

Business Results for the First Half of the Fiscal Year Ending March 31, 2019 (FY2019)

October 19, 2018



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1H FY2019 Income Statement (Consolidated)

(millions of yen)

	1H FY2019	% of total	1H FY2018	% of total	YoY comparison
Net Sales	6,272	100.0%	6,878	100.0%	91.2%
Operating income	421	6.7%	430	6.3%	97.7%
Ordinary income	461	7.4%	449	6.5%	102.7%
Net income attributable to parent company shareholders	299	4.8%	312	4.5%	95.8%

□ The pachinko parlor industry continues to be in an adverse situation in terms of earnings as a result of the decline in the frequency of utilization by users as well as a decline in investment amounts. Given the recent measures to prevent dependence and the trend of tightening industry restrictions aimed at curbing gambling-related aspects, motivation for the parlors to invest in new parlor openings and proactive purchase of new machines appears to be declining significantly compared with the past.

□ In the mainstay advertising business, the Group, with the aim of transforming its earnings structure, strived to boost revenue by expanding sales of Internet media. Further, in the advertising field other than pachinko parlors, in addition to the expansion of the printing business and strengthening of the contract-based design business, the Group has been working on boosting its earnings by entering newly into advertising for the fitness industry from the current fiscal year.

□ As a result, net sales for the first half of FY2019 totaled ¥6,272 million (down 8.8% year on year), operating income came to ¥421 million (down 2.3%), ordinary income rose to ¥461 million (up 2.7%) primarily due to ¥39 million in foreign exchange gain and net income attributable to parent company shareholders totaled ¥299 million (down 4.2%).

■ 1H FY2019

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	6,193	51	27	—	6,272
Segment income	631	35	-77	-168	421

■ 1H FY2018

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	-610	15	-11	—	-606
Segment income	-7	18	-32	11	-9

- Consolidated net sales declined ¥606 million as the pachinko parlor advertisement business trended below the previous year's level.
- In the Other Business segment, segment loss came to ¥32 million primarily due to the impact of amortization burden of initial investment in the casino business.

1H FY2019 Segment Income (Advertising)

(millions of yen)

Advertising	1H FY2019	1H FY2018	YoY comparison
Net sales	6,193	6,803	91.0%
Operating expense	5,562	6,165	90.2%
Segment income	631	638	98.9%

External environment>

- ❑ In the pachinko parlor advertising market, pachinko parlor operators continued to cut back advertising spending due to worsening profitability.
- ❑ Advertising demand is significantly sluggish also due to decline in demand for advertisement of new machines given low frequency of replacement with new machines.

The Group's approach>

- ❑ Expanded sales of internet media primarily of its own "Pachi 7" media and "Pachi Ad" DSP advertising.
- ❑ Expanded the printing business for other industries, strengthened the contract-based design business.
- ❑ Entered the advertising field in the fitness industry, and started activities to acquire new customers.

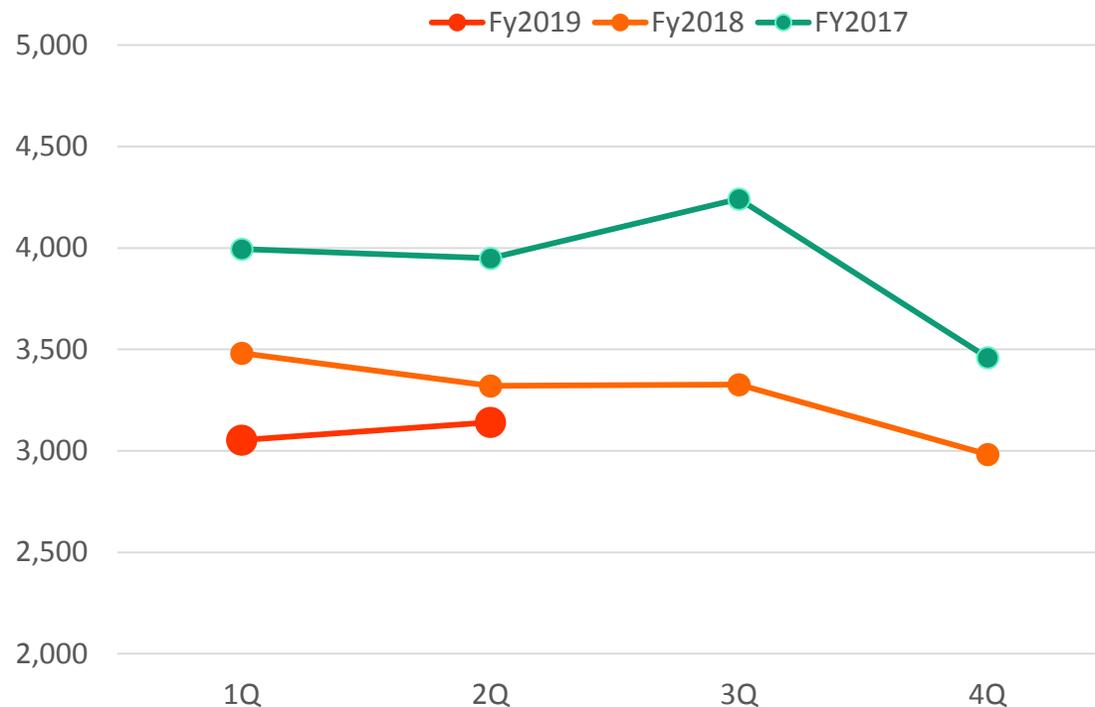
Result>

- ❑ The efforts of the Group had a certain level of impact, with Internet sales of the first half in particular registering a 72.8% increase year on year. As a result of these initiatives, the segment posted segment income of ¥631 million, down 1.1% year on year as the sales margin rose on the Internet-related services operated by the Group despite net sales declining 9.0% year on year to ¥6,193 million due to the drastic fall in demand for print advertisement.

Quarterly Sales Trends (Advertising)

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
FY2019	3,053	3,140			6,193
FY2018	3,482	3,321	3,327	2,982	13,112
FY2017	3,994	3,949	4,241	3,459	15,643



❑ Net sales of the Advertising Business declined ¥181 million in 2Q compared with the same period a year earlier.

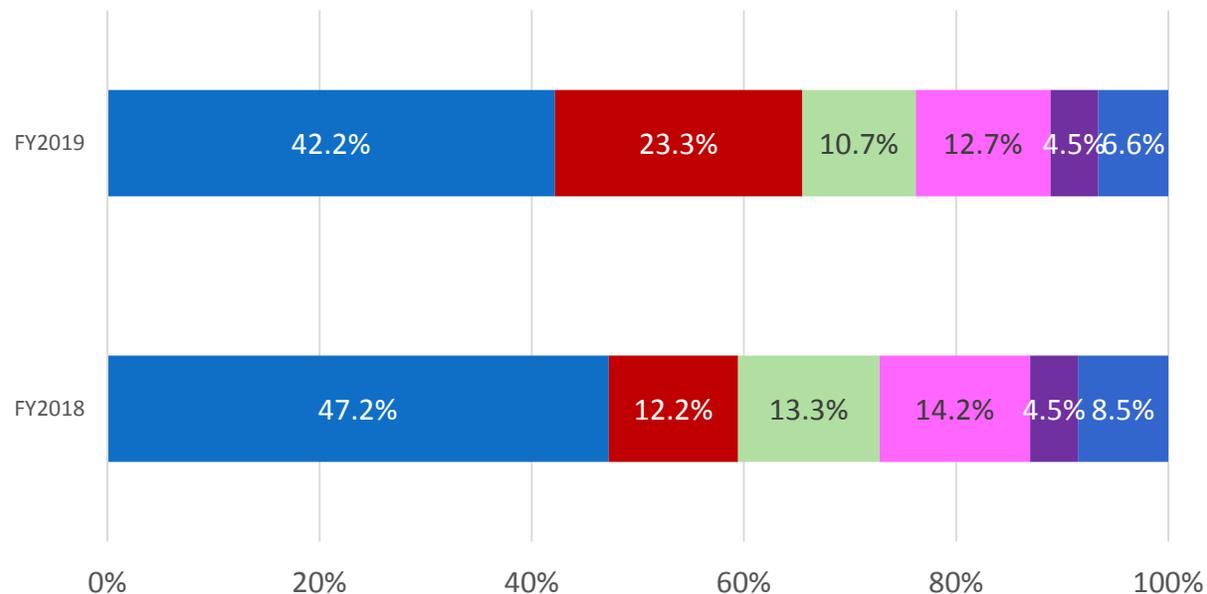
❑ The decline was due to a decrease in advertising demand resulting from falling frequency of replacement with new machines, cut-back of advertising budgets and extreme decline in large-scale advertising demand for new parlor openings prior to the Bon holidays.

Sales Breakdown (Advertising)

(millions of yen)

	1H FY2019	% of total	1H FY2018	% of total	YoY comparison
Newspaper flyers	2,616	42.2%	3,213	47.2%	81.4%
Internet	1,440	23.3%	833	12.2%	172.8%
Promotional goods	660	10.7%	908	13.3%	72.7%
Advertising media	786	12.7%	963	14.2%	81.6%
Creative	278	4.5%	306	4.5%	90.8%
Other	410	6.6%	577	8.5%	71.0%
	6,193	100.0%	6,803	100.0%	91.0%

■ Newspaper flyers ■ Internet ■ Promotional goods ■ Advertising media ■ Creative ■ Other

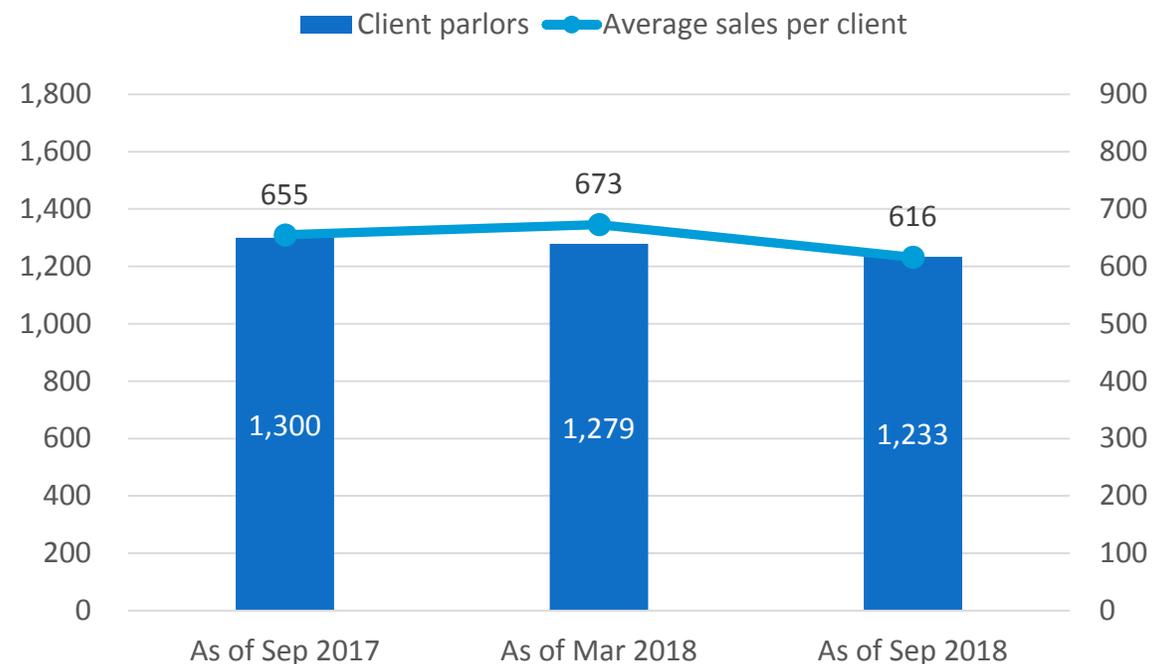


□ Net sales of Internet advertising rose 72.8% year on year on the back of proactive efforts. At the same time, sales fell in other categories year on year as demand declined in print advertisement led by newspaper flyers.

□ Given the decline in advertising demand due to reduced advertising budgets and decline in frequency of new machine replacements, average sales per client declined ¥57,000 compared with the end of March 2018. In addition, the number of clients indicated here declined as the number of clients outside the scope of tabulation increased reflecting falling average sales per client.

Active clients	As of Sep 2017	As of Mar 2018	As of Sep 2018
Client parlors *1	1,300	1,279	1,233
Average sales per client (1,000 yen) *2	655	673	616

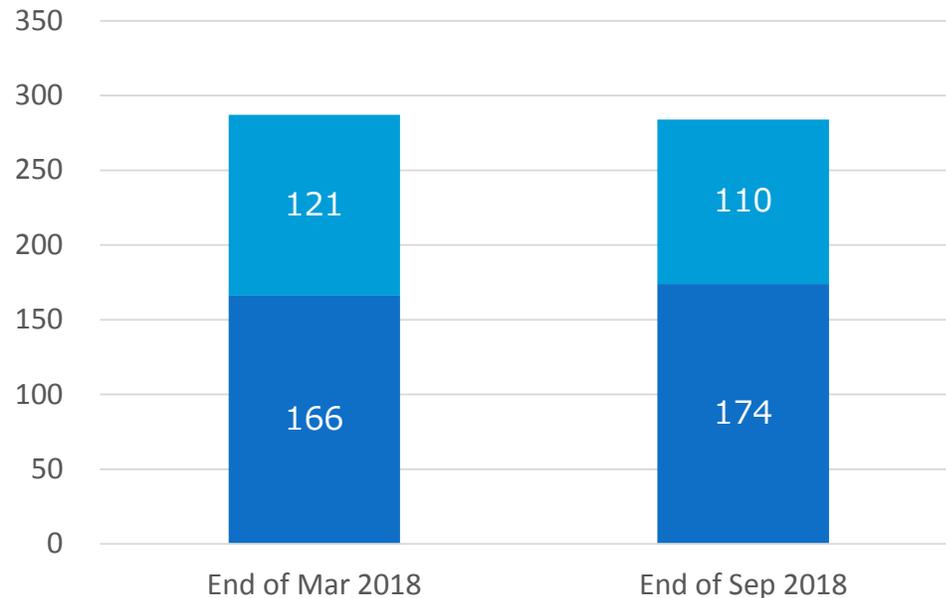
*1 Client parlors refer to customers with more than ¥50,000 in monthly transactions *2 Figures are on a single month basis



(people)

	End of Mar 2018	End of Sep 2018
SG&A (sales, administration)	166	174
Cost of sales (creative)	121	110
Subtotal for advertising	287	284

■ Cost of sales (creative) ■ SG&A (sales, administration)



- Sales and administration: Strengthened Internet advertising division.
- Creative: Due to fall in print advertisement demand.
- As a result, the number of employees decreased by 3 compared with the end of the previous fiscal year.

(millions of yen)

Real Estate	1H FY2019	1H FY2018	YoY comparison
Net sales	51	36	141.7%
Operating expense	16	19	84.2%
Segment income	35	17	200.4%

- ❑ In addition to the land for lease use newly acquired in Kashiwa, Chiba Prefecture, in February 2017, we entered into a pachinko parlor M&A agreement and a lease property intermediary agreement (¥26 million).
- ❑ As a result net sales of the Real Estate business increased 41.7% year on year to ¥51 million and segment income rose 100.4% to ¥35 million.

1H FY2019 Balance Sheet (Consolidated)

(millions of yen)

	End of FY2018 (A)	End of 1H FY2019 (B)	Change (B) - (A)
Cash and cash equivalents	3,955	4,048	93
Notes and accounts receivables	1,670	1,652	-18
Other current assets	167	114	-53
Tangible fixed assets	913	1,086	172
Intangible fixed assets	122	120	-2
Investment and other assets	901	1,019	118
Total assets	7,731	8,042	310
Notes and accounts payables	908	843	-65
Short-term borrowings (incl. long-term borrowings due within a year)	440	290	-150
Accrued income taxes	14	195	180
Other current liabilities	204	249	45
Long-term borrowings	520	750	230
Other fixed liabilities	33	32	-1
Total liabilities	2,121	2,361	240
Shareholders' equity	5,515	5,619	104
Other	94	61	-33
Total net assets	5,610	5,680	70
Total liabilities and net assets	7,731	8,042	311

(1) Decline in accounts receivable due to the impact of decline in business volume

(2) Increase due to acquisition of slot machines by a consolidated subsidiary

(3) Increase of ¥110 million in investment securities, etc.

(4) Decline in accounts payable due to the impact of decline in business volume

(5) Increase in accrued income taxes, etc.

(6) +¥299 million in quarterly net income, -¥195 million in dividend payments

1H FY2019 Cash Flow Statement (Consolidated)

(millions of yen)

	End of 1H FY2018	End of 1H FY2019
Net income before income taxes	449	461
Cash flow from operations	270	515
Cash flow from investing activities	-201	-333
Cash flow from financing activities	-503	-115
Cash and cash equivalents at beginning of the period	4,368	3,949
Cash and cash equivalents at the end of the period	3,943	4,042

*Translation difference on cash and cash equivalents: 1H FY2018=¥9 million; 1H FY2019=¥27 million

❑ Cash and cash equivalents increased ¥93 million to ¥4,042 million during the period.

+ Net income before income taxes	461	
+ Depreciation and amortization	87	
+ Other	99	
		- Decline in accounts payable 65
		- Other (net) 66
Cash flow from operations	515	
		- Payment for purchase of tangible fixed assets 247
		- Payment for purchase of investment securities 110
		- Other payments 31
+ Proceeds from sales and redemption of investment securities	50	
+ Other earnings	5	
		Cash flow from investing activities 333
		- Repayment of borrowings 320
		- Dividends paid 195
+ Proceedings from long-term loans	400	
		Cash flow from financing activities 115

(millions of yen)

	1H FY2019 results	FY2019 full-year forecast	Percent achieved
Net sales	6,272	12,000	52.3%
Operating income	421	800	52.6%
Ordinary income	461	800	57.7%
Net income attributable to parent company shareholders	299	520	57.5%

□ The Group did not revise its previous full-year earnings forecasts, as its consolidated performance in the first half was roughly in line with the initial forecast.



<http://pachiseven.jp>

It is a Pachinko/Pachislo portal site based on the concept of offering information beneficial to the user quickly, in an easily understandable and interesting manner, with the aim of energizing the industry.



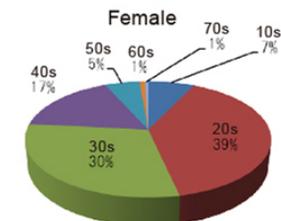
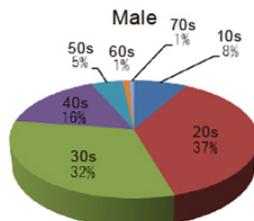
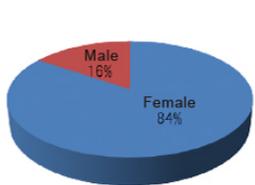
Website established
August 7, 2014
(Pachi 7 Day)

User count
2,100,000 uu/month
*User Local survey of September 2018

Viewer count
5,900,000 PV/Month
*September 2018 Google Analytics survey

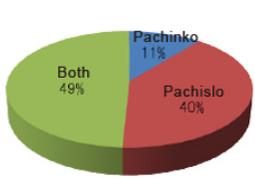
Parlors listed
4,940 parlors
*As of September-end 2018

Gender composition



Some 70% of Pachi 7 users are young, in their 20s and 30s.

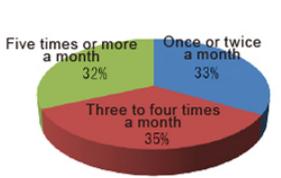
Play attribution



Average play time



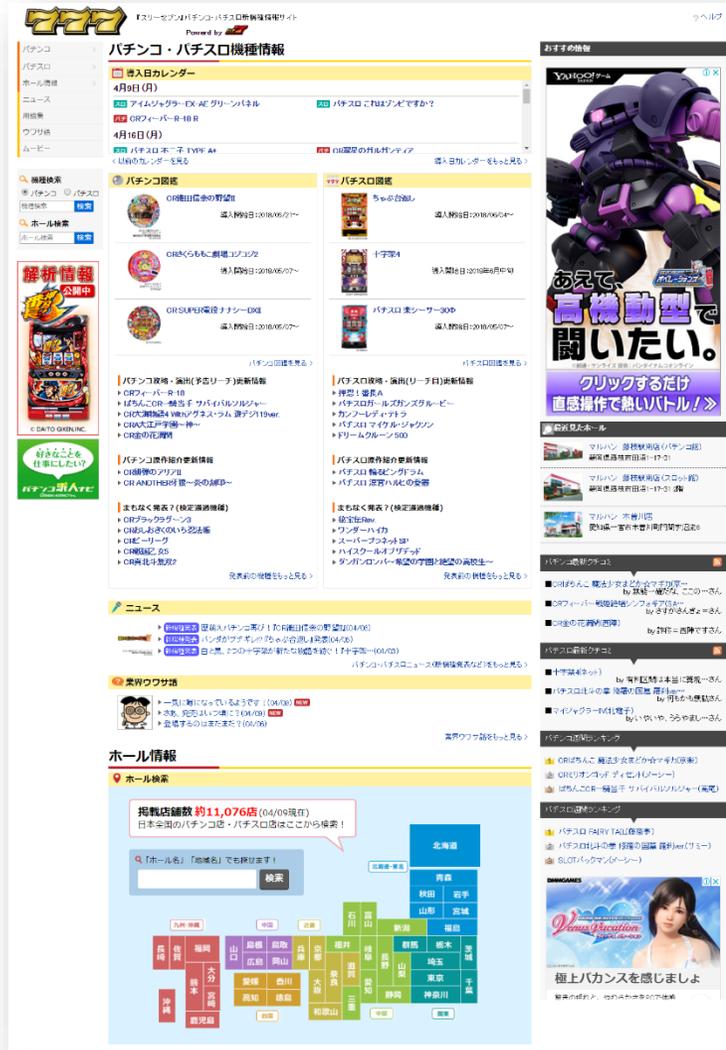
Play frequency



Almost a half of the users play both pachinko and pachislo and 67% plays them one or more a week.

It has become an influential community website where lots of users gather!

Group-operated Website “777 (Three Seven)”



“Three Seven”
– One of the largest Pachinko/Pachislo database website in Japan

Monthly users
Monthly page views

730,000

*September 2018 Google Analytics survey

7.1 million PV

*September 2018 Google Analytics survey

It is a website that shows up high in the related keyword search results list, and is strong in terms of machine-related information

Key Google search words	Average ranking
Pachinko calendar	1
Pachinko date of introduction	1
Pachinko new machine	1
Pachinko word of mouth	1
Pachinko rating	2

Key Google search words	Average ranking
Slot machine calendar	1
Slot machine date of introduction	1
Slot machine new machine	3
Slot machine word of mouth	1
Slot machine rating	1

*September 2018 Google search results (Source: Gendai Agency)



Has **6.7 million UU data**, of those who visited Pachi 7 and 777 website, which is managed as action history big data. Along with distributing advertisements to the 6.7 million pachinko users, the same advertisements **are sent simultaneously to those non-Pachi7 users with similar action pattern**, thus making it an Internet advertising specializing on the pachinko industry with the ability to distribute widely to pachinko users.



The Group **owns the data of fitness users** who have visited @FitSearch and manages their behavioral history as big data. By distributing ads to fitness and sports club users as well as people who have not visited the website but who have the same behavioral patterns as fitness and sports club users, **these ads can be widely distributed to fitness and sports club users and are fine-tuned to the needs of the fitness industry.**



A DSP advertising service that can distribute to **more than 200 interest categories** such as students, housewives, beauty and real estate. The service distributes ads by combining a number of **distribution methods** such as limiting areas, distributing to users with matching interests, attributes including age groups and gender, and distributing to users who have visited the client's own website, which enables **clients to appeal to any demographic in their local area.**



Accumulation of user data

DMP server

Pachinko users
6.7 million UU

Fitness users
1.5 million UU

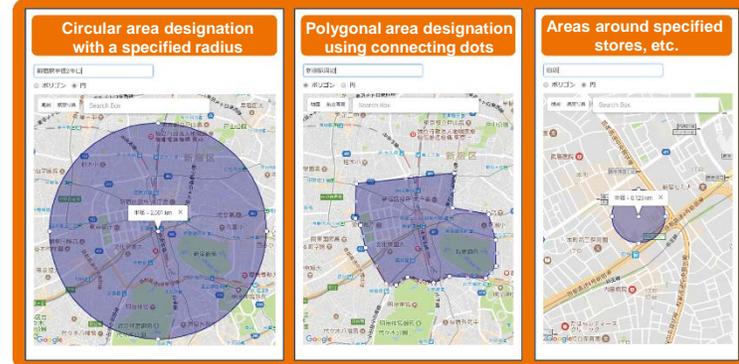
Number of segments
More than 200

Distributed to appropriate users

One of the largest in Japan!!
Distributing to a monthly stock of **410 billion mobile advertising slots!!**

PCs: 150 billion imp per month
Mobile phones: 260 billion imp per month

Ads can be distributed to users in specific areas using GPS

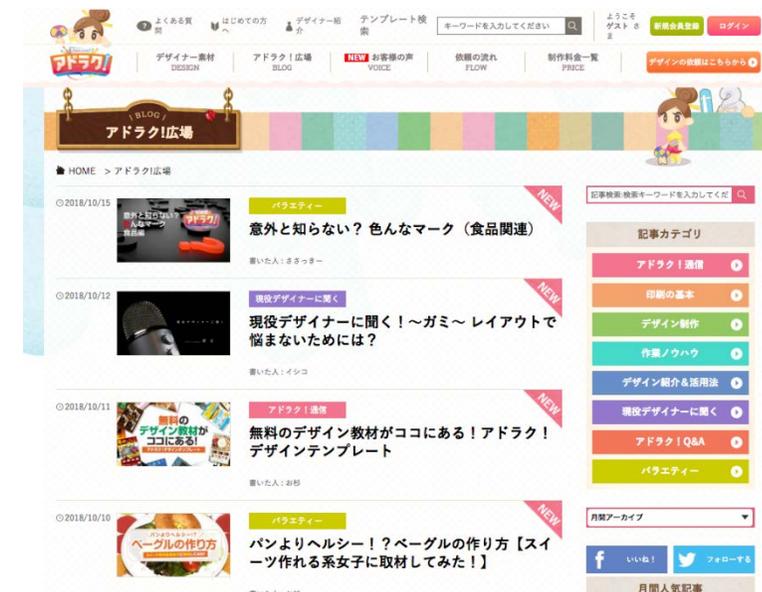
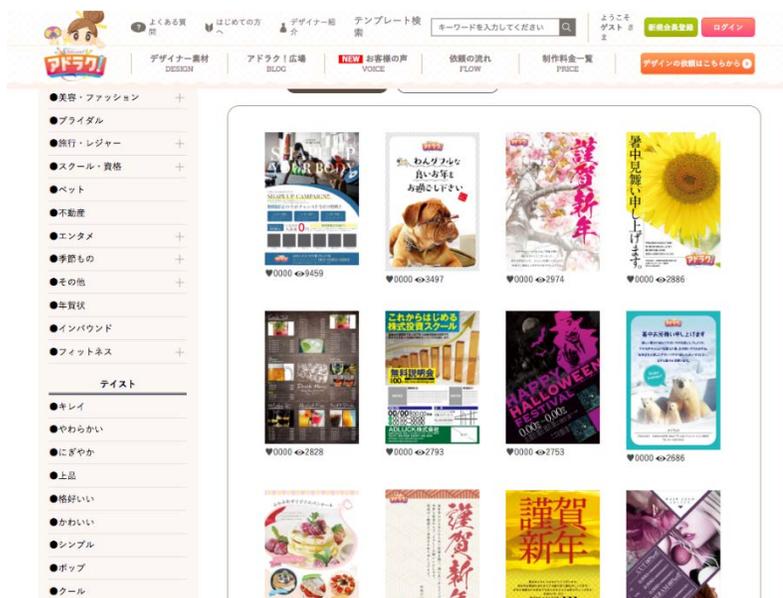


Contract-based Design Site Adluck!



It is a design portal site that comprehensively handles the requirements of individual business owners and companies.

It produces semi- and fully made-to-order designs and sells design templates over the Internet leveraging its main contents made up of 23,000 template materials, which are the largest among websites offering similar services, and designer blogs that convey design knowhow.



○ Monthly PV count – 50,000PV ○ User count – 20,000 users

We are expanding sales by conducting contract-based design for individual business owners and inter-company transactions based on API collaboration.

We have increased the number of partner companies to 18 as we stably secure requests from individual business owners via the internet.

@FIT Search

<https://sportsclub.nifty.com/>



@FIT Search is a portal site that introduces sports clubs around Japan and where health-minded people gather.

It provides the details, fees and programs of sports clubs around Japan in an easy to understand manner.

We plan to add contents such as information on joy of exercising, healthy food and recipe.

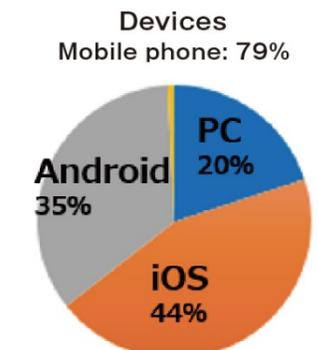
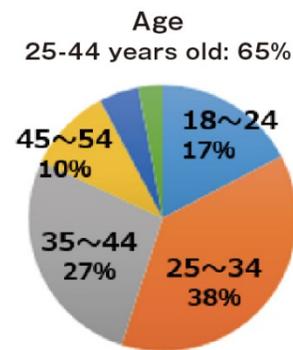
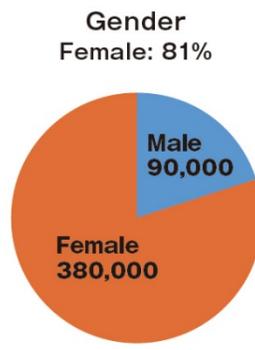
Website established
December 1, 2017
 *@nifty sports club
 (from Apr 2, 2014 to Nov. 30, 2017)

User count
240,000 uu/month
 *As of September 2018

Number of facilities listed
6,790
 *As of September 2018
Largest in Japan

Member count
3,271
 *As of September 2018
Largest in Japan

User attribution



Service overview

- You can search facilities throughout Japan based on railway stations, railway lines or area!
- We use a standard format for introduction pages and it is easy to understand!
- Perks upon becoming a member are listed for each facility!
- No charge for posting information (performance-based fee at the time a facility gets a new member)



<https://up-to-you.me/>

Curation media that brings light relief to mothers based on the concept “Child-rearing can be much more fun!”.

The service distributes light and fun content that proves popular on social media, such as popular child-rearing stories, child-rearing topics readers can empathize with, and child-rearing comic strips. There is also an emphasis on topics that are in tune with the times and the kind of articles read by mothers who are highly information sensitive.



[Website information]

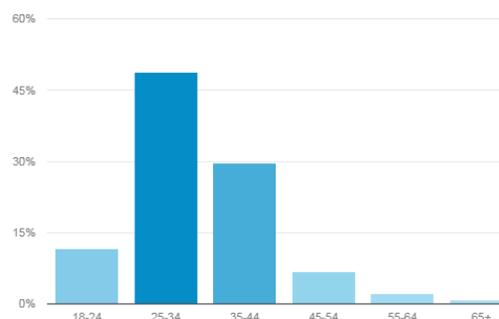
Monthly PV: 965,000PVs (as of Sep. 2018)

Monthly user count: 707,000UU (as of Sep. 2018)

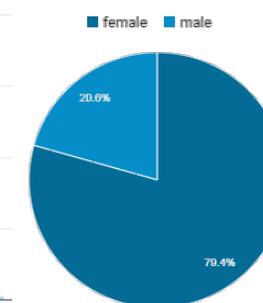
Number of articles: 2,944 (as of Oct 11, 2018)

[User attributes, as of Sep. 2018]

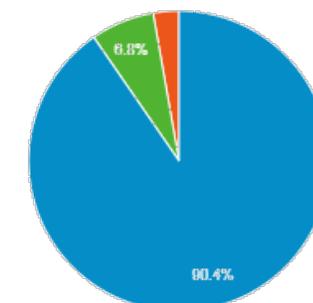
By age



By gender



By device



Mobile phones: 90.4%
Desktop PCs: 6.8%
Tablets: 2.8%

[Editing policy]

▽ Selection of light and fun topics

▽ Short and positive articles that women rearing children can read in their free time

▽ Copyright/social media content permission always secured in advance

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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