



ADWAYS

10Q

JULY 2020
PRESENTATION
MATERIAL

JULY 31, 2020

**TOKYO STOCK
EXCHANGE MOTHERS
STOCK CODE: 2489
ADWAYS INC.**

**FIRST
QUARTER**

**Founder and CEO,
Haruhisa Okamura**

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1 FY2020 Q1 Performance

- Chapter1 : **First quarter results**

Quarterly Results (YoY, QoQ)

(JPY mn)

	FY2020 Q1	YoY FY2019 Q1			QoQ FY2019 Q4		
		Result	Change	Change (%)	Result	Change	Change (%)
Net sales	10,003	9,026	977	10.8%	10,155	-151	-1.5%
Gross profit	1,804	1,454	350	24.1%	1,854	-50	-2.7%
SG&A expenses	1,615	1,564	51	3.3%	1,656	-41	-2.5%
Operating profit	189	-109	298	—	198	-9	-4.5%
Ordinary profit	229	-75	305	—	264	-34	-13.2%
Profit attributable to owners of parent	178	-266	445	—	309	-130	-42.2%

Net sales YoY Increased JPY +977 mn (+10.8%)
QoQ Decreased JPY -151 mn (-1.5%)

Operating profit YoY Increased JPY +298 mn (-)
QoQ Decreased JPY -9 mn (-4.5%)

Q1 Net Sales/Operating Profit Factors

[Net Sales QoQ (by Segment)]

	This quarter (FY2020 Q1)	Previous quarter (FY2019 Q4)	Change
Smartphone	5,306	4,957	+349
PC	3,629	3,784	-155
Overseas	814	1,167	-352
Total	9,750	9,909	-159

[Operating Profit QoQ (by Segment)]

	This quarter (FY2020 Q1)	Previous quarter (FY2019 Q4)	Change
Smartphone	697	699	-2
PC			
Overseas	-77	-50	-26
Total	619	649	-29

(JPY mn)

[Main factors]

Smartphone [Net sales: JPY 349 mn Increase]

In addition to UNICORN sales increasing, some domestic game clients' overseas promotions, among other factors, led to their advertising spend increasing. Advertising spend increased substantially for also comic apps.

PC [Net sales: JPY 155 mn Decrease]

While advertising spend increased for some e-commerce clients, there was decrease on the rebound of the Q4 demand season (seasonal factor) for finance clients.

Overseas [Net sales: JPY 352 mn Increase]

Decreased due to rebound from the Q4 demand season and Lunar New Year in greater China (seasonal factors), and the spread of COVID-19 leading to brand advertisers refraining from placing ads, among other factors.

*The accounting periods of our overseas subsidiaries end in December, so their FY2020 Q1 (January – March) figures are consolidated with the Adways Group's FY2020 Q1 (April – June) figures.

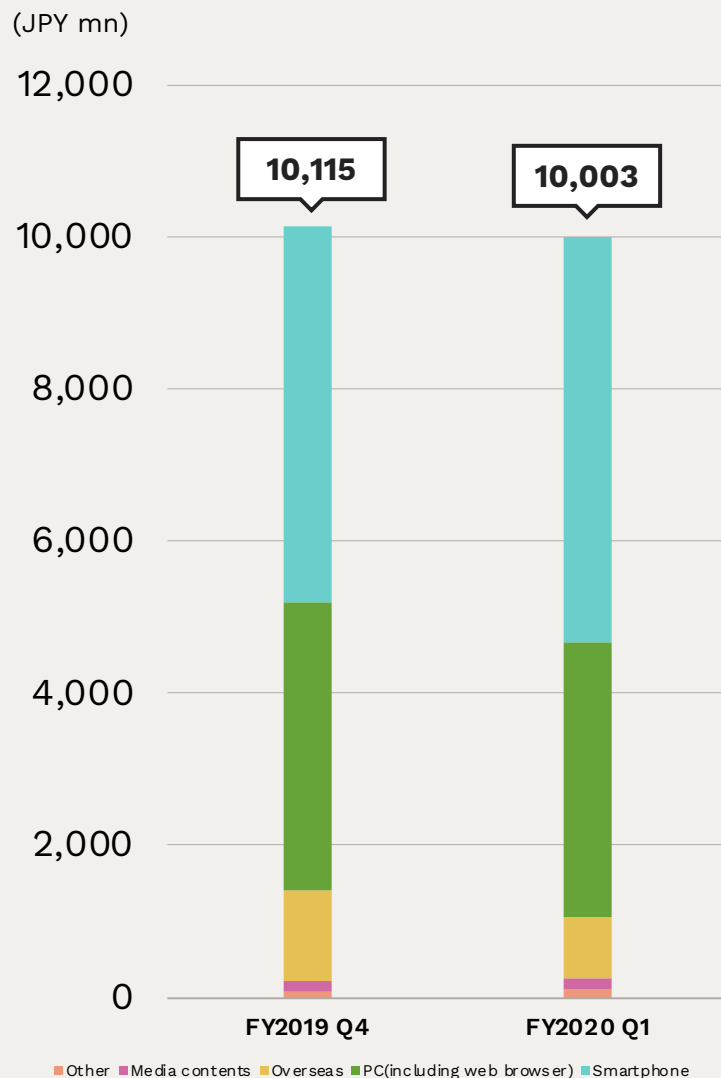
FY2020 Consolidated Performance Forecast Values

(JPY mn)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
FY2020 Forecast	41,662	402	418	137
FY2020 Q1 Results	10,003	189	229	178
*Progress rate	24.0%	46.9%	55.0%	130.2%

*Figures are rounded off to the second decimal place.

Net Sales (QoQ Change)



Domestic Advertising JPY 8,935 mn

QoQ: JPY +193 mn (+2.2%)

Smartphone JPY 5,306 mn

(Mainly app advertising)

QoQ: JPY +349 mn (+7.0%)

In addition to UNICORN sales increasing, some domestic game clients' overseas promotions, among other factors, led to their advertising spend increasing.

Advertising spend increased substantially for also comic apps.

PC JPY 3,629 mn

(PC web advertising and smartphone web advertising)

QoQ: JPY -155 mn (-4.1%)

While advertising spend increased for some e-commerce clients, there was decrease on the rebound of the Q4 demand season (seasonal factor) for finance clients.

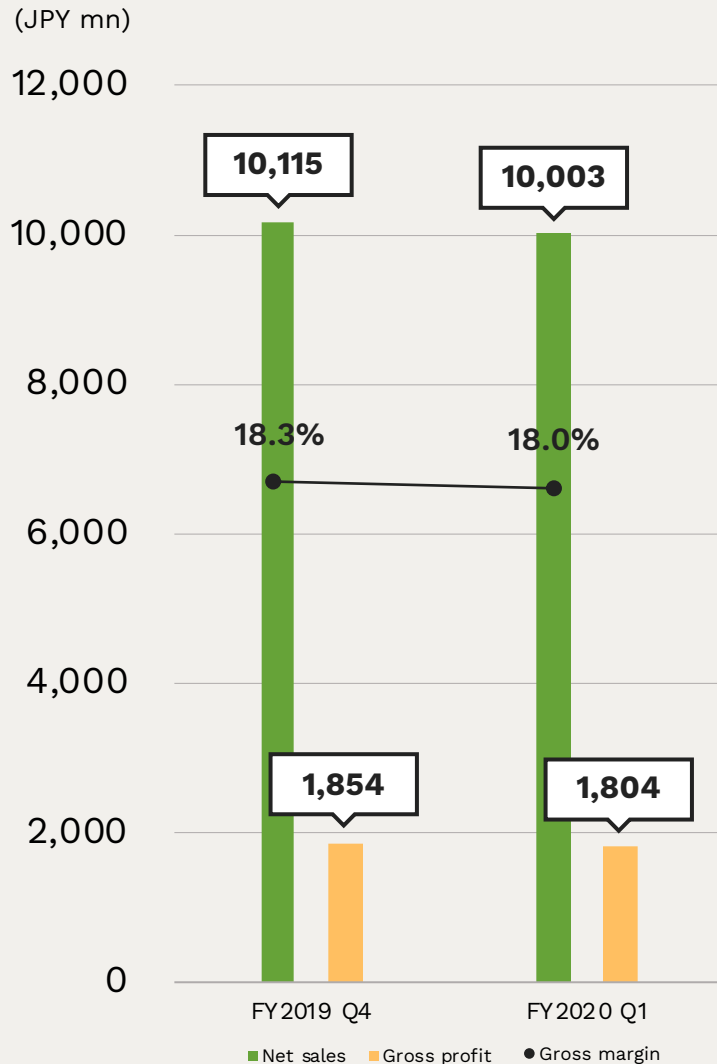
Overseas JPY 814 mn

QoQ: JPY -352 mn (-30.2%)

Decreased due to rebound from the Q4 demand season and Lunar New Year in greater China (seasonal factors), and the spread of COVID-19 leading to brand advertisers refraining from placing ads, among other factors.

*The accounting periods of our overseas subsidiaries end in December, so their FY2020 Q1 (January – March) figures are consolidated with the Adways Group's FY2020 Q1 (April – June) figures.

Gross Profit (QoQ Change)



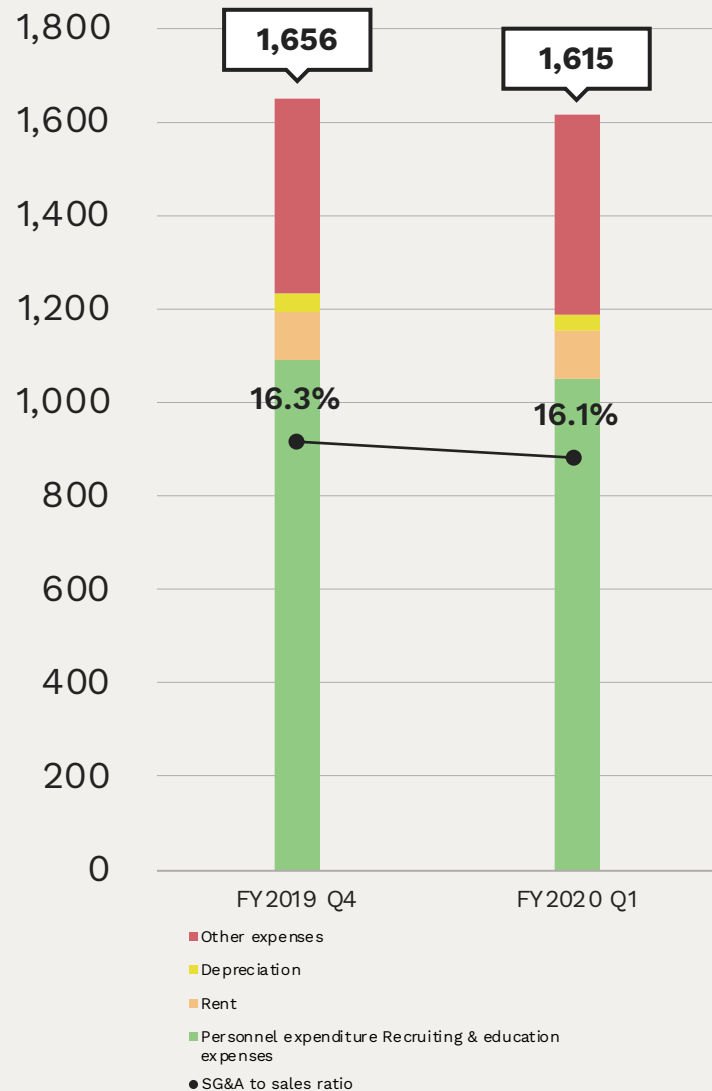
Q1 Gross profit: JPY 1,804 mn

QoQ: JPY -50 mn (-2.7%)

Gross margin: 18.0% (-0.3 points)

SG&A Expenses (QoQ Change)

(JPY mn)



Q1 SG&A expenses: JPY 1,615 mn

QoQ: JPY -41 mn (-2.5%)

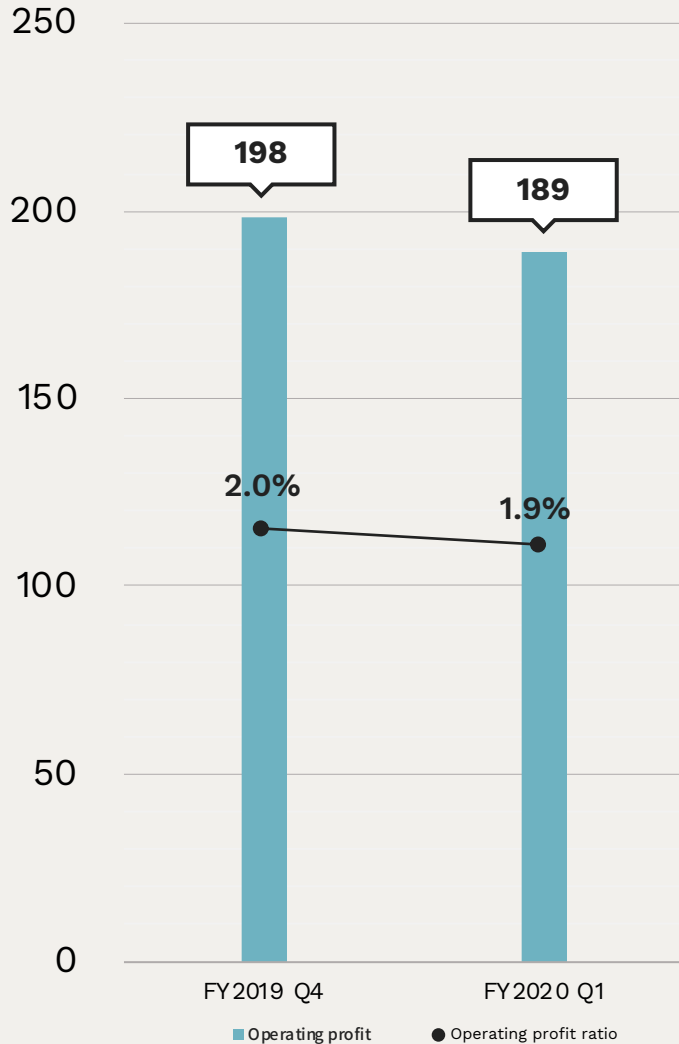
SG&A to sales ratio: 16.1% (-0.2 points)

Main Factors of Decrease

- Reduced in personnel expenditure and recruiting & education expenses: Approx. JPY -43 mn

Operating Profit (QoQ Change)

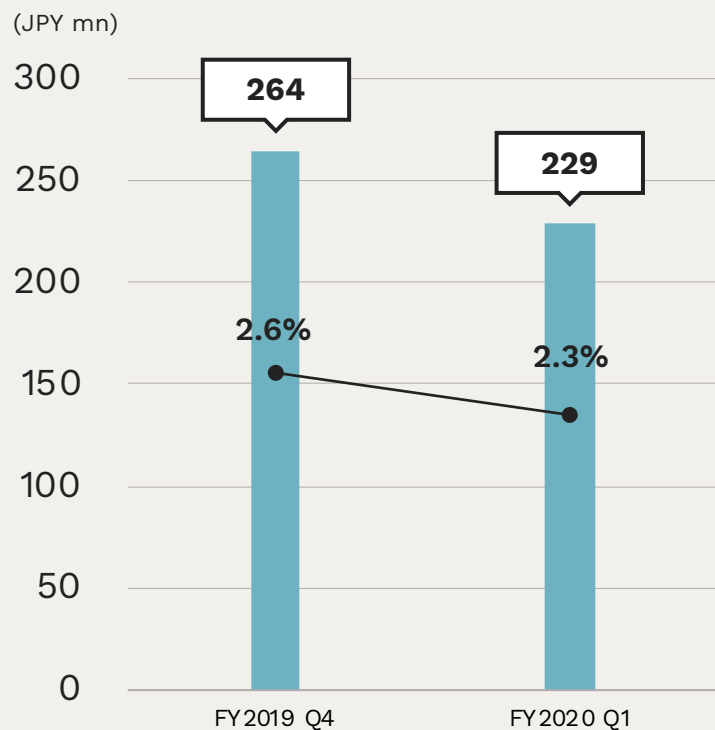
(JPY mn)



Q1 Operating profit: JPY 189 mn

QoQ: JPY -9 mn (-4.5%)

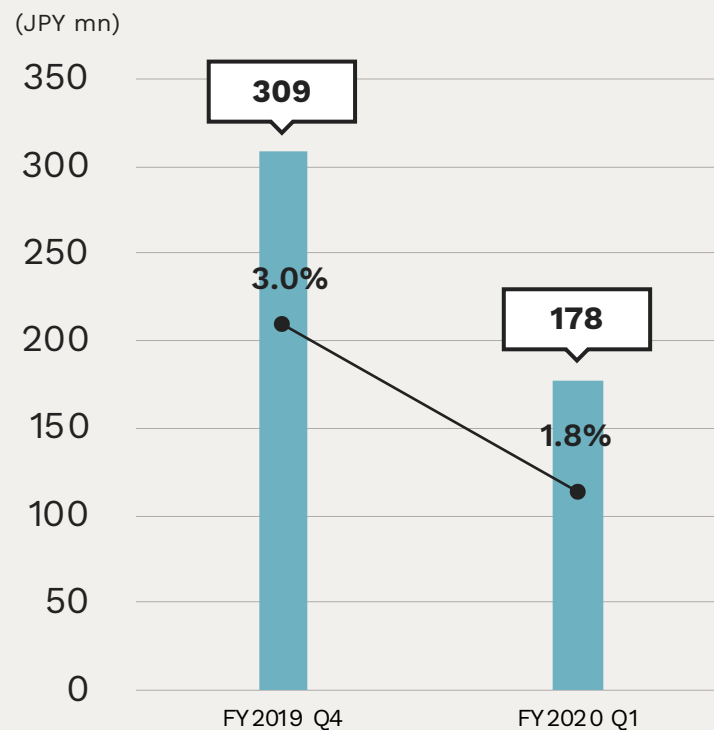
Ordinary Profit (QoQ Change)



Q1 Ordinary profit: JPY 229 mn

QoQ: JPY -34 mn (-13.2%)

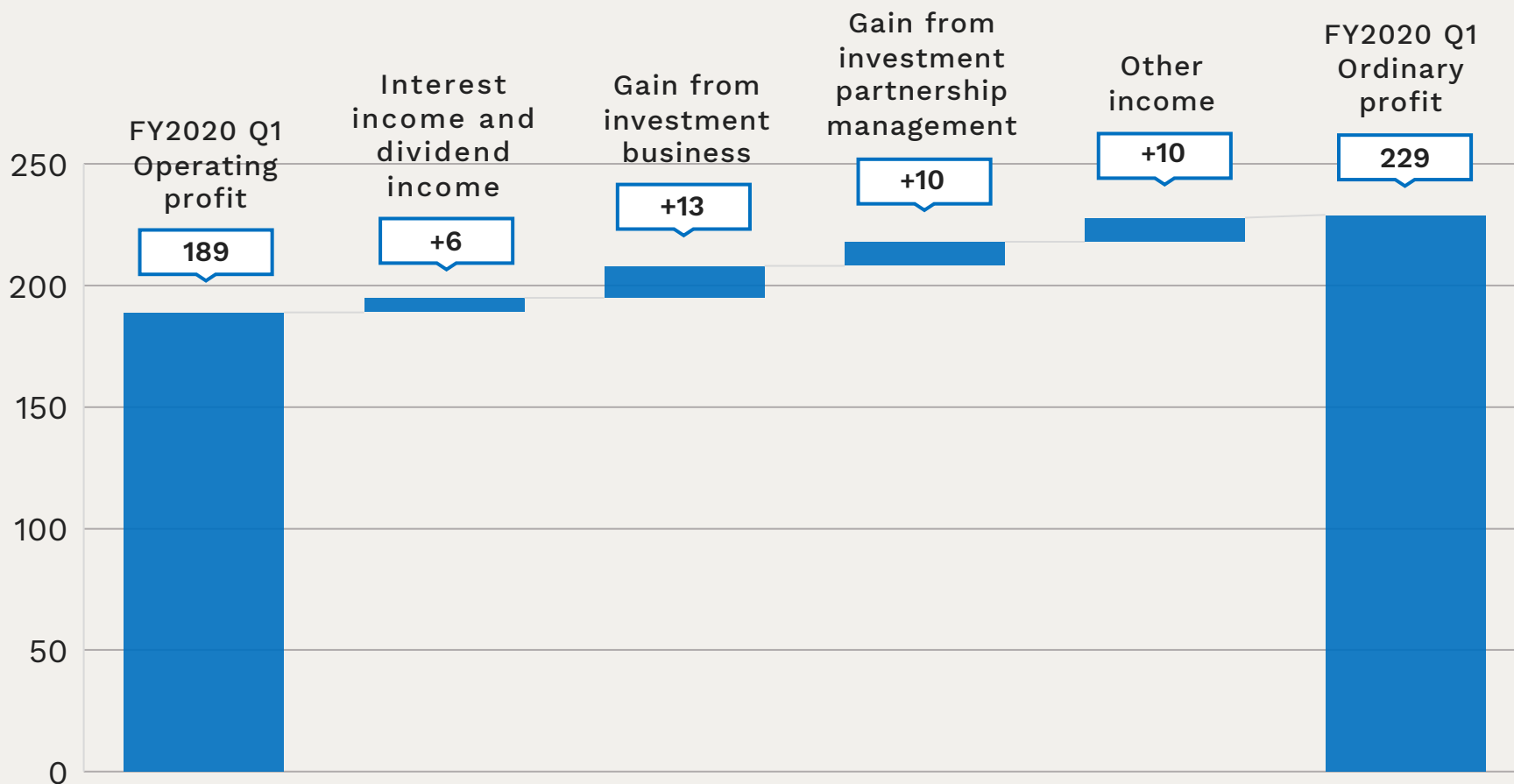
Profit Attributable to Owners of Parent (QoQ Change)



**Q1 Profit attributable to owners
of parent : JPY 178 mn**

QoQ: JPY -130 mn (-42.2%)

Breakdown of FY2020 Q1 Ordinary Profit



(JPY mn)

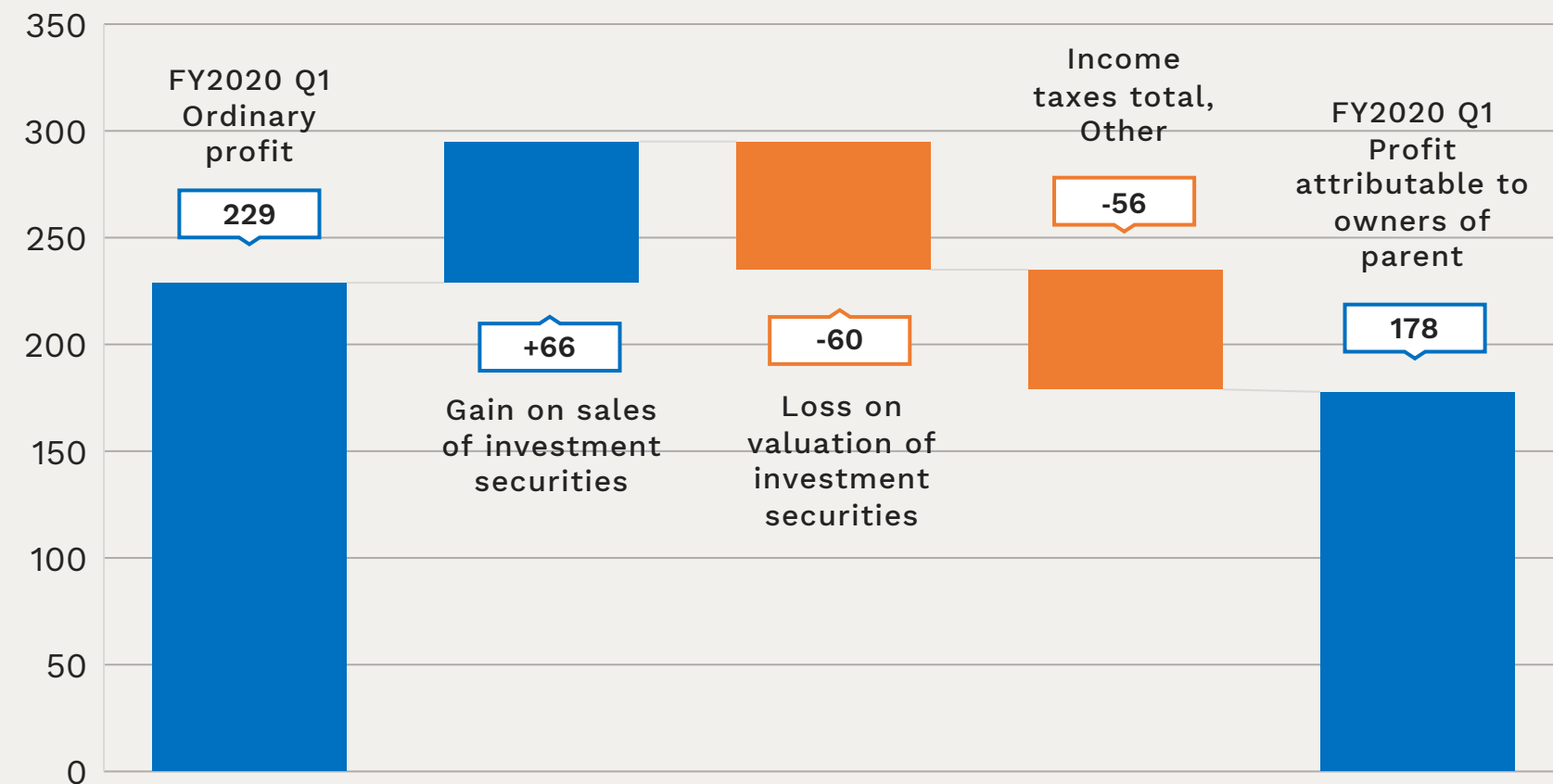
Interest income and dividend income	• • • • • • • • • • • • • • • • JPY +6 mn
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Gain from investment business JPY +13 mn

Gain from investment partnership management JPY +10 mn

Other income JPY +10 mn

Breakdown of Q1 FY2020 Profit Attributable to Owners of Parent



(JPY mn)

Gain on sales of investment securities	• • • • • JPY +66 mn
Loss on valuation of investment securities	• • • • • JPY -60 mn
Income taxes total, Other	• • • • • JPY -56 mn

2.

Chapter2 : business overview

BUSINESS OVER VIEW

Impact of the Novel Coronavirus (COVID-19)

Continuing from FY2019 Q4, there was no major impact on performance in FY2020 Q1 because the Adways Group's areas of business are primarily online.

*The following presents the impact of COVID-19 only and does not take into consideration changes in net sales and profit from ordinary operating activities.

Comic apps

Size of business : Large

【FY2020 Q1 (Results) 】 Impact: Positive

Due to the stay-at-home order, demand grew and advertising spend also trended upward.

【FY2020 Q2 (Forecast) 】 Impact : Somewhat positive

With easing of the stay-at-home order, advertising spend also forecasted to decrease compared with Q1.



OTT (Over the top)

Size of business : Medium

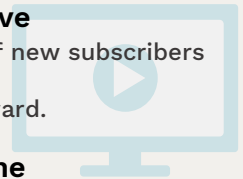
【FY2020 Q1 (Results) 】 Impact: Positive

Due to the stay-at-home order, the number of new subscribers grew.

With that, advertising spend also trended upward.

【FY2020 Q2 (Forecast) 】 Impact : None

Forecasted to return to the state before the spread of COVID-19.



E-commerce

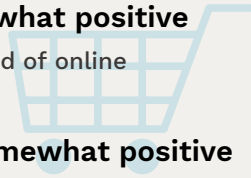
Size of business : Small

【FY2020 Q1 (Results) 】 Impact: Somewhat positive

Sales remained strong with the increased trend of online consumption.

【FY2020 Q2 (Forecast) 】 Impact : Somewhat positive

The state in Q1 forecasted to continue.



Game apps

Size of business : Large

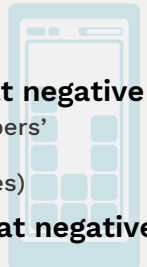
【FY2020 Q1 (Results) 】 Impact : Somewhat negative

New title releases being delayed because of developers' circumstances led to promotion to be delayed also.

(Net sales grew from the ordinary operating activities)

【FY2020 Q2 (Forecast) 】 Impact: Somewhat negative

The state in Q1 forecasted not to recover completely.



Impact of the Novel Coronavirus (COVID-19)

Continuing from FY2019 Q4, there was no major impact on performance in FY2020 Q1 because the Adways Group's areas of business are primarily online.

*The following presents the impact of COVID-19 only and does not take into consideration changes in net sales and profit from ordinary operating activities.

Finance

Size of business : Large

【FY2020 Q1 (Results) 】 Impact : Somewhat Negative

There was contraction of some activities at clients. Due to policies limiting new customers, advertising spend also shrunk.

【FY2020 Q2 (Forecast) 】 Impact : Somewhat Negative

The state in Q1 forecasted to not recover completely.

Overseas advertising

Size of business : Medium

【FY2020 Q1 (Results) 】

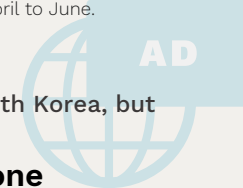
Impact : Somewhat Negative

Performance slowed in China, Taiwan and South Korea, but recovering from March.

【FY2020 Q2 (Forecast) 】 Impact : None

Brand advertising business will continue to be impacted, but app advertising business' advertising spend to trend upward.

* Since December is the end of the fiscal year for overseas subsidiaries, their Q1 is from January to March and Q2 is from April to June.



Cross-border e-commerce

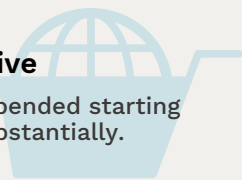
Size of business : Small

【FY2020 Q1 (Results) 】 Impact : Negative

Due to Express Mail Service to China being suspended starting from March, forwarding business decreased substantially.

【FY2020 Q2 (Forecast) 】 Impact : Somewhat Negative

Due to Express Mail Service being resumed starting from July, on course for recovery.



Brands

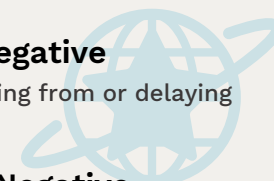
Size of business : Small

【FY2020 Q1 (Results) 】 Impact : Negative

Decreased due to brand advertisers refraining from or delaying marketing campaigns.

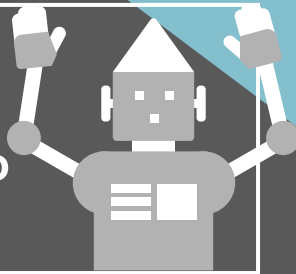
【FY2020 Q2 (Forecast) 】 Impact : Negative

The state in Q1 forecasted to not improve all that much.

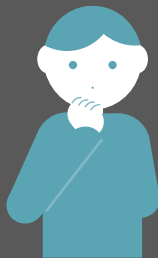


Co-existence of Humans & Machines

**Automate
what humans can't do**



**Consolidate what
machines can't do to
humans**



**Maximize
performance**

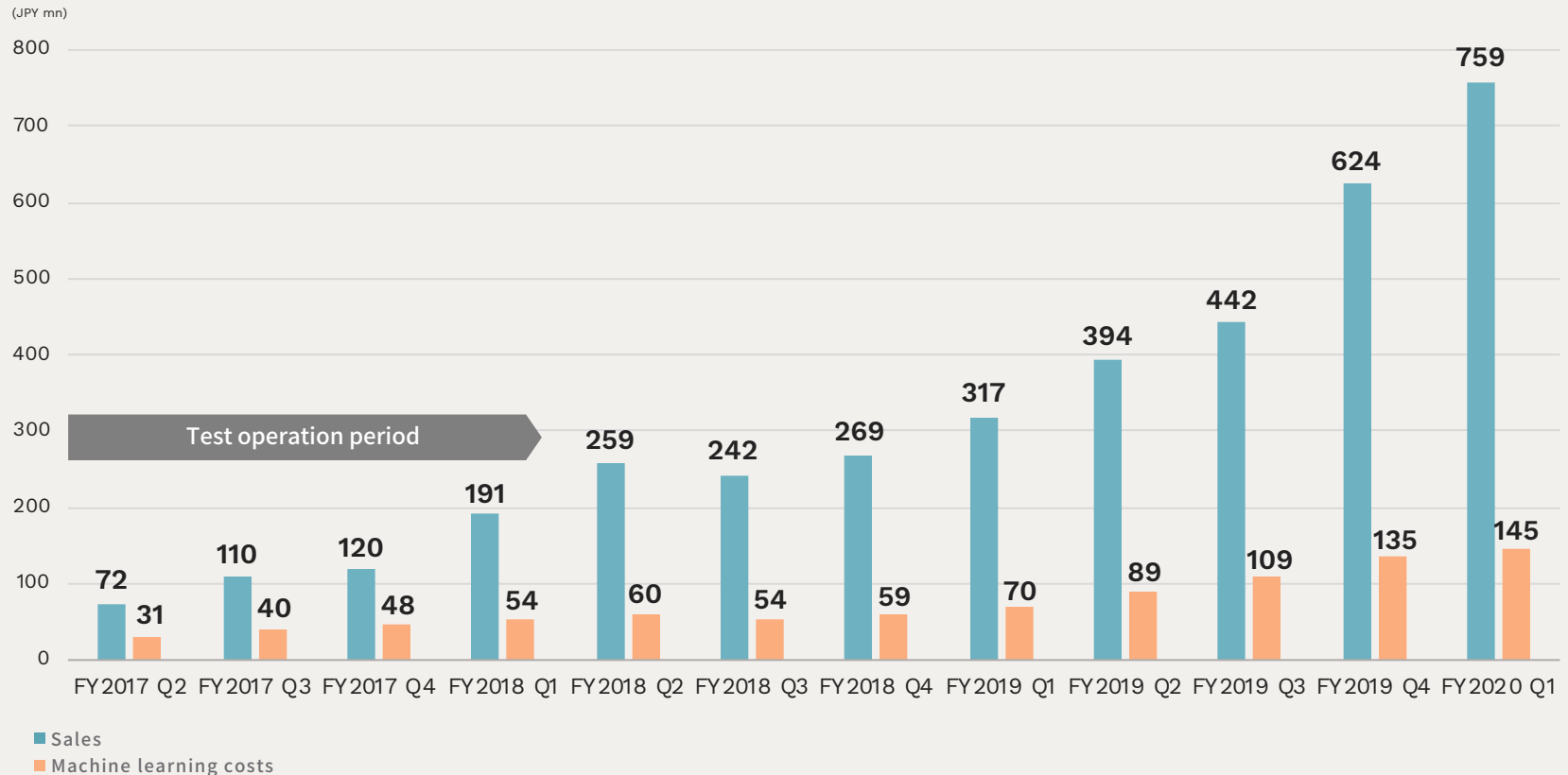




UNICORN

REDEFINE DIGITAL MARKETING

Change in UNICORN Sales and Machine Learning Costs



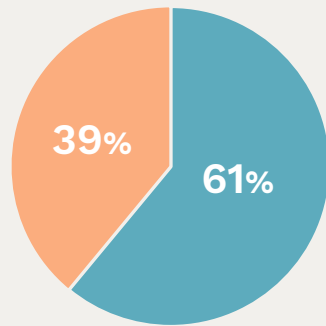
**Net sales increased by 239% YoY, maintaining steady performance.
Also accelerated machine learning, steadily increasing accuracy.**

Progress of UNICORN

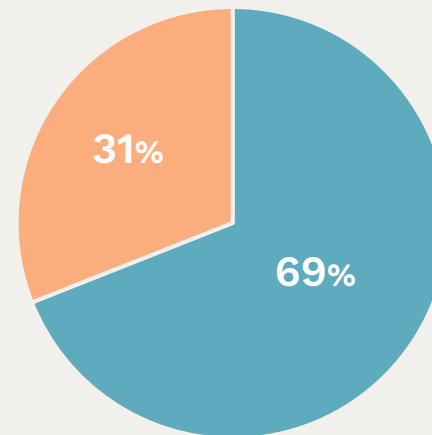
first quarter

Sales to agencies

FY2019 Q1 results



FY2020 Q1 results



Agencies/direct sales
Adways

Growth by working together with major agencies



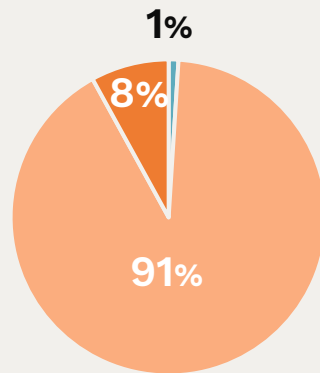
*In alphabetical order

About UNICORN

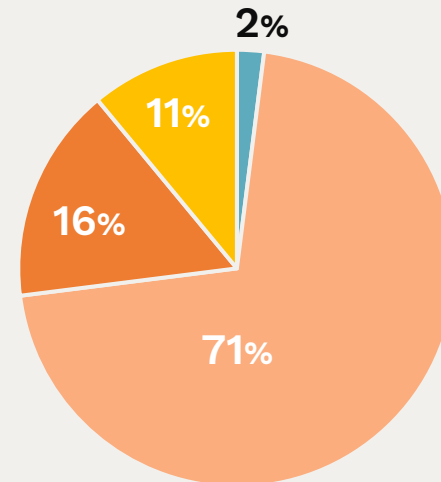
Progress of UNICORN

first quarter

FY2019 Q1 results



FY2020 Q1 results



Other OTT Games Comics

New Campaign Category Growth

Games, comics categories showing steady performance.

OTT is growing substantially as new category.

About UNICORN

New Initiatives for Brand Advertisers

UNICORN Interactive AD

Creative formats

Banner / Video

Reward Video

Native / Interactive



Targeting

Context / Location

Career / Approved list

Demographics



Interactive advertising formats offering virtual experience that enables to appeal brands and products in more realistic ways, realizing a whole new communication between users and clients.

AR Camera Filter

first quarter

A new type of interactive ad offering users AR camera filters that can be enjoyed through their smartphone browser. Offering the original AR filters of brands enables more realistic display of products and brands through virtual experience and boosts brand appeal.

Brand ads

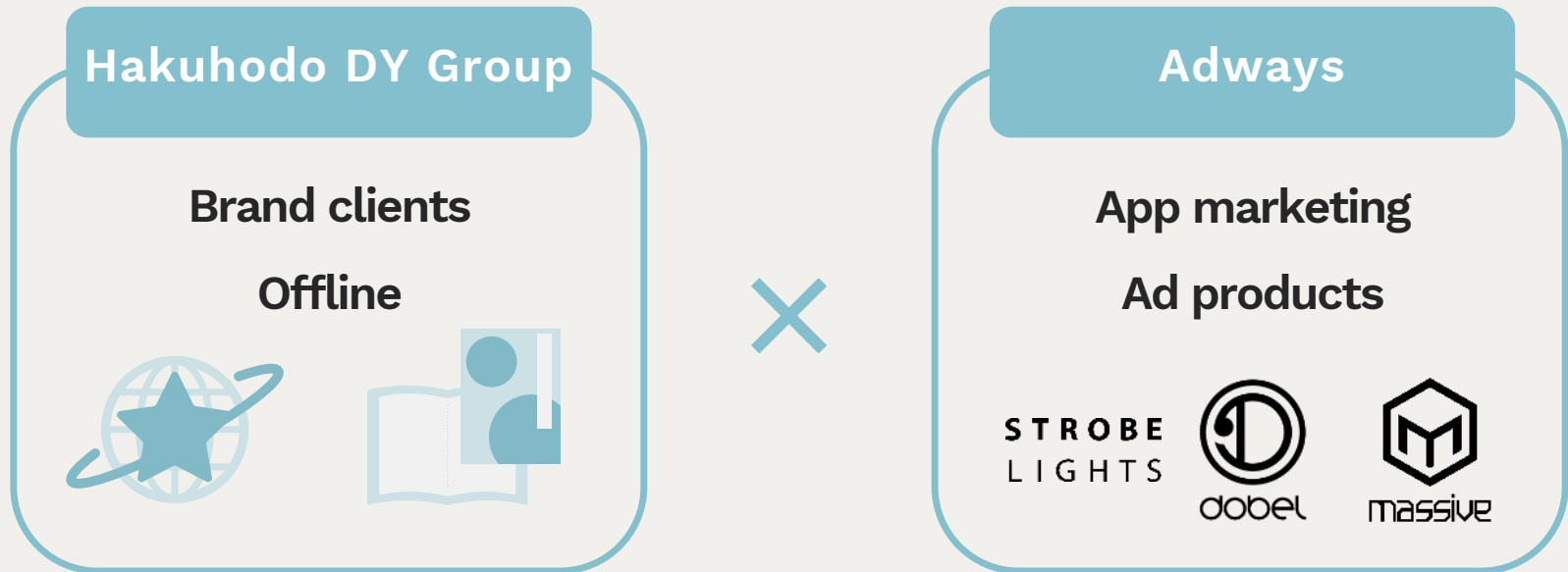


*Image is for illustrative purposes only.

Progress of Capital and Business Alliance **with Hakuhodo DY Media Partners**

Capital and Business Alliance with Hakuhodo DY Media Partners

On November 22, 2019, with the aim of enhancing collaboration in the field of online advertising for brand advertisers mainly in the app marketing area, we entered into a capital and business alliance agreement with Hakuhodo DY Media Partners.

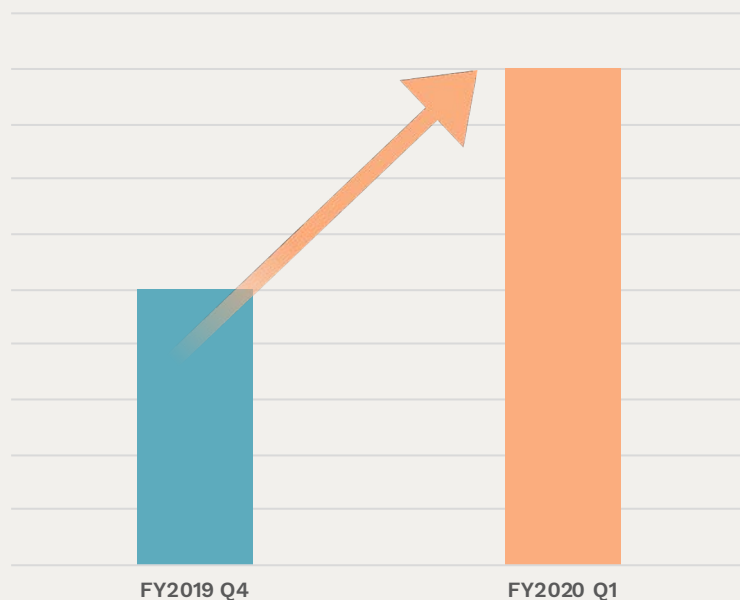


**We will increase our market share by
jointly offering high-level service.**

Progress of Capital and Business Alliance

first quarter

Number of Clients from Alliance with Hakuhodo DY Group




Number of clients approximately doubled.

From July 2020, strengthen structure to maximize effects



Set up dedicated team to offer even higher value and efficient promotions to clients.



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
んがの初めて

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 July 31, 2020, and a variety of factors may cause the statements to differ from actual results.

SUPPLEMENTARY MATERIALS

3.

Chapter 3 : **Supplementary materials**

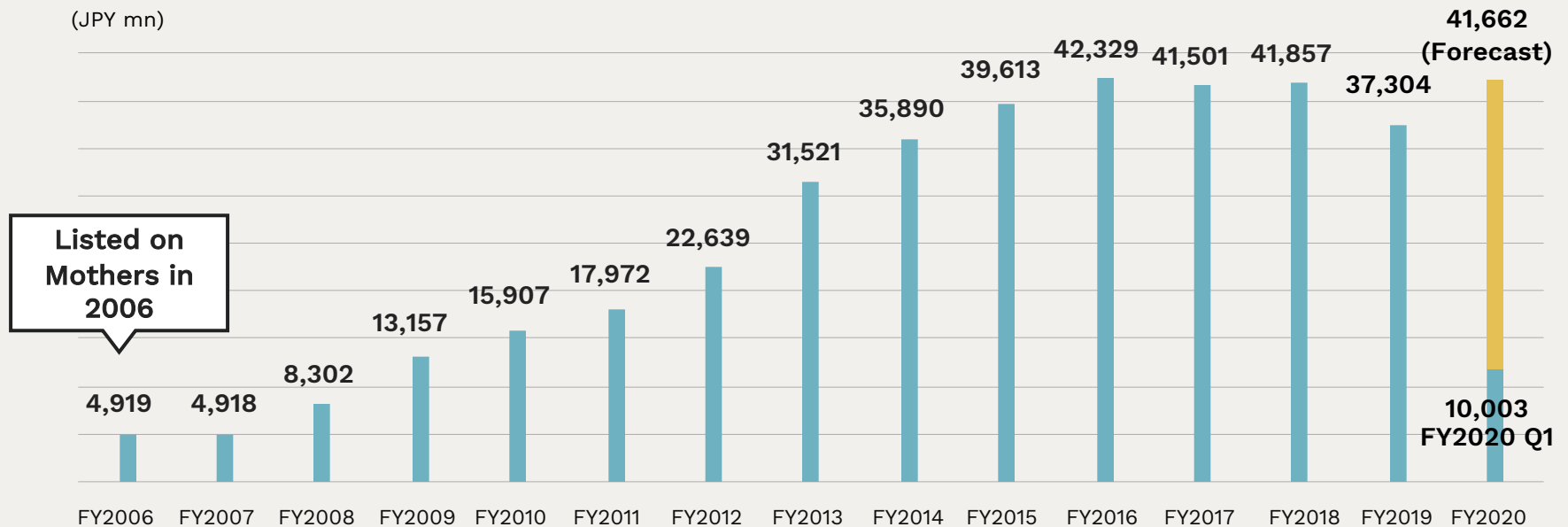
Consolidated Trend of Sales

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

**Launch and expansion
of smartphone
advertising business**

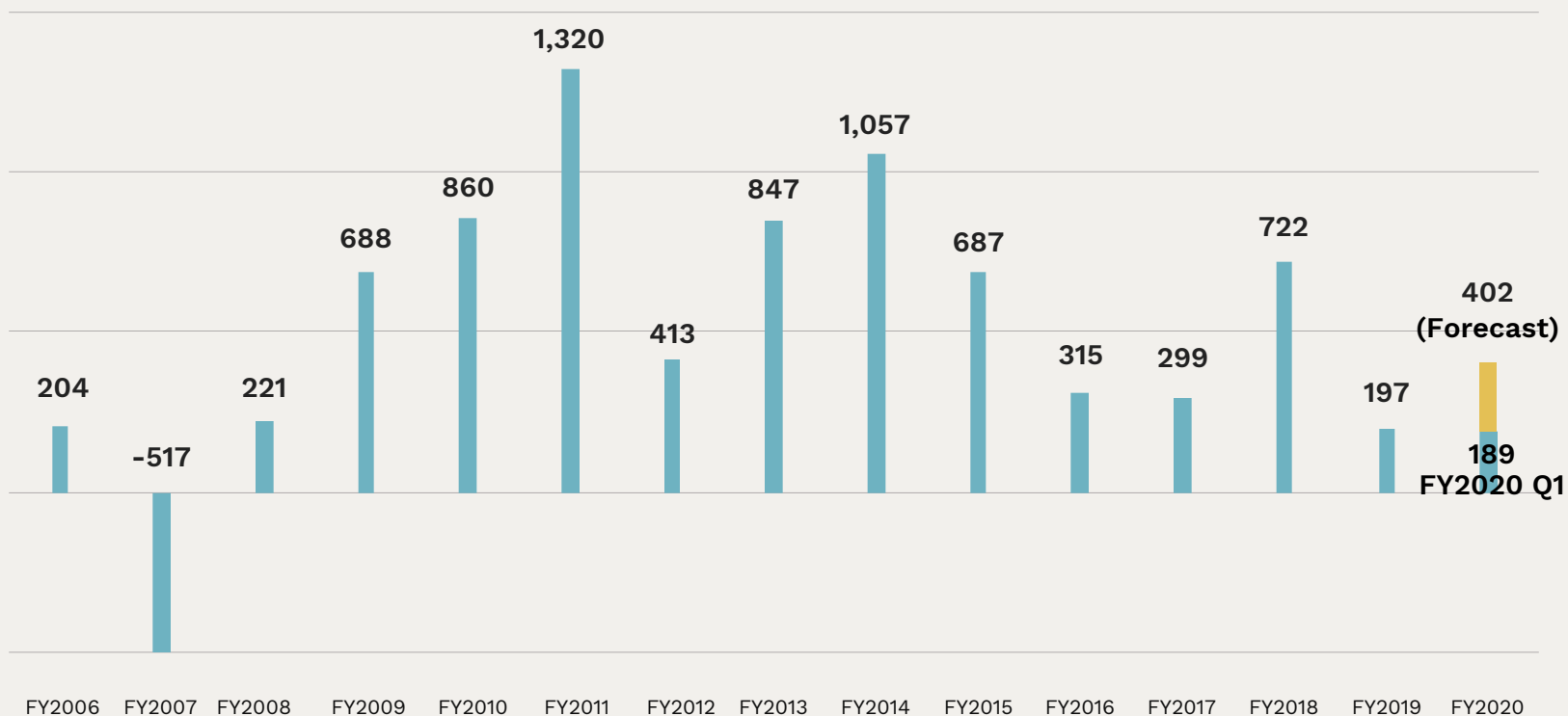
**Focus on
overseas
business**

**Focus on new
products**

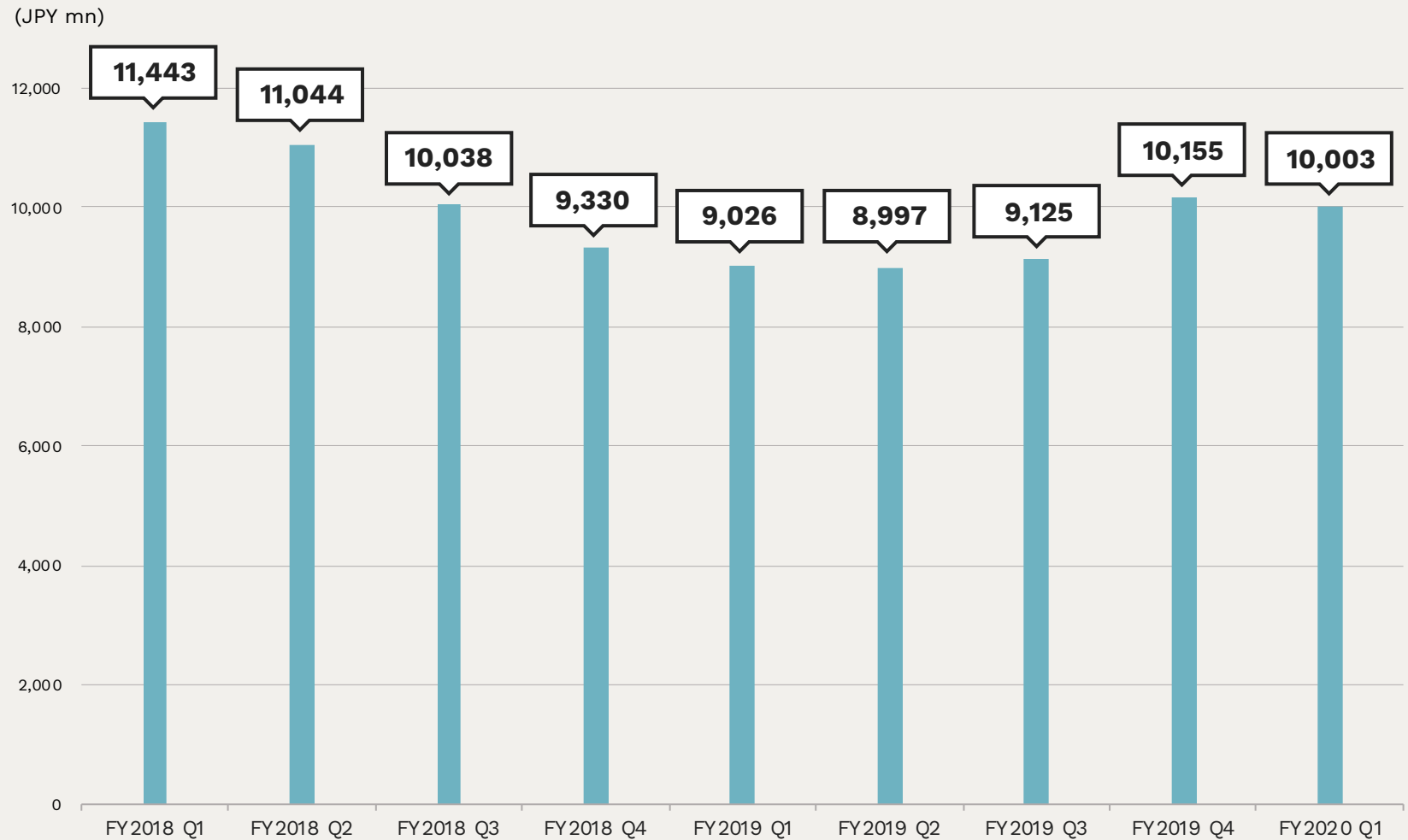


Consolidated Trend of Operating Profit

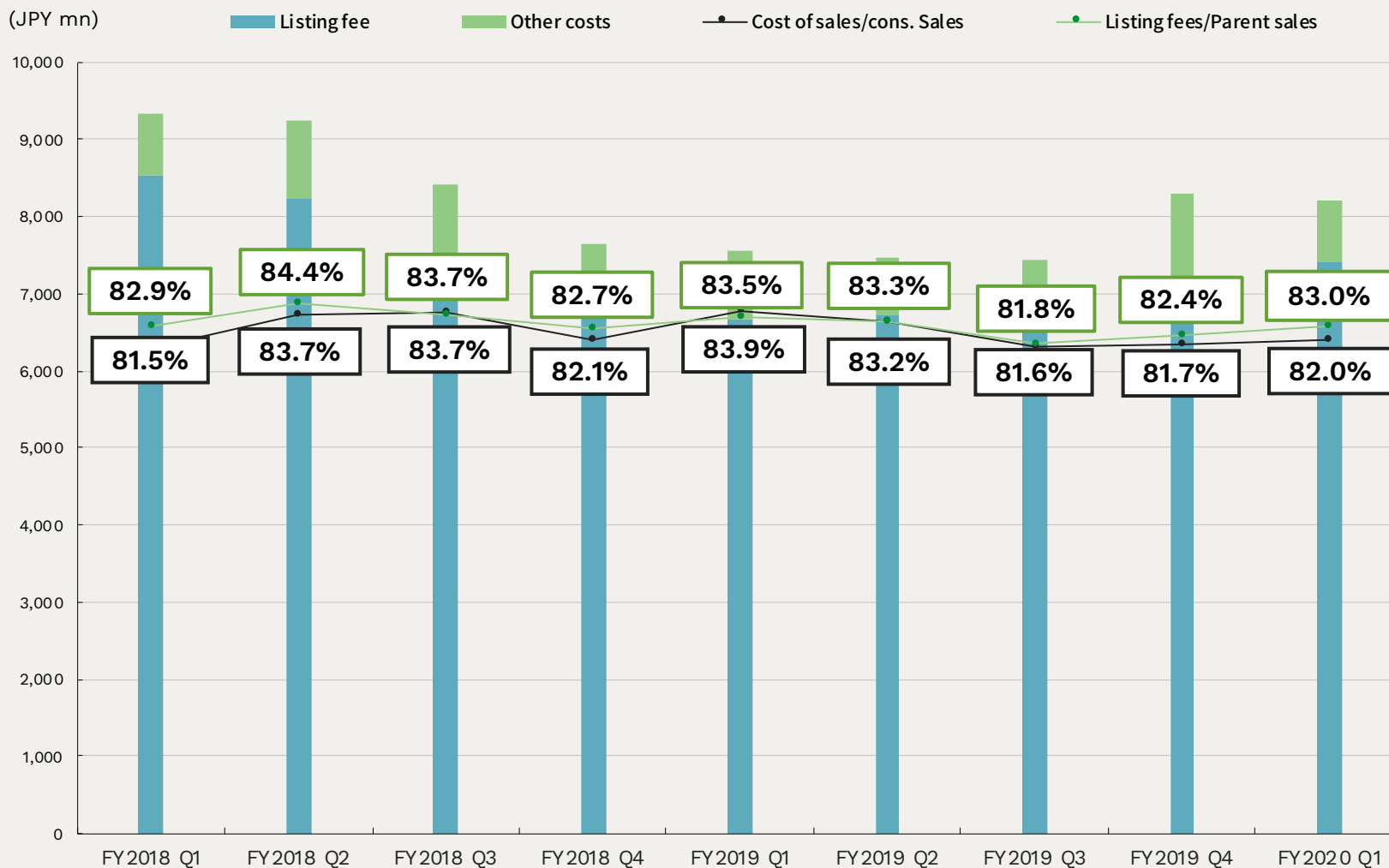
(JPY mn)



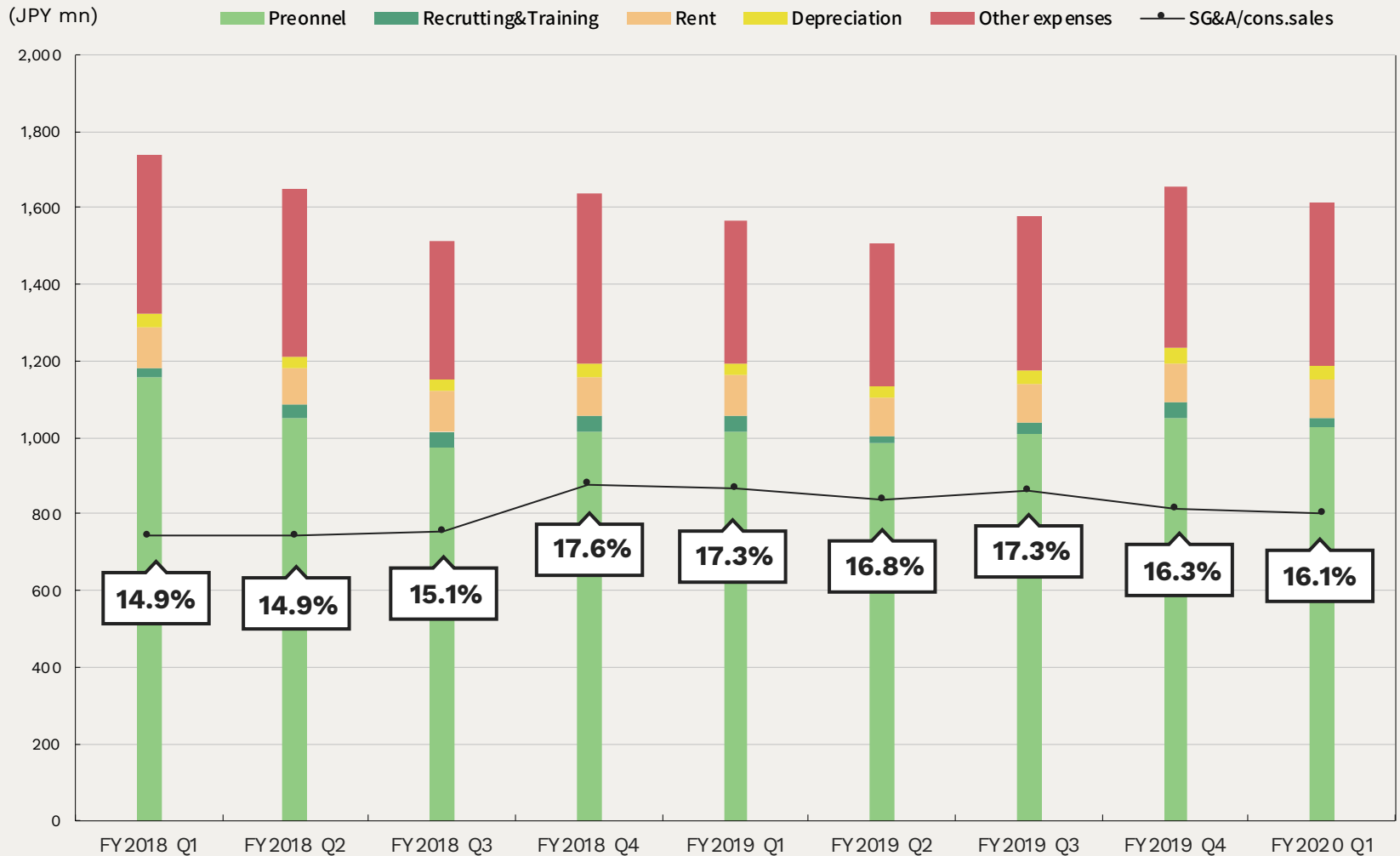
Quarterly Change in Consolidated Sales



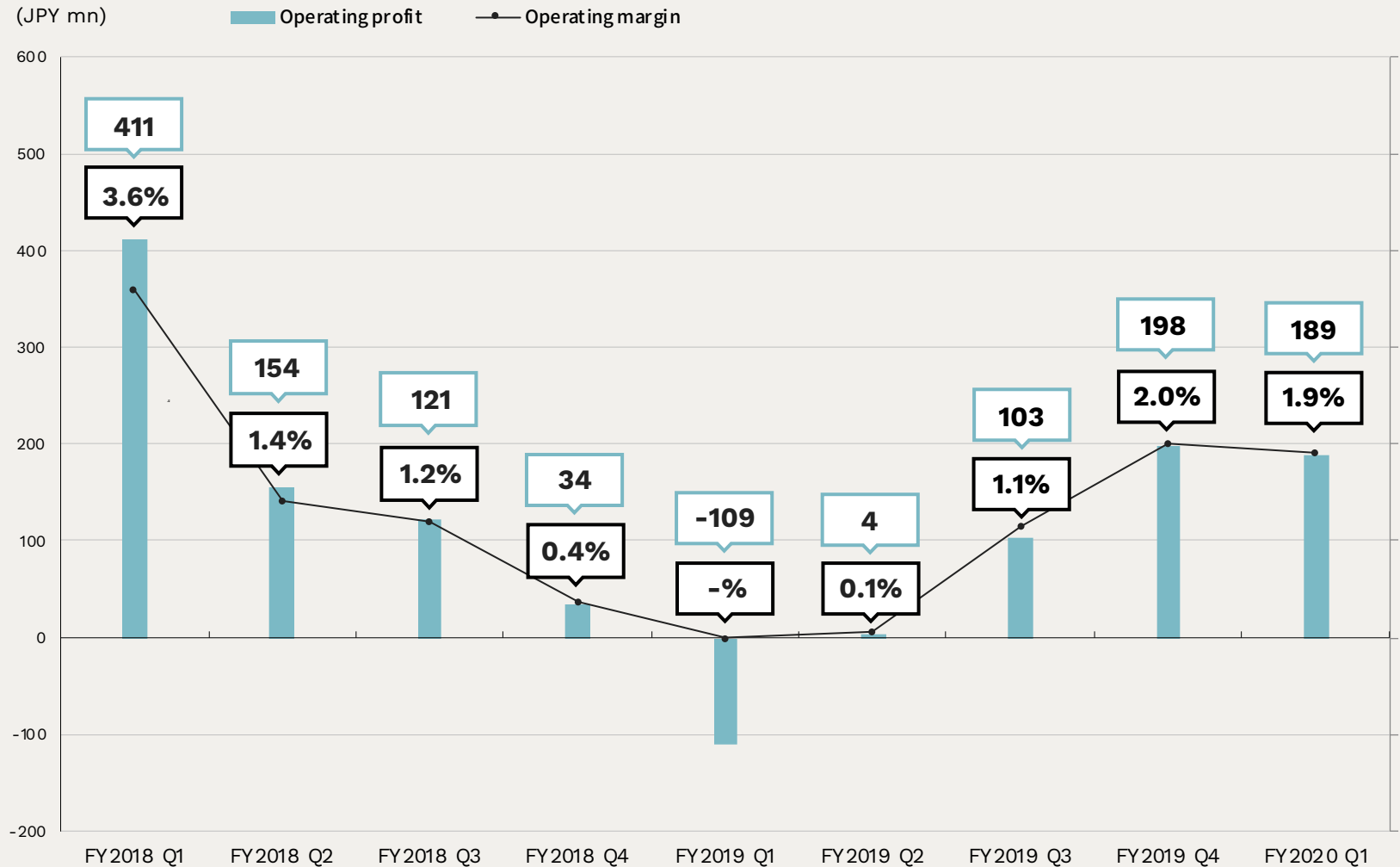
Quarterly Change in Consolidated Cost of Sales



Quarterly Change in Consolidated SG&A Expenses



Quarterly Change in Consolidated Operating Profit

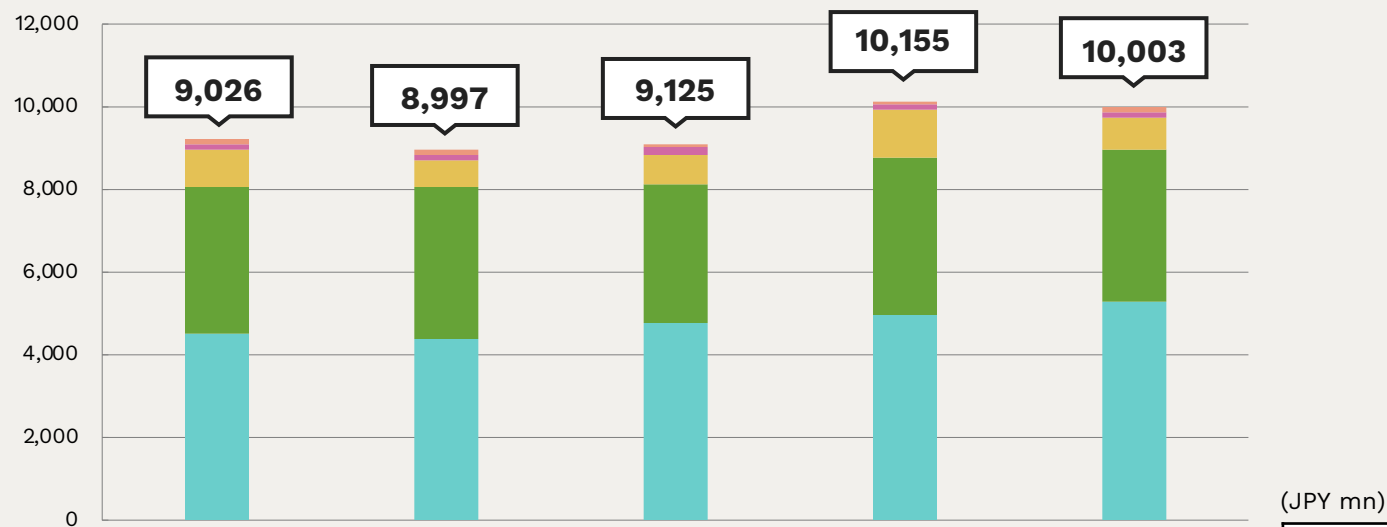


Consolidated Balance Sheet (QoQ)

(JPY mn)

	FY2020 Q1	FY2019 Q4	Change (JPY mn)	Change (%)
Current assets	16,392	16,348	+44	+0.3%
(Cash and deposits)	10,800	9,727	+1,072	+11.0%
Non-current assets	2,745	2,638	+107	+4.1%
Total assets	19,137	18,986	+151	+0.8%
Current liabilities	6,379	6,390	-11	-0.2%
Non-current liabilities	185	147	+38	+26.0%
Total liabilities	6,565	6,537	+27	+0.4%
Net assets	12,572	12,448	+124	+1.0%

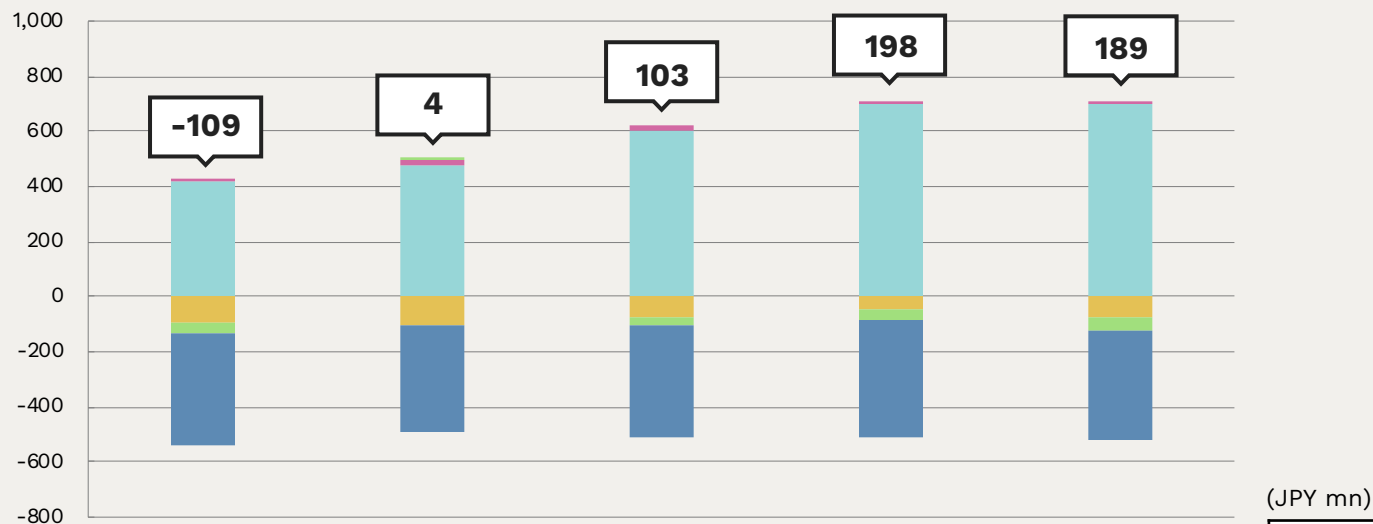
Quarterly Breakdown of Consolidated Sales by Segment



						QoQ	
						Change	Change(%)
Smartphone	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1	+349	+7.0%
PC	4,525	4,396	4,765	4,957	5,306	-155	-4.1%
Overseas	3,567	3,670	3,379	3,784	3,629	-352	-30.2%
Media contents	705	624	704	1,167	814	-16	-9.9%
Other	150	156	153	162	146	+23	+28.8%
Total	78	148	122	82	106	-151	-1.5%

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

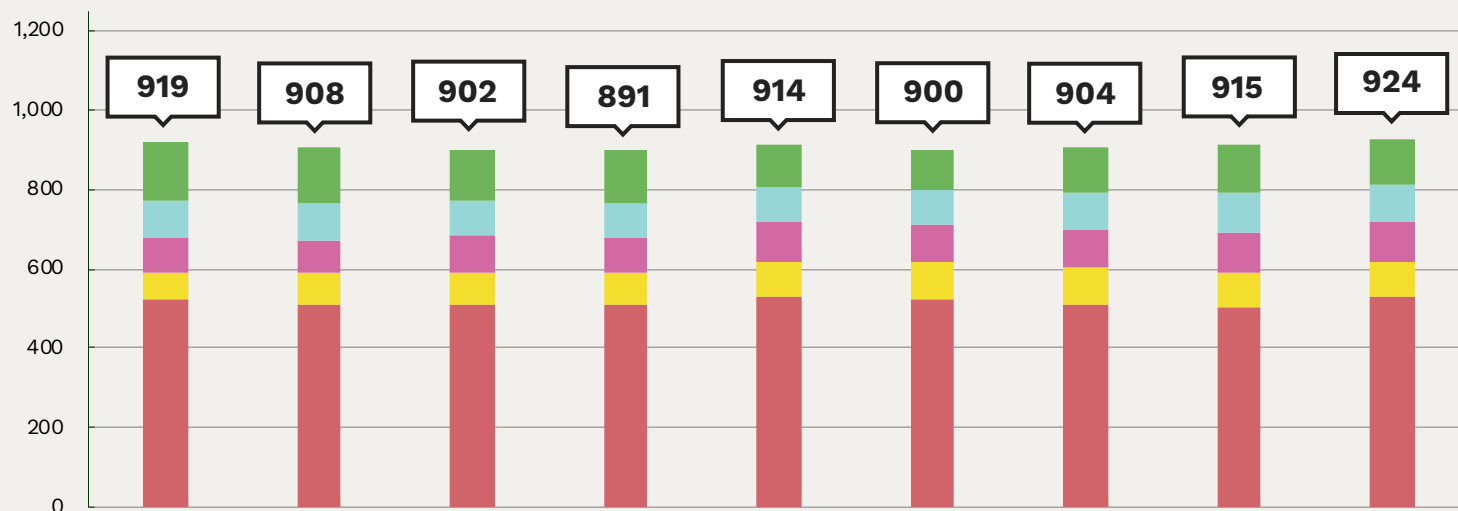
Quarterly Breakdown of Consolidated Sales by Segment



	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1	QoQ	
						Change	Change(%)
Smartphone	416	480	605	699	697	-2	-0.4%
PC	-94	-100	-79	-50	-77	-26	—
Overseas	15	15	14	10	11	0	+4.5%
Media contents	-41	1	-21	-38	-49	-10	—
Other	-405	-393	-414	-423	-392	+30	—
Total	-109	4	103	198	189	-9	-4.5%

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

Quarterly Change in Group Employees



(Persons)		FY2018 Q1	FY2018 Q2	FY2018 Q3	FY2018 Q4	FY2019 Q1	FY2019 Q2	FY2019 Q3	FY2019 Q4	FY2020 Q1
■	ADW Japan	521	512	509	510	533	521	512	506	533
■	ADW China	72	80	80	78	84	95	91	88	82
■	Domestic subsidiaries	84	82	93	90	102	99	96	100	102
■	Overseas subsidiaries (excluding China)	98	91	91	90	85	87	92	96	98
■	Temporary workers, part-time employees	144	143	129	123	110	98	113	125	109
Total		919	908	902	891	914	900	904	915	924

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 June 2020)
Net sales	JPY 37,304 mn	(FY2019, Consolidated basis)
Employees <small>* including temporary workers</small>	924 (for the entire group)	(As of end of June 2020)