

# ADWAYS

February 2016 , Presentation Material

TOKYO STOCK EXCHANGE MOTHERS STOCK CODE:2489


Financial Results Presentation for 3Q FY2015

February 3, 2016

President and CEO, Haruhisa Okamura

# Topics

1. 3Q FY2015 Performance ●————● P. 2
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# 1. 3Q FY2015 Performance

# 1. 3Q FY2015 Performance: Cumulative

## Cumulative Quarterly Results (YoY)

(¥mn)

	3Q FY2015 (Cumulative)	YoY 3Q FY2014 (Cumulative)		
		Result	Change (¥mn)	Change (%)
Net Sales	28,863	26,038	+2,824	+10.8%
Gross Profit	5,340	4,950	+389	+7.9%
SG&A Expenses	4,798	4,161	+637	+15.3%
Operating Profit	542	789	-247	-31.3%
Recurring Profit	607	880	-272	-30.9%
Net Profit attributable to parent company shareholders	252	513	-261	-50.9%

### Net Sales

Increased      ¥2,824mn YoY (+10.8%)

### Operating Profit

Decreased      ¥247mn YoY (-31.3%)

# 1. 3Q FY2015 Performance

## Quarterly Results (YoY/ QoQ)

(¥mn)

	3Q FY2015	YoY 3Q FY2014			QoQ 2Q FY2015		
		Result	Change (¥mn)	Change (%)	Result	Change (¥mn)	Change (%)
Net Sales	9,237	8,511	+725	+8.5%	10,142	-905	-8.9%
Gross Profit	1,723	1,693	+30	+1.8%	1,818	-94	-5.2%
SG&A Expenses	1,658	1,497	+160	+10.7%	1,545	+112	+7.3%
Operating Profit	64	195	-130	-66.7%	272	-207	-76.1%
Recurring Profit	88	247	-159	-64.3%	298	-210	-70.4%
Net Profit attributable to parent company shareholders	-29	128	-158	-	159	-189	-

### Net Sales

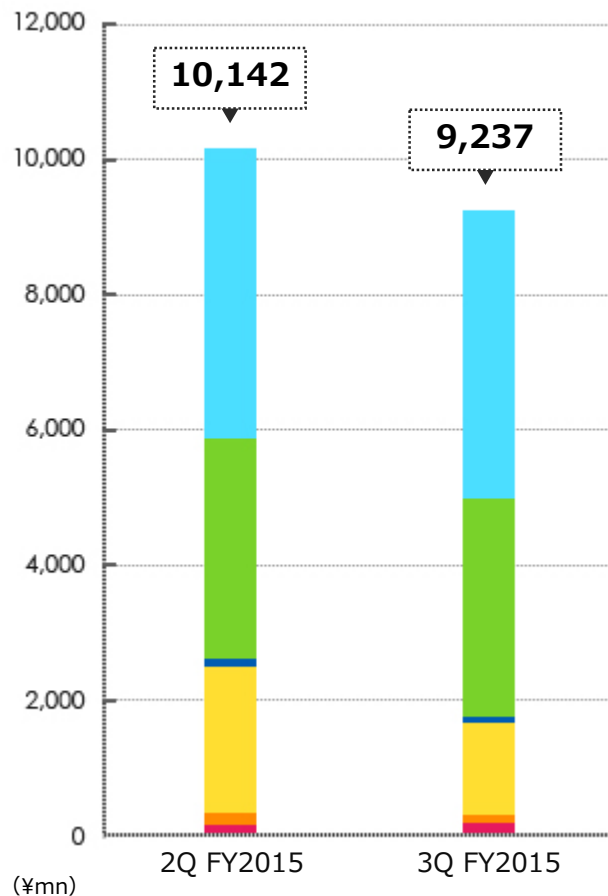
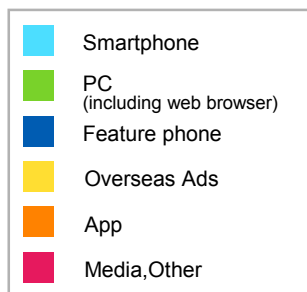
Increased      ¥ 725 mn YoY (+8.5%)  
 Decreased     ¥ 905 mn QoQ (-8.9%)

### Operating Profit

Decreased      ¥ 130 mn YoY (-66.7%)  
 Decreased     ¥ 207 mn QoQ (-76.1%)

# 1. 3Q FY2015 Performance: Net Sales

## QoQ Change



**Domestic Advertising** **¥7,635mn**

QoQ : -¥1mn (-0.0%)

Smartphone : ¥4,304mn

QoQ : +¥41mn (+1.0%)

-almost unchanged

PC (including web browser) : ¥3,192mn

QoQ : -¥58mn (-1.8%)

-main financial institutions projects have remained almost flat

**Overseas Advertising** **¥1,318mn**

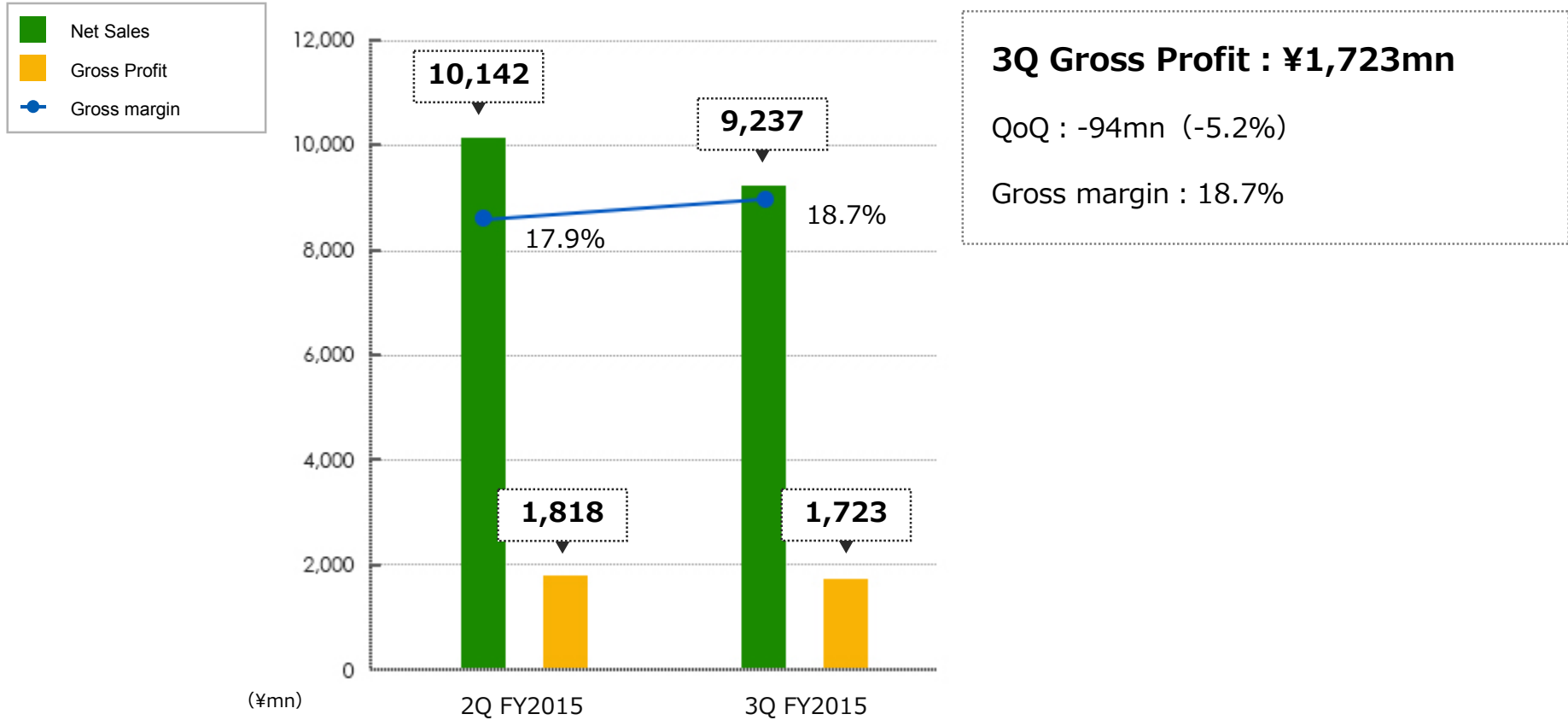
QoQ : -¥845mn (-39.1%)

-decreased due to backlash on spot advertising etc.

\*The accounting periods of our overseas subsidiaries end in December, so their 3Q FY2015 (July-September) figures are consolidated with the Adways Group's 3Q FY2015 (October-December) figures.

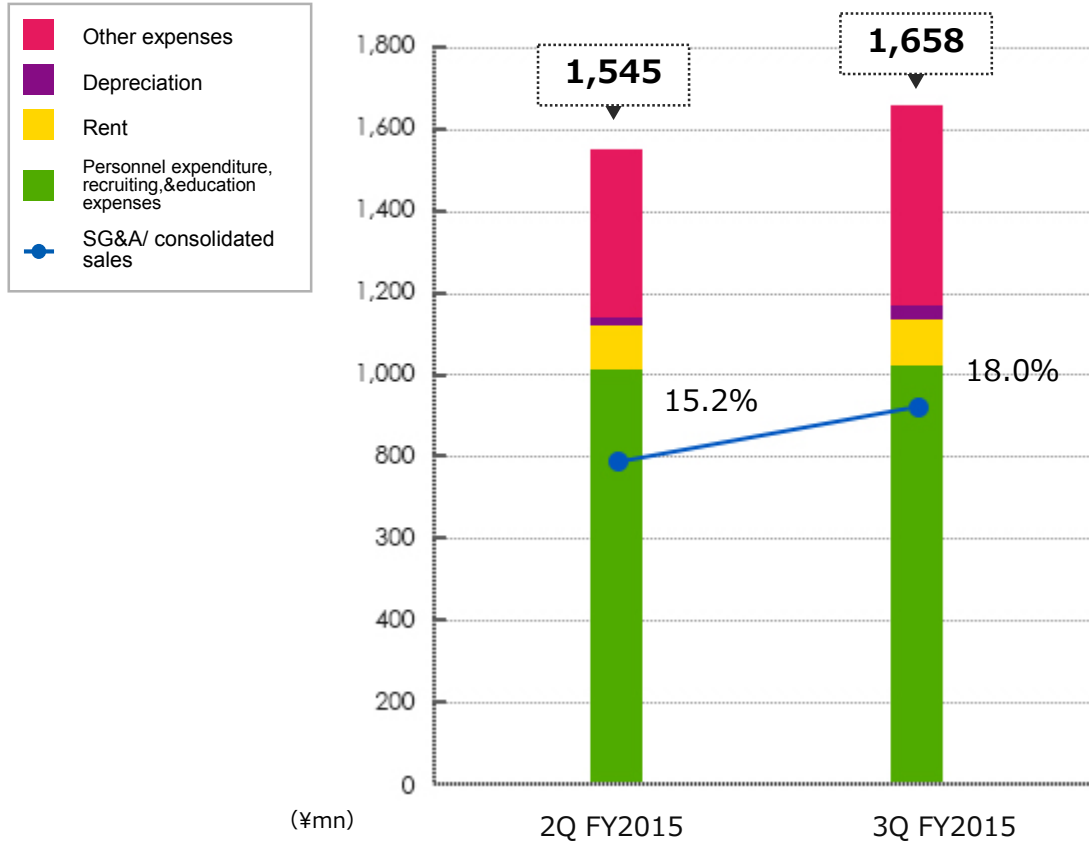
# 1. 3Q FY2015 Performance: Gross Profit

## QoQ Change



# 1. 3Q FY2015 Performance: SG&A Expenses

## QoQ Change



### 3Q SG&A Expenses : ¥1,658mn

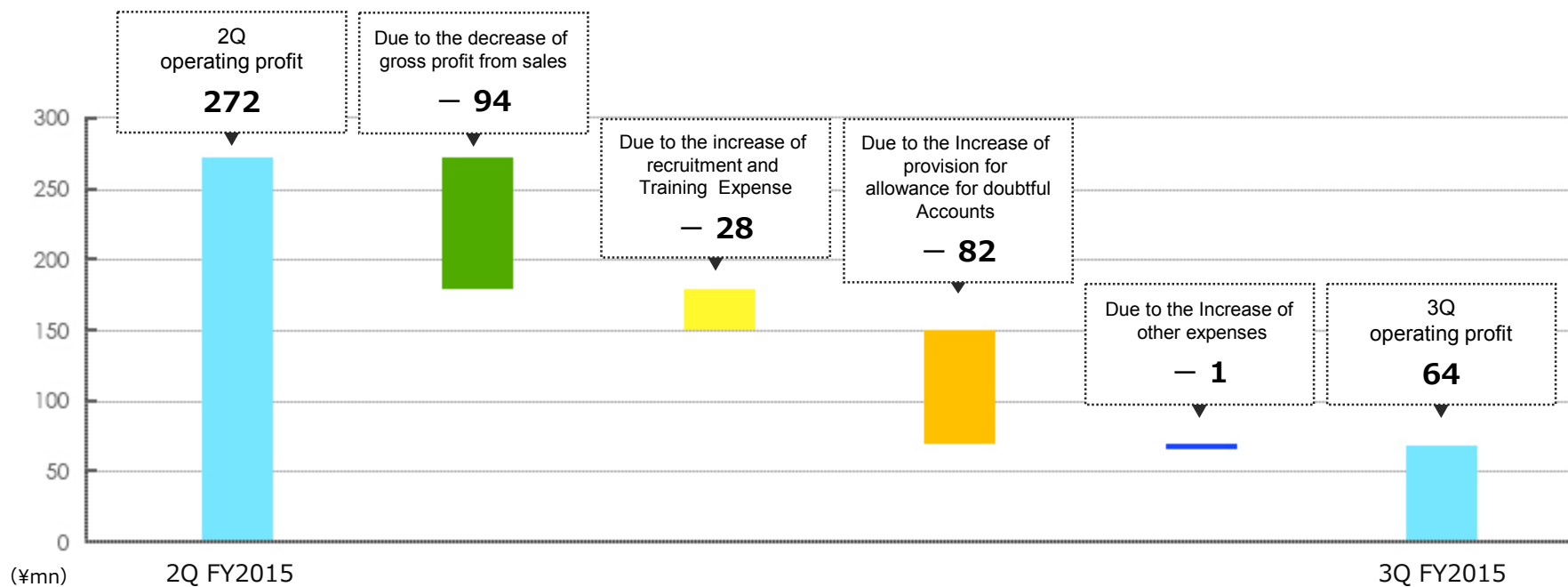
QoQ : +¥112mn (+7.3%)  
SG&A to Sales ratio : 18.0%

Recruitment and Training Expense : +¥28mn  
provision of allowance for doubtful accounts : +¥82mn  
- Increased due to the allowance for doubtful accounts against claims to overseas subsidiaries.



# 1. 3Q FY2015 Performance: Operating Profit

## QoQ Change



**3Q Operating Profit : ¥64mn**

QoQ : -¥207mn (-76.1%)

-Recruitment and Training expenses : +¥28mn

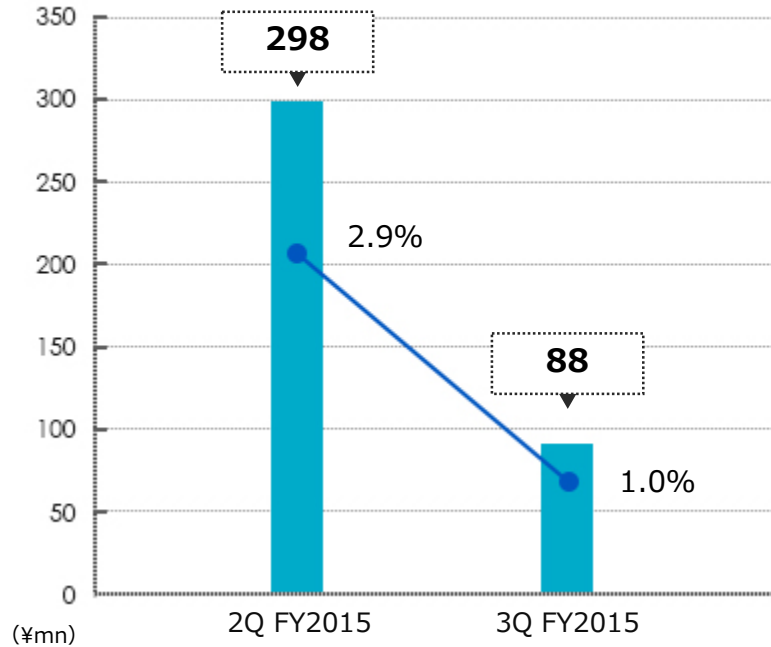
-Provision of allowance for doubtful accounts : +¥82mn

Increased due to the allowance for doubtful accounts against claims to overseas subsidiaries.

# 1. 3Q FY2015 Performance:

Recurring Profit and Net Profit attributable to parent company shareholders

## QoQ Recurring Profit Change

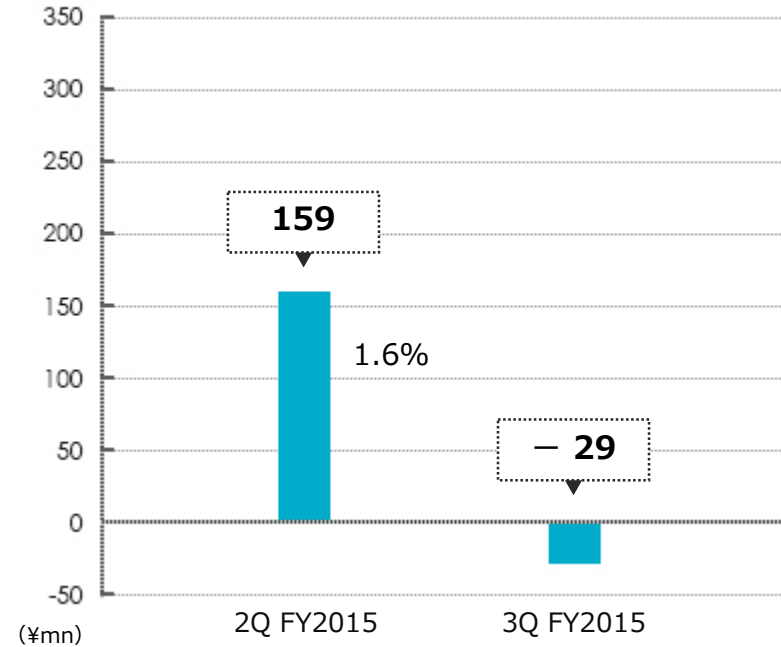


**3Q Recurring Profit : ¥88mn**

QoQ : -¥210mn (-70.4%)

Recurring Profit margin : 1.0%

## QoQ Net profit Change



**3Q Net Profit attributable to parent company shareholders : -¥29mn**

QoQ : -¥189mn (- %)

Net Profit margin : - %



## 2. FY2015 Consolidated Performance Forecast

## 2. FY2015 Consolidated Performance Forecast

FY2015 Consolidated Performance Forecast values  
(April 1, 2015 - March 31, 2016)

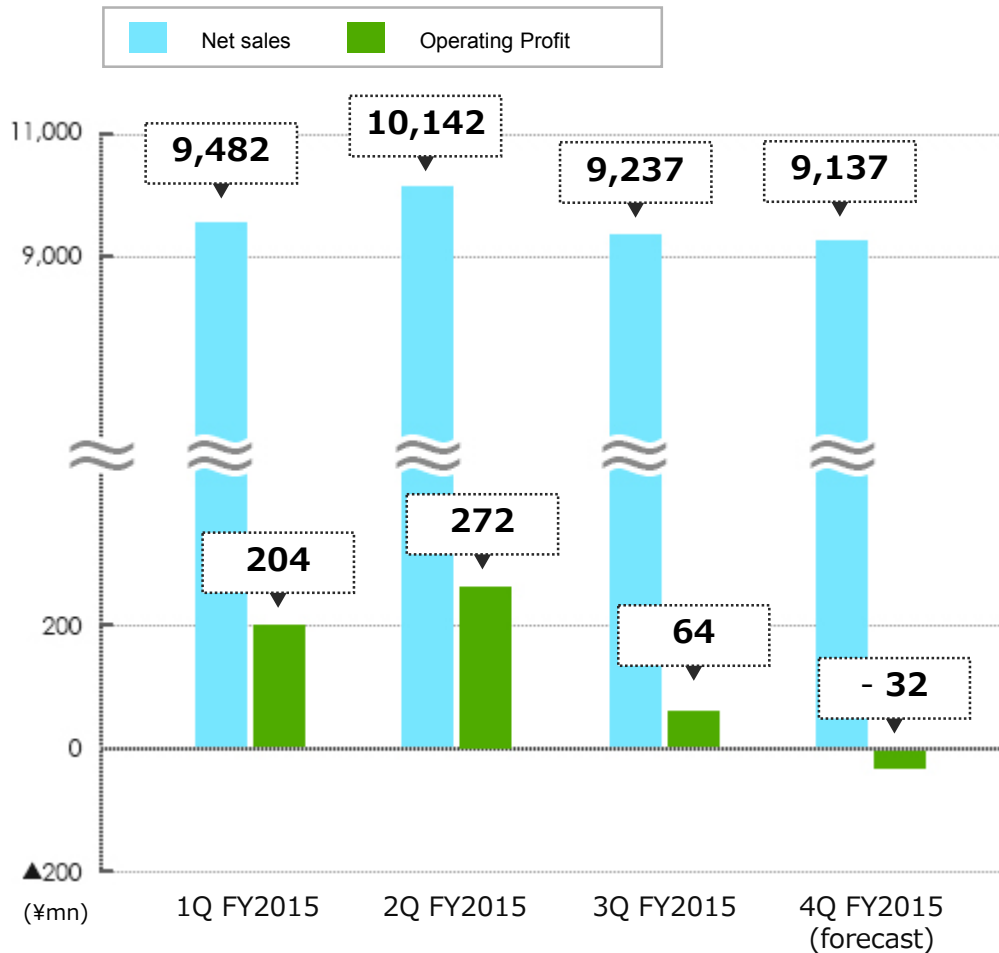
(¥mn)

	Net sales	Operating Profit	Recurring Profit	Net Profit attributable to parent company shareholders	Per share FY2015 Net profit
FY2015 Forecast	38,000	510	580	110	¥2.65
3Q results (cumulative)	28,863	542	607	252	¥6.07
(Reference) FY2014 Cumulative results	35,890	1,057	1,197	686	¥16.81

(Our company adopted a unit stock system wherein 100 shares is made as 1 unit.)

# 2. FY2015 Consolidated Performance Forecast

## Consolidated Performance Forecast values for 4Q FY2015



### 4Q FY2015 Forecast

**[Global Smartphone division expenses]**  
Purchase of ad spaces and other expenses for the release of new services.

**¥155mn** (estimated)

**[Provision of the allowance for doubtful accounts and other expenses]**  
Allowances primarily for the accounts receivable of overseas subsidiaries are scheduled to be applied on the 4th quarter.

**¥35mn** (estimated)



# 3. Shareholder returns

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## Dividend Forecast and Dividend Guidance

【 Dividend forecast for the end of FY2015 】

**¥2.35** per share

【 Dividend Guidance 】

We recognize that ensuring continuous shareholder returns and improving our corporate value are weighty issues and so we implement different strategies.

For dividends, we are aiming to be able to provide the value of the dividend per share that is calculated from dividend trends based on the value of dividends in the span of 3 years (excluding the first fiscal year) which includes this fiscal year, (reference: this fiscal year's 15%) or 2.35 yen per share (the average dividend performance for the previous fiscal year), whichever is higher.

However, please take note that it is possible for the dividend policy to change due to changes in the business climate such as significant performance fluctuations and sizeable M&A deals in the future fiscal years.

\*Our company has adopted a unit share system that converts 100 shares into 1 unit.

\*This matter was formally decided and implemented through the resolution of our company's 16th General Shareholders' Meeting.

\*The number of shares from the exercise of the 10th series warrants (through 3rd party allotment) with Revising Exercise Price clause. be increased or decreased, then the value of the dividend per share will change according to the change in the number of outstanding shares.

# 3. Shareholder returns

## Notice of the acquisition of treasury shares

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Acquisition value : ¥2,000mn (maximum)

Number of shares to be acquired : 5 million shares (maximum)

(12.0% to total outstanding shares)

Acquisition period: February 4th, 2016 - August 31st, 2016

### 【 Reasons for the acquisition 】

In order to give shareholder returns and to pursue a flexible capital strategy that can respond to changes in the business climate.





# 4. Business Overview

# Beyond Everything Internet

SmartPhone Global Ad Technology



# 4. Business Overview :Global Smartphone Strategy

Released "Lindle", it automatically generates, manages, tracks deep links across apps and websites



# 4. Business Overview :Global Smartphone Strategy

Whether it is a website or an app,  
conversion is carried out following the shortest route!



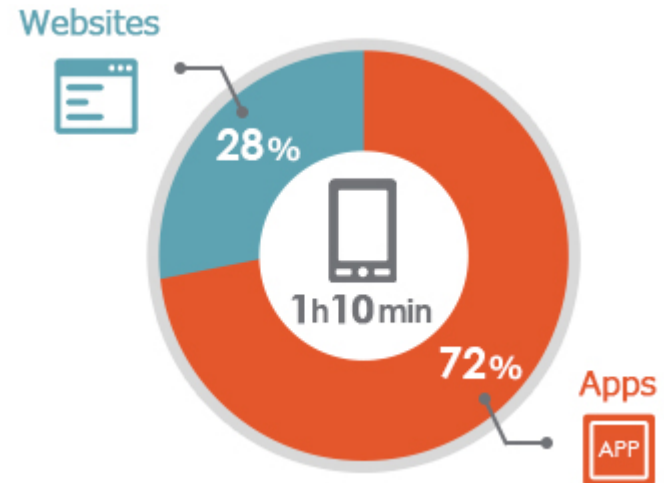
**Improved conversion rate!**

# 4. Business Overview :Global Smartphone Strategy

**Demand for deep linking technology will increase in future for non-game apps. (Ecommerce, real estate, restaurants, etc.)**



## Website and app usage on smartphones



Reference: Nielsen Mobile Netview October 2014

# 4. Business Overview :Global Smartphone Strategy

Efforts have begun towards video ad market expansion in future

## Domestic



We have invested into VAZ Inc. VAZ is a short video production agency that collaborates with famous short video creators in SNS such as Twitter, MixChannel, Vine etc.

## Overseas



We have invested into Capsule Inc., which runs "SHIRYOUKO STUDIO," Taiwan's first interactive gaming studio open to the public.

Japan video ad market predictions



Reference: CyberAgent (online video institute research) / Seed Planning October 21, 2014 "Domestic video ads market survey"



# 4. Business Overview : Global Smartphone Strategy

Utilize external resources aggressively, and improve the development of new technology and alliances

2Q FY2015 (Apr-Dec 2015)

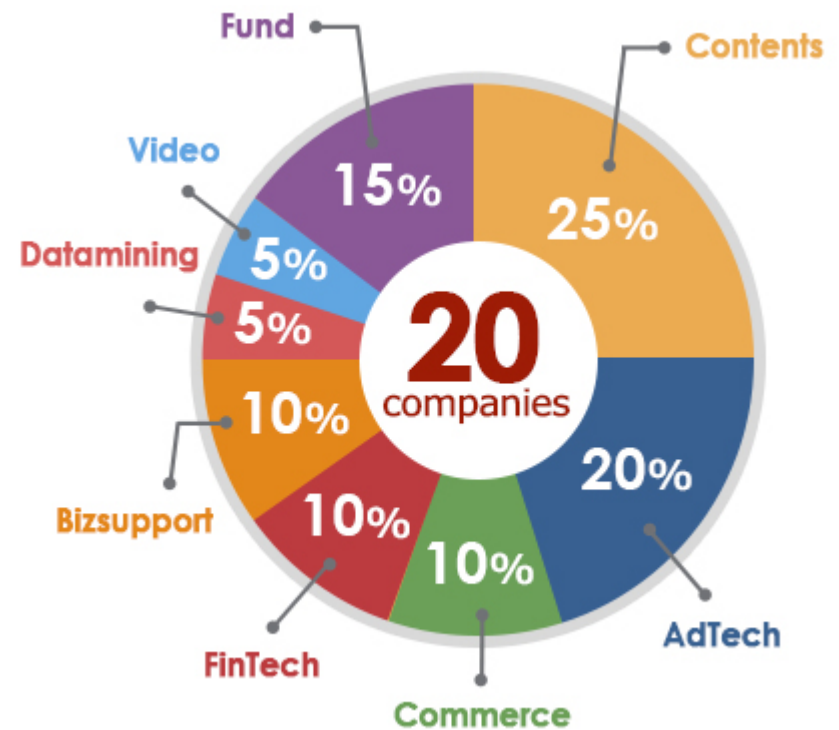
Invested Amount ..... **¥500mn**

Number of companies ..... **20**

Invested Companies (selected)



(Division according to the invested business)



(Number of companies ratio)

# 4. Business Overview :Global Commerce Strategy

## Adways Global commerce Services

Ecommerce data business



Global Ecommerce business



The World's Ecommerce market in 2018  
**ALMOST DOUBLE!**

**¥157** trillion (2014) → **¥298** trillion (2018)

Reference: eMarketer forecast, 2014.12  
"Retail Sales Worldwide Will Top \$22Trillion This Year"

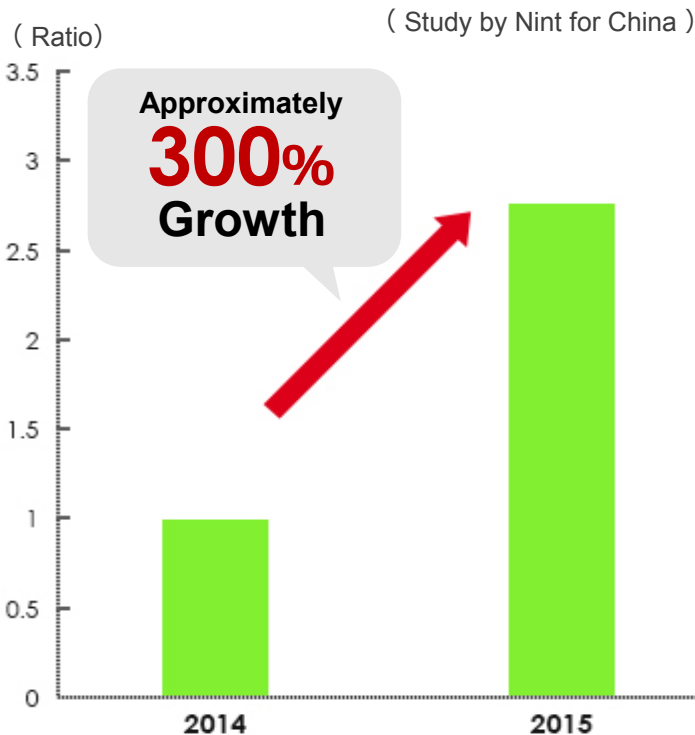


# 4. Business Overview

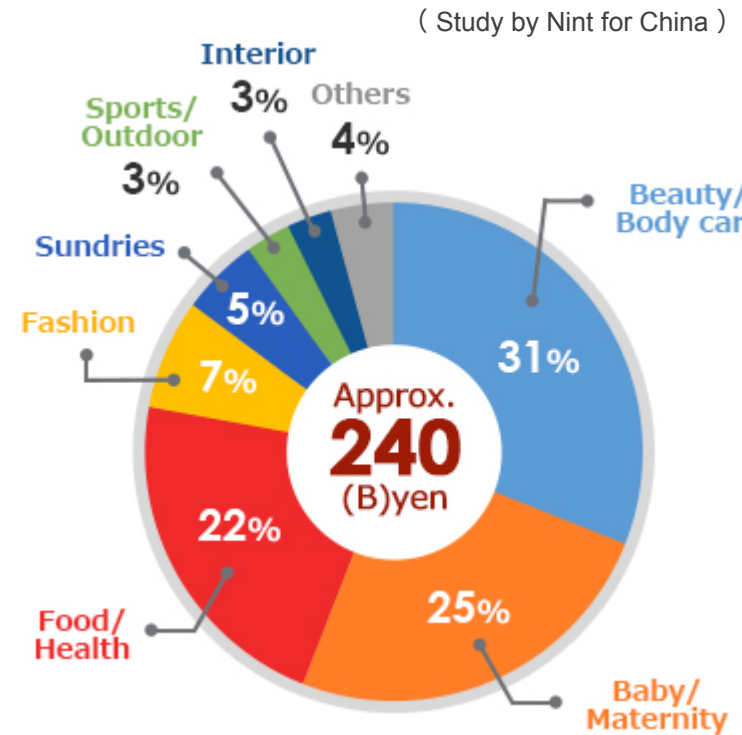
:Global Commerce Strategy  
(Ecommerce data business)

“Nint for China” generated a report on “Singles Day” (Nov 11) in China, the day sells ¥1.8 trillion of merchandise.

"Tmall Global" transaction volume in Singles day 2015



Sales by Category in Singles day 2015



"Tmall Global": "Tmall" which is run by the Alibaba group, has an Ecommerce mall which transcends borders and where overseas businesses can sell their merchandise.

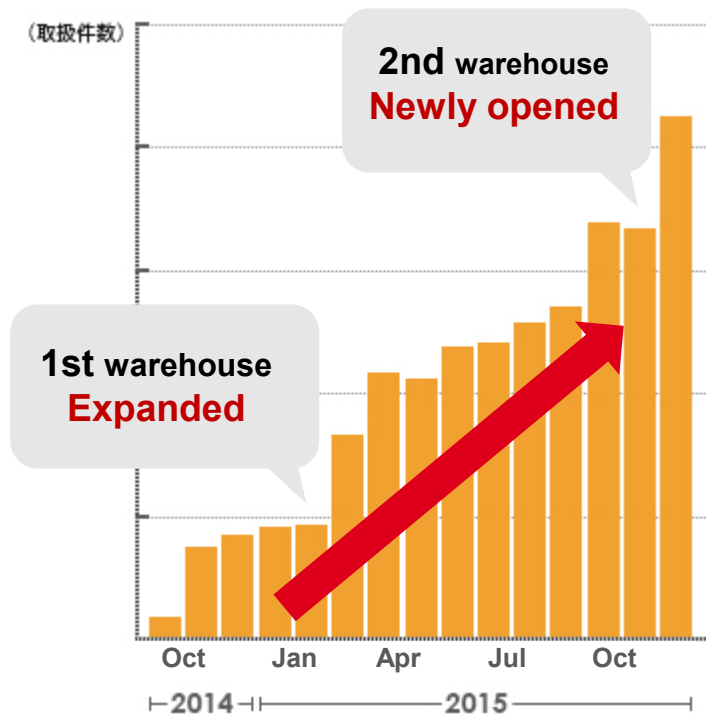
\*Calculated using 1RMB=¥20

\*2 The above values are estimated values calculated by Nint for China.

# 4. Business Overview

:Global Commerce Strategy  
(Global Ecommerce business)

**Global Ecommerce business keeps growing.**  
We opened a **2nd warehouse** to meet the increase in deliveries.



Japanese Ecommerce market generated by Chinese customers.

¥1.4(trillion)

2018  
( assumption )

¥606(billion)

2014

2.3x

Reference: Ministry of Economy, Trade and Industry May 2015

The 2014 report on the infrastructure development to facilitate the computerization and service orientation of our country's economic society (market study on electronic commercial transactions)

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**OMG, This is Amazing**

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

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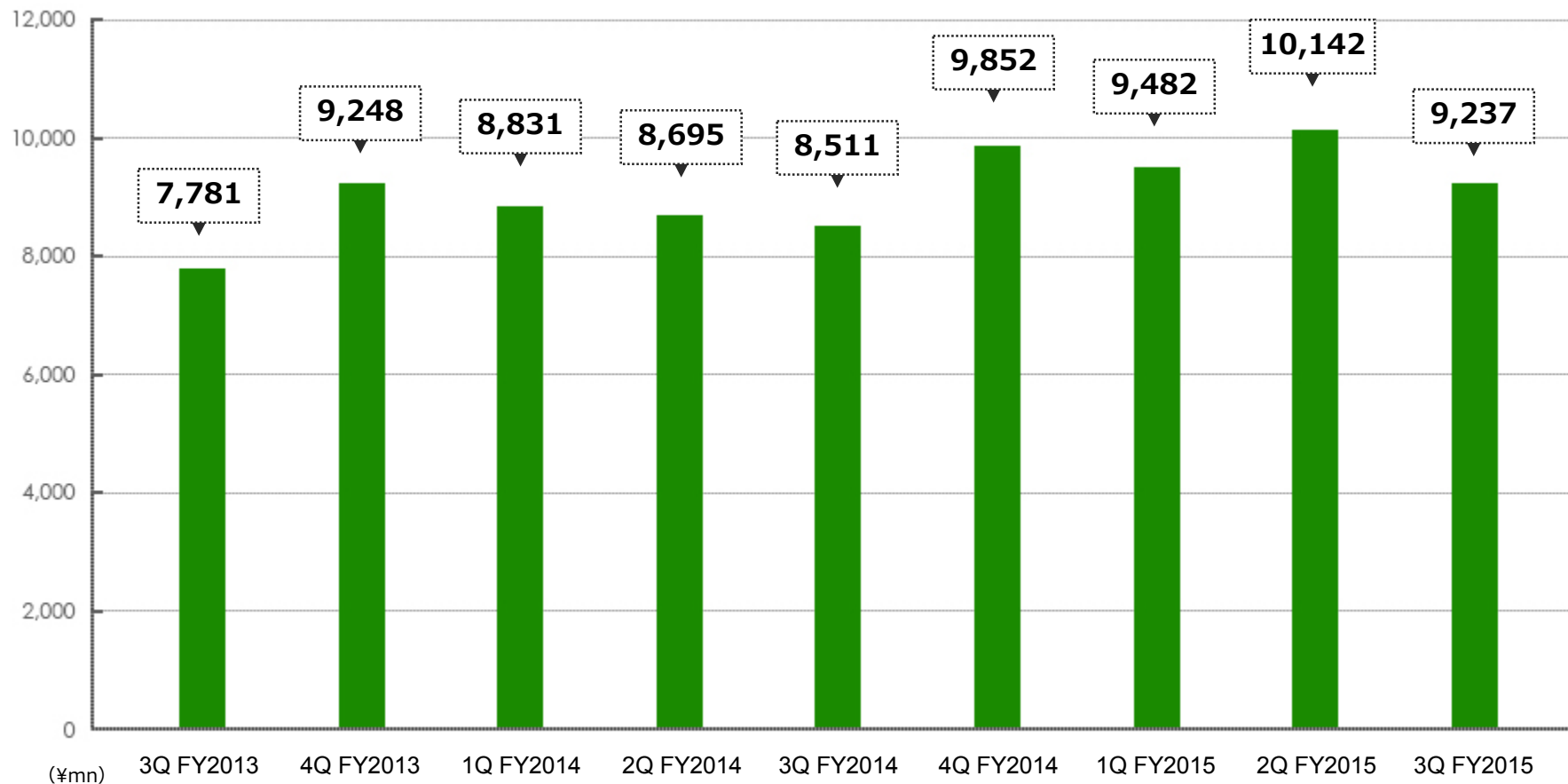
**Information provided in this presentation contains forward-looking statements including Adways Inc.'s current plans, outlook, estimates and forecast related to its business and industry trends. Such statements are inevitably subject to certain risks and uncertainties. Actual results may differ from 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 February 3, 2016 and a variety of factors may cause the statements to differ from actual results.**



# 5. Supplementary Materials

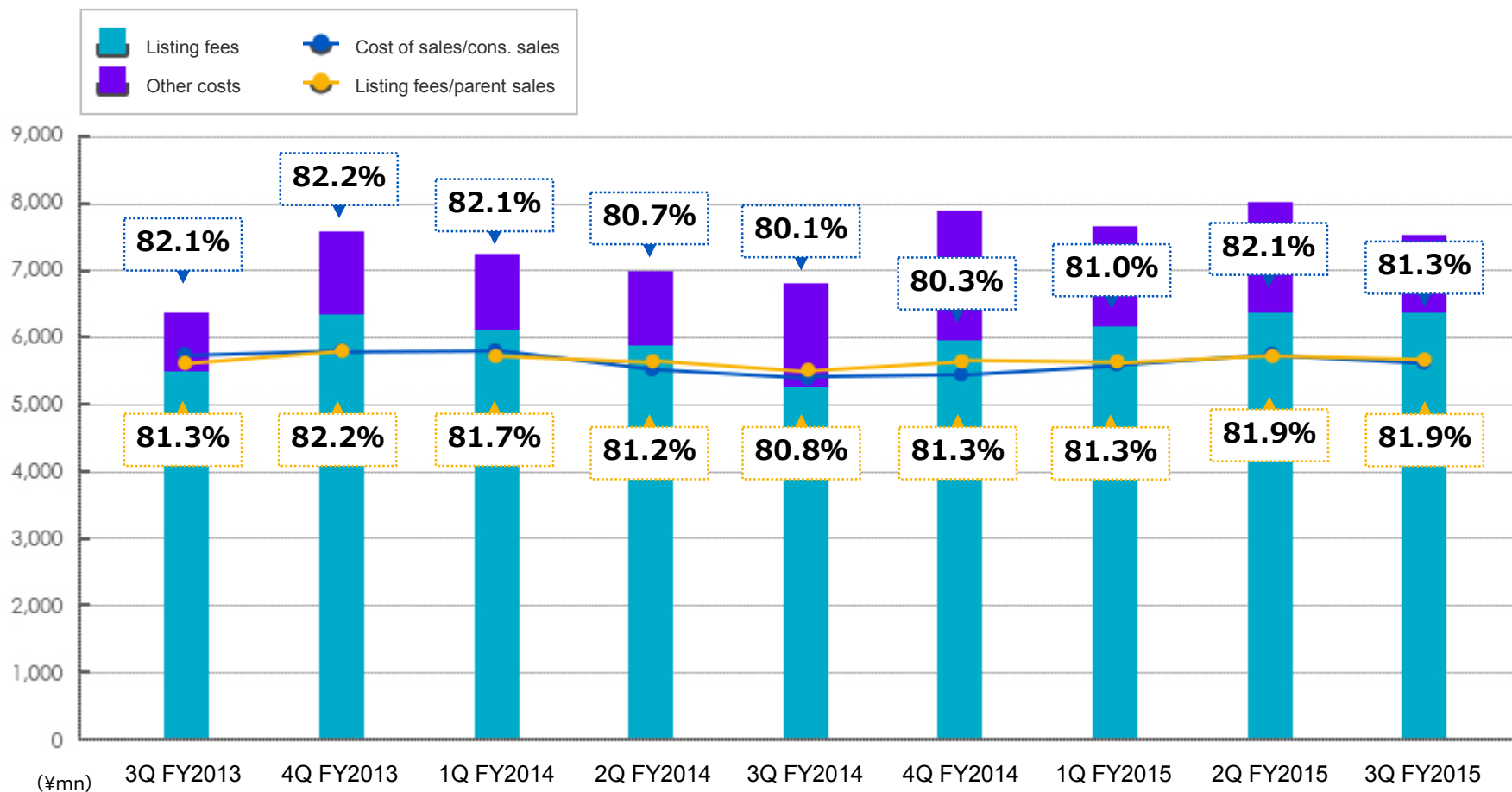
# 5. Supplementary Materials

## Consolidated sales (Quarterly)



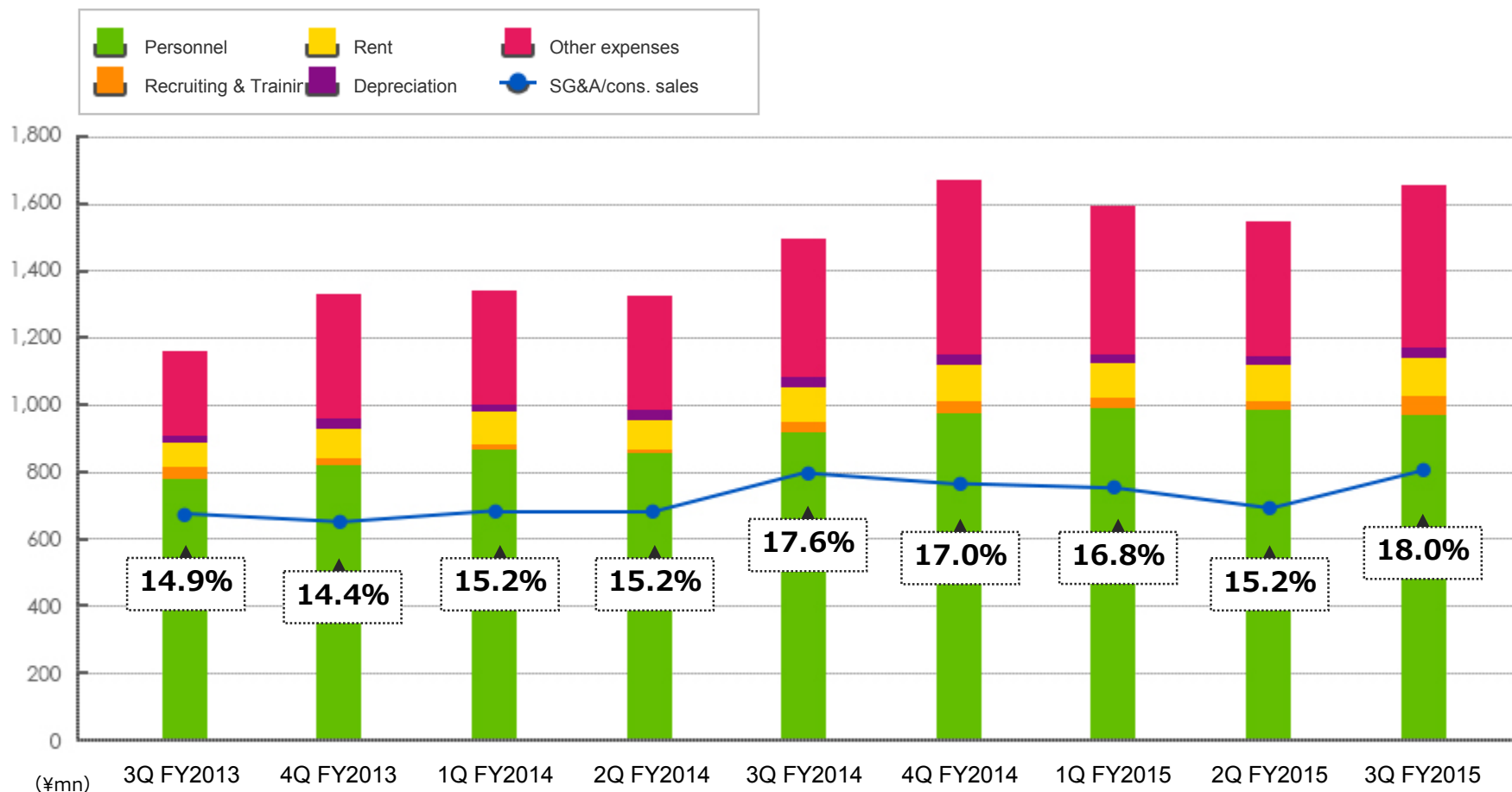
# 5. Supplementary Materials

## Consolidated Cost of Sales (Quarterly)



# 5. Supplementary Materials

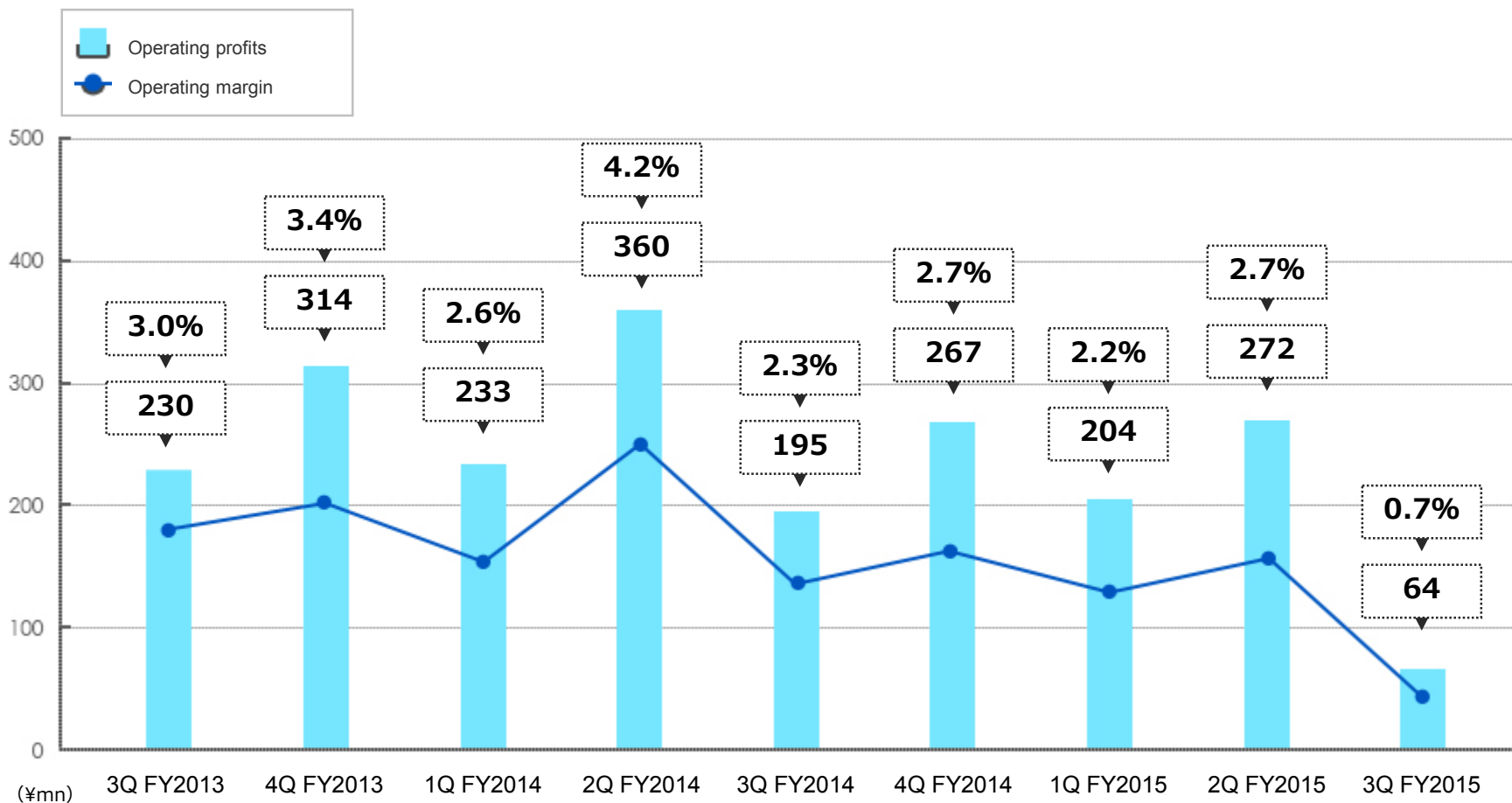
## Consolidated SG&A Expenses (Quarterly)





# 5. Supplementary Materials

## Consolidated Operating Profit (Quarterly)



# 5. Supplementary Materials

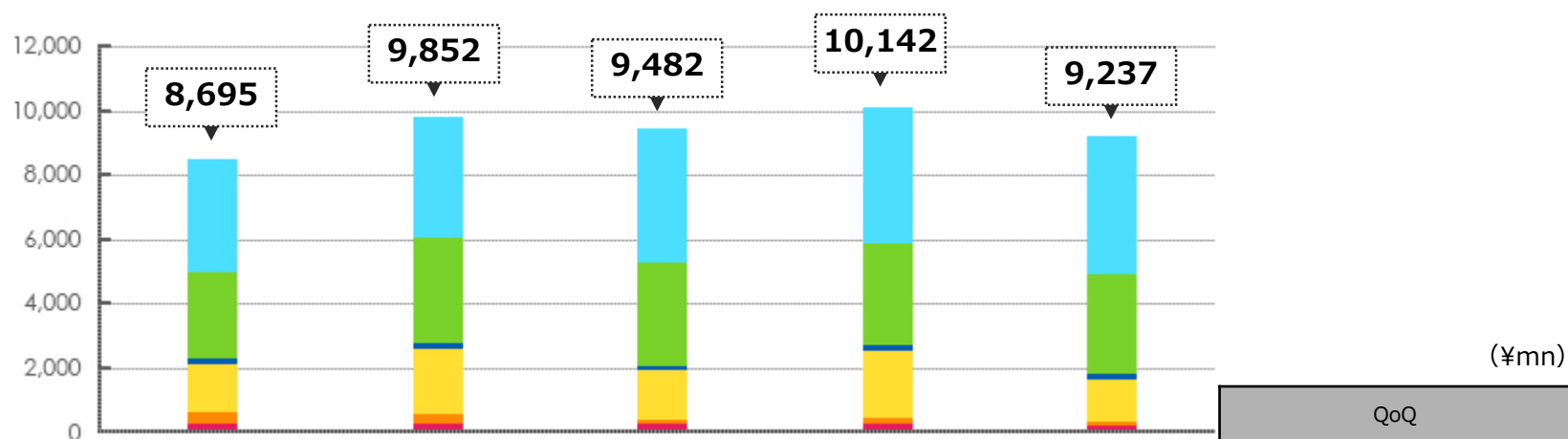
## Consolidated Balance Sheet (QoQ)

(¥mn)

	3Q FY2015	2Q FY2015	Change (¥mn)	Change (%)
Current Assets	17,204	17,903	- 698	- 3.9%
(Cash and Deposits)	11,289	11,493	- 204	- 1.8%
Fixed Assets	2,336	2,221	+ 114	+ 5.2%
Total Assets	19,541	20,124	- 583	- 2.9%
Current Liabilities	6,440	6,876	- 435	- 6.3%
Fixed Liabilities	113	97	+ 16	+ 16.7%
Total Liabilities	6,553	6,973	- 419	- 6.0%
Net Assets	12,987	13,151	- 164	- 1.3%

# 5. Supplementary Materials

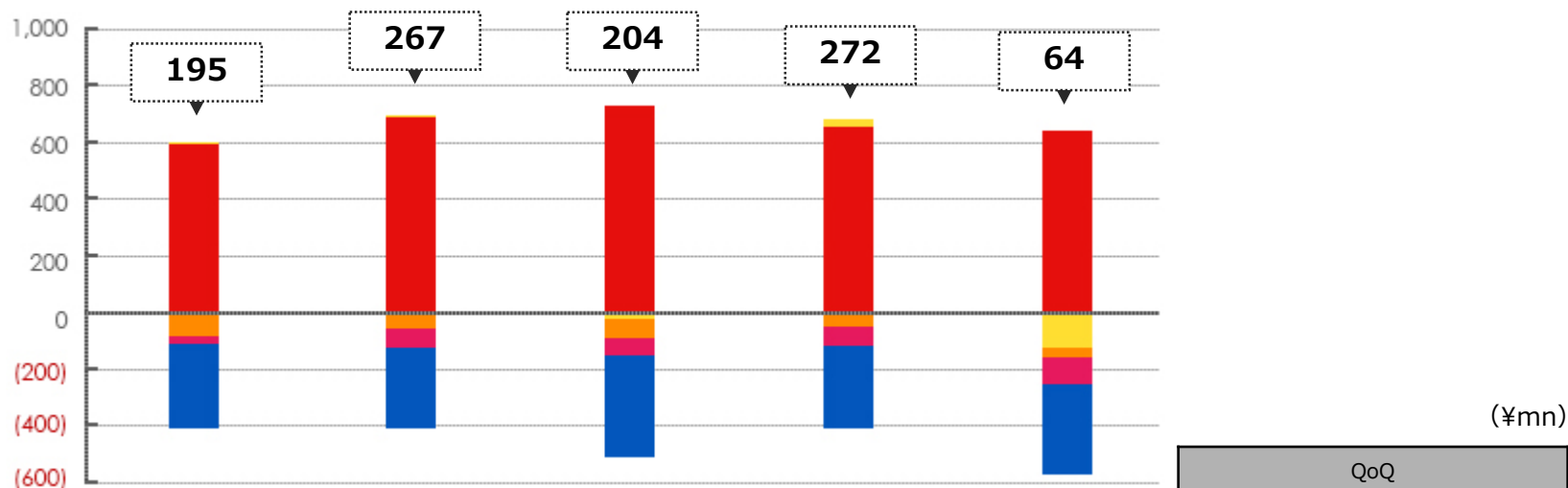
## Breakdown of Consolidated Sales by Segment (Quarterly)



	3Q FY2014	4Q FY2014	1Q FY2015	2Q FY2015	3Q FY2015	QoQ	
						Change(¥mn)	Change (%)
Smartphone	3,472	3,807	4,250	4,262	4,304	+41	+1.0%
PC	2,770	3,352	3,229	3,250	3,192	-58	-1.8%
Feature phone	164	140	113	122	139	+16	+13.1%
Overseas Advertising	1,495	1,985	1,582	2,163	1,318	-845	-39.1%
App	399	389	125	206	156	-50	-24.5%
Media, Other	209	176	180	136	128	-8	-5.9%
<b>Total</b>	<b>8,511</b>	<b>9,852</b>	<b>9,482</b>	<b>10,142</b>	<b>9,237</b>	<b>-905</b>	<b>-8.9%</b>

# 5. Supplementary Materials

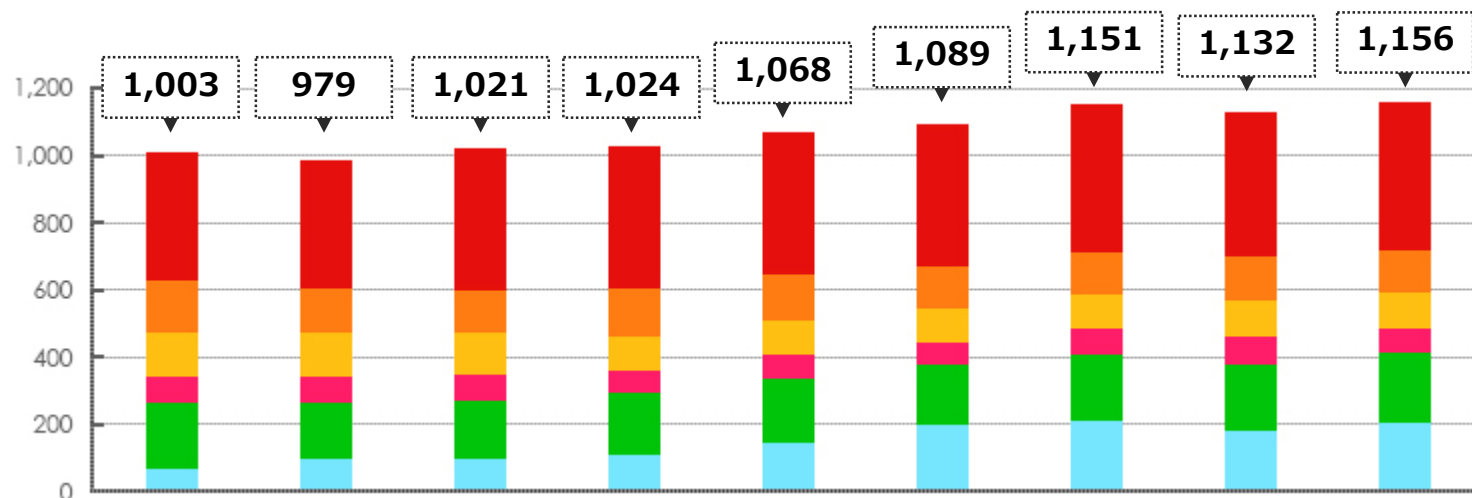
## Breakdown of Consolidated Operating Profit by Segment (Quarterly)



	3Q FY2014	4Q FY2014	1Q FY2015	2Q FY2015	3Q FY2015	QoQ	
						Change(¥mn)	Change (%)
<span style="color: red;">■</span> Advertising	597	686	725	654	663	+8	+1.3%
<span style="color: yellow;">■</span> Overseas Advertising	9	-6	-22	34	-133	-167	-
<span style="color: orange;">■</span> App	-85	-63	-70	-50	-55	-5	-
<span style="color: pink;">■</span> Media, Other	-32	-69	-69	-73	-96	-22	-
<span style="color: blue;">■</span> Eliminations & corporate	-294	-280	-357	-293	-313	-20	-
<b>Total</b>	<b>195</b>	<b>267</b>	<b>204</b>	<b>272</b>	<b>64</b>	<b>-207</b>	<b>-76.1%</b>

# 5. Supplementary Materials

## Group Employees (Quarterly)



(Persons)	3Q FY2013	4Q FY2013	1Q FY2014	2Q FY2014	3Q FY2014	4Q FY2014	1Q FY2015	2Q FY2015	3Q FY2015
ADW Japan	377	380	425	429	425	421	443	430	439
ADW China	150	132	127	135	139	132	125	130	126
ADW Shanghai (R&D center)	132	131	122	108	105	101	100	107	108
Domestic subs	78	73	77	64	60	59	80	79	73
Overseas subs(except China)	201	169	176	187	204	188	201	206	206
Temps, part-timers	65	94	94	101	135	188	202	180	204
<b>Total</b>	<b>1,003</b>	<b>979</b>	<b>1,021</b>	<b>1,024</b>	<b>1,068</b>	<b>1,089</b>	<b>1,151</b>	<b>1,132</b>	<b>1,156</b>

# 5. Supplementary Materials

## Company Overview

Company name Adways Inc.

Founded February 28, 2001

Business overview Internet business

President & CEO Haruhisa Okamura

Capital ¥1,605mn (As of end of December 2015)

Net Sales ¥ 35,890mn (FY2014, Consolidated)

Employees 1,156 including temp workers (As of end of December 2015)