



Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023

(Under Japanese GAAP)

November 14, 2022

Company name: Daikoku Denki Co., Ltd. Listing: Tokyo Stock Exchange/
Nagoya Stock Exchange

Securities code: 6430 URL: <https://www.daikoku.co.jp/>

Representative: (Title) President and Representative Director (Name) Seiichiro Oue

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Scheduled date of filing quarterly report: November 14, 2022

Scheduled date of commencement of dividend payments: December 2, 2022

Preparation of supplementary materials for quarterly financial results : Yes

Holding of quarterly financial results briefing : Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down.)

1. Consolidated financial results for the cumulative second quarter of the fiscal year ending March 31, 2023 (from April 1, 2022 to September 30, 2022)

(1) Consolidated operating results (First 6 months) (Percentage figures show year-on-year increase or decrease.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q2 of FY2023/3	11,289	(6.3)	749	(13.2)	871	(5.2)	570	(15.9)
Q2 of FY2022/3	12,047	8.5	863	-	919	-	678	-

(Note) Comprehensive income: Q2 of FY2023/3 570 million yen [(16.1%)]
Q2 of FY2022/3 679 million yen [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q2 of FY2023/3	38.59	-
Q2 of FY2022/3	45.91	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Q2 of FY2023/3	39,911	31,194	78.2
FY2022/3	41,489	31,141	75.1

(Reference) Shareholders' equity: Q2 of FY2023/3 31,194 million yen
FY2022/3 31,141 million yen

2. Cash dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2022/3	-	25.00	-	35.00	60.00
FY2023/3	-	10.00	-	-	-
FY2023/3 (Forecast)	-	-	-	30.00	40.00

(Note) Revisions to recently released dividends forecasts : None

3. Consolidated financial forecast for the fiscal year ending March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	26,500	8.7	1,100	(7.7)	1,300	(4.9)	850	(30.8)	57.49

(Note) Revisions to recently released earnings forecasts : Yes

* Notes

- (1) Changes in significant subsidiaries during the period : None
- (2) Application of accounting treatment for preparing quarterly consolidated financial statements : None
- (3) Changes in accounting policies, changes in accounting estimates, and restatements
- 1) Changes in accounting policies due to revisions to accounting standards and other regulations : None
 - 2) Changes in accounting policies due to reasons other than 1) : None
 - 3) Changes in accounting estimates : None
 - 4) Restatements : None

(4) Number of shares issued (common stock)

1) Total number of shares issued at the end of the period (including treasury stock)	Q2 of FY2023/3	14,783,900 shares	FY2022/3	14,783,900 shares
2) Number of shares of treasury stock at the end of the period	Q2 of FY2023/3	918 shares	FY2022/3	918 shares
3) Average number of shares outstanding during the period (QTD) (Total)	Q2 of FY2023/3	14,782,982 shares	Q2 of FY2022/3	14,782,982 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

All forward-looking statements in this document such as financial forecasts and outlooks are based on the information currently available to and certain assumptions deemed reasonable by the company and are not a promise that the company is committed to achieving them. In addition, they may be materially different from actual results etc. due to various factors.

For earnings forecasts, please see page 3, (3) Future prospects information including consolidated earnings forecasts in 1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2023.

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1. Qualitative Information on Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023

(1) Explanation of operating results

The Japanese economy to the end of the second quarter of the current consolidated fiscal year (April 1, 2022 to September 30, 2022) saw business pick up amid the normalization of economic and social activities for living with COVID-19 and the relaxation of regulations etc. on preventing the spread of COVID-19. However, the outlook remains uncertain because of the plummeting yen, soaring resource prices, and price increases triggered by supply constraints, among other factors.

In the pachinko industry that the Daikoku Denki Group is engaged in, where the number of pachinko parlors in operation has been on the decrease year after year, pachinko parlors continued operating while taking thorough measures to prevent infections. The state of operation of pachinko and pachislot machines combined averaged 101.7% YoY during the period from July to September 2022. In terms of pachinko machines operations, the models released at the end of last year were supported strongly by fans, and the average for the period from July to September remained robust at 103.0% YoY. For pachislot machines, the average for the period from July to September was 98.5% YoY, but the rollout of Unit 6.5—which started in full swing in June—and the release of pachislot machines strongly supported by fans contributed to the average of 101.2% YoY for the single month of September. The Unit 6.5 has attracted special attention (according to comparison based on the company's DK-SIS data).

Furthermore, the Smart Pachinko Machine Forum was held for pachinko industry stakeholders on July 19, and since then expectations for smart game machines (smart pachislot and smart pachinko machines) in pachinko parlors have rapidly grown, triggering proactive preparations and capital investment for the rollout of these machines. The rollout of smart pachislot machines and smart pachinko machines is scheduled in November 2022 and spring 2023, respectively.

In this market environment, in the information systems business, we strengthened proposals for the use of X (Kai) AI hall computers optimized for data management of smart game machines, which are to be released in the market in November, through system upgrades. In August, we published the 2022 edition of the DK-SIS White Paper (2021 data), which marked its 19th anniversary this year. This paper compiles and analyzes big and accurate operating data worth annual sales of ¥7.1 trillion from about 1.40 million machines (which represents a 36.8% market share) sent daily from pachinko parlors, presenting the annual results of analysis. It is used by industry stakeholders as an index in their efforts to create an outlook for the future.

In the control systems business, we continued to work from the first quarter on strengthening the development structure and restructuring the manufacturing environment for pachislot machines, in addition to the existing pachinko machines, in order to expand our business areas.

As a result, cumulative results in the second quarter of the current fiscal year showed sales of ¥11,289 million (down 6.3% YoY), an operating profit of ¥749 million (down 13.2% YoY), an ordinary profit of ¥871 million (down 5.2% YoY) and a quarterly net profit attributable to parent company shareholders of ¥570 million (down 15.9% YoY).

The results by segment are as follows:

(Information systems business)

In the business during the first six months, moves to seek trends in smart game machines, which were to be rolled out soon, put us in a difficult situation, with the opening of new parlors and large-scale refurbishment projects held off. However, capital investment is surging ahead of the rollout based on expectations for smart game machines. Although the semiconductor shortage still continues to affect our company, we are making preparations to meet this demand to the maximum extent possible.

In this market environment, sales of products for pachinko parlors decreased YoY as supply could not keep up with demand due to the global semiconductor shortage; we had to adjust the number of units for sale unfortunately. Sales of services showed a marginal YoY decline due to the stagnant consumer business despite the steady growth seen in primary services such as the MG Service.

As a result, in this business field we recorded sales of ¥8,505 million (down 7.4% YoY) and a segment income of ¥1,406 million (up 4.4% YoY).

(Control systems business)

In the business during the period, the total sales of games machines decreased in the overall market, as a backlash to the completion of replacement with new regulation machines which had been set out during the previous fiscal year and stances to sit on the fence on trends in next smart game machines to be released in the market. — In such a market environment, sales of display units and control units fell below those for the same period last year, whereas sales of parts were strong, up YoY.

In the second straight quarter, the company also recorded an allowance for doubtful accounts for receivables due from game machine manufacturers under civil rehabilitation proceedings.

As a result, in this business field we recorded sales of ¥2,788 million (down 2.7% YoY) and a segment income of ¥48 million (down 81.8% YoY).

(Millions of yen)					
		Q2 of FY2022/3	Q2 of FY2023/3	Change	Change (%)
Net sales		12,047	11,289	(757)	(6.3)
	Information systems business	9,187	8,505	(681)	(7.4)
	Control systems business	2,866	2,788	(78)	(2.7)
Operating profit		863	749	(113)	(13.2)
Ordinary profit		919	871	(47)	(5.2)
Profit attributable to owners of parent		678	570	(108)	(15.9)

(Note) Intersegment transactions are included in the amounts in the results by segment.

(2) Explanation of financial position

Total assets at the end of the second quarter of the current consolidated fiscal year decreased by ¥1,577 million from the end of the previous consolidated fiscal year to ¥39,911 million. This is a result of increases in products for the rollout of smart game machines and decreases in cash and deposits due to the payment of trade payables, etc. and in tangible and intangible assets due to factors including the recording of depreciation expenses.

Liabilities at the end of the second quarter were ¥8,717 million, ¥1,630 million lower than at the end of the previous fiscal year due to the fact that capital investment made in September 2022 was smaller than in March 2022 and the payment of consumption tax reduced other current liabilities, among other factors.

Despite year-end dividend payments, our net assets at the end of the second quarter were ¥31,194 million, ¥52 million higher than at the end of the previous consolidated fiscal year due to the recording of a quarterly net profit attributable to parent company shareholders. The shareholders' equity ratio was 78.2%, 3.1 points up from the end of the previous consolidated fiscal year.

(3) Explanation of future prospects information including consolidated earnings forecasts

For consolidated earnings forecasts for the fiscal year ending March 2023, please refer to the “Notice on differences between forecasts and actual results for the second quarter for the fiscal year ending March 2023 and revisions to the full-year earnings forecasts” released on November 14, 2022.

We will promptly disclose any revisions that need to be made to the earnings forecasts in the future.

In addition, there have been no material changes to the content disclosed in the latest securities report (submitted on June 30, 2022) concerning risks that may have an impact on results.

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly consolidated balance sheet

	(Thousand yen)	
	Fiscal year ended March 31, 2022 (March 31, 2022)	Second quarter, year ending March 31, 2023 (September 30, 2022)
Net assets		
Current assets		
Cash and deposits	16,581,552	15,150,238
Notes and accounts receivable - trade, and contract assets	3,395,453	2,729,781
Electronically recorded monetary claims - operating	1,672,665	406,310
Merchandise and finished goods	3,670,843	6,002,511
Work in process	93,408	92,842
Raw materials and supplies	669,916	563,086
Other	683,570	908,852
Allowance for doubtful accounts	(3,210)	(53,603)
Total current assets	26,764,200	25,800,019
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,378,195	3,273,829
Land	4,162,117	4,162,117
Other, net	818,769	665,867
Total property, plant and equipment	8,359,082	8,101,814
Intangible assets		
Software	2,318,108	2,009,752
Other	33,547	33,295
Total intangible assets	2,351,655	2,043,047
Investments and other assets		
Deferred tax assets	679,116	611,015
Investment property, net	881,248	872,663
Other	2,608,634	2,820,098
Allowance for doubtful accounts	(154,032)	(336,668)
Total investments and other assets	4,014,967	3,967,107
Total non-current assets	14,725,705	14,111,970
Total assets	41,489,905	39,911,989

(Thousand yen)

	Fiscal year ended March 31, 2022 (March 31, 2022)	Second quarter, year ending March 31, 2023 (September 30, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,594,482	1,783,052
Electronically recorded obligations - operating	2,588,490	2,314,400
Short-term borrowings	2,000,000	2,000,000
Income taxes payable	32,678	257,742
Provision for bonuses for directors (and other officers)	64,240	24,480
Provision for product warranties	61,368	43,476
Other	2,078,128	1,358,654
Total current liabilities	9,419,388	7,781,806
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	433,496	441,453
Retirement benefit liability	228,631	226,601
Other	266,675	267,738
Total non-current liabilities	928,803	935,794
Total liabilities	10,348,192	8,717,600
Net assets		
Shareholders' equity		
Share capital	674,000	674,000
Capital surplus	680,008	680,008
Retained earnings	29,662,225	29,715,247
Treasury stock	(1,692)	(1,692)
Total shareholders' equity	31,014,540	31,067,563
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,680	12,744
Remeasurements of defined benefit plans	114,491	114,080
Total accumulated other comprehensive income	127,171	126,825
Total net assets	31,141,712	31,194,388
Total liabilities and net assets	41,489,905	39,911,989

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

Six months period

(Thousand yen)

	Six-month period in the fiscal year ended March 31, 2022 (From April 1, 2021 to September 30, 2021)	Six-month period in the fiscal year ending March 31, 2023 (From April 1, 2022 to September 30, 2022)
Net sales	12,047,228	11,289,751
Cost of sales	6,943,926	6,056,209
Gross profit	5,103,302	5,233,541
Selling, general and administrative expenses	4,239,804	4,483,744
Operating profit	863,498	749,796
Non-operating income		
Interest income	14,970	7,613
Dividend income	7,300	7,236
Rental income from real estate	45,045	44,295
Subsidies for employment adjustment	-	74,156
Other	17,014	21,552
Total non-operating income	84,330	154,854
Non-operating expenses		
Interest expenses	3,639	3,331
Foreign exchange losses	1,102	5,917
Rental expenses on real estate	23,497	23,185
Other	441	691
Total non-operating expenses	28,680	33,126
Ordinary profit	919,147	871,524
Extraordinary income		
Gain on sale of non-current assets	-	1,771
Gain on sale of investment securities	-	3,375
Total extraordinary income	-	5,146
Extraordinary losses		
Loss on retirement of non-current assets	191	6,723
Impairment losses	67,047	2,500
Other	2,690	-
Total extraordinary losses	69,930	9,223
Profit before income taxes	849,217	867,447
Income taxes - current	19,462	228,766
Income taxes - deferred	151,141	68,254
Total income taxes	170,603	297,020
Profit	678,613	570,426
Profit attributable to owners of parent	678,613	570,426

Quarterly consolidated statement of comprehensive income

Six month period

(Thousand yen)

	Six-month period in the fiscal year ended March 31, 2022 (From April 1, 2021 to September 30, 2021)	Six-month period in the fiscal year ending March 31, 2023 (From April 1, 2022 to September 30, 2022)
Profit	678,613	570,426
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,566)	63
Remeasurements of defined benefit plans, net of tax	3,271	(410)
Total other comprehensive income	704	(346)
Comprehensive income	679,318	570,080
(Profit attributable to)		
Comprehensive income attributable to owners of parent	679,318	570,080

(3) Notes to quarterly consolidated financial statements

(Notes to going concern assumptions)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Additional information)

The company and its consolidated domestic subsidiaries transitioned from the consolidated taxation system to the group tax sharing system beginning in the first quarter of the current consolidated fiscal year. As a result of this, the company conforms to the Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (ASBJ PITF No. 42, August 12, 2021) for the accounting procedures and disclosure for income and local taxes and tax effect accounting. In accordance with (1) in Article 32 of ASBJ PITF No. 42, we deem no effect of changes in accounting policies due to the application of ASBJ PITF No. 42.

(Segment information, etc.)

[Segment information]

I Cumulative Second Quarter of FY2022/3 (from April 1, 2021 to September 30, 2021)

1. Amounts of sales and income or losses by reportable segment

	Reportable segments			Adjustments (Note 1)	Amount stated in consolidated statement of income (Note 2)
	Information systems business	Control systems business	Total		
Net sales					
Sales to external customers	9,187,387	2,859,841	12,047,228	-	12,047,228
Intersegment sales or transfers	-	6,655	6,655	(6,655)	-
Total	9,187,387	2,866,496	12,053,884	(6,655)	12,047,228
Segment income	1,346,981	265,744	1,612,725	(749,226)	863,498

(Notes) 1 The adjustment of segment income of (¥749,226 thousand) includes the elimination of intersegment transactions of ¥4,213 thousand and corporate expenses unallocated to any reportable segments of (¥753,439 thousand). Unallocated corporate expenses mostly include general and administrative expenses which are not attributable to any reportable segments.

2 Segment income is adjusted to operating profit recorded in the quarterly consolidated statement of income.

2. Impairment of non-current assets or goodwill by reportable segment

In the information systems business segment, the carrying amount of idle assets with no plan of future use is reduced to the recoverable amount after the recoverability of future cash flows is considered.

Cumulative impairment losses of ¥63,007 thousand are recorded for the second quarter of the current consolidated fiscal year.

In the control systems business segment, the carrying amount of business assets of consolidated subsidiaries is reduced to the recoverable amount after reviewing the recoverability of future cash flows.

Cumulative impairment losses of ¥4,040 thousand are recorded for the second quarter of the current consolidated fiscal year.

3. Changes in reportable segments

Dividends received previously recorded under non-operating income is reclassified into net sales beginning in the first quarter of the current consolidated fiscal year. As a result of this change, net sales and segment income of the control systems business increased by ¥38,412 thousand, compared to before reclassification.

II Cumulative Second Quarter of FY2023/3 (from April 1, 2022 to September 30, 2022)

1. Amounts of sales and income or losses by reportable segment

(Thousand yen)

	Reportable segments			Adjustments (Note 1)	Amount stated in consolidated statement of income (Note 2)
	Information systems business	Control systems business	Total		
Net sales					
Sales to external customers	8,505,652	2,784,099	11,289,751	-	11,289,751
Intersegment sales or transfers	-	4,151	4,151	(4,151)	-
Total	8,505,652	2,788,250	11,293,902	(4,151)	11,289,751
Segment income (losses)	1,406,413	48,237	1,454,651	(704,854)	749,796

(Notes) 1 The adjustment of segment income of (¥704,854 thousand) includes the elimination of intersegment transactions of ¥1,235 thousand and corporate expenses unallocated to any reportable segments of (¥706,090 thousand). Unallocated corporate expenses mostly include general and administrative expenses which are not attributable to any reportable segments.

2 Segment income is adjusted to operating profit recorded in the quarterly consolidated statement of income.

2. Impairment of non-current assets or goodwill by reportable segment

In the control systems business segment, the carrying amount of business assets of consolidated subsidiaries is reduced to the recoverable amount after reviewing the recoverability of future cash flows.

Impairment losses of ¥2,500 thousand are recorded for the first quarter of the current consolidated fiscal year.

(Revenue recognition)

Breakdown of revenue from contracts with customers

Cumulative Second Quarter of FY2022/3 (from April 1, 2021 to September 30, 2021)

(Thousand yen)

	Reportable segments		Total
	Information systems business	Control systems business	
Products etc. for pachinko parlors	5,989,963	-	5,989,963
Services	3,197,423	-	3,197,423
Display and control units, etc. for games machines manufacturers	-	1,776,754	1,776,754
Parts/other	-	1,083,087	1,083,087
Revenue from contracts with customers	9,187,387	2,859,841	12,047,228
Other revenue	-	-	-
Sales to external customers	9,187,387	2,859,841	12,047,228

Cumulative Second Quarter of FY2023/3 (from April 1, 2022 to September 30, 2022)

(Thousand yen)

	Reportable segments		Total
	Information systems business	Control systems business	
Products etc. for pachinko parlors	5,319,466	-	5,319,466
Services	3,186,185	-	3,186,185
Display and control units, etc. for games machines manufacturers	-	1,011,172	1,011,172
Parts/other	-	1,772,927	1,772,927
Revenue from contracts with customers	8,505,652	2,784,099	11,289,751
Other revenue	-	-	-
Sales to external customers	8,505,652	2,784,099	11,289,751