

SANKYO CO., LTD.

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Shares listed: Tokyo (1st Section)

Code number: 6417

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Planned Date for Submittal of the Financial Statements Report: August 10, 2018

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 FY2019 (From April 1, 2018, to June 30, 2018)

(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 FY2019	14,521	30.7%	1,375	-	1,827	-	1,460	-
1st quarter of FY2018	11,108	18.5%	(2,340)	-	(1,818)	-	(1,167)	-
(note) Comprehensive income	1st quarter of FY2019		¥670 million [-%]		1st quarter of FY2018		¥928 million [-%]	

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2019	17.99	17.06
1st quarter of FY2018	(14.39)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2018	381,775	331,824	86.6	
As of March 31, 2018	396,291	337,242	84.8	
(reference) Shareholders' Equity	As of June 30, 2018	¥330,767 million	As of March 31, 2018	¥336,185 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, 2018	-	75.00	-	75.00	150.00
Year ended March 31, 2019	-	-	-	-	-
Year ended March 31, 2019 (Forecast)	-	75.00	-	75.00	150.00

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

3. Forecast for FY2019 (From April 1, 2018, to March 31, 2019)

(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, 2019	90,000	4.4%	12,000	17.9%	13,000	14.8%	9,000	62.1%	110.87

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 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 June 30, 2018:	89,597,500 shares	As of March 31, 2018:	89,597,500 shares	
b. No. of treasury stock As of June 30, 2018:	8,421,429 shares	As of March 31, 2018:	8,421,329 shares	
c. Average number of shares issued and outstanding 1st quarter of FY2019:	81,176,100 shares	1st quarter of FY2018:	81,176,811 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 three months of the fiscal year ending March 31, 2019 (from April 1, 2018 to June 30, 2018), the Japanese economy remained on a moderate recovery track against the backdrop of a recovery in corporate earnings and improvement of both the labor market and personal incomes.

Regarding the environment surrounding the pachinko and pachislot industry, the Regulations Partially Amending the Ordinance for Enforcement of the Act to Control Businesses That May Affect Public Morals and the Regulations Concerning the Certification and Official Inspection of Game Machines ("Amended Pachinko and Pachislot Machines Regulations") came into force on February 1, 2018. The pachinko and pachislot machines installed at pachinko parlors at present are compliant with the former regulations. These machines are allowed to remain in use for a maximum of three years as a transitional measure. In addition, for the time being it is permitted to continue sales of pachinko and pachislot machines certified as compliant with the former regulations. However, regarding pachinko and pachislot machines certified as compliant with the new regulations whose applications for format inspection are submitted after the enforcement of the Amended Pachinko and Pachislot Machines Regulations, it is difficult to forecast how players will react to them because the total payout of such machines is lower than that of machines compliant with the former regulations. Thus, pachinko parlors, the Group's customers, tended to postpone decision-making on the purchase of new pachinko and pachislot machines and replacement.

On the other hand, products that can be played at a more reasonable cost are expected to become the mainstream of machines compliant with the new regulations and there are certain elements that lead to new gaming performance, such as pachinko machines with payout settings. Therefore, pachinko and pachislot machines manufacturers are vigorously applying for format inspection and some products compliant with the new regulations have already been rolled out. Ahead of competitors, the Group decided to introduce *Fever Valvrave* the Liberator W, its first pachinko machine with payout settings, under the SANKYO brand in August 2018. During the first quarter of the current fiscal year, however, the Group did not introduce any machines compliant with the new regulations but introduced one new pachinko title and one pachislot title compliant with the former regulations (excluding reuse models). Meanwhile, *Fever Symphogear*, a pachinko title introduced in August 2017, became a long-running hit product, and additional sales of this title were brisk.

As a result, on a consolidated basis, net sales were ¥14.5 billion, an increase of 30.7% compared with the same period of the previous year, operating income was ¥1.3 billion, compared with operating loss of ¥2.3 billion for the same period of the previous year, recurring income was ¥1.8 billion, compared with recurring loss of ¥1.8 billion for the same period of the previous year, and Profit attributable to owners of parent amounted to ¥1.4 billion, compared with loss attributable to owners of parent amounting to ¥1.1 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 ¥12.7 billion, an increase of 126.8% compared with the same period of the previous year, and operating income amounted to ¥3.2 billion, compared with operating loss of ¥1.9 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 33,000 units, compared with 14,000 units in the same period of the previous fiscal year.

Although *Fever R-18* (introduced in April 2018) under the SANKYO brand was the only title the Group launched in the first quarter of the current fiscal year, *Fever Symphogear*, introduced in August 2017, remained popular and further additional sales of this title were made in the first quarter. Regarding reuse models, sales of *Fever Mobile Suit Zeta GUNDAM* (introduced in June 2018) were brisk.

Pachislot Machines Business

With regard to the pachislot machines business, the market remained lackluster and *Tanoshisa 30φ* (introduced in May 2018) under the SANKYO brand was the only title the Group launched in the first quarter of the current fiscal year. Sales amounted to ¥0.3 billion, a decrease of 91.4% compared with the same period of the previous year, and operating loss was ¥0.8 billion, compared with operating income of ¥0.8 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 800 units, compared with 9,000 units in the same period of the previous fiscal year.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥1.3 billion, a decrease of 9.3% compared with the same period of the previous year, and operating income was ¥37.0 million, an decrease of 42.6%, despite parlor operators' low motivation for opening new parlors or capital investment.

Other Businesses

Sales of other businesses were ¥0.1 billion, an increase of 18.0% compared with the same period of the previous year, and operating loss was ¥92.0 million compared with an operating loss of ¥0.1 billion a year earlier.

(2) Financial Position

Total assets at the end of the first three months of the fiscal year ending March 31, 2019 amounted to ¥381.7 billion, having decreased ¥14.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥9.2 billion decrease in notes and accounts receivable-trade and a ¥5.2 billion decrease in cash and deposits, despite a ¥0.9 billion increase in marketable securities.

Total liabilities amounted to ¥49.9 billion, having decreased ¥9.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥3.1 billion decrease in electronically recorded obligations-operating, a ¥3.0 billion decrease in notes and accounts payable-trade, and a ¥2.7 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥5.4 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 ¥0.8 billion decrease in net unrealized gain on other securities, despite recording of profit attributable to owners of parent amounting to ¥1.4 billion. As a result, net assets amounted to ¥331.8 billion and the shareholders' equity ratio increased 1.8 percentage points to 86.6%.

(3) Forecast of Consolidated Results and Other Forecast Information

No revision has been made to the forecasts of financial results for fiscal 2019 announced on May 10, 2018.

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, 2018	As of June 30, 2018
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	105,568	100,272
Notes and accounts receivable-trade	26,489	17,281
Marketable securities	181,999	182,999
Merchandise and finished goods	248	623
Work in process	285	55
Raw materials and supplies	1,628	1,796
Other	6,443	5,413
Allowance for doubtful accounts	(2)	(1)
Total current assets	322,660	308,441
Fixed assets:		
Tangible fixed assets	41,277	41,565
Intangible fixed assets:		
Goodwill	132	110
Other	231	220
Total intangible fixed assets	364	331
Investments and other assets:		
Investment securities	25,015	23,851
Other	7,375	7,985
Allowance for doubtful accounts	(21)	(21)
Allowance for investment loss	(379)	(379)
Total investments and other assets	31,989	31,436
Total fixed assets	73,631	7,333
Total assets	396,291	381,775

Consolidated Balance Sheets

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

	As of March 31, 2018	As of June 30, 2018
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	9,304	6,261
Electronically recorded obligations - operating	11,326	8,188
Accrued income taxes	2,369	381
Allowance for bonuses	803	1,278
Asset retirement obligations	3	0
Other	6,790	5,379
Total current liabilities	30,599	21,490
Long-term liabilities:		
Bonds with subscription rights to shares	20,046	20,041
Net defined benefit liabilities	4,784	4,846
Asset retirement obligations	59	62
Other	3,559	3,510
Total long-term liabilities	28,449	28,460
Total liabilities	59,048	49,950
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	329,499	324,871
Less: treasury stock, at cost	(38,782)	(38,783)
Total shareholders' equity	329,306	324,678
Accumulated other comprehensive income:		
Net unrealized gain on other securities	6,952	6,144
Remeasurements of defined benefit plans	(73)	(55)
Total accumulated other comprehensive income	6,878	6,088
Subscription rights to shares	1,057	1,057
Total net assets	337,242	331,824
Total liabilities and total net assets	396,291	381,775

(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 FY2018	1st quarter of FY2019
	Millions of yen	Millions of yen
Net sales	11,108	14,521
Cost of sales	5,376	6,361
Gross profit	5,732	8,160
Selling, general and administrative expenses	8,072	6,784
Operating income (loss)	(2,340)	1,375
Non-operating income:		
Interest income	51	46
Dividend income	406	318
Other	64	88
Total non-operating income	522	454
Non-operating expenses:		
Other	1	2
Total non-operating expenses	1	2
Recurring income (loss)	(1,818)	1,827
Extraordinary gains:		
Gain on sales of golf club membership	2	-
Total extraordinary gains	2	-
Extraordinary losses:		
Loss on sales of fixed assets	2	-
Loss on sales of investment securities	42	-
Total extraordinary losses	45	-
Income (loss) before income taxes and minority interests	(1,861)	1,827
Income taxes:		
Current income taxes	23	638
Deferred income taxes	(717)	(271)
Total income taxes	(693)	367
Profit (loss)	(1,167)	1,460
Profit (loss) attributable to owners of parent	(1,167)	1,460

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2018	1st quarter of FY2019
	Millions of yen	Millions of yen
Profit (loss)	(1,167)	1,460
Other comprehensive income:		
Net unrealized gain (loss) on other securities	290	(807)
Remeasurements of defined benefit plans	19	17
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	238	(789)
Comprehensive income	(928)	670
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(928)	670
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 FY2019 (From April 1, 2018, to June 30, 2018)

Not applicable

Additional Information

Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." and other standards Effective from the beginning of the first quarter of the fiscal year ending March 31, 2019, the Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (ASBJ Statement No. 28, February 16, 2018) and other standards, and accordingly deferred tax assets are presented under investments and other assets.

Segment Information

(Segment information by business category)

1st quarter of FY2018 (From April 1, 2017, to June 30, 2017)

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

	1st quarter of FY2018 (Millions of yen)							
	Reportable segments				Other	Total	Adjustments	Consolidated
	Pachinko machines business	Pachislot machines business	Ball bearing supply systems business	Subtotal				
Sales								
Customers	5,600	3,906	1,479	10,986	122	11,108	-	11,108
Intersegment	-	-	-	-	-	-	-	-
Total	5,600	3,906	1,479	10,986	122	11,108	-	11,108
Segment income	(1,970)	814	66	(1,089)	(165)	(1,255)	(1,085)	(2,340)

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