



Third Quarter of 2020
Presentation of Financial Results

November 10, 2020

FAN Communications, Inc.

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Third Quarter of 2020 Results Highlights

Third Quarter of 2020 (July–Sept.): Key Points

Results Highlights

- **Figures continued to be lackluster, with net sales down 16.1% YoY and ordinary income down 40.9% YoY.**
- **On a QoQ comparison basis, net sales declined by 3.6% and ordinary income declined by 40.2%.**
- **The impact of the COVID-19 pandemic continued to weigh heavily on performance.**

Consolidated Results of Operations (Jan.—Sept.)

Results
Highlights

(¥ thousands)	2020 Q3	2019 Q3	YoY change	% of net sales
Net sales	22,808,350	26,581,486	-14.2%	100%
Operating income	2,327,721	2,972,730	-21.7%	10.2%
Ordinary income	2,463,305	3,001,402	-17.9%	10.8%
Profit attributable to owners of parent	1,643,655	2,022,300	-18.7%	7.2%
Ordinary income margin	10.8%	11.3%	-0.5pt	-
Earnings per share	¥22.19	¥26.69	-16.9%	-
Diluted earnings per share	-	-	-	-

Note: Diluted earnings per share data are not stated due to the absence of dilutive shares.

Consolidated Balance Sheet

Results Highlights

(¥ thousands)	December 31, 2019	September 30, 2020
Assets		
Current assets	23,970,606	23,405,258
Cash and deposits	18,610,946	18,503,406
Accounts receivable – trade	3,728,003	3,527,597
Securities	1,019,563	988,964
Other	622,935	399,843
Allowance for doubtful accounts	-10,842	-14,552
Non-current assets	3,154,585	2,312,953
Property, plant and equipment	200,133	120,638
Intangible assets	640,722	598,867
Investments and other assets	2,313,729	1,593,447
Total assets	27,125,192	25,718,212
Liabilities and net assets		
Current liabilities	5,917,643	5,406,627
Accounts payable – trade	4,207,343	4,317,841
Income taxes payable	599,908	208,855
Other current liabilities	1,110,390	879,928
Long-term liabilities	154,237	149,837
Total liabilities	6,071,881	5,556,465
Total net assets	21,053,310	20,161,747
Total liabilities and net assets	27,125,192	25,718,212

Main component was ¥1,274,456 thousand in investment securities.

The decline in total net assets mainly reflected dividend payments (-¥1,439,423 thousand) and payments for acquisition of treasury shares (-¥999,972 thousand), which offset the recording of profit attributable to owners of parent (¥1,643,655 thousand).

Consolidated Performance Forecast

Results
Highlights

(¥ millions)	2020 Full-year forecast (YoY change)	2020 First three quarters actual	Progress vs. full-year forecast
Net sales	29,200 (-14.6%)	22,808	78.1%
Operating income	2,700 (-27.9%)	2,327	86.2%
Ordinary income	2,800 (-26.0%)	2,463	88.0%
Profit attributable to owners of the parent	1,900 (-23.6%)	1,643	86.5%

Note: The company revised its consolidated full-year forecast on November 9, 2020.

Dividend Forecast

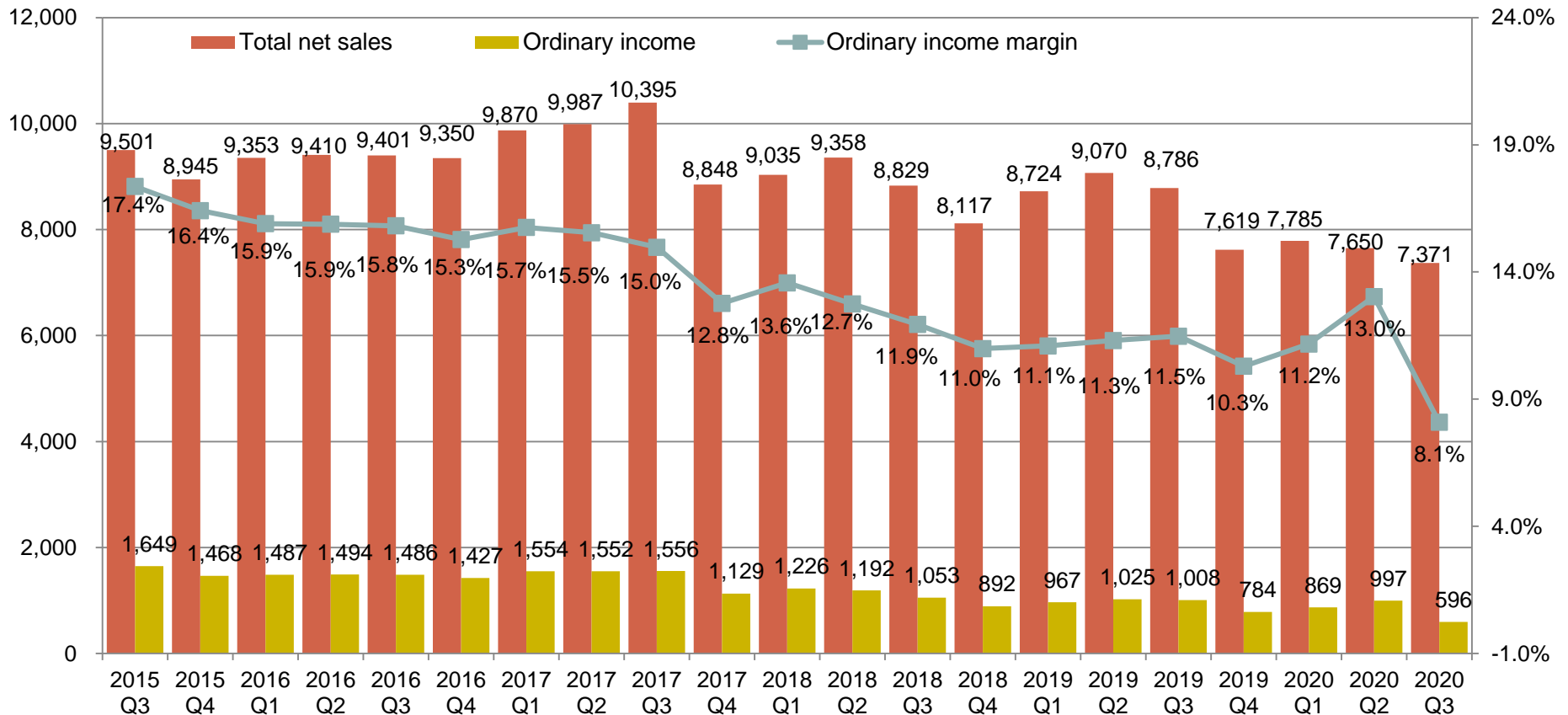
	2020 Forecast	2019 Actual
Year-end dividend per share	¥19	¥19

Management Indicators (Quarterly Basis)

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

Management
Indicators

(¥ millions)

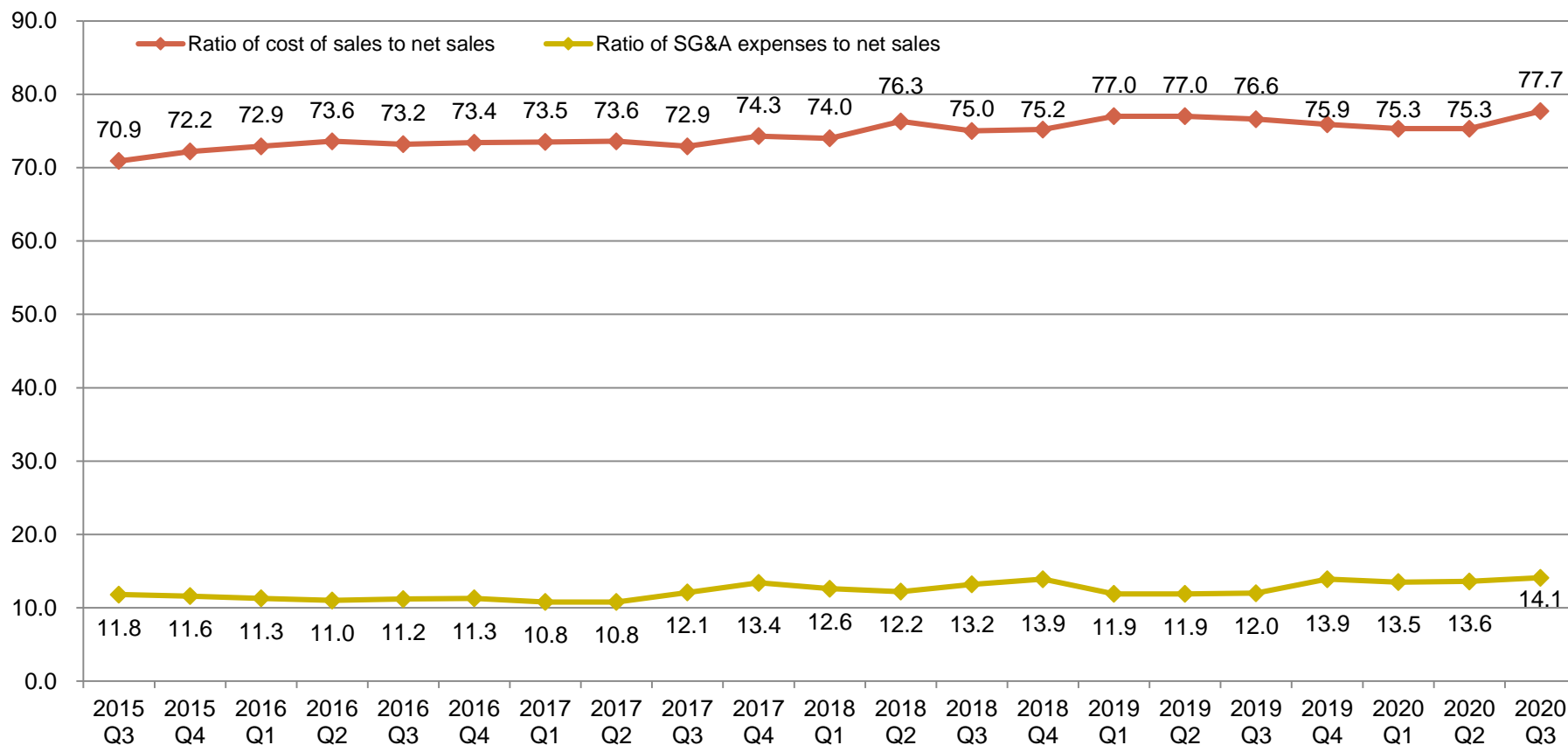


The ordinary income margin fell by a significant 4.9 points from the previous quarter to 8.1%.

Cost of Sales Ratio and SG&A Ratio

(Consolidated/Quarterly Basis)

Management
Indicators

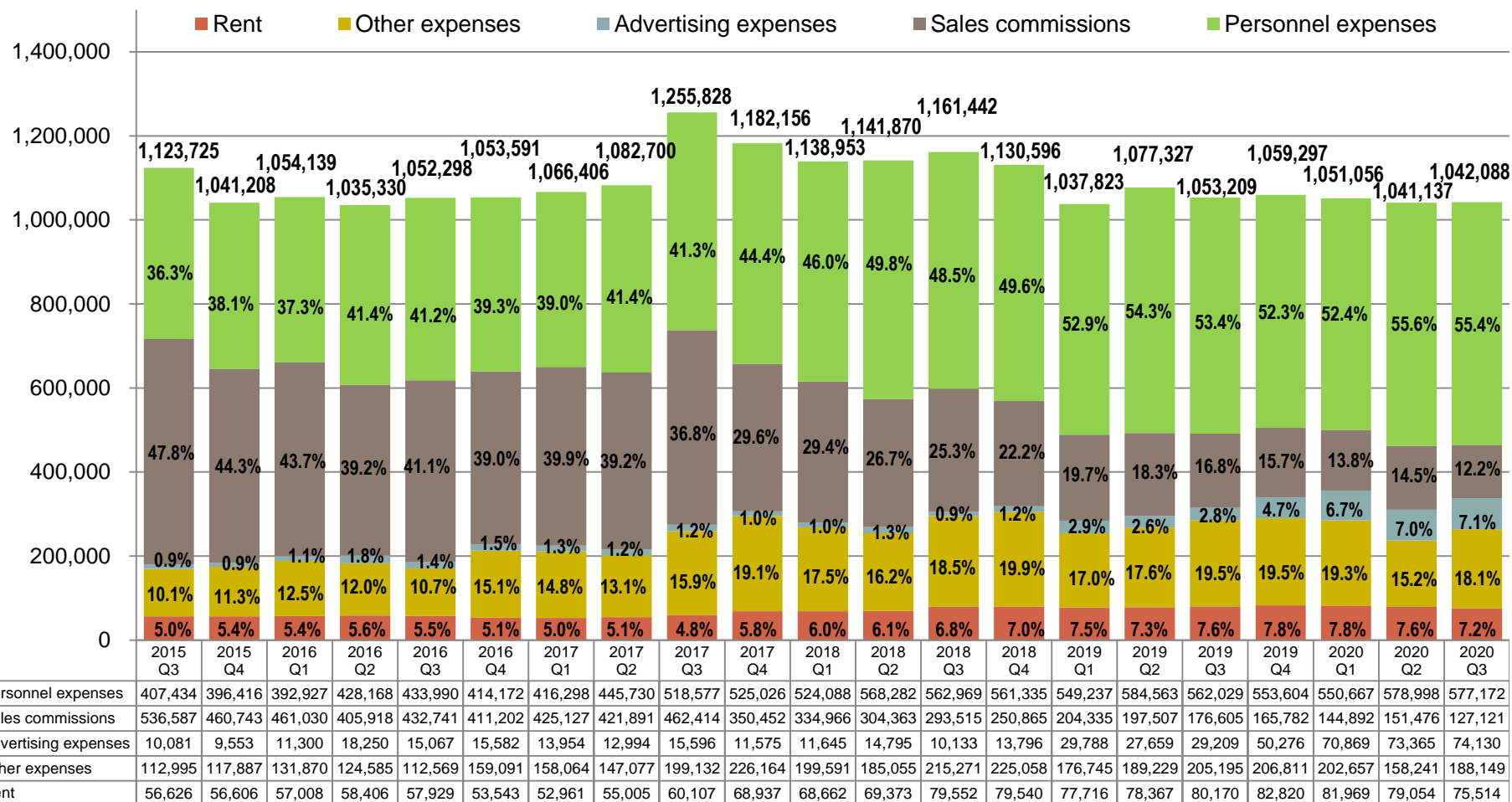


The cost of sales ratio increased by 2.4 points from the previous quarter, and the SG&A ratio increased by 0.5 points.

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

Management
Indicators

(¥ thousands)



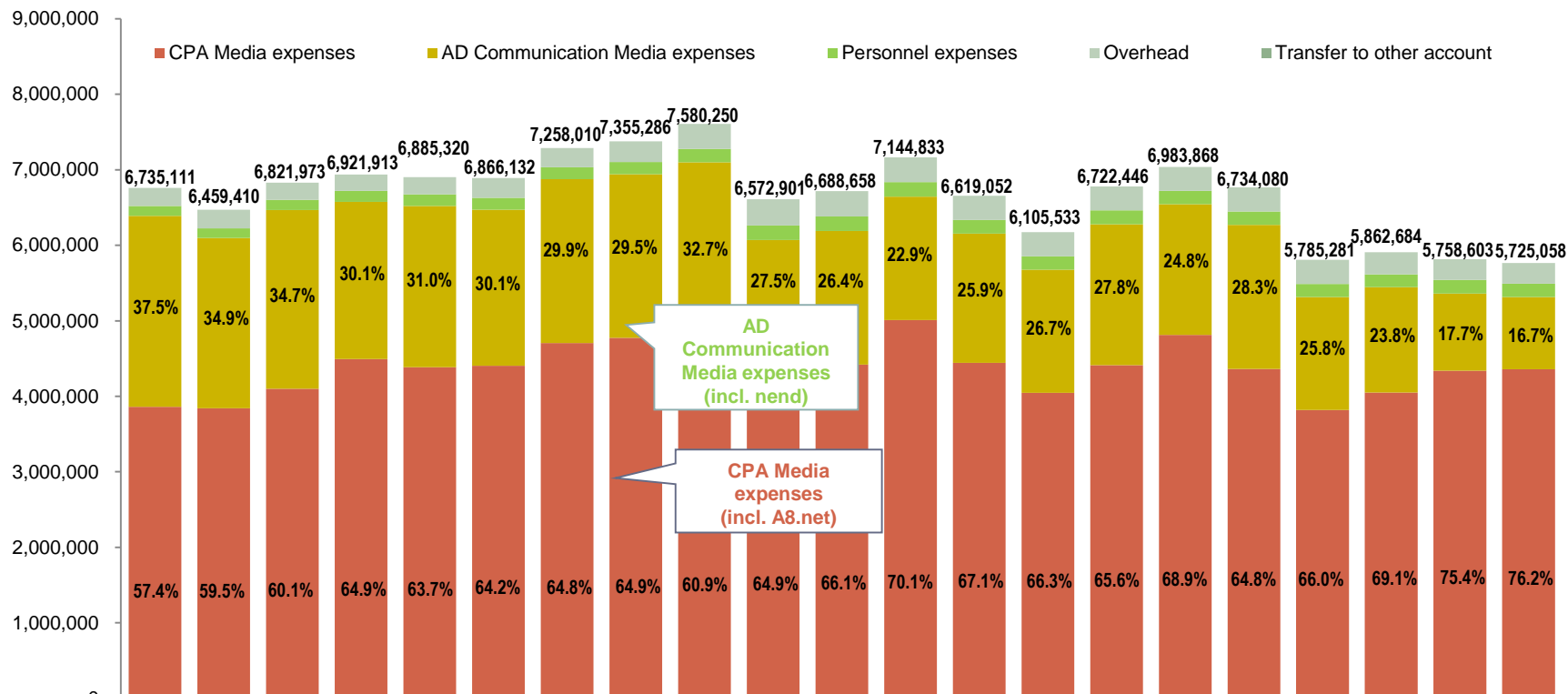
Note: Other expenses include depreciation expenses, outsourcing expenses, payment commissions, sales promotion expenses, etc. The rise in other expenses mainly reflects a ¥27 million increase in depreciation expenses due to the shortened depreciation period associated with office renovation

Cost of Sales

(Consolidated/Quarterly Basis)

Management Indicators

(¥ thousands)



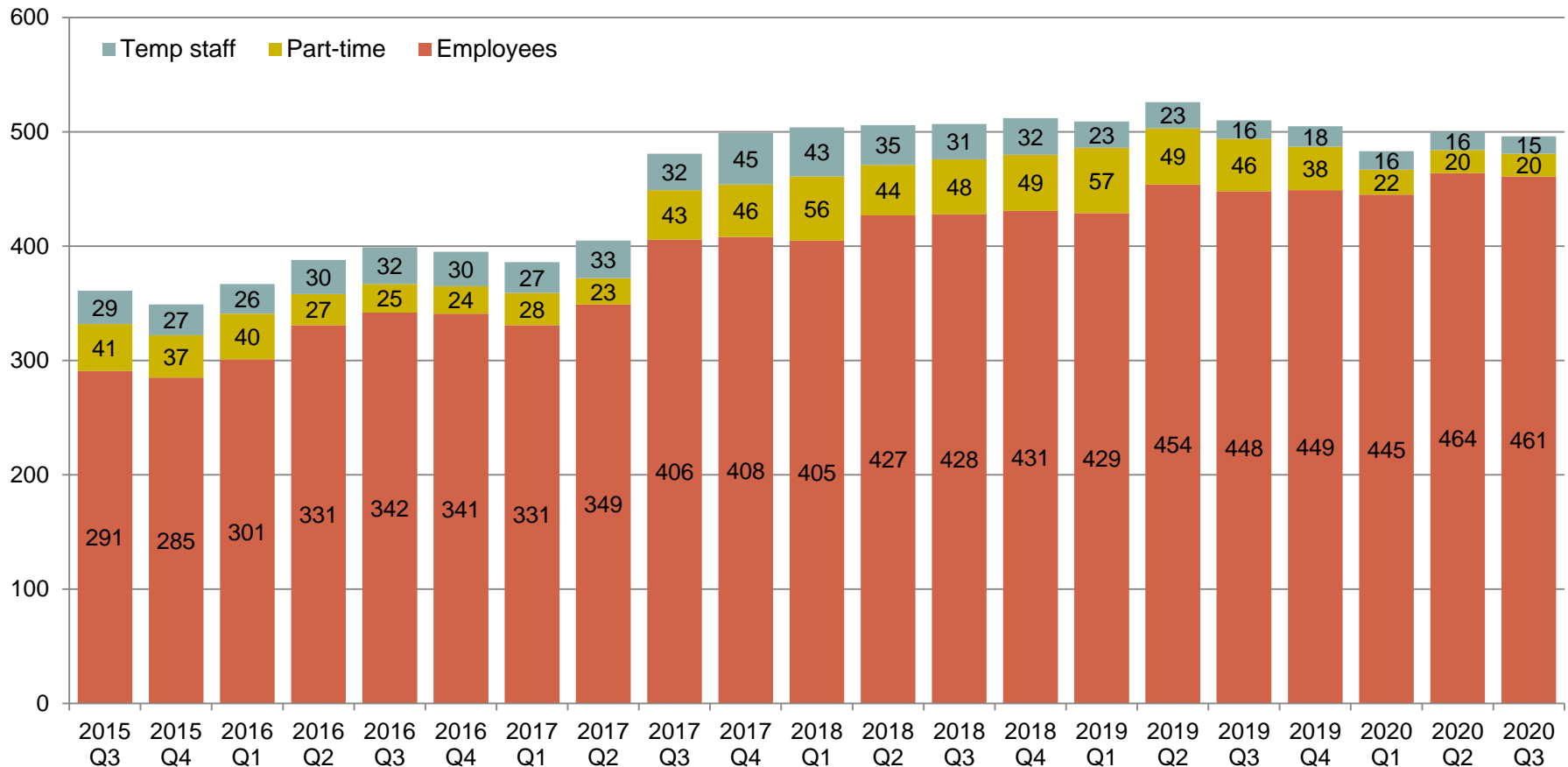
Transfer to other account	(24,282)	(12,417)	(8,732)	(16,422)	(18,846)	(24,480)	(30,889)	(22,120)	(27,373)	(37,693)	(28,888)	(20,937)	(37,831)	(69,453)	(57,082)	(54,967)	(31,862)	(21,262)	(46,359)	(56,030)	(41,647)
Overhead	237,116	247,798	228,268	218,538	229,152	259,866	256,538	274,559	332,161	347,113	336,195	328,003	322,692	319,423	317,526	316,336	318,773	319,571	294,412	272,741	274,219
Personnel expenses	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	172,302	169,011	179,953	177,974
AD Communication Media expenses	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	1,494,700	1,396,793	1,020,945	954,562
CPA Media expenses	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	3,819,966	4,048,825	4,340,992	4,359,949

Notes: 1. CPA Media expenses primarily consist of A8.net and seedApp. AD Communication Media expenses primarily consist of nend.
 2. Overhead mainly consists of infrastructure costs such as data center costs. There are two major factors pushing up the cost of sales ratio. The first is that the proportion of sales accounted for by A8.net's highly seasonal advertisers has increased, and purchasing has remained high. The second is that nend's sales have dropped sharply, but costs have not been reduced accordingly.

Number of Employees

(Consolidated/Quarterly Basis)

Management
Indicators



As of 2020 Q3, the Group employed 496 people (-14 YoY; -4 QoQ).

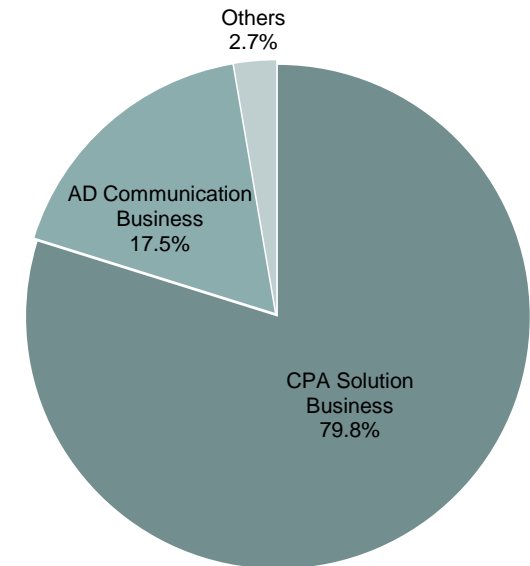
Overview by Service Category

Net Sales by Reportable Segment

(Consolidated/Quarterly Basis)

Overview by Service Category

(¥ thousands)	2020 Q3 (July–Sept.)	2019 Q3 (July–Sept.)	YoY change
CPA Solution Business	5,884,459	6,024,877	-2.3%
AD Communication Business	1,289,240	2,578,017	-50.0%
Others	198,116	183,478	8.0%
Total net sales	7,371,816	8,786,373	-16.1%



Main services of CPA Solution Business: A8.net, seedApp

Main services of AD Communication Business: nend, FAN Communications Global, Inc.

Others: Seesaa Inc.

Notes: 1. Sales figures represent amounts after elimination of intragroup transactions.

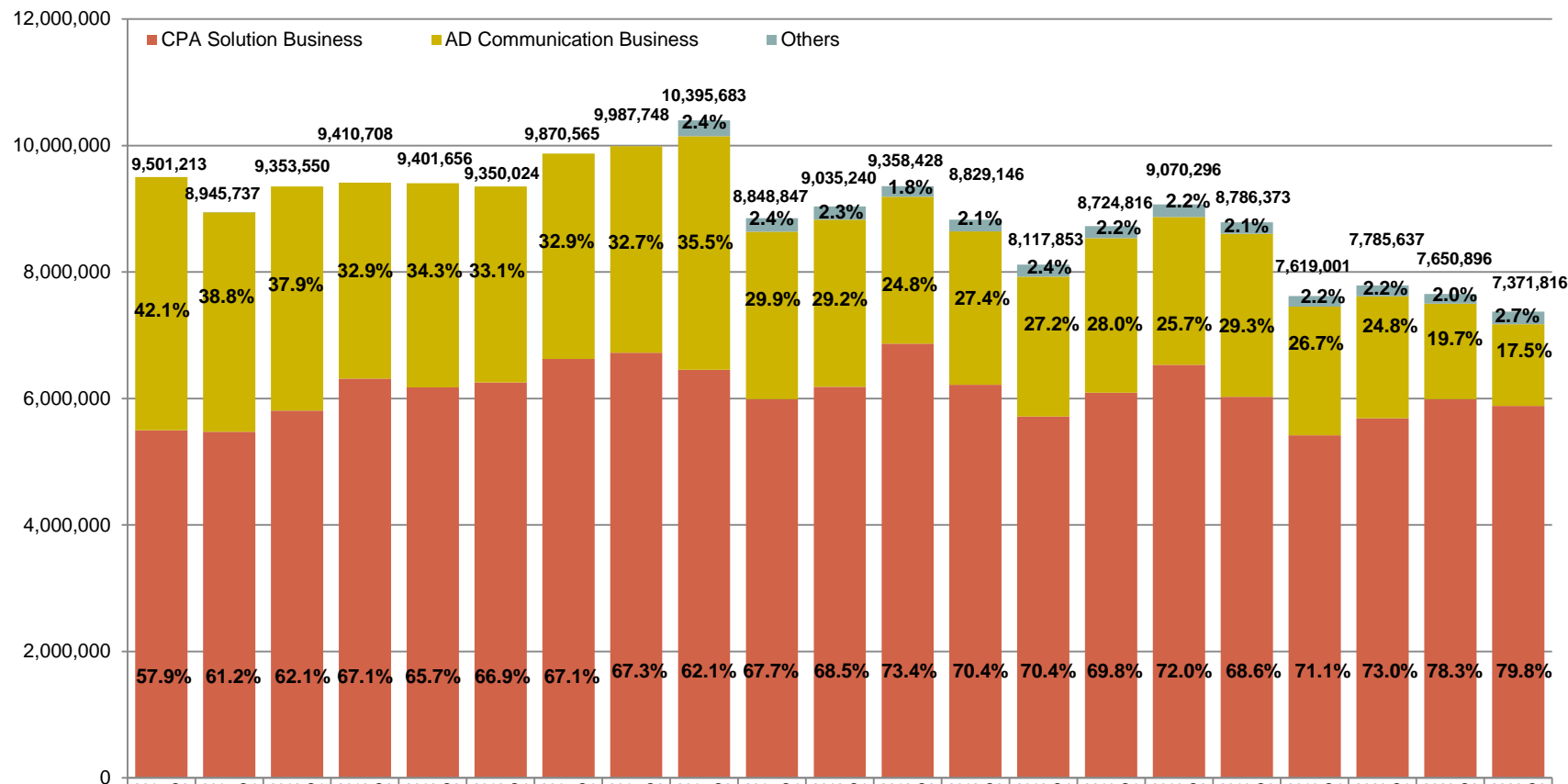
2. The company has changed the segment names of the CPA Ad Network Business to “CPA Solution Business” and CPC/Targeting Ad Network Business to “AD Communication Business” since the fiscal year ending December 31, 2020.

Net Sales by Reportable Segment

(Consolidated/Quarterly Basis)

Overview by
Service Category

(¥ thousands)



Others	0	69	0	0	0	0	0	249,931	213,477	208,812	167,838	189,731	192,751	189,721	202,051	183,478	168,616	171,601	153,367	198,116	
AD Communication Business	4,003,412	3,471,344	3,543,810	3,096,905	3,225,143	3,097,554	3,246,442	3,262,687	3,690,576	2,645,390	2,640,933	2,322,065	2,422,282	2,209,630	2,445,395	2,334,288	2,578,017	2,034,187	1,928,510	1,509,582	1,289,240
CPA Solution Business	5,497,800	5,474,323	5,809,740	6,313,802	6,176,512	6,252,470	6,624,123	6,725,060	6,455,174	5,989,980	6,185,493	6,868,524	6,217,132	5,715,472	6,089,699	6,533,957	6,024,877	5,416,197	5,685,525	5,987,947	5,884,459

A8.net

Summary

CPA Solution Business

(¥ thousands)	2020 Q3 (July–Sept.)	2019 Q3 (July–Sept.)	YoY change
Sales (¥ thousands)	5,299,808	5,509,309	-3.8%
Number of operating advertiser IDs	3,198	3,435	-6.9%
Number of registered partner sites	2,857,670	2,669,931	7.0%

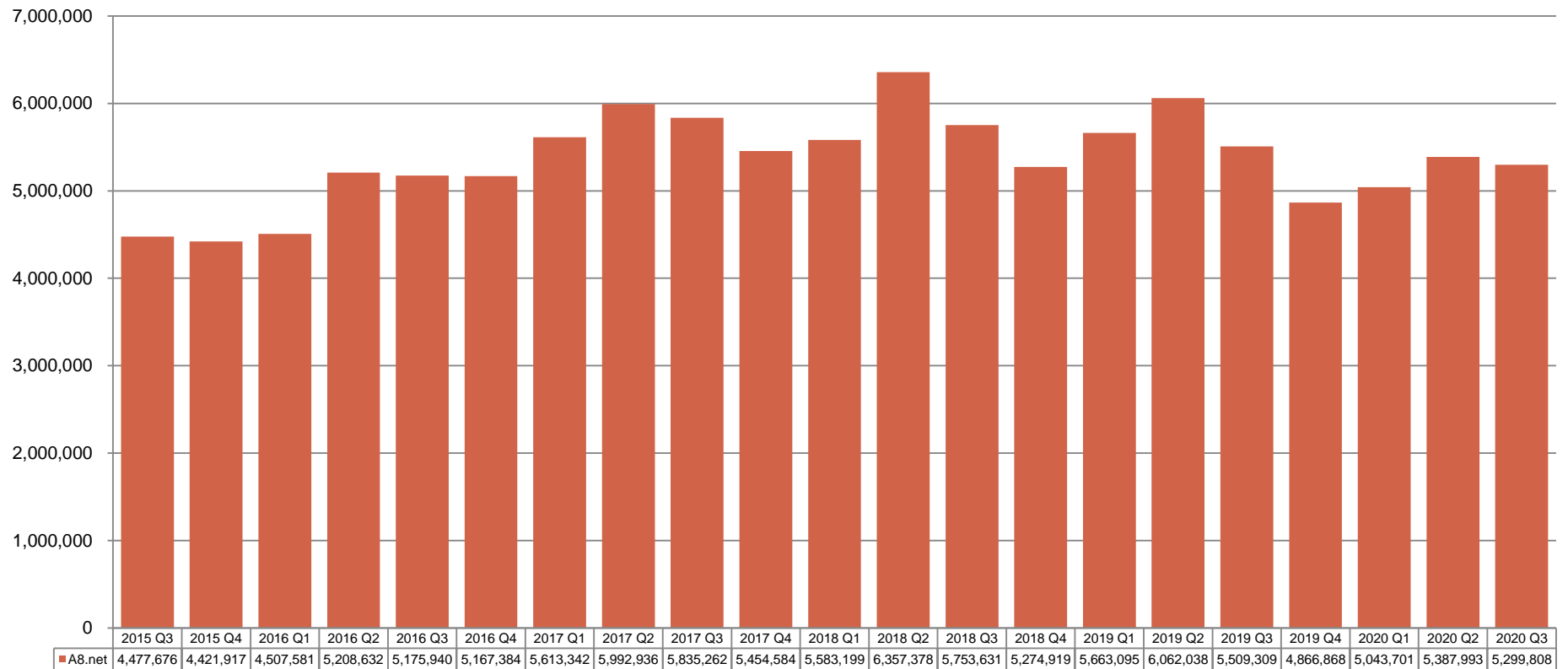
Note: Sales figures represent amounts before elimination of intragroup transactions.
The number of operating advertiser IDs decreased by 237 YoY.

A8.net

Net Sales (Quarterly Basis)

CPA Solution Business

(¥ thousands)

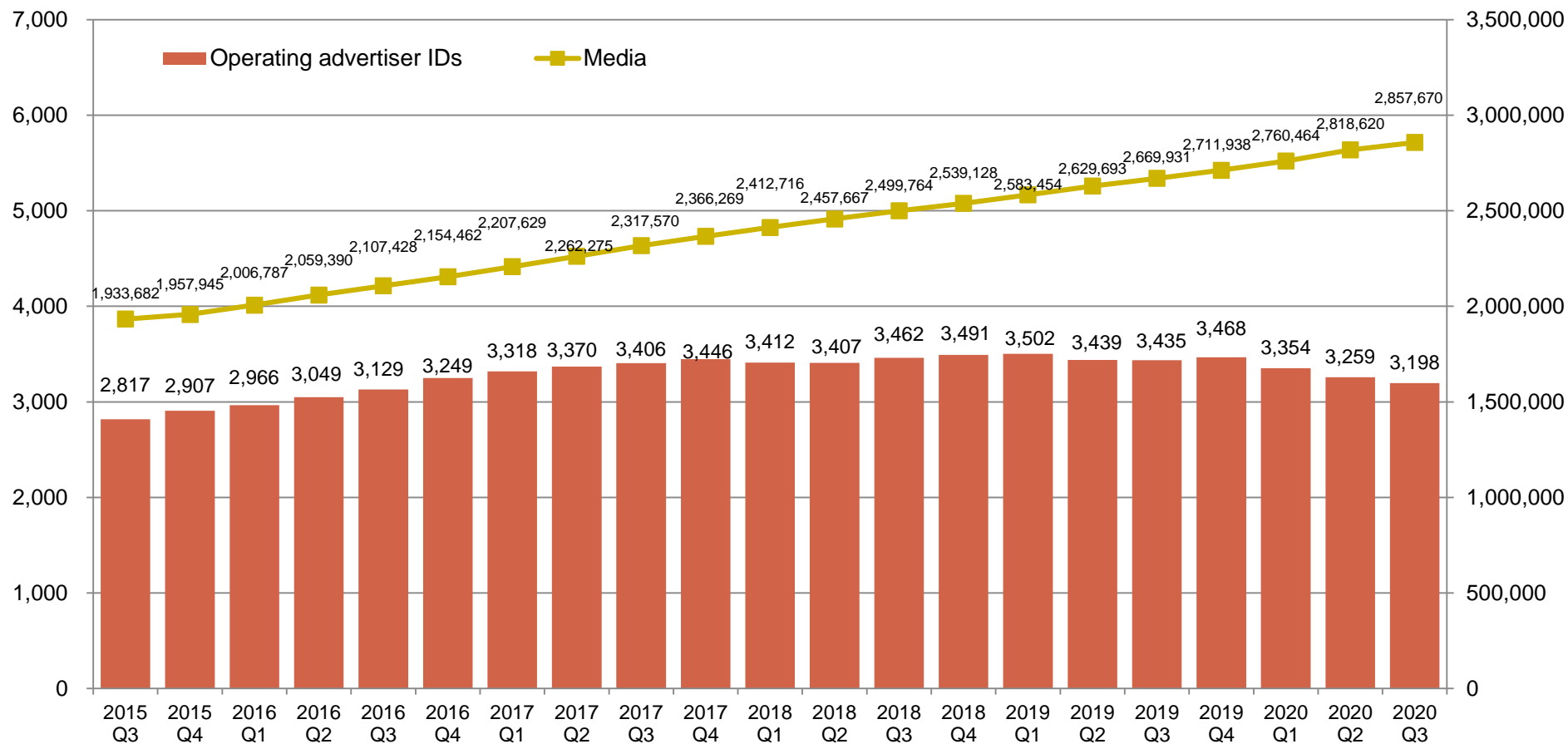


Note: Sales figures represent amounts before elimination of intragroup transactions.

A8.net

CPA Solution Business

Number of Operating Advertisers and Media (Quarterly Basis)



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

The number of operating advertisers decreased by 61 from 2020 Q2, and the number of overseas operating advertisers decreased by 35 from Q2.

A8.net

CPA Solution Business

New Advertiser Start-Ups and Cancellations



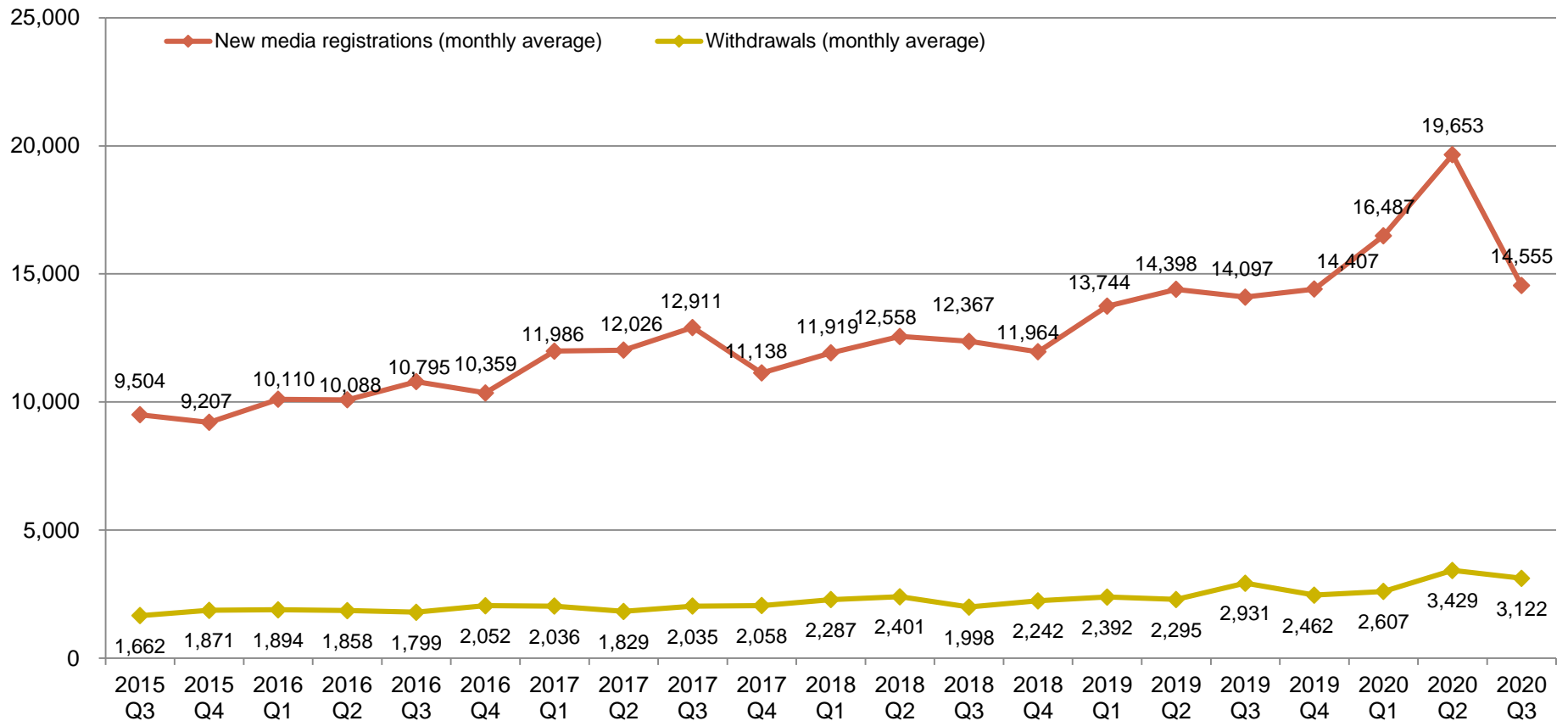
Note: "Change in inactive" is the difference between the number of customers who switched from "operating" to "inactive" and the number of customers switched from "inactive" to "operating," adjusted for the number of customers who switched from "inactive" to "cancelled," which is included under "cancellations."

Growth in the number of operating customers stagnated, and many customers withdrew from businesses or ended promotions.

A8.net

CPA Solution Business

Average Monthly New Media Registrations and Withdrawals



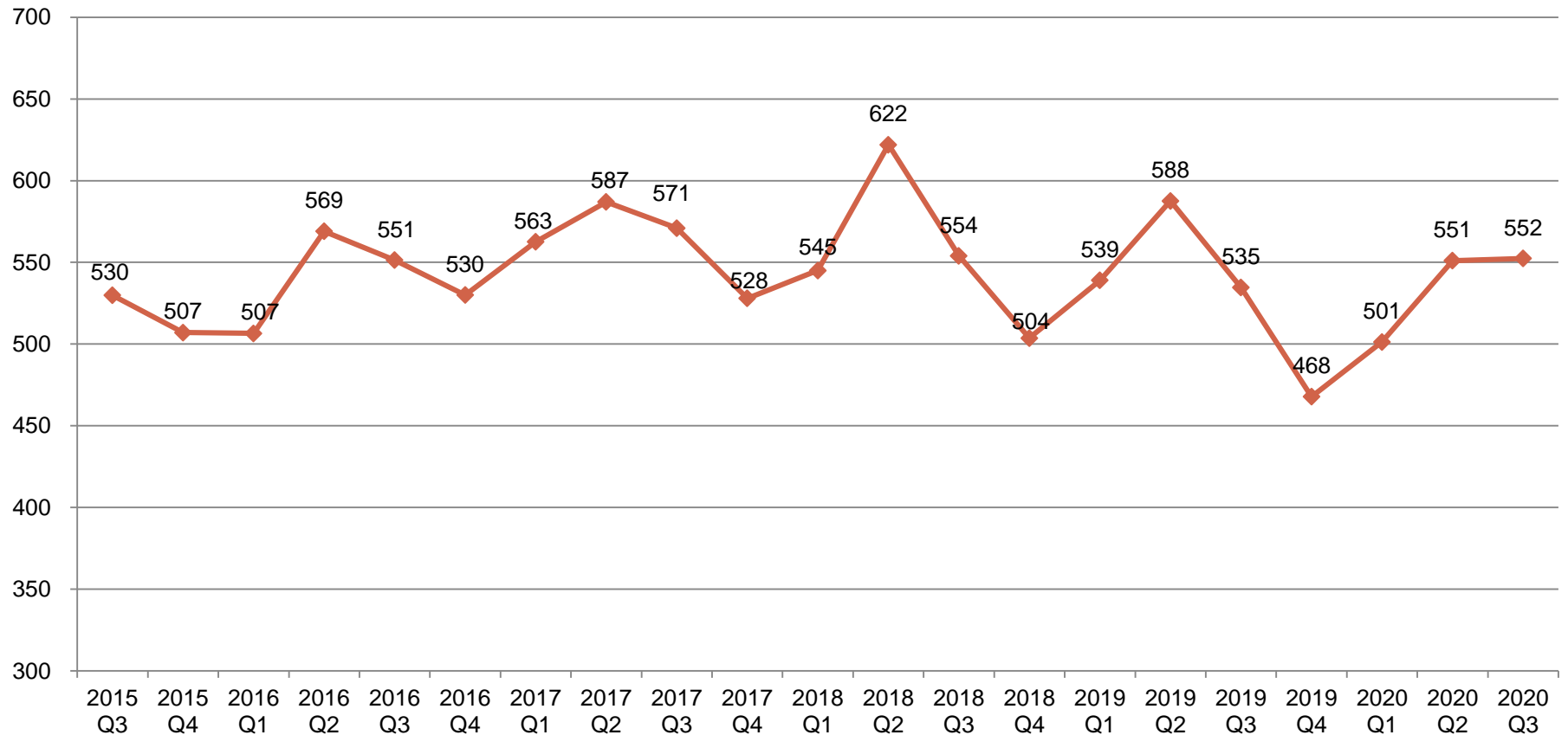
Monthly new media registrations significantly increased after the outbreak of COVID-19, but have returned to pre-COVID levels.

A8.net

CPA Solution Business

Average Monthly Sales per Advertiser

(\u00a5 thousands)

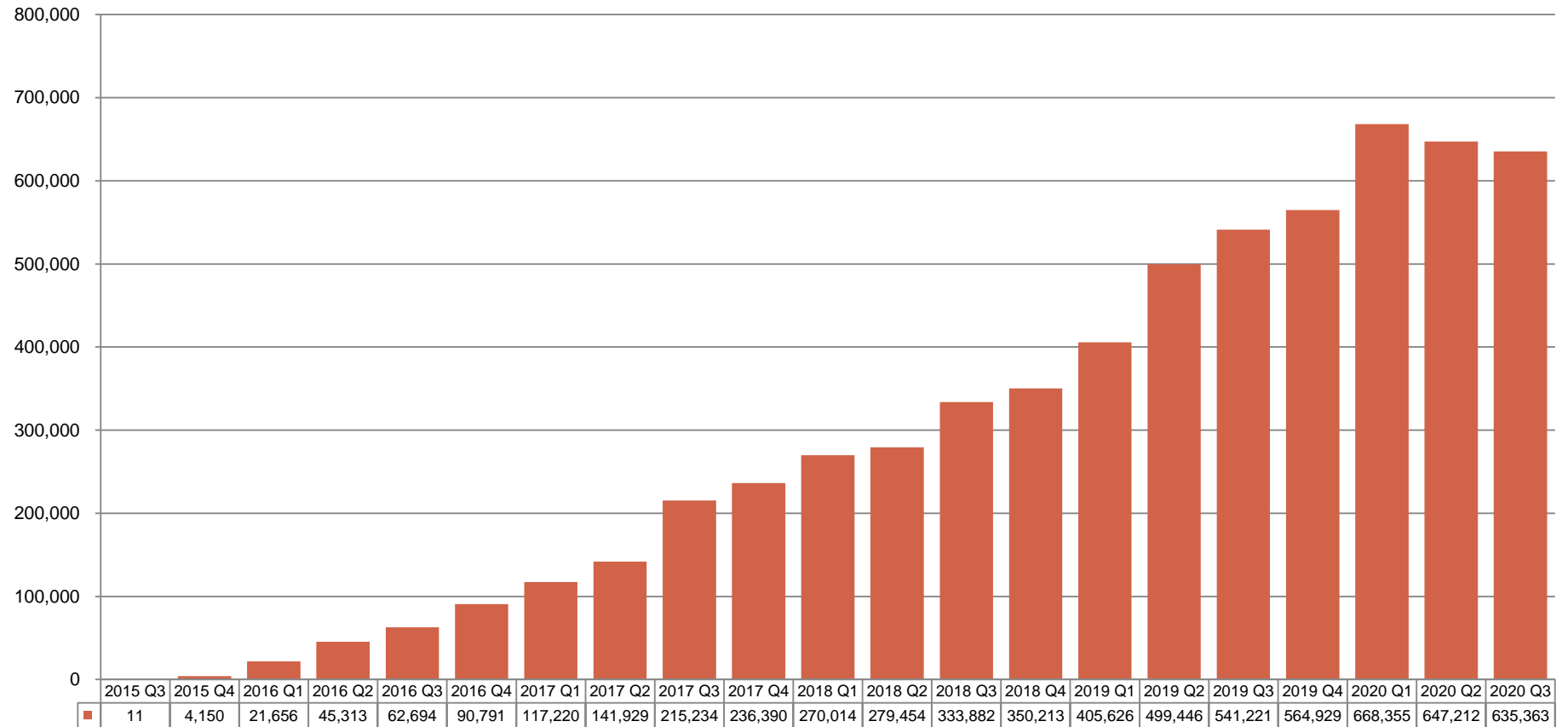


seedApp

Net Sales (Quarterly Basis)

CPA Solution Business

(¥ thousands)



Note: Sales figures represent amounts before elimination of intragroup transactions.

nend

Summary

AD Communication Business

(¥ thousands)	2020 Q3 (July–Sept.)	2019 Q3 (July–Sept.)	YoY change
Net sales	976,814	1,609,089	-39.3%
Number of operating advertiser IDs	158	240	-34.2%
Number of ad spaces on registered partner sites	1,011,971	960,110	5.4%

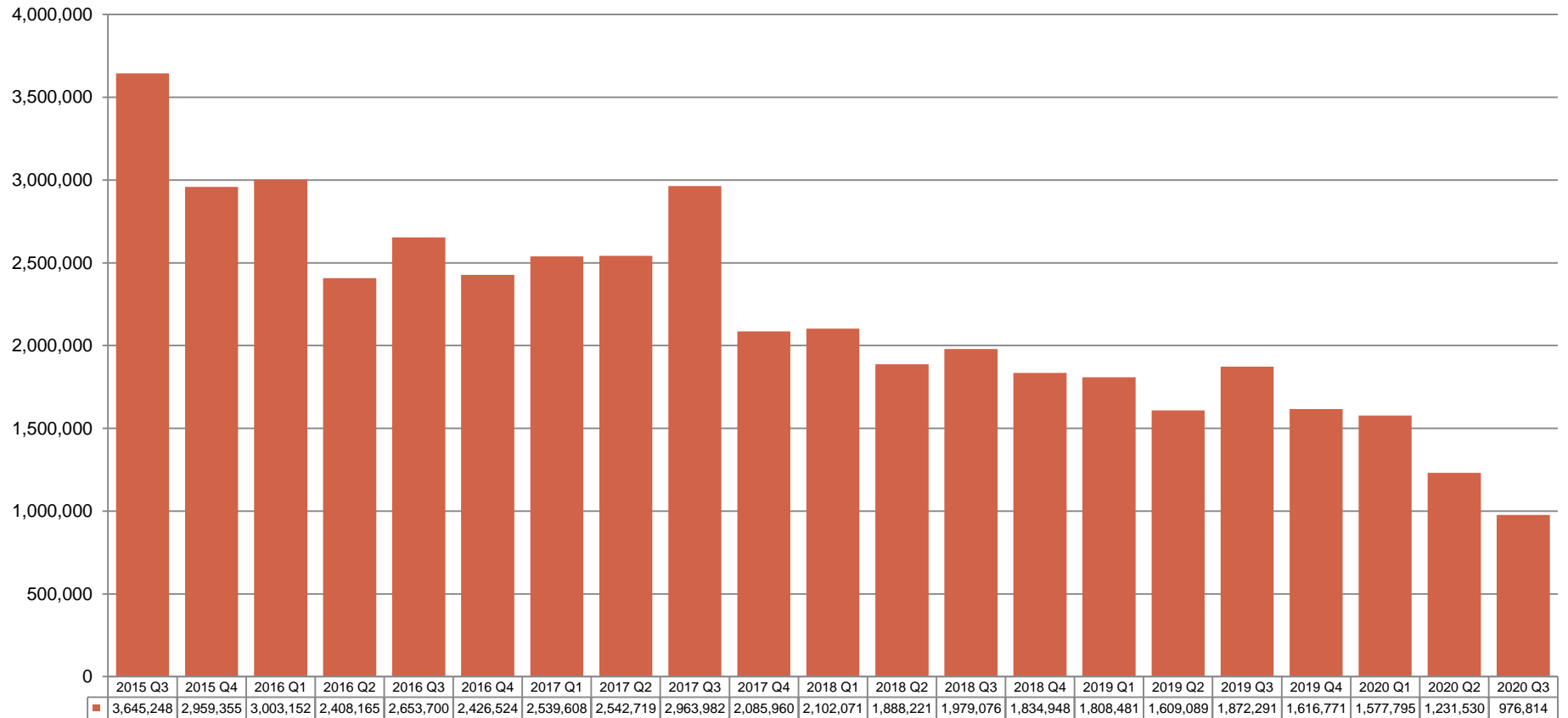
Notes: Sales figures represent amounts before elimination of intragroup transactions.
 Figures only include results of nend and exclude other services.

nend

Net Sales (Quarterly Basis)

AD Communication Business

(¥ thousands)



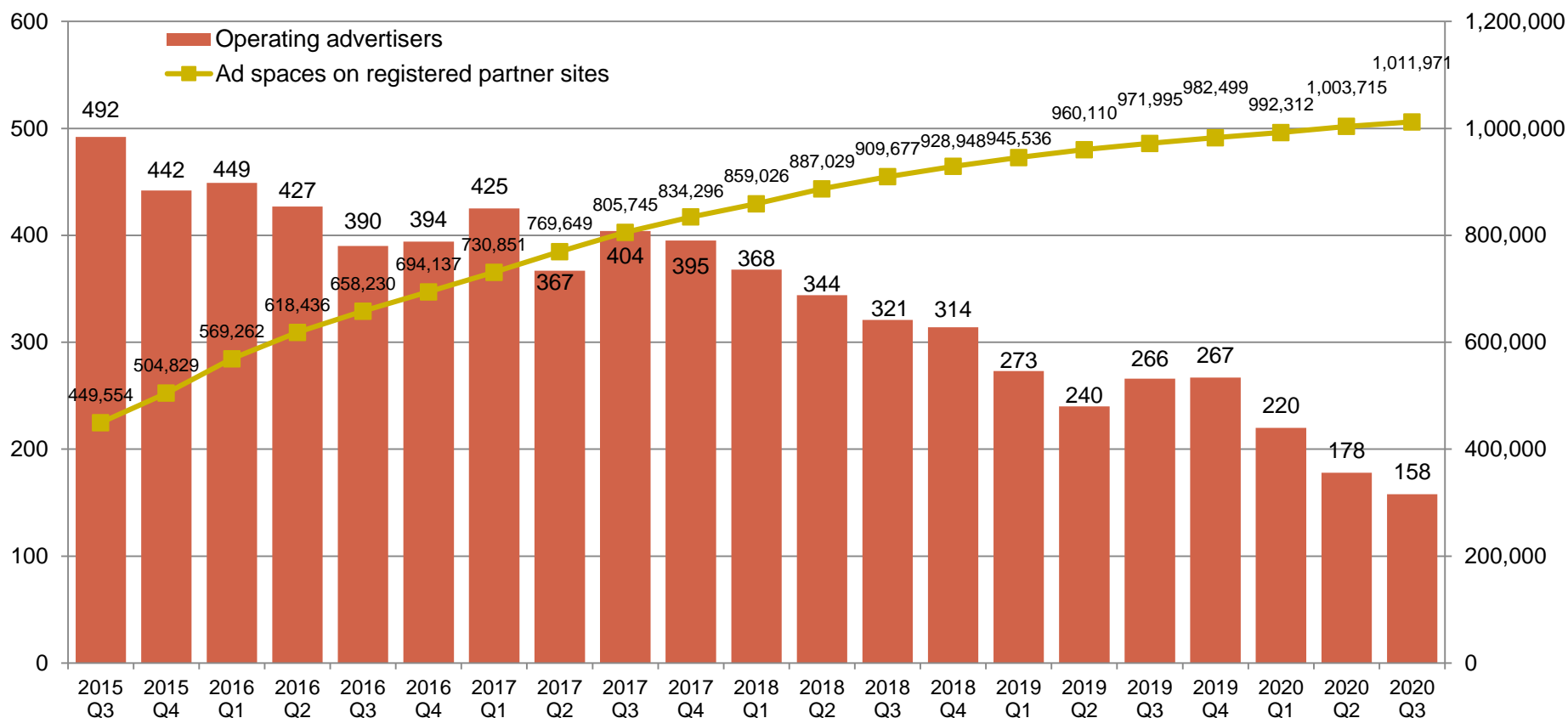
Note: Sales figures represent amounts before elimination of intragroup transactions.

Sales fell significantly in 2020 Q3 despite Q3 being a strong season for sales growth in a typical year due to summer vacation and other factors.

nend

AD Communication Business

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



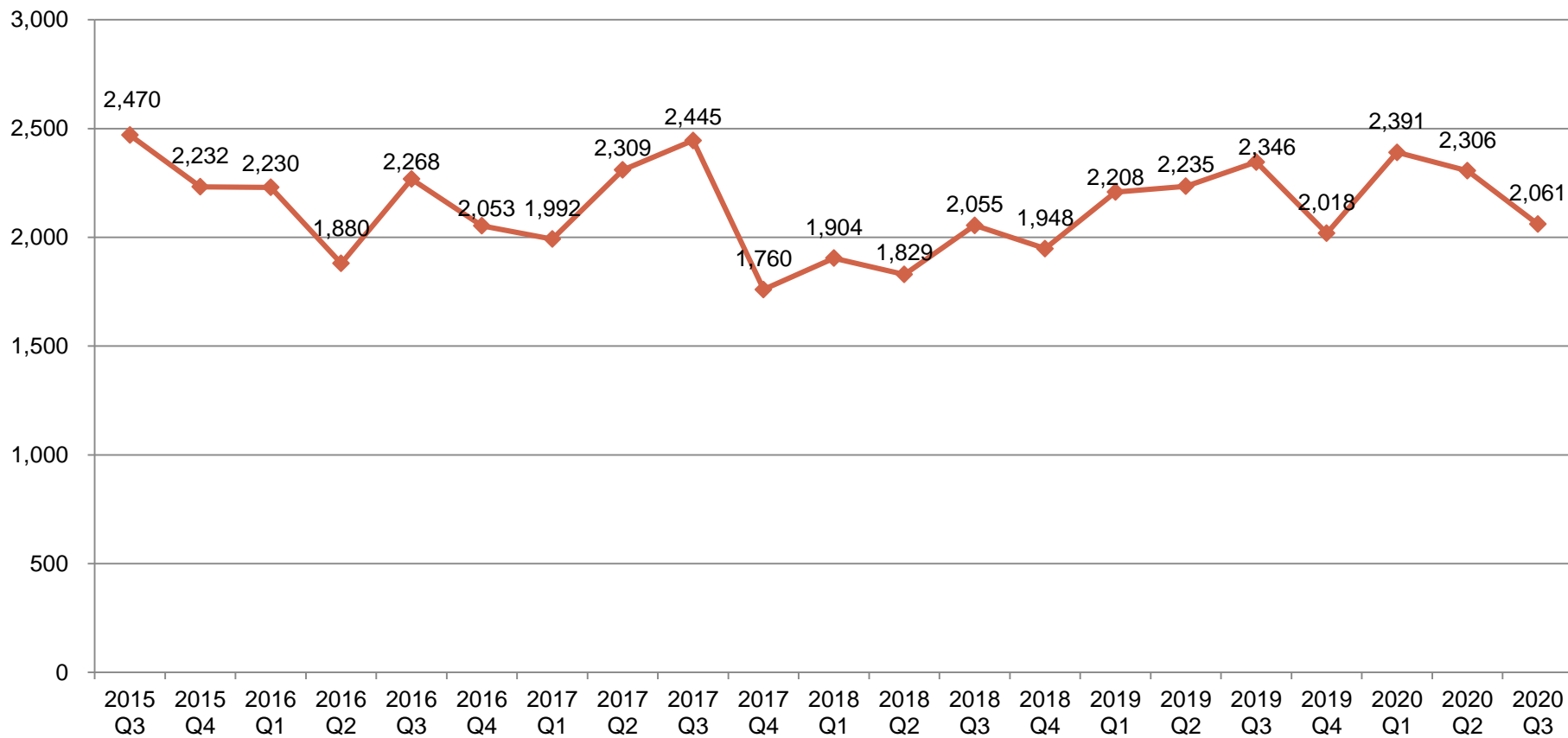
Note: The number of operating advertisers is as of the final month of each quarter.
The number of operating advertisers decreased by 20 from the previous quarter.

nend

AD Communication Business

Average Monthly Sales per Advertiser

(¥ thousands)



Reasons Behind Forecast Revisions

1. The sharp drop in sales of nend (ad network for smartphones)

At-home consumption during the COVID-19 pandemic has caused a boom in game and manga apps, mainstay fields for nend. However, consumers are coming to those apps directly so that the percentage of those who download apps after being directed to them via ad networks ads has fallen. Further, advertising budgets are being used more on major platforms and social networking services, which makes it more difficult for the Company to get a share of them.

2. New start-ups at A8.net are weak, and the number of actions performed are falling

Due to the COVID-19 pandemic, overall advertising budgets are shrinking, and consumer sentiment is also oriented toward saving. Although there is some special demand as people spend more time indoors, this tends to be for necessity consumption or purchases from sellers like Amazon, Rakuten, Nitori, and Uniqlo, which customers tend to visit directly. A8.net's mainstay small and medium-sized advertisers are therefore struggling. In addition, although e-commerce demand is extremely high due to the pandemic, company budgets are not yet being allocated to marketing. On the contrary, companies have not been able to keep up with changes in consumption trends.

3. Our company itself has not fully completed the transition to teleworking and online operations

We are currently optimizing costs through telework arrangements, but this initiative has not yet gone far enough. Moreover, we are promoting a rapid transition to online operations, as many parts of our services and business flows had been handled through face-to-face communication.

Consolidated Group Businesses

FAN Communications Global, Inc.

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

Main Business

Smartphone app 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)	2020 Q3	2019 Full year
Net sales	1,769,682	3,227,956
Operating income	77,944	216,272
Profit attributable to owners of parent	43,896	177,301

Note: Figures represent amounts before elimination of intragroup transactions.

Results came in below the company forecast primarily due to the impact of the COVID-19 pandemic.

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 apps
Management of own media

Note: Became a subsidiary on July 3, 2017

(¥ thousands)	2020 Q3	2019 Full year
Net sales	599,723	837,644
Operating income (loss)	-32,687	-162,424
Profit (loss) attributable to owners of the parent	-66,610	-229,536

Notes: 1. Seesaa Inc. became a consolidated subsidiary in July 2017.
2. Figures represent amounts before elimination of intragroup transactions.

We narrowed the loss by steadily rebuilding the business.

Seesaa

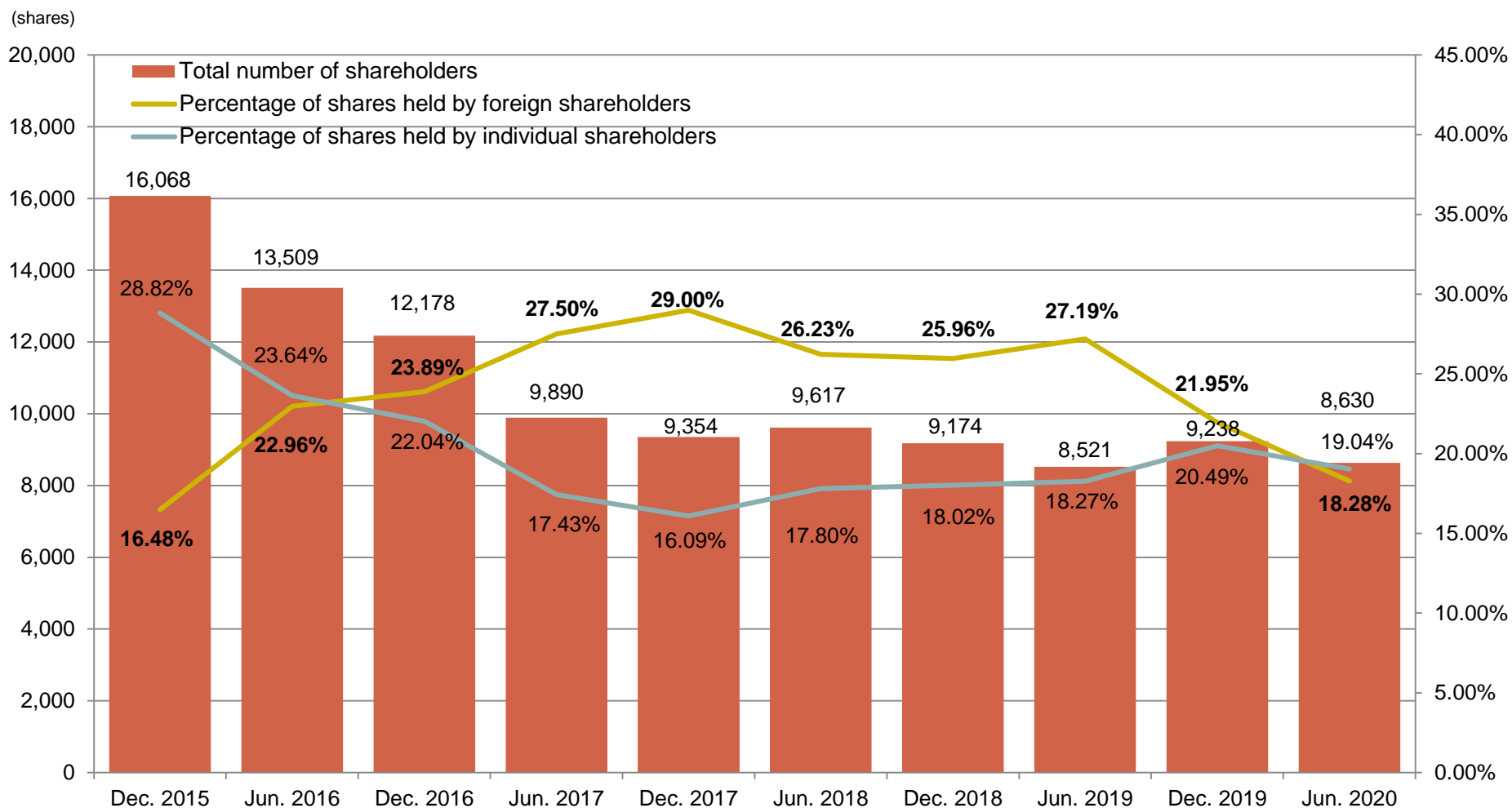


Stock Information

Stock Information

Stock Information

Percentage of Shares Held by Individual Shareholders and Foreign Shareholders



Note: The percentage of shares held by individual shareholders and the percentage of shares held by foreign shareholders exclude the number of shares owned by the company's executive officers and employees.

Reference Materials

Management Vision

FAN seeks to become one of the largest affiliate program network corporate groups in the world.

We strive to build ad networks that bring a performance marketing advertising model to advertisers, affiliate site and app developers (media), and consumers, forming 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 and app developers (media), and the reduction of customer 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, 2020)
■ President and Representative Director	Yasuyoshi Yanagisawa
■ Number of employees	Non-consolidated: 424 Group total: 496 <small>(As of September 30, 2020; 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

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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