

Business Results for the First Half of the Year ending March 31, 2013 (FY2013)

C r e a t i v i t y

I n n o v a t i o n

S o l u t i o n

October 12, 2012



<http://www.gendai-a.co.jp> JASDAQ:2411

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1H FY2013 Income Statement (Consolidated)

(millions of yen)

	1H FY2013	% of total	1H FY2012	% of total	YoY comparison	1H FY2011*	Comparison with 1H FY2011
Net sales	9,014	100.0%	7,854	100.0%	114.8%	10,001	90.1%
Operating income	924	10.3%	663	8.4%	139.4%	975	94.8%
Ordinary income	926	10.3%	666	8.5%	139.1%	983	94.2%
Net income	585	6.5%	491	6.3%	119.2%	538	108.7%

*Reference: Figures for 1H FY2011, which was before the earthquake (Apr 1 – Sep 30, 2010)

- ◆ While the pachinko parlor industry continued to face tough business conditions due to the impact of falling consumer spending, there were some positive signs such as active efforts by major parlor operators to open new outlets.
- ◆ Against this backdrop, the Group worked to further expand the number of client parlors in a bid to expand sales share in its mainstay advertising business.
- ◆ As a result, **net sales for the first half totaled ¥9,014 million (up 14.8% year-on-year), operating income amounted to ¥924 million (up 39.4% year-on-year), and net income amounted to ¥585 million (up 19.2% year-on-year).**

Breakdown by Business Segment

1H FY2013

(millions of yen)

	Advertising	—	Real Estate	Adjustment	Consolidated
Net sales	8,941	—	72	—	9,014
Segment income	1,090	—	29	(194)	924

Change versus 1H FY2012

(millions of yen)

	Advertising	Used Machine Sales Intermediary <small>*Excluded from consolidation from Dec-end 2011</small>	Real Estate	Adjustment	Consolidated
Net sales	+1,393	(215)	(17)	—	+1,160
Segment income	+243	+30	(9)	(3)	+261

◆ **Net sales** for the first half **increased by ¥1,160 million** compared to the previous year which was significantly affected by the earthquake. **Segment income also rose ¥261 million.**



Advertising



1H FY2013 Income Statement (Advertising)

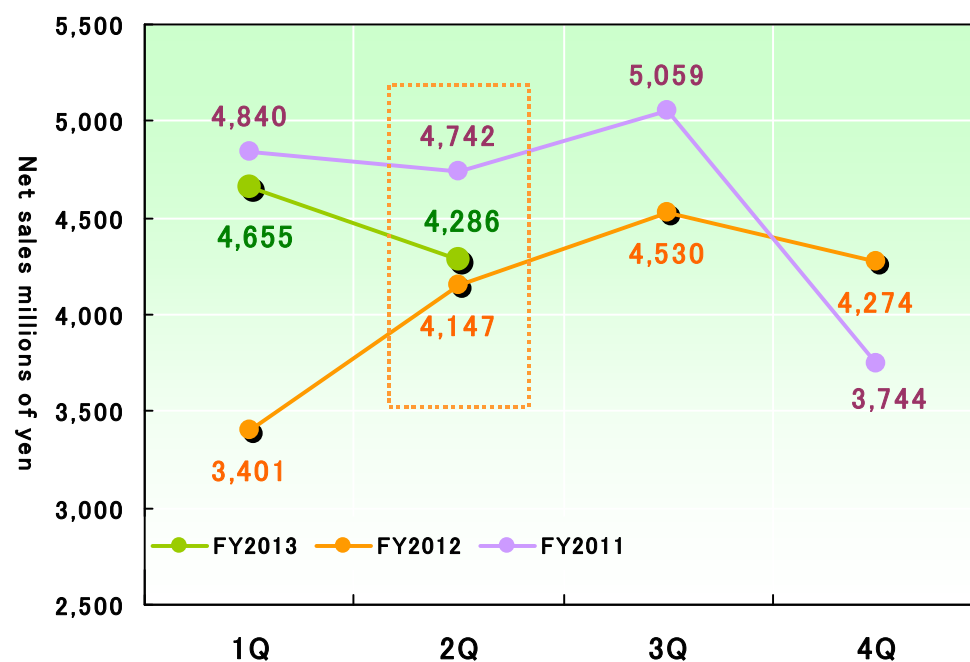
Advertising	(millions of yen)				
	1H FY2013	1H FY2012	YoY comparison	1H FY2011	Comparison with 1H FY2011
Net sales	8,941	7,548	118.4%	9,582	93.3%
Operating expense	7,851	6,701	117.2%	8,238	95.3%
Segment income	1,090	847	128.7%	1,344	81.1%

- ◆ Advertising demand in the pachinko parlor market, which had declined following the strengthening of event advertisement restrictions from August 2012, failed to recover significantly in the first half.
Further, ever since the National Police Agency Notice No. 114 “Ensuring Reasonableness in Pachinko Sales Advertising (Notice)” was issued on July 20, 2012, pachinko parlor operators began restricting advertisement placements while searching for ways to differentiate themselves from their competitors and reformulate their strategy for attracting customers to reflect the recommendations of the notice.
- ◆ Against this backdrop, the Group strengthened sales activities to boost the number of client parlors.
 - Enhanced the quality and volume of advertisement proposals to pachinko parlor operators planning to open new outlets and boosted the share of advertisements promoting new parlors.
 - Actively pursued new approaches for winning orders from potential customers by strengthening service proposals as well as proposals based on media other than print advertisement, which used to be the mainstay.
- ◆ As a result, **net sales** of the Advertising Business **increased 18.4% to ¥8,941 million year-on-year**. **Segment income rose 28.7% to ¥1,090 million**, as margin increased reflecting the rise in net sales.

Quarterly Sales Trends (Advertising)

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
FY2013	4,655	4,286	–	–	–
FY2012	3,401	4,147	4,530	4,274	16,352
FY2011	4,840	4,742	5,059	3,744	18,386



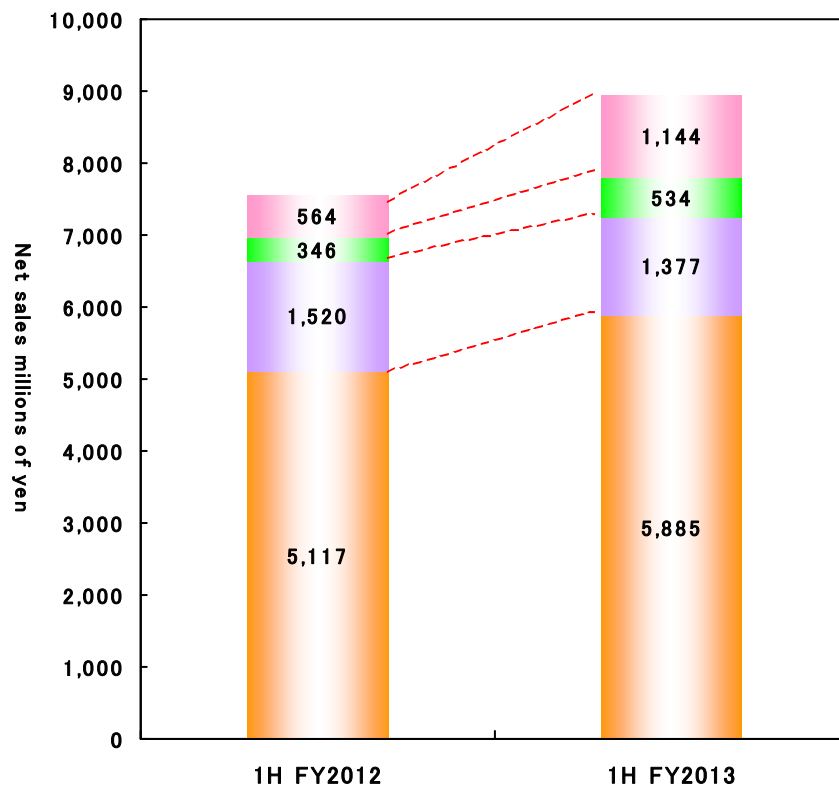
◆ While sales have improved substantially compared with FY2012, which was significantly affected by the earthquake, they are still down compared to FY2011 partly due to the impact of event advertising restrictions.

Sales Breakdown (Advertising)

(millions of yen)

		2Q FY2013	% of total	2Q FY2012	% of total	YoY comparison
Total sales	Newspaper flyers	5,885	65.8%	5,117	67.8%	115.0%
	Promotional goods	1,377	15.4%	1,520	20.1%	90.6%
	Advertising media	534	6.0%	346	4.6%	154.3%
	Other	1,144	12.8%	564	7.5%	202.8%
		8,941	100.0%	7,548	100.0%	118.4%

■ Newspaper flyers ■ Promotional goods ■ Advertising media ■ Other



- ◆ Promotional goods declined 9.4% year on year partly due to the impact of event advertising restrictions. Sales in Other rose 102.8% year on year partly due to the impact of increased Web and image-related sales.

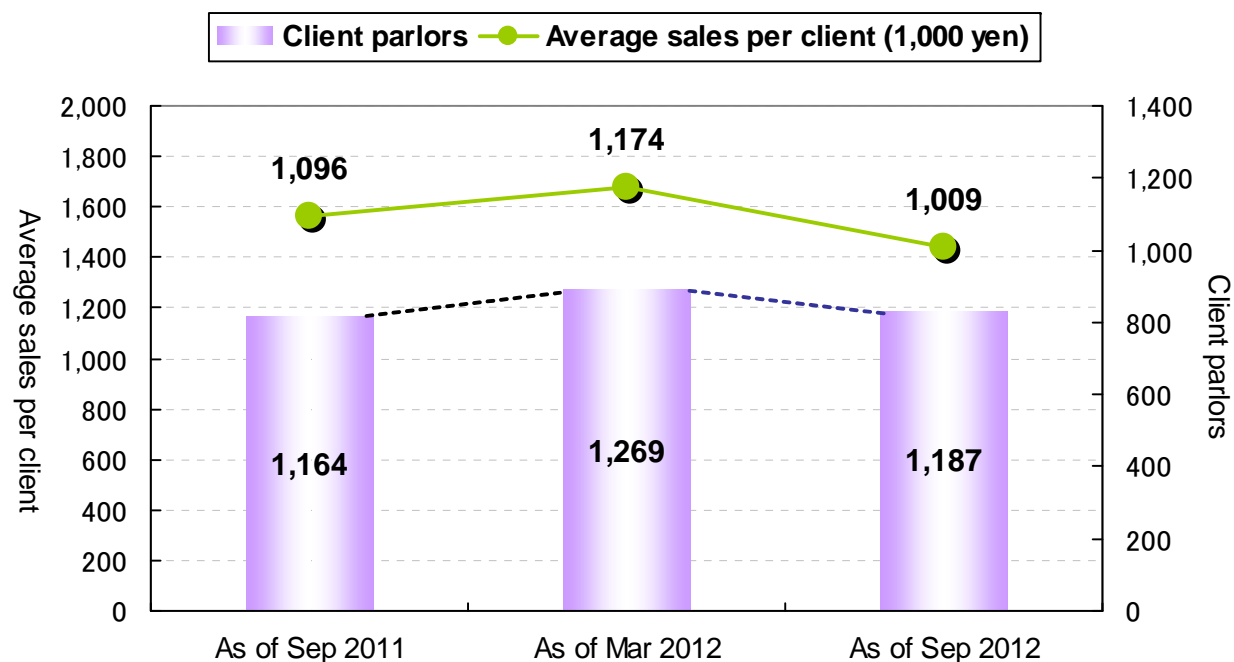
Clients (Advertising)

Average sales per client and number of client parlors

◆ While the number of clients increased (up 23) compared with September 2011, which was significantly affected by the earthquake, average sales per client declined compared with the same month a year earlier due to the impact of event advertising restrictions.

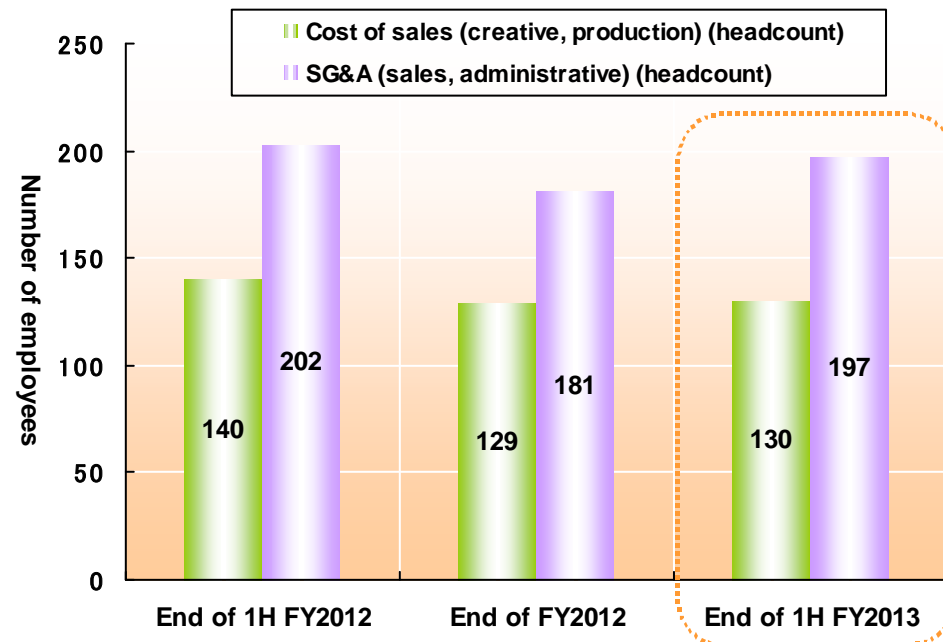
Active clients	As of Sep 2011	As of Mar 2012	As of Sep 2012
Average sales per client (1,000 yen) *1	1,096	1,174	1,009
Client parlors *2	1,164	1,269	1,187

*1 Sales figures are monthly *2 Client parlors refer to customers with more than ¥50,000 in monthly transactions



Employees (Advertising)

	End of 1H FY2012	End of FY2012	End of 1H FY2013
Cost of sales (creative, production) (headcount)	140	129	130
SG&A (sales, administration) (headcount)	202	181	197
Subtotal for advertising (headcount)	342	310	327



- ◆ The number of employees increased by 17 compared with the end of FY2012, as we hired sales staff including two new graduates.



Real Estate Business



1H FY2013 Income Statement (Real Estate)

(millions of yen)

Real Estate Business	1H FY2013	1H FY2012	YoY comparison
Net sales	72	89	81.1%
Operating expense	43	51	84.3%
Segment income	29	38	76.3%

- ◆ No new agreements were added in the first half to the two existing, ongoing lease contracts.

As a result, net sales totaled ¥72 million, down 18.9% from the same period a year earlier, and segment income amounted to ¥29 million, down 23.7% compared with the same period a year earlier.

1H FY2012 Balance Sheet (Consolidated)

	End of FY2012 (A)	End of 2Q FY2013 (B)	Change (B)−(A)
Cash and cash equivalents	3,696	3,338	(358)
Notes and accounts receivables	2,410	2,194	(216)
Other current assets	224	131	(93)
Tangible fixed assets	859	856	(3)
Intangible fixed assets	82	78	(4)
Investment and other assets	641	1,020	379
Total assets	7,916	7,619	(296)
Notes and accounts payables	1,305	1,131	(174)
Short-term borrowings	528	448	(80)
Accrued income taxes	23	386	363
Other current liabilities	292	235	(57)
Long-term borrowings	284	620	336
Other fixed liabilities	28	28	0
Total liabilities	2,463	2,851	387
Shareholders' equity	5,452	4,769	(683)
Other	—	(1)	(1)
Total net assets	5,452	4,768	(683)
Total liabilities and net assets	7,916	7,619	(296)

···(1) Cash and cash equivalents declined due to purchase of treasury stock and dividend payments

···(2) Impact of new borrowings

···(3) Decline of ¥683 million year on year
Major factors
 ·¥585 million in net income
 ·¥896 million for purchase of treasury stock
 ·¥372 million for year-end dividend payment

1H FY2013 Cash Flow Statement (Consolidated)

(millions of yen)

	1H	
Net income before income taxes	932	
Depreciation and amortization	36	
Change in accounts receivable	217	
Change in inventories	(1)	
Change in accounts payable	(174)	
Other	(9)	
Subtotal	1,001	
Income taxes paid	(27)	
Income taxes refund	134	... (1) ¥134 million revenue from refund of income taxes on earnings for the previous fiscal year
Other	(5)	
Cash flow from operations	1,104	
Payment for purchase of tangible/intangible fixed assets	(48)	
Payment for purchase of investment securities	(430)	... (2) ¥430 million in payment for acquisition of investment securities
Sale and redemption of investment securities	24	
Other	5	
Cash flow from investing activities	(450)	... (3) Primarily ¥600 million revenue from long-term borrowings and ¥200 million in repayment of short-term borrowings
Change in borrowings	256	
Payment for purchase of treasury stock	(896)	... (4) ¥896 million in payment for purchase of treasury stock (April 19, 2012)
Dividends paid	(372)	... (5) ¥372 million in the year-end dividend payment for earnings in the previous fiscal year
Cash flow from financing activities	(1,012)	
Change in cash and cash equivalents	(358)	
Cash and cash equivalents at beginning of the period	3,690	
Cash and cash equivalents at end of the period	3,331	

FY2013 Consolidated Earnings Forecast and Progress Toward the Forecast

(millions of yen)

	1H FY2013 results	1H FY2013 forecast	Percent achieved	FY2013 full-year forecast *Announced on April 13, 2012	Percent achieved
Net sales	9,014	8,500	106.0%	17,500	51.5%
Operating income	924	850	108.7%	1,800	51.3%
Ordinary income	926	850	108.9%	1,800	51.4%
Net income	585	500	117.0%	1,070	54.7%

◆ Consolidated earnings in the first half outperformed the forecast.

Nevertheless, ever since the National Police Agency Notice No. 114 “Ensuring Reasonableness in Pachinko Sales Advertising (Notice)” was issued on July 20 this year, pachinko halls, the Group’s main clients, have been searching for ways to differentiate themselves from their competitors and reformulate their strategy for attracting customers to reflect the recommendations of the notice.

For this reason, we expect advertising demand in the second half to remain unstable. At the same time, we have made no changes to our previously announced full-year consolidated earnings forecasts for the current fiscal year due to the difficulty in calculating the impact of these developments.

Establishment of Hong Kong Subsidiary

- ◆ The Board of Directors Meeting on September 14, 2012 passed a resolution to establish a wholly owned subsidiary in Hong Kong.

- ◆ Reason for establishment of the subsidiary

The Hong Kong subsidiary was established as an overseas base to grasp the trends in markets such as advertising, amusement and restaurants in China and Southeast Asian countries and to explore opportunities to enter these markets in order to achieve sustained growth for the Group.

- ◆ Profile of the company established

(1) Name: Gendai Agency HK Limited (技達有限公司 in Chinese)

(2) Business: Study, research and business investment primarily in the advertising, amusement and restaurant business areas in Asia

(3) Location: Hong Kong Special Administrative Region, People's Republic of China

(4) Representative: Masataka Yamamoto (Gendai Agency Inc. CEO)


(5) Capital: HK\$ 5 million (approx. 50 million yen)

(6) Established: September 21, 2012

(7) Investment ratio: 100% by Gendai Agency

- ◆ Impact on business performance

The impact on business performance for FY2013 of establishing the Hong Kong subsidiary is expected to be minimal.



These materials, which contain earnings forecasts and other forward-looking statements, are based on information available to the Company at the time of preparation and on certain other information the Company believes to be reasonable. Actual business results may differ materially from those expressed or implied herein due to a range of factors.

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