

ADWAYS

November 2017, Presentation Material

TOKYO STOCK EXCHANGE MOTHERS STOCK CODE : 2489

Financial Results Presentation for 2Q FY2017

November 2, 2017 Founder and CEO, Haruhisa Okamura

Topics



- | | | |
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1. 2Q FY2017 Performance



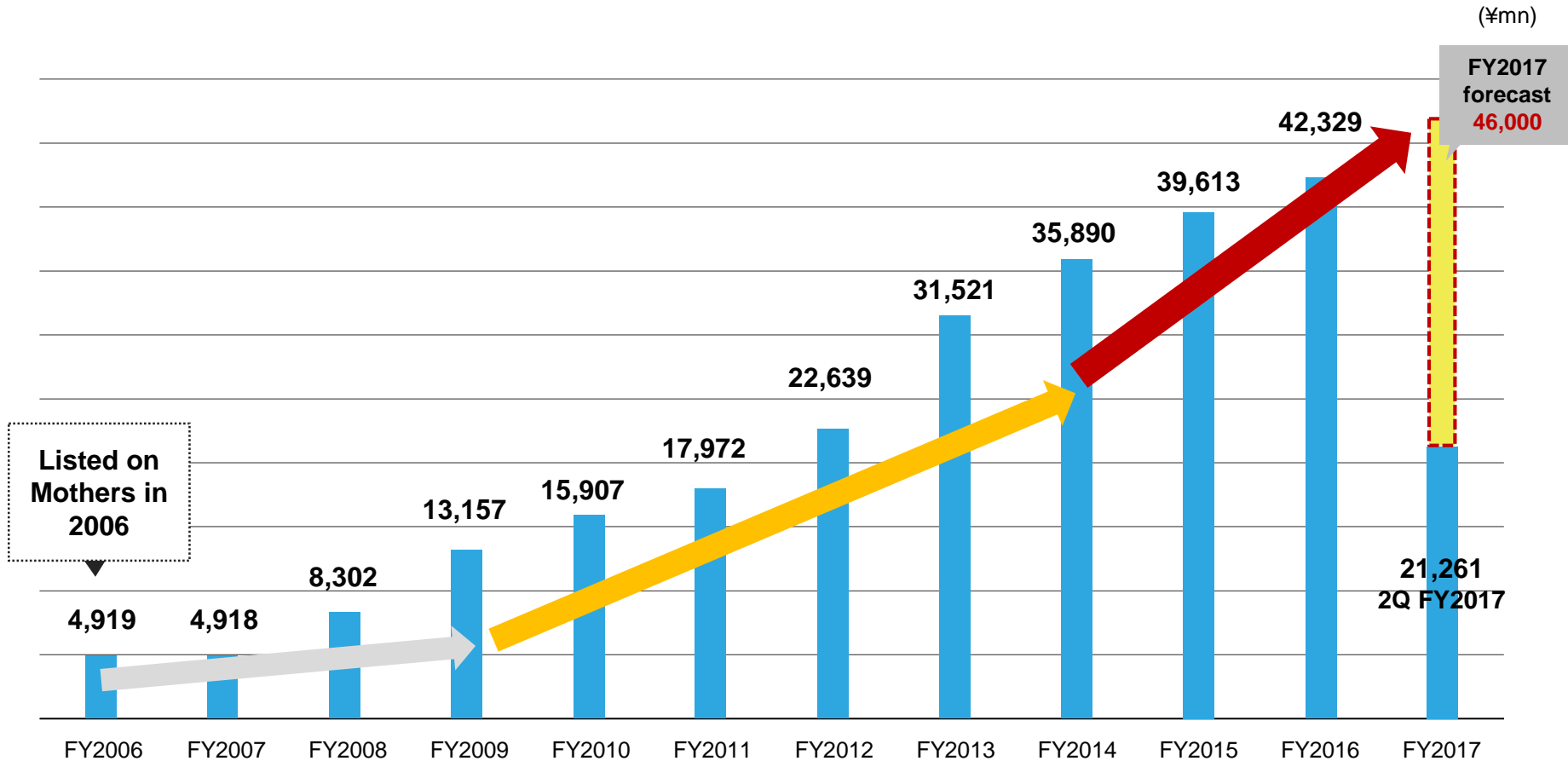
1. 2Q FY2017 Performance: Consolidated Trend of Sales

Focus on PC/feature phone
affiliate business

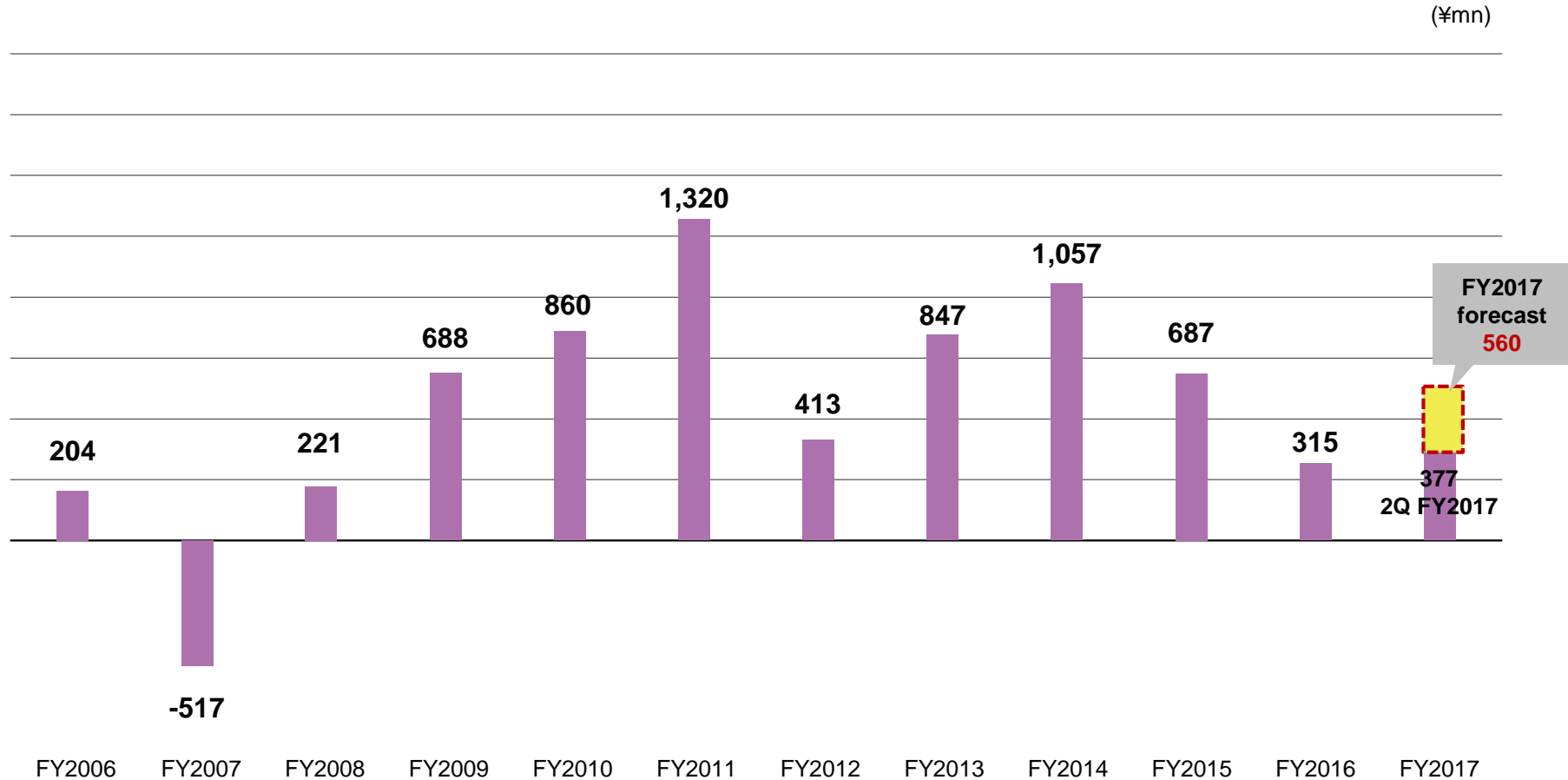
Launch and expansion of
smartphone advertising
business

Focus on
overseas
business

Focus on new
business



1. 2Q FY2017 Performance: Consolidated Trend of Operating profit



1. 2Q FY2017 Performance

Cumulative Quarterly Results (YoY)

(¥mn)

	2Q FY2017 (Cumulative)	YoY 2Q FY2016 (Cumulative)		
		Result	Change (¥mn)	Change (%)
Net sales	21,261	20,322	+939	+4.6%
Gross profit	3,768	3,400	+367	+10.8%
SG&A expenses	3,391	3,407	-16	-0.5%
Operating profit	377	-7	+384	—
Ordinary profit	396	-59	+455	—
Profit attributable to owners of parent	-3	-256	+252	—

Net sales

Increased ¥939mn YoY (+4.6%)

Operating profit

Increased ¥384mn YoY (—)

1. 2Q FY2017 Performance

Quarterly Results (YoY, QoQ)

(¥mn)

	2Q FY2017	YoY 2Q FY2016			QoQ 1Q FY2017		
		Result	Change (¥mn)	Change (%)	Result	Change (¥mn)	Change (%)
Net sales	10,567	9,868	+698	+7.1%	10,694	-126	-1.2%
Gross profit	1,913	1,639	+274	+16.7%	1,854	+59	+3.2%
SG&A expenses	1,698	1,642	+56	+3.4%	1,692	+6	+0.4%
Operating profit	214	-3	+218	—	162	+52	+32.5%
Ordinary profit	241	-36	+278	—	154	+87	+56.5%
Profit attributable to owners of parent	50	-91	+142	—	-54	+105	—

Net sales

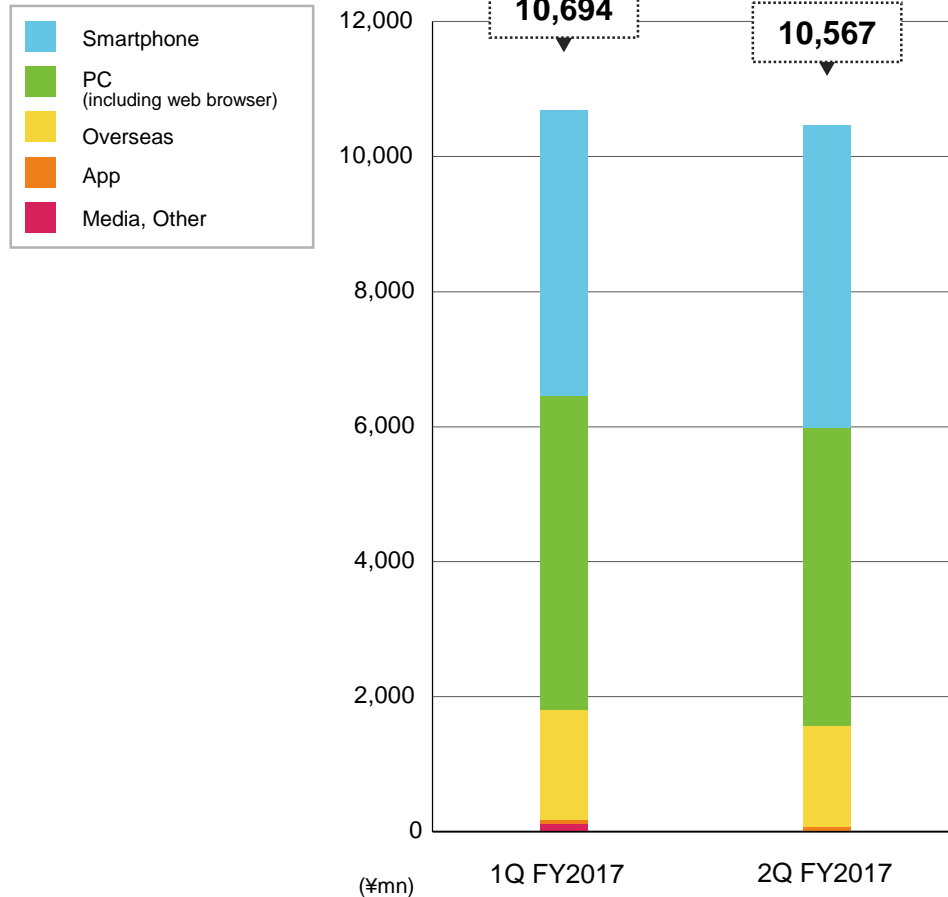
Increased ¥698mn YoY (+7.1%)
Decreased ¥126mn QoQ (-1.2%)

Operating profit

Increased ¥218mn YoY (—)
Increased ¥52mn QoQ (+32.5%)

1. 2Q FY2017 Performance

Net sales (QoQ Change)



Domestic Advertising **¥8,903mn**

QoQ: +¥8mn (+0.1%)

Smartphone (Mainly app advertising): **¥4,482mn**

QoQ: +¥251mn (+5.9%)

- Strong performance of existing game app campaigns and expansion of non-game (manga apps, apps targeting women, etc.) smartphone campaigns led to growth of smartphone advertising.

PC (PC web advertising and smartphone web advertising): **¥4,420mn**

QoQ: -¥243mn (-5.2%)

- PC advertising was affected by rebound of the surge in e-commerce campaigns in the first quarter and the shrinkage of client budgets due to financial campaigns' off-demand season.

Overseas **¥1,498mn**

QoQ: -¥119mn (-7.4%)

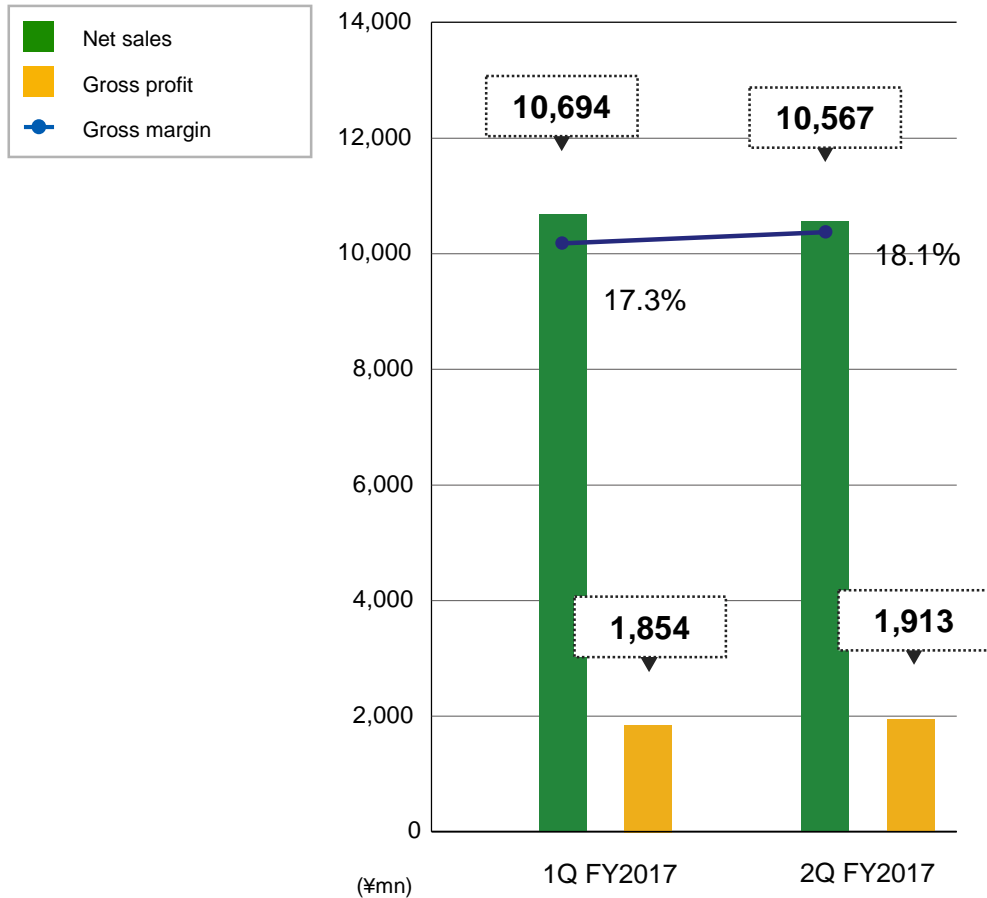
- The sales structure in East Asia, our main market, is being reconstructed; Sales decreased from the previous quarter but increased by approx. 420 million yen (39.0%) year on year.

* The accounting periods of our overseas subsidiaries excluding India end in December, so their 2Q FY2017 (April – June) figures are consolidated with the Adways Group's 2Q FY2017 (July – September) figures.

* Sales of feature phones and smartphones had been divided until the last fiscal year, but given small sales figures for feature phones, the sales of both segments have been combined and reported as advertising for smartphones starting the first quarter of the current fiscal year.

1. 2Q FY2017 Performance

Gross profit (QoQ Change)



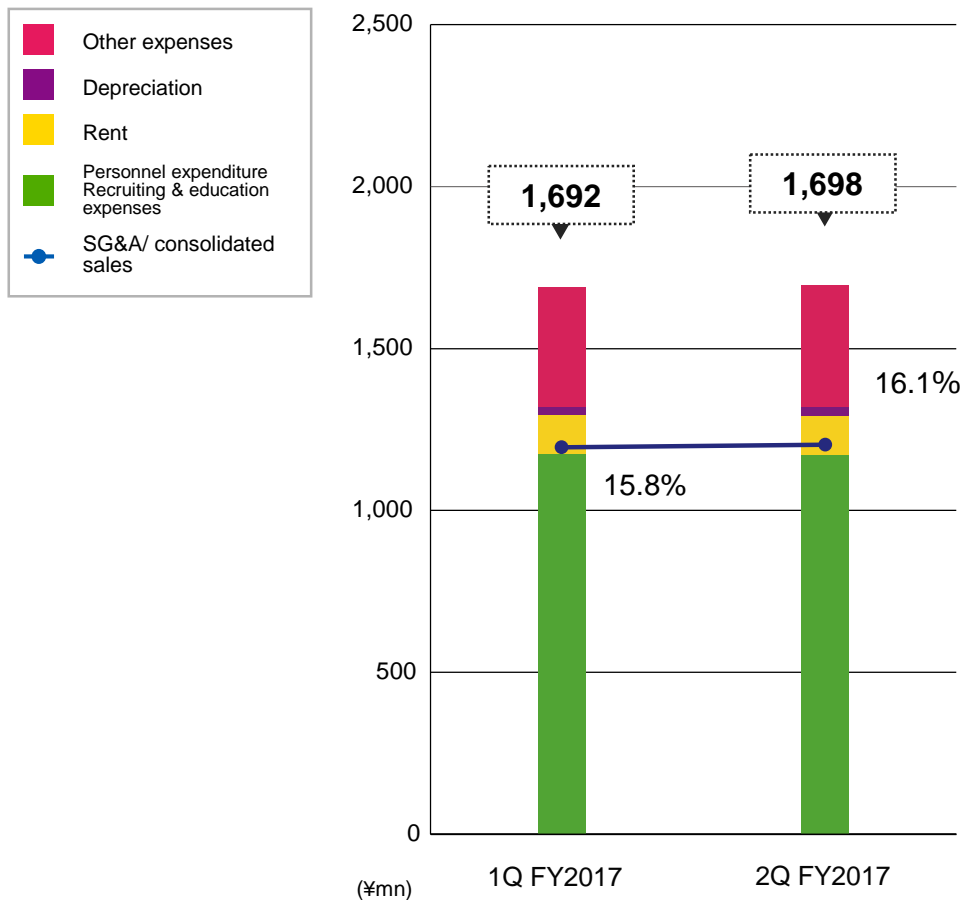
2Q Gross profit: ¥1,913mn

QoQ: +¥59mn (+3.2%)

Gross margin: 18.1% (+0.8 points)

1. 2Q FY2017 Performance

SG&A expenses (QoQ Change)



2Q SG&A expenses: ¥1,698mn

QoQ: +¥6mn (+0.4%)

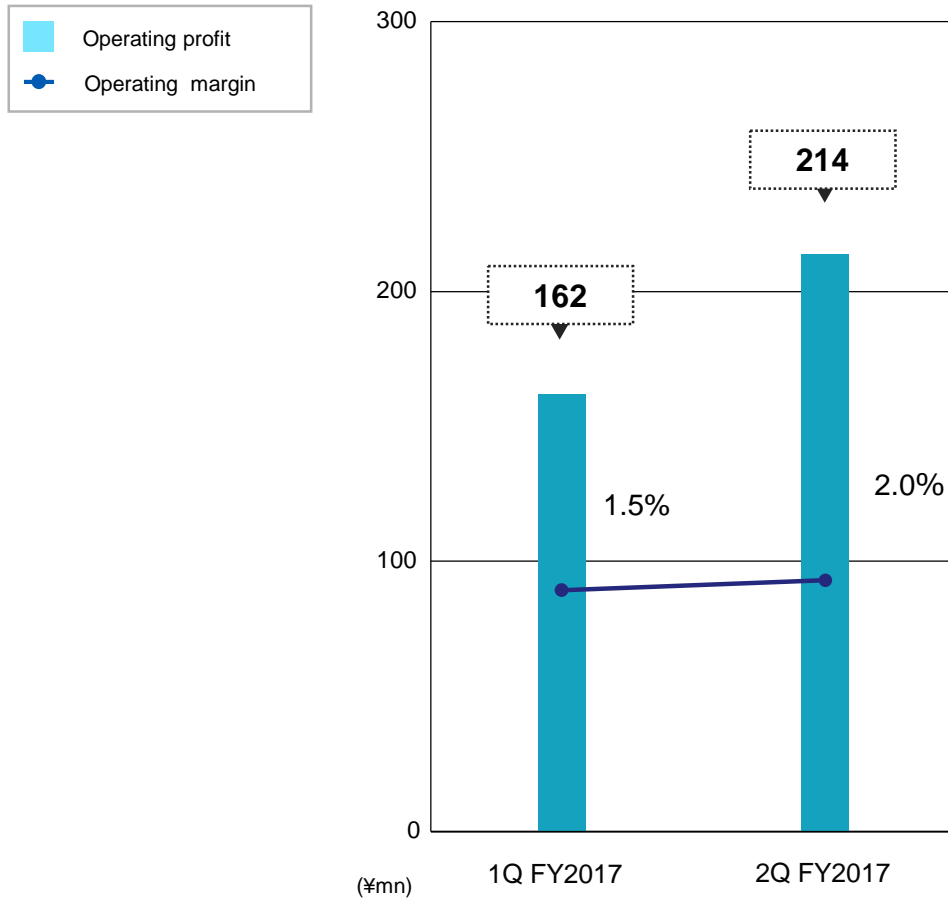
SG&A to Sales ratio: 16.1% (+0.3 points)

[Main Factors of Increase]

- Compensations: +¥12mn
- Personnel expenditure: -¥5mn

1. 2Q FY2017 Performance

Operating profit (QoQ Change)



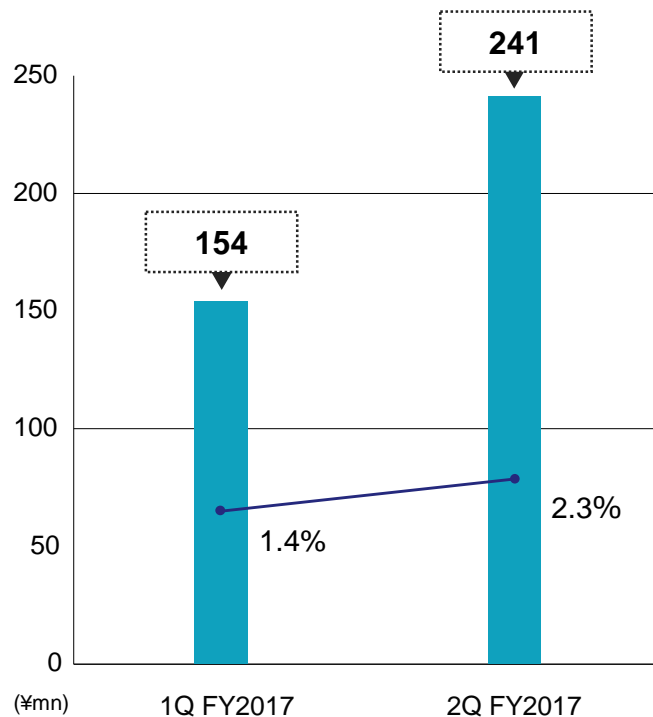
2Q Operating profit: ¥214mn

QoQ: +¥52mn (+32.5%)

Operating margin: 2.0% (+0.5 points)

1. 2Q FY2017 Performance

Ordinary profit (QoQ Change)

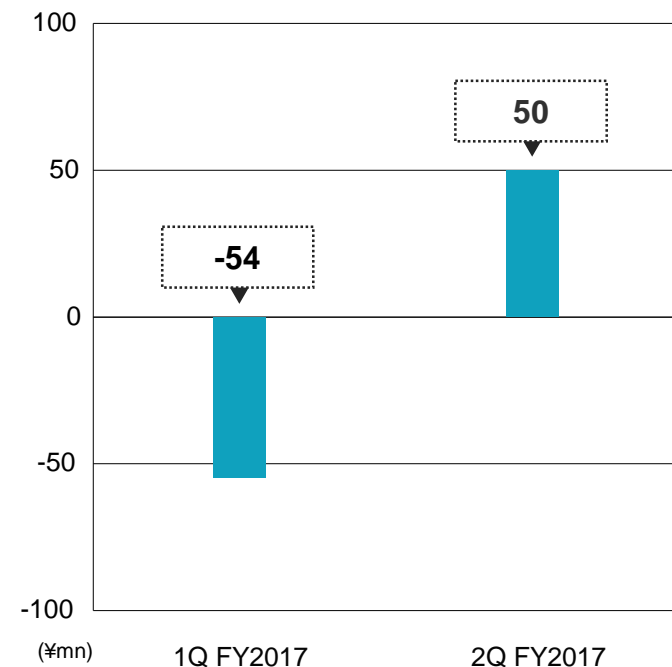


2Q Ordinary profit: ¥241mn

QoQ: +¥87mn (+56.5%)

Ordinary margin: 2.3% (+0.8 points)

Profit attributable to owners of parent (QoQ Change)

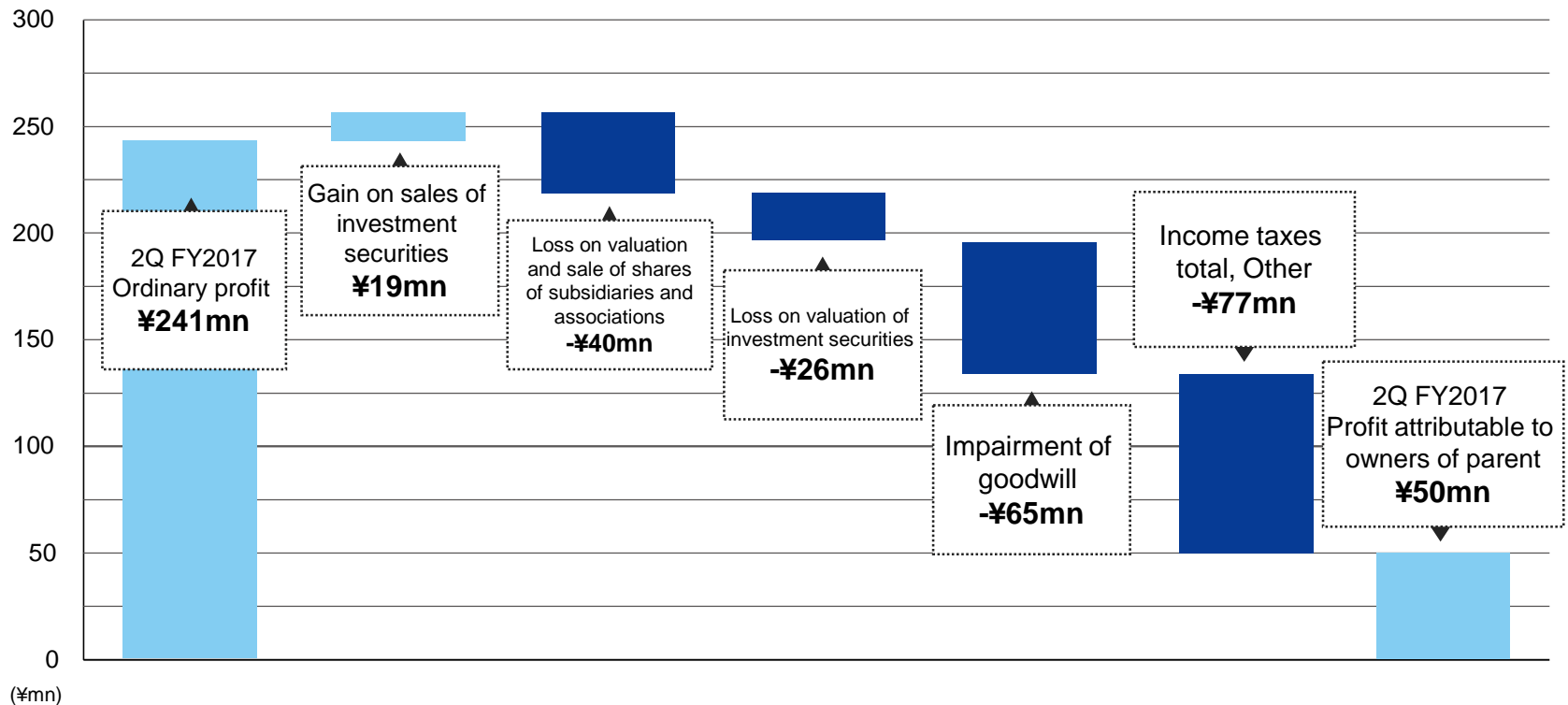


2Q Profit attributable to owners of parent: ¥50mn

QoQ: +¥105mn (—%)

1. 2Q FY2017 Performance

Breakdown of 2Q FY2017 Profit attributable to owners of parent



Gain on sales of investment securities [¥19mn]
Loss on valuation and sale of shares of subsidiaries and associations [-¥40mn]
Loss on valuation of investment securities[-¥26mn]: No. of individual stocks (5 companies)
Impairment of goodwill [-¥65mn]
Income taxes total, Other [-¥77mn]: Including -¥34mn corporate tax for head office



2. FY2017 Consolidated Performance Forecast



2. FY2017 Consolidated Performance Forecast

FY2017 Consolidated Performance Forecast values (April 1, 2017 - March 31, 2018)

(¥mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of the parent
FY2017 Forecast	46,000	560	730	220
2Q Results	21,261	377	396	-3
Progress rate	46.2%	67.3%	54.3%	—

【FY2017 Dividend Forecast】

¥2.35 per share

【Dividend Guidance】

We recognize that ensuring continuous shareholder returns and improving our corporate value are highly important issues, thus we implement various strategies. Regarding dividends for the past 3 years (FY2015 - FY2017), we are aiming to provide dividend per share calculated from dividend payout ratio based on the current fiscal year excluding the first fiscal year, (note: the current fiscal year is the 18th, thus the dividend payout ratio will be 17%) or 2.35 yen per share (the ordinary dividend for the FY2014), 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 sizable M&A deals in the future.



3. Business Overview





UNICORN

REDEFINE DIGITAL MARKETING



Simple Set Up

Ads can be placed through just 5 settings, allowing focus on risk determination and creative appeals

the Perfect Combination

In delivery, the optimum creative combinations are suggested while buying at optimum prices

Full Automated Marketing Platform

The fully automated ad placement optimization engine forecasts the value of each impression and displays ad campaigns that match the value

Fraud Protection

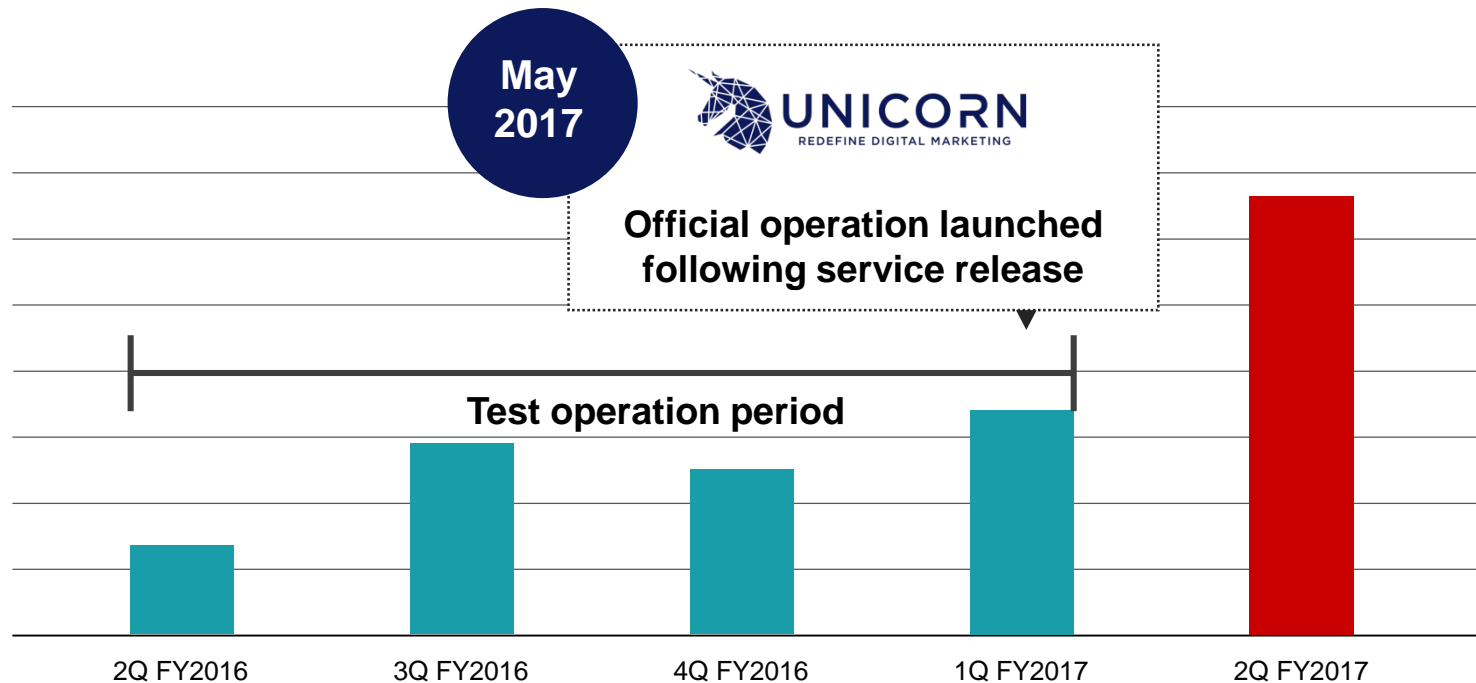
Unauthorized access and placements are blocked through a unique fraud detection algorithm

Our Unique Advantage

The value of more than 100,000 impressions per second determined by over 30 factors

3. Business Overview: App Marketing

UNICORN Trend in Sales



Number of major campaigns and transactions with major clients are increasing.
Figures are expected to continue increasing going forward.
Non-game app advertisement (e-commerce, manga contents, etc.)
are also scheduled to be expanded.

3. Business Overview: App Marketing

ROAS* of users obtained through UNICORN



49.0% average

Other major ad networks

Company A	Company B	Company C	Company D
24.9%	12.6%	19.1%	16.8%

19.8% average

(Calculated from networks with the most transactions)

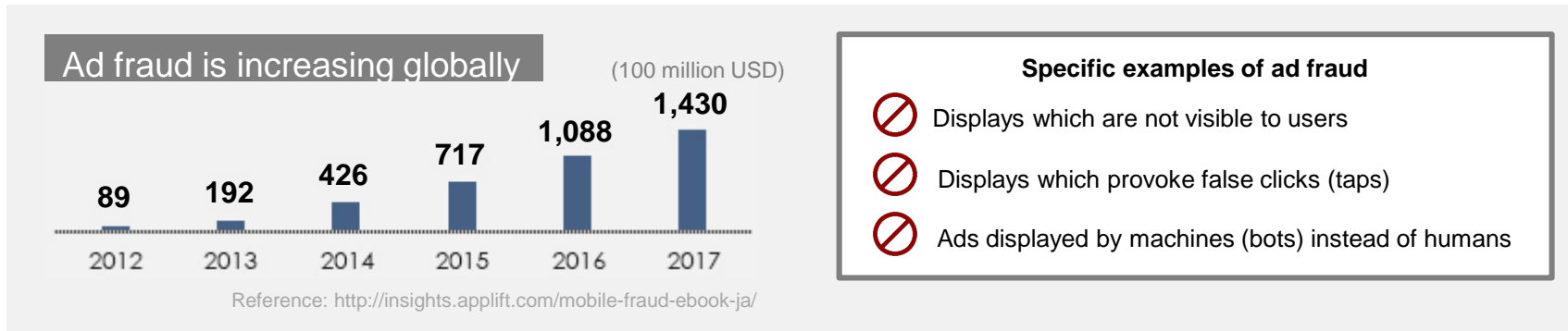
(Calculated from billing amounts of users obtained in September and advertising expenses)

Realized **excellent ad performance** compared to other major ad networks

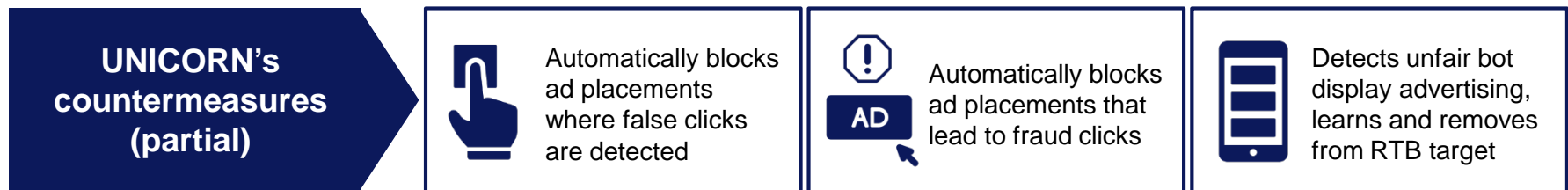
* ROAS (Return On Advertising Spend) is the rate of return gained against the advertisement expenses; it is the cost effectiveness of advertisements.

3. Business Overview: App Marketing

Ad Fraud Countermeasures which Increase ROAS



Advertisers' profits are significantly affected by increase of wasteful costs as a result of ad fraud



Doesn't seek to obtain solely based on users obtained and low prices.
Ad fraud countermeasures lead to obtaining high-performance users.

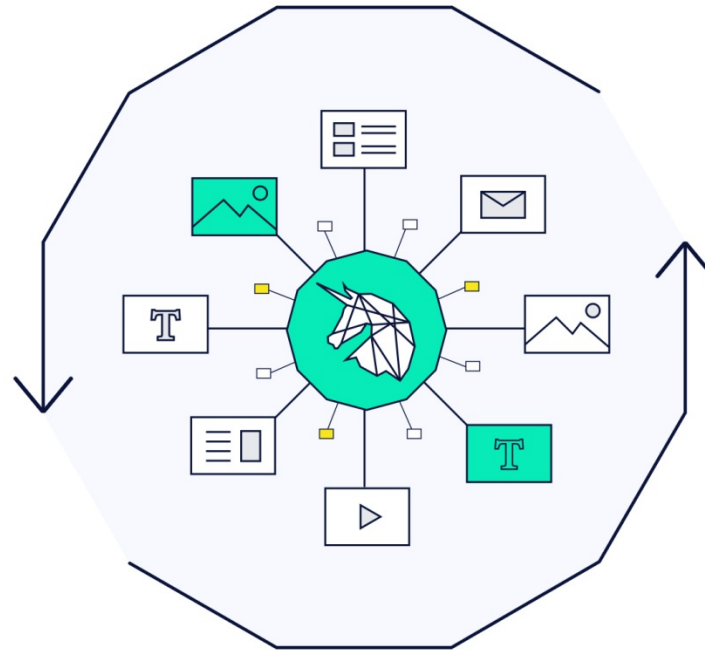
3. Business Overview: App Marketing

UNICORN's distinguishing feature is its ideal “human rule” and “machine learning” hybrid algorithm



Human rule
(operations only people can perform)

- Delivery-based control matched to the threshold
- Delivery speed control in line with budget
- Delivery for early learning customized for each campaign



Machine learning

- Analysis and optimization above human capacity
- High speed through full automation
- Automatic purchasing according to targets

*Threshold value: A tuning value to determine operations for promoting effective learning

An ad management algorithm that only UNICORN provides

3. Business Overview: App Marketing

UNICORN acquires many high ARPU users

<ul style="list-style-type: none">• Extracted only from game apps• Data extraction period: Sep. 15 to Oct. 14 Top 4 campaigns of cases obtained	ARPU of users obtained through UNICORN	Organic user ARPU
	990.62 yen	836.89 yen

Users obtained through **substantial ads** where fraud has been eliminated performed **better in ARPU than organic users**

*ARPU (Average Revenue Per User)

3. Business Overview: App Marketing

Future Outlook of UNICORN

Progress in connecting with SSPs (as of end of Sep. 2017)

Major domestic SSPs: **6 companies**

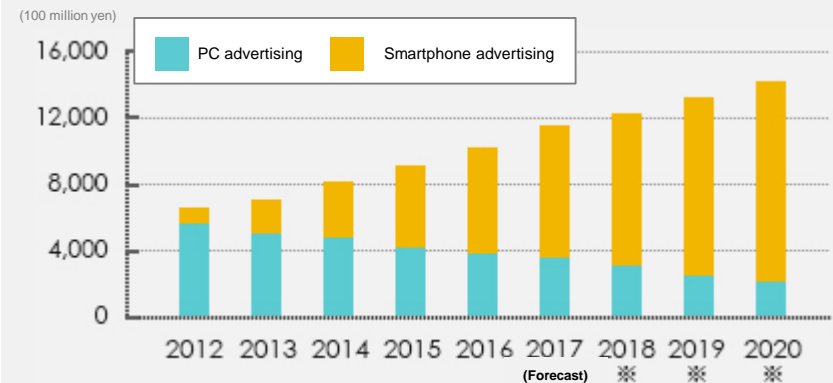
Major overseas SSPs: **2 companies**

Monthly ad inventory
exceeded **200 billion imp**

Connection to several other major SSPs
expected in the future!

The shift to smartphones will develop further

Market share of smartphone and PC
advertisement expenses



Reference: 2016 internet advertising market share estimation survey by D2C/CCI
*The forecasts from 2018 to 2020 are by Adways and are estimates based on the reference figures at the same level.

By connecting to more SSPs and with the growth of the smartphone advertising market, UNICORN, with its leading-edge quality, is expanding with an eye on the global market



UNICORN

REDEFINE DIGITAL MARKETING

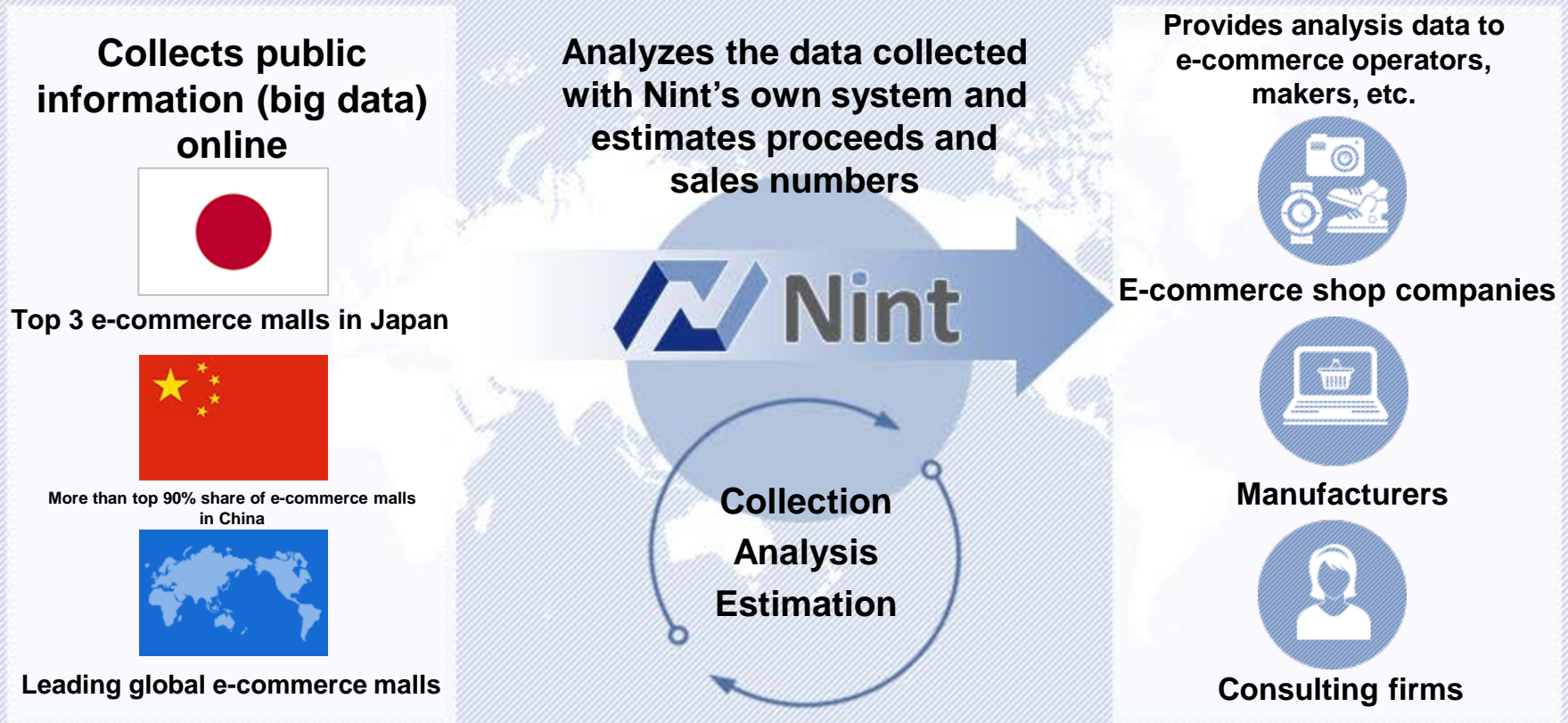
We clear the way for “proper” advertising.
Let people do the work that they do best.
UNICORN does what people can't.



Next Hint For Your Business 'Nint'

3. Business Overview: E-Commerce Data

Nint Dada Business Model

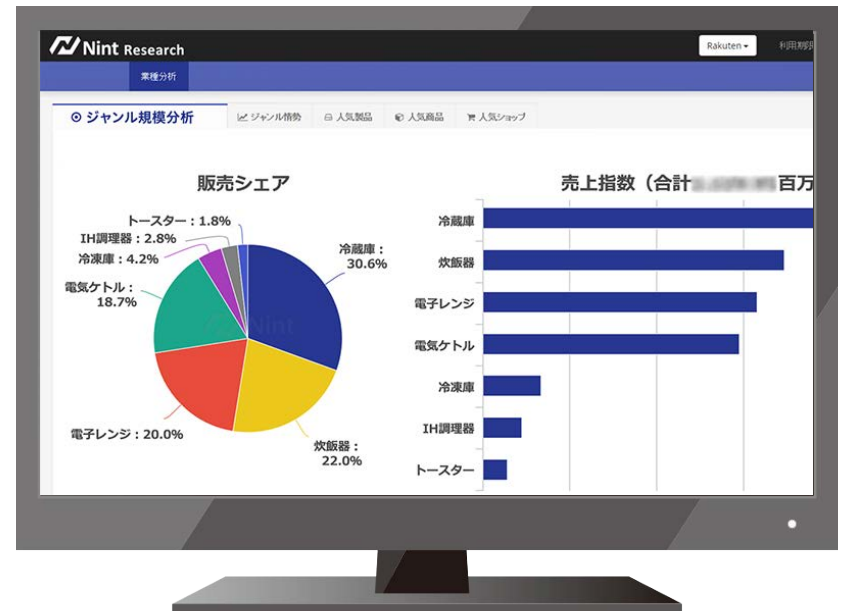
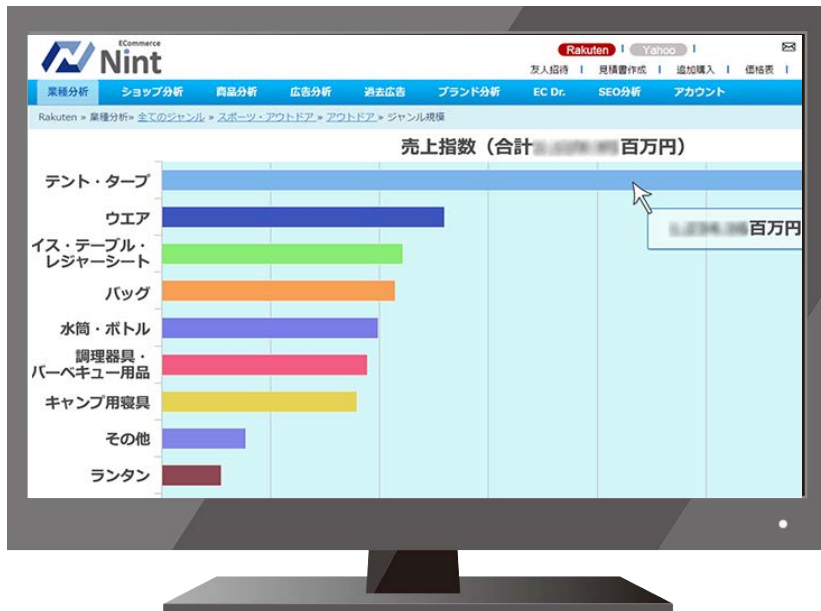


E-commerce data service that shows sales of competitor shops and manufacturers

3. Business Overview: E-Commerce Data

Nint Data

Actual e-commerce mall information from the past 7 years has been collected and stored.
With this mass of big data, sales estimates can be calculated based on
a foundation that other companies can't provide.

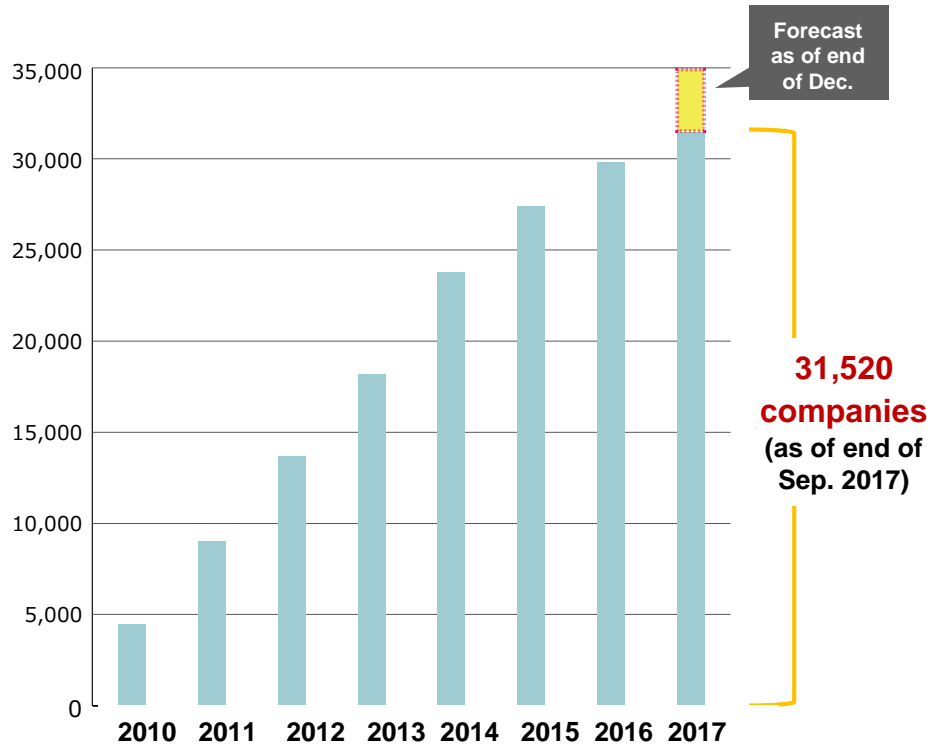


E-commerce data that only Adways can provide

3. Business Overview: E-Commerce Data

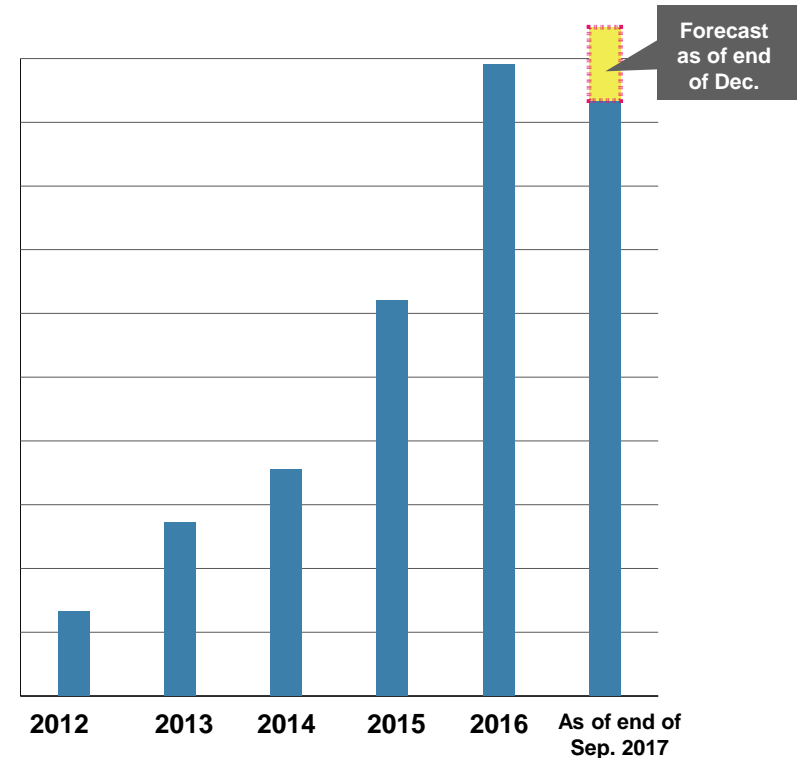
Status of Business Expansion

Number of companies using the services



Steady increase since start of business

Trend of e-commerce data business sales



Continued expansion under stacking-type profit model

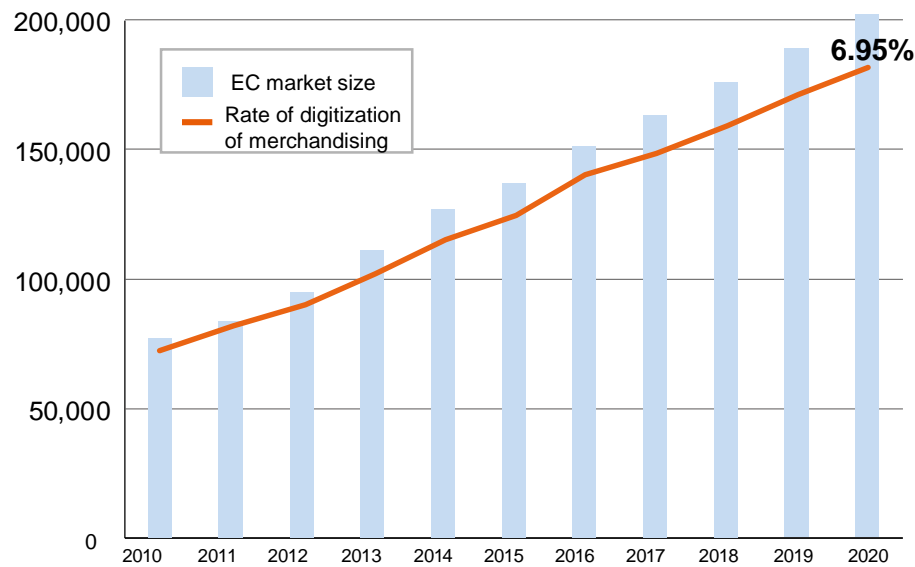
*Number of companies using the services and sales volume are each the total in Japan and China

3. Business Overview: E-Commerce Data

Why Demand for Nint is Growing

Expansion of the e-commerce market and rate of digitization of merchandising *1

(100 million yen)



Reference: Ministry of Economy, Trade and Industry's FY2016 E-Commerce Market Survey

*1: "Rate of digitization of merchandising" is the rate of the e-commerce market size in the total amount of merchandising (merchandising market size).

*2: The forecasts from 2017 to 2020 are by Adways and are estimates based on the reference figures at the same level.

Situation of e-commerce operators

■ Manufacturers

[expansion of size of e-commerce]



- Increase of e-commerce sales share of in-house products
- Growing influence mega e-commerce sites
- Increase of rate of digitization of merchandising, etc.

■ E-commerce mall shops

[intensification of competition]



- Price settings
- Inventory risks
- Competition countermeasures, etc.

E-commerce big data will continue to have an increasing impact on companies

3. Business Overview: E-Commerce Data

Providing of Various E-Commerce Data Necessary for E-Commerce Strategies



**Services targeting
makers and
retailers**

- Scale of circulation of in-house products
- Top makers and share ratios
- Sales / prices / share ratios, etc. of popular products



**E-commerce market size and
shares of makers are shown**



**Services targeting
e-commerce
mall shops**

- Product analysis
- Ad analysis
- Shop analysis, etc.



**Sales of competitor shops in malls
are shown and marketing strategies
can be derived**

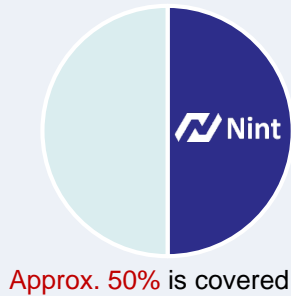


3. Business Overview: E-Commerce Data

Cover Ratio of E-Commerce Data Collected by Nint

(as of end of Sep. 2017)

Current cover ratio of domestic e-commerce market data



Top 3 e-commerce malls in Japan

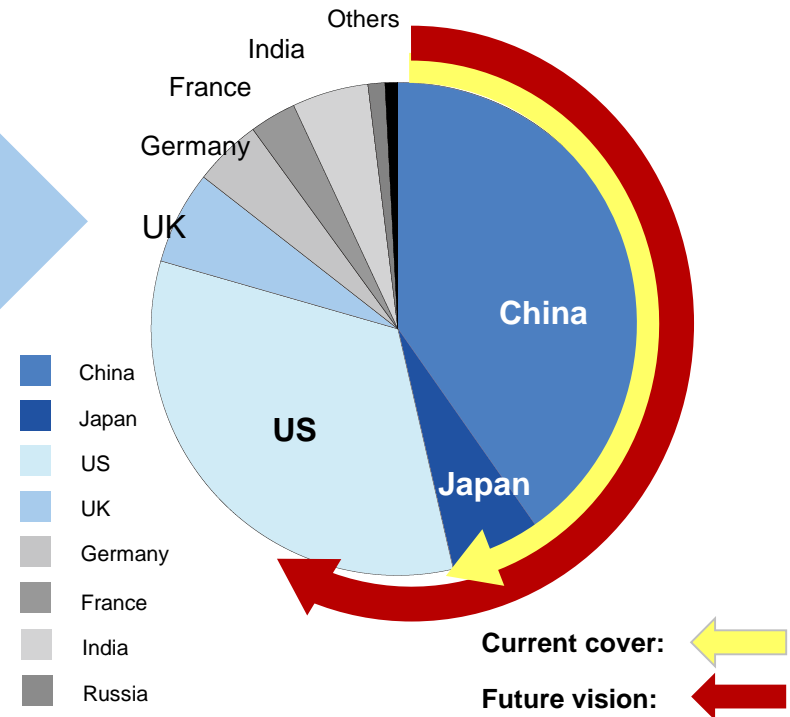
Current cover ratio of Chinese e-commerce market data



90% + share of the top e-commerce malls in China

B2C transaction estimates of leading countries
(forecast for 2020)

Reference: JETRO Global Trade and Investment Report 2017



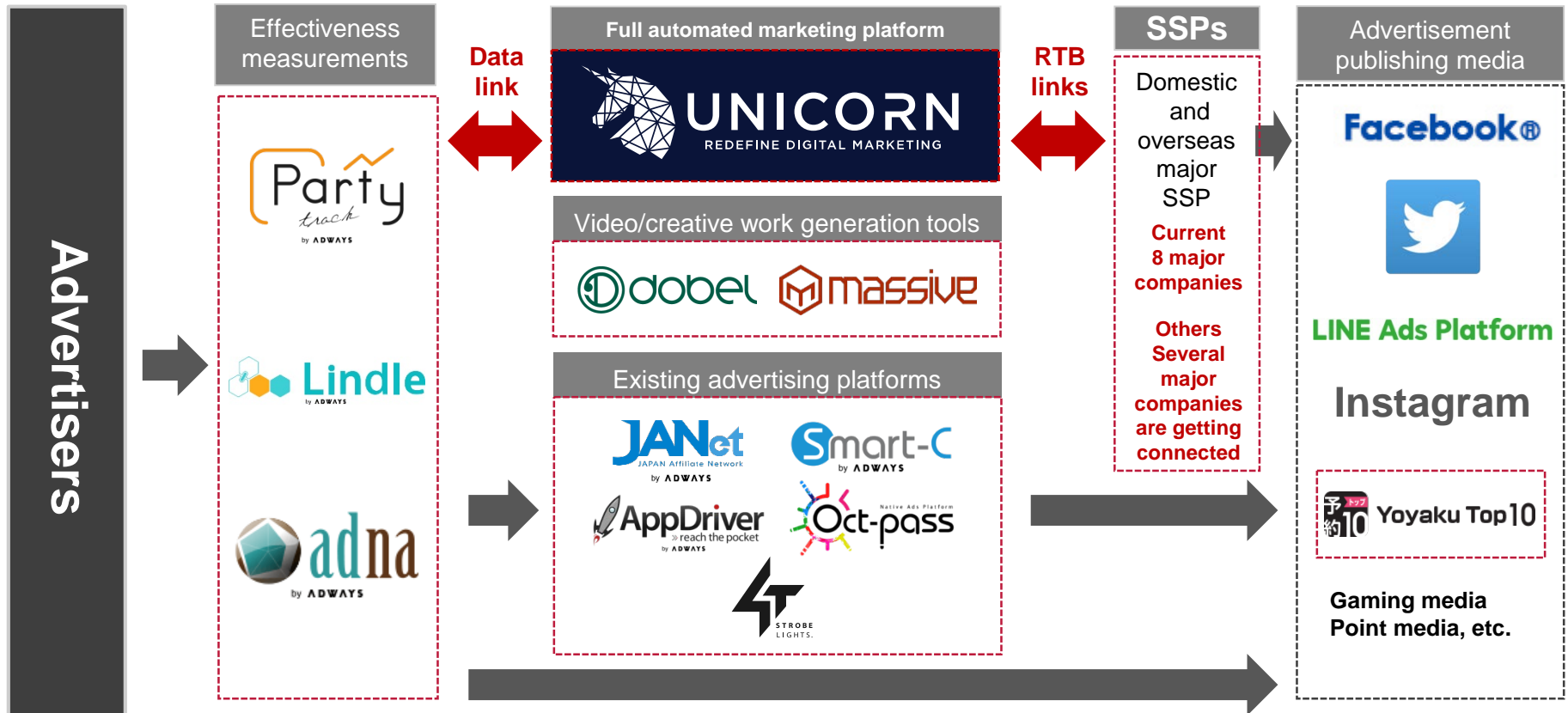
Aim for further increase of the cover ratio in the global e-commerce market

Solving with Big Data E-Commerce Data Solutions



3. Business Overview: App Marketing

“Platform&Borderless”

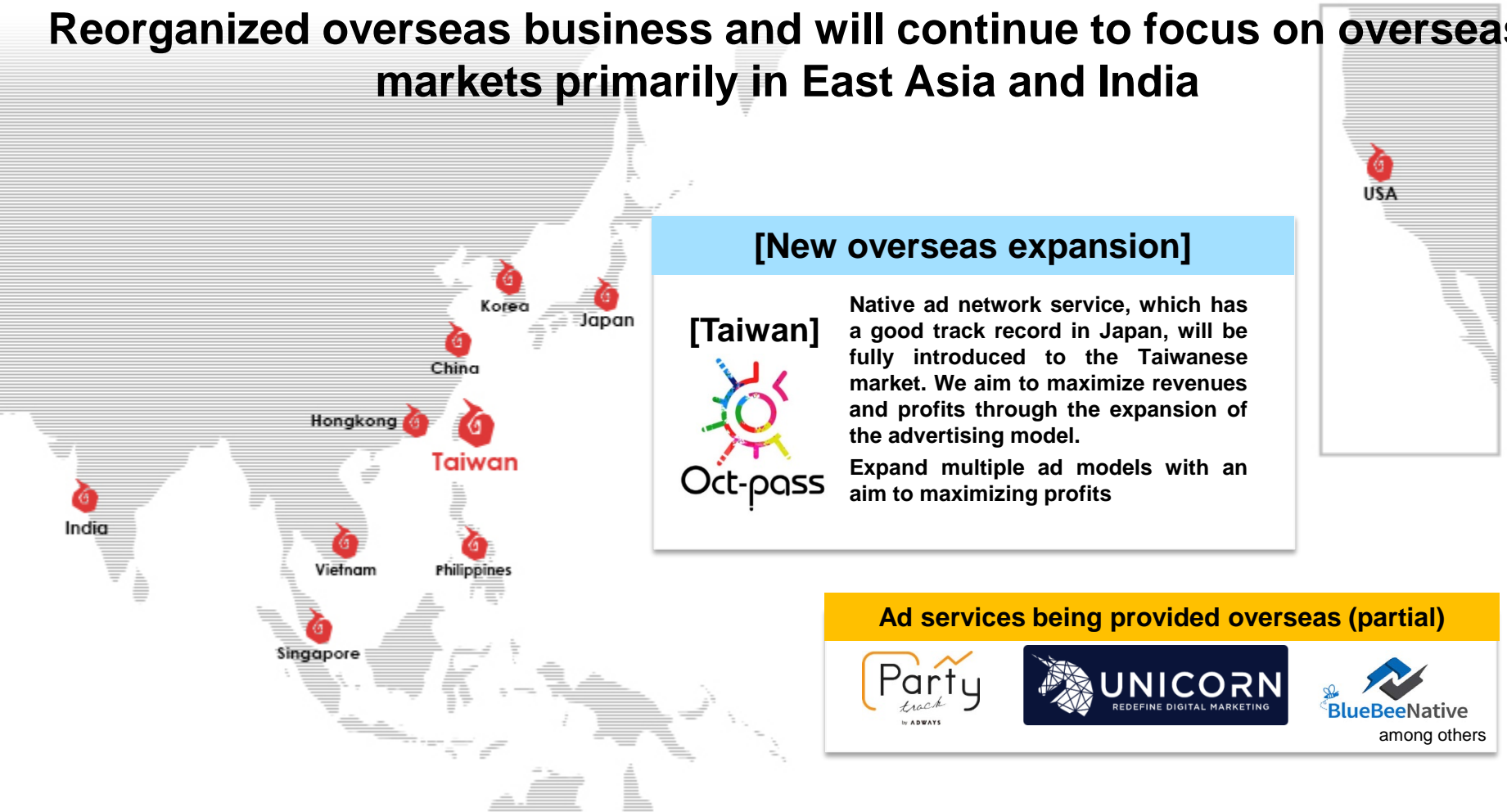



Focus on developing new products targeting domestic or overseas markets and improving existing services

3. Business Overview: Global Marketing

“Platform & Borderless”

Reorganized overseas business and will continue to focus on overseas markets primarily in East Asia and India





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



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 November 2, 2017 and a variety of factors may cause the statements to differ from actual results.

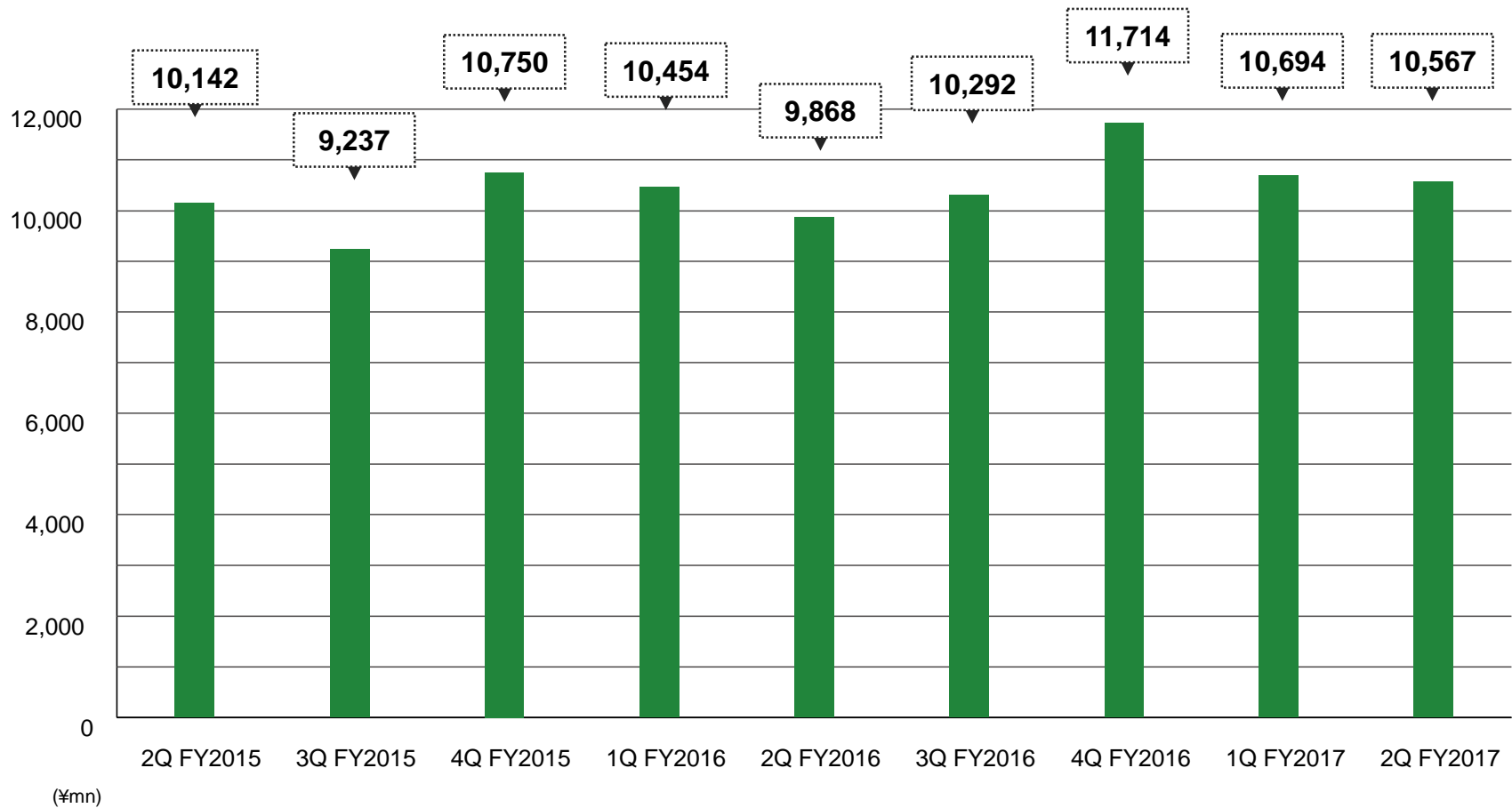


4. Supplementary Materials



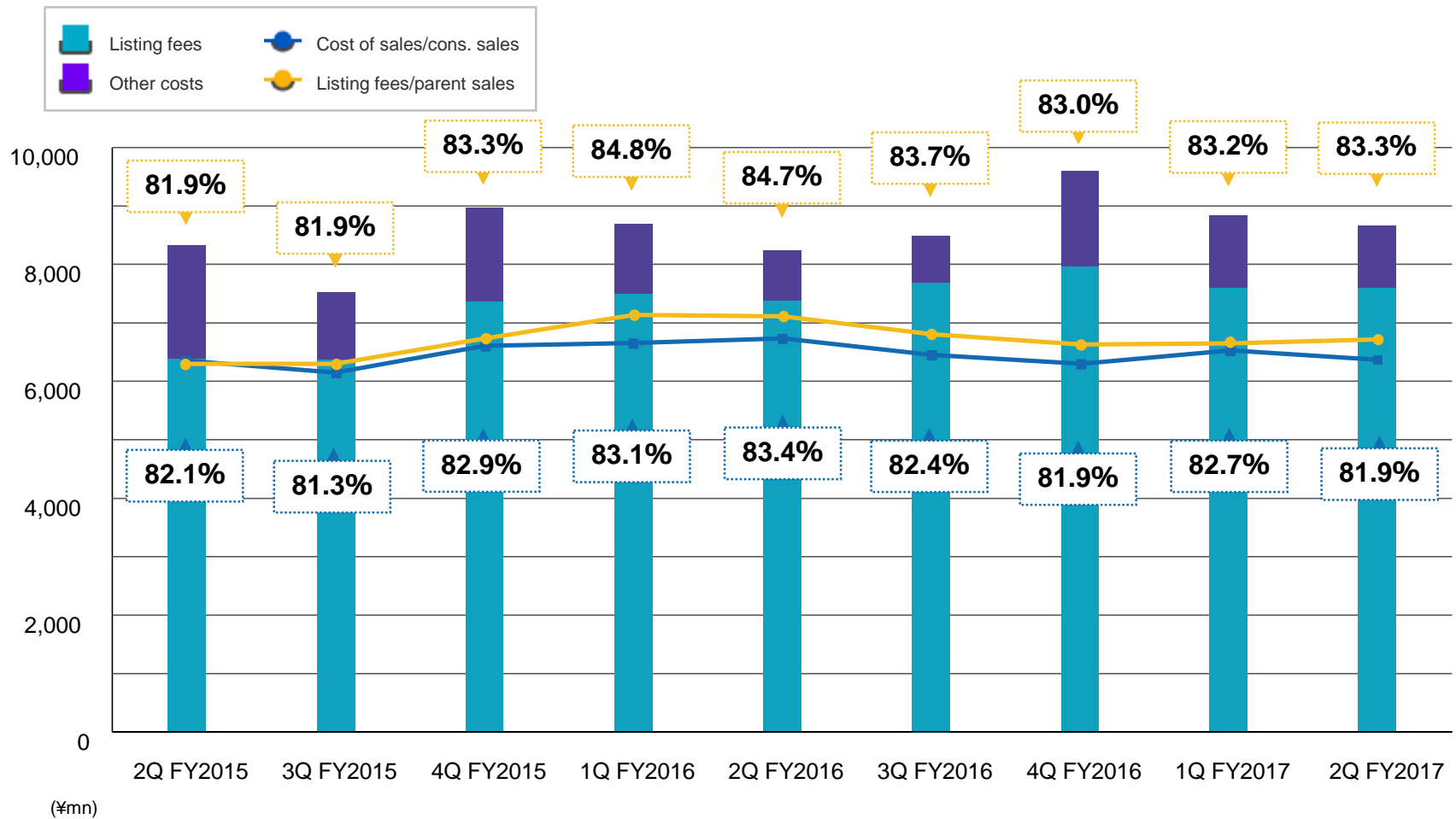
4. Supplementary Materials

Quarterly Change in Consolidated Sales



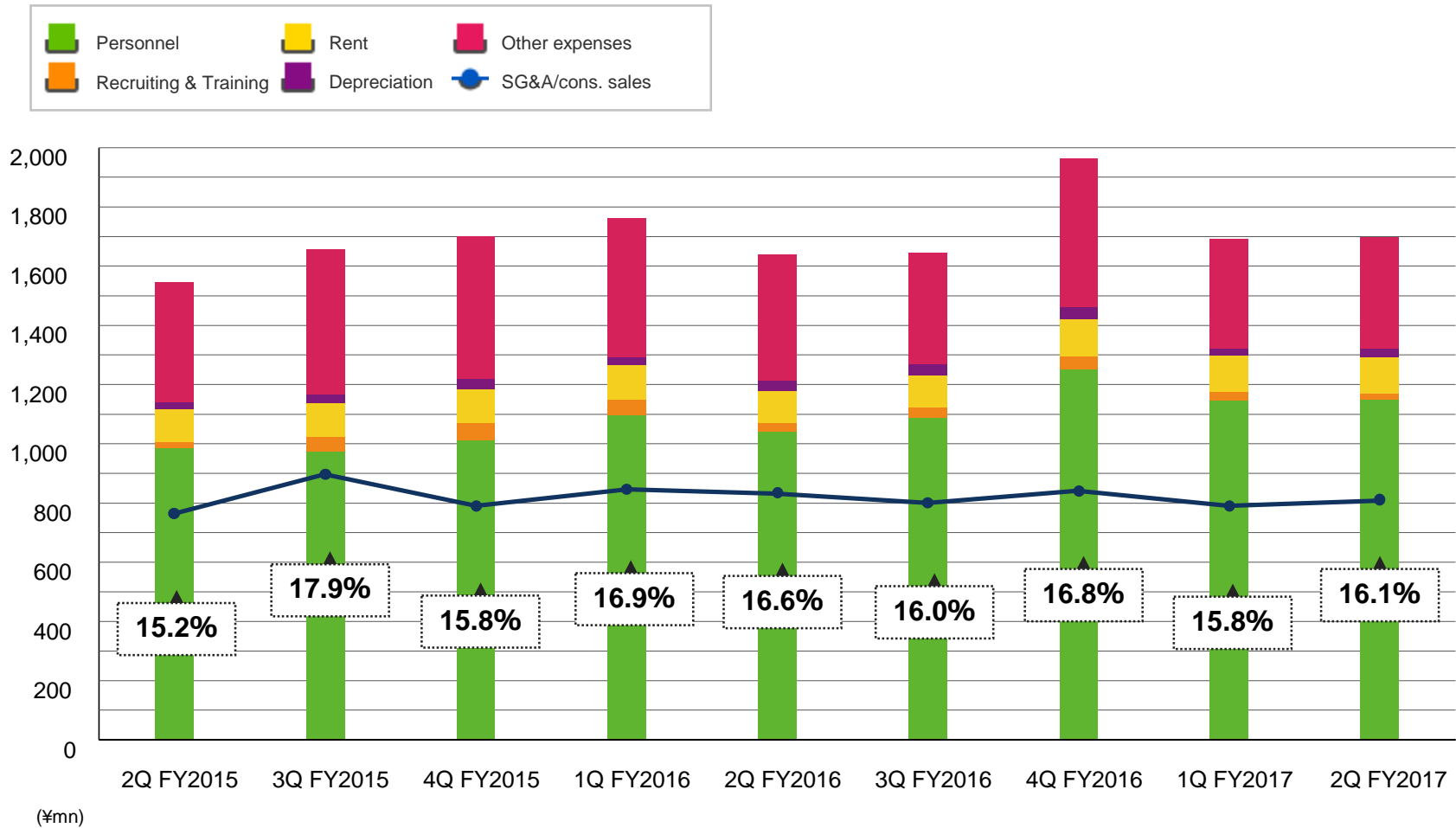
4. Supplementary Materials

Quarterly Change in Consolidated Cost of sales



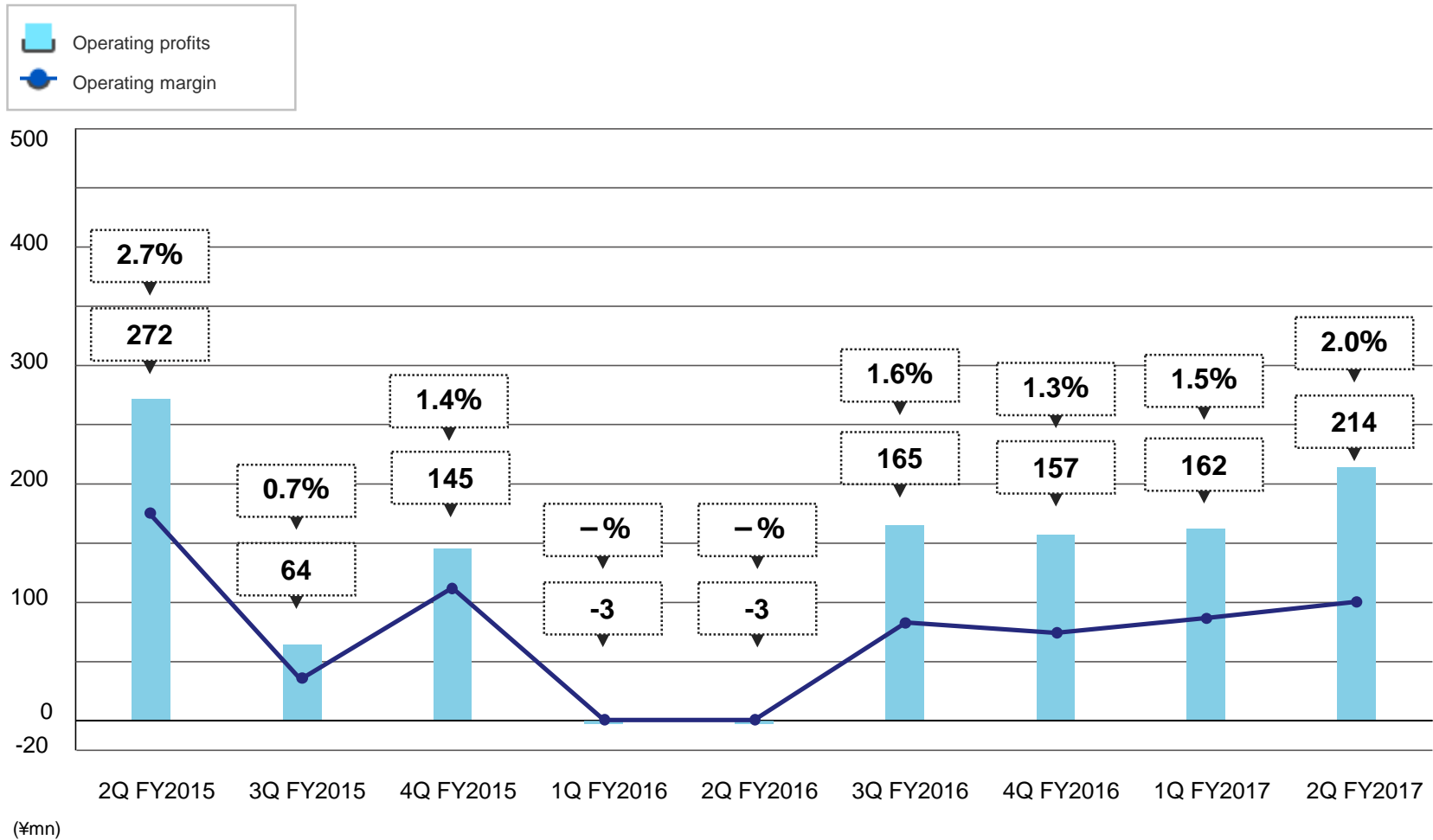
4. Supplementary Materials

Quarterly Change in Consolidated SG&A expenses



4. Supplementary Materials

Quarterly Change in Consolidated Operating profit



4. Supplementary Materials

Consolidated Balance Sheet (QoQ)

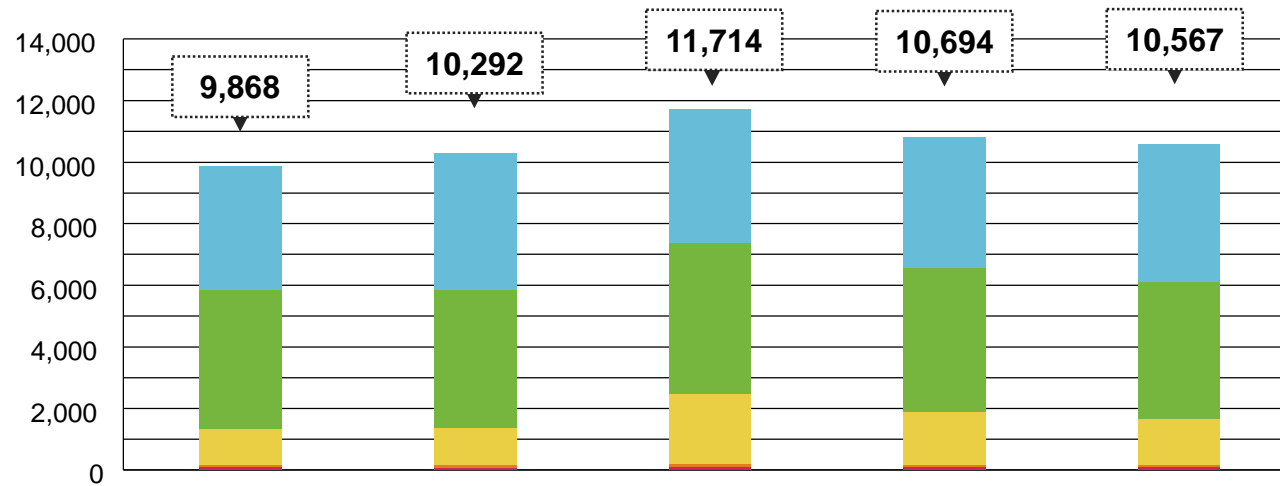
(¥mn)

	2Q FY2017	1Q FY2017	Change (¥mn)	Change (%)
Current assets	15,264	14,788	+476	+3.2%
(Cash and deposits)	8,939	8,704	+234	+2.7%
Non-current assets	2,697	2,799	-101	-3.6%
Total assets	17,962	17,587	+374	+2.1%
Current liabilities	6,927	6,602	+324	+4.9%
Non-current liabilities	121	116	+5	+4.8%
Total liabilities	7,049	6,719	+329	+4.9%
Net assets	10,913	10,868	+44	+0.4%

4. Supplementary Materials



Quarterly Breakdown of Consolidated Sales by Segment



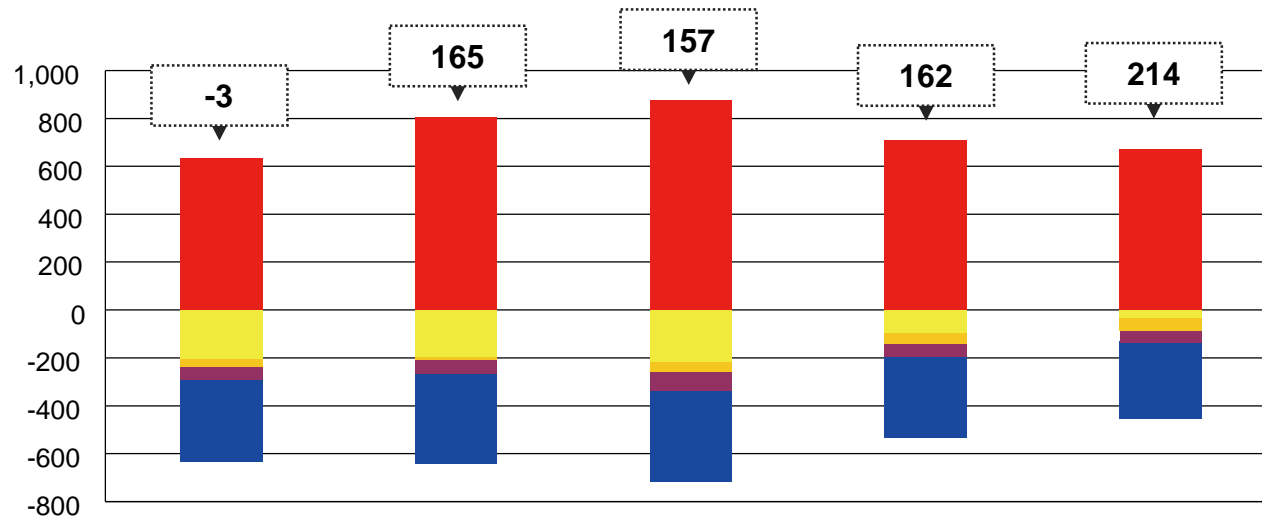
(¥mn)

	2Q FY2016	3Q FY2016	4Q FY2016	1Q FY2017	2Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Smartphone	4,102	4,530	4,442	4,231	4,482	251	+5.9%
PC	4,507	4,481	4,911	4,663	4,420	-243	-5.2%
Overseas	1,078	1,111	2,151	1,617	1,498	-119	-7.4%
App	62	80	107	68	54	-13	-19.9%
Media, Other	118	87	102	113	111	-2	-1.8%
Total	9,868	10,292	11,714	10,694	10,567	-126	-1.2%



4. Supplementary Materials

Quarterly Breakdown of Consolidated Operating profit by Segment



(¥mn)

	2Q FY2016	3Q FY2016	4Q FY2016	1Q FY2017	2Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Advertising	633	805	875	699	664	-35	-5.1%
Overseas	-207	-208	-228	-101	-35	+66	-
App	-33	-5	-31	-40	-45	-5	-
Media, Other	-48	-53	-82	-52	-53	-1	-
Eliminations & corporate	-347	-371	-375	-343	-314	+28	-
Total	-3	165	157	162	214	+52	+32.5%

4. Supplementary Materials

Quarterly Change in Group employees



4. Supplementary Materials



Company Overview

Company name	Adways Inc.	
Founded	February 28, 2001	
Business overview	Internet business	
Founder and CEO	Haruhisa Okamura	
Capital	¥1,605mn	(As of end of September 2017)
Net sales	¥ 42,329mn	(FY2016, Consolidated)
Employees * including temporary workers	1,095 (for the entire Group)	(As of end of September 2017)

