



Summary of Consolidated Financial Statements for the Third Quarter Ended December 31, 2022 (Japanese GAAP)

February 8, 2023

Name of listed company: AXELL CORPORATION Stock Exchange: Tokyo
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Scheduled date of release of Quarterly Report: February 10, 2023
Scheduled date of dividend payment: —
Availability of supplementary explanatory materials prepared for quarterly financial results: None
Briefing session on quarterly financial results to be held: None

(Figures are rounded down to the nearest million yen.)

1. Consolidated Business Results for the Third Quarter of Fiscal Year 2022 (April 1, 2022 to December 31, 2022)

(1) Consolidated Operating Results (Cumulative) (Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Q3 FY 2022	10,690	29.6	1,280	34.9	1,428	46.8	1,130	38.6
Q3 FY 2021	8,246	32.2	949	208.5	973	112.9	815	131.1

(Note) Comprehensive income: Q3 FY 2022: 1,199 million yen [59.7%] Q3 FY 2021: 751 million yen [78.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 FY 2022	104.24	104.11
Q3 FY 2021	75.43	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q3 FY 2022	13,525	11,439	83.8	1,042.96
FY 2021	12,274	10,629	86.0	974.54

(Reference) Equity capital Q3 FY 2022: 11,335 million yen FY 2021: 10,552 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2021	—	0.00	—	40.00	40.00
FY 2022	—	0.00	—		
FY 2022 (Projection)				63.00	63.00

(Note) Revision of dividend projection from recently announced figures: None

Breakdown of the dividends for fiscal year 2022 (projection): Ordinary dividend of 47 yen and commemorative dividend of 16 yen (for the 20th anniversary of public listing)

3. Consolidated Forecast Results for Fiscal Year 2022 (April 1, 2022 to March 31, 2023)

(Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	13,400	25.6	1,220	45.4	1,360	35.7	1,020	17.8	93.94

(Notes) Revision of forecast results from recently announced figures: None

*** Matters of Note**

(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): None

New inclusion: —

Exclusion: —

(2) Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements: Yes

(Note) For details, please refer to [Appendix] P. 7 “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements).”

(3) Changes to accounting policies, changes to accounting estimates, and restatements:

1) Changes to accounting policies accompanying the revision of accounting standards, etc.: Yes

2) Changes to accounting policies other than 1) above: None

3) Changes to accounting estimates: None

4) Restatements: None

(Note) For details, please refer to [Appendix] P. 7 “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes to accounting policies).”

(4) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury shares)	Q3 FY 2022	11,211,989 shares	FY 2021	11,211,989 shares
2) The number of treasury shares at end of period	Q3 FY 2022	343,474 shares	FY 2021	383,597 shares
3) Average number of common shares during period (cumulative)	Q3 FY 2022	10,844,972 shares	Q3 FY 2021	10,809,726 shares

*** These quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit firm.**

*** Explanation of appropriate use of results forecasts, other matters of note:**

(Note on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. Actual results may differ significantly from these forecasts due to various factors.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the nine months ended December 31, 2022, the Japanese economy started to show signs of normalization in socioeconomic activities with the steady spread of vaccinations against COVID-19. However, the future economic outlook still remains uncertain due to the prolonged situation in Ukraine, soaring global resource prices and concerns about inflation.

The pachinko and pachislot machine market, which is the main market for the Group, continued to face a challenging market environment due to a decline in the number of new machines sold annually, while the Company estimates that the market contraction trend has bottomed out in fiscal 2020. In addition, the Company forecasts a solid performance in fiscal 2022 as it has launched smart pachinko, slot and other next-generation amusement machines.

Under such circumstances, having undertaken measures against the spread of COVID-19, the Group worked on sales expansion for Graphics LSI products for customers in the embedded system market (Note 1), in addition to initiatives for securing stable profits in the pachinko and pachislot market, and also focused on activities for early commercialization in the following new four areas: middleware, machine learning/AI, blockchain and security. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including alliances and investments.

As a result, for the nine months ended December 31, 2022, the Company recorded net sales of 10,690 million yen, up 2,444 million yen from the same period of the previous fiscal year (year-on-year increase of 29.6%). In line with this increase in net sales, gross profit increased by 732 million yen (year-on-year increase of 26.9%) to 3,460 million yen. Selling, general and administrative expenses amounted to 2,180 million yen, an increase of 401 million yen from the same period of the previous fiscal year (year-on-year increase of 22.6%). Of this, research and development expenses accounted for 1,206 million yen, up 284 million yen (year-on-year increase of 30.9%).

Consequently, for the nine months ended December 31, 2022, the Company recorded an operating profit of 1,280 million yen, an increase of 331 million yen from the same period of the previous fiscal year (year-on-year increase of 34.9%). In addition, as a result of recording 114 million yen as subsidy income from NEDO under non-operating income, ordinary profit rose by 455 million yen (year-on-year increase of 46.8%) to 1,428 million yen, and profit attributable to owners of parent rose by 315 million yen (year-on-year increase of 38.6%) to 1,130 million yen.

The business performance by segment is as follows. In addition, besides the following segments, company-wide expenses not allocated to each segment amounted to 526 million yen.

1) LSI Business for Japanese Entertainment Machines

The LSI Business for Japanese Entertainment Machines segment deals with products for pachinko and pachislot machines, the existing businesses of the Company. For the nine months ended December 31, 2022, the Company recorded net sales of 10,183 million yen, an increase of 2,293 million yen from the same period of the previous fiscal year (year-on-year increase of 29.1%), and a segment profit of 2,094 million yen, an increase of 369 million yen from the same period of the previous fiscal year (year-on-year increase of 21.4%). Regarding the Company's mainstay products, graphics LSI products for pachinko and pachislot machines, the number of units sold increased by approximately 30,000 units from the same period of the previous fiscal year to 380,000 units. In addition, sales of memory-module products (Note 2) significantly exceeded that of the same period of the previous fiscal year thanks to a strong sales trend of customers adopting the products. Moreover, the order backlog for the segment on December 31, 2022 stood at 22,891 million yen. Note that the order backlog includes those to be sold in the next fiscal year and the year after that, reflecting the current situation where many manufacturers are proactively securing materials and components amid global semiconductor shortages.

2) Middleware (AI, Block Chain and Other) and LSI Business for New Business

This segment is a start-up business targeting the areas of middleware, machine learning/AI, block chain, and security in addition to products for embedded systems. For the nine months ended December 31, 2022, the Company recorded net sales of 507 million yen, up 150 million yen, or 42.3%, from the same period of the previous fiscal year, mainly from sales in the areas of machine learning/AI, and a segment loss of 287 million yen, down 27 million yen from 314 million yen reported in the same period of the previous fiscal year.

(Note 1) "Embedded system market" refers to the market relating to the manufacture of embedded systems, excluding pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 2) “Memory-module” refers to the mechanism of the part that retains the image data installed in the graphics-rendering circuit boards of pachinko and pachislot machines.

(2) Explanation of financial position

Total assets as of the end of the third quarter of fiscal 2022 stood at 13,525 million yen, up 1,250 million yen, or 10.2%, from the end of the previous fiscal year. Main factors contributing to this outcome included increases in trade receivables and contract asset (1,012 million yen) and merchandise and finished goods (205 million yen), despite a decrease in cash and deposits (84 million yen).

Total liabilities as of the end of the third quarter of fiscal 2022 stood at 2,085 million yen, up 440 million yen, or 26.8%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in accounts payable - trade (409 million yen).

Total net assets as of the end of the third quarter of fiscal 2022 stood at 11,439 million yen, up 809 million yen, or 7.6%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in retained earnings (697 million yen).

(3) Explanation of future forecast information such as consolidated results forecasts

Consolidated forecast results for fiscal 2022 are as described in “Notice on Revisions of Forecast Results and Dividend Forecasts” disclosed on September 21, 2022. The Company has recorded an order backlog of 22,891 million yen as of December 31, 2022 in the LSI Business for Japanese Entertainment Machines segment, which shows that recent order trends have been exceptionally favorable. In addition, regarding the consolidated results for the nine months ended December 31, 2022, profit lines from operating profit and below have already exceeded those in the full-year forecast. However, as the supply-chain disruptions in the pachinko and pachislot machine industry have continued yet, there remains continued uncertainty about the procurement of component members of pachinko and pachislot machines including the Company’s products. In consideration of these factors, the Company considers that there is no need to revise the forecast figures at this time.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(In millions of yen)	
	FY 2021 (As of March 31, 2022)	Q3 FY 2022 (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	9,097	9,013
Trade receivables and contract asset	1,039	2,051
Merchandise and finished goods	771	976
Work in process	0	0
Raw materials and supplies	0	0
Other	101	256
Allowance for doubtful accounts	(0)	(1)
Total current assets	11,010	12,296
Non-current assets		
Property, plant and equipment	105	130
Intangible assets		
Goodwill	29	20
Other	24	21
Total intangible assets	53	42
Investments and other assets	1,104	1,055
Total non-current assets	1,264	1,228
Total assets	12,274	13,525
Liabilities		
Current liabilities		
Accounts payable - trade	1,094	1,504
Income taxes payable	136	178
Provision for bonuses	—	72
Other	374	289
Total current liabilities	1,605	2,045
Non-current liabilities		
Asset retirement obligations	39	40
Total non-current liabilities	39	40
Total liabilities	1,645	2,085
Net assets		
Shareholders' equity		
Share capital	1,028	1,028
Capital surplus	882	889
Retained earnings	8,777	9,475
Treasury shares	(301)	(270)
Total shareholders' equity	10,386	11,122
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	166	212
Total accumulated other comprehensive income	166	212
Share acquisition rights	27	31
Non-controlling interests	49	72
Total net assets	10,629	11,439
Total liabilities and net assets	12,274	13,525

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statements of Income**

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2021 (From April 1, 2021 to December 31, 2021)	Q3 FY 2022 (From April 1, 2022 to December 31, 2022)
Net sales	8,246	10,690
Cost of sales	5,518	7,229
Gross profit	2,728	3,460
Selling, general and administrative expenses	1,778	2,180
Operating profit	949	1,280
Non-operating income		
Interest income	0	0
Dividend income	7	8
Gain on investments in investment partnerships	15	28
Subsidy income	–	114
Other	1	1
Total non-operating income	24	152
Non-operating expenses		
Foreign exchange losses	0	4
Other	0	0
Total non-operating expenses	0	4
Ordinary profit	973	1,428
Extraordinary income		
Gain on sale of membership	–	2
Other	–	0
Total extraordinary income	–	2
Extraordinary losses		
Impairment losses	0	2
Loss on valuation of membership	–	5
Loss on liquidation of subsidiaries	0	17
Total extraordinary losses	1	25
Profit before income taxes	971	1,405
Income taxes	154	252
Profit	817	1,153
Profit attributable to non-controlling interests	1	22
Profit attributable to owners of parent	815	1,130

Quarterly Consolidated Statements of Comprehensive Income

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2021 (From April 1, 2021 to December 31, 2021)	Q3 FY 2022 (From April 1, 2022 to December 31, 2022)
Profit	817	1,153
Other comprehensive income		
Valuation difference on available-for-sale securities	(66)	46
Total other comprehensive income	(66)	46
Comprehensive income	751	1,199
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	749	1,177
Comprehensive income attributable to non-controlling interests	1	22

(3) Notes to Quarterly Consolidated Financial Statements

(Notes regarding going concern assumption)

N/A

(Notes in cases where there are significant changes in amount of shareholders' equity)

N/A

(Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expenses)

Tax expenses have been calculated by multiplying profit before income taxes by an effective tax rate reasonably estimated after the application of tax effect accounting to profit before income taxes for the consolidated fiscal year including the third quarter of fiscal 2022.

(Changes to accounting policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter, the "Fair Value Measurement Guidance") effective from the beginning of the first quarter of fiscal 2022, and decided to adopt new accounting policies prescribed in the Fair Value Measurement Guidance in the future, pursuant to the transitional treatment specified in paragraph 27-2 of the Fair Value Measurement Guidance. This application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Accounting estimate related to the impact of the spread of COVID-19)

There are no significant changes from the tentative estimates including the future spread and ending time of COVID-19 stated under (Significant accounting estimates) in the securities report for the previous fiscal year.

(Segment information)**I Third quarter of fiscal 2021 (April 1, 2021 to December 31, 2021)****1. Information about amounts of net sales, profit and loss by reportable segment.****(In millions of yen)**

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Net sales					
Net sales to customers	7,889	356	8,246	—	8,246
Inter-segment net sales, and transfers	—	—	—	—	—
Total	7,889	356	8,246	—	8,246
Segment profit (loss)	1,725	(314)	1,410	(461)	949

(Notes) 1. The (461) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.

2. Segment profit (loss) is adjusted with operating profit in Quarterly Consolidated Statements of Income.

II Third quarter of fiscal 2022 (April 1, 2022 to December 31, 2022)**1. Information about amounts of net sales, profit and loss by reportable segment.****(In millions of yen)**

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Net sales					
Net sales to customers	10,183	507	10,690	—	10,690
Inter-segment net sales, and transfers	—	—	—	—	—
Total	10,183	507	10,690	—	10,690
Segment profit (loss)	2,094	(287)	1,807	(526)	1,280

(Notes) 1. The (526) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.

2. Segment profit (loss) is adjusted with operating profit in Quarterly Consolidated Statements of Income.

3. Others

Recent trends in quarterly business results

Fiscal Year ending March 31, 2023

(In millions of yen)

	Q1 FY 2022 From April 2022 to June 2022	Q2 FY 2022 From July 2022 to September 2022	Q3 FY 2022 From October 2022 to December 2022	Q4 FY 2022 From January 2023 to March 2023
Net sales	3,426	3,635	3,629	—
Gross profit	1,109	1,157	1,193	—
Operating profit	343	521	415	—
Ordinary profit	343	549	535	—
Profit before income taxes	346	527	531	—
Profit	298	416	438	—
Profit attributable to owners of parent	293	407	429	—
Comprehensive income	277	396	525	—
Basic earnings per share	27.12 yen	37.59 yen	39.50 yen	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,948	12,967	13,525	—
Net assets	10,475	10,899	11,439	—
Net assets per share	959.68 yen	995.15 yen	1,042.96 yen	—

Fiscal Year ended March 31, 2022

(In millions of yen)

	Q1 FY 2021 From April 2021 to June 2021	Q2 FY 2021 From July 2021 to September 2021	Q3 FY 2021 From October 2021 to December 2021	Q4 FY 2021 From January 2022 to March 2022
Net sales	2,340	2,680	3,224	2,420
Gross profit	736	856	1,134	788
Operating profit (loss)	195	309	444	(110)
Ordinary profit	198	324	449	28
Profit before income taxes	197	324	448	28
Profit	154	262	400	52
Profit attributable to owners of parent	158	263	394	50
Comprehensive income	156	226	368	71
Basic earnings per share	14.63 yen	24.34 yen	36.43 yen	4.64 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	10,790	11,062	12,195	12,274
Net assets	9,906	10,156	10,534	10,629
Net assets per share	913.12 yen	933.95 yen	967.95 yen	974.54 yen