COMPANY RESEARCH AND ANALYSIS REPORT

Daikoku Denki Co., Ltd.

6430

Tokyo Stock Exchange Prime Market and Nagoya Stock Exchange Premier Market

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Contents

Summary

Current performance was impacted by the reactionary decline in special demand, but exceeded the forecasts on the back of higher base profits

Daikoku Denki Co., Ltd. <6430> (hereafter, also "the Company") has two main businesses: the Information Systems Business that develops, manufactures, and sells computer systems for pachinko (Japanese slot machines) parlors and halls, and the Amusement Business 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 3,347 pachinko halls and supports the Company's business foundation. With the steady increase in utilization of smart games 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. In May 2025, the Company announced its Vision for 2030 along with a three-year medium-term management plan. It plans to actively pursue upfront investments and reform its business portfolio with the aim of shaping the future of the pachinko industry and creating new markets.

* Smart Pachislot machines were introduced into the market from November 2022, and Smart Pachinko machines were rolled out in April 2023. Their key features are that they enable users to play without directly touching the balls and medals, thereby making facilities related to balls and medals unnecessary at pachinko halls, and enhance gaming performance compared to existing gaming machines. Replacement has progressed steadily, supported by initiatives led by gaming machine manufacturer organizations (Nippon Yugikikogyo Kumiai and Nichidenkyo).

1. Overview of FY3/26 results

In the consolidated results for FY3/26, sales and profit decreased, with net sales dropping 5.5% year on year (YoY) to ¥54,337mn and operating profit declining 21.0% to ¥9,673mn, but the results exceeded the forecasts. The decrease in sales, which was within the expected range, was attributable to a response to the absence of special demand related to support for new banknotes. In the Information Systems Business, with the introduction of smart games machines progressing better than expected, sales of the Company's products that are ideal for these machines (card units, call lights, etc.) grew strongly. In the Amusement Business, sales of the Company's own Smart Pachislot machines exceeded the forecast. As a result, despite being impacted by the reactionary decline in special demand, the Company was able to achieve the second-highest level of net sales on record. Although profit declined due to the pullback from the special demand, it exceeded the forecast due to factors including the accumulation of base profit. In terms of activities, there was concrete progress in areas such as collaboration with other companies in the data utilization business, launch of a new cloud service, and new businesses (Matcha-related Business).

2. FY3/27 forecast

For the FY3/27 consolidated forecasts, the Company expects sales and profit to decrease, with net sales down 11.7% YoY to ¥48,000mn and operating profit down 53.5% to ¥4,500mn. The expected decline in net sales is attributable to a possible moderation in the Information Systems Business' growth due to the pullback from smart games machine installations exceeding expectations in the previous fiscal year (a slowdown in the pace of installation) and to a cautious outlook for the Amusement Business, where sales of the Company's own pachislot machines were strong in the previous fiscal year. On the profit front as well, in addition to the downward pressure on earnings from lower net sales, the Company forecasts a significant decline in profit due to an increase in R&D expenses for future growth, among other factors. However, the Company plans to maintain an annual dividend of ¥100 per share, the same amount as in the previous fiscal year.

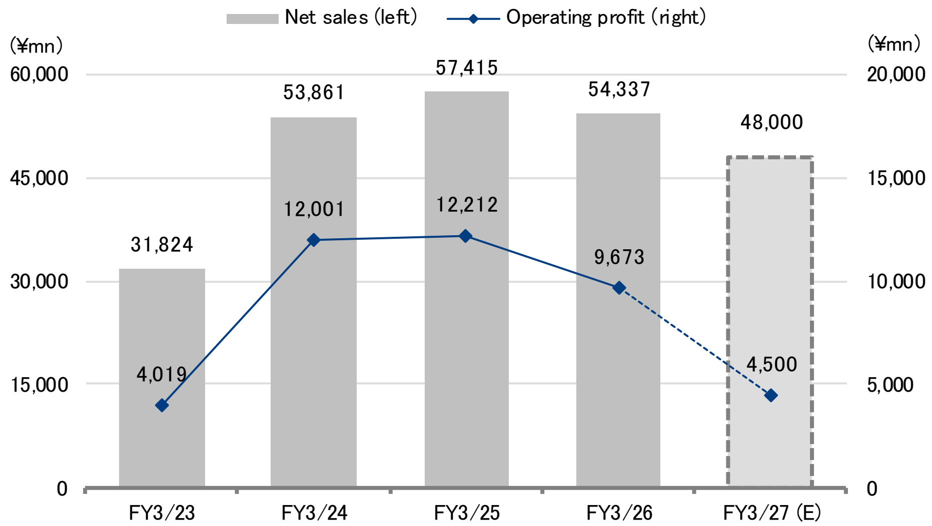
3. Medium-term management plan

Under the medium-term management plan currently being promoted (FY3/26–FY3/28), the Company aims to expand its business foundation for future growth and actively pursue upfront investments toward realizing the simultaneously announced Vision for 2030, Make CX Amazing: Delivering Unprecedented Customer Experiences to the World. In particular, it will focus on entering new domains within its existing businesses and investing in new businesses to reform its business portfolio. The Company has set targets for the final year of the plan (FY3/28) of ¥49.0bn in net sales, ¥6.3bn in operating profit, and an ROE of over 8%. For its Vision for 2030 (FY3/31), it aims to achieve ¥60.0bn in net sales, an ROE of over 10%, and increase the ratio of new businesses to 25% of the total.

Key Points

- Sales and profit decreased in FY3/26 in response to the absence of special demand related to support for new banknotes, but results exceeded the forecasts
- Growth in mainstay products associated with the introduction of smart games machines and higher than expected sales of the Company's Smart Pachislot machines contributed to the results
- For FY3/27, sales and profit are expected to decrease due to a slowdown in smart games machine installations and an increase in R&D expenses, but the Company plans to maintain its dividend
- The medium-term management plan focuses on entering new domains within existing businesses and investing in new businesses to reform the business portfolio

Results trends



Notes 1. Since FY3/26, the method of presenting profit and loss related to real estate leasing was changed from presentation under non-operating profit and loss to presentation under net sales and cost of sales.
Notes 2. Figures for FY3/25 are after retroactively applying the change in presentation method.
Source: Prepared by FISCO from the Company's financial results

Business description

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 about 40%, and in particular, its market share of large-scale halls with at least 501 machines is about 60%, while its share of halls with at least 1,001 machines is about 80%.

The Company's main businesses are the Information Systems Business, Amusement Business, and Other Business, but the Information Systems Business provided over 80% of its net sales and has been the main source of stable profit.

1. Information Systems Business

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 centrally manage the operating conditions and sales of each machine in a hall, work in conjunction with 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.

* While the VEGASIA card unit was a latecomer to the market, its share has grown steadily since it was released in 2013 (share of about 20% at the end of March 2026).

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 requirements in hall management, contribute to further customer attraction and improve profitability. With the spread of smart games machines introduced in November 2022, system upgrades have progressed significantly, positioning the hall computer as an optimal solution for data management.

2. Amusement Business

The Amusement Business 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 licensing of rights to popular characters. The Company has positioned the transition in its business portfolio—specifically, in anticipation of the wind-down of its pachinko hardware business—as an opportunity to fully enter the pachislot market starting in FY3/22. In May 2025, the Company released Classroom of the Elite, a new Smart Pachislot machine under its own brand as a gaming machine manufacturer*, and is working to strengthen this business as a future earnings pillar.

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

3. Other Business (New businesses)

This segment was added in FY3/25 in conjunction with M&A aimed at expanding the Company's business domains. It includes NISHIMOTO INDUSTRY CO., LTD. (display, decoration and maintenance, etc.), LILIUM CO., LTD. (planning, production, operation, management, etc. of various events), and LOGON SYSTEM CO., LTD. (development and design of computer software). Hakone Glass Forest Resorts Co., Ltd. which was established to take over the business of the Hakone Venetian Glass Museum, has also been incorporated into this segment, with the Company taking over the facility's operation in October 2025. Furthermore, in October 2024, the Company made Nanaha Co., Ltd., which operates franchises of the nana's green tea matcha café chain in Japan and overseas (New York in the US, etc.), an affiliate not accounted for using the equity method through the subscription to a third-party allotment of new shares. In April 2026, it made SHUNRI Co., Ltd., which operates the Japanese-style crepe specialty store Tabanenoshi, a subsidiary. In addition, it established a new company, Chagri Co., Ltd., for the purpose of ensuring a stable supply of matcha raw materials, thereby establishing a structure for a full-scale expansion into the Matcha-related Business, a growth field.

Company features

Provides added value to hall management by offering data utilization services

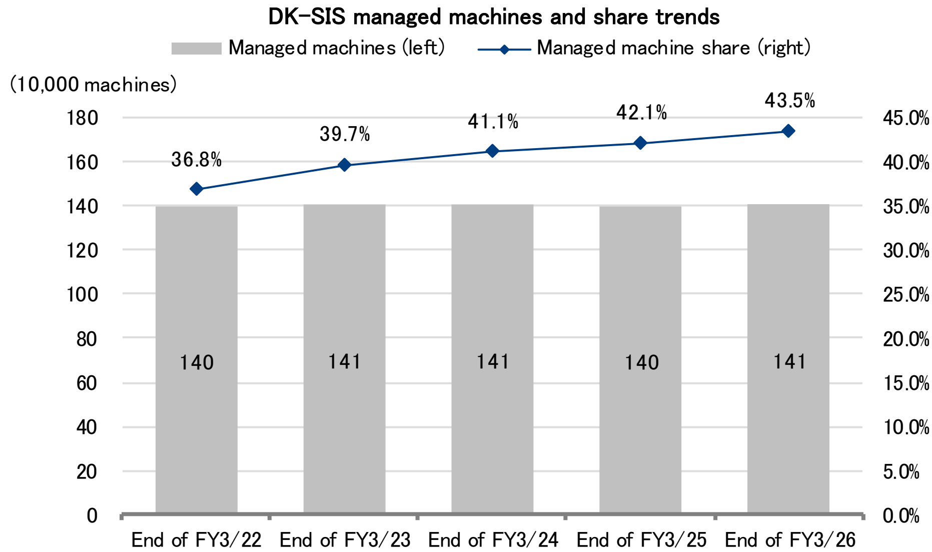
1. Growth model based on market expansion through innovation

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 stronger 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, this product not only enhances the performance of pachinko halls, but also improves operating efficiency, thus reducing labor necessary for hall management already undergoing labor shortages.

2. Strong network with 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.

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 the resulting insights are apparently being utilized in strategic proposals and sales activities directed at game machine manufacturers. Membership totaled 3,347 halls at the end of March 2026 with 1.41mn managed machines (43.5% 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 and has been well received as a tool that grasps player trends and helps halls improve their ability to attract customers. In May 2025, it ranked No. 1 in the industry in terms of number of data listings (according to the Company's research). Moreover, the cloud-based chain store management system ClarisLink, released in 2021, has also been well-received for its proprietary data and fast response speeds, steadily increasing its number of halls under contract.

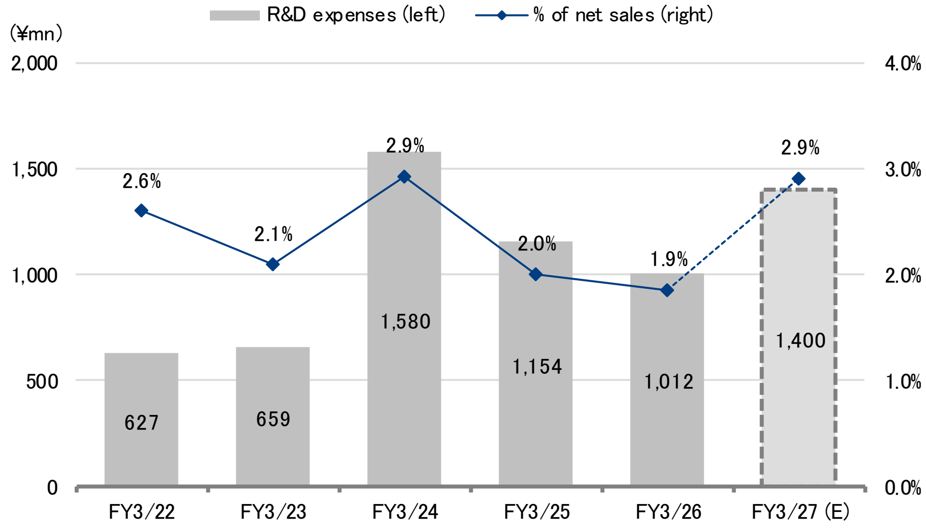


Source: Prepared by FISCO from "Current State and Future Outlook of the Market as Seen from DK-SIS Data"

3. Stable profit base that supports investment for the future

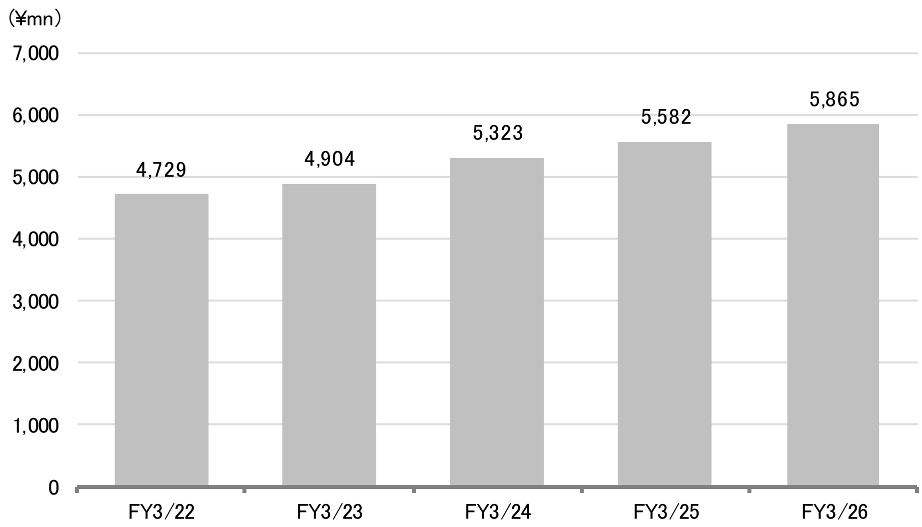
The Company's main source of competitiveness is its proactive upfront investment eyeing future growth, including its R&D expenses. Development of a next-generation hall computer, peripheral equipment, and start of new MG Services are evidence of continued aggressive investment in areas expected to become its growth driver. The stable revenue stream provided by the high-margin Information Systems Business 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 expenses at a high level while maintaining stable segment profit, 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. Under the medium-term management plan currently being promoted, the Company also plans to actively allocate R&D expenses, particularly for Smart Pachislot machines under its own brand. Furthermore, it intends to actively pursue M&A and growth investments in order to enter new domains within existing businesses and invest in new businesses as part of efforts to reform its business portfolio.

R&D expenses (% of net sales) trends



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

Change in MG Services sales



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

Financial results trends

Sales and profit decreased in FY3/26 in response to the absence of special demand related to support for new banknotes, but results exceeded the forecasts

1. Overview of FY3/26 results

In the consolidated results for FY3/26, sales and profit decreased, with net sales declining 5.5% YoY to ¥54,337mn, operating profit falling 21.0% to ¥9,673mn, ordinary profit dropping 19.6% to ¥9,831mn, and profit attributable to owners of parent down 25.5% to ¥5,754mn. However, the results exceeded the second upwardly revised forecast.

The decline in net sales was due to the pullback from the special demand related to support for new banknotes. Excluding this impact, the Company actually achieved growth in earnings exceeding the previous fiscal year and the forecast. In the Information Systems Business, with the introduction of smart games machines (especially Smart Pachinko machines) progressing better than expected, sales of the Company's products that are ideal for these machines (card units, call lights, etc.) grew strongly. In the Amusement Business, sales of the Company's own Smart Pachislot machines released in 1H exceeded the forecast. In the Other Business, the companies with which M&A deals were completed in the previous fiscal year contributed from the start of the fiscal year. As a result of these factors, despite being impacted by the reactionary decline in special demand, the Company was able to achieve the second-highest level of net sales on record.

On the profit front as well, profit declined due to the pullback from the special demand related to support for new banknotes. However, the results exceeded the forecast thanks to the accumulation of base profit in the Information Systems Business and a significant profit contribution from the Amusement Business. Although the operating profit margin fell YoY to 17.8% (compared with 21.3% in the previous fiscal year), the Company was able to maintain a high level.

In terms of financial condition, total assets increased 3.5% from the end of the previous fiscal year to ¥59,279mn. Total equity also increased 9.7% to ¥49,668mn, and the equity ratio rose to 83.8% (compared with 79.1% at the end of the previous fiscal year).

Overview of FY3/26 results

(¥mn)

	FY3/25		FY3/26		YoY	
	Results	Composition/ Profit margin	Results	Composition/ Profit margin	Change	Change %
Net sales	57,492	-	54,337	-	-3,155	-5.5%
Information Systems Business	52,126	90.7%	45,768	84.1%	-6,357	-12.2%
Amusement Business	4,451	7.7%	6,419	11.8%	1,967	44.2%
Other Business	966	1.7%	2,208	4.1%	1,241	128.5%
Adjustment	-52	-	-59	-	-6	-
Gross profit	26,723	46.5%	24,730	45.5%	-1,993	-7.5%
SG&A expenses	14,480	25.2%	15,056	27.7%	575	4.0%
Operating profit	12,242	21.3%	9,673	17.8%	-2,569	-21.0%
Information Systems Business	14,406	27.6%	11,203	24.5%	-3,202	-22.2%
Amusement Business	356	8.0%	1,118	17.4%	761	213.9%
Other Business	-148	-	13	-	161	-
Adjustment	-2,371	-	-2,661	-	-290	-
Ordinary profit	12,231	21.3%	9,831	18.1%	-2,399	-19.6%
Profit attributable to owners of parent	7,727	13.4%	5,754	10.6%	-1,972	-25.5%

	End of FY3/25	End of FY3/26	Vs. end of FY3/25	
			Change	Change %
Total assets	57,266	59,279	2,013	3.5%
Total equity	45,287	49,668	4,381	9.7%
Equity ratio	79.1%	83.8%	4.7pp	-

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

(1) Information Systems Business

Sales and profit decreased in response to the absence of special demand related to support for new banknotes, with net sales dropping 12.2% YoY to ¥45,768mn and segment profit falling 22.2% to ¥11,203mn. However, in light of increased appetite for capital investment associated with the introduction of smart games machines*1, sales of the card unit VEGASIA, the new products BiGMO XCEL and TJ-01, and the recently released REVOLA II and DUALINA performed well*2. In terms of service net sales, the number of member stores using MG Services steadily increased in response to market changes associated with the digital transformation (DX) of pachinko halls and the spread of smart games machines, which helped boost results.

*1 The number of Smart Pachinko machines installed as of the end of FY3/26 increased significantly to approximately 530,000 (up approximately 250,000 from the end of the previous fiscal year) and the installation rate reached 28.5% (up 14.4 percentage points (pp)), while the number of Smart Pachislot machines installed also grew steadily to approximately 830,000 (up approximately 130,000) and the installation rate was 61.1% (up 9.0pp). The reasons why Smart Pachinko machines grew steadily include: 1) a model with Lucky Trigger 3.0 Plus featuring new gaming functions was released in July 2025, 2) the operating conditions of Smart Pachinko machines are favorable, and 3) game machine manufacturers have begun shifting their development policy toward Smart Pachinko (because it is easy to design gameplay of various kinds with Smart Pachinko).

*2 Due to the spread of smart games machines, halls can no longer highlight large payouts by displaying stacks of pachinko balls and there is a growing need for new visualization methods. In this context, the Company's products BiGMO XCEL, REVOLA II, and DUALINA leverage large LCD screens and display technology to create the sense of balls being dispensed and provide a dynamic feeling. They also enable displays tailored to the diverse gaming data characteristics sought by fans. Furthermore, with labor-saving measures in hall operation advancing rapidly, there has been a surge in demand for integrated terminals that increase operational efficiency. The TJ-01, which combines payment machine and POS functions, meets halls' need to ensure stable operation with a limited number of staff.

On the profit front, despite a decline in response to the absence of special demand related to support for new banknotes, the segment maintained a high level of profitability due to growth in mainstay products and the accumulation of recurring revenue from MG Services. The segment profit margin also remained high at 24.5%. According to the Company's DK-SIS data, the overall operating rate of gaming machines (January to March 2026) remained steady, decreasing 0.5% YoY. In particular, the operating rate of Smart Pachislot machines was 131.8% compared to non-Smart AT models, and the operating rate of Smart Pachinko machines was 108.4% compared to conventional machines, showing that smart games machines are driving overall growth in machine utilization.

(2) Amusement Business

Net sales rose significantly, up 44.2% YoY to ¥6,419mn, and segment profit surged 213.9% to ¥1,118mn. Factors contributing to net sales included sales of Classroom of the Elite, a Smart Pachislot machine launched in May 2025 that was developed by the Group company DAXEL, exceeding the forecast (the production run of 5,500 units sold out), along with sales of Tokyo Xtreme Racer*, an in-house game title developed by the Group company Genki Co., Ltd.

* This was the first new release in 18 years. The early access version launched in January 2025 quickly reached No. 1 in the domestic Steam rankings. It also ranked No. 2 in the global rankings. The full release Steam version was launched in September 2025, and the PlayStation 5 version was released in February 2026.

On the profit front, although the Company continued development investment aimed at future growth, it achieved a considerable increase in profit due to the launch of its own pachislot machines.

(3) Other Business

Net sales rose 128.5% YoY to ¥2,208mn with segment profit of ¥13mn (compared to a loss of ¥148mn in the previous fiscal year). The companies with which M&A deals were completed* in the previous fiscal year contributed from the start of the fiscal year. On the profit front as well, post-merger integration (PMI) progressed smoothly, achieving profitability.

* NISHIMOTO INDUSTRY, LILIUM, LOGON SYSTEM, and Hakone Glass Forest Resorts

2. Summary of FY3/26

The key point observed in FY3/26 was that, while performance declined due to the reactionary decline in special demand, smart games machines spread while their utilization steadily increased and, most importantly, the Company's mainstay products effectively met halls' capital investment demand. This could be considered proof that the Company is able to supply competitive new products suited to the smart games machine era. In addition, the steady growth of MG Services, which provides management support through data utilization, and the fact that sales of the Company's own Smart Pachislot machines, a focus area, exceeded the forecast, demonstrated the Group's capabilities through its results. Furthermore, there was concrete progress in areas such as collaboration with other companies in the data utilization business, the launch of a new cloud service, and new businesses (Matcha-related Business) (details to be discussed later). Meanwhile, the introduction of smart games machines surpassed expectations and results were well above the forecast, which may be seen as positive. However, this could also be viewed as front-loaded demand, so it will be necessary to carefully monitor future trends regarding this point.

Topics

Concrete progress in areas such as collaboration with other companies in data utilization business and new businesses

1. Collaboration with TSUBURAYA FIELDS HOLDINGS INC.

On February 12, 2026, the Company disclosed details of the specific discussions regarding its business alliance with TSUBURAYA FIELDS HOLDINGS INC. <2767> (hereafter, TSUBURAYA FIELDS) (concluded in November 2024).

(1) Provision of new services

1) AI-powered hall operation support service (scheduled to launch in April 2028)

By integrating the Company's big data with TSUBURAYA FIELDS's knowledge and GPS data, the Company aims to upgrade hall management from one that relies on conventional intuition and rules of thumb to reproducible management where AI navigates optimal strategies.

2) New advertising distribution service FAN+AD (launched in June 2026)

By linking the Company's fan data, which covers 1.6mn members, with GPS data, AI will automatically generate advertisements tailored to fan preferences and distribute them on major platforms.

3) Inbound customer attraction service (scheduled to launch in April 2027)

The Company will conduct pachinko experience tours for visitors to Japan and promote the introduction of multilingual facilities at partner halls.

(2) Business reinforcement

With the aim of selling new models in April 2029, the companies will jointly develop gaming machines that mutually leverage their strong IP. Through collaboration with the TSUBURAYA FIELDS Group, the Company also aims to expand sales of its hall equipment and strengthen its hall support structure.

(3) Contribution to results (target)

The Company aims for this initiative to contribute ¥16.16bn in net sales (¥6.08bn in gross profit) in FY3/31.

2. Launch of a new cloud service

In April 2026, the Company renewed DK-SIS, an information tool that helps pachinko hall operators differentiate themselves from competitors and achieve efficient management, for the first time in 35 years and released it as DK-SIS INFINITY. Compared to the previous service, DK-SIS INFINITY features high-speed response through cloud computing, a comfortable UI/UX, and the provision of updates aligned with trends. Halls that have already introduced the system have reportedly given it high marks for improved response speed, ease of business analysis, and intuitive, user-friendly operability, and it appears to be attracting strong market interest.

3. Full-scale expansion into Matcha-related Business

The Company has set its sights on the Matcha-related Business as a new growth area and is steadily putting in place a structure for a full-scale expansion unique to the Company. Specifically, in October 2024, the Company made Nanaha, which operates nana's green tea, a global cafe brand with a 25-year track record and themed around matcha and Japanese tea, both domestically and internationally, an affiliate not accounted for using the equity method. In April 2026, it made SHUNRI, which operates the Japanese-style crepe specialty store Tabanenoshi with its main store in Asakusa, a subsidiary. Tabanenoshi has attracted attention, particularly on social media, for its Japanese-style spatial ambiance reminiscent of a tea room and its thorough commitment to high-quality matcha and Japanese ingredients. Furthermore, in the same month, the Company established a new company, Chagri, with the aim of ensuring a stable supply of matcha raw materials and solving issues at production sites. Looking ahead to future demand expansion, the Company intends to support the matcha value chain from the perspective of agricultural support and agritech businesses.

Outlook

Sales and profit are forecast to decline in FY3/27 due to a slowdown in smart games machine installations and R&D expenses

1. FY3/27 forecast

For the FY3/27 consolidated forecasts, the Company expects sales and profit to decrease, with net sales down 11.7% YoY to ¥48,000mn, operating profit down 53.5% to ¥4,500mn, ordinary profit down 53.2% to ¥4,600mn, and profit attributable to owners of parent down 46.1% to ¥3,100mn.

The expected decline in net sales is due to a possible moderation in the Information Systems Business' growth stemming from the pullback (a slowdown in the pace of installation) from smart games machine installations exceeding expectations in the previous fiscal year and to a cautious outlook for the Amusement Business, where sales of the Company's own pachislot machines were strong in the previous fiscal year. Conversely, the Other Business is expected to expand significantly, mainly due to the contribution of the newly consolidated SHUNRI. Regarding the assumed smart games machine installation rate as of the end of FY3/27, the Company forecasts 40% for Smart Pachinko (up 11.5pp from the end of the same month of the previous fiscal year) and 67% for Smart Pachislot (up 5.9pp).

On the profit front, in addition to the downward pressure on earnings from lower net sales, profit is expected to decline significantly due to an increase in R&D expenses accompanying the development of new products and services, development of the Company's own Smart Pachislot machines, and the reinforcement of DX development. In particular, the Amusement Business is expected to temporarily record a segment loss due to development costs for the market introduction of the second installment of the Company's own Smart Pachislot machines, slated for release in 2H, and the further strengthening of its pipeline.

FY3/27 forecast

(¥mn)

	FY3/26		FY3/27		YoY	
	Results	Composition/ Profit margin	Forecast	Composition/ Profit margin	Change	Change %
Net sales	54,337	-	48,000	-	-6,337	-11.7%
Information Systems Business	45,768	84.2%	40,600	84.6%	-5,168	-11.3%
Amusement Business	6,419	11.8%	4,400	9.2%	-2,019	-31.5%
Other Business	2,208	4.1%	3,000	6.3%	792	35.9%
Gross profit	24,730	45.5%	21,300	44.4%	-3,430	-13.9%
SG&A expenses	15,056	27.7%	16,800	35.0%	1,743	11.6%
Operating profit	9,673	17.8%	4,500	9.4%	-5,173	-53.5%
Information Systems Business	11,203	24.5%	7,400	18.2%	-3,803	-33.9%
Amusement Business	1,118	17.4%	-200	-4.5%	-1,318	-
Other Business	13	0.6%	200	6.7%	186	1,385.6%
Ordinary profit	9,831	18.1%	4,600	9.6%	-5,231	-53.2%
Profit attributable to owners of parent	5,754	10.6%	3,100	6.5%	-2,654	-46.1%

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

2. FISCO's view

FISCO believes that the Company's earnings forecast for FY3/27 is at a level that conservatively estimates the slowdown in smart games machine installations and the impact of upfront investments, and that achievement is fully feasible. Compared to FY3/23 and FY3/24, when there was special demand, performance is on a downward trend for the second consecutive year. However, as mentioned previously, this does not mean that any change has occurred in the Company's medium- to long-term growth potential itself, and a calm judgment is required here. Rather, the fact that the Company is accumulating base profit and committing to a minimum dividend level, even while implementing upfront investments for renewed growth, could be seen as an expression of confidence that its earning power will be maintained. It should be noted that, as in the previous fiscal year, depending on the status of new models, smart games machine installations could progress more than expected and become a factor for upward deviation in performance. Also, how the aforementioned collaboration with TSUBURAYA FIELDS (the first initiative, the new service FAN+AD) contributes to performance is another important point of focus.

Medium-term management plan

Taking on the challenge of delivering extraordinary customer experiences and creating new markets in response to a changing business environment

Amid significant changes in the business environment, one year has passed since the announcement of the Vision for 2030 with an eye on the new era and the first phase of that vision, the medium-term management plan (FY3/26–FY3/28).

1. Vision for 2030

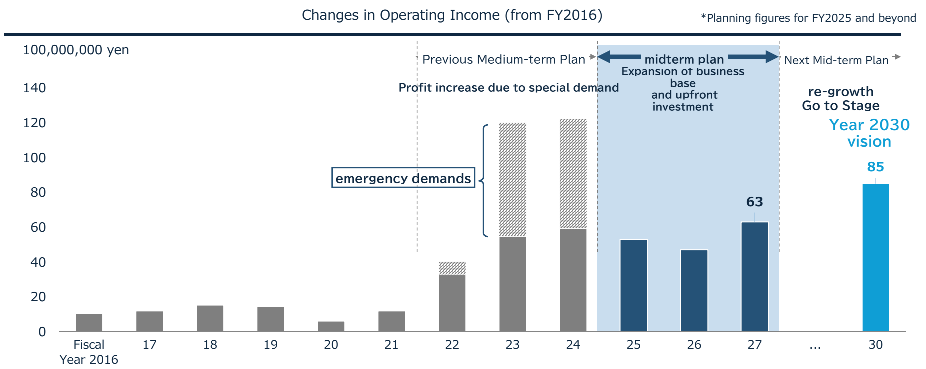
Under the concept of “Make CX Amazing: Delivering Unprecedented Customer Experiences to the World,” the Company aims to remain an innovator that shapes the future of the pachinko industry while also taking on the challenge of creating new markets, thereby evolving into a corporate group that contributes to society across diverse fields. It has set forth two strategic themes: 1) Taking on the challenge of creating the future of new entertainment, and 2) taking on the challenge of entering other industries and expanding business domains. Through the use of advanced technologies—including AI and IoT—the Company seeks to create new customer experiences in the pachinko and related fields. It also envisions expanding into other industries, including B2C businesses such as food entertainment, tourism, and IP-based businesses. To realize this vision, the Company plans to invest cash generated from its highly profitable existing businesses into new business development and M&A, working to expand its business foundation and reform its business portfolio. In particular, with a view to addressing challenges in existing businesses—such as significant performance volatility, market contraction, and high dependency on a single business—it will aim to sustainably grow earnings by adding businesses that offer stable revenue, growth potential, and synergy with existing operations. The Company plans to raise the contribution of new businesses (as a percentage of net sales) to 25% by FY3/31.

2. Basic policy and targets of the medium-term management plan

(1) Basic policy

The medium-term management plan is positioned as the first phase toward realizing the Vision for 2030. Although performance is expected to temporarily decline due to the reactionary decline in special demand before the start of the medium-term management plan, the Company plans to focus on expanding its business foundation and actively pursuing upfront investments aimed at future growth (and renewed growth in the next medium-term management plan).

Trends in operating income (planned) and positioning of the new medium-term management plan



Source: The Company’s medium-term management plan

(2) Key initiatives and outlook for each business

1) Information Systems Business

The Company will aim to become the DX leader of the industry through the use of AI and big data by focusing on: 1) optimizing and innovating hall operation processes, 2) entering the customer acquisition support service field, 3) enabling data-driven management, and 4) improving productivity (enhancing human capital value). While the introduction of Smart Pachislot machines has plateaued and the spread of Smart Pachinko machines is progressing gradually, net sales are not expected to grow as they did over the past two years. Nevertheless, by supporting pachinko hall operators in their key challenges—customer acquisition and operational efficiency—and expanding MG Services via cloud services, the Company aims to significantly enhance the competitiveness of pachinko halls and their appeal to players, thereby contributing to the sustainable growth of the industry.

2) Amusement Business

The Company will aim to create hit models of Smart Pachislot machines under its own brand and strengthen earnings in the Amusement Business by focusing on: 1) reviewing and enhancing its pachislot planning and development structure, 2) fostering its content business, 3) maintaining earnings through contracted pachinko software development, and 4) creating mainstay products (games). The Company already released one model in May 2025 and is currently pursuing development for two models. It apparently aims to release the next model in 2H of this fiscal year (FY3/27).

3) New businesses

The Company will aim to establish multiple growth pillars and take on the challenge of entering new business domains by focusing on: 1) PMI for acquired companies and creating group synergies, 2) expanding its customer base and improving profitability at theme parks and commercial facilities, 3) strengthening the sales capabilities of its system development division and improving profitability through AI product development, 4) enhancing profitability in B2C businesses by boosting customer acquisition and dwell time via the internet, and 5) expanding the scale of the Yuri exhibitions, acquiring high-quality content, and pursuing overseas expansion. For the final year (FY3/28), the Company forecasts net sales of ¥6.5bn, accounting for approximately 13% of total sales.

(3) Performance targets (as announced in May 2025)

Under its Vision for 2030, the Company has set targets of ¥60.0bn in net sales and ROE of over 10% for FY3/31. As a milestone toward this goal, it is aiming for ¥49.0bn in net sales, ¥6.3bn in operating profit, and ROE of over 8% in the final year of the medium-term management plan (FY3/28).

(4) Cash allocation

The Company plans to allocate a total of ¥8.0bn to new businesses and M&A, ¥11.0bn to growth investment, ¥3.2bn to DX/productivity enhancement investment, and ¥3.6bn to shareholder returns, using a combination of operating cash flow (totaling ¥20.6bn over three years) and surplus funds. Of the ¥11.0bn in growth investment, ¥6.0bn will be allocated to pachinko-related areas and ¥5.0bn to non-pachinko areas.

3. FISCO's primary medium- to long-term focus areas

FISCO believes that the Company's strategy has a convincing rationale. Amid significant changes in the environment surrounding the pachinko industry (halls), where the Company has played a leading role, the strategy involves not only working on industry transformation and sustainable development as a DX leader, but also leveraging its accumulated data utilization, IP utilization, hall management know-how, and ample financial resources to expand into multiple industries. In particular, both the Vision for 2030 and the medium-term management plan have set the cultivation of new businesses (establishing new pillars) as a major theme and are pursuing directions to create new experiences and value in fields such as food entertainment and tourism by leveraging AI and image, audio, and interactive technologies. Therefore, what kind of unique value the Company will create through collaboration with the Matcha-related Business, for which it has established a full-scale structure, and Hakone Glass Forest Resorts will likely be an important indicator in gauging its future direction. Although the pachinko industry continues to shrink, signs of recovery have begun to emerge, and the Company is well positioned to both benefit from market consolidation and create new customer experiences. That said, identifying the next growth driver after the current wave of smart games machine adoption is a critical issue. In that sense, as seen in the collaboration with TSUBURAYA FIELDS, the integration of external resources and the utilization of cutting-edge technology will likely be key. The Company also appears to have started developing a next-generation platform called AX (tentative name) that utilizes DX and AI technologies. FISCO will be paying close attention to future developments, including the schedule for its release and the specific nature of the newly added value (functions).

Industry environment

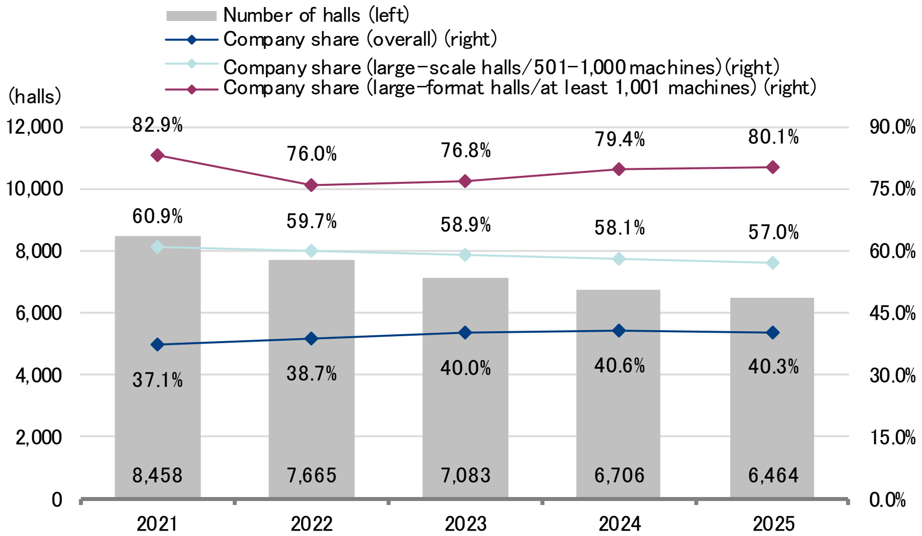
Market showing signs of revitalization through the market launch of smart games machines

Japan's pachinko industry has been experiencing a challenging environment over the past 10 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" in 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, with the phased introduction of smart games machines starting in November 2022, the market for gaming machines and the pachinko hall industry as a whole entered a new era, driven primarily by the replacement cycle centered on Smart Pachislot machines, which gained strong support from players.

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 5.7% over 10 years from 2015 to 2025. At the end of December 2025, the number of pachinko halls had declined to 6,464 (down 242 from the end of the same month of the previous year), but the Company maintained a high share of 40.3% in the number of hall computer customers. 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 games machines, it is expected that this will be an excellent opportunity for it to expand business once investment appetites recover, mainly at large-scale halls.

* The Company boasts a share of about 60% for large-scale halls (501–1,000 machines) and about 80% for large-format halls (at least 1,001 machines), with its share being higher in larger halls.

Trends in the number of halls and the Company's hall computer share

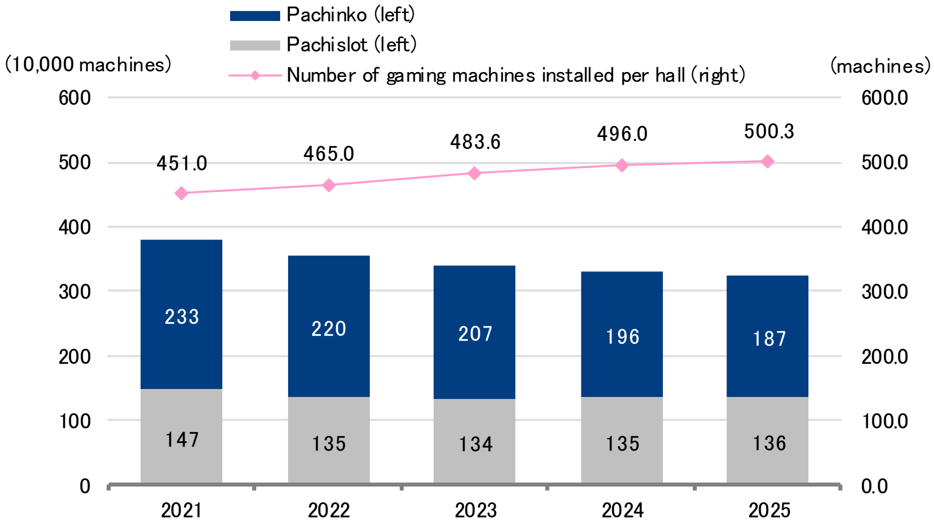


Source: Prepared by FISCO from the Current State of Amusement and Entertainment Business, etc., and State of Control of Offenses Related to Amusement and Entertainment Business, etc. 2025 by the Safety Division of the Community Safety Bureau, the National Police Agency, and the Company's results briefing 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, large-scale 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.

* However, limiting to pachislot machines, the number increased in 2024 for the first time in eight years.

Trends in the number of gaming machines installed in the 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. 2025 by the Safety Division of the Community Safety Bureau, the National Police Agency

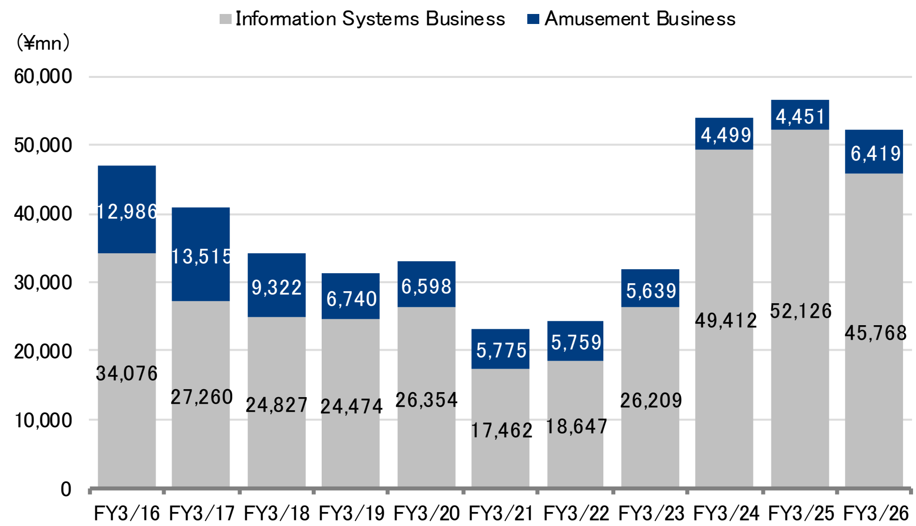
Moreover, a recent trend worthy of note is that, even as the number of halls declines, market-wide net sales and gross profit returned to growth in 2023. This marked the first increase of over 5% YoY in 11 years. Since 2024, both net sales and gross profit have remained at high levels. As is clear from 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 centered on smart games machines.

Performance over the past fiscal years

Taking the opportunity of performance recovery and growth driven by smart games 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 Systems Business, which holds a strong market share and steadily increased net sales through 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, the collection and removal 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 recovered and expanded, led by the Information Systems Business. In FY3/25, the Information Systems Business set a new record high in net sales for the second consecutive year, driven by the combined effects of smart games machine adoption and special demand related to support for new banknotes. Performance declined in FY3/26 due to the pullback from the special demand related to support for new banknotes, but in actual terms, a high performance level has been maintained.

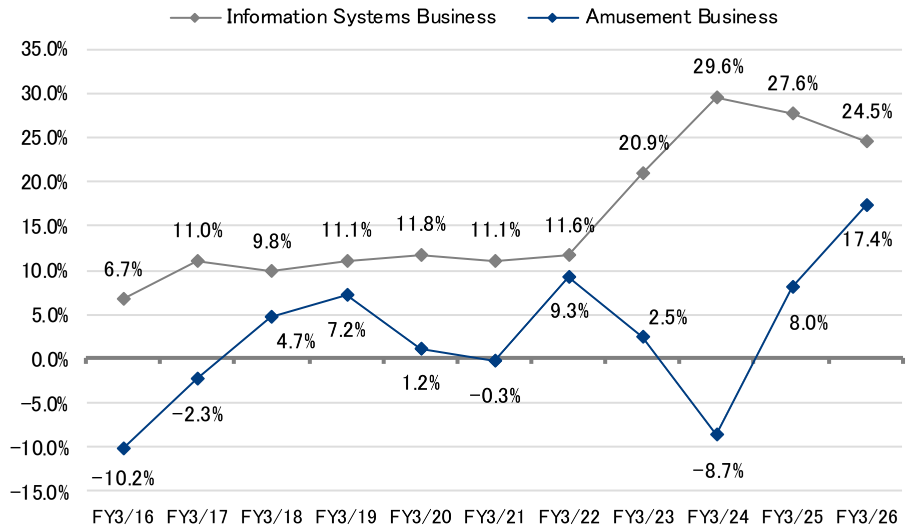
Net sales trends



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

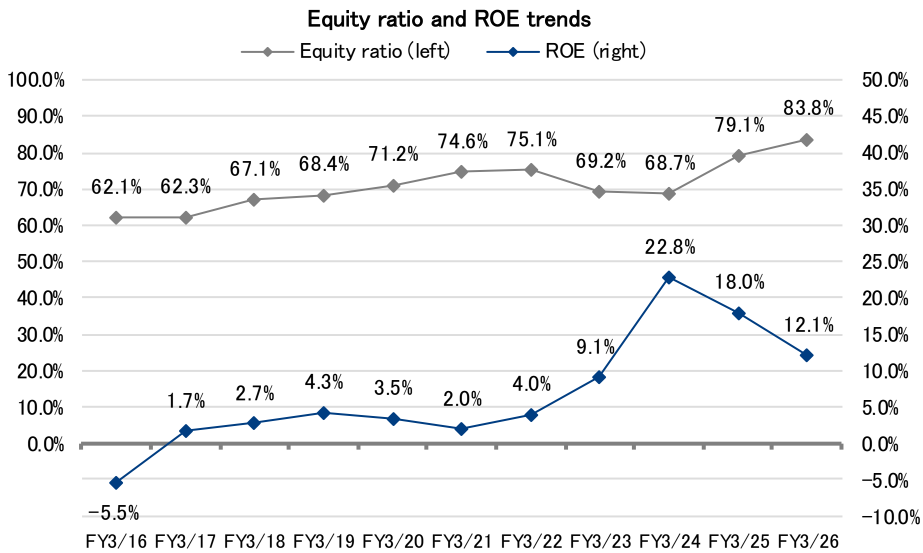
The Information Systems Business has become the source of profits, and has maintained high profit margins. Margins fell from FY3/14 to FY3/16 due in part to an increase in R&D expenses for next-generation products. During the period from FY3/18 to FY3/22, these R&D expenses ran their course, but a slump 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 Systems Business improved greatly thanks to a recovery in net sales and increased sales of high-value-added products. The Company is also steadily transitioning to a recurring revenue business model through the growth of its MG Services, and this is also a factor underpinning profit. From FY3/24 onward, the Information Systems Business benefited from special demand related to support for new banknotes. However, with the disappearance of this demand in FY3/26, the profit margin also showed signs of settling down.

Segment profit margin trends



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, and in FY3/25, the equity ratio rose 10.4pp YoY to 79.1%. The current ratio, which indicates the ability to make payments in the short term, also remained at a high 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 in connection with the industry's self-regulatory action. However, as profits recovered, ROE also improved significantly, and from FY3/24 onward, supported in part by special demand, the Company has maintained a high level of ROE for two consecutive years. Although impacted by this pullback in FY3/26, ROE was maintained at a level exceeding 12%.



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

Shareholder returns

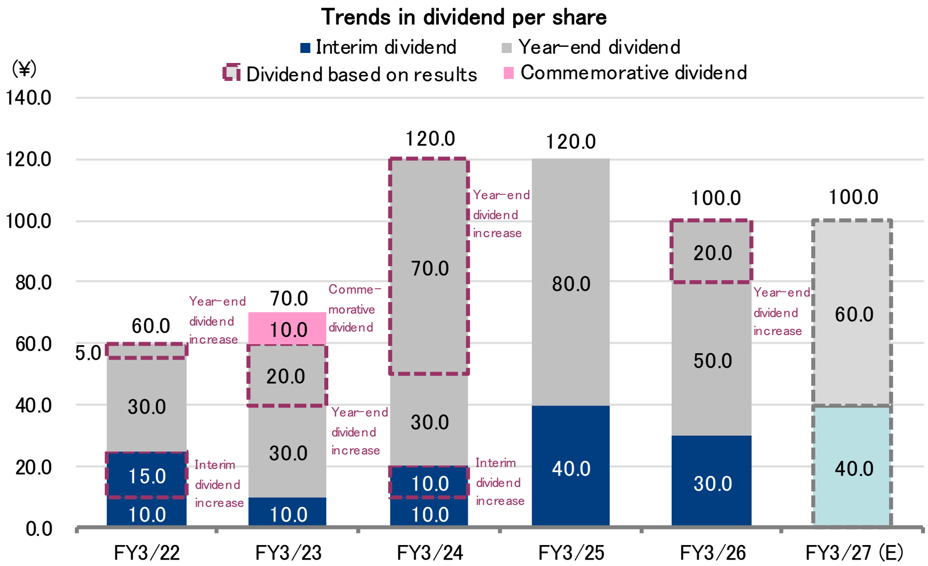
The annual dividend for FY3/27 is planned at ¥100 per share, the same amount as in the previous fiscal year

Regarding dividends, the Company's basic policy is to provide stable dividends while also returning profits to shareholders in line with business performance, taking into account the business environment, earnings trends, and dividend payout ratio. Furthermore, the Company raised the minimum annual dividend from ¥80 to ¥100 for the period of the medium-term management plan (FY3/26–FY3/28).

For the annual dividend in FY3/26, the Company revised its initial forecast upward by ¥20 and paid ¥100 per share (interim ¥30, fiscal year-end ¥70). For FY3/27, the Company plans to pay ¥100 per share (interim ¥40, fiscal year-end ¥60). In addition, the shareholder benefit program offers a digital gift* to shareholders of record as of the end of September each year, depending on the number of shares held and the continuous holding period.

* This was changed from the conventional QUO Card in consideration of shareholder convenience. (For the time being, shareholders can choose between the two.) A digital gift is provided by Digital Plus <3691> and can be exchanged for items such as Amazon Gift Cards, PayPay Money Light, Rakuten Points, d Points, au PAY Gift Cards, and nanaco Gifts.

Shareholder returns



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

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