

# FY Ended March 2020 Full Year Results Presentation



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

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# FY Ended March 2020 Full Year Results

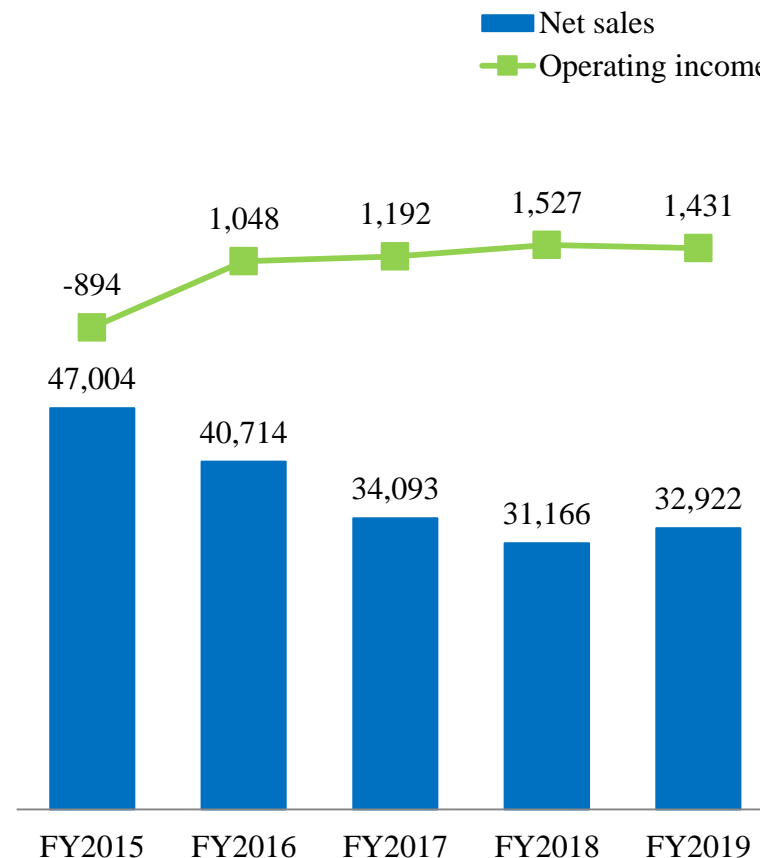
# Consolidated Statements of Income (Summary)

Sales increased and profit decreased YoY

Net sales	32,922 million yen
Operating income	1,431 million yen
Ordinary income	1,674 million yen
Net income attributable to owners of the parent	1,061 million yen

Net sales and Operating income

(millions of yen)



(millions of yen)	FY2018	FY2019	YoY Change	Vs. Forecasts Change
Net sales	31,166	32,922	+ 1,756	- 1,078
Gross profit-net	11,673	12,040	+ 367	- 60
Selling, general and administrative expenses	10,145	10,608	+ 463	- 292
Operating income	1,527	1,431	- 96	+ 231
Ordinary income	1,748	1,674	- 74	+ 424
Net income attributable to owners of the parent	1,263	1,061	- 202	+ 261
Research and development expenditure	1,206	1,170	- 36	- 40

(Note) The planned ratio is the value of earnings projection for the term ending in March 2020 announced on May 14, 2019, as well as the planned ratio described in the materials for the briefing of the term ending in March 2020 held on May 30, 2019 targeting institutional investors and analysts.

Results in the mainstay Information System Business trended steadily and revenue increased

## Information System Segment

**Net sales in this segment were 26,354 million yen (YoY Change + 1,880 million yen)**

### **Equipment sales**

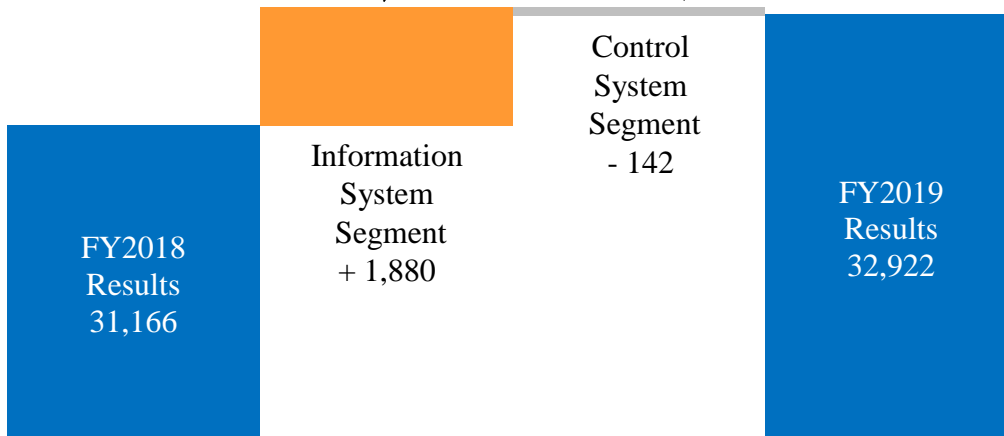
The new AI hall computer X (Kai) contributed most to increased sales among major products due to the addition of new functions and the strengthening of proposal activities.

In addition, the REVOLA information disclosure terminal was evaluated highly by the market for its sophisticated and stylish form and diverse content, making it the next biggest contributor to increased sales after X (Kai). As a result, equipment sales increased 1,585 million yen YoY.

### **Service sales**

Sales of the MG Service stock-type business also trended steadily, and service sales increased 295 million yen YoY.

(millions of yen)



## Control System Segment

**Net sales in this segment were 6,598 million yen (YoY Change - 142 million yen)**

Sales of parts for pachinko machines trended well, but sales of display units and control units were below those for the last consolidated fiscal year, falling 268 million yen YoY, due to reviews of pachinko machine manufacturers' sales plans following a decline in new unit sales across the market as a whole and an increase in the reuse rate.

Consumer game sales were above those for the last consolidated fiscal year, increasing 126 million yen YoY.

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

Profit decreased due to increased selling, general and administrative expenses

**Segment-operating income:**

(millions of yen)

	FY 2019	YoY Change
Information System Segment	3,104	+ 379
Control System Segment	78	- 410

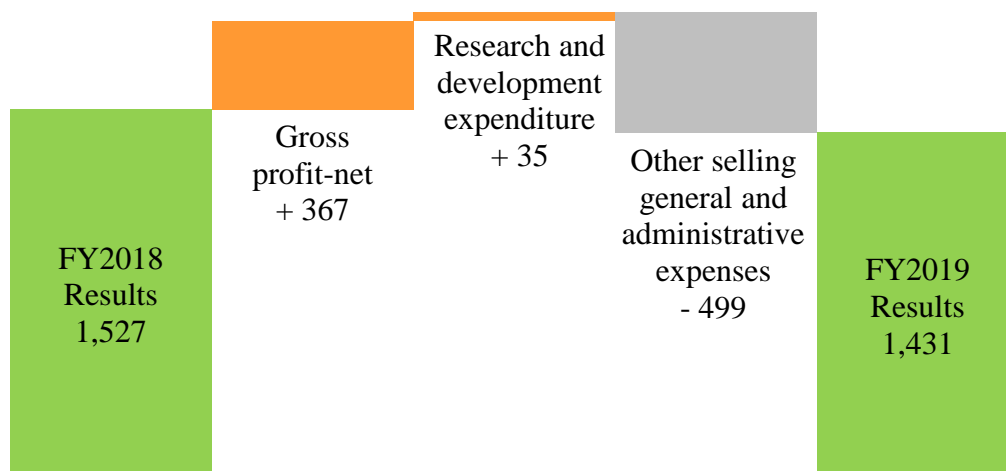
**The whole company cost :**

1,751 million yen (YoY Change - 65 million yen)

**Research and development expenditure** (millions of yen)

	FY 2019	YoY Change
Information System Segment	939	- 185
Control System Segment	230	+ 148

(millions of yen)



**Other selling general and administrative expenses**

Depreciation expense : Core systems, servers, etc.  
(YoY Change + 225 million yen)

Online game expenses  
(YoY Change + 80 million yen)

Information exhibitions and sales promotion expenses  
(YoY Change + 70 million yen)

Internal PC Windows 10 handling expenses  
(YoY Change + 70 million yen)

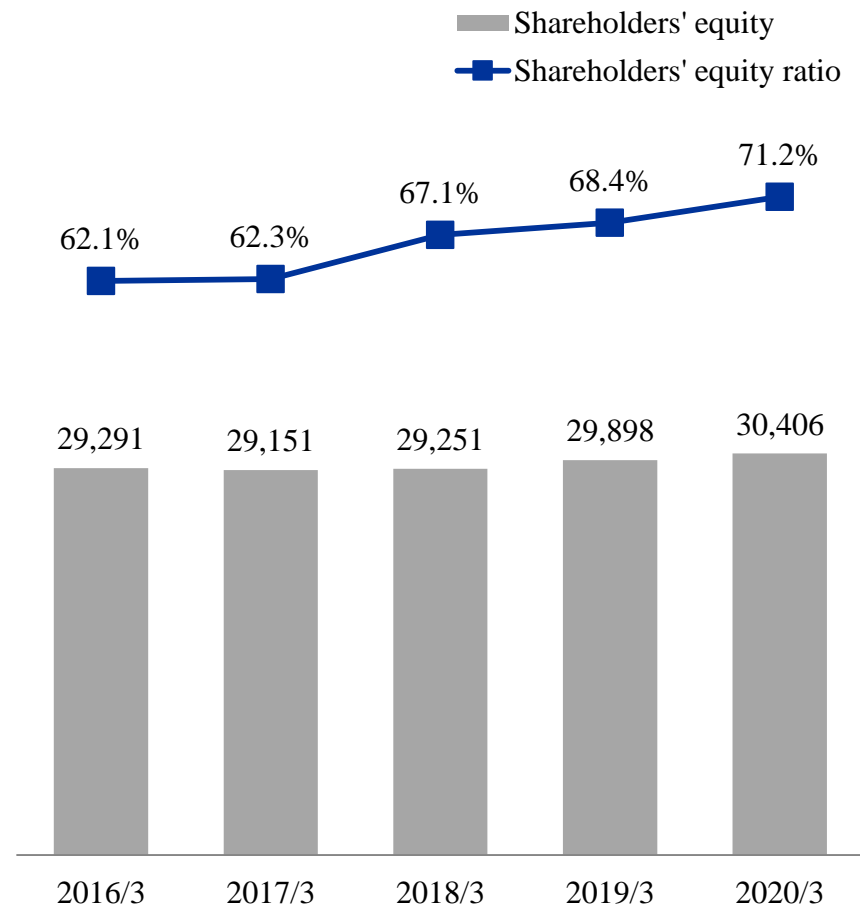
# Consolidated Balance Sheets (Summary)

Total assets increased in association with decreased current liabilities

Total liabilities and net assets	42,702 million yen
Total liabilities	12,296 million yen
Total net assets	30,406 million yen

(millions of yen)	2019/3	2020/3	YoY Change
Current assets	26,397	26,247	- 150
Noncurrent assets	17,331	16,455	- 876
Total assets	43,729	42,702	- 1,026
Current liabilities	12,339	11,148	- 1,191
Noncurrent liabilities	1,491	1,147	- 343
Total liabilities	13,831	12,296	- 1,535
Total net assets	29,898	30,406	+ 508
Total liabilities and net assets	43,729	42,702	- 1,026
Debt	3,300	3,300	±0
Debt equity ratio	0.11times	0.10times	- 0.01times
Shareholders' equity ratio	68.4%	71.2%	+ 2.8%
Cash plus marketable securities ratio	4.91months	5.64months	+ 0.73months
Receivables turnover period	80.1days	72.3days	- 7.8days
Inventory turnover period	63.3days	52.5days	- 10.8days
Payable turnover period	72.1days	58.0days	- 14.1days
Number of shares outstanding	14,783,060	14,783,032	—

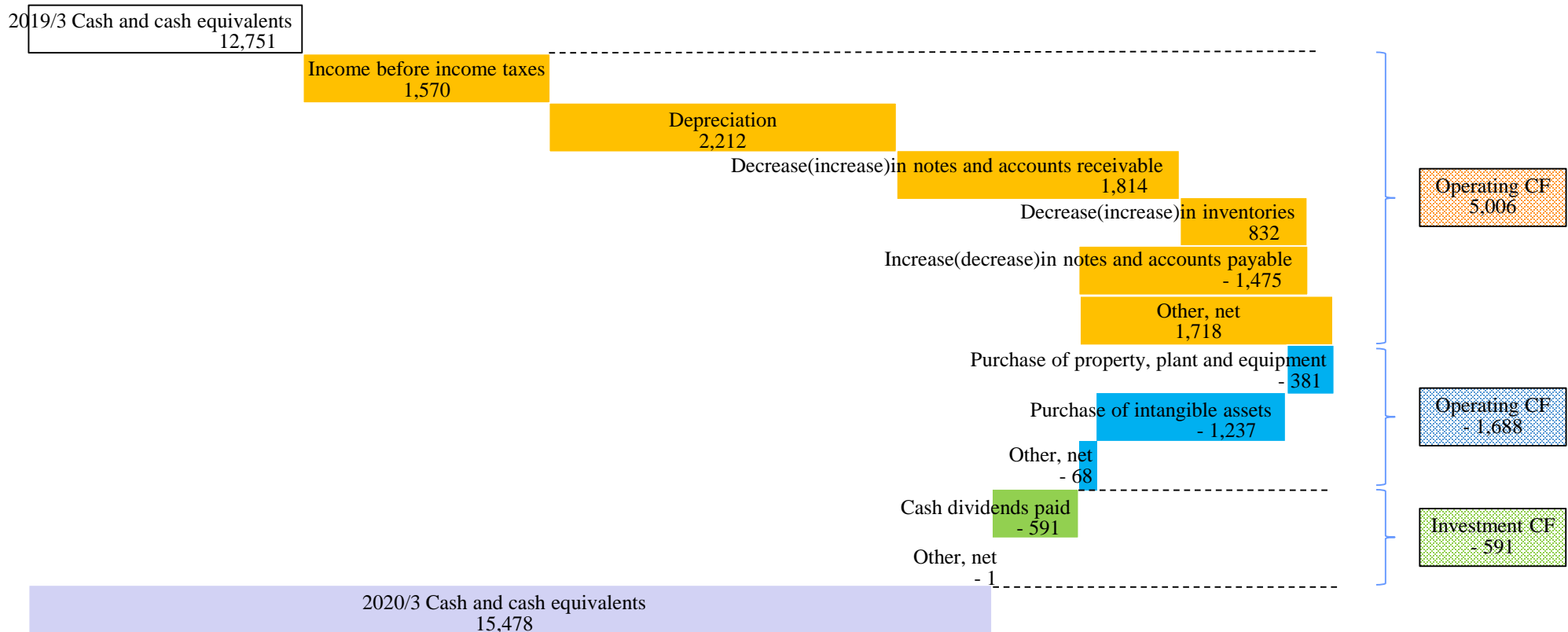
Shareholders' equity (millions of yen)



# Consolidated Statements of Cash Flows (Summary)

## Operating cash flow increased due to a decrease in trade receivables

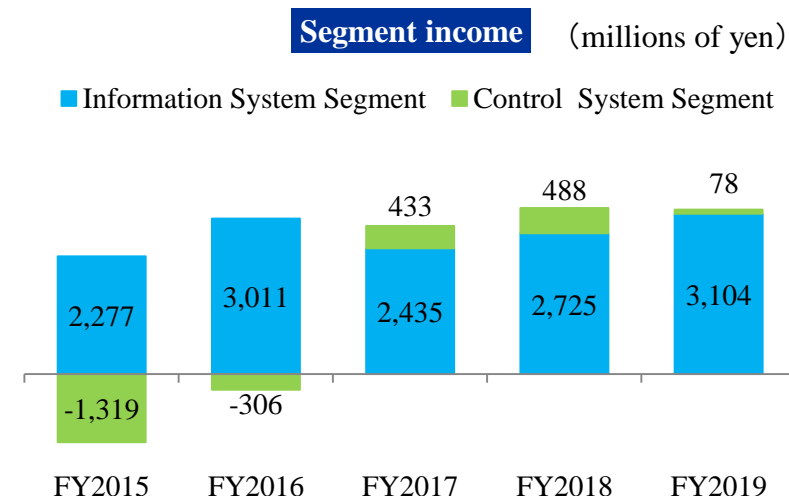
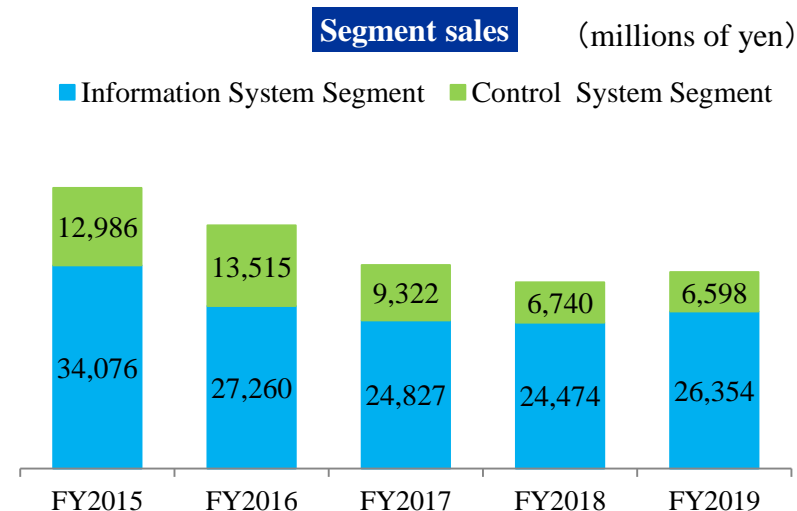
(millions of yen)	FY2018	FY2019
Operating CF	1,875	5,006
Investment CF	- 2,364	- 1,688
Financing CF	- 592	- 591
Cash and cash equivalents	12,751	15,478



## Equipment sales were good in Information System Business

(millions of yen)	FY2018	FY2019	YoY Change	Vs. Forecasts Change
<b>Information System Segment</b>				
Hardware	13,871	15,456	+1,585	+299
System	10,603	10,898	+295	+55
Subtotal	24,474	26,354	+1,880	+354
<b>Control System Segment</b>				
Units and Parts	5,427	5,159	- 268	- 1,121
Pachislot and Others	1,313	1,439	+126	- 281
Subtotal	6,740	6,598	- 142	- 1,402
<b>Segment sales</b>	31,215	32,953	+1,738	- 1,047
<b>Information System Segment</b>	2,725	3,104	+379	+604
<b>Control System Segment</b>	488	78	- 410	- 622
<b>Segment income</b>	3,214	3,183	- 30	- 17
Corporate expenses	-1,686	-1,751	- 65	+249
Net sales	31,166	32,922	+1,756	- 1,078
Operating income	1,527	1,431	- 96	+231

(Note) The planned ratio is the value of earnings projection for the term ending in March 2020 announced on May 14, 2019, as well as the planned ratio described in the materials for the briefing of the term ending in March 2020 held on May 30, 2019 targeting institutional investors and analysts.



The number of REVOLA unit sales increased and VEGASIA unit sales also trended steadily

(millions of yen)	FY2018		FY2019	
	1st half	Total	1st half	Total
Net sales	11,077	24,475	14,908	26,354
Segment income	1,399	2,725	2,309	3,104

## ■ Number of sales

Hall computer	36	84	31	57	
Call Lamp	BiGMO PREMIUM	13,977	32,686	19,533	33,979
	REVOLA	10,183	32,972	20,244	39,450
	IL-X Series	11,017	18,887	6,585	9,038
CR unit "VEGASIA"	19,681 29 halls	52,711 68 halls	34,023 43 halls	51,849 73 halls	

## ■ Total subscribership

Xai & C II Standard	2,866	2,869	2,878	2,873
Xai & C II-SIS members	1,360	1,415	1,515	1,550
CR unit (Pachinko halls)	706	743	787	812
MG-Service net sales (millions of yen)	2,206	4,454	2,309	4,672

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

The number of game machine units decreased both in terms of the number of models and the number of units

(millions of yen)	FY2018		FY2019	
	1st half	Total	1st half	Total
Net sales	3,173	6,740	3,750	6,598
Segment income	335	488	- 66	78

Video processing unit	6	12	4	10
Sales volume	45,953	73,693	25,660	61,251

### ■ Pachislot business

Models	0	0	0	0
Sales volume	0	0	0	0

(Note) In the Control System Segment, “sales of development costs” to game machine manufacturers are posted as a cancellation of research and development expenses.

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

# FY Ending March 2021 Full Year Forecasts

We implemented future-oriented initiatives while responding flexibly to changing conditions

## ■ Strategies (Short-term)

FY2020 1st half	FY2020 2nd half
<ul style="list-style-type: none"><li>➤ Halls were closed due to the declaration of a state of emergency</li><li>➤ There was a cooling down in the equipment market</li></ul>	<ul style="list-style-type: none"><li>➤ Increased models under the new pachinko industry standards (play time)</li><li>➤ M&amp;A moves by major hall companies are accelerating</li></ul>



Increased market activity is expected in the second half

## ■ Strategies (Middle-term)

We established a new Research and Development Department that will conduct basic research on new technologies and examine new businesses. (Dated April 1, 2020)

We focused on the diffusion of X (Kai) and Market-SIS

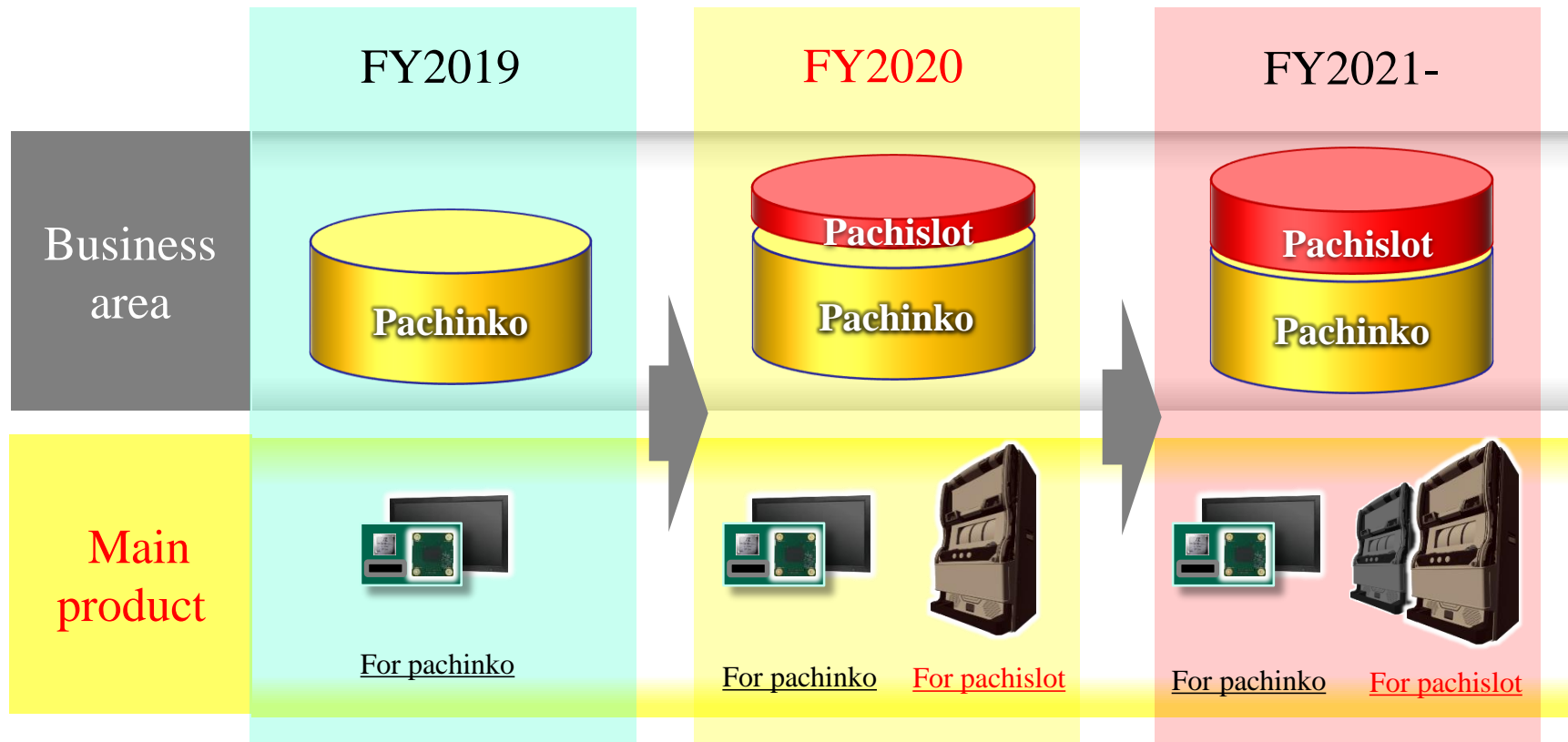
AI hall computer  
“X (Kai)”

- Handling of the new pachinko industry standards (play time)
- Handling of COVID-19
- Handling of the prohibition of smoking in halls
- Strengthening of AI and big data analysis functions
- Strengthening of labor-saving functions

Commercial area  
analysis service  
“Market-SIS”

- Strengthening of AI and big data analysis functions

We started pachislot business in earnest from the second half and expanded our business areas



We will use the hardware and software technologies we have cultivated to this point to advance bundled contract development.

# FY Ending March 2021 Full Year Forecasts

We estimate that market changes in the industry will head towards normalization gradually from the third quarter

(millions of yen)	FY2019 (Result)			FY2020 (Forecasts)			YoY Change
	1st half	2nd half	Total	1st half	2nd half	Total	
Net sales	18,643	14,279	32,922	11,000	17,000	28,000	- 4,922
Gross profit-net	6,682	5,358	12,040	4,050	6,450	10,500	- 1,540
Selling, general and administrative expenses	5,379	5,229	10,608	5,350	4,750	10,100	- 508
Operating income	1,302	129	1,431	- 1,300	1,700	400	- 1,031
Ordinary income	1,421	253	1,674	- 1,250	1,750	500	- 1,174
Net income attributable to owners of the parent	912	149	1,061	- 1,250	1,550	300	- 761
Research and development expenses	713	457	1,170	650	103	753	- 417
Depreciation expense	1,022	1,190	2,212	987	1,132	2,119	- 93
Capital investment	61	355	416	266	278	545	+ 128
Software	468	668	1,136	436	409	845	- 291

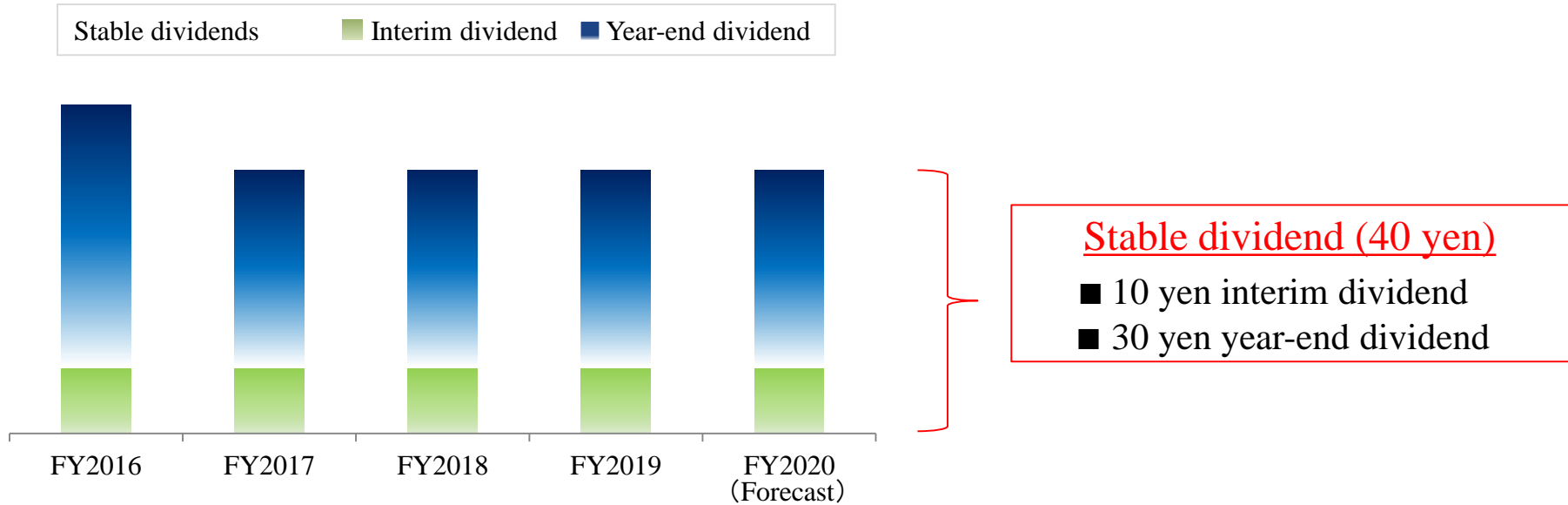
# FY Ending March 2021 Full Year Forecasts by segment

Revenue and profits in Information Systems Business are expected to fall, but revenue and profits are expected to increase in Control Systems Business

(millions of yen)	FY2019 (Result)			FY2020 (Forecasts)			YoY Change
	1st half	2nd half	Total	1st half	2nd half	Total	
Information System Segment	14,908	11,446	26,354	8,500	12,500	21,000	- 5,354
Control System Segment	3,750	2,848	6,598	2,500	4,500	7,000	+ 402
Segment sales	18,658	14,295	32,953	11,000	17,000	28,000	- 4,953
Information System Segment	2,309	795	3,104	100	1,600	1,700	- 1,404
Control System Segment	-66	144	78	-400	1,000	600	+ 522
Segment income	2,243	940	3,183	-300	2,600	2,300	- 883
Corporate expenses	-940	-811	-1,751	-1,000	-900	-1,900	- 149
Net sales	18,643	14,279	32,922	11,000	17,000	28,000	- 4,922
Operating income	1,302	129	1,431	-1,300	1,700	400	- 1,031

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

Under the basic policy of stable dividends, we forecast an interim dividend of 10 yen, and a term-end dividend of 30 yen for a full-term total of 40 yen

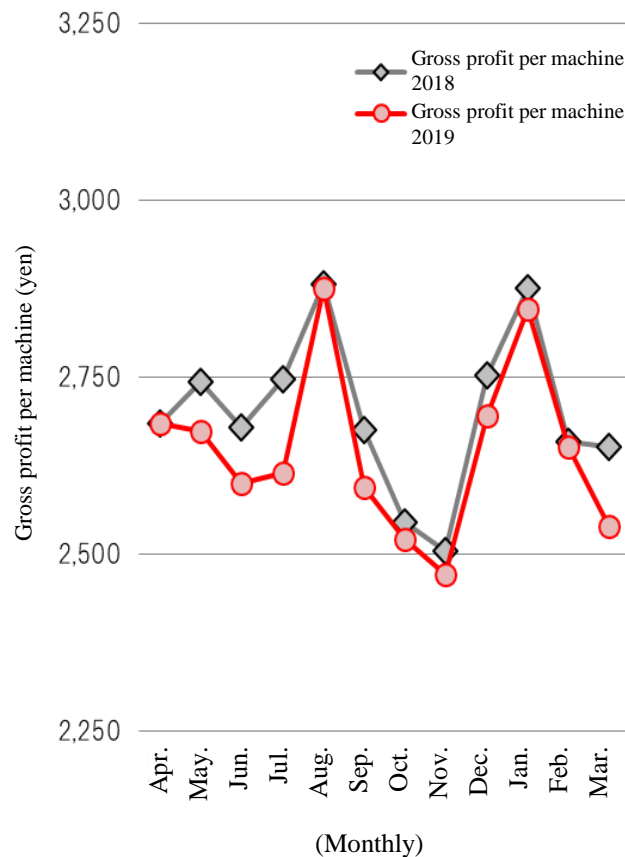
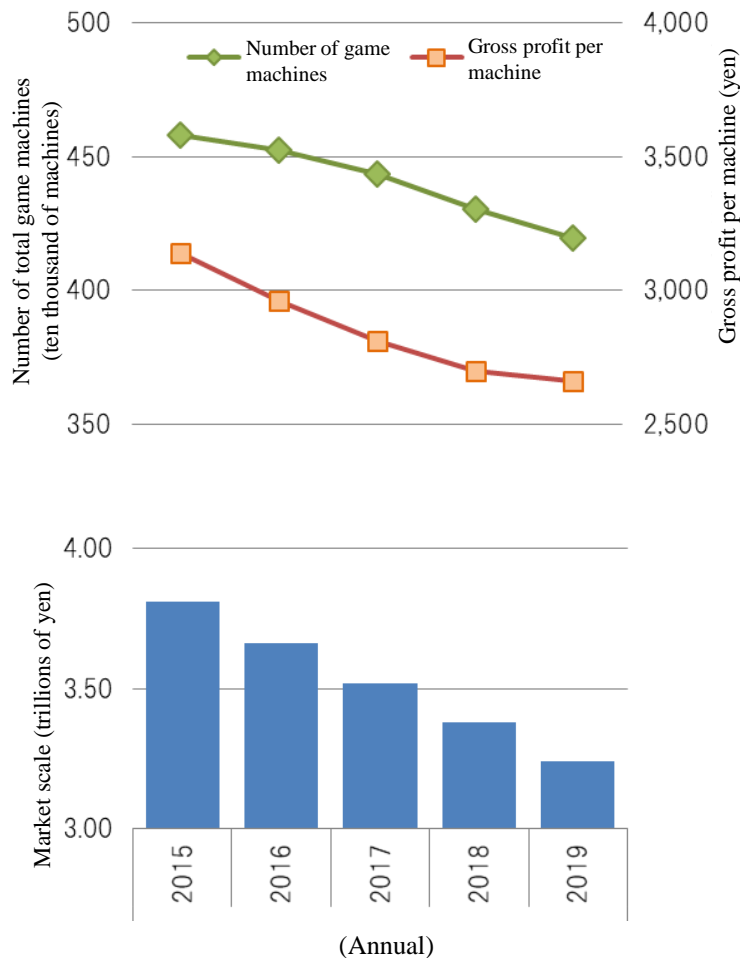


(yen per share)	Stable dividends			Payout ratio (%)
	Interim dividend	Year-end dividend	Total	
FY2016	10	40	50	147.0
FY2017	10	30	40	75.3
FY2018	10	30	40	46.8
FY2019	10	30	40	55.7
FY2020 (Forecast)	10	30	40	197.1

# Reference Data

# Trends in market scale

## Assumption of current harsh industry environment



Game machine market scale (Annual)

	Market scale (trillions of yen)	Number of game machines	Gross profit per machine (yen)
2015	3.81	4,580,000	3,140
2016	3.66	4,530,000	2,960
2017	3.52	4,440,000	2,810
2018	3.38	4,300,000	2,700
2019	3.24	4,200,000	2,661

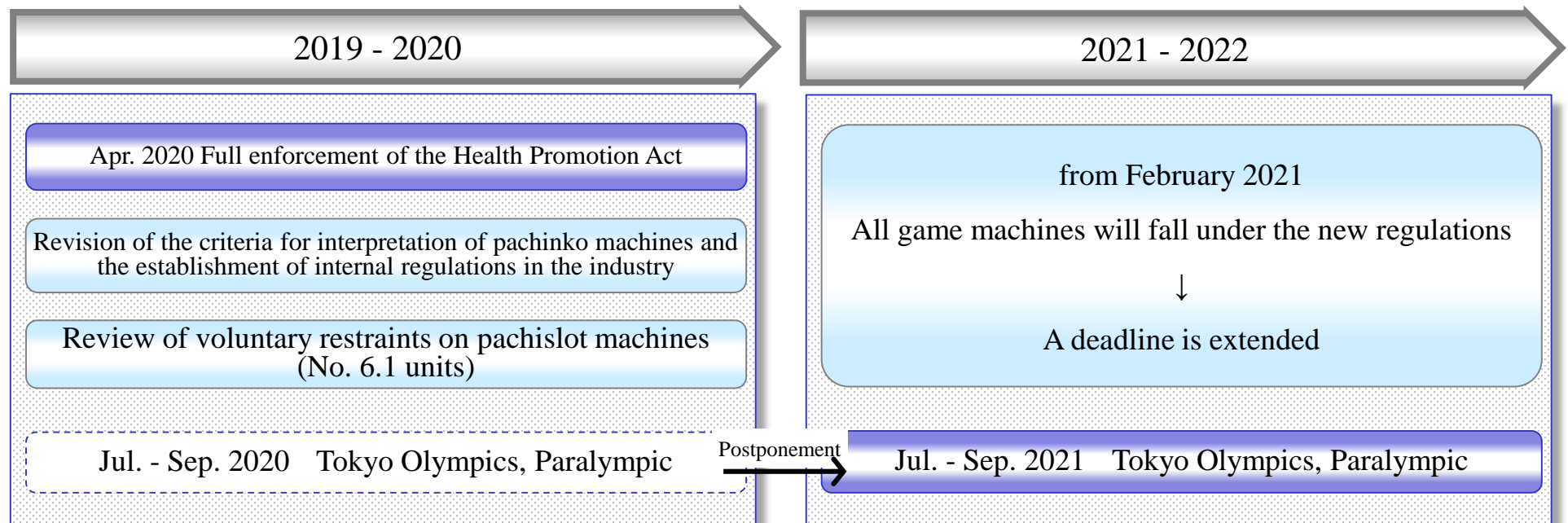
Gross profit per machine (Monthly)

	FY2018 (yen)	FY2019 (yen)	YoY Change
Apr.	2,684	2,684	± 0
May.	2,743	2,673	- 70
Jun.	2,680	2,600	- 80
Jul.	2,747	2,615	- 132
Aug.	2,882	2,876	- 6
Sep.	2,676	2,594	- 82
Oct.	2,545	2,521	- 24
Nov.	2,505	2,471	- 34
Dec.	2,753	2,696	- 57
Jan.	2,875	2,847	- 28
Feb.	2,659	2,651	- 8
Mar.	2,652	2,540	- 112

(Source of data) Daikoku Denki "DK-SIS" estimate, The National Police Agency

## Uncertainty over the future has increased under the impact of COVID-19

- In order to prevent the spread of COVID-19 infections, pachinko halls have been closed or opened with shorter business hours.
- All old regulation machines were scheduled to be withdrawn by the end of January 2021, but the deadline for withdrawal was extended to prevent the spread of COVID-19 infections.
- Game machines with new game features (“play time,” etc.) are scheduled for release as a result of the establishment of internal regulations by the Japan Pachinko Machine Industry Association in association with the revision of the “Criteria for Interpretation of Technological Standards.” Increased market activity is expected due to replacement demand for game machines.



# The company's efforts to prevent COVID-19 infections

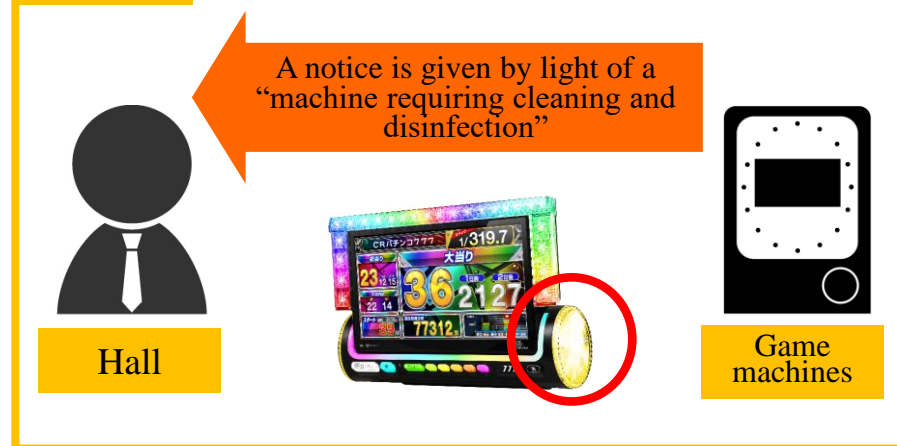
We are proposing facilities and services that enable fans to visit and play with peace of mind

- We have added a function that supports the prevention of COVID-19 infections to the call lamp.
- Fans are notified about machines that have been cleaned and disinfected so that they can play with peace of mind. (Figure 1)
- This reduces the work load of the hall employees who clean and disinfect equipment. (Figure 2)

Figure 1



Figure 2



We are proposing various products and services for pachinko halls and pachinko fans

## Hall computer



We collect data from game units installed in halls and provide sophisticated analysis useful for hall management.

In addition, we also conduct integrated management of the systems necessary for hall management, including machines, prizes, customers, information disclosure and security.

Using big data sent from the company's hall computers nationwide to our company's MIRAIGATE servers, our latest model X (Kai) is capable of automated analysis using AI (auto consulting), AI security, high-precision simulation (Xai-SIS), and the operation of functions matched to the changing times, such as support for prohibitions on smoking and the handling of COVID-19.



## Web and app services for fans



Fans can view nationwide pachinko hall data for free using Pachirobo (free app).



At Site Seven (paid site), fans can view more detailed data than with Pachirobo.

## Prize management

This is a system to exchange acquired pachinko balls for prizes.

The latest POS SP-01 can be installed tailored to the hall and operated without a keyboard using a large 15.6 inch touch panel LCD.



## Information terminals for fans (Large LCD)



BiGMO PREMIUM II



REVOLA

It displays machine data such as big wins and starts, produces images, lights and sounds matched to the machine, and allows fans to call staff.

## CR unit

It is a terminal installed on each game machine to lend balls and medals for playing.

The latest model VEGASIA III is equipped with a large touch screen and enables operation that is easy to see and understand.

In addition, it has also realized advanced security and analysis within halls in conjunction with X.



We are releasing new products matched to the times one after another

~ Handling of staff labor saving ~  
WW-01 wearable device

~ Handling of prohibitions on smoking in halls ~  
“Back soon” function on each machine  
“Smoking arc” smoking booth  
“DiSMO” digital signage for smoking rooms

Strong  
point

This is a smartwatch-type device with a large LCD screen that hall staff can wear to use. It conveys various information such as call notices from fans, abnormalities or unauthorized investigation of game machine data by vibration of the device and screen display each time it occurs.



When leaving machines to smoke, fans use the seat-leaving operation on each machine such as the BiGMO PREMIUM, REVOLA and VEGASIA machines.

Fans can smoke with peace of mind while looking at their smoking time on the “DiSMO” signage installed in the smoking booth.

Staff can respond quickly with an incoming voice notification from a game machine where the fan has exceeded the smoking time limit.



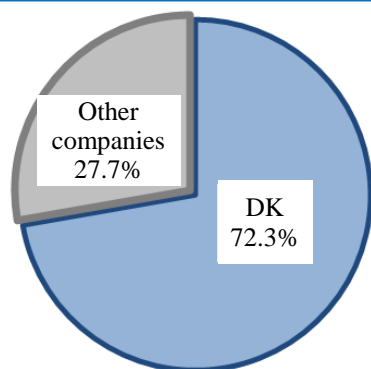
The  
effect

- Personnel saving in hall management
- High quality customer service by staff

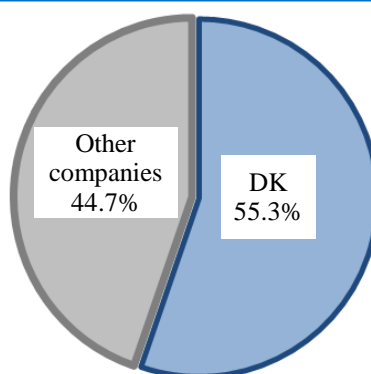
- Responding to the law to prevent passive smoking by establishing separate smoking areas
- We are proposing gaming environments in which fans can leave their seats to smoke with peace of mind
- Staff labor saving due to the handling of seat-leaving with system linkage

## The industry leader for hall computer market share centered on large halls

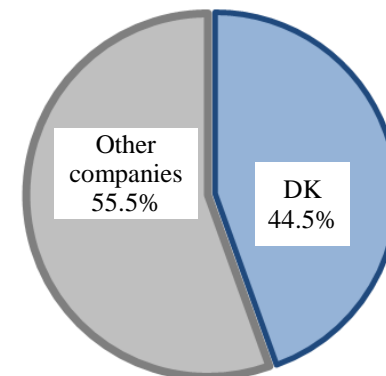
DK's share at large-scale halls  
( 1,001 - )



DK's share at large-scale halls  
( 501 - 1,000 )



DK's share at total number of machines



<Table 1> Comparison of the number of pachinko halls by hall size

Hall size	Total		DK(Daikoku Denki)			Other companies		
	Parlors	Ratio	Parlors	Ratio	Share	Parlors	Ratio	Share
1,001 -	346	3.6%	250	7.3%	72.3%	96	1.5%	27.7%
501 - 1,000	2,565	26.6%	1,418	41.3%	55.3%	1,147	18.5%	44.7%
301 - 500	3,451	35.8%	1,141	33.2%	33.1%	2,310	37.2%	66.9%
101 - 300	3,058	31.7%	618	18.0%	20.2%	2,440	39.3%	79.8%
- 100	219	2.3%	7	0.2%	3.2%	212	3.4%	96.8%
Total	9,639	100%	3,434	100%	35.6%	6,205	100%	64.4%

<Table 2> Comparison of the total number of game machines installed in pachinko halls

	Total	DK	DK share	Others	Others share
Total of installed game machines	4,195,930	1,867,509	44.5%	2,328,421	55.5%
The number of parlors	9,639	3,434	35.6%	6,205	64.4%
Average game machine number	435	544		375	

(\*) Total information shows the number of pachinko halls and game machines as of the end of December 2019 announced by the National Police Agency.

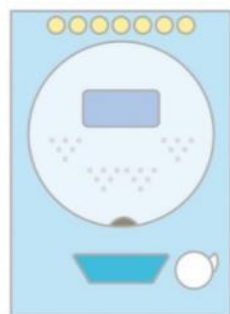
(\*) DK's date as of April 2020

(\*) Information from other companies shows the number in the total information minus the number of DK user halls

Development and provision of software and hardware for game machine manufacturers

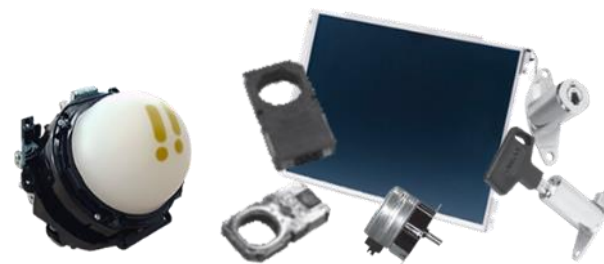
## Development and provision of software and hardware of game machine

We provide pachinko and pachislot machine manufacturers with game machine planning, software development and hardware.



## DK's approach to development (examples)

- ✓ Use of DK-SIS data
- ✓ Improvement of process control quality
- ✓ Planning proposals including chassis and mechanical parts, etc.



Through the strengthening of planning and proposal capabilities, and improving process control quality, etc., we are working to expand the range of areas where we can make proposals to game machine manufacturers and to increase added value.

# Change in research and development expenses

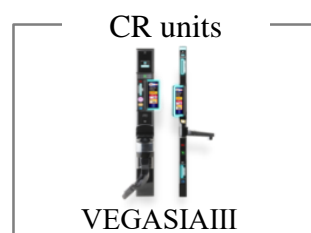
Investment in new hall computer development has settled down and we will continue to invest in development

(millions of yen)		Information System Segment		Control System Segment		Total	YoY Change (%)
			YoY Change (%)		YoY Change (%)		
FY2015	1st half	1,925	+ 110.2	636	- 11.7	2,562	+ 56.6
	Total	3,966	+ 46.3	1,365	+ 21.4	5,330	+ 39.0
FY2016	1st half	1,093	- 43.2	618	- 2.8	1,711	- 33.2
	Total	2,240	- 43.5	820	- 39.9	3,060	- 42.6
FY2017	1st half	965	- 11.7	275	- 55.5	1,240	- 27.5
	Total	1,470	- 34.4	108	- 86.8	1,578	- 48.4
FY2018	1st half	430	- 55.4	80	- 70.9	511	- 58.8
	Total	1,124	- 23.5	82	- 24.1	1,206	- 23.6
FY2019	1st half	406	- 5.6	307	+ 283.8	713	+ 39.5
	Total	939	- 16.5	230	+ 180.5	1,170	- 3.0
FY2020	1st half (Forecasts)	334	- 17.7	316	+ 2.9	650	- 8.8
	Total (Forecasts)	670	- 28.6	83	- 63.9	753	- 35.6

(\*) In the Control System Segment, “sales of development costs” to game machine manufacturers are posted as a cancellation of research and development expenses.



Released in Jun.,2019



Released in Jun.,2017



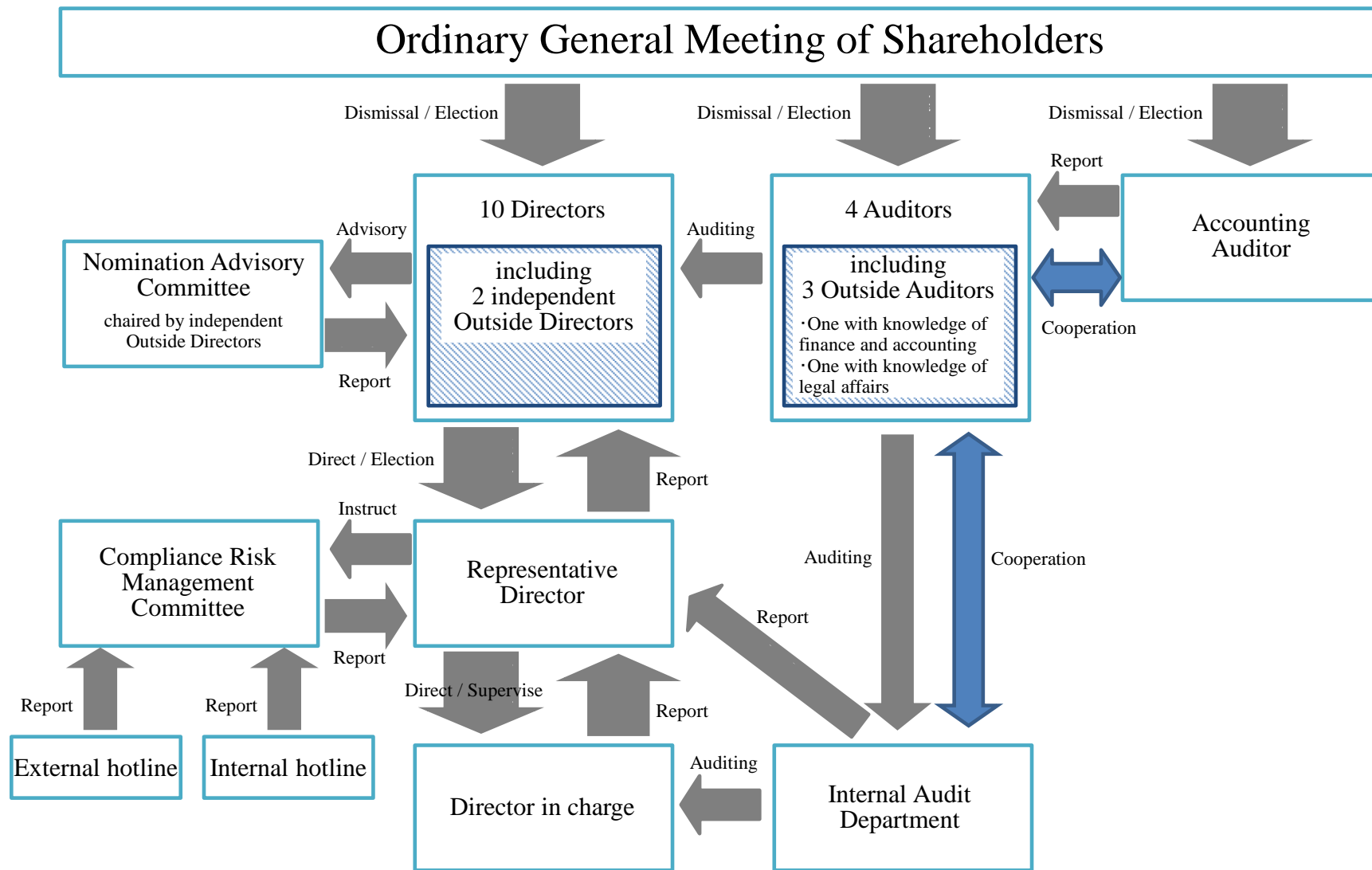
Released in Feb.,2018

in May.,2016

in Feb.,2018

# DK's commitment to ESG (1)

## Corporate governance structure (as of end of March, 2020)



# DK's commitment to ESG (2)

We will contribute to environmental and social issues through the Company's products and services, and will also promote internal initiatives

DK's products and services, and environmental and social issues they can contribute to (examples)

Examples of the Company's internal initiatives for environmental and social issues (examples)

## Environment

### ■ Improving the pachinko hall environment

- Reductions in energy consumption based on use of DK calling lamps (LED) (⇒ CO2 reductions)
- Reduction of in-hall sound volumes by use of data display devices on each Company machine (⇒ Environmental improvements inside and outside halls)



### ■ Environmentally conscious Head Office building

This headquarters building features an energy-saving design, and it is possible to reduce CO2 emissions by more than 30%. It has also achieved the highest S rank in the comprehensive environmental performance assessment by CASBEE (Note 1).



## Society

### ■ Improvement of pachinko hall work environments

- Improvement in hall management efficiency by use of DK hall computers (⇒ Shortening of work hours)
- Reductions in workload for managing ball boxes by use of terminals on each Company machine (⇒ Improvements in the work environment)



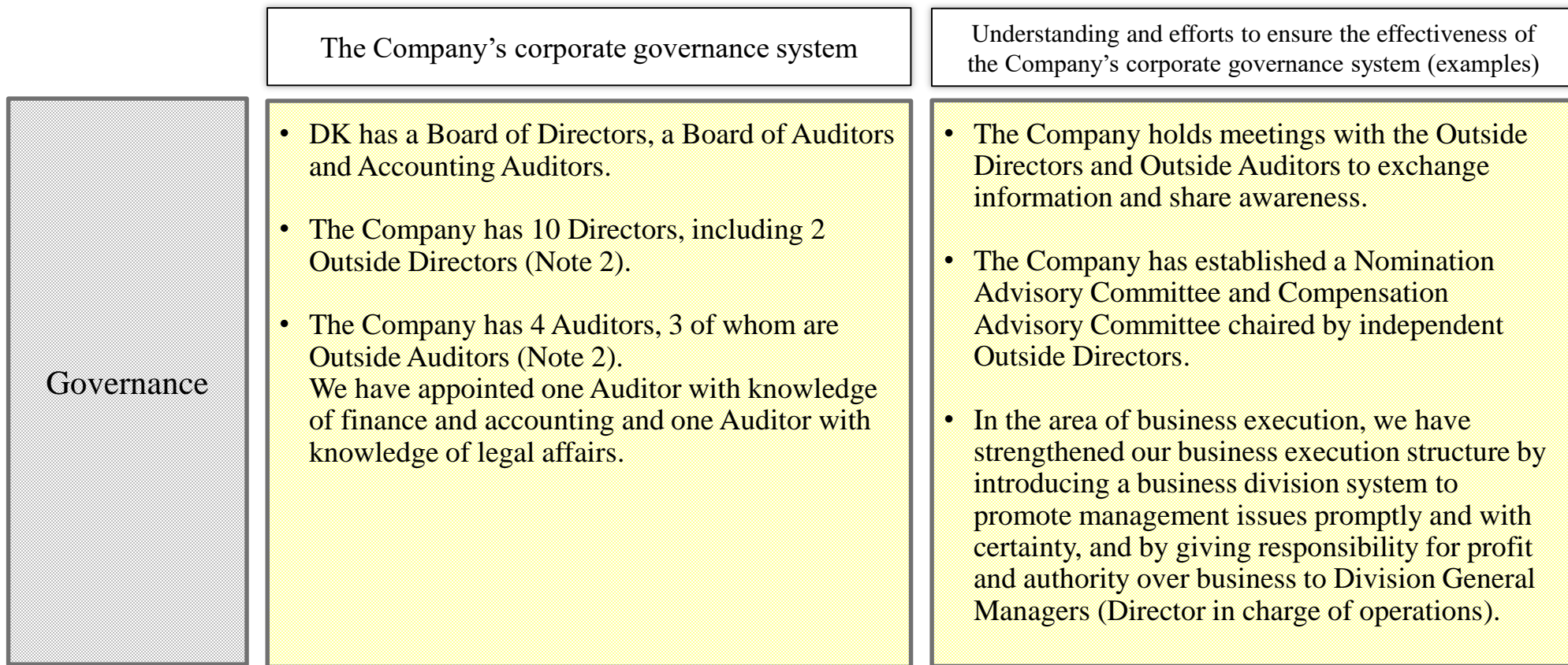
### ■ Diversity

- The "My Life Work System," which supports marriage and childcare by enabling flexible work attendance (⇒ Promotion of female participation)
- "Childcare support system" (⇒ Promotion of female participation)



# DK's commitment to ESG (3)

DK focuses on corporate transparency and measures that ensure corporate governance functions effectively



(Note 1) By setting the benchmark of CO2 emissions for the base year (1990) in the Kyoto Protocol, it is estimated to have an approximately 33% reduction effect. 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.

(Note 2) The numbers of Directors and Auditors at the Company are as of March 31, 2020.

# 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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