



Summary of Consolidated Financial Statements for the Third Quarter Ended December 31, 2021 (Japanese GAAP)

February 8, 2022

Name of listed company: AXELL CORPORATION
Code #: 6730
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Scheduled date of release of Quarterly Report: February 10, 2022
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 2021 (April 1, 2021 to December 31, 2021)

(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 2021	8,246	32.2	949	208.5	973	112.9	815	131.1
Q3 FY 2020	6,237	(3.6)	307	(4.9)	457	34.1	352	6.2

(Note) Comprehensive income: Q3 FY 2021: 751 million yen [78.9%] Q3 FY 2020: 419 million yen [15.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 FY 2021	75.43	—
Q3 FY 2020	31.66	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q3 FY 2021	12,195	10,534	85.9	967.95
FY 2020	11,132	10,071	90.1	929.16

(Reference) Equity capital Q3 FY 2021: 10,474 million yen FY 2020: 10,032 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2020	—	0.00	—	31.00	31.00
FY 2021	—	0.00	—		
FY 2021 (Projection)				35.00	35.00

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

3. Consolidated Forecast Results for Fiscal Year 2021 (April 1, 2021 to March 31, 2022)

(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	10,600	17.8	770	43.5	930	31.8	750	11.9	69.36

(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 2021	11,211,989 shares	FY 2020	11,211,989 shares
2) The number of treasury shares at end of period	Q3 FY 2021	391,097 shares	FY 2020	414,552 shares
3) Average number of common shares during period (cumulative)	Q3 FY 2021	10,809,726 shares	Q3 FY 2020	11,144,446 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, 2021, the Japanese economy showed signs of recovery in socioeconomic activities as the strict restrictions on behavior were gradually relaxing with the steady spread of vaccinations against COVID-19. Nevertheless, the future economic outlook continues to be as uncertain as ever due to concerns about the spread of the infection by new variants and the impact of soaring global resource prices.

The pachinko and pachislot machine market, which is the main market for the Group, has continued to face a challenging market environment, due to a sluggish demand for new machines against the backdrop of a harsh business environment at amusement facilities. However, for fiscal 2021, the demand for replacement of machines compliant with the revised ordinance arose toward a deadline for the retirement of machines subject to the previous ordinance, according to supplementary provisions of the revised ordinance that came effect in May 2020.

Under such circumstances, having undertaken measures against the spread of COVID-19 that prioritize the safety of employees and others, 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 restructuring, alliances and investments.

As a result, for the nine months ended December 31, 2021, the Company recorded net sales of 8,246 million yen, up 2,008 million yen from the same period of the previous fiscal year (year-on-year increase of 32.2%). In line with this increase in net sales, gross profit increased by 542 million yen (year-on-year increase of 24.8%) to 2,728 million yen. Selling, general and administrative expenses amounted to 1,778 million yen, a decrease of 99 million yen from the same period of the previous fiscal year (year-on-year decrease of 5.3%). Of this, research and development expenses accounted for 921 million yen, down 169 million yen (year-on-year decrease of 15.5%).

Consequently, for the nine months ended December 31, 2021, the Company recorded an operating profit of 949 million yen, an increase of 641 million yen from the same period of the previous fiscal year (year-on-year increase of 208.5%), an ordinary profit of 973 million yen, an increase of 516 million yen (year-on-year increase of 112.9%), and a profit attributable to owners of parent of 815 million yen, an increase of 462 million yen (year-on-year increase of 131.1%).

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) effective from the beginning of the first quarter of fiscal 2021. However, the amount of financial impact is insignificant. For details, please refer to “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes to accounting policies).”

The business performance by segment is as follows. Products for embedded systems, which had been included in the “LSI Business for Embedded Systems (Including for Japanese Entertainment Machines)” segment until the previous fiscal year, have been changed to be included in the “Middleware (AI, Block Chain and Other) and LSI Business for New Business” segment effective from the first quarter of fiscal 2021, due to deeper relation to new business. Explanation of comparisons of the same period of the previous fiscal year is made based on the reportable segments reflecting this change.

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, 2021, the Company recorded net sales of 7,889 million yen, an increase of 1,935 million yen from the same period of the previous fiscal year (year-on-year increase of 32.5%), and a segment profit of 1,725 million yen, an increase of 566 million yen from the same period of the previous fiscal year (year-on-year increase of 48.9%). Regarding the Company’s mainstay products, graphics LSI products for pachinko and pachislot machines, the Company sold approximately 350,000 units, up approximately 39,000 units from the same period of the previous fiscal year. In addition, sales of memory-module products (Note 2) exceeded that of the same period of the previous fiscal year in terms of new sales, and the sales ratio of products with higher prices rose, thereby increasing sales of the products significantly. The order backlog for the segment on December 31, 2021 stood at 10,931 million yen. Note that the order backlog includes ones to be sold in the next fiscal year and beyond, reflecting the current situation where many manufacturers are proactively securing materials and components amid the tight supply and demand in the global semiconductor market.

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, 2021, the Company recorded net sales of 356 million yen, up 72 million yen, or 25.6%, from the same period of the previous fiscal year, mainly from sales in the areas of products for embedded systems and machine learning/AI, and a segment loss of 314 million yen, down 85 million yen from 399 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 2021 stood at 12,195 million yen, up 1,063 million yen, or 9.6%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in cash and deposits (1,118 million yen) and an increase in trade receivables and contract asset (241 million yen), despite a decrease in merchandise and finished goods (395 million yen).

Total liabilities as of the end of the third quarter of fiscal 2021 stood at 1,661 million yen, up 600 million yen, or 56.5%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in accounts payable - trade (343 million yen), an increase in income taxes payable (82 million yen), and an increase in other current liabilities (125 million yen).

Total net assets as of the end of the third quarter of fiscal 2021 stood at 10,534 million yen, up 463 million yen, or 4.6%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in retained earnings (482 million yen).

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

Consolidated forecast results for fiscal 2021 are as described in “Notice on Revisions of Forecast Results and Dividend Forecasts” disclosed on December 9, 2021. Regarding the consolidated results for the nine months ended December 31, 2021, profit lines from operating profit and below have already made 105% to 123% progress against those in the full-year consolidated forecast.

However, the Company has decided that it is not in a position to review its results forecast at this time for several reasons. These include the impact of the tight supply and demand in the global semiconductor market, the uncertain market environment after the demand for replacement of machines subject to the previous ordinance in the pachinko and pachislot machine market, and expected cost for prototype development of the new generation pachinko and pachislot products in the fourth quarter of fiscal 2021.

2. Quarterly Consolidated Financial Statements and Primary Notes**(1) Quarterly Consolidated Balance Sheets**

(In millions of yen)

	FY 2020 (As of March 31, 2021)	Q3 FY 2021 (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	7,913	9,031
Accounts receivable - trade	924	–
Trade receivables and contract asset	–	1,165
Merchandise and finished goods	1,076	680
Work in process	7	2
Raw materials and supplies	0	0
Other	73	124
Allowance for doubtful accounts	(0)	(0)
Total current assets	9,994	11,004
Non-current assets		
Property, plant and equipment	96	85
Intangible assets		
Goodwill	41	32
Other	14	25
Total intangible assets	56	57
Investments and other assets	985	1,047
Total non-current assets	1,138	1,191
Total assets	11,132	12,195
Liabilities		
Current liabilities		
Accounts payable - trade	756	1,099
Income taxes payable	48	130
Provision for bonuses	–	49
Other	216	342
Total current liabilities	1,021	1,621
Non-current liabilities		
Asset retirement obligations	39	39
Total non-current liabilities	39	39
Total liabilities	1,061	1,661
Net assets		
Shareholders' equity		
Share capital	1,028	1,028
Capital surplus	871	878
Retained earnings	8,245	8,727
Treasury shares	(326)	(307)
Total shareholders' equity	9,819	10,327
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	213	146
Total accumulated other comprehensive income	213	146
Share acquisition rights	15	27
Non-controlling interests	23	32
Total net assets	10,071	10,534
Total liabilities and net assets	11,132	12,195

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

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2020 (From April 1, 2020 to December 31, 2020)	Q3 FY 2021 (From April 1, 2021 to December 31, 2021)
Net sales	6,237	8,246
Cost of sales	4,051	5,518
Gross profit	2,185	2,728
Selling, general and administrative expenses	1,878	1,778
Operating profit	307	949
Non-operating income		
Interest income	0	0
Dividend income	5	7
Gain on investments in investment partnerships	27	15
Subsidy income	114	–
Other	3	1
Total non-operating income	150	24
Non-operating expenses		
Other	0	0
Total non-operating expenses	0	0
Ordinary profit	457	973
Extraordinary losses		
Impairment losses	2	0
Loss on valuation of shares of subsidiaries	1	–
Loss on liquidation of subsidiaries	–	0
Other	0	–
Total extraordinary losses	4	1
Profit before income taxes	452	971
Income taxes	101	154
Profit	350	817
Profit (loss) attributable to non-controlling interests	(2)	1
Profit attributable to owners of parent	352	815

Quarterly Consolidated Statements of Comprehensive Income

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2020 (From April 1, 2020 to December 31, 2020)	Q3 FY 2021 (From April 1, 2021 to December 31, 2021)
Profit	350	817
Other comprehensive income		
Valuation difference on available-for-sale securities	69	(66)
Total other comprehensive income	69	(66)
Comprehensive income	419	751
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	421	749
Comprehensive income attributable to non-controlling interests	(2)	1

(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

(Changes in significant subsidiaries during the period)

Although it is not a matter falling under changes in specified subsidiaries, aimRage Inc., which was a non-consolidated subsidiary during fiscal 2020, has been included in the scope of consolidation effective from the first quarter of fiscal 2021 due to an increase in significance.

(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 2021.

(Changes to accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, the "Revenue Recognition Accounting Standard"), etc. effective from the beginning of the first quarter of fiscal 2021 and decided to recognize revenue in the amount expected to be received in exchange for promised goods or services at the time when the control of these goods or services has been transferred to a customer.

As a result, regarding term-contract license fees for providing the right to use intellectual property, revenues had previously been recognized over the contract period, but for some of the fees, the revenue recognition method has been changed and thus revenues are now recognized in one lump sum at the time when a customer is allowed to use the intellectual property, based on the service contents to be provided. In addition, revenues of made-to-order software and others had previously been recognized at the time when software and others were delivered to and accepted by a customer. However, the cost recovery method has been applied, and of expenses incurred when a performance obligation is satisfied, the amount expected to be collected is recognized as revenue except for a case where a period until a performance obligation is expected to be completely fulfilled is short.

The application of the Revenue Recognition Accounting Standard, etc. is pursuant to the transitional treatment specified in the proviso of paragraph 84 of the Revenue Recognition Accounting Standard. Under the new accounting policies, the cumulative effect of retroactively applying the new accounting policies before the beginning of the first quarter of fiscal 2021 is added to or deducted from the retained earnings at the beginning of the first quarter of fiscal 2021, and the new accounting policies are applied to the balance at the beginning of the period. However, the method specified in paragraph 86 of the Revenue Recognition Accounting Standard has been applied and the new accounting policies have not been applied retroactively to contracts for which almost all of the revenues had been recognized in accordance with the previous treatment before the beginning of the first quarter of fiscal 2021. In addition, the method stipulated in item (1) of the supplementary provisions of paragraph 86 of the Revenue Recognition Accounting Standard has been applied and contract changes made before the beginning of the first quarter of fiscal 2021 are accounted for based on the contract terms that have reflected all contract changes, and their cumulative effects are added to or deducted from the retained earnings at the beginning of the first quarter of fiscal 2021.

As a result, for the nine months ended December 31, 2021, net sales decreased by 4 million yen and cost of sales decreased by 2 million yen, and operating profit, ordinary profit and profit before income taxes decreased by 2 million yen, respectively. In addition, the retained earnings balance at the beginning of the fiscal 2021 increased by 3 million yen.

Due to the application of the Revenue Recognition Accounting Standard, etc., accounts receivable – trade, which were presented under current assets in the consolidated balance sheet for the previous fiscal year, is included in trade receivables and contract asset effective from the first quarter of fiscal 2021. Pursuant to the transitional treatment stipulated in paragraph 89-2 of the Revenue Recognition Accounting Standard, reclassification based on the new presentation method is not made for the previous fiscal year. Furthermore, pursuant to the transitional treatment stipulated in paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), information on the breakdown of revenue generated from contracts with customers for the nine months ended December 31, 2020 is not presented.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter, the “Fair Value Measurement Accounting Standard”), etc. effective from the beginning of the first quarter of fiscal 2021, and decided to adopt new accounting policies prescribed in the Fair Value Measurement Accounting Standard, etc. in the future, pursuant to the transitional treatment specified in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019). 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 2020 (April 1, 2020 to December 31, 2020)

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	5,953	283	6,237	—	6,237
Inter-segment net sales, and transfers	—	—	—	—	—
Total	5,953	283	6,237	—	6,237
Segment profit (loss)	1,158	(399)	759	(451)	307

(Notes) 1. The (451) million yen adjustments to segment profit (loss) are company-wide expenses not allocated 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 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 allocated 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.

2. Matters concerning changes in reportable segments and others

Products for embedded systems, which had been included in the “LSI Business for Embedded Systems (Including for Japanese Entertainment Machines)” segment have been changed to be included in the “Middleware (AI, Block Chain and Other) and LSI Business for New Business” segment effective from the first quarter of fiscal 2021, due to deeper relation to new business.

Segment information for the nine months ended December 31, 2020 is disclosed based on the reportable segments reflecting this change.

3. Others

Recent trends in quarterly business results

Fiscal Year ending 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	—
Gross profit	736	856	1,134	—
Operating profit	195	309	444	—
Ordinary profit	198	324	449	—
Profit before income taxes	197	324	448	—
Profit	154	262	400	—
Profit attributable to owners of parent	158	263	394	—
Comprehensive income	156	226	368	—
Basic earnings per share	14.63 yen	24.34 yen	36.43 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	—
Net assets	9,906	10,156	10,534	—
Net assets per share	913.12 yen	933.95 yen	967.95 yen	—

Fiscal Year ended March 31, 2021

(In millions of yen)

	Q1 FY 2020 From April 2020 to June 2020	Q2 FY 2020 From July 2020 to September 2020	Q3 FY 2020 From October 2020 to December 2020	Q4 FY 2020 From January 2021 to March 2021
Net sales	2,564	1,697	1,975	2,762
Gross profit	938	592	654	906
Operating profit (loss)	423	(153)	37	228
Ordinary profit (loss)	425	(126)	157	248
Profit (loss) before income taxes	425	(127)	155	246
Profit (loss)	336	(105)	120	318
Profit (loss) attributable to owners of parent	338	(106)	121	317
Comprehensive income	384	(92)	128	343
Basic earnings (loss) per share	30.22 yen	(9.48) yen	10.95 yen	29.41 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	10,675	11,235	10,692	11,132
Net assets	9,988	9,918	9,724	10,071
Net assets per share	890.20 yen	881.78 yen	897.37 yen	929.16 yen