



PRESS RELEASE

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Notice of Posting of an Extraordinary Loss (Loss on Valuation of Investment Securities) and Revision of Earnings Forecast

Please be informed that AXELL CORPORATION (the “Company”) has posted an extraordinary loss (loss on valuation of investment securities) for the third quarter of fiscal 2018, as follows. In addition to the posting of an extraordinary loss, please also be informed that in consideration of recent trends in the Company’s business performance and other factors, revisions of its earnings forecast for the full year of fiscal 2018, disclosed on April 25, 2018, will be made as follows.

1. Posting of an Extraordinary Loss (Loss on Valuation of Investment Securities)

As a result of conducting conservative valuation of investment securities owned by the Company whose real value had declined significantly compared with their book value, a loss on valuation of investment securities due to their impairment was posted as an extraordinary loss of 234 million yen. Since the quarterly reversal method is applied to impairment of loss on valuation of investment securities at the end of the quarterly accounting period, the loss posted on the valuation of investment securities may fluctuate depending on their real value as at March 31, 2019.

2. Revision of the Earnings Forecast

Revision of the Earnings Forecast Figures for the Full Year of Fiscal 2018 (April 1, 2018 to March 31, 2019)

	Net sales	Operating profit	Ordinary profit	Profit	Basic earnings per share
	millions of yen	millions of yen	millions of yen	millions of yen	yen
Previous forecast (A)	6,300	(1,450)	(1,450)	(1,050)	(93.85)
Revised forecast (B)	5,000	(1,700)	(1,700)	(2,000)	(178.76)
Amount of change (B-A)	(1,300)	(250)	(250)	(950)	–
Rate of change (%)	(20.6)	–	–	–	–
(Reference) Results for FY2017 (actual)	8,477	156	164	80	7.18

Reasons for the Revision

The pachinko and pachislot machine market, which is the main market for the Company, is continuing 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 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.

In the midst of such an environment, sales of mainstay Graphics LSI products for pachinko and pachislot machines are expected to be about 320,000 units, a decrease of 110,000 units from the initial plan of 430,000 units, due to inventory adjustments in the market at the start of the third quarter taking longer than expected, and a greater-than-anticipated increase in the reuse ratio.

As for other products targeted at the same market, although sales of LED driver LSI products were expected to surpass the initial plan, sales are now forecast to fall significantly below the initial plan due to an increase in the reuse ratio of memory-module products as well as the delayed adoption of the products by new customers, and other factors. After comprehensively considering all of these circumstances, the Company has revised its forecast for net sales to 5,000 million yen, a decrease of 1,300 million yen (down 20.6%) from the initial plan. The delayed adoption of memory-module products is now slated for the next fiscal year.

Meanwhile, the forecast of gross profit has been revised to 1,750 million yen, a decrease of 400 million yen (down 18.6%) from the initial plan, in line with the decrease in net sales, and the forecast of selling, general and administrative expenses has been revised to 3,450 million yen, a decrease of 150 million yen (down 4.2%) from the initial plan, mainly due to a decrease in overall expenses and a review of research and development expenses in view of strengthened project cost control. As a result, the Company has revised its forecasts of operating loss to 1,700 million yen (a decrease of 250 million yen compared to the initial plan), and ordinary loss to 1,700 million yen (a decrease of 250 million yen compared to the initial plan). Additionally, the Company has revised its loss to 2,000 million yen (a decrease of 950 million compared to the initial plan) due to the aforementioned loss on valuation of investment securities as well as an expected increase in tax expenses due to the reversal of deferred tax assets (a negative impact of approximately 500 million yen on loss compared to the initial plan).

The Company offers its sincerest apologies for any concern caused to shareholders mainly regarding the expected first-ever deficit since its listing. In the business for the pachinko and pachislot machine market, which is the main market for the Company, research and development expenses for next-generation mainstay products have been a burden in recent years. This, however, has mostly faded during the fiscal 2018, and the impact of these research and development expenses is likely to diminish from the next fiscal year onwards. The Company therefore believes that business results will show an improving trend. In addition to early commercialization in the three areas of focus—middleware, cryptographic technology (security, blockchain), and machine learning—all of which are positioned as new businesses, the Company will make a concerted effort to achieve the early recovery of business results and return to a path of sustainable growth by restructuring the business model in order to ensure stable earnings even in the sluggish pachinko and pachislot machine market. We look forward to the continued support of our shareholders and other concerned parties going forward.

(Note) The above forecasts are based on information available to the Company at the time of announcement of this document. Actual results may vary from the forecasts due to a wide range of factors.