



# Business Results for the First Half of the Fiscal Year Ending March 31, 2020 (FY2020)

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October 18, 2019

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# 1H FY2020 Income Statement (Consolidated)

(millions of yen)

	1H FY2020	% of total	1H FY2019	% of total	YoY comparison
Net sales	5,768	100.0%	6,272	100.0%	92.0%
Operating income	285	4.9%	421	6.7%	67.7%
Ordinary income	253	4.4%	461	7.4%	54.9%
Net income attributable to parent company shareholders	24	0.4%	299	4.8%	8.2%

❑ 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 parlor operators 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 has set forth a policy of diversifying earnings to avoid excessive reliance on a specific industry and is pursuing market development in fields other than pachinko parlors. The Group has been promoting initiatives aimed at improving earnings through expansion of sales in advertising for the fitness industry, strengthening of the contract-based design business and handling of online job advertising.

❑ As a result, net sales for the first half of FY2020 totaled ¥5,768 million (down 8.0% year on year), operating income came to ¥285 million (down 32.3%), ordinary income came to ¥253 million (down 45.1%) and net income attributable to parent company shareholders totaled ¥24 million (down 91.8%) due to recording of impairment loss of ¥112 million, etc. as extraordinary losses.

❑ Given the signs of impairment connected with the casino machines owned by overseas subsidiary GDLH Pte. Ltd. (hereinafter "GDLH"), the impairment loss was measured based on the accounting standards for impairment of fixed assets and an impairment loss of ¥112 million was recorded as extraordinary loss in the 1H consolidated financial statement.

## ■ 1H FY2020

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	5,656	75	36	-	5,768
Segment income	501	44	-99	-161	285

## ■ Compared to 1H FY2019

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	-537	24	8	-	-504
Segment income	-130	8	-22	7	-135

❑ Consolidated net sales declined ¥537 million as the pachinko parlor advertisement business trended below the previous year's level.

❑ In the Other Business segment, segment loss came to ¥22 million primarily due to the impact of the amortization burden of initial investment in the casino business and fall in customer drawing power of casino facilities.

The contract-based electronic casino operation business in Southeast Asia continues to operate at a loss and any major improvement in results going forward has been deemed difficult. Further, taking into account the recording of impairment loss of ¥112 million related to the casino machines owned by GDLH, the Group resolved at a Board of Directors meeting held on October 18, 2019, to pursue a policy of fully withdrawing from the business.

(Details described on P14: "Plan to Discontinue Entire Business of a Subsidiary")

# 1H FY2020 Segment Income (Advertising)

(millions of yen)

Advertising	1H FY2020	1H FY2019	YoY comparison
Net sales	5,656	6,193	91.3%
Operating expense	5,155	5,562	92.7%
Segment income	501	631	79.4%

## 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.
- ❑ Demand for large-scale parlor opening advertisements also decreased due to decline in new parlor openings.

## The Group's approach>

- ❑ Expanded sales of Internet media, primarily of its own "Pachi 7" media and "PachiAd" DSP advertising.
- ❑ Started shifting human resources to advertising fields other than pachinko parlors.
- ❑ Promoted strengthening of sales in advertising for the fitness industry, the contract-based design business, and online job advertisements.

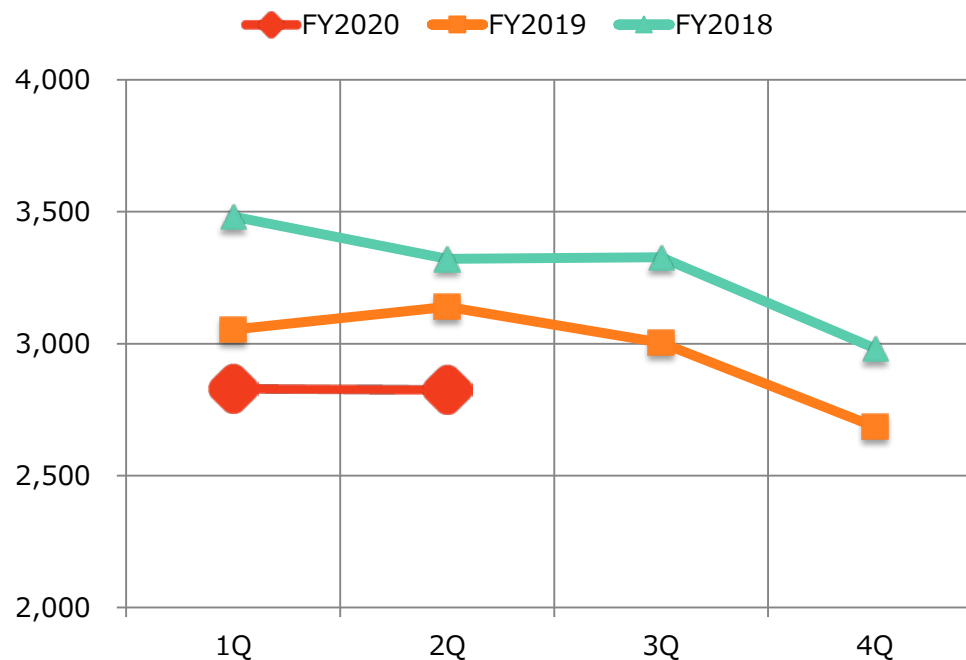
## Result>

- ❑ Developing the markets in advertising fields other than pachinko parlors is expected to take considerable time, and given the significant impact of the falling demand in pachinko parlor advertisements, net sales declined 8.7% year on year to ¥5,656 million while segment income declined 20.6% to ¥501 million.

# Quarterly Sales Trends (Advertising)

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
FY2020	2,830	2,826	-	-	5,656
FY2019	3,053	3,140	3,004	2,685	11,882
FY2018	3,482	3,321	3,327	2,982	13,112



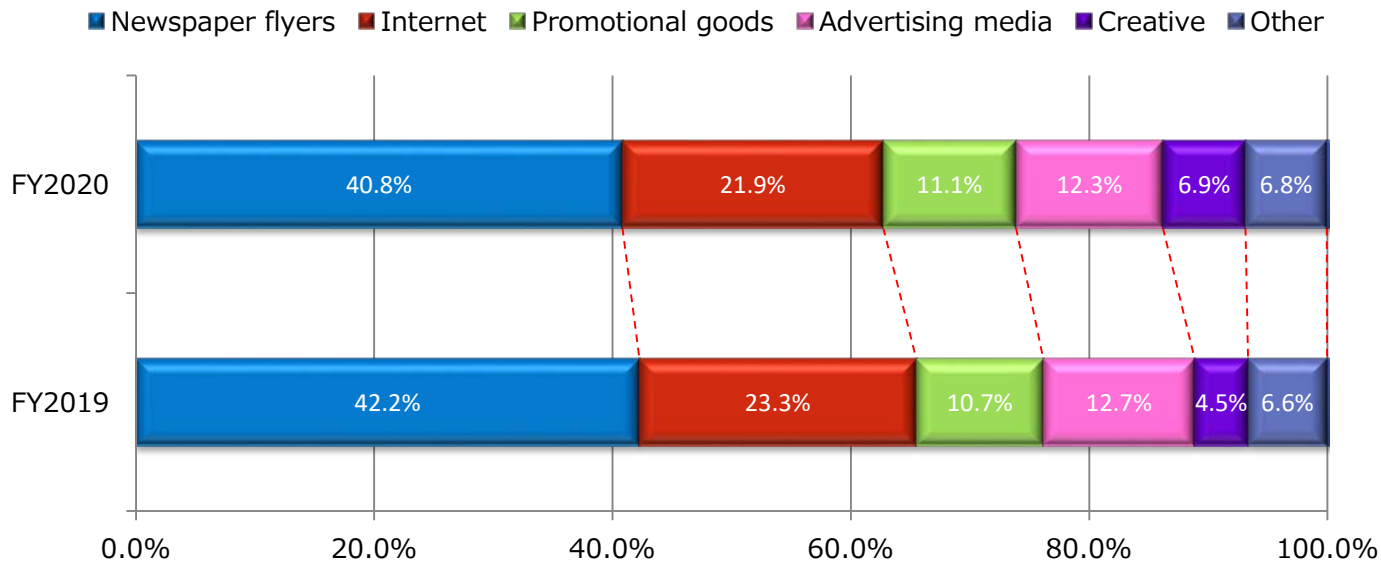
❑ Net sales of the Advertising Business declined ¥314 million in 2Q compared with the same period a year earlier.

❑ The decline was due to the continued cutback of advertising budgets caused by the worsening profitability in the pachinko parlor business. Other factors include the decreased advertising demand resulting from falling frequency of replacement with new machines and significant decline in large-scale advertising demand due to an extreme decline in new parlor openings compared to an average year.

# Sales Breakdown (Advertising)

(millions of yen)

	1H FY2020	% of total	1H FY2019	% of total	YoY comparison
Newspaper flyers	2,309	40.8%	2,616	42.2%	88.3%
Internet	1,238	21.9%	1,440	23.3%	86.0%
Promotional goods	630	11.1%	660	10.7%	95.4%
Advertising media	698	12.3%	786	12.7%	88.9%
Creative	392	6.9%	278	4.5%	140.8%
Other	385	6.8%	410	6.6%	94.1%
	5,656	100.0%	6,193	100.0%	91.3%



□ As a result of the decrease in advertising demand due to the impact of regulations, sales of both print advertisement led by newspaper flyers as well as Internet advertising declined year on year.

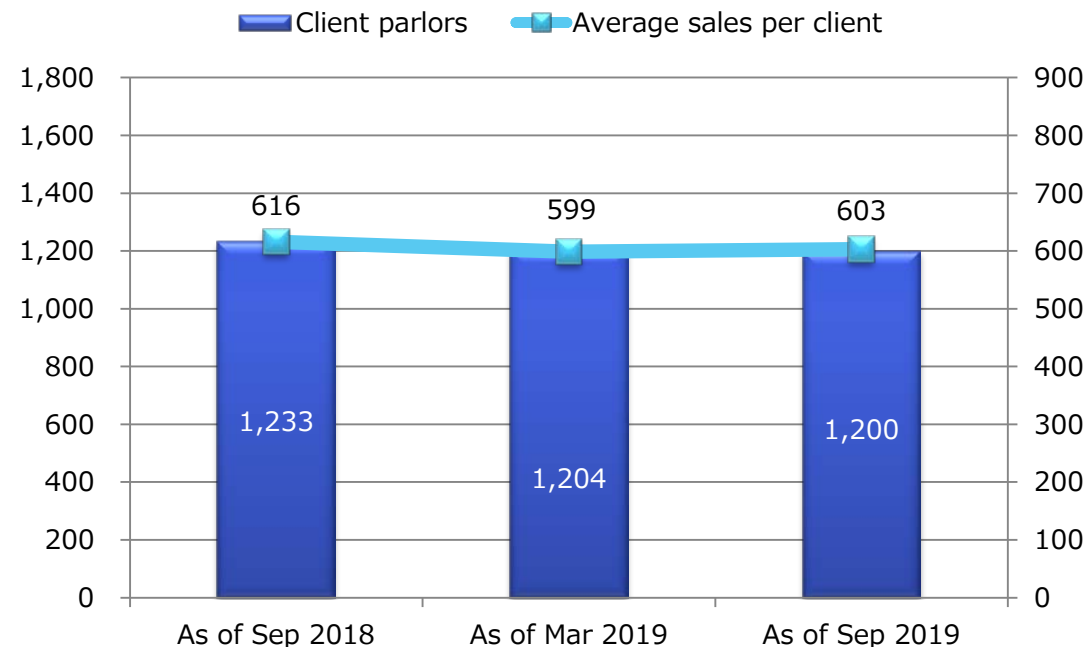
□ Creative sales rose significantly compared to the previous year, as a consolidated subsidiary received a large order for a video-related project.



❑ While average sales per client and number of clients declined compared to the same period of the previous year due to the decline in advertising demand resulting from reduced advertising budgets and decline in frequency of new machine replacements, the rate of decline is showing a narrowing trend.

Active clients	As of Sep 2018	As of Mar 2019	As of Sep 2019
Client parlors *1	1,233	1,204	1,200
Average sales per client (1,000 yen) *2	616	599	603

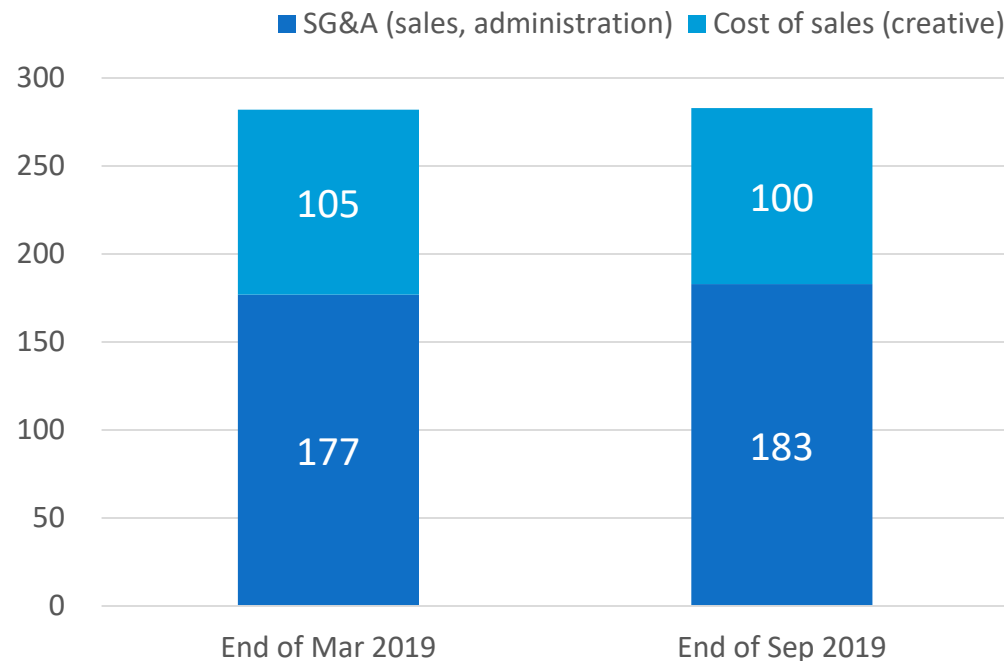
\*1 Client parlors refer to customers with more than ¥50,000 in monthly transactions \*2 Figures are on a single month basis





# Employees (Advertising)

	(people)	
	End of Mar 2019	End of Sep 2019
SG&A (sales, administration)	177	183
Cost of sales (creative)	105	100
Subtotal for advertising	282	283



■ Sales and administration: For strengthening of the Internet advertising division and development of markets other than pachinko parlors

■ Creative: Due to fall in print advertisement demand

■ As a result, the number of employees increased by 1 compared with the end of the previous fiscal year

(millions of yen)			
Real Estate	1H FY2020	1H FY2019	YoY comparison
Net sales	75	51	146.5%
Operating expense	31	16	193.8%
Segment income	44	35	125.1%

❑ 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 (¥50 million).

❑ As a result, net sales of the Real Estate business increased 46.5% year on year to ¥75 million and segment income rose 25.1% to ¥44 million.

# 1H FY2020 Balance Sheet (Consolidated)

(millions of yen)

	End of FY2019 ( A )	End of 1H FY2020 ( B )	Change ( B ) - ( A )	
Cash and cash equivalents	4,405	4,148	-257	(1) Decline in cash and cash equivalents due to payment of taxes and dividends
Notes and accounts receivables	1,410	1,317	-92	
Other current assets	193	260	67	
Tangible fixed assets	985	793	-191	(2) Recorded ¥112 million impairment loss on GDLH's machines
Intangible fixed assets	100	92	-8	
Investment and other assets	998	881	-117	
<b>Total assets</b>	<b>8,093</b>	<b>7,493</b>	<b>-600</b>	
Notes and accounts payables	757	746	-11	(3) Decline due to repayment of borrowings
Short-term borrowings (incl. long-term borrowings due within a year)	420	400	-20	
Accrued income taxes	166	67	-99	
Other current liabilities	287	184	-103	(4) Decrease in accrued income tax
Long-term borrowings	800	650	-150	(3) Decline due to repayment of borrowings
Other fixed liabilities	33	33	-	
<b>Total liabilities</b>	<b>2,464</b>	<b>2,080</b>	<b>-383</b>	
Shareholders' equity	5,574	5,403	-171	(5) +¥24 million in quarterly net income, -¥195 million in dividend payments
Other	-15	-13	2	
Non-controlling interest	70	22	-47	
<b>Total net assets</b>	<b>5,628</b>	<b>5,412</b>	<b>-216</b>	
<b>Total liabilities and net assets</b>	<b>8,093</b>	<b>7,493</b>	<b>-600</b>	

# 1H FY2020 Cash Flow Statement (Consolidated)

		(millions of yen)
	End of 1H FY2019	End of 1H FY2020
Net income before income taxes	461	108
Cash flow from operations	515	170
Cash flow from investing activities	-333	-26
Cash flow from financing activities	-115	-365
Cash and cash equivalents at beginning of the period	3,949	4,399
Cash and cash equivalents at the end of the period	4,042	4,141

❑ Cash and cash equivalents decreased ¥257 million to ¥4,141 million during the period.

+ Net income before income taxes	108	
+ Impairment loss	112	
+ Depreciation and amortization	99	
+ Increase in accounts receivable	92	
+ Other	95	
		— Decline in accounts payable 11
		— Income taxes paid 227
		— Other (net) 99
<b>Cash flow from operations</b>	<b>170</b>	
		— Payment for purchase of fixed assets 31
+ Other earnings	5	
		<b>Cash flow from investing activities 26</b>
		— Repayment of borrowings 170
		— Dividends paid 195
		<b>Cash flow from financing activities 365</b>

# Revision to FY2020 Consolidated Full-year Forecast

(millions of yen)

	FY2020 1H Result	Previous forecast (A) *Announced on Apr 19, 2019	Progress rate	Revised forecast (B) *Announced on Oct 18, 2019	Progress rate	Change (B - A)	% change
Net sales	5,768	9,800	58.9%	11,000	52.4%	1,200	12.2%
Operating income	285	480	59.4%	510	55.9%	30	6.3%
Ordinary income	253	480	52.8%	480	52.8%	—	—
Net income attributable to parent company shareholders	24	310	7.9%	160	15.4%	-150	-48.3%

□ With regard to net sales, the Group had expected a significant decline in print advertisements given the chronic worsening of the markets, but the decline in demand for print advertisements in the first half was not as severe as initially expected, and a few large orders received by the Company during the term contributed to net sales. The tough market conditions are expected to continue in the second half but print advertisement demand is not expected to decline to the levels initially anticipated and the Group expects an increase of ¥1,200 million in net sales compared to the initial forecast.

□ Operating income margin is expected to increase on the back of the rise in net sales in print advertisement, but the rise is expected to be limited to ¥30 million compared to the initial forecast due to the delay in expansion in external sales of design, where high profitability is expected, and also due to the poor performance of the contract-based electronic casino operation business at an overseas subsidiary.

□ There is no change in the forecast for ordinary income due to the impact expected from foreign exchange losses stemming from the rising yen.

□ Net income attributable to parent company shareholders is forecast to decline by ¥150 million compared to the initial forecast due to the recording of ¥112 million in impairment loss for the casino machines owned by overseas subsidiary GDLH and ¥31 million in valuation loss of investment securities.

There is no change to the dividend forecast (interim dividend of ¥12 and year-end dividend of ¥13) following this revision to the earnings forecast.

# Plan to Discontinue Entire Business of a Subsidiary

## ❑ Business to be discontinued

The “contract-based electronic casino operation business in Southeast Asia” (hereinafter “the Business”) at the Group’s Singapore-based consolidated subsidiary GDLH

- (1) Contracts were concluded with casino license holders in the Pailin and Poi Pot regions of Cambodia to install electronic casino machines, owned by GDLH, at two casino facilities there, to be operated on a contract-basis by GDLH, and the profits were to be split proportionally between GDLH and the casino facilities, and as of today there are a total of 273 machines of GDLH installed and being operated in accordance with these contracts.
- (2) Consultation services relating to casino operation as well as procurement and installation of machines provided on a project order basis
- (3) Research activities anticipating future electronic casino business in East Timor through GDLH subsidiary GD Leisure Group Unipessoal, Lda.

## ❑ Reason for discontinuation

- GDLH was established on February 1, 2017 and commenced contract-based operations in the Pailin region of Cambodia. However, with the tightening of immigration controls at the border with Thailand in late 2017, there was a dramatic decline in casino customers from Thailand, who had been the mainstay customers, resulting in declining profits, and this coupled with the amortization burden of initial investment, has meant that the Business has remained persistently in the red.
- GDLH made plans to improve profitability by increasing the number of machines installed in Poi Pot region, which is the largest casino market in the border area with Thailand, and commenced sales activities in an incremental manner from November 2018. However, a cooling down of the casino market in Poi Pot around the same period and a decline in ability to attract customers due to factors unique to the casino facility GDLH was operating, meant that the business in that region has also continued to be in the red from the beginning.
- In addition to the persistent losses, the company recorded impairment losses on fixed assets in the first half due to the impact of a fall in distribution prices of used machines, and with the fall in profitability, concerns also arose regarding future shortages of working capital should the Business be continued.
- Taking the above circumstances into account, the Group judged it advisable to limit future losses by exiting the Business and **resolved to pursue a policy of fully withdrawing from the Business including GDLH’s operations in Cambodia and East Timor.**

## ❑ Future direction

The Group plans to sell all 358 machines (amount recorded in the Balance Sheet for 1H FY2020: ¥153 million) owned by GDLH.

**Along with limiting future losses by exiting early from unprofitable overseas businesses, the Group plans to focus on restoring the performance of the entire Group by concentrating management resources on businesses such as the domestic advertising business, which are facing an adverse business environment and which we are currently restructuring.**

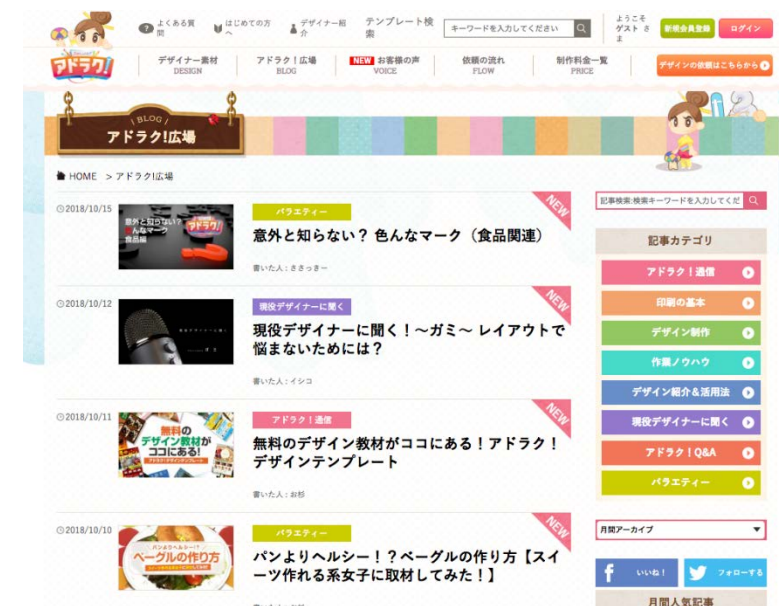
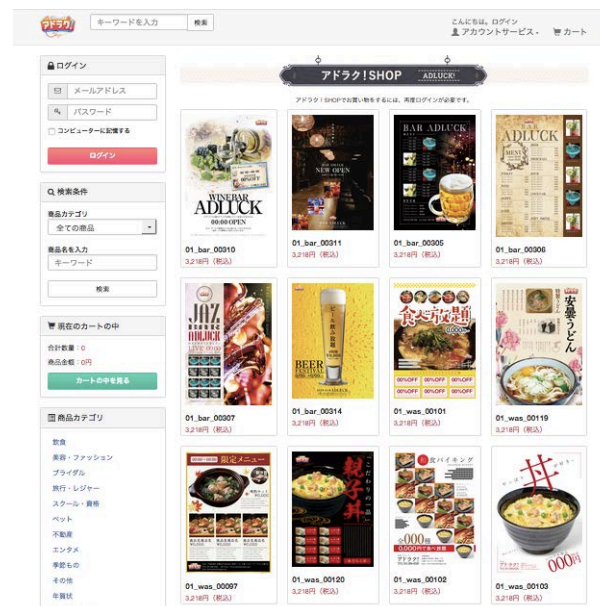


# Contract-based Design Site Adluck!



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 26,000 template materials, which are the largest among websites offering similar services, and designer blogs that convey design knowhow.



- Monthly PV count – 80,000PV
- User count – 54,000 users

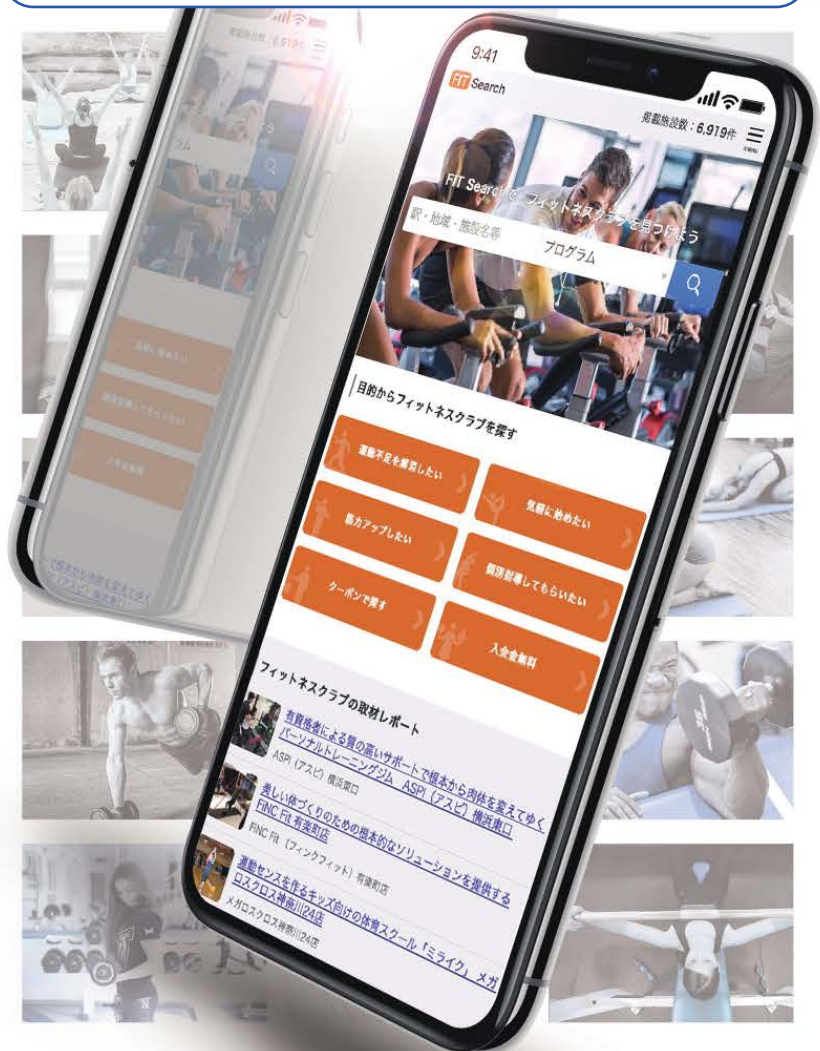
We are expanding sales by conducting contract-based design for individual business owners and inter-company transactions based on API collaboration.

We have increased the number of partner companies to 36 as we stably secure requests from individual business owners via the internet.





<https://fitsearch.jp/>



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.

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)

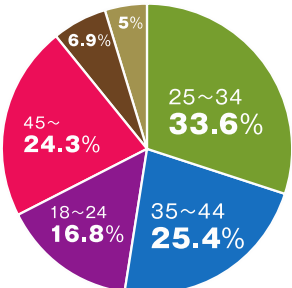
Viewer count **800,000** Average monthly PVs (YoY comparison179%)

User count **510,000** Average monthly UUs (YoY comparison212%)

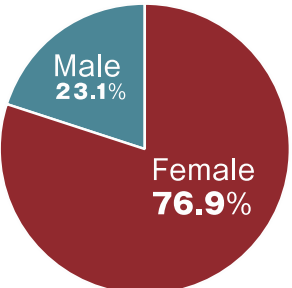
Number of facilities listed **8,500** (YoY comparison126%)

As of Sep 2019

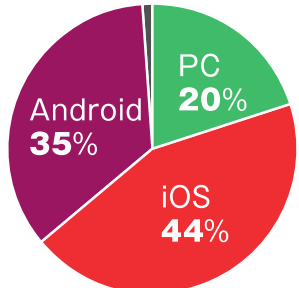
A major overhaul of the site in February 2019 led to greatly increased figures for PVs, UUs, number of listed fitness clubs, etc.



Age



Gender



Devices



<https://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.



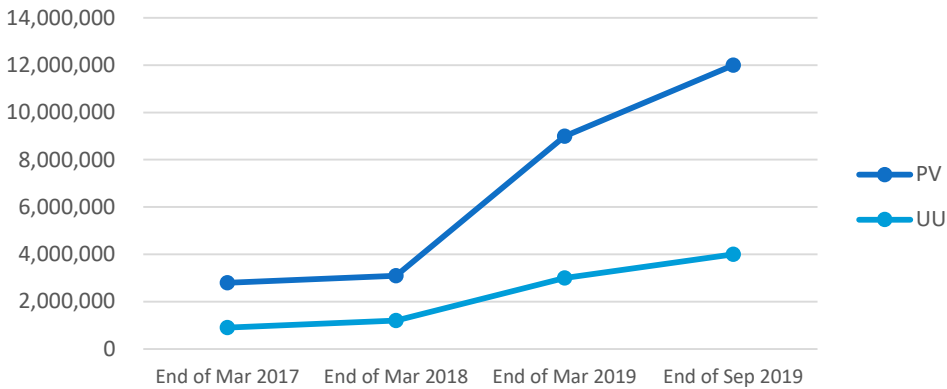
Website established  
**August 7, 2014**  
(Pachi7 Day)

User count  
**4,000,000<sub>uu</sub>/Month**  
\*September 2019 Google Analytics survey

Viewer count  
**12,000,000<sub>pv</sub>/Month**  
\*September 2019 Google Analytics survey

Parlors listed  
**5,100 parlors**  
\*As of Sep 2019

PV・UU transition



PV and UU counts are both growing strongly.  
There is a particularly large search inflow for machine-related information and high-value-added information is well-received by users. It is also being used as a community site by many users and is thus contributing to the revitalization of the industry.





The Group possesses data on 7.5 million unique users who have visited multiple pachinko information websites such as the Pachi7 and 777 sites operated by the Group, and manages their action history as big data. The web advertisements are specially tailored to the pachinko industry, and can be distributed widely to both the 7.5 million pachinko users and also simultaneously to users who have not visited the websites but who have demonstrated the same behavioral patterns.



Over 2million UU monthly!



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.



Japan's largest website dedicated to sports clubs and fitness



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.

more than 200 interest categories  
more than 700,000 chain stores

For distributing ads to any location using a multitude of different interest and GPS location categories

Accumulation of user data

DMP server



Pachinko users  
**7.5 million UU**  
Fitness users  
**2 million UU**  
Number of segments  
**More than 200**  
Number of stores  
**More than 700,000**

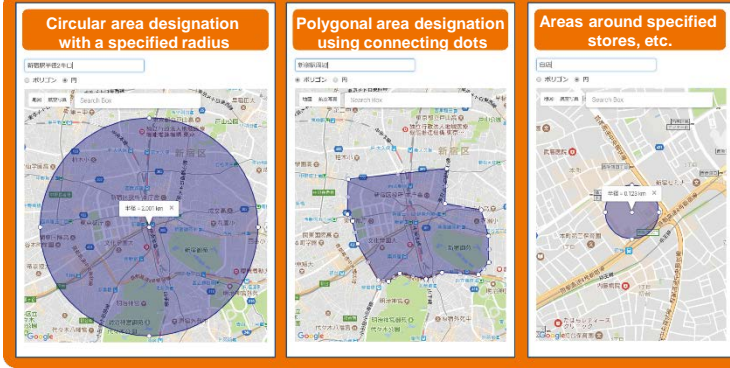
Distributed to appropriate users

One of the largest in Japan!!  
Distributing to a monthly stock of 600 billion mobile advertising slots!!

PCs: 150 billion imp per month  
Mobile phones: 450 billion imp per month



Ads can be distributed to users in specific areas using GPS



**Yahoo ! JAPAN**

Marketing solutions  
Certified partner: "Silver" company



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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