



Third Quarter of 2019
Presentation of Results

November 11, 2019

FAN Communications, Inc.

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Third Quarter of 2019
Performance Highlights

2019 Q3: Key Points

Performance Highlights

- **Net sales on a quarterly basis decreased by 3% compared with the previous quarter, which was a tough result.**
- **Compared with the same period last year, net sales were almost the same, but ordinary income decreased by 4%, so our business performance is still in a tough situation.**
- **Though the budgets of our game related clients increased due to the summer campaign, net sales of other fields were sluggish due to the impact from the changes in search engine algorithms.**

Consolidated Results of Operations

Performance Highlights

(¥ thousands)	2019 Q3	2018 Q3	Year-on-Year Change	% of Net Sales
Net sales	26,581,486	27,222,815	-2.4%	100%
Operating income	2,972,730	3,328,003	-10.7%	11.2%
Ordinary income	3,001,402	3,472,586	-13.6%	11.3%
Profit attributable to owners of parent	2,022,300	2,260,551	-10.5%	7.6%
Ordinary income margin	11.3%	12.8%	-1.5pt	-
Net income per share	26.69円	29.42円	-9.3%	-
Diluted net income per share	-	29.40円	-	-

Note: Diluted net income per share for 2019 Q3 is not disclosed because there are no potentially dilutive common shares.

Consolidated Balance Sheets

Performance Highlights

(¥ thousands)	December 31, 2018	September 30, 2019
Assets		
Current assets	22,596,975	22,724,259
Cash and deposits	17,778,004	17,404,492
Notes and accounts receivable – trade	3,703,909	4,162,218
Securities	800,590	857,946
Other	327,994	309,442
Allowance for doubtful accounts	-13,522	-9,840
Fixed assets	3,193,271	3,561,205
Property and equipment	327,920	249,781
Intangible assets	284,313	692,037
Investments and other assets	2,581,037	2,619,386
Total assets	25,790,246	26,285,465
Liabilities and Net Assets		
Current liabilities	5,800,864	5,556,642
Notes and accounts payable – trade	4,384,454	4,487,787
Income taxes payable	590,647	300,934
Other current liabilities	825,762	767,919
Long-term liabilities	153,578	151,738
Total liabilities	5,954,442	5,708,380
Total net assets	19,835,804	20,577,084
Total liabilities and net assets	25,790,246	26,285,465

The Main component was ¥2,219,947 thousand in investment securities.

The main factor of the decrease was a ¥289,713 thousand decrease in income tax payable, despite a ¥103,333 thousand increase in notes and accounts payable – trade.

The main factors of the increase were ¥2,022,300 thousand of profit attributable to owners of parent and a ¥190,786 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)	2019 Full-Year Forecast (% Change from Same Period of Previous Year)	2019 Q3 Actual	Progress (% of Full-Year Forecast)
Net sales	34,200 (-3.2)	26,581	77.7%
Operating income	3,700 (-12.1)	2,972	80.3%
Ordinary income	3,720 (-14.8)	3,001	80.7%
Profit attributable to owners of parent	2,580 (1.0)	2,022	78.4%

Dividend Forecast

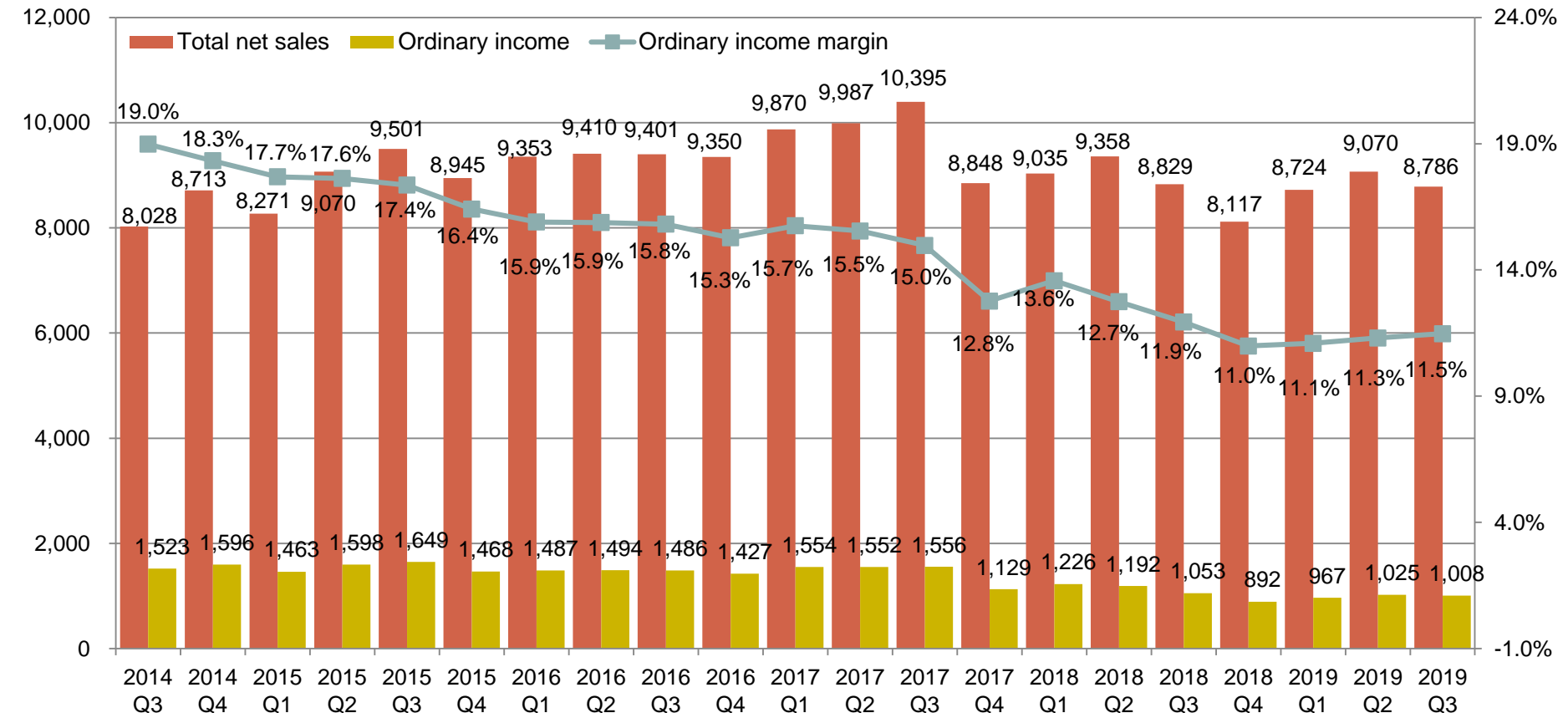
	2019 Forecast	2018 Actual
Year-end dividend per share	¥19	¥19

Management Indicators (Quarterly Basis)

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

Management
Indicators

(¥ millions)

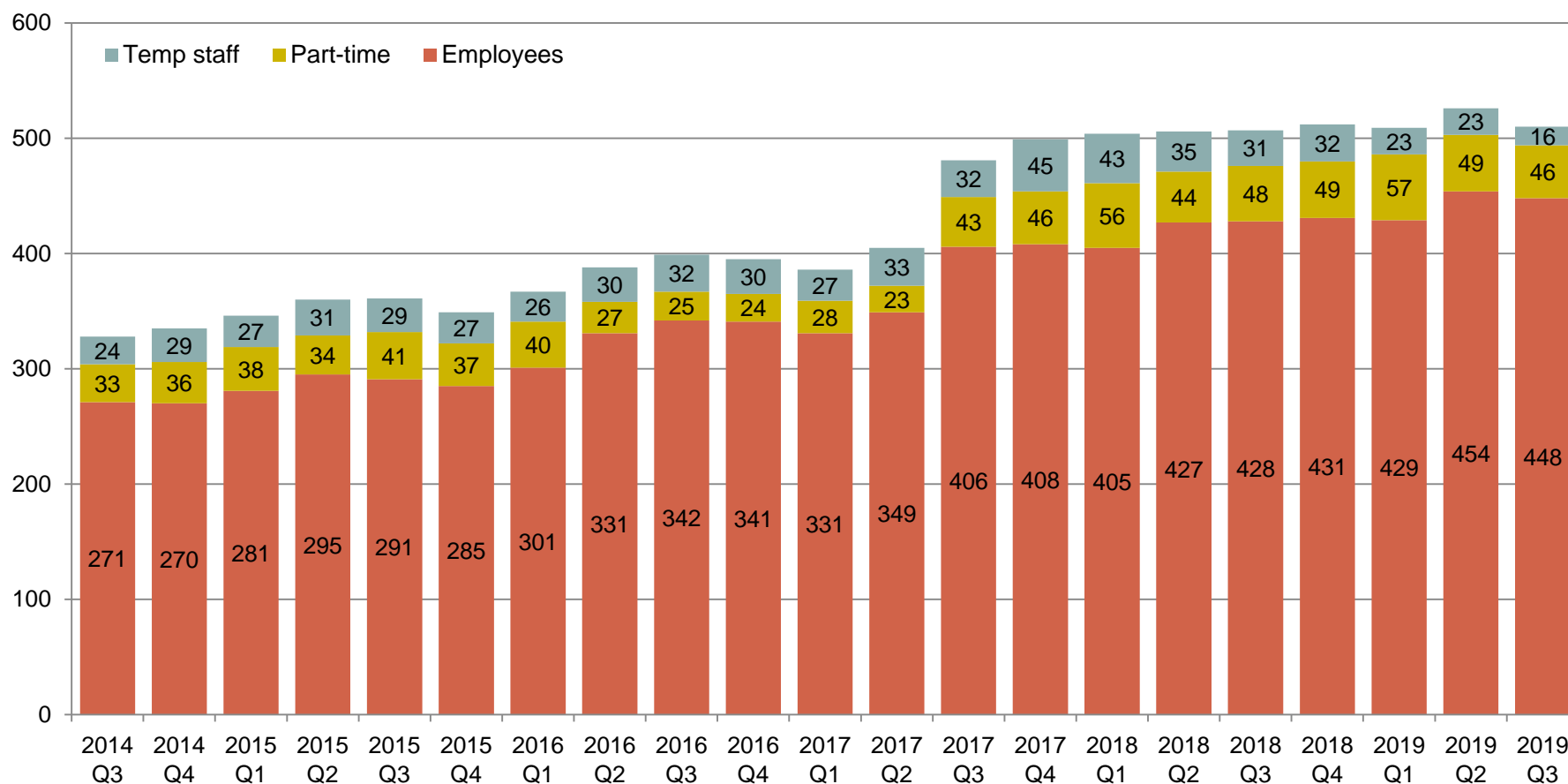


The ordinary income margin was 11.5%, an increase of 0.2 points from the previous quarter

Number of Employees

(Consolidated/Quarterly basis)

Management Indicators

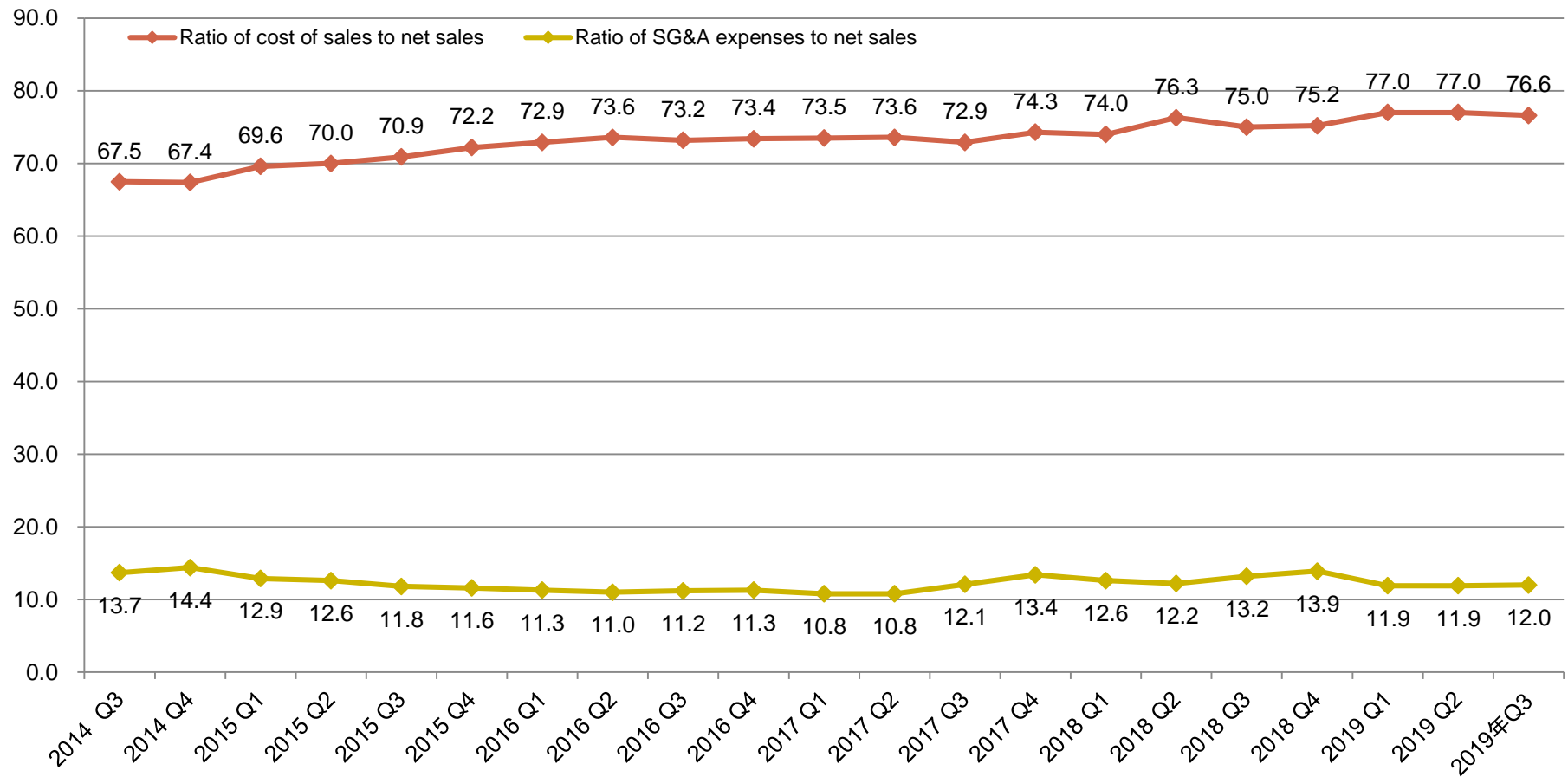


The total number of employees in the Group was 510, an increase of 3 from the same period of the previous year and a decrease of 16 from the previous quarter.

Cost of Sales Ratio and SG&A Expenses Ratio

(Consolidated/Quarterly basis)

Management Indicators

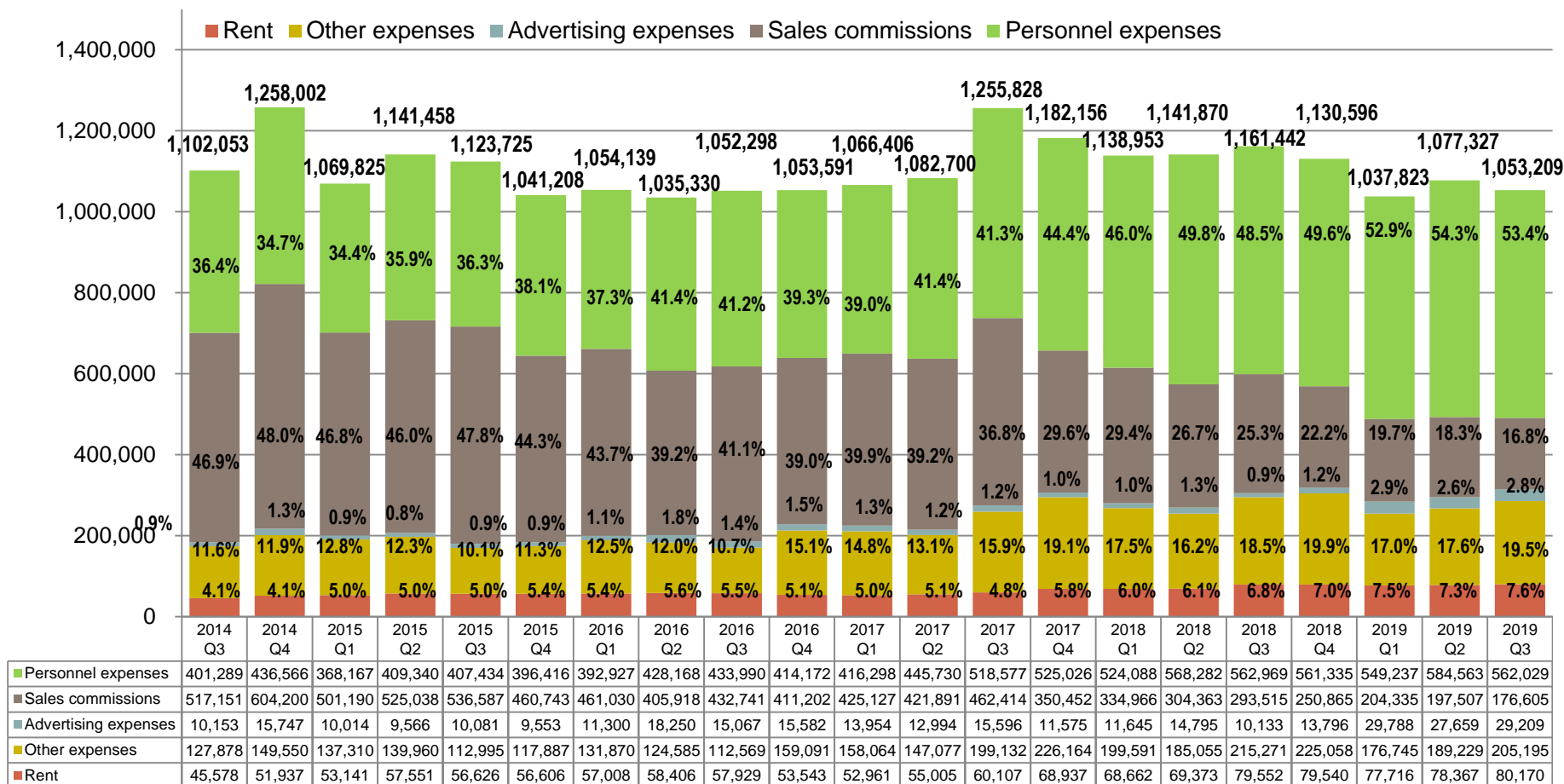


Both the ratio of cost of sales to net sales and the selling, general and administrative (SG&A) expenses ratio have no change from the previous quarter.

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

Management Indicators

(thousands)



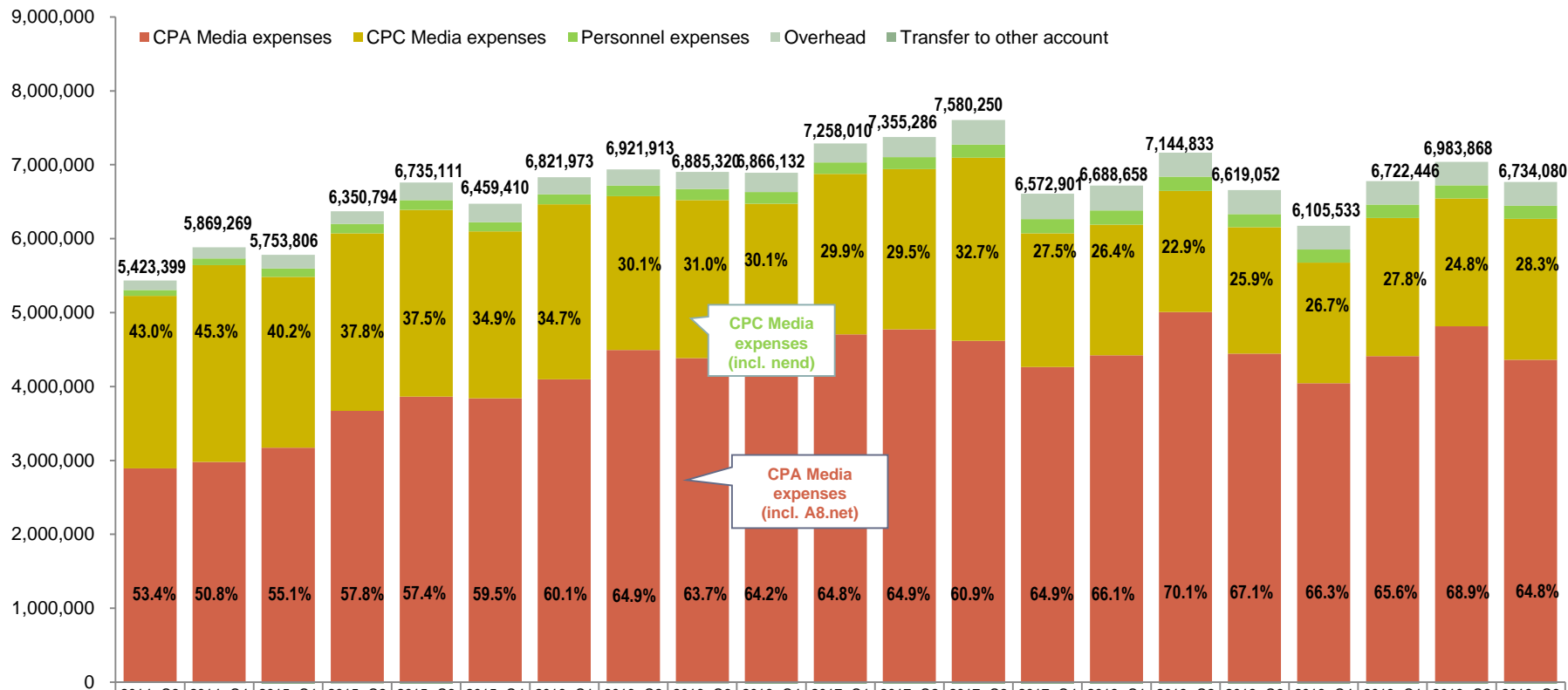
Note: Other expenses consist of business training expenses, business consignment expenses, payment commissions, sales promotion expenses, etc.

Cost of Sales

(Consolidated/Quarterly basis)

Management Indicators

(¥ thousands)



	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	2019 Q1	2019 Q2	2019 Q3
Transfer to other account	△ 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	△ 57,082	△ 54,967	△ 31,862
Overhead	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	317,526	316,336	318,773
Personnel expenses	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	182,355	178,201	178,621
CPC Media expenses	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	1,866,889	1,729,178	1,905,096
CPA Media expenses	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	4,412,754	4,815,118	4,363,448

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.

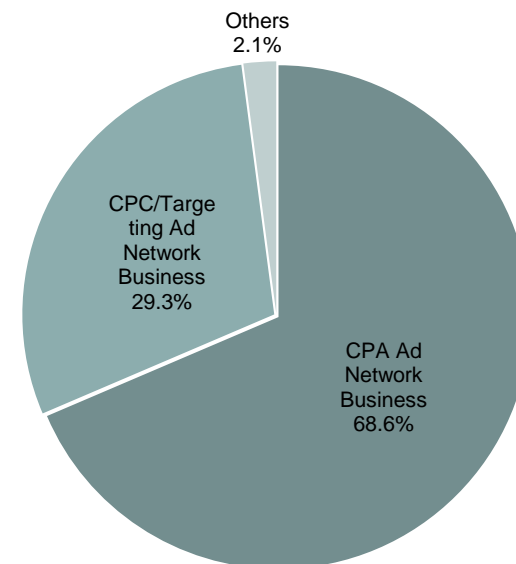
Overview by Main Service Area

Net Sales by Reportable Segment

(Consolidated/Quarterly basis)

Overview by Service Area

(¥ thousands)	2019 Q3 (July-September)	2018 Q3 (July-September)	YoY Change
CPA Ad Network Business	6,024,877	6,217,132	-3.1%
CPC/Targeting Ad Network Business	2,578,017	2,422,282	6.4%
Others	183,478	189,731	-3.3%
Total net sales	8,786,373	8,829,146	-0.5%



<Main services of CPA Ad Network Business>
A8.net, seedApp

<Main services of CPC/Targeting Ad Network Business>
nend, nex8, FAN Communications Global

<Others>
Seesaa

Note: Sales before elimination of consolidated intercompany transactions.

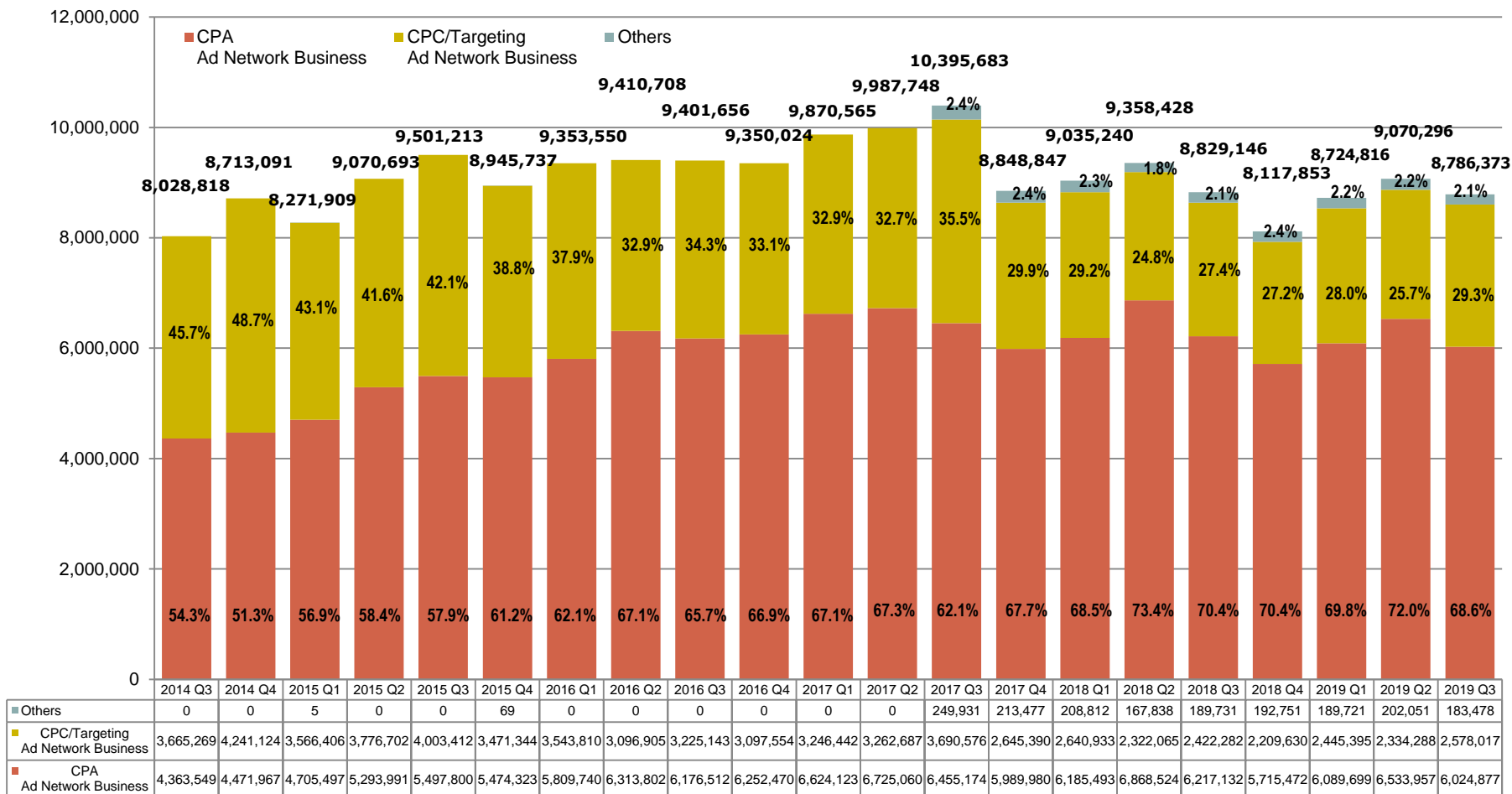
The ratio of the sales of CPC/Targeting Ad Network Business to total net sales slightly increased due to seasonal factors.

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 Q3 (July-September)	2018 Q3 (July-September)	YoY Change
Sales (¥ thousands)	5,509,309	5,753,631	-4.2%
Number of operating advertiser IDs	3,435	3,462	-0.8%
Number of registered partner sites	2,669,931	2,499,764	6.8%

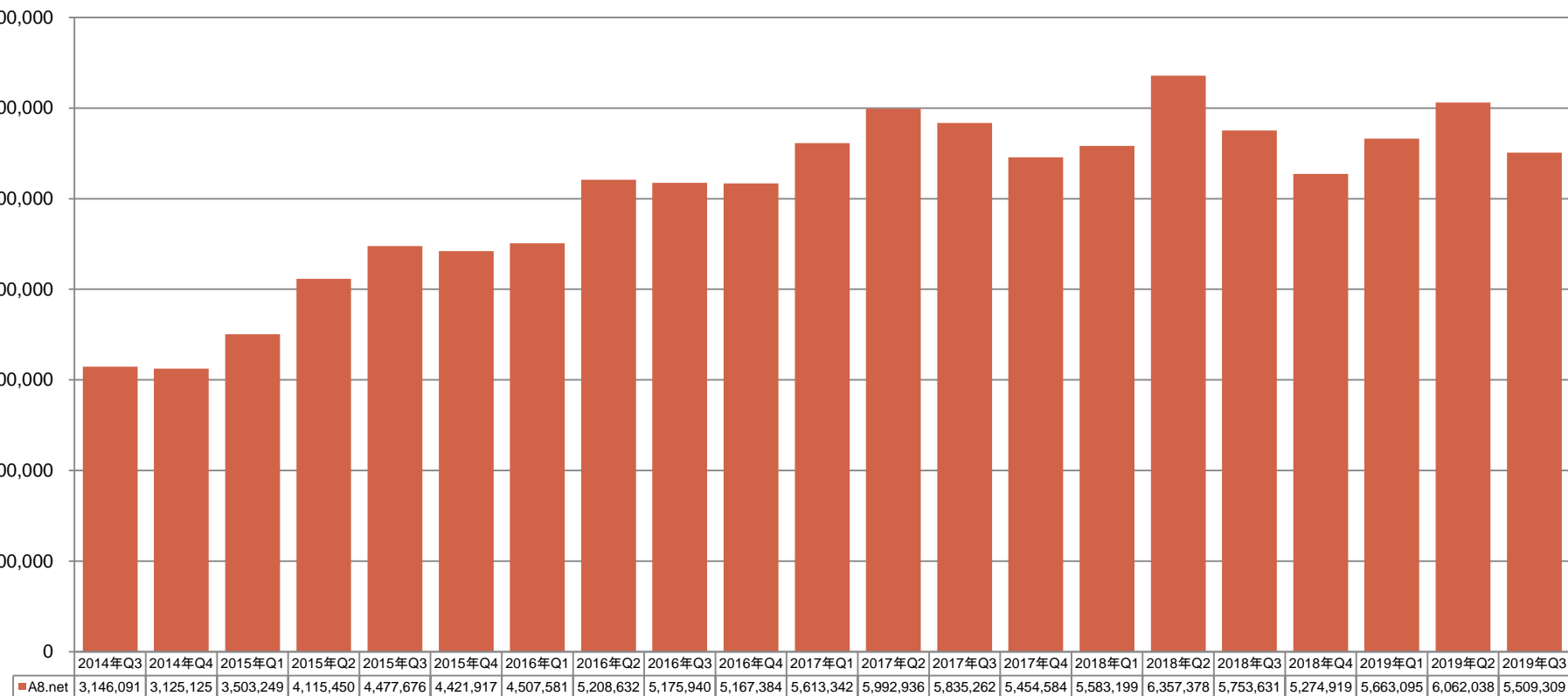
Note: Sales before elimination of consolidated intercompany transactions.
The number of operating advertiser IDs decreased by 27 from the same period of the previous year.

A8.net

Net Sales (Quarterly basis)

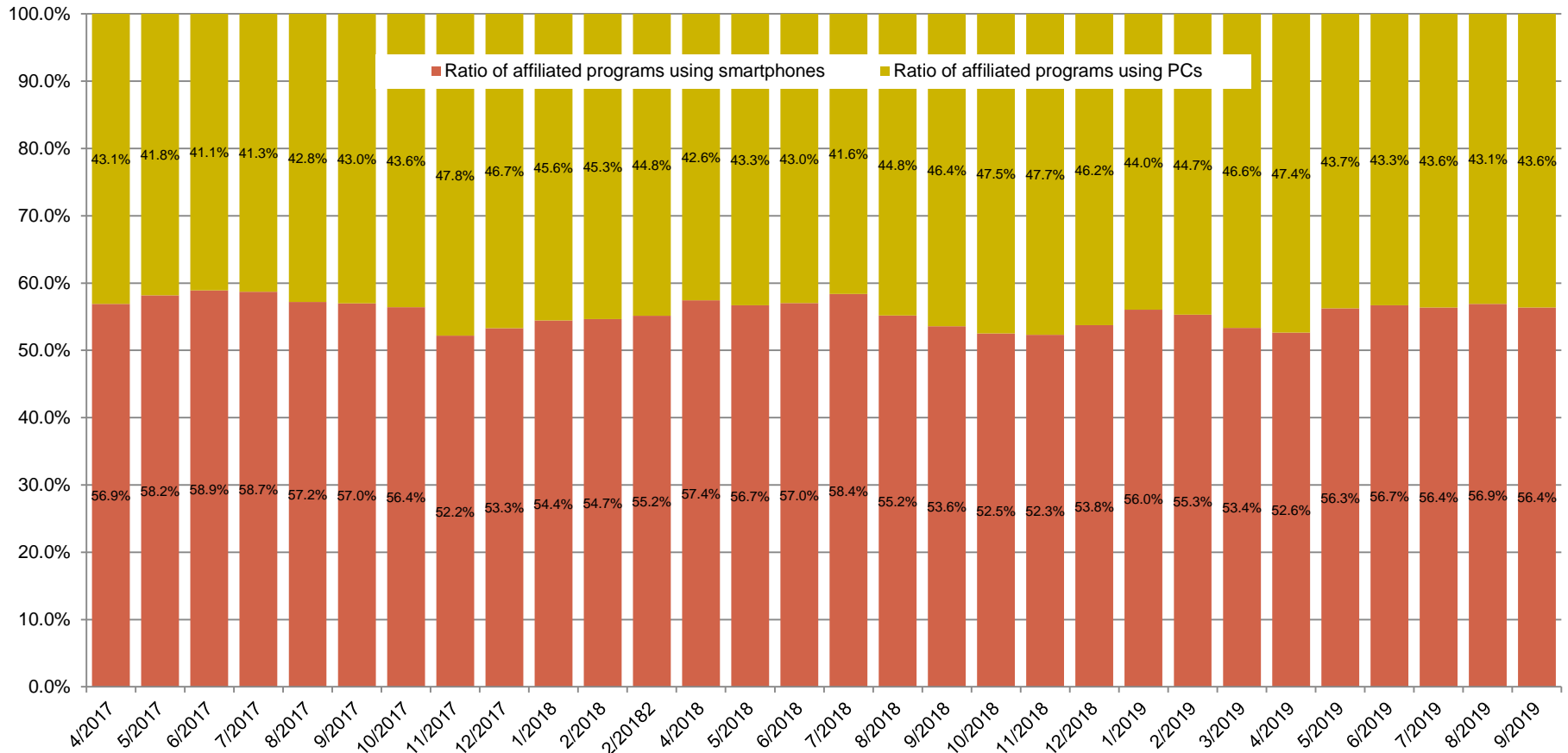
CPA Ad Network Business

(¥ thousands)



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

Ratio of Smartphones in Affiliated Programs (Monthly basis)

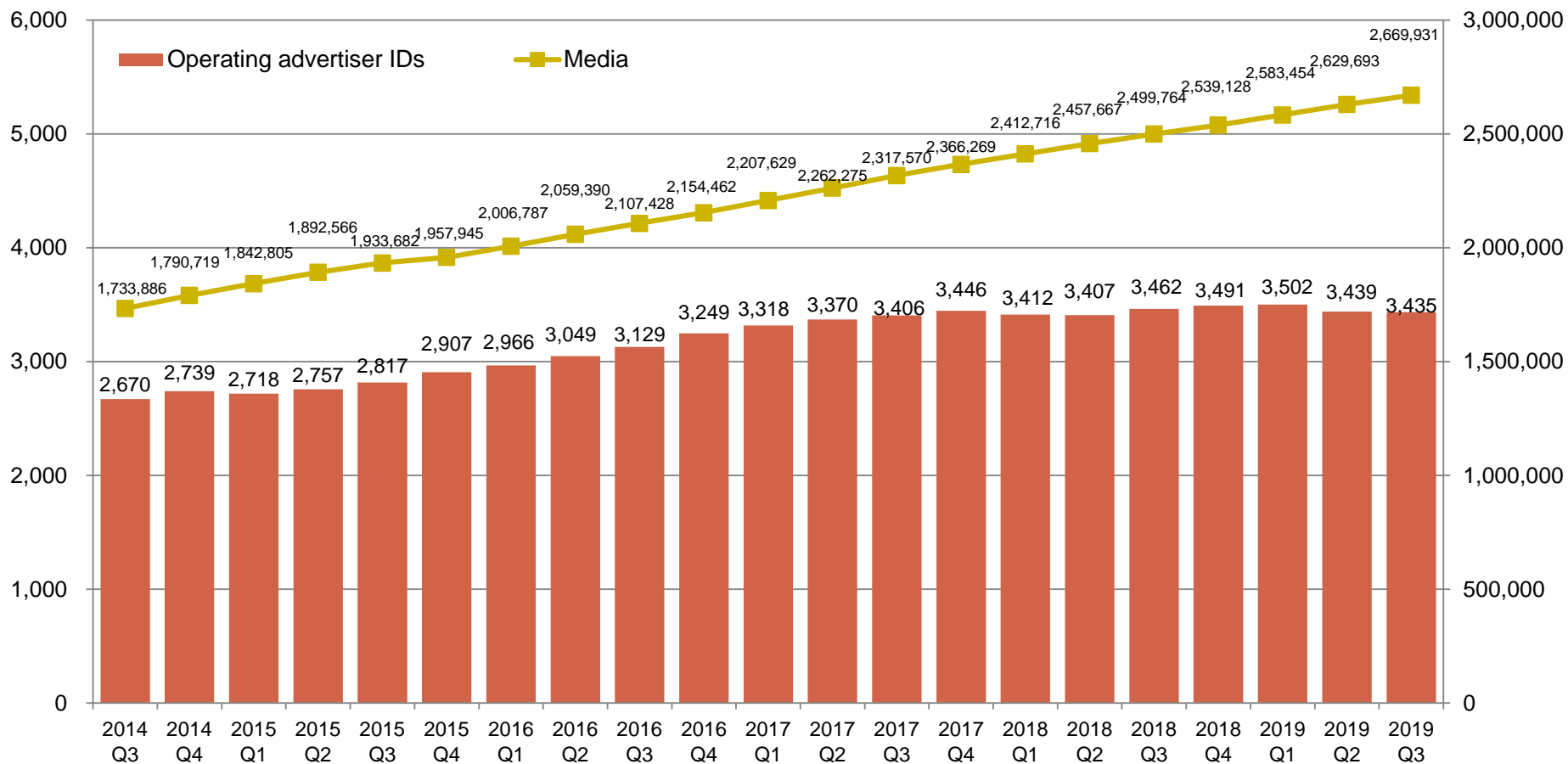


Note: The above affiliated program ratios are not final and are subject to change.

A8.net

CPA Ad Network Business

Number of Operating Advertisers and Media (Quarterly basis)



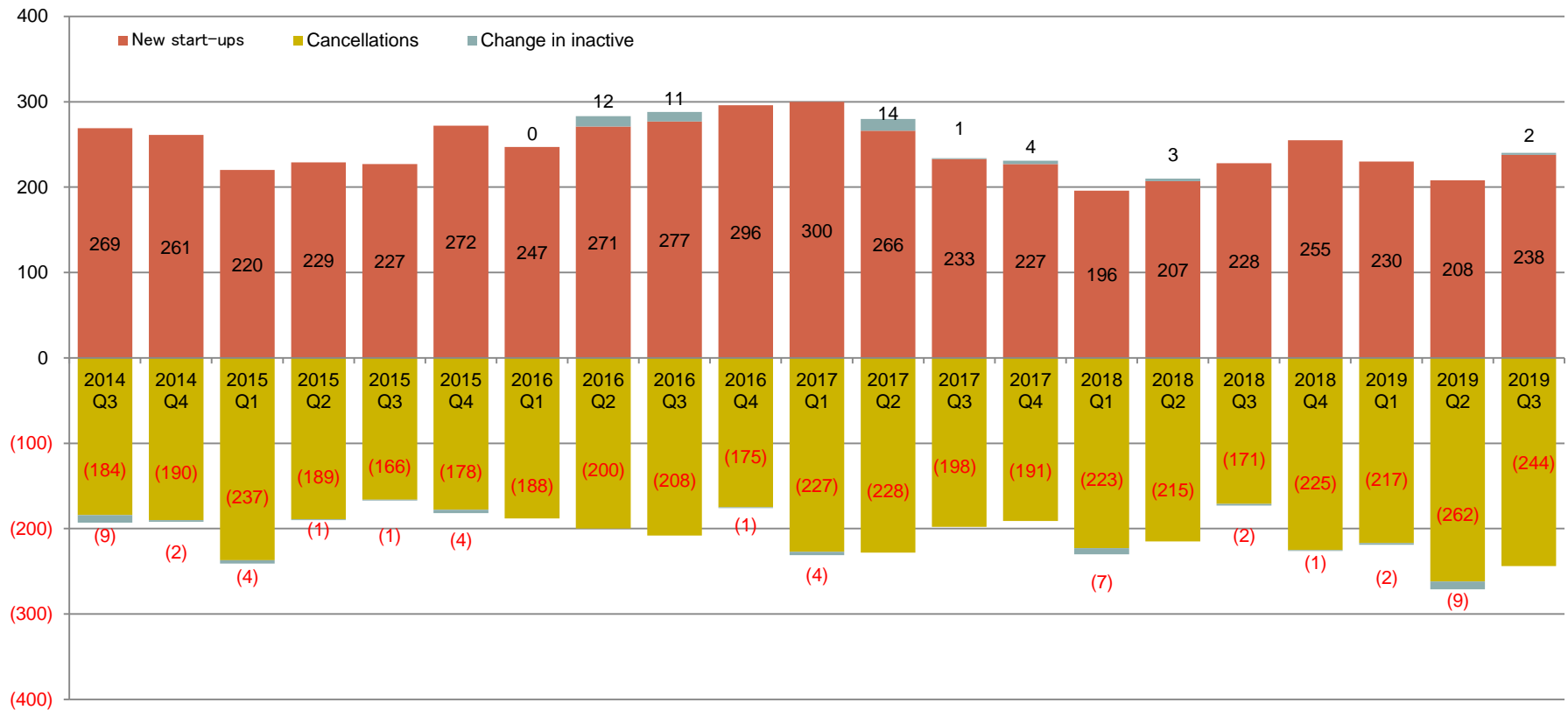
Notes: 1. The number of operating advertisers is as of the final month of each quarter.

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

The number of operating advertisers decreased by 4 from 2019 Q2.

The number of overseas operating advertisers decreased by 1 from 2019 Q2 to 234.

New Advertiser Start-ups and Cancellations

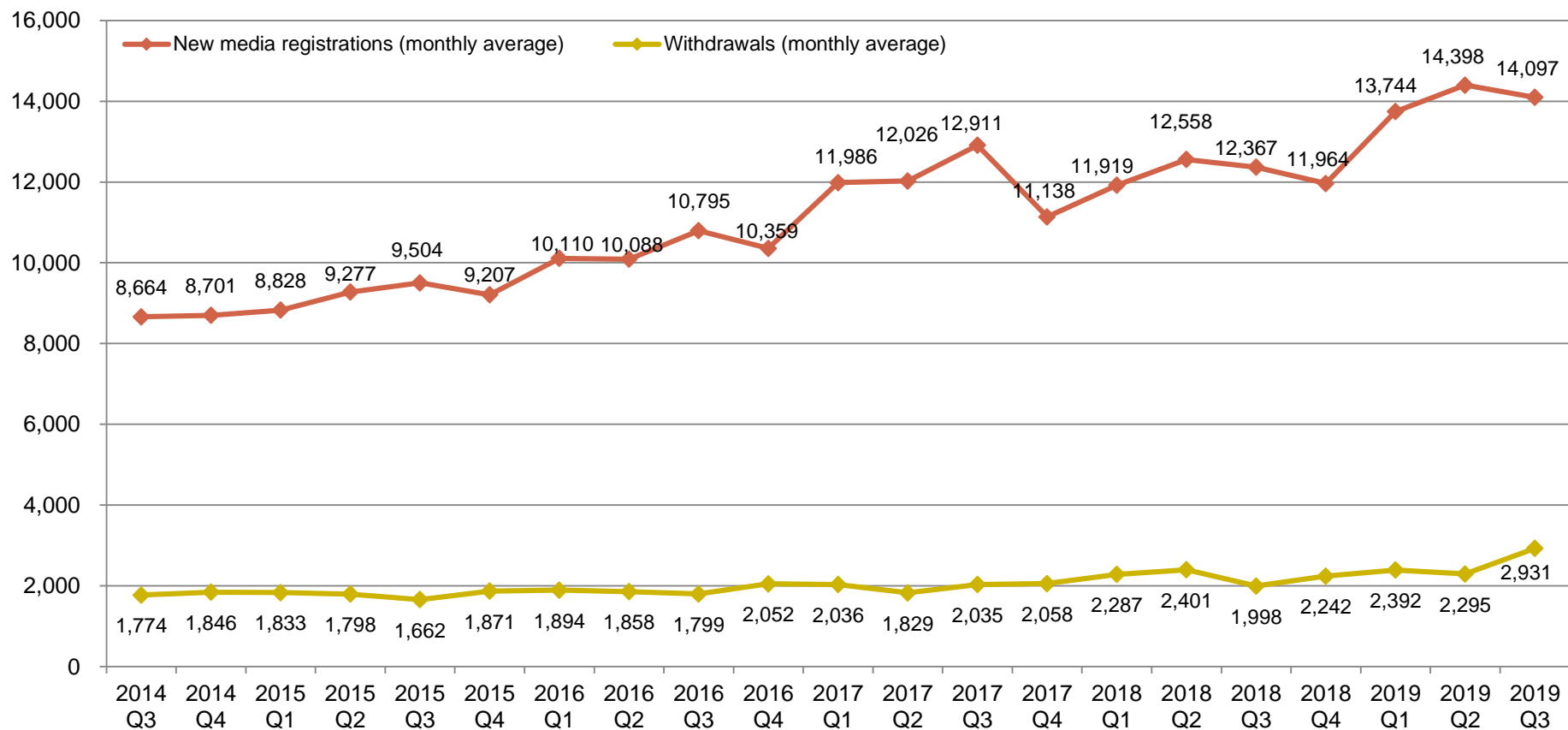


Note: "Change in inactive" is the difference in number of customers who switched between "operating" and "inactive," adjusted for the number of customers who switched from "inactive" to "cancelled" included in the number of cancellations.
The number of new operating start-ups increased and the number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

A8.net

CPA Ad Network Business

Average Monthly New Media Registrations and Withdrawals

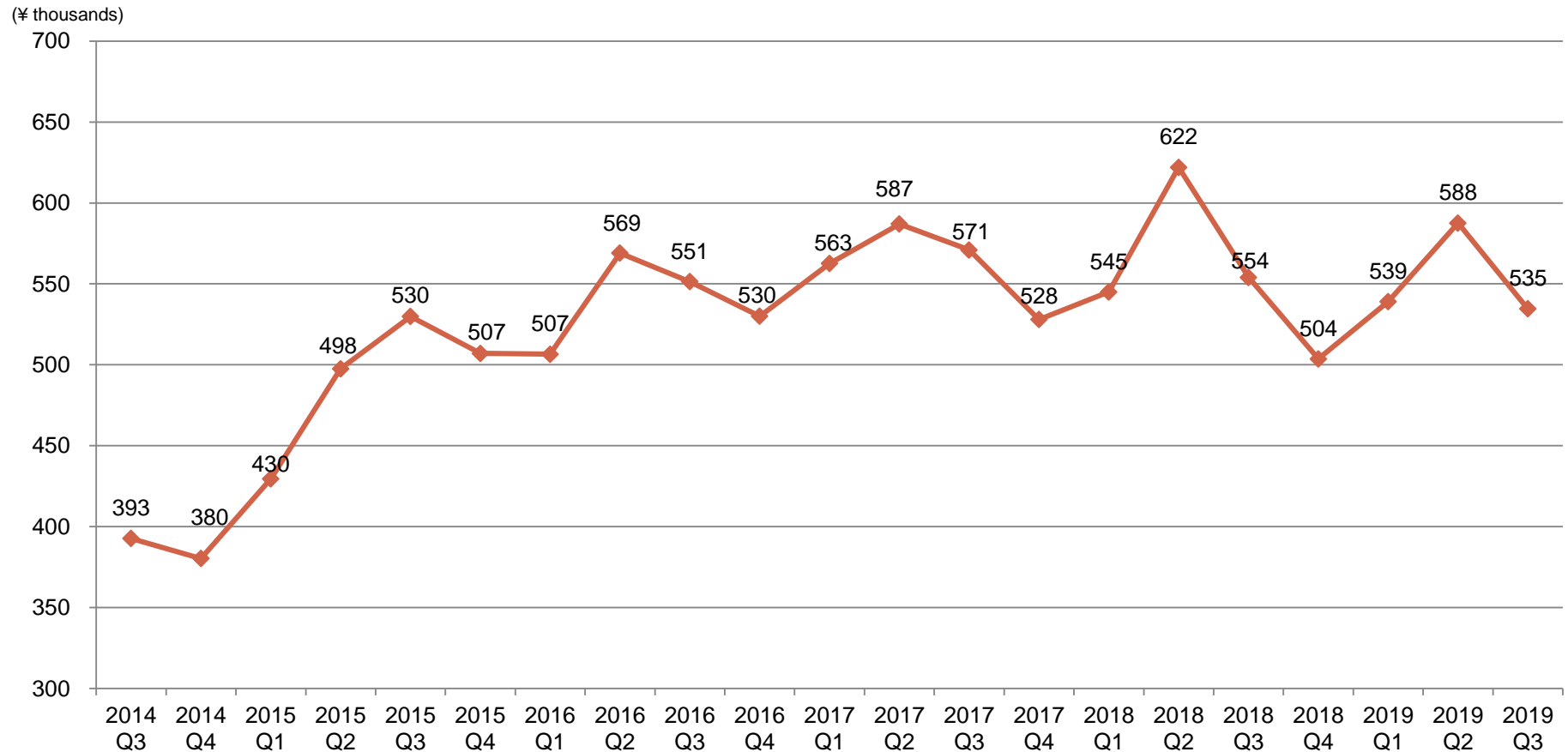


Monthly new media registrations decreased and monthly withdrawals increased.

A8.net

CPA Ad Network Business

Average Monthly Sales per Advertiser



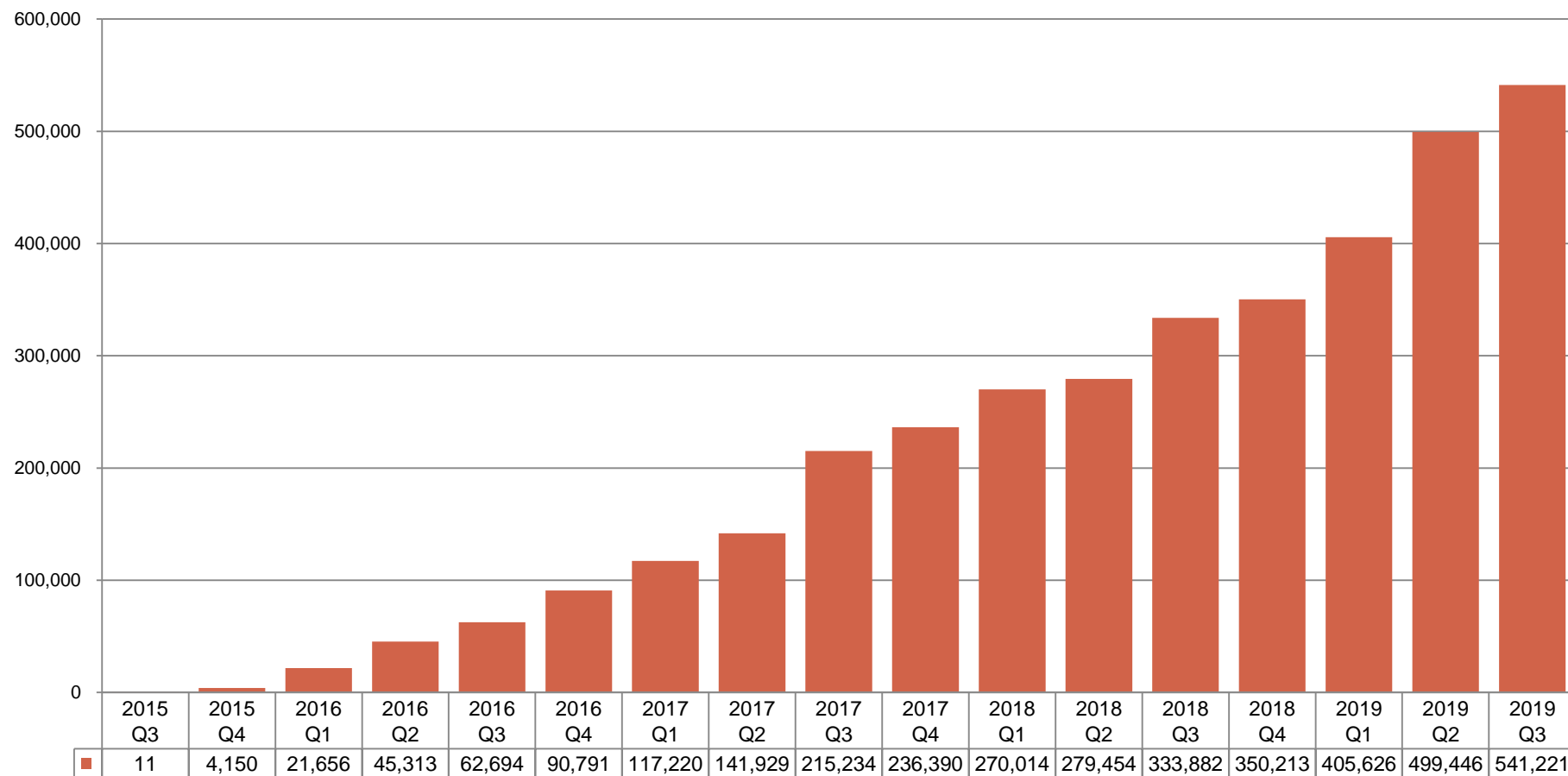
Average monthly sales per advertiser decreased to 530 thousand yen.

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 Q3 (July-September)	2018 Q3 (July-September)	YoY Change
Sales (¥ thousands)	1,872,291	1,979,076	-5.4%
Number of operating advertiser IDs	266	321	-17.1%
Number of ad spaces on registered partner sites	971,995	909,677	6.9%

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

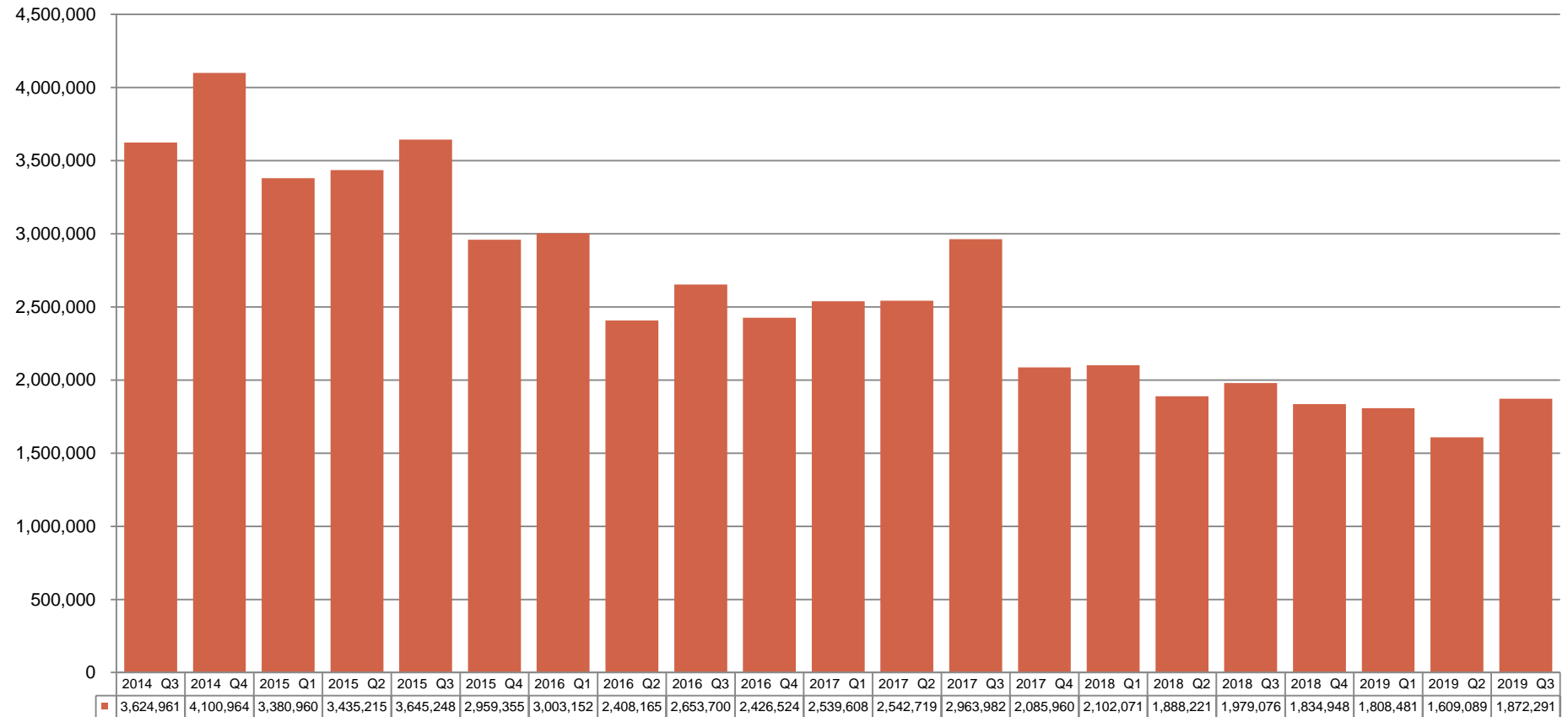
Sales declined 5.4% YoY.

nend

Net Sales (Quarterly basis)

CPC/Targeting
Ad Network Business

(¥ thousands)

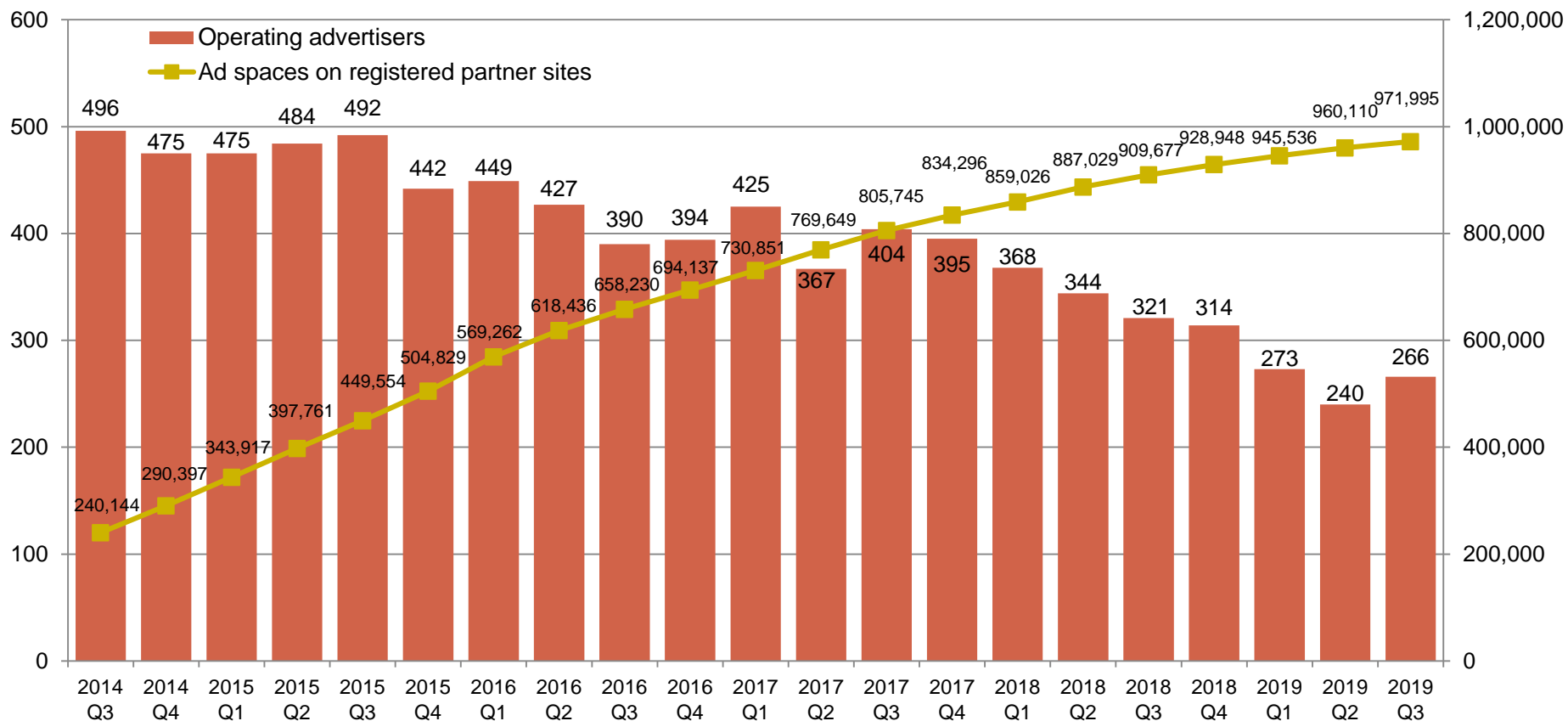


Note: Sales before elimination of consolidated intercompany transactions.

nend

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

CPC/Targeting Ad Network Business



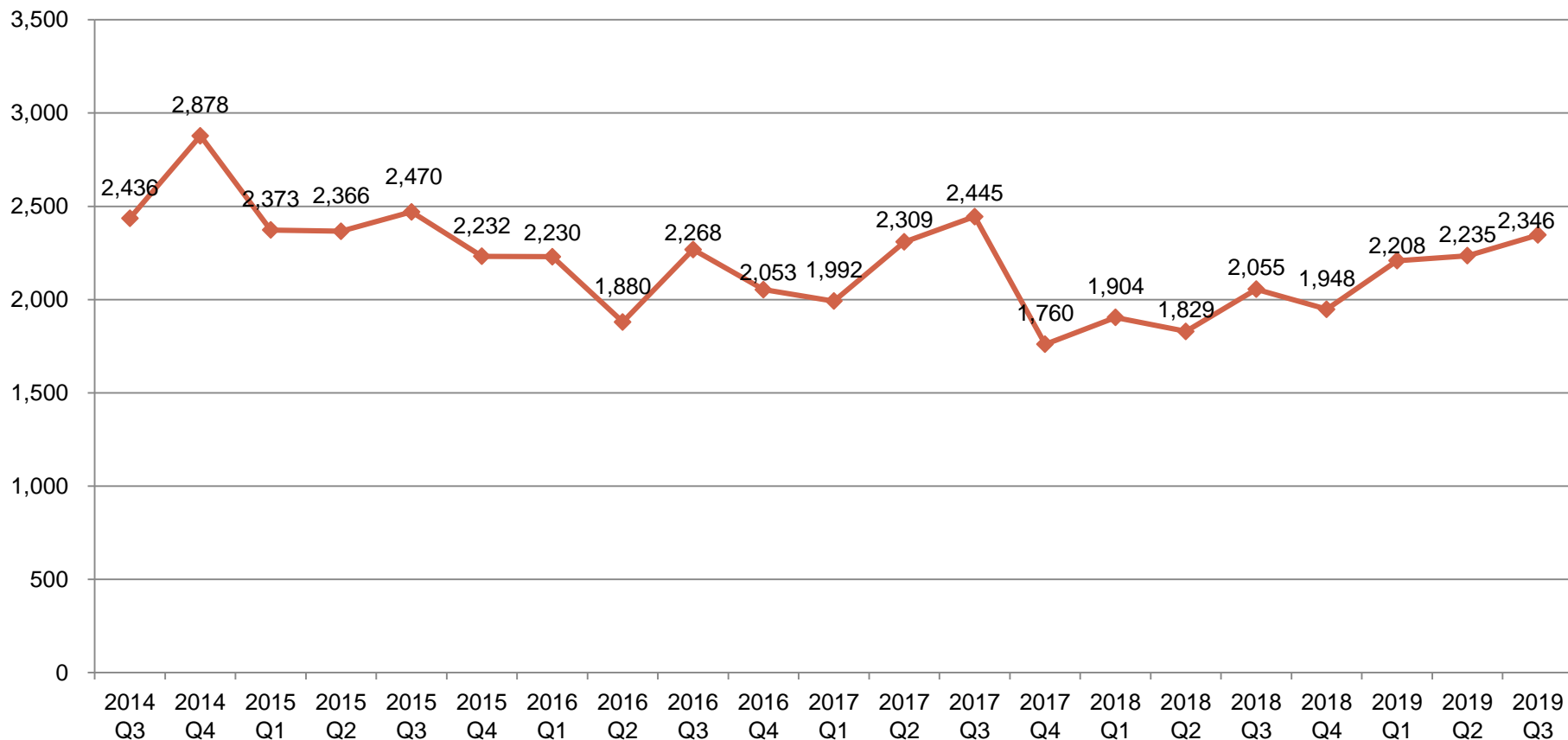
Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers increased by 26 from 2019 Q2.

nend

Average Monthly Sales per Advertiser

CPC/Targeting
Ad Network Business

(¥ thousands)

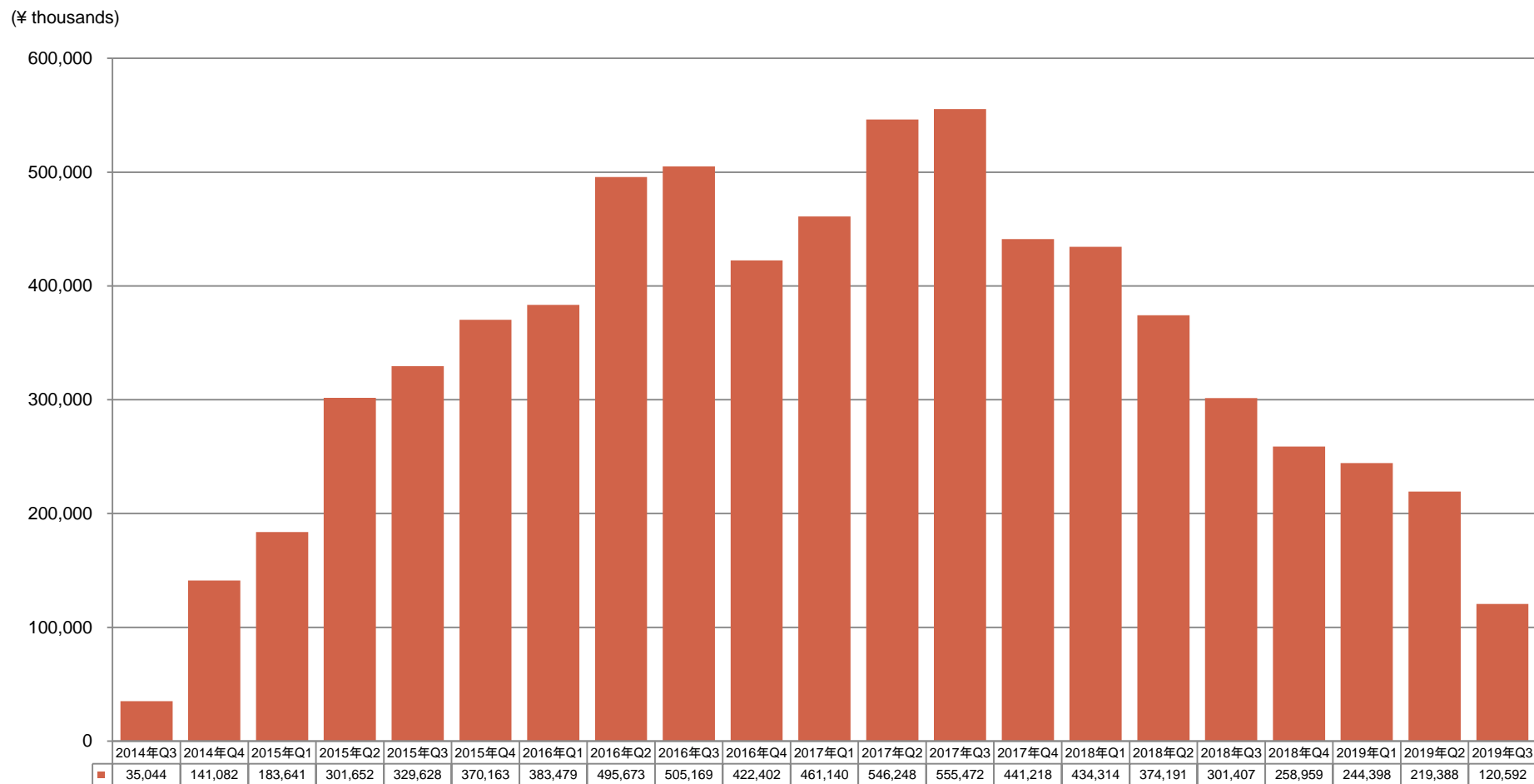


Average monthly sales per advertiser were ¥2.34 million.

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

FAN Communications Global Inc.

Established: March 1, 2012
(Wholly owned by FAN Communications, Inc.)

Main Business

Smartphone application marketing support business
Development of overseas new businesses



Note: Changed the company name from Ad Japon Inc. to FAN Communications Global Inc. on October 1, 2019

(¥ thousands)	2019 Q3	2018 Full Year
Net sales	2,532,743	814,433
Operating income (loss)	171,222	-39,578
Profit (loss) attributable to owners of parent	136,828	-75,768

Note: The above figures are the ones before elimination of consolidated intercompany transactions.

Seesaa Inc.

Established: October 2003
(Wholly owned by FAN Communications, Inc.)

Main Business

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

Note: Became a subsidiary on July 3, 2017

(¥ thousands)	2019 Q3	2018 Full Year
Net sales	643,045	810,001
Operating income (loss)	-114,061	20,481
Profit (loss) attributable to owners of parent	-152,198	94,909

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

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

Seesaa

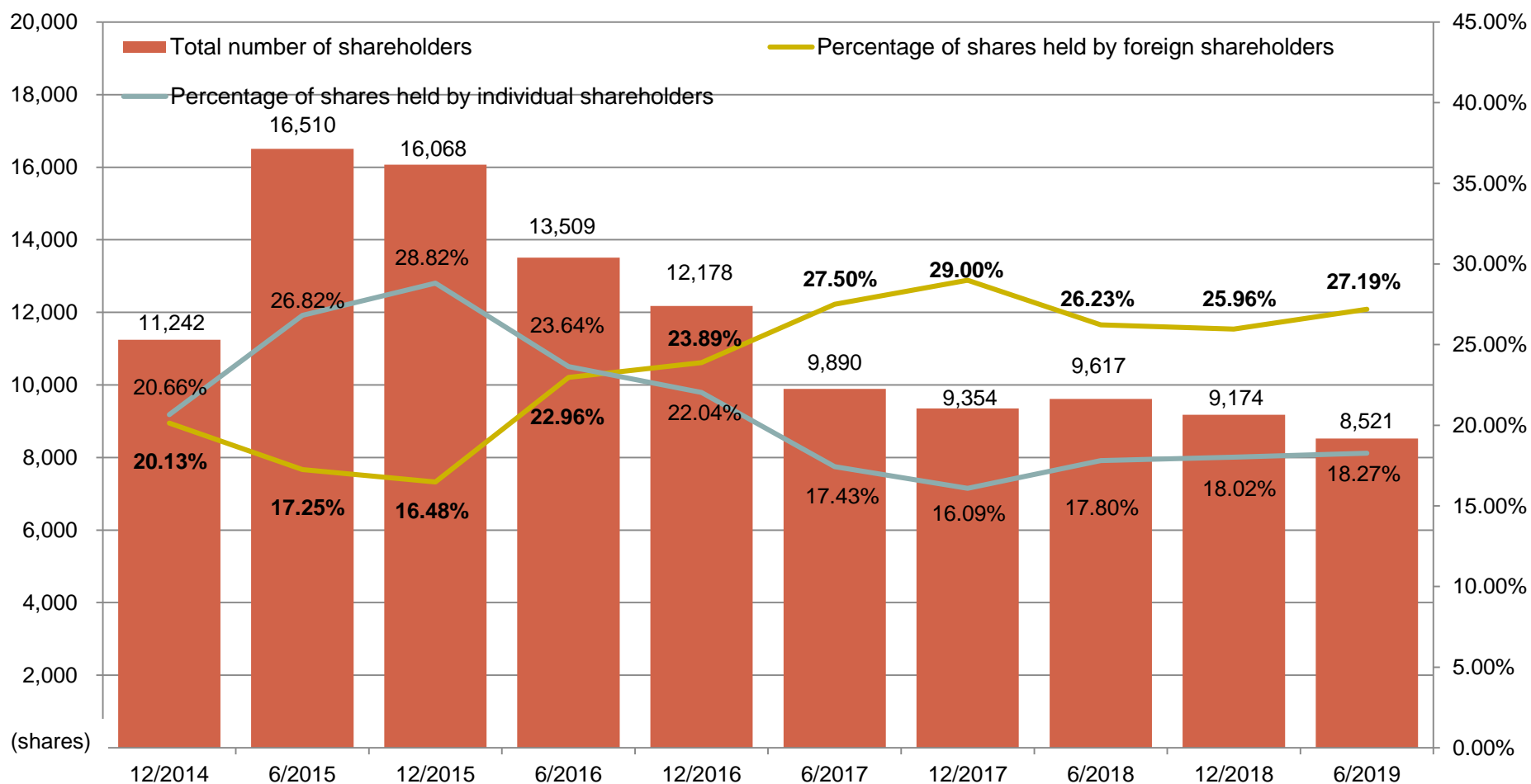


Stock Information

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

FAN 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	FAN 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 September 30, 2019)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 410 Group total: 510 <small>(As of September 30, 2019; includes part-time and temp staff)</small>
■ Headquarters	Aoyama Diamond Building 1-1-8, Shibuya, Shibuya-ku, Tokyo 150-0002, Japan
■ Telephone	+81-(0)3-5766-3530 (IR)
■ Fax	+81-(0)3-5766-3782

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