Dynam Japan Holdings
06889 Hong Kong Stock Exchange

26-Dec.-16

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Launching a new effort to solidify a “fan base” that helps expand revenue

Dynam Japan Holdings Co., Ltd. (HK06889) is one of Japan's largest operators of pachinko halls with the largest number of halls operated. Its strength and characteristics lie in its low-cost operations based on chain-store theory, which it thoroughly applies to newly opened halls as well as to daily hall operations. In addition, the Company was the first in its industry to be listed on a stock market, which is a result of its management having won recognition for its full enforcement of a customer-first creed, information disclosure, compliance management, and other factors.

In a tough industry environment, the Company is one of the few players capable of making industry reorganization a growth opportunity thanks to its traditional growth strategy of pursuing low-cost operations based on chain-store theory and taking advantage of its ability to raise funds as a listed company to overcome the challenges posed by industry consolidation. The Company aims to increase profits by expanding its network of halls through organic growth (opening new stores itself) and M&A.

The Company has embarked on new challenges in FY3/17. It is strengthening services address customers from a regional perspective aimed at expansion of revenue at individual halls (top-line growth). These initiatives hope to cultivate a Dynam fan base. While the Company has utilized an operation manual based on chain store theory in managing costs, it intends to offer services that appeal to customers at its various halls in the effort to build a fan base.

We think the Company can obtain another growth strategy of expansion of hall network and existing halls’ revenue, if it succeeds in realizing top-line growth through the new initiative. It should be possible to secure solid hall profits, along with low-cost operations, if it can relatively narrow the decline in existing halls’ revenue (without actually realizing “growth”). We expect enhancement of the profitability base of individual halls to create positive synergies for the hall network expansion strategy too.

Recent data offer reassurance in that the Company has restored YoY increases in the utilization rate of gaming machines since September 2016 and is widening its gap with the industry average. While the causal relationship with the new revenue expansion effort is unclear, the Company has pursued hall operations that target co-existence with customers for some time with its low ball rental fee approach and model that does not rely on gambling. This aspect might be supporting steady results. The Company’s latest business results were also strong. Operating revenue and profits increased in 1H FY3/17, despite a harsh environment. We expect an upbeat trend again in 2H thanks to the above-mentioned rise in machine utilization rate.

Check Point

- Dynam’s presence is growing in a shrinking market
- Targets further profits growth via M&As and new openings
- Adheres to a policy of paying stable dividends

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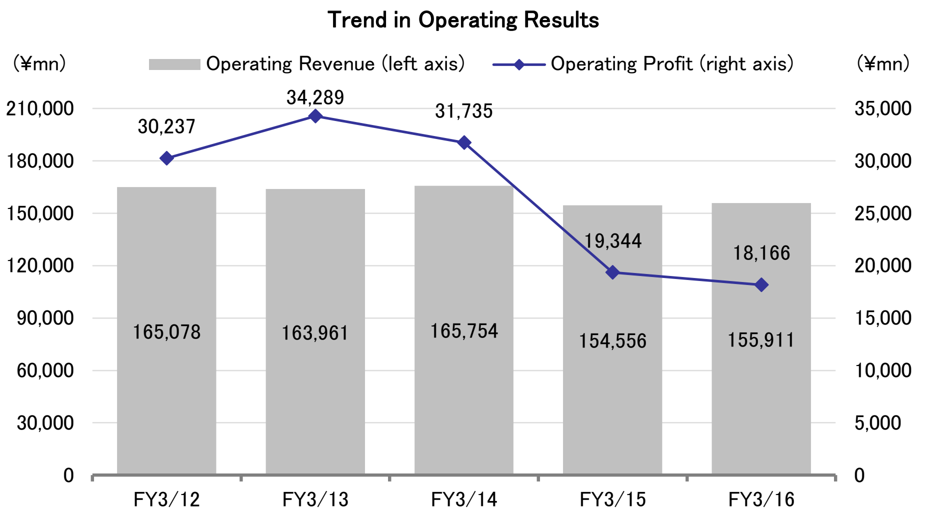


Current situation in the pachinko hall industry

Dynam's presence is growing in a shrinking market

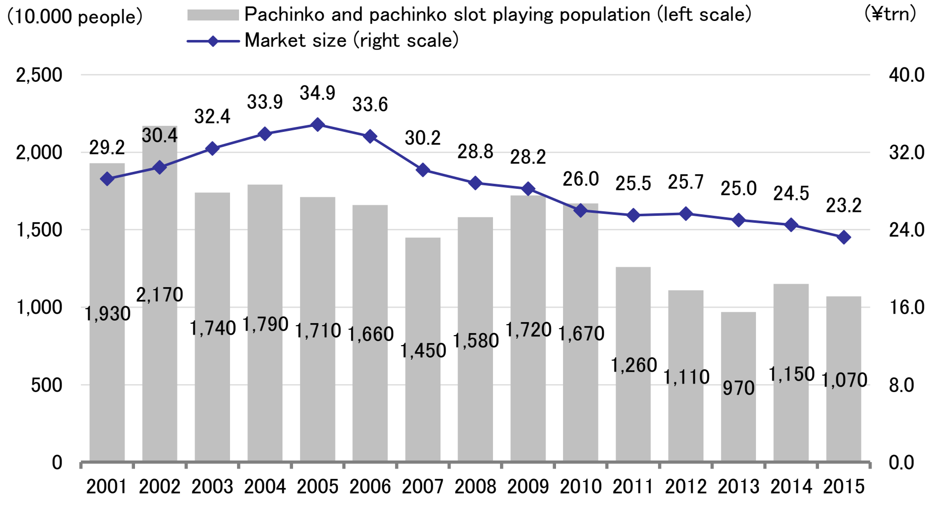
The pachinko and pachinko slot hall industry, the Company's core business, faces three issues – 1) market shrinkage, 2) a market structure of small scale dispersion, and 3) tougher regulations. All three issues have negative implications for the industry. Harsh business conditions generally lead to a rise in weeding out, and this environment hence conversely offers growth opportunities to business operators with management and resource advantages. The same trend applies to the pachinko and pachinko slot hall industry. Dynam Japan is one of just a few companies capable of converting difficult conditions into growth energy, in our view. We think it is essential to have an accurate understanding of the industry environment in order to understand the Company's growth strategy.

(1) Pachinko and pachinko slot hall industry continue to shrink

The pachinko and pachinko slot playing population appears to be bottoming out with the recovery above 10mn in 2014 and 2015 after dropping to 9.7mn in 2013. Market size (total value of ball rental fee revenue that corresponds to gross pachinko hall revenue), however, declined 5.2% YoY to ¥23,229bn in 2015.

The number of pachinko and pachinko slot halls nationwide has also been steadily dropping due to ongoing market contraction. The number of halls has been falling at a pace of 200-300 halls per year over the last few years and was down by 317 halls from the previous year to 11,310 halls as of December 2015 (National Police Agency data). This is the lowest level in 20 years, and some observers anticipated a decline to less than 10,000 halls at some point.

Trends in the pachinko hall playing population and market size



Source: FISCO from Japan Productivity Headquarters' White Paper on Leisure

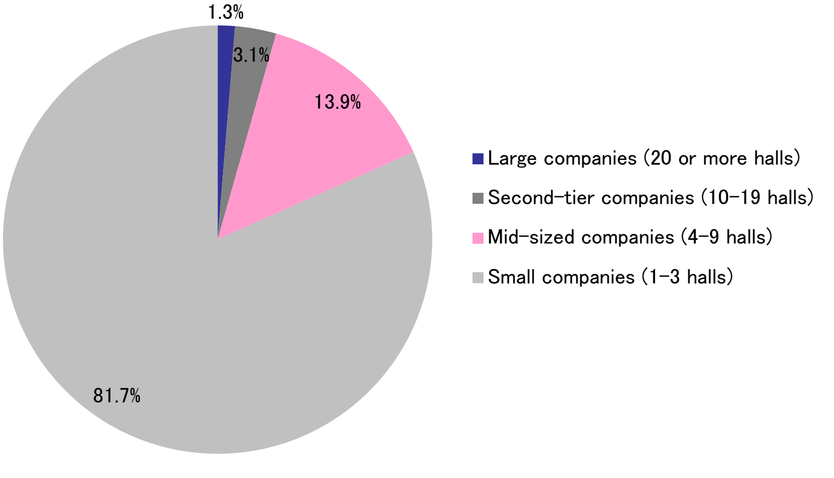
The causes of the shrinkage in the pachinko market vary with time, but in recent years the proliferation of smartphones is believed to have been a major factor. The segment using free time at pachinko halls has started putting time toward smartphones. We think smartphone proliferation is affecting efforts to attract new users, mainly younger people. The pachinko playing population hence is shrinking, and this is contributing downturn in market size.

Japan's economy and regulations are also stymieing the growth of the pachinko and pachinko slot hall industry. In April 2014, Japan raised its consumption tax, and the number of pachinko players fell sharply from summer 2014 as a result. Tougher regulations on gambling characteristics in fall 2015 led to a decline in machines with higher gaming appeal. This may further reduce the pachinko playing population (details are covered below).

(2) A market structure of small scale dispersion

As noted above, the number of pachinko and pachinko slot halls fell from over 18,000 halls 20 years ago to 11,310 halls at the end of 2015. Yet the industry still has around 3,600 pachinko hall operators even with these conditions. Looking at a breakdown of hall ownership volume, only 1.3% of companies operate 20 or more halls, and 81.7% are small companies managing just 1-3 halls.

Market composition by pachinko hall company size



Source: Prepared by FISCO from Company materials

We expect tougher industry conditions to lead to weeding out of smaller companies that lack resources and a pick-up in M&A activity in the process. However, the number of large companies with the possibility of taking over smaller firms is very low as seen in the review of the industry structure mentioned above. The pachinko hall industry also differs from other industries in its extremely low number of listed companies. This aspect is highly disadvantageous for fund raising.

(3) Regulatory reinforcement

The pachinko industry confronts regulations from supervisory agencies and industry groups that extend from equipment firms to hall operators. Industry regulations are currently aimed at curtailing the gambling aspect of pachinko play.

The gambling feature is expressed in terms of the probability of a major payback for an individual machine. Machines with lower probability pay a larger number of balls for major wins. Pachinko machines are currently roughly grouped into 1/100, 1/200, 1/300, and 1/400 (known as MAX machines) types and the 1/400 type has the strongest gambling appeal. Recent regulatory efforts are seeking to gradually reduce the number of 1/400 and 1/300 machines. The industry plans to raise the minimum for major paybacks from 1/400 to 1/320, and halls can no longer install 1/400-type machines as new machines since November 2015. Additionally, steps are being taken to remove pachinko machines from pachinko halls that might deliver performance that differs from the certified machine. Many of the machines on the removal list are 1/400 and 1/300 machines with robust gambling appeal, and the reduction pace in high-risk machines is accelerating.

For pachinko hall businesses, the 1/400-type machines are currently most profitable, and stronger gambling appeal supports higher profitability. Tougher regulations on gambling features taking place put overlapping pressure on pachinko hall operators of reduction in fans looking for high-risk machines who visit the hall and weakening of the model mix of pachinko machines.

■ Dynam Japan’s features and strengths

Holds a top domestic share with 444 halls

While Dynam Japan has various features and strengths, we focus on the following four points and think the manner in which these features and strengths mutually interact is very interesting.

(1) Top Japanese group with 444 halls

The Company has the largest number of halls in the industry with 444 halls as of the end of September 2016 and holds a 4.5% domestic share in machine volume.

The main benefit of having a large number of halls is earning profit from its scale (scale merit). This advantage is found in opening new halls, reforming halls, installing machines, procuring gifts, and logistics. A specific example is the case of Yume Corporation acquired as a subsidiary in November 2015. Yume Corporation operates 39 halls (one hall was closed after the acquisition) and has been realizing scale merit in various areas since joining the group, such as gaming machine purchases, logistics, and financial costs. It reduced costs by a total of about ¥700mn (converted to a fiscal year basis). This corresponds to 12% of Yume Corporation’s previous total costs.

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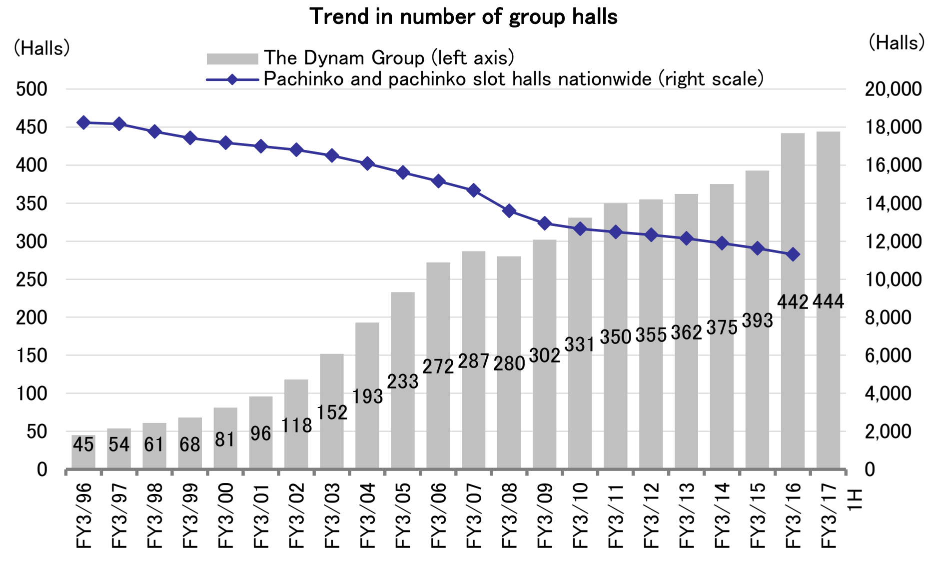

Source: Prepared by FISCO from Company materials

(2) Low-cost operations based on chain-store theory

Low-cost operations are the source of the Company's competitiveness, and our understanding is that they support realization of all measures, including growth strategy. The Company is the domestic leader in hall operations with 444 halls, as noted above, and has achieved this level through an aggressive push to expand the hall network. Its knowhow in low-cost operations fuels the Company's pursuit of multi-halls rollout. We believe new store additions and resulting cost reduction through scale merit has created a virtuous cycle and enabled the Company to reach its current position. We also think the Company has realized its customer-centric management explained below because of low-cost operations.

Chain store theory provides theoretical support for the Company's low-cost operations. Costs of personnel and machines constitute a large portion of the total cost of operating a pachinko hall. Yet it takes more than just direct cost cutbacks. The Company is succeeding with low-cost operations as an overall group by deploying hall designs and hall operating systems (personal system) that facilitate operations with a small number of employees and by standardizing new halls. Chain store theory plays an important role in a variety of ways and is enabling low-cost operations as a group.

Low-cost operation examples: Standard model at new halls

Factors	Baseline	Remarks
Target area population	30,000-50,000	Promote suburban strategy
Hall type - land	20-year fixed term land leasehold	Avoid large investment to buy land
Hall type - buildings	One-story wooden buildings	Easy to scrap in the future
Number of machines	480	Standardize the hall interior layout and number of machines
Initial investment	¥500mn or less	Limit costs by opening halls in suburban areas of smaller cities
Return target	ROI of 25% or more	ROI target is 10-year average

Source: Prepared by FISCO from Company materials

Yoji Sato, former chairman and chief executive officer of the Company, is primarily responsible for the introduction of the Company's chain store operational style. After graduating from university, he worked in the distribution industry that was applying the chain store theory, a new concept in Japan at that time. He continued to research chain store theory after joining the Company and thoroughly utilized it in all aspects of the Company's pachinko hall operations, making it a leading firm in the industry. He also established the Pachinko Chain Store Association (PCSA) with other companies operating pachinko halls according to the chain-store theory. The Company's PCSA activities not only contribute to boosting the management skills of the entire industry, but also led to the recent acquisition of Yume Corporation as a subsidiary.

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(3) Implementing management from a customer perspective

The Company advocates customer-first creed as one of its five management policies, and it has been actually carrying it out. We think this is an attribute of Dynam Japan because few of its peers are (or are capable of) implementing this type of approach even if it is advocated in their policies. The Company has viewed pachinko as a "time-consumptive leisure" for many years and sought to develop halls that facilitate co-existence with customers. Customers can spend around ¥20,000 per hour on 1/400-type MAX machines with strong gambling appeal, and this type of management style runs the risk of failure for customers and the hall.

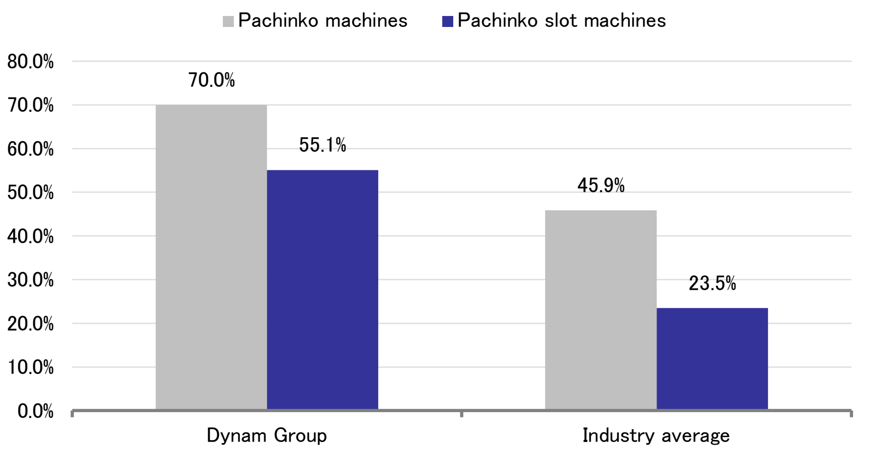
While the Company has engage in various initiatives to realize operations from a customer perspective, low ball rental fees and operations that do not rely on gambling appeal are key measures. These two measures stand out to us because the Company is leading the industry in their use even though they both have negative impacts on hall operations. They also represent the future of where the pachinko hall industry is headed. We think the Company is pioneering the rollouts to inoculate itself and develop resistance.

a) Low ball rental fee operations
Pachinko is played by 'renting' the balls and this ball rental fee (the fee for renting the balls from the hall side) conventionally has been set at ¥4 per ball. In other words, the customer would rent 250 balls for ¥1,000. But in the low ball rental fee operational strategy being moved ahead by the Company, this ball rental fee is reduced to ¥1 or ¥2. The idea in the case of ¥1 balls is that the customer can rent 1,000 balls for ¥1,000 and so can play for a long time just be spending this relatively small amount, which should help to attract customers.

Data shows that the Company's halls offering low ball rental fees have attracted more customers than its halls charging higher fees. Yet it takes substantial company wherewithal in order to adopt this type of strategy because margin declines at halls with low ball rental fees owing to weaker revenue than halls charging higher fees without much difference in operating costs. Companies face a strong prospect of revenue and profit declines if they increase halls with low ball rental fees without growth in number of halls.

The Company has much higher percentages of machines with low ball rental fees in pachinko and pachinko slot operations than industry averages. We think it can achieve this because of robust hall profitability enabled by low-cost operations and its large network of 444 halls.

Comparison of low ball rental fee machines (as of June 2016)



Source: Prepared by FISCO based on company materials

b) Operations that do not rely on gambling appeal
MAX machines with strong gambling appeal are cash cows for pachinko halls, as noted earlier, and high-risk machines generally exceed lower-risk machines in profitability. However, tougher regulations prohibit new installations of 1/400-type machines, and halls are steadily moving forward with removal of existing machines in this category as withdrawal gaming machines.

These stricter regulations might significantly reduce customer volume at halls that have relied on machines with strong gambling appeal to attract customers. The Company, meanwhile, has a lower percentage of MAX machines than the industry average, and its 1/00-type machines, which have the least amount of gambling risk, exceed the industry average by 20 percentage points. Dynam Japan has focused on attracting customers who enjoy pachinko as a time-consumptive leisure activity, and this stance has led to the machine composition mentioned above. The impact of stricter regulations on gambling features mainly affects customers who prefer high risk and high return, and we think downside for the Company should be relatively minor in light of its machine composition.

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

Dynam Japan became the first company in the pachinko hall industry to list its shares with its IPO on the Hong Kong Stock Exchange in 2012. Only two companies, including Dynam Japan, out of the pachinko hall industry's roughly 3,600 firms are listed on stock markets. The industry is headed toward further reorganization amid difficult conditions explained above. An important point for a buyer in this environment is obviously whether it has fund-raising capabilities.

The Company fully utilized its strength as a listed company in the acquisition of Yume Corporation as a subsidiary in November 2015. The Company conducted a share exchange of all shares and acquired Yume Corporation. For the share exchange, Dynam Japan Holdings issued approximately 38.8mn new shares. Using the share price and exchange rate as of October 30, 2015, the market value of the new shares was estimated to be ¥5,775mn. We think it would have been a much tougher decision, even with the Company's scale, to procure this amount with bank loans.

We believe this deal was a major success because of Yume Corporation's appeal as a profitable company, a firm that shares the Company's management concept based on a chain store theory, and the operator of a network of 39 halls with almost no regional overlap with the Company's existing halls. We think trust in the Company as a listed firm was a factor that enabled it to make this type of highly attractive acquisition. We expect major benefits from being a listed company in future diversification of business to casino and resort development and other areas.

■ Growth strategy and new initiative

Targets further profit growth via M&As and new openings

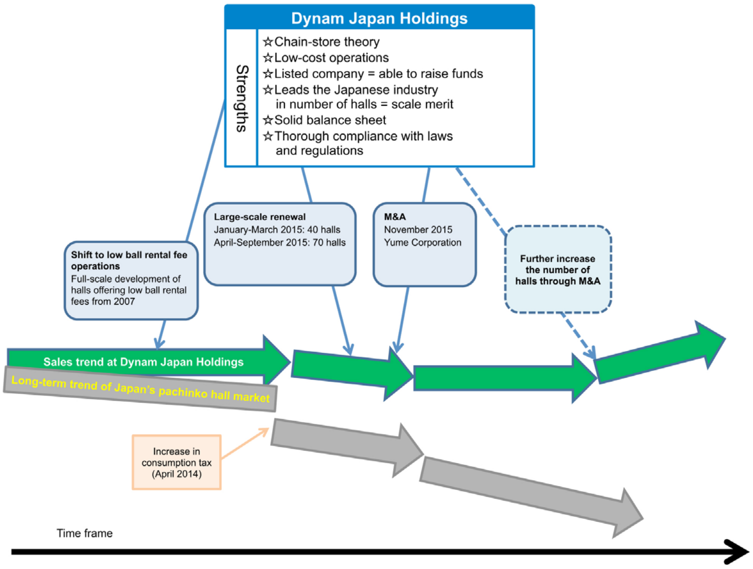
(1) Existing growth strategy: Expansion of the hall network leveraging strengths

While the pachinko industry continues to contend with a harsh environment as explained above, we think this difficulty offers a growth opportunity to Dynam Japan.

The downward trend in the pachinko hall industry is not something new and has been evident for at least 10 to even 15 years. Dynam Japan understood the shrinkage trend in the industry from early on and steadily took actions to bolster its profitability. These efforts are still paying off for the Company through low-cost operations based on chain store theory, scale merit from the industry-leading hall network, and fund-raising capabilities and other strengths as a listed company.

The Company's growth strategy aims for realization of long-term goals of 1,000 halls and a 10% share of machine volume by accelerating M&As, which take maximum advantage of industry reorganization expected to proceed even more rapidly, and organic hall openings.

Diagram of Dynam Japan Holdings' important policies and growth strategy



Source: Prepared by FISCO Ltd.

(2) New initiative and second growth strategy

We thought Dynam Japan focused on expansion of the hall network as its sole growth strategy up to now. Yet it might be necessary to revise this view.

The Company appears to have started a new initiative recently, and it has helped in lifting existing halls' revenue. Attention has naturally been given to existing halls' revenue considering the Company's emphasis on operations based on chain-store theory. One example is large-scale renovation conducted from 4Q FY3/15 to 1Q FY3/16. Low ball rental fee operations are also a type of catalyst for existing halls that aims to increase customer volume.

In FY3/17, the Company launched 1) marketing that focuses on local customers and 2) experimental measures. The first initiative of focus on local customers seeks to cultivate halls from the perspective of customers with unique regional attributes. The other effort of experimental measures involves opening two experimental halls that use measures beyond the traditional pachinko hall image and possible rollout at other halls if it is effective.

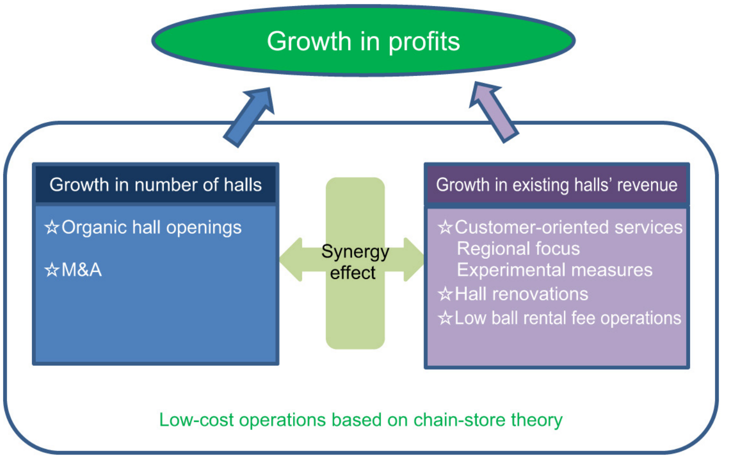
The Company often emphasized "low-cost operation based on chain story theory" up to now in its hall operations. This stance targeted cost reduction and efficiency. The latest regional focus and experimental measures are geared toward top-line growth (revenue growth) and hence do not constitute a major change from past management policy. The Company has tried various initiatives targeting revenue expansion in the past too.

Yet we refer to the latest new initiatives as a "challenge" because of the prospect of a higher percentage of their success depending on the skills of hall managers and other individual employees at each hall. The initiatives hope to cultivate a fan base. Measures that truly motivate customers cannot be achieved by just preparing a manual at headquarters and handling it out to individual halls. We think this is a major difference with cost reduction measures.

The new initiatives just started in FY3/17, and we believe the Company is currently in the process of accumulating specific examples and success stories. While the causal relationship with the new measures is unclear, the Company's machine utilization rate returned to a positive growth rate YoY in September 2016. The Company is also clearly recovering more than peers in a comparison of industry reference values. Manifestation of improvements in actual values offers strong reassurance for sustaining and expanding the challenges.

We think the Company can obtain another growth strategy of expansion of the hall network and existing halls' revenue, if it succeeds in realizing top-line growth through the new challenges. It should be possible to secure solid hall profits, along with low-cost operations, if it can relatively narrow the decline in existing halls' revenue (without actually realizing "growth"). We expect enhancement of the profitability foundation of individual halls to create positive synergies for the hall network expansion strategy too.

Image of two growth strategies – hall network expansion and existing halls' revenue gains



Source: Prepared by FISCO Ltd.

Result trends

Revenue and operating profit climbed in 1H FY3/17, EBITDA rose 9.6%

(1) Review of 1H FY3/17 results

The Company reported 1H FY3/17 results with ¥79,808mn in operating revenue (+5.2% YoY), ¥8,208mn in operating profit (+11.2%), ¥6,635mn in profit before income taxes (-9.4%), and ¥3,860mn in profit attributable to owners of the parent (-19.3%). Revenue and operating profit climbed, and EBITDA rose 9.6% YoY to ¥14,431mn.

Review of 1H FY3/17 results

(Unit: ¥mn)

	FY3/15		FY3/16		FY3/17	
	1H	Full year	1H	Full year	1H	YoY
Ball rental fee revenue	425,297	826,072	417,104	844,885	416,246	-0.2%
Cost of prizes	344,615	671,516	341,261	688,974	336,438	-1.4%
Operating revenue	80,682	154,556	75,843	155,911	79,808	5.2%
Total expenses	64,615	135,212	68,460	137,745	71,600	4.6%
Operating profit	16,067	19,344	7,383	18,166	8,208	11.2%
Profit before income taxes	14,729	19,518	7,323	17,403	6,635	-9.4%
Interim profit attributable to owners of the parent	9,040	11,303	4,784	10,544	3,860	-19.3%
EBITDA	21,522	30,637	13,170	30,494	14,431	9.6%

Source: Prepared by FISCO from Company materials

The operating revenue included ¥6,347mn from Yume Corporation as a new consolidated business. Yet operating revenue only increased ¥3,965mn YoY and it was down 3.1% to ¥2,382mn without the new consolidation. The Company opened just three new halls in 1H amid industry-wide delays due to replacement of machines as part of recovery and removal of certain models. This limited the revenue effect from expansion of the hall network and left the Company exposed to feeling the impact of market contraction in the industry as a whole. The 1H results hence highlighted the very effective role of the acquisition-driven growth strategy amid ongoing headwinds from the business environment.

We explained earlier the Company's ambitious initiatives to increase existing halls' revenue, such as regional focus efforts and experimental measures. While regional focus is taking place at all of the Company's halls, the effect remains minor at this stage. Nevertheless, some recovery in machine utilization rate (switch to a YoY increase and a wider gap with the industry reference value) surfaced in the latter half of 1H.

Operating profit increased 11.2% YoY to ¥8,208mn thanks to curtailment of the rise in operating costs (total value of hall costs and SG&A expenses) to 4.6% via thorough low-cost operations.

Foreign exchange loss of ¥1,439mn in financial costs resulted in the declines in profit before income taxes and subsequent profit items. Foreign exchange loss occurred for the Company's foreign-currency assets due to the USD-JPY rate shift from ¥112.7 at period-start to ¥101.1 at period-end. Profit before income taxes and following items increased YoY excluding this impact, and we think the 1H results were fairly strong as a whole.

(2) Outlook for FY3/17

The Company does not disclose forecasts. We presented the following scenario at period-start.

We expect the industry to continue to confront difficult conditions in FY3/17 and anticipate a large drop in new hall openings because of the shortage of replacement machines for removed gaming machines. Decline in the number of customers hence might directly affect ball rental fee revenue. Industry revenue (ball rental fee revenue) fell at a 3.8% average annual pace during the nine years from the peak in 2005 to 2014. Yet we project a smaller decline than the industry pace in the Company's revenue because of the successful shift to low ball rental fee operations and hall development that does not rely on gambling appeal. We thus project decline in ball rental fee revenue from ¥844,885mn reported in FY3/16 to ¥819,538mn in FY3/17. This works out to ¥150,795mn in operating revenue assuming gross profit margin (1 – ball discharge rate) on par with FY3/16 at 18.4%. The addition of ¥7,500mn from seven months of Yume Corporation's business puts consolidated operating revenue at ¥158,295mn (+1.5% YoY).

Operating revenue simulation

Factors	Calculation method	Figure	Remarks
FY3/16 ball rental fee revenue	A	844,885	Includes 5 months of contribution by Yume Corporation
Rate of growth in industry-wide ball rental fee revenue		-3.8%	The average annual rate of decline from 2005 to 2014
Rate of growth in the Company's ball rental fee revenue including 5 months of contribution by Yume Corporation	B	-3.0%	Reflects shift of business to low playing cost halls and to lower-risk machines
FY3/17 ball rental fee revenue	C=A×B	819,538	Includes 5 months of contribution by Yume Corporation
Assumed gross profit margin for FY3/17	D	18.4%	Unchanged from FY3/16 gross profit margin
FY3/17 operating revenue forecast	E=C×D	150,795	Includes 5 months of contribution by Yume Corporation
Additional contribution to operating revenue from Yume Corporation	F	7,500	7 months of contribution, in addition to the 5 months of contribution in FY3/16
Forecast of FY3/17 operating revenue	G=E+F	158,295	Based on the consolidation of Yume Corporation for 12 months

Source: Prepared by FISCO

While the Company's 1H results were roughly on track with this simulation, we expect upside in 2H.

Our primary basis for this view is the switch in the Company's machine utilization rate to a clear YoY increase from September. We believe the Company possesses better resilience to the current tough business environment because of its low ball rental fee operations and stance of not relying on gambling appeal. The Company also launched services designed from a customer perspective with regional focus at the start of this fiscal year and has worked to cultivate a Dynam fan base. We think these measures should make inroads over time and might help in halting decline and even spurring gains in existing halls' revenue.

We expect the Company to post higher operating profit in 2H if operating revenue expands, just as in 1H, due to its continuation of low-cost operation initiatives in 2H. We also anticipate decline in the foreign exchange loss at the full-year level, versus the amount booked in 1H, if the current foreign exchange rate lasts through to the end of the period. It is difficult to forecast the impact from foreign exchange income because of the highly volatile market and resulting possibility of the loss widening or narrowing. Yet we think profits from the Company's main business should remain relatively strong in 2H.

Simplified income statement and the major indicators

(Unit: ¥mn)

	FY3/14	FY3/15			FY3/16			FY3/17
		1H	2H	Full year	1H	2H	Full year	1H
Operating revenue	165,754	80,682	73,874	154,556	75,843	80,068	155,911	79,808
YOY	1.1%	-1.8%	-11.6%	-6.8%	-6.0%	8.4%	0.9%	5.2%
Operating costs	135,940	64,791	69,868	134,659	68,855	69,471	138,326	72,474
YOY	1.5%	-4.1%	2.2%	-0.9%	6.3%	-0.6%	2.7%	5.3%
SG&A costs	4,086	2,383	3,073	5,456	2,738	3,060	5,798	2,692
YOY	31.3%	68.8%	14.9%	33.5%	14.9%	-0.4%	6.3%	-1.7%
Other income	7,139	3,549	3,301	6,850	3,644	4,540	8,184	4,676
Other expenses	1,132	990	957	1,947	511	1,294	1,805	1,110
Operating profit	31,735	16,067	3,277	19,344	7,383	10,783	18,166	8,208
YOY	-7.4%	0.5%	-79.2%	-39.0%	-54.0%	229.1%	-6.1%	11.2%
Financial income	3,660	1,028	1,123	2,151	275	36	311	173
Financial expenses	781	2,366	-389	1,977	335	739	1,074	1,746
Profit before income taxes	34,614	14,729	4,789	19,518	7,323	10,080	17,403	6,635
YOY	3.5%	-8.7%	-74.1%	-43.6%	-50.3%	110.5%	-10.8%	-9.4%
Tax expenses	13,377	5,693	2,566	8,259	2,539	4,325	6,864	2,815
Net profit	21,237	9,036	2,223	11,259	4,784	5,755	10,539	3,820
YOY	1.5%	-12.1%	-79.7%	-47.0%	-47.1%	158.9%	-6.4%	-20.2%
Profit attributable to owners of the parent	21,255	9,040	2,263	11,303	4,784	5,760	10,544	3,860
YOY	-1.6%	-12.4%	-79.3%	-46.8%	-47.1%	154.5%	-6.7%	-19.3%
EBITDA	42,702	21,522	9,115	30,637	13,170	17,324	30,494	14,431
YOY	0.9%	1.3%	-57.5%	-28.3%	-38.8%	90.1%	-0.5%	9.6%

EPS (¥)	28.60	12.17	3.03	15.20	6.44	7.46	13.90	5.04
Dividend per share (¥)	14.00	7.00	7.00	14.00	7.00	6.00	13.00	6.00

■ Result trends

Balance sheet

(Unit: ¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17 1H
Current assets	50,946	48,723	43,240	46,902
Cash and deposits	34,836	29,239	28,134	32,786
Sales receivable	563	486	459	486
Other	15,547	18,998	14,647	13,630
Non-current assets	135,223	132,213	145,944	146,697
Tangible fixed assets	94,605	99,961	109,532	108,302
Intangible fixed assets	1,408	1,029	3,991	3,939
Investments and others	39,210	31,223	32,421	34,456
Total assets	186,169	180,936	189,184	193,599
Current liabilities	34,910	31,380	30,838	35,994
Accounts payable	19,049	20,468	17,786	18,581
Short-term borrowings, etc.	1,265	3,160	2,369	4,242
Other	14,596	7,752	10,683	13,171
Non-current liabilities	9,249	14,503	25,727	23,645
Long-term borrowings	3,059	9,160	18,394	16,501
Other	6,190	5,343	7,333	7,144
Equity attributable to owners of the parent	141,990	135,077	132,645	134,015
Share capital	15,000	15,000	15,000	15,000
Capital surplus	10,129	10,129	12,883	12,741
Retained profits	110,136	111,037	110,253	109,523
Other constituent of equity	6,725	-1,089	-5,202	-3,249
Non-controlling interests	20	-24	-26	-55
Total equity	142,010	135,053	132,619	133,960
Liabilities & net worth	186,169	180,936	189,184	193,599

Cash flow statement

(Unit: ¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17 1H
Net profit before income taxes	33,436	34,614	19,518	17,403	6,635
Depreciation costs	10,507	10,234	10,340	11,597	5,840
Others	-15,613	-17,463	-16,442	-4,927	2,391
Cash flow from operating activities	28,330	27,385	13,416	24,073	14,866
Increase in fixed assets	-10,723	-9,292	-16,008	-12,613	-5,371
Others	-176	-13,098	-1,005	1,960	-43
Cash flow from investing activities	-10,899	-22,390	-17,013	-10,653	-5,414
Cash flow from financing activities	-8,028	-13,102	-2,898	-15,212	-4,564
Effects of exchange rate changes on cash and cash equivalents	3,539	1,477	898	687	-236
Change in cash and cash equivalents	12,942	-6,630	-5,597	-1,105	4,652
Cash and cash equivalents at the beginning of FY	28,524	41,466	34,836	29,239	28,134
Cash and cash equivalents at the end of FY	41,466	34,836	29,239	28,134	32,786

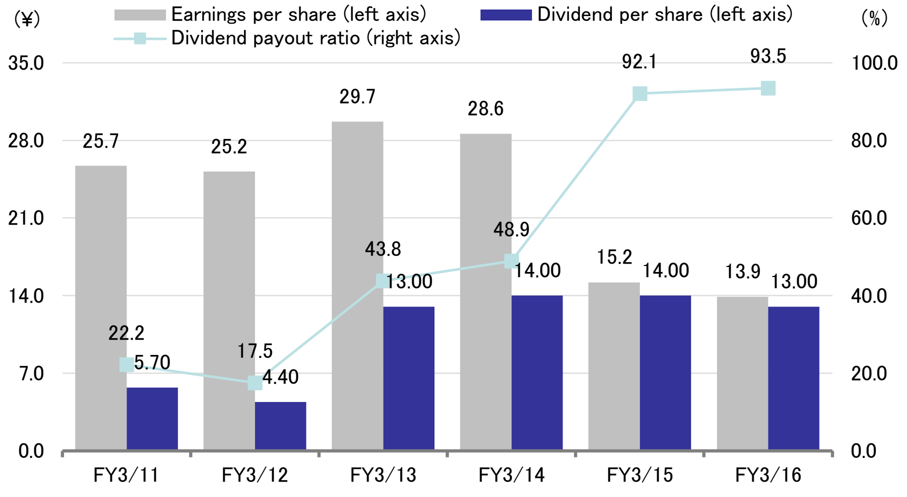
Returns to Shareholders

Fundamental policy is to continue stable dividends

The Company is highly conscious of the importance of returns to shareholders because it recognizes the importance of raising shareholder value in order to achieve sustainable growth. It continues to pay stable dividends based on this view.

The Company decided to pay a ¥6 dividend per share as the interim dividend for the end of 1H FY3/17. This works out to ¥4,596mn in total dividend paid and a 120.3% dividend payout ratio versus the ¥3,820mn in interim profit. The Company paid the ¥6 dividend in light of strong core business and a rise in real interim profits excluding the foreign exchange impact.

Trends in profits per share, dividend per share and dividend payout ratio



Source: Prepared by FISCO from financial statements

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FISCO Ltd.