



Summary of Consolidated Financial Statements for the First Quarter Ended June 30, 2022 (Japanese GAAP)

August 10, 2022

Name of listed company:	AXELL CORPORATION	Stock Exchange: Tokyo
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Scheduled date of release of Quarterly Report:	August 12, 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 First Quarter of Fiscal Year 2022 (April 1, 2022 to June 30, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
Q1 FY 2022	3,426	46.4	343	76.1	343	72.9	293	85.9
Q1 FY 2021	2,340	(8.7)	195	(53.9)	198	(53.3)	158	(53.3)
(Note) Comprehensive income:	Q1 FY 2022: 277 million yen [76.9%]				Q1 FY 2021: 156 million yen [(59.2)%]			
	Basic earnings per share		Diluted earnings per share					
	Yen		Yen					
Q1 FY 2022	27.12		—					
Q1 FY 2021	14.63		14.63					

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q1 FY 2022	11,948	10,475	87.0	959.68
FY 2021	12,274	10,629	86.0	974.54
(Reference) Equity capital	Q1 FY 2022: 10,391 million yen			FY 2021: 10,552 million yen

2. Dividend Payments

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

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

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
Full Year	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
	11,300	5.9	460	(45.2)	580	(42.1)	500	(42.2)	46.17

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

The consolidated forecast results for the first half of the fiscal year 2022 are not presented as the future outlook of the pachinko and pachislot machine market remains uncertain due to global supply chain disruptions and other factors.

* 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)	Q1 FY 2022	11,211,989 shares	FY 2021	11,211,989 shares
2) The number of shares of treasury shares at end of period	Q1 FY 2022	383,597 shares	FY 2021	383,597 shares
3) Average number of common shares during period (cumulative)	Q1 FY 2022	10,828,392 shares	Q1 FY 2021	10,797,423 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 three months ended June 30, 2022, the Japanese economy started to show signs of normalization in socioeconomic activities with the steady spread of vaccinations against COVID-19, although the pandemic remained far from being under control. In addition, the future economic outlook remains uncertain due to concerns about the spread of the infection by new variants, semiconductor shortages, soaring global resource prices and inflation.

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 decline in the number of new machines sold annually, while the Company estimates that the market contraction trend has bottomed out in fiscal 2020. In addition, the Company forecasts a solid performance in fiscal 2022 as it plans to launch smart pachinko, slot and other next-generation amusement machines.

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

As a result, for the three months ended June 30, 2022, the Company recorded net sales of 3,426 million yen, up 1,085 million yen from the same period of the previous fiscal year (year-on-year increase of 46.4%). In line with this increase in net sales, gross profit increased by 373 million yen (year-on-year increase of 50.7%) to 1,109 million yen. Gross profit margin improved by 0.9 percentage points year-on-year to 32.4%. Selling, general and administrative expenses amounted to 766 million yen, an increase of 224 million yen from the same period of the previous fiscal year (year-on-year increase of 41.5%). Of this, research and development expenses accounted for 456 million yen, up 194 million yen (year-on-year increase of 74.4%).

Consequently, for the three months ended June 30, 2022, the Company recorded an operating profit of 343 million yen, an increase of 148 million yen from the same period of the previous fiscal year (year-on-year increase of 76.1%), an ordinary profit of 343 million yen, an increase of 144 million yen (year-on-year increase of 72.9%), and a profit attributable to owners of parent of 293 million yen, an increase of 135 million yen (year-on-year increase of 85.9%).

The business performance by segment is as follows. In addition, besides the following segments, company-wide expenses not allocated to each segment amounted to 163 million yen.

1) LSI Business for Japanese Entertainment Machines

The LSI Business for Japanese Entertainment Machines segment deals with products for pachinko and pachislot machines, the existing businesses of the Company. For the three months ended June 30, 2022, the Company recorded net sales of 3,278 million yen, an increase of 1,043 million yen from the same period of the previous fiscal year (year-on-year increase of 46.7%), and a segment profit of 583 million yen, an increase of 124 million yen from the same period of the previous fiscal year (year-on-year increase of 27.0%). Regarding the Company's mainstay products, graphics LSI products for pachinko and pachislot machines, the number of units sold remained largely flat from the same period of the previous fiscal year at 106,000 units, while sales of memory-module products (Note 2) significantly exceeded that of the same period of the previous fiscal year. Moreover, the order backlog for the segment on June 30, 2022 stood at 13,805 million yen. Note that the order backlog includes those to be sold in the next fiscal year and beyond, reflecting the current situation where many manufacturers are proactively securing materials and components amid global semiconductor shortages.

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

This segment is a start-up business targeting the areas of middleware, machine learning/AI, block chain, and security in addition to products for embedded systems. For the three months ended June 30, 2022, the Company recorded net sales of 147 million yen, up 41 million yen, or 39.6%, from the same period of the previous fiscal year, mainly from sales in the areas of machine learning/AI, and a segment loss of 76 million yen, down 36 million yen from 112 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 first quarter of fiscal 2022 stood at 11,948 million yen, down 325 million yen, or 2.7%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in cash and deposits (685 million yen), despite increases in trade receivables and contract asset (243 million yen) and merchandise and finished goods (157 million yen).

Total liabilities as of the end of the first quarter of fiscal 2022 stood at 1,473 million yen, down 171 million yen, or 10.4%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in income taxes payable (89 million yen) despite an increase in accounts payable – trade (33 million yen).

Total net assets as of the end of the first quarter of fiscal 2022 stood at 10,475 million yen, down 154 million yen, or 1.5%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in retained earnings (139 million yen).

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

Consolidated forecast results for fiscal 2022 are as described in “Summary of Consolidated Financial Statements for the Year Ended March 31, 2022 (Japanese GAAP)” disclosed on May 10, 2022. Regarding the consolidated results for the three months ended June 30, 2022, the Company has recorded solid performance, achieving 75% of the operating profit target in the full-year consolidated results forecast and recording an order backlog of 13,805 million yen as of June 30, 2022 in the LSI Business for Japanese Entertainment Machines segment, which is the Company’s main business. However, in consideration of the impact of the global supply-chain disruptions on the production of the Company’s products and purchasing risks of other materials of our customers, the Company considers that there is no need to actively revise the forecast figures at this time.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

	(In millions of yen)	
	FY 2021 (As of March 31, 2022)	Q1 FY 2022 (As of June 30, 2022)
Assets		
Current assets		
Cash and deposits	9,097	8,411
Trade receivables and contract asset	1,039	1,283
Merchandise and finished goods	771	928
Work in process	0	0
Raw materials and supplies	0	0
Other	101	108
Allowance for doubtful accounts	(0)	(1)
Total current assets	11,010	10,732
Non-current assets		
Property, plant and equipment	105	107
Intangible assets		
Goodwill	29	26
Other	24	24
Total intangible assets	53	51
Investments and other assets	1,104	1,057
Total non-current assets	1,264	1,216
Total assets	12,274	11,948
Liabilities		
Current liabilities		
Accounts payable - trade	1,094	1,127
Income taxes payable	136	46
Provision for bonuses	–	12
Other	374	246
Total current liabilities	1,605	1,433
Non-current liabilities		
Asset retirement obligations	39	40
Total non-current liabilities	39	40
Total liabilities	1,645	1,473
Net assets		
Shareholders' equity		
Share capital	1,028	1,028
Capital surplus	882	882
Retained earnings	8,777	8,638
Treasury shares	(301)	(301)
Total shareholders' equity	10,386	10,247
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	166	144
Total accumulated other comprehensive income	166	144
Share acquisition rights	27	28
Non-controlling interests	49	54
Total net assets	10,629	10,475
Total liabilities and net assets	12,274	11,948

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

(First Quarter)

	(In millions of yen)	
	Q1 FY 2021 (From April 1, 2021 to June 30, 2021)	Q1 FY 2022 (From April 1, 2022 to June 30, 2022)
Net sales	2,340	3,426
Cost of sales	1,604	2,316
Gross profit	736	1,109
Selling, general and administrative expenses	541	766
Operating profit	195	343
Non-operating income		
Interest income	0	0
Dividend income	3	4
Other	0	–
Total non-operating income	3	4
Non-operating expenses		
Foreign exchange losses	0	3
Other	0	–
Total non-operating expenses	0	3
Ordinary profit	198	343
Extraordinary income		
Gain on sale of membership	–	2
Other	–	0
Total extraordinary income	–	2
Extraordinary losses		
Loss on liquidation of subsidiaries	0	–
Total extraordinary losses	0	–
Profit before income taxes	197	346
Income taxes	43	47
Profit	154	298
Profit (loss) attributable to non-controlling interests	(3)	4
Profit attributable to owners of parent	158	293

Quarterly Consolidated Statements of Comprehensive Income
(First Quarter)

	(In millions of yen)	
	Q1 FY 2021 (From April 1, 2021 to June 30, 2021)	Q1 FY 2022 (From April 1, 2022 to June 30, 2022)
Profit	154	298
Other comprehensive income		
Valuation difference on available-for-sale securities	1	(21)
Total other comprehensive income	1	(21)
Comprehensive income	156	277
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	159	272
Comprehensive income attributable to non-controlling interests	(3)	4

(3) Notes to Quarterly Consolidated Financial Statements

(Notes regarding going concern assumption)

N/A

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

N/A

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

(Calculation of tax expenses)

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

(Changes to accounting policies)

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

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

(Additional information)

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

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

(Segment information)**I First quarter of fiscal 2021 (April 1, 2021 to June 30, 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	2,234	105	2,340	—	2,340
Inter-segment net sales, and transfers	—	—	—	—	—
Total	2,234	105	2,340	—	2,340
Segment profit (loss)	459	(112)	347	(151)	195

- (Notes) 1. The (151) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.
 2. Segment profit (loss) is adjusted with operating profit in Quarterly Consolidated Statements of Income.

II First quarter of fiscal 2022 (April 1, 2022 to June 30, 2022)

1. Information about amounts of net sales, profit and loss by reportable segment.

(In millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Net sales					
Net sales to customers	3,278	147	3,426	—	3,426
Inter-segment net sales, and transfers	—	—	—	—	—
Total	3,278	147	3,426	—	3,426
Segment profit (loss)	583	(76)	507	(163)	343

- (Notes) 1. The (163) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.
 2. Segment profit (loss) is adjusted with operating profit in Quarterly Consolidated Statements of Income.

(Major subsequent events)

(Disposal of treasury shares as restricted stock remuneration)

At a Board of Directors' meeting held on July 21, 2022, the Company resolved to dispose of treasury shares as restricted stock remuneration (hereinafter, the "Share Disposal").

1. Purpose and reasons for disposal

At the Board of Directors' meeting held on May 28, 2020, in order that Directors of the Company (excluding Directors serving as Audit and Supervisory Committee Members; hereinafter, "Eligible Directors") share the merits and risks of stock price fluctuations with shareholders, and to further increase their motivation to contribute to the rise in stock prices and improving corporate value, the Company resolved to introduce a stock remuneration system granting restricted stock to Eligible Directors (hereinafter, the "System"). In addition, at the 25th Ordinary General Meeting of Shareholders held on June 30, 2020, it was approved that, based on the System, the total amount of monetary remuneration claims as remunerations, etc. for granting restricted stock to Eligible Directors shall be set within the threshold of 30 million yen per year, that the maximum number of restricted stock to be allotted to Eligible Directors each fiscal year shall be 37,500 shares, and that the transfer restriction period of the restricted stock shall be a period stipulated by the Board of Directors of the Company ranging from 20 years to 30 years.

2. Outline of the disposal

(1) Payment due date	August 16, 2022
(2) Class and number of shares to be disposed of	28,900 common shares of the Company
(3) Disposal price	865 yen per share
(4) Total disposal amount	24,998,500 yen
(5) Scheduled disposal recipients	5 Directors excluding Directors serving as Audit and Supervisory Committee members of the Company 28,900 shares
(6) Other	A written notice of securities pursuant to the Financial Instruments and Exchange Act has been submitted for the Share Disposal

(Issuance of share acquisition rights as stock options)

At the Board of Directors' meeting held on July 21, 2022, the Company resolved to issue share acquisition rights as stock options for employees.

1. Reasons for issuance of share acquisition rights as stock options

To increase employees' morale and motivation to improve the Company's performance and corporate value.

2. Outline of the issuance of share acquisition rights

(1) Date of allotment	August 16, 2022
(2) Classification and number of employees eligible for share acquisition rights	89 of the Company's employees
(3) Number of share acquisition rights issued	480
(4) Amount of payment for the share acquisition rights	No payment is required in exchange for the share acquisition rights

(5) Class and number of shares to which the share acquisition rights pertain	48,000 common shares of the Company (100 shares per share acquisition rights)
(6) Amount of payment upon exercise of the share acquisition rights	The amount of payment at such time is the amount by multiplying the amount to be paid for one share to be delivered upon exercise of the share acquisition rights (hereinafter, the “Exercise Price”), by the number of shares granted. The Exercise Price is the average price (with any fraction of a yen being rounded up) of the closing price of the Company’s common shares in the regular trading on the Tokyo Stock Exchange (hereinafter, the “Closing Price”) on each day (excluding days on which there is no trading) of the month preceding the month that includes the day on which the share acquisition rights are allotted (hereinafter, the “Allotment Date”), or the Closing Price on the Allotment Date (if no Closing Price exists on that day, the Closing Price on the day immediately preceding the said date), whichever is higher.
(7) Amounts of increase in share capital and legal capital surplus when shares are issued due to exercise of the share acquisition rights	(i) The amount of increase in share capital at such time is one half of the amount calculated as the maximum amount of increase in stated capital pursuant to Article 17, paragraph (1) of the Rules of Corporate Accounting, and any fraction of a yen resulting therefrom is to be rounded up. (ii) The amount of increase in legal capital surplus at such time is the amount calculated by subtracting the amount of increase in share capital according to (i) above from the maximum amount of increase in stated capital specified in (i) above.
(8) Period for exercise of the share acquisition rights	August 17, 2024 to August 16, 2028
(9) Restriction on acquisition of share acquisition rights by transfer	Approval by resolution at the Company’s Board of Directors meeting is required for such acquisition

3. Others

Recent trends in quarterly business results

Fiscal Year ending March 31, 2023

(In millions of yen)

	Q1 FY 2022 From April 2022 to June 2022	Q2 FY 2022 From July 2022 to September 2022	Q3 FY 2022 From October 2022 to December 2022	Q4 FY 2022 From January 2023 to March 2023
Net sales	3,426	—	—	—
Gross profit	1,109	—	—	—
Operating profit	343	—	—	—
Ordinary profit	343	—	—	—
Profit before income taxes	346	—	—	—
Profit	298	—	—	—
Profit attributable to owners of parent	293	—	—	—
Comprehensive income	277	—	—	—
Basic earnings per share	27.12 yen			—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,948	—	—	—
Net assets	10,475	—	—	—
Net assets per share	959.68 yen	—	—	—

Fiscal Year ended March 31, 2022

(In millions of yen)

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