



Business Results for the First Half of the Fiscal Year Ending March 31, 2018(FY2018)

October 13, 2017

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1H FY2018 Income Statement (Consolidated)

(millions of yen)

| | 1H FY2018 | % of total | 1H FY2017 | % of total | YoY comparison |
|--------------------------------------------------------|-----------|------------|-----------|------------|----------------|
| Net Sales | 6,878 | 100.0% | 8,056 | 100.0% | 85.4% |
| Operating income | 430 | 6.3% | 628 | 7.8% | 68.5% |
| Ordinary income | 449 | 6.5% | 594 | 7.4% | 75.6% |
| Net income attributable to parent company shareholders | 312 | 4.5% | 397 | 4.9% | 78.6% |

○ The pachinko parlor industry continues to be in a severe situation in terms of earnings. Given the recent measures to prevent dependence and the trend of tightening industry restrictions aimed at curbing the gambling properties, investment motivation such as new parlor openings and proactive purchase of new machines appears to be significantly declining 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 the Internet media and strengthening sales activities for the printing business targeting companies in other industries. At the same time, it worked on controlling fixed costs to improve profitability.

○ As a result, net sales for the first half of FY2018 totaled ¥6,878 million (down 14.6% year on year), operating income came to ¥430 million (down 31.5%), ordinary income amounted to ¥449 million (down 24.4%) and net income attributable to parent company shareholders totaled ¥312 million (down 21.4%).

Breakdown by Business Segment

1H FY2018

(millions of yen)

| | Advertising | Real Estate | Other | Adjustment | Consolidated |
|----------------|-------------|-------------|-------|------------|--------------|
| Net sales | 6,803 | 36 | 38 | — | 6,878 |
| Segment income | 638 | 17 | (45) | (179) | 430 |

Change versus 1H FY2017

(millions of yen)

| | Advertising | Real Estate | Other | Adjustment | Consolidated |
|----------------|-------------|-------------|-------|------------|--------------|
| Net sales | (1,140) | (36) | (1) | — | (1,178) |
| Segment income | (136) | (17) | (38) | (4) | (197) |

○ Consolidated net sales declined ¥1,178 million as pachinko parlor advertisements were significantly below the previous year's level. Segment income declined ¥197 million although the Group promoted reduction of fixed costs.

1H FY2018 Segment Income (Advertising)

| (millions of yen) | | | |
|-------------------|-----------|-----------|----------------|
| Advertising | 1H FY2018 | 1H FY2017 | YoY comparison |
| Net sales | 6,803 | 7,943 | 85.6% |
| Operating expense | 6,165 | 7,168 | 86.0% |
| Segment income | 638 | 775 | 82.3% |

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 DSP advertisement "Pachi Ad"
- Strengthened sales of the printing business for other industries
- Drove forward streamlining and labor-saving through review of order process and focused on controlling fixed costs

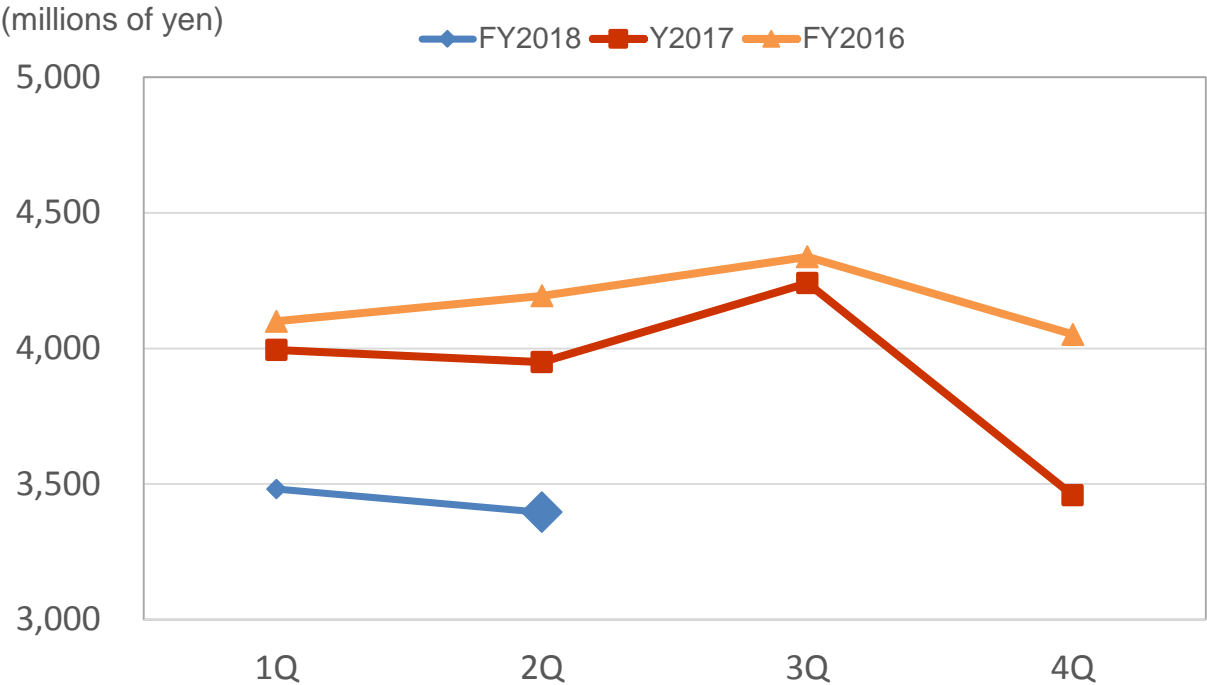
Result>

- While the efforts had certain impacts, they were not enough to offset the impact of rapid decline in demand. Segment income declined 17.7% year on year to ¥638 million on net sales of ¥6,803 million, down 14.4%.

Quarterly Sales Trends (Advertising)

(millions of yen)

| | 1Q | 2Q | 3Q | 4Q | Full year |
|--------|-------|-------|-------|-------|-----------|
| FY2018 | 3,482 | 3,396 | — | — | 6,878 |
| FY2017 | 3,994 | 3,949 | 4,241 | 3,459 | 15,643 |
| FY2016 | 4,100 | 4,194 | 4,338 | 4,052 | 16,684 |



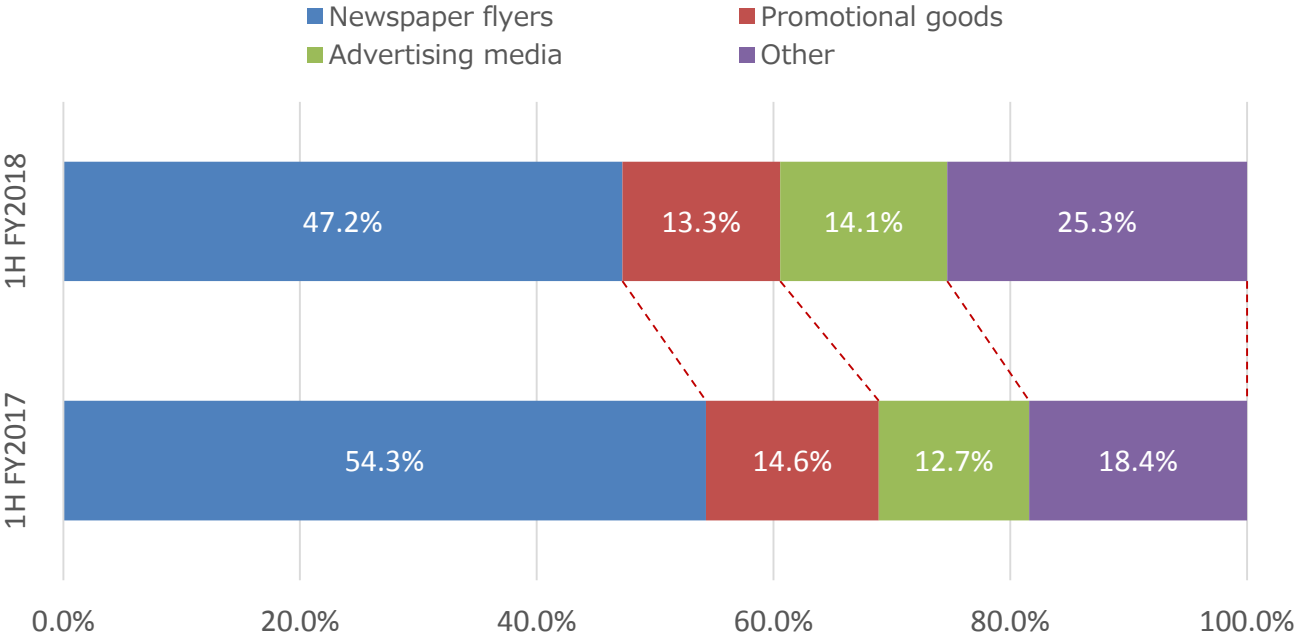
○Net sales of the Advertising Business declined ¥553 million in 2Q compared with the same period a year earlier.

○The decline was due to decline in advertising demand resulting from falling frequency of replacement with new machines, cut-back of advertising budget and extreme decline in large-scale advertising demand for new parlor openings, etc. compared with regular years.

Sales Breakdown (Advertising)

(millions of yen)

| | 1H FY2018 | % of total | 1H FY2017 | % of total | YoY comparison |
|-------------------|-----------|------------|-----------|------------|----------------|
| Newspaper flyers | 3,213 | 47.2% | 4,313 | 54.3% | 74.5% |
| Promotional goods | 908 | 13.3% | 1,161 | 14.6% | 78.2% |
| Advertising media | 960 | 14.1% | 1,005 | 12.7% | 95.5% |
| Other | 1,721 | 25.3% | 1,462 | 18.4% | 117.7% |
| | 6,803 | 100.0% | 7,943 | 100.0% | 85.6% |



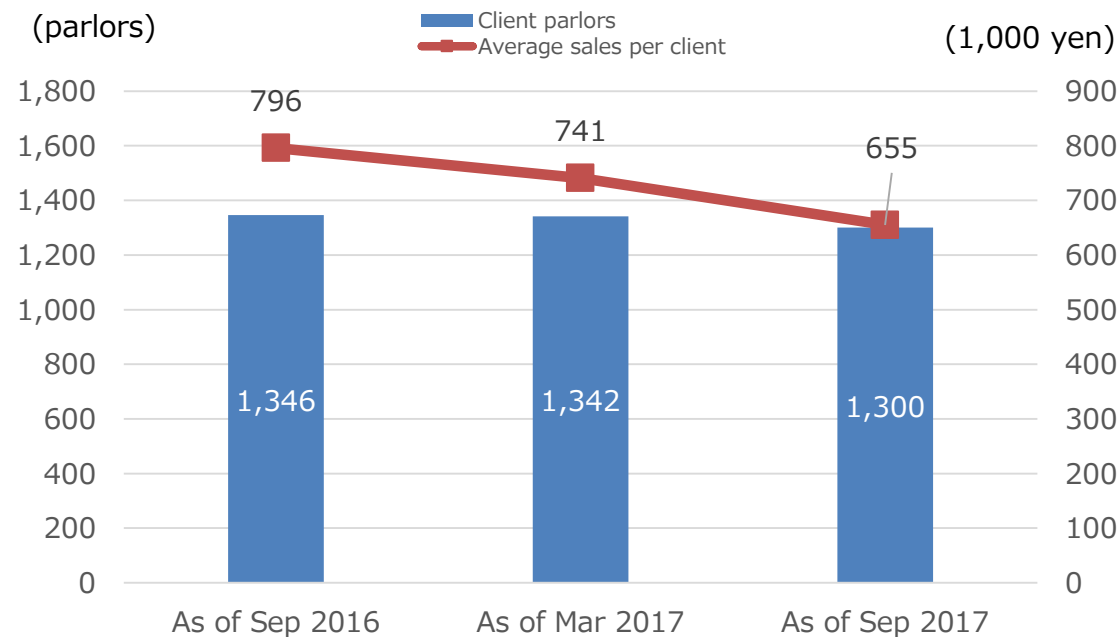
○ Sales of the Newspaper flyers category, which is the mainstay media of the Pachinko advertising business, declined drastically by 25.5% primarily as demand for advertising new machine replacements fell. The category share also declined 7.1 percentage points.

○ Both sales and share of the Other category increased, as sales of Internet advertisements “Pachi 7” and “Pachi Ad,” the company’s own service, expanded.

○ Given the decline in advertising demand due to cut-back of advertising cost and decline in frequency of new machine replacements, average sales per client declined ¥86,000 compared with the end of March 2017. In addition, the number of clients described here declined as the number of clients outside the scope of tabulation increased reflecting falling average sales per client.

| Active clients | As of Sep 2016 | As of Mar 2017 | As of Sep 2017 |
|-----------------------------------------|----------------|----------------|----------------|
| Client parlors *1 | 1,346 | 1,342 | 1,300 |
| Average sales per client (1,000 yen) *2 | 796 | 741 | 655 |

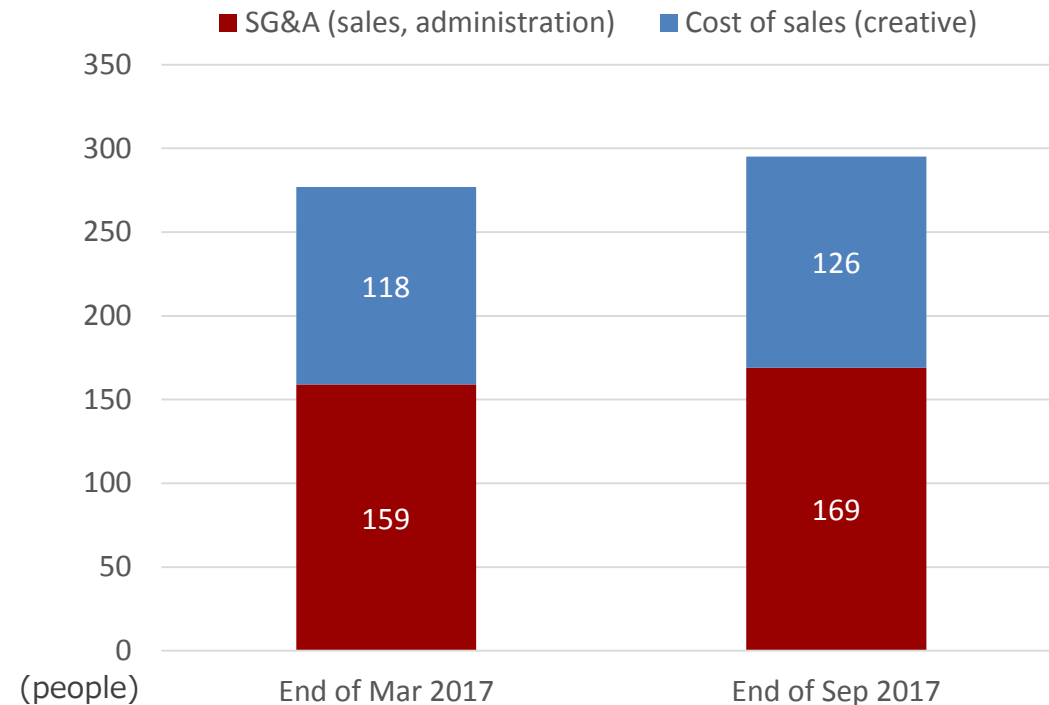
*1 Client parlors refer to customers with more than ¥50,000 in monthly transactions *2 Figures are on a single-month basis



Employees (Advertising)

(people)

| | End of Mar 2017 | End of Sep 2017 |
|------------------------------|-----------------|-----------------|
| SG&A (sales, administration) | 159 | 169 |
| Cost of sales (creative) | 118 | 126 |
| Subtotal for advertising | 277 | 295 |



- Sales and administration: Strengthened Internet advertising division and job advertising division
- Creative: Consolidated subsidiaries promoted a temporary employee to a full-time employee
- As a result, the number of employees increased 18 compared with the end of the previous fiscal year.

1H FY2018 Segment Income (Real Estate)

(millions of yen)

| Real Estate | 1H FY2018 | 1H FY2017 | YoY comparison |
|-------------------|-----------|-----------|----------------|
| Net sales | 36 | 72 | 50.0% |
| Operating expense | 19 | 37 | 51.4% |
| Segment income | 17 | 35 | 49.5% |

○ In addition to the land for lease use newly acquired in Kashiwa, Chiba Prefecture, in February this year, we signed a lease property intermediary project (¥11 million).

○ Due to the impact of the sale of land lease property in Kobe at the end of the previous fiscal year, net sales of the Real Estate business declined 50.0% year on year to ¥36 million and segment income fell 49.5% to ¥17 million.

1H FY2018 Balance Sheet (Consolidated)

(millions of yen)

| | End of FY2017 (A) | End of 1H FY2018 (B) | Change (B) - (A) |
|----------------------------------------------------------------------|----------------------|-------------------------|---------------------|
| Cash and cash equivalents | 4,374 | 3,949 | (424) |
| Notes and accounts receivables | 1,870 | 1,744 | (125) |
| Other current assets | 515 | 275 | (240) |
| Tangible fixed assets | 681 | 868 | 187 |
| Intangible fixed assets | 107 | 96 | (11) |
| Investment and other assets | 781 | 893 | 112 |
| Total assets | 8,330 | 7,829 | (501) |
| Notes and accounts payables | 1,132 | 925 | (206) |
| Short-term borrowings (incl. long-term borrowings due within a year) | 540 | 240 | (300) |
| Accrued income taxes | 239 | 136 | (103) |
| Other current liabilities | 188 | 211 | 23 |
| Long-term borrowings | 760 | 640 | (120) |
| Other fixed liabilities | 33 | 33 | — |
| Total liabilities | 2,893 | 2,186 | (707) |
| Shareholders' equity | 5,387 | 5,504 | 117 |
| Other | 49 | 138 | 89 |
| Total net assets | 5,436 | 5,642 | 205 |
| Total liabilities and net assets | 8,330 | 7,829 | (501) |

(1) Decline in cash and cash equivalents due to tax payment, dividend payment and acquisition of fixed assets, etc.

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

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

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

(5) Decline due to repayment of borrowings

(5) Decline due to repayment of borrowings

(6) +¥312 million in quarterly net income, -¥195 million in dividend payments

(7) +¥112 million due to capital increase in a consolidated subsidiary by a non-controlling shareholder

1H FY2018 Cash Flow Statement (Consolidated)

| | (millions of yen) | | | |
|------------------------------------------------|-------------------|------------------|-------------------------------------------------|------------|
| | End of FY2017 | End of 1H FY2018 | | |
| Net income before income taxes | 1,230 | 449 | + Net income before income taxes | 449 |
| Cash flow from operations | 1,031 | 270 | + Depreciation and amortization | 58 |
| Cash flow from investing activities | 79 | (201) | + Decline in accounts receivable | 116 |
| Cash flow from financing activities | (251) | (503) | + Other (net) | 95 |
| Cash and cash equivalents at end of the period | 4,368 | 3,943 | | |
| | | | — Decline in accounts payable | 206 |
| | | | — Income taxes paid | 242 |
| | | | Cash flow from operations | 270 |
| | | | | |
| | | | — Payment for purchase of tangible fixed assets | 232 |
| | | | — Payment for purchase of investment securities | 153 |
| | | | — Other payments | 9 |
| | | | Proceeds from sales and redemption of | |
| | | | + investment securities | 190 |
| | | | + Other earnings | 3 |
| | | | Cash flow from investing activities | 201 |
| | | | | |
| | | | — Repayment of borrowings | 420 |
| | | | — Dividends paid | 195 |
| | | | Proceeds from payment from non- | |
| | | | + controlling shareholder | 112 |
| | | | Cash flow from financing activities | 503 |

○Cash and cash equivalents at the end of the period declined ¥425 million to ¥3,943 million reflecting acquisition of fixed assets and repayment of borrowings.

Revision of FY2018 Consolidated Earnings Forecast

| | 1H FY2018 results | Previous forecast (A) *Announced on April 14, 2017 | Progress | Revised forecast (B) *Announced on October 13, 2017 | Progress | Change (B) – (A) | Change (%) |
|-----------------------------------------------------------|----------------------|-------------------------------------------------------------|----------|-----------------------------------------------------------------|----------|---------------------|------------|
| Net sales | 6,878 | 15,600 | 44.1% | 14,000 | 49.1% | (1,600) | -10.2% |
| Operating income | 430 | 1,100 | 39.1% | 900 | 47.8% | (200) | -18.2% |
| Ordinary income | 449 | 1,100 | 40.8% | 900 | 49.9% | (200) | -18.2% |
| Net income attributable to parent company shareholders | 312 | 720 | 43.3% | 600 | 52.0% | (120) | -16.6% |

○ Regarding net sales, pachinko parlor operators have been rapidly cutting back their advertising spending in the mainstay advertising business and this trend is expected to continue in the second half. The Group has been accelerating its shift too Internet advertisements from conventional print advertisements in a bid to transform its earnings structure but these efforts are unlikely to be enough to offset the impact of declining demand for paper-based advertisement in the current fiscal year. Net sales, therefore, are expected to be ¥1,600 million lower than the previous forecast.

○ Operating income and ordinary income are expected to be ¥200 million lower than the previous forecasts due to the impact of declining margin resulting from a drastic decline in sales from print advertisements, while sales of Internet advertisements are steadily increasing.

○ Net income attributable to parent company shareholders is expected to be ¥120 million lower than the previous forecast primarily due to the above mentioned margin decline.

○ While Gendai Agency aims to maintain consolidated dividend payout ratio of 50% as its basic dividend policy, **it does not revise its dividend forecast along with the earnings forecast revisions.**

Gendai-operated Website “Pachi 7”



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.

<http://pachiseven.jp>



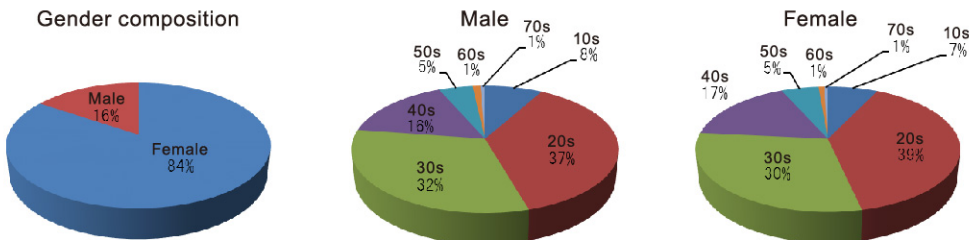
Website established
August 7, 2014
(Pachi 7 Day)

User count
1,134,000_{UU}
*User local survey

Viewer count
3,020,000_{PV/Month}
Jan 2017 *Google analytics survey

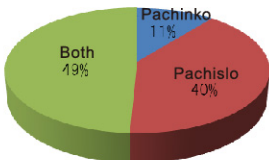
Parlors listed
4,257_{parlors}
*As of Jan-end 2017

Gender composition



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

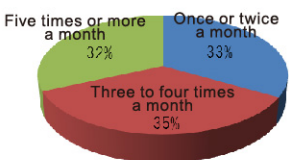
Play attribution



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.

We have been receiving a number of responses at a terrific speed primarily from pachinko and pachislo users!



Has 2 million UU data, of those who visited Pachi 7 website, which is managed as action history big data. Along with distributing advertisements to the 2 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.



User specialized pachinko portal site operated by Gendai

Accumulate Pachi 7 visitor data



Holds about 2 million UU pachinko user data!!

Advertisements distributed when the 2 million Pachi 7 visitors are browsing various other sites



Also for those who don't visit Pachi 7, the advertisements are distributed simultaneously to users with similar action pattern as Pachi 7 users!!

*Anticipated Pachi 7 users

The largest in Japan!
Distributing to the available 380 billion advertising slots a month!



* Examples of distribution

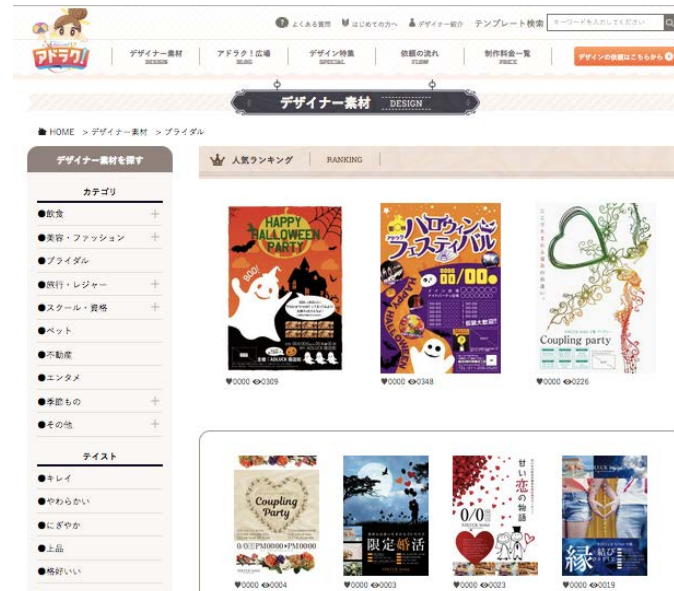
Contract-based Design Site Adluck!



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

It carries out original design creation and sales over the Internet leveraging its main contents made up of free template materials, which are the largest among websites offering similar services, and designer blogs that convey design knowhow.

▼Adluck ! TOP



○Monthly PV count - 120,000PV ○User count - 40,000 users
10,000 free templates available on the website.

Since the pre-opening of the site at the end of June, we have had an average monthly PV count of 120,000PV. Going forward, we will expand sales by further expanding contents and adding various functions.

Expansion Investment of GDLH-managed Area in Pailin Flamingo Casino GENDAI AGENCY Inc.

Consolidated subsidiary GDLH is carrying out additional investment in the slot machine floor it operates under contract within the Flamingo Casino with the following goals:

- Through expansion investment, ensure further stability in profits by enabling extension of the business activities by five more years in the casino, which has the ability to attract customers in large numbers
- Implement marketing measures, which have not been available till now, by introducing Casino Management System (CMS)

Additional investment amount: About one million USD

Additional equipment count: Slot machine – 78 stations, and introduction of CMS



As of the end of September, except a few machines, slot machines as well as CMS have been installed and setting completed, and we expect full-fledged operation including the to-be installed machines and promotion activities, etc. from late October.

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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