

# Business Results for the Fiscal Year Ended March 31, 2015

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April 17, 2015



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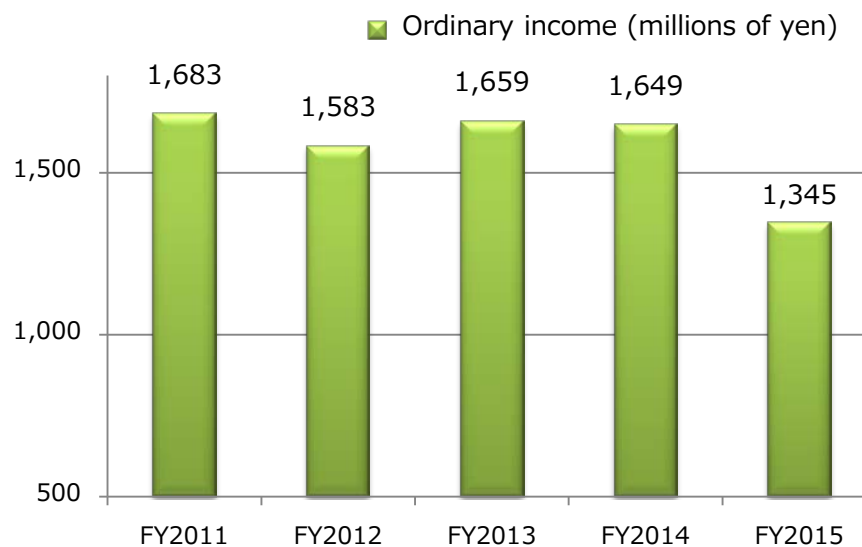
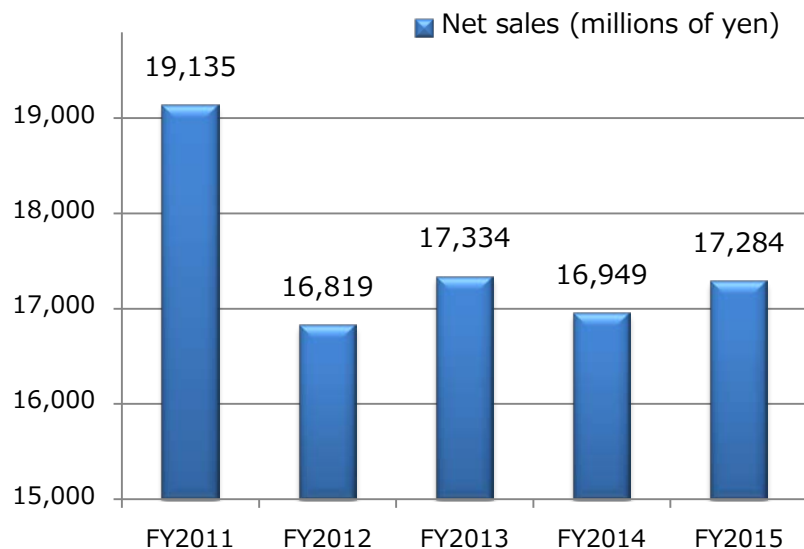
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# Financial Highlights (Consolidated)

□ While the Group secured increased sales year-on-year as a result of U&U Co., Ltd. (the “UU”), whose main customers are from the mail order industry, becoming a consolidated subsidiary, income declined at all levels.

(millions of yen)

|                  | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 |
|------------------|--------|--------|--------|--------|--------|
| Net sales        | 19,135 | 16,819 | 17,334 | 16,949 | 17,284 |
| Operating income | 1,679  | 1,573  | 1,647  | 1,631  | 1,300  |
| Ordinary income  | 1,683  | 1,583  | 1,659  | 1,649  | 1,345  |
| Net income       | 864    | 1,175  | 1,041  | 1,031  | 805    |



# FY2015 Income Statement (Consolidated)

(millions of yen)

|                  | FY2015 | % of total | FY2014 | % of total | YoY comparison |
|------------------|--------|------------|--------|------------|----------------|
| Net sales        | 17,284 | 100.0%     | 16,949 | 100.0%     | 102.0%         |
| Operating income | 1,300  | 7.5%       | 1,631  | 9.6%       | 79.7%          |
| Ordinary income  | 1,345  | 7.8%       | 1,649  | 9.7%       | 81.6%          |
| Net income       | 805    | 4.7%       | 1,031  | 6.1%       | 78.1%          |

□ Despite signs of economic recovery, the pachinko parlor industry in FY2015 continued to struggle in terms of income in particular as user spending declined reflecting sluggish consumer spending following the increase in consumption tax rate in the first half and the business environment continues to be severe with no bottoming seen in the declining trend in user count. New hall openings also showed a declining trend on the whole.

□ In its mainstay advertising business, the Group worked to further increase the number of client parlors to expand sales share, while driving forward the development of a new structure and future sales strategy for U&U Co., Ltd. (the “UU”), which became a subsidiary at the end of FY2014.

□ As a result, net sales for FY2015 totaled ¥17,284 million (up 2.0% year on year), operating income amounted to ¥1,300 million (down 20.3% year on year), ordinary income amounted to ¥1,345 million (down 18.4% year on year) and net income amounted to ¥805 million (down 21.9% year on year).

# Breakdown by Business Segment

## □FY2015

(millions of yen)

|                                 | Advertising | Real Estate | Adjustment | Consolidated |
|---------------------------------|-------------|-------------|------------|--------------|
| Net sales                       | 17,138      | 148         | (2)        | 17,284       |
| of which mail order advertising | 1,043       |             |            |              |
| Segment income                  | 1,678       | 60          | (437)      | 1,300        |

## □Change versus FY2014

(millions of yen)

|                | Advertising | Real Estate | Adjustment | Consolidated |
|----------------|-------------|-------------|------------|--------------|
| Net sales      | +376        | (39)        | (2)        | +335         |
| Segment income | (297)       | (7)         | (26)       | (331)        |

□While consolidated net sales for FY2015 increased by ¥376 million year on year thanks to the contribution from the mail order advertising business, which newly became a consolidated subsidiary at the end of FY2014, segment income declined by ¥297 million.

# FY2015 Income Statement (Advertising)

(millions of yen)

| Advertising                     | FY2015 | FY2014 | YoY comparison |
|---------------------------------|--------|--------|----------------|
| Net sales                       | 17,138 | 16,762 | 102.2%         |
| of which mail order advertising | 1,043  | -      | -              |
| Operating expense               | 15,460 | 14,787 | 104.6%         |
| Segment income                  | 1,678  | 1,975  | 84.9%          |

□ In addition to the continued slump in demand in the pachinko parlor advertising market due to the impact of the advertising restrictions, the overall advertising demand fell significantly given the prolonged cutbacks in advertising expenses, resulting from concerns over the worsening profitability in the industry. The special demand for grand opening notifications also slowed more than the initial expectations due not only to the reduced number of new parlor openings but also due to the fall in size of advertising projects. Under such circumstances, in the advertising business,

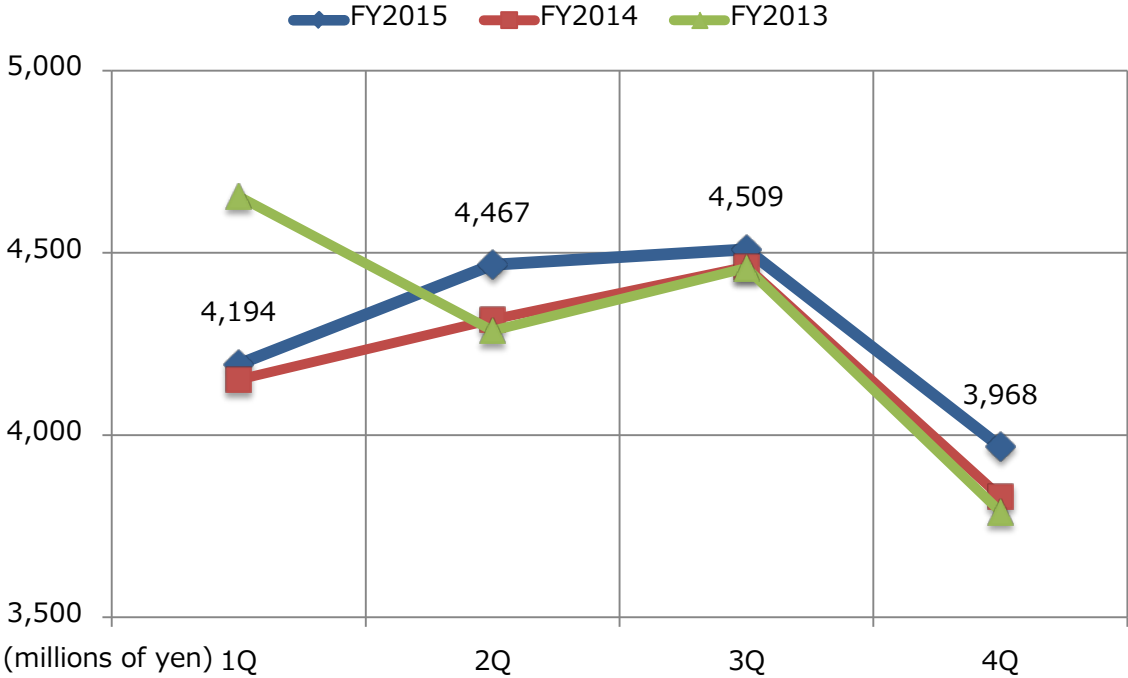
- the Group strengthened its advertising proposals to further increase the number of client parlors and pursued proposals to improve the share of Internet media and outdoor advertising,
- the Group worked to build a low cost structure by hiring large number of designers at a consolidated subsidiary with the aim of reducing cost through streamlining of design work and also embarked on consolidating the designers spread across the various branches, and
- in the mail order advertising business, it drove forward formulation of a new structure and sales strategy following the acquisition at the end of FY2014.

□ As a result of these efforts, the Group was able to offset the reduction in pachinko parlor advertising orders with the ¥1,043 million sales of UU and consequently net sales rose 2.2% year on year to ¥17,138 million. However, segment income declined 15.1% to ¥1,678 million due to the impact of the decline in margin caused by the fall in pachinko parlor advertising sales.

# Quarterly Sales Trends (Advertising)

(millions of yen)

|                                 | 1Q    | 2Q    | 3Q    | 4Q    | Full year |
|---------------------------------|-------|-------|-------|-------|-----------|
| FY2015                          | 4,194 | 4,467 | 4,509 | 3,968 | 17,138    |
| of which mail order advertising | 276   | 234   | 244   | 289   | 1,043     |
| FY2014                          | 4,152 | 4,317 | 4,462 | 3,831 | 16,762    |
| FY2013                          | 4,655 | 4,286 | 4,458 | 3,789 | 17,188    |



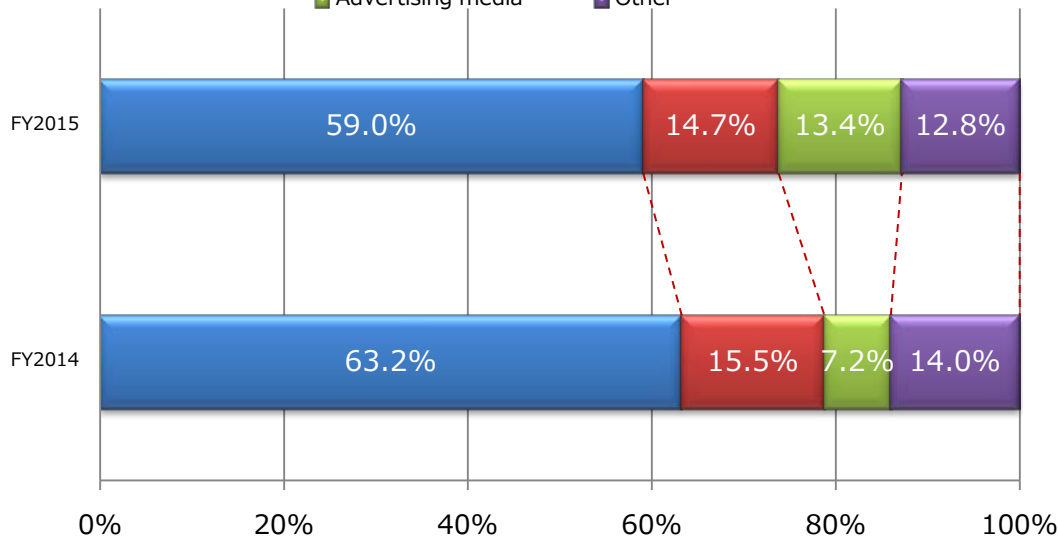
□ Due to the impact of the mail order advertising newly becoming a consolidated subsidiary, net sales increased year on year in every quarter

# Sales Breakdown (Advertising)

(millions of yen)

|                   | FY2015 | % of total | FY2014 | % of total | YoY comparison |
|-------------------|--------|------------|--------|------------|----------------|
| Newspaper flyers  | 10,118 | 59.0%      | 10,594 | 63.2%      | 95.5%          |
| Promotional goods | 2,527  | 14.7%      | 2,604  | 15.5%      | 97.0%          |
| Advertising media | 2,305  | 13.4%      | 1,215  | 7.2%       | 189.7%         |
| Other             | 2,187  | 12.8%      | 2,348  | 14.0%      | 93.2%          |
|                   | 17,138 | 100.0%     | 16,762 | 100.0%     | 102.2%         |

■ Newspaper flyers    ■ Promotional goods  
■ Advertising media    ■ Other



Sales and ratio of the advertising media increased by ¥1,090 million and 6.2 pp, as the Group newly made the mail order advertising business into a consolidated subsidiary

Sales of the other category fell year on year primarily due to decline in spot sales to manufacturers



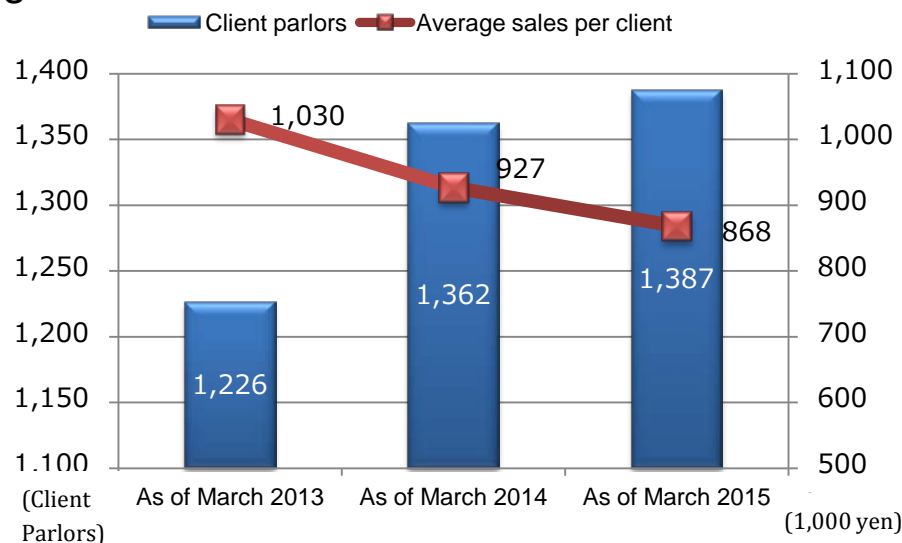
# Clients (Advertising)

## Average sales per client and number of client parlors

□ While number of client parlors increased as we strengthened our advertisement proposal activities, average sales per client are on a downward trend

| Active clients                          | As of Mar 2013 | As of Mar 2014 | As of Mar 2015 |
|---|----------------|----------------|----------------|
| Client parlors *1                       | 1,226          | 1,362          | 1,387          |
| Average sales per client (1,000 yen) *2 | 1,030          | 927            | 868            |

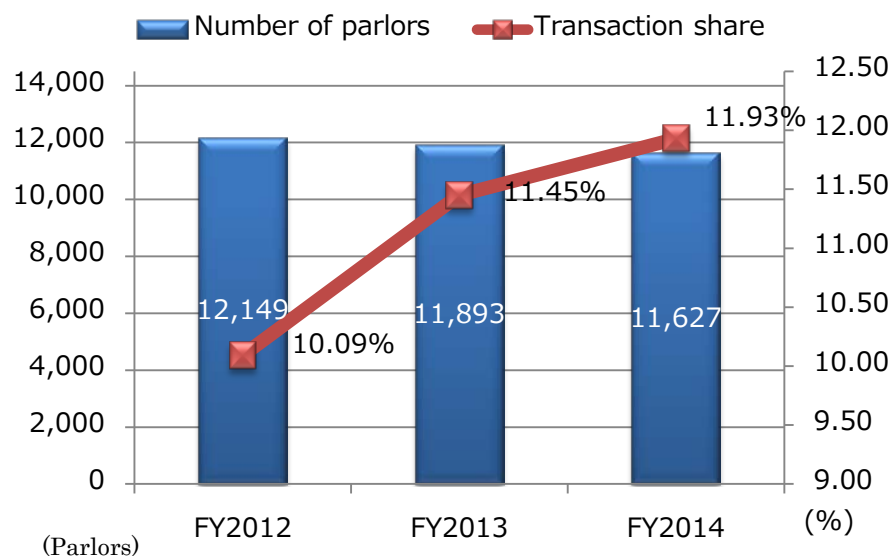
\*1 Client parlors refer to customers with more than ¥50,000 in monthly transactions  
\*2 Sales figures are monthly



## Share in the pachinko parlor advertising market

□ The Group's transaction share has increased even as the total number of pachinko parlors shows a downward trend.

|   | FY2012 | FY2013 | FY2014 |
|---|--------|--------|--------|
| Number of pachinko parlors (National Police Agency study) | 12,149 | 11,893 | 11,627 |
| Number of client parlors (as of March 2015)               | 1,226  | 1,362  | 1,387  |
| Transaction share   | 10.09% | 11.45% | 11.93% |

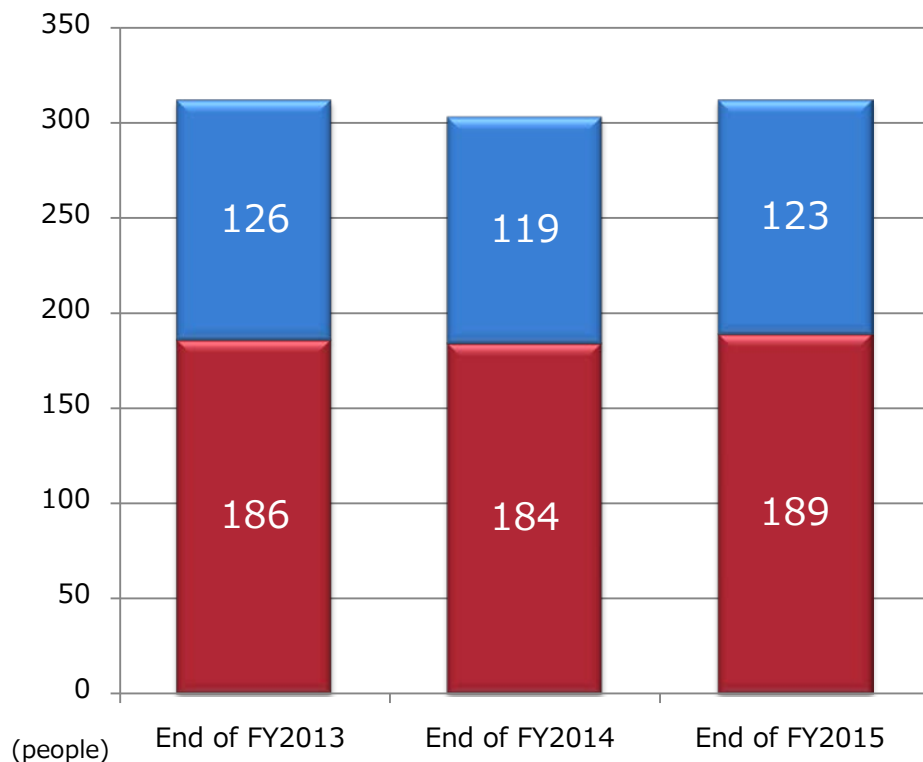


# Employees (Advertising)

(people)

|                                      | End of FY2013 | End of FY2014 | End of FY2015 |
|--------------------------------------|---------------|---------------|---------------|
| Cost of sales (creative, production) | 126           | 119           | 123           |
| SG&A (sales, administration)         | 186           | 184           | 189           |
| Subtotal for advertising             | 312           | 303           | 312           |

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



□ The number of designers in the company decreased by 17 year on year but rose by 4 for the Group as a whole as a consolidated subsidiary added more designers

□ Twenty-four new graduates joined Gendai Agency Group in April 2015

## FY2015 Income Statement (Real Estate)

(millions of yen)

| Real Estate       | FY2015 | FY2014 | YoY comparison |
|-------------------|--------|--------|----------------|
| Net sales         | 145    | 187    | 77.9%          |
| Operating expense | 85     | 120    | 70.8%          |
| Segment income    | 60     | 67     | 89.2%          |

□ In FY2015, an office sales and leasing agreement (brokerage commission of ¥2 million) was added to the two existing, ongoing leasing agreements. As a result, net sales totaled ¥145 million, down 22.1% from the previous fiscal year, and segment income came to ¥60 million, down 10.8% year on year.

# FY2015 Balance Sheet (Consolidated)

(millions of yen)

|  | End of FY2014<br>(A) | End of FY2015<br>(B) | Change<br>(B) – (A) |
|--|----------------------|----------------------|---------------------|
| Cash and cash equivalents  | 3,804                | 3,494                | (310)               |
| Notes and accounts receivables                                       | 2,226                | 2,105                | (121)               |
| Other current assets   | 180                  | 306                  | 126                 |
| Tangible fixed assets  | 893                  | 939                  | 46                  |
| Intangible fixed assets  | 259                  | 321                  | 62                  |
| Investment and other assets  | 1,124                | 961                  | (163)               |
| <b>Total assets</b>  | <b>8,487</b>         | <b>8,129</b>         | <b>(358)</b>        |
| Notes and accounts payables  | 1,289                | 1,220                | (69)                |
| Short-term borrowings (incl. long-term borrowings due within a year) | 756                  | 460                  | (296)               |
| Accrued income taxes   | 318                  | 234                  | (84)                |
| Other current liabilities  | 238                  | 334                  | 96                  |
| Long-term borrowings   | 270                  | 490                  | 220                 |
| Other fixed liabilities  | 26                   | 18                   | (8)                 |
| <b>Total liabilities</b>   | <b>2,898</b>         | <b>2,758</b>         | <b>(140)</b>        |
| Shareholders' equity   | 5,567                | 5,353                | (214)               |
| Other  | 20                   | 17                   | (3)                 |
| <b>Total net assets</b>  | <b>5,589</b>         | <b>5,370</b>         | <b>(218)</b>        |
| <b>Total liabilities and net assets</b>                              | <b>8,487</b>         | <b>8,129</b>         | <b>(358)</b>        |

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

(2) Some short-term borrowings shifted to long-term, with a net ¥76 million decline due to repayment

(3) Decline of ¥218 million year on year  
Main factors  
+¥805 million in net income  
-¥551 million in treasury stock  
-¥467million in dividend payments

# FY2015 Cash Flow Statement (Consolidated)

(millions of yen)

|   | FY2014       | FY2015         |
|---|--------------|----------------|
| <b>Net income before income taxes</b>   | <b>1,659</b> | <b>1,307</b>   |
| Amortization of goodwill  | -            | 44             |
| Depreciation and amortization   | 68           | 79             |
| Amortization of long-term prepaid expenses  | 46           | 46             |
| Increase (decrease) in allowance for doubtful accounts  | (0)          | 0              |
| Interest and dividends received   | (4)          | (8)            |
| Interest expenses   | 7            | 8              |
| Exchange loss (gain)  | (16)         | (42)           |
| Loss (gain) on sales of investment securities   | (8)          | -              |
| Loss (gain) on valuation of investment securities   | -            | 23             |
| Decrease (increase) in accounts receivable  | 69           | 126            |
| Decrease (increase) in inventories  | (4)          | (7)            |
| Increase (decrease) in accounts payable   | 15           | (68)           |
| Other   | (36)         | 94             |
| <b>Subtotal</b>   | <b>1,797</b> | <b>1,606</b>   |
| Interest and dividends income received  | 2            | 10             |
| Interest expenses paid  | (6)          | (9)            |
| Income taxes paid   | (850)        | (579)          |
| <b>Cash flow from operations</b>  | <b>942</b>   | <b>1,027</b>   |
| Proceeds from withdrawal of time deposits   | 26           | -              |
| Purchase of property, plant and equipment   | (53)         | (127)          |
| Purchase of intangible assets   | (11)         | (130)          |
| Payment for purchase of investment securities   | (459)        | (52)           |
| Proceeds from sales and redemption of investment securities   | 37           | 30             |
| Purchase of investments in subsidiaries   | -            | (24)           |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation | -            | 3              |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation               | (285)        | -              |
| Payments of loans receivable  | (65)         | -              |
| Proceeds from collection of lease and guarantee deposits  | 11           | 51             |
| Payments for lease and guarantee deposits   | (0)          | (44)           |
| Other   | 38           | 27             |
| <b>Cash flow from investing activities</b>  | <b>(762)</b> | <b>(266)</b>   |
| Increase (decrease) in short-term borrowings  | 500          | (500)          |
| Proceeds from long-term loans payable   | -            | 700            |
| Repayment of long-term loans payable  | (368)        | (297)          |
| Dividends paid  | (464)        | (467)          |
| Proceeds from stock issuance to minority shareholders   | -            | 21             |
| Payment for purchase of treasury stock  | -            | (551)          |
| <b>Cash flow from financing activities</b>  | <b>(333)</b> | <b>(1,095)</b> |
| Translation adjustments related to cash and cash equivalents  | 11           | 31             |
| Increase (decrease) in cash and cash equivalents  | (142)        | (302)          |
| Cash and cash equivalents at beginning of period  | 3,981        | 3,839          |
| <b>Cash and cash equivalents at end of period</b>   | <b>3,839</b> | <b>3,536</b>   |

(1) Decline in payment of income tax due to decline in income before income taxes

(2) Replacement of sales management system, etc.

(3) Acquisition of UU shares in FY2014

(4) Shift from short-term borrowings to long-term loans

(5) ¥467 million in payment of dividends

(6) ¥551 million for purchase of treasury stock

} Active return of profits to shareholders

# FY2016 Consolidated Earnings Forecast


|                  | FY2016 1H forecast |                    | FY2016 forecast |                    |
|------------------|--------------------|--------------------|-----------------|--------------------|
|                  | Millions of yen    | YoY comparison (%) | Millions of yen | YoY comparison (%) |
| Net sales        | 8,350              | - 4.4%             | 16,700          | - 3.4%             |
| Operating income | 610                | - 7.2%             | 1,220           | - 6.2%             |
| Ordinary income  | 610                | - 9.4%             | 1,220           | - 9.3%             |
| Net income       | 405                | +1.0%              | 810             | +0.6%              |

□ With regard to the business environment in FY2016, we expect the demand for the mainstay pachinko hall advertising business to decline gradually, as the advertising budget is likely to be slashed due to the anticipated deterioration in the number of pachinko users and pachinko halls as in this fiscal year.

# Challenges Ahead

□ The Group will implement the following measures in order to realize its management strategies:

## (1) Shift the earnings structure of the pachinko hall advertising business

- ✓ Boost orders for the Internet service including  ([pachiseven.jp](http://pachiseven.jp)), which is our own media.
- ✓ Focus on development and sales of effective outdoor advertisement in cooperation with Ensign Ad, a consolidated subsidiary.
- ✓ Promote sales of job-placement ads and tie-ups with recruitment media companies against the background of labor shortage in the pachinko industry.

## (2) Expand the advertising business by targeting clients in industries other than pachinko parlor operators.

- ✓ Actively promote acquisition by UU of new customers, primarily mail-order service companies
- ✓ Start the printing business targeting companies in other industries by utilizing the paper-based advertising knowhow we have built, and start the design contracted business on a trial basis utilizing the vast amount of resources at the creative department.

## (3) Continuously implement cost-reduction measures

- ✓ Optimize fixed cost = design cost through consolidation of the creative department to consolidated subsidiary Julia Japan and through appropriate personnel allocation
- ✓ Optimize variable cost through effective placement of orders by reviewing costs related to printing of direct mail and mailing, which have a high impact on cost reduction

## Profit Distribution Basic Policy and Dividends for FY2015 and FY2016

|                                   | FY2014             | FY2015             | FY2016 forecast    |
|-----------------------------------|--------------------|--------------------|--------------------|
| Operating margin                  | 9.6%               | 7.5%               | 7.3%               |
| EPS                               | 62.12 yen          | 51.08 yen          | 51.59 yen          |
| ROE                               | 19.5%              | 14.7%              | –                  |
| Total annual dividend             | 28.00 yen          | 30.00 yen          | 30.00 yen          |
| <i>Of which, interim dividend</i> | <i>(14.00 yen)</i> | <i>(15.00 yen)</i> | <i>(15.00 yen)</i> |

□ 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 FY2015, the Group intends to pay a year-end dividend of 15.00 yen per share. Together with the interim dividend of 15.00 yen per share, total annual dividend amounts to 30.00 yen per share (a dividend payout ratio of 58.7%).

□ The Group plans to determine the dividend forecast for FY2016 also based on the above basic policy and it currently expects to pay an annual dividend of 30.00 yen per share (expected consolidated dividend payout ratio of 58.1%).



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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