Business Results for the Fiscal Year Ending March 31, 2020 (FY2020)

GENDAI AGENCY Inc.

April 17, 2020

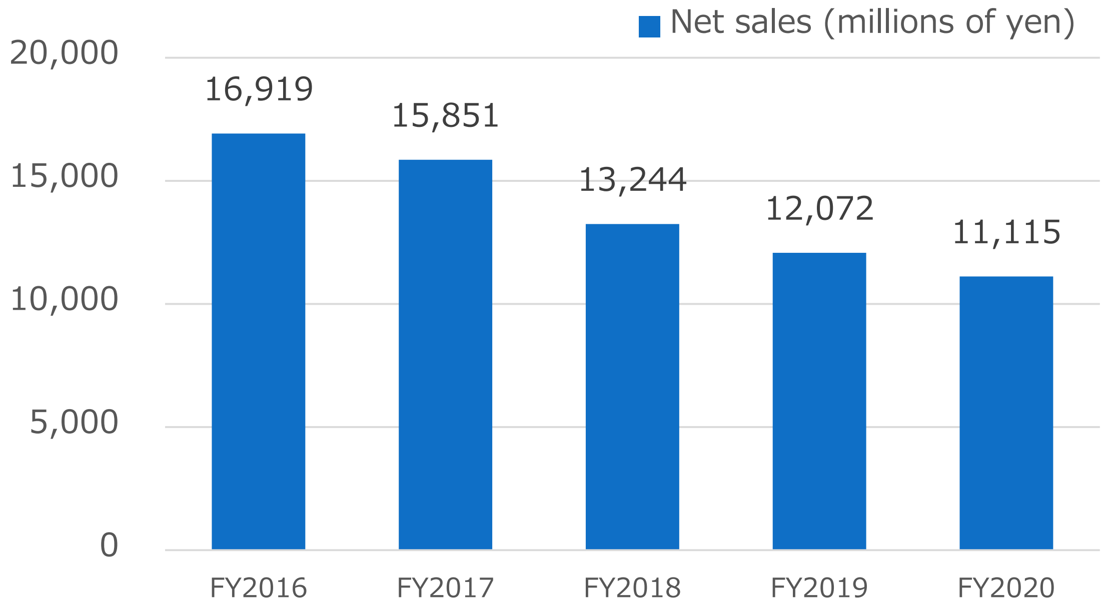
Financial Highlights (Consolidated)

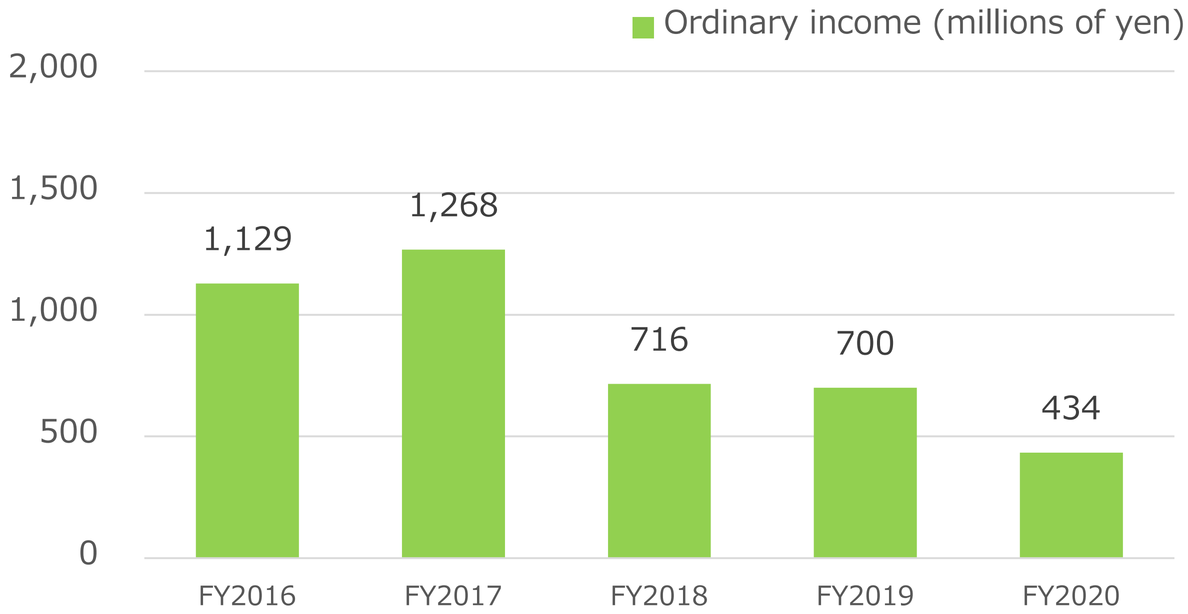
GENDAI AGENCY Inc.

◆ Consolidated net sales for FY2020 came to 11,115 million yen, a decline of 956 million yen compared with the previous fiscal year. Income at each level declined due to the shrinking profit margin caused by the net sales decline as well as a rapid margin decline due to the impact of the novel coronavirus outbreak. Further, net income attributable to parent company shareholders declined significantly to 31 million yen, due to extraordinary losses including impairment loss at an overseas subsidiary and a loss on sale of shares in an affiliate.

(millions of yen)

	FY2016	FY2017	FY2018	FY2019	FY2020
Net sales	16,919	15,851	13,244	12,072	11,115
Operating income	1,142	1,269	743	704	460
Ordinary income	1,129	1,268	716	700	434
Net income attributable to parent company shareholders	490	831	504	434	31





FY2020 Income Statement (Consolidated)

(millions of yen)

	FY2020	% of total	FY2019	% of total	YoY change
Net sales	11,115	100.0%	12,072	100.0%	92.1%
Operating income	460	4.1%	704	5.8%	65.3%
Ordinary income	434	3.9%	700	5.8%	62.0%
Net income attributable to parent company shareholders	31	0.3%	434	3.6%	7.1%

- The pachinko parlor industry remains 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 user spending. 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 addition, pachinko parlors throughout the country have been refraining from advertising since March 2020 in response to the novel coronavirus outbreak, and advertisement placements have dropped sharply since then.

- In the mainstay advertising business, the Group has been developing markets other than the pachinko parlor field as part of a policy of moving to a diversified earnings structure not excessively dependent on specific industries. The Group has been working to boost its earnings by expanding sales in the fitness industry advertising field, strengthening the contract-based design business, and handling online recruitment advertisements.

- As a result, net sales for FY2020 totaled ¥11,115 million (down 7.9% year on year), operating income came to ¥460 million (down 34.7%), ordinary income declined to ¥434 million (down 38.0%), and net income attributable to parent company shareholders totaled ¥31 million (down 92.9%) primarily due to the recording of extraordinary losses including ¥116 million in impairment loss at a overseas subsidiary and a ¥144 million loss on the sale of shares in an affiliate resulting from liquidation of said subsidiary.

Breakdown of Extraordinary Losses

GENDAI AGENCY Inc.

- **Loss on valuation of investment securities**

  46 million yen

  As of the end of the fiscal year, the prices of shares held primarily to strengthen business relationships with key clients fell significantly below their purchase prices, and 14 million yen in valuation loss was accordingly recorded.
  As the Company recorded 31 million yen in valuation loss in the first half of the fiscal year, the total loss on valuation of investment securities as of the end of the fiscal year came to 46 million yen.

- **Loss on sale of shares of an affiliate**

  144 million yen

  At a Board of Directors meeting held on October 18, 2019, a decision was made to completely withdraw from the contract-based electronic casino operation business in Southeast Asia and the Company sold its entire stake in GDLH Pte. Ltd. (hereinafter “GDLH”) to a third-party investor on March 23, 2020. Following this, the Company recorded a 144 million yen loss on sale of shares of an affiliate.

- **Impairment loss**

  116 million yen

  An impairment loss was estimated for the casino machines owned by GDLH at the end of the second quarter of the fiscal year, and the Company recorded a 116 million yen impairment loss in accordance with the Accounting Standard for Impairment of Fixed Assets.

Breakdown by Business Segment

GENDAI AGENCY Inc.

■FY2020

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	10,930	120	64	–	11,115
Segment income	878	68	(154)	(331)	460

■Changes versus FY2019

(millions of yen)

	Advertising	Real Estate	Other	Adjustment	Consolidated
Net sales	(952)	30	(35)	–	(956)
Segment income	(249)	12	(5)	(1)	(244)

- ◆ Consolidated net sales declined ¥956 million as the mainstay advertising business declined significantly year on year.
- ◆ As the margin narrowed due to the decline in net sales of the advertising business, consolidated segment income declined ¥244 million.
- ◆ In the Other Business segment, segment loss expanded by ¥5 million compared with the previous year primarily because the customer-drawing capabilities of the casino facilities operated by Singaporean subsidiary GDLH declined. GDLH was excluded from the scope of consolidation at the end of FY2020.

FY2020 Segment Income (Advertising)

GENDAI AGENCY Inc.

(millions of yen)

Advertising	FY2020	FY2019	YoY comparison
Net sales	10,930	11,882	92.0%
Operating expense	10,052	10,755	93.5%
Segment income	878	1,127	77.9%

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.
- Demand for large-scale parlor opening advertisements declined, reflecting a decline in the number of new parlor openings.
- Parlor operators throughout Japan have been refraining from advertising since March 2020 in response to the novel coronavirus outbreak, and advertisement placements have dropped sharply since then.

The Group’s approach>

- Expanded sales of Internet media, primarily of its own “Pachi 7” media and “PachiAd” DSP advertising.
- Began shifting human resources to advertising fields other than the pachinko parlor market.
- Worked to strengthen sales in advertising targeting the fitness industry, consolidate contract-based design operations, and reinforce sales of online recruitment advertisements.

Result>

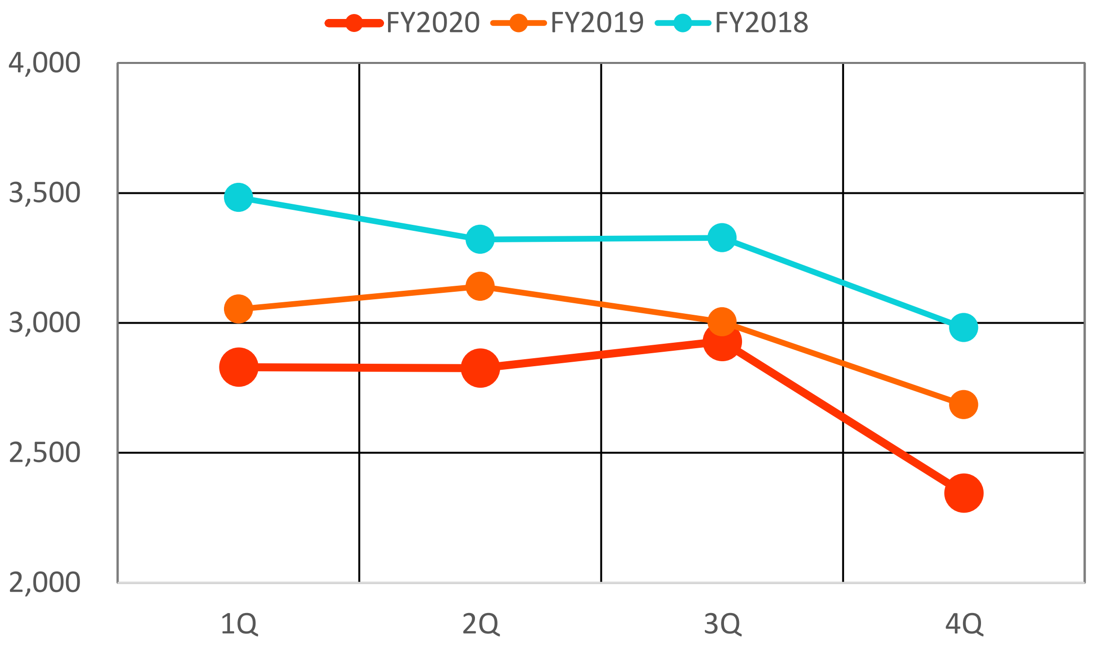
- Developing advertising in fields other than the pachinko parlor market is expected to take a certain amount of time. Meanwhile, net sales of the segment totaled ¥10,930 million, down 8.0% year on year, and segment income came to ¥878 million, down 22.1% year on year, as the demand for pachinko parlor advertisements declined significantly.

Quarterly Sales Trends (Advertising)

GENDAI AGENCY Inc.

(millions of yen)

	1Q	2Q	3Q	4Q	Full year
FY2020	2,830	2,826	2,929	2,345	10,930
FY2019	3,053	3,140	3,004	2,685	11,882
FY2018	3,482	3,321	3,327	2,982	13,112



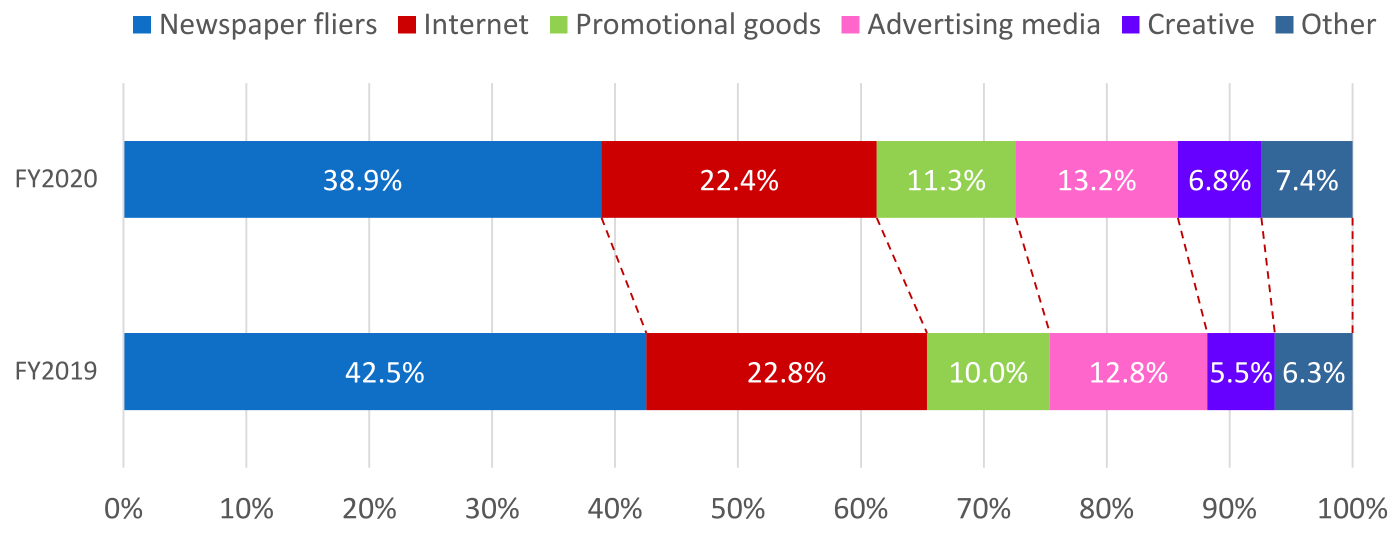
◆ Net sales of the Advertising Business declined ¥340 million in 4Q compared with the same period a year earlier.

◆ In response to the novel coronavirus outbreak, pachinko parlors throughout the country have refrained from advertising, and as a result net sales in March 2020 saw a particularly sharp decline compared with the same month a year earlier.

Sales Breakdown (Advertising)

(millions of yen)

	FY2020	% of total	FY2019	% of total	YoY comparison
Newspaper flyers	4,256	38.9%	5,050	42.5%	84.3%
Internet	2,447	22.4%	2,706	22.8%	90.4%
Promotional goods	1,239	11.3%	1,193	10.0%	103.8%
Advertising media	1,439	13.2%	1,520	12.8%	94.7%
Creative	741	6.8%	657	5.5%	112.8%
Other	807	7.4%	754	6.3%	106.9%
Total	10,930	100.0%	11,882	100.0%	92.0%



- As a result of the decline in advertising demand due to the impact of regulatory restrictions, net sales of both paper-based advertising centered on flyers and Internet advertising declined year on year. On the other hand, demand for instore advertising rose and net sales of promotional goods exceeded the previous year's level.
- Creative net sales significantly exceeded the previous year's level as a result of a consolidated subsidiary receiving an order for a large-scale video project.

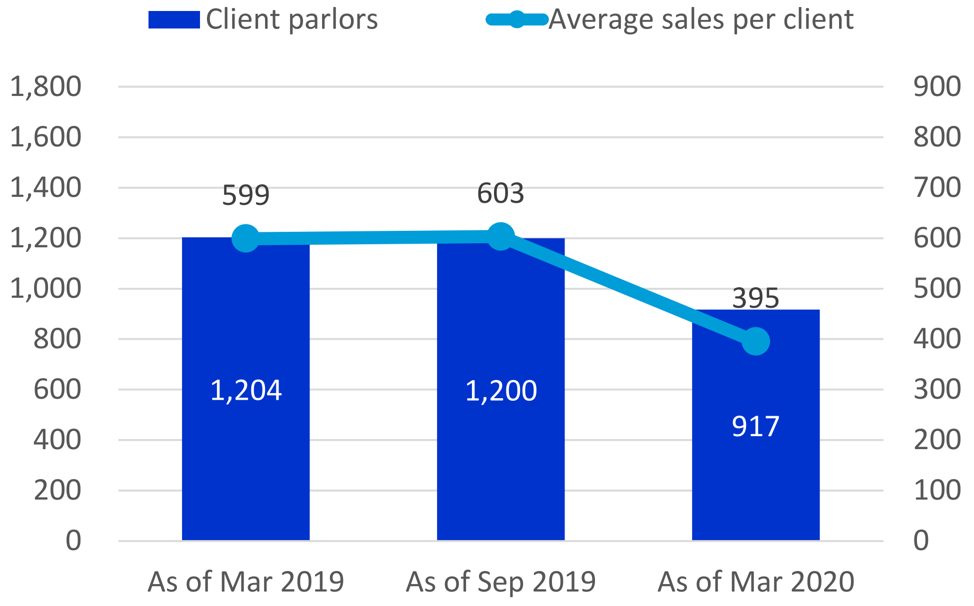
Clients (Advertising)

GENDAI AGENCY Inc.

◆ Given the decline in advertising demand due to reduced advertising budgets and decline in frequency of new machine replacements, both average sales per client and the number of client parlors declined compared with the previous year, but the rate of decline was narrowing.
However, the number of client parlors and average sales per client in the single month of March 2020 declined significantly compared with the same month a year earlier as parlors refrained from advertising in response to the novel coronavirus outbreak.

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

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

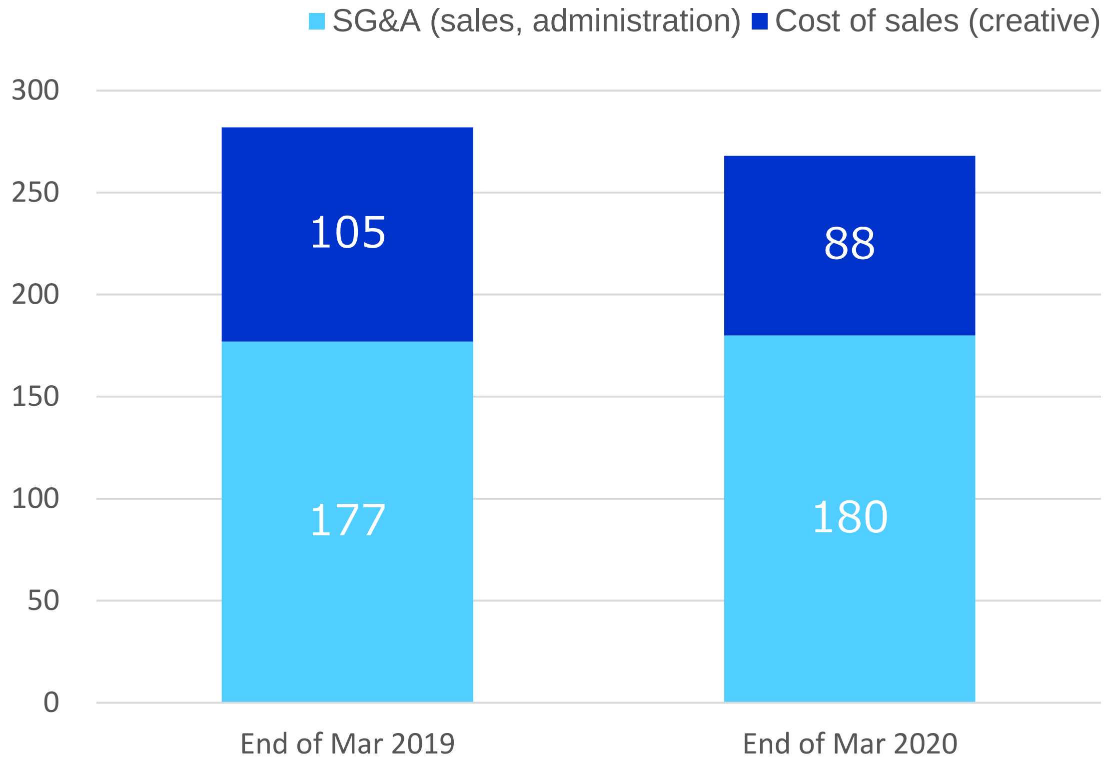


Employees (Advertising)

GENDAI AGENCY Inc.

(people)

	End of Mar 2019	End of Mar 2020
SG&A (sales, administration)	177	180
Cost of sales (creative)	105	88
Subtotal for advertising	282	268



- ◆ Sales and administration: For strengthening of the internet advertising division and development of markets other than the pachinko parlor field.
- ◆ Creative: Due to a decline in pachinko parlor advertising demand.
- ◆ As a result, the number of employees decreased by 14 compared with the end of the previous fiscal year.

In April 2020, 11 new employees joined sales and administration and 14 joined creative.

FY2020 Segment Income (Real Estate)

GENDAI AGENCY Inc.

(millions of yen)

Real Estate	FY2020	FY2019	YoY comparison
Net sales	120	90	133.8%
Operating expenses	52	33	157.6%
Segment income	68	56	121.3%

◆ In addition to the land for lease use acquired in Kashiwa, Chiba Prefecture, in February 2017, we entered into a pachinko parlor M&A agreement and a lease property intermediary agreement (¥69 million).

◆ As a result net sales of the Real Estate business increased 33.8% year on year to ¥120 million and segment income rose 21.3% to ¥68 million.

FY2020 Balance Sheet (Consolidated)

GENDAI AGENCY Inc.

(millions of yen)

	End of FY2019 (A)	End of FY2020 (B)	Change (B) - (A)
Cash and cash equivalents	4,405	4,052	-352
Notes and accounts receivables	1,410	980	-430
Other current assets	193	236	43
Tangible fixed assets	985	630	-354
Intangible fixed assets	100	76	-23
Investment and other assets	998	821	-177
Total assets	**8,093**	**6,797**	-1,296
Notes and accounts payables	757	489	-268
Short-term borrowings (incl. long-term borrowings due within a year)	420	200	-220
Accrued income taxes	166	39	-126
Other current liabilities	287	202	-85
Long-term borrowings	800	600	-200
Other fixed liabilities	33	35	1
Total liabilities	2,464	1,565	-899
Shareholders' equity	5,574	5,228	-345
Other	-15	-4	11
Non-controlling interests	70	7	-63
Total net assets	5,628	5,231	-396
Total liabilities and net assets	**8,093**	**6,797**	-1,296

(1) Decline due to tax and dividend payments, etc.

(2) Decline due to sharp drop in monthly transactions in March 2020.

(3) Recording of depreciation and amortization and impairment loss on machines owned by GDLH, and GDLH's exclusion from consolidation.

(4) Decline due to sharp drop in monthly transactions in March 2020.

(5) Decline due to repayments.

(5) Decline due to repayments.

(6) +¥31 million in net income attributable to the parent, -¥376 million in dividend payments

FY2020 Cash Flow Statement (Consolidated)

GENDAI AGENCY Inc.

(millions of yen)

	End of FY2019	End of FY2020
Net income before income tax	687	127
Cash flow from operations	973	382
Cash flow from investing activities	-394	97
Cash flow from financing activities	-116	-796
Cash and cash equivalents at the end of the period	4,399	4,046

◆ Cash and cash equivalents decreased ¥352 million to ¥4,046 million in FY2020.

＋ Net income before income taxes	127	
＋ Depreciation and amortization	169	
＋ Loss on sale of shares in an affiliate	144	
＋ Impairment loss	116	
＋ Decline in accounts receivable	429	
＋ Other	128	
－ Decline in accounts payable		-268
－ Income taxes paid		-358
－ Other		-106
Cash flow from operations	**382**	
－ Payment for purchase of tangible/intangible fixed assets		-56
－ Other		-11
＋ Proceeds from sales and redemption of investment securities	100	
＋ Other earnings	64	
Cash flow from investing activities	**97**	
－ Repayment of borrowings		-420
－ Dividends paid		-376
Cash flow from financing activities		**-796**

Change in Consolidated Subsidiary (Share Transfer)

GENDAI AGENCY Inc.

- Change in consolidated subsidiary (share transfer)
  The Company, at a Board of Directors meeting, decided to transfer all shares it held in consolidated subsidiary GDLH to a third party and completed the transfer on March 23, 2020.

- Reason for the transfer
  The Company had aimed to withdraw from the business by the end of March 2020 and had been in negotiations with involved parties regarding the sale of GDLH together with its business as well as the disposal of its assets including a collective sale of GDLH's casino machines. However, the sale of used casino machines was difficult due to the extreme deterioration of the market environment. In this difficult situation, the Company carried out a meticulous comparative review of the impact of selling its entire stake in GDLH taking into account the possibilities of prolonged withdrawal procedures and the occurrence of additional losses if the Company opted to close the business and subsequently liquidate the company. Consequently, the Company arrived at the conclusion that it was best to sell its entire stake in GDLH from the perspective of limiting future losses, and therefore carried out the transfer.

Profile of GDLH

(1) Company name	GDLH Pte. .Ltd.
(2) Location	Singapore
(3) Name and title of the representative	Arizuan Arshad, Managing Director
(4) Business	Contract-based casino operations in Southeast Asia
(5) Capital	USD 5 million (approx. 525 million yen)
(6) Established	February 1, 2017
(7) Major shareholders and shareholding ratios	Gendai Agency Inc. 80% Arizuan Arshad 20%

Business performance for the most recent three years

	Fiscal year ending Dec. 31, 2017	Fiscal year ending Dec. 31, 2018	Fiscal year ending Dec. 31, 2019
Net sales	22 million yen	92 million yen	58 million yen
Operating income (Negative figures denote loss)	-92 million yen	-142 million yen	-150 million yen
Net income (Negative figures denote loss)	-91 million yen	-159 million yen	-284 million yen

*The rate of conversion to yen is the exchange rate on the respective settlement days.

FY2021 Consolidated Earnings Forecast

GENDAI AGENCY Inc.

(millions of yen)

	Full-year consolidated		
	Company's initial forecast (assuming normal demand conditions)	Estimate of novel coronavirus-related impact*	Forecast for FY2021
Net sales	10,880	-4030	6,850
Operating income (Negative figures denote loss)	620	-1270	-650
Ordinary income (Negative figures denote loss)	620	-1270	-650
Net income attributable to parent company shareholders	410	-1060	-650

*Below are the hypothetical conditions used to estimate the novel coronavirus-related impact
- 90% reduction in advertisement orders during the full self-restraint period (April through June 2020). The 90% decline is based on recent business performance in April.
- 50% reduction in advertisement orders July through September 2020 as the number of infections decreases.
- 10% reduction in advertisement orders during demand recovery period (October through December 2020).
- Plans for fixed cost reduction, etc. during these periods has not been finalized and therefore is not factored into the estimate.

◆ Regarding the business environment in FY2021, advertising demand from pachinko parlors, the key clients of the Company's mainstay advertising business, is expected to drop by an extremely large amount due to the novel coronavirus outbreak. Further, demand in the fitness facilities advertisement market, where the Company is working to cultivate new potential clients and expand sales of a range of advertisement types, is also expected to be extremely low due to the shutdown of such facilities as part of measures to prevent the spread of the virus.

◆ As it is difficult at this time to estimate when the novel coronavirus outbreak will come to an end and when advertising demand will recover, the Company has calculated the earnings forecast for FY2021 by adding the estimated impact of the outbreak to its initial forecast.

Novel Coronavirus-Related Business Risks

GENDAI AGENCY Inc.

- **Risk of deterioration of the Group's financial position and cash flow stemming from sharp declines in advertising demand**

  Advertising demand from pachinko parlors, the Group's primary clients, and the fitness facilities market, where the Company is currently working to expand sales, is declining by an extremely large amount. This decline in demand is expected to continue until the outbreak is contained. In this situation, where orders for the month of April 2020 are expected, as of mid-April, to decline by 90%, the monthly consolidated operating loss and net loss are expected to be as much as ¥200 million and monthly net capital outflow is also expected to be approximately ¥200 million.
  The Company has cash and cash equivalents worth ¥4,000 million as of the end of March 2020, and moreover has plans to procure loans worth ¥1,500 million from financial institutions. The Company therefore does not expect any liquidity issues to occur in the near future. Nevertheless, if containment of the outbreak requires more time than is anticipated and advertising demand remains extremely low, continued capital outflow can be expected and the Company's financial position and cash flow could worsen significantly.

- **Risk of customer demand disappearing and risk of uncollectible debts stemming from worsening financial position of key clients**

  Pachinko parlors and fitness facilities have suspended business operations from April 8 through May 6, 2020 in the seven prefectures covered by the Japanese government's April 7 state of emergency declaration and a business suspension request connected with this. Voluntary suspension of business or shortened operations are also being implemented in other prefectures. In addition, users have also been voluntarily refraining from using these facilities and earnings at these parlors and facilities are expected to be severely impacted. If the business suspension request period is extended further, the financial position of pachinko parlor and fitness facilities operating companies is expected to deteriorate. This could result in the Company's clients finding it difficult to continue operations and there is a likelihood of loss of trading volume and difficulty in collecting accounts receivable held by the Group.

- **Risk of deteriorating financial position at some partner companies and inability to continue business transactions with them**

  Along with the sharp decline in advertisement orders received by the Company, orders to partner companies are also falling sharply. There is therefore a possibility that the financial position of some partner companies may deteriorate. To prepare for situations in which it becomes difficult for said partner companies to continue operations due to deterioration of their financial position, the Company is scheduled to consider securing alternative companies who can provide the same services, but there are concerns that a smooth transition may be difficult and as a result there is a chance that the Company may face constraints in offering its current services.

- **Risk of employee infection and business continuity risks**

  The Group has switched to teleworking in almost all of its operations barring a few exceptions. Nonetheless, it is difficult to fully avoid the risk of infection in the current situation. In the event that infections spread in the Company through contact between employees etc. there is a chance of workplace closures or partial suspension of operations.

Profit Distribution Basic Policy and Dividends for FY2020 and FY2021

	FY2019	FY2020	FY2021 forecast
Operating margin	5.8%	4.1%	—
EPS	28.89 yen	2.06 yen	-43.19 yen
Total annual dividend *(of which, interim dividend)*	25.00 yen (12.00 yen)	25.00 yen (12.00 yen)	To be announced

- ◆ 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.
- ◆ While the Group, in principle, determines dividends based on the above basic policy, for FY2020 it has set an year-end dividend of 13.00 yen per share, judging that it is most appropriate to return to its shareholders a part of the assets accumulated in the past, from the perspective of placing emphasis on capital efficiency. Together with the interim dividend of 12.00 yen per share, the total annual dividend amounts to 25.00 yen per share (the consolidated dividend payout ratio is 1,213.3%).
- ◆ For FY2021, the Group is not finalizing the dividend forecast for now, taking into consideration the extremely high level of uncertainty over the earnings forecast due to the impact of the novel coronavirus outbreak. The Group intends to announce the dividend forecast promptly once a forecast can be made.

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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