

Daikoku Denki Co., Ltd.

6430

Tokyo Stock Exchange Prime Market and Nagoya Stock Exchange Premier Market

26-Aug.-2024

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FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

In FY3/24, with the steady spread of smart pachislot gaming machines, achieving sharp rise in revenue and profits. Also expecting to set new record high for profit in FY3/25

1. Business overview

Daikoku Denki Co., Ltd. <6430> (hereafter, “the Company”) has two main businesses: the Information System Segment that develops, manufactures and sells computer systems for pachinko (Japanese slot machines) parlors and halls, and the Amusement Segment that develops, produces and sells software and hardware related to pachinko and pachislot gaming machines. The Company holds the leading market share, approximately 40%, of the Japanese market for hall computers (machine management systems), reflecting an information management method, etc. that is the de facto standard for the industry. Furthermore, the industry’s leading membership-based information provision service Daikoku Denki Strategic Information System (DK-SIS) facilitating the operations of pachinko hall associations forms a network of 3,127 pachinko halls and supports the Company’s business foundation.

With the pachinko market on a trend of steady annual shrinkage, the Company is striving to increase market share at large halls and promoting business reforms, including a shift to a business model with recurring revenue that continues over time, from a medium to long term perspective. Prior to the COVID-19 pandemic, controlled ball payouts, measures against gambling addiction, and amended regulations on game machines (enforced on February 1, 2018; hereafter, “new regulations”) have brought the pachinko hall industry to a major turning point. This has been compounded by impact from the COVID-19 pandemic, and earnings have been lackluster for some time due to uncertainty about the future. However, with the steady increase in utilization of the closely-watched smart gaming machines*, which emerged in November 2022, the business performance of pachinko halls has expanded rapidly along with the recovery of capital investment, and the Company is entering a new phase of growth.

* This refers to smart pachinko and smart pachislot, types of smart gaming machines, which enable users to play without directly touching the balls and medals in contrast to the past format. Key points are elimination of facilities related to balls and medals at pachinko halls and enhancement of gaming performance compared to existing gaming machines. Future developments should be closely monitored considering support from gaming machine manufacturer organizations (Nikkoso and Nichidenkyo). Smart pachislot machines were introduced into the market from November 21, 2022, and smart pachinko machines were rolled out on April 3, 2023.

2. Overview of FY3/24 results

In the Company’s results for FY3/24, net sales increased by 69.2% YoY to ¥53,861mn and operating income rose by 198.6% to ¥12,001mn, resulting in major increases in revenue and profit greatly exceeding the initial plan and setting record highs on each profit line. With operation of smart pachislot machines performing well, pachinko halls upped their capital investment to accommodate smart gaming machines. Consequently, the sales volume of card units, including those dedicated for smart gaming machines and information disclosure terminals, and other items exceeded plans by a large margin. In addition, demand to support new banknotes in advance of their circulation starting in July 2024 also contributed to the results. On the profit front as well, expansion in the Information System Segment bolstered earnings and led to an operating income margin of 22.3%, a major improvement (12.6% in the previous fiscal year).

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Summary

3. FY3/25 forecasts

With regard to results for FY3/25, the Company forecasts net sales to increase 2.1% YoY to ¥55,000mn and operating income to rise by 3.3% to ¥12,400mn, anticipating increases in both revenue and profits. The Information System Segment is expected to maintain results at the same level as in the previous fiscal year in which record highs were achieved, due to sales of equipment for smart gaming machines and supporting new banknotes. In the Amusement Segment as well, sales are forecast to increase from the market launches of smart pachislot machines under the Company's own brands. In profits, it continues to actively invest in developments, including in cloud development that will become the foundation for new services and in market launches of smart pachislot machines, but the forecast is still for higher profits to be secured from the Information System Segment maintaining its high earnings and the Amusement Segment becoming profitable.

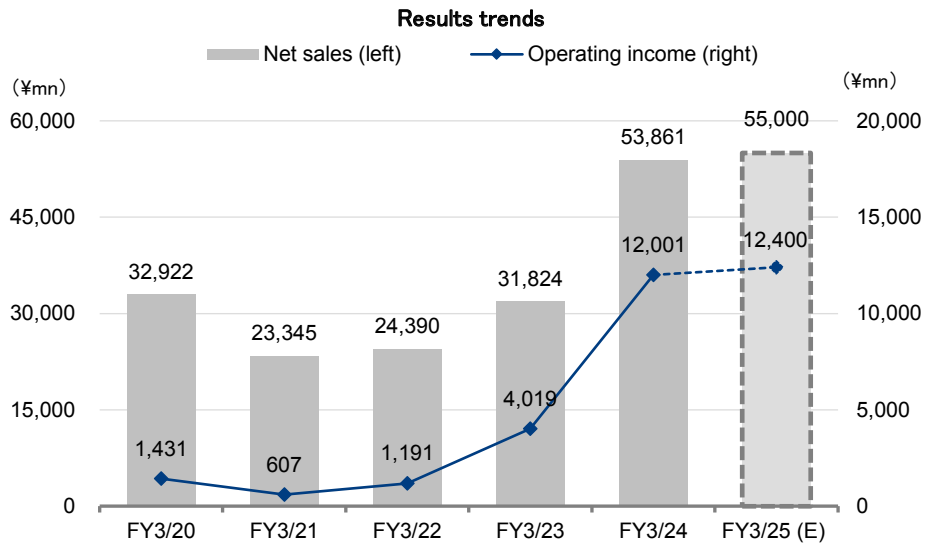
4. Medium-term management plan

The Company started a medium-term management plan (FY3/23 – FY3/25) now in its final year and seeing a path to more active conditions in the gaming machine market and pachinko hall capital investments as the new era of smart gaming machines emerges. The FY3/24 results were significantly higher than the plan's targets, so it has also greatly upwardly revised the numerical targets for its final fiscal year. However, there has been no change to the strategic initiatives. The Company will capture demand from the spread of smart gaming machines and is also aiming to shift to a recurring revenue business by building a cloud server-based platform that will be unique in the industry, thereby enhancing its MIRAIGATE Services ("MG Services"). Further, as a gaming machine manufacturer, the Company will work to develop smart pachislot machines under its own brand (planned market launch is in FY3/25). Furthermore, as its medium- to long-term growth strategy, it has indicated its direction of aiming to become a DX leader in the pachinko industry by utilizing the latest technologies, such as AI and Big Data.

Key Points

- In FY3/24, major revenue and profit growth thanks to the wider-than-expected spread of smart pachislot machines
- The strong smart pachislot operations stimulated pachinko hall capital investment demand, so sales of card units and mainstay products grew
- The excellent results are forecast to continue in FY3/25 as well, including from equipment sales for smart gaming machines and to support new banknotes
- Medium-term management plan sees the advent of the era of smart gaming machines, aiming to strengthen cloud development and shift to a recurring revenue model and to quickly develop smart pachislot machines

Summary



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

Description of businesses

Focuses on hall computers and peripheral equipment for pachinko halls. Aims to further expand its top market share in the industry by promoting the industry's first AI hall computer

While primarily focusing on the development, production and sales of computer systems for pachinko halls, the Company also engages in the development, manufacture and sales of software and hardware related to pachinko and pachislot machines.

As a pioneer in the development of hall computers, which assist in the management of pachinko halls, and holder of the top market share in the Japanese market, the Company won halls' trust and satisfied pachinko players by proposing a management method which puts emphasis on data management, introducing innovative peripheral equipment for its hall computers, and providing the industry's leading membership-based information provision service, etc.

The Company's share of the hall computer market is 40%, and in particular, its market share of large-scale halls with at least 501 machines is about 60%.

The Company's two main businesses are the Information System Segment and Amusement Segment*, but the Information System Segment provided over 90% of its net sales and has been the main source of stable profit in the past few years.

* Since FY3/24, the name of Control System Segment has been changed to the Amusement Segment.

Description of businesses

1. Information System Segment

The Company sells hall computers, which serve as core systems at pachinko halls, and peripheral equipment, such as prize and customer management systems, information disclosure systems and card units, and offers MG Services that provide various services on hall computers and over the internet via a server. DK-SIS, a membership information provision service and the industry's foremost strategic information tool, is the pillar of MG Services.

Hall computers are the core systems for supporting pachinko hall operations. These computers display the operating conditions and sales of each machine in a hall, are supported by peripheral equipment such as prize management and information disclosure systems and card units and serve as the foundation of MG Services. Introducing a hall computer provides the advantage that peripheral equipment and support services can be sold as a package deal.

In June 2019, the Company released the AI hall computer X (Kai), the first of its kind in the industry and the first upgrade in 12 years since the CII hall computer. Based on the concept of a "hall computer that teaches," the main feature of this AI hall computer is that it will guide pachinko hall operators to optimal solutions by utilizing the Company's big data and having AI automatically analyze the data. By using AI's ability to prepare forecasts utilizing big data that cannot be processed by people to instantaneously generate analyses that previously required significant time and assist personnel with limited experience in making assessments expected of highly experienced personnel, the Company will enhance efficiency and reduce labor resources in hall management, contribute to further customer attraction and improve profitability. With the spread of smart gaming machines introduced in November 2022, the computer is also spurring system upgrades as a hall computer optimal for data management.

Hall computers and main peripheral equipment (including services)

Hall computer	Web and app services for fans	Prize management
 <p>We collect data from game units installed in halls and provide sophisticated analysis useful for hall management.</p> <p>In addition, we also conduct integrated management of the systems necessary for hall management, including machines, prizes, customers, information disclosure and security.</p> <p>Using big data sent from the company's hall computers nationwide to our company's MIRAI GATE servers, our latest model X (Kai) is capable of automated analysis using AI (auto consulting), AI security, high-precision simulation (Xai-SIS), and the operation of functions matched to the changing times, such as support for prohibitions on smoking and the handling of COVID-19.</p>  	 <p>Fans can view nationwide pachinko hall data for free using Pachirobo (free app).</p>  <p>At Site Seven (paid site), fans can view more detailed data than with Pachirobo.</p>	<p>This is a system to exchange acquired pachinko balls for prizes. POS SP-01 can be operated without a keyboard using a large 15.6 inch touch panel LCD. It can also be operated as a self-service POS.</p> 
	<p>Information terminals for fans (Large LCD)</p>   <p>BigMO PREMIUM II REVOLA</p> <p>It displays machine data such as big wins and starts, produces images, lights and sounds matched to the machine, and allows fans to call staff.</p>	<p>Card unit</p>  <p>It is a terminal installed on each game machine to lend balls and medals for playing.</p> <p>In addition, it has also realized advanced security and analysis within halls in conjunction with hall computer "X".</p> <p>In recent years, demand for the VEGASIA III-SP/SS, a dedicated unit for smart game machines, has surged.</p>

Source: Reprinted from the Company's results briefing materials

Description of businesses

2. Amusement Segment

The Amusement Segment develops, produces and sells software and hardware, as well as components used for gaming machines (mainly pachinko) for game machine manufacturers. Drawing on years of experience in analyzing data from pachinko machines as a hall computer manufacturer, the Company serves as a development partner that proposes plans based on the trends of popular models. It also engages in content business activities, such as the sales of copyrights for popular characters. In particular, the Company is ramping up pachislot business from FY3/22 by leveraging hardware and software technologies cultivated up to now. As a gaming machine manufacturer*, the segment intends to focus on manufacturing and selling smart pachislot machines under its own brand, with a planned market launch in FY3/25. As of FY3/24, the Company has merged its Control System Division (amusement division) and Manufacturing Division (supply division) and renamed the department the AMS (Amusement & Supply) Management Department. The segment name has also been changed from the Control System Segment to the Amusement Segment.

* Handled by subsidiaries DAXEL INC. and ALOFT Co., Ltd. as well as LAIRI Inc., consolidated in April 2023.

■ Company features

Track record of creating new product opportunities for the industry and provides added value for hall operations in various ways

1. Growth model based on market expansion through innovation

Since its establishment, the Company has consistently planned and developed new categories of goods and services, thereby cultivating the pachinko market and achieving growth. It has not just developed machines with superior functions but emphasized the importance of data management and the necessity for information disclosure. Thus, it has been able to provide added value to various aspects of pachinko hall management.

Launched in 1974, the Company's first hall computer enabled managers of pachinko halls to introduce a hall management method based on data management. Previously, pachinko halls accumulated only basic data, but with the introduction of hall computers, data-based hall management became the de facto standard. Ever since then, it has been steadily rolling out industry-first information equipment that contains innovative functions, such as the Data Robot information disclosure terminal that provides operational information about gaming machines at pachinko halls to fans. It has contributed to healthier hall results by boosting the efficiency of hall management and supplying added value that raises fan satisfaction.

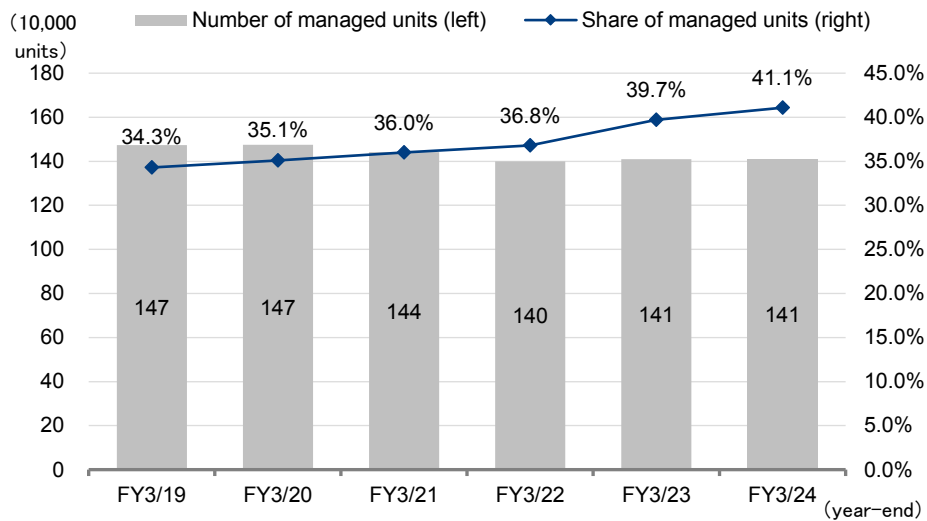
In June 2019, the Company released the industry's first AI hall computer, X (Kai). This AI hall computer not only helps the performance of pachinko halls, but also improves operating efficiency, thus reducing labor necessary for hall management already undergoing labor shortages.

Company features

2. Strong network of pachinko halls

Another one of the Company’s strengths is that it has built a robust network with member pachinko halls through an array of services based on hall computers (MG Services). Launched in 1990, DK-SIS is a service offering feedback in the form of information that is useful in hall operations after processing and analyzing the daily operational information of pachinko and pachislot machines received from pachinko halls. Simulations based on nationwide gaming machine sales data support pachinko halls’ forecast management, and a strong network of member halls underpins the Company’s business foundation. Additionally, the Company takes on a role as a sort of think tank in the industry, helping to enhance the Company’s brand power as a leading company, and it is apparently being utilized in strategic proposals and sales activities to game machine manufacturers. Membership totaled 3,127 halls at the end of FY3/24 with 1.41mn managed machines (41.1% share in managed machines). Recently, the Company has been focusing on promoting widespread use from various angles of its Market-SIS market area analysis service, which analyzes customer numbers, utilization rates, market share, and support rates of pachinko hall rivals operating in the commercial sphere. Market-SIS is being well received as a tool that grasps mobility (player) trends and helps halls improve their ability to attract customers. Moreover, the Company launched the cloud-based chain store management system ClarisLink in 2021. The new system is its first using the cloud. Its unparalleled data and response speed have drawn rave reviews, and the number of contracting halls has grown in excess of forecasts.

Trends in the number of DK-SIS-managed units and shares

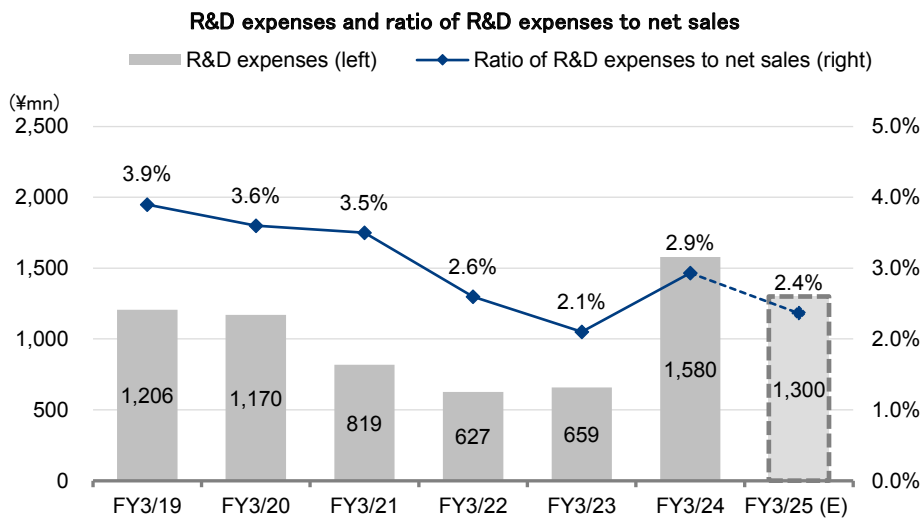


Source: Prepared by FISCO from the Company’s materials

Company features

3. Stable profit base that supports investment for the future

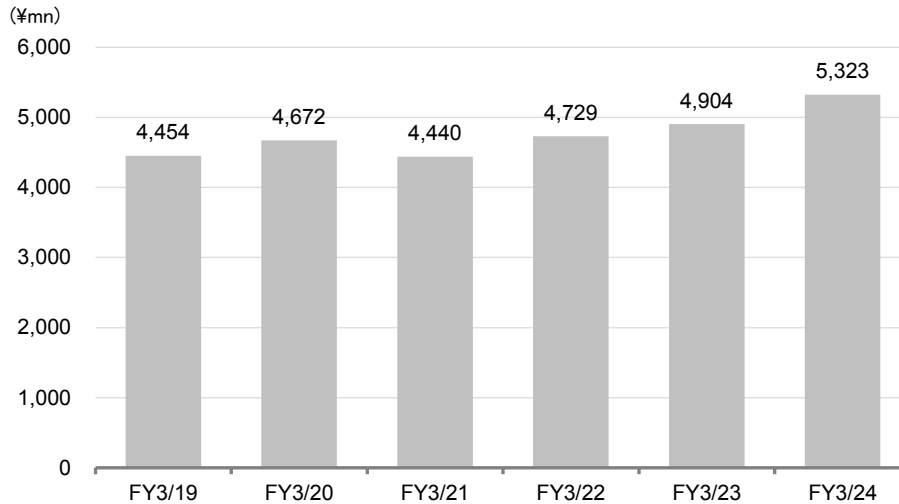
The Company’s main source of competitiveness is its proactive upfront investment eyeing future growth, including its R&D expenses. Development of a next-generation hall computer (and peripheral equipment) and start of a new MG Services are evidence of continued aggressive investment in areas expected to become its growth driver. The stable revenue stream provided by the high-margin Information System Segment makes this investment possible. In particular, MG Services promoted by the Company as a recurring-revenue business model have grown and enabled funding of R&D at a high level while maintaining stable segment income, and investment risk has been limited. The Company’s ability to balance large profits from its existing businesses with heavy investment in businesses for future growth allows it to produce value on a continuing basis. While exhaustion of large-scale investments in the next-generation hall computer and other outlays have kept R&D expenses at roughly 3% of net sales since FY3/18, the Company intends to aggressively allocate R&D expenses, mainly for central components of its strategy such as the cloud and smart pachislot, in the medium-term management plan. It also appears that the Company is actively pursuing M&A, including toward acquiring new technologies and IT human resources, and to enter into other industries.



Source: Prepared by FISCO from the Company’s results briefing materials

Company features

Sales of MG Services



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

Financial results trends

In FY3/24, with smart pachislot gaming machines spreading, mainstay products necessary for smart gaming machines greatly exceeding forecasts

1. Overview of FY3/24 results

The Company posted FY3/24 results that significantly exceeded initial forecast, with net sales of ¥53,861mn (up 69.2% YoY), operating income of ¥12,001mn (up 198.6%), ordinary income of ¥12,102mn (up 184.1%) and net income attributable to owners of parent of ¥8,464mn (up 189.1%), significantly increasing revenue and profits and setting records for each profit line.

Alongside the spread of smart gaming machines, results in the Information System Segment have grown greatly and net sales achieved a new record high. Smart pachislot operations are trending favorably, and this is stimulating capital investment in pachinko halls in order to respond to smart gaming machines, and the number of sales of card units including those specifically for smart gaming machines, information disclosure terminals, and other equipment increased significantly higher than targeted. The reasons why unit sales were much higher than targeted were the additions to results of the faster-than-expected pace of growth of the number of smart pachislot installations, and the demand to support new banknotes in advance of their circulation from July 2024 (4Q). Sales of services also accumulated steadily, particularly of MG services. Conversely, the Amusement Segment was impacted by the sluggish growth in the number of pachinko machines sold in the market as a whole, and sales of displays and control units for gaming machines were lower than in the previous fiscal year.

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Financial results trends

In profits, earnings grew greatly in the Information System Segment even while the Company is actively investing in developments for the future. In particular, due to the growth of the highly profitable mainstay products, operating income increased significantly and set a new record high. The operating income margin also improved greatly to 22.3% (12.6% in the previous fiscal year).

Looking at the financial conditions, total assets increased 22.7% to ¥59,281mn on the end of the previous fiscal year due to an increase in cash and deposits and accounts receivable -trade following the sales growth, and the increase in product inventory in preparation for the capital investment demand. The equity ratio remained almost unchanged YoY at 68.7% (69.2% at the end of the previous fiscal year), with the main factor being a 21.9% rise in total equity to ¥40,720mn due to the increase in retained earnings.

Overview of FY3/24

	FY3/23		FY3/24		YoY	
	Results	Share	Results	Share	Change	% change
Net sales	31,824	-	53,861	-	22,037	69.2%
Information System Segment	26,209	82.4%	49,412	91.7%	23,202	88.5%
Amusement Segment	5,639	17.7%	4,499	8.4%	-1,139	-20.2%
Adjustment	-24	-	-50	-	-25	-
Gross profit	14,507	45.6%	24,981	46.4%	10,474	72.2%
SG&A expenses	10,487	33.0%	12,980	24.1%	2,492	23.8%
Operating income	4,019	12.6%	12,001	22.3%	7,981	198.6%
Information System Segment	5,490	20.9%	14,603	29.6%	9,113	166.0%
Amusement Segment	140	2.5%	-390	-	-531	-
Adjustment	-1,611	-	-2,211	-	-600	-
Ordinary income	4,260	13.4%	12,102	22.5%	7,841	184.1%
Net income attributable to owners of the parent	2,927	9.2%	8,464	15.7%	5,536	189.1%

(¥mn)

	End of FY3/23	End of FY3/24	YoY	
			Change	% change
Total assets	48,298	59,281	10,983	22.7%
Total equity	33,399	40,720	7,320	21.9%
Equity ratio	69.2%	68.7%	-0.5pt	-

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

Financial results trends

The results by segment were as follows.

(1) Information System Segment

Net sales increased by 88.5% YoY to ¥49,412mn, and segment income increased 166.0% to ¥14,603mn, a major increase that set an all-time record high. Smart pachislot machines operated at a high level, which stimulated capital investment by pachinko halls to accommodate smart gaming machines, and with this, sales volumes for products like VEGASIA*1, a card unit that includes units exclusively for smart gaming machines, and the information disclosure terminals REVOLA and BIGMO PREMIUM came in well above expectations. The demand to support new banknotes in advance of their circulation from July 2024 was also a factor behind results being higher than forecast. In addition, service sales grew steadily as well, as MG Services increased the number of franchises in response to market changes caused by the introduction of smart gaming machines. In particular, increased sales were seen in three management support services: Market-SIS, a market area analysis service; ClarisLink, a cloud-based chain store management system; and the labor-saving tool Raku Raku Replacement Operation Option, which replaces settings on gaming machines in just one minute, and each of which is growing steadily.*2 As for profits, upfront expenditures in cloud and developments increased, but growth in high profit-margin mainstay products and accumulation of recurring revenue from MG Services resulted in a major profit gain, and the segment income margin increased greatly to 29.6% from 20.9% a year ago.

*1 Regarding the release of the card unit VEGASIA, since its late entry on the market in 2013, it has steadily expanded its share (17.6% at the end of FY3/24), but going forward FISCO believes there is a strong possibility that its share expansion will be spurred on by the shift to smart gaming machines.

*2 Market-SIS, which was released in April 2019, is in use at 4,296 gaming halls at the end of FY3/24 (increase of 1,267 halls from September 30, 2020), and ClarisLink, released in November 2021, is contracted by 786 halls (increase of 655 halls from September 30, 2022), and Raku Raku Replacement Operation Option, released in June 2022, is contracted by 381 halls.

Looking at trends in the market as a whole, including from the Company's DK-SIS data, installations of smart pachislot machines accounted for 36.4% of all pachislot machine installations at the end of March 2024 (8.2% at the end of March 2023), an increase at a pace faster than anticipated*1. Also, among the total number of pachislot machines sold annually (776,000 units from April 2023 to March 2024), the number of smart pachislot machines sold constituted 70.9% (550,000 units)*2. In particular, since October 2023, their sales shares has been trending at around 80% a month, indicating that replacements of former machines with smart pachislot machines are progressing steadily.

*1 At the same time, regarding smart pachinko machines introduced on the market since April 2023, they still account for only 4.7% of overall installations of pachinko machines as of March 31, 2024.

*2 On the other hand, pachinko sales from April 2023 to March 2024 were sluggish at 826,000 units due to the absence of new titles that would have driven operations and the shift to smart pachislot as a priority. Of this number, smart pachinko's sales share was only 14.4% (119,000 units).

Also, according to the Company's DK-SIS data, the operating rate of all gaming machines (period average) trended strongly at 105.6% compared to in the previous fiscal year. The growth of pachislot machine operations as a whole was driven by the appearance of smart pachislot, which trended at 122.1%, and this was a major factor behind the increase in pachinko hall capital investment demand. Conversely, pachinko machine operating conditions were lower than in the previous fiscal year, but in March 2024, a gaming machine with a new gameplay feature called Lucky Trigger was introduced and received a lot of support from fans, so March on a single-month basis rose to 103.1% compared to the same month in the previous fiscal year.

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Financial results trends

(2) Amusement Segment

Net sales declined 20.2% YoY to ¥4,499mn, and the segment recorded a loss of ¥390mn (compared to a profit of ¥140mn in the previous fiscal year), leading to a decline in both revenue and profit. With the impact of stagnating sales volumes for pachinko machines in the overall market, sales of display units and control units for gaming machines also declined YoY. On the profit front, the significant decrease in revenue and development expenditures for smart pachislot machines under the Company's own brand (planned for a market launch in FY3/25) contributed to the segment posting a loss.

2. Summary of FY3/24

To summarize FY3/24, the Company was able to realize significant results growth due to two factors; the steady increase in the number of smart pachislot machines installed, which drove the operations growth of gaming machines as a whole (an external factor), and that the Company was able to strongly capture the capital investment demand generated by the spread of smart gaming machines (an internal factor). In particular, the second factor can be said to reaffirm the Company's superiority as we arrive at the age of smart gaming machines. Also, the contribution of the improved profit margin of the mainstay products groups that are necessary for smart gaming machines is another point worthy of a positive evaluation. Moreover, demand to respond support new banknotes in advance of their circulation from July 2024 has been a factor adding to the results, which can be said to be good news ahead of this development becoming fully fledged. On the other hand, smart pachinko has not yet reached the stage of its full-scale spread, but at the current time some models are starting to perform well and this can be expected to support the Company's growth in the future. In activities, it appears that the Company is steadily preparing for the development of cloud computing that will utilize the latest technologies like AI and Big Data and become the foundation of new services, and it is steadily progressing preparations for the market launches of smart pachislot machines under its own brands. Also, at the exhibitions held in major cities throughout Japan in February and March 2024, its new products*, including the REVORA II large LCD terminal, the DUALINA upper-part installation terminal, and the Wellph noise canceling earphones specialized for use in pachinko halls, attracted a lot of attention, and they are expected to contribute to results in the future.

* For example, REVORA II is completely touch panel except for the staff call button, and it also has installed a "game flow navigation function" that indicates the state of the increasingly complex game flow that the player is in. DUALIA is installed on the top of the machine to create a sense of excitement by expressing payouts best suited for smart gaming machines. Wellph is the industry's first SDGs product that protects staff from noise problems by reducing ear strain.

■ Outlook

The FY3/25 outlook is once again for record high results from sales of equipment for smart gaming machines, supporting new banknotes, and the market launches of smart pachislot machines

1. FY3/25 forecast

The Company forecasts continued increases in sales and profits, with ¥55,000mn in net sales (up 2.1% YoY), ¥12,400mn in operating income (up 3.3%), ¥12,500mn in ordinary income (up 3.3%), and ¥8,500mn in net income attributable to owners of the parent (up 0.4%).

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Outlook

Continuing from the previous fiscal year, the outlook for the Information System Segment is that it will once again achieve record high net sales from sales of equipment for smart gaming machines and supporting new banknotes. In the Amusement Segment as well, sales are forecast to increase due to the market launches of smart pachislot machines under the Company's own brands.

In profits, the Company will spend on promoting DX and establishing in-company systems, and it will also continue proactive development investment*. But even so, it is expected to secure higher profits through the Information System Segment maintaining its high earnings and the Amusement Segment becoming profitable.

* Continuing from the previous fiscal year, it is investing including in cloud development and in developing smart pachislot machines under its own brands. It plans R&D investment of ¥1,300mn (¥1,580mn in the previous fiscal year) and capital investment (including on intangible fixed assets) of ¥3,000mn (¥2,234mn in the previous fiscal year).

FY3/25 forecast

	FY3/24		FY3/25		YoY	
	Results	Share	Initial forecast	Share	Change	% change
Net sales	53,861		55,000		1,138	2.1%
Information System Segment	49,412	91.7%	49,800	90.5%	387	0.8%
Amusement Segment	4,499	8.4%	5,200	9.5%	700	15.6%
Adjustment	-50	-	-	-	-	-
Gross profit	24,981	46.4%	25,850	47.0%	868	3.5%
SG&A expenses	12,980	24.1%	13,450	24.5%	469	3.6%
Operating income	12,001	22.3%	12,400	22.5%	398	3.3%
Information System Segment	14,603	29.6%	14,500	29.1%	-103	-0.7%
Amusement Segment	-390	-	150	2.9%	540	-
Adjustment	-2,211	-	-2,250	-	-38	-
Ordinary income	12,102	22.5%	12,500	22.7%	397	3.3%
Net income attributable to owners of the parent	8,464	15.7%	8,500	15.5%	35	0.4%

Source: Prepared by FISCO from the Company's financial results and results briefing material

The results by segment were as follows.

(1) Information System Segment

Results are forecast to be at around the same level as the previous fiscal year's record high results, with net sales increasing 0.8% YoY to ¥49,800mn and segment income decreasing 0.7% to ¥14,500mn. Sales of equipment for smart gaming machines will continue to trend strongly, while it is anticipated that installations of smart pachislot machines at the end of FY3/25 will account for 60% of all installations (36.4% at the end of the previous fiscal year) and those of pachinko machines will account for 10% (4.7%), while the number of card units sold for smart gaming machines is expected to fall below the number in the previous fiscal year at 80,000 units (around 100,000 units in the previous fiscal year). However, the envisaged scenario is that this decrease will be covered by the demand to support new banknotes becoming fully fledged, so results of around the same level as in the previous period will be secured.

(2) Amusement Segment

The outlook is for a return to profitability through higher sales and profits, with net sales to increase 15.6% YoY to ¥5,200mn and segment income of ¥150mn (a loss of ¥390mn in the previous fiscal year). The market launches of smart pachislot machines under the Company's own brands whose development it has progressed so far are expected to contribute to the growth of results. Specifically, of the 2 models currently being developed, it expects sales of 2,500 units from the release of 1 model (scheduled to be released in 2H of the fiscal year).

Outlook

2. FISCO's view

At FISCO, we think that the assumptions for the Company's results forecasts are rational and that these forecasts are fully achievable. The same as in the previous fiscal year, it is expected that the increase in the number of installations of smart gaming machines will have a significant effect on the Company's results. The spread of smart pachislot and smart pachinko as depicted by the Company (its assumption for their installation ratios at the end March 2025) is not unreasonable. Also, the special demand to respond to new banknotes is already underway, mainly at large halls, and a part of this was why results were higher than forecast in the previous fiscal year (in 4Q), and when considering this factor, it can be said to provide a certain degree of support for the Company's position. On the other hand, in the Amusement Segment, it would seem that sales of the smart pachislot machines that are to be market launched will depend on conditions, but the sales plan of 2,500 units can be judged to be an achievable one. Instead, when considering that the improvements to operations as a whole have increased the pachinko hall investment capacity and investment mindset, in terms of results' upside, it will be necessary to pay attention to developments such as whether 1) the spread of smart pachislot will be greater than anticipated; 2) even for smart pachinko whose forecast is conservative, the spread will be greater than anticipated thanks to the appearance of hit models, such as those installed with Lucky Trigger; and 3) the sales performance of the smart pachislot to be market launched will be higher than forecast. Of greatest interest will be how will the Company improves results from FY3/26 onwards, which is when the special temporary demand to support new banknotes will end at the same time as the growth in the installation ratio of smart pachislot will slow down. In this sense, it can be said that the points worth paying attention to will include how smart pachinko, whose spread has been slowing, will trend, the sales and operating conditions of smart pachislot for which the Company has held back the releases of two models, and also the progress made for cloud development toward providing next-generation services that will support pachinko hall management. In particular, how smart pachinko will trend will be worth paying attention to as a trend for the industry in the future, because there are many voices in the industry advocating for the revival of pachinko machines.

■ Medium-term management plan

Advancing the medium-term management plan for an era of smart gaming machines. Is aiming to be a DX leader by using the latest technologies, such as AI and Big Data

Seeing a path to livelier conditions in the gaming market and pachinko hall capital investments as the switch to the new era of smart gaming machines emerges, the Company started a medium-term management plan (FY3/23-FY3/25) that is now in its final year. Based on the corporate philosophy of "we will continue to achieve sustainable growth consistently from now on through the creation of new value based on innovation," the Company intends to redefine business domains as a way of addressing future changes in the market environment. Also, the President's video message released in June 2024 indicated that as the direction for the Company's long-term growth strategy, it is aiming to become a pachinko industry DX leader through utilizing the latest technologies, including AI and Big Data.

Medium-term management plan

1. Market environment

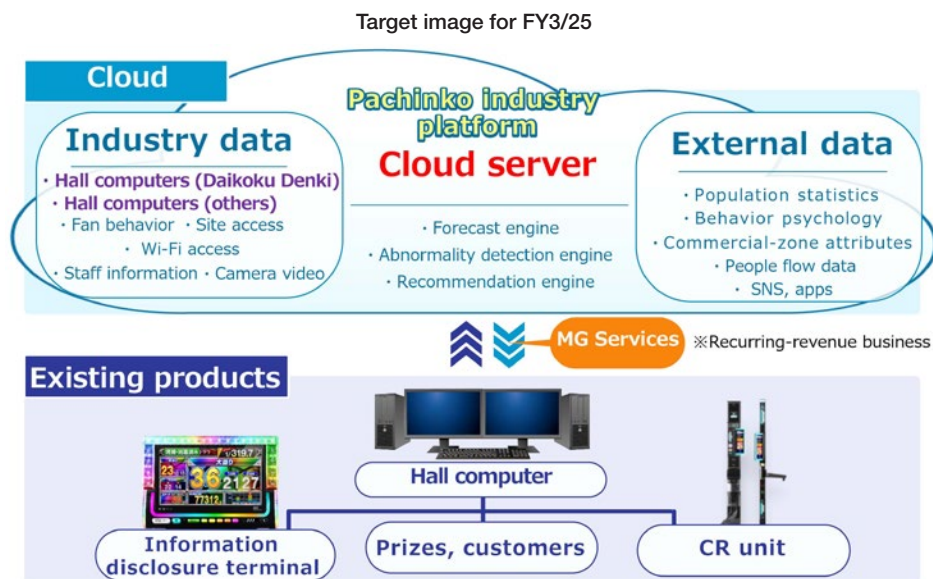
The gaming machine market and pachinko hall industry are anticipating the arrival of a new era accompanying full transition to machines that meet the new regulations and rollout of smart gaming machines. The switch to smart gaming machines significantly affects fan growth and the format of hall management by broadening convenience and “game” aspects. In particular, manifestation of differences in customer draw by individual pachinko halls is accelerating the trend of industry reorganization driven by leading companies. The Company envisions a scenario of significant income expansion alongside advances in the shift to smart gaming machines as pachinko halls ramp up capital investments (including new site openings) for survival.

2. Priority measures (redefining business domains)

(1) Information System Segment

The centerpiece of the strategy is to build the industry’s only platform utilizing cloud servers, while the Company will also promote the use of its X (Kai) AI hall computer. In addition, as well as its products and services that respond flexibly to smart gaming machines, it will realize further energy and labor savings and increase the market shares of various products through improving the ways that hall staff work and the timely market launches of product groups that will change its customer-attraction strategy. Specifically, it will start a platform* that consolidates and utilizes industry data and external data on a cloud server and aim to increase stable earnings by expanding the new MG services.

* The platform consolidates industry data (hall computers of Daikoku Denki and others, fan behavior, site access, Wi-Fi access, staff information, and surveillance video, etc.) and external data (population statistics, behavior psychology, trading area attributes, people flow data, and SNS and apps, etc.) on a cloud server, and effectively utilizes and analyzes it with engines focused on forecasting, abnormality detection, and recommendations, among other functions.



Source: The Company's results briefing materials

(2) Amusement Segment

The Company advocates a policy of transitioning from “pachinko” to “smart pachislot” as the main business driver. It plans to further pursue consignments for comprehensive development of pachislot gaming machines that it started in 2H FY3/21. It is also working on developing its own brand of pachislot machines as a gaming machine manufacturer, with a market launch planned in FY3/25.

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Medium-term management plan

3. Investment plan

In the three-year investment plan, the Company intends to cumulatively spend ¥4.0bn in R&D expenses (¥2.8bn in the previous medium-term management plan) and ¥6.2bn in capital investments (¥4.1bn in the previous plan)*. It also plans to allocate R&D expenses mainly to smart pachislot machines (Amusement Segment) and capital investments to server development (Information System Segment).

* As of May 2024, the Company expects to spend around ¥3.5bn on R&D expenses and approximately ¥6.5bn on capital investment as its three-year investment results.

4. Numerical goals

The Company is aiming to achieve its numerical goals, even while actively investing in R&D expenses and capital investment, by improving the added value of all its product groups and converting to a revenue structure (increasing revenue) centered on its recurring revenue business through its MG services. Due to factors including that the market has become activated at a pace higher than anticipated alongside the appearance of smart gaming machines, and the demand to respond to new banknotes in advance of their circulation from July 2024, the outlook is for results to greatly exceed the initial forecasts.

Medium-term management plan

(¥mn)

	FY3/22		FY3/23 (First year of the medium-term management plan)		FY3/24 (Second year of the medium-term management plan)		FY3/25 (Third year of the medium-term management plan; Announced November 2021)		FY3/25 (Third year of the medium-term management plan; Announced May 2024)		Annual average growth rate (Three years)
	Results	Share	Results	Share	Results	Share	Initial forecast	Share	Revised forecast	Share	
Net sales	24,390		31,824		53,861		34,000		55,000		31.1%
Information System Segment	18,647	76.5%	26,209	82.4%	49,412	91.7%	26,500	77.9%	49,800	90.5%	-
Amusement Segment	5,759	23.6%	5,639	17.7%	4,499	8.4%	7,500	22.1%	5,200	9.5%	-
Gross profit	10,143	41.6%	14,507	45.6%	24,981	46.4%	13,100	38.5%	25,850	47.0%	-
SG&A expenses	8,952	36.7%	10,487	33.0%	12,980	24.1%	10,900	32.1%	13,450	24.5%	-
Operating income	1,191	4.9%	4,019	12.6%	12,001	22.3%	2,200	6.5%	12,400	22.5%	118.4%
Ordinary income	1,367	5.6%	4,260	13.4%	12,102	22.5%	2,300	6.8%	12,500	22.7%	109.1%
Net income attributable to owners of the parent	1,228	5.0%	2,927	9.2%	8,464	15.7%	1,500	4.4%	8,500	15.5%	90.5%

Source: Prepared by FISCO from the Company's financial results and medium-term management plan

5. Medium- to long-term focus points

To reinforce MG Services premised on tapping into its strength in data for the arrival of a new era driven by smart gaming machines, FISCO agrees that the Company's strategy to advance from hall computers to business utilizing a cloud server makes sense to leverage its advantages. Furthermore, the platform business it targets is likely to reinforce the Company's overwhelming position by fueling a beneficial cycle (networking effect) wherein members are drawn to places with extensive data and data accumulates in places with more members. Further, pachinko halls need to make considerable capital investments to introduce smart gaming machines, so industry reorganization will quickly accelerate and gameplay will evolve, and pachinko and pachislot fans, who have been decreasing, are expected to begin to recover, including by capturing new user types.* These sorts of structural changes will likely provide excellent opportunities for the Company to expand its share and raise its profitability.

* According to the Japan Productivity Center's "Leisure White Paper 2023," provided in documents submitted by the Company, the population participating in pachinko, which has been decreasing, began rising again in 2021 at 7.2 million after 7.1 million in 2020 and was 7.7 million in 2022, so two consecutive years of increases.

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Medium-term management plan

Moreover, from a medium- to long-term perspective, an issue will be where to find the growth drivers after smart gaming machines have run their course. As its growth strategy for the future, the Company has indicated its direction of aiming to be a DX leader in the pachinko industry and expressed two points, that 1) it will not simply satisfy demand, but also sell the origins of its competitiveness and spread nationwide; and 2) rather than simply sell products, it will create customers (markets). We are looking forward to discovering the details of its specific solutions to answer the question of how to create services that support hall management and the development of the pachinko industry by utilizing the latest technologies, such as AI and Big Data. Also, precisely because results are strong at the present time, its intention to prepare for the future is evident, so we shall be paying close attention to its M&A to acquire technologies and IT human resources or to enter into other industries, and its initiatives for business partnerships. Gathering data expands the possibility for business, which in turn is likely to lead to it attracting various partners and human resources.

Industry environment

The industry environment as a whole continued to be challenging, but a new era of smart gaming machines has arrived, and the market is showing signs of revitalization

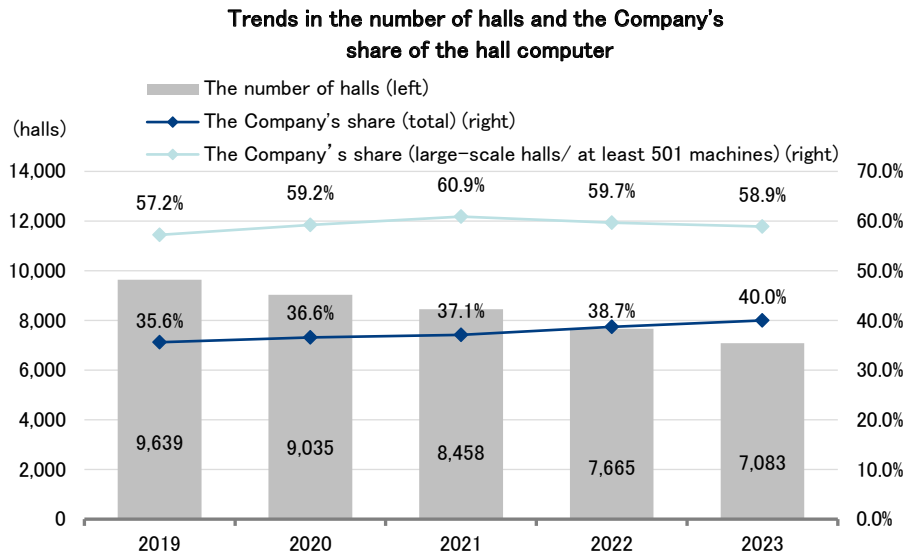
Japan's pachinko industry has been experiencing a challenging environment over the past few years, reflecting the decline in the overall number of pachinko players, a trend toward playing games with low rental costs for balls, increases in Japan's consumption tax, and other factors. The self-regulatory action taken by the industry in 2015 (tightening restrictions on both pachinko and pachislot machines with strong gambling elements) left the whole industry in a slump in 2016 as it started to grapple with the problem of collecting and removing all pachinko machines that may perform differently from certified standards. Furthermore, promulgation of "new regulations" on September 2017 fueled pessimistic views of the industry and uncertainty about the future. This disarray persisted for a while, and additional impact by COVID-19 (temporary hall closures and shorter operating hours) since the start of 2020 accelerated the harsh environment.

However, on the one hand progress was made from 2021 onwards in the phased replacement of machines with those meeting the new regulations ahead of the deadline of the end of January 2022, while on the other hand, there appeared several popular gaming machine models with new amusement features (such as "play time") following revisions to the Criteria for Interpretation of Technological Standards enacted in March 2022, and in accordance with related Nikkoso (the Japan Gaming Machine Industry Association) internal regulations. Furthermore, the phased introductions of smart gaming machines began in November of the same year, and the gaming machine market and the pachinko hall industry have entered a new era.

Industry environment

According to surveys by the National Police Agency, the number of pachinko halls in Japan declined at an average annual rate of 5.1% over 10 years from 2013 to 2023. In particular, in recent years there has been a noticeable decline in new hall openings due to the impact of the new regulations and other factors. However, at the end of December 2023, the number of halls was 7,083 (down 582 YoY), and the Company share of hall computer customers rose to 40.0% continuing the trend to increase year by year. Its customer halls are often high-end, large pachinko halls that are the top performers in their respective local markets and exceed the market average in size*. The customer base hence is fairly resilient to economic fluctuations and possesses healthy investment resources. As the Company moves toward a new era with smart gaming machines, we expect an excellent opportunity for it to expand business once investment appetites recover, mainly at large halls.

* The Company's share of the large-scale halls (at least 501 machines) market is even higher, at around 60%.

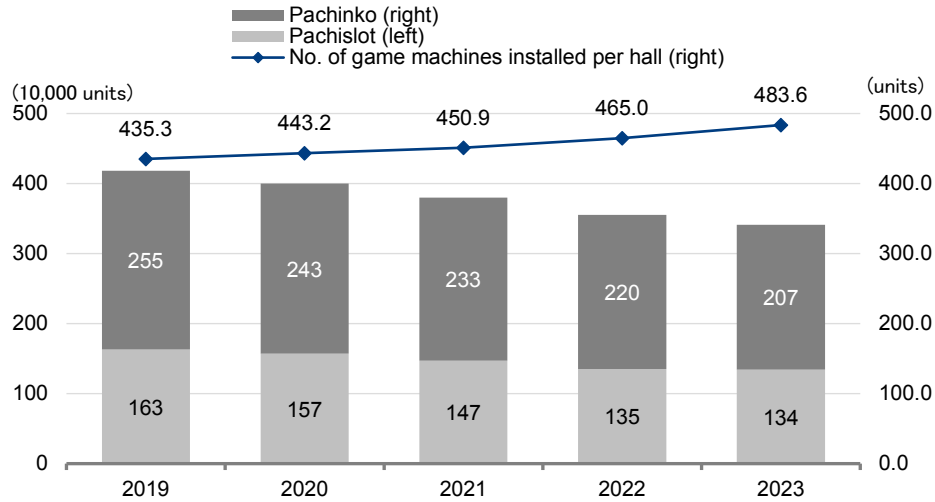


Source: Prepared by FISCO from the Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc. 2023 by the Safety Division of the Community Safety Bureau, the National Police Agency, and the Company's results briefing materials

Although the number of game machines installed and running in the market is on a downward trend, the number of machines per hall is increasing, indicating that halls are becoming larger. As discussed above, larger pachinko halls that command economies of scale are a main segment, therefore this trend should benefit the Company with its ability to realize robust investment return through advanced functionality and added value.

Industry environment

Trends in the number of installed units in the gaming machine market



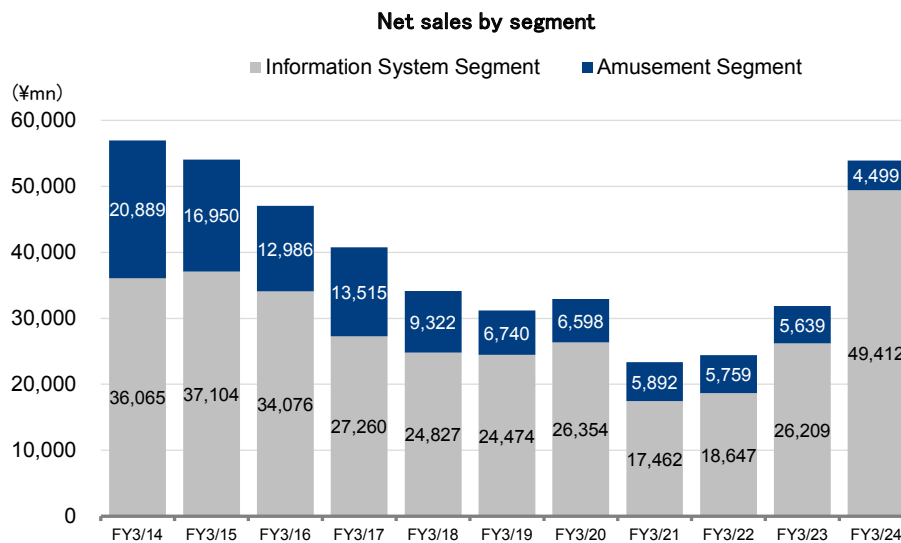
Source: Prepared by FISCO from the Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc. 2023 by the Safety Division of the Community Safety Bureau, the National Police Agency, and the Company's results briefing materials

Moreover, a recent trend worthy of note is that, even as the number of halls decline, the sales scale and the gross-profit scale of the market as a whole have turned positive. In 2023, the sales scale was ¥15.7tn (up 7.5% YoY), and the gross-profit scale was ¥2.54tn (up 6.7%), which was actually the first time in 11 years that both increased by more than 5% YoY. As is clear from this, smart pachislot is having an effect, and it can be said that this data dispels the image of an industry in decline and instead shows that it has reached a turning point of being focused on smart gaming machines.

■ Performance over the past fiscal years

As the industry enters a period of transition, earnings have been on a downward curve, but the Company is establishing a foundation for sustainable growth eyeing the future based on earnings recovery and expansion through the emergence of smart gaming machines

Looking back at past results, the Company's sales shrank YoY because of restrained consumer spending and the impact of the Great East Japan Earthquake in FY3/11. Its results rebounded afterwards, even though the pachinko industry continued to contract. This recovery was mainly led by the Information System Segment, which holds high market shares for its products. Net sales in this segment reached three consecutive record highs from FY3/13 to FY3/15, supporting the Company's overall performance. However, net sales have been weak since FY3/16 due to the impacts of negative factors in the industry (self-regulatory action, collecting and removing of machines, and uncertainty related to new regulations), as well as the impacts of the COVID-19 pandemic and other factors since the start of 2020. However, in FY3/23, in addition to the recovery from the pandemic, the market environment changed with the introduction of smart pachislot machines in November 2022, and with this the Company's results have been recovering and expanding pivoting on the Information System Segment. In FY3/24, the Information System Segment achieved its highest net sales to date.

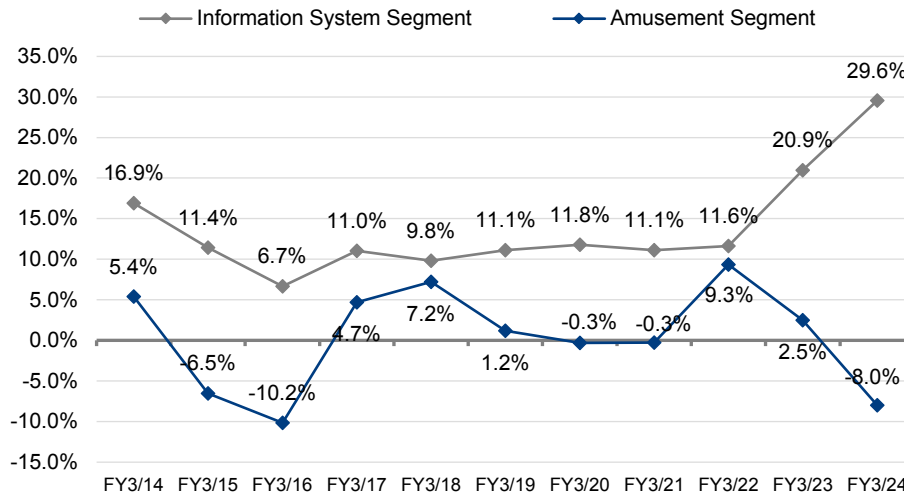


Source: Prepared by FISCO from the Company's financial results

The Information System Segment has become the source of profits, and has maintained high profit margins. Margins fell from FY3/14 to FY3/16 due in part to an increase in R&D expenses for next-generation products. During the period from FY3/18 to FY3/22, these expenses ran their course, but a slump in net sales and other factors prevented the profit margin from returning to its previous high level. In FY3/23, however, the profit margin of the Information System Segment improved greatly thanks to a recovery in net sales and increased sales of high added-value products. The Company is also steadily converting to a recurring revenue business model through the growth of its MG Services, and this is also a factor underpinning profit.

Performance over the past fiscal years

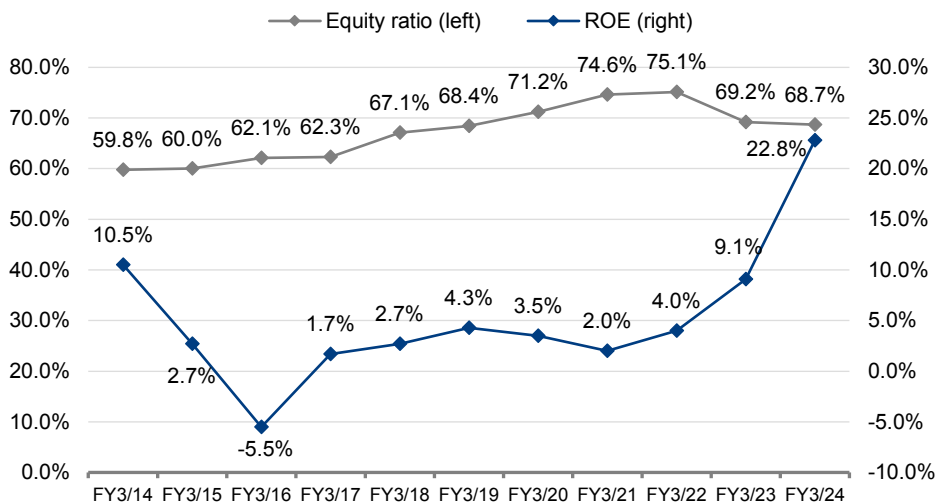
Operating income margin by segment



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

In terms of financial indicators, the Company's equity ratio, a measure of financial stability, has risen, reflecting an accumulation of retained earnings, etc. In FY3/24, the Company maintained its equity ratio at a high level of 68.7% despite a slight decrease as assets such as accounts receivable – trade increased due to the rapid expansion of net sales. The current ratio, which indicates the ability to make payments in the short term, secured at a similar level, mainly due to large holdings of cash and deposits, as the Company's robust financial base can be said to be a strength as a source for powering future growth. ROE, a measure of capital efficiency, has been low since FY3/15 due to a deterioration of net income. The Company suffered losses in FY3/15 due to the bankruptcy of a manufacturer customer and in FY3/16 due to the devaluation of parts and materials for its pachislot machines as industry restrictions were placed on risky machines. In recent years, however, along with the recovery in profit, ROE greatly improved, reaching a high level of 22.8% in FY3/24.

Equity ratio and ROE



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

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Initiatives in sustainability

Announced its sustainability policy aiming to realize a sustainable society and aim for Group growth

To pursue the Group’s own growth and realize a sustainable society through business activities based on its corporate philosophy of “we will continue to achieve sustainable growth consistently from now on through the creation of new value based on innovation,” the Company again resolved at the Board of Directors matters pertaining to the sustainability policy and identification of materiality (important issues) and disclosed the information (March 2022). The Company is advancing specific initiatives in line with materiality, including raising awareness through games to check gambling addiction, holding parent-child programming experience classes, promoting telecommuting and other workstyle reforms as well as human resource engagement, and installing solar panels. It has also established the Sustainability Committee as part of its building of frameworks to promote sustainability activities in a continuous and organized manner and is disclosing information regarding climate change based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. In December 2022, the Company achieved a high, “B” management level rating (up from “B-” in the previous year) for its climate control efforts from the CDP, an international non-profit organization headquartered in London, England that evaluates and certifies companies and other entities’ environmental-related strategies, initiatives, and so forth.

Initiatives in sustainability

<p>Corporate philosophy</p> <p>Sustainability Policy</p>	<p>We will continue to achieves sustainable growth consistently from now on through the creation of new value based on innovation</p> <p>The Daikoku Denki Group solves social issues through business activities based on its management philosophy, and will aim for the realization of a sustainable society and the growth of the group together with stakeholders.</p>
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ESG	Materialities	SDGs
E	Contributions to the global environment	
S	Promotion of activities by human resources	
	Provision of solutions based on innovation	
G	Handling of addiction	
	Strengthening of governance and compliance	

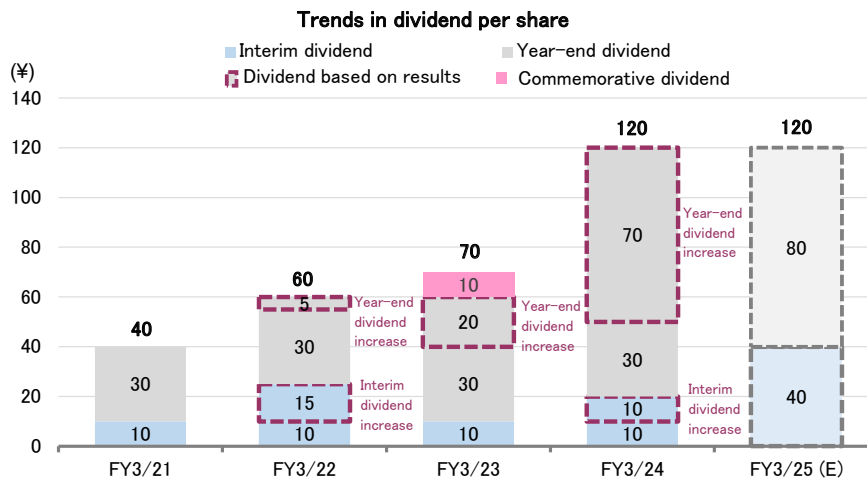
Source: The Company's results briefing materials

Shareholder returns

The Company plans an annual dividend of ¥120 per share for FY3/25 (¥40 interim dividend and ¥80 year-end dividend)

The Company’s policy is to maintain a stable dividend and to provide a special dividend depending on its business results. For the FY3/24 annual dividend, the Company increased the dividend per share by ¥50 YoY to ¥120 (interim dividend ¥20, period-end dividend ¥100). In FY3/25 as well, it plans to pay a dividend per share of ¥120 (interim ¥40, period-end ¥80). FISCO believes there is a sufficient likelihood that the dividend will be increased with profit growth going forward.

Additionally, the Company resumed the shareholder benefit program, which seeks to enhance the investment appeal of its stock and promote medium- to long-term ownership, in FY3/22. The benefit program gives QUO cards to shareholders with the value calibrated to the number of shares owned and the period of sustained ownership at the end of September each year.



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

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