

# Results of Operations and Strategies

## First half of fiscal year ending March 31, 2016



**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)

**Net Sales** **¥24,225 Million**

**Operating Income** **¥815 Million**

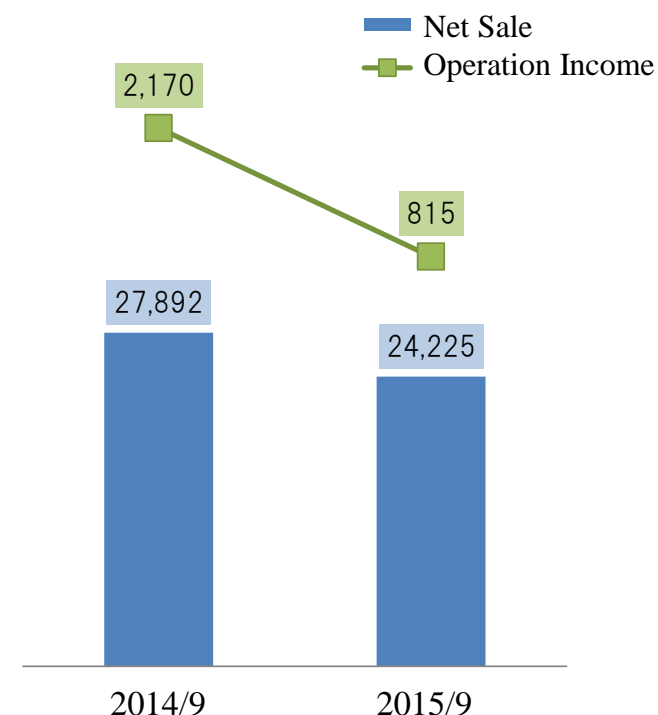
**Ordinary income** **¥905 Million**

**Net income** **¥421 Million**

(Millions ¥)	2014/9	2015/9	YoY Change	Vs. Forecasts Change
Net Sales	27,892	24,225	-3,667	-2,775
Gross profit-net	8,551	7,966	-585	-1,334
Selling, general and administrative expenses	6,380	7,150	+770	-650
Operating Income	2,170	815	-1,355	-685
Ordinary income	2,235	905	-1,330	-595
Net income	1,472	421	-1,051	-579
Research and development expenditure	1,636	2,562	+925	+862

(note)The planned ratio is the value of earnings projection for the term ending in March 2015 announced on May 11, 2015, as well as the planned ratio described in the materials for the briefing of the second quarter closing of the term ending in March 2015 held on May 28, 2015 targeting institutional investors and analysts.

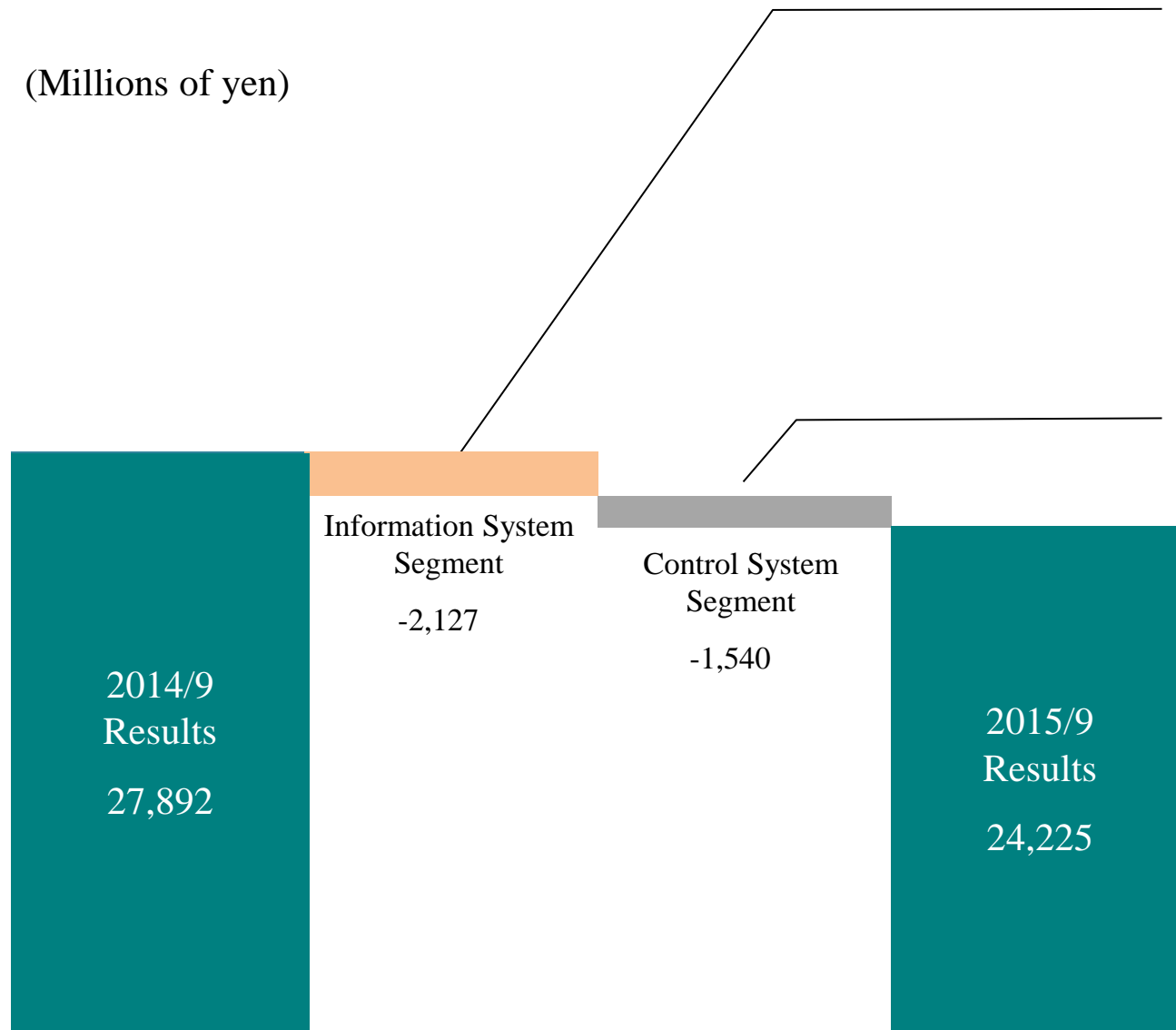
### Net Sales and Operation Income



YoY Change

-¥3,667 Million

(Millions of yen)



## Information System Segment

Information System Segment achieved strong sales from the products, especially for “VEGASIA” (CR unit) with good reputation for its strength of a total computing system, which fell short of the highest-ever sales in the segment recorded for the same period of the previous consolidated fiscal year. In terms of investments and expenditures, research and development expenses increased significantly as a result of active investments in the next generation key product development group.

## Control System Segment

Out of the two models that had been scheduled to be released in the second quarter of the consolidated fiscal year under review, one was postponed to the second half thereof, and the other to the next consolidated fiscal year or later. Such negative effects could not be offset by favorable sales of pachinko-related components and peripheral equipment.

# Operating Income

YoY Change

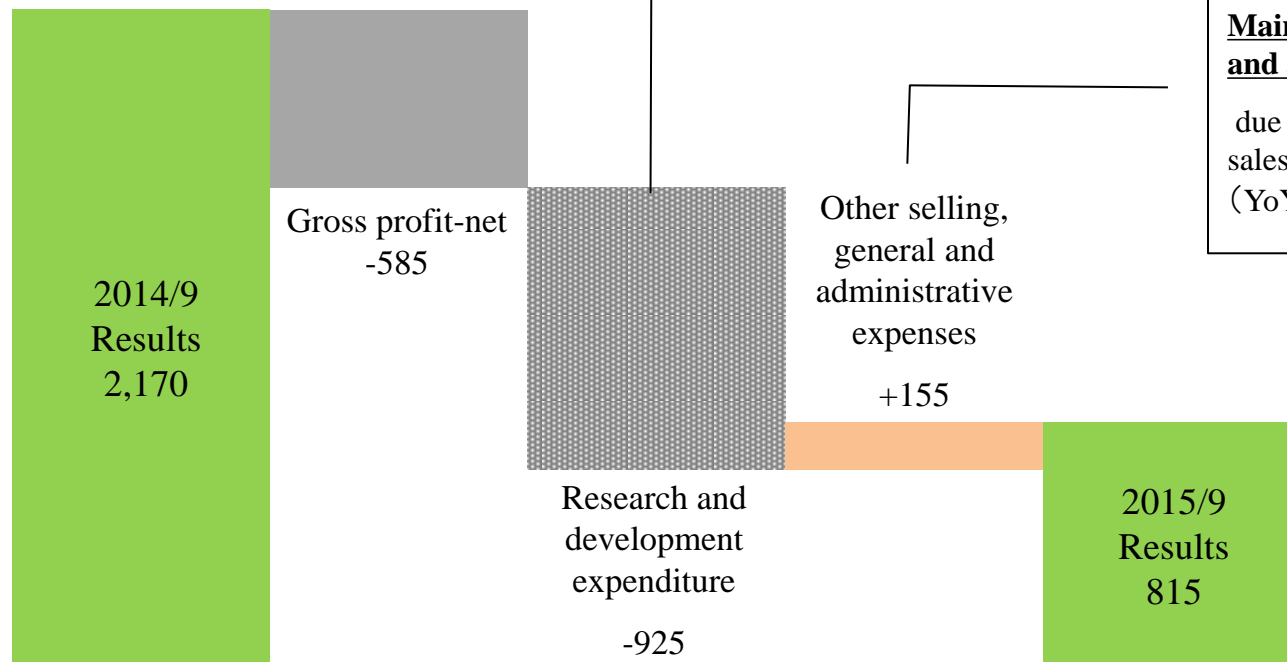
- ¥1,355 Million

(Millions of yen)

## Research and development expenditure

(Millions ¥)

	2015/9	YoY Change	Vs. Forecasts Change
Information System Segment	1,925	+1,009	+925
Control System Segment	637	-83	-63



## Main items of other selling, general and administrative expenses are:

due to an decrease in sales commissions and sales promotion expenses  
(YoY Change -¥251 Million)

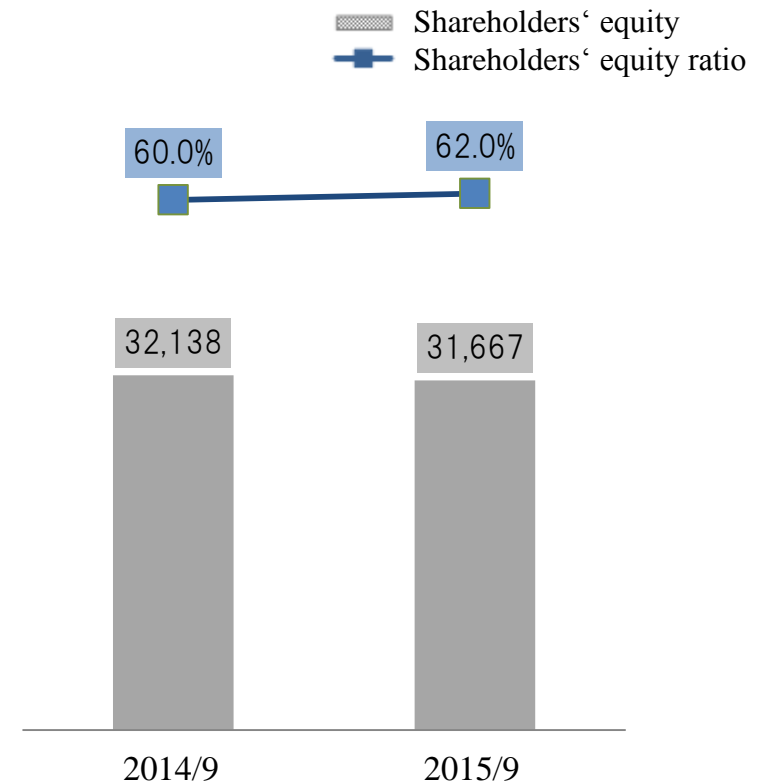
# First Half Consolidated Financial Highlights

## Consolidated Balance Sheets (Summary)

Total liabilities and net assets	¥51,092 Million
Total liabilities	¥19,424 Million
Total Net assets	¥31,667Million

(Millions ¥)	2015/3	2015/9	Difference
Current assets	35,935	33,224	- 2,711
Noncurrent assets	17,592	17,867	+ 275
Total assets	53,528	51,092	- 2,436
Current liabilities	20,473	18,513	-1,960
Noncurrent liabilities	915	911	- 4
Total liabilities	21,389	19,424	-1,965
Total Net assets	32,138	31,667	-471
Total liabilities and net assets	53,528	51,092	-2,436
Debt	400	200	-200
Debt Equity ratio	0.01times	0.01times	- 0.01times
Shareholders' equity ratio	60.0%	62.0%	+ 2.0%
Receivables turnover period	79.6days	81.5days	+ 1.9days
Inventory turnover period	62.9days	90.5days	+ 27.6days
Payable turnover period	98.8days	108.4days	+ 9.6days
Number of Shares Outstanding	14,783,272	14,783,272	-

### Shareholders' equity Shareholders' equity ratio

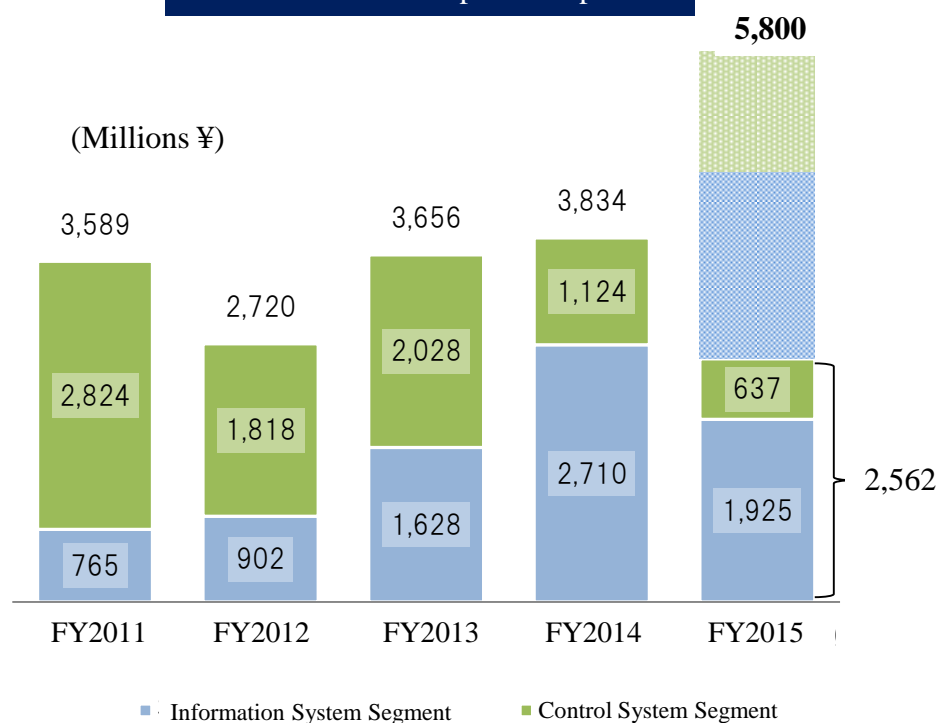


# First Half Consolidated Financial Highlights

## Consolidated Statements of Cash Flows

(Millions ¥)	2014/9	2015/9	YoY Change
Operating CF	-227	-2,387	-2,160
Investment CF	- 991	- 1,308	- 317
Financing CF	- 1,086	- 1,086	+ 0
Cash and cash equivalents	12,975	7,733	- 5,242

### Research and development expenses



### (Operating CF)

Cash used in operating activities for the second quarter of the consolidated fiscal year totaled ¥2,387 million or a ¥2,159 million increase year-on-year. The year-on-year increase was primarily attributable to a decrease in net income before income taxes as well as a significant increase in inventory assets, although there was a decrease in notes and accounts receivable-trade.

### (Investment CF)

Cash used in investing activities for the second quarter of the consolidated fiscal year was ¥1,308 million or a ¥317 million increase year-on-year. The year-on-year decrease was primarily attributable to an increase in expenditure by acquisition of non-current assets, which exceeded the proceeds from the withdrawals of time deposits from banks.

### (Financing CF)

Cash used for financing activities for the second quarter of the consolidated fiscal year was ¥1,086 million, almost no change year-on-year. The main components used were repayment of debts and payment of dividends.

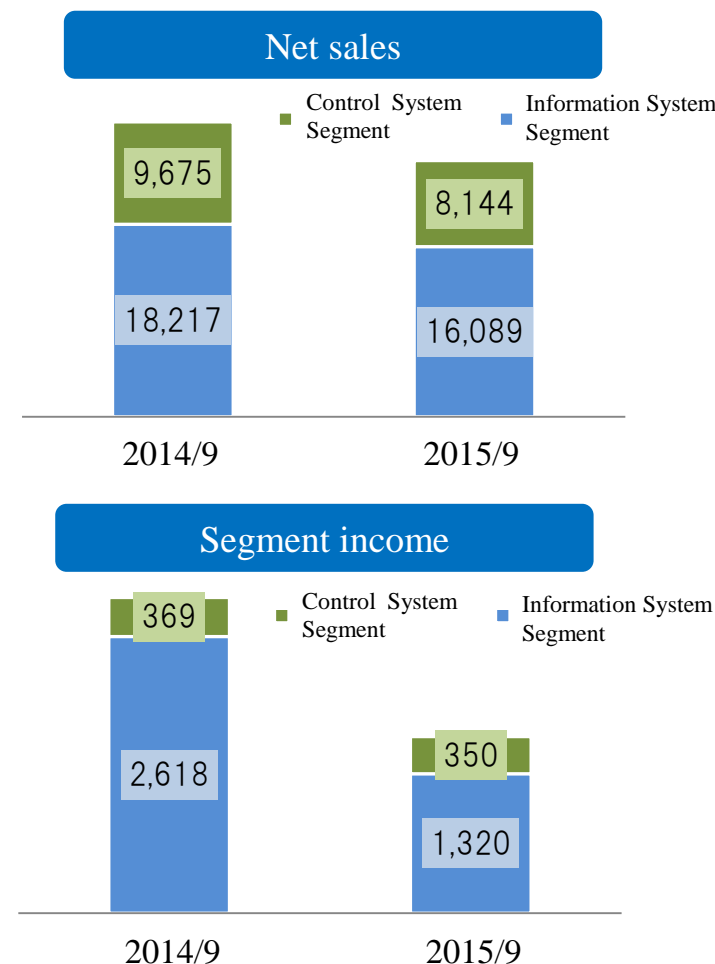


# Business results by segment

## YoY Change

Net Sales - ¥3,658 Million(-13.1%), Segment Income -1,317 Million(-44.1%)

(Millions ¥)	2015/9	YoY Change	Vs. Forecasts Change
Information System Segment	16,089	-2,128	+89
Hardware	10,734	-2,323	+34
System	5,355	+195	+55
Subtotal	16,089	-2,128	+89
Control System Segment	8,144	-1,531	-2,856
Units and Parts	7,734	-657	+2,034
Pachislot etc.	410	-874	-4,890
Subtotal	8,144	-1,531	-2,856
Segment Sales	24,234	-3,658	-2,766
Information System Segment	1,320	-1,298	-580
Control System Segment	350	-19	-150
Segment Income	1,670	-1,317	-730
Corporate expenses	-854	-37	+46
Net sales	24,225	-3,667	-2,775
Operating income	815	-1,355	-685



(note)The planned ratio is the value of earnings projection for the term ending in March 2015 announced on May 11, 2015, as well as the planned ratio described in the materials for the briefing of the second quarter closing of the term ending in March 2015 held on May 28, 2015 targeting institutional investors and analysts.

Business segment sales and income figures include intersegment transactions.

# FY Ending March 2016 Full Year Forecasts

1. During the cumulative consolidated second (July-September) quarter, while the Japanese economy showed an improving trend in corporate earnings and employment mainly driven by the government's economic stimulus measures, the outlook remains unpredictable due to possible downside risks of overseas economies mainly due to the slowdown of the Chinese economy.
2. The pachinko business, a part of the amusement industry in which the Daikoku Denki Group (“the Group”), faces a significant challenge as the overall market due to the planned self-imposed regulations on pachinko and pachislot game machines that are scheduled for the second half of this consolidated fiscal year 2015.
3. Under such market environment, the Information System Segment improved the added value of “BiGMO PREMIUM” (data display tools) through the enhancement of the display contents. In addition, the follow-up exhibition & seminar was held in major cities in Japan successively from the first quarter, with the aim of promoting the sales of “VEGASIA” (CR unit) and data display tools.
4. The Control System Segment was committed to the development and proposal on new products aiming for the improvement of business performance and enhanced its framework with a desire to contribute to improving the operation rate of game machines installed in pachinko halls. In addition, the development and sales schedule were reviewed due to the changes in specifications by the planned self-imposed regulations.

# Recent industry trends and outlook

Self-imposed regulation of pachinko game machines and pachislot game machines, etc.

## Pachinko game machines

### “Regulations on MAX Machine”

- Initial probability lower limit:  $1/400 \rightarrow 1/320$
- Raising the minimum guarantee of “put-out” of balls from the machine
- The total number of pachinko game machines failing to meet the new standards shall be equal to or less than 30% of those installed at each hole, not later than December 1, 2016

## Pachislot game machines

### “Regulations on AT Machine”

- Test application for the current AT Machine shall be made by the end of November 2015.
- Pachislot game machines that will be passed the test after the application by November 2015 shall be launched by July 2016.
- The total number of pachislot game machines failing to meet the new standards shall be equal to or less than 50% of those installed at each hole, not later than December 1, 2016

## Pachinko halls

### “Appropriate prize offer”

- From November 2015, the equivalent exchange system in the industry (allowing for the number of pachinko balls or medals equivalent to the price of items chosen) will not be carried out in Tokyo.

# 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]

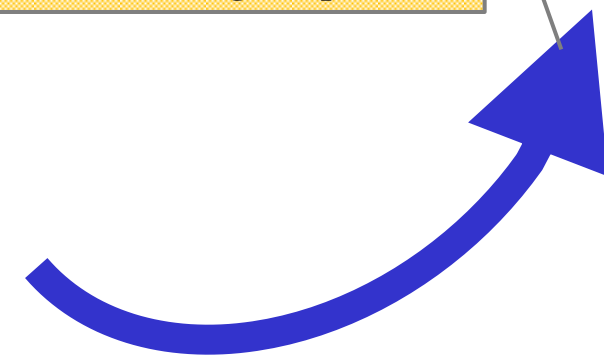
(Note) Source of survey materials: Daikoku Denki "DK-SIS"

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



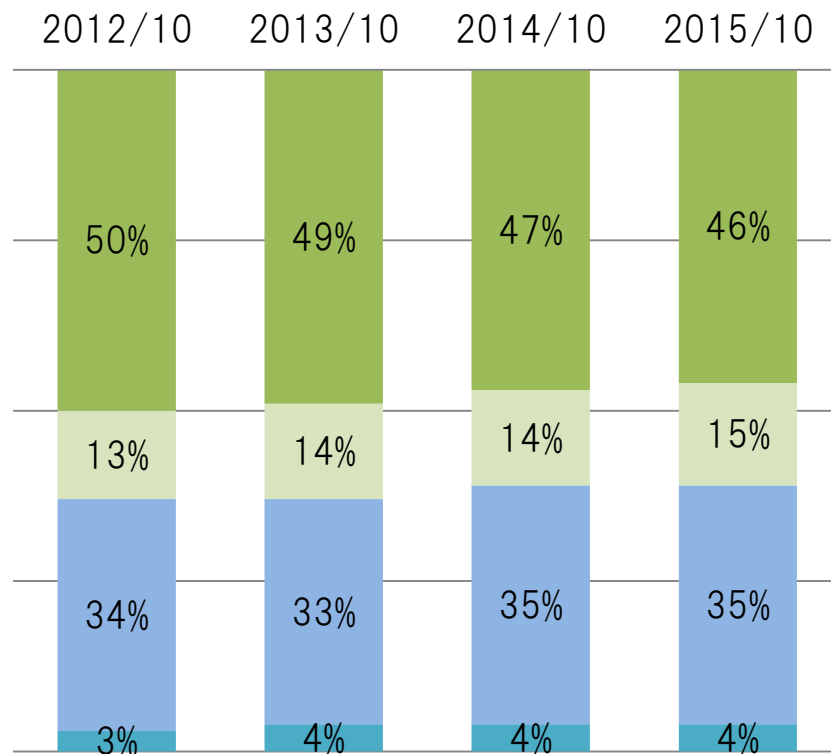
Market Scale	Size of market gross profit (Trillion ¥)	4.37	4.32	4.27	3.95	3.82	3.78	3.63	3.50
	Number of total game machines (million machines)	4.59	4.53	4.51	4.55	4.58	4.59	4.61	460
	Number of halls (halls)	13,585	12,937	12,600	12,479	12,323	12,149	11,893	11,627
Performance	Operating time per day (hour)	5.1	5.0	4.9	4.7	4.7	4.6	4.4	4.3
	Net sales per machine (¥)	29,500	27,300	26,700	24,200	23,700	23,400	22,700	22,100
	Gross profit per machine (¥)	3,960	4,130	4,120	3,780	3,670	3,560	3,400	3,290
	Gross profit per hour (¥)	780	830	340	800	780	770	770	760

※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

# Changes in gross profit structure

(Comparison of April 2012 - 2015)



■ ¥4 pachinko      ■ Pachinko(low-price dispenser)  
■ ¥20 pachislot      ■ Pachislot(low-price dispenser)

## Gross profit share

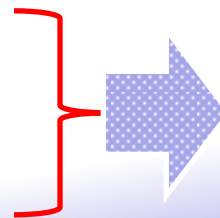
	2012	2013	2014	2015
¥4 pachinko	50%	49%	47%	46%
Pachinko(low-price dispenser)	13%	14%	14%	15%
¥20 pachislot	35%	34%	35%	36%
Pachislot(low-price dispenser)	2%	2%	4%	4%

## Number of machines share

	2012	2013	2014	2015
¥4 pachinko	45%	42%	40%	37%
Pachinko(low-price dispenser)	22%	23%	24%	27%
¥20 pachislot	29%	28%	29%	29%
Pachislot(low-price dispenser)	4%	7%	7%	7%

### <Reading and understanding from gross profit share>

- 4-yen pachinko to decrease
- 20-yen pachislot to flat from increasing
- Pachinko and Pachislot at low rental costs to increase gradually



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

- Share of ¥4 pachinko to decline continually
- Share of low rental pachinko balls to flat or slightly increase
- Share of ¥20 pachislot to increase slightly
- Share of low rental pachislot to increase

# FY Ending March 2016 Full Year Forecasts

- Downward revisions were made to the full-year consolidated results forecasts on net sales and income items that were announced on May 11, 2015.
- The pachinko business faces a significant challenge as the overall market due to the planned implementation of self-imposed regulations on pachinko and pachislot game machines that are scheduled for the second half of this consolidated fiscal year 2015. As a result, the Control System Segment is likely to be forced to postpone two models related to display circuits for pachinko game machines, which were originally scheduled to be released in the second half of the consolidated fiscal year under review, to the next consolidated fiscal year or later.
  - In addition, one model of pachislot game machine that had been scheduled to be released in the second quarter of the consolidated fiscal year under review was postponed to the next consolidated fiscal year.



# FY Ending March 2016 Full Year Forecasts

	FY2015 (Result)			FY2016 (First plan)			FY2016 (Corrective plan)		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half (Result)	2nd half	Total
Net sales	27,892	26,151	54,043	27,000	33,000	60,000	24,225	28,775	53,000
Gross profit-net	8,551	7,108	15,659	9,300	10,700	20,000	7,966	10,034	18,000
Selling, general and administrative expenses	6,380	7,853	14,233	7,800	10,200	18,000	7,150	9,850	17,000
Operating income	2,170	△ 745	1,425	1,500	500	2,000	815	185	1,000
Ordinary income	2,235	△ 669	1,566	1,500	500	2,000	905	95	1,000
Net income	1,472	△ 598	874	1,000	400	1,400	421	129	550

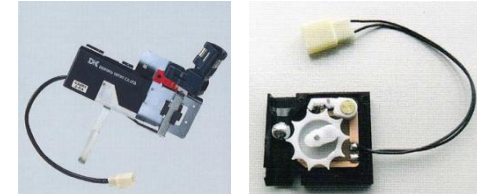
Research and development expenses	1,636	2,198	3,834	1,700	3,900	5,600	2,562	3,238	5,800
Depreciation expense	689	720	1,409	800	900	1,700	585	1,115	1,700
Capital investment	152	1,193	1,345	700	1,100	1,800	569	681	1,250

# Future Activities

**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 data display tools for each machine centering on "VEGASIA", a CR unit, and "BiGMO PREMIUM" as well as the expansion of MIRAIGATE services.

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.

# Establishing logistics center and development test environments, and newly setting up quality assurance office



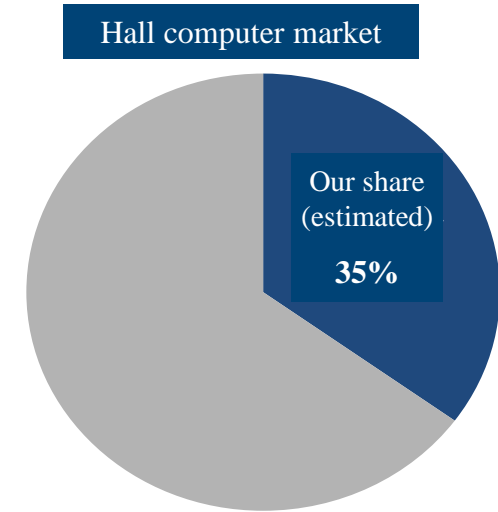
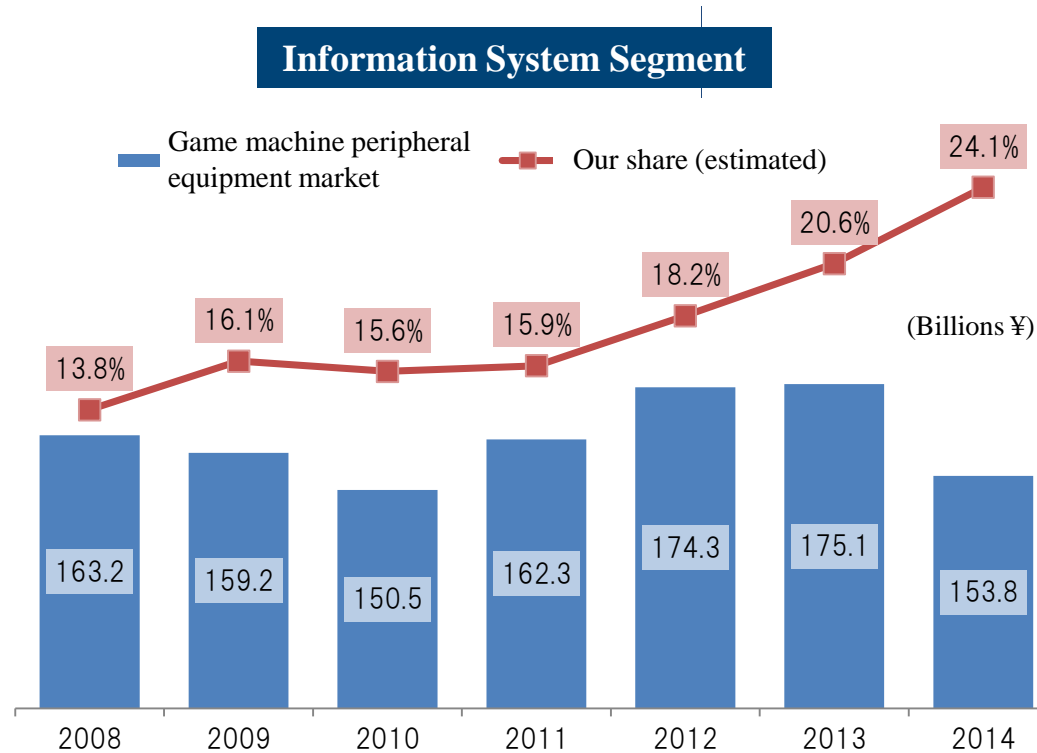
Daikoku Denki purchased the land located next to Kasugai Division Office (Kasugai City, Aichi Prefecture) and commenced the operations in mid-October with a view of improving sales in the Information System Segment, addressing an increase in product lines and strengthening production function.

Pursuant to the medium-term management plan, Daikoku Denki will advance the integration of production bases, and improve and maintain the quality assurance and development test environment functions on a step-by-step basis, with the aim of improving product capabilities and strengthening customer satisfaction.



# Information System Segment

## Raising the market share

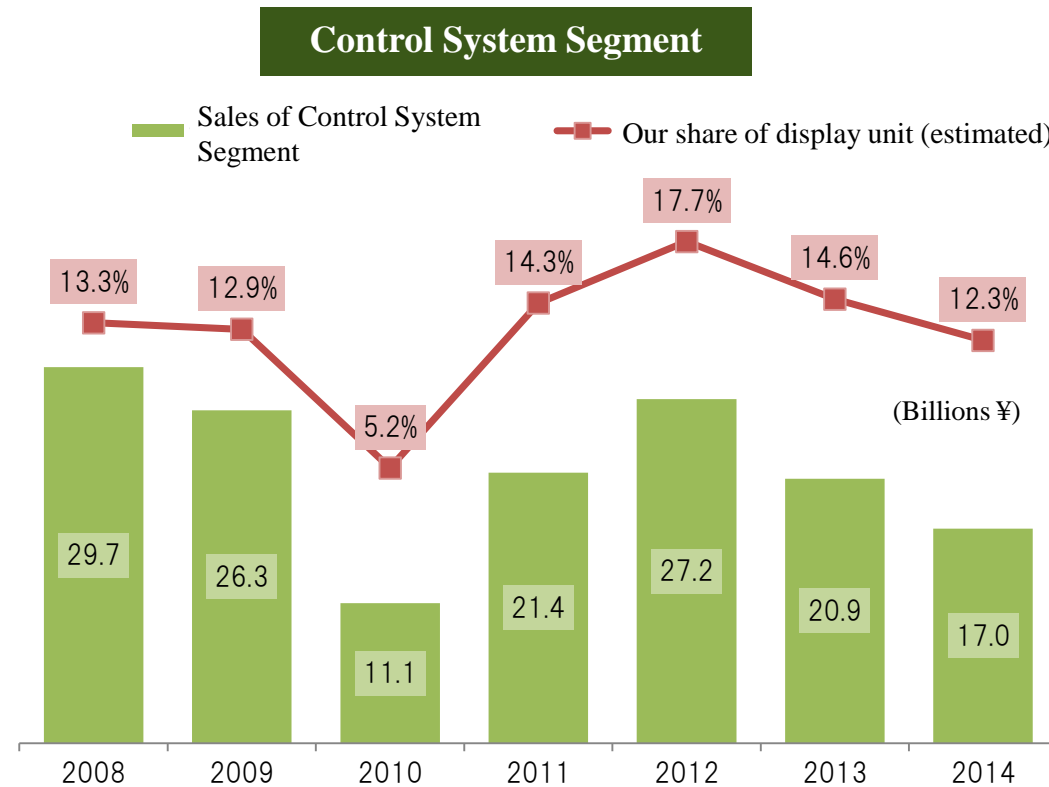


FY		2008	2009	2010	2011	2012	2013	2014
Game machine peripheral equipment market (A)	(Billions ¥)	163.2	159.2	150.5	162.3	174.3	175.1	153.8
Information System Segment (B)	(Billions ¥)	22.6	25.6	23.5	25.7	31.7	36.1	37.1
Our share (estimated) B/A		13.8%	16.1%	15.6%	15.9%	18.2%	20.6%	24.1%

(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
Number of pachinko machines sold (A) (Thousand units)	3,339	3,333	2,900	2,604	2,495	2,065	2,016
Sales of Control System Segment (Billions ¥)	29.7	26.3	11.1	21.4	27.2	20.9	17.0
Our sales of display unit (B) (Thousand units)	443	430	151	374	443	301	248
Our share of display unit (estimated) B/A	13.3%	12.9%	5.2%	14.3%	17.7%	14.6%	12.3%

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

# Business strategy

## Information System Segment



# Number of units sold – NO.1!

## CR unit "VEGASIA"

The strong supports by users are attributable to the completeness in CR unit, as well as the advanced security in conjunction with the hall computer “C II” and the advanced operational efficiency through unified management.

### 1. Completeness in CR unit

- Prompt response from the payment of money to the receipt of lending balls
- Prompt response from the pushing of return button to the receipt of balance card
- Prompt response from the insertion of balance card insertion to the play mode state of lending balls

**Overwhelming  
processing speed**

### 2. Real-time fraud detection; advanced security functions

- Protect pachinko halls from unauthorized bringing-in balls (medals) and unauthorized counting with the aid of advanced security in conjunction with the hall computer
- Protecting fans with the aid of standard equipped card theft protection functions
  1. Self-locking function by each fan; 2. Safe mode to automatically monitor seat-leaving of user;
  3. “Theft registration function” and “anti-theft guidance function” and so on

### 3. Analyzing the trend of fans by game machine in conjunction with “C II face”

- In the past, the support state by fans was solely identified as the total number of balls (medals). However, the fan analysis function by game machine in conjunction with “C II face” will allow for the computation of the detailed put-out (the number of users played multiplied by the playing hours), which will visualize the potentiality of game machines and contribute to the replacement game machines.



"VEGASIA"

# Creating value-added services through enhanced network solutions

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

	FY2014			FY2015			FY2016		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net Sales	15,562	20,503	36,065	18,217	18,887	37,104	16,089	18,911	35,000
(Annual sales of MG service)	1,363	1,499	2,862	1,627	1,753	3,380	1,868	1,932	3,800
Segment Income	2,950	3,143	6,093	2,618	1,626	4,244	1,320	1,580	2,900
Research and development expenditure	517	1,111	1,628	916	1,794	2,710	1,925	1,975	3,900

## ■ Number of sales

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

Hall computer		90	113	203	72	59	131	54	96	150
Call Lamp	BiGMO Series	34,333	11,591	45,924	11,192	5,933	17,125	6,820	13,180	20,000
	BiGMO PREMIUM	-	48,046	48,046	30,188	28,399	58,587	21,619	38,381	60,000
	IL-X Series	51,779	53,094	104,873	42,944	39,803	82,747	41,189	43,811	85,000
CR unit “VEGASIA”		30,619	46,604	77,223	53,007	56,554	109,561	44,094	45,906	90,000
Face authentication system (Number of Halls)		-	-	23	-	-	11	6	24	30

## ■ Total subscribership

C II Standard	2,329	2,493	-	2,585	2,668	-	2,741	2,950	-
Contents library	1,083	1,236	-	1,345	1,449	-	1,502	1,560	-
DK-SIS members	3,628	3,676	-	3,712	3,719	-	3,718	3,780	-
C II-SIS members	586	730	-	827	874	-	965	1,000	-
CR unit (pachinko halls)	152	218	-	304	393	-	454	545	-
Third-party stored ball management	542	589	-	636	685	-	726	770	-

# Business strategy

## Control System Segment

# Main development models and development plan in FY 2016

Increase in sales volume to contribute to the operation of pachinko halls

	FY2014			FY2015			FY2016		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net Sales	10,320	10,569	20,889	9,675	7,275	16,950	8,144	9,856	18,000
Segment Income	508	619	1,127	369	-1,474	-1,105	350	-350	0
Research and development expenditure	608	1,420	2,028	720	404	1,124	637	1,263	1,900
Video processing unit	6	12	18	8	6	14	7	5	12
Sales volume	97,281	203,526	300,807	152,370	95,279	247,649	83,272	64,728	148,000

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

## Main development models



**CR PACHINKO AKB48**  
**Bara no Gishiki (MAYUYU Ver.)**  
 (C)AKS (C)KYORAKU  
 Kyoraku Industrial Co., Ltd



**CR APPLESEED**  
 (C)2004 Shirou Masamune / Seishinsha  
 Appleseed film Partner (C) EXCITE  
 EXCITE Corporation



**CR Drumroid**  
 Newgin Corporation



©2010すずきあきら・Niθ・ホビージャパン／百花繚乱パートナーズ ©DAXEL



## <Sales points>

- Emerged as Harlem AT with net increase in 3.0 units! The strengths lie in the proprietary numerical design (obtained by analyzing the market) solely available by DAXEL and in maximum specialization in “periodic subtraction” as a special characteristic of DAXEL gaming brand.
- Each user can become Muneakira Yagyū, the hero of the story, and enjoy a feeling of like a lover-boy through a series of sexual charm scenes equipped in the same as the animation story.
- Animation slot version is now available! You can enjoy the whole 12 stories through the “story mode” installed in this version!

## Sales volume (of November 20,2015) **5,100**

The hit number of game coins	Average sales	Average Gross Income	Gross Income in total	The hit number of game coins (average of ¥20 pachislot)	A-B
<b>17,832</b>	44,089	8,452	231,644	7,283	<b>+10,549</b>

	FY2014			FY2015			FY2016		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
models	1	0	1	1	1	2	0	3	3
Sales volume	4,000	0	4,000	6,000	1,000	7,000	0	19,000	19,000

# Returning earnings to shareholders



**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 400 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 400 items

3,000 points

Raw ham of tuna



Hotel's ice cream



6,000 points

Special Rice (5kg)



Broiled eels (kabayaki)



12,000 points

Matsusaka beef



Fine wine



20,000 points

Hotel vouchers



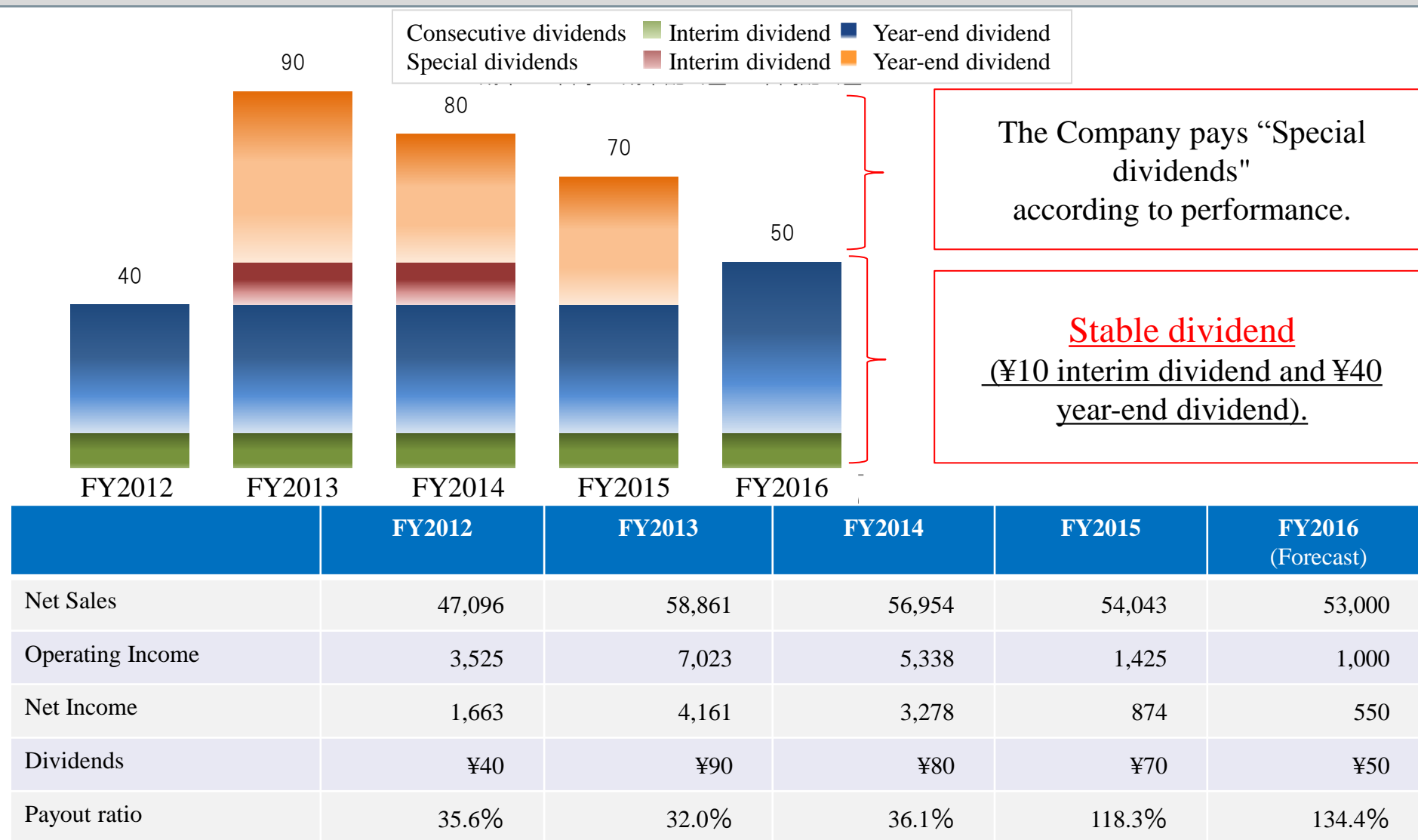
Puffer (fugu) dishes (4 servings)



✂ Points also can be donated to social contribution activities.



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



# 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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