



Summary of Financial Statements (Non-consolidated) for the Second Quarter Ended September 30, 2018 (Japanese GAAP)

October 25, 2018

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 Scheduled date of release of Quarterly Report: November 9, 2018
 Scheduled date of dividend payment: —
 Availability of supplementary explanatory materials prepared for quarterly financial results: Available
 Briefing session on quarterly financial results to be held: Yes (for analysts and institutional investors)

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

1. Business Results for the Second Quarter of Fiscal Year 2018 (April 1, 2018 to September 30, 2018)

(1) Operating results (cumulative)

(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	%
Q2 FY 2018	2,190	(35.3)	(1,411)	—	(1,403)	—	(988)	—
Q2 FY 2017	3,387	(15.5)	(295)	—	(288)	—	(123)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q2 FY 2018	(88.39)	—
Q2 FY 2017	(11.06)	—

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q2 FY 2018	10,893	10,347	95.0	924.92
FY 2017	13,035	11,418	87.6	1,020.67

(Reference) Equity capital Q2 FY 2018: 10,347 million yen FY 2017: 11,418 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	0.00	—	5.00	5.00
FY 2018	—	0.00	—	—	—
FY 2018 (Projection)	—	—	—	0.00	0.00

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

3. Forecast Results for Fiscal Year 2018 (April 1, 2018 to March 31, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	6,300	(25.7)	(1,450)	-	(1,450)	-	(1,050)	-	(93.85)

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

*** Matters of Note**

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

(Note) For details, please refer to [Appendix] P. 7 “2. Quarterly Financial Statements and Primary Notes

(4) Notes to Quarterly Financial Statements (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.: None

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

3) Changes to accounting estimates: Yes

4) Restatements: None

(Note) For details, please refer to [Appendix] P. 7 “2. Quarterly Financial Statements and Primary Notes

(4) Notes to Quarterly Financial Statements (Changes to accounting estimates).”

(3) Number of shares issued (common shares)

1) The number of shares issued at end of period (including treasury stock)	Q2 FY 2018	11,187,749 shares	FY 2017	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q2 FY 2018	152 shares	FY 2017	152 shares
3) Average number of shares of common shares during period (cumulative)	Q2 FY 2018	11,187,597 shares	Q2 FY 2017	11,187,597 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. 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. The Company is planning to hold a briefing session for analysts and institutional investors on Friday, October 26, 2018. The video of the briefing session is scheduled to be posted on the Company’s website immediately after the session.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the six months ended September 30, 2018, a moderate recovery trend continued in the Japanese economy including continuous improvements in the employment and income conditions, along with signs of improvements in 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 trade issues.

The pachinko and pachislot machine market, which is the main market for the Company, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of self-imposed regulations implemented in recent years by industry organizations as preventive measures against addictive gambling, leading to a gradual decrease in the population of players. In addition, as a result of the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force in February 2018, the current market environment is becoming increasingly harsh due to sluggish demand for new machines at amusement facilities reflecting uncertainty about the future prospects.

Under such circumstances, the Company continued to channel its energies into sales activities for Graphics LSI products for customers in the embedded system market (Note), in addition to various products targeted at the pachinko and pachislot machine market. Aiming to establish new businesses, the Company also focused on activities for commercializing three areas such as middleware, cryptographic technology (security, blockchain), and machine learning. As for cryptographic technology, the Company has decided to enter the blockchain business and established a fully-owned subsidiary VIPPOOL Inc. on July 2, 2018 to promote the business.

Net sales for the six months ended September 30, 2018 decreased 1,196 million yen from the previous corresponding period (down 35.3% year-on-year) to 2,190 million yen. As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 1,205 million yen from the previous corresponding period (down 36.7% year-on-year) to 2,083 million yen. With regards to the Company’s mainstay Graphics LSI products targeted at this market, sales were approximately 120,000 units, approximately 140,000 units less compared to the previous corresponding period, affected by market conditions, as well as a temporary inventory adjustment in the market and a rise in reuse of device components including the Company’s products. As for other products targeted at the said market (LED driver LSI products, memory-module products, etc.), sales of LED driver LSI products increased from the previous corresponding period, while sales of memory-module products decreased from the previous corresponding period due to trends in demand of customers who adopt the products. Accordingly, net sales of other products decreased from the previous corresponding period.

In terms of Graphics LSI products targeted at the embedded system market, net sales increased 13 million yen from the previous corresponding period (up 24.9% year-on-year) to 69 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 other middleware products, net sales decreased 5 million yen from the previous corresponding period (down 11.7% year-on-year) to 38 million yen.

Along with a decrease in net sales, gross profit decreased 617 million yen from the previous corresponding period (down 45.7% year-on-year) to 734 million yen, and gross profit ratio decreased by 6.4 percentage points from the previous corresponding period to 33.5% due mainly to a shift in the composition ratio of products sold. Despite efforts to reduce overall expenses, selling, general and administrative expenses increased 497 million yen from the previous corresponding period (up 30.2% year-on-year) to 2,146 million yen, due mainly to recognition of a portion of prototype development expenses for next-generation mainstay products. Of selling, general and administrative expenses, research and development expenses increased 486 million yen from the previous corresponding period (up 40.2% year-on-year) to 1,698 million yen. Development expenses for next-generation mainstay products generally returned to normal during the first quarter ended June 30, 2018.

Consequently, for the six months ended September 30, 2018, the Company recorded an operating loss of 1,411 million yen (operating loss of 295 million yen for the previous corresponding period), an ordinary loss of 1,403 million yen (ordinary loss of 288 million yen for the previous corresponding period) and a loss of 988 million yen (loss of 123 million yen for the previous corresponding period).

(Note) “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.

(2) Explanation of financial position

1) Status of assets, liabilities and net assets

Total assets as of the end of the second quarter of fiscal 2018 decreased 2,141 million yen from the end of the previous fiscal year to 10,893 million yen (down 16.4% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 741 million yen in merchandise and finished goods and the increase of 449 million yen of investments and other assets, offset by the decrease of 2,695 million yen in accounts receivable – trade.

Total liabilities as of the end of the second quarter of fiscal 2018 decreased 1,070 million yen from the end of the previous fiscal year to 545 million yen (down 66.2% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 994 million yen in accounts payable - trade.

Total net assets as of the end of the second quarter of fiscal 2018 decreased 1,071 million yen from the end of the previous fiscal year to 10,347 million yen (down 9.4% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 1,044 million yen in retained earnings.

2) Status of cash flows

Cash and cash equivalents (hereafter “funds”) as of the end of the second quarter of fiscal 2018 amounted to 6,858 million yen (down 12.5% from the end of the previous corresponding period). The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities for the second quarter of fiscal 2018 amounted to 126 million yen (compared with funds used of 805 million yen in the previous corresponding period). This was mainly attributable to factors such as the decrease in notes and accounts receivable – trade (2,695 million yen) and the decrease in other current assets (719 million yen), despite loss before income taxes (1,413 million yen), the increase in inventories (741 million yen), and the decrease in notes and accounts payable – trade (994 million yen) for the second quarter of fiscal 2018.

(Cash flows from investing activities)

Funds used in investing activities for the second quarter of fiscal 2018 amounted to 90 million yen (compared with funds used of 37 million yen in the previous corresponding period). This was mainly attributable to the purchase of intangible assets (10 million yen) and the purchase of shares of subsidiaries and associates (50 million yen).

(Cash flows from financing activities)

Funds used in financing activities for the second quarter of fiscal 2018 amounted to 55 million yen (compared with funds used of 55 million yen in the previous corresponding period). This was mainly attributable to cash dividends paid (55 million yen).

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

Forecast results for fiscal 2018 are as stated in the “Summary of Financial Statements for the Year Ended March 31, 2018” disclosed on April 25, 2018. Additionally, as the business plan for fiscal 2018 anticipates a gradual recovery in the second quarter and later due to revised regulations and time of recognizing research and development expenses, results for the six months ended September 30, 2018 are considered to have generally progressed in line with forecasts.

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

(In millions of yen)

	FY 2017 (As of March 31, 2018)	Q2 FY 2018 (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	6,868	6,858
Accounts receivable - trade	3,304	609
Merchandise and finished goods	480	1,222
Raw materials and supplies	0	0
Other	825	228
Total current assets	11,479	8,919
Non-current assets		
Property, plant and equipment	266	234
Intangible assets	32	34
Investments and other assets	1,256	1,705
Total non-current assets	1,556	1,974
Total assets	13,035	10,893
Liabilities		
Current liabilities		
Accounts payable - trade	1,344	349
Income taxes payable	43	4
Asset retirement obligations	—	22
Other	193	131
Total current liabilities	1,580	508
Non-current liabilities		
Asset retirement obligations	35	37
Total non-current liabilities	35	37
Total liabilities	1,616	545
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,398	8,353
Treasury shares	(0)	(0)
Total shareholders' equity	11,278	10,233
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	140	114
Total valuation and translation adjustments	140	114
Total net assets	11,418	10,347
Total liabilities and net assets	13,035	10,893

(2) Quarterly Statements of Income

(Second quarter)

(In millions of yen)

	Q2 FY 2017 (From April 1, 2017 to September 30, 2017)	Q2 FY 2018 (From April 1, 2018 to September 30, 2018)
Net sales	3,387	2,190
Cost of sales	2,035	1,455
Gross profit	1,352	734
Selling, general and administrative expenses	1,648	2,146
Operating loss	(295)	(1,411)
Non-operating income		
Interest income	0	0
Dividend income	4	2
Foreign exchange gains	4	9
Other	0	2
Total non-operating income	9	15
Non-operating expenses		
Loss on investments in partnership	2	7
Other	0	0
Total non-operating expenses	2	7
Ordinary loss	(288)	(1,403)
Extraordinary income		
Gain on sales of investment securities	64	—
Total extraordinary income	64	—
Extraordinary losses		
Loss on valuation of investment securities	—	10
Loss on valuation of membership	1	—
Total extraordinary losses	1	10
Loss before income taxes	(224)	(1,413)
Income taxes	(100)	(424)
Loss	(123)	(988)

(3) Quarterly Statements of Cash Flows

(In millions of yen)

	Q2 FY 2017 (From April 1, 2017 to September 30, 2017)	Q2 FY 2018 (From April 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Loss before income taxes	(224)	(1,413)
Depreciation	78	85
Interest and dividend income	(5)	(3)
Loss (gain) on investments in partnership	2	7
Loss (gain) on sales of investment securities	(64)	—
Loss (gain) on valuation of investment securities	—	10
Decrease (increase) in notes and accounts receivable - trade	(416)	2,695
Decrease (increase) in inventories	498	(741)
Decrease (increase) in other current assets	(630)	719
Increase (decrease) in notes and accounts payable - trade	(10)	(994)
Increase (decrease) in other current liabilities	(27)	(21)
Other, net	(32)	(189)
Subtotal	(833)	153
Interest and dividend income received	5	3
Income taxes (paid) refund	22	(30)
Net cash provided by (used in) operating activities	(805)	126
Cash flows from investing activities		
Purchase of property, plant and equipment	(17)	(2)
Purchase of intangible assets	(4)	(10)
Purchase of investment securities	(100)	—
Proceeds from sales of investment securities	80	—
Proceeds from distribution of investment in partnerships	6	6
Purchase of shares of subsidiaries and associates	—	(50)
Other, net	(2)	(34)
Net cash provided by (used in) investing activities	(37)	(90)
Cash flows from financing activities		
Cash dividends paid	(55)	(55)
Net cash provided by (used in) financing activities	(55)	(55)
Effect of exchange rate change on cash and cash equivalents	(3)	10
Net increase (decrease) in cash and cash equivalents	(903)	(9)
Cash and cash equivalents at beginning of period	8,738	6,868
Cash and cash equivalents at end of period	7,835	6,858

(4) 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

(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 second quarter of fiscal 2018.

(Changes to accounting estimates)

(Changes to estimates of asset retirement obligations)

In the second quarter of fiscal 2018, the Company resolved to partially terminate the building lease agreement for its head office. Consequently, the Company changed estimates of asset retirement obligations, which are recognized as estimated costs required for restoration to original condition in association with the agreement, since making more precise estimates had become possible.

An increase of 24 million yen resulting from the change to accounting estimates has been added to the balance of asset retirement obligations before the change.

The effect of this change in accounting estimates was to increase operating loss, ordinary loss and loss before income taxes for the six months ended September 30, 2018 each by 10 million yen.

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan ("ASBJ") Statement No. 28, February 16, 2018) effective from the beginning of the first quarter ended June 30, 2018. Accordingly, the Company has presented deferred tax assets in investments and other assets section.

3. Others**(1) Production, orders and sales status****1) Production**

Production results for the six months ended September 30, 2018 are as follows:

(In millions of yen)

Classification	Q2 FY 2018 (From April 1, 2018 to September 30, 2018)		Change (%)
LSI products for pachinko and pachislot machines		3,572	43.6
LSI products for embedded systems		99	52.5
Other		31	(43.1)
Total		3,703	42.0

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

2) Orders

Orders for the six months ended September 30, 2018 are as follows:

(In millions of yen)

Classification	Q2 FY 2018 (From April 1, 2018 to September 30, 2018)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	1,805	(59.6)	1,139	(50.5)
LSI products for embedded systems	72	39.2	44	8.4
Other	37	(14.0)	5	300.1
Total	1,915	(58.0)	1,189	(49.2)

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

3) Sales

Sales during the six months ended September 30, 2018 are as follows:

(In millions of yen)

Classification	Q2 FY 2018 (From April 1, 2018 to September 30, 2018)		Change (%)
LSI products for pachinko and pachislot machines		2,083	(36.7)
LSI products for embedded systems		69	24.9
Other		38	(11.7)
Total		2,190	(35.3)

- (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	Q2 FY 2017 (From April 1, 2017 to September 30, 2017)		Q2 FY 2018 (From April 1, 2018 to September 30, 2018)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	2,451	72.3	1,423	65.0
Fujitsu Electronics Inc.	264	7.8	387	17.7

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

(2) Recent trends in quarterly business results**Year ending March 31, 2019**

(In millions of yen)

	Q1 FY 2018 From April 2018 to June 2018	Q2 FY 2018 From July 2018 to September 2018	Q3 FY 2018 From October 2018 to December 2018	Q4 FY 2018 From January 2019 to March 2019
Net sales	724	1,466	—	—
Gross profit	257	477	—	—
Operating income (loss)	(1,258)	(152)	—	—
Ordinary income (loss)	(1,247)	(156)	—	—
Profit (loss) before income taxes	(1,247)	(166)	—	—
Profit (loss)	(871)	(117)	—	—
Basic earnings (loss) per share	(77.88) yen	(10.50) yen		—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	10,995	10,893	—	—
Net assets	10,455	10,347	—	—
Net assets per share	934.60 yen	924.92 yen	—	—

Year ended March 31, 2018

(In millions of yen)

	Q1 FY 2017 From April 2017 to June 2017	Q2 FY 2017 From July 2017 to September 2017	Q3 FY 2017 From October 2017 to December 2017	Q4 FY 2017 From January 2018 to March 2018
Net sales	1,434	1,953	1,225	3,864
Gross profit	604	747	527	1,261
Operating income (loss)	(316)	20	(150)	602
Ordinary income (loss)	(311)	22	(143)	596
Profit (loss) before income taxes	(246)	21	(281)	684
Profit (loss)	(136)	12	(21)	225
Basic earnings (loss) per share	(12.20) yen	1.14 yen	(1.90) yen	20.15 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	11,608	11,715	11,798	13,035
Net assets	11,172	11,221	11,245	11,418
Net assets per share	998.62 yen	1,002.98 yen	1,005.19 yen	1,020.67 yen