

DYNAM JAPAN HOLDINGS Co., Ltd.

06889

Hong Kong Stock Exchange

4-Jul.-2024

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

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

■ Index

■ Summary	01
1. Status of FY3/24 results	01
2. FY3/25 business strategy	01
3. Pachinko business outlook	02
■ Company profile	03
1. History	03
2. DYNAM JAPAN HOLDINGS Group's features and strengths	03
■ Status of FY3/24 results	07
1. Overview of FY3/24 results	07
2. Financial condition	14
■ FY3/25 business strategy	16
1. Pachinko business	16
2. Aircraft leasing business	18
■ Pachinko market trends and outlook going forward	19
■ Returns to shareholders	22
■ ESG initiatives	23
1. Environmental initiatives	23
2. Social initiatives	24
3. Governance initiatives	24

Summary

Sustained recovery projected in the pachinko business driven by expansion of market share

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. Status of FY3/24 results

In the FY3/24 consolidated results, revenue increased by 11.2% year-on-year (YoY) to ¥130,363mn, increasing for the third consecutive year, while operating profit grew by 32.8% to ¥8,983mn as profit rebounded to increase for the first time in two fiscal years. The increase in revenue is attributable to the Company having achieved favorable performance with slot machines in the pachinko business and also having attained higher business revenue in the aircraft leasing businesses associated with an increase in the number of aircraft owned to 10 aircraft, up by 4 aircraft compared to the end of March 2023.

Whereas recovery on an operating profit basis has reached only just over 40% of FY3/20 (¥21,514mn) prior to the COVID-19 pandemic, operating profit before deducting gaming machine-related expenses (gaming machine-related depreciation + gaming machine purchase costs) recovered by over 80% to ¥43,835mn in FY3/24 against ¥53,569mn in FY3/20. The increase is largely attributable to recovery of hall profitability, achieved as a result of efforts that have involved optimizing the hall workforce and bringing tasks in-house through initiatives to revamp hall operations carried out since the outset of the COVID-19 pandemic. The Company has been steadily expanding its market share in terms of hall ownership amidst an ongoing decline in the total number of halls across the industry overall. The Company has 433 halls as of the end of FY3/24 for an increase of 4 halls relative to its holdings at the end of FY3/23, upon having acquired additional halls through M&A.

2. FY 3/25 business strategy

Under its future growth strategy for the pachinko business, the Company aims to achieve higher revenue. This will involve persisting with large-scale renovation of the Company's existing halls, increasing the number of smart slot machines and establishing pleasant gaming environments, addressing a range of customer needs by redoubling efforts to develop private-brand pachinko machines, and increasing the number of halls with substantial customer appeal. For the aircraft leasing business, the Company aims to achieve higher revenue by offering other companies various services (such as those involving aircraft procurement, lease management, and consulting) by utilizing its in-house aircraft lease management functions. The Company will also tap into robust investment needs in the aircraft leasing sector amid a scenario of escalating aircraft leasing demand brought about by recovery in passenger demand.

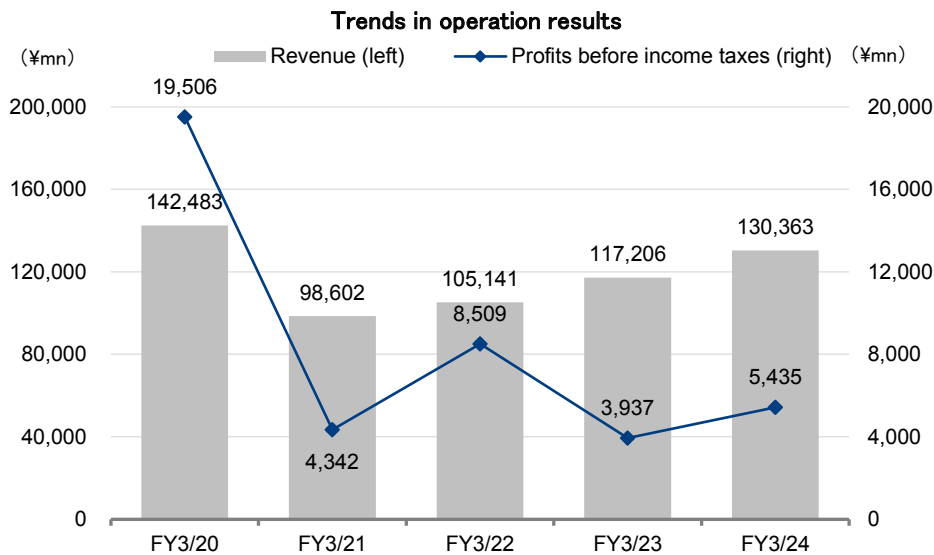
Summary

3. Pachinko business outlook

In the gaming hall industry, whereas smart slot machines propelled the market in FY3/24, there is likely to be a shift in focus toward developments involving smart pachinko machines in FY3/25 amid expectations of mounting demand prompted by easing of regulations in July 2024. Despite the notion that smart pachinko machines constitute just over 4% of machine installations in the industry as of May 2024, the shift of focus is likely given expectations of revenue growth amid a potential scenario where the percentage of operating time that machines are in use (operating rate) climbs upon successive releases of smart pachinko machine models that turn out to be hit products. However, the trend toward oligopoly in an industry dominated by large players remains unchanged as small and medium-sized halls are eliminated because of their lack of capacity to invest. Against that backdrop, FISCO believes that the Company is in a favorable position when it comes to the prospect of expanding its pachinko business over the next several years, in part given its top-ranking market share, albeit only about 6%, in terms of its number of halls as of December 31, 2023, and also given that it still has significant potential to achieve growth by expanding its market share.

Key Points

- FY3/24 brings double-digit revenue gain and upturn in profit for the first time in two fiscal years amid favorable results from smart slot machines and expansion of the aircraft leasing business
- Aiming to achieve greater hall profitability in FY3/25 in part by engaging in ongoing renovation of existing halls and installing more smart slot machines
- Looking toward favorable opportunities to increase pachinko hall market share over the next several years amid a scenario of progressive shift toward oligopoly dominated by major players



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 incorporate the most important concepts of modern management, such as a customer-first approach, information disclosure, and compliance, into its management philosophy, providing a foundation for its listing on the Hong Kong Stock Exchange in August 2012.

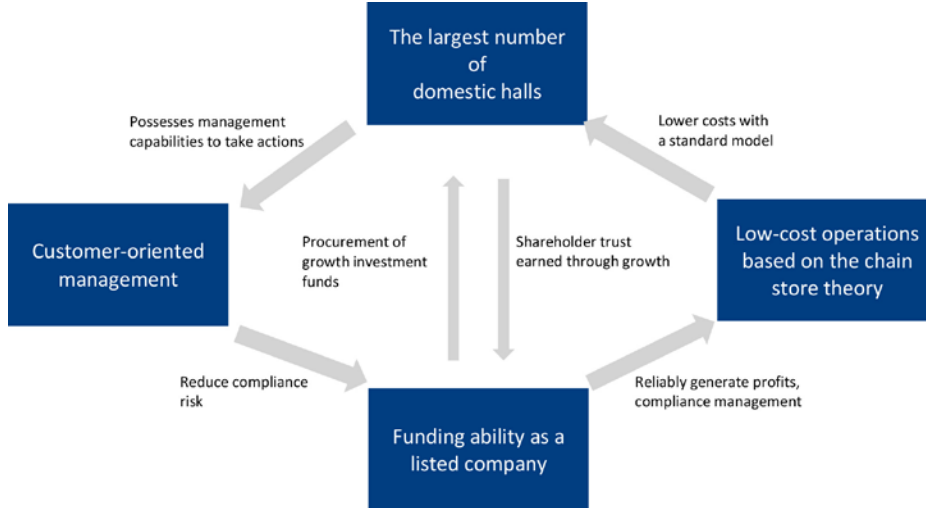
Established a robust management foundation that leverages four strengths, differentiates itself from other companies

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.

Company profile

Relationship among the four strengths of the Dynam Japan Holdings Group

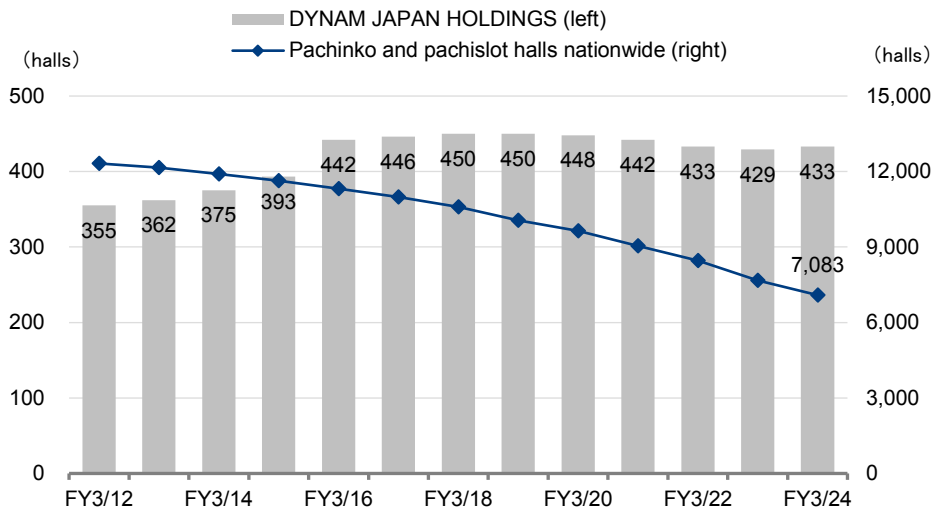


Source: Prepared by FISCO from interviews

(1) Domestic leader with 433 group halls

There were 7,083 pachinko and pachislot halls in Japan as of December 31, 2023 (down 582 YoY), according to National Police Agency materials, down by about 40% of the peak level in 1995 of 18,244 halls. Of these halls, the Company is the domestic leader with 433 group halls (as of the end of March 2024). 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 both seem to be around 6%. Its market share exceeded 1% in 2003, and the Company has increased its number of halls, including through M&A, and increased its market share amid the decrease in the overall number of halls in the industry. From FY3/20 onward, the number of halls declined for four straight fiscal years due to the closing of unprofitable halls caused by the deterioration in the market environment because of the COVID-19 pandemic, but in FY3/24 the Company acquired seven halls through M&A as the number of halls increased for the first time in six years, since FY3/18.

Trend in number of 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 2022"

We encourage readers to review our complete legal statement on "Disclaimer" page.

DYNAM JAPAN HOLDINGS Co., Ltd.

4-Jul.-2024

06889 Hong Kong Stock Exchange

<https://www.dyjh.co.jp/english/ir/index.html>

Company profile

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 realized economies of scale and proactively develops and deploys private-brand machines*. 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 gaming machines) and cutting 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 March 2024, 10.1% 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 is an outcrop from the chain store theory as well (explained below).

(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 as a feature of the Company because we at FISCO 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.

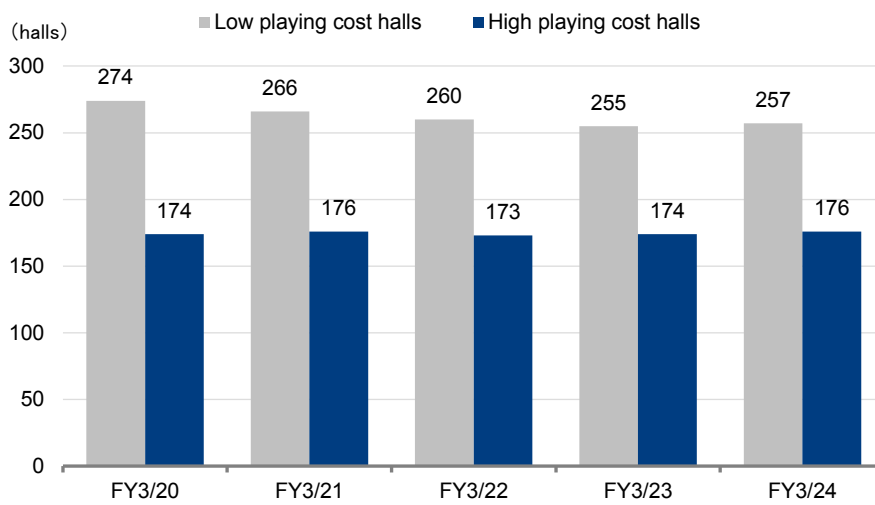
a) Low playing cost operations

Pachinko is a game played with rented balls, and low playing cost operations refer to a format in which ball rental fees have 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.

Company profile

At the end of March 2024, the Company had 257 low playing cost halls, which was 59.4% of its total halls. From FY3/21 onward, the downward trend continued as the Company continued closing unprofitable halls during the COVID-19 pandemic due to a decrease in the number of customers in the senior demographic, which is the main target, and had 17 fewer halls than in FY3/20. Although in the medium- to long-term it expects an increase in the elderly demographic, therefore has made no changes to its plans to increase the ratio of low playing cost halls. Continuing this strategy requires considerable corporate strength, and the strategy for this lies in multiple-hall development and low-cost operations.

Number of low-cost playing halls and high playing cost halls



Source: Prepared by FISCO based on the Company's 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 20pt 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.

Senior customers have been slow to return to halls since the onset of the COVID-19 pandemic, while younger- to middle-aged customers have increased markedly since the introduction of smart slot machines in November 2022. In the Company's case, slightly over 40% of customers are seniors, just under 40% of customers are in their 40s to 50s, while just under 20% are in their 10s to 30s. Therefore, the policy for the future is to create halls supporting a wide range of customer demographics.

Company profile

(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 1,500 companies are listed on stock markets as of the end of March 2024. 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.

Status of FY3/24 results

FY3/24 brings double-digit revenue gain and an upturn across all profit lines for the first time in two fiscal years amid favorable results from smart slot machines and expansion of the aircraft leasing business

1. Overview of FY3/24 results

In the FY3/24 results, revenue increased by 11.2% YoY to ¥130,363mn, operating profit increased by 32.8% to ¥8,983mn, profit before income taxes increased by 38.0% to ¥5,435mn, and net profit for the year rose by 88.3% to ¥3,385mn. Revenue increased for the third straight period, while all profit lines turned higher for the first time in two fiscal periods.

FY3/24 consolidated results

	FY3/23	FY 3/24	YoY		Remark
			Change	%	
Revenue	117,206	130,363	13,157	11.2%	
Revenue from pachinko business	114,331	124,480	10,149	8.9%	Pachinko 78,767 (-1,208), pachislot 45,712 (+11,357)
Revenue from aircraft leasing business	2,875	5,883	3,008	104.6%	The number of owned aircraft increased from 6 to 10
Operating expenses	112,318	121,923	9,605	8.6%	
Pachinko business expenses	110,484	118,673	8,189	7.4%	Machine-related expenses +6,001, repair expenses +1,044
Aircraft leasing business expenses	1,834	3,250	1,416	77.2%	Depreciation +599
SG&A expenses	4,309	4,176	-133	-3.1%	Company management expenses other than in the pachinko business and the aircraft leasing business
Other income	8,663	7,561	-1,102	-12.7%	FY3/23: Posting of compensation for removal of halls: 817, subsidy income from the government -385
Other operating expenses	2,478	2,842	364	14.7%	
Operating profit	6,764	8,983	2,219	32.8%	
Financial income	450	807	357	79.3%	
Financial expenses	3,277	4,355	1,078	32.9%	
Profit before income taxes	3,937	5,435	1,498	38.0%	
Tax expenses	2,139	2,050	-89	-4.2%	
Profit	1,798	3,385	1,587	88.3%	

Source: Prepared by FISCO from the Company's financial statements announcement, results briefing materials and annual report

Status of FY3/24 results

As the COVID-19 pandemic moved towards a closing, there was a recovery in customer visits, especially among younger- and middle-age customers, based on the popularity of smart slot machines which began to be introduced in November 2022, and pachinko revenue rose by 8.9%, and was the main reason for the increase in overall revenue. In the aircraft leasing business, the number of aircraft being leased increased from 6 a year earlier to 10, and due to this the revenue roughly doubled YoY, contributing to a 104.6% increase in revenue.

Although it appears that the Company mounted a lackluster recovery in operating profit when compared against results of FY3/20 prior to the COVID-19 pandemic (revenue of ¥142,483mn and operating profit of ¥21,514mn), the amount recorded for operating profit reflects a change in accounting treatment effective from FY3/22 whereby the Company capitalized a majority of its purchased gaming machines and depreciated the assets accordingly (straight-line depreciation over two years). The Company recorded machine costs of ¥27,753mn in FY3/20 and recorded machine costs and depreciation of ¥3,156mn and ¥35,420mn, respectively, in FY3/24. The depreciation amount reached a peak in FY3/24 (and is poised to decrease from FY3/25 onward) due to a surge in depreciation mainly attributable to bulk replacement of gaming machines in alignment with the deadline for phasing out machines that are subject to the former regulations on January 31, 2022, and also as a result of the Company actively making purchases of smart slot machines. Meanwhile, operating profit before deducting gaming machine-related expenses (gaming machine-related depreciation + gaming machine purchase costs) recovered by over 80% to ¥43,835mn in FY3/24 against ¥53,569mn in FY3/20.

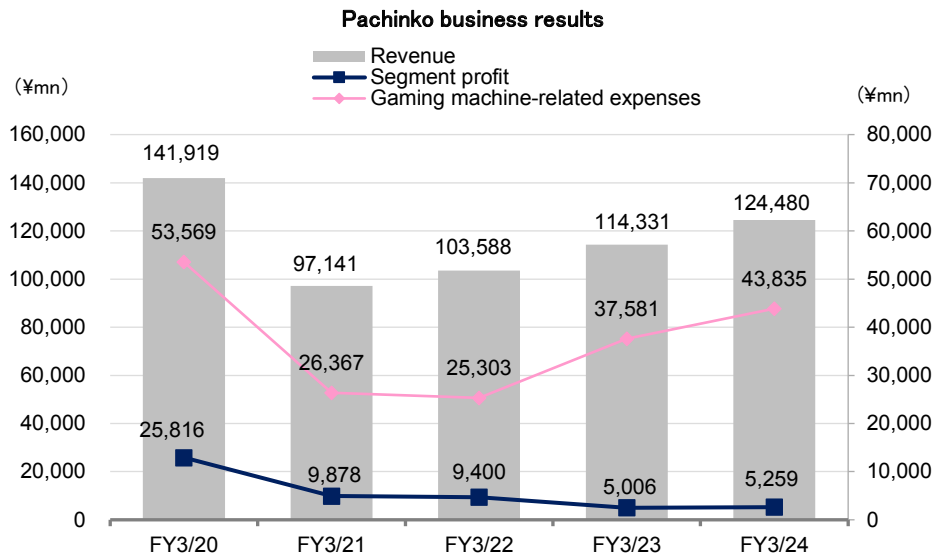
Other income decreased by ¥1,102mn YoY. The decrease is mainly attributable to non-recurrence of ¥817mn in compensation for removal of halls posted in the year-earlier period and a decline of ¥385mn in subsidy income from the government. Other expenses increased by ¥364mn. Meanwhile, the balance of financial income and expense deteriorated by ¥721mn YoY. This is primarily attributable to a ¥28,157mn YoY increase in interest-bearing debt associated with financial institution borrowings earmarked for aircraft procurement.

The number of group halls at the end of FY3/24 was 433, an increase of 4 halls compared to the end of FY3/23. The Company acquired seven halls through M&A and also closed three unprofitable halls. Moreover, the number of employees on a consolidated basis decreased by 230 YoY to 12,492 employees at the end of FY3/24 as a result of efforts taken to standardize and streamline operations.

(1) Pachinko business

In the pachinko business, revenue increased for a third consecutive fiscal year, up by 8.9% YoY to ¥124,480mn. Segment profit (profit before income taxes) gained for the first time since the COVID-19 pandemic, having risen by 5.1% to ¥5,259mn. Looking at the revenue breakdown, revenue attributable to pachinko languished at a decrease of 1.5% YoY to ¥78,767mn, but revenue attributable to slot machines gained significantly by 33.1% to ¥45,712mn. In smart slot machines, revenue increased due to a higher machine operating rate upon successive releases of popular machine models such as the highly successful Fist of the North Star (Hokuto no Ken) smart slot machine, and also due to a higher number of installed slot machines as part of the Company's business strategy (machines added at 131 halls). Looking at the number of installed machines as of the end of FY3/24, the number of installed pachinko machines was down by 0.1% YoY while the number of installed slot machines was up 14.0% (sum total of installed machines rose by 4.2% due to increase in the number of halls). Looking at changes in revenue by hall type, revenue increased by 4.4% YoY to ¥58,466mn with respect to high playing cost halls. Meanwhile, results associated with low playing cost halls was favorable, increasing by 13.2% to ¥66,014mn.

Status of FY3/24 results



* Gaming machine-related expenses = gaming machine purchase costs + gaming machine-related depreciation
Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

The rate of segment profit growth fell below that of the revenue growth rate mainly because the Company incurred an additional ¥1,044mn in repair expenses relative to the previous fiscal year as a result of it having substantially renovated 10 large halls, which was in addition to an increase of ¥6,001mn in machine-related expenses, as mentioned previously. In comparing earnings levels to those of FY3/20 prior to the COVID-19 pandemic, whereas revenue has recovered to 88% of the FY3/20 level, segment profit remains at only 20% of the FY3/20 level. However, profit before deducting gaming machine-related expenses marked double-digit growth of 16.6% YoY to ¥43,835mn, which constitutes recovery to 82% of the FY3/20 level. The profit margin declined from 37.7% in FY3/20 to 24.4% in FY3/22, but rebounded to 35.2% in FY3/24.

The recovery in profitability is largely attributable to progress the Company has achieved in optimizing the hall workforce and reducing total work hours through initiatives carried out to revamp hall operations, as well as success the Company has achieved in bringing outsourced tasks in-house. Changes in ratios of major operating expense items to revenue relative to those of FY3/20 are such that the ratio of hall personnel expenses to revenue decreased by 2.8pt to 30.5% from 33.3% in FY3/20, and the ratio of cleaning expenses to revenue was reduced to 2.0% from 2.7% in FY3/20. Conversely, the ratio of utilities expenses to revenue rose to 5.7% from 3.9% in FY3/20, but that increase is mainly attributable to escalating electricity rates since 2023. However, the ratio decreased by 0.7pt relative to FY3/23, thereby declining by ¥190mn in actual terms. The decrease is mainly due to a situation where the Company achieved greater energy-saving performance as a result of it having upgraded to the latest BEMS* at all halls.

* The Building Energy Management System (BEMS) enables centralized management of data associated with energy within buildings, including that pertaining to indoor environments and usage of facilities such as air conditioning, lighting and ventilation, with the aim of conserving energy.

Status of FY3/24 results

Ratio of pachinko business expenses to revenue

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	YoY	vs FY3/20
Total expenses	85.9%	99.5%	90.7%	96.6%	95.3%	-1.3pt	9.4pt
Hall personnel expenses	33.3%	42.6%	38.3%	32.7%	30.5%	-2.3pt	-2.8pt
Depreciation	7.2%	9.7%	20.3%	31.7%	34.8%	3.1pt	27.6pt
Gaming machine purchase costs	19.6%	17.0%	3.1%	3.4%	2.5%	-0.8pt	-17.1pt
Depreciation of right-of-use assets	7.3%	10.2%	9.0%	7.8%	7.2%	-0.6pt	-0.1pt
Repair expenses	2.4%	1.8%	2.2%	2.3%	2.9%	0.7pt	0.5pt
Utilities expenses	3.9%	4.8%	4.9%	6.3%	5.7%	-0.7pt	1.8pt
Cleaning expenses	2.7%	3.2%	2.4%	2.1%	2.0%	-0.1pt	-0.7pt
Advertising expenses	2.4%	1.8%	2.8%	2.6%	2.3%	-0.3pt	-0.1pt
Other	7.1%	8.4%	7.9%	7.6%	7.2%	-0.4pt	0.1pt

Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

Looking at per-hall profitability indicators, revenue increased by 7.9% YoY to ¥287mn and profit before deducting gaming machine-related expenses rose by 15.6% to ¥101mn amid a scenario where the Company achieved improvement in its profit margin by controlling its ratio of personnel expenses to revenue. Furthermore, with the number of installed machines per hall having increased to 493 machines in FY3/24 against 470 machines in FY3/20, halls are tending to become somewhat larger.

Per-hall profitability indicators

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	YoY	vs FY3/20
Revenue	317	220	239	267	287	7.9%	-9.2%
Profit before deducting gaming machine-related expenses	120	60	58	88	101	15.6%	-15.3%
vs revenue	37.7%	27.1%	24.4%	32.9%	35.2%		
Hall personnel expenses	106	94	92	87	88	0.4%	-17.0%
vs revenue	33.3%	42.6%	38.3%	32.7%	30.5%		

Note: Number of halls refers to number of halls as of the end of FY3/24.

Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

Looking at the results of DYNAM Co., Ltd., which is the Group's core company, revenue increased by 9.0% YoY to ¥117,162mn, operating profit increased by 148.3% to ¥3,541mn, ordinary profit grew by 96.1% to ¥3,582mn, and net profit for the year increased by 83.8% to ¥1,673mn. While there were slight differences due to Japanese accounting standards, the factors for the increases and decreases were basically the same as for the consolidated results.

Status of FY3/24 results

DYNAM's FY3/24 results (using Japanese accounting standards)

(¥mn)

	FY3/23	FY3/24	YoY		Revenue
			Change	%	
Revenue	107,500	117,162	9,662	9.0%	Pachinko -864, slot machines +10,102, revenue from vending machines, etc. +424
SG&A expenses	106,074	113,621	7,547	7.1%	
Machine-related expenses	29,107	35,183	6,076	20.9%	Pachinko and pachislot machine depreciation: 32,548 (+6,188)
Utilities expenses	6,612	6,468	-144	-2.2%	
Personnel costs	34,280	35,014	734	2.1%	
Repair expenses	2,341	3,344	1,003	42.8%	
Other costs	33,734	33,612	-122	-0.4%	
Operating profit	1,426	3,541	2,115	148.3%	
Ordinary profit	1,827	3,582	1,755	96.1%	
Extraordinary profit	912	-	-	-	FY3/23: Posting of compensation for removal of halls: 817
Extraordinary loss	1,143	805	-338	-29.6%	Decrease in impairment losses: -643
Interim profit	910	1,673	763	83.8%	
Main KPIs (key performance indicators)					
No. of halls	392	397			7 halls opened (acquired via M&A), 2 halls closed
Pachinko machine operating rate*1	29.5%	28.0%			Gap with competitors: +2.1pt*2
Slot machine operating rate*1	24.1%	28.0%			Gap with competitors: -4.1pt*2
No. of machines	185,433	194,108			Installed machine share: 5.7%
Smart pachinko machines	0	3,673			Ratio of total installed pachinko machines: 2.8%
Smart slot machines	4,956	18,810			Ratio of total installed slot machines: 29.4%
Number of private-brand machines	13,127	13,202			Private-brand machine installation rate: 10.1%*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, 2023 to September 30, 2023)

*2 Figures for competitors are calculated based on customer count surveys conducted at 1,200 halls located near DYNAM halls nationwide

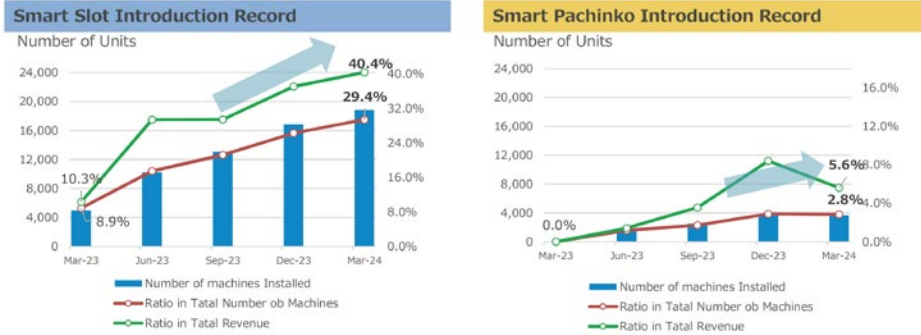
*3 Installation ratio is the ratio of all installed pachinko machines

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

The number of halls at the end of FY3/24 was 397, an increase of 5 compared to the end of FY3/23. The Company acquired 7 halls through M&A and also closed 2 unprofitable halls. The number of installed gaming machines increased by 4.7% to 194,108 units due to the increase in the number of halls, thereby accounting for an industry market share of 5.7% in terms of the number of installed machines. Of these, looking at smart machines, there were 3,673 smart pachinko machines for an installation ratio of only 2.8%, while there were 18,810 smart slot machines, increased significantly by 4,596 units from the end of the previous fiscal year, for an installation rate of 29.4%. This reflects a situation where the Company actively proceeded with machine purchases centered on popular models with potential to lead to high operating rates. The Company's ball fee revenue ratio reflects the high operating rates of smart slot machines (percentage of time in use) in that smart slot machines accounted for 40.4% of ball fee revenue attributable to slot machines as of March 2024. Meanwhile, smart pachinko machines accounted for 5.6% of ball fee revenue attributable to pachinko machines. This is higher relative to the ratio of installed smart pachinko machines, but falls within the margin of error. This suggests that FY3/24 was a year during which earnings recovery hinged on the extent to which the Company offered popular smart slot machine models.

Status of FY3/24 results

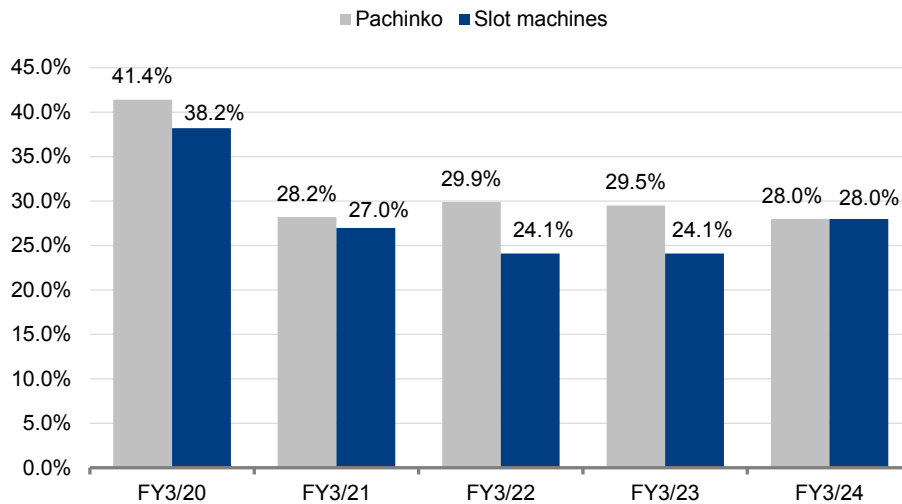
Installations of smart gaming machines



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

The reason why installation of smart pachinko machines did not progress was that the gaming specs were not significantly different from previous models and there was not enough differentiation, and the manufacturing cost increased due to the need to install a new ball circulation system inside the machine. Thus, there was limited activity on the part of the manufacturers to release main titles, and with limited investment capacity on the part of the halls, the Company prioritized the introduction of smart slot machines, which are expected to see have high operating rates. Reflecting this situation, the Company's halls also encountered an increase of 3.9pt YoY with respect to the operating rate of slot machines, against a decrease of 1.5pt with respect to the operating rate of pachinko machines.

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.)

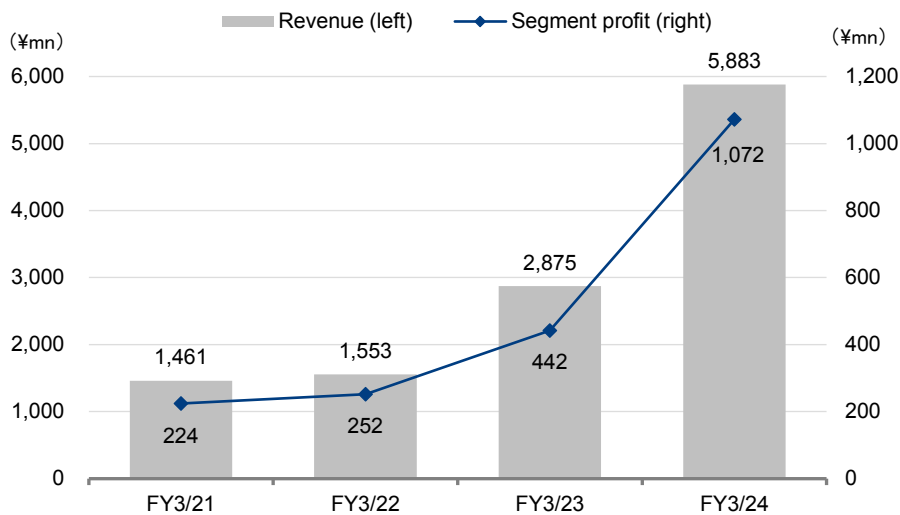
Source: Prepared by FISCO from the materials provided by the Company and the Company's results briefing materials

Status of FY3/24 results

(2) Aircraft leasing business

In the aircraft leasing business, revenue and profit increased significantly with revenue having increased by 104.6% YoY to ¥5,883mn and segment profit increasing by 142.5% to ¥1,072mn. The aircraft leasing business operates subsidiary Dynam Aviation Ireland Limited (DYNAM Aviation) enlisting a team of nine experienced specialists including Japanese nationals. DYNAM Aviation engages in leasing operations with a focus on narrow-body aircraft (AIRBUS A320 series and The Boeing Company<BA>'s B737 series, etc.) with potential for consistent demand given their substantial liquidity. In FY3/24, it began providing aircraft lease management services involving aircraft owned by other companies upon having established a framework for handling previously outsourced aircraft lease management operations in house.

Results for aircraft leasing business



Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

The increase in revenue is mainly attributable to commencement of leasing operations upon having made purchases of 4 new aircraft. Accordingly, the size of the leased aircraft fleet was increased to 10 aircraft from 6 aircraft at the end of FY3/23. Of the four additional aircraft, two were leased to Indian LCC IndiGo, and the other two were leased to Hungarian LCC Wizz Air Hungary Ltd. The newly launched aircraft lease management services contributed to the increase in revenue given that the Company has undertaken management services involving seven aircraft owned by other companies. Aircraft leasing business expenses rose by ¥1,416mn YoY to ¥3,250mn, mainly due to the increase in depreciation (up ¥1,275mn) accompanying the purchase of new aircraft. Meanwhile, the balance of financial income and expense deteriorated by ¥951mn due to an increase in borrowings. The fleet value of the aircraft is ¥81,363mn for an increase of 97.8% YoY, the average remaining lease period is 6.0 years, and the annualized gross rate of return is 8.1%.

Status of FY3/24 results

Ownership of aircraft assets

	End of-1H FY3/23	End of-FY3/23	End of-1H FY3/24	End of-FY3/24
Aircraft owned/managed	4	6	13	17
Owned	4	6	9	10
Managed	0	0	4	7
Average age	2.5	2.1	1.7	1.9
Average lease period (years)	4.5	5.3	5.8	6.0
Average yield (%)*	8.3%	8.1%	8.2%	8.1%
Aircraft asset balance (¥mn)	28,249	41,130	72,437	81,363

* Gross rate of return, annualized

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

Increase in interest-bearing debt due to purchases of new aircraft, but trajectory of gradual improvement going forward

2. Financial condition

At the end of FY3/24, total assets had increased by ¥40,437mn compared to the end of the previous period to ¥366,045mn. The main change factors were a decrease in cash and deposits by ¥9,496mn in conjunction with new purchases of aircraft, along with a ¥4,370mn decrease in gaming machine assets, a ¥40,233mn increase in aircraft assets, a ¥7,388mn increase in right-of-use assets, and a ¥3,271mn increase in intangible assets. The increase in right-of-use assets is attributable to M&A and leased real estate contract renewals. The balance of gaming machine assets decreased from ¥36,281mn relative to the end of the previous fiscal year to ¥31,911mn. Additionally, depreciation is poised to start decreasing from its peak in the previous fiscal year, given that the actual gaming machine purchase amount has decreased for a second consecutive fiscal year and also given that the Company plans to curb spending on gaming machine purchases again in FY3/25 at this stage.

Total liabilities increased by ¥37,376mn relative to the end of the previous fiscal year to ¥234,557mn. This was mainly due to increases in interest-bearing debt by ¥28,157mn largely due to purchase of aircraft, while lease liabilities increased ¥6,311mn due to M&A and leased real estate contract renewals.

Total equity increased by ¥3,061mn from the end of the previous fiscal year to ¥131,488mn. This was mainly due to recording of profit attributable to owners of parent of ¥3,384mn and a ¥5,448mn increase in foreign currency translation adjustments due to depreciation of the yen, offset by ¥3,545mn in dividend payments and ¥1,353mn for purchase and retirement of treasury shares.

Regarding cash flow conditions, cash flows from operating activities were positive ¥64,877mn, while cash flows from investing activities were negative ¥83,628mn (¥78,084mn from acquisition of property, plant and equipment), and free cash flows was negative ¥18,751mn. While cash flows from financing activities were positive ¥8,726mn due to bank borrowings, cash and cash equivalents decreased by ¥9,496mn from the end of FY3/23 to ¥50,109mn through increased expenditure including purchase of aircraft.

Status of FY3/24 results

The Company's financial position deteriorated somewhat amid a scenario where the equity ratio declined from 39.4% at the end of FY3/23 to 35.9% mainly due to an increase in interest-bearing debt, and also because the already negative net cash balance (cash and deposits – interest-bearing debt) expanded further from ¥12,562mn in FY3/23 to ¥50,215mn. Whereas this is mainly due to increased borrowings in the aircraft leasing business, the Company has turned to non-recourse loans when it comes to its borrowings related to aircraft purchases. The Company has accordingly mitigated its risk associated with such borrowings given that its repayments are determined solely based on cash flows from the aircraft leasing business under agreement stipulating that it is to assume no repayment obligation beyond that scope. We at FISCO contend that the Company's financial situation is likely to gradually improve from FY3/25 onward due to the prospect of stable yields in the aircraft leasing business along with a persisting recovery trend in the mainstay pachinko business.

Consolidated financial condition

	End of-FY3/23	End of-FY3/24	Change	Change items
Total assets	325,608	366,045	40,437	Cash and deposits (-9,496), aircraft (+40,233), gaming machines (-4,370), other property, plant and equipment (+622), right-of-use assets (+7,388)
(Cash and deposits)	59,605	50,109	-9,496	
Total liabilities	197,181	234,557	37,376	Interest-bearing debt (+28,157), lease liabilities (+6,311), accounts payable and accrued expenses (+172)
(Interest-bearing debt)	72,167	100,324	28,157	
(Interest-bearing debt/ Recourse loans)	47,090	51,661	4,571	
(Interest-bearing debt/ Non-recourse loans)	25,077	48,663	23,586	
Total equity	128,427	131,488	3,061	Profit attributable to owners of parent 3,384, dividend payments -3,545, other comprehensive income, etc. 3,222
(Equity ratio)	39.4%	35.9%	-3.5pt	
(Net cash)	-12,562	-50,215	-37,653	Purchase of 4 new aircraft, etc. in the aircraft leasing business

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

Cash flow statement

	FY3/23	FY3/24	YoY
Cash flows from operating activities	54,660	64,877	10,217
Cash flows from investing activities	-64,994	-83,628	-18,634
Free cash flows	-10,334	-18,751	-8,417
Cash flows from financing activities	12,712	8,726	-3,986
Cash and cash equivalents at end of period	59,605	50,109	-9,496

Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

FY3/25 business strategy

Aiming to achieve greater hall profitability in FY3/25 in part by engaging in ongoing renovation of existing halls and installing more smart slot machines

1. Pachinko business

(1) Business strategy

The Company aims to achieve higher revenue and profit enlisting a three-pronged business strategy for FY3/25 encompassing objectives that entail: 1) improving hall profitability by persisting with large-scale renovation of the Company's existing halls that may benefit from investment effect, 2) addressing customer needs by redoubling and augmenting efforts to develop private-brand gaming machines, and 3) creating sustainable halls designed with the global environment in mind (measures to address climate change).

Building on improvements achieved in profitability of halls that were subject to renovation in FY3/24, the Company is persisting with efforts that involve renovating halls that have investor return potential and adding more smart slot machines with substantial customer appeal. Moreover, the Company seeks to attract greater numbers of hall visitors, including senior citizens, by improving hospitality. The Company also plans to develop and release several private-brand pachinko machine models.

As for halls designed with the global environment in mind, the Company has implemented the Building Energy Management System (BEMS) and installed LED lighting at all of its halls and has also finished equipping 313 halls with EV charging stations. In FY3/25, the Company plans to install solar panels at its halls (solar panels to be installed at 40 halls in FY3/25 1H). The Company will successively install solar panels at more hall locations after having equipped one hall with solar panels in the previous fiscal year on an experimental basis and verified their effectiveness in curbing electric utility costs.

(2) Openings policy

Under its plans for opening new halls, the Company continues to explore M&A possibilities with respect to prime properties as they become available on the market, and will prudently make decisions in that regard taking into account its financial condition. On the other hand, the Group has announced the closure of four halls by early June (one each in Shiga, Okayama, Tottori, and Gunma).

(3) Trends in the pachinko industry

FISCO deems that the notion of further revitalization in the pachinko industry hinges on potential momentum of pachinko after having languished in the previous fiscal year. In seeking to stimulate pachinko demand, the pachinko industry has moved to allow the so-called “Lucky Trigger*” (LT) feature on light-middle machines and high jackpot probability machines with a jackpot winning probability of 1/200 or more. Whereas some such machine models have attracted attention and become popular, this change has not culminated in a significant increase in overall volume of machine use. Therefore, deregulation with respect to the LT feature will be limited to smart pachinko machines effective from July 2024. Specifically, easing restrictions imposed on the LT activation percentage will result in higher expected value in terms of winning a large number of pachinko balls. This deregulation is likely to allow for a greater range of game playability while also making it easier for manufacturers to develop appealing machine models. Developments from the latter half of 2024 onward warrant attention with respect to the notion that this deregulation may result in an increasing number of smart pachinko machines equipped with the LT feature among the main game titles.

* The term “Lucky Trigger” refers to a feature of upper-level RUSH mode, or trigger for the mode, with the expected payout of fewer than 9,600 balls, whereby the expected value with respect to pachinko balls paid out is increased to a level on par with middle machines.

(4) Outlook for expenses

The Company plans to reduce the amount spent on purchasing gaming machines in FY3/25 compared to FY3/23. This is because the Company needs to invest in updating related equipment given that the government will begin putting new banknotes into circulation starting from July 2024. The Company’s amount of investment encompassing the new banknotes will be at a level on par with that of the previous fiscal year. However, the Company could conceivably increase purchases of smart pachinko machines amid a scenario where a greater number of machine models with substantial customer appeal are released in association with LT feature deregulation effective from July. The Company spends roughly 20% to 25% of its revenue (gross profit) on gaming machine purchases. Meanwhile, gaming machine-related depreciation is poised to start decreasing from its peak of ¥35.4bn in the previous fiscal year, thereby settling to around ¥30bn at a level nearly on par with the actual purchase amount in FY3/26.

Personnel expenses are expected to rise slightly relative to the previous fiscal year. It appears that the Company will keep its hall workforce size largely unchanged upon having wrapped up its initiatives to revamp hall operations, but it is likely to increase bonus payment amounts. Repair expenses are likely to remain largely unchanged relative to the previous fiscal year due to ongoing hall renovation. Meanwhile, utilities expenses are likely to decrease somewhat due to energy savings attributable to BEMS and adoption of solar power. The Company also plans to keep other expenses down.

(5) Characteristics and advantages of introducing smart gaming machines

The features of smart gaming machines, which started to be introduced from November 2022 is that you can play without directly touching the medals or balls. Pachinko balls circulate within the machine, while slot machines do not use medals and all information about the balls/medals paid out is stored as electronic information. In addition, information on gaming machine installations and balls/medals paid out is sent and centrally managed by a gaming machine information center, thereby promoting the industry’s soundness.

The advantages of smart gaming machines for users are that due to deregulation, the degree of freedom in developing gaming machines has increased, and the specifications have been significantly improved, increasing expectations for winning balls and medals, as well as game playability, and that machines do not require balls or medals. With this, users feel an increased sense of convenience as well as feel more secure in preventing the spread of infectious diseases

FY3/25 business strategy

In terms of merits for halls, carrying and washing balls and medals will be unnecessary, which will lead to a reduction in work for hall staff, and island equipment (equipment to replenish the rented balls, etc.) will be unnecessary. As a result, new halls' initial investment costs will decline, and existing halls' running costs will be reduced. Furthermore, because hall layouts will become freer, it will be possible to create innovative halls unbound by existing concepts, which will create room to cultivate new types of customers.

For the overall gaming industry, information on balls paid out is centrally managed by an external third-party organization. This enhances security, eradicates illegal games and helps to prevent addiction. By the industry becoming healthier, it is expected that the game-playing population will increase.

As of May 2024 for the industry as a whole, the ratio of smart slot machines was in the 40% range, while the ratio of smart pachinko machines was just over 4%. The speed of spread has been a little slower than initially expected, but there has been no change to the direction for the replacement of all machines with smart gaming machines going forward. As a result, the Company plans to proceed with well-timed investment in a manner that ensures it does not miss out on business opportunities as it monitors developments regarding smart gaming machines going forward.

Embarking on development of revenue sources beyond lease income in the aircraft leasing business

2. Aircraft leasing business

With the airline industry recovery continuing in the wake of the COVID-19 pandemic, the number of air passengers is poised to keep increasing from 2024 onward. With the prospect of expansion in short-haul traffic, demand for long-body, narrow aircraft (such as the Airbus A320 series and Boeing B-737 series) is expected to increase as long-body aircraft have a longer fuselage and can seat more passengers.

Amid this scenario, the Company aims to achieve further earnings growth while continuing efforts that involve leasing of mainly next-generation narrow-body aircraft equipped with fuel-efficient engines to blue-chip airlines, and controlling risk by diversifying its portfolio in terms of attributes such as aircraft type and age, lease period, lessee airline, and region. In the medium term, the Company's objective is to increase its fleet to 30 aircraft from 17 currently through its leasing and management services combined.

In FY3/25, the Company will focus on developing peripheral services related to aircraft leasing. Specifically, the Company will generate fee and commission income by furnishing other companies with its accumulated expertise (aircraft procurement, lease management, re-leasing, advice/proposals, market trends and know-how), in addition to providing its aircraft lease management services launched in the previous fiscal year. In Japan, the Company will provide services to the nation's many investors interested in aircraft leasing. As a first step, the Company held a seminar targeting hall management enterprises in April 2024 jointly with its business partner Indigo and Airbus. Going forward, the Company intends to continue offering investors various forms of information and investment opportunities related to aircraft leasing.

The Company is poised to achieve double-digit revenue growth in FY3/25 as a result of lease fees generated from four aircraft newly leased out in the previous fiscal year contributing to full-year results. Segment profit is also likely to increase despite an upturn in financial expenses.

Pachinko market trends and outlook going forward

Looking toward favorable opportunities to increase pachinko hall market share over the next several years amid a scenario of progressive shift toward oligopoly dominated by major players

The pachinko market's long-term contraction trend is continuing, due to the diversification of leisure and stronger restrictions to suppress gambling attractiveness to address addiction. According to the "Leisure White Paper 2023" compiled by the Japan Productivity Center, in 2022 the pachinko and slot participation population was 7.7 million people, rising for the second straight year, but still not recovered to 8.9 million people in 2019, prior to the COVID-19 pandemic. The market scale (ball rental fees) was ¥14.6tn, staying flat for the second consecutive year. Compared to 2002 (21.7 million people, ¥30.4tn), the participation population has fallen to 35%, and the market scale to slightly less than 48% of the 2002 levels.

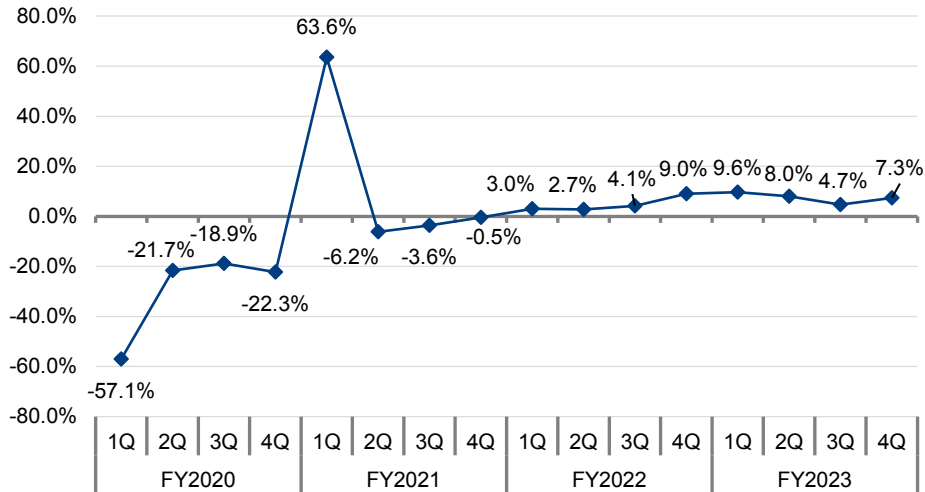
Reflecting this situation, the number of pachinko and pachislot halls is also trending downward with the outbreak of the COVID-19 pandemic having made management conditions even harsher, and furthermore with the growing demand for capital with the appearance of smart pachinko machines from 2022, it accelerated the trend for closures increasing, mainly of small- to medium-sized halls without ability to invest in smart slot machines. At the end of 2023, the number of halls had declined by 585 halls YoY to 7,083 halls, which is a decline to less than 40% of the level of 1995 *. For the number of gaming machines installed as well, a downward trend persisted with respect to pachinko and pachislot machines alike with the number of pachinko machines having declined by 5.8% compared to the previous year to 2,077,000 units and the number of pachislot machines having decreased by 0.8% to 1,347,000 units. The decrease in the number of pachislot machines was marginal due to robust performance of smart slot machines.

* Source: The National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2022"

According to statistics from the Ministry of Economy, Trade and Industry's "Current Survey of Selected Service Industries," pachinko hall gross sales (ball fee revenue) have been mounting a modest recovery in terms of achieving single-digit growth over eight consecutive quarters since having turned to positive year-on-year gains in FY2022 1Q (April to June). The lack of growth in the market overall is seemingly attributable to a scenario of enterprises withdrawing from the market and closing halls.

Pachinko market trends and outlook going forward

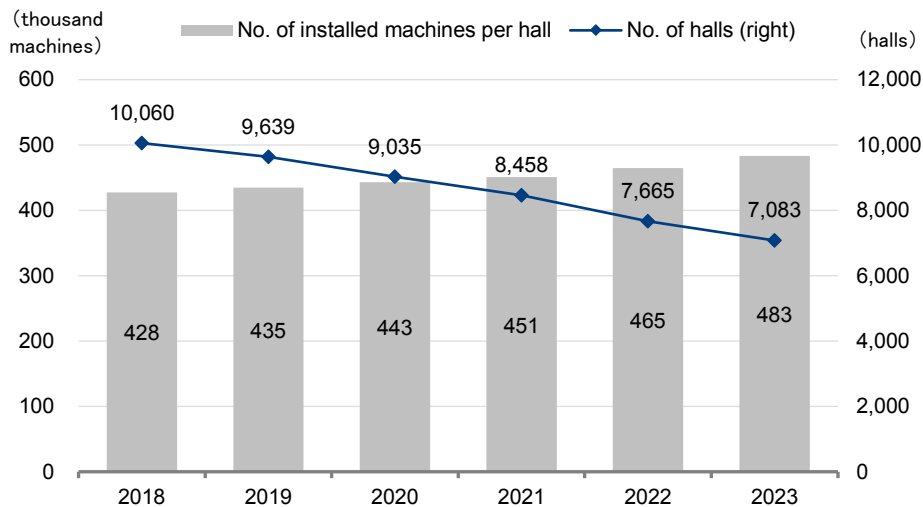
Pachinko hall ball fee revenue growth rate (YoY)



Source: Prepared by FISCO from the Ministry of Economy Trade and Industry's "Current Survey of Selected Service Industries"

Amid these circumstances, an oligopoly of the market by major companies with financial strength is predicted to become even stronger. In fact, the market share of the top five companies by number of halls increased from about 11% at the end of 2018 to about 15% at the end of 2023. Although the number of halls of the top five companies has been decreasing since 2020, the extent of decrease has been marginal with the exception of Gaia Co., Ltd., which is now in the process of restructuring after having been subject to bankruptcy. Moreover, looking at the trend in the number of installed machines per hall in the industry, the industry appears to be becoming more of an oligopoly dominated by large companies operating large halls, recording year by year growth from 428 units at the end of 2018 to 483 units at the end of 2023. Incidentally, DYNAM Group halls have an average of 493 gaming machines per hall as of the end of March 2024, slightly exceeding 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 2022"

We encourage readers to review our complete legal statement on "Disclaimer" page.

Pachinko market trends and outlook going forward

The current installations of smart gaming machines are expected to help the market recover, and bright signs are starting to be seen. For the industry, this is the biggest innovation since the installation of CR machines (installation of machines compatible with pre-paid cards) in 1992. Installations of the CR machines at that time caused the market to revitalize, so the industry has great expectations for smart gaming machines, even if the market environment may be different. It will be particularly interesting to see to what extent the industry-wide installation rate of just over 4% will increase in 2024 with the deregulation of the LT function of smart pachinko machines. Ultimately, the key to growth will be whether manufacturers can develop attractive machines that draw in enough customers, and whether halls can maintain and improve service quality, including hospitality, to secure repeat customers and acquire new customers.

Simplified income statement and key indicators

	(¥mn)			
	FY3/21	FY3/22	FY3/23	FY3/24
Revenue	98,602	105,141	117,206	130,363
YoY	-30.8%	6.6%	11.5%	11.2%
Operating expenses	97,564	94,911	112,318	121,923
YoY	-20.2%	-2.7%	18.3%	8.6%
SG&A expenses	4,340	4,279	4,309	4,176
YoY	-13.5%	-1.4%	0.7%	-3.1%
Other income	11,561	9,114	8,663	7,561
Other operating expenses	1,531	4,411	2,478	2,842
Operating profit	6,728	10,654	6,764	8,983
YoY	-68.7%	58.4%	-36.5%	32.8%
Financial income	286	426	450	807
Financial expenses	2,672	2,571	3,277	4,355
Profit before income taxes	4,342	8,509	3,937	5,435
YoY	-77.7%	96.0%	-53.7%	38.0%
Income taxes	1,991	3,532	2,139	2,050
Profit	2,351	4,977	1,798	3,385
YoY	-81.6%	111.7%	-63.9%	88.3%
EBITDA	16,781	32,383	43,729	53,205
YoY	-46.1%	93.0%	35.0%	21.7%
EPS (¥)	3.1	6.8	2.5	4.8
Dividend per share (¥)	5	5	5	5

Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

Pachinko market trends and outlook going forward

Statement of consolidated financial position

	(¥mn)			
	FY3/21	FY3/22	FY3/23	FY3/24
Current assets	91,790	67,487	69,166	60,978
Cash and cash deposits	74,661	56,508	59,605	50,109
Trade receivables	361	332	407	457
Other	16,768	10,647	9,154	10,412
Non-current assets	209,283	225,934	256,442	305,067
Property, plant and equipment	96,415	118,648	146,876	183,361
Right-of-use assets	77,537	73,850	76,741	84,129
Intangible assets	3,348	3,440	3,730	7,001
Investment, other	31,983	29,996	29,095	30,576
Total assets	301,073	293,421	325,608	366,045
Current liabilities	59,812	47,324	53,840	60,311
Accounts payable	19,997	12,312	14,732	14,904
Short-term borrowings, etc.	11,380	12,945	16,629	21,083
Lease liabilities	12,040	11,245	10,749	10,572
Other	16,395	10,822	11,730	13,752
Non-current liabilities	109,289	115,115	143,341	174,246
Long-term borrowings	22,587	30,196	55,538	79,241
Lease liabilities	79,899	78,017	80,948	87,436
Other	6,803	6,902	6,855	7,569
Total liabilities	169,101	162,439	197,181	234,557
Total equity	131,972	130,982	128,427	131,488
Total liabilities and equity	301,073	293,421	325,608	366,045

Source: Prepared by FISCO from the materials provided by the Company and the Company's annual report

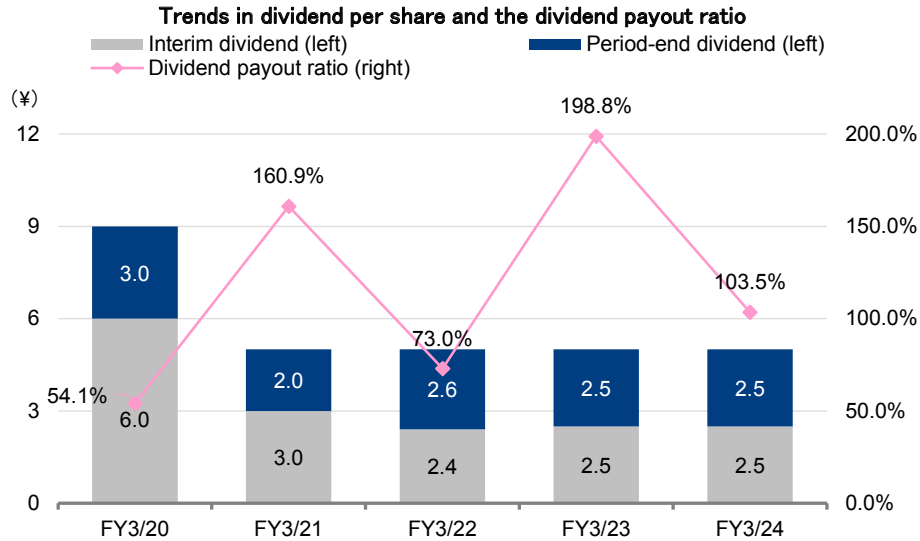
Returns to shareholders

Planning to pay a FY3/24 dividend of ¥5.0 per share, flat YoY

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 continue to pay stable dividends with a consolidated dividend payout ratio above 35%, while it is also continuing to acquire treasury shares as a part of its basic policy.

For FY3/24, the Company decided to pay a dividend of ¥5.0 per share, the same as the previous fiscal year. The dividend payout ratio will be 103.5%, but the Company maintained the same level as it wanted to emphasize a stable dividend and that the trend in earnings recovery is continuing. Also, in FY3/24 the Company purchased on the market 17,043,000 treasury shares (approximately 2.4% of all issued shares) and retired 15,532,000 treasury shares.

Returns to shareholders



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 2023/2024. 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.

ESG initiatives

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. With respect to business operations in a decarbonized society, the Group aims to reduce CO₂ emissions caused by excessive energy consumption by building wooden halls with a low environmental impact, and appropriately managing energy consumption (including energy-saving measures, installation of water-saving toilets, etc.), promoting green IT (digitization of documents, promotion of online meetings, etc.), systems to prevent waste and appropriately dispose of it (effective use and recycling of used gaming machines, wooden halls, recycling of general waste). As an energy-saving initiative, all group halls have installed BEMS and LED lighting, and have started newly installing solar power panels.

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 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, optimizing work-life balance and working styles and health management, as well as 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 donating to regional revitalization projects through a corporate version of the *furusato nozei* (hometown tax system to support regional revitalization) system.

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 horizontally across companies 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.

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiries, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp