

ADWAYS

February 2018, Presentation Material

TOKYO STOCK EXCHANGE MOTHERS STOCK CODE : 2489


Financial Results Presentation for 3Q FY2017

February 5, 2018 Founder and CEO, Haruhisa Okamura



Topics

- | | | |
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| 2. FY2017 Consolidated
Performance Forecast | ●.....● | P.14 |
| 3. Business Overview | ●.....● | P.16 |
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1. 3Q FY2017 Performance

1. 3Q FY2017 Performance: Consolidated Trend of Sales

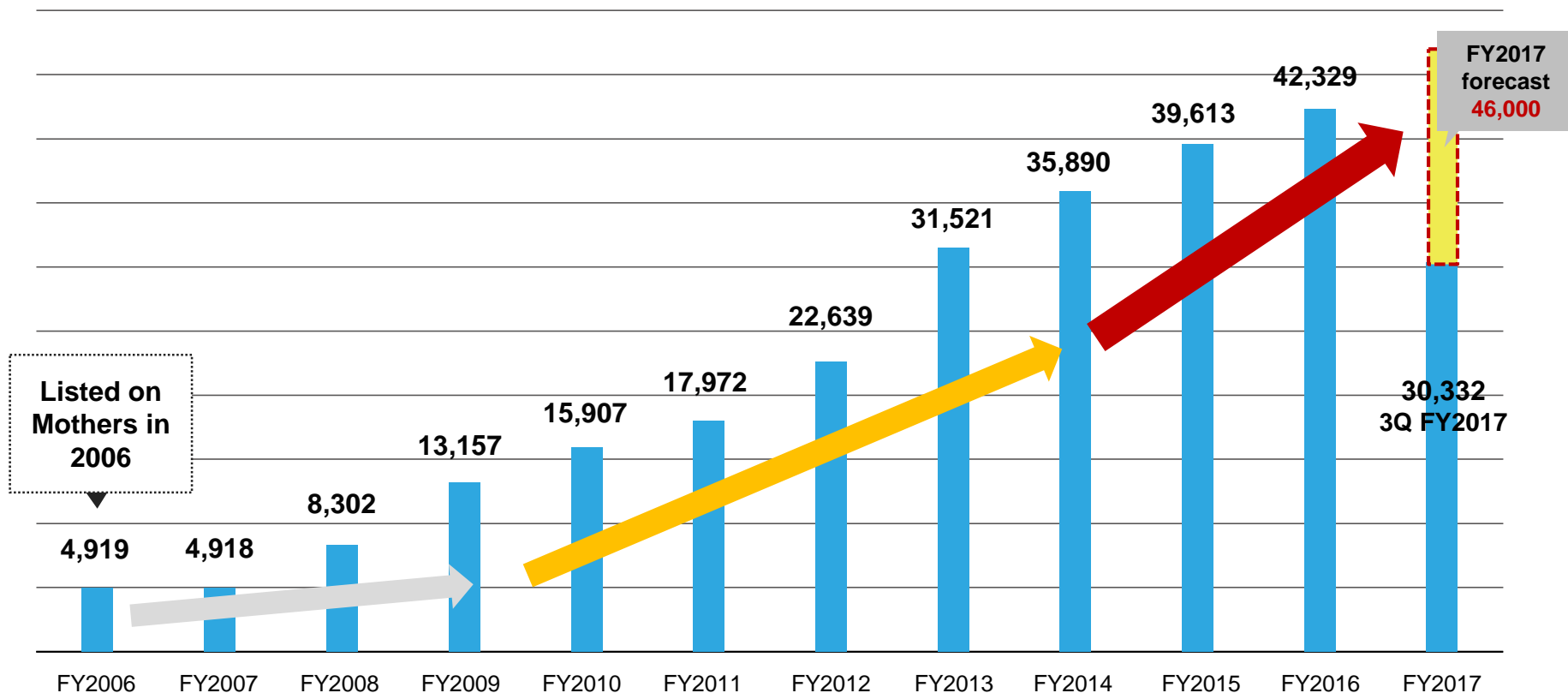
Focus on PC/feature phone
affiliate business

Launch and expansion of
smartphone advertising
business

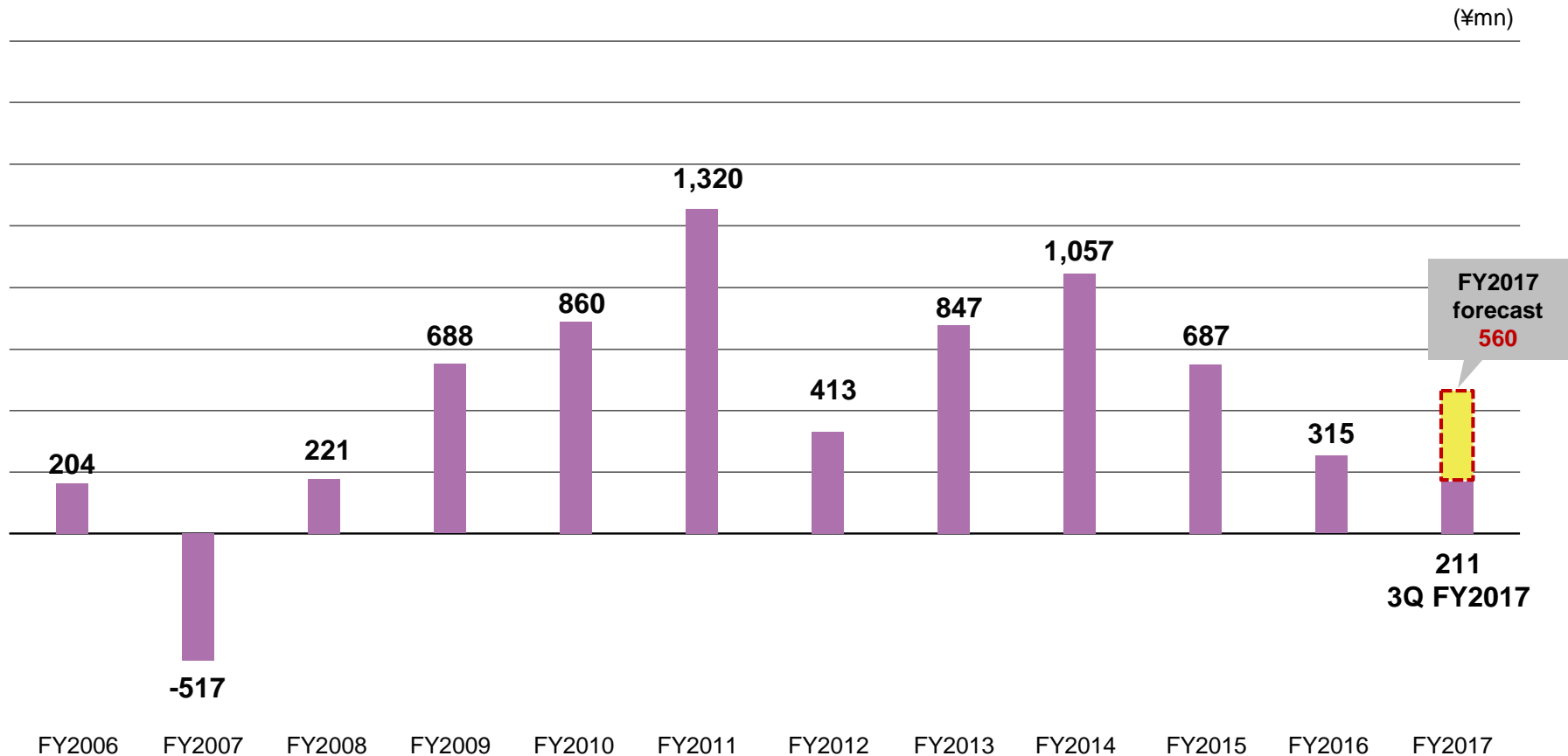
Focus on overseas
business

Focus on new
business

(¥mn)



1. 3Q FY2017 Performance: Consolidated Trend of Operating profit



1. 3Q FY2017 Performance

Cumulative Quarterly Results (YoY)

(¥mn)

	3Q FY2017 (Cumulative)	YoY 3Q FY2016 (Cumulative)		
		Result	Change (¥mn)	Change (%)
Net sales	30,332	30,615	-282	-0.9%
Gross profit	5,335	5,212	+123	+2.4%
SG&A expenses	5,124	5,053	+70	+1.4%
Operating profit	211	158	+53	+33.5%
Ordinary profit	204	119	+84	+70.7%
Profit attributable to owners of parent	-215	-251	+36	—

Net sales

Decreased ¥282mn YoY (-0.9%)

Operating profit

Increased ¥53mn YoY (+33.5%)

1. 3Q FY2017 Performance

Quarterly Results (YoY, QoQ)

(¥mn)

	3Q FY2017	YoY 3Q FY2016			QoQ 2Q FY2017		
		Result	Change (¥mn)	Change (%)	Result	Change (¥mn)	Change (%)
Net sales	9,070	10,292	-1,221	-11.9%	10,567	-1,497	-14.2%
Gross profit	1,567	1,811	-243	-13.5%	1,913	-346	-18.1%
SG&A expenses	1,733	1,645	+87	+5.3%	1,698	+34	+2.0%
Operating profit	-165	165	-331	—	214	-380	—
Ordinary profit	-191	179	-370	—	241	-433	—
Profit attributable to owners of parent	-211	4	-215	—	50	-262	—

Net sales

Decreased ¥1,221mn YoY (-11.9%)

Decreased ¥1,497mn QoQ (-14.2%)

Operating profit

Decreased ¥331mn YoY (—)

Decreased ¥380mn QoQ (—)

1. 3Q FY2017 Performance

Factors in 3Q decline in sales and Operating profit

QoQ Sales by Business

	2Q FY2017	3Q FY2017	Change
PC	¥4,420mn	¥3,407mn	-¥1,012mn
Smartphone	¥4,482mn	¥4,032mn	-¥450mn
Overseas	¥1,498mn	¥1,449mn	-¥49mn
Total	¥10,401mn	¥8,889mn	-¥1,511mn

QoQ Operating profit by Business

	2Q FY2017	3Q FY2017	Change
PC	¥664mn	¥307mn	-¥357mn
Smartphone			
Overseas	-¥35mn	-¥22mn	+¥12mn
Total	¥628mn	¥284mn	-¥344mn

*Other app business, etc. -¥36mn

Total -¥380mn

Main factors in decline in sales:

PC

- Temporary decline as Financial Services Agency tightened standards for bank card loan ads, reducing client ad budgets (including during the typical peak period for ad spending, bringing it down year-on-year)
- Temporary decline in ad conversions due to tightening of EC (health/cosmetics) ad placement regulations

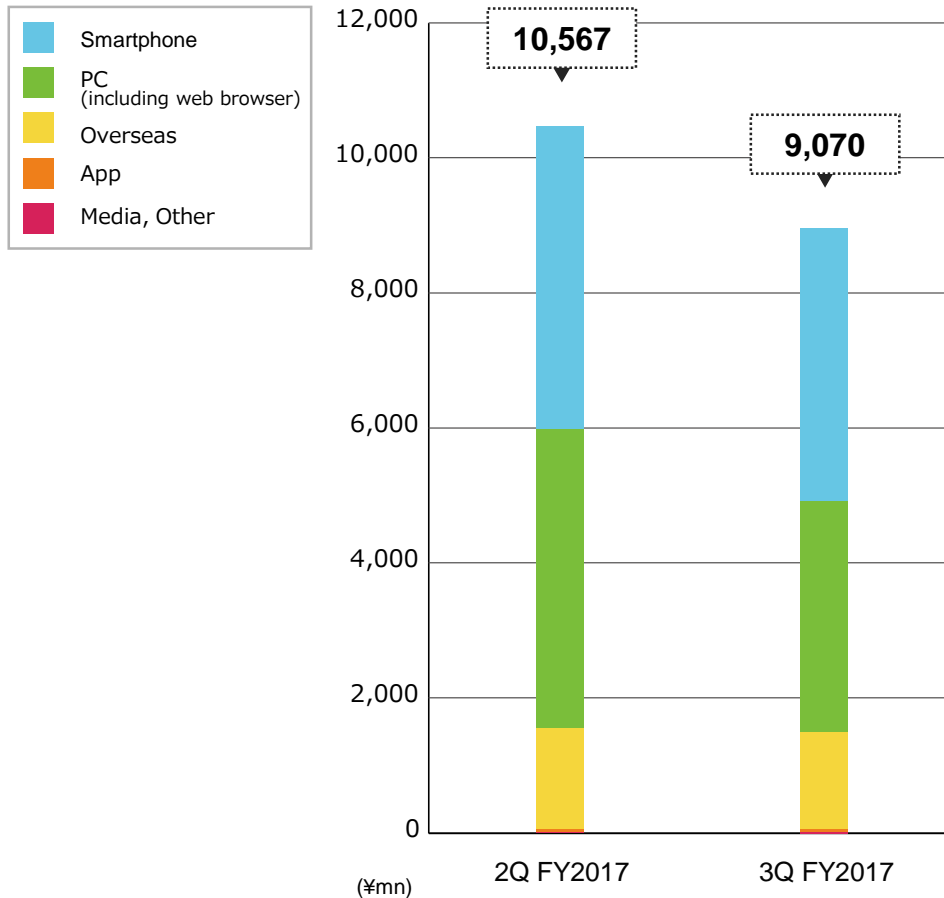
Smartphone

- Decline in sales due to reduced budgets from large campaigns and delay in game launch schedule

Structural efficiency improvement efforts since last year resulted in YoY increase in cumulative profit (operating profit up 53 million yen), mainly domestic business (finance, EC, etc.) sales declined QoQ, resulting in decreased revenue and profit

1. 3Q FY2017 Performance

Net sales (QoQ Change)



Domestic Advertising **¥7,440mn**

QoQ: -¥1,462mn (-16.4%)

Smartphone (Mainly app advertising): ¥4,032mn

QoQ: -¥450mn (-10.0%)

- Decline in sales due to reduced budgets from large campaigns and delay in game launch schedule

PC (PC web advertising and smartphone web advertising): ¥3,407mn

QoQ: -¥1,012mn (-22.9%)

- Temporary decline in ad conversions due to tightening of EC (health/cosmetics) ad placement regulations

Overseas **¥1,449mn**

QoQ: -¥49mn (-3.3%)

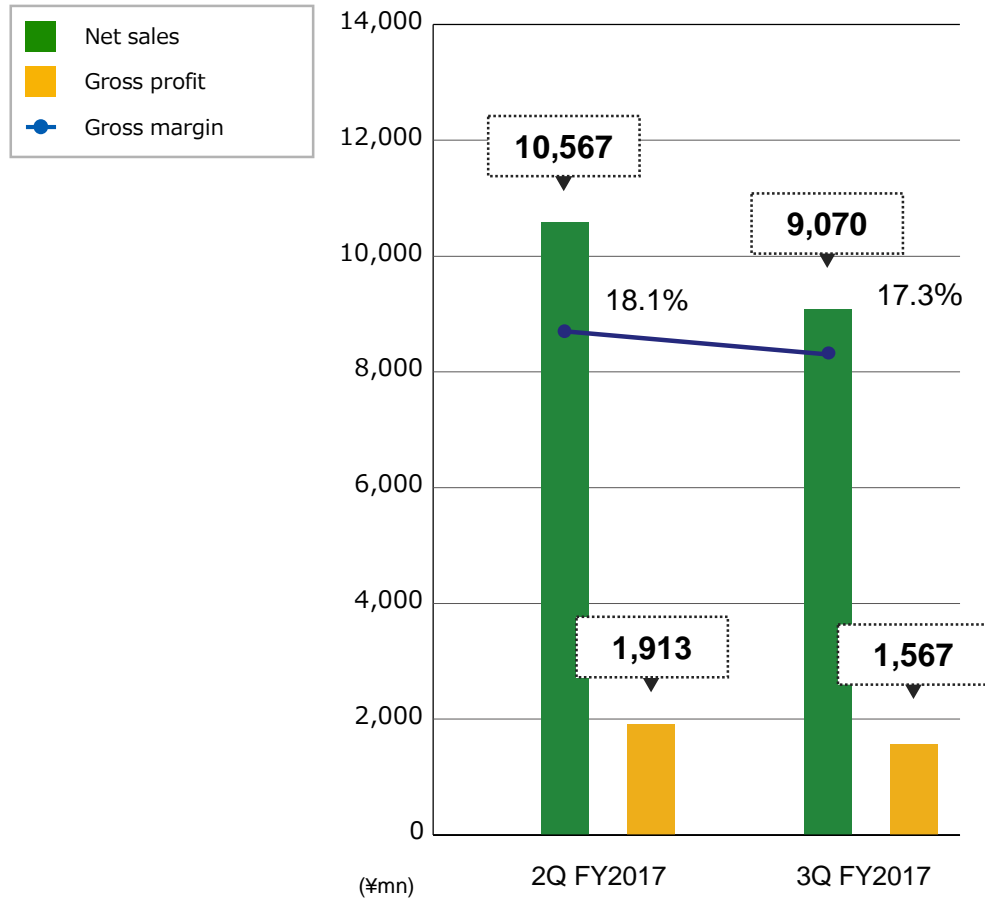
- Decreased sales QoQ, due to restructuring in some markets, YoY sales increased approximately 338 million yen (30.4%)

* The accounting periods of our overseas subsidiaries excluding India end in December, so their 3Q FY2017 (July – September) figures are consolidated with the Adways Group's 3Q FY2017 (October – December) 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. 3Q FY2017 Performance

Gross profit (QoQ Change)



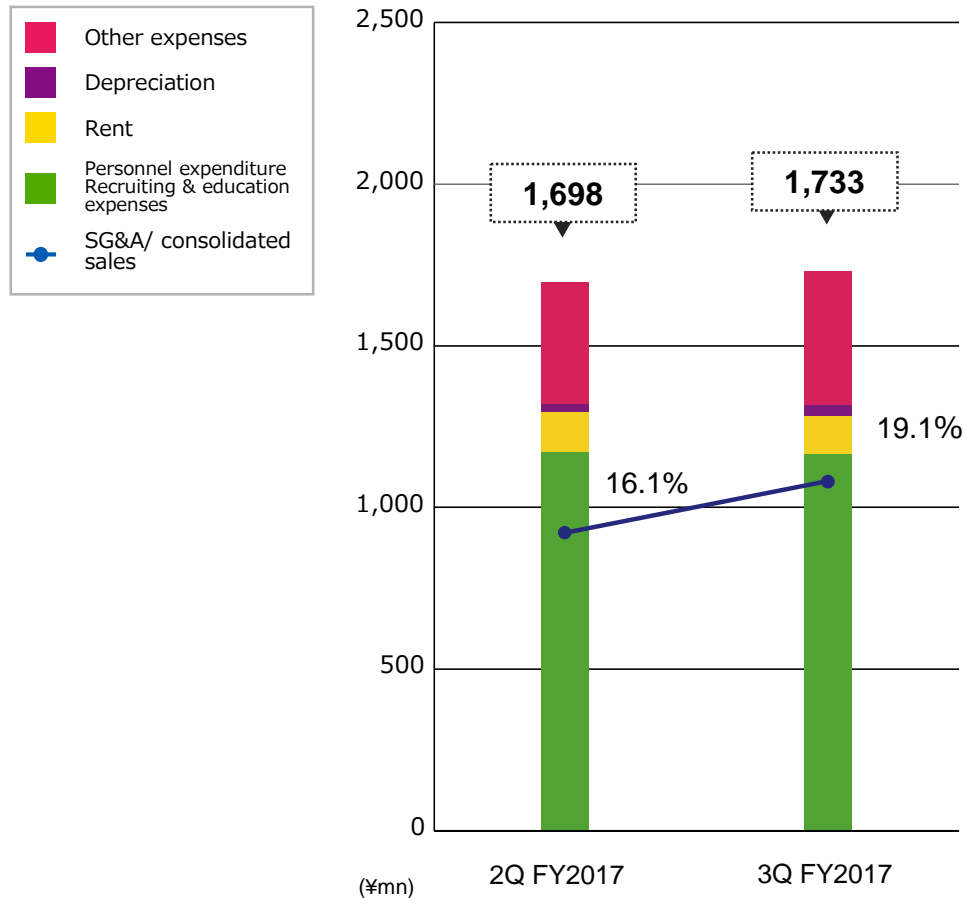
3Q Gross profit: ¥1,567mn

QoQ: -¥346mn (-18.1%)

Gross margin: 17.3% (-0.8 points)

1. 3Q FY2017 Performance

SG&A expenses (QoQ Change)



3Q SG&A expenses: ¥1,733mn

QoQ: +¥34mn (+2.0%)

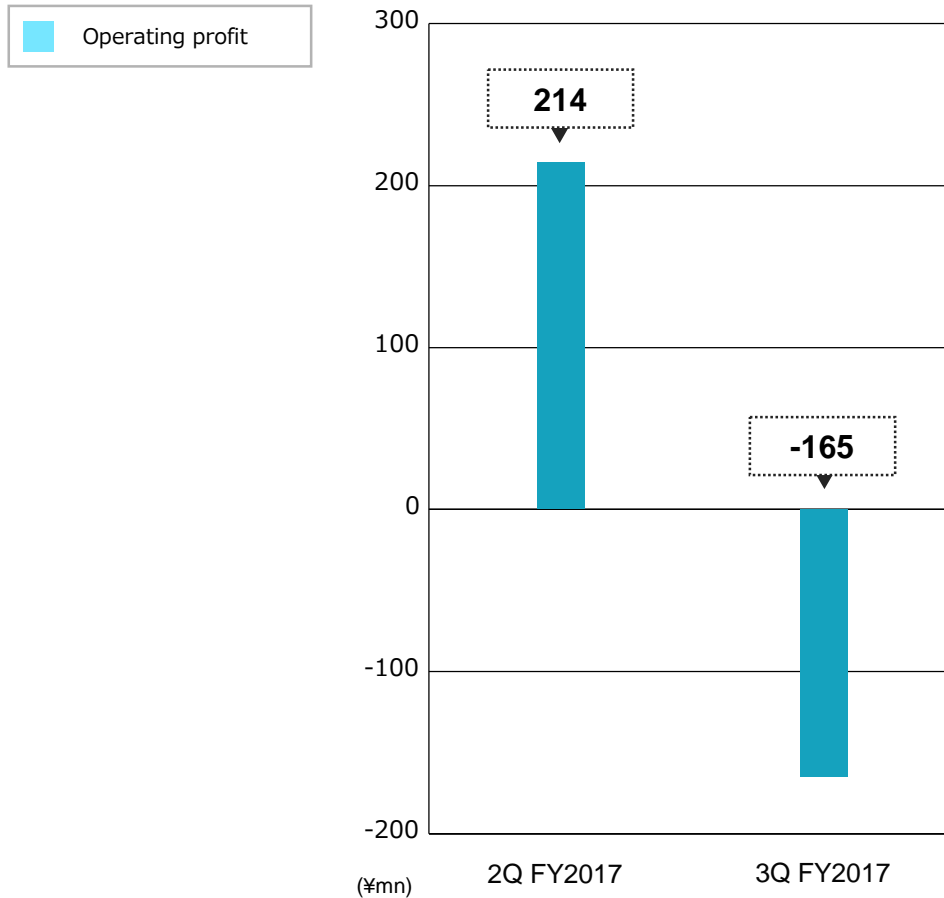
SG&A to sales ratio: 19.1% (+3.0 points)

[Main Factors in Increase]

- Bad debts expenses: +¥14mn
- Research and development costs: +¥10mn
- Supplies expenses: +¥6mn
- Commission fees: +¥5mn

1. 3Q FY2017 Performance

Operating profit (QoQ Change)



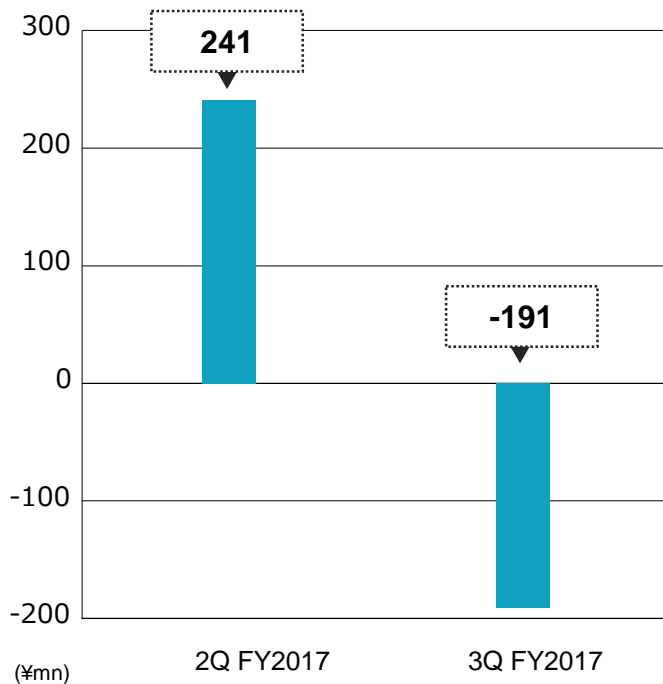
3Q Operating profit: -¥165mn

QoQ: -¥380mn (-%)

Operating margin: -%

1. 3Q FY2017 Performance

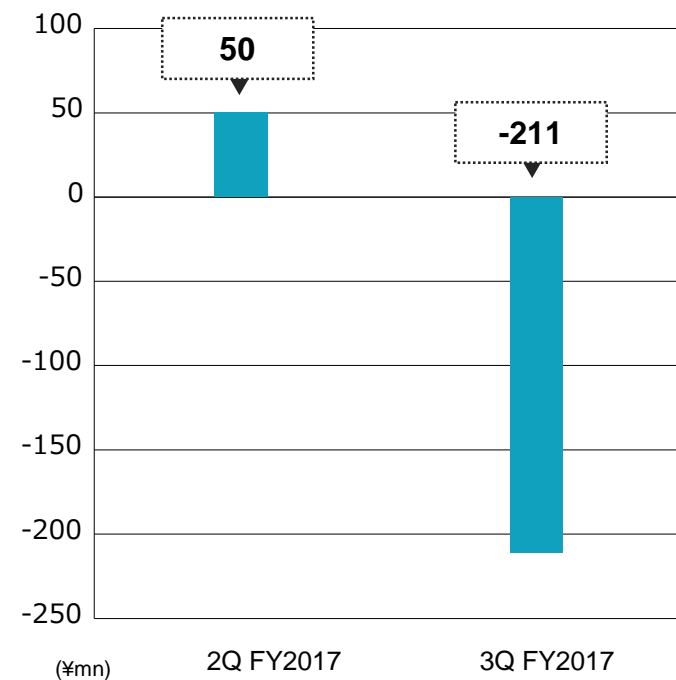
Ordinary profit (QoQ Change)



3Q Ordinary profit: -¥191mn

QoQ: -¥433mn (-%)

Profit attributable to owners of parent (QoQ Change)

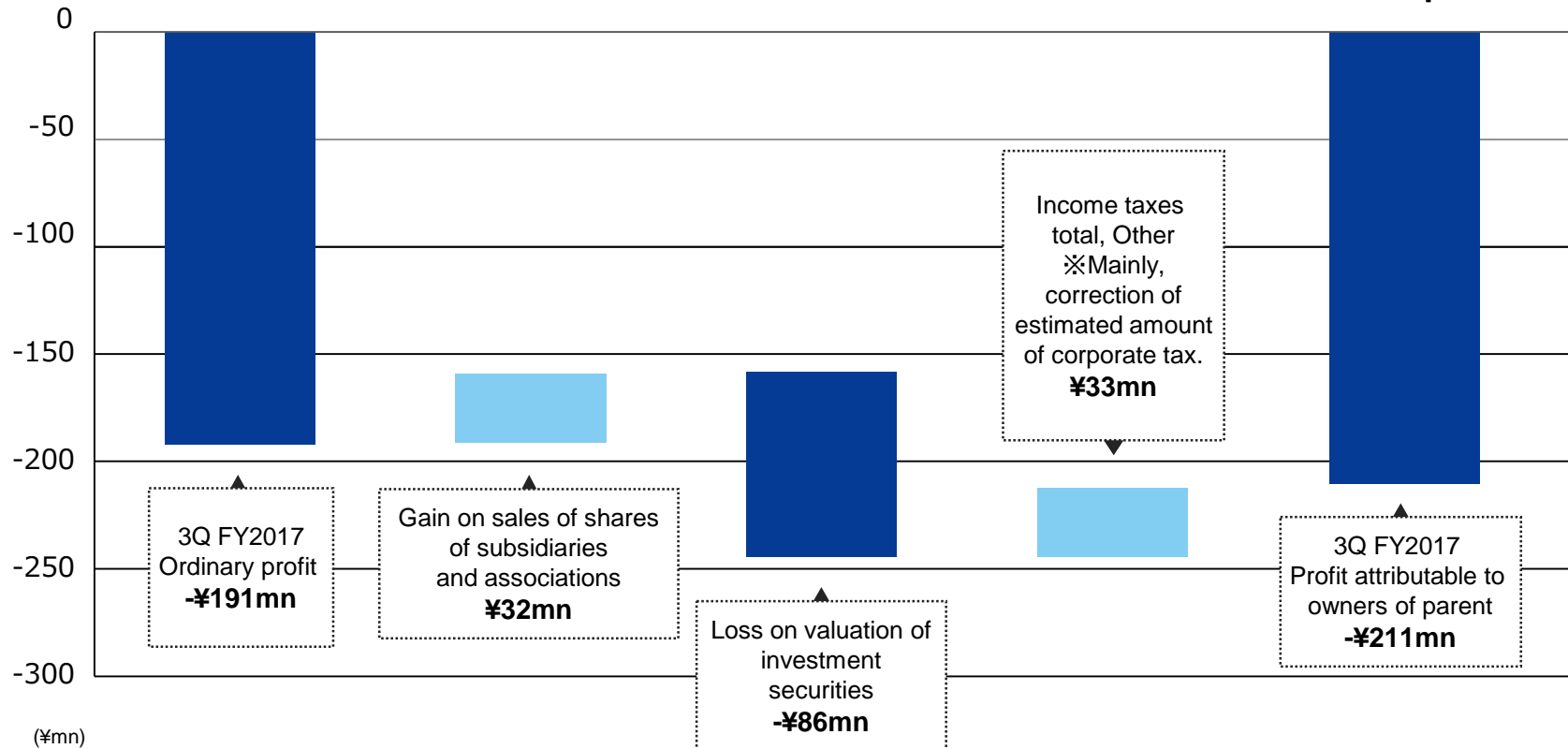


3Q Profit attributable to owners of parent: -¥211mn

QoQ: -¥262mn (-%)

1. 3Q FY2017 Performance

Breakdown of 3Q FY2017 Profit attributable to owners of parent



Gain on sales of shares of subsidiaries and associations [¥32mn]

Loss on valuation of investment securities [-¥86mn]: No. of individual stocks (10 companies)

Income taxes total, Other [¥33mn] ※Mainly, correction of estimated amount of corporate tax.



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
3Q Results	30,332	211	204	-215
Progress rate	65.9%	37.7%	28.0%	—

【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 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.

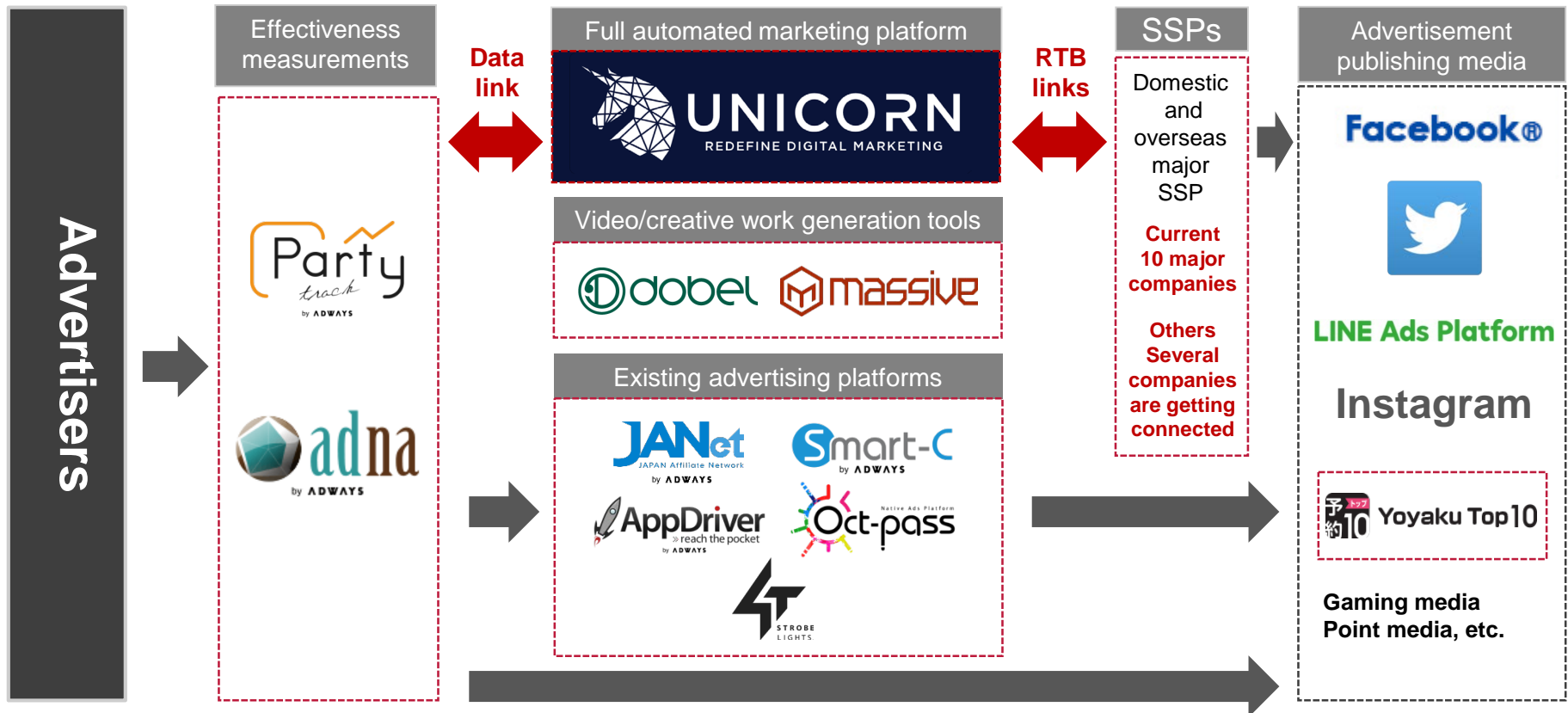


3. Business Overview



3. Business Overview: App Marketing

“Platform&Borderless”



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



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

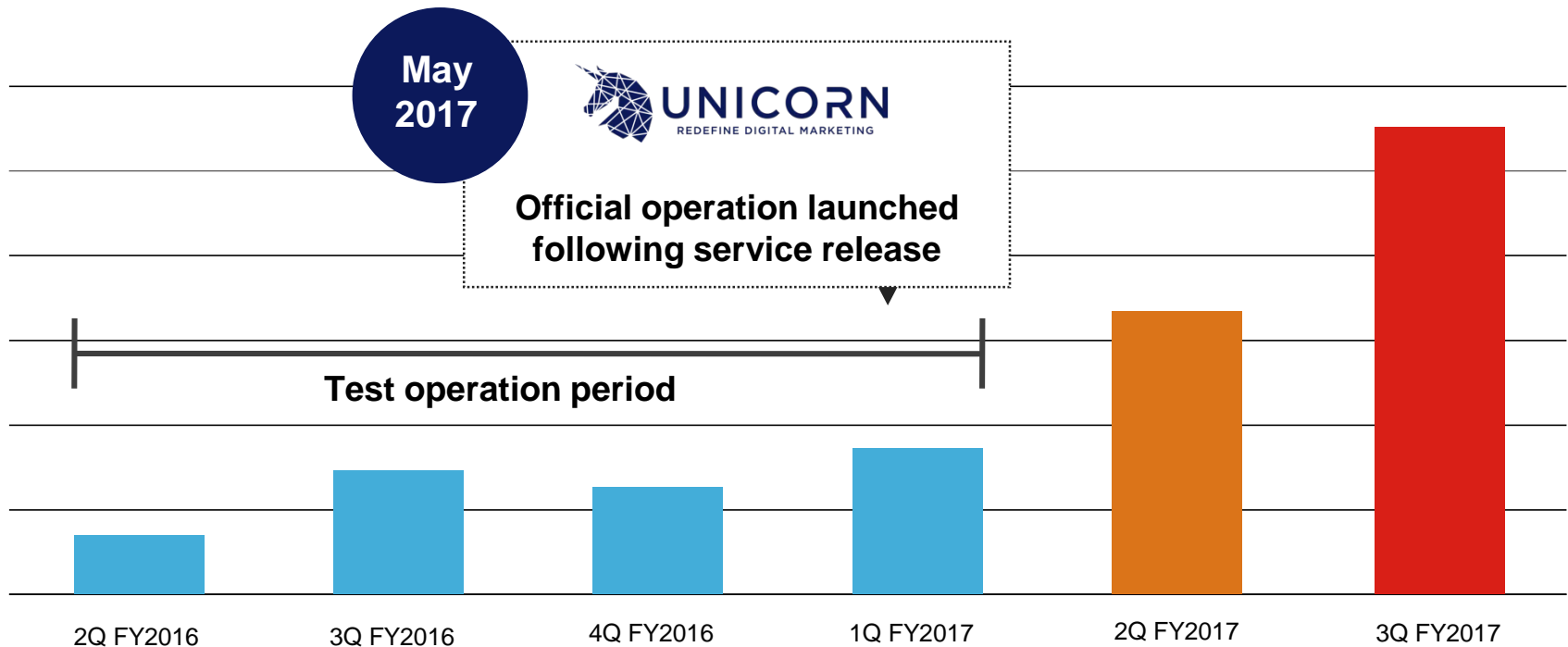
Unauthorized access and placements are blocked through a unique fraud detection algorithm

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



**Sales and number of transactions
continue to grow steadily.**

We are also increasing non-game app campaigns (news, manga, etc.)

3. Business Overview: App Marketing

ROAS* of users obtained through UNICORN



54.2% average

Other major 4 ad networks

40.0% average

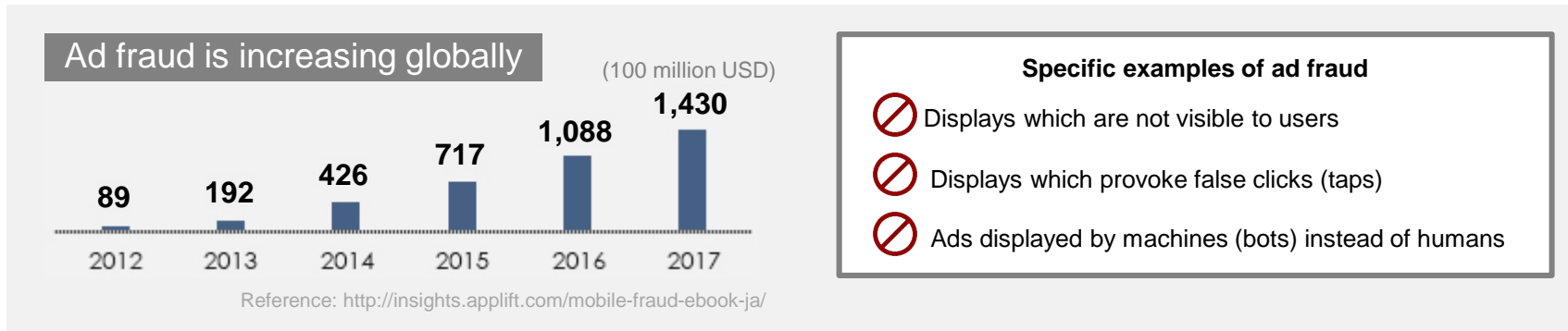
(Calculated from billing amounts of users obtained in December and advertising expenses)

Compared to other major networks,
we have continued to achieve strong ad performance

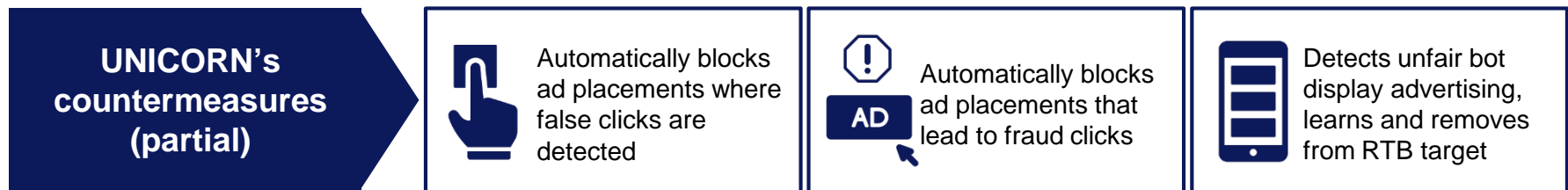
* ROAS (Return On Advertising Spend) is the rate of return gained against the advertisement expenses; it is the cost effectiveness of advertisements.

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



Rather than simply pursuing acquisition volume and low cost, **we seek to acquire users with high ROAS through ad fraud countermeasures**

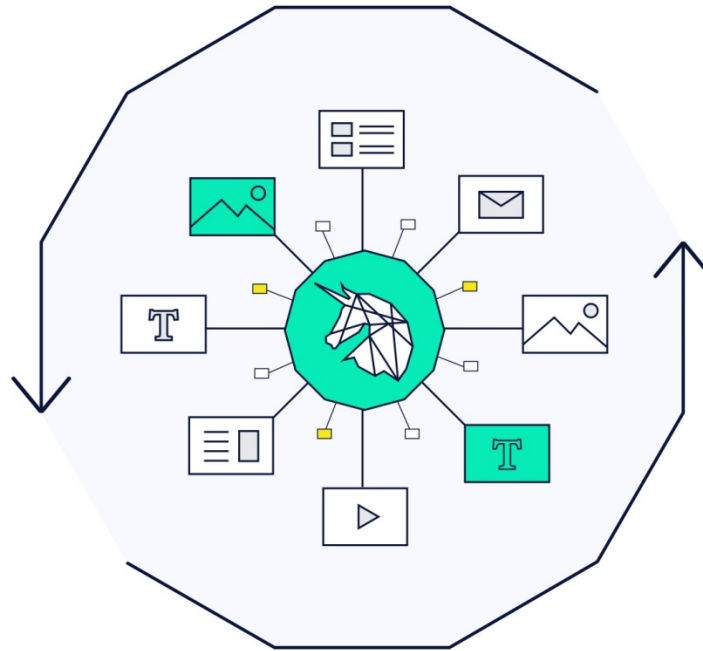
3. Business Overview: App Marketing

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
- Automated 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

As a result, UNICORN continues to obtain high ARPU* users

- Extracted from game apps and manga apps.
- Data extraction period: Oct. 1 to Dec. 31

	ARPU of users obtained through UNICORN	Organic user ARPU
Case study from Top 5 campaign	1,019.84 yen	934.52 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: **8 companies**

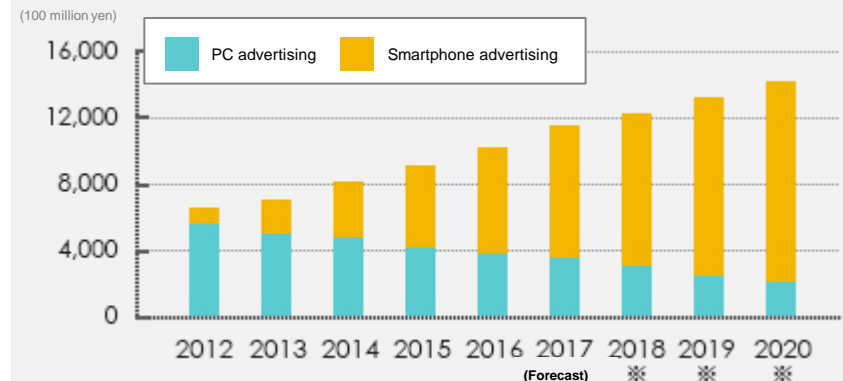
Major overseas SSPs: **2 companies**

Monthly ad inventory
exceeded **260 billion imp**

Connection to several other 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.

3. Business Overview: EC Data

"Global EC/EC Data"



China



Japan

EC users



Users gathered

Overseas
users' homes

Global EC business



Purchases through
affiliate ads

To domestic
warehouses

EC websites



EC malls



90% share
covered

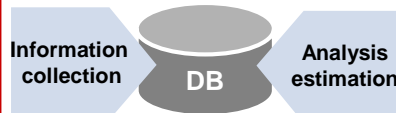
EC websites



- Vendors
- Manufacturers
- Researchers

Online information
collected

EC data business



Online information
collected

EC data provided

EC malls



Top 3
companies
cover 50%

EC websites



- Vendors
- Manufacturers
- Researchers

**We aim to expand coverage
beyond Japan and China EC markets**



Next Hint For Your Business 'Nint'

3. Business Overview: EC Data

Nint Data Business Model

**Collects public information
(big data) online**



Top 3 EC malls in Japan



More than top 90% share of EC malls in China



Leading global EC malls

**Analyzes the data collected
with Nint's own system and
estimates proceeds and
sales numbers**



**Collection
Analysis
Estimation**

**Provides analysis data to
EC operators, manufacturers,
etc.**



EC shop companies



Manufacturers



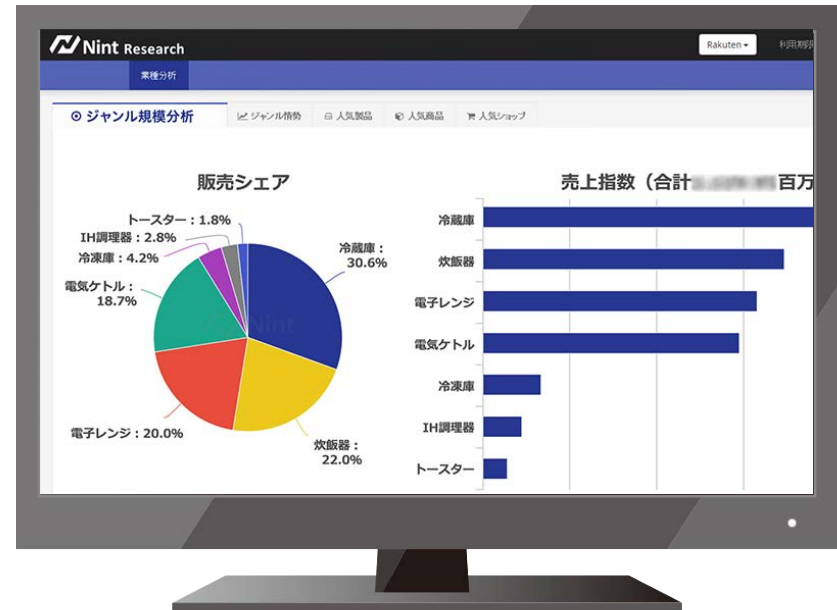
Consulting firms

EC data service that shows sales of competitor shops and manufacturers

3. Business Overview: EC Data

Nint Data

Actual EC 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.

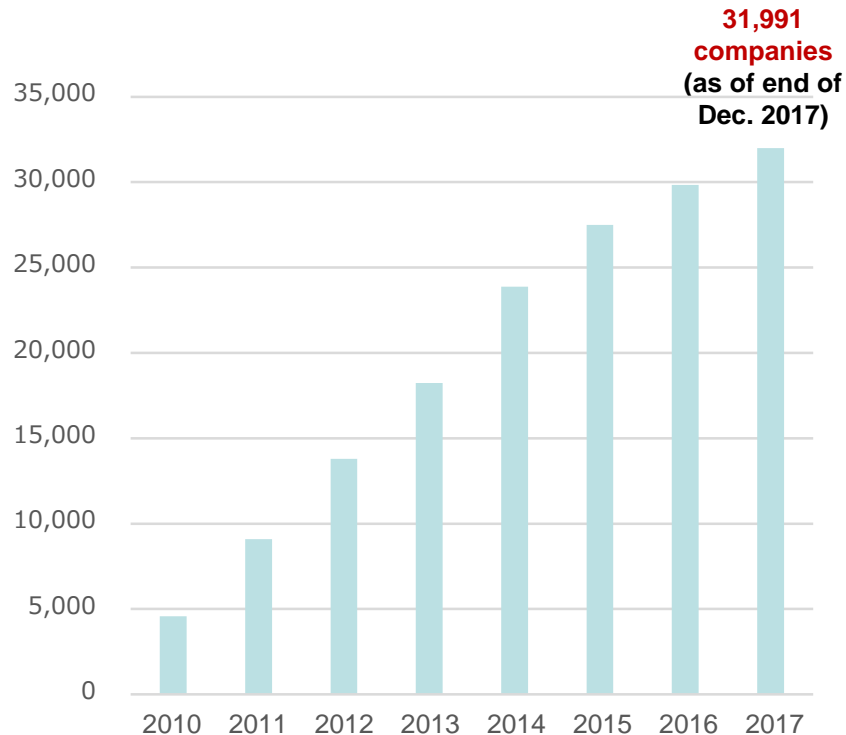


EC data that only Adways can provide

3. Business Overview: EC Data

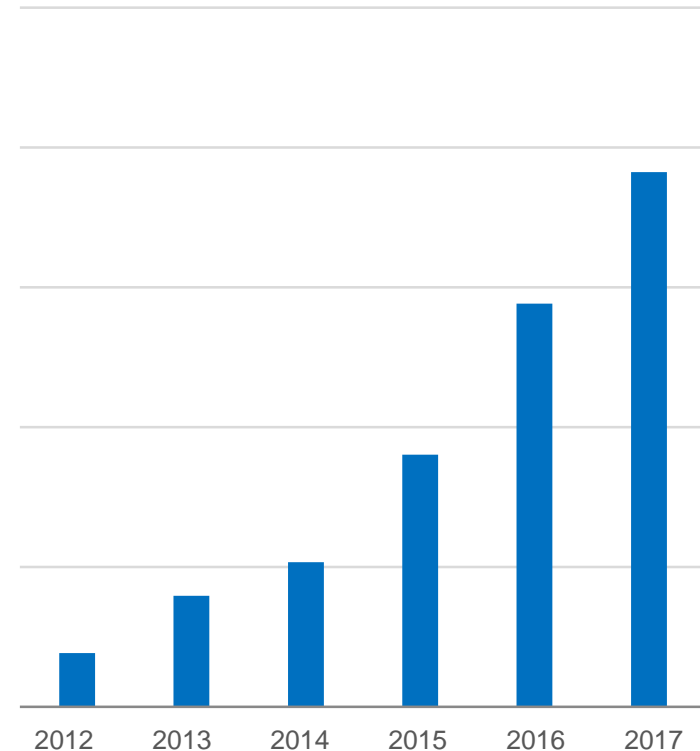
Status of Business Expansion

Number of companies using the services



Steady increase since start of business

EC data business sales



Increase in orders due to the growing importance of the EC market and **enhancement of the manufacturer (high-value) menu**

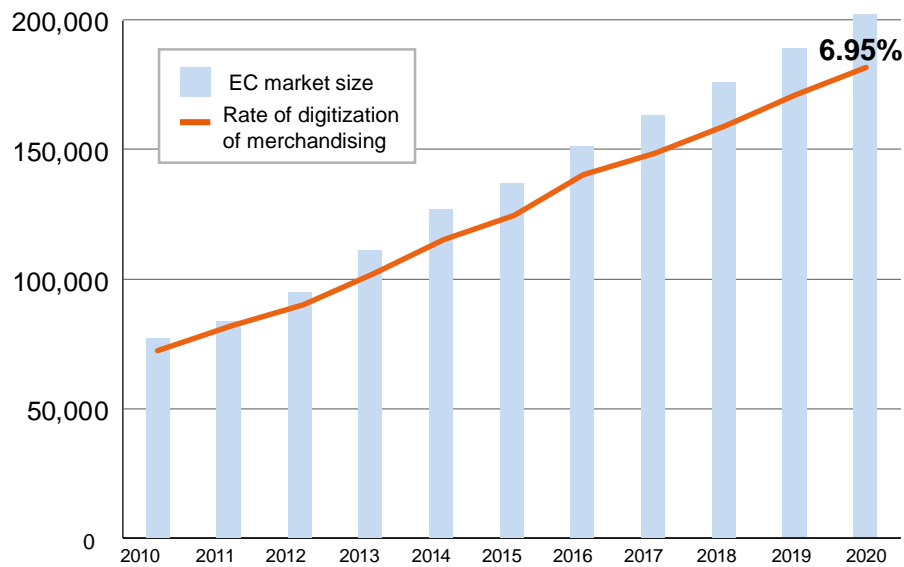
*Number of companies using the services and sales volume are each the total in Japan and China

3. Business Overview: EC Data

Why Demand for Nint is Growing

Expansion of the EC market and rate of digitization of merchandising *1

(100 million yen)



Reference: Ministry of Economy, Trade and Industry's FY2016 EC Market Survey

*1: "Rate of digitization of merchandising" is the rate of the EC 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.

State of EC operators

■ Manufacturers

[Expansion of EC scale]



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

■ EC mall shops

[Intensification of competition]



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

The impact of EC big data on companies will continue to increase

3. Business Overview: EC Data

Providing Various EC Data Necessary for EC 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



**EC market size and shares of
makers are shown**



**Services targeting
EC mall shops**

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



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

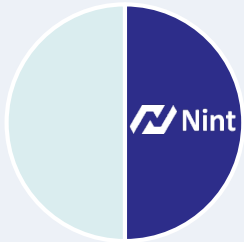


3. Business Overview: EC Data

Coverage of EC Data Collected by Nint

(as of end of Sep. 2017)

Current coverage of domestic EC market data

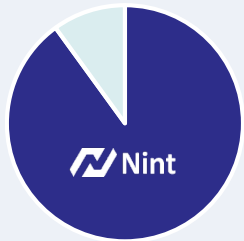


Top 3 EC malls in Japan



Approx. 50% covered

Current coverage of Chinese EC market data



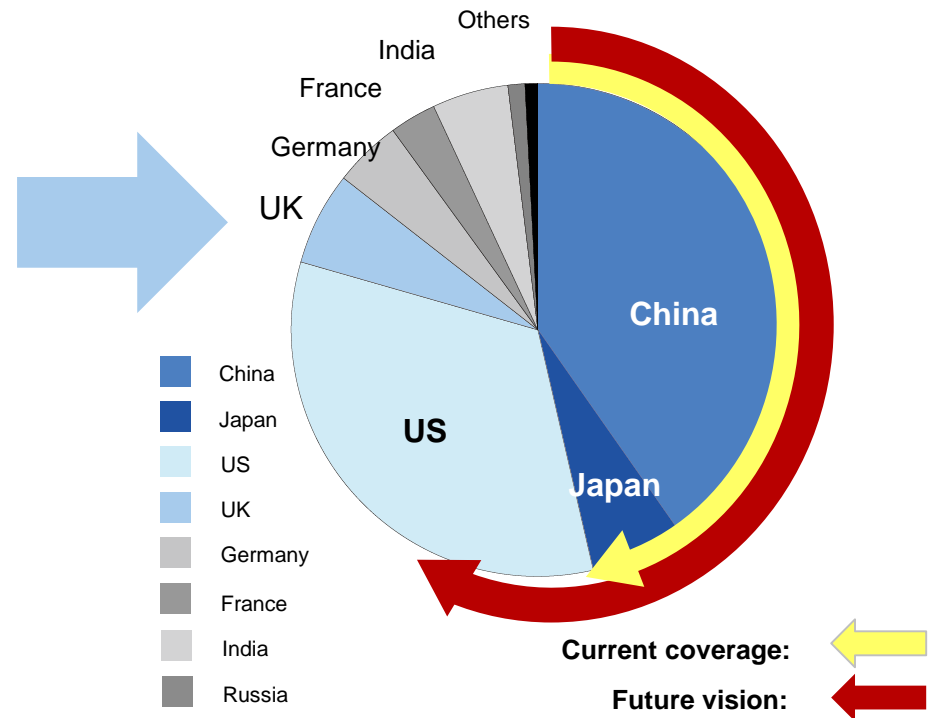
90% + share of the top EC malls in China



Approx. 90% covered

B2C transaction estimates of leading countries
(forecast for 2020)

Reference: JETRO Global Trade and Investment Report 2017



We aim to continue to increase coverage of the global EC market

3. Business Overview: EC Data

Latest Press Releases

October 11, 2017

Nint for Seller, a data analysis tool for sellers on Amazon.co.jp, launches



Analyze all sellers on Amazon.co.jp!
Research all Amazon Japan sellers, not just those of ranking products but hidden hits as well.



Strengthen support to **major domestic EC sites** to **increase sales**

November 27, 2017

Record-breaking 2.9 trillion yen-worth of products shipped on China's Singles Day: Report from Nint for China



Covering the platforms of over 80% of Chinese EC websites, Nint for China offers greater support for companies engaged in cross-border EC in China.



Analyzes and provides **valuable, up-to-date data** for **Chinese cross-border EC market**

Solving with Big Data EC Data Solutions




3. Business Overview: Global Marketing

“Platform & Borderless”

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.

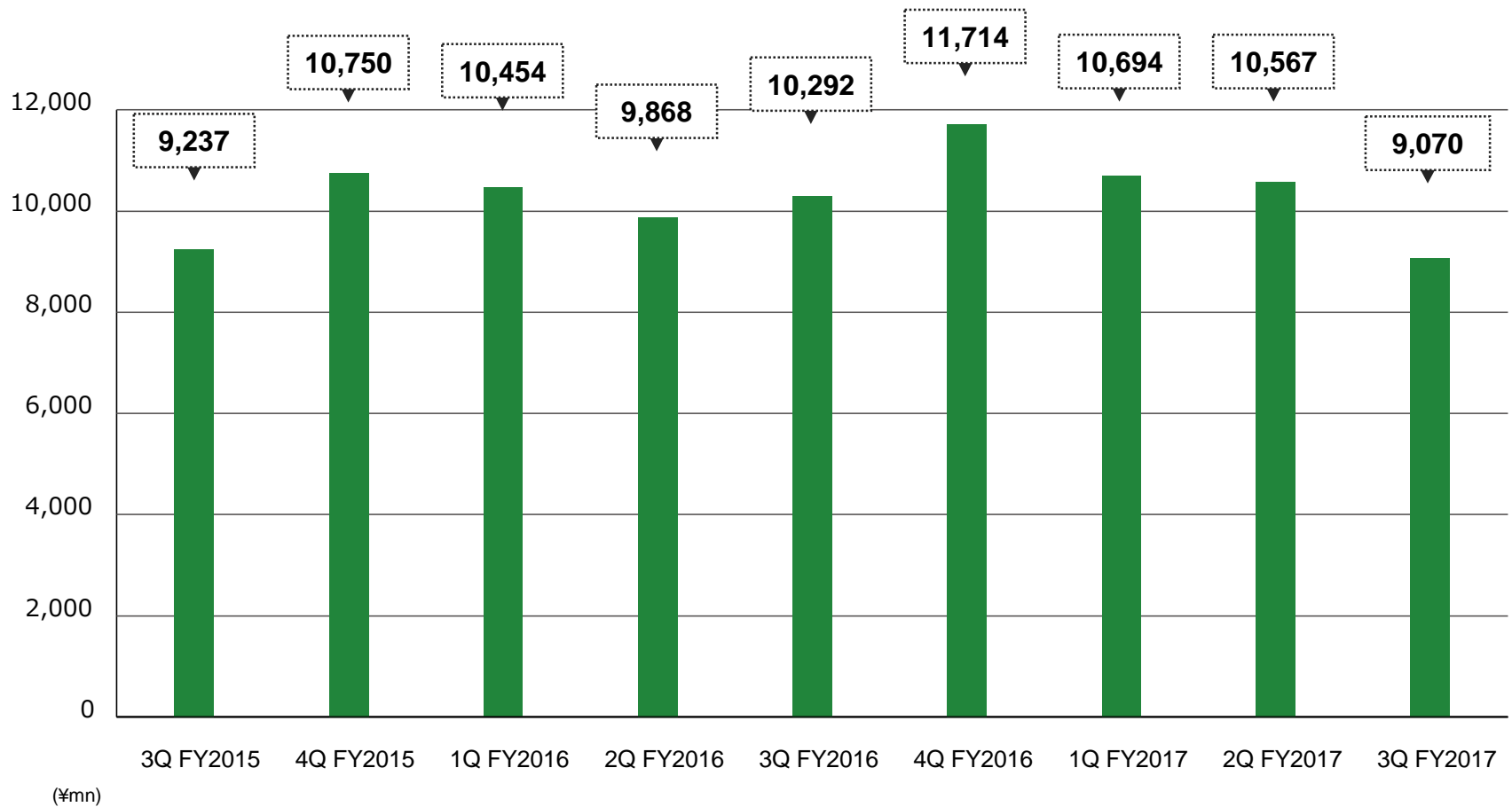
Statements made herein are based on information available as of February 5, 2018 and a variety of factors may cause the statements to differ from actual results.



4. Supplementary Materials

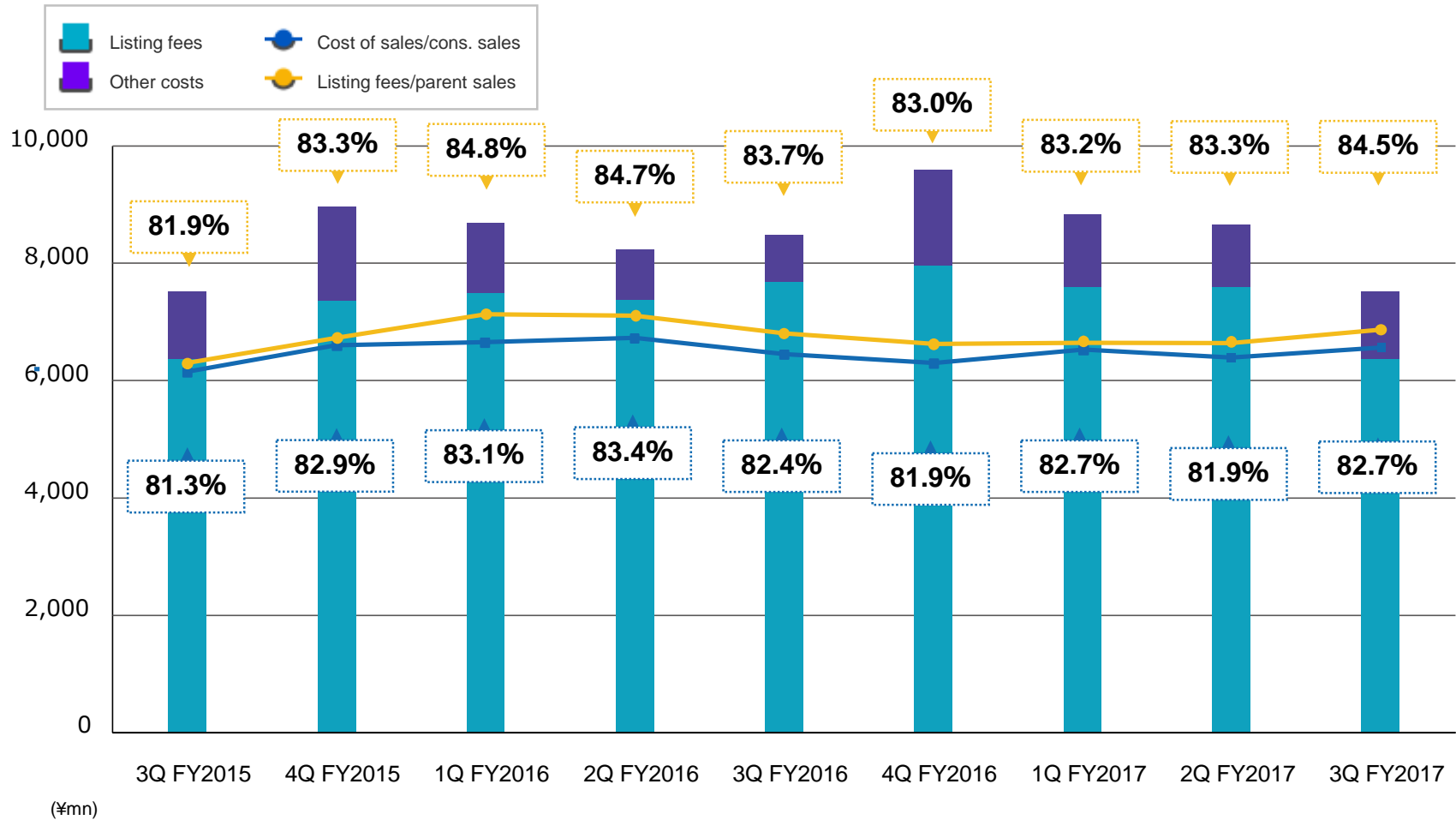
4. Supplementary Materials

Quarterly Change in Consolidated Sales



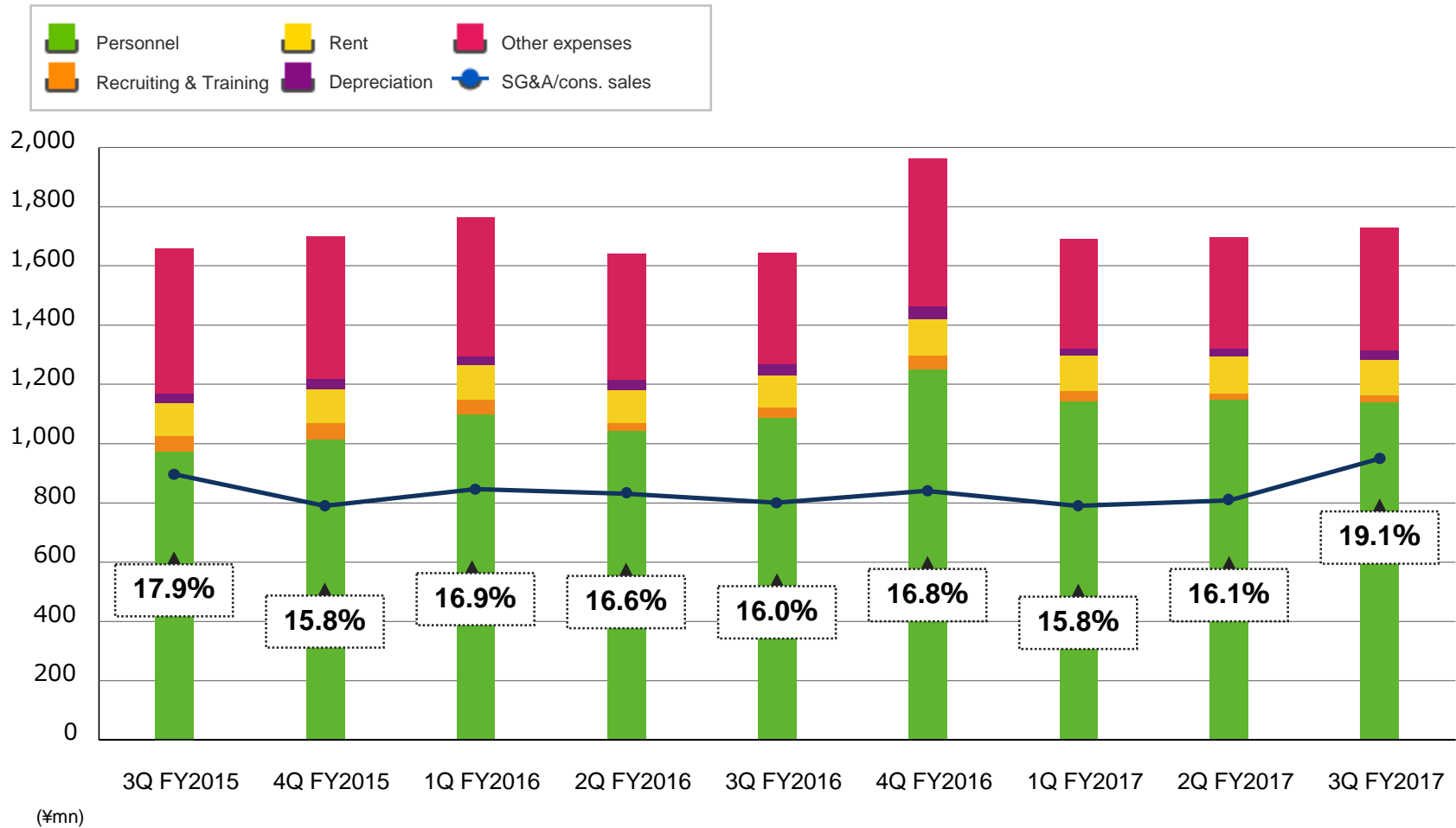
4. Supplementary Materials

Quarterly Change in Consolidated Cost of sales



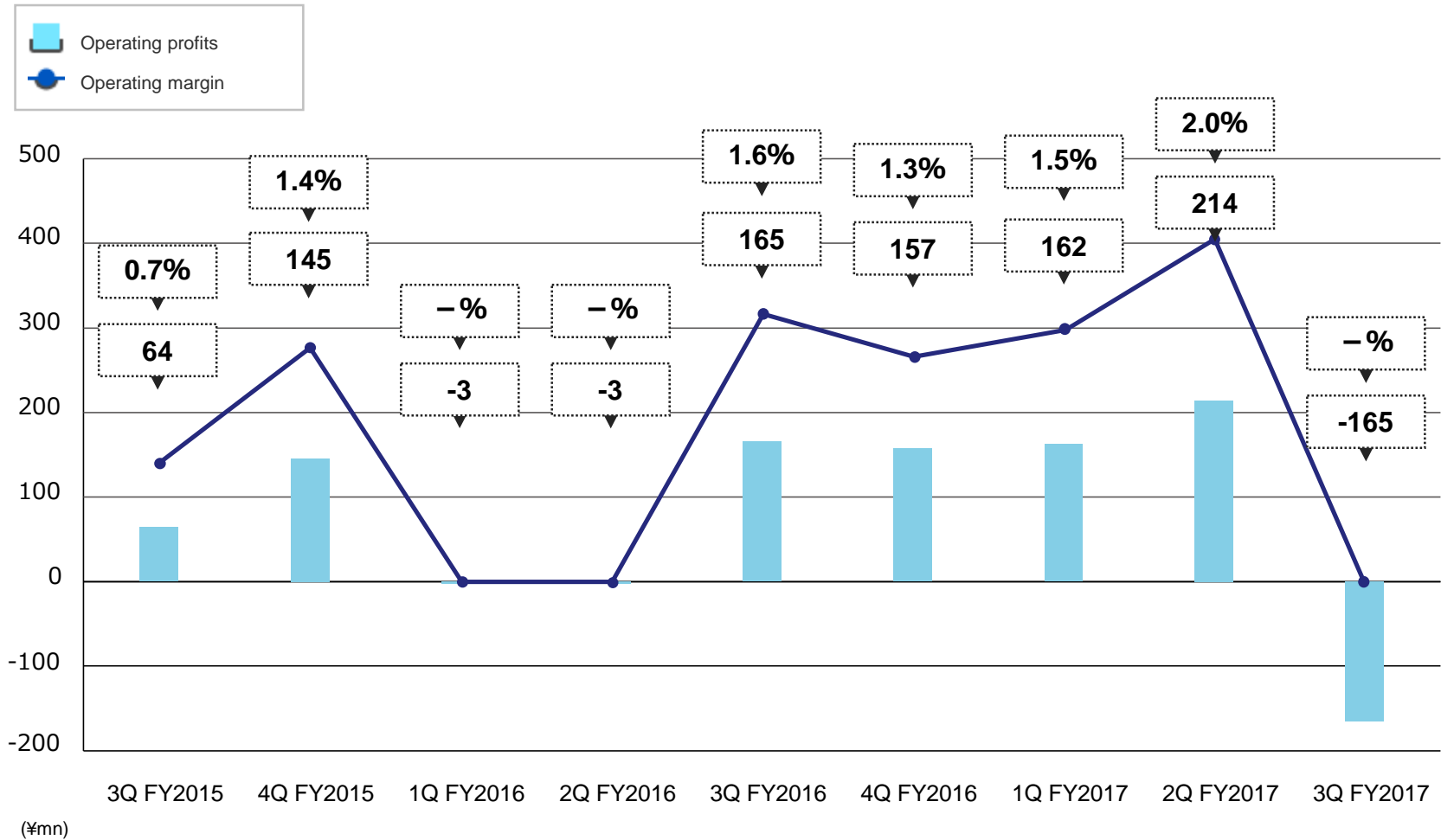
4. Supplementary Materials

Quarterly Change in Consolidated SG&A expenses



4. Supplementary Materials

Quarterly Change in Consolidated Operating profit



4. Supplementary Materials

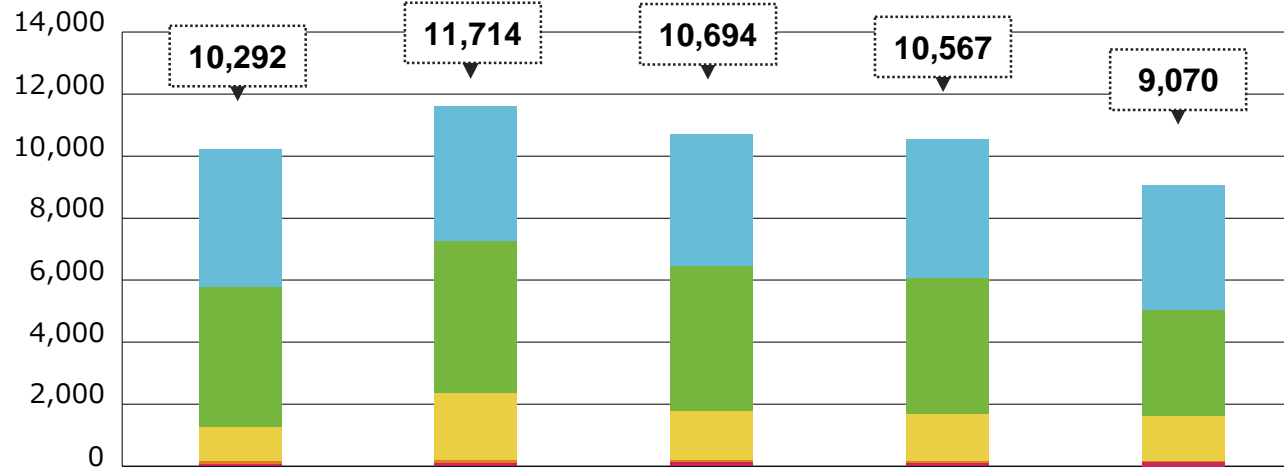
Consolidated Balance Sheet (QoQ)

(¥mn)

	3Q FY2017	2Q FY2017	Change (¥mn)	Change (%)
Current assets	14,341	15,264	-922	-6.0%
(Cash and deposits)	9,016	8,939	+77	+0.9%
Non-current assets	2,695	2,697	-2	-0.1%
Total assets	17,036	17,962	-925	-5.2%
Current liabilities	6,126	6,927	-800	-11.6%
Non-current liabilities	159	121	+37	+30.5%
Total liabilities	6,285	7,049	-763	-10.8%
Net assets	10,750	10,913	-162	-1.5%

4. Supplementary Materials

Quarterly Breakdown of Consolidated Sales by Segment

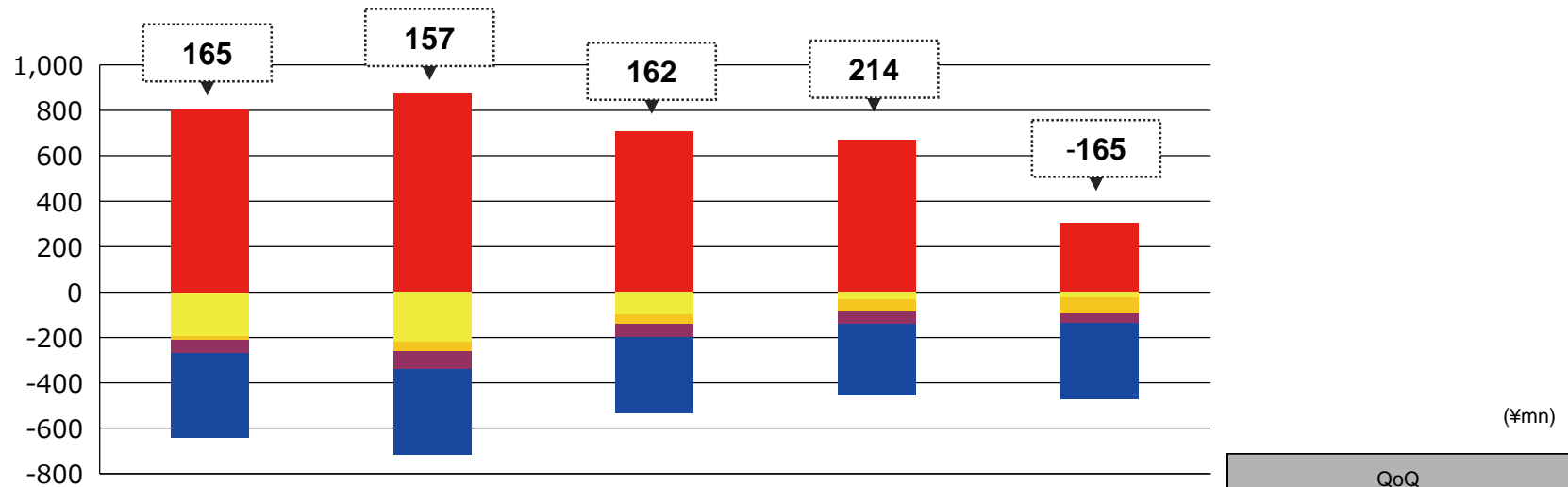


(¥mn)

	3Q FY2016	4Q FY2016	1Q FY2017	2Q FY2017	3Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Smartphone	4,530	4,442	4,231	4,482	4,032	-450	-10.0%
PC	4,481	4,911	4,663	4,420	3,407	-1,012	-22.9%
Overseas	1,111	2,151	1,617	1,498	1,449	-49	-3.3%
App	80	107	68	54	50	-3	-7.3%
Media, Other	87	102	113	111	129	+18	+16.5%
Total	10,292	11,714	10,694	10,567	9,070	-1,497	-14.2%

4. Supplementary Materials

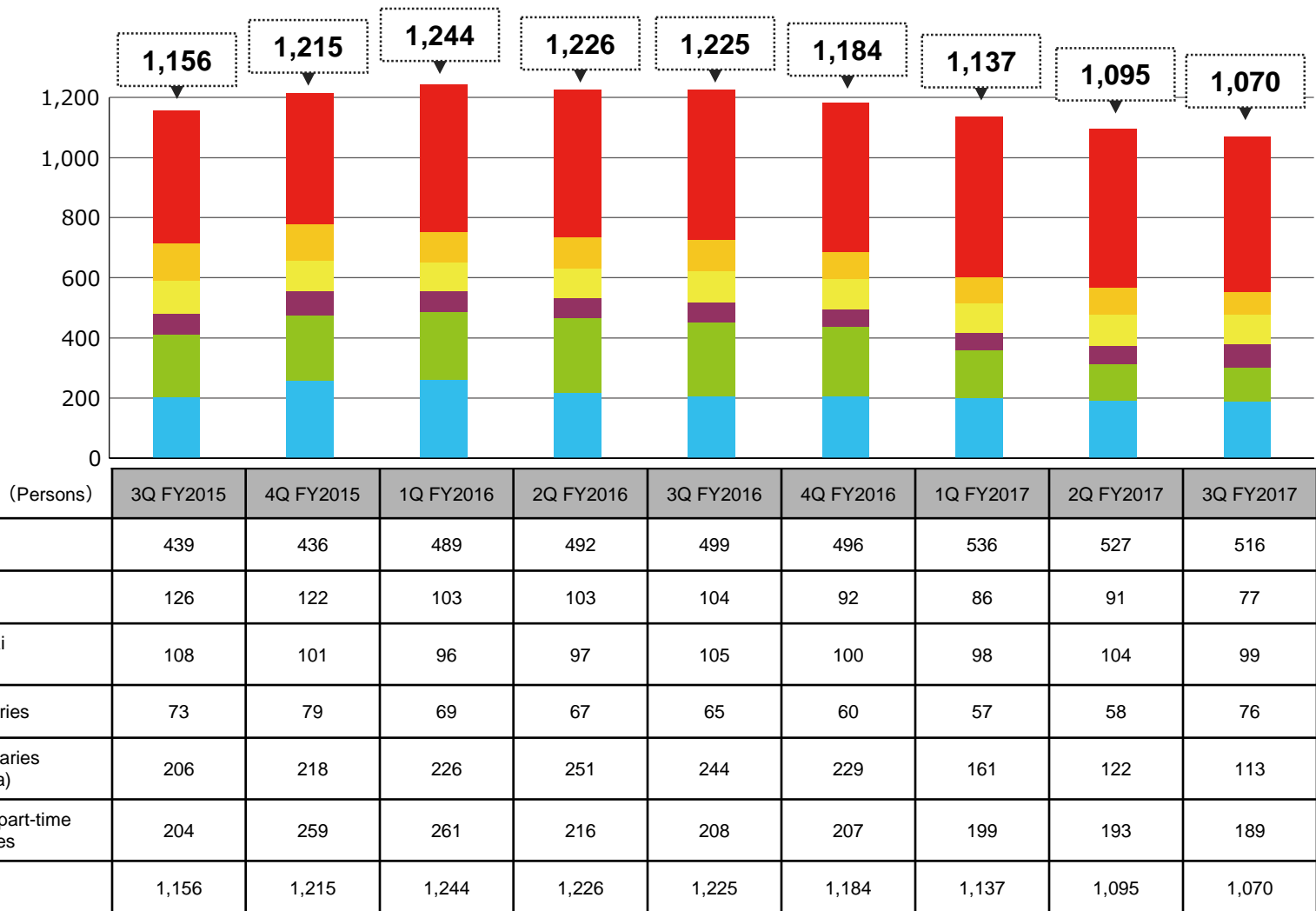
Quarterly Breakdown of Consolidated Operating profit by Segment



	3Q FY2016	4Q FY2016	1Q FY2017	2Q FY2017	3Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Advertising	805	875	699	664	307	-357	-53.8%
Overseas	-208	-228	-101	-35	-22	+12	—
App	-5	-31	-40	-45	-71	-25	—
Media, Other	-53	-82	52	-53	-44	+8	—
Eliminations & corporate	-371	-375	-343	-314	-334	-19	—
Total	165	157	162	214	-165	-380	—

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 December 2017)

Net sales ¥ 42,329mn (FY2016, Consolidated)

Employees 1,070 (for the entire Group) (As of end of December 2017)
* including temporary workers