

# FY2020 Financial Results

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

# Consolidated Financial Highlights

# Consolidated Statements of Income (Summary)

While sales decreased YoY, we secured a final profit above expectations

(millions of yen)	2020/3	2021/3 (Forecasts*)	2021/3	YoY Change	Rate of change
Net sales	32,922	23,200	23,228	- 9,693 (-29.4%)	+ 28 (+0.1%)
Gross profit-net	12,040	9,350	9,388	- 2,652 (-22.0%)	+ 38 (+0.4%)
Selling, general and administrative expenses	10,608	8,950	8,897	- 1,711 (-16.1%)	- 53 (-0.5%)
Operating income	1,431	400	490	- 941 (-65.7%)	+ 90 (+22.7%)
Ordinary income	1,674	700	986	- 688 (-41.1%)	+ 286 (+40.9%)
Net income attributable to owners of the parent	1,061	500	612	- 448 (-42.3%)	+ 112 (+22.5%)

\* We disclosed a "Notice of revisions to the full-year earnings forecast" on March 22, 2021

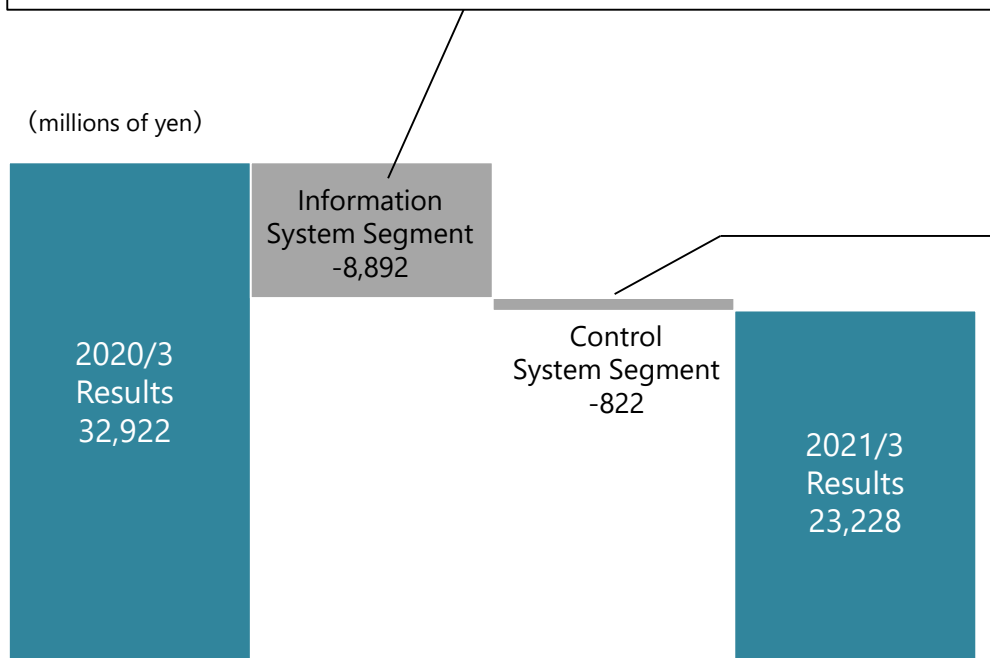
Sales decreased in both Information System Business and Control Systems Business under the impact of the COVID-19 pandemic

## Information System Segment

**Net sales in this segment were 17,462 million yen** →YoY Change -8,892 million yen( -33.7%)

The capital investment plans of pachinko parlor management companies were reviewed under the impact of the spread of COVID-19 infections and the market environment became difficult, with many new stores and renovations being postponed or canceled, resulting in a significant drop in sales of the core products of this business compared to the previous consolidated fiscal year.

However, due to proposals made in web exhibitions and seminars, sales of "REVOLA" and "IL-X3" for use with play time machines have been steady since the end of the year.



## Control System Segment

**Net sales in this segment were 5,775 million yen** →YoY Change -822 million yen( -12.5%)

Game machine manufacturers postponed sales of new titles, partly because the recovery of pachinko parlor operations was slow, and pachinko machine sales in the market as a whole decreased greatly.

In this business, sales of parts exceeded the previous consolidated fiscal year, but sales of display units and control units fell below those for the previous consolidated fiscal year.

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

While profits in both businesses decreased year on year, a review of company-wide expenses supported earnings

## Information System Segment

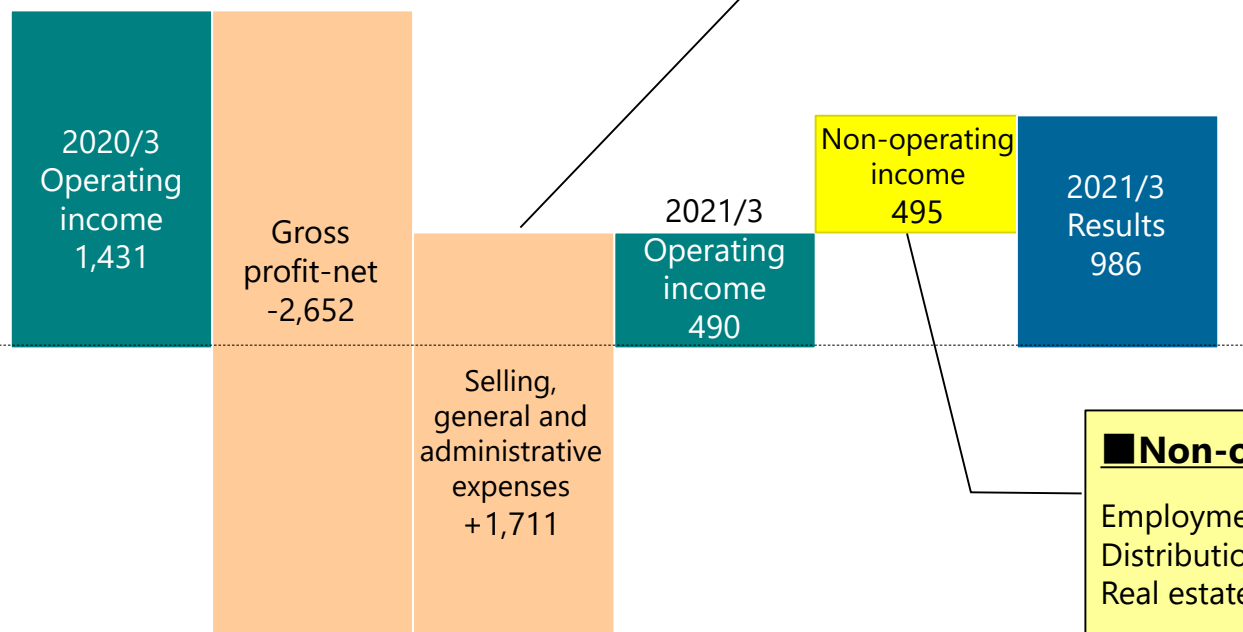
Segment-operating income in this segment were **1,939 million yen** →YoY Change -1,164 million yen( -37.5%)

## Control System Segment

Segment-operating loss in this segment were **15 million yen** →YoY Change -93 million yen  
(compared with a segment profit of 78 million yen in the same period of the previous year)

**The whole company cost : 1,433 million yen** → YoY Change -317 million yen( -18.1%)

(millions of yen)



### ■ Selling, general and administrative expenses

→YoY Change -1,711 million yen

R&D : -350 million yen  
 Personnel expenses : -280 million yen  
 Business trip expenses : -150 million yen  
 Conversion to in-house production : -100 million yen  
 Exhibitions (implemented on web) : -70 million yen

### ■ Non-operating income

Employment adjustment subsidy : 260 million yen  
 Distributions received : 118 million yen  
 Real estate rental charges : 84 million yen

# Consolidated Balance Sheets (Summary)

D/E ratio (interest-bearing debts / net worth) secures 0.10 and enough soundness

(millions of yen)	FY2019	FY2020	YoY Change
Current assets	26,247	25,427	- 819
Noncurrent assets	16,455	15,657	- 798
Total assets	42,702	41,084	- 1,617
Current liabilities	11,148	9,519	- 1,629
Noncurrent liabilities	1,147	903	- 244
Total liabilities	12,296	10,422	- 1,873
Total net assets	30,406	30,662	+ 255
Total liabilities and net assets	42,702	41,084	- 1,617
Debt	3,300	3,000	- 300
Shareholders' equity ratio	71.2%	74.6%	+ 3.4%
D/E ratio	0.11	0.10	- 0.01

•With regard to total assets as of the end of the current consolidated fiscal year under review, trade receivables and other operating receivables decreased significantly compared to the end of the previous consolidated fiscal year, partly because the impacts associated with the spread of COVID-19 infections were so great. In addition, because we made efforts to refrain from large capital investments in consideration of the fact that the impact of COVID-19 infections is uncertain, the recording of depreciation expenses was greater than investment, resulting in total assets decreasing to 41,084 million yen, 1,617 million yen less than at the end of the previous consolidated fiscal year.

•With regard to liabilities as of the end of the current consolidated fiscal year under review, because the group made efforts to reduce various costs, including work reforms and reviews of outsourcing costs based on the point that there are concerns over the renewed spread of COVID-19 infections, accounts payable, etc., decreased. Further, income taxes payable, etc., decreased in association with the decline in business results. As a result, liabilities decreased to 10,422 million yen, 1,873 million yen less than at the end of the previous consolidated fiscal year.

•Net assets as of the end of the current consolidated fiscal year under review were 30,662 million yen, 255 million yen more than at the end of the previous consolidated fiscal year, because it was possible to record net income attributable to owners of the parent despite the payment of interim dividends.

•Shareholders' equity ratio was 74.6% (3.4 points up from the end of the previous consolidated fiscal year).

# Consolidated Balance Sheets (Summary)

We ensured positive free cash flow

(millions of yen)	FY2019	2020/9	FY2020
Operating CF	5,006	844	3,396
Investment CF	- 1,688	- 818	- 2,242
Financing CF	- 591	- 443	- 891
Cash and cash equivalents	15,478	15,060	15,739
Free cash flow	3,318	26	1,154

Cash and cash equivalents  
(2020/3)

15,478

Operating CF 3,396

Income before income taxes

977

Depreciation

+1,967

Increase in notes and  
accounts receivable

+1,457

Increase in notes and  
accounts payable

- 229

Other, net

- 776

Investment CF ( Investment securities -1,000 etc.)

- 2,242

Financing CF ( Long-term loans payable -300 etc.)

- 891

Cash and cash equivalents  
(2021/3)

15,739

# **FY Ending March 2022 Full Year Forecasts**



The environment is difficult due to COVID-19 and the semiconductor shortage, but capital investment is expected to trend towards recovery in the second half

## ■ 1st half

- COVID-19 infections will be prolonged and “living with COVID-19 measures” essential
- The operation of pachinko halls will trend at 80% of the pre-COVID-19 level
- The principle axis of sales will shift from pachislot to pachinko

## ■ 2nd half

- Anxieties over infection will lessen due to the diffusion of the COVID-19 vaccine and the strengthening of infection countermeasures
- The global semiconductor shortage will also affect the game machine market
- The replacement of old regulation machines with new regulation machines will progress and activate the game machine market
- The number of stores will decrease, but there is an opportunity to activate the market through superior M&A
- Capital investment by pachinko halls will trend towards recovery

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

## ■ Strategies (Short-term)

<b>Information System Segment</b>	<ul style="list-style-type: none"> <li>• Diffusing of AI hall computer " X (Kai) "</li> <li>• Diffusing of trading area analysis service " Market-SIS "</li> <li>• Launch of new MIRAIGATE service</li> </ul>
<b>Control System Segment</b>	<ul style="list-style-type: none"> <li>• Expansion of business areas through sales of the company's pachislot housings</li> <li>• Strengthening of the profitability of contract software development projects through improved work efficiency</li> </ul>

## ■ Strategies (Middle-term)

<b>Information System Segment</b>	<ul style="list-style-type: none"> <li>• Support for more efficient, personnel-saving pachinko hall management based on sales of facilities and equipment</li> <li>• Support for store management appreciated by pachinko fans through sales of service</li> </ul>
<b>Control System Segment</b>	<ul style="list-style-type: none"> <li>• Promotion of initiatives for next-generation game machines that will please fans</li> <li>• Expansion of business areas using hard and soft technologies for game machines</li> </ul>
<b>Corporate Planning Department Research and Development Department</b>	<ul style="list-style-type: none"> <li>• Promotion of DX, consideration of new business and promotion of basic research on new technologies in anticipation of the medium- to long-term market environment</li> </ul>

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

We assume that capital investment by pachinko halls will trend towards recovery from the second half

(millions of yen)	FY2020		FY2021 (Forecasts)		YoY Change
	1st half	Total	1st half	Total	
Net sales	11,060	23,228	12,000	26,000	+ 2,771
Gross profit-net	4,332	9,388	4,850	10,400	+ 1,011
Selling, general and administrative expenses	4,556	8,897	4,650	9,550	+ 652
Operating income	- 224	490	200	850	+ 359
Ordinary income	- 18	986	270	1,000	+ 13
Net income attributable to owners of the parent	- 48	612	175	650	+ 37

Research and development expenses	426	819	370	900	+ 81
Depreciation expense	994	1,967	910	1,930	- 37
Capital investment	63	250	270	520	+ 270
Software	300	800	340	1,130	+ 330

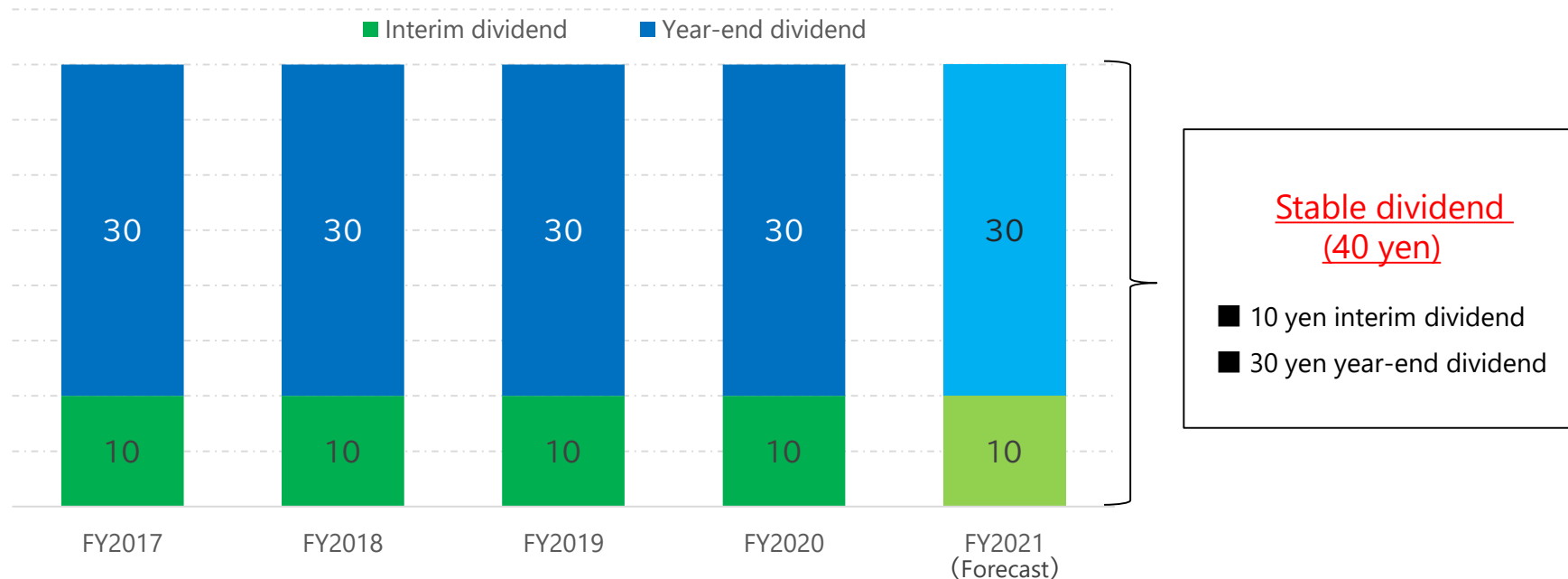
# FY Ending March 2022 Full Year Forecasts by segment

Both businesses posted higher sales, but the Information System segment posted lower profits due to positive investment

(millions of yen)		FY2020		FY2021 (Forecasts)		YoY Change
		1st half	Total	1st half	Total	
Information System Segment		8,206	17,462	9,000	19,500	+ 2,037
Control System Segment		2,858	5,775	3,000	6,500	+ 724
Segment sales		11,064	23,238	12,000	26,000	+ 2,761
Information System Segment		540	1,939	900	1,850	- 89
Control System Segment		- 5	- 15	100	600	+ 615
Segment income		535	1,924	1,000	2,450	+ 525
Corporate expenses		- 759	- 1,433	- 800	- 1,600	- 166
Net sales		11,060	23,228	12,000	26,000	+ 2,771
Operating income		- 224	490	200	850	+ 359

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

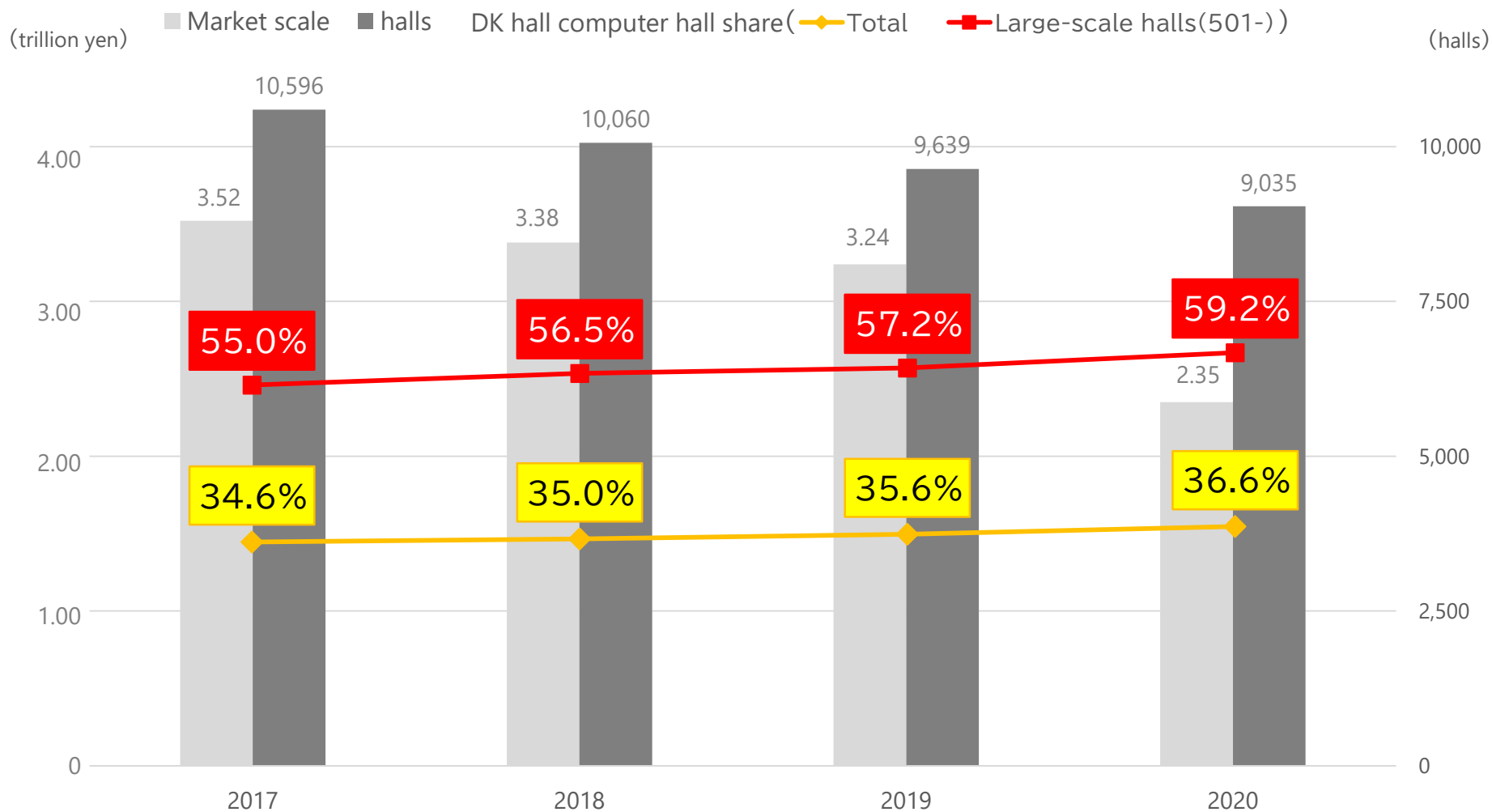
Under the basic policy of stable dividends, we forecast an interim dividend of 10 yen, and a term-end dividend of 30 yen for a full-term total of 40 yen



(yen per share)	Interim dividend	Year-end dividend	Total (yen)	Payout ratio
FY2017	10	30	40	75.3%
FY2018	10	30	40	46.8%
FY2019	10	30	40	55.7%
FY2020	10	30	40	96.5%
FY2021 (Forecast)	10	30	40	95.4%

# Reference Data

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



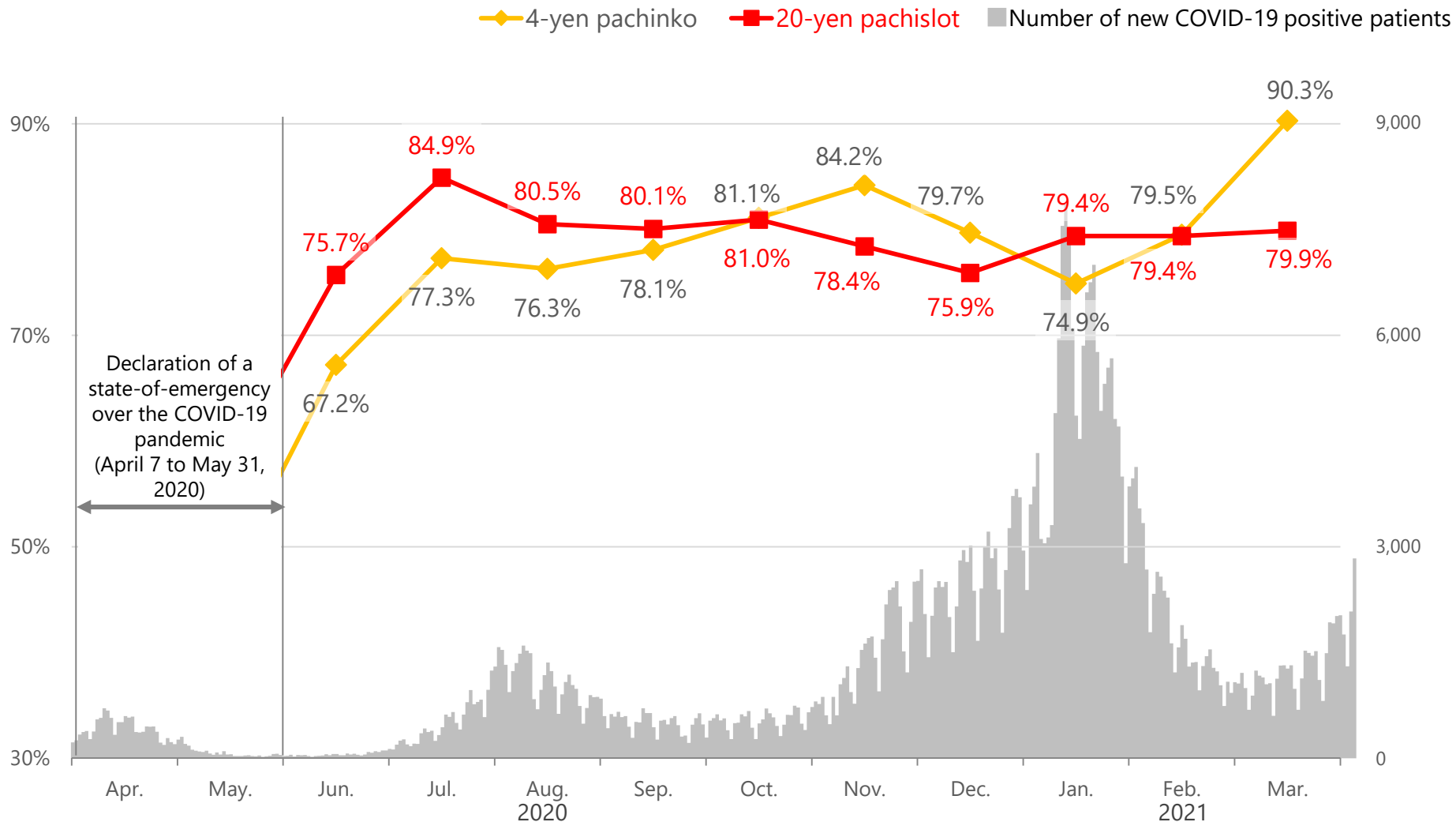
\*Market scale (gross profit) is estimated from actual DK-SIS data.

\*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

Although operation fell at the beginning of the term under the impact of COVID-19, it trended around the 80% level YoY in the second half

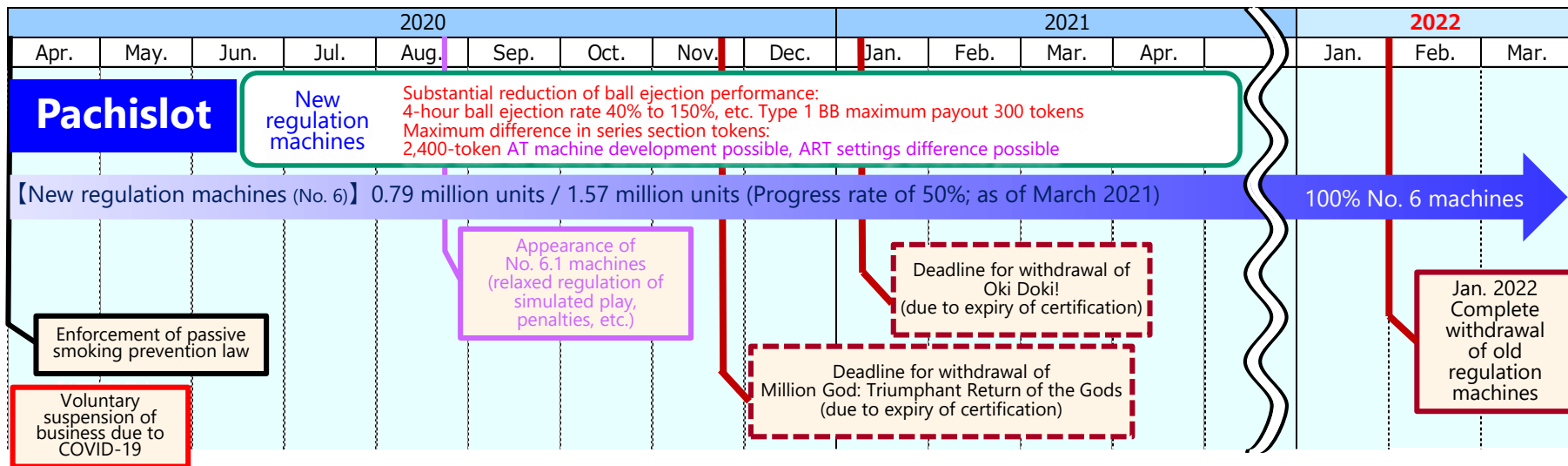
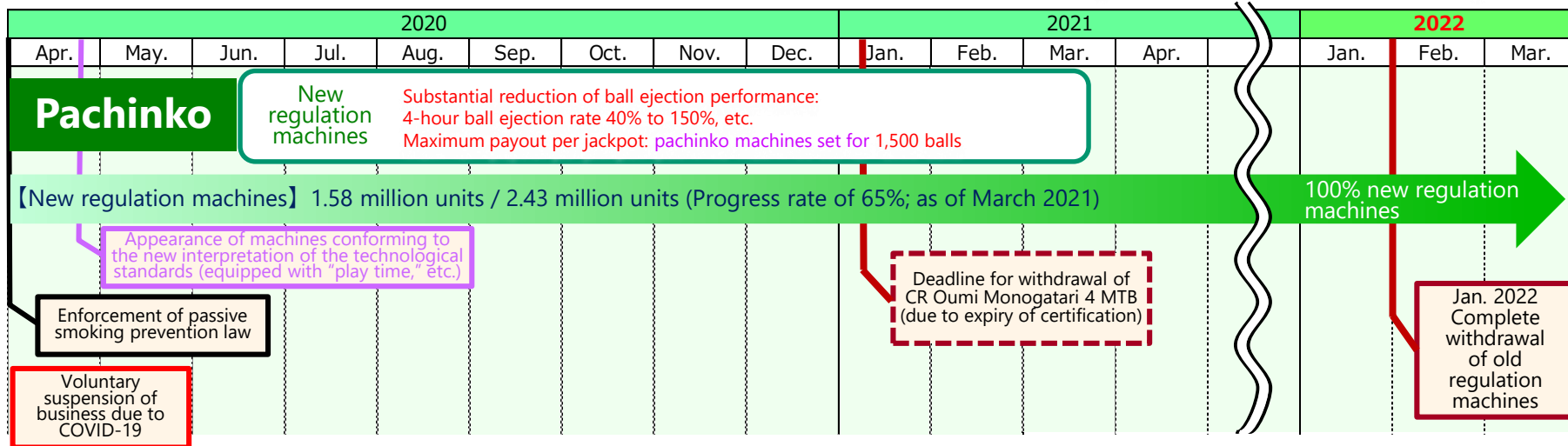


\* Operation (out) is actual DK-SIS data. \* Results in March 2020, the comparison month for March 2021, were affected by the COVID-19 pandemic

# Withdrawal schedule for old regulation machines

The transitional measures were extended by one year (to January 2022) and machines will be withdrawn gradually based on a resolution of the 21st Century Association of the Pachinko and Pachislot Industry

Red : Reinforcement of regulations Purple : Relaxation of regulations



# Efforts in the same period last year

We will focus on the diffusion of "X (Kai)" and "Market-SIS," and the promotion of contract pachislot development

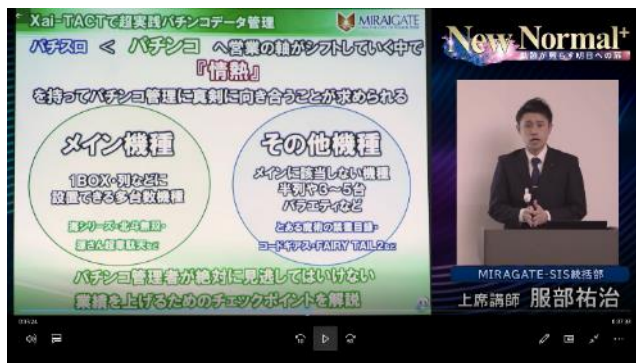
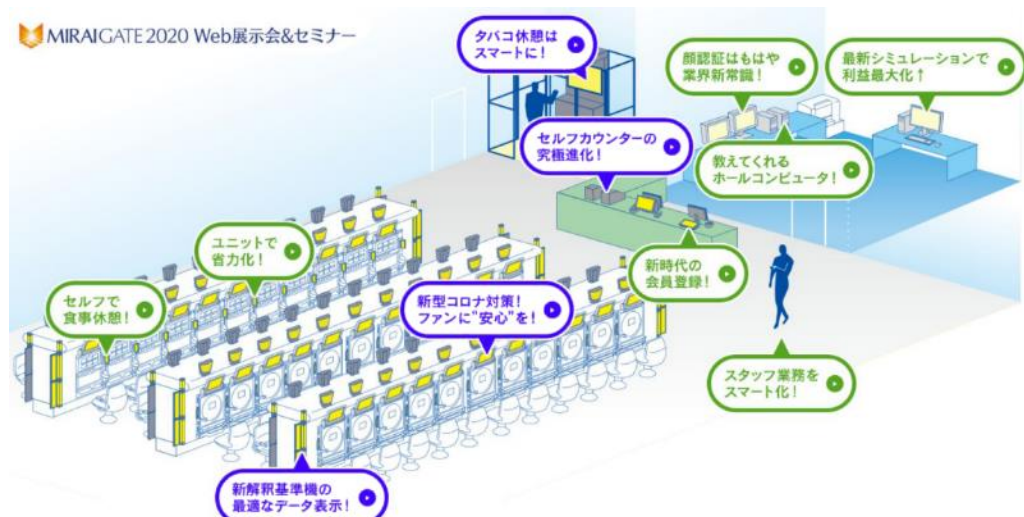
## Information System Segment

- The number of system upgrades to the "X (Kai)" AI hall computers for the purpose of "play time" machine data management progressed to about 90% compared to the same period of the previous year.
- Market-SIS, which is in its diffusion phase, is expanding its market share steadily.
- Sales of the "REVOLA" and "IL-X3" information disclosure terminals, which provide information on "play time" machines to fans in an easy-to-understand way, have been steady since the year-end shopping season.
- We held the industry's first online format "MIRAIGATE 2020 Web Exhibition & Seminar."
- We issued the 2020 edition of the "DK-SIS White Paper" (2019 data). In this report, we compile and analyze operating data from about 1.47 million machines sent daily from pachinko parlors, and present the annual results of analysis. It is used by industry stakeholders as an index in their efforts to perceive the future.

## Control System Segment

- We promoted contract development of pachislot machines and activities to expand the business areas of the products we sell.
- We made efforts in research and study on technologies and parts aimed at reducing the cost of display units.
- We will reallocate resources and review processes in line with the full-scale development of pachinko machines under the new pachinko rules (play time) by game machine manufacturers.

DK made proposals on responses to new market trends to market participants



- In September 2021, we held our WEB Exhibition & Seminar. (5,508 participants \* Twice as many as a normal year)
- In March 2022, we held our second web seminar, following the first in September, which was popular. (4,370 participants)
- Proposed the industry's "New Normal" under the themes of ① "new internal rules (play time)," ② "with Corona" and ③ "personnel and labor saving"
- At the same time, we held a DK-SIS seminar to analyze the market during the COVID-19 pandemic and propose methods for future business recovery

# 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

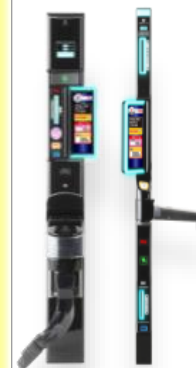
It displays machine data such as big wins and starts, produces images, lights and sounds matched to the machine, and allows fans to call staff.

## 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.

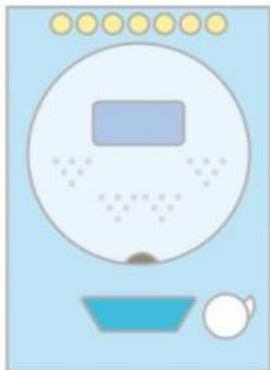
In addition, it has also realized advanced security and analysis within halls in conjunction with X.



Development and provision of software and hardware for game machine manufacturers

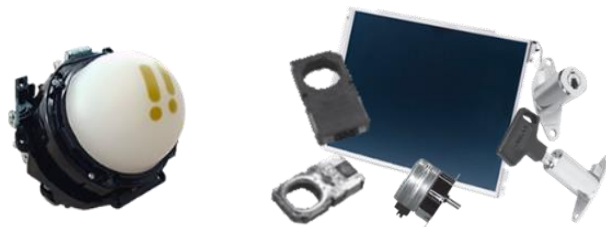
## Development and provision of software and hardware of game machine

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.**

# DK's commitment to ESG : E (Environment)

We are promoting environmental improvement efforts through products, business sites, and industry groups

## ●Products

- Building of environments with smoking and non-smoking areas by linking hall computers ↔ terminals ↔ smoking booths
- Reduction of waste by segmenting the scope of hall facility repairs (maintenance and repairs) CO2 reduction
- Adoption of recycled materials in the transportation of send-back repaired products CO2 reduction



## ●Business sites

- Our Headquarters building with an energy-saving design received the highest S-rank in its comprehensive environmental performance assessment CO2 reduction
- Adoption of thermal barrier paint and LED lighting for energy saving (Sakashita Division Office and Kasugai Division Office) CO2 reduction
- Recycling of plastic pallets and cardboard boxes at time of disposal CO2 reduction



## ●Industry groups

- Planning and promotion of "National Clean Day" as a company member of the Nichiyukyo (\*) Social Contribution and Environmental Measures Committee  
Every year, about 7 to 8,000 people in the industry and pachinko fans clean up about 2,000 areas nationwide



\* Nichiyukyo is the abbreviation for the Japan Pachinko Machine Industry Association. Photo taken from the Nichiyukyo magazine.



# DK's commitment to ESG : S (Society)

We are focusing on COVID-19 countermeasures, social contribution activities and the creation of a workplace environment in which female employees can be active

## ●Products

- Display of cleaned and sterilized on call lamps to promote safe play for fans and infection prevention
- Reduction of on-site surveys by staff due to Market-SIS to reduce risk of COVID-19 infection
- Greater efficiency of hall management based on the use of the "X (Kai)" AI hall computers
- Reduction of workloads in ball box management based on the use of counters on each machine
- Personnel saving in hall management based on smartwatches and web member registration



## ●Social contributions

- We hosted a robot programming experience class for elementary school students at Head Office in cooperation with the Nagoya Boys and Girls Invention Club, administered by Nagoya City

⇒ Programming education became mandatory in elementary schools from fiscal year 2020, so we are contributing to the programming classes and human resource development called for by society



## ●Business sites, Operations

- We are distributing masks and other COVID-19 countermeasure items throughout the company, and will continue to promote telework
- The "My Life Work System" and The "Sliding Work System" supports marriage and child rearing by enabling flexible work styles
- The "Half-day and Hourly Leave System", the "Birthday Leave System", and the "Wedding Anniversary Leave System" also allows employees to

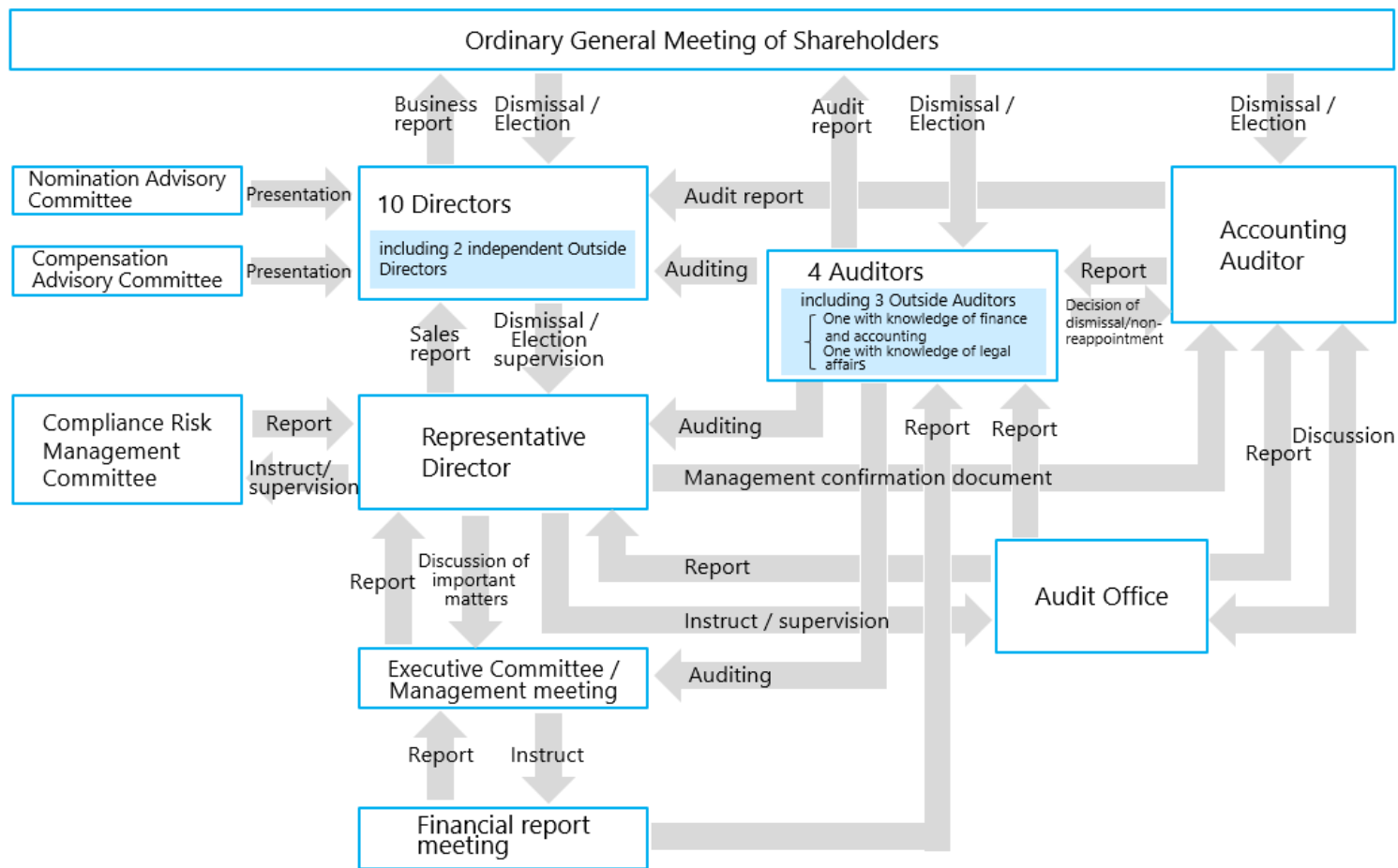
⇒ Average length of service of female employees is **18.9 years** (end of March 2021)

**94%** return to work after childbirth (over the last 10 years)



# DK's commitment to ESG : G (Governance)

Establishment of a system for corporate transparency and corporate governance to function effectively



- \*The Compliance and Risk Management Committee holds CPR Salons (small group activities) twice a year in which all employees participate
- \*We hold a Financial Report Meeting every quarter and implement thorough internal controls
- \*We hold a Management Meeting every week and discuss various management issues positively

# 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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