

**Daikoku Denki Co.**6430 Tokyo Stock Exchange  
First Section

15-Aug.-14

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and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
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## ■ Achieving medium-to-long-term growth through advancing business reforms based upon stable sources of profit

Daikoku Denki <6430> is Japan's leading company in computer systems (hall computers) for pachinko (Japanese pinball) parlors or halls and its products are considered to be the de-facto industry standard. Its two main sources of profits are its Information System Segment, in which it produces and sells hall computers and provides hall management support services, and its Control System Segment, in which it concludes original equipment manufacturer (OEM) agreements to supply pachinko manufacturers with electronic components and also develops, produces, and sells pachinko slot machines.

The Company announced its consolidated results for the fiscal year ended March 2014 (FY3/14) on May 12, 2014. It announced that its sales and operating profit were below its record high of the previous financial year and in particular, that its operating profit declined by double digits. But these results did not indicate a decline in profitability, but rather were the result of its active investment in business reforms with an eye to its medium-to-long-term future. Therefore, these results were probably not a surprise to investors and were in line with forecasts from prior to the announcement.

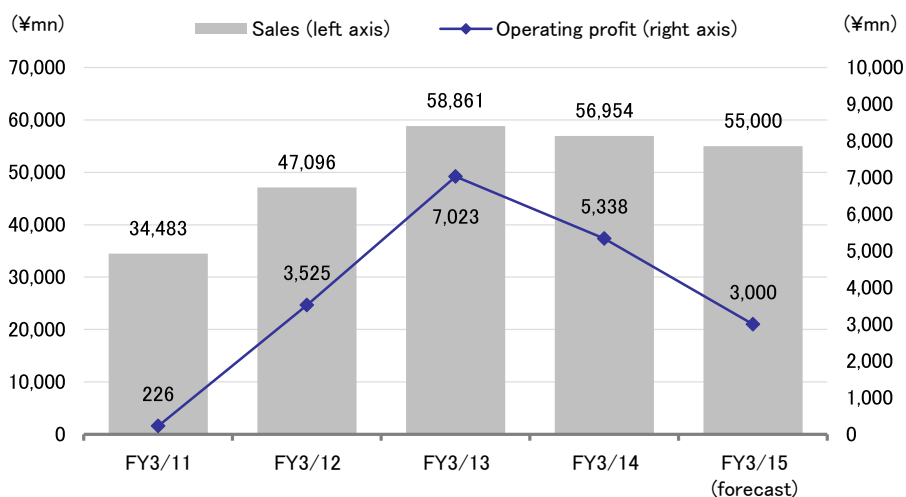
There were concerns about the impact that the April hike in the consumption tax rate would have on the pachinko parlor and hall industry, but the data (on DK-SIS) did not show any serious signs. There remains untapped demand in the market, such as for the opening of new pachinko parlors and halls and for replacing equipment when existing parlors and halls are refurbished. Further, it is considered that the pachinko and pachinko slot machines market may expand as a result of the economic upswing expected in advance of the 2020 Tokyo Olympics. But on the other hand, in the long run, against the backdrop of the declining birthrate and aging population in Japan, the pachinko and the pachinko slot machines market would shrink. Therefore, the Company is, backed by present stable profits, is pursuing business reforms to ensure its next growth stage in the future. We must pay attention to the progress the business reforms.

The Company's three business reforms are (1) developing next-generation hall computer systems, (2) expanding its in-house development of pachinko slot machines, and (3) entering the casino market. The progress the Company makes in realizing these business reforms will to a large extent determine its future, and if they become the framework that supports the Company's business, we can expect this to be reflected in its medium-to-long-term growth and its share-price level.

## ■ Check Point

- It is expanding its next-generation computers and in-house pachinko slot machine businesses and entering the casino business.
- The financial situation is in a good shape, as it does not have debt free and its cash flow is stable.
- The ratio of shareholding by foreign investors is 18%, showing their appreciation.

Trends in full-year results



## ■ Summary of its business reforms

### Expanding its next-generation computers and in-house pachinko slot machines businesses and entering the casino business

The Company's profitability at present is extremely stable. There are three reasons for this. The first reason is the uniqueness of the market. The pachinko and pachinko slot machines industry is a special industry as, for example, it is regulated and supervised by the government. Therefore, its barriers to entry are extremely high. The second reason is that in the Company's Information System Segment, which provides around 50 to 60% of its sales, it possesses the top share in the domestic market for its leading product of hall computers, of nearly 40%, and its product constitutes the market's de-facto standard. The third reason is the market environment. According to the Survey of Selected Service Industries (2014) conducted by the Ministry of Economy, Trade and Industry (METI), the scale of the pachinko and pachinko slot machines market is currently remaining practically unchanged. The Company also carried out its own market survey based on information it collected from the pachinko parlors and halls to which it supplies its hall computers, and it also obtained practically the same findings for market scale as the survey by METI. According to the Company, while it is true that at the peak of its popularity there were around 15 million pachinko fans and that this number has declined to the current level of around 12 million people, it also the case that this decline has now halted and numbers are trending practically unchanged. Also, according to a survey conducted independently by the Company, an economic upswing is expected to occur in Japan in advance of the 2020 Tokyo Olympics and it is likely that the pachinko and pachinko slot machines market will benefit from this.

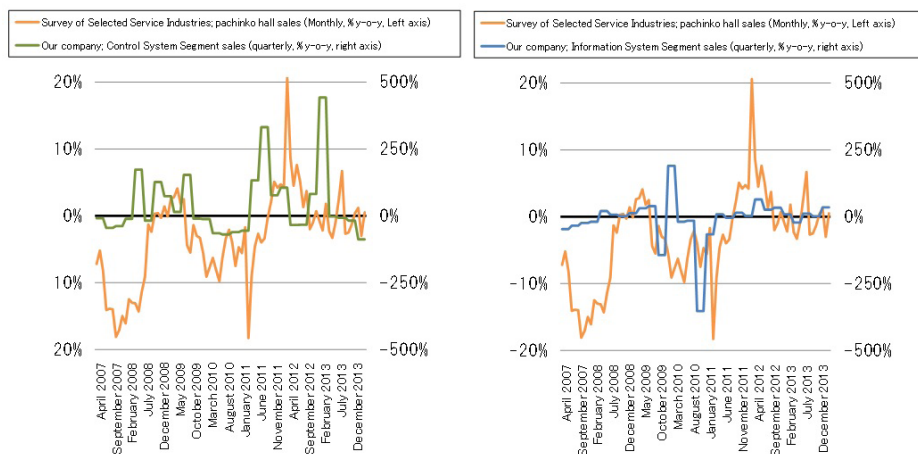
Under such circumstances, according to a research by Yano Research Institute Ltd. (Results of the Nationwide Survey into the Number of Pachinko Management Companies and Parlors/Halls, 2013), even though there are only a few new openings of pachinko parlors and halls each year, there are still more than 200 a year, which become potential new customers for hall computers. Further, there are approximately 12,000 existing pachinko parlors and halls (from a National Police Agency announcement in 2013) that carry out refurbishments every few years in order to attract customers, and each time they do this, they become potential customers for new hall computers. In other words, there exists a fairly large number of potential customers for the Company.

Of course, winning new customers requires sales and marketing efforts. But the fact that there exist to a reasonable extent potential customers and that the Company possesses the de-facto standard in an industry where the barriers to entry are high, then it can be considered that as long as the market does not shrink by a major extent, there is little risk of its profits declining dramatically.

Also, hall computers are one part of a framework of equipment and are linked to the peripheral equipment that is present within every pachinko parlor and hall. This business structure means that if the Company can maintain stable sales of its computers, then naturally its sales of peripheral equipment will also steadily grow. This is the same structure as in its management support service business.

On the other hand, in its Control System Segment, the Company's sales and profits fluctuate depending on regulations on the issue of pinballs by pachinko machines and the popularity of different models. However, for the same reasons as those behind the stability of its Information System Segment, it can be said there is little risk of profits deteriorating in this segment to the extent that it records a loss.

**The pachinko business environment**



Data source: Survey of Selected Service Industries (May 5, 2014) by Ministry of Economy, Trade and Industry

Source: reproduced from Company materials

But in the future, due to Japan's declining birthrate and aging population, the pachinko and pachinko slot machines market that exists only in Japan will shrink. Therefore, the Company, while it is still generating profits stably, has embarked on the business reforms for the future.

When analyzing the Company, it is insufficient to simply pay attention to the numerical data on its current performance, it is also necessary to verify the progress in its business reforms for their growth in the future.

The Company is currently implementing three business reforms. The first is the development of next-generation hall computers, the second is the expansion of its in-house development of pachinko slot machines, and the third is its advance into the casino market. All three are projects that to a large extent will determine the Company's future. Below, these reforms are explained in more detail.



Daikoku Denki Co.  
6430 Tokyo Stock Exchange  
First Section

15-Aug.-14

## Developing next-generation computers compatible with big data for the entire amusement industry

### (1) Developing next-generation hall computers

Hall computers comprehensively manage pachinko operations – for example, the number of pinballs going in and out of each and every machine installed in the pachinko parlor or hall, or the number of times customers hit a jackpot – and they are a core system supporting management. These computers display the operating condition of each pachinko machine and alert hall managers each morning of any suspicious fraudulent operations of these machines in the previous night.

The Company links its hall computers to its peripheral equipment, such as the VEGASIA card recognition (CR) unit and BiGMO, which is a system for distributing information to pachinko fans. In addition, the DK-SIS service, which provides information on customer associations, is linked to the hall computer's software. In other words, through its hall computers, the Company has a business model in place that enables it to sell its equipment and services in the Information System Segment as a single package. Therefore, sales of hall computers provide a major boost to the Company's profits.

The Company is developing next-generation hall computers. The most important specification of the computers is compatibility with big data management. The behavior of each visitor to a pachinko hall, from the time he or she enters it until the time he or she leaves, is converted into data and accumulated. By analyzing this enormous quantity of data (known as 'big data'), it becomes possible to not only discover any problems within the hall, but also to analyze how best to deal with these problems and improve operations.

In an interview with the Company, it stated that it began the full-fledged development of next-generation computers in FY3/14 and that it plans to launch them in a few years time. It seems that the development is progressing as planned. Furthermore, the Company has more or less decided to embark on joint research with a major domestic electronic equipment manufacturer in order to improve the performance of its next-generation computers. It plans to analyze with its research partner the big data collected from a field test and to incorporate the expertise acquired from the results of this test into its next-generation computers as functions.

The Company plans to spend a total of around ¥5 billion on developing these next-generation computers, equal to about 10% of its annual sales. While these computers will improve the performance of the functions employed in the latest devices, it has stated that it intends to keep down their prices relative to current hall computers and that it will make them price-competitive.

The Company's goal for this project is to take away share from its competitors. Rival manufacturers of medium and smaller size lack the strength to make the investment necessary to upgrade their hall computers. Through this large-scale investment, the Company intends to greatly distance its products from those of its rivals both in terms of performance and price and to increase their market share.

The Company expects the Japanese economy to remain strong up to the 2020 Tokyo Olympics, and in the three years from the launch of its next-generation computers, it plans to upgrade the systems of approximately 3,000 its existing customers. At the same time, it is aiming to steal customers from its competitors and in the future, intends to increase its share of the hall computers market above its current share of around 40 to 50%.

Moreover, these next-generation computers have been given the central role in the Company's business reforms, as it does not limit potential customers for its next-generation computers to pachinko parlors and halls, but is also exploring possibilities to sell them to amusement facilities. By developing a business of proposing measures to improve profits by converting the behavior of visitors to a wide range of amusement facilities into data and accumulating this data, it is aiming to revolutionize its target customers, from companies within the pachinko and pachinko slot machines industry to companies within the entire amusement industry.

## **As the twin cores of its Control System Segment, OEM for pachinko parts and in-house development of pachinko slot machines**

### **(2) Expanding the in-house development of pachinko slot machines**

Based on the success the Company achieved with its Magical Suite Prism Nana (Prism Nana) pachinko slot machine that it released in April 2013, from this fiscal period onwards it intends to greatly increase sales from the pachinko slot machines it develops in-house. Through this, together with its business centered on the OEM supply of pachinko machine display units, which is currently the Company's leading product, it is aiming to increase both sales and profits.

A major reason for this plan is the slump in popularity of pachinko machines. In addition to the steep rise in the price per pachinko machine, there has also been a decline in playing time because of the high rate of installation of pachinko machines with a high degree of speculative performance, and currently numbers of the leading ¥4 per ball pachinko machines are rapidly decreasing and the Company's Control System Segment is somewhat struggling.

Conversely, in pachinko slot machines, although a temporary increase has now stopped, there are no similar factors causing a slump in their popularity and the number of units installed has actually increased since 2009. Further, the unions and industrial societies in the pachinko slot machines business are different than those for pachinko machines and manufacturers, and it has a short history compared to the pachinko industry and there remains room for the Company to increase its share from new entrants into the market.

In addition, compared to the OEM business for display units, sales of pachinko slot machines developed in-house generate greater profits for the Company in the event that they are a hit. In terms of the major direction being taken, the Company is a latecomer to the pachinko slot machine field and it is intentionally avoiding chasing after speculative-performance customers as the other companies are doing, and instead has adopted a strategy of pursuing customers through making its game machines interesting. While Prism Nana is not that famous as a character, by working together with the character producer and development company, it achieved a major hit by producing a machine with interesting audio and video. By the way, the memory capacity of the semiconductor the Company used was twice that of other companies' products, while the copyright fees for the character were also reasonable, which meant it was able to pay the expenses for image development.

The Company will increase its spending on research and development for pachinko slot machines and also strengthen its research structure. With regards to this, for example, in March 2014 it invested in Digital Acoustic Corporation, which is a subsidiary of Onkyo Corporation <6628>. Digital Acoustic possesses advanced technology in the acoustic field and in the future it will work on strengthening quality assurance systems for pachinko machine display units and pachinko slot machines. In addition to the video side, by realizing high quality audio the Company will make its game machines more interesting for customers.

The Company's specific developments in pachinko slot machines are described below. In FY3/15 it will launch two new models using new characters and is aiming to sell 6,000 units of each. It has achieved sales of approximately 4,000 units for Prism Nana, and with this as the assumption, it is considered likely that it will achieve its sales targets for its new models.

In addition, from FY3/16 onwards, the Company's policy is to release 3 new models and 1 or 2 inexpensive models on a yearly basis. The inexpensive models will be sold at around ¥200,000 each, around half the price of a usual new model. When replacing a machine, the Company will install new software into the body of the machine that is to be disposed of, which means profits can be generated even when these models are sold cheaply. The goal is to sell around 2,000 inexpensive models for every 10,000 new models.

In terms of profits, the Company is forecasting a loss for these products up to FY3/15, but the intention is for them to contribute to profits from FY3/16 onwards. Should the Company achieve sales of 10,000 units for each of its three new models, through these sales alone it expects to achieve annual sales of around ¥10 billion and operating profit of several billion yen.

## **Sales of hall computers for casinos and the development of casino game machines are also on the horizon**

### **(3) Entering the casino market**

In FY3/14, the Company exhibited its hall computers and other products for the first time at a game show in Macau, and it "expressed an interest" in entering the casino market. At the time of the exhibition it was merely "interested," in entering this market, but currently it is clearly showing its intent to do so.

The Company's objective in entering the casino market is to compensate for the decline in sales in the pachinko and pachinko slot machines market, as it is forecast to contract in the future due to Japan's declining birthrate and aging population.

Specifically, at the point in time the Company is able to foresee the passage through the Diet of the Integrated Resort Bill (commonly known as the Casino Bill), for which there has been an increasing move to pass in Japan, centered on the Liberal-Democratic Party, it plans to officially create a project team within the Company. Before casinos are opened in Japan, it will collaborate with manufacturers of casino game machines and propose a service that analyzes big data. In the future, it also has an eye on applying its expertise in pachinko slot machines in order to develop its own casino game machines, and moreover is aiming to develop this business globally.

In terms of the time schedule, the blueprint the Company has drawn up is that if it can complete its business tie-ups by the time of the 2020 Tokyo Olympics, it will be on time to enter into this market. This is because the submission of the Casino Bill has been postponed from the current Diet session, and so it considered that no matter how quickly the bill passes from the next session, casinos will still not be opened by the time of the Tokyo Olympics.

Also, in terms of profit forecasts, even if the Company enters into the domestic casino market, the scale of overall sales in this market, including from hotels, is expected to be around several hundred billion yen a year. If we estimate from this total, then at the most the Company's sales will be about ¥100 to ¥200 million, which means it is not expecting to record profits at the time it initially enters into the market.

But the Company has forecast that the global casino market will grow to around ¥20 trillion in the future. In the event that it accumulates expertise on casinos in Japan and advances into the global market, it can be expected to achieve sales of around several billion yen a year.

This would be of a scale sufficient to compensate for the decline in its profits resulting from the contraction of the pachinko and pachinko slot machines market due to Japan's declining birthrate and aging population.

What these three projects have in common is that the Company has anticipated a market shrinking in the future and intends to forestall a decline in profits by developing these projects as new businesses. This approach is based on the management philosophy of Shinji Kayamori (currently, Advisor to the board of the Company), who is the father of the current company president.

In the 1970s the pachinko-related market shrank drastically and the Company's results rapidly worsened as a result. The president at that time, Shinji Kayamori, was forced to restructure the Company and the hardships suffered at that time left a deep impression on him that he never forgot. From this experience, he derived his philosophy as a manager, of "never lay-off employees." The philosophy of the father has been passed down to the son, and the Company's attack-orientated business attitude, of anticipating the future and taking steps at an early stage not only to avoid the worst-case scenario, but also to expand its business, can be said to be worthy of praise.

## ■ Business trends

### **Exceeding the Company forecast by double digits due to the strong performance of the Information System Segment in FY14/3**

#### **(1) Summary of the FY3/14 Income Statement**

In the Company's FY3/14 consolidated financial statements that it announced on May 12, 2014, sales declined 3.2% year-on-year (y-o-y) to ¥56,954mn, operating profit was down 24.0% to ¥5,338mn, recurring profit decreased 24.4% to ¥5,474mn, and net profit declined 21.2% to ¥3,278mn.

Although the Company's sales in the Information System Segment were a record high, its overall sales performance was affected by declines elsewhere, including the fall in the supply of display-unit models for pachinko machines in the Control System Segment.

In terms of profits, thanks to the increase in sales in the Information System Segment that has high profit margins, the Company's gross profit-net was practically unchanged, declining only 0.5% y-o-y to ¥18,691mn. The fall in operating profit was a result of an increase in SG&A expenses, which rose 13.6% y-o-y to ¥13,353mn. The Company incurred R&D expenses, sales commissions for sales promotions of pachinko slot machines, and business-outsourcing expenses. Within these expenses, the Company invested ¥3,656mn in R&D expenses, which was a 34.4% increase y-o-y. Specifically, it invested ¥1,627mn, an increase of 80.4% y-o-y, in the Information System Segment to develop next-generation hall computers, and ¥2,028mn, an increase of 11.6%, in the Control System Segment.



### FY3/14 Results

	FY3/13	FY3/14	y-o-y (%)	Compared to forecasts (%)	(¥mn)
Sales	58,861	56,954	-3.2	11.7	
Gross profit-net	18,776	18,691	-0.5	9.9	
SG&A expenses	11,753	13,353	13.6	2.7	
Operating profit	7,023	5,338	-24.0	33.5	
Recurring profit	7,244	5,474	-24.4	36.9	
Net profit	4,161	3,278	-21.2	63.9	
R&D expenses	2,720	3,656	34.4	4.5	

While on the one hand the Company recorded a decline in sales and profits, on the other hand both sales and profits were much better than expected when compared to Company forecasts. Sales exceeded the forecast by 11.7%, operating profit by 33.5%, and net profit by 63.9%. The strong performance of the Information System Segment was the main reason for this better-than-expected performance compared to forecasts.

Segment results are shown below.

#### Information System Segment

Sales increased 13.8% y-o-y to ¥36,065mn, while segment profit rose 0.4% to ¥6,093mn.

The company sold 203 hall computers in the fiscal period under review (compared to 205 units in the previous fiscal period), which means it captured new customers to the same extent as in the previous fiscal year when it recorded its best-ever results. In conjunction with this, its sales of peripheral equipment also greatly increased. In addition to CR units, peripheral equipment include call lamps that are installed on top of the game machine and face-recognition systems that convert the faces of customers to data and then accurately capture information on which machines each customer plays on. The sales volume of VEGASIA CR units increased 35.6% y-o-y to 77,223 units, while in call lamps, the sales volume of BiGMO PREMIUM, which is a new product, was 48,046 units, and it contributed to the sales results. The Company sold 15,427 face-recognition systems, which was an 85.1% increase y-o-y. Because there has been a decline in the number of visitors to pachinko parlors and halls, we estimate that a factor behind this strong sales performance was that pachinko parlors and halls are aiming to enhance their facilities to provide pachinko fans with a more pleasant playing environment with the goal of maintaining or improving their ability to attract customers.

#### Sales volumes of the main products in the Information System Segment

		FY3/13	FY3/14	(units)
Hall computers		205	203	
Call lamps	BiGMO Series	70,493	45,924	
	BiGMO PREMIUM	-	48,046	
	IL-X	97,805	104,873	
VEGASIA CR unit		56,942	77,223	
Face-recognition systems		8,334	15,427	

The service department also maintained its strong performance. Member numbers for DK-SIS, which provides a variety of management consulting services to its pachinko parlor and hall members, were 3,676 members, an increase of 2.4% y-o-y.



## ○Control System Segment

In the Control System Segment, sales decreased 23.2% y-o-y to ¥20,889mn and segment profit declined 61.5% to ¥1,127mn. The main reason for these declines were that sales of display units for pachinko machines, which is the Company's leading product in this segment, fell 36.3% to ¥10,083mn. In addition to the lack of popular models, the slump in the popularity of ¥4 per ball pachinko machines meant that the number of models the Company supplied declined by 2 compared to the previous year, to 18 models.

While the Company recorded a loss in its pachinko slot machines business, it achieved its first hit with Magical Suite Prism Nana, the pachinko slot machine it launched in April 2013. Its cumulative sales volume reached 3,949 units, which is approximately four times the Company's average sales volume. Of the 74 new pachinko or pachinko slot game machines launched in Japan in 2013, the Magical Suite Prism Nana pachinko slot game machine ranked 19th in terms of its contribution to industry sales

### Segment results

		(¥mn)	
		Sales	Segment profit
FY3/13	Information System Segment	31,685	6,069
	Control System Segment	27,184	2,930
FY3/14	Information System Segment	36,065	6,093
	Control System Segment	20,889	1,127

## The Company's financial situation improved; it practices debt-free management and its cash flow is stable.

### (2) Financial condition

The Company's financial condition improved in the fiscal year under review. Due to an increase in retained earnings, equity grew by 6.0% from the level at the end of FY3/13 to ¥32,260mn. Reflecting decreases in accounts payable and taxes due, liabilities fell by 17.5% from the level at the end of FY3/13 to ¥21,669mn. Interest-bearing debt dropped by 37.0% to ¥800mn. As a result of the above, total assets decreased 4.9% to ¥53,929, and the equity ratio rose by 6.1 ppts to 59.8%.

Cash flow remained stable. Cash and cash equivalents decreased by 17.0% y-o-y to ¥15,281mn, which exceeded interest bearing debt, meaning the Company continues to be substantially debt-free. Operating cash flow was ¥340mn, which was a decline of ¥9,260mn y-o-y, but the main factor behind this was that as the end of the preceding fiscal year was a holiday for financial institutions, the accounts-payable total was greatly reduced.

### Consolidated balance sheet

		(¥mn)		
	FY3/13	FY3/14	Change	
Current assets	39,789	37,045	-2,744	
Fixed assets	16,916	16,884	-32	
Total assets	56,706	53,929	-2,776	
Current liabilities	24,544	20,159	-4,385	
Fixed liabilities	1,722	1,509	-213	
Total liabilities	26,267	21,669	-4,598	
Total equity	30,439	32,260	1,821	
Total liabilities & equity	56,706	53,929	-2,776	
Interest-bearing debt	1,269	800	-469	
Equity ratio (%)	53.7	59.8	6.1	

## Summary Consolidated Cash Flow Statement

	(¥mn)	
	FY3/13	FY3/14
Cash flow from operations	9,600	340
Cash flow from investing	2,153	-1,655
Cash flow from financing	-7,003	-1,809
Balance of cash and cash equivalents at the end of fiscal period	18,406	15,281

## With a ‘steady’ forecast for sales in FY3/15, the Company continues to invest in business reforms

### (3) Company Forecasts for FY3/15

Company forecasts for FY3/15 are as follows. Sales on a consolidated basis are forecast to decline 3.4% y-o-y to ¥55,000mn, operating profit to fall 43.8% to ¥3,000mn, recurring profit to decrease 45.2% to ¥3,000mn, and net profit to decline 39.0% to ¥2,000mn.

### Trends in full-year results

	(¥mn)				
	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15 (forecast)
Sales	34,483	47,096	58,861	56,954	55,000
y-o-y	-33.5	36.6	25.0	-3.2	-3.4
Operating profit	226	3,525	7,023	5,338	3,000
y-o-y	-95.1	-	99.2	-24.0	-43.8
Recurring profit	356	3,541	7,244	5,474	3,000
y-o-y	-92.7	894.1	104.5	-24.4	-45.2
Net profit	-342	1,663	4,161	3,278	2,000
y-o-y	-	-	150.3	-21.2	-39.0
EPS (¥)	-23.14	112.50	281.53	221.80	135.29
DPS (¥)	40.00	40.00	90.00	80.00	40.00

As the scale of the pachinko and pachinko slot machines market is expected to remain practically unchanged, after taking into account the weakening of the new-product effect from BiGMO PREMIUM that was released and was a major hit in the previous fiscal year, sales of hall peripheral equipment in the Information System Segment are expected to fall below the level of the previous year, and the Company’s forecast can be considered ‘steady’. The forecast decrease in operating profit is due to factors such as the y-o-y increase in SG&A expenses of 12.3% to ¥15,000mn. The reason for the rise in SG&A expenses is the same as in FY3/14; namely, increases in R&D expenses, in sales promotion expenses due to higher sales of pachinko slot machine, and in business-outsourcing expenses. In particular, R&D expenses are expected to increase 28.6% y-o-y to ¥4,700mn. The principal factor behind this increase is the Company’s investment in next-generation hall computers, but this investment is expected to peak in the fiscal period under review.

Forecasts according to segment are as follows.

### ○Information System Segment

In the information System Segment, sales are forecast to decline 8.5% y-o-y to ¥33,000mn and segment profit to decrease 29.4% to ¥4,300mn.

**■ Business trends**

The Company is forecasting sales of hall computers of around 200 units, which is practically the same as the previous fiscal year, but it expects sales of hall peripheral equipment to decline. In call lamps, it forecasts that total sales for the 3 models will be around 180,000 units, which would be a 9.5% decline y-o-y. As the Company is aiming for a 24.9% increase in sales of BiGMO PREMIUM to 60,000 units, it expects sales of the other models to fall as a reaction to this increase. It is forecasting a decline of 9.4% in sales of CR units, to 70,000 units, and a fall of 38.4% in face-recognition systems, to 9,500 units. The Company is intending to invest ¥2,500mn in R&D expenses in this segment, which is an increase of 53.7% y-o-y.

**○Control System Segment**

In the Control System Segment, the Company is forecasting a 5.3% increase in sales y-o-y, to ¥22,000mn, but a 55.6% decrease in segment profit, to ¥500mn.

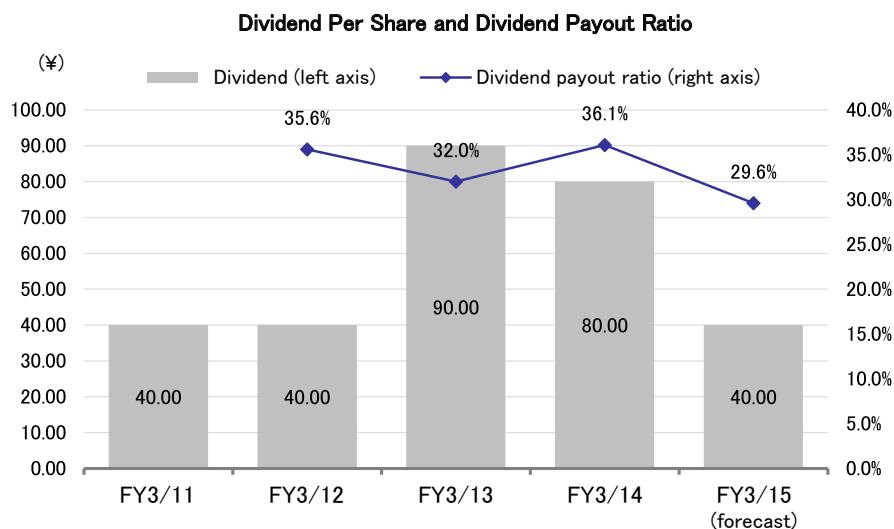
In pachinko machine display units, the Company expects to reduce the number of models it supplies by 4 compared to the previous fiscal year, to 14 models. But as it intends to increase the percentage of hit models it supplies by adopting a more focused approach to supplying models, it is forecasting a 2.2% increase in sales y-o-y, to ¥10,300mn. It also expects the launch of new pachinko slot machine models to contribute to an increase in sales.

But conversely, the Company forecasts a decrease in operating profit, mainly due to increases in R&D expenses, in sales-promotion expenses resulting from higher sales of pachinko slot machines, and in business-outsourcing expenses. In particular, R&D expenses are set to increase 8.5% y-o-y to ¥2,200mn, which will mainly be used to invest in the development of pachinko slot machines.

**■ Dividend policy and outlook for the share-price****Based on the conservative forecasts for FY3/15, if the initial forecasts are upwardly revised, dividends may increase****(1) Dividend policy**

The Company's policy is to pay an annual dividend of ¥40 per share and to supplement this payment with special dividends, depending on its profits. As profits declined in FY3/14, the Company will reduce its end-of-year dividend by ¥10 compared to the previous fiscal period, to ¥60. As it paid a dividend at the end of Q2 of ¥20, its full-year dividend is ¥80, for a dividend payout ratio of 36.1%.

In FY3/15, the Company plans to pay a total dividend of ¥40 in the form of a dividend at the end of Q2 of ¥10 and at the end of the fiscal period of ¥30. However, as was described above, the Company's policy is to judge whether or not to increase dividends depending on how it is performing and also its initial forecasts tend to be somewhat safe. Therefore, sales of hall peripheral equipment in the Information System Segment in FY3/15 may exceed the Company's initial safe forecast, and in the event that it upwardly revises its forecasts, it is also possible that it will increase its dividends.



**Its ratio of shareholding by foreign investors is 18% and its positive evaluation by overseas investors is also worthy of attention**

#### (2) Share-price prospects

If we look at the prospects for the Company's share price from the standpoint of investors, we cannot ignore the fact that it is difficult to judge whether or not the Company will achieve success that corresponds to the major amounts it has invested in its business reforms that hold the key to its growth in the future; specifically, its investments in developing next-generation hall computers and expanding its in-house development of pachinko slot machines.

However, up to the present time the Company has actively worked on initiatives that were the first of their kind in its industry, such as face-recognition systems, and it has achieved growth while developing and making a success of these initiatives over the course of several years. Also, as was previously stated, against the backdrop of its stable profitability, at the current time there is little risk of the Company's results suddenly deteriorating. Further, the contents of its business reforms, for which it has been making prior investments, encompass keywords on diverse and topical themes like big data, Moe characters, and casinos.

In this sort of environment, as an indicator of the stock-price level, the Company's PBR is currently below 1x, while its ratio of shareholding by foreign investors is 18%. With regards to this latter point, the Company is attracting attention and positive evaluations from domestic investors, which we might expect to be reflected in the share price.

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