

Overview of 1st Quarter Results for the Year Ending December 31, 2017 [Japanese GAAP]



May 12, 2017

Company Name ASATSU-DK INC. Exchange : Tokyo Stock Exchange First Section
 Securities Code 9747 URL : <http://www.adk.jp/en/>
 Representative Shinichi Ueno, President and Group CEO
 Contact Person Kaori Nakajima, Department Director, Office of Corporate Communications Tel:+81-3-6830-3855
 Filing date of the Quarterly Report: May 12, 2017 Date of dividend payment: —
 Supplementary information for financial results : Available
 Organization of financial results briefing : No

(Unit: millions of yen, Rounded down under 1 million yen)

1. The First Three Months Consolidated Results (January 1, 2017 to March 31, 2017)

(1) Consolidated Operating Results

(% shown represent increase/decrease from those in the corresponding period of the previous year.)

	Gross Billings		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
3 months ended ;								
Mar. 31, 2017	87,030	(5.7)	1,890	(37.5)	1,984	(37.9)	1,498	—
Mar. 31, 2016	92,253	0.2	3,026	30.1	3,194	21.7	51	(96.6)

(Notes) Comprehensive income: at March 31, 2017: (1,575) million yen (- %), at March 31, 2016: (3,452) million yen (- %)

	Net Income per Share	Fully Diluted Net Income per Share
	Yen	Yen
Mar. 31, 2017	36.16	36.13
Mar. 31, 2016	1.24	1.24

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity Ratio
	millions of yen	millions of yen	%
Mar. 31, 2017	218,111	106,571	48.3
Dec. 31, 2016	227,260	113,225	49.1

(Reference) Shareholders' equity: March 31, 2017: 105,290 million yen, December 31, 2016: 111,605 million yen

2. Dividend Information

	Annual Dividend per Share				
	1st quarter end	2nd quarter end	3rd quarter end	Fiscal year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal 2016(Actual)	—	10.00	—	90.00	100.00
Fiscal 2017(Actual)	—				
Fiscal 2017(Forecast)		10.00	—	—	—

(Notes) Revisions from the most recent dividend forecasts : No

The year-end dividend for FY 2016 consists of the ordinary dividend of 30 yen per share and commemorative dividend of 60 yen per share.

The sum of the year-end dividend for FY 2017 is undecided (But it is more than 10 yen per share).

3. Forecast of Consolidated results Fiscal 2017 (January 1, 2017 to December 31, 2017)

(% shown represent increase/decrease from those in the corresponding period of the previous year.)

	Gross Billings		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full-year	354,700	0.6	6,230	11.9	9,250	6.5	5,580	134.8	134.78

(Notes) Revisions from the most recent forecasts: No

* Notes

(1) Changes in the Scope of Consolidation and Application of the Equity Method : No.
 New — Companies (Company Name) Except — Companies (Company Name)

(2) Is there any accounting treatment particular to the quarterly financial statements? : Yes.

(3) Changes to accounting policy, changes to accounting estimates, or restatements

- | | |
|---|-------|
| 1. Changes due to revisions to accounting standards, etc. | : No. |
| 2. Changes other than 1: | : No. |
| 3. Changes in accounting estimates | : No. |
| 4. Restatements | : No. |

(4) Number of outstanding stocks

1. Number of outstanding stocks (including treasury stock) issued, end of term	at March 31, 2017	42,155,400 shares	at December 31, 2016	42,155,400 shares
2. Number of treasury stock, end of term	at March 31, 2017	765,554 shares	at December 31, 2016	432,400 shares
3. Avg. number of shares (consolidated) outstanding during the terms ended	at March 31, 2017	41,429,040 shares	at March 31, 2016	41,739,179 shares

* This consolidated quarterly financial results is outside the scope of quarterly review procedures

* Appropriate use of business forecasts and other special matters

The business forecasts and future prospects in this document are made based on information currently available and contain potential risks and uncertainties. As such, actual business results may significantly differ from those expressed or implied in the forecasts due to changes in various factors.

Refer to “1.Consolidated Results for the First Quarter of Fiscal 2017 (3) Forecasts for Fiscal 2017” on page 5 for the suppositions that form the assumptions for the business forecasts and cautions concerning the use thereof.

Contents

	Page
1. Consolidated Results for the First Quarter of Fiscal 2017	2
(1) Overview of Operating Results	2
(2) Financial Position	5
(3) Forecasts for Fiscal 2017	5
2. Consolidated Financial Statements and Notes	6
(1) Consolidated Balance Sheets	6
(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income	8
(3) Notes to Consolidated Financial Statements	10
(Items related to going concern assumption)	10
(Notes on significant changes in the amount of shareholders' equity)	10
(Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements) ·	10
(Additional Information)	10
(Segment Information etc.)	10

1. Consolidated Results for the First Quarter of Fiscal 2017

(1) Overview of Operating Results

During the first quarter under review (from January 1, 2017 to March 31, 2017), the Japanese economy treaded on a mild recovery path, showing a steady improvement of corporate earnings backed up by the continued economic measures and monetary policies initiated by the government and the Bank of Japan. On the other hand, consumer spending remained in the doldrums due to the lower-than-expected increase in real wages despite improving employment environment. Besides, the future outlook continues to be opaque with unsolved issues remaining such as deceleration of the emerging economies, the Brexit, a heightened sense of uncertainty about the world economy influenced by political management of the new US administration.

According to the “Current Survey of Selected Service Industries” by the Ministry of Economy, Trade and Industry, total gross billings in the advertising industry in 2016 grew 2.9% from the previous year. While in 2017, it is almost performing steadily with January increasing 2.7% and February decreasing 0.3% from the previous corresponding period on a single month basis respectively.

Under these circumstances, ADK continues to work hard to transform itself to a “Consumer Activation Company” holding out “VISION 2020” that the Company declared in 2013, aiming not only to deliver messages via advertisements but inspire consumers to take actions, thereby contributing to clients’ business performance. To realize that, we are pressing forward structural reforms to strengthen infrastructure and improve profitability to ensure further growth. During the quarter under review, we made an organizational restructuring in the media division and built the structure that enabled us to offer more effective solutions to our clients. Throughout the entire Group, we continued efforts to construct infrastructure and structural reforms by relocating staff and optimizing business portfolio.

Domestic subsidiaries as a whole almost performed steadily due to such reasons as strong performance of a production and a digital companies, deconsolidation of a loss-making publishing company upon completion of sales procedures in the previous term, reduced losses in a content company. However, marketing & promotion and creative jobs, the growth drivers in the previous corresponding quarter, saw a decline, the size of which failed to compensate for the favorable factors mentioned previously, leading to decreased revenue and profit in total.

On the other hand, overseas business in total saw increased profit thanks to strong performance of companies in the Asian region, successful turnaround in Europe and the North America and deficit reduction of Chinese companies. All overseas billings was generated from advertising business, which represents 7.2% (as opposed to 6.7% in 2016) of the consolidated billings during the period under review.

As a result of all that, gross billings on a consolidated basis during the first three months resulted in ¥87,030 million, down 5.7% from the previous fiscal year with gross profit amounting to ¥13,426 million, down 3.2%, operating income to ¥1,890 million, down 37.5%, and ordinary income to ¥1,984 million, down 37.9%.

While on the other hand, the Group reported net income before tax and others of ¥2,226 million, up 55.5% from the previous year and profit attributable to owners of parent of ¥1,498 million, up 2,797.8%, due to the completion of a full circle of extraordinary losses posted during the same period last year.

ADK-parent, the core competence of the Group business, generated gross billings of ¥78,982 million, down 4.9% from the previous fiscal year. Gross profit and operating profit fell to ¥10,189 million, down 2.3% and ¥1,926 million, down 35.9% respectively.

Gross profit ratio grew with media billings improving strongly in particular digital media and TV time ads coupled with the better income management structure intensified since last year. While on the other hand, marketing & promotion and creative's billings decreased from the previous term, and selling, general and administrative expenses including commission paid and bonus provision brought forward increased, resulting in decreased revenue and profit.

Broken down by client business, ADK posted increases in gross billings from clients in such industries as Food, Restaurants/Other service, Information/Communication sectors. However, gross billings declined from clients in such industries as Automobile/Automobile-related products, Government/Organizations, Pharma/Medical supplies sectors.

Non-consolidated Performance by Clients business

Breakdown by Clients business	Gross Billings (Millions of Yen)	Composition (%)	Y-o-Y change (%)
Energy/Material/ machinery	1,181	1.5	20.7
Food	9,250	11.7	17.0
Beverage/Tobacco	3,598	4.6	(15.7)
Pharma/Medical supplies	3,230	4.1	(27.6)
Cosmetics/Toiletry	6,369	8.1	(7.8)
Apparel/Jewelry	3,071	3.9	0.5
Precision machinery/Office supplies	937	1.2	(17.6)
Home appliances/AV equipment	1,025	1.3	105.1
Automobile/Automobile-related Products	3,656	4.6	(40.9)
Household Goods	295	0.4	75.2
Hobbies/Sport Goods	6,497	8.2	5.2
Real Estate/Housing	3,505	4.4	(1.6)
Publishing	826	1.0	6.2
Information/Communication	9,946	12.6	8.2
Distribution/Retail	6,172	7.8	(5.1)
Finance/Insurance	6,900	8.7	(4.7)
Transportation/Leisure	2,022	2.6	(22.4)
Restaurants/Other service	3,260	4.1	54.7
Government/Organizations	2,841	3.6	(32.0)
Education/Medical Service/Religion	1,724	2.2	(21.2)
Signage/Other	2,665	3.4	(7.8)
Total	78,982	100.0	(4.9)

The English translation is for reference purpose only. If there is any discrepancy between this English translation and the Japanese original version, the Japanese original version shall prevail.

Broken down by business discipline, gross billings in Digital Media, OOH Media, TV Ads experienced an increase over the previous year but in segments such as Marketing & Promotion, Creative, Newspaper, Radio, Magazine and Other, gross billings declined on a year on year basis.

Non-consolidated Performance by Discipline

Breakdown by Discipline		Gross Billings (Millions of Yen)	Composition (%)	Y-o-Y Change (%)	Main clients business industries (Top: increased industries, Bottom: decreased industries)
Media	Magazine	2,686	3.4	(6.4)	Food, Government/Organizations, Precision machinery/Office supplies Apparel/Jewelry, Cosmetics/Toiletry, Finance/Insurance
	Newspaper	5,181	6.6	(7.3)	Distribution/Retail, Food, Household goods Precision machinery/Office supplies, Government/Organizations, Automobile/Automobile-related products
	TV	38,226	48.4	0.4	Restaurants/Other service, Information/Communication, Real estate/Housing
					Pharma/Medical supplies, Automobile/Automobile-related products, Government/Organizations
	Program	14,432	18.3	8.6	Hobbies/Sport goods, Pharma/Medical supplies, Food Distribution/Retail, Cosmetics/Toiletry, Automobile/Auto-related products
	Spot	20,083	25.4	(5.7)	Restaurants/Other service, Information/Communication, Real estate/Housing Pharma/Medical supplies, Automobile/Auto-related products, Government/Organizations
	Content	3,709	4.7	6.5	Food, Energy/Material/Machinery, Real estate/Housing Hobbies/Sport goods, Transportation/leisure, Distribution/Retail
	Radio	773	1.0	(22.4)	Energy/Material/Machinery, Restaurants/Other service, Distribution/Retail Information/Communication, Finance/Insurance, Real estate/Housing
	Digital Media	6,258	7.9	25.4	Food, Information/Communication, Beverage/Tobacco Automobile/Auto-related products, Education/Medical service/Religion, Transportation/Leisure
	OOH Media	3,130	4.0	17.5	Food, Information/Communication, Hobbies/Sport goods Home appliances/AV equipment, Education/Medical service/Religion, Distribution/Retail
Sub-total	56,256	71.2	1.9	Food, Information/Communication, Restaurants/Other service Automobile/Auto-related products, Pharma/Medical supplies, Transportation/Leisure	
Non-Media	Marketing and Promotion	13,669	17.3	(18.2)	Information/Communication, Home appliances/AV equipment, Energy/Material/Machinery Automobile/Auto-related products, Government/Organizations, Beverage/Tobacco
	Creative	8,435	10.7	(19.5)	Apparel/Jewelry, Restaurants/Other service, Finance/Insurance Information/Communication, Beverage/Tobacco, Automobile/Auto-related products
	Others	621	0.8	(0.8)	Restaurants/Other service, Information/Communication, Cosmetics/Toiletry Energy/Material/Machinery, Home appliances/AV equipment, Automobile/Auto-related products
	Sub-total	22,726	28.8	(18.3)	Restaurants/Other service, Apparel/Jewelry, Home appliances/AV equipment Automobile/Auto-related products, Beverage/Tobacco, Government/Organizations
Total	78,982	100.0	(4.9)	Food, Restaurants/Other service, Information/Communication Automobile/Auto-related products, Government/Organizations, Pharma/Medical supplies	

Notes: 1. Because we offer integrated solutions, data may not represent gross billings exactly by media.

2. Content includes Animation, Culture and Sports Marketing, etc.

3. Digital Media includes Internet and Mobile-related media.

(Digital Solutions, such as Website Creation and System Development are included in "Marketing and Promotion".)

4. OOH (Out of Home) Media includes transportation and outdoor advertising and insertions.

5. Marketing and Promotion includes Marketing, Communication Planning, Promotion, Events, PR, Exposition events and Digital Solutions, etc.

(2) Financial Position

The consolidated financial position as of the end of the current first quarter in comparison with that of the end of the previous accounting year (ended December 31, 2016) is as follows.

Total assets amounted to ¥218,111 million, down ¥9,148 million from the previous consolidated fiscal year-end, mainly due to a decrease in the value of investment securities stemming from a drop of their market value and also a decrease in cash and deposit as a result of dividend payment. Total liabilities were also reduced to ¥111,540 million, down ¥2,494 million, mainly due to a decrease in notes and accounts payable and income tax payable despite an increase in short-term borrowings and others. Total net asset amounted to ¥106,571 million and the shareholders' equity ratio was 48.3% when excluding non-controlling interest and subscription rights shares.

(3) Forecasts for Fiscal 2017

The consolidated business for the current first quarter under review resulted in decreased revenue and operating profit on a year-to-year comparison due to such factors as weakened billings registered by ADK-parent and increased selling- general and administrative expenses. While on the other hand, the profit attributable to owners of parent for the first quarter grew substantially due to the completion of a full circle of extraordinary losses posted during the same period last year. What is noteworthy is that construction of business infrastructure and structural reforms are steadily advancing, resulting in improved gross profit ratio through the efforts of growing profitability.

Although we need to find out with caution what the climate of consumer spending and key clients' performance will be, we still anticipate that the Japanese economy will maintain its upward momentum, thus, the advertising market will move strongly in the medium- and long-term. For those reasons, we have not changed, at the time of writing this document, the revised consolidated business forecasts released on February 14, 2017.

We continue our efforts to further grow the business by promoting development and provision of solutions that capture changes in the media environment and consumer behaviors, ensuring to improve competitive edge and profitability.

2. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of Yen)

	December 31, 2016	March 31, 2017
Assets		
Current assets		
Cash and deposits	19,042	16,367
Notes and accounts receivable-trade	81,712	80,022
Short-term investment securities	3,678	4,185
Inventories	5,319	5,296
Other	4,467	4,464
Allowance for doubtful accounts	(1,103)	(878)
Total current assets	113,118	109,457
Noncurrent assets		
Property, plant and equipment	3,773	3,555
Intangible assets		
Goodwill	7,538	7,358
Other	2,580	2,637
Total intangible assets	10,118	9,995
Investments and other assets		
Investment securities	95,313	90,444
Other	5,687	5,493
Allowance for doubtful accounts	(751)	(834)
Total investments and other assets	100,250	95,103
Total noncurrent assets	114,142	108,654
Total assets	227,260	218,111

(Millions of Yen)

	December 31, 2016	March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	75,688	73,110
Short-term loans payable	459	4,425
Current portion of long-term loans payable	1,553	1,508
Income taxes payable	2,273	772
Provision for bonuses	2,343	1,376
Provision	38	0
Other	9,261	9,252
Total current liabilities	91,618	90,446
Noncurrent liabilities		
Long-term loans payable	60	60
Provision	35	15
Net defined benefit liability	510	522
Other	21,810	20,495
Total noncurrent liabilities	22,416	21,093
Total liabilities	114,034	111,540
Net assets		
Shareholders' equity		
Capital stock	37,581	37,581
Capital surplus	11,977	11,974
Retained earnings	16,260	13,987
Treasury shares	(1,205)	(2,206)
Total shareholders' equity	64,613	61,337
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	45,344	42,410
Deferred gains or losses on hedges	20	2
Foreign currency translation adjustment	1,155	1,070
Remeasurements of defined benefit plans	471	469
Total accumulated other comprehensive income	46,992	43,953
Subscription rights to shares	24	34
Non-controlling interests	1,595	1,245
Total net assets	113,225	106,571
Total liabilities and net assets	227,260	218,111

(2) Consolidated Income Statements and Consolidated Statement of Comprehensive Income

Consolidated Income Statements

Three Months Ended March 31, 2017

	(Millions of Yen)	
	Three Months Ended March 31, 2016 (From January 1 to March 31, 2016)	Three Months Ended March 31, 2017 (From January 1 to March 31, 2017)
Gross billings	92,253	87,030
Cost of sales	78,379	73,604
Gross profit	13,874	13,426
Selling, general and administrative expenses		
Salaries and allowances	5,057	4,897
Provision for bonuses	951	1,307
Provision of allowance for doubtful accounts	8	(32)
Other	4,830	5,362
Total selling, general and administrative expenses	10,847	11,535
Operating income	3,026	1,890
Non-operating income		
Interest income	28	28
Dividends income	4	2
Equity in earnings of affiliates	49	39
Dividend income of life insurance	32	35
Other	124	63
Total non-operating income	240	169
Non-operating expenses		
Interest expenses	3	16
Foreign exchange losses	40	47
Other	27	11
Total non-operating expenses	72	76
Ordinary income	3,194	1,984
Extraordinary income		
Gain on sales of non-current assets	99	222
Other	6	51
Total extraordinary income	106	274
Extraordinary loss		
Loss on liquidation of business	1,702	—
Loss on valuation of investment securities	9	22
Other	155	9
Total extraordinary losses	1,868	31
Income before income taxes	1,432	2,226
Income taxes	1,403	759
Net income	28	1,467
Loss attributable to non-controlling interests	(22)	(30)
Profit attributable to owners of parent	51	1,498

Consolidated Statement of Comprehensive Income

Three Months Ended March 31, 2017

	(Millions of Yen)	
	Three Months Ended March 31, 2016 (From January 1 to March 31, 2016)	Three Months Ended March 31, 2017 (From January 1 to March 31, 2017)
Profit	28	1,467
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,945)	(2,933)
Deferred gains or losses on hedges	1	(17)
Foreign currency translation adjustment	(539)	(83)
Remeasurements of defined benefit plans	9	(2)
Share of other comprehensive income of associates accounted for using equity method	(7)	(5)
Total other comprehensive income	(3,481)	(3,043)
Comprehensive income	(3,452)	(1,575)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(3,395)	(1,540)
Comprehensive income attributable to non-controlling interests	(56)	(34)

(3) Notes to Consolidated Financial Statements

(Items related to going concern assumption)

Not Applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not Applicable.

(Adoption of Special Accounting Treatments for Quarterly Consolidated Financial Statements)

【Calculation of tax expenses】

Tax expenses for the period are calculated by using the effective tax rate, which is estimated rationally based on the estimated annual consolidated income before tax after applying deferred tax accounting, and applying that effective tax rate to income before income taxes for the quarter.

(Additional Information)

The Company has applied the Revised Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 of March 28, 2016) from the beginning of the first three month period ending March 31, 2017.

(Segment Information etc.)

【Segment Information】

The previous three quarters (From January 1, 2016 to March 31, 2016)

	Reportable segments			Adjustment (*Note1)	Amount on Consolidated Income Statements (*Note2)
	Advertising	Non- advertising	Total		
GROSS BILLINGS					
Billings to customers	91,350	903	92,253	—	92,253
Inter-segment billings	2	14	17	(17)	—
Total billings	91,353	917	92,270	(17)	92,253
Segment income (loss)	3,109	(83)	3,026	0	3,026

(Notes) 1 Adjustment of segment income (loss) is mainly due to the deduction of the transaction between the segments and unrealized income.

2 Segment income (loss) has been adjusted to equal the operating income on the consolidated income statements.

The current three quarters (From January 1, 2017 to March 31, 2017)

The Group's reporting segment comprises an advertising business alone. Disclosure of segment information is omitted since it holds a marginal position as disclosed information.