

Business Results for the First Half of the Fiscal Year Ending March 31, 2017(FY2017)

October 14, 2016



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(millions of yen)

| | 1H FY2017 | % of total | 1H FY2016 | % of total | YoY comparison |
|------------------|-----------|------------|-----------|------------|----------------|
| Net Sales | 8,056 | 100.0% | 8,294 | 100.0% | 97.1% |
| Operating income | 628 | 7.8% | 519 | 6.3% | 120.9% |
| Ordinary income | 594 | 7.4% | 525 | 6.3% | 113.2% |
| Net income | 397 | 4.9% | 333 | 4.0% | 119.2% |

External environment>

- ❑ Decline in frequency at which users play pachinko and their spending = profits of pachinko parlor industry continues to be under pressure
- ❑ While the number of new parlor openings shows a declining trend, acquisitions of peer parlor operators have been active = trend of industrial consolidation
- ❑ The issue of machine removal by the end of 2016 = concern over revenue outlook

The Group's approach>

- ✓ Sales expansion of Internet media, expansion of printing business for other industries = transformation of earnings structure
- ✓ Control over fixed costs to improve profitability

Result>

- ✓ While net sales declined 2.9% year on year, operating income increased 20.9%, ordinary income rose 13.2% and net income grew 19.2%, resulting in significant profit increases.

□ 1H FY2017

(millions of yen)

| | Advertising | Real Estate | Other | Adjustment | Consolidated |
|----------------|-------------|-------------|-------|------------|--------------|
| Net sales | 7,943 | 72 | 40 | - | 8,056 |
| Segment income | 775 | 35 | (6) | (174) | 628 |

□ Change versus 1H FY2016

(millions of yen)

| | Advertising | Real Estate | Other | Adjustment | Consolidated |
|----------------|-------------|-------------|-------|------------|--------------|
| Net sales | (237) | (5) | +4 | - | (238) |
| Segment income | +91 | +2 | +6 | +11 | +109 |

✓ Net sales of the Advertising business declined ¥237 million year on year and ¥238 million on a consolidated basis, as the trend of clients cutting back their advertising spending continued from FY2016 and there also was an impact of the G7 summit held in Ise-Shima in May. On the other hand, the segment income increased ¥109 million primarily due to the progress in the group-wide reduction in fixed costs compared with 1H FY2016.

(millions of yen)

| Advertising | 1H FY2017 | 1H FY2016 | YoY comparison |
|-------------------|-----------|-----------|----------------|
| Net sales | 7,943 | 8,180 | 97.1% |
| Operating expense | 7,168 | 7,496 | 95.6% |
| Segment income | 775 | 684 | 113.3% |

External environment>

- ❑ Trend of pachinko parlor operators cutting back advertising spending due to worsening profitability = the pachinko parlor advertising market is stagnant
- ❑ The Ise-Shima G7 summit held in May = one-month nationwide voluntary restriction on replacement with new machines

The Group's approach>

- ✓ Continued development of new major clients
- ✓ Strengthened sales of "Pachi 7" media and listing ads as well as printing business for other industries
- ✓ Controlled fixed costs through consolidation of sales offices, review of order process and streamlining

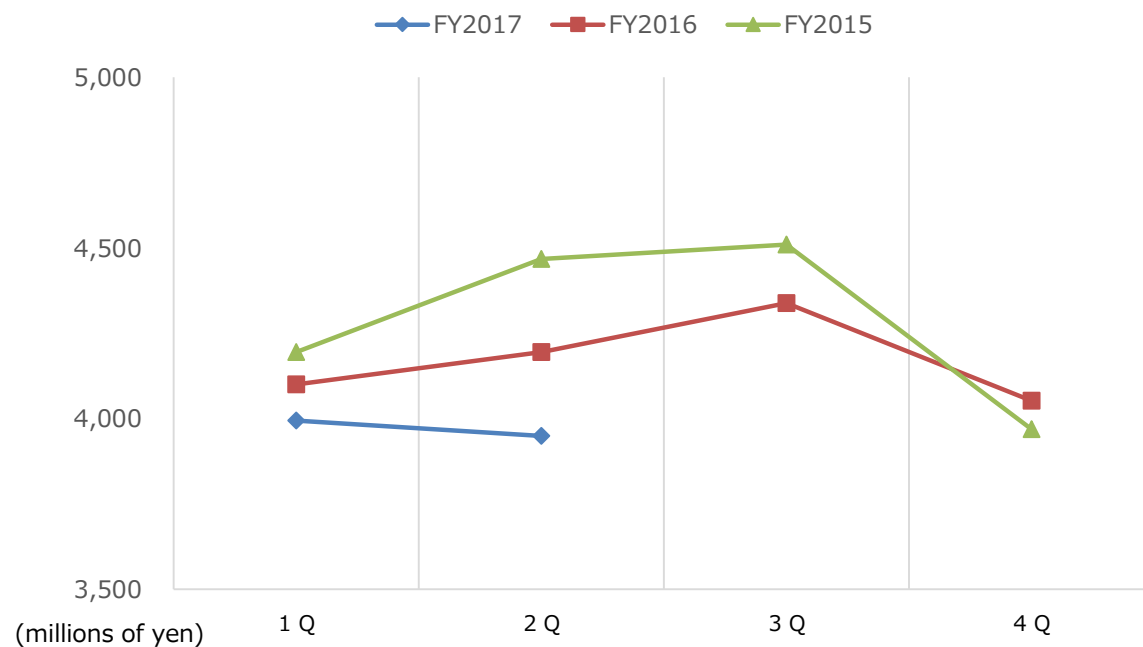
Result>

- ✓ We were able to limit the year-on-year decline in net sales to the minimum. Segment income rose 13.3%, as the impact of fixed cost reduction contributed.

Quarterly Sales Trends (Advertising)

(millions of yen)

| | 1Q | 2Q | 3Q | 4Q | Full year |
|--------|-------|-------|-------|-------|-----------|
| FY2017 | 3,994 | 3,949 | - | - | 7,943 |
| FY2016 | 4,100 | 4,194 | 4,338 | 4,052 | 16,684 |
| FY2015 | 4,194 | 4,467 | 4,509 | 3,968 | 17,138 |

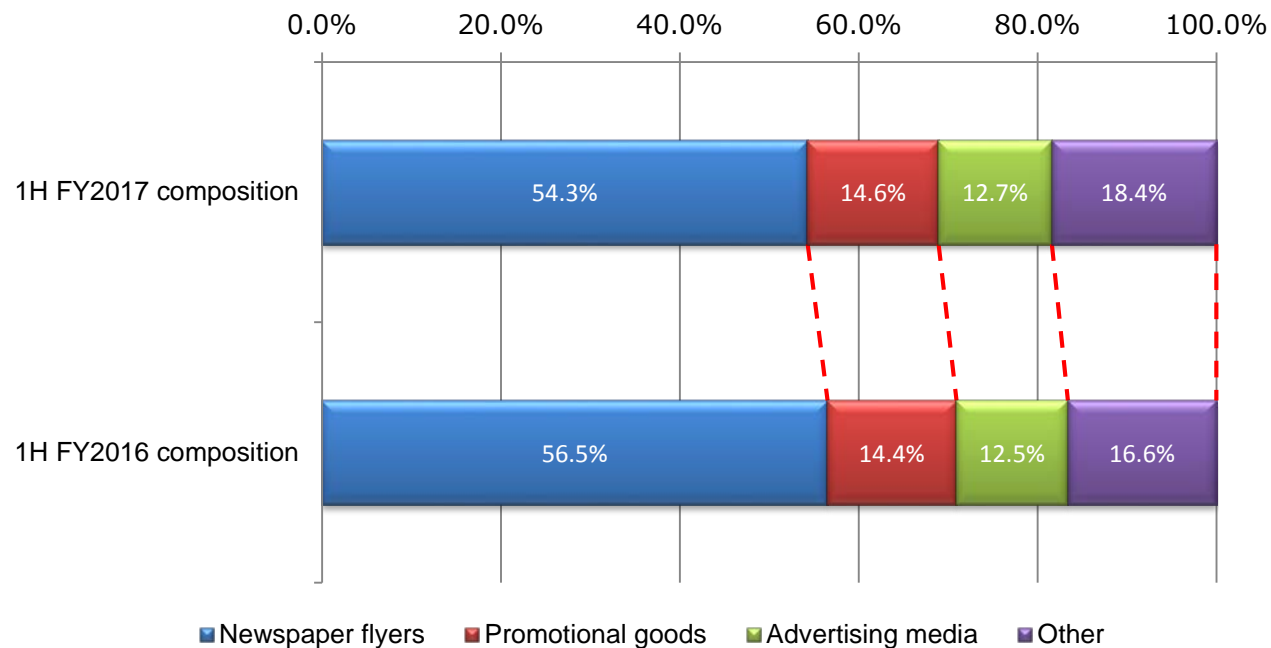


✓ Net sales of the Advertising Business in 2Q declined ¥245 million compared with the same period a year earlier. Orders for advertisement of new parlor openings remained sluggish continuing from FY2016 and orders were stagnant primarily due to major clients' cutting back their advertising spending.

Sales Breakdown (Advertising)

(millions of yen)

| | 1H FY2017 | % of total | 1H FY2016 | % of total | YoY comparison |
|-------------------|-----------|------------|-----------|------------|----------------|
| Newspaper flyers | 4,313 | 54.3% | 4,622 | 56.5% | 93.3% |
| Promotional goods | 1,161 | 14.6% | 1,179 | 14.4% | 98.5% |
| Advertising media | 1,005 | 12.7% | 1,019 | 12.5% | 98.6% |
| Other | 1,462 | 18.4% | 1,359 | 16.6% | 107.6% |
| Total net sales | 7,943 | 100.0% | 8,180 | 100.0% | 97.1% |



✓ The printing business contributed to sales of newspaper fliers, but they declined ¥309 million and its share in the business also fell 2.2 p.p. due to decrease in demand for replacement advertisements resulting from voluntary restriction on replacement with new machines.

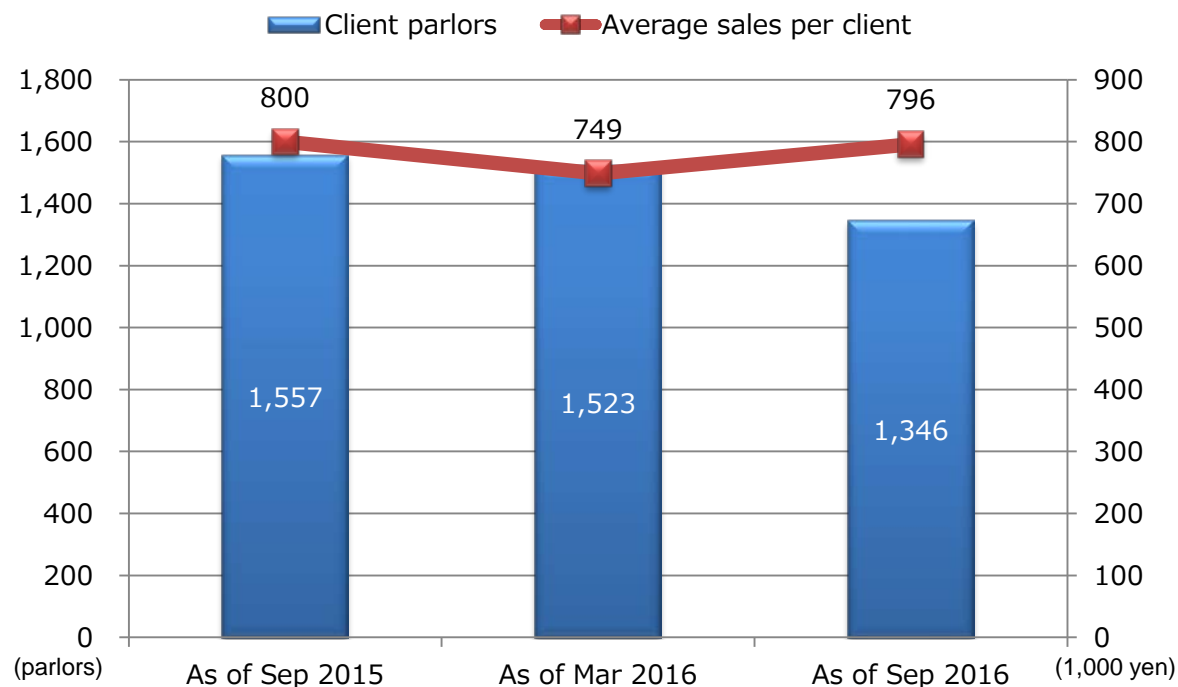
✓ Both sales and share of the Other category, which includes Internet advertisements, exceeded the levels of a year earlier.

Clients (Advertising)

- ✓ The number of client parlors in single month September declined 211 on year as a result of profit-conscious sales, and a temporary decline in business with major group corporate clients.
- ✓ Average sales per client have been roughly unchanged.

| Active clients | As of Sep 2015 | As of Mar 2016 | As of Sep 2016 |
|--|----------------|----------------|----------------|
| Client parlors ^{*1} | 1,557 | 1,523 | 1,346 |
| Average sales per client (1,000 yen) ^{*2} | 800 | 749 | 796 |

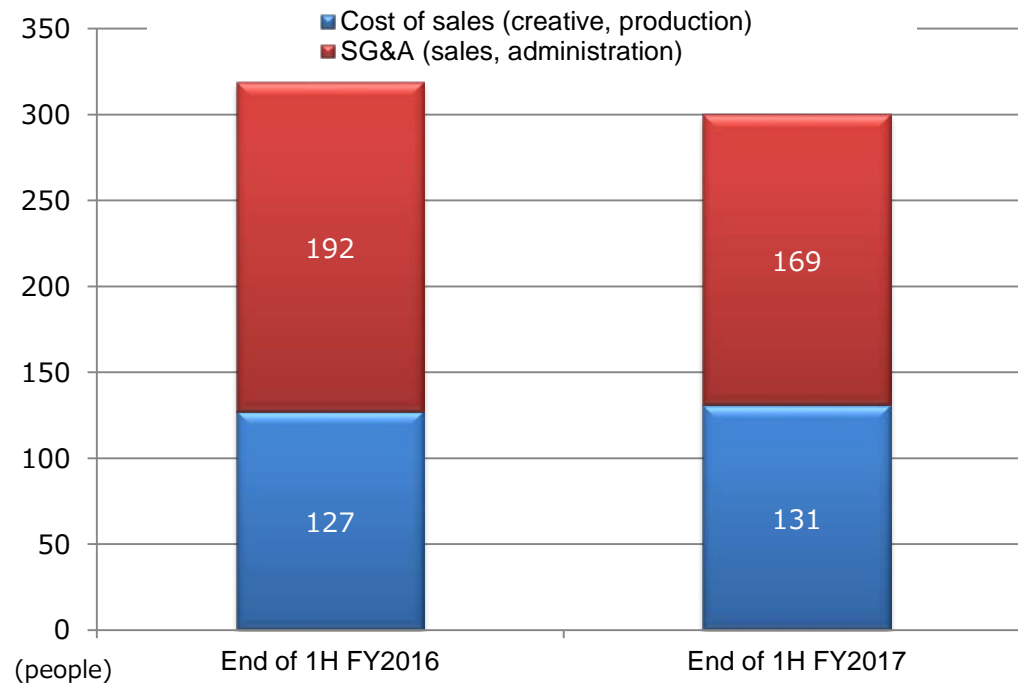
*1 Client parlors refer to customers with more than ¥50,000 in monthly transactions *2 Figures are on a single-month basis



Employees (Advertising)

(people)

| | End of 1H FY2016 | End of 1H FY2017 |
|--------------------------------------|------------------|------------------|
| Cost of sales (creative, production) | 127 | 131 |
| SG&A (sales, administration) | 192 | 169 |
| Subtotal for advertising | 319 | 300 |



✓ While three new graduates joined the company, the total number of employees declined 19 compared with the end of the first half of FY2016 as a result of consolidation of sales offices and various measures for improving operational efficiency.

(millions of yen)

| Real Estate | 1H FY2017 | 1H FY2016 | YoY comparison |
|-------------------|-----------|-----------|----------------|
| Net sales | 72 | 77 | 94.2% |
| Operating expense | 37 | 44 | 84.1% |
| Segment income | 35 | 33 | 104.0% |

✓ Apart from the two existing, ongoing leasing agreements, there was no new purchase and sale or brokerage project in the first half.

✓ As we promoted rationalization of the business operation, net sales came to ¥72 million, down 5.8% from the same period of FY2016, while segment income increased 4.0% to ¥35 million reflecting reduction in fixed costs.

1H FY2017 Balance Sheet (Consolidated)

(millions of yen)

| | End of FY2016 (A) | End of 1H FY2017 (B) | Change (B) – (A) |
|--|----------------------|-------------------------|---------------------|
| Cash and cash equivalents | 3,507 | 3,282 | (224) |
| Notes and accounts receivables | 2,289 | 1,979 | (310) |
| Other current assets | 333 | 250 | (83) |
| Tangible fixed assets | 946 | 950 | 4 |
| Intangible fixed assets | 123 | 106 | (17) |
| Investment and other assets | 827 | 938 | 111 |
| Total assets | 8,026 | 7,507 | (519) |
| Notes and accounts payables | 1,408 | 1,212 | (196) |
| Short-term borrowings (incl. long-term borrowings due within a year) | 290 | 240 | (50) |
| Accrued income taxes | 213 | 229 | 16 |
| Other current liabilities | 248 | 232 | (16) |
| Long-term borrowings | 500 | 430 | (70) |
| Other fixed liabilities | 18 | 21 | 3 |
| Total liabilities | 2,678 | 2,366 | (312) |
| Shareholders' equity | 5,317 | 5,133 | (184) |
| Other | 31 | 8 | (23) |
| Total net assets | 5,348 | 5,141 | (206) |
| Total liabilities and net assets | 8,026 | 7,507 | (519) |

(1) Decline due to payment of taxes, dividends and purchase of treasury stock

(2) Impact of decline in volume of business

(2) Impact of decline in volume of business

(3) -¥120 million in borrowings

(4) +¥397 million in net income
 -¥235 million in dividend payments
 -¥345 million for purchase of treasury stock

1H FY2017 Cash Flow Statement (Consolidated)

(millions of yen)

| | 1H FY2016 | 1H FY2017 |
|--|-----------|-----------|
| Net income before income taxes | 861 | 594 |
| Cash flow from operations | 848 | 643 |
| Cash flow from investing activities | (260) | (126) |
| Cash flow from financing activities | (631) | (700) |
| Cash and cash equivalents at end of the period | 3,513 | 3,287 |

✓ Cash and cash equivalents at the end of the first half declined ¥225 million to ¥3,287 million.

| | | |
|---|-------------|---|
| + Net income before income taxes | 594 | |
| + Depreciation and amortization | 50 | |
| + Decline in accounts receivable | 310 | |
| + Other | 85 | |
| | | – Decline in accounts payable 196 |
| | | – Income taxes paid 196 |
| | | – Other 6 |
| Cash flow from operations | +643 | |
| | | – Payment for purchase of investment securities 162 |
| | | – Other investment 77 |
| | | – Other 51 |
| + Proceeds from sales and redemption of investment securities | 150 | |
| + Other earnings | 16 | |
| | | Cash flow from investing activities – 126 |
| | | – Repayment of long-term loans payable 120 |
| | | – Payment for purchase of treasury stock 345 |
| | | – Dividends paid 235 |
| | | Cash flow from financing activities – 700 |

(millions of yen)

| | 1H FY2017 results | 1H FY2017 previous forecast | Percent achieved | FY2017 full-year forecast announced at term beginning | Percent achieved |
|------------------|-------------------|-----------------------------|------------------|---|------------------|
| Net sales | 8,056 | 7,600 | 106.0% | 14,600 | 55.2% |
| Operating income | 628 | 500 | 125.6% | 1,040 | 60.4% |
| Ordinary income | 594 | 500 | 118.8% | 1,040 | 57.1% |
| Net income | 397 | 330 | 120.3% | 700 | 56.7% |

Full-year consolidated forecast>

While the results for the first half have exceeded the upwardly revised forecast (announced on July 15, 2016), the removal of “machines whose performance may differ from the machines that have been inspected” is scheduled nation-wide with December-end 2016 as the deadline. Therefore, taking into account the uncertainties surrounding the mainstay pachinko parlor advertising business, the Group, as of now, has not revised the full-year forecast announced at the beginning of the term.

Result of Purchase of Treasury Stock

✓ Gendai Agency, at a Board of Directors Meeting held on June 10, 2016, adopted a resolution regarding purchase of treasury stock as part of the return to shareholders, and completed the acquisition as follows.

Resolution details (reference)

| | |
|--------------------------------------|--|
| (1) Type of shares to be purchased | Common stock of Gendai Agency |
| (2) Number of shares to be purchased | up to 700,000 shares (4.46% of the number of shares issued and outstanding [excluding treasury stock]) |
| (3) Total cost of purchase | up to 350,000,000 yen |
| (4) Purchase period | From June 13, 2016 to September 30, 2016 |



Treasury stock purchased in accordance with the above resolution

| | |
|--------------------------------|-----------------|
| (1) Number of shares purchased | 650,000 shares |
| (2) Cost of purchase | 345,067,600 yen |

Notification of Establishment of Subsidiary

✓ The Group, at a Board of Directors Meeting held on October 14, 2016, resolved to establish a subsidiary.

1. Background and purpose of the establishment of subsidiary> The Group's mainstay advertising business, catering to pachinko parlors, is in a tough business environment where orders have been gradually declining primarily due to controls on advertising spending by its clients, pachinko parlor operators. Against this backdrop, the Group recognizes the necessity to rapidly promote the continuous development and introduction of new services centered on online media in the existing pachinko parlor advertising business, development of a new business format in the pachinko industry and offering of advertising-related services to clients from other industries in order to achieve sustained growth. Taking the above recognition into account, the Group assessed that it needs a unit that primarily flexibly and swiftly promotes development of businesses and formats in new business areas, solutions to conversion projects of client parlors, and advertising-related services to other industries compatible with existing businesses, and resolved to establish a new subsidiary.

2. Overview of the new subsidiary>

| | |
|--------------------------------------|--|
| (1) Company name | Arc Inc. |
| (2) Location | 3-20-2, Nishi Shinjuku, Shinjuku, Tokyo |
| (3) Title and name of representative | Representative Director Tomoharu Kito (currently, director of GENDAI AGENCY, Inc.) |
| (4) Business | Study and development of new services and businesses |
| (5) Capitalization | 25 million yen |
| (6) Establishment | In November 2016 (planned) |
| (7) Settlement | March 31 |
| (8) Investment ratio | GENDAI AGENCY Inc.: 100% |

3. Schedule> Board of Directors resolution: October 14, 2016; Establishment of new company: In November 2016 (planned)

4. Outlook> The new company will be a consolidated subsidiary. The impact on the consolidated results for the current term is negligible.

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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