



## Gamecard-Joyco Holdings / 6249

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## Key financial data

Income statement (JPYmn)	FY03/11 Par.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.	FY03/21 Est.
<b>Sales</b>	<b>37,005</b>	<b>43,575</b>	<b>39,545</b>	<b>34,192</b>	<b>25,741</b>	<b>23,885</b>	<b>20,405</b>	<b>16,928</b>	<b>17,375</b>	<b>16,561</b>	<b>10,000</b>
YoY	12.7%	-	-9.2%	-13.5%	-24.7%	-7.2%	-14.6%	-17.0%	2.6%	-4.7%	-39.6%
<b>Gross profit</b>	<b>11,199</b>	<b>13,093</b>	<b>11,884</b>	<b>10,980</b>	<b>9,665</b>	<b>8,413</b>	<b>8,250</b>	<b>7,871</b>	<b>7,446</b>	<b>6,936</b>	
YoY	15.9%	-	-9.2%	-7.6%	-12.0%	-13.0%	-1.9%	-4.6%	-5.4%	-6.8%	
GPM	30.3%	30.0%	30.1%	32.1%	37.5%	35.2%	40.4%	46.5%	42.9%	41.9%	
<b>Operating profit</b>	<b>4,322</b>	<b>4,459</b>	<b>2,668</b>	<b>1,764</b>	<b>816</b>	<b>-1,440</b>	<b>1,919</b>	<b>3,596</b>	<b>2,423</b>	<b>2,036</b>	<b>1,000</b>
YoY	176.0%	-	-40.2%	-33.9%	-53.7%	-	-	87.4%	-32.6%	-15.9%	-50.9%
OPM	11.7%	10.2%	6.7%	5.2%	3.2%	-6.0%	9.4%	21.2%	13.9%	12.3%	10.0%
<b>Recurring profit</b>	<b>4,208</b>	<b>4,543</b>	<b>2,692</b>	<b>1,849</b>	<b>836</b>	<b>-1,383</b>	<b>1,945</b>	<b>3,594</b>	<b>2,419</b>	<b>2,027</b>	<b>1,100</b>
YoY	179.0%	-	-40.7%	-31.3%	54.7%	-	-	84.8%	-32.7%	-16.2%	-45.7%
RPM	11.4%	10.4%	6.8%	5.4%	3.2%	-5.8%	9.5%	21.2%	13.9%	12.2%	11.0%
<b>Net income</b>	<b>2,338</b>	<b>4,573</b>	<b>1,598</b>	<b>900</b>	<b>293</b>	<b>-2,117</b>	<b>27</b>	<b>2,318</b>	<b>1,429</b>	<b>1,225</b>	<b>550</b>
YoY	154.7%	-	-65.1%	-43.7%	-67.4%	-	-	-	-38.3%	-14.3%	-55.1%
Net margin	6.3%	10.5%	4.0%	2.6%	1.1%	-8.9%	0.1%	13.7%	8.2%	7.4%	5.5%
<b>Per share data (split-adjusted)</b>											
Shares issued (year-end; '000)	11,413	14,263	14,263	14,263	14,263	14,263	14,263	14,263	14,263	14,263	
EPS	204.9	320.6	112.1	63.2	20.5	-148.5	2.0	162.6	100.3	87.3	40.4
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-	-
Dividend per share	50.0	60.0	60.0	60.0	60.0	60.0	30.0	35.0	35.0	35.0	35.0
Book value per share	2,991.8	2,881.7	2,930.5	2,933.2	2,893.7	2,684.3	2,654.0	2,771.4	2,836.2	2,919.1	
<b>Balance sheet (JPYmn)</b>											
Cash and cash equivalents	22,642	24,848	26,731	32,009	25,020	25,529	23,475	26,000	32,099	29,649	
<b>Total current assets</b>	<b>41,670</b>	<b>51,055</b>	<b>51,567</b>	<b>56,522</b>	<b>45,284</b>	<b>43,934</b>	<b>40,015</b>	<b>40,038</b>	<b>46,428</b>	<b>38,439</b>	
Tangible fixed assets	2,005	2,369	2,120	2,193	1,486	776	469	373	333	343	
Intangible fixed assets	5,506	4,636	3,509	2,624	2,896	2,226	3,188	2,619	2,140	2,374	
Investments and other assets	6,991	7,921	8,313	3,315	9,413	7,844	6,975	6,480	1,295	7,353	
<b>Total assets</b>	<b>56,173</b>	<b>65,983</b>	<b>65,510</b>	<b>64,655</b>	<b>59,081</b>	<b>54,781</b>	<b>50,648</b>	<b>49,511</b>	<b>50,197</b>	<b>48,511</b>	
Accounts payable	3,453	4,423	3,675	3,040	2,211	2,402	2,019	1,334	1,598	1,306	
Short-term debt	-	-	-	-	-	-	-	-	-	-	
Unused card balance	3,578	3,308	2,770	2,660	2,591	2,530	2,335	2,143	1,968	1,800	
<b>Total current liabilities</b>	<b>12,237</b>	<b>13,905</b>	<b>13,183</b>	<b>13,448</b>	<b>10,107</b>	<b>10,363</b>	<b>7,932</b>	<b>6,188</b>	<b>6,425</b>	<b>4,929</b>	
Long-term debt	-	-	-	-	-	-	-	-	-	-	
<b>Total fixed liabilities</b>	<b>9,790</b>	<b>10,977</b>	<b>10,528</b>	<b>9,370</b>	<b>7,702</b>	<b>6,132</b>	<b>4,862</b>	<b>3,795</b>	<b>3,319</b>	<b>2,968</b>	
<b>Total liabilities</b>	<b>22,028</b>	<b>24,882</b>	<b>23,712</b>	<b>22,819</b>	<b>17,809</b>	<b>16,496</b>	<b>12,795</b>	<b>9,983</b>	<b>9,744</b>	<b>7,898</b>	
<b>Net assets</b>	<b>34,145</b>	<b>41,101</b>	<b>41,798</b>	<b>41,835</b>	<b>41,272</b>	<b>38,230</b>	<b>37,830</b>	<b>39,506</b>	<b>40,453</b>	<b>40,612</b>	
Total interest-bearing debt	-	-	-	-	-	-	-	-	-	-	
<b>Statement of cash flows (JPYmn)</b>											
Cash flows from operating activities	5,082	4,266	5,109	4,631	3,844	1,828	2,264	3,466	1,952	789	
Cash flows from investing activities	77	-13,950	1,133	-1,146	-5,046	-841	1,381	-6,008	-240	3,346	
Cash flows from financing activities	-1,639	-1,998	-2,360	-2,194	-1,799	-1,476	-699	-828	-654	-1,049	
<b>Financial ratios</b>											
ROA (RP-based)	7.7%	7.4%	4.1%	2.8%	1.4%	-2.4%	3.7%	7.2%	4.9%	4.1%	
ROE	7.0%	11.1%	3.9%	2.2%	0.7%	-5.3%	0.1%	6.0%	3.6%	3.0%	
Equity ratio	60.8%	62.3%	63.8%	64.7%	69.9%	69.8%	74.7%	79.8%	80.6%	83.7%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Figures prior to FY03/12 are for Nippon Game Card.

## Recent updates

### Highlights

On April 16, 2021, Shared Research updated the report following interviews with Gamecard-Joyco Holdings, Inc.

On February 10, 2021, the company announced earnings results for Q3 FY03/21; see the results section for details.

On the same day, the company announced a revision of its full-year company forecasts; see the full-year company forecasts section for details.

#### Revised full-year company forecasts for FY03/21

- ▷ Sales: JPY10.0bn (previous forecast was JPY12.0bn)
- ▷ Operating profit: JPY1.0bn (JPY400mn)
- ▷ Recurring profit: JPY1.1bn (JPY400mn)
- ▷ Net income\*: JPY550mn (JPY0mn)
- ▷ Net income per share: JPY40.39 (JPY0.00)

\*Net income attributable to owners of the parent

#### Reason for revision

The company revised its sales forecast downward in light of the cautious investment in peripheral equipment among pachinko hall operators, which make up the company's primary customer base, due to lingering concerns about the impact on the operating environment of the COVID-19 pandemic and the likely need to replace gaming machines in response to regulatory revisions. On the other hand, the company revised its operating profit and other profit item forecasts upward, reflecting its ability to maintain member hall numbers and secure sales and profits, while paring down SG&A expenses.

On the same day, the company announced an absorption-type merger between consolidated subsidiaries.

The company resolved to carry out an absorption-type merger between its consolidated subsidiaries Nippon Game Card Corp. and JOYCO SYSTEMS Corp., subject to approval of the boards of directors due to be held at both companies. Under the merger, Nippon Game Card will be the surviving entity and JOYCO SYSTEMS will be absorbed. Since this is a merger between two consolidated subsidiaries, the impact on Gamecard-Joyco Holdings' consolidated business results will be minimal.

#### Purpose of merger

The company's operating environment is changing rapidly amid changes in the regulatory and market conditions for the pachinko industry and the impact of the COVID-19 pandemic. To address these changes and achieve sustainable growth, the company deemed it necessary to integrate the management resources of the two subsidiaries and strengthen the business base by streamlining and optimizing the management system.

#### Merger schedule

- ▷ Planned conclusion of merger agreement: February 22, 2021
- ▷ Planned date of merger (effective date): April 1, 2021

#### Method of merger

Under the absorption-type merger, consolidated subsidiary Nippon Game Card will be the surviving entity and JOYCO SYSTEMS will be absorbed.

## Details of merger-related allocation

Nippon Game Card will not allocate shares or other money to the shareholders of JOYCO SYSTEMS at the time of the merger.

**For previous releases and developments, please refer to the News and topics section.**

## Trends and outlook

### Quarterly trends and results

Cumulative performance (JPYmn)	FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	4,045	8,291	13,108	16,561	2,169	4,843	7,663		76.6%	10,000
YoY	-1.8%	-2.1%	1.7%	-4.7%	-46.4%	-41.6%	-41.5%			-39.6%
Gross profit	1,849	3,618	5,405	6,936	933	2,401	3,898			
YoY	-5.1%	-6.5%	-6.2%	-6.8%	-49.5%	-33.6%	-27.9%			
GPM	45.7%	43.6%	41.2%	41.9%	43.0%	49.6%	50.9%			
SG&A expenses	1,133	2,129	3,670	4,899	913	2,005	3,201			
YoY	14.7%	-0.6%	14.7%	-2.5%	-19.4%	-5.8%	-12.8%			
SG&A ratio	28.0%	25.7%	28.0%	29.6%	42.1%	41.4%	41.8%			
Operating profit	716	1,489	1,734	2,036	20	395	697		69.7%	1,000
YoY	-25.4%	-13.7%	-32.3%	-15.9%	-97.2%	-73.4%	-59.8%			-50.9%
OPM	17.7%	18.0%	13.2%	12.3%	0.9%	8.2%	9.1%			10.0%
Recurring profit	728	1,495	1,718	2,027	40	430	764		69.5%	1,100
YoY	-24.4%	-13.4%	-33.0%	-16.2%	-94.5%	-71.2%	-55.5%			-45.7%
RPM	18.0%	18.0%	13.1%	12.2%	1.8%	8.9%	10.0%			11.0%
Net income	399	896	1,074	1,225	1	199	365		66.4%	550
YoY	-42.4%	-23.9%	-36.4%	-14.3%	-99.7%	-77.8%	-66.0%			-55.1%
Net margin	9.9%	10.8%	8.2%	7.4%	0.0%	4.1%	4.8%			5.5%

Quarterly performance (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,045	4,246	4,816	3,453	2,169	2,674	2,820	
YoY	-1.8%	-2.3%	8.9%	-23.0%	-46.4%	-37.0%	-41.4%	
Gross profit	1,849	1,769	1,786	1,531	933	1,468	1,497	
YoY	-5.1%	-7.8%	-5.6%	-9.1%	-49.5%	-17.0%	-16.2%	
GPM	45.7%	41.7%	37.1%	44.3%	43.0%	54.9%	53.1%	
SG&A expenses	1,133	995	1,540	1,229	913	1,092	1,196	
YoY	14.7%	-13.6%	45.5%	-32.6%	-19.4%	9.7%	-22.3%	
SG&A ratio	28.0%	23.5%	32.0%	35.6%	42.1%	40.8%	42.4%	
Operating profit	716	773	245	302	20	375	302	
YoY	-25.4%	1.0%	-70.7%	-	-97.2%	-51.5%	23.3%	
OPM	17.7%	18.2%	5.1%	8.7%	0.9%	14.1%	10.7%	
Recurring profit	728	767	223	309	40	390	334	
YoY	-24.4%	0.5%	-73.4%	-	-94.5%	-49.2%	49.8%	
RPM	18.0%	18.1%	4.6%	8.9%	1.8%	14.6%	11.8%	
Net income	399	496	178	151	1	198	166	
YoY	-42.4%	2.7%	-65.2%	-	-99.7%	-60.1%	-6.7%	
Net margin	9.9%	11.7%	3.7%	4.4%	0.0%	7.4%	5.9%	

Source: Shared Research based on company data  
 Note: Figures may differ from company materials due to differences in rounding methods.  
 Note: Company forecasts are the most recent figures.

## Performance by product type

Cumulative (JPYmm)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Sales</b>	<b>4,045</b>	<b>8,291</b>	<b>13,108</b>	<b>16,561</b>	<b>2,169</b>	<b>4,843</b>	<b>7,663</b>	
YoY	-1.8%	-2.1%	1.7%	-4.7%	-46.4%	-41.6%	-41.5%	
Equipment sales	1,577	3,356	5,459	6,586	661	1,254	1,981	
YoY	6.7%	5.3%	9.0%	-5.5%	-58.1%	-62.6%	-63.7%	
Card sales	702	1,409	2,080	2,738	343	869	1,379	
YoY	-4.0%	-5.1%	-6.7%	-7.6%	-51.1%	-38.3%	-33.7%	
System-usage fees	1,636	3,244	4,826	6,375	1,083	2,550	3,994	
YoY	-8.8%	-8.7%	-8.4%	-8.3%	-33.8%	-21.4%	-17.2%	
Others	128	282	741	862	81	170	309	
<b>Gross profit</b>	<b>1,849</b>	<b>3,618</b>	<b>5,405</b>	<b>6,936</b>	<b>933</b>	<b>2,401</b>	<b>3,898</b>	
YoY	-5.1%	-6.5%	-6.2%	-6.8%	-49.5%	-33.6%	-27.9%	
GPM	45.7%	43.6%	41.2%	41.9%	43.0%	49.6%	50.9%	
Equipment sales	270	524	828	969	125	287	455	
YoY	14.9%	18.3%	24.3%	31.5%	-53.7%	-45.2%	-45.0%	
GPM	17.1%	15.6%	15.2%	14.7%	18.9%	22.9%	23.0%	
Card sales	439	866	1,251	1,651	241	581	910	
YoY	-7.0%	-9.9%	-12.5%	-12.6%	-45.1%	-32.9%	-27.3%	
GPM	62.5%	61.5%	60.2%	60.3%	70.3%	66.9%	66.0%	
System-usage fees	1,089	2,115	3,114	4,066	529	1,452	2,382	
YoY	-9.3%	-11.1%	-11.8%	-12.5%	-51.4%	-31.3%	-23.5%	
GPM	66.6%	65.2%	64.5%	63.8%	48.8%	56.9%	59.6%	
Others	50	112	211	250	36	79	151	
<b>SG&amp;A expenses</b>	<b>1,133</b>	<b>2,129</b>	<b>3,670</b>	<b>4,899</b>	<b>913</b>	<b>2,005</b>	<b>3,201</b>	
YoY	14.7%	-0.6%	14.7%	-2.5%	-19.4%	-5.8%	-12.8%	
SG&A ratio	28.0%	25.7%	28.0%	29.6%	42.1%	41.4%	41.8%	
Personnel expenses	404	860	1,239	1,666	381	850	1,313	
R&D expenses	205	221	886	1,158	107	294	567	
<b>Operating profit</b>	<b>716</b>	<b>1,489</b>	<b>1,734</b>	<b>2,036</b>	<b>20</b>	<b>395</b>	<b>697</b>	
YoY	-25.4%	-13.7%	-32.3%	-16.0%	-97.2%	-73.5%	-59.8%	
OPM	17.7%	18.0%	13.2%	12.3%	0.9%	8.2%	9.1%	
Quarterly (JPYmm)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Sales</b>	<b>4,045</b>	<b>4,246</b>	<b>4,816</b>	<b>3,454</b>	<b>2,169</b>	<b>2,674</b>	<b>2,820</b>	
YoY	-1.8%	-2.3%	8.9%	-23.0%	-46.4%	-37.0%	-41.4%	
Equipment sales	1,577	1,778	2,103	1,128	661	592	727	
YoY	6.7%	4.1%	15.6%	-41.9%	-58.1%	-66.7%	-65.4%	
Card sales	702	706	671	662	343	526	510	
YoY	-3.8%	-6.4%	-9.8%	-9.7%	-51.1%	-25.5%	-24.0%	
System-usage fees	1,636	1,607	1,582	1,549	1,083	1,467	1,444	
YoY	-8.8%	-8.6%	-7.9%	-7.9%	-33.8%	-8.7%	-8.7%	
Others	128	153	459	121	81	88	139	
<b>Gross profit</b>	<b>1,849</b>	<b>1,769</b>	<b>1,786</b>	<b>1,531</b>	<b>933</b>	<b>1,468</b>	<b>1,497</b>	
YoY	-5.1%	-7.8%	-5.7%	-9.1%	-49.5%	-17.0%	-16.2%	
GPM	45.7%	41.7%	37.1%	44.3%	43.0%	54.9%	53.1%	
Equipment sales	270	254	303	143	125	162	168	
YoY	14.9%	22.1%	36.5%	101.4%	-53.7%	-36.2%	-44.6%	
GPM	17.1%	14.3%	14.4%	12.7%	18.9%	27.4%	23.1%	
Card sales	439	426	385	403	241	340	329	
YoY	-7.0%	-12.9%	-17.7%	-12.2%	-45.1%	-20.4%	-14.5%	
GPM	62.5%	60.4%	57.4%	60.9%	70.3%	64.9%	64.5%	
System-usage fees	1,089	1,026	998	953	529	923	930	
YoY	-9.3%	-12.9%	-13.4%	-14.8%	-51.4%	-10.1%	-6.8%	
GPM	66.6%	63.8%	63.1%	61.5%	48.8%	62.9%	64.4%	
Others	50	61	99	40	36	42	72	
<b>SG&amp;A expenses</b>	<b>1,133</b>	<b>995</b>	<b>1,540</b>	<b>1,229</b>	<b>913</b>	<b>1,092</b>	<b>1,196</b>	
YoY	14.7%	-13.6%	45.5%	-32.6%	-19.4%	9.7%	-22.3%	
SG&A ratio	28.0%	23.5%	32.0%	35.6%	42.1%	40.8%	42.4%	
Personnel	404	456	379	427	381	468	463	
R&D expenses	205	15	665	273	107	187	273	
<b>Operating profit</b>	<b>716</b>	<b>773</b>	<b>245</b>	<b>302</b>	<b>20</b>	<b>375</b>	<b>302</b>	
YoY	-25.4%	1.0%	-70.7%	-	-97.2%	-51.5%	23.3%	
OPM	17.7%	18.2%	5.1%	8.7%	0.9%	14.1%	10.7%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Earnings-related metrics (cumulative)

Cumulative	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
No. of equipment shipped ('000)	10.7	24.1	42.3	49.8	1.7	3.5	6.0	
YoY	-4.2%	-6.5%	3.8%	-19.3%	-83.8%	-85.6%	-85.9%	
No. of member stores	3,348	3,295	3,248	3,179	3,094	3,047	3,000	
YoY change	-264	-248	-234	-222	-254	-248	-248	
YoY	-7.3%	-7.0%	-6.7%	-6.5%	-7.6%	-7.5%	-7.6%	
QoQ change	-53	-53	-47	-69	-85	-47	-47	
QoQ	-1.6%	-1.6%	-1.4%	-2.1%	-2.7%	-1.5%	-1.5%	
Quarterly	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
No. of equipment shipped ('000)	10.7	13.3	18.1	7.5	1.7	1.7	2.5	
YoY	-4.2%	-8.2%	20.7%	-64.3%	-83.8%	-87.0%	-86.3%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

## Q3 FY03/21 results

- ▷ Sales: JPY7.7bn (-41.5% YoY)
- ▷ Operating profit: JPY697mn (-59.8% YoY)
- ▷ Recurring profit: JPY764mn (-55.5% YoY)
- ▷ Net income\*: JPY365mn (-66.0% YoY)

\*Net income attributable to owners of the parent

## Business environment and action taken by the company

Gamecard-Joyco Holdings says that pachinko hall operators, which comprise its primary customer base, continue to maintain a cautious stance toward capital investment amid uncertainties surrounding the removal of non-compliant machines as well as the COVID-19 outbreak. The company believes it will take time for customers' capital investment attitudes to fully turn around.

While sales activities were restrained due to the COVID-19 outbreak, the company worked to promote installation of units with ball-counting systems and proposals for replacing old equipment, which will streamline pachinko hall operations, to maintain and increase the share of its member halls. However, amid uncertainties over the operating environment of pachinko halls due to regulatory revisions and the impact of COVID-19, equipment sales and system-usage fees at the company dropped substantially YoY.

\* A ball-counting system is a system that counts the number of balls dispensed using a card-reading unit installed on each pachinko machine.

## Summary of cumulative Q3 FY03/21 (April–December 2020) results

Sales were down YoY due to the temporary closure of pachinko halls in April–May 2020 in response to the government's declaration of a state of emergency and a decline in the number of member halls amid an ongoing contraction in the pachinko and pachislot market.

Gross profit fell 27.9% YoY on a drop in card sales and system-usage fees. SG&A expenses declined 12.8% YoY, but profit items from the operating line down deteriorated sharply on a YoY basis.

In Q1 (April–June 2020), sales amounted to JPY2.2bn (-46.4% YoY) and operating profit JPY20mn (-97.2% YoY), while in Q2 (July–September 2020), sales were JPY2.7bn (-37.0% YoY) and operating profit JPY375mn (-51.5% YoY), and in Q3 (October–December 2020), sales came to JPY2.8bn (-41.1% YOY) and operating profit JPY302mn (+23.3% YOY). Sales and profit declined in Q1 due to the self-restraint on sales activities by pachinko halls in accordance with the state of emergency declaration in April–May 2020. Both sales and profit declined YoY but rose QoQ. This contrast occurred because client pachinko halls reopened for business starting in June and the visits from pachinko players gradually returned to normal. In Q3, although sales were down YoY, R&D expenses shrank and operating profit increased. On a QoQ basis, sales increased thanks to higher equipment sales, but operating profit fell as R&D expenses increased.



### Achievement rates versus the company's full-year FY03/21 forecast

In February 2021, the company announced a revision of its full-year company forecasts for FY03/21. The revised company forecasts are for sales of JPY10.0bn (-39.6% YoY), operating profit of JPY1.0bn (-50.9% YoY), recurring profit of JPY1.1bn (-45.7% YoY), and net income attributable to owners of the parent of JPY550mn (-55.1% YoY). The company revised sales downward from the previous forecast by JPY2.0bn, while revising profit items upward—operating profit by JPY600mn, recurring profit by JPY700mn, and net income attributable to owners of the parent by JPY550mn. It thus anticipates lower sales than previously expected. On the other hand, the company revised its operating profit and other profit item forecasts upward, reflecting its ability to maintain member hall numbers and secure sales and profits, while paring down SG&A expenses.

Cumulative Q3 achievement rates versus the company's revised full-year FY03/21 forecast stood at 76.6% for sales (cumulative Q3 FY03/20 sales were 79.1% of full-year FY03/20 results), 69.7% for operating profit (85.2%), and 69.5% for recurring profit (84.8%). Net income attributable to owners of the parent achieved 66.4% of full-year forecast (87.7%).

### Sales by product type

- ▷ Equipment sales: JPY2.0bn (-63.7% YoY). Equipment sales were down YoY on lower unit sales (5,954 units, -85.9% YoY). Unit sales declined YoY due to limitations of sales activity at the company and a more cautious stance on the part of pachinko halls with regard to capital investment amid temporary closures in response to the government's declaration of a state of emergency in April and May 2020.
- ▷ Card sales: JPY1.4bn (-33.7% YoY). Information management fees fell, accompanying a drop in the total value of issued cards (amount spent by players on usage). Actual card sales were also down. The number of member halls, a key indicator in forecasting trends for the total value of issued cards over the medium to long term, continued to decline, dropping by 248 locations YoY (-7.6% YoY), to 3,000. The closure of pachinko halls in line with the declaration of a state of emergency resulted in a sharp drop in the value of issued cards per member hall.
  - Card sales in Q1 were JPY343mn (-51.1% YoY). The sales fell as pachinko halls closed temporarily in response to the COVID-19 pandemic.
  - Q2 card sales were JPY526mn (-25.5% YoY), while Q3 sales were JPY510mn (-24.0% YOY). Pachinko halls reopened for business since Q2 and the utilization rate for pachinko and pachislot machines trended back upward. As a result, information management fees, which are calculated in proportion to the volume of player usage, declined YoY but improved compared to Q1.
- ▷ System-usage fees: JPY4.0bn (-17.2% YoY). In addition to the effects from a reduced number of member halls, system usage fees were impacted by temporary pachinko hall closures conducted in response to the COVID-19 pandemic.
  - System-usage fees came to JPY1.1bn (-33.8% YoY) in Q1, JPY1.5bn (-8.7% YOY) in Q2, and JPY1.4bn (-8.7% YOY) in Q3. Results in Q1 incurred strong impact from temporary pachinko hall closures due to a voluntary restraint on operations.
- ▷ Others (equipment installation and maintenance): JPY309mn (-58.2% YoY).

### Gross profit by product type

Gross profit was JPY4.0bn (-27.9% YoY), with GPM at 50.9% (+9.6pp YoY). Overall GPM increased YoY because sales of equipment with a relatively low GPM declined and accounted for a lower portion of overall sales.

- ▷ Equipment sales: Gross profit of JPY455mn (-45.0% YoY) and GPM of 23.0% (+7.8pp YoY).
- ▷ Card sales: Gross profit of JPY910mn (-27.3% YoY) and GPM of 66.0% (+5.8pp YoY).
  - Gross profit from card sales in Q1 was JPY242mn (-45.0% YoY), and the corresponding GPM was 70.1% (+7.6pp YoY).
  - Gross profit from card sales in Q2 was JPY340mn (-20.4% YoY), and the corresponding GPM was 64.9% (+4.5pp YoY).
  - Gross profit from card sales in Q3 was JPY329mn (-14.5% YoY), and the corresponding GPM was 64.5% (+7.1pp YoY).

- ▷ System usage fee revenue: Gross profit of JPY2.4bn (-23.5% YoY) and GPM of 59.6% (-4.9pp YoY). The declines in gross profit and GPM were due to temporary pachinko hall closures.
  - In Q1, gross profit from system-usage fee revenue was JPY530mn (-51.4% YoY), and the corresponding GPM was 48.9% (-17.7pp YoY).
  - In Q2, the company generated JPY923mn in gross profit from system-fee usage revenue (-10.1% YoY) and a corresponding GPM of 62.9% (-0.9pp YoY), while in Q3, it generated JPY930mn (-6.8% YoY) and a corresponding GPM of 64.4% (+1.3pp YoY). Gross profit fell YoY, but rose vs. Q1, because client pachinko halls reopened for business starting in June 2020 and the number of pachinko players visiting these halls has gradually returned to normal since then.

## SG&A expenses

SG&A expenses were JPY3.2bn (-12.8% YoY), comprising JPY1.3bn (+6.0% YoY) in personnel expenses and JPY567mn (-36.0% YoY) in R&D expenses. Travel expenses also declined as a result of the company limiting sales activities due to the spread of COVID-19.

As a result, operating profit, recurring profit, and net income were all down YoY.

## Other: Absorption merger between subsidiaries

The company plans to carry out an absorption-type merger between its consolidated subsidiaries Nippon Game Card Corp. and JOYCO SYSTEMS Corp. on April 1, 2021 with Nippon Game Card to be the surviving entity and JOYCO SYSTEMS to be absorbed.

The company's operating environment is changing rapidly amid changes in the regulatory and market conditions for the pachinko industry and the impact of the COVID-19 pandemic. To address these changes and achieve sustainable growth, the company deemed it necessary to integrate the management resources of the two subsidiaries and strengthen the business base by streamlining and optimizing the management system.

Since this is a merger between two consolidated subsidiaries, the impact on Gamecard-Joyco Holdings' consolidated business results will be minimal.

**For details on previous quarterly and annual results, please refer to the Historical earnings results section.**

## Full-year company forecasts

(JPYmn)	FY03/20			FY03/21		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
<b>Sales</b>	<b>8,291</b>	<b>8,270</b>	<b>16,561</b>	<b>4,843</b>	<b>5,157</b>	<b>10,000</b>
YoY	-2.1%	-7.2%	-4.7%	-41.6%	-37.6%	-39.6%
Cost of sales	4,672	4,953	9,625	2,442		
<b>Gross profit</b>	<b>3,618</b>	<b>3,318</b>	<b>6,936</b>	<b>2,401</b>		
YoY	-6.4%	-7.3%	-6.8%	-33.6%		
GPM	43.6%	40.1%	41.9%	49.6%		
SG&A expenses	2,129	2,770	4,899	2,005		
SG&A ratio	25.7%	33.5%	29.6%	41.4%		
<b>Operating profit</b>	<b>1,489</b>	<b>547</b>	<b>2,036</b>	<b>395</b>	<b>605</b>	<b>1,000</b>
YoY	-13.7%	-21.5%	-15.9%	-73.4%	10.6%	-50.9%
OPM	18.0%	6.6%	12.3%	8.2%	11.7%	10.0%
<b>Recurring profit</b>	<b>1,495</b>	<b>532</b>	<b>2,027</b>	<b>430</b>	<b>670</b>	<b>1,100</b>
YoY	-13.4%	-23.1%	-16.2%	-71.2%	25.9%	-45.7%
RPM	18.0%	6.4%	12.2%	8.9%	13.0%	11.0%
<b>Net income</b>	<b>896</b>	<b>329</b>	<b>1,225</b>	<b>199</b>	<b>351</b>	<b>550</b>
YoY	-23.9%	30.6%	-14.3%	-77.8%	6.7%	-55.1%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: “-” indicates that the year-on-year ratio exceeds 1000%.

In February 2021, the company announced a revision of its full-year company forecasts for FY03/21. The revised company forecasts are for sales of JPY10.0bn (-39.6% YoY), operating profit of JPY1.0bn (-50.9% YoY), recurring profit of JPY1.1bn (-45.7% YoY), and net income attributable to owners of the parent of JPY550mn (-55.1% YoY).

The company revised sales downward from the previous forecast by JPY2.0bn, while revising profit items upward—operating profit by JPY600mn, recurring profit by JPY700mn, and net income attributable to owners of the parent by JPY550mn.

In terms of the reasons for the revision, the company revised its sales forecast downward in light of the cautious investment in peripheral equipment among pachinko hall operators, which make up the company’s primary customer base, due to lingering concerns about the impact on the operating environment of the COVID-19 pandemic and the likely need to replace gaming machines in response to regulatory revisions. On the other hand, the company revised its operating profit and other profit item forecasts upward, reflecting its ability to maintain member hall numbers and secure sales and profits, while paring down SG&A expenses.

- ▷ In formulating its forecast, the company has assumed a decrease in equipment unit sales. Equipment unit sales have fallen at an average annual pace of 13.6% over the past five years. In FY03/20, the company sold 49,785 units, down 19.3% YoY.
- ▷ The company forecasts a decrease in member hall count. Member hall count has declined at an average annual pace of 6.5% over the past five years and was 3,179 in FY03/20, down 6.5% YoY.

The company forecasts declines in equipment sales, card sales, and system-usage fee revenue.

- ▷ Equipment sales are expected to decrease due to a slide in unit sales.
- ▷ Information management fees, which are included under card sales, are projected to fall as a result of lower card consumption associated with both a decrease in member hall count and an increase in the installation of machines with low-priced balls.
- ▷ The company projects lower system-usage fee revenue associated with a drop in member hall count.

Gross profit is expected to fall along with sales, but the company projects that GPM will rise YoY. The company projects that the gross profit margin of card sales and system-usage fee revenue will fall as the fixed cost ratios associated with these two sales components rise. At the same time, the company forecasts that sales of relatively low-margin equipment will account for a lower percentage of overall sales.

The company expects SG&A expenses to decline YoY as it aims to raise profits in part by lowering R&D costs.

## Dividends

The company plans to pay a year-end dividend of JPY17.5 per share for a total annual dividend of JPY35.0 per share including the interim dividend of JPY17.5 per share in FY03/20. For FY03/21, the company plans to pay an interim dividend of JPY17.5 per share and a year-end dividend of JPY17.5 per share, for a total annual dividend of JPY35.0 per share.

## Medium- to long-term Outlook

Gamecard-Joyco Holdings' medium-term financial performance is primarily driven by:

- ▷ Trends in installed pachinko and pachislot machine base;
- ▷ Trends in pachinko hall sales;
- ▷ Total number of pachinko halls (itself dependent on competition among halls and market contraction);
- ▷ Market share of halls using its systems;
- ▷ R&D expenses progress

As described later, Shared Research believes that regulatory amendment that took effect in February 2018 will pave the way for the introduction of “controlled machines,” and accordingly see prospects of replacement demand for card-reading units (devices from which game balls are borrowed) over the medium term.

### Installed pachinko and pachislot machine base, market size, and total pachinko hall count

Installed pachinko and pachislot machine base, market size (pachinko hall sales) and total number of pachinko halls are external factors that the company cannot directly control. All three have continued to show a trend of long-term decline, contributing to a continued harsh operating environment in FY03/20 (see the Market and value chain section for details).

### Market share of member halls

Thanks to its merger with JOYCO SYSTEMS Corp. the company was able to capture a majority share of the market for prepaid cards used at pachinko and pachislot halls. The number of member halls is trending down due to new market entrant Daikoku Denki (TSE1: 6430) gaining market share.

#### Number of member halls, market share

	Dec. 2009	Dec. 2010	Dec. 2011	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015	Dec. 2016	Dec. 2017	Dec. 2018	Dec. 2019
Number of member halls	5,451	5,429	5,047	4,974	4,836	4,529	4,272	4,020	3,778	3,482	3,248
YoY	-3.1%	-0.4%	-7.0%	-1.4%	-2.8%	-6.3%	-5.7%	-5.9%	-6.0%	-7.8%	-6.7%
Market share	53.3%	53.3%	52.1%	51.7%	50.9%	48.7%	46.7%	45.1%	43.6%	42.0%	

Source: Shared Research based on data from Prepaid System Association

### R&D expenses

- ▷ In response to the ongoing decline in sales that began in FY03/13, the company increased R&D spending steadily through FY03/16, developing new features for its G∞WIN'Z series, next-generation systems, and attempting to create new business areas. One major R&D project was the “inter-industry cooperation service.” The company had been hoping to establish the service, which was built around an electronic money service, but after a review of potential profitability and the return on investment, the company decided it would be difficult to continue and halted development in FY03/16. Due to the additional cost of cancelling this project, the company's R&D spending swelled to JPY3.9bn in FY03/16.
- ▷ R&D spending declined sharply to JPY906mn in FY03/17. The decline stemmed mainly from the dropout of expenditures related to the canceled project in FY03/16 and being more focused and selective in its R&D investments. In FY03/18, R&D expenses further dropped to JPY393mn. In FY03/19, R&D expenses rose to JPY1.2bn due to progress in the development of products equipped with addiction prevention features and compliant with new regulations, as well as product development and other measures geared toward providing stable services.
- ▷ R&D spending was JPY1.2bn in FY03/20 and targeted the development of new products and services, as well as product development and other measures geared toward providing stable services.

## R&D expenses

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Par.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales	37,005	43,575	39,545	34,192	25,741	23,885	20,405	16,928	17,375	16,561
R&D expenses	672	1,820	2,724	2,978	3,146	3,931	906	393	1,206	1,158
R&D expenses as % of sales	1.8%	4.2%	6.9%	8.7%	12.2%	16.5%	4.4%	2.3%	6.9%	7.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Figures prior to FY03/12 are for Nippon Game Card.

### Replacement demand for card-reading units driven by “controlled machines”

Shared Research understands that the regulatory amendment in February 2018 will pave the way for the introduction of “controlled machines” (see the Market and value chain section for details). Because “controlled machines” differ from conventional machines, a new card-reading unit (a device from which game balls are borrowed) is necessary when introducing “controlled machines”. This requirement may drive replacement demand for card-reading units over the medium term.

### Regulatory amendment in February 2018 to pave the way for introduction of “controlled machines”

In the partial amendment to the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Businesses and the Regulations Concerning Authorization and Model Approval for Amusement Machines (promulgated in September 2017, slated to take effect in February 2018), a machine equipped with a device that displays the number of game balls (i.e., a “controlled machine”) is added as a new gaming machine standard. Shared Research believes the amendment will pave the way for the introduction of “controlled machines,” which in turn may drive replacement demand for card-reading units (devices from which game balls are borrowed).

### Differences between conventional and “controlled machines”

When using conventional machines, players borrow game balls from a card-reader unit (physical game balls are dispensed externally), which are then loaded and shot in the machine by operating a handle. If a game ball enters the prize-winning chucker (scoring hole), prize balls are dispensed externally from the machine. “Controlled machines,” on the other hand, adopt a structure in which there is no physical interaction between the players and the game balls. Our understanding at Shared Research is that instead of dispensing the game balls externally, game balls are managed through an electromagnetic system. In other words, the process of borrowing game balls via a card-reading unit is the same as for conventional machines, but game balls are no longer dispensed externally and the number of borrowed game balls corresponding to the purchased amount is indicated using an electromagnetic system. If the player wins prize balls, these are displayed as an increase in the total number of game balls.

### Advantages of “controlled machines” over conventional machines

Shared Research understands that “controlled machines” offer several advantages over conventional machines such as a reduction in gambling addiction, prevention of fraud, enhanced freedom in machine layout, and cost reductions for pachinko halls.

- ▷ Management of information regarding the number of borrowed game balls and balls dispensed by players should curb the gambling nature of pachinko machines and contribute to a reduction in gambling addiction
- ▷ The adoption of a structure that removes physical interaction between the players and the game balls should support fraud prevention
- ▷ Conventional machines re-use game balls across a number of machines by utilizing a supply device. “Controlled machines” re-use game balls in a single machine, eliminating the need for a supply device. This allows pachinko halls to have greater freedom in machine layout and lower costs

Although details are not yet clear, the company is seeing similar demand for controlled machines for pachinko slot machines, just as it did for pachinko machines.

## Business

### Business description

Gamecard-Joyco Holdings Inc., a holding company founded in April 2011, operates a prepaid-card system business for pachinko machines and it is the market leader in terms of number of members (pachinko halls). Nippon Game Card and JOYCO SYSTEMS Corp. are both 100% subsidiaries.

### Business model

Nippon Game Card provides third-party issuer prepaid-card systems to pachinko halls (hereafter halls). JOYCO SYSTEMS provides house-issuer card payment systems for halls. As of the end of March 2020, there were 3,179 halls (-6.5% YoY) using JOYCO SYSTEMS's card payment systems (market share of 41.6%).

#### Prepaid-card system and pachinko and pachislot machines

Most pachinko machines are card reader (CR) models. CR models rely on prepaid cards, and players obtain pachinko balls directly from the pachinko machine using their card.

There are two ways to play a CR model pachinko machine.

- ▷ The first is when players purchase a prepaid card from a card-vending terminal.
- ▷ The second, and predominant, way is to insert money directly into a card-reading unit attached to a pachinko machine, which issues a prepaid card on the spot with the monetary information recorded on the prepaid card, and balls are then dispensed based on that information.
- ▷ Customers can play on any machine with a card-reading unit installed.
- ▷ When done playing, a refund can be obtained using the same card from a separate card-balance refund terminal. The company supplies all components of both systems, including equipment and cards themselves.

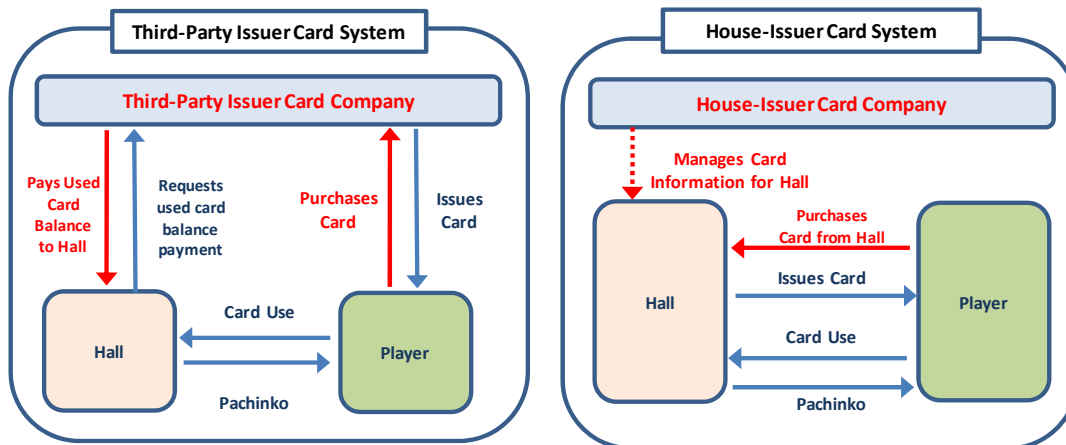
While CR model pachislot machines do not exist, there are a growing number of halls who install token-dispensing units for pachislot machines that allow use of the same prepaid-card system (and therefore the same card by individual players) for both pachinko and pachislot machines in the same hall.

#### Third-party issued card system vs. house-issued card system

There are two types of prepaid-card systems:

- **Third-party issuer system:** here the card company (i.e., the "third party"), is responsible for payment settlement between the hall and player.
- **House-issuer system (proprietary issuance):** the company offering the card system merely manages the information stored on cards. The hall operator issues cards and settles payments with players directly.

As of May 2020, Nippon Game Card was the only company in the industry operating a third-party issuer system. On the other hand, JOYCO offers a house-issuer system.



Source: Shared Research based on company data

The advantages of the third-party issuer system compared to the house-issuer system are as follows:

- ▷ **Complete accounting transparency:** all payments to the hall are made through the card company.
- ▷ **Superior consumer protection:** even if a hall goes out of business, the card company will pay the remaining balance to card holders (However, when done playing, most players turn remaining balance in their cards into cash at a card-balance refund terminal installed at pachinko halls within the same day).
- ▷ **Improved convenience:** Players can use their prepaid cards at all Nippon Game Card member halls.

The disadvantage of a third-party issuer system is higher development and running costs of the system. This is due to card companies being responsible for settlements so it has to ensure the security and reliability of the system, which increases the costs compared to house-issuer systems. Shared Research estimates the costs for third-party issuer systems are about 30% to 40% higher than house-issuer systems. Apart from this, Shared Research understands that functionally both types of systems are similar.

### Relevant regulations

While the pachinko prepaid-card industry itself is not directly subject to any laws or regulations the company's clients, halls, are governed by numerous regulations (Law on Control and Improvement of Amusement Businesses, National Public Safety Commission's Rules, Prefectural Ordinances). In order to actually use a card-reading unit it is necessary to acquire permission from and notify the authorities. Consequently, in the event that any of the various laws and regulations governing pachinko halls are revised, the company's business may be affected when selling and installing card units to halls.

Finally, in accordance with the Settlement of Funds Act (enacted on April 1, 2010; previously known as Act on Regulation, etc. of Advanced Payment Certificates) Nippon Game Card is registered with the Kanto Regional Financial Bureau as a "third-party issuer". This regulation requires the company to deposit over 50% of the unused face value on its cards for card balance insurance purposes.

### Main product

#### B∞LEX

Released in November 2009, B∞LEX had become the company's mainstay product. The device can be easily attached to existing company products, additional functionality (e.g. ball-counting systems) can be added at any time, and similarly, ball-counting systems to each pachinko machine can be easily removed. It is a full-color display.

#### Ball-counting systems

Ball-counting systems are devices installed onto card-reading units connected to individual pachinko machines that measure the number of dispensed balls. In the past, players put dispensed balls into boxes at the end of play, and pachinko hall staff carried these boxes to and poured into an automated counting machine (known as a Jet Counter). However, a box full of balls is heavy



and the staff needs to carry it for counting, particularly difficult and time-consuming task when large winnings are involved. Winning players also need new empty boxes, further increasing burden on personnel and driving up labor costs.

Amidst the challenging market environment, halls have taken to cost cutting as a means to boost profits, such as through reducing staff headcount and paring back on installation costs. This means that to sell well, prepaid-card systems too must contribute to reducing operating costs and enhancing customer satisfaction. The company claims it is possible to reduce pachinko hall staff to approximately one-half to one-third of their present amount by the introduction of ball-counting systems. Moreover, these systems would contribute to an improved working environment by eliminating the need for employees to carry heavy boxes of pachinko balls.

With the propagation of operations with low-priced balls such as one-yen pachinko, there have been calls for measures to prevent customers from taking balls won at one-yen machines and using them to play at four-yen machines (effectively borrowing low-price balls to play at machines delivering regular-price payouts) in pachinko halls that house both types of machine. Ball-counting systems also serve as a preventative measure against this kind of diversion.

The company was late in developing such a system compared to competitors, but the arrival in November 2009 of the B∞LEX line allowed its card-reading units to be equipped with ball-counting systems. B∞LEX’s ease of use as well as its functional flexibility allowing installation of the ball-counting units at any time, received high user acclaim.

**G∞WIN’Z**

In March 2015, Gamecard-Joyco launched G∞WIN’Z, the successor to B∞LEX. It is the company’s mainstay product as of May 2020. In addition to the features of B∞LEX, pachinko hall operators can select whether to use G∞WIN’Z with card subtraction or ball subtraction system machines (different methods of passing on consumption tax to customers). G∞WIN’Z also features a full-color 5-inch LC screen that can display and transmit original movies and still images, and transmit promotional movies for amusement machines. It also has a removable nozzle for dispensing balls into the trays of the amusement machines.

Two methods of collecting consumption tax: Shared Research understands that thus far ball and token lending charges included tax, with hall operators shouldering the tax burden. But new and renovated stores are increasingly installing equipment with systems designed to handle the consumption tax hike of April 2014. The **card subtraction system** maintains the same quantity of balls and tokens and subtracts the cost—plus the consumption tax—from the amount loaded on the user’s prepaid card. By contrast, the **ball subtraction system** keeps the cost the same, but reduces the amount of balls or tokens to compensate for consumption tax. The disadvantage of the card subtraction system is that prepaid card balances become too granular (units of a single yen) for the player to use the entire balance.

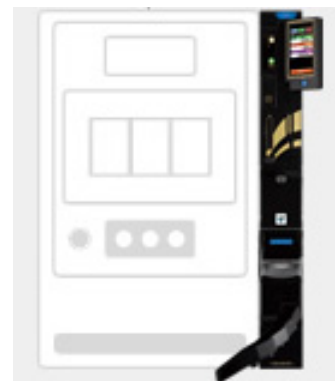
**G∞WIN’Z**



**(Pachinko) unit installation**



**(Pachislot) token dispenser installation**



Source: Company data

## Earnings structure

### Earnings structure

(JPYmm)	FY03/10 Par.	FY03/11 Par.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
<b>Total sales</b>	<b>32,834</b>	<b>37,005</b>	<b>43,575</b>	<b>39,545</b>	<b>34,192</b>	<b>25,741</b>	<b>23,885</b>	<b>20,405</b>	<b>16,928</b>	<b>17,375</b>	<b>16,561</b>
YoY	6.0%	12.7%	-	-9.2%	-13.5%	-24.7%	-7.2%	-14.6%	-17.0%	2.6%	-4.7%
Equipment sales	16,650	21,336	25,978	22,295	18,506	11,395	10,654	8,167	5,732	6,949	6,586
YoY	22.2%	28.1%	-	-14.2%	-17.0%	-38.4%	-6.5%	-23.3%	-29.8%	21.2%	-5.2%
% of total sales	50.7%	57.7%	59.6%	56.4%	54.1%	44.3%	44.6%	40.0%	33.9%	40.0%	39.8%
Card sales	4,865	4,797	5,530	5,587	4,854	4,229	3,957	3,609	3,170	2,963	2,738
YoY	-7.4%	-1.4%	-	1.0%	-13.1%	-12.9%	-6.4%	-8.8%	-12.2%	-6.5%	-7.6%
% of total sales	14.8%	13.0%	12.7%	14.1%	14.2%	16.4%	16.6%	17.7%	18.7%	17.1%	16.5%
System-usage fees	10,793	10,421	11,581	11,230	10,409	9,612	8,808	8,148	7,584	6,950	6,375
YoY	-6.4%	-3.4%	-	-3.0%	-7.3%	-7.7%	-8.4%	-7.5%	-6.9%	-8.4%	-8.3%
% of total sales	32.9%	28.2%	26.6%	28.4%	30.4%	37.3%	36.9%	39.9%	44.8%	40.0%	38.5%
Other sales	524	450	485	432	422	503	465	479	440	514	862
<b>Gross profit</b>	<b>9,660</b>	<b>11,199</b>	<b>13,093</b>	<b>11,884</b>	<b>10,980</b>	<b>9,665</b>	<b>8,413</b>	<b>8,250</b>	<b>7,871</b>	<b>7,446</b>	<b>6,936</b>
YoY	-6.4%	15.9%	-	-9.2%	-7.6%	-12.0%	-13.0%	-1.9%	-4.6%	-5.4%	-6.8%
GPM	29.4%	30.3%	30.0%	30.1%	32.1%	37.5%	35.2%	40.4%	46.5%	42.9%	41.9%
Equipment sales	1,904	3,333	3,757	2,569	2,356	1,187	554	673	703	737	969
YoY	16.5%	75.1%	-	-31.6%	-8.3%	-49.6%	-53.3%	21.5%	4.5%	4.8%	31.5%
GPM	11.4%	15.6%	14.5%	11.5%	12.7%	10.4%	5.2%	8.2%	12.3%	10.6%	14.7%
% of gross profit	19.7%	29.8%	28.7%	21.6%	21.5%	12.3%	6.6%	8.2%	8.9%	9.9%	14.0%
Card sales	2,971	2,828	3,199	3,285	2,952	2,811	2,468	2,261	2,029	1,889	1,651
YoY	-13.3%	-4.8%	-	2.7%	-10.1%	-4.8%	-12.2%	-8.4%	-10.3%	-6.9%	-12.6%
GPM	61.1%	59.0%	57.8%	58.8%	60.8%	66.5%	62.4%	62.6%	64.0%	63.8%	60.3%
% of gross profit	30.8%	25.3%	24.4%	27.6%	26.9%	29.1%	29.3%	27.4%	25.8%	25.4%	23.8%
System-usage fees	5,044	5,213	6,261	6,028	5,600	5,523	5,340	5,169	5,022	4,648	4,066
YoY	-7.8%	3.4%	-	-3.7%	-7.1%	-1.4%	-3.3%	-3.2%	-2.8%	-7.4%	-12.5%
GPM	46.7%	50.0%	54.1%	53.7%	53.8%	57.5%	60.6%	63.4%	66.2%	66.9%	63.8%
% of gross profit	52.2%	46.5%	47.8%	50.7%	51.0%	57.1%	63.5%	62.7%	63.8%	62.4%	58.6%
Other	-259	-175	-125	0	71	143	50	145	116	173	250
<b>SG&amp;A expenses</b>	<b>8,093</b>	<b>6,877</b>	<b>8,633</b>	<b>9,216</b>	<b>9,216</b>	<b>8,848</b>	<b>9,854</b>	<b>6,331</b>	<b>4,274</b>	<b>5,023</b>	<b>4,899</b>
SG&A-to-sales ratio	24.6%	18.6%	19.8%	23.3%	27.0%	34.4%	41.3%	31.0%	25.2%	28.9%	29.6%
Personnel expenses	1,749	1,818	2,206	2,228	2,278	2,164	2,163	2,139	1,611	1,578	1,666
R&D expenses	1,733	672	1,820	2,724	2,978	3,146	3,931	906	393	1,206	1,158
Other	4,611	3,493	4,607	4,264	3,960	3,538	3,760	3,286	2,270	2,239	2,075
<b>Operating profit</b>	<b>1,566</b>	<b>4,322</b>	<b>4,459</b>	<b>2,668</b>	<b>1,764</b>	<b>816</b>	<b>-1,440</b>	<b>1,919</b>	<b>3,596</b>	<b>2,423</b>	<b>2,036</b>
YoY	-41.4%	176.0%	-	-40.2%	-33.9%	-53.7%	-	-	87.4%	-32.6%	-16.0%
OPM	4.8%	11.7%	10.2%	6.7%	5.2%	3.2%	-6.0%	9.4%	21.2%	13.9%	12.3%

Source: Shared Research based on company data

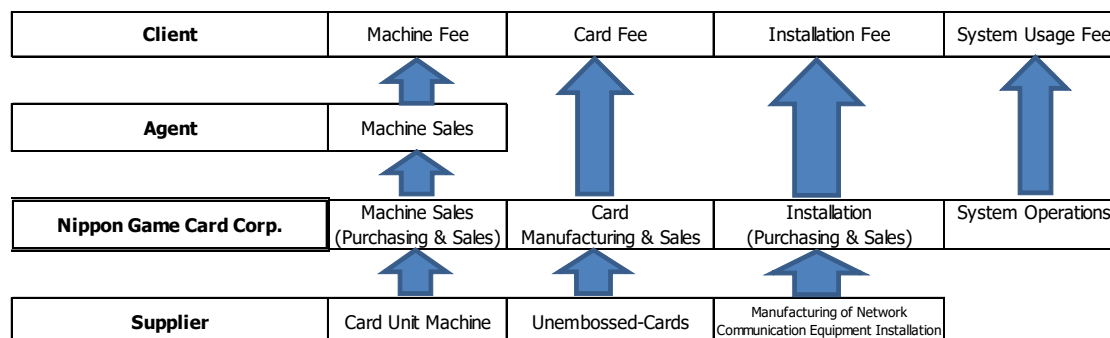
Note: Figures may differ from company materials due to differences in rounding methods.

## Sales

The company's revenues comprise of four main components:

- ▷ Equipment sales
- ▷ Card sales
- ▷ System-usage fee revenue
- ▷ Other revenues (such as, equipment installation and maintenance)

Shared Research thinks the company's business resembles that of a mobile network operator. The company's equipment sales roughly correspond to handset sales by mobile network operators while card sales are comparable to network operators' usage-based tariffs, such as call rates and data usage fees, while system-usage fees mirror network operators' basic monthly fees.



Source: Shared Research based on company data

Note: Unembossed-cards refer to prepaid cards yet to be encoded with the required information.

## Equipment sales (39.8% of total sales, 14.0% of total gross profit in FY03/20)

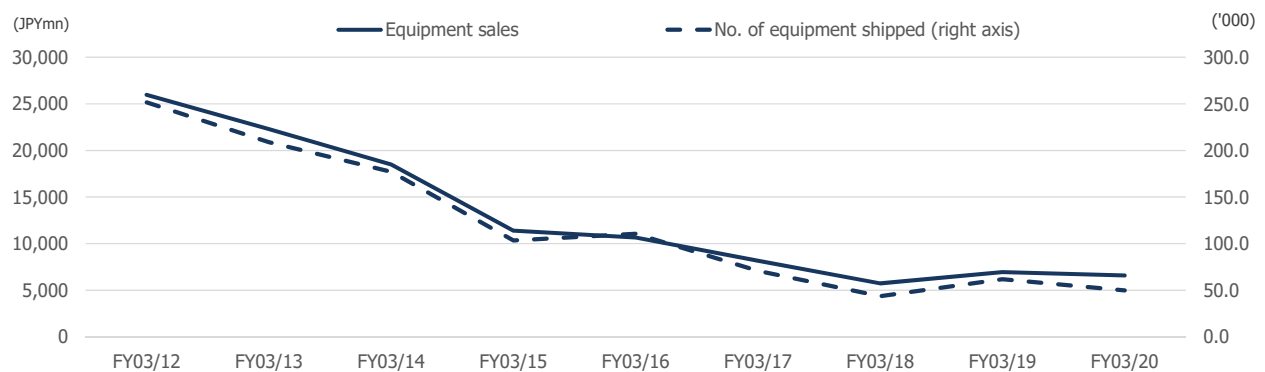
The company sells via distributors, card systems, token dispensers, and card-balance refund terminals to halls. Equipment sales are calculated by multiplying the amount of equipment units sold in each category by the prices for each type of equipment. The number of equipment units sold changes based on openings and closures of pachinko halls, equipment replacement demand, and market competition. The selling price fluctuates according to the company's sales strategy.

Card systems: Devices located between (CR model) pachinko machines. They dispense balls and are necessary to calculate card cash balances.  
 Token dispensers: Devices that dispense pachislot tokens.  
 Card-balance refund terminals: Devices that calculate card balances after play is finished and refund any remaining balances to players.

Card systems and token dispensers, which are the company's main product, are procured from Mamiya-OP Co. (TSE1: 7991), International Card System Co. (a subsidiary of Sankyo Co. [TSE1: 6417]) and other companies.

According to the company, the standard replacement cycle for equipment in pachinko halls is roughly five to ten years, with additional capex beyond the replacement cycle driven by equipment upgrades as new functionality comes into the market (e.g., new ball-counting systems etc.).

### Equipment sales and number of equipment shipped



Note: Equipment sales are represented by the solid line (in units of JPY1 mn) and the number of equipment shipped is represented by the dotted line (in units of 1,000 equipment units delivered)

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No. of equipment shipped ('000)	251.7	209.0	177.1	103.4	110.5	70.7	43.6	61.7	49.8
YoY	-	-17.0%	-15.3%	-41.6%	6.9%	-36.0%	-38.3%	41.5%	-19.3%
Equipment sales (JPYmn)	25,978	22,295	18,506	11,395	10,654	8,167	5,732	6,949	6,586
YoY	-	-14.2%	-17.0%	-38.4%	-6.5%	-23.3%	-29.8%	21.2%	-5.2%

Source: Shared Research based on company data

## Card sales (16.5% of total sales, 23.8% of total gross profit in FY03/20)

Card sales are comprised of the sale of actual cards, information management fees, and booking of unredeemed card balances.

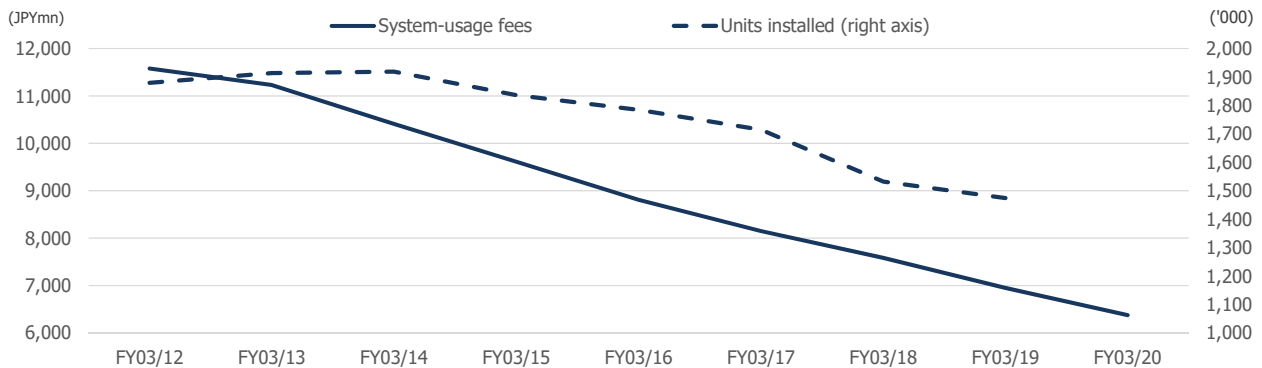
- ▷ Card sales denote the purchase of prepaid cards at pachinko halls and mainly moves according to the number of prepaid cards sold.
- ▷ Information management fees denote the fees the company receives from pachinko halls when a card settlement occurs after a customer plays pachinko. These fees are determined by the amount spent by players on their cards. Gross profit related to information management fees accounts for most gross profit associated with card sales.

**Prepaid cards** are information recording media used to manage pachinko hall sales (ball and token fees). Since 2000 contactless IC cards have superseded one-time use magnetic cards as the industry standard.

- ▷ Booking of unredeemed card balances denotes a practice in accordance with The Corporation Tax Act, which stipulates that after four years any unused balances on issued cards purchased by players should be booked as income. Both unused balances

and corresponding income have been declining as the industry moved from magnetic card to IC card use. This is because more players using IC cards tend to cash out their unused balances compared to players using magnetic cards.

### Card sales and number of units installed



Note: Card sales are represented by the solid line (in units of JPY1 mn) and the number of units installed is represented by the dotted line (in units of 1,000 systems installed)

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No. of units installed ('000)	1,879	1,914	1,919	1,836	1,784	1,715	1,532	1,474	
YoY	0.0%	1.9%	0.3%	-4.3%	-2.8%	-3.9%	-10.6%	-3.8%	
Card sales (JPYmn)	5,530	5,587	4,854	4,229	3,957	3,609	3,170	2,963	2,738
YoY	-	1.0%	-13.1%	-12.9%	-6.4%	-8.8%	-12.2%	-6.5%	-7.6%

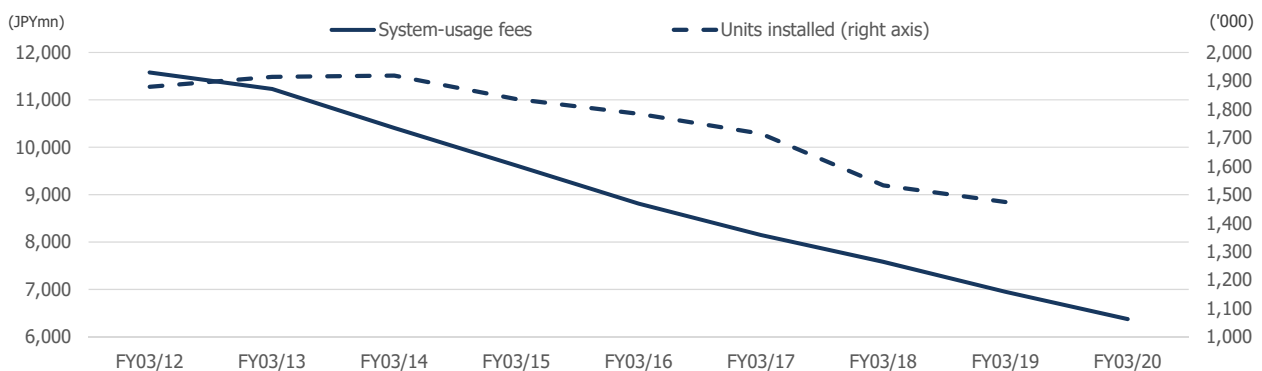
Source: Shared Research based on company data

### System-usage fees (38.5% of total sales, 58.6% of total gross profit in FY03/20)

The company receives a recurring system-usage fee from member halls based on the number of prepaid card systems installed.

The company's prepaid-card system is based on a design by NTT Data Corp. (TSE1: 9613) and system modifications, such as improvements and addition of new functions, are outsourced to NTT Data. NTT Data also handles the collection of card usage information and data processing.

### System-usage fees and number of units installed



Note: System-usage fees are represented by the solid line (in units of JPY1 mn) and the number of units installed is represented by the dotted line (in units of 1,000 systems installed)

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Units installed ('000)	1,879	1,914	1,919	1,836	1,784	1,715	1,532	1,474	
YoY	-	1.9%	0.3%	-4.3%	-2.8%	-3.9%	-10.6%	-3.8%	
System-usage fees (JPYmn)	11,581	11,230	10,409	9,612	8,808	8,148	7,584	6,950	6,375
YoY	-	-3.0%	-7.3%	-7.7%	-8.4%	-7.5%	-6.9%	-8.4%	-8.3%

Source: Shared Research based on company data

### Others (equipment installation and maintenance)

Equipment installation (card-reading units etc.) and maintenance is conducted by the company's distributors, such as SANKYO, based on contracts with halls. Installation of network communication equipment for prepaid-card systems (known as a "T-BOX") is outsourced to separate contractors, and the company then invoices halls for the installation cost.

A T-BOX (Terminal Box) is a data-collection unit used in the prepaid-card systems the company provides to halls. The T-BOX collates sales information and other data from the installed card-reading units and token-dispensing units within a hall. This information is then transmitted to a data center, which consolidates all the data for management of halls.

## Gross profit

Gamecard-Joyco's GPM fluctuates in the range of 30–50%, changing based on the sales breakdown. Card sales and system-usage fees command higher GPMs than the other categories.

- ▷ In card sales, the majority of gross profit comes from information management fees (handling commissions for account settlements of card balances). The gross profit margin for card sales generally exceeds 60%. Given that for information management fees the gross profit margin is 100%, it is possible to further infer that sales of prepaid cards (booked as a “media fee”) are relatively unprofitable for the company.
- ▷ Gross profit margin for system-usage fees tends to exceed 60%, with this part of the business contributing about 60% to the overall gross profit.
- ▷ In contrast, in FY03/20, the GPM for equipment sales was only 14.7%, lower than other income sources. Even though equipment sales comprise 39.8% of the company's overall sales they accounted for only 14.0% of gross profit. Shared Research believes that the impact on profits of a decline in equipment unit sales will be limited and the company is likely to generate a steady stream of income from information management and system-usage fees.

## SG&A expenses

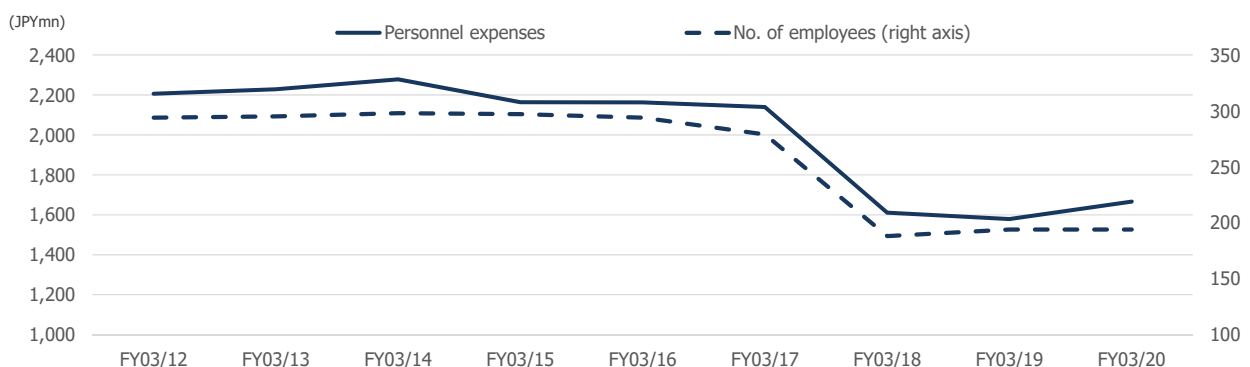
The company's SG&A expenses are mainly personnel expenses (34.0% of SG&A expenses in FY03/20) and R&D expenses (23.6%), but also include rent, depreciation, commission expenses, etc.

Over the ten-year period from FY03/11 through FY03/20, SG&A expenses peaked at JPY9.6bn in FY03/16 and fell substantially until FY03/18. In FY03/17 and FY03/18, the company cut back on overall costs.

## Personnel expenses

Personnel expenses decreased significantly in FY03/18, falling 32.6% YoY due to implementation of a voluntary retirement program in April 2017.

### Personnel expenses and number of employees



Note: Personnel expenses are represented by the solid line (in units of JPY1mn) and the number of employees is represented by the dotted line (in units of 1 employee)

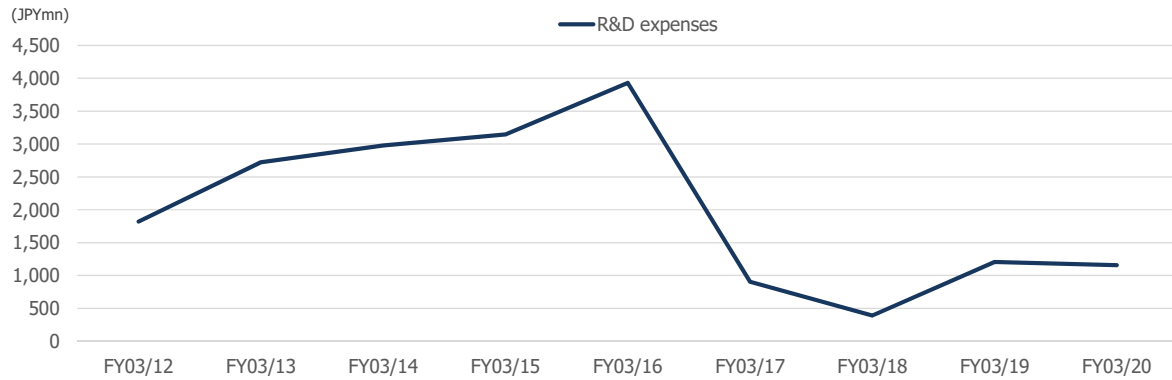
	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No. of employees	294	295	298	297	294	279	188	194	194
YoY	-	0.3%	1.0%	-0.3%	-1.0%	-5.1%	-32.6%	3.2%	0.0%
Personnel expenses (JPYmn)	2,206	2,228	2,278	2,164	2,163	2,139	1,611	1,578	1,666
YoY	-	1.0%	2.2%	-5.0%	0.0%	-1.1%	-24.7%	-2.0%	5.6%

Source: Shared Research based on company data

**R&D expenses**

R&D expenses grew through FY03/16, but sharply decreased in FY03/17 and FY03/18 as the company reviewed its product development system and refined its development projects.

**R&D expenses**



(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/19	FY03/20
R&D expenses	1,820	2,724	2,978	3,146	3,931	906	393	1,206	1,206	1,158
YoY	-	49.7%	9.3%	5.6%	25.0%	-77.0%	-56.6%	206.9%	206.9%	-4.0%

Source: Shared Research based on company data

## Strengths and weaknesses

### Strengths

- ▶ **Leading company within the industry.** The company has the largest market share both in terms of number of halls using its systems and the overall card settlement value. Shared Research thinks this gives the company an advantage in identifying customer needs and factoring these needs into new product development ahead of the competition.
- ▶ **Pachinko/pachislot manufacturers as major shareholders.** The company's major shareholders are leading pachinko/pachislot machine manufacturers, such as SANKYO Co. (TSE1: 6417), Sammy Inc. (a subsidiary of Sega Sammy Holdings Inc. (TSE1: 6460)), and Heiwa Corp. (TSE1: 6412). For a company that develops critical ancillary features for pachinko machine manufacturers, such as prepaid-card systems and card-reading units, these capital ties provide it with an advantageous position in co-operating with pachinko/pachislot machine manufacturers
- ▶ **Specialization in prepaid-card systems.** Unlike its competitors, who also deal with other peripheral devices (such as prize exchange systems, membership systems and call lights) for both pachinko and pachislot machines, the company specializes purely in prepaid-card systems. This means it can collaborate with other leading companies in other areas who produce different types of peripheral devices. If new halls were opening up systematically, this could allow companies offering a one-stop shop model bundling a variety of peripheral pachinko devices together plenty of scope to increase market share, however, this is not the case. Instead, demand is currently driven by upgrades of existing facilities and even then, equipment tends to be upgraded in piece-meal fashion. Nippon Game Card's cross-compatibility with other peripheral device makers' products in this environment may be thus seen as advantageous.

### Weaknesses

- ▶ **Shrinking market.** The pachinko market is continuing to shrink. As the dominant player within the industry the company is easily affected by market trends.
- ▶ **Single source of income.** The company's core market is shrinking and while the company could theoretically move into other businesses to grow, it is currently focused on the core business making its earnings highly susceptible to the vagaries of the pachinko market.
- ▶ **Regulated industry.** The company's client base of halls is strictly regulated by laws such as the Law on Control and Improvement of Amusement Businesses. By extension, the company's financial performance is also affected by such regulations.

## Market and value chain

### Market overview

As for the company's earnings, trends in the installed pachinko machine base affect its Equipment Sales segment; revenues for card sales (essentially, information management fees or handling commissions for account settlements of card balances) are affected by pachinko hall sales trends; while hall numbers are the swing factor for system-usage fees. Therefore, when looking at the company's earnings structure it is necessary to focus on the earnings environment and competitive pressure among halls, in addition to trends in the overall size of the pachinko market.

The Japan Productivity Center estimated the total domestic leisure market at JPY71.9tn (+0.1% YoY) in fiscal 2018 (source: White Paper on Leisure 2019). Pachinko/pachislot market (total lending charge of pachinko balls) was estimated at JPY20.7tn (-3.3% YoY). The pachinko/pachislot market has created a large presence to account for around 28.8% of the overall leisure market.

### Industry trend

Shared Research focuses on the following indicators to gauge the state of the pachinko/pachislot industry.

#### Key indicators for pachinko/pachislot industry

Indicator	Key figures	CAGR	Reference
Number of players	9.5mn (2018)	-5.0% (past 10 years)	In a long-term downtrend
Pachinko/pachislot market size	JPY20.7tn (2018)	-3.3% (past 10 years)	Declining since 2005 along with game-playing population
Number of pachinko halls	9,639 (2019)	-2.7% (past 10 years)	Shrinking with pachinko/pachislot market Average number of machines installed per hall rising
Number of machines installed	4.2mn (2019)	-0.7% (past 10 years)	In a mild downtrend

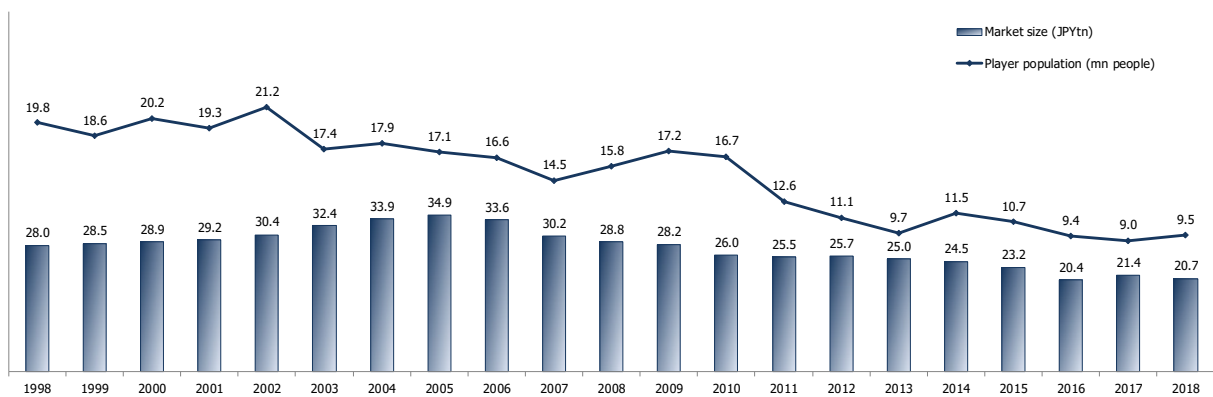
Source: Shared Research based on various sources

Note: replacement rate = number of machines sold ÷ number of machines installed

#### Downward trend in player population and declining number of pachinko halls

- ▷ The pachinko industry has been experiencing a gradual long-term decline in the player base and market size. The player base fell to 9.5mn in 2018 compared to 29.0mn in 1995.
- ▷ Until 2005, the market size grew despite a shrinking player population as average annual spend per player was growing. The market size (total lending charge of pachinko balls) peaked in 2005 at JPY34.9tn, and fell to JPY20.7tn in 2018.

#### Pachinko players and market size



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Player population (mn people)	19.8	18.6	20.2	19.3	21.2	17.4	17.9	17.1	16.6	14.5	15.8	17.2	16.7	12.6	11.1	9.7	11.5	10.7	9.4	9.0	9.5
Market size (JPYtn)	28.0	28.5	28.9	29.2	30.4	32.4	33.9	34.9	33.6	30.2	28.8	28.2	26.0	25.5	25.7	25.0	24.5	23.2	20.4	21.4	20.7

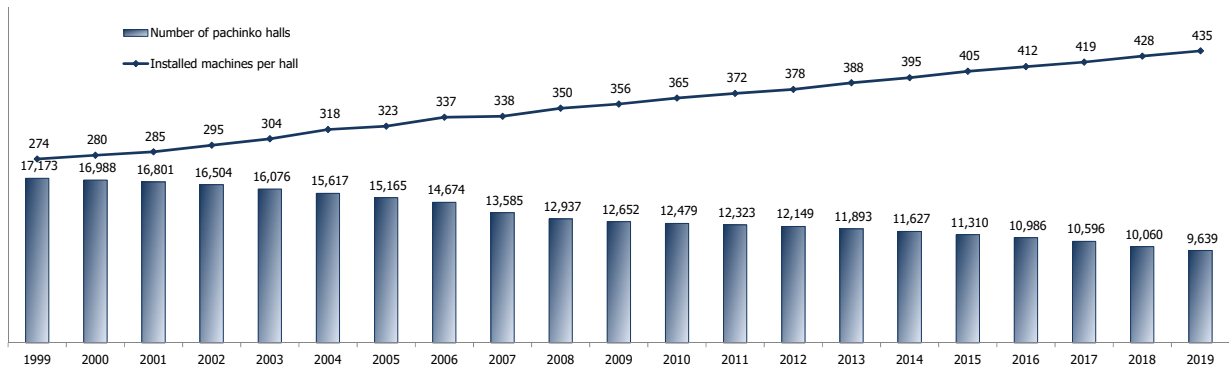
Source: Shared Research based on White Paper on Leisure



## Diverging trends among halls

- ▷ The number of pachinko halls declined to 9,639 in 2019 from 17,773 in 1997 (source: National Police Agency).
- ▷ Despite the growing downward trend in the number of pachinko halls, the decline in the number of installed machines has been gentle, dropping to 4.2mn in 2019 from 4.7mn in 1997. On the other hand, hall sizes have become larger, increasing to an average of 435 installed machines per hall in 2019 from 268 machines in 1997.
- ▷ A decrease in the amount of cash flow available for new investments has forced some smaller operators to sell or shut operations, while larger chains appear to be gaining scale, highlighting continued polarization of the market.

### Number of pachinko halls and installed pachinko machines per hall



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of pachinko halls	17,173	16,988	16,801	16,504	16,076	15,617	15,165	14,674	13,585	12,937	12,652	12,479	12,323	12,149	11,893	11,627	11,310	10,986	10,596	10,060	9,639
Installed machines per hall	274	280	285	295	304	318	323	337	338	350	356	365	372	378	388	395	405	412	419	428	435

Source: Shared Research based on National Police Agency

## Industry regulations

Current gaming machine regulations that may affect the company’s earnings are as follows. To curb excessive gambling nature, voluntary regulations and a regulatory amendment for pachinko and pachislot machines have been implemented since 2015.

- ▷ The industry association implemented voluntary regulations for pachinko machines in November 2015 and on pachislot machines in December 2015. Further voluntary regulations were introduced for pachislot machines in October 2017.
- ▷ In February 2018, following the passage of the Bill for the Promotion of Integrated Resort Facilities as a measure to curb gambling addiction, a partial amendment to the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Businesses and the Regulations Concerning Authorization and Model Approval for Amusement Machines was enforced. The proposed amendment includes a change in the number of pachinko balls released per play.

### Effect of measures to curb the gambling nature of pachinko machines

In an effort to reduce the attraction of pachinko as a form of gambling and restore it as a form of entertainment, the pachinko machine manufacturers association (the Japan Game Machine Industry Association) agreed to change the lower limit of the pachinko machine jackpot probability range (the chance of “winning big”) to 1/320 (from 1/400 as of May 2015). Effective November 2015, this self-imposed regulatory change meant that game machine manufacturers would no longer be able to sell and newly install extremely competitive “max-type” machines (jackpot probability of 1/370–1/399 but with bigger winnings) that were the mainstay at pachinko halls prior to October 2015.

From May 2016, the Game Machine Industry Association also voluntarily introduced a lower maximum occurrence of a game feature called “probability fluctuation” (the jackpot rate after a successful jackpot) from around 80% to 65% (yet the rules for pachinko machines were changed again in November 2018 and the 65% limit to maximum occurrence of probability fluctuation was removed.)

This latest self-regulatory move was precipitated by pachinko halls increasingly installing “max-type” machines (reached more than 40% of all machines in pachinko halls at one point) to meet demand from hard-core pachinko players. As max-machines pushed up the average cost of playing pachinko, the number of players declined. The industry sought to tighten standards to reduce the addictive gambling aspect of pachinko, with the hope of bringing back more players into pachinko halls.

### **Impact of voluntary industry restrictions on pachislot machines**

#### **Voluntary industry restrictions on pachislot machines (Regulation 5.5)**

In September 2014, the Security Communication Association changed its testing methodology for pachislot machines. Previously, pachislot machines had to register a minimum payout rate of 55% (at least 11 out of 20 tokens inserted) during a random test run. The new standard called for the same minimum payout rate while testing under a play mode set for the lowest possible payout rate. That same month, the pachislot machine manufacturers association (the Japan Game Machine Industry Association) adopted a new standard that would prohibit penalty features from irregular pressing of machines and also mandated that machine makers switch to motherboards with AT/ART functionality.

Prior to this change, pachislot machines incorporated a main circuit board and a sub board, both of which controlled the payout rate of game tokens. Effective December 2015, the new industry standard requires the sub-board program that controls game token discharge to be incorporated into the main circuit board.

AT Machine: An abbreviation of Assist Time, an AT Machine is a type of pachislot machine. During regular play, even if the user selects the winning icons, they do not match up on the screen because of the push-order rule. However, when the AT function is installed, if the machine selects the AT mode, a display screen on the pachislot machine will indicate the order of the buttons to press to match up the icons on the screen, allowing the user to increase their coins.

ART Machine: An abbreviation of Assist Replay Time, an ART Machine is a type of pachislot machine. When this function is installed, if the machine enters ART mode, the odds of a replay increase, allowing the user to continue playing without using up coins.

#### **Voluntary industry restrictions on pachislot machines (Regulation 5.9)**

In June 2016, Liaison Conference of Pachislot Machine Manufacturers explained that they would implement voluntary regulations, which limit ART functions for pachislot machines installed after October 2017, and classified pachislot machines that comply with these voluntary regulations as 5.9 models. New units of the current 5.5 machine models can only be installed up to the end of September 2017.

Shared Research understands that for 5.9 models there will be two sections related to the indicated navigation function (such as the push-order): a regular section, which will prohibit the ART mode, and a section in which the ART mode is allowed. Machines randomly select the transition from the regular to the ART mode, and the ART mode section will limit the total amount of tokens released to 3,000 by ending the game after a maximum of 1,500 games. The chance of the ART mode being selected is limited to under 70%.

### **Partial amendment to the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Businesses and the Regulations Concerning Authorization and Model Approval for Amusement Machines**

In September 2017, the NPA promulgated a partial amendment to the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Businesses and the Regulations Concerning Authorization and Model Approval for Amusement Machines, which was brought into effect in February 2018.

The proposed amendment, which aims to reduce the addiction of pachinko as a form of gambling, limits the game ball-releasing capacity of amusement machines as well as the maximum number of game balls released per jackpot. It also introduces a “settings” feature for pachinko machines.

#### **Tightening regulations on the number of balls released**

The amendment newly stipulates a rule which curbs the ball-releasing capacity of amusement machines over a set playing span of four hours.

- ▷ Under this rule, the total number of game balls released during a four-hour play must be less than 1.5 times the total number of game balls shot by the player.

A pachinko machine releases 100 balls in one minute, therefore it will release 24,000 in four hours (100 balls x 240 minutes). As this new rule stipulates that the amount of balls won must be no greater than 150% the number of balls released, in this example the maximum balls won is 36,000 (24,000 x 1.5). Subtracting 12,000 balls, that would be roughly a JPY50,000 payout (assuming one ball is 4 yen).

- ▷ Existing technical specifications and standards for one hour and 10 hours were also tightened to the same degree so that the total number of game balls released was reduced to about 2/3 of the current level.
- ▷ For pachislot machines, a new regulation similar to that of pachinko machines also for a four-hour playing span (1,600 shots in the case of pachislot machines) was put in place.

### Regulations on the number of game balls released per jackpot

- ▷ For pachinko machines, the maximum number of game balls released per jackpot was reduced from the current upper limit of 2,400 to 1,500.
- ▷ For pachislot machines, the maximum number of game tokens was reduced from 480 to 300.

### Addition of gaming machine specifications that allow easy access to information on game balls released

Gaming machine specifications that allow easy access to information on game balls released will be set with an aim to prevent excessively heightened addiction.

The Definitions of Terms Used in Technical Standards section of Appended Table 2 of the Regulations Concerning the Certification of Gaming Machines and Model Inspections, Etc., included in the partial amendment to the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Businesses and the Regulations Concerning Authorization and Model Approval for Amusement Machines (promulgated in September 2017), added the definition for Game Ball Number Display Device as “a device installed in gaming machines that adopt a structure that removes physical interaction between players and game balls, and in which the total number of balls that can be shot by a player is recorded using an electromagnetic system and can be displayed accordingly.” This definition refers to “controlled machines”.

### Addition of managers' operations

Pachinko hall managers will be required to provide information to customers and take other necessary measures to prevent customers' excessive game playing.

### Regulatory change schedule

- ▷ Pachislot machines that passed model tests prior to January 2018 (pachislot 5.9) will be legally marketable until January 2021. Pachislot machines (pachislot 6.0) which meet the new regulations that went into effect in February 2017 were introduced to the market in October 2018.
- ▷ Pachinko machines formatted on the old rules (those releasing 2,400 balls) that passed model tests prior to January 2018 were also planned to be legally marketable until January 2021 (However, Japan's National Public Safety Commission amended supplementary regulations attached to the revised Act on Control and Improvement of Amusement Business, etc. in May 2020, and these amendments extended the deadline for removing non-compliant machines by one year). Pachinko machines fit to the new regulations were introduced to the market in August 2018.

## Barriers to entry

Barriers to entry are extremely high given that the company operates in an oligopolistic market and its client base of pachinko halls is subject to strict regulations, such as the Law on Control and Improvement of Amusement Businesses.

## Competitive environment

### Number of member halls using prepaid-card systems and market share

As of end March 2019, 8,168 halls (8,491 halls as of end March 2018) used prepaid-card systems, representing approximately 80% of the total 10,060 halls in Japan (as of end December 2018; 10,596 halls at end December 2017). The penetration rate for prepaid-card systems among halls has not changed much.

#### Halls using prepaid-card systems and market share

	FY03/16	FY03/17	FY03/18	FY03/19
Halls using prepaid-card systems	9,044	8,830	8,491	8,168
Nippon Game Card and JOYCO SYSTEMS	4,184	3,957	3,674	3,401
Market share	46.3%	44.8%	43.3%	41.6%
Glory Nasca	2,098	2,076	2,044	2,006
Market share	23.2%	23.5%	24.1%	24.6%
Mars Engineering	2,051	2,011	1,948	1,891
Market share	22.7%	22.8%	22.9%	23.2%
Daikoku Denki	527	616	679	743
Market share	5.8%	7.0%	8.0%	9.1%
<b>Total number of halls</b>	<b>11,310</b>	<b>10,986</b>	<b>10,596</b>	<b>10,060</b>

Source: Shared Research based on data from the National Police Agency's Community Safety Bureau and the Prepaid System Association.  
 Note: Total number of halls represent the number at end December of each year.

The pachinko prepaid-card industry is an oligopoly dominated by three companies: Gamecard-Joyco Holdings, GLORY NASCA Ltd. (a subsidiary of Glory Ltd. (TSE1: 6457) created from an April 2011 merger with Creation Card Co.), and Mars Engineering Corp. (TSE1: 6419).

Based on sales as of the end of March 2019, the company had 41.6% market share of halls using its prepaid-card system, making it the largest company in the space. GLORY NASCA followed with 24.6%, and Mars Engineering had 23.2%.

The main difference between Nippon Game Card and its competitors is the company's business model is based on a third-party issuer card system, while the other two provide predominantly house-issuer card systems. (JOYCO SYSTEMS actually sells house-issuer card system but for the company as whole third-party issuer card systems are the dominant system). Additionally, the other two companies sell equipment used outside of the pachinko and pachislot space, whereas Nippon Game Card specializes purely in providing pachinko pre-paid card systems.

Please refer to the Business section for a detailed explanation on the differences between third-party issuer and house-issuer card systems. It is hard to judge whether Nippon Game Card's strategy of solely focusing on prepaid-card systems and collaborating with other companies for peripheral devices (for example, Daikoku Denki Co. [TSE1: 6430]) is superior to providing clients with other peripheral devices, as GLORY NASCA Ltd. and Mars Engineering do. Some halls, such as top-tier hall DYNAM (operates 448 halls nationwide as of February 2020), exclusively use Mars Engineering's systems, leaving no room for Nippon Game Card or other peripheral device manufacturers. Nonetheless, not all halls rely solely on one equipment maker, as DYNAM does. Moreover, GLORY NASCA and Mars Engineering's market shares for peripheral devices are not particularly dominant. Thus, focusing on its core business and partnering with other dominant specialist companies does have its advantages.

After 2012, Daikoku Denki, which has the top market share in computer systems used in pachinko and pachislot halls, entered the prepaid-card systems market. Despite being a latecomer to the market, Daikoku Denki has steadily built up its following, and as of the end of FY03/20, had 812 member halls for a 9.1% market share. Daikoku Denki, like Mars Engineering, appears to be retaining clients by providing them with other peripheral devices.

## Historical earnings results

### 1H FY03/21 results

▷ Sales:	JPY4.8bn (-41.6% YoY)
▷ Operating profit:	JPY395mn (-73.4% YoY)
▷ Recurring profit:	JPY430mn (-71.2% YoY)
▷ Net income*:	JPY199mn (-77.8% YoY)

\*Net income attributable to owners of the parent

### Business environment and company initiatives

The company thinks pachinko hall operators, which comprise the company's primary customer base, maintain a cautious stance toward capital investment amid uncertainties surrounding the COVID-19 outbreak among other factors, and that it will take time for the market to recover in full-scale.

While sales activities were restrained due to the COVID-19 outbreak, the company worked to promote installation of units with ball-counting systems and replacement of old equipment, which will streamline pachinko hall operations, to maintain and increase the share of its member halls. However, as concerns over the pandemic-affected operating environment of pachinko halls were yet to be fully eliminated, equipment sales and system-usage fees at the company dropped substantially YoY.

\* A ball-counting system is a system that counts the number of balls dispensed using a card-reading unit installed on each pachinko machine.

### Summary of 1H FY03/21 (April–September 2020) results

Sales were down YoY due to the temporary closure of pachinko halls in April–May 2020 in response to the government's declaration of a state of emergency and a decline in the number of member halls amid an ongoing contraction in the pachinko and pachislot market.

Gross profit fell 33.6% YoY on a drop in card sales and system-usage fees. SG&A expenses declined 5.8% YoY, but profit items from the operating line down deteriorated sharply on a YoY basis.

In Q1 (April–June 2020), sales amounted to JPY2.2bn (-46.4% YoY) and operating profit JPY20mn (-97.2% YoY), while in Q2 (July–September 2020), sales were JPY2.7bn (-37.0% YoY) and operating profit JPY375mn (-51.5% YoY). Both sales and profit declined YoY but rose QoQ. This contrast occurred because client pachinko halls reopened for business starting in June and the visits from pachinko players gradually returned to normal.

### Achievement rates versus the company's full-year FY03/21 forecast

1H achievement rates versus the company's full-year FY03/21 forecast stood at 40.4% for sales (1H FY03/20 sales were 50.1% of full-year FY03/20 results), 98.8% for operating profit (73.1%), and 107.5% for recurring profit (73.8%). Versus a full-year forecast for net income attributable to owners of the parent at the breakeven point, 1H net income was JPY199mn. The low achievement rate for sales was due largely to the closure of pachinko halls in April–May 2020 in response to the government's declaration of a state of emergency. Meanwhile, because the company postponed the recording of R&D expenses until 2H, in 1H all profit lines achieved higher rates of progress versus full-year projections, compared to the progress rates achieved in 1H FY03/20 versus full-year FY03/20 results. Furthermore, both recurring profit and net income attributable to owners of the parent exceeded the company's full-year projections already in 1H.

### Sales by product type

- ▷ Equipment sales: JPY1.3n (-62.6% YoY). Equipment sales were down YoY on lower unit sales (3,474 units, -85.6% YoY). Unit sales declined YoY due to limitations of sales activity at the company and a more cautious stance on the part of pachinko halls

with regard to capital investment amid temporary closures in response to the government's declaration of a state of emergency in April and May 2020.

- ▷ Card sales: JPY869mn (-38.3% YoY). Information management fees fell, accompanying a drop in the total value of issued cards (amount spent by players on usage). Actual card sales were also down. The number of member halls, a key indicator in forecasting trends for the total value of issued cards over the medium to long term, continued to decline, dropping by 248 locations YoY (-7.5% YoY), to 3,047. The closure of pachinko halls in line with the declaration of a state of emergency resulted in a sharp drop in the value of issued cards per member hall.
  - Card sales in Q1 were JPY344mn (-51.0% YoY). The sales fell as pachinko halls closed temporarily in response to the COVID-19 pandemic.
  - Q2 card sales were JPY523mn (-25.7% YoY). Pachinko halls reopened for business during Q2 and the utilization rate for pachinko and pachislot machines trended back upward. As a result, information management fees, which are calculated in proportion to the volume of player usage, declined YoY but rose QoQ.
- ▷ System usage fees: JPY2.6bn (-21.4% YoY). In addition to the effects from a reduced number of member halls, system usage fees were impacted by temporary pachinko hall closures conducted in response to the COVID-19 pandemic.
  - System-usage fees came to JPY1.1bn (-33.8% YoY) in Q1 and JPY1.5bn (-8.7% YoY) in Q2. Results in Q1 incurred strong impact from temporary pachinko hall closures due to a voluntary restraint on operations.
- ▷ Others (equipment installation and maintenance): JPY170mn (-39.7% YoY).

## Gross profit by product type

Gross profit was JPY2.4bn (-33.6% YoY), with GPM at 49.6% (+5.9pp YoY). GPM declined YoY on a decline in sales and the implementation of system usage fee discounts. Overall GPM increased YoY because sales of equipment with a relatively low GPM declined and accounted for a lower portion of overall sales.

- ▷ Equipment sales: Gross profit of JPY287mn (-45.2% YoY) and GPM of 22.9% (+7.3pp YoY).
- ▷ Card sales: Gross profit of JPY581mn (-32.9% YoY) and GPM of 66.9% (+5.4pp YoY).
  - Gross profit from card sales in Q1 was JPY242mn (-45.0% YoY), and the corresponding GPM was 70.1% (+7.6pp YoY).
  - Gross profit from card sales in Q2 was JPY340mn (-20.4% YoY), and the corresponding GPM was 64.9% (+4.5pp YoY).
- ▷ System usage fee revenue: Gross profit of JPY1.5bn (-31.3% YoY) and GPM of 56.9% (-8.3pp YoY). The declines in gross profit and GPM were due to temporary pachinko hall closures.
  - In Q1, gross profit from system-usage fee revenue was JPY530mn (-51.4% YoY), and the corresponding GPM was 48.9% (-17.7pp YoY). In Q2, the company generated JPY923mn in gross profit from system-fee usage revenue (-10.1% YoY) and a corresponding GPM of 62.9% (-0.9pp YoY). Gross profit fell YoY, but rose QoQ, because client pachinko halls reopened for business starting in June 2020 and the number of pachinko players visiting these halls has gradually returned to normal since then.

## SG&A expenses

SG&A expenses were JPY2.0bn (-5.8% YoY), comprising JPY850mn (-1.1% YoY) in personnel expenses and JPY294mn (+33.0% YoY) in R&D expenses. Travel expenses also declined as a result of the company limiting sales activities due to the spread of COVID-19.

As a result, operating profit, recurring profit, and net income were all down YoY.

## Q1 FY03/21 results

- ▷ Sales: JPY2.2bn (-46.4% YoY)
- ▷ Operating profit: JPY20mn (-97.2% YoY)
- ▷ Recurring profit: JPY40mn (-94.5% YoY)

▷ Net income\*: JPY1mn (-99.7% YoY)

\*Net income attributable to owners of the parent

## Operating environment and company initiatives

Pachinko hall operators, which comprise the company's primary customer base, saw substantial financial loss due to the COVID-19 outbreak and the government's declaration of a state of emergency asking for temporary closures. These operators maintained a cautious stance toward capital investment amid uncertainties, and the company thinks it will take time for the market to recover in full-scale.

While sales activities were restrained due to the COVID-19 outbreak, the company worked to promote installation of units with ball-counting systems and replacement of old equipment, which will streamline pachinko hall operations, to maintain and increase the share of its member halls. However, due to temporary closures of pachinko halls following the declaration of a state of emergency, equipment sales and system-usage fees were down YoY.

\* A ball-counting system is a system that counts the number of balls dispensed using a card-reading unit installed on each pachinko machine.

## Summary of Q1 FY03/21 (April–June 2020) results

Sales were down YoY due to the temporary closure of pachinko halls in April–May 2020 in response to the government's declaration of a state of emergency and a decline in the number of member halls amid an ongoing contraction in the pachinko and pachislot market.

GPM declined in the quarter as gross profit fell 49.5% YoY on a drop in card sales, and system-usage fee revenues. While a decline in R&D expenses contributed to SG&A expenses dropping 19.4% YoY, earnings from the operating line down deteriorated sharply on a YoY basis.

## Achievement rates versus the company's full-year FY03/21 forecasts

Q1 achievement rates versus the company's full-year FY03/21 forecasts stood at 18.1% for sales (Q1 FY03/20 sales were 24.4% the full-year FY03/20 target), 5.0% for operating profit (35.2%), and 10.0% for recurring profit (35.9%). Versus a full-year forecast for net income attributable to owners of the parent at the breakeven point, Q1 net income was JPY1mn. Weak achievement rates versus full-year targets were due largely to the closure of pachinko halls in April–May in response to the government's declaration of a state of emergency. Earnings appear to have been in recovery since the reopening of pachinko halls after the government lifted its state-of-emergency declaration in late May.

## Sales by product type

- ▷ Equipment sales: JPY661mn (-58.1% YoY). Equipment sales were down YoY on lower unit sales (1,744 units, -83.8% YoY). Unit sales declined YoY due to limitations of sales activity at the company and a more cautious stance on the part of pachinko halls with regard to capital investment amid temporary closures in response to the government's declaration of a state of emergency.
- ▷ Card sales: JPY344mn (-51.0% YoY). Information management fees fell, accompanying a drop in the total value of issued cards (amount spent by players on usage). Actual card sales were also down. The number of member halls, a key statistic in forecasting trends for the total value of issued cards over the medium to long term, continued to decline, dropping by 254 locations YoY (-7.6% YoY), to 3,094. The closure of pachinko halls in line with the declaration of a state of emergency resulted in a sharp drop in the value of issued cards per member hall.
- ▷ System usage fees: JPY1.1bn (-33.8% YoY). In addition to the effects from a reduced number of member halls, system usage fees were impacted by discounts enacted for the period in which pachinko halls suspended operations.
- ▷ Others (equipment installation and maintenance): JPY81mn (-36.7% YoY).

### Gross profit by product type

Gross profit was JPY933mn (-49.5% YoY), with GPM at 43.0% (-2.7pp YoY). GPM declined YoY on a decline in sales and the implementation of system usage fee discounts.

- ▷ Equipment sales: Gross profit of JPY126mn (-53.4% YoY) and GPM of 19.0% (-1.9pp YoY).
- ▷ Card sales: Gross profit of JPY241mn (-45.0% YoY) and GPM of 70.1% (+7.6pp YoY).
- ▷ System usage fee revenue: Gross profit of JPY530mn (-51.4% YoY) and GPM of 48.9% (-17.7pp YoY). GPM declined on a downturn in gross profit due to the implementation of system usage fee discounts for the period in which pachinko halls were temporarily closed.

### SG&A expenses

SG&A expenses were JPY913mn (-19.4% YoY), comprising JPY381mn (-5.7%) in personnel expenses and JPY107mn (-47.8% YoY) in R&D expenses. Travel expenses also declined as a result of the company limiting sales activities due to the spread of COVID-19. As a result, operating profit, recurring profit, and net income were all down YoY.

### Full-year FY03/20 results

- ▷ Sales: JPY16.6bn (-4.7% YoY)
- ▷ Operating profit: JPY2.0bn (-15.9% YoY)
- ▷ Recurring profit: JPY2.0bn (-16.2% YoY)
- ▷ Net income\*: JPY1.2bn (-14.3% YoY)

\*Net income attributable to owners of the parent

### Business environment and company initiatives

Pachinko hall operators, which comprise the company's primary customer base, continued to restrain purchases of peripheral equipment amid uncertainties arising from the ongoing review of gambling addiction countermeasures accompanying the Integrated Resort Promotion Act, replacement of machines to those compatible with revised regulations, promotion of measures to prevent passive smoking, and the economic impact of the novel coronavirus pandemic.

To maintain and increase its share of member halls, the company actively undertook a range of sales initiatives such as encouraging customers to replace old equipment and install units with ball-counting systems\* to address the issue of labor shortages at pachinko halls. However, sales and profit declined YoY due to lower system-usage fee revenue, reflecting a decline in the number of member halls as the overall market continued to contract.

\* A ball-counting system is a system that counts the number of balls dispensed using a card-reading unit installed on each pachinko machine.

### Full-year FY03/20 results summary

Overall sales fell YoY due to a decrease in equipment sales and a decline in the number of member halls stemming from contraction in the pachinko and pachislot market. The decline in system-usage fees also caused GPM to fall 1.0pp YoY to 41.9%.

Operating profit, recurring profit, and net income were all down YoY as SG&A expenses declined by only 2.5% YoY due to development costs related to the creation of a continuous and stable supply of products and next-generation systems.

### Rate of achievement measured against full-year FY03/20 company forecast

Sales were 103.5% of targets in the full-year FY03/20 forecast, while operating profit was 113.2%, recurring profit was 112.7%, and net income attributable to owners of the parent was 111.4%. Results exceeded targets because member hall and unit sale numbers were higher than projected and SG&A expenses were lower than forecast.



## Sales breakdown

- ▷ Equipment sales: JPY6.6bn (-5.2% YoY). Equipment sales fell YoY due to a decline in unit sales (49,785 units; -19.3% YoY). Equipment sales are limited by new member hall openings and most of the demand was from replacement demand at existing member halls. For this reason, FY03/20 equipment unit sales fell YoY.
- ▷ Card sales: JPY2.7bn (-7.6% YoY). Information management fees fell, accompanying a drop in the total value of issued cards (amount spent by players on usage) related to a 6.5% YoY decline in the number of member halls to 3,179 (-222 halls). The loss of contracts due to member halls closures outpaced new member hall acquisitions. The value of issued cards was also negatively affected by falling average spend stemming from the greater prevalence of machines with low-priced balls.
- ▷ System-usage fees: JPY6.4bn (-8.3% YoY). System-usage fees the company collects from member halls based on the number of card units installed fell accompanying the above-mentioned decline in member halls.
- ▷ Others (equipment installation and maintenance): JPY862mn (+67.7% YoY)

## Gross profit by product type

Gross profit was JPY6.9bn (-6.8% YoY) with a GPM of 41.9% (-1.0pp YoY). Gross profit rose in equipment sales, but fell in card sales and system-usage fees. GPM declined because GPM for card sales and system-usage fees decreased YoY.

- ▷ Equipment sales: Gross profit of JPY969mn (+31.5% YoY); GPM of 14.7% (+4.1pp YoY). Gross profit and GPM were up as sales of relatively high-margin parts repairs rose YoY.
- ▷ Card sales: Gross profit of JPY1.7bn (-12.6% YoY); GPM of 60.3% (-3.4pp YoY). The sales shares of information management fees and bookings of unredeemed card balances, which both have relatively high GPMs when compared to other sources of card sales, declined YoY.
- ▷ System-usage fee revenue: Gross profit of JPY4.1bn (-12.5% YoY); GPM of 63.8% (-3.1pp YoY). While system usage fee revenue declined, fixed costs increased, bringing down the GPM.

## SG&A expenses

SG&A expenses were JPY4.9bn (-2.5% YoY), comprising JPY1.7bn (+5.6% YoY) in personnel expenses and JPY1.2bn (-4.0% YoY) in R&D expenses. Personnel expenses rose along with an increase in personnel. R&D expenses rose in Q3 FY03/20 because the company recorded expenses related to the development of next-generation systems but fell overall in FY03/20.

As a result, operating profit, recurring profit, and net income were all down YoY.

## Q4 FY03/20 results (January–March 2020)

- ▷ Sales: JPY3.5bn (-23.0% YoY)
- ▷ Gross profit: JPY1.5bn (-9.1% YoY), GPM: 44.3% (+6.8pp YoY)
- ▷ SG&A expenses: JPY1.2bn (-32.6% YoY)
- ▷ Operating profit: JPY302mn (versus operating loss of JPY139mn in Q4 FY03/19)

Sales fell YoY due to a decline in equipment sales. Card sales and system-usage fee revenue also slid downward.

As for profits, gross profit fell YoY because of the decreases in card sales and system-usage fee revenue. GPM rose thanks to a YoY increase in the gross profit rate of equipment sales and a decline in percentage of relatively low-margin equipment sales.

SG&A expenses fell YoY as a result of lower R&D expenses. These factors caused a YoY increase in profit lines from operating profit down. In Q4 FY03/19, R&D expenses had increased due primarily to the development of products equipped with addiction

prevention features and compliant with new regulations and additional product development focused on supporting the stable provision of services.

### Cumulative Q3 FY03/20 results

▷ Sales:	JPY13.1bn (+1.7% YoY)
▷ Operating profit:	JPY1.7bn (-32.3% YoY)
▷ Recurring profit:	JPY1.7bn (-33.0% YoY)
▷ Net income*:	JPY1.1bn (-36.4% YoY)

\*Net income attributable to owners of the parent

### Business environment and the company's initiatives

Pachinko hall operators, which comprise the company's primary customer base, continued to restrain purchases of peripheral equipment amid uncertainties arising from the ongoing review of gambling addiction countermeasures accompanying the Integrated Resort Promotion Act, replacement of machines to those compatible with revised regulations, and promotion of measures to prevent passive smoking.

To maintain and increase its share of member halls, the company actively undertook a range of sales initiatives such as encouraging customers to replace old equipment and install units with ball-counting systems\* to address the issue of labor shortages at pachinko halls. However, sales and profit declined YoY, reflecting a decline in the number of member halls and intensifying competition as the overall market continued to contract.

\* A ball-counting system is a system that counts the number of balls dispensed using a card-reading unit installed on each pachinko machine.

### Cumulative Q3 FY03/20 results summary

Overall sales rose on an increase in equipment sales despite a drop in system-usage fee revenue owing to a decline in the number of member halls due to contraction in the pachinko and pachislot market. The decline in system-usage fees also caused GPM to fall 3.5pp YoY to 41.2%. Operating profit, recurring profit, and net income were all down YoY as SG&A expenses increased YoY due to development costs related to the creation of a continuous and stable supply of products and next-generation systems.

### Progress versus full-year FY03/20 company forecasts

The company announced a revision to its full-year FY03/20 forecast in February 2020. After the revision, the company forecasts sales of JPY16.0bn (-7.9% YoY), operating profit of JPY1.8bn (-25.7% YoY), recurring profit of JPY1.8bn (-25.6% YoY), and net income attributable to owners of the parent of JPY1.1bn (-23.0% YoY).

Compared to the previous forecast, the company made upward revisions of JPY1.0bn for sales, JPY900mn for operating profit, JPY900mn for recurring profit, and JPY600mn for net income attributable to owners of the parent. As for the reason for revision, the company actively undertook a range of sales initiatives such as encouraging customers to replace old equipment and install units with ball-counting systems to address the issue of labor shortages at pachinko halls in order to maintain and increase its share of member halls. As a result, the company expects sales and profits to exceed previous forecasts.

Progress versus revised full-year FY03/20 forecasts was 81.9% for sales (74.2% of full-year results in 1H FY03/19), 96.3% for operating profit (105.7%), 95.4% for recurring profit (106.0%), and 97.6% for net income attributable to owners of the parent (118.3%).

### Sales breakdown

- ▷ Equipment sales: JPY5.5bn (+9.0% YoY). Equipment sales were up on higher sales of parts repair and a rise in equipment unit sales (42,304 units; +3.8% YoY). Equipment sales are limited by new member hall openings and most of the demand was from

replacement demand at existing member halls. For this reason, 1H FY03/20 equipment unit sales fell YoY. In Q3, the company sold equipment to large customers, which made equipment unit sales in cumulative Q3 rise YoY.

- ▷ Card sales: JPY2.1bn (-6.7% YoY). Information management fees fell, accompanying a drop in the total value of issued cards (amount spent by players on usage) related to a 6.7% YoY decline in the number of member halls to 3,248 (-234 halls). The loss of contracts due to member halls closures outpaced new member hall acquisitions. The value of issued cards was also negatively affected by falling average spend stemming from the greater prevalence of machines with low-priced balls.
- ▷ System-usage fees: JPY4.8bn (-8.4% YoY). System-usage fees the company collects from member halls based on the number of card units installed fell accompanying the above-mentioned decline in member halls.
- ▷ Others (equipment installation and maintenance): JPY741mn (+93.5% YoY)

## Gross profit by product type

Gross profit was JPY5.4bn (-6.2% YoY) with a GPM of 41.2% (-3.5pp YoY). Gross profit rose in equipment sales, but fell in card sales and system-usage fees. GPM declined because the relatively low-margin equipment sales occupied a higher percentage of sales composition and because GPM for card sales and system-usage fees decreased YoY.

- ▷ Equipment sales: Gross profit of JPY828mn (+24.3% YoY); GPM of 15.2% (+1.8pp YoY). Gross profit and GPM were up as sales of relatively high-margin parts repairs rose YoY.
- ▷ Card sales: Gross profit of JPY1.3bn (-12.5% YoY); GPM of 60.2% (-3.9pp YoY). The sales shares of information management fees and bookings of unredeemed card balances, which both have relatively high GPMs when compared to other sources of card sales, declined YoY.
- ▷ System-usage fee revenue: Gross profit of JPY3.1bn (-11.8% YoY); GPM of 64.5% (-2.5pp YoY). While system usage fee revenue declined, fixed costs increased, bringing down the GPM.

## SG&A expenses

SG&A expenses were JPY3.7bn (+14.7% YoY), comprising JPY1.2bn (+5.4% YoY) in personnel expenses and JPY886mn (+117.2% YoY) in R&D expenses. Personnel expenses rose along with an increase in personnel. R&D expenses fell YoY in 1H FY03/20, but rose YoY in cumulative Q3 as the company recorded expenses for the development of next-generation systems.

As a result, operating profit, recurring profit, and net income were all down YoY.

## Q3 FY03/20 results (October–December 2019)

- ▷ Sales: JPY4.8bn (+8.9% YoY)
- ▷ Gross profit: JPY1.8bn (-5.6% YoY), GPM: 37.1% (-5.7pp YoY)
- ▷ SG&A expenses: JPY1.5bn (+45.5% YoY)
- ▷ Operating profit: JPY245mn (-70.7% YoY)

Sales grew YoY stemming from an increase in equipment sales, despite declines in card sales and system-usage fee revenue.

As for profits, GPM and gross profit fell owing to the decrease in card sales and system-usage fee revenue. In addition, SG&A expenses increased on higher R&D expenses. These factors caused a YoY decrease in profit lines from operating profit down.

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## Other information

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### History

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#### Nippon Game Card

##### Early period (1989 to 1994)

At the time of Nippon Game Card's establishment in Osaka in August, 1989, pachinko halls were under the spotlight for tax evasion, fraud and other issues. As part of a drive to clean up the pachinko industry's image the industry regulator, the National Police Agency, decided to introduce prepaid-card systems which enabled card companies to monitor pachinko hall sales in order to increase hall operator transparency.

Based on this, three main companies—all with capital ties to Japan's leading trading houses—were established to develop and implement the prepaid-card initiative:

- ▷ Nihon Leisure Card System K.K.: Established in 1988, largest initial shareholder was Mitsubishi Corp. (TSE1: 8058)
- ▷ Nippon Game Card: Established in 1989, largest initial shareholder was Sumitomo Corp. (TSE1: 8053)
- ▷ Nihon Advanced Card System K.K.: Established in 1995, largest initial shareholder was Mitsui & Co. (TSE1: 8031)

From 1993 onward the company grew rapidly as CR model (prepaid-card system) pachinko machines proliferated.

##### Turmoil (1995 to 2001)

By 1996 the pachinko industry had become plagued by card counterfeiting. The company had to focus on prevention of counterfeiting while combating the growing fallout from it. At the same time, numerous new market entrants had appeared, offering house-issuer card systems with lower running costs—Mars Engineering Corp. (entering the market in 1999), JOYCO SYSTEMS Corp. (see section below), Seta Corp. (which entered the market in 2000 and is now known as Universal Entertainment Corp. (JASDAQ: 6425)), as well as Nasca Corp. and Creation Card Information System Co. (both of whom entered the market in 1998), which have since merged to form Glory Nasca Ltd.

##### Rebuilding (2001 onward)

In 2001, pachinko/pachislot machine manufacturer SANKYO Co. replaced Sumitomo Corp. as the company's largest shareholder. The company used this change as an opportunity to refocus its business on meeting pachinko halls' business needs. The company also merged with former third-party card issuer competitors Nihon Advanced Card System in October 2003, and with Nihon Leisure Card System in April 2008. In April 2006, the company listed on the JASDAQ Securities Exchange (now merged with the Tokyo Stock Exchange).

#### JOYCO SYSTEMS Corp.

JOYCO SYSTEMS Corp. was established in March 2001. Unlike Nippon Game Card, it provides house-issuer prepaid-card systems. Relatively cheap maintenance costs of its system initially allowed it to grow market share among halls in the prepaid-card market. However, as a late industry entrant the company faced a shrinking market early on, slowing its momentum. It then fell behind competitors in launching new products resulting in a decline in the number of halls using its system.

#### Gamecard-Joyco Holdings, Inc.

On April 1, 2011, Nippon Game Card and JOYCO SYSTEMS merged and established a joint holding company "Gamecard-Joyco Holdings, Inc." through a share transfer.

## News and topics

### September 2020

On September 24, 2020, the company announced the repurchase of its own shares via after-hours trading (ToTNeT-3).

#### Repurchase method

To commission share repurchase on the Tokyo Stock Exchange at 8:45 a.m. on September 25, 2020 via after-hours trading (ToSTNeT-3), at the closing price of JPY1,164 on September 24, 2020.

#### Details of repurchase

- ▷ Type of shares to be repurchased: Common shares of the company
- ▷ Total number of shares to be repurchased: 750,000 shares (5.39% of total issued shares, excluding treasury shares)
- ▷ Total repurchase amount: Up to JPY900mn

## Major shareholders

Top shareholders	Shares held ( '000)	Shareholding ratio
SANKYO CO., LTD.	2,054	14.76%
DATA-ART, Inc.	632	4.54%
Heiwa Corporation	612	4.39%
Kyoraku Sangyo Co., Ltd.	612	4.39%
Sammy Inc.	612	4.39%
Daiichi Co., Ltd.	612	4.39%
Newgin Group	612	4.39%
Fujishoji Co., Ltd.	612	4.39%
SAXA, Inc.	510	3.66%
Sansei R&D Co., Ltd.	463	3.32%
SANYO BUSSAN K.K.	463	3.32%
Daito Giken, Inc.	463	3.32%
Takao Co., Ltd.	463	3.32%
Takeya Co., Ltd.	463	3.32%
Toyomaru Industry Co., Ltd.	463	3.32%
<b>SUM</b>	<b>9,646</b>	<b>69.32%</b>

Source: Shared Research based on company data (as of March 31, 2020)

## Company profile

<b>Company Name</b>	<b>Head Office</b>
Gamecard-Joyco Holdings, Inc.	Orix Ueno 1-Chome Building 1-1-10 Ueno Taito-ku Tokyo, Japan 110-0005
<b>Phone</b>	<b>Listed On</b>
+81-3-6803-0301	JASDAQ Standard
<b>Established</b>	<b>Exchange Listing</b>
April 1, 2011	April 1, 2011
<b>Website</b>	<b>Financial Year-End</b>
<a href="http://www.gamecard-joyco.co.jp/index.html">http://www.gamecard-joyco.co.jp/index.html</a>	March
<b>IR Contact</b>	<b>IR Web</b>
Investor Relations & General Affairs Division	<a href="http://www.gamecard-joyco.co.jp/ir/">http://www.gamecard-joyco.co.jp/ir/</a>
<b>IR Mail</b>	<b>IR Phone</b>
-	+81-3-5812-7595

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Aeon Fantasy Co., Ltd.	Edion Corporation	Kodotec Inc.	SANIX INCORPORATED
Ai Holdings Corporation	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Sanrio Company, Ltd.
AI inside Inc.	en Japan Inc.	Lasertec Corporation	SATO HOLDINGS CORPORATION
AirTrip Corp.	Estore Corporation.	Locondo, Inc.	SBS Holdings, Inc.
and factory, inc.	euglena Co., Ltd.	LUCKLAND CO., LTD.	Seikagaku Corporation
ANEST IWATA Corporation	FaithNetwork Co., Ltd.	Marumae Co., Ltd.	Seria Co.,Ltd.
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Anritsu Corporation	Financial Products Group Co., Ltd.	Medical System Network Co., Ltd.	Shikigaku Co., Ltd
Apaman Co., Ltd.	First Brothers Col, Ltd.	MEDINET Co., Ltd.	SHIP HEALTHCARE HOLDINGS, INC.
ARATA CORPORATION	FreeBit Co., Ltd.	MedPeer, Inc.	SIGMAXYZ Inc.
Artspark Holdings Inc.	Gamecard-Joyco Holdings, Inc.	Mercuria Investment Co., Ltd.	SMS Co., Ltd.
AS ONE CORPORATION	GameWith, Inc.	Metaps Inc.	Snow Peak, Inc.
Ateam Inc.	GCA Corporation	Micronics Japan Co., Ltd.	Solasia Pharma K.K.
Aucfan Co., Ltd.	Good Com Asset Co., Ltd.	MIRAIT Holdings Corporation	SOURCENEXT Corporation
AVANT CORPORATION	Grandy House Corporation	Monex Goup Inc.	Star Mica Holdings Co., Ltd.
Axell Corporation	GIG Works Inc.	MORINAGA MILK INDUSTRY CO., LTD.	Strike Co., Ltd.
Azbil Corporation	Hakuto Co., Ltd.	Mortgage Service Japan Limited.	SymBio Pharmaceuticals Limited
AZIA CO., LTD.	Hamee Corp.	MRT Inc.	Synchro Food Co., Ltd.
AZoom, Co., Ltd.	Happinet Corporation	NAGASE & CO., LTD	TAIYO HOLDINGS CO., LTD.
Base Co., Ltd	Harmonic Drive Systems Inc.	NAIGAI TRANS LINE LTD.	Takashimaya Company, Limited
BEENOS Inc.	HENNGE K.K.	NanoCarrier Co., Ltd.	Take and Give Needs Co., Ltd.
Bell-Park Co., Ltd.	Hosokawa Micron Corporation	Net Marketing Co., Ltd.	TEAR Corporation
Benefit One Inc.	Hope, Inc.	Net One Systems Co.,Ltd.	Tenpo Innovation Inc.
B-lot Co.,Ltd.	HOUSEDO Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Broadleaf Co., Ltd.	H2O Retailing Corporation	Nihon Denkei Co., Ltd.	The Hokkoku Bank, Ltd.
CarBas Co., Ltd.	IDOM Inc.	Nippon Koei Co., Ltd.	TKC Corporation
Canon Marketing Japan Inc.	IGNIS LTD.	NIPPON PARKING DEVELOPMENT Co., Ltd.	TKP Corporation
Career Design Center Co., Ltd.	i-mobile Co.,Ltd.	NIPRO CORPORATION	Tsuzuki Denki Co., Ltd.
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Chiyoda Co., Ltd.	Intelligent Wave, Inc.	OLBA HEALTHCARE HOLDINGS, Inc.	TOYOBO CO., LTD.
Chori Co., Ltd.	ipet Insurance CO., Ltd.	OHIZUMI MFG. CO., LTD.	Toyo Ink SC Holdings Co., Ltd
Chugoku Marine Paints, Ltd.	Itochu Enex Co., Ltd.	Oisix ra daichi Inc.	Toyo Tanso Co., Ltd.
cocokara fine Inc.	ItoKuro Inc.	Oki Electric Industry Co., Ltd	Tri-Stage Inc.
COMSYS Holdings Corporation	JAFCO Co.,Ltd.	ONO SOKKI Co., Ltd.	TSURUHA Holdings
COTA CO.,LTD.	JMDC Inc.	ONWARD HOLDINGS CO.,LTD.	VISION INC.
CRE, Inc.	JSB Co., Ltd.	Pan Pacific International Holdings Corporation	VISIONARY HOLDINGS CO., LTD.
CREEK & RIVER Co., Ltd.	JTEC Corporation	PARIS MIKI HOLDINGS Inc.	World Holdings Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	PIGEON CORPORATION	YELLOW HAT LTD.
Daiseki Co., Ltd.	Japan Best Rescue System Co., Ltd.	P3, inc.	YOSHINOYA HOLDINGS CO., LTD.
Demae-Can CO., LTD	JINS HOLDINGS Inc.	QB Net Holdings Co., Ltd.	ZAPPALLAS, INC.
DIC Corporation	JP-HOLDINGS, INC.	RACCOON HOLDINGS, Inc.	
Digital Arts Inc.	KAMEDA SEIKA CO., LTD.	Raysum Co., Ltd.	
Digital Garage Inc.	Kanamic Network Co.,LTD	RESORTTRUST, INC.	
	kaonavi, inc.		

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