



Summary of Consolidated Financial Statements for the Year Ended March 31, 2022 (Japanese GAAP)

May 10, 2022

Name of listed company: AXELL CORPORATION
 Code #: 6730
 Representative (Post): Kazunori Matsuura (President)
 Inquiries (Post): Yoshimasa Ueno (Executive Officer, General Manager of Management Department)
 Scheduled date of shareholders' meeting: June 23, 2022
 Scheduled date of release of Securities Report: June 24, 2022
 Scheduled date of dividend payment: June 24, 2022
 Availability of supplementary explanatory materials prepared for financial results: Available
 Briefing session on financial results to be held: Yes

Stock Exchange: Tokyo

URL: <https://www.axell.co.jp/>

Phone: (03) 5298-1670

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

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

(1) Consolidated Operating Results

(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 | % |
| FY 2021 | 10,666 | 18.5 | 839 | 56.4 | 1,001 | 42.0 | 865 | 29.1 |
| FY 2020 | 8,999 | (2.9) | 536 | 36.3 | 705 | 31.8 | 670 | 43.2 |

(Note) Comprehensive income: FY 2021: 822 million yen [7.7%]

FY 2020: 763 million yen [56.0%]

| | Basic earnings per share | Diluted earnings per share | Rate of return on equity | Ordinary profit / Total assets | Operating profit / Net sales |
|---------|--------------------------|----------------------------|--------------------------|--------------------------------|------------------------------|
| | Yen | Yen | % | % | % |
| FY 2021 | 80.05 | — | 8.4 | 8.6 | 7.9 |
| FY 2020 | 60.63 | — | 6.8 | 6.3 | 6.0 |

(Reference) Equity in earnings (losses) of non-consolidated subsidiaries and affiliates: — million yen (FY 2021); — million yen (FY 2020)

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------|-----------------|-----------------|--------------|----------------------|
| | millions of yen | millions of yen | % | Yen |
| FY 2021 | 12,274 | 10,629 | 86.0 | 974.54 |
| FY 2020 | 11,132 | 10,071 | 90.1 | 929.16 |

(Reference) Equity capital

FY 2021: 10,552 million yen

FY 2020: 10,032 million yen

(3) Status of Consolidated Cash Flows

| | Operating cash flow | Investment cash flow | Financing cash flow | Cash and cash equivalent at end of year |
|---------|---------------------|----------------------|---------------------|---|
| | millions of yen | millions of yen | millions of yen | millions of yen |
| FY 2021 | 1,622 | (157) | (308) | 9,097 |
| FY 2020 | 379 | 22 | (560) | 7,913 |

2. Dividend Payments

| | Annual Dividend | | | | | Total dividend cost (Annual) | Dividend payout ratio (consolidated) | Dividend / Net assets (consolidated) |
|-------------------------|-----------------|------|-----|----------|--------|---------------------------------|---|---|
| | 1Q | 2Q | 3Q | Year-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | millions of yen | % | % |
| FY 2020 | — | 0.00 | — | 31.00 | 31.00 | 334 | 51.1 | 3.4 |
| FY 2021 | — | 0.00 | — | 40.00 | 40.00 | 433 | 50.0 | 4.2 |
| FY 2022 (Projection) | — | 0.00 | — | 40.00 | 40.00 | | 86.6 | |

(Note) The year-end dividend per share for fiscal year 2021 has been changed from 35 yen to 40 yen. For information on dividend payments, please refer to “Notice on Dividends from Surplus (Increase)” released today (May 10, 2022).

Breakdown of the dividends for fiscal year 2022 (projection): Ordinary dividend of 24 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 | 11,300 | 5.9 | 460 | (45.2) | 580 | (42.1) | 500 | (42.2) | 46.17 |

* Matters of Note

(1) Changes in significant subsidiaries during the year under review (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New inclusion: 1 (Company Name) aimRage Inc.

Exclusion: –

(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

(3) Number of shares issued (common shares)

| | | | | |
|---|---------|-------------------|---------|-------------------|
| 1) The number of shares issued at end of year (including treasury shares) | FY 2021 | 11,211,989 shares | FY 2020 | 11,211,989 shares |
| 2) The number of treasury shares at end of year | FY 2021 | 383,597 shares | FY 2020 | 414,552 shares |
| 3) Average number of common shares during year | FY 2021 | 10,813,935 shares | FY 2020 | 11,058,883 shares |

(Reference) Overview of Non-Consolidated Business Results**1. Non-Consolidated Business Results for Fiscal Year 2021 (April 1, 2021 to March 31, 2022)****(1) Non-Consolidated Operating Results**

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|---------|-----------------|-------|------------------|------|-----------------|------|-----------------|------|
| | millions of yen | % | millions of yen | % | millions of yen | % | millions of yen | % |
| FY 2021 | 10,350 | 18.2 | 849 | 52.8 | 1,013 | 39.7 | 903 | 30.0 |
| FY 2020 | 8,759 | (4.4) | 555 | 24.6 | 725 | 23.3 | 695 | 32.7 |

| | Basic earnings per share | Diluted earnings per share |
|---------|--------------------------|----------------------------|
| | Yen | Yen |
| FY 2021 | 83.52 | — |
| FY 2020 | 62.84 | — |

(2) Non-Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------|-----------------|-----------------|--------------|----------------------|
| | millions of yen | millions of yen | % | Yen |
| FY 2021 | 11,726 | 10,691 | 90.9 | 984.87 |
| FY 2020 | 11,161 | 10,128 | 90.6 | 936.58 |

(Reference) Equity capital

FY 2021: 10,664 million yen

FY 2020: 10,112 million yen

2. Non-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 | | Ordinary profit | | Profit | | Basic earnings per share |
|-----------|-----------------|-----|-----------------|--------|-----------------|--------|--------------------------|
| | millions of yen | % | millions of yen | % | millions of yen | % | Yen |
| Full Year | 10,850 | 4.8 | 570 | (43.7) | 500 | (44.6) | 46.17 |

*** These financial results are outside the scope of audit 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. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 4 “1. Overview of Business Results, etc. (4) Future outlook.”

(Method of obtaining supplementary explanatory materials and details of the briefing session on financial results)

The Company’s financial results briefing session for analysts and institutional investors is scheduled on Friday May 13, 2022. A video of the briefing as well as the explanatory materials on financial results will be posted on the Company’s website promptly after the session.

Contents of Appendix

| | |
|--|----|
| 1. Overview of Business Results, etc..... | 2 |
| (1) Overview of business results for the fiscal year under review..... | 2 |
| (2) Overview of financial position for the fiscal year under review..... | 3 |
| (3) Overview of cash flows for the fiscal year under review..... | 3 |
| (4) Future outlook..... | 4 |
| (5) Information on risks associated with COVID-19 and the situation in Ukraine | 5 |
| 2. Basic Policy on Selection of Accounting Standards..... | 5 |
| 3. Consolidated Financial Statements and Primary Notes..... | 6 |
| (1) Consolidated Balance Sheets..... | 6 |
| (2) Consolidated Statements of Income and Comprehensive Income | 8 |
| Consolidated Statements of Income..... | 8 |
| Consolidated Statements of Comprehensive Income..... | 9 |
| (3) Consolidated Statements of Changes in Net Assets..... | 10 |
| (4) Consolidated Statements of Cash Flows..... | 12 |
| (5) Notes to Consolidated Financial Statements..... | 13 |
| (Notes regarding going concern assumption)..... | 13 |
| (Changes to accounting policies) | 13 |
| (Changes in significant subsidiaries during the period)..... | 13 |
| (Segment information)..... | 14 |
| (Per share information)..... | 16 |
| (Major subsequent events)..... | 16 |
| 3. Other..... | 17 |
| Changes in Officers..... | 17 |

1. Overview of Business Results, etc.

(1) Overview of business results for the fiscal year under review

During fiscal 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 remains uncertain due to concerns about the spread of the infection by new variants and the impact of global supply-chain disruptions, semiconductor shortages and 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. The yearly sales volume for pachinko and pachislot machines, which is a measure of the market size of the Company, is estimated to have recovered to around 1.74 million units compared with 1.2 million units sold in the previous fiscal year.

Under such circumstances, while continuing measures against the spread of COVID-19 that prioritize the safety of all concerned, including employees and business partners, 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 four areas: middleware, machine learning/AI, blockchain and security, all of which are positioned as new businesses. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including restructuring, alliances and investments.

As a result, for fiscal 2021, the Company recorded net sales of 10,666 million yen, up 1,667 million yen from the previous fiscal year (year-on-year increase of 18.5%), and gross profit of 3,516 million yen, up 425 million yen from the previous fiscal year (year-on-year increase of 13.7%). Gross profit margin declined by 1.4 percentage points year-on-year to 33.0%, driven by a change in the product mix and higher unit purchase prices for some products.

Selling, general and administrative expenses amounted to 2,677 million yen, an increase of 122 million yen from the previous fiscal year (year-on-year increase of 4.8%), of which research and development expenses accounted for 1,520 million yen, up 48 million yen (year-on-year increase of 3.3%).

Consequently, for fiscal 2021, the Company recorded an operating profit of 839 million yen, an increase of 302 million yen from the previous fiscal year (year-on-year increase of 56.4%). In addition, as a result of recording 138 million yen as subsidy income from NEDO under non-operating income, ordinary profit rose by 296 million yen (year-on-year increase of 42.0%) to 1,001 million yen, and profit attributable to owners of parent rose by 195 million yen (year-on-year increase of 29.1%) to 865 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 623 million yen. 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 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 fiscal 2021, the Company recorded net sales of 10,144 million yen, an increase of 1,561 million yen from the previous fiscal year (year-on-year increase of 18.2%), and a segment profit of 2,007 million yen, an increase of 352 million yen from the previous fiscal year (year-on-year increase of 21.3%). By product, for graphics LSI products for pachinko and pachislot machines, the Company’s mainstay products, the Company sold approximately 440,000 units, up approximately 40,000 units from the same period of the previous fiscal year. 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 March 31, 2022 stood at 12,957 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 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 graphics LSI products for embedded systems. For fiscal 2021, the Company recorded net sales of 522 million yen, up 105 million yen, or 25.3%, from the previous fiscal year, mainly from sales in the areas of middleware and machine learning/AI, and a segment loss of 545 million yen, up 50 million yen from a loss of 495 million yen reported in the previous fiscal year. For fiscal 2021, the development support business in the area of machine learning/AI grew significantly.

(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) Overview of financial position for the fiscal year under review

Total assets as of the end of fiscal 2021 stood at 12,274 million yen, up 1,142 million yen, or 10.3%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in cash and deposits (1,184 million yen), an increase in trade receivables and contract asset (114 million yen) and an increase in investment securities (51 million yen), despite a decrease in merchandise and finished goods (304 million yen).

Total liabilities as of the end of fiscal 2021 stood at 1,645 million yen, up 583 million yen, or 55.0%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in accounts payable – trade (337 million yen), an increase in income taxes payable (87 million yen) and an increase in accrued consumption taxes (72 million yen).

Total net assets as of the end of fiscal 2021 stood at 10,629 million yen, up 558 million yen, or 5.5%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in retained earnings (532 million yen).

(3) Overview of cash flows for the fiscal year under review

Cash and cash equivalents (hereinafter “funds”) as of the end of fiscal 2021 amounted to 9,097 million yen. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities for fiscal 2021 amounted to 1,622 million yen (compared with funds provided of 379 million yen in fiscal 2020). This was mainly attributable to factors such as profit before income taxes (1,000 million yen), the decrease in inventories (311 million yen) and the increase in trade payables (337 million yen), despite the increase in trade receivables (114 million yen) and income taxes paid (72 million yen).

(Cash flows from investing activities)

Funds used in investing activities for fiscal 2021 amounted to 157 million yen (compared with funds provided of 22 million yen in fiscal 2020). This was mainly attributable to factors such as proceeds from distributions from investment partnerships (34 million yen), despite the purchase of property, plant and equipment (14 million yen), the purchase of intangible assets (17 million yen), the purchase of investment securities (137 million yen) and the payments of leasehold and guarantee deposits (19 million yen).

(Cash flows from financing activities)

Funds used in financing activities for fiscal 2021 amounted to 308 million yen (compared with funds used of 560 million yen in fiscal 2020). This was mainly attributable to factors such as dividends paid (334 million yen).

(Cash flow-related indicators)

| | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|---------|---------|---------|---------|---------|
| Ratio of shareholders' equity to total assets (%) | 87.6 | 96.0 | 88.0 | 90.1 | 86.0 |
| Ratio of market capitalization to total assets (%) | 85.1 | 63.7 | 63.9 | 95.6 | 93.9 |
| Ratio of interest-bearing liabilities to cash flow (%) | — | — | — | — | — |
| Interest coverage ratio (%) | — | — | — | — | — |

The indicators for fiscal 2019, fiscal 2020 and fiscal 2021 were calculated using financial figures on a consolidated basis.

Ratio of shareholders' equity to total assets: Shareholders' equity / total assets

Ratio of market capitalization to total assets: Market capitalization of stock / total assets

Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities / cash flow

Interest coverage ratio: Cash flow / interest expense

(Note 1) The market capitalization of stock was calculated based on the number of shares issued and outstanding, excluding treasury stock.

(Note 2) Operating cash flow is used for "cash flow" in the above calculations.

(Note 3) "Interest-bearing liabilities" in the above calculation refers to all liabilities recorded on the balance sheets for which the Company pays interests.

(4) Future outlook

The pachinko and pachislot machine market for fiscal 2022 is expected to see a short-term decline as a backlash against replacement demand for machines compliant with the revised ordinance following the retirement of machines subject to the previous ordinance. However, the Company forecasts yearly sales volume of new machines to remain solid, given the scheduled release of next-generation amusement machines called smart pachinko and smart slot. Taking into consideration this situation and as a result of conducting market analysis including interviews with customers, the Company has estimated yearly sales volume for pachinko and pachislot machines during fiscal 2022 to be 1,600,000 units (estimated around 1,740,000 units for fiscal 2021) as the basis for calculating its earnings forecasts.

As for the Company's mainstay graphics LSI products targeted at the pachinko and pachislot machine market, the Company has made plans to sell 450,000 units, almost flat year-on-year, based on its assumptions on the market size as well as analysis including interviews with customers. As for other products targeted at the pachinko and pachislot machine market, the Company expects the sales of memory-module products to be almost flat year-on-year, and the sales of LED driver product to exceed that of the previous fiscal year in anticipation of expected demand from customers adopting these products.

As for products targeted at the embedded system market, the Company expects sales of approximately 54,000 units for graphics LSI products (actual sales in the previous fiscal year of 51,000 units) in light of trends in customer demand. In addition, the Company plans substantially greater sales than the previous fiscal year in the four areas positioned as new businesses in anticipation of a growth in business mainly in the area of machine learning/AI.

Based on the foregoing analysis, the Company's net sales for fiscal 2022 are forecast to increase by 633 million yen from the previous fiscal year to 11,300 million yen (up 5.9% year-on-year). Gross profit is expected to decrease by 186 million yen from the previous fiscal year to 3,330 million yen (down 5.3% year-on-year). Gross profit margin is forecast to decline by 3.5 percentage points year-on-year to 29.5%, due to the impact of the product mix as well as revision of the unit purchase prices for some products in response to the recent tight supply and demand situation for semiconductors. Although selling prices were revised for some products along with the revision of the unit purchase prices, gross profit margin is forecast to drop temporarily, as the higher unit purchase prices will not be fully absorbed by the revised selling prices.

In addition, selling, general and administrative expenses are projected to increase by 192 million yen from the previous fiscal year to 2,870 million yen (up 7.2% year-on-year), in anticipation of a rise in fixed expenses mainly attributable to Group companies, due to commencement of full-fledged operation of aimRage Inc., and scale expansion of ax Inc.

Based on the above financial projections, the Company's forecasts for fiscal 2022 are for operating profit to decrease by 379 million yen from the previous fiscal year to 460 million yen (down 45.2% year-on-year), ordinary profit to decrease by 421 million yen from the previous fiscal year to 580 million yen (down 42.1%

year-on-year), and profit attributable to owners of parent to decrease by 365 million yen from the previous fiscal year to 500 million yen (down 42.2% year-on-year).

(5) Information on risks associated with COVID-19 and the situation in Ukraine

The current semiconductor industry has continued to face global supply shortages, due to the impact of supply-chain disruptions stemming from COVID-19 as well as strong demand mainly from automotive industry. In addition, soaring crude oil and raw material prices caused by the Russia-Ukraine situation have been driving up the cost of manufacturing. Although the Group has been working to pass the costs on to selling prices, its business results may be affected by the lingering impacts, if higher manufacturing costs will not be fully passed on to selling prices, or lost profit opportunities become materialized due to prolonged product manufacturing lead times.

(Note) All forward-looking statements contained herein are based on information currently available to the Company and certain assumptions deemed to be reasonable by the Company, and are subject to a number of uncertainties. The Company does not give assurances that these statements will come to fruition. Please be aware that actual results may differ significantly from these forecasts due to various factors.

2. Basic Policy on Selection of Accounting Standards

In view of the Company's financial statements being utilized for calculation of possible dividend amounts under the Companies Act and calculation of taxation amounts for income taxes, concerning accounting standards, the Group applies Japanese accounting standards.

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

(In millions of yen)

| | FY 2020 (As of March 31, 2021) | FY 2021 (As of March 31, 2022) |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,913 | 9,097 |
| Accounts receivable - trade | 924 | – |
| Trade receivables and contract asset | – | 1,039 |
| Merchandise and finished goods | 1,076 | 771 |
| Work in process | 7 | 0 |
| Raw materials and supplies | 0 | 0 |
| Other | 73 | 101 |
| Allowance for doubtful accounts | (0) | (0) |
| Total current assets | 9,994 | 11,010 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 188 | 200 |
| Accumulated depreciation | (124) | (130) |
| Buildings, net | 63 | 70 |
| Tools, furniture and fixtures | 937 | 959 |
| Accumulated depreciation | (905) | (924) |
| Tools, furniture and fixtures, net | 32 | 34 |
| Total property, plant and equipment | 96 | 105 |
| Intangible assets | | |
| Goodwill | 41 | 29 |
| Other | 14 | 24 |
| Total intangible assets | 56 | 53 |
| Investments and other assets | | |
| Investment securities | 783 | 834 |
| Deferred tax assets | 40 | 85 |
| Other | 161 | 184 |
| Total investments and other assets | 985 | 1,104 |
| Total non-current assets | 1,138 | 1,264 |
| Total assets | 11,132 | 12,274 |

(In millions of yen)

| | FY 2020 (As of March 31, 2021) | FY 2021 (As of March 31, 2022) |
|---|-----------------------------------|-----------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 756 | 1,094 |
| Income taxes payable | 48 | 136 |
| Accrued consumption taxes | 37 | 109 |
| Other | 179 | 265 |
| Total current liabilities | 1,021 | 1,605 |
| Non-current liabilities | | |
| Asset retirement obligations | 39 | 39 |
| Total non-current liabilities | 39 | 39 |
| Total liabilities | 1,061 | 1,645 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 1,028 | 1,028 |
| Capital surplus | 871 | 882 |
| Retained earnings | 8,245 | 8,777 |
| Treasury shares | (326) | (301) |
| Total shareholders' equity | 9,819 | 10,386 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 213 | 166 |
| Total accumulated other comprehensive income | 213 | 166 |
| Share acquisition rights | 15 | 27 |
| Non-controlling interests | 23 | 49 |
| Total net assets | 10,071 | 10,629 |
| Total liabilities and net assets | 11,132 | 12,274 |

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

| | (In millions of yen) | |
|---|--|--|
| | FY 2020 (From April 1, 2020 to March 31, 2021) | FY 2021 (From April 1, 2021 to March 31, 2022) |
| Net sales | 8,999 | 10,666 |
| Cost of sales | 5,907 | 7,150 |
| Gross profit | 3,091 | 3,516 |
| Selling, general and administrative expenses | 2,555 | 2,677 |
| Operating profit | 536 | 839 |
| Non-operating income | | |
| Interest income | 0 | 0 |
| Dividend income | 5 | 7 |
| Subsidy income | 119 | 138 |
| Gain on investments in investment partnerships | 42 | 16 |
| Other | 3 | 1 |
| Total non-operating income | 170 | 164 |
| Non-operating expenses | | |
| Other | 1 | 1 |
| Total non-operating expenses | 1 | 1 |
| Ordinary profit | 705 | 1,001 |
| Extraordinary losses | | |
| Impairment losses | 2 | 0 |
| Loss on valuation of shares of subsidiaries | 1 | — |
| Loss on liquidation of subsidiaries | 1 | 0 |
| Other | 0 | — |
| Total extraordinary losses | 6 | 1 |
| Profit before income taxes | 699 | 1,000 |
| Income taxes - current | 77 | 155 |
| Income taxes - deferred | (47) | (24) |
| Total income taxes | 30 | 130 |
| Profit | 669 | 869 |
| Profit (loss) attributable to non-controlling interests | (1) | 3 |
| Profit attributable to owners of parent | 670 | 865 |

Consolidated Statements of Comprehensive Income

| | (In millions of yen) | |
|--|--|--|
| | FY 2020 (From April 1, 2020 to March 31, 2021) | FY 2021 (From April 1, 2021 to March 31, 2022) |
| Profit | 669 | 869 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 94 | (47) |
| Total other comprehensive income | 94 | (47) |
| Comprehensive income | 763 | 822 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 765 | 818 |
| Comprehensive income attributable to non-controlling interests | (1) | 3 |

(3) Consolidated Statements of Changes in Net Assets

FY 2020 (From April 1, 2020 to March 31, 2021)

(In millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 1,018 | 861 | 7,809 | (0) | 9,690 |
| Cumulative effects of changes in accounting policies | | | | | — |
| Restated balance | 1,018 | 861 | 7,809 | (0) | 9,690 |
| Changes during period | | | | | |
| Issuance of new shares | 9 | 9 | | | 19 |
| Dividends of surplus | | | (234) | | (234) |
| Profit attributable to owners of parent | | | 670 | | 670 |
| Purchase of treasury shares | | | | (326) | (326) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | 9 | 9 | 435 | (326) | 129 |
| Balance at end of period | 1,028 | 871 | 8,245 | (326) | 9,819 |

| | Accumulated other comprehensive income | | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 118 | 118 | 3 | 24 | 9,836 |
| Cumulative effects of changes in accounting policies | | | | | — |
| Restated balance | 118 | 118 | 3 | 24 | 9,836 |
| Changes during period | | | | | |
| Issuance of new shares | | | | | 19 |
| Dividends of surplus | | | | | (234) |
| Profit attributable to owners of parent | | | | | 670 |
| Purchase of treasury shares | | | | | (326) |
| Net changes in items other than shareholders' equity | 94 | 94 | 12 | (1) | 105 |
| Total changes during period | 94 | 94 | 12 | (1) | 234 |
| Balance at end of period | 213 | 213 | 15 | 23 | 10,071 |

FY 2021 (From April 1, 2021 to March 31, 2022)

(In millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 1,028 | 871 | 8,245 | (326) | 9,819 |
| Cumulative effects of changes in accounting policies | | | 3 | | 3 |
| Restated balance | 1,028 | 871 | 8,248 | (326) | 9,822 |
| Changes during period | | | | | |
| Dividends of surplus | | | (334) | | (334) |
| Profit attributable to owners of parent | | | 865 | | 865 |
| Purchase of treasury shares | | | | (0) | (0) |
| Disposal of treasury shares | | 4 | | 24 | 29 |
| Change in scope of consolidation | | | (1) | | (1) |
| Capital increase of consolidated subsidiaries | | 5 | | | 5 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | — | 10 | 529 | 24 | 564 |
| Balance at end of period | 1,028 | 882 | 8,777 | (301) | 10,386 |

| | Accumulated other comprehensive income | | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|--|--------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 213 | 213 | 15 | 23 | 10,071 |
| Cumulative effects of changes in accounting policies | | | | 0 | 3 |
| Restated balance | 213 | 213 | 15 | 23 | 10,074 |
| Changes during period | | | | | |
| Dividends of surplus | | | | | (334) |
| Profit attributable to owners of parent | | | | | 865 |
| Purchase of treasury shares | | | | | (0) |
| Disposal of treasury shares | | | | | 29 |
| Change in scope of consolidation | | | | | (1) |
| Capital increase of consolidated subsidiaries | | | | | 5 |
| Net changes in items other than shareholders' equity | (47) | (47) | 11 | 26 | (9) |
| Total changes during period | (47) | (47) | 11 | 26 | 554 |
| Balance at end of period | 166 | 166 | 27 | 49 | 10,629 |

(4) Consolidated Statements of Cash Flows

(In millions of yen)

| | FY 2020 (From April 1, 2020 to March 31, 2021) | FY 2021 (From April 1, 2021 to March 31, 2022) |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 699 | 1,000 |
| Depreciation | 48 | 33 |
| Amortization of goodwill | 11 | 11 |
| Impairment losses | 2 | 0 |
| Increase (decrease) in allowance for doubtful accounts | 0 | 0 |
| Share-based payment expenses | 27 | 33 |
| Interest and dividend income | (5) | (7) |
| Loss (gain) on investments in investment partnerships | (42) | (16) |
| Decrease (increase) in trade receivables | (62) | (114) |
| Decrease (increase) in inventories | (2) | 311 |
| Decrease (increase) in other current assets | 20 | (15) |
| Increase (decrease) in trade payables | 93 | 337 |
| Increase (decrease) in other current liabilities | (123) | 72 |
| Increase/decrease in consumption taxes payable/consumption taxes refund receivable | (165) | 75 |
| Other, net | 9 | (35) |
| Subtotal | 510 | 1,687 |
| Interest and dividends received | 5 | 7 |
| Income taxes refund (paid) | (136) | (72) |
| Net cash provided by (used in) operating activities | 379 | 1,622 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (10) | (14) |
| Purchase of intangible assets | (1) | (17) |
| Purchase of investment securities | (56) | (137) |
| Purchase of shares of subsidiaries and associates | (21) | — |
| Proceeds from distributions from investment partnerships | 111 | 34 |
| Payments of leasehold and guarantee deposits | — | (19) |
| Other, net | (0) | (3) |
| Net cash provided by (used in) investing activities | 22 | (157) |
| Cash flows from financing activities | | |
| Purchase of treasury shares | (326) | — |
| Dividends paid | (234) | (334) |
| Proceeds from share issuance to non-controlling shareholders | — | 19 |
| Other, net | (0) | 5 |
| Net cash provided by (used in) financing activities | (560) | (308) |
| Effect of exchange rate change on cash and cash equivalents | (0) | 0 |
| Net increase (decrease) in cash and cash equivalents | (158) | 1,155 |
| Cash and cash equivalents at beginning of period | 8,071 | 7,913 |
| Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation | — | 28 |
| Cash and cash equivalents at end of period | 7,913 | 9,097 |

(5) Notes to Consolidated Financial Statements

(Notes regarding going concern assumption)

N/A

(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 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 fiscal 2021 is added to or deducted from the retained earnings at the beginning 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 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 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 fiscal 2021.

Furthermore, 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 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.

As a result, net sales decreased by 7 million yen and cost of sales decreased by 4 million yen, and operating profit, ordinary profit and profit before income taxes decreased by 2 million yen, respectively, in the consolidated statements of income for fiscal 2021 compared with the figures before the application of the Revenue Recognition Accounting Standard, etc.

Reflecting the cumulative effects in net assets at the beginning of fiscal 2021, the retained earnings balance at the beginning of fiscal 2021 increased by 3 million yen in the consolidated statements of changes in net assets.

(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 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 consolidated financial statements.

(Changes in significant subsidiaries during the period)

aimRage Inc., which was a non-consolidated subsidiary during fiscal 2020, has been included in the scope of consolidation effective from fiscal 2021 due to an increase in significance.

(Segment information)**1. Outline of reportable segments**

The Group's reportable segments are the components of the Group's organization for which separate financial information is available and for which the Board of Directors regularly conducts a review for the purpose of making decisions about resources to be allocated to the segments and assess the segments' performance.

The Group's main business is the LSI Business for Japanese Entertainment Machines segment, an existing business. However, the Middleware (AI, Block Chain and Other) and LSI Business for New Business segment, which will support the growth of the Company from now on, is now also recognized as a reportable segment. The LSI Business for Japanese Entertainment Machines segment consists of development and sales of products for pachinko and pachislot machines. The Middleware (AI, Block Chain and Other) and LSI Business for New Business segment consists of development and sales of products for embedded systems, and product development and sales, as well as solution provision, in the areas of middleware, machine learning/AI, blockchain, and security.

Products for embedded systems, which had been included in the "LSI Business 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 fiscal 2021, due to deeper relation to new business.

Segment information for fiscal 2020 is disclosed based on the reportable segments for fiscal 2021.

2. Methods for calculating net sales, profit and loss, assets, liabilities, and amounts of other items by reportable segment

Methods of accounting used for the reportable business segments comply with the accounting policies adopted to prepare the consolidated financial statements.

Profit or loss figures for the reportable segments are on an operating profit basis.

3. Information about amounts of net sales, profit and loss, assets, liabilities, and other items by reportable segment

FY 2020 (April 1, 2020 to March 31, 2021)

(In millions of yen)

| | Reportable segment | | Total | Adjustments (Note 1) | Amount recorded in 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 | 8,583 | 416 | 8,999 | - | 8,999 |
| Inter-segment net sales, and transfers | - | - | - | - | - |
| Total | 8,583 | 416 | 8,999 | - | 8,999 |
| Segment profit (loss) | 1,655 | (495) | 1,159 | (623) | 536 |
| Other items | | | | | |
| Depreciation | 26 | 11 | 38 | 10 | 49 |
| Amortization of goodwill | - | 11 | 11 | - | 11 |
| Impairment loss | - | 2 | 2 | - | 2 |

(Notes) 1. The (623) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general expenses not attributable to reportable segments.

2. Segment profit (loss) is adjusted with operating profit in Consolidated Financial Statements.

3. Assets and liabilities are not presented as they are not distributed to business segments, while depreciation is distributed to each segment based on reasonable standards.

FY 2021 (April 1, 2021 to March 31, 2022)

(In millions of yen)

| | Reportable segment | | Total | Adjustments (Note 1) | Amount recorded in 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 | 10,144 | 522 | 10,666 | - | 10,666 |
| Inter-segment net sales, and transfers | - | - | - | - | - |
| Total | 10,144 | 522 | 10,666 | - | 10,666 |
| Segment profit (loss) | 2,007 | (545) | 1,462 | (623) | 839 |
| Other items | | | | | |
| Depreciation | 18 | 6 | 25 | 8 | 33 |
| Amortization of goodwill | - | 11 | 11 | - | 11 |
| Impairment loss | - | 0 | 0 | - | 0 |

- (Notes)
1. The (623) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general expenses not attributable to reportable segments.
 2. Segment profit (loss) is adjusted with operating profit in Consolidated Financial Statements.
 3. Assets and liabilities are not presented as they are not distributed to business segments, while depreciation is distributed to each segment based on reasonable standards.

(Per share information)

| | FY 2020 (From April 1, 2020 to March 31, 2021) | FY 2021 (From April 1, 2021 to March 31, 2022) |
|--------------------------|--|--|
| Net assets per share | 929.16 yen | 974.54 yen |
| Basic earnings per share | 60.63 yen | 80.05 yen |

(Notes) 1. Diluted earnings per share is omitted because there were no residual shares with dilutive effects.

2. The basis of calculation of the net assets per share is as follows:

| | FY 2020 (As of March 31, 2021) | FY 2021 (As of March 31, 2022) |
|---|-----------------------------------|-----------------------------------|
| Total amount of net assets (millions of yen) | 10,071 | 10,629 |
| Amount to be deducted from the total amount of net assets (millions of yen) | 38 | 76 |
| (Of which, share acquisition rights (millions of yen)) | (15) | (27) |
| (Of which, non-controlling interests (millions of yen)) | (23) | (49) |
| Net assets as of the end of the period associated with common stock (millions of yen) | 10,032 | 10,552 |
| Number of common stock as of the end of the period used for calculating the net assets per share (shares) | 10,797,437 | 10,828,392 |

3. The basis of calculation of the basic earnings per share and diluted earnings per share is as follows:

| | FY 2020 (From April 1, 2020 to March 31, 2021) | FY 2021 (From April 1, 2021 to March 31, 2022) |
|---|---|---|
| Basic earnings per share | | |
| Profit attributable to owners of parent (millions of yen) | 670 | 865 |
| Amount not attributable to common shareholders (millions of yen) | — | — |
| Profit attributable to owners of parent on common stock (millions of yen) | 670 | 865 |
| Average number of shares of common stock during the period (shares) | 11,058,883 | 10,813,935 |
| | | |
| Diluted earnings per share | | |
| Adjustments of profit attributable to owners of parent (millions of yen) | — | — |
| Increase in number of shares of common stock (shares) | — | — |
| Outline of residual shares not included in the calculation of diluted earnings per share due to not having dilutive effects | The Company 2019 Share Acquisition Rights Common stock: 83,000 shares | The Company 2019 Share Acquisition Rights Common stock: 75,500 shares 2021 Share Acquisition Rights Common stock: 52,900 shares |

(Major subsequent events)

N/A

4. Other

Changes in Officers

1) Change in Representative Directors

| Name | New position | Current position |
|-------------------|-------------------------------------|--|
| Kazunori Matsuura | Chairman & Representative Director | President & Representative Director |
| Akihiro Saito | President & Representative Director | Executive Vice President & Representative Director |

2) Change in other Officers

• Directors to be promoted

| Name | New position | Current position |
|----------------|---|---|
| Kazuki Kyakuno | Managing Director & General Manager of Business Development Division Supervising Algorithm Team of Engineering Department | Director & General Manager of Strategic Planning Section Supervising Algorithm Team of Engineering Department |

• Candidates for newly appointed Directors (excluding Directors serving as Audit and Supervisory Committee members)

| Name | New position | Current position |
|-------------------|--|---|
| Takaomi Kishimoto | Director & General Manager of Sales & Marketing Department | Executive Officer & General Manager of Sales & Marketing Department |
| Atsushi Kikuchi | Director & General Manager of Engineering Department | Executive Officer & General Manager of Engineering Department |

• Director to retire

| Name | Current position |
|------------|--|
| Koji Kanie | Director & General Manager of Information Security Section |

3) Scheduled date of appointment and retirement

June 23, 2022