

Results of Operations and Strategies

First half of fiscal year ending March 31, 2015



Daikoku Denki Co., Ltd.
(Tokyo Exchanges, First Section, 6430)

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Consolidated Financial Highlights

First Half Consolidated Financial Highlights

Consolidated Statements of Income (Summary)

(Millions ¥)	2013/9	2014/9	YoY Change	Planned ratio
Net Sales	25,882	27,892	+7.8%	+3.3%
Gross profit-net	8,191	8,551	+4.4%	+0.6%
Selling, general and administrative expenses	5,704	6,380	+11.9%	- 8.9%
Operating Income	2,487	2,170	- 12.7%	+44.7%
Ordinary income	2,559	2,235	- 12.7%	+49.0%
Net income	1,543	1,472	- 4.6%	+47.2%
Research and development expenditure	1,125	1,636	+45.5%	- 3.7%

Sales increased but income declined YoY. However, income exceeded the projection.

■ Net Sales

(YoY Change) **+2,010million**

[Factors for the income that exceeded the projection]

- “BiGMO PREMIUM” (data display tools) and “VEGASIA” (CR unit) sold steadily.

■ Selling, general and administrative expenses

(YoY Change) **+676million**

- The Information System Segment promoted a greater investment in the development of new generation products.
- The Control System Segment delayed the posting of R&D expenses to the 3Q or later.

(Note) The planned ratio is the value of earnings projection for the term ending in March 2014 announced on May 12, 2014, as well as the planned ratio described in the materials for the briefing of the second quarter closing of the term ending in March 2014 held on May 29, 2014 targeting institutional investors and analysts.

Operating Income

YoY Change

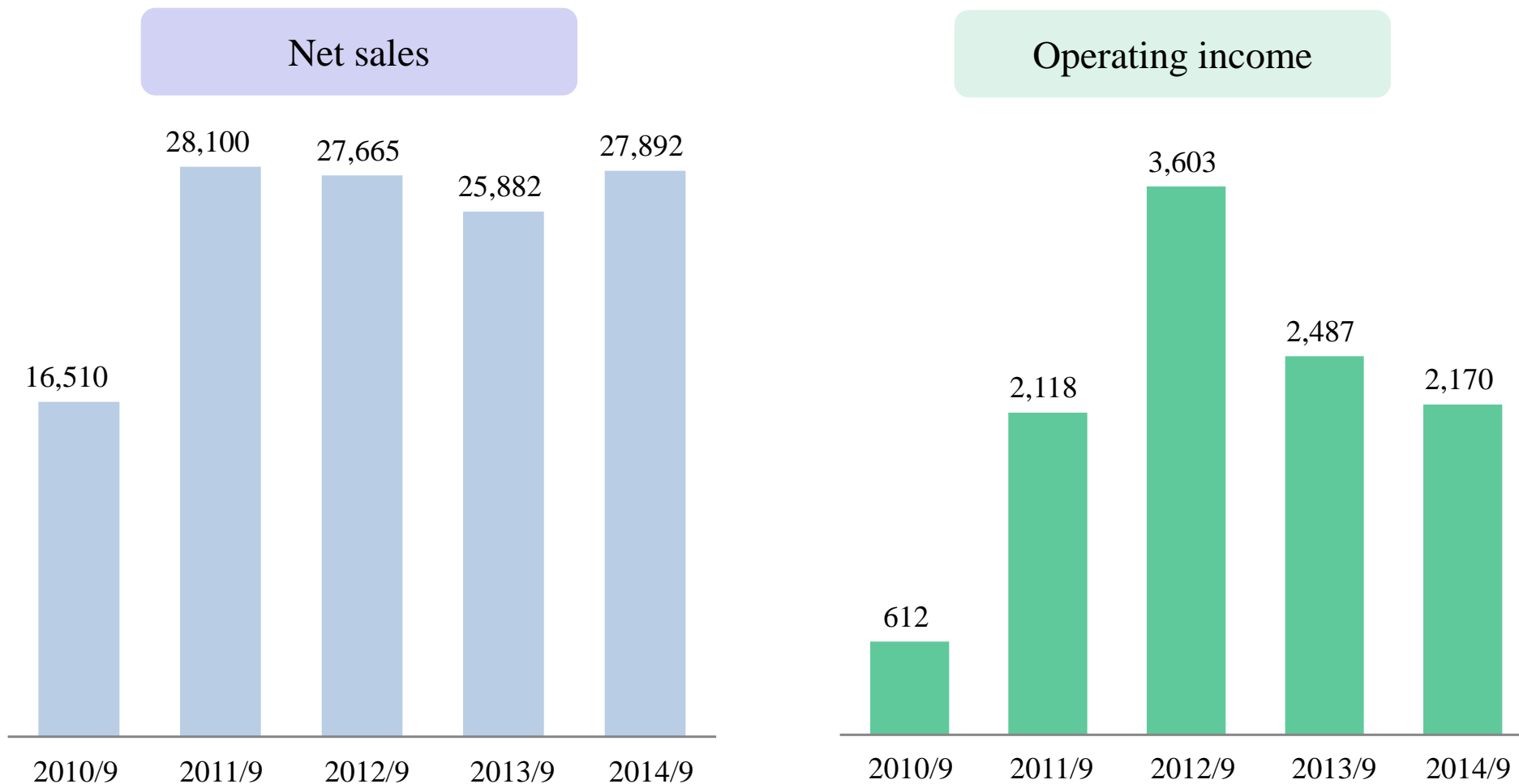
-¥317 Million

-12.7%



Shifts in net sales and operating income

(Millions of yen)



First Half Consolidated Financial Highlights

Consolidated Balance Sheets (Summary)

(Millions ¥)	2014/3	2014/9	YoY Change
Current assets	37,045	36,563	△482
Noncurrent assets	16,884	15,982	△902
Total assets	53,929	52,545	△1,384
Current liabilities	20,159	18,430	△1,729
Noncurrent liabilities	1,509	1,183	△326
Total liabilities	21,669	19,613	△2,056
Net assets	32,260	32,932	+672
Total liabilities and net assets	53,929	52,545	△1,384
Debt	800	600	△200
Debt Equity Ratio	0.02times	0.02times	—
Capital adequacy ratio	59.8%	62.7%	+2.9%
Receivables turnover period	73.5days	77.7days	+4.2days
Inventory turnover period	55.8days	60.6days	+4.8days
Payable turnover period	105.8days	95.2days	-10.6days
	14,783,322	14,783,272	

■ Total assets (YoY Change) -¥1,384 million

Current assets -¥482 million

(Key elements)

Cash and deposits	-¥1,805 million
Raw materials and supplies	+¥995 million
Notes and accounts receivable-trade	+¥805 million

Noncurrent assets -¥902 million

(Key elements)

Long-term time deposits	-¥500 million
Deferred tax assets	-¥260 million

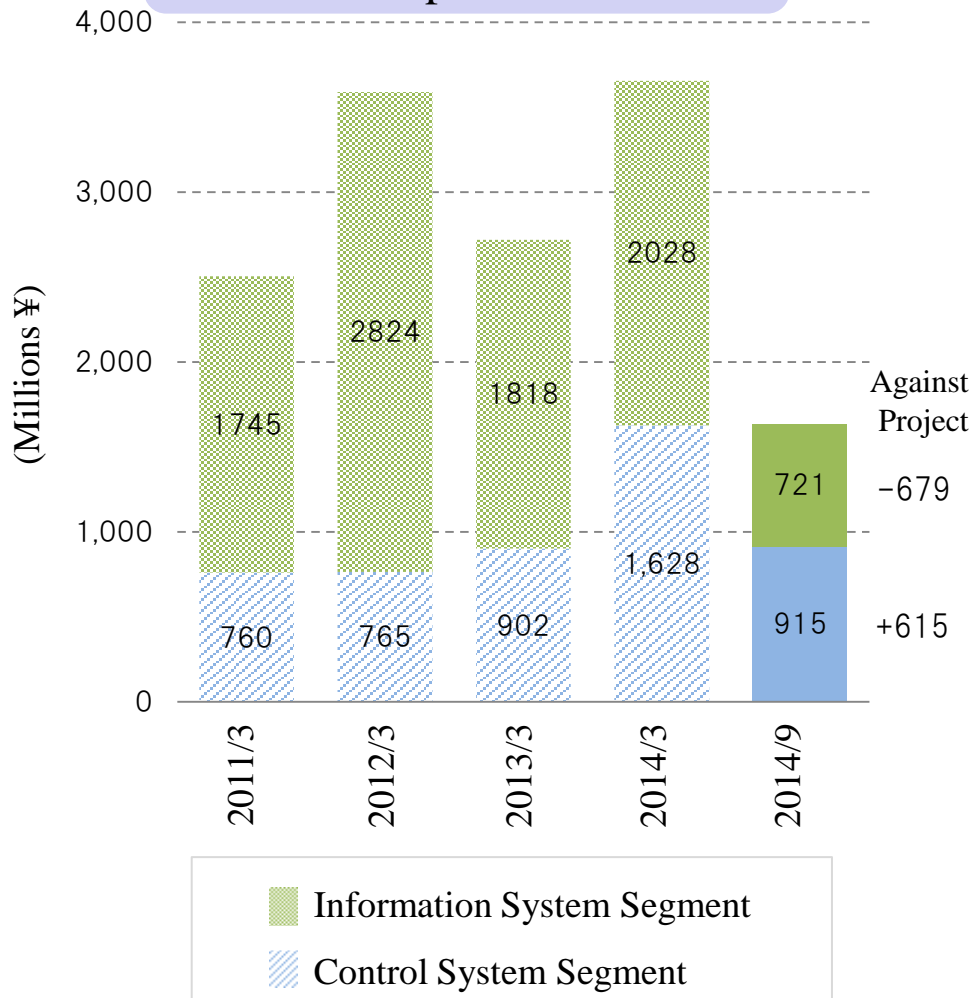
■ Total liabilities (YoY Change) -¥2,056 million

(Key elements)

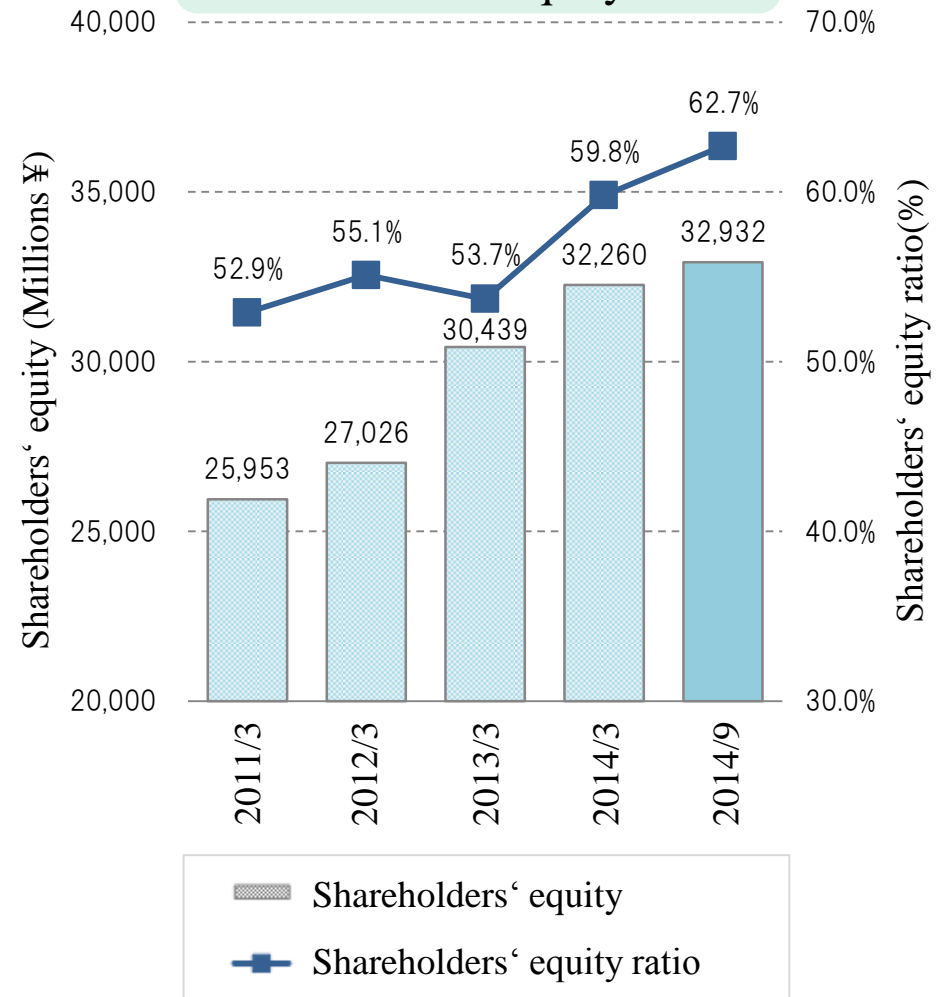
Notes and accounts payable-trade	-¥728 million
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■ Net assets (YoY Change) +¥672 million

Research and development expenses



Shareholders' equity Shareholders' equity ratio



Consolidated Statements of Cash Flows(Summary)

(Millions ¥)	2013/9	2014/9	YoY Change
Operating CF	-3,017	-227	+2,790
Investment CF	-864	-991	-127
Financing CF	-1,306	-1086	+220
Cash and cash equivalents	13,218	12,975	-243
Time deposits that have more than three months until maturity	100	600	+500

■ **Operating CF** (YoY Change) **+¥2,790 million**
(Key elements)

The YoY increase was primarily attributable to a decrease in income taxes paid which overcame and eliminated the effects of a decrease in cash and deposits mainly resulting from an increase in trade receivables as well as a decrease in trade payables.

■ **Investment CF** (YoY Change) **-¥127 million**
(Key elements)

The YoY decrease was mainly due to a lack of refunds of term deposits and expenditures for the acquisition of investment securities, despite a decrease in expenditures from the acquisition of non-current assets.

■ **Financing CF** (YoY Change) **+¥220 million**
(Key elements)

The YoY increase was primarily attributable to a decrease in dividend payments.

■ **Cash and cash equivalents**
(YoY Change) **-¥243 million**

Business results by segment

YoY Change

Net sales +¥2,010 million (+7.8%), Operation income -¥317 million (-12.7%)

(Millions ¥)		2013/9	2014/9	YoY Change	Planned ratio
Information System Segment	Net sales	15,562	18,217	+17.1%	+21.4%
	Segment income	2,950	2,618	-11.3%	+13.8%
Control System Segment	Net sales	10,320	9,675	-6.3%	-19.4%
	Segment income	580	369	-27.4%	+269.0%
Corporate expenses		-970	-817	-15.8%	-9.2%
Corporate	Net sales	25,882	27,892	+7.8%	+3.3%
	Operating income	2,487	2,170	-12.7%	+44.7%

Information System Segment

(Sales increased, but income declined.)

“VEGASIA” (CR unit) and “BiGMO PREMIUM” (data display tools) sold steadily.

R&D costs for the next generation systems increased.

“VEGASIA” (CR unit) is the revenue model with a monthly data management fee, on the basis of a comparatively lower product margin. Accordingly, an increase in sales units brought about a lower profit margin.

Control System Segment

(Both sales and income dropped.)

Sales volume of display units increased YoY, but fell short of the projected volume (152,000 units).

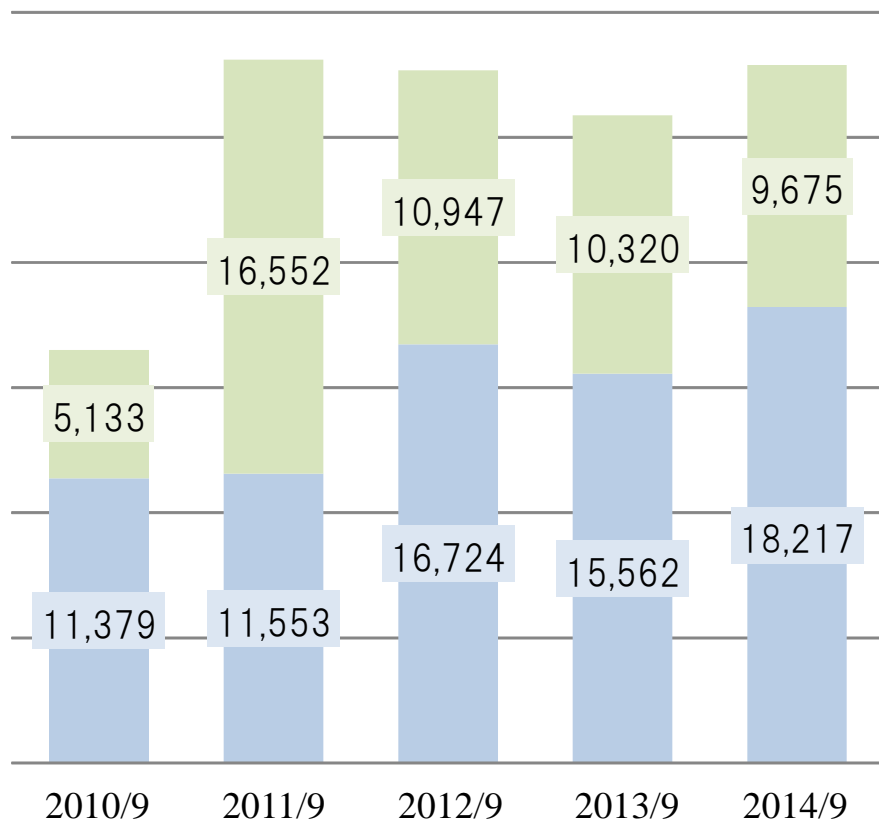
The ratio of used goods increased, reflecting a cost reduction by game machine manufacturers, which brought a drop both in sales and income.

(Note) The planned ratio is the value of earnings projection for the term ending in March 2014 announced on May 12, 2014, as well as the planned ratio described in the materials for the briefing of the second quarter closing of the term ending in March 2014 held on May 29, 2014 targeting institutional investors and analysts.

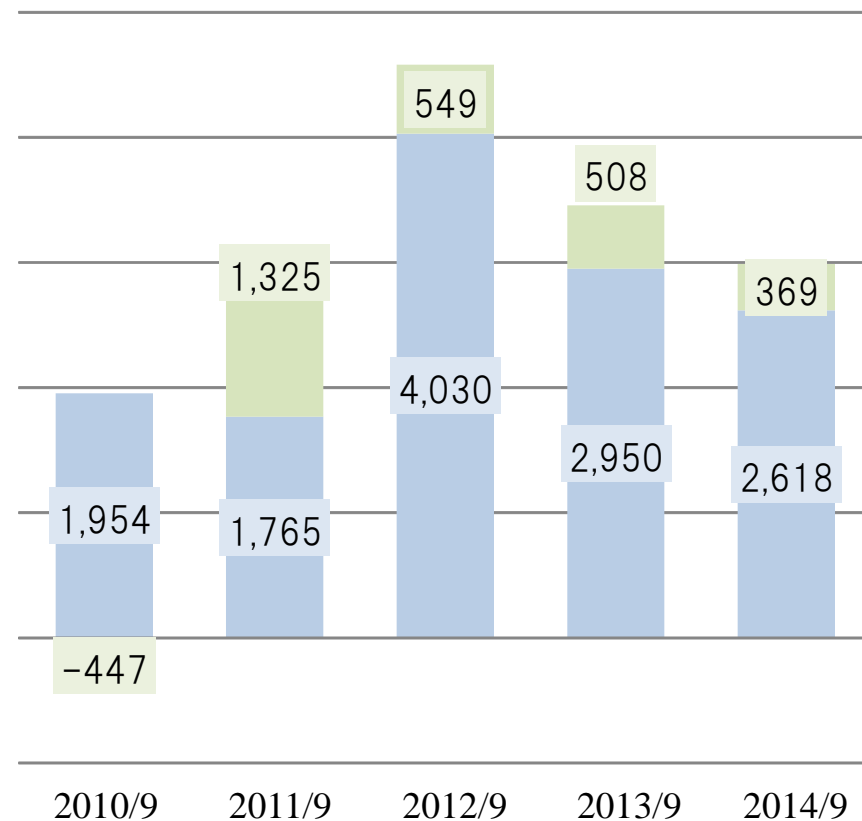
Business segment sales and income figures include intersegment transactions.

Business results by segment

Business segment sales



Segment operating income



■ Information System Segment
 ■ Control System Segment

(※) Business segment sales and income figures include intersegment transactions.

Forecast for Year ending March 31, 2015

(Millions ¥)	Year ended March 31, 2014			Year ended March 31, 2015 (Forecast)			YoY Change
	1st half	2nd half	Total	1st half	2nd half	Total	
Net Sales	25,882	31,072	56,954	27,892	27,108	55,000	-3.4%
Gross profit-net	8,191	10,500	18,691	8,551	9,449	18,000	-3.7%
Selling, general and administrative expenses	5,704	7,649	13,353	6,380	8,620	15,000	+12.3%
Operating income	2,487	2,851	5,338	2,170	830	3,000	-43.8%
Ordinary income	2,559	2,915	5,474	2,235	765	3,000	-45.2%
Net income	1,543	1,735	3,278	1,472	528	2,000	-39.0%
Net income per share	104.38	—	221.80	99.61	—	135.29	—
Research and development expenses	1,125	2,531	3,656	1,636	4,700	4,700	+28.6%
Depreciation expense	688	764	1,452	689	911	1,600	+10.2%
Capital investment	192	797	989	152	448	600	-39.3%

Forecast for Year ending March 31, 2015 by segment

		Year ended March 31, 2014			Year ended March 31, 2015 (Forecast)		
		1st half	2nd half	Total	1st half	2nd half	Total
		(Millions ¥)					
Information System Segment	Net Sales	15,562	20,503	36,065	18,217	14,783	33,000
	Segment income	2,950	3,143	6,093	2,618	1,682	4,300
Control System Segment	Net Sales	10,320	10,569	20,889	9,675	12,325	22,000
	Segment income	508	619	1,127	369	131	500
Corporate expenses		- 970	- 913	- 1,883	-817	-983	-1,800
Corporate	Net Sales	25,882	31,072	56,954	27,892	27,108	55,000
	Segment income	2,487	2,851	5,338	2,170	830	3,000
Sales ratio (First half:Second half)		45.4%	54.6%	100%	50.7%	49.3%	100%
Information System Segment	Hall computing system 「C」(unit)	90	113	203	72	128	200
	Disclosure of information system	3,741	5,821	9,562	4,508	3,992	8,500
	Prize management system	1,901	1,937	3,838	1,449	2,051	3,500
	Network services	1,363	1,499	2,862	1,627	1,523	3,150
Control System Segment	Video processing unit (Number of models)	6	12	18	8	7	15
	Video processing unit	2,958	7,125	10,083	4,837	5,463	10,300
	Sales of parts	4,659	2,584	7,243	2,990	2,510	5,500

Image of Full Year Forecast as of September 30, 2014



<Point to be noted>

Since there is no change in the earnings forecast for the full year of FY2014, each expected figure for the second half is calculated by subtracting the actual result of the first half from the estimated figure at the start of the fiscal year.

(※)Business segment sales and income figures include intersegment transactions.

<Reference data> The performance by segment

		Year ended March 31, 2011			Year ended March 31, 2012			Year ended March 31, 2013		
		1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
		(Millions ¥)								
Information System Segment	Net Sales	11,379	12,112	23,492	11,553	14,187	25,741	16,724	14,960	31,685
	Segment income	1,954	1,093	3,047	1,765	3,028	4,793	4,030	2,039	6,069
Control System Segment	Net Sales	5,133	5,921	11,054	16,552	4,814	21,367	10,947	16,236	27,184
	Segment income	- 447	- 641	- 1,088	1,325	- 741	583	549	2,381	2,930
Corporate expenses		- 894	- 838	- 1,732	- 972	- 879	- 1,852	- 976	- 1,000	- 1,976
Corporate	Net Sales	16,510	17,972	34,483	28,100	18,995	47,096	27,665	31,195	58,861
	Segment income	612	- 386	226	2,118	1,407	3,525	3,603	3,420	7,023
Sales ratio (First half: Second half)		47.9%	52.1%	100%	59.7%	40.3%	100%	47.0%	53.0%	100%
Information System Segment	Hall computing system 「C」(unit)	127	104	231	120	123	243	118	87	205
	Disclosure of information system	2,467	2,721	5,188	2,493	4,051	6,544	4,310	3,847	8,157
	Prize management system	2,737	3,252	5,989	2,525	2,721	5,246	2,252	1,795	4,047
	Network services	642	715	1,357	732	954	1,686	1,113	1,294	2,407
Control System Segment	Video processing unit (Number of models)	3	7	10	6	3	9	9	11	20
	Video processing unit	1,556	2,856	4,412	11,036	1,492	12,528	5,933	9,906	15,839
	Sales of parts	2,355	1,786	4,141	3,485	2,481	5,966	4,365	5,053	9,418

(※) Business segment sales and income figures include intersegment transactions.

Business Environment

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

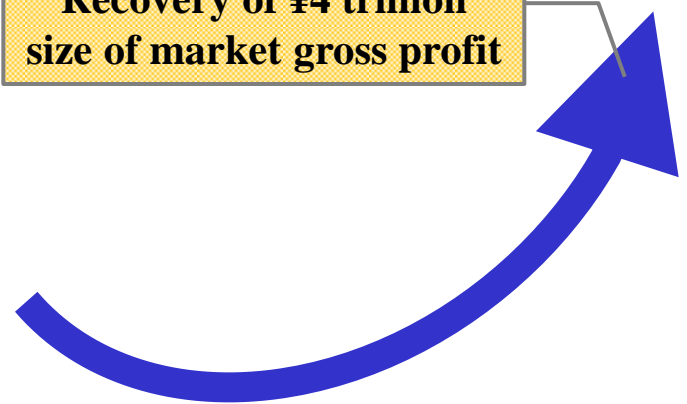
Although market conditions are projected to be severe in the short term, it is expected to recover towards a ¥4 trillion market size in the medium term

Pachinko business scale
 [Changes in the size of total gross profit and performance by year]
 (Note) Source of survey materials: Daikoku Denki "DK-SIS"



Market trends in the present envisioned by the Company (estimate of the Company)

Recovery of ¥4 trillion size of market gross profit



Consumption tax hike

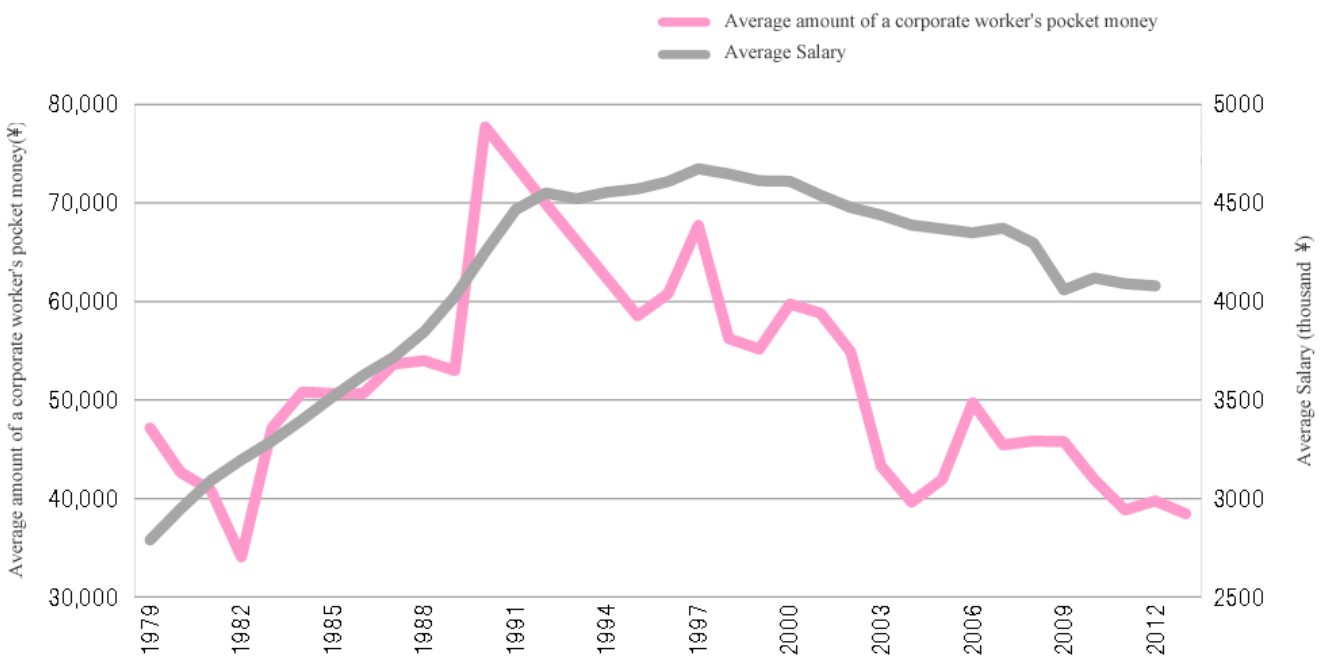
Hosting of Tokyo Olympics

	2007	2008	2009	2010	2011	2012	2013
Market Scale							
Size of market gross profit (Trillion ¥)	4.37	4.32	4.27	3.95	3.82	3.78	3.63
Number of total game machines (million machines)	4.59	4.53	4.51	4.55	4.58	4.59	4.61
Number of halls (halls)	13,585	12,937	12,600	12,479	12,323	12,149	11,893
performance							
Operating time per day (hour)	5.1	5.0	4.9	4.7	4.7	4.6	4.4
Net sales per machine (¥)	29,500	27,300	26,700	24,200	23,700	23,400	22,700
Gross profit per machine (¥)	3,960	4,130	4,120	3,780	3,670	3,560	3,400
Gross profit per hour (¥)	780	830	340	800	780	770	770

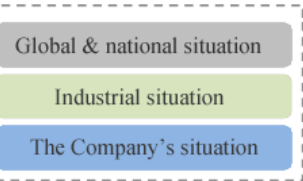
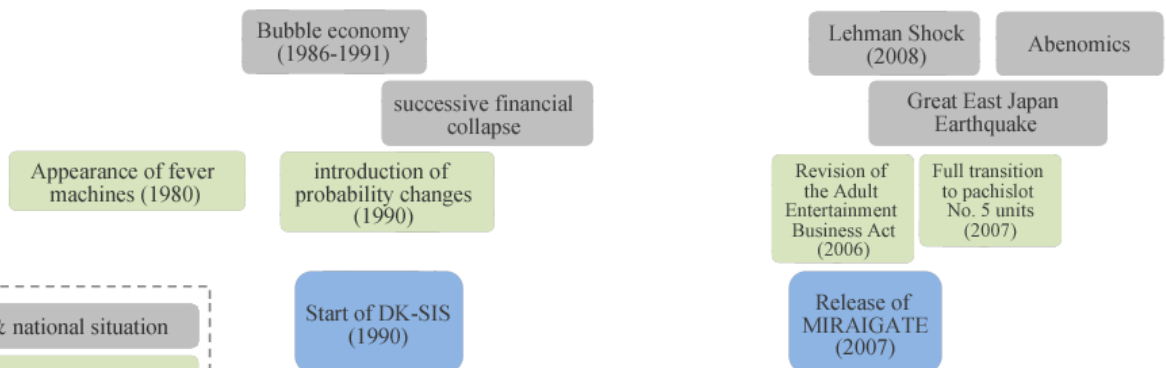
※The gross profit size data is the value obtained by inference based on the market data from DK-SIS data

※Running time per hour is calculated by 5000 balls for pachinko and 2000 coins for pachislot

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



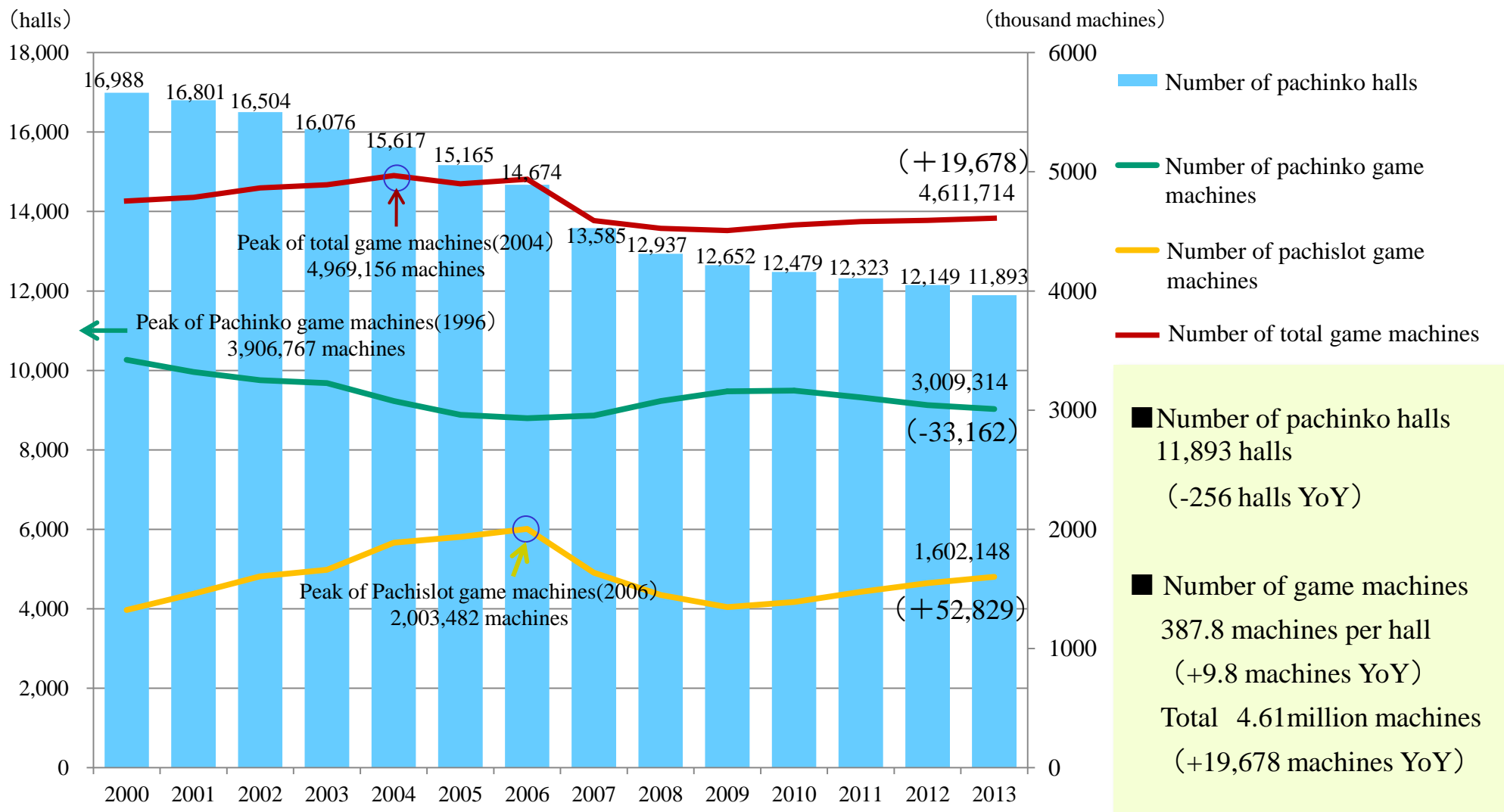
- Since the 1990s, pocket money of a corporate worker in Japan has shifted in a downward trend.
- Trend of increase of the base amount is expanding. Partly due to the shortage of manpower, it is highly assumed that the salaries at Japanese companies will continue to grow for the time being
- In the short term, due to the impact of the consumption tax hike, the amount of pocket money may decline, but in the medium term, it is anticipated to increase.



(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

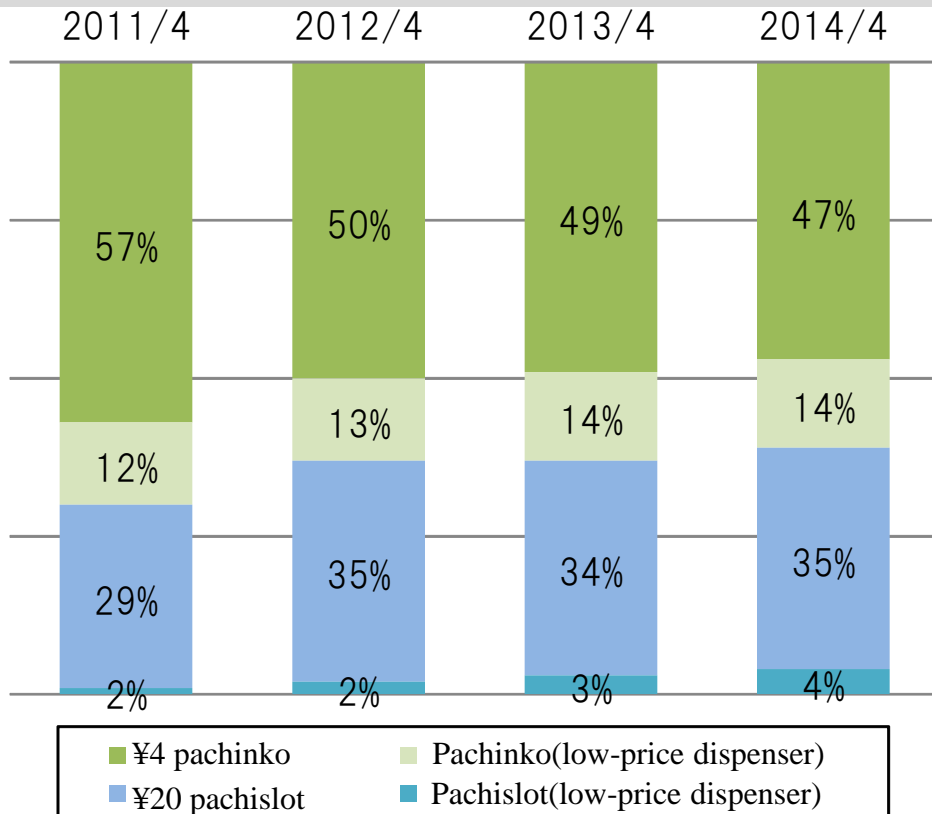
Shifts in the number of pachinko halls and installed pachinko and pachislot game machines



(Source of data) The 2013 White Paper on Adult Entertainment Business issued by the Community Safety Bureau of the National Police Agency

Changes in gross profit structure

(Comparison of April 2011 - 2014)



(Source of data)

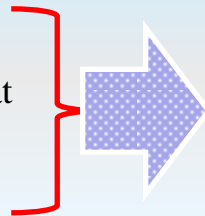
“DK-SIS White paper” Daikoku Denki

gross profit share				
	2011	2012	2013	2014
¥4 pachinko	57%	50%	49%	47%
Pachinko(low-price dispenser)	12%	13%	14%	14%
¥20 pachislot	29%	35%	34%	35%
Pachislot(low-price dispenser)	2%	2%	3%	4%

number of machines share				
	2011	2012	2013	2014
¥4 pachinko	50%	45%	42%	40%
Pachinko(low-price dispenser)	20%	22%	23%	24%
¥20 pachislot	27%	29%	28%	29%
Pachislot(low-price dispenser)	3%	4%	7%	7%

<Reading and understanding from gross profit share>

- Decline of ¥4 pachinko
- ¥20 pachislot shifting from increase to flat
- Gradual increase of pachislot (low-price dispenser)

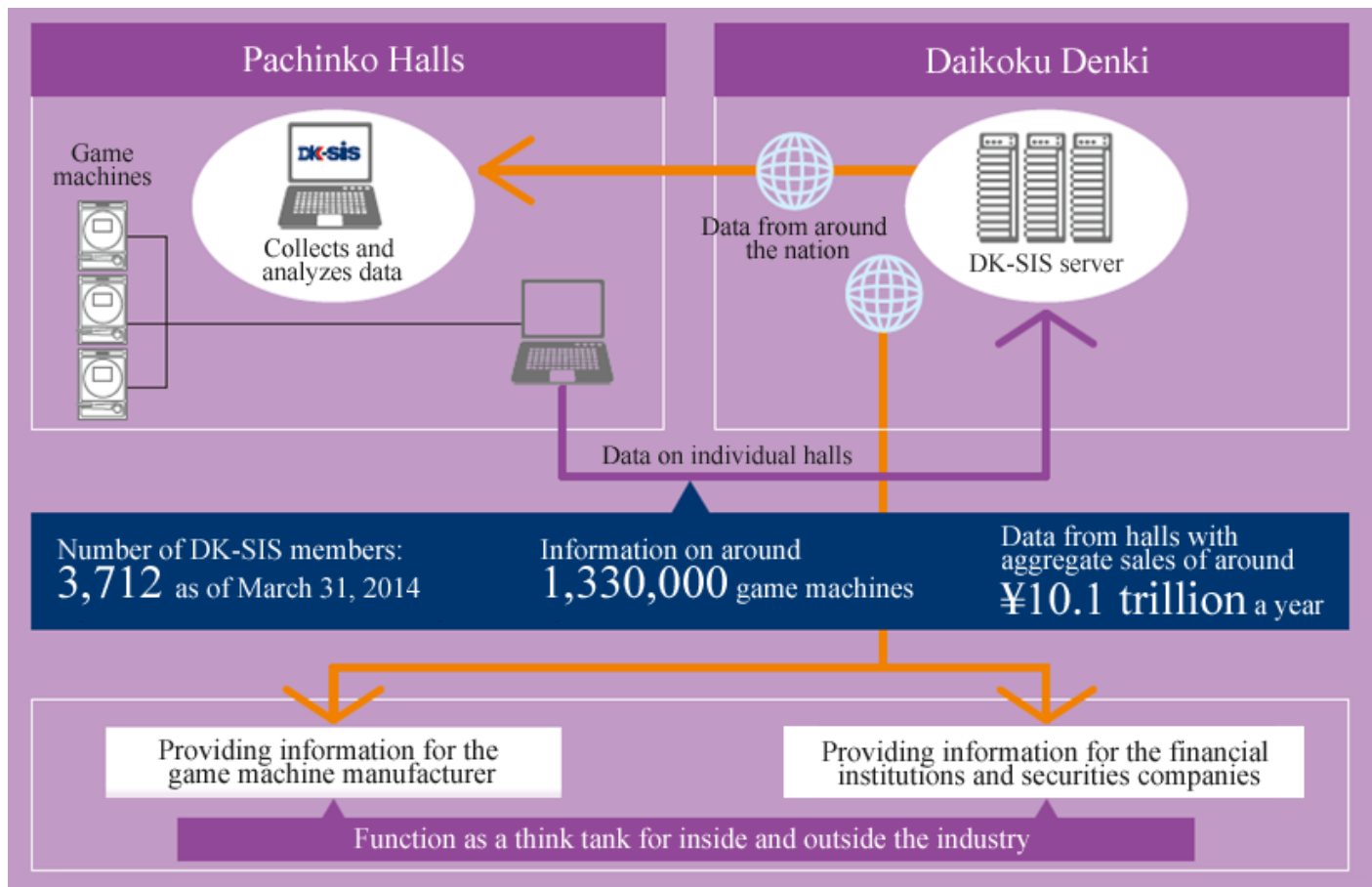


Advance indicators of pachinko hall creation (configuration of the number of machines)

- Continuous decline of ¥4 pachinko share
- Flat performance of low-price dispensing pachinko share
- Slight increase of ¥20 pachislot share
- Shift towards increasing trend of low-price dispensing pachislot share

DK-SIS Daikoku Denki Strategic Information System

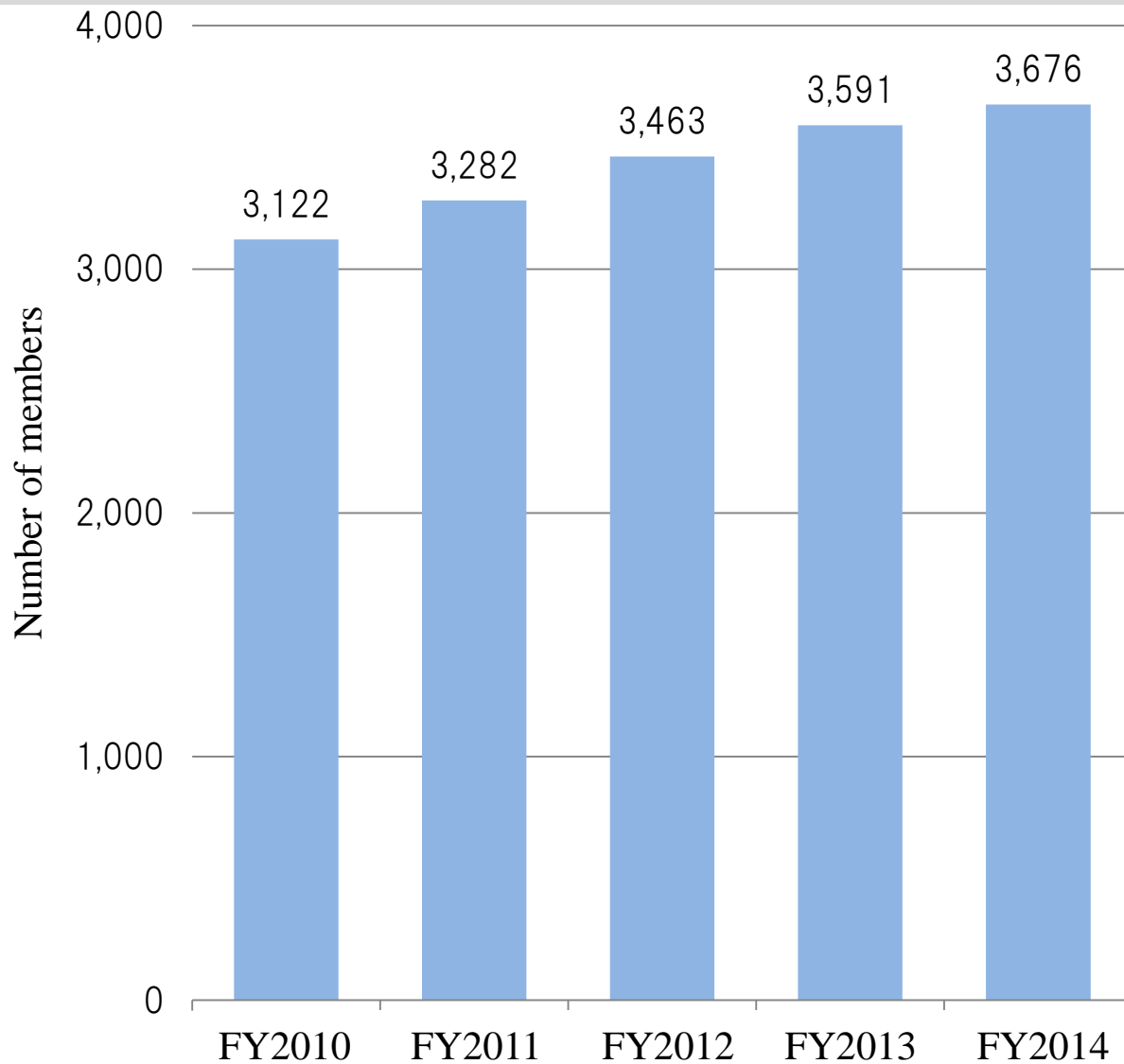
"DK-SIS"—an industry-leading strategic information tool that helps to realize improved hall performance



Strengths of DK-SIS

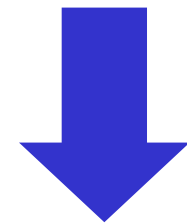
- Accumulation of business know-how with a core of data on approximately 1.33 million game machines and ¥10.1 trillion scale of annual sales
- Provision of various consulting services with DK-SIS data as the backbone
- Strategic proposals and sales activities to game machine manufacturers utilizing DK-SIS data

Trends in the Number of DK-SIS Members



Performance for the term ending in September 2014

- Number of members **3,712**
- Number of managed machines **1.33 million machines**
- Sales volume **Data corresponding to ¥10.1 trillion**



The only information strategy tool in the pachinko industry that possesses data on **28.9%** of the number of pachinko and pachislot game machines nationwide

Future Activities

I

Achieving stabilized growth in business performance with a strong focus on boosting sales volume of CR units and improving its market share of hall computing systems.

II

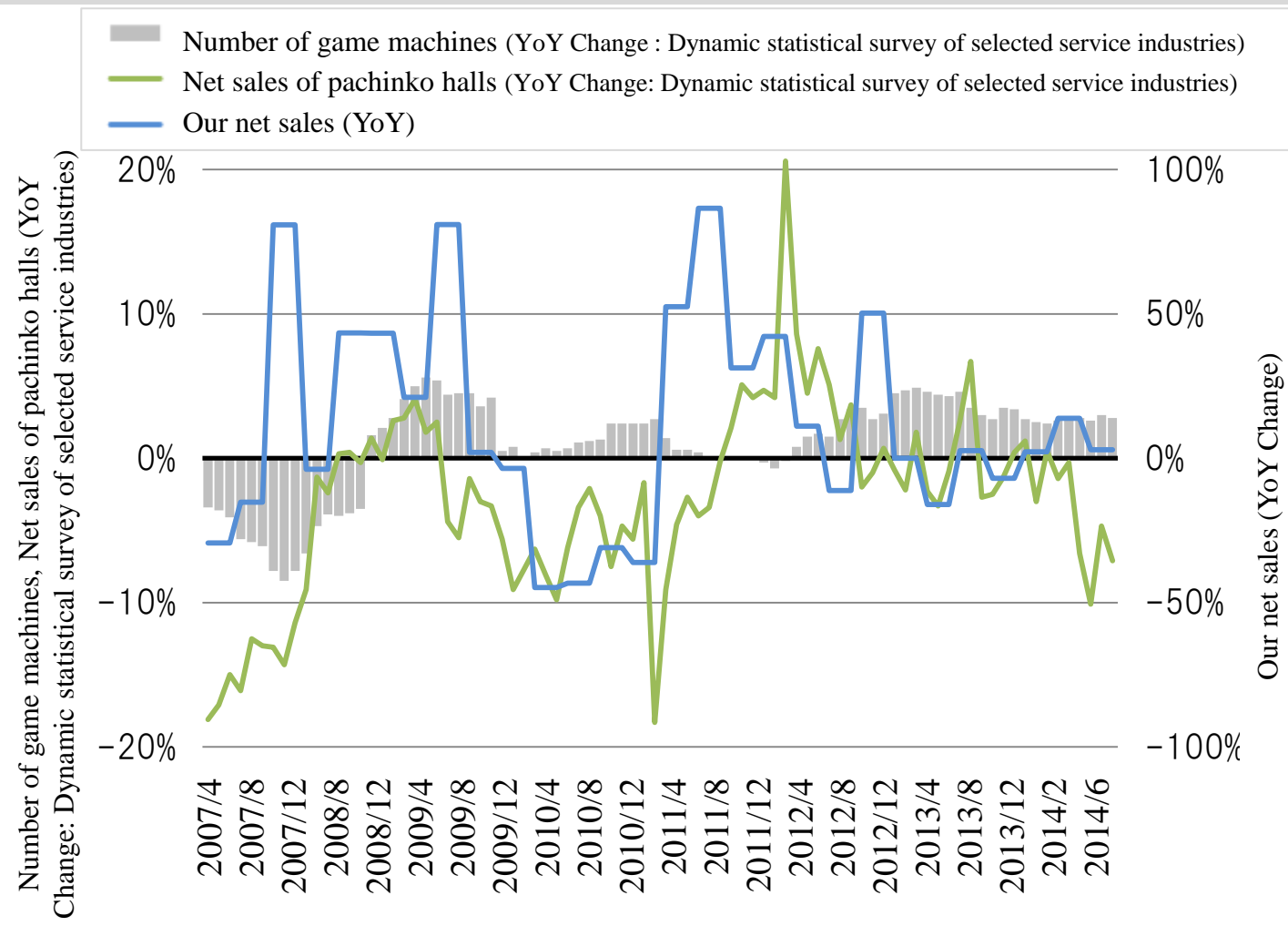
Improve profitability over the medium term through new businesses such as the strengthening of the development system of pachislot game machines.

III

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

[Reference] Pachinko business scale

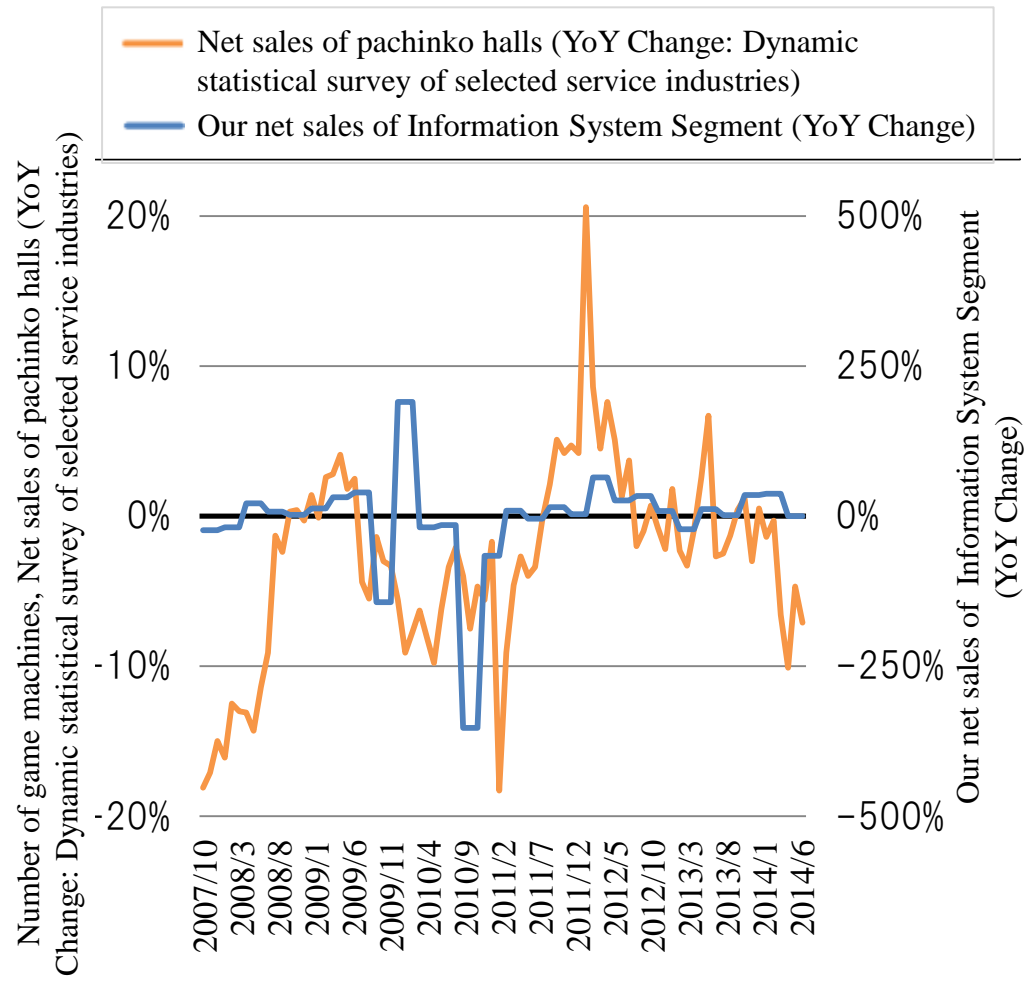
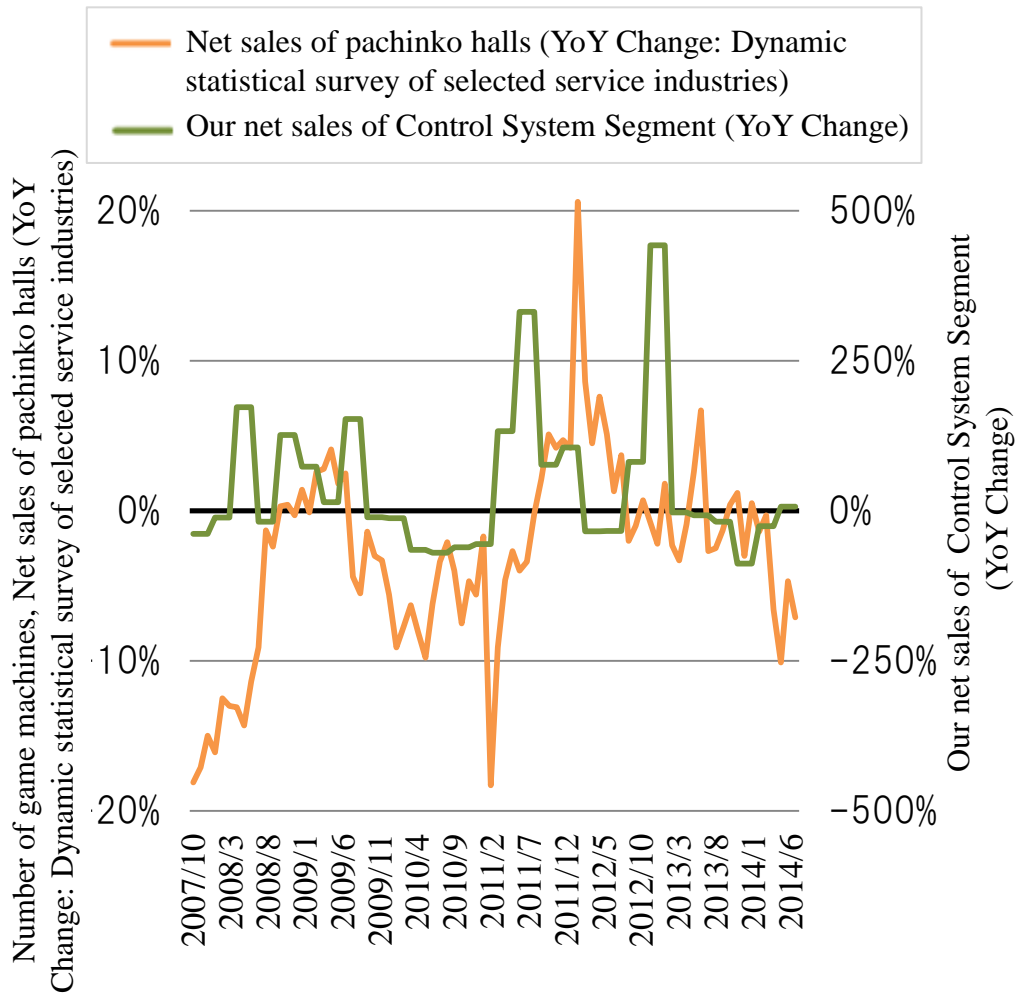
Dynamic statistical survey of selected service industries - pachinko hall



(Source of data) Dynamic statistical survey of selected service industries - pachinko hall (Ministry of Economy, Trade and Industry : 2014/11/11)

[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 : 2014/11/11)

Business strategy

Information System Segment

Full-scale implementation of the development of the next-generation product group in this fiscal year which started in the preceding fiscal year

< Medium-term goal >

Achieve a 50% share of the hall computer market with the new generation system

Information System Segment (Millions ¥)	FY Ended March 2013			FY Ended March 2014			FY Ended March 2015		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half (Projected)	Total (Projected)
Net sales	16,724	14,960	31,685	15,562	20,503	36,065	18,217	14,783	33,000
Operating income	4,030	2,039	6,069	2,950	3,143	6,093	2,618	1,682	4,300
R&D expenses	270	632	902	517	1,111	1,628	916	1,584	2,500

Development and investment in the “next generation product group” commenced in the 2nd half of FY ending March 2014.

R&D expenses in the 1st half of FY ending March 2015 (Information System Segment) → **¥916million**

※YoY Change +¥400 million(+77.2%)、Plan comparison +¥600 million(+205.3%)

➡ Advanced R&D investment (originally planned in 3Q or later) in the amount of 600 million yen in 2Q

[Reference] History of hall computing systems

In October 2001, hall computing system “C” was launched, serving as an integrated operation management system.

In October 2007, “C II” was released as the initial model of the current system.

Our computing systems are installed at approximately 4,200 pachinko halls with a market share of 35%.

Improving product market share with a focus on “VEGASIA” and “BiGMO”

Create products that are competitive in the market and launch the new products in the market in a timely manner

Actual sales results and projections

		Year ended March 31, 2013 Actual	Year ended March 31, 2014		Year ended March 31, 2015	
			2Q (Actual)	Full Year (Actual)	2Q (Actual)	Full Year (Projected)
Hall computer		205	90	203	72	200
Call Lamp	BiGMO Series	70,493	34,333	45,924	11,192	30,000
	BiGMO PREMIUM	0	—	48,046	30,188	60,000
	IL-X Series	97,805	51,779	104,873	42,944	90,000
CR unit 「VEGASIA」		56,942 / 99 halls	30,619 / 52 halls	77,223 / 125 halls	53,007 / 83 halls	70,000 / 120 halls
Face authentication system		8,334	4,772	15,427	5,065	9,500

Call Lamp 「IL-X2」



NEW

Data Display tool 「BiGMO Type4」



NEW

Data Display tool 「BiGMO PREMIUM」



CR unit「VEGASIA2」



Pachinko

Pachislot

Creating value-added services through enhanced network solutions

Focusing on further strengthening MG services to achieve stabilized support systems for pachinko hall management

(* The number of contracts is the cumulative value)

Enhanced network solutions	Year ended March 31, 2013 Actual	Year ended March 31, 2014		Year ended March 31, 2015	
		2Q (Actual)	Full Year (Actual)	2Q (Actual)	Full Year (Projected)
C II Standard	2,209	2,329	2,493	2,585	2,700
Contents library	972	1,083	1,236	1,345	1,400
DK-SIS members	3,591	3,628	3,676	3,712	3,800
C II-SIS members	485	586	730	827	900
CR unit (pachinko halls)	99	152	218	304	360
Third-party stored ball management	505	542	589	636	690
Annual sales of MG service	¥2,407 million	¥1,363 million	¥2,862 million	¥1,627 million	¥3,150 million

MG service name	Overview of Service	Monthly service fee
C II Standard	Basic contract of MG services. The main services include "C II Desk Info Access," "IP Phone," "MG School" and others.	¥20,000
Contents library	Auto configuration services (image, text and audio) on data display terminal models (BiGMO, etc.)	¥10,000
DK-SIS	The industry's only membership information services (3,676 pachinko halls and 1,290,000 units as of March 2014): In the services, day-to-day operating data is collected from each pachinko hall, then high value-added data is provided to each customer after analysis and processing.	¥30,000 to ¥35,000
C II-SIS	Individual consulting services to DK-SIS members for the improvement of business performance	¥30,000
CR unit	Management fee on sales data of CR unit (changeable depending on sales)	¥120,000 or more
Third-party stored ball management	Management fee on data of balls and medals stored by pachinko fans at each pachinko hall	¥80,000

Business strategy

Control System Segment

CR COBRA THE DRUM



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Newgin Corporation

CR PACHINKO AKB48

Bara no Gishiki



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Kyoraku Industrial Co.,Ltd

	Year ended March 31, 2014		Year ended March 31, 2015				
	2Q (Actual)	Full Year (Actual)	2Q (Actual)	YoY Change	Against Project	Full Year (Projected)	YoY Change
Numbers of display unit models	6	18	8	+2	+1	15	- 3
Numbers of units sold	97,281	300,807	152,370	+56.6%	- 12.4%	288,000	- 4.3%

Note: The numbers of display unit models and units sold do not include those of pachislot game machines provided by Daxel Co., Ltd., a consolidated company.

Towards the full-scale expansion of pachislot business

Increase sales volume with multiple models, aiming for operational contribution to halls

The delivery to pachinko halls throughout the nation commenced on September 21, 2014.



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*1 "Gross profit of cumulative total machines" indicates: The total of "machine gross profit" during the period from its launch to the point where it falls below the DK-SIS average operation

*2 As of November 25, 2014

About the performance contribution

Sales volume : **about 6,000** (Source of data)"DK-SIS white Paper" Daikoku Denki

Operational contribution: **9 weeks achieved (Continuation * 2)**

Gross profit of cumulative total machines *1 : **¥505,353 (Continuation * 2)**

	FY2014	FY2015
	Results	Forecast
models	1	1
Sales volume	3,949	6,000

It is unclear what impact the market will see from the "partial change in model tests for pachislot game machines regarding a rental ball discharge mechanism" that was adopted on September 16, 2014.

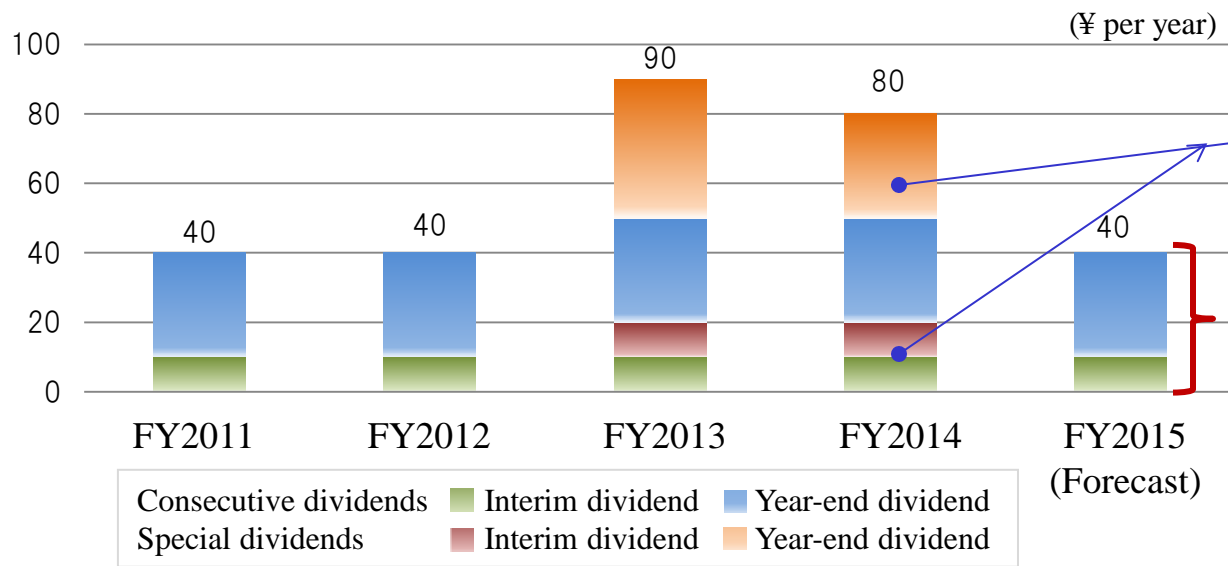
Due to the effect of this, the launch of a model of pachislot game machine is postponed from the 3Q to the next fiscal year or later.

Dividends

Dividends

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

(Millions ¥)	Net sales	Operation income	Net income	Shareholders' equity ratio
FY2011 Results	34,483	226	△342	—%
FY2012 Results	47,096	3,525	1,663	35.6%
FY2013 Results	58,861	7,023	4,161	32.0%
FY2014 Results	56,954	5,338	3,278	36.1%
FY2015 Forecasts	55,000	3,000	2,000	29.5%



The Company pays "special dividends" according to performance. (Indicated in orange in the graph)

Consecutive dividends
(Interim dividend of ¥10 and year-end dividend of ¥30)

Disclaimer

The contents in this material and comments made during the questions and answers etc. of this briefing session are the judgment and forecasts of the Company's management based on the currently available information.

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

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