

SANKYO CO., LTD.

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Shares listed: Tokyo (1st Section)

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Planned Date for Submittal of the Financial Statements Report: February 10, 2022

Planned Date for Start of Dividend Payment: -

Supplementary materials for the quarterly financial statements: Yes

Presentation to explain for the quarterly financial statements: No

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

1. Consolidated results for the first nine months of FY2022 (From April 1, 2021, to December 31, 2021)

(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 FY2022	70,344	71.6%	20,033	371.0%	20,851	311.9%	16,949	313.0%
1st nine months of FY2021	41,000	(33.6%)	4,253	(59.7%)	5,061	(55.5%)	4,104	(68.3%)
(note) Comprehensive income	1st nine months of FY2022		¥16,651 million	[174.2%]	1st nine months of FY2021		¥6,072 million	[(56.4%)]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st nine months of FY2022	277.42	274.76
1st nine months of FY2021	67.08	66.45

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of December 31, 2021	317,466	273,296	85.6	
As of March 31, 2021	292,104	268,887	91.4	
(reference) Shareholders' Equity	As of December 31, 2021	¥271,695 million	As of March 31, 2021	¥267,121 million

2. Dividends

(Base date)	Cash dividend per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full Year
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2021	-	75.00	-	75.00	150.00
Year ended March 31, 2022	-	50.00	-	-	-
Year ended March 31, 2022 (Forecast)	-	-	-	50.00	100.00

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

3. Forecast for FY2022 (From April 1, 2021, to March 31, 2022)

(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, 2022	83,600	43.8%	20,500	211.2%	21,400	185.8%	17,200	199.2%	283.79

Note: Changes in the forecasts of consolidated Financial results in this quarter : Yes

*** Notes**

(1) Changes for important subsidiaries during the 1st Nine Months of FY2022:					Not applicable
(2) Application of peculiar accounting methods:					Not applicable
(3) Changes in accounting procedures					
a. Related to accounting standard revisions etc.:					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, 2021:	69,597,500 shares	As of March 31, 2021:	69,597,500 shares		
b. No. of treasury stock As of Dec. 31, 2021:	9,876,215 shares	As of March 31, 2021:	8,412,575 shares		
c. Average number of shares issued and outstanding 1st 9M of FY2022:	61,096,691 shares	1st 9M of FY2021:	61,180,978 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, 2022 (from April 1, 2021 to December 31, 2021), the Japanese economy showed signs of recovery as the number of new COVID-19 cases tended to decline, reflecting the increasing COVID-19 vaccination rate and preventive measures against infections. However, the outlook is unclear in view of the concern about a resurgence of COVID-19 cases heightened by the emergence of a new variant.

The pachinko and pachislot industry is confronted by a challenging business environment. For example, it is taking time for machine utilization at pachinko parlors to recover, partly due to the protracted pandemic, and, in addition, the supply of pachinko and pachislot machines has become unstable owing to the impacts of the worldwide shortages of semiconductors and other parts. However, supported by a certain level of replacement demand arising from the deadline of January 31, 2022 for removing machines compliant with the former regulations, the sales volumes of both pachinko and pachislot machines have been higher than the levels for the same period of the previous year when the impact of the COVID-19 pandemic was more tremendous.

During the first nine months of the current fiscal year, the Group released seven new pachinko titles (excluding reuse models), and two pachislot titles. *Fever Mobile Suit Gundam Unicorn*, a pachinko title introduced in August, has been a market leader as evidenced by its brisk machine utilization, and we have received additional orders. Amid difficulty in parts procurement, we made an all-out effort to secure parts for the additional production. As a result, the number of units of pachinko machines sold exceeded the forecast. *NEON GENESIS EVANGELION -Roar for tomorrow-*, the 15th title of the series introduced in December, became a hit product with sales exceeding 40,000 units and the machine utilization following the introduction was also brisk. Thus, the Group's sales of pachinko machines were robust. Regarding pachislot machines, the Group introduced *Pachislot Symphogear "Yuki no Uta"*, the Group's first #6.2 model, in December.

As a result, on a consolidated basis, net sales were ¥70.3 billion, an increase of 71.6% compared with the same period of the previous year, operating income was ¥20.0 billion, an increase of 371.0%, recurring income was ¥20.8 billion, an increase of 311.9%. Profit attributable to owners of parent amounted to ¥16.9 billion, an increase of 313.0%, partly owing to the recording of extraordinary gains on sales of investment securities.

Results of segments are presented below:

Pachinko Machines Business

Regarding the pachinko machines business, sales amounted to ¥61.7 billion, an increase of 66.7% compared with the same period of the previous year, and operating income amounted to ¥22.4 billion, an increase of 129.2%. Sales of pachinko machines amounted to 138,000 units compared with 86,000 units for the same period of the previous fiscal year.

Major titles released included *Fever Mobile Suit Gundam Unicorn* (introduced in August 2021) and *Fever Macross Frontier 4* (introduced in October 2021) under the SANKYO brand, *Fever Star Blazers: Space Battleship Yamato 2202* (introduced in July 2021) and *NEON GENESIS EVANGELION -Roar for tomorrow-* (introduced in December 2021) under the Bisty brand, and *J-RUSH 5* (introduced in November 2021) under the JB brand.

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥5.6 billion, an increase of 231.8% compared with the same period of the previous year, and operating income amounted to ¥0.5 billion, compared with operating loss of ¥2.1 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 12,000 units compared with 4,000 units for the same period of the previous fiscal year.

Two titles released included *Pachislot Macross DELTA* (introduced in April 2021) and *Pachislot Symphogear "Yuki no Uta"* (introduced in December 2021) under the SANKYO brand.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥2.7 billion, an increase of 35.8% compared with the same period of the previous year, and operating income amounted to ¥89 million, compared with operating loss of ¥52 million in the same period of the previous fiscal year.

Other Businesses

Sales of other businesses were ¥0.1 billion, a decrease of 25.4% compared with the same period of the previous year, and operating income was ¥28 million, an increase of 34.5% compared with the same period of the previous year.

(2) Financial Position

Total assets at the end of the first nine months of the fiscal year ending March 31, 2022 amounted to ¥317.4 billion, having increased ¥25.3 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥27.3 billion increase in notes and accounts receivable-trade, and contract assets, and a ¥6.1 billion increase in accounts receivable for provision of parts and materials for value (included in "Other" of Current assets), despite a ¥4.2 billion decrease in cash and deposits, a ¥1.9 billion decrease in deferred tax assets (included in "Other" of Investments and other assets), and a ¥1.8 billion decrease in investment securities.

Total liabilities amounted to ¥44.1 billion, having increased ¥20.9 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to a ¥9.3 billion increase in notes and accounts payable-trade, a ¥4.3 billion increase in electronically recorded obligations-operating, a ¥3.9 billion increase in accounts payable (included in "Other" of Current liabilities), and a ¥2.8 billion increase in accrued income taxes.

Net assets increased ¥4.4 billion compared with the figure at the previous fiscal year-end. This increase was mainly attributable to recording of profit attributable to owners of parent amounting to ¥16.9 billion, despite recording of cash dividends paid amounting to ¥7.6 billion, purchase of treasury stock amounting to ¥4.7 billion, and a ¥0.2 billion decrease in net unrealized gain on other securities. As a result, net assets amounted to ¥273.2 billion and the shareholders' equity ratio decreased 5.8 percentage points to 85.6%.

(3) Forecast of Consolidated Results and Other Forecast Information

In view of the recent trend, the Company revised the forecast of consolidated financial results for the full year of fiscal 2022 that was announced on May 13, 2021. Forecast of the sales volumes of pachinko machines and pachislot machines for the full year of fiscal 2022 were revised from 154,000 units to 163,000 units and from 30,000 units to 22,000 units, respectively. For details, please refer to the Notice concerning Revision of the Forecast of the Financial Results for the Year Ending March 31, 2022 announced today.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

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

	As of March 31, 2021	As of Dec. 31, 2021
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	88,872	84,616
Notes and accounts receivable-trade	10,867	-
Notes and accounts receivable-trad, and contract assets	-	38,213
Marketable securities	134,999	134,999
Merchandise and finished goods	7	65
Work in process	102	-
Raw materials and inventories	4,159	5,257
Other	4,334	9,625
Allowance for doubtful accounts	(0)	(2)
Total current assets	243,343	272,777
Fixed assets:		
Tangible fixed assets	26,556	26,402
Intangible fixed assets		
Other	96	165
Total Intangible fixed assets	96	165
Investments and other assets:		
Investment securities	15,599	13,737
Other	6,523	4,396
Allowance for doubtful accounts	(14)	(13)
Total investments and other assets	22,108	18,121
Total fixed assets	48,761	44,688
Total assets	292,104	317,466

Consolidated Balance Sheets

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

	As of March 31, 2021	As of Dec. 31, 2021
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	3,664	12,975
Electronically recorded obligations-operating	4,830	9,198
Accrued income taxes	509	3,394
Allowance for bonuses	749	369
Provision for shareholder benefit program	105	105
Other	4,956	9,888
Total current liabilities	14,815	35,932
Long-term liabilities:		
Net defined benefit liabilities	5,010	4,989
Asset retirement obligations	75	75
Other	3,314	3,171
Total long-term liabilities	8,401	8,236
Total liabilities	23,216	44,169
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	254,138	263,325
Less: treasury stock, at cost	(31,767)	(36,082)
Total shareholders' equity	260,961	265,832
Accumulated other comprehensive income:		
Net unrealized gain on other securities	6,142	5,858
Remeasurements of defined benefit plans	17	3
Total accumulated other comprehensive income	6,160	5,862
Subscription rights to shares	1,766	1,601
Total net assets	268,887	273,296
Total liabilities and total net assets	292,104	317,466

(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 FY2021	1st Nine Months of FY2022
	Millions of yen	Millions of yen
Net sales	41,000	70,344
Cost of sales	19,428	30,471
Gross profit	21,572	39,872
Selling, general and administrative expenses	17,319	19,838
Operating income	4,253	20,033
Non-operating income:		
Interest income	92	62
Dividend income	550	521
Other	174	236
Total non-operating income	816	820
Non-operating expenses:		
Loss on management of investment partnership	2	1
Other	5	1
Total non-operating expenses	8	3
Recurring income	5,061	20,851
Extraordinary gains:		
Gain on sales of investment securities	290	2,667
Gain on sales of shares of subsidiaries and associates	-	13
Gain on sales of golf club membership	-	5
Total extraordinary gains	290	2,686
Extraordinary losses:		
Loss on disposal of fixed assets	21	28
Loss on sales of shares of subsidiaries and associates	16	-
Loss on sales of golf course membership	-	2
Total extraordinary losses	37	30
Income before income taxes and minority interests	5,314	23,507
Income taxes:		
Current income taxes	536	4,456
Deferred income taxes	672	2,101
Total income taxes	1,209	6,557
Profit	4,104	16,949
Profit (loss) attributable to owners of parent	4,104	16,949

Consolidated Statements of Comprehensive Income

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

	1st Nine Months of FY2021	1st Nine Months of FY2022
	Millions of yen	Millions of yen
Profit	4,104	16,949
Other comprehensive income:		
Net unrealized gain (loss) on other securities	1,980	(283)
Remeasurements of defined benefit plans	(11)	(13)
Total other comprehensive income	1,968	(297)
Comprehensive income	6,072	16,651
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	6,072	16,651
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 FY2022 (From April 1, 2021, to December 31, 2021)

The Company repurchased 1,581,300 shares of the Company based on the resolution at the Board of Directors' meeting held on November 8, 2021. As a result, treasury stock increased ¥4,760 million in the first nine months of the current fiscal year to ¥36,082 million at December 31, 2021.

Changes in the scope of consolidation or the scope of application of the equity method

(Significant change in the scope of consolidation)

International Card System Co., Ltd., which was a consolidated subsidiary of the Company, was excluded from the scope of consolidation because its liquidation was completed during the second quarter of the current fiscal year.

Changes in accounting policies

(Application of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of the first quarter of the fiscal year ending March 31, 2022, the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as "Revenue Recognition Accounting Standard"), etc. and recognizes the amount expected to be received in exchange for goods or services as revenue when the control of the promised goods or services has been transferred to a customer.

Major changes due to the application of the Revenue Recognition Accounting Standard, etc. are described below.

1) Transactions involving provision of parts and materials for value (Repurchase agreements)

Regarding transactions involving provision of parts and materials for value, whereas previously the Company had derecognized parts and materials provided for value, the Company no longer derecognizes parts and materials provided for value because the Company has obligations to repurchase them for such transactions.

Moreover, whereas previously the Company had recorded net sales and cost of sales when the Company sold parts and materials provided by a customer for value back to the customer, the method of recognition has been changed to one that the Company only recognizes the net amount equivalent to processing costs as revenue.

2) Transactions with rights of return

Regarding finished goods and merchandise with rights of return, the method of recognition has been changed to one that the Company no longer recognizes revenue from finished goods and merchandise upon their sale if they are expected to be returned in accordance with the provisions concerning variable consideration.

3) Revenue recognition concerning sale of finished goods and merchandise

Regarding sale of reuse models, whereas previously the Company had recorded the consideration for recovery of trade-in machines from customers as cost of sales, the method has been changed to one that the Company deducts the consideration for such from net sales.

For application of the Revenue Recognition Accounting Standard, etc., the Company has followed the transitional treatment, which is stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. Accordingly, the cumulative effect of retrospective application of the new accounting policy before the beginning of the first quarter of the fiscal year ending March 31, 2022 has been added to or deducted from retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022 and thus the new accounting policy has been applied from the beginning balance of the first quarter of the fiscal year ending March 31, 2022. However, the Company has applied the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard and has not applied the new accounting policy retrospectively to the contracts for which almost all the revenue had been recognized in accordance with the previous treatment before the beginning of the first quarter of the fiscal year ending March 31, 2022. Moreover, the Company has applied the method stipulated in Item (1) of the supplementary provisions of Paragraph 86 of the Revenue Recognition Accounting Standard and, for changes to contracts made before the beginning of the first quarter of the fiscal year ending March 31, 2022, accounting treatment has been implemented based on the contract conditions after all changes to contracts had been reflected and its cumulative effect amount has been added to or deducted from retained earnings at the beginning of the first quarter of the fiscal year ending March 31, 2022.

As a result, net sales and cost of sales for the first nine months of the fiscal year ending March 31, 2022 decreased ¥255 million and ¥210 million, respectively, and operating income, recurring income, and income before income taxes decreased ¥45 million, respectively. There has been no impact on the beginning balance of retained earnings.

As a result of the application of the Revenue Recognition Accounting Standard, etc., "Notes and accounts receivable-trade," which was presented under "Current assets" in the consolidated balance sheet for the previous fiscal year, has been included in "Notes and accounts receivable-trade and contract assets" from the first quarter of the fiscal year ending March 31, 2022. In accordance with the transitional treatment stipulated in Paragraph 89-2 of the Revenue Recognition Accounting Standard, reclassification based on the new presentation method has not been made for the previous fiscal year.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

Effective from the beginning of the first quarter of the fiscal year ending March 31, 2022, the Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard"), etc. and has applied the new accounting policy established by the Fair Value Measurement Accounting Standard, etc. and will apply it in the future as well, in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). There has been no impact on the quarterly consolidated financial statements.

Segment Information

(Segment information by business category)

1st Nine Months of FY2021 (From April 1, 2020, to December 31, 2020)

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

	1st Nine Months of FY2021 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	37,052	1,698	2,049	40,800	200	41,000	-	41,000
Intersegment	-	-	-	-	-	-	-	-
Total	37,052	1,698	2,049	40,800	200	41,000	-	41,000
Segment income	9,799	(2,157)	(52)	7,588	21	7,609	(3,356)	4,253

1st Nine Months of FY2022 (From April 1, 2021, to December 31, 2021)

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

	1st Nine Months of FY2022 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	61,777	5,635	2,782	70,194	149	70,344	-	70,344
Intersegment	-	-	-	-	-	-	-	-
Total	61,777	5,635	2,782	70,194	149	70,344	-	70,344
Segment income	22,459	539	89	23,088	28	23,117	(3,083)	20,033

(Matters concerning changes to reportable segments)

As described in the changes in accounting policies, effective from the first quarter of the fiscal year ending March 31, 2022, the Company has applied the Revenue Recognition Accounting Standard, etc. and has changed the accounting treatment method concerning revenue recognition. Accordingly, the Company has also made similar changes to the method for calculating income or losses of business segments.

As a result of this change, compared with the previous method, sales and segment income of the "Pachinko machines business" for the first nine months of the fiscal year ending March 31, 2022 decreased ¥100 million and ¥3 million, respectively, and sales and segment income of the "Pachislot machines business" decreased ¥80 million and ¥41 million, respectively, and sales of "Other" decreased ¥75 million.