

FY2021 Second Quarter Financial Results Medium-term Business Plan 2022-2024

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

FY2021 Second Quarter Financial Results

Consolidated Statements of Income (Summary)

Profit increased significantly compared to the same period of the previous year, resulting in increased sales and profits

(millions of yen)	2020/9	2021/9 (Forecasts)	2021/9	YoY Change	Rate of change
Net sales	11,099	12,000	12,047	+948 (+8.5%)	+47 (+0.4%)
Gross profit-net	4,370	4,850	5,103	+732 (+16.8%)	+253 (+5.2%)
Selling, general and administrative expenses	4,556	4,650	4,239	-316 (-7.0%)	-410 (-8.8%)
Operating income	-185	200	863	+1,049 (-%)	+663 (+331.8%)
Ordinary income	-18	270	919	+937 (-%)	+649 (+240.4%)
Net income attributable to owners of the parent	-48	175	678	+727 (-%)	+503 (+287.8%)

(Note) We are applying the "Accounting Standard for Revenue Recognition," etc., and each figure is after applying that accounting standard, etc.

(Note) Results forecast figures are based on the financial results materials for the fiscal year ending March 2021 disclosed on May 27, 2021

Revenue increased in Information System Segment, but revenue fell slightly in Control System Segment

Information System Segment

Net sales in this segment were 9,187 million yen →YoY Change +981 million yen (+12.0%)

Products for pachinko parlors, etc.: 5,989 million yen Service: 3,197 million yen

Replacement of old regulation machines with new regulation machines, was prioritized, and the difficult situation of business operators refraining from opening new stores and other large-scale capital investment continued. In this market environment, sales of "products for pachinko parlors, etc.," such as "REVOLA," and the "VEGASIA" CR unit were steady in association with an increase in small-scale remodeling work changing part of pachinko parlors from pachislot machines to pachinko machines. In addition, the introduction of the "one-stop self-service counter" POS system, also progressed well as a measure against infections and for labor-saving.

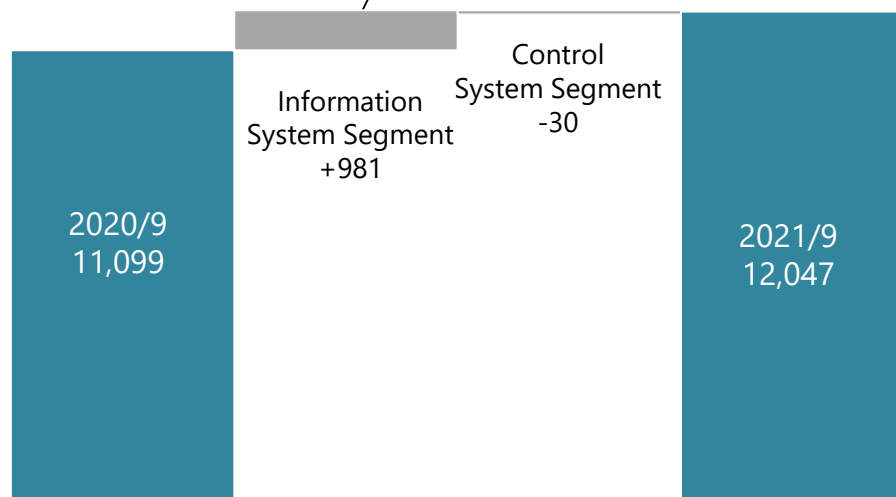
Control System Segment

Net sales in this segment were 2,866 million yen
→YoY Change -30 million yen (-1.1%)

Display and control units for games machine manufacturers: 1,776 million yen
Parts and others: 1,083 million yen

Sales of "display and control units for games machine manufacturers" were above those for the same period of the previous fiscal year due to sales for pachinko machines trending well and starting contract manufacturing of pachislot machines as an expansion of business areas, but sales of "parts and others" were below those for the same period of the previous fiscal year.

(millions of yen)



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

Operating Income

Profits grew significantly in both Information System Segment and Control System Segment

Information System Segment

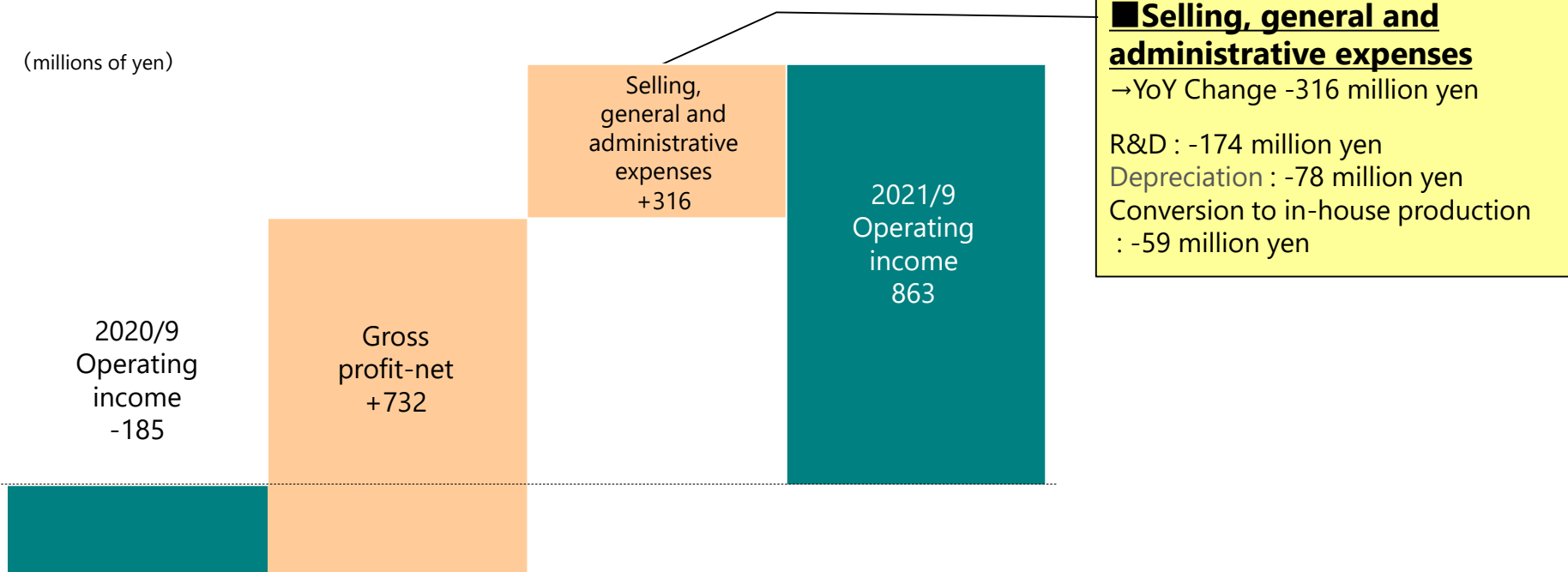
Segment-operating income in this segment were **1,346 million yen** →YoY Change +806 million yen(+149.3%)

Control System Segment

Segment-operating income in this segment were **265 million yen** →YoY Change +232 million yen(+702.0%)

The whole company cost : 753 million yen → YoY Change -11 million yen(-1.5%)

(millions of yen)



Consolidated Balance Sheets (Summary)

D/E ratio (interest-bearing debts / net worth) secures 0.07 and enough soundness

(millions of yen)	FY2020	2021/9	YoY Change
Current assets	25,427	24,107	-1,320
Noncurrent assets	15,657	14,810	-846
Total assets	41,084	38,917	-2,167
Current liabilities	9,519	7,046	-2,472
Noncurrent liabilities	903	906	+3
Total liabilities	10,422	7,953	-2,468
Total net assets	30,662	30,964	+301
Total liabilities and net assets	41,084	38,917	-2,167
Debt	3,002	2,002	-1,000
Shareholders' equity ratio	74.6%	79.6%	+5.0%
D/E ratio	0.10	0.07	-0.03

■ Total assets

Total assets at the end of the first half of the current consolidated fiscal year decreased by ¥2.167 billion from the end of the previous consolidated fiscal year to ¥38.917 billion because of a decrease in goods and products due to a review of purchasing plans and other factors as we were unable to carry out previous sales activities while the impact of COVID-19 infections was prolonged, and decreases in tangible and intangible fixed assets due to factors including the recording of depreciation expenses following a review of the fixed asset acquisition plan based on the uncertain impact of COVID-19 infections.

■ Total liabilities

2,468 billion lower than at the end of the previous consolidated fiscal year because purchasing liabilities and other outgoings decreased due to a revision of purchasing plans and development plans, and we repaid short-term borrowings.

■ Total net assets

301 million higher than at the end of the previous consolidated fiscal year due to the recording of quarterly net income despite the payment of year-end dividends.

■ Shareholders' equity ratio

5.0 points up from the end of the previous consolidated fiscal year.

Consolidated Balance Sheets (Summary)

We ensured positive free cash flow

(millions of yen)	2020/9	FY2020	2021/9
Operating CF	844	3,396	1,744
Investment CF	-818	-2,242	-614
Financing CF	-443	-891	-1,443
Cash and cash equivalents	15,060	15,739	15,426
Free cash flow	25	1,153	1,130

Cash and cash equivalents
(2021/3)

15,739

Operating CF 1,744

Income before income taxes

+849

Depreciation

+867

Decrease inventories

+752

Increase in notes and
accounts payable-trade

-1,012

Other, net

+287

Investment CF (Acquisition of intangible fixed assets -459 etc.)

-614

Financing CF (Short-term loans payable -1,000 etc.)

-1,443

Cash and cash equivalents
(2021/9)

15,426

FY Ending March 2022 Full Year Forecasts

Although we assume strong operations in the second half of the year as well, we will pay attention to semiconductors and other risk factors

■ 1st half

- The operation of games machines as a whole remained at the same level as the previous year, but pachinko machines performed well thanks partly to hit models
- Pachinko machines are ahead of pachislot machines in the replacement of old-regulation machines with new-regulation machines
- Although business operators will refrain from large-scale investment such as opening new pachinko parlors, capital investment in pachinko parlors will increase in small-scale construction projects that change part of pachislot sections to pachinko

■ 2nd half

- The operation of games machines as a whole is expected to continue being strong, driven by good pachinko machine operation
- We will pay attention to risks in parts procurement due to semiconductor shortages
- The risk that COVID-19 infections will spread again also remains

Promotion of sales of products for new-regulation machines and pachislot machine housing business

■ Information System Segment

- Continued expansion of sales of mainstay products, such as the “REVOLA” information disclosure terminal that provides information on pachinko “play time” machines to fans in an easy-to-understand way, and the “VEGASIA” CR unit
- Expansion sales of simulations for new-regulation machine whose installation in replacement is progressing and “X (Kai)” AI hall computers with enhanced game machine management functions
- In MG services, promotion of the diffusion of “Market-SIS” and launch “Claris Link,” a new service that uses cloud servers

■ Control System Segment

- Expansion of business areas through sales of the company’s pachislot housings
- Strengthening of quality improvement and the profitability of contract software development projects through improved work efficiency

We will promote structural reform and aim for a stronger profit structure

- **Review of business structure**

We will reorganize our organizational structure to respond to changes in the market environment

- **We will strengthen systems that promote reform**

We will strengthen governance and management capabilities to support structural reform

- **Cost reductions based on rationalization**

We will strengthen our financial constitution by cutting selling, general and administrative expenses and other costs

FY Ending March 2022 Full Year Forecasts

The full-year forecast remains unchanged, taking into account semiconductor risk and other uncertainties

(millions of yen)	FY2020		FY2021		YoY Change
	1st half	Total	1st half	Total (Forecasts)	
Net sales	11,099	23,345	12,047	26,000	+2,654
Gross profit-net	4,370	9,504	5,103	10,400	+895
Selling, general and administrative expenses	4,556	8,897	4,239	9,550	+652
Operating income	-185	607	863	850	+242
Ordinary income	-18	986	919	1,000	+13
Net income attributable to owners of the parent	-48	612	678	650	+37

Research and development expenses	426	819	251	900	+80
Depreciation expense	994	1,967	867	1,930	-37
Capital investment	68	249	64	520	+270
Software	285	800	207	1,130	+330

(Note) We are applying the "Accounting Standard for Revenue Recognition," etc., and each figure is after applying that accounting standard, etc.

FY Ending March 2022 Full Year Forecasts by segment

The full-year forecast remains unchanged for both Information Systems Business and Control Systems Business

(millions of yen)		FY2020		FY2021		YoY Change
		1st half	Total	1st half	Total (Forecasts)	
	Information System Segment	8,206	17,462	9,187	19,500	+2,037
	Control System Segment	2,897	5,892	2,866	6,500	+607
	Segment sales	11,103	23,354	12,053	26,000	+2,645
	Information System Segment	540	1,939	1,346	1,850	-89
	Control System Segment	33	100	265	600	+499
	Segment income	573	2,040	1,612	2,450	+409
	Corporate expenses	-764	-1,444	-753	-1,600	-155
	Net sales	11,099	23,345	12,047	26,000	+2,654
	Operating income	-185	607	863	850	+242

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(Note) Results forecast figures are based on the financial results materials for the fiscal year ending March 2021 disclosed on May 27, 2021



Medium-term Business Plan

2022-2024

Business environment

► Changes in the games machine market

New era centered on smart games machines

2022.2-

Completely new standard machines



Transition confirmed

2022.6-

New introduction of smart game machines

Increased game performance

Differences in the ability of each pachinko parlor to attract customers are marked

Leading companies will become stronger

2nd half of 2022-

Increase in number of smart game machines

Fans will recognize game performance

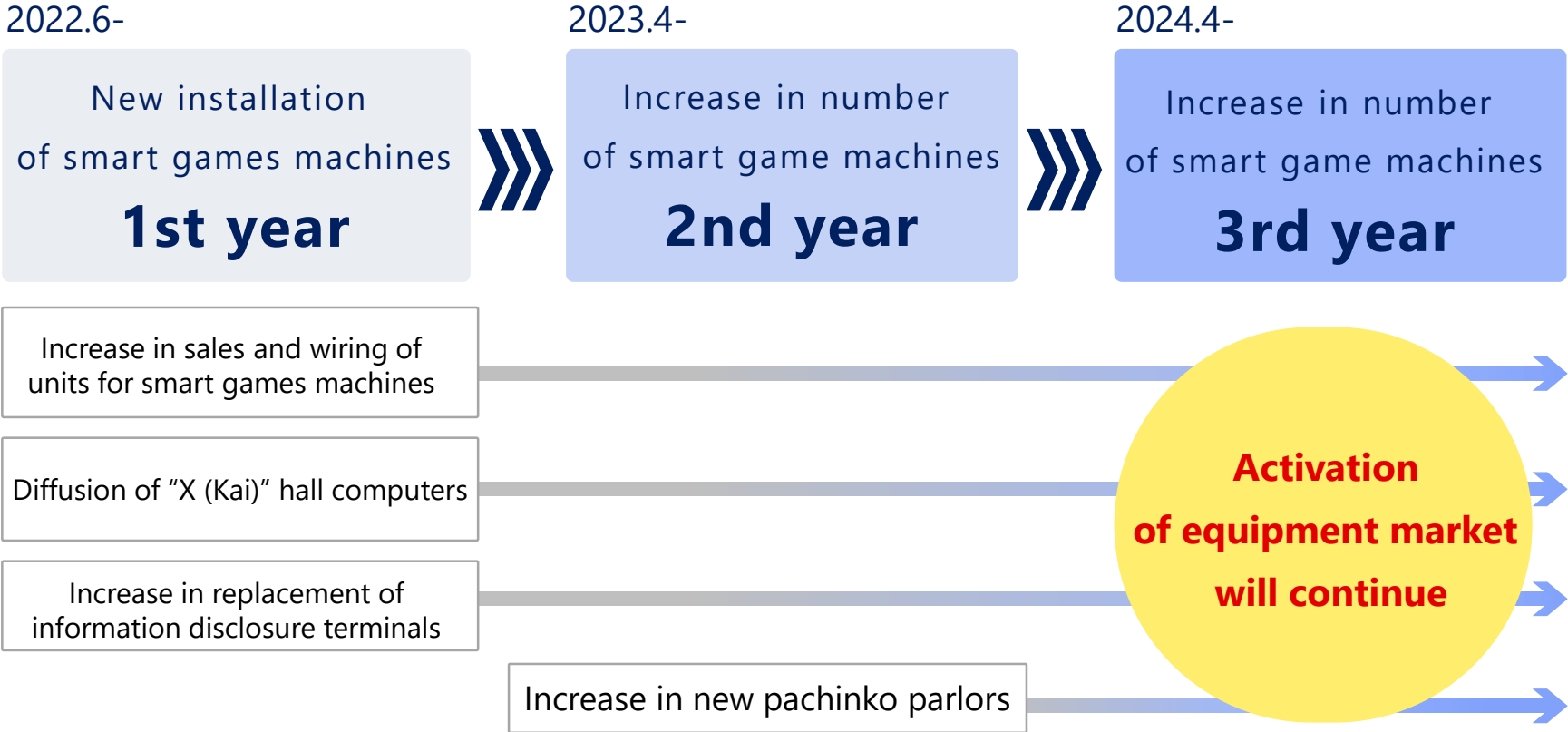
Increase in fans

Increase in new stores

Business environment

▶ Strengths of Information Systems Business

FY 2020 results
Share of the top 20 pachinko parlor companies **80%**



Results can be expected as replacement with smart games machines advances

Priority measures to focus on over the next 3 years

We will redefine the domains of each business to respond to future changes in the market environment

Information System Segment

We will build the industry's only platform

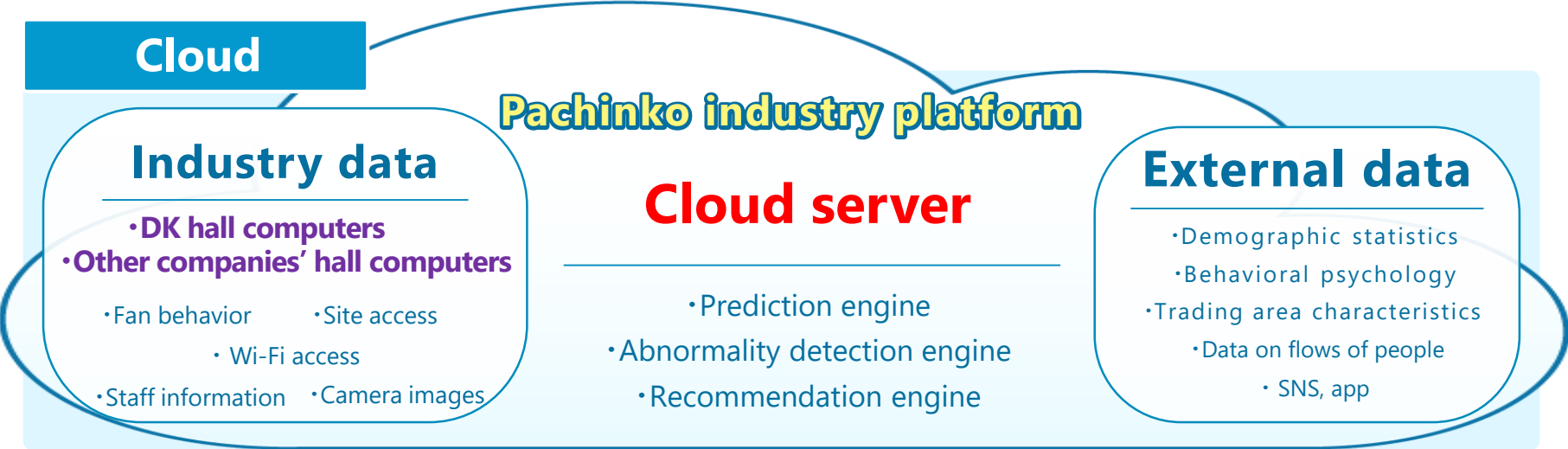


Expansion of new MG services*

* Stock type business (pachinko parlor management support service)

Information System Segment

▶ Vision of the next 3 years



MG service

*Stock-type business

Existing products



Information System Segment

▶ 3-year strategy

Cloud

- ① We will start a **business** using **cloud-servers** that does not rely on hall computers
- ② We will aim for increases in **stable earnings** by expanding new MG services

Existing products

- ① We will aim for **expansion of each product's market share** by introducing products and services that respond flexibly to changes in the industry, such as new standard machines and smart games machines, in a timely manner
- ② We will realize further **labor and personnel savings** and change the way hall staff **work and strategies for attracting fans**

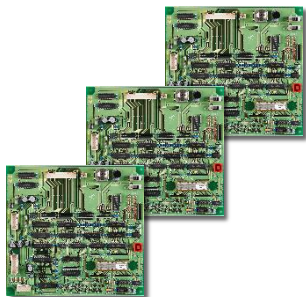
Priority measures to focus on over the next 3 years

We will redefine the domains of each business to respond to future changes in the market environment

Control System Segment

Shift the main focus of business from “pachinko” to “smart pachislot”

We will complete the medal-less housing and software development system and make it the pillar of profits in 3 years' time



3-year investment plan (consolidated)

	Total for previous 3 years	Plan value
	FY2019~FY2021 (Cumulative estimates)	FY2022~FY2024 (Cumulative estimates)
R&D	2,800 million yen (Total)	4,000 million yen (Total) Including smart pachislot (Control System Segment)
Capital investment	4,100 million yen (Total)	6,200 million yen (Total) Including server development costs (Information System Segment)
Depreciation expense	6,000 million yen (Total)	5,000 million yen (Total)

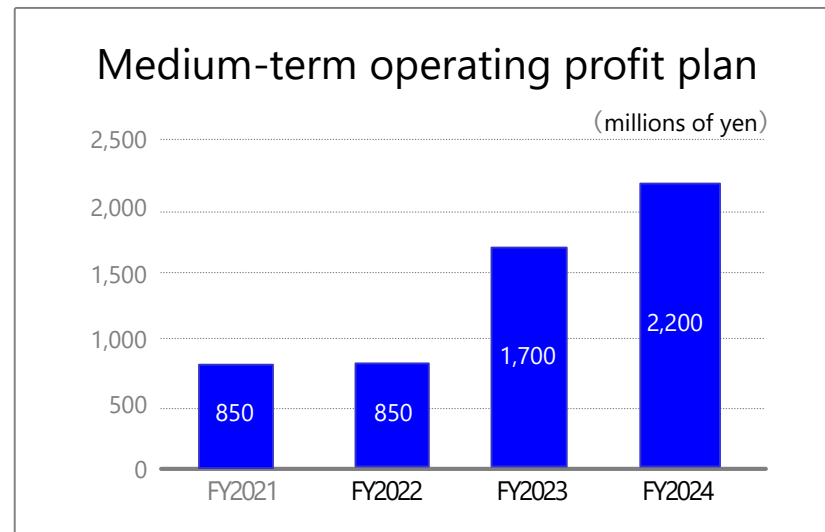
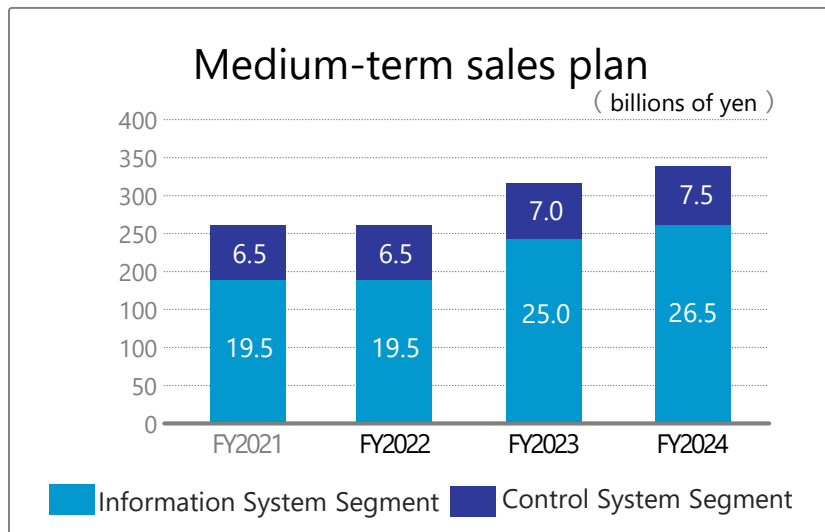
Revenue structure we will aim at for the future

► Results

Net sales 34 billion yen

Operating income 2.2 billion yen

Net income 1.5 billion yen



(millions of yen)	FY2019	FY2020	FY2021
Net sales	32,922	23,345	26,000
Gross profit-net	12,040	9,504	10,400
Selling, general and administrative expenses	10,608	8,897	9,550
Operating income	1,431	607	850
Ordinary income	1,671	986	1,000
Net income	1,061	612	650

(millions of yen)	FY2019	FY2020	FY2021
Net sales	32,922	23,345	26,000
Gross profit-net	12,040	9,504	10,400
Selling, general and administrative expenses	10,608	8,897	9,550
Operating income	1,431	607	850
Ordinary income	1,671	986	1,000
Net income	1,061	612	650

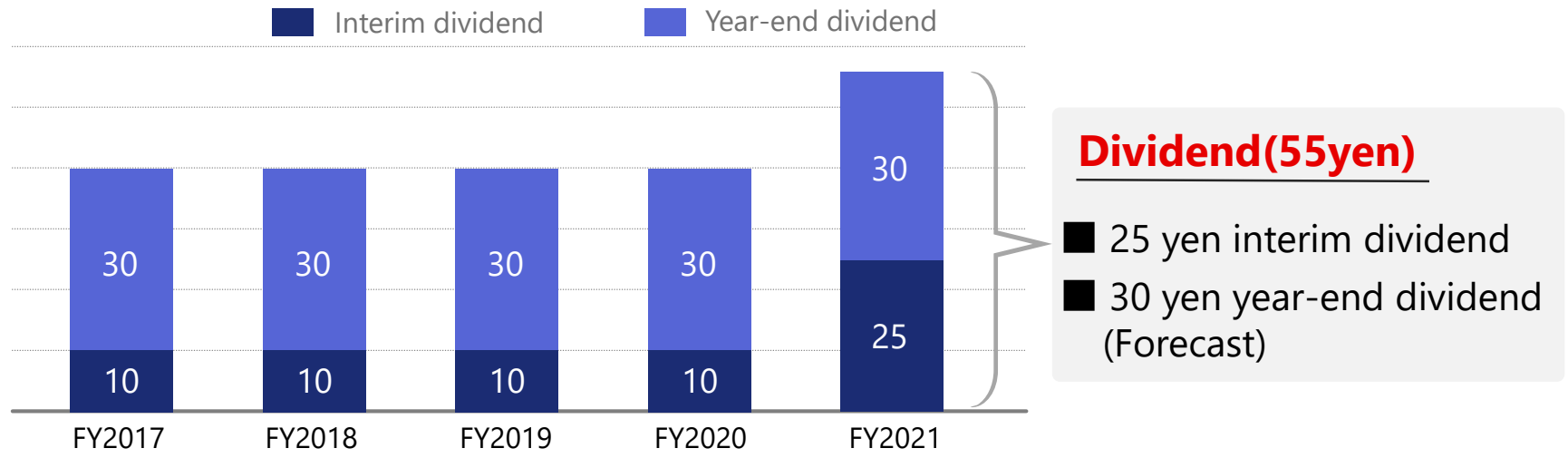
Other

Returns to shareholders

Sustainability

Dividends

▶ Stable dividends are our basic policy and we will pay special dividends in accordance with results



	Interim dividend	Year-end dividend	Total (yen)	Payout ratio	DOE
FY2017	10	30	40	75.3%	2.0%
FY2018	10	30	40	46.8%	2.0%
FY2019	10	30	40	55.7%	1.9%
FY2020	10	30	40	96.5%	1.9%
FY2021 (Forecast)	25	30	55	125.1%	2.7%

Shareholder benefit program

- ▶ We restarted the shareholder benefit program from FY 2021

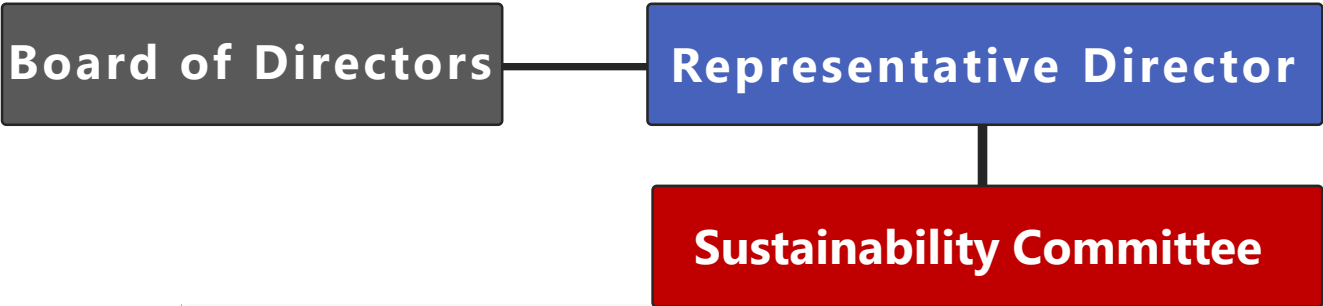


We will present QUO cards in accordance with the number of shares held and the period of continuous holding

Number of shares held	Period of continuous holding		
	Less than 1 year	1 year or longer to less than 3 years	3 years or longer
100 shares or more to less than 500 shares	1,000 yen card	2,000 yen card	3,000 yen card
500 shares or more to less than 1,000 shares	2,000 yen card	3,000 yen card	4,000 yen card
1,000 shares or more	3,000 yen card	4,000 yen card	5,000 yen card

Efforts towards sustainability

► We established a Sustainability Committee in November 2021



Management philosophy

We will continue to achieve sustainable growth consistently from now on through the creation of new value based on innovation

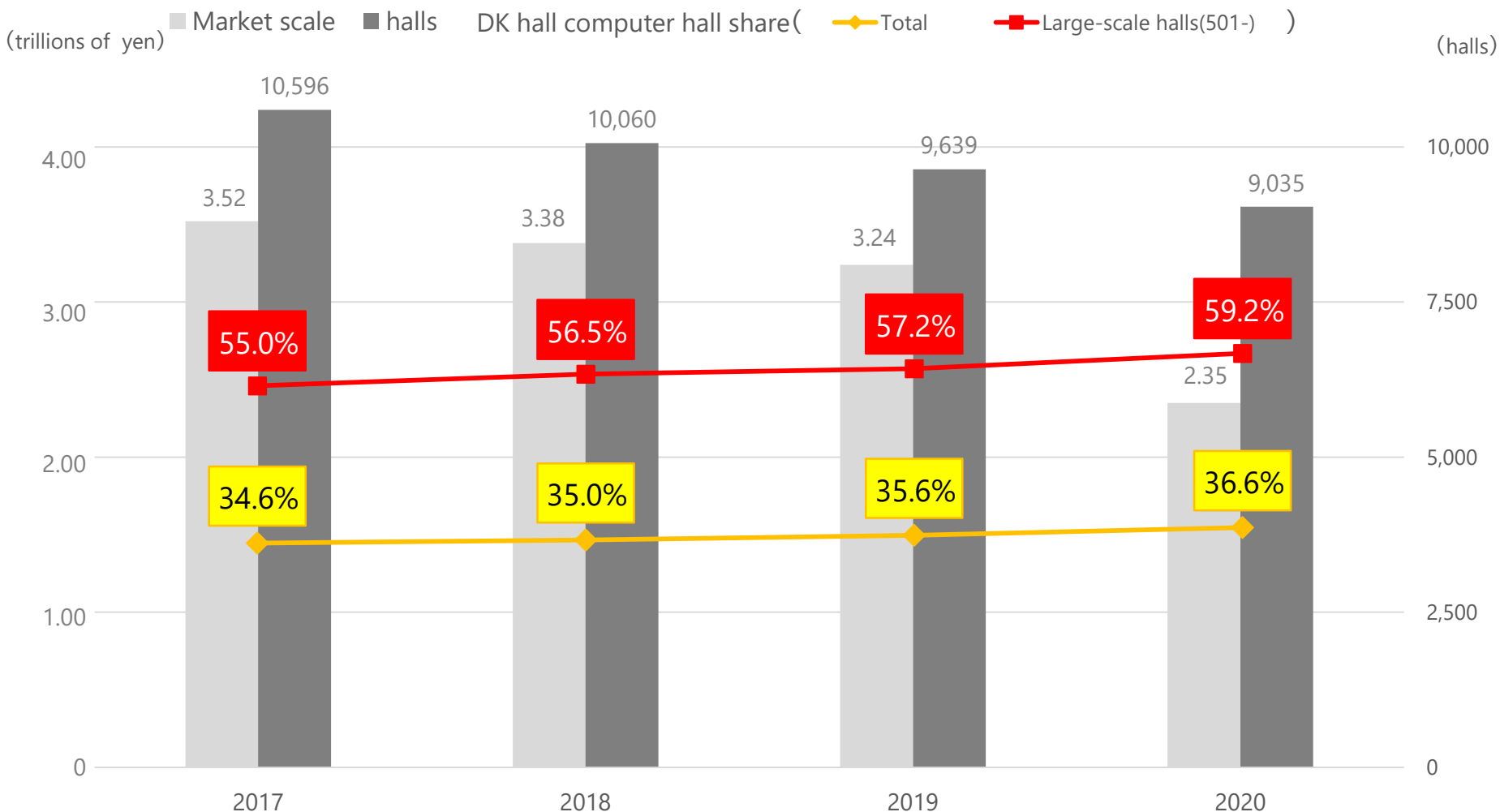
Sustainability policy

We will formulate a Sustainability Policy and identify materialities by March 2022

Reference Data

Market scale (gross profit), number of halls and share of DK hall computers

Although the market is shrinking gradually, DK leads the industry in market share, particularly at large halls

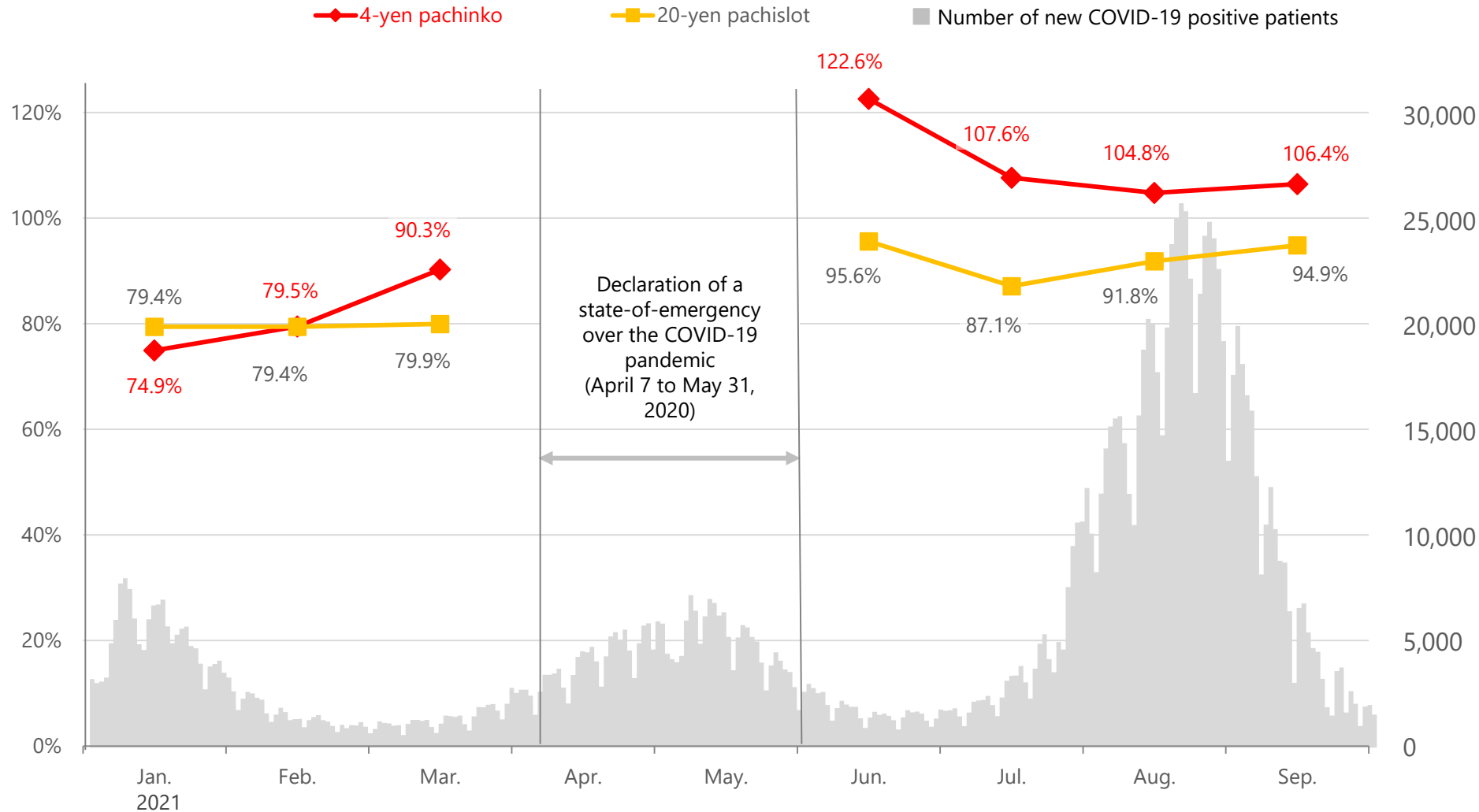


*Market scale (gross profit) is estimated from actual DK-SIS data.

*Number of stores data from: National Police Agency "Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc."

Operation (out) Monthly trend in YoY change

The operation of games machines as a whole remained at the same level as the previous year, but pachinko machines performed well thanks partly to hit models



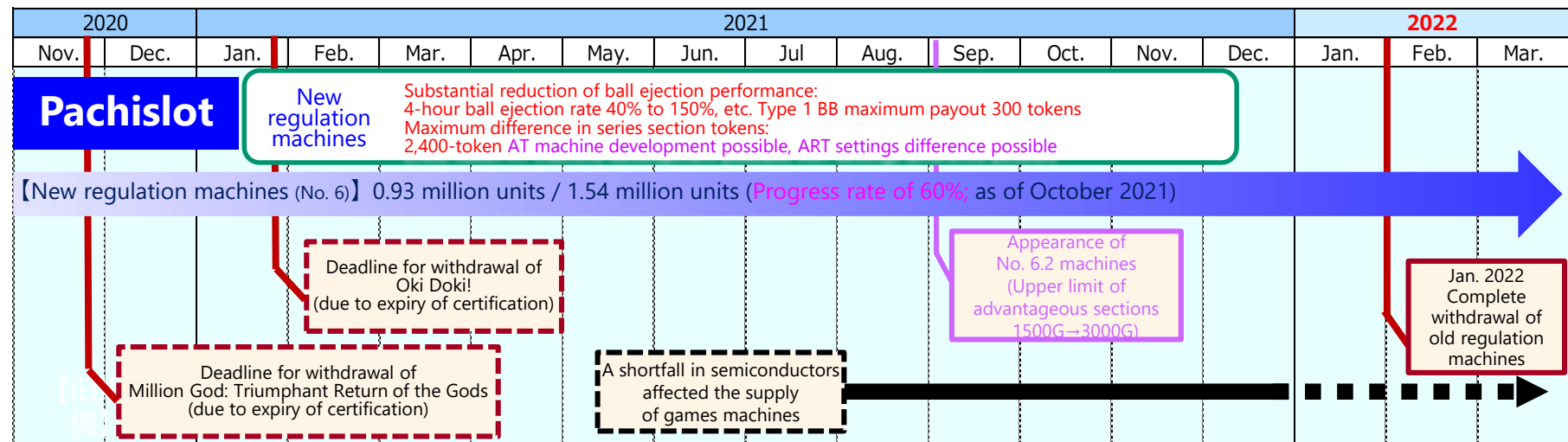
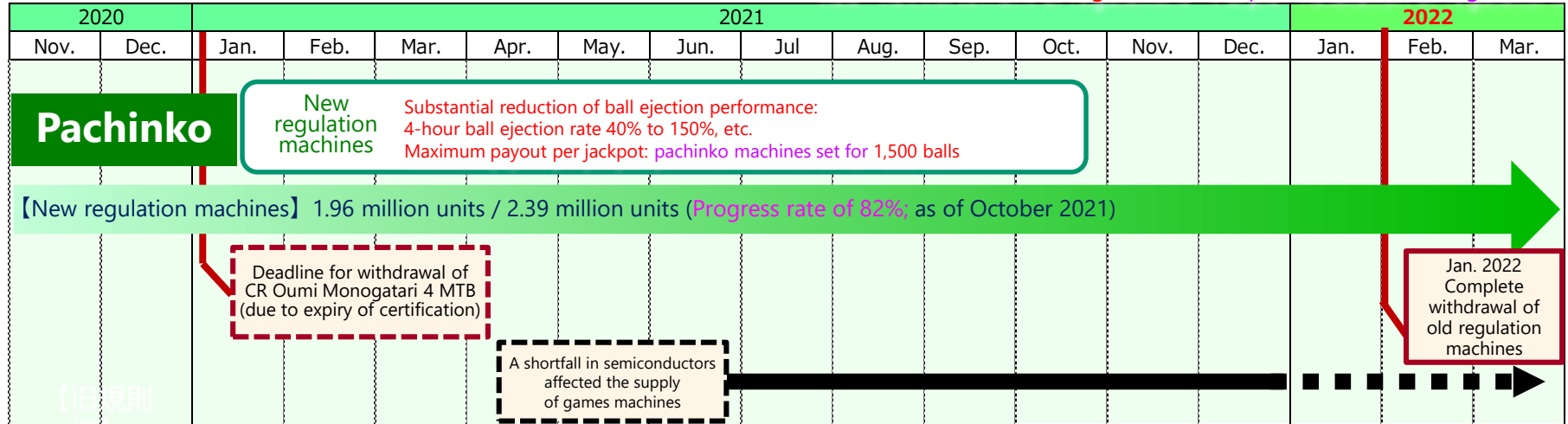
(Note) Operations (out) are real data of DK-SIS

(Note) Results in April to May 2020, the comparison months for April to May 2021, were affected by the COVID-19 pandemic

Withdrawal schedule for old regulation machines

Pachinko machines are ahead of pachislot machines in the introduction of new-regulation machines

Red : Reinforcement of regulations Purple : Relaxation of regulations



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

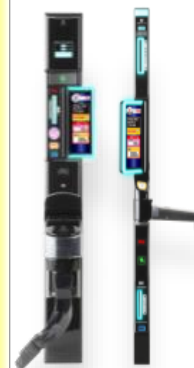
It displays machine data such as big wins and starts, produces images, lights and sounds matched to the machine, and allows fans to call staff.

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.

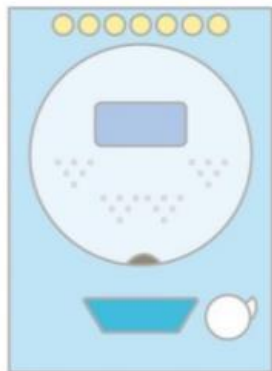
In addition, it has also realized advanced security and analysis within halls in conjunction with X.



Development and provision of software and hardware for game machine manufacturers

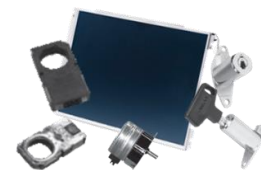
Development and provision of software and hardware of game machine

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 manufacturing process management quality by pursuing work efficiency
- Strengthen of planning and proposal capabilities with housing sets



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.

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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