



Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2023
(Under Japanese GAAP)

February 9, 2023

Company name: Daikoku Denki Co., Ltd.	Listing: Tokyo Stock Exchange Prime/ Nagoya Stock Exchange Premier
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:	February 14, 2023
Scheduled date of commencement of dividend payments:	-
Preparation of supplementary materials for quarterly financial results	: Yes
Holding of quarterly financial results briefing	: None

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

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

(1) Consolidated operating results (First 9 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	%
Q3 of FY2023/3	23,286	22.2	3,949	160.7	4,144	161.7	2,832	122.6
Q3 of FY2022/3	19,058	5.9	1,515	153.3	1,583	90.4	1,272	145.0

(Note) Comprehensive income: Q3 of FY2023/3 2,833 million yen [122.9%]
Q3 of FY2022/3 1,271 million yen [138.4%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 of FY2023/3	191.62	-
Q3 of FY2022/3	86.08	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Q3 of FY2023/3	45,482	33,310	73.2
FY2022/3	41,489	31,141	75.1

(Reference) Shareholders' equity: Q3 of FY2023/3 33,310 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)	-	-	-	60.00	70.00

(Note) Revisions to recently released dividends forecasts : Yes

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	30,000	23.0	3,000	151.8	3,200	134.0	2,100	70.9	142.05

(Note) Revisions to recently released earnings forecasts : Yes

* Notes

- (1) Changes in significant subsidiaries during the period : Yes
 (Changes in specified subsidiaries accompanying changes in the scope of consolidation)
 New: 1 company; Name: GLOBAL WISE Co.
- (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)	Q3 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	Q3 of FY2023/3	945 shares	FY2022/3	918 shares
3) Average number of shares outstanding during the period (QTD) (Total)	Q3 of FY2023/3	14,782,980 shares	Q3 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 Third Quarter of the Fiscal Year Ending March 31, 2023.

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

(1) Explanation of operating results

During the first three quarters for the period under review (from April 1, 2022 to December 31, 2022), the Japanese economy showed signs of recovery with the With COVID-19 approach owing to various policies. However, the outlook remains uncertain because of soaring resource prices due to international situations, and price hikes triggered by supply constraints, among other factors.

In the pachinko industry, in which our Group is involved, the market environment remains challenging with a gradual decline in the number of pachinko parlors operating, but we continue to operate while taking thorough infection control measures, and the average operation status of all game machines for the period from October to December 2022 was 105.4% year on year. In terms of operations by type, for the pachinko machines, the model released last year continue to be strongly supported by fans, and the average for the period from October to December remained robust at 102.8% year on year. For pachislot machines, the introduction of the No. 6.5 model of pachislot and smart pachislot began steadily in June and November, respectively, and with the introduction of pachislot machines highly supported by fans, the results showed a significant 110.1% year on year average increase for the period from October to December (based on our DK-SIS data).

There is a high market expectation for smart game machines, and as of the end of the third quarter, the installation rate of smart pachislot machines in the entire pachislot machine market was 6.0% (based on our DK-SIS data). Since it is expected that the installation rate will continue to increase in the future, investment in equipment to support smart game machines is expected to become more active.

In this market environment, the information system segment focused on building a production capacity and procuring related parts and materials to meet the concentrated demand for card units and related products required for smart game machines with the arrival of smart pachislot. Continuing from the second quarter, we promoted the replacement of machines by upgrading the system to the AI hall computer X (Kai), which is optimal for smart game machine data management. We also expanded the sales of MIRAIGATE services such as Market-SIS in response to the changing market environment brought about by the arrival of smart game machines.

In the control system segment, in addition to the existing pachinko machines, we continued to strengthen the development structure and further improve the manufacturing environment for pachislot machines and manufactured one pachislot machine model in order to expand our business areas.

As a result, the first three quarters for the period under review showed net sales of ¥23,286 million (up 22.2% year on year), operating profit of ¥3,949 million (up 160.7% year on year), ordinary profit of ¥4,144 million (up 161.7% year on year), and profit attributable to owners of parent ¥2,832 million (up 122.6% year on year).

The results by segment are as follows:

(Information system segment)

During the first three quarters of the period under review, this segment has been preparing to fully respond to active capital investment demand for the introduction of smart pachislot possible amid the continuing impact of the global semiconductor shortage.

In this market environment, sales of products for pachinko parlors, etc. increased significantly year on year as a result of strong sales of the Company's VEGASIA card unit, which includes a dedicated unit for smart games machines, and the BiGMO PREMIUM, an information disclosure terminal for fans with high pachislot demand accompanying the introduction of smart pachislot. Sales of services increased year on year due to steady sales of major services, new services such as ClarisLink and Market-SIS, and an increase in the number of member stores of MIRAIGATE service in response to market changes.

As a result, the business recorded net sales of ¥19,220 million (up 30.5% year on year) and a segment profit of ¥4,667 million (up 117.0% year on year).

(Control systems business)

During the first three quarters of the period under review, the number of pachislot and pachinko machines sold in the market declined in reaction to the completion of the replacement with new machines in the previous fiscal year and the continued search for trends in smart games machines since the beginning of the period. However, the steady launch of smart pachislot in the market from November led to an increase in the sales of pachislot machine, which is expected to revitalize the market in the future. In this market environment, sales of display units and control units fell below those for the same period last year, whereas sales of parts were strong and increased year on year. The company also recorded bad debt expenses for receivables due from game machine manufacturers under civil rehabilitation proceedings.

As a result, the business recorded net sales of ¥4,071 million (down 6.2% year on year) and a segment profit of ¥404 million (down 16.6% year on year).

(Millions of yen)

	First Three Quarters for Previous Period	First Three Quarters for Period Under Review	Change	Change (%)
Net sales	19,058	23,286	4,227	22.2
Information systems business	14,727	19,220	4,493	30.5
Control systems business	4,341	4,071	(269)	(6.2)
Operating profit	1,515	3,949	2,434	160.7
Ordinary profit	1,583	4,144	2,560	161.7
Profit attributable to owners of parent	1,272	2,832	1,560	122.6

(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 third quarter under review decreased in cash and deposits accompanying the settlement of operating debt but increased in products as a result of efforts to procure units and related products needed for smart games machines to meet increased demand for these products. In addition, an increase in trade receivables as a result of strong sales in the third quarter for the period under review resulted in an increase of ¥3,992 million year on year to ¥45,482 million.

Liabilities at the end of the third quarter for the period under review showed an increase in trade payables accompanying an increase in product purchases. In addition, an increase in income taxes payable with the income increase resulted in an increase of ¥1,823 million from the end of the previous fiscal year to ¥12,171 million.

Despite dividend payments, our net assets at the end of the third quarter increased ¥2,168 million to ¥33,310 million due to recording of profit attributable to owners of parent. The shareholders' equity ratio was 73.2%, 1.9 points down from the end of the previous consolidated fiscal year.

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

We announced our consolidated earnings forecast for the fiscal year ending March 2023 on February 9, 2023.

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)	Third quarter of fiscal year ending March 31, 2023 (December 31, 2022)
Net assets		
Current assets		
Cash and deposits	16,581,552	13,413,290
Notes and accounts receivable - trade, and contract assets	3,395,453	8,306,950
Electronically recorded monetary claims - operating	1,672,665	1,510,232
Merchandise and finished goods	3,670,843	6,149,288
Work in process	93,408	116,460
Raw materials and supplies	669,916	597,038
Other	683,570	745,604
Allowance for doubtful accounts	(3,210)	(95,200)
Total current assets	26,764,200	30,743,664
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	3,378,195	3,222,999
Land	4,162,117	4,162,117
Other, net	818,769	612,662
Total property, plant and equipment	8,359,082	7,997,779
Intangible assets		
Software	2,318,108	1,983,891
Goodwill	-	833,032
Other	33,547	33,169
Total intangible assets	2,351,655	2,850,093
Investments and other assets		
Deferred tax assets	679,116	466,775
Investment property, net	881,248	868,379
Other	2,608,634	2,770,656
Allowance for doubtful accounts	(154,032)	(215,062)
Total investments and other assets	4,014,967	3,890,748
Total non-current assets	14,725,705	14,738,621
Total assets	41,489,905	45,482,285

(Thousand yen)

	Fiscal year ended March 31, 2022 (March 31, 2022)	Third quarter of fiscal year ending March 31, 2023 (December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,594,482	3,111,625
Electronically recorded obligations - operating	2,588,490	2,957,399
Short-term borrowings	2,000,000	2,000,000
Income taxes payable	32,678	1,124,613
Provision for bonuses for directors (and other officers)	64,240	37,020
Provision for product warranties	61,368	42,890
Other	2,078,128	1,978,554
Total current liabilities	9,419,388	11,252,102
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	433,496	447,463
Retirement benefit liability	228,631	224,704
Other	266,675	247,707
Total non-current liabilities	928,803	919,875
Total liabilities	10,348,192	12,171,978
Net assets		
Shareholders' equity		
Share capital	674,000	674,000
Capital surplus	680,008	680,008
Retained earnings	29,662,225	31,829,733
Treasury stock	(1,692)	(1,746)
Total shareholders' equity	31,014,540	33,181,996
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12,680	14,435
Remeasurements of defined benefit plans	114,491	113,875
Total accumulated other comprehensive income	127,171	128,310
Total net assets	31,141,712	33,310,307
Total liabilities and net assets	41,489,905	45,482,285

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

Quarterly consolidated statement of income

Nine months period

(Thousands of yen)

	First 3Q for Previous Period (From April 1, 2021 to December 31, 2021)	First 3Q for Current Period (From April 1, 2022 to December 31, 2022)
Net sales	19,058,358	23,286,102
Cost of sales	11,132,608	12,489,242
Gross profit	7,925,750	10,796,859
Selling, general and administrative expenses	6,410,563	6,847,511
Operating profit	1,515,187	3,949,348
Non-operating income		
Interest income	14,972	11,643
Dividend income	7,581	7,543
Rental income from real estate	67,617	65,617
Subsidies for employment adjustment	-	125,024
Other	22,015	28,296
Total non-operating income	112,186	238,125
Non-operating expenses		
Interest expenses	5,282	4,969
Rental expenses on real estate	35,937	36,533
Other	2,759	1,740
Total non-operating expenses	43,978	43,242
Ordinary profit	1,583,394	4,144,231
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	1,492	7,490
Impairment losses	67,047	6,328
Loss on cancellation of rental contracts	-	7,851
Other	2,690	-
Total extraordinary losses	71,231	21,670
Profit before income taxes	1,512,163	4,127,706
Income taxes - current	24,970	1,083,613
Income taxes - deferred	214,635	211,350
Total income taxes	239,606	1,294,964
Profit	1,272,557	2,832,742
Profit attributable to owners of parent	1,272,557	2,832,742

Quarterly consolidated statement of comprehensive income

Nine months period

(Thousand yen)

	First 3Q for Previous Period (From April 1, 2021 to December 31, 2021)	First 3Q for Current Period (From April 1, 2022 to December 31, 2022)
Profit	1,272,557	2,832,742
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,871)	1,754
Remeasurements of defined benefit plans, net of tax	4,907	(615)
Total other comprehensive income	(964)	1,139
Comprehensive income	1,271,592	2,833,881
(Profit attributable to)		
Comprehensive income attributable to owners of parent	1,271,592	2,833,881

(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. First Three Quarters for the Previous Period (From April 1, 2021 to December 31, 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	14,727,307	4,331,051	19,058,358	-	19,058,358
Intersegment sales or transfers	-	10,077	10,077	(10,077)	-
Total	14,727,307	4,341,128	19,068,436	(10,077)	19,058,358
Segment income	2,151,256	484,705	2,635,962	(1,120,775)	1,515,187

(Notes) 1 The adjustment of segment income of (¥1,120,775 thousand) includes the elimination of intersegment transactions of ¥7,136 thousand and corporate expenses unallocated to any reportable segments of (¥1,127,911 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.

Impairment losses of ¥63,007 thousand was recorded for the first three quarters of the period under review.

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 ¥4,040 thousand was recorded for the first three quarters of the period under review.

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 ¥83,485 thousand, compared to before reclassification.

II. First Three Quarters for the Period Under Review (From April 1, 2022 to December 31, 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	19,220,394	4,065,707	23,286,102	-	23,286,102
Intersegment sales or transfers	-	5,948	5,948	(5,948)	-
Total	19,220,394	4,071,656	23,292,051	(5,948)	23,286,102
Segment income (losses)	4,667,217	404,355	5,071,573	(1,122,224)	3,949,348

(Notes) 1 The adjustment of segment income of (¥1,122,224 thousand) includes the elimination of intersegment transactions of ¥5,501 thousand and corporate expenses unallocated to any reportable segments of (¥1,127,726 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

(Material impairment losses on non-current assets)

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 ¥6,328 thousand was recorded for the first three quarters of the period under review.

(Material changes in the amount of goodwill)

Goodwill in the third quarter for the period under review increased by ¥833,032 thousand in the information systems business segment as a result of the acquisition of shares of GLOBAL WISE Co. and inclusion in the scope of consolidation.

The amount of goodwill is provisionally calculated, because the period from the date of business combination to the closing date is short, and the specification of identifiable assets and liabilities and estimation of market value as of the date of business combination have not yet been made; therefore, the allocation of acquisition costs has not been completed.

(Revenue recognition)

Breakdown of revenue from contracts with customers

First three quarters for the previous period (From April 1, 2021 to December 31, 2021)

(Thousand yen)

	Reportable segments		Total
	Information systems business	Control systems business	
Products etc. for pachinko parlors	9,926,580	-	9,926,580
Services	4,800,726	-	4,800,726
Display and control units, etc. for games machines manufacturers	-	2,401,198	2,401,198
Parts/other	-	1,929,852	1,929,852
Revenue from contracts with customers	14,727,307	4,331,051	19,058,358
Other revenue	-	-	-
Sales to external customers	14,727,307	4,331,051	19,058,358

First three quarters for the period under review (From April 1, 2022 to December 31, 2022)

(Thousand yen)

	Reportable segments		Total
	Information systems business	Control systems business	
Products etc. for pachinko parlors	14,414,809	-	14,414,809
Services	4,805,585	-	4,805,585
Display and control units, etc. for games machines manufacturers	-	1,820,997	1,820,997
Parts/other	-	2,244,710	2,244,710
Revenue from contracts with customers	19,220,394	4,065,707	23,286,102
Other revenue	-	-	-
Sales to external customers	19,220,394	4,065,707	23,286,102

(Business combination, etc.)

Business combination by acquisition

(1) Overview of business combination

[1] Name of acquired company and its business

Name of acquired company: GLOBAL WISE Co.

Contents of business: System development of cloud services, etc.

[2] Main reason for the business combination

As stated in the Notice of Medium-term Management Plan disclosed on November 24, 2021, the Company is promoting the use of cloud computing to build the industry's only platform for pachinko parlor management support services. And by using cloud computing, we aim to expand our existing services to realize stable revenue increases and an expanded business scale.

GLOBAL WISE Co. is a one-stop provider of services ranging from cloud construction to system development and system operation and maintenance and is expected to generate a high level of synergy for the Company's existing services to shift to cloud computing. We also acquired the shares judging that by utilizing GLOBAL WISE Co.'s know-how, our Group will realize sustainable growth over the medium to long term and further increase corporate value.

[3] Date of business combination

December 20, 2022 (stock acquisition date)

December 31, 2022 (deemed acquisition date)

[4] Legal form of business combination

Acquisition of shares for cash

[5] Name of the combined company

No change.

[6] Percentage of voting rights acquired

98.3%

[7] Main basis for determining the company to be acquired

Our company is the acquirer, as we acquired shares for cash as consideration.

(2) Period of performance of the acquired company included in the quarterly consolidated statement of income for the first three quarters.

As consolidated with the deemed acquisition date of December 31, 2022, the business results of the acquired company are not included in our consolidated financial results for the first three quarters.

(3) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	¥191 million
Acquisition cost		¥191 million

(4) Details and amount of major acquisition expenses

Advisory fees: ¥32 million

(5) Amount, cause, amortization method and period of goodwill incurred

[1] Amount of goodwill incurred

¥833 million

The above amount is provisionally calculated, because the period from the date of business combination to the closing date is short, and the specification of identifiable assets and liabilities and estimation of fair value as of the date of business combination have not yet been made; therefore, the allocation of acquisition costs has not been completed.

[2] Cause

This is mainly due to the excess earning power expected after GLOBAL WISE Co. joins our Group.

[3] Amortization method and period

Equal amortization over 10 years