

Daikoku Denki Co.
6430 Tokyo Stock Exchange
First Section

19-Mar.-15

Important disclosures
and disclaimers appear
at the end of this document.

FISCO Ltd. Analyst
Ikuo Shibata

■ H1 FY3/15 sales grew, profits declined, and both exceeded the Company forecasts

Daikoku Denki <6430> (hereafter, “the Company”) has two main Segments, the Information System Segment, which manufactures and sells computer systems for pachinko (Japanese pinball) parlors or halls, and the Control System Segment, which produces and sells display and control units for pachinko machine manufacturers. The Company holds an approximately 35% share of the Japanese market for hall computers, reflecting an information management method that is the de facto standard for the industry. The Daikoku Denki Strategic Information System (DK-SIS) gathers, processes and analyzes the daily operational information of pachinko halls with customer associations and gives feed-back to the managers of these halls to improve their operations. It is the only such system in Japan and supports the Company’s business base. The system was used by 3,712 pachinko and pachinko slot halls at the end of the first half of the fiscal year through March 2015, i.e., at the end of H1 FY3/15.

As Japan’s pachinko market has been shrinking for several years, the Company is pursuing three main reforms to achieve growth over the medium to long term: 1) development of next-generation hall computer, 2) shifting to a stock-type revenue model, and 3) expansion of in-house developed pachinko slot machines. Over the next three years, the Company plans to invest about ¥5bn to develop a hall computer that will operate on a cloud server and be capable of advanced analysis of Big Data. It will be far superior to any competing computer and should allow the Company to increase its share of the Japanese market for these machines.

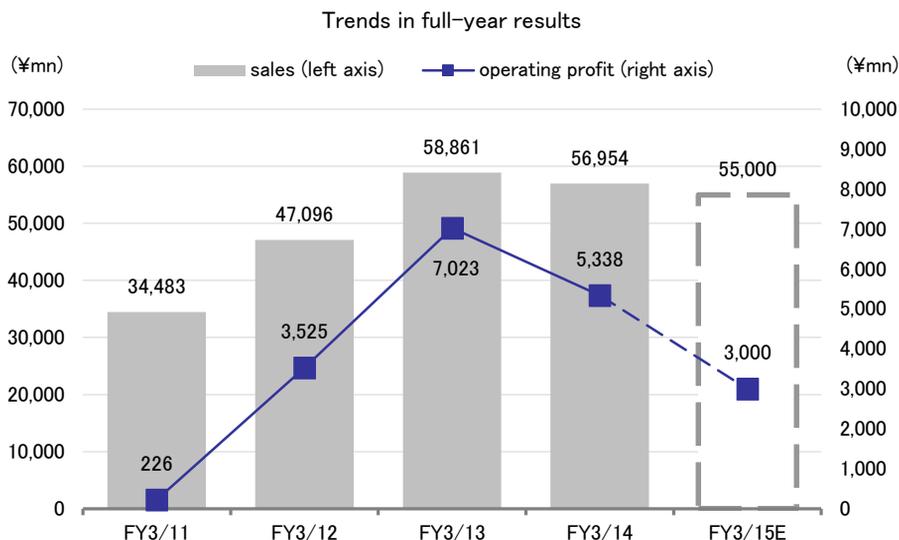
In H1 FY3/15, sales increased 7.8% y-o-y to ¥27,892mn, but operating profit declined 12.7% y-o-y to ¥2,170mn. Both sales and operating profit were larger than the Company had forecasted at the start of the fiscal year. Sales exceeded the forecast mainly because sales of peripheral equipment for hall computers were stronger than projected by the Company. Operating profit decreased because R&D expense on the development of the next-generation hall computer increased substantially y-o-y.

For FY3/15, the Company maintained its original forecasts of a 3.4% y-o-y drop in sales to ¥55,000mn and a 43.8% fall in operating profit to ¥3,000mn. Although the H1 business performance showed steady growth, the Company is maintaining its original plan as it is considering conservative prospects for the Control System Segment in H2 FY3/15 and the postponement of some expenses from H1 to H2.

In the short term, the Company will pay close attention to its business performance which could be affected by such factors as recently announced Partial Change of the Type Testing Process for Balls Dispensed by Pachinko Slot Machines by Japan’s National Police Agency. However, from the medium-term point of view, the Company understand the importance of its progress of business reforms.

■ Check Point

- The Information System Segment is the main source of sales and profits, reflecting the Company’s top share of the market for hall computers and the high profitability of the Segment.
- Although Japan’s pachinko industry is consolidating, the Company’s business is recovering.
- The Company maintained conservative forecasts for FY3/15, though the Information System Segment could generate more sales and profits than the Company projects.



■ Business Description

Revenue-generating Information System Segment, which has the largest market share in the industry, is the operating base of the Company

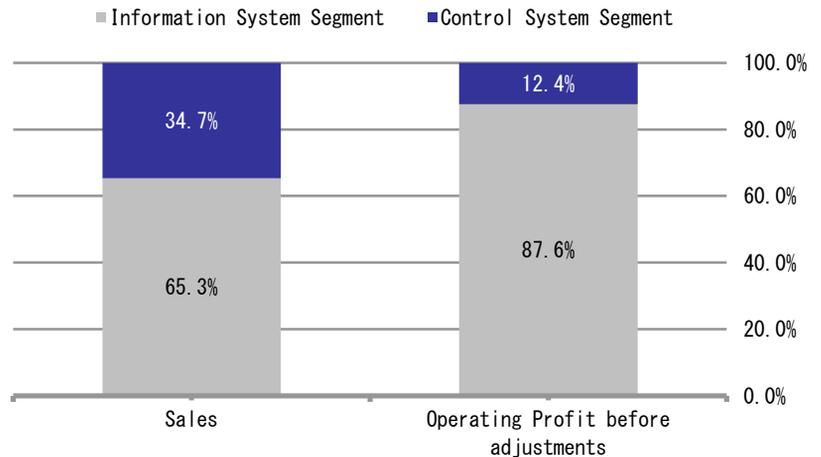
Daikoku Denki manufactures and sells computer systems for pachinko halls as its core business. It also manufactures and sells display and control units for pachinko machines and pachinko slot machines, and pachinko slot machines developed in-house.

As the pioneer in the development of hall computers, which assist the management of pachinko halls, the Company strengthened hall's trust and pachinko fan's satisfactions by providing the management system which put emphasis on data management, introduction of epoch-making peripheral equipment for its hall computers, and utilization of DK-SIS, the only membership information service in pachinko industry; and it holds the top share of the Japanese market for hall computers.

Its hall computers are installed in about 4,200 pachinko halls in Japan, primarily high-end halls, giving it an approximately 35% share of the market.

The Company's two main businesses are the Information System Segment and the Control System Segment, but the Information System Segment provided 63.3% of its total sales and 84.4% of its total operating profit before adjustments in H1 FY3/15 and is the main source of stable profit.

Segmental Contributions to Sales and Operating Profit before adjustments in H1 FY3/15



Develops tools for generating information that supports pachinko hall operations

(1) Information System Segment

The Information System Segment offers a complete line of information equipment and services to support sales and operational management at pachinko halls. Hall computers are the main hardware item made by the Segment, and these are supported by peripheral equipment, such as prize customer management systems and information display systems. For consolidating and analyzing the data recorded by this equipment, the Segment offers services such as a hall operational support service and its unique DK-SIS system, the membership information service.

Hall computers display the operating condition of each machine and sales data, and are the core systems for supporting pachinko hall operations. As mentioned above, these computers are supported by peripheral equipment, such as prize customer management systems and information display systems; and also serve as the foundation of the DK-SIS system, the membership information service. The major characteristics of this business is that peripheral equipment and support services are often sold with hall computers as a package deal. Other than the sales of its information system equipment, the Company is shifting to a stock-type revenue model by reinforcing regular fee income business from after-sales management support service and information supply service.

Manufactures control units while in-house developed pachinko slot machine achieved big hit

(2) Control System Segment

The Control System Segment produces LCD display units, control units, switches and motors to makers of pachinko and pachinko slot machines. Applying the knowledge obtained during many years of analyzing data from pachinko machines through its DK-SIS, the Segment is serving as a developing partner to machine manufacturers by proposing specifications based on trend analysis of popular machines, and involved in contents business by obtaining the rights to use popular characters, beyond the Segment's position as a unit manufacturer.

■ Business Description

Daikoku Denki began manufacturing and selling in-house developed machines on a full scale from FY3/14. The Magical Suite Prism Nana pachinko slot game machine, which the Company commercialized in April 2013, has been highly appraised by players for its unique world of original characters and the enhanced amusement it provides.

■ Company Traits

Made contributions to pachinko hall's enhanced profitability by promoting the efficiency and increasing fan's satisfaction

(1) By offering valuable innovations, the Company established market development type growth model

Since its establishment, Daikoku Denki has consistently planned and developed new categories of goods and services, thereby developed the pachinko market and achieved growth. It has not just developed machines with superior functions but emphasized the importance of data management and the need for information disclosure. Thus, it has been able to present ideas with added value to the various aspects of management of pachinko halls.

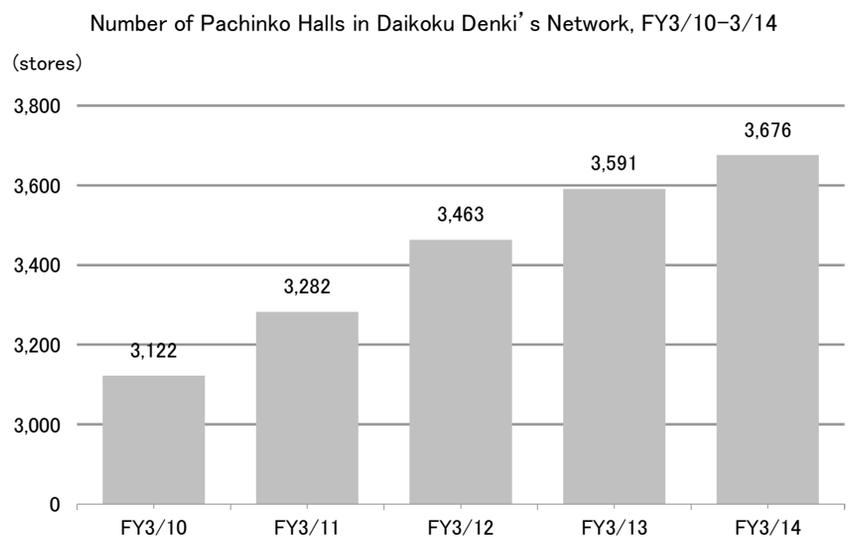
Launched in 1974, the Company's first hall computer enabled the managers of pachinko halls to introduce data management method to manage the data that they had previously simply accumulated. Consequently, its hall computers have become the de facto standard for hall computers. In subsequent years, the Company introduced other kinds of information equipment with revolutionary functions. One such piece of equipment was the Data Robo terminal, which provides information about different models of pachinko machine to the fans of these machines. This equipment has enhanced the profitability of pachinko halls by increasing the efficiency of pachinko hall management and the satisfaction of pachinko machine fans.

One new business being pursued by Daikoku Denki is the in-house developed pachinko slot machines that differ from previous pachinko slot machines and pachinko machines, which tend to be chosen based on the appealing of gambling. As mentioned above, in April 2013, the Company commercialized a pachinko slot game machine that displays original animation characters created by popular illustrators, and it pursued the commitment to quality in animations and voice actors. This high-quality machine has won accolades from pachinko slot machine fans who also love animation videos, and the Company has again established a new market for amusement equipment.

Strong network of hall computers is supporting the Company's operating base

(2) The Company has established a strong network of pachinko halls

Another advantage Daikoku Denki has is the DK-SIS, hall computer based membership information service. The DK-SIS connects the Company and member pachinko halls through networks, and gathers, processes and analyzes the daily operational information of pachinko halls recorded by hall computers, and feed-back useful information to the managers of these halls to improve their operations. The managers of halls in which Daikoku Denki's hall computers are installed can make proper store management by using useful information such as operational data on nationwide pachinko machines and sales data broken down by the model of pachinko machine. As for Daikoku Denki, this firm network with member halls is supporting its operating base. The Company also serves as a think tank on the pachinko industry and, as a leading company of the industry, this elevates the Company's brand name. The DH-SIS service is currently used by 3,712 pachinko and pachinko slot halls which operate approximately 1.33mn machines, or 28.9% of all the machines installed in Japan, and gathers the data of ¥10.1 trillion annual sales.

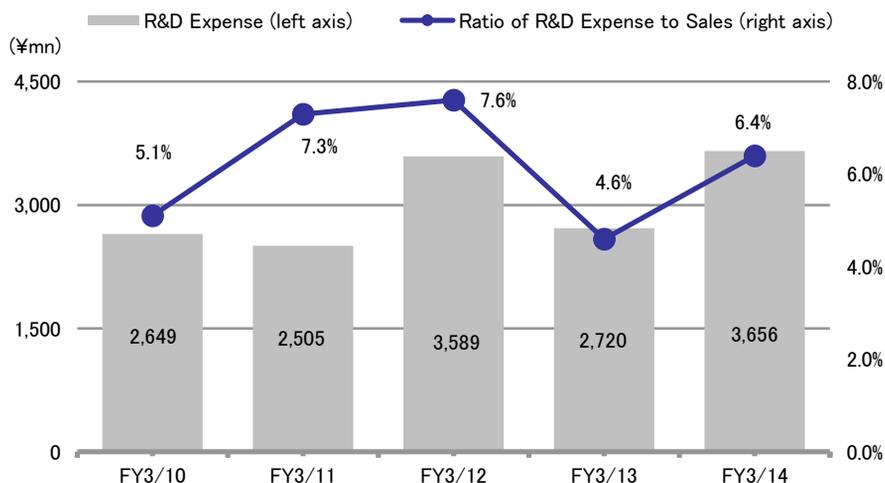


The Company has continually provided value by balancing profitability and investment

(3) Stable revenue base supports the Company's investment in the future growth

Daikoku Denki's main source of competitiveness is its investment in future growth, including its R&D expense. Over the past few years, the Company has maintained aggressive investment in future growth driver fields such as pachinko slot machines and a next-generation hall computer, and other products. The stable revenue stream or Cash Cow provided by the high-margin Information System Segment make this investment possible. The Company's ability to balance large profits from its existing businesses with heavy investment in businesses of the future allows it to maintain sustainable value creation.

Research and Development Expense and Ratio of Expense to Sales, FY3/10-3/14

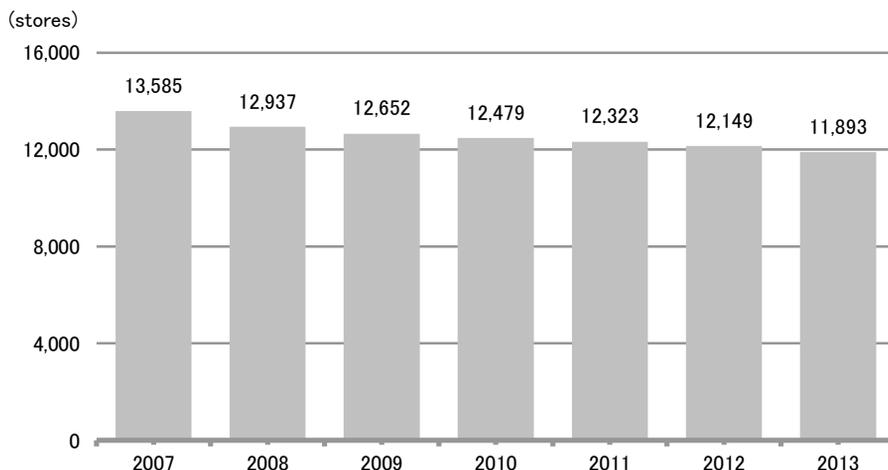


■ Industry Environment

Although the number of halls is declining, the average size of a hall and the average number of machines per hall are increasing

Japan's pachinko industry has been shrinking for years, reflecting a decline in the pachinko fan's population, a trend toward playing games with low rental costs for balls, increases in Japan's consumption tax, and other factors. According to surveys by the National Police Agency, the number of pachinko and pachinko slot halls in Japan declined at an average annual rate of 1.5% from 2009 to 2013, when the number reached 11,893 and Daikoku Denki served about 4,200 of these halls, or about 35%. Most of Daikoku Denki's customers are high-end pachinko halls, so those halls are relatively insensitive to economic cycles and have money enough to invest in new businesses.

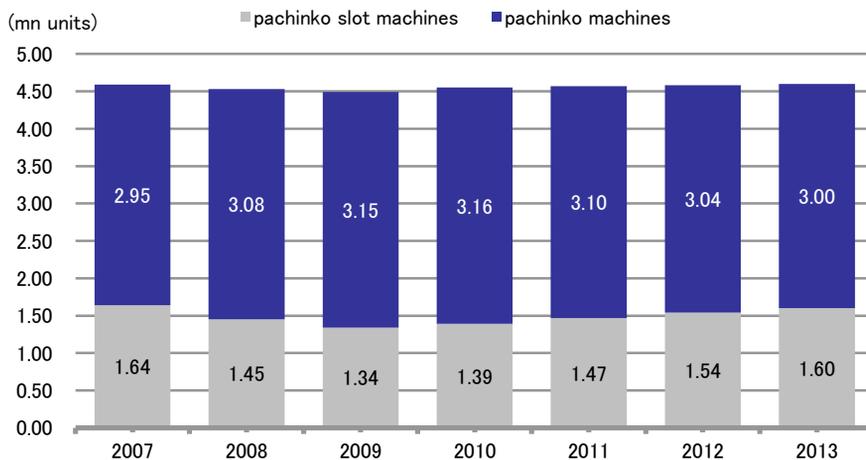
Number of Pachinko and Pachinko Slot Halls in Japan, 2007-2013



Source: The Present State of Businesses Affecting Public Morals in 2013, Consumer and Environmental Protection Division, Community Safety Bureau, National Police Agency

However, the National Police Agency reports that, while the number of pachinko machines in Japan has declined, the number of pachinko slot machines has increased, leading to a slight rise in the combined number of pachinko and pachinko slot machines. Since the number of pachinko and pachinko slot halls decreased over the same period, this indicates the trend for large scale hall operations. Upsizing of pachinko and pachinko slot halls with advantage of scale, benefits Daikoku Denki, as the Company can seek high investment effect from advanced functionality and added values.

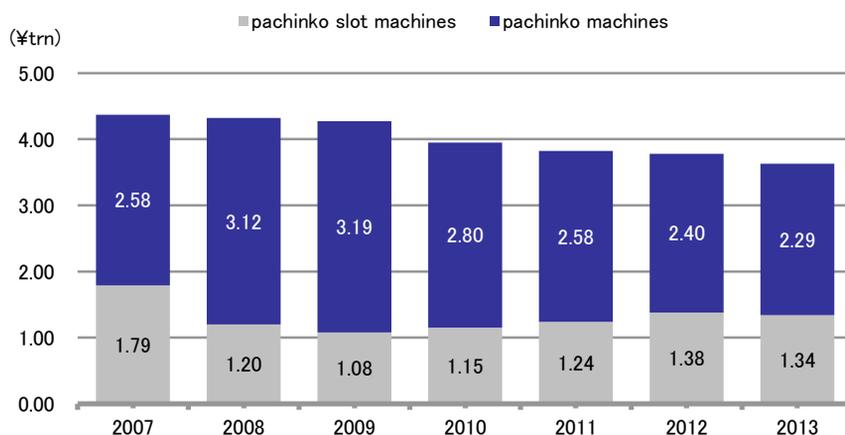
Number of Pachinko Machines and Pachinko Slot Machines (mn units) in Japan, 2007–2013



Source: The Present State of Businesses Affecting Public Morals in 2013, Consumer and Environmental Protection Division, Community Safety Bureau, National Police Agency

According to Daikoku Denki’s estimate, the value of Japan’s combined market for pachinko and pachinko slot games, as measured by the gross profit earned by all halls nationwide, has fallen each year, and this value has also declined on a per-machine basis. Thus, even though pachinko halls and pachinko slot halls are increasing in average size, they continue to operate in a challenging business. Daikoku Denki believes that the combined market for pachinko and pachinko slot games could recover to about ¥4trn per year in mid-term once the pachinko industry has recovered from a temporary downturn in business following the latest consumption tax hike, and if Japan’s economy can able to overcome deflation as the country prepares to host the Olympic Games in Tokyo.

Value of Japanese Markets for Pachinko and Pachinko Slot Games, 2007–2013



Source: Company materials, DK-SIS

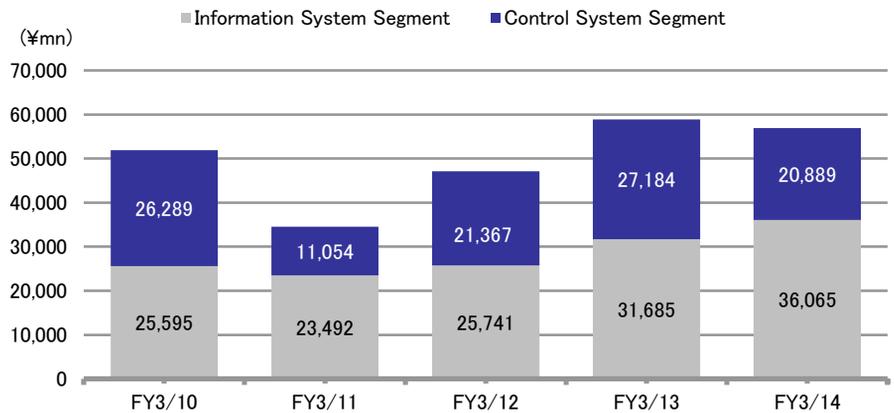
Financial results trends

Although the pachinko industry continues to contract, Daikoku Denki's sales have recovered

(1) Performance over the past five fiscal years

In FY3/11, the Company's sales shrank y-o-y because of restrained consumer spending and the impact of the Great East Japan Earthquake. Since then, the Company's sales have rebounded even though the pachinko industry has continued to consolidate. This recovery was led by the Information System Segment, which holds high market shares for its products.

Breakdown of Sales by Segment, FY3/10-3/14

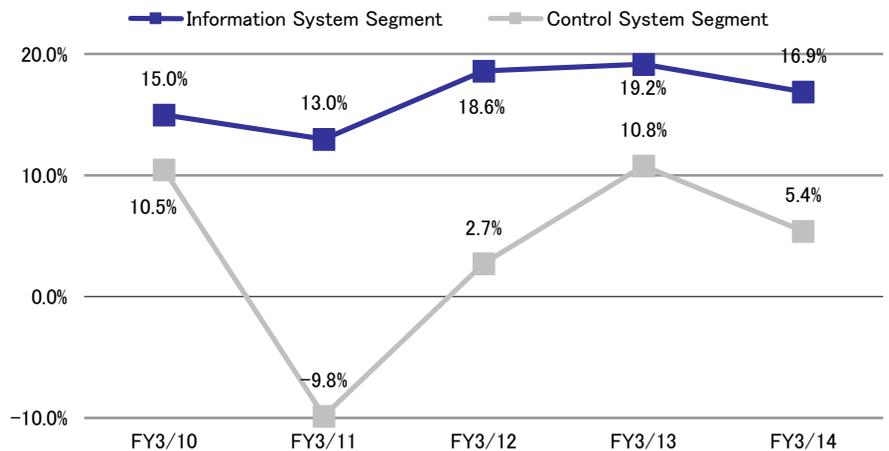


Note: The Company adopted its current segmental organization in FY3/13. Figures for previous fiscal years were calculated based on the new organization.

Source: Company materials

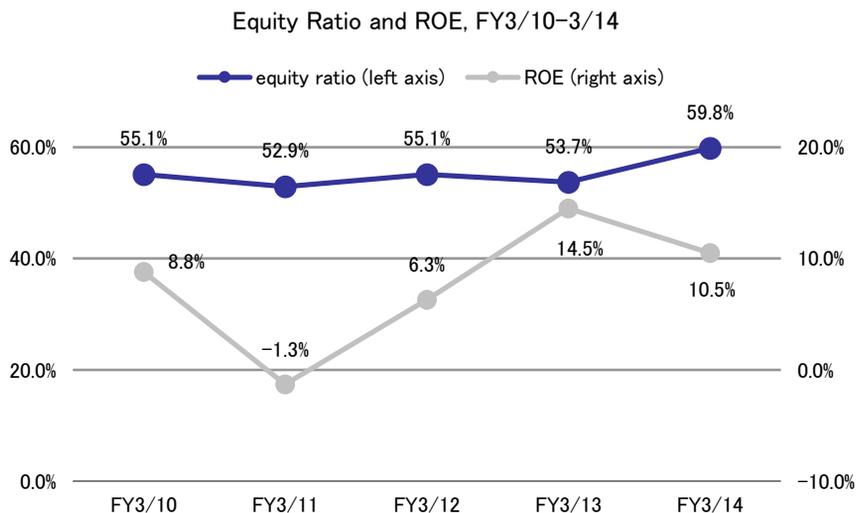
Supported by the high profitability of the Information System Segment, the Company has maintained high profit margins since its recovery from 2011 disasters.

Operating Profit Margins by Segment, FY3/10-3/14



Source: Company materials

The Company's equity ratio, a measure of financial stability, has remained high, reflecting large retained earnings, and rose to 59.8% in FY3/14. The current ratio, which indicates the ability to make payments in the short term, hit 183.8% in FY3/14, mainly due to large holdings of cash and deposits. The ROE, a measure of capital efficiency, has remained above 10% since FY3/13. Thus, the Company is financially strong.



Source: Company materials

Sales grew, profits declined, both surpassed company forecasts

(2) H1 FY3/15 Results

In H1 FY3/15, Daikoku Denki's consolidated sales grew by 7.8% y-o-y to ¥27,892mn, but its consolidated operating profit fell by 12.7% to ¥2,170mn, its consolidated recurring profit dropped by 12.7% to ¥2,235mn, and its consolidated net profit weakened by 4.6% to ¥1,472mn. The Company had projected profit declines due to its up-front capital investment, and compared with its initial forecast, sales were 3.3% higher and operating profit was 44.7% higher.

In the Information System Segment, sales of peripheral equipment for hall computers, such as information disclosure systems and card reader (CR) units, were stronger than the Company had forecast, supporting the growth of Segment sales. In the Control System Segment, sales were smaller than planned and dropped y-o-y because the rate at which customers reused old parts increased.

A y-o-y increase in the sales weighting of the highly profitable Information System Segment supported a rise in the Company's overall gross profit margin in H1 FY3/15, but a 45.4% y-o-y upturn in R&D expense led to a decline in the operating profit margin to 7.8% from 9.6% in H1 FY3/14. Nonetheless, operating profit in H1 FY3/15 was larger than the Company had forecasted, largely because the recognition of some expenses originally planned for H1 in the Control System Segment was postponed until H2.

The financial strength of the Company improved in H1 FY3/15. The Company's interest-bearing debt decreased by ¥200mn, relative to its debt at the end of FY3/14, while retained earnings increased. These changes lifted the equity ratio to 62.7%, and the current ratio rose to 198.3% at the end of H1 FY3/15.



Daikoku Denki Co.
6430 Tokyo Stock Exchange
First Section

19-Mar.-15

Results by Segment, H1 FY3/14-H1 FY3/15

	H1 FY3/14 result		H1 FY3/15 result		y-o-y		H1 FY3/15 vs. Co. f Result		plan
	amt	ratio	amt	ratio	amt	%	amt	ratio	
Sales	25,882	100.0%	27,892	100.0%	2,010	7.8%	27,000		103.3%
Information Systems	15,562	60.1%	18,217	65.3%	2,655	17.1%	15,000	55.6%	121.4%
Control Systems	10,320	39.9%	9,675	34.7%	-645	-6.3%	12,000	44.4%	80.6%
Cost of goods and services sold	17,703	68.4%	19,353	69.4%	1,650	9.3%	18,500	65.6%	104.6%
SG&A expenses	5,704	22.0%	6,380	22.9%	676	11.9%	7,000	28.9%	91.1%
Operating profit	2,487	9.6%	2,170	7.8%	-317	-12.7%	1,500	5.6%	144.7%
Information Systems	2,950	19.0%	2,618	14.4%	-332	-11.3%	2,300	15.3%	113.8%
Control Systems	508	4.9%	369	3.8%	-139	-27.4%	100	0.8%	369.0%
Adjustment	-970	-	-817	-	-	-	-900	-	-
Recurring profit	2,559	9.9%	2,235	8.0%	-324	-12.7%	1,500	5.6%	149.0%
Net profit	1,543	6.0%	1,472	5.3%	-71	-4.6%	1,000	3.7%	147.2%
R&D expense	1,125		1,636		511	45.4%	1,700		96.2%
Information Systems	517		915		398	77.0%	300		305.0%
Control Systems	608		721		113	18.6%	1,400		51.5%

Sales of leading products by Segment

Information Systems						
Information disclosure systems	3,741		4,508		767	20.5%
Prize mgt. systems	1,901		1,449		-452	-23.8%
MG service	1,363		1,627		264	19.4%
Control Systems						
Display units	2,958		4,837		1,879	63.5%
Components	4,659		2,990		-1,669	-35.8%

In H1 FY3/15, the Information System Segment increased its sales by 17.1% y-o-y to ¥18,217mn, but segmental operating profit before adjustment dropped 6.3% to ¥2,618mn. The Segment sold 72 hall computers in H1 FY3/15, down from 90 sold in H1 FY3/14, but it sold more peripheral equipment for hall computers, such as VEGASIA CR units and BiGMO PREMIUM call lamps, than it had forecast, leading to overall sales growth. Sales of the Management Support Service or MG service, which was promoted by the Segment, grew 19.3% y-o-y to ¥1627mn in H1 FY3/15, due in part to an increase in the number of halls that use the DK-SIS.

Operating profit in the Information System Segment decreased y-o-y in H1 FY3/15 for two main reasons: 1) R&D expense increased 77.1% y-o-y as the Segment developed a next-generation hall computer, and 2) the Company changed its profit model for CR units, which enjoy brisk sales, by lowering the profit margin on sales of the units in exchange for the increase of monthly management fee of information collected by these units. This change of profit model reduce the profitability of the products sold, though the Company can earn continuous after-sales fee income, so this change does not reduce the Company's overall profitability.

In the Control System Segment, sales declined by 6.3% y-o-y to ¥9,675mn in H1 FY3/15, and operating profit before adjustment dropped 27.4% to ¥369mn. The number of display units sold increased substantially y-o-y, but sales of other products declined because makers of pachinko and pachinko slot machines increased their rates of reused parts to lower costs. Thus, overall sales and profit decreased. The Segment profit was ahead of the Company's forecast, and this was due to the postponement of some of the Segment's R&D cost, originally budgeted for H1, to H2.



Daikoku Denki Co.
6430 Tokyo Stock Exchange
First Section

19-Mar.-15

Sales Volumes of Information Systems and Control Systems, H1 FY3/14 and H1 FY3/15

	Sales Volumes (Information Systems)		
	H1 FY3/14	H1 FY3/15	y-o-y
Hall computers	90 Units	72 Units	-18 Units
Call lamps			
BiGMO series	34,333 Units	11,192 Units	-23,141 Units
BiGMO PREMIUM	0 Units	30,188 Units	30,188 Units
IL-X	51,779 Units	42,944 Units	-8,835 Units
VEGASIA CR units	30,619 Units	53,007 Units	22,388 Units
Face recognition systems	4,772 Units	5,065 Units	293 Units

	Sales Volumes (Control Systems)		
	H1 FY3/14	H1 FY3/15	y-o-y
Display unit models	6 Product	8 Product	2 Product
Units sold	97,281 Units	152,370 Units	55,089 Units

Taking a conservative stance, the Company maintained its original forecasts for FY3/15, but the Information System Segment could exceed the Company's projections

(3) Company Forecasts for FY3/15

For FY3/15, Daikoku Denki maintained its original forecasts, projecting a 3.4% y-o-y drop in consolidated sales to ¥55,000mn, a 43.8% fall in operating profit to ¥3,000mn, a 45.2% decline in recurring profit to ¥3,000mn, and a 39.0% downturn in net profit to ¥2,000mn.

Company Forecasts for FY3/15 versus FY3/14 Results

	FY3/14		FY3/15		y-o-y	
	amt	ratio	amt	ratio	amt	%
Sales	56,954	100.0%	55,000	100.0%	-1,954	-3.4%
Information Systems	36,065	63.3%	33,000	60.0%	-3,065	-8.5%
Control Systems	20,889	50.7%	22,000	40.0%	1,111	5.3%
Cost of goods and services sold	38,263	67.2%	37,000	67.3%	-1,263	-3.3%
SG&A expenses	13,353	23.4%	15,000	27.3%	1,647	12.3%
Operating profit	5,338	9.4%	3,000	5.5%	-2,338	-43.8%
Information Systems	6,093	10.7%	4,300	7.8%	-1,793	-29.4%
Control Systems	1,127	2.0%	500	0.9%	-627	-55.6%
Adjustment	-1,883	-	-1,800	-	-	-
Recurring profit	5,474	9.6%	3,000	5.5%	-2,474	-45.2%
Net profit	3,278	5.8%	2,000	3.6%	-1,278	-39.0%
R&D expense	3,656		4,700		1,044	28.6%
Information Systems	2,028		-		-	
Control Systems	1,628		-		-	
Sales of leading products by Segment						
Information Systems						
Information disclosure systems	9,562		8,500		-1,062	
Prize mgt. systems	3,838		3,500		-338	
MG service	2,862		3,150		288	
Control Systems						
Display units	10,083		10,300		217	
Components	7,243		5,500		-1,743	

We encourage readers to review our complete legal statement on "Disclaimer" page.

The Company assumes that the Japanese market for pachinko and pachinko slot games remains about the same size in FY3/15 as it was in FY3/14. However, it foresees a decrease in overall sales, due to the slowdown of the sales of the BiGMO PREMIUM call lamp launched in H2 FY3/14, which was a big seller last fiscal year, and conservative estimate of the sales of peripheral equipment for hall computers.

The Company forecasts profit declines for FY3/15 reflecting several factors in addition to its forecast of a sales decrease. For one, it plans to raise its R&D expense by 28.6% y-o-y to ¥4,700mn in FY3/15, primarily to develop a next-generation hall computer system. Furthermore, the Company plans to increase its sales promotion expense to improve the sales of its pachinko slot machines, and it expects to increase its outsourcing costs.

As the Information System Segment generated more sales than planned by in H1 FY3/15, the Company acknowledges that the Segment may also achieve more sales than it forecasts for FY3/15. However, sales by the Control System Segment have lagged behind company expectations, and the launch of a new pachinko slot machine scheduled for H2 FY3/15 could be delayed. Consequently, the Company maintained its original forecast of total sales for FY3/15. Furthermore, profits in H1 FY3/15 were inflated by the cut-off error of some costs originally scheduled to be recognized in H1. Therefore, the Company kept its original projections of profit declines for FY3/15.

■ Company History

Built a solid business foundation as the leading company in the pachinko industry

The predecessor of Daikoku Denki was established in Osaka City in 1964 by Shinji Kayamori, the father of Daikoku Denki's current president, Hideyuki Kayamori. Initially, the Company was a sales agency for electronic calculators. It then branched out into the sale of magnetic counters and developed devices to count the coins inserted into baseball pitching machines at batting centers. In 1968, it developed a device to count the balls in a pachinko machine, its first venture into the pachinko industry. In 1974, the Company entered the hall computer business, and since the 1990s, as pachinko and pachinko slot machines have become more electronic, the Company has supported the growth of the pachinko industry by supplying superior hall computers, which have become the most important tool for operating halls efficiently.

In 1990, the Company developed the DK-SIS service, the membership information service for pachinko halls, and the pachinko industry's first call lamps, which display information about Jackpot machines. In 1991, the Company began selling Data Robo terminals, which provide information about varieties of pachinko machine models to fans of these machines. By developing such revolutionary equipment for managing data and disclosing information, the Company contributed to the efficient operation of pachinko halls, increased the pleasure of pachinko fans, and supported the sales and profits of the pachinko industry.

By the mid-1990s, the Company had established a position of the leading company in the pachinko equipment market, but in 1996, the pachinko industry changed the regulations pertaining to pachinko machines, and scrapped about 700,000 pachinko machines that judged to be too conducive to gambling and considered socially inappropriate. This caused a sharp drop in sales in the pachinko industry and at the Company, which lost about 100 employees that year. During such a trying period, the current president, Hideyuki Kayamori entered the Company. He had studied information technology at Kyoto University's graduate school and he is not only planning to expand current business base but also envisions next generation business by utilizing the vast amount of data the Company had accumulated.

With the aim of converting pachinko and pachinko slot games into socially acceptable forms of amusement, in 2006, Daikoku Denki established as a subsidiary pachinko slot machine maker, Daxel Inc., and began developing its own pachinko slot machines.

Daikoku Denki listed its shares on the Second Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange in November 2002. In April 2004, it elevated its listings to the First Sections of both exchanges. In 2014, the Company celebrated its 50th year and became a member of the Japan Economic Federation as the first member with business centering on the pachinko equipment industry.

■ Growth Strategy

Three business reforms to promote growth over the medium to long term

The Company is taking the following three steps to achieve growth over the medium to long term.

1) Developing the next-generation hall computer

In FY3/14, the Company started developing the next-generation hall computer system, which will operate on a cloud server and be capable of advanced analysis of Big Data. Unlike previous hall computers, the next-generation computer will be able to gather and analyze data on customer behavior and to recommend actions to improve sales and profits, thereby contributing to the growth of the pachinko hall industry. This capability could also be applied to other business areas. From FY3/15 to FY3/17, the Company plans to invest about ¥5bn in R&D, primarily to develop the next-generation hall computer, although it has not announced a date for the initial sales of this computer. By launching sales of this computer, which will be far superior to any other such machine, the Company aims to expand its sales as Tokyo prepares to host the Olympic Games in 2020. Over the long term, the Company plans to raise its share of the Japanese market for hall computers to 50%. In September 2014, the Company expanded its Kasugai Division Office in Aichi Prefecture to help it increase its market shares in information systems.

2) Converting business model to stock type revenue model

The Company is changing its Information System Segment's business model to stock type revenue system which collects service fees after the sale of such equipment. This change allows the Company to sell its hall computers and peripheral equipment at low prices, thereby increasing its price competitiveness and its market shares while after-sale service fees will be stable source of earnings.

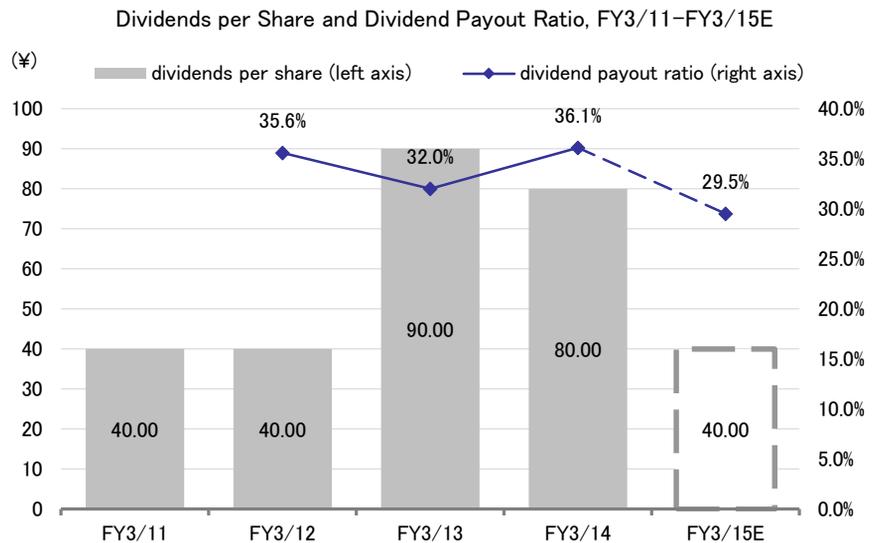
3) Expanding the in-house developed pachinko slot machines

In-house developed pachinko slot game machines are another growth driver planned by the Company. The first commercially successful model, Magical Suite Prism Nana, was the first such machine in the industry incorporating original characters and unique view of the world. Subsequent models will emphasize stories, not just number of balls; and by adding entertainment contents with plot in pachinko slot machines, the company is planning to convert the pastime to a more socially acceptable form of amusement. Profitability will be the immediate goal of this business, and in the medium term, the Company aims for a market share of 5-10%. Toward this end, it plans to invest heavily in development.

Shareholder Returns

If net profit surpasses the Company's forecast, the dividend may be increased

The Company's policy is to pay an annual dividend of ¥40 per share and to supplement this payment depending on its profits. For FY3/15, the Company plans to pay an interim dividend of ¥10 per share and a year-end dividend of ¥30 per share for a total dividend of ¥40 per share. However, if the Company's net profit exceeds the Company's forecast for FY3/15, the dividend may be increased.



Disclaimer

FISCO Ltd. (the terms "FISCO", "we", mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the "JASDAQ INDEX" are the intellectual properties of the Tokyo Stock Exchange, and therefore all rights to them belong to the Tokyo Stock Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of this report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.

FISCO Ltd.