



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

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

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

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

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

#### \* Matters of Note

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

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

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

- 1) Changes to accounting policies accompanying the revision of accounting standards, etc.: Yes
- 2) Changes to accounting policies other than 1) above: None
- 3) Changes to accounting estimates: None
- 4) Restatements: None

(Note) For details, please refer to [Appendix] P. 3 “2. Matters Related to Summary Information (Matters of Note) (2) Changes to accounting policies, changes to accounting estimates, and restatements.”

##### (3) Number of shares issued (common shares)

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

#### \* Presentation regarding execution status of quarterly review procedures

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

#### \* Explanation of appropriate use of results forecasts, other matters of note:

##### (Note on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. Actual results may differ significantly from these forecasts due to various factors. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 3 “1. Qualitative Information on Quarterly Financial Results (3) Explanation of future forecast information such as results forecasts.”

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

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

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of business results

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

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

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

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

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

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

Consequently, for the nine months ended December 31, 2016, the Company recorded operating income of 359 million yen (down 41.2% year-on-year) and ordinary income of 392 million yen (down 33.6% year-on-year) and profit of 243 million yen (down 40.5% year-on-year).

(Note 1) “Embedded system market” refers to the market relating to the manufacture of embedded systems, excluding pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 2) “Graphics LSI” refers to the Company’s LSI products that enable graphics to be shown on LCDs and other display devices.

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

## **(2) Explanation of financial position**

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

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

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

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

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

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

### **(1) Application of special accounting processes for the preparation of Quarterly Financial Statements**

(Calculation of tax expenses)

Tax expenses have been calculated by multiplying profit before income taxes by an effective tax rate reasonably estimated after the application of tax effect accounting to profit before income taxes for the fiscal year including the third quarter of fiscal 2016.

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

Changes to accounting policies

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

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

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

### **(3) Additional information**

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

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

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

(In millions of yen)

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

**(2) Quarterly Statements of Income**

(Third quarter)

(In millions of yen)

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

**(3) Notes to Quarterly Financial Statements**

**(Notes regarding going concern assumption)**

**N/A**

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

**N/A**



## 4. Supplementary Information

### (1) Production, orders and sales status

#### 1) Production

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

(In millions of yen)

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

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

#### 2) Orders

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

(In millions of yen)

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

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

#### 3) Sales

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

(In millions of yen)

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

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

(In millions of yen)

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

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

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

(In millions of yen)

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

**Year ended March 31, 2016**

(In millions of yen)

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