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On **May 28, 2020**, Axell Corporation announced earnings results for full-year FY03/20.

Cumulative (JPYmn)	FY03/19				FY03/20				FY03/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	724	2,190	3,618	5,003	1,532	3,865	6,468	9,265	100.7%	9,200
YoY	-49.5%	-35.3%	-21.6%	-41.0%	111.6%	76.5%	78.8%	85.2%		83.9%
Gross profit	257	734	1,289	1,708	549	1,218	2,018	2,948	101.0%	2,920
YoY	-57.5%	-45.7%	-31.4%	-45.6%	113.6%	65.9%	56.6%	72.6%		71.0%
GPM	35.5%	33.5%	35.6%	34.1%	35.8%	31.5%	31.2%	31.8%		31.7%
SG&A expenses	1,516	2,146	2,778	3,380	544	1,133	1,694	2,555	99.8%	2,560
YoY	64.6%	30.2%	19.4%	13.2%	-64.1%	-47.2%	-39.0%	-24.4%		-24.3%
SG&A ratio	209.4%	98.0%	76.8%	67.6%	35.5%	29.3%	26.2%	27.6%		27.8%
R&D expenses	1,283	1,698	2,112	2,513	315	674	978	1,549		
YoY	82.0%	40.2%	26.8%	17.8%	-75.4%	-60.3%	-53.7%	-38.4%		
R&D ratio	177.2%	77.5%	58.4%	50.2%	20.6%	17.4%	15.1%	16.7%		
Operating profit	-1,258	-1,411	-1,488	-1,672	5	85	323	393	109.2%	360
YoY	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	0.3%	2.2%	5.0%	4.2%		3.9%
Recurring profit	-1,247	-1,403	-1,477	-1,651	11	94	340	535	107.0%	500
YoY	-	-	-	-	-	-	-	-		-
RPM	-	-	-	-	0.7%	2.4%	5.3%	5.8%		5.4%
Net income	-871	-988	-1,829	-2,000	6	90	332	468	117.0%	400
YoY	-	-	-	-	-	-	-	-		-
Net margin	-	-	-	-	0.4%	2.3%	5.1%	5.1%		4.3%
Unit sales of graphics LSIs ('000)	30	120	210	290	110	180	280	390		
Quarterly performance (JPYmn)	FY03/19				FY03/20					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	724	1,466	1,428	1,385	1,532	2,333	2,603	2,797		
YoY	-49.5%	-24.9%	16.5%	-64.2%	111.6%	59.1%	82.3%	101.9%		
Gross profit	257	477	555	419	549	669	800	930		
YoY	-57.5%	-36.2%	5.1%	-66.8%	113.6%	40.3%	44.1%	122.0%		
GPM	35.5%	32.5%	38.9%	30.3%	35.8%	28.7%	30.7%	33.2%		
SG&A expenses	1,516	630	632	602	544	589	561	861		
YoY	64.6%	-13.3%	-6.8%	-8.6%	-64.1%	-6.5%	-11.2%	43.0%		
SG&A ratio	209.4%	43.0%	44.3%	43.5%	35.5%	25.2%	21.6%	30.8%		
R&D expenses	1,283	415	414	401	315	359	304	571		
YoY	82.0%	-18.0%	-9.0%	-14.3%	-75.4%	-13.5%	-26.6%	42.4%		
R&D ratio	177.2%	28.3%	29.0%	29.0%	20.6%	15.4%	11.7%	20.4%		
Operating profit	-1,258	-153	-77	-184	5	80	238	70		
YoY	-	-	-	-	-	-	-	-		-
OPM	-	-	-	-	0.3%	3.4%	9.1%	2.5%		
Recurring profit	-1,247	-156	-74	-174	11	83	246	195		
YoY	-	-	-	-	-	-	-	-		-
RPM	-	-	-	-	0.7%	3.6%	9.5%	7.0%		
Net income	-871	-117	-841	-171	6	84	242	136		
YoY	-	-	-	-	-	-	-	-		-
Net margin	-	-	-	-	0.4%	3.6%	9.3%	4.9%		
Unit sales of graphics LSIs ('000)	30	90	90	80	110	60	100	110		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Figures until Q4 FY03/19 are for parent only and from Q1 FY03/20 are consolidated. YoY comparisons for FY03/20 are provided as reference only.

Full-year FY03/20 results

- ▷ Sales: JPY9.3bn (+85.2% YoY)
- ▷ Operating profit: JPY393mn (versus a loss of JPY1.7bn in FY03/19)
- ▷ Recurring profit: JPY535mn (versus a loss of JPY1.7bn in FY03/19)
- ▷ Net income*: JPY468mn (versus a loss of JPY2.0bn in FY03/19)

*Net income attributable to owners of the parent

The company started producing consolidated quarterly financial statements in Q1 FY03/20. FY03/20 YoY comparison figures are for reference purposes.

- ▷ Pachinko and pachislot machine market: The market environment remains challenging, with appetite of amusement hall owners for new pachinko and pachislot equipment depressed by the growing number of options available to consumers in the area of leisure activities and the restrictive ordinances implemented by the government (aimed at curbing addictive activities) under the revised Ordinance of Enforcement of Public Morals Act. With amusement halls facing hard times, pachinko and pachislot machine manufacturers have also become more attentive to cost cutting and this in turn has led to increased reuse of parts of machines, including products manufactured by Axell.
- ▷ Company initiatives: In addition to efforts to stabilize its revenue and earnings stream from the pachinko and pachislot machine market, the company made efforts to increase sales of graphic LSIs to the embedded systems market. Further, it focused on initiatives aimed at accelerating the commercialization of four new business areas (middleware, machine learning, blockchain, and security). Considerations were made for reorganization, alliances, and investments to speed the development of these new domains. In May 2019, Axell Corporation established ax Inc. (90% shareholding) for the promotion of business in the fields of machine learning and middleware. It also made bitcraft Co., Ltd. and MotionPortrait Inc. second-tier subsidiaries through M&A. In October 2019, ax Inc. merged with bitcraft Co., Ltd. (through absorption of the latter) to improve the management efficiency of the group.
- ▷ Company comments on Q3 results: The main YoY sales growth driver was memory modules. Profits were up at all levels due to sales growth and a YoY decrease in R&D expenses after development of AG-6 wound down in FY03/19.

In Q2 FY03/20, Axell began disclosing a sales breakdown for two segments (LSI Development and Sales, and New Business). The LSI Development and Sales segment develops and sells products for pachinko and pachislot machines and embedded systems. The New business segment develops and sells products and provides solutions in middleware, machine learning, blockchain, and security businesses.

LSI Development and Sales

- ▷ Sales: JPY9.1bn
- ▷ Operating profit: JPY1.6bn
- ▷ For products for pachinko and pachislot machines, sales of graphic LSIs increased by around 100,000 units to 390,000 units.
- ▷ Sales of memory modules rose from around 240,000 units in FY03/19 to 800,000 units due to addition of new customers and brisk sales trends of existing customers.
- ▷ Sales of embedded systems were down YoY.

New Business

- ▷ Sales: JPY196mn
- ▷ Operating loss: JPY641mn

The New Business segment develops new businesses in the middleware, machine learning, blockchain, and security domains. The segment recorded sales mainly in the middleware and machine learning businesses.

Full-year forecasts

The company has determined that it is difficult to make a reasonable forecast at present (as at May 2020) and has left the forecast for FY03/21 as undetermined. It will publish an updated forecast once it is in a position to do so.

In the pachinko/pachislot machine market, the company had expected replacement demand in FY03/21 for machines complying with new rules under the revised Ordinance of Enforcement of Public Morals Act. In light of the COVID-19 outbreak, however, amusement halls have suspended operation to prevent the spread of infection, and the uncertain outlook has dampened demand for purchasing new units. In addition, in an amendment to the supplementary rules, the National Public Safety Commission has extended the deadline for the removal of old machines from the market (originally set for January 2021). With the timing of a switch to the new machines in amusement halls unclear, given its dependence on the subsidence of the outbreak, it is difficult for the company to make sensible forecasts for the time being.

For FY03/20, the company plans to pay a year-end dividend of JPY21 per share (total dividend of JPY21 for the year). The forecast for FY03/21 dividend has been left undetermined.

This note is the most recent addition to the [full report](#).

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