

ALWAYS

August 2019

PRESENTATION MATERIAL



AUGUST 5, 2019

TOKYO STOCK
EXCHANGE MOTHERS
STOCK CODE: 2489

FIRST
QUARTER

Financial Results
Presentation for
FY2019 Q1
Founder and CEO,
Haruhisa Okamura

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1 FY2019 Q1 Performance

- Chapter1 : **First quarter results**

Quarterly Results (YoY, QoQ)

(JPY mn)

	FY2019 Q1	YoY FY2018 Q1			QoQ FY2018 Q4		
		Result	Change	Change (%)	Result	Change	Change (%)
Net sales	9,026	11,443	-2,417	-21.1%	9,330	-304	-3.3%
Gross profit	1,454	2,117	-663	-31.3%	1,672	-217	-13.0%
SG&A expenses	1,564	1,706	-142	-8.3%	1,637	-73	-4.5%
Operating profit	-109	411	-521	—	34	-144	—
Ordinary profit	-75	318	-394	—	228	-304	—
Profit attributable to owners of parent	-266	193	-460	—	346	-612	—

Net sales Decreased **JPY 2,417 mn YoY** (-21.1%)
 Decreased **JPY 304 mn QoQ** (-3.3%)

Operating profit Decreased **JPY 521 mn YoY** (-)
 Decreased **JPY 144 mn QoQ** (-)

Q1 Net Sales/Operating Profit Factors

[Net sales QoQ (by segment)]

	This quarter (FY2019 Q1)	Previous quarter (FY2018 Q4)	Change
Smartphone	4,525	4,198	+326
PC	3,567	4,037	-469
Overseas	705	871	-165
Total	8,797	9,160	-308

[Operating profit QoQ (by segment)]

	This quarter (FY2019 Q1)	Previous quarter (FY2018 Q4)	Change
Smartphone	416	606	-190
PC			
Overseas	-94	-86	-7
Total	322	519	-197

(JPY mn)

[Main factors]

Smartphone [Net sales: JPY 326 mn increase]

In addition to UNICORN sales growth, inbound campaigns from overseas clients and domestic clients for game app increased.

PC [Net sales: JPY 469 mn decrease]

Finance : Down from Q4, bigger budget spent quarter, mainly with credit card campaigns (seasonal factor)

EC : Negative impact from ceasing some campaigns to comply with The Act against Unjustifiable Premiums and Misleading Presentations, mainly in health foods and cosmetics.

Overseas [Net sales: JPY 165 mn decrease]

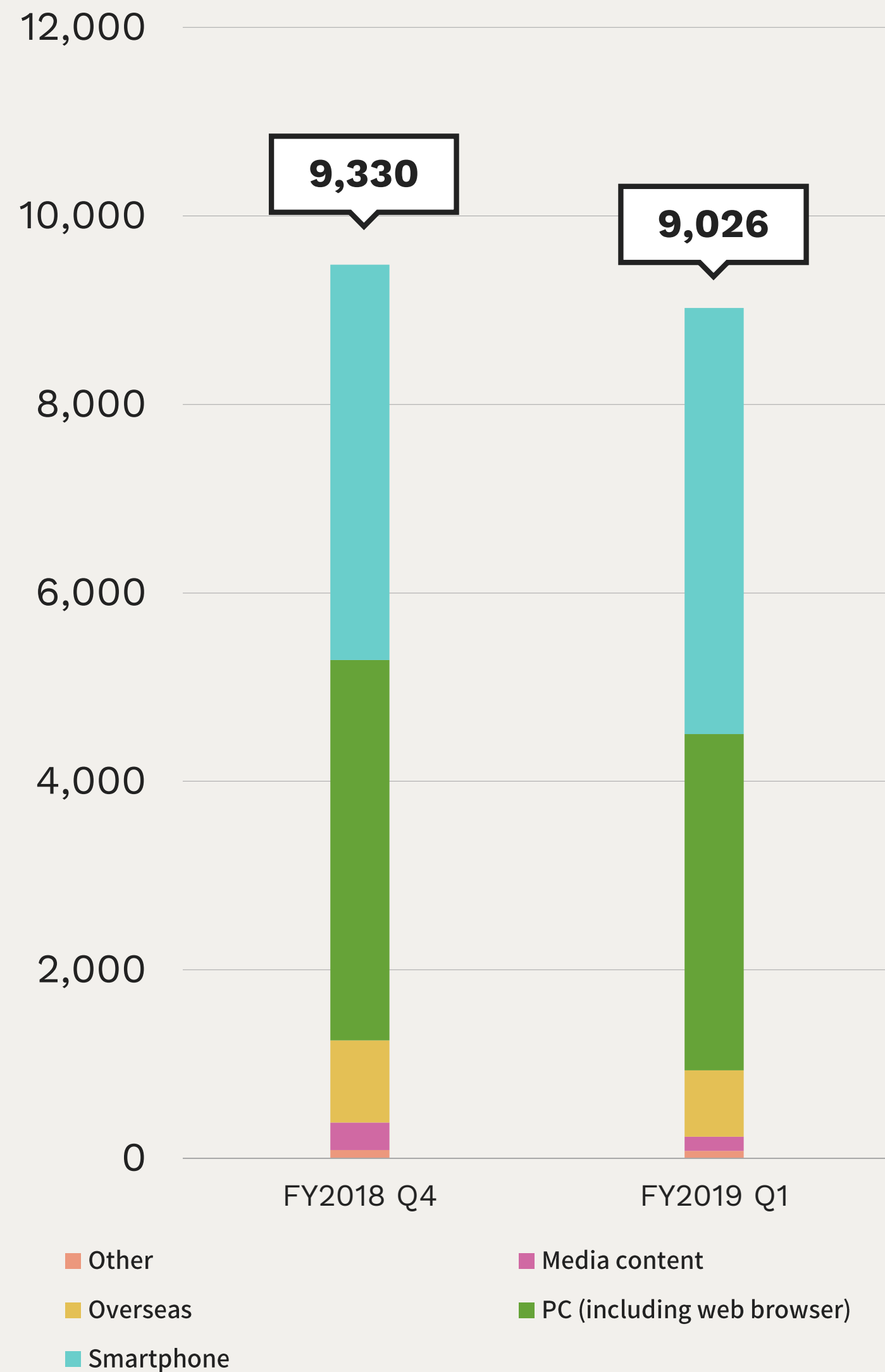
While game app marketing business showed steady growth, brand client's ad budget in China decreased. The impact on operating profit was small due to review of SG&A expenses.

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
FY2019 Forecast	43,200	730	770	252
Q1 Results	9,026	-109	-75	-266
Progress rate	20.9%	—%	—%	—%

Net Sales (QoQ Change)



Domestic Advertising

.. **JPY 8,092 mn**

QoQ: JPY -142mn (-1.7%)

Smartphone JPY 4,525 mn
(mainly app advertising)

QoQ: JPY +326 mn (+7.8%)

In addition to UNICORN sales growth, inbound campaigns from overseas clients and domestic clients for game app increased.

PC JPY 3,567 mn
(PC web advertising and smartphone web advertising)

QoQ: JPY -469 mn (-11.6%)

Finance : Down from Q4, bigger budget spent quarter, mainly with credit card campaigns (seasonal factor)

EC : Negative impact from ceasing some campaigns to comply with The Act against Unjustifiable Premiums and Misleading Presentations, mainly in health foods and cosmetics.

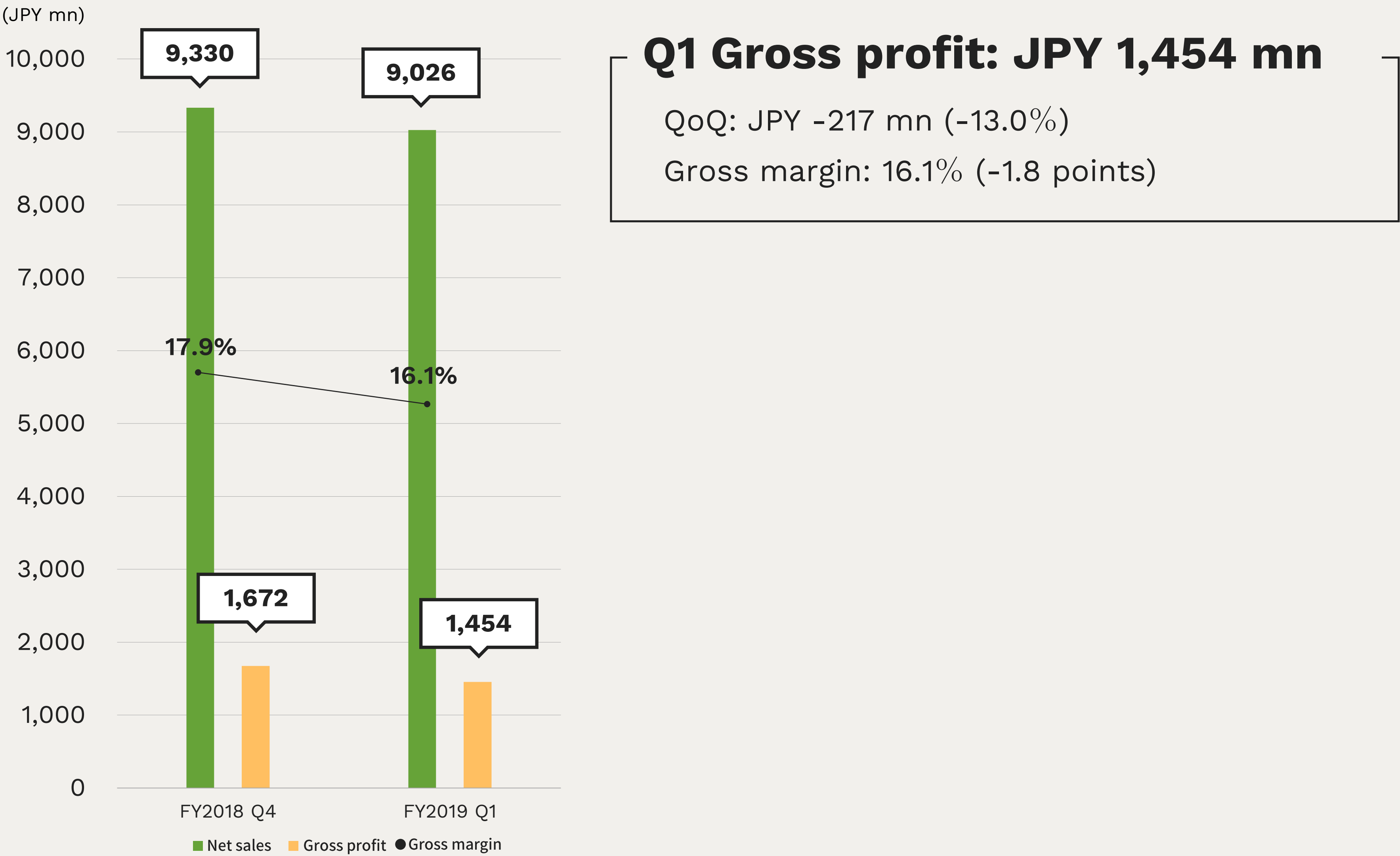
Overseas JPY 705 mn

QoQ: JPY -165 mn (-19.0%)

While game app marketing business showed steady growth, brand client's ad budget in China decreased. The impact on operating profit was small due to review of SG&A expenses.

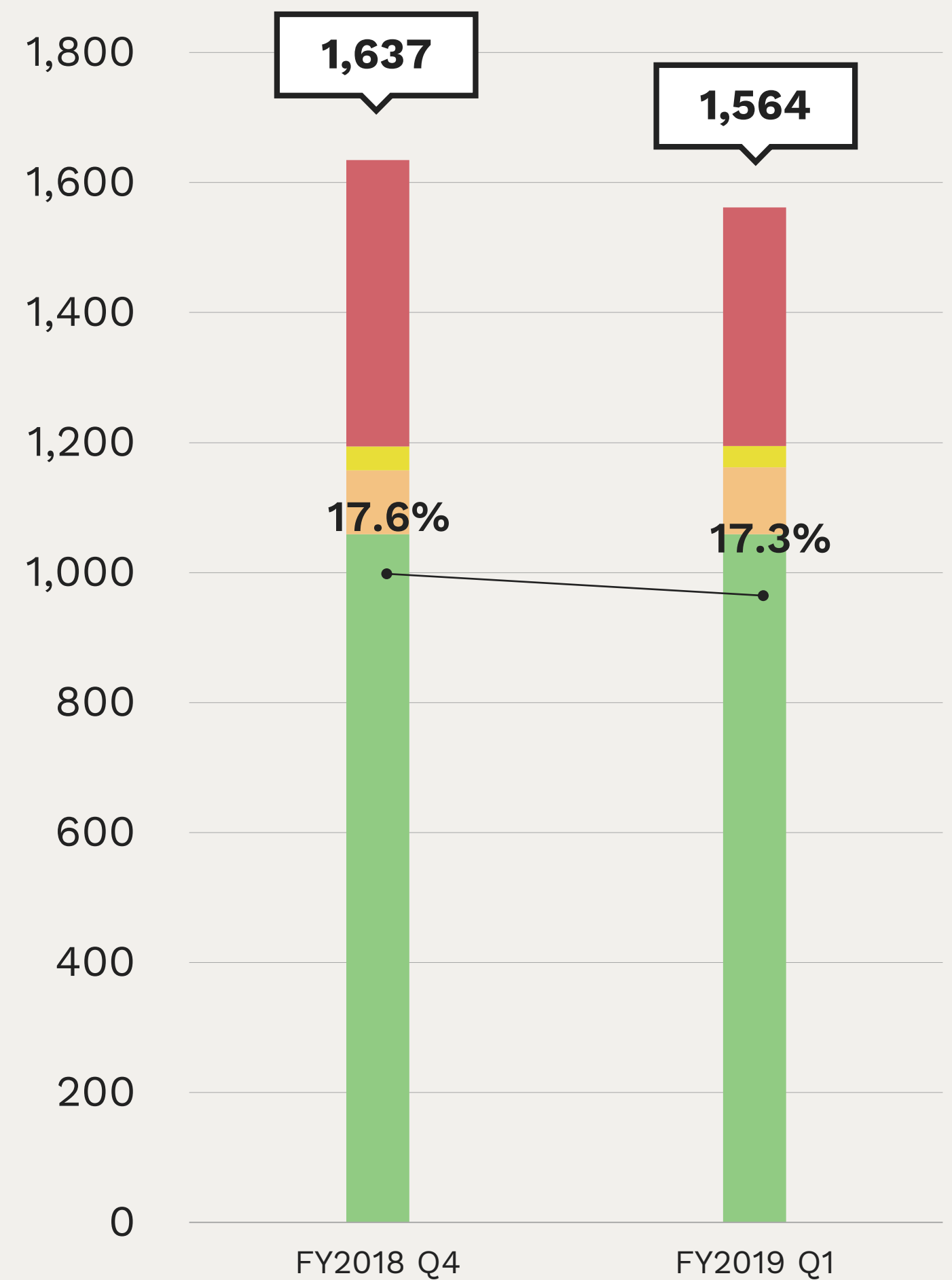
* The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2019 Q1 (January – March) figures are consolidated with the Adways Group's FY2019 Q1 (April – June) figures.

Gross Profit (QoQ Change)



SG&A Expenses (QoQ Change)

(JPY mn)



■ Personnel expenditure ■ Rent ■ Depreciation ■ Other expenses

Recruiting & education expenses

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Q1 SG&A expenses: JPY 1,564 mn

QoQ: JPY -73 mn (-4.5%)

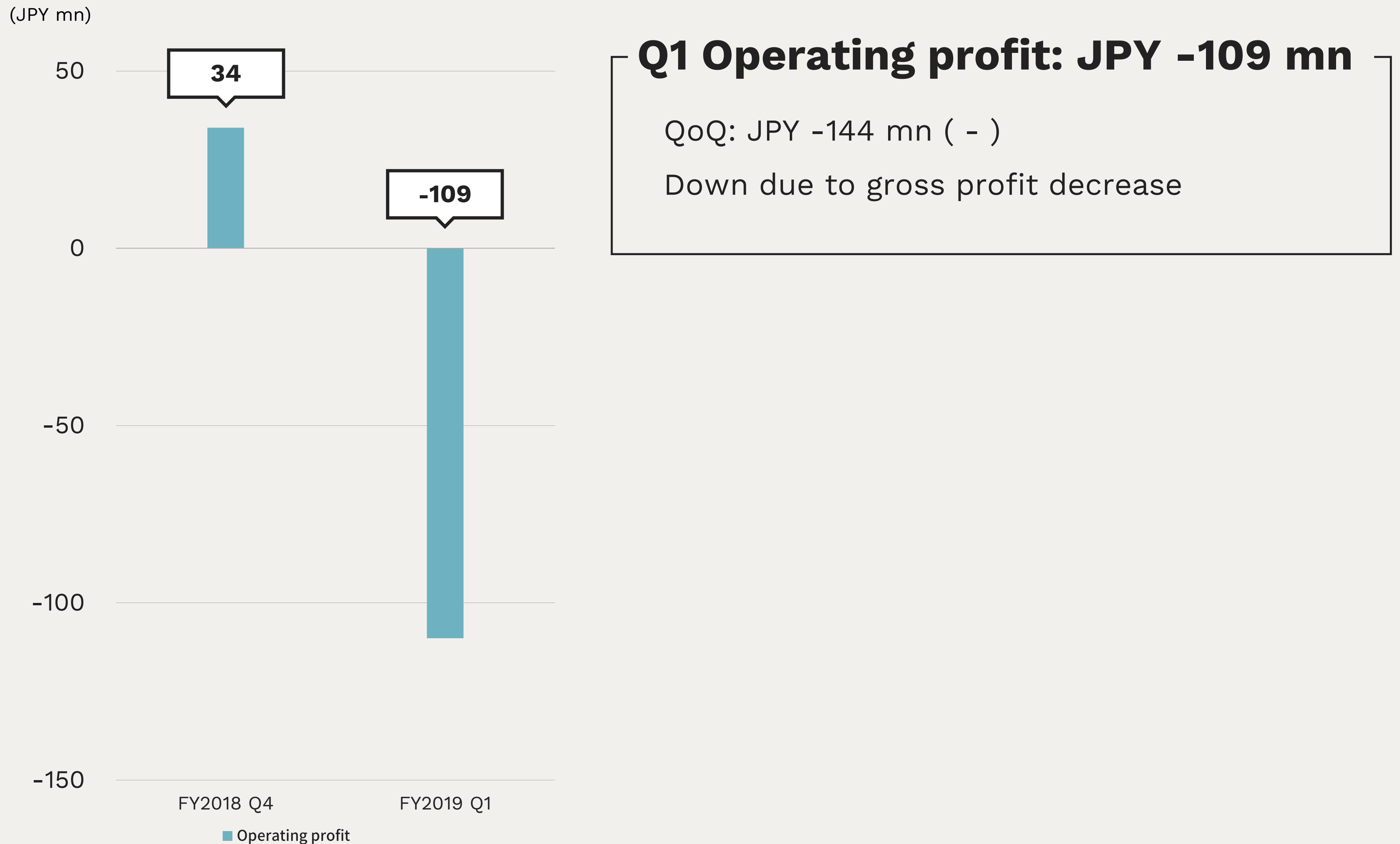
SG&A to sales ratio: 17.3% (-0.3 points)

Main Factors of Decreased

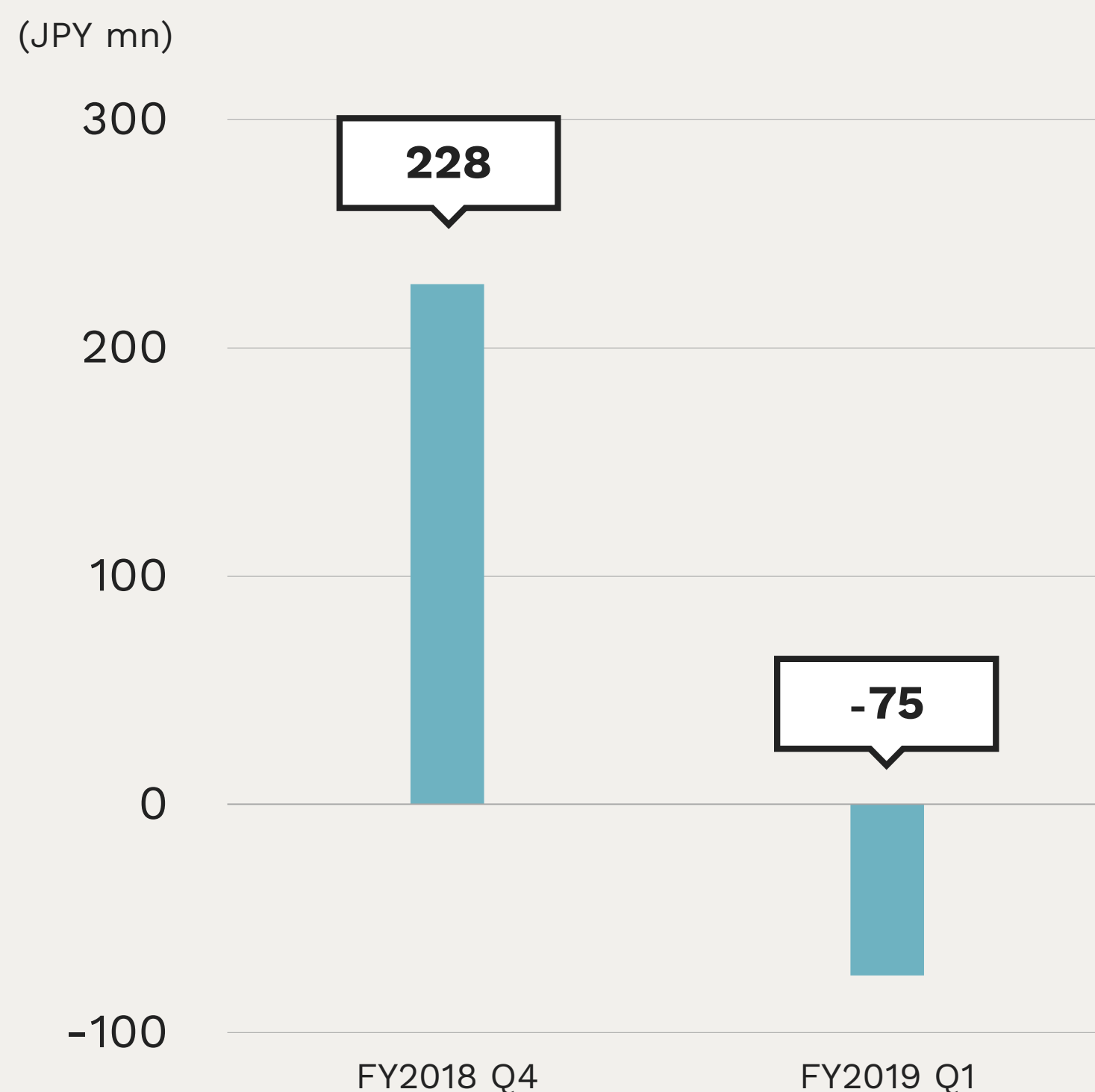
- Review of overseas subsidiaries' SG&A expenses (including Indian subsidiary sell off)

Down approx. JPY 86 mn

Operating Profit (QoQ Change)



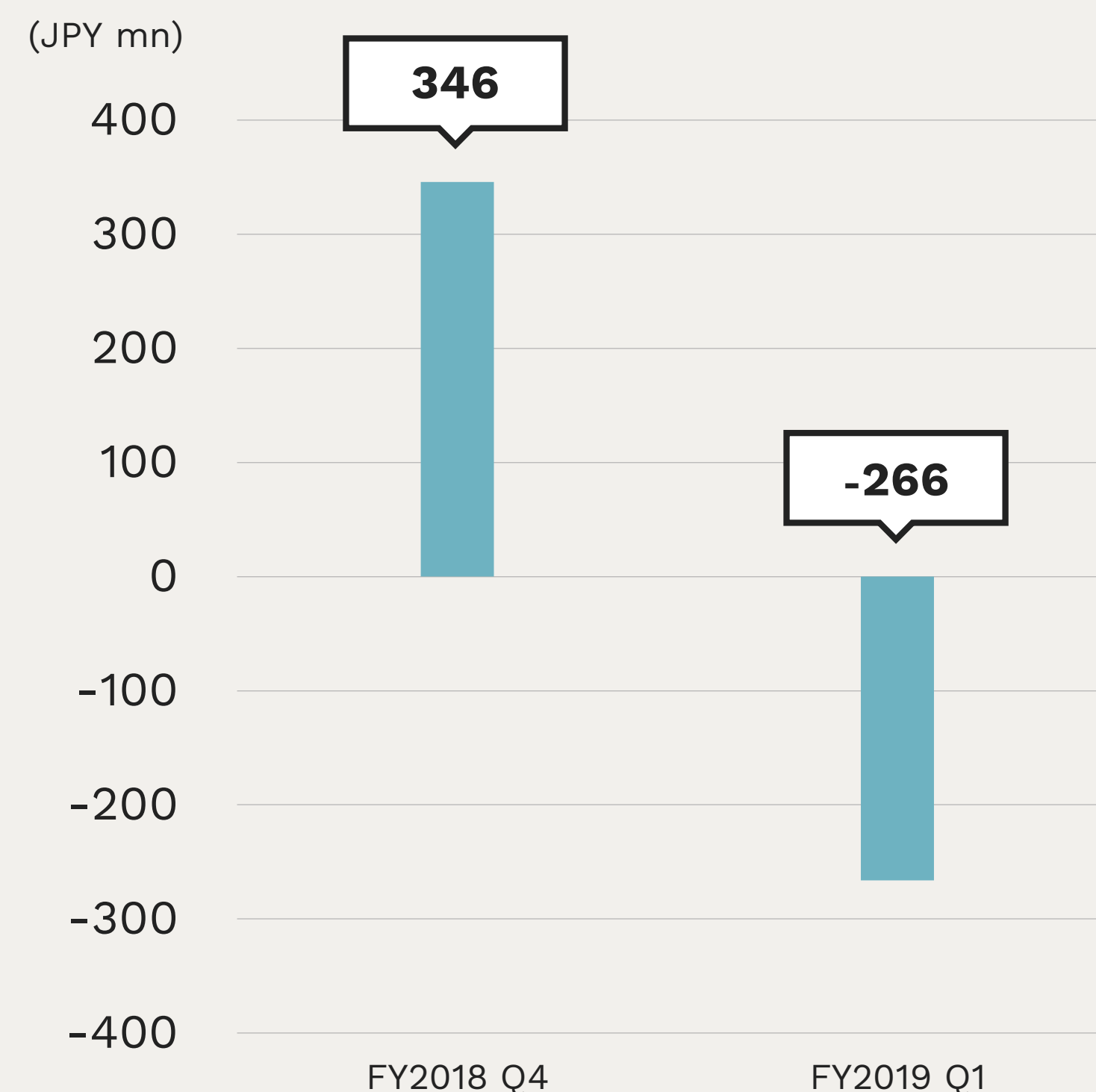
Ordinary profit (QoQ Change)



Q1 Ordinary profit: JPY -75mn

QoQ: JPY -304 mn (-)

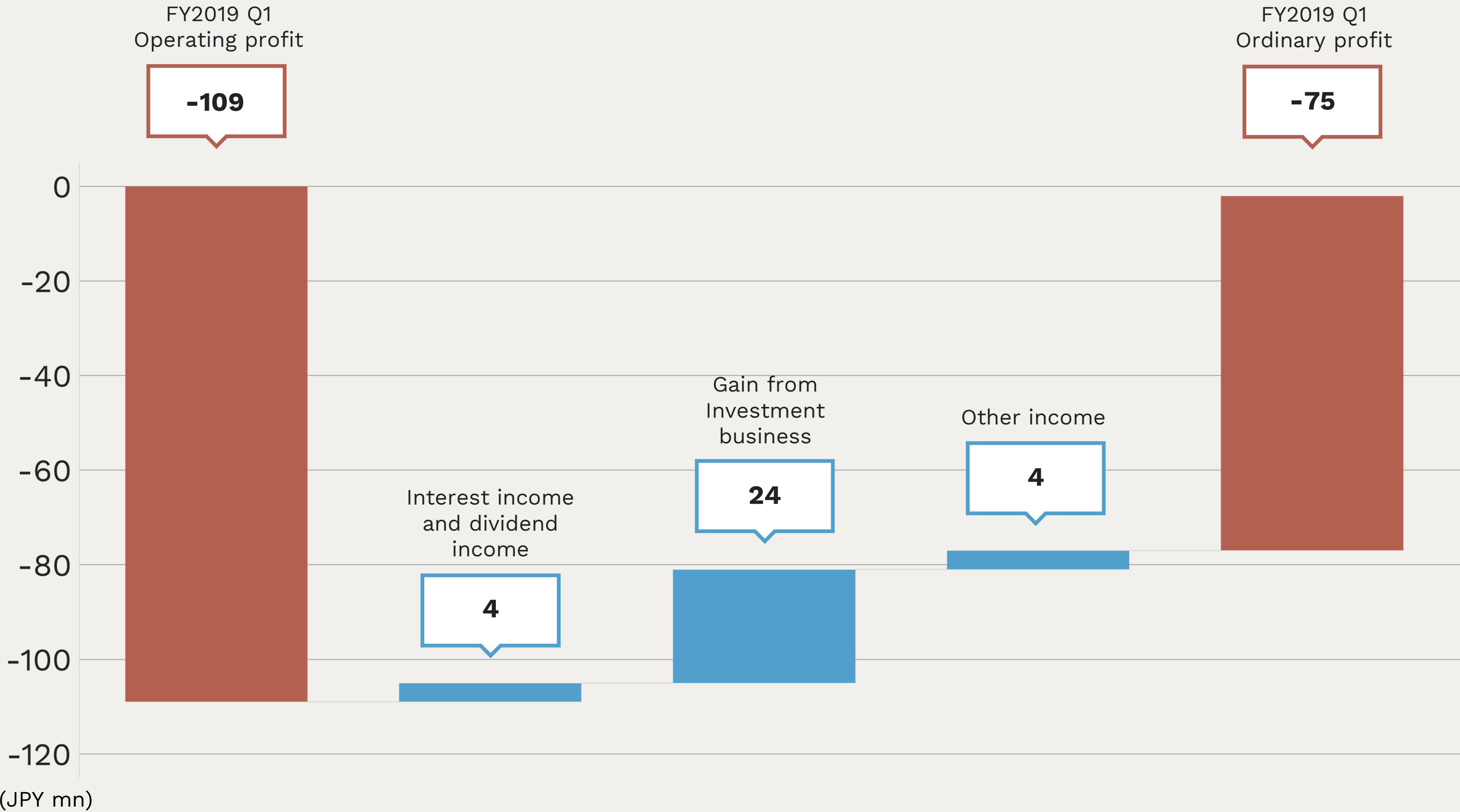
Profit attributable to owners of parent (QoQ Change)



**Q1 Profit attributable to owners
of parent : JPY -266 mn**

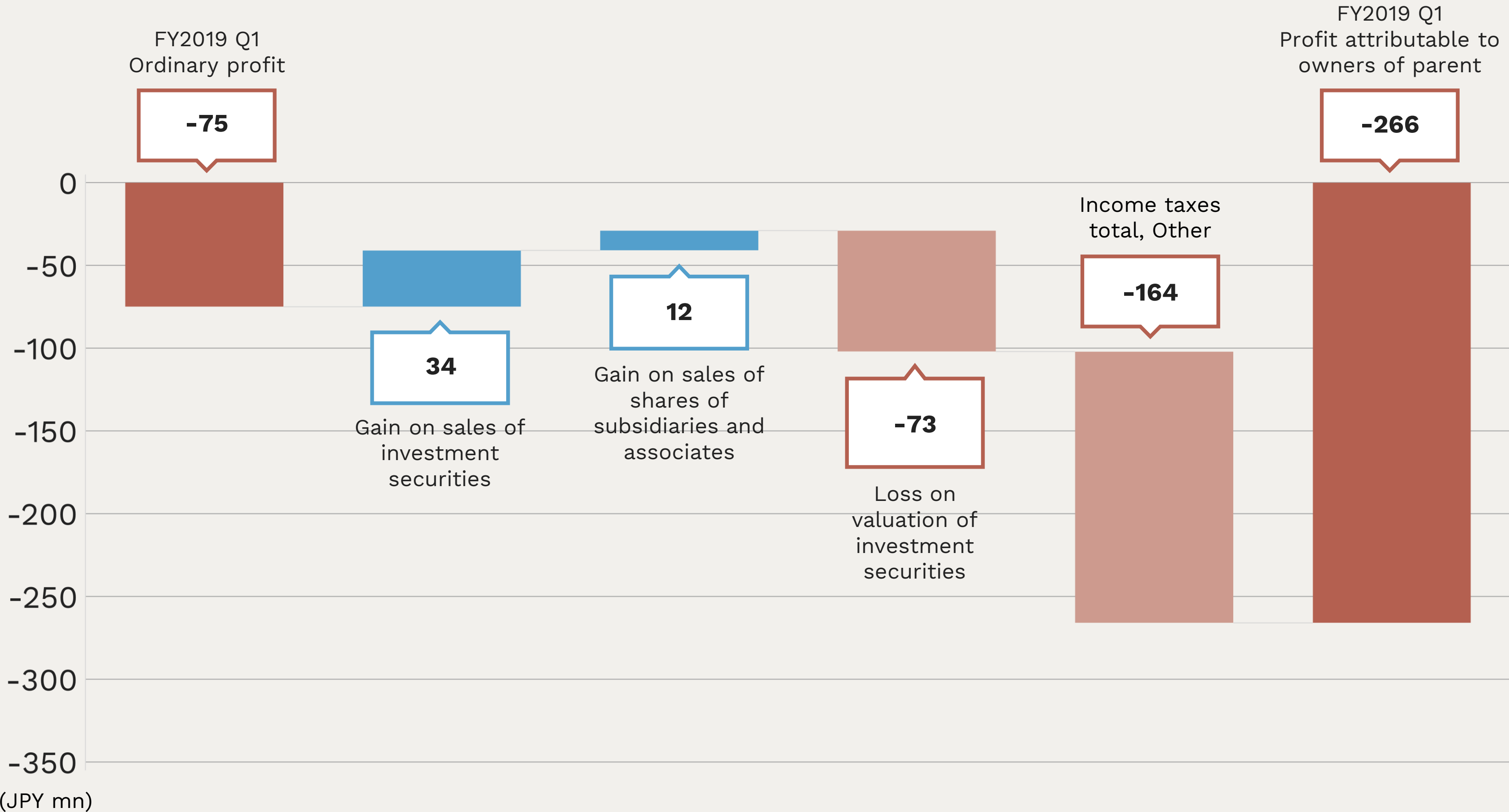
QoQ: JPY -612 mn (-)

Breakdown of FY2019 Q1 Ordinary Profit



- Interest income and dividend income JPY 4 mn
- Gain from Investment business . . . JPY 24 mn
- Other income . . . JPY 4 mn

Breakdown of Q1 FY2019 Profit Attributable to Owners of Parent



- Gain on sales of investment securities** . . . JPY 34 mn : No. of individual stocks (3 companies)
- Gain on sales of shares of subsidiaries and associates** . . . JPY 12 mn
- Loss on valuation of investment securities** . . . JPY -73 mn : No. of individual stocks (5 companies)
- Income taxes total, Other** . . . JPY -164 mn : Including JPY -152 mn corporate tax for head office

2.

Chapter2 : **business overview**

BUSINESS OVER VIEW

Consolidated Trend of Sales

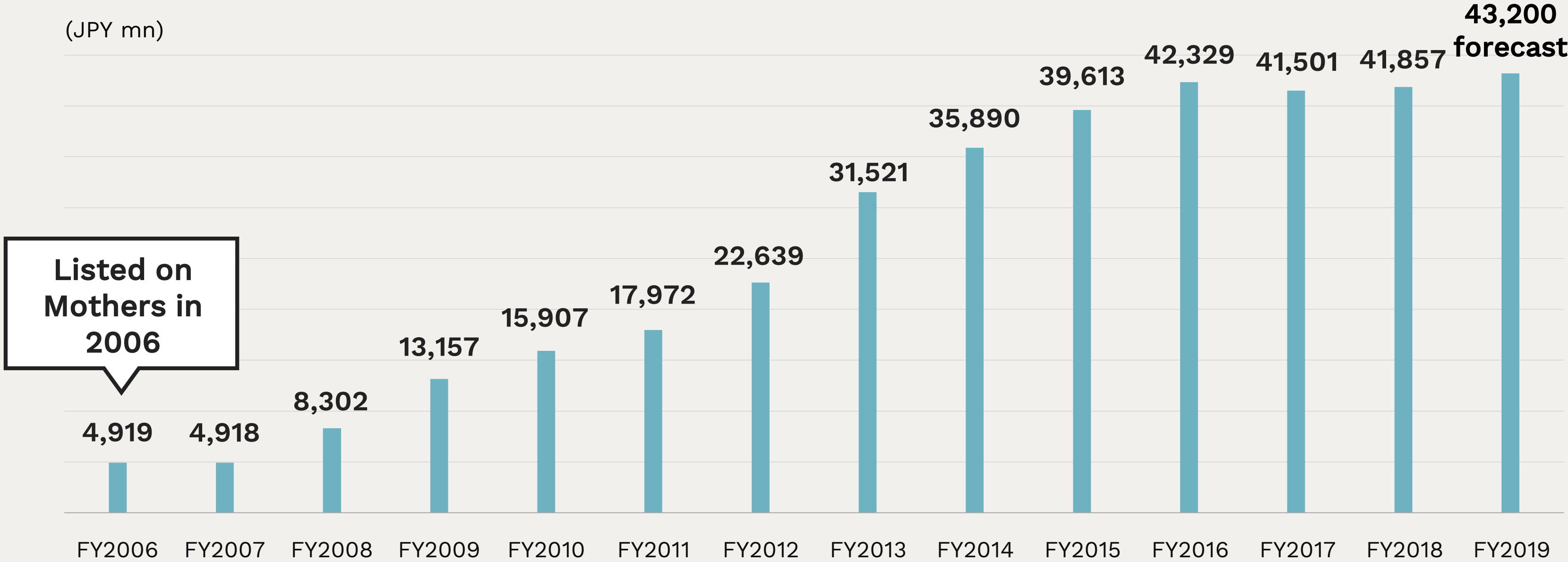
first quarter

Focus on PC/feature phone affiliate business

Launch and expansion of smartphone advertising business

Focus on overseas business

Focus on new products



**“No People, No Gain” based on
our corporate philosophy**

人儲け

No People, No Gain

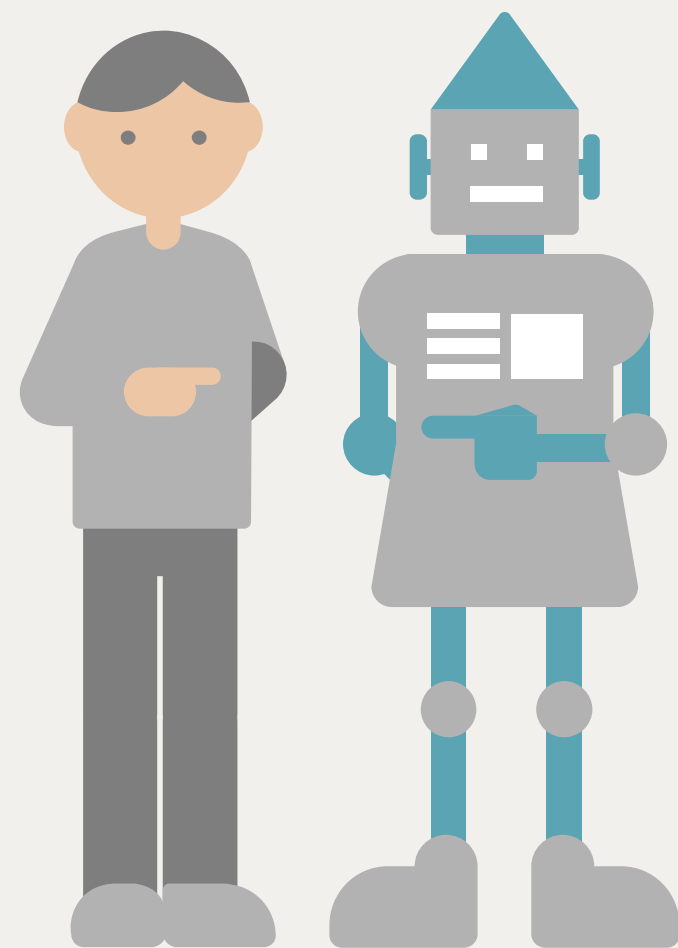


Co-existence of Humans & Machines

What Is Co-existence of Humans & Machines?

first quarter

1



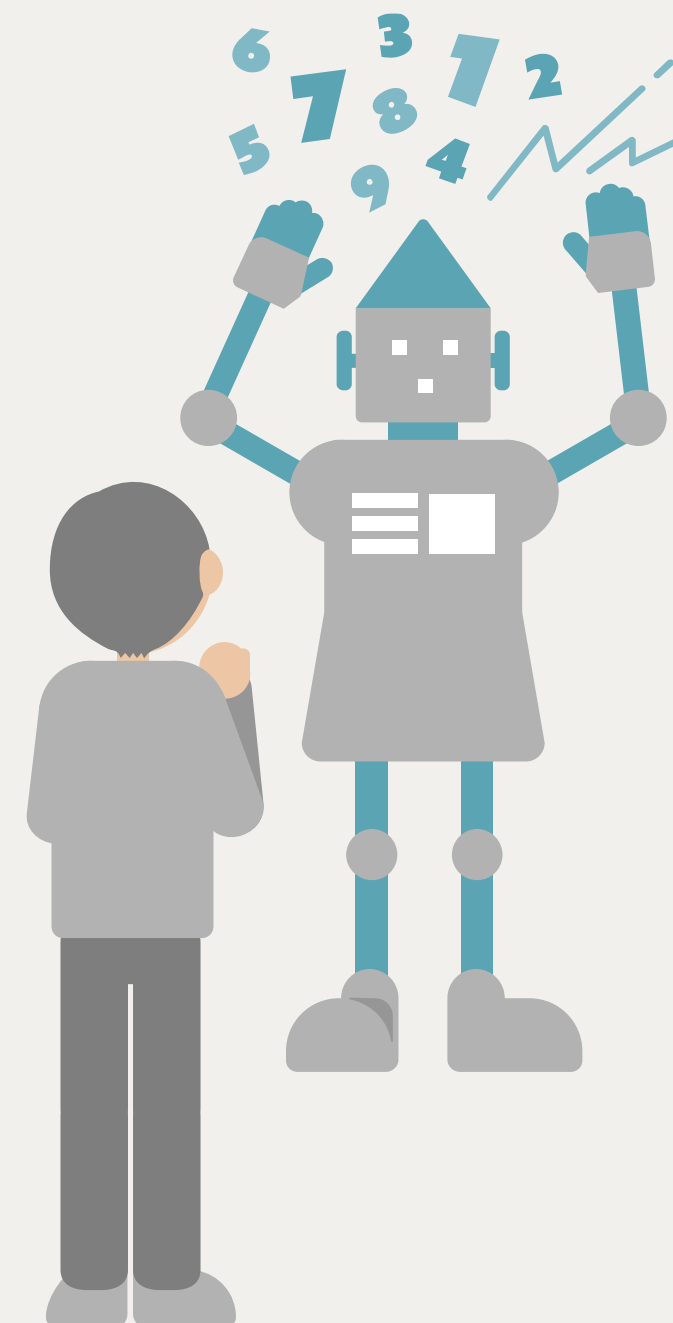
Determine the job type carefully by Human or by Machine

2



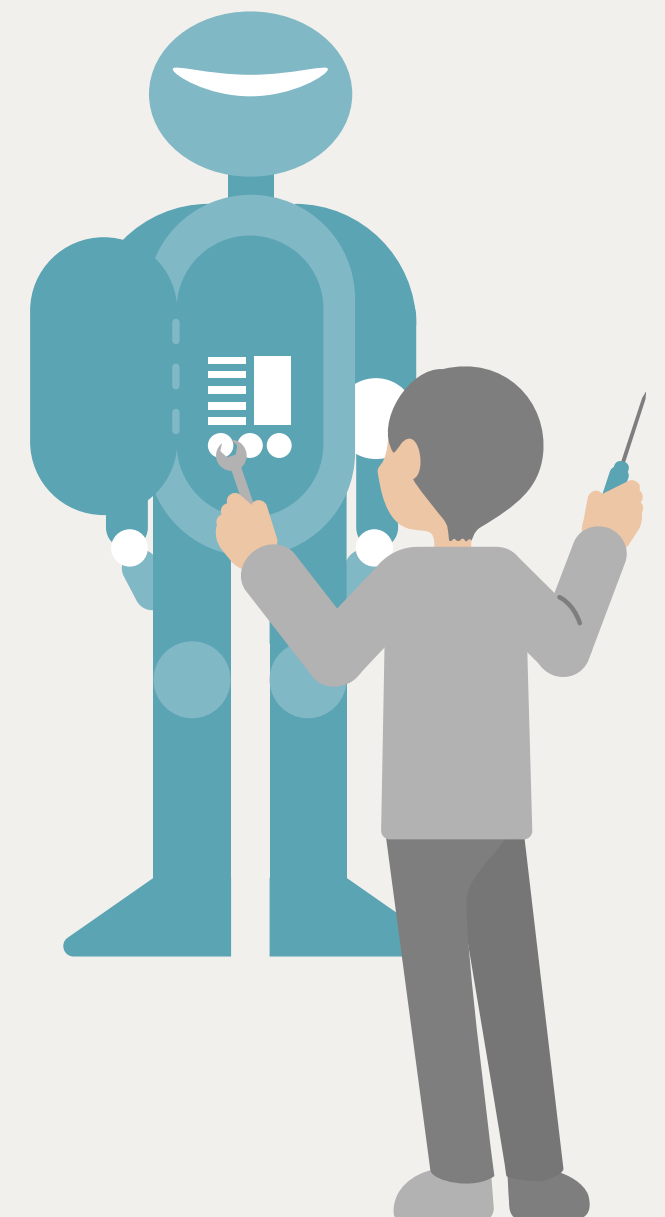
Human to focus and improve on what we do best

3



Let the machines do what they are good at

4

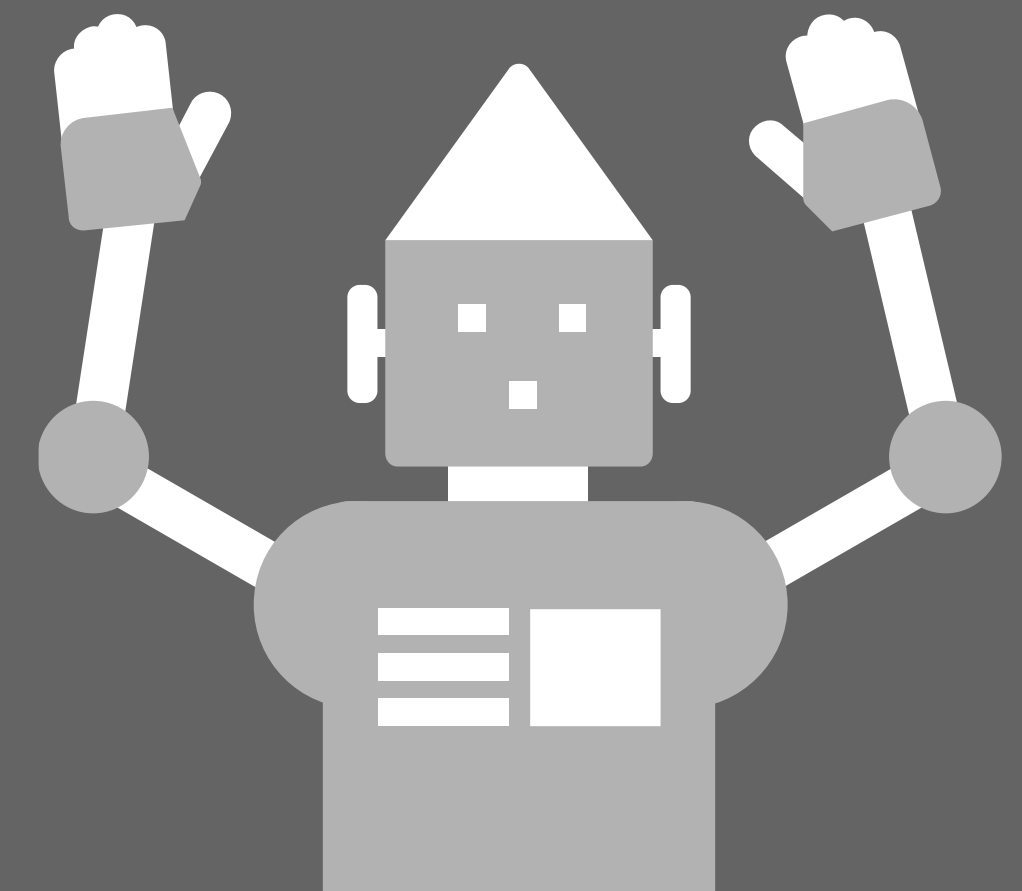


Create machines that are more effective and accurate than human work

What Machines Are Best At

Determine and automate the tasks that should be done by machines

Automation can greatly expands the services we can provide with the same number of employees, thus enhancing customer satisfaction.



first quarter

Ad management through machine learning

Fully automated marketing platform



Automation of business operations

Internal project management tools



Mass production of creatives

Tools for mass production of video creatives



So what are the type of jobs best fit for us humans?

machine

What Human does best

first quarter

In terms of advertising, “Creation” such as drawing up marketing strategy based on the client’s needs, making creatives that help achieves the marketing objective. Building more efficient and accurate machines is also something only human can do.

Develop strategies

Develop products

Make creatives



Co-existence of Humans & Machines

first quarter

The key to our ideal future of **Co-existence of humans & machines** is judging which job to be handled by humans or machines. Not only does automating the tasks with machines increase efficiency, humans will be able to focus on creating new value by thoroughly evaluating what humans do best.

Automate what
humans can't do

Consolidate what
machines can't do to humans



**Maximize
performance**



Even if the circumstance change in the next 10 or 20 years, we will maintain an environment in which each employee can thrive as to achieve our corporate philosophy of “No People, No Gain”.

Service Examples

first quarter

The following are explanations of our fully-automatic marketing platform UNICORN and our comprehensive ad management support system STROBELIGHTS X, as examples of Co-existence of Humans & Machines.



UNICORN:

first quarter

Fully Automated Marketing Platform

UNICORN enables to better predict ad performance with machine learning. It aims to realize the essence of marketing

where humans can focus on thinking and creating.

Artificial rules on prediction
through machine learning



250,000 bid
requests/second

Bid requests

Over 10,000
ad types

Best ad selection

Price determined in
0.01 secs

Buy price determination

Buyable traffic per
month

400,000,000,000+
impressions

Up to 400 billion
impressions in Japan



SSP



MEDIA

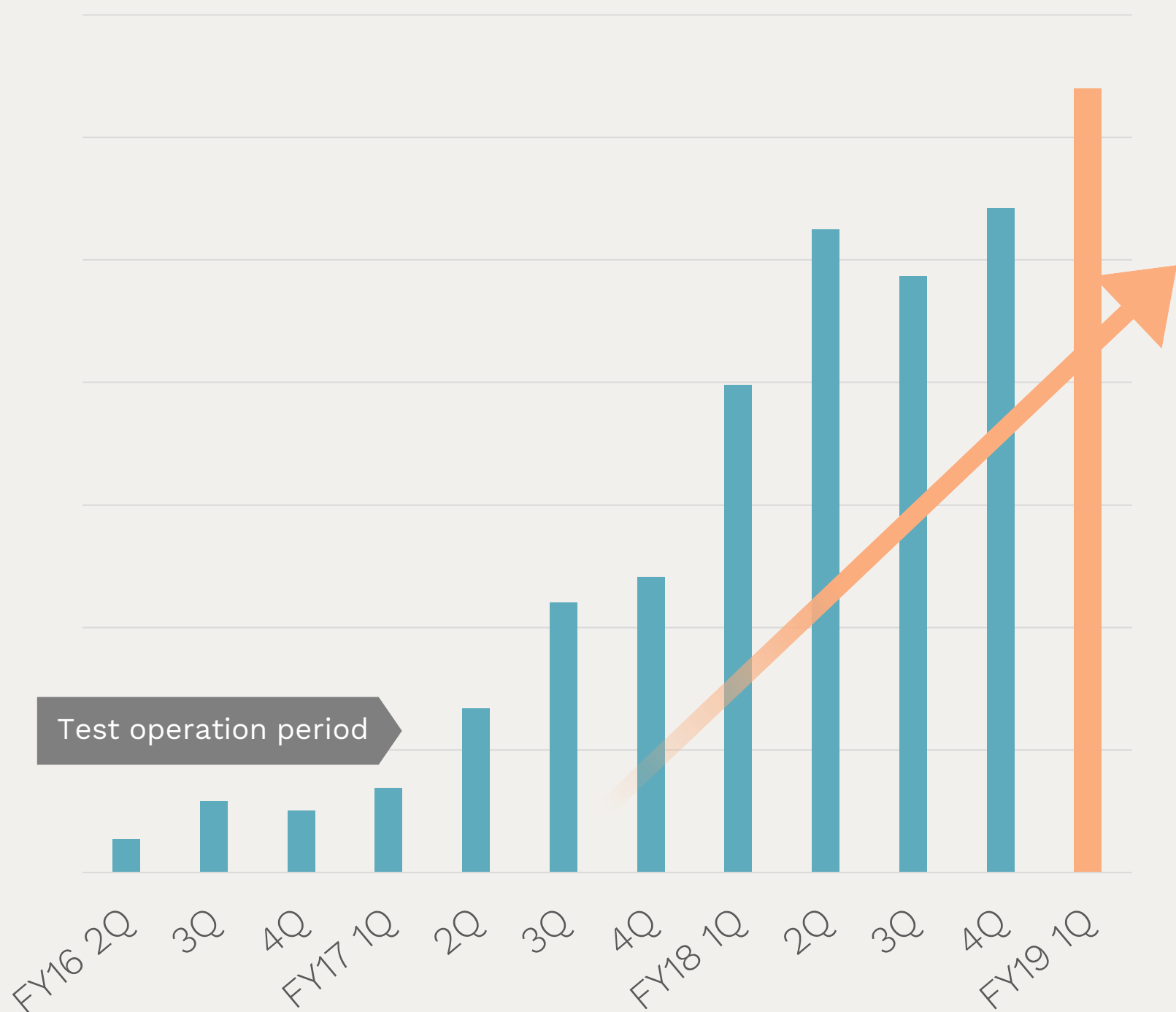
After receiving all available traffic once, our proprietary fraud detection algorithm identifies valuable ad placements' appropriate price with machine learning in 0.01 seconds and makes the bid.

About UNICORN

Progress of UNICORN

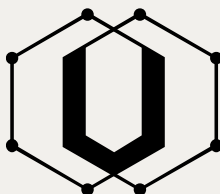
first quarter

UNICORN sales



Continued growth in sales

ROAS*1 of users acquired through UNICORN

**UNICORN**

Average 75.3%

(June 2019 results)*2

Continuing to achieve high ROAS

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

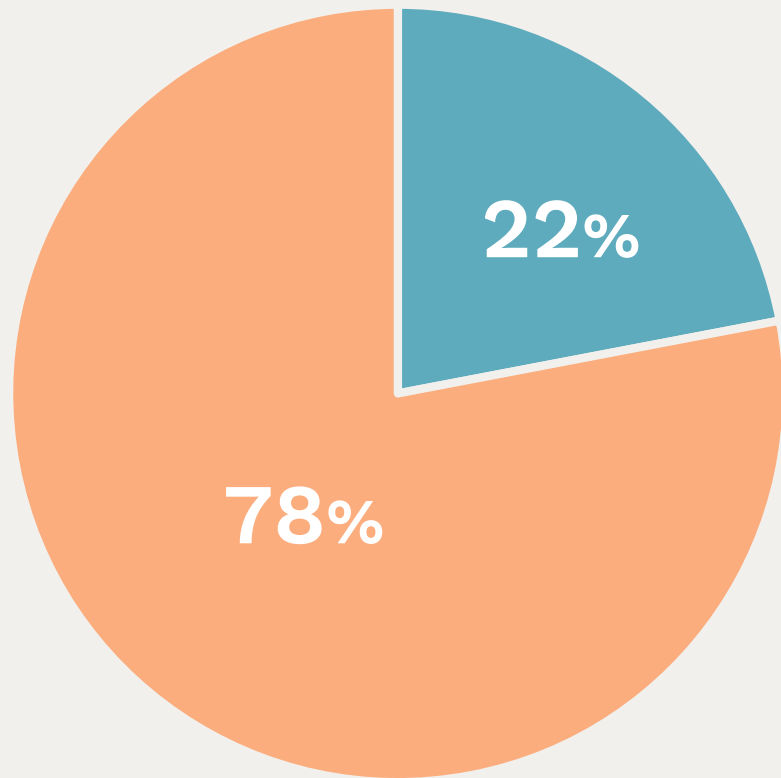
*2 Aggregate of top five campaigns.

Progress of UNICORN

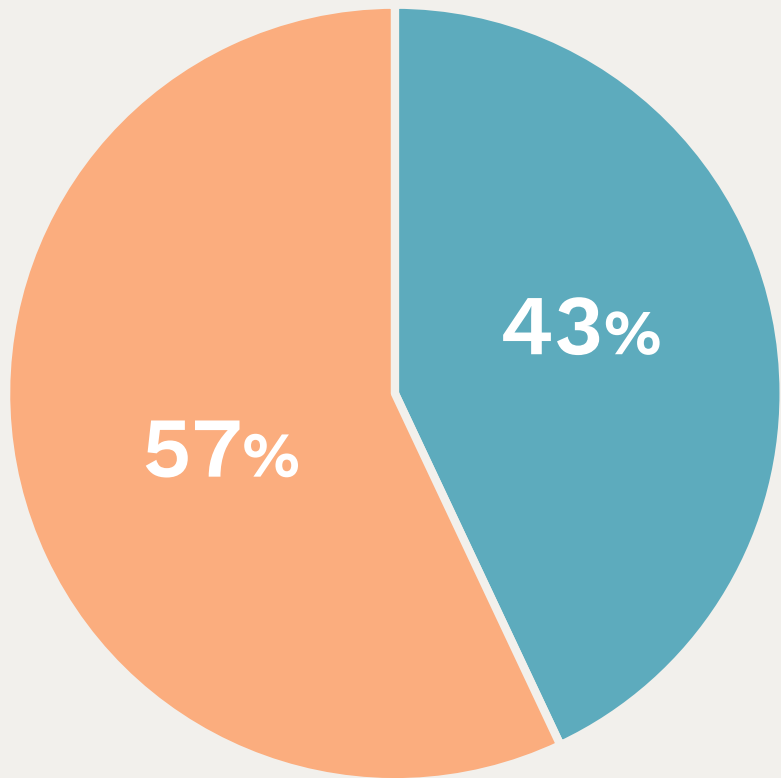
first quarter

Sales to agencies

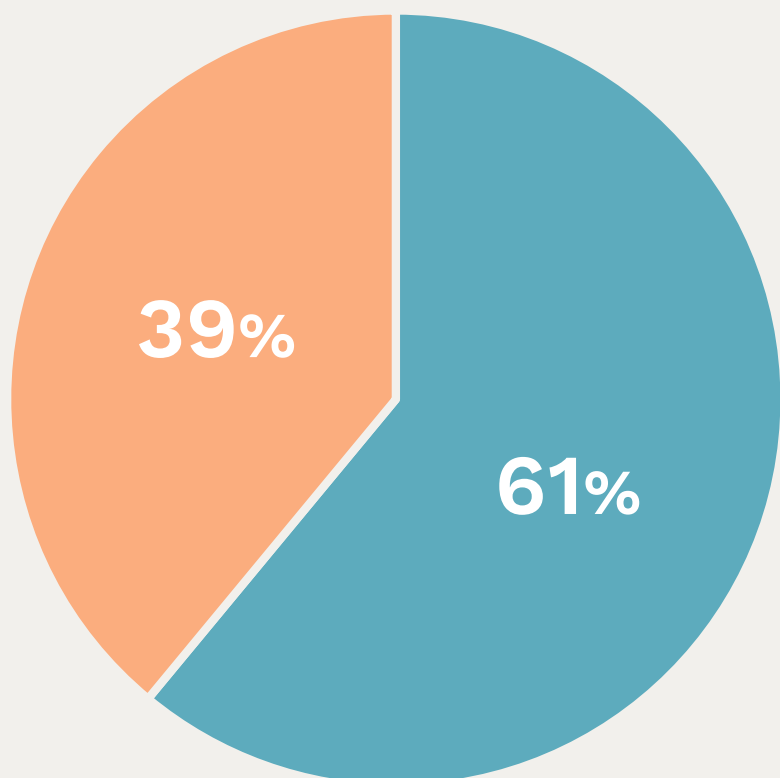
Pre-sales to agencies
Q3 FY2018 results



Post-sales to agencies
Q4 FY2018 results

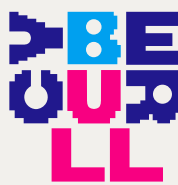


Post-sales to agencies
Q1 FY2019 results



Agencies and direct sales
Adways

Growth by working together with major agencies



About UNICORN

A Comprehensive Support System for Performance-Based Advertisement **STROBELIGHTS X**

first quarter

What is STROBELIGHTS X?



STROBELIGHTS X

Comprehensive dashboard enabling integrated management of ad
delivery status for each global mega platform.

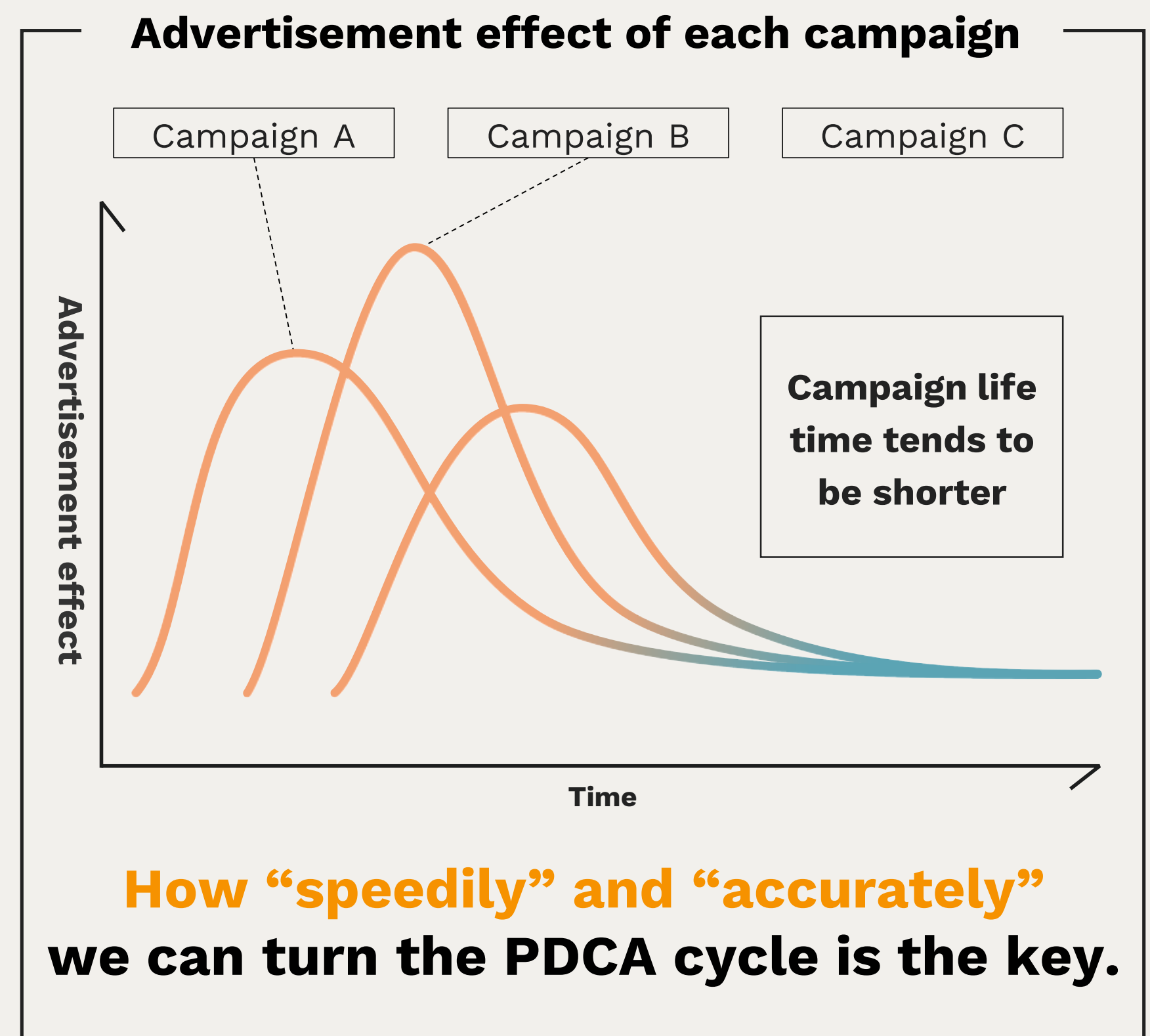
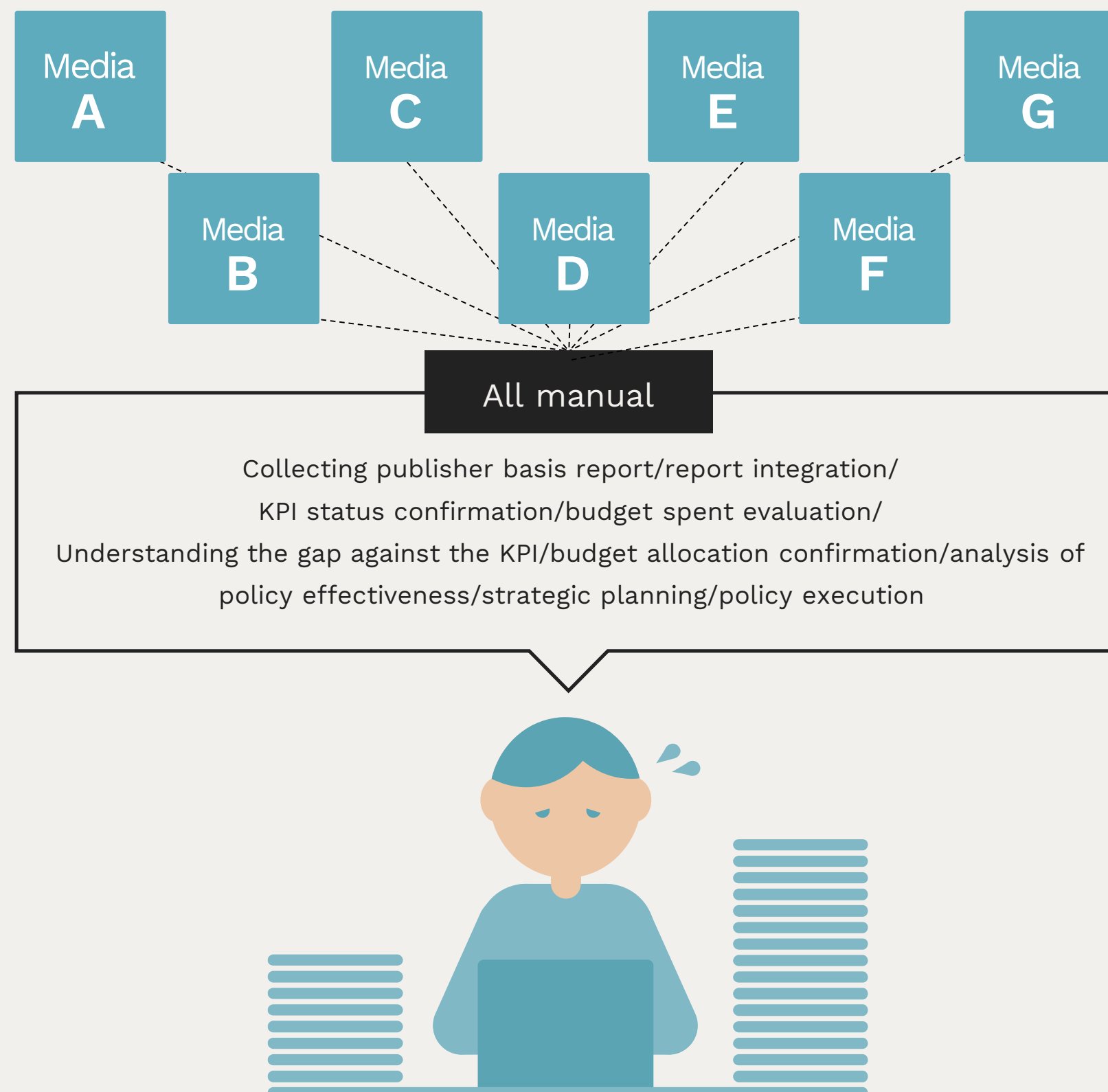
A Comprehensive Support System for Performance-Based Advertisement

STROBELIGHTS X

first quarter

Previous performance-based ad

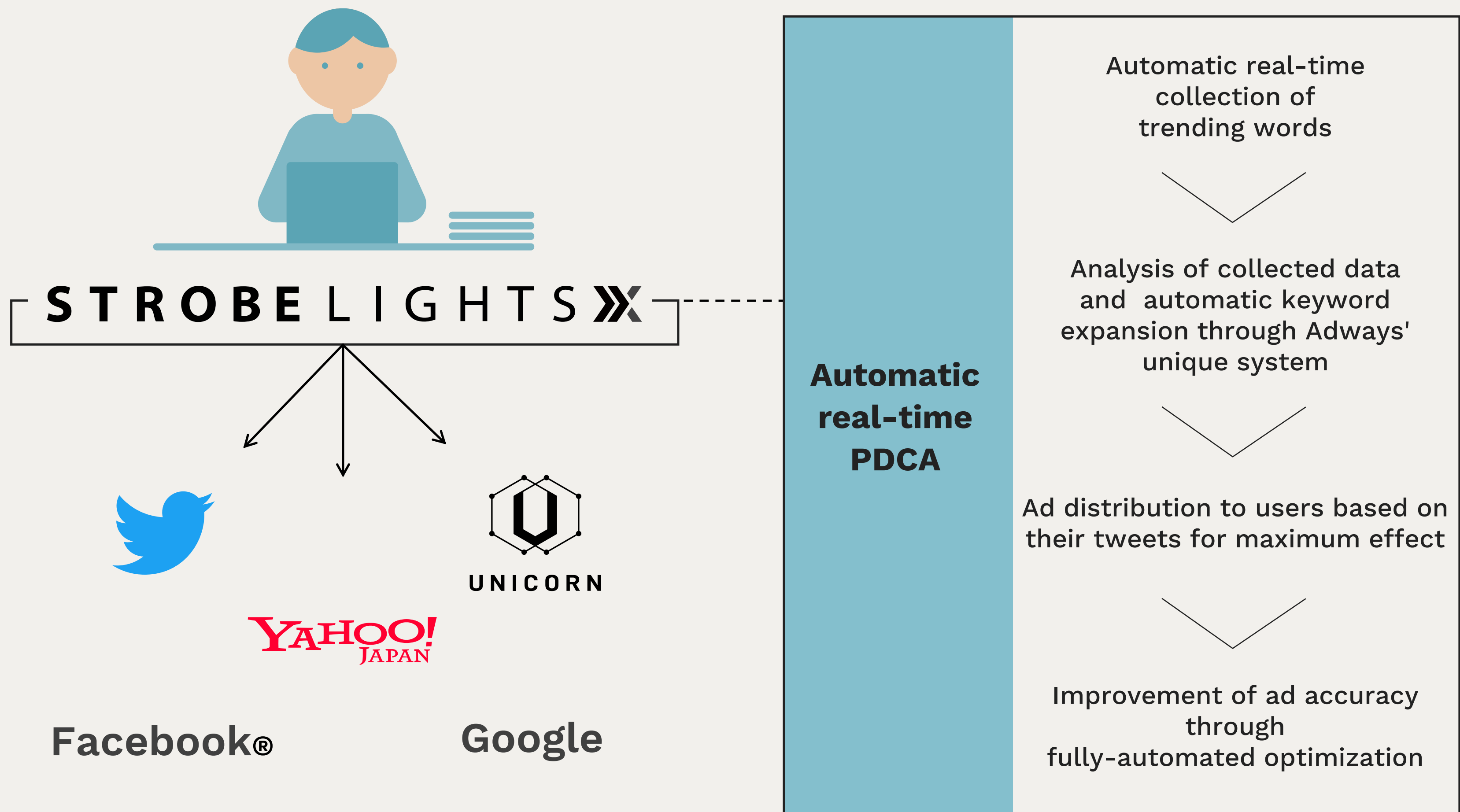
Until now, the ad operation staff manually made optimal delivery setting and keywords for each media to maximize advertisement effect.



A Comprehensive Support System for Performance-Based Advertisement **STROBELIGHTS X**

first quarter

STROBELIGHTS X enables integrated management across various medias

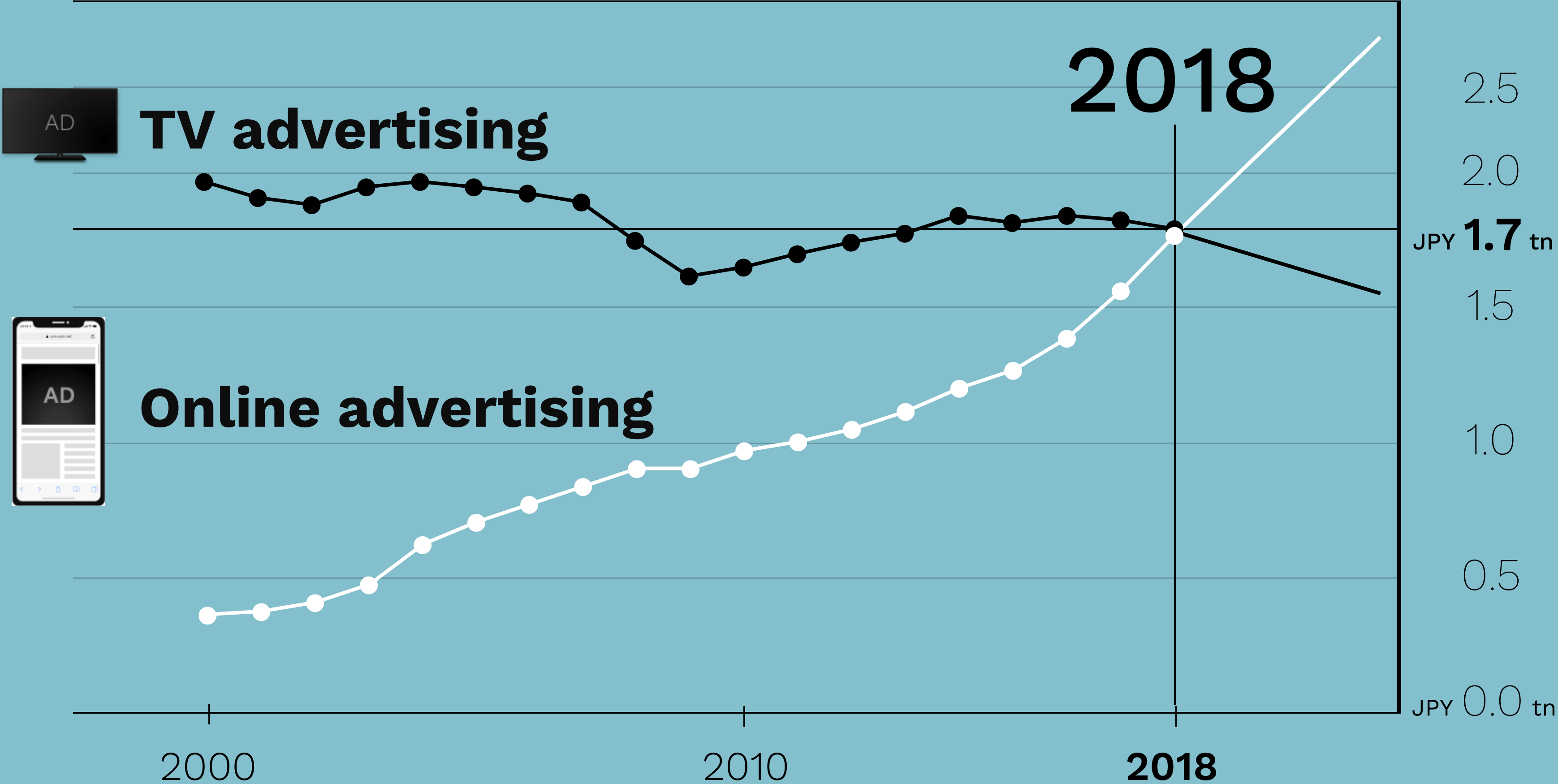


Our Challenge in Brand Advertising

Market Growth

first quarter

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



internet **exceeds** TV

2019 Online advertising is likely to surpass TV advertising

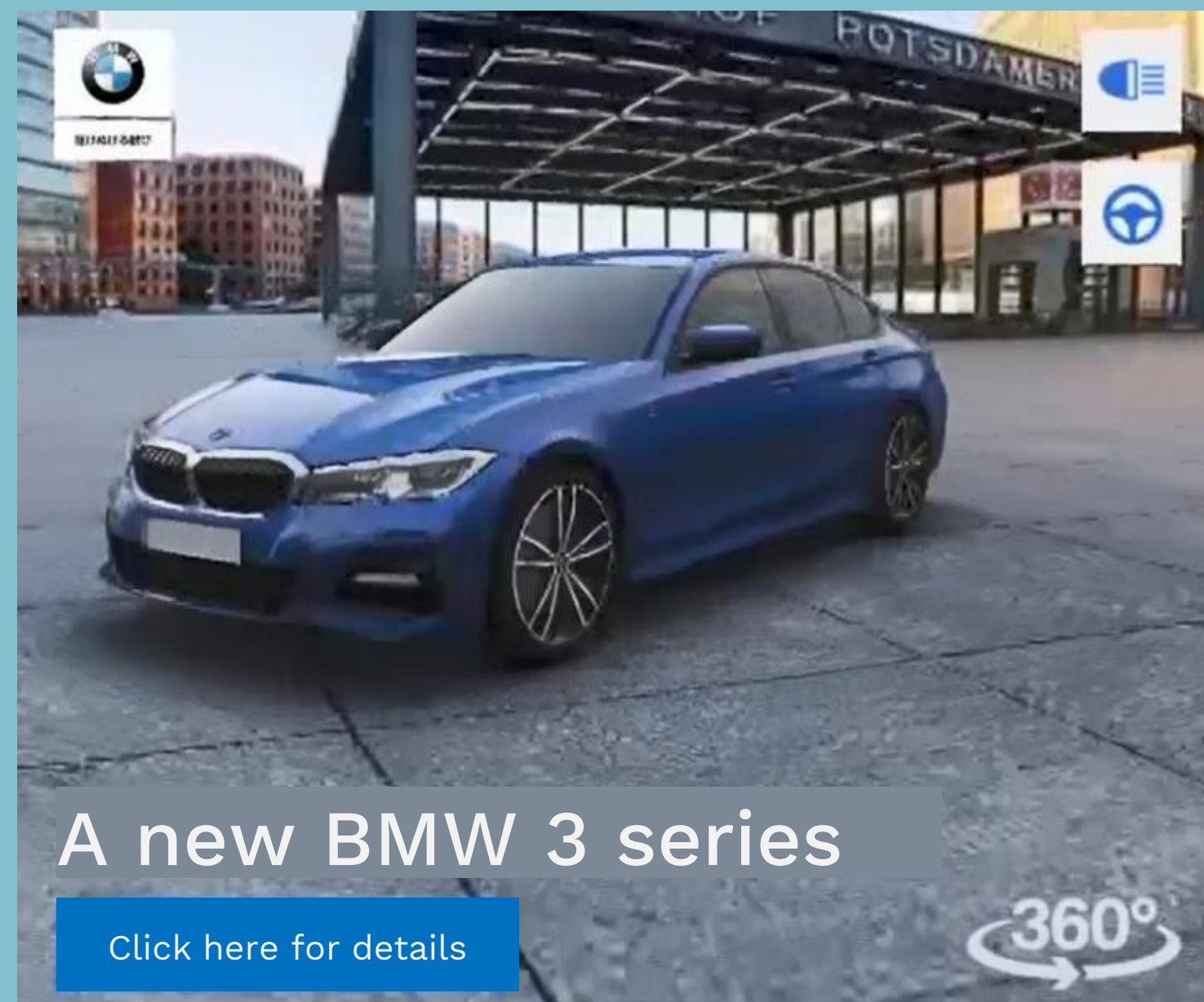
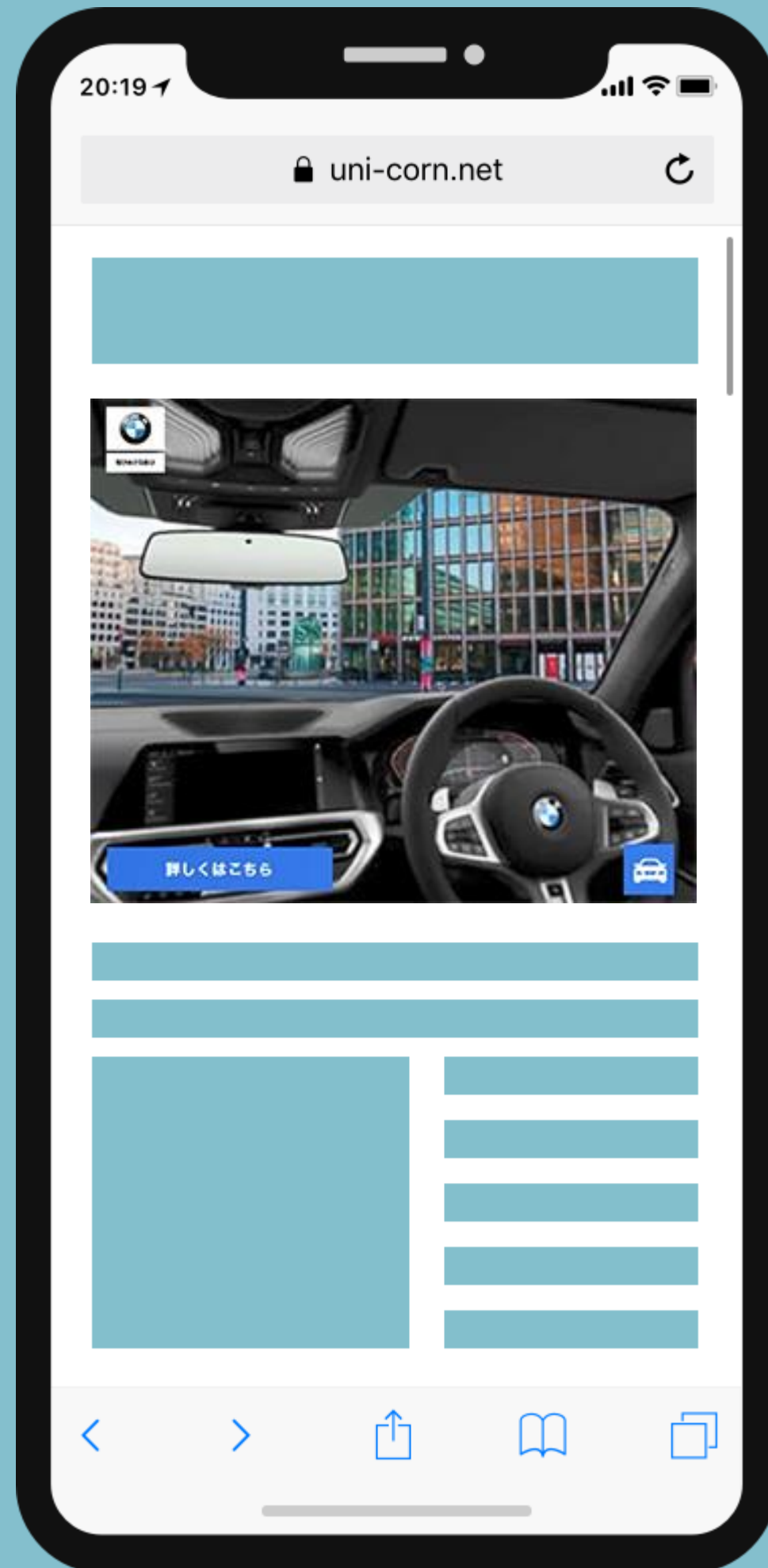
3D Interactive Ads

Interactive ads using 3D models

first quarter

Interactive 3D

interactive 3D ads



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 August 5, 2019 and a variety of factors may cause the statements to differ from actual results.

SUPPLEMENTARY MATERIALS

3.

Chapter 3 : **Supplementary materials**

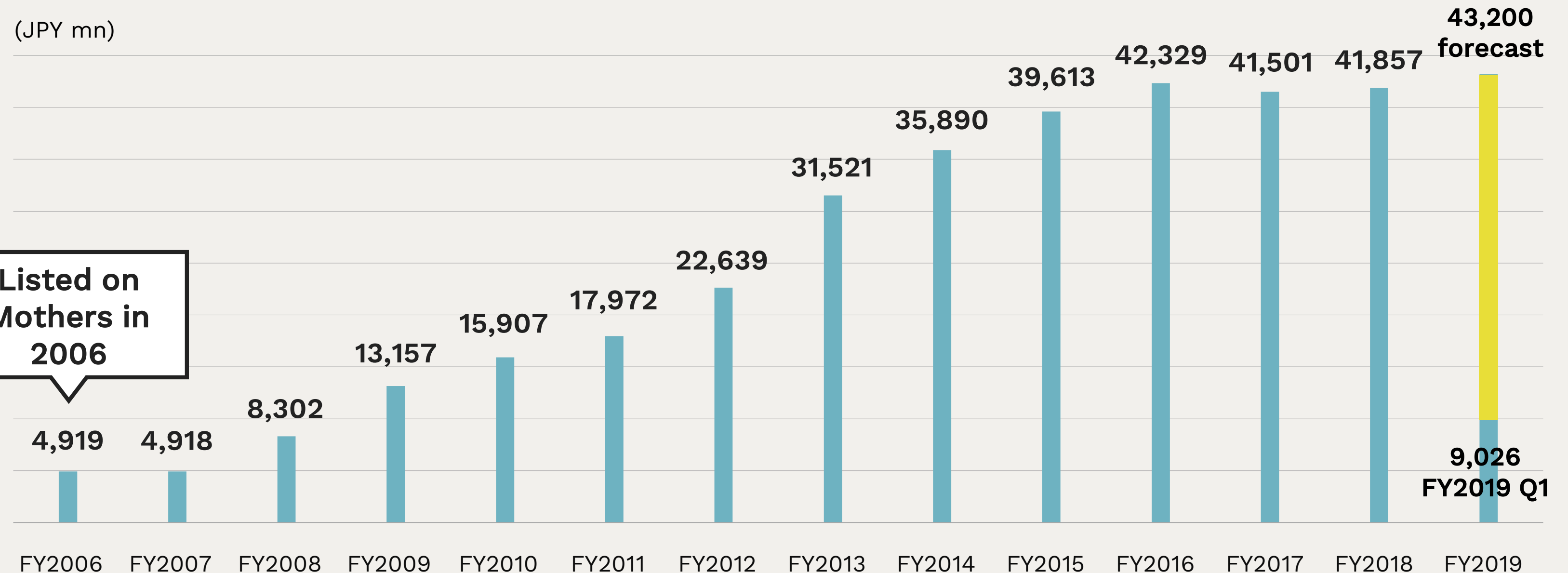
Consolidated Trend of Sales

**Focus on PC/feature
phone affiliate business**

**Launch and expansion
of smartphone
advertising business**

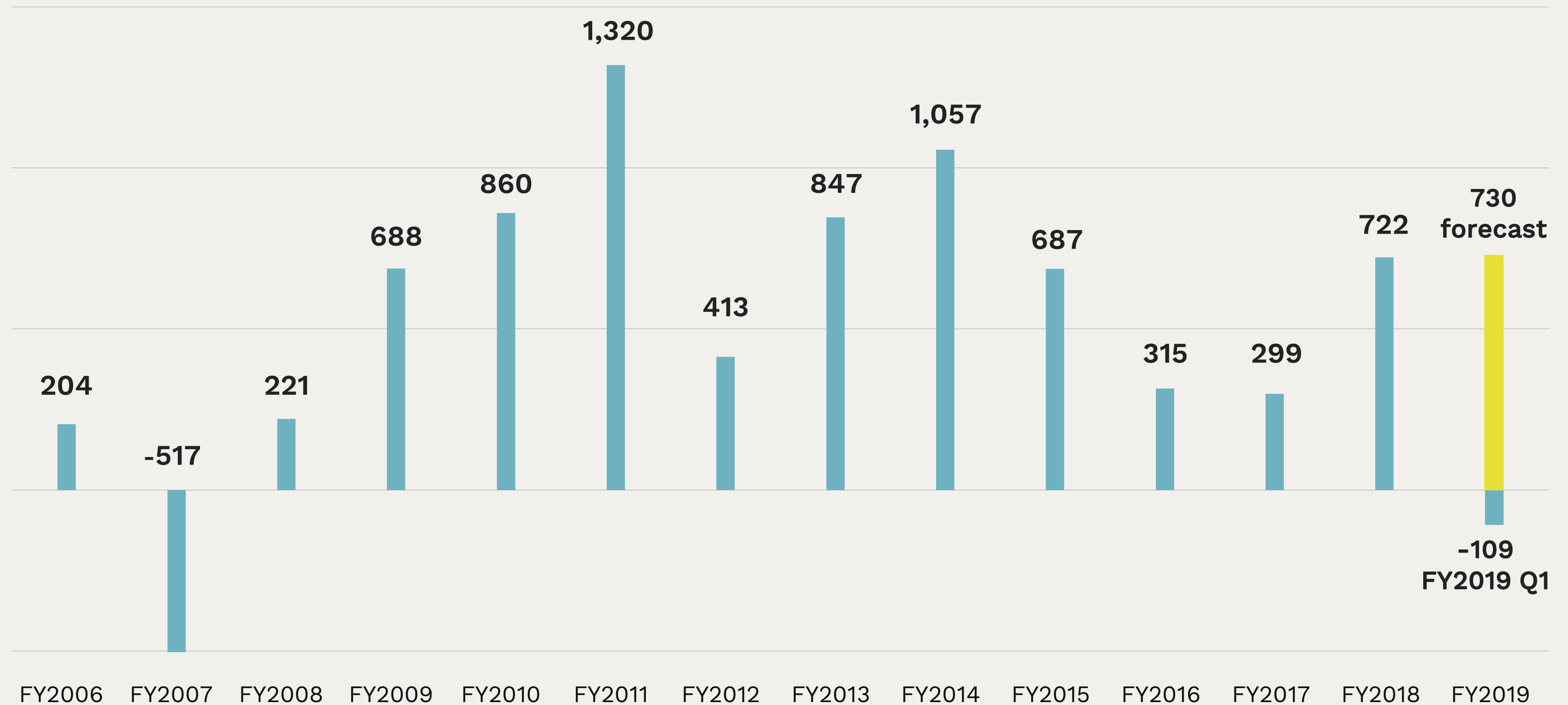
**Focus on
overseas
business**

**Focus on new
products**



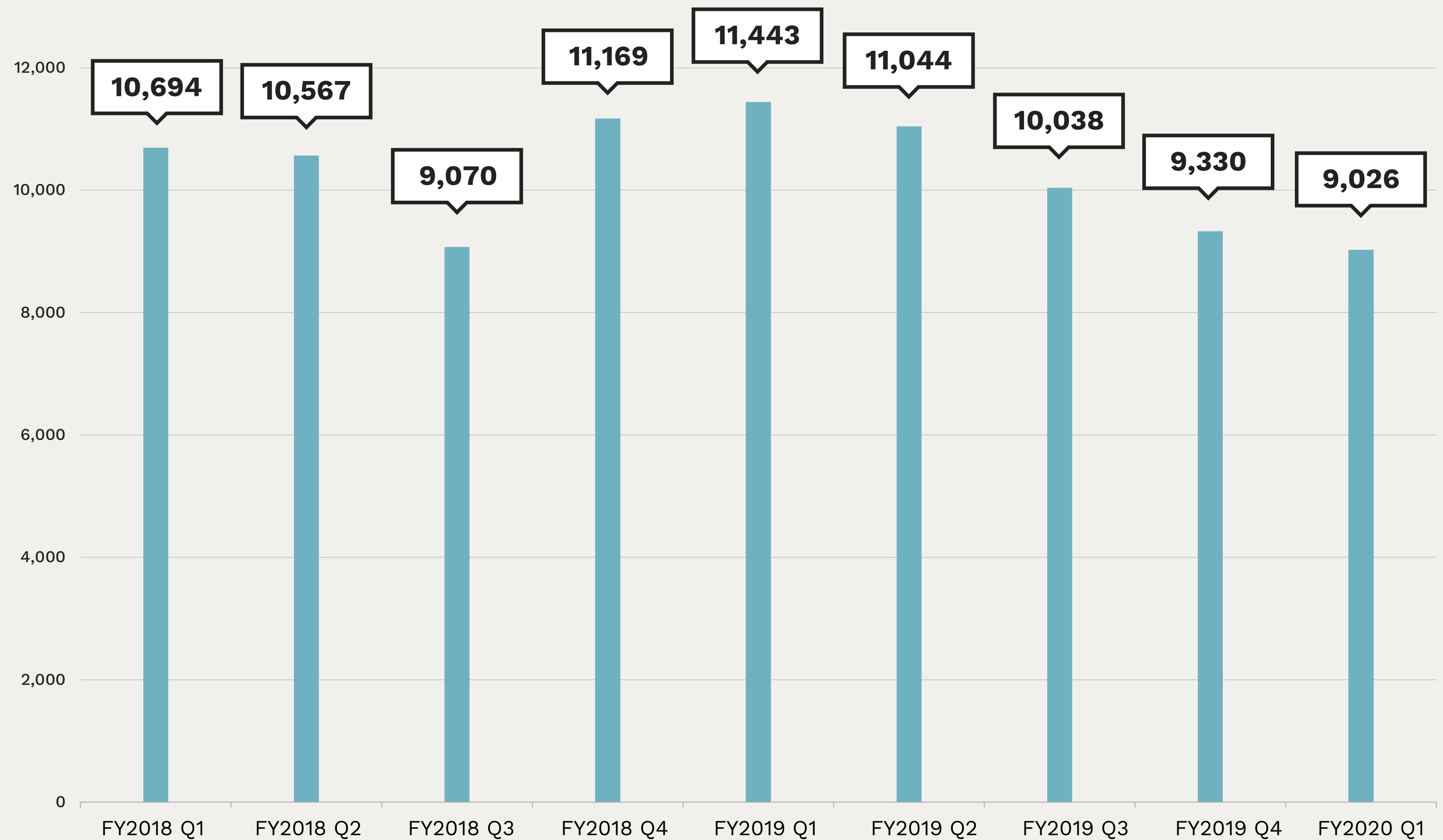
Consolidated Trend of Operating Profit

(JPY mn)

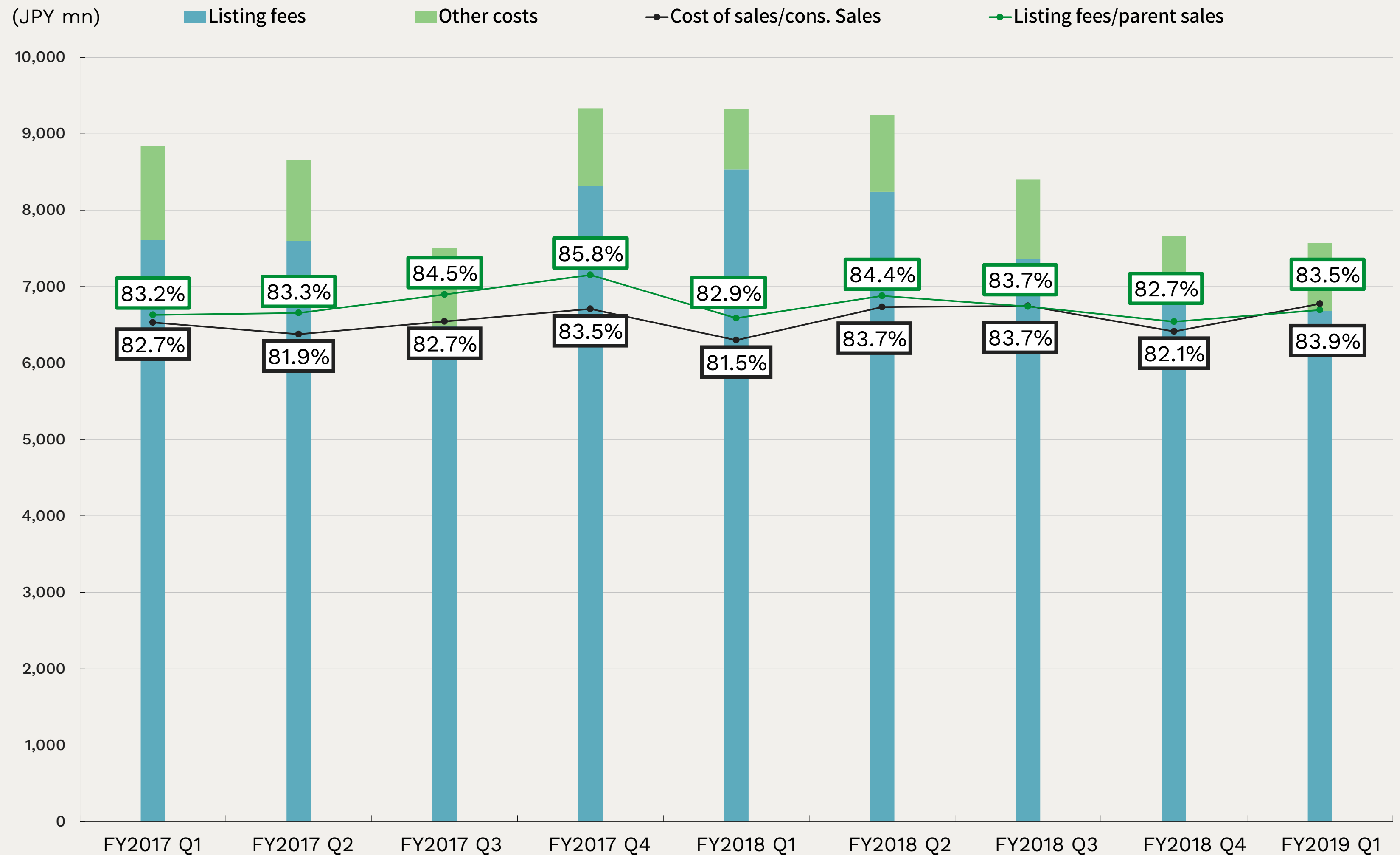


Quarterly Change in Consolidated Sales

(JPY mn)



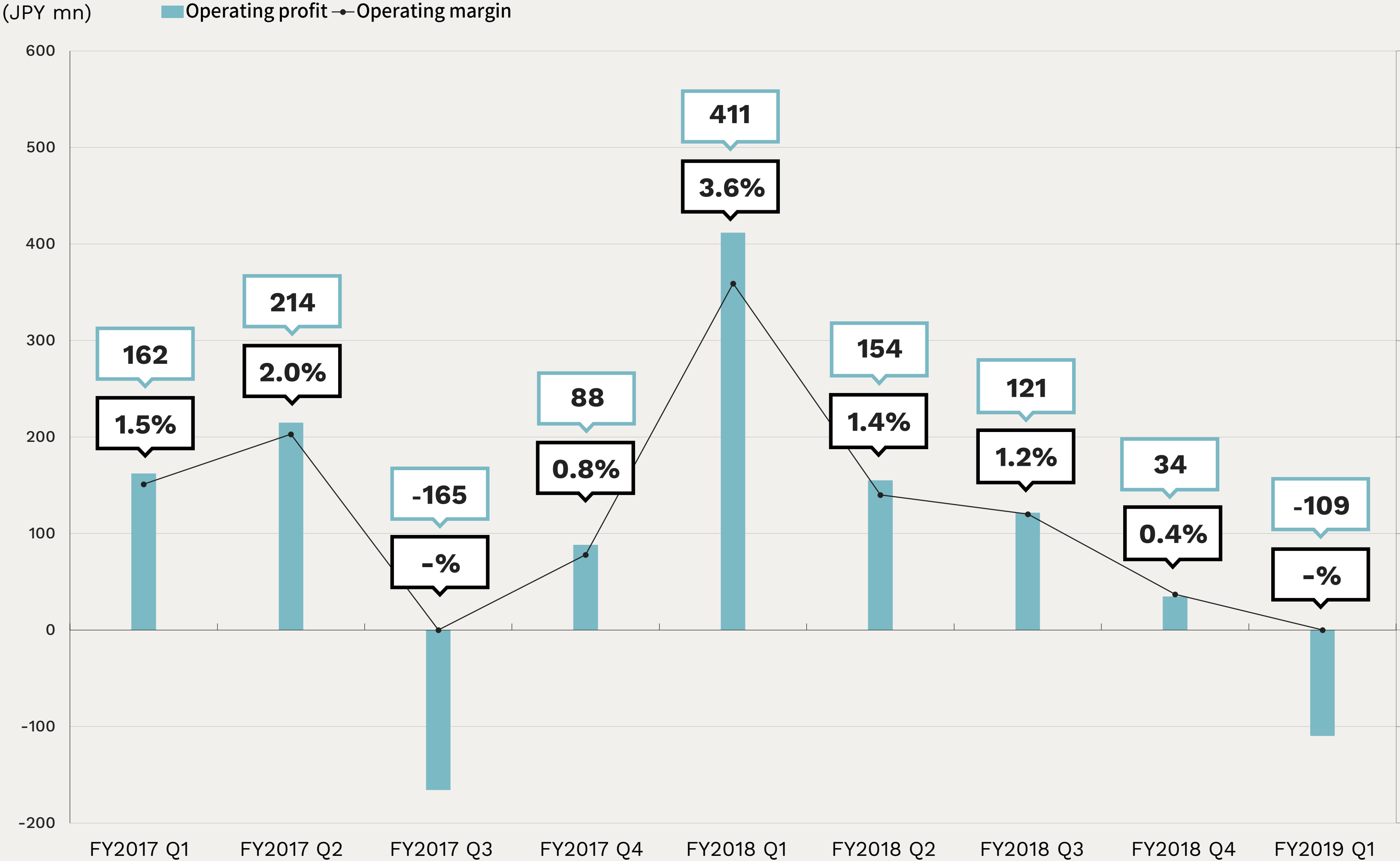
Quarterly Change in Consolidated Cost of Sales



Quarterly Change in Consolidated SG&A Expenses



Quarterly Change in Consolidated Operating Profit

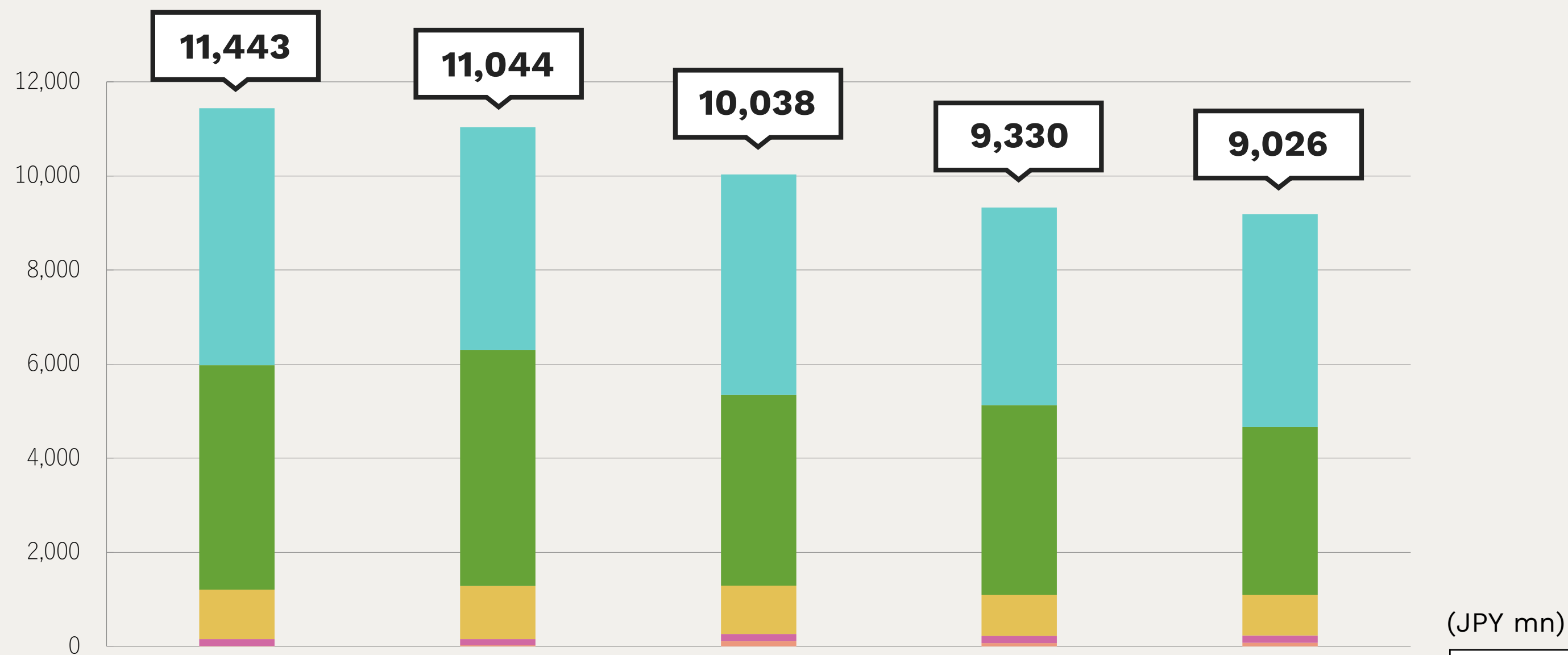








Consolidated Balance Sheet (QoQ)

(JPY mn)

	FY2019 Q1	FY2018 Q4	Change (JPY mn)	Change (%)
Current assets	14,517	15,108	-591	-3.9%
(Cash and deposits)	9,676	10,167	-491	-4.8%
Non-current assets	2,532	2,711	-179	-6.6%
Total assets	17,049	17,820	-771	-4.3%
Current liabilities	5,775	6,162	-387	-6.3%
Non-current liabilities	162	134	28	21.3%
Total liabilities	5,937	6,297	-359	-5.7%
Net assets	11,111	11,523	-411	-3.6%

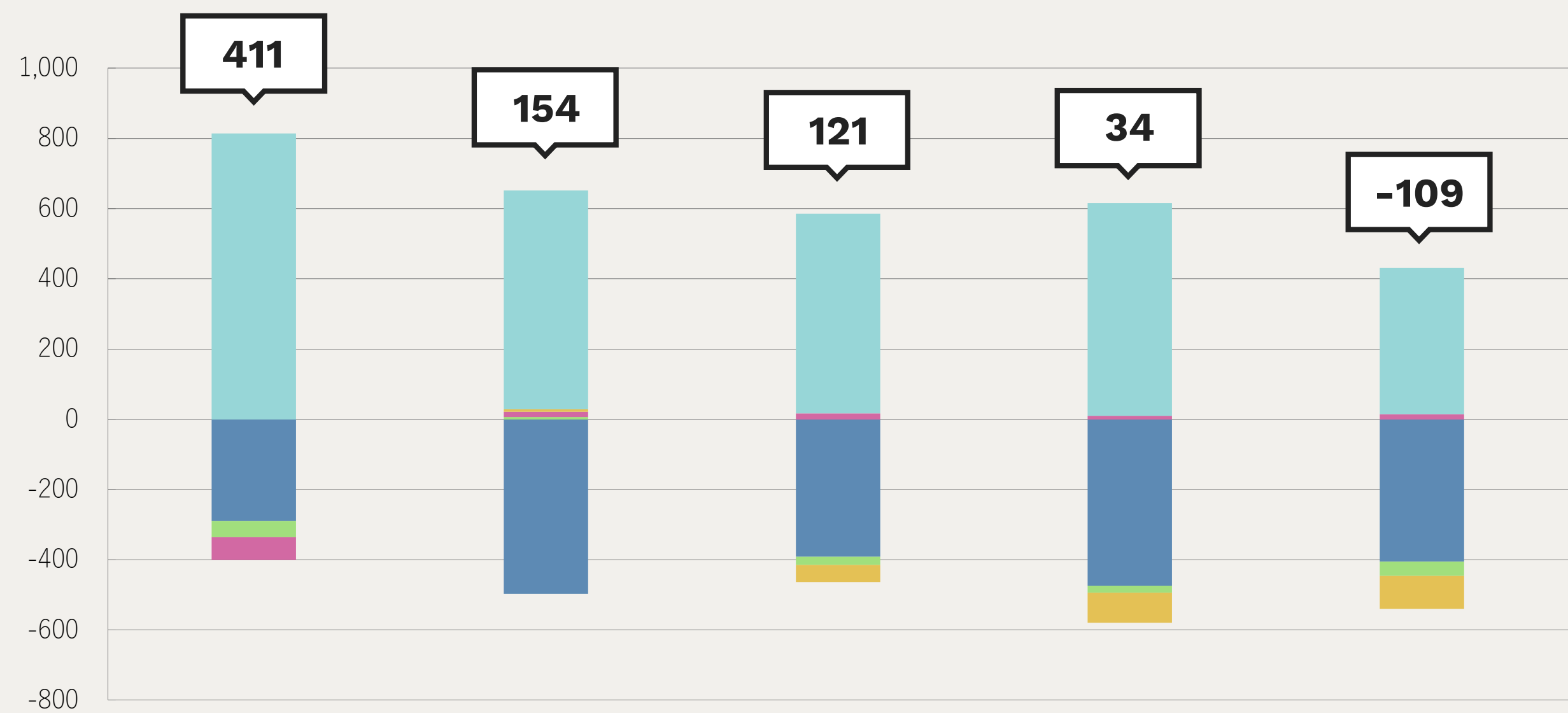
Quarterly Breakdown of Consolidated Sales by Segment



						QoQ	
	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	Change	Change (%)
 Smartphone	5,464	4,743	4,695	4,198	4,525	+326	+7.8%
 PC	4,774	5,012	4,051	4,037	3,567	-469	-11.6%
 Overseas	1,049	1,132	1,031	871	705	-165	-19.0%
 Media contents	149	134	142	156	150	-5	-3.7%
 Other	5	21	118	67	78	+10	+14.9%
 Total	11,443	11,044	10,038	9,330	9,026	-304	-3.3%

* App Media segment renamed Media Contents as of FY2019 Q1.

Quarterly Breakdown of Consolidated Sales by Segment

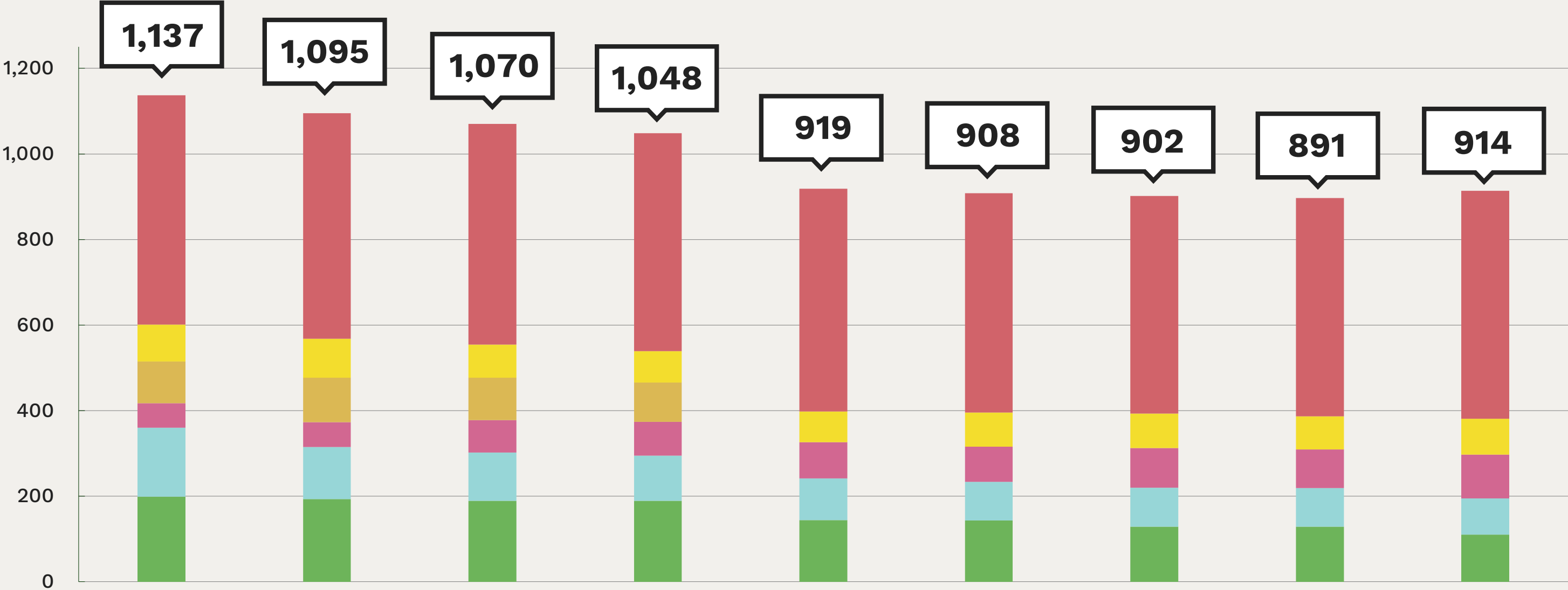


(JPY mn)

						QoQ	
						Change	Change (%)
<div></div> Advertising	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	-190	-31.4%
<div></div> Overseas	814	624	568	606	416	-7	—
<div></div> Media contents	0	6	-49	-86	-94	+4	+44.8%
<div></div> Other	-65	16	17	10	15	-20	—
<div></div> Eliminations & corporate	-47	6	-23	-20	-41	+69	—
<div></div> Total	-289	-497	-392	-474	-405	-144	—
	411	154	121	34	-109		

* App Media segment renamed Media Contents as of FY2019 Q1.

Quarterly Change in Group Employees



(Persons)		FY2017 Q1	FY2017 Q2	FY2017 Q3	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1
<div></div>	ADW Japan	536	527	516	509	521	512	509	510	533
<div></div>	ADW China	86	91	77	73	72	80	80	78	84
<div></div>	ADW Shanghai (R&D center)	98	104	99	92	0	0	0	0	0
<div></div>	Domestic subsidiaries	57	58	76	79	84	82	93	90	102
<div></div>	Overseas subsidiaries (excluding China)	161	122	113	106	98	91	91	90	85
<div></div>	Temporary workers, part-time employees	199	193	189	189	144	143	129	123	110
Total		1,137	1,095	1,070	1,048	919	908	902	891	914

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

Company Overview

quarter performance

Company name	Adways Inc.
Founded	February 28, 2001
Business overview	Internet business
Founder and CEO	Haruhisa Okamura
Capital	JPY 1,605 mn (As of end of June 2019)
Net sales	JPY 41,857 mn (FY2018, Consolidated)
Employees <small>* including temporary workers</small>	914 (for the entire group) (As of end of June 2019)