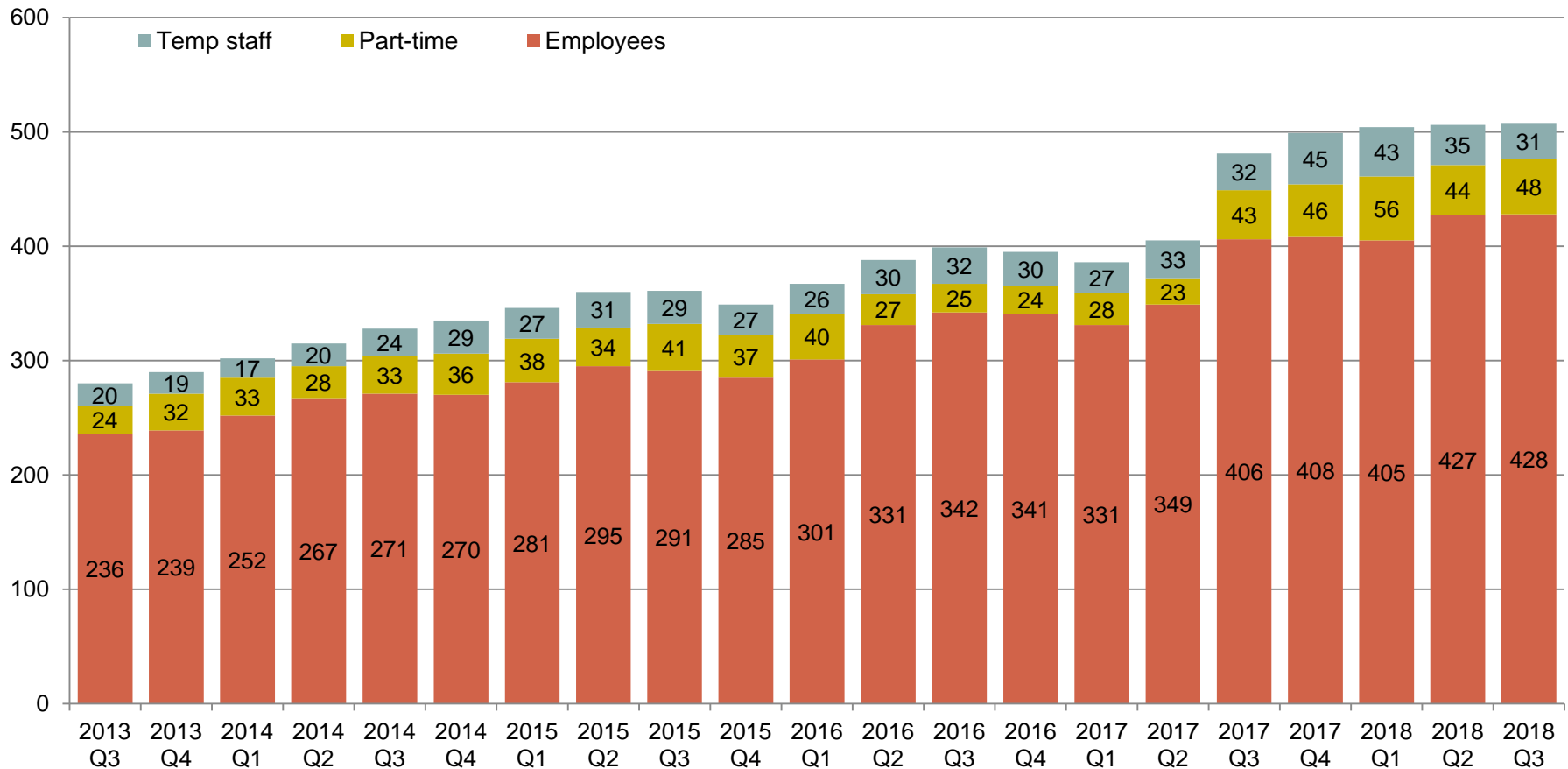


The ordinary income margin was 11.9%, a decrease of 0.8 percentage points from 2018 Q2.

Number of Employees

(Consolidated/Quarterly basis)

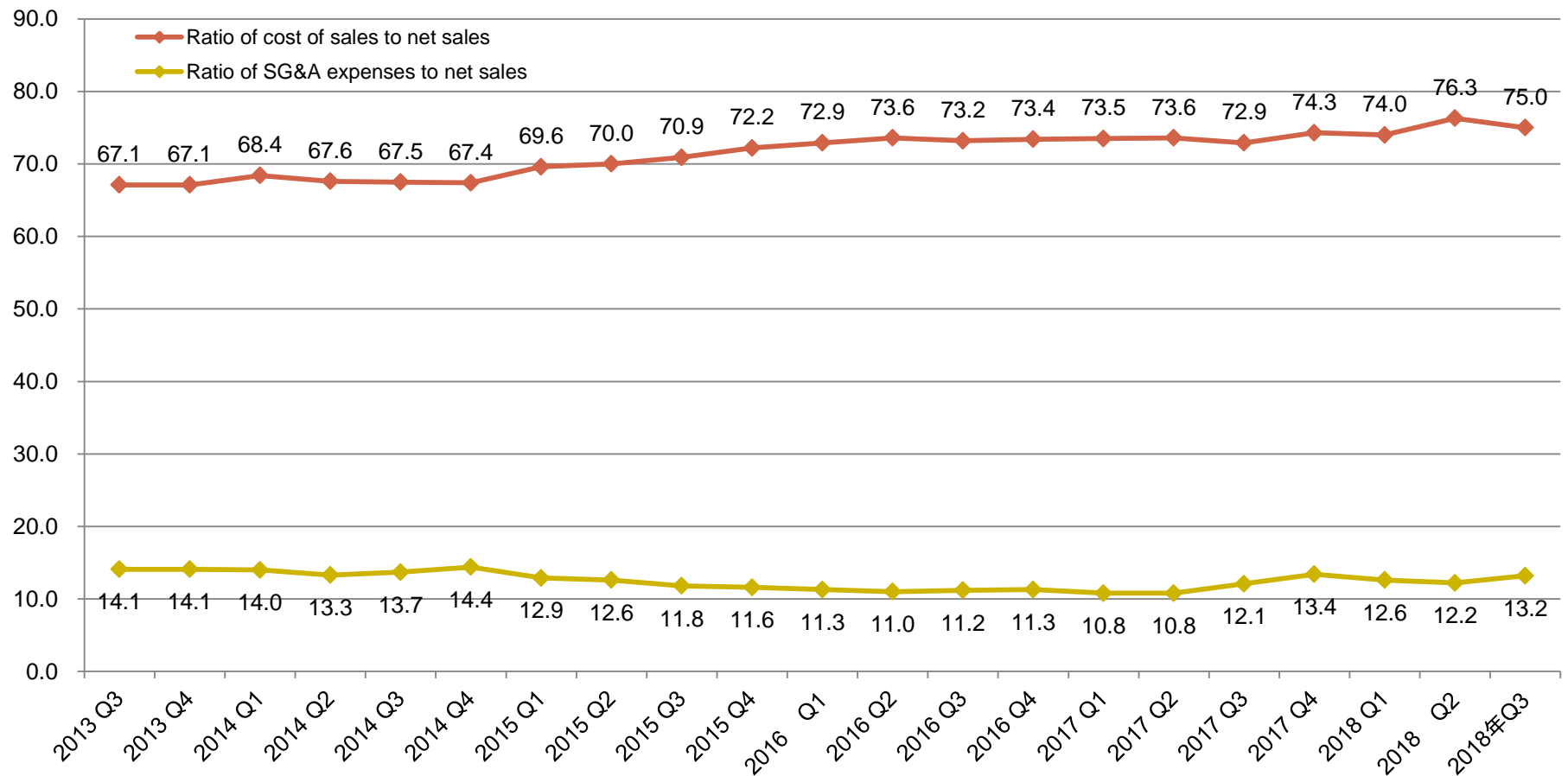
Management Indicators



The total number of employees in the Group was 507, an increase of 26 compared with 2017 Q3 and an increase of 1 compared with 2018 Q2.

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

Management Indicators



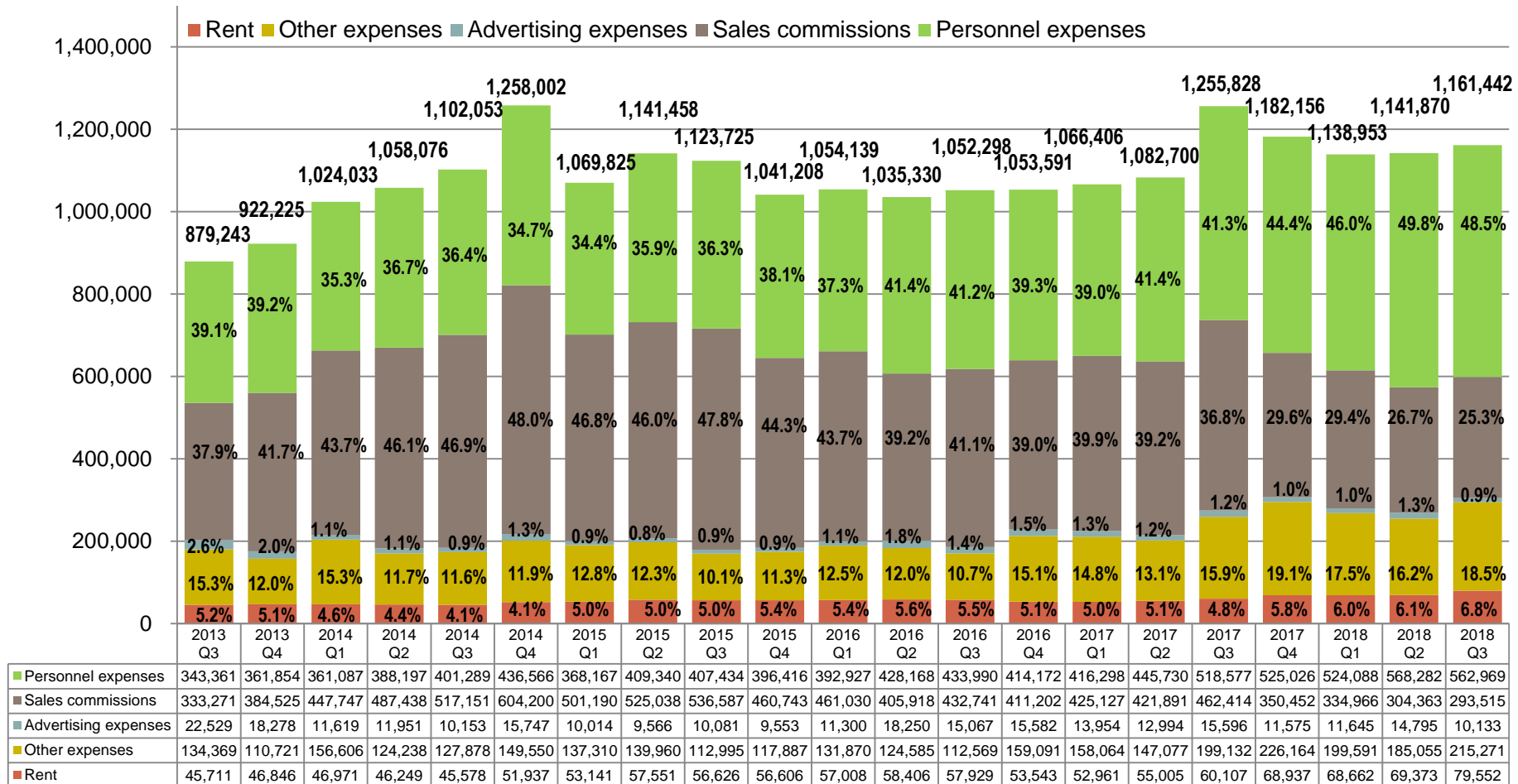
The ratio of cost of sales to net sales decreased 1.3 percentage points, and the ratio of SG&A expenses to net sales increased 1 percentage points from 2018. Q2

Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

Management Indicators

(¥ thousands)



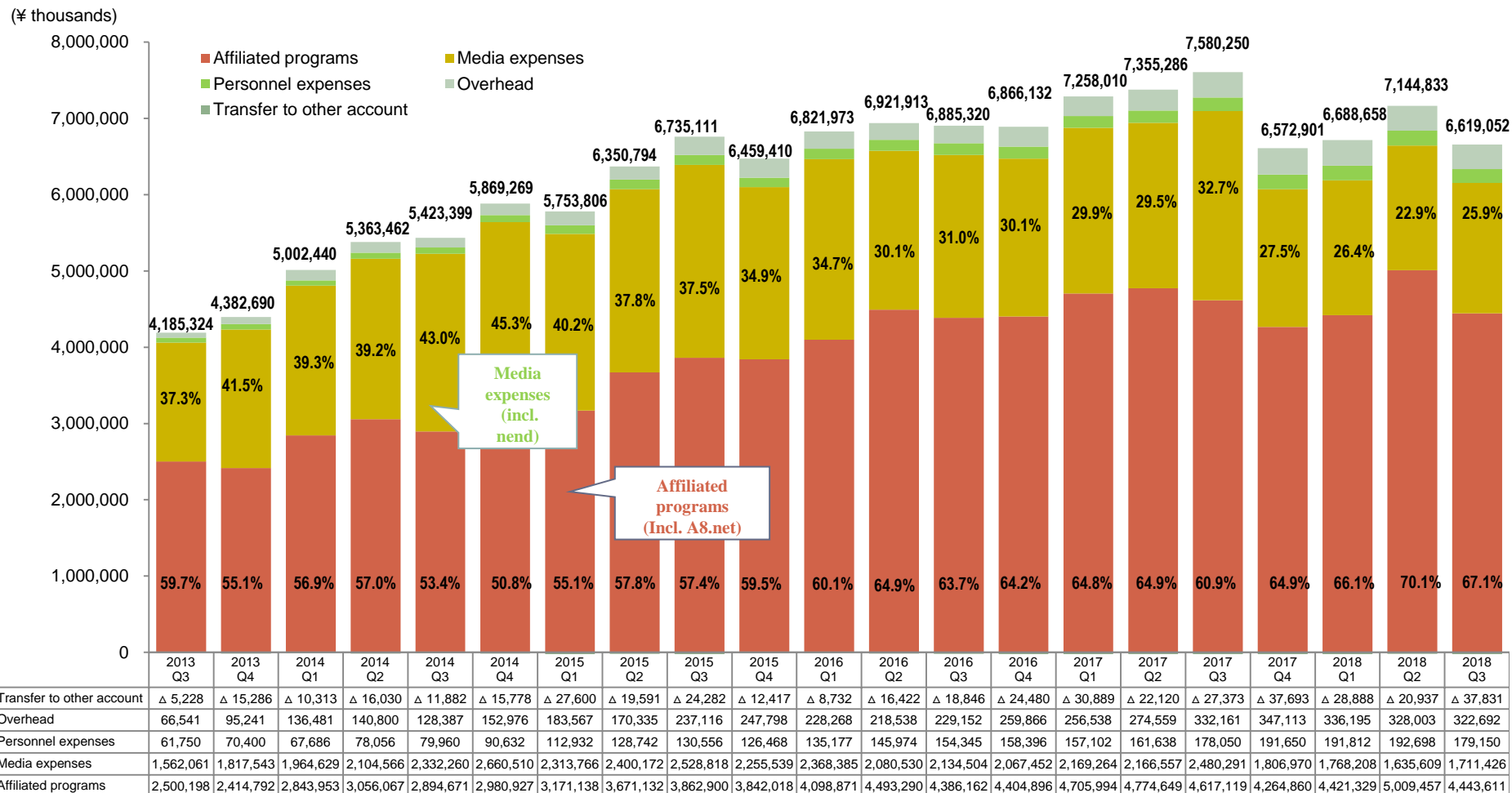
Other expenses consist largely of depreciation expenses, sales promotion expenses, payment commissions, and taxes (primarily size-based business taxes).

Sales commissions decreased due to the sluggish sales of nend. Meanwhile, other expenses increased due to the inclusion of A8's events, and rent increased due to the expansion of rented areas..

Cost of Sales

(Consolidated/Quarterly basis)

Management Indicators



Affiliated programs includes A8.net, seedApp and adcross. Media expenses includes nend and nex8.

Overhead includes infrastructure expenses such as data center expenses.

The key factor of Media expenses' increase from 2018 Q2 was the increase in active purchase due to the nend's shift to video advertisement.

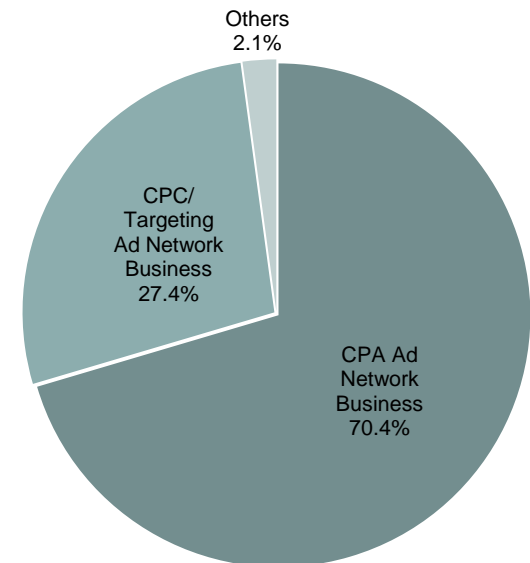
Overview by Main Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)	2018 Q3 (July-September)	2017 Q3 (July-September)	Change
CPA Ad Network Business	6,217,132	6,455,174	-3.7%
CPC/Targeting Ad Network Business	2,422,282	3,690,576	-34.4%
Others	189,731	249,931	-24.1%
Total net sales	8,829,146	10,395,683	-15.1%



Main services of CPA Ad Network Business : A8.net, seedApp, adcrops
 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

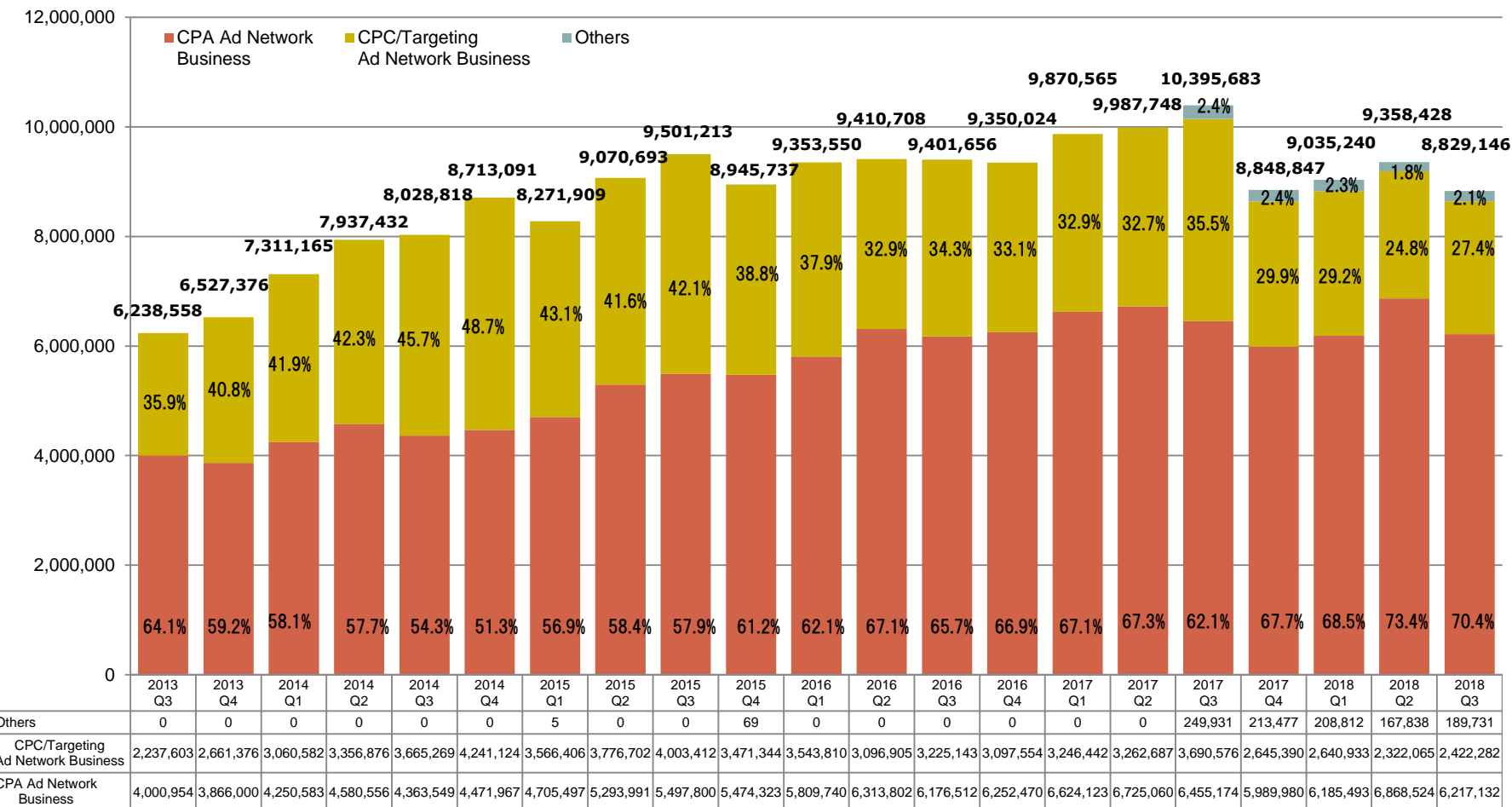
Net sales of CPA Ad Network Business decreased 3.7 percentage points compared with 2017 Q3, and net sales of CPC/Targeting Ad Network Business significantly decreased 34.4 percentage points compared with 2017 Q3.

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 dropped compared with 2018 Q2.

A8.net Summary

CPA Ad Network Business

	2018 Q3 (July – September)	2017 Q3 (July – September)	Change
Sales (¥ thousands)	5,753,631	5,835,262	-1.4%
Number of operating advertiser IDs	3,462	3,406	1.6%
Number of registered partner sites	2,499,764	2,317,570	7.9%

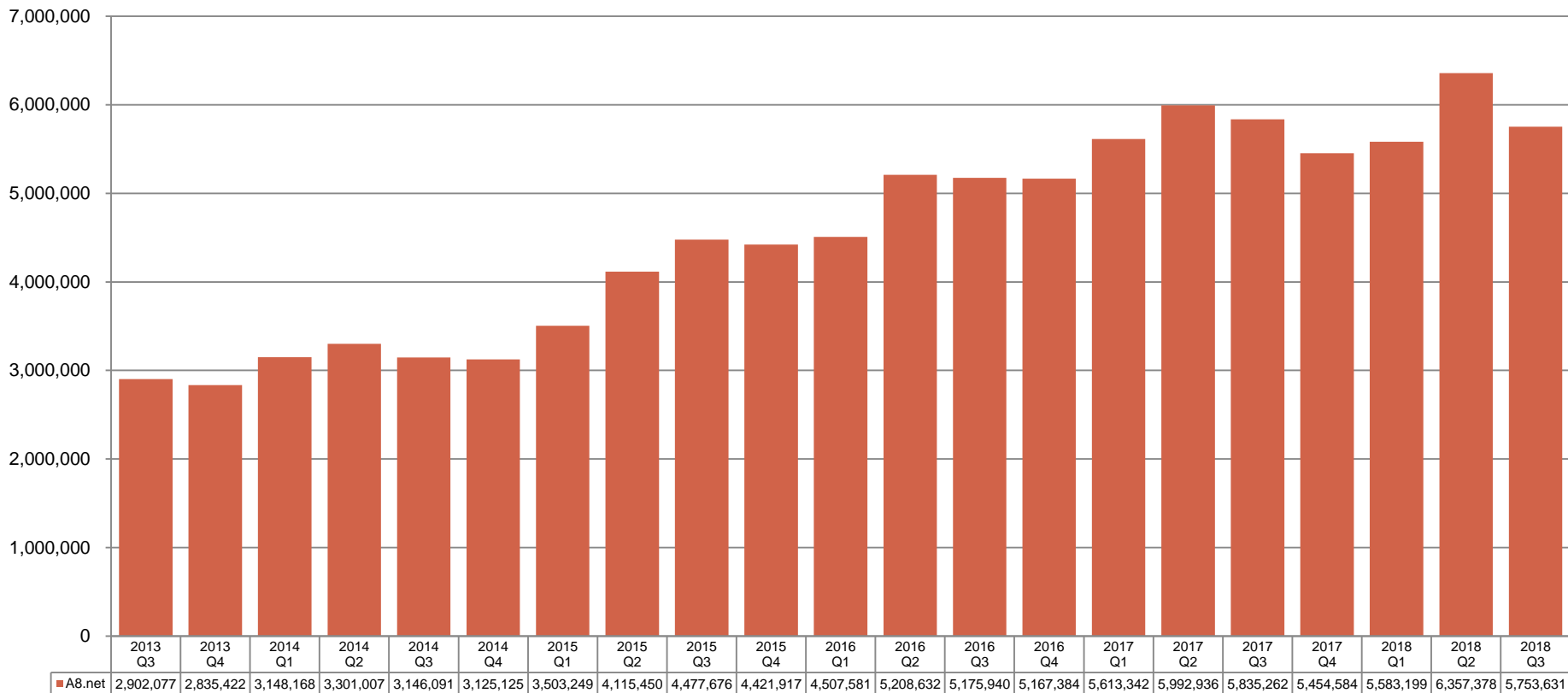
Sales before elimination of consolidated intercompany transactions
The number of operating advertiser IDs increased by 56 year-on-year.

A8.net

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)

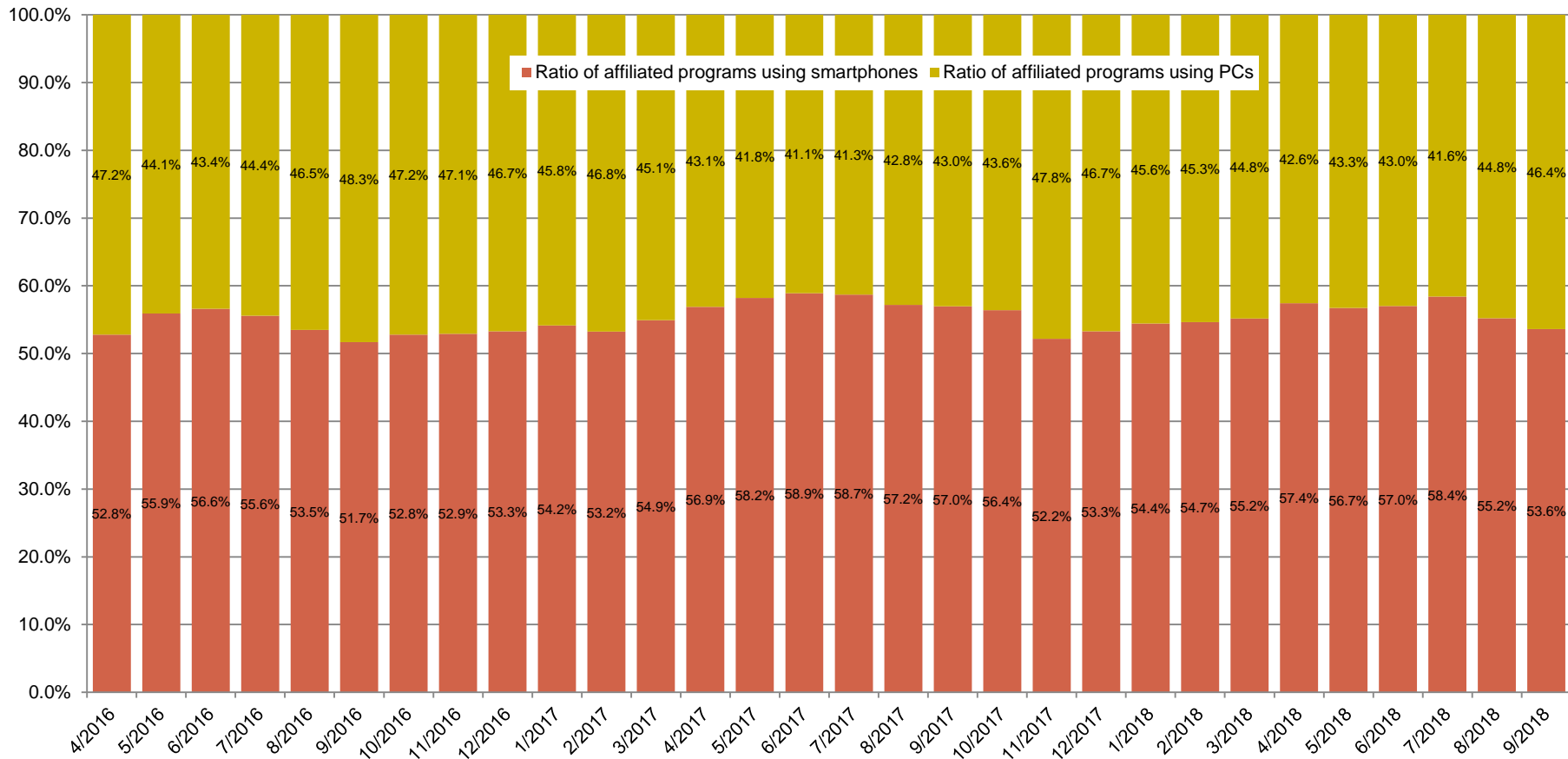


Sales before elimination of consolidated intercompany transactions.
Sales were sluggish due to the effect of the algorithm change in search engines.

A8.net

CPA Ad Network Business

Ratio of Smartphones in Affiliated Programs (Monthly basis)

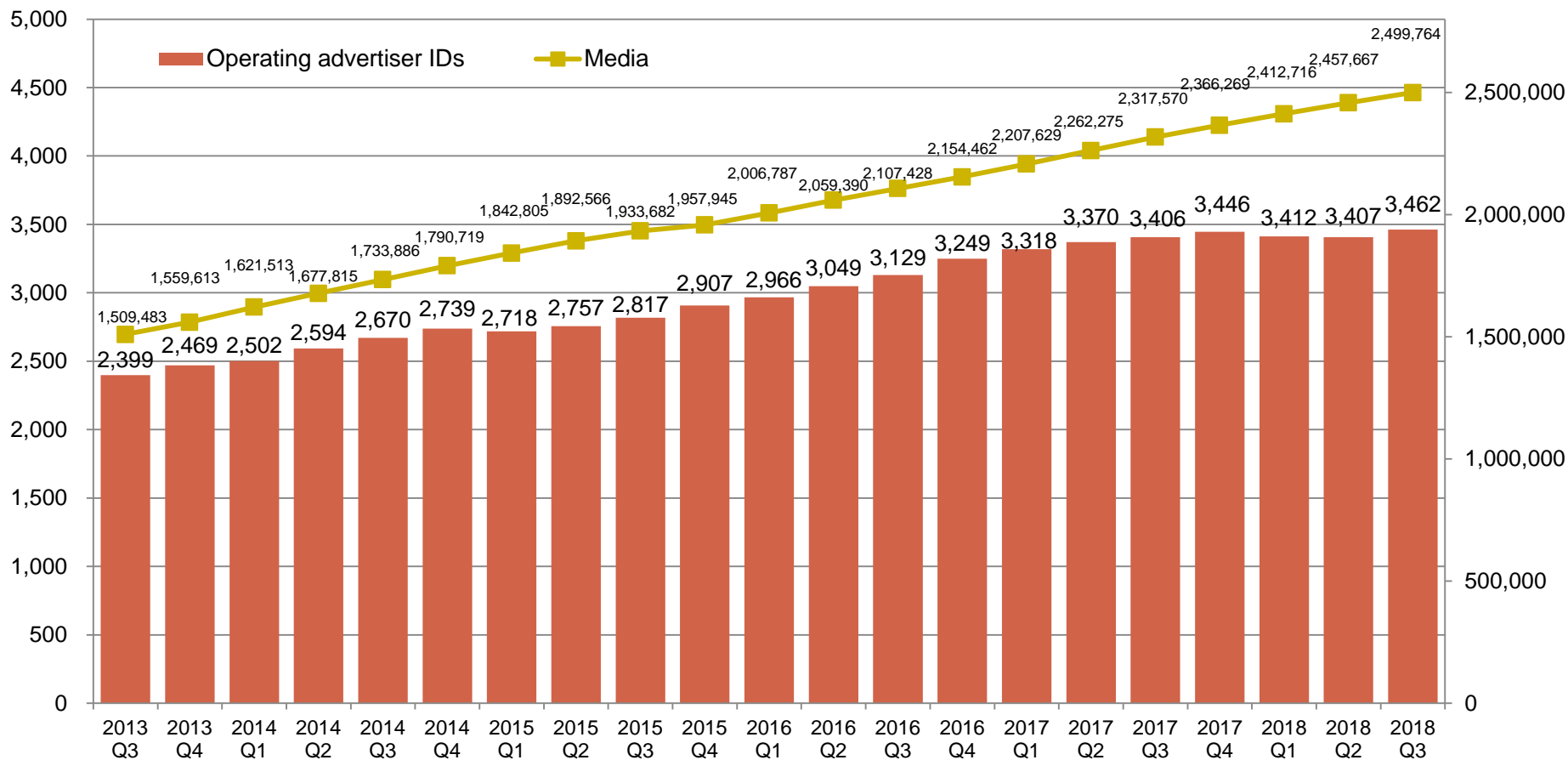


Note: The above affiliated program ratios are not final and are subject to change.

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.

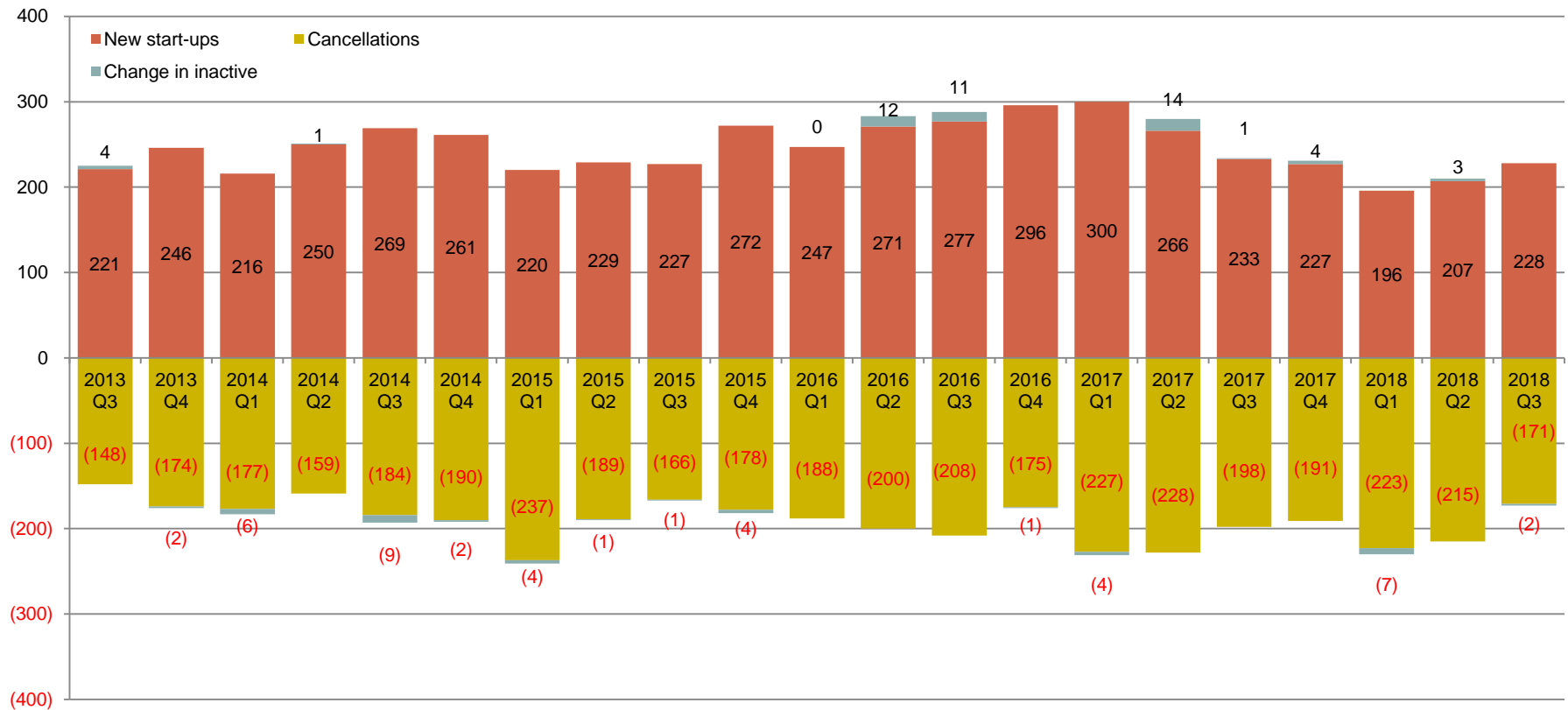
The number of operating advertisers increased by 55 from 2018 Q2.

The number of overseas operating advertisers decreased by 3 from 2018 Q2 to 203.

A8.net

CPA Ad Network Business

New Advertiser Start-ups and Cancellations

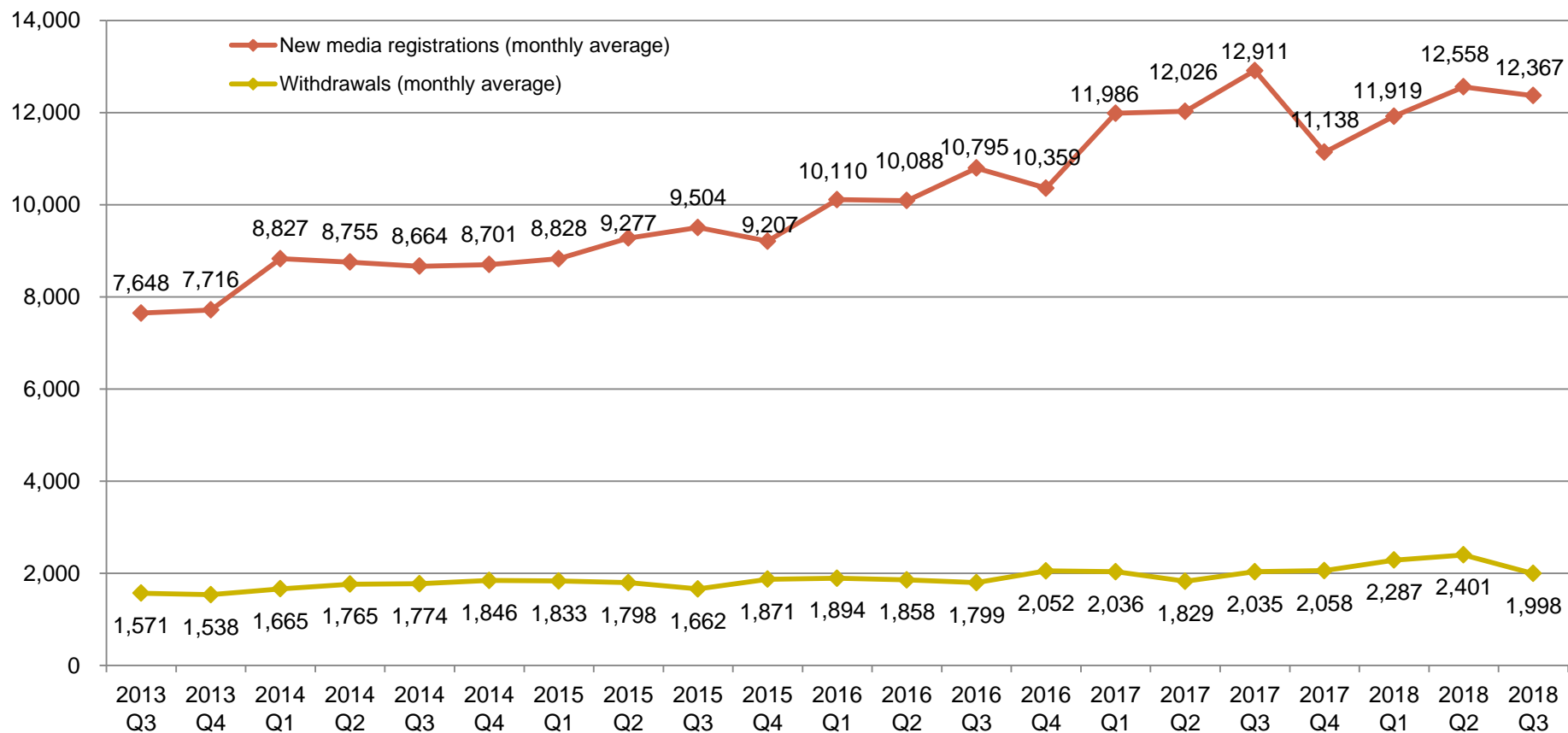


Note: "Change in inactive" is the difference in the number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.
The number of New start-ups recovered and the number of cancellations decreased.

A8.net

CPA Ad Network Business

Average Monthly New Media Registrations and Withdrawals

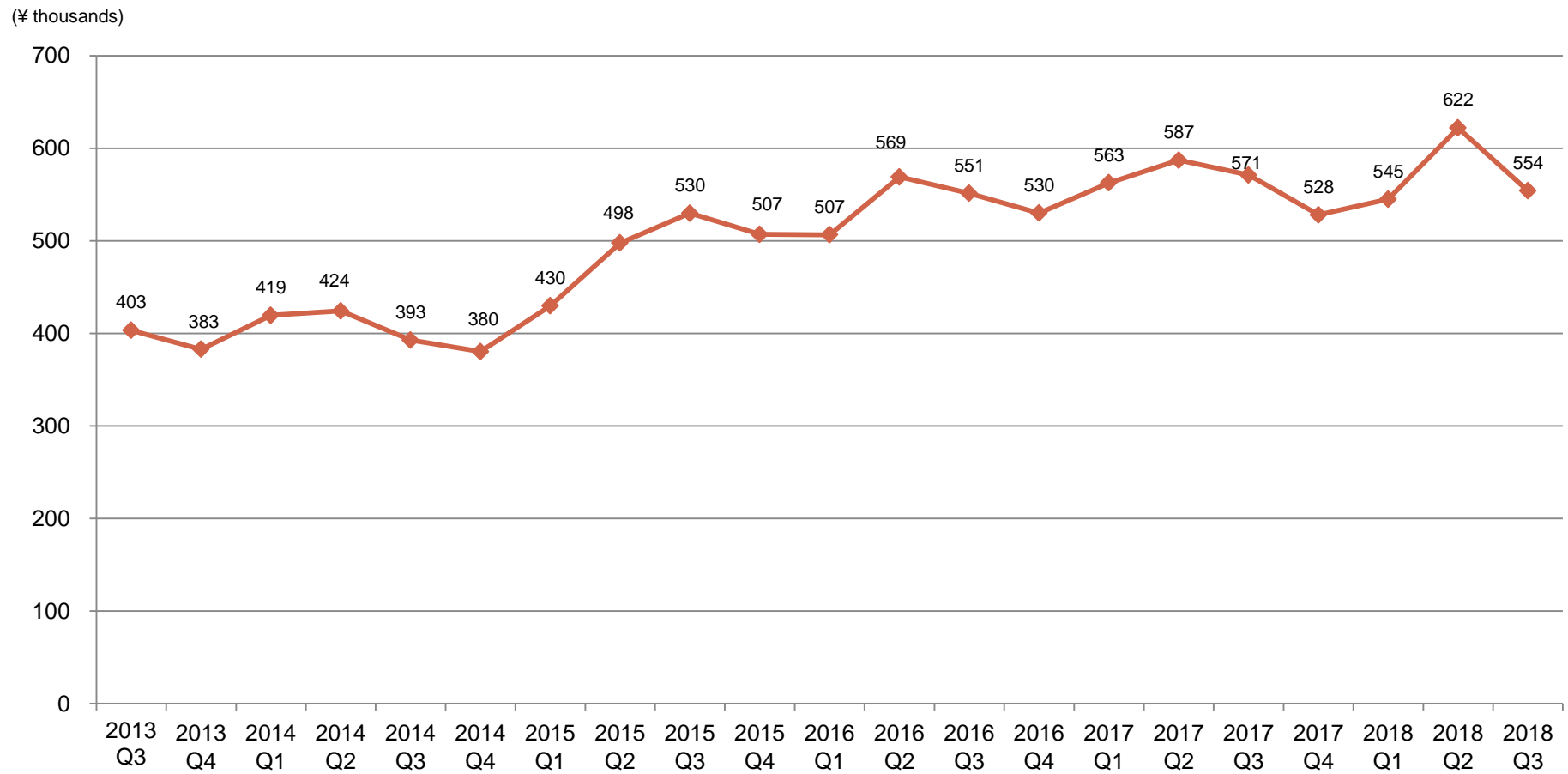


Monthly average of new media registrations slightly decreased and monthly average of withdrawals decreased.

A8.net

CPA Ad Network Business

Average Monthly Sales per Advertiser



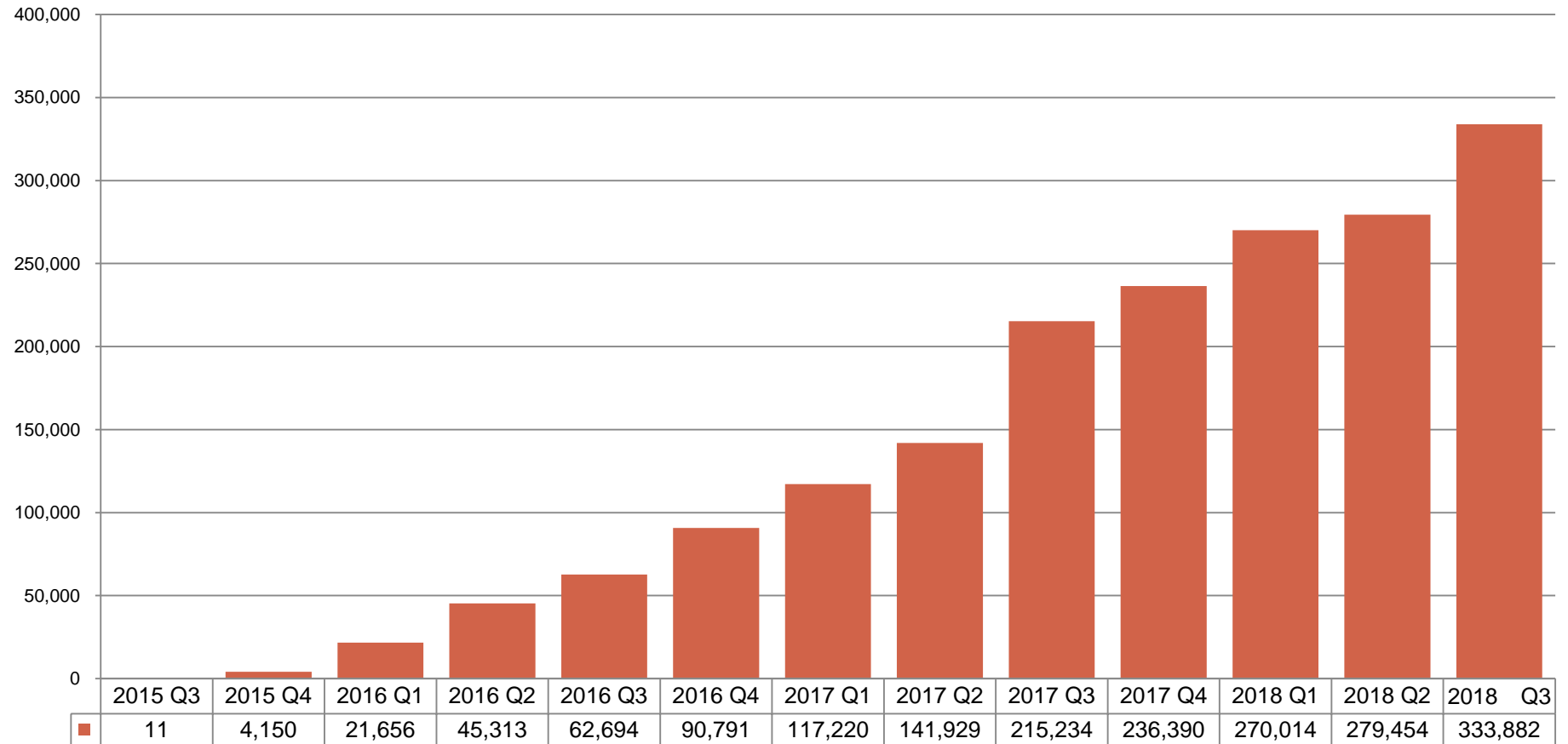
Average monthly sales per advertiser are around 550 thousand yen and there has been no significant change.

seedApp

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)



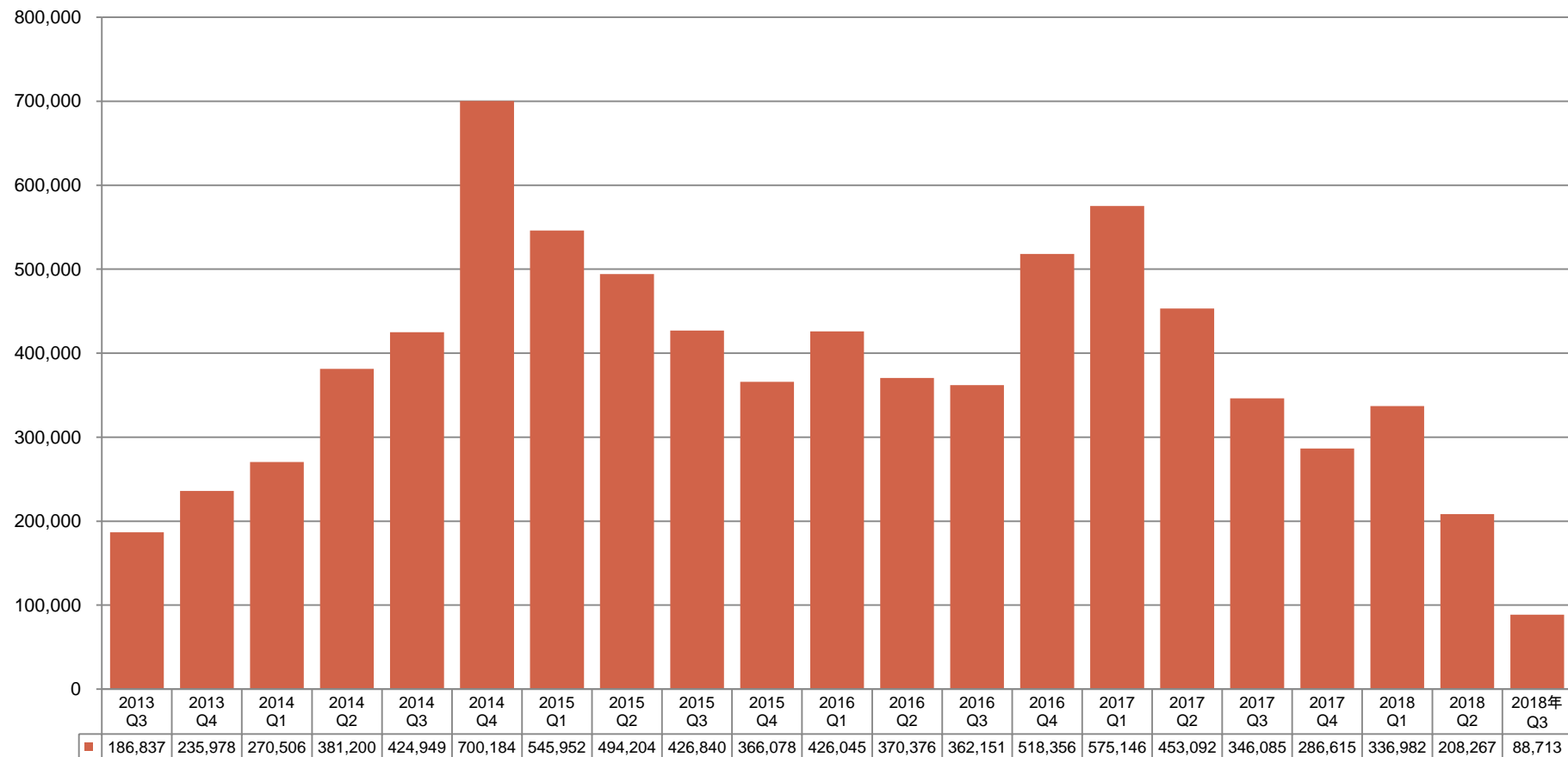
Note: Sales before elimination of consolidated intercompany transactions

adcrops

Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ 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 Q3 (July – September)	2017 Q3 (July – September)	Change
Sales (¥ thousands)	1,979,076	2,963,982	-33.2%
Number of operating advertiser IDs	321	404	-20.5%
Number of ad spaces on registered partner sites	909,677	794,434	14.5%

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

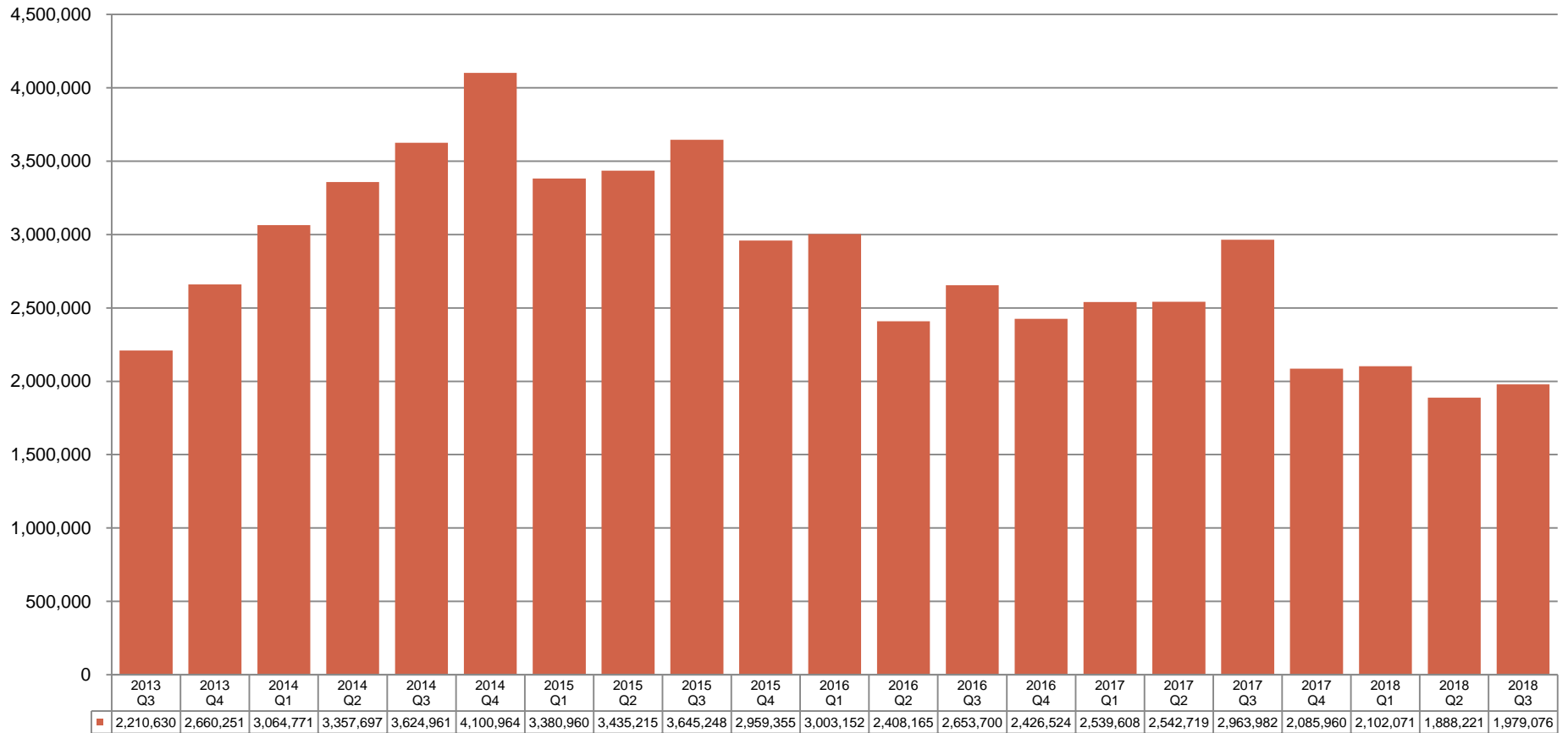
Sales results decreased by 33.2% compared with 2017 Q3.

nend

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

(¥ thousands)

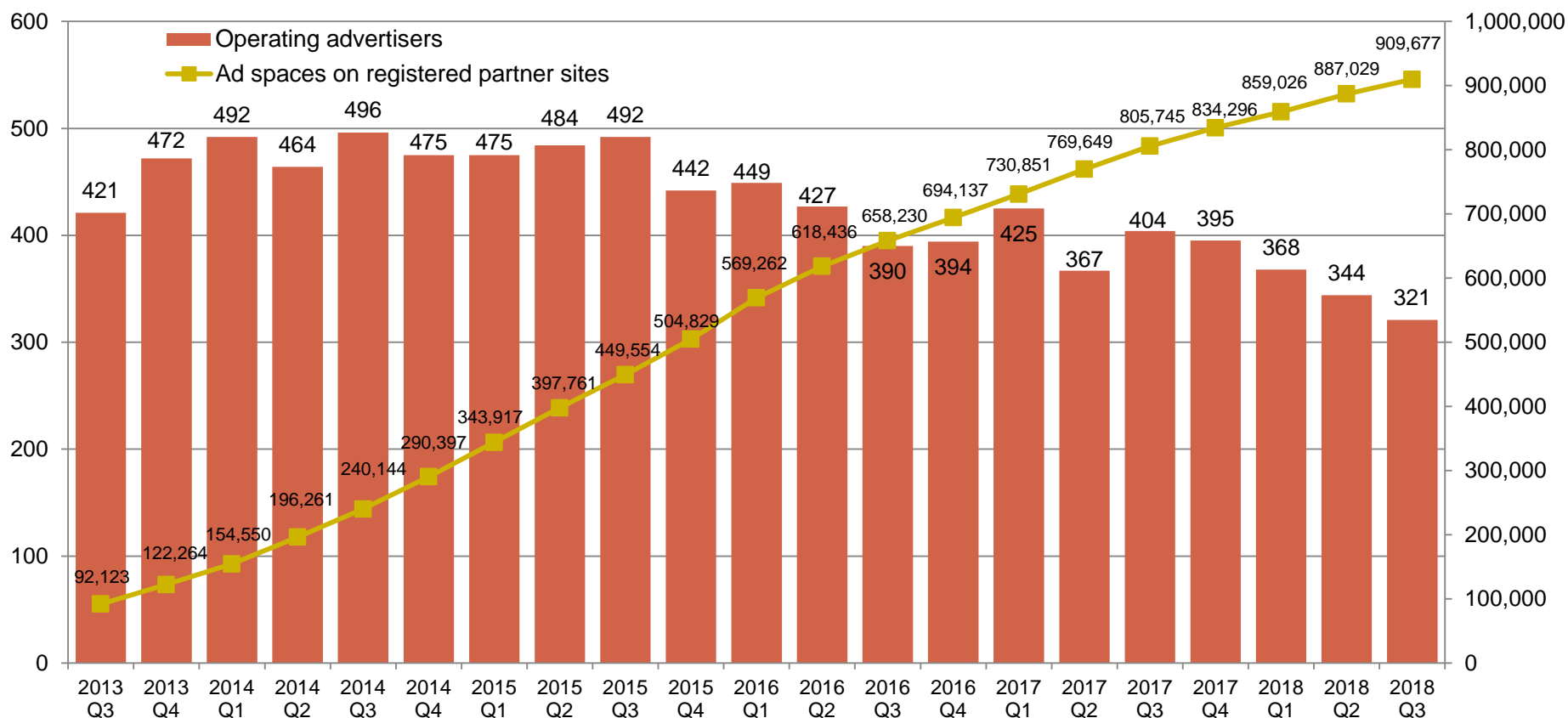


Sales before elimination of consolidated intercompany transactions

nend

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

CPC/Targeting
Ad Network Business



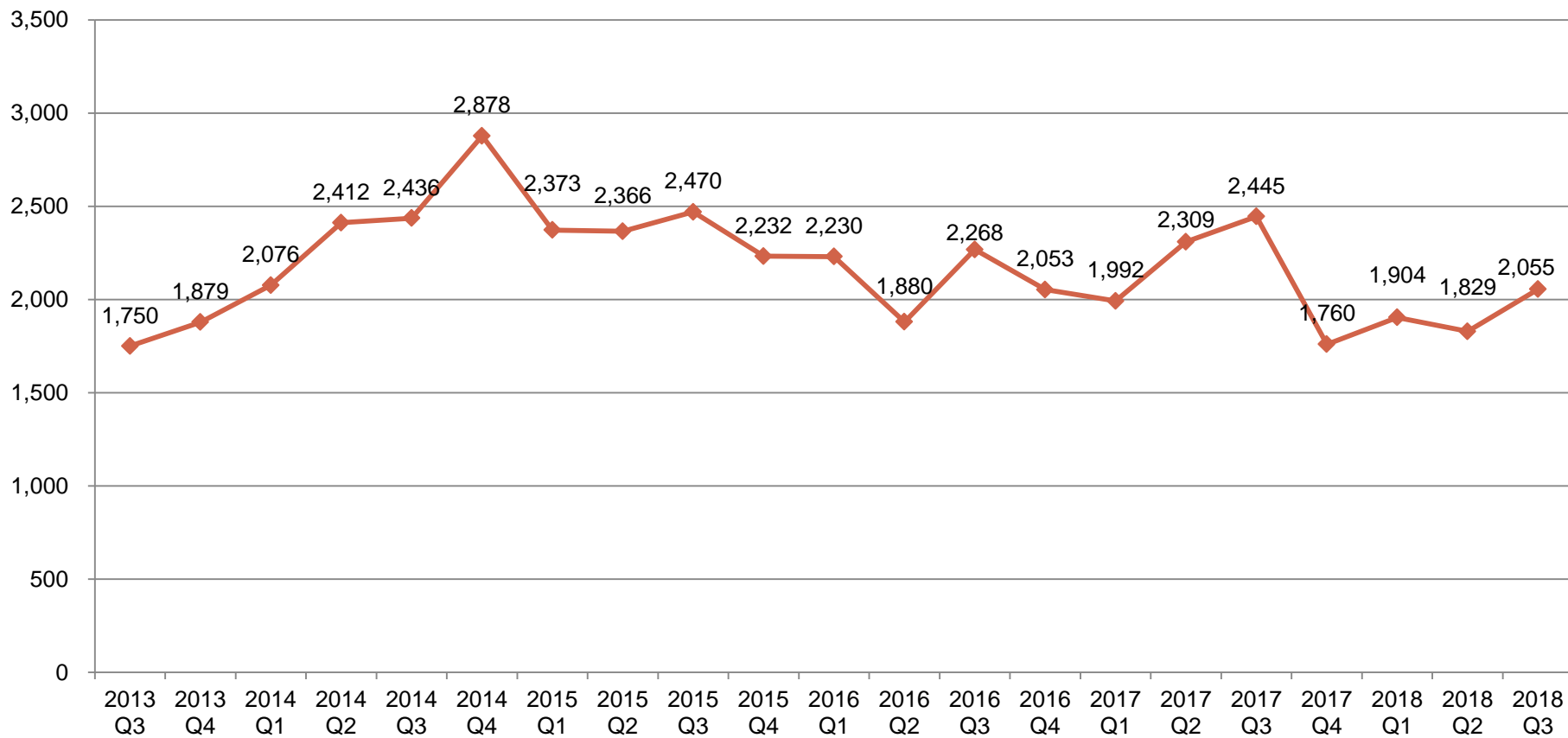
Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers decreased by 23 from 2018 Q2.

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business

(¥ thousands)

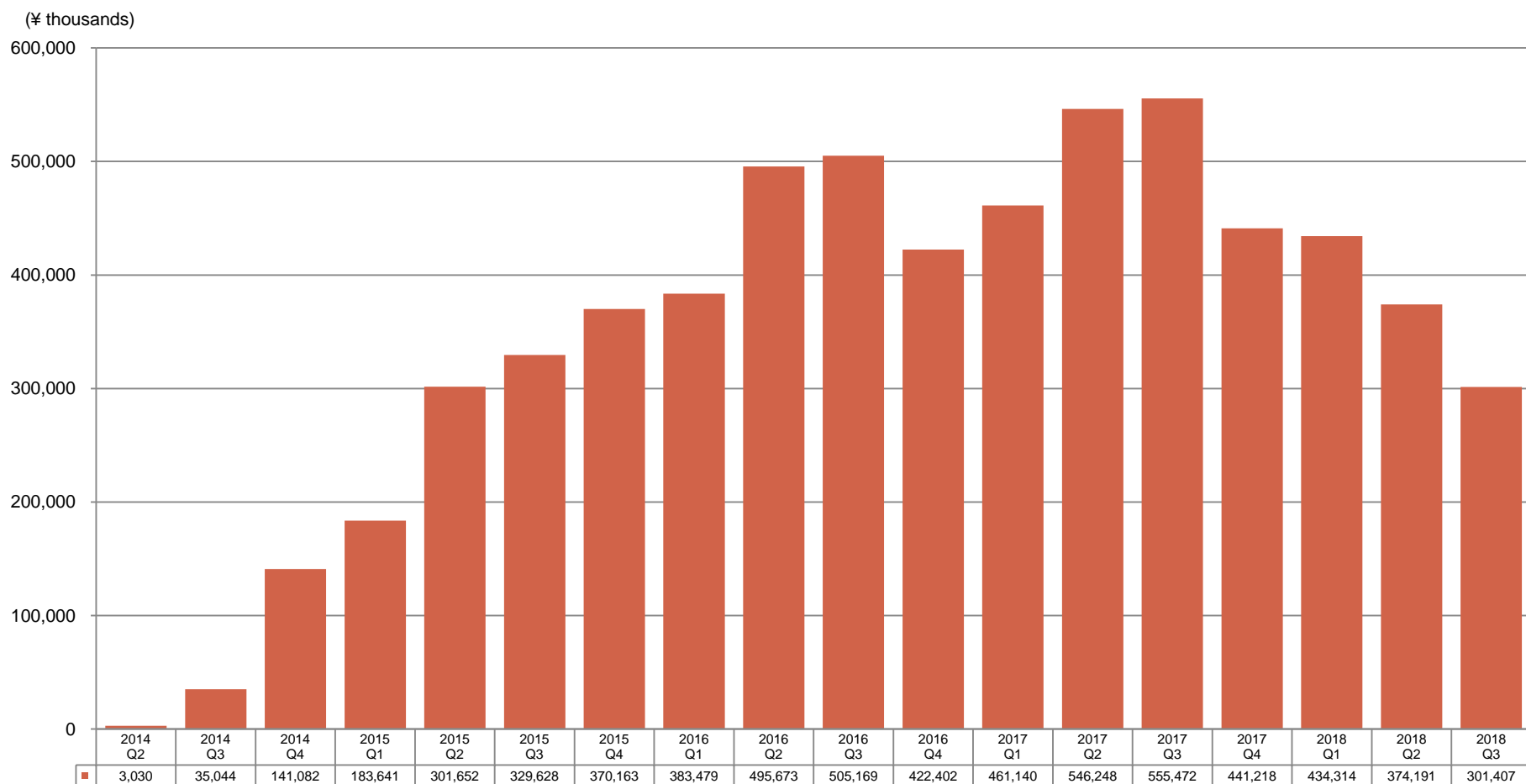


Average monthly sales per advertiser were ¥2.05 million.

nex8

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business



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

Comprehensive support and consulting for
online promotion in global markets



(¥ thousands)	2018 Third Quarter YTD Fiscal Period	2017 Full Year
Net sales	554,231	1,016,436
Operating income	-44,818	-21,587
Profit attributable to owners of parent	-78,038	-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 Businesses

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



(¥ thousands)	2018 Third Quarter YTD Fiscal Period	Cumulative total for July-Dec. 2017
Net sales	605,710	472,501
Operating income	28,445	94,828
Profit attributable to owners of parent	19,302	66,918

Notes: 1. Became a consolidated subsidiary In July 2017

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



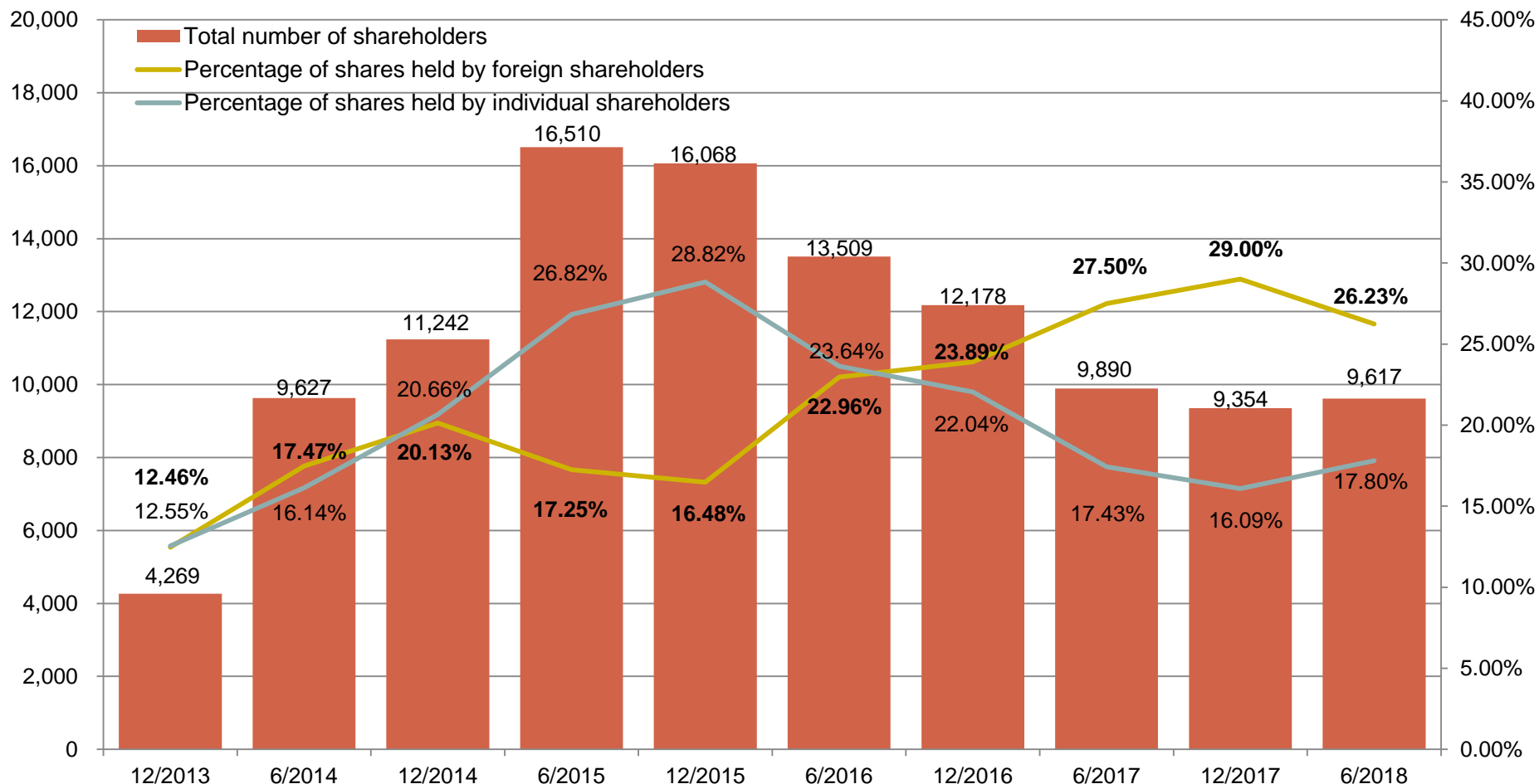
Stock Information

Stock Information

Stock Information

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

(shares)



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 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	¥1173.67 million (As of Sep. 30, 2018)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 411 Group total: 507 (As of September 30, 2018; including 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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Contact

F@N Communications, Inc.

Phone: +81-3-5766-3530

E-mail : ir-info@fancs.com