Business Results for the Fiscal Year Ended March 31, 2021 (FY2021)

GENDAI AGENCY Inc.

April 16, 2021

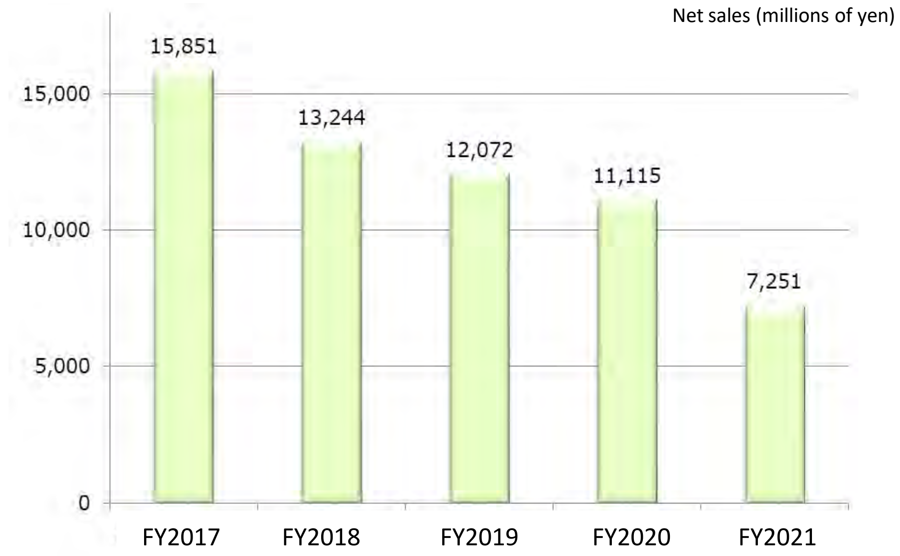
Financial Highlights (Consolidated)

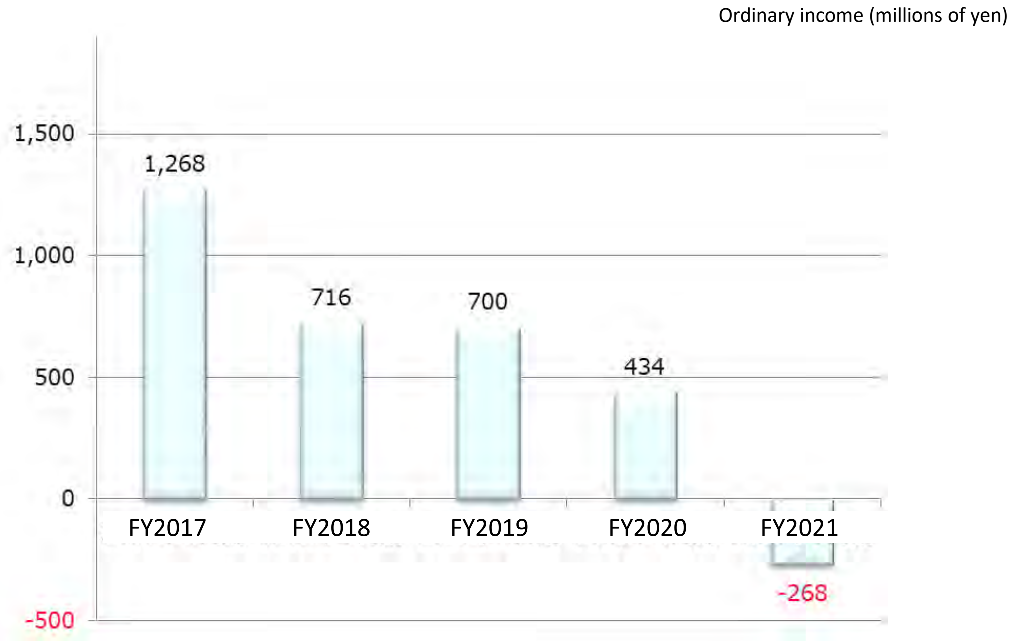
GENDAI AGENCY Inc.

❑ Consolidated net sales for FY2021 came to ¥7,251 million, a significant decline of ¥3,863 million compared with the previous fiscal year, as advertising demand declined due to the impact of the novel coronavirus pandemic. The sales margin rapidly declined along with the rapid drop in demand, resulting in significant declines for income at each level, and the Group posted ¥310 million in net loss attributable to parent company shareholders.

(millions of yen)

	FY2017	FY2018	FY2019	FY2020	FY2021
Net sales	15,851	13,244	12,072	11,115	7,251
Operating income	1,269	743	704	460	-290
Ordinary income	1,268	716	700	434	-268
Net income (loss) attributable to parent company shareholders	831	504	434	31	-310





FY2021 Income Statement (Consolidated)

GENDAI AGENCY Inc.

(millions of yen)

	FY2021	% of total	FY2020	% of total	YoY comparison
Net sales	7,251	100.0%	11,115	100.0%	65.2%
Operating income (loss)	-290	–	460	4.1%	–
Ordinary income (loss)	-268	–	434	3.9%	–
Net income (loss) attributable to parent company shareholders	-310	–	31	0.3%	–

<Breakdown by quarter>

	1Q	2Q	3Q	4Q	Total
Net sales	1,046	2,085	2,288	1,832	7,251
Operating income (loss)	-346	2	94	-40	-290
Ordinary income (loss)	-346	2	108	-32	-268
Net income (loss) attributable to parent company shareholders	-355	-7	98	-46	-310

❏ The pachinko parlor industry faced exceptional circumstances in which most pachinko parlors closed in response to requests from their respective prefectural governments based on the state of emergency declared by the government on April 7 (initially covering seven prefectures and expanded nationwide on April 16). This situation continued until the state of emergency was lifted incrementally from mid- to late-May, and had a serious impact on pachinko parlor-operating companies.

❏ Further, pachinko parlors throughout Japan refrained from advertising aimed at attracting customers from March 2020, and demand for advertising declined significantly. Pachinko parlors resumed advertising in stages from June, and in July there were signs of normalization of activities at parlors aimed at attracting customers and demand for advertisement began to recover. However, advertising demand once again plummeted following a further state of emergency declaration in January 2021.

❏ Under such circumstances, the Group, in its mainstay advertising business, drafted various advertising plans that spell out safe and secure ways to use parlor facilities and pursued proposal activities based on these. The Group also focused on activities to acquire new customers in fields other than pachinko parlor advertising.

❏ As a result, net sales for FY2021 totaled ¥7,251 million (down 34.8% year on year). The Group posted an operating loss of ¥290 million (compared with operating income of ¥460 million in FY2020), ordinary loss of ¥268 million (compared with ordinary income of ¥434 million in FY2020) and net loss attributable to parent company shareholders of ¥310 million (compared with net income of ¥31 million in FY2020).

Breakdown by Business Segment

GENDAI AGENCY Inc.

■ FY2021

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	7,187	57	7	–	7,251
Segment income (loss)	18	15	-10	-314	-290

■ Compared to FY2020

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	-3,743	-62	-57	–	-3,863
Segment income (loss)	-859	-52	144	17	-750

❑ While demand in each segment followed a recovery track from July to December, the impact, up to June, of the novel coronavirus pandemic was significant and that coupled with a further state of emergency declaration in January 2021, caused net sales of all segments to decline considerably in the fiscal year. Consolidated net sales declined ¥3,863 million year on year.

❑ The significant year-on-year change in Other is primarily due to the removal of GDLH Pte. Ltd. from the scope of consolidation through transfer of shares in the subsidiary, which operated the contract-based casino operation business in Southeast Asia.

FY2021 Segment Income (Advertising)

GENDAI AGENCY Inc.

(millions of yen)

Advertising	FY2021	FY2020	YoY comparison
Net sales	7,187	10,930	65.8%
Operating expense	7,159	10,052	71.2%
Segment income (loss)	18	878	2.1%

<Breakdown by quarter

(millions of yen)

Advertising	1Q	2Q	3Q	4Q	Total
Net sales	1,036	2,065	2,267	1,819	7,187
Operating expense	1,282	1,993	2,108	1,786	7,169
Segment income (loss)	-246	72	159	33	18

External environment>

❑ In response to the business suspension requests by respective prefectural governments based on the state of emergency declaration, most pachinko parlors suspended business operations till mid- to late-May. Further, advertising demand declined dramatically due to nationwide suspension of advertising aimed at attracting customers.

❑ Advertising demand in the fitness facility field also remained slow as fitness facilities suspended operations in quick succession.

❑ Advertising activities resumed in stages from June and advertising demand showed a recovery trend, but the recovery was limited to 80% of the demand during normal times.

❑ Advertising demand again plummeted following the further state of emergency declaration in January 2021. The business environment was extremely difficult throughout the fiscal year.

The Group’s approach>

❑ Developed a system to ensure the stable provision of necessary services following the shift to teleworking.

❑ Gathered client information and drafted and promoted new services such as a video ad service, with an eye to resumption of advertising activities.

❑ Pursuing acquisition of new customers other than pachinko parlor operators, primarily outside the greater Tokyo area.

❑ Consolidated sales bases, responded to new working styles, and reduced indirect costs.

Result>

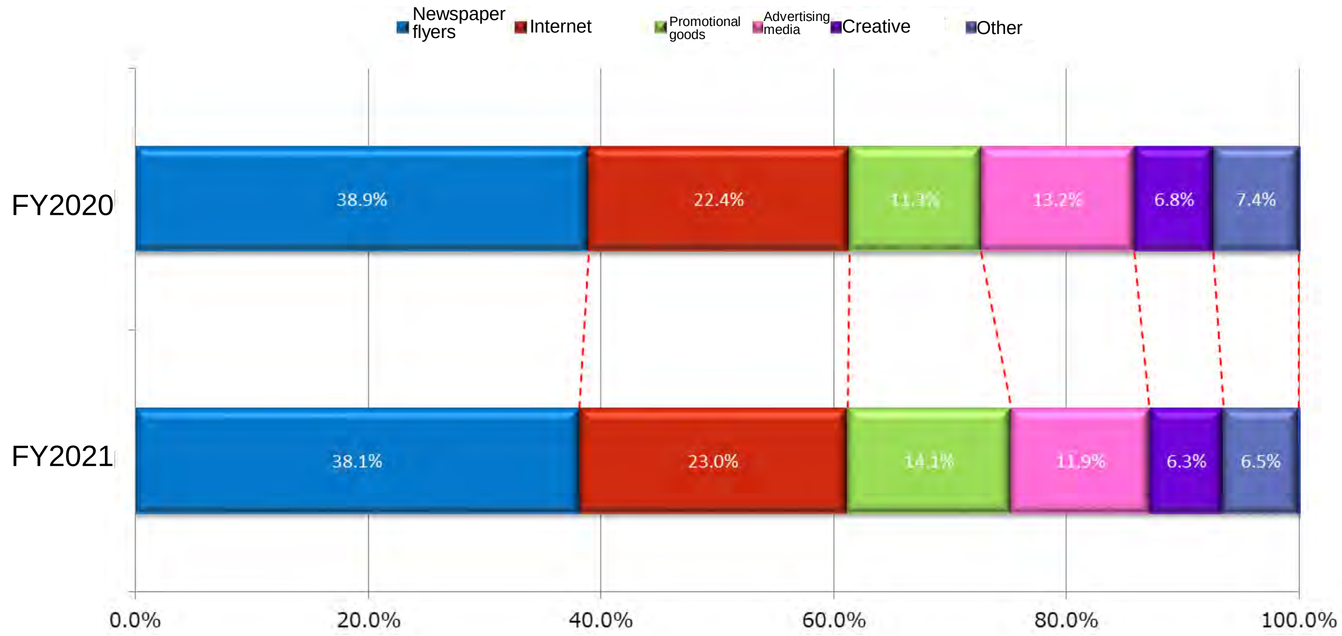
❑ The decline in demand in the advertising field due to the effect of the novel coronavirus pandemic had a significant impact and segment net sales declined 34.2% year on year to ¥7,187 million and segment income fell 97.9% year on year to ¥18 million.

Sales Breakdown (Advertising)

(millions of yen)

	FY2021	% of total	FY2020	% of total	YoY comparison
Newspaper fliers	2,741	38.1%	4,256	38.9%	64.4%
Internet	1,655	23.0%	2,447	22.4%	67.7%
Prmotional goods	1,012	14.1%	1,239	11.3%	81.7%
Advertising media	855	11.9%	1,439	13.2%	59.4%
Creative	454	6.3%	741	6.8%	61.4%
Other	467	6.5%	807	7.4%	57.9%
	7,187	100.0%	10,930	100.0%	65.8%

<Sales breakdown>



❑ Sales in each category declined significantly year on year due to the impact of the novel coronavirus pandemic.

❑ As for the ratios of each item, the share of internet and promotional goods increased, as there were periods when earnings opportunities in the pachinko parlor advertising field were limited to promotional items for use inside parlors and recurring billing-type internet-based services, etc.

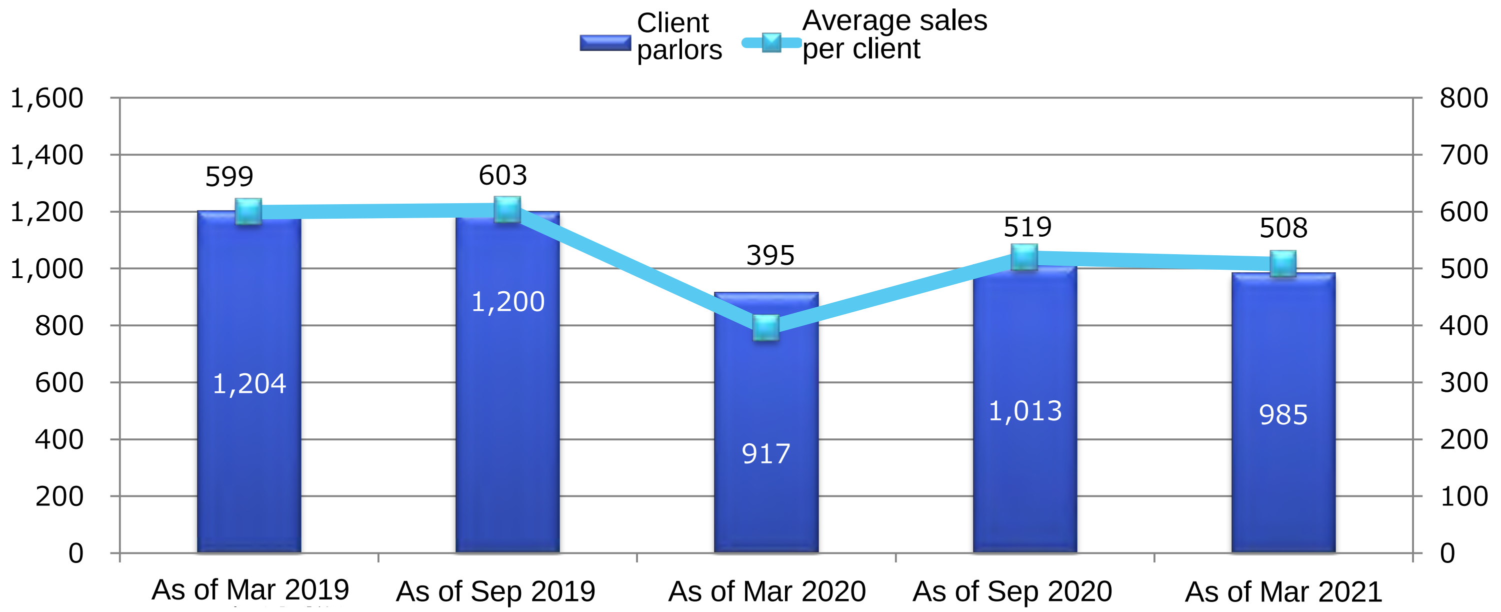
Clients (Advertising)

❏ The number of client parlors and sales per client for the month of March 2020 declined significantly, as the parlors began refraining from advertising in response to the novel coronavirus pandemic.

❏ From July 2020 onward, advertising demand showed a recovery trend. However, the demand once again plummeted due to a further state of emergency declaration in January 2021 and both the number of client parlors and sales per client for the month of March 2021 remained weak.

Active clients	As of Mar 2019	As of Sep 2019	As of Mar 2020	As of Sep 2020	As of Mar 2021
Client parlors*1	1,204	1,200	917	1,013	985
Average sales per client (1,000 yen)* 2	599	603	395	519	508

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

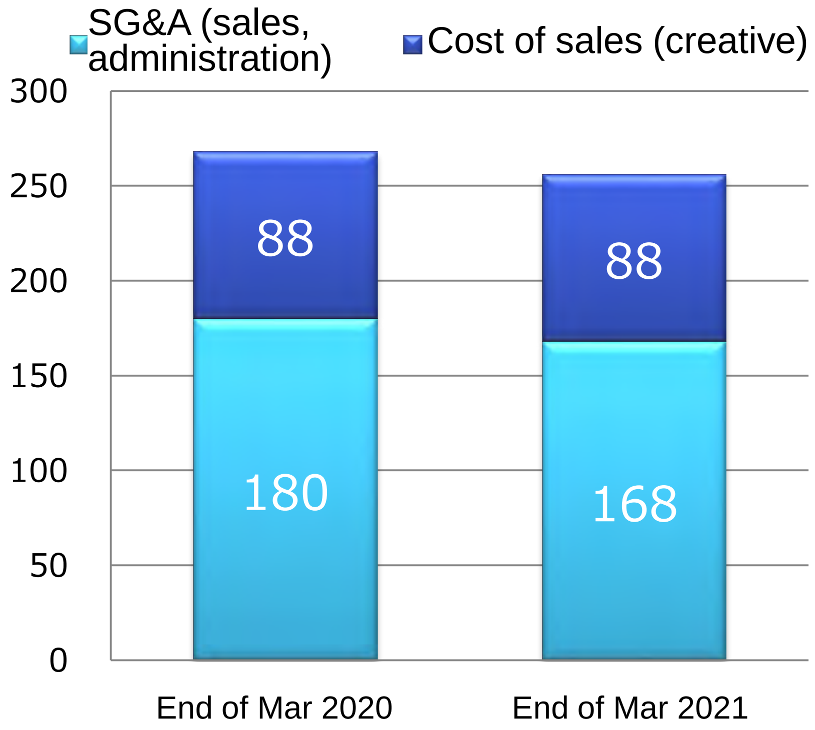


Employees (Advertising)

GENDAI AGENCY Inc.

(people)

	End of Mar 2020	End of Mar 2021	Change
SG&A (sales, administration)	180	168	-12
Cost of sales (creative)	88	88	–
Subtotal for advertising	268	256	-12



- ❑ Sales and administration: Sales bases and head office business units have been consolidated.
- ❑ As a result, the number of employees declined by 12 compared with the end of FY2020.

FY2021 Segment Income (Real Estate)

(millions of yen)

Real Estate	FY2021	FY2020	YoY comparison
Net sales	57	120	47.7%
Operating expenses	42	52	80.8%
Segment income	15	68	22.9%

❑ Regarding the lease income from the land held by the company for lease use in Kashiwa, Chiba Prefecture, we reduced the rent temporarily as the tenant suspended business operations following the declaration of a state of emergency. Also, we posted ¥10 million in revenue from the transfer of lease brokerage properties.

❑ As a result, net sales of the Real Estate business declined 52.3% year on year to ¥57 million and segment income fell 77.1% to ¥15 million.

FY2021 Balance Sheet (Consolidated)

GENDAI AGENCY Inc.

(millions of yen)

	End of FY2020 (A)	End of FY2021 (B)	Change (B) - (A)
Cash and cash equivalents	4,052	3,808	-243
Notes and accounts receivable	980	973	-6
Income taxes receivable	153	13	-139
Other current assets	83	349	266
Tangible fixed assets	630	599	-31
Intangible fixed assets	76	111	34
Investment and other assets	821	454	-366
Total assets	**6,797**	**6,310**	-486
Accounts payable	489	501	12
Short-term borrowings (incl. long-term borrowings due within a year)	200	575	375
Accrued income taxes	39	39	0
Other current liabilities	202	148	-53
Long-term borrowings	600	287	-312
Other fixed liabilities	35	35	0
Total liabilities	1,565	1,588	22
Shareholders' equity	5,228	4,722	-506
Other	-4	0	5
Non-controlling interests	7	—	-7
Total net assets	5,231	4,722	-509
Total liabilities and net assets	**6,797**	**6,310**	-486

❑ Total assets declined ¥486 million mainly due to a decline of ¥243 million in cash and cash equivalents and a decline of ¥139 million in income taxes receivable.

❑ Total liabilities increased by ¥22 million mainly due to a ¥62 million increase in long-term borrowings (including those due within a year).

❑ Net assets decreased ¥509 million mainly due to the recording of ¥310 million in net loss and dividend payment of ¥195 million for the previous fiscal year.

FY2021 Cash Flow Statement (Consolidated)

GENDAI AGENCY Inc.

(millions of yen)

	End of FY2020	End of FY2021
Net income (loss) before income tax	127	-268
Cash flow from operations	382	-114
Cash flow from investing activities	97	11
Cash flow from financing activities	-796	-140
Cash and cash equivalents at the end of the period	4,046	3,802

❑ Cash and cash equivalents decreased ¥243 million to ¥3,802 million in FY2021.

		− Net loss before income taxes	268
+ Refund of income taxes	139		
+ Other	15		
		Cash flow from operations	-114
		− Payment for purchase of tangible/intangible fixed assets	51
		− Payment for acquisition of shares of subsidiary	58
+ Proceeds from sales and redemption of investment securities	100		
+ Other	20		
Cash flow from investing activities	**11**		
+ Borrowings	300		
		− Repayment of borrowings	237
		− Dividends paid	195
		− Other	8
		Cash flow from financing activities	-140

FY2022 Consolidated Earnings Forecast

GENDAI AGENCY Inc.

	Full-year consolidated (millions of yen)		
	FY2022 forecast	FY2021 result	vs. FY2021 (%)
Net sales	*8,100	7,251	11.7%
Operating income (loss)	300	-290	–
Ordinary income (loss)	300	-268	–
Net income (loss) attributable to parent company shareholders	225	-310	–

*Note: From FY2022, with the introduction of the Accounting Standard for Revenue Recognition (Corporate Accounting Standard No. 29), the Company plans to change the method of recording net sales, primarily in some transactions deemed to be agent transactions in the Group's advertising business, from recording the total transaction amount, to recording the net amount. Consequently, the net sales forecast for FY2022 is expected to decrease by approximately ¥600 million compared to the calculation method used until now. The impact of this change on operating income, ordinary income, and net income attributable to parent company shareholders is expected to be minimal.

❑ Advertising demand from pachinko parlors, the key clients of the Group's mainstay advertising business, fell dramatically in FY2021, and the recovery in demand is expected to be moderate. Demand from operators of fitness facilities and other stores and facilities (an area in which we are working to cultivate new potential clients and expand sales of a range of advertisement types) for advertising aimed at attracting customers is also expected to require a considerable amount of time to recover.

❑ As it is difficult to estimate when the novel coronavirus pandemic will come to an end as well as the details of the various pandemic countermeasures that may be implemented by the government, the Group has calculated the earnings forecast for FY2022 based on the assumption that states of emergency (and other comparable measures involving similarly strict restrictions on business or outings) will not be declared during the fiscal year.

❑ If the actual situation differs from the hypothetical conditions assumed in the calculations, the results for FY2022 could deviate considerably from the forecast and could, similarly to FY2021, end up significantly in the red.

Challenges Ahead

GENDAI AGENCY Inc.

(i) Expansion into advertising markets other than pachinko parlors and diversification of revenue

- ❑ Cultivate the fitness industry advertisement market with focus on fitness search site “FIT Search”
- ❑ Further develop the customer referral support service of IDEAL, a site operated by Press A Inc. that provides customer referral support to fitness facilities, and utilize it to provide customer referral support to customer facilities outside of the fitness industry as well

(ii) Provision of new services in the digital advertising field and employee training

- ❑ Offer new services leveraging the video creation service and accumulated knowhow
- ❑ Focus on development of advertising services adapted to the evolving technologies in the digital advertising field, and training of employees involved with those services

(iii) Promotion of workstyle reforms and revamping of personnel system

- ❑ Further promotion of teleworking, which we originally introduced to safeguard the health of employees, ensure business continuity, and streamline operations
- ❑ Shift to new sales styles that leverage digital tools
- ❑ Revamp personnel system to boost the motivation and productivity of employees

Profit Distribution Basic Policy and Dividends for FY2021 and FY2022

GENDAI AGENCY Inc.

	FY2020	FY2021	FY2022 forecast
Operating margin	4.1%	—	3.7%
EPS	2.06 yen	-20.63 yen	14.95 yen
Total annual dividend *(of which, interim dividend)*	25.00 yen (12.00 yen)	— yen (— yen)	7.00 yen (3.00 yen)

❑ The Group intends to maintain a consolidated 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 emphasis on enhancing capital efficiency.

❑ The Group judged that it is necessary to place priority on securing funds in hand as cash flow is trending negative following the considerable worsening of the business environment due to the novel coronavirus pandemic, and has therefore decided regretfully to suspend payment of dividends for FY2021.

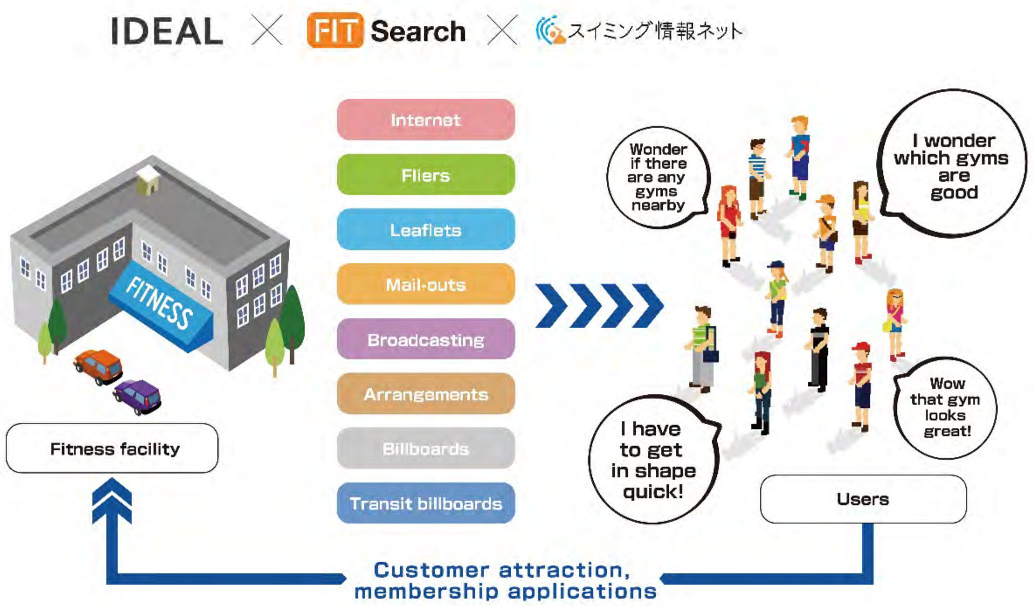
❑ For FY2022, the Group, in principle, intends to determine the dividend taking into account the above basic policy and target dividend payout ratio, but given the continuing high level of uncertainty regarding the earnings forecast for FY2022, it has set the year-end dividend at ¥7 per share (forecast dividend payout ratio: 46.8%).

Acquisition of Shares in Press A Inc.

❑ The Company signed a share transfer agreement on March 12, 2021, with Press A Inc., which operates the fitness information website “IDEAL”.

IDEAL (https://cani.jp/), the fitness information website operated by Press A, specializes in referring customers to specific fitness facilities in specific areas, and we can expect to generate synergies with the Group’s FIT Search and Swimming Info Net services.

https://cani.jp



We will further strengthen our media-based support framework with the aim of providing fitness facilities with customer referral support, and bolster our approaches to the fitness industry

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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