



Summary of Consolidated Financial Statements for the First Quarter Ended June 30, 2024 (Japanese GAAP)

August 6, 2024

Name of listed company: AXELL CORPORATION
Code #: 6730
Representative (Post): Akihiro Saito (President)
Inquiries (Post): Daisuke Tanaka (Executive Officer, General Manager of Management Department)
Scheduled date of dividend payment: —
Availability of supplementary explanatory materials prepared for financial results: None
Briefing session on financial results to be held: None

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(Figures are rounded down to the nearest million yen.)

1. Consolidated Business Results for the First Quarter of Fiscal Year 2024 (April 1, 2024 to June 30, 2024)

(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 2024	4,061	(9.3)	528	(32.0)	521	(34.3)	367	(36.8)
Q1 FY 2023	4,475	30.6	777	126.4	793	130.9	581	98.1

(Note) Comprehensive income: Q1 FY 2024: 256 million yen [(58.0)%] Q1 FY 2023: 611 million yen [120.7%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Q1 FY 2024	33.62	33.49
Q1 FY 2023	53.46	53.21

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
Q1 FY 2024	14,330	12,265	84.7	1,109.67
FY 2023	15,574	12,891	81.9	1,166.82

(Reference) Equity capital Q1 FY 2024: 12,135 million yen FY 2023: 12,759 million yen

2. Dividend Payments

	Annual Dividend				
	End of Q1	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2023	—	0.00	—	81.00	81.00
FY 2024	—				
FY 2024 (Projection)		0.00	—	35.00	35.00

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

3. Consolidated Forecast Results for Fiscal Year 2024 (April 1, 2024 to March 31, 2025)

(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
First half	6,500	(29.6)	600	(59.4)	600	(59.3)	420	(60.1)	38.40
Full Year	13,300	(24.3)	1,100	(54.7)	1,100	(55.1)	770	(56.5)	70.41

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

*** Matters of Note**

(1) Significant changes in the scope of consolidation during the period: 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, (Notes regarding 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) Number of shares issued at end of period (including treasury shares)	Q1 FY 2024	11,211,989 shares	FY 2023	11,211,989 shares
2) Number of treasury shares at end of period	Q1 FY 2024	275,712 shares	FY 2023	276,712 shares
3) Average number of common shares during period (cumulative)	Q1 FY 2024	10,936,277 shares	Q1 FY 2023	10,884,731 shares

*** Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None**

*** 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 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. Overview of Business Results, etc.

(1) Overview of business results for the quarter under review

During the three months ended June 30, 2024, the Japanese economy showed normalization in socioeconomic activities and moderate economic recovery is expected to continue with resurgence in demand of inbound tourism and other affairs. Nevertheless, the future economic outlook remains uncertain due to concerns about soaring resource and raw material prices, and the impacts of continuously high interest rates in Europe and the United States.

The pachinko and pachislot machine market, which is the main market for the Group, is analyzed as firmly growing, as the recovery trend of pachislot machine market has become clear with the introduction of smart pachislot machines.

Under such circumstances, the Group focused on efforts to secure stable profits in the pachinko and pachislot machine market, to expand sales of graphics LSI products for the embedded system market (Note 1), and to expand the scale of new businesses centered on the AI area. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including alliances and investments.

As a result, for the three months ended June 30, 2024, the Company recorded net sales of 4,061 million yen, down 414 million yen from the same period of the previous fiscal year (year-on-year decrease of 9.3%). In line with this decrease in net sales, gross profit decreased by 255 million yen (year-on-year decrease of 17.4%) to 1,216 million yen. Gross profit margin decreased by 3.0 percentage points year-on-year to 29.9%, driven by factors including a change in the product mix. Selling, general and administrative expenses amounted to 687 million yen, a decrease of 6 million yen from the same period of the previous fiscal year (year-on-year decrease of 0.9%). Of this, research and development expenses accounted for 348 million yen, up 9 million yen (year-on-year increase of 2.9%).

Consequently, for the three months ended June 30, 2024, the Company recorded an operating profit of 528 million yen, a decrease of 249 million yen from the same period of the previous fiscal year (year-on-year decrease of 32.0%), an ordinary profit of 521 million yen, a decrease of 272 million yen (year-on-year decrease of 34.3%), and a profit attributable to owners of parent of 367 million yen, a decrease of 214 million yen (year-on-year decrease of 36.8%).

The business performance by segment is as follows. In addition, besides the following segments, corporate expenses not allocated to each segment amounted to 168 million yen.

1) LSI Business for Japanese Entertainment Machines

The LSI Business for Japanese Entertainment Machines segment deals with products for pachinko and pachislot machines, the existing businesses of the Company. For the three months ended June 30, 2024, the Company recorded net sales of 3,925 million yen, a decrease of 386 million yen from the same period of the previous fiscal year (year-on-year decrease of 9.0%), and an operating profit of 796 million yen, a decrease of 227 million yen from the same period of the previous fiscal year (year-on-year decrease of 22.2%). Regarding the Company's mainstay products, graphics LSI products for pachinko and pachislot machines, the number of units sold decreased by 20,000 units from the same period of the previous fiscal year to 170,000 units, and sales of memory-module products (Note 2) fell short of those of the same period of the previous fiscal year. Moreover, the order backlog for the segment as of June 30, 2024 stood at 13,496 million yen.

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

This segment is a start-up business focusing on the areas of AI, Web3, and block chain in addition to products for embedded systems. For the three months ended June 30, 2024, the Company recorded net sales of 136 million yen, down 28 million yen, or 17.1%, from the same period of the previous fiscal year, and an operating loss of 99 million yen, up 42 million yen from the loss of 56 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) Overview of financial position for the quarter under review

Total assets as of the end of the first quarter of fiscal 2024 stood at 14,330 million yen, down 1,244 million yen, or 8.0%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in cash and deposits (2,720 million yen) despite increases in trade receivables and contract asset (533 million yen), merchandise and finished goods (490 million yen), and investment securities (429 million yen).

Total liabilities as of the end of the first quarter of fiscal 2024 stood at 2,064 million yen, down 617 million yen, or 23.0%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in income taxes payable (455 million yen).

Total net assets as of the end of the first quarter of fiscal 2024 stood at 12,265 million yen, down 626 million yen, or 4.9%, from the end of the previous fiscal year. Main factors contributing to this outcome included a decrease in retained earnings (518 million yen).

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

For forecast results for fiscal 2024, please refer to “Summary of Consolidated Financial Statements for the Year Ended March 31, 2024” released on May 9, 2024. The consolidated results for the three months ended June 30, 2024 show 88% progress in operating profit compared to the half-year consolidated results forecast, which is exceptionally favorable. However, in consideration of the uncertainty of the market in the second quarter and beyond, the Company considers that there is no need to revise the forecast figures at this time. If we deem it necessary to revise our results forecast due to future business performance or trends in customer demand, we will disclose the revised forecast promptly.

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

	(Millions of yen)	
	FY 2023 (As of March 31, 2024)	Q1 FY 2024 (As of June 30, 2024)
Assets		
Current assets		
Cash and deposits	8,316	5,595
Trade receivables and contract asset	1,107	1,641
Securities	1,500	1,500
Merchandise and finished goods	2,431	2,922
Work in process	7	14
Raw materials and supplies	0	0
Other	225	146
Allowance for doubtful accounts	(0)	(0)
Total current assets	13,588	11,820
Non-current assets		
Property, plant and equipment	174	186
Intangible assets		
Goodwill	5	2
Other	33	30
Total intangible assets	38	33
Investments and other assets		
Investment securities	1,596	2,026
Other	176	264
Total investments and other assets	1,772	2,290
Total non-current assets	1,985	2,509
Total assets	15,574	14,330
Liabilities		
Current liabilities		
Accounts payable - trade	1,387	1,390
Income taxes payable	616	160
Provision for bonuses	—	23
Other	637	448
Total current liabilities	2,641	2,023
Non-current liabilities		
Asset retirement obligations	41	41
Total non-current liabilities	41	41
Total liabilities	2,682	2,064
Net assets		
Shareholders' equity		
Share capital	1,028	1,028
Capital surplus	969	970
Retained earnings	10,621	10,103
Treasury shares	(217)	(217)
Total shareholders' equity	12,401	11,885
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	357	250
Total accumulated other comprehensive income	357	250
Share acquisition rights	30	31
Non-controlling interests	101	97
Total net assets	12,891	12,265

Total liabilities and net assets	15,574	14,330
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(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statements of Income**

(First Quarter)

	(Millions of yen)	
	Q1 FY 2023 (From April 1, 2023 to June 30, 2023)	Q1 FY 2024 (From April 1, 2024 to June 30, 2024)
Net sales	4,475	4,061
Cost of sales	3,004	2,845
Gross profit	1,471	1,216
Selling, general and administrative expenses	693	687
Operating profit	777	528
Non-operating income		
Interest income	0	0
Dividend income	16	23
Other	—	1
Total non-operating income	16	25
Non-operating expenses		
Foreign exchange losses	0	33
Other	0	0
Total non-operating expenses	0	33
Ordinary profit	793	521
Extraordinary losses		
Impairment losses	0	2
Total extraordinary losses	0	2
Profit before income taxes	793	518
Income taxes	205	155
Profit	587	363
Profit (loss) attributable to non-controlling interests	5	(3)
Profit attributable to owners of parent	581	367

Quarterly Consolidated Statements of Comprehensive Income

(First Quarter)

	(Millions of yen)	
	Q1 FY 2023 (From April 1, 2023 to June 30, 2023)	Q1 FY 2024 (From April 1, 2024 to June 30, 2024)
Profit	587	363
Other comprehensive income		
Valuation difference on available-for-sale securities	24	(107)
Total other comprehensive income	24	(107)
Comprehensive income	611	256
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	606	260
Comprehensive income attributable to non-controlling interests	5	(3)

(3) Notes to Quarterly Consolidated Financial Statements**(Notes regarding 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 fiscal year including the first quarter ended June 30, 2024.

(Notes regarding segment information, etc.)**I First three months of fiscal 2023 (April 1, 2023 to June 30, 2023)****1. Information about amounts of net sales, profit and loss by reportable segment****(Millions of yen)**

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated financial statement (Note 2)
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Sales					
Revenues from external customers	4,311	164	4,475	—	4,475
Transactions with other segments	—	—	—	—	—
Net sales	4,311	164	4,475	—	4,475
Operating profit (loss)	1,024	(56)	967	(189)	777

- (Notes) 1. The (189) million yen adjustments to operating profit (loss) are corporate expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.
2. Operating profit (loss) is adjusted with operating profit in the quarterly consolidated statement of income.

II First three months of fiscal 2024 (April 1, 2024 to June 30, 2024)**1. Information about amounts of net sales, profit and loss by reportable segment****(Millions of yen)**

	Reportable segment		Total	Adjustments (Note 1)	Amount recorded in quarterly consolidated financial statement (Note 2)
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Block Chain and Other) and LSI Business for New Business			
Sales					
Revenues from external customers	3,925	136	4,061	—	4,061
Transactions with other segments	—	—	—	—	—
Net sales	3,925	136	4,061	—	4,061
Operating profit (loss)	796	(99)	697	(168)	528

- (Notes) 1. The (168) million yen adjustments to operating profit (loss) are corporate expenses not distributed to each reportable segment, mainly general and administrative expenses not attributable to reportable segments.
2. Operating profit (loss) is adjusted with operating profit in the quarterly consolidated statement of income.

(Notes in cases where there are significant changes in amount of shareholders' equity)

N/A

(Notes regarding going concern assumption)

N/A

(Notes regarding Quarterly Consolidated Statements of Cash Flows)

The Company has not prepared Quarterly Consolidated Statements of Cash Flows for the first three months of fiscal 2024. Depreciation (including amortization related to intangible assets excluding goodwill) and amortization of goodwill for the first three months of fiscal years are as follows.

	Q1 FY 2023 (From April 1, 2023 to June 30, 2023)	Q1 FY 2024 (From April 1, 2024 to June 30, 2024)
Depreciation	13 million yen	19 million yen
Amortization of goodwill	2	2

(Notes regarding major subsequent events)

(Disposal of treasury shares as restricted stock remuneration)

At the Board of Directors' meeting on July 19, 2024, the Company resolved to dispose of treasury shares as restricted stock remuneration (hereinafter, the "Treasury Share Disposal").

1. Purpose and reasons for disposal

At the Board of Directors' meeting held on May 28, 2020, in order that Directors of the Company (excluding Directors serving as Audit and Supervisory Committee Members; hereinafter, "Eligible Directors") share the benefits and risks of stock price fluctuations with shareholders, and to further increase their motivation to contribute to the rise in stock prices and improving corporate value, the Company resolved to introduce a stock remunerations system delivering restricted stock to Eligible Directors (hereinafter, the "System"). 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 granted as remunerations, etc. regarding 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 disposal

(1) Payment due date	August 16, 2024
(2) Class and number of shares to be disposed of	16,540 common shares of the Company
(3) Disposal price	1,511 yen per share
(4) Total disposal amount	24,991,940 yen
(5) Scheduled disposal recipients	5 Directors of the Company (excluding Directors serving as Audit and Supervisory Committee Members); 16,540 shares

3. Others

Recent trends in quarterly business results

Fiscal Year ending March 31, 2025

(Millions of yen)

	Q1 FY 2024 From April 2024 to June 2024	Q2 FY 2024 From July 2024 to September 2024	Q3 FY 2024 From October 2024 to December 2024	Q4 FY 2024 From January 2025 to March 2025
Net sales	4,061	—	—	—
Gross profit	1,216	—	—	—
Operating profit	528	—	—	—
Ordinary profit	521	—	—	—
Profit before income taxes	518	—	—	—
Profit	363	—	—	—
Profit attributable to owners of parent	367	—	—	—
Comprehensive income	256	—	—	—
Basic earnings per share	33.62 yen	—	—	—
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	14,330	—	—	—
Net assets	12,265	—	—	—
Net assets per share	1,109.67 yen	—	—	—

Fiscal Year ended March 31, 2024

(Millions of yen)

	Q1 FY 2023 From April 2023 to June 2023	Q2 FY 2023 From July 2023 to September 2023	Q3 FY 2023 From October 2023 to December 2023	Q4 FY 2023 From January 2024 to March 2024
Net sales	4,475	4,750	4,531	3,811
Gross profit	1,471	1,524	1,379	1,223
Operating profit	777	698	643	306
Ordinary profit	793	680	653	321
Profit before income taxes	793	679	652	321
Profit	587	470	469	257
Profit attributable to owners of parent	581	471	464	253
Comprehensive income	611	477	590	239
Basic earnings per share	53.46 yen	43.24 yen	42.51 yen	23.22 yen
	As of end of Q1	As of end of Q2	As of end of Q3	As of end of Q4
Total assets	13,475	14,442	15,156	15,574
Net assets	11,466	12,011	12,641	12,891
Net assets per share	1,042.51 yen	1,089.41 yen	1,145.19 yen	1,166.82 yen