



ADWAYS

May 2019 , Presentation Material

TOKYO STOCK EXCHANGE MOTHERS STOCK CODE : 2489

Financial Results Presentation for Full Year FY2018

May 13, 2019

Founder and CEO, Haruhisa Okamura

Topics



- | | | |
|---------------------------------|---------|------|
| 1. Full Year FY2018 Performance | ●.....● | P.2 |
| 2. 4Q FY2018 Performance | ●.....● | P.14 |
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1. Full Year FY2018 Performance

1. Full Year FY2018 Performance



FY2018 Consolidated Performance Forecast values and Results

(JPY: mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of the parent
FY2018 Forecast	43,000	750	800	350
Results	41,857	722	903	738
*Progress rate	97.3%	96.3%	112.9%	211.1%

*Figures below second decimal place rounded off

1. Full Year FY2018 Performance



FY2018 Consolidated Performance Forecast values

(JPY: mn)

	Net sales	Operating Profit	Ordinary profit	Profit attributable to owners of parent
FY2019 Forecast	43,200	730	770	252
FY2018 Results	41,857	722	903	738
*FY2018 YoY	+3.2%	+1.0%	-14.8%	-65.8%

*Figures below second decimal place rounded off

1. Full Year FY2018 Performance



Cumulative Quarterly Results (YoY)

(JPY: mn)

	FY2018 (Cumulative)	YoY FY2017 (Cumulative)		
		Result	Change (JPY mn)	Change (%)
Net sales	41,857	41,501	+356	+0.9%
Gross profit	7,225	7,173	+52	+0.7%
SG&A expenses	6,503	6,874	-370	-5.4%
Operating profit	722	299	+423	+141.4%
Ordinary profit	903	575	+327	+56.9%
Profit attributable to owners of parent	738	9	+728	—

* *Change (%) in profit attributable to owners of parent is not shown because it exceeds 1,000%.

Net sales

Increased JPY 356 mn YoY (+0.9%)

Operating profit

Increased JPY 423 mn YoY (+141.4%)



1. Full Year FY2018 Performance



Difference of excluding impact of MBO of data business company (Nint)

(JPY: mn)

	FY2018 (Cumulative)	FY2017 (Cumulative)	Change (%)		
			Change excluding MBO impact	Change due to MBO	Total
Net sales	41,857	41,501	+ 978	-622	+356
Gross profit	7,225	7,173	+365	-313	+52
SG&A expenses	6,503	6,874	-2	-368	-370
Operating profit	722	299	+368	+55	+423

Net sales

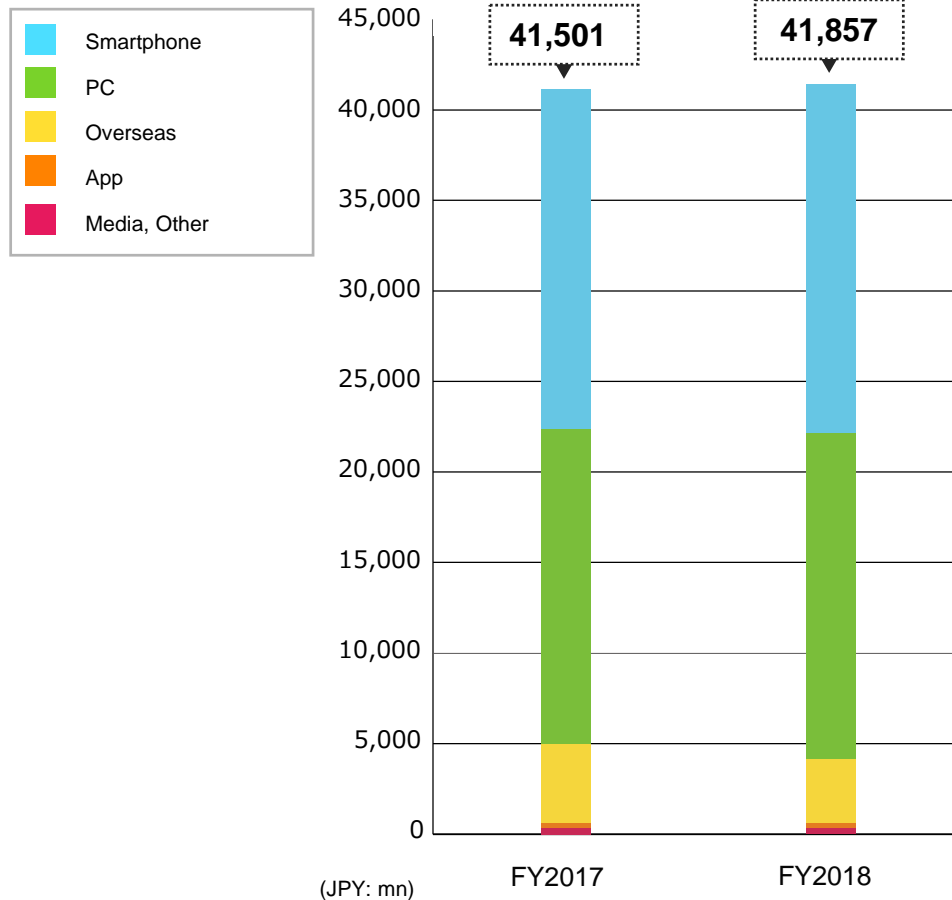
Increased JPY 978 mn YoY (+2.4%)

Operating profit

Increased JPY 368 mn YoY (+94.5%)

1. Full Year FY2018 Performance

Net sales (YoY Change)



Domestic Advertising **JPY 36,977 mn**

YoY: JPY + 1,179 mn (+3.3%)

Smartphone (Mainly app advertising): **JPY 19,102 mn**

YoY: JPY + 501 mn (+2.7%)

- Increase due to growth in inbound campaigns from overseas game clients and comic app campaigns.

PC (PC web advertising and smartphone web advertising): **JPY 17,875 mn**

YoY: JPY + 677 mn (+3.9%)

- Increase driven by finance client and health food EC client campaigns in Q1 and Q2.

Overseas **JPY 4,084 mn**

YoY: JPY -919 mn (-18.4%)

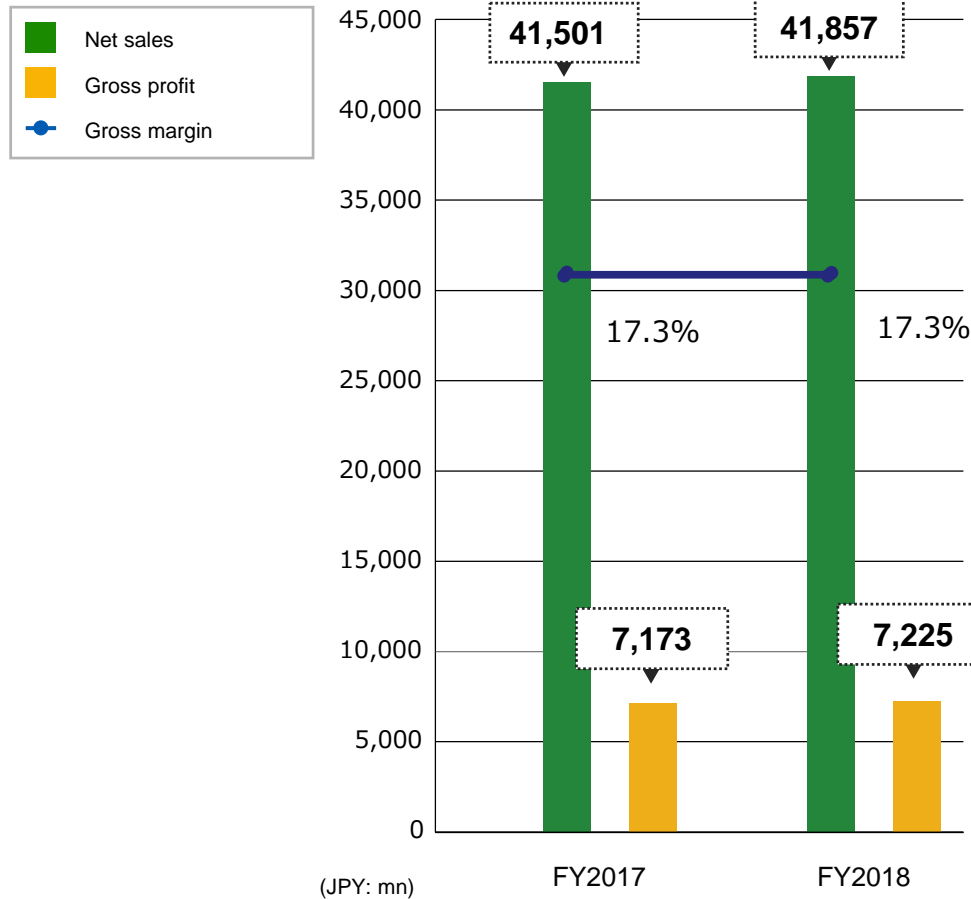
- Major decline due to overseas business restructuring and MBO of Chinese subsidiary (Adways Technology Hong Kong Ltd.).

* The accounting periods of our overseas subsidiaries excluding India end in December, so their FY2018 (January – December) figures are consolidated with the Adways Group's FY2018 (January – December) figures.

1. Full Year FY2018 Performance



Gross profit (YoY Change)



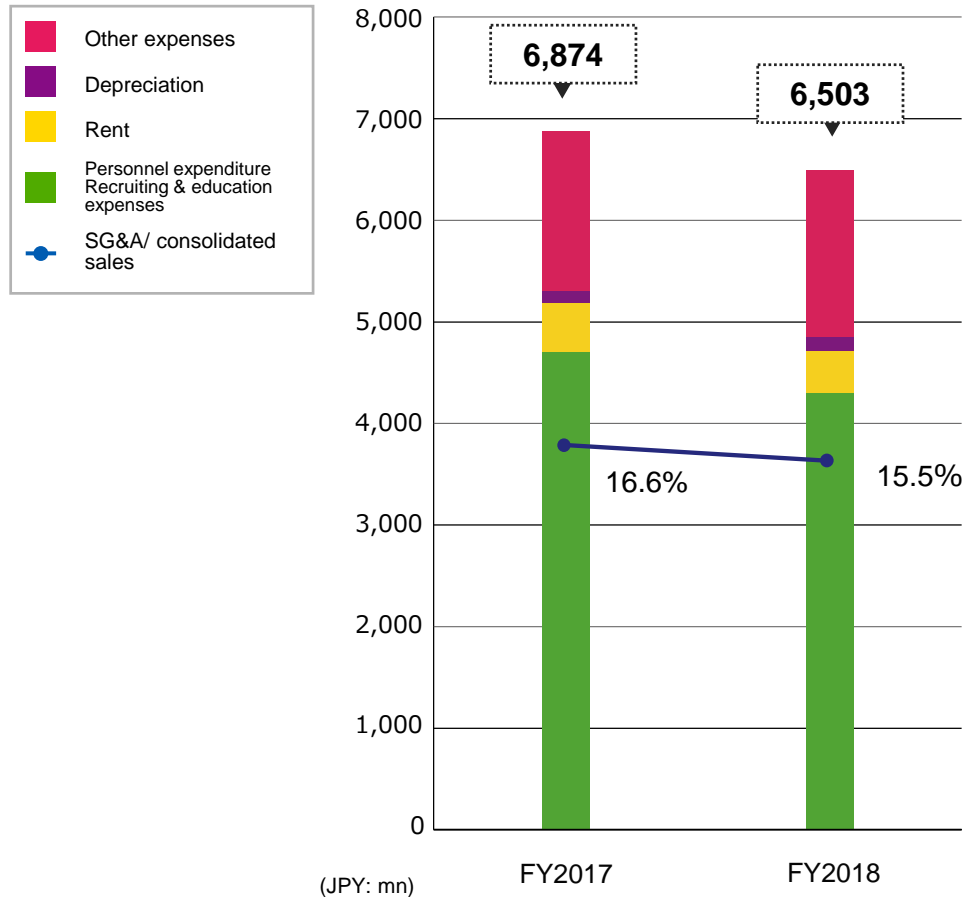
FY2018 Gross profit : JPY 7,225mn

YoY : JPY +52mn (+0.7%)

Gross margin : 17.3%

1. Full Year FY2018 Performance

SG&A expenses (YoY Change)



FY2018 SG&A expenses: JPY 6,503mn

YoY: JPY -370mn (-5.4%)

SG&A to sales ratio: 15.5% (-1.1 points)

[Main Factors of Increase]

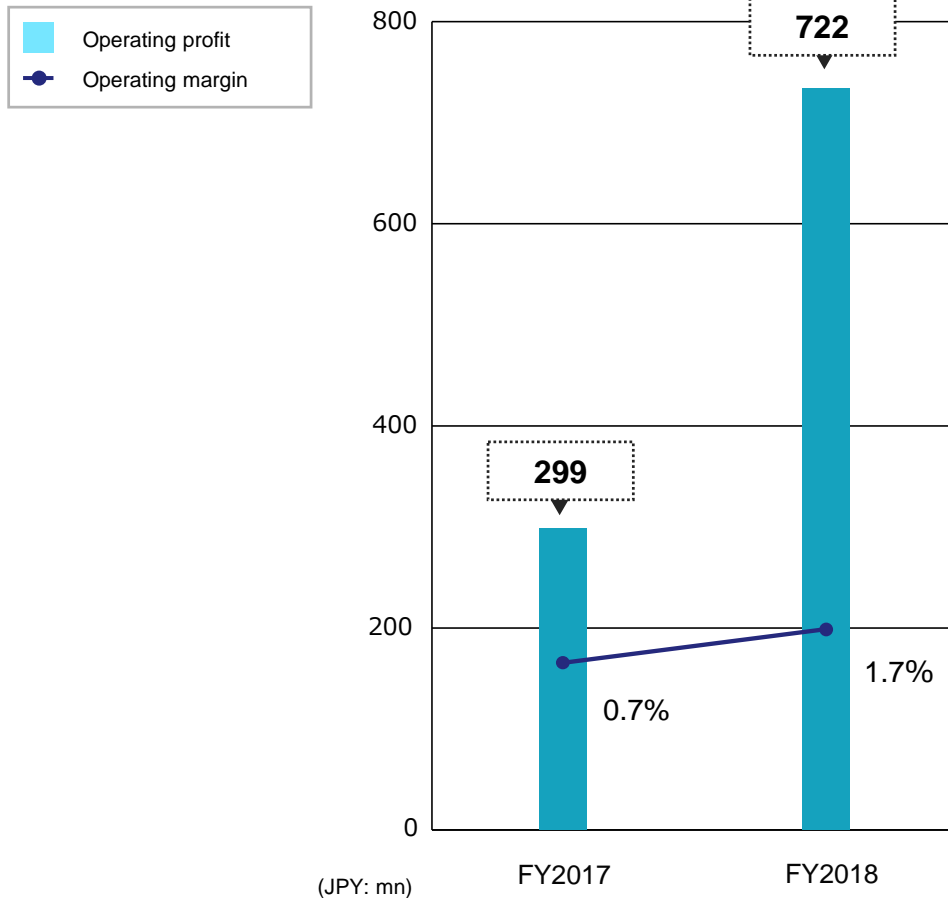
- Commission fees: JPY +80mn
- Provision of allowance for doubtful accounts: JPY +53mn
- Research and development costs: JPY +45mn

[Main Factors of Decline]

- MBO: JPY -368mn
- Personnel expenditure: JPY -141mn

1. Full Year FY2018 Performance

Operating profit (YoY Change)



**FY2018 Operating profit:
JPY 722mn**

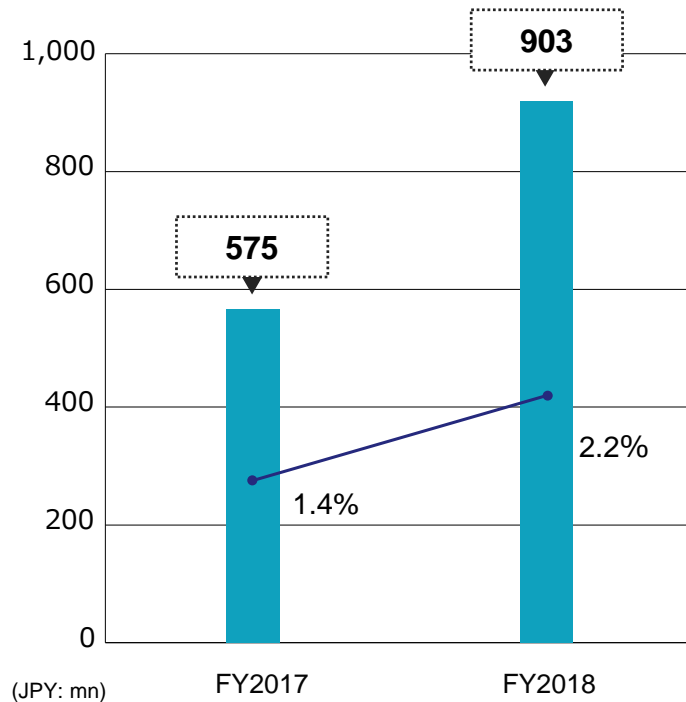
YoY: JPY +423mn (+141.4%)

Operating margin: 1.7% (+1.0 points)

Gross profit increased and SG&A expenses were limited, increasing operating profit.

1. Full Year FY2018 Performance

Ordinary profit (YoY Change)

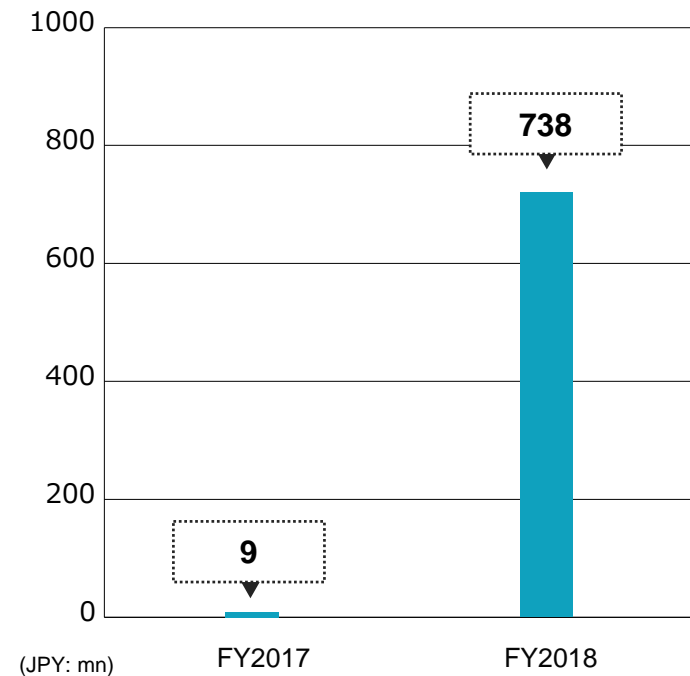


FY2018 Ordinary profit: ¥903mn

YoY: JPY +327mn (+56.9%)

Ordinary profit margin: 2.2% (+0.8 points)

Profit attributable to owners of parent (YoY Change)

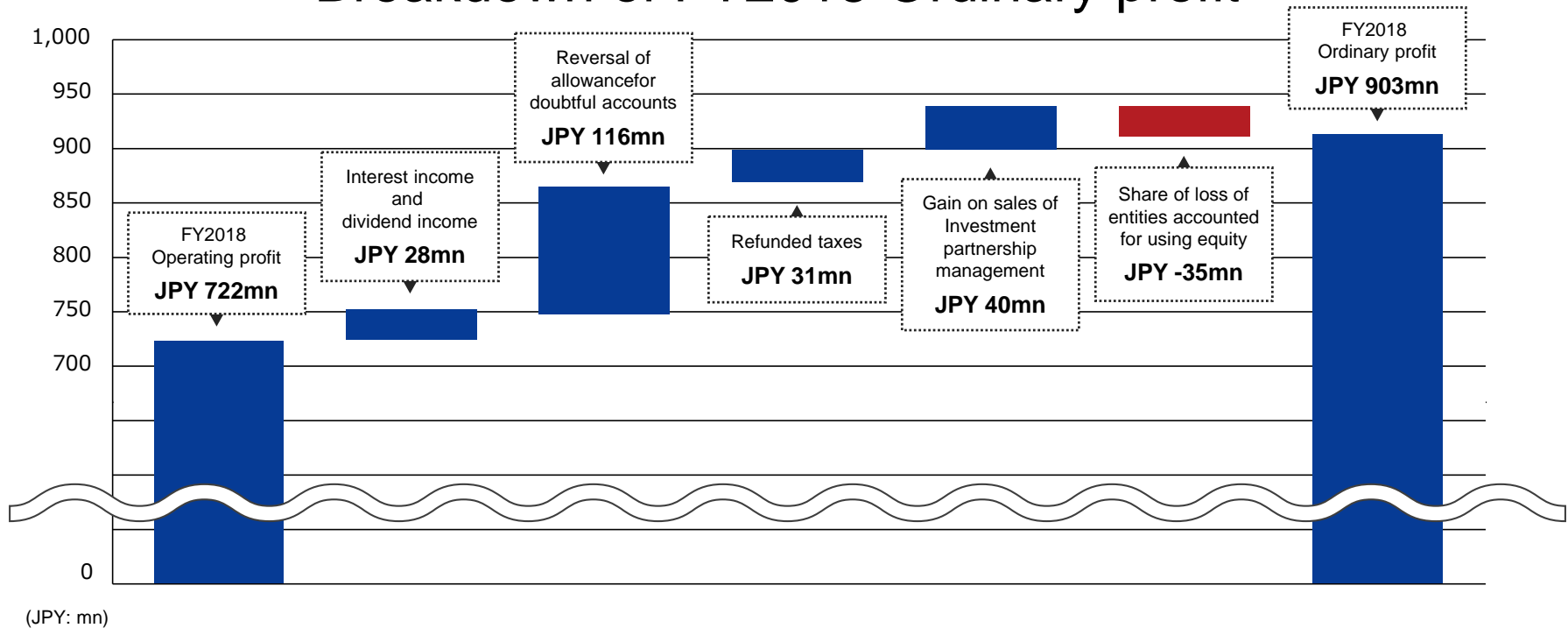


FY2018 Profit attributable to owners of parent: JPY 738mn

YoY: JPY +728mn

1. Full Year FY2018 Performance

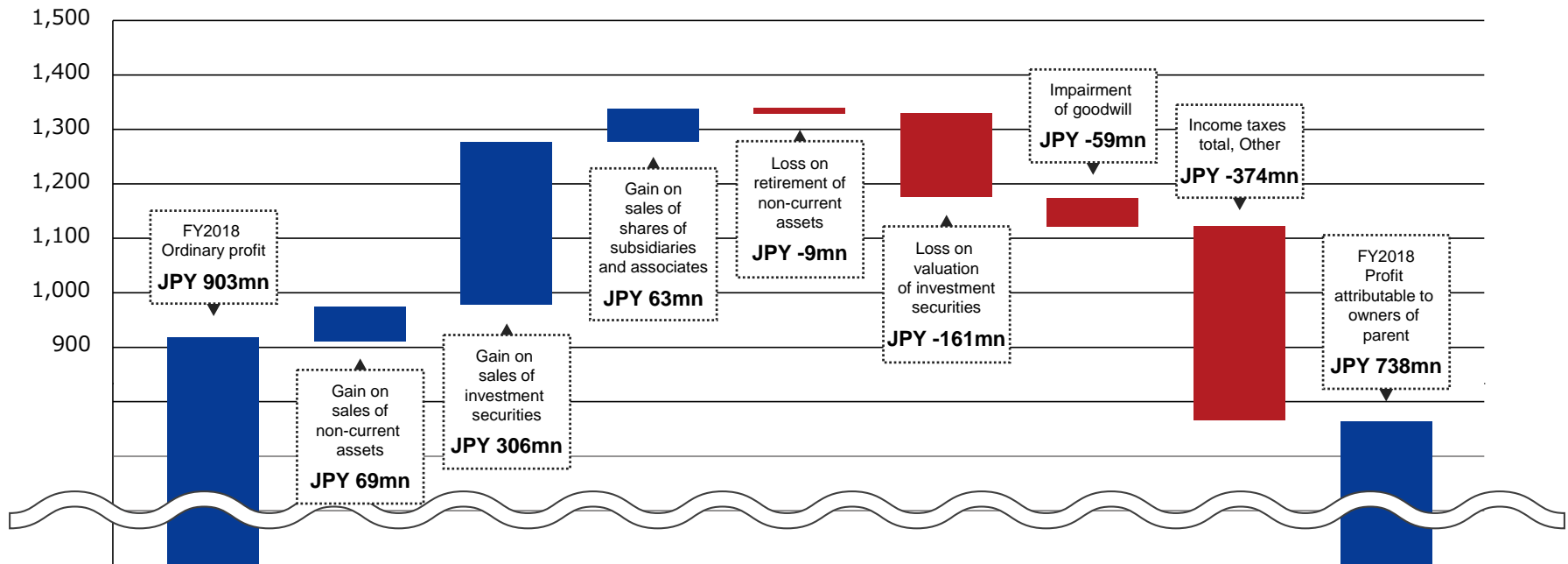
Breakdown of FY2018 Ordinary profit



Interest income and dividend income [JPY 28mn]
Reversal of allowance for doubtful accounts [JPY 116mn]
Refunded taxes [JPY 31mn]
Gain on sales of investment partnership management [JPY 40mn]
Share of loss of entities accounted for using equity method [JPY -35mn]

1. Full Year FY2018 Performance

Breakdown of FY2018 Profit attributable to owners of parent



(JPY: mn)

Gain on sales of non-current assets [JPY 69mn]

Gain on sales of investment securities [JPY 306mn] : No. of individual stocks (7 companies)

Gain on sales of shares of subsidiaries and associates [JPY 63mn] : No. of individual stocks (1 companies)

Loss on retirement of non-current assets [JPY -9mn]

Loss on valuation of investment securities [JPY -161mn] : No. of individual stocks (16 companies)

Impairment of goodwill [JPY -59mn]

Income taxes total, Other [JPY -374mn] : Including JPY -304mn corporate tax for head office

2. FY2018 Q4 Performance

2. FY2018 Q4 Performance



Quarterly Results (YoY, QoQ)

(JPY: mn)

	FY2018 Q4	YoY FY2017 Q4			QoQ FY2018 Q3		
		Result	Change	Change (%)	Result	Change	Change (%)
Net sales	9,330	11,169	-1,838	-16.5%	10,038	-707	-7.0%
Gross profit	1,672	1,837	-165	-9.0%	1,632	+39	+2.4%
SG&A expenses	1,637	1,749	-112	-6.4%	1,511	+125	+8.3%
Operating profit	34	88	-53	-60.7%	121	-86	-71.5%
Ordinary profit	228	371	-142	-38.4%	149	+79	+53.6%
Profit attributable to owners of parent	346	225	+120	+53.7%	130	+215	+165.7%

Net sales

Decreased JPY 1,838 mn YoY (-16.5%)

Decreased JPY 707 mn QoQ (-7.0%)

Operating profit

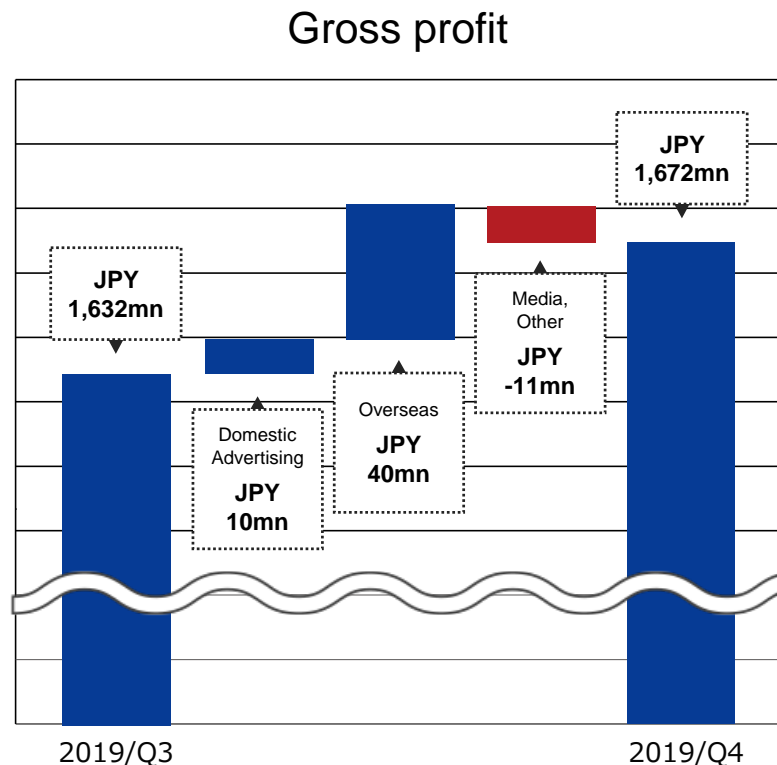
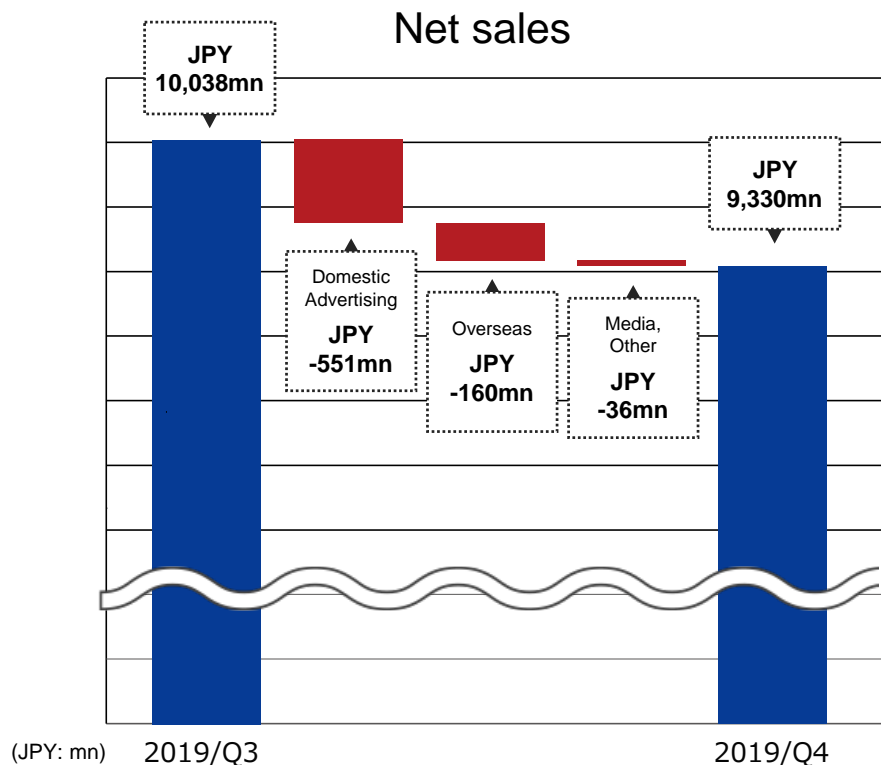
Decreased JPY 53 mn YoY (-60.7%)

Decreased JPY 86 mn QoQ (-71.5%)



2. FY2018 Q4 Performance

Sales and gross profit Results (QoQ Change)



Domestic advertising business:

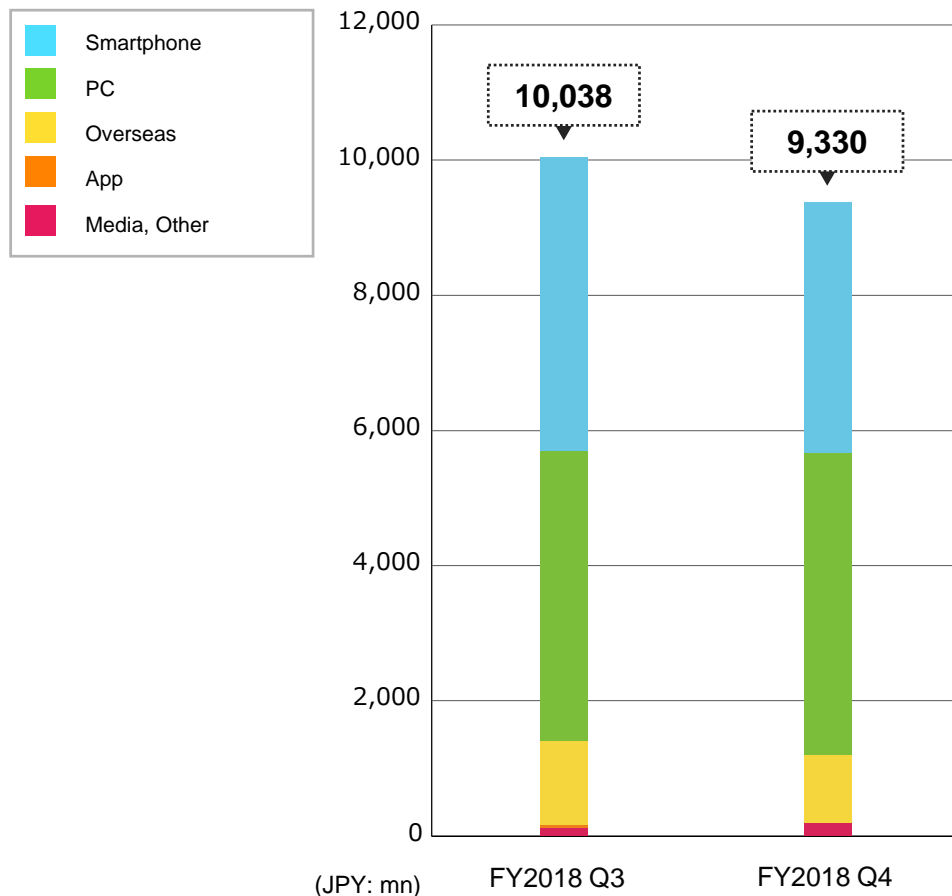
Impacted by scrutiny of low gross margin ratio campaigns, improvement in UNICORN's gross margin ratio, etc.

Overseas business:

Impacted by shift to high gross margin ratio advertising menu at China and Taiwan subsidiaries.

2. FY2018 Q4 Performance

Net sales (QoQ Change)



Domestic Advertising JPY 8,235 mn

QoQ: JPY -511 mn (-5.8%)

Smartphone (Mainly app advertising): JPY 4,198 mn

QoQ: JPY -497 mn (-10.6%)

– Decline due to decrease in major game developers' release titles and budget for existing campaigns.

PC (PC web advertising and smartphone web advertising) : JPY 4,037 mn

QoQ: JPY -14 mn (-0.3%)

– Slight decline due to decrease in health food and beauty-related EC client budgets despite increase in finance client campaigns.

Overseas JPY 871 mn

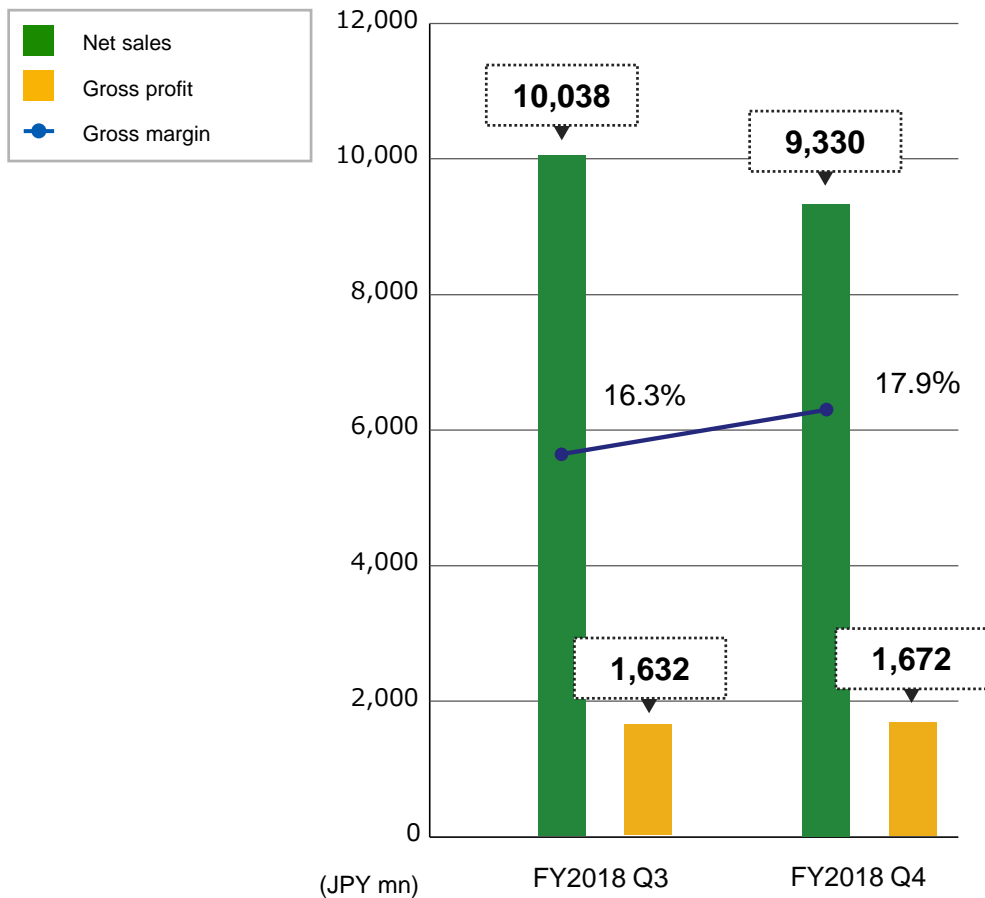
QoQ: JPY -160 mn (-15.5%)

– Decline due to decrease in global game app campaign budget from Chinese developers and impact of shifting to high gross margin ratio advertising menu

* The accounting periods of our overseas subsidiaries excluding India end in December, so their 4Q FY2018 (October – December) figures are consolidated with the Adways Group's 4Q FY2018 (January – March) figures.

2. FY2018 Q4 Performance

Gross profit (QoQ Change)



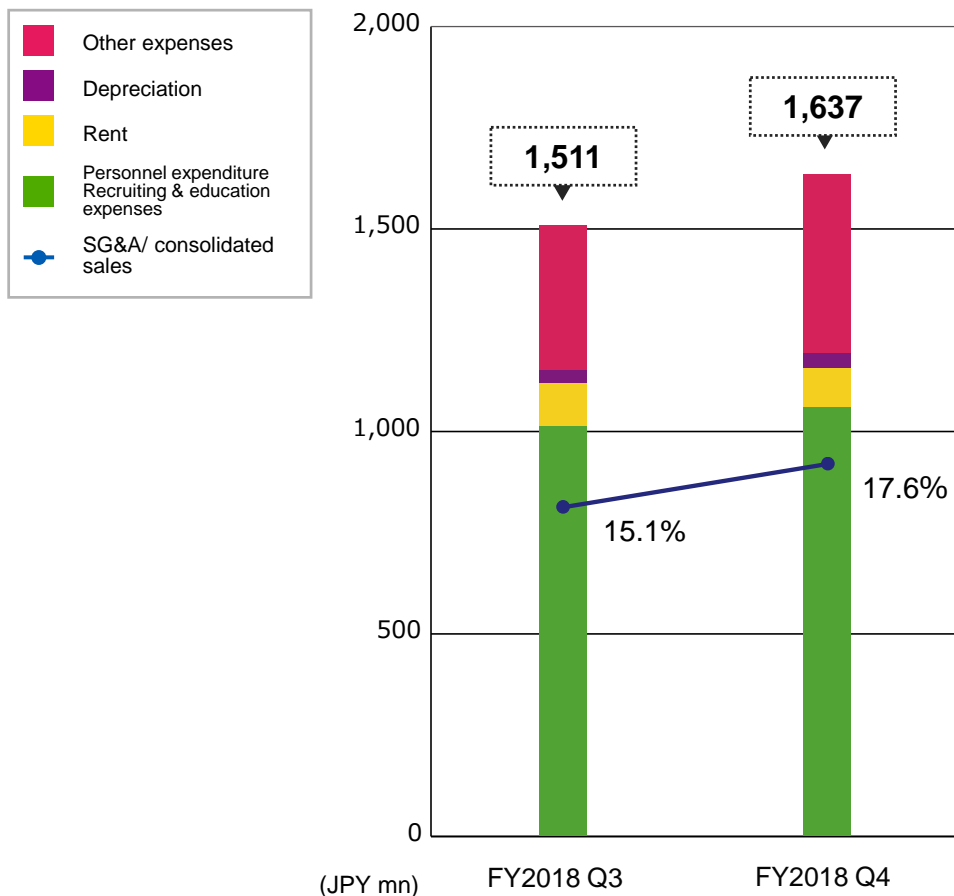
Q4 Gross profit: JPY 1,672 mn

QoQ: JPY +39 mn (+2.4%)

Gross margin: 17.9% (+1.6 points)

2. FY2018 Q4 Performance

SG&A expenses (QoQ Change)



Q4 SG&A expenses: JPY 1,637 mn

QoQ: JPY +125 mn (+8.3%)

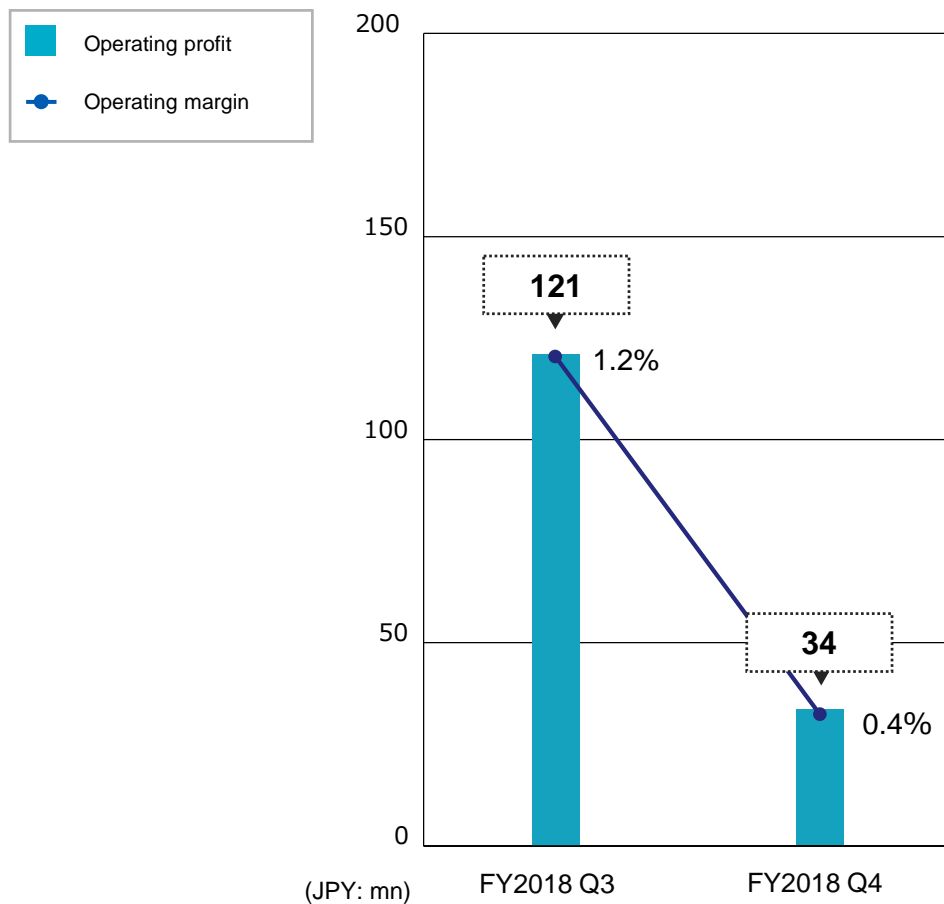
SG&A to sales ratio: 17.6% (+2.5%)

[Main Factors of Increase]

- Personnel expenditure: JPY +45mn
- Research and development costs: JPY +37mn
- Bad debts expenses: JPY +28mn

2. FY2018 Q4 Performance

Operating profit (QoQ Change)



Q4 Operating profit: JPY 34 mn

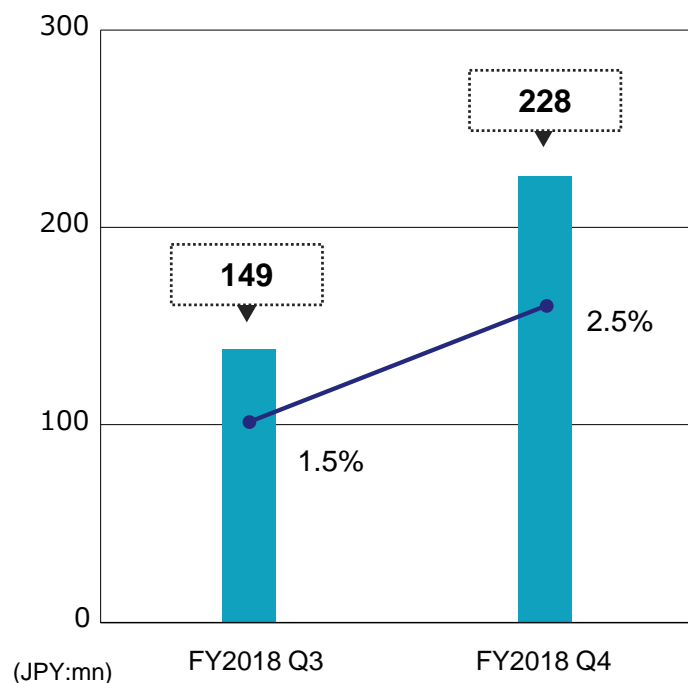
QoQ: JPY -86 mn (-71.5%)

Operating margin: 0.4% (-0.8 points)

Decline in Q4 operating profit due to increase in SG&A expenses

2. FY2018 Q4 Performance

Ordinary profit (QoQ Change)

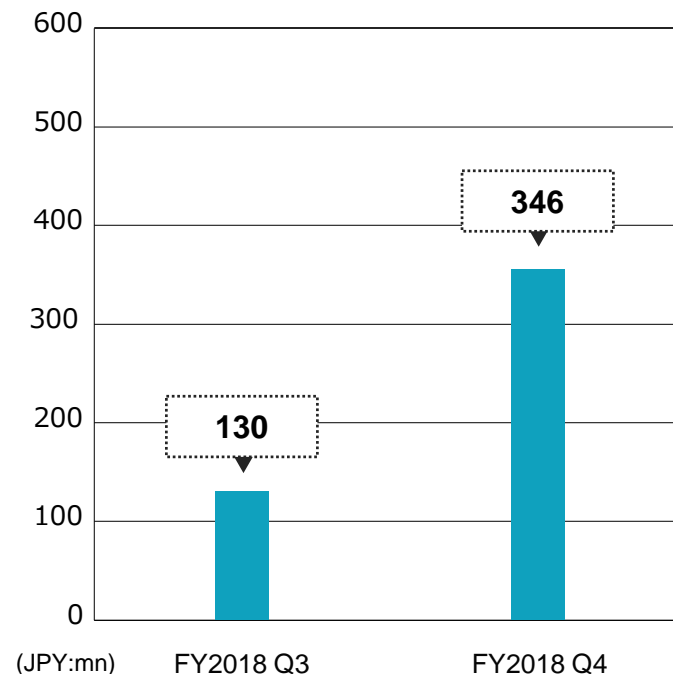


Q4 Ordinary profit: ¥241mn

QoQ: JPY +79 mn (+53.6%)

Ordinary margin: 2.5% (+1.0points)

Profit attributable to owners of parent (QoQ Change)

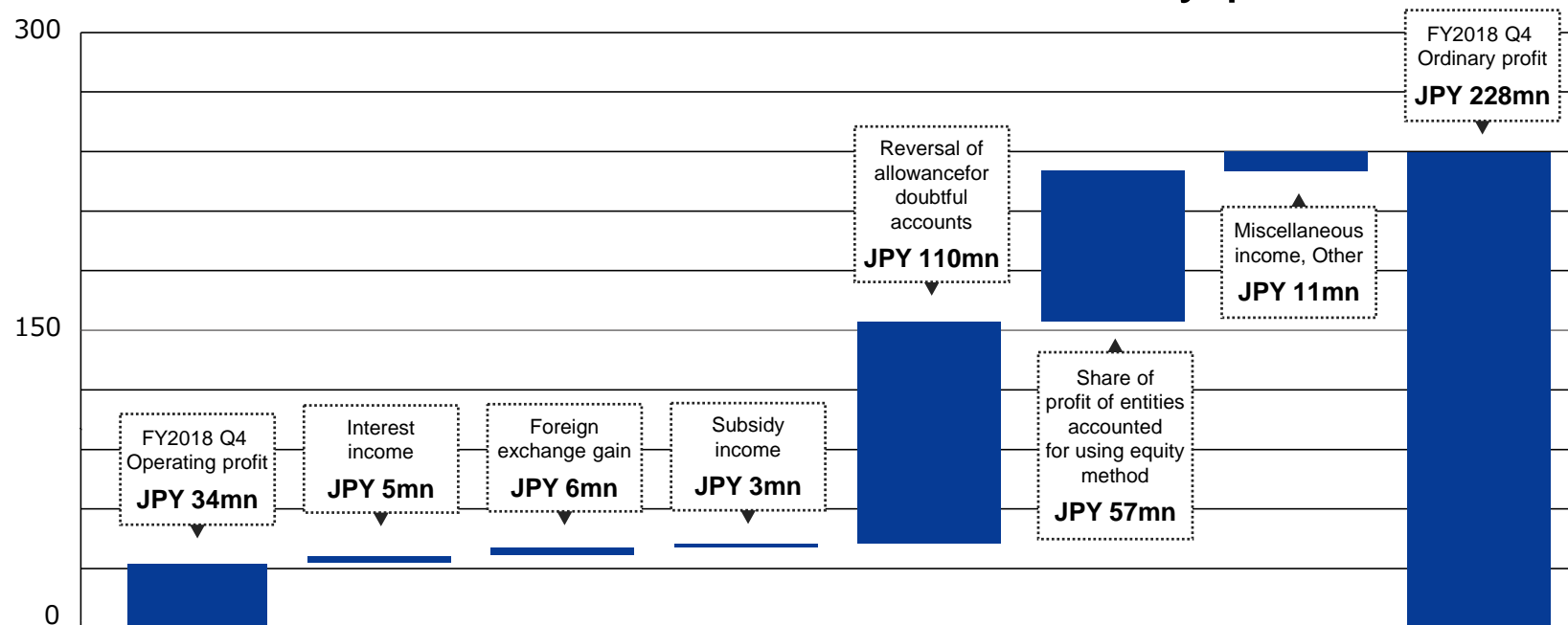


Q4 Profit attributable to owners of parent: JPY 346 mn

QoQ: JPY +215 mn (+165.7%)

2. FY2018 Q4 Performance

Breakdown of FY2018 Q4 Ordinary profit

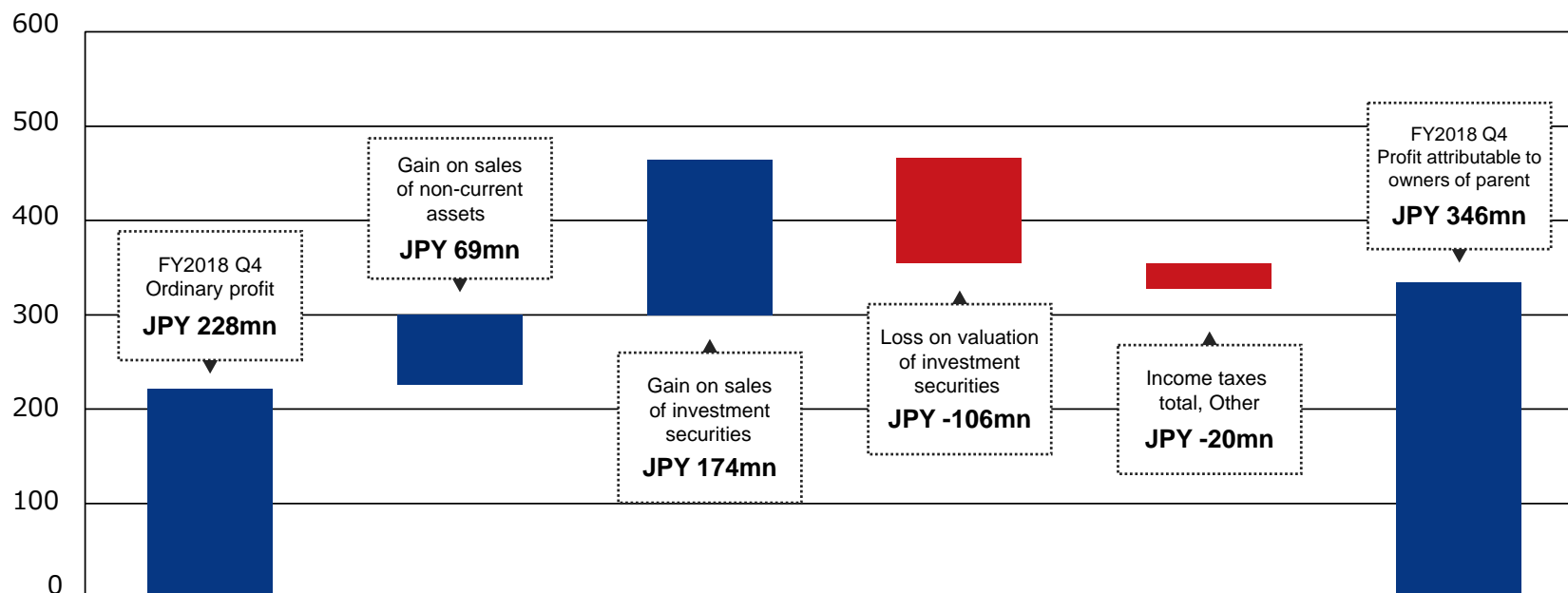


(¥mn)

Interest income [JPY 5mn]
Foreign exchange gain [JPY 6mn]
Subsidy income [JPY 3mn]
Reversal of allowance for doubtful accounts [JPY 110mn]
Share of profit of entities accounted for using equity method [JPY 57mn]
Miscellaneous income, Other [JPY 11mn]

2. FY2018 Q4 Performance

Breakdown of Q4 FY2018 Profit attributable to owners of parent



(¥mn)

Gain on sales of non-current assets [JPY 69mn]

Gain on sales of investment securities [JPY 174mn]

Loss on valuation of investment securities [JPY -106mn] : No. of individual stocks (7 companies)

Income taxes total, Other [JPY -20mn] : Including JPY -56mn corporate tax for head office



3. FY2018 Shareholder returns



3. Shareholder returns



【FY2018 Dividend】

JPY 3.44 per share

【Dividend Guidance】

Regarding dividends for FY2019-FY2021, we aim to provide dividend per share calculated from the dividend payout ratio based on the current fiscal year excluding the first year (Note: the current fiscal year is the 19th, thus the dividend payout ratio will be 18%), or JPY 2.40 per share (corresponding to 18%) with an increase of JPY 0.10 per share every fiscal year, whichever is higher. Based on the above, the dividend for FY2018 is JPY 3.44 per share, which is 18% of profit attributable to owners of parent.

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

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

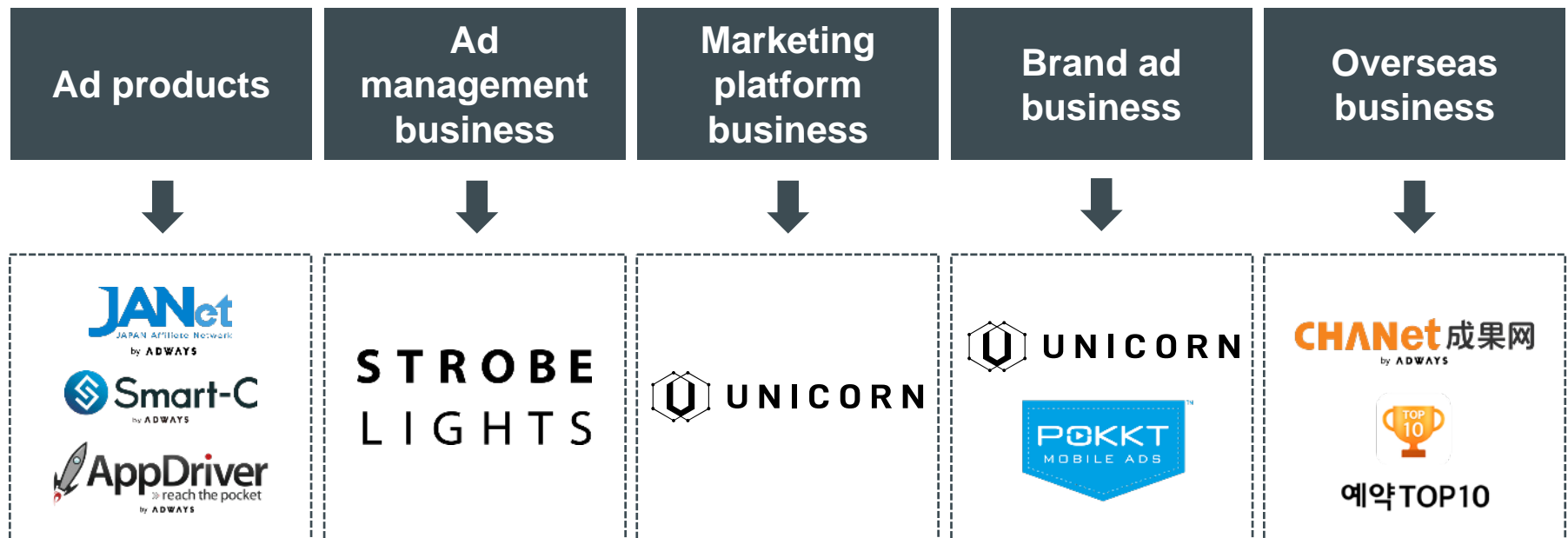
* However, please take note that it is possible for the dividend policy to change due to changes in the business climate such as significant performance fluctuations and sizable M&A deals in the future.



4. Business Overview

4. Business Overview

Scope of Adways' advertising business and products



4. Business Overview



Topics

1.

**Marketing platform
business**

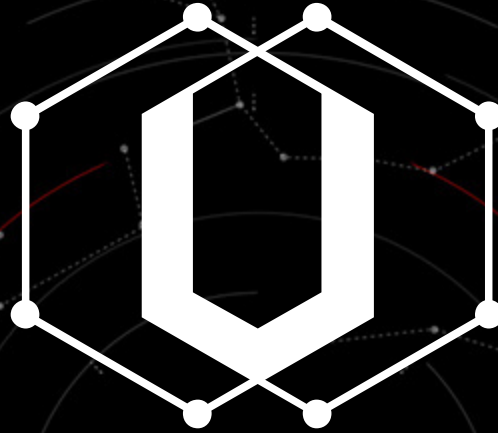
2.

Brand ad business

3.

**Ad management
business**





UNICORN

<Rebranded in April 2019>

Light the way to the future of digital marketing

MISSION

To unlock the potential of all people through digital marketing

UNICORN enables prediction of the future of ad distribution through machine learning. It aims to achieve a return to the essence of marketing – focusing on thinking. By automating the tasks in the digital marketing process that humans should not bear, it reduces inefficient simple work within the industry. Then, it thoroughly eliminates incorrectly distributed, value-less ads. Treating thoughtful ads as information that is worth encountering, it guides these ads to the users they should reach. Our goal is to transform ads into something freer and more meaningful – UNICORN lights the way to the future of digital marketing.

4. Business Overview

**Ad distribution engine with overwhelmingly high performance
beyond human capacity**



400,000,000,000+

The Maximum buyable traffic per month in Japan



100+

250,000+

Value prediction for 250,000 impressions per second based on
100+ criteria

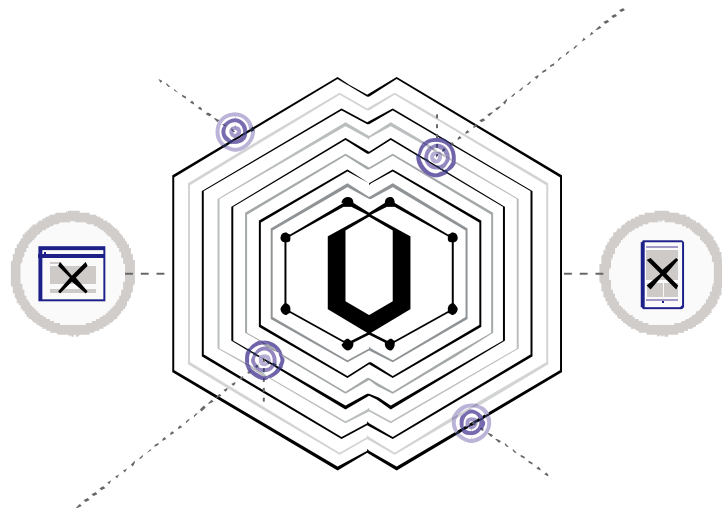


250K+ 10K+ 0.01+

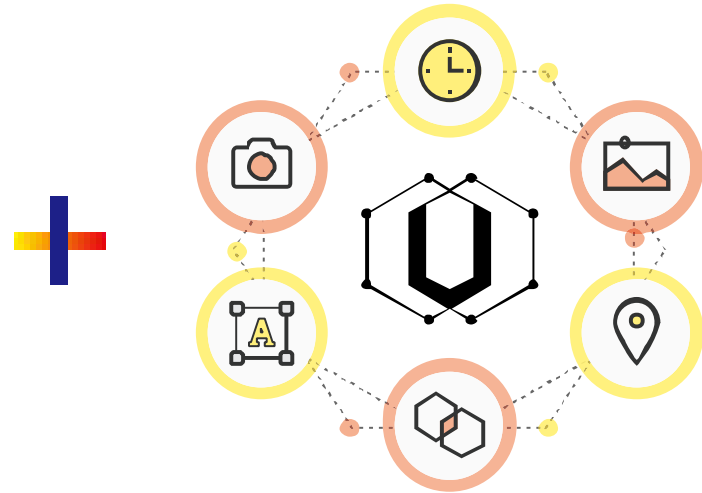
Selection of best ad from among 10,000+ ads in 0.01 seconds
(in addition to 250,000 impressions per second)

4. Business Overview

Steady high performance in both $ARPU_{*1}$ and $ROAS_{*2}$



PROTECTION & EXCLUSION



MACHINE LEARNING

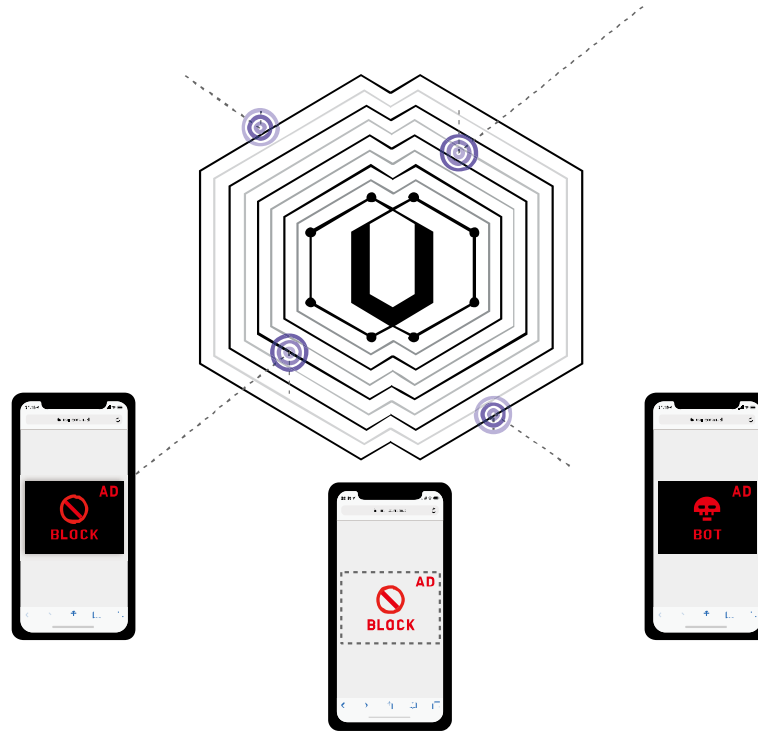
UNICORN achieves high performance in target CPI with an ad distribution error range of only $\pm 20\%$ through various fraud countermeasures to reach quality users and optimization based on prediction and correction with machine learning.

*1 ARPU (Average Revenue Per User) Average revenue with one user.

*2 ROAS (Return On Advertising Spend) The ratio of the profit obtained to the cost of advertising. Advertising cost-effectiveness.

4. Business Overview

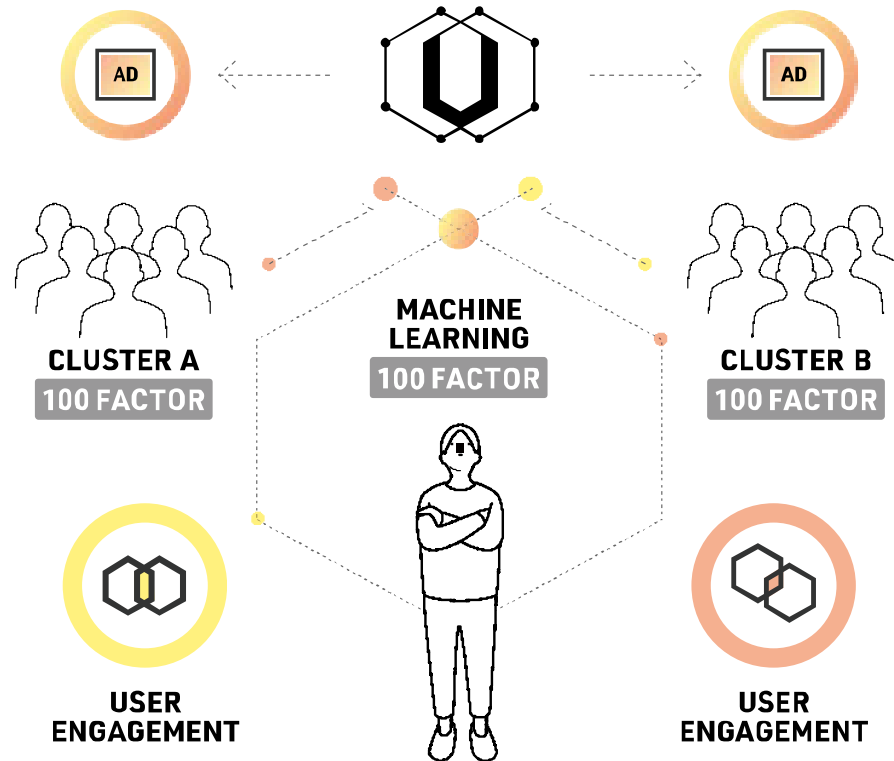
Unique **fraud protection** based on
our distribution history and engagement data



UNICORN detects irregular distribution patterns and removes them from purchasing, narrowing distribution to effective patterns only.

4. Business Overview

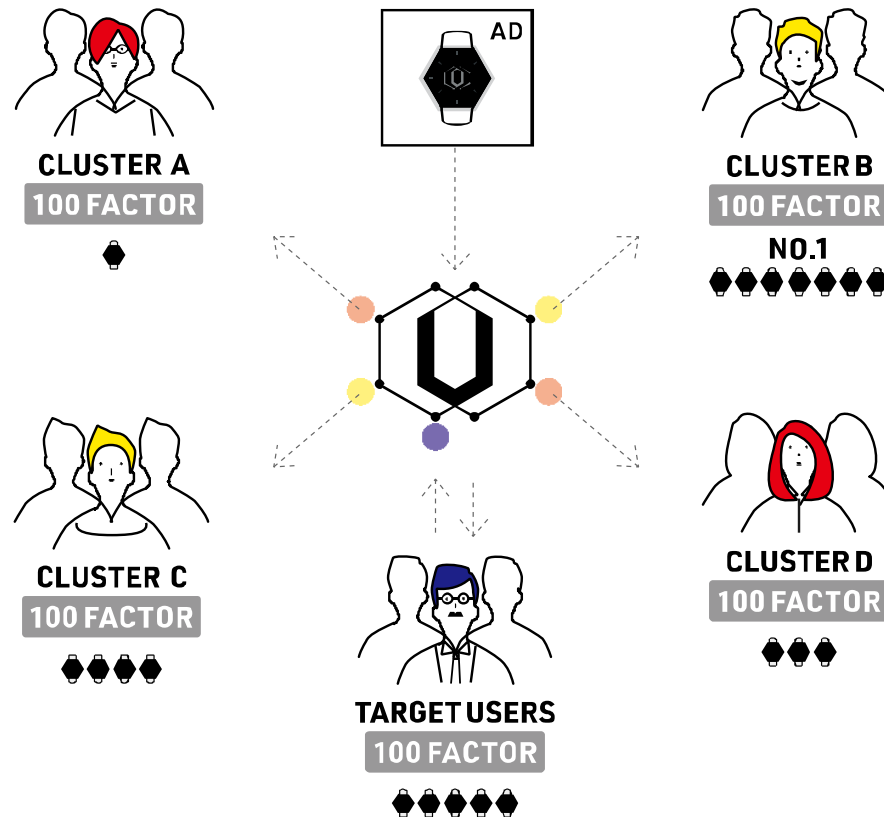
Ad distribution only to desired and receptive users



Optimizing distribution through machine learning based on user engagement data to approach only users who have shown real interest.

4. Business Overview

Reaches potential customers by using substantive indicators and a hybrid ad distribution engine

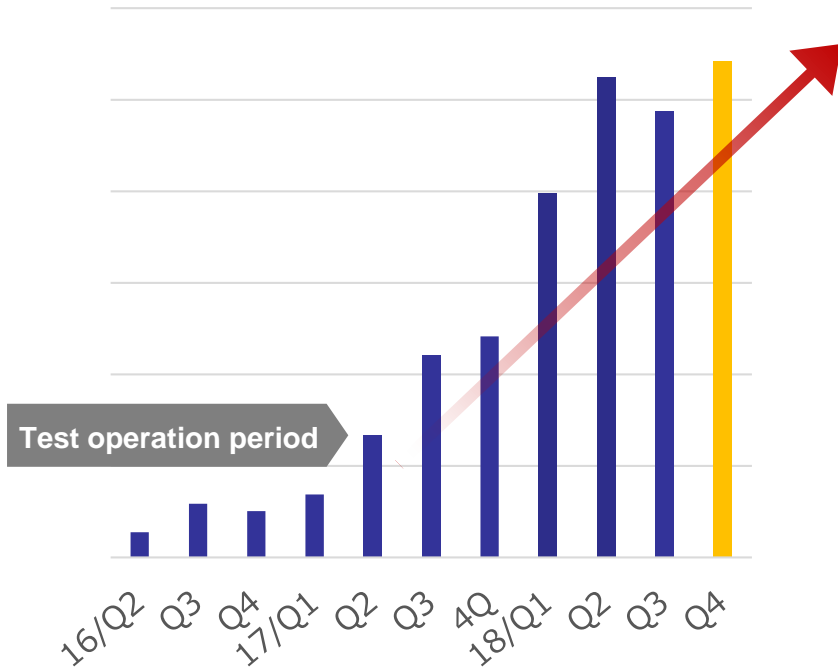


Optimizing based on distribution results allows clients to reach undiscovered potential users.

4. Business Overview

Progress of UNICORN

UNICORN sales



Continued growth in sales

ROAS* of users obtained through UNICORN



Average **146%**
(March 2019 results)

Other major
4 ad networks

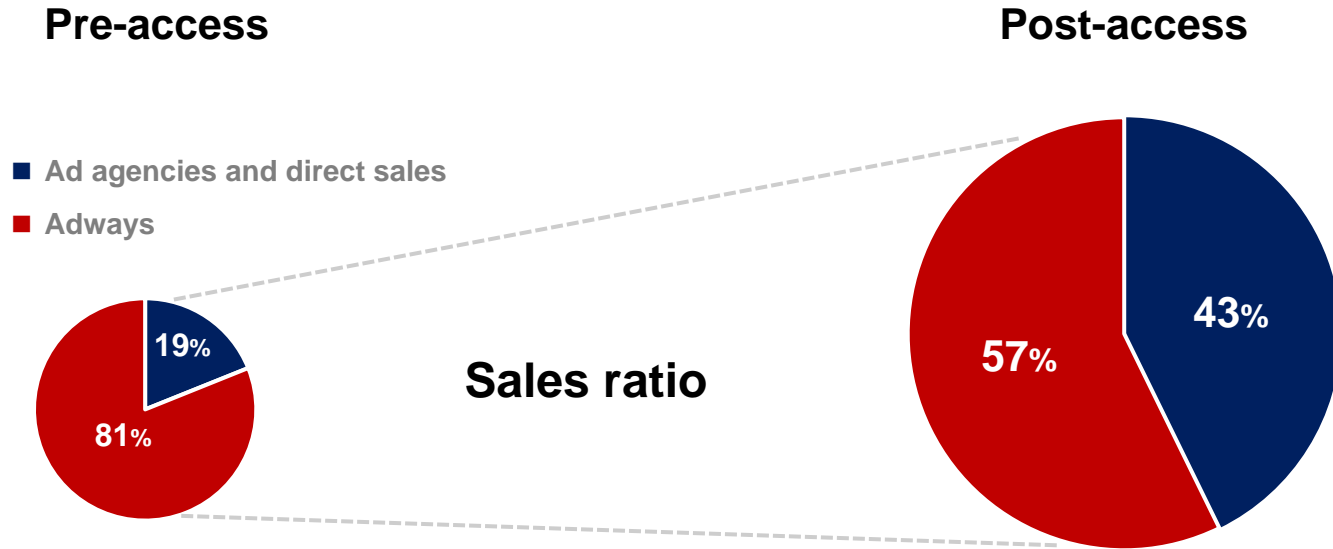
Average **87%**
(March 2019 results)

Achieved overwhelmingly higher ROAS than other companies

* 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

Future sales strategy



Growth by working together with major agencies



4. Business Overview



Topics

1.

**Marketing platform
business**

2.

Brand ad business

3.

**Ad management
business**



4. Business Overview

Our strengths in brand advertising

1. Adways platform



Maximization of brand ad effectiveness
through machine learning

2. Exclusive media



Exclusive partnership with media
experienced in brand advertising

3. Creative technology

- ✓ Interactive 3D
- ✓ Interactive video
- ✓ In-banner video



Rich creatives that
maximizes brand ad effectiveness

We will establish our position by offering clean distribution channels for brand ads and enhancing our creative technology.

4. Business Overview



Signed **exclusive partnership agreement** for Japan market with **POKKT**, the leading mobile ad platform for **brand advertisers**



Mobile video platform for brands in India and Southeast Asia

4. Business Overview



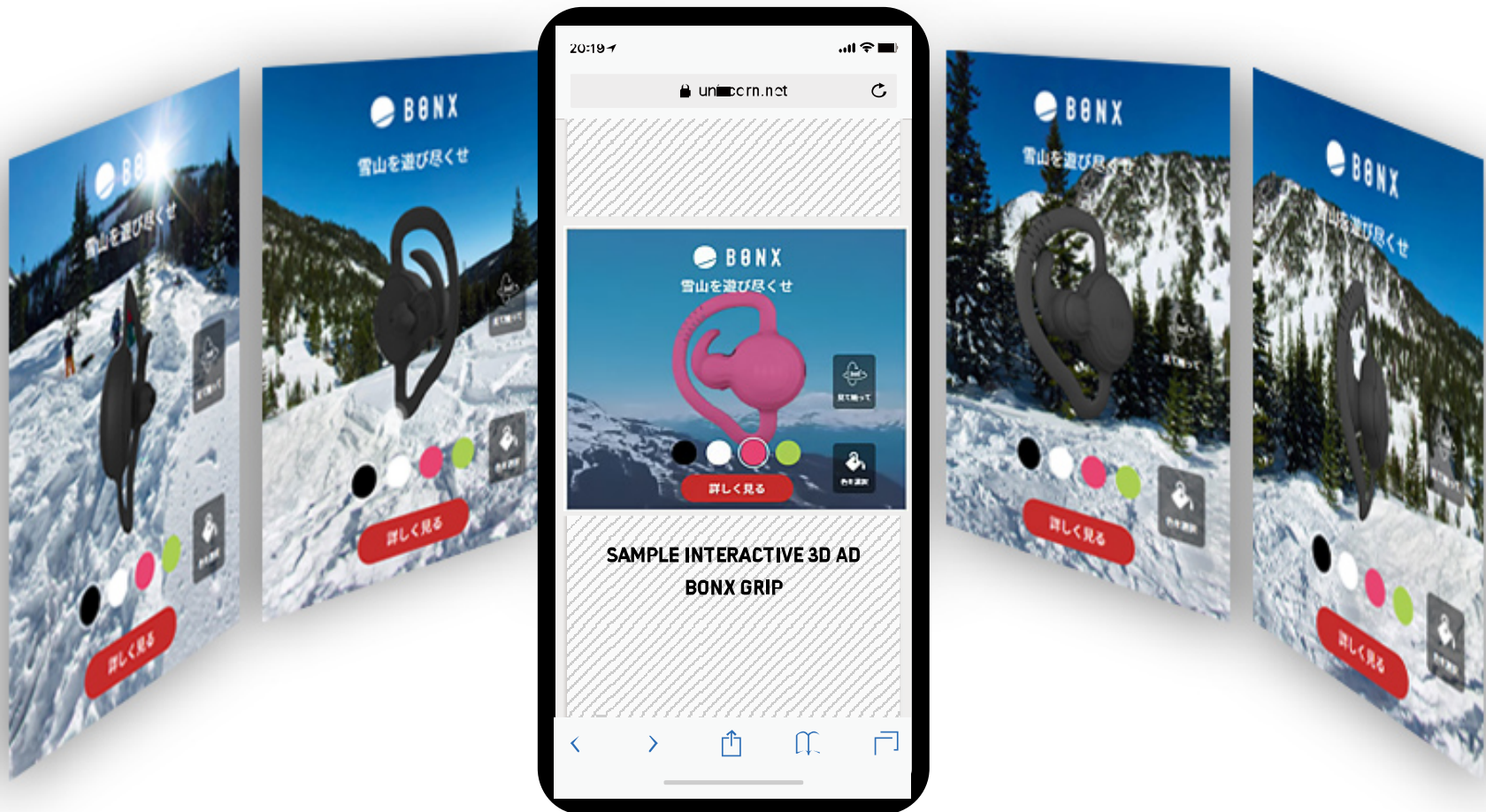
UNICORN's unique distribution technology enables to **serve video ads** within banner placement.



4. Business Overview



Creative appeal by utilizing 3D model data to realize **interactive 3D ads**



4. Business Overview



Topics

1.

**Marketing platform
business**

2.

Brand ad business

3.

**Ad management
business**



4. Business Overview



Our focus in ad agency business

1. Ad optimization tool

**STROBE
LIGHTS**



Maximization of ad management
efficiency and efficacy

2. Unique value



Streamlining of creative checks

3. Management structure enhancement

✓ Establishment of
BPO base



Streamlining of business operation

Toward continued improvement of our ad agency business



4. Business Overview

What is STROBELIGHTS X?



A comprehensive support system for
performance-based advertisement

STROBELIGHTS X

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

4. Business Overview

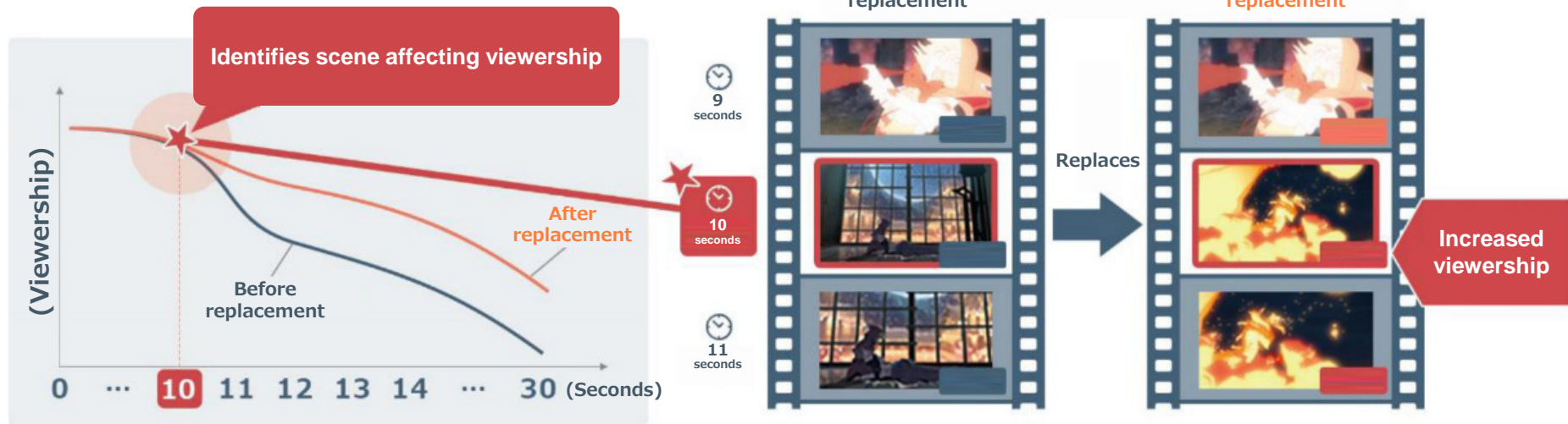
New STROBELIGHTS series features

STROBELIGHTS 4G
VIDEO  ANALYZER

Proprietary system that
analyzes video ad **viewership per second** from multiple angles

4. Business Overview

Improves ad effectiveness by identifying scenes affecting viewability and replacing them



*The above is an example.

Analysis per second

Measures the scenes in which viewership drops

Replaces to improve

Increases ad effectiveness

4. Business Overview



Launched YACLE, a service that proposes ad expressions in line with the Pharmaceuticals and Medical Devices Act.

A screenshot of a Japanese landing page for a cosmetic product. The main image shows a woman's face with her hands on her cheeks. Text on the page includes "美容成分が浸透" (Cosmetic ingredients penetrate), "《シワ専用》美容液" (Wrinkle-specific cosmetic liquid), and a yellow button that says "ご購入はこ" (Purchase is here). Two red boxes with white text overlays provide analysis from YACLE. Box 1 points to the word "浸透" (penetrate) and suggests alternatives like "角質層までの浸透" (penetration to the stratum corneum). Box 2 points to the phrase "シワ専用" (wrinkle-specific) and suggests alternatives like "〇〇用" (for 〇〇).

※1

1 指摘文言：浸透
指摘理由：浸透という言葉を使う時は注釈の記載が必要
修正案：「※注 角質層までの浸透」を追記

2 指摘文言：専用
指摘理由：化粧品、医薬部外品では特定の部位、疾病を表す「〇〇専用」とすることは安全性、効能効果の保証となるため、表現は不可。
修正案：〇〇用

Simply running a landing **page through this analysis tool**, it can identify high-risk words/phrases and even propose better expressions.

*1 The above is an example. Results may vary.


*2 The legal compliance of the expressions proposed by this service is not guaranteed.

4. Business Overview



**We have established a BPO base in Sapporo
to improve efficiency and our management structure.**

**Over the next one to two years,
we plan to increase the number of personnel **from 40 to 100.****



Beyond Everything Internet

インターネットの全てを越えていく

はい、
すげー
みんなのはじめで

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.

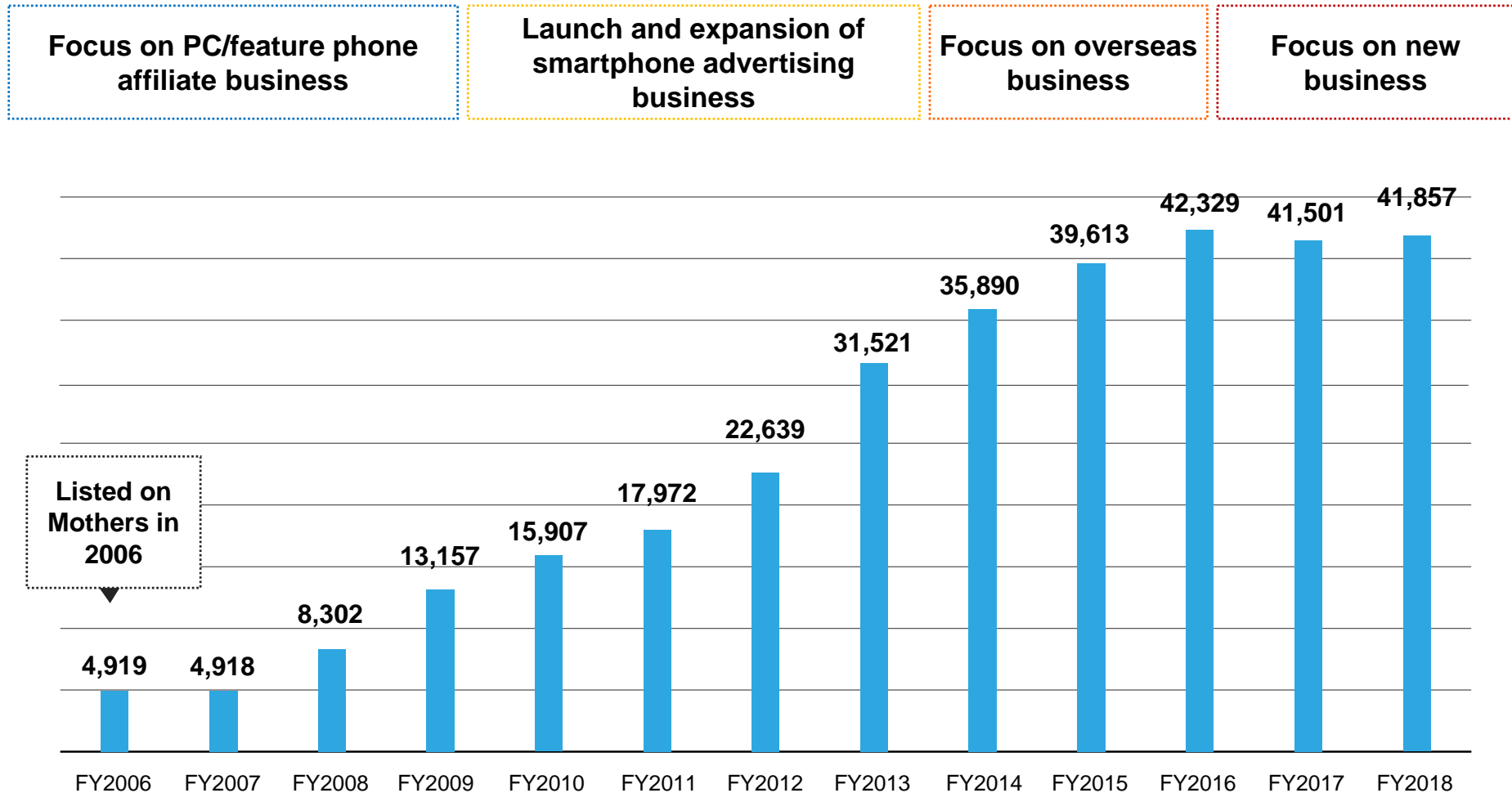
Statements made herein are based on information available as of May 13, 2019 and a variety of factors may cause the statements to differ from actual results.

5. Supplementary Materials

5. Supplementary Materials



Consolidated Trend of Sales

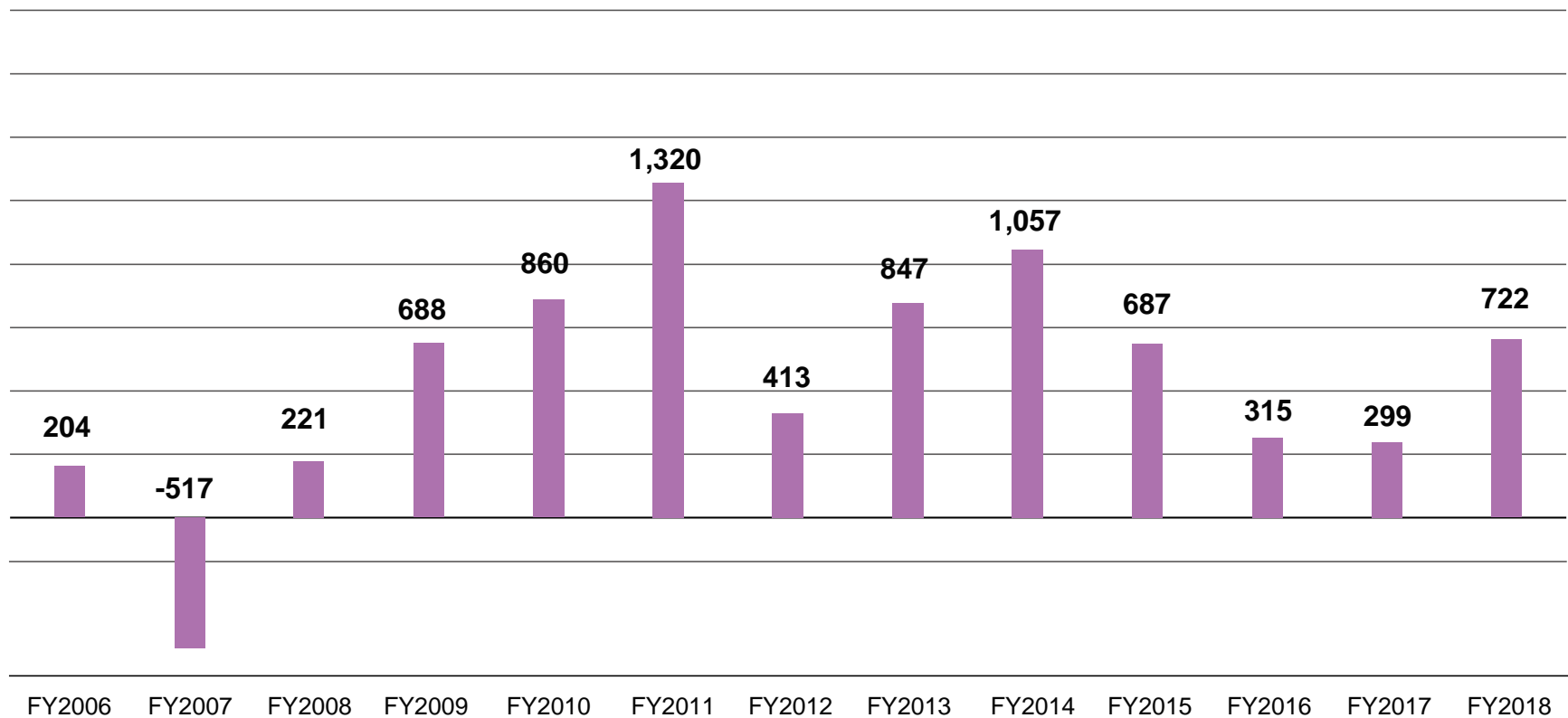


(JPY mn)

5. Supplementary Materials



Consolidated Trend of Operating profit



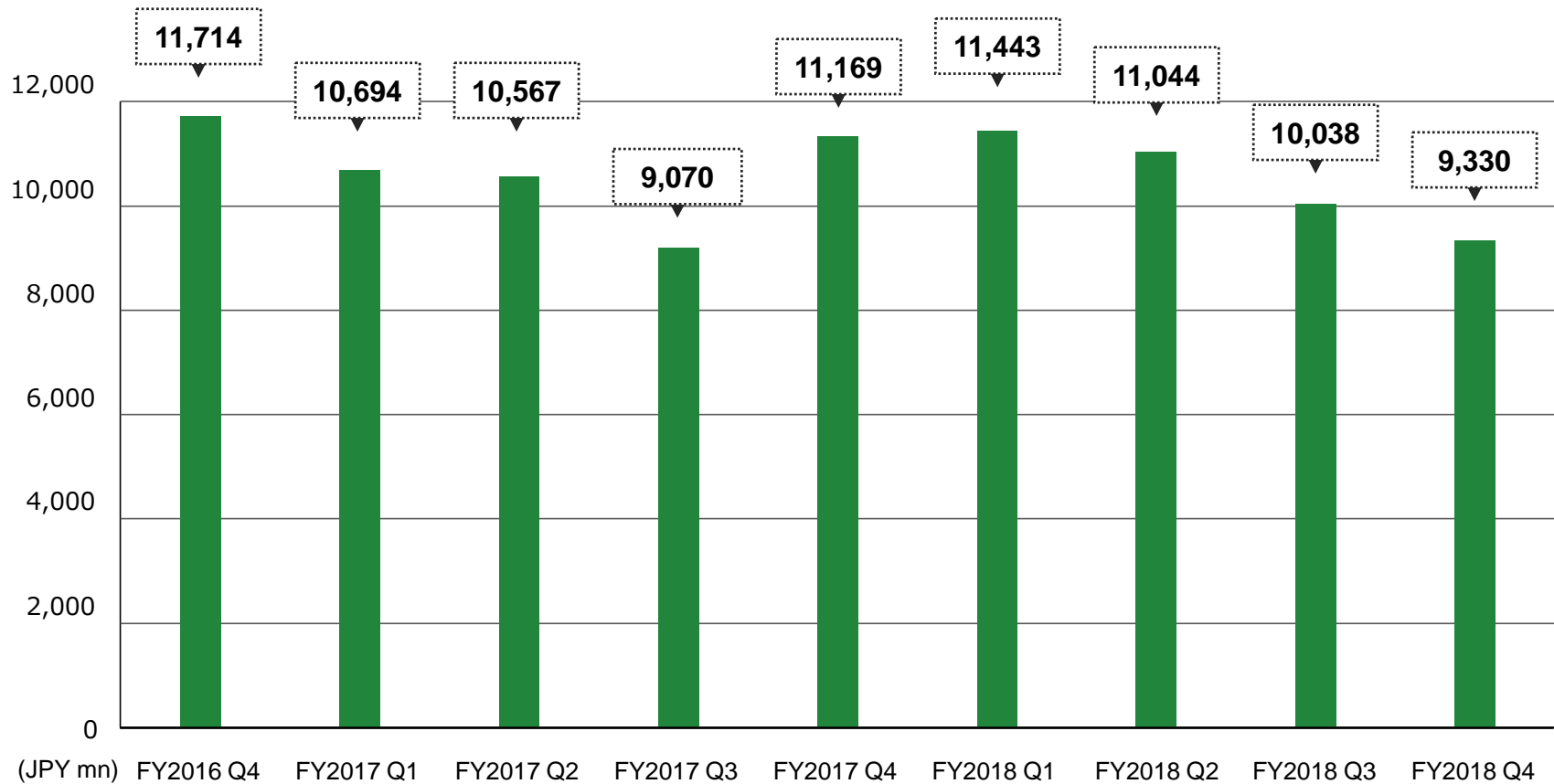
(JPY mn)



5. Supplementary Materials

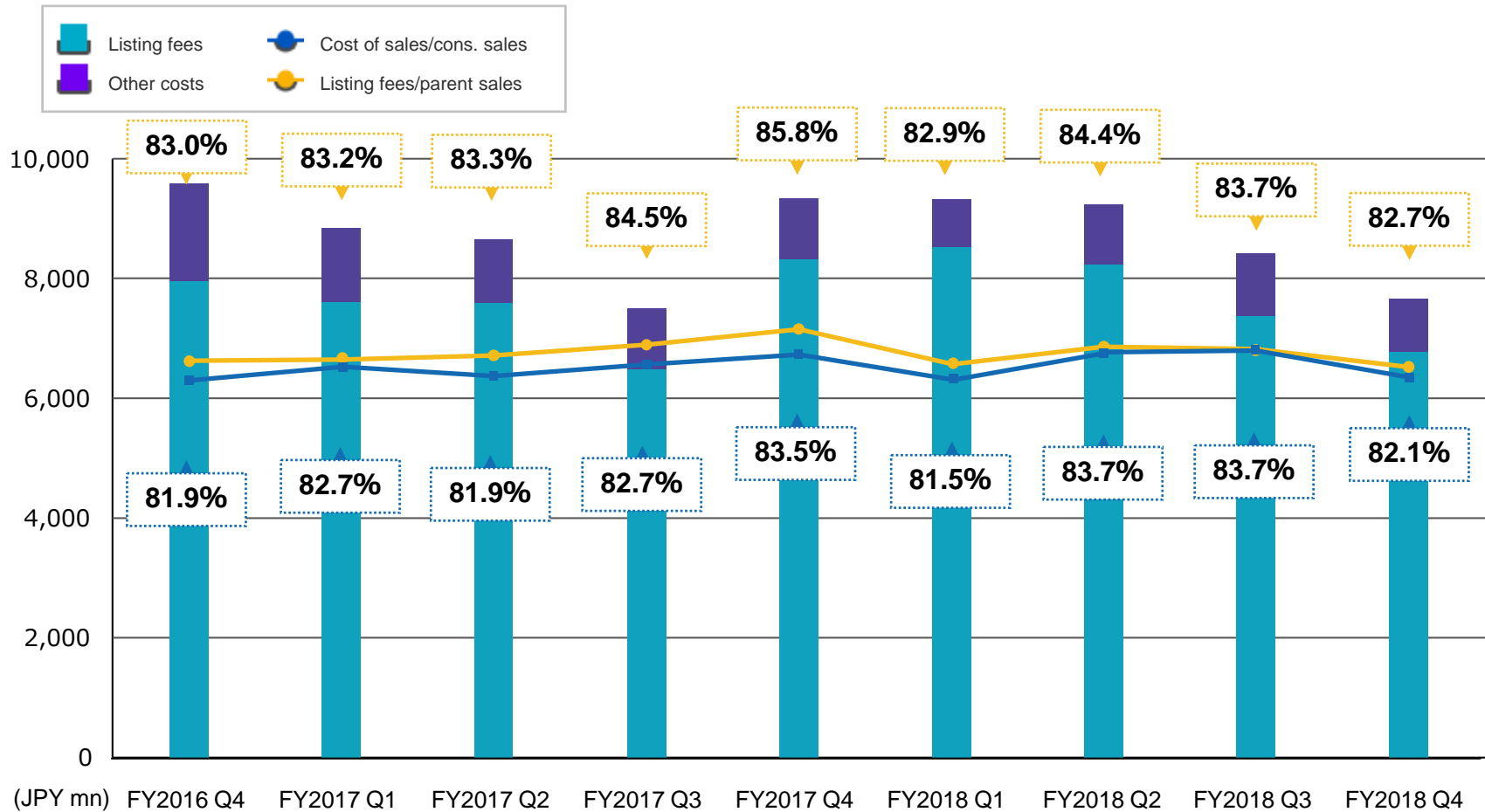


Quarterly Change in Consolidated Sales



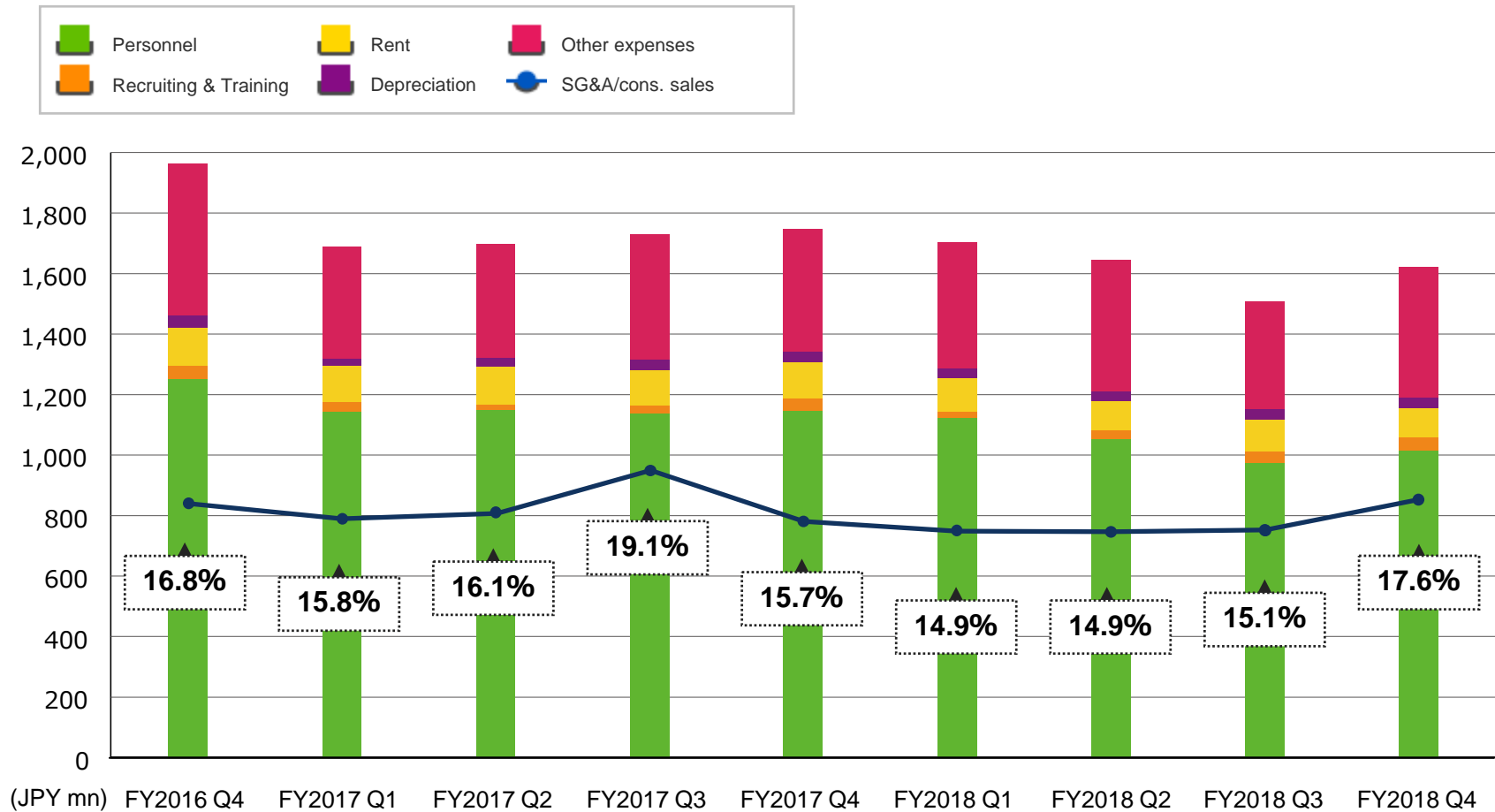
5. Supplementary Materials

Quarterly Change in Consolidated Cost of sales



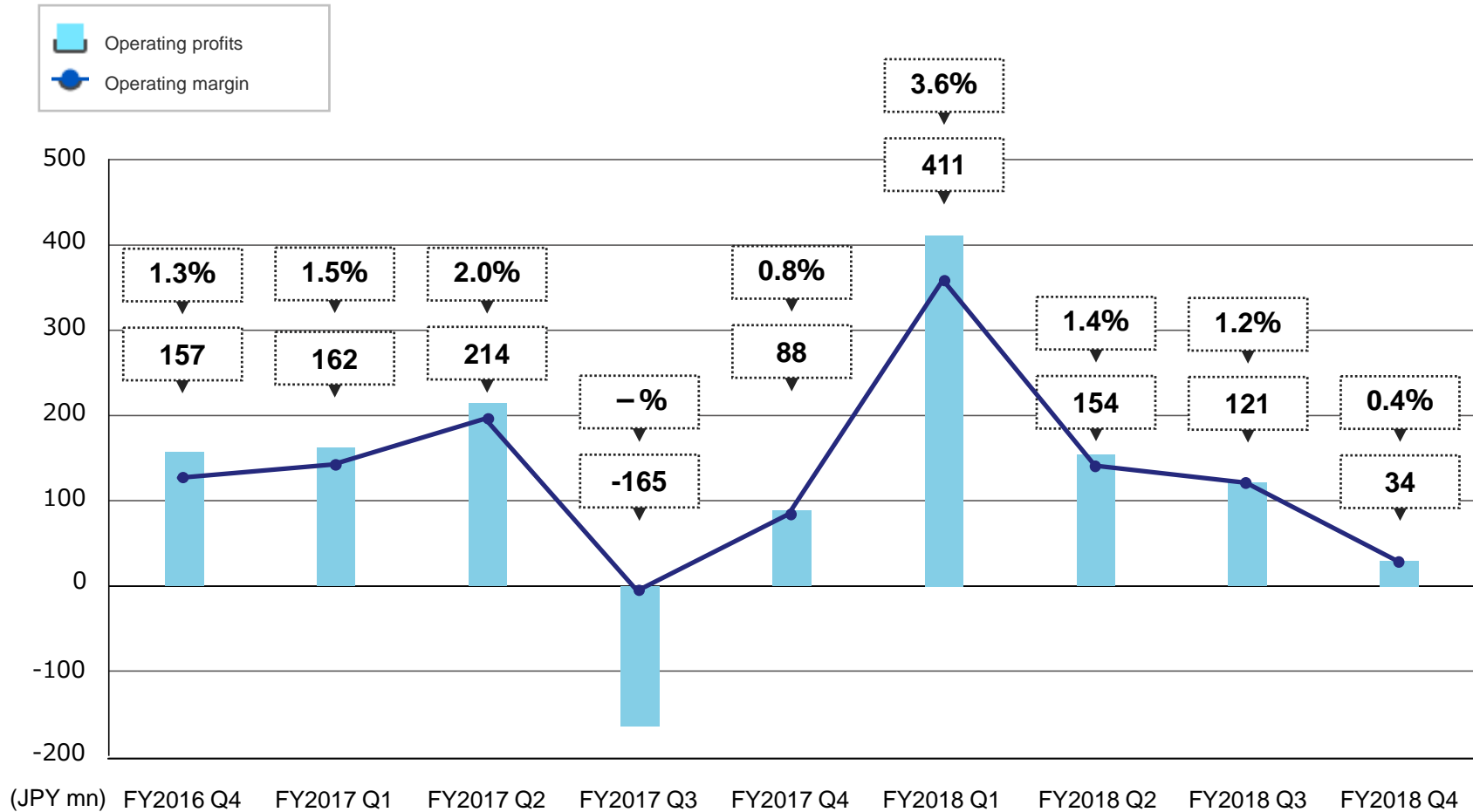
5. Supplementary Materials

Quarterly Change in Consolidated SG&A expenses



5. Supplementary Materials

Quarterly Change in Consolidated Operating profit



5. Supplementary Materials



Consolidated Balance Sheet (QoQ)

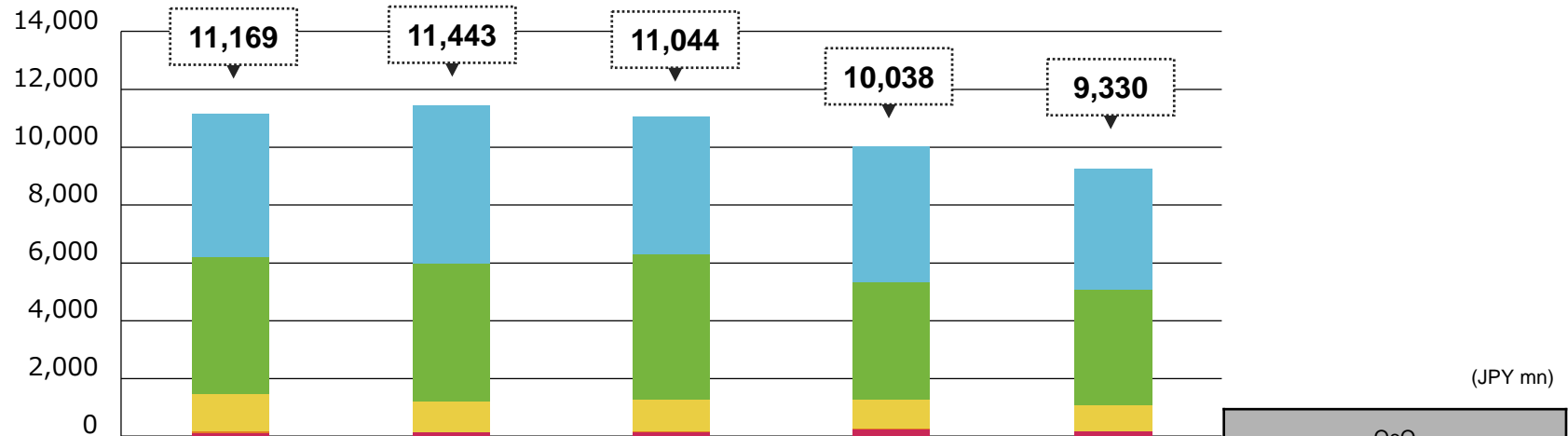
(JPY mn)

	FY2018 Q4	FY2018 Q3	Change (JPY mn)	Change (%)
Current assets	15,108	15,341	-233	-1.5%
(Cash and deposits)	10,167	9,976	190	1.9%
Non-current assets	2,711	2,612	99	3.8%
Total assets	17,820	17,953	-133	-0.7%
Current liabilities	6,162	6,674	-511	-7.7%
Non-current liabilities	134	118	15	13.1%
Total liabilities	6,297	6,793	-496	-7.3%
Net assets	11,523	11,160	362	3.2%



5. Supplementary Materials

Quarterly Breakdown of Consolidated Sales by Segment



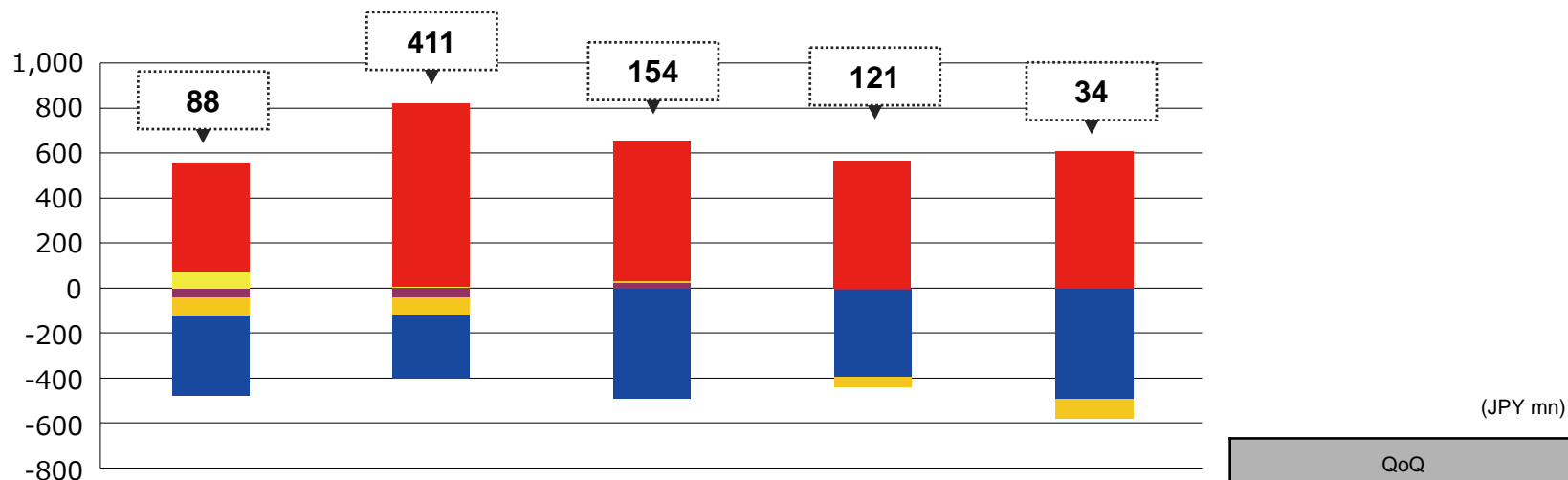
	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	QoQ	
						Change	Change (%)
Smartphone	4,960	5,464	4,743	4,695	4,198	-497	-10.6%
PC	4,706	4,774	5,012	4,051	4,037	-14	-0.3%
Overseas	1,330	1,049	1,132	1,031	871	-160	-15.5%
App	47	20	—	—	—	—	—
Media, Other	123	135	155	260	224	-36	-13.9%
Total	11,169	11,443	11,044	10,038	9,330	-707	-7.0%

* In conjunction with the FY2018 Q1 segment change, the previous figures are displayed according to the segments after the change.

5. Supplementary Materials



Quarterly Breakdown of Consolidated Operating Profit by Segment

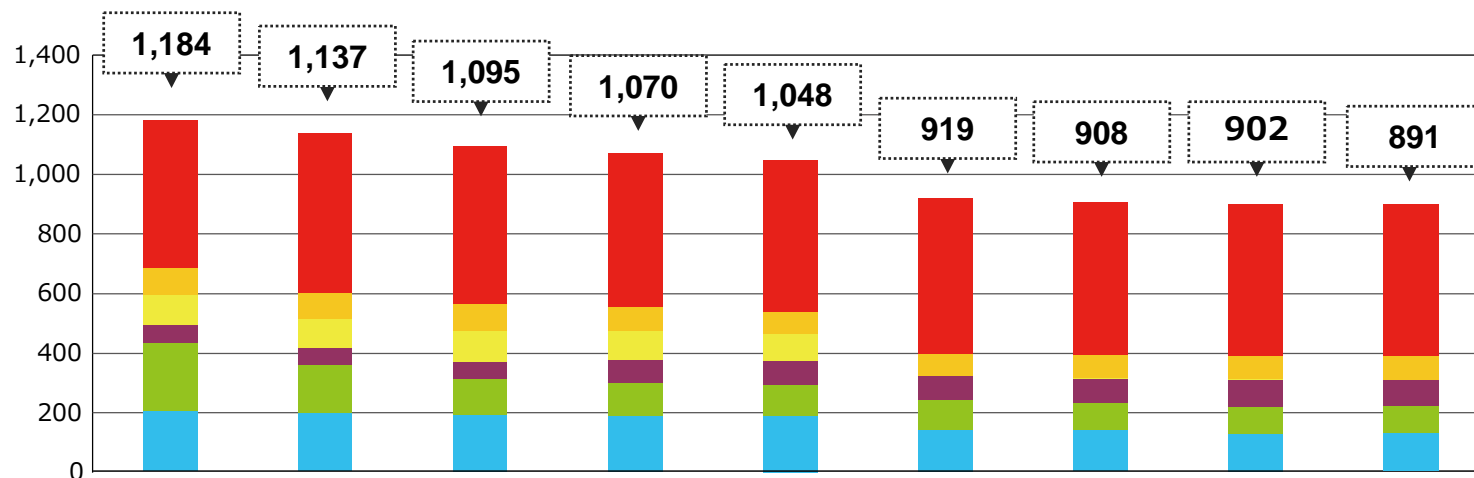


						QoQ	
	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	Change	Change (%)
Advertising	517	814	624	568	606	+37	+6.6%
Overseas	43	0	6	-49	-86	-37	—
App	-83	-73	-0	-0	-0	+0	—
Media, Other	-38	-39	23	-5	-9	-4	—
Eliminations & corporate	-350	-289	-497	-392	-474	-82	—
Total	88	411	154	121	34	-86	-71.5%

* In conjunction with the FY2018 Q1 segment change, the previous figures are displayed according to the segments after the change.

5. Supplementary Materials

Quarterly Change in Group employees



(Persons)

	FY2016 Q4	FY2017 Q1	FY2017 Q2	FY2017 Q3	FY2017 Q4	FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4
ADW Japan	496	536	527	516	509	521	512	509	510
ADW China	92	86	91	77	73	72	80	80	78
ADW Shanghai (R&D center)	100	98	104	99	92	0	0	0	0
Domestic subsidiaries	60	57	58	76	79	84	82	93	90
Overseas subsidiaries (excluding China)	229	161	122	113	106	98	91	91	90
Temporary workers, part-time employees	207	199	193	189	189	144	143	129	123
Total	1,184	1,137	1,095	1,070	1,048	919	908	902	891

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

5. Supplementary Materials



Company Overview

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 March 2018)
Net sales	JPY 41,857 mn	(FY2018, Consolidated)
Employees * including temporary workers	891 (for the entire Group)	(As of end of March 2018)

