

# Business Results for the Fiscal Year Ended March 31, 2017

April 14, 2017



P3 Financial Highlights (Consolidated)

P4 FY2017 Income Statement (Consolidated)

P5 Breakdown by Business Segment

**Advertising Business**

P6 FY2017 Segment Income

P7 Quarterly Sales Trends

P8 Sales Breakdown

P9 Clients

P10 Employees

**Real Estate Business**

P11 FY2017 Segment Income

P12 FY2017 Balance Sheet

P13 FY2017 Cash Flow Statement

P14 FY2018 Consolidated Earnings Forecast

P15 Challenges Ahead

P16 Profit Distribution Basic Policy and Dividends for FY2017 and FY2018

P17 Cancellation of Treasury Stock

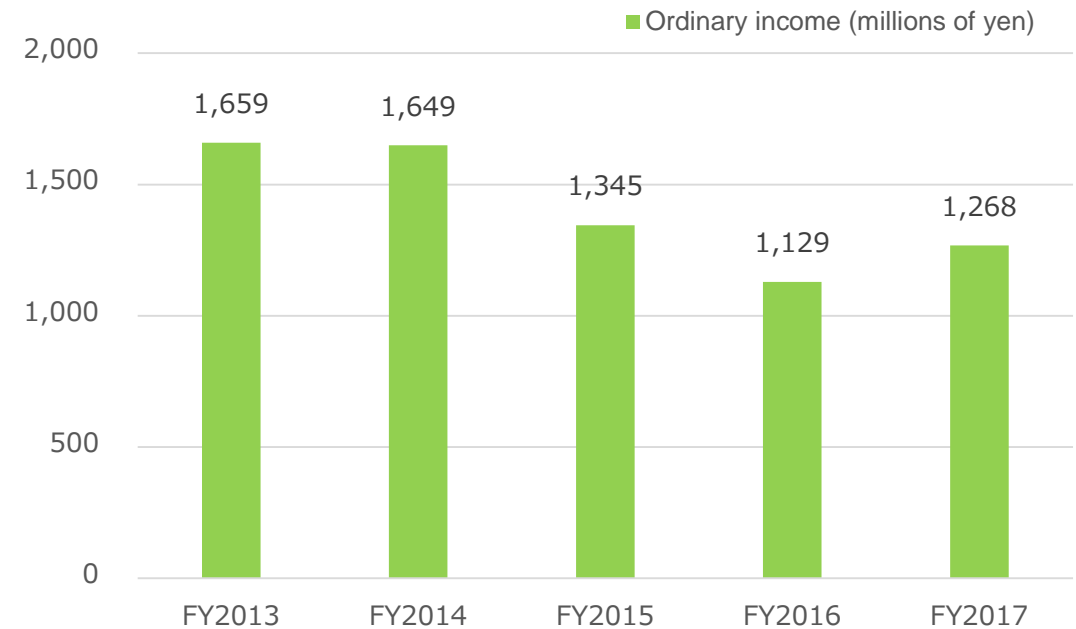
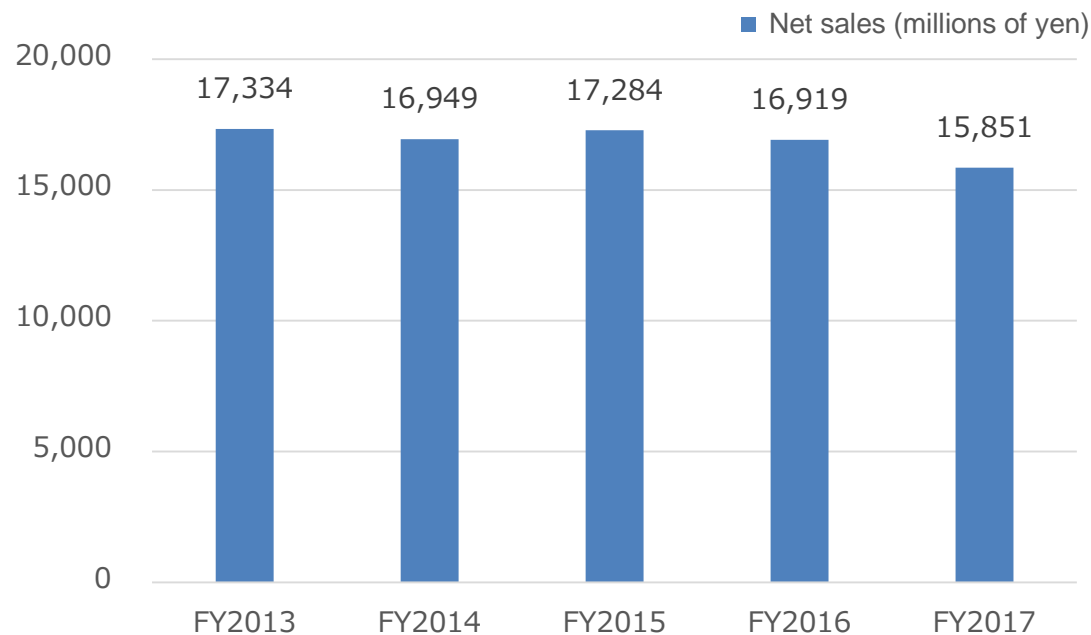
P18-19 Information Regarding Subsidiary in Singapore

# Financial Highlights (Consolidated)

✓ In the mainstay pachinko parlor advertising business, sales declined by 1,068 million yen year-on-year due to the prolonged cutbacks in advertising expenses by customers. However, income rose at all levels, as the company improved profitability by upgrading sales activities and controlling fixed costs to transform its earnings structure.

(millions of yen)

	FY2013	FY2014	FY2015	FY2016	FY2017
Net sales	17,334	16,949	17,284	16,919	15,851
Operating income	1,647	1,631	1,300	1,142	1,269
Ordinary income	1,659	1,649	1,345	1,129	1,268
Net income attributable to parent company shareholders	1,041	1,031	805	490	831



# FY2017 Income Statement (Consolidated)

(millions of yen)

	FY2017	% of total	FY2016	% of total	YoY comparison
Net sales	15,851	100.0%	16,919	100.0%	93.7%
Operating income	1,269	8.0%	1,142	6.7%	111.2%
Ordinary income	1,268	8.0%	1,129	6.7%	112.3%
Net income attributable to parent company shareholders	831	5.2%	490	2.9%	169.7%

- ✓ The pachinko parlor industry continues to be in a severe situation in terms of earnings. New parlor openings have been declining reflecting uncertainties of the industry's environment. New machine replacements remained stagnant after removing machines whose performance may differ from the machines that have been inspected, the deadline for which was the end of December 2016, and demand for advertisement of machine replacement was sluggish.
- ✓ In the mainstay advertising business, the company, with the aim of transforming its earnings structure, made efforts to raise the level of profits by expanding sales of Internet media led by its own "Pachi 7" media and strengthening sales activities for the printing business targeting companies in other industries.
- ✓ In terms of cost, the company drove forward rationalization and manpower saving by consolidating sales offices and drastically reviewing order process and focused on controlling fixed costs.
- ✓ As a result, net sales for FY2017 totaled ¥15,851 million (down 6.3% year on year) while operating income came to ¥1,269 million (up 11.2%), ordinary income amounted to ¥1,268 million (up 12.3%) and net income totaled ¥831 million (up 69.7%).

## □ FY2017

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	15,643	120	87	—	15,851
Segment income	1,581	59	(19)	(351)	1,269

## □ Change versus FY2016

(millions of yen)

	Advertsing	Real Estate	Other	Adjustment	Consolidated
Net sales	(1,041)	(30)	3	0	(1,068)
Segment income	106	(4)	0	27	127

✓ As the pachinko parlor advertisements and the real estate business fell below the previous year's level, net sales on a consolidated basis declined ¥1,068 million, segment income increased ¥127 million due to contribution of reduction of company-wide adjustment and lower fixed costs.

# FY2017 Segment Income (Advertising)

(millions of yen)

Advertising	FY2017	FY2016	YoY comparison
Net sales	15,643	16,684	93.8%
Operating expense	14,062	15,209	92.5%
Segment income	1,581	1,475	107.2%

## External environment>

- ❑ Trend of pachinko parlor operators cutting back advertising spending due to worsening profitability  
= the pachinko parlor advertising market is stagnant
- ❑ Removal of machines whose performance may differ from the machines that have been inspected  
= Decline in demand for machine replacement advertisements

## The Group's approach>

- ✓ Strengthened sales of its own "Pachi 7" media and other Internet advertisements as well as printing business for other industries
- ✓ Controlled fixed costs through consolidation of sales offices, review of order process and streamlining

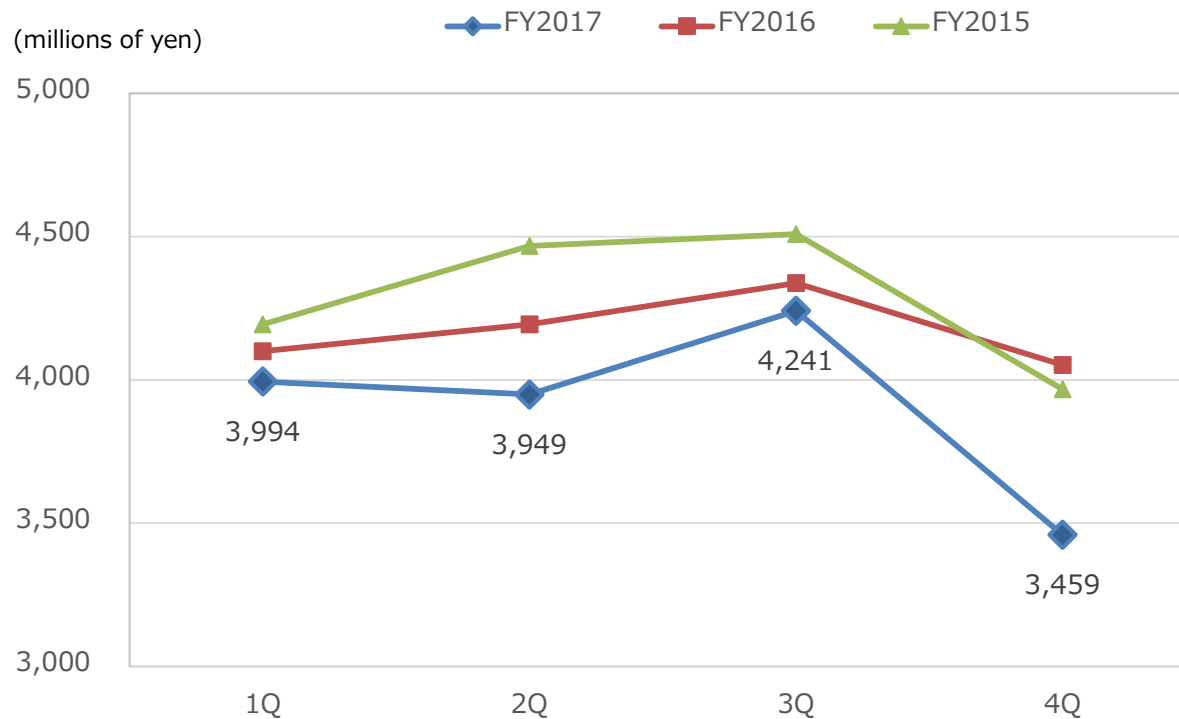
## Result>

- ✓ We were able to limit the year-on-year decline in net sales to the minimum. Segment income rose 7.2%, as the impact of fixed cost reduction contributed.

# Quarterly Sales Trends (Advertising)

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
<b>FY2017</b>	<b>3,994</b>	<b>3,949</b>	<b>4,241</b>	<b>3,459</b>	<b>15,643</b>
FY2016	4,100	4,194	4,338	4,052	16,684
FY2015	4,194	4,467	4,509	3,967	17,137



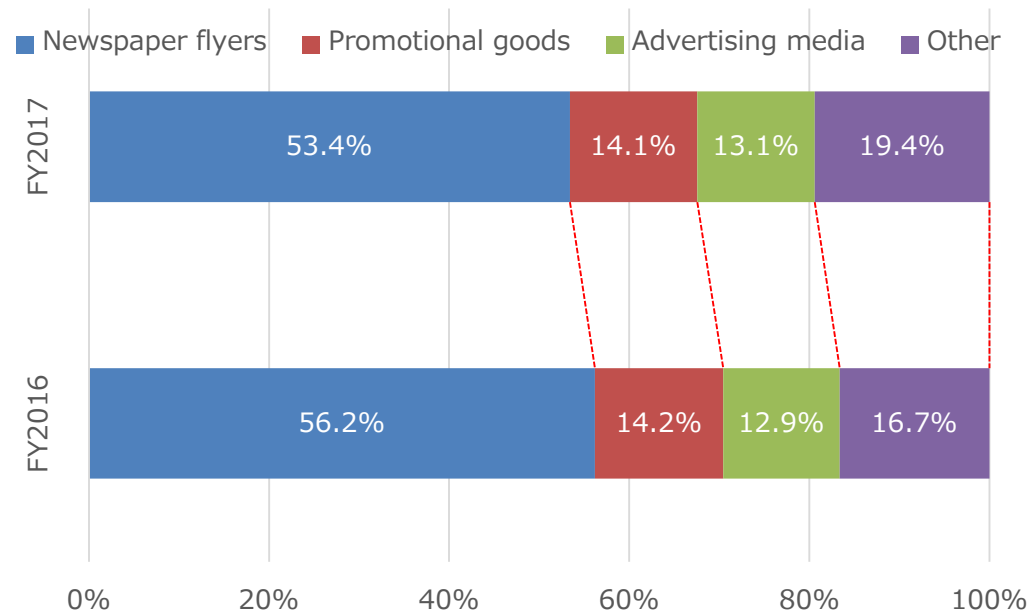
✓ Net sales of the Advertising Business declined ¥593 million compared with the same period a year earlier.

The decline was due to sluggish new machine replacements following the removal of machines whose performance may differ from the machines that have been inspected, whose deadline was the end of December 2016, and demand for replacement advertisements slumped.

# Sales Breakdown (Advertising)

(millions of yen)

	FY2017	% of total	FY2016	% of total	YoY comparison
Newspaper flyers	8,354	53.4%	9,376	56.2%	89.1%
Promotional goods	2,211	14.1%	2,375	14.2%	93.1%
Advertising media	2,042	13.1%	2,154	12.9%	94.8%
Other	3,035	19.4%	2,778	16.7%	109.3%
	15,643	100.0%	16,684	100.0%	93.8%



✓ Sales of the Newspaper flyers category, which is the mainstay media of the Pachinko advertising business, declined ¥1,022 million compared with a year earlier and its share in the business also fell 2.8 p.p.

✓ Both sales and share of the Other category increased as sales of Internet advertisements expanded.

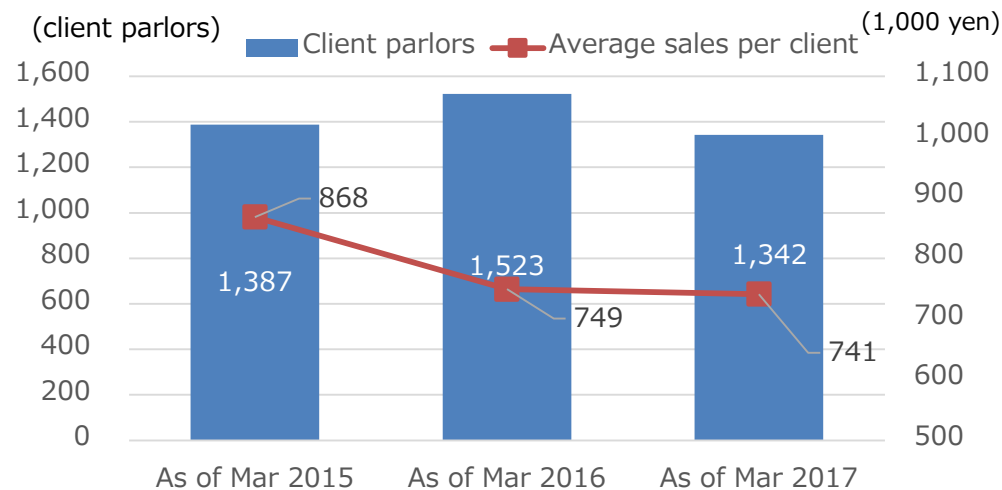


✓ As a result of profit-conscious sales activities, both the number of clients and the transaction share decline slightly. While there is a declining trend in average sales per client, the rate of decline has been marginal.

Average sales per client and number of client parlors

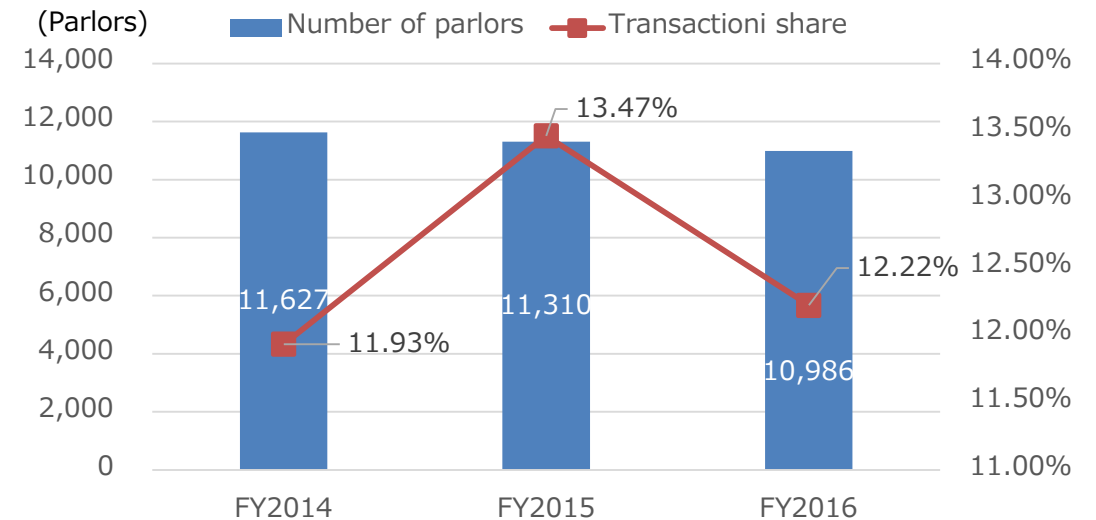
Active clients	As of Mar 2015	As of Mar 2016	As of Mar 2017
Client parlors *1	1,387	1,523	1,342
Average sales per client (1,000 yen) *2	868	749	741

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



Share in the pachinko parlor advertising market

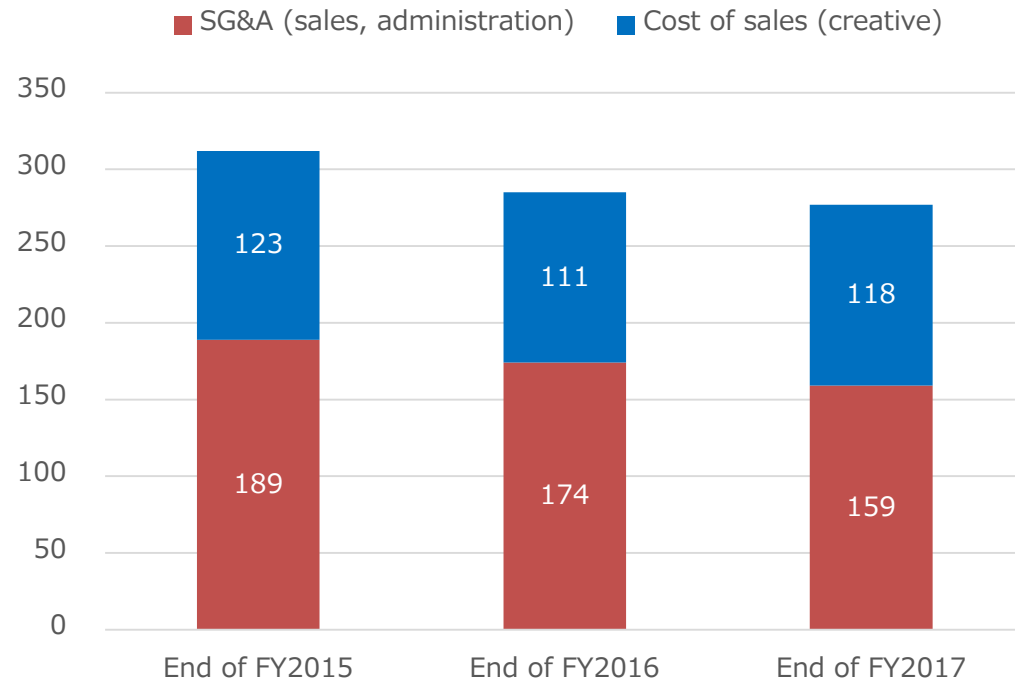
	FY2014	FY2015	FY2016
Number of pachinko parlors (National Police Agency study)	11,627	11,310	10,986
Number of client parlors (as of March 2017)	1,387	1,523	1,342
Transaction share	11.93%	13.47%	12.22%



# Employees (Advertising)

(people)

	End of FY2015	End of Mar 2016	End of Mar 2017
SG&A (sales, administration)	189	174	159
Cost of sales (creative)	123	111	118
Subtotal for advertising	312	285	277



✓ While we implemented various measures including consolidation of sales offices and improvement of operational efficiency, the number of employees declined by 8 as of the end of FY2017 compared with the level as of the end of the previous fiscal year.

(millions of yen)

Real Estate	FY2017	FY2016	YoY comparison
Net sales	120	150	80.3%
Operating expense	61	87	70.1%
Segment income	59	63	92.8%

✓ Of the two existing contracts, one came to expiration in the third quarter of FY2017 and we sold the other, which is a land for leasing in Hyogo Prefecture, at the end of January 2017. On the other hand, we acquired a new piece of land for lease use in Chiba Prefecture at the end of January 2017 and have signed a leasing contract with a company operating pachinko parlors.

✓ As a result, net sales of the real estate business came to ¥120 million, down 19.7% compared with FY2016, while segment income declined 7.2% to ¥59 million as reduction in fixed costs contributed.

# FY2017 Balance Sheet (Consolidated)

(millions of yen)

	End of FY2016 (A)	End of FY2017 (B)	Change (B) - (A)	
Cash and cash equivalents	3,507	4,374	866	
Notes and accounts receivables	2,289	1,870	(418)	(1) Impact of decline in volume of business
Other current assets	306	515	209	
Tangible fixed assets	946	681	(265)	(2) Land declined ¥245 million as Land Support sold land and newly acquired land.
Intangible fixed assets	123	107	(16)	
Investment and other assets	827	781	(46)	
<b>Total assets</b>	<b>8,026</b>	<b>8,330</b>	304	
Notes and accounts payables	1,408	1,132	(276)	(1) Impact of decline in volume of business
Short-term borrowings (incl. long-term borrowings due within a year)	290	540	250	(3) Total of long- and short-term borrowings increased ¥510 million partly due to the new long-term borrowing of ¥500 million
Accrued income taxes	213	239	26	
Other current liabilities	248	188	(60)	
Long-term borrowings	500	760	260	
Other fixed liabilities	18	33	15	
<b>Total liabilities</b>	<b>2,678</b>	<b>2,893</b>	215	
Shareholders' equity	5,317	5,387	70	
Other	30	49	19	
<b>Total net assets</b>	<b>5,348</b>	<b>5,436</b>	88	(4) +¥831 million in net income -¥416 million in dividend payments -¥345 million for purchase of treasury stock
<b>Total liabilities and net assets</b>	<b>8,026</b>	<b>8,330</b>	303	

# FY2017 Cash Flow Statement (Consolidated)

(millions of yen)

	FY2016	FY2017
Net income before income taxes	861	1,230
Cash flow from operations	848	1,031
Cash flow from investing activities	(260)	79
Cash flow from financing activities	(631)	(251)
Cash and cash equivalents at end of the period	3,513	4,368

✓ Cash and cash equivalents at the end of the period increased ¥855 million to ¥4,368 million.

+ Net income before income taxes	1,230		
+ Depreciation and amortization	97		
+ Impairment loss	20		
+ Decline in accounts receivable	406		
		— Decline in accounts payable	276
		— Income taxes paid	380
		— Other (net)	66
<b>Cash flow from operations</b>	<b>1,031</b>		
		— Payment for purchase of tangible fixed assets	596
		— Payment for purchase of investment securities	163
		— Other payments	126
+ Proceeds from sale of tangible fixed assets	750		
+ Proceeds from sales and redemption of investment securities	161		
+ Other earnings	54		
<b>Cash flow from investing activities</b>	<b>79</b>		
		— Repayment of long-term loans payable	190
		— Dividends paid	416
+ Net increase in short-term loans	200	— Payment for purchase of treasury stock	345
+ Proceeds from long-term loans payable	500		
		<b>Cash flow from financing activities</b>	<b>– 251</b>

	FY2017 result	FY2018 forecast	
	Millions of yen	Millions of yen	YoY comparison
Net sales	15,851	15,600	-1.6%
Operating income	1,269	1,100	-13.4%
Ordinary income	1,268	1,100	-13.3%
Net income attributable to parent company shareholders	831	720	-13.4%

✓ Given the passage of the bill on the Act on Promoting Development of Areas for Specified Integrated Resort Facilities in December 2016, the measures to further curb the gambling characteristics of pachinko and pachislo are expected to gain momentum from a perspective of preventing dependence. For this reason, pachinko parlor operators, which are our main clients, are likely to continue controlling advertisement demand due to worsening profitability, and the demand for mainstay pachinko parlor advertisements is forecast to gradually decline again in FY2018.

## (1) Continue to improve the earnings structure of the pachinko parlor advertising business

In order to increase the ratio of sales of Internet media and tools, whose demand has been stable compared to the conventional print advertisement, the Group would allocate sufficient resources to raise the media value by further enhancing the contents of “Pachi 7” media it developed and to expand the sales of “PachiAd,” a dedicated DSP tool for pachinko users, and aim to improve profitability.

Further, by taking into account the current trend in the labor market, the Group started full-fledged sales activities from the previous fiscal year for job advertising by pachinko parlors, demand for which appears to be promising, and this year it will strengthen the sales staff to improve profitability.

Moreover, in preparing for the continued decline in pachinko parlor advertising demand, the Group aims to realize further streamlining of internal operation and cost reduction by sorting out items on sale taking into account the individual profitability, and at the same time build an ideal profit structure by carrying out downsizing of the entire business as needed.

## (2) Expand the advertising business by targeting clients in industries besides pachinko parlors

In order to strengthen the customer base in response to the decline in pachinko parlor advertising demand, the Group will pursue further business expansion in the printing business and contract-based design business targeting clients in other industries and aim to increase the advertising transactions for the Group as a whole. Especially, in the contract-based design business, the Group aims to further improve the profitability of its design e-commerce site “Adluck!” by strengthening its functions and making investments to raise the brand recognition.

Also, with consolidated subsidiary U&U Co., Ltd., whose major customers are mail order companies, as the base, the Group will aim to achieve sustained growth of the business by pursuing acquisition of new clients led by mail order businesses.

The Group will also continue to pursue studies and research regarding the advertising activities of clients in other industries in order to expand the field of activity in the advertising business, while actively considering tie-ups and acquisitions of other advertising companies.

## (3) Entry into the electronic casino operation business in Southeast Asia to expand the business domain

With GDLH Pte. Ltd., a consolidated subsidiary newly established in February 2017 in Singapore, the Group will start off with electronic casino operations in Cambodia. In the first year, the Group, along with building the operation structure and gaining expertise, will simultaneously carry out studies regarding opportunities for entering other Southeast Asian nations as well as project development and negotiations to further expand the business.

	FY2016	FY2017	FY2018 forecast
Operating margin	7.5%	7.8%	8.0%
EPS	51.08 yen	54.48 yen	47.84 yen
Total annual dividend (Of which, interim dividend)	30.00 yen (15.00 yen)	25.00 yen (12.00 yen)	25.00 yen (12.00 yen)

- ✓ The Group intends to maintain a dividend payout ratio of 50%, for the time being, taking into account the cash flow position. Furthermore, it plans to purchase treasury stock at appropriate junctures with an emphasis on improving capital efficiency.
- ✓ Based on the above policy, for FY2017, the Group intends to pay a year-end dividend of 13.00 yen per share. Together with the interim dividend of 12.00 yen per share, total annual dividend amounts to 25.00 yen per share (consolidated dividend payout ratio of 45.9%).
- ✓ As the Group acquired treasury stock worth 345 million yen in this term, and the total shareholder return for the term was 91.5%.
- ✓ For FY2018, based on the above basic policy, the Group currently expects to pay an annual dividend of 25.00 yen per share (expected consolidated dividend payout ratio of 52.3%).



✓ Gendai Agency, based on a resolution of a Board of Directors Meeting held on March 10, 2017, completed the cancellation of treasury stock on March 31, 2017 as follows.

## Resolution details (reference)

(1) Type of shares cancelled	Common stock of Gendai Agency
(2) Number of shares cancelled	650,000 shares
	(4.14% of the outstanding shares prior to cancellation)
(3) Cancellation completed on	March 31, 2017

## (Reference)

Number of shares issued and outstanding after cancellation	15,050,000 shares
Treasury stock after cancellation	None

✓ The Group, at a Board of Directors Meeting held on January 20, 2017, resolved to establish a subsidiary in the Republic of Singapore and completed registration of establishment of GDLH Pte. Ltd. (hereinafter “GDLH”) on February 1, 2017.

## 1. Purpose of establishment of subsidiary>

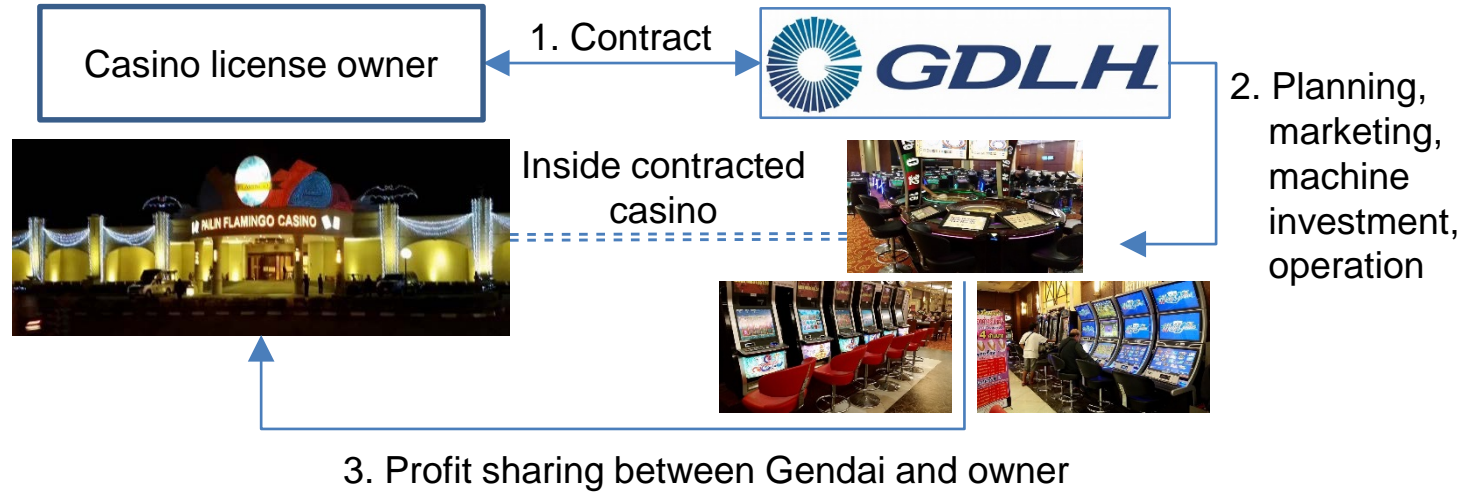
The Group has entered the gaming business industry in booming Southeast Asia and expects it to grow into a new core business. By bringing together the Group’s experience and expertise in assisting in attracting customers in the pachinko field over the years, its credibility as a listed company in Japan, and its tangible and intangible assets such as ability to raise funds with the expertise and human network of Mr. Arizuan Arshad (appointed as MD of GDLH), who has been engaged in casino operation, various consulting and casino machine procurement business in Singapore for some 10 years, we expect to achieve sustained growth for the Group.

## 2. Profile of GDLH>

- |                                      |   |
|--------------------------------------|---|
| (1) Company name                     | GDLH Pte. Ltd.  |
| (2) Location                         | Republic of Singapore   |
| (3) Title and name of representative | Managing Director Arizuan Arshad  |
| (4) Business                         | Primarily operations within casino and electronic casino facilities in Southeast Asian countries, sales of slot machines, etc., and consulting business |
| (5) Capitalization                   | 4 million USD (*about 460 million yen at time of establishment)   |
| (6) Establishment                    | February 1, 2017  |
| (7) Settlement                       | December 31   |
| (8) Investment ratio                 | Gendai Agency Inc.: 100% (*at time of establishment)  |

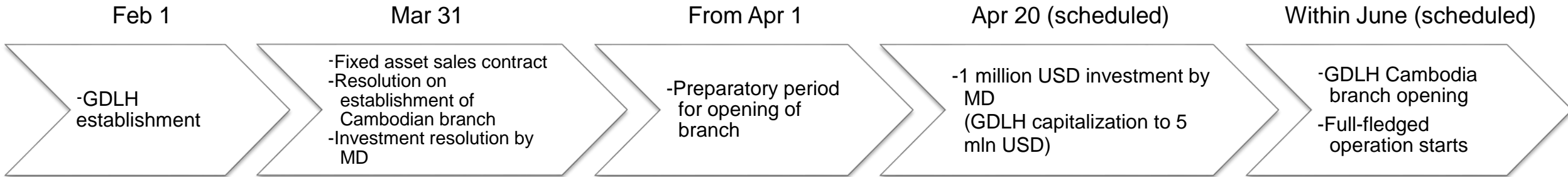


### 3. Concrete business structure (in case of Cambodia)



The chart on the left is an example of an electric gaming machine (EGM) operation business. First, we plan to succeed in Cambodia and then expand to other Southeast Asian countries. We will also carry out specialized consulting for various machine installation and offer services including machine procurement using own supply chain and installation and maintenance.

### 4. Timeline



### 5. Future outlook>

The Group expects costs to occur for strengthening internal structure and unearthing projects, and with first year sales target of about 70 million yen and initial depreciation of machines, it expects an operating loss of about 60 million yen in the next fiscal year.

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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