



Summary of Consolidated Financial Statements for the Third Quarter Ended December 31, 2020 (Japanese GAAP)

February 10, 2021

Name of listed company: AXELL CORPORATION Stock Exchange: Tokyo
 Code #: 6730 URL: <https://www.axell.co.jp>
 Representative (Post): Kazunori Matsuura (President) Phone: (03) 5298-1670
 Inquiries (Post): Yoshimasa Ueno (Executive Officer, General Manager of Management Department)
 Scheduled date of release of Quarterly Report: February 12, 2021
 Scheduled date of dividend payment: —
 Availability of supplementary explanatory materials prepared for quarterly financial results: None
 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 Third Quarter of Fiscal Year 2020 (April 1, 2020 to December 31, 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	%
Q3 FY 2020	6,237	(3.6)	307	(4.9)	457	34.1	352	6.2
Q3 FY 2019	6,468	—	323	—	340	—	332	—

(Note) Comprehensive income: Q3 FY 2020: 419 million yen [15.2%] Q3 FY 2019: 364 million yen [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q3 FY 2020	31.66	—
Q3 FY 2019	29.69	—

(Note) The rate of year-on-year increase (decrease) for the third 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
	millions of yen	millions of yen	%	Yen
Q3 FY 2020	10,692	9,724	90.6	897.37
FY 2019	11,146	9,836	88.0	876.72

(Reference) Equity capital Q3 FY 2020: 9,689 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	—	0.00	—		
FY 2020 (Projection)				11.00	11.00

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

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)	22.60

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

The Company has resolved to repurchase its shares at its Board of Directors meeting held on November 19, 2020. The impact of this share repurchase has been reflected in "Basic earnings per share" in the consolidated forecast results above.

* 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. 8 "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 shares)	Q3 FY 2020	11,211,989 shares	FY 2019	11,187,749 shares
2) The number of treasury shares at end of period	Q3 FY 2020	414,552 shares	FY 2019	152 shares
3) Average number of common shares during period (cumulative)	Q3 FY 2020	11,144,446 shares	Q3 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.

Contents of Appendix

- 1. Qualitative Information on Quarterly Financial Results..... 2
 - (1) Explanation of business results..... 2
 - (2) Explanation of financial position..... 4
 - (3) Explanation of future forecast information such as consolidated results forecasts..... 4
- 2. Quarterly Consolidated Financial Statements and Primary Notes..... 5
 - (1) Quarterly Consolidated Balance Sheets..... 5
 - (2) Quarterly Consolidated Statements of Income and Comprehensive Income..... 6
 - Quarterly Consolidated Statements of Income
 - Third quarter..... 6
 - Quarterly Consolidated Statements of Comprehensive Income
 - Third quarter..... 7
 - (3) Notes to Quarterly Consolidated Financial Statements..... 8
 - (Notes regarding going concern assumption)..... 8
 - (Notes in cases where there are significant changes in amount of shareholders' equity)..... 8
 - (Changes in significant subsidiaries during the period)..... 8
 - (Application of special accounting processes for the preparation of Quarterly Consolidated Financial Statements)..... 8
 - (Additional information) 8
 - (Segment information) 8
 - (Business combination) 9
- 3. Others..... 10
 - Recent trends in quarterly business results..... 10

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of business results

During the nine months ended December 31, 2020, the Japanese economy continued to face a challenging situation on account of various factors including restrictions on socioeconomic activities due to the impact of the worldwide spread of COVID-19.

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, while continuing 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 nine months ended December 31, 2020, the Company recorded net sales of 6,237 million yen, down 230 million yen from the same period of the previous fiscal year (year-on-year decrease of 3.6%). Gross profit rose by 167 million yen (year-on-year increase of 8.3%) to 2,185 million yen. Gross profit margin improved by 3.8 percentage points year-on-year to 35.0%, driven by a change in the product mix.

Selling, general and administrative expenses amounted to 1,878 million yen, an increase of 183 million yen from the same period of the previous fiscal year (year-on-year increase of 10.8%). Of this, research and development expenses accounted for 1,091 million yen, up 112 million yen (year-on-year increase of 11.5%).

Consequently, for the nine months ended December 31, 2020, the Company recorded an operating profit of 307 million yen, a decrease of 15 million yen from the same period of the previous fiscal year (year-on-year decrease of 4.9%). In addition, as a result of recording 114 million yen as subsidy income from NEDO under non-operating income, ordinary profit rose by 116 million yen (year-on-year increase of 34.1%) to 457 million yen, and profit attributable to owners of parent rose by 20 million yen (year-on-year increase of 6.2%) to 352 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 nine months ended December 31, 2020, the Company recorded net sales of 6,030 million yen, a decrease of 331 million yen from the same period of the previous fiscal year (year-on-year decrease of 5.2%) and a segment profit of 1,134 million yen, a decrease of 42 million yen from the same period of the previous fiscal year (year-on-year decrease of 3.6%). While the unit sales of graphics LSI products for pachinko and pachislot machines increased by about 30,000 from the same period of the previous fiscal year to about 310,000 units, sales of other products, including memory-module products (Note 2), fell below the level seen in the same period of the previous fiscal year. In addition, the expected demand in this fiscal year for machines compliant with the revised ordinance was diversified into the current and next fiscal years as the deadline for the retirement of machines subject to the previous ordinance was extended in response to the spread of COVID-19. Under these circumstances, sales of products targeting pachinko and pachislot machines had been on a downward trend during the three months ended June 30 and the subsequent three months ended September 30, 2020. However, trends in sales are showing signs of recovery, with the progress in machine replacements from the middle of the three months ended December 31, 2020 to adjust to the new deadline for the retirement of machines. Net sales figures for the segment were 2,502 million yen in the three months ended June 30, 1,616 million yen in the three months ended September 30 and 1,911 million yen in the three months ended December 31, and the balance of orders for the segment as of December 31, 2020 stood at 4,721 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 nine months ended December 31, 2020, the Company recorded net sales of 206 million yen, up 100 million yen, or 95.5%, 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 374 million yen, down 54 million yen from 429 million yen reported in the same period of the previous fiscal year.

(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 third quarter of fiscal 2020 stood at 10,692 million yen, down 454 million yen, or 4.1%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in cash and deposits (1,163 million yen), despite an increase in accounts receivable – trade (100 million yen) and an increase in merchandise and finished goods (391 million yen).

Total liabilities as of the end of the third quarter of fiscal 2020 stood at 968 million yen, down 342 million yen, or 26.1%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in accounts payable - trade (35 million yen), a decrease in income taxes payable (61 million yen) and a decrease in other current liabilities (268 million yen).

Total net assets as of the end of the third quarter of fiscal 2020 stood at 9,724 million yen, down 111 million yen, or 1.1%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease associated with the repurchase of own shares (326 million yen), against 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), an increase in retained earnings (117 million yen) and an increase in valuation difference on available-for-sale securities (69 million yen).

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

Regarding the consolidated results for the nine months ended December 31, 2020, the outcome of each profit item under operating profit has all greatly exceeded the figures in the full year consolidated forecast results. However, as a result of comprehensive consideration including the uncertainty in market trends with the second declaration of a state of emergency in response to the spread of COVID-19 and the expectation for continued active investment in research and development in the fourth quarter of fiscal 2020, the Company has judged that there is no need to implement a revision of the forecasted values at this time.

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

(In millions of yen)

	FY 2019 (As of March 31, 2020)	Q3 FY 2020 (As of December 31, 2020)
Assets		
Current assets		
Cash and deposits	8,071	6,908
Accounts receivable - trade	862	962
Merchandise and finished goods	1,080	1,471
Work in process	0	10
Raw materials and supplies	0	0
Other	88	253
Allowance for doubtful accounts	(0)	(0)
Total current assets	10,103	9,605
Non-current assets		
Property, plant and equipment	120	99
Intangible assets		
Goodwill	53	44
Other	25	17
Total intangible assets	79	62
Investments and other assets	843	924
Total non-current assets	1,043	1,086
Total assets	11,146	10,692
Liabilities		
Current liabilities		
Accounts payable - trade	662	626
Income taxes payable	122	60
Provision for bonuses	—	22
Other	487	219
Total current liabilities	1,272	929
Non-current liabilities		
Asset retirement obligations	38	39
Total non-current liabilities	38	39
Total liabilities	1,310	968
Net assets		
Shareholders' equity		
Share capital	1,018	1,028
Capital surplus	861	871
Retained earnings	7,809	7,927
Treasury shares	(0)	(326)
Total shareholders' equity	9,690	9,501
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	118	187
Total accumulated other comprehensive income	118	187
Share acquisition rights	3	12
Non-controlling interests	24	22
Total net assets	9,836	9,724
Total liabilities and net assets	11,146	10,692

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

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2019 (From April 1, 2019 to December 31, 2019)	Q3 FY 2020 (From April 1, 2020 to December 31, 2020)
Net sales	6,468	6,237
Cost of sales	4,449	4,051
Gross profit	2,018	2,185
Selling, general and administrative expenses	1,694	1,878
Operating profit	323	307
Non-operating income		
Interest income	0	0
Dividend income	5	5
Foreign exchange gains	1	—
Gain on investments in investment partnerships	2	27
Subsidy income	4	114
Other	3	3
Total non-operating income	17	150
Non-operating expenses		
Foreign exchange losses	—	0
Other	0	0
Total non-operating expenses	0	0
Ordinary profit	340	457
Extraordinary income		
Gain on bargain purchase	0	—
Total extraordinary income	0	—
Extraordinary losses		
Impairment loss	—	2
Loss on valuation of shares of subsidiaries	—	1
Loss on valuation of membership	5	—
Other	0	0
Total extraordinary losses	6	4
Profit before income taxes	335	452
Income taxes	8	101
Profit	327	350
Loss attributable to non-controlling interests	(5)	(2)
Profit attributable to owners of parent	332	352

Quarterly Consolidated Statements of Comprehensive Income

(Third Quarter)

	(In millions of yen)	
	Q3 FY 2019 (From April 1, 2019 to December 31, 2019)	Q3 FY 2020 (From April 1, 2020 to December 31, 2020)
Profit	327	350
Other comprehensive income		
Valuation difference on available-for-sale securities	37	69
Deferred gains or losses on hedges	(0)	—
Total other comprehensive income	37	69
Comprehensive income	364	419
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	369	421
Comprehensive income attributable to non-controlling interests	(5)	(2)

(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)

Although it is not a matter falling under changes in specified subsidiaries, MotionPortrait, Inc. has been excluded from the scope of consolidation in the third quarter of fiscal 2020 as it was dissolved in an absorption-type merger in which ax Inc. was the surviving 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 third 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 Third quarter of fiscal 2019 (April 1, 2019 to December 31, 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	6,362	105	6,468	—	6,468
Inter-segment net sales, and transfers	—	—	—	—	—
Total	6,362	105	6,468	—	6,468
Segment profit (loss)	1,176	(429)	747	(423)	323

(Notes) 1. The (423) 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 Third quarter of fiscal 2020 (April 1, 2020 to December 31, 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	6,030	206	6,237	—	6,237
Inter-segment net sales, and transfers	—	—	—	—	—
Total	6,030	206	6,237	—	6,237
Segment profit (loss)	1,134	(374)	759	(451)	307

(Notes) 1. The (451) 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.

(Business combination)

Absorption-type merger of a sub-subsubsidiary by a consolidated subsidiary

1. Outline of transaction**1) Company name of acquiree and its business activities**

Name of the company acquired: MotionPortrait, Inc.

Business of the company acquired: Development, sales, etc. of computer software

2) Date of business combination

December 1, 2020

3) Legal form of merger

An absorption-type merger in which ax. Inc. is the surviving company and MotionPortrait, Inc. is the dissolving company

4) Company name after business combination

ax Inc.

5) Other matters related to the transactions

The merger is aimed at making the management of the Group more efficient by concentrating management resources.

2. Outline of accounting processes

Treated as a transaction under common control based on the Accounting Standards for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

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	1,975	—
Gross profit	938	592	654	—
Operating profit (loss)	423	(153)	37	—
Ordinary profit (loss)	425	(126)	157	—
Profit (loss) before income taxes	425	(127)	155	—
Profit (loss)	336	(105)	120	—
Profit (loss) attributable to owners of parent	338	(106)	121	—
Comprehensive income	384	(92)	128	—
Basic earnings (loss) per share	30.22 yen	(9.48) yen	10.95 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	10,692	—
Net assets	9,988	9,918	9,724	—
Net assets per share	890.20 yen	881.78 yen	897.37 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