

February 7, 2020

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

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Planned Date for Submittal of the Financial Statements Report: February 13, 2020

Planned Date for Start of Dividend Payment: -

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. Consolidated results for the first nine months of FY2020 (From April 1, 2019, to December 31, 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 nine months of FY2020	61,738 11.6%	10,548 (3.7%)	11,376 (4.0%)	12,945 46.9%
1st nine months of FY2019	55,341 19.8%	10,949 -	11,846 -	8,812 -
(note) Comprehensive income	1st nine months of FY2020	¥13,931 million [186.5%]	1st nine months of FY2019	¥4,862 million [266.9%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st nine months of FY2020	173.97	164.26
1st nine months of FY2019	108.55	103.03

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of December 31, 2019	330,584	272,339	81.9	
As of March 31, 2019	399,585	337,377	84.1	
(reference) Shareholders' Equity	As of December 31, 2019	¥270,763 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 Nine Months 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
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 Dec. 31, 2019:	69,597,500 shares As of March 31, 2019: 89,597,500 shares
b. No. of treasury stock As of Dec. 31, 2019:	8,426,864 shares As of March 31, 2019: 8,421,994 shares
c. Average number of shares issued and outstanding 1st 9M of FY2020:	74,409,739 shares 1st 9M of FY2019: 81,175,927 shares

* 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 nine months of the fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019), improvement of both the labor market and personal incomes continued. However, future prospects remain unclear in light of uncertainties regarding the world economy, including trade friction among certain countries, and the impact of increasing geopolitical risks in the Middle East on both the domestic and international economy.

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 must be removed by January 31, 2021. However, there is no dynamic momentum to replace the pachinko machines compliant with the former regulations before their validity of inspection and certification expires. Meanwhile, replacement of pachislot machines proceeded centering on popular machines compliant with the former regulations that reached the due date for removal by the end of 2019. Nevertheless, regarding both pachinko and pachislot machines, introduction of machines compliant with the new regulations has been lackluster and the ratio of machines compliant with the new regulations to all the machines installed at pachinko parlors remains low. In these circumstances, in December 2019 the National Police Agency issued a notification on the change in the "Standards for Interpretation of Technical Standards" (to be enforced in January 2020). In line with this change, the Nihon Yugiki Kogyo Kumiai ("Nikkoso"), an association of pachinko machine manufacturers, established its internal regulations, making it possible to develop pachinko machines with more diverse gaming performance than ever before. The release of pachinko machines offering such gaming performance from April 2020 onward is expected to lead to vitalization of the market.

The Group released nine new pachinko titles (excluding reuse models) and four new pachislot titles. *Fever Mobile Suit Gundam "Char's Counterattack"* introduced in September and *NEON GENESIS EVANGELION Rebirth of Angels*, which was introduced in December as the 14th title in the Evangelion series, became hits with sales volumes exceeding 20,000 units and 30,000 units, respectively. Besides, the Group introduced diverse products, including reuse models, and responded to pachinko parlors' wide-variety small-lot demand.

As a result, on a consolidated basis, net sales were ¥61.7 billion, an increase of 11.6% compared with the same period of the previous year, operating income was ¥10.5 billion, a decrease of 3.7%, and recurring income was ¥11.3 billion, a decrease of 4.0%. Profit attributable to owners of parent amounted to ¥12.9 billion, an increase of 46.9%, owing to the recording of extraordinary gains resulting from an incorporation-type company split and transfer of shares in November 2019 with regard to the golf course management business and a part of the real estate rental business operated by Sankyo Create Co., Ltd., a consolidated subsidiary of the Company, mainly in line with the restructuring of the Group's business.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥47.5 billion, a decrease of 1.2% compared with the same period of the previous year, and operating income amounted to ¥11.7 billion, a decrease of 30.2%. Sales of pachinko machines amounted to 116,000 units compared with 126,000 units for the same period of the previous fiscal year.

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

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥9.5 billion, an increase of 456.8% compared with the same period of the previous year, and operating income was ¥2.4 billion, compared with operating loss of ¥2.3 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 23,000 units compared with 4,000 units for the same period of the previous fiscal year.

Major titles released included *BOMBER POWERFUL III* (introduced in May 2019) and *Total Eclipse 2* (introduced in November 2019) under the SANKYO brand, *GUNDAM X-OVER* (introduced in October 2019) under the Bisty brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥4.1 billion, a decrease of 17.5% compared with the same period of the previous year, and operating income was ¥0.2 billion, a decrease of 33.3%.

Other Businesses

Sales of other businesses were ¥0.4 billion, an increase of 8.7% 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 nine months of the fiscal year ending March 31, 2020 amounted to ¥330.5 billion, having decreased ¥69.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥64.9 billion decrease in marketable securities in line with purchase of treasury stock and a ¥12.5 billion decrease in tangible fixed assets in line with the company split and share transfer of Sankyo Create Co., Ltd., a consolidated subsidiary of the Company, despite a ¥5.0 billion increase in cash and deposits.

Total liabilities amounted to ¥58.2 billion, having decreased ¥3.9 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥3.5 billion decrease in accrued income taxes and a ¥1.1 billion decrease in electronically recorded obligations-operating, despite a ¥0.8 billion increase in notes and accounts payable-trade.

Net assets decreased ¥65.0 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 and cash dividends paid amounting to ¥10.6 billion, despite recording of profit attributable to owners of parent amounting to ¥12.9 billion. The treasury stock purchased was cancelled on December 30, 2019. As a result, net assets amounted to ¥272.3 billion and the shareholders' equity ratio decreased 2.2 percentage points to 81.9%.

(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. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of March 31, 2019	As of Dec. 31, 2019
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	104,847	109,867
Notes and accounts receivable-trade	30,627	30,813
Marketable securities	184,999	119,999
Merchandise and finished goods	75	1,907
Work in process	118	9
Raw materials and inventories	2,682	1,971
Other	8,767	11,059
Allowance for doubtful accounts	(2)	(2)
Total current assets	332,115	275,626
Fixed assets:		
Tangible fixed assets	40,440	27,863
Intangible fixed assets		
Goodwill	45	0
Other	180	144
Total Intangible fixed assets	225	145
Investments and other assets:		
Investment securities	19,233	20,093
Other	7,970	7,253
Allowance for doubtful accounts	(20)	(19)
Allowance for investment loss	(379)	(379)
Total investments and other assets	26,803	26,948
Total fixed assets	67,470	54,957
Total assets	399,585	330,584

Consolidated Balance Sheets

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

	As of March 31, 2019	As of Dec. 31, 2019
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	11,246	12,125
Electronically recorded obligations-operating	10,042	8,910
Current portion of bonds with subscription rights to shares	-	20,011
Accrued income taxes	4,372	858
Allowance for bonuses	791	394
Provision for shareholder benefit program	-	95
Other	7,311	7,398
Total current liabilities	33,763	49,795
Long-term liabilities:		
Bonds with subscription rights to shares	20,026	-
Net defined benefit liabilities	4,799	4,924
Asset retirement obligations	62	75
Other	3,555	3,449
Total long-term liabilities	28,444	8,450
Total liabilities	62,208	58,245
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	330,707	257,475
Less: treasury stock, at cost	(38,785)	(31,821)
Total shareholders' equity	330,512	264,243
Accumulated other comprehensive income:		
Net unrealized gain on other securities	5,460	6,454
Remeasurements of defined benefit plans	73	65
Total accumulated other comprehensive income	5,533	6,519
Subscription rights to shares	1,331	1,575
Total net assets	337,377	272,339
Total liabilities and total net assets	399,585	330,584

(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 Nine Months of FY2019	1st Nine Months of FY2020
	Millions of yen	Millions of yen
Net sales	55,341	61,738
Cost of sales	23,593	28,409
Gross profit	31,748	33,329
Selling, general and administrative expenses	20,798	22,780
Operating income	10,949	10,548
Non-operating income:		
Interest income	137	135
Dividend income	549	569
Other	214	146
Total non-operating income	902	851
Non-operating expenses:		
Loss on management of investment partnership	-	19
Other	5	2
Total non-operating expenses	5	22
Recurring income	11,846	11,376
Extraordinary gains:		
Gain on sales of fixed assets	1	4
Gain on sales of investment securities	-	66
Gain on sales of shares of subsidiaries and associates	-	3,558
Total extraordinary gains	1	3,628
Extraordinary losses:		
Loss on sales of fixed assets	-	8
Loss on disposal of fixed assets	17	179
Loss on sales of investment securities	-	135
Loss on sales of shares of subsidiaries and associates	-	218
Total extraordinary losses	17	541
Income before income taxes and minority interests	11,829	14,464
Income taxes:		
Current income taxes	3,107	876
Deferred income taxes	(90)	642
Total income taxes	3,017	1,518
Profit	8,812	12,945
Profit (loss) attributable to owners of parent	8,812	12,945

Consolidated Statements of Comprehensive Income

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

	1st Nine Months of FY2019	1st Nine Months of FY2020
	Millions of yen	Millions of yen
Profit	8,812	12,945
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(4,002)	993
Remeasurements of defined benefit plans	53	(7)
Total other comprehensive income	(3,949)	985
Comprehensive income	4,862	13,931
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	4,862	13,931
Comprehensive income attributable to non-controlling 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 Nine Months of FY2020 (From April 1, 2019, to December 31, 2019)

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, and cancelled 20,000,000 shares of its treasury stock on December 30, 2019 based on the resolution at the Board of Directors' meeting held on November 7, 2019.

As a result, during the first nine months of the fiscal year ending March 31, 2020, retained earnings and treasury stock decreased ¥75,500 million and ¥6,957 million, respectively, and retained earnings and treasury stock amounted to ¥257,475 million and ¥31,821 million, respectively, at the end of the first nine months of the fiscal year ending March 31, 2020.

Additional Information

Provision for shareholder benefit program

In order to be prepared for the expenses to be incurred in the future associated with the shareholder benefit program as a consequence of the company split and share transfer with regard to the golf course management business operated by Sankyo Create Co., Ltd., a consolidated subsidiary of the Company, the Company recorded the amount expected to be incurred as provision for shareholder benefit program at the end of the first nine months of the fiscal year ending March 31, 2020.

Segment Information

(Segment information by business category)

1st Nine Months of FY2019 (From April 1, 2018, to December 31, 2018)

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

	1st Nine 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	48,109	1,714	5,076	54,900	441	55,341	-	55,341
Intersegment	-	-	-	-	-	-	-	-
Total	48,109	1,714	5,076	54,900	441	55,341	-	55,341
Segment income	16,819	(2,324)	353	14,849	(259)	14,589	(3,640)	10,949

1st Nine Months of FY2020 (From April 1, 2019, to December 31, 2019)

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

	1st Nine 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	47,525	9,545	4,186	61,258	479	61,738	-	61,738
Intersegment	-	-	-	-	-	-	-	-
Total	47,525	9,545	4,186	61,258	479	61,738	-	61,738
Segment income	11,738	2,401	235	14,375	(149)	14,226	(3,677)	10,548