

Overview of First Half Results for the Year Ending December 31, 2017 [Japanese GAAP]



August 10, 2017

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 Securities Code 9747 URL : <http://www.adk.jp/en/>
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 Supplementary information for financial results : Available
 Organization of financial results briefing : Available

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

1. The First Six Months Consolidated Results (January 1, 2017 to June 30, 2017)

(1) Consolidated Operating Results

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

6 months ended ;	Gross Billings		Operating Income		Ordinary Income		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
June 30, 2017	172,023	(1.2)	3,710	(3.8)	5,803	4.5	4,296	325.1
June 30, 2016	174,092	(0.6)	3,857	31.4	5,555	7.7	1,010	(68.0)

(Notes) Comprehensive income: at June 30, 2017: (190) million yen (- %), at June 30, 2016: (14,438) million yen (- %)

	Net Income per Share	Fully Diluted Net Income per Share
	Yen	Yen
June 30, 2017	103.77	103.52
June 30, 2016	24.22	24.22

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholder's Equity Ratio
	millions of yen	millions of yen	%
June 30, 2017	210,034	108,033	50.8
Dec. 31, 2016	227,260	113,225	49.1

(Reference) Shareholders' equity: June 30, 2017: 106,695 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)	—	10.00	—	—	—
Fiscal 2017(Forecast)	—	—	—	—	—

(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.)

Full-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
	354,700	0.6	6,230	11.9	9,250	6.5	5,580	134.8	134.79

(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 June 30, 2017	41,755,400 shares	at December 31, 2016	42,155,400 shares
2. Number of treasury stock, end of term	at June 30, 2017	366,121 shares	at December 31, 2016	432,400 shares
3. Avg. number of shares (consolidated) outstanding during the terms ended	at June 30, 2017	41,409,147 shares	at June 30, 2016	41,730,304 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 Half 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.

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1. Consolidated Results for the First Half of Fiscal 2017

(1) Overview of Operating Results

During the first two quarters under review (from January 1, 2017 to June 30, 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 inactive in consequences of the lower-than-expected rise in real wages and other factors despite improvements in the employment environment. Furthermore, the future outlook of the world politics and economies continues to be opaque with the Brexit-related issues and the political management of the current 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. It is almost performing steadily in 2017 with January-May performance eclipsing that of the previous year

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’ performance. To realize that, we are pressing forward structural reforms to strengthen infrastructure and improve profitability to ensure further growth. During the two quarters under review, we stepped up Group-wise efforts to redeploy resources and optimize business portfolio; we reshaped our media divisions that enabled us to offer more effective solutions to client based on the organizational changes we made in the beginning of the year. In addition, we started improving the system and infrastructure to advance our digital business in response to environmental changes in the China advertising market.

Domestic business as a whole saw a decrease in revenue as a result of weakened marketing & promotion and creative jobs handled at ADK-parent. Despite continued measures to improve profitability such as thorough cost management and focused in-house production, and stable performance of a production and a digital subsidiaries, overall domestic profits decreased since inflated SG&A expenses at ADK-parent, a slower performance of an advertising and a content subsidiaries.

On the other hand, overseas business in total saw increased income and profits thanks to strong performance of subsidiaries in the Asian region and also turnaround business in China, Europe and the US through efforts in on-going structural reforms. The entire overseas billings accounted for 7.4% in the total billings generated during the period under review as opposed to 7.4% in 2016.

As a result of all that, gross billings on a consolidated basis during the first six months resulted in ¥172,023 million, down 1.2% from the previous fiscal year with gross profit amounting to ¥26,359 million, up 2.7%, operating income to ¥3,710 million, down 3.8%.

While on the other hand, the Group reported ordinary income of ¥5,803 million, up 4.5% from the previous year, net income before tax and others of ¥6,283 million, up 80.3%, and profit attributable to owners of parent of ¥4,296 million, up 325.1%, due to an increase in non-operating income such as dividend received and 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 ¥154,615 million, down 1.1% from the previous fiscal year. Gross profit was up 3.3% to ¥19,430 million while operating profit fell to ¥3,414 million, down 0.2% from the same period last year.

Media billings improved strongly, in particular digital media and TV ads while marketing & promotion and creative billings, which had performed strongly during the same period last year, decreased on a year-on-year basis, resulting in a decrease in revenue. Profits also experienced a decrease due to an increase in selling, general and administrative expenses including commission paid although gross profit ratio continued improving as an income management structure in place was functioning well.

Broken down by client business, ADK posted increases in gross billings from clients in such industries as Information/Communication, Restaurants/Other service, Hobbies/Sports Goods, Food, Home appliances/AV equipment. However, gross billings declined from clients in such industries as Automobile/Automobile-related products, Pharma/Medical supplies, Government/Organizations, Education/Medical Service/Religion, Beverage/Tobacco sectors.

Non-consolidated Performance by Clients business

Breakdown by Clients business	Gross Billings (Millions of Yen)	Composition (%)	Y-o-Y change (%)
Energy/Material/ machinery	1,876	1.2	14.5
Food	17,440	11.3	7.8
Beverage/Tobacco	9,480	6.1	(8.8)
Pharma/Medical supplies	7,119	4.6	(19.9)
Cosmetics/Toiletry	14,052	9.1	(3.1)
Apparel/Jewelry	6,190	4.0	(1.8)
Precision machinery/Office supplies	1,354	0.9	(24.7)
Home appliances/AV equipment	1,576	1.0	27.8
Automobile/Automobile-related Products	6,457	4.2	(36.0)
Household Goods	574	0.4	26.2
Hobbies/Sport Goods	11,007	7.1	13.7
Real Estate/Housing	5,464	3.5	(3.2)
Publishing	1,218	0.8	(11.4)
Information/Communication	18,818	12.2	13.9
Distribution/Retail	12,708	8.2	1.6
Finance/Insurance	13,070	8.5	(1.1)
Transportation/Leisure	4,552	2.9	(3.8)
Restaurants/Other service	6,827	4.4	40.1
Government/Organizations	4,445	2.9	(26.3)
Education/Medical Service/Religion	2,761	1.8	(26.6)
Signage/Other	7,617	4.9	18.2
Total	154,615	100.0	(1.1)

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 TV ads, Digital Media, OOH Media experienced and increase over the previous year but in segments such as Marketing & Promotion, Creative, Radio, Magazine, Newspaper 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	5,485	3.5	(4.7)	Hobbies/Sports Goods, Restaurants/Other service, Food Apparel/Jewelry, Cosmetics/Toiletry, Finance/Insurance
	Newspaper	9,616	6.2	(1.8)	Distribution/Retail, Automobile/Automobile-related Products, Information/Communication Government/Organizations, Food, Precision Machinery/Office supplies
	TV	77,316	50.0	4.4	Restaurants/Other service, Information/Communication, Hobbies/Sport Goods
					Pharma/Medical supplies, Automobile/Automobile-related products, Education/Medical service/Region
	Program	27,616	17.9	5.1	Finance/Insurance, Hobbies/Sports Goods, Food Cosmetics/Toiletry, Automobile/Automobile-related Products, Distribution/Retail
	Spot	40,801	26.4	0.8	Restaurant/Other service, Information/Communication, Distribution/Retail Pharma/Medical supplies, Automobile/Automobile-related Products, Government/Organizations
	Content	8,897	5.8	22.4	Food, Home appliances/AV equipment, Finance/Insurance Apparel/Jewelry, Education/Medical service/Religion, Precision machinery/Office supplies
	Radio	1,479	1.0	(15.9)	Energy/Material/Machinery, Distribution/Retail, Beverage/Tobacco Information/Communication, Finance/Insurance, Real Estate/Housing
	Digital Media	12,449	8.1	24.3	Information/Communication, Food, Apparel/Jewelry Automobile/Automobile-related Products, Education/Medical service/Religion, Restaurants/Other service
	OOH Media	5,491	3.6	0.8	Food, Hobbies/Sports Goods, Information/Communication Distribution/Retail, Beverage/Tobacco, Education/Medical service/Religion
Sub-total	111,839	72.3	4.7	Information/Communication, Food, Restaurants/Other service Pharma/Medical supplies, Automobile/Automobile-related Products, Education/Medical service/Religion	
Non-Media	Marketing and Promotion	24,344	15.7	(17.8)	Restaurants/Other service, Information/Communication, Hobbies/Sports Goods Automobile/Automobile-related Products, Government/Organizations, Beverage/Tobacco
	Creative	17,236	11.1	(7.6)	Food, Restaurants/Other service, Apparel/Jewelry Distribution/Retail, Pharma/Medical supplies, Cosmetics/Toiletry
	Others	1,194	0.8	(0.3)	Restaurants/Other service, Information/Communication, Cosmetics/Toiletry Energy/Material/Machinery, Automobile/Automobile-related Products, Home alliance/AV equipment
	Sub-total	42,775	27.7	(13.5)	Restaurants/Other service, Information/Communication, Apparel/Jewelry Automobile/Automobile-related Products, Government/Organizations, Beverage/Tobacco
Total	154,615	100.0	(1.1)	Information/Communication, Restaurants/Other service, Hobbies/Sports Goods Automobile/Automobile-related Products, Pharma/Medical supplies, Government/Organizations	

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 second quarter in comparison with that of the end of the previous accounting year (ended December 31, 2016) is as follows.

Total assets amounted to ¥210,034 million, down ¥17,225 million from the previous consolidated fiscal year-end due mainly to a decrease in bills receivables and account receivables with account receivables collection and also a decrease in the value of investment securities stemming from a drop of their market. Total liabilities were also reduced to ¥102,001 million, down ¥12,033 million due mainly to a decrease in notes and accounts payable. Total net asset amounted to ¥108,033 million and the shareholders' equity ratio was 50.8% when excluding non-controlling interest and subscription rights in shares.

(3) Forecasts for Fiscal 2017

Billings during the six months of the current fiscal year experienced reduced income and reduced operating profit on a consolidated basis over year-to-year comparison with weakened billings registered at ADK parent and increased selling, general and administrative expenses. While on the other hand, profit attributable to owners of parent grew significantly on a quarterly basis due to an increased dividend income and the completion of a full circle of extraordinary losses posted. With the profit ratio continuing improving as measures to enhance profitability are working well and the efforts in structural reforms in overseas subsidiaries bearing fruit, overall establishment of infrastructure and structural reforms are steadily advancing.

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 third quarter and on. For those reasons, we have not changed, at the time of writing this document, the revised consolidated forecasts released on February 14, 2017.

We continue our efforts to further grow the business by promoting developments and provision of solutions in tune with 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	June 30, 2017
Assets		
Current assets		
Cash and deposits	19,042	16,907
Notes and accounts receivable-trade	81,712	72,414
Short-term investment securities	3,678	3,369
Inventories	5,319	5,470
Other	4,467	6,439
Allowance for doubtful accounts	(1,103)	(716)
Total current assets	113,118	103,885
Noncurrent assets		
Property, plant and equipment	3,773	3,437
Intangible assets		
Goodwill	7,538	7,179
Other	2,580	2,554
Total intangible assets	10,118	9,733
Investments and other assets		
Investment securities	95,313	88,283
Other	5,687	5,621
Allowance for doubtful accounts	(751)	(927)
Total investments and other assets	100,250	92,977
Total noncurrent assets	114,142	106,149
Total assets	227,260	210,034

(Millions of Yen)

	December 31, 2016	June 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	75,688	68,200
Short-term loans payable	459	393
Current portion of long-term loans payable	1,553	1,506
Income taxes payable	2,273	1,907
Provision for bonuses	2,343	1,031
Other	9,299	8,547
Total current liabilities	91,618	81,586
Noncurrent liabilities		
Long-term loans payable	60	60
Provision	35	30
Net defined benefit liability	510	534
Other	21,810	19,788
Total noncurrent liabilities	22,416	20,415
Total liabilities	114,034	102,001
Net assets		
Shareholders' equity		
Capital stock	37,581	37,581
Capital surplus	11,977	10,822
Retained earnings	16,260	16,786
Treasury shares	(1,205)	(1,055)
Total shareholders' equity	64,613	64,134
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	45,344	40,900
Deferred gains or losses on hedges	20	—
Foreign currency translation adjustment	1,155	1,194
Remeasurements of defined benefit plans	471	466
Total accumulated other comprehensive income	46,992	42,561
Subscription rights to shares	24	150
Non-controlling interests	1,595	1,187
Total net assets	113,225	108,033
Total liabilities and net assets	227,260	210,034

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

Consolidated Income Statements

Six Months Ended June 30, 2017

	(Millions of Yen)	
	Six Months Ended June 30, 2016 (From January 1 to June 30, 2016)	Six Months Ended June 30, 2017 (From January 1 to June 30, 2017)
Gross billings	174,092	172,023
Cost of sales	148,419	145,664
Gross profit	25,672	26,359
Selling, general and administrative expenses		
Salaries and allowances	11,244	11,319
Provision for bonuses	982	969
Provision of allowance for doubtful accounts	(9)	(80)
Other	9,597	10,440
Total selling, general and administrative expenses	21,814	22,648
Operating income	3,857	3,710
Non-operating income		
Interest income	57	54
Dividends income	1,522	1,931
Equity in earnings of affiliates	87	94
Other	201	155
Total non-operating income	1,867	2,235
Non-operating expenses		
Interest expenses	6	32
Foreign exchange losses	105	60
Other	56	49
Total non-operating expenses	169	141
Ordinary income	5,555	5,803
Extraordinary income		
Gain on sales of non-current assets	99	226
Gain on sales of investment securities	5	46
Settlement received	—	250
Other	13	6
Total extraordinary income	119	529
Extraordinary loss		
Loss on liquidation of business	1,994	—
Loss on valuation of investment securities	61	22
Other	134	28
Total extraordinary losses	2,190	50
Income before income taxes	3,484	6,283
Income taxes	2,423	2,043
Net income	1,060	4,239
Profit (Loss) attributable to non-controlling interests	49	(57)
Profit attributable to owners of parent	1,010	4,296

Consolidated Statement of Comprehensive Income

Six Months Ended June 30, 2017

	(Millions of Yen)	
	Six Months Ended June 30, 2016 (From January 1 to June 30, 2016)	Six Months Ended June 30, 2017 (From January 1 to June 30, 2017)
Profit	1,060	4,239
Other comprehensive income		
Valuation difference on available-for-sale securities	(13,721)	(4,444)
Deferred gains or losses on hedges	(42)	(20)
Foreign currency translation adjustment	(1,717)	42
Remeasurements of defined benefit plans	17	(4)
Share of other comprehensive income of associates accounted for using equity method	(35)	(3)
Total other comprehensive income	(15,498)	(4,430)
Comprehensive income	(14,438)	(190)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(14,385)	(134)
Comprehensive income attributable to non-controlling interests	(52)	(56)

(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 quarter of 2017.

(Segment Information etc.)

【Segment Information】

The previous two quarters (From January 1, 2016 to June 30, 2016)

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.

The current two quarters (From January 1, 2017 to June 30, 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.

(Material Subsequent Events)

The Issuance of Equity Compensation Type Stock Options (Stock Options)

It was resolved at the Board of Directors meeting held on August 10, 2017 that stock acquisition rights as stock compensation-type stock options shall be issued to 4 executive directors and 15 operating officers except those who are directors of the Company for the purpose of further enhancing their motivation and morale to contribute to the improvement of business performance and the stock price and making their share in the benefits and risks arising from the rise and fall in the stock price, together with the shareholders, in accordance with Article 236, 238 and 240 of the Companies Act.

Details are as included in the "Notice Regarding the Issuance of Stock Compensation-type Stock Options (Stock Acquisition Rights) to Directors" dated today and "Notice Regarding the Issuance of Stock Compensation-type Stock Options (Stock Acquisition Rights) to Operating Officers".