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■ Aims to double profit in 10 years by honing expertise in the analysis of large amounts of data

Daikoku Denki has two main sources of profit, the information system segment, which manufactures and sells computer systems for pachinko (Japanese pinball) and pachinko slot parlors or halls, and the control system segment, which produces and sells electronic components for pachinko machines. The company holds a 40% share of the Japanese market for computer systems for pachinko and pachinko slot halls, the highest share, making its systems the de facto industry standard. Taking advantage of this top market share, the company's DK-SIS service supplies information about customer associations that supports the operation of pachinko parlors, and the company provides information to pachinko fans, serving as a think tank for the industry and its users. In this respect, it is also the de facto standard.

In the fiscal year through March 2013, i.e., in FY3/13, the company achieved record-high sales and profits since it listed its shares. For FY3/14, the company forecasts a 13.4% y-o-y drop in sales and a 43.0% decline in operating profit, as it foresees a normal operating environment, rather than a stimulatory one. However, it is developing many new pachinko slot machines, and if one of them becomes a hit product, the company may well exceed its forecasts. In its information systems business, the number of contracts for card recognition (CR) units may also increase, which would support greater package sales of total systems, including hall computers. If both possibilities are realized, operating profit could be ¥1-2bn larger than the company's forecast. The company plans to pay a dividend of at least ¥40 per share for FY3/14, but if it exceeds its profit forecasts, it may pay a higher dividend.

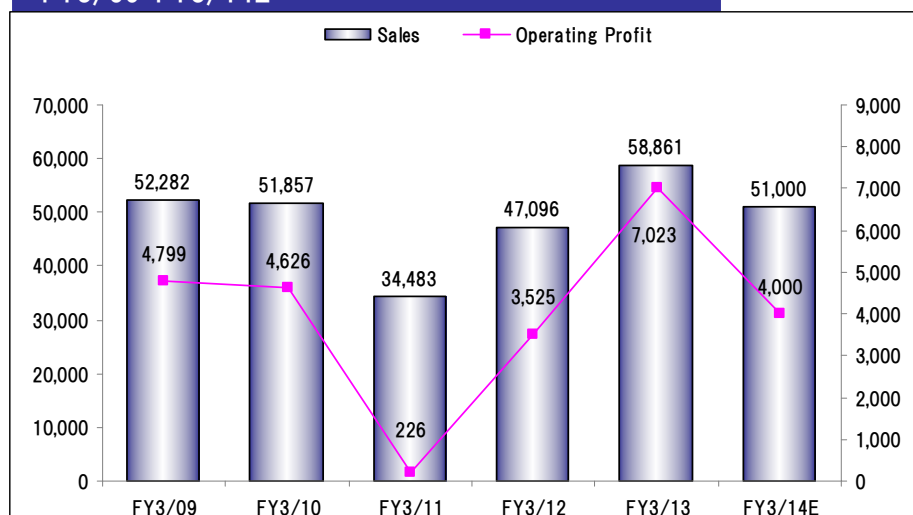
The company targets consolidated sales of ¥100bn and consolidated recurring profit of ¥10bn for 10 years from now, FY3/24. These targets are roughly double its current sales and recurring profit. In pursuit of these targets, the company will follow a three-pronged strategy of increasing its existing businesses, developing new businesses that expand its perspective, and planning and producing hit products. One of the new businesses now being pursued is the production of pachinko slot game machines. The company also intends to refine its special ability to gather and analyze large quantities of data. To increase the scope of its services, it plans to develop services that can be offered to the full range of the amusement industry.

The company's PBR is below 1x, but its dividend yield at the end of FY3/13, i.e., ¥90 ÷ closing share price on March 31, 2013 was 4.9%, which is high for a Japanese company. As the company's efforts to date contribute to sales and profit growth, the share price could rise.

■ Check Points

- Company holds the top share, 40%, of the Japanese market for hall computers, i.e., computers for use in pachinko and pachinko slot game halls
- In FY3/13, the company recorded record-high sales and profits since listing its shares
- Company plans to concentrate on developing a strong business in gathering and analyzing large quantities of data

Consolidated Sales and Operating Profit (¥mn), FY3/09-FY3/14E



■ Company Outline

Solid foundation in infrastructure for the pachinko industry

(1) Company History

The predecessor of Daikoku Denki was established in Osaka City in December 1964 by Shinji Kayamori, the father of Daikoku Denki's current president, Hideyuki Kayamori. Initially, the company specialized in the production of electric circuits. It then applied its knowledge of this business to develop devices for counting the pinballs in a pachinko machine. In 1971, the company began supplying these devices to a manufacturer of pachinko machines in Nagoya City. This business prospered so much that the company decided to specialize in the production of electric equipment for the pachinko industry. In 1973, the company moved its head office to Nagoya City and reorganized as Daikoku Denki.

In subsequent years, Daikoku Denki built on its base of hall computers, developed numerous original products, and established an important position as a provider of information infrastructure for the pachinko industry. Among these products were the Data Robo data terminal that provides information about different pachinko machine models to users of these machines, the DK - SIS service that provides information about customer associations to support the management of pachinko parlors, and the MIRAIGATE that combines the companies systems, services and staff to assist the operation of pachinko parlors. This series of unique innovations may have been possible because the company was not originally involved in the pachinko industry, so it was not inhibited by the common assumptions in the industry. Innovation is giving form to ideas, but the company also needed sales ability to develop markets for its new products. Innovation and marketing are the two main strengths of Daikoku Denki. Of course, after-sales support services are also necessary to succeed commercially.

Despite these abilities, the company encountered challenges during the course of its expansion. In 1996, the pachinko industry changed the regulations pertaining to pachinko machines, as some machines were considered socially inappropriate. The industry therefore scrapped about 700,000 pachinko machines that judged to be too conducive to gambling. This caused a sharp drop in sales in the pachinko industry and at the company. That period, the company lost about 100 employees in a year.



■ Company Outline

During such a trying period, the current president entered the company. He had studied information technology at Kyoto University's graduate school and decided to apply the vast amount of data the company had accumulated on the pachinko industry to produce original pachinko slot machines from the perspective of transforming these machines into generally accepted forms of amusement while continuing to build on the company's established businesses. Over the next 10 years, as detailed below, he plans to apply the company's expertise in analyzing large amounts of data to develop a business in gathering and analyzing data for many industries.

Daikoku Denki listed its shares on the Second Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange in November 2002. In April 2004, it elevated its listings to the First Sections of both exchanges.

History	
Dec-64	Established as Daikoku Sangyo in Osaka City to develop, manufacture and sell electric equipment.
Jul-73	Established as Daikoku Denki in Nagoya City, primarily to produce electric devices and equipment for the pachinko industry.
Apr-74	Began producing control units for pachinko machines exhibiting electronically controlled characters.
Oct-74	Began sales of the Omicron Computer I to pachinko parlors.
Apr-81	Began producing display units for pachinko machines.
Jun-84	Began sales of the PS-80 Omicron point-of-sale system for managing prizes awarded for accomplishments playing pachinko.
Apr-90	Created a membership-based database of business information for nationwide pachinko halls and launched the Daikoku Denki Strategic Information System (DK-SIS) series to support hall business management.
May-90	Began sales of the IL-10 intelligent call lamp.
Oct-91	Began sales of the VR-10 Data Robo, a terminal that displays information about game machines to the users of the machines.
Apr-93	Started issuing the Robo Card to members of customer associations of all pachinko parlors in Japan.
Nov-93	Launched production of LCD units.
Nov-99	Began sales of the Neppachi game software program for home use. This program enabled the on-line playing of pachinko games and notifies players when they earn a prize.
May-01	Began sales of the Pachinko Now i program, which provides information about pachinko machines through the mobile communications service of NTT DoCoMo.
Oct-01	Began sales of the C computer system for pachinko parlors, which was based on the interX21 concept.
Nov-02	Listed in the Second Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange.
Sep-03	Shares designated as eligible for margin transactions or for lending for margin transactions on the Tokyo Stock Exchange.
Apr-04	Listed in the First Sections of the Tokyo Stock Exchange and the Nagoya Stock Exchange.
Apr-05	Dixeo established and information-content operations spun off as a subsidiary company.
Feb-06	Genki established as a subsidiary company through acquisition of stock.
Oct-07	Released the MIRAIGATE to support the operations of pachinko parlors.

Two main sources of profit are computer systems for pachinko and pachinko slot parlors and electronic components for pachinko machines

(2) Business Description

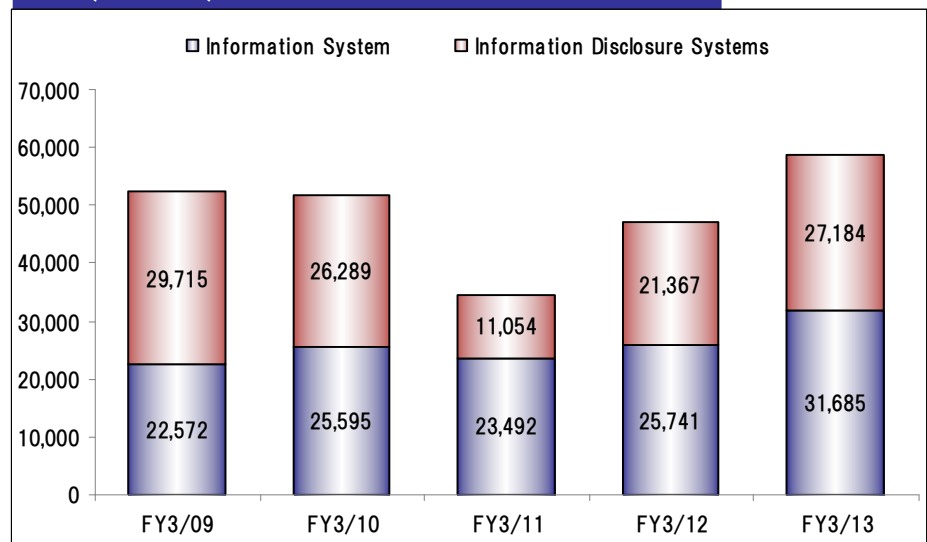
By planning and developing new products for the pachinko industry, Daikoku Denki provides opportunities for pachinko machine makers to develop hit products, offers new forms of enjoyment to pachinko fans, and supports the profitability of pachinko parlors. The company also aims to transform the pachinko and pachinko slot industry into a generally accepted form of amusement similar to movies and amusement parks. In the future, as noted above, the company aims to develop the business of amassing and analyzing large amounts of data for many industries.



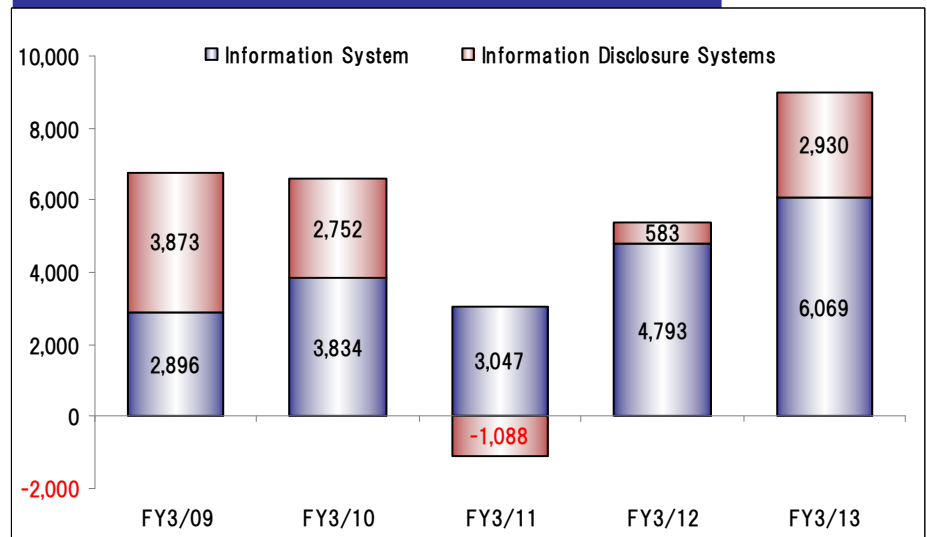
■ Company Outline

Currently, the company has two main sources of profit, the information system segment, which manufactures and sells computer systems for pachinko and pachinko slot parlors, and the control system segment, which produces and sells electronic components for pachinko machines. In FY3/13, the information system segment increased its sales by 23.1% y-o-y to ¥31,685mn and its operating profit by 26.6% to ¥6,069mn, while the control system segment raised its sales by 27.2% y-o-y to ¥27,184mn and its operating profit by 402.0% to ¥2,930mn. Sales in the information system segment tend to grow steadily, while sales in the control system segment tend to fluctuate significantly.

Consolidated Sales (¥mn) by Segment, FY3/09-FY3/13



Consolidated Operating Profit (¥mn) by Segment, FY3/09-FY3/13



A 40% market share in hall computers

(1) The information system segment

The information system segment offers a complete line of high-margin products and services to support sales and operational management at pachinko halls. Hall computers gather information from every machine in a parlor that supports operational management. The segment's parlor operational support consulting service combines and analyzes the data collected by hall computers. Most of the hall computers sold include this consulting service. The DK-SIS service provides strategic information about customer associations. Information display systems made in this segment provide information about pachinko machines to customers. Customer prize systems and CR units made by the segment count the number of pinballs used and provide point-of-sale (POS) management of prizes.

Hall computers

Hall computers are the core systems for supporting pachinko parlor operations. These personal computers accumulate the number of pinballs released and collected by each pachinko machine and pachinko slot machine and the number of jackpots hit at each machine. In addition to displaying the operating condition of each machine, they alert parlor managers each morning of suspicious operations of these machines the previous night, when the parlors are closed. For example, the computers warn of erroneous counts of pinballs, which may be due to fraud. The computers compare the number of pinballs issued during a workday with the number submitted for prizes. Normally, the number submitted for prizes is slightly less than the number issued because some balls fall on the floor. If the number submitted for prizes exceeds the number issued, either one or more machines may be broken or one or more customers may have received balls illicitly. In either case, the pachinko hall must fix the problem or risk going out of business. The hall computers also identify machines that may be broken.

Daikoku Denki's hall computers perform better than competing hall computers and are easier to read. Hence, the company holds a 40% share of the Japanese market for hall computers, the top share, making the computers the de facto industry standard.

Hall Computer



Operational management computer
Operational terminal MT-01 II



C II - SIS

■ Company Outline

Hall operational support service

Daikoku Denki's MIRAIGATE supports the sales strategy, customer appeal strategy and operational management of pachinko halls. This system combines the information gathered by hall computers and other systems, analyzes this information in detail using the company's CII-SIS service, and the company's partner centers then resolve any problems identified using leased IP telephone circuits connected to customer pachinko parlors.

Diagram of Miraigate System

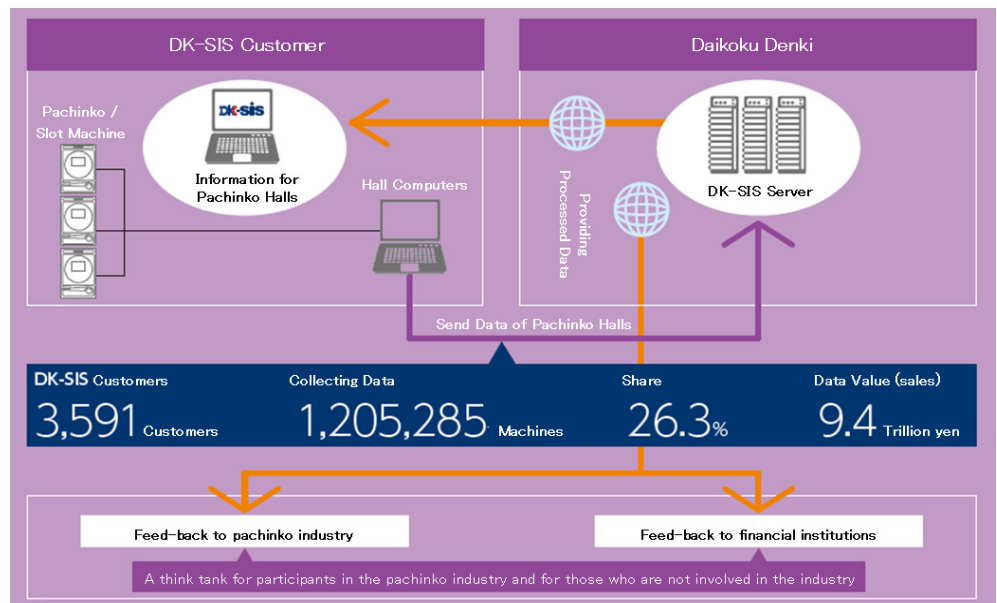


Source: Company

DK-SIS service providing information on customer associations

Daikoku Denki's DK-SIS gathers, processes and analyzes the daily operational information of pachinko halls with customer associations and gives feed-back to the managers of these halls to improve their operations. It is the only such system in Japan. The system is currently used by 3,591 pachinko and pachinko slot halls which operate approximately 1.2mn machines, or 26.3% of all the machines installed in Japan. In FY3/13, this system processed data valued at ¥9.4 trillion. This system also provides information to pachinko fans and serves as a think tank for participants in the pachinko industry and for those who are not involved in the industry.

Diagram of DK -SIS Service



Source: Company



■ Company Outline

Information disclosure systems

These are systems of equipment and services that disclose information about the number of pinballs released by each pachinko machine to customers, thereby increasing their pleasure. Daikoku Denki began selling these systems in 1991, before any competitors. Three of the company's main information display systems are the VR-77 Data Robo, the BiGMO and IL-X call lamps, and the Data Robo Site Seven website that provides information on the number of pinballs released per machine to personal computers, cell phones and smartphones.

The VR-77 Data Robo is a new product that informs pachinko parlor customers about pachinko machines that release a larger-than-average number of pinballs. Customers who join the customer association of a parlor can use the VR-77 Data Robo to see more detailed data about machines than customers who are not members of the association and to easily gain access to information needed to use them. This system also offers a Play Patch function, which stores the cumulative results of a customer's play during the previous 180 days in the transactions settlement account of a cell phone (a "mobile wallet").

Originally, call lamps notified employees of a pachinko parlor when a customer encountered a problem with the machine being used and when a customer hit a jackpot. The latest call lamps, the BiGMO and IL-X, display the number of pinballs being used by a customer, the number of jackpots a customer has hit, and the number of pinballs recently released by a machine.

The Data Robo Site Seven website provides information on the number of balls released by a machine to pachinko hall customers through cell phones and smartphones. This is the first such website to be marketed in Japan's pachinko industry.

Information Disclosure Systems, which support operations



Data Robo Information Disclosure Terminal



Robo Partner IL-X Call Lamp



BiGMO Information Disclosure Terminal

Source: Company

■ Company Outline

CR units

The VEGASIA CR unit is a new customer prize system that is representative of such systems. This system enables a customer to purchase a pre-paid card that can be used to pay for pinballs dispensed by a pinball lending machine. The system is equipped with advanced security functions to prevent the use of stolen pre-paid cards. For example, it has a color LCD screen which displays information about a pre-paid card. It also offers an optional face-recognition ability, the first in the pachinko industry. Finally, the system collects data on the movement of each customer within a parlor, facilitating customer control by parlor managers.

Prize Management System

connectible to the transactions settlement account of a cell phone



Prize Management POS System
Cti-77



Pinball Counting Machine
LC-77



CR Unit VEGASIA

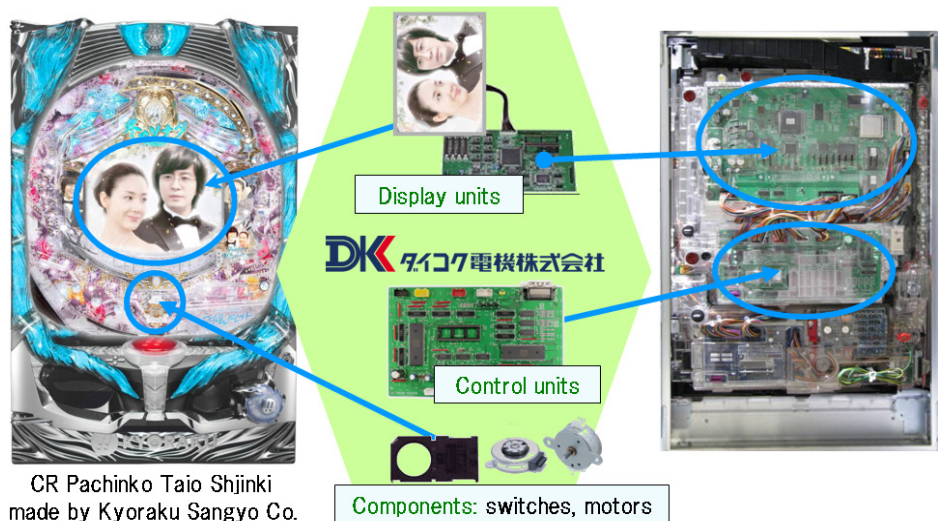
Source: Company

Company's second pachinko slot game machine reflects a unique world perspective

(2) The Control system segment

The control system segment produces LCD display units, control units, switches and motors to makers of pachinko machines in the Nagoya area of Japan. It has recently developed the industry's first LCD touch panel control unit, which is incorporated in the company's second pachinko slot game machine, the Magical Suite Prism Nana.

Diagram of Control System Business



CR Pachinko Taio Shjinki
made by Kyoraku Sangyo Co.
© TSG Production Company LLC. © KYORAKU

Source: Company



■ Company Outline

Magical Suite Prism Nana pachinko slot game machine

In FY3/13, Daikoku Denki commercialized its first pachinko slot game machine. In Q1 FY3/14, the company launched its second pachinko slot game machine, the Magical Suite Prism Nana, which displays the first original characters used in Japan's pachinko slot industry. These characters were developed by a company specializing in the production of animated programs. The Magical Suite Prism Nana machine also uses original music. The company plans to develop animated programs using its original characters. Until the advent of the Magical Suite Prism Nana, pachinko machines and pachinko slot machines used characters from existing animated movies and dramas. Daikoku Denki is developing a pachinko slot game machine business that reverses the historical trend.

The Magical Suite Prism Nana pachinko slot machine got off to a good start commercially. Since the DK-SIS has been installed in this machine, it has generated average weekly sales of 21,100 tokens per machine. This sales rate puts the machine in the top tier, compared with other machines that have been initially marketed to date in 2013. It also exceeds the 20,000 coin per week long-term target for pachinko slot machines. The company has great expectations for the commercial success of this machine.

Through its original characters, the Magical Suite Prism Nana pachinko slot machine creates a world perspective, which is an important step in transforming the popular image of the pachinko and pachinko slot machine industry from simply a gambling pastime to a legitimate form of amusement, similar to movies and amusement parks. The company aims to become one of Japan's top five makers of pachinko and pachinko slot game machines. This accomplishment would be an important parameter for the company's future profits. In FY3/14, the company plans to market several new models of pachinko slot game machines.

Diagram of Magical Suite Prism Nana Pachinko Slot Game Machine



© 2012 prismnana © DAXEL

Source: Company



18.5-inch screen with touch sensor

Complete LCD display allows playing of pachinko slot game machine and viewing animation characters

As a media mix link in the Magical Suite Prism Nana project, the pachinko slot game machine surpasses other such machines.

And, this machine incorporates popular tunes that attract players. Kantoku Co. drew the characters for this machine and Shaft Co. produced the animations. The CV uses Suzuko Sanmori as the voice for the Itaru character, Mami Imai as the voice for the Aska character and Eiri Kitamura as the voice for the Kotone character. This is great casting.

■FY3/13 Results

Record-high sales and profits since listing shares

On May 13, 2013, Daikoku Denki announced its consolidated business results for FY3/13. Sales increased by 25.0% y-o-y to ¥58,861mn, operating profit grew by 99.2% to ¥7,023mn, recurring profit rose by 104.5% to ¥7,244mn, and net profit surged by 150.3% to ¥4,161mn. Sales and profits reached record highs since the company listed its shares.

In the information system segment, sales growth was led by sales of information disclosure device, such as the new IL-X call lamp, and by sales of the new VEGASIA CR unit. In the control system segment, sales growth was led by sales of display units and other components of pachinko machines. Sales of these components rose accompanying an increase in the sales volume of pachinko machines equipped with the company's hall computers, reflecting the high market assessment of such machines.

The profit growth was attributed to the sales growth and to a temporary drop in R&D expense in the control system segment stemming from the segment's reorganization and concentration on marketing new products. The company's total R&D expense declined by 24.2% y-o-y to ¥2,720, which was 26.1% less than originally planned.

The company's financial condition generally improved in FY3/13. Due to an increase in retained earnings, equity grew by 12.3% y-o-y to ¥30,439mn. Reflecting increases in accounts payable and taxes due, liabilities grew by 19.5% y-o-y to ¥26,267. However, interest-bearing debt dropped by 83.1% y-o-y to ¥1,269mn. Overall assets increased by 15.5% y-o-y to ¥56,706mn, and the equity ratio declined by 1.4ppts to 53.7%.

Cash flow remained stable in FY3/13. Because of the strong profit growth, cash flow from operations grew by 69.0% y-o-y to ¥9,600mn. Cash flow from investing was ¥2,153mn, having been negative ¥4,607mn in FY3/12. This cash flow turned positive because of an increase in funds from matured time deposits. Cash flow from financing was negative by ¥7,003mn, having been negative ¥493mn in FY3/12. The negative cash flow from financing increased in FY3/13 mainly because the company repaid short-term bank borrowings. Cash and cash equivalents increased by 34.8% y-o-y in FY3/13 to ¥18,406mn, which vastly exceeded the company's interest-bearing debt.

The company's policy is to pay an annual dividend of ¥40 per share and to supplement this payment depending on its profits. In FY3/13, the company earned record-high profits since listing its shares. Therefore, it paid a special dividend of ¥50 per share for a total dividend of ¥90 per share, making its dividend payout ratio 32.0%.

Summary Consolidated Income Statement (¥mn), FY3/12 -FY3/13

	FY3/12	FY3/13	y-o-y	Versus Forecast
Sales	47,096	58,861	25.0%	5.1%
Gross profit	15,962	18,776	17.6%	1.5%
Gross profit margin	33.9%	31.9%	▲2.0pt	▲1.1pt
SGA cost	12,437	11,753	▲5.5%	▲12.9%
Operating profit	3,525	7,023	99.2%	40.4%
Recurring profit	3,541	7,244	104.5%	44.8%
Net profit	1,663	4,161	150.3%	54.1%
R&D expense	3,589	2,720	▲24.2%	▲26.1%



■FY3/13 Results

Summary Consolidated Balance Sheet (¥mn), FY3/12 -FY3/13

	FY3/12	FY3/13	Absolute Change y-o-y
Current assets	31,916	39,789	7,873
Fixed assets	17,170	16,916	▲253
Total assets	49,087	56,706	7,619
Current liabilities	19,906	24,544	4,638
Fixed liabilities	2,067	1,722	▲344
Total liabilities	21,973	26,267	4,293
Total equity	27,113	30,439	3,325
Total liabilities & equity	49,087	56,706	7,619
Interest-bearing debt	7,525	1,269	▲6,255
Debt-equity ratio (gross)	x0.27	x0.04	▲0.23
Equity ratio	55.1%	53.7%	▲1.4pt
Sales receivable turnover days	65 days	62 days	▲3 days
Inventory turnover days	53 days	46 days	▲7 days
Accounts payable turnover days	84 days	88 days	4 days
Number of shares outstanding	14,783,556	14,783,412	-

Summary Consolidated Balance Sheet (¥mn), FY3/12 -FY3/13

	FY3/12	FY3/13	y-o-y
Cash flow from operations	5,682	9,600	3,917
Cash flow from investing	▲ 4,607	2,153	6,761
Cash flow from financing	▲ 493	▲ 7,003	▲ 6,509
Balance of cash and cash equivalents	13,655	18,406	4,750

■Company Forecasts for FY3/14

Return to normal operating environment

For FY3/14, Daikoku Denki projects a 13.4% y-o-y drop in consolidated sales to ¥51bn, a 43.0% fall in operating profit to ¥4bn, a 44.8% decline in recurring profit to ¥4bn, and a 51.9% plunge in net profit to ¥2bn.

In the information system segment, the company expects slower sales of the new VEGASIA CR unit in FY3/14 than in FY3/13. In the control system segment, the company foresees an increase in the proportion of pachinko machines accounted for by used machines and thus a decline in demand for machine components.



■ Company Forecasts for
FY3/14

Furthermore, the company plans to increase its R&D cost by 28.7% y-o-y to ¥3.5bn for FY3/14 to update its service of supporting pachinko hall operations and to develop new pachinko slot machines, as discussed in the section below on medium-to-long-term growth strategy. The sales promotion expense and other components of SGA costs will also rise. Consequently, the company projects a 10.6% y-o-y rise in SGA costs to ¥13bn.

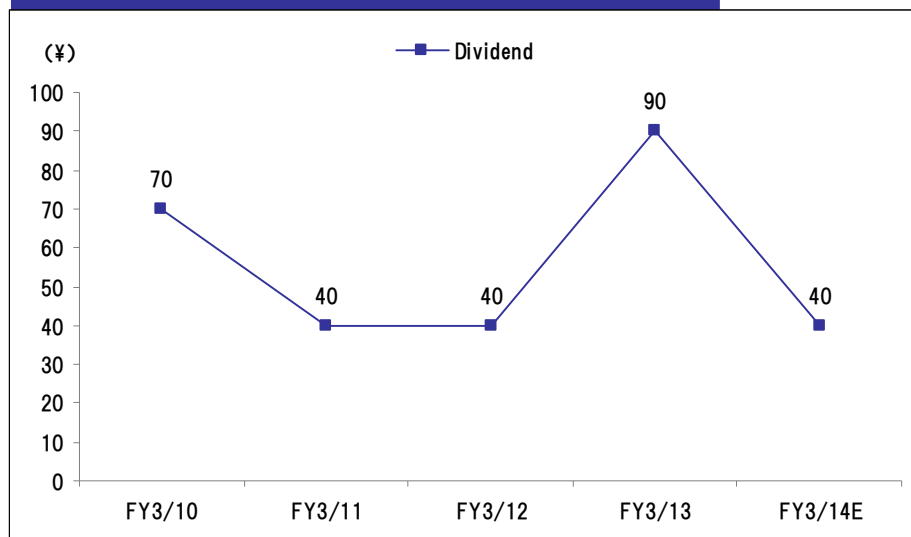
In FY3/13, the company was blessed with an unusually supportive operating environment. For FY3/14, the company assumes a normal operating environment. Thus, it projects sales and profit declines. It foresees particularly large drops in sales and profits in the control system segment. However, if one of the many new models of pachinko slot game machines the company plans to market becomes a hit product, this segment may fare much better than the company now projects. In the information system segment, contracts for CR units may increase, contributing to greater package sales of information systems, including hall computers. If both these possibilities materialize, the company's operating profit could be ¥1-2bn larger than the company's forecast.

The company plans to pay a dividend of at least ¥40 per share for FY3/14. If its profits exceed its forecasts, it may well increase the dividend, as it did for FY3/13.

Company Forecasts (¥mn) for FY3/14 by Half-year, versus FY3/13 Results

	FY3/13			FY3/14E			y-o-y
	H1	H2	Full year	H1	H2	Full year	
Sales	27,665	31,196	58,861	25,000	26,000	51,000	▲13.4%
Gross profit	9,093	9,683	18,776	8,000	9,000	17,000	▲9.5%
SGA cost	5,490	6,263	11,753	6,500	6,500	13,000	10.6%
Operating profit	3,603	3,420	7,023	1,500	2,500	4,000	▲43.0%
Recurring profit	3,725	3,518	7,244	1,500	2,500	4,000	▲44.8%
Net profit	2,162	1,999	4,161	800	1,200	2,000	▲51.9%
EPS (¥)	-	-	281.53	-	-	135.29	-

**Dividend Payment (¥) Per Share,
FY3/10-FY3/14E**



The information system segment

For the information system segment, the company forecasts a 2.2% y-o-y drop in sales to ¥31bn and a 9.4% fall in operating profit to ¥5.5bn in FY3/14. The company plans to increase its sales of newly installed hall computers by 17.0% y-o-y to 240 units, thereby expanding its 40% market share. Accompanying this rise, the company foresees an increase in contracts for consulting services on the use of hall computers. The company forecasts a 4.4% y-o-y decline in sales of information disclosure systems to ¥7.8bn, although it projects a 125.2% jump in the number of Data Robos sold to 322 units. Daikoku Denki projects a 12.2% drop in the number of CR units sold, but it aims to increase the number of CR units with face recognition capability sold by 14.0% y-o-y to 9,500 units.

The company intends to strengthen its service for the support of pachinko parlor operations. Most likely, through this strengthening, the company hopes to gain a strategic position for the service of gathering and analyzing large amounts of data for companies in the amusement industry it intends to develop 10 years from now.

**Company Forecasts (¥mn) for Information Systems Segment
in FY3/14 by Half-year, versus FY3/13 Results**

	FY3/13			FY3/14E		
	H1	H2	Full year	H1	H2	Full year
Sales	16,724	14,960	31,685	15,000	16,000	31,000
Operating Profit	4,030	2,039	6,069	2,500	3,000	5,500

	FY3/13			FY3/14E		
	H1	H2	Full year	H1	H2	Full year
Hall Computer C Unit Sales	118 Unit	87 Unit	205 Unit	100 Unit	140 Unit	240 Unit
Information Disclosure System Sales	4,310	3,847	8,157	3,800	4,000	7,800
Prize Management System Sales	2,252	1,795	4,047	1,600	1,800	3,400

The control system segment

For the control system segment, the company projects a 26.4% y-o-y drop in sales to ¥20bn and a 86.4% fall in operating profit to ¥400mn in FY3/14. The company expects a 21.1% y-o-y decrease in the number of pachinko machine models equipped with its display units and a 33.1% fall in sales of such units to ¥10.6bn. It foresees a 52.2% plunge in sales of other pachinko machine components. However, the company plans to launch sales of several new models of pachinko slot game machines. Segment sales and profits could be higher than forecast if one or more of these models becomes a hit product.

**Company Forecasts (¥mn) for Control Systems Segment
in FY3/14 by Half-year, versus FY3/13 Results**

	FY3/13			FY3/14E		
	H1	H2	Full year	H1	H2	Full year
Sales	10,947	16,236	27,184	10,000	10,000	20,000
Operating Profit	549	2,381	2,930	100	300	400

	FY3/13			FY3/14E		
	H1	H2	Full year	H1	H2	Full year
Number of Display Unit Models	9 Unit	10 Unit	19 Unit	9 Unit	6 Unit	15 Unit
Display Unit Sales	5,933	9,906	15,839	5,300	5,300	10,600
Other Components Sales	4,365	5,053	9,418	2,300	2,200	4,500



■ Medium-to-long-term Growth Strategy

Expand market share in existing businesses and increase pachinko slot game machine business

The company's growth strategy for the next 3-10 years and for following years is explained below.

Growth strategy for next 3-10 years

To insure growth over the next 3-10 years, the company will try to convert the public image of the pachinko and pachinko slot machine industry from a gambling pastime to a form of amusement comparable to movies and amusement parks. Through this strategy, Daikoku Denki aims to raise its position in the industry to within the top five in terms of sales, although it may be difficult to define its industry as rival companies produce different goods and services than Daikoku Denki. More specifically, the company plans to expand its market shares in its established businesses, and to convert the popular image of the industry by developing a wide range of new businesses and by planning and manufacturing hit products.

To expand its market shares in established products in the information system segment, the company intends to strengthen its service that supports pachinko hall operations. Over the next 3-5 years, the company will invest several billion yen to renovate its hall computers and CII-SIS service of analyzing data gathered by the hall computers, producing an advanced system that may not be possible for competitors to match. To develop this system, it is considering taking advantage of its expertise in data analysis to form business ties with rivals possessing expertise in hardware. With advanced hall computers, the company will strive to raise its market share in these devices to 50%, from 40% now. To expand its market shares in existing products in the control system segment, the company will pamper its current customers and increase the number of contracts for displays and other control systems for pachinko machines. Through these efforts, the company hopes to exceed its annual operating profit forecast by ¥1-2bn each year.

Pachinko slot game machines are the main new business the company plans to develop over the next few years. The second model, Magical Suite Prism Nana, the first such machine in the industry incorporating original characters, has proved to be a hit product. Subsequent models will offer stories, not just pinballs, to help convert the pastime to a more socially acceptable form of entertainment or amusement. Currently, the company's share of the Japanese market for pachinko slot game machines is close to zero. The company intends to rapidly raise this share to 3%, which it considers the break-even point, then to 5-10%. Toward this end, it plans to invest heavily in development.

There is some overlap between the strategy of developing new businesses and the strategy of planning and manufacturing hit products. Some products in the pachinko and pachinko slot machine industry generate sales of more than ¥10bn. The Juggler Girls pachinko machine from Kita Denshi Co. and the Hihouden Hidden Goddess pachinko game machine from Daito Giken Inc. are two such products. Daikoku Denki aims to develop at least one such hit product every 10 years, starting with one of its pachinko slot game machines. While not reaching sales of ¥10bn, the company's new VEGASIA CR unit was a hit product in FY3/13, contributing to the extraordinary sales and profit growth that year. The company intends to apply its experience to develop hit products other than pachinko slot game machines.



Develop business of gathering and analyzing large quantities of data

Growth strategy for more than 10 years in the future

Ten years or more from now, the company aims to have a significant business in gathering and analyzing large quantities of information, so called “big data”, for the amusement industry. The ability to gather and analyze big data is currently a focus of attention in the IT industry. This ability could be applied not just in business, but in meteorology, disaster forecasting and crime prevention. For example, many sensors could be applied to a bridge and these sensors could feed large amounts of data, such as data on bridge distortions caused by traffic, to a computer on a daily basis. The computer could analyze this information to determine the optimal method to maintain or repair the bridge and the best time to replace it.

Daikoku Denki intends to gather and analyze data on customer movement within amusement facilities to decipher the behavioral psychology of people at these facilities. If it could do so, it may be able to predict the behavior of these people. It could then advise the managers of these amusement facilities of actions to take to increase their sales. It may also be able to determine the cause of unprofitable attractions, enabling the managers to rectify the situation.

Daikoku Denki already provides the service of analyzing customer movement at pachinko halls. Hereafter, it plans to improve the accuracy of its analysis and to develop knowhow in gathering and analyzing big data. Then, it will expand the scope of its service, making it applicable to the entire amusement industry. This will require aggressive development over the next 10 years.

It is obviously difficult to foresee economic conditions 10 years from now. However, the company seems to have an ability to foresee future R&D possibilities. For example, it spent five years developing its face recognition system. Technologies for handling huge amounts of data are being developed rapidly around the world. Given this development and the company’s record in R&D, the company could well achieve its long-term objective.

Ten years from now, the company targets consolidated sales of ¥100bn and recurring profit of ¥10bn. These targets are approximately double its current sales and recurring profit.

The company’s PBR is below 1x, but its dividend yield at the end of FY3/13 was 4.9%, which is high for a Japanese company. As the company’s efforts to date contribute to sales and profit growth, the share price could rise.

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