

SANKYO CO., LTD.

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

Shares listed: Tokyo (1st Section)

Code number: 6417

Telephone: +81-3-5778-7777

Representative: Kimihisa Tsutsui, President & COO

Contact: Yoko Oshima, Executive Operating Officer

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

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 FY2019 (From April 1, 2018, to December 31, 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 nine months of FY2019	55,341	19.8%	10,949	-	11,846	-	8,812	-
1st nine months of FY2018	46,197	(31.8%)	(2,913)	-	(1,867)	-	(1,282)	-
(note) Comprehensive income	1st nine months of FY2019		¥4,862 million	[266.9%]	1st nine months of FY2018		¥1,325 million	[(71.9%)]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st nine months of FY2019	108.55	103.03
1st nine months of FY2018	(15.80)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of December 31, 2018	380,827	330,200	86.4	
As of March 31, 2018	396,291	337,242	84.8	
(reference) Shareholders' Equity	As of December 31, 2018	¥328,869 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	-	75.00	-	-	-
Year ended March 31, 2019 (Forecast)	-	-	-	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

*** Notes**

(1) Changes for important subsidiaries during the 1st Nine 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 Dec. 31, 2018:	89,597,500 shares	As of March 31, 2018:	89,597,500 shares	
b. No. of treasury stock As of Dec. 31, 2018:	8,421,809 shares	As of March 31, 2018:	8,421,329 shares	
c. Average number of shares issued and outstanding 1st 9M of FY2019:	81,175,927 shares	1st 9M of FY2018:	81,176,636 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, 2019 (from April 1, 2018 to December 31, 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. Meanwhile, the impact of the intensifying U.S.-China trade friction on the global economy and other factors are sources of concern regarding prospects for the Japanese economy.

Regarding the environment surrounding the pachinko and pachislot industry, nearly a year has passed since the enforcement of 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") on February 1, 2018, and both pachinko and pachislot machines compliant with the former regulations that are available for sale for the time being and the machines compliant with the new regulations that have satisfied format inspection are being sold.

Although pachinko parlors are aware of the potential of the pachinko and pachislot machines compliant with the new regulations to attract players, they tend to stick with the machines compliant with the former regulations whose installation and use are still permitted, and thus replacement with new pachinko and pachislot machines remained at a low level.

During the first nine months of the fiscal year ending March 31, 2019, the SANKYO Group became the first manufacturer in the industry to introduce a pachinko machine with payout settings, a type of pachinko machine permitted by the new regulations. Subsequently, the Group's several machines compliant with the new regulations have been certified by format inspection. In addition to sales of machines compliant with the former regulations available for sale, the Group introduced eight new pachinko titles and two new pachislot titles. Furthermore, besides the contribution of additional sales of *Fever Symphogear*, a pachinko title introduced in August 2017, the Group's efforts to reduce manufacturing cost and enhance efficiency of R&D expenditure took effect. As a result, financial performance has been robust compared with the forecast for the full year.

As a result, on a consolidated basis, net sales were ¥55.3 billion, an increase of 19.8% compared with the same period of the previous year, operating income was ¥10.9 billion, compared with an operating loss of ¥2.9 billion for the same period of the previous year, recurring income was ¥11.8 billion, compared with a recurring loss of ¥1.8 billion for the same period of the previous year, and profit attributable to owners of parent amounting to ¥8.8 billion, compared with a loss attributable to owners of parent amounting to ¥1.2 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 ¥48.1 billion, an increase of 49.8% compared with the same period of the previous year, and operating income amounted to ¥16.8 billion, compared with operating income of ¥0.8 billion for the same period of the previous fiscal year. Sales of pachinko machines amounted to 126,000 units compared with 80,000 units for the same period of the previous fiscal year.

Major titles released included *Fever BIOHAZARD REVELATIONS* (introduced in November 2018) and *Fever Symphogear LIGHT VER.* (introduced in December 2018) under the SANKYO brand,

Pachislot Machines Business

Regarding the pachislot machines business, sales amounted to ¥1.7 billion, a decrease of 78.1% compared with the same period of the previous year, and operating loss was ¥2.3 billion, compared with operating loss of ¥0.4 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 4,000 units compared with 18,000 units for the same period of the previous fiscal year.

Major titles released included *Pachislot Total Eclipse* (introduced in July 2018) under the SANKYO brand. The Group launched no new titles during the third quarter of the current fiscal year (from October 1, 2018 to December 31, 2018).

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥5.0 billion, a decrease of 13.2% compared with the same period of the previous year, and operating income was ¥0.3 billion, a decrease of 6.8%.

Other Businesses

Sales of other businesses were ¥0.4 billion, a increase of 7.4% compared with the same period of the previous year, and operating loss was ¥0.2 billion compared with an operating loss of ¥0.3 billion a year earlier.

(2) Financial Position

Total assets at the end of the first nine months of the fiscal year ending March 31, 2019 amounted to ¥380.8 billion, having decreased ¥15.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥9.6 billion decrease in cash and deposits, a ¥5.7 billion decrease in investment securities, and a ¥5.1 billion decrease in notes and accounts receivable-trade, despite a ¥3.0 billion increase in marketable securities and a ¥1.8 billion increase in deferred tax assets

(included in "Other" of Investments and other assets).

Total liabilities amounted to ¥50.6 billion, having decreased ¥8.4 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥4.3 billion decrease in electronically recorded obligations-operating, a ¥2.6 billion decrease in notes and accounts payable-trade, and a ¥1.9 billion decrease in accounts payable (included in "Other" of Current liabilities).

Net assets decreased ¥7.0 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥12.1 billion and a ¥4.0 billion decrease in net unrealized gain on other securities, despite recording of profit attributable to owners of parent amounting to ¥8.8 billion. As a result, net assets amounted to ¥330.2 billion and the shareholders' equity ratio increased 1.6 percentage points to 86.4%.

(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. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

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

	As of March 31, 2018	As of Dec. 31, 2018
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	105,568	95,922
Notes and accounts receivable-trade	26,489	21,366
Marketable securities	181,999	184,999
Merchandise and finished goods	248	485
Work in process	285	22
Raw materials and inventories	1,628	2,592
Other	6,443	6,034
Allowance for doubtful accounts	(2)	(2)
Total current assets	322,660	311,421
Fixed assets:		
Tangible fixed assets	41,277	41,101
Intangible fixed assets		
Goodwill	132	67
Other	231	204
Total Intangible fixed assets	364	271
Investments and other assets:		
Investment securities	25,015	19,245
Other	7,375	9,186
Allowance for doubtful accounts	(21)	(19)
Allowance for investment loss	(379)	(379)
Total investments and other assets	31,989	28,032
Total fixed assets	73,631	69,405
Total assets	396,291	380,827

Consolidated Balance Sheets

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

	As of March 31, 2018	As of Dec. 31, 2018
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	9,304	6,634
Electronically recorded obligations-operating	11,326	7,007
Accrued income taxes	2,369	2,444
Allowance for bonuses	803	398
Asset retirement obligations	3	-
Other	6,790	5,577
Total current liabilities	30,599	22,062
Long-term liabilities:		
Bonds with subscription rights to shares	20,046	20,031
Net defined benefit liabilities	4,784	4,963
Asset retirement obligations	59	62
Other	3,559	3,506
Total long-term liabilities	28,449	28,564
Total liabilities	59,048	50,626
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	329,499	326,135
Less: treasury stock, at cost	(38,782)	(38,784)
Total shareholders' equity	329,306	325,940
Accumulated other comprehensive income:		
Net unrealized gain on other securities	6,952	2,949
Remeasurements of defined benefit plans	(73)	(20)
Total accumulated other comprehensive income	6,878	2,928
Subscription rights to shares	1,057	1,331
Total net assets	337,242	330,200
Total liabilities and total net assets	396,291	380,827

(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 FY2018	1st Nine Months of FY2019
	Millions of yen	Millions of yen
Net sales	46,197	55,341
Cost of sales	23,433	23,593
Gross profit	22,763	31,748
Selling, general and administrative expenses	25,676	20,798
Operating income (loss)	(2,913)	10,949
Non-operating income:		
Interest income	144	137
Dividend income	733	549
Other	170	214
Total non-operating income	1,048	902
Non-operating expenses:		
Other	3	5
Total non-operating expenses	3	5
Recurring income (loss)	(1,867)	11,846
Extraordinary gains:		
Gain on sales of fixed assets	-	1
Gain on sales of golf club membership	2	-
Total extraordinary gains	2	1
Extraordinary losses:		
Loss on sales of fixed assets	2	-
Loss on disposal of fixed assets	13	17
Loss on sales of investment securities	42	-
Total extraordinary losses	58	17
Income (loss) before income taxes and minority interests	(1,924)	11,829
Income taxes:		
Current income taxes	640	3,107
Deferred income taxes	(1,282)	(90)
Total income taxes	(642)	3,017
Profit (loss)	(1,282)	8,812
Profit (loss) attributable to owners of parent	(1,282)	8,812

Consolidated Statements of Comprehensive Income

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

	1st Nine Months of FY2018	1st Nine Months of FY2019
	Millions of yen	Millions of yen
Profit (loss)	(1,282)	8,812
Other comprehensive income:		
Net unrealized gain (loss) on other securities	2,621	(4,002)
Remeasurements of defined benefit plans	57	53
Share of other comprehensive income of associates accounted for using equity method	(71)	-
Total other comprehensive income	2,607	(3,949)
Comprehensive income	1,325	4,862
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,325	4,862
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 FY2019 (From April 1, 2018, to December 31, 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 Nine Months of FY2018 (From April 1, 2017, to December 31, 2017)

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

	1st Nine Months 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	32,117	7,821	5,847	45,786	410	46,197	-	46,197
Intersegment	-	-	-	-	-	-	-	-
Total	32,117	7,821	5,847	45,786	410	46,197	-	46,197
Segment income	844	(409)	379	814	(359)	455	(3,368)	(2,913)

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