

ADWAYS

May 2018, Presentation Material

TOKYO STOCK EXCHANGE MOTHERS STOCK CODE : 2489

Financial Results Presentation for Full Year FY2017

May 11, 2018 Founder and CEO, Haruhisa Okamura



Topics

1. Full Year FY2017 Performance P.2
2. 4Q FY2017 Performance P.14
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1. Full Year FY2017 Performance

1. Full Year FY2017 Performance: Consolidated Trend of Sales

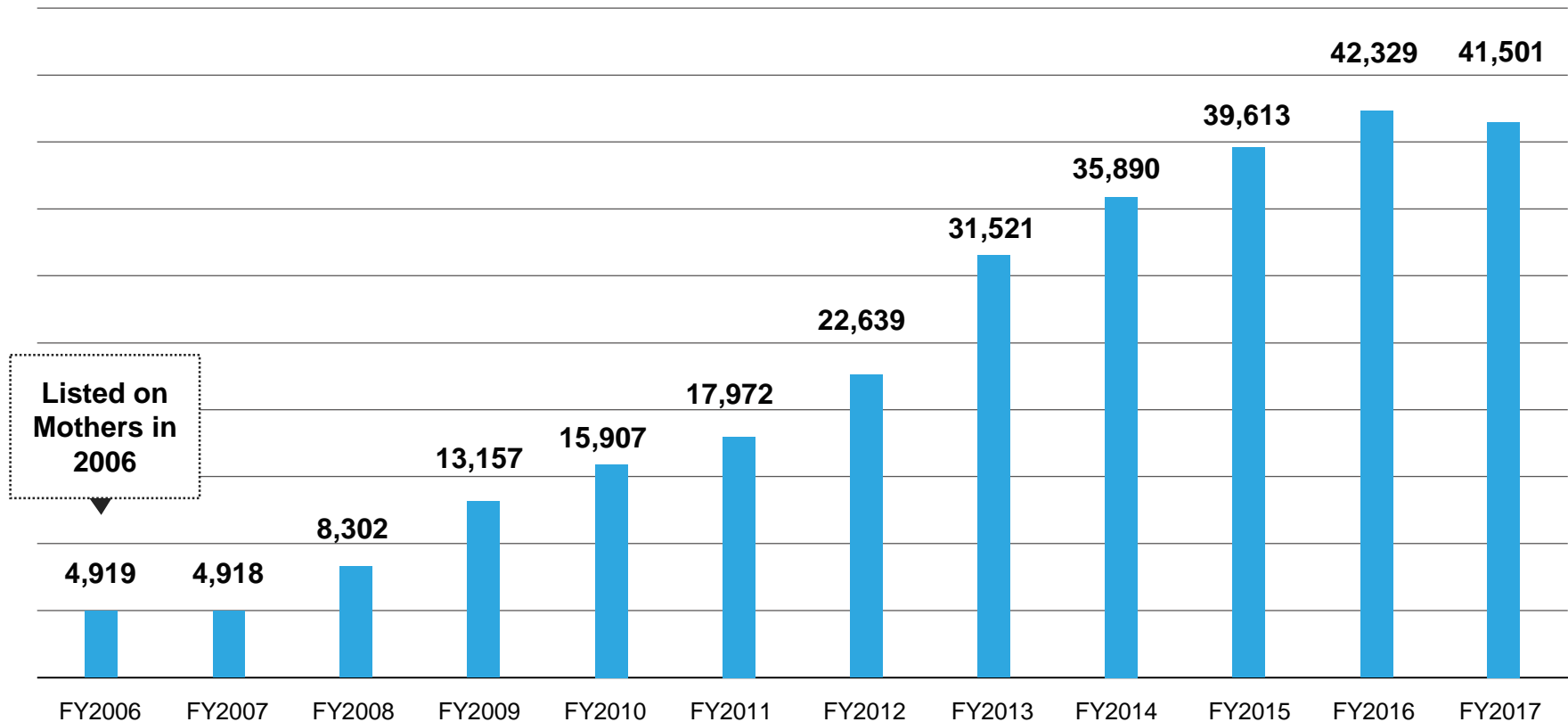
Focus on PC/feature phone
affiliate business

Launch and expansion of
smartphone advertising
business

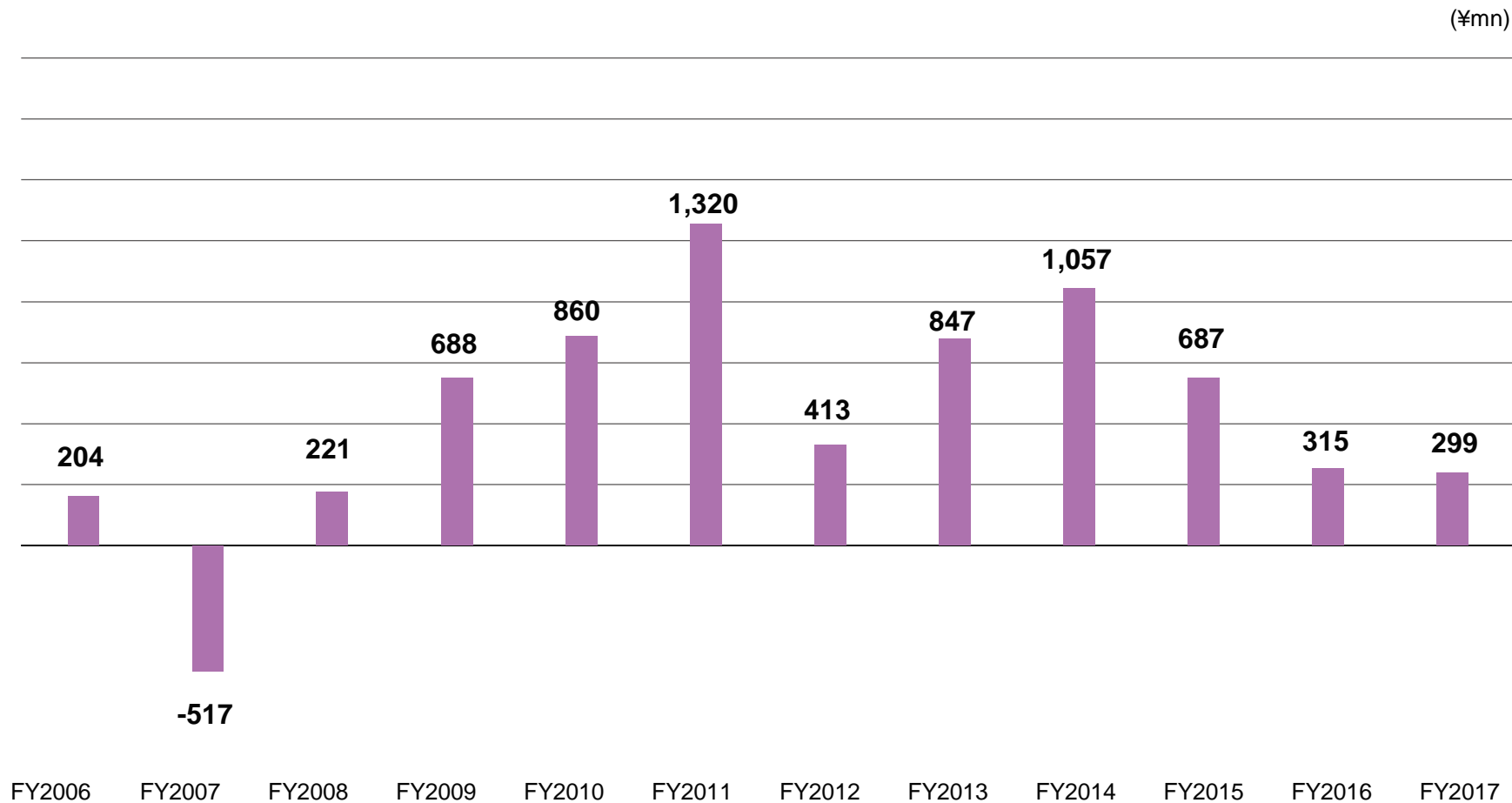
Focus on overseas
business

Focus on new
business

(¥mn)



1. Full Year FY2017 Performance: Consolidated Trend of Operating profit



1. Full Year FY2017 Performance

FY2017 Consolidated Performance Forecast values and Results

(¥mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of the parent
FY2017 Forecast	46,000	560	730	220
Results	41,501	299	575	9
Progress rate	90.2%	53.5%	78.9%	4.5%

*Figures below second decimal place rounded off

1. Full Year FY2017 Performance

Cumulative Quarterly Results (YoY)

(¥mn)

	FY2017 (Cumulative)	YoY FY2016 (Cumulative)		
		Result	Change (¥mn)	Change (%)
Net sales	41,501	42,329	-828	-2.0%
Gross profit	7,173	7,335	-161	-2.2%
SG&A expenses	6,874	7,019	-145	-2.1%
Operating profit	299	315	-16	-5.2%
Ordinary profit	575	248	+327	+132.0%
Profit attributable to owners of parent	9	-450	+460	-

Net sales

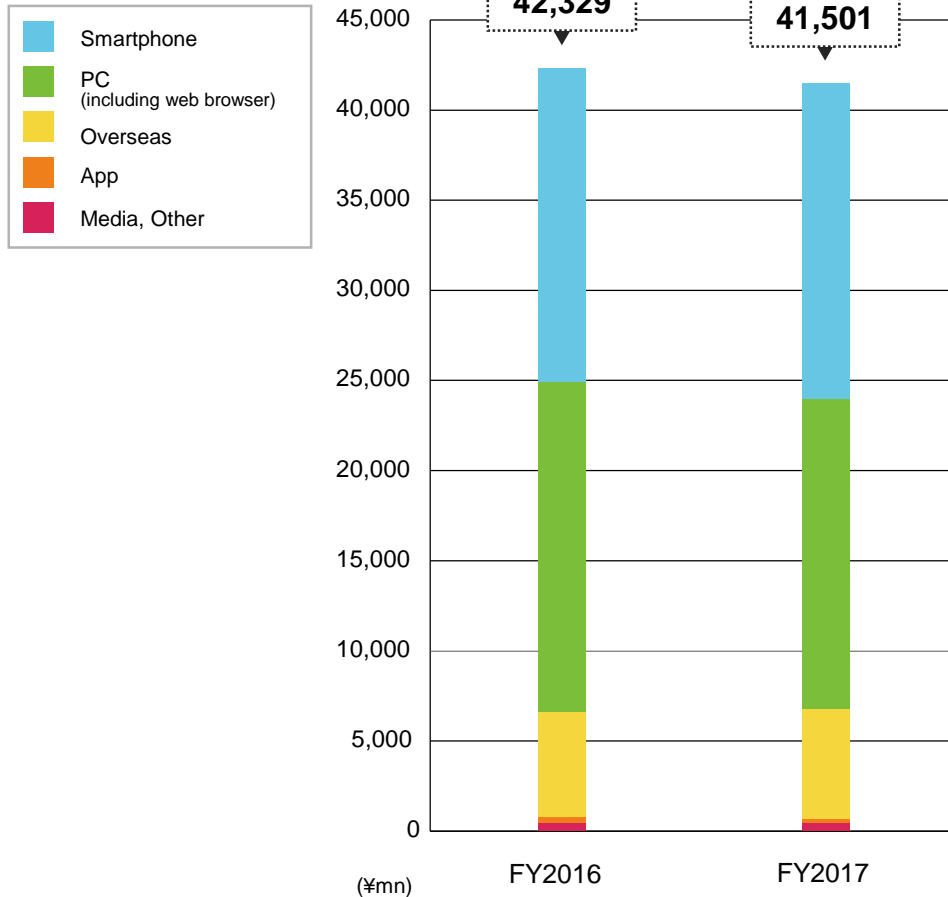
Decreased ¥828mn YoY (-2.0%)

Operating profit

Decreased ¥16mn YoY (-5.2%)

1. Full Year FY2017 Performance

Net sales (YoY Change)



Domestic Advertising **¥34,684mn**

YoY: - ¥1,006mn (-2.8%)

Smartphone (Mainly app advertising): **¥17,486mn**

YoY: +¥84mn (+0.5%)

- Declined due to reduced budget for large campaigns in 3Q and correction, but recovered in 4Q for YoY increase

PC (PC web advertising and smartphone web advertising): **¥17,197mn**

YoY: -¥1,090mn (-6.0%)

- Overcame decline caused by tightening of FSA and EC-related ad regulations, and recovered with business improvement, new business and internal streamlining, but decreased YoY due to the 3Q drop.

Overseas **¥6,117mn**

YoY: +¥256mn (+4.4%)

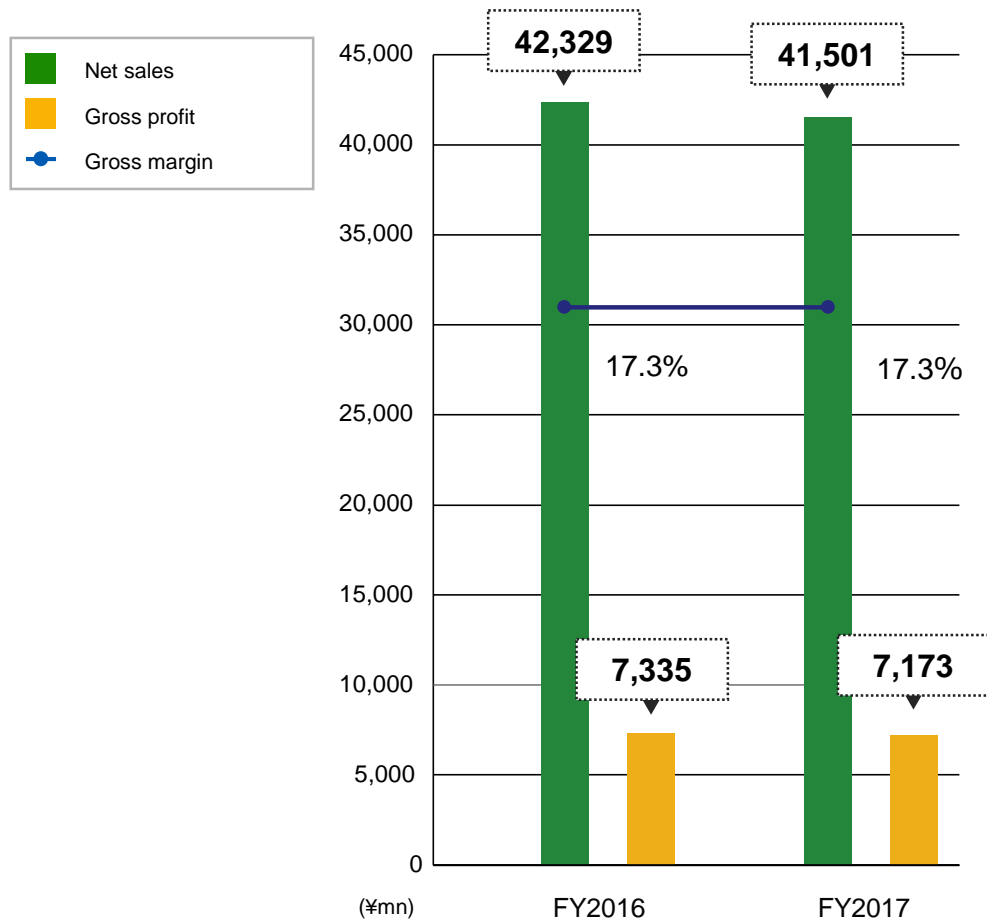
- Increased YoY as a result of restructuring and business streamlining at each subsidiary.

* The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2017 (January – December) figures are consolidated with the Adways Group's FY2017 (April – March) 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. Full Year FY2017 Performance

Gross profit (YoY Change)



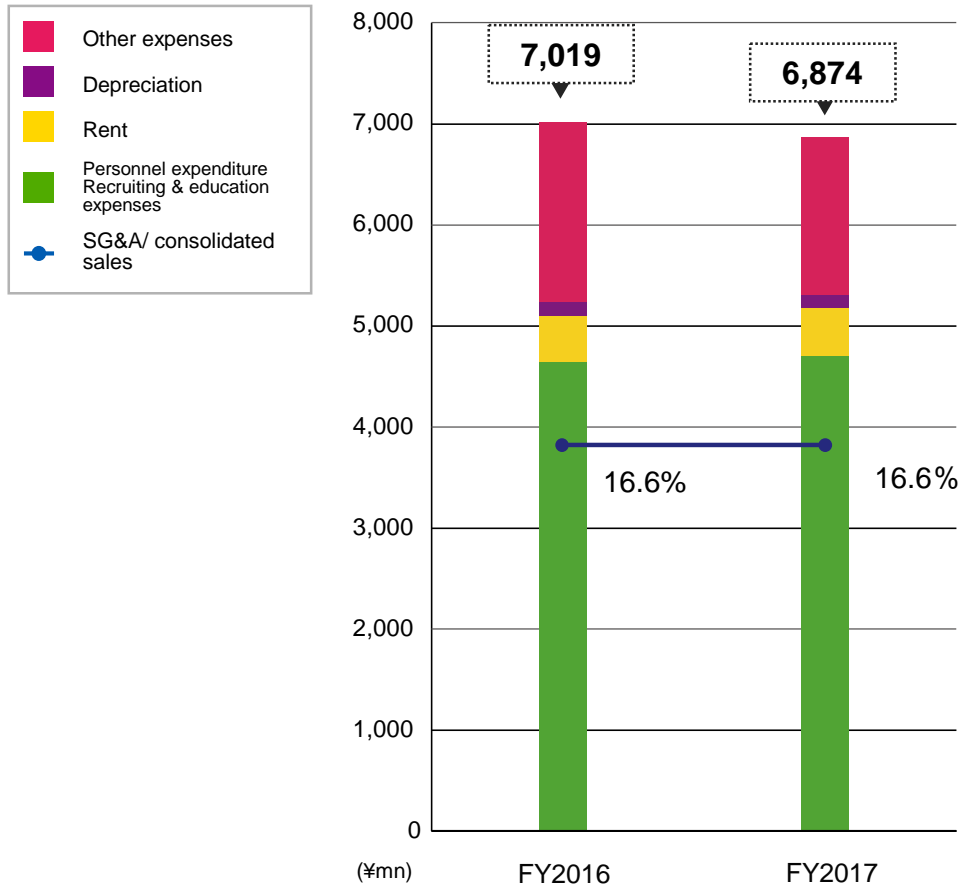
FY2017 Gross profit : ¥7,173mn

YoY : -¥161mn (-2.2%)

Gross margin : 17.3%

1. Full Year FY2017 Performance

SG&A expenses (YoY Change)



FY2017 SG&A expenses: ¥6,874mn

YoY: -¥145mn (-2.1%)

SG&A to sales ratio: 16.6%

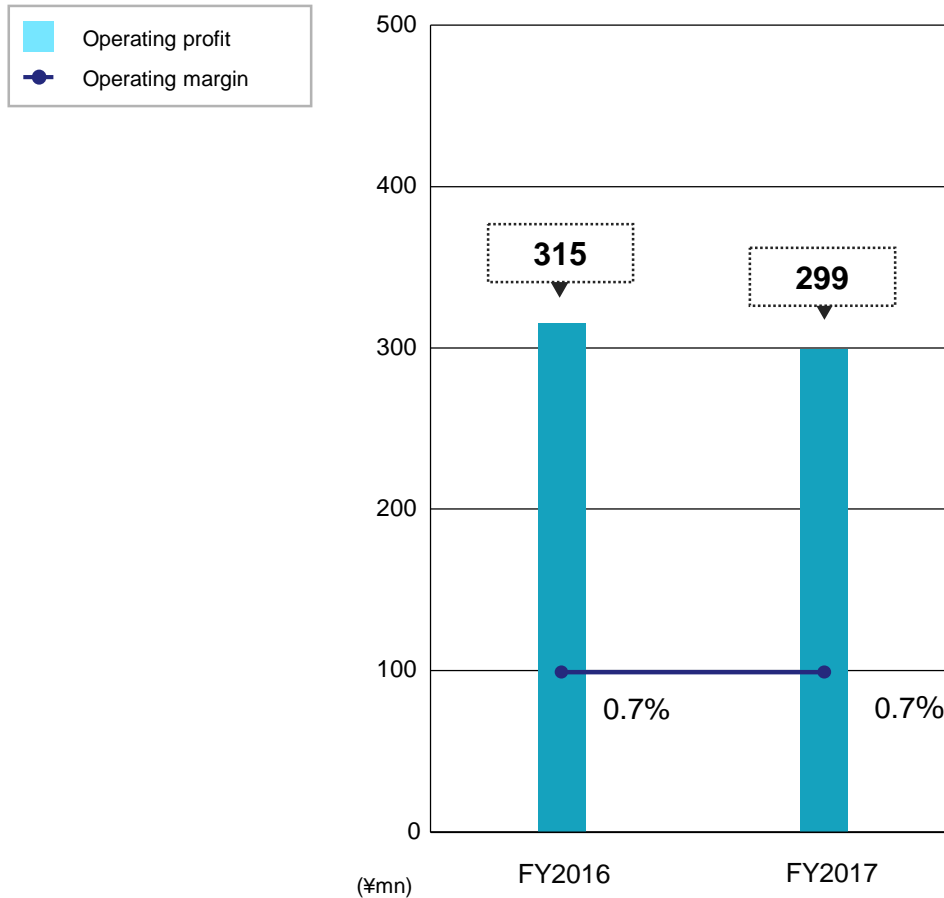
[Main Factors of Decline]

- Personnel expenditure: +¥59mn
- Outsourcing expenses: -¥95mn
- Research and development costs: -¥83mn

Reduced personnel expenditure and outsourcing expenses by improving the sales structure at each overseas subsidiary.

1. Full Year FY2017 Performance

Operating profit (YoY Change)



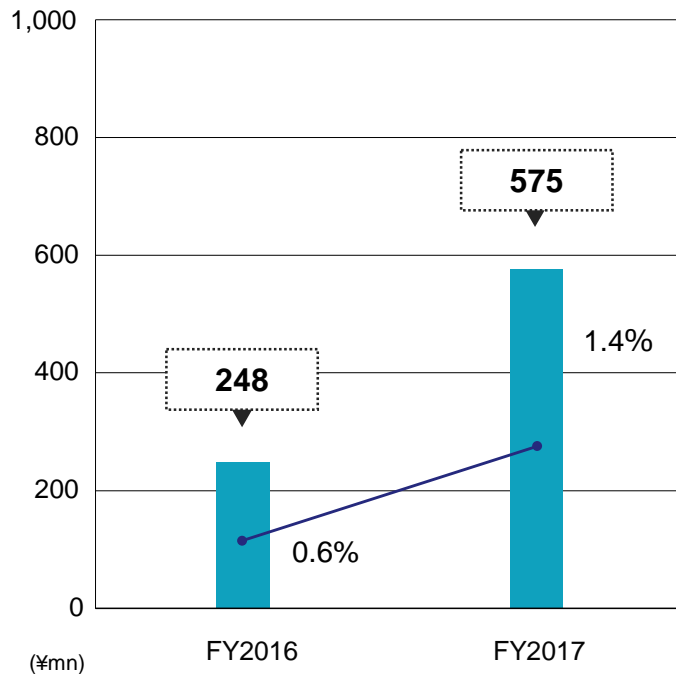
FY2017 Operating profit: ¥299mn

YoY: -¥16mn (-5.2%)

Operating margin: 0.7%

1. Full Year FY2017 Performance

Ordinary profit (YoY Change)

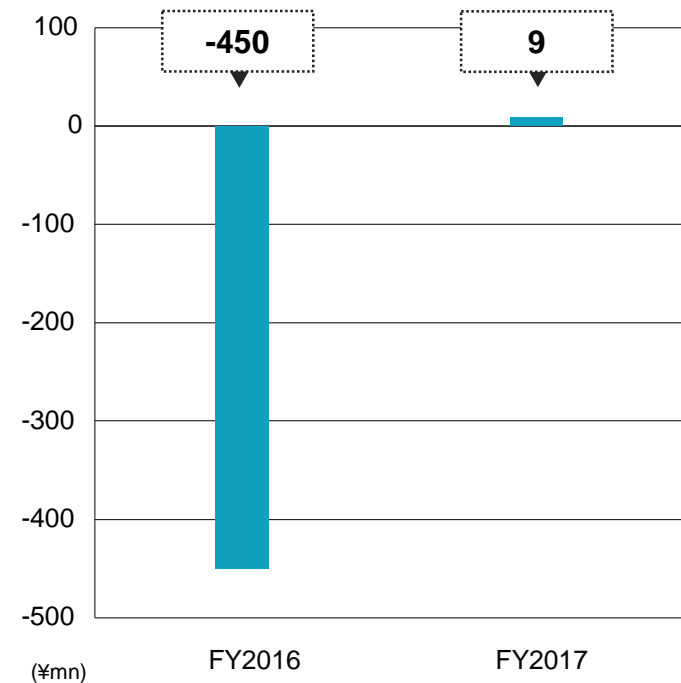


FY2017 Ordinary profit: ¥575mn

YoY: +¥327mn (+132.0%)

Ordinary profit margin: 1.4% (+0.8 points)

Profit attributable to owners of parent (YoY Change)

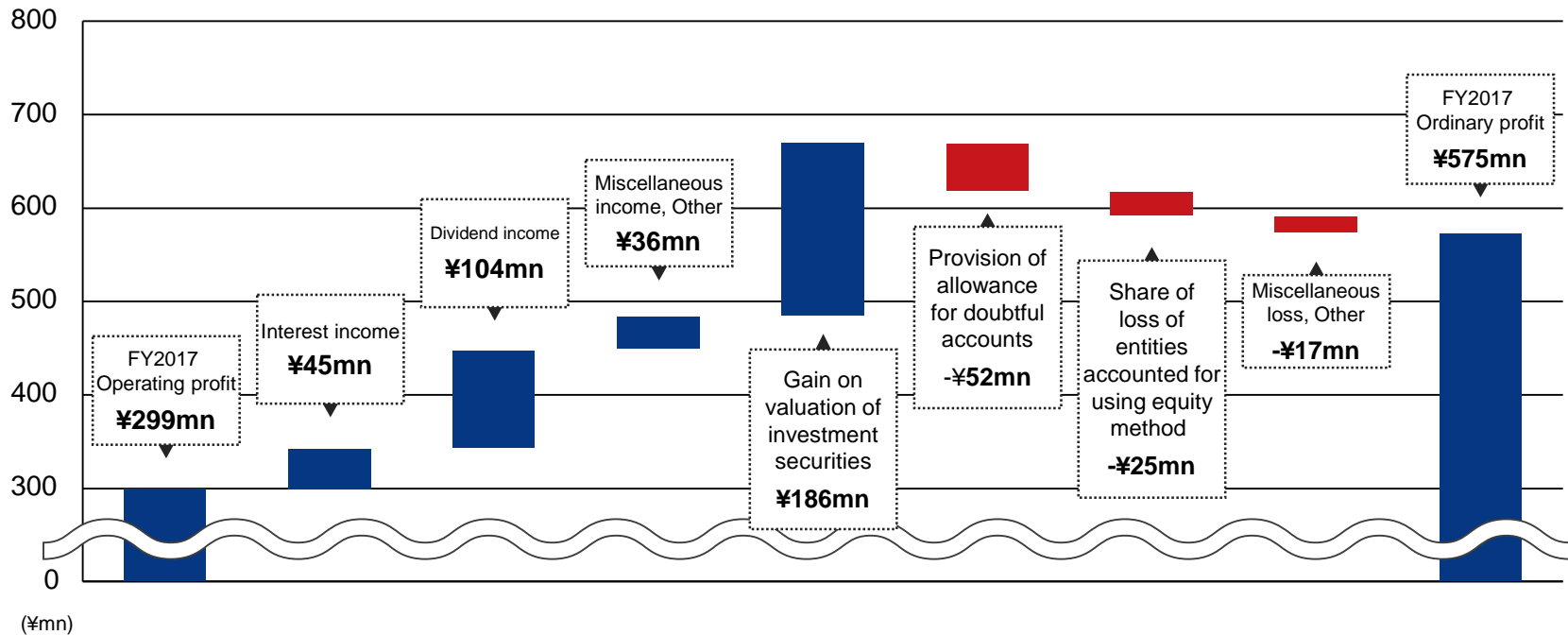


FY2017 Profit attributable to owners of parent: ¥9mn

YoY: +¥460mn (-%)

1. Full Year FY2017 Performance

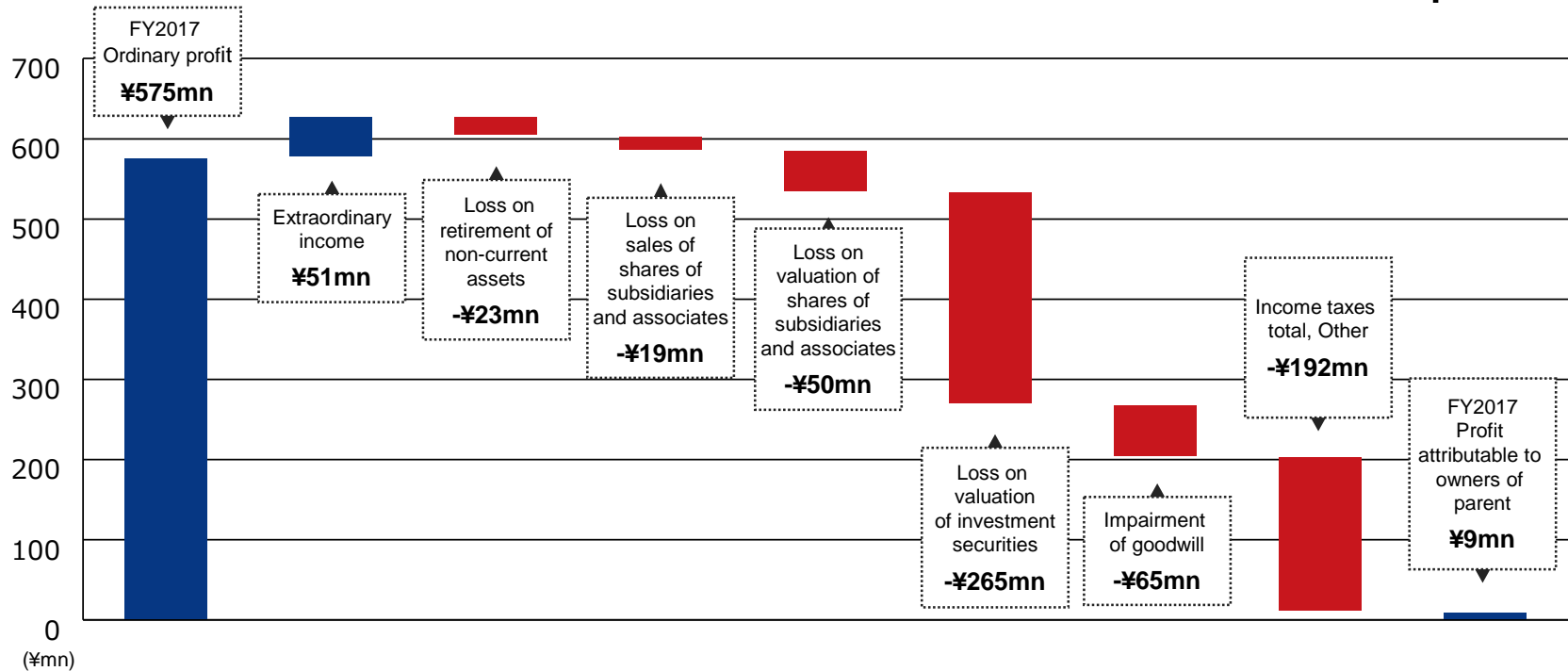
Breakdown of FY2017 Ordinary profit



Interest income [¥45mn]
Dividend income [¥104mn]
Miscellaneous income, Other [¥36mn]
Gain on valuation of investment securities [¥186mn]
Provision of allowance for doubtful accounts [-¥52mn]
Share of loss of entities accounted for using equity method [-¥25mn]
Miscellaneous loss, Other [-¥17mn]

1. Full Year FY2017 Performance

Breakdown of FY2017 Profit attributable to owners of parent



Extraordinary income (Gain on sales of investment securities/ Gain on sales of shares of subsidiaries and associates) [¥51mn]
Loss on retirement of non-current assets [-¥23mn]
Loss on sales of shares of subsidiaries and associates [-¥19mn]
Loss on valuation of shares of subsidiaries and associates [-¥50mn]
Loss on valuation of investment securities [-¥265mn] : No. of individual stocks (35 companies)
Impairment of goodwill[-¥65mn]
Income taxes total, Other [-¥192mn] : Including -¥93mn corporate tax for head office



2. 4Q FY2017 Performance

2. 4Q FY2017 Performance

Quarterly Results (YoY, QoQ)

(¥mn)

	4Q FY2017	YoY 4Q FY2016			QoQ 3Q FY2017		
		Result	Change (¥mn)	Change (%)	Result	Change (¥mn)	Change (%)
Net sales	11,169	11,714	-545	-4.7%	9,070	+2,098	+23.1%
Gross profit	1,837	2,123	-285	-13.4%	1,567	+270	+17.3%
SG&A expenses	1,749	1,965	-216	-11.0%	1,733	+16	+1.0%
Operating profit	88	157	-69	-44.0%	-165	+254	-
Ordinary profit	371	128	243	+189.4%	-191	+563	-
Profit attributable to owners of parent	225	-199	424	-	-211	+436	-

Net sales

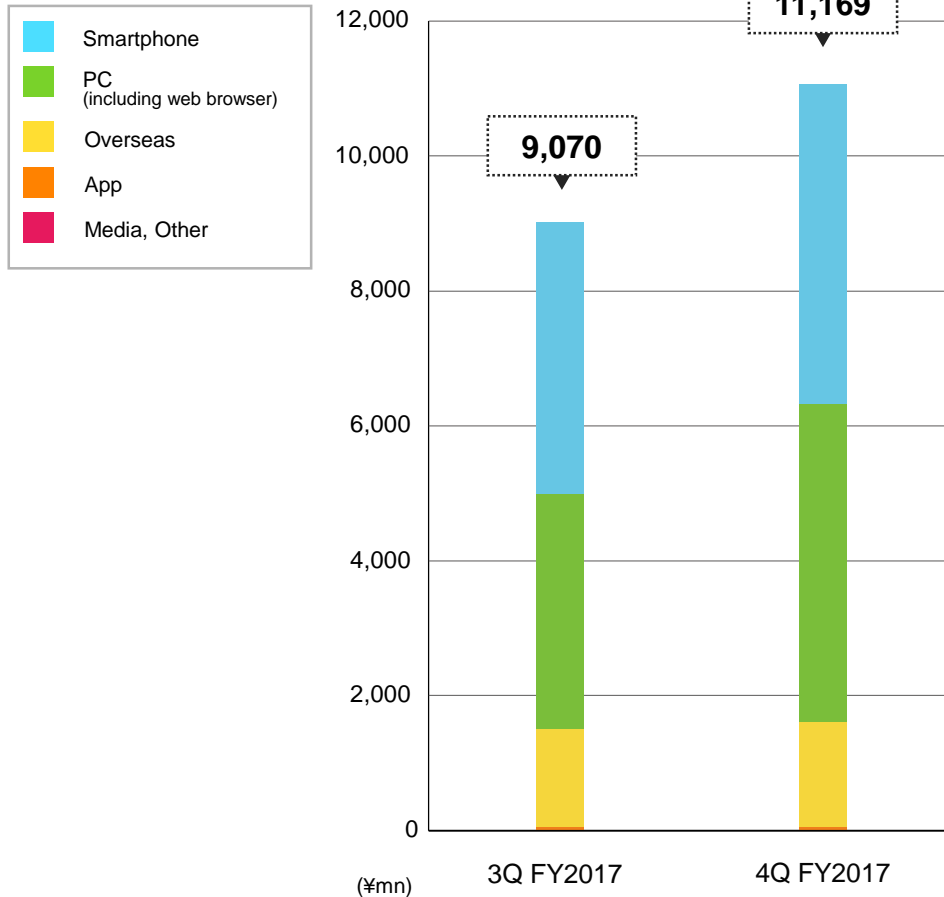
Decreased ¥545mn YoY (-4.7%)
Increased ¥2,098mn QoQ (+23.1%)

Operating profit

Decreased ¥69mn YoY (-44.0%)
Increased ¥254mn QoQ (-)

2. 4Q FY2017 Performance

Net sales (QoQ Change)



Domestic Advertising **¥9,445mn**

QoQ: +¥2,005mn (+27.0%)

Smartphone (Mainly app advertising): **+¥4,739mn**

QoQ: +¥706mn (+17.5%)

- Declined due to reduced budget from large campaigns in 3Q, but recovered in 4Q for YoY increase

PC (PC web advertising and smartphone web advertising)

:+¥4,706mn

QoQ: +¥1,298mn (+38.1%)

- Overcame the decline caused by tightening of FSA and EC-related ad regulations, and recovered with business improvement, new business and internal streamlining

Overseas **¥1,551mn**

QoQ: +¥102mn (+7.0%)

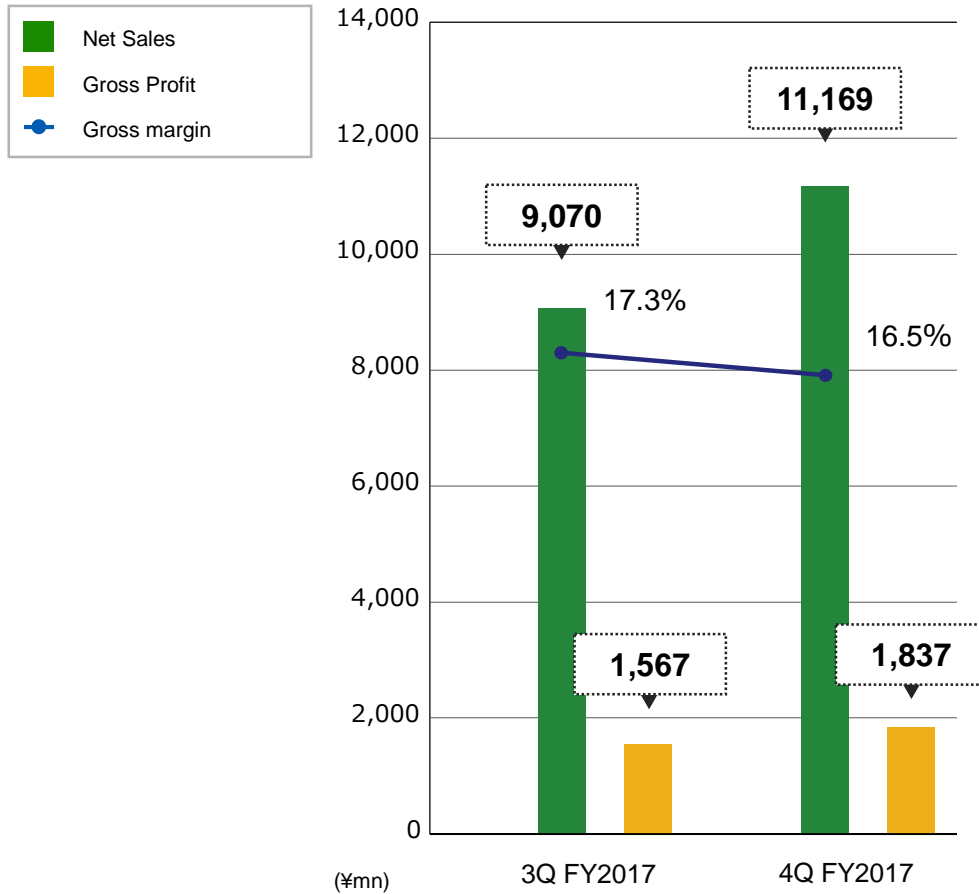
- China business (app advertising, Cross border EC business, Japanese brand agency business) was strong

* The accounting periods of our overseas subsidiaries excluding India end in December, so their 4Q FY2017 (October – December) figures are consolidated with the Adways Group's 4Q FY2017 (January – March) 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.

2. 4Q FY2017 Performance

Gross profit (QoQ Change)



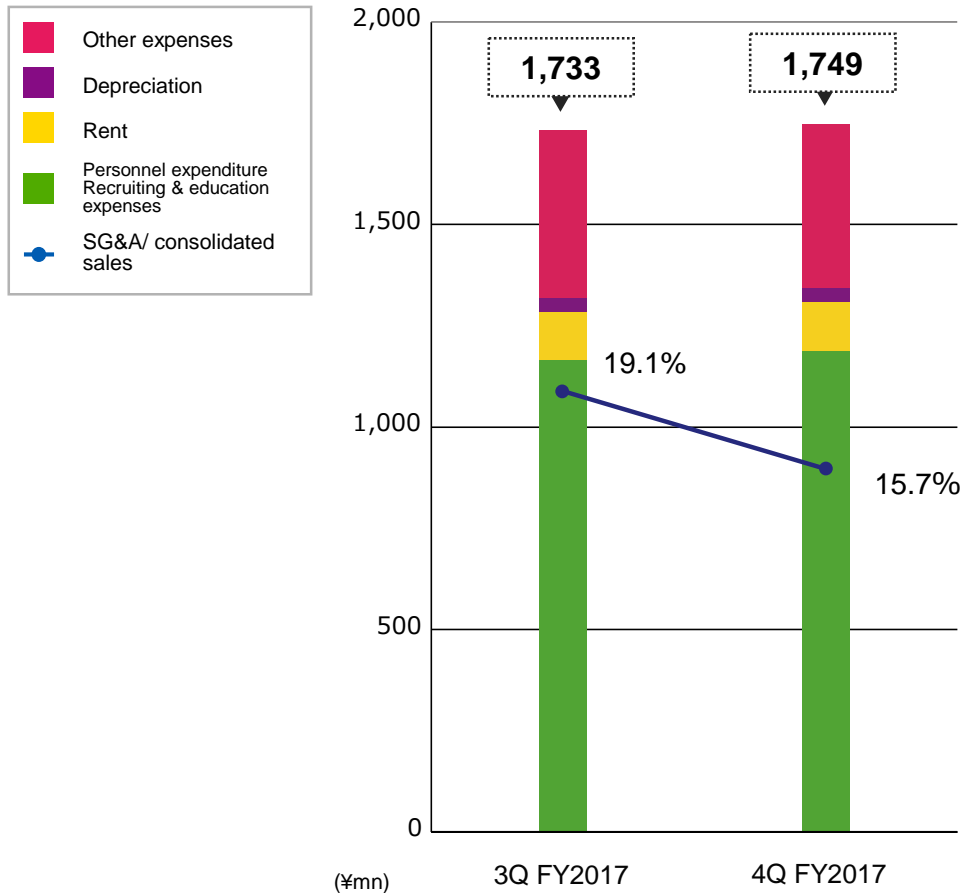
4Q Gross profit: ¥1,837mn

QoQ: +¥270mn (+17.3%)

Gross margin: 16.5% (-0.8 points)

2. 4Q FY2017 Performance

SG&A expenses (QoQ Change)



4Q SG&A expenses: ¥1,749mn

QoQ: +¥16mn (+1.0%)

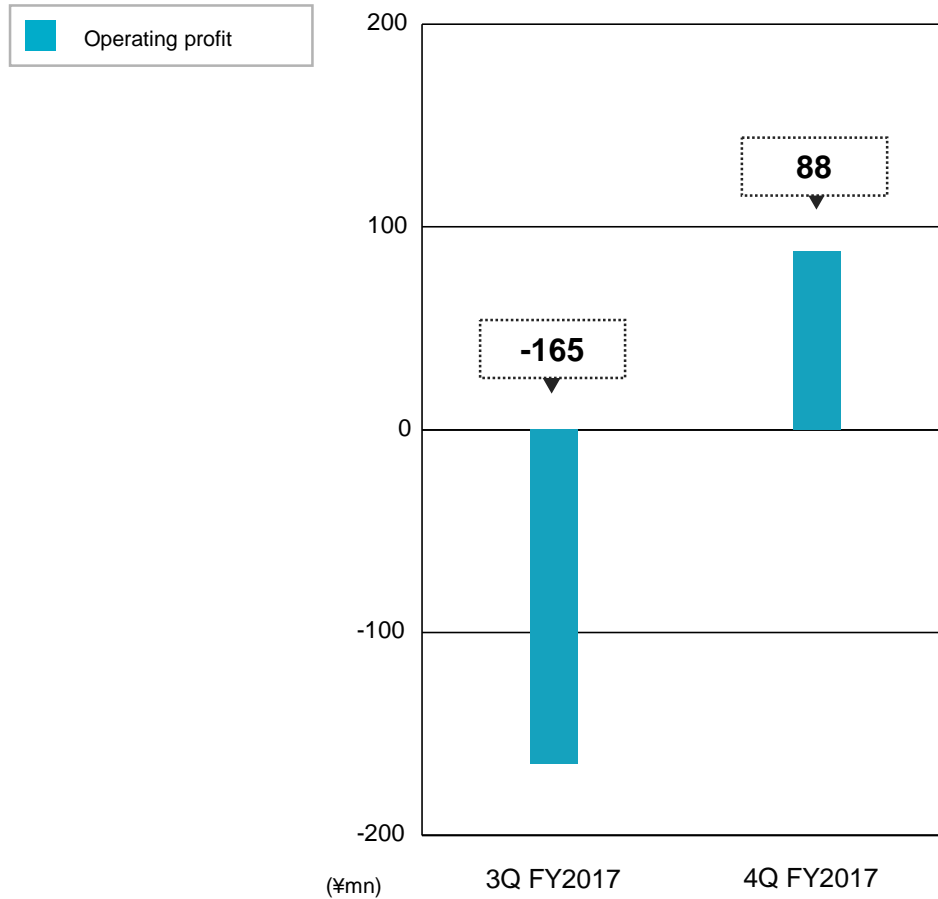
SG&A to sales ratio: 15.7% (-3.4points)

[Main Factors in Increase]

- Personnel expenditure: +¥23mn
 - Employment education fee: +¥14mn
- Commission fees: +¥9mn
- Bad debts expenses: -¥19mn

2. 4Q FY2017 Performance

Operating profit (QoQ Change)



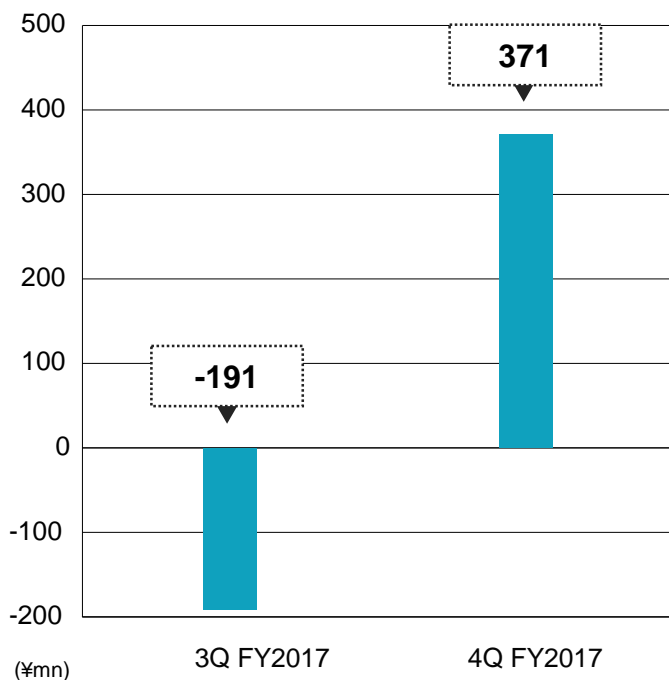
4Q Operating profit: ¥88mn

QoQ: +¥254mn (-%)

Higher gross profit and lower SG&A ratio to sales had a positive impact

2. 4Q FY2017 Performance

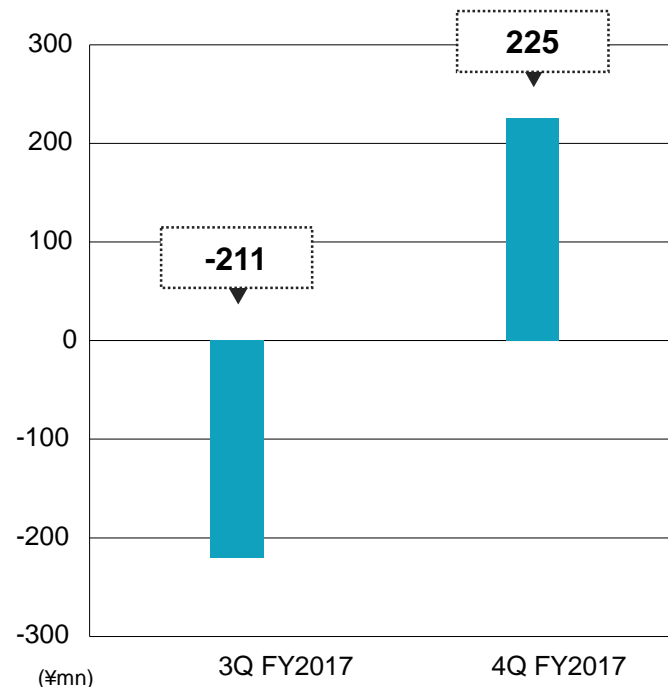
Ordinary profit (QoQ Change)



4Q Ordinary profit: ¥371mn

QoQ: +¥563mn (-%)

Profit attributable to owners of parent (QoQ Change)

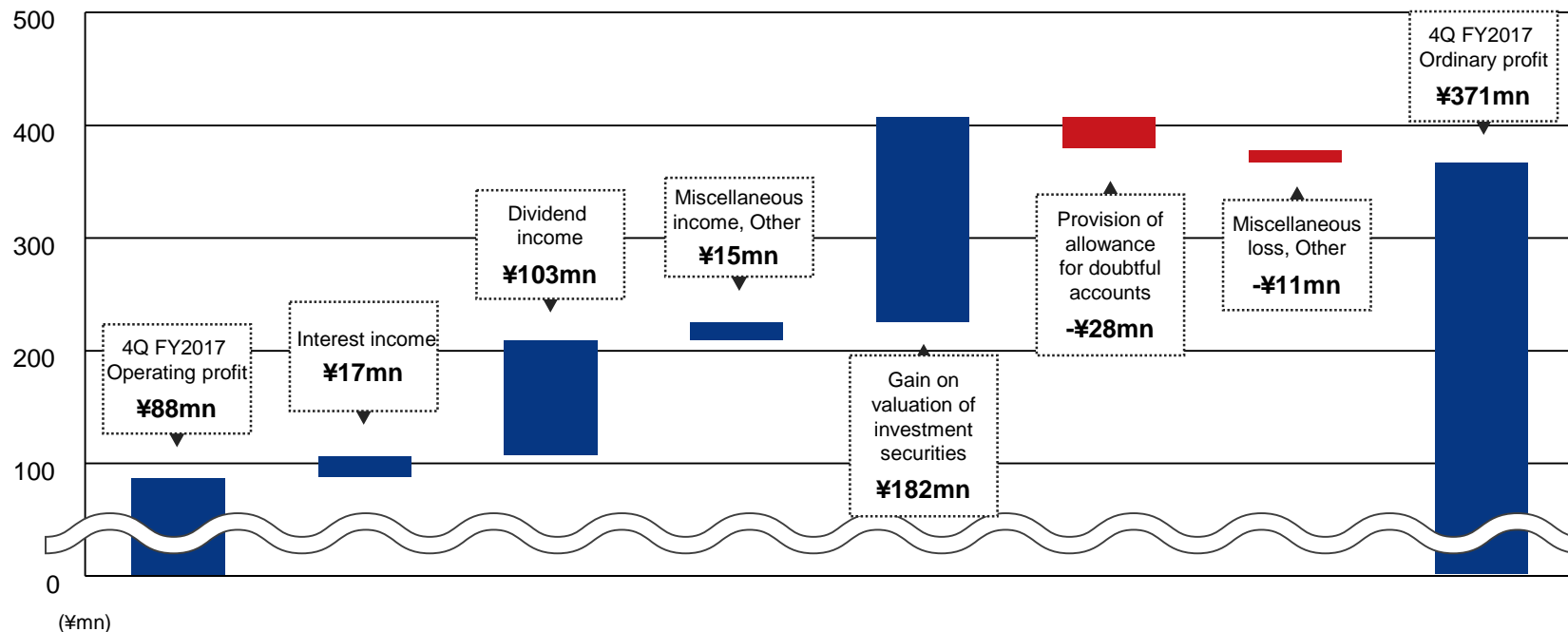


4Q Profit attributable to owners of parent: ¥225mn

QoQ: +¥436mn (-%)

2. 4Q FY2017 Performance

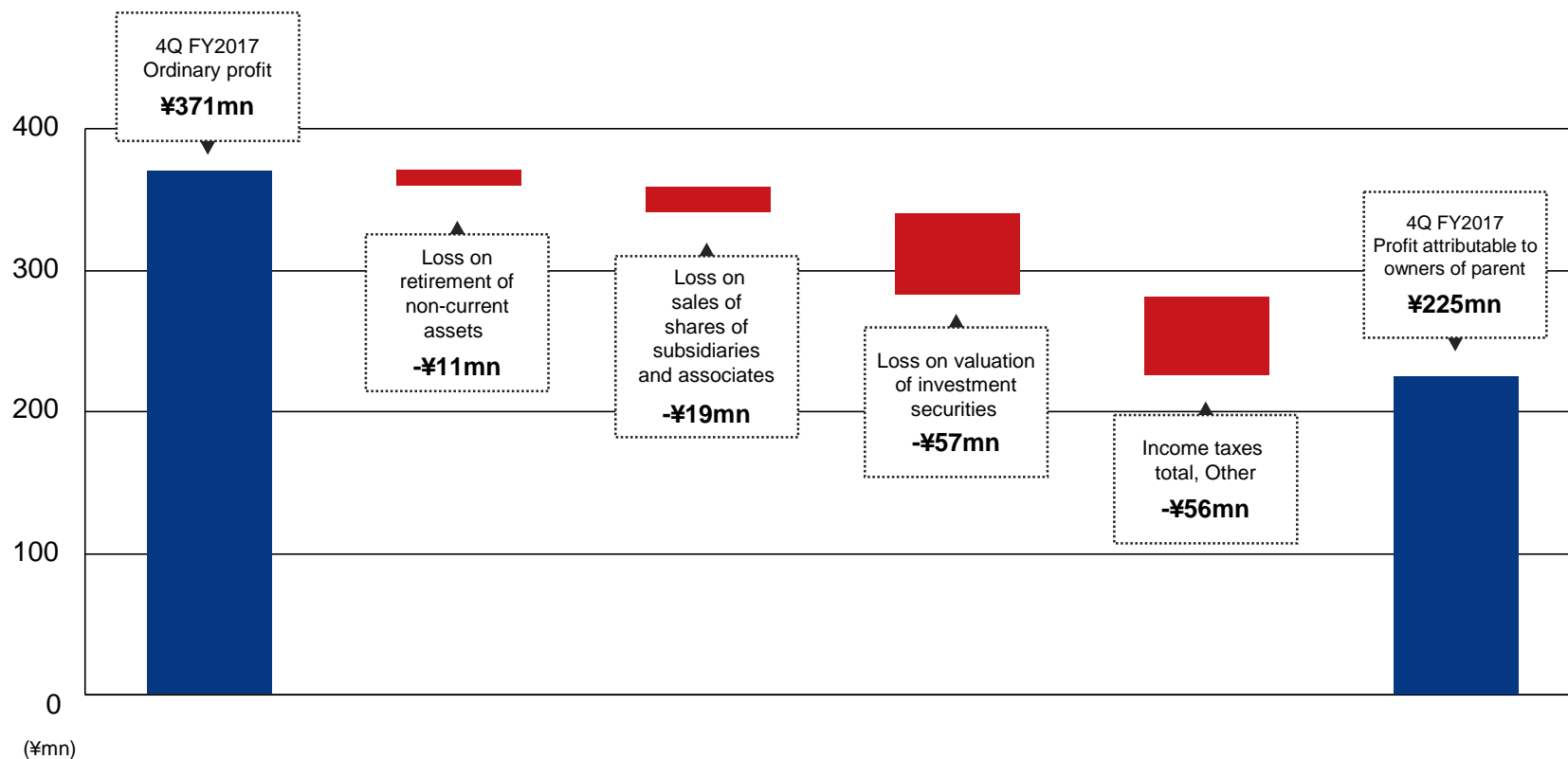
Breakdown of 4Q FY2017 Ordinary profit



Interest income [¥17mn]
Dividend income [¥103mn]
Miscellaneous income, Other [¥15mn]
Gain on valuation of investment securities (gain on fund management) [¥182mn]
Provision of allowance for doubtful accounts [-¥28mn]
Miscellaneous loss, Other [-¥11mn]

2. 4Q FY2017 Performance

Breakdown of 4Q FY2017 Profit attributable to owners of parent



Loss on retirement of non-current assets [-¥11mn]
Loss on sales of shares of subsidiaries and associates [-¥19mn]
Loss on valuation of investment securities [-¥57mn] : No. of individual stocks (11 companies)
Income taxes total, Other [-¥56mn] : Including -¥22mn corporate tax for head office



3. FY2018 Consolidated Performance Forecast & Shareholder returns

3. FY2017 Consolidated Performance Forecast

FY2018 Consolidated Performance Forecast values
(April 1, 2018 - March 31, 2019)

(¥mn)

	Net sales	Operating Profit	Ordinary profit	Profit attributable to owners of parent
FY2018 Forecast	42,000	500	500	190
FY2017 Results	41,501	299	575	9
*FY2017 YoY	+1.2%	+67.0%	-13.2%	+1804.3%

*Figures below second decimal place rounded off

3. Shareholder returns

【FY2017 Dividend】

¥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 per share (the ordinary dividend for FY2014), whichever is higher.

【Dividend Policy for Next Year Onward (FY2018 - FY2020)】

FY2018	FY2019	FY2020
Dividend payout ratio of 18% or ¥2.40 per share, whichever is higher	Dividend payout ratio of 19% or ¥2.50 per share, whichever is higher	Dividend payout ratio of 20% or ¥2.60 per share, whichever is higher

Regarding dividends for the next 3 years (FY2018 - FY2020), 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 next fiscal year is the 19th, thus the dividend payout ratio will be 18%) or ¥2.40 per share with an increase of ¥0.10 per share every year, whichever is higher.

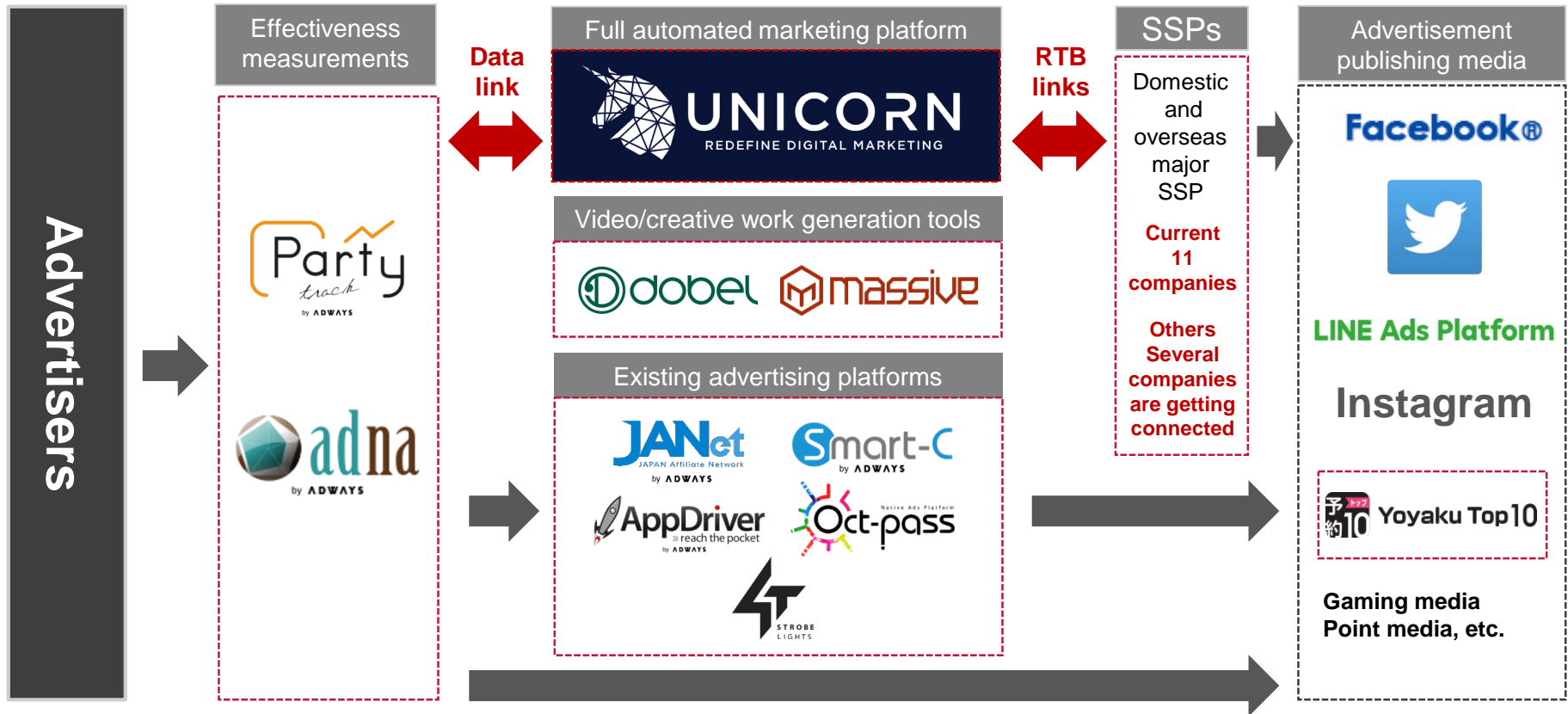
* However, please take note that it is possible for the dividend policy to change due to changes in the business climate such as significant performance fluctuations and sizable M&A deals in the future.



4. Business Overview

4. Business Overview: App Marketing

“Platform&Borderless”



Focus on developing new products 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

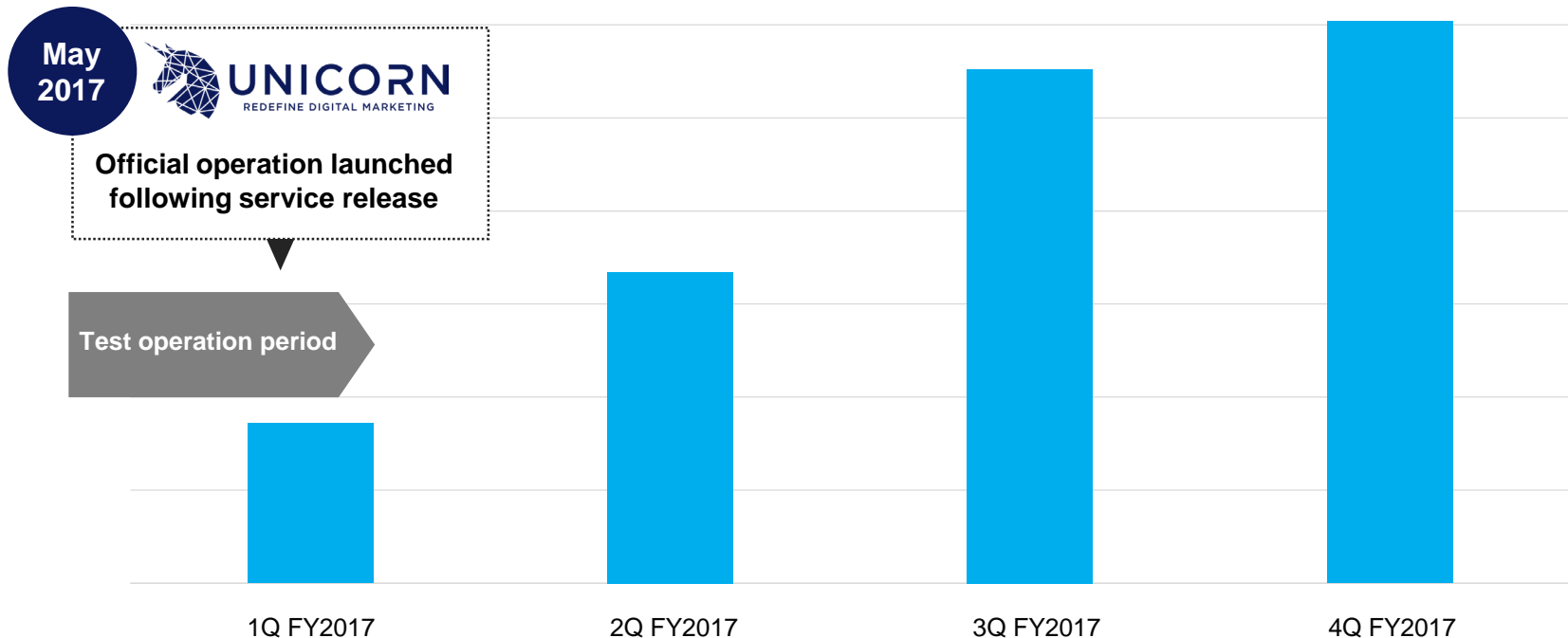
Unauthorized access and placements are blocked through a unique fraud detection algorithm

Our Unique Advantage

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

4. Business Overview: App Marketing

UNICORN Trend in Sales



Machine learning accuracy steadily increased and **profit roughly doubled QoQ**

4. Business Overview: App Marketing

ROAS* of users obtained through UNICORN



68% average

(Last quarter: **54.2%**)

Other major 4 ad networks

42.0% average

(Last quarter: **40.0%**)

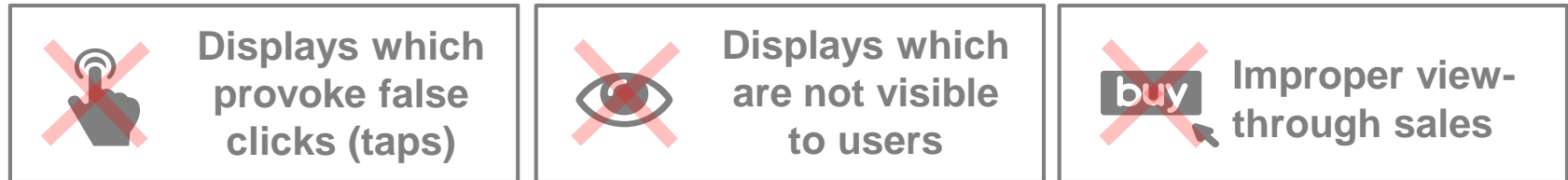
(Calculated from billing amounts of users obtained in March 2018 and advertising expenses)

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

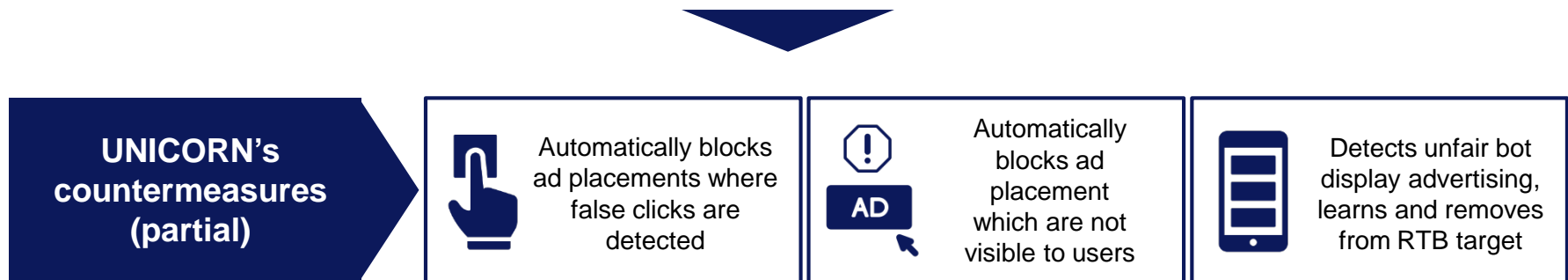
* ROAS (Return On Advertising Spend) is the rate of return gained against the advertisement expenses; it is the cost effectiveness of advertisements.

4. Business Overview: App Marketing

Ad Fraud Countermeasures which Increase ROAS



Advertiser **profits** are significantly affected by increase of wasteful spending 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**

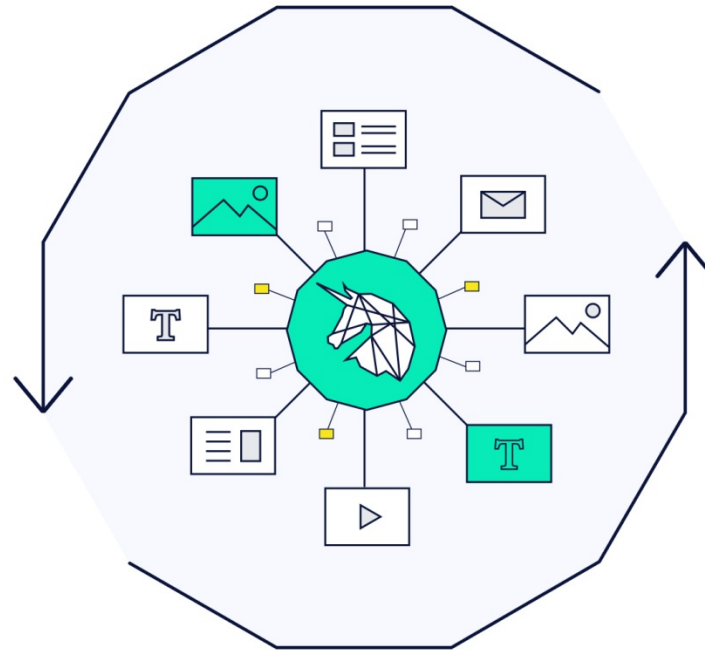
4. Business Overview: App Marketing

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**

4. Business Overview: App Marketing

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

- Extracted from game apps
- Data extraction period:
Mar 1. to Mar. 31. 2018.

	ARPU of users obtained through UNICORN	Organic user ARPU
Case study from Top 5 campaign	846.53 yen	607.09 yen

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

*ARPU (Average Revenue Per User)

4. Business Overview: App Marketing

Added services based on market needs

1. Launched pre-registration campaigns



In light of the increasing number of clients running large campaigns before release, we've added pre-registration campaign compatibility in an aim to maximize pre-release ad effectiveness.

2. Launched re-engagement campaigns*



We implemented measures to not only acquire new users but bring inactive users back to the app and focus on them in ads to prevent drop-off. This has enabled highly cost-effective campaigns aimed only at high-performance users acquired through the ad fraud countermeasures.

*Enables ad distribution to maintain user engagement. Differs from retargeting.

Because the ad targets are higher-ARPU users than organic users, adding these features to our existing services achieves even greater ad effectiveness.

4. Business Overview: App Marketing

Future Outlook of UNICORN

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

Major domestic SSPs: **9 companies**

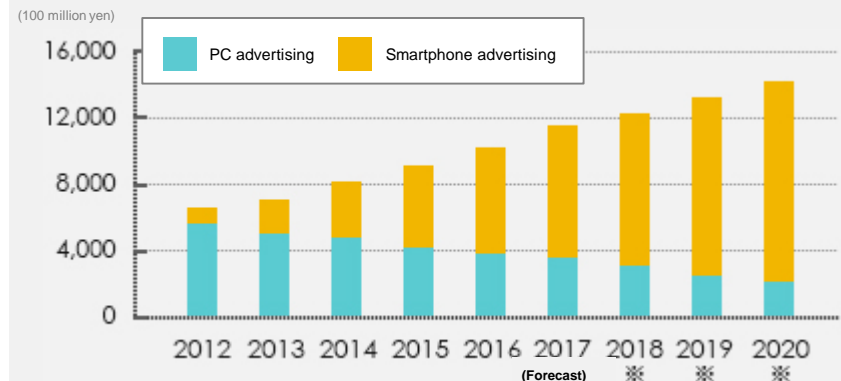
Major overseas SSPs: **2 companies**

Monthly ad inventory
exceeded **275 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.

4. Business Overview: Global Marketing

“Platform&Borderless”

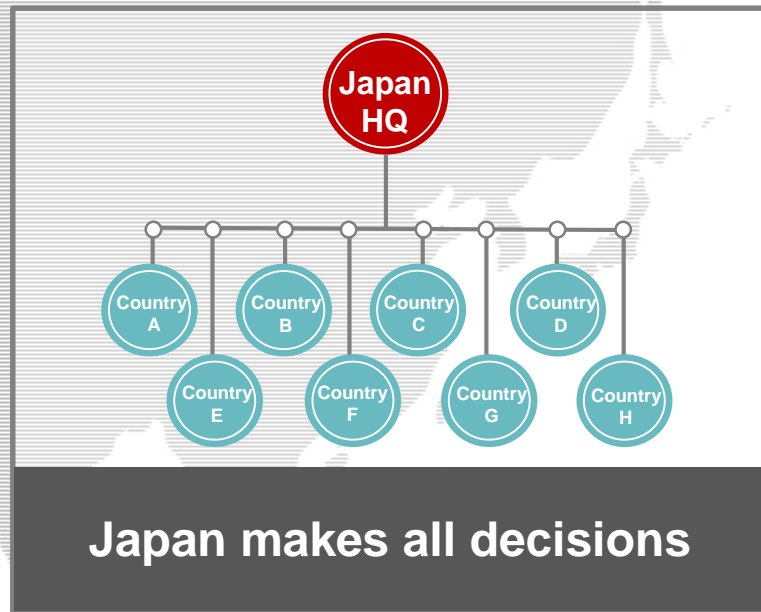
Continue to focus on overseas markets
primarily in East Asia and India



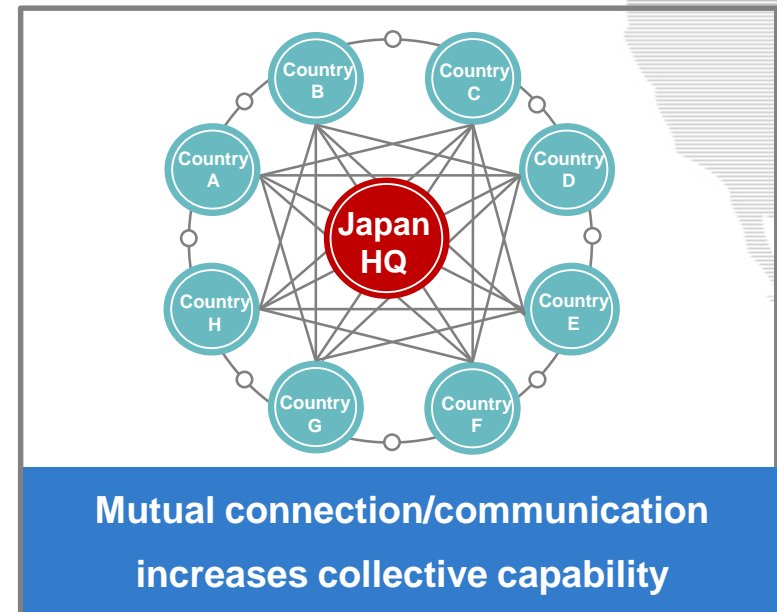
4. Business Overview: Overseas Outlook

**Clear growth and tougher competition in overseas market
will only increase the importance of decision-making at our overseas offices**

Current



Future



Shift to a new global structure facilitating speedy decision-making and allowing us to propose the best services for clients around the world

4. Business Overview

Latest Press Releases

March 19, 2018

PartyTrack selected as Measurement Preferred Partner by Yahoo! JAPAN



PartyTrack has been selected as a Yahoo! JAPAN partner in its Preferred Partner ad management support program, providing effect measurement reports useful for ad effect visualization, analysis and subsequent planning.

This strengthens our ad publishing and marketing support for companies using Yahoo! JAPAN's services

March 26, 2018

PartyTrack integrates with Google Play Referrer API



By integrating with Google Play Referrer API, Adways can now obtain both data that provides the time users are forwarded to Google Play Store from an advertisement and the exact time an app download started. The data enables Adways to have higher accuracy and reliability on click and install data.

We also plan to release ad fraud countermeasures for PartyTrack

4. Business Overview

Data (Nint) Business

ADWAYS TECHNOLOGY LTD. (Hong Kong), which managed the Adways Group's EC data business (services: Nint and others), underwent an MBO* as of April 3 for the following reasons, becoming an equity-method affiliate of the Group.


Reasons

- **Lack of synergy with other businesses in the Group**
- **Decline in the EC website data collection rate**



Although data business is still expected to continue growing, since there is lack of synergy with our main Ad business we decided to focus further on our Ad business on the “selection and concentration strategy”.

*Management buyout



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 May 11, 2018 and a variety of factors may cause the statements to differ from actual results.

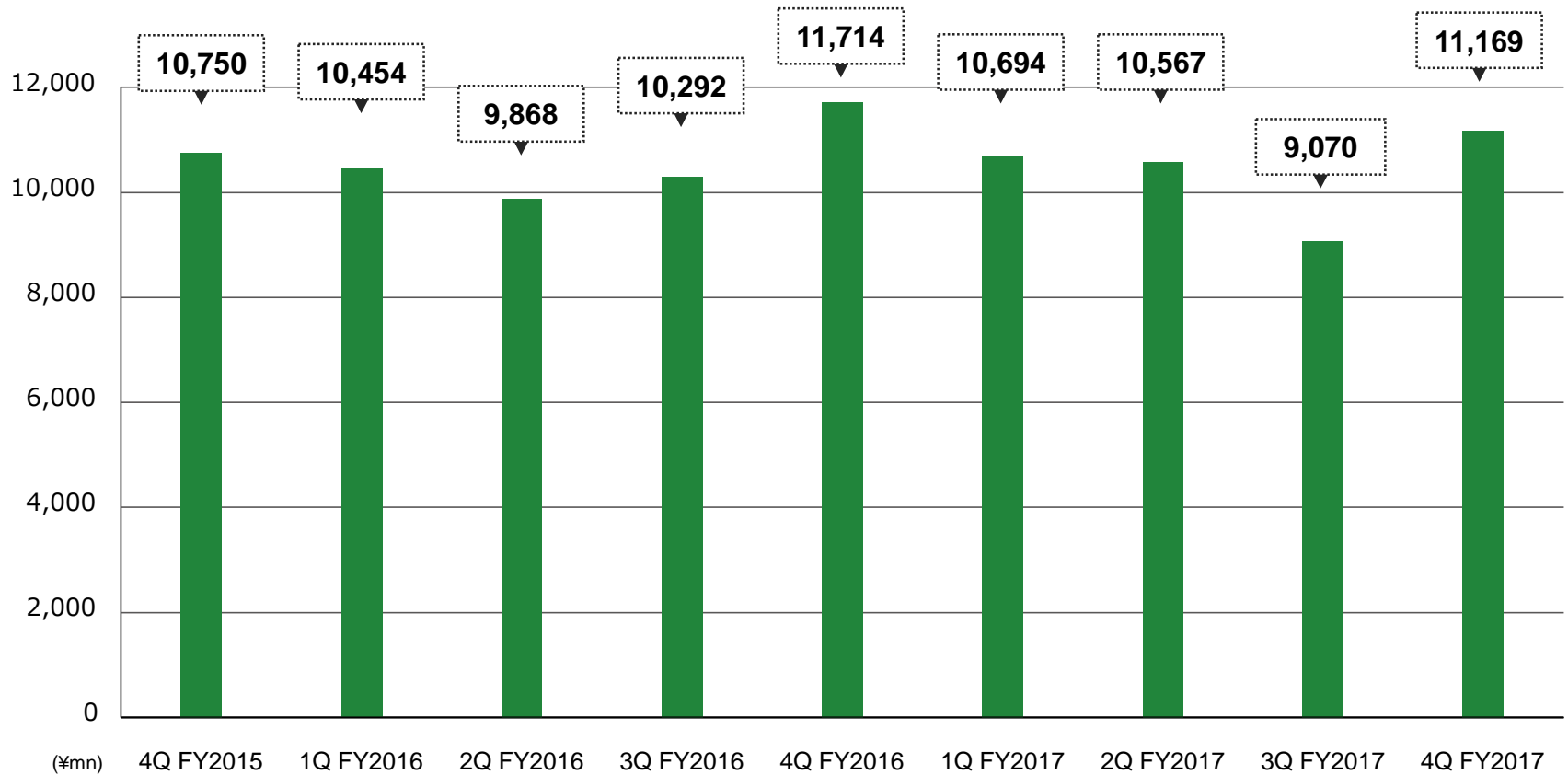


5. Supplementary Materials



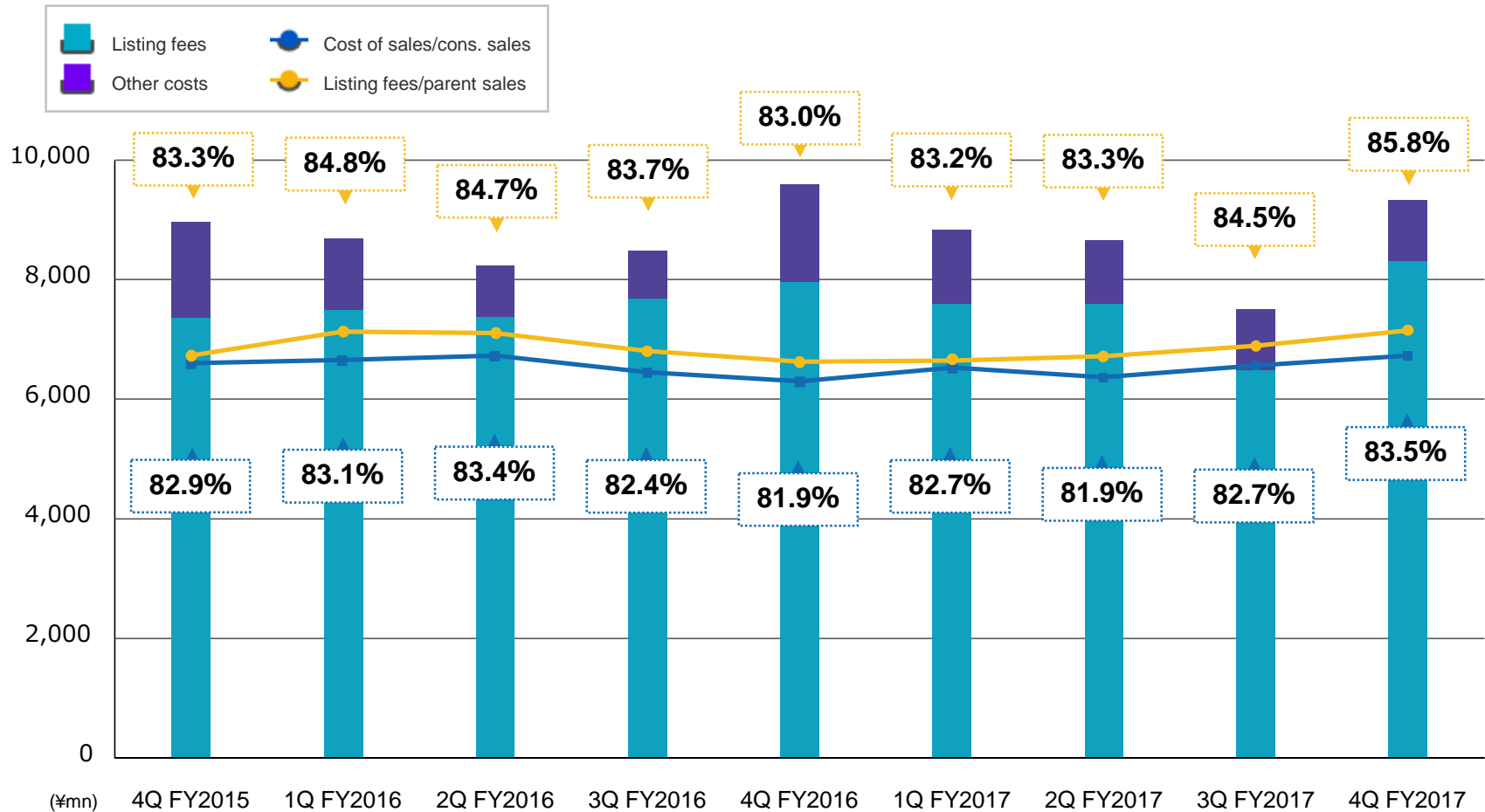
5. Supplementary Materials

Quarterly Change in Consolidated Sales



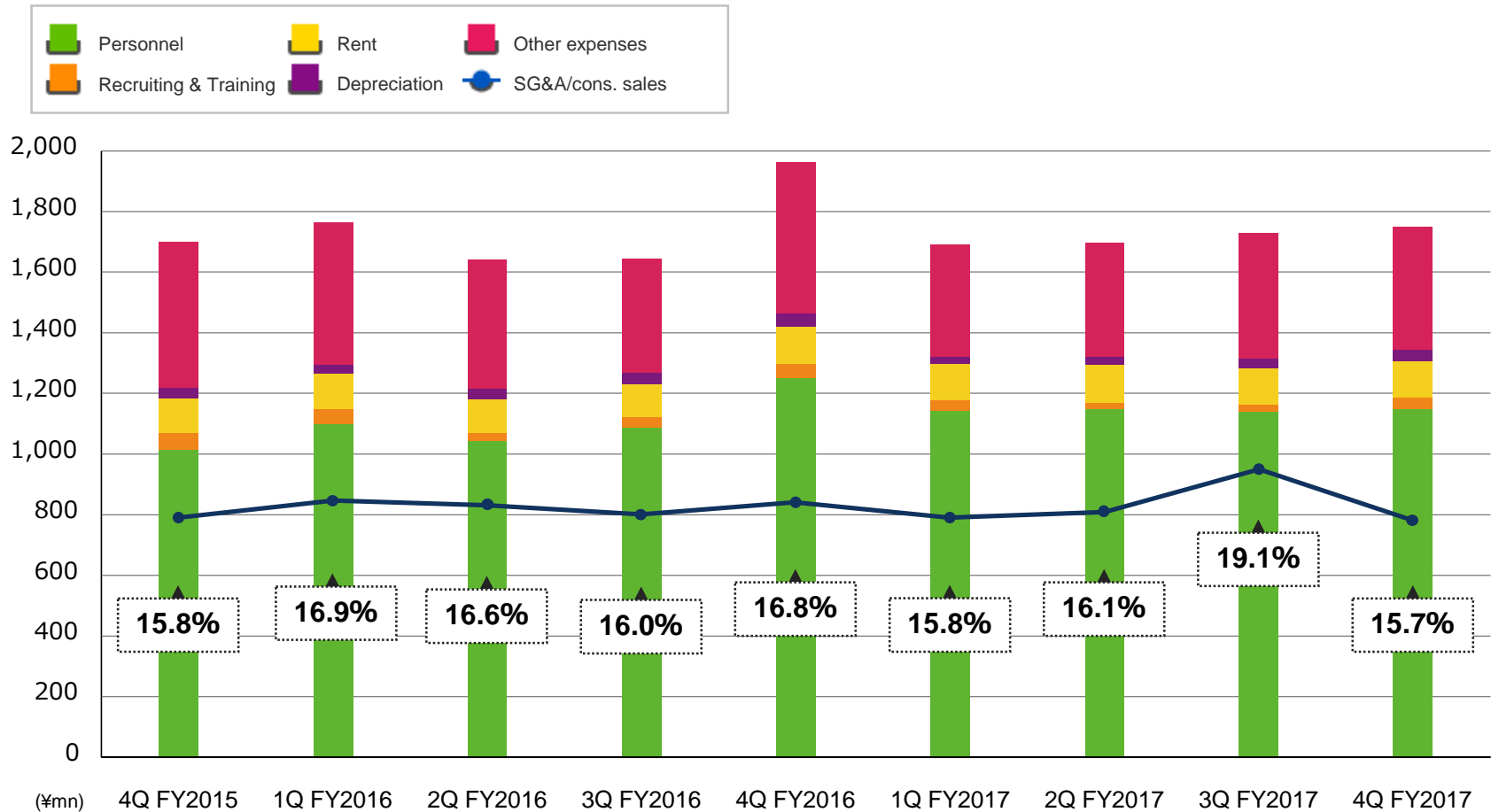
5. Supplementary Materials

Quarterly Change in Consolidated Cost of sales



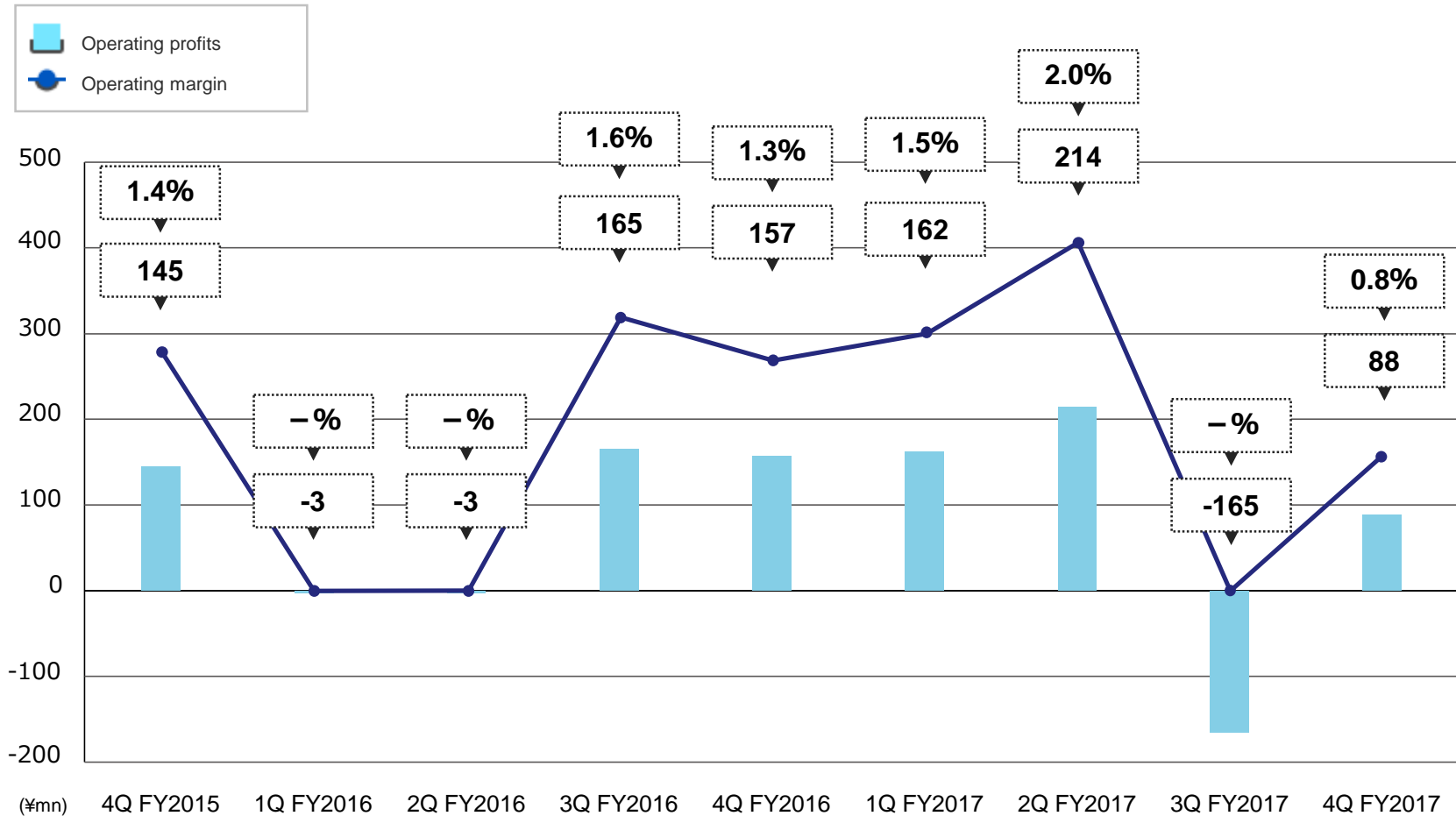
5. Supplementary Materials

Quarterly Change in Consolidated SG&A expenses



5. Supplementary Materials

Quarterly Change in Consolidated Operating profit



5. Supplementary Materials

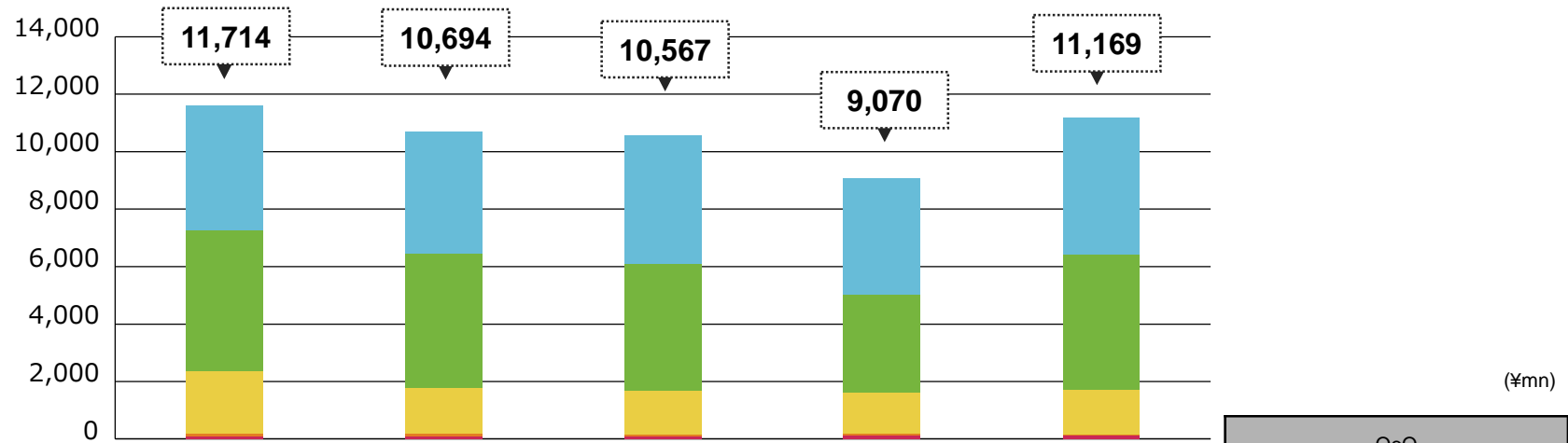
Consolidated Balance Sheet (QoQ)

(¥mn)

	4Q FY2017	3Q FY2017	Change (¥mn)	Change (%)
Current assets	15,215	14,341	+874	+6.1%
(Cash and deposits)	9,491	9,016	+474	+5.3%
Non-current assets	2,706	2,695	+11	+0.4%
Total assets	17,921	17,036	+885	+5.2%
Current liabilities	6,731	6,126	+604	+9.9%
Non-current liabilities	167	159	+8	+5.3%
Total liabilities	6,899	6,285	+613	+9.8%
Net assets	11,022	10,750	+271	+2.5%

5. Supplementary Materials

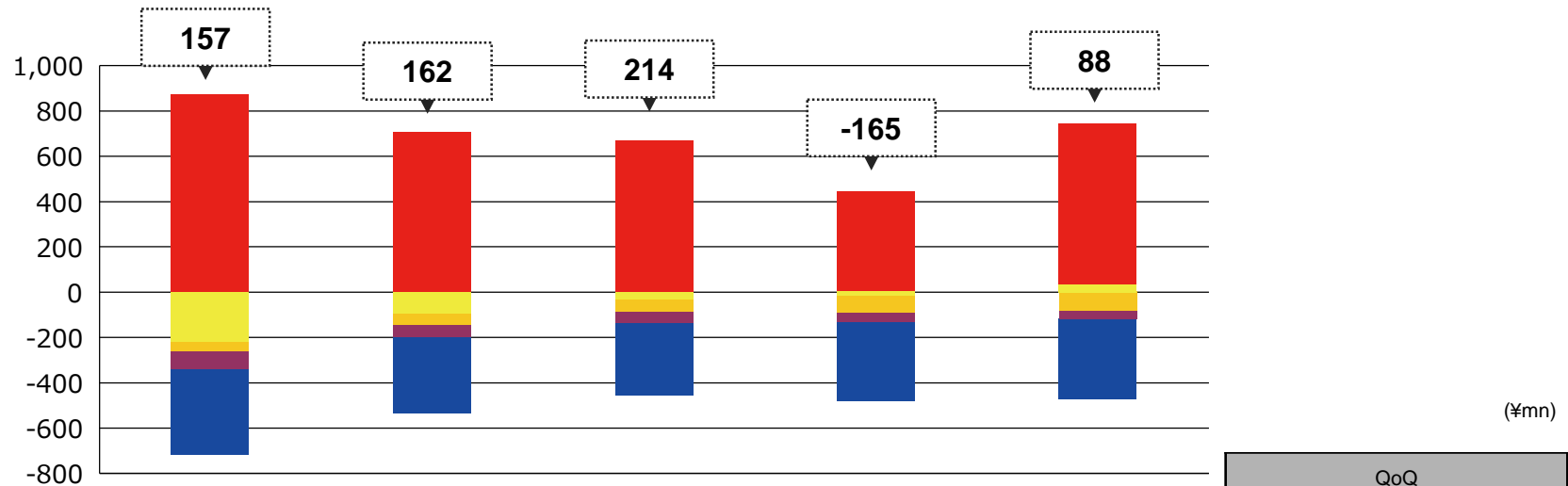
Quarterly Breakdown of Consolidated Sales by Segment



	4Q FY2016	1Q FY2017	2Q FY2017	3Q FY2017	4Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Smartphone	4,442	4,231	4,482	4,032	4,739	+706	+17.5%
PC	4,911	4,663	4,420	3,407	4,706	+1,298	+38.1%
Overseas	2,151	1,617	1,498	1,449	1,551	+102	+7.0%
App	107	68	54	50	47	-2	-5.3%
Media, Other	102	113	111	129	123	-5	-4.5%
Total	11,714	10,694	10,567	9,070	11,169	+2,098	+23.1%

5. Supplementary Materials

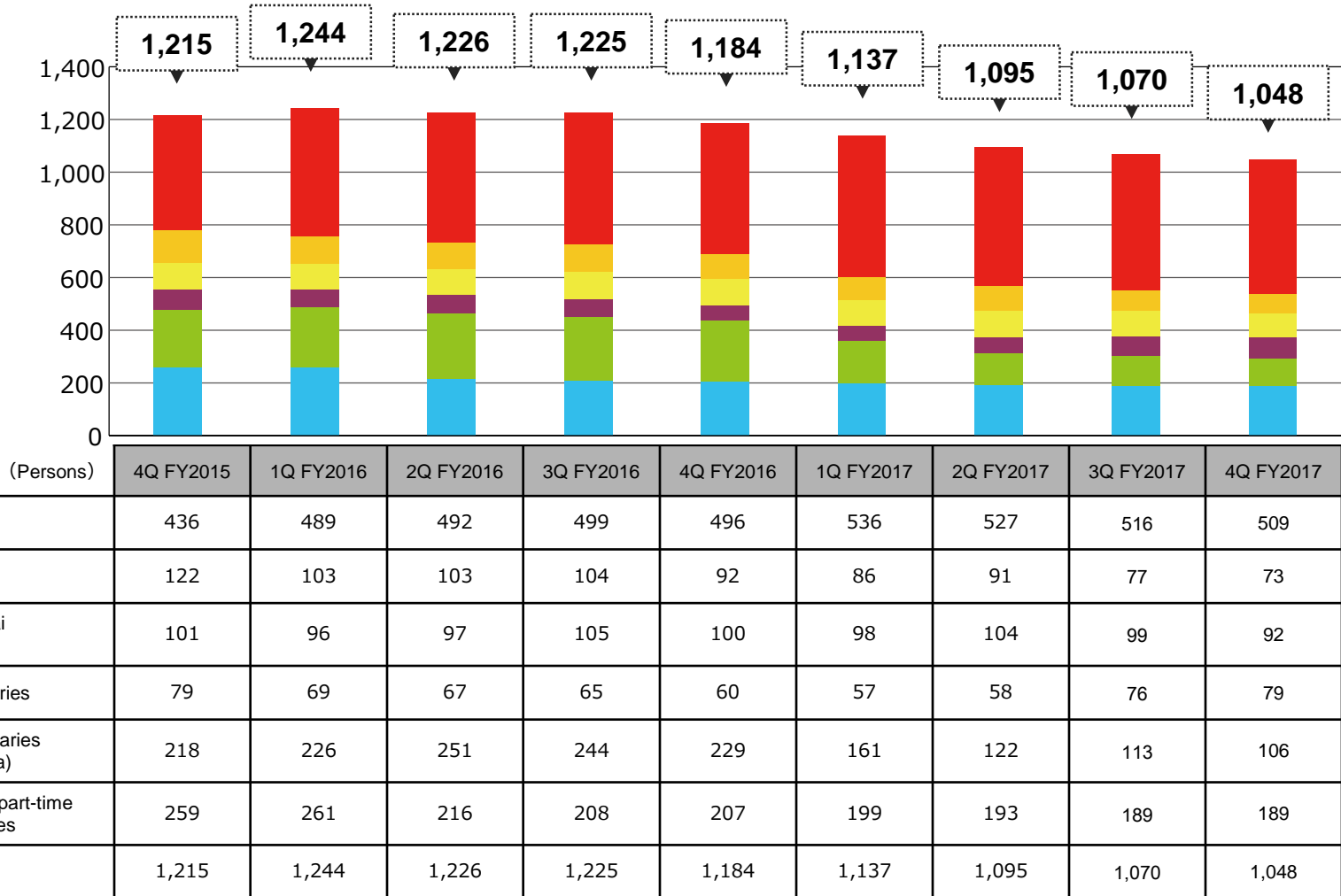
Quarterly Breakdown of Consolidated Operating profit by Segment



	4Q FY2016	1Q FY2017	2Q FY2017	3Q FY2017	4Q FY2017	QoQ	
						Change (¥mn)	Change (%)
Advertising	875	699	664	307	531	+224	+73.2%
Overseas	-228	-101	-35	-22	29	+51	-
App	-31	-40	-45	-71	-83	-12	-
Media, Other	-82	-52	-53	-44	-38	+6	-
Eliminations & corporate	-375	-343	-314	-334	-350	-16	-
Total	157	162	214	-165	88	+254	-

5. Supplementary Materials

Quarterly Change in Group employees



5. 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 March 2018)
Net sales	¥ 41,501mn	(FY2017, Consolidated)
Employees * including temporary workers	1,048 (for the entire Group)	(As of end of March 2018)