



Summary of Financial Statements (Non-consolidated) for the Third Quarter Ended December 31, 2018 (Japanese GAAP)

January 25, 2019

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 Scheduled date of release of Quarterly Report: February 12, 2019
 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: None

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

1. Business Results for the Third Quarter of Fiscal Year 2018 (April 1, 2018 to December 31, 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	%
Q3 FY 2018	3,618	(21.6)	(1,488)	—	(1,477)	—	(1,805)	—
Q3 FY 2017	4,613	(31.4)	(446)	—	(432)	—	(145)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 FY 2018	(161.36)	—
Q3 FY 2017	(12.96)	—

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q3 FY 2018	10,048	9,486	94.4	847.90
FY 2017	13,035	11,418	87.6	1,020.67

(Reference) Equity capital Q3 FY 2018: 9,486 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	5,000	(41.0)	(1,700)	-	(1,700)	-	(2,000)	-	(178.76)

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

For information on revision of forecast results, please refer to “Notice of Posting of an Extraordinary Loss (Loss on Valuation of Investment Securities) and Revision of Earnings Forecast” released today (January 25, 2019).

*** Matters of Note**

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

(Note) For details, please refer to [Appendix] P.5 “2. Quarterly Financial Statements and Primary Notes (3) 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. 5 “2. Quarterly Financial Statements and Primary Notes (3) 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)	Q3 FY 2018	11,187,749 shares	FY 2017	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q3 FY 2018	152 shares	FY 2017	152 shares
3) Average number of shares of common shares during period (cumulative)	Q3 FY 2018	11,187,597 shares	Q3 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. 2 “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)

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, 2018, a moderate recovery trend continued in the Japanese economy including signs of improvements in personal consumption amid continuous improvements in the employment and income conditions. However, the global economic outlook has remained uncertain due mainly to concern over the 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 the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force as preventive measures against addictive gambling, leading to a sluggish demand for new machines at amusement facilities. In addition, the business environment surrounding the Company is becoming increasingly harsh due to increased cost-saving awareness among pachinko and pachislot machine manufacturers against the backdrop of a challenging market environment, leading to a more widespread reuse of device components including the Company’s products.

Under such circumstances, the Company continued to channel its energies into sales expansion for Graphics LSI products for customers in the embedded system market (Note), in addition to various initiatives for securing stable profits in the pachinko and pachislot machine market. The Company also focused on activities for early commercialization in the following three areas: middleware, cryptographic technology (security, blockchain), and machine learning, all of which are positioned as new businesses. 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 nine months ended December 31, 2018 decreased 995 million yen from the previous corresponding period (down 21.6% year-on-year) to 3,618 million yen. As for various LSI products targeted at the pachinko and pachislot machine market, net sales decreased 1,039 million yen from the previous corresponding period (down 23.2% year-on-year) to 3,439 million yen. With regards to the Company’s mainstay Graphics LSI products targeted at this market, sales were approximately 210,000 units, approximately 160,000 units less compared to the previous corresponding period, affected by a temporary inventory adjustment in the market, as well as a rise in reuse of device components. 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 45 million yen from the previous corresponding period (up 55.5% year-on-year) to 126 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 1 million yen from the previous corresponding period (down 3.4% year-on-year) to 51 million yen.

Along with a decrease in net sales, gross profit decreased 590 million yen from the previous corresponding period (down 31.4% year-on-year) to 1,289 million yen, and gross profit ratio decreased by 5.1 percentage points from the previous corresponding period to 35.6% due mainly to a shift in the composition ratio of products sold. Despite efforts to reduce overall expenses, selling, general and administrative expenses increased 451 million yen from the previous corresponding period (up 19.4% year-on-year) to 2,778 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 445 million yen from the previous corresponding period (up 26.7% year-on-year) to 2,112 million yen. Development expenses for next-generation mainstay products generally returned to normal during the first quarter ended June 30, 2018.

Consequently, for the nine months ended December 31, 2018, the Company recorded an operating loss of 1,488 million yen (operating loss of 446 million yen for the previous corresponding period) and an ordinary loss of 1,477 million yen (ordinary loss of 432 million yen for the previous corresponding period). In addition, as a result of conducting conservative valuation of investment securities owned by the Company, loss on valuation of investment securities of 234 million yen was posted as an extraordinary loss, and estimated income taxes were added due to reversal of deferred tax assets. Accordingly, the Company recorded a loss of 1,805 million yen (loss of 145 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

Total assets as of the end of the third quarter of fiscal 2018 decreased 2,987 million yen from the end of the previous fiscal year to 10,048 million yen (down 22.9% from the end of the previous fiscal year). This was due mainly to factors such as the increase of 826 million yen in merchandise and finished goods, offset by the decrease of 366 million yen in cash and deposits, the decrease of 2,545 million yen in accounts receivable – trade and the decrease of 397 million yen in investments and other assets.

Total liabilities as of the end of the third quarter of fiscal 2018 decreased 1,054 million yen from the end of the previous fiscal year to 562 million yen (down 65.2% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 927 million yen in accounts payable - trade.

Total net assets as of the end of the third quarter of fiscal 2018 decreased 1,932 million yen from the end of the previous fiscal year to 9,486 million yen (down 16.9% from the end of the previous fiscal year). This was due mainly to factors such as the decrease of 1,861 million yen in retained earnings.

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

With regard to full-year forecast results for fiscal 2018, changes have been made to the forecast results stated in the “Summary of Financial Statements for the Year Ended March 31, 2018” disclosed on April 25, 2018. For details, please refer to “Notice of Posting of an Extraordinary Loss (Loss on Valuation of Investment Securities) and Revision of Earnings Forecast (in Japanese)” released today.

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

(In millions of yen)

	FY 2017 (As of March 31, 2018)	Q3 FY 2018 (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	6,868	6,501
Accounts receivable - trade	3,304	759
Merchandise and finished goods	480	1,306
Raw materials and supplies	0	0
Other	825	405
Total current assets	11,479	8,973
Non-current assets		
Property, plant and equipment	266	186
Intangible assets	32	29
Investments and other assets	1,256	858
Total non-current assets	1,556	1,074
Total assets	13,035	10,048
Liabilities		
Current liabilities		
Accounts payable - trade	1,344	416
Income taxes payable	43	—
Other	193	107
Total current liabilities	1,580	524
Non-current liabilities		
Asset retirement obligations	35	37
Total non-current liabilities	35	37
Total liabilities	1,616	562
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus	861	861
Retained earnings	9,398	7,536
Treasury shares	(0)	(0)
Total shareholders' equity	11,278	9,417
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	140	69
Deferred gains or losses on hedges	—	(0)
Total valuation and translation adjustments	140	68
Total net assets	11,418	9,486
Total liabilities and net assets	13,035	10,048

(2) Quarterly Statements of Income

(Third quarter)

(In millions of yen)

	Q3 FY 2017 (From April 1, 2017 to December 31, 2017)	Q3 FY 2018 (From April 1, 2018 to December 31, 2018)
Net sales	4,613	3,618
Cost of sales	2,733	2,328
Gross profit	1,880	1,289
Selling, general and administrative expenses	2,326	2,778
Operating loss	(446)	(1,488)
Non-operating income		
Interest income	1	0
Dividend income	6	5
Foreign exchange gains	5	9
Other	3	5
Total non-operating income	16	19
Non-operating expenses		
Loss on investments in partnership	2	7
Other	0	0
Total non-operating expenses	2	8
Ordinary loss	(432)	(1,477)
Extraordinary income		
Gain on sales of investment securities	64	—
Total extraordinary income	64	—
Extraordinary losses		
Loss on valuation of investment securities	138	234
Loss on valuation of membership	1	—
Total extraordinary losses	139	234
Loss before income taxes	(506)	(1,711)
Income taxes	(361)	93
Loss	(145)	(1,805)

**(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

(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 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 has shortened the useful life of non-current assets not expected to be used and changed it to the period up to termination of the agreement.

In addition, the Company changed estimates of asset retirement obligations, which have been recognized as costs required for restoration to original condition associated with the agreement, since it has become possible to make more precise estimates.

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 nine months ended December 31, 2018 each by 50 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 nine months ended December 31, 2018 are as follows:

(In millions of yen)

Classification	Q3 FY 2018 (From April 1, 2018 to December 31, 2018)	
	Amount	Change (%)
LSI products for pachinko and pachislot machines	5,141	17.2
LSI products for embedded systems	116	7.8
Other	42	(35.1)
Total	5,300	16.2

- (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, 2018 are as follows:

(In millions of yen)

Classification	Q3 FY 2018 (From April 1, 2018 to December 31, 2018)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products for pachinko and pachislot machines	3,340	(38.5)	1,318	(36.3)
LSI products for embedded systems	150	69.3	64	25.2
Other	55	(12.1)	10	(7.5)
Total	3,546	(36.5)	1,392	(34.7)

- (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, 2018 are as follows:

(In millions of yen)

Classification	Q3 FY 2018 (From April 1, 2018 to December 31, 2018)	
	Amount	Change (%)
LSI products for pachinko and pachislot machines	3,439	(23.2)
LSI products for embedded systems	126	55.5
Other	51	(3.4)
Total	3,618	(21.6)

- (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 2017 (From April 1, 2017 to December 31, 2017)		Q3 FY 2018 (From April 1, 2018 to December 31, 2018)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	3,108	67.4	2,550	70.5
Fujitsu Electronics Inc.	277	6.0	428	11.9

(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	1,427	—
Gross profit	257	477	554	—
Operating income (loss)	(1,258)	(152)	(77)	—
Ordinary income (loss)	(1,247)	(156)	(73)	—
Profit (loss) before income taxes	(1,247)	(166)	(298)	—
Profit (loss)	(871)	(117)	(816)	—
Basic earnings (loss) per share	(77.88) yen	(10.50) yen	(72.96) 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	10,048	—
Net assets	10,455	10,347	9,486	—
Net assets per share	934.60 yen	924.92 yen	847.90 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