



# Summary of Consolidated Financial Statements for the First Quarter Ended June 30, 2019 (Japanese GAAP)

August 6, 2019

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 Scheduled date of release of Quarterly Report: August 9, 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. Consolidated Business Results for the First Quarter of Fiscal Year 2019 (April 1, 2019 to June 30, 2019)

### (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 2019	1,532	—	5	—	11	—	6	—
Q1 FY 2018	—	—	—	—	—	—	—	—

(Note) Comprehensive income: Q1 FY 2019: ¥ 0 million [-%] Q1 FY 2018: ¥ - million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q1 FY 2019	0.62	—
Q1 FY 2018	—	—

(Note) Figures and the rate of year-on-year increase (decrease) for the first quarter of fiscal year 2018 are not presented as the preparation of quarterly consolidated financial statements commenced from the first quarter of fiscal year 2019.

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q1 FY 2019	9,987	9,343	93.3	832.60
FY 2018	—	—	—	—

(Reference) Equity capital Q1 FY 2019: 9,314 million yen FY 2018: – million yen

(Note) Figures for fiscal year 2018 are not presented as the preparation of quarterly consolidated financial statements commenced from the first quarter of fiscal year 2019.

### 2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2018	—	0.00	—	0.00	5.00
FY 2019	—				
FY 2019 (Projection)		0.00	—	5.00	5.00

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

### 3. Consolidated Forecast Results for Fiscal Year 2019 (April 1, 2019 to March 31, 2020)

Consolidated forecast results for fiscal year 2019 are currently being calculated and will be disclosed as soon as they become reasonably predictable.

**\* Matters of Note**

**(1) Changes in significant subsidiaries during the period under review (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes**

New inclusion: 1 (company name: ax Inc.)

Exclusion: -

(Note) For details, please refer to [Appendix] P. 7 “2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in significant subsidiaries during the period).”

**(2) Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements: Yes**

(Note) For details, please refer to [Appendix] P. 7 “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) The number of shares issued at end of period (including treasury stock)	Q1 FY 2019	11,187,749 shares	FY 2018	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q1 FY 2019	152 shares	FY 2018	152 shares
3) Average number of shares of common shares during period (cumulative)	Q1 FY 2019	11,187,597 shares	Q1 FY 2018	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.

**(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.

**(Reference) Non-Consolidated Forecast Results**

**Non-Consolidated Forecast Results for Fiscal Year 2019 (April 1, 2019 to March 31, 2020)**

(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
1st Half	3,100	41.5	(150)	—	(150)	—	(150)	—	(13.40)
Full Year	7,000	39.9	110	—	110	—	110	—	9.83

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

**\* Explanation of appropriate use of results forecasts:**

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.

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## 1. Qualitative Information on Quarterly Financial Results

Year-on-year comparison of the consolidated business results and financial position is not presented as the preparation of quarterly consolidated financial statements commenced from the first quarter of fiscal 2019.

### (1) Explanation of business results

During the three months ended June 30, 2019, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of improvements in personal consumption. However, 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 Group worked on sales expansion for Graphics LSI products for customers in the embedded system market (Note 1), in addition to initiatives for securing stable profits in the pachinko and pachislot market, and also focused on activities for early commercialization in the following four areas: middleware, machine learning (AI), security, and blockchain, all of which are positioned as new businesses. With a view to accelerating new business development, the Group actively considered initiatives including restructuring, alliances and investments. On May 22, 2019, the Group established ax Inc. (investment ratio: 90%), which promotes business in the areas of machine learning (AI) and middleware. In addition, to accelerate the business of the new company, the Group decided to turn bitcraft Co., Ltd. and MotionPortrait, Inc. into sub-subsidiaries through M&As.

As for products targeted at the pachinko and pachislot machine market, net sales stood at 1,451 million yen. Sales of Graphics LSI products, which are the mainstay products in this market, were approximately 110,000 units, up some 90,000 units from the previous corresponding period, when sales were affected by an inventory adjustment. As for other products targeted at the said market, although sales of LED driver LSI products (Note 2) decreased from the previous corresponding period, sales of memory-module (Note 3) products increased from the previous corresponding period due to the robust sales of new products.

In terms of Graphics LSI products targeted at the embedded system market, net sales increased from the previous corresponding period, supported by demand among customers who continuously adopt the Company’s products.

As for other products, including middleware products for game applications, net sales increased from the previous corresponding period, centering on the AXIP series. With regard to ax Inc., which was consolidated from the three months ended June 30, 2019, no net sales were posted for the three months ended June 30, 2019, since it has been just established. As for bitcraft Co., Ltd. and MotionPortrait, Inc., their performance are not included in the business results for the three months ended June 30, 2019, since September 30, 2019 is the deemed date of their acquisition.

As a result, for the three months ended June 30, 2019, the Company recorded net sales of 1,532 million yen and gross profit of 549 million yen. Selling, general and administrative expenses amounted to 544 million yen, of which research and development expenses accounted for 315 million yen.

Consequently, for the three months ended June 30, 2019, the Company recorded an operating profit of 5 million yen, an ordinary profit of 11 million yen and profit attributable to owners of parent of 6 million yen.

(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) “LED driver LSI product” refers to the Company’s LSI products designed to efficiently control LED equipped in pachinko and pachislot machines.

(Note 3) “Memory-module” refers to the mechanism of the part that retains the image data installed in the image display boards of pachinko and pachislot machines.

**(2) Explanation of financial position**

Total assets as of the end of the first quarter of fiscal 2019 stood at 9,987 million yen. Current assets amounted to 8,969 million yen, mainly comprising 5,973 million yen in cash and deposits, 1,038 million yen in accounts receivable – trade and 1,702 million yen in merchandise and finished goods. Non-current assets were 1,018 million yen.

Total liabilities as of the end of the first quarter of fiscal 2019 stood at 644 million yen. Current liabilities were 606 million yen, mainly comprising 510 million yen in accounts payable – trade. Non-current liabilities amounted to 38 million yen.

Total net assets as of the end of the first quarter of fiscal 2019 stood at 9,343 million yen, mainly comprising share capital of 1,018 million yen, capital surplus of 861 million yen and retained earnings of 7,348 million yen.

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

Consolidated forecast results for fiscal 2019 are currently being calculated and will be disclosed as soon as they become reasonably predictable.

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

(In millions of yen)

	Q1 FY 2019 (As of June 30, 2019)
<b>Assets</b>	
Current assets	
Cash and deposits	5,973
Accounts receivable - trade	1,038
Merchandise and finished goods	1,702
Raw materials and supplies	0
Other	254
Total current assets	8,969
Non-current assets	
Property, plant and equipment	179
Intangible assets	35
Investments and other assets	804
Total non-current assets	1,018
Total assets	9,987
<b>Liabilities</b>	
Current liabilities	
Accounts payable - trade	510
Income taxes payable	5
Other	90
Total current liabilities	606
Non-current liabilities	
Asset retirement obligations	38
Total non-current liabilities	38
Total liabilities	644
<b>Net assets</b>	
Shareholders' equity	
Share capital	1,018
Capital surplus	861
Retained earnings	7,348
Treasury shares	(0)
Total shareholders' equity	9,228
Accumulated other comprehensive income	
Valuation difference on available-for-sale securities	86
Total accumulated other comprehensive income	86
Non-controlling interests	28
Total net assets	9,343
Total liabilities and net assets	9,987

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

(First Quarter)

	(In millions of yen)
	Q1 FY 2019 (From April 1, 2019 to June 30, 2019)
Net sales	1,532
Cost of sales	982
Gross profit	549
Selling, general and administrative expenses	544
Operating profit	5
Non-operating income	
Interest income	0
Dividend income	2
Interest on tax refund	1
Other	1
Total non-operating income	5
Ordinary profit	11
Extraordinary losses	
Loss on valuation of membership	5
Total extraordinary losses	5
Profit before income taxes	5
Income taxes	(0)
Profit	5
Loss attributable to non-controlling interests	(1)
Profit attributable to owners of parent	6

**Quarterly Consolidated Statements of Comprehensive Income**

(First Quarter)

	(In millions of yen)
	Q1 FY 2019 (From April 1, 2019 to June 30, 2019)
Profit	5
Other comprehensive income	
Valuation difference on available-for-sale securities	(5)
Deferred gains or losses on hedges	(0)
Total other comprehensive income	(5)
Comprehensive income	0
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	1
Comprehensive income attributable to non-controlling interests	(1)



**(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

**(Changes in significant subsidiaries during the period)**

ax Inc., which was newly established, is included in the scope of consolidation from the first quarter of fiscal 2019. ax Inc. falls under a specified subsidiary of the Company.

**(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 consolidated fiscal year including the first quarter of fiscal 2019.

**(Major subsequent events)**

(Acquisition of shares by a consolidated subsidiary)

At the Board of Directors meeting held on June 25, 2019, the Company resolved to allow ax Inc., a consolidated subsidiary of the Company, to acquire shares in bitcraft Co., Ltd. and turn it into its subsidiary (sub-subsidiary of the Company), and ax Inc. acquired the shares on July 1, 2019.

1. Objective of the acquisition of shares

ax Inc., a consolidated subsidiary of the Company, is promoting business in the areas of machine learning (AI) and middleware, aimed at early expansion of the scale of business. It is crucial to acquire AI engineers and global human resources to accelerate the business of ax Inc., while bitcraft Co., Ltd. has sophisticated technology and global human resources beyond national borders and language barriers. We believe that we can expect to accelerate new business and develop the Group's global business by having ax Inc. turn bitcraft Co., Ltd. into its subsidiary.

2. Outline of the acquiree

- (1) Trade name : bitcraft Co., Ltd.
- (2) Business activities : Development, sales, etc. of computer software
- (3) Share capital : 6 million yen

3. Timing of acquisition of shares

Date of acquisition of shares : July 1, 2019

4. Number of shares acquired and the status of shares held after the acquisition

- (1) Number of shares acquired : 600
- (2) Ownership ratio after the acquisition : 100%

\*The acquisition cost, which is not disclosed pursuant to an agreement between the parties, has been determined at a fair value based on third-party assessment.

At the Board of Directors meeting held on July 25, 2019, the Company resolved to allow ax Inc., a consolidated subsidiary of the Company, to acquire shares in MotionPortrait, Inc. and turn it into its subsidiary (sub-subsidiary of the Company), and the shares have been acquired on August 1, 2019.

1. Objective of the acquisition of shares

ax Inc., a consolidated subsidiary of the Company, is promoting business in the areas of machine learning (AI) and middleware, aimed at early expansion of the scale of business. We believe that we will be able to expand business in the areas of machine learning (AI) by enhancing services in the AI area and offering new value to customers through the integration of state-of-the-art technologies related to AI held by the Group with image recognition and image processing technologies held by MotionPortrait, Inc.

2. Outline of the acquiree

- (1) Trade name : MotionPortrait, Inc.
- (2) Business activities : Development, sales, etc. of computer software
- (3) Share capital : 50 million yen

3. Timing of acquisition of shares

Date of acquisition of shares : August 1, 2019

4. Number of shares acquired and the status of shares held after the acquisition

- (1) Number of shares acquired : 4,370
- (2) Ownership ratio after the acquisition : 100%

\*The acquisition cost, which is not disclosed pursuant to an agreement between the parties, has been determined at a fair value based on third-party assessment.

**3. (Reference) Non-Consolidated Financial Statements****(1) (Reference) Balance Sheets (Non-consolidated)**

(In millions of yen)

FY 2018  
(As of March 31, 2019)

Assets	
Current assets	
Cash and deposits	6,536
Accounts receivable - trade	411
Merchandise and finished goods	1,355
Raw materials and supplies	0
Advance payments - trade	32
Prepaid expenses	99
Income taxes receivable	22
Consumption taxes receivable	209
Other	1
Total current assets	8,669
Non-current assets	
Property, plant and equipment	
Buildings	186
Accumulated depreciation	(111)
Buildings, net	75
Tools, furniture and fixtures	969
Accumulated depreciation	(878)
Tools, furniture and fixtures, net	91
Total property, plant and equipment	166
Intangible assets	
Trademark right	0
Software	28
Total intangible assets	28
Investments and other assets	
Investment securities	677
Shares of subsidiaries and associates	50
Long-term prepaid expenses	19
Leasehold and guarantee deposits	70
Other	19
Total investments and other assets	836
Total non-current assets	1,032
Total assets	9,701

(In millions of yen)

FY 2018  
(As of March 31, 2019)

Liabilities	
Current liabilities	
Accounts payable - trade	234
Accounts payable - other	71
Accrued expenses	18
Deposits received	22
Total current liabilities	347
Non-current liabilities	
Asset retirement obligations	37
Deferred tax liabilities	2
Total non-current liabilities	40
Total liabilities	388
Net assets	
Shareholders' equity	
Capital stock	1,018
Capital surplus	
Legal capital surplus	861
Total capital surpluses	861
Retained earnings	
Legal retained earnings	1
Other retained earnings	
General reserve	8,200
Retained earnings brought forward	(859)
Total retained earnings	7,341
Treasury shares	(0)
Total shareholders' equity	9,221
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	91
Deferred gains or losses on hedges	0
Total valuation and translation adjustments	91
Total net assets	9,313
Total liabilities and net assets	9,701

**(2) (Reference) Quarterly Statements of Income (Non-Consolidated)**

(First quarter)

	(In millions of yen)
	Q1 FY 2018 (From April 1, 2018 to June 30, 2018)
Net sales	724
Cost of sales	466
Gross profit	257
Selling, general and administrative expenses	1,516
Operating loss	(1,258)
Non-operating income	
Interest income	0
Dividend income	2
Foreign exchange gains	8
Other	0
Total non-operating income	11
Non-operating expenses	
Other	0
Total non-operating expenses	0
Ordinary loss	(1,247)
Loss before income taxes	(1,247)
Income taxes	(375)
Loss	(871)

**4. Others****Recent trends in quarterly business results****Year ending March 31, 2020**

(In millions of yen)

	Q1 FY 2019 From April 2019 to June 2019	Q2 FY 2019 From July 2019 to September 2019	Q3 FY 2019 From October 2019 to December 2019	Q4 FY 2019 From January 2020 to March 2020
Net sales	1,532	—	—	—
Gross profit	549	—	—	—
Operating profit	5	—	—	—
Ordinary profit	11	—	—	—
Profit before income taxes	5	—	—	—
Profit	5	—	—	—
Profit attributable to owners of parent	6	—	—	—
Comprehensive income	0	—	—	—
Basic earnings per share	0.62 yen			—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	9,987	—	—	—
Net assets	9,343	—	—	—
Net assets per share	832.60 yen	—	—	—