Dynam Japan Holdings
06889 Hong Kong Stock Exchange

13-Jan.-16

Important disclosures and disclaimers appear at the end of this document.

FISCO Ltd. Analyst
Hiroyuki Asakawa

On the offensive by utilizing its low-cost operations

Dynam Japan Holdings Co., Ltd. (HK06889) is one of Japan's largest operators of pachinko and pachinko slot halls with the largest number of halls operated and the second largest in terms of ball rental fee revenue. Its strength and characteristics lie in its low-cost operations based on chain-store theory, which it thoroughly applies to newly opened halls as well as to daily hall operations. In addition, the Company was the first in its industry to be listed on a stock market, which is a result of its management having won recognition for its full enforcement of a customer-first creed, information disclosure, compliance management, and other factors.

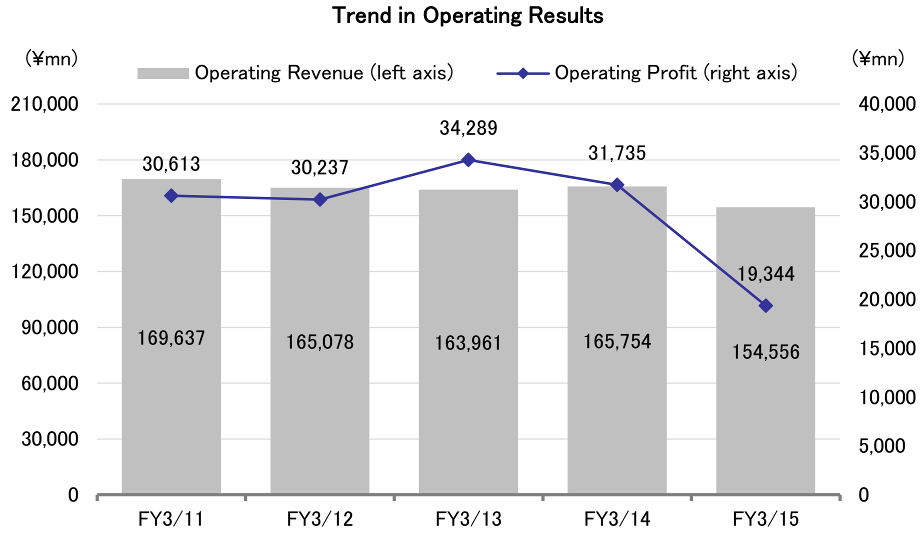
Already some time has passed since a headwind started to blow against the pachinko industry, but the situation has not improved. In fact, the business environment has become even harsher, including the strengthening of laws and regulations to reduce the gambling aspect of pachinko. Although it is trending downward, it is an undeniable fact that the pachinko market remains enormous, with a player population of 11.5 million and the market size of ¥24.5 trillion in sales amount.

The Company is on the offensive, utilizing its strength of low-cost operations based on chain-store theory. This involves forward-looking investment to ensure it is one of the surviving players that dominate the pachinko industry, which has been going through a shakeout stage. Its active-investment measures started with the large-scale renewal in FY3/15 Q4 (January to March 2015), which it continued on entering FY3/16. Carrying on from the previous period, in Q2 the Company implemented measures including a large-scale renewal and newly opening halls, and in Q3 it acquired a company in the same industry. In addition, for the next fiscal year and onwards, projects such as a resort development in Yamaguchi Prefecture are pending.

The results in FY3/16 Q2 (April to September 2015) were declines in both sales and profits year on year (YoY).The rate of decline in operating profit reached 54.0%, although the main reason for this was clearly the increase in upfront costs in conjunction with the forward-looking investment previously described. At FISCO, we have been paying close attention to the Company's business conditions as well as revenue trends and have confirmed that on a quarterly basis, revenue bottomed-out in FY3/15 Q4 and it has entered a recovery period. The recovery in sales is an effect of the previously described active investment and going forward, we expect that a recovery will be materialized for profits also.

Check Point

- Low ball rental fee operations is its specialty field where it utilizes its expertise in low-cost operations
- Acquired Yume Corporation that manages halls based on the same theory
- A stable dividend policy supported by ample retained earnings



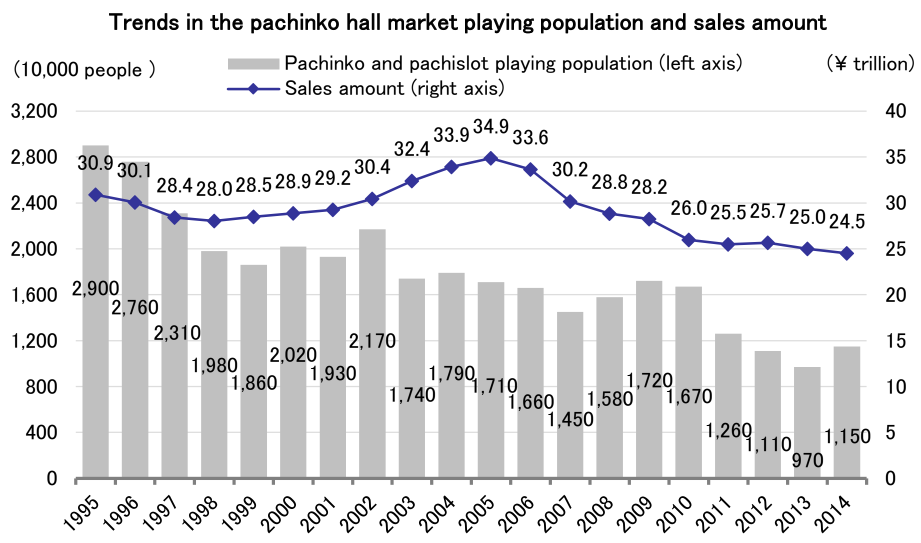
Current conditions in the pachinko hall market

Pachinko fans are becoming older and the appearance of smartphones is changing how people spend their leisure time

(1) The long-term trend

In the long term, the pachinko hall market will continue to contract. In 2014 in the pachinko market, despite the fact that the playing population of 11.5 million people was an 18.6% increase, YoY, sales amount declined 2.0% to ¥24.5 trillion (all the figures are from the Japan Productivity Center's "Leisure White Paper 2015"). Although the playing population grew YoY for the first time in six years, there are still few of the opinion that this means that the fall in the playing population has bottomed-out and in the future it will change to a rising trend. The major reason for this lack of bullishness is because the sales amount has continued to decline since its peak of ¥34.9 trillion in 2005. Also, alongside the aging of society, pachinko fans are becoming older and a major worry for those involved in the industry is that the number of young pachinko players is not increasing.

Various factors have been pointed to as the reasons why the number of young players is not increasing, but we think that the appearance of smartphones is a major factor. How people spend their leisure time has been changed greatly by the appearance of smartphones.



Source: Prepared by FISCO from the Japan Productivity Center's "Leisure White Paper 2015"

FISCO

Dynam Japan Holdings
06889 Hong Kong Stock Exchange

13-Jan.-16

(2) Current trends

As before, it does not feel a recovery in customer numbers is being realized at pachinko halls. Due to the hike in the consumption tax rate to 8% in April 2014, customers leaving pachinko halls in the summer of the same year were particularly conspicuous. The pachinko hall side has worked to increase the gross profit rate in order to reduce the impact on business of the fall in customer numbers. In accounting for pachinko halls, ball rental fee revenue obtained from the rental fees of pachinko balls becomes gross sales. Operating revenue is the amount upon deducting from this amount the cost of prizes, which signifies the amount that is returned to the customer, and this amount becomes net sales. The gross profit margin is the ratio of operating revenue to ball rental fee revenue, which is the reverse of the ball discharge rate as seen from the customer side (the ratio of cost of prizes to ball rental fee revenue; the rate of return). In other words, when the hall side increases the gross profit margin, if viewed from the customer side it means that the ball discharge rate has worsened, and this has further spurred the trend of customers leaving pachinko halls.

The increase of the gross profit margin by the hall side (which for customers means a reduction in the ball discharge rate) followed on from the hike in the consumption tax to create a negative spiral in 2014. So what about 2015? Looking at an independent survey conducted by the Company, no rebound in the number of pachinko and pachislot customers can be seen. With the number of customers in FY3/13 1H set as 100%, this percentage has basically constantly trended downward, and by FY3/16 1H it had fallen to 88.6% for pachinko and 87.4% for pachislot.

Furthermore, recently regulations have started to be enforced for gaming machines with a high gambling aspect, and there are concerns in the industry that this will further accelerate the trend of customers leaving pachinko halls. Among pachinko machines, from the November deliveries, new installations restricted for the machines known as the MAX type that have a win probability of around 1/400. In the future, the win probability lower limit will become 1/320. Raising-up the win probability lower limit has the effect of controlling the gambling aspect. In other words, a shift is being enforced from high risk and high return to middle risk and middle return. There are concerns that this will disappoint the core pachinko fans and at the same time, strike a blow to pachinko hall businesses. For pachinko halls, MAX machines in halls with high ball rental fee machines (halls where 1 ball costs ¥4) have the power to attract customers.

■ The Dynam Group's measures

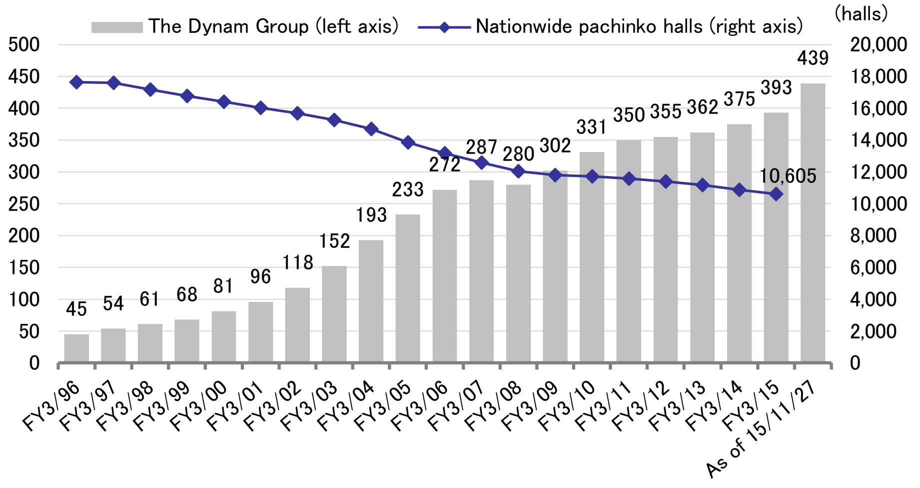
Low ball rental fee operations is its specialty field where it utilizes its expertise in low-cost operations

(1) Overview

As described above, the pachinko hall industry is facing two major concerns; the overall long-term downward trend of the industry and the current short-term slump that originated with the hike in the consumption tax and other factors. To address these concerns, the Company is fully mobilizing its strengths, which include its low-cost operations based on chain-store theory, that it has the largest corporate scale in the industry and a strong balance sheet, and that it is a listed company, and it is implementing various measures ahead of its industry competitors. Even in the context of the contraction of the industry, the Company has consistently remained on the business offensive, expanding its network of halls and continuing to pursue growth.

■ The Dynam Group's measures

Trends in hall numbers in the Dynam Group and the industry as a whole



Source: Prepared by FISCO from Company materials and National Policy Agency materials

The Company's main measure in response to the long-term market contraction is a low ball rental fee strategy. Compared to high ball rental fee machines, low ball rental fee machines generally provide inferior profits for the hall side. However, this is the measure the Company has decided to focus upon going forward based on the idea that coexisting with customers by increasing the returns to them will in the medium- to long-term help it to prosper.

Conversely, the Company has respond to the slump in customers visiting halls from 2014 up to the present time with large-scale renewals. In FY3/15 Q4, it renewed 40 halls and then in FY3/16 1H, it renewed a further 70 halls. The effects of these renewals are clearly appearing in the form of higher customer visits to halls and net sales. On the other hand, it will be necessary to pay attention to the period over which the renewal effects are maintained. Compared to the past, the period over which customer numbers rise from the renewal until the time they return to the level before the renewal is growing shorter.

Looking at the Company's initiatives described above, we can see that the Company is not mired in pessimism about the severity of the pachinko hall market, but believes that this environment may actually provide an opportunity for business expansion. As previously described, although there is the risk that in the short term the Company's measures may have a negative impact on its results, it is actively investing in measures that in the medium- to long-term will improve its relative competitiveness and that could return it to a growth track. In the current Q3, the Company made a subsidiary of a pachinko chain company and we feel that this might suggest the direction it will take in the future.

We consider that the current situation in the pachinko hall industry is that companies have been forced to become aware that they are struggling for survival rather than for growth. But even while recognizing that the pachinko hall market has contracted since its peak, it still remains an enormous market worth in excess of ¥20 trillion. So even if the market continues to contract in the future, it will still remain big enough for the Company to advance on a growth track. At FISCO, our understanding is that the various measures it has been carrying out in the previous and current fiscal years are an important step for it to return to a growth track.

(2) Low ball rental fee strategy

The most important point for the Company's growth strategy is how to attract customers despite the overall trend of customers leaving pachinko halls. The approach the Company is focusing on from this viewpoint is actively increasing the numbers of low ball rental fee machines and halls with low ball rental fee machines.

Pachinko is played by 'renting' the balls and this ball rental fee (the fee for renting the balls from the hall side) conventionally has been set at ¥4 per ball. In other words, the customer would rent 250 balls for ¥1,000. But in the low ball rental fee operational strategy being moved ahead by the Company, this ball rental fee is reduced to ¥1 or ¥2. The idea in the case of ¥1 balls is that the customer can rent 1,000 balls for ¥1,000 and so can play for a long time just be spending this relatively small amount, which should help to attract customers. This attempt to position pachinko as a leisure activity that the player spends a long time playing can be said to match the Company's long-term strategy.

It is clear from the figures that halls with low ball rental fee machines are better able to attract customers than halls with high ball rental fee machines. In FY3/16 1H, both ball rental fee revenue and operating revenue from halls with low ball rental fee machines exceeded the previous year's result.

Comparison of halls with low ball rental fee machines and halls with high ball rental fee machines (FY3/16 1H result)

(Unit: ¥mn)

		FY3/15	FY3/16	
		H1	H1	Change
Ball rental fee revenue	Total	425,297	417,104	−1.9%
	Halls with high ball rental fee machines	289,840	269,133	−7.1%
	Halls with low ball rental fee machines	135,456	147,971	9.2%
Operating revenue	Total	80,682	75,843	−6.0%
	Halls with high ball rental fee machines	48,096	41,328	−14.1%
	Halls with low ball rental fee machines	32,586	34,515	5.9%

Source: Prepared by FISCO from the Company's financial reports briefing materials

The Dynam Group was managing 400 halls as of the end of September 2015, and when dividing these according to whether the main type of machine within them was a high ball rental fee or low ball rental fee machine, there were 174 halls with high ball rental fee machines (43.5% of all halls) and 226 halls with low ball rental fee machines (56.5%). While it is explained in more detail below, as the halls of Yume Corporation, which the Company made into a subsidiary on November 1, 2015, are mainly halls with low ball rental fee machines, as of November 27 the ratio of halls with low ball rental fee machines rose significantly, with halls with high ball rental fee machines constituting 41.9% and halls with low ball rental fee machines 58.1%. Low ball rental fee machines are installed in all halls, including those considered to be halls with high ball rental fee machines.

Breakdown of the Company's halls according to type

Hall type	End of September 2015		November 27, 2015	
	Number of halls	Ratio	Number of halls	Ratio
Halls with high ball rental fee machines	174	43.5%	184	41.9%
Halls with low ball rental fee machines	226	56.5%	255	58.1%
Total	400	100.0%	439	100.0%

Source: Prepared by FISCO from Company materials

It is not only the Company that is introducing low ball rental fee machines and this development is spreading across the industry as a whole. But the Company's ratio for the introduction of low ball rental fee machines is particularly high compared to its competitors. As explained below, the ratio of halls with at least one low ball rental fee machine is 100%. The Company's ratio of low ball rental fee machines to all installed machines had reached 68.6% at the end of June 2015, compared to only 43.9% for the industry as a whole. The same trend can also be seen for its pachislot machines.

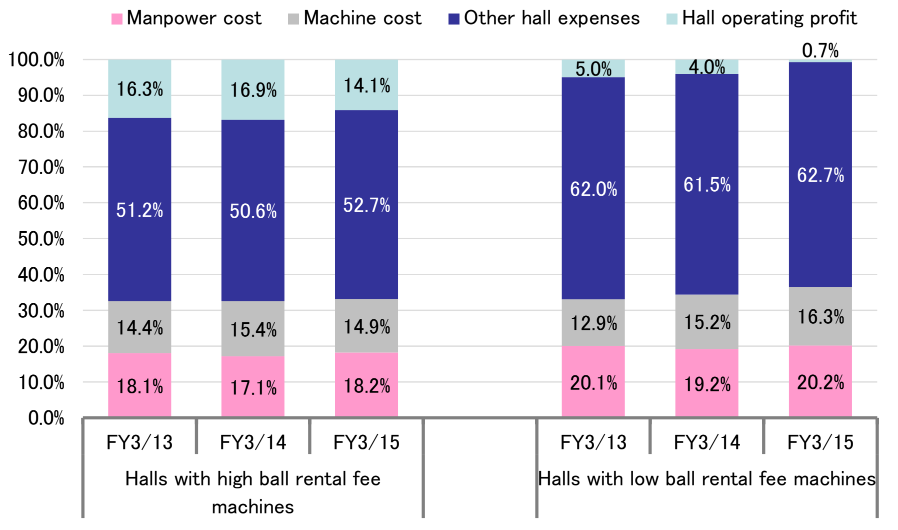
Ratio of low ball rental fee machines

As of the end of June 2015	Dynam group	Industry ratio (reference)
Ratio of halls with low ball rental fee machine (s)	100.0%	-
Ratio of low ball rental fee machines	68.6%	43.9%
Ratio of low ball rental fee pachislot machines	53.9%	23.3%

Source: Company briefing materials

There is a reason why the industry as a whole is lagging behind for the introduction of low ball rental fee machines, which is the strategy being actively rolled-out by the Company. This is because it results in a steady decline in revenue per hall for the pachinko halls side. Even for the same number of balls, ¥1 ball rental only results in one quarter of the revenue (ball rental fee revenue) compared to ¥4 ball rental. In other words, if we were to think in terms of supermarkets, a low ball rental fee strategy equates to a price-war strategy. A company's survival in the pachinko industry is determined by its hall management cost structure. This is the area where the Company excels most of all, having accumulated expertise in low-cost operations based on chain-store theory. So at FISCO, we think that the spread across the industry of low ball rental fee operations is dragging the Company's competition onto the battleground where it is the strongest, enabling it to demonstrate its competitive advantages.

Comparison of cost structures between hall types



Source: Prepared by FISCO from Company reference materials

(3) Implementation of a large-scale renewal

In the wake of the consumption tax hike of 2014, the pachinko industry fell into a negative spiral and customer numbers fell significantly. In response, the Company embarked on a large-scale renewal of its halls. In FY3/15 Q4, it carried out a short-term, intensive renewal of 40 halls with high ball rental fee machines. This development continued on into FY3/16, and in 1H it renewed a further 70 halls (63 high ball rental fee machine halls, 7 low ball rental fee machine halls).

The items to be renewed were all of the major interior and exterior locations, such as floors, wall cloths, toilets, exterior walls, exterior areas, advertisement towers, parking lots (paving/line drawing), and seats. The specific details of the renewals varied depending on each hall's recent maintenance situation, but the wall cloths were changed at all halls, toilets were completely renewed at more than half of them, and the floors were changed at some halls. In addition, at almost all of the halls, the exterior walls, exterior areas, and advertisement towers were renewed, while the seats, modesty panels and end plates were also renewed at most of the halls which went on renewal. These large-scale renewals made the halls appear as if they were newly opened. Renewal costs differ depending on the hall, but they can be estimated to be in the range of ¥30mn to ¥50mn. However, to renew all halls, of which there are 110 in total, it would require about ¥5,000mn, so this cannot be done by just any company.

The effects of the renewals are particularly clear in the first 40 halls to be renewed. The pachinko machine utilization rate (number of balls shot per day per machine) had slumped to around 21,000 balls in FY03/15 Q3, but in Q4 it recovered to a record level within a period of in excess of 23,000 balls. However, while a certain level of effects were seen directly after the renewals conducted in the FY3/16 1H, there have also been several cases in which these effects have not been maintained over the long term.

At FISCO, we are looking for this large-scale renewal to generate effects in the recovery phase in the future. The reason for this is that within the 110 halls, 103 were halls with high ball rental fee machines. This is because many the Company's halls with high ball rental fee machines are thought to be old halls, but in addition to this, we view the renewals as one symbol of the Company's decision to revamp its halls with high ball rental fee machines. It customers return to halls with high ball rental fee machines, the profits would be considerable. Even though the Company is not changing its strategy of aiming for growth through focusing on low ball rental fee machines, it is still attempting to maximize profits from the assets it currently possesses of halls with high ball rental fee machines, and this would seem to be justifiable as a method of investment.

Acquired Yume Corporation that manages halls based on the same theory

(4) Acquisition of Yume Corporation

On November 1, 2015, the Company conducted a share exchange of all shares and acquired Yume Corporation, which has its head office in Toyohashi City, Aichi Prefecture. Yume Corporation has a total of 39 halls; 38 Yumeya brand pachinko halls as a nationwide network from Hokkaido to Okinawa, and 1 SLOT PARK GOD brand girls-slot halls. The same as the Company, Yume Corporation manages it pachinko halls based on chain-store theory and is a corporate member of the Pachinko Chain Store Association (PCSA). This was one of the reasons why the Company decided to acquire it.

Yume Corporation does not disclose its financial results, but it seems to be stably achieving profits. For the share exchange, the Company issued approximately 38.8 million new shares. Using the share price and exchange rate as of October 30, the acquisition cost was estimated to be ¥5,775mn. Dividing this by the number of halls acquired, the Company paid ¥148mn per hall. Considering that in the Company's standard model, the cost of newly opening a hall is around ¥500mn, this acquisition can be evaluated as extremely efficient in terms of an investment in halls.

Details of the share exchange

Company name	The Company	Yume Corporation
Share-exchange ratio	1	3.466
No. of shares issued in the share exchange	38,805,336 shares	
Market value (closing value on October 30, 2015)	¥5,775mn	DYJH share price: 9.540 HKD 1HKD=¥15.60

Source: Prepared by FISCO from the Company's financial reports briefing materials

Yume Corporation has 10 halls with high ball rental fee machines and 29 halls with low ball rental fee machines. The plan is to continue to manage these 39 halls while maintaining their current brands. Some halls overlap with the Dynam Group's existing halls, but it is thought that the Company will decide what to do with these halls in the future. Even when they are in competition with each other, if both halls are profitable then the Company can implement a dominance strategy for pachinko halls in the relevant area, so it is not necessarily the case that closing one of them would be the best policy.

At FISCO, we highly evaluate this acquisition as an ideal M&A proposal. The reasons for this include that 1) the two companies share the same philosophy of chain-store management, 2) Yume Corporation is considered to be highly profitable, 3) 39 halls is a cohesive number and moreover its hall network is not biased on any particular region, and 4) the Company was able to utilize to the greatest possible extent the benefits of being listed through a share exchange for the full amount. However, it is thought that there are not many M&A candidates that satisfy the conditions described in 1) to 3) above, so going forward it would seem premature to assume that the Company will seek to strengthen its M&A offensive and rapidly expand its network of halls.

(5) Resort development

The Company officially announced its entrance into the resort development business in June 2015. The details are that it will develop an integrated resort complex based out of the Marinpia Toyoura Training Institute that the Company owns in Shimonoseki City, Yamaguchi Prefecture.

Aerial photograph of the Marinpia Toyoura Training Institute

Source: Google

For some time, the Company had hoped that the lifting of the ban on casinos within Japan would include a bill for integrated resorts (IR bill), but the deliberation of such a bill has been shelved. In this situation, the Company decided to develop a resort separate from a casino. The background to this decision include factors such as its accumulation of human resources, as for more than the past 25 years it has recruited between 200 to 300 new university graduates a year and so it is able to cope with starting a new business, and also that its ability to raise funds had increased following its listing on the Hong Kong stock market. Going forward, the schedule is that it is aiming to formulate a resort development basic plan during FY3/16 and compile a budget during FY3/17.

At this point, it is difficult to evaluate and to judge whether the resort development business will be a success or failure, as not enough materials have been determined or published. It seems it has already recruited some personnel from outside the Company for this business. Looking at its location, it can be estimated that it is mainly aiming to capture inbound demand from Asia, but first we must wait for it to formulate and announce its resort development basic plan.

Result trends

Sales and profits declined in FY3/16 Q2, which was incorporated into the initial targets

(1) FY3/16 1H

The results for FY3/16 1H were a decline in sales and profits, with operating revenue of ¥75,843mn (down 6.0% YoY), operating profit of ¥7,383mn (down 54.0%), intermediate profit before income taxes of ¥7,323mn (down 50.3%), and profit attributable to the owners of the parent of ¥4,784mn (down 47.1%). All of the factors behind the declines had been incorporated into the initial targets, so there were no particular surprises.

Summary of the FY3/16 Q2 results

(unit: ¥mn)

	FY3/15		FY3/16	
	1H	Full year	1H	YoY
Ball rental fee revenue	425,297	826,072	417,104	-1.9%
Cost of prizes	344,615	671,516	341,261	-1.0%
Operating revenue	80,682	154,556	75,843	-6.0%
Total expenses	64,615	135,212	68,460	6.0%
Operating profit	16,067	19,344	7,383	-54.0%
Profit before income taxes	14,729	19,518	7,323	-50.3%
Profit attributable to the owners of the parent	9,040	11,303	4,784	-47.1%
EBITDA	21,522	30,626	13,170	-38.8%

Source: Prepared by FISCO from the financial statements announcement press release

The three main reasons why operating profit declined ¥8,684mn YoY was the reduction in the gross profit margin, the effect of the new opening of halls, and the renewal costs. The Company has positioned raising the rate of return to customers to increase the number of customers visiting halls to be its medium- to long-term stability strategy, and reflecting this the gross profit margin in Q2 fell 0.8 of a percentage point compared to the same period in the previous fiscal year and 0.5 of a percentage point compared to the FY3/15 full year. It is unavoidable that newly opening halls record a loss in their first year, and there were 10 such halls in Q2. The renewal costs per hall are in the range of ¥30mn to ¥50mn, and these costs were incurred for 70 halls, which was in accordance with the initial plan.

(2) Considering FY3/16 and FY3/17

The Company does not release results forecasts, but we think that the estimates described below are possible for the current full fiscal year and for FY3/17.

The Company renewed 70 halls in Q2. The effects of the renewals, of increasing the number of customers and sales, have been clearly visible in the results since the start of the renewals in FY3/15 Q4. Therefore, the Q2 renewals can be expected to push-up sales from Q3 onwards. However, it is necessary to be aware that the duration of the effects has tended to be less than initially expected. On a quarterly basis, operating revenue is improving after bottoming-out in FY3/15 Q4. At FISCO, we think that rationally, in 2H of the current fiscal year ball rental fee revenue can be expected to increase around 2% compared to Q2, and we have calculated some estimates below based on this thinking.

Assuming that in 2H the customer rate of return is maintained the same as in Q2, for the current 2H we estimate operating revenue of approximately ¥77,000mn, and full-year operating revenue in excess of ¥153,000mn. Also, assuming the same operating costs in 2H as in 1H of this fiscal year, in 2H we expect operating profit of around ¥8,400mn, and full-year operating profit on the level of ¥15,800mn to ¥16,000mn.

Dynam Japan Holdings
06889 Hong Kong Stock Exchange

13-Jan.-16

Next, we will add-on the amount from the new consolidated of Yume Corporation. The Dynam Group's operating profit per pachinko hall in the FY3/15 results was ¥50.4mn (annual operating profit of ¥19,344mn divided by 384 halls, which is the average number of halls at the beginning and the end of the fiscal year). Assuming that the revenue from Yume Corporation's halls is the same as that of Dynam's halls, annual operating profit can be estimated to be 39 halls ×¥50mn, which is approximately ¥2,000mn. As the consolidation period in the current fiscal year is 5 months, we estimate its contribute to operating profit will be in the range of ¥800mn.

At FISCO, we think it is highly likely that profits will increase YoY in FY3/17. The round of large-scale renewals for the targeted halls has been completed, and for the opening of new halls also, the target number of halls has been achieved by making Yume Corporation a subsidiary. So from the next fiscal year, we will assume both of these costs will be zero. Therefore, we can estimate that their effects in pushing-up revenue will be in the range of ¥3,000mn to ¥4,000mn. Also, as the effect of increasing profits from the full-year contribution of Yume Corporation will be around ¥2,000mn, as long as the other conditions remains the same, operating profit will rise from ¥5,000mn to ¥6,000mn. These are the reasons why we forecast that profits will increase in the next fiscal year.

It seems that the most important points in the next fiscal year will be whether customer numbers will recover as expected and whether net sales can be secured as a result. In our estimates described above, we assumed that net sales and the gross profit margin will remain basically unchanged YoY. So it is necessary to be aware that if sales fluctuate, the results could greatly rise or fall compared to the above estimates.

Simplified income statement and the major indicators

(Unit: ¥mn)

		FY3/14			FY3/15			FY3/16
		1H	2H	FY3/14	1H	2H	FY3/15	2H
Operating revenue	Ball rental fee revenue	470,532	451,640	922,172	425,297	400,775	826,072	417,104
	YOY	0.7%	-2.2%	-0.8%	-9.6%	-11.3%	-10.4%	-1.9%
	Cost of prizes	388,373	368,045	756,418	344,615	326,901	671,516	341,261
	YOY	0.8%	-3.1%	-1.1%	-11.3%	-11.2%	-11.2%	-1.0%
	Operating revenue	82,159	83,595	165,754	80,682	73,874	154,556	75,843
	YOY	0.1%	2.1%	1.1%	-1.8%	-11.6%	-6.8%	-6.0%
Operating expenses	Other incomes	3,046	4,093	7,139	3,549	3,301	6,850	3,644
	YOY	0.6%	-34.2%	-22.8%	16.5%	-19.4%	-4.0%	2.7%
	Hall operating expenses	67,571	68,369	135,940	64,791	69,868	134,659	68,855
	YOY	1.5%	1.5%	1.5%	-4.1%	2.2%	-0.9%	6.3%
	SGA costs	1,412	2,674	4,086	2,383	3,073	5,456	2,738
	YOY	-19.7%	97.6%	31.3%	68.8%	14.9%	33.5%	14.9%
	Other operating costs	237	895	1,132	990	957	1,947	511
	Total expenses	66,174	67,845	134,019	64,615	70,597	135,212	68,460
	YOY	-0.5%	-	3.4%	-2.4%	4.1%	0.9%	6.0%
	Operating profit	15,985	15,750	31,735	16,067	3,277	19,344	7,383
	YOY	3.0%	7.5%	-7.4%	0.5%	-79.2%	-39.0%	-54.0%
	Financial income	552	3,108	3,660	1,028	1,123	2,151	275
	Financial expense	402	379	781	2,366	-389	1,977	335
	Profit before income taxes	16,135	18,479	34,614	14,729	4,789	19,518	7,323
	YOY	6.7%	0.9%	3.5%	-8.7%	-74.1%	-43.6%	-50.3%
	Tax expenses	5,852	7,525	13,377	5,693	2,566	8,259	2,539
	Net profit	10,283	10,954	21,237	9,036	2,223	11,259	4,784
	YOY	10.3%	-5.6%	1.5%	-12.1%	-79.7%	-47.0%	-47.1%
	Attributable to owners of the parent	10,315	10,940	21,255	9,040	2,263	11,303	4,784
	YOY	10.6%	-	1.7%	-12.4%	-79.3%	-46.8%	-47.1%
	EBITDA	21,237	21,465	42,702	21,522	9,104	30,626	13,170
	YOY	-	-	0.9%	1.3%	-57.6%	-28.3%	-38.8%
	EPS (¥)	13.9	14.7	28.6	12.2	3.0	15.2	6.4
	Dividend per share (¥)	7.00	7.00	14.00	7.00	7.00	14.00	7.00

FISCO

Dynam Japan Holdings
06889 Hong Kong Stock Exchange

13-Jan.-16

Balance sheet

(Unit: ¥mn)

	FY3/14	FY3/15	FY3/16 1H
Current assets	50,946	48,723	45,373
Cash & deposits	34,836	29,239	32,418
Sales receivable	563	486	450
Current assets	135,223	132,213	132,480
Tangible fixed assets	94,605	99,961	101,327
Intangible fixed assets	1,408	1,029	1,088
Total assets	186,169	180,936	177,853
Current liabilities	34,910	31,380	29,235
Accounts payable and other debts	19,049	20,468	16,244
Borrowings	1,265	3,160	2,158
Current liabilities	9,249	14,503	18,796
Borrowings	3,059	9,160	13,619
Equity attributable to the owners of the parent	141,990	135,077	129,846
Share capital	15,000	15,000	15,000
Capital surplus	10,129	10,129	10,129
Retained earnings	110,136	111,037	109,964
Other constituent elements	6,725	-1,089	-5,247
Non-controlling interests	20	-24	-24
Total equity	142,010	135,053	129,822
Liabilities & net worth	186,169	180,936	177,853

Cash flow Statement

(Unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16 1H
Net profit before income taxes	28,404	33,436	34,614	19,518	7,323
Depreciation costs	10,804	10,507	10,234	10,340	5,399
Others	-7,302	-15,613	-17,463	-16,442	288
Cash flow from operations	31,906	28,330	27,385	13,416	13,010
Increase in fixed assets	-7,471	-10,723	-9,292	-16,008	-8,104
Others	18,469	-176	-13,098	-1,005	73
Cash flow from investments	10,998	-10,899	-22,390	-17,013	-8,031
Cash flow from financial activities	-31,840	-8,028	-13,102	-2,898	-1,956
Effect of exchange rate changes on cash and cash equivalents	-	3,539	1,477	898	156
Changes in cash and cash equivalents	11,064	12,942	-6,630	-5,597	3,179
Cash and cash equivalents at the beginning of FY	17,460	28,524	41,466	34,836	29,239
Cash and cash equivalents at the end of FY	28,524	41,466	34,836	29,239	32,418

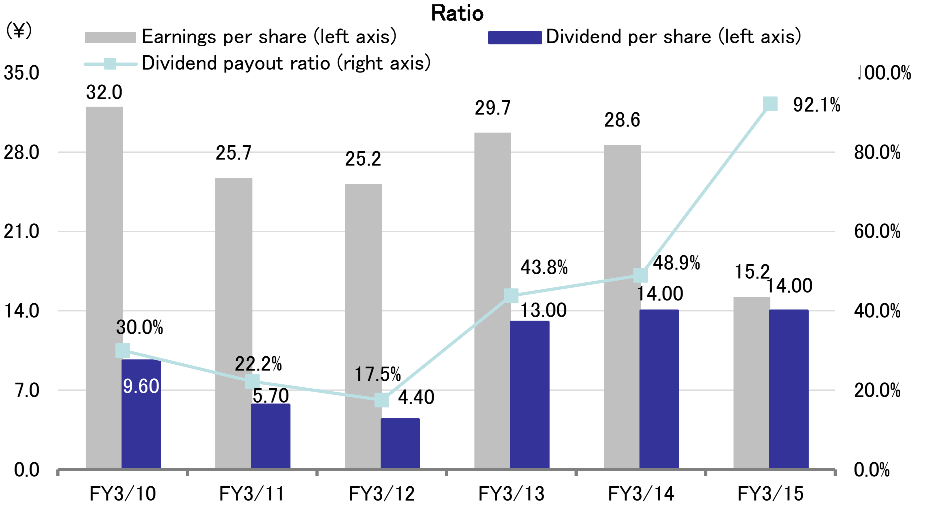
Return to Shareholders

A stable dividend policy supported by ample retained earnings

The Company is highly conscious of the importance of returns to shareholders and its basic policy is to pay dividends targeting a dividend payout ratio of 35% or above.

It has decided to pay a dividend per share of ¥7 as the interim dividend at the end of FY3/16 Q2. This will mean a dividend payout ratio of 108.7%, so we consider that supported by a high shareholders' equity ratio of 73.0% and ample retained earnings of ¥109,964mn, the Company has decided to prioritize dividend stability.

Trends in Earnings per Share, Dividend per Share and Dividend Payout Ratio



Source: Prepared by FISCO from the Company's financial statements

As part of its returns to shareholders, the Company has announced a buyback of treasury stock. It plans to acquire a maximum of 10% of outstanding shares and plans to retire all of these shares. The number of outstanding shares increased by around 5% following the share exchange with Yume Corporation, and if the buyback is implemented as planned, it will account for all of this increase and will actually reduce the number of outstanding shares below the number prior to the share exchange.

Disclaimer