

30-Jan-14

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FISCO Ltd. Analyst
Kunimitsu Karasawa

Pursuing long-term targets through multiple approaches

Daikoku Denki has two main segments, the information system segment, which manufactures and sells computer systems for pachinko (Japanese pinball) parlors or halls, and the control system segment, which produces and sells assembly units and develops software for pachinko machine manufacturers.

In 10 years, the company aims to double its current sales and profits. In the first half of the fiscal year through March 2014, i.e., in H1 FY3/14, it pursued this goal by several means: 1) it began developing the next-generation hall computer for managing pachinko hall operations, 2) it marketed its first commercially successful pachinko slot machine, and 3) it exhibited its products for the first time at a game show held in Macao for the casino industry.

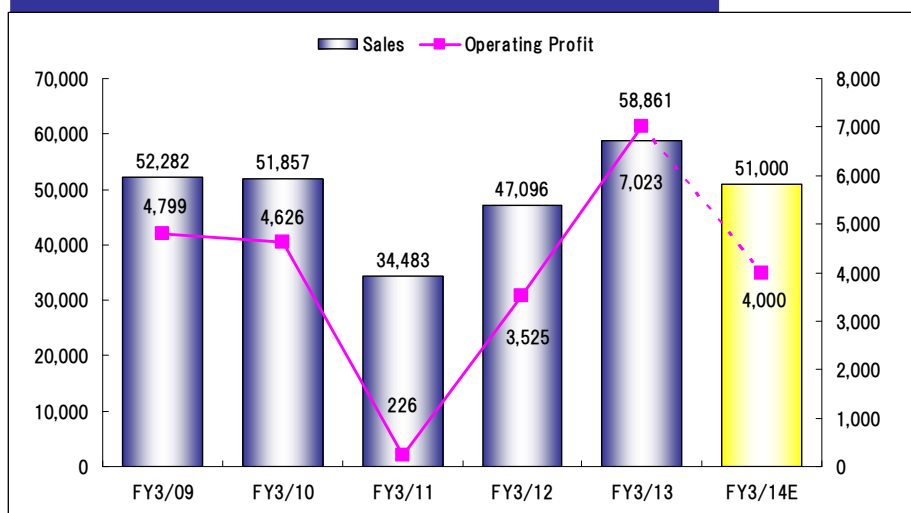
In H1 FY3/14, the company's sales and profits declined year-on-year (y-o-y), as the company had expected, because it achieved record-high sales and profits in FY3/13, reflecting strong sales of a new card recognition (CR) unit. However, led by sales of peripheral equipment for hall computers, the information system segment remained a strong source of sales and profits. Furthermore, the company projects its second-highest sales for FY3/14.

Although the company maintained its overall forecasts for FY3/14, it raised its planned dividend per share.

Check Points

- Demand for the VEGASIA CR unit and the IL-X call lamp remains strong
- The Magical Suite Prism Nana pachinko slot game machine is becoming more popular in a niche market
- While promoting pachinko as a form of amusement, the company aims to rank among Japan's top providers of pachinko equipment in terms of sales

Consolidated Sales and Operating Profit (¥mn), FY3/09-FY3/14E



■ Achievements in H1 FY3/14

Started developing the next-generation hall computer

The company targets consolidated sales of ¥100bn and consolidated recurring profit of ¥10bn for 10 years from now. In pursuit of these targets, the company will follow a three-pronged strategy of increasing its existing businesses, developing new businesses that expand its perspective, and planning and producing hit products.

In H1 FY3/14, the company made progress towards its long-term targets by 1) starting to develop the next-generation hall computer, and 2) marketing a hit pachinko slot machine. Furthermore, the company started investigating the casino industry as a possible new business area. It could apply its ability to analyze big data in such a business, so the business appears to have large growth potential over the long term.

(1) Developing the next-generation hall computer

As an example of increasing its existing businesses, the company started developing the next-generation hall computer in H1 FY3/14. The company expects this new hall computer to help it expand its share of the Japanese market for such computers and aims to commercialize it in a few years. This will be the company's first completely new hall computer in more than 10 years. It will operate on a cloud computing server so it will be able to offer all of the functions needed to analyze pachinko hall operations. In addition, it will be able to gather and analyze huge amounts of data (big data) on customer behavior and to recommend actions to improve sales and profits.

Daikoku Denki's hall computers are already the industry standard, and the company claims a 40% share of the Japanese market for such computers, the top share. With the launch of the next-generation hall computer, the company intends to raise its market share to 50%. About 3,000 companies now use the company's hall computers, and the company will encourage these customers to replace their current hall computers with the next-generation hall computer, aiming to complete this conversion a few years after the launch of the new computer.

Users of hall computers generally also purchase peripheral equipment for these computers, such as CR units, call lamps, and prize management point-of-sale systems. As a single pachinko hall typically holds about 250 pachinko machines, and each machine requires peripheral equipment, sales of hall computers and peripheral equipment per pachinko hall are substantial, contributing to higher profits.

The company will also enhance its MIRAIGATE management support service, which should spur greater client use of this service. Because services are generally more profitable than hardware, an increase in service sales would support greater profitability.

■ Achievements in H1 FY3/14

Outline of a Hall Computer System



Source: Company

Sales of the Magical Suite Prism Nana pachinko slot game machine growing in a niche market

(2) Steady growth of pachinko slot game machine

The Magical Suite Prism Nana pachinko slot game machine, the company's second such machine, launched in April 2013, is a result of the company's strategies of developing new businesses that expand the company's perspective and of planning and producing hit products. By the end of October 2013, the company had sold about 4,000 units of this pachinko slot game machine, which was about 2.5 times the number of units sold of the company's first model of pachinko slot game machine.

After being installed in a pachinko hall, the Magical Suite Prism Nana pachinko slot game machine contributed to increased gross profit for the hall for 10 straight weeks, on average. Of 63 new pachinko or pachinko slot game machines launched in Japan in 2013, the Magical Suite Prism Nana pachinko slot game machine ranked 11th in terms of contribution to industry gross profit.

The company aims to sell 10,000 units of each model of its pachinko slot game machine per year. It is trying to launch three such models each year. If it succeeded and attained its sales target for each model, its sales would increase by an estimated ¥10bn per year, and its operating profit would grow by about ¥1bn.

■ Achievements in H1 FY3/14

To date, the company is not close to achieving its targeted aggregate unit sales of pachinko slot game machines or its target of three commercially successful models per year. However, it learned that combining original anime characters with pachinko slot game machines, as it did in its Magical Suite Prism Nana pachinko slot game machine, is a pattern for success.

The Magical Suite Prism Nana pachinko slot game machine differs completely from other pachinko slot game machines and pachinko machines, which tend to be selected based on the number of balls or tokens offered. Popular illustrator Kantoku devised original characters for the machine. The animation for the machine was produced by Shaft Co., which is well known in Japan for such animations as *Girl Magician Madoka Magika* and *Monster Story*. Voices for the animation are provided by idol voice actors. In summary, the Magical Suite Prism Nana pachinko slot game machine far exceeds any previous machine in terms of quality. Daikoku Denki will surely develop other pachinko slot game machines similar to the Magical Suite Prism Nana pachinko slot game machine and develop a niche market for this type of machine. Within 3-4 years, the company aims to achieve its goal of developing three machines per year capable of selling 10,000 units per year.

Magical Suite Prism Nana Pachinko Slot Game Machine



Source: Company

Displayed information system in Macau Gaming Show, considering to enter the casino industry

(3) Interest in the casino business

As part of its strategy of developing new businesses that expand its perspective, the company is preparing to enter the casino industry in Japan when casinos are legalized there. In November 2013, the company displayed its hall computers and other information system at the Japanese industry area of the Macao Gaming Show. The company is considering entering the casino market because the Japanese pachinko market continues to shrink, and it believes that it can sell its hall computers and other information system in the casino industry. It believes that 90% of the revenue and profit earned by casinos in Macao derive from baccarat card games for wealthy customers, who usually bet large amounts of money on a single game. It therefore foresees growing demand for video slot games requiring small amounts of money to play for fun, rather than profit. Daikoku Denki's information system not only supports the management of pachinko halls, they also measure the pleasure of hall customers, and this ability could be applied in the casino industry.

■ Achievements in H1 FY3/14

The company has not officially decided to enter the casino business. It is now has a committee that is drawing up a blueprint for such a possibility. That plan calls for the company to ally with Japanese makers of pachinko slot machines when the government has legalized casinos and to jointly develop information system and big data services applicable to the casino business. After acquiring experience in this business in Japan and achieving global standards of performance, the company would venture into the global casino market. However, Daikoku Denki does not expect casinos to be legalized in Japan until after the Tokyo Olympics of 2020, and it would not venture into the global casino industry for about 10 years after it entered the business in Japan. The company's participation in the Macao Gaming Show merely demonstrates its interest in the casino business. It will be a long time before it pursues the business in earnest.

The company envisions one or two casino being established initially in Japan, generating annual sales of about ¥200bn. It assumes that information system sales will be about 4% of industry sales, as they are in Japan's pachinko industry. In other words, it estimates initial sales of information system to the pachinko industry at ¥8bn per year. This is about one-fortieth of the size of the market for information system for the pachinko industry. Furthermore, even if Daikoku Denki won 50% of the market for information system for the pachinko industry, sales of these systems would total only about ¥4bn per year. In other words, the company's growth potential from participating in Japan's casino industry would be limited.

However, having gained experience in Japan's casino industry, the company would be able to enter the global casino industry, estimated at ¥8 trillion per year. The potential market for information system for the global casino industry would be about ¥320bn per year.

The company estimates that it could easily provide management support computers and other information system in Japan because no Japanese company has experience in operating casino and the company's information system technology is advanced. However, Daikoku Denki thinks it would be difficult to break into the global casino industry alone. Therefore, it would aim to apply its experience in Japan's casino industry in business ties with other companies to enter the global market.

The company's entry into the casino industry is a distant future possibility, and initially such entry would contribute little to sales and profits. However, it may be an attractive alternative to the pachinko and pachinko slot industry.

The Daikoku Denki Booth at the Macao Gaming Show in November 2013



Source: Company

■ H1 FY3/14 Results

R&D expenses were postponed to H2 profits were much larger than the forecast

On November 11, 2013, Daikoku Denki announced its results for H1 FY3/14. Its consolidated sales declined by 6.4% y-o-y to ¥25,822mn, its consolidated operating profit fell by 31.0% to ¥2,487mn, its consolidated recurring profit dropped by 31.3% to ¥2,559mn, and its consolidated net profit weakened by 28.7% to ¥1,543mn.

In the information system segment, sales declined y-o-y in reaction to strong sales in H1 FY3/13 of renovated Data Robos, which display information, and of a new CR unit. In the control system segment, sales dropped y-o-y in reaction to strong sales in H1 FY3/13 of components for used pachinko machines.

The sales decline contributed to lower profits, as did an increase in the sales weighting of CR units, which yield low profit margins, even though they are strategically important products. Gross profit decreased by 9.9% y-o-y to ¥8,191mn. Furthermore, the company increased its sales promotion expense to further sales of the Magical Suite Prism Nana pachinko slot game machine. Thus, its SG&A cost rose by 3.9% y-o-y to ¥5,704mn.

Summary Income Statement (¥mn), H1 FY3/13-H1 FY3/14

| | H1 FY3/13 | H1 FY3/14 | y-o-y | Result vs. plan |
|------------------|-----------|-----------|--------|-----------------|
| Sales | 27,665 | 25,882 | -6.4% | 3.5% |
| Gross profit | 9,093 | 8,191 | -9.9% | 2.4% |
| SG&A cost | 5,490 | 5,704 | 3.9% | -12.2% |
| Operating profit | 3,603 | 2,487 | -31.0% | 65.8% |
| Recurring profit | 3,725 | 2,559 | -31.3% | 70.6% |
| Net profit | 2,162 | 1,543 | -28.7% | 92.9% |
| R&D expense | 1,171 | 1,125 | -3.9% | -33.8% |

Because some R&D expenses planned for H1 FY3/14 were postponed to H2 FY3/14, profits in H1 FY3/14 were much larger than the company had forecast.

In terms of sales volume, in H1 FY3/14, the information system segment sold 90 hall computers, or only 37.5% of its sales target for FY3/14 of 240 units. However, the segment sold 30,619 CR units, or 61.2% of the full-year sales target of 50,000 units. It also sold 86,112 units of two models of call lamps, or 57.4% of the full-year sales target of 150,000 units. Thus, it appears that sales of peripheral equipment for hall computers partially offset the weakness in sales of hall computers.

Sales Volumes (Units) of Information System, FY3/13, H1 FY3/14, plan for H2 FY3/14 and FY3/14

| | FY3/13 Result | FY3/14 | | | |
|--------------------------|------------------|--------|---------|---------|--------|
| | | H1 | H2 Plan | FY3/14E | |
| Hall computers | 205 | 90 | 150 | 240 | |
| Call lamps | BiGMO | 70,493 | 34,333 | 35,667 | 70,000 |
| | IL-X | 97,805 | 51,779 | 28,221 | 80,000 |
| CR units | 56,942 | 30,619 | 19,381 | 50,000 | |
| Data Robos | 143 | 89 | 111 | 200 | |
| Face recognition systems | 8,334 | 4,772 | 4,728 | 9,500 | |



■ H1 FY3/14 Results

Segment Results (¥mn), H1 FY3/13-H1 FY3/14

| | | H1 FY3/13 | H1 FY3/14 | y-o-y | Result vs. plan |
|--------------------|------------------|-----------|-----------|--------|-----------------|
| Information System | Sales | 16,724 | 15,562 | -6.9% | 3.7% |
| | Operating profit | 4,030 | 2,950 | -26.8% | 18.0% |
| Control System | Sales | 10,947 | 10,320 | -5.7% | 3.2% |
| | Operating profit | 549 | 508 | -7.5% | 408.0% |
| Corporate expenses | | -976 | -970 | -0.6% | 11.8% |
| Consolidated | Sales | 27,665 | 25,882 | -6.4% | 3.5% |
| | Operating profit | 3,603 | 2,487 | -31.0% | 65.8% |

The company's sales volume target for hall computers in FY3/14, of 240 units, is a challenging target, reflecting plans to find new customers. Sales of hall computers do not affect overall sales much. Sales of peripheral equipment and services for hall computers are more important than sales of hall computers.

The number of clients for the information system segment which have been clients for at least a year increased slightly in H1 FY3/14, and service revenue in the segment, derived from the hall operation support service and the service of offering information about customer associations, totaled ¥1,363mn, or 46.8% of the sales target for the full fiscal year, of ¥2,910mn.

Sales of control system in H1 FY3/14 were roughly in line with the company's plan. For FY3/14, the company forecasts a 26.4% y-o-y drop in sales of control system to ¥20bn and a 86.3% y-o-y plunge in segment operating profit to ¥400mn, reflecting the difficult operating environment for the pachinko and pachinko slot machine industry.

The company's financial condition generally improved in H1 FY3/14. Due to an increase in retained earnings, equity grew by 1.6% from the level at the end of FY3/13 to ¥30,955mn. Reflecting decreases in accounts payable and taxes due, liabilities fell by 32.8% from the level at the end of FY3/13 to ¥17,655mn. Interest-bearing debt dropped by 21.2% to ¥1.0bn. Total assets decreased by 14.3% to ¥48,611mn, and the equity ratio rose by 10ppts to 63.7%.

Cash flow remained stable in H1 FY3/14. Cash and cash equivalents increased by 9.0% y-o-y to ¥13,218mn, which vastly exceeded the company's interest-bearing debt.

Summary Consolidated Balance Sheet (¥mn), H1 FY3/13-H1 FY3/14

| | FY3/13 | H1 FY3/14 | Change |
|----------------------------|--------|-----------|--------|
| Current assets | 39,789 | 32,443 | -7,346 |
| Fixed assets | 16,916 | 16,168 | -748 |
| Total assets | 56,706 | 48,611 | -8,094 |
| Current liabilities | 24,544 | 16,192 | -8,352 |
| Fixed liabilities | 1,722 | 1,463 | -259 |
| Total liabilities | 26,267 | 17,655 | -8,611 |
| Total equity | 30,439 | 30,955 | 516 |
| Total liabilities & equity | 56,706 | 48,611 | -8,094 |
| Interest-bearing debt | 1,269 | 1,000 | -269 |
| Equity ratio | 53.7 | 63.7 | 10pt |

Summary Consolidated Cash Flow Statement (¥mn), H1 FY3/13-H1 FY3/14

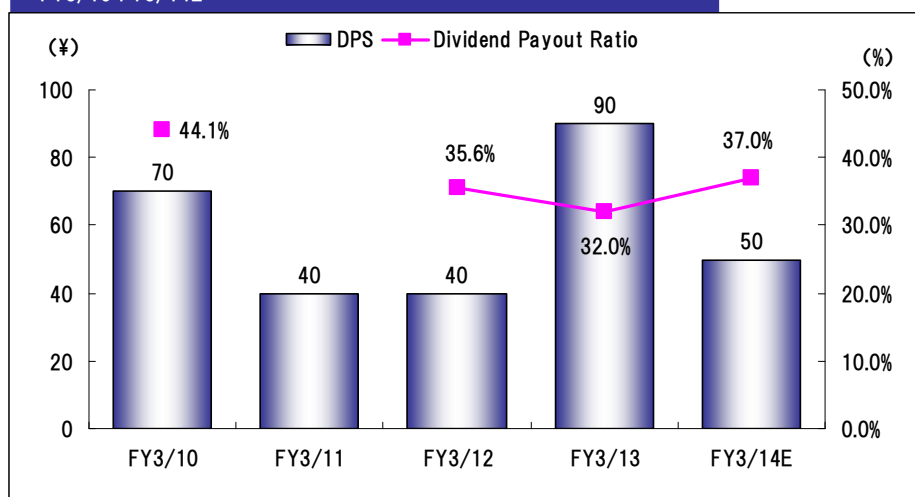
| | H1 FY3/13 | H1 FY3/14 | Change |
|--------------------------------------|-----------|-----------|--------|
| Cash flow from operations | 3,182 | -3,017 | -6,199 |
| Cash flow from investing | 1,752 | -864 | -2,616 |
| Cash flow from financing | -6,468 | -1,306 | 5,162 |
| Balance of cash and cash equivalents | 12,121 | 13,218 | 1,097 |



■ H1 FY3/14 Results

The company's policy is to pay an annual dividend of ¥40 per share and to supplement this payment depending on its profits. In H1 FY3/14, the company's profits fell y-o-y but exceeded the company's forecasts. Therefore, the company declared an interim dividend of ¥10 per share, making its planned dividend for FY3/14 ¥50 and its planned dividend payout ratio 37.0%. It is unusual for the company to raise its dividend at the interim. It did so this fiscal year because this is the last fiscal year for a lower tax rate on investment profits.

Dividends per Share (¥) and Dividend Payout Ratio (%), FY3/10-FY3/14E



■ Company Forecasts for FY3/14

Demand for the VEGASIA CR unit and the IL-X call lamp remains strong

For FY3/14, Daikoku Denki maintained its original forecasts, projecting a 13.4% y-o-y drop in consolidated sales to ¥51bn, a 43.0% fall in operating profit to ¥4bn, a 44.8% decline in recurring profit to ¥4bn, and a 51.9% plunge in net profit to ¥2bn.

The final quarter of each fiscal year is the busiest for Daikoku Denki. Demand for the company's CR units and call lamps is so strong that the company cannot supply enough of them. The company is certain that it will exceed its 50,000 sales volume target for CR units. Sales of these units may reach 60,000. The company also expects to sell more than 200,000 call lamps in FY3/14. Thus, even though sales of hall computers will not reach the company's sales volume target, overall sales value should reach its target. However, the company plans to increase its R&D expense by 28.7% y-o-y to ¥3.5bn in FY3/14, mainly to develop next-generation hall computer systems. Most of this expense will be recognized in H2 FY3/14. Furthermore, Japan's pachinko industry remains in the doldrums, so the company felt there was no reason to raise its forecasts.

Consolidated Results (¥mn), FY3/08-FY3/14E

| | Sales | y-o-y (%) | Operating profit | y-o-y (%) | Recurring profit | y-o-y (%) | Net profit | y-o-y (%) | EPS (¥) | DPS (¥) |
|---------|--------|-----------|------------------|-----------|------------------|-----------|------------|-----------|---------|---------|
| FY3/08 | 36,466 | -22.7% | -36 | - | 779 | -84.2% | -187 | - | -12.70 | 50.00 |
| FY3/09 | 52,282 | 43.4% | 4,799 | - | 4,991 | 540.5% | 3,523 | - | 238.33 | 70.00 |
| FY3/10 | 51,857 | -0.8% | 4,626 | -3.6% | 4,903 | -1.8% | 2,347 | -33.4% | 158.76 | 70.00 |
| FY3/11 | 34,483 | -33.5% | 226 | -95.1% | 356 | -92.7% | -342 | - | -23.14 | 40.00 |
| FY3/12 | 47,096 | 36.6% | 3,525 | 1459.7% | 3,541 | 894.1% | 1,663 | - | 112.50 | 40.00 |
| FY3/13 | 58,861 | 25.0% | 7,023 | 99.2% | 7,244 | 104.5% | 4,161 | 150.3% | 281.53 | 90.00 |
| FY3/14E | 51,000 | -13.4% | 4,000 | -43.0% | 4,000 | -44.8% | 2,000 | -51.9% | 135.29 | 50.00 |



■ Strength and Weakness

Several de facto industry standard products demonstrate company's advanced technology

The company's results in H1 FY3/14 and its forecasts for FY3/14 suggest that its main strength is its information system segment, while its control system segment requires improvement. The company has tried to organize the information system segment so it consistently generates annual sales of ¥30bn and operating profit of ¥5bn. For FY3/14, the company appears on target to meet its segment forecasts of ¥31bn in sales and ¥5.5bn in operating profit.

In FY3/13, Daikoku Denki achieved record-high sales and profits, reflecting strong sales of CR units and other new products and demand for products for many models of hit pachinko machines. That year, the information system segment first attained the company's targets for its sales and operating profit, providing sales of ¥31,685mn and operating profit of ¥6,069mn. In FY3/14, even without the special demand seen in FY3/13, the segment will probably still achieve the targets, and barring unforeseen problems, it is likely to meet these targets in coming fiscal years.

The problems in the control system segment stem primarily from the shrinkage of the Japanese market for pachinko and pachinko slot machine games. According to surveys by the National Police Agency, the number of pachinko and/or pachinko slot halls in Japan peaked in 2006 at 14,674, then fell each year, reaching 12,149 in 2012, or 17.2% fewer than the peak number. Pachinko halls have gotten larger, on average, offsetting the decline in their numbers to some extent, but the number of pachinko or pachinko slot machines in operation has stagnated at 4.51-4.59 million in recent years.

The only way for the control system segment to grow in a shrinking market is to take market share from competitors. The company possesses advanced technology, as evidenced by its many products that are de facto industry standards, and it is currently restructuring its control system segment. By applying its technology and overhauling the control system segment, the company aims to expand its market shares. The main structural reform being pursued by the control system segment is to ally with makers of pachinko and pachinko slot machines in developing components for these machines produced on an OEM basis. To form alliances, the segment is improving its ability to plan and present mutually beneficial business and the quality of its software, such as its video technology.

Previously, OEM products in the control system segment were ordered by clients and developed by teams representing different clients. However, company president Hideyuki Kayamori is gradually implementing a system in which the entire segment presents ideas for better products. He is also promoting greater interdependence between Daikoku Denki and makers of pachinko and pachinko slot machines. The goal is to reform the control system segment to make it a reliable source of sales and profit, like the information system segment.

The control system segment is also developing pachinko slot machines. If it could develop more models as commercially successful as the Magical Suite Prism Nana pachinko slot game machine, it could stabilize its sales and profits.

■ Business Description

By planning and developing new products for the pachinko industry, Daikoku Denki provides opportunities for pachinko machine makers to develop hit products, offers new forms of enjoyment to pachinko fans, and supports the profitability of pachinko parlors. The company also aims to transform the pachinko and pachinko slot industry into a generally accepted form of amusement similar to movies and amusement parks. In the future, the company aims to develop the business of amassing and analyzing large amounts of data for many industries.

Currently, the company has two main sources of profit, the information system segment, which manufactures and sells computer systems for pachinko and pachinko slot parlors, and the control system segment, which produces and sells electronic components for pachinko machines. The information system segment employs 55% of the group's work force, while the control system segment employs 45%. Sales and operating profit in the information system segment tend to grow steadily, while sales and operating profit in the control system segment tend to fluctuate significantly, and it is difficult to assign a sales breakdown to this segment. The information system segment will probably remain the prime source of the company's profit over the near term.

Consulting service is bundled into sales of hall computers

(1) Information system

The information system segment offers a complete line of high-margin products and services to support sales and operational management at pachinko halls. Hall computers gather information from every machine in a parlor that supports operational management. The segment's hall operational support consulting service combines and analyzes the data collected by hall computers. Most of the hall computers sold include this consulting service. The DK-SIS system provides strategic information about customer associations. Information display systems made in this segment provide information about pachinko machines to customers. This segment also makes CR units, pinball counting devices, and customer prize systems, or point-of-sale (POS) systems to manage prizes.

Hall computers

Hall computers are the core systems for supporting pachinko hall operations. These personal computers display the operating condition of each machine and alert hall managers each morning of suspicious operations of these machines the previous night, when the parlors are closed. For example, the computers warn of erroneous counts of pinballs, which may be due to fraud. The computers compare the number of pinballs issued during a workday with the number submitted for prizes. Normally, the number submitted for prizes is slightly less than the number issued because some balls fall on the floor. If the number submitted for prizes exceeds the number issued, either one or more machines may be broken or one or more customers may have received balls illicitly. In either case, the pachinko hall must fix the problem or risk going out of business. The hall computers also identify machines that may be broken.

Partner center service supports hall operations

Daikoku Denki's MIRAIGATE service supports the sales strategy, customer appeal strategy and operational management of pachinko halls. This service combines the information gathered by hall computers and other systems, analyzes this information in detail using the company's CII-SIS service of analyzing data gathered by the hall computers and the company's maintenance desk then resolves any problems identified using leased IP telephone circuits connected to customer pachinko parlors.



■ Business Description

DK-SIS service provides information on customer associations

Daikoku Denki's strategic information service, the DK-SIS, gathers, processes and analyzes the daily operational information of pachinko halls with customer associations and gives feed-back to the managers of these halls to improve their operations. It is the only such service in Japan. The service is currently used by 3,591 pachinko and pachinko slot halls which operate approximately 1.2mn machines, or 26.3% of all the machines installed in Japan. In FY3/13, this service processed data valued at ¥9.4 trillion. This service also provides information to pachinko fans and serves as a think tank for participants in the pachinko industry and for those who are not involved in the industry.

Information display systems

These are systems of equipment and services that display information about the number of pinballs released by each pachinko machine to customers, thereby increasing their pleasure. Daikoku Denki began selling these systems in 1991, before any competitors. Three of the company's main information display systems are the VR-77 Data Robo, the BiGMO and IL-X call lamps, and the Data Robo Site Seven website that provides information on the number of pinballs released per machine to consumers subscribing to web sites for cell phones and smartphones offered by NTT DoCoMo (9437) and other cellular communications companies.

The VR-77 Data Robo system informs pachinko parlor customers about pachinko machines that release a larger-than-average number of pinballs. Customers who join the customer association of a parlor can use the VR-77 Data Robo to see more detailed data about machines than customers who are not members of the association and to easily gain access to information needed to use them. This system also offers a Play Patch function, which stores the cumulative results of a customer's play during the previous 180 days in the transactions settlement account of a cell phone (a "mobile wallet").

Originally, the BiGMO and IL-X call lamps simply notified employees of a pachinko parlor when a customer encountered a problem with the machine being used and when a customer hit a jackpot. The latest call lamps display the number of pinballs being used by a customer, the number of jackpots a customer has hit, and the number of pinballs recently released by a machine.

The Data Robo Site Seven website provides information on the number of balls released by a machine to pachinko hall customers through cell phones, smartphones, and personal computers. This is the first data website to be marketed in Japan's pachinko industry.

CR units

The VEGASIA CR unit is a new product that enables a customer to rent pinballs using a pre-paid card. The unit is equipped with advanced security functions to prevent the use of stolen pre-paid cards. For example, it has a color LCD screen which displays information about a pre-paid card. It also offers an optional face-recognition ability, the first in the pachinko industry. Finally, the unit collects data on the movement of each customer within a hall, facilitating customer control by hall managers.



Segment's hit pachinko slot game machine uses original characters and an LCD touch panel control unit

(2) Control system

The control system segment produces LCD display units, control units, switches and motors to makers of pachinko machines. Its LCD touch panel control unit is incorporated in the company's second pachinko slot game machine, the Magical Suite Prism Nana.

Magical Suite Prism Nana pachinko slot game machine

In FY3/13, Daikoku Denki entered the pachinko slot game machine market, and in April 2013, it commercialized the Magical Suite Prism Nana pachinko slot game machine, which displays the first original characters used in Japan's pachinko slot industry. These characters were developed by a company specializing in the production of animated programs. The Magical Suite Prism Nana machine also uses original music. The company plans to develop animated programs using the title of this machine. Until the advent of the Magical Suite Prism Nana, pachinko machines and pachinko slot machines used characters from existing animated movies and dramas. Daikoku Denki is developing a pachinko slot game machine business that reverses the historical trend.

Through its original characters, the Magical Suite Prism Nana pachinko slot machine creates a world perspective, which is an important step in transforming the popular image of the pachinko and pachinko slot machine industry from simply a gambling pastime to a legitimate form of amusement, similar to movies and amusement parks.

■ Medium-to-long-term Growth Strategy

Aims to be among the top companies in the amusement industry in terms of sales

The company's growth strategy for the next 3-10 years and for following years is explained below.

(1) Growth strategy for next 3-10 years

To insure growth over the next 3-10 years, the company will try to change the public image of the pachinko and pachinko slot machine industry from a gambling pastime to a form of amusement comparable to movies and amusement parks. Through this strategy, Daikoku Denki aims to raise its position in the industry to within the top level in terms of sales, although it may be difficult to define its industry as rival companies produce different goods and services than Daikoku Denki. More specifically, the company plans to expand its market shares in its established businesses, and to convert the popular image of the industry by developing a wide range of new businesses and by planning and manufacturing hit products.

To expand its market shares in established products in the information system segment, the company intends to strengthen its service that supports pachinko hall operations. Over the next few years, the company will invest several billion yen to renovate its hall computers and CII-SIS service of analyzing data gathered by the hall computers, producing an advanced system that may not be possible for competitors to match. To develop this system, it is considering taking advantage of its expertise in data analysis to form business ties with rivals possessing expertise in hardware. With advanced hall computers, the company will strive to raise its market share in these devices to 50%, from 40% now. To expand its market shares in existing products in the control system segment, the company will pamper its current customers and increase the number of contracts for displays and other control system for pachinko machines. Through these efforts, the company hopes to exceed its annual operating profit forecast by ¥1-2bn each year.

Pachinko slot game machines are the main new business the company plans to develop over the next few years. The first model, Magical Suite Prism Nana, was the first such machine in the industry incorporating original characters. Subsequent models will offer stories, not just pinballs, to help convert the pastime to a more socially acceptable form of entertainment or amusement. In FY3/13, the company's share of the Japanese market for pachinko slot game machines was close to zero. The company intends to rapidly raise this share to 3%, which it considers the break-even point, then to 5-10%. Toward this end, it plans to invest heavily in development.

Targets consolidated sales of ¥100bn and recurring profit of ¥10bn in 10 years

(2) Growth strategy for more than 10 years in the future

Ten years or more from now, the company aims to have a significant business in gathering and analyzing large quantities of information, so called "big data", for the amusement industry. The ability to gather and analyze big data is currently a focus of attention in the information technology and communications industry. This ability could be applied not just in business, but in meteorology, disaster forecasting and crime prevention. For example, many sensors could be applied to a bridge and these sensors could feed large amounts of data, such as data on bridge distortions caused by traffic, to a computer on a daily basis. The computer could analyze this information to determine the optimal method to maintain or repair the bridge and the best time to replace it.

Daikoku Denki intends to gather and analyze data on customer movement within amusement facilities to decipher the behavioral psychology of people at these facilities. If it could do so, it may be able to predict the behavior of these people. It could then advise the managers of these amusement facilities of actions to take to increase their sales. It may also be able to determine the cause of unprofitable attractions, enabling the managers to rectify the situation.

Daikoku Denki already provides the service of analyzing customer movement at pachinko halls. Hereafter, it plans to improve the accuracy of its analysis and to develop knowhow in gathering and analyzing big data. Then, it will expand the scope of its service, making it applicable to the entire amusement industry. This will require aggressive development over the next 10 years.

■ Medium-to-long-term
Growth Strategy

It is obviously difficult to foresee economic conditions 10 years from now. However, the company seems to have an ability to foresee future R&D possibilities. For example, it spent 10 years developing its face recognition system. Technologies for handling huge amounts of data are being developed rapidly around the world. Given this development and the company's record in R&D, the company could well achieve its long-term objective.

Ten years from now, the company targets consolidated sales of ¥100bn and recurring profit of ¥10bn. These targets are approximately double its current sales and recurring profit. To attain these targets, the company is developing its next-generation hall computer and trying to establish a cycle of developing commercially successful pachinko slot game machines. Over the longer term, the company plans to gather and analyze large quantities of data for a wide range of industries and to enter the casino industry. Thus, it seeks to diversify its business strategically.

The company's PBR is below 1x, but its dividend yield is 4.5%, which is high for a Japanese company. As the company's efforts to date contribute to sales and profit growth, the share price could rise.

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