Business Results for the First Half of the Year Ending March 2011 (FY2011)

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October 15, 2010

ゲンダイエージェンシー株式会社
GENDAI AGENCY Inc.
http://www.gendai-a.co.jp/ JASDAQ:2411

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1H FY2011 Income Statement (Consolidated)

(millions of yen)

	1H FY2011	% of total	1H FY2010	% of total	YoY comparison
Net sales	**10,001**	**100.0%**	10,465	100.0%	**95.6%**
Operating income	**975**	**9.7%**	1,268	12.1%	**76.9%**
Ordinary income	**983**	**9.8%**	1,267	12.1%	**77.6%**
Net income	**538**	**5.4%**	638	6.1%	**84.3%**

- The environment facing pachinko parlor operators was relatively stable and changed little throughout the fiscal first half.
- Against this backdrop, the Group strived to further expand market share by providing value-added services and improving productivity in its mainstay advertising and used machine sales intermediary business.
- In the used machine sales intermediary business, however, far fewer used pachinko machines were traded than in typical years. In this environment, cost cutting and our various efforts to stimulate demand did not fully compensate for the drop in transaction volume caused by the market slowdown. As a result, net sales for the first half came to ¥10,001 million (down 4.4% vs. 1H FY2010) , operating income came to ¥983 million (down 22.4% vs. 1H FY2010) and net income came to ¥538 million (down 15.7% vs. 1H FY2010) .

Breakdown by Business Segment

1H FY2011 (millions of yen)

	Advertising Gendai Agency Inc.	Used Machine Sales Intermediary Value Quest Co., Ltd.	Real Estate Land Support Inc.	Other Businesses	Eliminations/ corporated	Consolidated
Net sales	9,582	337	82	-	-	10,001
Segment income	1,344	(144)	38	-	(263)	975

Change versus 1H FY2010 (millions of yen)

	Advertising Gendai Agency Inc.	Used Machine Sales Intermediary Value Quest Co., Ltd.	Real Estate Land Support Inc.	Other Businesses	Eliminations/ corporated	Consolidated
Net sales	+35	(474)	+4	(27)	-	(464)
Segment income	(6)	(323)	+2	+43	(9)	(293)

- Although our mainstay advertising business achieved revenue growth, the used machine sales intermediary business struggled. Consolidated net sales declined by ¥464 million as a result. Segment income also declined, down ¥293 million, impacted heavily by the used machine sales intermediary business's revenue decline.

Advertising

Gendai Agency Inc.

1H FY2011 Income Statement (Advertising)

(millions of yen)

Advertising	1H FY2011	1H FY2010	YoY comparison
Net sales	9,582	9,547	100.4%
Operating expenses	8,238	8,197	100.5%
Segment income	1,344	1,350	99.6%

- Demand in the pachinko parlor advertising market was largely on par with typical years. No significant advertising demand spikes occurred for either new store openings or machine replacements.

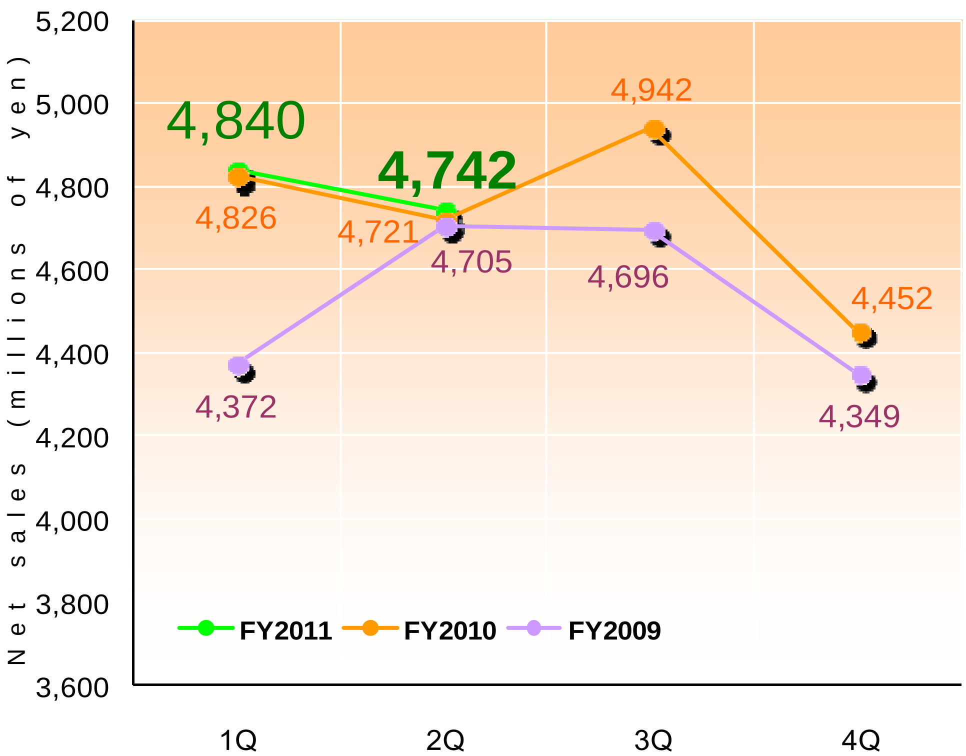
- Measures Implemented in the Advertising Business
  (1) Strengthened sales efforts in the aim of newly acquiring major clients in untapped areas and thereby increasing market share.
  (2) Expanded service lineup for TV advertising and online advertising for both PCs and mobile devices.

- As a result of these efforts, net sales for the first half came to ¥9,582 million (up 0.4% vs. 1H FY2010). Segment income, however, slipped to ¥1,344 million (down 0.4% vs. 1H FY2010), partly reflecting lower gross margins primarily due to changes in our sales mix.

Quarterly Sales Trends (Advertising)

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
FY2011	**4,840**	**4,742**	**-**	**-**	
FY2010	4,826	4,721	4,942	4,452	18,942
FY2009	4,372	4,705	4,696	4,349	18,123

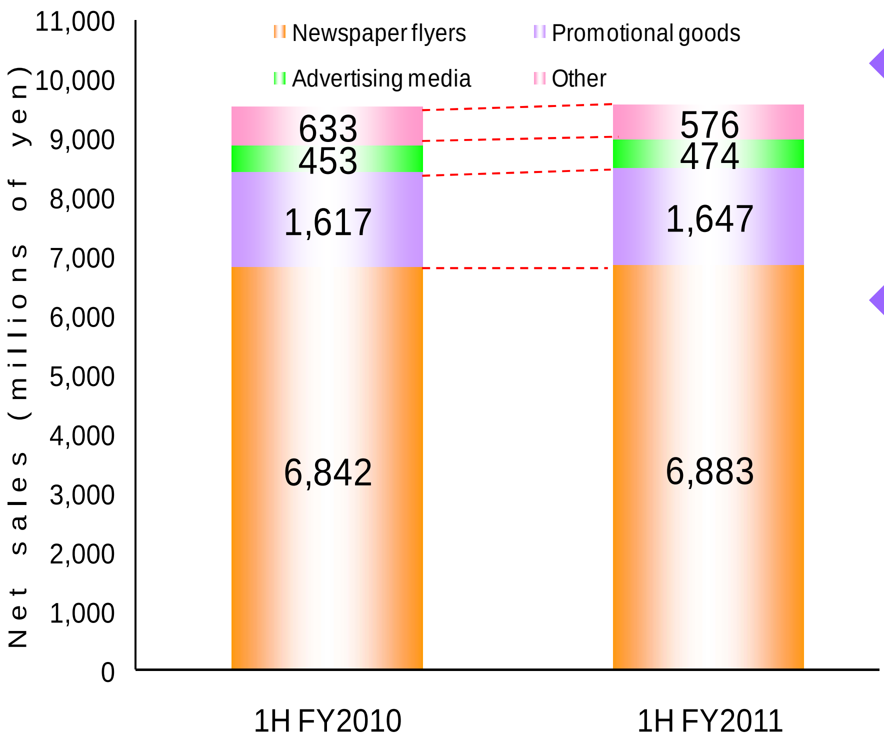


- Although demand for advertising for new parlor openings decreased and some pachinko parlors cut advertising budget in 1H, we stepped up sales efforts to win new clients and achieved year-on-year growth.

Sales Breakdown (Advertising)

(millions of yen)

		1H FY2011	% of total	1H FY2010	% of total	YoY comparison
Total sales	Newspaper flyers	**6,883**	**71.8%**	6,842	71.7%	100.6%
	Promotional goods	**1,647**	**17.2%**	1,617	16.9%	101.9%
	Advertising media	**474**	**4.9%**	453	4.7%	104.6%
	Other	**576**	**6.0%**	633	6.6%	91.0%
		9,582	**100.0%**	9,547	100.0%	100.4%



- Sales of advertising media rose 4.6% vs. 1H FY2010 on the back of rising orders for TV commercials.
- Sales from the Other category declined 9.0% vs. 1H FY2010 owing to a decline in demand for interior and exterior decoration related to new parlor openings.

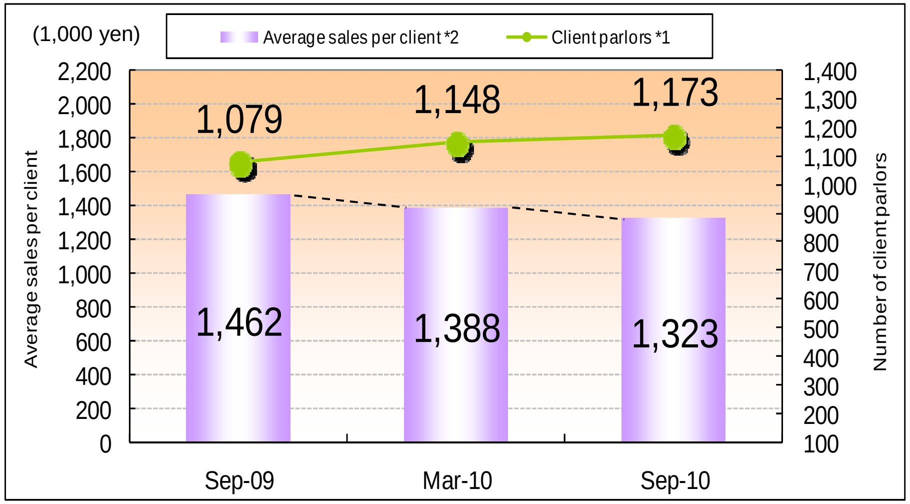
Clients (Advertising)

Average sales per client and number of client parlors

- Number of clients grew by 94 vs. end-Sept. 2009. Many newly acquired clients are large corporations. Sales per client declined, however, partly reflecting clients' advertising budget cuts.

Active clients	Sep-09	Mar-10	**Sep-10**
Client parlors *1	1,079	1,148	**1,173**
Average sales per client (1,000 yen) *2	1,462	1,388	**1,323**

1. "Client parlors" refer to clients with more than 50,000 yen in monthly transactions
2. Sales figures are monthly

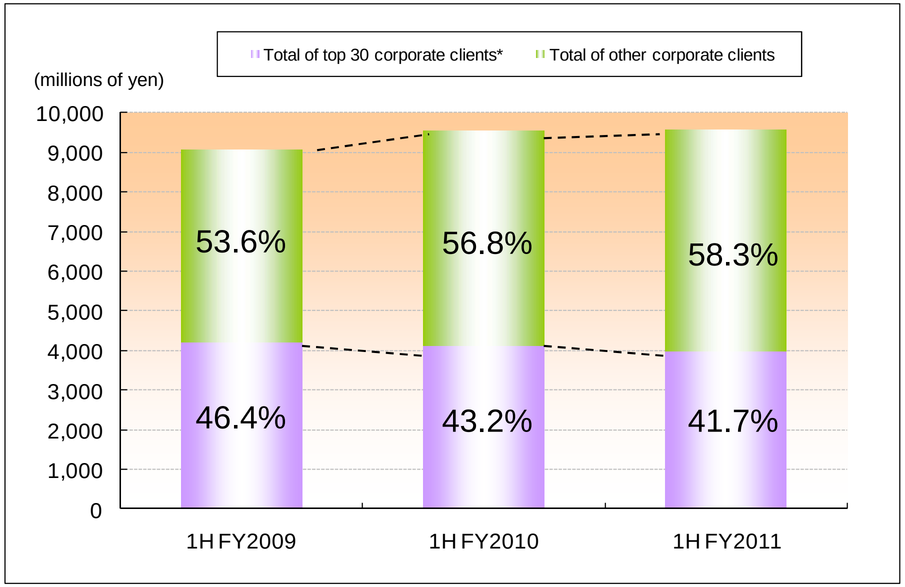


Customer composition

- The relative share of sales from clients other than our top 30 clients rose owing to the acquisition of new clients, but our top 30 clients still accounted for over 40% of net sales. Large corporations thus still account for a considerable portion of our sales.

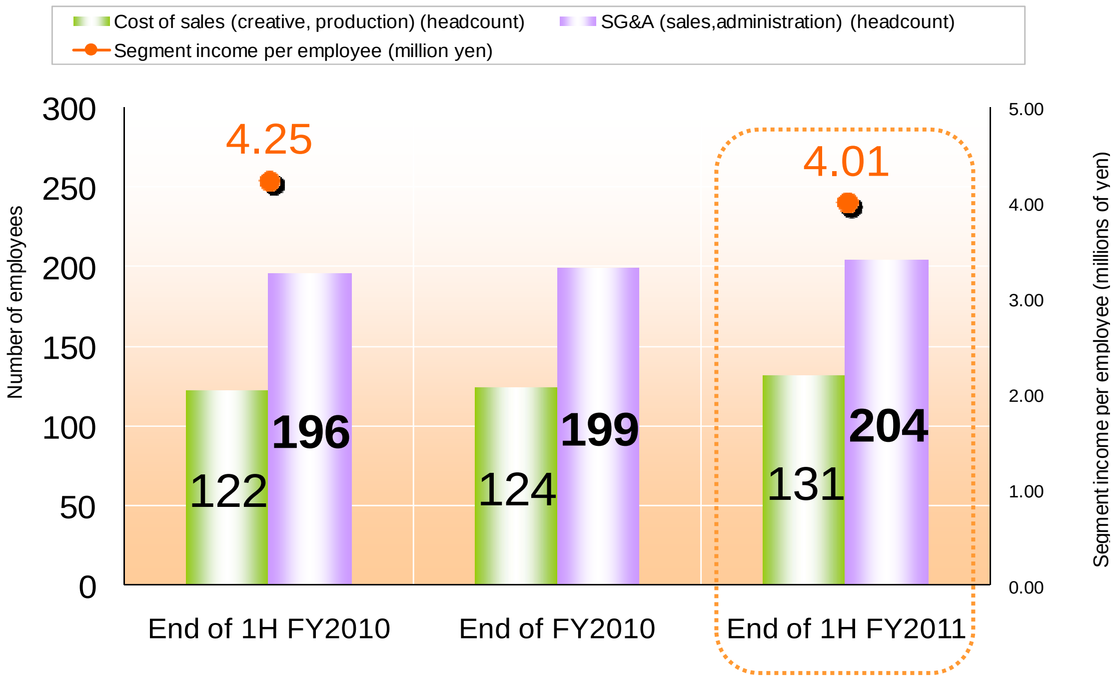
Active clients	1H FY2009	1H FY2010	**1H FY2011**
Total of top 30 corporate clients*	46.4%	43.2%	**41.7%**
Total of other corporate clients	53.6%	56.8%	**58.3%**
Total	100.0%	100.0%	**100.0%**

*Our 30 largest clients by sales



Employees (Advertising)

	End of 1H FY2010	End of FY2010	End of 1H FY2011
Cost of sales (creative, production) (headcount)	122	124	131
SG&A (sales,administration) (headcount)	196	199	204
Subtotal for advertising (headcount)	**318**	**323**	**335**
Segment income per employee (million yen)	**4.25**		**4.01**



- Gendai Agency actively hired personnel, including nine new college graduates. As a result, employee headcount increased by 17 from the end 1H FY2010.
- The increase in workforce was partially responsible for a decrease of 240,000 yen (vs. 1H FY2010) in segment income per employee.

Used Machine Sales Intermediary Business

Value Quest Co., Ltd.

1H FY2011 Income Statement (Used Machine Sales Intermediary)

(millions of yen)

Used Machine Sales Intermediary	1H FY2011	1H FY2010	YoY comparison (%)
Net sales	337	811	41.6%
Operating expense	481	632	76.1%
Segment income (loss)	(144)	179	-

◆ Changes to regulations on used pachinko machine trading, which came into effect in June 2010, increased clerical and administrative burdens by, for example, lengthening the time that used machines being relocated spend in storage and increasing application paperwork. This resulted in temporary backpedaling in used machine trading. Moreover, far fewer used machines were traded than in typical years owing to a slowdown in new machine launches.

◆ Measures Implemented in the Used Machine Sales Intermediary Business:

(1) Measures aimed at increasing value-added generated by VQnet, a membership-based used-machine information service.

- Redesign of our inventory management system, VQ Inventory, for greater convenience.
- Improved transaction processes to speed intermediary activities (e.g., we added transaction functionality that completes sale and purchase transactions in real-time).
- Launched VQ Exclusive Transport, a low-cost amusement machine transport service.

(2) Engaged in stringent cost management aimed at achieving an earnings structure that will yield positive profits even in adverse market conditions.

◆ These measures, however, did not fully stave off the impact of a substantial fall in used pachinko machine trading. As a result, number of machines traded fell to 40,000 (down 61.2% vs. 1H FY2010), net sales were ¥337 million (down 58.4%), and after depreciation (¥70 million), we booked a segment loss of ¥144 million (whereas the segment earned income of ¥179 million for 1H FY2010).

By the end of 1H, we completed cost reductions focusing on fixed costs to achieve an earnings structure that will yield positive profits even on low net sales. We expect benefits of the cost reduction efforts to start to materialize in 3Q.

Cost-cutting Measures Implemented in the Used Machine Sales Intermediary Business

(millions of yen)

	1H FY2011	3 -4Q (Forecast)	Full-year forecasts
Net sales	337	303	640
Operating expense (ex. Depreciation)	411	329	740
Amortization of goodwill	70	70	140
Segment income (loss)	(144)	(96)	(240)

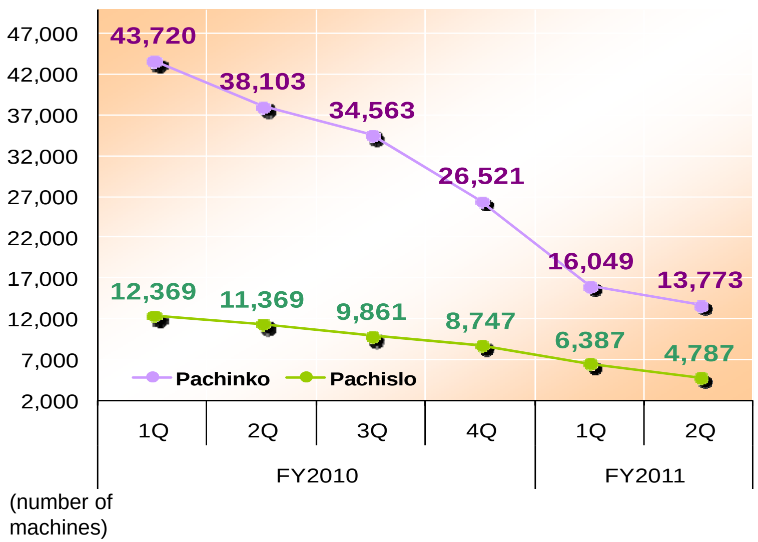
- Assuming breakeven monthly segment sales of ¥50 million, we are cutting costs by curtailing fixed costs, particularly personnel expenses, to achieve an earnings structure that will yield positive profits even on low net sales.

Quarterly Trends in Machine Sales and Commission per Unit (Used Machine Sales Intermediary)

(number of machines)

Number of machines	FY2010				FY2011	
	1Q	2Q	3Q	4Q	**1Q**	**2Q**
Pachinko	43,720	38,103	34,563	26,521	**16,049**	**13,773**
Pachislo	12,369	11,369	9,861	8,747	**6,387**	**4,787**
Total	56,089	49,472	44,424	35,268	**22,436**	**18,560**

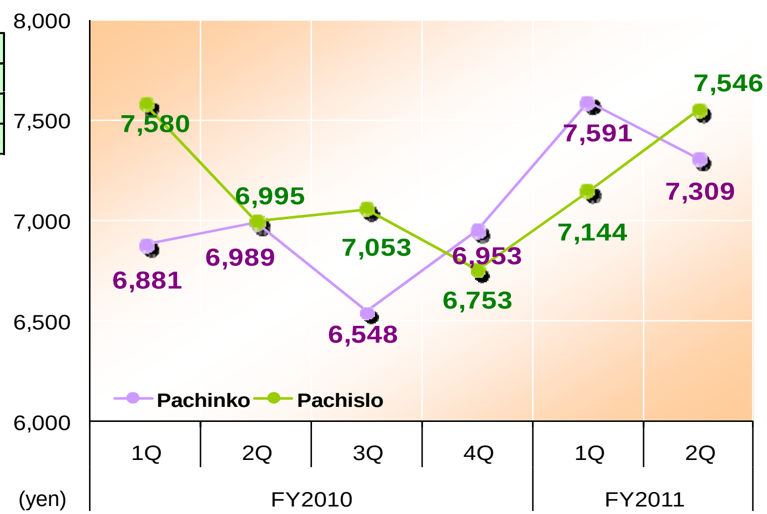
◆ Machine sales: In the fiscal first half, machine sales were extremely low owing to a slowdown in new machine launches and cut backs on used pachinko machine trading in the wake of changes to regulations on used machine trading that came into effect in June 2010.



(yen)

Per-unit commission	FY2010				FY2011	
	1Q	2Q	3Q	4Q	**1Q**	**2Q**
Pachinko	6,881	6,989	6,548	6,953	**7,591**	**7,309**
Pachislo	7,580	6,995	7,053	6,753	**7,144**	**7,546**

◆ Per-unit commission: Only a limited selection of pachinko and pachislo machine models were traded, and per-unit commissions increased as a result.



Real Estate Business
Land Support Inc.

1H FY2011 Income Statement (Real Estate Business)

(millions of yen)

Real Estate Business	1H FY2011	1H FY2010	YoY comparison
Net sales	82	78	105.1%
Operating expense	44	42	104.8%
Segment income	38	36	105.6%

◆ Adding to two existing lease contracts, the company signed five new leasing agency agreements (together worth 9 million yen) in 1H of FY2011.

As a result, net sales came to 82 million yen, up 5.1% versus 1H FY2010, and segment income came to 38 million yen, up 5.6%.

1H FY2011 Balance Sheet (Consolidated)

(millions of yen)

		End of FY2010 (A)	End of 1H FY2011 (B)	Change (B) - (A)	
Assets	Cash and cash equivalents	3,360	3,230	(129)	--- (1)
	Notes and accounts receivables	2,359	2,411	52	
	Other current assets	217	169	(48)	
	Tangible fixed assets	968	959	(9)	
	Intangible fixed assets	489	400	(89)	
	Investment and other assets	1,835	1,488	(347)	--- (2)
		9,230	**8,660**	**(570)**	
Total liabilities and net assets	Notes and accounts payables	1,380	1,410	30	
	Short-term borrowings	108	278	170	
	Accrued income taxes	550	472	(78)	
	Deposits from used machine business customers	561	225	(336)	--- (3)
	Other current liabilities	378	257	(121)	
	Long-term borrowings	862	1,128	266	
	Other fixed liabilities	15	43	28	
	Shareholders' equity	4,975	4,470	(505)	--- (4)
	Other	(2)	2	4	
	Minority interests	400	370	(30)	
		9,230	**8,660**	**(570)**	

(1) Decrease in cash and cash equivalents (down 129 million yen)
(2) Decrease in long-term deposits (down 300 million yen)
(3) Decrease in deposits from used machine business customers (down 336 million yen)
(4) Net assets totaled 4,843 million yen, down 528million yen versus the end of FY2010

Main factors:
1) 538 million yen in net income
2) 760 million yen for share repurchases (retired 17,730 shares of treasury stock on June 30)
3) 282 million yen in year-end dividend payments

1H FY2011 Cash Flow Statement (Consolidated)

(millions of yen)

	1H	
Net income before income taxes	**974**	
Goodwil amortization	70	
Depreciation and amortization	97	
Change in accounts receivable	(51)	
Change in inventories	7	
Changein accounts payable	29	
Change in deposits used machine business customers	(336)	--- (1)
Others	(60)	
Subtotal	**730**	
Income taxes paid	(476)	--- (2)
Others	(3)	
Cash flow from operations	**250**	
Payment for purchase of tangible/intangible fixed assets	(97)	
Others	325	--- (3)
Cash flow from investing activities	**227**	
Change in borrowings	436	--- (4)
Payment for purchase of treasury stock	(760)	--- (4)
Dividends paid	(282)	--- (4)
Cash flow from financing activities	**(607)**	
Change in cash and cash equivalents	**(129)**	
Cash and cash equivalents beginning of period	3,353	
Cash and cash equivalents end of period	**3,224**	

(1) Decline of 336 million yen in deposits from used machine business customers at Value Quest
(2) 476 million yen finalized income-tax payment on last fiscal year's earnings
(3) 300 million yen in proceeds from withdrawal of time deposits
(4) Proceeds of ¥500 million from long-term loans, offset by outlays including ¥282 million in year-end dividend payments, ¥114 million in long-term loan repayments, and ¥760 million for share repurchases

Revision to Earnings Forecasts for the Year Ending March 2011 (FY2011)

◆ In light of fiscal-first-half performance, we have revised our consolidated full-year forecasts for the year ending March 2011 (FY2011) as follows.

Revison to consolidated earnings for FY2011 (April 1, 2010 to March 31, 2011) (millions of yen)

	1H FY2011 (Results)	Previous forecasts (A) * Announced on April 16, 2010	Percent achieved	Revised forecasts (B)	Percent achieved	Change (B) - (A)	Change
Net sales	10,001	20,700	48.3%	**20,100**	49.8%	(600)	(2.9)%
Operating income	975	2,460	39.6%	**2,030**	48.0%	(430)	(17.5)%
Ordinary income	983	2,450	40.1%	**2,020**	48.7%	(430)	(17.6)%
Net income	538	1,300	41.4%	**1,100**	48.9%	(200)	(15.4)%

Reason for revision

The Group's mainstay Advertising Business enjoyed largely robust performance. The Used Machine Sales Intermediary Business, however, underperformed relative to typical years owing to a confluence of factors including a market slump due to regulatory changes, a slowdown in new machine launches, and lower machine replacement costs. We expect its performance to remain subdued through the fiscal second half.

As a result, we expect the Used Machine Sales Intermediary Business segment to book net sales of ¥640 million (down ¥600 million from the previous forecast of ¥1,240 million). We expect the segment to book a net loss of ¥240 million (down ¥430 million from the previous forecast of a net profit of ¥190 million), mainly because the expected ¥170 million reduction in SG&A expenses (to be achieved through cost cutting efforts focused on personnel expenses) is unlikely to be sufficient to offset the projected decline in commissions.

Earnings forecast for the Used Machine Sales Intermediary Business (April 1, 2010 to March 31, 2011) (millions of yen)

	Previous forecasts (A) * Announced on April 16, 2010	Revised forecasts (B)	Change (B) - (A)
Net sales	1,240	640	(600)
Segment income (loss)	190	(240)	(430)

As a result, the Group expects full-year consolidated net sales of ¥20,100 million, down ¥600 million from the previous forecast, and consolidated operating income of ¥2,030 million, down ¥430 million from the previous forecast. The Group expects ordinary income of ¥2,020 million in the wake of operating income's ¥430 million downward revision. After adjusting for the decrease in income taxes on ordinary income and the decrease in minority interests, the Group expects full-year consolidated net income of ¥1,100 million, down ¥200 million from the previous forecast.

◆ The Gendai Agency Group's dividend policy targets a consolidated dividend payout ratio of 50%. We have not altered our full-year dividend forecast in response to our earnings forecast revisions.

These materials contain earnings forecasts and other forward-looking statements. All such forward-looking statements are based on information available to Gendai Agency Inc. as of the date of preparation of these materials and on certain other information that Gendai Agency Inc. believes to be reasonable. Actual business results and other outcomes may differ materially from those expressed or implied by forward-looking statements.

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