

# ADWAYS

PRESENTATION  
MATERIAL

# Feb. 2020

FEBRUARY 4th, 2020

# 3Q

# THIRD QUARTER

**February 4, 2020 ADWAYS INC.**  
Financial Results Presentation for FY2019 Q3  
Founder and CEO, Haruhisa Okamura

TOKYO STOCK  
EXCHANGE MOTHERS  
STOCK CODE: 2489

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# 1. FY2019 Q3 Performance

Chapter1 : **Third quarter results**

# Cumulative Quarterly Results (YoY)

(JPY mn)

	FY2019 Q3 cumulative	YoY (FY2018 Q3 cumulative)		
		Result	Change	Change (%)
Net sales	27,149	32,526	-5,377	-16.5%
Gross profit	4,649	5,553	-903	-16.3%
SG&A expenses	4,650	4,865	-214	-4.4%
Operating profit	-1	687	-689	—
Ordinary profit	141	674	-532	-79.0%
Profit attributable to owners of parent	-144	392	-536	—

**Net  
sales**

Decreased

**JPY -5,377 mn** (-16.5%)

**Operating  
profit**

Decreased

**JPY -689 mn** (-)

# Quarterly Results (YoY, QoQ)

(JPY mn)

	FY2019 Q3	YoY FY2018 Q3			QoQ FY2019 Q2		
		Result	Change	Change (%)	Result	Change	Change (%)
Net sales	9,125	10,038	-912	-9.1%	8,997	+128	+1.4%
Gross profit	1,680	1,632	+47	+2.9%	1,515	+165	+10.9%
SG&A expenses	1,576	1,511	+64	+4.3%	1,510	+65	+4.4%
Operating profit	103	121	-17	-14.4%	4	+99	—
Ordinary profit	163	149	+14	-9.5%	54	+108	+200.9%
Profit attributable to owners of parent	83	130	-47	-36.1%	39	+ 44	+112.4%

**Net sales**    Decreased    **JPY 912 mn YoY**    (-9.1%)  
                  Increased    **JPY 128 mn QoQ**    (+1.4%)

**Operating profit**    Decreased    **JPY 17 mn YoY**    (-14.4%)  
                  Increased    **JPY 99 mn QoQ**    (-)

# Q3 Net Sales/Operating Profit Factors

[Net Sales QoQ (by segment)]

	This quarter (FY2019 Q3)	Previous quarter (FY2019 Q2)	Change
Smartphone	4,765	4,396	+369
PC	3,379	3,670	-291
Overseas	704	624	+79
Total	8,849	8,692	+157

[Operating Profit QoQ (by segment)]

	This quarter (FY2019 Q3)	Previous quarter (FY2019 Q2)	Change
Smartphone	605	480	+124
PC			
Overseas	-79	-100	+20
Total	525	380	+144

(JPY mn)

## [Main factors]

### **Smartphone** [Net sales: JPY 369 mn increase]

The increase was due to UNICORN growth as well as a big campaign from U.S. games client and mobile payment app client in Japan.

### **PC** [Net sales: JPY 291 mn decrease]

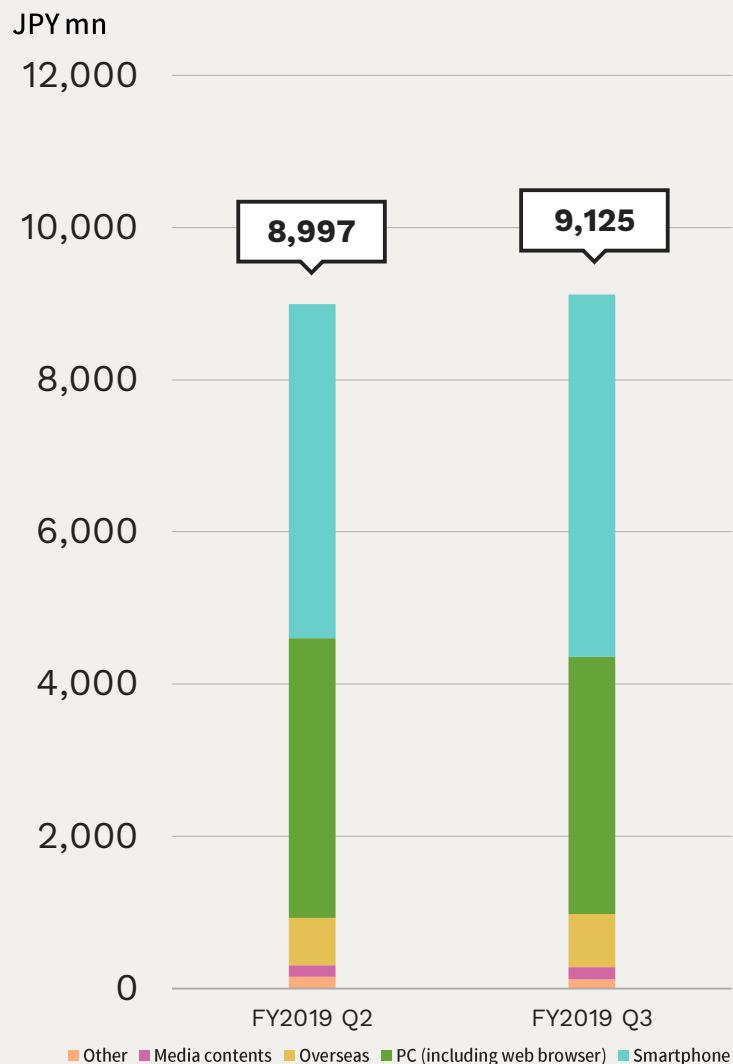
Finance: Budget shrank after a strong Q2 from credit card campaigns projecting demand for cashless return of consumption tax did not continue as much in Q3.

EC: Subscription campaigns were strong, but health foods and cosmetics campaigns declined due to stricter ad regulations.

### **Overseas** [Net sales: JPY 79 mn increase]

Sales and operating profit increased due to increases in Japan campaigns by Chinese clients and Brand clients.

# Net Sales (QoQ Change)



**Domestic Advertising . . . JPY 8,145 mn**

**QoQ: JPY +78mn (+1.0%)**

**Smartphone . . . . . JPY 4,765 mn**

(mainly app advertising)

**QoQ: JPY 369 mn (+8.4%)**

The increase was due to UNICORN growth as well as a big campaign from U.S. games client and mobile payment app client in Japan.

**PC . . . . . JPY 3,379 mn**

(PC web advertising and smartphone web advertising)

**QoQ: JPY -291 mn (-7.9%)**

[Finance]

Budget shrank after a strong Q2 from credit card campaigns projecting demand for cashless return of consumption tax did not continue as much in Q3.

[EC]

Subscription campaigns were strong, but health foods and cosmetics campaigns declined due to stricter ad regulations.

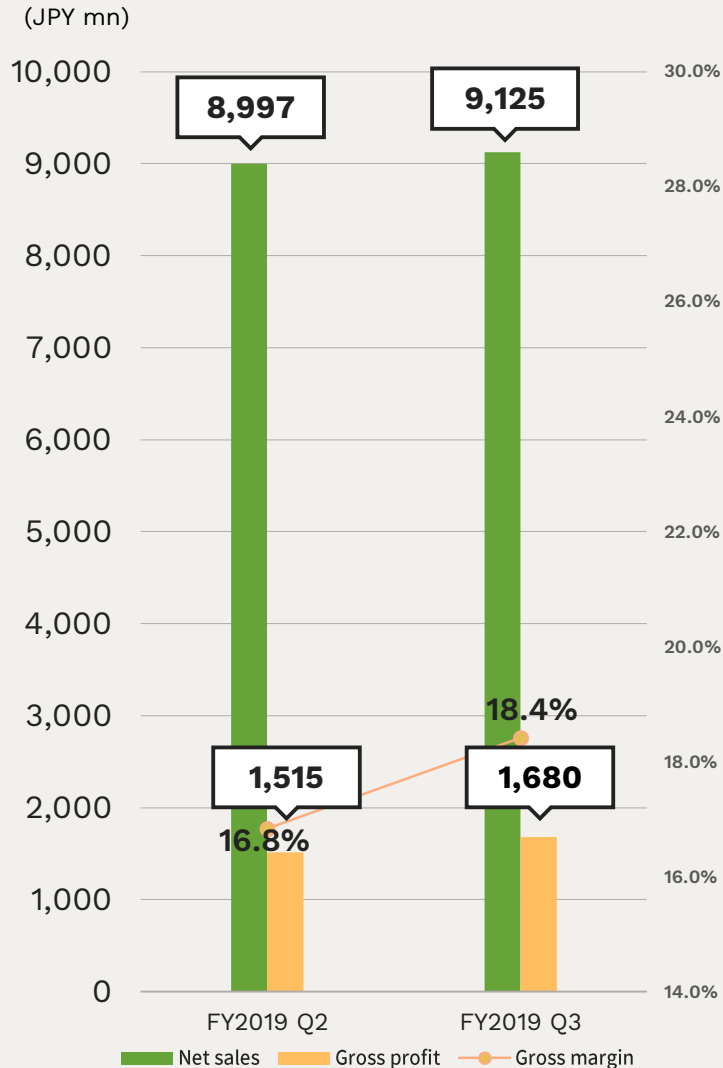
**Overseas . . . . . JPY 704 mn**

**QoQ: JPY +79 mn (+12.7%)**

Sales and operating profit increased due to increases in Japan campaigns by Chinese clients and Brand clients.

\* The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2019 Q3 (July – September) figures are consolidated with the Adways Group's FY2019 Q3 (October – December) figures.

# Gross Profit (QoQ Change)



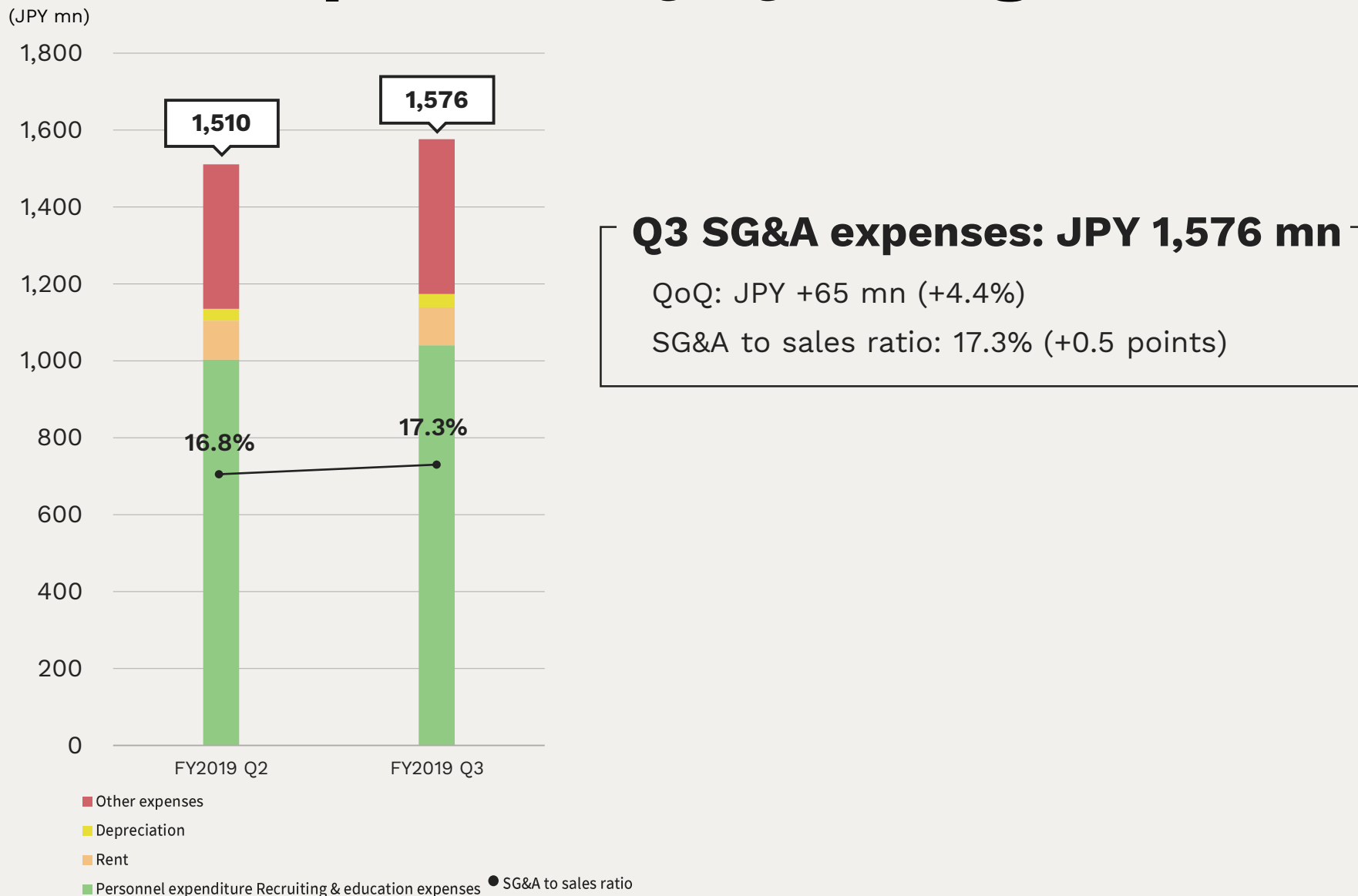
**Q3 Gross profit: JPY 1,680 mn**

QoQ: JPY +165 mn (+10.9 %)

Gross margin: 18.4 % (+1.6 points)

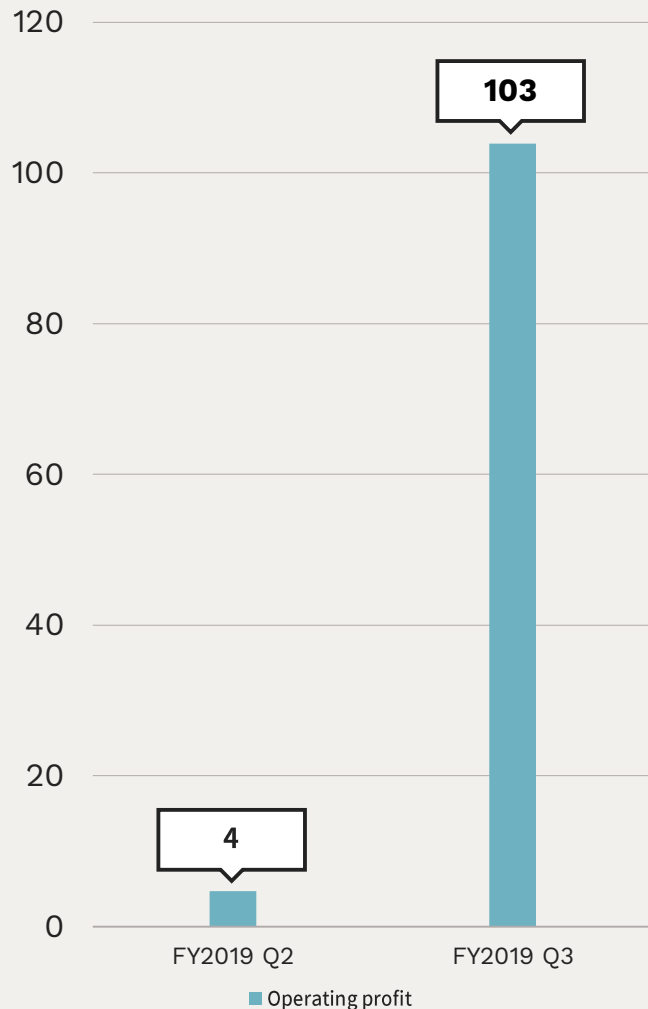


# SG&A Expenses (QoQ Change)



# Operating Profit (QoQ Change)

(JPY mn)



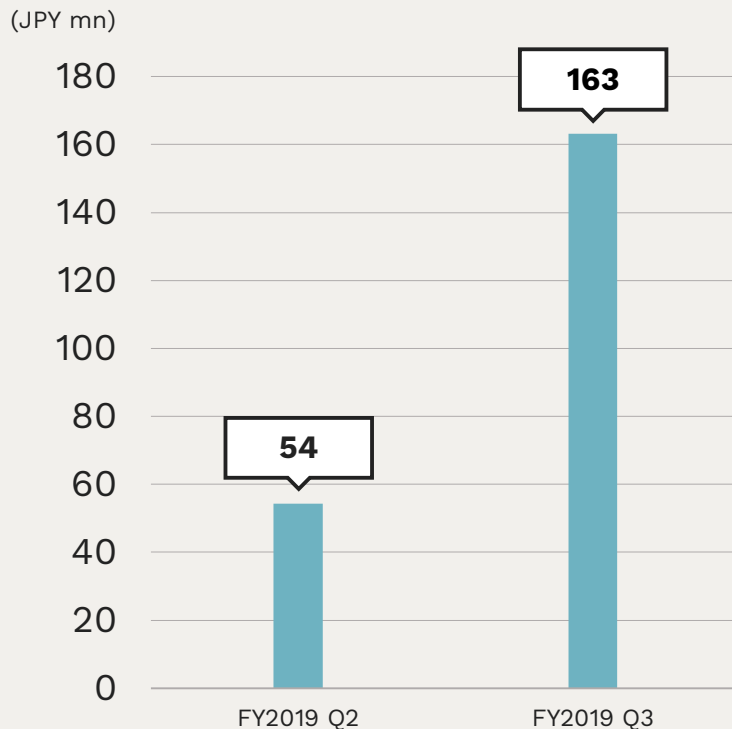
**Q3 Operating profit: JPY 103 mn**

QoQ: JPY +99 mn ( - )

- Increased due to increase in gross profit

\* Change is not indicated as it exceeded 1,000%.

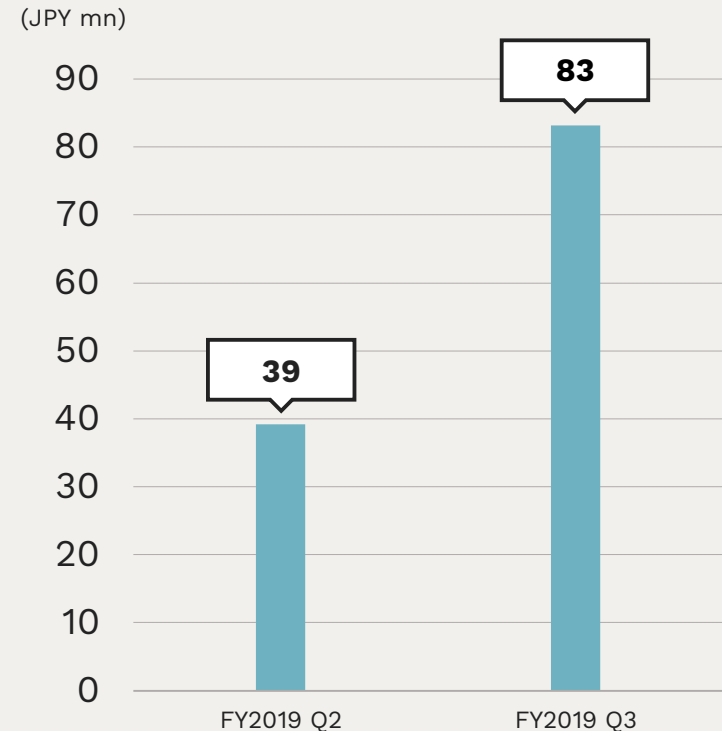
## Ordinary Profit (QoQ Change)



**Q3 Ordinary profit: JPY 163mn**

QoQ: JPY +108 mn ( +200.9% )

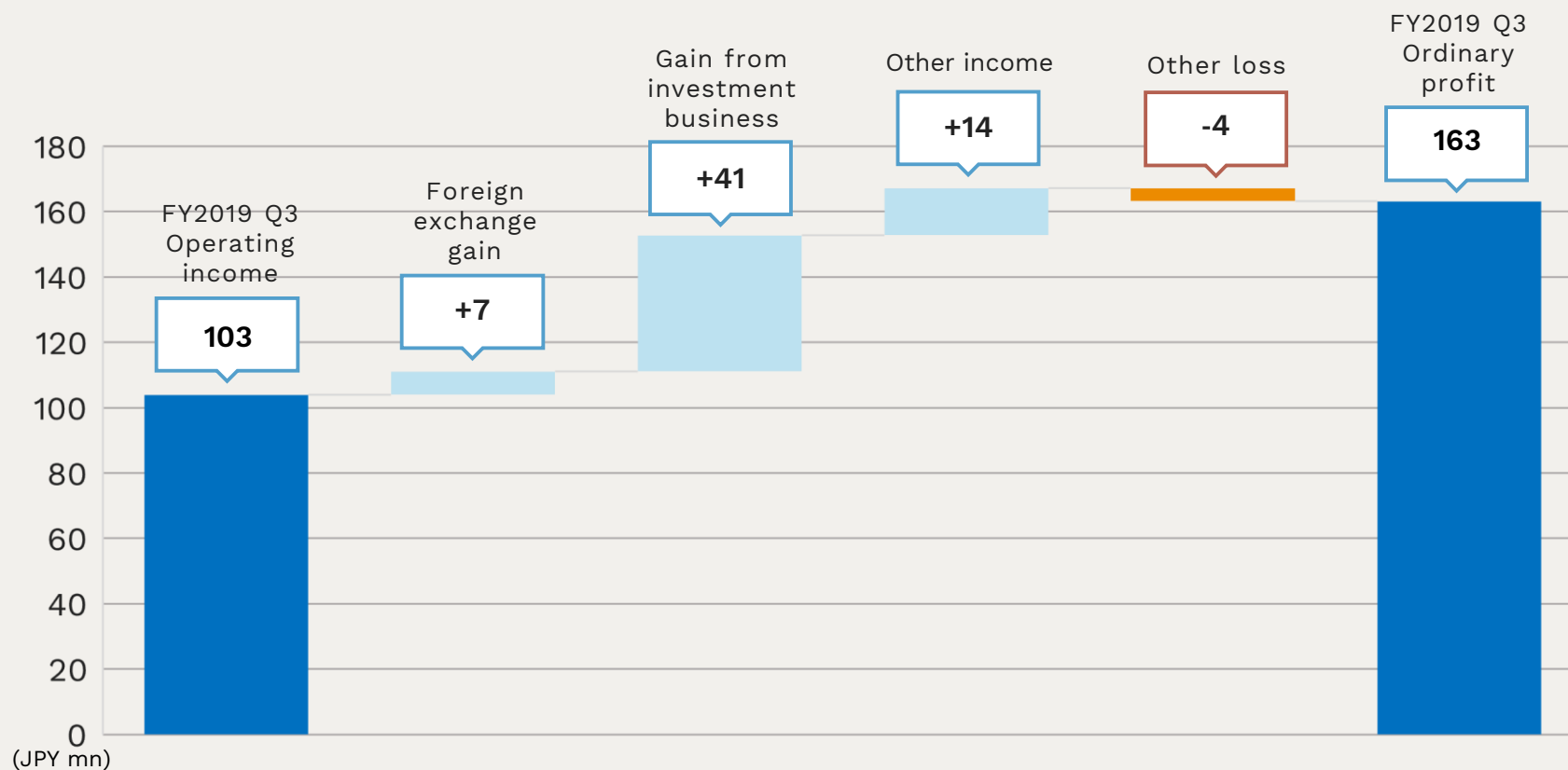
## Profit Attributable to Owners of Parent (QoQ Change)



**Q3 Profit attributable to owners of parent : JPY 83 mn**

QoQ: JPY +44 mn ( +112.4% )

# Breakdown of FY2019 Q3 Ordinary Profit



**Foreign exchange gain**

• • • • JPY +7 mn

**Gain from investment business**

• • • • JPY +41 mn

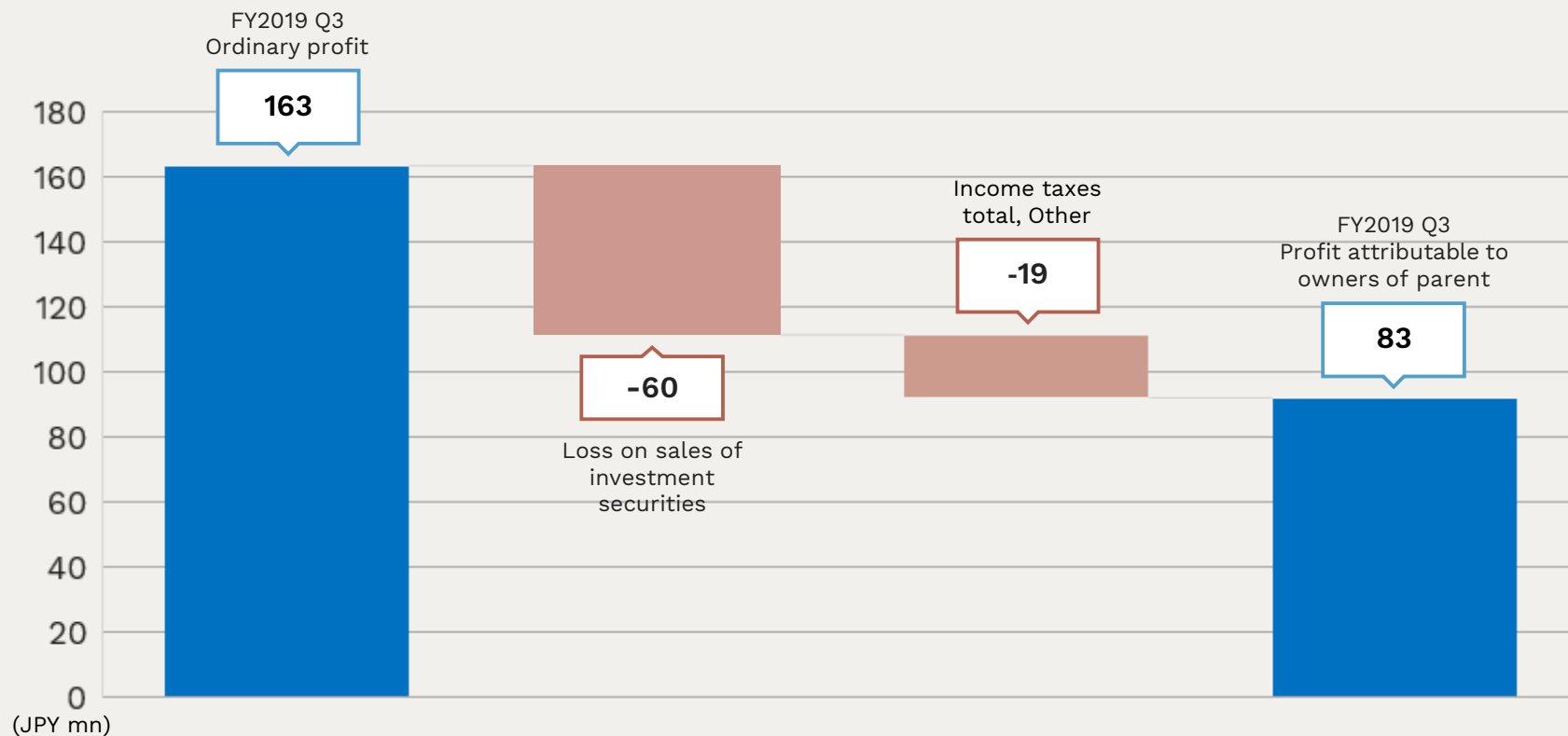
**Other income**

• • • • JPY +14 mn

**Other loss**

• • • • JPY -4 mn

# Breakdown of Q3 FY2019 Profit Attributable to Owners of Parent



**Loss on sales of investment securities**

**Income taxes total, Other**

- • • JPY -60 mn: No. of individual stocks (9 companies)
- • • JPY-19 mn: Including JPY-4mn corporate tax for head office

# FY2019 Consolidated Performance Forecast Values (April 1, 2019 – March 31, 2020)

(JPY mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Initial forecasts	38,000	200	230	30
Q3 Results	27,149	-1	141	-144
Progress rate	71.5%	—	61.7%	—

Initial forecasts are those announced in the Results Summary dated November 1, 2019.

# 2.

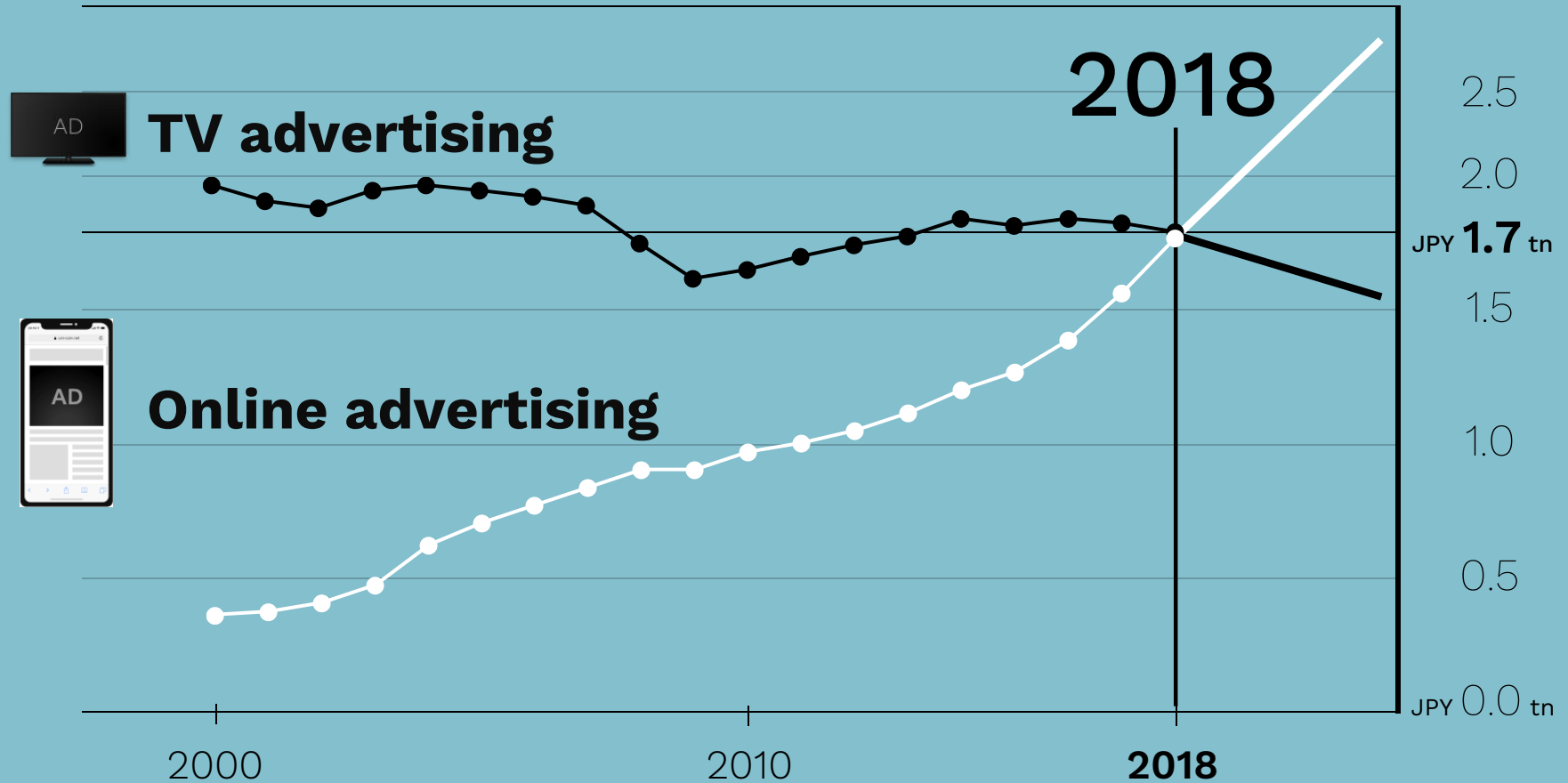
Chapter 2: **business overview**

# BUSINESS OVER VIEW

# Market Growth

second quarter

Source: 2019 ad spend by media type, published by Dentsu



**2019** Online advertising is likely to surpass TV advertising



# Why We are strengthening Branding Ads in Addition to Performance Ads

## Performance Ads

Experience and expertise in high-performance ad management using an industry-leading, fully-automated system focused on app clients

**Adways' area of expertise**

## Branding Ads

Realizing interactive creative ad formats which generates high user engagement and virtual experience on digital for users based on display, video, 3D and AR. Also, optimizing the campaign to meet the KPI based on real-time data.

**New area for expansion**



# Growth Acceleration Mainly in App Area

In order to further accelerate growth in app area.

## Capital and Business Alliance

With **Hakuhodo**  
**DY Media Partners**

Adways allocated 2,837,800 common shares to Hakuhodo DY Media Partners (6.82% of the 41,588,500 total shares issued by Adways as of September 30, 2019, or 7.32% of the 387,450 total voting rights).

# Purpose of Capital and Business Alliance

third quarter

We have entered into a capital and business alliance agreement aimed at improving corporate value by enhancing collaboration in the field of online advertising for brand advertisers, mainly in app marketing area.

## We offer our strengths to Hakuhodo DY Group's clients.

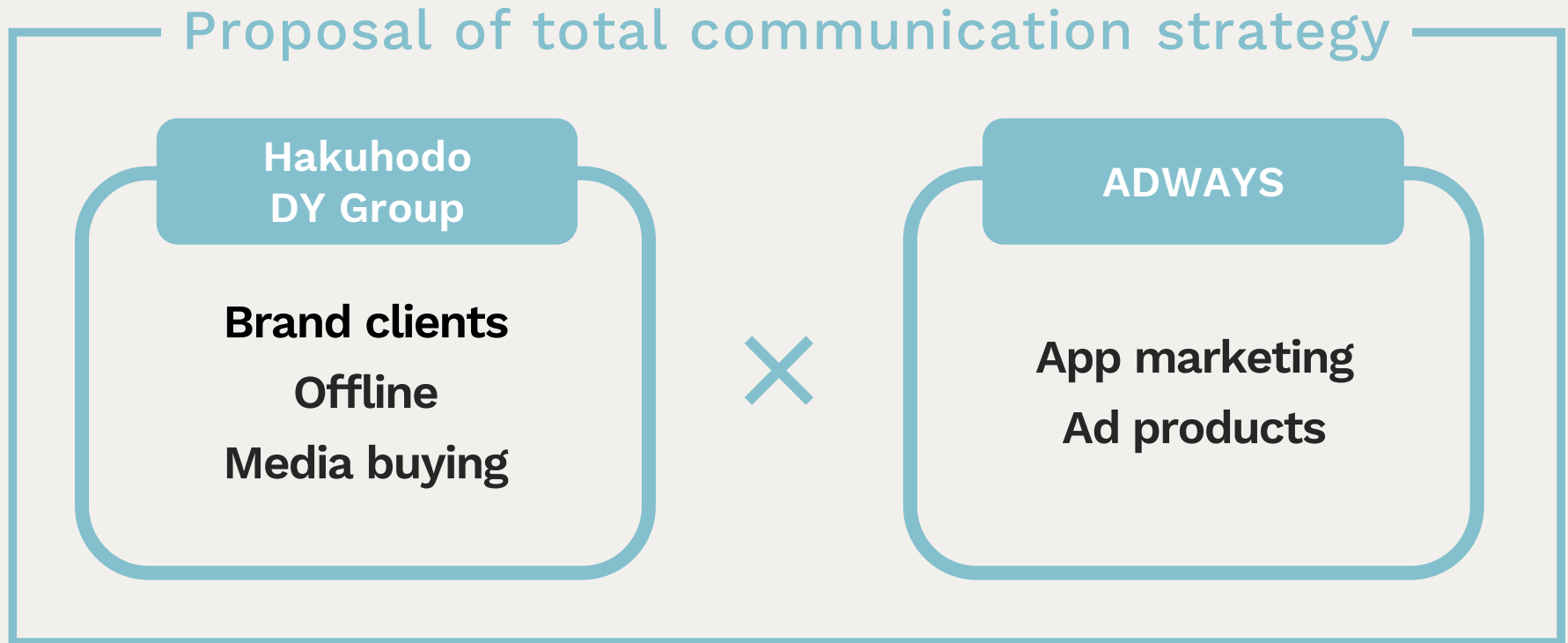
By jointly offering a high-level service, we increase our market share.



# Effects of Capital and Business Alliance

third quarter

## 1. Performance Area

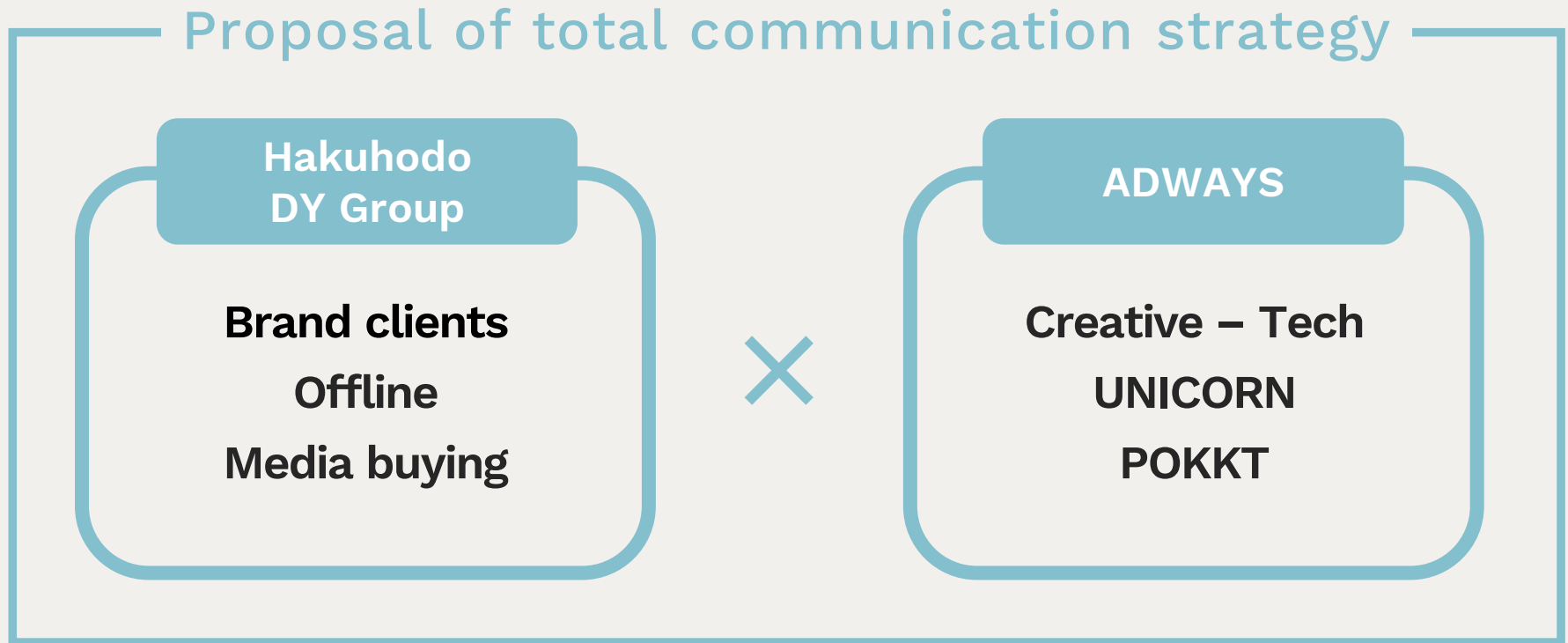


A joint team makes proposals mainly for app promotion, enabling multidisciplinary proposals encompassing the offline, online and performance expertise of both companies and delivering effective, high-value promotions to clients.

# Effects of Capital and Business Alliance

third quarter

## 2. Brand Area



Our offering of our proprietary services and POKKT, which Adways is exclusive sales representative, we provide high-market value technology with unique Creative-Tech to Hakuodo DY Group's brand clients. The latest alliance will enable deeper collaboration thus will help to accelerate the business.

# New Initiatives for Brand Advertisers

# Various Ad Types

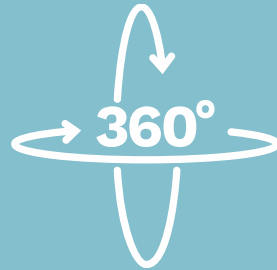
third quarter

## Interactive Ads



Ads that let users take actions such as tapping while watching and choosing the story, having a simulated experience of the content

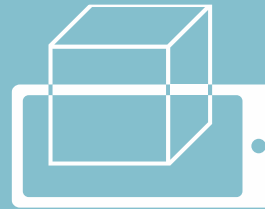
## 3D Ads



A whole new type of interactive ad that lets users rotate products 360°, zoom, change colors, etc.

## Launched

## AR Ads



Ads that use smartphone and tablet cameras to display 3D models of products in real life space when pointed at actual backgrounds

## New!

## Branded Mini-Game Ads



Creating customized branded games as ad creative and distribute the ad inside game app. Ads that let users play games within the ad placement

In contrast to conventional ads that tend to be one-way and which users passively watch, these ads can increase brand awareness and interest by offering a rich, user experience based on their interests.

# What Are AR Ads?

third quarter

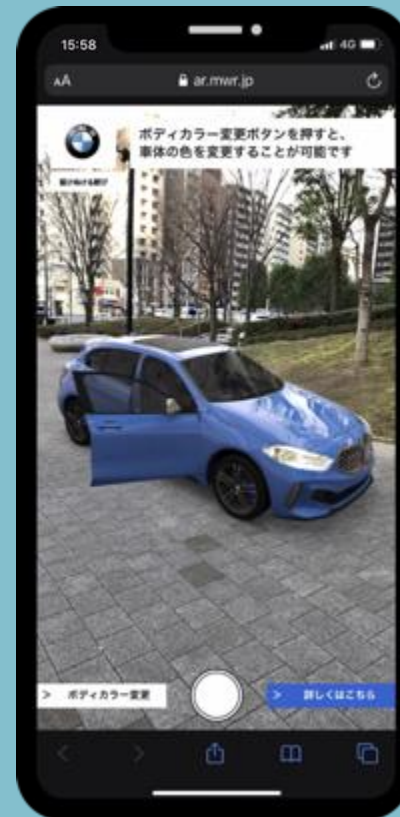
These are ads that use smartphone and tablet cameras to display 3D models of products in real living space when pointed at actual backgrounds.

By enabling users to visualize actual colors and dimensions before purchase, AR ads can provide a virtual owner experience, thus increasing buying desire.

Brand ads



Placed banner



AR video

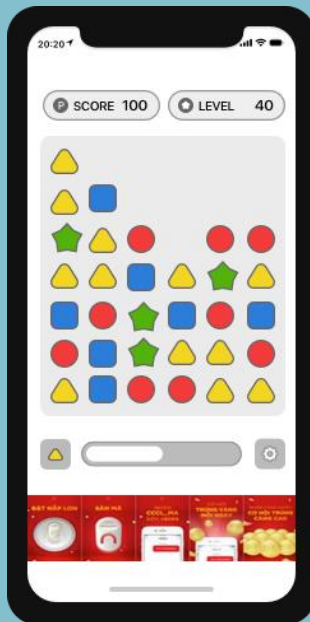


# What Are Branded Mini-Game Ads?

third quarter

Creating customized branded games as ad creative and distribute it inside game apps. Users can play the game inside the ad. These aim to increase not only brand recognition but also loyalty as they appeal to users through a game experience in a familiar ad placement.

Brand ads



Media



Game creative



Game completion screen

# Progress of UNICORN

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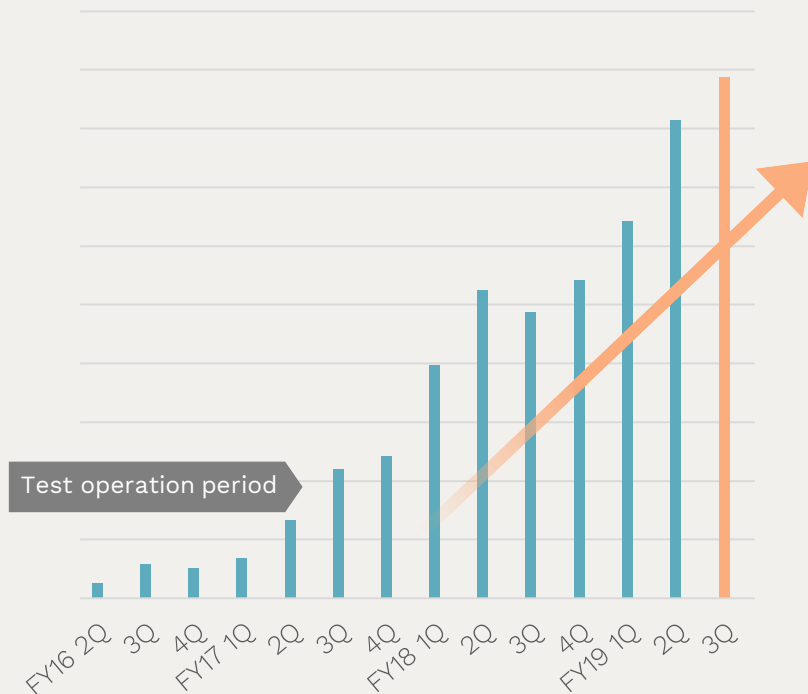
third quarter

## Update Progress of UNICORN

# Progress of UNICORN

third quarter

## UNICORN sales



**Continued growth in sales**

## ROAS\*<sub>1</sub> of users acquired through UNICORN



UNICORN

**Average 63%**

(December 2019 results)\*<sub>2</sub>

**Continuing to achieve high ROAS**

\*<sub>1</sub> ROAS (Return On Advertising Spend) is the rate of return gained against the advertisement expenses; it is the cost effectiveness of advertisements.

\*<sub>2</sub> Aggregate of top five campaigns.

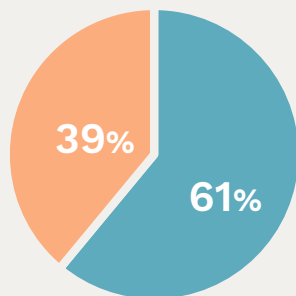
About UNICORN

# Progress of UNICORN

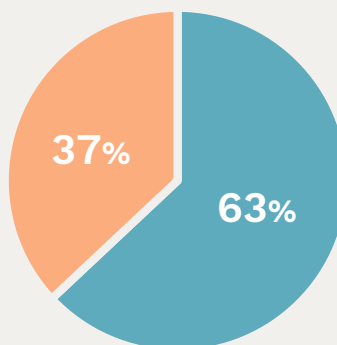
third quarter

## Sales to agencies

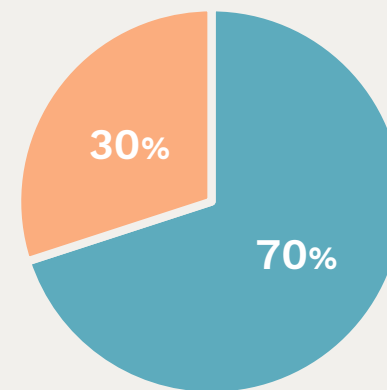
Q1 FY2019 results



Q2 FY2019 results



Q3 FY2019 results



Agencies/direct sales  
Adways

## Growth by working together with major agencies

CyberAgent.

CYBER

Digital Garage

D2CR

irep  
a cycle of success, with us

opt

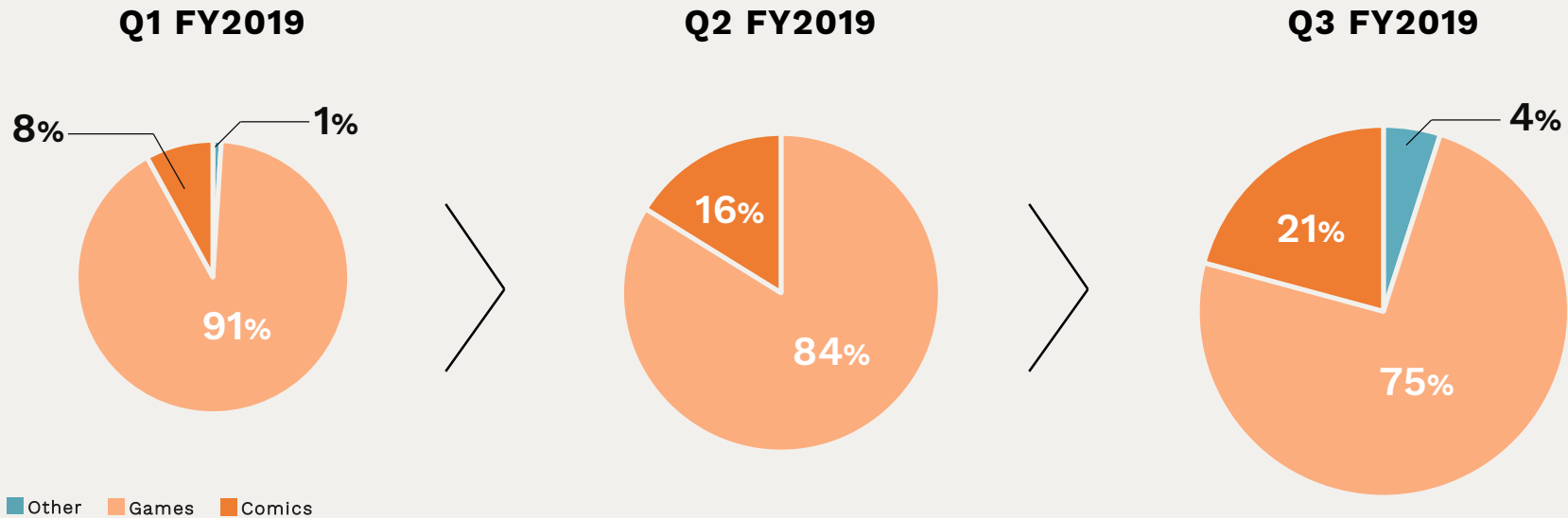
SEPTENI

\* In alphabetical order

About UNICORN


# Progress of UNICORN

third quarter



## New Campaign Category Growth

Our game and other domains are continuing to grow steadily and comic apps have grown to become another new key campaign category now representing over 20%.



# Beyond Everything Internet

インターネットの全てを越えていく

なにこれ  
すげー  
みんなのはじめて

---

OMG, This is Amazing

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

The 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 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 4, 2020 and a variety of factors may cause the statements to differ from actual results.

# SUPPLEMENTARY MATERIALS

# 3.

Chapter 3 : Supplementary materials



# Consolidated Trend of Sales

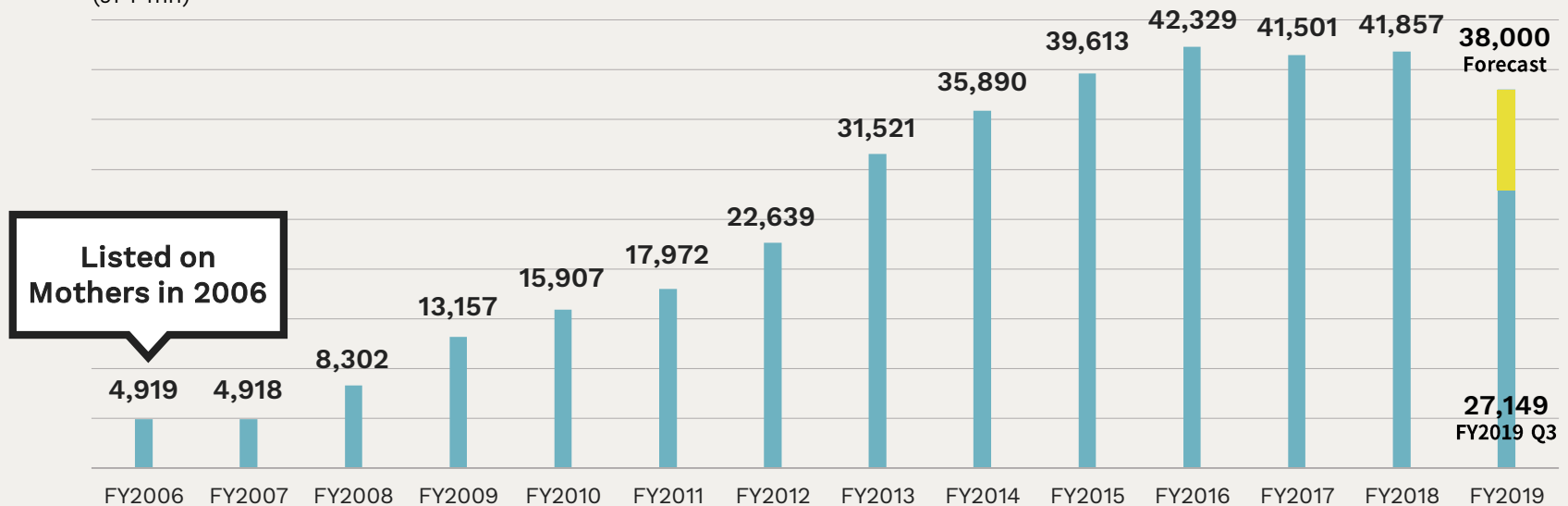
Focus on PC/feature  
phone affiliate business

Launch and expansion  
of smartphone  
advertising business

Focus on  
overseas  
business

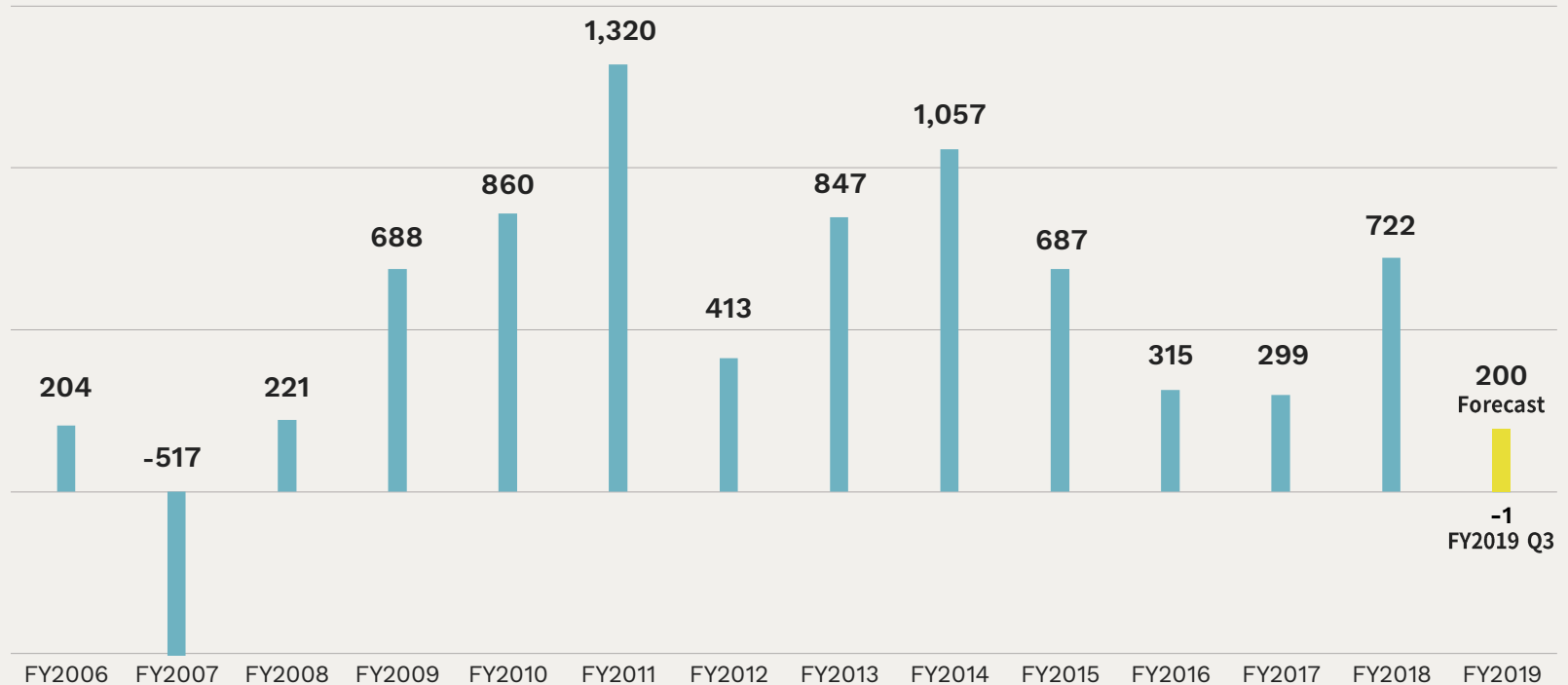
Focus on new  
products

(JPY mn)



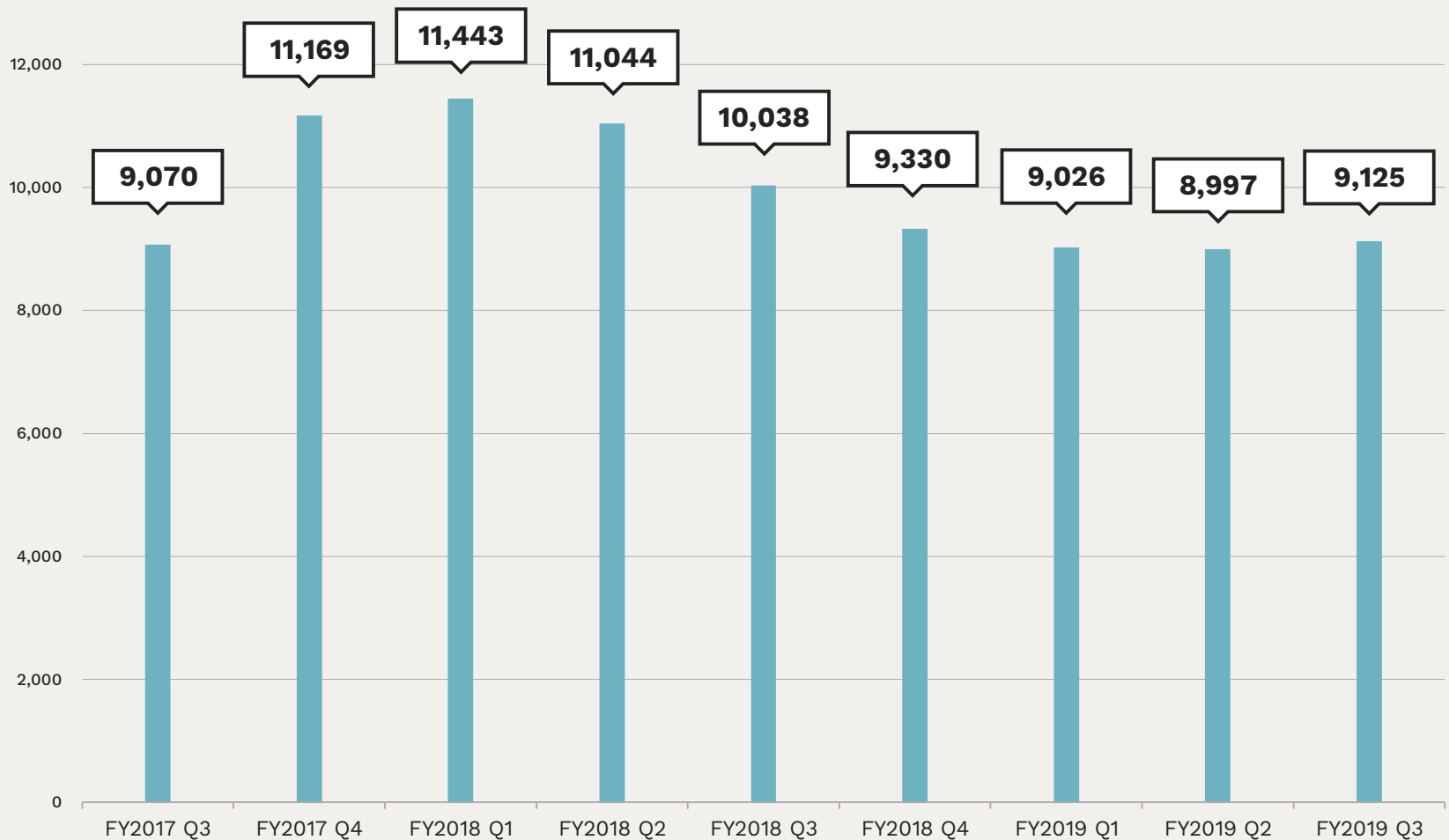
# Consolidated Trend of Operating Profit

(JPY mn)

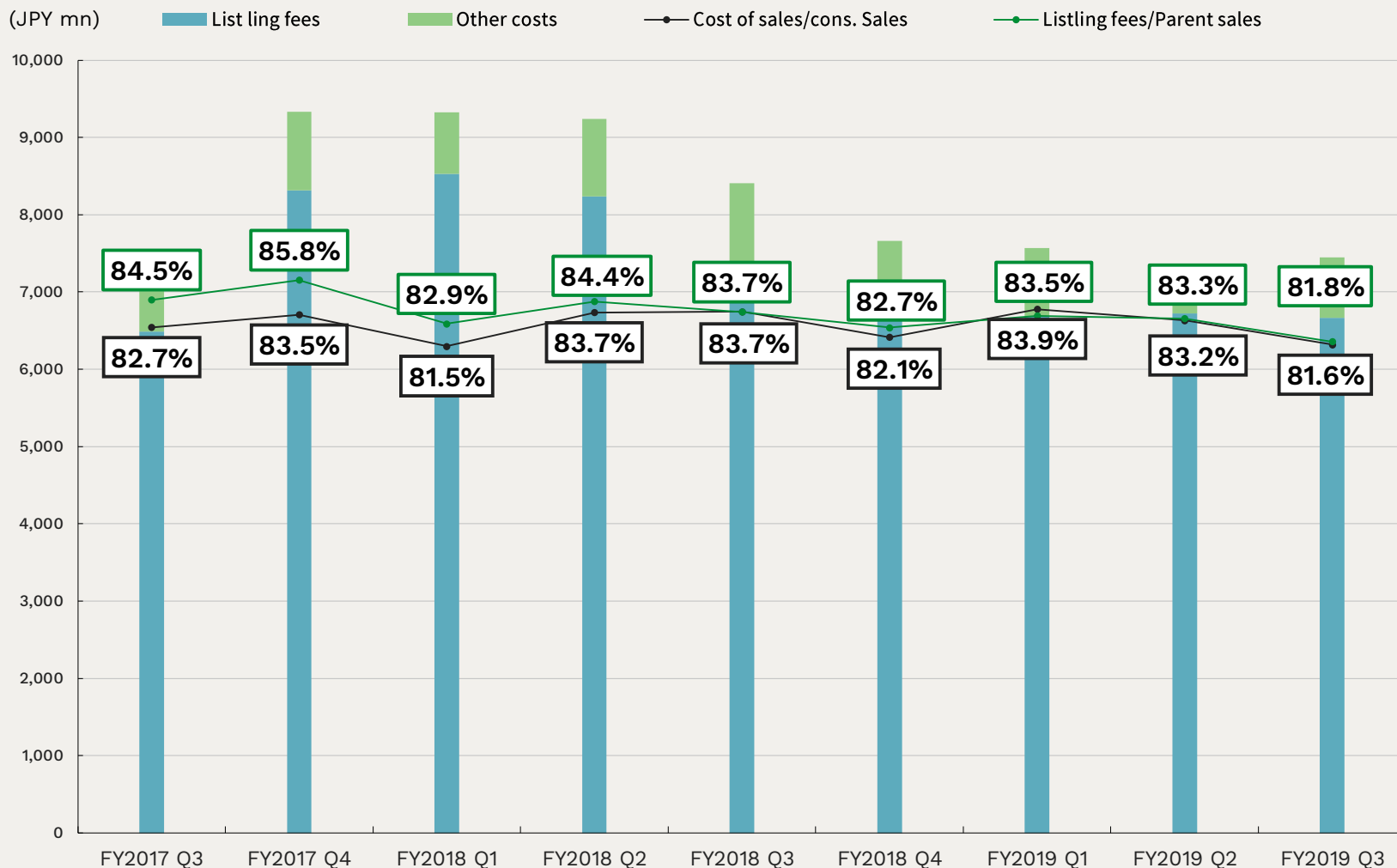


# Quarterly Change in Consolidated Sales

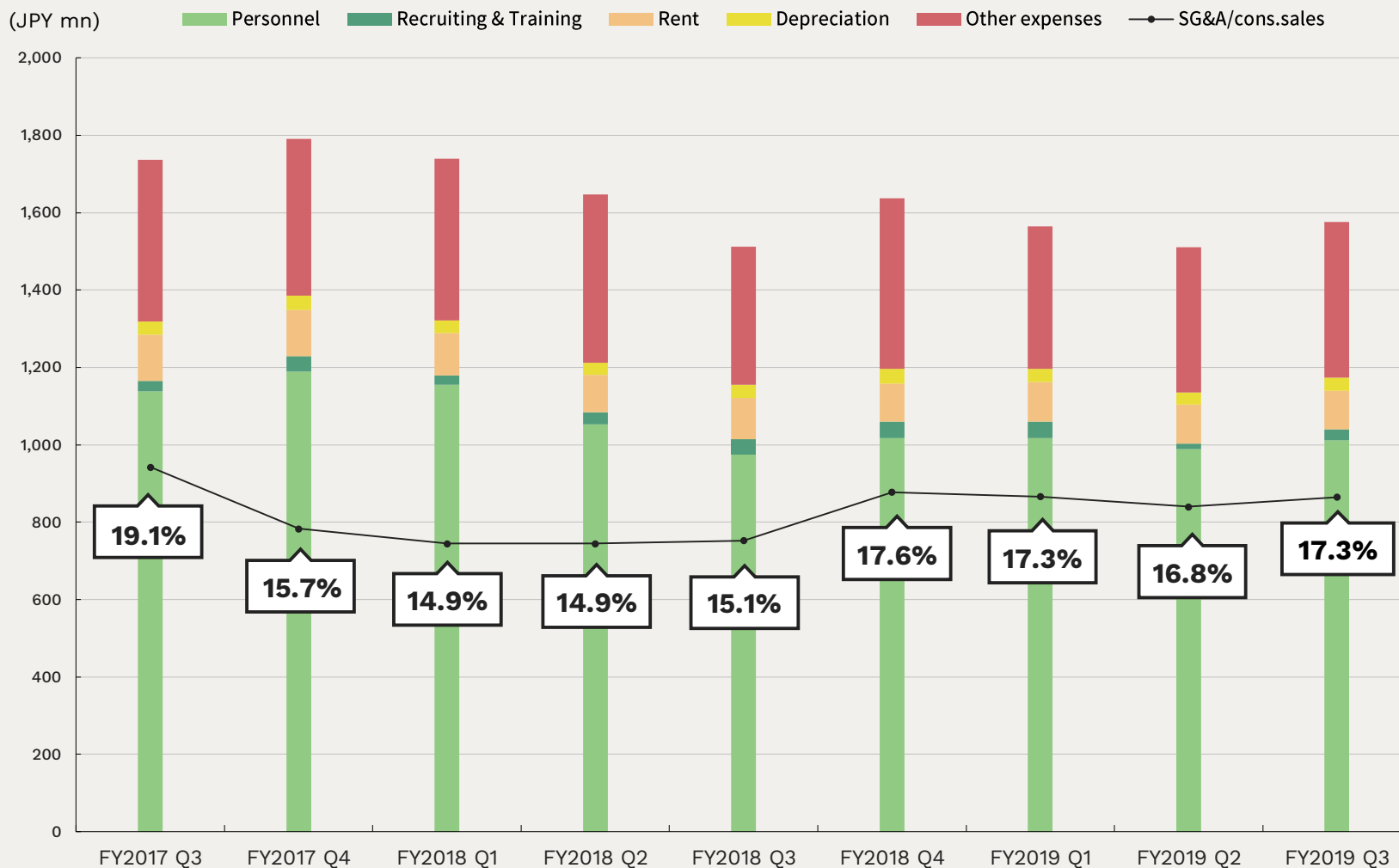
(JPY mn)



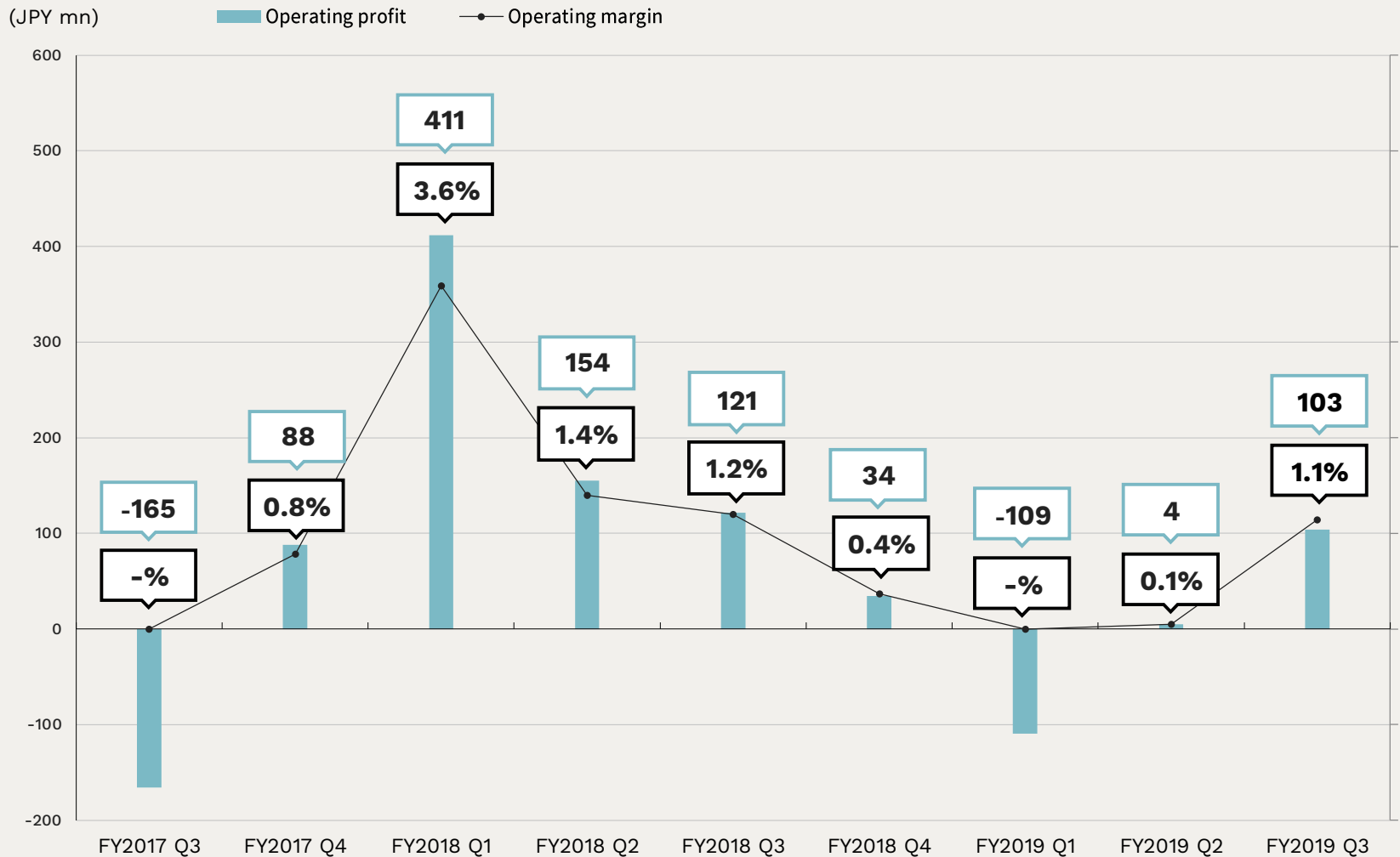
# Quarterly Change in Consolidated Cost of Sales



# Quarterly Change in Consolidated SG&A Expenses



# Quarterly Change in Consolidated Operating Profit

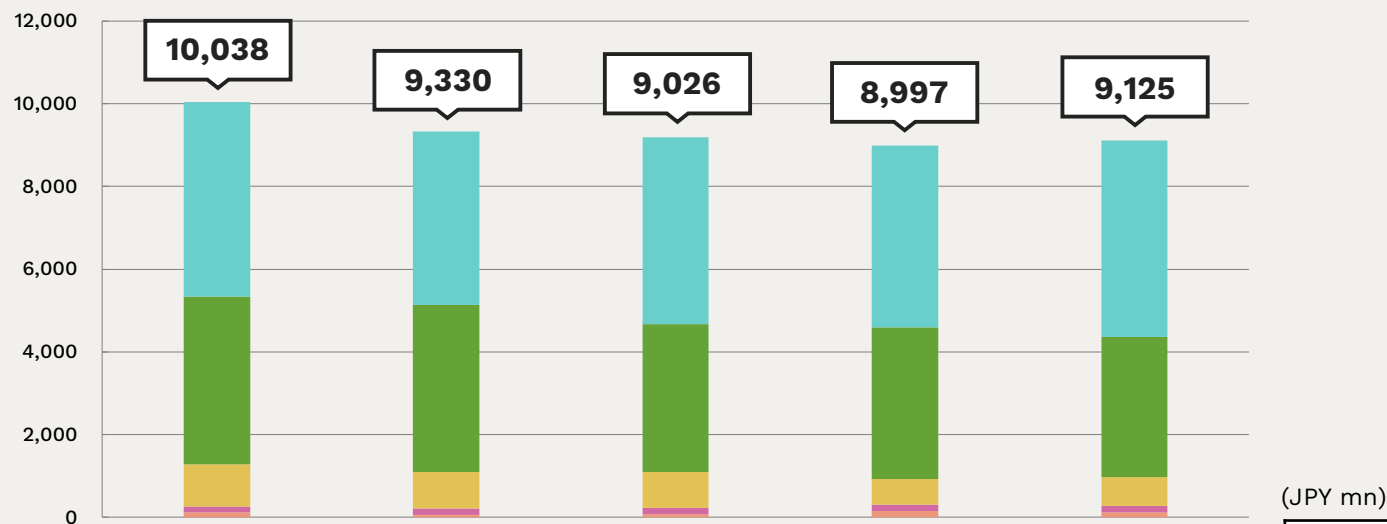


# Consolidated Balance Sheet (QoQ)

(JPY mn)

	FY2019 Q3	FY2019 Q2	Change (JPY mn)	Change (%)
Current assets	15,077	14,153	+924	+6.5%
(Cash and deposits)	9,710	8,875	+834	+9.4%
Non-current assets	2,791	2,776	+15	+0.5%
Total assets	17,868	16,929	+939	+5.5%
Current liabilities	5,360	5,550	-189	-3.4%
Non-current liabilities	247	202	+44	+22.0%
Total liabilities	5,608	5,752	-144	-2.5%
Net assets	12,260	11,176	+1,084	+9.7%

# Quarterly Breakdown of Consolidated Sales by Segment

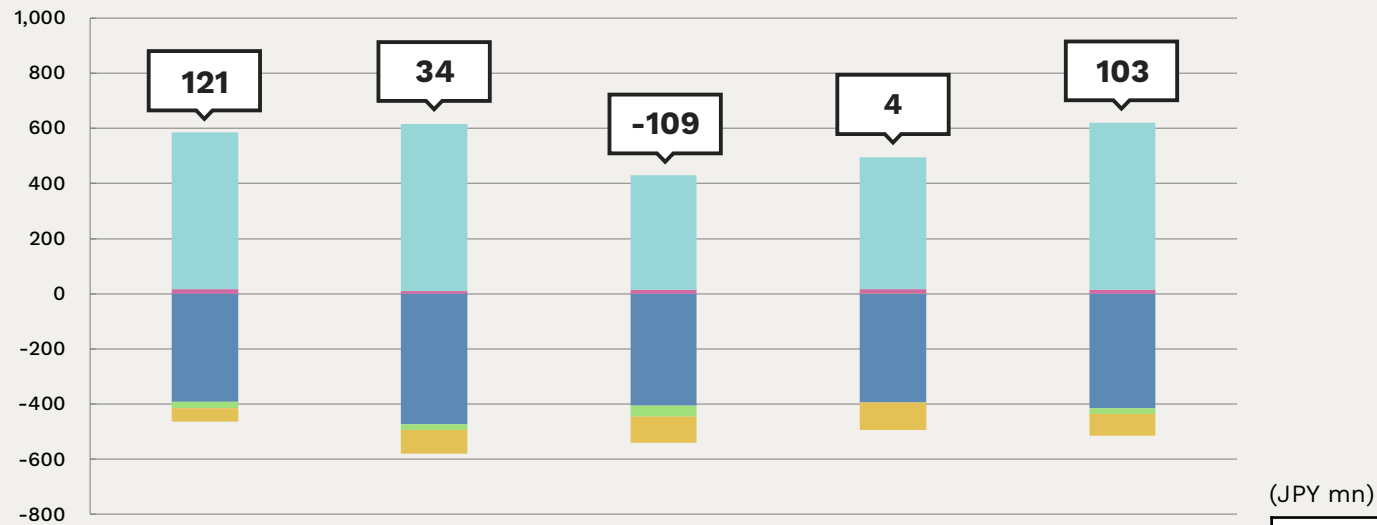


						QoQ	
	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	Change	Change (%)
Smartphone	4,695	4,198	4,525	4,396	4,765	+369	+8.4%
PC	4,051	4,037	3,567	3,670	3,379	-291	-7.9%
Overseas	1,031	871	705	624	704	+79	+12.7%
Media contents	142	156	150	156	153	-3	-2.0%
Other	118	67	78	148	122	-25	-17.4%
Total	10,038	9,330	9,026	8,997	9,125	+128	+1.4%

\* App Media segment renamed Media contents as of FY2019 Q1.



# Quarterly Breakdown of Consolidated Sales by Segment

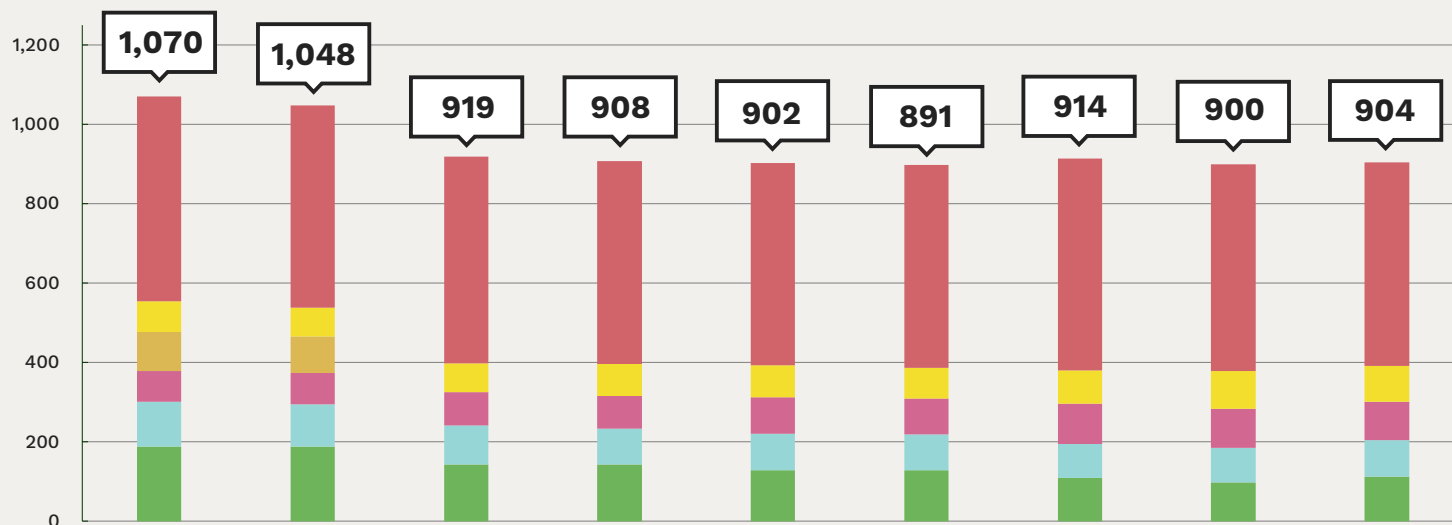


	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	QoQ	
						Change	Change (%)
Advertising	568	606	416	480	605	+124	+25.9%
Overseas	-49	-86	-94	-100	-79	+20	—
Media contents	17	10	15	15	14	-1	-6.8%
Other	-23	-20	-41	1	-21	-23	—
Eliminations & corporate	-392	-474	-405	-393	-414	-21	—
Total	121	34	-109	4	103	+99	—

\* App Media segment renamed Media contents as of FY2019 Q1.

\* Quarterly change in total operating profit is not indicated as it exceeded 1,000%..

# Quarterly Change in Group Employees



(Persons)	FY2017 Q3	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3
ADW Japan	516	509	521	512	509	510	533	521	512
ADW China	77	73	72	80	80	78	84	95	91
ADW Shanghai (R&D center)	99	92	0	0	0	0	0	0	0
Domestic subsidiaries	76	79	84	82	93	90	102	99	96
Overseas subsidiaries (excluding China)	113	106	98	91	91	90	85	87	92
Temporary workers, part-time employees	189	189	144	143	129	123	110	98	113
Total	1,070	1,048	919	908	902	891	914	900	904

\* The number of employees at ADW Shanghai is zero due to a management buyout in March 2018.

# Company Overview

quarter performance

<b>Company name</b>	<b>Adways Inc.</b>	
<b>Founded</b>	<b>February 28, 2001</b>	
<b>Business overview</b>	<b>Internet business</b>	
<b>Founder and CEO</b>	<b>Haruhisa Okamura</b>	
<b>Capital</b>	<b>JPY 1,605 mn</b>	<b>(As of end of December 2019)</b>
<b>Net sales</b>	<b>JPY 41,857 mn</b>	<b>(FY2018, Consolidated)</b>
<b>Employees</b> <small>* including temporary workers</small>	<b>904 (for the entire group)</b>	<b>(As of end of December 2019)</b>