



Summary of Consolidated Financial Statements for the First Quarter Ended June 30, 2020 (Japanese GAAP)

August 7, 2020

Name of listed company: AXELL CORPORATION
 Code #: 6730
 Representative (Post): Kazunori Matsuura (President)
 Inquiries (Post): Yoshimasa Ueno (Executive Officer, General Manager of Management Department)
 Scheduled date of release of Quarterly Report: August 11, 2020
 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 2020 (April 1, 2020 to June 30, 2020)

(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 2020	2,564	67.3	423	—	425	—	338	—
Q1 FY 2019	1,532	—	5	—	11	—	6	—

(Note) Comprehensive income: Q1 FY 2020: 384 million yen [-%] Q1 FY 2019: 0 million yen [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q1 FY 2020	30.22	—
Q1 FY 2019	0.62	—

(Note) The rate of year-on-year increase (decrease) for the first quarter of fiscal year 2019 is 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 2020	10,675	9,988	93.3	890.20
FY 2019	11,146	9,836	88.0	876.72

(Reference) Equity capital Q1 FY 2020: 9,959 million yen FY 2019: 9,808 million yen

2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2019	—	0.00	—	21.00	21.00
FY 2020	—				
FY 2020 (Projection)		—	—	—	—

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

The dividend forecast for fiscal year 2020 is undetermined.

3. Consolidated Forecast Results for Fiscal Year 2020 (April 1, 2020 to March 31, 2021)

Consolidated forecast results for fiscal year 2020 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): None

New inclusion: -

Exclusion: -

(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 2020	11,187,749 shares	FY 2019	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q1 FY 2020	152 shares	FY 2019	152 shares
3) Average number of shares of common shares during period (cumulative)	Q1 FY 2020	11,187,597 shares	Q1 FY 2019	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.

Contents of Appendix

1. Qualitative Information on Quarterly Financial Results.....	2
(1) Explanation of business results.....	2
(2) Explanation of financial position.....	3
(3) Explanation of future forecast information such as consolidated results forecasts.....	3
2. Quarterly Consolidated Financial Statements and Primary Notes.....	4
(1) Quarterly Consolidated Balance Sheets.....	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	5
Quarterly Consolidated Statements of Income	
First quarter.....	5
Quarterly Consolidated Statements of Comprehensive Income	
First quarter.....	6
(3) Notes to Quarterly Consolidated Financial Statements.....	7
(Notes regarding going concern assumption).....	7
(Notes in cases where there are significant changes in amount of shareholders' equity).....	7
(Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements).....	7
(Additional information)	7
(Segment information)	7
(Major subsequent events).....	8
3. Others.....	9
Recent trends in quarterly business results.....	9

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the three months ended June 30, 2020, the Japanese economy encountered an extremely challenging situation on account of restrictions to social economic activities due to the impact of the worldwide spread of COVID-19. Following the lifting of the state of emergency, economic activities have been gradually resuming, however, the future economic outlook continues to be as uncertain as ever.

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. Moreover, amusement facilities have adopted measures, such as restricting operations from the perspective of preventing the spread of COVID-19, causing the future outlook to be extremely uncertain, including sluggish demand for new machines due to the uncertain outlook.

Under such circumstances, having undertaken measures against the spread of COVID-19 that prioritize the safety of employees and others, 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), blockchain and security, 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.

As a result, for the three months ended June 30, 2020, the Company recorded net sales of 2,564 million yen, up 1,031 million yen from the same period of the previous fiscal year (year-on-year increase of 67.3%) and in line with this increase in net sales, gross profit rose by 389 million yen to 938 million yen (year-on-year increase of 70.8%). This represented a 0.7-point improvement to the gross profit margin, to 36.6%.

Selling, general and administrative expenses amounted to 515 million yen, a decline of 28 million yen from the same period of the previous fiscal year (year-on-year decrease of 5.2%). Within this research and development expenses accounted for 260 million yen, down 55 million yen (year-on-year decrease of 17.6%). Consequently, for the three months ended June 30, 2020, the Company recorded an operating profit of 423 million yen, up by 417 million yen from the same period of the previous fiscal year, an ordinary profit of 425 million yen, an increase of 414 million yen, and profit attributable to owners of parent of 338 million yen, an increase of 331 million yen.

The business performance by segment is as follows. Business results by segment in the three-month period ended June 30, 2020 do not include comparisons of the same period of the previous fiscal year as their presentation commenced from the second quarter of fiscal 2019.

1) LSI Business for Embedded Systems (Including for Japanese Entertainment Machines)

The LSI Business for Embedded Systems (Including for Japanese Entertainment Machines) segment deals with products for pachinko and pachislot machines, the existing businesses of the Company, and for embedded systems. For the three months ended June 30, 2020, the Company recorded net sales of 2,502 million yen and a segment profit of 654 million yen. Regarding products for pachinko and pachislot machines, the Company sold approximately 170,000 graphics LSI products, up some 50,000 units from the same period of the previous fiscal year. In addition, the Company saw a significant increase in sales of memory-module products (Note 2) underpinned by strong demand from customers adopting them, representing favorable sales of products with a particular focus on those for pachinko and pachislot machines. Moreover, the balance of orders for the segment on June 30, 2020 stood at 3,828 million yen, and the pace of order accumulation was brisk. However, uncertainties for the future brought about by COVID-19 had a sudden chilling effect on orders in the latter half of the quarter, and this will require keeping a close eye on the situation going forward.

2) Middleware (AI, Block Chain and Other) and LSI Business for New Business

This segment is a start-up business targeting the areas of middleware, machine learning (AI), block chain, and security. For the three months ended June 30, 2020, the Company recorded net sales of 61 million yen, mainly from sales in the areas of middleware and machine learning (AI), and a segment loss of 82 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) “Memory-module” refers to the mechanism of the part that retains the image data installed in the graphics-rendering circuit boards of pachinko and pachislot machines.

(2) Explanation of financial position

Total assets as of the end of the first quarter of fiscal 2020 stood at 10,675 million yen, a decline of 471 million yen (decrease of 4.2%) from the end of the previous fiscal year. This was mainly attributable to a decline in accounts receivable – trade (270 million yen), and a drop in merchandise and finished goods (189 million yen). Total liabilities as of the end of the first quarter of fiscal 2020 stood at 687 million yen, a decline of 623 million yen (decrease of 47.6%) from the end of the previous fiscal year. Primary contributing factors included a decrease in accounts payable – trade (347 million yen) and a decline in other current liabilities (248 million yen). Total net assets as of the end of the first quarter of fiscal 2020 stood at 9,988 million yen, an increase of 152 million yen (increase of 1.6%) from the end of the previous fiscal year. This was mainly on account of higher retained earnings (103 million yen).

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

Amidst an inability to project the containment of COVID-19, consolidated forecast results for fiscal 2020 remain pending given the difficulties of making a reasonable calculation at the present time on account of uncertainties with regard to trends in the pachinko and pachislot machine market, the main market for the Company, and also with the impact of stagnating corporate activities and an evolving business environment.

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

(In millions of yen)

	FY 2019 (As of March 31, 2020)	Q1 FY 2020 (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	8,071	7,997
Accounts receivable - trade	862	591
Merchandise and finished goods	1,080	890
Work in process	0	0
Raw materials and supplies	0	0
Other	88	103
Allowance for doubtful accounts	(0)	(0)
Total current assets	10,103	9,584
Non-current assets		
Property, plant and equipment	120	112
Intangible assets		
Goodwill	53	50
Other	25	22
Total intangible assets	79	73
Investments and other assets	843	905
Total non-current assets	1,043	1,091
Total assets	11,146	10,675
Liabilities		
Current liabilities		
Accounts payable - trade	662	314
Income taxes payable	122	94
Other	487	239
Total current liabilities	1,272	648
Non-current liabilities		
Asset retirement obligations	38	38
Total non-current liabilities	38	38
Total liabilities	1,310	687
Net assets		
Shareholders' equity		
Share capital	1,018	1,018
Capital surplus	861	861
Retained earnings	7,809	7,912
Treasury shares	(0)	(0)
Total shareholders' equity	9,690	9,793
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	118	166
Total accumulated other comprehensive income	118	166
Share acquisition rights	3	6
Non-controlling interests	24	23
Total net assets	9,836	9,988
Total liabilities and net assets	11,146	10,675

(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)	Q1 FY 2020 (From April 1, 2020 to June 30, 2020)
Net sales	1,532	2,564
Cost of sales	982	1,625
Gross profit	549	938
Selling, general and administrative expenses	544	515
Operating profit	5	423
Non-operating income		
Interest income	0	0
Dividend income	2	2
Interest on tax refund	1	—
Other	1	0
Total non-operating income	5	3
Non-operating expenses		
Amortization of share issuance costs	—	0
Foreign exchange losses	—	0
Total non-operating expenses	—	0
Ordinary profit	11	425
Extraordinary losses		
Impairment loss	—	0
Loss on valuation of investment securities	—	0
Loss on valuation of membership	5	—
Total extraordinary losses	5	0
Profit before income taxes	5	425
Income taxes	(0)	88
Profit	5	336
Loss attributable to non-controlling interests	(1)	(1)
Profit attributable to owners of parent	6	338

Quarterly Consolidated Statements of Comprehensive Income

(First Quarter)

	(In millions of yen)	
	Q1 FY 2019 (From April 1, 2019 to June 30, 2019)	Q1 FY 2020 (From April 1, 2020 to June 30, 2020)
Profit	5	336
Other comprehensive income		
Valuation difference on available-for-sale securities	(5)	47
Deferred gains or losses on hedges	(0)	—
Total other comprehensive income	(5)	47
Comprehensive income	0	384
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1	385
Comprehensive income attributable to non-controlling interests	(1)	(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

(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 2020.

(Additional information)

(Accounting estimate related to the impact of the spread of COVID-19)

There are no significant changes from the tentative estimates stated in (Additional information) "Accounting estimate related to the impact of the spread of COVID-19," in the securities report for the previous fiscal year. Going forward, in the case that there is a prolonged impact from COVID-19, estimates and actual future results may vary.

(Segment information)

I First quarter of fiscal 2019 (April 1, 2019 to June 30, 2019)

Financial statements by segment are omitted as the Group's main business is development and sales of semiconductor products, and other businesses are negligible.

II First quarter of fiscal 2020 (April 1, 2020 to June 30, 2020)

Information about amounts of net sales, profit and loss by reportable segment.

(In millions of yen)

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in Quarterly Consolidated Statements of Income (Note 2)
	LSI Business for Embedded Systems (Including for Japanese Entertainment Machines)	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Net sales					
Net sales to customers	2,502	61	2,564	—	2,564
Inter-segment net sales, and transfers	—	—	—	—	—
Total	2,502	61	2,564	—	2,564
Segment profit (loss)	654	(82)	572	(148)	423

(Notes) 1. The (148) million yen adjustments to segment profit (loss) are company-wide expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.

2. Segment profit (loss) is adjusted with operating profit in Quarterly Consolidated Statements of Income.

(Major subsequent events)

(Issuance of new shares as restricted stock remuneration)

At a Board of Directors' meeting held on July 27, 2020, the Company resolved to issue new shares as restricted stock remuneration (the "Share Issue").

1. Purpose and reasons for issuance

At a Board of Directors' meeting held on May 28, 2020, the Company resolved to introduce a restricted stock remuneration system (the "System") that allots to Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company (hereinafter, "Eligible Directors") restricted stock to have them share the merits and risks of stock price fluctuation with shareholders, and to further increase their motivation to contribute to the rise in stock prices and improving corporate value. In addition, at the 25th Ordinary General Meeting of Shareholders held on June 30, 2020, it was approved that, based on the System, the total amount of monetary remuneration claims as remunerations, etc. for granting restricted stock to Eligible Directors shall be set within the threshold of 30 million yen per year, that the maximum number of restricted stock to be allotted to Eligible Directors each fiscal year shall be 37,500 shares, and that the transfer restriction period of the restricted stock shall be a period stipulated by the Board of Directors of the Company ranging from 20 years to 30 years.

2. Outline of the issuance

(1) Payment date	August 11, 2020
(2) Type and number of shares to be issued	24,240 shares of common stock of the Company
(3) Issuance price	825 yen per share
(4) Total value of shares to be issued	19,998,000 yen
(5) Capitalization amount	412.5 yen per share
(6) Total capitalization amount	9,999,000 yen
(7) Method of offer or allotment	Allotment of specified restricted shares
(8) Method of contribution	In-kind contribution of monetary remuneration claims
(9) Allottees and number thereof, number of shares to be allotted	4 Directors of the Company(*) 24,240 shares *Excluding Directors serving as Audit and Supervisory Committee members
(10) Transfer restriction period	From August 11, 2020 to August 10, 2050
(11) Others	A securities notice pursuant to the Financial Instruments and Exchange Act has been submitted for the issuance of new shares

3. Others

Recent trends in quarterly business results

Year ending March 31, 2021

(In millions of yen)

	Q1 FY 2020 From April 2020 to June 2020	Q2 FY 2020 From July 2020 to September 2020	Q3 FY 2020 From October 2020 to December 2020	Q4 FY 2020 From January 2021 to March 2021
Net sales	2,564	—	—	—
Gross profit	938	—	—	—
Operating profit	423	—	—	—
Ordinary profit	425	—	—	—
Profit before income taxes	425	—	—	—
Profit	336	—	—	—
Profit attributable to owners of parent	338	—	—	—
Comprehensive income	384	—	—	—
Basic earnings per share	30.22 yen			—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	10,675	—	—	—
Net assets	9,988	—	—	—
Net assets per share	890.20 yen	—	—	—

Year ended 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	2,332	2,602	2,797
Gross profit	549	668	799	930
Operating profit	5	79	238	69
Ordinary profit	11	83	246	194
Profit before income taxes	5	83	245	172
Profit	5	80	240	135
Profit attributable to owners of parent	6	83	242	136
Comprehensive income	0	65	298	125
Basic earnings per share	0.62 yen	7.42 yen	21.64 yen	12.15 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	10,288	10,524	11,146
Net assets	9,343	9,409	9,707	9,836
Net assets per share	832.60 yen	838.68 yen	865.48 yen	876.72 yen