

# Results for the 2nd Quarter of Fiscal Year Ending March 31, 2018

November 17, 2017

Heiwa Corporation

Securities Code : 6412

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- Pachinko and Pachislot Machine Business
- Golf Business

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- Number of Machines Sold / Titles Released in FY  
Ending March, 2018

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## Consolidated Results

- Net sales : 62.1 billion yen, -33.6% year on year
- Operating income : 5.1 billion yen, -77.7% year on year
  - In the pachinko and pachislot machine business, the number of units sold fell short of the same period in the previous fiscal year, which resulted in reduced income and profit

## Pachinko and pachislot machine business

- Net sales : 18.3 billion yen, -65.0% year on year
- Operating income : -0.7 billion yen, -% year on year
  - ✓ The number of Pachinko machines sold in 2Q: 36k units (-33k units YoY)
  - ✓ The number of Pachislot machines sold in 2Q: 11k units (-52k units YoY)

## Golf business

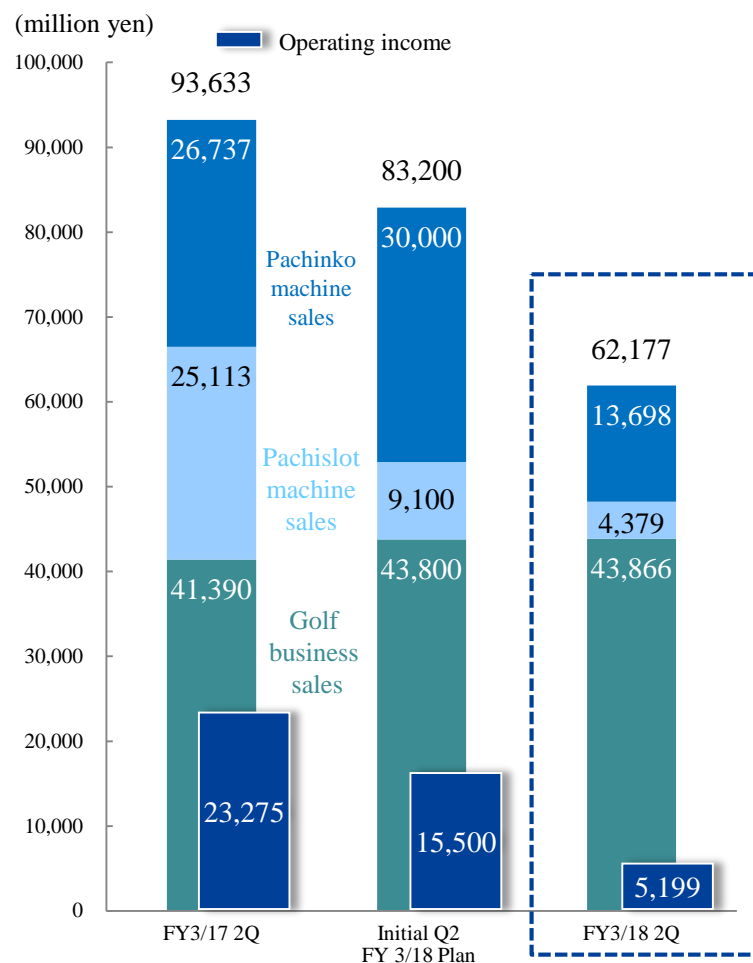
- Net sales : 43.8 billion yen, +6.0% year on year
- Operating income : 7.5 billion yen, +1.1% year on year
  - Golf courses acquired in fiscal 2015 or thereafter contributed
  - The number of golf course users increased due to favorable weather

# Results for the 2nd Quarter of FY ending March 31, 2018

# Consolidated Statements of Income (Results)

## 2nd Quarter Results

- Income and profit were down year on year (net sales -33.6% YoY and operating income -77.7% YoY).
  - In the pachinko and pachislot machine business, the number of units sold fell short of the same period in the previous fiscal year, which resulted in reduced income and profit



| (million yen)                           | FY 3/2017<br>2Q Results | FY 3/2018       |            | YoY     | Cf. Plan |
|---|-------------------------|-----------------|------------|---------|----------|
|   |                         | Initial 2Q Plan | 2Q Results |         |          |
| Net sales                               | 93,633                  | 83,200          | 62,177     | -33.6%  | -25.3%   |
| Pachinko and Pachislot machine business | 52,243                  | 39,400          | 18,310     | -65.0%  | -53.5%   |
| Pachinko machines                       | 26,737                  | 30,000          | 13,698     | -48.8%  | -54.3%   |
| Pachislot machines                      | 25,113                  | 9,100           | 4,379      | -82.6%  | -51.9%   |
| Golf business                           | 41,390                  | 43,800          | 43,866     | 6.0%    | 0.2%     |
| Operating income                        | 23,275                  | 15,500          | 5,199      | -77.7%  | -66.5%   |
| Pachinko and Pachislot machine business | 17,754                  | 9,100           | -749       | —       | —        |
| Pachinko machines                       | 7,184                   | 6,300           | -1,278     | —       | —        |
| Pachislot machines                      | 10,518                  | 2,700           | 486        | -95.4%  | -82.0%   |
| Golf business                           | 7,449                   | 8,300           | 7,530      | 1.1%    | -9.3%    |
| Eliminations & corporate expenses       | -1,928                  | -1,900          | -1,580     | -18.0%  | -16.8%   |
| Operating income ratio                  | 24.9%                   | 18.6%           | 8.4%       | -16.5pt | -10.2pt  |
| Ordinary income                         | 22,819                  | 14,900          | 5,009      | -78.0%  | -66.4%   |
| Profit attributable to owners of parent | 14,758                  | 9,600           | 2,122      | -85.6%  | -77.9%   |
| EBITDA*                                 | 28,415                  | 20,700          | 10,321     | -63.7%  | -50.1%   |

\* EBITDA = Operating income + depreciation + amortization

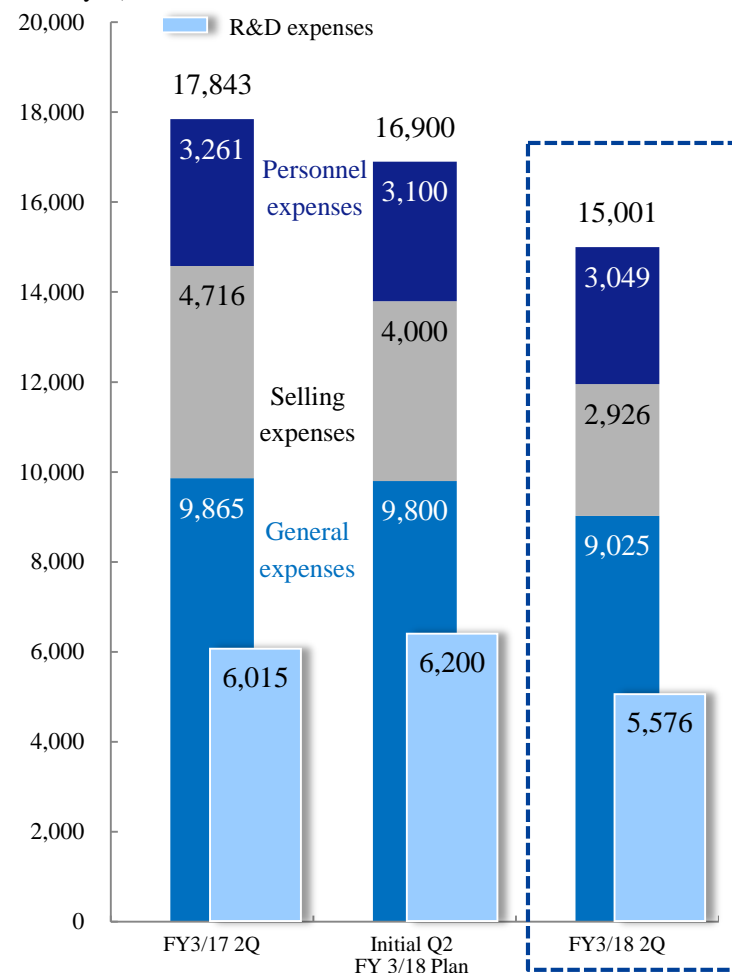
# SGA Expenses / Depreciation & Amortization / Capital Investment (Results)

## 2nd Quarter Results

### ■ SGA expenses were down year on year (-15.9% YoY)

- Under selling expenses, variable expenses such as sales commissions declined due to fewer units sold
- General expenses decreased due to unused R&D expenses

(million yen)



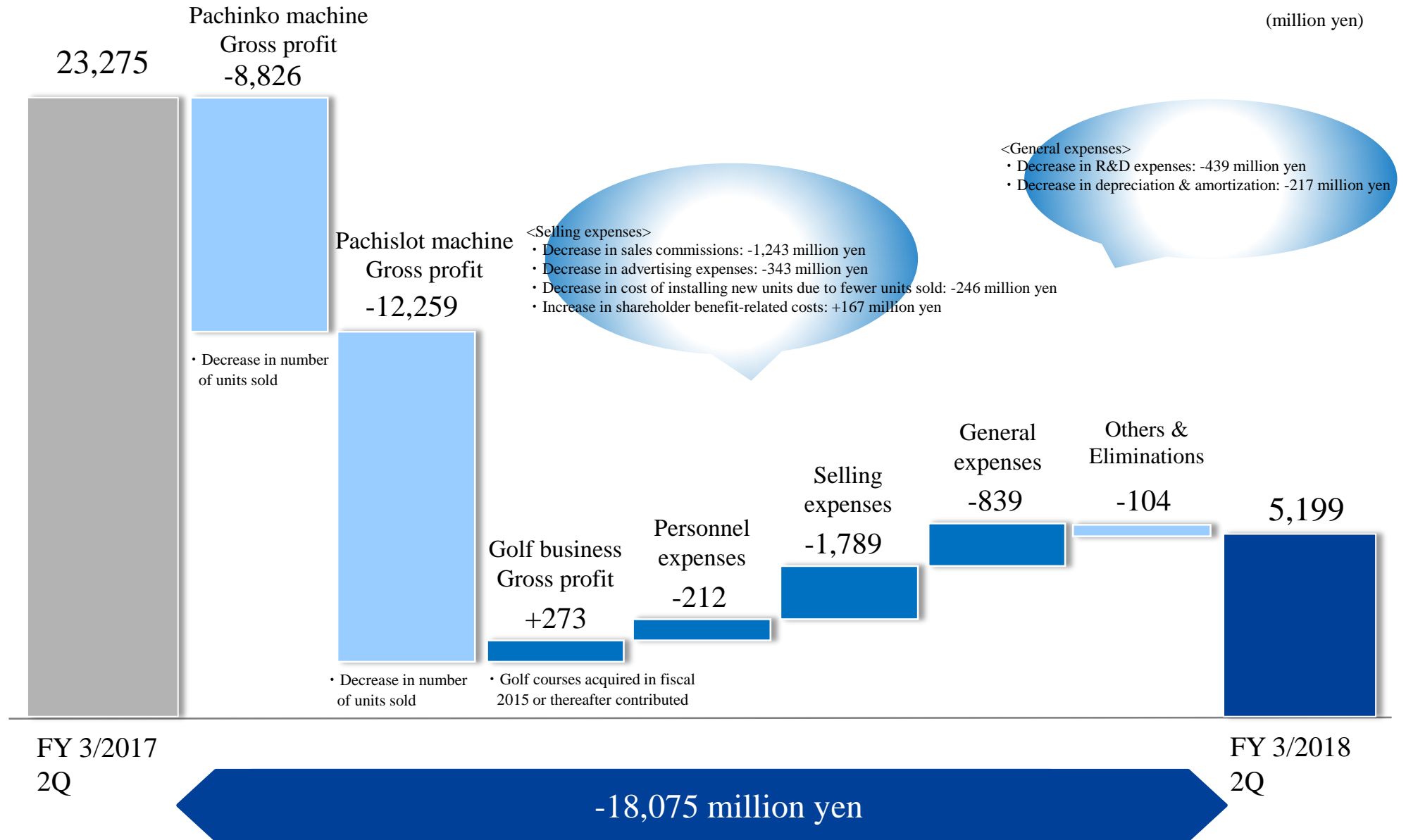
| (million yen)        | FY 3/2017<br>2Q Results | FY 3/2018       |            | YoY    | Cf. Plan |
|----------------------|-------------------------|-----------------|------------|--------|----------|
|                      |                         | Initial 2Q Plan | 2Q Results |        |          |
| SGA expenses         | 17,843                  | 16,900          | 15,001     | -15.9% | -11.2%   |
| Personnel expenses   | 3,261                   | 3,100           | 3,049      | -6.5%  | -1.6%    |
| Selling expenses     | 4,716                   | 4,000           | 2,926      | -38.0% | -26.8%   |
| Advertising expenses | 1,192                   | 1,500           | 849        | -28.8% | -43.4%   |
| Sales commissions    | 1,679                   | 1,000           | 436        | -74.0% | -56.3%   |
| General expenses     | 9,865                   | 9,800           | 9,025      | -8.5%  | -7.9%    |
| R&D expenses         | 6,015                   | 6,200           | 5,576      | -7.3%  | -10.1%   |

### Depreciation & Amortization / Capital Investment

| (million yen)               | FY 3/2017<br>2Q Results | FY 3/2018       |            | YoY   | Cf. Plan |
|-----------------------------|-------------------------|-----------------|------------|-------|----------|
|                             |                         | Initial 2Q Plan | 2Q Results |       |          |
| Depreciation & amortization | 5,070                   | 5,100           | 5,017      | -1.0% | -1.6%    |
| Capital investment          | 6,127                   | 7,400           | 10,044     | 63.9% | 35.7%    |

# Factors contributing to change in operating income (consolidated basis)

2nd Quarter Results



# Pachinko and Pachislot Machine Business (Machine Sales Results)

## 2nd Quarter Results

| (Units)                   | FY 3/2017<br>2Q Results | FY 3/2018       |            | YoY        | Cf. Plan   |
|---------------------------|-------------------------|-----------------|------------|------------|------------|
|                           |                         | Initial 2Q Plan | 2Q Results |            |            |
| Number of machines sold   | 133,904                 | 100,000         | 47,867     | -86k units | -52k units |
| Pachinko machines         | 70,550                  | 76,000          | 36,557     | -33k units | -39k units |
| Number of titles released | 3                       | 5               | 4          | +1         | -1         |
| Pachislot machines        | 63,354                  | 24,000          | 11,310     | -52k units | -12k units |
| Number of titles released | 4                       | 4               | 4          | -          | -          |

GALAXY EXPRESS  
銀河鉄道999

Pachinko Machine  
Galaxy Express 999



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### Major pachinko titles

| Titles                         | Sales (units) | Release   |
|--------------------------------|---------------|-----------|
| <i>Galaxy Express 999</i>      | 8,369         | Jun. 2017 |
| <i>Maison Ikkoku: Yakusoku</i> | 7,263         | Aug. 2017 |
| <i>Negotiator</i>              | 5,291         | Sep. 2017 |

### Major pachislot titles

| Titles  | Sales (units) | Release   |
|---|---------------|-----------|
| <i>Pachislot Girl Friend BETA: Seio Gakuen Memorial</i> | 5,041         | Jul. 2017 |
| <i>Sengoku Otome TYPE-A</i>                             | 2,308         | Aug. 2017 |
| <i>Pachislot Ajin</i>                                   | 2,200         | Sep. 2017 |

パチスロ  
GF  
ガールフレンド(仮)  
Girl Friend BETA  
~聖桜学園メモリアル~

Pachislot Machine  
Pachislot Girl Friend  
BETA: Seio Gakuen  
Memorial



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# Pachinko and Pachislot Machine Business (Results)



## 2nd Quarter Results

### Pachinko

- The number of units sold fell short of the previous fiscal year, resulting in decreased income and profit
  - The market evaluation of machines with current standards was severe, and the number of units sold did not increase

### Pachislot

- The number of units sold fell short of the previous fiscal year, resulting in decreased income and profit
  - Demand for machines with current standards was low overall

### Total

- Income and profit were down year on year (net sales -65.0% YoY and operating income -% YoY).
  - Income and profit declined due to fewer units sold
  - Sales of titles other than series with proven records were weak

| (million yen)          | FY 3/2017<br>2Q Results | FY 3/2018<br>2Q Results | YoY     | Breakdown of machine sales |                         |                         |         |
|------------------------|-------------------------|-------------------------|---------|----------------------------|-------------------------|-------------------------|---------|
|                        |                         |                         |         | (Units)                    | FY 3/2017<br>2Q Results | FY 3/2018<br>2Q Results | YoY     |
| Net sales              | 52,243                  | 18,310                  | -65.0%  |                            |                         |                         |         |
| Pachinko machines      | 26,737                  | 13,698                  | -48.8%  |                            |                         |                         |         |
| Pachislot machines     | 25,113                  | 4,379                   | -82.6%  |                            |                         |                         |         |
| Gross profit           | 29,798                  | 8,607                   | -71.7%  |                            |                         |                         |         |
| Pachinko machines      | 14,050                  | 5,224                   | -62.8%  |                            |                         |                         |         |
| Pachislot machines     | 15,573                  | 3,313                   | -78.7%  |                            |                         |                         |         |
| Gross profit ratio     | 57.0%                   | 47.0%                   | -10.0pt |                            |                         |                         |         |
| Operating income       | 17,754                  | -749                    | -       |                            |                         |                         |         |
| Pachinko machines      | 7,184                   | -1,278                  | -       |                            |                         |                         |         |
| Pachislot machines     | 10,518                  | 486                     | -95.4%  |                            |                         |                         |         |
| Operating income ratio | 34.0%                   | -4.1%                   | -38.1pt |                            |                         |                         |         |
|                        |                         |                         |         | Total                      | 133,904                 | 47,867                  | -86,037 |
|                        |                         |                         |         | Pachinko machines          | 70,550                  | 36,557                  | -33,993 |
|                        |                         |                         |         | Body                       | 55,214                  | 26,858                  | -28,356 |
|                        |                         |                         |         | Gauge board                | 15,336                  | 9,699                   | -5,637  |
|                        |                         |                         |         | Pachislot machines         | 63,354                  | 11,310                  | -52,044 |
|                        |                         |                         |         | Chassis                    | 34,458                  | 1,032                   | -33,426 |
|                        |                         |                         |         | Combined unit              | 28,896                  | 10,278                  | -18,618 |

# Golf Business (M&A Status and Revenue per Customer)

## 2nd Quarter Results

### ■ Status of M&A

- 5/1/2017 Shiga Golf Club began operation (Koka City, Shiga Prefecture - 18H)
- 6/1/2017 Fukuoka Lakeside Country Club began operation (Iizuka City, Fukuoka Prefecture - 18H)
- 7/3/2017 Nanso Hills Country Club, formerly known as Angel Country Club began operation (Futtsu City, Chiba Prefecture - 27H)
- 8/8/2017 Tokyo Bayside Golf Course, formerly known as Zuien Country Club Takeoka Course began operation (Futtsu City, Chiba Prefecture - 18H)
- 9/2/2017 Grand opening of Kobe Grand Hill Golf Club (Nishinomiya City, Hyogo Prefecture - 18H)

### ■ Revenue per customer declined, but the number of golf course users increased

- Caddy fees declined due to an increase in caddyless play, which resulted in declined revenue per customer
- The number of golf course users drastically increased due to favorable weather and newly acquired golf courses

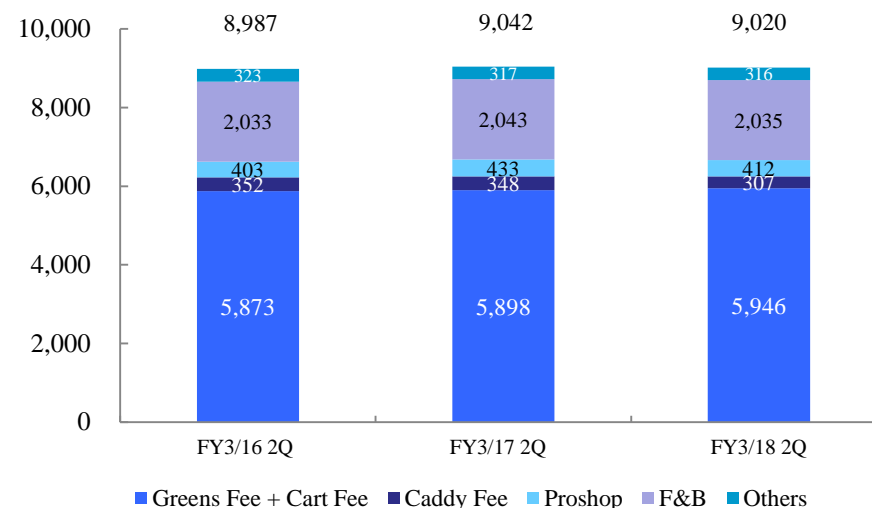
#### Number of golf course users/Revenue per customer

| 【2Q (6 months)】                                  | FY 3/2017<br>Results | FY 3/2018<br>Results | YoY   |
|--|----------------------|----------------------|-------|
| Number of golf course users<br>(thousand people) | 4,057                | 4,350                | 7.2%  |
| Revenue per customer (yen)                       | 9,042                | 9,020                | -0.2% |

| 【2Q(3 months)】                                   | FY 3/2017<br>Results | FY 3/2018<br>Results | YoY  |
|--|----------------------|----------------------|------|
| Number of golf course users<br>(thousand people) | 2,007                | 2,171                | 8.2% |
| Revenue per customer (yen)                       | 8,674                | 8,724                | 0.6% |

#### Breakdown of Revenue per Customer



\*Includes internal net sales

# Golf Business (Results)

## 2nd Quarter Results

- Income and profits were up year on year (net sales +6.0% YoY and operating income +1.1% YoY).
  - Golf courses acquired in fiscal 2015 or thereafter contributed
  - The number of golf course users increased due to favorable weather
  - Results recovered from inclement weather in the same period of the previous fiscal year, and the 2016 Kumamoto Earthquake

| (million yen)                 | FY 3/2017<br>2Q Results | FY 3/2018<br>2Q Results | YoY    | Breakdown of Sales                 |                         |                         |       |
|-------------------------------|-------------------------|-------------------------|--------|------------------------------------|-------------------------|-------------------------|-------|
| Net sales                     | 41,390                  | 43,866                  | 6.0%   | (million yen)                      | FY 3/2017<br>2Q Results | FY 3/2018<br>2Q Results | YoY   |
| Net Sales before eliminations | 41,395                  | 43,872                  | 6.0%   | Revenue from golf course operation | 36,685                  | 39,243                  | 7.0%  |
| Eliminations                  | -5                      | -5                      | —      | Membership-related sales           | 4,068                   | 3,981                   | -2.1% |
| Gross profit                  | 11,321                  | 11,594                  | 2.4%   | Breakdown of Costs                 |                         |                         |       |
| Gross profit ratio            | 27.3%                   | 26.4%                   | -0.9pt | (million yen)                      | FY 3/2017<br>2Q Results | FY 3/2018<br>2Q Results | YoY   |
| Operating income              | 7,449                   | 7,530                   | 1.1%   | Cost of Sales                      | 30,074                  | 32,277                  | 7.3%  |
| Operating income ratio        | 18.0%                   | 17.2%                   | -0.8pt | SGA expenses                       | 3,871                   | 4,064                   | 5.0%  |

# Consolidated Balance Sheets (Summary)

| (million yen)                    | As of March 31, 2017 | As of September 30, 2017 | Change  | Remarks  |
|----------------------------------|----------------------|--------------------------|---------|--|
| Current assets                   | 145,449              | 111,586                  | -33,863 |  |
| Non-current assets               | 303,702              | 317,138                  | +13,435 | <ul style="list-style-type: none"> <li>■ Decrease in cash and deposits</li> <li>■ Acquisition of golf courses</li> </ul> |
| Total assets                     | 449,152              | 428,724                  | -20,428 |  |
| Current liabilities              | 75,176               | 54,309                   | -20,866 |  |
| Non-current liabilities          | 156,570              | 158,723                  | +2,153  |  |
| Total liabilities                | 231,747              | 213,033                  | -18,713 |  |
| Total net assets                 | 217,405              | 215,690                  | -1,714  |  |
| Total liabilities and net assets | 449,152              | 428,724                  | -20,428 |  |

| (million yen)                     | As of March 31, 2017 | As of September 30, 2017 |
|-----------------------------------|----------------------|--------------------------|
| Cash and deposits, and securities | 106,576              | 80,033                   |
| Interest-bearing debt             | 132,917              | 127,760                  |
| Shareholders' equity              | 217,381              | 215,667                  |
| Shareholders' equity ratio        | 48.4%                | 50.3%                    |

- D/E ratio (interest-bearing debt/shareholders' equity)  
61.1%→59.2%
- Net D/E ratio (net interest-bearing debt/shareholders' equity)  
12.1%→22.1%

# Full-year Plan for FY ending March, 2018

# Revision of Forecast

FY3/18 Plan

- Forecasts were revised due primarily to a decrease in the number of units sold in the pachinko and pachislot business.
  - Full-scale revisions to sale schedules in light of demand trends at pachinko halls and dramatic changes in the environment surrounding the industry
  - Golf business reflects the impact of inclement weather in October

## Number of units sold

| (Units)                   | 2018/3                               |                                     | Difference  |
|---------------------------|--------------------------------------|-------------------------------------|-------------|
|                           | Initial Plan<br>(previous forecasts) | Revised Plan<br>(current forecasts) |             |
| Number of machines sold   | 240,000                              | 132,000                             | -108k units |
| Pachinko machines         | 180,000                              | 115,000                             | -65k units  |
| Number of titles released | 9                                    | 8                                   | -1          |
| Pachislot machines        | 60,000                               | 17,000                              | -43k units  |
| Number of titles released | 7                                    | 6                                   | -1          |

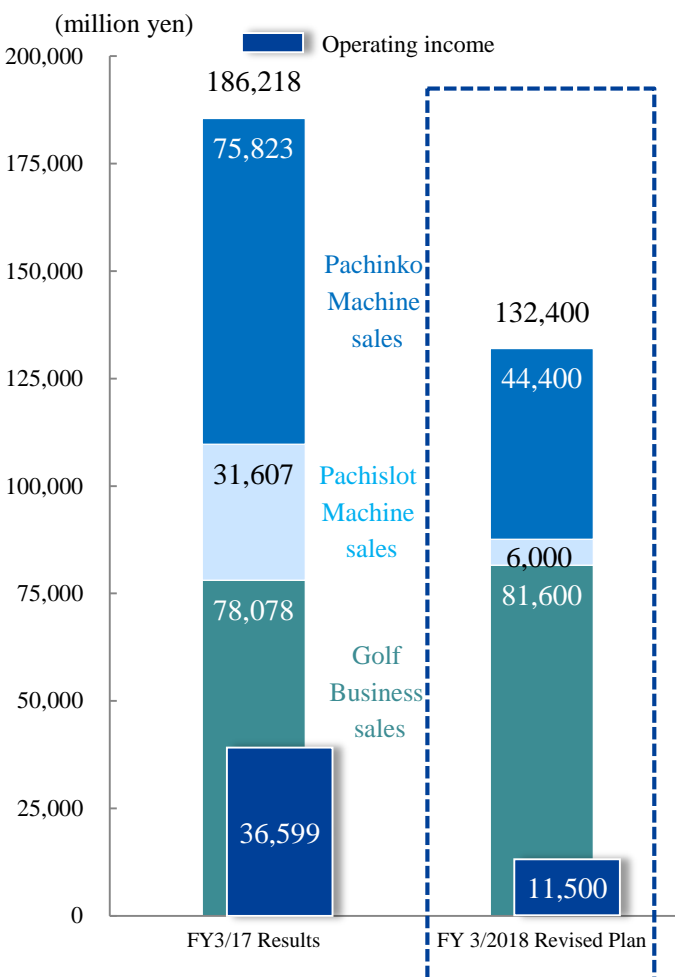
## Profit/loss

| (million yen)                           | 2018/3                               |                                     | Difference |
|---|--------------------------------------|-------------------------------------|------------|
|   | Initial Plan<br>(previous forecasts) | Revised Plan<br>(current forecasts) |            |
| Net sales                               | 175,200                              | 132,400                             | -24.4%     |
| Pachinko and Pachislot machine business | 92,800                               | 50,800                              | -45.3%     |
| Pachinko machines                       | 69,500                               | 44,400                              | -36.1%     |
| Pachislot machines                      | 22,700                               | 6,000                               | -73.6%     |
| Golf business                           | 82,400                               | 81,600                              | -1.0%      |
| Operating income                        | 32,100                               | 11,500                              | -64.2%     |
| Pachinko and Pachislot machine business | 24,300                               | 4,900                               | -79.8%     |
| Pachinko machines                       | 16,200                               | 5,500                               | -66.0%     |
| Pachislot machines                      | 8,000                                | -700                                | —          |
| Golf business                           | 11,700                               | 10,000                              | -14.5%     |
| Eliminations & corporate expenses       | -3,900                               | -3,400                              | -12.8%     |
| Operating income ratio                  | 18.3%                                | 8.7%                                | -9.6pt     |
| Ordinary income                         | 30,700                               | 10,400                              | -66.1%     |
| Profit attributable to owners of parent | 20,800                               | 4,400                               | -78.8%     |
| EBITDA                                  | 43,400                               | 22,400                              | -48.4%     |

# Consolidated Statements of Income (Plan)

FY3/18 Plan

- Income and profit are expected to decrease from the previous fiscal year (net sales -28.9% YoY and operating income -68.6% YoY)
  - In the pachinko and pachislot machine business, there is expected to be a decrease in income and profit due to a reduction in number of units sold
  - In the golf business, there is expected to be an increase in income, but a decrease in profit due to lower profitability



| (million yen)                           | FY 3/2017<br>Full year Results | FY 3/2018     |                        | YoY     |
|---|--------------------------------|---------------|------------------------|---------|
|   |                                | 2Q Cumulative | Revised full-year plan |         |
| Net sales                               | 186,218                        | 62,177        | 132,400                | -28.9%  |
| Pachinko and Pachislot machine business | 108,139                        | 18,310        | 50,800                 | -53.0%  |
| Pachinko machines                       | 75,823                         | 13,698        | 44,400                 | -41.4%  |
| Pachislot machines                      | 31,607                         | 4,379         | 6,000                  | -81.0%  |
| Golf business                           | 78,078                         | 43,866        | 81,600                 | 4.5%    |
| Operating income                        | 36,599                         | 5,199         | 11,500                 | -68.6%  |
| Pachinko and Pachislot machine business | 29,602                         | -749          | 4,900                  | -83.4%  |
| Pachinko machines                       | 17,609                         | -1,278        | 5,500                  | -68.8%  |
| Pachislot machines                      | 11,869                         | 486           | -700                   | —       |
| Golf business                           | 10,935                         | 7,530         | 10,000                 | -8.6%   |
| Eliminations & corporate expenses       | -3,937                         | -1,580        | -3,400                 | -13.7%  |
| Operating income ratio                  | 19.7%                          | 8.4%          | 8.7%                   | -11.0pt |
| Ordinary income                         | 35,655                         | 5,009         | 10,400                 | -70.8%  |
| Profit attributable to owners of parent | 27,058                         | 2,122         | 4,400                  | -83.7%  |
| EBITDA*1                                | 47,845                         | 10,321        | 22,400                 | -53.2%  |

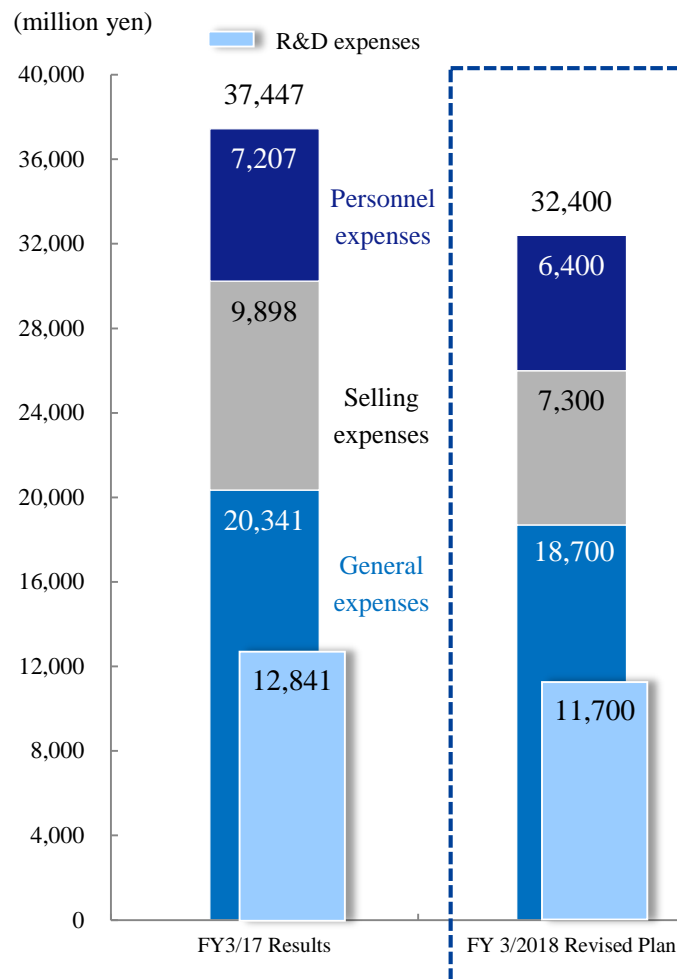
\* EBITDA = Operating income + depreciation + amortization

# SGA Expenses / Depreciation & Amortization / Capital Investment (Plan)

FY3/18 Plan

## ■ Decrease in SGA expenses over the previous fiscal year

- Variable expenses, such as sales commissions, are expected to decline due to fewer units sold
- General expenses are expected to decline due to unused R&D expenses in the 1st half



| (million yen)        | FY 3/2017<br>Full year Results | FY 3/2018     |                        | YoY    |
|----------------------|--------------------------------|---------------|------------------------|--------|
|                      |                                | 2Q Cumulative | Revised full-year plan |        |
| SGA expenses         | 37,447                         | 15,001        | 32,400                 | -13.5% |
| Personnel expenses   | 7,207                          | 3,049         | 6,400                  | -11.2% |
| Selling expenses     | 9,898                          | 2,926         | 7,300                  | -26.3% |
| Advertising expenses | 2,842                          | 849           | 2,800                  | -1.5%  |
| Sales commissions    | 2,858                          | 436           | 1,100                  | -61.5% |
| General expenses     | 20,341                         | 9,025         | 18,700                 | -8.1%  |
| R&D expenses         | 12,841                         | 5,576         | 11,700                 | -8.9%  |

## Depreciation & amortization / Capital investment

| (million yen)               | FY 3/2017<br>Full year Results | FY 3/2018     |                        | YoY   |
|-----------------------------|--------------------------------|---------------|------------------------|-------|
|                             |                                | 2Q Cumulative | Revised full-year plan |       |
| Depreciation & amortization | 11,098                         | 5,017         | 10,700                 | -3.6% |
| Capital investment          | 14,050                         | 10,044        | 15,400                 | 9.6%  |



# Pachinko and Pachislot machine Business (Machine Sales Plan)

## FY3/18 Plan

| (Units)                      | FY 3/2017<br>Full year Results | FY 3/2018     |                           | Change the<br>previous year |
|------------------------------|--------------------------------|---------------|---------------------------|-----------------------------|
|                              |                                | 2Q Cumulative | Revised full-year<br>plan |                             |
| Number of machines<br>sold   | 273,714                        | 47,867        | 132,000                   | -141k units                 |
| Pachinko machines            | 192,761                        | 36,557        | 115,000                   | -77k units                  |
| Number of titles<br>released | 7                              | 4             | 8                         | +1                          |
| Pachislot machines           | 80,953                         | 11,310        | 17,000                    | -63k units                  |
| Number of titles<br>released | 7                              | 4             | 6                         | -1                          |



Pachinko Machine  
*Fujiko: Lupin The End*



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## Titles to Release in the 2nd half / Pachinko Machine

| Title   | Release Date |
|---|--------------|
| <i>Mahjong Monogatari: Yakuman Ranbu no Drum Taisen</i> | Oct. 2017    |
| <i>Fujiko: Lupin The End</i>                            | Nov. 2017    |
| <i>Koumon Chama: Kamimori JUDGEMENT</i>                 | Jan. 2018    |

## Titles to Release in the 2nd half/ Pachislot Machine

| Title                            | Release Date |
|----------------------------------|--------------|
| <i>Nangoku Monogatari TYPE-A</i> | Jan. 2018    |



Pachislot Machine  
*Nangoku Monogatari  
TYPE-A*



# Pachinko and Pachislot machine Business (Revised Regulations)

## Overview of revised regulations

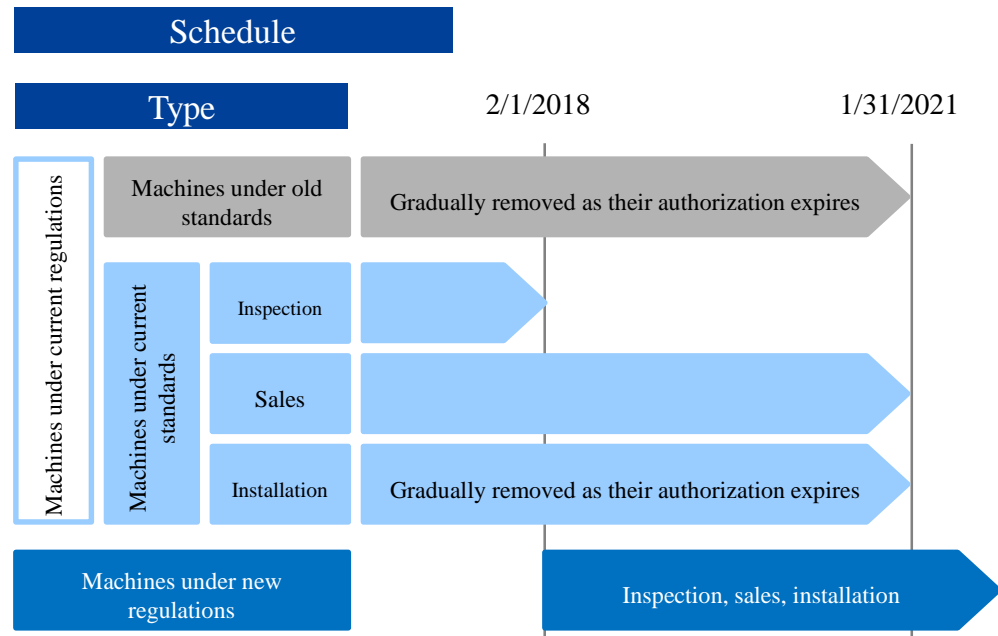
- Enforcement date: February 1, 2018
- Overview of revised regulations

### Regulations for pachinko and pachislot machine manufacturers

- (1) Payout regulations (tightening payout regulations, reinforcement of regulations on payout per jackpot)
- (2) Addition of specifications for machines enabling payout information to be easily verified
- (3) Introduction of settings for pachinko machines

### Regulations for pachinko halls

- (4) Additional operations for managers



## Market forecasts from the 2nd half

- It is expected that machines under the old standards that are highly utilized will remain in place until as late as January 31, 2021.
- It is expected that the trend whereby demand is concentrated on machines from specific series will continue.

- We will focus our efforts on adapting machines under current regulations to ensure sales titles from the next fiscal year.
- To maximize the number of machines sold, we will take advantage of the opportunities presented by higher demand as the authorization expires for machines under current regulations.

## 1. Increasing the value of golf courses

### ■ “GRAND PGM”

“Making Japan’s golf experience more opulent and elegant”

- Eight majestic and high-grade golf courses were selected from among golf courses around Japan, operated by PGM, to launch the golf brand. They have provided services from the beginning of July 2017.

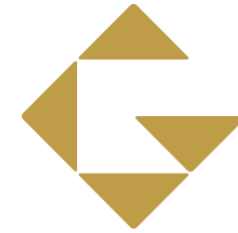
## 2. Enhancing earning potential

### ■ M&A status

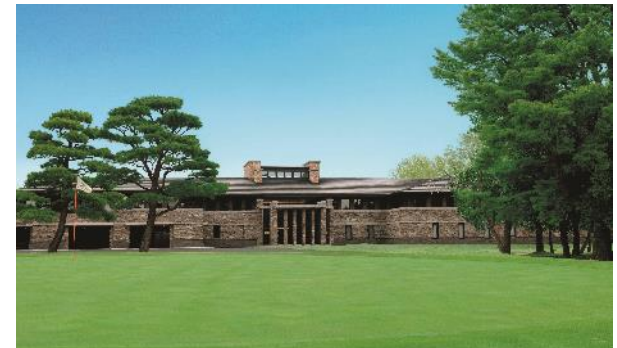
- Golf courses expected to generate revenue were carefully selected
- Five courses were acquired in the 1st half to create a network of 140 courses

### ■ Status of membership sales

- Aimed at acquiring customers and securing younger players
- Focus in the 2nd half is to maintain solid sales



**GRAND PGM**



Sohbu Country Club Sohbu Course  
(Inzai City, Chiba Prefecture)



Chiyoda Country Club  
(Kasumigaura City, Ibaraki Prefecture)

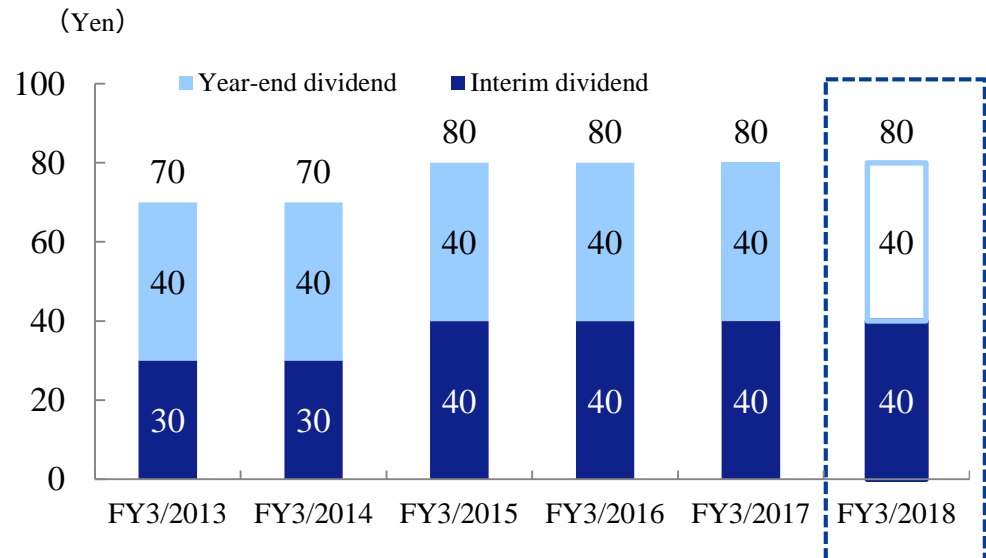
## Dividend policy

- Stable dividends are paid, giving consideration to the totality of the business plan, financial conditions, and operating results, etc.
- Internal reserves are allocated to investment in enhancement of research and development capabilities, plant and equipment, and M&A of golf courses, etc.

FY 2018

|                   |               |
|-------------------|---------------|
| Interim dividend  | 40 yen        |
| Year-end dividend | 40 yen (plan) |
| Total             | 80 yen        |

## Trend of dividend per share



**Distributing profits to shareholders is a key management issue.  
We will do our utmost to maintain a high level of dividend payment.**

# Supplementary Information

## 【Market Environment】

- Pachinko and Pachislot Machine Business
- Golf Business

## 【Pachinko and Pachislot Machine Business】

- Regulations on Pachinko Machine
- Regulations on Pachislot Machine
- Number of Machines Sold / Titles Released in FY Ending March, 2018

## 【Golf Business】

- Trends of Golf Course Users and Revenue per Customer 1
- Trends of Golf Course Users and Revenue per Customer 2
- Golf Course Portfolio

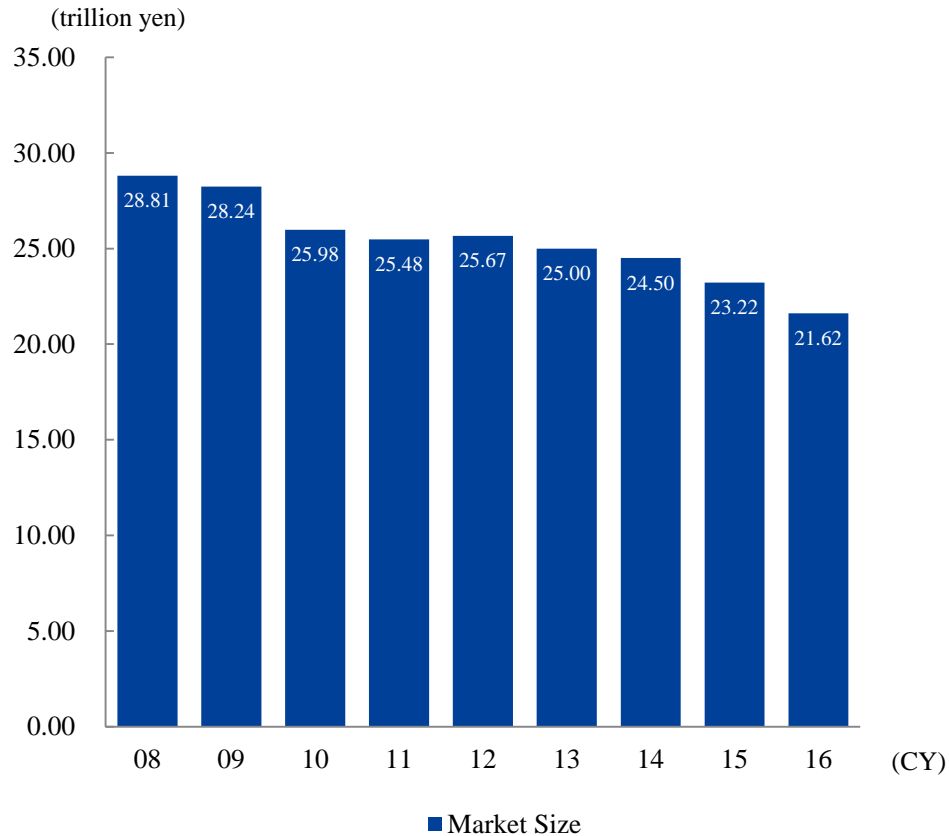
## 【Consolidated Results】

- Trends of Business Results
- Key Financial Indicators

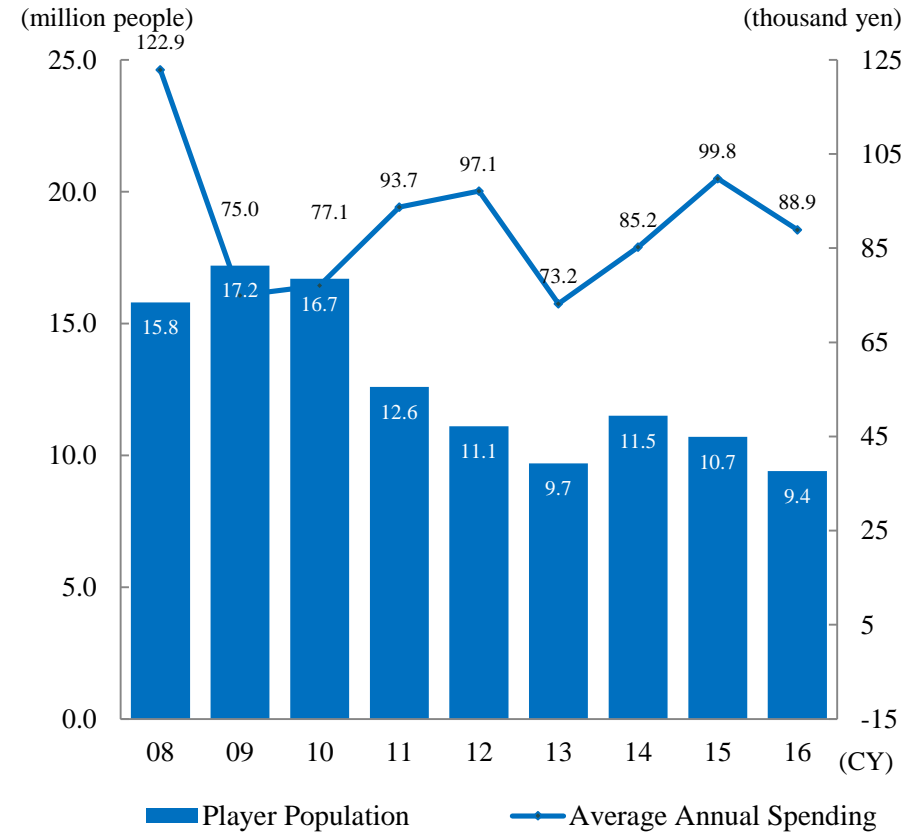
# Market Environment (Pachinko and Pachislot Machine Business) 1

## Pachinko and Pachislot Machine Business

### Market size



### Player population and Average annual spending



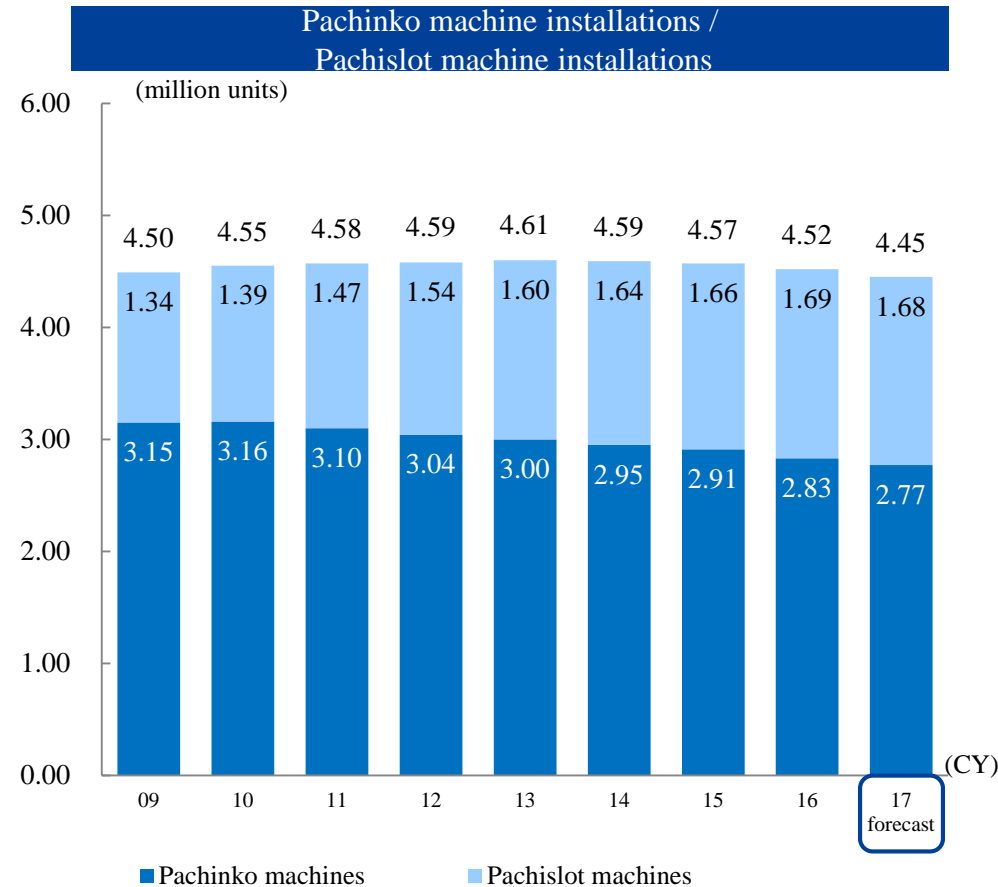
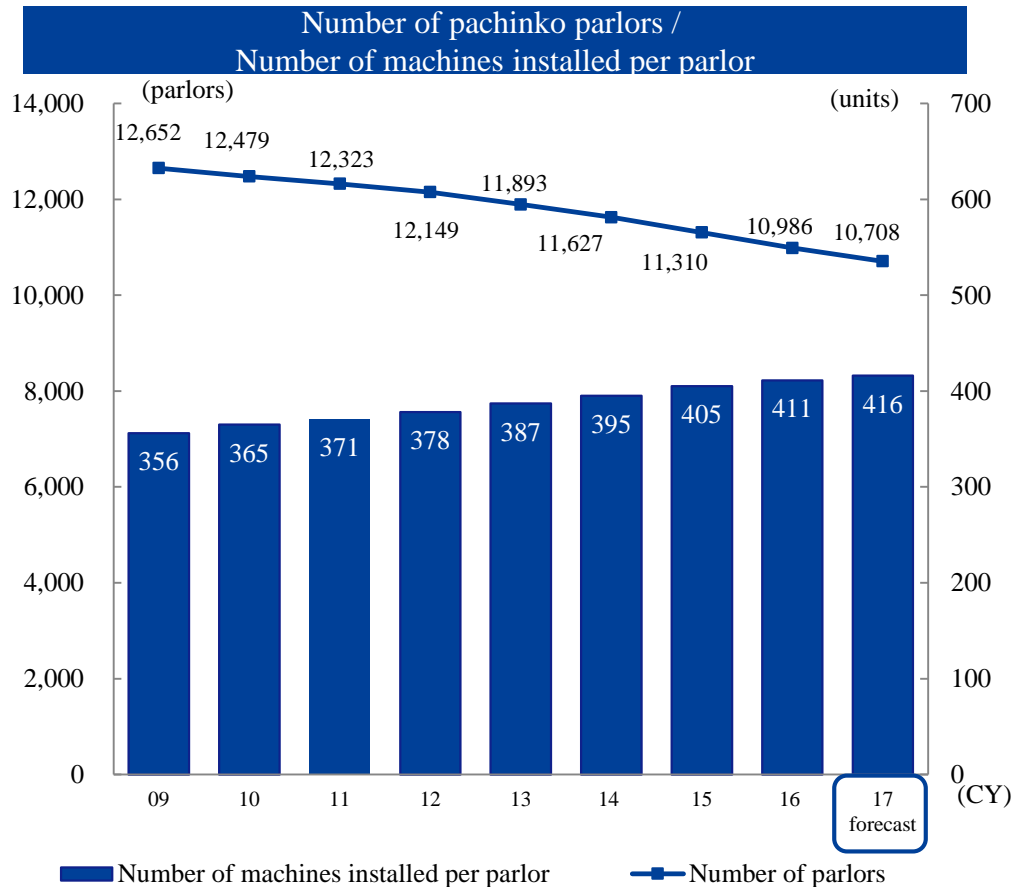
|  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Market size (trillion yen)             | 28.81 | 28.24 | 25.98 | 25.48 | 25.67 | 25.00 | 24.50 | 23.22 | 21.62 |
| Player population (million)            | 15.8  | 17.2  | 16.7  | 12.6  | 11.1  | 9.7   | 11.5  | 10.7  | 9.4   |
| Average annual spending (thousand yen) | 122.9 | 75.0  | 77.1  | 93.7  | 97.1  | 73.2  | 85.2  | 99.8  | 88.9  |

Note: Data source: Japan Productivity Center. Data on a calendar year basis (from January to December).

# Market Environment

## (Pachinko and Pachislot Machine Business) 2

### Pachinko and Pachislot Machine Business



|   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   | 2016   | 2017<br>Forecast |
|---|--------|--------|--------|--------|--------|--------|--------|--------|------------------|
| Number of parlors                               | 12,652 | 12,479 | 12,323 | 12,149 | 11,893 | 11,627 | 11,310 | 10,986 | 10,708           |
| Number of machines installed per parlor (units) | 356    | 365    | 371    | 378    | 387    | 395    | 405    | 411    | 416              |
| Pachinko machine installations (million units)  | 3.15   | 3.16   | 3.10   | 3.04   | 3.00   | 2.95   | 2.91   | 2.83   | 2.77             |
| Pachislot machine installations (million units) | 1.34   | 1.39   | 1.47   | 1.54   | 1.60   | 1.64   | 1.66   | 1.69   | 1.68             |

Note: Data source: National Police Agency. Data on a calendar year basis (from Jan to Dec). Figures for 2017 is the Company's estimates.

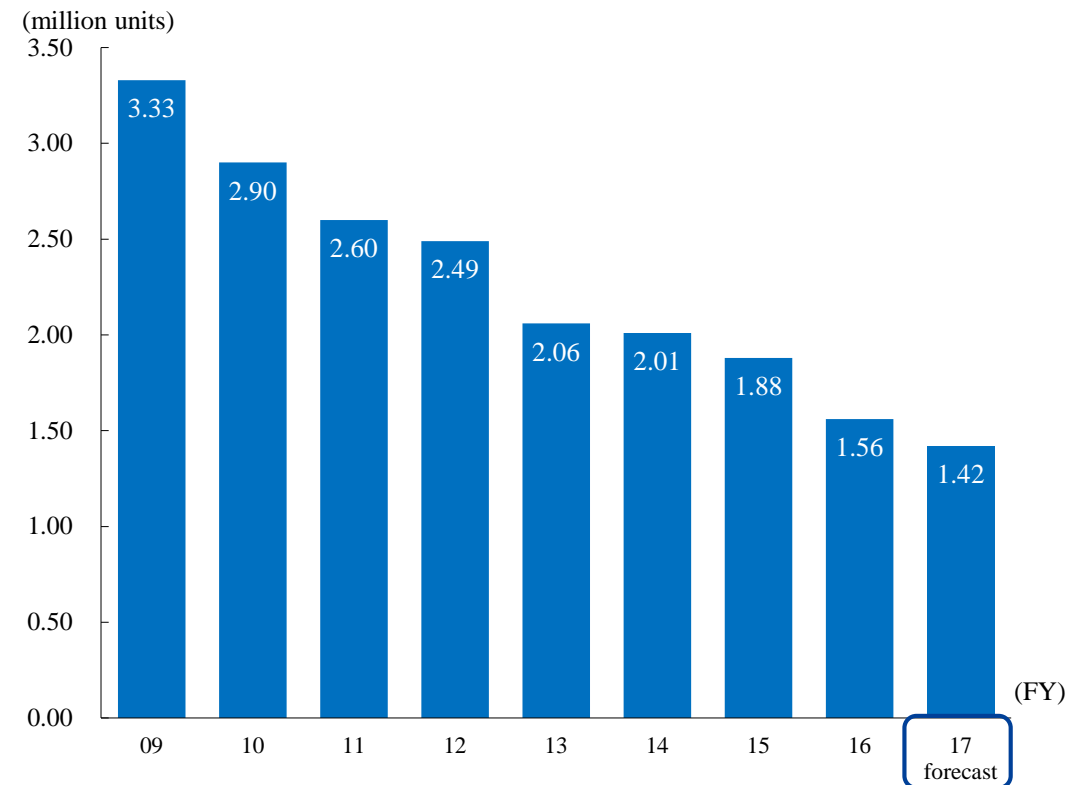


# Market Environment

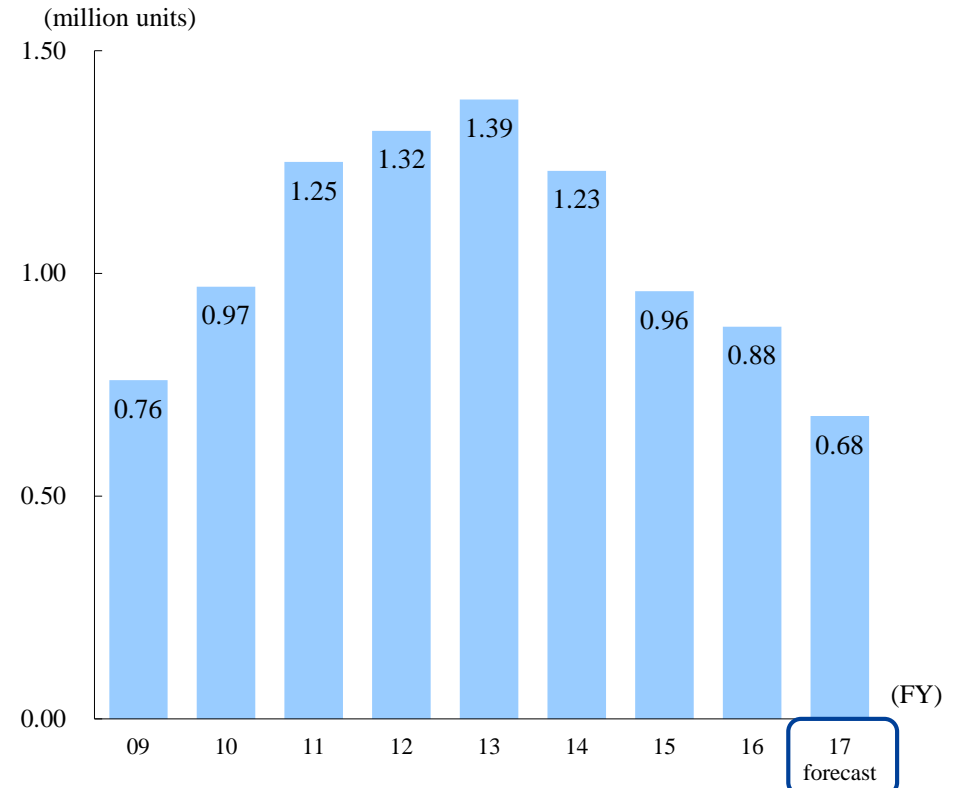
## (Pachinko and Pachislot Machine Business) 3

### Pachinko and Pachislot Machine Business

#### Pachinko machine sales



#### Pachislot machine sales



| Number of machines sold<br>(million units) | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017<br>forecast |
|--|------|------|------|------|------|------|------|------|------------------|
| Pachinko machines                          | 3.33 | 2.90 | 2.60 | 2.49 | 2.06 | 2.01 | 1.88 | 1.56 | 1.42             |
| Pachislot machines                         | 0.76 | 0.97 | 1.25 | 1.32 | 1.39 | 1.23 | 0.96 | 0.88 | 0.68             |

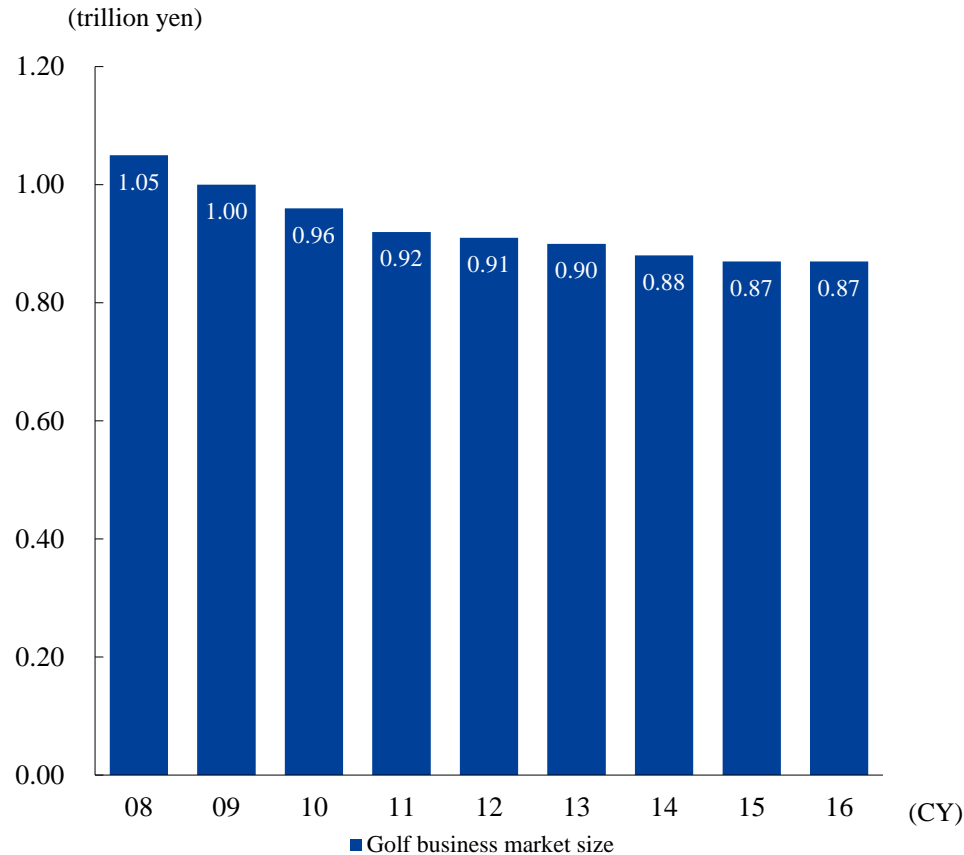
Note: Data source: Yano Research Institute. Data on a fiscal year basis (from April to March of the next year). Data for 2017 is the Company's forecast.



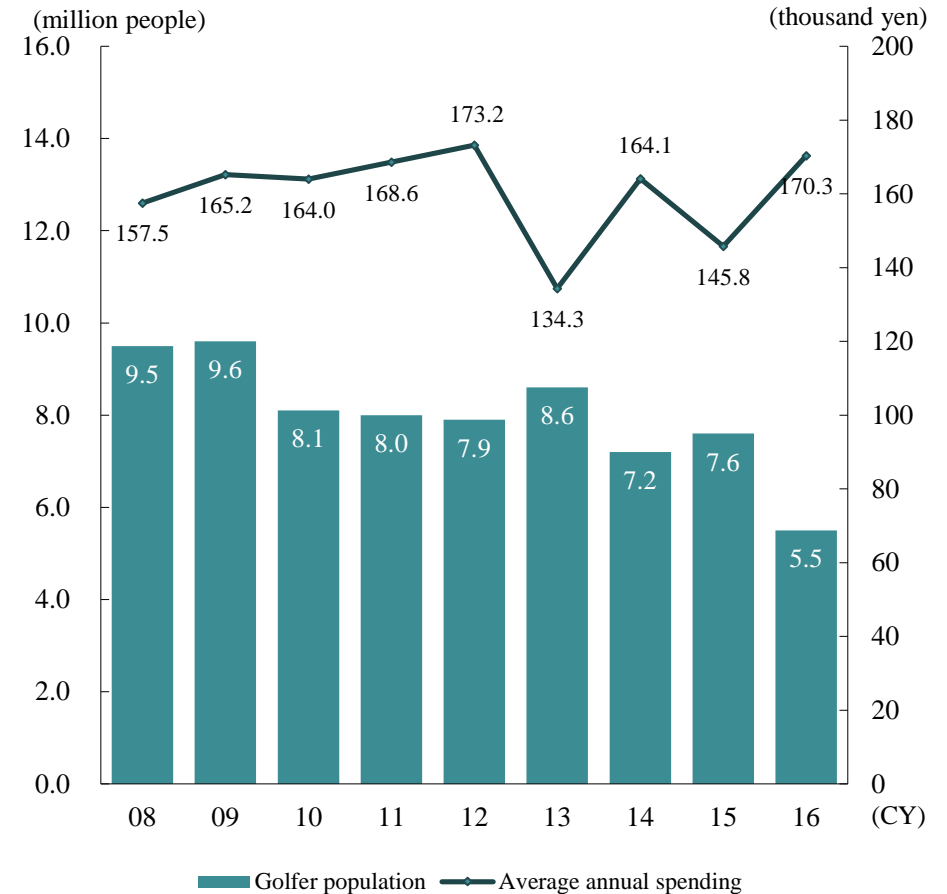
# Market Environment (Golf Business)

Golf Business

## Market size



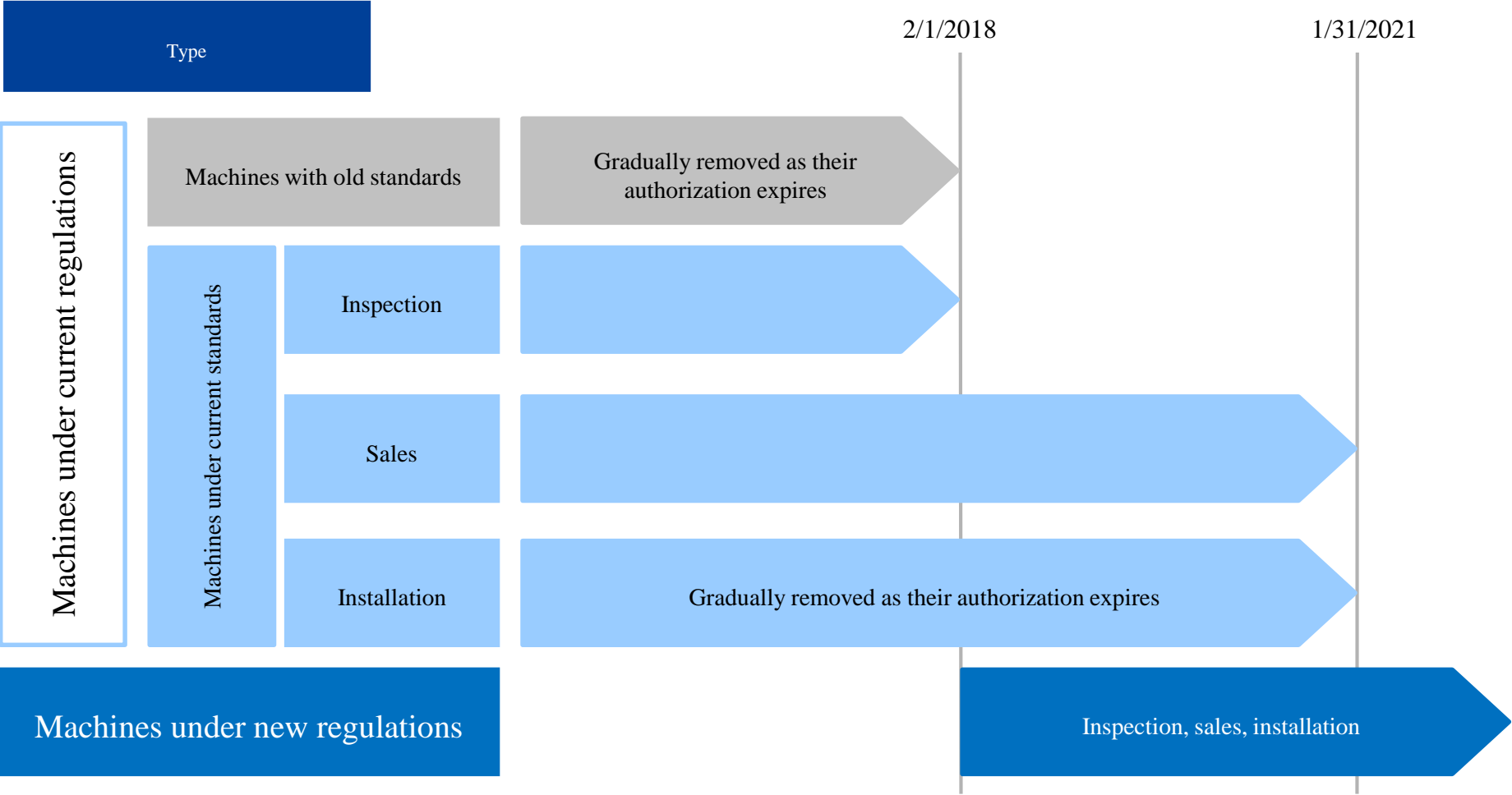
## Golfer population / Average annual spending



|  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Market size (trillion yen)             | 1.05  | 1.00  | 0.96  | 0.92  | 0.91  | 0.90  | 0.88  | 0.87  | 0.87  |
| Golfer population (million)            | 9.5   | 9.6   | 8.1   | 8.0   | 7.9   | 8.6   | 7.2   | 7.6   | 5.5   |
| Average annual spending (thousand yen) | 157.5 | 165.2 | 164.0 | 168.6 | 173.2 | 134.3 | 164.1 | 145.8 | 170.3 |

Note: Data source: Japan Productivity Center. Data on a calendar year basis (from January to December).

# Regulations on pachinko and pachislot machines



# Number of Machines Sold

## Titles Released in FY ending March, 2018

### Pachinko and Pachislot Machine Business

#### Number of machines sold

| (units)            | FY3/2013  | FY3/2014      | FY3/2015  |               | FY3/2016  |        |               | FY3/2017      |           |        |               | FY3/2018      |           |        |               |
|--------------------|-----------|---------------|-----------|---------------|-----------|--------|---------------|---------------|-----------|--------|---------------|---------------|-----------|--------|---------------|
|                    | Full year | 2Q cumulative | Full year | 2Q cumulative | Full year | 1Q     | 2Q cumulative | 3Q cumulative | Full year | 1Q     | 2Q cumulative | 3Q cumulative | Full year | 1Q     | 2Q cumulative |
| Total              | 320,011   | 140,165       | 317,948   | 195,044       | 344,866   | 70,736 | 204,078       | 281,261       | 348,613   | 70,900 | 133,904       | 216,964       | 273,714   | 19,955 | 47,867        |
| Pachinko machines  | 252,411   | 78,012        | 197,146   | 161,872       | 252,103   | 42,532 | 173,596       | 195,069       | 234,616   | 41,001 | 70,550        | 153,488       | 192,761   | 18,557 | 36,557        |
| Body               | 179,430   | 22,251        | 128,059   | 142,895       | 200,813   | 30,265 | 152,835       | 162,969       | 179,197   | 30,236 | 55,214        | 134,334       | 167,951   | 14,308 | 26,858        |
| Gauge board        | 72,981    | 55,761        | 69,087    | 18,977        | 51,290    | 12,267 | 20,761        | 32,100        | 55,419    | 10,765 | 15,336        | 19,154        | 24,810    | 4,249  | 9,699         |
| Pachislot machines | 67,600    | 62,153        | 120,802   | 33,172        | 92,763    | 28,204 | 30,482        | 86,192        | 113,997   | 29,899 | 63,354        | 63,476        | 80,953    | 1,398  | 11,310        |
| Chassis            | 29,472    | 48,647        | 77,716    | 17,663        | 36,146    | 8,960  | 10,604        | 66,313        | 89,453    | 16,516 | 34,458        | 34,462        | 36,001    | 70     | 1,032         |
| Combined unit      | 38,128    | 13,506        | 43,086    | 15,509        | 56,617    | 19,244 | 19,878        | 19,879        | 24,544    | 13,383 | 28,896        | 29,014        | 44,952    | 1,328  | 10,278        |

#### Titles released in FY ending March, 2018

##### Pachinko

| Release | Title                          | Units sold |
|---------|--------------------------------|------------|
| 1Q      | <i>Nangokusodachi: Hane</i>    | 3,971      |
|         | <i>Galaxy Express 999</i>      | 8,369      |
| 2Q      | <i>Maison Ikkoku: Yakusoku</i> | 7,263      |
|         | <i>Negotiator</i>              | 5,291      |
| Total*  |                                | 36,557     |

##### Pachislot

| Release | Title   | Units sold |
|---------|---|------------|
| 1Q      | <i>Pachislot Kurokami The Animation</i>                 | 1,750      |
| 2Q      | <i>Pachislot Girl Friend BETA: Seio Gakuen Memorial</i> | 5,041      |
|         | <i>Sengoku Otome TYPE-A</i>                             | 2,308      |
|         | <i>Pachislot Ajin</i>                                   | 2,200      |
| Total*  |   | 11,310     |

\*Total includes units of titles released in FY 3/2017 (Pachinko: 11,663 units Pachislot: 11 units)

# Trends of Golf Course Users and Revenue per Customer 1

## Number of golf course users

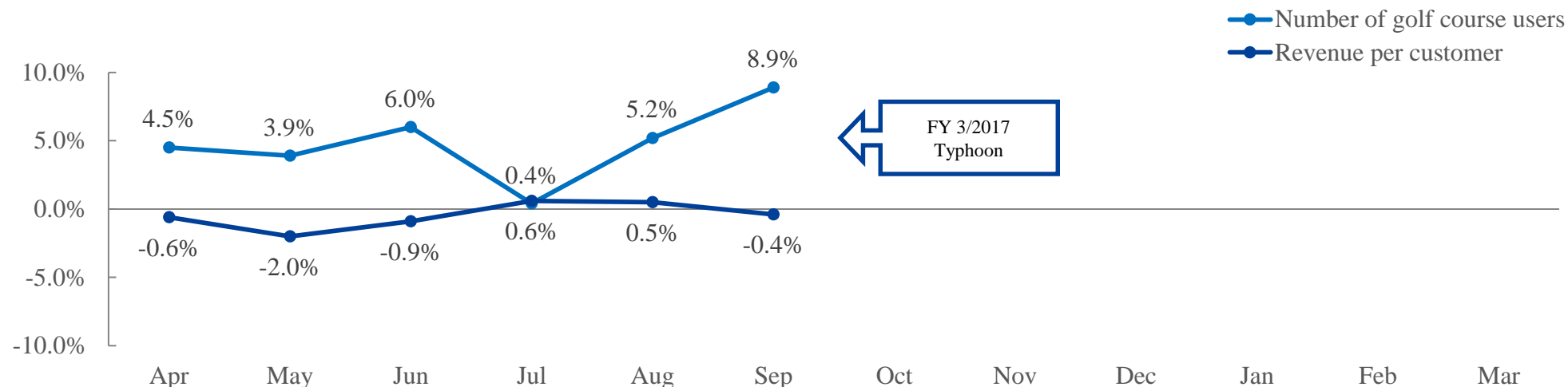
| (persons) | Apr     | May     | Jun     | Jul     | Aug     | Sep     | Oct     | Nov     | Dec     | Jan     | Feb     | Mar     | Total     |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|-----------|
| FY2012    | 500,025 | 601,959 | 574,666 | 625,432 | 606,561 | 571,119 | 631,035 | 599,343 | 527,390 | 413,787 | 332,607 | 502,389 | 6,486,313 |
| FY2013    | 576,784 | 685,793 | 652,022 | 707,241 | 673,282 | 669,609 | 678,211 | 628,037 | 545,915 | 419,932 | 382,310 | 578,359 | 7,197,495 |
| FY2014    | 581,377 | 695,817 | 652,238 | 673,318 | 660,019 | 654,753 | 641,042 | 669,488 | 568,476 | 465,157 | 294,507 | 541,624 | 7,097,816 |
| FY2015    | 651,067 | 757,367 | 659,662 | 670,460 | 652,429 | 695,852 | 671,206 | 681,167 | 548,032 | 430,098 | 403,316 | 569,843 | 7,390,499 |
| FY2016    | 619,519 | 765,614 | 672,004 | 655,011 | 657,753 | 641,672 | 732,172 | 668,507 | 624,894 | 447,276 | 441,305 | 603,777 | 7,529,504 |
| FY2017    | 639,909 | 751,256 | 658,871 | 726,699 | 649,334 | 631,137 | 726,674 | 662,099 | 626,216 | 471,345 | 413,167 | 595,830 | 7,552,537 |
| FY2018    | 675,659 | 792,244 | 711,469 | 750,806 | 704,955 | 715,606 |         |         |         |         |         |         | 4,350,739 |

## Revenue per customer

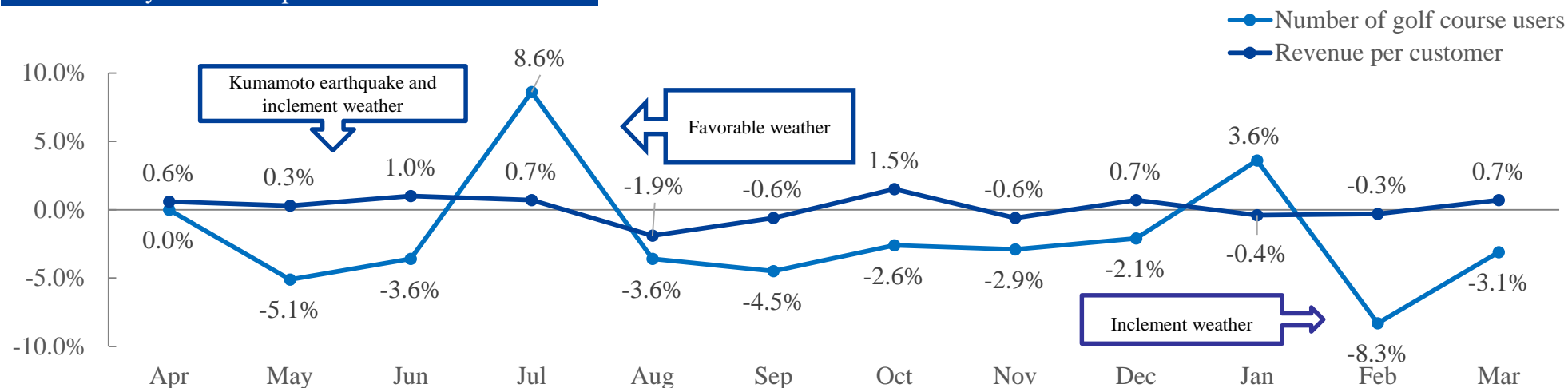
| (yen)  | Apr   | May   | Jun   | Jul   | Aug   | Sep   | Oct    | Nov    | Dec   | Jan   | Feb   | Mar   | Average |
|--------|-------|-------|-------|-------|-------|-------|--------|--------|-------|-------|-------|-------|---------|
| FY2012 | 9,188 | 9,666 | 9,483 | 9,269 | 8,543 | 9,356 | 10,114 | 10,266 | 9,899 | 9,002 | 8,509 | 9,288 | 9,429   |
| FY2013 | 9,686 | 9,522 | 9,342 | 8,734 | 8,171 | 9,184 | 9,640  | 9,922  | 9,727 | 9,000 | 8,436 | 9,347 | 9,243   |
| FY2014 | 9,468 | 9,527 | 9,531 | 8,664 | 8,143 | 8,853 | 9,456  | 10,033 | 9,516 | 8,552 | 7,813 | 9,100 | 9,123   |
| FY2015 | 9,215 | 9,422 | 9,180 | 8,703 | 8,300 | 8,964 | 9,477  | 10,122 | 9,440 | 8,591 | 8,077 | 8,797 | 9,076   |
| FY2016 | 9,278 | 9,485 | 9,071 | 8,668 | 8,279 | 9,073 | 9,609  | 10,038 | 9,343 | 8,556 | 8,002 | 8,780 | 9,070   |
| FY2017 | 9,397 | 9,572 | 9,213 | 8,792 | 8,176 | 9,050 | 9,781  | 10,014 | 9,429 | 8,545 | 8,011 | 8,868 | 9,129   |
| FY2018 | 9,363 | 9,408 | 9,162 | 8,871 | 8,241 | 9,045 |        |        |       |       |       |       | 9,020   |

# Trends of Golf Course Users and Revenue per Customer 2

## Monthly result comparison - 2018 vs 2017



## Monthly result comparison - 2017 vs 2016



\* Based on operating golf courses since previous year.

# Golf Course Portfolio

## Golf Business

|                         | As of March 31, 2017 |                | As of September 30, 2017 |                |
|-------------------------|----------------------|----------------|--------------------------|----------------|
|                         | Courses              | 18H equivalent | Courses                  | 18H equivalent |
| Owned Golf Courses      | 132                  | 161.5          | 137                      | 166.5          |
| Leased Golf Courses     | 1                    | 2.0            | 1                        | 2.0            |
| Contracted Golf Courses | 2                    | 2.5            | 2                        | 2.5            |
| <b>Total</b>            | <b>135</b>           | <b>166.0</b>   | <b>140</b>               | <b>171.0</b>   |
| Hokkaido                | 6                    | 9.5            | 6                        | 9.5            |
| Tohoku                  | 9                    | 11.5           | 9                        | 11.5           |
| Kanto                   | 55                   | 65.0           | 57                       | 67.0           |
| Chubu                   | 15                   | 19.0           | 16                       | 20.0           |
| Kansai                  | 16                   | 19.0           | 17                       | 20.0           |
| Chugoku                 | 11                   | 13.0           | 11                       | 13.0           |
| Shikoku                 | 7                    | 7.5            | 7                        | 7.5            |
| Kyusyu                  | 16                   | 21.5           | 17                       | 22.5           |
| <b>Total</b>            | <b>135</b>           | <b>166.0</b>   | <b>140</b>               | <b>171.0</b>   |

State of affairs in the fiscal year ending March 31, 2018

### 【Acquisition】

|                   |  |
|-------------------|--|
| May 1, 2017       | Shiga Golf Club<br>(Koka City, Shiga Prefecture – 18H)                   |
| June 1, 2017      | Fukuoka Lakeside Country Club<br>(Iizuka City, Fukuoka Prefecture – 18H) |
| July 3, 2017      | Nanso Hills Country Club<br>(Futtsu City, Chiba Prefecture – 27H)        |
| August 8, 2017    | Tokyo Bayside Golf Course<br>(Futtsu City, Chiba Prefecture – 18H)       |
| September 2, 2017 | Kobe Grand Hill Golf Club<br>(Nishinomiya City, Hyogo Prefecture – 18H)  |

### 【Management outsourcing】

None

### 【Sale】

None

# Financial Performance Trend



## Consolidated

| (million yen)                           | FY3/2013  | FY3/2014      | FY3/2015  |               | FY3/2016  |        |               | FY3/2017      |           |        |               | FY3/2018      |           |        |               |
|---|-----------|---------------|-----------|---------------|-----------|--------|---------------|---------------|-----------|--------|---------------|---------------|-----------|--------|---------------|
|   | Full year | 2Q cumulative | Full year | 2Q cumulative | Full year | 1Q     | 2Q cumulative | 3Q cumulative | Full year | 1Q     | 2Q cumulative | 3Q cumulative | Full year | 1Q     | 2Q cumulative |
| Net sales                               | 177,111   | 85,057        | 181,570   | 110,970       | 198,605   | 47,538 | 119,620       | 173,390       | 214,954   | 49,355 | 93,633        | 149,502       | 186,218   | 30,547 | 62,177        |
| Pachinko and Pachislot machine Business | 99,930    | 44,108        | 105,869   | 69,132        | 121,380   | 25,366 | 77,683        | 109,026       | 135,388   | 27,632 | 52,243        | 86,115        | 108,139   | 7,892  | 18,310        |
| Pachinko machines                       | 78,998    | 24,363        | 66,105    | 57,940        | 89,589    | 15,539 | 66,955        | 74,434        | 89,200    | 15,808 | 26,737        | 60,383        | 75,823    | 7,140  | 13,698        |
| Pachislot machines                      | 20,932    | 19,745        | 39,763    | 11,191        | 31,791    | 9,826  | 10,728        | 34,592        | 46,188    | 11,717 | 25,113        | 25,166        | 31,607    | 638    | 4,379         |
| Golf Business                           | 74,479    | 39,605        | 73,145    | 40,539        | 74,807    | 21,584 | 40,669        | 62,491        | 77,071    | 21,722 | 41,390        | 63,386        | 78,078    | 22,654 | 43,866        |
| Other                                   | 2,700     | 1,343         | 2,555     | 1,299         | 2,417     | 588    | 1,267         | 1,873         | 2,494     | -      | -             | -             | -         | -      | -             |
| Operating income                        | 34,434    | 21,752        | 36,909    | 28,655        | 42,870    | 11,453 | 26,446        | 39,078        | 38,967    | 13,287 | 23,275        | 35,834        | 36,599    | 4,214  | 5,199         |
| Pachinko and Pachislot machine Business | 25,494    | 15,591        | 30,119    | 22,009        | 34,310    | 7,153  | 20,164        | 28,359        | 30,088    | 9,222  | 17,754        | 26,569        | 29,602    | -86    | -749          |
| Pachinko machines                       | 19,177    | 7,911         | 14,836    | 17,455        | 21,582    | 3,128  | 17,047        | 17,505        | 16,467    | 4,779  | 7,184         | 16,771        | 17,609    | 385    | -1,278        |
| Pachislot machines                      | 6,316     | 7,680         | 15,282    | 4,554         | 12,728    | 4,024  | 3,117         | 10,854        | 13,620    | 4,483  | 10,518        | 9,718         | 11,869    | -492   | 486           |
| Golf Business                           | 12,200    | 7,425         | 9,911     | 8,250         | 12,127    | 5,216  | 7,955         | 13,344        | 12,427    | 5,033  | 7,449         | 12,155        | 10,935    | 5,208  | 7,530         |
| Other                                   | 239       | 95            | 159       | 68            | 140       | 32     | 82            | 92            | 151       | -      | -             | -             | -         | -      | -             |
| Eliminations & corporate expenses       | -3,500    | -1,359        | -3,281    | -1,672        | -3,708    | -949   | -1,755        | -2,718        | -3,699    | -969   | -1,928        | -2,891        | -3,937    | -908   | -1,580        |
| Operating income ratio                  | 19.4%     | 25.6%         | 20.3%     | 25.8%         | 21.6%     | 24.1%  | 22.1%         | 22.5%         | 18.1%     | 26.9%  | 24.9%         | 24.0%         | 19.7%     | 13.8%  | 8.4%          |
| Ordinary income                         | 35,577    | 21,317        | 35,405    | 28,244        | 42,059    | 11,268 | 25,896        | 38,280        | 37,444    | 12,783 | 22,819        | 35,370        | 35,655    | 4,279  | 5,009         |
| Profit attributable to owners of parent | 20,123    | 12,578        | 20,361    | 18,069        | 26,235    | 6,003  | 19,248        | 28,321        | 28,143    | 7,649  | 14,758        | 23,417        | 27,058    | 2,403  | 2,122         |
| SGA expenses                            | 30,864    | 15,323        | 36,095    | 16,572        | 36,517    | 8,426  | 17,573        | 26,728        | 39,873    | 8,806  | 17,843        | 26,551        | 37,447    | 6,408  | 15,001        |
| Personnel expenses                      | 7,554     | 3,413         | 7,621     | 3,254         | 7,700     | 1,602  | 3,234         | 4,836         | 7,334     | 1,620  | 3,261         | 4,841         | 7,207     | 1,543  | 3,049         |
| Selling expenses                        | 7,884     | 4,082         | 8,994     | 4,294         | 8,632     | 2,232  | 5,133         | 7,917         | 10,241    | 1,893  | 4,716         | 7,166         | 9,898     | 929    | 2,926         |
| Advertising expenses                    | 3,197     | 1,633         | 3,856     | 1,496         | 3,560     | 627    | 1,383         | 2,668         | 3,155     | 578    | 1,192         | 2,421         | 2,842     | 417    | 849           |
| Sales commissions                       | 2,690     | 1,641         | 3,572     | 1,894         | 3,675     | 813    | 1,819         | 2,955         | 3,701     | 831    | 1,679         | 2,271         | 2,858     | 162    | 436           |
| General expenses                        | 15,425    | 7,827         | 19,478    | 9,023         | 20,184    | 4,590  | 9,204         | 13,974        | 22,297    | 5,291  | 9,865         | 14,543        | 20,341    | 3,935  | 9,025         |
| R&D expenses                            | 8,963     | 4,748         | 12,864    | 5,832         | 13,624    | 2,888  | 5,913         | 8,907         | 15,590    | 3,274  | 6,015         | 8,762         | 12,841    | 2,173  | 5,576         |
| Depreciation & amortization             | 7,575     | 3,621         | 8,339     | 4,323         | 9,478     | 2,174  | 4,619         | 7,182         | 11,027    | 2,433  | 5,070         | 7,891         | 11,098    | 2,346  | 5,017         |
| Capital investment                      | 9,414     | 7,136         | 12,987    | 6,999         | 11,877    | 3,013  | 5,920         | 9,390         | 13,354    | 2,880  | 6,127         | 10,139        | 14,050    | 4,129  | 10,044        |

# Key Financial Indicators

## Consolidated

| (million yen)                           | FY3/2012 | FY3/2013 | FY3/2014 | FY3/2015 | FY3/2016 | FY3/2017 | Formula  |
|---|----------|----------|----------|----------|----------|----------|--|
| Net Sales                               | 95,120   | 177,111  | 181,570  | 198,605  | 214,954  | 186,218  |  |
| Operating Income                        | 20,741   | 34,434   | 36,909   | 42,870   | 38,967   | 36,599   |  |
| Ordinary Income                         | 28,282   | 35,577   | 35,405   | 42,059   | 37,444   | 35,655   |  |
| Profit attributable to owners of parent | 20,516   | 20,123   | 20,361   | 26,235   | 28,143   | 27,058   |  |
| Total Assets                            | 406,875  | 417,057  | 438,506  | 447,833  | 450,715  | 449,152  |  |
| Cash, Deposits and Securities           | 83,492   | 95,552   | 105,051  | 122,259  | 106,503  | 106,576  |  |
| Interest Bearing Debt                   | 174,220  | 172,232  | 168,506  | 156,213  | 141,935  | 132,917  |  |
| Net Assets                              | 124,826  | 141,182  | 156,502  | 178,269  | 198,873  | 217,405  |  |
| Shareholders' Equity                    | 112,792  | 128,467  | 142,772  | 163,116  | 198,841  | 217,381  |  |
| ROE                                     | 19.6%    | 16.7%    | 15.0%    | 17.2%    | 15.6%    | 13.0%    |  |
| Operating Income Ratio                  | 21.8%    | 19.4%    | 20.3%    | 21.6%    | 18.1%    | 19.7%    | Operating income/Net sales                     |
| Net Income Ratio                        | 21.6%    | 11.4%    | 11.2%    | 13.2%    | 13.1%    | 14.5%    | Net income/Net sales                           |
| Asset Turnover                          | 0.34     | 0.43     | 0.42     | 0.45     | 0.48     | 0.41     | Net sales/Total assets *1                      |
| Financial Leverage                      | 2.65     | 3.42     | 3.15     | 2.90     | 2.48     | 2.16     | Total assets/Shareholders' equity *1,2         |
| Net Debt Equity Ratio                   | 80.4%    | 65.7%    | 40.9%    | 20.8%    | 17.8%    | 12.1%    | Net interest-bearing debt/Shareholders' equity |
| Shareholders' Equity Ratio              | 27.7%    | 30.8%    | 32.6%    | 36.4%    | 44.1%    | 48.4%    | Shareholders' equity/Total assets              |

Heiwa Corporation acquired PGM Holdings K.K. on December 31, 2011 as deemed acquisition date.

\*1 Total Assets = (Total Assets at beginning of period+ Total Assets at end of period) /2

\*2 Shareholders' Equity = ( Shareholders' Equity at beginning of period+ Shareholders' Equity at end of period ) /2



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## Disclaimer

This document contains forward-looking statements concerning future plans, forecasts, targets, and estimates of Heiwa Corporation and its affiliated companies. These forward-looking statements represent assumptions and beliefs based on information currently available and involve potential risks and uncertainties. Therefore, we wish to caution you that actual results may differ materially from the forward-looking statements contained in this document due to various factors, including but not limited to, future business environment, economic conditions, and financial market conditions.