



# Summary of Consolidated Financial Statements for the Second Quarter Ended September 30, 2020 (Japanese GAAP)

November 10, 2020

Name of listed company:	AXELL CORPORATION	Stock Exchange: Tokyo
Code #: 6730		URL: <a href="https://www.axell.co.jp/">https://www.axell.co.jp/</a>
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Scheduled date of release of Quarterly Report:	November 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 Second Quarter of Fiscal Year 2020 (April 1, 2020 to September 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	
Q2 FY 2020	millions of yen	4,262	%	10.3	millions of yen	269	%	216.2
Q2 FY 2019		3,865		—		85		—

(Note) Comprehensive income: Q2 FY 2020: 291 million yen [340.2%] Q2 FY 2019: 66 million yen [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q2 FY 2020	20.71	—
Q2 FY 2019	8.04	—

(Note) The rate of year-on-year increase (decrease) for the second quarter of fiscal year 2019 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
Q2 FY 2020	millions of yen	millions of yen	%	Yen
FY 2019	11,235	9,918	88.0	881.78
	11,146	9,836	88.0	876.72

(Reference) Equity capital Q2 FY 2020: 9,886 million yen FY 2019: 9,808 million yen

## 2. Dividend Payments

	Annual Dividend				
	1Q	2Q	3Q	Year-end	Annual
FY 2019	Yen —	Yen 0.00	Yen —	Yen 21.00	Yen 21.00
FY 2020	—	0.00	—	—	—
FY 2020 (Projection)			—	11.00	11.00

(Note) Revision of dividend projection from recently announced figures: Yes

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

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
Full Year	8,300	(10.4)	180	(54.3)	320	(40.2)	250	(46.6)	22.29

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

For information on forecast results, please refer to "Notice on Announcement of Full-Year Forecast Results and Dividend Forecasts for Fiscal 2020," released today (November 10, 2020).

#### \* 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. 9 "2. Quarterly Consolidated Financial Statements and Primary Notes, (4) 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)	Q2 FY 2020	11,211,989 shares	FY 2019	11,187,749 shares
2) The number of shares of treasury stock at end of period	Q2 FY 2020	152 shares	FY 2019	152 shares
3) Average number of shares of common shares during period (cumulative)	Q2 FY 2020	11,194,352 shares	Q2 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 scheduled to be provided on TDnet and the Company website on Wednesday, November 11, 2020.

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## 1. Qualitative Information on Quarterly Financial Results

### (1) Explanation of business results

During the six months ended September 30, 2020, the Japanese economy continued to face an extremely challenging situation on account of various factors including restrictions on socioeconomic 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 but remaining far from the levels before the spread of infections, and 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, due to the impact of the spread of COVID-19, supplementary provisions of the revised ordinance were amended in May 2020 by the National Public Safety Commission, extending the deadline for the retirement from the market of machines subject to the previous ordinance, which was originally required to be completed by the end of January 2021, and the future outlook of the market remains extremely uncertain.

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), 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 six months ended September 30, 2020, the Company recorded net sales of 4,262 million yen, up 396 million yen from the same period of the previous fiscal year (year-on-year increase of 10.3%). In line with this increase in net sales, gross profit rose by 312 million yen (year-on-year increase of 25.6%) to 1,531 million yen. Gross profit margin improved by 4.4 percentage points year-on-year to 35.9%, driven by a change in the product mix.

Selling, general and administrative expenses amounted to 1,261 million yen, an increase of 128 million yen from the same period of the previous fiscal year (year-on-year increase of 11.3%). Of this, research and development expenses accounted for 738 million yen, up 63 million yen (year-on-year increase of 9.5%).

Consequently, for the six months ended September 30, 2020, the Company recorded an operating profit of 269 million yen, an increase of 184 million yen from the same period of the previous fiscal year, an ordinary profit of 299 million yen, an increase of 204 million yen, and a profit attributable to owners of parent of 231 million yen, an increase of 141 million yen.

The business performance by segment is as follows.

### **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 six months ended September 30, 2020, the Company recorded net sales of 4,119 million yen, an increase of 297 million yen from the same period of the previous fiscal year (year-on-year increase of 7.8%) and a segment profit of 757 million yen, an increase of 76 million yen from the same period of the previous fiscal year (year-on-year increase of 11.3%). The increases in net sales and profit were due mainly to an increase in the unit sales of graphics LSI products for pachinko and pachislot machines by about 40,000 from the same period of the previous fiscal year, to about 230,000 units. On the other hand, the expected demand in this fiscal year for machines compliant with the revised ordinance was diversified into the current and next fiscal year as the deadline for the retirement of machines subject to the previous ordinance was extended in response to the spread of COVID-19. As a result, sales of products targeting pachinko and pachislot machines have been on a downward trend since May 2020, when the extension was announced. Net sales figures for the segment were 2,502 million yen in the three months ended June 30 and 1,616 million yen in the subsequent three months ended September 30, and the balance of orders for the segment as of September 30, 2020 stood at 3,284 million yen.

### **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 six months ended September 30, 2020, the Company recorded net sales of 142 million yen, up 98 million yen, or 227.3%, from the same period of the previous fiscal year, mainly from sales in the areas of middleware and machine learning (AI), and a segment loss of 182 million yen, down 129 million yen from 312 million yen reported in the same period of the previous fiscal year.

(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 2020 stood at 11,235 million yen, up 88 million yen, or 0.8%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in merchandise and finished goods (393 million yen) despite a decrease in cash and deposits (224 million yen) and a decrease in accounts receivable – trade (124 million yen).

Total liabilities as of the end of the second quarter of fiscal 2020 stood at 1,316 million yen, up 5 million yen, or 0.4%, from the end of the previous fiscal year. Main factors contributing to this outcome included an increase in accounts payable - trade (208 million yen) against a decrease in other current liabilities (175 million yen).

Total net assets as of the end of the second quarter of fiscal 2020 stood at 9,918 million yen, up 82 million yen, or 0.8%, from the end of the previous fiscal year. Main factors contributing to this increase included an increase in share capital (9 million yen) as a result of the issuance of new shares as restricted stock remuneration, an increase in capital surplus (9 million yen), and an increase in valuation difference on available-for-sale securities (60 million yen).

## **2) Status of cash flows**

Cash and cash equivalents (hereinafter “funds”) as of the end of the second quarter of fiscal 2020 amounted to 7,847 million yen, up 19.6% from a year earlier. The status of cash flows and their contributing factors are as follows.

### **(Cash flows from operating activities)**

Funds used in operating activities for the second quarter of fiscal 2020 amounted to 24 million yen, compared to 40 million yen provided in the same period in the previous fiscal year. This was attributable mainly to factors including profit before income taxes (297 million yen), a decrease in trade receivables (124 million yen), and an increase in trade payables (208 million yen), against an increase in inventories (393 million yen) in the second quarter of fiscal 2020.

### **(Cash flows from investing activities)**

Funds provided by investing activities for the second quarter of fiscal 2020 amounted to 34 million yen, compared to 46 million yen used in the same period in the previous fiscal year. This was attributable mainly to factors such as proceeds from distributions from investment partnerships (65 million yen), against purchase of investment securities (28 million yen).

### **(Cash flows from financing activities)**

Funds used in financing activities for the second quarter of fiscal 2020 amounted to 234 million yen, compared to 29 million yen provided in the same period in the previous fiscal year. This was attributable mainly to dividends paid (234 million yen).

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

Regarding consolidated forecast results for fiscal 2020, please refer to “Notice on Announcement of Full-Year Forecast Results and Dividend Forecasts for Fiscal 2020,” released today (November 10, 2020).

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Quarterly Consolidated Balance Sheets

	(In millions of yen)	
	FY 2019 (As of March 31, 2020)	Q2 FY 2020 (As of September 30, 2020)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	8,071	7,847
Accounts receivable - trade	862	738
Merchandise and finished goods	1,080	1,473
Work in process	0	0
Raw materials and supplies	0	0
Other	88	115
Allowance for doubtful accounts	(0)	(0)
<b>Total current assets</b>	<b>10,103</b>	<b>10,174</b>
<b>Non-current assets</b>		
Property, plant and equipment	120	104
Intangible assets		
Goodwill	53	47
Other	25	20
<b>Total intangible assets</b>	<b>79</b>	<b>68</b>
Investments and other assets	843	888
<b>Total non-current assets</b>	<b>1,043</b>	<b>1,060</b>
<b>Total assets</b>	<b>11,146</b>	<b>11,235</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	662	871
Income taxes payable	122	79
Provision for bonuses	—	14
Other	487	312
<b>Total current liabilities</b>	<b>1,272</b>	<b>1,277</b>
<b>Non-current liabilities</b>		
Asset retirement obligations	38	38
<b>Total non-current liabilities</b>	<b>38</b>	<b>38</b>
<b>Total liabilities</b>	<b>1,310</b>	<b>1,316</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	1,018	1,028
Capital surplus	861	871
Retained earnings	7,809	7,806
Treasury shares	(0)	(0)
<b>Total shareholders' equity</b>	<b>9,690</b>	<b>9,707</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	118	179
<b>Total accumulated other comprehensive income</b>	<b>118</b>	<b>179</b>
<b>Share acquisition rights</b>	<b>3</b>	<b>9</b>
<b>Non-controlling interests</b>	<b>24</b>	<b>23</b>
<b>Total net assets</b>	<b>9,836</b>	<b>9,918</b>
<b>Total liabilities and net assets</b>	<b>11,146</b>	<b>11,235</b>

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

(Second Quarter)

	(In millions of yen)	
	Q2 FY 2019 (From April 1, 2019 to September 30, 2019)	Q2 FY 2020 (From April 1, 2020 to September 30, 2020)
Net sales	3,865	4,262
Cost of sales	2,646	2,730
Gross profit	1,218	1,531
Selling, general and administrative expenses	1,133	1,261
Operating profit	85	269
Non-operating income		
Interest income	0	0
Dividend income	2	2
Gain on investments in investment partnerships	2	27
Other	3	0
Total non-operating income	9	30
Non-operating expenses		
Foreign exchange losses	—	0
Other	0	0
Total non-operating expenses	0	0
Ordinary profit	94	299
Extraordinary income		
Gain on bargain purchase	0	—
Total extraordinary income	0	—
Extraordinary losses		
Impairment loss	—	0
Loss on valuation of investment securities	—	0
Loss on valuation of shares of subsidiaries	—	1
Loss on valuation of membership	5	—
Total extraordinary losses	5	2
Profit before income taxes	89	297
Income taxes	3	66
Profit	86	230
Loss attributable to non-controlling interests	(3)	(1)
Profit attributable to owners of parent	90	231

**Quarterly Consolidated Statements of Comprehensive Income**  
**(Second Quarter)**

	(In millions of yen)	
	Q2 FY 2019 (From April 1, 2019 to September 30, 2019)	Q2 FY 2020 (From April 1, 2020 to September 30, 2020)
Profit	86	230
Other comprehensive income		
Valuation difference on available-for-sale securities	(20)	60
Deferred gains or losses on hedges	(0)	—
Total other comprehensive income	<hr/> (20)	<hr/> 60
Comprehensive income	<hr/> 66	<hr/> 291
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	69	292
Comprehensive income attributable to non-controlling interests	(3)	(1)

**(3) Quarterly Statements of Cash Flows**

(In millions of yen)

	Q2 FY 2019 (From April 1, 2019 to September 30, 2019)	Q2 FY 2020 (From April 1, 2020 to September 30, 2020)
Cash flows from operating activities		
Profit before income taxes	89	297
Depreciation	46	23
Amortization of goodwill	—	5
Gain on bargain purchase	(0)	—
Share-based remuneration expenses	—	11
Interest and dividend income	(2)	(2)
Loss (gain) on investments in investment partnerships	(2)	(27)
Decrease (increase) in trade receivables	(629)	124
Decrease (increase) in inventories	(183)	(393)
Decrease (increase) in other current assets	38	7
Increase (decrease) in trade payables	422	208
Increase (decrease) in other current liabilities	(18)	19
Other, net	258	(208)
Subtotal	18	65
Interest and dividends received	2	2
Income taxes (paid) refund	19	(93)
Net cash provided by (used in) operating activities	40	(24)
Cash flows from investing activities		
Purchase of property, plant and equipment	(38)	(1)
Purchase of intangible assets	(16)	(1)
Purchase of investment securities	—	(28)
Proceeds from distributions from investment partnerships	44	65
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(35)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	1	—
Other, net	(1)	0
Net cash provided by (used in) investing activities	(46)	34
Cash flows from financing activities		
Dividends paid	(0)	(234)
Proceeds from share issuance to non-controlling shareholders	30	—
Other, net	—	(0)
Net cash provided by (used in) financing activities	29	(234)
Effect of exchange rate change on cash and cash equivalents	(0)	(0)
Net increase (decrease) in cash and cash equivalents	23	(224)
Cash and cash equivalents at beginning of period	6,536	8,071
Cash and cash equivalents at end of period	6,560	7,847

**(4) 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 second 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 under (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 Second quarter of fiscal 2019 (April 1 to September 30, 2019)

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	3,821	43	3,865	—	3,865
Inter-segment net sales, and transfers	—	—	—	—	—
Total	3,821	43	3,865	—	3,865
Segment profit (loss)	680	(312)	368	(283)	85

(Notes) 1. The (283) 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.

II Second quarter of fiscal 2020 (April 1, 2020 to September 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	4,119	142	4,262	—	4,262
Inter-segment net sales, and transfers	—	—	—	—	—
Total	4,119	142	4,262	—	4,262
Segment profit (loss)	757	(182)	574	(305)	269

- (Notes) 1. The (305) 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.

### 3. Others

#### Recent trends in quarterly business results

##### Fiscal 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	1,697	—	—
Gross profit	938	592	—	—
Operating profit (loss)	423	(153)	—	—
Ordinary profit (loss)	425	(126)	—	—
Profit (loss) before income taxes	425	(127)	—	—
Profit (loss)	336	(105)	—	—
Profit (loss) attributable to owners of parent	338	(106)	—	—
Comprehensive income	384	(92)	—	—
Basic earnings (loss) per share	30.22 yen	(9.48 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	11,235	—	—
Net assets	9,988	9,918	—	—
Net assets per share	890.20 yen	881.78 yen	—	—

##### Fiscal 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