

November 7, 2019

SANKYO CO., LTD.

<https://www.sankyo-fever.co.jp/>

Shares listed: Tokyo (1st Section)

Code number: 6417

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Representative: Kimihisa Tsutsui, President & COO

Contact: Yoko Oshima, Executive Operating Officer

Planned Date for Submittal of the Financial Statements Report: November 13, 2019

Planned Date for Start of Dividend Payment: December 2, 2019

Supplementary materials for the quarterly financial statements: Yes

Presentation to explain for the quarterly financial statements: Yes

(Figures less than 1 million yen have been omitted.)

1. Results for the first six months of FY2020 (From April 1, 2019, to September 30, 2019)

(1) Consolidated operating results

(Percentage figures denote year-over-year changes.)

	Net sales	Operating income	Recurring income	Profit attributable to owners of parent
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
1st six months of FY2020	33,493 12.5%	3,077 (5.3%)	3,606 (4.8%)	2,183 (24.8%)
1st six months of FY2019	29,770 40.3%	3,249 -	3,786 -	2,904 -
(note) Comprehensive income	1st six months of FY2020	¥942 million [(15.8%)]	1st six months of FY2019	¥1,119 million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st six months of FY2020	26.93	25.49
1st six months of FY2019	35.79	33.93

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of September 30, 2019	311,549	263,940	84.2	
As of March 31, 2019	399,585	337,377	84.1	
(reference) Shareholders' Equity	As of September 30, 2019	¥262,357 million	As of March 31, 2019	¥336,045 million

2. Dividends

	Cash dividend per share				
(Base date)	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	-	75.00	-	75.00	150.00
Year ended March 31, 2020	-	75.00	-	-	-
Year ended March 31, 2020 (Forecast)	-	-	-	75.00	150.00

Note: Changes in the projected cash dividends in this quarter : No

3. Forecast for FY2020 (From April 1, 2019, to March 31, 2020)

(Percentage figures denote year-over-year changes.)

	Net sales	Operating income	Recurring income	Profit attributable to owners of parent	Net income per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Year ending March 31, 2020	99,000 11.8%	16,000 (24.8%)	17,000 (23.8%)	11,000 (17.8%)	154.67

Note: Changes in the forecasts of consolidated Financial results in this quarter : No

*** Notes**

(1) Changes for important subsidiaries during the 1st six months of FY2019: Not applicable

(2) Application of peculiar accounting methods: Not applicable

(3) Changes in accounting procedures

a. Related to accounting standard revisions etc.: Not applicable

b. Other changes: Not applicable

c. Changes in accounting estimates: Not applicable

d. Retrospective restatements: Not applicable

(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock) As of Sep. 30, 2019:	89,597,500 shares	As of March 31, 2019:	89,597,500 shares
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b. No. of treasury stock As of Sep. 30, 2019:	28,428,634 shares	As of March 31, 2019:	8,421,994 shares
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c. Average number of shares issued and outstanding 1st 6M of FY2020:	81,066,076 shares	1st 6M of FY2019:	81,176,013 shares
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*** This quarterly report is not subject to quarterly review procedures.**

*** Disclaimer regarding Forward-looking Statements**

The statements concerning future performance that are presented in this document are based on judgments using information available to the Company and which are deemed reasonable as of the release date of this material, and they are not intended to assure the achievement of such forecasts presented herein. Actual results may differ due to various factors. For information regarding performance forecasts, please refer to "1. Qualitative Information and Financial

1. Qualitative Information and Financial Statements

(1) Operating Results

During the first six months of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019), as corporate earnings were robust while the labor market and personal incomes continued to improve, the moderate recovery of the Japanese economy is expected to continue. However, future prospects remain unclear in light of uncertainties regarding the world economy, including trade friction among certain countries and concerns about a possible decline in consumer sentiment in Japan due to the consumption tax hike in October 2019.

Regarding the environment in which the pachinko and pachislot industry operates, pursuant to the Amended Pachinko and Pachislot Machines Regulations enforced in February 2018, all pachinko and pachislot machines compliant with the former regulations installed at present must be removed by January 31, 2021 and the transition to machines compliant with the new regulations must be completed by then. Pachinko and pachislot machine manufacturers are actively making progress on the development of products that comply with the amended regulations with diverse gaming performance and that can be played at a reasonable cost, and initiatives are underway to encourage replacement demand for machines compliant with the new regulations. Although the release of major titles of machines compliant with the new regulations has started and some hit titles have emerged, pachinko parlor operators' motivation to purchase has not increased because the format inspection pass rate of new models has been low, resulting in sluggish introduction of both pachinko and pachislot machines compliant with the new regulations. Meanwhile, the pachinko and pachislot industry is making a concerted effort to diffuse machines compliant with the new regulations and to attract new and dormant players by creating opportunities for many players to become familiar with machines compliant with the new regulations and by other means. For example, machine manufacturers' associations held Minna no Pachinko FES in February 2019 and Pachislot Summit 2019 in Akihabara in September 2019.

The Group released six new pachinko titles (excluding reuse models) and one new pachislot title. Whereas sales for the first quarter of the current fiscal year were lackluster because of the lack of core titles for pachinko machines, in the second quarter of the current fiscal year, sales volumes of the SANKYO-brand *Fever Mobile Suit Gundam Char's Counterattack* and other titles increased, and sales and profit also increased.

As a result, on a consolidated basis, net sales were ¥33.4 billion, an increase of 12.5% compared with the same period of the previous year, operating income was ¥3.0 billion, a decrease of 5.3%, recurring income was ¥3.6 billion, a decrease of 4.8%, and profit attributable to owners of parent amounting to ¥2.1 billion, a decrease of 24.8%.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥27.2 billion, an increase of 6.1% compared with the same period of the previous year, and operating income amounted to ¥5.5 billion, a decrease of 22.2%. Sales of pachinko machines amounted to 67,000 units compared with 69,000 units for the same period of the previous fiscal year.

Major titles released included *Fever Macross DELTA* (introduced in August 2019) under the SANKYO brand, *Fever Mobile Suit Gundam "Char's Counterattack"* (introduced in September 2019), under the Bisty brand, and *TEKKEN EXTREME* (introduced in August 2019) under the Bisty brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥3.0 billion, an increase of 95.6% compared with the same period of the previous year, and operating income was ¥7 million, compared with operating loss of ¥1.2 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 7,000 units compared with 3,000 units for the same period of the previous fiscal year.

Major titles released included *BOMBER POWERFUL III* (introduced in May 2019) under the SANKYO brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.8 billion, an increase of 27.5% compared with the same period of the previous year, and operating income was ¥0.1 billion, an increase of 84.3%.

Other Businesses

Sales of other businesses were ¥0.3 billion, an increase of 26.3% compared with the same period of the previous year, and operating loss was ¥0.1 billion compared with an operating loss of ¥0.2 billion a year earlier.

(2) Financial Position

Total assets at the end of the first six months of the fiscal year ending March 31, 2020 amounted to ¥311.5 billion, having decreased ¥88.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to an ¥84.9 billion decrease in marketable securities and a ¥9.9 billion decrease in notes and accounts receivable-trade, despite an ¥11.0 billion increase in cash and deposits.

Total liabilities amounted to ¥47.6 billion, having decreased ¥14.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥4.5 billion decrease in notes and accounts payable-trade, a ¥4.1 billion decrease in electronically recorded obligations-operating, a ¥3.8 billion decrease in accrued income taxes, and a ¥2.2 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥73.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to purchase of treasury stock amounting to ¥68.5 billion, cash dividends paid amounting to ¥6.0 billion, and a ¥1.2 billion decrease in net unrealized gain on other securities, despite recording of profit attributable to owners of parent amounting to ¥2.1 billion. As a result, net assets amounted to ¥263.9 billion and the shareholders' equity ratio increased 0.1 percentage points to 84.2%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2020 announced on May 9, 2019.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets

(Figures less than 1 million yen have been omitted.)

	As of March 31, 2019	As of Sep. 30, 2019
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	104,847	115,858
Notes and accounts receivable-trade	30,627	20,686
Marketable securities	184,999	99,999
Merchandise and finished goods	75	661
Work in process	118	20
Raw materials and inventories	2,682	2,597
Other	8,767	6,469
Allowance for doubtful accounts	(2)	(2)
Total current assets	332,115	246,292
Fixed assets:		
Tangible fixed assets	40,440	40,672
Intangible fixed assets		
Goodwill	45	1
Other	180	153
Total Intangible fixed assets	225	155
Investments and other assets:		
Investment securities	19,233	17,055
Other	7,970	7,773
Allowance for doubtful accounts	(20)	(19)
Allowance for investment loss	(379)	(379)
Total investments and other assets	26,803	24,429
Total fixed assets	67,470	65,256
Total assets	399,585	311,549

Consolidated Balance Sheets

(Figures less than 1 million yen have been omitted.)

	As of March 31, 2019	As of Sep. 30, 2019
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	11,246	6,714
Electronically recorded obligations - operating	10,042	5,923
Current portion of bonds with subscription rights to shares	-	20,016
Accrued income taxes	4,372	552
Allowance for bonuses	791	950
Other	7,311	4,922
Total current liabilities	33,763	39,078
Long-term liabilities:		
Bonds with subscription rights to shares	20,026	-
Net defined benefit liabilities	4,799	4,905
Asset retirement obligations	62	62
Other	3,555	3,563
Total long-term liabilities	28,444	8,530
Total liabilities	62,208	47,609
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	330,707	326,802
Less: treasury stock, at cost	(38,785)	(107,328)
Total shareholders' equity	330,512	258,064
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,460	4,224
Remeasurements of defined benefit plans	73	68
Total accumulated other comprehensive income:	5,533	4,292
Subscription rights to shares	1,331	1,582
Total net assets	337,377	263,940
Total liabilities and total net assets	399,585	311,549

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

Consolidated Statements of Income

(Figures less than 1 million yen have been omitted.)

	1st Six Months of FY2019	1st Six Months of FY2020
	Millions of yen	Millions of yen
Net sales	29,770	33,493
Cost of sales	12,529	15,771
Gross profit	17,241	17,722
Selling, general and administrative expenses	13,992	14,644
Operating income	3,249	3,077
Non-operating income:		
Interest income	94	94
Dividend income	319	353
Other	129	94
Total non-operating income	542	542
Non-operating expenses:		
Loss on management of investment partnership	-	11
Other	5	2
Total non-operating expenses	5	13
Recurring income	3,786	3,606
Extraordinary gains:		
Gain on sales of investment securities	-	66
Total extraordinary gains	-	66
Extraordinary losses:		
Loss on sales of fixed assets	-	8
Loss on disposal of fixed assets	2	34
Loss on sales of investment securities	-	100
Total extraordinary losses	2	142
Income before income taxes and minority interests	3,784	3,530
Income taxes:		
Current income taxes	1,116	581
Deferred income taxes	(236)	765
Total income taxes	879	1,347
Profit	2,904	2,183
Profit attributable to owners of parent	2,904	2,183

Consolidated Statements of Comprehensive Income

(Figures less than 1 million yen have been omitted.)

	1st Six Months of FY2019	1st Six Months of FY2020
	Millions of yen	Millions of yen
Profit	2,904	2,183
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(1,821)	(1,235)
Remeasurements of defined benefit plans	35	(5)
Total other comprehensive income	(1,785)	(1,240)
Comprehensive income	1,119	942
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,119	942
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Cash Flows

(Figures less than 1 million yen have been omitted.)

	1st Six Months of FY2019	1st Six Months of FY2020
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Income before income taxes and minority interests	3,784	3,530
Depreciation and amortization	1,219	1,493
Amortization of goodwill	43	43
Share-based compensation expenses	264	242
Increase (decrease) in allowance for doubtful accounts	140	157
Increase (decrease) in net defined benefit liabilities	147	98
Interest and dividend income	(413)	(448)
(Increase) decrease in notes and accounts receivable-trade	13,059	9,940
(Increase) decrease in inventories	(1,067)	(403)
Increase (decrease) in notes and accounts payable-trade	(10,910)	(8,600)
Other	(1,300)	(813)
Subtotal	4,968	5,240
Interest and dividend income received	361	340
Income taxes paid	(2,059)	(3,983)
Net cash (used in) provided by operating activities	3,271	1,596
Cash flows from investing activities:		
Payment into time deposits	(5,550)	(5,552)
Proceeds from withdrawal of time deposits	5,549	5,551
Payment for purchase of marketable securities	(38,000)	(40,000)
Proceeds from redemption of marketable securities	36,000	40,000
Payment for purchase of tangible fixed assets and intangible fixed assets	(1,053)	(1,293)
Proceeds from sale of investment securities	-	363
Proceeds from collection of long-term loans	11	11
Other	(0)	(35)
Net cash (used in) provided by investing activities	(3,042)	(953)
Cash flows from financing activities:		
Repayment for obligations under finance leases	(2)	(2)
Payment for purchase of treasury stock, net	(1)	(68,543)
Cash dividends paid	(6,088)	(6,088)
Other	-	0
Net cash (used in) provided financing activities	(6,092)	(74,633)
Net increase (decrease) in cash and cash equivalents	(5,863)	(73,989)
Cash and cash equivalents at beginning of the period	274,017	274,295
Cash and cash equivalents at end of the period	268,154	200,305

(4) Notes to the quarterly Consolidated Financial Statements**Notes on premise of a going concern**

Not applicable

Notes on significant changes in shareholders' equity

The Company repurchased 20,006,500 shares of the Company based on the resolution at the Board of Directors' meeting held on August 6, 2019. As a result, treasury stock increased ¥68,542 million in the first six months of the current fiscal year to ¥107,328 million at September 30, 2019.

Segment Information

(Segment information by business category)

1st Six Months of FY2019 (From April 1, 2018, to September 30, 2018)

(Figures less than 1 million yen have been omitted.)

	1st Six Months of FY2019 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	25,721	1,548	2,218	29,489	281	29,770	-	29,770
Intersegment	-	-	-	-	-	-	-	-
Total	25,721	1,548	2,218	29,489	281	29,770	-	29,770
Segment income	7,195	(1,247)	81	6,029	(217)	5,811	(2,562)	3,249

1st Six Months of FY2020 (From April 1, 2019, to September 30, 2019)

(Figures less than 1 million yen have been omitted.)

	1st Six Months of FY2020 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	27,278	3,029	2,829	33,137	355	33,493	-	33,493
Intersegment	-	-	-	-	-	-	-	-
Total	27,278	3,029	2,829	33,137	355	33,493	-	33,493
Segment income	5,594	7	150	5,753	(132)	5,620	(2,542)	3,077

(Significant subsequent events)**(Cancellation of Treasury Stock)**

The Company, at the Board of Directors' meeting held on November 7, 2019, resolved to cancel treasury stock pursuant to Article 178 of the Companies Act as follows.

- | | |
|---|--|
| 1. Reason for the cancellation: | the purpose of enhancing capital efficiency and shareholder return |
| 2. Type of shares to be cancelled: | Common stock |
| 3. Number of shares to be cancelled: | 20,000,000 shares
(22.32% of total issued shares before cancellation) |
| 4. Planned cancellation date: | December 30, 2019 |
| 5. Total number of shares issued after the cancellation of treasury stock : | 69,597,500 shares |