COMPANY RESEARCH AND ANALYSIS REPORT

DYNAM JAPAN HOLDINGS Co., Ltd.

06889

Hong Kong Stock Exchange

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FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

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Summary

Aims to raise customer appeal and hall operating rates by taking steps to reduce customer spending per hour

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

1. Status of FY3/25 results

In the FY3/25 consolidated results, revenue decreased 3.3% year-on-year (YoY) to ¥126,076mn, while operating profit increased 22.1% to ¥10,972mn. Overall revenue was broadly flat YoY as pachinko business revenue declined 4.4% due to the promotion of measures to reduce customer spending per hour to increase customer traffic, but aircraft leasing business revenue grew 20.8%. Operating profit grew for the second consecutive fiscal year, with lower pachinko business revenue offset by factors such as personnel expense curbs, a decline in gaming machine-related depreciation, and aircraft leasing business profit growth. The Group had 427 halls at the end of FY3/25, 6 less than at the end of FY3/24. Although the number of its halls overall declined, the Group's share in the industry is steadily rising as the number of halls for the industry overall also continues to decline.

2. FY3/26 business strategy

In FY3/26, the Company targets higher revenue and profit in both the pachinko business and the aircraft leasing business. In the pachinko business, it aims to increase revenue by bringing about a recovery in customer numbers through steps to reduce customer spending per hour and gaming machine lineups meeting customer needs. In July 2025, regulations regarding smart pachinko machines will be eased, and popular machine models are expected to emerge due to enhanced gaming specs, so that trend will also be spotlighted. The Company expects the amount it spends on purchasing gaming machines to turn up, but depreciation to bottom in FY3/25 and to contribute to profit growth. Further, it intends to actively invest in improving the gaming environment. In the aircraft leasing business, it expects to purchase 2 new aircraft, bringing the number of aircraft it owns from 10 now to 12. It also plans to launch sales of aircraft leasing assets to investors in Japan.

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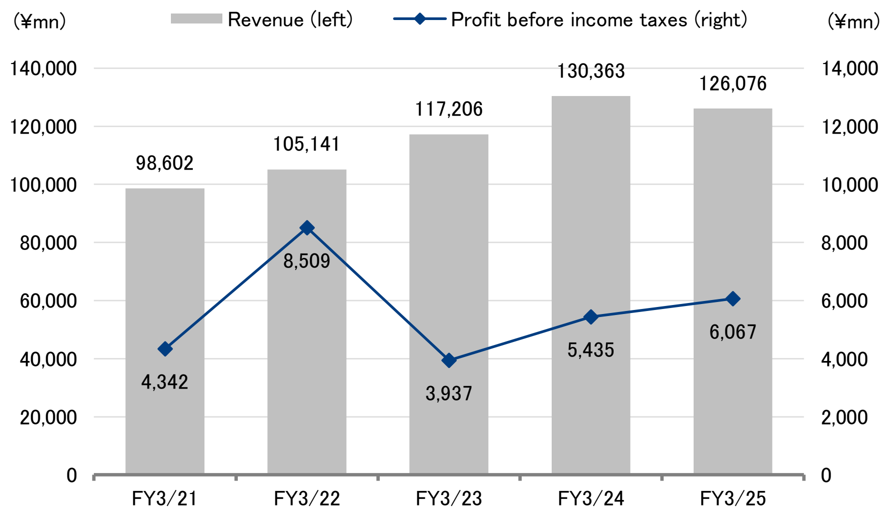
3. Pachinko business outlook

In the pachinko hall industry, companies lacking financial strength are being weeded out amid ongoing tough market conditions, and the number of halls remains on a downtrend. Against this backdrop, the Company aims to expand pachinko business, and has set out four growth strategies under its vision to transform pachinko into "daily entertainment" that anybody can enjoy easily. They are to 1) expand market share by actively opening halls using standardized halls and M&A (acquiring pachinko halls and other facilities with all of their furnishings from other companies), 2) generate a competitive advantage with improvements in operational efficiency and "affordability" as strengths, 3) achieve differentiation and address customer needs by cultivating and strengthening development of private-brand gaming machines, and 4) promote CSR activities rooted in local communities and create sustainable halls through philanthropic activities. The Company's market share in terms of the number of halls was top-ranking but just 6.4% at the end of March 2025, so there is significant room to expand its share even if the overall market is sluggish. FISCO believes increasing domination by major companies over the next few years will provide a good opportunity for the Company to expand its pachinko business.

Key Points

- In FY3/25, double-digit profit growth on lower depreciation and personnel expenses
- In FY3/26, targets recovery in customer numbers by reducing customer spending per hour
- To actively invest in gaming environment improvement
- Looking toward favorable opportunities to increase pachinko hall market share over the next several years amid a scenario of a progressive shift toward domination by major players

Trends in operating results



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

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Company profile

Expanded business scope based on chain store theory, became first pachinko hall operator to list shares

1. History

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

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

His approach rooted in the chain store theory took hold as the corporate culture, and key concepts of corporate management including a customer-first approach, information disclosure, and compliance were incorporated in the management philosophy from early on, serving as a major driving force for the Company's listing on the Hong Kong Stock Exchange in August 2012.

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

2. DYNAM JAPAN HOLDINGS Group's features and strengths

While the Company has many attributes and strengths, FISCO is focusing on four points: 1) top-ranking hall numbers in Japan, 2) low-cost operations, 3) customer-oriented management, and 4) strong fund-raising capabilities. These strengths do not just exist independently; they mutually complement and reinforce each other. In other words, these elements work together to create a unique competitive advantage, and it would not be easy for other companies to establish a similar structure.

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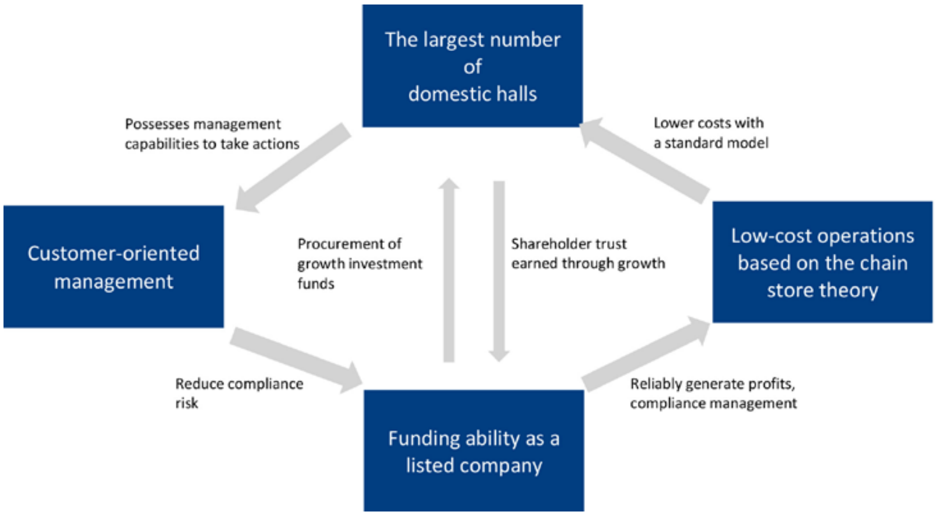
Relationship among the four strengths of the DYNAM JAPAN HOLDINGS Group

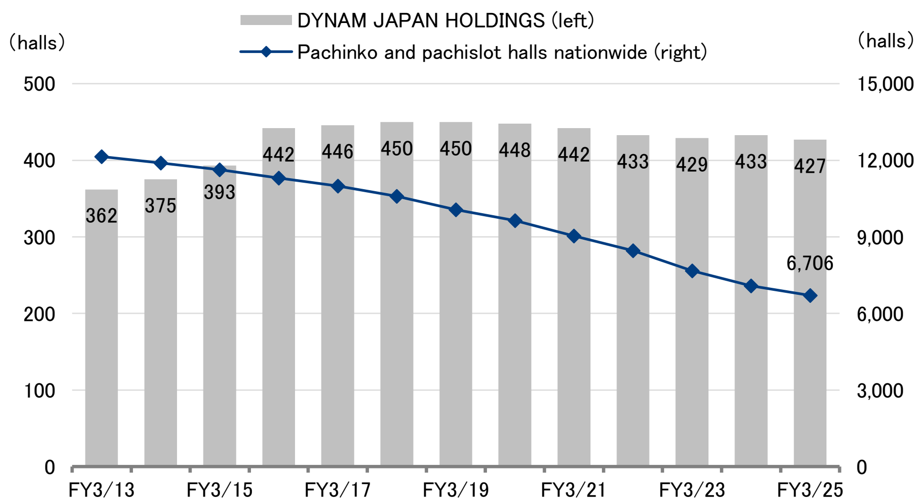


Source: Prepared by FISCO from interviews

(1) Domestic leader with 427 group halls

There were 6,706 pachinko and pachislot halls in Japan as of December 31, 2024 (down 377 YoY), according to the National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2024," down by just under 40% of the peak level in 1995 of 18,244 halls. Of these halls, the Company is the domestic leader with 427 group halls (as of the end of March 2025). While it is not possible to make precise comparisons due to differences in compilation timing, its domestic shares for the number of halls and machine installations both seem to be 6.4%. Its market share exceeded 1% in 2003, and the Company has increased its number of halls, including through M&A, and increased its market share amid the decrease in the overall number of halls in the industry. Although the number of halls peaked at 450 in FY3/19, partly because of hall closures since FY3/20 due to worsening market conditions owing to the COVID-19 pandemic, the Company still plans to expand the number of halls going forward.

Trend in number of halls



Source: Prepared by FISCO from the Company's financial statements announcement and the National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2024"

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The Group has promoted multi-hall operations by standardizing the hall format as a hall opening strategy and focusing openings on large population centers in rural areas (commercial areas with populations of 30,000 to 50,000 people) where rents can be kept down. It uses these economies of scale to keep down the costs for purchasing gaming machines, prizes, and other items. Its large number of halls means it buys that many more gaming machines, which strengthens its buying power with gaming machine manufacturers. Also, it is proactively developing and deploying private-brand machines*.

* As of the end of March 2025, 11.2% of its installed pachinko machines were private-brand machines

Furthermore, the Company has logistics centers in 16 locations nationwide that each cover around 30 halls, and is reducing logistics costs and curbing machine costs (amount spent on purchasing gaming machines) by having halls flexibly transfer secondhand machine models to one another. In doing so, it is managing halls in an agile manner, including adjusting machine model lineups according to customer needs, and has built a system enabling it to attract more customers and reduce costs.

(2) Low-cost operations

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

The pachinko business's main costs are machine and personnel expenses. In addition to cutting those direct costs, the Company is deploying hall designs and hall operating systems that facilitate operations with a small number of employees, standardizing new halls, and applying the chain store theory in various other ways. It has achieved low-cost operations for the Group overall by doing these things.

The Company is the industry leader in Japan, as mentioned earlier, with 427 halls. Aggressive hall network expansion supports this position, but the driving force of the chain store theory know-how has been an essential enabler. In addition to hall network expansion creating a virtuous cycle of cost reductions through economies of scale, we think the customer-oriented management is an outcrop from the chain store theory as well.

(3) Implementing management from a customer perspective

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

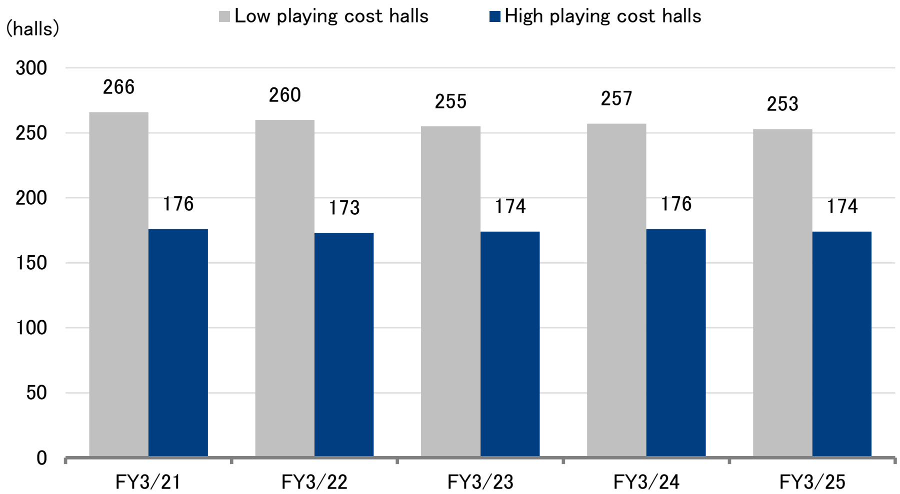
Among the Company's business policies, we have a favorable view of a) low playing cost operations and b) operations that do not rely on gambling appeal. These are also key words for understanding its business policy and growth strategy.

a) Low playing cost operations

Low playing cost operations refer to a style of pachinko hall operation wherein the ball rental fees are reduced from the standard ¥4 per ball to ¥1 or ¥2 per ball. This operating style enables customers to play longer as they can rent more balls for the same amount of money. For the Company, whose goal is for everyone to be able to easily enjoy pachinko as part of the infrastructure of a region, it can be said that increasing low playing cost halls is a rational measure.

At the end of March 2025, the Company had 253 low playing cost halls, which was 59.3% of its total halls. From FY3/21 onward, the Company continued closing unprofitable halls since customer traffic remained weak for its core target demographic, seniors, during the COVID-19 pandemic. As a result, the number of halls has also declined slightly from the peak (274 halls at the end of FY3/20). However, in the medium- to long-term it expects an increase in the elderly demographic, and therefore it has made no changes to its plans to increase the ratio of low playing cost halls. Continuing this strategy requires considerable corporate strength, and the Company's strategy for this lies in multi-hall development and low-cost operations.

Number of low playing cost halls and high playing cost halls



Source: Prepared by FISCO from the materials provided by the Company

b) Operations that do not rely on gambling appeal

"Operations that do not rely on gambling appeal" refers to just that—not using machine models with strong gambling appeal as a central strategy for attracting customers. There are various types of pachinko machines with their odds of a jackpot ranging from high to low, and the lower the odds of a jackpot for the machine, the bigger the ball payout is for a jackpot. Many pachinko halls typically increase the ratio of their machines with strong gambling features in accordance with core fans' preferences. However, the Company's ratio of machines with strong gambling appeal is lower than the industry average, while its ratio of machines with the weakest gambling appeal at 1/100 odds is more than 20 percentage points (pp) higher than the industry average. These hall operations that do not rely on gambling appeal are one of its distinguishing features.

Looking at the customer breakdown by age group, slightly over 40% of the Company's customers are seniors, just under 40% are middle-aged in their 40s and 50s, and just under 20% are in their 10s to 30s. Given this, the Company looks to create halls that will be supported by a wide range of customers going forward.

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

The Company became the first in the pachinko hall industry to list its shares with its IPO on the Hong Kong Stock Exchange in 2012. Only 3 companies, including the Company, out of the pachinko hall industry's roughly 1,500 companies are listed on stock markets as of the end of March 2025. The industry is projected to face realignment going forward. An important point for a buyer in this environment is obviously whether it has fund-raising capabilities. The Company capitalized on its strength as a listed company to acquire Yume Corporation Co., Ltd. in November 2015 through a stock swap for all of its shares. With respect to the demand for funds due not only to M&A but also investment in halls and new business development, the advantage of being a listed company is significant and will likely work in its favor in terms of procuring funds.

Status of FY3/25 results

In FY3/25, double-digit profit growth on lower depreciation and personnel expenses

1. Overview of FY3/25 results

In the FY3/25 results, revenue decreased by 3.3% YoY to ¥126,076mn, operating profit increased by 22.1% to ¥10,972mn, profit before income taxes increased by 11.6% to ¥6,067mn, and net profit for the year rose by 18.7% to ¥4,019mn. Revenue declined, but all profit lines increased for the second straight fiscal year.

FY3/25 consolidated results

(¥mn)

	FY3/24	FY3/25	YoY		Remarks
			Change	%	
Revenue	130,363	126,076	-4,287	-3.3%	
Revenue from pachinko business	124,480	118,969	-5,511	-4.4%	High playing cost halls 55,716 (-4.7%), low playing cost halls 63,253 (-4.2%), pachinko 71,503 (-9.2%), pachislot 47,466 (+3.8%)
Revenue from aircraft leasing business	5,883	7,107	1,224	20.8%	4 additional aircraft purchased in FY3/24 contributed full-term (10 aircraft in total)
Operating expenses	121,923	118,468	-3,455	-2.8%	
Pachinko business expenses	118,673	114,277	-4,396	-3.7%	Gaming machine-related expenses -2,047, personnel expenses -1,120
Aircraft leasing business expenses	3,250	4,191	941	29.0%	
SG&A expenses	4,176	3,942	-234	-5.6%	
Other income	7,561	10,212	2,651	35.1%	Income from forfeiture of unutilized balls and tokens 937, gain on sale of Erin School 1,143, fire insurance proceeds 501 (DY Shiga Takashima hall)
Other operating expenses	2,842	2,906	64	2.3%	Fixed-asset disposal loss -1,094, impairment loss +1,524
Operating profit	8,983	10,972	1,989	22.1%	
Financial income	807	418	-389	-48.2%	
Financial expenses	4,355	5,323	968	22.2%	Increase in interest paid +758
Profit before income taxes	5,435	6,067	632	11.6%	
Profit	3,385	4,019	634	18.7%	

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

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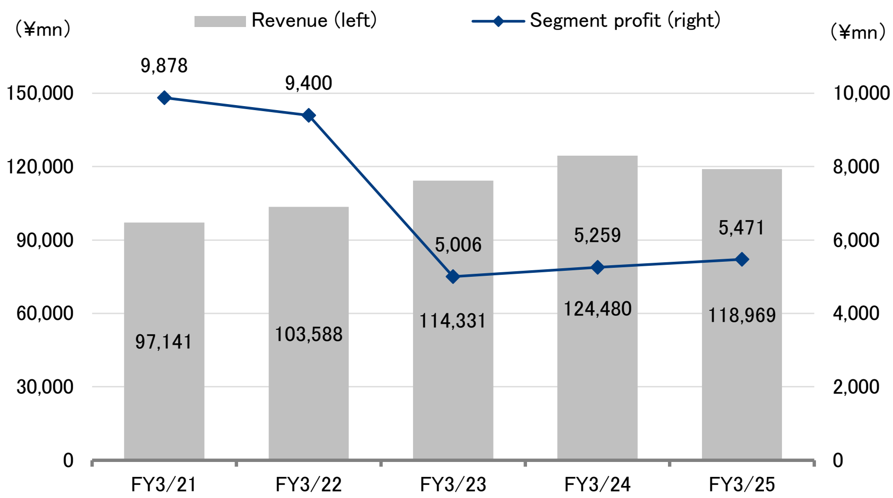
The Company maintained about the same level of revenue as in the previous fiscal year as pachinko business revenue declined 4.4%, owing partly to the promotion of measures to reduce customer spending per hour to increase customer traffic, but aircraft leasing business revenue increased 20.8%, reflecting a steadier earnings base due to an increase in the number of aircraft owned. Operating profit growth reflects contributions from declines in gaming machine-related depreciation and personnel expenses in the pachinko business, higher revenue in the aircraft leasing business, and the posting of ¥937mn in income from the forfeiture of unutilized balls and tokens, and a ¥1,143mn gain on the sale of Erin School as other income.

The Group had 427 halls at the end of FY3/25, 6 fewer than at the end of FY3/24. That broke down as 253 low playing cost halls (4 fewer) and 174 high playing cost halls (2 fewer). It opened 1 new hall and closed 7 halls. The number of employees on a consolidated basis decreased by 46 YoY to 12,446 employees at the end of FY3/25 as a result of efforts taken to standardize and streamline operations.

(1) Pachinko business

Pachinko business revenue decreased 4.4% YoY to ¥118,969mn, turning down for the first time in four fiscal years, but segment profit (profit before income taxes) increased 4.0% to ¥5,471mn, rising for a second consecutive fiscal year. This is mainly because gaming machine-related depreciation decreased ¥2,047mn, personnel expenses decreased ¥1,120mn, and ¥937mn in income from the forfeiture of unutilized balls and tokens was posted.

Pachinko business results



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

Looking at the revenue breakdown, revenue from pachinko languished, falling 9.2% YoY to ¥71,503mn. In contrast, revenue from slot machines grew for a second straight fiscal year, rising 3.8% to ¥47,466mn. That is mainly because the Company increased the number of installed slot machines likely to generate high operating rates as a business strategy. At the end of FY3/25, the number of installed pachinko machines was down 4.2% from the end of FY3/24 to 136,000, while the number of installed pachislot machines was up 5.4% to 75,000. The percentage of installed smart machines within that for pachinko increased from 3% at the end of FY3/24 to 8%, and for pachislot increased from 29% to 47%, indicating that the Company continued to focus on deploying smart slot machines with strong customer appeal as in FY3/24.

Looking at changes in revenue by hall type, revenue from high playing cost halls decreased 4.7% YoY to ¥55,716mn, and revenue from low playing cost halls decreased 4.2% to ¥63,253mn. On a ball fee revenue basis, the result for high playing cost halls was broadly flat with a 0.2% YoY decline, while that for low playing cost halls declined 3.3%. For both types of halls, pachinko customer numbers fell, whereas slot customer numbers rose. The rate of growth was higher for high playing cost halls, which showed up in the difference between growth in ball fee revenue.

The recovery in profitability is largely attributable to progress the Company has achieved in optimizing the hall workforce and reducing total work hours through initiatives carried out to revamp hall operations, as well as success the Company has achieved in bringing outsourced tasks in-house. Changes in ratios of major operating expense items to revenue relative to those of FY3/22 are such that the ratio of hall personnel expenses to revenue decreased by 7.4pp to 30.9% from 38.3% in FY3/22, and the ratio of cleaning expenses to revenue was reduced to 2.0% from 2.4% in FY3/22. Conversely, the ratio of utilities expenses to revenue rose to 5.8% from 4.9% in FY3/22, but that increase is mainly attributable to escalating electricity rates since 2023. However, the ratio only increased 0.1pp YoY, indicating that the Building Energy Management System (BEMS)* introduced at all halls is saving some electricity.

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

Ratio of pachinko business expenses to revenue

	FY3/22	FY3/23	FY3/24	FY3/25	YoY
Total expenses	90.7%	96.6%	95.3%	96.1%	0.7pp
Hall personnel expenses	38.3%	32.7%	30.5%	30.9%	0.5pp
Depreciation	20.3%	31.7%	34.8%	35.3%	0.5pp
Gaming machine purchase costs	3.1%	3.4%	2.5%	2.5%	-0.1pp
Depreciation of right-of-use assets	9.0%	7.8%	7.2%	7.4%	0.2pp
Repair expenses	2.2%	2.3%	2.9%	2.4%	-0.5pp
Utilities expenses	4.9%	6.3%	5.7%	5.8%	0.1pp
Cleaning expenses	2.4%	2.1%	2.0%	2.0%	-0.1pp
Advertising expenses	2.8%	2.6%	2.3%	2.1%	-0.2pp
Other	7.9%	7.6%	7.2%	7.4%	0.1pp

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

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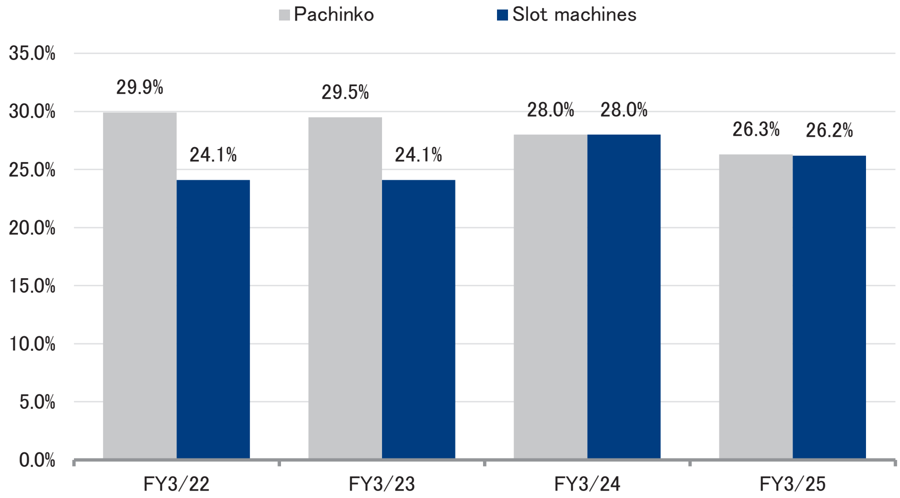
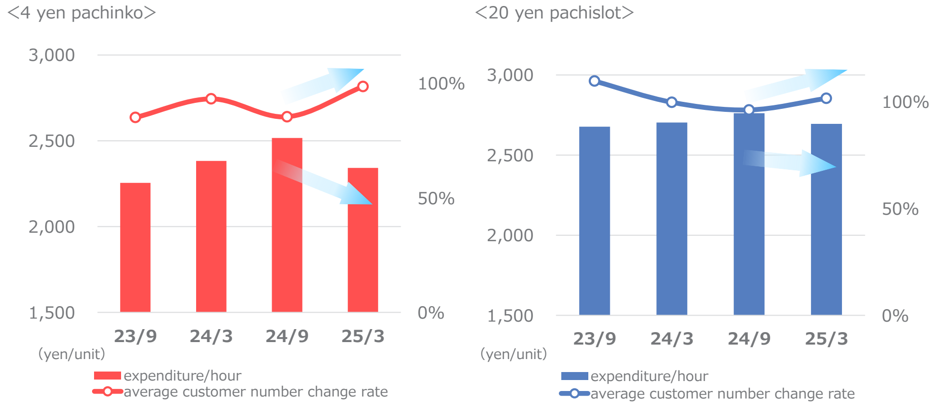
Operating rates



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

As a measure targeting a recovery in customer numbers, the Company has been promoting a reduction in customer spending per hour since 2H FY3/25. Reducing the cost of playing per hour for customers tends to lead to an increase in total revenue as revenue temporarily declines but operating rates rise. In fact, an increase in the number of customers has been verified for all business formats—pachinko, pachislot, high playing cost halls, and low playing cost halls. The Company expects positive impact on revenue to show up after a time lag.

Trends in spending per hour and average customer numbers



Note 1: Change in customer numbers vs. previous six-month period
Note 2: Spending per hour = gaming business revenue ÷ hours of play
Source: Prepared by FISCO from the Company's results briefing materials

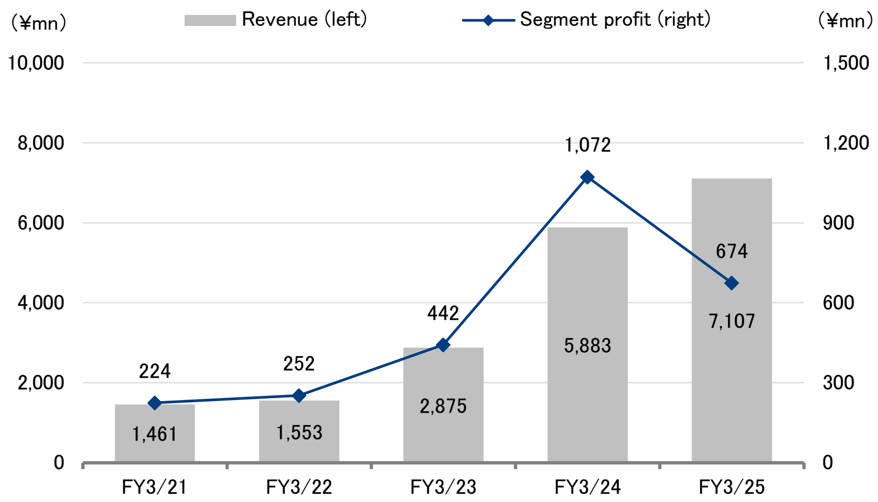
(2) Aircraft leasing business

The aircraft leasing business operated by subsidiary Dynam Aviation Ireland Limited is focused on leasing narrow-body aircraft with substantial liquidity and prospects for stable demand, such as the AIRBUS A320 series and The Boeing Company<BA>'s B737 series. It began providing aircraft lease management services involving aircraft owned by other companies upon having established a framework for handling previously outsourced aircraft lease management operations in house. In addition, the Company established a Japan branch for the aircraft leasing business, and is preparing to offer service to investors in Japan.

Aircraft leasing business revenue increased 20.8% YoY to ¥7,107mn, while segment profit decreased 37.1% to ¥674mn. A full-year contribution from fees from the new leasing of four aircraft that began in FY3/24 drove revenue growth. Two of these four aircraft were leased to the Indian LCC IndiGo, and the other two were leased to the Hungarian LCC Wizz Air Hungary Ltd. In addition, aircraft lease management services contributed to revenue growth, with the Company undertaking management services for eight aircraft (one more than at the end of FY3/24) owned by other companies.

Segment profit declined mainly because depreciation for aircraft assets increased (up ¥751mn), financial expenses increased (up ¥554mn), and cancellation fee income posted in the previous fiscal year dropped out. The aircraft asset balance (fleet value) decreased 5.1% from the end of the previous fiscal year to ¥77,232mn to account for 22.1% of total assets, while the average remaining lease period was 5.2 years and the annualized gross rate of return was 8.8%.

Results for aircraft leasing business



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

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Ownership of aircraft assets

	End of FY3/23	End of FY3/24	End of FY3/25
Aircraft owned/managed	6	17	18
Owned	6	10	10
Managed	0	7	8
Average age (years)	2.1	1.9	2.9
Average lease period (years)	5.3	6.0	5.2
Average yield (%)*	8.1%	8.1%	8.8%
Aircraft asset balance (¥mn)	41,130	81,363	77,232
As a % of total assets	12.6%	22.2%	22.1%

* Gross rate of return, annualized
Source: Prepared by FISCO from the Company's results briefing materials

Financial condition improved slightly as repayment of interest-bearing debt progressed

2. Financial condition

Total assets were ¥349,386mn at the end of FY3/25, up ¥16,659mn from the end of FY3/24. Looking at the main factors for this change, cash and deposits decreased ¥14,085mn due to the repayment of borrowings, and depreciation progressed such that aircraft assets decreased ¥4,131mn and gaming machine assets decreased ¥3,533mn. On the other hand, other property, plant and equipment increased ¥2,535mn, right-of-use assets increased ¥1,014mn, and lease receivables increased ¥1,790mn. The increase in right-of-use assets is attributable to leased real estate contract renewals.

Total liabilities came to ¥218,050mn, down ¥16,507mn from the end of FY3/24. Lease liabilities increased ¥1,636mn, whereas interest-bearing debt decreased ¥13,250mn, and accounts payable and accrued expenses decreased ¥3,742mn. In addition, total equity decreased ¥152mn to ¥131,336mn. While retained earnings increased ¥527mn due to the posting of net profit and payments, other components of equity decreased ¥689mn.

Regarding cash flow conditions, cash flows from operating activities were positive ¥52,725mn, while cash flows from investing activities were negative ¥40,709mn (¥42,840mn from acquisition of property, plant and equipment), and free cash flows was ¥12,016mn. Also, there was a net cash outflow from financing activities of ¥26,119mn, mainly reflecting the repayment of borrowings and dividend payments. As a result, cash and cash equivalents decreased ¥14,085mn from the end of FY3/24 to ¥36,024mn.

The equity ratio increased from 35.9% at the end of FY3/24 to 37.6%, mainly due to a decrease in interest-bearing debt, so the Company's financial position improved slightly. However, the Company plans to purchase two aircraft in FY3/26, so an increase in borrowings is anticipated. The Company has turned to non-recourse loans when it comes to its borrowings related to aircraft purchases. The Company has accordingly mitigated its risk associated with such borrowings given that its repayments are determined solely based on cash flows from the aircraft leasing business under agreement stipulating that it is to assume no repayment obligation beyond that scope. As yields are stable in the aircraft leasing business and recovery continues in the mainstay pachinko business, FISCO believes that the Company's financial risks are low and improvement is set to continue over the medium to long term.

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Consolidated financial condition

(¥mn)

	End of FY3/24	End of FY3/25	Change	Change items
Total assets	366,045	349,386	-16,659	Cash and deposits (-14,085), aircraft (-4,131), gaming machines (-3,533), other property, plant and equipment (+2,535), right-of-use assets (+1,014), lease receivables (+1,790)
Cash and deposits	50,109	36,024	-14,085	
Total liabilities	234,557	218,050	-16,507	Interest-bearing debt (-13,250), lease liabilities (+1,636), accounts payable and accrued expenses (-3,742)
Interest-bearing debt	100,324	87,074	-13,250	
Interest-bearing debt/ Recourse loans	51,661	43,367	-8,294	
Interest-bearing debt/ Non-recourse loans	48,663	43,707	-4,956	
Total equity	131,488	131,336	-152	Retained earnings (+527), other components of equity (-689)
Equity ratio	35.9%	37.6%	1.7pp	
Net cash	-50,215	-51,050	-835	

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

Cash flow statements

(¥mn)

	FY3/24	FY3/25	YoY	
Cash flows from operating activities	64,877	52,725	-12,152	Profit before income taxes ¥6,067mn, depreciation ¥45,439mn
Cash flows from investing activities	-83,628	-40,709	42,919	Gaming machine purchases -¥30,627mn, investments addressing the new series of banknotes -¥6,743mn
Free cash flows	-18,751	12,016	30,767	
Cash flows from financing activities	8,726	-26,119	-34,845	Borrowing repayments -¥13,004mn, dividend payments -¥3,482mn
Cash and cash equivalents at end of period	50,109	36,024	-14,085	

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

FY3/26 business strategy

In FY3/26, targets recovery in customer numbers by reducing customer spending per hour

1. Pachinko business

(1) Business strategy

The Company's business strategy for FY3/26 targets higher revenue and profit by working on the four objectives of 1) expanding market share by actively opening halls using standardized halls and M&A (acquiring pachinko halls and other facilities with all of their furnishings from other companies), 2) generating a competitive advantage with improvements in operational efficiency and "affordability" as strengths, 3) achieving differentiation and address customer needs by cultivating and strengthening development of private-brand gaming machines, and 4) promoting CSR activities rooted in local communities and create sustainable halls through philanthropic activities.

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In particular, it will promote steps to reduce customer spending per hour, aiming to differentiate its halls from those of competitors as leisure facilities that anybody can enjoy easily. Further, it seeks to attract more hall visitors by improving hospitality through the renovation of large-scale halls, which it did not have the budget for previously due to investments addressing the new series of banknotes. As a measure to raise the productivity of hall operations, it will shift to a self-service format for counter operations. About 50% of halls currently have a manned point of sale (POS), and the Company aims to streamline personnel expenses by promoting a shift to self-service.

The Company also plans to develop and launch private-brand pachinko machines. It sees scope for raising their installation ratio at halls from currently around 11% to about 13%. In November 2024, it developed smart pachinko cabinets equipped with a (25.2 inch) full liquid crystal display (LCD) for the first time, and deployed them in halls. By taking on the role of cell panels, moving parts, and so forth, the full LCD enables unprecedented game expression. It is also expected to reduce component costs. That is because the shift to full LCD makes it possible to change games by just replacing printed circuit boards and part of the gaming board, whereas replacing the entire gaming board was necessary when switching out machine models previously. In addition, this reduces the amount of work for switching out games, and helps reduce the environmental impact. The Company estimates costs can be reduced by about 50% from before by using this full LCD cabinet several times. While its use will be limited to "amadigi" pachinko models, the Company looks to reduce costs associated with gaming machines by expanding its deployment to other machine models in the future.

(2) Openings policy

Regarding its plans for opening new halls, the Company intends to continue to explore M&A if prime properties become available, but make prudent decisions in light of its financial conditions. As for closings, the Group has announced the closure of 4 halls by early May 2025 (1 each in Fukuoka, Kumamoto, Miyagi, and Akita).

(3) Trends in the pachinko industry

In terms of pachinko industry trends, the easing of regulations on the so-called "Lucky Trigger*" (hereafter LT) feature for smart pachinko machines from July 2025 has made it possible to develop "LT3.0+" models with higher game playability. With the ratio of smart pachinko machines having finally exceeded 10%, the industry also wants for popular smart pachinko machines to emerge, and this easing of regulations is expected to be a catalyst for that. Manufacturers also plan to roll out major titles with the removal of restrictions on LT3.0+. That is being spotlighted as an effort to revitalize the industry as smart pachinko machine uptake could accelerate if popular models emerge.

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

(4) Outlook for expenses

The Company expects to spend about 15% more on purchasing gaming machines in FY3/26 than in FY3/25. Since a succession of machine models will reach their expiration date heading into 2026, the Company plans to advance their replacement over 2 fiscal years. However, it expects gaming machine depreciation to decline YoY, and not rise until FY3/27 or later.

The Company plans to suppress personnel expenses by reducing total hours worked through ongoing revisions to operations. Repair expenses for halls and advertising expenses appear set to increase from the previous fiscal year, with the aim of attracting more customers.

(5) Characteristics and advantages of introducing smart gaming machines

A feature of smart gaming machines introduced from November 2022 is that you can play without directly touching the medals or balls. Balls circulate within the machine for pachinko, while slot machines do not use metals. For both smart pachinko and slot machines, payout information is stored as electronic information. Also, gaming machine installation, payout, and other information is transmitted to and centrally managed by a gaming machine information center established by the gaming machine manufacturers association to promote the industry's soundness.

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

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

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

As of April 2025 for the industry as a whole, the ratio of smart slot machines was in the 50% range, while the ratio of smart pachinko machines was just over 13%. The speed of spread has been a little slower than initially expected, but there has been no change to the direction for the replacement of all machines with smart gaming machines going forward. As a result, the Company plans to proceed with well-timed investment in a manner that ensures it does not miss out on business opportunities as it monitors developments regarding smart gaming machines going forward.

(6) New initiatives

In February 2025, subsidiary DYNAM Co., Ltd. announced it concluded a business alliance with CommSeed Corporation <3739> regarding collaboration in online pachinko hall operations (as a result of negotiations that began in May 2024). CommSeed operates Greepachi, a social game enabling machine models in operation at actual pachinko halls to be played on mobile devices using actual machine simulators, with cumulative users of this online pachinko hall exceeding 6.7 million. ComSeed plans to release next-generation virtual hall games, and will work on developing them with the Company, which operates real halls.

Aircraft leasing business targets earnings growth, while expanding into peripheral services

2. Aircraft leasing business

With the airline industry recovery continuing in the wake of the COVID-19 pandemic, the number of air passengers is poised to keep increasing from 2025 onward. With the prospect of expansion in short-haul traffic, demand for long-body, narrow aircraft (such as the Airbus A320 series and Boeing B-737 series) is expected to increase as long-body aircraft can seat more passengers.

Against this backdrop, the Company plans to continue to lease next-generation narrow-body aircraft with fuel-efficient engines to airlines that are highly creditworthy and have growth potential. In addition, it targets earnings growth while controlling risk by diversifying its portfolio in terms of attributes such as aircraft type and age, lease period, lessee airline, and region. In the medium term, the Company's objective is to increase its fleet to 30 aircraft from 18 currently through its leasing and management services combined.

Furthermore, it will work on developing peripheral business related to aircraft leasing. Specifically, it aims to acquire fee income by offering to other companies the expertise it has built up to date (aircraft procurement, lease management, re-leasing, advice and proposals, market trends and know-how), in addition to expanding the aircraft lease management services it launched in FY3/24. There are also many investors interested in aircraft leasing in Japan, and the Company plans to sell aircraft it owns to such investors, as well as provide services for third parties such as the brokerage of lease assets sought by investors. Since purchasing an entire aircraft is a significant financial burden for investors, the Company aims to secure contracts for engines with a comparatively low investment burden, and so forth. It is already holding seminars for investors, and interest is apparently strong.

In FY3/26, the Company plans to newly purchase two aircraft. It expects revenue and profit to grow despite an increase in financial expenses.

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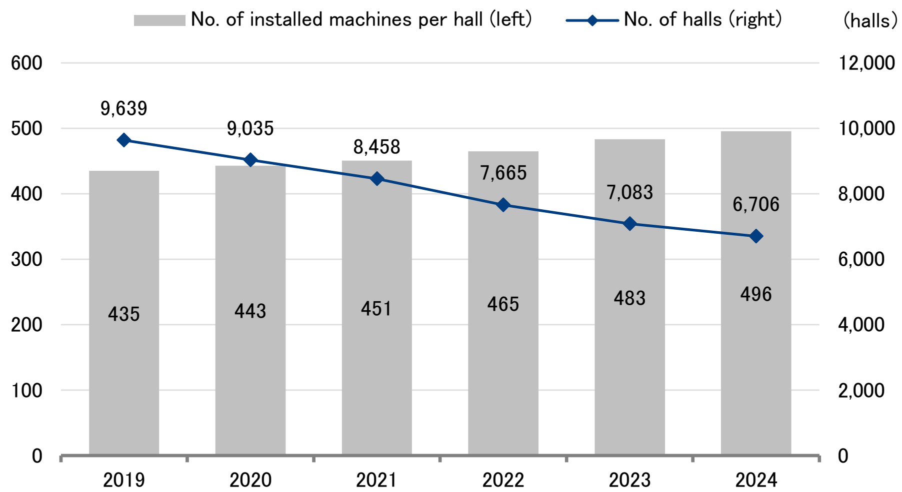
Pachinko market trends and outlook going forward

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

The pachinko market has continued to contract for a long time as leisure has become more diversified and regulations have been strengthened to suppress gambling appeal to counter addiction. In addition to operating conditions becoming even tougher during the COVID-19 pandemic, the emergence of smart gaming machines in 2022 increased demand for capital, and closures of small- to medium-sized halls with a lack of capacity to invest accelerated. The number of pachinko and pachislot halls was 6,706 at the end of December 2024, which is 377 fewer from the previous year, and a 70% decline compared with 2019. The number of gaming machines installed also stayed on a downtrend, declining 2.9% to the 3,325,000 for pachinko and pachislot machines combined. The decline is slowing from the peak in 2022, but still shows no signs of ending. The number of machines installed per store continues to head up, rising from 435 in 2019 to 496 in 2024, and small- to medium-sized halls are being eliminated.

Number of halls and installed machines per hall



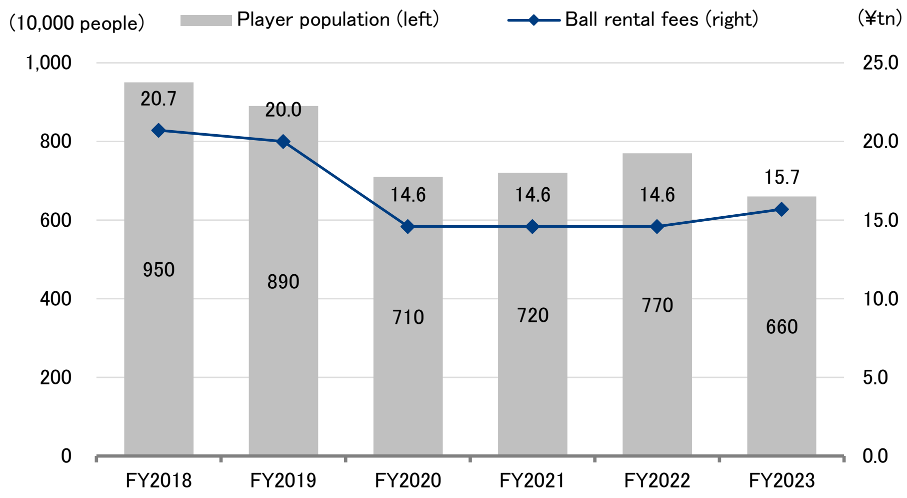
Source: Prepared by FISCO from materials provided by the Company and the National Police Agency's "Current Situation with Amusement and Entertainment Business and Situation with Policing Amusement and Entertainment-related Crime, etc. in 2024"

In the market overall, domination by major companies with financial strength is expected to increase further in the future. Major companies' hall numbers have also been decreasing since 2020, but only modestly. Also, the combined market share of the top five companies in terms of hall numbers increased from about 11% at the end of 2018 to about 15% at the end of 2024. FISCO forecasts that companies with sufficient resources to operate large-scale stores and entities that have established low-cost operations like the Company will continue to expand their market shares going forward, and reap market survivor benefits.

Incidentally, the Group's average number of machines installed per hall was 495 at the end of March 2025, on par with the industry average. This reflects its strategy for opening halls focused on large population centers in rural areas (commercial areas with populations of 30,000 to 50,000 people), and pursuit of multi-hall operations.

According to the "Leisure White Paper 2024" compiled by the Japan Productivity Center, Japan's pachinko and pachislot player population turned down for the first time in 3 years to 6.60mn people in FY2023. On the other hand, the market scale (ball rental fees) turned up 7.5% YoY to ¥15.7tn. This appears to be attributable to growth in ball rental fees per person, owing to the rollout of popular smart slot models with strong gambling appeal. Although growth in ball rental fees along with growth in the player population is ideal, the Company plans to increase customer numbers by reducing customer spending per hour to expand revenue. Whether this initiative succeeds will be a focal point going forward.

Trends in player population and ball rental fees



Source: Prepared by FISCO from the Japan Productivity Center's "Leisure White Paper 2024"

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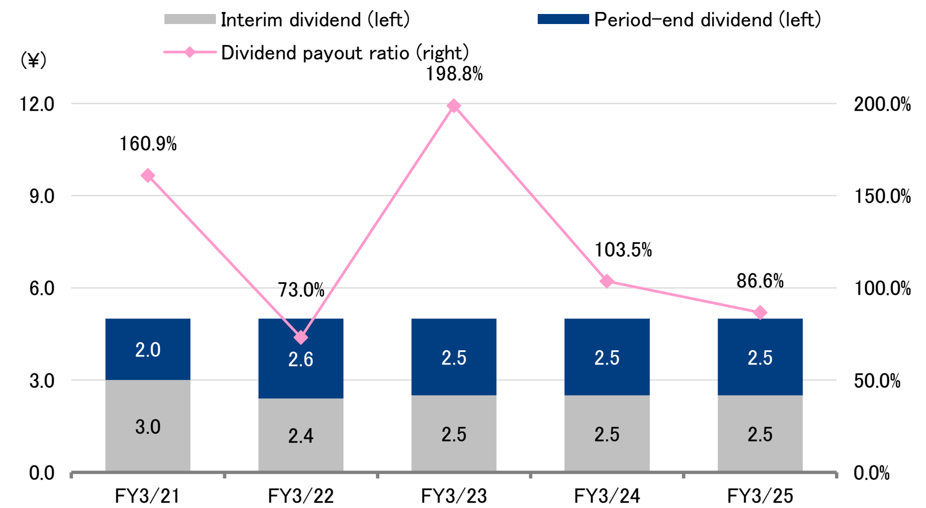
Returns to shareholders

Planning to pay a FY3/25 dividend of ¥5.0 per share, flat YoY

The Company emphasizes enhancing corporate value, which is vital to sustainable corporate development, and is highly conscious of shareholder returns. Given this, its policy is to continue to pay stable dividends targeting a consolidated dividend payout ratio of at least 35%. It has also positioned share buybacks as one of its basic policies, and conducts them as appropriate.

For FY3/25, the Company decided to pay a dividend of ¥5.0 per share, the same as the previous fiscal year. The dividend payout ratio will be 86.6%, but the Company maintained the same level as it wanted to emphasize a stable dividend and that the trend in earnings recovery is continuing.

Trends in dividend per share and the dividend payout ratio



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

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ESG initiatives

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

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

Based on its Group Philosophy of "A centurial commitment to building trust and encouraging dreams," the Group is advancing ESG initiatives with the ideal of achieving perpetual growth, and it discloses information in accordance with the latest international guidelines and the listing rules of the Hong Kong Stock Exchange for each category (Environment, Social, Governance). Furthermore, details about the Company's initiatives can be found on its website and in ESG Report 2024/2025. Amid the attention being focused on ESG investing, this is expected to fulfill an important role as a tool for dialogue with investors.

1. Environmental initiatives

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

Economic activities are one of the causes of global environmental problems such as climate change, energy consumption, and pollution, and international targets have been set for global warming. With respect to business operations in a decarbonized society, the Group aims to reduce CO_2 emissions caused by excessive energy consumption by building wooden halls with a low environmental impact, and appropriately managing energy consumption (including energy-saving measures, installation of water-saving toilets, etc.), promoting green IT (digitization of documents, promotion of online meetings, etc.), systems to prevent waste and appropriately dispose of it (effective use and recycling of used gaming machines, wooden halls, recycling of general waste). As an energy-saving initiative, all group halls have installed BEMS and LED lighting, and have started newly installing solar power panels.

2. Social initiatives

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

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

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Activities under the slogan of “local infrastructure” include supporting the independence of the elderly, promoting employment in the community, responding to natural disasters and backing recovery, as well as supporting sports and donating to regional revitalization projects through a corporate version of the furusato nozei (hometown tax system to support regional revitalization) system. As for key initiative results, 279 halls have signed disaster prevention agreements, and 1,480 cases of community support activities have been conducted. The Company has also donated ¥31.53mn as relief funds for the Noto Peninsula Earthquake and heavy rain disaster.

3. Governance initiatives

The Group has selected to be a “Company with a Nomination Committee, Etc.” and has established the three committees of the Nomination Committee, Remuneration Committee and Audit Committee. Under this company format, the Board of Directors and each of its member directors are responsible for decision-making and supervisory functions, while executive officers are responsible for business execution functions to clarify management decision-making and supervisory functions and business execution functions. In addition, the Group has established the Group Crisis Management Committee spanning across all Group companies to strengthen risk management throughout the organization, and has established a structure enabling rapid decision-making, information dissemination, and an appropriate response in the event of a crisis.

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■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp