

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 13, 2020

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. Results for the first quarter of FY2021 (From April 1, 2020, to June 30, 2020)

(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 FY2021	17,960 58.2%	3,752 -	4,181 -	3,259 -
1st quarter of FY2020	11,351 (21.8%)	(596) -	(155) -	(93) -
(note) Comprehensive income	1st quarter of FY2021	¥4,027 million [-%]	1st quarter of FY2020	(¥2,363) million [-%]

	Net income per share	Fully diluted net income per share
	Yen	Yen
1st quarter of FY2021	53.28	49.69
1st quarter of FY2020	(1.16)	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	
	Millions of yen	Millions of yen	%	
As of June 30, 2020	316,000	268,960	84.6	
As of March 31, 2020	325,232	269,521	82.4	
(reference) Shareholders' Equity	As of June 30, 2020	¥267,422 million	As of March 31, 2020	¥267,946 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, 2020	-	75.00	-	75.00	150.00
Year ended March 31, 2021	-	-	-	-	-
Year ended March 31, 2021 (Forecast)	-	75.00	-	75.00	150.00

Note: Changes in the projected cash dividends in this quarter : Yes

3. Forecast for FY2021 (From April 1, 2020, to March 31, 2021)

(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, 2021	73,500 (6.3%)	8,000 (36.3%)	8,700 (35.4%)	6,200 (52.5%)	101.34

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

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 FY2021: 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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c. Changes in accounting estimates:	Not applicable
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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, 2020: 69,597,500 shares As of March 31, 2020: 69,597,500 shares

b. No. of treasury stock	As of June 30, 2020:	8,415,405 shares	As of March 31, 2020:	8,427,105 shares
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c. Average number of shares issued and outstanding 1st quarter of FY2021: 61,174,648 shares 1st quarter of FY2020: 81,175,399 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, 2021 (from April 1, 2020 to June 30, 2020), the COVID-19 pandemic created an extremely challenging situation for the Japanese economy as economic activity stalled and economic indicators deteriorated. Despite a gradual resumption of economic activity following the lifting of the state of emergency, challenging circumstances will likely persist, going forward.

The pachinko and pachislot industry faced a challenging business environment. Owing to the impact of the COVID-19 pandemic, pachinko parlors refrained from advertising and sales promotion designed to attract players, and moreover were compelled to temporarily suspend business operations nationwide. Following the government's lifting of the state of emergency on May 25, the pachinko and pachislot industry resumed business operations. However, anxiety concerning infection has yet to dissipate and a decisive recovery of pachinko parlor operators' willingness to purchase new models is not in prospect for some time. Regarding pachinko and pachislot machine manufacturers, supply of machines compliant with the new regulations temporarily stalled owing to a delay in parts procurement and also because the number of applications accepted by Hotsukyo for format inspection decreased and the format inspection pass rate has remained low.

In these circumstances, the Amended Pachinko and Pachislot Machines Regulations enforced in February 2018 were again amended and enforced in May 2020, and the due date for removal of pachinko and pachislot machines compliant with the former regulations was extended for one year. In response to this amendment and enforcement, pachinko parlor operators, having been compelled to temporarily suspend operations and postpone capital investment in the wake of COVID-19, intend to systematically proceed with replacement with machines compliant with the new regulations and pachinko and pachislot machine manufacturers are urged to ensure supply to meet this demand. Moreover, in line with the change in the "Standards for Interpretation of Technical Standards" issued by the National Police Agency in early 2020, it has become possible to develop pachinko machines offering gaming performance that had been previously unavailable. Such machines, whose introduction is already underway and proceeding step by step, are expected to stimulate demand from now on.

During the first quarter of the current fiscal year, the Group released two new pachinko titles (excluding reuse models). *Fever Symphogear 2* introduced in April is the successor to *Fever Symphogear*, which was introduced in August 2017 and became an unusually long-running hit product in recent years. Similar to its predecessor, *Fever Symphogear 2* was well received by many players upon its introduction and we have received additional orders. *Fever Shinkageitsu 2 Yozakura ver* (introduced in April 2020) is the first title in the industry compliant with the new Standards for Interpretation of Technical Standards. Equipped with "Yu-Time," a new system that triggers *jitan* time-shortening mode if a jackpot does not occur until the predetermined number of rotations, this pachinko machine offers players the experience of new gaming performance.

As a result, on a consolidated basis, net sales were ¥17.9 billion, an increase of 58.2% compared with the same period of the previous year, operating income was ¥3.7 billion, compared with an operating loss of ¥0.5 billion for the same period of the previous year, recurring income was ¥4.1 billion, compared with a recurring loss of ¥0.1 billion for the same period of the previous year, and profit attributable to owners of parent amounting to ¥3.2 billion, compared with a loss attributable to owners of parent amounting to ¥93 million 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 ¥16.9 billion, an increase of 140.0% compared with the same period of the previous year, and operating income amounted to ¥5.4 billion, compared with operating loss of ¥0.2 billion in the same period of the previous fiscal year. Sales of pachinko machines amounted to 33,000 units, compared with 18,000 units in the same period of the previous fiscal year.

Two titles released included *Fever Symphogear 2* (introduced in April 2020) and *Fever Shinkageitsu 2 Yozakura ver.* (introduced in April 2020) under the SANKYO brand.

Pachislot Machines Business

Regarding the pachislot machines business, the Group released no title. Sales amounted to ¥0.2 billion, a decrease of 92.0% compared with the same period of the previous year, and operating loss was ¥0.7 billion, compared with operating income of ¥0.7 billion in the same period of the previous fiscal year. Sales of pachislot machines amounted to 300 units, compared with 6,000 units in the same period of the previous fiscal year.

Ball Bearing Supply Systems Business

Sales of the ball bearing supply systems business were ¥0.7 billion, a decrease of 48.7% compared with the same period of the previous year, and operating loss was ¥22 million, compared with operating income of ¥88 million in the same period of the previous fiscal year.

Other Businesses

Sales of other businesses were ¥56 million, a decrease of 72.3% compared with the same period of the previous year, and operating income was ¥10 million compared with an operating loss of ¥74 million a year earlier.

(2) Financial Position

Total assets at the end of the first three months of the fiscal year ending March 31, 2021 amounted to ¥316.0 billion, having decreased ¥9.2 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥5.6 billion decrease in notes and accounts receivable-trade, a ¥5.1 billion decrease in accounts receivable for provision of parts and materials for value (included in “Other” of Current assets), a ¥5.0 billion decrease in marketable securities, and a ¥2.0 billion decrease in merchandise and finished goods, despite a ¥9.2 billion increase in cash and deposits.

Total liabilities amounted to ¥47.0 billion, having decreased ¥8.6 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to a ¥10.0 billion decrease in notes and accounts payable-trade, despite a ¥0.8 billion increase in electronically recorded obligations.

Net assets decreased ¥0.5 billion compared with the figure at the previous fiscal year-end. This decrease was mainly attributable to cash dividends paid amounting to ¥4.5 billion, while profit attributable to owners of parent amounted to ¥3.2 billion and net unrealized gain on other securities increased ¥0.7 billion. As a result, net assets amounted to ¥268.9 billion and the shareholders' equity ratio increased 2.2 percentage points to 84.6%.

(3) Forecast of Consolidated Results and Other Forecast Information

Whereas the forecasts of consolidated financial results for the fiscal year ending March 31, 2021 had been “undecided” because of the difficulty in making reasonable estimates of financial forecasts in view of the COVID-19 pandemic, we are announcing the forecasts of consolidated financial results for the current fiscal year as follows based on judgments made in light of the information currently available.

The consolidated business results forecast for the fiscal year ending March 31, 2021, are as follows:

	Forecast	Year-on-year change	FY 2020 results
Net sales	¥73.5 billion	6.3% decrease	¥78.4 billion
Operating income	¥8.0 billion	36.3% decrease	¥12.5 billion
Recurring income	¥8.7 billion	35.4% decrease	¥13.4 billion
profit attributable to owners of parent	¥6.2 billion	52.5% decrease	¥13.0 billion

Regarding dividend forecasts, the Company plans to pay annual dividends of ¥150 per share, consisting of an interim dividend of ¥75 per share and a year-end dividend of ¥75 per share, in accordance with the basic policy of paying stable dividends continuously, comprehensively taking into consideration the business results, the financial position, the payout ratio, and other factors.

For details, please refer to the “Notice concerning Forecast of Consolidated Financial Results and Dividends for the fiscal year ending March 31, 2021” announced today(August 7, 2020).

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, 2020	As of June 30, 2020
	Millions of yen	Millions of yen
Assets:		
Current assets:		
Cash and deposits	122,847	132,114
Notes and accounts receivable-trade	16,743	11,059
Marketable securities	119,999	114,999
Merchandise and finished goods	2,060	39
Work in process	21	35
Raw materials and supplies	3,701	3,666
Other	10,669	5,438
Allowance for doubtful accounts	(1)	(1)
Total current assets	276,041	267,352
Fixed assets:		
Tangible fixed assets	27,244	27,031
Intangible fixed assets:		
Other	142	133
Total intangible fixed assets	142	133
Investments and other assets:		
Investment securities	13,035	13,334
Other	8,785	8,164
Allowance for doubtful accounts	(17)	(16)
Total investments and other assets	21,803	21,482
Total fixed assets	49,190	48,648
Total assets	325,232	316,000

Consolidated Balance Sheets

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

	As of March 31, 2020	As of June 30, 2020
	Millions of yen	Millions of yen
Liabilities:		
Current liabilities:		
Notes and accounts payable-trade	13,789	3,743
Electronically recorded obligations - operating	7,637	8,495
Current portion of bonds with subscription rights to shares	20,006	20,001
Accrued income taxes	1,043	260
Allowance for bonuses	765	1,243
Provision for shareholder benefit program	101	101
Other	3,880	4,687
Total current liabilities	47,224	38,534
Long-term liabilities:		
Net defined benefit liabilities	4,962	5,005
Asset retirement obligations	75	75
Other	3,448	3,424
Total long-term liabilities	8,486	8,505
Total liabilities	55,711	47,039
Net Assets:		
Shareholders' equity:		
Common stock	14,840	14,840
Capital surplus	23,750	23,750
Retained earnings	257,575	256,239
Less: treasury stock, at cost	(31,822)	(31,778)
Total shareholders' equity	264,343	263,051
Accumulated other comprehensive income:		
Net unrealized gain on other securities	3,549	4,321
Remeasurements of defined benefit plans	53	49
Total accumulated other comprehensive income	3,603	4,371
Subscription rights to shares	1,574	1,538
Total net assets	269,521	268,960
Total liabilities and total net assets	325,232	316,000

(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 FY2020	1st quarter of FY2021
	Millions of yen	Millions of yen
Net sales	11,351	17,960
Cost of sales	5,279	8,809
Gross profit	6,071	9,151
Selling, general and administrative expenses	6,667	5,399
Operating income (loss)	(596)	3,752
Non-operating income:		
Interest income	49	35
Dividend income	352	328
Other	39	68
Total non-operating income	441	432
Non-operating expenses:		
Loss on management of investment partnership	-	2
Other	0	0
Total non-operating expenses	0	3
Recurring income (loss)	(155)	4,181
Extraordinary gains:		
Gain on sales of investment securities	-	145
Total extraordinary gains	-	145
Extraordinary losses:		
Loss on disposal of fixed assets	-	4
Loss on sales of shares of subsidiaries and associates	-	16
Total extraordinary losses	-	20
Income (loss) before income taxes and minority interests	(155)	4,306
Income taxes:		
Current income taxes	13	547
Deferred income taxes	(75)	500
Total income taxes	(61)	1,047
Profit (loss)	(93)	3,259
Profit (loss) attributable to owners of parent	(93)	3,259

Consolidated Statements of Comprehensive Income

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

	1st quarter of FY2020	1st quarter of FY2021
	Millions of yen	Millions of yen
Profit (loss)	(93)	3,259
Other comprehensive income:		
Net unrealized gain (loss) on other securities	(2,267)	771
Remeasurements of defined benefit plans	(2)	(3)
Total other comprehensive income	(2,270)	767
Comprehensive income	(2,363)	4,027
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(2,363)	4,027
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 FY2021 (From April 1, 2020, to June 30, 2020)

Not applicable

Segment Information

(Segment information by business category)

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)

1st quarter of FY2021 (From April 1, 2020, to June 30, 2020)

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

	1st quarter 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	16,952	210	742	17,904	56	17,960	-	17,960
Intersegment	-	-	-	-	-	-	-	-
Total	16,952	210	742	17,904	56	17,960	-	17,960
Segment income	5,408	(722)	(22)	4,663	10	4,674	(922)	3,752