COMPANY RESEARCH AND ANALYSIS REPORT

DYNAM JAPAN HOLDINGS Co., Ltd.

06889

Hong Kong Stock Exchange

12-Jan.-2023

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Summary

Aiming for regrowth by actively installing smart gaming machines

DYNAM JAPAN HOLDINGS Co., Ltd. <HK06889> is one of Japan's top operators of pachinko halls with the largest number of halls operated. Its strength and characteristics lie in low-cost operations based on the chain store theory. The Company's vision is to "transform pachinko into a 'daily entertainment' of local infrastructure that anybody can enjoy easily." The Company is a pioneer as the first in its industry to be listed on a stock market, aided by recognition of its high-quality management with implementation of a customer-first approach, information disclosure, compliance management, and other measures.

1. In FY3/23 interim results, posted an increase in revenue and a decrease in profit due to bigger depreciation load

In the FY3/23 interim consolidated results, revenue increased but profit decreased, with revenue increasing 10.4% year-on-year (YoY) to ¥56,195mn and operating profit declining 42.2% to ¥3,881mn. In a situation in which novel coronavirus (hereafter COVID-19) infections have been repeatedly calming down and then re-occurring, the recovery of the number of customers visiting halls has been moderate, but the Company still achieved an increase in revenue by launching several popular pachinko machines and also due to its sales efforts. Conversely in profits, it worked to keep down personnel costs and to reduce various other costs through the standardization of hall operations, but profit decreased due to the increases in machine depreciation (up ¥8,366mn YoY) and also in utilities expenses (up ¥1,025mn) because of the sharp rise in electricity charges. At the end of 2Q, the number of halls was unchanged on the end of the previous period at 433 halls.

2. FY 3/23 business strategy

As its FY3/23 business strategy, the Company is working on recovering customer numbers in the pachinko business as its top priority issue. Although it has built up a tolerance toward COVID-19, the number of customers is still at about 70% to 80% of the pre-pandemic level. However, initiatives expected to be a catalyst for the recovery of customers are installations of smart slot machines, which it started from November 2022, and of smart pachinko machines, which it will start in the spring of 2023. These smart gaming machines reduce the risk of infection because they eliminate direct contact with medals and balls, while they also increase the degree of freedom for specs, which can be expected to improve the game characteristics, and therefore they may act as a catalyst for the recovery of customers. Despite their initial investment burden, they can also be expected to have the effect of reducing hall personnel costs, which will lead to low-cost operations. Therefore, the Company's strategy is to aim to recover earnings by actively installing smart gaming machines and thereby secure a competitive advantage and increase customer numbers in its existing halls.

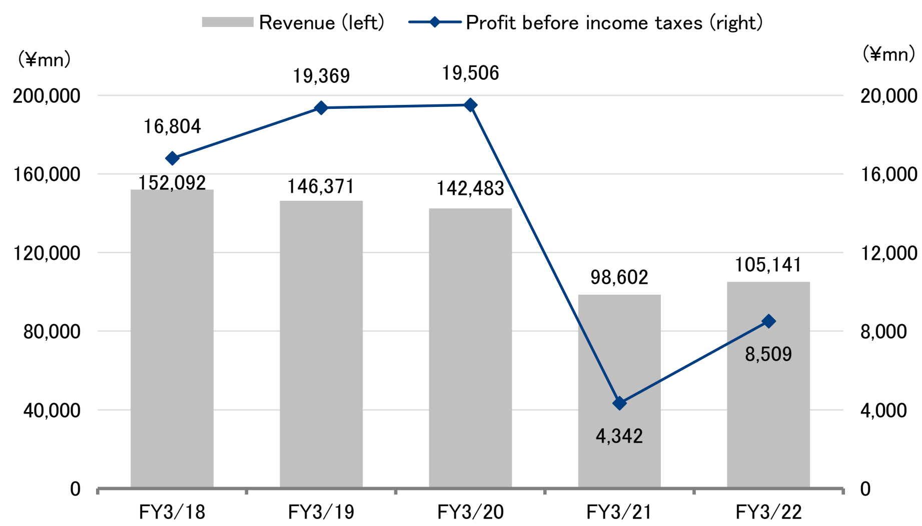
3. Pachinko business growth strategy

Toward the growth of the pachinko business, the Company is working on five themes: "multiple-hall development," "low playing cost operations," "product development," "data-driven approach," and "cost management." Of these, for "multiple-hall development," since market conditions are still unfavorable and building costs are increasing, it is adopting a wait-and-see approach for its own hall openings and will acquire halls if there are M&A proposals with good conditions. Its measures to strengthen the profitability of halls are improving operating efficiency through the standardization of operations, increasing the ratio of installations of private-brand machines, and implementing a data-driven strategy for the machine lineup. Installing smart gaming machines increases the degree of freedom for creating halls and makes it possible to create halls that are highly entertaining, as they can be enjoyed with peace of mind by a wider range of customers than previously. It is expected that the installations of smart gaming machines will be the catalyst for the recovery of customers, and that due to the resulting expansion of share from FY3/24 onwards, the outlook is that results will once again return to a growth track.

Key Points

- In the FY3/23 interim results, revenue increased but profit decreased, including due to a rise in depreciation, while hall profitability is steadily recovering
- The appearance of smart gaming machines is expected to revitalize the market, and at the same time, to progress the shift toward an oligopoly of major companies
- By actively installing smart gaming machines, is aiming to secure a competitive advantage and to realize an infrastructure as "daily entertainment" that will make possible multi-hall development

Trends in operation results



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

Company profile

Expanded business scope by implementing innovative measures premised on "chain store theory," became first pachinko hall operator to list shares

1. History

The Company was founded as Sawa Shoji Co., Ltd. in 1967 by Yohei Sato, the father of Yoji Sato, a current director and senior corporate advisor. When the founder passed away suddenly in 1970, his eldest son, Yoji, who was then aged 24 and working at The Daiei, Inc., took over the business, and steadily expanded operations.

The Company pioneered in the pachinko hall industry by acting on new initiatives ahead of peers, including hiring new university graduates, opening suburban and low-cost halls, forming a labor union, and spreading low playing cost operations nationwide. Yoji Sato's leadership was an important factor in the Company's adoption of a progressive corporate culture. He joined Daiei due to interest in the chain store theory that was still a novel concept in Japan. Subsequently, following the death of his father, the founder, he took over management of the Company, and in the process, expanded business by consistently applying the chain store theory to pachinko hall operations. The chain store theory is the source of low-cost operations, the Company's largest strength.

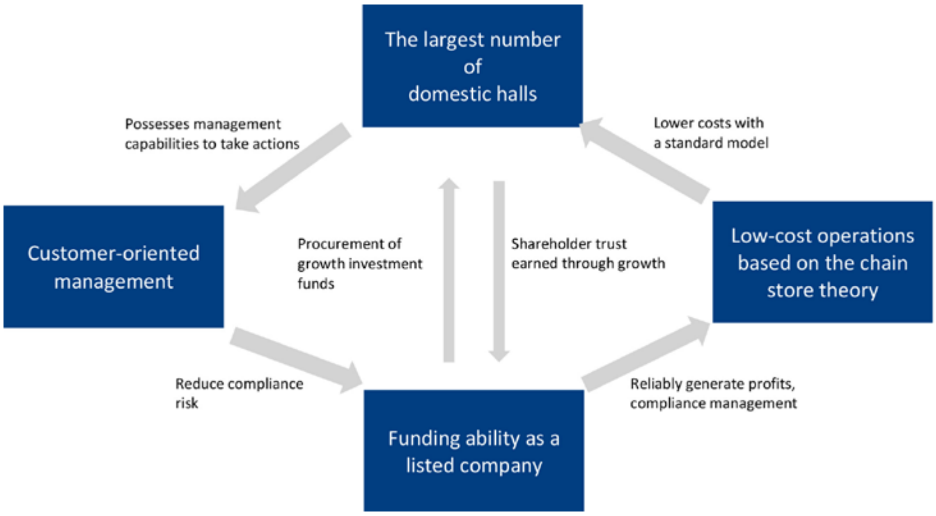
His logical approach rooted in the chain store theory took hold as the corporate culture and served as a fundamental force lifting the Company to the top position in the industry. It was also quick to embrace the most important concepts of modern management, such as a customer-first approach, information disclosure, and compliance, providing a foundation for its listing on the Hong Kong Stock Exchange in August 2012.

Established a robust management foundation that leverages four strengths, differentiates itself from other companies

2. DYNAM JAPAN HOLDINGS Group's features and strengths

We focus on four points as the Company's attributes and strengths-1) top player in terms of the number of halls in Japan, 2) low-cost operations, 3) customer-oriented management, and 4) fund-raising capabilities. Importantly, these strengths are mutually interactive. We think it is difficult for other companies to realize the same combined strength seen at the Company.

Relationship among the four strengths of the Dynam Japan Holdings Group

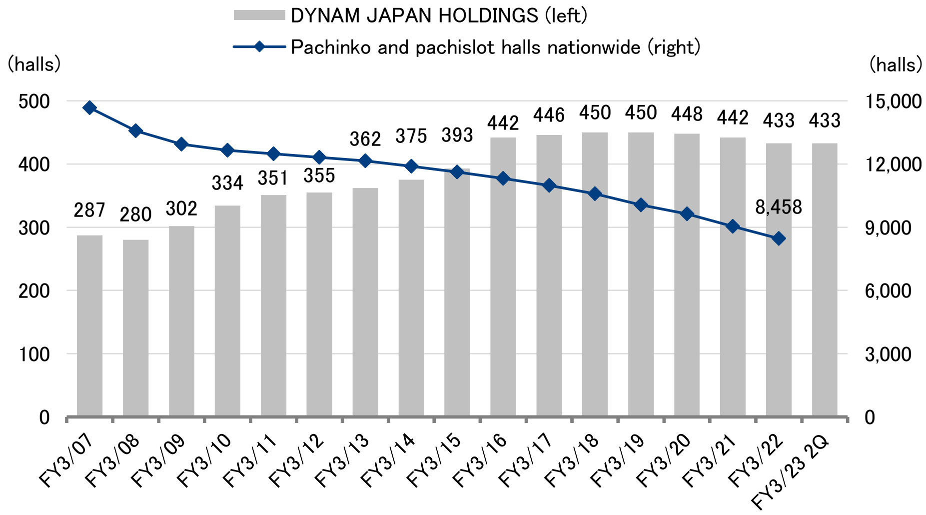


Source: Prepared by FISCO from interviews

(1) Domestic leader with 433 group halls

There were 8,458 pachinko and pachislot halls in Japan as of December 31, 2021, according to National Police Agency materials. Of these halls, the Company is the domestic leader with 433 group halls (as of the end of September 2022). While it is not possible to make precise comparisons due to differences in compilation timing, its domestic shares for the number of halls and machine installations are both at around 5%. Its market share exceeded 1% in 2003, and since then it has increased its number of halls, including through M&A, and maintained its market share amid the decrease in the overall number of halls in the industry. Since FY3/20, the number of halls has been declining slightly, partially due to the deterioration in the industry environment because of the COVID-19 pandemic, but the Company's market share has been steadily expanding.

Trend in number of group halls



Source: Prepared by FISCO from the Company's financial statements announcement and the National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2021"

Promoting multi-hall operations, the Group uses a standardized format when opening stores and mainly focuses on large population centers in rural areas (commercial areas with populations of 30,000 to 50,000 people) where rents can be kept down. By increasing the number of halls and leveraging economies of scale, the Company is able to keep down the costs for purchasing pachinko and pachislot machines, prizes, and other items. The large number of halls means it buys more machines, and thus has stronger buying power with amusement equipment manufacturers. The Company also proactively develops and deploys private-brand machines*, and realizes economies of scale in this respect as well. Furthermore, it has established logistics centers each of which covers around 30 halls in 16 locations nationwide, and is curbing machine costs (costs related to purchasing amusement machines) and reducing logistics costs by having halls flexibly transfer secondhand machine models to one another. In doing so, the Company is managing halls in an agile manner, including adjusting machine model lineups according to customer needs, and it has built a system enabling it to both increase the number of customers and reduce costs.

* As of the end of September 2022, 12.0% of its installed pachinko machines were private-brand machines (DYNAM standalone basis)

(2) Chain store theory

Low-cost operations based on the chain store theory are a vital source of the Company's competitiveness. Our understanding is that this aspect is tremendous support in enabling the Company to secure the feasibility and effectiveness of various measures, including the growth strategy.

Costs of machines and personnel constitute a large portion of the total cost of operating a pachinko hall. In addition to direct cost cutbacks, the Company is deploying hall designs and hall operating systems that facilitate operations with a small number of employees and standardizing new halls. The chain store theory plays an important role in a variety of ways and is enabling low-cost operations for the Group overall.

The Company is the industry leader in Japan, as mentioned earlier, with 433 halls. Aggressive hall network expansion supports this position, but the driving force of the chain store theory know-how has been an essential enabler. Hall network expansion has created a virtuous cycle of cost reductions through economies of scale that has put the Company in its strong position. We think the customer-oriented management explained below is an outcrop from the chain store theory as well.

(3) Implementing management from a customer perspective

The Company advocates a customer-first approach as one of its five business policies and has been practicing it. This stands out because we think few peers who promote a similar policy are actually seeing actions through.

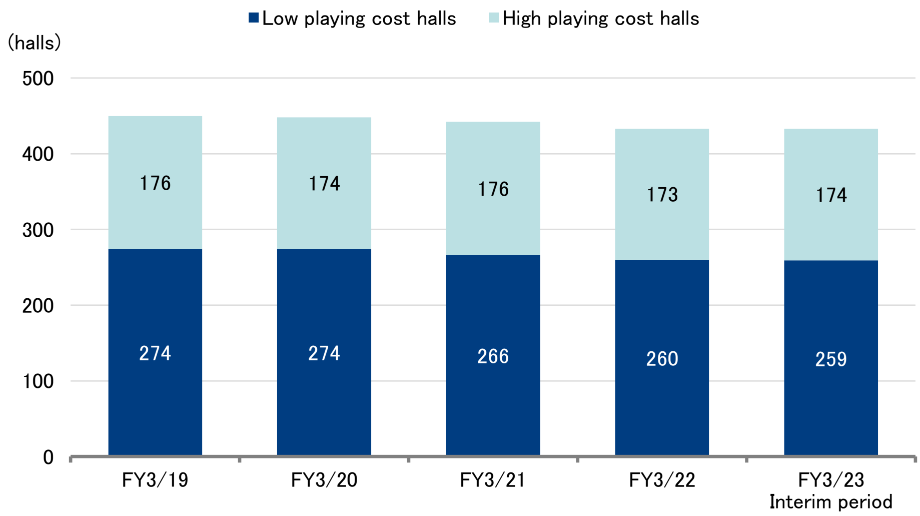
Among the Company's business policies, we have a favorable view of a) low playing cost operations and b) operations that do not rely on gambling appeal. These are also key words for understanding its business policy and growth strategy.

a) Low playing cost operations

Pachinko is a game played with rented balls, and low playing cost operations refer to a format in which ball rental fees has been lowered to ¥1 or ¥2 per ball, which is cheaper than the standard price of ¥4. Customers can rent more balls for the same amount, extending their playing time in accordance with the additional balls. For the Company, whose goal is for everyone to be able to easily enjoy pachinko as part of the infrastructure of a region, it can be said that increasing low playing cost halls is a rational measure.

At the end of September 2022, the Company had 259 low playing cost halls, which is 59.8% of its total halls. From FY3/21 onward, the Company continued closing unprofitable halls during the COVID-19 pandemic due to a decrease in the number of customers in the elderly demographic, which is the main target. Although the closures slowed slightly, the appearance of smart gaming machines will further strengthen infection control measures and there has been an increase in the elderly demographic, therefore the Company has made no changes to its plans to increase the ratio of low playing cost halls over the medium to long term. Continuing this strategy requires considerable company wherewithal, and the strategy for this lies in multiple-hall development and low-cost operations.

Number of low playing cost halls and high playing cost halls



Source: Prepared by FISCO based on the Company's annual report, news releases and materials provided by the Company

b) Operations that do not rely on gambling appeal

The Company does not position models with strong gambling appeal as a central strategy. Pachinko machines range from ones with high probability of major wins to ones with low probability. Machines with lower probability give a larger number of balls in a major win and are preferred by pachinko fans. Many pachinko halls hence attract customers by operating halls with a high ratio of machines with strong gambling features.

However, based on the strengthening of measures to address gambling addiction and related issues, the regulatory authorities have been revising the regulations in stages in order to suppress the gambling aspect, and the current situation is that a style of managing pachinko halls by attracting customers through "selling" gambling is coming to an end. The Company, meanwhile, has a lower ratio of gambling-type machines than the industry average, and conversely its share of machines with the lowest gambling features at 1/100 probability is 20 percentage points higher than the industry average. It cannot avoid the impact of stricter regulations on gambling appeal, but given the fact that it has been working on sales operations that do not rely on gambling appeal for some time now, we at FISCO feel that the negative impact on the Company will be comparatively minor.

(4) Fund-raising capabilities that leverage strength as a listed company

The Company became the first in the pachinko hall industry to list its shares with its IPO on the Hong Kong Stock Exchange in 2012. Only three companies, including the Company, out of the pachinko hall industry's roughly 2,500 companies are listed on stock markets as of the end of September 2022. The industry is projected to face realignment going forward. An important point for a buyer in this environment is obviously whether it has fund-raising capabilities. The Company capitalized on its strength as a listed company to acquire Yume Corporation Co., Ltd. in November 2015 through a stock swap for all of its shares. With respect to the demand for funds due not only to M&A but also investment in halls and new business development, the advantage of being a listed company is significant and will likely work in its favor in terms of procuring funds.

FY3/23 interim results

In the FY3/23 interim results, revenue increased but profit decreased, including due to a rise in depreciation, while hall profitability is steadily recovering

1. Summary of FY3/23 consolidated interim results

In the FY3/23 consolidated interim results, revenue increased 10.4% to ¥56,195mn, operating profit decreased 42.2% to ¥3,881mn, interim profit before income taxes decreased 58.5% to ¥2,318mn, and interim profit decreased 65.4% to ¥1,183mn, resulting in increased revenue and decreased profit.

Summary of FY3/23 consolidated interim results

(¥mn)

	FY3/22 Interim period	FY3/23			Remark
		Interim period	YoY	Change	
Revenue	50,897	56,195	10.4%	5,298	
Revenue from pachinko business	50,139	55,150	10.0%	5,011	High playing cost halls 27,059 (+2,377), low playing cost halls 28,091 (+2,634)
Revenue from aircraft leasing business	758	1,045	37.9%	287	4 aircrafts continue to be leased
Operating expenses	45,255	52,915	16.9%	7,660	
Pachinko business expenses	44,791	52,246	16.6%	7,455	Depreciation of pachinko and pachislot machines +8,366, hall operation personnel costs -1,387, utilities expenses +1,025
Aircraft leasing business expenses	464	669	44.2%	205	Expenses relating to newly purchased aircraft whose leases have started
SG&A expenses	2,004	2,048	2.2%	44	
Other income	5,025	4,950	-1.5%	-75	Gain on the sale of used machines +409, subsidy income -1,324
Other operating expenses	1,949	2,301	18.1%	352	Loss on the disposal of property, plant and equipment +833, property, plant and equipment impairment loss -301
Operating profit	6,714	3,881	-42.2%	-2,833	
Financial income	156	173	10.9%	17	
Financial expenses	1,284	1,736	35.2%	452	Exchange-rate loss due to the weak yen +393
Interim profit before income taxes	5,586	2,318	-58.5%	-3,268	
Tax expenses	2,170	1,135	-47.7%	-1,035	
Interim profit	3,416	1,183	-65.4%	-2,233	

Source: Prepared by FISCO from the Company's financial statements announcement and materials provided by the Company

For revenue, in the pachinko business, despite a situation in which the recovery of customers remains moderate due to COVID-19, pachinko machine revenue increased 10.0% YoY as the Company launched several hit pachinko machines and also through its sales efforts, which drove the higher revenue. Conversely, operating profit decreased by double digits, because although hall management personnel costs decreased ¥1,387mn, machine depreciation increased ¥8,366mn and utilities expenses rose ¥1,025mn.

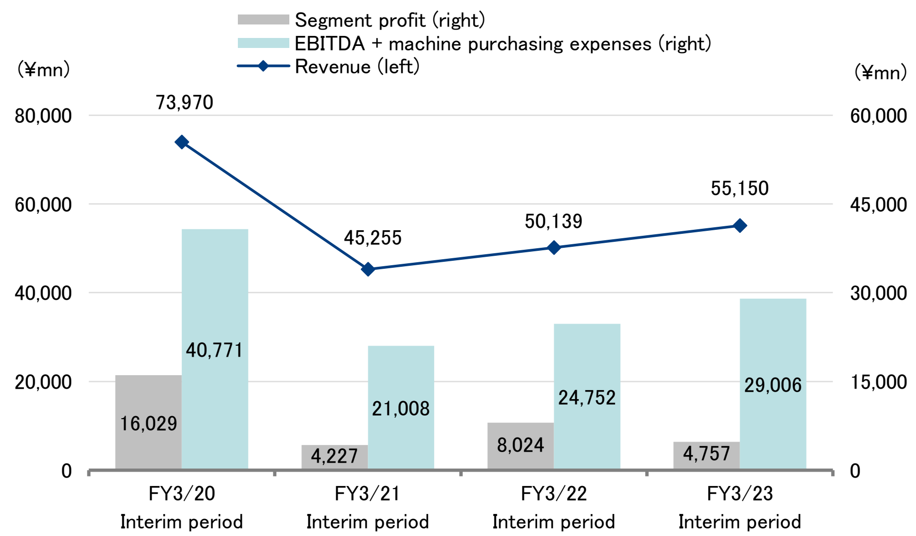
Other income decreased ¥75mn, with the main factors being that the gain on the sale of used machines increased ¥409mn, hall evacuation compensation of ¥817mn was recorded and subsidy income (COVID-19-related employment adjustment subsidy) decreased ¥1,324mn. In other expenses, the impairment loss on hall-related property, plant and equipment decreased ¥301mn, but the loss on the disposal of property, plant and equipment, mainly of machines, increased ¥833mn, so in total, other expenses increased ¥352mn. At the end of the interim period, the number of consolidated employees was unchanged YoY at 14,613 employees.

(1) Pachinko business

In the pachinko business, revenue increased but profit decreased, with revenue increasing 10.0% YoY to ¥55,150mn and segment profit decreasing 40.7% to ¥4,757mn. From FY3/22, the method for recording machine purchasing expenses has been changed from being recorded as a lump sum to a two-year, straight line depreciation method, and profits declined because of the resulting significant increase in depreciation.

However, when looking at actual profitability excluding the effects of this change of accounting standard, we see that profits are steadily recovering. Specifically, looking at how EBITDA (segment profit + depreciation + impairment loss + financial expenses) has trended since FY3/20 based on the addition of machine purchasing expenses, in the FY3/22 interim period, it increased 17.2% YoY to ¥29,006mn, the second consecutive period it has increased. As its ratio of revenue as well, in the same period it rose 3.2 percentage points (pp) to 52.6%, recovering close to its level in the FY3/20 interim period of 55.1%. The factors behind the recovery of profitability are described below, but we evaluate them to be from the effects of the Company's efforts to review hall operations, mainly as a result of the improved personnel costs ratio.

Pachinko business results

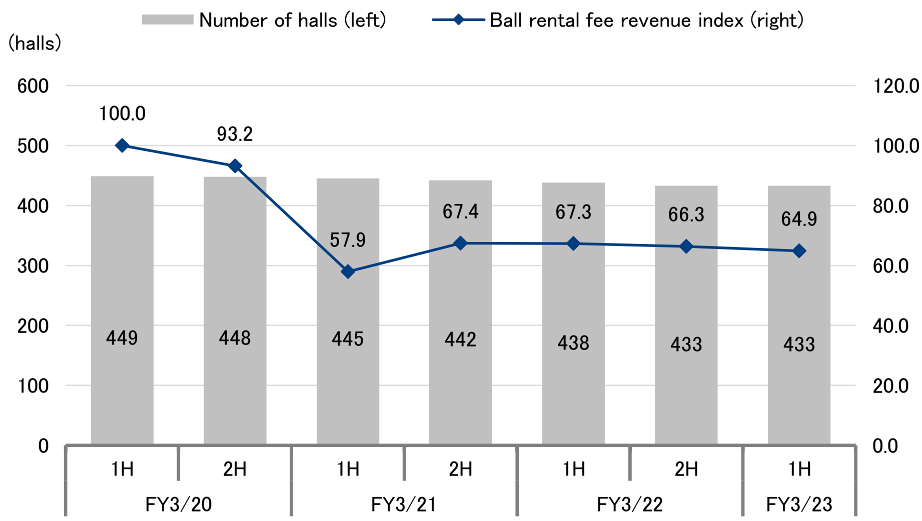


Note: EBITDA = segment profit + depreciation + impairment loss + financial expenses
Source: Prepared by FISCO from the materials provided by the Company and an interim report

Breaking down revenue, in high playing cost halls, it increased 9.6% to ¥27,059mn, while in low playing cost halls, it rose 10.3% to ¥28,091mn, so revenue increase for both types of hall. Due to the effects of launching multiple hit machines, pachinko machine revenue increased. Conversely, pachislot machine revenue decreased slightly, but progress was made in sequentially installing new machines that are compliant with the revised regulations, and recently signs of a recovery have started to be seen.

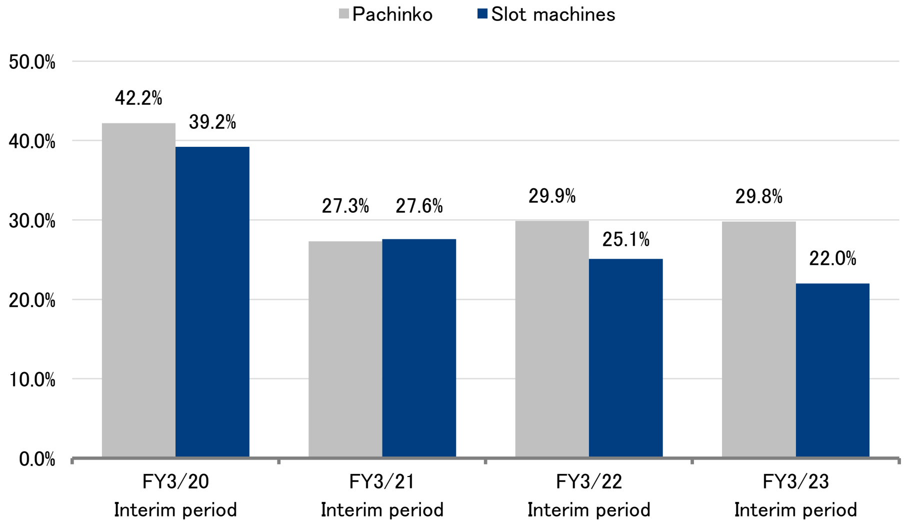
However, looked at the trend in ball rental fee revenue that corresponds to gross sales, for high playing cost halls it decreased 7.0% YoY, while for low playing cost halls it increased 0.5%, so in total, it decreased 3.7% to ¥245,981mn, and a levelling-off situation has continued since the 2H of FY3/21. Looking at the operating rates of DYNAM halls, the rate for pachinko machines is at the same level as in the same period in the previous fiscal year, while the rate for pachislot machines has further declined. This is considered to be because of the effects of the ongoing situation of COVID-19 infections repeatedly calming down and then re-occurring, and also that alongside the strengthening of pachislot-related regulations, the machines under the old regulations that had a high operating rate had been completely retired by the end of January 2022. Although the number of halls has decreased slightly, the fact that ball rental fee revenue remains at only 65% of the level of three periods previously can be said to be as a result of the continuing severe market environment. At the end of September 2022, the number of Group halls had declined by 5 YoY to 433 halls.

Trends in the number of halls and the ball rental fee revenue index



Note: The standard for the ball rental fee revenue index is for FY3/20 1H to be set as 100
Source: Prepared by FISCO from the materials provided by the Company and an annual (interim) report

Operating rates



Note: Data are for DYNAM halls. Operating rate = Actual number of customers / number of machines at peak time (average at 3:00 p.m. and 7:00 p.m.)
Source: Prepared by FISCO from the materials provided by the Company and the Company's results briefing materials

Operating expenses increased 16.6% YoY to ¥52,246mn. The main change factors were that hall management personnel costs decreased ¥1,387mn, but that depreciation of pachinko and pachislot machines increased ¥8,366mn and utilities expenses rose ¥1,025mn. This is the second period since the start of the machines' depreciation, so the extent of the increase is large. Also, the increase in utilities expenses was due to the sharply rising electricity charges. The reason for the decrease in hall management personnel costs was that, while maintaining the time spent on customer services, the Company realized a reduction in total work hours by standardizing various types of backyard operations. Also, it seems that the installation of self-service machines at prize-exchange counters into some halls one year ago is contributing to the shift to unmanned operations. In addition, the Company worked to keep down various other costs, including reviewing advertising and moving cleaning in-house.

Looking at the trend of the ratio of various expense items to pachinko business revenue, in total it rose 5.4pp YoY to 94.7%. Breaking this down, it rose 13.0pp for depreciation and 1.4pp for utilities expenses, but the ratio declined for basically every other expense item, which we evaluate to be as a result of the Company's efforts to recovery profitability. In particular, the hall personnel costs ratio fell to close to its level of three periods ago of 34.6%. As previously explained, gross sales have fallen by around 35pp compared to in the FY3/20 interim period, but even in this situation, the Company has realized a decline in the ratio to personnel costs, which are fixed costs, and this can be expected to improve the profit margin in the market's recovery phase in the future.

Breakdown of pachinko business expenses

	FY3/20 Interim period	FY3/21 Interim period	FY3/22 Interim period	FY3/23 Interim period
Total expenses	82.6%	102.5%	89.3%	94.7%
Advertising expenses	2.3%	1.9%	3.0%	2.5%
Depreciation	6.8%	10.4%	8.3%	6.7%
Hall personnel costs	33.2%	47.8%	40.8%	34.6%
Machine-related expenses	17.8%	12.6%	10.9%	25.3%
Right-of-use assets amortization	6.9%	11.2%	9.3%	8.1%
Repair expenses	2.3%	2.0%	2.4%	2.2%
Utilities expenses	4.1%	5.6%	5.2%	6.6%
Cleaning expenses	2.6%	3.5%	2.6%	2.0%
Other	6.7%	7.5%	6.8%	6.8%

Source: Prepared by FISCO from the materials provided by the Company and an interim report

Looking at the results of DYNAM Co., Ltd., which is the Group's core company, revenue increased but profit decreased, with revenue increasing 9.9% YoY to ¥51,905mn, operating profit decreasing 53.2% to ¥1,140mn, ordinary profit declining 70.8% to ¥1,327mn, and interim profit falling 57.4% to ¥1,226mn. The increase and decrease factors were basically the same as for the consolidated results.

DYNAM's results (using Japanese accounting standards)

(¥mn)

	FY3/22 Interim period	FY3/23			Summary
		Interim period	YoY	Change	
Revenue	47,222	51,905	9.9%	4,683	Amusement business revenue +4,822, vending machine fee income -139
Total expenses	44,786	50,765	13.4%	5,979	
Machine related expenses	4,974	12,318	147.6%	7,344	Increase in pachinko and pachislot machine depreciation
Utilities expenses	2,340	3,289	40.6%	949	
Personnel costs	18,920	17,469	-7.7%	-1,451	
Other costs	18,552	17,689	-4.7%	-863	
Operating profit	2,436	1,140	-53.2%	-1,296	
Ordinary profit	4,542	1,327	-70.8%	-3,215	Decrease in the employment adjustment subsidy, etc. from the government
Extraordinary profit	-	818	-	818	Nagano Iida Hall evacuation compensation 817
Extraordinary loss	192	242	26.0%	50	Recorded a loss on retirement of non-current assets
Interim profit	2,878	1,226	-57.4%	-1,652	
[Main KPIs (key performance indicators)]					
No. of halls	398	396		-2	1 hall was opened, 3 halls were closed
Pachinko machine operating rate*1	29.9%	29.8%		-0.1pt	Gap with competitors +2.4pt*2
Slot machine operating rate*1	25.1%	22.0%		-3.1pt	Gap with competitors -3.4pt*2
No. of machines	186,851	186,113	-0.4%	-738	Installed machine share 4.9%
Number of private-brand machines	19,436	15,741	-19.0%	-3,695	Private-brand machine installation rate 12.0% (difference from previous period: -2.8pt)*3

*1 Operating rate: The average number of customers / installed machines at peak time (average at 3 p.m. and 7 p.m.) (average from April 1, 2022 to September 30, 2022)
*2 Figures for competitors are calculated based on customer count surveys conducted at 1,200 halls located near DYNAM halls nationwide
*3 Installation ratio is the ratio of all installed pachinko machines
Source: Prepared by FISCO from the materials provided by the Company and the Company's results briefing materials

At the end of September 2022, the number of halls had decreased by 2 YoY to 396 halls, while the number of installed machines had also decreased slightly, down 0.4% to 186,113 units. Private-brand machines decreased 19.0% to 15,741 units, but this decline was due to the timing of machine replacements and there has been no change to the Company's policy of continuing to focus on private-brand machines. For the operating rate, for pachinko machines it declined 0.1pp YoY to 29.8%, while for pachislot machines it fell 3.1pp to 22.0%. For pachislot machines, the retirement by the end of January 2022 of machines compliant with the former regulations that had a high operating rate and the delays in the appearance of hit machines under the new regulations led to the slump in the operating rate, but since the summer, hit machines have started to appear and the operating rate is now trending upward.

(2) Aircraft leasing business

In the aircraft leasing business, revenue increased 37.9% YoY to ¥1,045mn and segment profit rose 38.5% to ¥169mn. The Company has limited its scope of business to narrow-body aircraft, which are highly liquid and for which demand is expected to be stable. It is continuing the leases of three aircraft purchased in FY3/20. Also, in October 2021, Dynam Aviation Ireland Limited (DYNAM Aviation), which is the subsidiary that operates this business, concluded an agreement with Wizz Air Hungary Ltd., a Hungarian LCC, to buy three aircraft (Airbus A321neo) through a sale and leaseback transaction. The delivery of one of these aircraft was completed in July 2022 and it is generating lease fees, which was a factor behind the higher revenue. Another reason for the increase in revenue was the continuing weak yen in exchange rates.

The fleet value of the four aircraft is ¥28,249mn, the average remaining lease period is 4.5 years, and the annualized growth rate of return is 8.3%. This rate is down slightly from 8.8% at the end of the previous period, but this is due to the rising price of newly purchased aircraft because of inflation.

Results for aircraft lease contracts

Leasing party	Contract period	Model	Assets (Net value)	Average age	Average remaining lease period	Annualized gross rate of return
Vueling Airlines (Spain)	July 2019	Airbus A320	¥28,249mn	2.5 years	4.5 years	8.3%
IndiGo (India)	October 2019	Airbus A320neo				
IndiGo (India)	February 2020	Airbus A321neo				
Wizz Air (Hungary)	October 2021	Airbus A321neo				

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

Interest-bearing debt increased due to the purchase of aircraft, but is maintaining positive net cash

2. Financial condition

At the end of the FY3/23 interim period, total assets had increased ¥7,995mn on the end of the previous period to ¥301,416mn. The main change factors were decreases of right-of-use assets of ¥121mn, deferred tax assets of ¥553mn, and stock holdings of ¥726mn, but increases of cash and deposits of ¥419mn and property, plant and equipment of ¥10,732mn. The main reason for the increase in property, plant and equipment was the new purchase of one aircraft. Also, the machine purchase amount was ¥14,339mn, decreasing by ¥10,993mn from ¥25,332mn in the same period in the previous fiscal year, but the amount for machines recorded in assets increased due to the two-year depreciation.

Total liabilities increased ¥6,028mn on the end of the previous period to ¥168,467mn. The main change factors were decreases of lease liabilities of ¥109mn and accounts payable and accrued expenses of ¥187mn, but an increase in interest-bearing debt of ¥5,708mn. The increase in interest-bearing debt was mainly due to the borrowing by an overseas subsidiary to purchase aircraft, while in exchange rates, the weakening of the yen up to the end of September was also an increase factor (at the end of March 2022, ¥122.41/USD → at the end of September 2022, ¥144.81/USD).

Total equity increased ¥1,967mn on the end of the previous period to ¥132,949mn, mainly due to the recording of interim profit of ¥1,187mn, dividend payments of ¥1,878mn, and ¥641mn to acquire treasury shares and ¥651mn to retire treasury shares. Due to the weakening of the yen, comprehensive income increased ¥3,299mn.

The capital ratio declined slightly, down from 44.6% at the end of the previous period to 44.1%, mainly due to the increase in interest-bearing debt. However, although net cash (cash and deposits – interest-bearing debt) decreased ¥5,289mn compared to its level in the previous period, it was still maintained at positive ¥8,078mn. The cash flow conditions were that cash flow from operating activities more than doubled from ¥10,519mn in the same period in the previous fiscal year to ¥26,755mn, while free cash flows were also positive ¥3,376mn, so signs of an improvement are starting to be seen. However, in the aircraft leasing business, interest-bearing debt is expected to increase in this business in the future because of the contract to purchase 4 aircraft by the end of 2023 (of which, 2 were delivered in October 2022).

Consolidated financial condition

(¥mn)

	FY3/22 End	FY3/23 Interim period-end	Change	Change items
Total assets	293,421	301,416	7,995	cash and deposits (+419), property, plant and equipment (+10,732), right-of-use assets (-121), deferred tax assets (-553), stock holdings (-726)
(cash and deposits)	56,508	56,927	419	
Total liabilities	162,439	168,467	6,028	Interest-bearing debt (+5,708), lease liabilities (-109), accounts payable and accrued expenses (-187)
(Interest-bearing debt)	43,141	48,849	5,708	
(Interest-bearing debt/Japanese companies)	32,945	32,315	-630	
(Interest-bearing debt/Overseas companies)	10,196	16,534	6,338	
Total equity	130,982	132,949	1,967	Interim profit (1,187), dividend payments (-1,878), acquisition of treasury shares (-641), other interim comprehensive income (3,299)
(Capital ratio)	44.6%	44.1%	-0.5pt	
(Net cash)	13,367	8,078	-5,289	

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

Cash flow statement

(¥mn)

Cash flow statement	FY3/22 Interim period	FY3/23 Interim period
Cash flow from operating activities	10,519	26,755
Cash flow from investing activities	-23,115	-23,379
Free cash flows	-12,596	3,376
Cash flow from financing activities	-10,865	-4,382
Cash and cash equivalents	51,249	56,927

Source: Prepared by FISCO from the materials provided by the Company and Company's financial statements announcement

FY3/23 business strategy

Strategy is to aim for re-growth, with installations of smart gaming machines as the catalyst

1. Pachinko business

(1) Business strategy

In FY3/23, the Company's strategy is to strengthen initiatives toward recovering customers while maintaining the operations structure in which it thoroughly implements measures in response to the COVID-19 pandemic. Specifically, it intends to rebuild the training program and quality control methods to maintain and improve customer-service quality and thereby improve customer satisfaction. It is considered that improving customer satisfaction will realize an increase in customer numbers and prolong the time they spend playing (= a rise in the customer unit price), which will lead to an increase in revenue. The keys to recovering customer numbers will be acquiring slot-machine customers aged in their twenties to forties from nearby competitor halls, and also stimulating the return of senior customers for who customer numbers have continued to slump.

What is expected to act as the catalyst that will stimulate the market in this way are smart gaming machines (smart slot machines and smart pachinko machines). Players can play smart gaming machines without having to touch the medals and balls, as the slot machines do not use medals and pachinko machines have a structure in which balls are circulated within the machine, and for both, the number of output balls and other information are measured using electronic information. Also, information such as on output balls and installations is sent to the "machine information center."

The advantages for the users are a broadening of the machines' game features and specs and the convenience and cleanliness of playing without using balls and medals, which leads to greater peace of mind about infection-prevention measures. Therefore, it is expected that among other benefits, installations of smart gaming machines will stimulate the return of senior and female customers who so far have not returned to the halls, as well as contributing to acquiring new customers.

Also, installing a smart gaming machine into a hall requires a special unit that sends information, such as on output balls, so the initial investment cost is higher than previously. However, they eliminate the need for balls and medals to be carried and cleaned so make possible low-cost operations, and by eliminating the need for island facilities (equipment to replenish the rented balls, etc.), they are expected to reduce the running costs of existing halls and the initial costs of new halls. Moreover, they increase the degree of freedom, including enabling the machines that were previously installed in a line to be installed in a circular shape, making possible differentiation by creating halls with individuality.

Furthermore, it seems that these machines are a development on the point of the soundness of the industry. Sending information such as on output balls to the "machine information center" leads to measures to prevent addictive playing, as well as to measures to strengthen security and to prevent fraudulent playing.

Based on the above, the Company is actively installing smart gaming machines to secure a competitive advantage and thereby aiming for earnings to grow again. Although they incur initial investment costs, it is anticipated that their positive contribution to profits will be actualized from FY3/24 onwards. The Company plans to launch 3 smart slot machines in November 2022 and 1 machine in December, and by actively installing these machines, it plans to expand its share of slot machines, which has slumped (it will have installed around 2,600 units by the end of November). Currently, the supply capacity of the dedicated units is limited due to the semiconductor shortage, and therefore the outlook for FY3/23 is for a supply of only around 150,000 units in the entire industry. But the Company is securing parts preferentially through its buying power and is aiming to completely transition to smart slot machines at an early stage. Conversely, the outlook for smart pachinko is for machines to be launched from the spring of 2023 onwards. In terms of specs, it seems they are the same as or expand the width of the specs of existing machines, and the Company will proceed with replacements while observing the reactions of users.

For its hall opening strategy, the Company will continue to adopt a cautious stance. The situation for new hall openings is that building costs have jumped to 1.4 to 1.5 times higher than before COVID-19 because of the rise in materials prices, so for the time being it has put new openings on hold from the viewpoint of investment efficiency. Conversely, it will consider an M&A if it finds a proposal with good conditions, and it has decided to acquire 1 hall (Hiroshima Prefecture) in December 2022. Also, it is anticipated that the private-brand machines ratio will be around 15%, the same level as in FY3/22.

(2) Outlook for expenses

The outlook for operating expenses is that depreciation is forecast to increase, centered on machine-related. The FY3/23 machine purchase amount is expected to decrease significantly from the previous period, but machine depreciation recorded in assets will increase. In terms of the anticipated level of depreciation in the 2H, the outlook is that they will increase slightly compared to ¥15,749mn in the interim period and they will increase by around ¥10,000mn compared to the FY3/22 amount of ¥21,019mn. Also, for FY3/24, while it will depend on the speed of installations of smart gaming machines, because the machine depreciation period is two years, at FISCO we think that the amount will increase, if only slightly.

On the other hand, personnel costs, which constitute nearly 40% of operating expenses, may be kept down slightly through the Company thoroughly conducting low-cost operations, and their ratio of revenue is expected to be maintained in the 30% to 34% range. However, for utilities expenses, because of the sharply rising electricity charges, despite implementing measures in response such as power saving, for the full fiscal year the amount is forecast to increase by more than ¥2,500mn compared to in the previous period. The Company is keeping down advertising expenses as a whole, but even so its policy is to strengthen promotions for smart slot machines in order to focus on acquiring customers in the twenties to forties age groups.

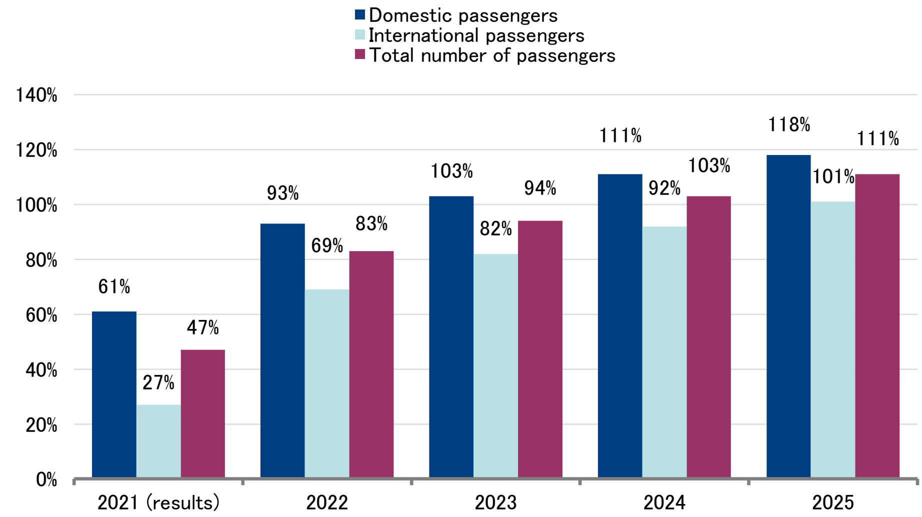
In the aircraft leasing business, has newly concluded contracts for 2 aircraft and the forecast is for an increase to 8 aircraft by the summer of 2023

2. Aircraft leasing business

In the airline industry the total number of passengers is trending toward recovery as restrictions on travel are being lifted, mainly in Europe and the U.S. According to data released by the International Air Transport Association, international passenger volume will not return to 2019 levels until around 2025, but domestic passenger volume is expected to recover around 2023, and overall passenger volume is forecast to recover to 2019 levels by 2024.

Also, according to a forecast by The Boeing Company <BA>, it is expected that demand for 41,170 new aircraft will be generated by 2041, mainly for narrow-body aircraft that are used for short-distance transportation (25,900 aircraft were operational in 2019). In particular, recently long, narrow-body aircraft that have a long body and a large number of seats (Airbus A321neo and Boeing B737MAX10) have become popular, and orders from airline companies are tending to concentrate on them.

Future passenger volume projection



Note: with 2019 as the standard (=100.0)
Source: Prepared by FISCO from the Company's results briefing materials

In this situation, Dynam Aviation Ireland Limited has completed the delivery of three aircraft (A321neo) to Wizz Air, with which it has concluded a contract. Also, in October 2022, it concluded a contract to newly purchase two aircraft through a sale and leaseback transaction. The delivery of these aircraft is scheduled for July to December 2023.

Lease revenue from the additional three aircraft handed over to Wizz Air will be added to results in FY3/23, and the forecast is for increase revenue and profits. Although the situation in Ukraine is still chaotic, the impact on existing lease customers and Wizz Air is expected to be minimal due to the small number of flights to Russia.

In the future also, aircraft lease demand is forecast to be stable, so this business will steadily grow. Therefore, the subsidiary has employed six people to be responsible for technical, lease management, and legal affairs, while in addition, it is progressing initiatives to strengthen the management foundation, including shifting lease management to in-house.

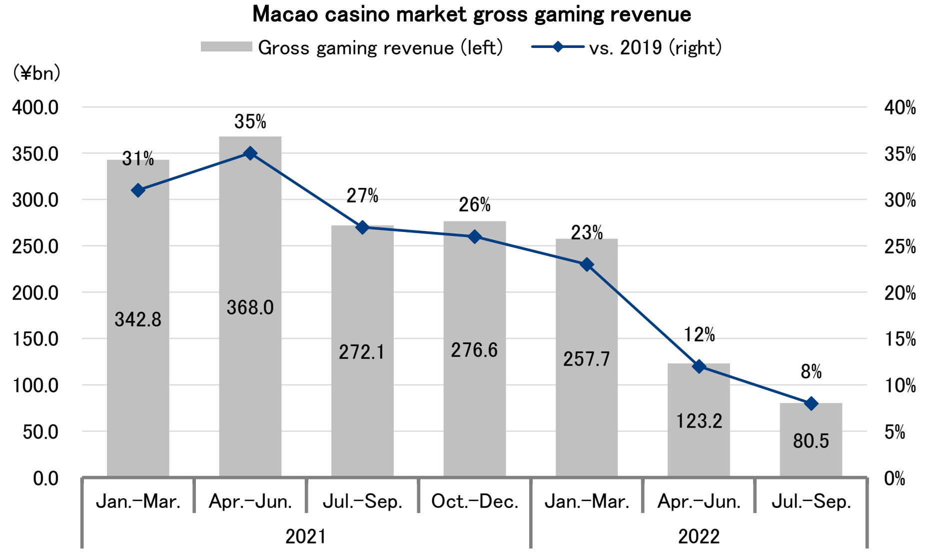
For video slot machines, sales activities and conversion for online use has started to be considered for Malaysia as the COVID-19 pandemic continues

3. Video slot machine business for casinos

The Company has been working on planning and development with the aim of deploying video slot machines in the Macau casino market as a new business. These video slot machines are more targeted to the mass-market than other types of machines, and development is ongoing to make straightforward games that incorporate elements of pachinko.

Game software is jointly developed with a Japanese company, and manufacturing and sales for casinos is outsourced to WEIKE GAMING TECHNOLOGY (S) PTE. LTD., a Singapore company that has a manufacturing and sales license for casino machines in the Macau market. As of September 2022, it had obtained approval for 6 machines in Macau and 5 machines in Singapore. Also, for machines installed with the developed games, since November 2019 it has test installed 1 unit each of 3 machine models (3 units in total) in Legend Palace Casino, and in addition, since January 2020, it has test installed a total of 10 units of 3 machine models in Casino Ponte16.

The situation of Macau casinos' gross gaming revenue (GGR) is that it is slumping due to the impact of China's zero-COVID-19 policy and also the restrictions on travel by foreign visitors. The July to September 2022 GGR fell to a level of about 8% compared to before COVID-19 in 2019, including as people became infected in Macau in this period, and for the time being a recovery cannot be expected. In September 2022, the Company obtained approval for technical regulations revised as of September 2021, and intends to resume trials at the stage when the market has recovered. The content of the regulation revisions is mainly aimed at the mass market, although there is also content focusing on VIP customers as before, and it is thought that these revisions will be beneficial for the Company.



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

Conversely, the Company has started to conduct sales activities in other regions as well. Specifically, in Malaysia, it has test installed casino machines into 2 halls and will progress to sales if the results are good. Also, it is at the stage of concluding an NDA and progressing negotiations with the relevant companies in order to convert its developed game software, such as social games, to online.

Although the business plan has been significantly delayed by COVID-19, if the developed products are appealing and can win a lot of support from customers, it is considered that they will contribute to earnings to a certain extent. We shall be paying close attention to developments in the future, including efforts to convert social games and other games to online.

Future growth strategy

The appearance of smart gaming machines is expected to revitalize the market, and at the same time, to progress the shift to an oligopoly of the major companies

1. Market trends

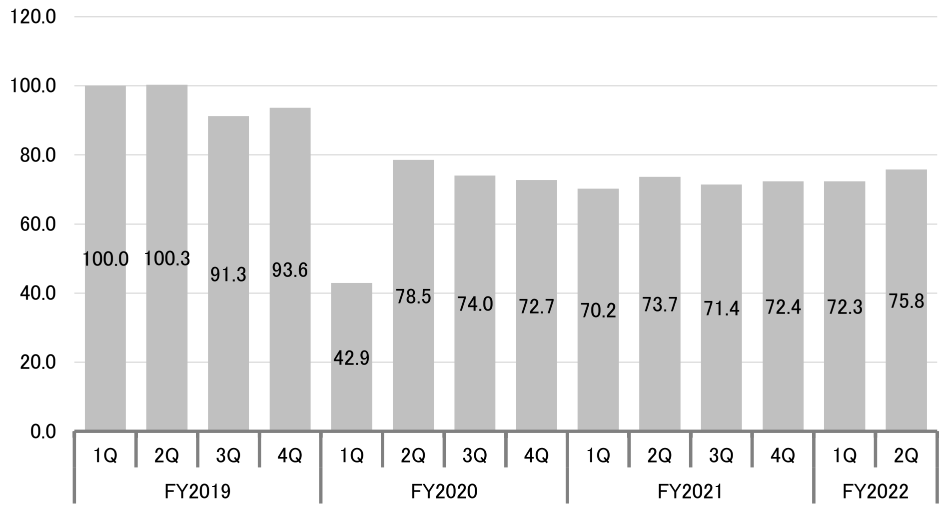
The pachinko market's long-term contraction trend is continuing. According to the "Leisure White Paper 2022" compiled by the Japan Productivity Center, in 2021 the pachinko and pachislot participation population was 7.2 million people, including due to the effects of COVID-19, while the market scale (ball rental fees) was ¥14.6 trillion. Compared to 2002 (21.7 million people, ¥30.4 trillion), the participation population has fallen to slightly more than 30% and the market scale to slightly less than 50%.

Reflecting this situation, the number of pachinko and pachislot halls is also trending downward. At the end of 2021, the number of halls had declined by 6.4% compared to the end of the previous year to 8,458 halls, which is a decline to around 50% of the level of 20 years' ago*. For the number of machines installed as well, pachinko machines declined by 3.9% compared to the end of the previous year to 2,338,000 units, while pachislot machines decreased 6.1% to 1,475,000 units, so the downward trend is continuing for both types of machine.

* Source: The National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2021"

According to statistics from the Ministry of Economy, Trade and Industry, pachinko hall sales bottomed-out in 1Q of 2020 (April to June), which is when the halls were forced to close due to COVID-19, and a recovery has been seen from FY2021 onwards. However, sales still remain only in the 70% range compared to their pre-COVID-19 level, and the strength of the recovery remains weak. In addition to the changes to the social environment such as the diversification of leisure, in the last few years some customers have stopped playing pachinko due to the strengthening of regulations relating to the machines' gambling appeal as a measure to prevent gambling addiction, and the impact of this has been further compounded by the COVID-19 pandemic.

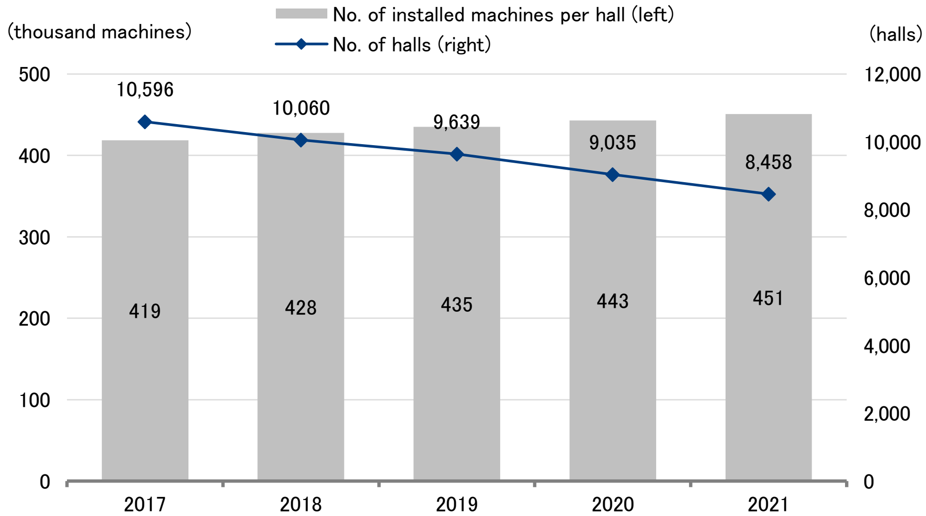
Pachinko halls' ball rental fee revenue index



Note: FY2019 1Q (April to June) as the standard (=100.0)
Source: prepared by FISCO from the Ministry of Economy Trade and Industry's "Current Survey of Selected Service Industries"

Due to this harsh market environment, a trend is continuing of closures of small- and medium-size halls that lack business strength, and it seems that the market share of the top five companies in terms of the number of halls rose from around 10% at the end of 2017 to approximately 13% at the end of 2021. This movement toward an oligopoly of the major companies can also be seen from the trend in the number of installed machines per hall that has been trending upward each year, rising from 419 units at the end of 2017 to 451 units at the end of 2021. Incidentally, at the end of September 2022, DYNAM's number of installed machines per hall was 474 units, which is slightly above the industry average.

Number of halls and installed machines per hall



Source: Prepared by FISCO from materials provided by the Company and the National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2021"

The current installations of smart gaming machines are expected to revitalize the market. For the industry, this is the biggest innovation since the installation of CR machines (installation of machines compatible with pre-paid cards) in 1992, and installations of these CR machines at that time caused the market to grow even further, so the industry has great expectations for smart gaming machines. However, installations of smart gaming machines require a dedicated unit (price per unit, ¥200,000), so they incur an initial investment cost. Therefore, they are being actively introduced by major companies with sufficient investment capacity that are able to increase the operating rate. But it is anticipated that the harsh business conditions will continue for small- and medium-sized halls that lack this investment capacity and the current situation is that these halls are giving up and closing, so that by October 2022, the number of halls had fallen to less than 8,000 halls. It seems that the pace of the decline in the number of halls will settle down from 2023 onwards, but the strategy of the major companies, including the Company, is to recover profitability by actively installing smart gaming machines, so at FISCO we expect that the shift to an oligopoly of the major companies will continue in the future.

By actively installing smart gaming machines, is aiming to secure a competitive advantage to realize an infrastructure as “daily entertainment” to make possible multi-hall development

2. Growth strategy

As its growth strategy in the pachinko business, the Company will work going forward on five themes: multiple-hall development, low playing cost operations, product development, data-driven approach, and cost management.

(1) Multi-hall operations

The impact of COVID-19 has become prolonged and the weeding-out of pachinko halls is progressing, and in this situation the Company’s policy for the time being is to work as a priority on recovering the profitability of its existing halls and then subsequently to expand hall openings while observing conditions, such as building costs. It will proactively consider an M&A if there is a proposal with good conditions. The buildings targeted for M&A are halls in the small- to medium-size class with 400 to 500 installed machines, and the conditions include that there are no Group halls nearby and that there is no cannibalization (stealing customers from its own halls).

In addition, the appearance of smart gaming machines is also expected to progress developments of new hall layouts. As previously explained, smart gaming machines do not require additional equipment, such as ball replenishing equipment, which creates a degree of freedom for the layout compared to the conventional uniform layout of placing the machines in a line, and this makes it possible to create halls that are highly entertaining. The Company’s vision is to transform the infrastructure of pachinko as “daily entertainment” and these machines could be the foothold toward realizing this. Furthermore, they can be installed in halls with a small installation space and can help to keep hall staff down to the absolute minimum, so going forward, it is considered that developments will include opening halls in small commercial areas and opening small-sized halls with dedicated smart gaming machines within buildings.

(2) Low playing cost operations

In general, the Company’s new halls will have low playing costs. It has stated a vision of making pachinko and pachislot a form of daily entertainment that everyone can enjoy freely as a part of the community infrastructure, and will increase the number of low playing cost halls to achieve this vision because it makes sense. An advantage of focusing on low playing cost halls is that the Company can open halls in small commercial areas thanks to its wide-ranging customer base.

(3) Product development

The Company will strengthen its product development of private-brand machines. Developing and introducing products matching customer needs will help with cost management, and will be positioned as an important strategy in terms of differentiating its halls from those of competitors.

(4) Data-driven approach

In its hall operations, the Company will advance efforts taking advantage of big data. Specifically, it will analyze customer needs based on playing data and customer data, and reflect the findings in pachinko and pachislot machine lineups and carry out sales promotion measures to raise the operating rate.

(5) Cost management

The Company will continue its efforts to standardize and improve efficiency in hall operations, effectively share information across all halls and strengthen hall earnings capabilities.

At FISCO, we believe that the consolidation in the pachinko hall industry by large companies will proceed, spurred by the introduction of smart gaming machines and the COVID-19 pandemic. As a part of this, we forecast that this will be a good opportunity to rekindle growth based on market share expansion for the Company, which has a wide range of customers as a result of its low playing cost business and due to the fact that it has firmly established low-cost operations. Although the Group currently is the leader in the industry in terms of its number of halls, its market share is approximately only 5%, and we feel there is ample room for growth through an expansion of its market share.

Income statement and key indicators

(¥mn)

	FY3/19 Full year	FY3/20 Full year	FY3/21 Full year	FY3/22 Full year	FY3/23 Interim period
Revenue	146,371	142,483	98,602	105,141	56,195
YoY	-3.8%	-2.7%	-30.8%	6.6%	10.4%
Operating expenses	128,024	122,311	97,564	94,911	52,915
YoY	-6.4%	-4.5%	-20.2%	-2.7%	16.9%
SG&A expenses	5,023	5,020	4,340	4,279	2,048
YoY	-0.5%	-0.1%	-13.5%	-1.4%	2.2%
Other income	8,971	8,446	11,561	9,114	4,950
Other operating expenses	2,953	2,084	1,531	4,411	2,301
Operating profit	19,342	21,514	6,728	10,654	3,881
YoY	11.5%	11.2%	-68.7%	58.4%	-42.2%
Financial income	471	461	286	426	173
Financial expenses	444	2,469	2,672	2,571	1,736
(Interim) Profit before income taxes	19,369	19,506	4,342	8,509	2,318
YoY	15.3%	0.7%	-77.7%	96.0%	-58.5%
Income taxes	6,778	6,759	1,991	3,532	1,135
(Interim) Net profit	12,591	12,747	2,351	4,977	1,183
YoY	15.2%	1.2%	-81.6%	111.7%	-65.4%
EBITDA	31,136	33,151	16,781	19,709	7,896
YoY	5.5%	6.5%	-49.4%	17.4%	-29.4%
EPS (¥)	16.4	16.6	3.1	6.8	1.6
Dividend per share (¥)	12.00	9.00	5.00	5.00	2.50

Source: Prepared by FISCO from the Company's annual (interim) report

Statement of consolidated financial position

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23 Interim period
Current assets	59,875	55,798	91,790	67,487	66,028
Cash and deposits	47,537	41,810	74,661	56,508	56,927
Trade receivables	614	554	361	332	371
Other	11,724	13,434	16,768	10,647	8,730
Non-current assets	125,457	221,441	209,283	225,934	235,388
Property, plant and equipment	95,445	105,206	96,415	118,648	129,380
Right-of-use assets	-	79,048	77,537	73,850	73,729
Intangible assets	3,112	3,623	3,348	3,440	3,410
Investments, other	26,900	33,564	31,983	29,996	28,869
Total assets	185,332	277,239	301,073	293,421	301,416
Current liabilities	36,452	44,028	59,812	47,324	49,555
Accounts payable	19,297	14,801	19,997	12,312	12,125
Short-term borrowings, etc.	2,124	3,008	11,380	12,945	15,146
Lease liabilities	227	12,185	12,040	11,245	10,939
Other	14,804	14,034	16,395	10,822	11,345
Non-current liabilities	7,080	98,479	109,289	115,115	118,912
Long-term borrowings	502	10,220	22,587	30,196	33,703
Lease liabilities	353	81,611	79,899	78,017	78,214
Other	6,225	6,648	6,803	6,902	6,995
Total liabilities	43,532	142,507	169,101	162,439	168,467
Total equity	141,800	134,732	131,972	130,982	132,949
Total liabilities and equity	185,332	277,239	301,073	293,421	301,416

Source: Prepared by FISCO from the Company's annual (interim) report

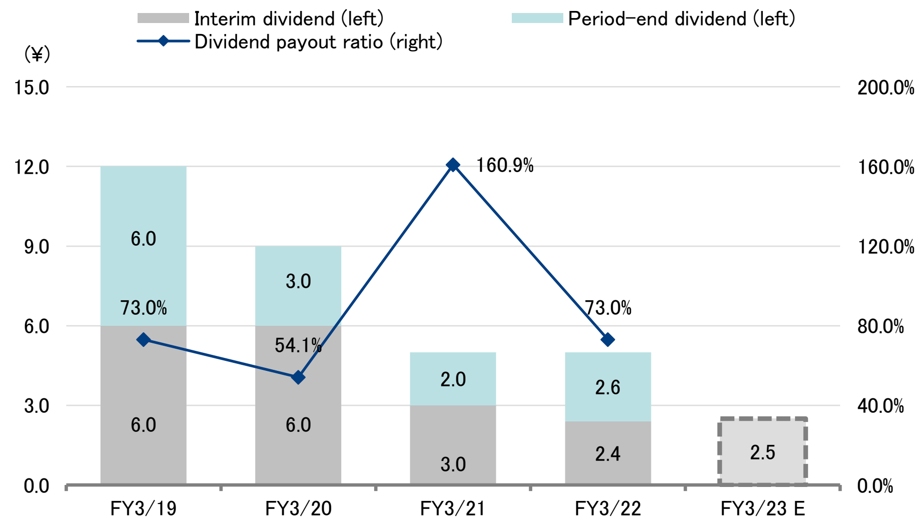
Returns to shareholders

Paid a FY3/23 interim dividend of ¥2.5 per share

The Company is highly conscious of the significance of returns to shareholders because it recognizes the importance of raising shareholder value in order to achieve sustainable growth. Based on this view, its policy is to not only pay stable dividends, but also to acquire treasury shares.

For the FY3/23 interim period's dividend per share, reflecting current earning conditions, the Company decided to increase it by ¥0.1 compared to the same period in the previous fiscal year to ¥2.5. Also, in this interim period, it purchased on the market 5,318,000 treasury shares (approximately 0.7% of all issued shares) and retired 5,385,000 treasury shares, so at the end of the interim period, it held 230,000 treasury shares.

Trends in dividend per share and the dividend payout ratio



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

ESG initiatives

Through ESG activities, the Company aims to grow sustainably and to maximize corporate value

The Company is earnestly continuing initiatives to increase value for all of its stakeholders, including investors, and has formulated clear policies from each of the perspectives of environment (E), social (S) and governance (G).

Based on its Group Philosophy of "A centurial commitment to building trust and encouraging dreams," the Group is advancing ESG initiatives with the ideal of achieving perpetual growth, and it discloses information in accordance with the latest international guidelines and the listing rules of the Hong Kong Stock Exchange for each category (Environment, Social, Governance). Furthermore, details about the Company's initiatives can be found on its website and in ESG Report 2022. Amid the attention being focused on ESG investing, this is expected to fulfill an important role as a tool for dialogue with investors.

1. Environmental initiatives

Based on its recognition that global environmental problems are shared by all humans, the Group works proactively to address environmental issues, centered on climate change, and aims to reduce its environmental impact. In addition, the Company complies with environmental laws, regulations and ordinances and practices continuous environmental management.

Economic activities are one of the causes of global environmental problems such as climate change, energy consumption, and pollution, and international targets have been set for global warming. The Group is addressing business operations in a decarbonizing society by striving to reduce CO_2 emissions caused by excessive energy consumption by using halls made from wood, which has a lower impact on the environment, appropriately managing energy consumption, advancing green IT and creating systems that do not generate waste or properly dispose of it if they do.

2. Social initiatives

The Group engages in initiatives aimed at “enhancing social value” through efforts targeting all stakeholders, including customers, communities, business partners, employees, and shareholders and investors.

The Company is carrying out a diverse range of initiatives aimed at “enhancing social value.” Such initiatives include creating the value of “pachinko as a form of daily entertainment,” providing services from the perspective of customers to under a management policy of a customer-first approach, addressing pachinko addiction, engaging in activities to promote pachinko as “local infrastructure,” developing private-brand machines with pachinko and pachislot machine manufacturers, developing human resources (including active participation by women), and holding more briefings for investors.

Activities under the slogan of “local infrastructure” include supporting the independence of the elderly, promoting employment in the community, responding to natural disasters and backing recovery, as well as supporting sports and schools, such as donating photocatalytic sprays to coat equipment in schools.

3. Governance initiatives

The Group has selected to be a “Company with a Nomination Committee, Etc.” and has established the three committees of the Nomination Committee, Remuneration Committee and Audit Committee. This Company with a Nomination Committee, Etc. assumes the role of executing decision-making and auditing functions for management decision-making, and to clarify supervisory functions and execution of duty functions. Also, in order to strengthen risk management throughout the Group, it has also established the Group Crisis Management Committee, and should a crisis occur, it has established a structure able to implement rapid decision making, information dissemination, and appropriate measures in response.

The latest information about the Group’s corporate governance is noted in detail in Annual Report issued every year. This information can also be found on the Company’s website.

FISCO

Disclaimer

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