

Daikoku Denki Co., Ltd.

6430

Tokyo Stock Exchange Prime Market and Nagoya Stock Exchange Premier Market

4-Feb.-2025

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

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Summary

Set all-time record highs in results in 1H FY3/25 for two consecutive interim periods

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 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 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 steady increase in utilization of 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 (Nippon Yugikikogyo Kumiai 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.

1. Overview of 1H FY3/25 results

In the Company’s results for 1H FY3/25, net sales increased by 18.2% YoY to ¥34,466mn and operating income rose by 15.0% to ¥9,086mn, resulting in major increases in sales and profit and setting all-time record highs in results for two consecutive interim periods. Net sales in the Information System Segment increased substantially due to strong sales of products associated with the introduction of Smart gaming machines, as well as capital investment demand related to support for new banknotes. In Smart gaming machines, as the installation ratio for Smart pachislot machines continued to steadily increase, Smart pachinko machines, whose installation had previously been stagnant, gradually gained wider adoption. In the Amusement Business, sales of control units for pachinko increased due to the introduction of Smart gaming machines, while sales of parts and others decreased YoY. On the profit front, the Company achieved a significant increase in profits, as growth in the highly profitable Information System Segment offset factors that reduced profits, such as ongoing development investment, and upfront investments in future initiatives, including DX promotion and internal structure development. In terms of business initiatives, the Company successfully executed M&As and a business partnership to expand its business domains.

Summary

2. FY3/25 forecast

With regard to results for FY3/25, the Company kept its initial forecast unchanged, projecting 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 sales 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 (completed in 1H). 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 (planned for 2H). 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.

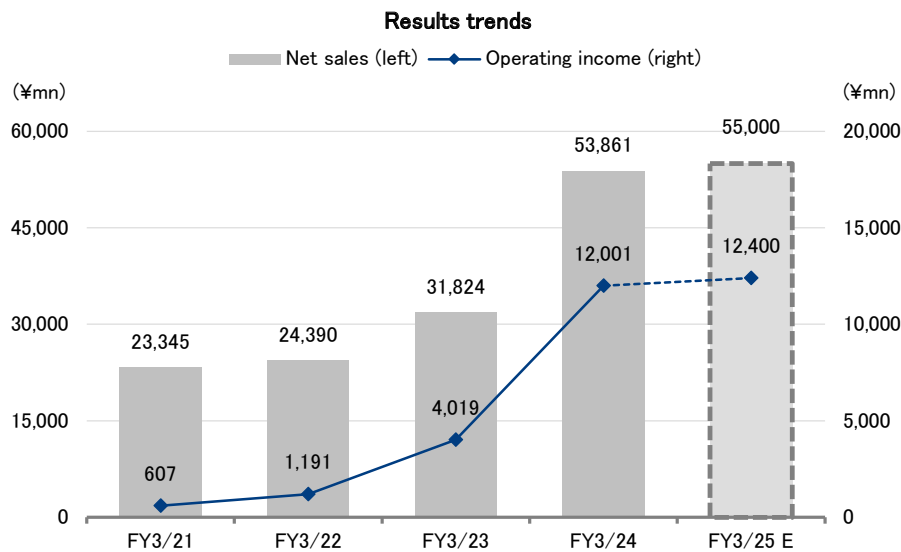
3. Medium-term management plan

The Company's 3-year medium-term management plan (FY3/23–FY3/25) is now in its final year. 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, FY3/25. 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. 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

- Set all-time record highs in 1H FY3/25 results, driven by Smart gaming machines and demand for support for new banknotes
- Successfully executed M&As and a business partnership to achieve goals such as expanding business domains
- Kept the FY3/25 forecast unchanged, projecting continual increases in sales and profits
- With the advent of the era of Smart gaming machines, the medium-term management plan calls for efforts to strengthen cloud development and shift to a recurring revenue model as well as efforts to introduce Smart pachislot machines to the market

Summary



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

Description of businesses

Focuses on hall computers and peripheral equipment for pachinko halls

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, the Company undertakes activities such as proposing a management method which puts emphasis on data management, introducing innovative peripheral equipment, and offering a membership-based information provision service. The Company has captured the top market share in the Japanese market. 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 main businesses are the Information System Segment, Amusement Segment*¹, and Other*², 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.

*¹ Since FY3/24, the name of the Control System Segment has been changed to the Amusement Segment.

*² Other was introduced as a new business segment from FY3/25 due to the establishment of Hakone Glass Forest Resorts Co.,Ltd. and the consolidation of NISHIMOTO INDUSTRY CO., LTD. (system development and related operations) and LILIUM CO.,LTD. (planning, production, operation and management, etc. of various events).

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 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 instantaneously. By using AI’s ability to prepare forecasts utilizing big data that cannot be processed by people to generate analyses 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 MIRAGATE 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 operated without a keyboard using a large 15.6 inch touch panel LCD. It can also be operated as a self-service POS.</p> 
	Information terminals for fans (Large LCD)	Card unit
	 <p>BiGMO PREMIUM II</p>  <p>REVOLA II</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>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: 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 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. The Company is ramping up pachislot business from FY3/22 by leveraging hardware and software technologies. 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 2H 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

Provides added value to hall management by offering data utilization services

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.

With regard to the AI hall computer, X (Kai), this product not only helps the performance of pachinko halls, but also improves operating efficiency, thus reducing labor necessary for hall management already undergoing labor shortages.

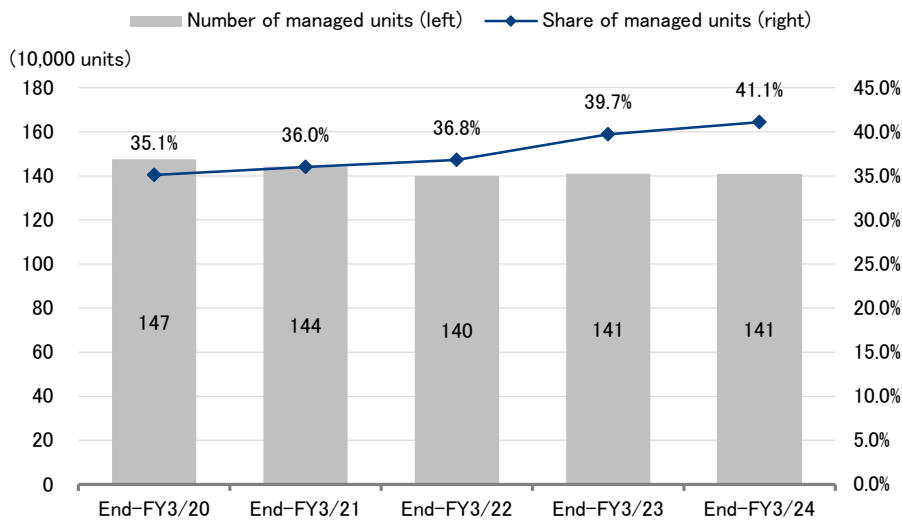
2. Strong network of pachinko halls

Another one of the Company's strengths is that it has built a network with member pachinko halls through an array of MG services based on hall computers. 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 network of member halls underpins the Company's business foundation.

Company features

Additionally, the Company takes on a role as a sort of think tank in the industry, helping to enhance the Company's brand power, 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 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. 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 share

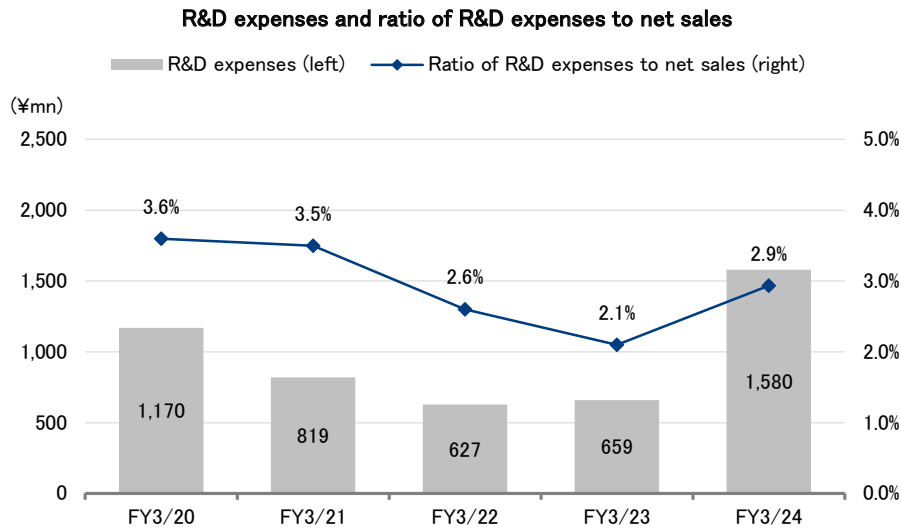


Source: Prepared by FISCO from the Company's materials

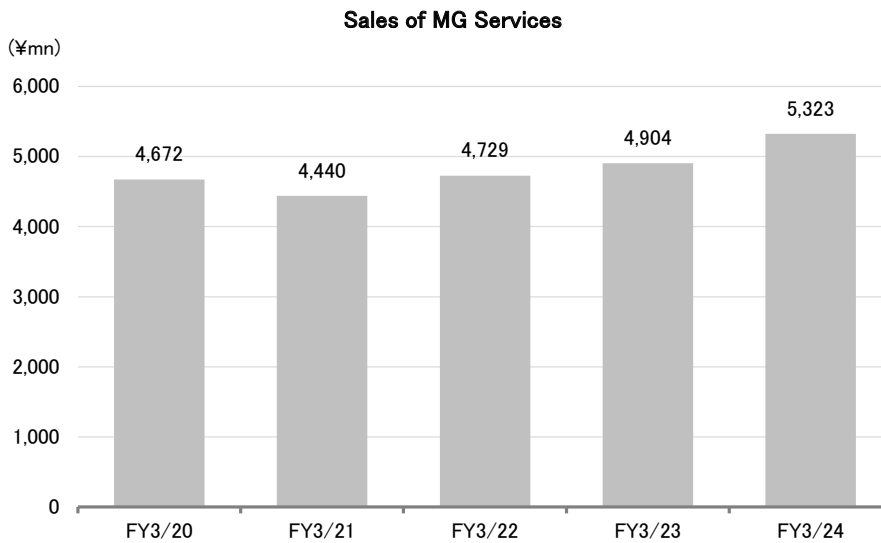
3. Stable profit base that supports investment for the future

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 has aggressively allocated 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.

Company features



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



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

Financial results trends

Achieved record-high results in 1H FY3/25, driven by Smart gaming machines and demand for support for new banknotes

1. Overview of 1H FY3/25 results

In the Company's results for 1H FY3/25, it posted significant increases in sales and profits with net sales of ¥34,466mn (up 18.2% YoY), operating income of ¥9,086mn (up 15.0%), ordinary income of ¥9,135mn (up 15.1%) and net income attributable to owners of parent of ¥6,210mn (up 12.9%), and setting all-time record highs in results for two consecutive interim periods.

Net sales in the Information System Segment increased substantially due to strong sales of products associated with the introduction of Smart gaming machines, as well as capital investment demand related to support for new banknotes. Notably, the Company captured greater-than-expected demand for support for new banknotes. In Smart gaming machines, as the installation ratio for Smart pachislot machines continued to steadily increase, Smart pachinko machines, whose installation had previously been stagnant, gradually gained wider adoption. Service sales, which are an area of focus, grew steadily as the number of member stores using MG Services increased. In the Amusement Business, sales of control units for pachinko increased due to the introduction of Smart gaming machines, while sales of parts and others decreased YoY. The Other segment, which was newly introduced due to M&As and other initiatives, made a small yet positive contribution of ¥107mn to net sales.

On the profit front, the Company achieved a significant increase in profits, as growth in the highly profitable Information System Segment offset factors that reduced profits, such as ongoing development investment, upfront investments in future initiatives, including DX promotion and internal structure development, and a segment loss in the Other segment. The operating income margin was also maintained at a high level of 26.4% (27.1% in the same period of the previous fiscal year).

Looking at financial condition, total assets increased 6.4% from the end of the previous fiscal year to ¥63,105mn. This increase reflected factors such as increases in accounts receivable – trade due to sales growth and in goodwill* associated with M&A. Meanwhile, the equity ratio improved to 72.1% (68.7% at the end of the previous fiscal year), due to an increase of 11.7% in total equity to ¥45,496mn reflecting an increase in retained earnings.

* The amount of goodwill recognized as of the end of 1H FY3/25 was ¥1,807mn (an increase of ¥1,035mn from the end of the previous fiscal year). Goodwill incurred as a result of the consolidation of NISHIMOTO INDUSTRY amounted to ¥551mn, while goodwill incurred as a result of the consolidation of Stadd Inc. amounted to ¥522mn.

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Financial results trends

Overview of 1H FY3/25 results

	1H FY3/24		1H FY3/25		YoY	
	Results	Share	Result	Share	Change	Change %
Net sales	29,168		34,466		5,298	18.2%
Information System Segment	27,286	93.5%	32,529	94.4%	5,243	19.2%
Amusement Segment	1,890	6.5%	1,842	5.3%	-47	-2.5%
Other	-	-	107	0.3%	107	-
Adjustment	-7	-	-13	-	-6	-
Gross profit	13,701	47.0%	16,345	47.4%	2,643	19.3%
SG&A expenses	5,801	19.9%	7,258	21.1%	1,456	25.1%
Operating income	7,899	27.1%	9,086	26.4%	1,187	15.0%
Information System Segment	8,964	32.9%	10,320	31.7%	1,356	15.1%
Amusement Segment	-105	-	-2	-	103	-
Other	-	-	-134	-	-134	-
Adjustment	-959	-	-1,096	-	-137	-
Ordinary income	7,938	27.2%	9,135	26.5%	1,197	15.1%
Net income attributable to owners of the parent	5,502	18.9%	6,210	18.0%	708	12.9%

(¥mn)

	End of FY3/24	End of 1H FY3/25	Vs. end of FY3/24	
			Change	Change %
Total assets	59,281	63,105	3,823	6.4%
Total equity	40,720	45,496	4,776	11.7%
Equity ratio	68.7%	72.1%	3.4pp	-

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

(1) Information System Segment

Net sales increased 19.2% to ¥32,529mn YoY, and segment income increased 15.1% to ¥10,320mn, a major increase that set all-time record highs for two consecutive interim periods. Three factors contributed to the increase in net sales: 1) growth in product sales associated with the introduction of Smart gaming machines, 2) demand captured for support for new banknotes from July 2024, and 3) an increase in service sales.

In terms of factor 1), the installation ratios of Smart pachislot machines and Smart pachinko machines both increased, with the ratio for Smart pachislot machines increasing to 46.6% at the end of 1H FY3/25 (36.4% at the end of FY3/24) and the ratio for Smart pachinko machines increasing to 8.7% at the end of 1H FY3/25 (4.7% at the end of FY3/24). Sales of VEGASIA, a card unit for Smart gaming machines, were strong. In addition, sales volumes for the new information disclosure terminals REVOLA II and DUALINA increased. Notably, the installment ratio for Smart pachinko machines, which had stagnated at around 5% for some time, gradually began to improve. In terms of factor 2), the Company provided support for new banknotes at 95.5% of gaming halls that had introduced its products, leading to stronger-than-anticipated interim results. In terms of factor 3), the number of member stores using MG Services increased due primarily to services such as ClarisLink, a cloud-based chain store management system, and Market-SIS, a market area analysis service, resulting in steady growth*.

* Market-SIS, which was released in April 2019, is in use at 4,304 gaming halls as of September 30, 2024 (increase of 8 halls from the end of FY3/24), and ClarisLink, released in November 2021, is contracted by 960 halls (increase of 174 halls), so both products are growing steadily.

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Financial results trends

As for profits, upfront expenditures in cloud development and other initiatives increased, but growth in high profit-margin mainstay products, capturing demand for support for new banknotes, and accumulation of recurring revenue from MG Services resulted in a major profit gain, and the segment income margin remained at a high level of 31.7% from 32.9% at the end of FY3/24.

Also, according to the Company's DK-SIS data, the operating rate of all gaming machines (period average) increased 4.2% YoY, following a solid trend. In particular, the operating rate for pachislot machines continued to drive overall growth in operating rates, rising 7.6%. Renovation work to increase the number of pachislot machines in gaming halls is also gaining momentum. For pachinko machines, the introduction of new models with enhanced gameplay features has begun, leading to an increase of 1.4% in their operating rate, surpassing the level of the same period in the previous fiscal year.

(2) Amusement Segment

Net sales declined 2.5% YoY to ¥1,842mn, and the segment recorded a loss of ¥2mn (compared to a loss of ¥105mn in the same period of the previous fiscal year). Although net sales decreased, the loss was smaller. While sales of control units for pachinko machines increased due to the introduction of Smart gaming machines, sales of parts and others decreased YoY. On the profit front, the loss narrowed due to revenue structure reforms undertaken so far, while the Company continued to make development investments to launch Smart pachislot machines under its own brands. Smart pachislot machines currently under development (one of two models) are scheduled for release in 2H.

(3) Other

Net sales were ¥107mn, while there was a segment loss of ¥134mn. The main reason for the loss was upfront expenditures.

2. Summary of 1H FY3/25

To summarize 1H FY3/25, the Company can be commended for demonstrating its true strength in the industry by fully capitalizing on external tailwinds (such as increased operating rates at pachinko halls, a higher installation ratio for Smart gaming machines, and demand for supporting new banknotes), and achieving all-time record-high results for a 1H period. However, the demand for support for new banknotes ended in 1H FY3/25 and should be considered to be a temporary source of special demand. On the other hand, it can be said that the recent increase in the installation ratio of Smart pachinko machines, which had previously stagnated, is a positive development for the future. In the Amusement Segment, where the Company is advancing revenue structure reforms, we at FISCO believe that the introduction of Smart pachislot machines under the Company's brands (scheduled for 2H) will be a key factor in determining performance growth. In terms of business initiatives, the Company has steadily executed M&As and a business partnership, primarily to expand its business domains, and has achieved significant strategic milestones in this area (details to follow).

■ Topics

Steadily executed M&As and a business partnership to expand business domains

1. Expansion of business domains through M&As

On April 2, 2024, the Company acquired the shares of NISHIMOTO INDUSTRY, which is engaged in display, decoration, maintenance and related operations*¹, making it a consolidated subsidiary (the deemed acquisition date was June 30, 2024). In addition, on August 2, 2024, the Company acquired the shares of Stadd, which conducts system development*², and consolidated Stadd and its subsidiary LOGON SYSTEM CO., LTD. (the deemed acquisition date was September 30, 2024). Furthermore, on September 24, 2024, the Company decided to underwrite a capital increase through a third-party allotment by Nanaha Co., Ltd., which operates a franchise network of the matcha tea café “nana’s green tea” in Japan and overseas (New York, U.S.A. and other locations)*³. Each of these M&As aims to expand the Company’s business domains in anticipation of the future.

*¹ The Company acquired 99.9% of the issued shares of NISHIMOTO INDUSTRY for an acquisition price of ¥619mn (goodwill of ¥551mn was incurred). NISHIMOTO INDUSTRY provides total solutions ranging from planning, design, production, construction and after-sales services for the displays and events of theme parks and retail facilities.

*² The Company acquired 100% of the issued shares of Stadd for an acquisition price of ¥709mn (goodwill of ¥522mn was incurred). Stadd and LOGON SYSTEM provide not only systemization and digitalization, but also work to fundamentally transform business models and structural reforms.

*³ The Company acquired 34% of the issued shares of Nanaha for an acquisition price of ¥680mn. The Company aims to accelerate Nanaha’s business growth by integrating the Company’s system development and solution capabilities.

2. Acquisition of Hakone Venetian Glass Forest (non-current assets)

On October 28, 2024, the Company acquired non-current assets (land, buildings, and works of art) owned and managed by UKAI Co., Ltd., and branded as the Hakone Venetian Glass Forest*. While preserving the facility’s brand power by arranging for Ukai to continue its operation, the Company aims to accelerate business growth and create new value through the integration of its system development and solution capabilities.

* The total acquisition price was ¥3,100mn.

3. Business partnership with TSUBURAYA FIELDS HOLDINGS

On November 14, 2024, the Company announced a business partnership with TSUBURAYA FIELDS HOLDINGS <2767>, a holding company with numerous subsidiaries, including Tsuburaya Productions Co., Ltd. (engaged in planning and production of movies and TV programs, IP business, among other activities) and FIELDS CORPORATION (engaged in planning, development, and sales of gaming machines, among other activities). Through this partnership, the Company aims to create new value by transforming the entertainment experience of pachinko and pachislot into a daily leisure activity, thereby attracting new fans. A committee formed by both companies will review the specific details of the partnership.*

* Specifically, the alliance aims to create new value in 5 business fields: (1) a hall customer attraction system to develop new fans using AI and market analysis expertise; (2) joint development of new gaming machines through the mutual use of IP (content); (3) sales by FIELDS of jointly developed gaming machines; (4) joint research into gaming environments that help provide a comfortable gameplay experience for fans; and (5) joint research and development of products and services that contribute to the development of the entire gaming machine industry.

■ Outlook

Kept the FY3/25 forecast unchanged, projecting continual increases in sales and profits

1. FY3/25 forecast

For FY3/25, the Company kept its initial forecast unchanged, projecting continual 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%).

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 (completed in 1H). 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 (planned for 2H).

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.

FY3/25 forecast

	FY3/24		FY3/25		YoY	
	Results	Share	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%	4,550	8.3%	50	1.1%
Other	-	-	650	1.2%	650	-
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	-	160	3.5%	550	-
Other	-	-	-10	-	-10	-
Adjustment	-2,211	-	-2,250	-	-39	-
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

Outlook

2. FISCO's view

At FISCO, we believe that the Company's full-year results forecasts are fully achievable, considering factors such as the progress rate of 1H FY3/25 results (net sales 63%, operating income 73%) and the introduction of Smart gaming machines. With demand for new banknote support ending in 1H FY3/25, the main focus will be the progress of Smart gaming machine installations, and the impact on results of the market launch of Smart pachislot machines under the Company's brands. In this sense, key benchmarks likely include whether the Company can achieve the planned installation ratios for Smart gaming machines by the fiscal year-end, which are assumptions under the plan (Smart pachislot machines 60%, Smart pachinko machines 10%), and achieve a sales volume of 2,500 units of Smart pachinko machines. For Smart pachinko machines, which had stagnated for some time, machines with high operating rates have started to emerge, and widespread adoption is expected in the future, driven by the appearance of hit models such as those installed with Lucky Trigger. While conservative assumptions have been made regarding the market launch of Smart pachislot machines, this could be a variable factor with both upside and downside potential for results, depending on the timing. In addition, the Company is expected to significantly outperform its results targets for the final fiscal year of the medium-term management plan. A key point of interest will be how the Company finalizes the plan, particularly in terms of developing internal structures for the next medium-term management plan. Looking ahead, we at FISCO aim to follow the Company's activities as it offers new value propositions based on the shift to the cloud and the expansion of business fields, including M&As and business partnerships.

■ Medium-term management plan

Advancing the medium-term management plan for an era of Smart gaming machines

As the switch to the new era of Smart gaming machines emerges, the Company has been advancing a 3-year medium-term management plan (FY3/23–FY3/25). 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.

1. Market environment

Following an amendment to the regulations for gaming machines (which entered into force on February 1, 2018; hereafter, “the new regulations”), a full transition to machines that meet the new regulations is under way, and Smart gaming machines are being rolled out. As a result, the gaming machine market and pachinko hall industry have entered a new phase. 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.

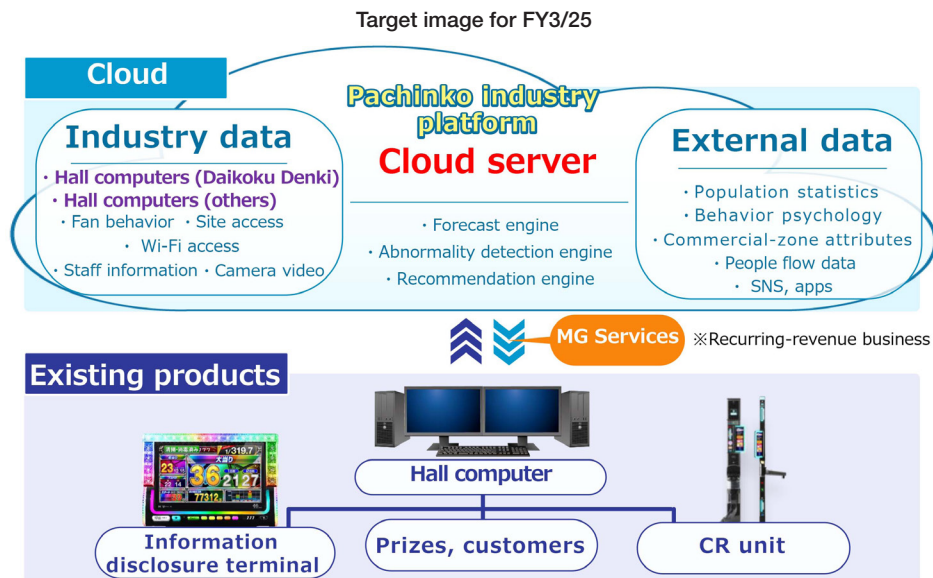
Medium-term management plan

2. Priority measures

(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 medium-term management plan

(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 2H FY3/25.

3. Investment plan

In the 3-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 November 2024, the Company expects to spend around ¥3.5bn on R&D expenses and approximately ¥6.5bn on capital investment as its 3-year investment results.

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Medium-term management plan

4. Numerical goals

The Company has set numerical goals for FY3/25, the final year of its medium-term management plan. Initially, the Company aimed for net sales of ¥34,000mn (3-year annual average growth rate 11.7%) and operating income of ¥2,200mn (operating income margin 6.5%). However, these goals were repeatedly raised upward. In May 2024, the Company raised its goals to net sales of ¥55,000mn (3-year annual average growth rate 31.1%) and operating income of ¥12,400mn (operating income margin 22.5%). Even while actively investing in R&D expenses and capital investment, the outlook is for results to greatly exceed the initial forecasts. This outlook reflects factors including the market becoming 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. These factors have been made possible by the Company 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.

Medium-term management plan

	(¥mn)							
	FY3/23		FY3/24		FY3/25			Annual average growth rate
	Results	Share	Result	Share	Initial forecast	Revised forecast (Announced May 2024)	Share	
Net sales	31,824		53,861		34,000	55,000		31.1%
Information System Segment	26,209	82.4%	49,412	91.7%	26,500	49,800	-	-
Amusement Segment	5,639	17.7%	4,499	8.4%	7,500	5,200	-	-
Gross profit	14,507	45.6%	24,981	46.4%	13,100	25,850	47.0%	-
SG&A expenses	10,487	33.0%	12,980	24.1%	10,900	13,450	24.5%	-
Operating income	4,019	12.6%	12,001	22.3%	2,200	12,400	22.5%	118.4%
Ordinary income	4,260	13.4%	12,102	22.5%	2,300	12,500	22.7%	109.1%
Net income attributable to owners of the parent	2,927	9.2%	8,464	15.7%	1,500	8,500	15.5%	90.5%

Note: From FY3/25, the Company has renamed the Control System Segment as the Amusement Segment and introduced Other as a new segment. However, the Company-wide forecast (announced in May 2024) has remained unchanged.

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 in response to the appearance of 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 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.

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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. In FY3/25, the final year of the medium-term management plan, the Company successfully executed M&As and a business partnership, while also outlining part of its future direction. This includes initiatives to develop the entire gaming machine industry and expand into areas beyond it (such as food service chains, theme parks, and IP business). In the next medium-term management plan scheduled for release in May 2025, FISCO is interested in seeing the Company's specific vision for the future and its roadmap for realizing it, particularly how it will create new value and establish future revenue drivers.

■ Industry environment

Market showing signs of revitalization through the market launch of Smart gaming machines

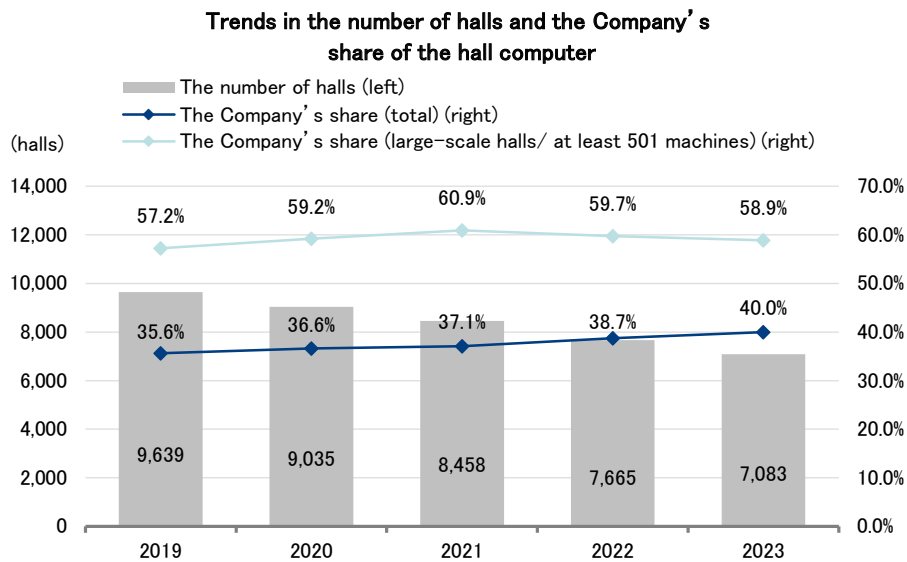
Japan's pachinko industry has been experiencing a challenging environment over the past few years, reflecting the decline in the overall number of pachinko players, a trend toward playing games with low rental costs for balls, increases in Japan's consumption tax, and other factors. The self-regulatory 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 the Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc. 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 around 60%.

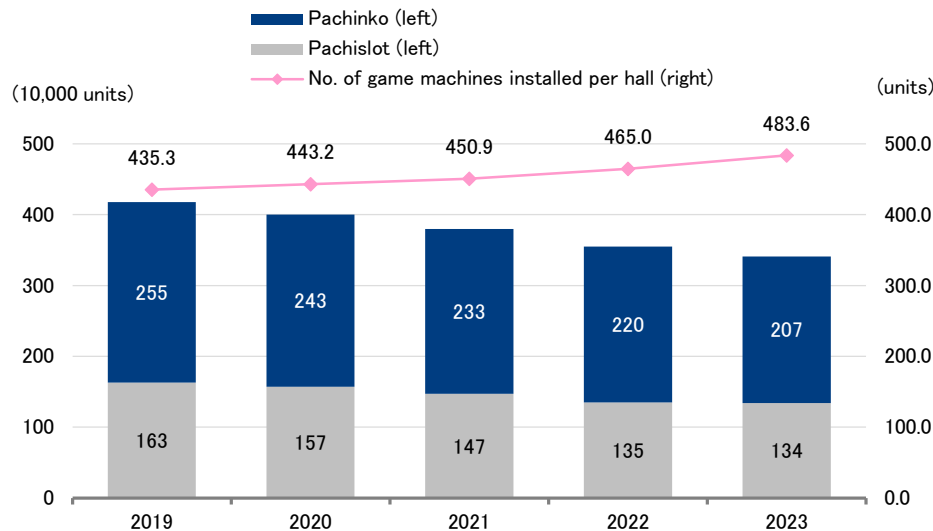


Source: Prepared by FISCO from the Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc. 2023 by the Safety Division of the Community Safety Bureau, the National Police Agency, and the Company's results briefing 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. 2022 by the Safety Division of the Community Safety Bureau, the National Police Agency

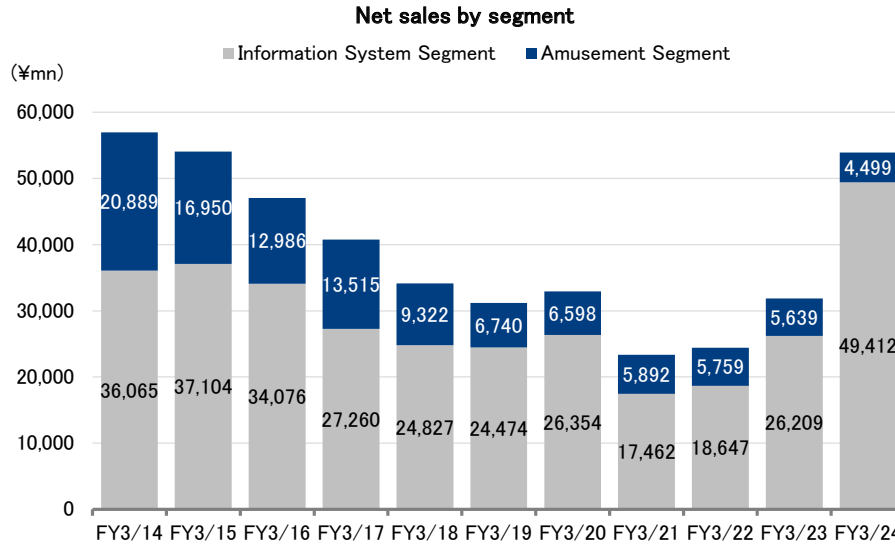
Moreover, a recent trend worthy of note is that, even as the number of halls decline, the sales scale and the gross-profit scale of the market as a whole have turned positive. In 2023, the sales scale was ¥15.7tn (up 7.5% YoY), and the gross-profit scale was ¥2.54tn (up 6.7%), which was actually the 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

Taking the opportunity of performance recovery and growth driven by Smart gaming machines to establish a sustainable growth foundation

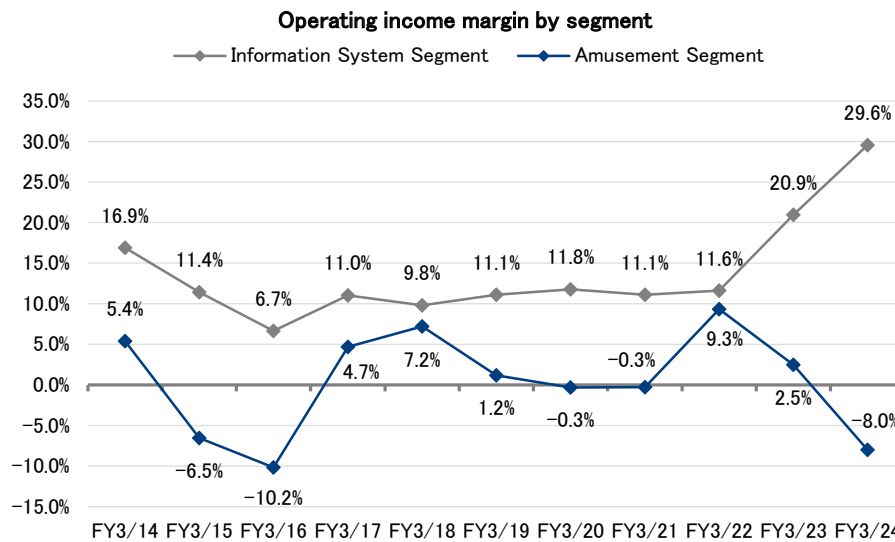
Looking back at past results, the Company's sales shrank YoY because of restrained consumer spending and the impact of the Great East Japan Earthquake in FY3/11. Its results rebounded afterwards, even though the pachinko industry continued to contract. This recovery was mainly led by the Information 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.

Performance over the past fiscal years



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

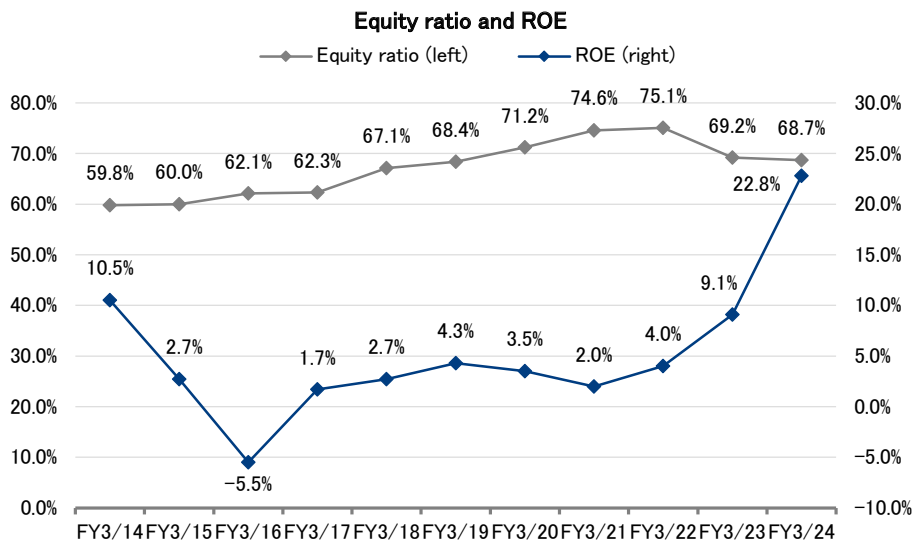
The Information System Segment has become the source of profits, and has maintained high profit margins. Margins fell from FY3/14 to FY3/16 due in part to an increase in R&D expenses for next-generation products. During the period from FY3/18 to FY3/22, these expenses ran their course, but a slump in 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.



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

Performance over the past fiscal years

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. However, along with the recovery in profit, ROE greatly improved, reaching a high level of 22.8% in FY3/24.



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

■ Initiatives in sustainability

Promoting specific initiatives in accordance with materiality

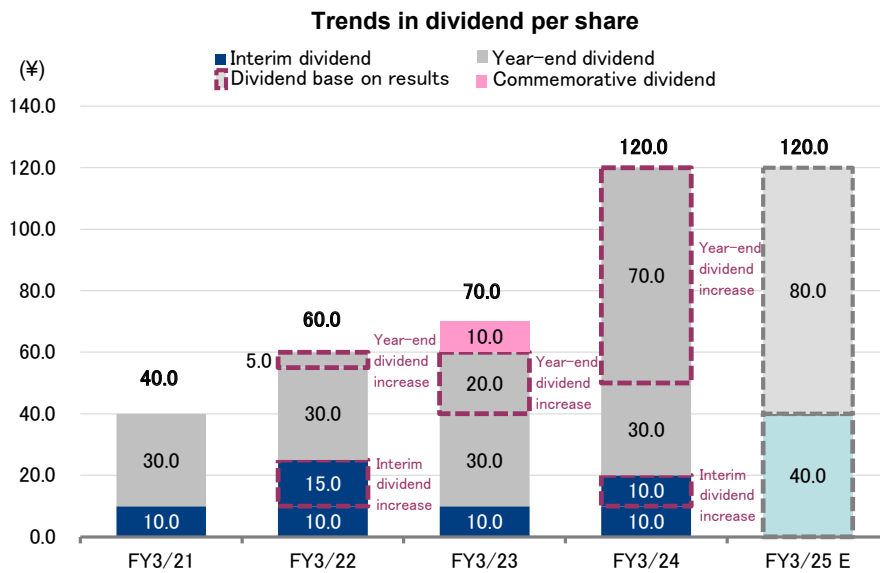
To pursue the Group's own growth and realize a sustainable society through business activities based on its corporate philosophy of "we will continue to achieve sustainable growth consistently from now on through the creation of new value based on innovation," the Company again resolved at the Board of Directors matters pertaining to the sustainability policy and identification of materiality (important issues) and disclosed the information in 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 "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.

Shareholder returns

The Company plans an annual dividend of ¥120.0 per share for FY3/25

The Company’s policy is to maintain a stable dividend and to provide a special dividend depending on its business results. For the FY3/25 annual dividend, the Company plans to pay a dividend per share of ¥120.0, the same as the previous fiscal year (interim dividend ¥40.0 already paid, period-end dividend ¥80.0). 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 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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