

# FY Ended March 2019 Full Year Results Presentation



DAIKOKU DENKI Co., Ltd.  
(Tokyo Stock Exchange, First Section, 6430)

## Related News on Financial Results

### ■ 2018

- Aug. 9 Financial Results for the 1st Quarter of FY 2018
- Aug. 9 Notice concerning expansion of shareholder special benefit plan
- Nov. 6 Revision of earnings estimates
- Nov. 13 Dividend of surplus (Interim dividend)
- Nov. 13 Financial Results for the 2nd Quarter of FY 2018
- Dec. 25 Notice regarding changes in representative director (change of President) and executives

### ■ 2019

- Feb. 13 Financial Results for the 3rd Quarter of FY 2018
- Mar. 20 Notice regarding reorganization and personnel changes
- May. 7 Revision of earnings estimates
- May. 14 Dividend of surplus
- May. 14 Financial Results for the year ended March 31, 2019
- May. 14 Revision of Mid-term business plan

## Related News on Business and New Products

### ■ 2018

- May.-Jun. Convened “MIRAIGATE 2018 SIS Seminar”
- Jul. 5 Announcement of “DK-SIS White Paper FY 2018 version”
- Jul. 10 Release of new function, nationwide fan trend data publication service “Fan-SIS”

### ■ 2019

- May. 14 Notice regarding release of hall computer “X(Kai)”

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# FY Ended March 2019 Full Year Results

## Consolidated Statements of Income (Summary)

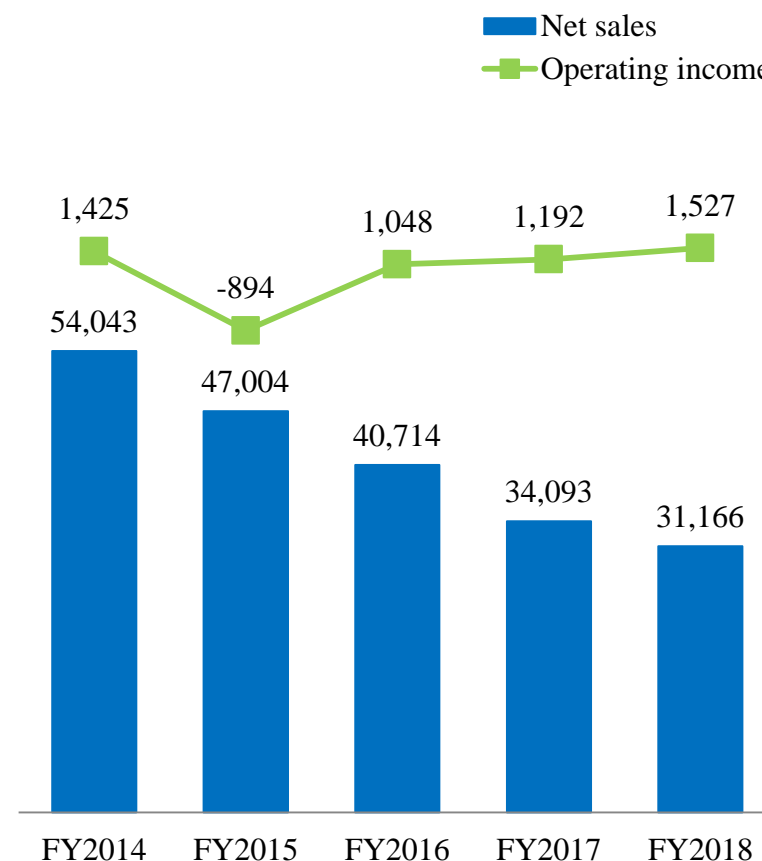
Net sales	31,166 million yen
Operating income	1,527 million yen
Ordinary income	1,748 million yen
Net income attributable to owners of the parent	1,263 million yen

(millions of yen)	FY2017	FY2018	YoY Change	Vs. Forecasts Change
Net sales	34,093	31,166	- 2,927	- 3,834
Gross profit-net	11,837	11,673	- 164	- 727
Selling, general and administrative expenses	10,644	10,145	- 499	- 955
Operating income	1,192	1,527	+ 335	+ 227
Ordinary income	1,390	1,748	+ 358	+ 348
Net income attributable to owners of the parent	785	1,263	+ 478	+ 463
Research and development expenditure	1,578	1,206	- 372	- 394

(Note) The planned ratio is the value of earnings projection for the term ending in March 2019 announced on May 14, 2018, as well as the planned ratio described in the materials for the briefing of the term ending in March 2019 held on May 23, 2018 targeting institutional investors and analysts.

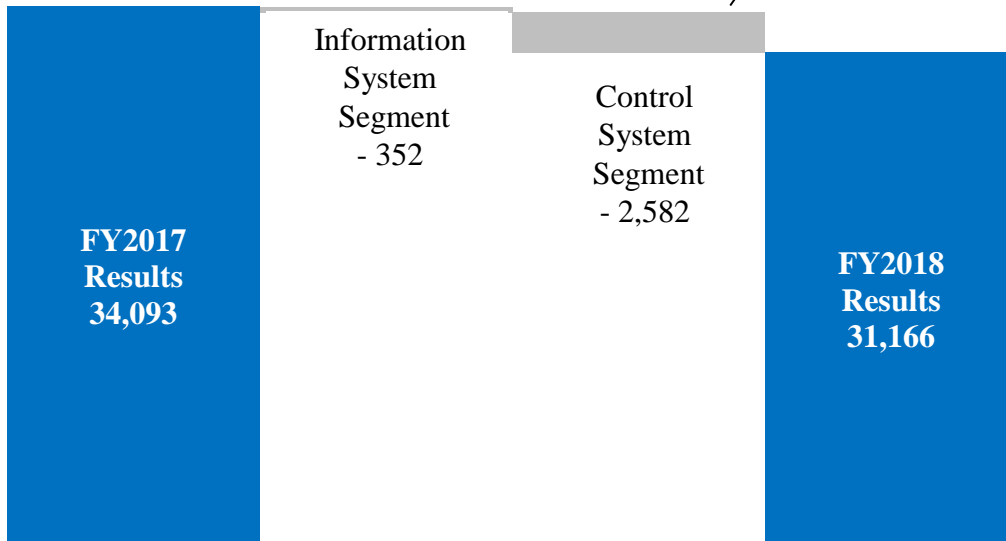
### Net sales and Operating income

(millions of yen)



**YoY Change - 2,927 million yen**

(millions of yen)



## Information System Segment

**Net sales in this segment were 24,474 million yen (YoY Change - 352 million yen)**

Sales of hall computers exceeded the levels of the previous consolidated fiscal year because their introduction to leading companies proceeded. In the severe market environment with significantly decreased new parlor openings and large-scale renovations, sales of Call lamp such as “BiGMO PREMIUM II” and “REVOLA,” and of CR units such as “VEGASIA III,” were at the levels of the previous consolidated fiscal year, sales of other main products, such as the system for customers receiving prizes, also fell below the levels of the previous consolidated fiscal year.

## Control System Segment

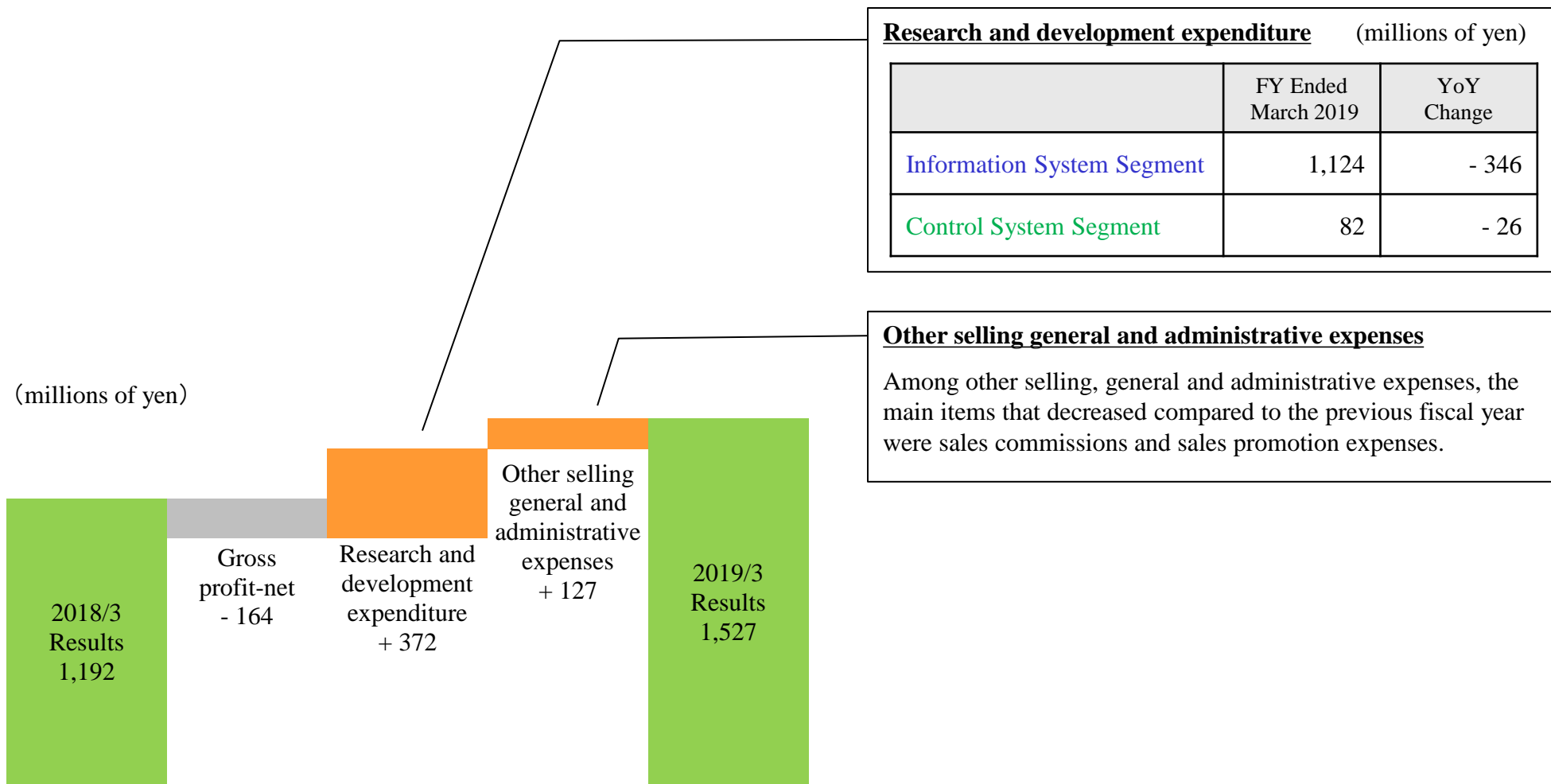
**Net sales in this segment were 6,740 million yen (YoY Change - 2,582 million yen)**

Display units for pachinko game machines sold well during this consolidated fiscal year and exceeded the level of the previous consolidated fiscal year. However, sales of control units and their components fell below the levels of the previous consolidated fiscal year because of game machine manufacturers’ review of sales plans due to the effect of new regulations, and the reuse rate increase, etc.

As for pachislot game machines, approximately 5,500 units were brought to the market in the previous consolidated fiscal year, but there were no sales during this consolidated fiscal year.

(Note) Business segment sales and income figures include intersegment transactions.

YoY Change + 335 million yen

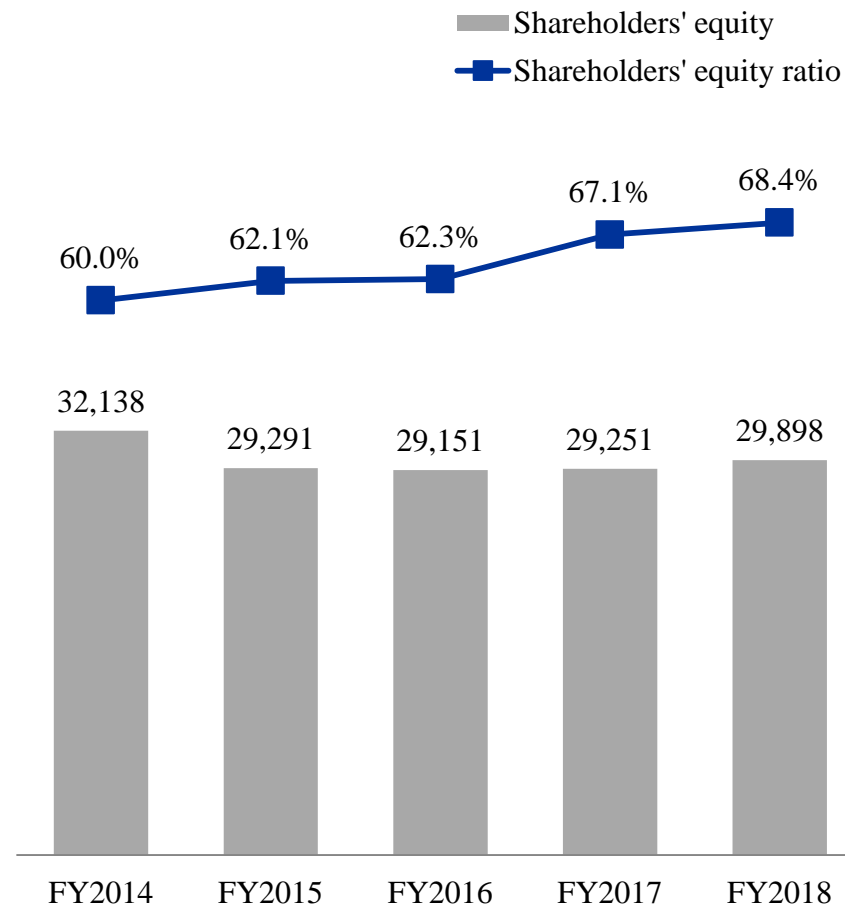


## Consolidated Balance Sheets (Summary)

Total liabilities and net assets	43,729 million yen
Total liabilities	13,831 million yen
Total net assets	29,898 million yen

(millions of yen)	2018/3	2019/3	YoY Change
Current assets	26,556	26,397	- 159
Noncurrent assets	17,007	17,331	+ 324
Total assets	43,564	43,729	+ 165
Current liabilities	13,196	12,339	- 856
Noncurrent liabilities	1,115	1,491	+ 375
Total liabilities	14,312	13,831	- 481
Total net assets	29,251	29,898	+ 646
Total liabilities and net assets	43,564	43,729	+ 165
Debt	3,300	3,303	+ 3
Debt equity ratio	0.11times	0.11times	—
Shareholders' equity ratio	67.1%	68.4%	+ 1.3%
Receivables turnover period	72.8days	80.1days	+ 7.3days
Inventory turnover period	65.8days	63.3days	- 2.5days
Payable turnover period	80.4days	72.1days	- 8.3days
Number of shares outstanding	14,783,105	14,783,060	—

### Shareholders' equity (millions of yen)

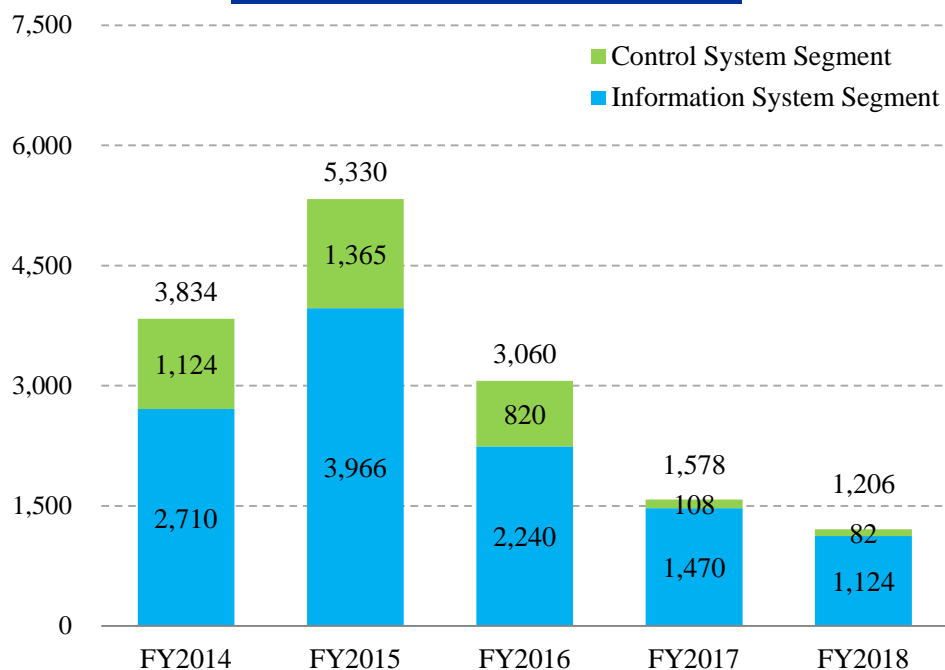




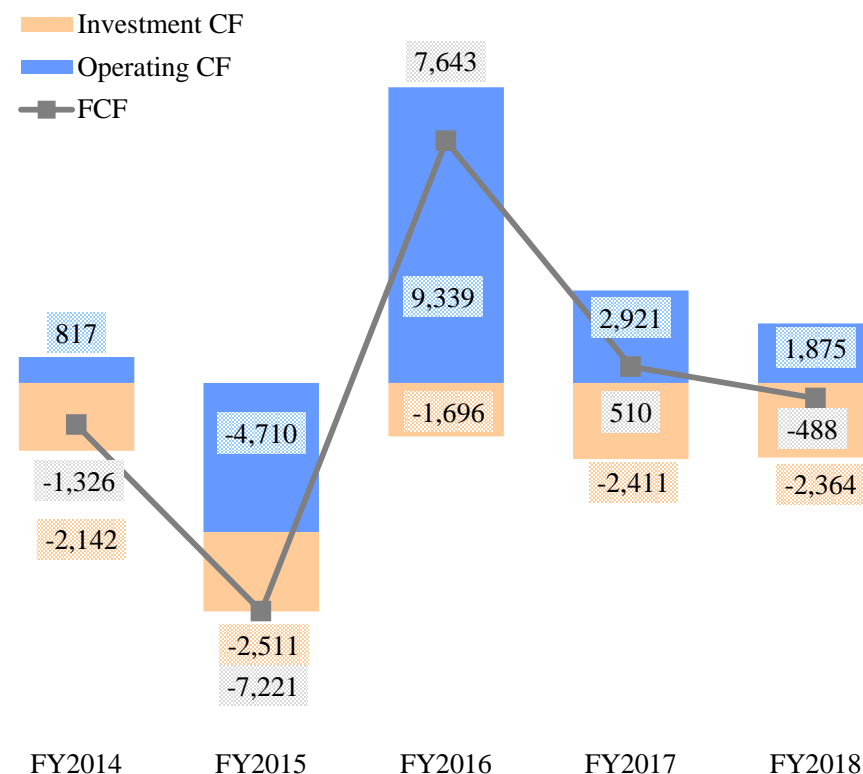
## Consolidated Statements of Cash Flows (Summary)

(millions of yen)	FY2017	FY2018	YoY Change
Operating CF	2,921	1,875	- 1,045
Investment CF	- 2,411	- 2,364	+ 46
Financing CF	- 739	- 592	+ 147
Cash and cash equivalents	13,832	12,751	- 1,080

### Research and development expenses



### Free Cash Flow (FCF)



# Business results by segment

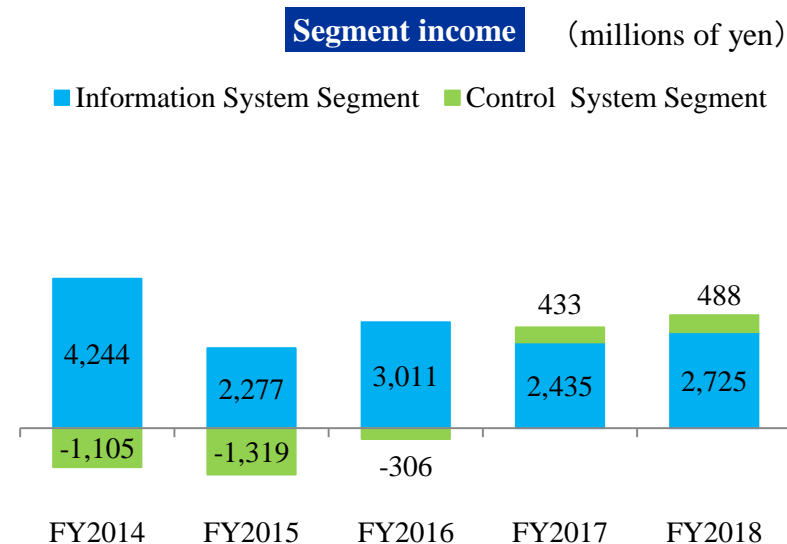
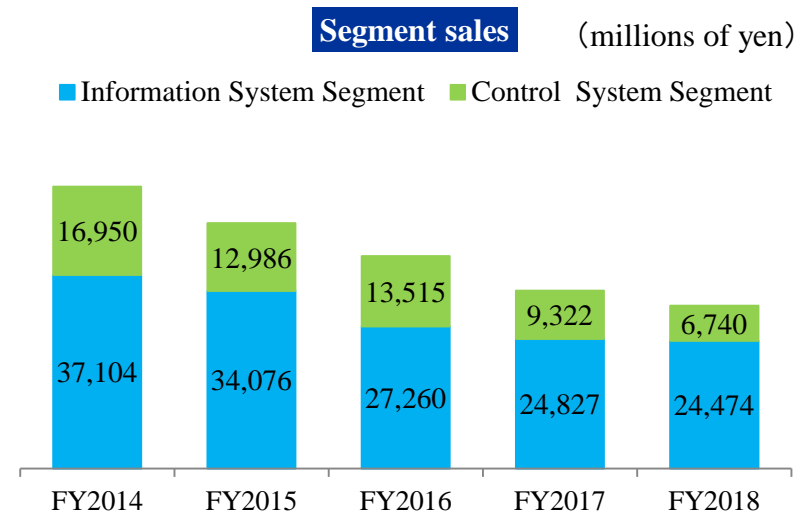
## YoY Change

Segment sales - 2,934 million yen , Segment income + 345 million yen

(millions of yen)	FY2017	FY2018	YoYChange	Vs. Forecasts Change
<b>Information System Segment</b>				
Hardware	14,413	13,871	- 542	- 1,329
System	10,414	10,603	+189	- 197
Subtotal	24,827	24,474	- 352	- 1,526
<b>Control System Segment</b>				
Units and Parts	6,261	5,427	- 834	- 2,073
Pachislot and Others	3,062	1,313	- 1,749	- 187
Subtotal	9,322	6,740	- 2,582	- 2,260
<b>Segment sales</b>	34,150	31,215	- 2,934	- 3,785
<b>Information System Segment</b>	2,435	2,725	+290	+325
<b>Control System Segment</b>	433	488	+54	- 312
<b>Segment income</b>	2,868	3,214	+345	+14
Corporate expenses	-1,676	-1,686	- 10	+214
Net sales	34,093	31,166	- 2,927	- 3,834
Operating income	1,192	1,527	+335	+227

(Note) The planned ratio is the value of earnings projection for the term ending in March 2019 announced on May 14, 2018, as well as the planned ratio described in the materials for the briefing of the term ending in March 2019 held on May 23, 2018 targeting institutional investors and analysts.

Business segment sales and income figures include intersegment transactions.



# FY Ending March 2020 Full Year Forecasts

## ■ Recent the pachinko industry

1. Although it has been more than a year since “the Regulations on the Partial Revision of Regulations Regarding the Enforcement of the Act on Control and Improvement of Amusement Business, etc. and Regulations Regarding the Certification of Game Machines and Examination of Model” came into force, the market still has a mix of game machines under the old and new regulations, and the pachinko industry is required to accelerate the transition to game machines under the new regulations by creating attractive gaming features suitable for the new regulations.
2. “The basic plan for the promotion of countermeasures against gambling addiction, etc. (draft)” was officially announced on March 6, 2019, and indicated specific policies and challenges that the pachinko industry should work on.
3. The total number of game machines installed decreased in 2018. On the other hand, the number of machines installed per hall increased.

## ■ Future's the pachinko industry

1. The number of new pachinko game machines sold has been decreasing, and a severe market environment is expected to continue in the pachinko industry.
2. Approximately 180,000 pachislot game machines are planned to be replaced with game machines under new regulations due to the expiration of certification by December 2019, so future trends will attract attention.
3. Companies involved in the management of pachinko halls that are considering a price change in pachinko balls (medals) are increasing as a response to the consumption tax hike, and demand to replace the existing CR unit with our company’s CR unit “VEGASIA III,” which has a tax-exclusive pricing function, is anticipated.

○ **Net Sales 34,000 million yen** (YoY + 2,834 million yen)

■ **Information System Segment 26,000 million yen** (YoY + 1,526 million yen)

- Strives to contribute to the performance of companies involved in the management of pachinko halls by launching on the market products equipped with various content in compliance with the new regulations.
- Promoting widespread use of the new MIRAIGATE service, “Market-SIS.”

■ **Control System Segment 8,000 million yen** (YoY + 1,260 million yen)

- Aims for quality improvement and development cost reduction through efficiency in the development process.
- Creating attractive gaming features suitable for the new regulations, and by disseminating planning and product proposals that utilize new technology for all pachinko game machines.

○ **Selling, general and administrative expenses 10,900 million yen** (YoY + 755 million yen)

- The main factors in a decrease in profit are replacement of the core system, etc., and depreciation caused by the Information System Segment launching the hall computer “X (Kai)” onto the market in June 2019.

(Note) Business segment sales and income figures include intersegment transactions.

# FY Ending March 2020 Full Year Forecasts

(millions of yen)	FY2018			FY2019 (Projected)			YoY Change
	1st half	2nd half	Total	1st half	2nd half	Total	
Net sales	14,230	16,936	31,166	16,500	17,500	34,000	+ 2,834
Gross profit-net	5,722	5,951	11,673	6,000	6,100	12,100	+ 427
Selling, general and administrative expenses	4,850	5,295	10,145	5,400	5,500	10,900	+ 755
Operating income	872	655	1,527	600	600	1,200	- 327
Ordinary income	1,005	743	1,748	625	625	1,250	- 498
Net income attributable to owners of the parent	637	626	1,263	400	400	800	- 463
Research and development expenses	511	695	1,206	560	650	1,210	+ 4
Depreciation expense	842	900	1,742	1,040	1,340	2,380	+ 638
Capital investment	189	488	677	380	380	760	+ 83
Software	388	1,218	1,606	820	1,080	1,900	+ 294

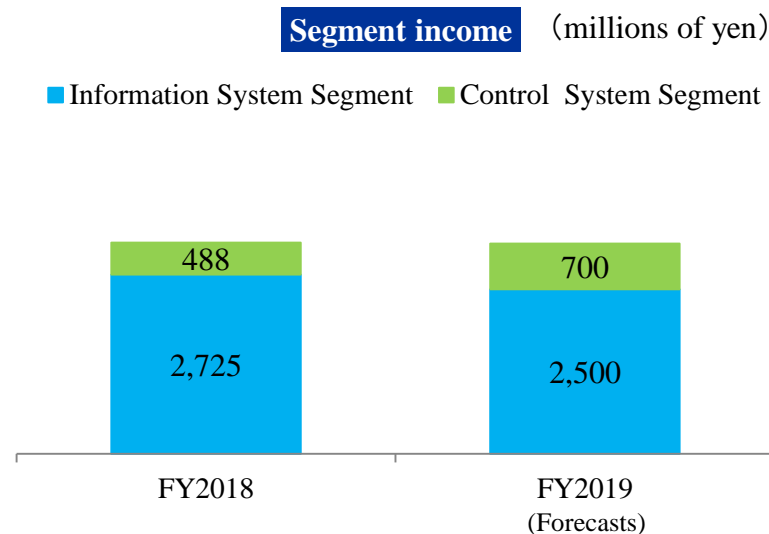
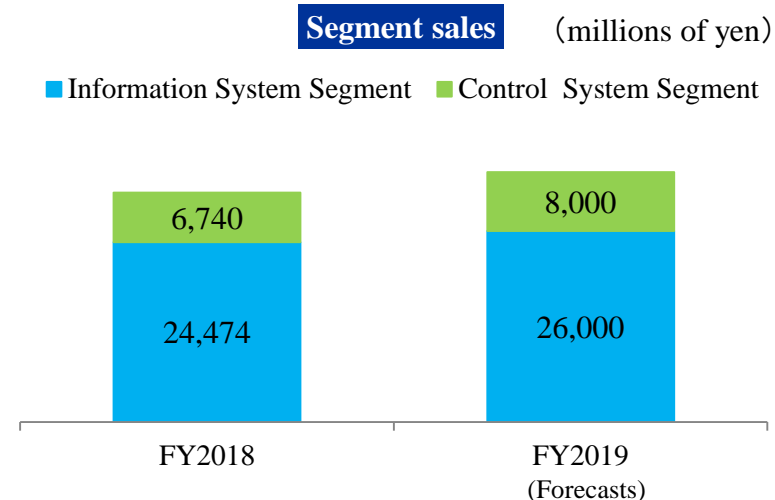
# FY Ending March 2020 Full Year Forecasts by segment

## YoY Change

Segment sales + 2,785 million yen , Segment income - 14 million yen

(millions of yen)	FY2018	FY2019 (Forecasts)	YoY Change
<b>Information System Segment</b>			
Hardware	13,871	15,157	+1,286
System	10,603	10,843	+240
Subtotal	24,474	26,000	+1,526
<b>Control System Segment</b>			
Units and Parts	5,427	6,280	+853
Pachislot and Others	1,313	1,720	+407
Subtotal	6,740	8,000	+1,260
<b>Segment sales</b>	<b>31,215</b>	<b>34,000</b>	<b>+2,785</b>
<b>Information System Segment</b>	<b>2,725</b>	<b>2,500</b>	<b>- 225</b>
<b>Control System Segment</b>	<b>488</b>	<b>700</b>	<b>+212</b>
<b>Segment income</b>	<b>3,214</b>	<b>3,200</b>	<b>- 14</b>
Corporate expenses	-1,686	-2,000	- 314
Net sales	31,166	34,000	+2,834
Operating income	1,527	1,200	- 327

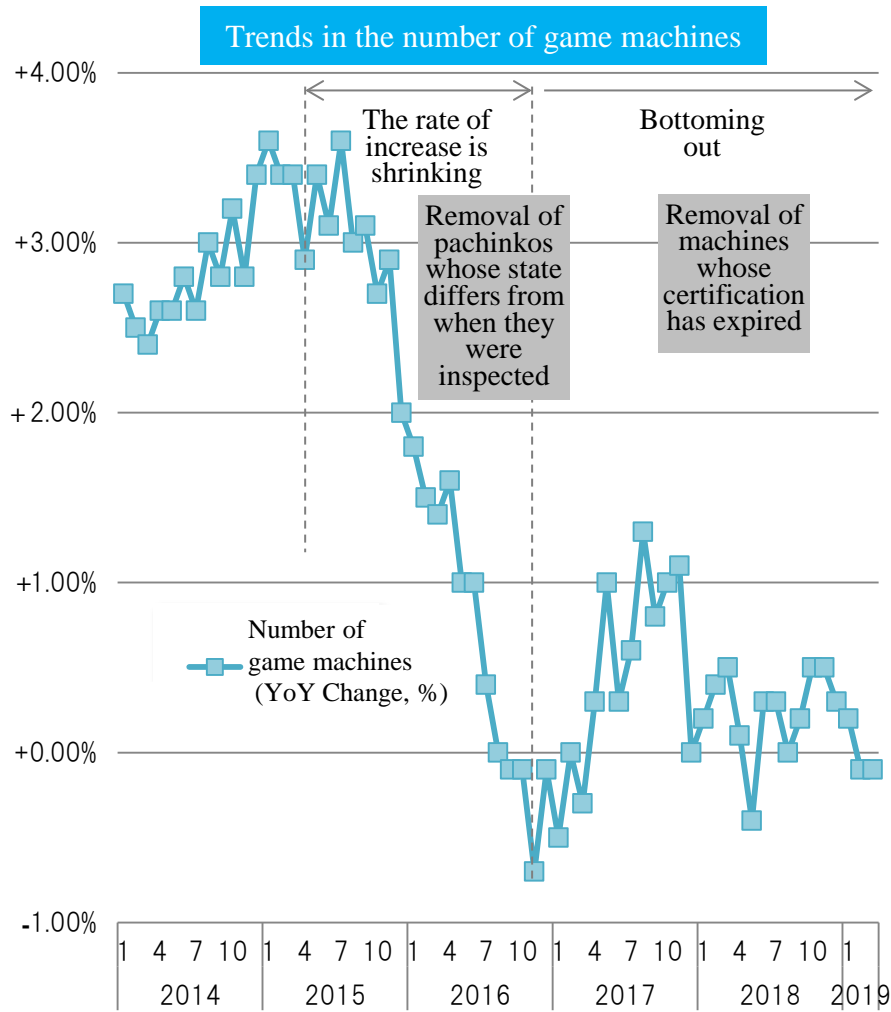
(Note) Business segment sales and income figures include intersegment transactions.



# Business Environment



# Trends in the number of game machines installed in pachinko halls



The degree of the increase in the number of machines installed shrank from 2015 to 2016, and showed signs of bottoming out around the beginning of 2017.

The number of machines installed showed a year-on-year decrease from around the end of 2017 to the beginning of 2018, and it is assumed that this was due to the removal of machines whose certification had expired.

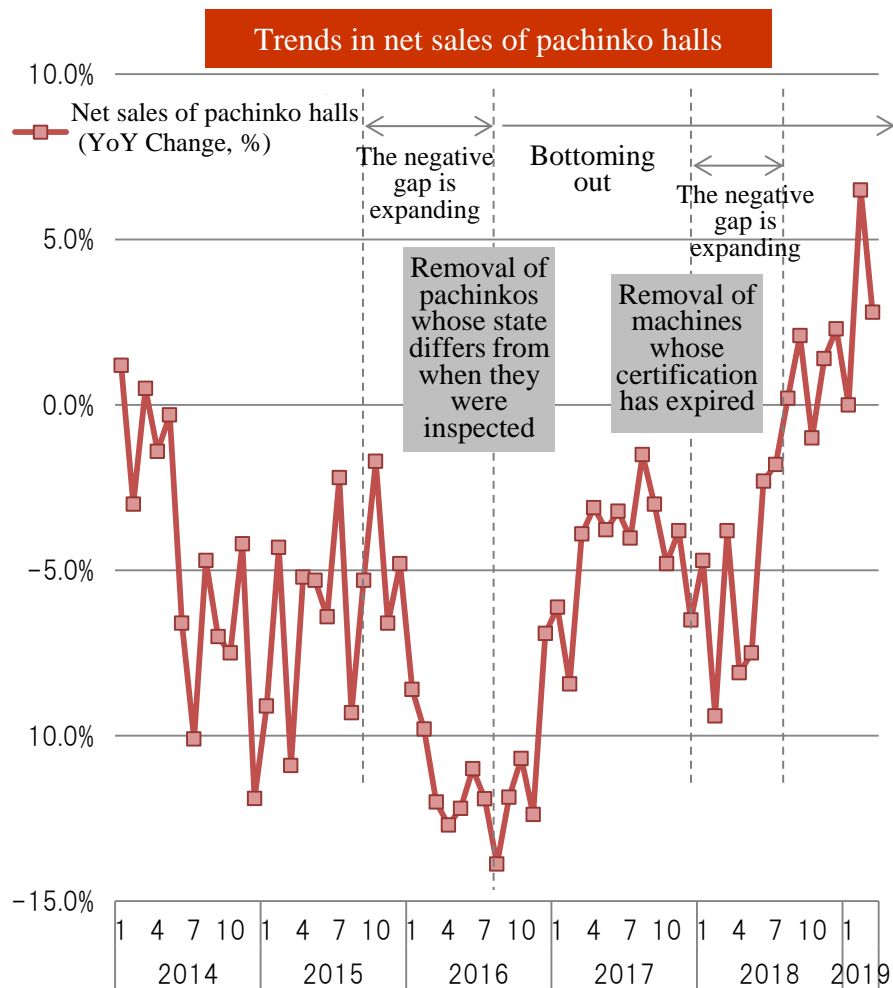
In 2019, sales were close to flat compared to the previous year.

Number of game machines (YoY Change, %)

	2014	2015	2016	2017	2018	2019
Jan.	+2.7%	+3.6%	+1.8%	-0.5%	+0.2%	+0.2%
Feb.	+2.5%	+3.4%	+1.5%	+0.0%	+0.4%	-0.1%
Mar.	+2.4%	+3.4%	+1.4%	-0.3%	+0.5%	-0.1%
Apr.	+2.6%	+2.9%	+1.6%	+0.3%	+0.1%	
May	+2.6%	+3.4%	+1.0%	+1.0%	-0.4%	
Jun.	+2.8%	+3.1%	+1.0%	+0.3%	+0.3%	
Jul.	+2.6%	+3.6%	+0.4%	+0.6%	+0.3%	
Aug.	+3.0%	+3.0%	+0.0%	+1.3%	+0.0%	
Sep.	+2.8%	+3.1%	-0.1%	+0.8%	+0.2%	
Oct.	+3.2%	+2.7%	-0.1%	+1.0%	+0.5%	
Nov.	+2.8%	+2.9%	-0.7%	+1.1%	+0.5%	
Dec.	+3.4%	+2.0%	-0.1%	+0.0%	+0.3%	
	+3.4%	+2.0%	-0.1%	+0.0%	+0.3%	

(Source of data) Ministry of Economy, Trade and Industry, "Survey on Selected Service Industries"

# Recent trends in net sales of pachinko halls



(Source of data) Ministry of Economy, Trade and Industry, "Survey on Selected Service Industries"

Hall sales that had been increasingly negative year-on-year since the end of 2015 bottomed out from around summer 2016 and the degree of negativity year-on-year is shrinking.

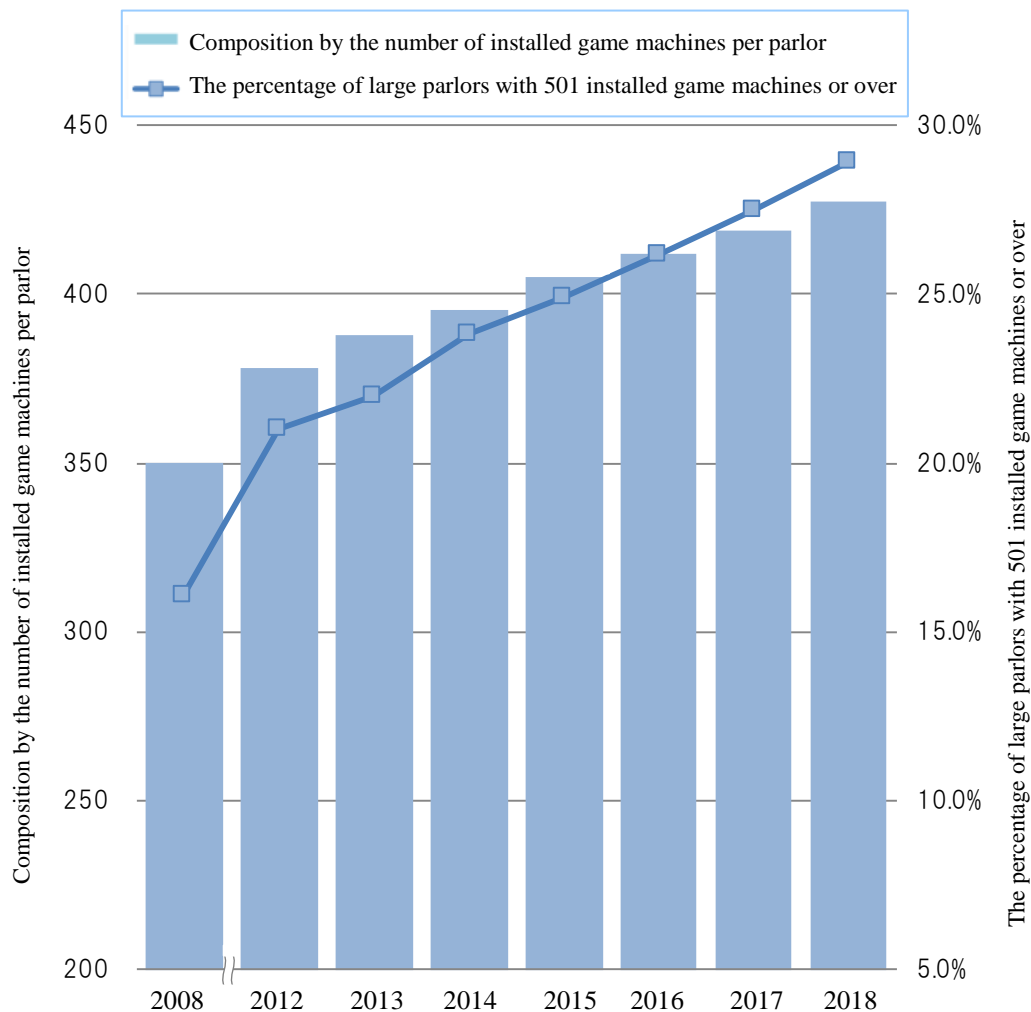
Pachinko hall sales expanded their year-on-year negative margin from around July 2017 to the end of the said year.

Recently, we have continued to show signs of leveling off or moving into positive territory compared to the previous year due to the narrowing of the negative gap.

Net sales of pachinko halls (YoY Change, %)

	2014	2015	2016	2017	2018	2019
Jan.	+1.2%	-9.1%	-8.6%	-6.1%	-4.7%	+0.0%
Feb.	-3.0%	-4.3%	-9.8%	-8.4%	-9.4%	+6.5%
Mar.	+0.5%	-10.9%	-12.0%	-3.9%	-3.8%	+2.8%
Apr.	-1.4%	-5.2%	-12.7%	-3.1%	-8.1%	
May	-0.3%	-5.3%	-12.2%	-3.8%	-7.5%	
Jun.	-6.6%	-6.4%	-11.0%	-3.2%	-2.3%	
Jul.	-10.1%	-2.2%	-11.9%	-4.0%	-1.8%	
Aug.	-4.7%	-9.3%	-13.9%	-1.5%	+0.2%	
Sep.	-7.0%	-5.3%	-11.9%	-3.0%	+2.1%	
Oct.	-7.5%	-1.7%	-10.7%	-4.8%	-1.0%	
Nov.	-4.2%	-6.6%	-12.4%	-3.8%	+1.4%	
Dec.	-11.9%	-4.8%	-6.9%	-6.5%	+2.3%	
	-4.6%	-6.0%	-11.2%	-4.3%	-2.8%	

## The percentage of large parlors has increased compared to ten years ago



The percentage of large parlors with 501 installed game machines or over has increased to ten years ago.

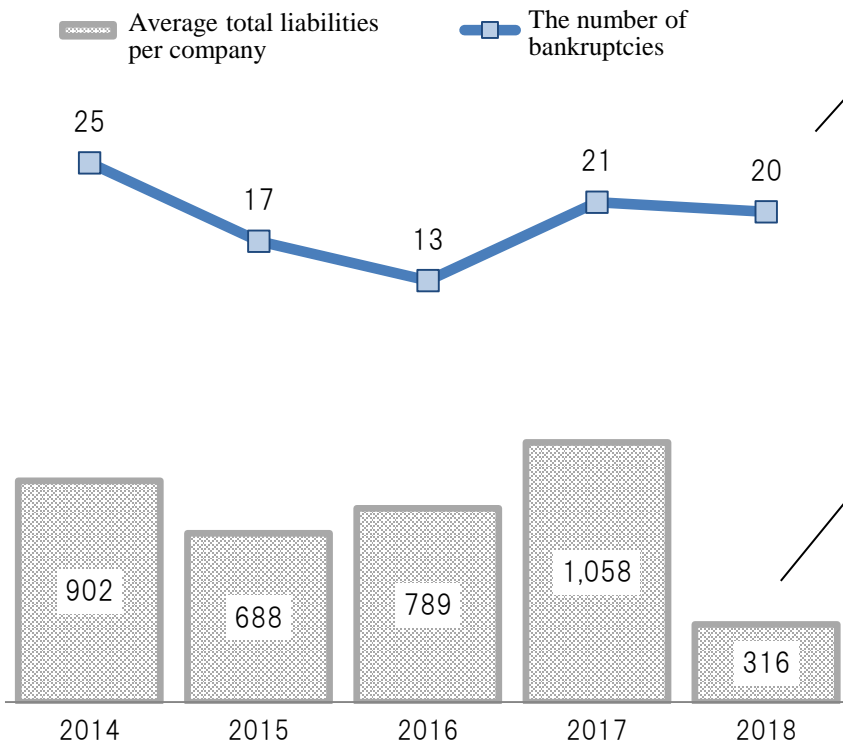
	The number of installed game machines per parlor (%)					Average installed game machines
	- 100	101 - 300	301 - 500	501 - 1,000	1,001 -	
2012	2.8	39.9	36.3	19.4	1.6	378.0
2013	2.7	38.6	36.7	20.2	1.8	387.8
2014	2.5	37.4	36.3	21.7	2.1	395.4
2015	2.3	36.7	36.1	22.4	2.5	405.0
2016	2.3	35.3	36.3	23.5	2.6	411.9
2017	2.0	34.2	36.3	24.6	2.9	418.7
2018	2.1	32.8	36.2	25.7	3.2	427.7
2008	4.2	43.8	36.0	15.3	0.8	349.8

(Source of data) The National Police Agency “The 2018 White Paper on Adult Entertainment Business issued by the Community Safety Bureau”

# Pachinko hall bankruptcies

The number of bankruptcies has tended to be flat and it is estimated that there have been many small-scale bankruptcies recently

The number of bankruptcies, Average total liabilities



In 2008, when the Lehman Shock occurred, the number of bankruptcies was estimated at 72, the highest in the last 10 years (\*1).  
The number of recent bankruptcies has fallen far below this peak, but it is estimated that the number of bankruptcies is trending almost unchanged.

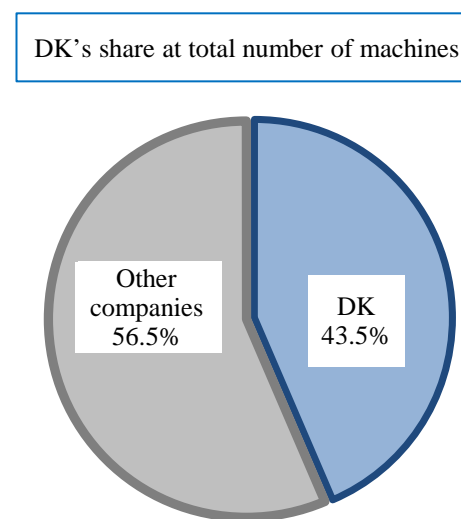
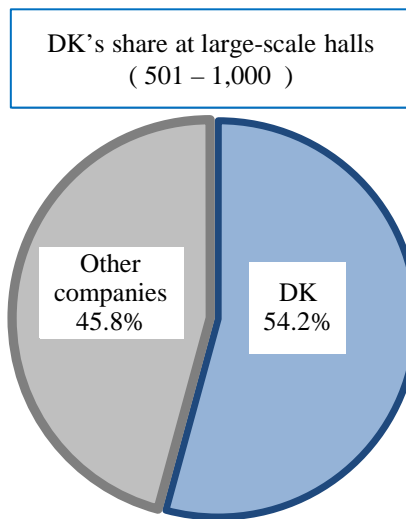
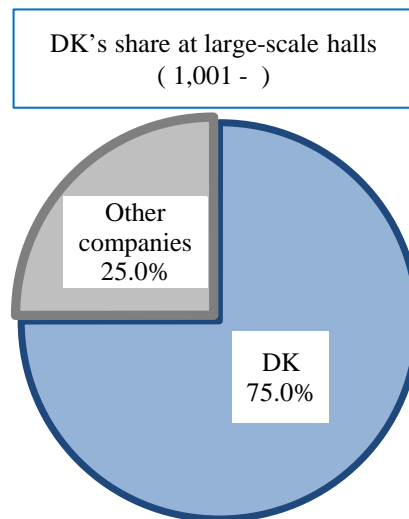
Average total liabilities (\*2) per company in 2018 were significantly lower than the previous year. This is estimated to suggest that small-scale pachinko halls tended to go bankrupt in 2018.

\*1. Survey by Teikoku Databank  
\*2. Processed based on Teikoku Databank survey data

(Note) Calendar year, 2018 as of end-October  
(Source of data) Processed based on Teikoku Databank survey data

# Share of our hall computers in pachinko halls

## Our share by hall size, total number of machines installed



- DK's strength lies in its ability to attract large corporations and major halls. As a result, hall size is larger than the market average, and the average number of game machines is 533 units, more than 40% larger than other companies (371 units). (DK estimate)
- The Company's game machine market share is 43.5%, which exceeds our hall computer market share of 34.6%. (see Table 2)
- DK's market share in large halls with more than 500 units was 54.2% in halls with 501 to 1000 units, and about 75% in halls with 1001 units and above. (DK estimate)

<Table 1> Comparison of the number of pachinko halls by hall size

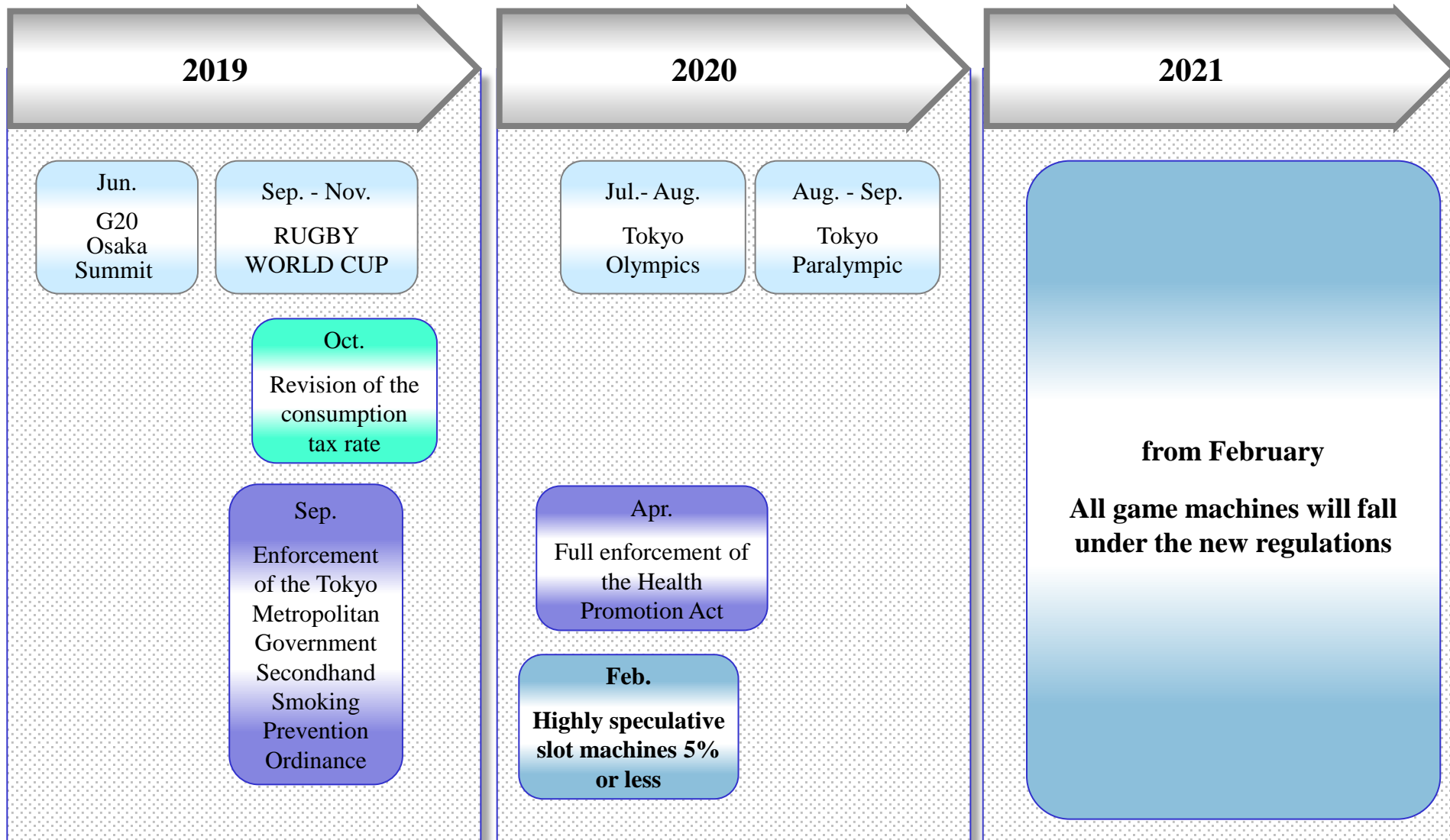
Hall size	Total		DK(Daikoku Denki)			Other companies		
	Parlors	Ratio	Parlors	Ratio	Share	Parlors	Ratio	Share
1,001 -	320	3.2%	240	6.8%	75.0%	80	1.2%	25.0%
501 - 1,000	2,590	25.7%	1,405	39.9%	54.2%	1,185	18.1%	45.8%
301 - 500	3,645	36.2%	1,187	33.8%	32.6%	2,458	37.6%	67.4%
101 - 300	3,295	32.8%	676	19.2%	20.5%	2,619	40.0%	79.5%
- 100	210	21.1%	9	0.3%	4.3%	201	3.1%	95.7%
Total	10,060	100%	3,517	100%	35.0%	6,543	100%	65.0%

<Table 2> Comparison of the total number of game machines installed in pachinko halls

	Total	DK	DK share	Others	Others share
Total of installed game machines	4,302,731	1,873,074	43.5%	2,429,657	56.5%
The number of parlors	10,060	3,517	35.0%	6,543	65.0%
Average game machine number	428	533		371	

(\*) Total information shows the number of pachinko halls and game machines as of the end of December 2018 announced by the National Police Agency.  
 (\*) DK's date as of April 2019 (\*) Information from other companies shows the number in the total information minus the number of DK user halls

Factors that could affect the game industry are expected to continue



# Business strategy and measures

## The Group's understanding for changes in the market environment

- The Group understands changes in the market surrounding the pachinko industry, such as regulation revision, to be a good opportunity for the pachinko industry to evolve into one that will be even more widely supported by society in the medium to long term.
- The Group strives to contribute to market evolution by working on service development using new systems, and technology such as measures to prevent “addiction,” and by actively offering these to the market.
- The Group promotes active efforts so that the market is activated, pachinko is popular as a wholesome recreation, and the enhancement of leisure in society is advanced.

### Sending our company message out to the market

- From May to July 2019, we will hold a new product presentation and DK-SIS seminar titled “MIRAIGATE 2019 - Evolution Solution (Answer)” for hall-related people nationwide and will talk about the environmental changes surrounding the industry.
- In July 2019, We plan to present the “DK-SIS White Paper 2019”.  
The Group believes that you can use various data in order to improve the satisfaction of game players (fans).



## ■ The Group's business

- Main products and services in each segment, and the relationship with customers are as indicated in the diagram below.
- Every segment advances business development in the games industry.
- We are aware that the most important challenge is to flexibly respond to a changes in the recent market environment surrounding the Group, and along with the idea that we hone the Group's strength and respond to changes in the market environment, each segment shall adopt their current strategic direction.

### The Group's customer attributes

Pachinko and Pachislot fan

Pachinko halls

Game machine manufacturers

Amusement fan

↑  
Service to provide information

↑  
The product

↑  
The product

↑  
The product

↑  
Amusement software

#### Information System Segment

##### 【Main products and services】

- Computer systems for pachinko halls
- Prize management systems
- Information display systems
- Various support services, including DK-SIS

#### Control System Segment

##### 【Main products and services】

- Display units for pachinko machines
- Control units for pachinko machines
- Parts to be used for pachinko game machines
- Pachislot machines

# Business strategy

## Information System Segment

## Information System Segment — Provision of various products for pachinko halls

### Hall computer

Hall computers are used for game machine, prize machine and customer management, as well as information disclosure and video sales management, etc.



- The Company has worked for a long time on industry-leading themes such as analyzing sales data by model and introducing distributed processing, etc.
- We released the “X (Kai)” AI hall computer in June 2019. DK will increase value using the big data it possesses.

### Pachirobo(information display for fans)

This is a fan-oriented information app unique to the Company that uses a communication system set up between member pachinko halls nationwide and Company servers.



- Through the website, we provide good information to fans, such as how many types of the machines they want to use are installed in affiliated stores nationwide and the current state of ball pay-out, etc.

### Information terminals for fans

These are used for games machine presentations and calling fans to the hall.

- The Company’s latest LCD terminals for individual game machines are larger to increase the visibility of the information displayed, and they also have enhanced functions that support fans, such as game machine data and model information, etc.



### Prize management

These machines are used for prize exchange management.

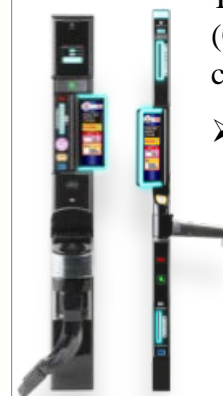
- At the same time as managing prize exchanges at hall outlets, DK’s latest models are also equipped with LCD screens that fans can also see, enabling the display of a variety of information while they wait.



### CR unit

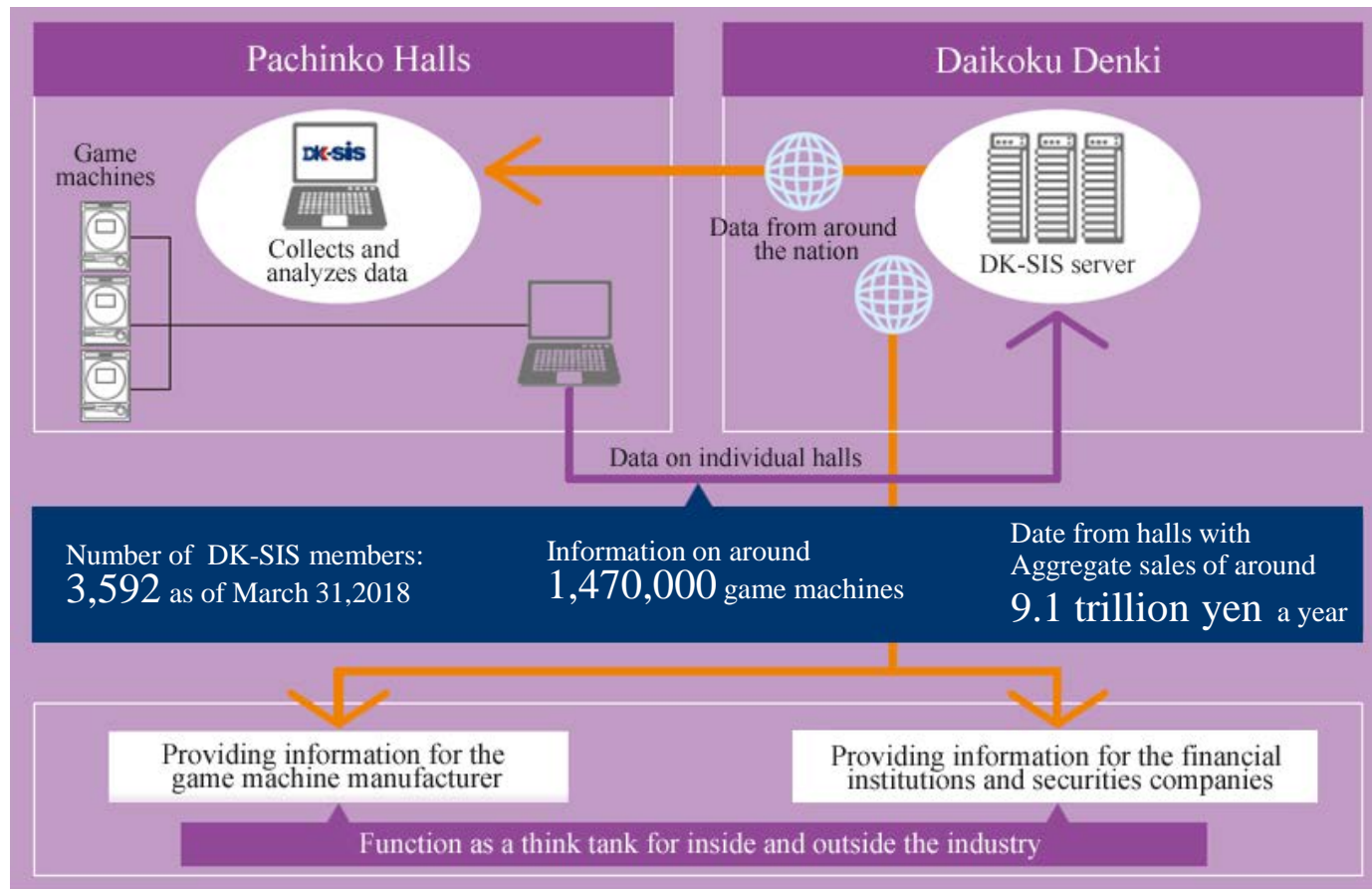
These units basically provide a CR (Card Reader) function for prepaid cards.

- The Company’s latest CR unit is equipped with a large LCD that provides good information to fans, and also has functions that contribute to hall safety management, such as the detection of cheating, etc.



**We are working on the provision of equipment capable of “reducing employee numbers,” “fan service,” “preventing cheating” and “managing the internal environment,” etc. of pachinko halls.**

## Strategic Information System "DK-SIS" — Pachinko hall management support



### Strengths of DK-SIS

- Accumulation of business know-how with a core of data on approximately 1.47 million game machines and 9.1 trillion yen scale of annual sales
- Provision of various consulting services with DK-SIS data as the backbone
- Strategic proposals and sales activities to game machine manufacturers utilizing DK-SIS data

## Information System Segment

**I**

Sales promotion of various products, such as a CR unit and data display device, and an approach to stable business through expansion of the recurring fee revenue model (management support service)

Expanding market share, and acceleration of an earnings structure that can respond more flexibly

**II**

Timely introduction of products and services that flexibly respond to industry change due to regulation revision

Aggressively embrace industry change and make it a business opportunity.

**III**

We will implement the market introduction of the “X (Kai)” hall computer in response to the regulatory revision, and promote its use, as well as promote continuous investment towards the streamlining of hall management and labor saving

Business model innovation

## Information System Segment measures

### [View of current business environment]

The environment surrounding the pachinko industry is expected to remain challenging, amidst a slight decreasing trend in operations at pachinko halls, but companies involved in the management of pachinko halls that are considering a price change in pachinko balls (medals) are increasing as a response to the consumption tax hike, and demand to replace the existing CR unit with our company's CR unit "VEGASIA III," which has a tax-exclusive pricing function, is anticipated.

### [Direction of business initiatives]

Strives to contribute to the performance of companies involved in the management of pachinko halls by launching on the market products equipped with various content in compliance with the new regulations, and promoting widespread use of the new MIRAIGATE service, "Market-SIS."

### [Correspondence and measures]

1. We will aim for the spread and evolution of systems that realize the streamlining and labor-saving of hall management.
2. We will propose a new management method corresponding to the new regulation game machines installed in the new system.
3. We will work on strengthening the data display functions of information disclosure terminals for pachinko machines with settings.

NEW

## June 2019 AI hall computer “X(Kai)” were released

Release a hall computer for the first time in 12 years since the release of the current “CII” hall computer

The concept is ... “A hall computer that teaches”

Based on the industry’s best Big Data, our hall computers align closely with pachinko halls and provide powerful support for pachinko hall management and operation.



**Things you would not know without putting in time and effort**

→ Gives advice on the results of automatic analysis through automatic consulting

**Things you would be unaware of without having the knowledge or skill**

→ Communicates points and cautions through automatic consulting

**Things that cannot be judged with tabulated information alone**

→ Transcends intuition and experience to see the future through automatic consulting

(\*) “X” is a Greek letter pronounced “Kai” and “Communicates the optimum solution to pachinko parlors”

(Note) Market introduction of the “X (Kai)” AI hall computer

This was initially planned for release as a product system with hardware, but to allow the Company users to reduce their initial investment, it is now available as a system upgrade for existing hall computers. As a result, revenue will decrease in the short term compared to the initial plan, but we expect to expand sales of various MIRAIGATE services (stable increase in revenue) in the medium term by increasing “X (Kai)” market share.

## Information System Segment

(Note) Business segment sales and income figures include intersegment transactions.

(millions of yen)	FY2017			FY2018			FY2019(Projected)		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net sales	11,757	13,070	24,827	11,077	13,398	24,475	13,000	13,000	26,000
Segment income	872	1,563	2,435	1,399	1,326	2,725	1,500	1,000	2,500
Research and development expenditure	965	505	1,470	430	694	1,124	420	630	1,050

### ■ Number of sales

Hall computer	33	31	64	36	48	84	40	40	80	
Call Lamp	BiGMO PREMIUM	12,295	21,980	34,275	13,977	18,709	32,686	17,900	17,1000	35,000
	REVOLA	18,079	14,692	32,771	10,183	22,789	32,972	15,700	14,300	30,000
	IL-X Series	11,490	20,775	32,265	11,017	7,870	18,887	8,000	8,000	16,000
CR unit "VEGASIA"	24,438 34 halls	29,162 43 halls	53,600 77 halls	19,681 29 halls	33,030 43 halls	52,711 72 halls	25,500 33 halls	24,500 32 halls	50,000 65 halls	
Face authentication system	15 halls	19 halls	34 halls	11 halls	29 halls	40 halls	20 halls	20 halls	40 halls	

### ■ Total subscribership

Xai & C II Standard	2,861	—	2,865	2,866	—	2,869	2,880	—	2,900
Contents library	1,731	—	1,782	1,832	—	1,868	1,890	—	1,950
DK-SIS members	3,682	—	3,638	3,620	—	3,592	3,595	—	3,600
Xai & C II-SIS members	1,242	—	1,317	1,360	—	1,415	1,435	—	1,460
CR unit (Pachinko halls)	644	—	679	706	—	743	775	—	815
Third-party stored ball management	914	—	907	935	—	970	985	—	1,000
MG-Service net sales(millions of yen)	2,138	2,174	4,312	2,206	2,248	4,454	2,250	2,310	4,560



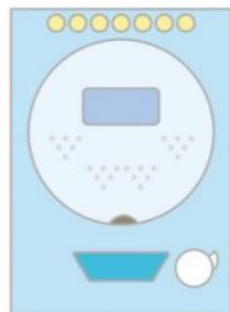
# Business strategy

## Control System Segment

Control System Segment — Development and provision of software and hardware for game machine manufacturers

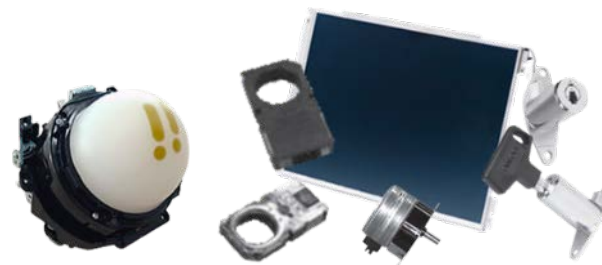
## Development and provision of software and hardware of game machine

We provide pachinko and pachislot machine manufacturers with game machine planning, software development and hardware.



## DK's approach to development (examples)

- ✓ Use of DK-SIS data
- ✓ Improvement of process control quality
- ✓ Planning proposals including chassis and mechanical parts, etc.



**Through the strengthening of planning and proposal capabilities, and improving process control quality, etc., we are working to expand the range of areas where we can make proposals to game machine manufacturers and to increase added value.**

## Control System Segment

**I** Emphasize the entertainment aspect, and focus on the activation of the game environment through creation of games that comply with new rules.

Contribution to the operations of pachinko halls

**II** Promptly respond to the requests of game machine manufacturers, and promote our company's cost reduction, short-term development, and establishment of a quality assurance system.

Shorten the customer's development period, and contribute to cost reduction and quality improvement

**III** Implementation of a project proposal that generates new game value by using DK-SIS data and Fan data that the Information System Segment has, and expansion of the business area.

Business model innovation

## Control System Segment measures

### [View of current business environment]

There will be an increasing need for new proposals that respond to an era with new standards, along with a strengthened intention to reduce development costs for game machines in the market, and it is assumed that planning ability will become more important.

### [Direction of business initiatives]

1. We promote initiatives aimed at expanding the market share in the Information System Segment.
2. We respond to changes in the market environment and continue development investment, with the aim of developing products and services that can help operation of the pachinko halls that are our customers, and to contribute to the acquisition of new fans.

### [Responses and measures in pachinko business]

1. We will expand planning and proposal areas to include all pachinko machines, and expand the range of products we sell.
2. We will grasp changes in the market environment accurately and strive to acquire hardware projects through prompt strategic planning and timely proposals.
3. We will aim to improve the efficiency of our development work further, improve its quality, and reduce development costs.

### [Responses and measures in pachislot business]

We pay close attention to the pachislot market situation, and take a cautious stance in response to risks.

## Control System Segment

(Note) Business segment sales and income figures include intersegment transactions.

(millions of yen)	FY2017			FY2018			FY2019 (Projected)		
	1st half	2nd half	Total	1st half	2nd half	Total	1st half	2nd half	Total
Net sales	6,262	3,061	9,323	3,173	3,567	6,740	3,500	4,500	8,000
Segment income	374	59	433	335	153	488	100	600	700
Research and development expenditure	275	-167	108	80	2	82	140	20	160

(millions of yen)

Video processing unit	4	2	6	6	6	12	4	8	12
Sales volume	23,318	27,788	51,106	45,953	27,740	73,693	36,500	91,500	128,000

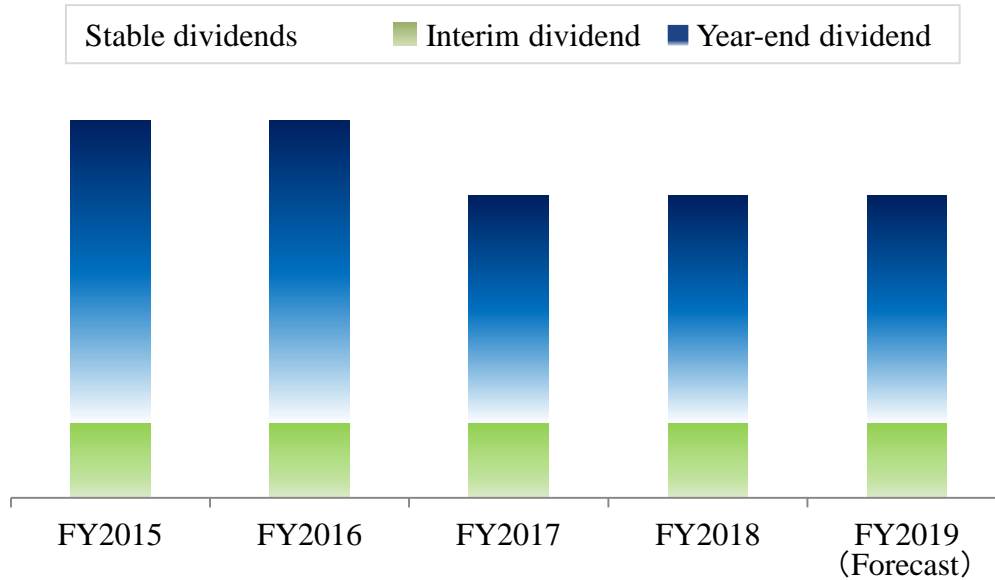
### ■ Pachislot business

Models	2	0	2	0	0	0	0	0	0
Sales volume	5,500	0	5,500	0	0	0	0	0	0

(\*) In the Control System Segment, “sales of development costs” to game machine manufacturers are posted as a cancellation of research and development expenses.

# Returning earnings to shareholders

<Policy> The Company implements “Special dividends” according to the revenue based on “Consecutive dividends”



**Stable dividend (40 yen)**  
(10 yen interim dividend and 30 yen year-end dividend).

(\*)The Company pays “Special dividends” according to performance.

(yen per share)	Stable dividends			Total	Payout ratio (%)
	Interim dividend	Year-end dividend	Total		
FY2015	10	40	50	50	—
FY2016	10	40	50	50	147.0
FY2017	10	30	40	40	75.3
FY2018	10	30	40	40	46.8
FY2019 (Forecast)	10	30	40	40	73.9

**We have established a new shareholder special benefit plan!**

**We will present points that can be exchanged for goods, depending on the number of shares and the amount of values held.**

## Eligible shareholders

Shareholders holding 100 shares or more as of September 30 of each fiscal year

The number of shares	Present points
100 ~ 299 shares	3,000 points (worth 3,000 yen)
300 ~ 599 shares	6,000 points (worth 6,000 yen)
500 ~ 699 shares	12,000 points (worth 12,000 yen)
700 ~ 999 shares	15,000 points (worth 15,000 yen)
1,000 shares ~	20,000 points (worth 20,000 yen)

- Eligible shareholders can select an item among 600 attractive goods, such as gourmets, travel and consumer electronics.
- Points can be carried forward to another year, and the points will be counted 1.1 times from the second year!



# Shareholder special benefit plan

Examples of goods for the shareholder special benefit plan that can be selected among about 600 items

## 3,000points



Japanese beef (0.3kg)



Pan-fried dumplings



Imabari towel

## 6,000points



Sirloin steak (0.9kg)



Lego set



Electric kettle

## 12,000points



Matsusaka beef (0.6kg)



Special Rice (12kg)



Frying pan set

## 15,000points



Special Rice (15kg)



Blowfish



High-pressure back washing machine

## 20,000points



Oou beef (1.4kg)



Crab (2.4kg)



Panasonic shaver

Points also can be donated to social contribution activities.

Based on shareholders' opinions received, we made various improvements, such as replacement of products.

We will continue our efforts to have a better product lineup to suit shareholders' tastes.

# Reference Data

# DK's commitment to ESG (1)

We will contribute to environmental and social issues through the Company's products and services, and will also promote internal initiatives

## DK's products and services, and environmental and social issues they can contribute to (examples)

## Examples of the Company's internal initiatives for environmental and social issues (examples)

### Environment

#### ■ Improving the pachinko hall environment

- Reductions in energy consumption based on use of DK calling lamps (LED) (⇒ CO2 reductions)
- Reduction of in-hall sound volumes by use of data display devices on each Company machine (⇒ Environmental improvements inside and outside halls)



#### ■ Environmentally conscious Head Office building

This headquarters building features an energy-saving design, and it is possible to reduce CO2 emissions by more than 30%. It has also achieved the highest S rank in the comprehensive environmental performance assessment by CASBEE (Note 1).



### Society

#### ■ Improvement of pachinko hall work environments

- Improvement in hall management efficiency by use of DK hall computers (⇒ Shortening of work hours)
- Reductions in workload for managing ball boxes by use of terminals on each Company machine (⇒ Improvements in the work environment)



#### ■ Diversity

- The "My Life Work System," which supports marriage and childcare by enabling flexible work attendance (⇒ Promotion of female participation)
- "Childcare support system" (⇒ Promotion of female participation)



DK focuses on corporate transparency and measures that ensure corporate governance functions effectively

## The Company's corporate governance system

- DK has a Board of Directors, a Board of Auditors and Accounting Auditors.
- The Company has 11 Directors, including 2 Outside Directors (Note 2).
- The Company has 4 Auditors, 3 of whom are Outside Auditors (Note 2). We have appointed one Auditor with knowledge of finance and accounting and one Auditor with knowledge of legal affairs.

## Understanding and efforts to ensure the effectiveness of the Company's corporate governance system (examples)

- The Company holds meetings with the Outside Directors and Outside Auditors to exchange information and share awareness.
- The Company has established a Nomination Advisory Committee and Compensation Advisory Committee chaired by independent Outside Directors.
- In the area of business execution, we have strengthened our business execution structure by introducing a business division system to promote management issues promptly and with certainty, and by giving responsibility for profit and authority over business to Division General Managers (Director in charge of operations).

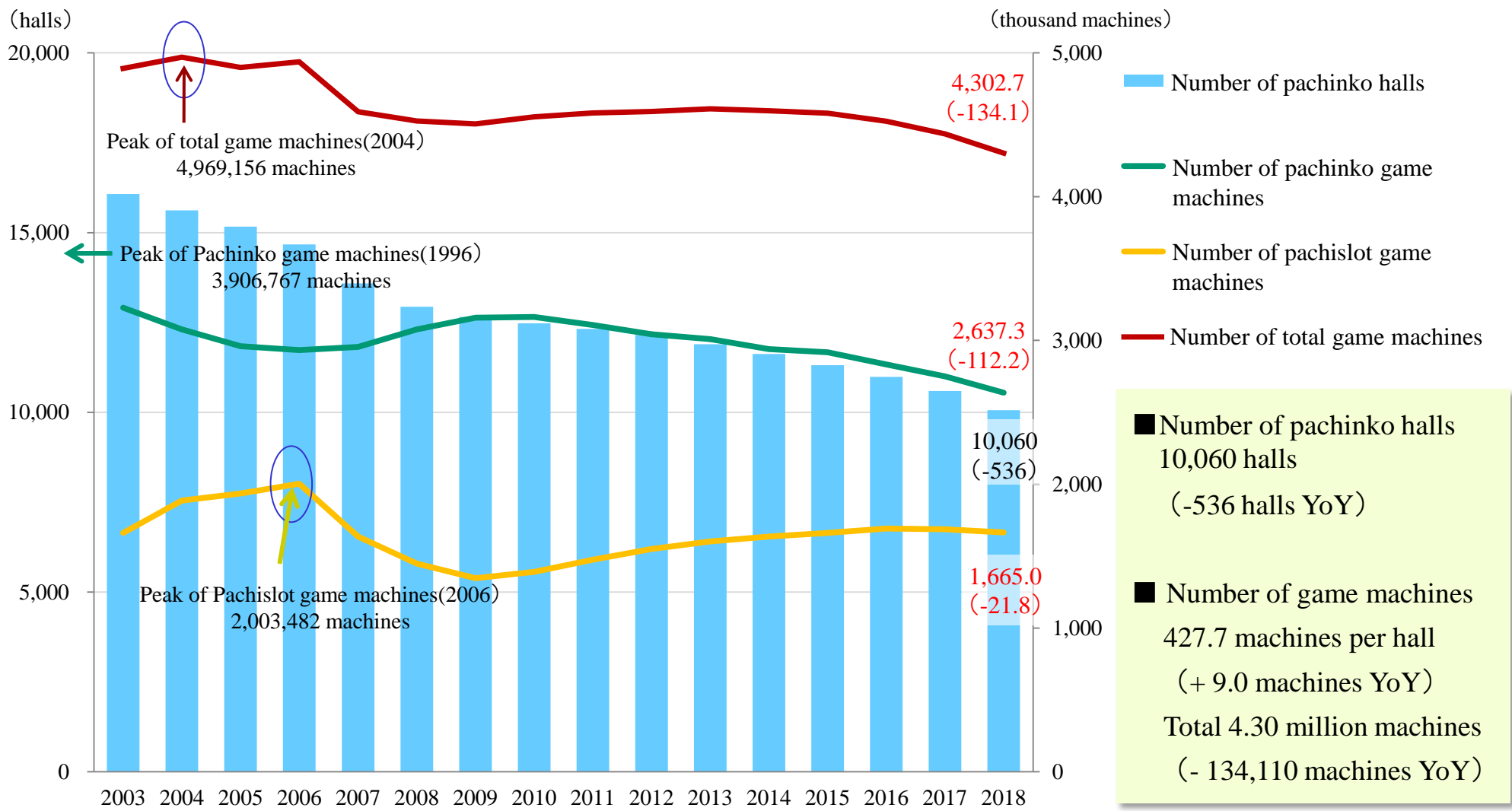
## Governance

(Note 1) By setting the benchmark of CO2 emissions for the base year (1990) in the Kyoto Protocol, it is estimated to have an approximately 33% reduction effect. CASBEE (Comprehensive Assessment System for Built Environment Efficiency) is a method for evaluating and rating the environmental performance of buildings and the built environment, and is operated by a committee established in April 2001 as an industry-government-academia joint project under the support of the Housing Bureau of the Ministry of Land, Infrastructure, Transport and Tourism.

(Note 2) The numbers of Directors and Auditors at the Company are as of March 31, 2019.

# Pachinko business environment

## Shifts in the number of pachinko halls and installed pachinko and pachislot game machines

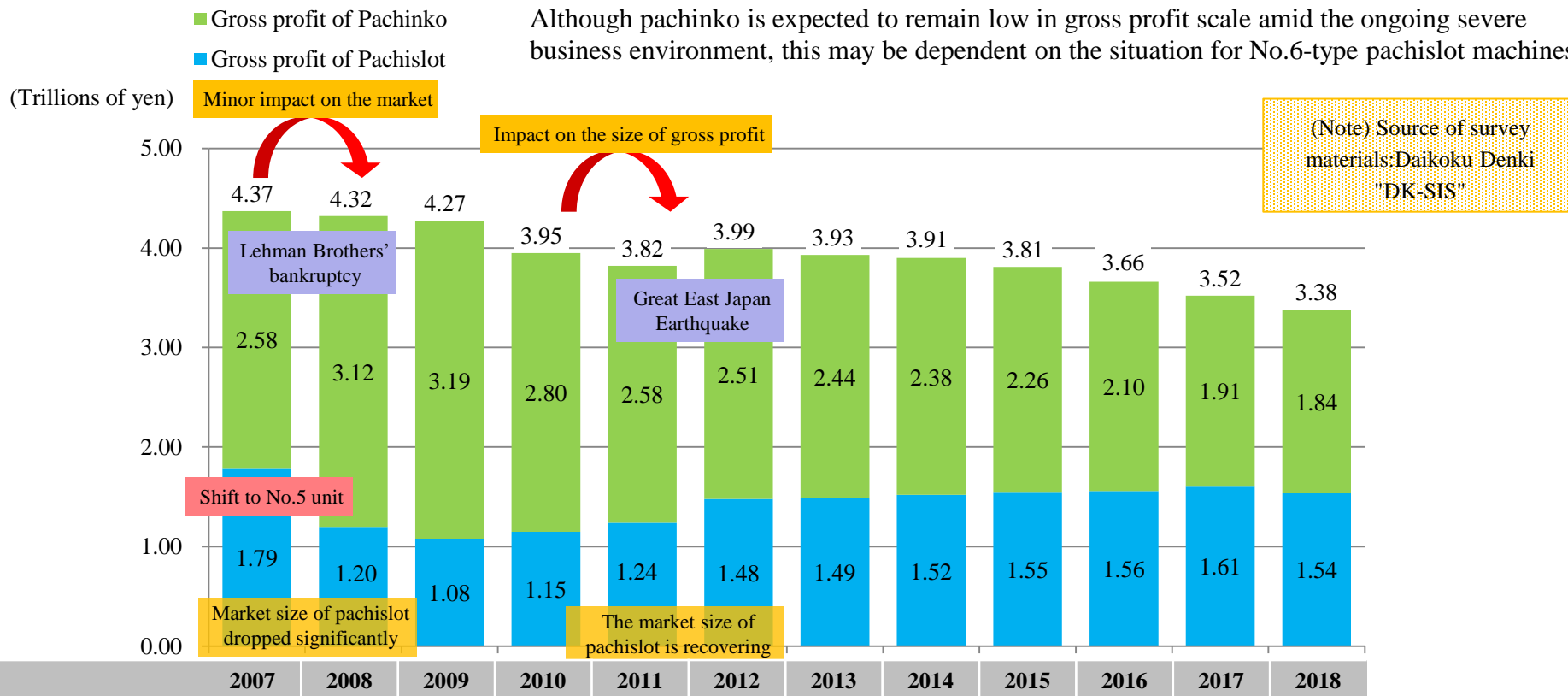


(Source of data) 2018 White Paper on Adult Entertainment Business and Moral Offense Control by the Community Safety Bureau of the National Police Agency

# Pachinko business environment

## Changes in the size of market total gross profit and shifts in performance by year

Although pachinko is expected to remain low in gross profit scale amid the ongoing severe business environment, this may be dependent on the situation for No.6-type pachislot machines

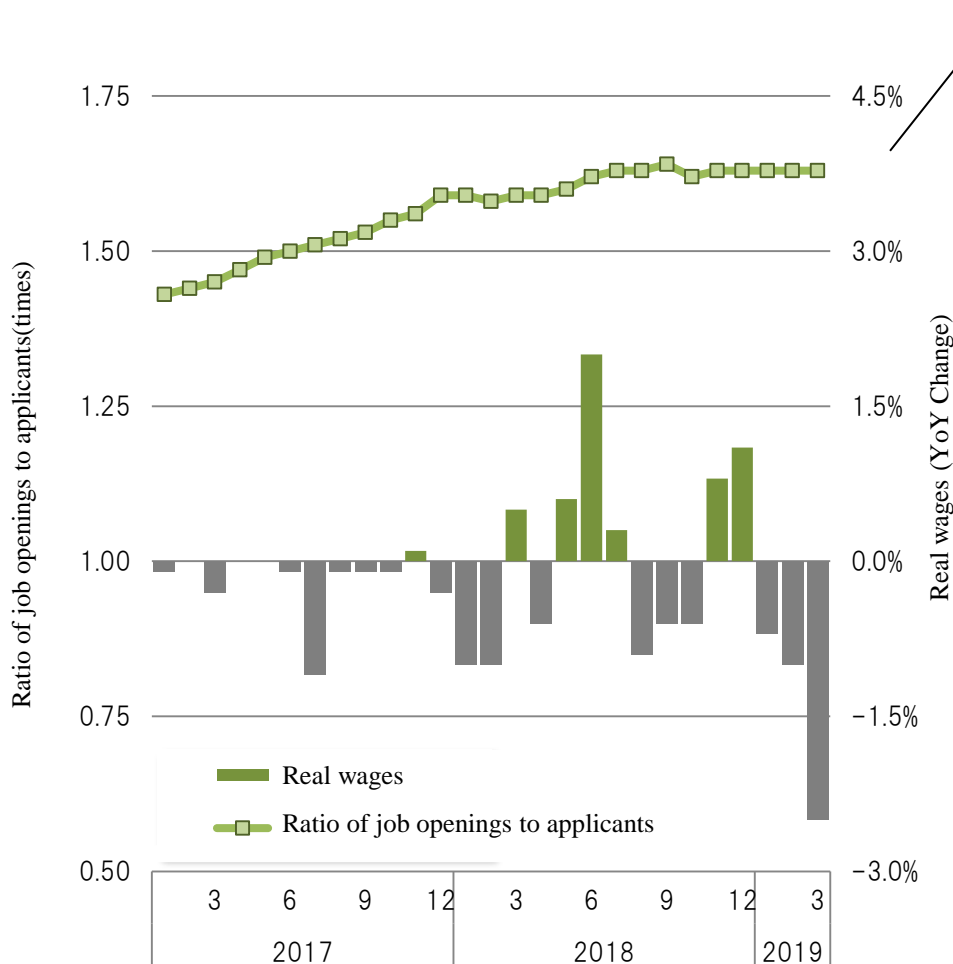


(Note) Source of survey materials: Daikoku Denki "DK-SIS"

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Number of total game machines (million machines)	459	453	451	455	458	459	461	460	457	453	444	430
Number of halls (halls)	13,585	12,937	12,600	12,479	12,323	12,149	11,893	11,627	11,310	10,986	10,596	10,060
Operating time per day (hour)	5.1	5.0	4.9	4.7	4.7	4.6	4.4	4.3	4.2	4.1	4.0	3.9
Net sales per machine (yen)	29,500	27,300	26,700	24,200	23,700	23,400	22,700	22,100	21,070	19,100	18,000	17,5000
Gross profit per machine (yen)	3,960	4,130	4,120	3,780	3,670	3,560	3,400	3,290	3,136	3,136	2,810	2,700
Gross profit per hour (yen)	780	830	840	800	780	770	770	760	750	750	710	700

# Recent trends in ratio of job openings to applicants

## Expectation to have a positive impact on future "pocket money"

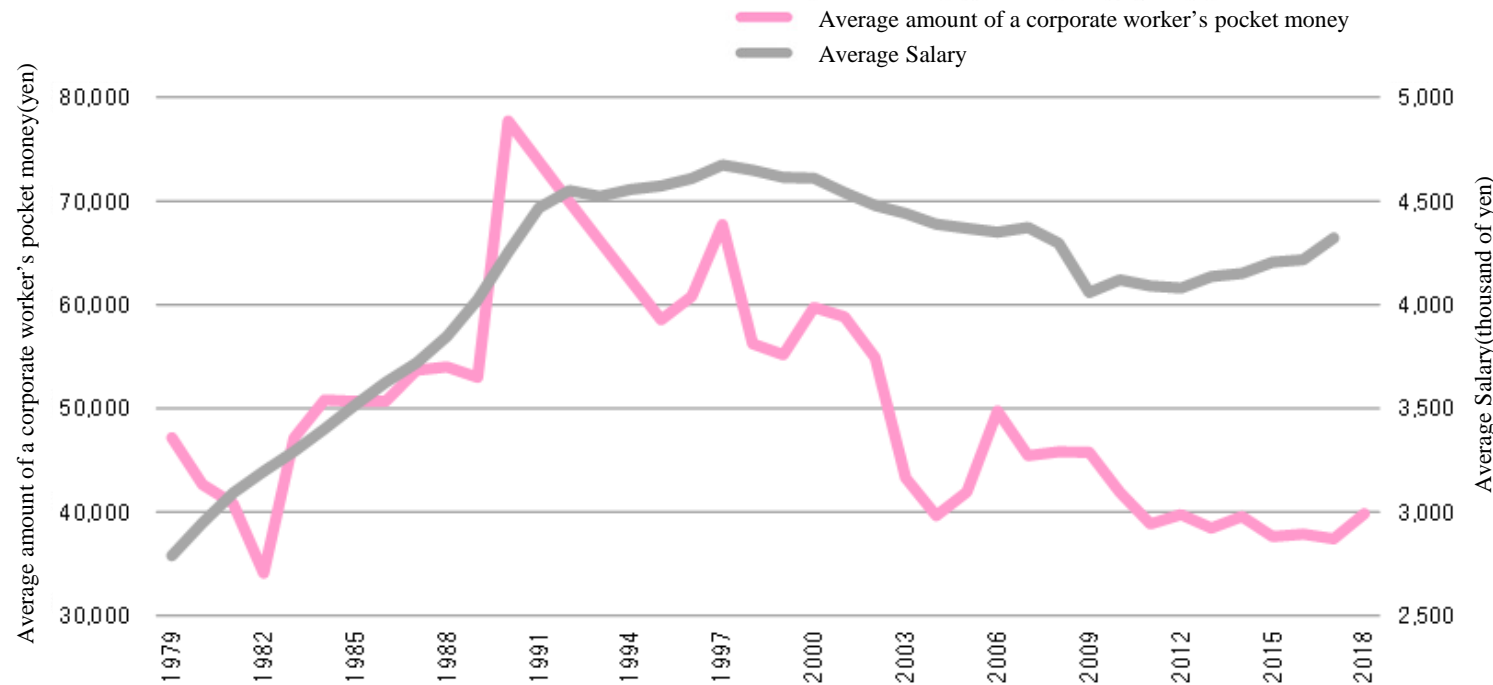


Recent jobs-to-applicants ratio has remained at over 1.0. For instance, jobs-to-applicants ratio by prefecture exceeds 1.0 in all prefectures, and there are quite a few non-manufacturing industries that have many job openings. Real wages, which had been in a negative range since December of last year, turned positive most recently (March preliminary figures), even though it is for a single month. If such a so-called labor shortage movement continues for the time being, we expect that it will prop up wages and result in a favorable impact on pocket money in the future.

	Ratio of job openings to applicants (Times)	Real wage (YoY Change %)	Reference	
			Nominal wage (YoY Change %)	Unemployment rate (%)
2018/1	1.59	-1.0	+0.7	2.4
2018/2	1.58	-1.0	+0.8	2.5
2018/3	1.59	+0.5	+1.8	2.5
2018/4	1.59	-0.6	+0.2	2.5
2018/5	1.60	+0.6	+1.4	2.3
2018/6	1.62	+2.0	+2.8	2.5
2018/7	1.63	+0.3	+1.4	2.5
2018/8	1.63	-0.9	+0.6	2.4
2018/9	1.64	-0.6	+0.7	2.4
2018/10	1.62	-0.6	+1.1	2.4
2018/11	1.63	+0.8	+1.7	2.5
2018/12	1.63	+1.1	+1.5	2.4
2019/1	1.63	-0.7	-0.6	2.5
2019/2	1.63	-1.0	-0.7	2.3
2019/3	1.63	-2.5	-1.9	2.5

(Note) Ratio of job openings to applicants = nationwide, including part-time workers, seasonally adjusted. Real wage, nominal wage = Total of the surveyed industries, establishments with at least five regular employees. Unemployment rate = Total of men and women, seasonally adjusted. (Source of data) Ministry of Health, Labor and Welfare

# Shifts in the average amount of a corporate worker's pocket money



- ❑ Trend of increase of the base amount is expanding. Partly due to the shortage of manpower, it is highly assumed that the salaries at Japanese companies will continue to grow for the time being
- ❑ Japanese spending money has tended to decline since the 1990s, but turned positive in 2018.
- ❑ We anticipate that salary will extend to pocket money, and be on the rise in the medium term.

Appearance of fever machines (1980)

Introduction of probability changes (1990)

Revision of the Adult Entertainment Business Act(2006)

Change in test procedure (Pachislot,2014)

The revision of the Act on Control and Improvement of Amusement Business, etc., revised voluntary restraints(2018)

Buble economy (1986-1991)

Lehman Shock (2008)

Abenomics

Successive financial collapse

Great East Japan Earthquake(2011)

Consumption tax hike(2014)

Full transition to pachislot No.5 units (2007)

Revise regulations (Pachinko,2015)

Removal of "Pachinko machines whose performance may differ from that of inspected units"(2016)

Global & national situation

Industrial situation

The Company's situation

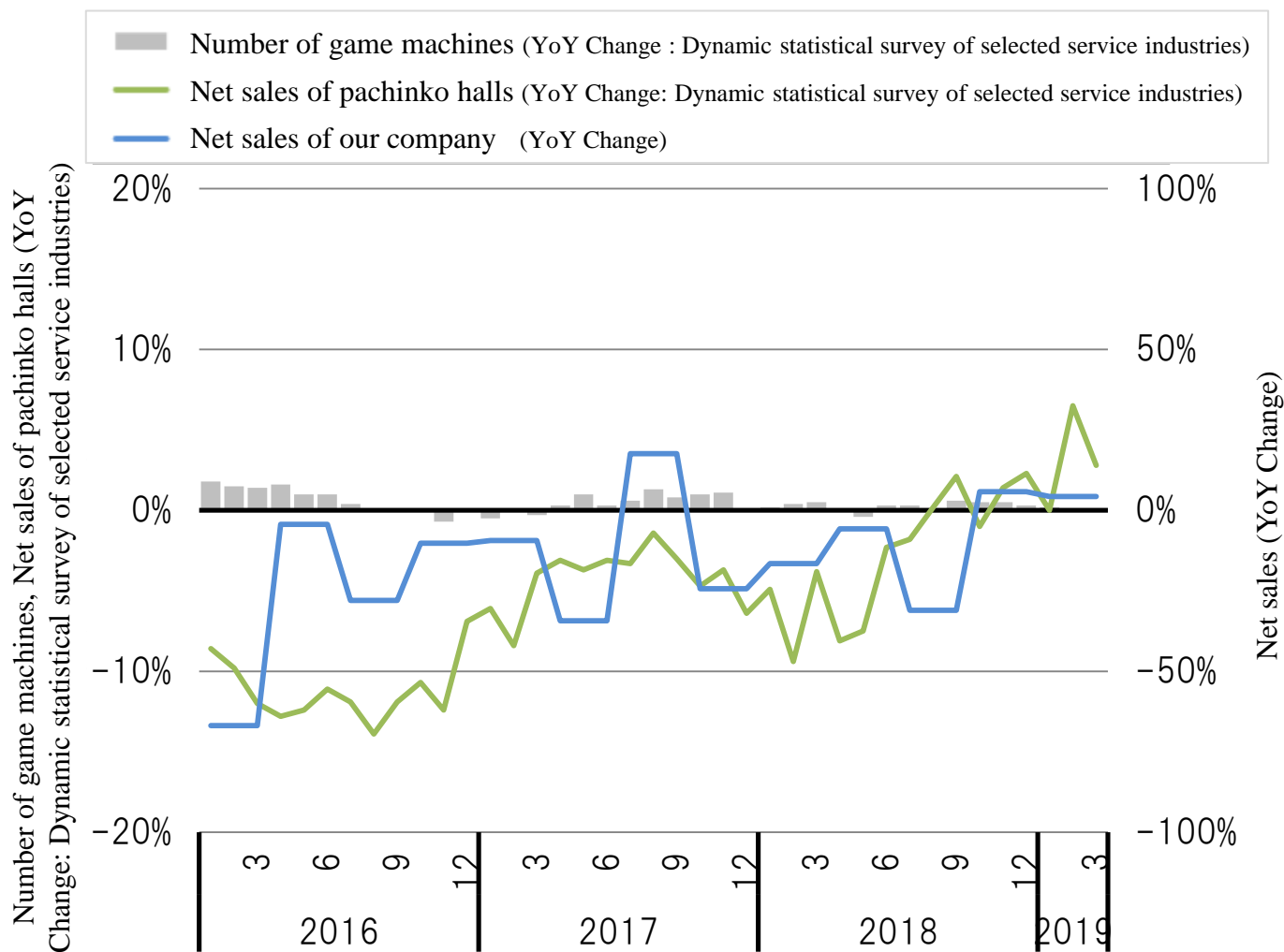
Start of DK-SIS (1990)

Release of MIRAIGATE (2007)

(Note) Since the survey of amount of a corporate worker's pocket money was not conducted in 1991, 1993 and 1994, the data of these years are indicated as equivalent as the previous or following year in the above graph.  
 (Source of data) Average amount of a corporate worker's pocket money : Shinsei Bank, Average Salary : Internal Revenue Service "Statistical Survey of Actual Status for Salary in the Private Sector"

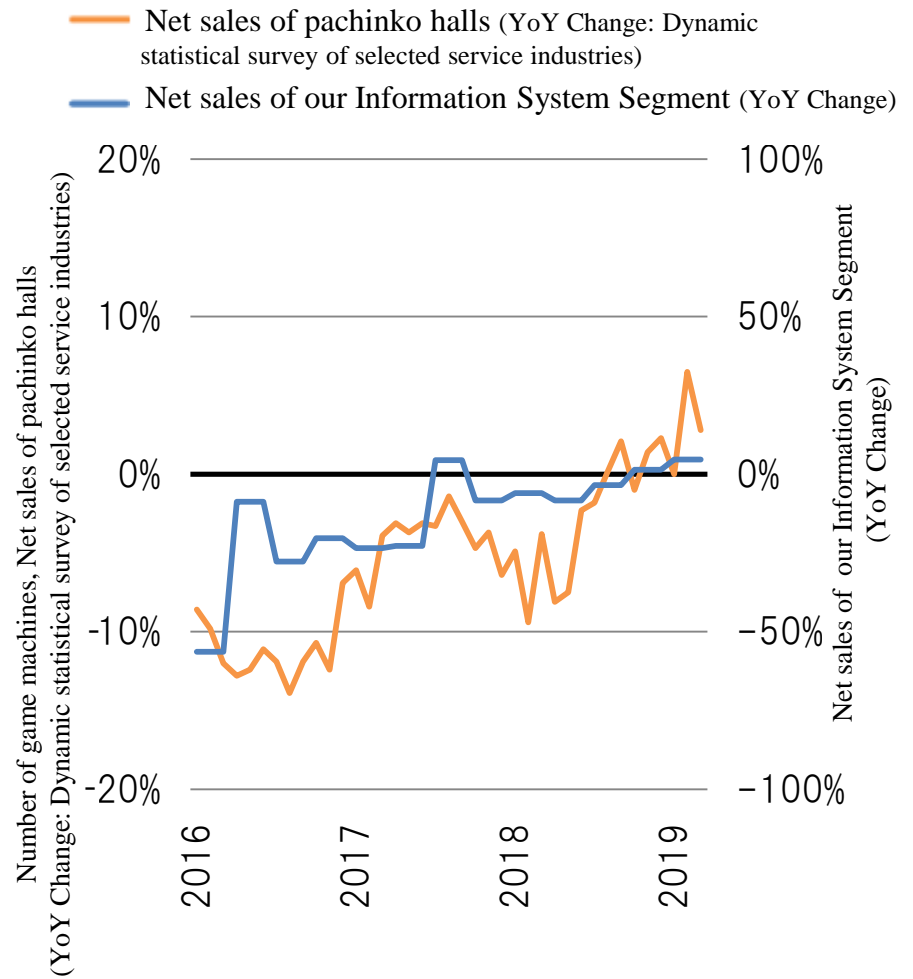
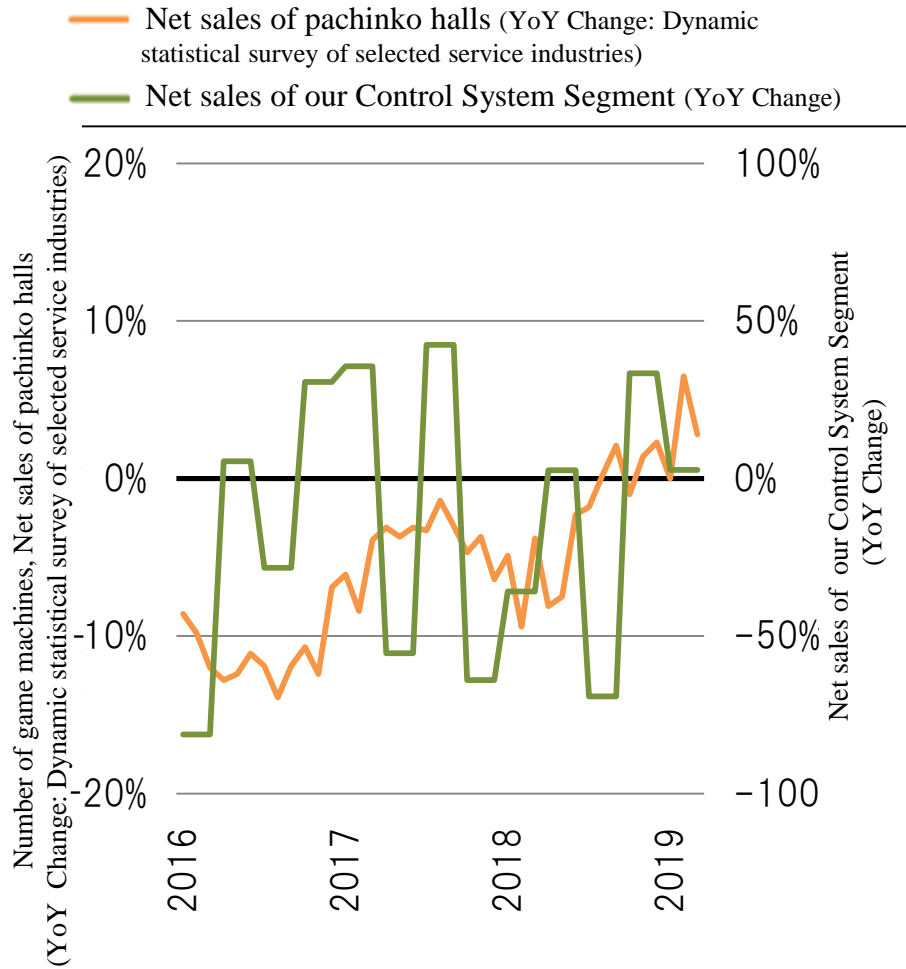


## Dynamic statistical survey of selected service industries - pachinko hall



(Source of data) Dynamic statistical survey of selected service industries - pachinko hall (Ministry of Economy, Trade and Industry)  
 Most recent = Announcement of May 22, 2019, March 2019 confirmed report figures

## Dynamic statistical survey of selected service industries - pachinko hall



(Source of data) Dynamic statistical survey of selected service industries - pachinko hall (Ministry of Economy, Trade and Industry)  
 Most recent = Announcement of May 22, 2019, March 2019 confirmed report figures

# Disclaimer

The contents in this material and comments made during the questions and answers etc. of this briefing session are the judgment and forecasts of the Company's management based on the currently available information.

These contents involve risk and uncertainty, and the actual results may differ materially from these contents/comments.

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