

August 6, 2019

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

Code number: 6417

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Planned Date for Submittal of the Financial Statements Report: August 13, 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 quarter of FY2020 (From April 1, 2019, to June 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 quarter of FY2020	11,351 (21.8%)	(596) -	(155) -	(93) -
1st quarter of FY2019	14,521 30.7%	1,375 -	1,827 -	1,460 -
(note) Comprehensive income	1st quarter of FY2020	(¥2,363) million [-%]	1st quarter of FY2019	¥670 million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2020	(1.16)	-
1st quarter of FY2019	17.99	17.06

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2019	376,897	328,924	86.9	
As of March 31, 2019	399,585	337,377	84.1	
(reference) Shareholders' Equity	As of June 30, 2019	¥327,593 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	-	-	-	-	-
Year ended March 31, 2020 (Forecast)	-	75.00	-	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	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%)	135.51

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

SANKYO Group manages its business plan on a full-year basis and thus only discloses full-year figures.

* Notes

(1) Changes for important subsidiaries during the 1st quarter of FY2020: Not applicable

(2) Application of peculiar accounting methods: Not applicable

(3) Changes in accounting procedures

a. Related to accounting standard revisions etc.:	Not applicable
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b. Other changes:	Not applicable
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a. Error correction:	Not applicable
b. Changes in accounting principles:	Not applicable
c. Changes in accounting estimates:	Not applicable

d. Retrospective restatements:	Not applicable
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(4) Outstanding shares (common shares)

a. No. of shares outstanding (including treasury stock) As of June 30, 2019: 89,597,500 shares As of March 31, 2019: 89,597,500 shares

b. No. of treasury stock	As of June 30, 2019:	8,422,134 shares	As of March 31, 2019:	8,421,994 shares
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c. Average number of shares issued and outstanding	1st quarter of FY2020: 81,175,399 shares	1st quarter of FY2019: 81,176,100 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 Statements (3) Forecast of Consolidated Results and Other Forecast Information" in the accompanying material.

1. Qualitative Information and Financial Statements

(1) Operating Results

During the first three months of the fiscal year ending March 31, 2020 (from April 1, 2019 to June 30, 2019), the Japanese economy demonstrated a trend of stable corporate income as the labor market and personal incomes continued to improve. However, there is a sense of cautiousness about the favorability of business activities and uncertainty persists with regard to future prospects in light of factors such as trade friction among certain countries and instability in economies overseas.

Regarding the environment in which the pachinko and pachislot industry operates, following the enforcement of the Amended Pachinko and Pachislot Machines Regulations in February 2018, less than two years remain before January 31, 2021, when all pachinko and pachislot machines compliant with the former regulations that are available for sale for the time being must comply with the new regulations and satisfy the format inspection. Accompanying the amended regulations and the relaxing of certain voluntary regulations, pachinko and pachislot machine manufacturers are actively making progress on the development of products that comply with the amended regulations with diverse gaming performance that can be played at a reasonable cost, and initiatives are underway to encourage replacement demand for machines compliant with the new regulations. In addition, pachinko and pachislot machine manufacturers and pachinko parlor operators are taking initiatives in implementing various countermeasures for compulsive gambling throughout the industry, and developing a gaming environment where existing players as well as new and dormant players can relax and simply enjoy playing.

In these circumstances, during the first quarter of the current fiscal year, sales of machines compliant with the former regulations from all manufactures declined as sales efforts focused on machines compliant with the new regulations, but there has been a sense of cautiousness surrounding replacing machines before their inspection and certification expires, particularly regarding machines compliant with the former regulations that are still highly popular, and the introduction of both pachinko and pachislot machines compliant with the new regulations has been lackluster. On the other hand, as pachinko parlor operators seek gradual and systematic methods of replacing machines with those compliant with the new regulations, focus is being placed on introducing major titles for pachinko machines and hit #6 model titles for pachislot machines that are compliant with the amended regulations, and the industry is beginning to see promising prospects ahead of full-fledged replacement demand. Although the Group released two new pachinko titles (excluding reuse models) and one new pachislot title, sales remained substandard for the first quarter of the current fiscal year, seeing as core titles for pachinko machines are scheduled to be released from the second quarter.

As a result, on a consolidated basis, net sales were ¥11.3 billion, a decrease of 21.8% compared with the same period of the previous year, operating loss was ¥0.5 billion, compared with an operating income of ¥1.3 billion for the same period of the previous year, recurring loss was ¥0.1 billion, compared with a recurring income of ¥1.8 billion for the same period of the previous year, and loss attributable to owners of parent amounting to ¥93 million, compared with a profit attributable to owners of parent amounting to ¥1.4 billion for the same period of the previous fiscal year.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥7.0 billion, a decrease of 44.4% compared with the same period of the previous year, and operating loss amounted to ¥0.2 billion, compared with operating income of ¥3.2 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 18,000 units compared with 33,000 units in the same period of the previous fiscal year.

Major titles released included *Fever Super Sentai* (introduced in April 2019) and *Fever Macross Frontier 3 Light Middle ver.* (introduced in May 2019) under the SANKYO brand,

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥2.6 billion, a increase of 688.4% compared with the same period of the previous year, and operating income was ¥0.7 billion, compared with operating loss of ¥0.8 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 6,000 units compared with 800 units in 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 ¥1.4 billion, a increase of 7.8% compared with the same period of the previous year, and operating income was ¥88 million, a increase of 133.7%.

Other Businesses

Sales of other businesses were ¥0.2 billion, a increase of 40.8% compared with the same period of the previous year, and operating loss was ¥74 million compared with an operating loss of ¥92 million a year earlier.

(2) Financial Position

Total assets at the end of the first three months of the fiscal year ending March 31, 2020 amounted to ¥376.8 billion, having decreased ¥22.6 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥15.0 billion decrease in marketable securities, a ¥13.8 billion decrease in notes and accounts receivable-trade, and a ¥4.0 billion decrease in accounts receivable for provision of parts and materials for value (included in "Other" of Current assets), despite a ¥11.0 billion increase in cash and deposits.

Total liabilities amounted to ¥47.9 billion, having decreased ¥14.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥6.3 billion decrease in notes and accounts payable-trade, a ¥4.2 billion decrease in accrued income taxes, and a ¥3.5 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥8.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥6.0 billion and a ¥2.2 billion decrease in net unrealized gain on other securities. As a result, net assets amounted to ¥328.9 billion and the shareholders' equity ratio increased 2.8 percentage points to 86.9%.

(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 June 30, 2019
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	104,847	115,847
Notes and accounts receivable-trade	30,627	16,798
Marketable securities	184,999	169,999
Merchandise and finished goods	75	138
Work in process	118	402
Raw materials and supplies	2,682	3,350
Other	8,767	5,113
Allowance for doubtful accounts	(2)	(1)
Total current assets	332,115	311,648
Fixed assets:		
Tangible fixed assets	40,440	40,454
Intangible fixed assets:		
Goodwill	45	23
Other	180	157
Total intangible fixed assets	225	180
Investments and other assets:		
Investment securities	19,233	15,965
Other	7,970	9,047
Allowance for doubtful accounts	(20)	(20)
Allowance for investment loss	(379)	(379)
Total investments and other assets	26,803	24,613
Total fixed assets	67,470	65,248
Total assets	399,585	376,897

Consolidated Balance Sheets

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

	As of March 31, 2019	As of June 30, 2019
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	11,246	4,850
Electronically recorded obligations - operating	10,042	8,877
Accrued income taxes	4,372	75
Allowance for bonuses	791	1,268
Other	7,311	4,358
Total current liabilities	33,763	19,429
Long-term liabilities:		
Bonds with subscription rights to shares	20,026	20,021
Net defined benefit liabilities	4,799	4,878
Asset retirement obligations	62	62
Other	3,555	3,580
Total long-term liabilities	28,444	28,543
Total liabilities	62,208	47,972
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	330,707	324,525
Less: treasury stock, at cost	(38,785)	(38,786)
Total shareholders' equity	330,512	324,329
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,460	3,192
Remeasurements of defined benefit plans	73	70
Total accumulated other comprehensive income	5,533	3,263
Subscription rights to shares	1,331	1,331
Total net assets	337,377	328,924
Total liabilities and total net assets	399,585	376,897

(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 quarter of FY2019	1st quarter of FY2020
	Millions of yen	Millions of yen
Net sales	14,521	11,351
Cost of sales	6,361	5,279
Gross profit	8,160	6,071
Selling, general and administrative expenses	6,784	6,667
Operating income (loss)	1,375	(596)
Non-operating income:		
Interest income	46	49
Dividend income	318	352
Other	88	39
Total non-operating income	454	441
Non-operating expenses:		
Other	2	0
Total non-operating expenses	2	0
Recurring income (loss)	1,827	(155)
Income (loss) before income taxes and minority interests	1,827	(155)
Income taxes:		
Current income taxes	638	13
Deferred income taxes	(271)	(75)
Total income taxes	367	(61)
Profit (loss)	1,460	(93)
Profit (loss) attributable to owners of parent	1,460	(93)

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2019	1st quarter of FY2020
	Millions of yen	Millions of yen
Profit (loss)	1,460	(93)
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(807)	(2,267)
Remeasurements of defined benefit plans	17	(2)
Total other comprehensive income	(789)	(2,270)
Comprehensive income	670	(2,363)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	670	(2,363)
Comprehensive income attributable to minority interests	-	-

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

Not applicable

Notes on significant changes in shareholders' equity

1st quarter of FY2020 (From April 1, 2019, to June 30, 2019)

Not applicable

Segment Information

(Segment information by business category)

1st quarter of FY2019 (From April 1, 2018, to June 30, 2018)

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

	1st quarter 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	12,700	334	1,342	14,377	144	14,521	-	14,521
Intersegment	-	-	-	-	-	-	-	-
Total	12,700	334	1,342	14,377	144	14,521	-	14,521
Segment income	3,254	(819)	37	2,472	(92)	2,380	(1,004)	1,375

1st quarter of FY2020 (From April 1, 2019, to June 30, 2019)

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

	1st quarter 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	7,064	2,635	1,448	11,147	203	11,351	-	11,351
Intersegment	-	-	-	-	-	-	-	-
Total	7,064	2,635	1,448	11,147	203	11,351	-	11,351
Segment income	(238)	718	88	568	(74)	493	(1,089)	(596)

(Significant subsequent events)**1. Repurchase of the Company's shares**

The Company announces that its Board of Directors' meeting held on August 6, 2019 resolved to repurchase the Company's shares through a tender offer (the "Tender Offer") pursuant to the provisions of Article 156, Paragraph 1 of the Companies Act as amended (Law No. 86 of 2005; the "Companies Act") as applied by replacing the terms pursuant to the provisions of Article 165, Paragraph 3 of the Act and the Company's Articles of Incorporation.

For details, please refer to the Notice concerning Repurchase and Tender Offer of Own Shares announced today.