



First Quarter of 2019  
Presentation of Financial Results

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May 9, 2019  
F@N Communications, Inc.

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# First Quarter of 2019 Performance Highlights

# First Quarter of 2019: Key Points

## Performance Highlights

- **Net sales on a quarterly basis increased by 7.5% compared with the previous quarter, resulting in increased revenue for the first time in 3 quarters.**
- **The ratio of ordinary income to net sales was 11%, which was almost the same as the previous quarter's. The net sales should increase more.**
- **The monthly sales slightly exceeded that of last year in March. However, the situation has been still severe.**

# Consolidated Results of Operations

## Performance Highlights

(¥ thousands)	2019 Q1	2018 Q1	Year-on-Year Change	% of Net Sales
Net sales	8,724,816	9,035,240	-3.4%	100%
Operating income	964,546	1,207,628	-20.1%	11.1%
Ordinary income	967,733	1,226,226	-21.1%	11.1%
Profit attributable to owners of parent	628,003	818,649	-23.3%	7.2%
Ordinary income margin	11.1%	13.6%	-2.5pt	-
Net income per share	¥8.29	¥10.65	-22.2%	-
Diluted net income per share	¥8.29	¥10.64	-22.1%	-

# Consolidated Balance Sheets

## Performance Highlights

(¥ thousands)	December 31, 2018	March 31, 2019
<b>Assets</b>		
<b>Current assets</b>	<b>22,596,975</b>	<b>22,766,930</b>
Cash and deposits	17,778,004	16,887,642
Notes and accounts receivable - trade	3,703,909	4,380,240
Securities	800,590	1,011,567
Other	327,994	499,716
Allowance for doubtful accounts	-13,522	-12,236
<b>Fixed assets</b>	<b>3,193,271</b>	<b>2,443,520</b>
Property and equipment	327,920	303,118
Intangible assets	284,313	299,940
Investments and other assets	2,581,037	2,443,520
<b>Total assets</b>	<b>25,790,246</b>	<b>25,813,509</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>	<b>5,800,864</b>	<b>6,631,525</b>
Notes and accounts payable - trade	4,384,454	4,953,119
Income taxes payable	590,647	271,977
Other current liabilities	825,762	1,406,427
<b>Long-term liabilities</b>	<b>153,578</b>	<b>150,238</b>
<b>Total liabilities</b>	<b>5,954,442</b>	<b>6,781,763</b>
<b>Total net assets</b>	<b>19,835,804</b>	<b>19,031,745</b>
<b>Total liabilities and net assets</b>	<b>25,790,246</b>	<b>25,813,509</b>

The main component was ¥2,021,316 thousand in investment securities.

The main factor of the increase was a ¥568,665 thousand increase in accounts payable – trade.

The main factor of the decrease of ¥1,439,423 thousand was due to the payment of dividend though the profit attributable to owners of parent was ¥628,003 thousand.

# 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)	2019 1Q Actual	Progress (% of Full-Year Forecast)
Net sales	<b>34,200</b> (-3.2)	<b>16,800</b> (-8.7)	<b>8,724</b>	<b>25.5%</b>
Operating income	<b>3,700</b> (-12.1)	<b>1,700</b> (-25.4)	<b>964</b>	<b>26.1%</b>
Ordinary income	<b>3,720</b> (-14.8)	<b>1,710</b> (-29.3)	<b>967</b>	<b>26.0%</b>
Profit attributable to owners of parent	<b>2,580</b> (1.0)	<b>1,190</b> (-26.7)	<b>628</b>	<b>24.3%</b>

## Dividend Forecast

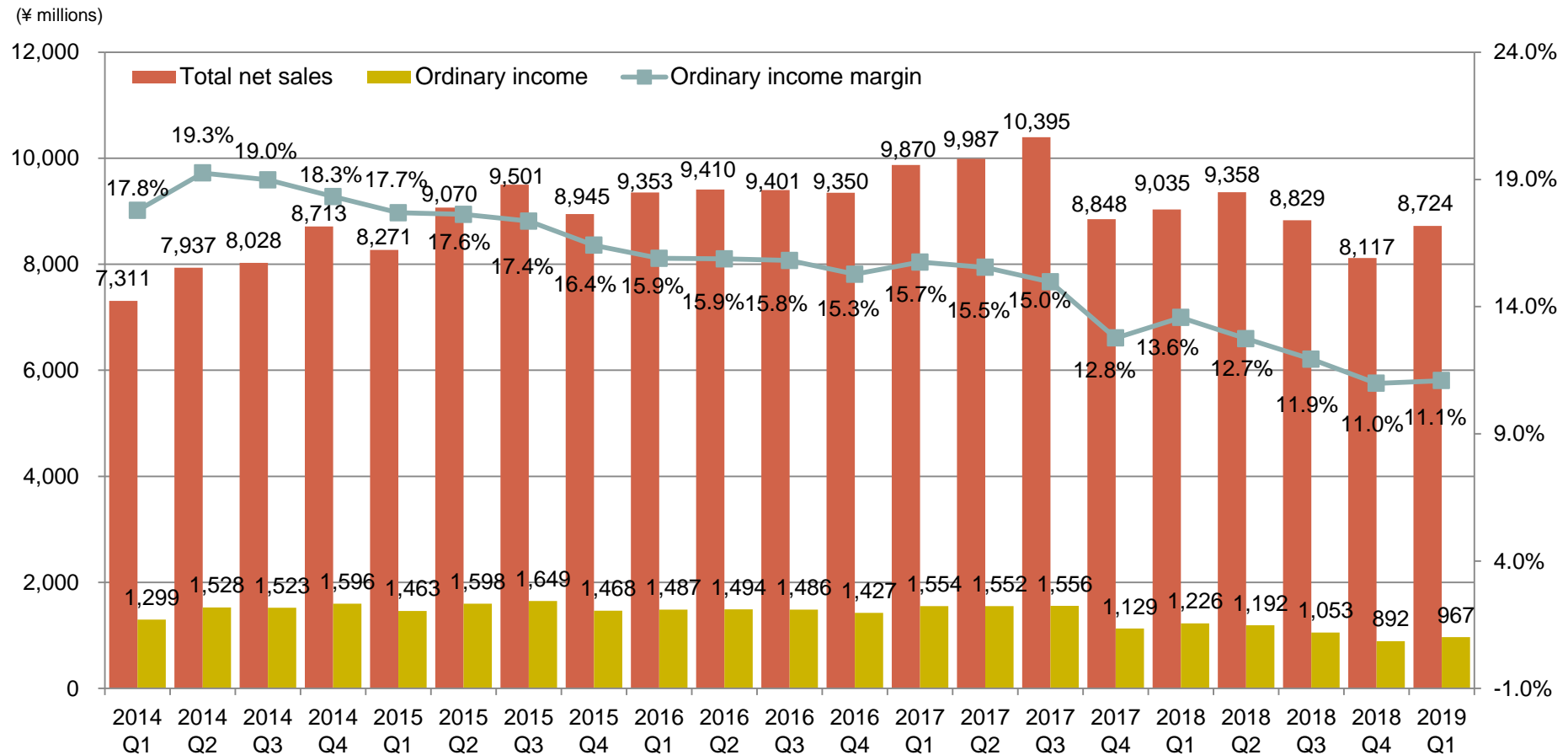
	2019 Forecast	2018 Actual
Year-end dividend per share	<b>¥19</b>	<b>¥19</b>

## Management Indicators (Quarterly Basis)



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

Management  
Indicators

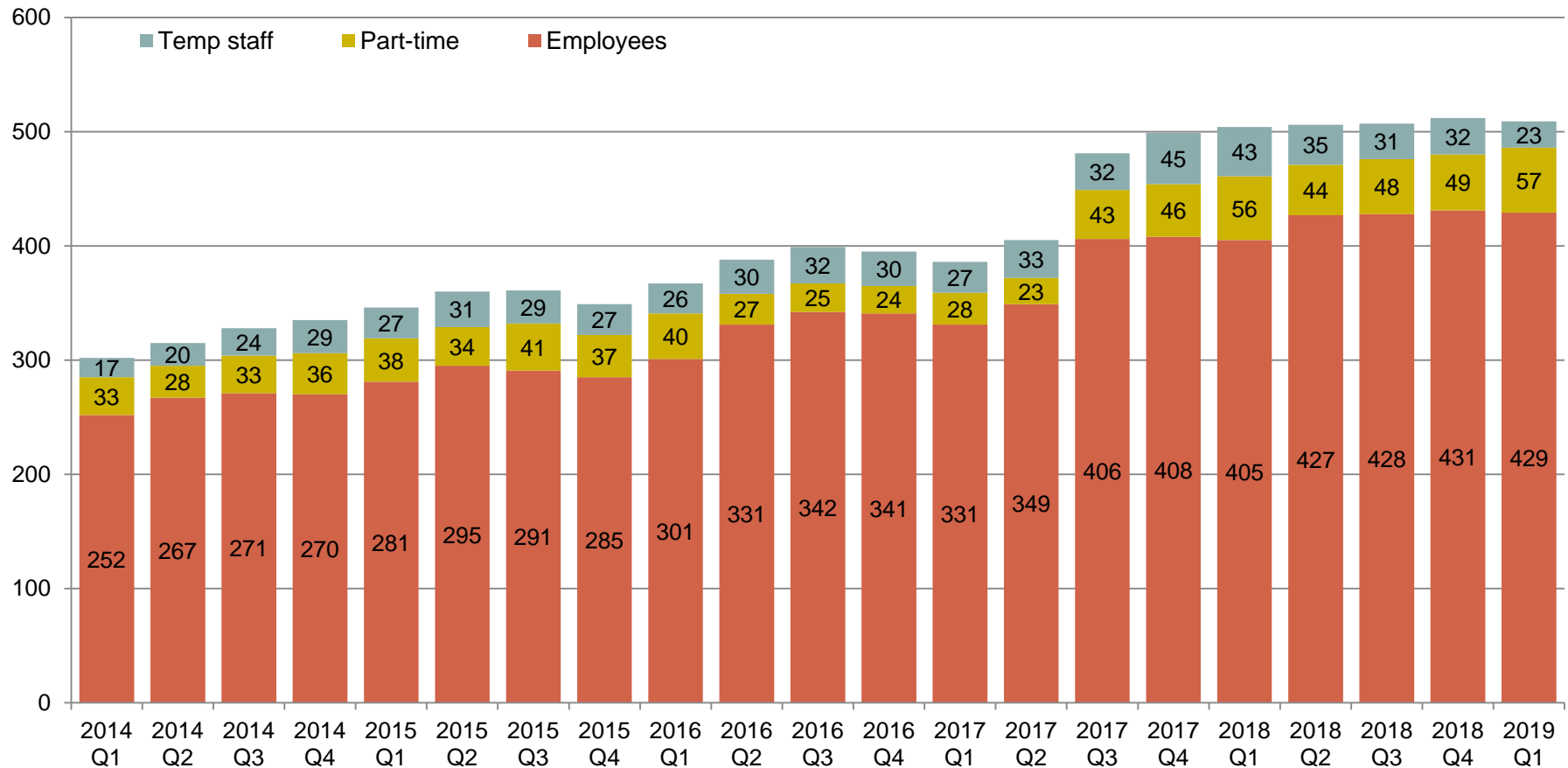


The ordinary income margin was 11.1%, an increase of 0.1 percentage points from the previous quarter.

# Number of Employees

(Consolidated/Quarterly basis)

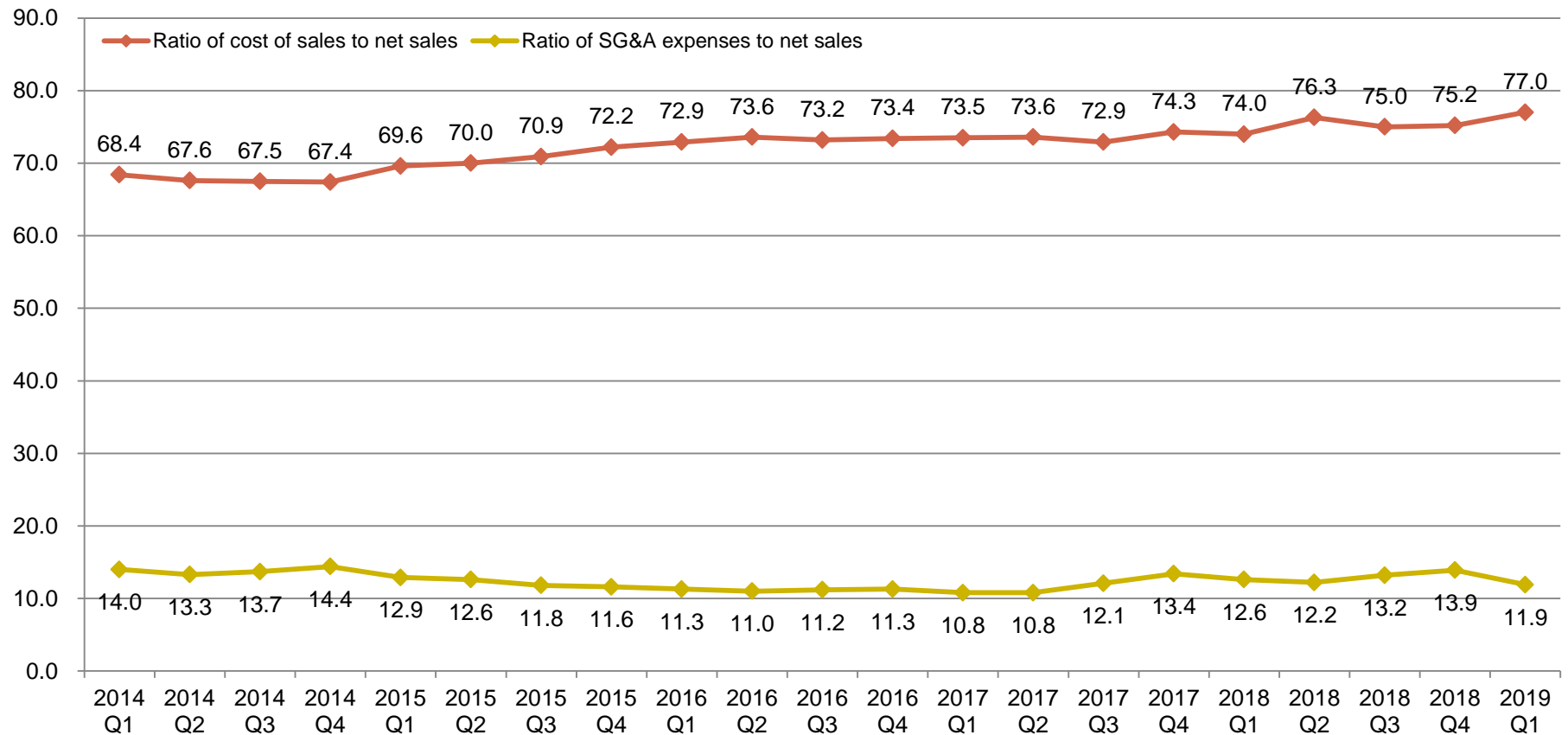
## Management Indicators



The total number of employees in the Group was 509, an increase of 5 from the same period of the previous year and a decrease of 3 from the previous quarter.

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

## Management Indicators

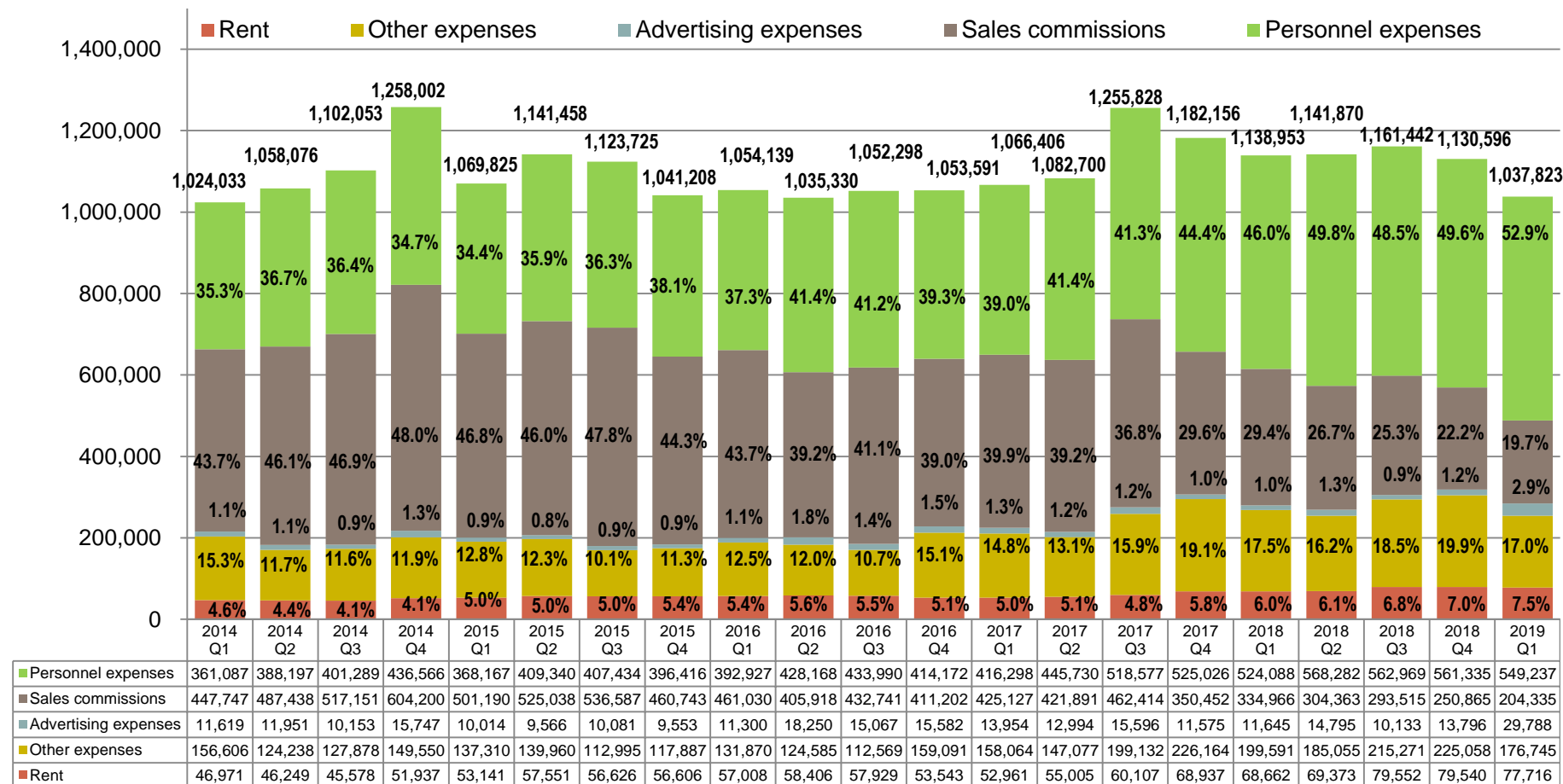


The ratio of cost of sales to net sales increased 1.8 percentage points compared with 2018 Q4. The selling, general and administrative (SG&A) expenses ratio decreased 2.0 percentage points.

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

## Management Indicators

(¥ thousands)



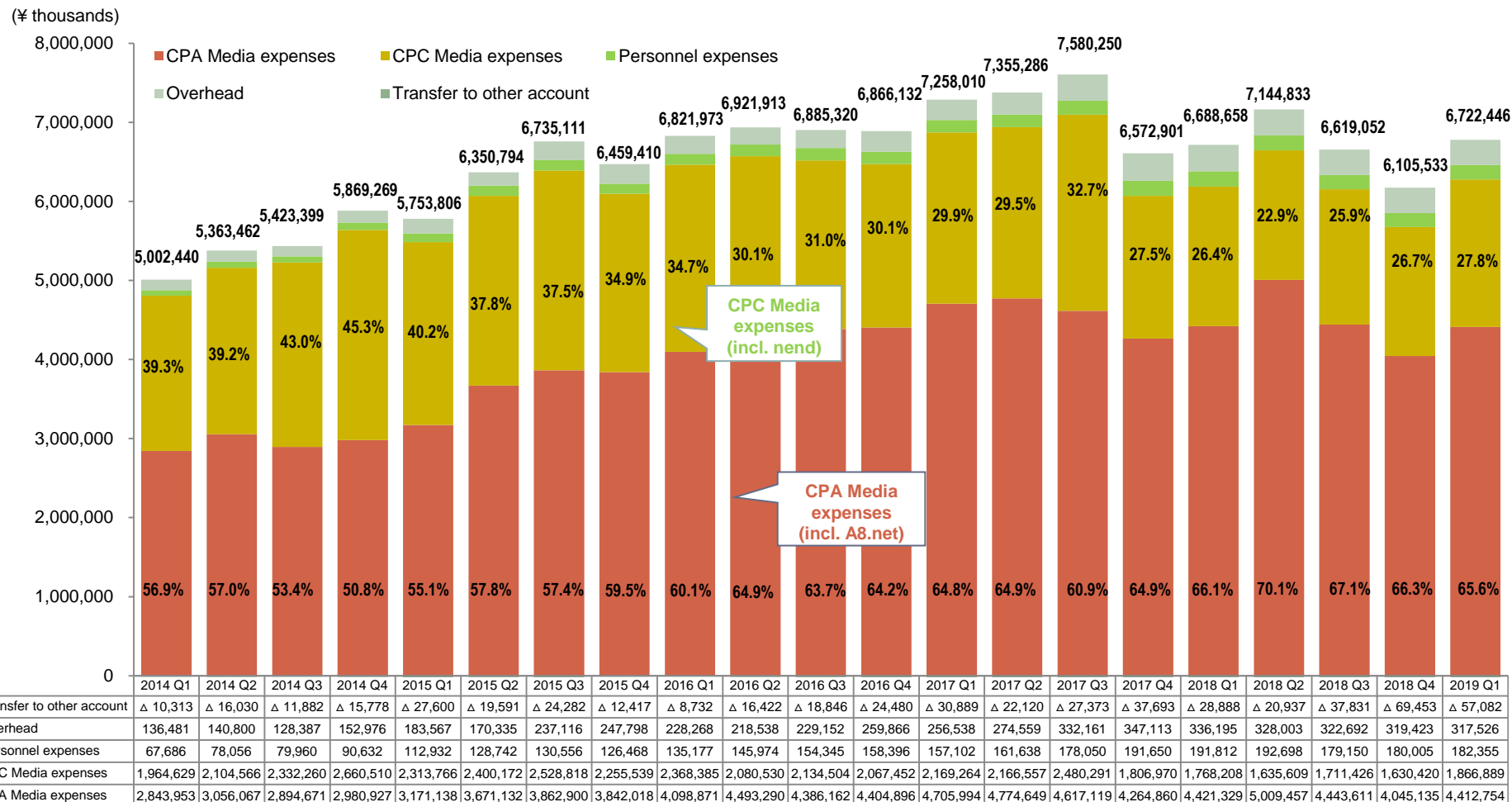
Note: Other expenses consist of business training expenses, business consignment expenses, payment commissions, and taxes (primarily size-based business taxes).

The ratio of SG&A to net sales decreased due to the decrease in sales commissions caused by the increase in direct sales of nend and the elimination of amortization of goodwill.

# Cost of Sales

(Consolidated/Quarterly basis)

## Management Indicators



Notes: CPA Media expenses consist of A8net, seedApp and adcroops. CPC Media expenses consist of nend and nex8.

Overhead consists of infrastructure costs such as data center costs

The ratio of cost of sales to net sales increased due to the increase in stocking caused by part of the media and the increase in temporary ratios in the fields with low commission ratios.

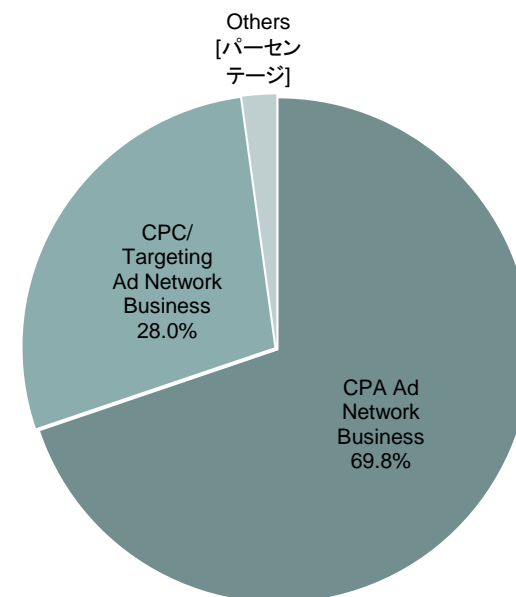
## Overview by Main Service Area

# Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)	2019 Q1 (Jan. – Mar.)	2018 Q1 (Jan. – Mar.)	Change
CPA Ad Network Business	6,089,699	6,185,493	-1.5%
CPC/Targeting Ad Network Business	2,445,395	2,640,933	-7.4%
Others	189,721	208,812	-9.1%
<b>Total net sales</b>	<b>8,724,816</b>	<b>9,035,240</b>	<b>-3.4%</b>



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

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

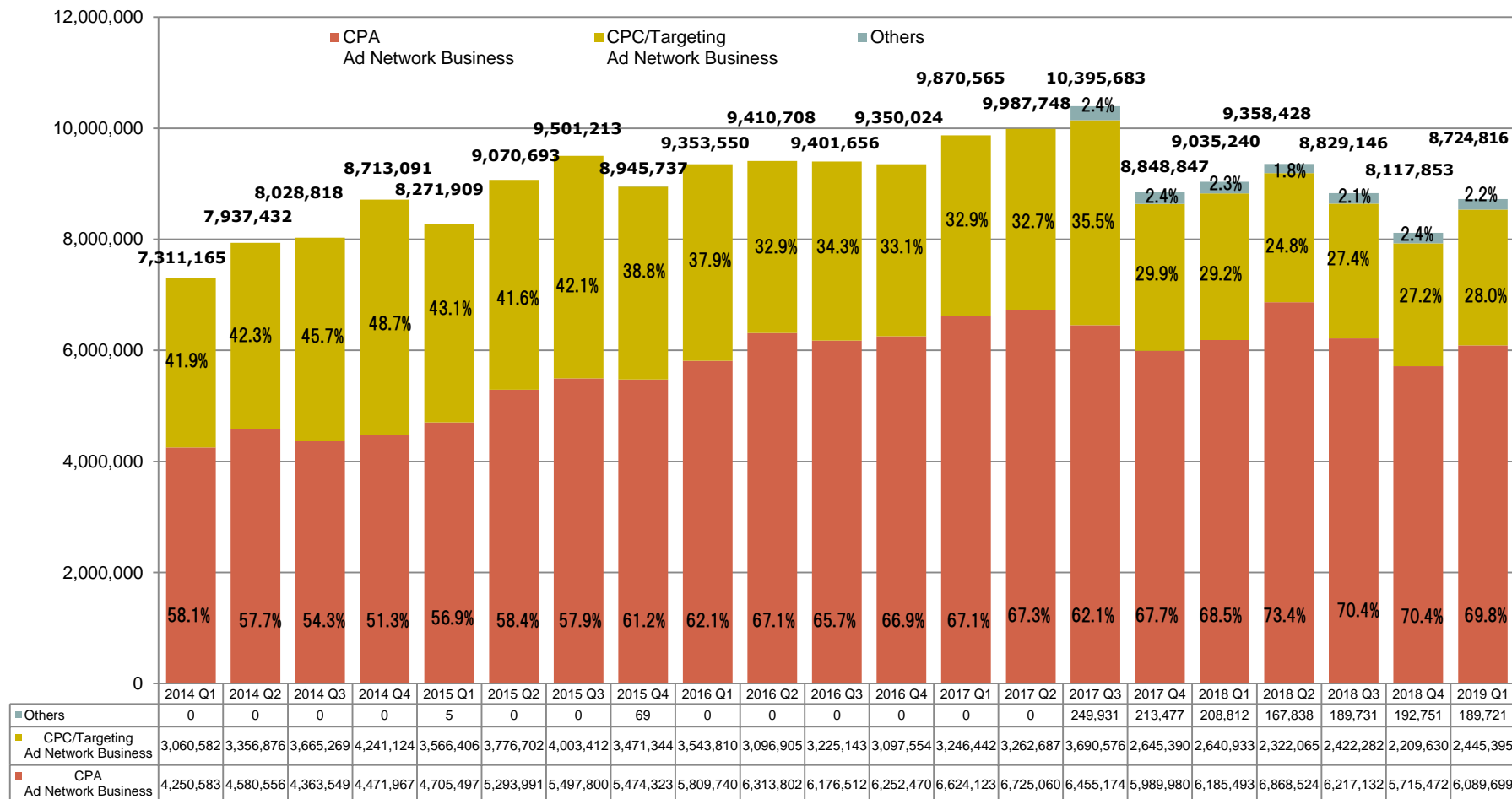
Note: Sales after elimination of consolidated intercompany transactions.  
 Sales in the CPA Ad Network Business decreased 1.5% and CPC/Targeting Ad Network Business dropped a substantial 7.4% year-on-year.

# Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

## Overview by Service Area

(¥ thousands)



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



# A8.net Summary

## CPA Ad Network Business

	2019 Q1 (Jan. - Mar.)	2018 Q1 (Jan. - Mar.)	Change
Sales (¥ thousands)	5,663,095	5,583,199	1.4%
Number of operating advertiser IDs	3,502	3,412	2.6%
Number of registered partner sites	2,583,454	2,412,716	7.1%

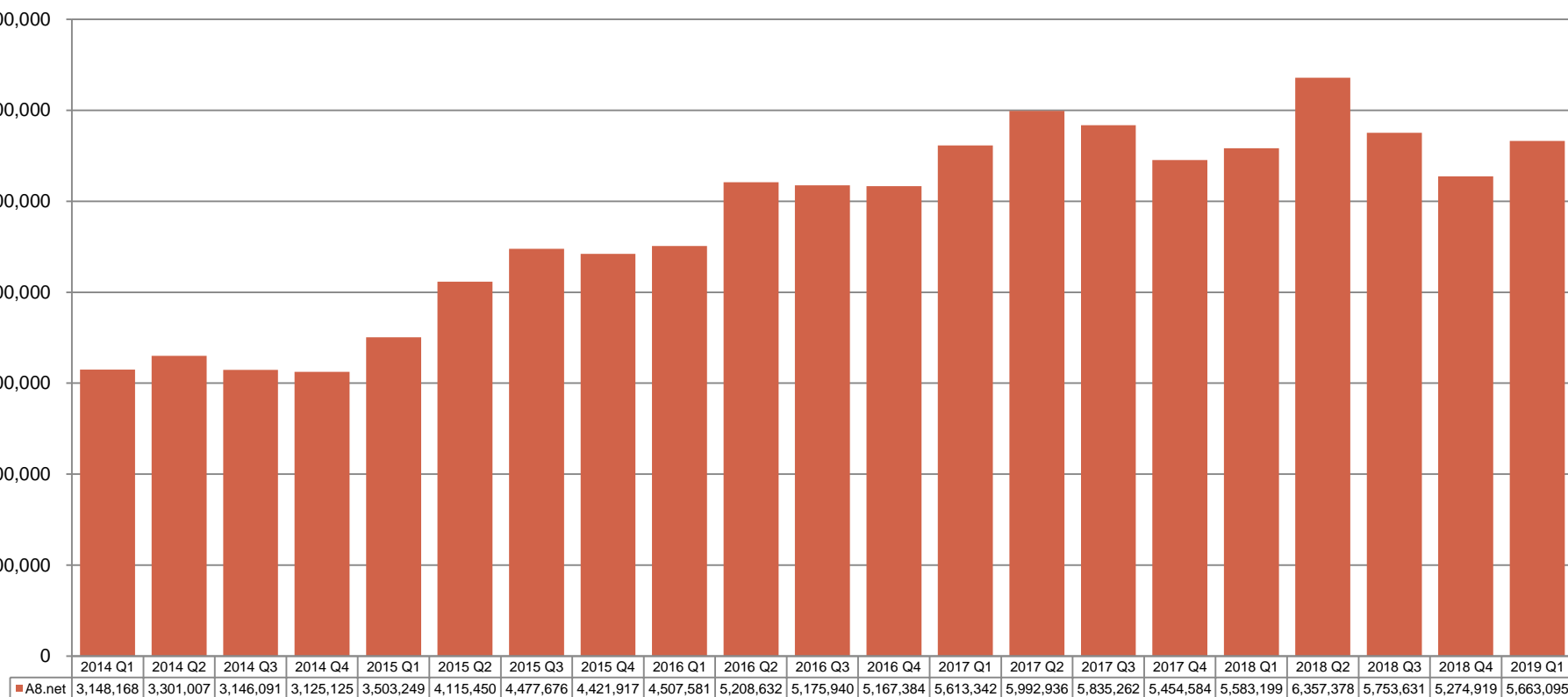
Note: Sales before elimination of consolidated intercompany transactions.  
The number of operating advertiser IDs increased by 90 from 2018 Q1.

A8.net

Net Sales (Quarterly basis)

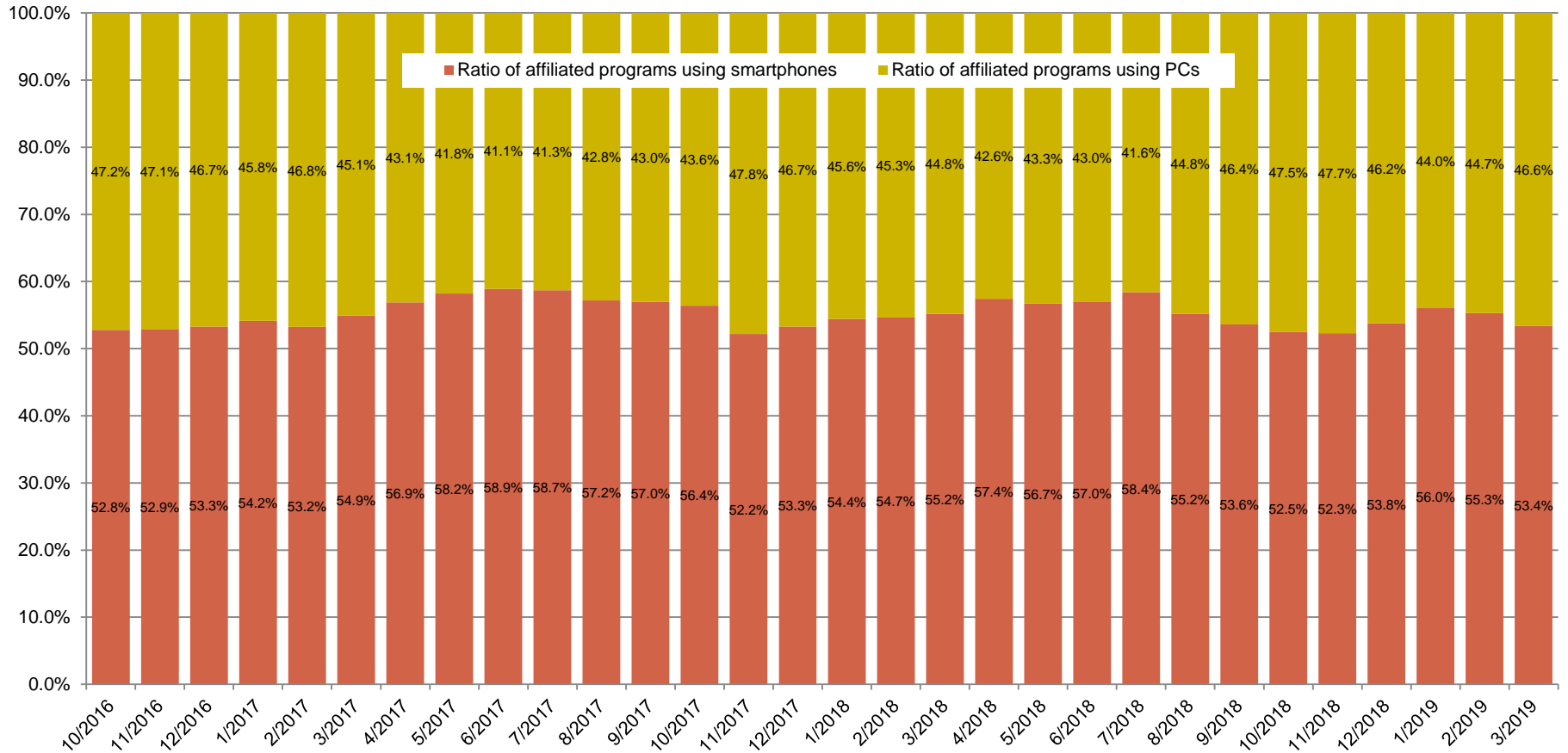
CPA Ad Network Business

(¥ thousands)



Note: Sales before elimination of consolidated intercompany transactions.  
Sales were sluggish due to the impact of the changes in the algorithm of search engine.

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

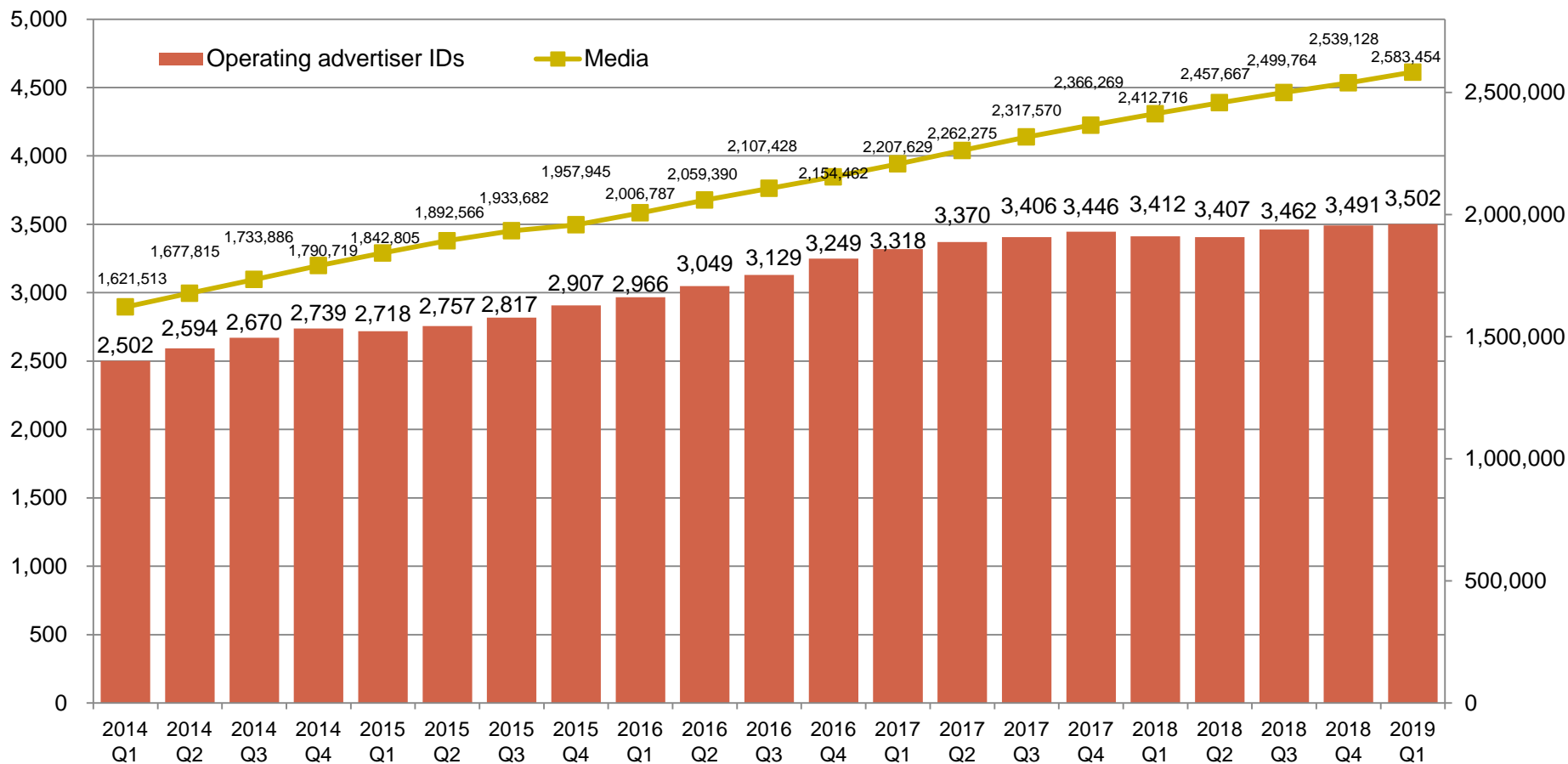


Note: The above affiliated program ratios are not final and are subject to change

A8.net

CPA Ad Network Business

## Number of Operating Advertisers and Media (Quarterly basis)



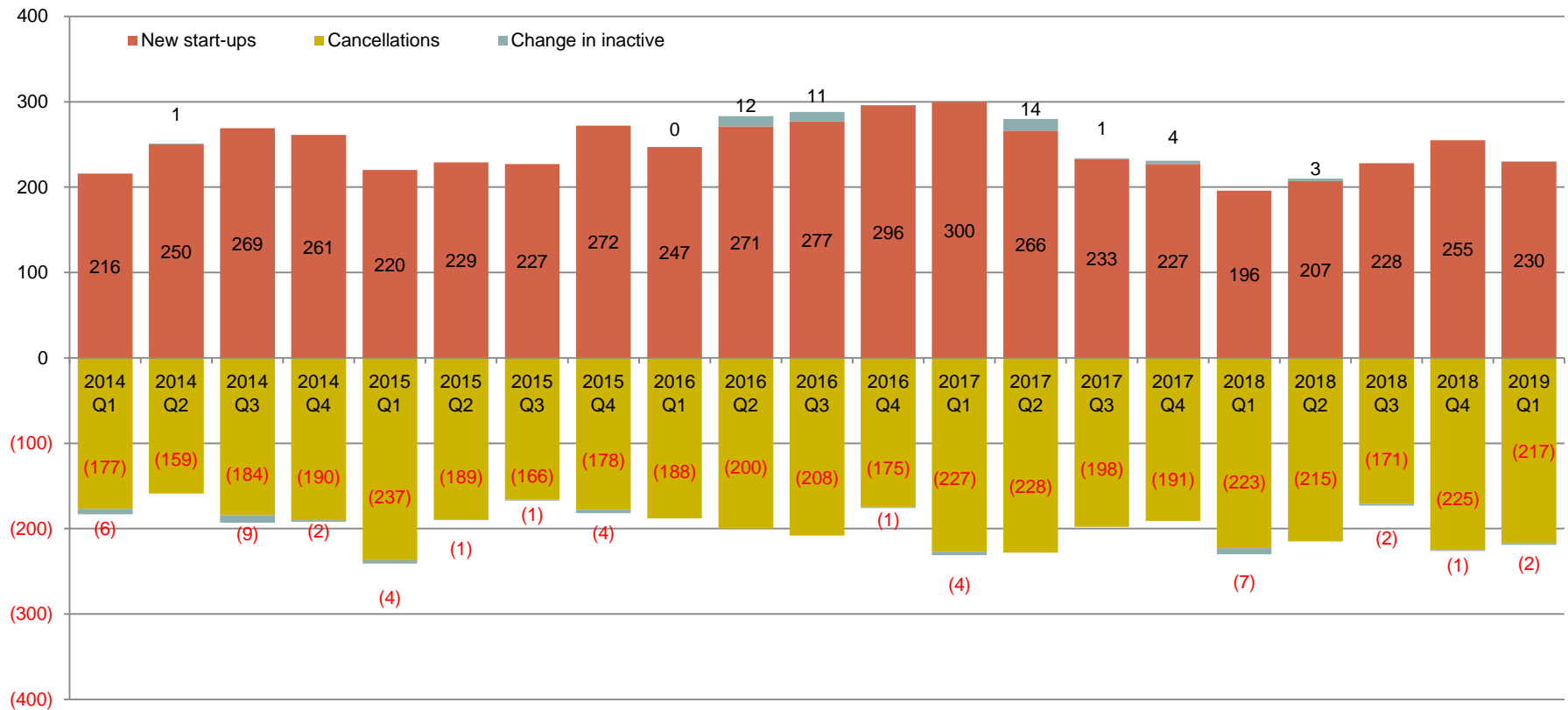
Notes: 1. The number of operating advertisers is as of the final month of each quarter.

2. The number of overseas advertisers has been included since 2014 Q3.

The number of operating advertisers increased by 11 from 2018 Q4.

The number of overseas operating advertisers increased by 15 from 2018 Q4 to 222.

## New Advertiser Start-ups and Cancellations



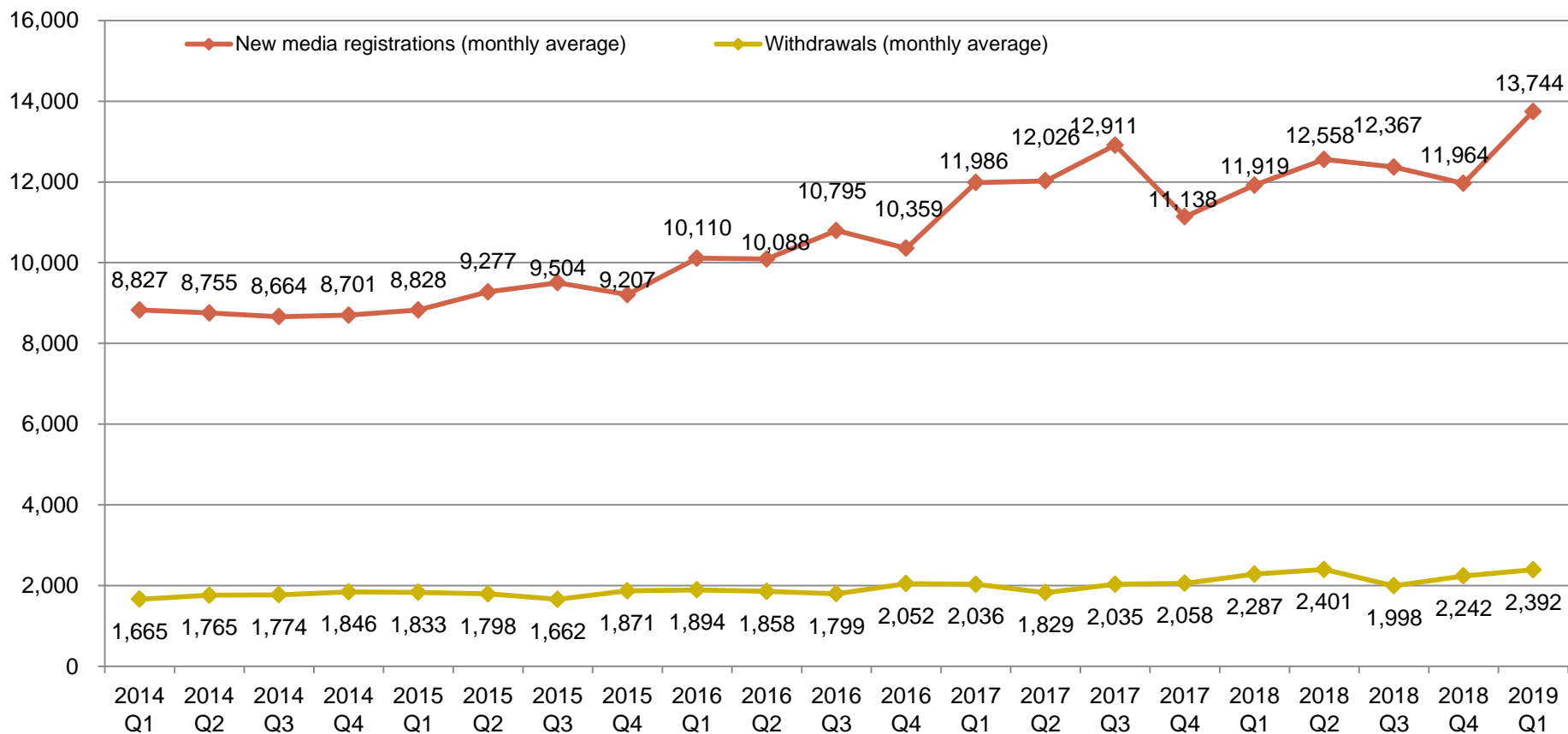
Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.

The number of new operating start-ups decreased and the number of cancellations also decreased.

A8.net

CPA Ad Network Business

## Average Monthly New Media Registrations and Withdrawals



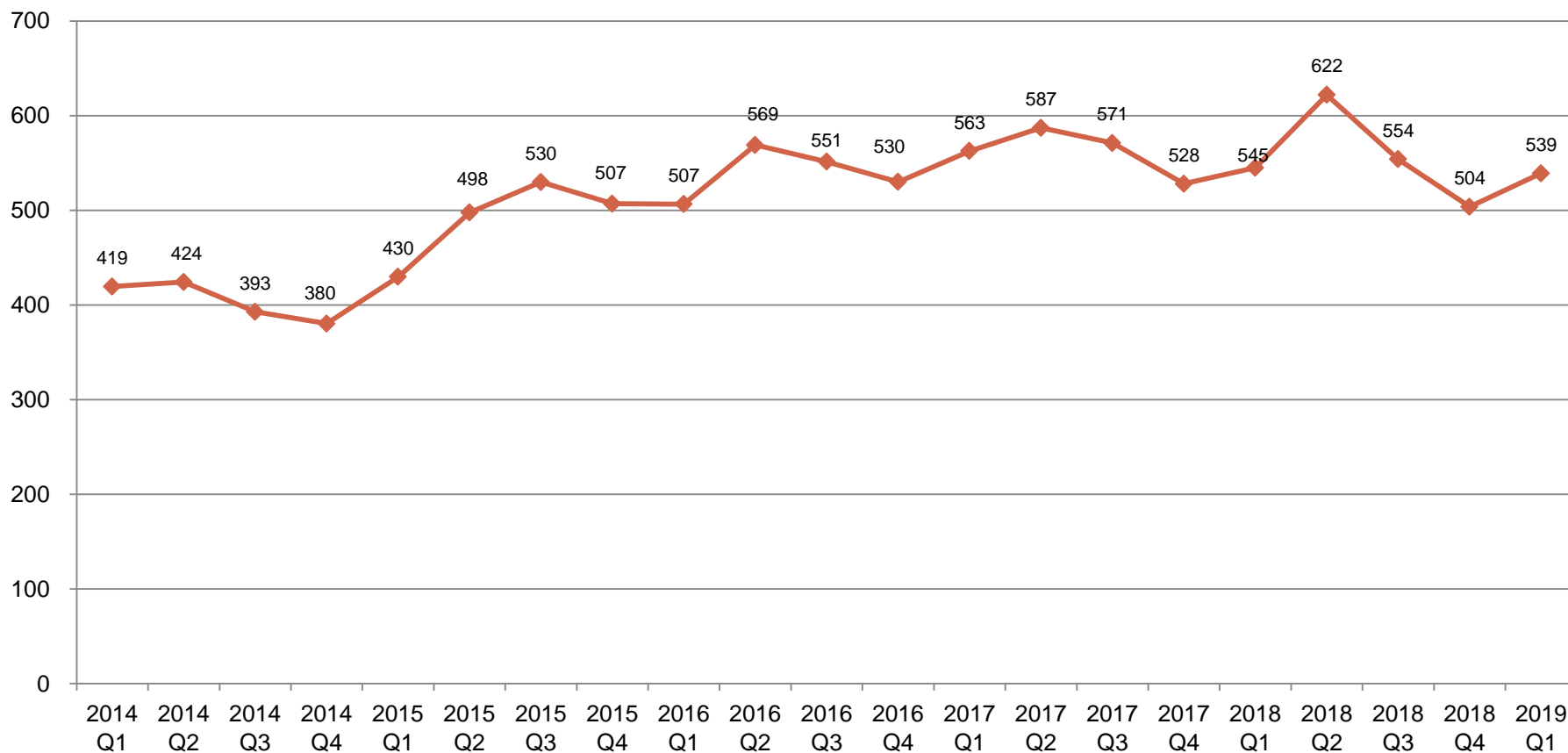
Monthly new media registrations increased and monthly withdrawals also increased.

A8.net

CPA Ad Network Business

## Average Monthly Sales per Advertiser

(¥ thousands)

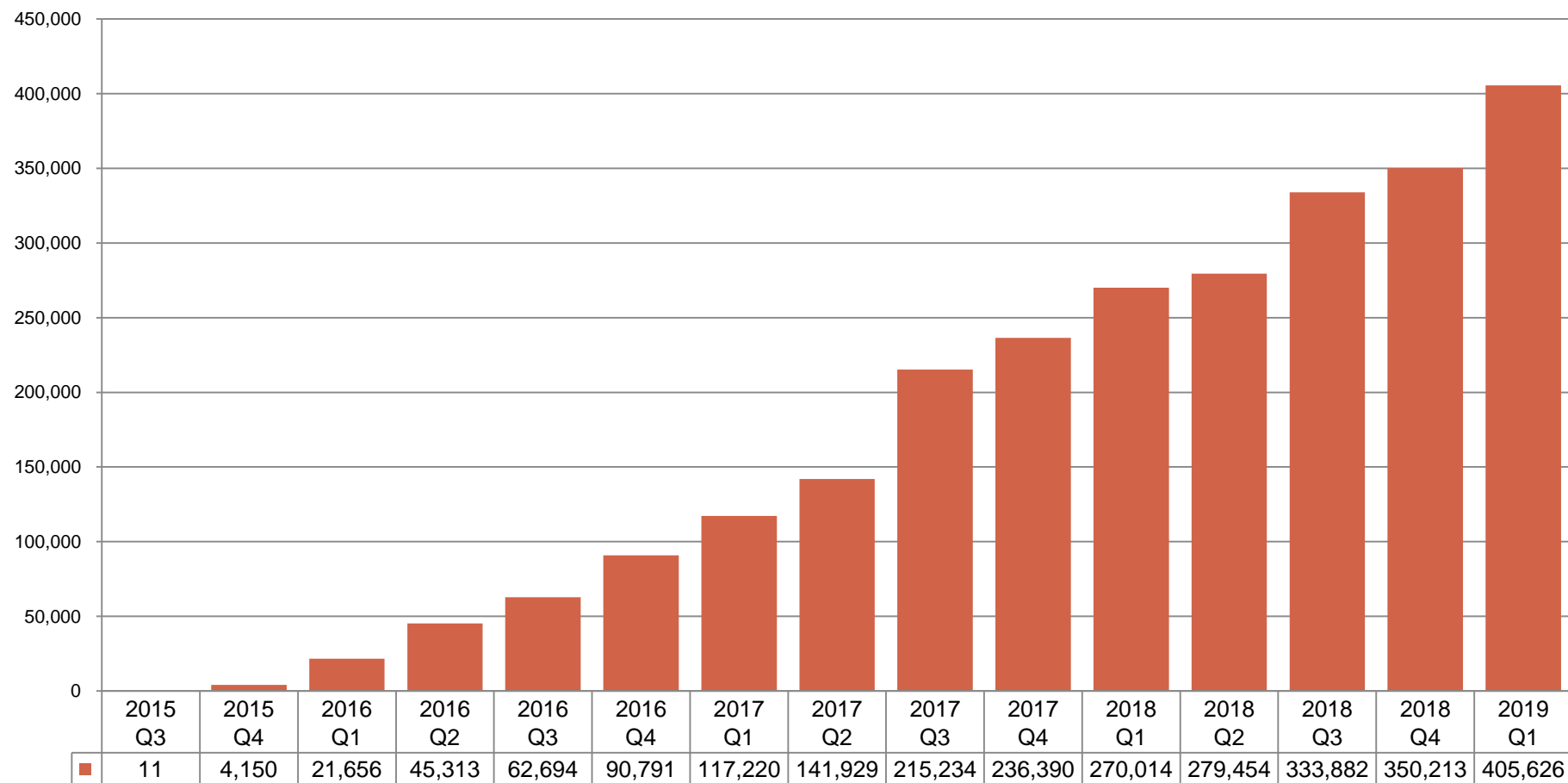


seedApp

## Net Sales (Quarterly basis)

CPA Ad Network Business

(¥ thousands)



Note: Sales before elimination of consolidated intercompany transactions



# nend Summary

## CPC/Targeting Ad Network Business

	2019 Q1 (Jan. - Mar.)	2018 Q1 (Jan. - Mar.)	Change
Sales (¥ thousands)	1,808,481	2,102,071	-14.0%
Number of operating advertiser IDs	273	368	-25.8%
Number of ad spaces on registered partner sites	945,536	859,026	10.1%

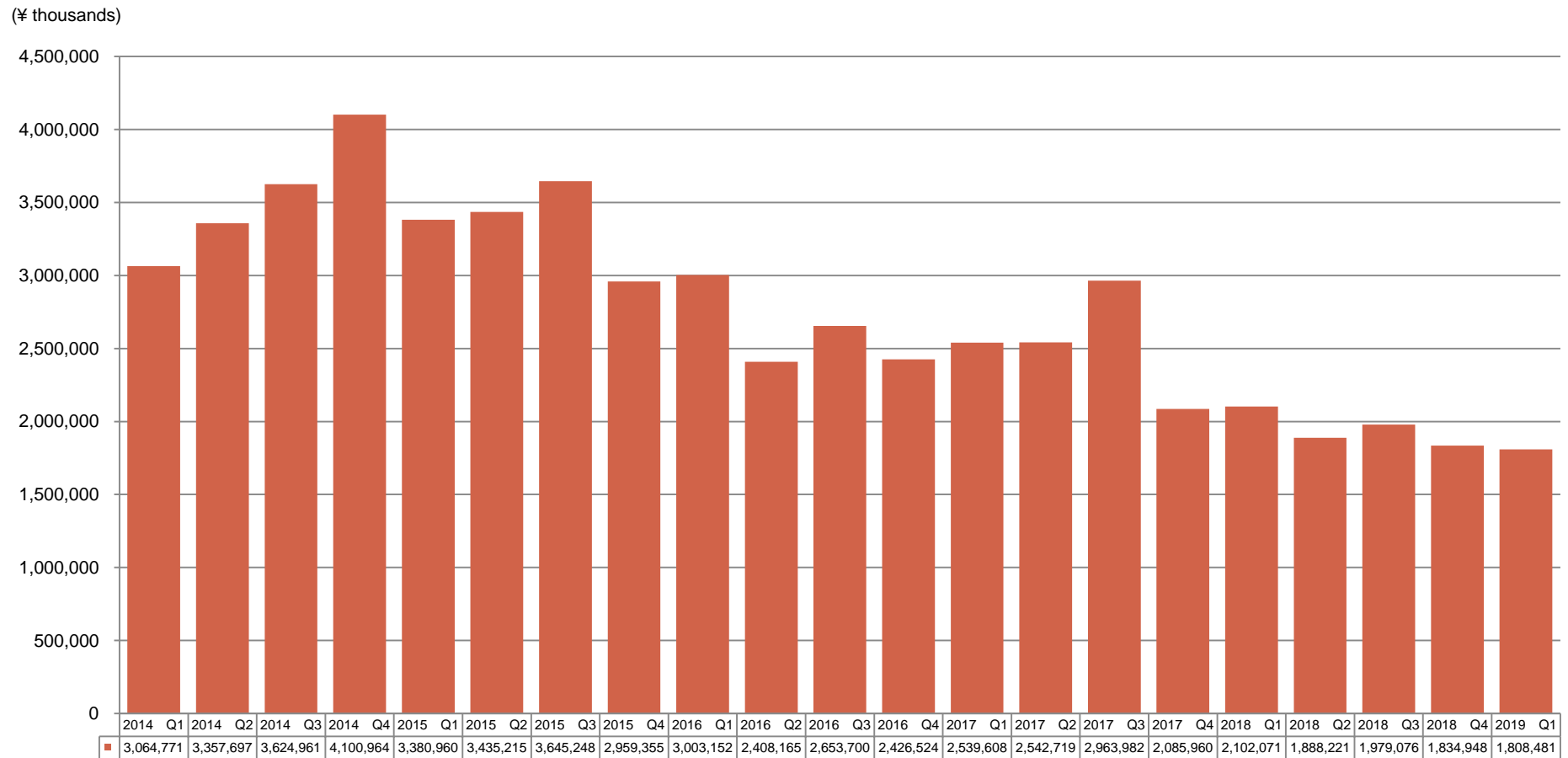
Sales before elimination of consolidated intercompany transactions.  
Note: Figures are those of nend only, and do not include other services.

Sales declined 14% compared with 2018 Q1.

# nend

## Net Sales (Quarterly basis)

CPC/Targeting  
Ad Network Business

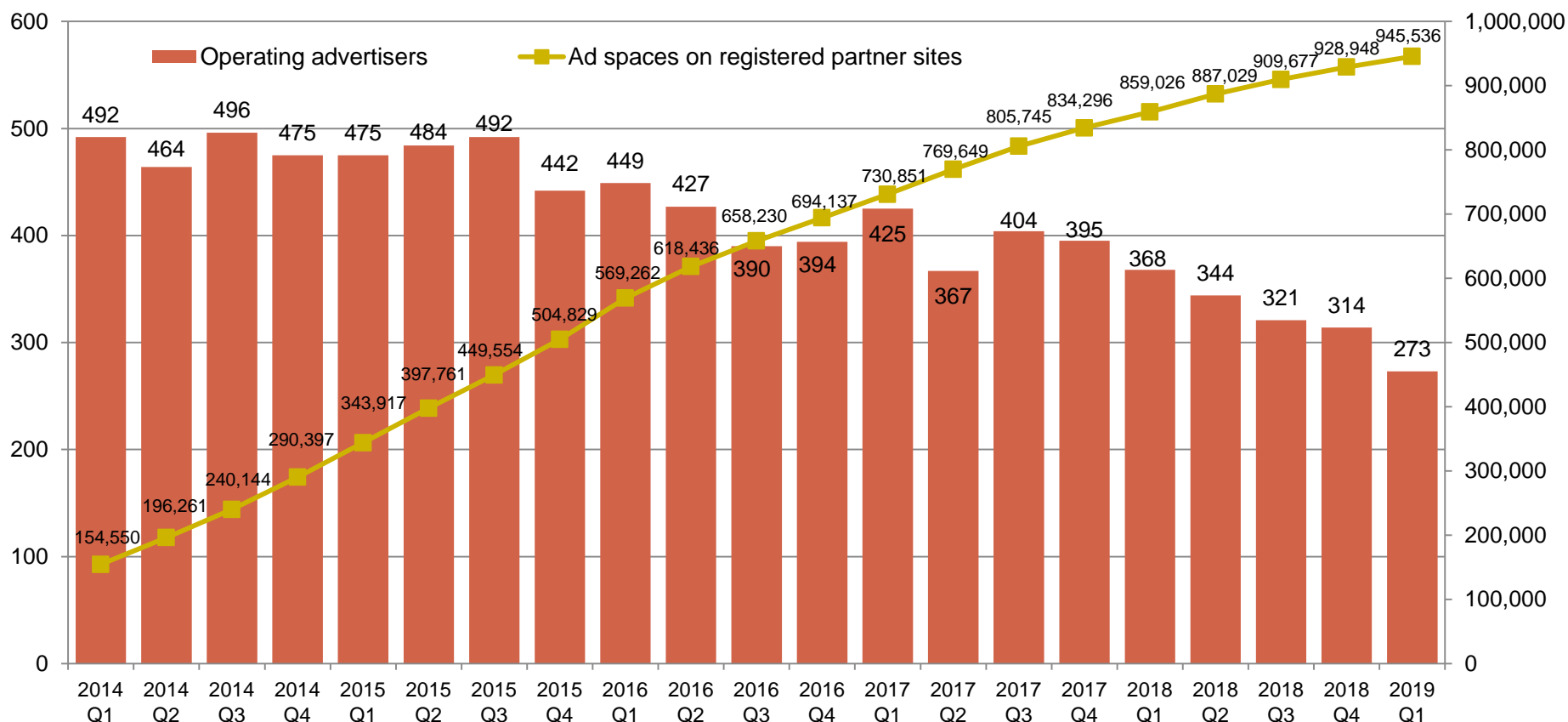


Note: Sales before elimination of consolidated intercompany transactions

# nend

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

CPC/Targeting  
Ad Network Business



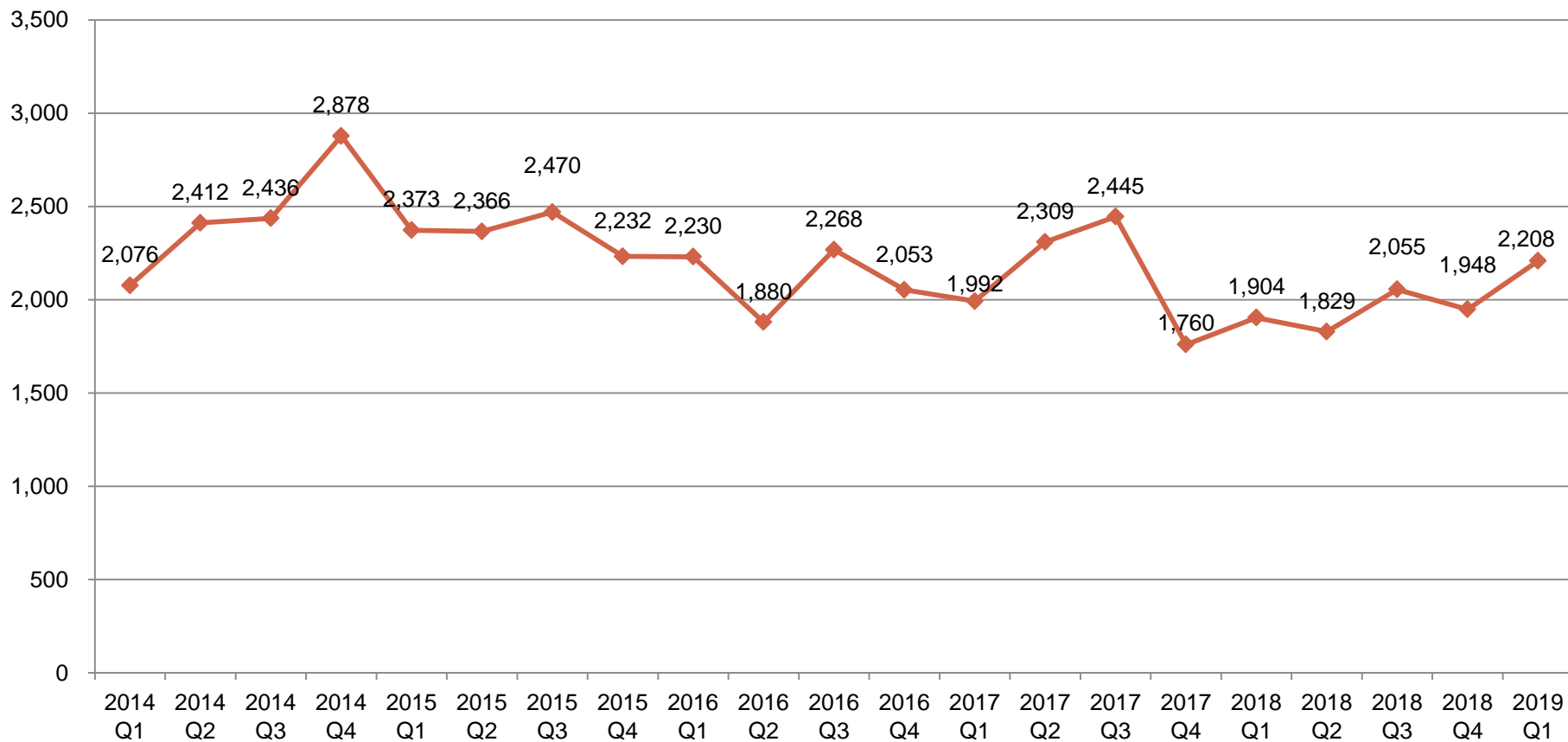
Note: The number of operating advertisers is as of the final month of each quarter.  
The number of operating advertisers decreased by 41 from 2018 4Q.

nend

## Average Monthly Sales per Advertiser

CPC/Targeting  
Ad Network Business

(¥ thousands)



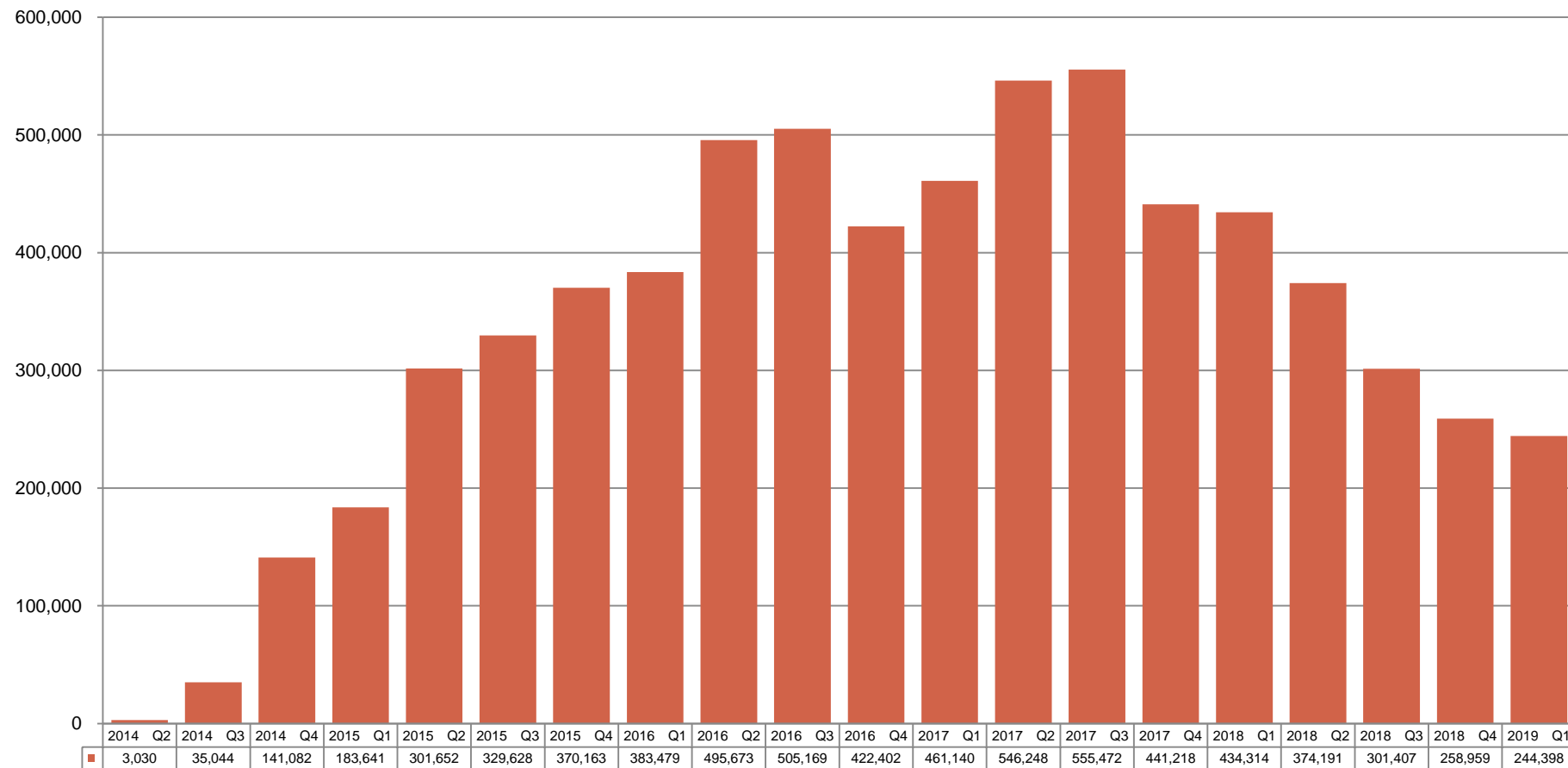
Average monthly sales per advertiser was ¥2.20 million.

# 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:  
Comprehensive support and consulting of  
online promotion in global markets



(¥ thousands)	2019 Q1	2018 Full Year
Net sales	<b>781,169</b>	<b>814,433</b>
Operating income	<b>45,988</b>	<b>-39,578</b>
Profit attributable to owners of parent	<b>36,481</b>	<b>-75,768</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)	2019 Q1	2018 Full year
Net sales	<b>200,313</b>	<b>810,001</b>
Operating income	<b>-30,183</b>	<b>20,481</b>
Profit attributable to owners of parent	<b>-69,016</b>	<b>94,909</b>

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

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





# Changes in Online Ad Environments and Our Responses to them

## 1. Updating Google Algorithm (Mid-March - )

The impact can be seen in a wide range of industries such as medical/health care (chiropractic clinics, health food), beauty business (cosmetics, esthetic salons), real estates (rentals, for sale), recruitment, pets, and communication lines. We have been responding one after another.

## 2. ITP

We have completed responding to approximately 90% of all the programs in A8.net. So, though the initial estimate for the impact value was around 11% of the results occurrence, the actual impact value has reduced to around **1.1% at most**.

On the other hand, ITP2.1 was released in March 2019, and cookies became unavailable 8 days after it was released. So we have been sequentially responding to that. The impact value in A8.net from this release is estimated to be **around 1.5% at most** in the total, because the results occurrence ratio 8 days after the release is considered to be around 4%. Regarding this problem, it was announced that cookies will be unavailable 24 hours after ITP2.2 is released.

So we are considering the extent of impact and responding to the impact, conforming to GDPR guidelines. At the moment, the usage rate of web browsers corresponding to ITP2.1 is around 25% of the total iOS users, which is only around 0.38% of the total usage.

## 3. The Usage Restrictions of Google Cookie

Currently, as long as we check the publicized information, we consider there will be almost no impact because we have already finished responding to that.

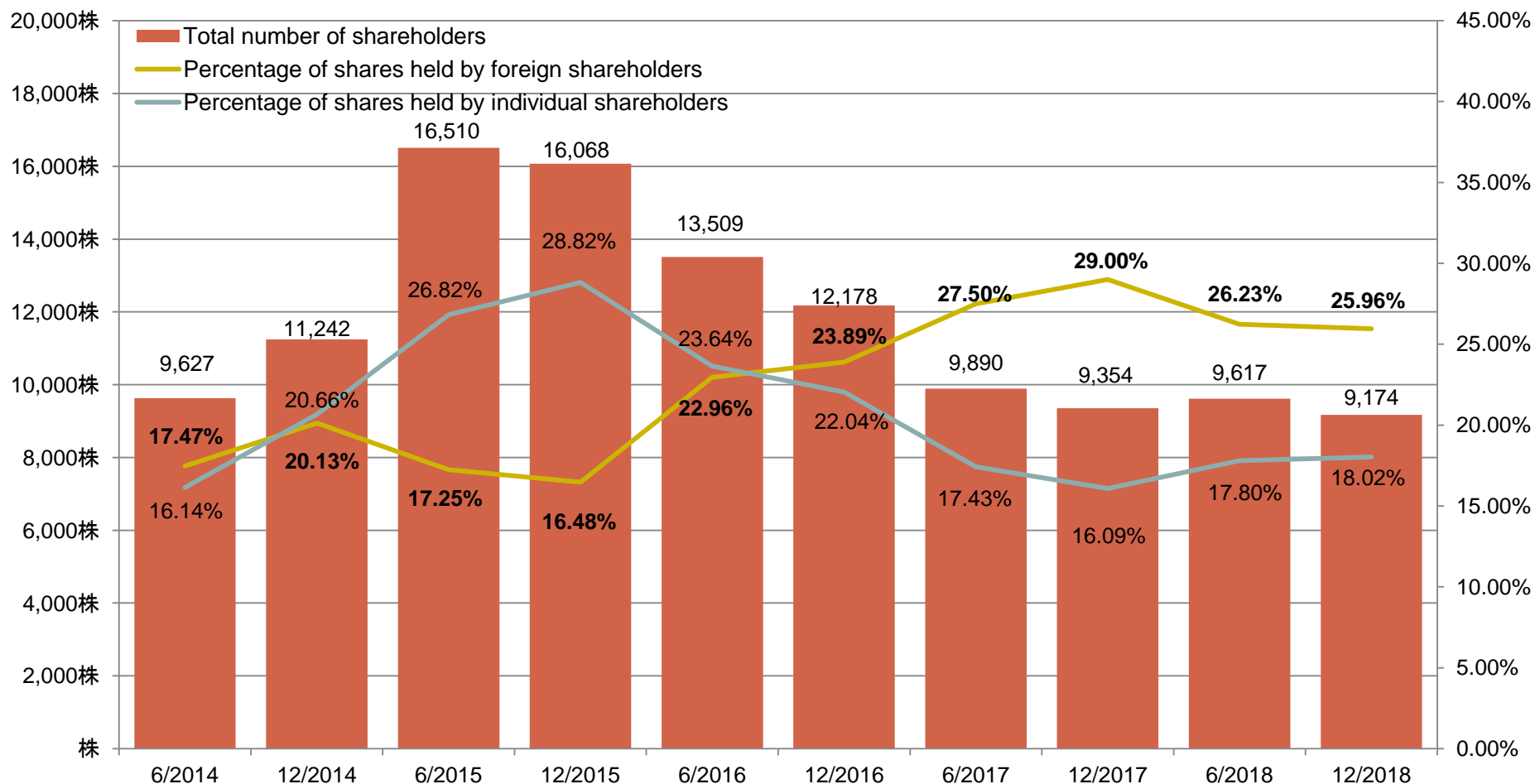
## 4. Better Ad Standards (Restrictions on Ad Formats)

The implementation will be done on the Google Chrome browser in Asia on July 19. However, our group has already responded to that, so we consider there will be a slight impact.

# Stock Information

# Stock Information

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



Note: 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 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

■ <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 March 31, 2019)</b>
■ <b>President and Representative Director</b>	<b>Yasuyoshi Yanagisawa</b>
■ <b>Number of employees</b>	<b>Non-consolidated: 405</b> <b>Group total: 509</b> <small>(As of March 31, 2019; includes part-time and temp staff)</small>
■ <b>Headquarters</b>	<b>Aoyama Diamond Building</b> <b>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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However, there is a risk that actual results may differ from the Company's published performance forecasts due to reasons including special events or outcomes that are unforeseeable under normal conditions.

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