



Summary of Financial Statements (Non-consolidated) for the Third Quarter Ended December 31, 2016 (Japanese GAAP)

January 27, 2017

Name of listed company: Axell Corporation Stock Exchange: Tokyo
Code #: 6730 URL: <http://www.axell.co.jp/>
Representative (Post): Kazunori Matsuura (President)
Inquiries (Post): Nobuhiro Sendai (Director) Phone: (03) 5298-1670
Scheduled date of release of Quarterly Report: February 10, 2017
Scheduled date of dividend payment: —
Availability of supplementary explanatory materials prepared for quarterly financial results: Available
Briefing session on quarterly financial results to be held: None

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

1. Business Results for the Third Quarter of Fiscal Year 2016 (April 1, 2016 to December 31, 2016)

(1) Operating results (cumulative)

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

	Net sales		Operating income		Ordinary income		Profit	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Q3 FY 2016	6,728	(12.8)	359	(41.2)	392	(33.6)	243	(40.5)
Q3 FY 2015	7,719	—	611	—	591	—	408	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 FY 2016	21.74	—
Q3 FY 2015	35.02	—

(Note) As quarterly financial statements were not prepared for Q3 FY 2014, rates of year-on-year increase (decrease) for Q3 FY 2015 are not stated.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q3 FY 2016	12,492	11,502	92.1	1,028.13
FY 2015	12,156	11,256	92.6	1,006.14

(Reference) Equity capital

Q3 FY 2016: 11,502 million yen

FY 2015: 11,256 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2015	—	5.00	—	5.00	10.00
FY 2016	—	0.00	—		
FY 2016 (Projection)				5.00	5.00

(Note) Revision of dividend projection from recently announced figures: Yes

For information on revision of dividend projection, please refer to “Notice of Revision of Earnings Forecast and Dividend Projection” released today (January 27, 2017).

3. Forecast Results for Fiscal Year 2016 (April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	8,000	(10.9)	100	(59.1)	120	(45.6)	70	(38.5)	6.25

(Note) Revision of forecast results from recently announced figures: Yes

For information on revision of forecast results, please refer to “Notice of Revision of Earnings Forecast and Dividend Projection” released today (January 27, 2017).

* Matters of Note

(1) Application of special accounting processes for the preparation of Financial Statements: Yes

(Note) For details, please refer to [Appendix] P. 3 “2. Matters Related to Summary Information (Matters of Note) (1) Application of special accounting processes for the preparation of Quarterly Financial Statements.”

(2) 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. 3 “2. Matters Related to Summary Information (Matters of Note) (2) Changes to accounting policies, changes to accounting estimates, and restatements.”

(3) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q3 FY 2016	11,187,749 shares	FY 2015	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q3 FY 2016	148 shares	FY 2015	0 shares
3) Average number of shares of common shares during period (cumulative)	Q3 FY 2016	11,187,620 shares	Q3 FY 2015	11,678,035 shares

* Presentation regarding execution status of quarterly review procedures

These quarterly financial statements are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. As at the time of disclosure of these quarterly financial statements, review procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* 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. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 3 “1. Qualitative Information on Quarterly Financial Results (3) Explanation of future forecast information such as results forecasts.”

(Method of obtaining supplementary explanatory materials for quarterly financial results and contents of the quarterly briefing session)

Supplementary explanatory materials on quarterly financial results are provided on TDnet on the same date.

Contents of Appendix

1. Qualitative Information on Quarterly Financial Results.....	2
(1) Explanation of business results.....	2
(2) Explanation of financial position.....	3
(3) Explanation of future forecast information such as results forecasts.....	3
2. Matters Related to Summary Information (Matters of Note).....	3
(1) Application of special accounting processes for the preparation of Quarterly Financial Statements.....	3
(2) Changes to accounting policies, changes to accounting estimates, and restatements.....	3
(3) Additional information.....	3
3. Quarterly Financial Statements.....	4
(1) Quarterly Balance Sheets.....	4
(2) Quarterly Statements of Income.....	5
(Third quarter).....	5
(3) Notes to Quarterly Financial Statements.....	6
(Notes regarding going concern assumption).....	6
(Notes in cases where there are significant changes in amount of shareholders' equity).....	6
4. Supplementary Information.....	7
(1) Production, orders and sales status.....	7
(2) Recent trends in quarterly business results.....	8

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the nine months ended December 31, 2016, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of improvements of personal consumption. However, the global economic outlook has remained uncertain due mainly to impact of volatility in the financial and capital markets, in addition to the escalation of uncertainties over the global economy such as Brexit and concerns over the rise of protectionism in European and American countries.

The pachinko and pachislot machine market, which is the primary market for the Company, continued to face a challenging environment, due to the effect of self-imposed regulations implemented by industry organizations in 2015 combined with the effect of restraint on new machine installation posed in tandem with the Ise-Shima Summit (held in May 2016), in addition to stagnation in the market resulting from the diversification of leisure, etc. Although there was a temporary demand to replace “pachinko machines whose performance may differ from the models submitted for inspection” within the fiscal year during the second and the third quarters, the market environment is anticipated to become even more challenging, as a decline is expected from the fourth quarter onwards due to the end of the replacement demand.

Under such circumstances, the Company continued to channel its energies into promoting the sale of various products targeted at the pachinko and pachislot machine market, and also focused on sales activities for Graphics LSI products (Note 2) for customers in the embedded system market (Note 1) and software IP products such as the H2MD software movie codec that allows for playback in PC and smartphone browsers.

As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 942 million yen from the previous corresponding period to 6,611 million yen (down 12.5% year-on-year). With regard to our mainstay Graphics LSI products targeted at the pachinko and pachislot machine market, sales were 740,000 units, approximately 180,000 units less compared to the previous corresponding period, reflecting sluggish market conditions. As for other products targeted at the said market, sales of LED driver LSI products (Note 3) decreased from the previous corresponding period, while sales of memory-module products increased from the previous corresponding period as a result of sales expansion of new products.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 31 million yen from the previous corresponding period (down 27.5% year-on-year) to 83 million yen due to trends in demand of manufacturers which adopt the Company's products. As for other products, including development-support software for customers, evaluation circuit boards, and software IP products such as “H2MD,” net sales decreased 15 million yen from the previous corresponding period (down 31.3% year-on-year) to 34 million yen. As a result, for the nine months ended December 31, 2016, the Company recorded net sales of 6,728 million yen, decreasing 990 million yen from the previous corresponding period (down 12.8% year-on-year).

Along with a decrease in net sales, gross profit decreased 553 million yen from the previous corresponding period (down 15.5% year-on-year) to 3,005 million yen, and gross profit ratio decreased by 1.4 percentage points to 44.7%. Selling, general and administrative expenses decreased 301 million yen from the previous corresponding period (down 10.2% year-on-year) to 2,646 million yen, resulting from a decrease in research and development expenses. Research and development expenses for the nine months ended December 31, 2016 decreased 232 million yen from the previous corresponding period (down 10.8% year-on-year) to 1,916 million yen.

Consequently, for the nine months ended December 31, 2016, the Company recorded operating income of 359 million yen (down 41.2% year-on-year) and ordinary income of 392 million yen (down 33.6% year-on-year) and profit of 243 million yen (down 40.5% year-on-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) “Graphics LSI” refers to the Company's LSI products that enable graphics to be shown on LCDs and other display devices.

(Note 3) “LED” is an acronym for “Light Emitting Diode.” It refers to semiconductor elements that emit light when electricity is applied. “LED driver LSI product” refers to the Company's LSI products designed to efficiently control LED equipped in pachinko and pachislot machines.

(2) Explanation of financial position

Total assets as of the end of the third quarter of fiscal 2016 increased 335 million yen from the end of the previous fiscal year to 12,492 million yen (up 2.8% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 861 million yen in accounts receivable - trade and the increase of 280 million yen in investments and other assets, offset by the decrease of 167 million yen in cash and deposits and the decrease of 342 million yen in merchandise and finished goods.

Total liabilities as of the end of the third quarter of fiscal 2016 increased 89 million yen from the end of the previous fiscal year to 989 million yen (up 10.0% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 109 million yen in income taxes payable, despite the decrease of 64 million yen in accounts payable - trade.

Total net assets as of the end of the third quarter of fiscal 2016 increased 245 million yen from the end of the previous fiscal year to 11,502 million yen (up 2.2% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 187 million yen in retained earnings and the increase of 58 million yen in valuation difference on available-for-sale securities.

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

With regard to full-year forecast results for fiscal 2016, changes have been made to the forecast results stated in the "Summary of Financial Statements for the Year Ended March 31, 2016" disclosed on April 25, 2016. For details, please refer to "Notice of Revision of Earnings Forecast and Dividend Projection" released today.

2. Matters Related to Summary Information (Matters of Note)

(1) Application of special accounting processes for the preparation of Quarterly 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 fiscal year including the third quarter of fiscal 2016.

(2) Changes to accounting policies, changes to accounting estimates, and restatements

Changes to accounting policies

(Application of the Practical Solution on a change in depreciation method due to Tax Reform 2016)

In line with revisions to the Corporation Tax Act, the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force ("PITF") No. 32, June 17, 2016) has been applied from the first quarter of fiscal 2016, and the method of depreciation for facilities attached to buildings acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of the above on profit or loss is insignificant.

(3) Additional information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

"Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Implementation Guidance No. 26, March 28, 2016) has been applied from the first quarter of fiscal 2016.

3. Quarterly Financial Statements**(1) Quarterly Balance Sheets**

	(In millions of yen)	
	FY 2015 (As of March 31, 2016)	Q3 FY 2016 (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	8,063	7,895
Accounts receivable - trade	465	1,327
Merchandise and finished goods	2,000	1,657
Raw materials and supplies	0	0
Other	531	189
Total current assets	11,061	11,070
Non-current assets		
Property, plant and equipment	336	369
Intangible assets	31	44
Investments and other assets	726	1,007
Total non-current assets	1,095	1,421
Total assets	12,156	12,492
Liabilities		
Current liabilities		
Accounts payable - trade	681	616
Income taxes payable	—	109
Other	161	228
Total current liabilities	843	955
Non-current liabilities		
Asset retirement obligations	34	34
Other	22	—
Total non-current liabilities	56	34
Total liabilities	900	989
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,336	9,523
Treasury shares	—	(0)
Total shareholders' equity	11,217	11,404
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	39	97
Total valuation and translation adjustments	39	97
Total net assets	11,256	11,502
Total liabilities and net assets	12,156	12,492

(2) Quarterly Statements of Income

(Third quarter)

	(In millions of yen)	
	Q3 FY 2015 (From April 1, 2015 to December 31, 2015)	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)
Net sales	7,719	6,728
Cost of sales	4,159	3,722
Gross profit	3,559	3,005
Selling, general and administrative expenses	2,948	2,646
Operating income	611	359
Non-operating income		
Dividend income	2	4
Foreign exchange gains	—	30
Other	2	5
Total non-operating income	5	40
Non-operating expenses		
Loss on investments in partnership	7	6
Other	17	0
Total non-operating expenses	25	7
Ordinary income	591	392
Profit before income taxes	591	392
Income taxes	182	149
Profit	408	243

(3) Notes to Quarterly Financial Statements

(Notes regarding going concern assumption)

N/A

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

N/A

4. Supplementary Information

(1) Production, orders and sales status

1) Production

Production results for the nine months ended December 31, 2016 are as follows:

(In millions of yen)

Classification	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)	Change (%)
LSI products for pachinko and pachislot machines	5,967	(27.5)
LSI products for embedded systems	49	(44.9)
Other	44	17.8
Total	6,061	(27.5)

- (Notes)
1. Amounts are according to sales price.
 2. Above figures are stated net of consumption taxes.

2) Orders

Orders for the nine months ended December 31, 2016 are as follows:

(In millions of yen)

Classification	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	6,530	39.7	1,788	32.4
LSI products for embedded systems	95	(20.1)	40	(2.1)
Other	37	(24.8)	3	870.9
Total	6,663	37.5	1,831	31.6

- (Notes)
1. Amounts are according to sales price.
 2. Above figures are stated net of consumption taxes.

3) Sales

Sales during the nine months ended December 31, 2016 are as follows:

(In millions of yen)

Classification	Q3 FY 2016 (From April 1, 2016 to December 31, 2016)	Change (%)
LSI products for pachinko and pachislot machines	6,611	(12.5)
LSI products for embedded systems	83	(27.5)
Other	34	(31.3)
Total	6,728	(12.8)

- (Notes)
1. Above figures are stated net of consumption taxes.
 2. Sales to the Company's main sales agent and the proportion of such sales to total sales over the past two fiscal years are as follows:

(In millions of yen)

Sales agent	Q3 FY 2015 (From April 1, 2015 to December 31, 2015)		Q3 FY 2016 (From April 1, 2016 to December 31, 2016)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	5,651	73.2	5,228	77.7

(Note) Above figures are stated net of consumption taxes.

(2) Recent trends in quarterly business results**Year ending March 31, 2017**

(In millions of yen)

	Q1 FY 2016 From April 2016 to June 2016	Q2 FY 2016 From July 2016 to September 2016	Q3 FY 2016 From October 2016 to December 2016	Q4 FY 2016 From January 2017 to March 2017
Net sales	1,696	2,314	2,718	—
Gross profit	814	1,013	1,177	—
Operating income (loss)	(33)	97	294	—
Ordinary income (loss)	(25)	89	328	—
Profit (loss) before income taxes	(25)	89	328	—
Profit (loss)	(18)	63	198	—
Profit (loss) per share	(1.64) yen	5.67 yen	17.72 yen	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,975	12,173	12,492	—
Net assets	11,193	11,296	11,502	—
Net assets per share	1,000.53 yen	1,009.74 yen	1,028.13 yen	—

Year ended March 31, 2016

(In millions of yen)

	Q1 FY 2015 From April 2015 to June 2015	Q2 FY 2015 From July 2015 to September 2015	Q3 FY 2015 From October 2015 to December 2015	Q4 FY 2015 From January 2016 to March 2016
Net sales	2,831	3,343	1,543	1,263
Gross profit	1,371	1,504	683	542
Operating income (loss)	589	182	(160)	(366)
Ordinary income (loss)	581	169	(158)	(370)
Profit (loss) before income taxes	581	169	(158)	(412)
Profit (loss)	402	116	(110)	(295)
Profit (loss) per share	32.84 yen	10.08 yen	(9.87) yen	(26.37) yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	14,829	12,538	11,999	12,156
Net assets	12,859	11,714	11,558	11,256
Net assets per share	1,076.49 yen	1,047.09 yen	1,033.12 yen	1,006.14 yen