

# FY Ended March 2017 Full Year Results Presentation



DAIKOKU DENKI Co., Ltd.  
(Tokyo Stock Exchange, First Section, 6430)

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## Related News on Financial Results

### ■2016

- Aug. 9 Financial Results for the 1st Quarter of FY2016  
Notice concerning expansion of shareholder special benefit plan for the period ending in March 2017
- Nov. 4 Revision of earnings estimates
- Nov. 11 Financial Results for the 2nd Quarter of FY2016  
Dividend of surplus (Interim dividend)
- Dec. 19 Notice regarding changes in representative director (change of President) and executives

### ■2017

- Feb. 13 Financial Results for the 3rd Quarter of FY2016
- Mar. 6 Notice regarding reorganization and personnel changes
- May. 8 Revision of earnings estimates
- May. 15 Dividend of surplus

## Related News on Business and New Products

### ■2016

- Oct. 4 Began sales of “Pachislot Witch Craft Works”(a pachislot game machine) made by Daxel Co., Ltd.

### ■2017

- Jan. 5 Notice regarding renewal of “Pachislot Site Seven TV PREMIUM”
- Apr. 18 Notice regarding launch of two types of pachislot machines by Daxel Co., Ltd.

# FY Ended March 2017 Full Year Results

## Consolidated Statements of Income (Summary)

**Net Sales** **¥40,714 Million**

**Operating Income** **¥1,048 Million**

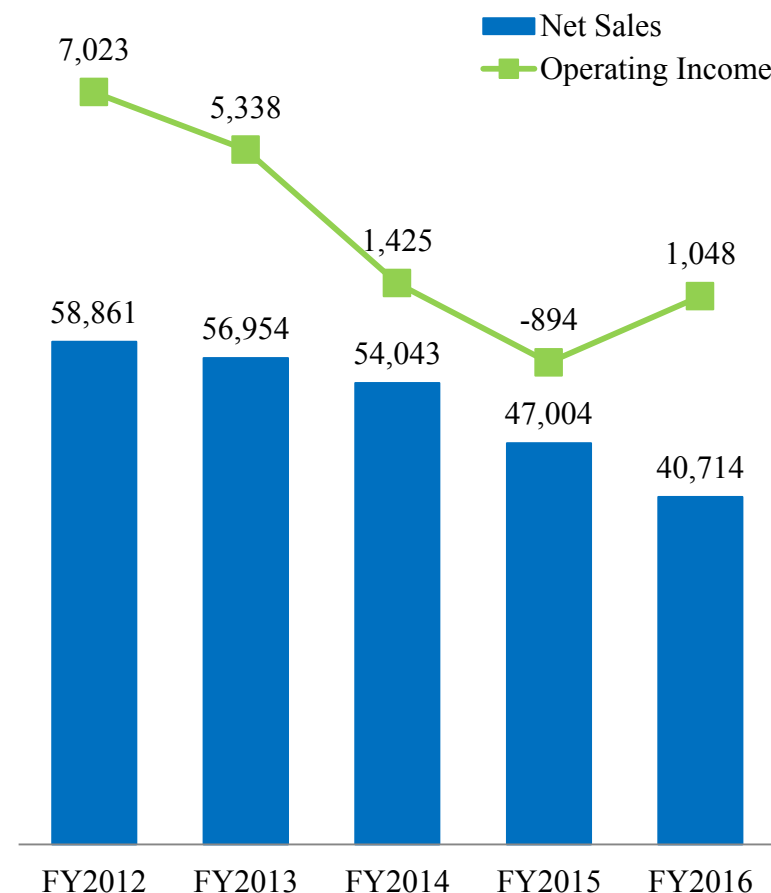
**Ordinary income** **¥1,374 Million**

**Net income attributable to owners of the parent** **¥502 Million**

(Millions ¥)	FY 2015	FY2016	YoY Change	Vs. Forecasts Change
Net Sales	47,004	40,714	-6,290	-9,286
Gross profit-net	14,279	13,953	-326	-3,247
Selling, general and administrative expenses	15,174	12,904	-2,270	-3,296
Operating Income	-894	1,048	1,942	48
Ordinary income	-749	1,374	2,123	374
Net income	-1,676	502	2,178	-98
Research and development expenditure	5,330	3,060	-2,270	-1,340

(Note) The planned ratio is the value of earnings projection for the term ending in March 2017 announced on May 13, 2016, as well as the planned ratio described in the materials for the briefing of the term ending in March 2017 held on May 27, 2016 targeting institutional investors and analysts.

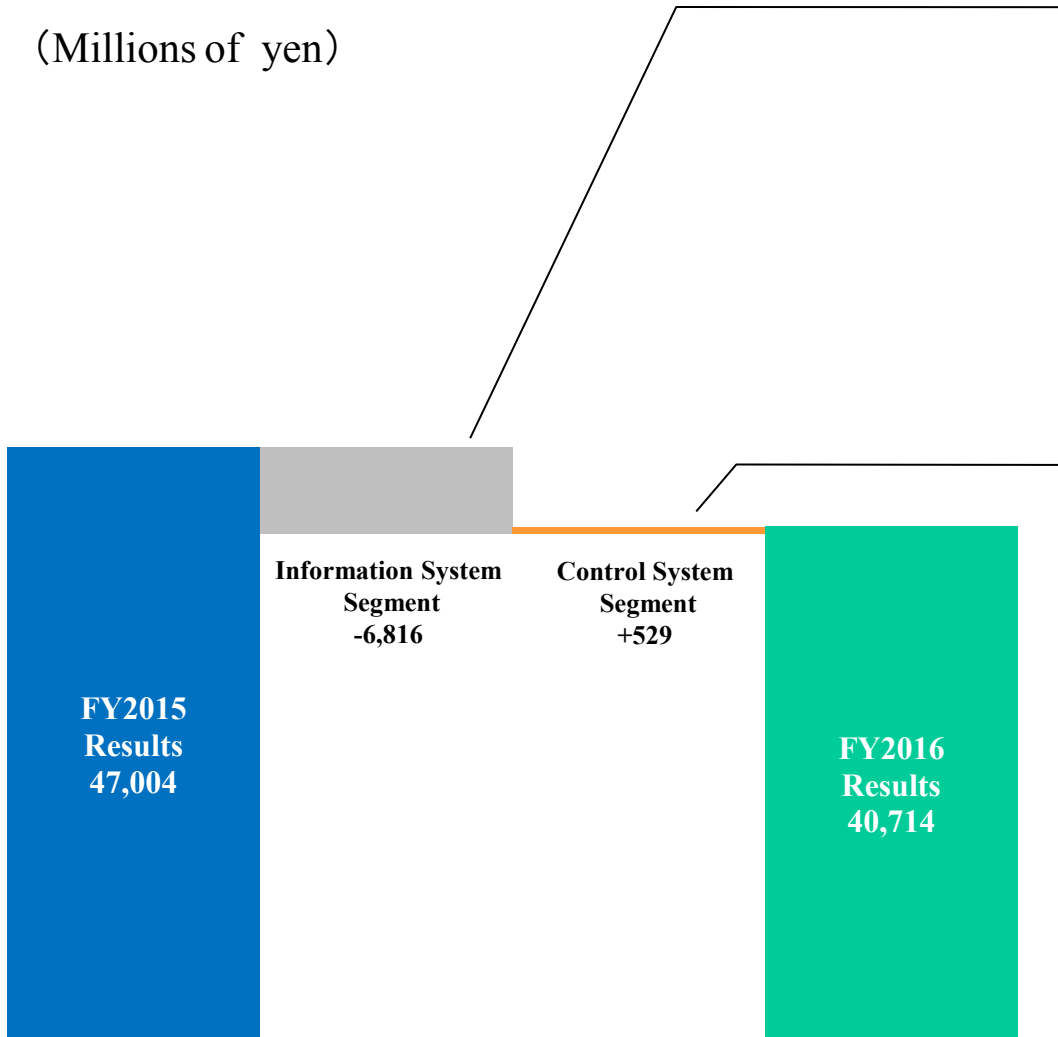
### Net Sales and Operating Income



YoY Change

-¥6,290 Million

(Millions of yen)



## Information System Segment

**(Net sales in this segment were 27,260 million yen and segment-operating income was 3,011 million yen.)**

On the back of sluggish demand for hall computers due to a decrease in new store openings and depressed motivation to invest in peripheral equipment of existing pachinko parlors, unit sales of “VEGASIA” (CR unit), “BiGMO PREMIUM,” information publication terminal, and “IL-X2” decreased year on year. On the other hand, sales of new information publication terminal “REVOLA” and MIRAIGATE services were robust, leading to stronger relationships with customers and higher margins.

## Control System Segment

**(Net sales in this segment were 13,515 million yen and segment-operating deficit was 306 million yen.)**

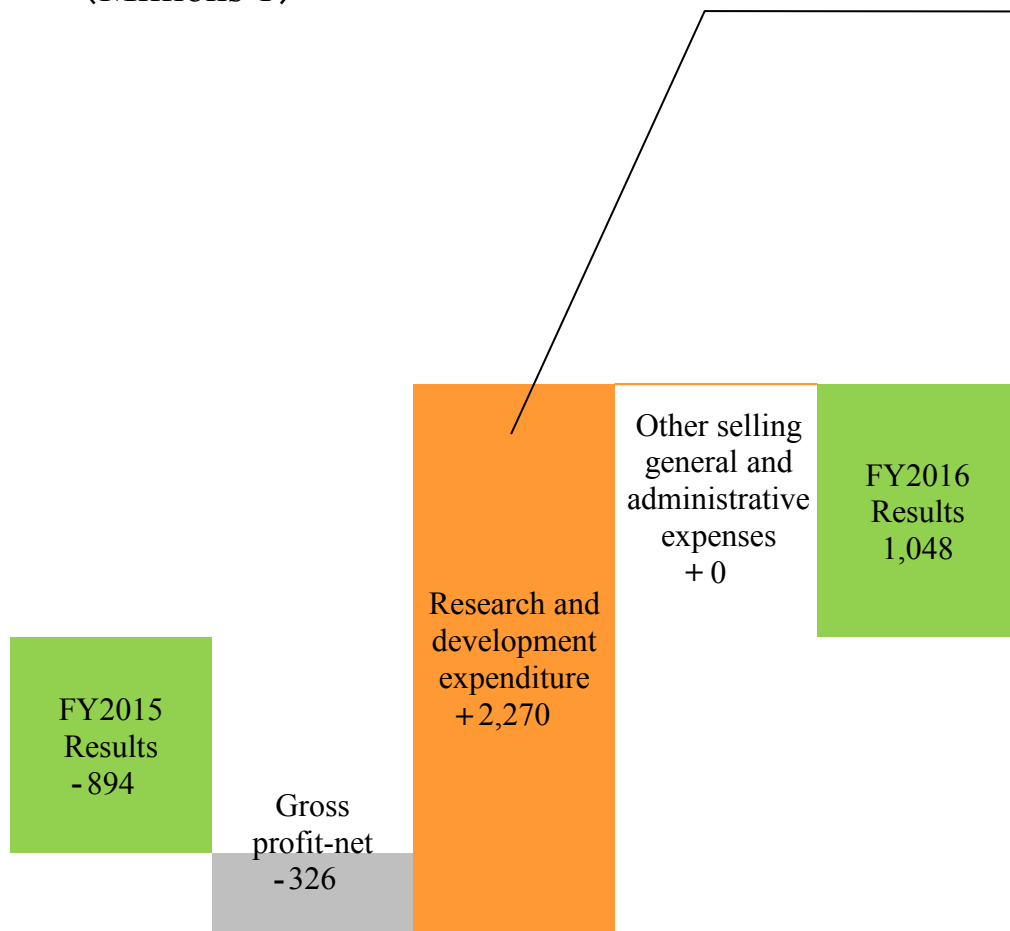
The sales volume of display units and peripheral components decreased year on year since pachinko machine manufacturers revised their sales plans significantly due to voluntary restraint on replacing game machines in relation to holding of the G7 Ise-Shima Summit as well as the status of model test results, coupled with market changes associated with the removal and callback of “pachinko machines whose performance may differ from that of inspected units.” As for pachislot game machines, approximately 12,300 units (2 models) were brought to the market, which is an increase compared to approximately 5,100 units (1 model) in the previous year..

# Operating Income

YoY Change

¥1,942 Million

(Millions ¥)



## Research and development cost by segment

Research and development expenses were considerably reduced compared to the previous year. (Research and development expenses temporarily increased in the previous year, as next-generation product development for the information system segment approached its peak.)

	FY Ended March 2017	YoY Change	Vs. Forecasts Change
<u>Information System Segment</u>	2,240	-1,725	-460
<u>Control System Segment</u>	820	-545	-880

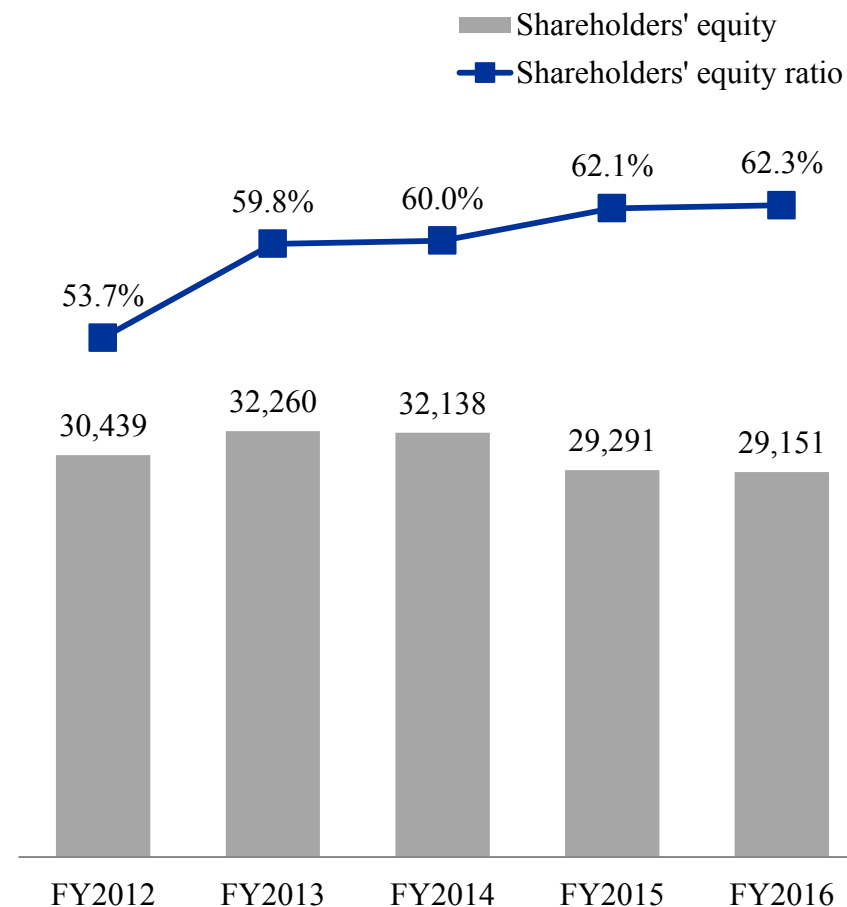
(Note) The planned ratio is the planned ratio described in the materials for the briefing of the term ending in March 2017 held on May 27, 2016 targeting institutional investors and analysts.

## Consolidated Balance Sheets (Summary)

Total liabilities and net assets	¥46,828Million
Total liabilities	¥17,676 Million
Total Net assets	¥29,151 Million

(Millions ¥)	2016/3	2017/3	YoY Change
Current assets	29,582	29,888	+306
Noncurrent assets	17,557	16,939	-618
Total assets	47,139	46,828	-311
Current liabilities	16,676	16,502	-174
Noncurrent liabilities	1,171	1,173	+2
Total liabilities	17,848	17,676	-172
Total Net assets	29,291	29,151	-140
Total liabilities and net assets	47,139	46,828	-311
Debt	5,500	3,300	-2,200
Debt Equity ratio	0.18times	0.11times	-0.07times
Shareholders' equity ratio	62.1%	62.3%	+0.2%
Receivables turnover period	84.1days	75.3days	-8.8days
Inventory turnover period	73.1days	70.0days	-3.1days
Payable turnover period	82.4days	69.3days	-13.1days
Number of Shares Outstanding	14,783,272	14,783,178	—

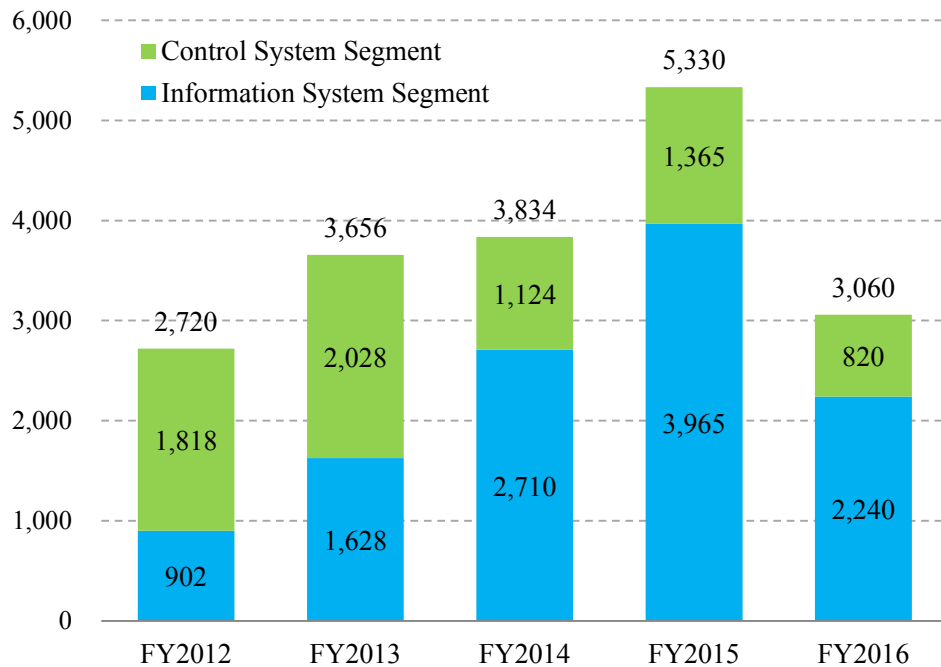
### Shareholders' equity



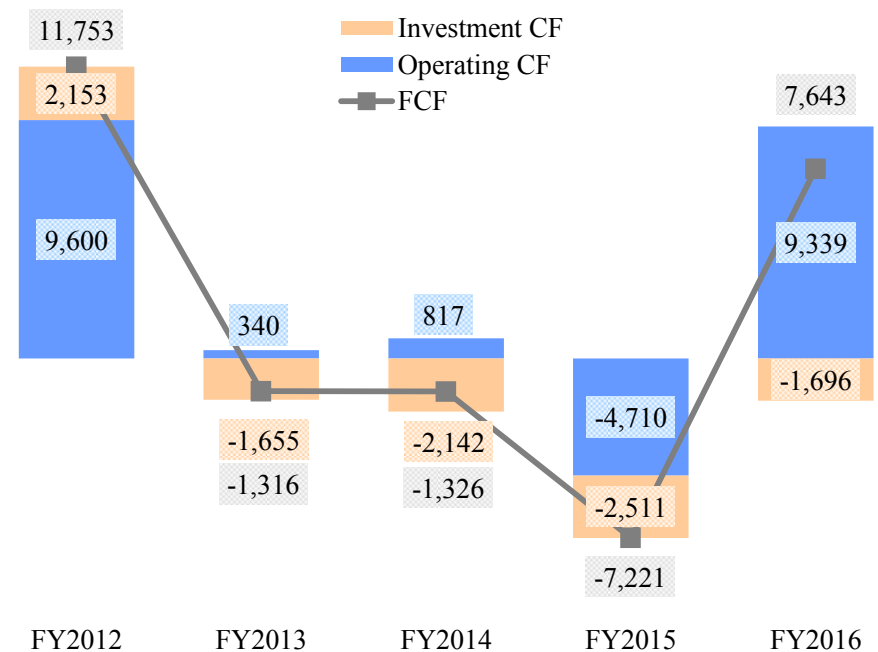
## Consolidated Statements of Cash Flows

(Millions ¥)	FY2015	FY2016	YoY Change
Operating CF	-4,710	9,339	+14,049
Investment CF	-2,511	-1,696	+815
Financing CF	4,065	-2,938	-7,003
Cash and cash equivalents	9,358	14,062	+4,704

### Research and development expenses



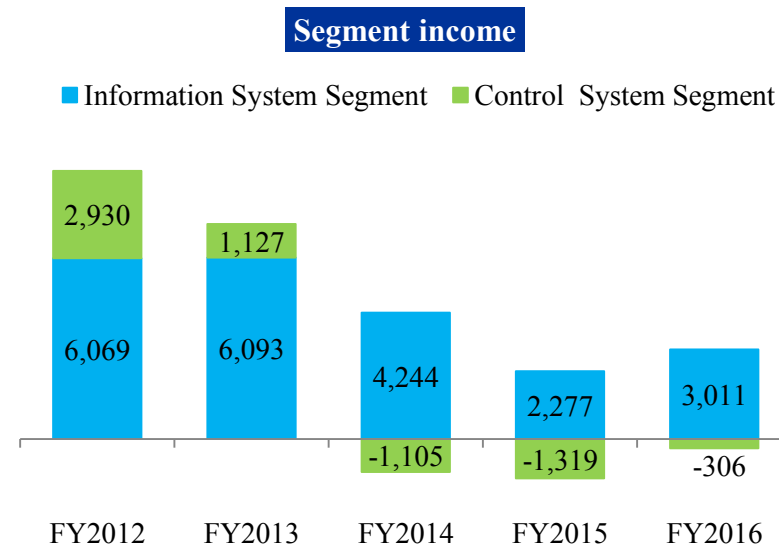
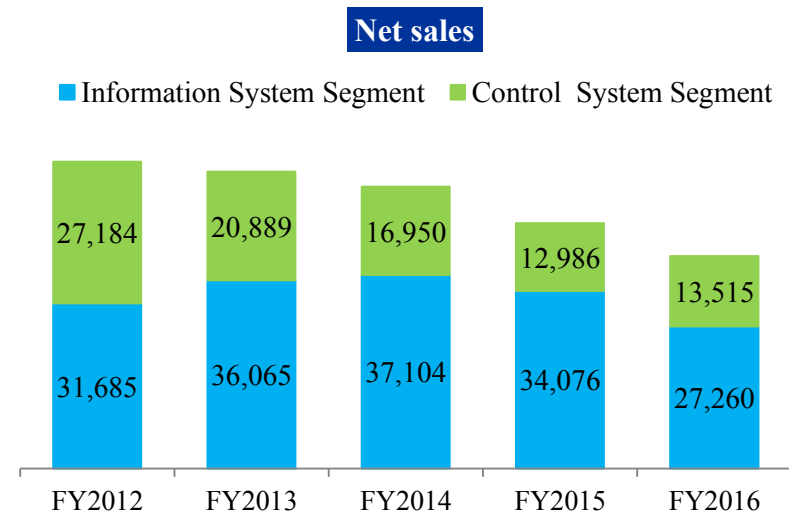
### Free Cash Flow (FCF)



# Business results by segment

## YoY Change

(Millions ¥)	FY2015	FY2016	YoY Change	Vs. Forecasts Change
<b>Information System Segment</b>	34,076	27,260	- 6,816	- 3,740
Hardware	23,088	16,698	- 6,390	- 3,587
System	10,988	10,562	- 426	- 153
Subtotal	34,076	27,260	- 6,816	- 3,740
<b>Control System Segment</b>	12,986	13,515	+529	- 5,485
Units and Parts	10,279	8,413	- 1,866	- 1,587
Pachislot and others	2,707	5,102	+2,395	- 3,898
Subtotal	12,986	13,515	+529	- 5,485
<b>Segment sales</b>	47,063	40,775	+6,287	- 9,225
<b>Information System Segment</b>	2,277	3,011	+734	+711
<b>Control System Segment</b>	-1,319	-306	+1,013	- 906
<b>Segment income</b>	957	2,704	+1,747	- 196
<b>Corporate expenses</b>	1,852	1,656	- 196	- 244
<b>Net sales</b>	47,004	40,714	- 6,290	- 9,286
<b>Operating income</b>	-894	1,048	+1,942	+48



(Note) The planned ratio is the value of earnings projection for the term ending in March 2017 announced on May 13, 2016, as well as the planned ratio described in the materials for the briefing of the term ending in March 2017 held on May 27, 2016 targeting institutional investors and analysts.

Similarly, in the Control Systems Segment, the term “Units and Parts” suggests revenues from sales of OEM boards and parts for pachinko game machines. The term “Pachislot and others” indicates revenues of our group companies Genki Co., Ltd. (revenues of consumer game machines) and DAXEL Inc. (revenues of pachislot game machines).

# FY Ending March 2018 Full Year Forecasts

## ■ Recent industry trends

1. Lower intent to invest has been recognized in the recent pachinko hall market through movements associated with removal/callback of "pachinko machines whose performance may differ from that of inspected units."
2. Currently, the industry regards dependence on pachinko parlors (addiction) as a pressing issue, and is examining it.

## ■ Industry trends in the present

1. While sluggish operation of rental balls at 4 yen and new standard pachislot machines continues in the pachinko industry, it seems that the unpredictable state will continue for a while, while seeking solutions for the problem of dependence on pachinko parlors (addiction), and the severe business environment surrounding the industry is expected to continue.

# FY Ending March 2018 Full Year Forecasts

(Millions ¥)	FY2016			FY2017 (Projected)			YoY Change
	1st half	2nd half	Total	1st half	2nd half	Total	
Net sales	20,187	20,527	40,714	19,000	20,000	39,000	-1,714
Gross profit-net	7,523	6,421	13,953	6,800	6,600	13,400	-553
Selling, general and administrative expenses	6,926	5,978	12,904	6,700	5,400	12,100	-804
Operating income	605	443	1,048	100	1,200	1,300	+252
Ordinary income	706	668	1,374	100	1,200	1,300	-74
Net income	329	173	502	50	750	800	+298

Research and development expenses	1,711	1,349	3,060	1,650	550	2,200	-860
Depreciation expense	792	869	1,661	900	950	1,850	+189
Capital investment	296	693	989	500	850	1,350	+361
Software	485	1,143	1,628	400	1,600	2,000	+372

**Net Sales ¥39,000 million** (YoY -¥17.14 million)

■ **Information System Segment ¥28,500 million** (YoY +¥12.40 million)

- Promotion of strengthening sales of the data display device, “REVOLA,” which is highly acclaimed in the market
- Start of full-scale sale of new CR unit, "VEGASIA III," which attracted attention at its test introduction
- Improvement of added value by bringing new MIRAIGATE service, such as "Fan-SIS," to the market

■ **Control System Segment ¥10,500 million** (YoY -¥30.15 million)

- Exerting every possible effort to acquire a machine development project
- Responding to changes in the market environment to work on a proposal for a game machine that can be launched on the market in a short period of time
- A decrease in the sales volume of pachislot machines is expected  
(Previous year, 12,300 units → this year, expected to be in the range of 5,400 units)

**Other selling, general and administrative expenses ¥12,100 million** (YoY -¥8.04 million)

- Reduction in research and development expenses  
(Passed the peak of development of the next-generation product group)
- A decrease in sales commission for sale of pachislot machines

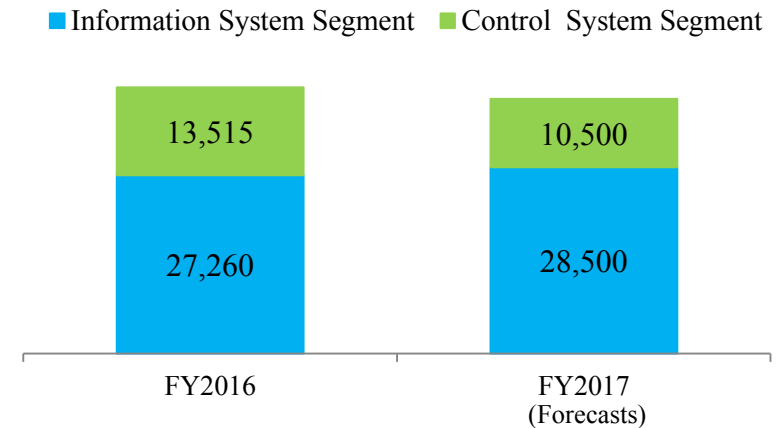
# FY Ending March 2018 Full Year Forecasts by segment

## YoY Change

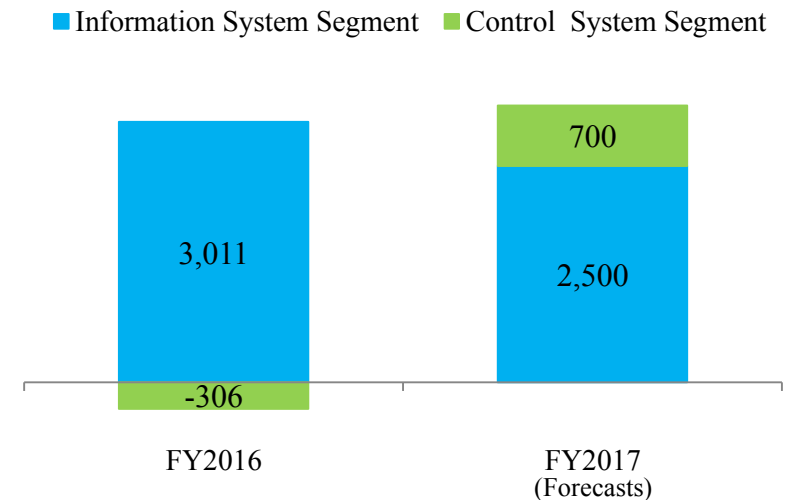
(Millions ¥)	FY2016	FY2017	YoY Change
<b>Information System Segment</b>	27,260	28,500	+1,240
Hardware	16,698	17,500	+802
System	10,562	11,000	+438
Subtotal	27,260	28,500	+1,240
<b>Control System Segment</b>	13,515	10,500	- 3,015
Units and Parts	8,413	7,500	- 913
Pachislot and others	5,102	3,000	- 2,102
Subtotal	13,515	10,500	- 3,015
<b>Segment sales</b>	40,775	39,000	- 1,775
<b>Information System Segment</b>	3,011	2,500	- 511
<b>Control System Segment</b>	-306	700	+1,006
<b>Segment income</b>	2,704	3,200	+496
<b>Corporate expenses</b>	1,656	1,900	+244
<b>Net sales</b>	40,714	39,000	- 1,714
<b>Operating income</b>	1,048	1,300	+252

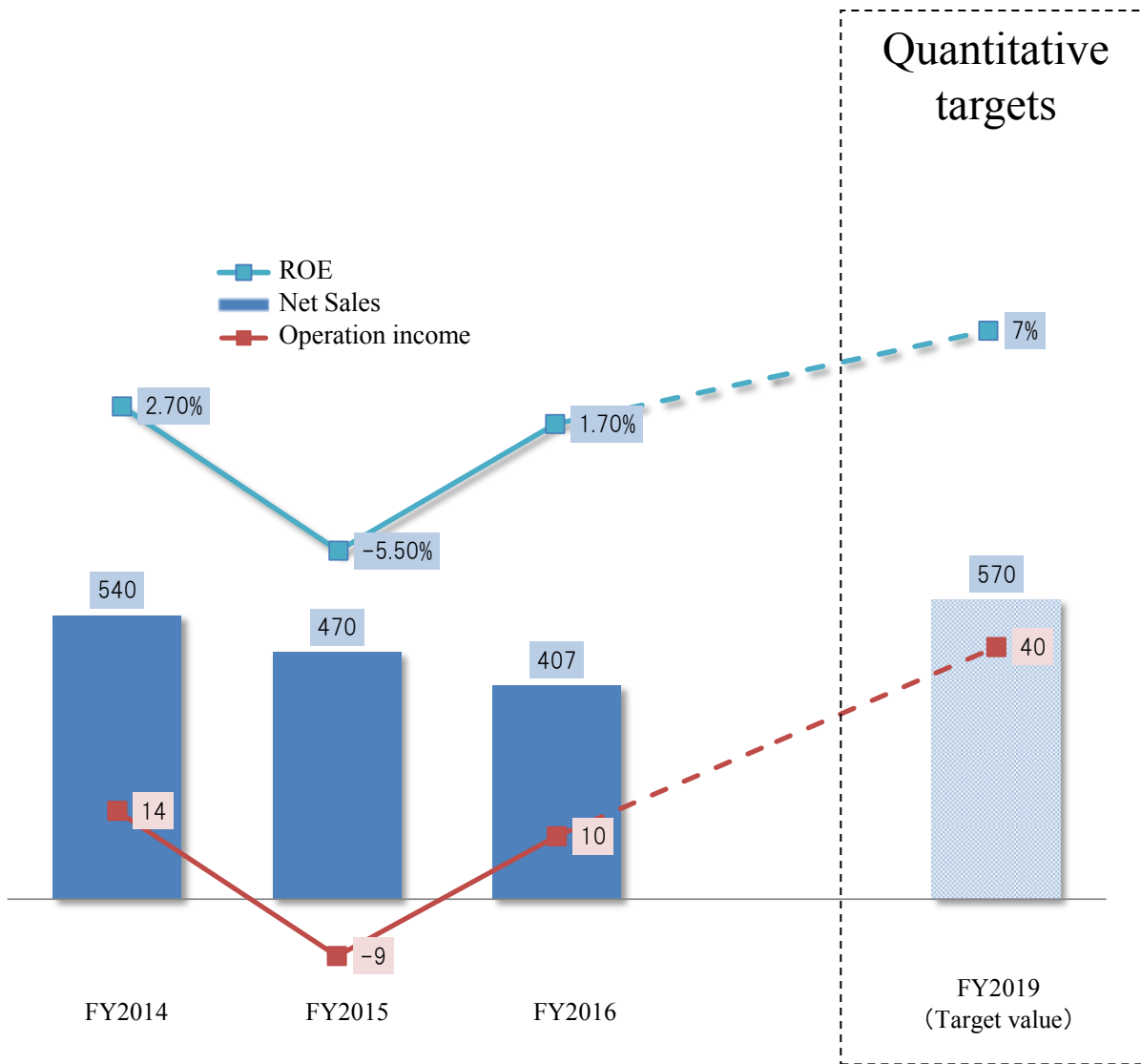
(Note) Similarly, in the Control Systems Segment, the term “Units and Parts” suggests revenues from sales of OEM boards and parts for pachinko game machines. The term “Pachislot and others” indicates revenues of our group companies Genki Co., Ltd. (revenues of consumer game machines) and DAXEL Inc. (revenues of pachislot game machines).

### Net sales



### Segment income





□ The Group will address changes in the market and strengthen the business base.

# Business strategy and measures

# External environment

## Removal of game machines

- The overview of removal of game machines last year and before is as follows.
- It can be said that the removal of game machines is an effort for the market that can get support from more people in the long run.

### Before

### This time

**Removal of game machines**

Oct.1996~Jan.1998 (Approximately one year and three months)	
Removal of socially unfit machines (removal of pachinko machines deemed highly speculative in terms of gambling)	
number of machines removed	Approximately 700,000-unit range
the entire market	Approximately 4,700,000-unit range

Jul.2004~Jun.2006 (Two years)	
Removal of machines whose certification has expired (removal of pachislot machines for which the duration of certification has passed)	
number of machines removed	unknown
the entire market	Approximately 5,000,000-unit range

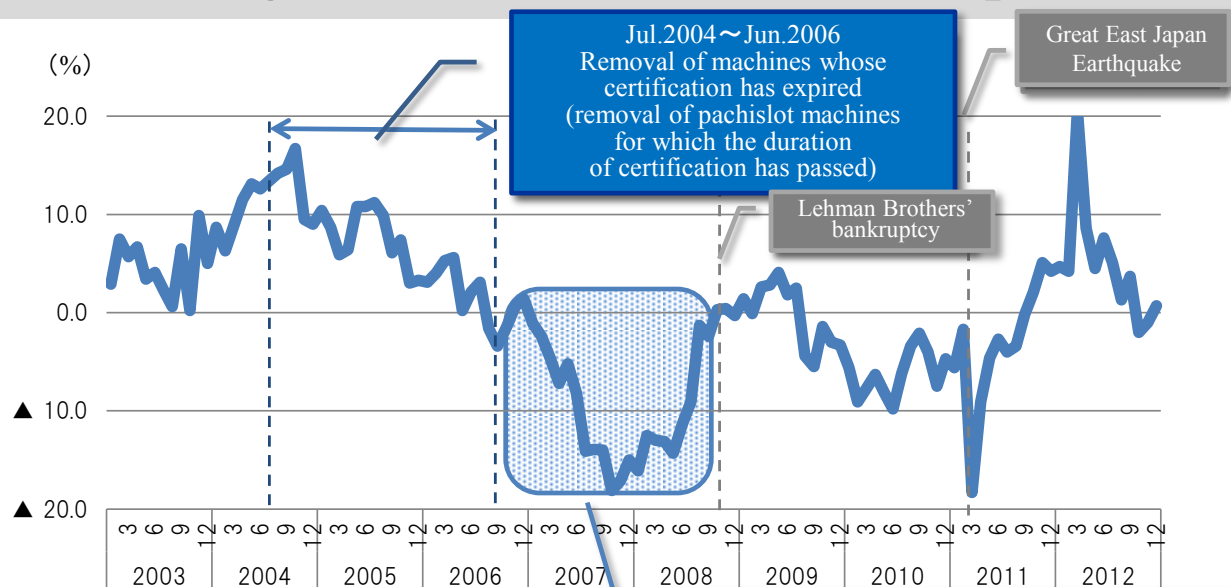
Jun.2004~Dec.2016 (Approximately six months)	
Removal of pachinkos whose state differs from when they were inspected	
number of machines removed	Approximately 720,000-unit range
the entire market	Approximately 4,600,000-unit range

### Major specification change of game machines

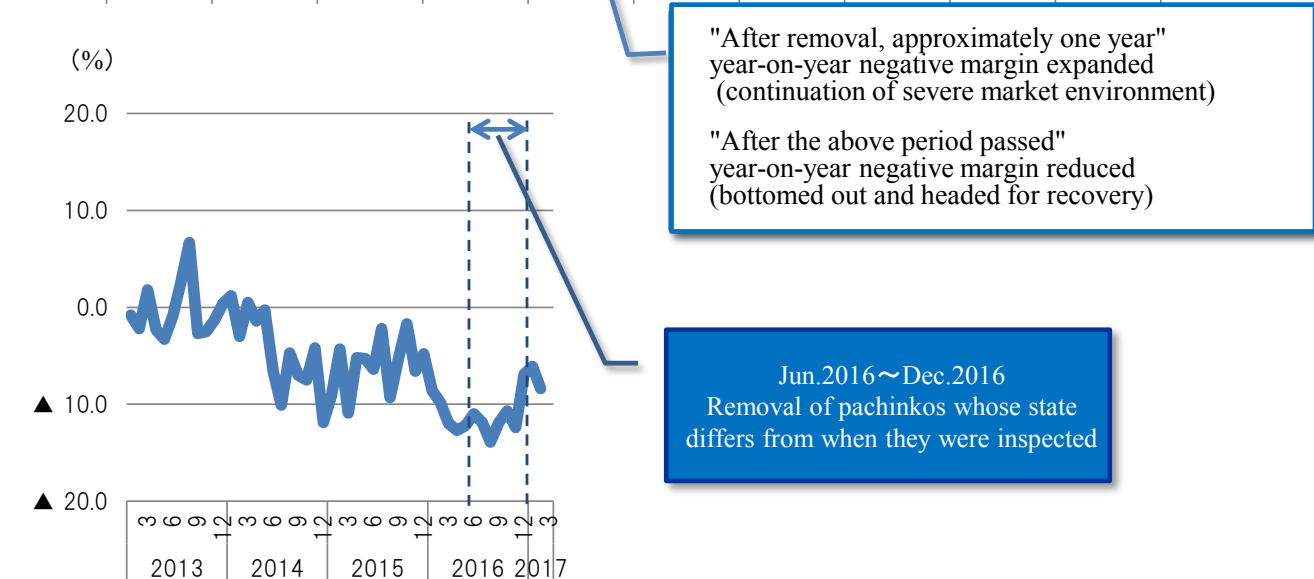
Pachislot game machine	2005	2015	2017
	Machine No. 5	Machine No. 5.5	Machine No. 5.9
Pachinko game machine	1995	2016	
	Suppression of probability fluctuation	Suppression of probability fluctuation persistence rate	

# External environment

## Removal of game machines and sales of pachinko halls



- Removal of game machines and trends in pachinko hall sales are shown on the left.
- After removal, a severe market environment continued for approximately one year from 2004 to 2006, then bottomed out and headed for recovery.



## Dependence (addiction) issue

- Following enactment of the Bill of Integrated Resort Promotion, measures for addiction disorder such as gambling are being widely promoted for public competitions and pachinko.
- The industry regards dependence (addiction) as a pressing issue.
- Currently, the industry is examining anti-dependence initiatives.

### Dependence on gambling, etc.

- It indicates "a state requiring treatment as a result of addiction to public competition and/or pachinko, and which is causing trouble in life."

(Reference material) "Summary of the points of the debate concerning enhanced measures for dependence on gambling, etc." Ministerial conference to promote measures for dependence on gambling, etc. (March 31, 2017)

### Ratio of those addicted to gambling, etc. (estimates)

- within the past year . . . . . 0.6%
- lifetime . . . . . 2.7%

(Source of data) "Preliminary investigation in 2016 to understand the actual circumstances of dependence on gambling, etc." Japan Agency for Medical Research and Development (investigated by contracting the National Hospital Organization Kurihama Medical and Addiction Center)

### Current initiatives for anti-dependence on gambling in the games industry

- Game machines that are likely to greatly stir the passion for gambling are prohibited
- Telephone consultation by Recovery Support Network (\*), etc.

(\*) Recovery Support Network is a non-profit consultation institution established to provide support to resolve dependence on pachinko/pachislot games and dependence-related problems.

### Enactment of the Bill of Integrated Resort Promotion

- The formal name is the Act on Promoting Development of Areas for Specified Integrated Resort Facilities (Act No. 115 of December 26, 2016). Enacted on December 15, 2016.
- The said act stipulates that the national government "shall implement" necessary legislative measures within approximately one year from the enforcement of this Act, so that private companies with permission can establish the integrated facilities consisting of casino, conference room, and hotel facilities only within "the areas for specified integrated resort facilities" licensed by the national government.

## Reorganization

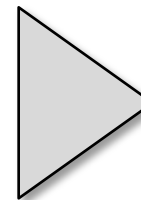
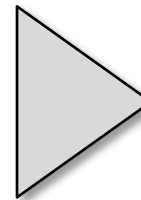
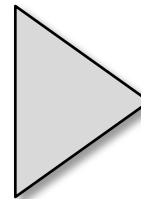
- Our company changed the structure on April 1, with the aim of establishing a strong profit structure that is not influenced by a change in the market environment.

### Purport

We aim to create business by exploring and examining the next-generation profit-making segment.

We aim to accelerate the synergy of our company's strength, DK-SIS, and our company's business development.

We aim to improve our company's organizational driving force and strengthen its procurement function.



### Organization

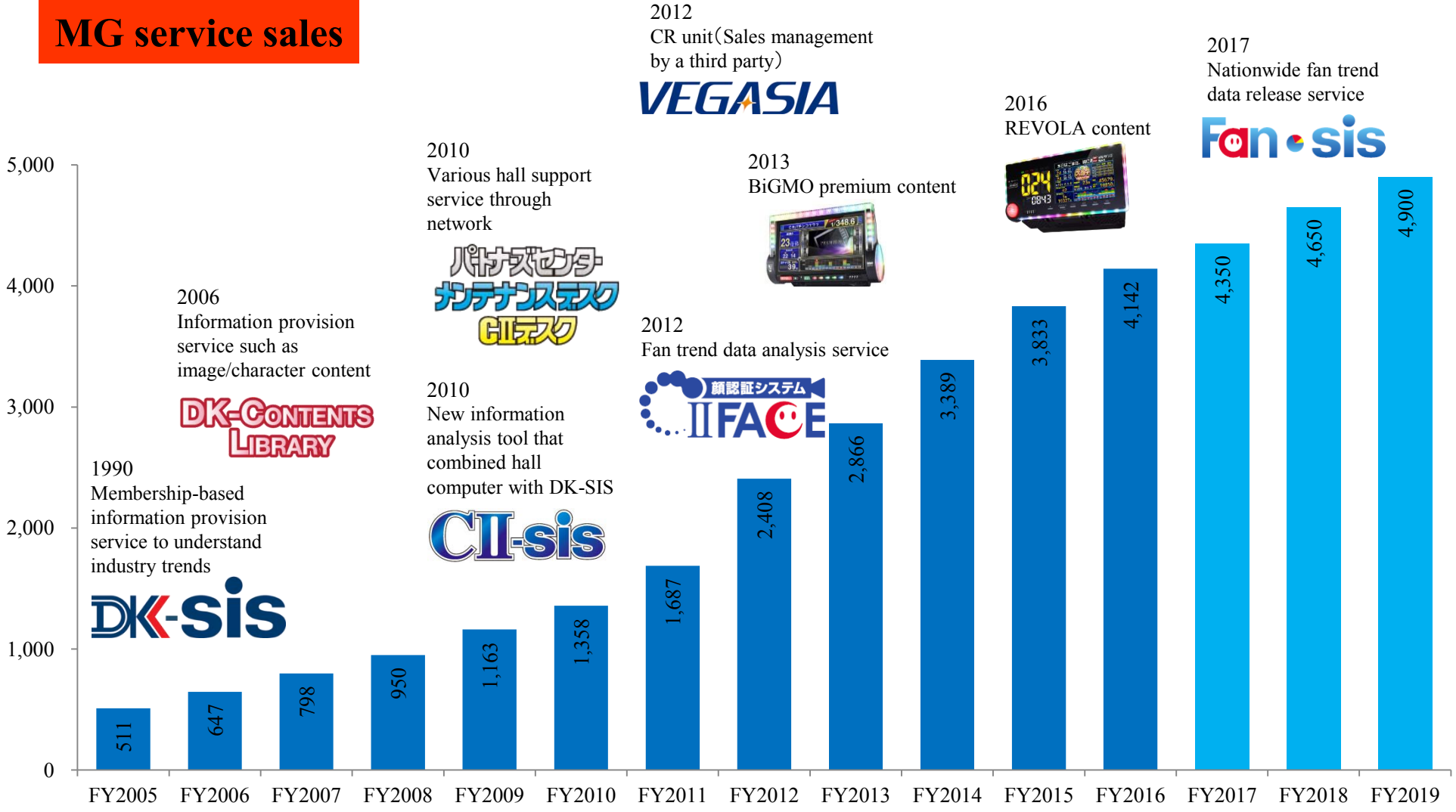
The Business Development Office  
was newly established

The DK-SIS Office was transferred to and integrated with the Information System Business Department.

The Production Department was abolished, and the Purchasing Department and Engineering Department were newly established

## Expand various services (MG service) through our company's own network

### MG service sales



# Our company's environmental initiatives (examples)

- Our company built its headquarters building in May 2011, and relocated (1-43-5 Nagono, Nakamura-ku, Nagoya-shi).
- This headquarters building features an energy-saving design, and it is possible to reduce CO<sub>2</sub> emissions by more than 30% (Note 1). It has also achieved the highest S rank (BEE=3.3. \*please refer to BEE-based environmental labeling) in the comprehensive environmental performance assessment by CASBEE (Note 2).

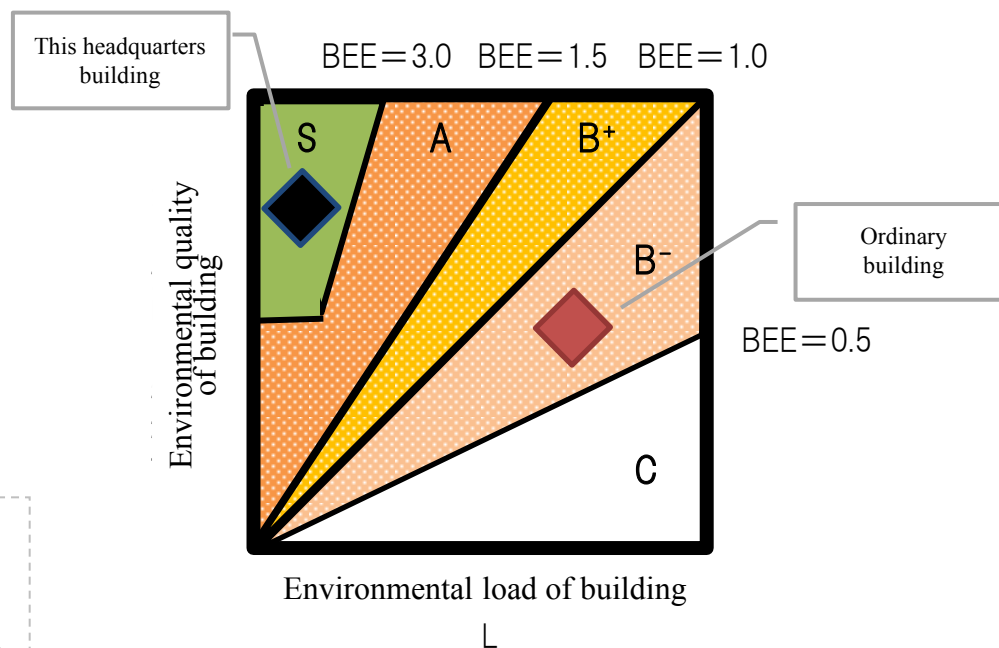


**Panoramic view of the Headquarters building**  
( Features an energy-saving design )

(Note 1) By setting the benchmark of CO<sub>2</sub> emissions for the base year (1990) in the Kyoto Protocol, it is estimated to have an approximately 33% reduction effect.

(Note 2) CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a method for evaluating and rating the environmental performance of buildings and the built environment, and is operated by a committee established in April 2001 as an industry-government-academia joint project under the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism.

※ BEE-based environmental labeling



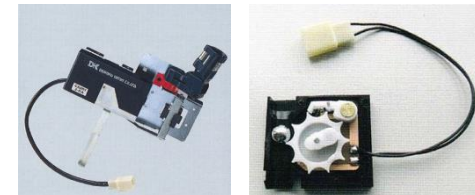
(Source) Edited based on the chart published by the Institute for Building Environment and Energy Conservation

# Daikoku Denki's strengths

Daikoku Denki is proud of itself for having what did not exist previously in the industry.

## Track records (examples)

- Machinery and equipment counting the pachinko balls
- Proprietary system to collect and manage the data for each game machine
- Information terminals to clarify the game machine data to users
- Information services provided to help the hall management



**DK-sis**

Emotional Machine  
Client Communication Computing

**MIRAI GATE**  
OPEN THE GATE OF YOUR FUTURE

The source of Daikoku Denki's strengths lies in "innovative ideas, sales capabilities and support capabilities."

## Strengths (examples)

- Daikoku Denki has a traditional corporate culture to respect innovative ideas and address creative ideas.
- Having offices across the nation

I

Make efforts towards stable performance through the sales promotion of CR unit and information publication terminal as well as the expansion of MG services.

II

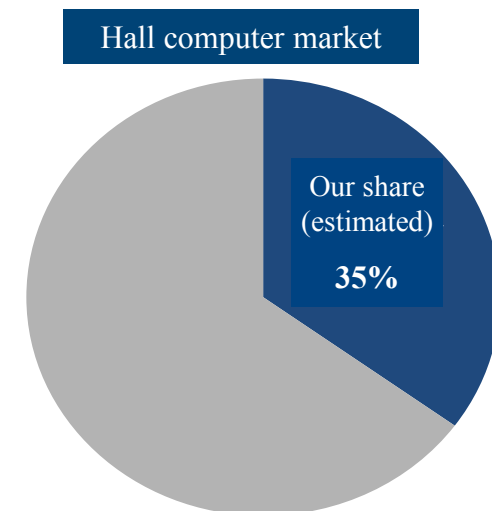
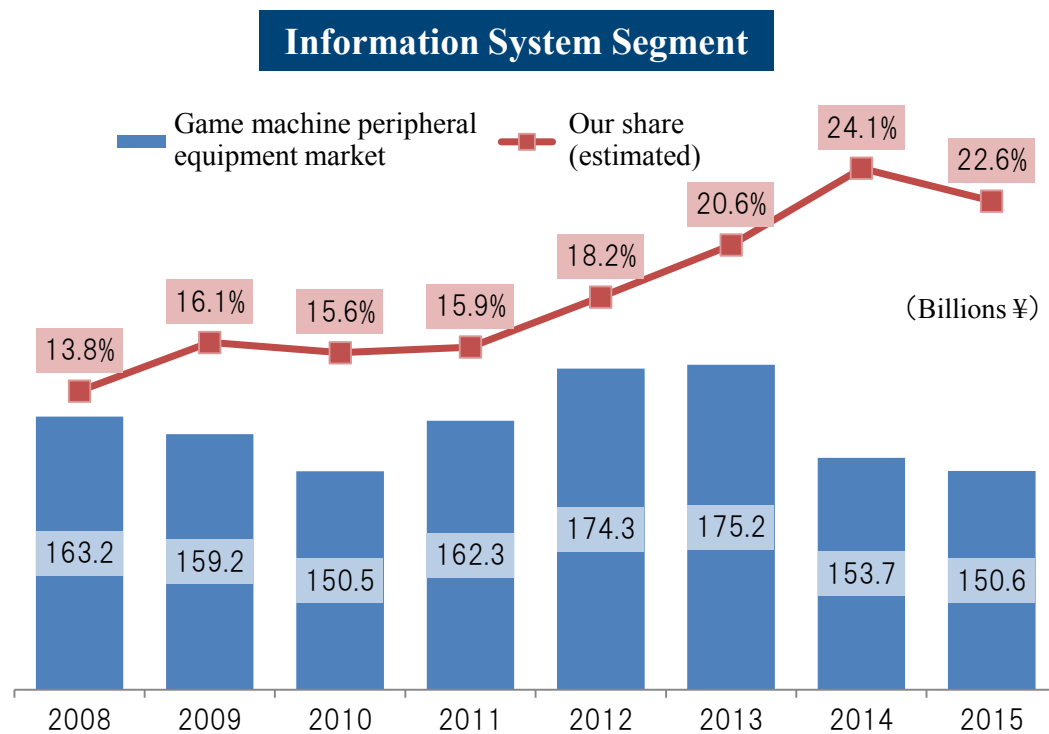
Launch the product/service flexibly responding to changing industry trends onto the market in a timely manner.

III

Promote aggressive investments towards the development of "next-generation flagship product lines" for pachinko halls.

# Information System Segment

## Raising the market share

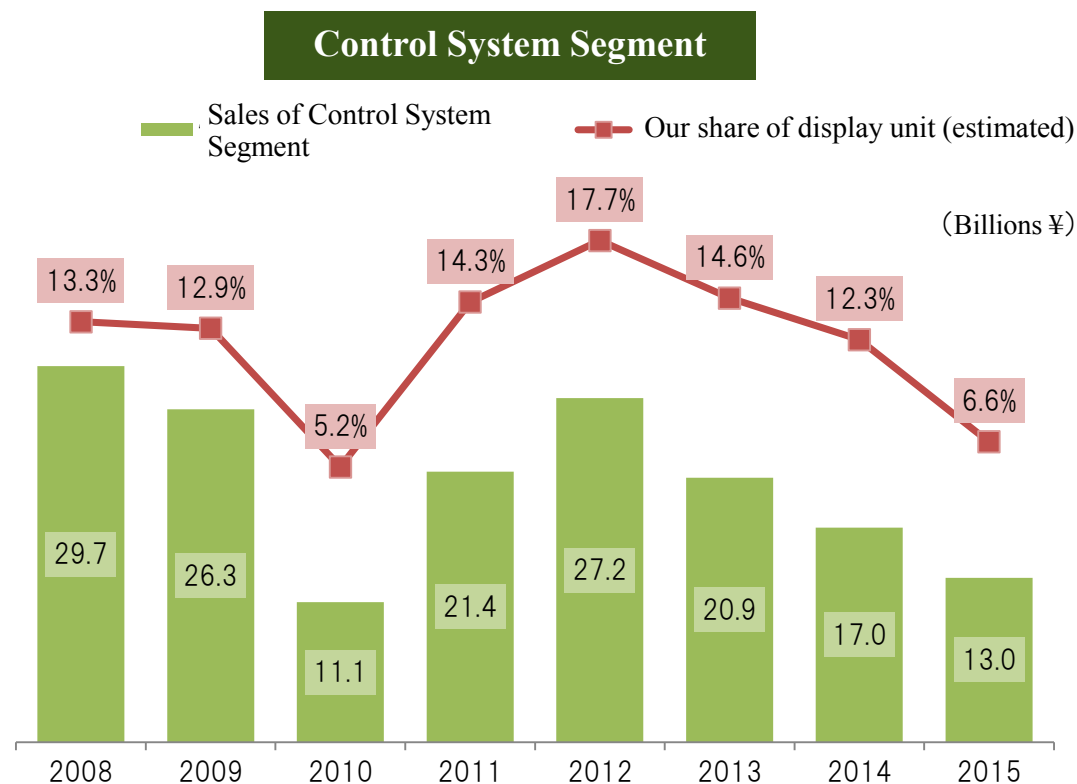


FY	2008	2009	2010	2011	2012	2013	2014	2015	2016
Game machine peripheral equipment market (A) (Billions ¥)	163.2	159.2	150.5	162.3	174.3	175.2	153.7	150.6	n.a.
Information System Segment (B) (Billions ¥)	22.6	25.6	23.5	25.7	31.7	36.1	37.1	34.1	27.3
Our share (estimated) B/A	13.8%	16.1%	15.6%	15.9%	18.2%	20.6%	24.1%	22.6%	n.a.

(Source of data) Game machine peripheral equipment market: Surveyed by Yano Research Institute

# Control System Segment

Strengthening parts development system and improving its market share on a mid-term perspective



FY	2008	2009	2010	2011	2012	2013	2014	2015	2016
Number of pachinko machines sold (A) (Thousand units)	3,339	3,333	2,900	2,604	2,495	2,065	2,020	1,886	n.a.
Sales of Control System Segment (Billions ¥)	29.7	26.3	11.1	21.4	27.2	20.9	17.0	13.0	13.5
Our sales of display unit (B) (Thousand units)	443	430	151	374	443	301	248	125	70
Our share of display unit (estimated) B/A (%)	13.3%	12.9%	5.2%	14.3%	17.7%	14.6%	12.3%	6.6%	n.a.

(Source of data) Number of pachinko machines sold : Surveyed by Yano Research Institute

# Business strategy

## Information System Segment



## Information System Segment

(Millions ¥)	FY2015			FY2016			FY2017(Projected)		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net Sales	16,089	17,987	34,076	13,126	14,134	27,260	<b>13,000</b>	<b>15,500</b>	<b>28,500</b>
(Annual sales of MG service)	1,868	1,963	3,832	2,044	2,099	4,143	<b>2,150</b>	<b>2,200</b>	<b>4,350</b>
Segment Income	1,320	957	2,277	1,414	1,597	3,011	<b>1,000</b>	<b>1,500</b>	<b>2,500</b>
Research and development expenditure	1,925	2,040	3,965	1,093	1,147	2,240	<b>1,000</b>	<b>900</b>	<b>1,900</b>

### ■ Number of sales

Note) Business segment sales and income figures include intersegment transactions.

Hall computer	54	59	113	30	46	76	<b>40</b>	<b>60</b>	<b>100</b>	
Call Lamp	BiGMO Series	6,820	6,592	13,412	-	-	-	-	-	
	BiGMO PREMIUM	21,619	33,368	54,987	12,674	14,480	27,154	<b>16,000</b>	<b>19,000</b>	<b>35,000</b>
	REVOLA	-	-	-	19,583	28,573	48,156	<b>19,000</b>	<b>23,000</b>	<b>42,000</b>
	IL-X Series	41,189	31,831	73,200	10,757	11,881	22,638	<b>11,000</b>	<b>14,000</b>	<b>25,000</b>
CR unit "VEGASIA"	44,094 69 halls	53,915 76 halls	98,009 145 halls	30,327 49 halls	35,535 49 halls	65,862 98 halls	<b>32,000</b> <b>50 halls</b>	<b>38,000</b> <b>70 halls</b>	<b>70,000</b> <b>120 halls</b>	
Face authentication system	6 halls	6 halls	12 halls	3 halls	9 halls	12 halls	<b>20 halls</b>	<b>25 halls</b>	<b>45 halls</b>	

### ■ Total subscribership

C II Standard	2,741	-	2,807	2,830	-	2,866	2,920	-	2,970
Contents library	1,502	-	1,575	1,618	-	1,669	1,720	-	1,770
DK-SIS members	3,718	-	3,717	3,704	-	3,709	3,725	-	3,750
C II-SIS members	965	-	1,036	1,124	-	1,182	1,250	-	1,300
CR unit (pachinko halls)	454	-	527	567	-	616	650	-	700
Third-party stored ball management	726	-	789	831	-	867	940	-	990

# Business strategy

## Control System Segment

## Control System Segment

(\* In the control system segment, "sales of development costs" to game machine manufacturers are posted as "cancellation of research and development expenses." Sales of development costs for the year ending March 2018 are planned to be 200 million yen for the first half, and 1.25 billion yen for the second half.

	FY2015			FY2016			FY2017 (Projected)		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net Sales	8,144	4,842	12,986	7,093	6,422	13,515	6,000	4,500	10,500
Segment Income	350	-1,669	-1,319	95	-401	-306	0	700	700
Research and development expenditure	637	729	1,365	618	202	820	650	-350	300

Note) Business segment sales and income figures include intersegment transactions.

Video processing unit	7	6	13	4	3	7	5	8	13
Sales volume	83,272	41,498	124,770	32,054	37,718	69,937	35,000	95,000	130,000

### ■ Pachislot business

models	0	1	1	1	1	2	2	0	2
Sales volume	0	5,100	5,100	8,800	3,500	12,300	5,400	0	5,400

### Main development models



(C)Newgin Co., Ltd

**CR Soreyuke Yasei no Okoku H3-T**  
Newgin Corporation



(C)福本伸行/講談社・VAP・マッドハウス・NTV・D.N.ドリームパートナーズ  
(C)福本伸行/講談社・VAP・NTV

**CR Dankyu Mokushiroku Kaiji-numa 3 Tonegawa Ver**  
TAKAO Co., Ltd



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**Pachislot Witch Craft Works**  
DAXEL Co., Ltd



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ねんどろいど協力/GOOD SMILE COMPANY

**Pachislot Detective Opera Milky Holmes TD**  
DAXEL Co., Ltd

# Pachislot business

**NEW** “Heaven’s Lost Property Forte” · “Yuki Yuna is a Hero”



The number of issues of original comics exceeded four million, KADOKAWA's major hit anime with two seasons of TV anime aired and two films were released.

The biggest feature is a premium freeze called "Miracle of 1/8192," and specializes in premium freeze.

It is an easy to visually understand game, even for those who are usually not good at sharpshooting at the pattern on the reel, as a character reel is used as the main spindle.

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Work being much talked about now, and whose second-season TV anime will be aired in October 2017.

ART, which adds the difference between the number of loaded tokens and the number of put-out tokens, is adopted for the first time in an anime-collaborated pachislot machine series. While the ART "Hero RUSH" is on, an additional specialized zone becomes “fully bloomed” and gains put-out balls.

When "Hero RUSH" ends, a continuation lottery through a scenario is offered, and/or stocked freezes are discharged, etc. The feeling of expectation can be exciting until the end.

A large-volume 124 Gbit ROM is mounted, and the images are also more powerful.

©2014 Project 2H ©DAIXEL ぱちんこ工場/GOOD SMILE COMPANY

**Since July, 2017, it has arrived onstage in pachinko halls across the country**

# Returning earnings to shareholders

# Shareholder special benefit plan

**We have established a new shareholder special benefit plan!**

**We will present points that can be exchanged for goods,  
depending on the number of shares and the amount of values held.**

## Eligible shareholders

Shareholders holding  
100 shares or more  
as of September 30  
of each fiscal year

The number of shares	Present points
100 ~ 299 shares	3,000 points (worth 3,000 yen)
300 ~ 599 shares	6,000 points (worth 6,000 yen)
500 ~ 699 shares	12,000 points (worth 12,000 yen)
700 ~ 999 shares	15,000 points (worth 15,000 yen)
1,000 shares ~	20,000 points (worth 20,000 yen)

- Eligible shareholders can select an item among 600 attractive goods, such as gourmets, travel and consumer electronics.
- Points can be carried forward to another year, and the points will be counted 1.1 times from the second year!

# Shareholder special benefit plan

Examples of goods for the shareholder special benefit plan that can be selected among about 600 items

## 3,000points



Sound Track Box



Premium ice cream



Imabari towel

## 6,000points



Pork loin steak



Special Rice (5kg)



Stainless electric kettle

## 12,000points



Matsusaka beef



Fine wine



Special Rice (12kg)

## 15,000points



Kobe beef



Edo Kiriko



De'Longhi  
Oven & toaster

## 20,000points



Matsusaka beef



Hotel vouchers



Hotel lunch buffet (pair)

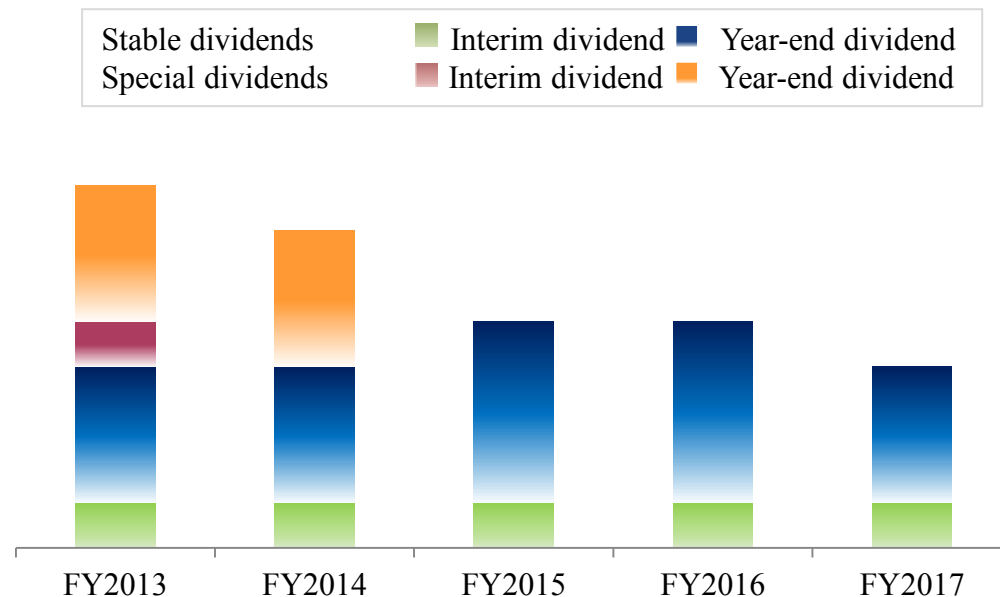
Points also can be donated to social contribution activities.

Expiration date of points is extended from two years to three years from this year.

In addition, we have increased product variations and have a larger assortment of products.

# Dividends

<Policy> The Company implements "special dividends" according to the revenue based on "consecutive dividends"



The Company pays "Special dividends" according to performance.

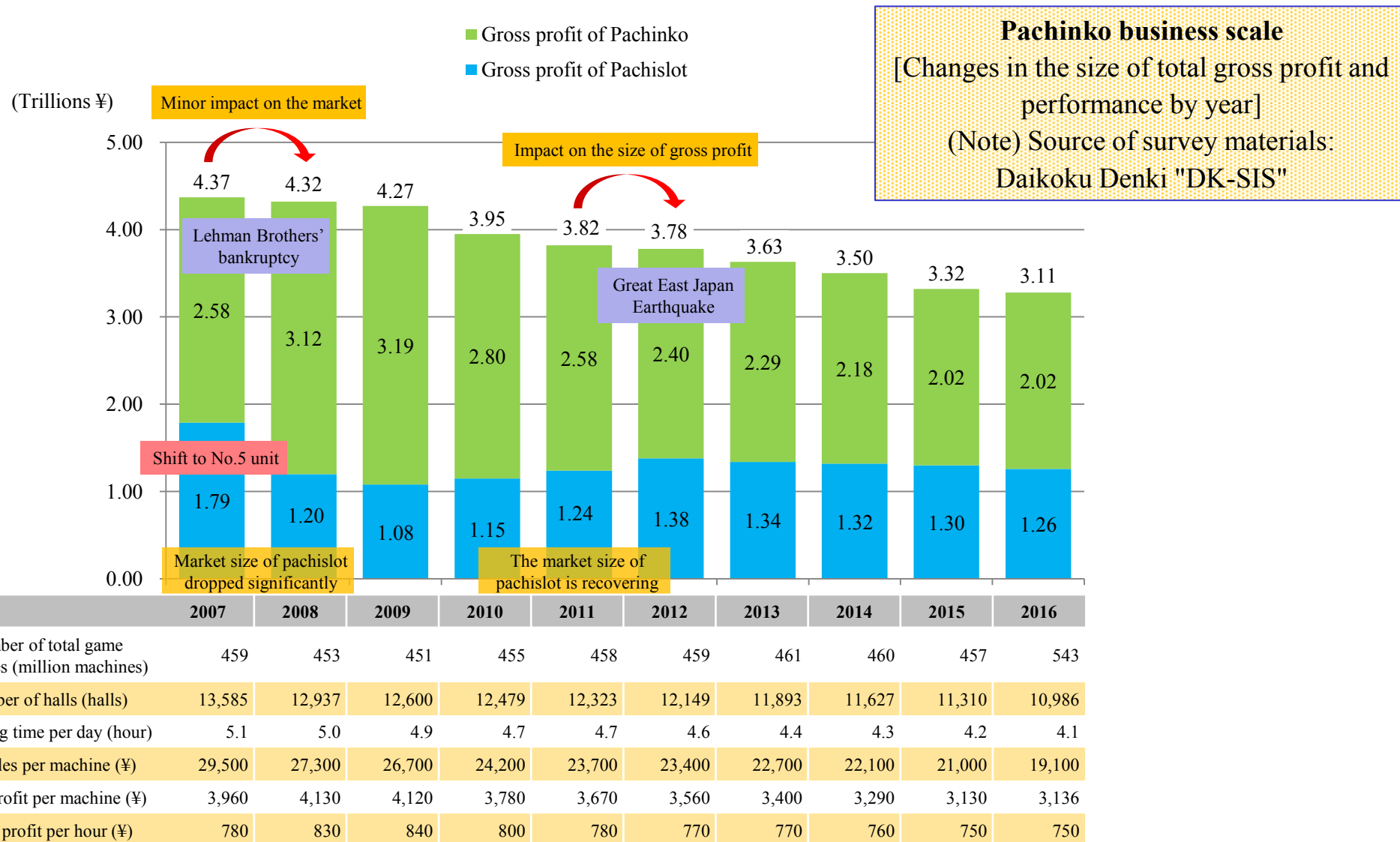
**Stable dividend (¥40)**  
(¥10 interim dividend and ¥30 year-end dividend).

	Stable dividends			Special dividends		Total	Payout ratio (%)
	Interim dividend	Year-end dividend	Total	Interim dividend	Year-end dividend		
FY2013	10	30	40	10	30	80	36.1
FY2014	10	30	40		30	70	118.3
FY2015	10	40	50			50	-
FY2016	10	40	50			50	147.0
FY2017 (Forecast)	10	30	40			40	73.9

# Business Environment

# Changes in the size of market total gross profit and shifts in performance by year

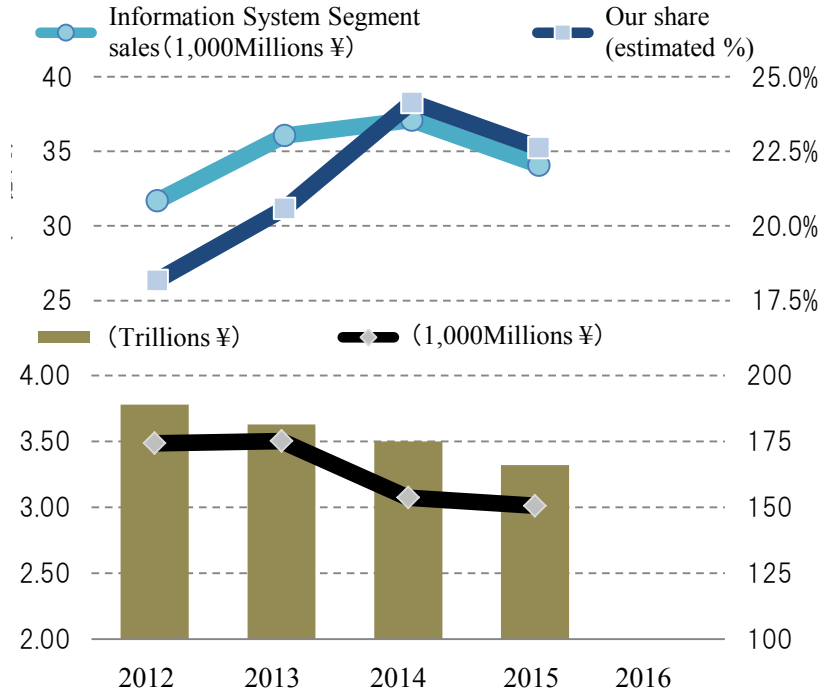
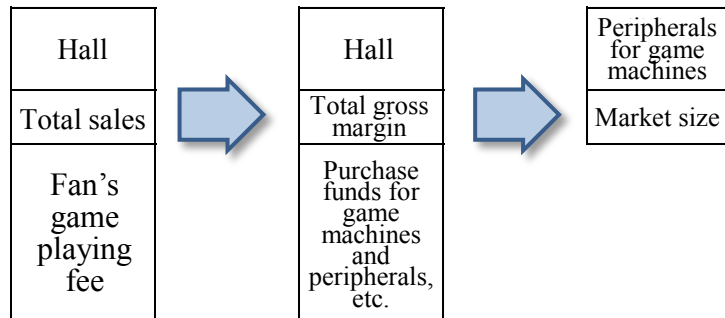
Although the market is still in a severe condition, it is forecast to recover approaching the Olympics in Tokyo in 2020.



# External environment

## Relationship between hall's total gross margin and market size of game machine and peripherals

- Fans' game playing fees become hall sales in the game machine market.
- And total gross margin will be purchase funds for game machines and peripherals.



	Market size			Reference		Market size		Daikoku Denki	
	Hall			Operating time (per unit)		Peripherals for game machines c (1,000 Millions ¥)	c ÷ b (%)	Information System Segment sales d (1,000 Millions ¥)	Our company's share (estimate) d ÷ c (%)
	Total sales a (Trillions ¥)	Total gross margin a (Trillions ¥)	Gross margin d ÷ a (%)	Pachinko (hour)	Pachislot (hour)				
2012年	24.8	3.78	15.2%	4.32	5.38	174	4.6%	32	18.2%
2013年	24.1	3.63	15.1%	4.17	5.20	175	4.8%	36	20.6%
2014年	23.5	3.50	14.9%	4.04	5.06	154	4.4%	37	24.1%
2015年	22.3	3.32	14.9%	3.88	4.89	151	4.5%	34	22.6%
2016年									

(Note) Estimate by our company DK-SIS

# External environment

## Jobs-to-applicants ratio and real wages

- It is understood in the game machine industry that a fans' game playing fee is closely related to pocket money, and the source of funds for pocket money is wages.
- The recent jobs-to-applicants ratio indicates a strong sense of a shortage of labor compared to the past, and it is expected that this will have a positive effect on the real wage.

Real wages	Before			This time							
	Oct.1996~Jan.1998 (Approximately one year and three months)			Jul.2004~Jun.2006 (Two years)			Jun.2004~Dec.2016 (Approximately six months)				
	Removal of socially unfit machines (removal of pachinko machines)			Removal of machines whose certification has expired			Removal of pachinkos whose state differs from when they were inspected				
	Real wages		Reference		Real wages		Reference		Real wages		Reference
	(※1)	YoY Change (%)	Jobs-to- applicants ratio (times)		(※2)	YoY Change (%)	Jobs-to- applicants ratio (times)		(※3)	YoY Change (%)	Jobs-to- applicants ratio (times)
1995:	100.0	+ 1.9%	0.63	2004:	100.0	△ 0.5%	0.83	2015	100.0	△ 0.7%	1.20
1996:	101.5	+ 1.4%	0.70	2005:	100.7	+ 0.8%	0.95	2016	100.3	+ 0.3%	1.36
1997:	101.2	△ 0.2%	0.72	2006:	100.3	△ 0.4%	1.06	2017	100.0	△ 0.3%	1.44
1998:	100.3	△ 1.0%	0.53	2007:	99.7	△ 0.6%	1.04				(※4)
1999:	100.4	+ 0.2%	0.48	2008:	97.9	△ 1.8%	0.88				

(※1): Real wages : 1995=100

(※2): Real wages : 2004=100

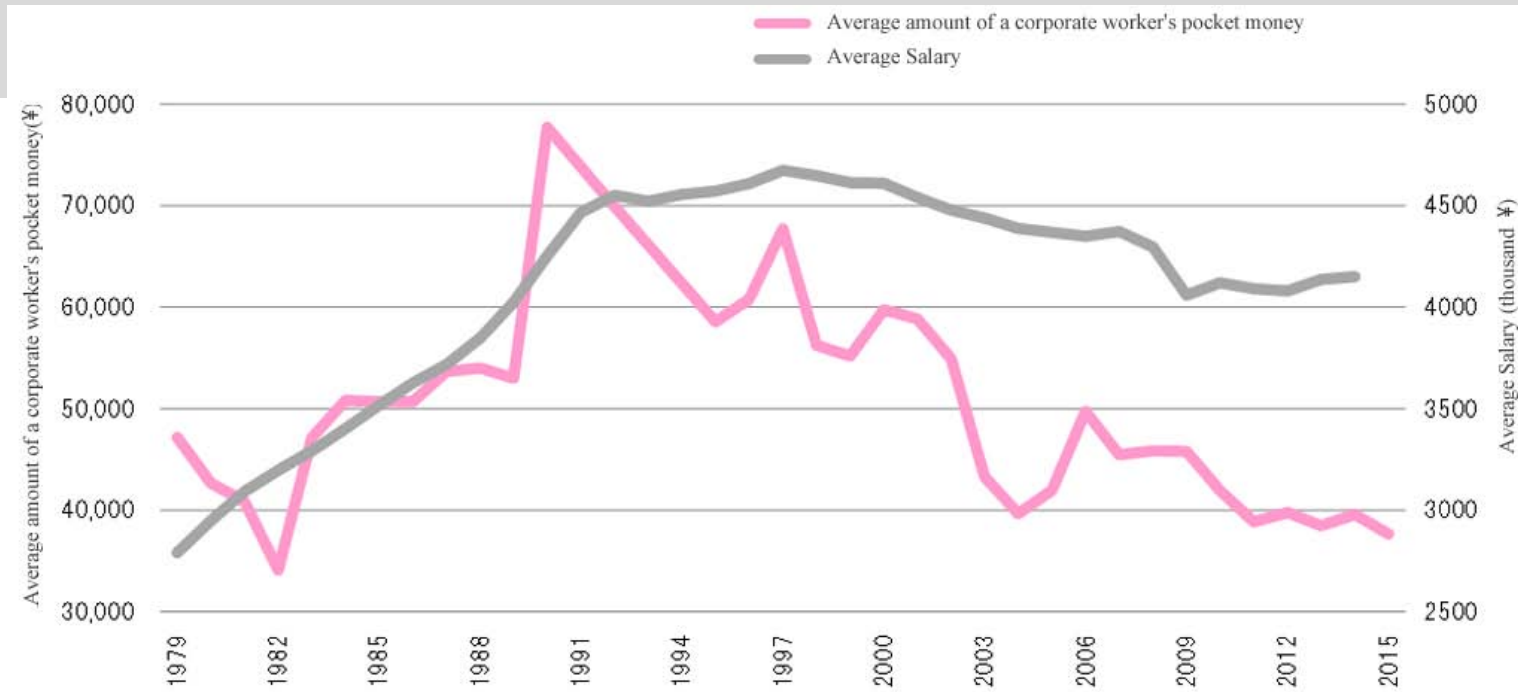
(※3) Real wages : 2015=100  
Average in January to March for 2017

(※4) Jobs-to-applicants ratio :  
Average in January to March for 2017

(Note) Real wages=Salary scheduled to be paid, seasonally adjusted, more than 5 people, All industries.  
Jobs-to-applicants ratio=Annual average, Excluding new graduates, but including part-timers.

(Source of data) Ministry of Health, Labor and Welfare "Monthly Labor Survey" (May 9, 2017), "Report on employment service" by the same institution (MHLW)

# Reference) Shifts in the average amount of a corporate worker's pocket money



- ❑ Since the 1990s, pocket money of a corporate worker in Japan has shifted in a downward trend.
- ❑ Trend of increase of the base amount is expanding. Partly due to the shortage of manpower, it is highly assumed that the salaries at Japanese companies will continue to grow for the time being
- ❑ We anticipate that salary will extend to pocket money, and be on the rise in the medium term.

Bubble economy (1986-1991)

Successive financial collapse

Lehman Shock (2008)

Abenomics

Great East Japan Earthquake

Consumption tax hike (2014)

Appearance of fever machines (1980)

Introduction of probability changes (1990)

Revision of the Adult Entertainment Business Act (2006)

Full transition to pachislot No. 5 units (2007)

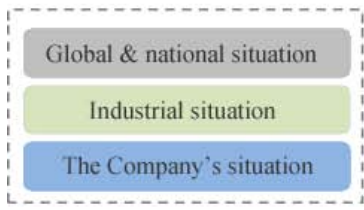
Change in test procedure (Pachislot, 2014)

Start of DK-SIS (1990)

Release of MIRAI GATE (2007)

Revise regulations (Pachinko, 2015)

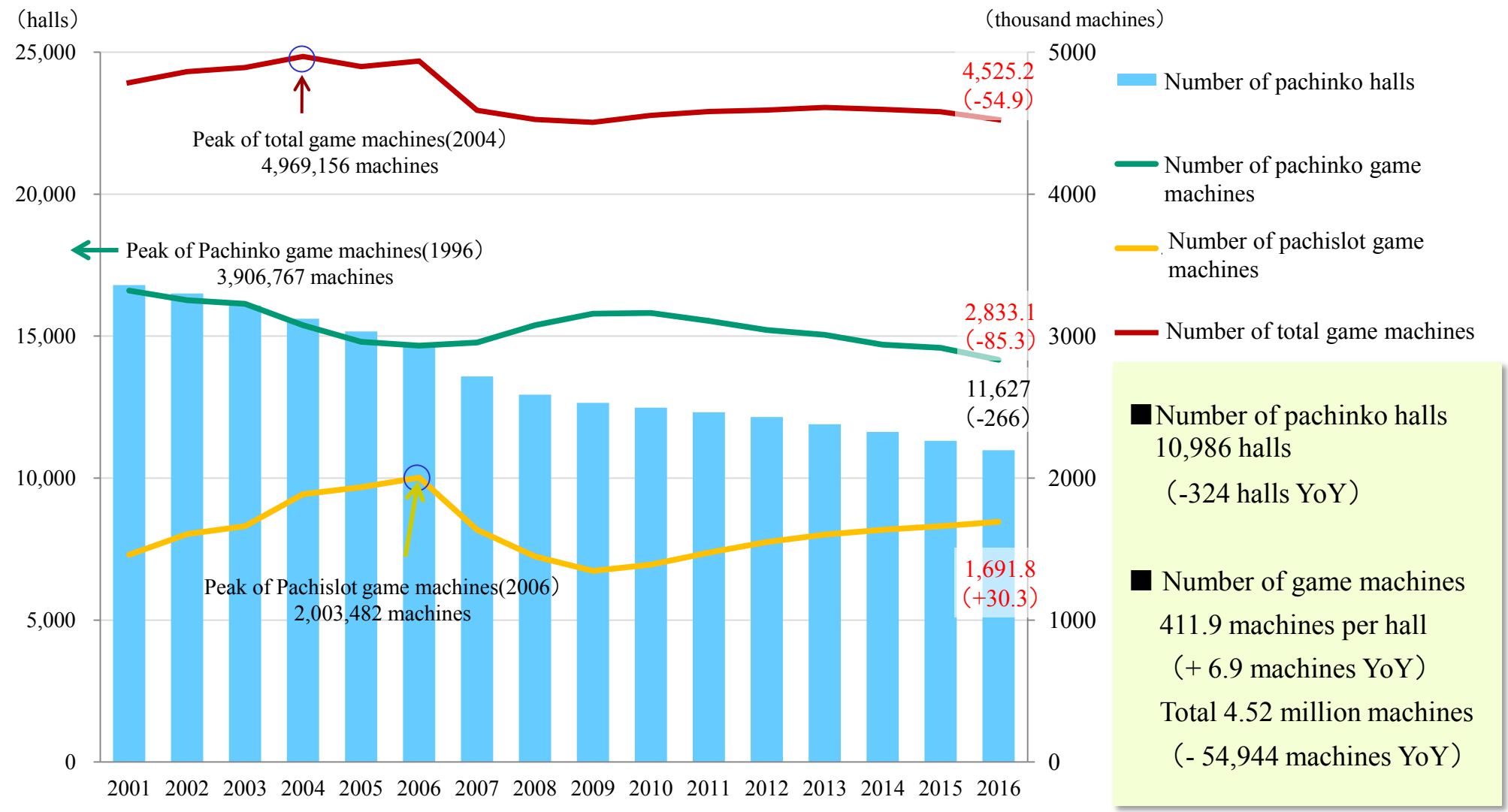
Removal of "Pachinko machines whose performance may differ from that of inspected units" (2016)



(Note) Since the survey of amount of a corporate worker's pocket money was not conducted in 1991, 1993 and 1994, the data of these years are indicated as equivalent as the previous or following year in the above graph.  
 (Source of data) Average amount of a corporate worker's pocket money: Shinsei Bank, Average Salary: Internal Revenue Service "Statistical Survey of Actual Status for Salary in the Private Sector"

# Pachinko business scale

## Shifts in the number of pachinko halls and installed pachinko and pachislot game machines

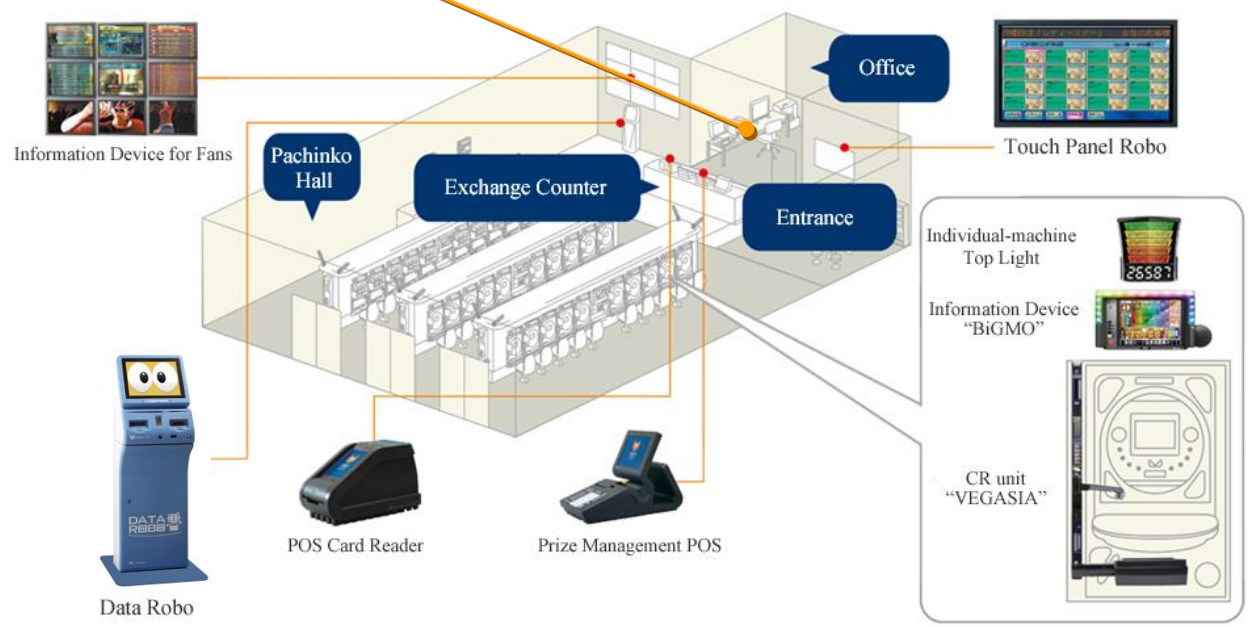


( Source of data ) 2016 White Paper on Adult Entertainment Business and Moral Offense Control by the Community Safety Bureau of the National Police Agency



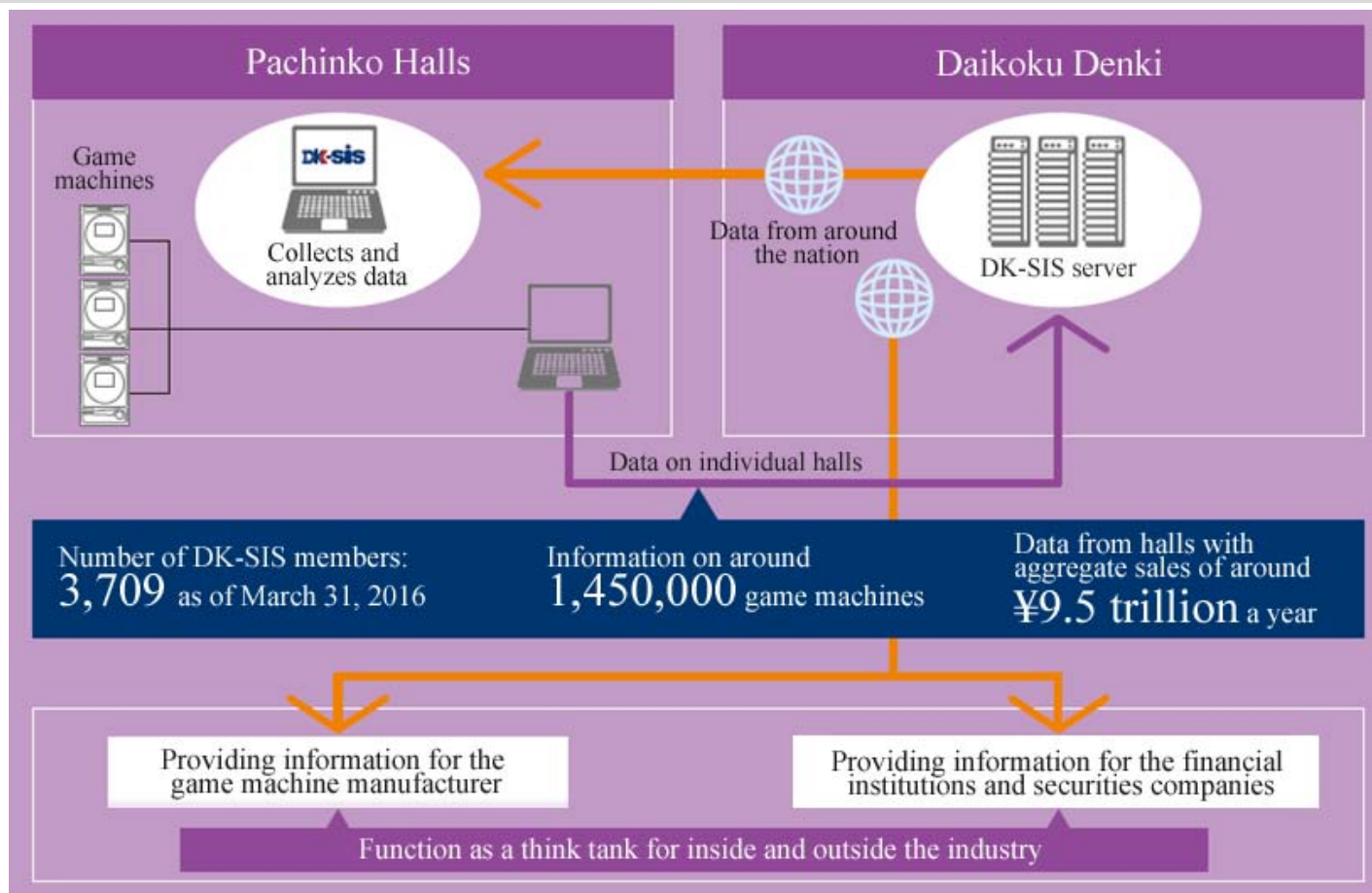
**= Accounts for the top share  
of the market at 35%**

Daikoku Denki excelled in the production of electric circuits at its inauguration, and developed a device to count pachinko balls by utilizing this knowledge and technology. Later, the Company was the first in the industry to provide new products and services such as through a proprietary system to collect and manage the data of each machine, in addition to the development of "Data Robot", an information terminal that displays game machine data to customers, and "DK-SIS", a service to provide information that supports hall management, as well as the launch of the "MIRAIGATE" brand.



# DK-SIS Daikoku Denki Strategic Information System

"DK-SIS"—an industry-leading strategic information tool that helps to realize improved hall performance

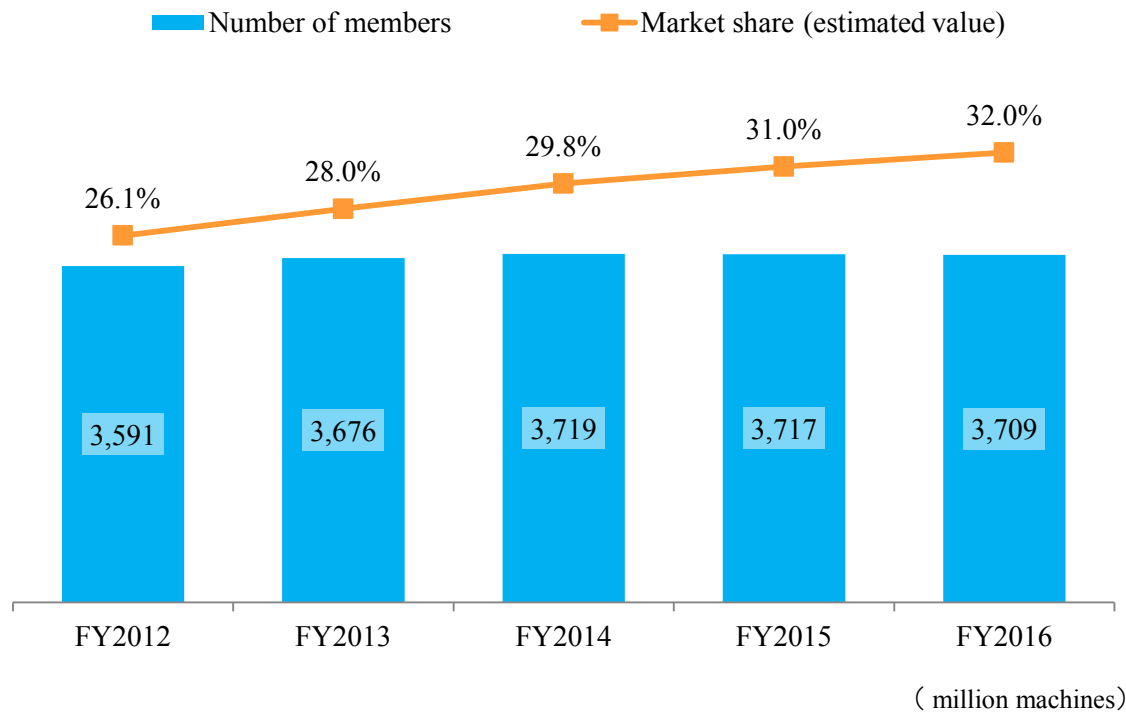


- Accumulation of business know-how with a core of data on approximately 1.45 million game machines and ¥9.5 trillion scale of annual sales
- Provision of various consulting services with DK-SIS data as the backbone
- Strategic proposals and sales activities to game machine manufacturers utilizing DK-SIS data

Strengths of DK-SIS

# Trends in the Number of DK-SIS Members

## Transition graph of the number of DK-SIS members



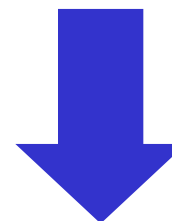
	FY2012	FY2013	FY2014	FY2015	FY2016
Number under the management of DK-SIS	1.20	1.29	1.37	1.42	1.45
Number of total game machines	4.59	4.61	4.60	4.58	4.53

( Source of data )

2016 White Paper on Adult Entertainment Business and Moral Offense Control by the Community Safety Bureau of the National Police Agency

### Performance for the term ending in March 2017

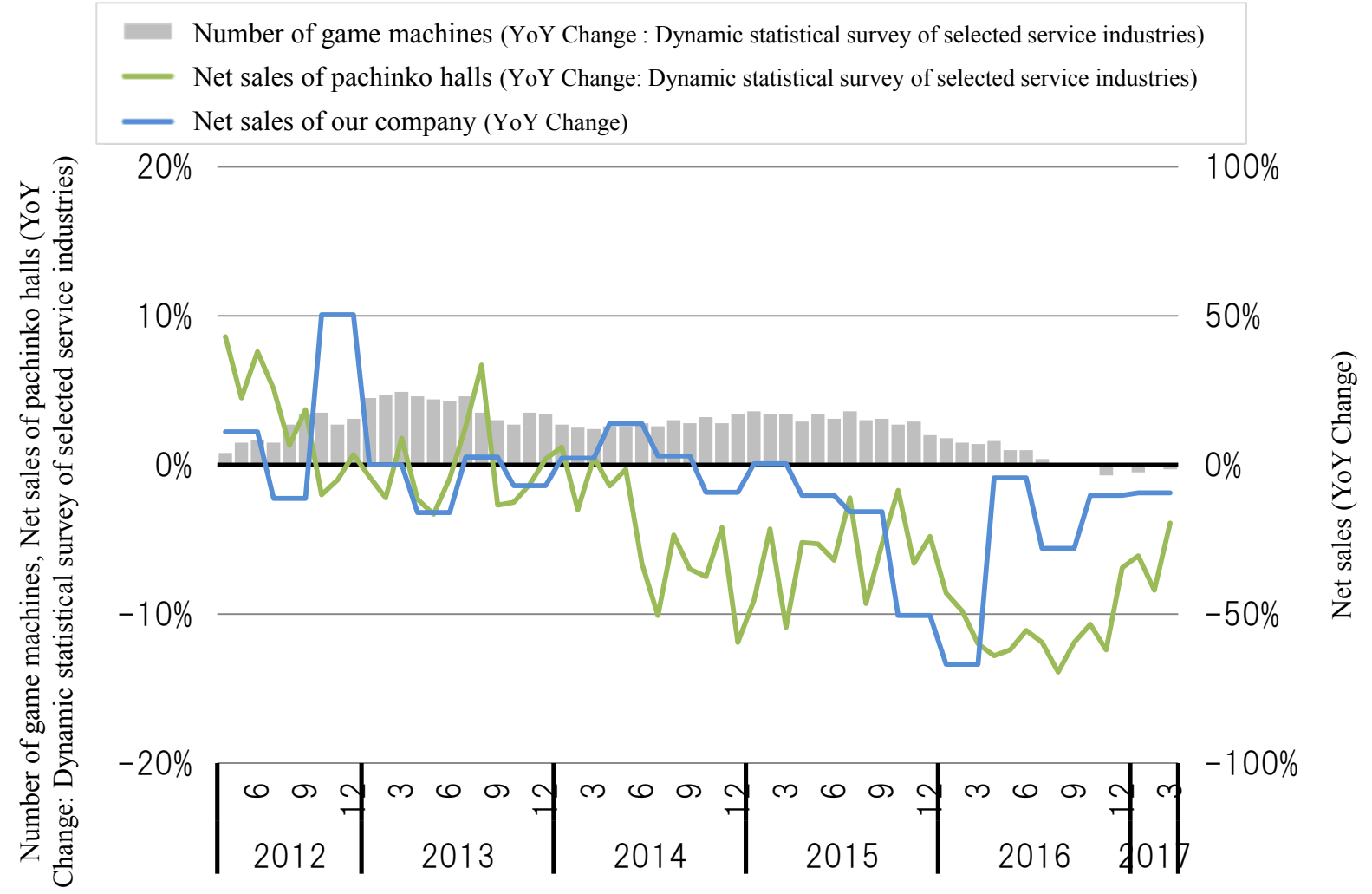
Number of members **3,709**  
 Number of managed machines **1.45 million machines**  
 Sales volume **Data corresponding to ¥9.5 trillion**



The only information strategy tool in the pachinko industry that possesses data on about **30%** of the number of pachinko and pachislot game machines nationwide

# [Reference] Pachinko business scale

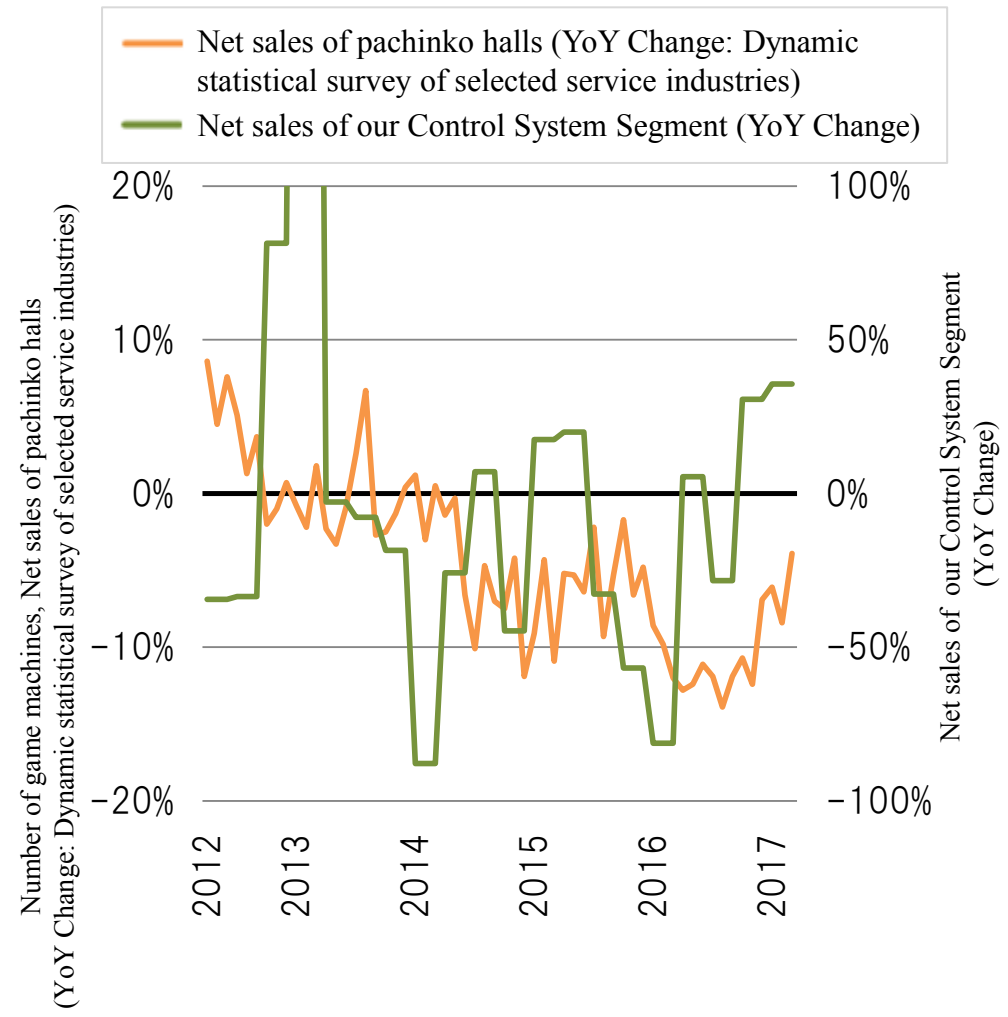
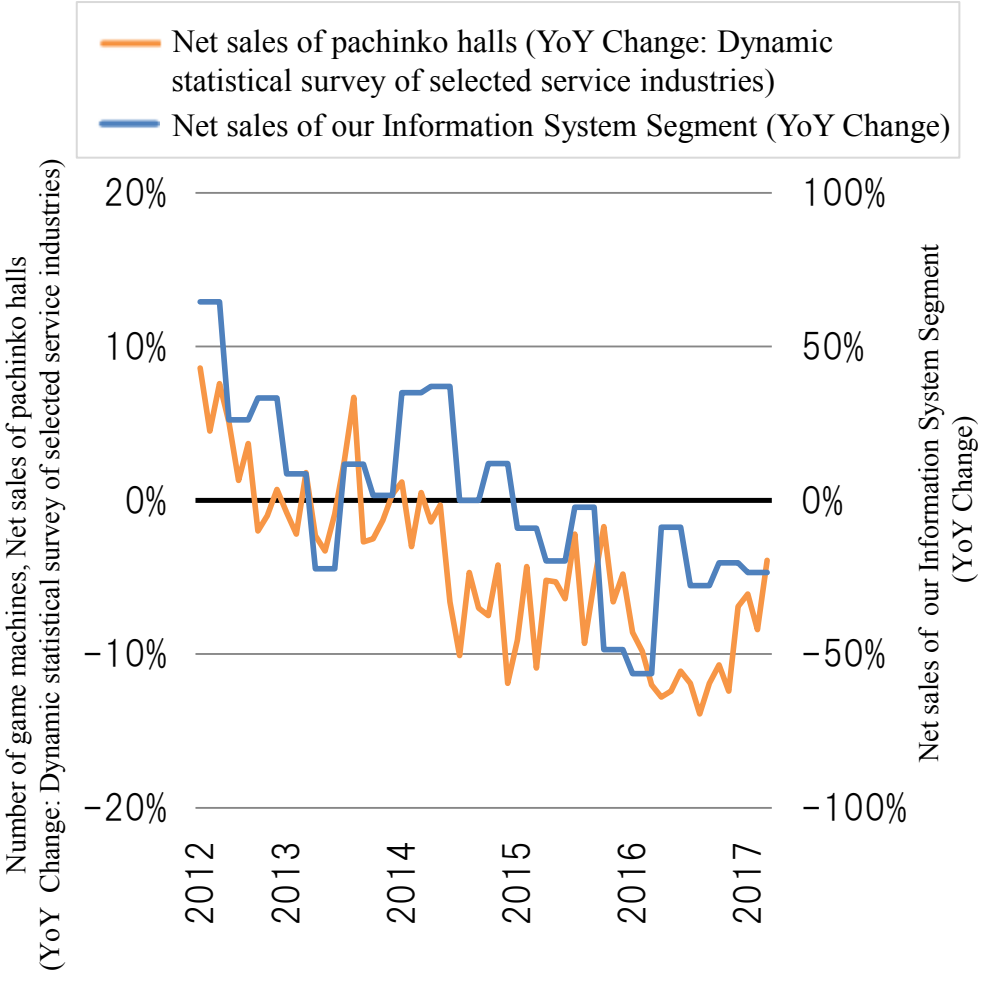
## Dynamic statistical survey of selected service industries - pachinko hall



( Source of data ) Dynamic statistical survey of selected service industries - pachinko hall (Ministry of Economy, Trade and Industry : 2017/5/15)

# [Reference] Pachinko business scale

## Dynamic statistical survey of selected service industries - pachinko hall



( Source of data ) Dynamic statistical survey of selected service industries - pachinko hall (Ministry of Economy, Trade and Industry : 2017/5/15)

# Disclaimer

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These contents involve risk and uncertainty, and the actual results may differ materially from these contents/comments.

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