



Second Quarter of 2019
Presentation of Results

August 9, 2019

F@N Communications, Inc.

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Second Quarter of 2019 Performance Highlights

Second Quarter of 2019: Key Points

Performance Highlights

- **Net sales on a quarterly basis increased by 4% compared with the previous quarter, resulting in increased revenue and income for 2 quarters in a row.**
- **On the other hand, net sales decreased by 3% and ordinary income decreased by 14% YoY, which shows we are still in a severe financial situation.**
- **We decided to end our retargeting DSP, nex8 in December 2019. We are working on optimizing our resources.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2019 Q2	2018 Q2	Year-on-Year Change	% of Net Sales
Net sales	17,795,113	18,393,669	-3.3%	100%
Operating income	1,973,647	2,279,352	-13.4%	11.1%
Ordinary income	1,993,163	2,418,672	-17.6%	11.2%
Profit attributable to owners of parent	1,290,884	1,624,451	-20.5%	7.3%
Ordinary income margin	11.2%	13.1%	-1.9pt	-
Net income per share	¥17.04	¥21.13	-19.4%	-
Diluted net income per share	-	¥21.11	-	-

Note: There wasn't any diluted net income in 2019 Q2, so it's not described here.

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2018	June 30, 2019
Assets		
Current assets	22,596,975	22,759,009
Cash and deposits	17,778,004	17,143,323
Notes and accounts receivable – trade	3,703,909	4,542,376
Securities	800,590	851,099
Other	327,994	231,667
Allowance for doubtful accounts	△13,522	△9,457
Fixed assets	3,193,271	3,772,883
Property and equipment	327,920	278,730
Intangible assets	284,313	715,052
Investments and other assets	2,581,037	2,779,101
Total assets	25,790,246	26,531,893
Liabilities and Net Assets		
Current liabilities	5,800,864	6,483,307
Notes and accounts payable – trade	4,384,454	4,869,769
Income taxes payable	590,647	693,636
Other current liabilities	825,762	919,901
Long-term liabilities	153,578	151,338
Total liabilities	5,954,442	6,634,645
Total net assets	19,835,804	19,897,248
Total liabilities and net assets	25,790,246	26,531,893

Main component was ¥2,347,639 thousand in investment securities.

Key factors in the change were a ¥485,314 thousand increase in notes and accounts payable – trade and a ¥102,989 thousand increase in income taxes payable, etc.

The main factors of the increase were a ¥1,290,884 thousand increase in profit attributable to owners of parent and a ¥203,313 thousand increase in valuation difference on available-for-sale securities despite a ¥1,439,423 thousand decrease in retained earnings due to the payment for dividends.

Consolidated Performance Forecast

Performance Highlights

(¥ millions)	2018 Full-Year Forecast (% Change from Same Period of Previous Year)	2019 Interim Period Actual	Progress (% of Full-Year Forecast)
Net sales	34,200 (-3.2)	17,795	52.0%
Operating income	3,700 (-12.1)	1,973	53.3%
Ordinary income	3,720 (-14.8)	1,993	53.6%
Profit attributable to owners of parent	2,580 (1.0)	1,290	50.0%

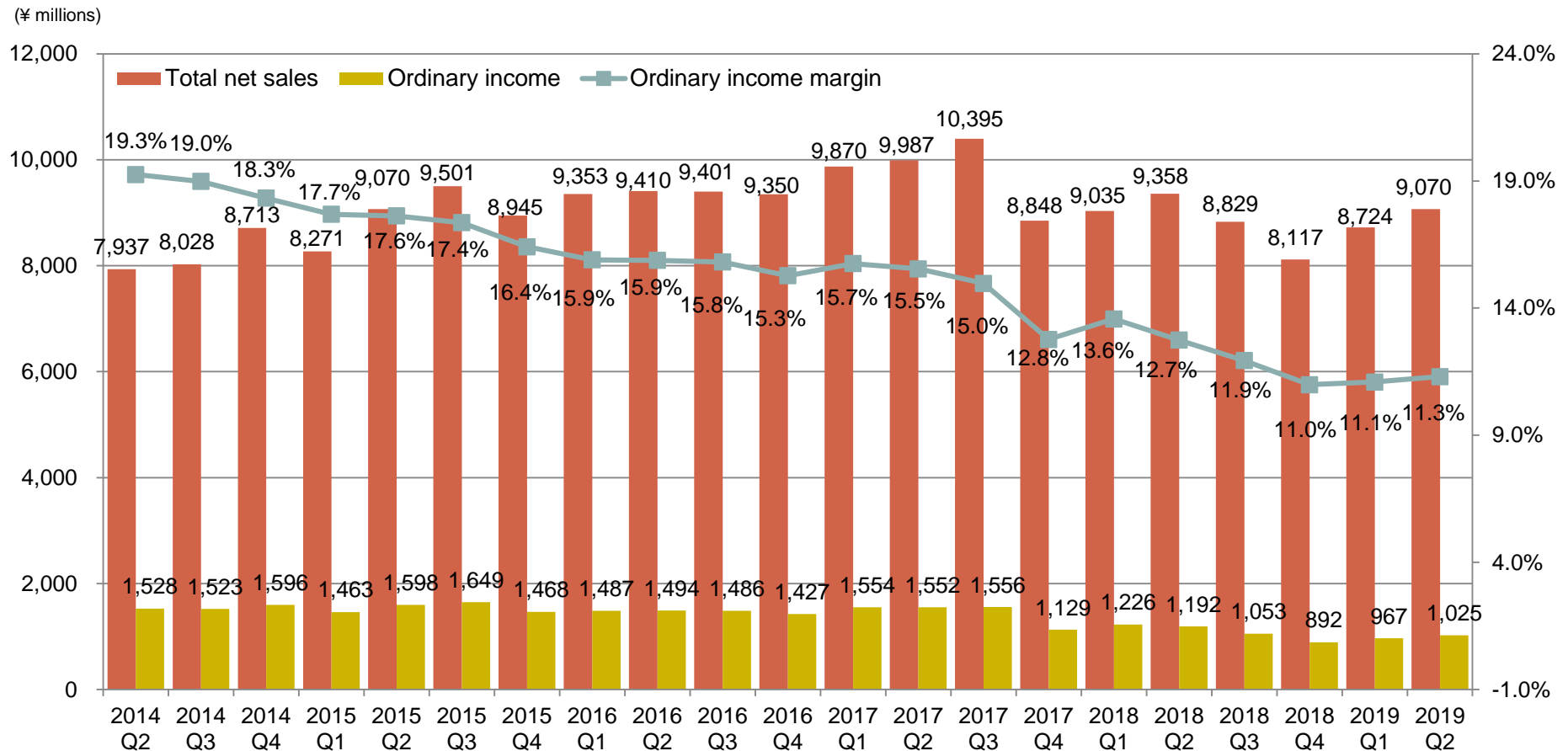
Dividend Forecast

	2019 Forecast	2018 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

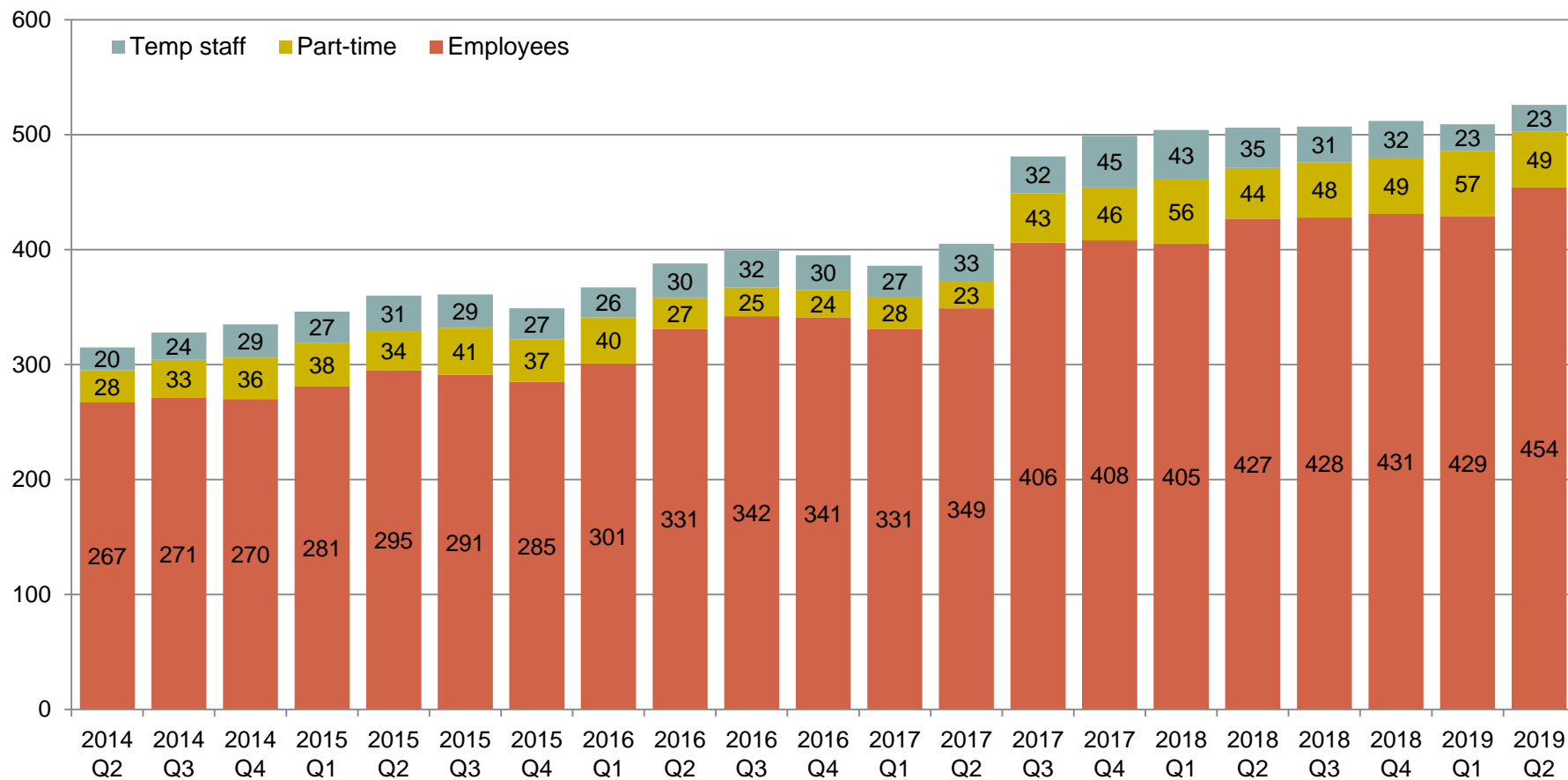


The ordinary income margin was 11.3%, an increase of 0.2 points for the previous quarter.

Number of Employees

(Consolidated/Quarterly basis)

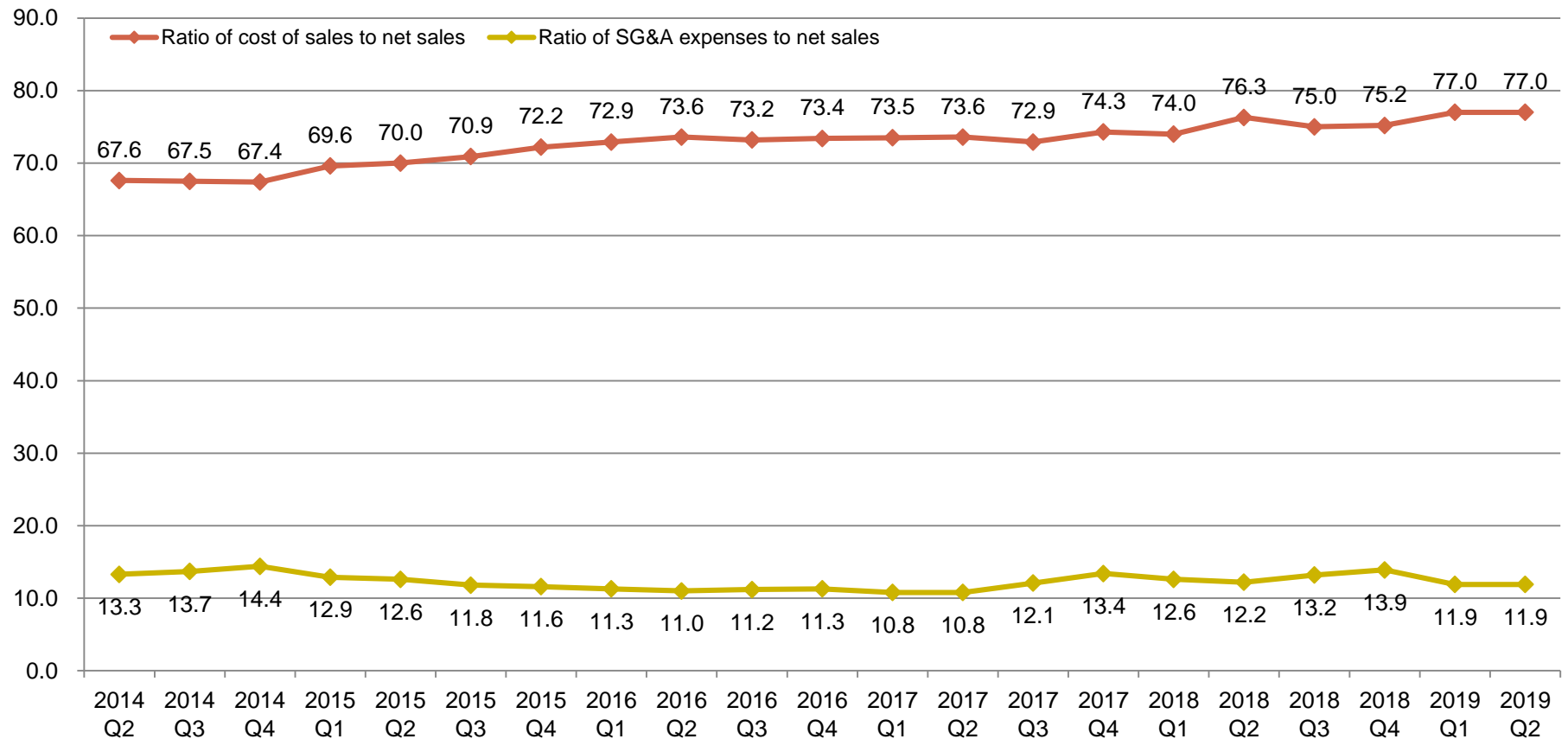
Management Indicators



The total number of employees in the Group was 526, an increase of 20 from the same period of the previous year and an increase of 17 from the previous quarter.

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

Management Indicators

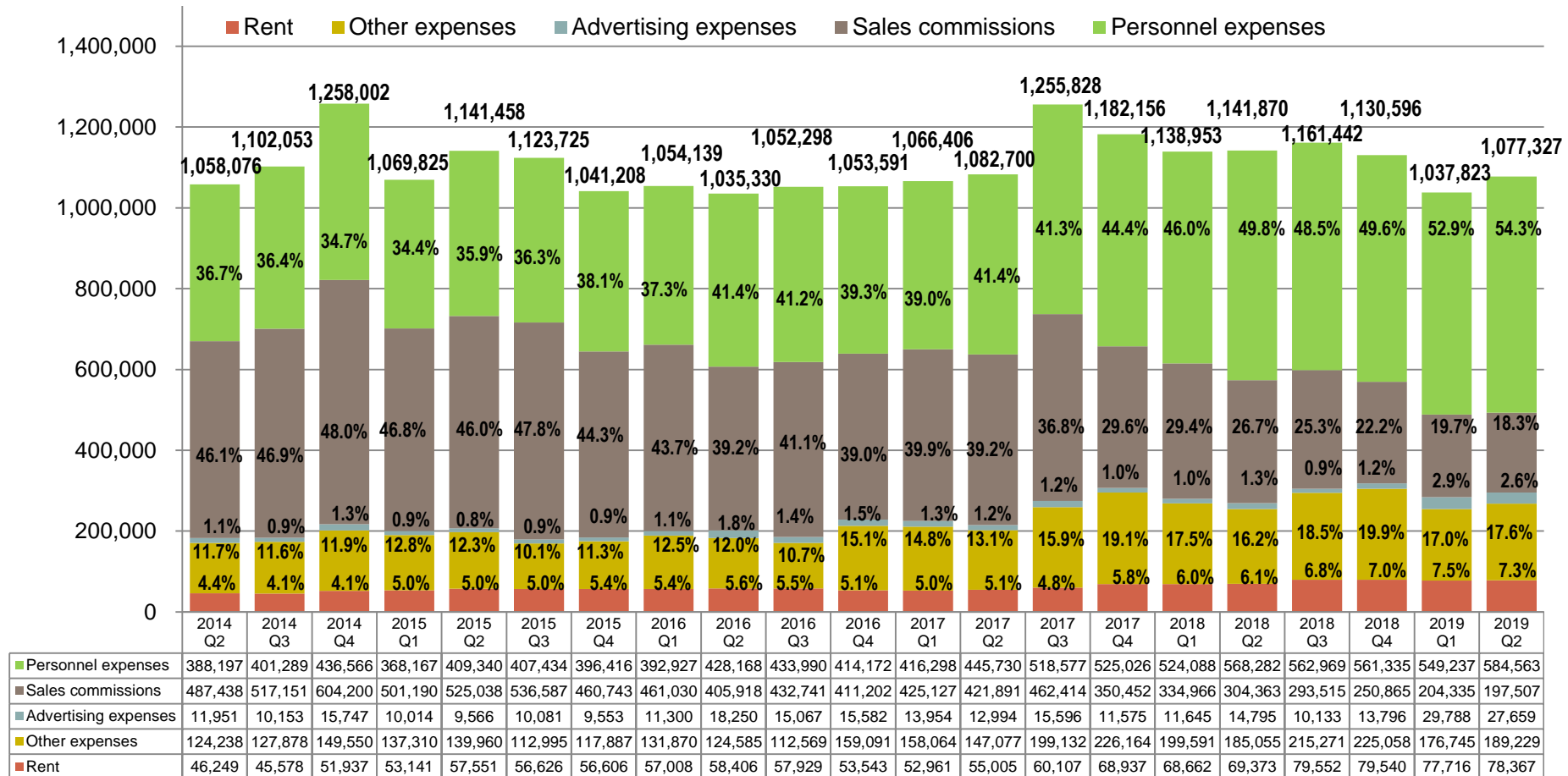


Both the ratio of cost of sales to net sales and the selling, general and administrative (SG&A) expenses ratio have no change from the previous quarter.

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

Management Indicators

(thousands)



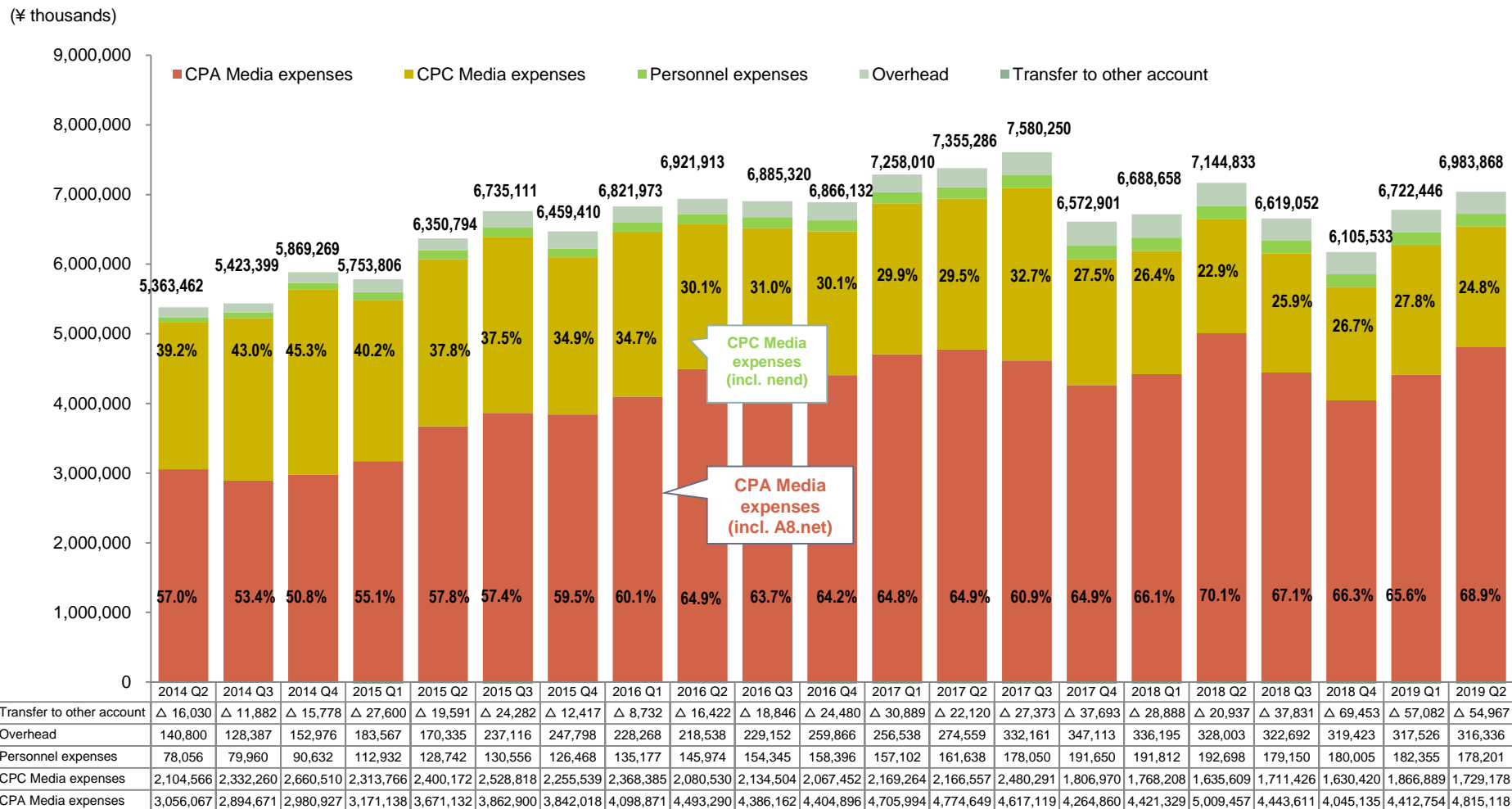
Note: Other expenses consist of business training expenses, business consignment expenses, payment commissions, taxes (primarily size-based business taxes), etc.

Personnel expenses increased due to pay raises and hiring of new graduates.

Cost of Sales

(Consolidated/Quarterly basis)

Management Indicators



Notes: 1. CPA Media expenses consist of A8.net and seedApp. CPC Media expenses consist of nend and nex8.

2. Overhead consists of infrastructure costs such as data center costs.

CPA Media expenses increased due to the increase in the sales of A8.net.

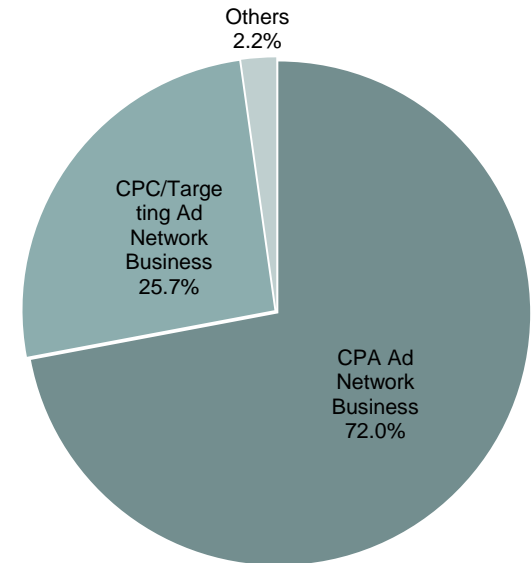
Overview by Main Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)	2019 Q2 (April – June)	2018 Q2 (April – June)	YoY Change
CPA Ad Network Business	6,533,957	6,868,524	-4.9%
CPC/Targeting Ad Network Business	2,334,288	2,322,065	0.5%
Others	202,051	167,838	20.4%
Total net sales	9,070,296	9,358,428	-3.1%



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

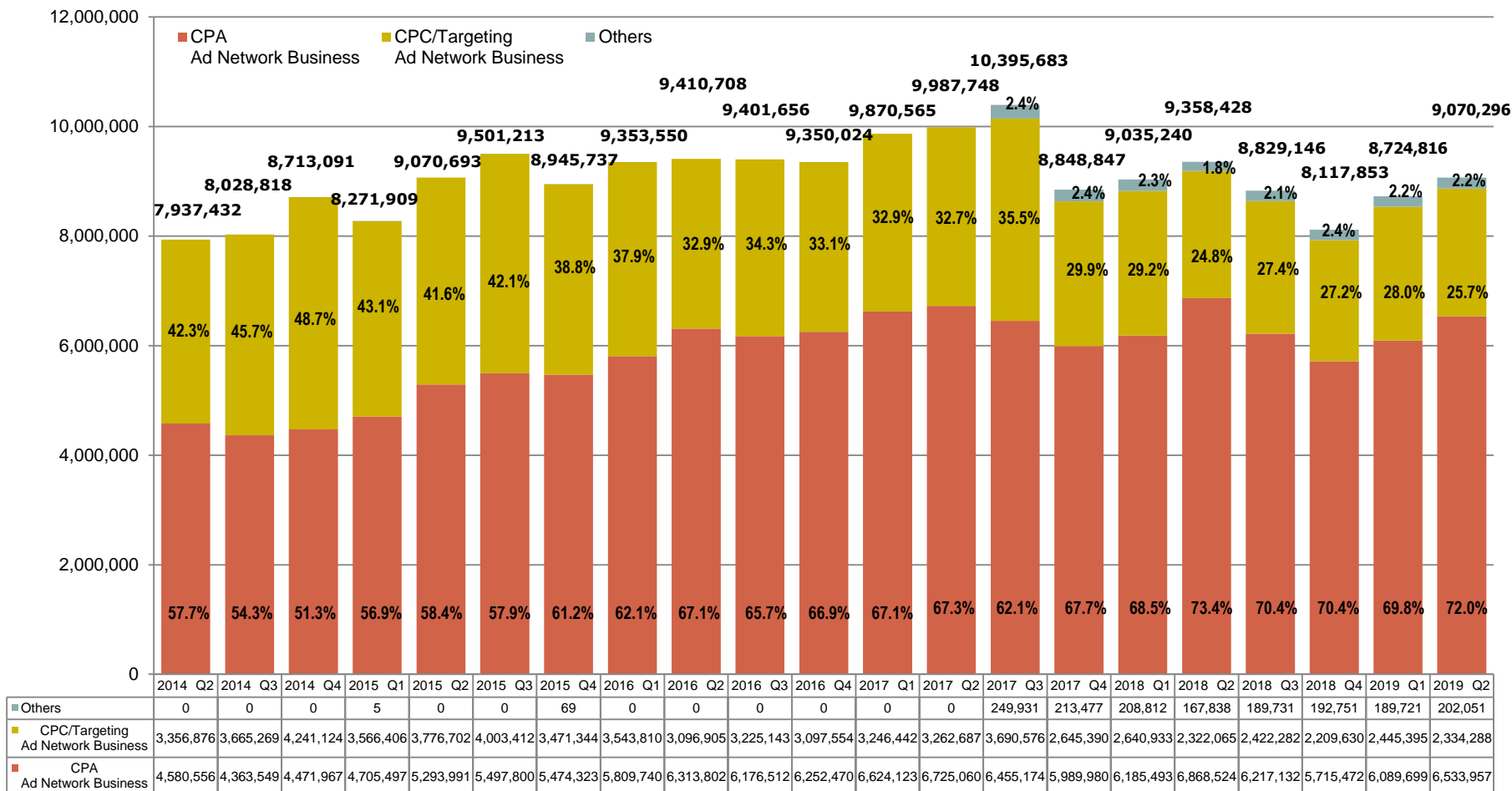
Note: Sales before elimination of consolidated intercompany transactions.

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)



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

A8.net Summary

CPA Ad Network Business

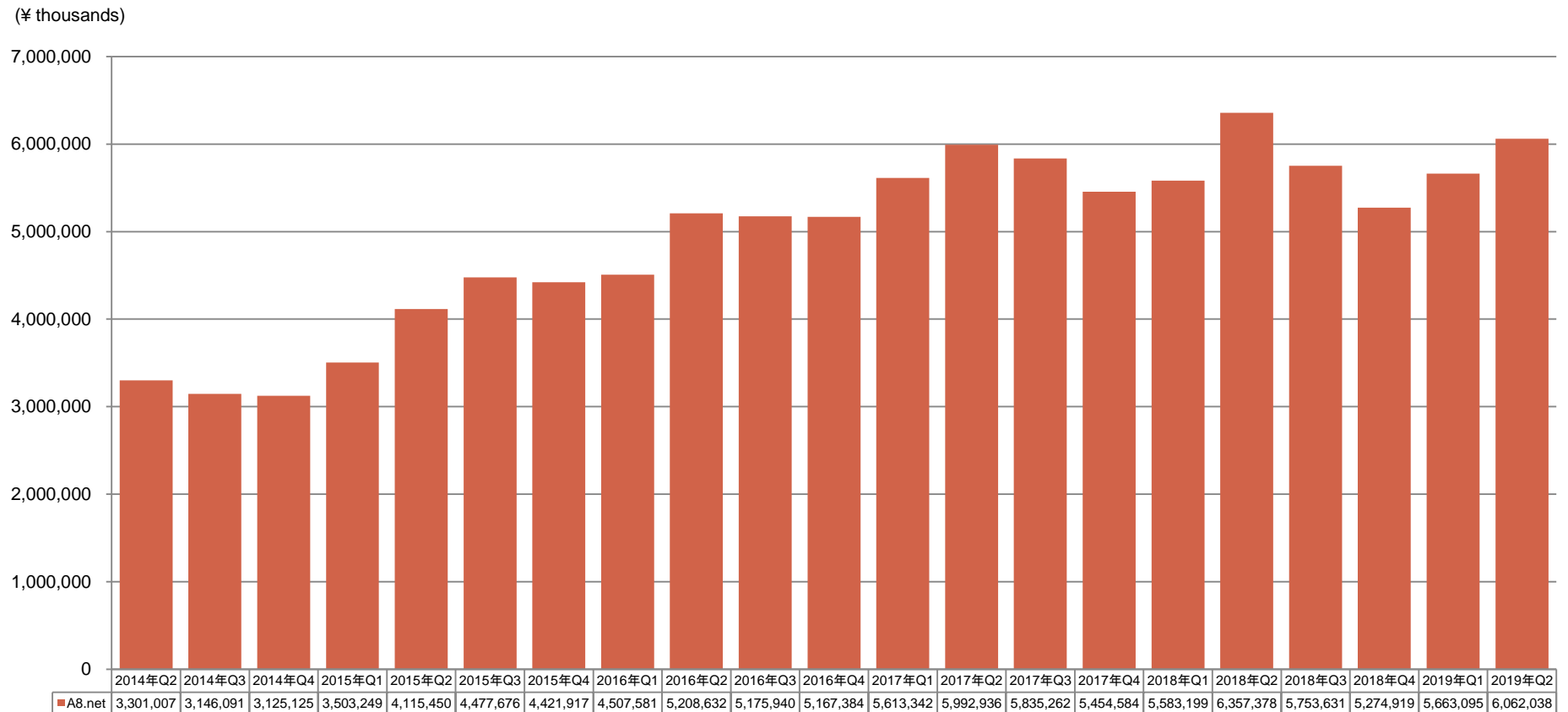
	2019 Q2 (April – June)	2018 Q2 (April – June)	YoY Change
Sales (¥ thousands)	6,062,038	6,357,378	-4.6%
Number of operating advertiser IDs	3,439	3,407	0.9%
Number of registered partner sites	2,629,693	2,457,667	7.0%

Note: Sales before elimination of consolidated intercompany transactions.
The number of operating advertiser IDs increased by 32 from the same period of the previous year.

A8.net

Net Sales (Quarterly basis)

CPA Ad Network Business

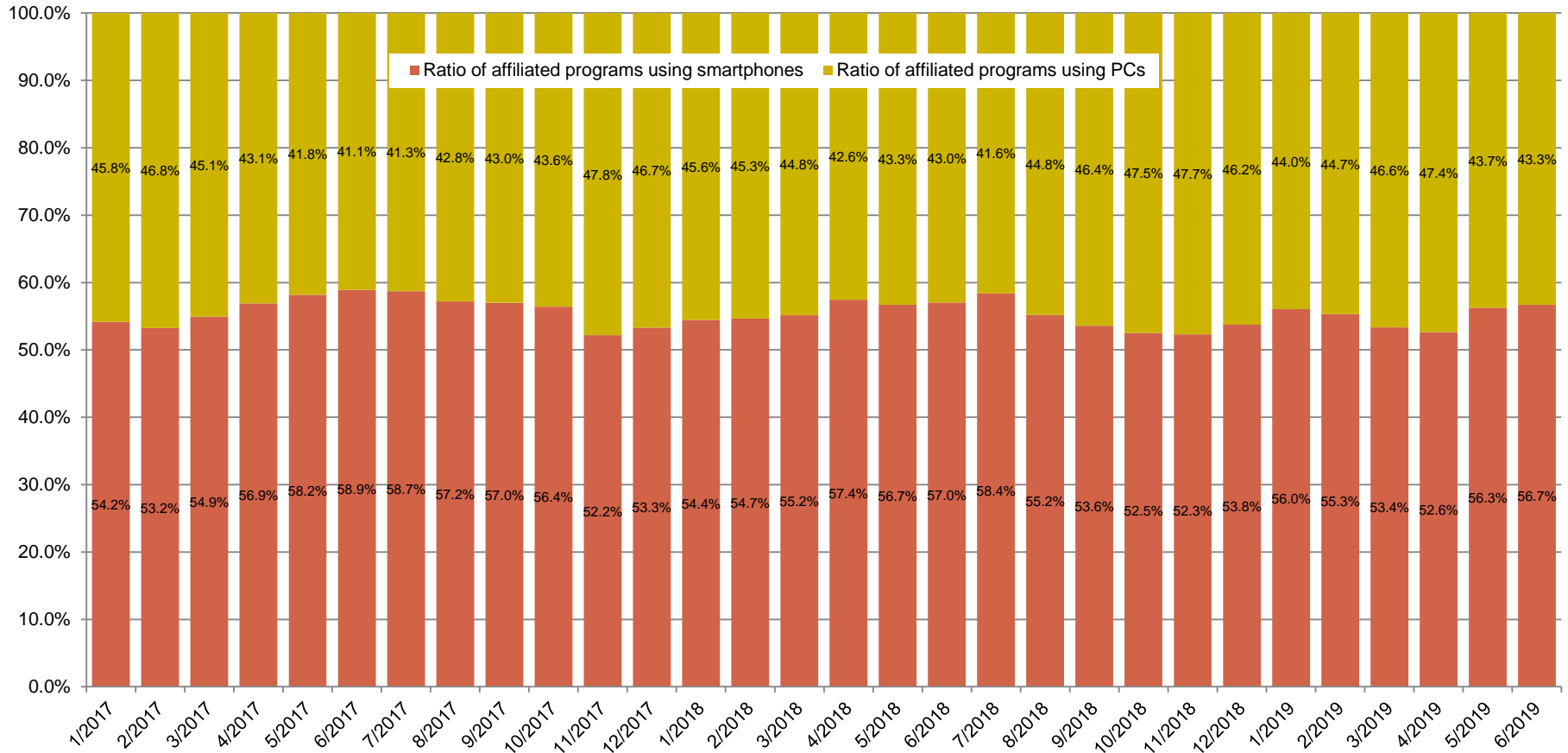


Note: Sales before elimination of consolidated intercompany transactions.
 Net sales were sluggish due to the impact from the change in the search engine algorithms.

A8.net

CPA Ad Network Business

Ratio of Smartphones in Affiliated Programs (Monthly basis)

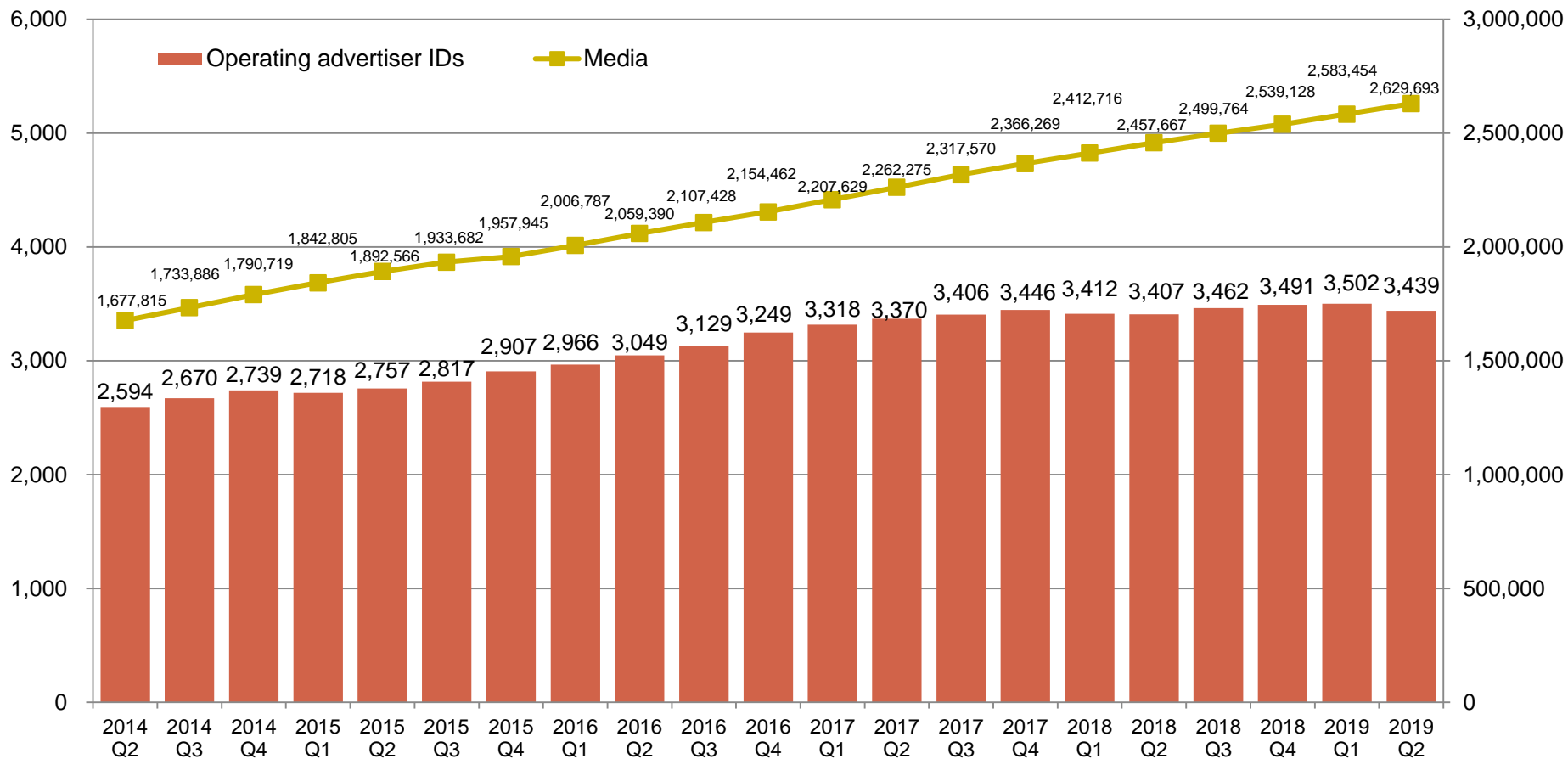


Note: The above affiliated program ratios are not final and are subject to change.

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 has been included since 2014 Q3.

The number of operating advertisers decreased by 63 from 2019 Q1.

The number of overseas operating advertisers increased by 13 from 2019 Q1 to 235.

New Advertiser Start-ups and Cancellations

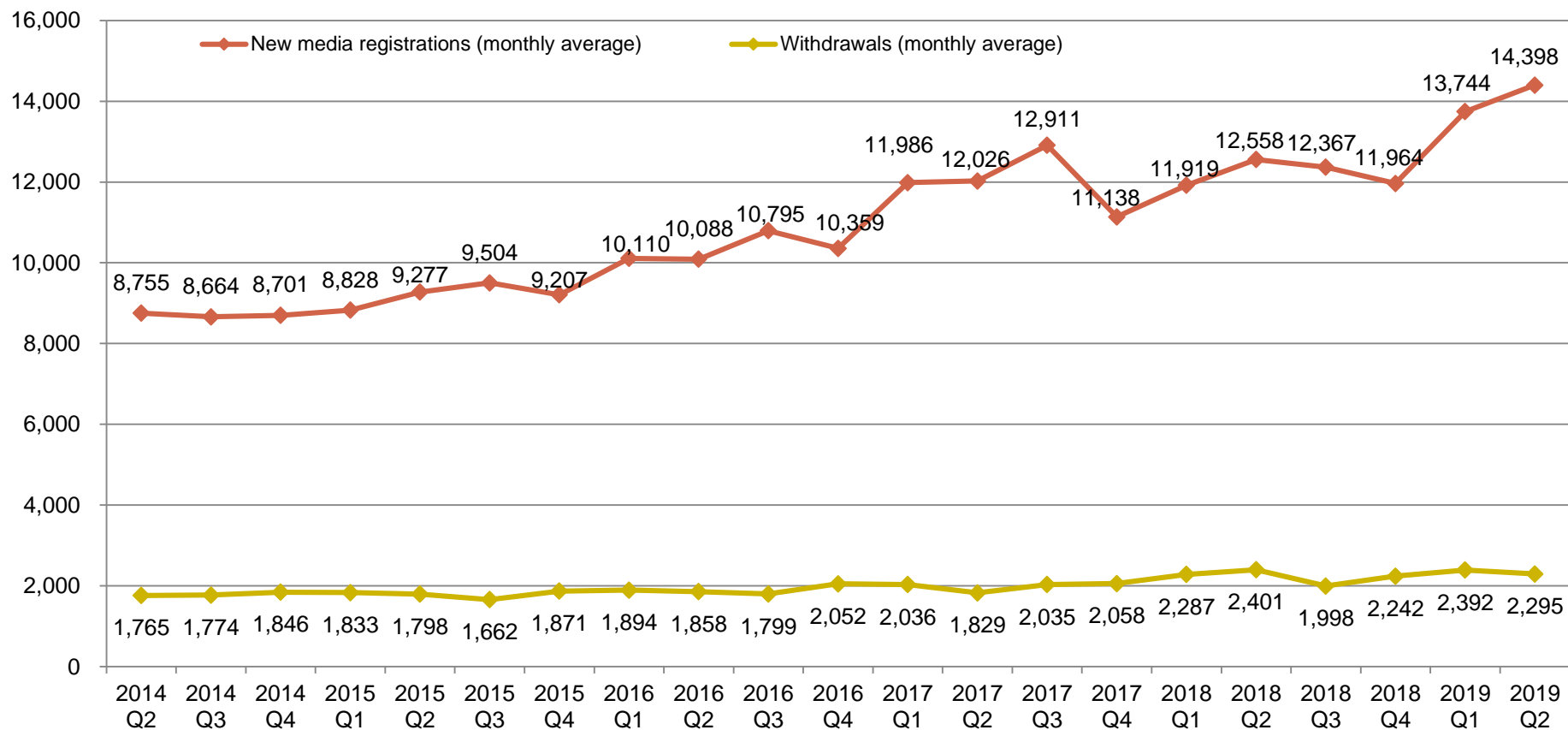


Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.
The number of new operating start-ups decreased and the number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

A8.net

CPA Ad Network Business

Average Monthly New Media Registrations and Withdrawals

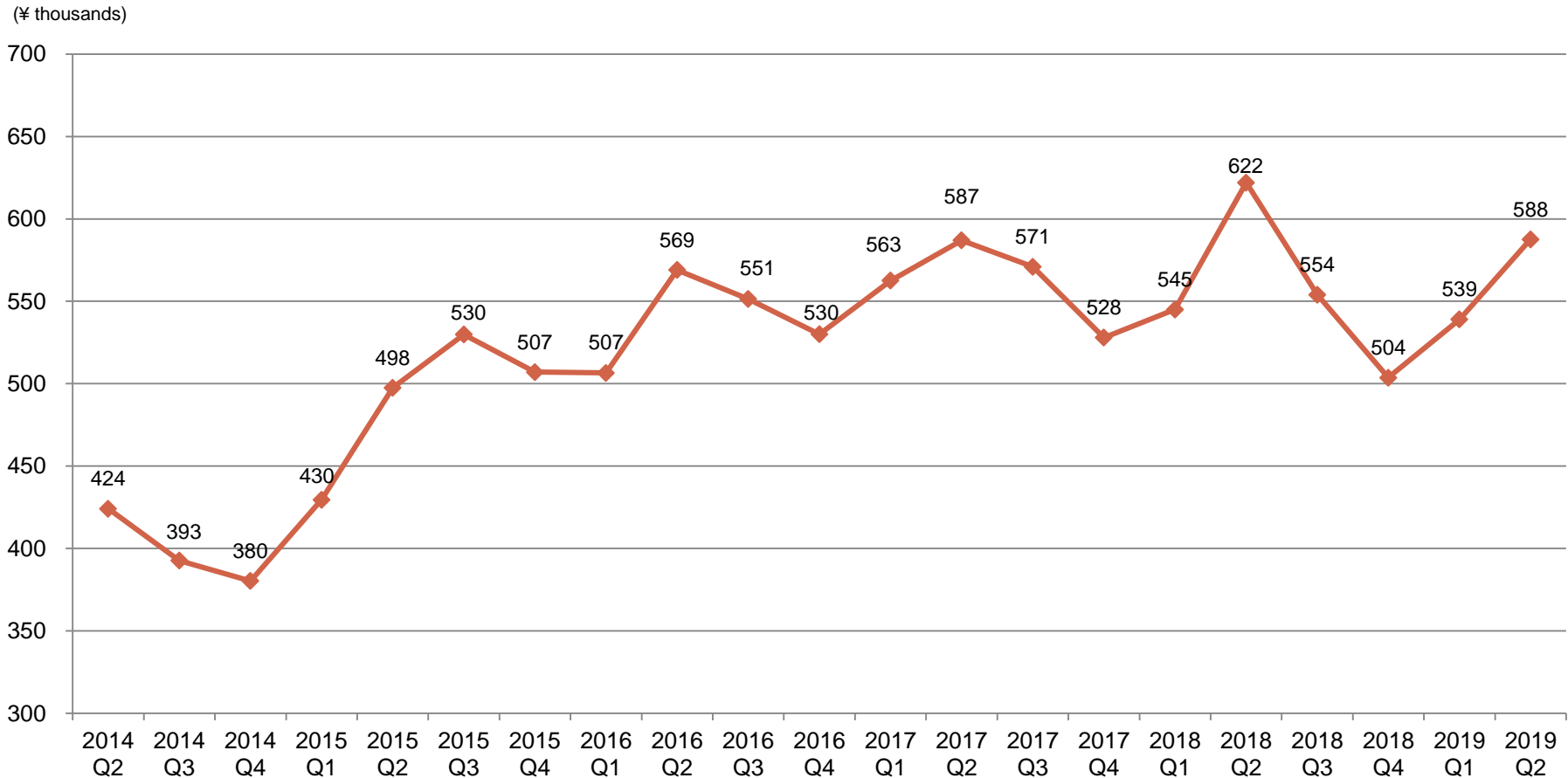


Monthly new media registrations increased and monthly withdrawals decreased.

A8.net

CPA Ad Network Business

Average Monthly Sales per Advertiser



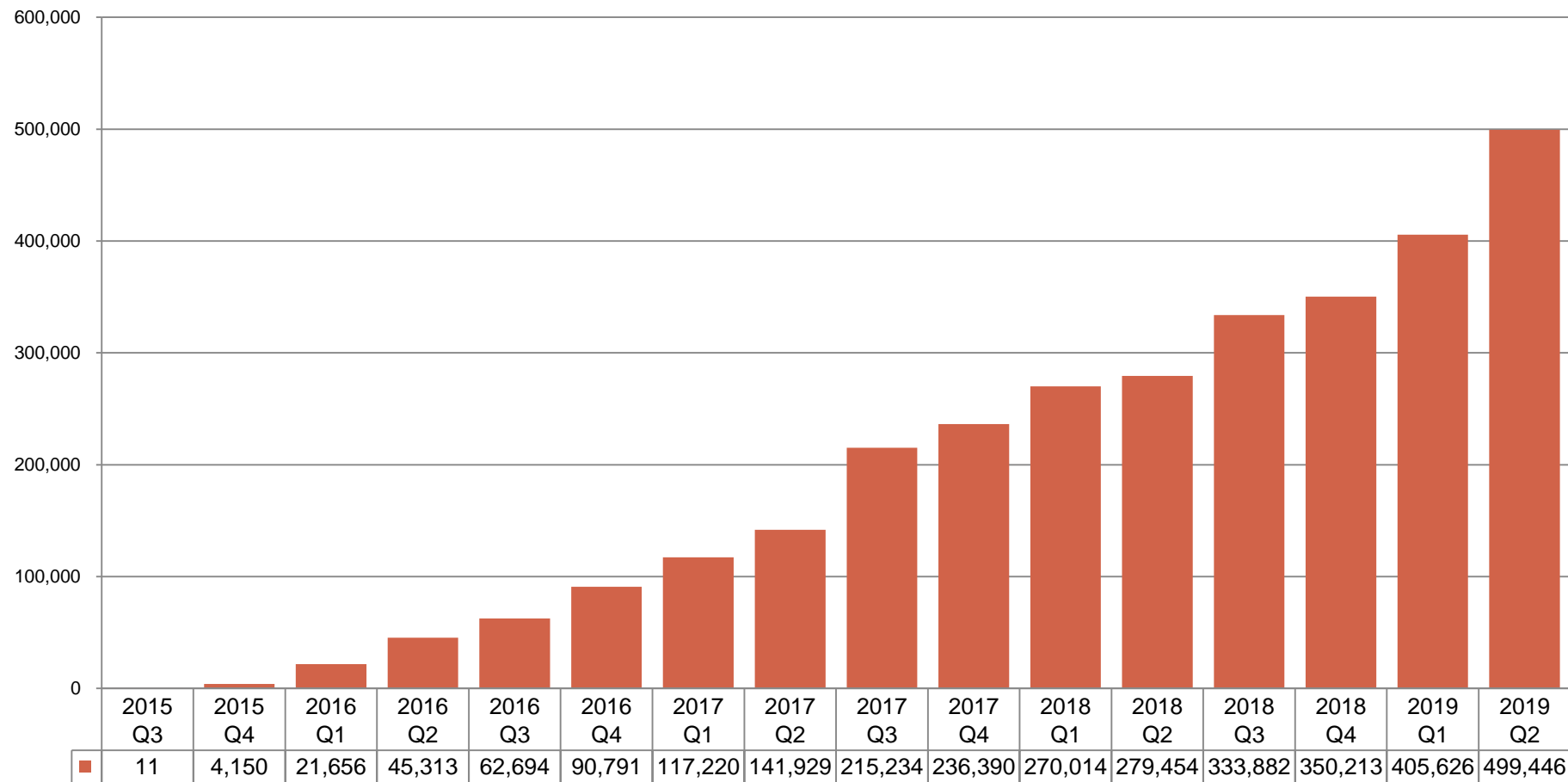
Average monthly sales per advertiser increased to 580 thousand yen.

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 Q2 (Apt. – Jun.)	2018 Q2 (Apt. – Jun.)	YoY Change
Sales (¥ thousands)	1,609,089	1,888,221	-14.8%
Number of operating advertiser IDs	240	344	-30.2%
Number of ad spaces on registered partner sites	960,110	887,029	8.2%

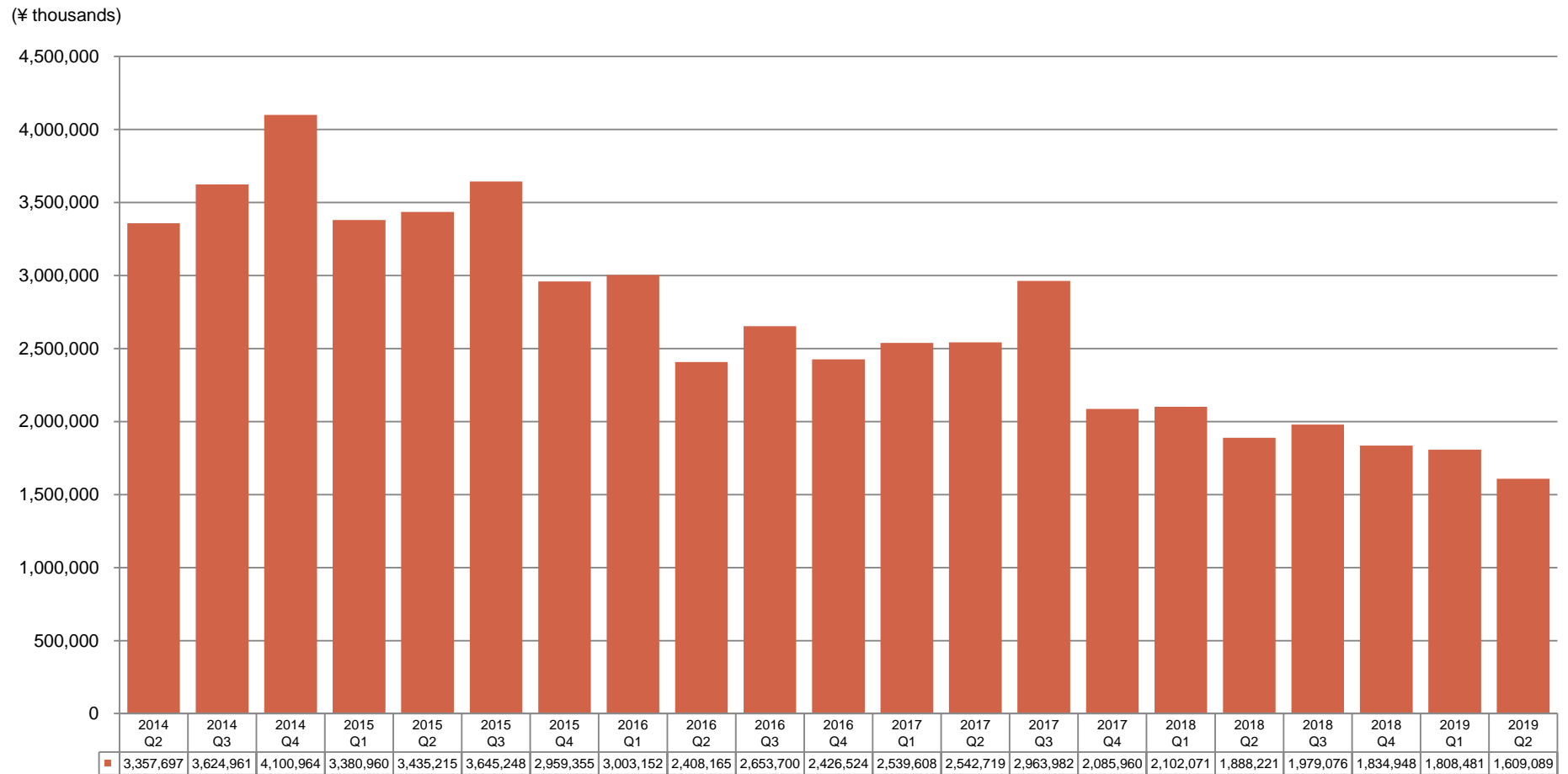
Sales before elimination of consolidated intercompany transactions.
Note: Figures are those of nend only, and do not include other services.

Sales declined 14.8% YoY.

nend

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

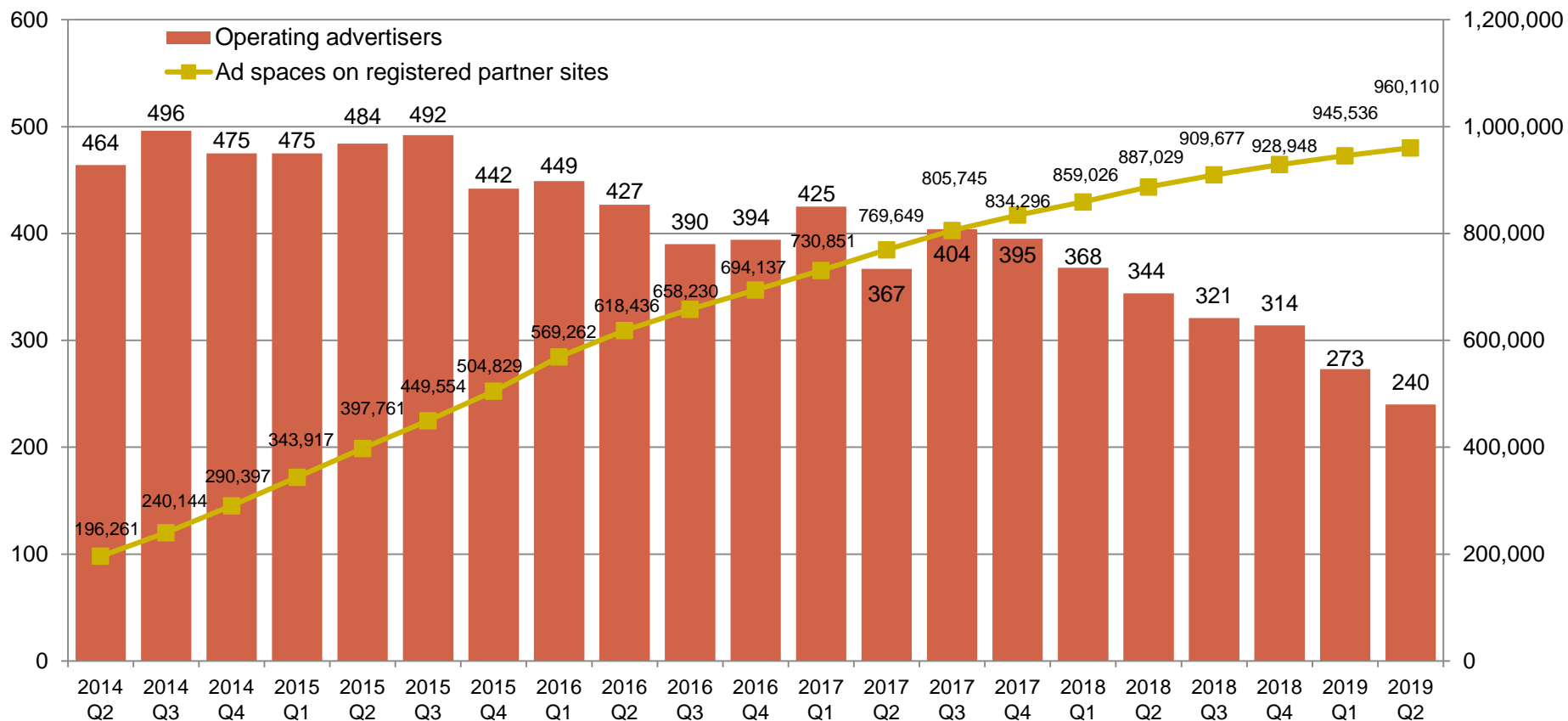


Note: Sales before elimination of consolidated intercompany transactions.

nend

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

CPC/Targeting Ad Network Business



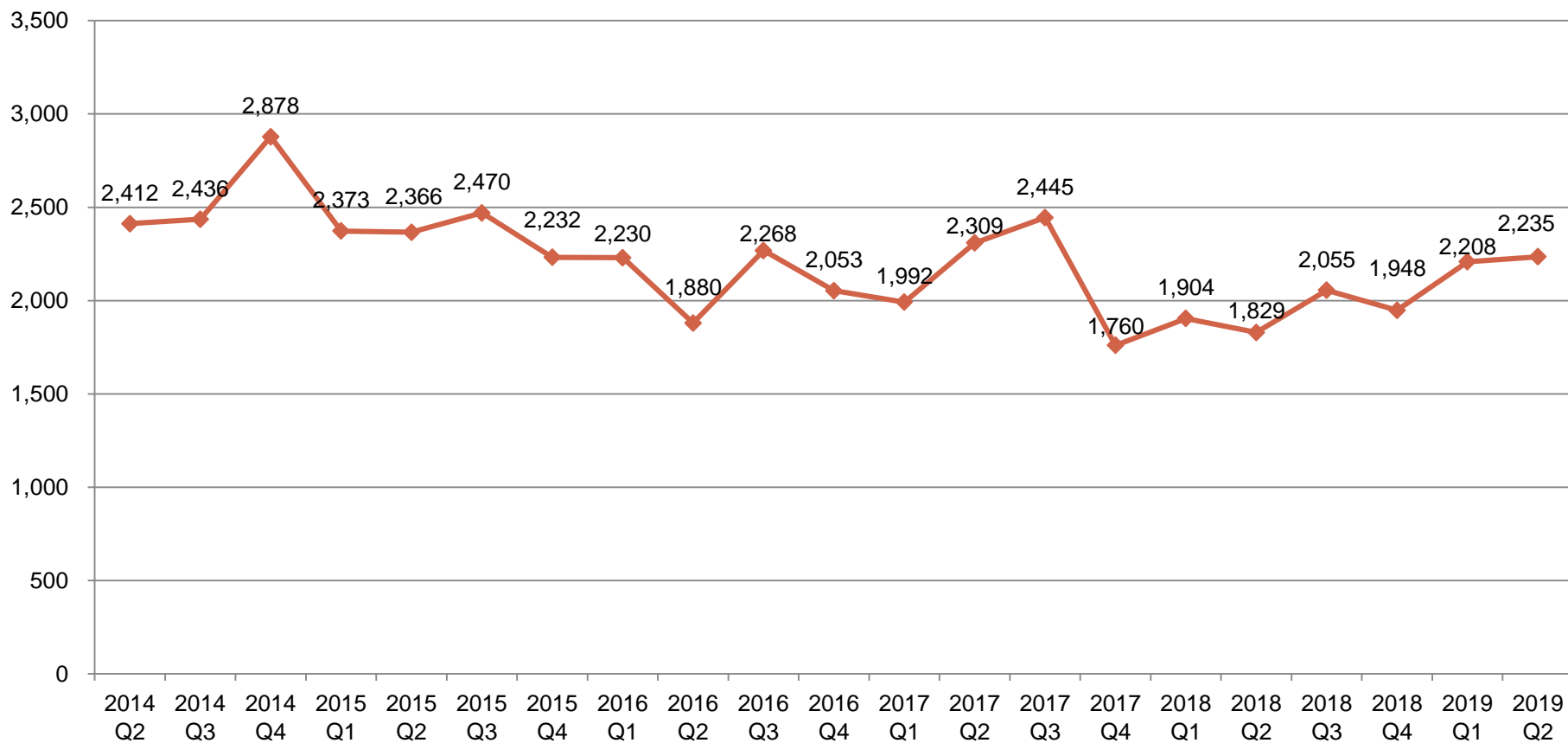
Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers decreased by 33 from 2019 Q1.

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business

(¥ thousands)

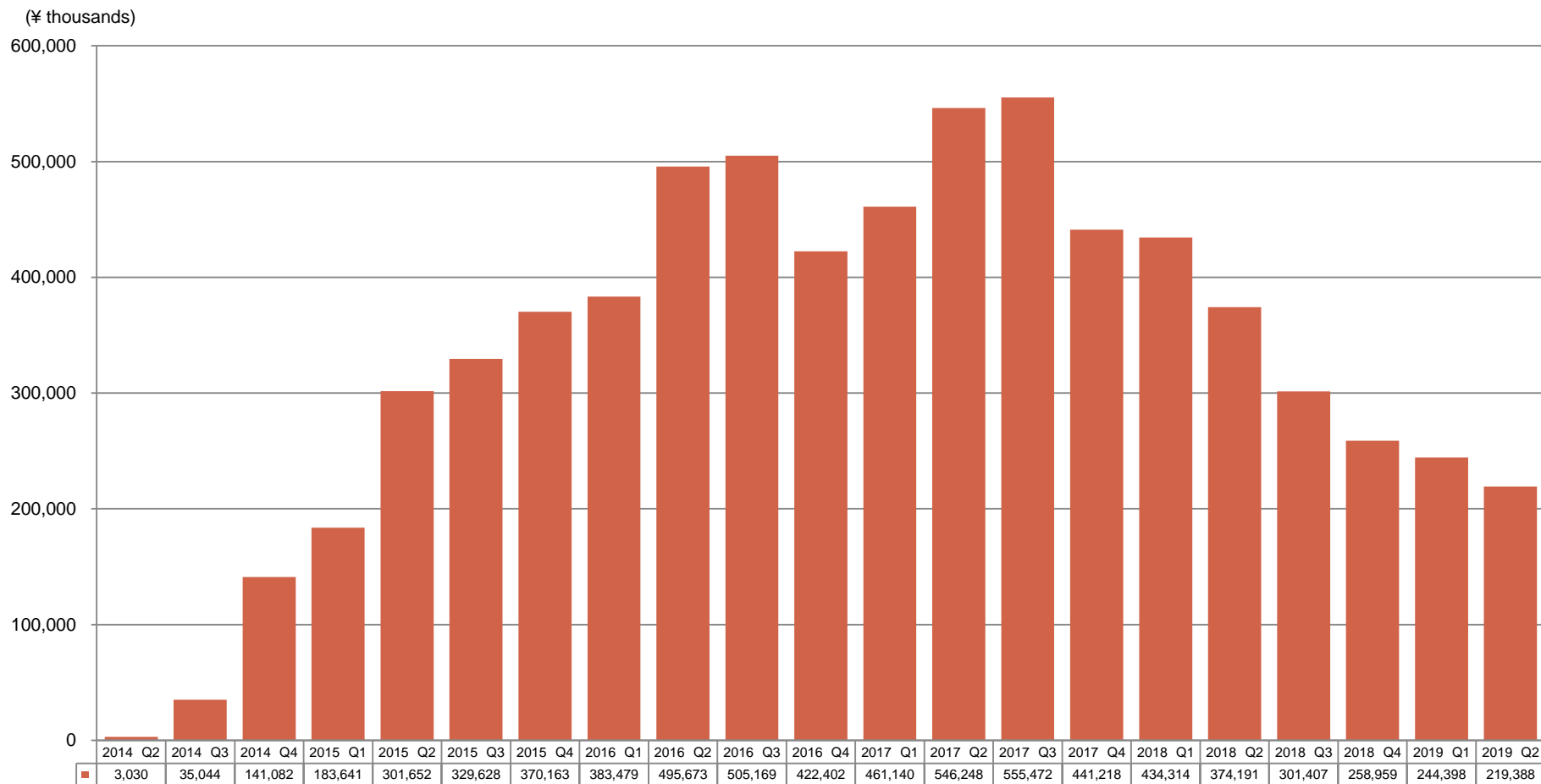


Average monthly sales per advertiser was ¥2.23 million.

nex8

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business



Note: Sales before elimination of consolidated intercompany transactions
This service will end on December 3, 2019 due to the changes in the market environments.

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)	2019 Q2	2018 Full Year
Net sales	1,589,138	814,433
Operating income (loss)	108,506	-39,578
Profit (loss) attributable to owners of parent	87,891	-75,768

Note: The above figures are the ones 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 Q2	2018 Full Year
Net sales	411,463	810,001
Operating income (loss)	-69,412	20,481
Profit (loss) attributable to owners of parent	-107,704	94,909



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

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

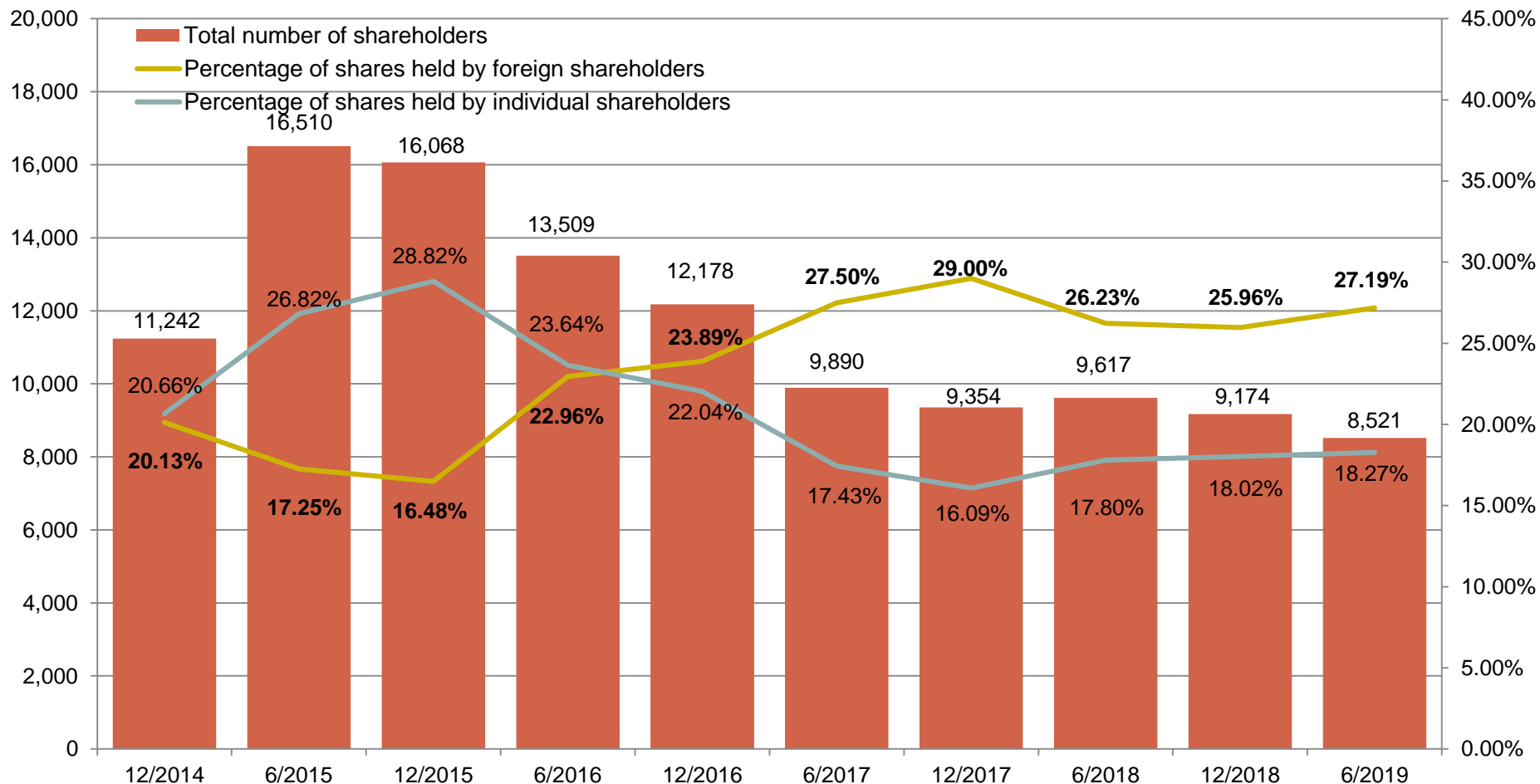
Stock Information

Stock Information

Stock Information

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

(shares)



Note: 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

■ Company name	F@N Communications, Inc.
■ Securities code	2461 (Tokyo Stock Exchange, First Section)
■ Fiscal year-end	December
■ Established	October 1, 1999
■ Capital	¥1,173.67 million (As of June 30, 2019)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 422 Group total: 526 <small>(As of June 30, 2019; includes part-time and temp staff)</small>
■ Headquarters	Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan
■ Phone	03-5766-3530 (IR)
■ Fax	03-5766-3782

Disclaimer

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