



Summary of Consolidated Financial Statements for the First Quarter Ended June 30, 2023 (Japanese GAAP)

August 8, 2023

Name of listed company: AXELL CORPORATION
Code #: 6730
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Scheduled date of release of Quarterly Report: August 10, 2023
Scheduled date of dividend payment: —
Availability of supplementary explanatory materials prepared for quarterly financial results: None
Briefing session on quarterly financial results to be held: None

Stock Exchange: Tokyo

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

1. Consolidated Business Results for the First Quarter of Fiscal Year 2023 (April 1, 2023 to June 30, 2023)

(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 2023	4,475	30.6	777	126.4	793	130.9	581	98.1
Q1 FY 2022	3,426	46.4	343	76.1	343	72.9	293	85.9

(Note) Comprehensive income: Q1 FY 2023: 611 million yen [120.7%] Q1 FY 2022: 277 million yen [76.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q1 FY 2023	53.46	53.21
Q1 FY 2022	27.12	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q1 FY 2023	13,475	11,466	84.2	1,042.51
FY 2022	13,883	11,695	83.5	1,064.72

(Reference) Equity capital Q1 FY 2023: 11,349 million yen FY 2022: 11,587 million yen

2. Dividend Payments

	Annual Dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2022	—	0.00	—	78.00	78.00
FY 2023	—	—	—	—	—
FY 2023 (Projection)	—	0.00	—	51.00	51.00

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

Breakdown of the year-end dividend for fiscal year 2022: Ordinary dividend of 62 yen and commemorative dividend of 16 yen (for the 20th anniversary of public listing)

3. Consolidated Forecast Results for Fiscal Year 2023 (April 1, 2023 to March 31, 2024)

(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
First half	8,410	19.1	980	13.3	990	10.8	720	2.7	66.15
Full Year	15,440	6.7	1,510	(6.5)	1,530	(15.6)	1,100	(18.8)	101.07

(Note) 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. 6 “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.: None

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

3) Changes to accounting estimates: None

4) Restatements: None

(4) Number of shares issued (common shares)

1) Number of shares issued at end of period (including treasury shares)	Q1 FY 2023	11,211,989 shares	FY 2022	11,211,989 shares
2) Number of treasury shares at end of period	Q1 FY 2023	324,917 shares	FY 2022	328,917 shares
3) Average number of common shares outstanding during period (cumulative)	Q1 FY 2023	10,884,731 shares	Q1 FY 2022	10,828,392 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 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, 2023, the Japanese economy showed normalization in socioeconomic activities and signs of economic recovery as COVID-19 was downgraded to a Class 5 infectious disease and the relaxation of restrictions on behavior progressed. Nevertheless, the future economic outlook remains uncertain due to concerns about soaring resource and raw material prices, and significant fluctuations in exchange rates resulting from the interest rate policies of major countries.

The pachinko and pachislot machine market, which is the main market for the Group, is analyzed as firmly growing, as the recovery trend of pachislot market has become clear with the introduction of smart pachislot machines. Under such circumstances, the Group focused on efforts to secure stable profits in the pachinko and pachislot market, to expand sales of Graphics LSI products for the embedded system market (Note 1), and to expand the scale of new businesses centered on the AI area. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including alliances and investments.

As a result, for the three months ended June 30, 2023, the Company recorded net sales of 4,475 million yen, up 1,049 million yen from the same period of the previous fiscal year (year-on-year increase of 30.6%). In line with this increase in net sales, gross profit increased by 361 million yen (year-on-year increase of 32.6%) to 1,471 million yen. Gross profit margin improved by 0.5 percentage points year-on-year to 32.9%. Selling, general and administrative expenses amounted to 693 million yen, a decrease of 72 million yen from the same period of the previous fiscal year (year-on-year decrease of 9.5%). Of this, research and development expenses accounted for 338 million yen, down 117 million yen (year-on-year decrease of 25.8%).

Consequently, for the three months ended June 30, 2023, the Company recorded an operating profit of 777 million yen, an increase of 434 million yen from the same period of the previous fiscal year (year-on-year increase of 126.4%), an ordinary profit of 793 million yen, an increase of 449 million yen (year-on-year increase of 130.9%), and a profit attributable to owners of parent of 581 million yen, an increase of 288 million yen (year-on-year increase of 98.1%).

The business performance by segment is as follows. In addition, besides the following segments, corporate expenses not allocated to each segment amounted to 189 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, 2023, the Company recorded net sales of 4,311 million yen, an increase of 1,033 million yen from the same period of the previous fiscal year (year-on-year increase of 31.5%), and a segment profit of 1,024 million yen, an increase of 440 million yen from the same period of the previous fiscal year (year-on-year increase of 75.5%). Regarding the Company's mainstay products, graphics LSI products for pachinko and pachislot machines, the number of units sold increased by 83,000 units from the same period of the previous fiscal year to 190,000 units, while sales of memory-module products (Note 2) were lower than the same period of the previous fiscal year. Moreover, the order backlog for the segment as of June 30, 2023 stood at 22,437 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 against the backdrop of tight supply and demand.

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

This segment is a start-up business focusing on the areas of AI, Web3, and block chain in addition to products for embedded systems. For the three months ended June 30, 2023, the Company recorded net sales of 164 million yen, up 16 million yen, or 11.1%, from the same period of the previous fiscal year, mainly from sales in the areas of AI, and a segment loss of 56 million yen, down 19 million yen from 76 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 2023 stood at 13,475 million yen, down 407 million yen, or 2.9%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in cash and deposits (2,854 million yen), despite increases in trade receivables and contract asset (859 million yen), securities (300 million yen), and merchandise and finished goods (1,060 million yen).

Total liabilities as of the end of the first quarter of fiscal 2023 stood at 2,009 million yen, down 177 million yen, or 8.1%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in income taxes payable (61 million yen).

Total net assets as of the end of the first quarter of fiscal 2023 stood at 11,466 million yen, down 229 million yen, or 2.0%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in retained earnings (266 million yen).

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

Consolidated forecast results for fiscal 2023 are as described in “Summary of Consolidated Financial Statements for the Year Ended March 31, 2023” disclosed on May 9, 2023. In addition to approximately 80% progress in operating profit and each profit below compared to the half-year consolidated results forecast, the Company has recorded an order backlog of 22,437 million yen as of June 30, 2023 in the LSI Business for Japanese Entertainment Machines segment, which shows that recent order trends have been exceptionally favorable. However, in consideration of the impact of the production aspects of some products, other risks associated with procurement of parts and materials by our customers, and the uncertainty of the market in the second quarter and beyond, the Company considers that there is no need to actively revise the forecast figures at this time. If we deem it necessary to revise our results forecast due to future business performance or customer demand trends, we will disclose the revised forecast promptly.

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

	(Millions of yen)	
	FY 2022 (As of March 31, 2023)	Q1 FY 2023 (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	9,509	6,655
Trade receivables and contract asset	1,243	2,103
Securities	1,200	1,500
Merchandise and finished goods	736	1,796
Work in process	0	6
Raw materials and supplies	0	0
Other	108	127
Allowance for doubtful accounts	(0)	(0)
Total current assets	12,798	12,189
Non-current assets		
Property, plant and equipment	133	150
Intangible assets		
Goodwill	17	14
Other	25	25
Total intangible assets	43	40
Investments and other assets	908	1,096
Total non-current assets	1,084	1,286
Total assets	13,883	13,475
Liabilities		
Current liabilities		
Accounts payable - trade	1,372	1,364
Income taxes payable	276	214
Provision for bonuses	—	30
Other	496	355
Total current liabilities	2,145	1,965
Non-current liabilities		
Asset retirement obligations	40	40
Other	1	3
Total non-current liabilities	42	44
Total liabilities	2,187	2,009
Net assets		
Shareholders' equity		
Share capital	1,028	1,028
Capital surplus	896	897
Retained earnings	9,698	9,431
Treasury shares	(258)	(255)
Total shareholders' equity	11,364	11,102
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	222	247
Total accumulated other comprehensive income	222	247
Share acquisition rights	30	32
Non-controlling interests	77	83
Total net assets	11,695	11,466
Total liabilities and net assets	13,883	13,475

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

(First Quarter)

	(Millions of yen)	
	Q1 FY 2022 (From April 1, 2022 to June 30, 2022)	Q1 FY 2023 (From April 1, 2023 to June 30, 2023)
Net sales	3,426	4,475
Cost of sales	2,316	3,004
Gross profit	1,109	1,471
Selling, general and administrative expenses	766	693
Operating profit	343	777
Non-operating income		
Interest income	0	0
Dividend income	4	16
Total non-operating income	4	16
Non-operating expenses		
Foreign exchange losses	3	0
Other	—	0
Total non-operating expenses	3	0
Ordinary profit	343	793
Extraordinary income		
Gain on sale of membership	2	—
Other	0	—
Total extraordinary income	2	—
Extraordinary losses		
Impairment losses	—	0
Total extraordinary losses	—	0
Profit before income taxes	346	793
Income taxes	47	205
Profit	298	587
Profit attributable to non-controlling interests	4	5
Profit attributable to owners of parent	293	581

Quarterly Consolidated Statements of Comprehensive Income
(First Quarter)

	(Millions of yen)	
	Q1 FY 2022 (From April 1, 2022 to June 30, 2022)	Q1 FY 2023 (From April 1, 2023 to June 30, 2023)
Profit	298	587
Other comprehensive income		
Valuation difference on available-for-sale securities	(21)	24
Total other comprehensive income	(21)	24
Comprehensive income	277	611
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	272	606
Comprehensive income attributable to non-controlling interests	4	5

(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 fiscal year including the first quarter ended June 30, 2023.

(Segment information)**I First three months of fiscal 2022 (April 1, 2022 to June 30, 2022)****1. Information about amounts of net sales, profit and loss by reportable segment.**

(Millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statement 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 corporate 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 the quarterly consolidated statement of income.

II First three months of fiscal 2023 (April 1, 2023 to June 30, 2023)**1. Information about amounts of net sales, profit and loss by reportable segment.**

(Millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated statement 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	4,311	164	4,475	—	4,475
Inter-segment net sales, and transfers	—	—	—	—	—
Total	4,311	164	4,475	—	4,475
Segment profit (loss)	1,024	(56)	967	(189)	777

(Notes) 1. The (189) million yen adjustments to segment profit (loss) are corporate 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 the quarterly consolidated statement of income.

(Major subsequent events)

(Disposal of treasury shares as restricted stock remuneration)

At the Board of Directors' meeting held on July 20, 2023, 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 remunerations 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 15, 2023
(2) Class and number of shares to be disposed of	15,550 common shares of the Company
(3) Disposal price	1,607 yen per share
(4) Total disposal amount	24,988,850 yen
(5) Scheduled disposal recipients	5 Directors (excluding Directors serving as Audit and Supervisory Committee members of the Company); 15,550 shares
(6) Other	A written notice of securities pursuant to the Financial Instruments and Exchange Act has been submitted for the Share Disposal.

3. Others

Recent trends in quarterly business results

Fiscal Year ending March 31, 2024

(Millions of yen)

	Q1 FY 2023 From April 2023 to June 2023	Q2 FY 2023 From July 2023 to September 2023	Q3 FY 2023 From October 2023 to December 2023	Q4 FY 2023 From January 2024 to March 2024
Net sales	4,475	—	—	—
Gross profit	1,471	—	—	—
Operating profit	777	—	—	—
Ordinary profit	793	—	—	—
Profit before income taxes	793	—	—	—
Profit	587	—	—	—
Profit attributable to owners of parent	581	—	—	—
Comprehensive income	611	—	—	—
Basic earnings per share	53.46 yen	—	—	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	13,475	—	—	—
Net assets	11,466	—	—	—
Net assets per share	1,042.51 yen	—	—	—

Fiscal Year ended March 31, 2023

(Millions of yen)

	Q1 FY 2022 From April 2022 to June 2022	Q2 FY 2022 From July 2022 to September 2022	Q3 FY 2022 From October 2022 to December 2022	Q4 FY 2022 From January 2023 to March 2023
Net sales	3,426	3,635	3,629	3,783
Gross profit	1,109	1,157	1,193	1,085
Operating profit (loss)	343	521	415	333
Ordinary profit	343	549	535	384
Profit before income taxes	346	527	531	336
Profit	298	416	438	228
Profit attributable to owners of parent	293	407	429	223
Comprehensive income	277	396	525	239
Basic earnings per share	27.12 yen	37.59 yen	39.50 yen	20.54 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,948	12,967	13,525	13,883
Net assets	10,475	10,899	11,439	11,695
Net assets per share	959.68 yen	995.15 yen	1,042.96 yen	1,064.72 yen