



Fourth Quarter of 2018  
Presentation of Results

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February 12, 2019

F@N Communications, Inc.

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## Fourth Quarter of 2018 Performance Highlights

## 2018 Q4: Key Points

### Performance Highlights

- **Net sales on a quarterly basis decreased by 8% compared with the previous quarter and by 8% year-on-year. That was the worst in this fiscal year.**
- **Ordinary income margin worsened from the previous quarter and became 11%, which was the worst in this fiscal year.**
- **Our response to the change in the advertising market environment has been almost completed, so we think our unfavorable business performance has bottomed out.**

# Consolidated Results of Operations

## Performance Highlights

(¥ thousands)	2018 Full Year	2017 Full Year	Year-on-Year Change	% of Net Sales
Net sales	35,340,668	39,102,844	-9.6%	100%
Operating income	4,209,726	5,749,303	-26.8%	11.9%
Ordinary income	4,364,730	5,793,113	-24.7%	12.4%
Profit attributable to owners of parent	2,554,252	4,228,230	-39.6%	7.2%
Ordinary income margin	12.4%	14.8%	-2.4 points	-
Net income per share	33.36円	55.06円	-39.4%	-
Diluted net income per share	33.34円	54.94円	-39.3%	-

# Consolidated Balance Sheets

## Performance Highlights

(¥ thousands)	December 31, 2017	December 31, 2018
<b>Assets</b>		
<b>Current assets</b>	<b>22,431,074</b>	<b>22,774,570</b>
Cash and deposits	16,822,087	17,778,004
Notes and accounts receivable - trade	4,202,825	3,703,909
Securities	997,031	800,590
Other	422,514	505,588
Allowance for doubtful accounts	-13,383	-13,522
<b>Fixed assets</b>	<b>3,654,283</b>	<b>3,015,676</b>
Property and equipment	263,718	327,920
Intangible assets	926,507	284,313
Investments and other assets	2,464,057	2,403,442
<b>Total assets</b>	<b>26,085,358</b>	<b>25,790,246</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>	<b>6,393,164</b>	<b>5,800,864</b>
Accounts payable - trade	4,642,423	4,384,454
Income taxes payable	675,112	590,647
Other current liabilities	1,075,627	825,762
<b>Long-term liabilities</b>	<b>148,715</b>	<b>153,578</b>
<b>Total liabilities</b>	<b>6,541,879</b>	<b>5,954,442</b>
<b>Total net assets</b>	<b>19,543,479</b>	<b>19,835,804</b>
<b>Total liabilities and net assets</b>	<b>26,085,358</b>	<b>25,790,246</b>

Main component was ¥2,074,216 thousand in investment securities.

The main factor in the decrease was a ¥257,969 thousand decrease in accounts payable – trade.

The main factor in the increase was a ¥404,861 thousand increase in retained earnings.

# Consolidated Performance Forecast

## Performance Highlights

(¥ millions)	2019 Full-Year Forecast (% Change from Same Period of Previous Year)	2019 Interim Period Forecast (% Change from Same Period of Previous Year)	2018 Full-Year Results
Net sales	<b>34,200</b> (-3.2)	<b>16,800</b>	<b>35,340</b>
Operating income	<b>3,700</b> (-12.1)	<b>1,700</b>	<b>4,209</b>
Ordinary income	<b>3,720</b> (-14.8)	<b>1,710</b>	<b>4,364</b>
Profit attributable to owners of parent	<b>2,580</b> (1.0)	<b>1,190</b>	<b>2,554</b>

## Dividend Forecast

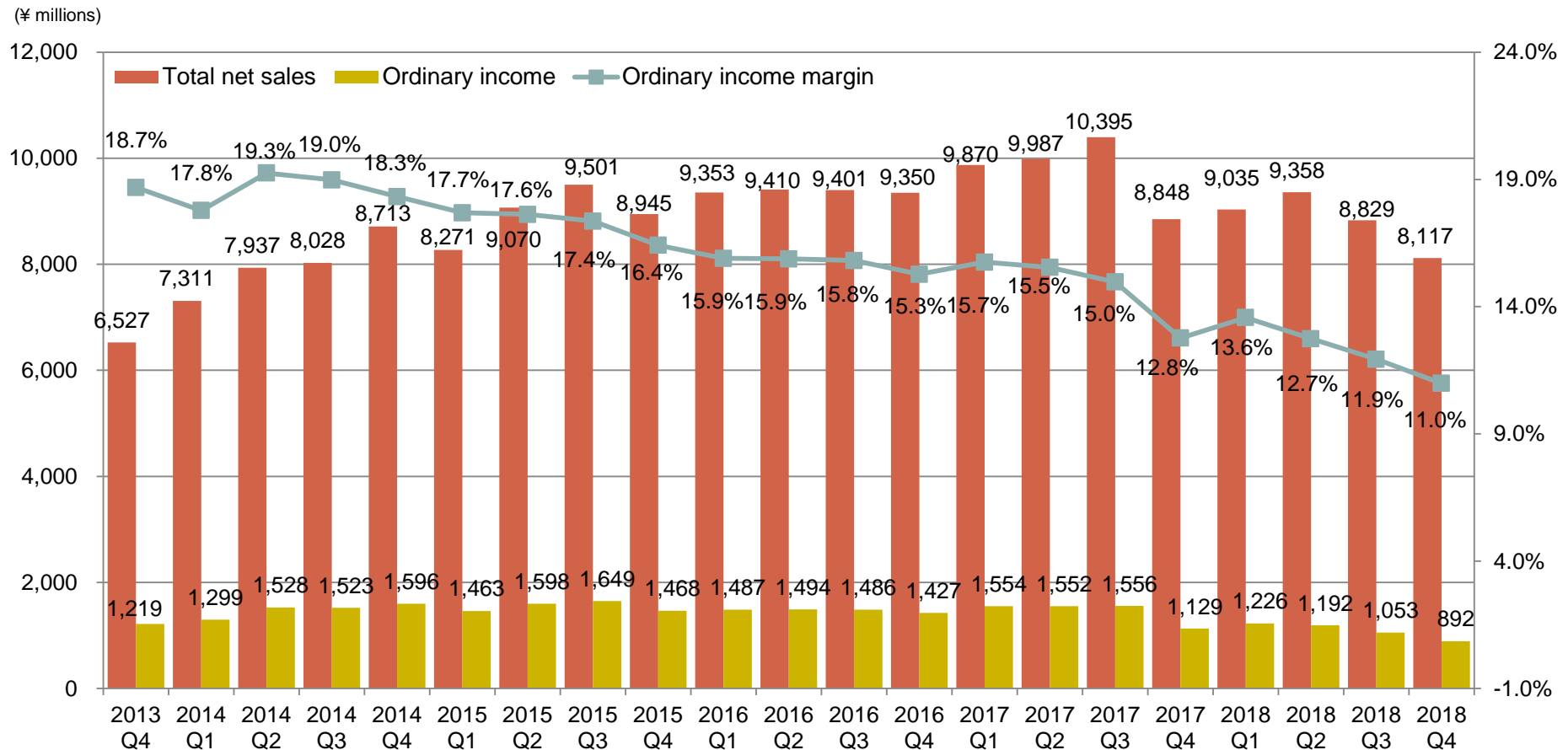
	2019 Forecast	2018 (Expected)
Year-end dividend per share	<b>¥19</b>	<b>¥19</b>

## Management Indicators (Quarterly Basis)



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

Management  
Indicators

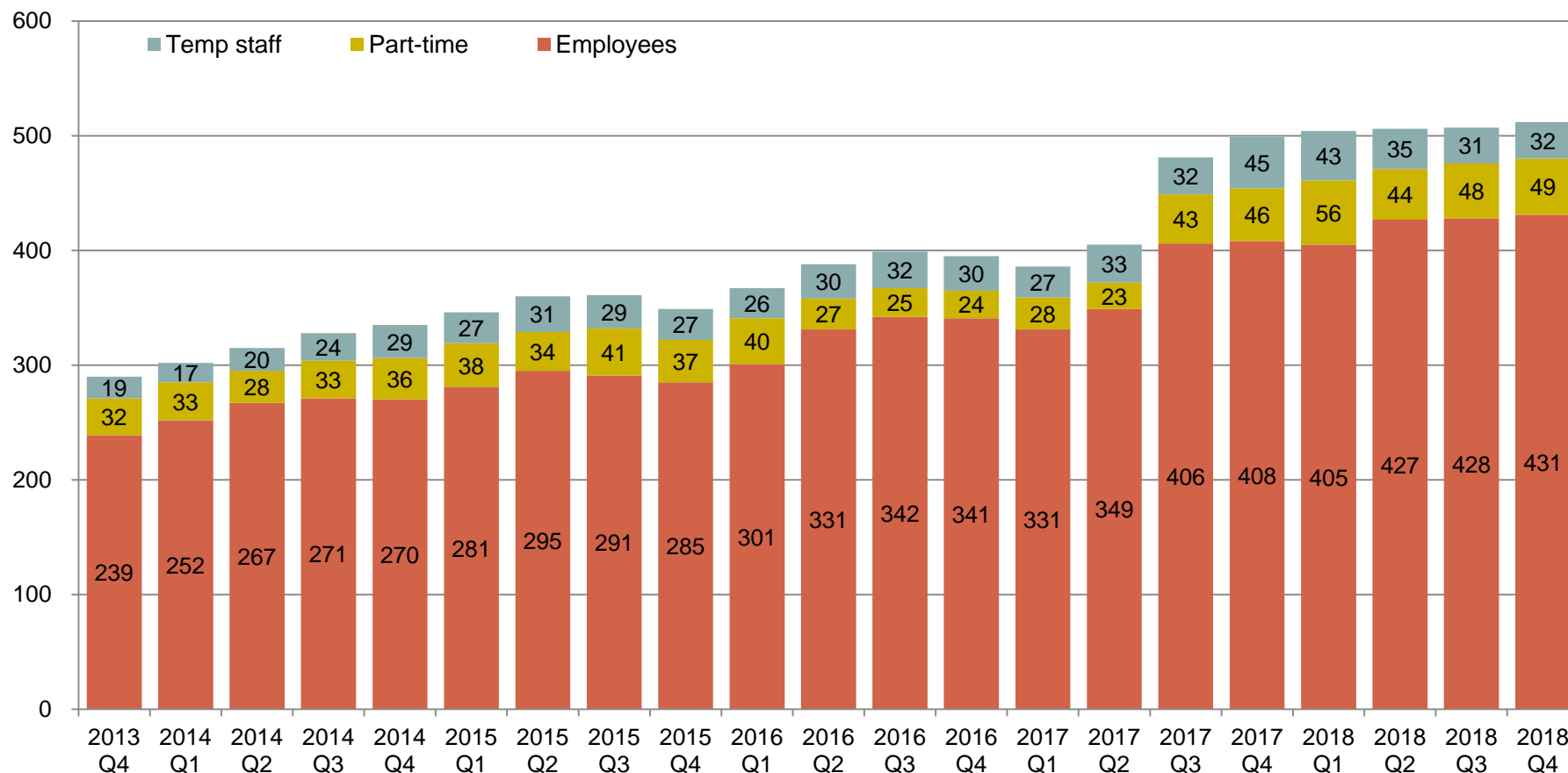


The ordinary income margin was 11.0%, a decrease of 0.9 points from the previous quarter.

# Number of Employees

(Consolidated/Quarterly basis)

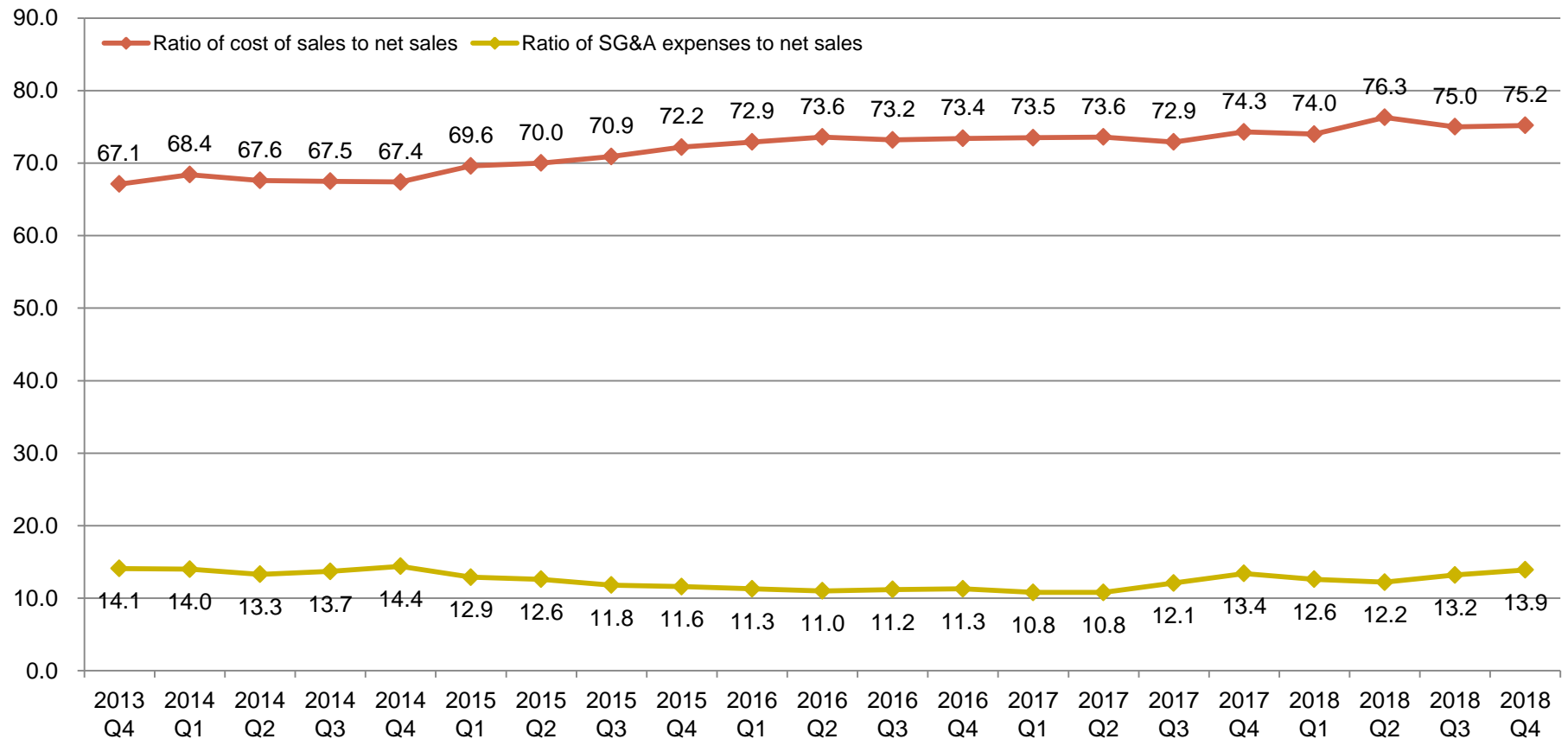
## Management Indicators



The total number of employees in the Group was 512, an increase of 13 from the same period of the previous year, and an increase of 5 from the previous quarter.

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

## Management Indicators



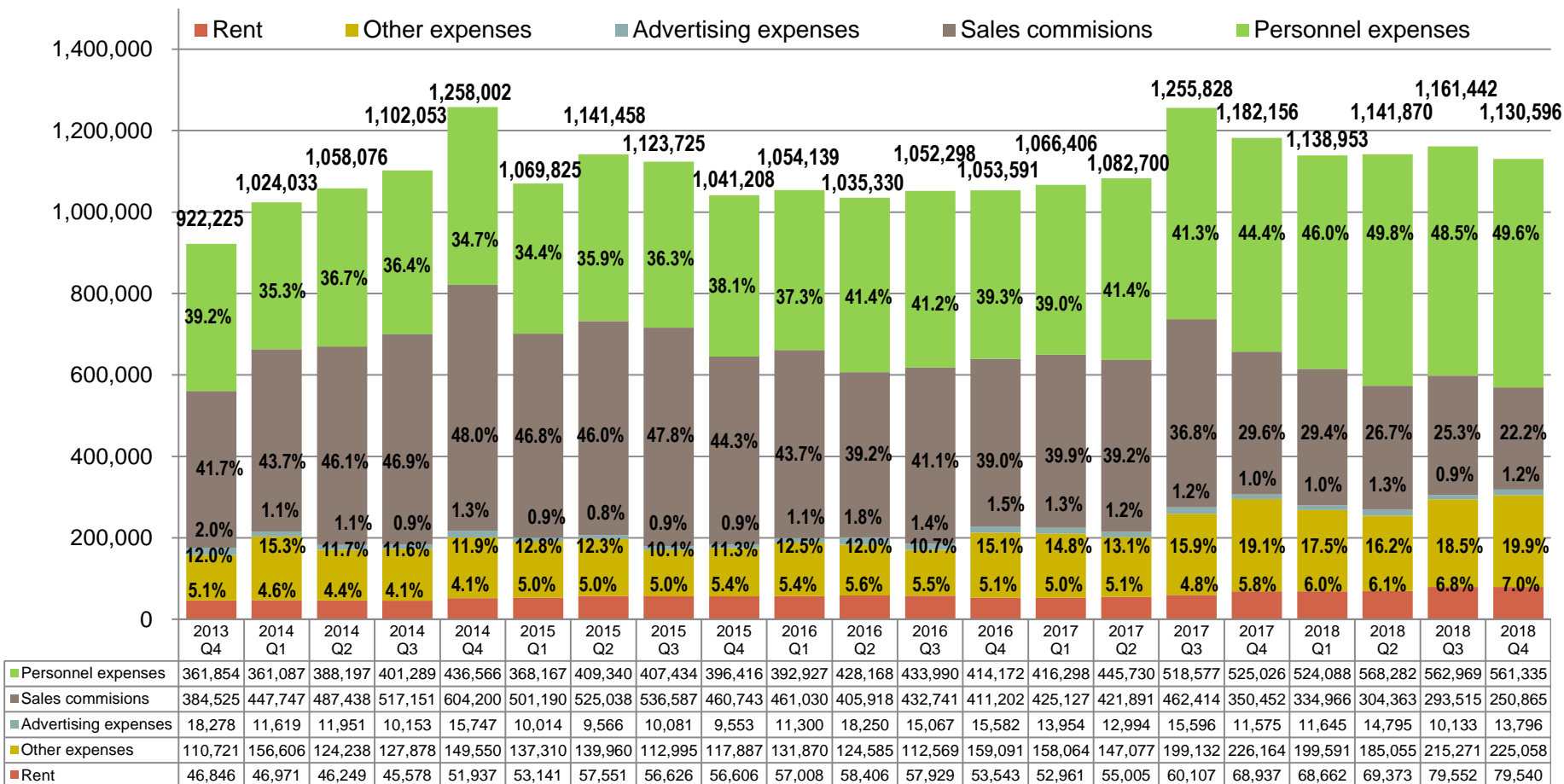
The cost of sales ratio increased 0.2 percentage points compared with 2018 Q3. The selling, general and administrative (SG&A) expenses ratio increased 0.7 percentage points.

# Selling, General and Administrative Expenses

(Consolidated/Quarterly basis)

## Management Indicators

(¥ thousands)



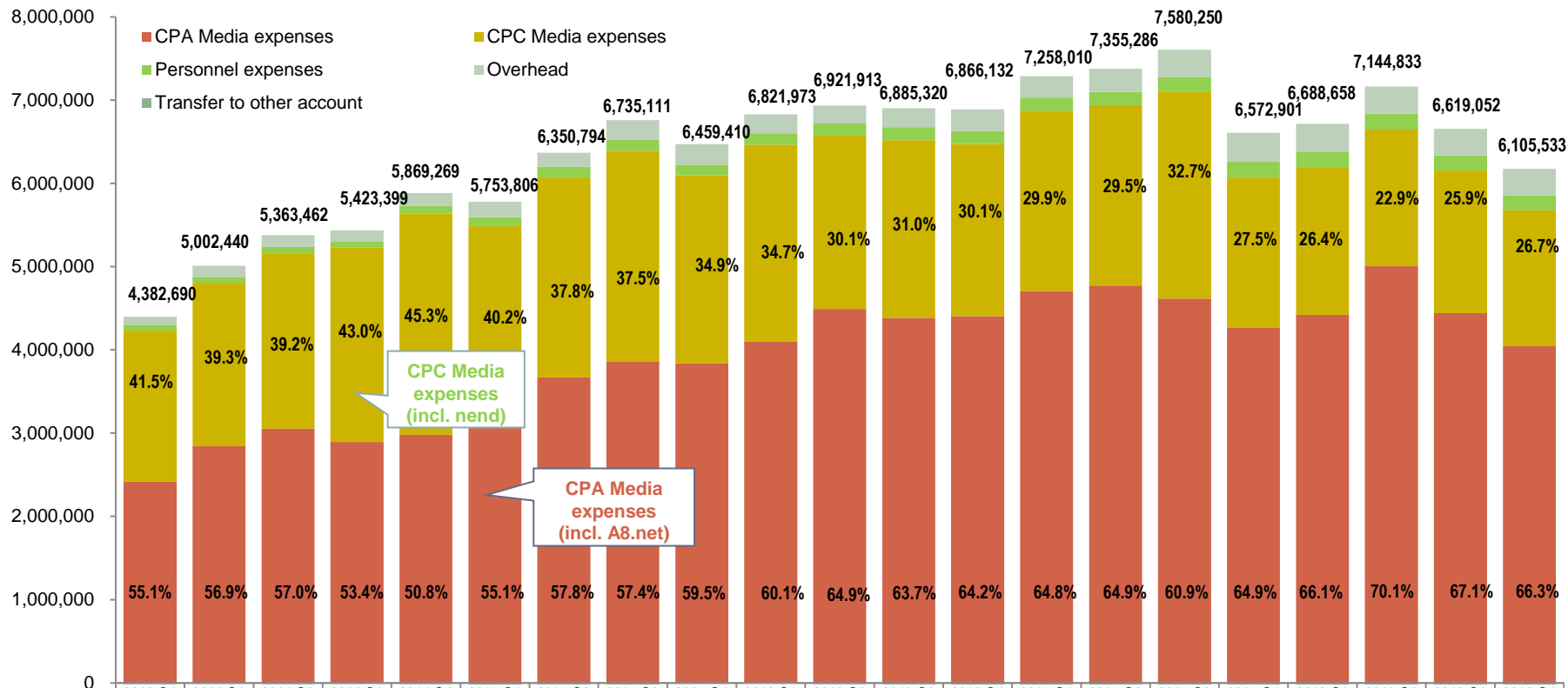
Other expenses consist of depreciation expenses, sales promotion expenses, payment commissions, and taxes (primarily size-based business taxes). Sales commissions decreased due to the sluggish sales of nend. Meanwhile, other expenses increased due to NEXTSTEP trainings.

# Cost of Sales

## (Consolidated/Quarterly basis)

### Management Indicators

(¥ thousands)



	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	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Transfer to other account	△ 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	△ 37,693	△ 28,888	△ 20,937	△ 37,831	△ 69,453
Overhead	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	347,113	336,195	328,003	322,692	319,423
Personnel expenses	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	191,650	191,812	192,698	179,150	180,005
CPC Media expenses	1,817,543	1,964,629	2,104,566	2,332,260	2,660,510	2,313,766	2,400,172	2,528,818	2,255,539	2,368,385	2,080,530	2,134,504	2,067,452	2,169,264	2,166,557	2,480,291	1,806,970	1,768,208	1,635,609	1,711,426	1,630,420
CPA Media expenses	2,414,792	2,843,953	3,056,067	2,894,671	2,980,927	3,171,138	3,671,132	3,862,900	3,842,018	4,098,871	4,493,290	4,386,162	4,404,896	4,705,994	4,774,649	4,617,119	4,264,860	4,421,329	5,009,457	4,443,611	4,045,135

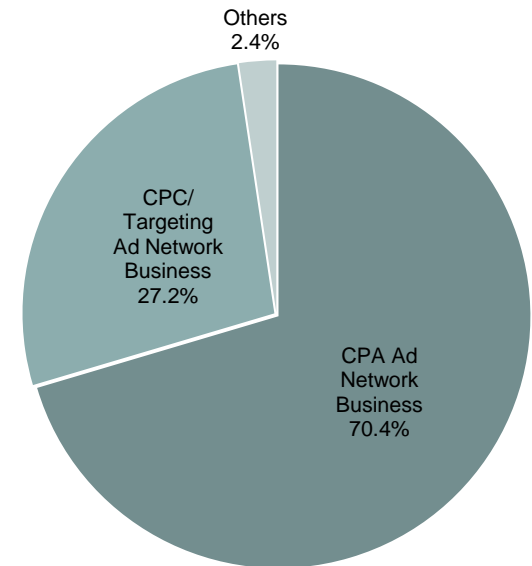
CPA Media expenses consist of A8net, seedApp and ad crops. CPC Media expenses consist of nend and nex8. Overhead consists of infrastructure costs such as data center costs.

## Overview by Main Service Area

# Net Sales by Reportable Segment (Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)	2018 Q4 (Oct. – Dec.)	2017 Q4 (Oct. – Dec.)	Change
CPA Ad Network Business	5,715,472	5,989,980	-4.6%
CPC/Targeting Ad Network Business	2,209,630	2,645,390	-16.5%
Others	192,751	213,477	-9.7%
<b>Total net sales</b>	<b>8,117,853</b>	<b>8,848,847</b>	<b>-8.3%</b>



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

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

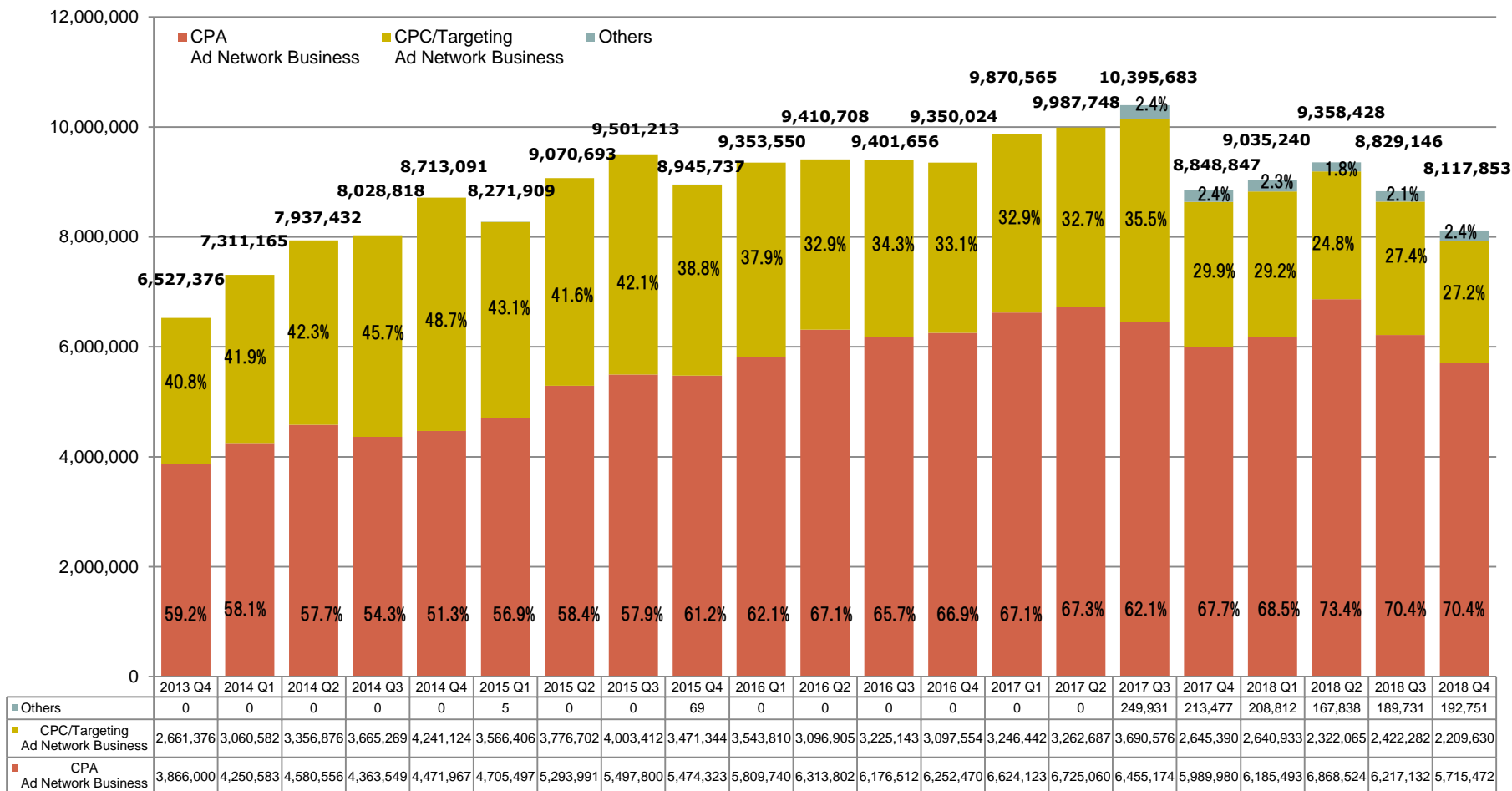
Sales after elimination of consolidated intercompany transactions..

Sales in the CPA Ad Network Business decreased 4.6%, and sales in the CPC/Targeting Ad Network Business dropped a substantial 16.5%.

# Net Sales by Reportable Segment (Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)



"Others" consists of the sales of Seesaa Inc.



# A8.net

## Summary

### CPA Ad Network Business

	2018 Q4 (Oct. – Dec.)	2017 Q4 (Oct. – Dec.)	Change
<b>Sales (¥ thousands)</b>	<b>5,274,919</b>	<b>5,454,584</b>	<b>-3.3%</b>
<b>Number of operating advertiser IDs</b>	<b>3,491</b>	<b>3,446</b>	<b>1.3%</b>
<b>Number of registered partner sites</b>	<b>2,539,128</b>	<b>2,366,269</b>	<b>7.3%</b>

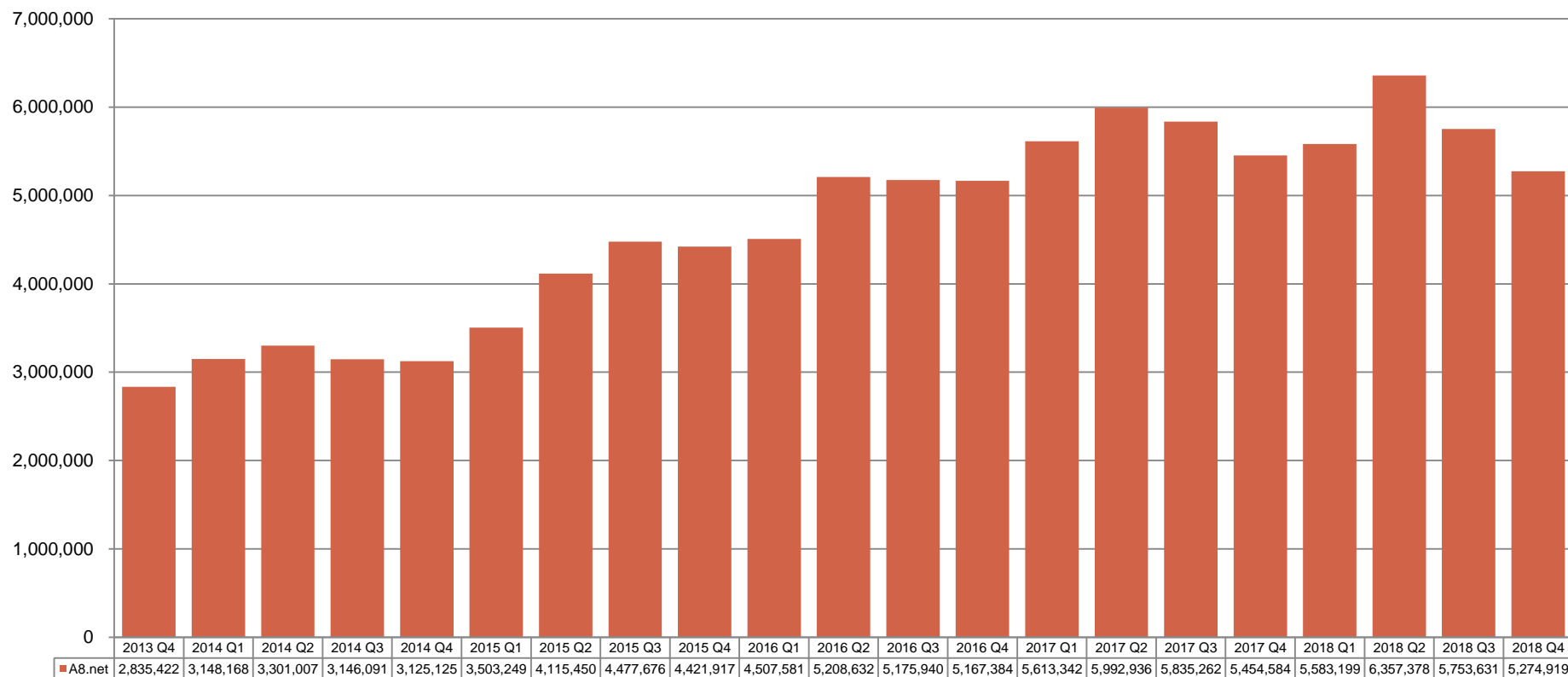
Sales before elimination of consolidated intercompany transactions.  
The number of operating advertiser IDs increased by 45 from 2017 Q4.

A8.net

Net Sales (Quarterly basis)

CPA Ad Network Business

¥ thousands)

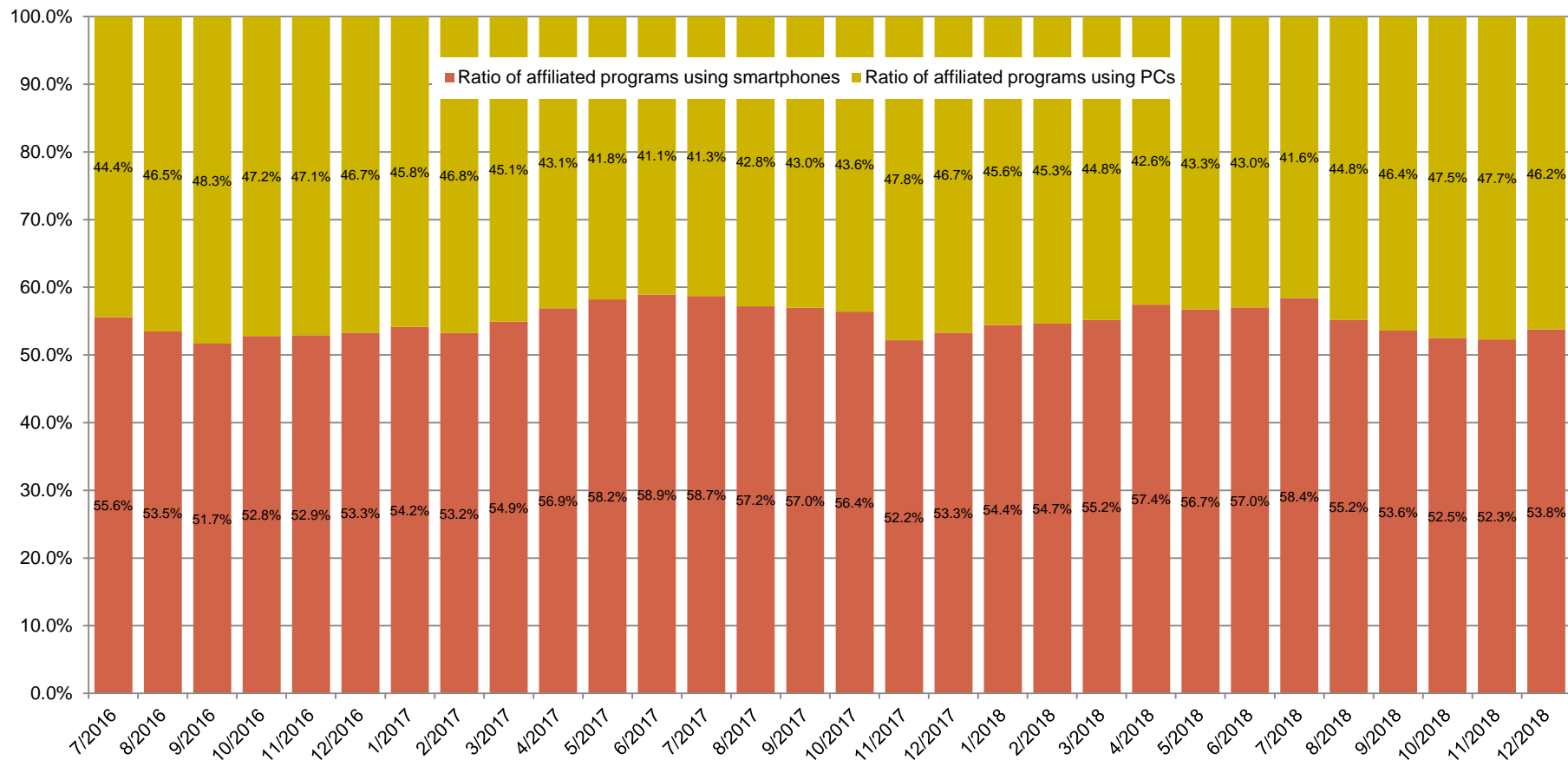


Sales before elimination of consolidated intercompany transactions.  
 Sales were sluggish due to the effect of the change in the algorithm of search engine.

A8.net

CPA Ad Network Business

## Ratio of Smartphones in Affiliated Programs (Monthly basis)

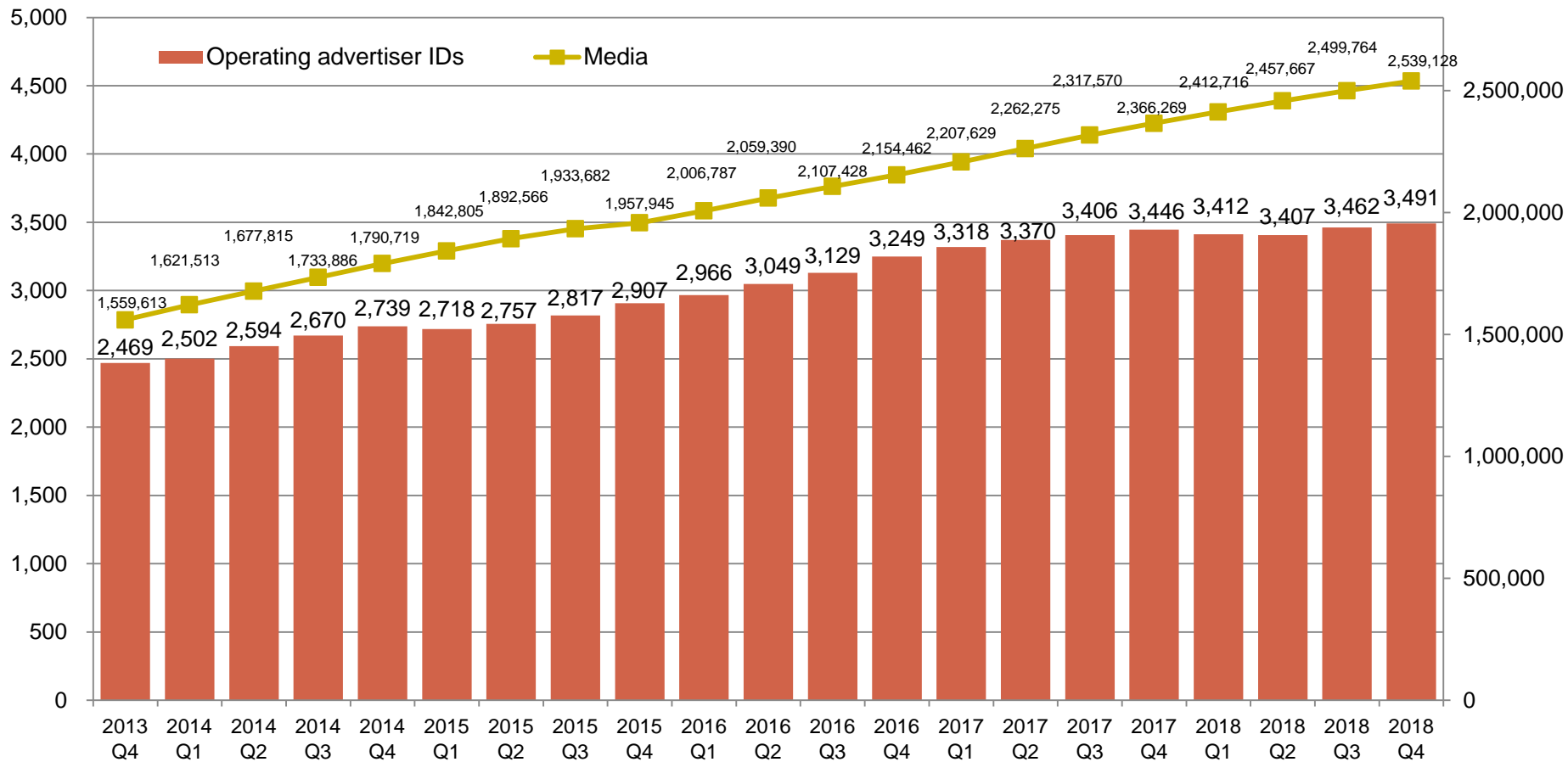


Note: The above affiliated program ratios are not final and are subject to change.

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.

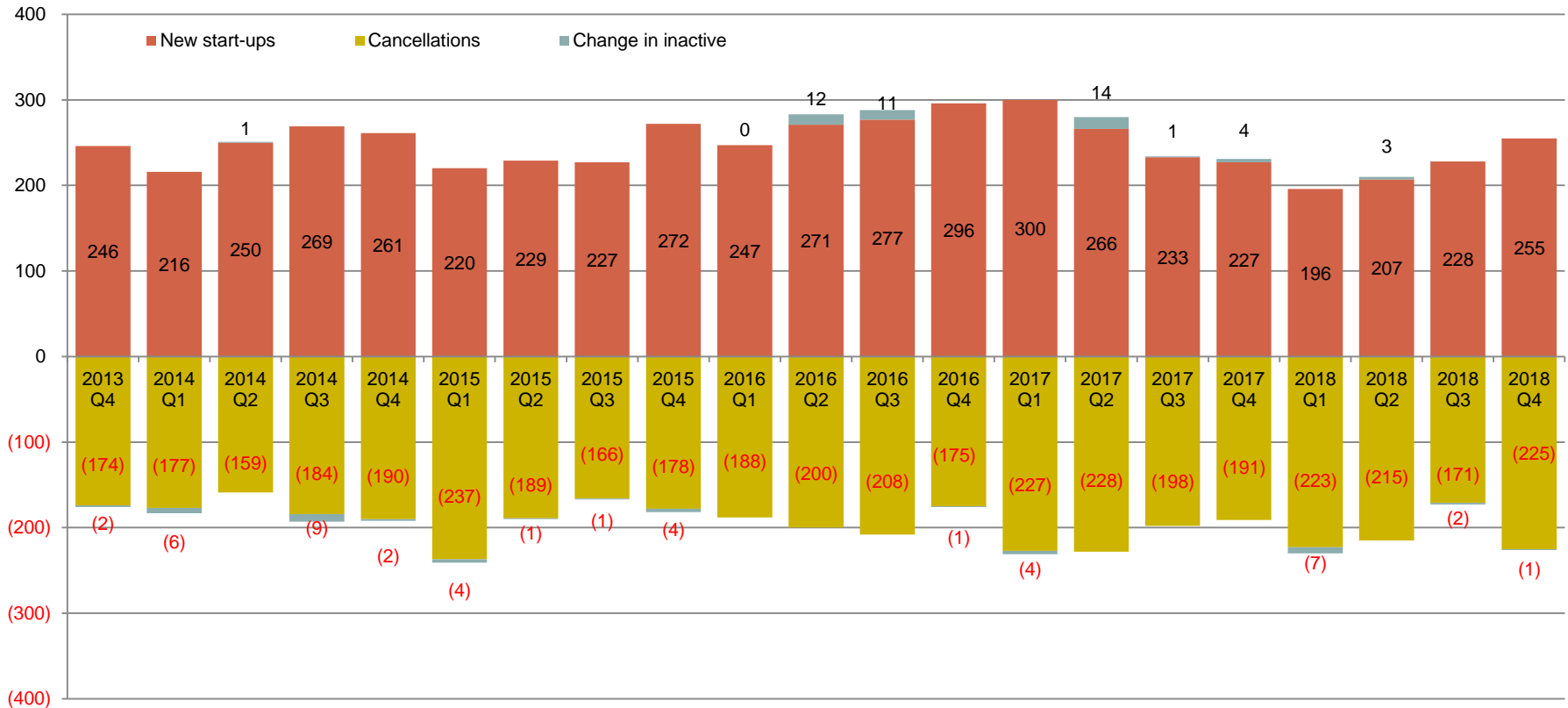
The number of operating advertisers increased by 29 from 2018 Q3.

The number of overseas operating advertisers increased by four from 2018 Q3 to 2018 Q4.

## A8.net

## CPA Ad Network Business

## New Advertiser Start-ups and Cancellations

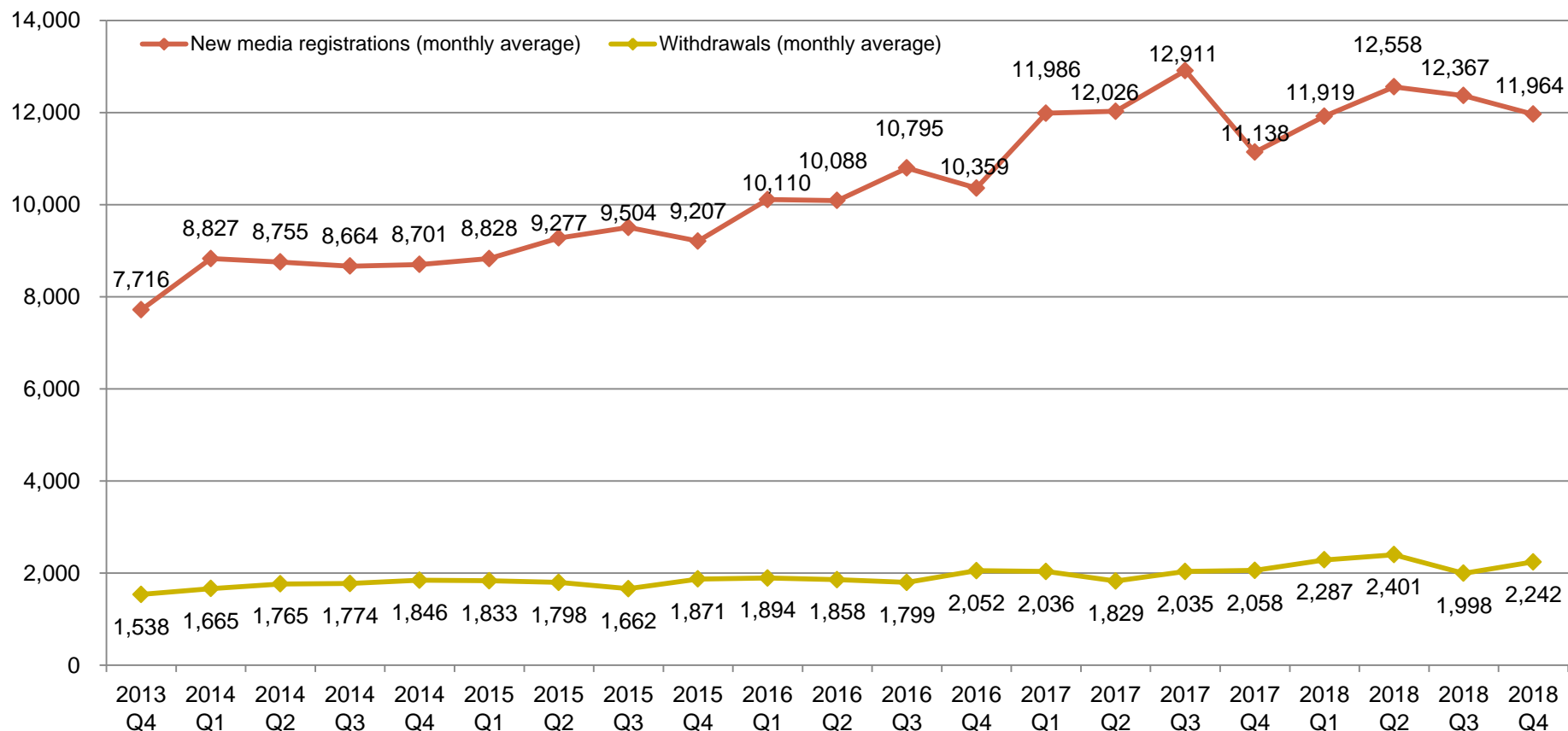


Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.  
The number of new start-ups recovered and the number of cancellations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

A8.net

CPA Ad Network Business

## Average Monthly New Media Registrations and Withdrawals



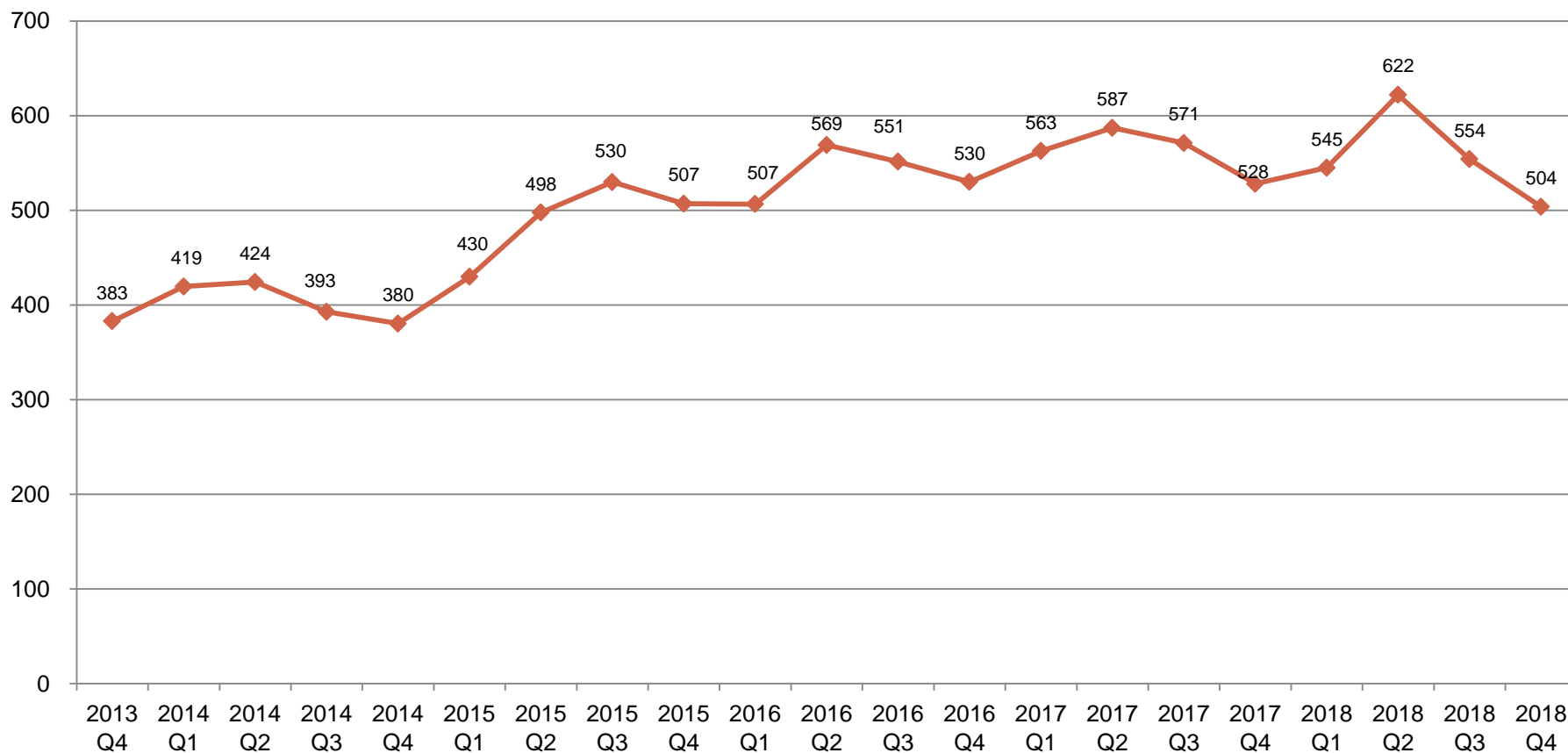
Monthly new media registrations slightly decreased and monthly withdrawals increased.

A8.net

CPA Ad Network Business

## Average Monthly Sales per Advertiser

(¥ thousands)

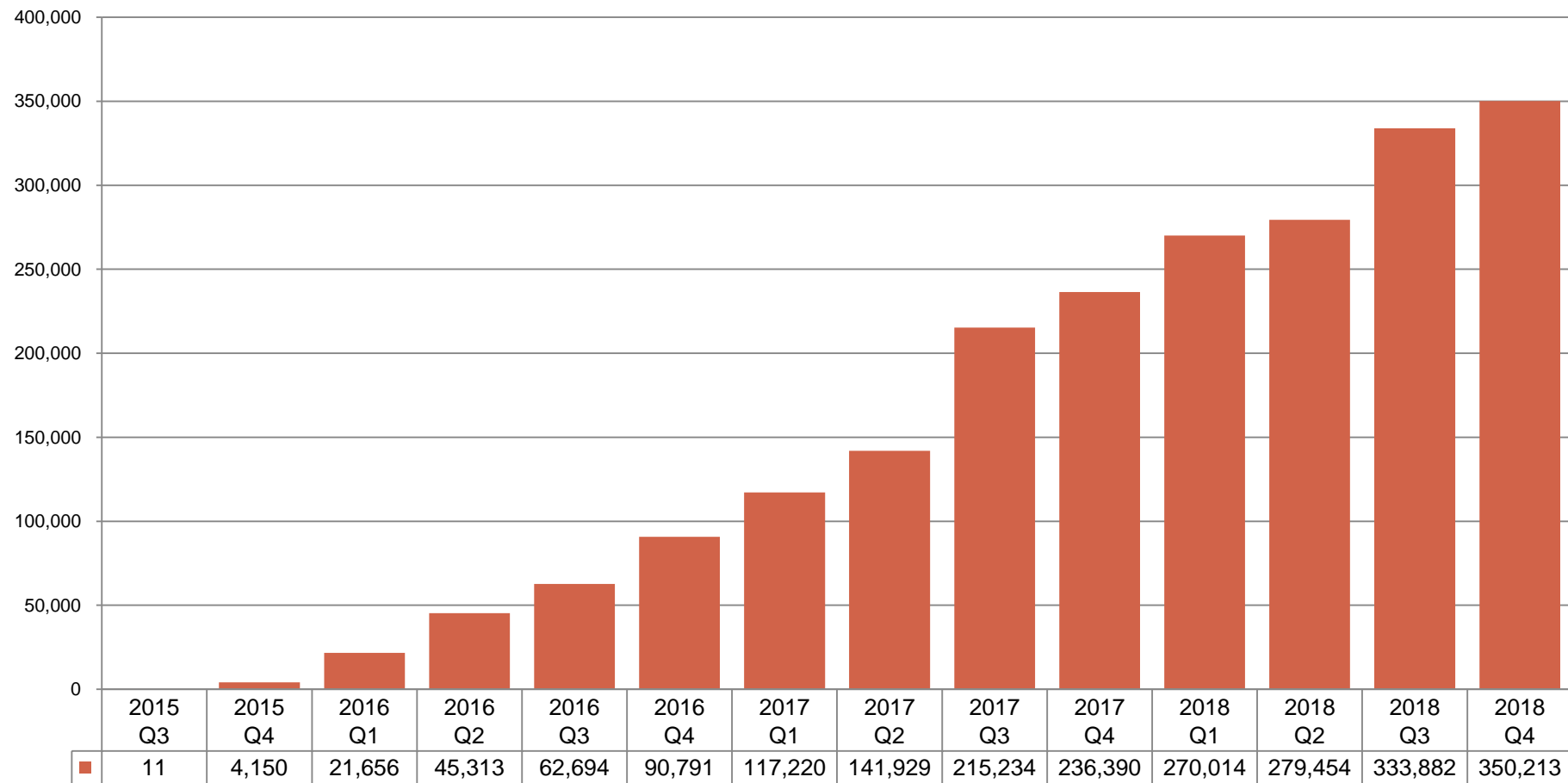


## seedApp

## Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)



Note: Sales before elimination of consolidated intercompany transactions

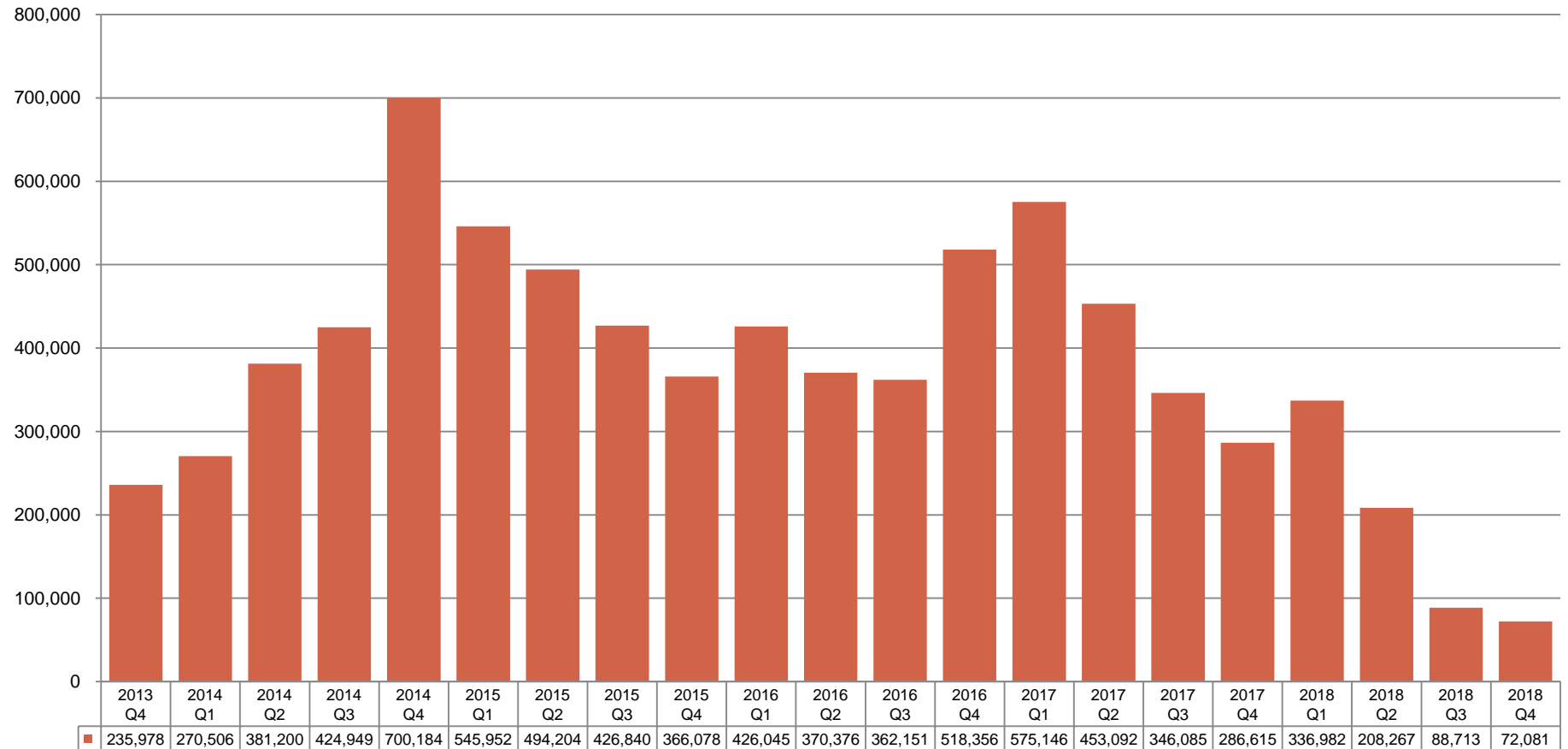


# Adcrops

## 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 8 crops only.  
2. Sales before elimination of consolidated intercompany transactions

# nend Summary

## CPC/Targeting Ad Network Business

	2018 Q4 (Oct. – Dec.)	2017 Q4 (Oct. – Dec.)	Change
Sales (¥ thousands)	<b>1,834,948</b>	<b>2,085,960</b>	<b>-12.0%</b>
Number of operating advertiser IDs	<b>314</b>	<b>395</b>	<b>-20.5%</b>
Number of ad spaces on registered partner sites	<b>928,948</b>	<b>834,296</b>	<b>11.3%</b>

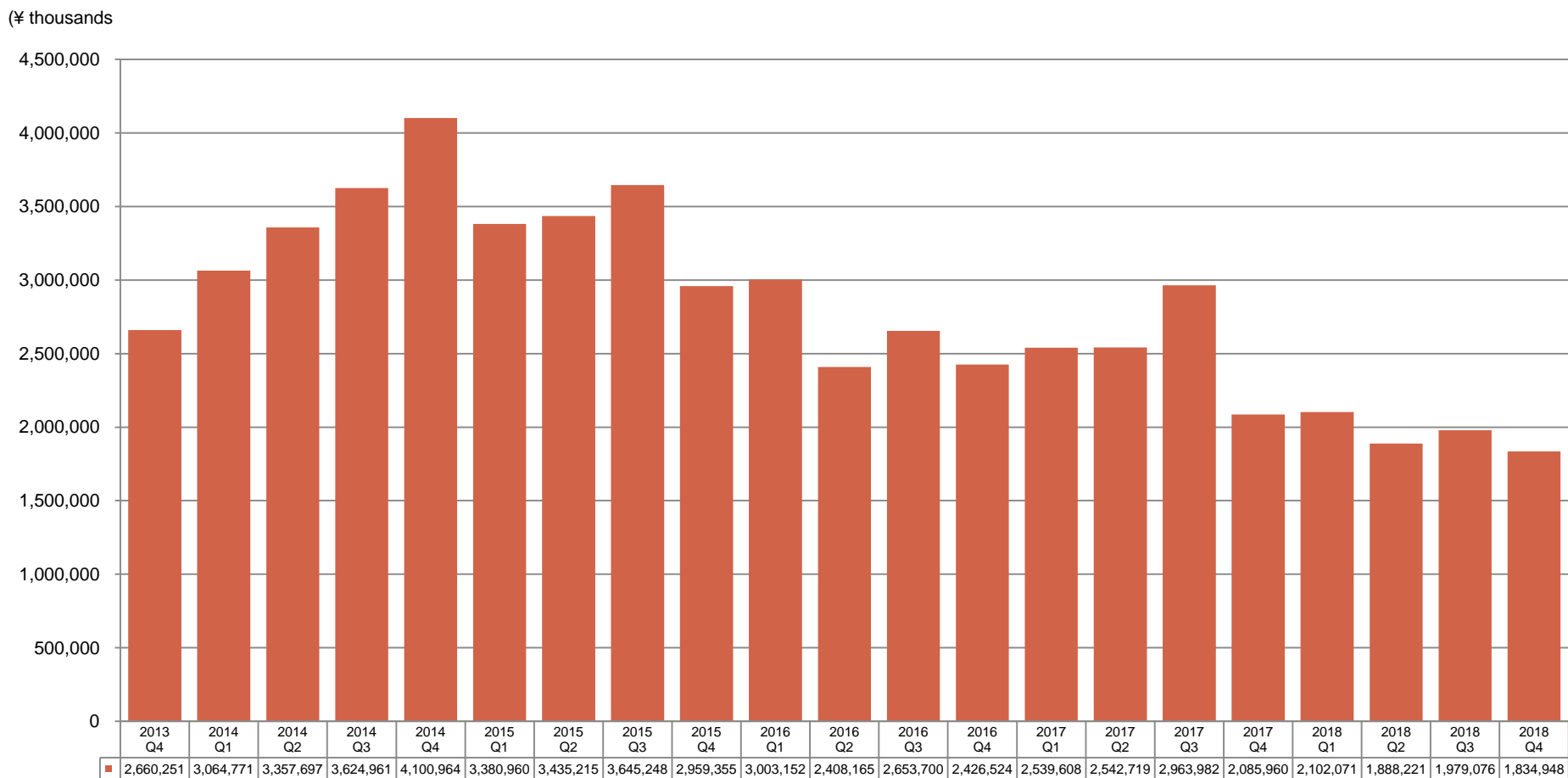
Sales before elimination of consolidated intercompany transactions.  
Note: Figures are those of nend only, and do not include other services.

Sales declined 12% compared with 2017 Q4.

# nend

## Net Sales (Quarterly basis)

CPC/Targeting  
Ad Network Business

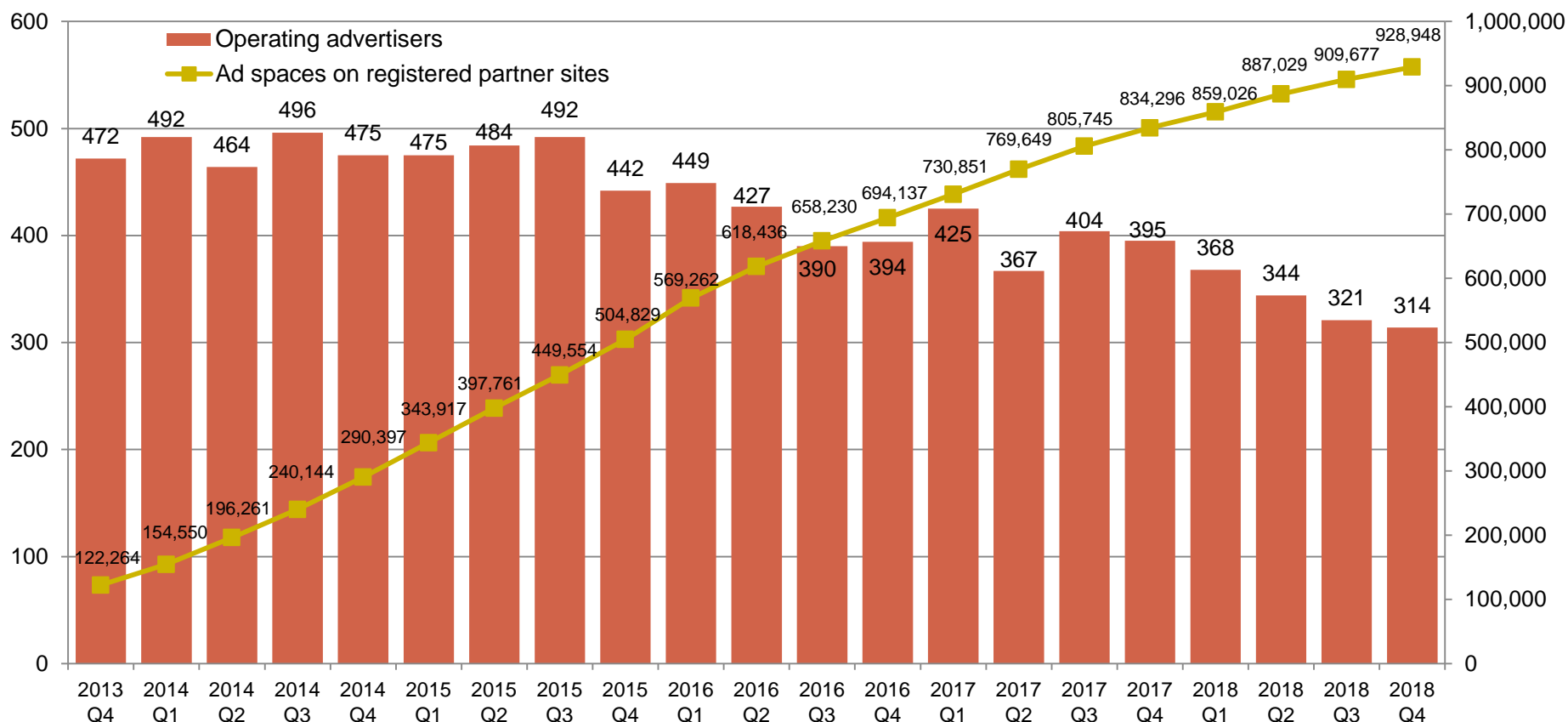


Note: Sales before elimination of consolidated intercompany transactions

# nend

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

### CPC/Targeting Ad Network Business

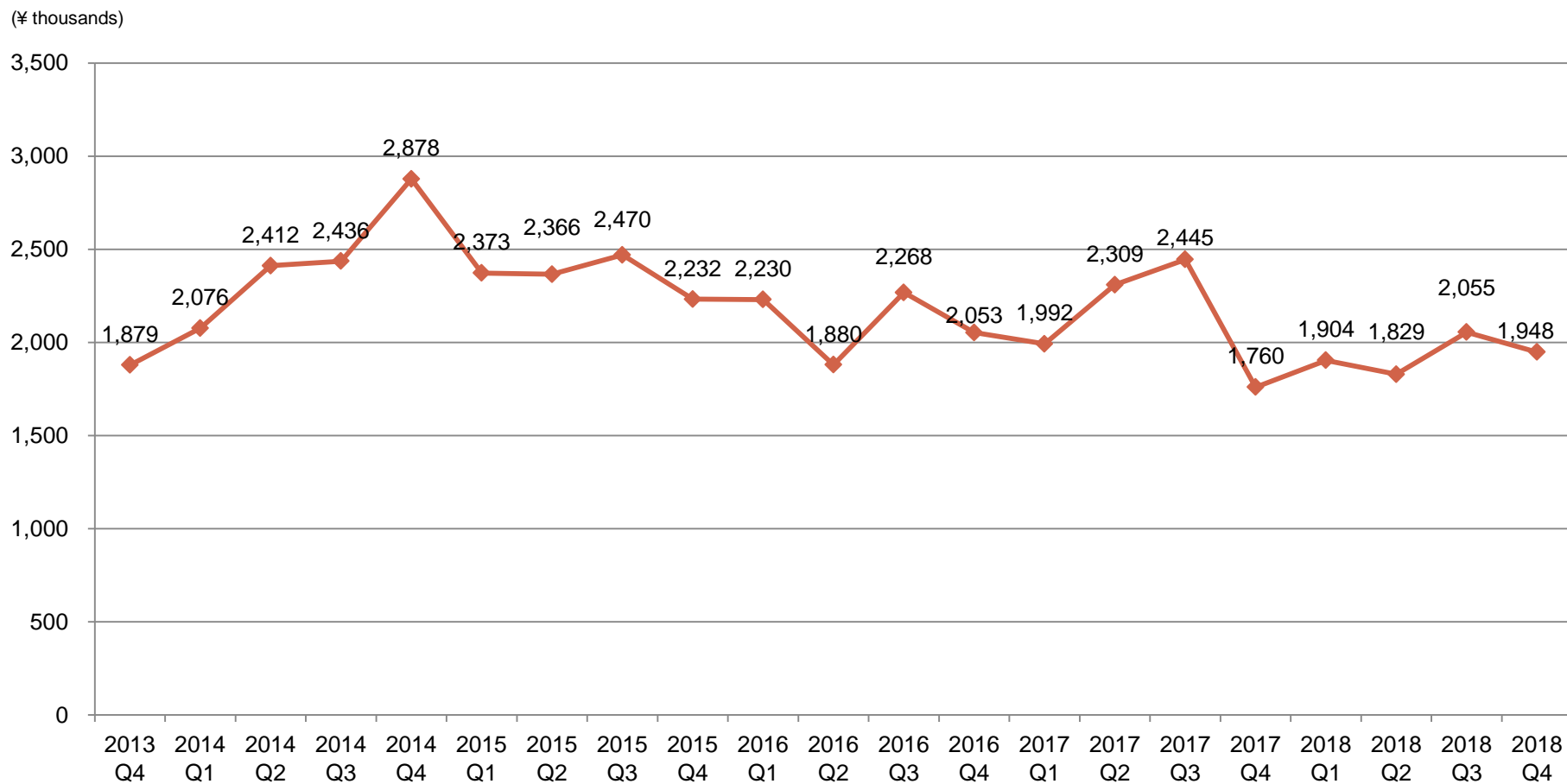


Note: The number of operating advertisers is as of the final month of each quarter.  
The number of operating advertisers decreased by seven from 2018 3Q.

# nend

## Average Monthly Sales per Advertiser

CPC/Targeting  
Ad Network Business

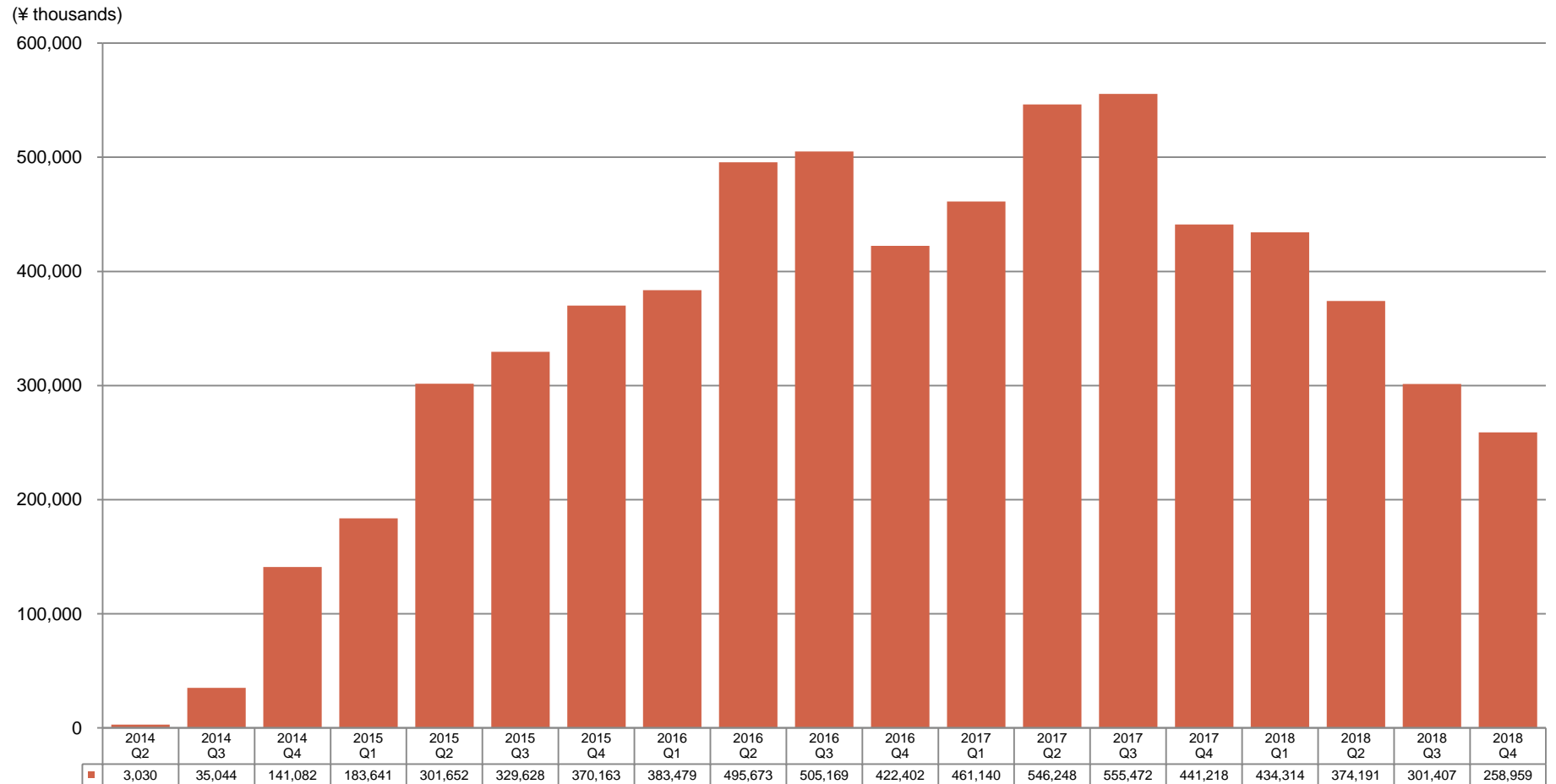


Average monthly sales per advertiser was ¥1.94 million.

# 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 Full Year	2017 Full Year
Net sales	<b>814,433</b>	<b>1,016,436</b>
Operating income (loss)	<b>-39,578</b>	<b>-21,587</b>
Profit (loss) attributable to owners of parent	<b>-75,768</b>	<b>-26,059</b>

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 Full Year	Cumulative total for July-Dec. 2017
Net sales	<b>810,001</b>	<b>472,501</b>
Operating income	<b>20,481</b>	<b>94,828</b>
Profit attributable to owners of parent	<b>94,909</b>	<b>66,918</b>

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

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



# Overview of 2018 and Future Issues

Our response to ITP (Intelligent Tracking Prevention) that started in the third quarter of 2017 has been almost completed through the improvement of tracking methods and review of our strategies at the end of 2018.

We think our advertisers and media can use our services at ease now.

Additionally, we sincerely promoted the response to ad fraud and safety problems.

We decided to have medi8, SSP for overseas and adrops, CPI ad network for which removing ad fraud was functionally difficult (though we made efforts) withdraw.

We will aim to build the ad network that advertisers can use at ease, going forward.

Also, we promoted the transition from display advertisement to video advertisement.

We expect the ratio of video advertisement will further increase going forward. We will enhance advertising creative.

We consider advertisers will be able to distribute their advertisement to media with high advertising effect, and media will be able to increase their profits.

We think that we have built the business foundation on which we can develop, responding to the changes in the environment surrounding net advertising such as advertising creative, copyright problems and privacy.

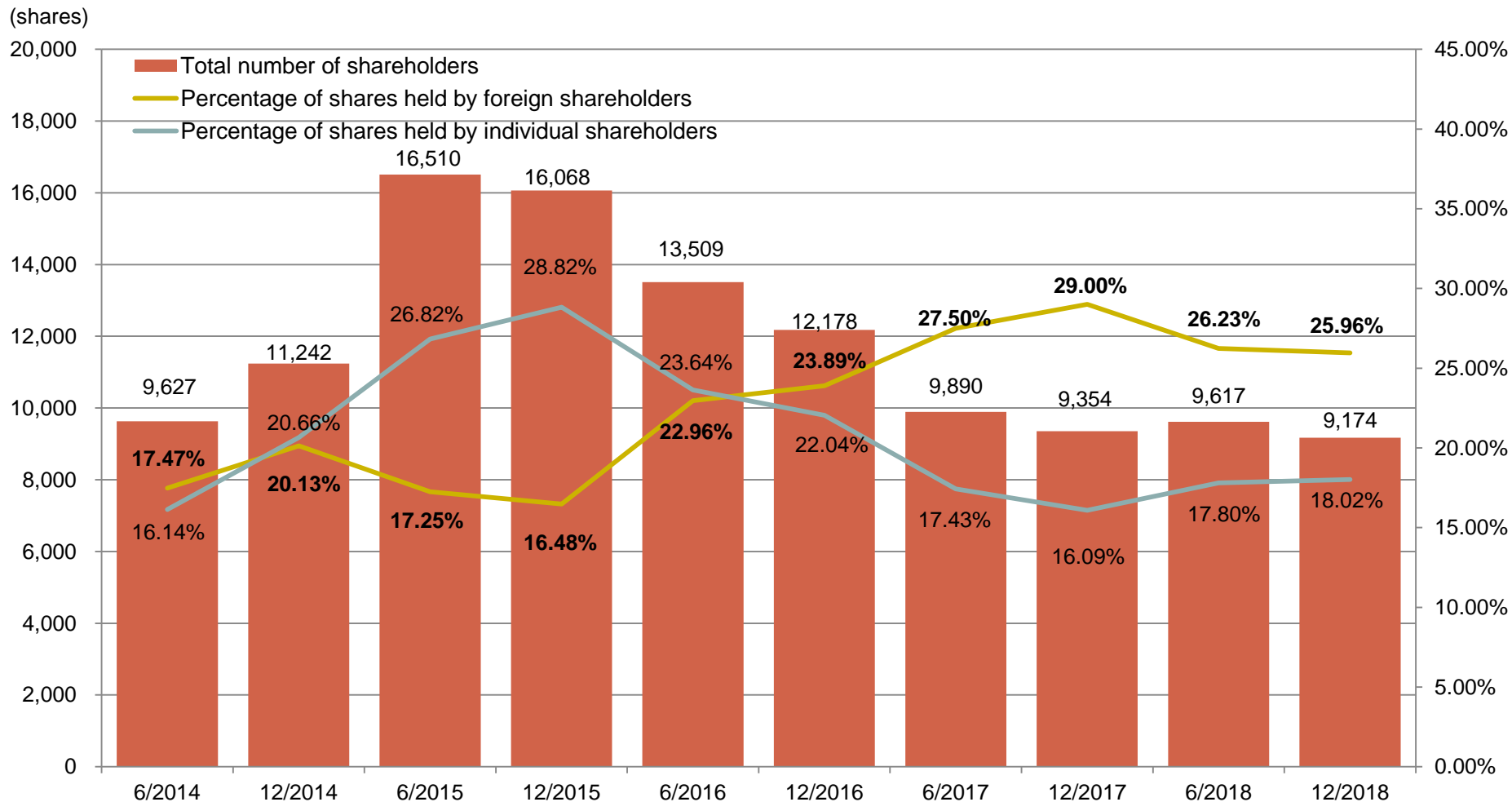
We will continuously focus on the service development which is beneficial for the three parties; advertisers, media and consumers, going forward.

## Stock Information

# Stock Information

## Stock Information

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



In "Percentage of shares held by individual shareholders" and "Percentage of shares held by foreign shareholders", the number of shares owned by our company's executive officers and employees is excluded.

## 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

■ <b>Company name</b>	<b>F@N Communications, Inc.</b>
■ <b>Securities code</b>	<b>2461 (Tokyo Stock Exchange, First Section)</b>
■ <b>Fiscal year-end</b>	<b>December</b>
■ <b>Established</b>	<b>October 1, 1999</b>
■ <b>Capital</b>	<b>¥1,173.67 million (As of December 31, 2018)</b>
■ <b>President and Representative Director</b>	<b>Yasuyoshi Yanagisawa</b>
■ <b>Number of employees</b>	<b>Non-consolidated: 419 Group total: 512 (As of December 31, 2018; includes part-time and temp staff)</b>
■ <b>Headquarters</b>	<b>Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan</b>
■ <b>Phone</b>	<b>+81-3-5766-3530 (IR)</b>
■ <b>Fax</b>	<b>+81-3-5766-3782</b>

# Disclaimer

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