

July 2015  
Presentation Material

# ADWAYS



TOKYO STOCK EXCHANGE MOTHERS STOCK CODE : 2489  
Financial Results Presentation for 3Q FY2014

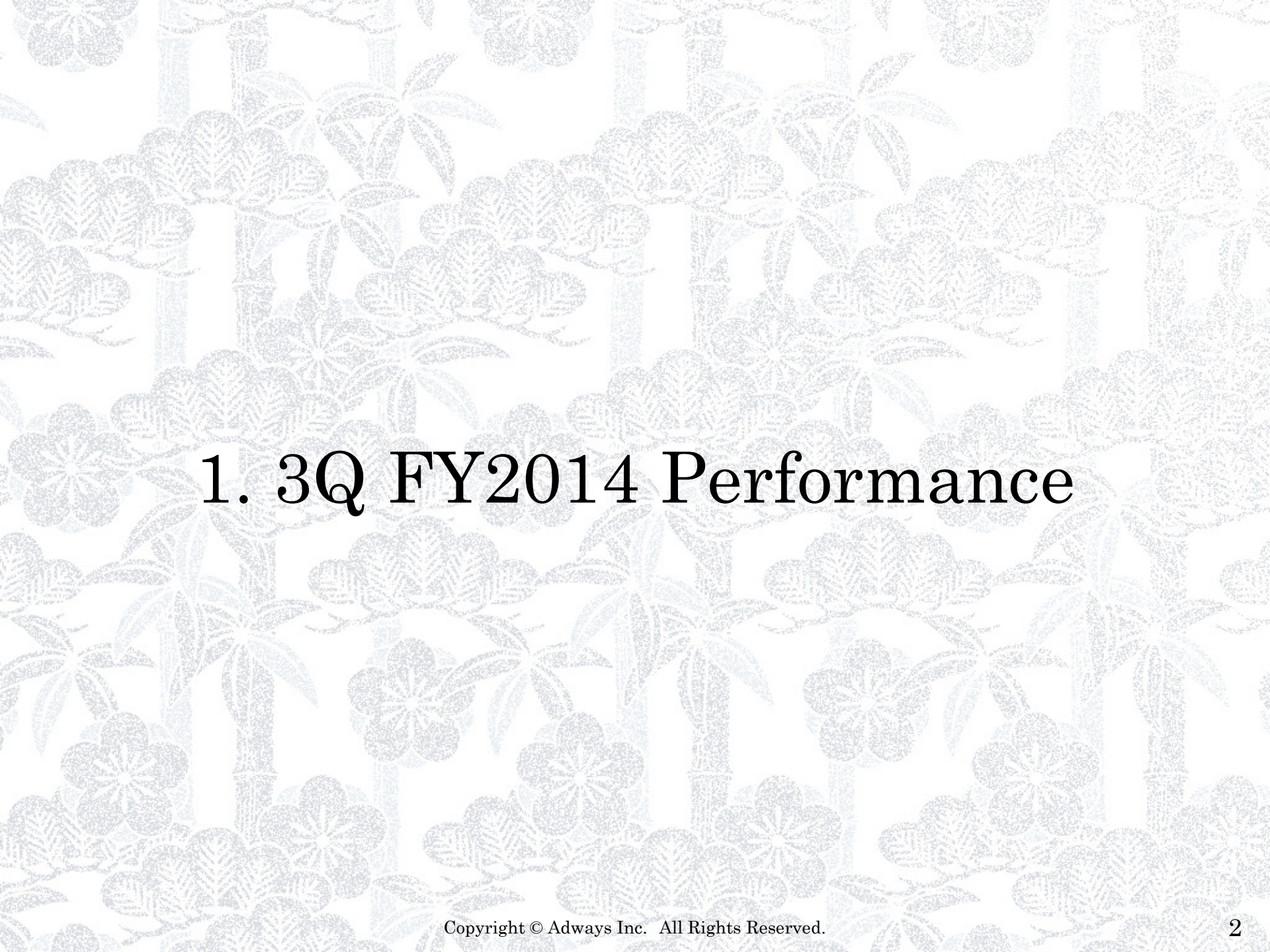
January 30, 2015  
President and CEO, Haruhisa Okamura



# Topics



- |  |         |      |
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# 1. 3Q FY2014 Performance



# 1. 3Q FY2014 Performance: Cumulative



## Cumulative Quarterly Results (YoY)

	3Q FY2014 (Cumulative)	YoY 3Q FY2013 (Cumulative)		
		Result	Change (¥mn)	Change (%)
Net Sales	26,038	22,272	+ 3,765	+ 16.9%
Gross Profit	4,950	3,959	+991	+ 25.0%
SG&A Expenses	4,161	3,425	+735	+ 21.5%
Operating Profit	789	533	+256	+48.0%
Recurring Profit	880	489	+390	+79.9%
Net Profit	513	348	+165	+47.4%

(¥mn)

### Net Sales

Increased      ¥3,765mn YoY      (+16.9%)

### Operating Profit

Increased      ¥256mn YoY      (+48.0%)



# 1. 3Q FY2014 Performance: Quarterly



## Quarterly Results (YoY, QoQ)

	3Q FY2014	YoY 3Q FY2013			QoQ 2Q FY2014		
		Result	Change (¥mn)	Change (%)	Result	Change (¥mn)	Change (%)
Net Sales	8,511	7,781	+730	+9.4%	8,695	-183	-2.1%
Gross Profit	1,693	1,392	+300	+21.6%	1,678	+14	+0.8%
SG&A Expenses	1,497	1,161	+335	+28.9%	1,317	+179	+13.7%
Operating Profit	195	230	-35	-15.3%	360	-165	-45.9%
Recurring Profit	247	232	+15	+6.4%	390	-142	-36.6%
Net Profit	128	104	+23	+22.7%	290	-161	-55.7%

... **Record High**

(¥mn)

### Net Sales

Increased ¥730mn YoY (+9.4%)  
 Decreased ¥183mn QoQ (-2.1%)

### Operating Profit

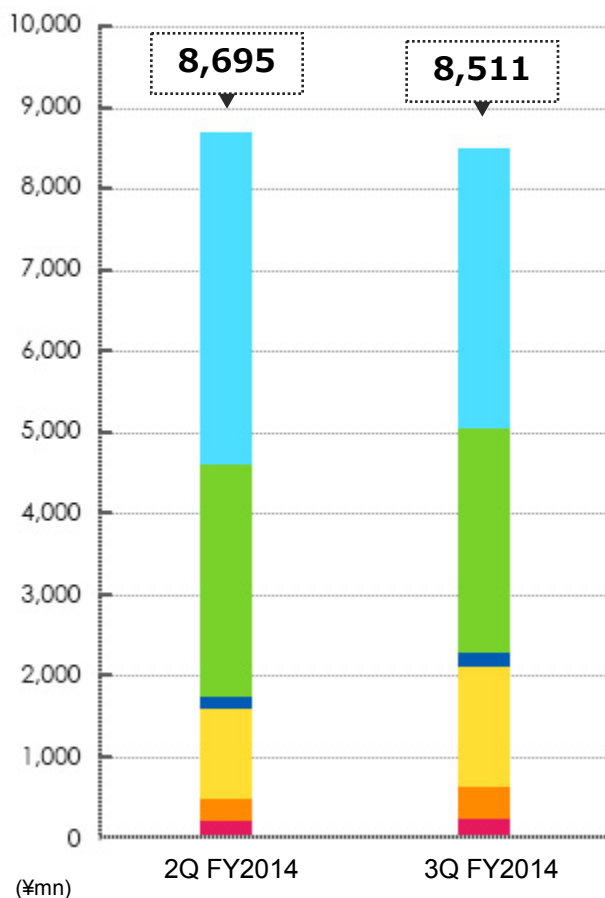
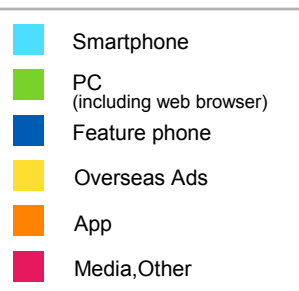
Decreased ¥35mn YoY (-15.3%)  
 Decreased ¥165mn QoQ (-45.9%)



# 1. 3Q FY2014 Performance: Net Sales



## QoQ Change



### Domestic Advertising **¥6,407mn**

QoQ : -¥743mn (-10.4%)

Smartphone : ¥3,472mn

QoQ : -¥635mn (+15.5%)

-temporary cut back on advertisement placement by mainstay game app clients affected by the launch of new smartphones

PC (including web browser) : ¥2,770mn

QoQ : -¥80mn (-2.8%)

-decrease due to advertisement budget cuts by clients in financial industry

Feature phone : ¥164mn

QoQ : -¥27mn (-14.4%)

-decrease due to ongoing downsizing of the market since last quarter

### Overseas Advertising **¥1,495mn**

QoQ : +¥381mn (+34.2%)

-increase due to strong business

\*The accounting periods of our overseas subsidiaries end in December, so their 3Q FY2014(July-September)figures are consolidated with the Adways Group's 3Q FY2014(October-December)figures.

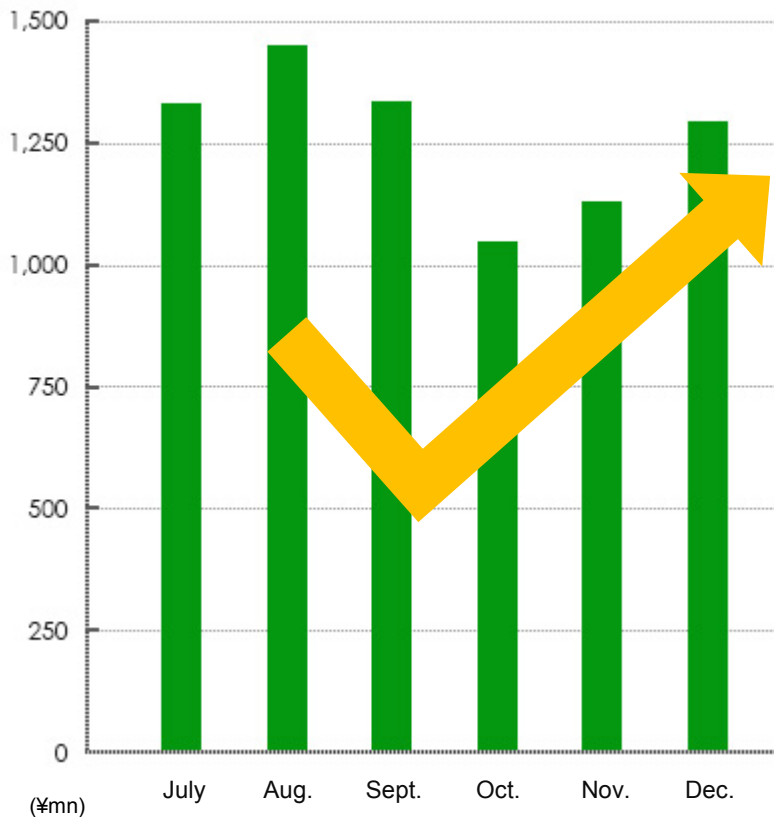


# 1. 3Q FY2014 Performance: Net Sales



## Decrease in advertisement placement for domestic smartphone is temporary

Monthly domestic smartphone ads sales



Despite the **temporary decrease** in advertisement placement by app developers due to launch of new smartphones, **recovering** after hitting the bottom in October Thus, QoQ decrease in sales for 3Q

\*Reference value by Adways' management accounting

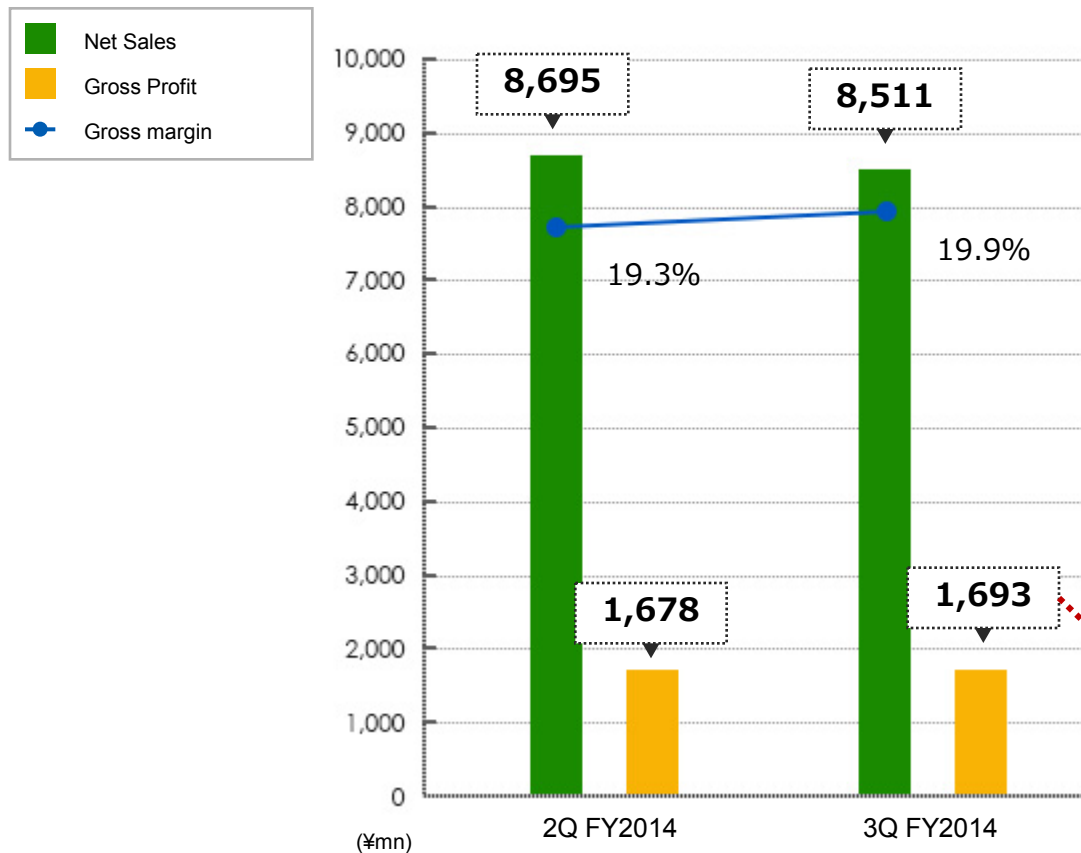




# 1. 3Q FY2014 Performance: Gross Profit



## QoQ Change



**3Q Gross Profit : ¥1,693mn**

QoQ : +¥14mn (+0.8%)

Gross margin : 19.9% (+0.6ppt)

-despite decrease in net sales due to temporary factors, shift in earning structures such as eliminating unprofitable businesses by narrowing down services resulted in:

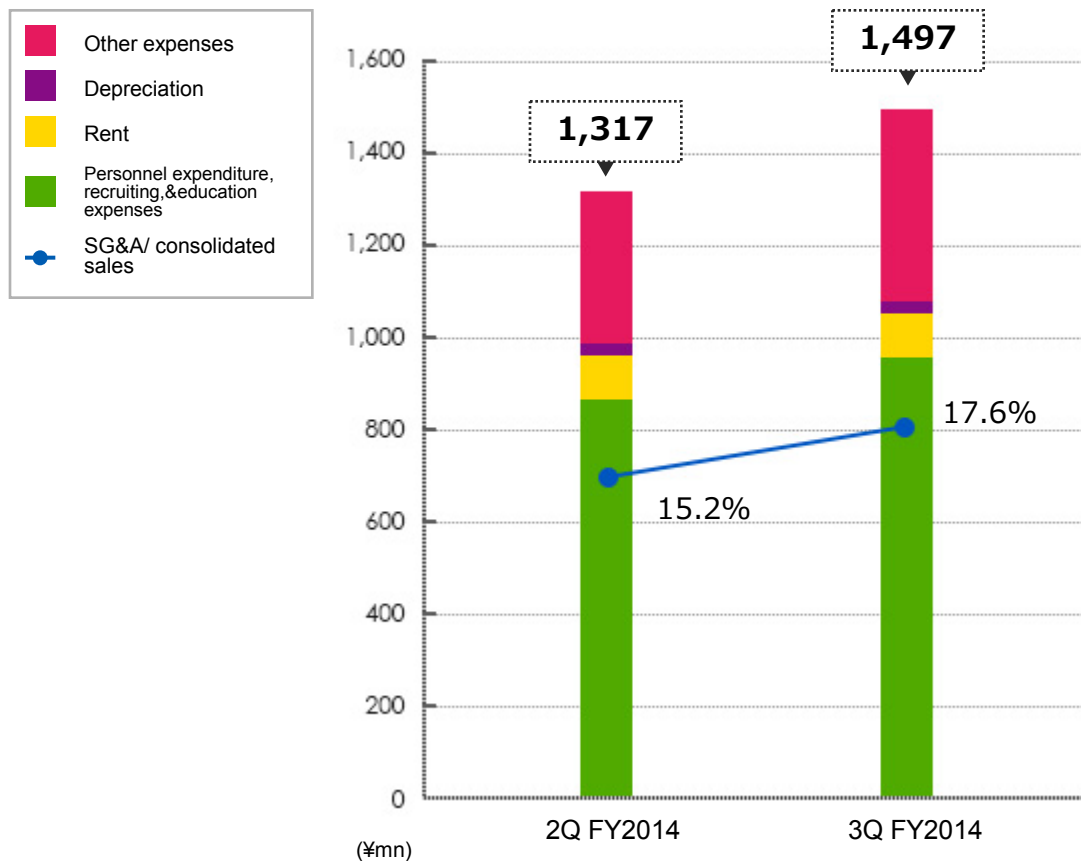
renewed

**Record High**



# 1. 3Q FY2014 Performance: SG&A Expenses

## QoQ Change



### 3Q SG&A Expenses : ¥1,497mn

QoQ : +¥179mn (+13.7%)

SG&A to Sales ratio : 17.6%

Personnel expenditure, recruiting & education expenses : +¥88mn

- increase in personnel expenditure due to increase in the number of overseas personnel, etc.
- launch preparation for recruiting of new graduates

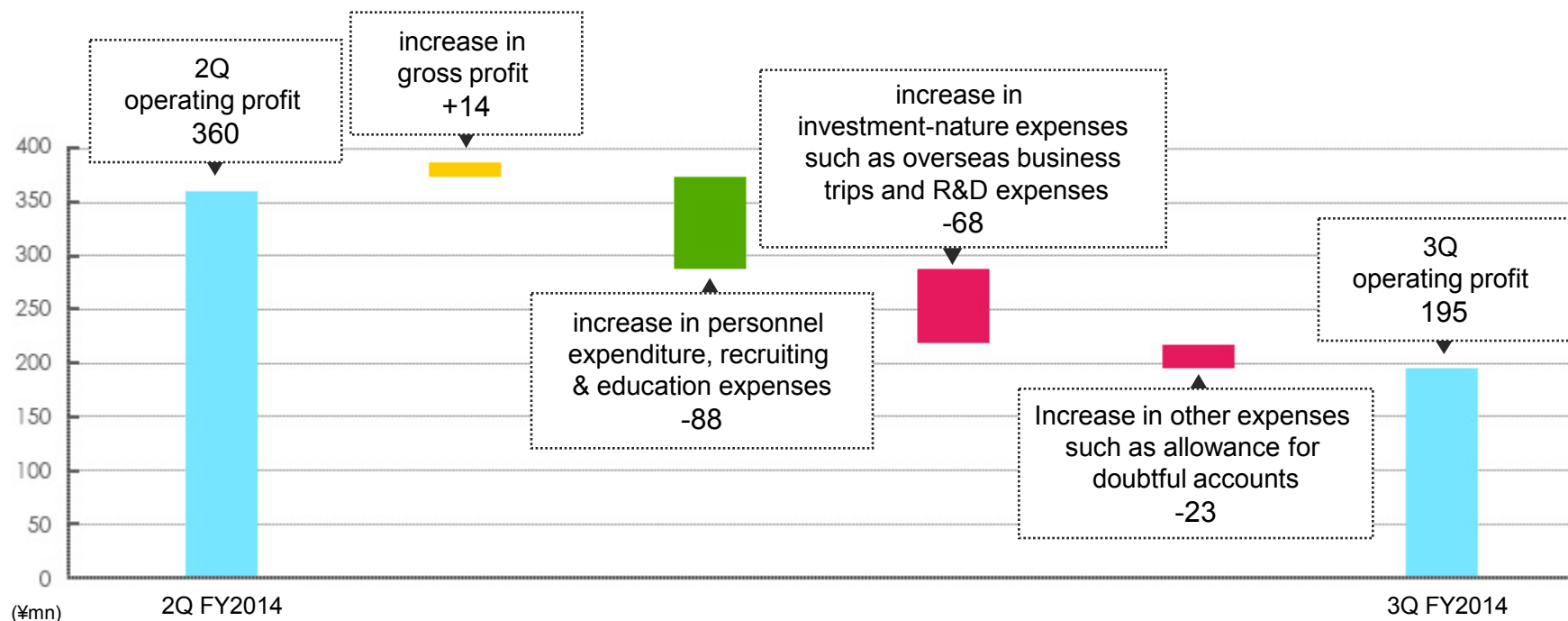
Other expenses : +¥85mn

- increase in R&D expenses (+¥38mn)
- increase in events, overseas business trips, etc. (+¥22mn)
- increase in allowance for doubtful accounts (+¥18mn)

SG&A Expenses increased due to investment in Overseas and Smartphone Advertising businesses

# 1. 3Q FY2014 Performance: Operating Profit

## QoQ Change



### 3Q Operating Profit : ¥195mn

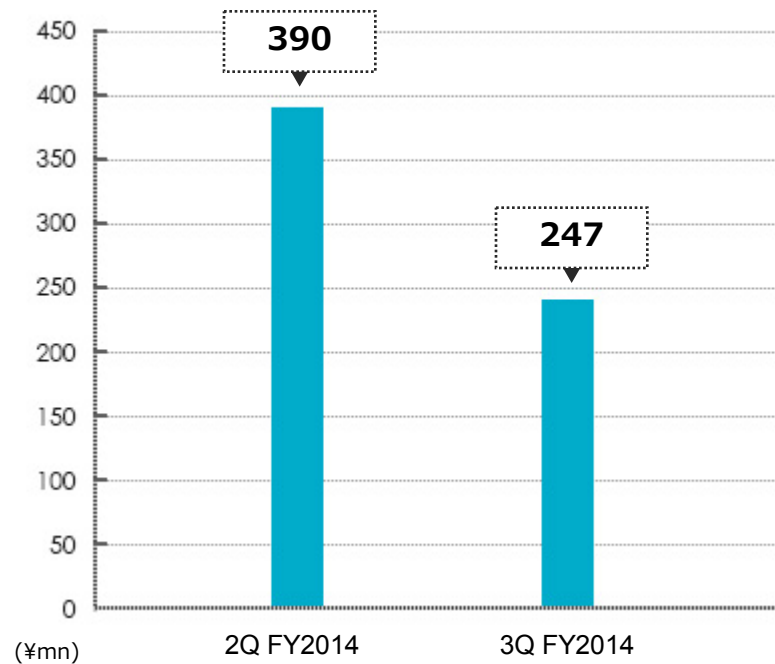
QoQ : -¥165mn (-45.9%)

- increase in personnel expenditure, recruiting & education expenses (¥88mn)
- increase in investment-nature expenses such as overseas business trips and R&D expenses (¥68mn)
- increase in other expenses such as allowance for doubtful accounts (¥23mn)



# 1. 3Q FY2014 Performance: Recurring Profit and Net Profit

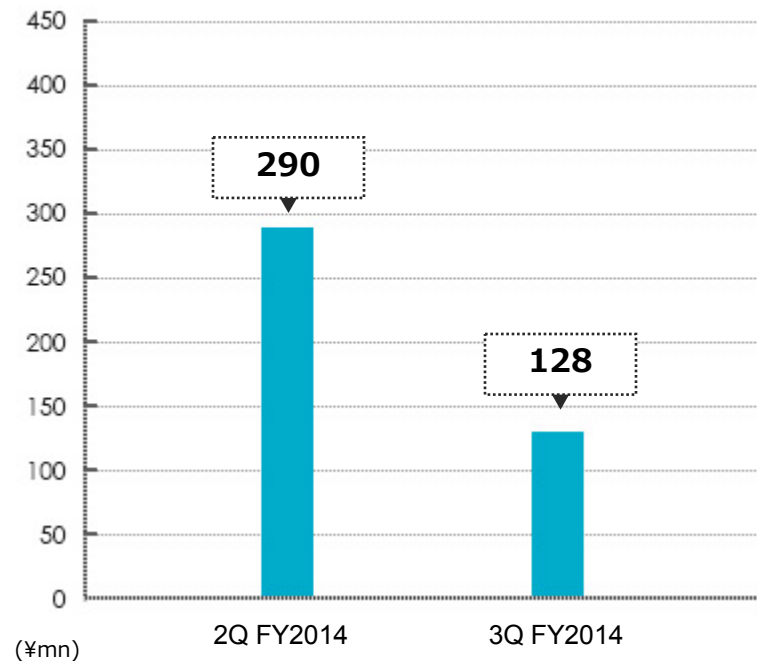
## QoQ Change



**3Q Recurring Profit : ¥247mn**

QoQ : -¥142mn (-36.6%)

## QoQ Change

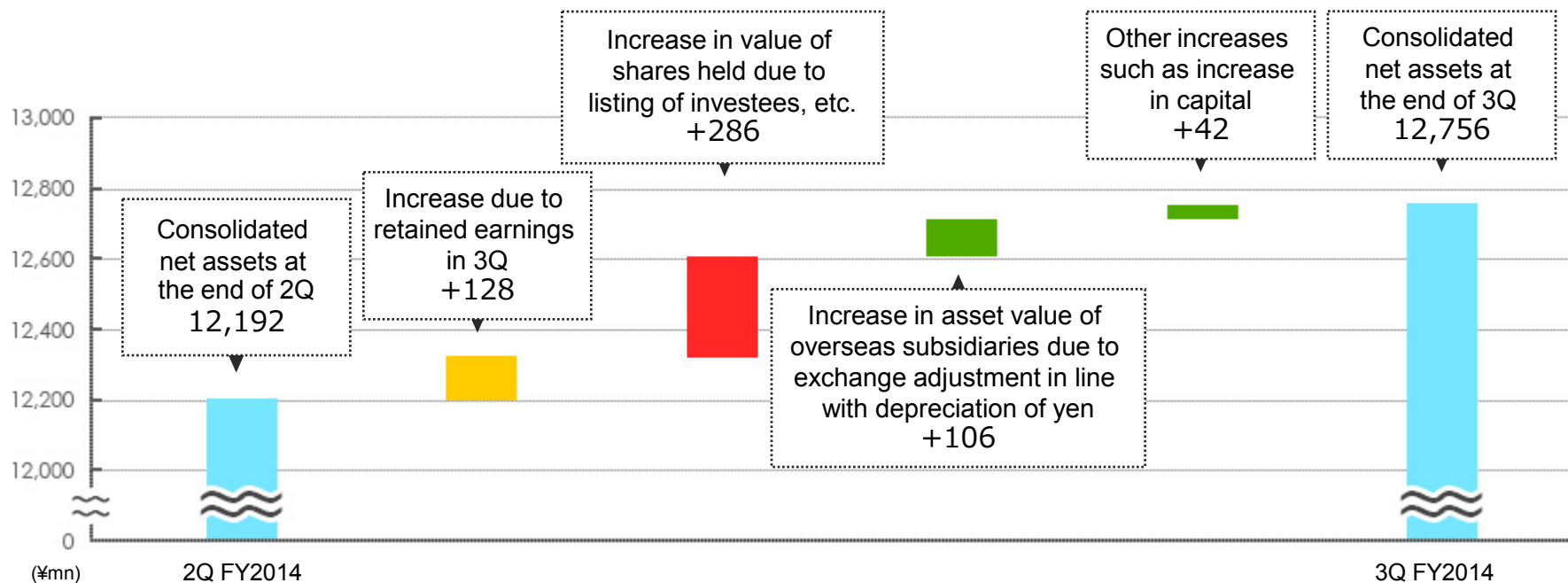


**3Q Net Profit : ¥128mn**

QoQ : -¥161mn (-55.7%)

# 1. 3Q FY2014 Performance: Consolidated Net Assets

## Change from the end of 2Q



### 3Q Consolidated Net Assets : ¥12,756mn

QoQ : +¥651mn (+5.3%)

- Increase due to retained earnings in 3Q (+¥128mn)
- Increase in value of shares held due to listing of investees (gumi Inc., Scigineer Inc.), etc.(+¥286mn)
- Increase in asset value of overseas subsidiaries due to exchange adjustment in line with depreciation of yen (+¥106mn)





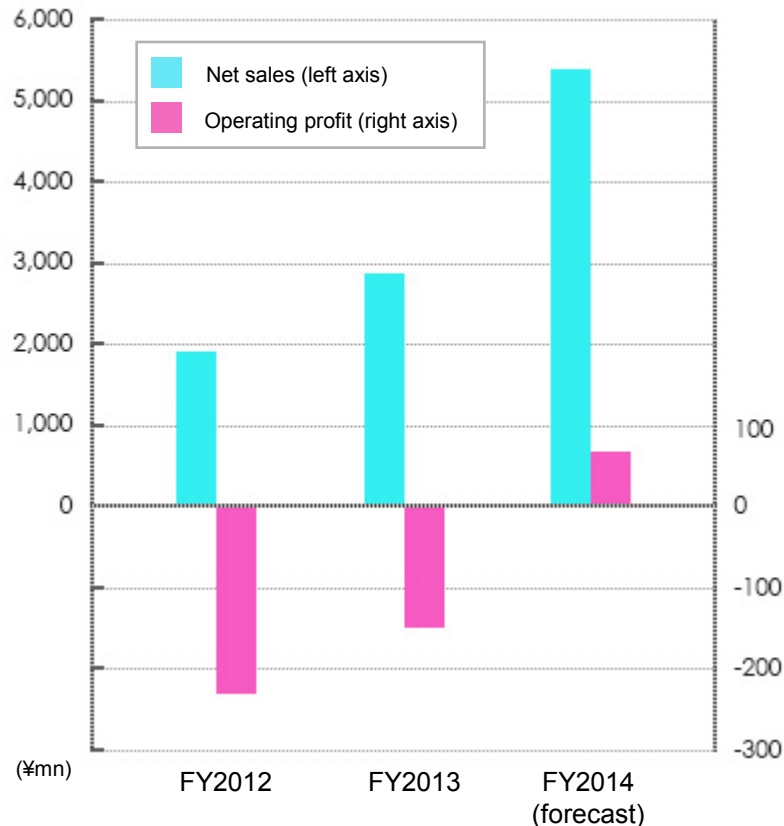
## 2. Business Overview

## 2. Business Overview: Overseas Business



# Overseas business is expected to turn to profit in Full Year FY2014

Overseas Net Sales and Operating Profit



Significant growth of overseas businesses

Net sales: Approx. ¥5.4 bn  
Operating profit: Approx. ¥70mn

Expected to  
**turn to profit**

(Improving profit by approx. ¥200mn compared to FY2013)

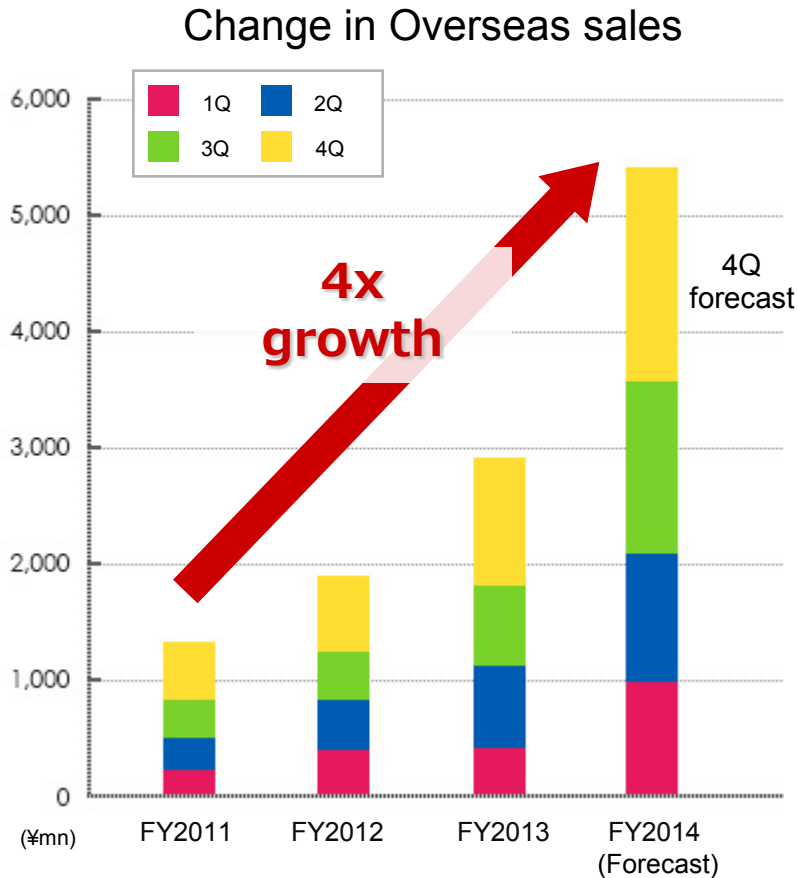
\*Figures for FY2014 (forecast) are reference value by Adways' management accounting before auditing by the auditing firm and are simple totals of overseas businesses without elaborate offset of consolidation, etc.





## 2. Business Overview: Overseas Business

# Growth of overseas advertising business centering on China, Taiwan and South Korea



**Quadruple growth** from three years prior

1.8x growth from FY2013

Steady market growth is expected to continue going forward

	FY2013	FY2014	FY2015	FY2016
Online ads market in China/Taiwan/South Korea	1.8	2.2	2.5	2.8

Market growth of approx. ¥300bn/year will continue

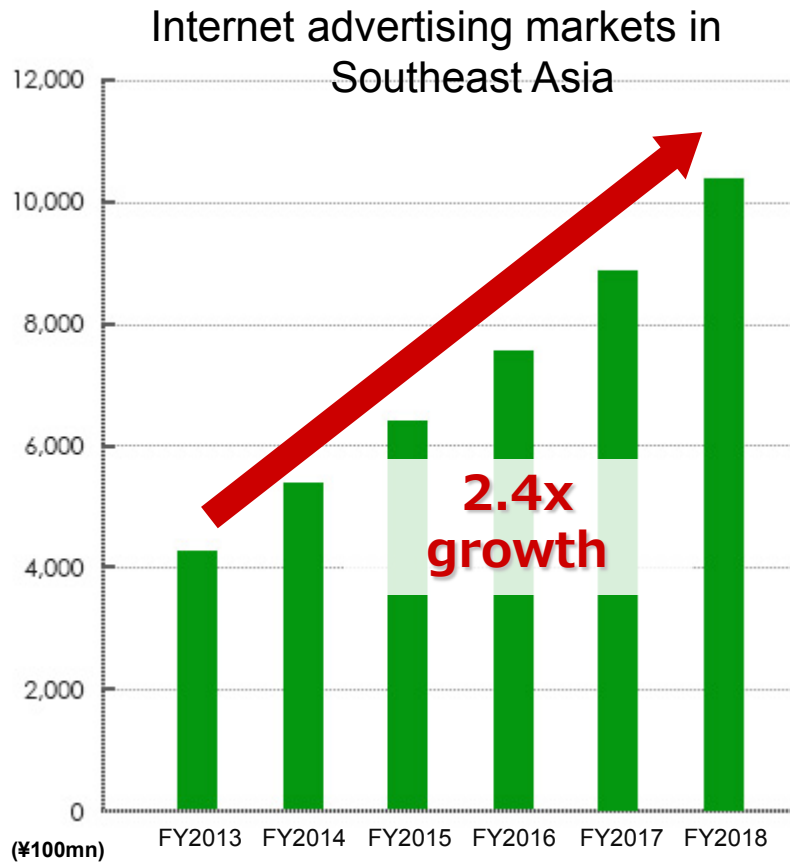
Reference: Estimated by eMarketer, Jun.2014 (Expenditure on internet advertising in Greater China excluding Hong Kong and in South Korea) Figures are converted by applying the rates released at the time of eMarketer's announcement.

\*Figures for FY2014 (forecast) are reference value by Adways' management accounting before auditing by the auditing firm and are simple totals of overseas businesses without elaborate offset of consolidation, etc.

## 2. Business Overview: Overseas Business



### Developing further growing markets going forward



Reference: Estimated by eMarketer, Jun.2014 (Expenditure on internet advertising in Asia Pacific region excluding Japan, Greater China, South Korea, India and Australia)  
Figures are converted by applying the rates released at the time of eMarketer's announcement.

4 offices in Southeast Asia where future growth can be expected (Thailand, Indonesia, the Philippines, Singapore)

Furthermore, introducing a successful promotion system

Party Track+AppDriver+Yoyaku Top10  
- Successful promotion system



Has been introduced

To be introduced in January

\*Adways' Vietnam office is a development base, thus not included in the above four offices.



# 2. Business Overview: Summary



## Status of each business segment in 3Q and future outlook

3Q FY2014  
(image)

Future outlook  
(image)

\*Figures are ratio against the net sales in 3Q FY2014

### Smartphone Advertising

Although advertisement placement decreased due to the launch of new smartphones in 3Q, the smartphone advertising market is growing steadily.

41%



### Internet Advertising

Advertisement placement by mainstay clients in financial industry is leveling off for the moment.

33%



### Feature phone Advertising

The market continues to shrink.

2%



### Overseas Advertising

Business expansion centering on China, Taiwan and South Korea. Further development of internet advertising such as smartphone ads is expected going forward.

18%







### 3. FY2014 Guidance and Dividend Forecast

# 3. FY2014 Guidance and Dividend Forecast

## FY2014 Consolidated Guidance (April 1, 2014-March 31, 2015)

(¥mn) \*figures below second decimal place rounded off.

	Net Sales	Operating Profit	Recurring Profit	Net profit
Previously announced forecast (A)	37,000	1,000	1,000	480
Currently announced forecast (B)	35,500	1,000	1,100	600
Change (B-A)	-1,500	± 0	+ 100	+ 120
Change (%)	-4.1%	± 0%	+ 10.0%	+ 25.0%
3Q results (cumulative) (C)	26,038	789	880	513
Progress * (C/B)	73.3%	78.9%	80.0%	85.6%
(Reference) FY2013 Cumulative results	31,521	847	840	551

Temporary decrease in smartphone ads is taken into account for net sales forecast. However, as the shift in earning structures such as eliminating unprofitable businesses by narrowing down services has been showing positive impact, operating profit forecast is unchanged. Recurring profit and net profit forecasts are **revised upward**.





## Dividend Forecast

By adding 6% as commemorative dividend for expected turning to profit in overseas advertising, dividend payout ratio is raised to **20%** from 14%.

Final dividend planned to be **¥2.88 - 2.94** per share

└ Ordinary dividend **¥2.02 - 2.06**

└ Commemorative dividend **¥0.86 - 0.88**

(Final dividend before the revision was planned to be ordinary dividend of **¥1.65** per share)

\*Adways adopts the unit share system of 100 shares as one unit.

\*The range in the amount of dividend is arrived at by taking into accounts the possibility of the increase in the number of shares issued due to the exercise of Adways' 5th-8th stock options.







**Thank you very much for attending our presentation today.**

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Information provided in this presentation contains forward-looking statements including Adways Inc.'s current plans, outlook, estimates and forecast related to its business and industry trends. Such statements are inevitably subject to certain risks and uncertainties. Actual results may differ from the outlook expressed herein due to risks which may or may not be known at present, uncertainties and various other factors. Adways Inc. makes no warranty that its future outlook and forecasts are accurate, and actual results may differ materially from company estimates and may be worse than those expressed. Statements made herein are based on information available as of January 30, 2015 and a variety of factors may cause the statements to differ from actual results.



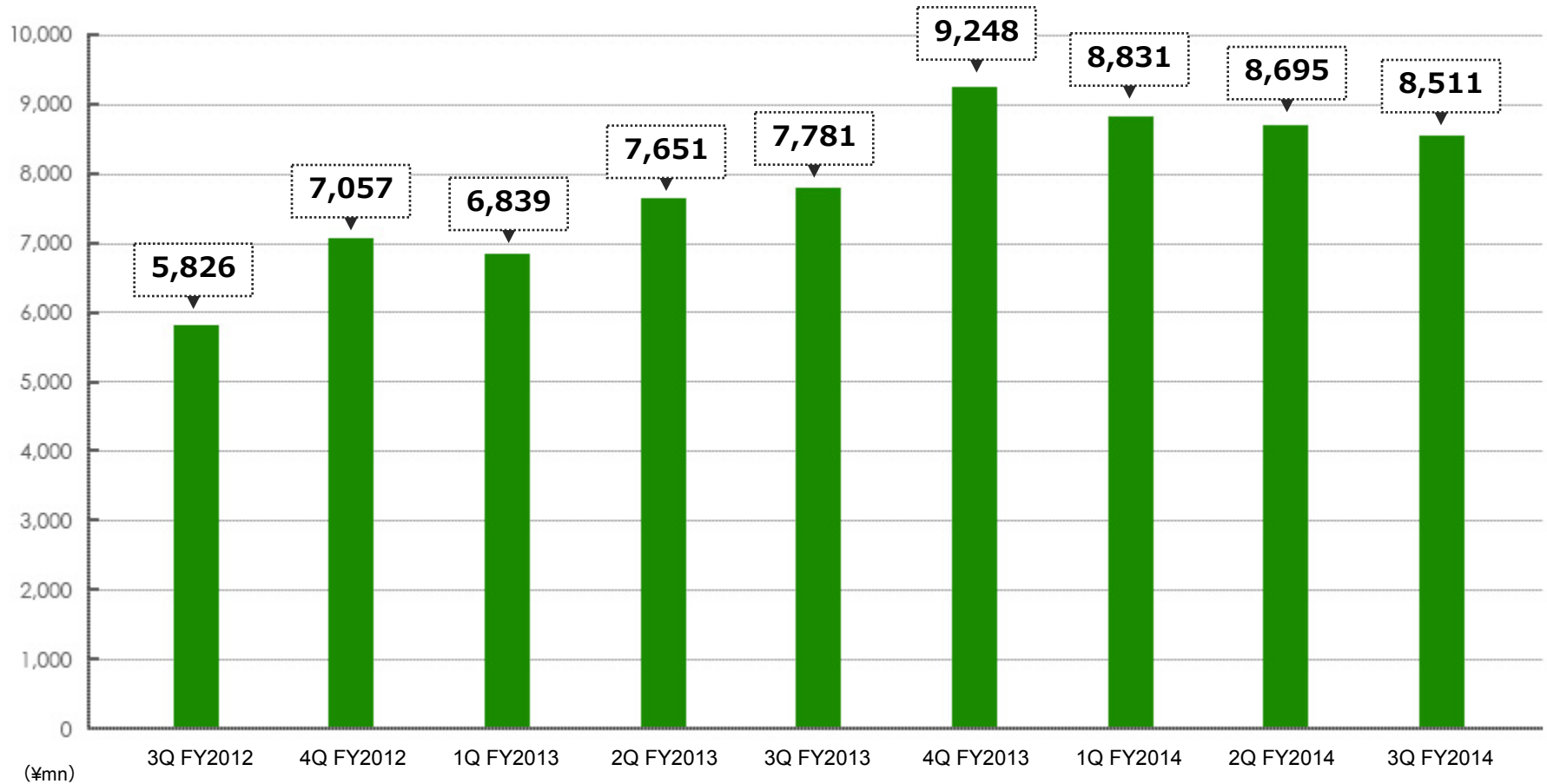
# 4. Supplementary Materials



# 4. Supplementary Materials



## Consolidated sales (Quarterly)

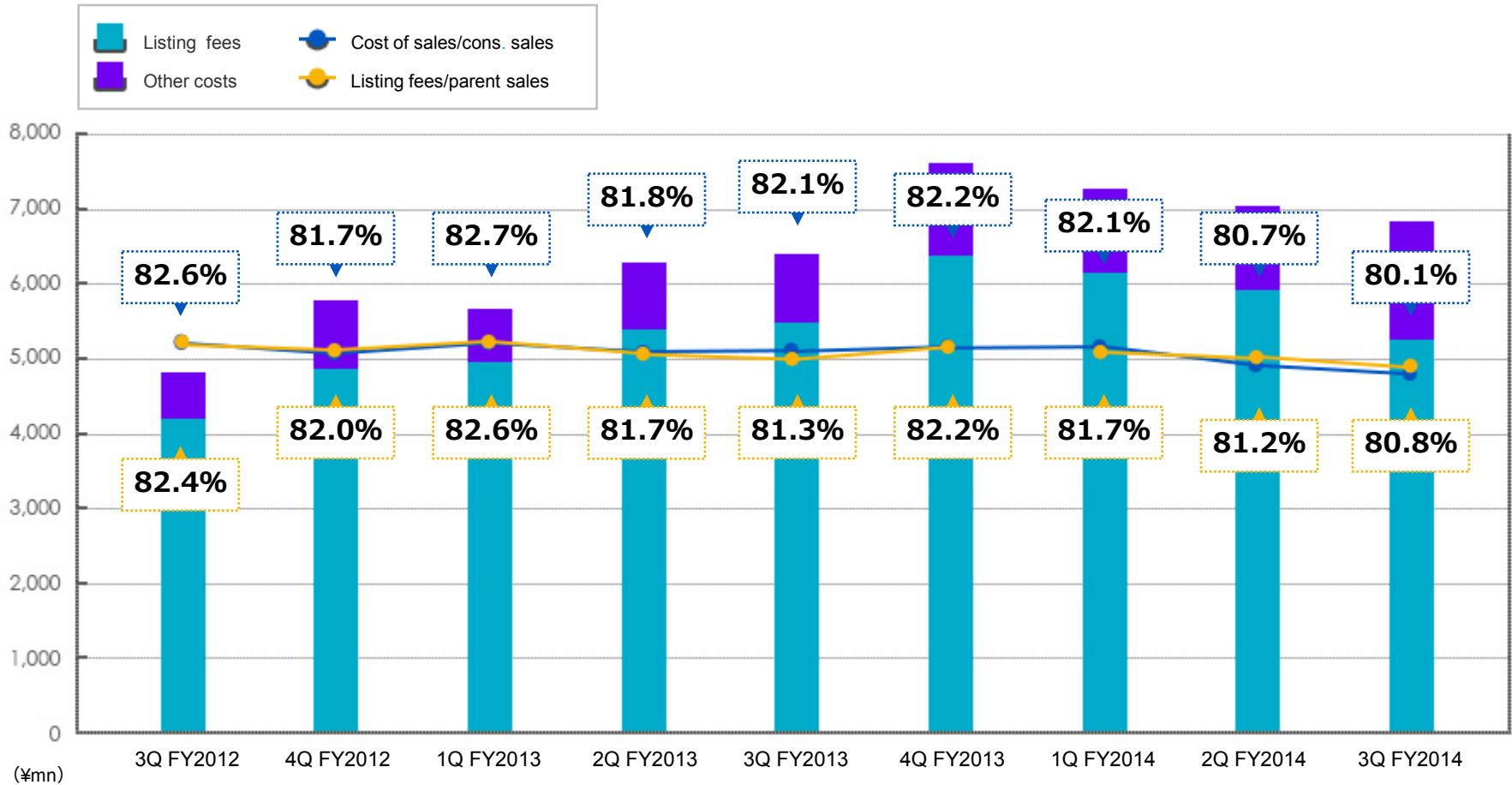




# 4. Supplementary Materials



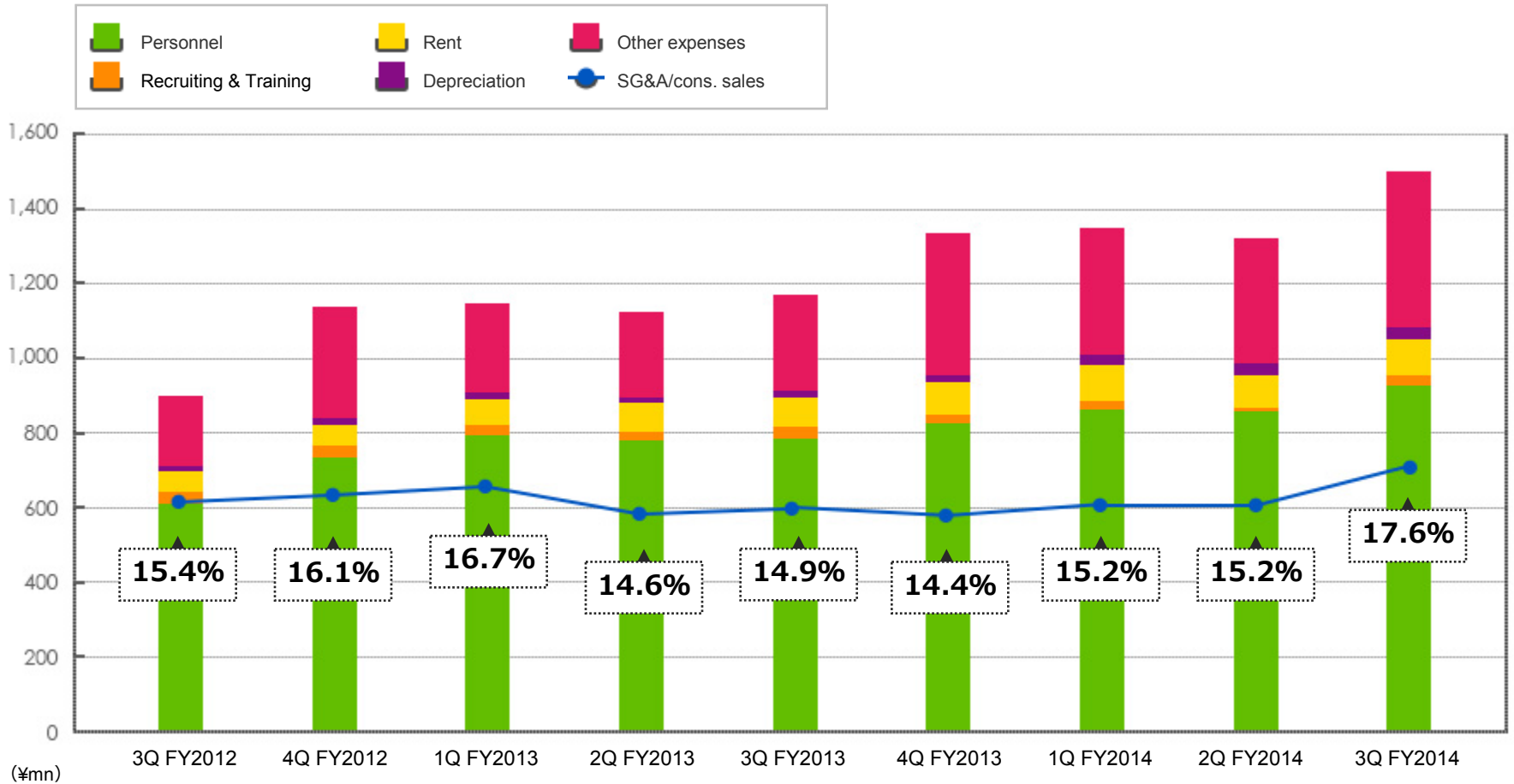
## Consolidated Cost of Sales (Quarterly)



# 4. Supplementary Materials



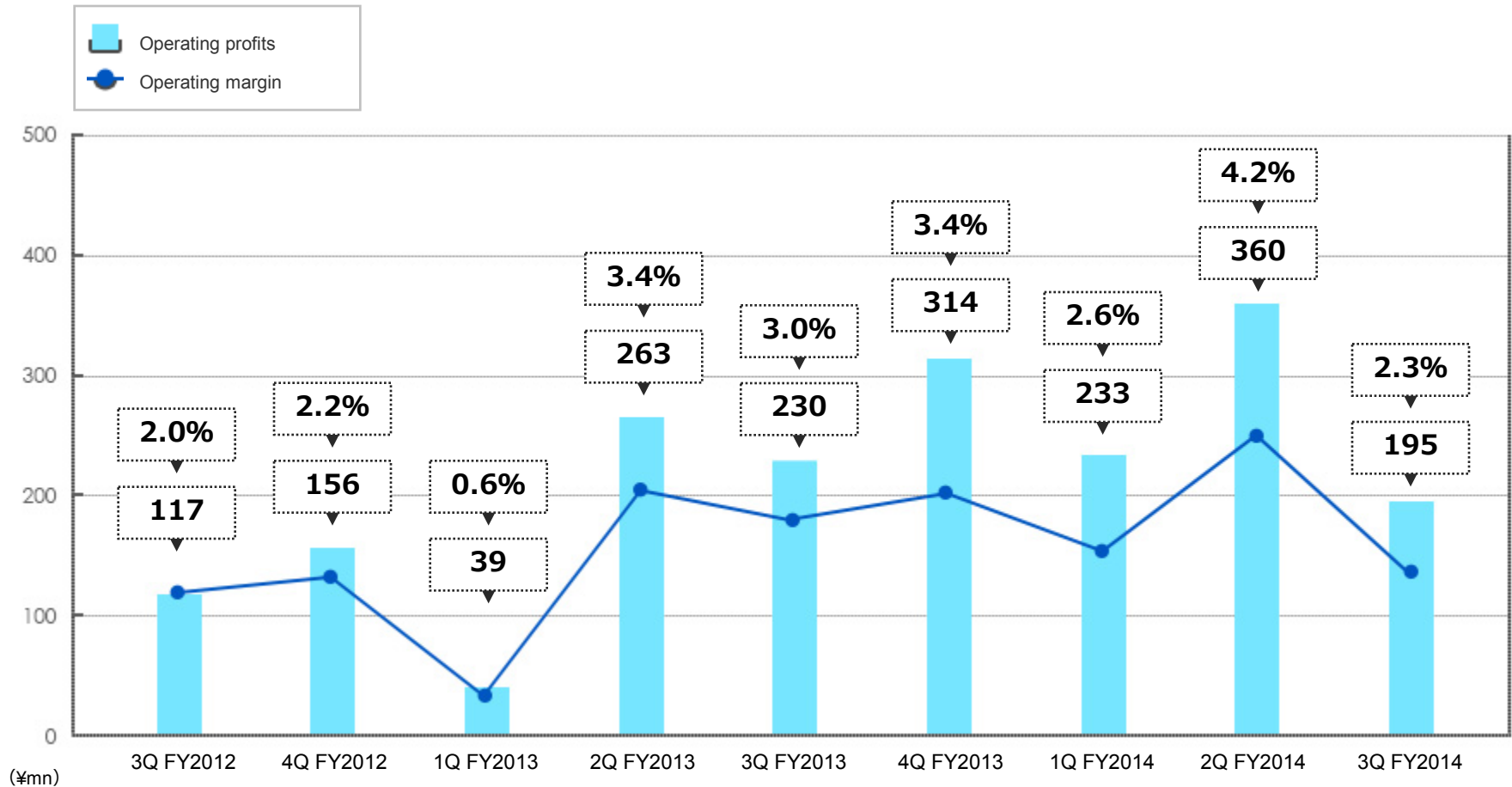
## Consolidated SG&A Expenses (Quarterly)



# 4. Supplementary Materials



## Consolidated Operating Profit (Quarterly)





# 4. Supplementary Materials



## Consolidated Balance Sheet (QoQ)

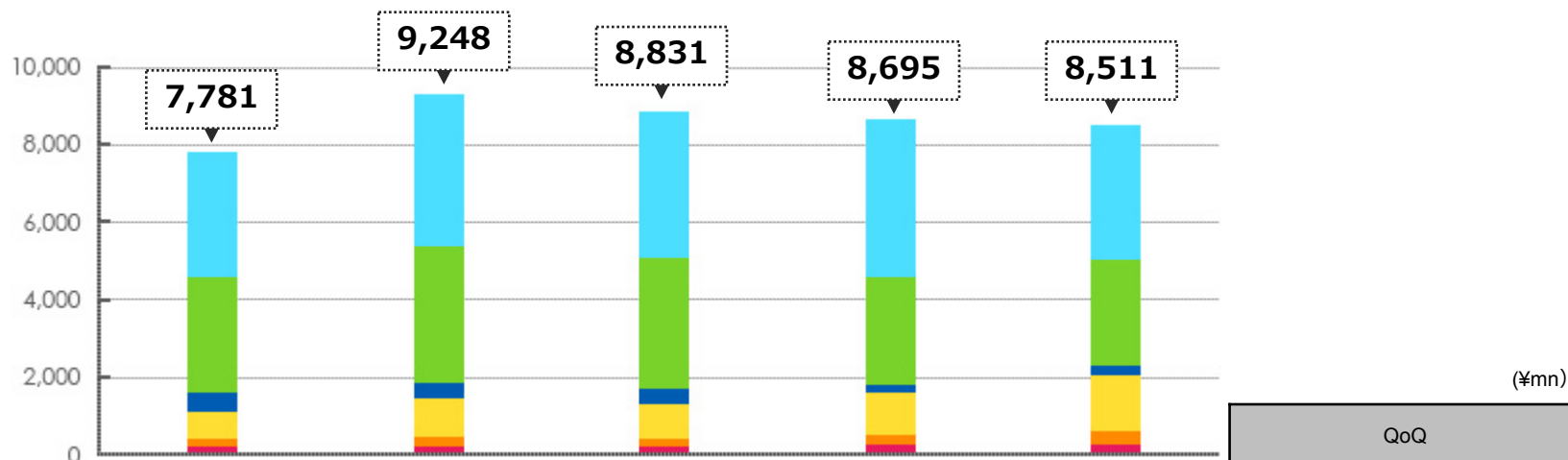
(¥mn)

	3Q FY2014	2Q FY2014	Change (¥mn)	Change (%)
Current Assets	15,832	16,050	-218	-1.4%
(Cash and Deposits)	10,664	10,726	-61	-0.6%
Fixed Assets	2,342	1,896	+446	+23.5%
Total Assets	18,175	17,946	+228	+1.3%
Current Liabilities	5,266	5,643	-377	-6.7%
Fixed Liabilities	152	110	+41	+37.8%
Total Liabilities	5,418	5,754	-335	-5.8%
Net Assets	12,756	12,192	+563	+4.6%

# 4. Supplementary Materials



## Breakdown of Consolidated Sales by Segment (Quarterly)



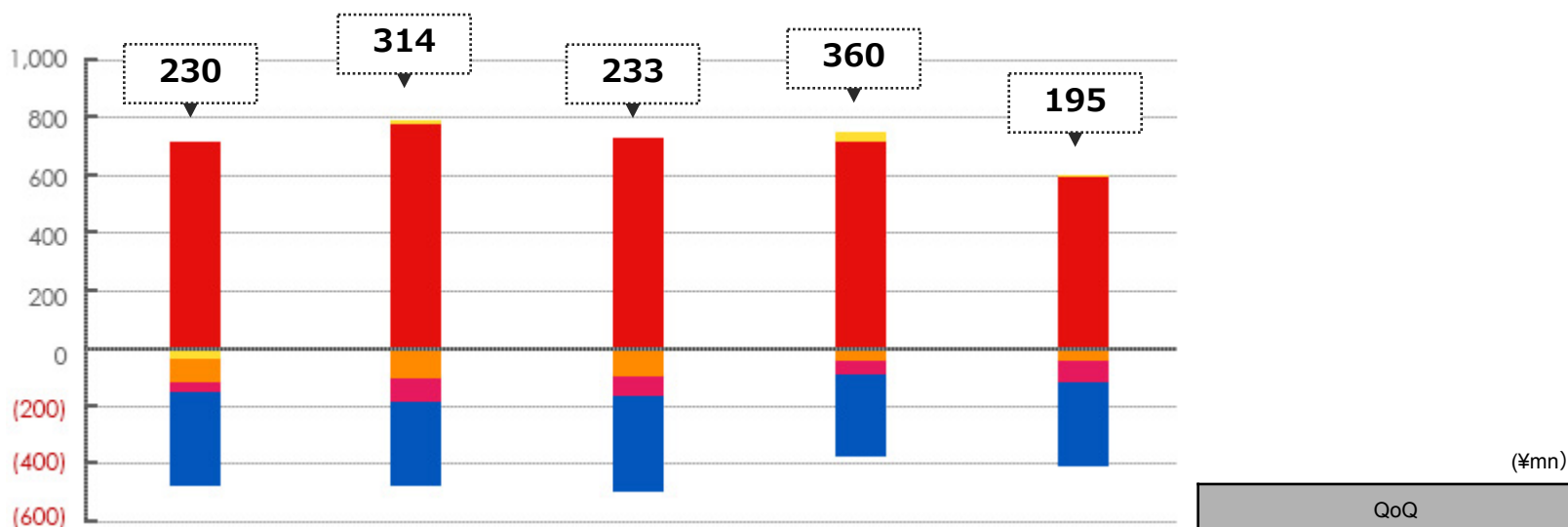
	3Q FY2013	4Q FY2013	1Q FY2014	2Q FY2014	3Q FY2014	QoQ	
						Change(¥mn)	Change (%)
Smartphone	3,195	3,882	3,775	4,108	3,472	-635	-15.5%
PC	2,987	3,458	3,392	2,850	2,770	-80	-2.8%
Feature phone	507	397	281	192	164	-27	-14.4%
Overseas advertising	685	1,109	979	1,113	1,495	+381	+34.2%
App	180	225	233	247	399	+152	+61.6%
Media, Other	225	175	169	183	209	+26	+14.4%
<b>Total</b>	<b>7,781</b>	<b>9,248</b>	<b>8,831</b>	<b>8,695</b>	<b>8,511</b>	<b>-183</b>	<b>-2.1%</b>



# 4. Supplementary Materials



## Breakdown of Consolidated Operating Profit by Segment (Quarterly)



	3Q FY2013	4Q FY2013	1Q FY2014	2Q FY2014	3Q FY2014	QoQ	
						Change(¥mn)	Change (%)
<span style="color: red;">■</span> Advertising	710	777	725	703	597	-105	-15.1%
<span style="color: yellow;">■</span> Overseas Advertising	-37	12	-1	35	9	-26	-73.3%
<span style="color: orange;">■</span> App	-87	-104	-91	-47	-85	-38	-
<span style="color: pink;">■</span> Media, Other	-28	-80	-72	-41	-32	+8	-
<span style="color: blue;">■</span> Eliminations & corporate	-326	-291	-326	-289	-294	-4	-
<b>Total</b>	<b>230</b>	<b>314</b>	<b>233</b>	<b>360</b>	<b>195</b>	<b>-165</b>	<b>-45.9%</b>

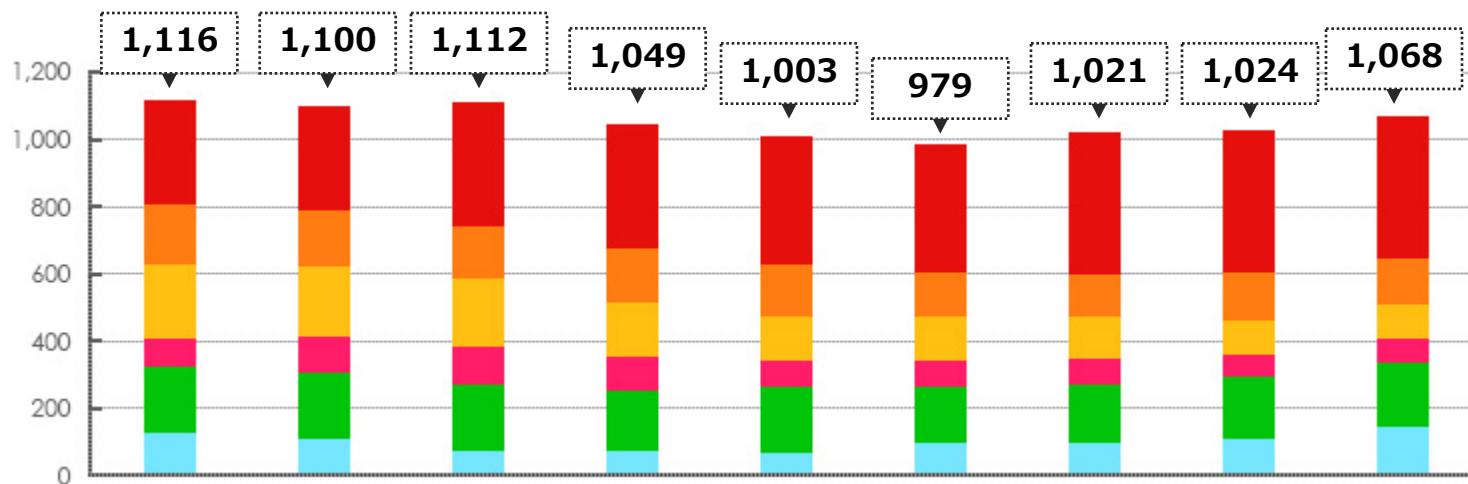




# 4. Supplementary Materials



## Group Employees (Quarterly)



(Persons)

	3Q FY2012	4Q FY2012	1Q FY2013	2Q FY2013	3Q FY2013	4Q FY2013	1Q FY2014	2Q FY2014	3Q FY2014
ADW Japan	305	309	368	374	377	380	425	429	425
ADW China	181	169	154	163	150	132	127	135	139
ADW Shanghai (R&D center)	219	210	206	159	132	131	122	108	105
Domestic subs	89	102	111	103	78	73	77	64	60
Overseas subs(ex. China)	190	195	192	184	201	169	176	187	204
Temps, part-timers	132	115	81	66	65	94	94	101	135
<b>Total</b>	<b>1,116</b>	<b>1,100</b>	<b>1,112</b>	<b>1,049</b>	<b>1,003</b>	<b>979</b>	<b>1,021</b>	<b>1,024</b>	<b>1,068</b>



# 4. Supplementary Materials



## Company Overview

Company name Adways Inc.

Founded February 28, 2001

Business overview Internet business

President & CEO Haruhisa Okamura

Capital ¥1,496mn (As of end of December 2014)

Net Sales ¥ 31,521mn (FY2013, Consolidated)

Employees 1,068 including temp workers (As of end of December 2014)