

1. Qualitative information on the quarterly financial results

(1) Analysis of operating results and consolidated earnings forecasts

**i.) Analysis of operating results**

In the pachinko/pachislot market, manufacturers are developing and bringing new-regulation machine\* to market. New-regulation machine, which offers a variety of new game functions within a reasonable amount of money, has received a certain reputation from pachinko halls and fans as a “pachinko/pachislot that customers can enjoy with peace of mind.” This has raised expectations for market revitalization.

Amid these market conditions, we have conducted marketing analyses from the user’s point of view on all the new-regulation machine that have been introduced into pachinko halls, and have refined the quality so that all products can be introduced into pachinko halls as an attractive products that users can enjoy.

[Results for the first half of the current fiscal year (six months)]

In the pachinko/pachislot distribution services business, we sold 22,600 units in the second quarter and recorded sales of a total of 64,500 units (up 50.1% YoY) including 41,900 units in the first quarter. In the pachinko/pachislot machine installation and parts checking business, sales grew to net sales ¥144 million (up approximately 2.4 times YoY) and net sales ¥400 million (up approximately 3.2 times YoY) in the web ad business. The pachinko/pachislot development division has steadily won orders for development projects from the next fiscal year onward.

At the other company, Tsuburaya Productions Co., Ltd. (hereinafter referred to as “Tsuburaya Productions”) is pursuing a variety of initiatives, including the production of the large film *SHIN ULTRAMAN*, monetization of movies, and expansion of licensing revenues. In Digital Frontier Inc., which conducts the video production business, its performance is proceeding steadily with orders for animation, games, pachinko/pachislot and other video production.

As a result, consolidated results for the first half of the fiscal year under review were as follows: net sales ¥27,664 million (up 53.3% YoY), operating loss ¥2,908 million (an improvement of ¥998 million YoY), ordinary loss ¥2,692 million (an improvement of ¥1,369 million YoY), and loss attributable to owners of parent ¥2,888 million (an improvement of ¥362 million YoY).

**ii.) Explanation of consolidated earnings forecasts**

The full-year consolidated financial results forecast, including the current situation, is progressing as planned, and there are no changes to the content in the “Summary of Financial Information and Consolidated Business Results for the Year Ended March 31, 2019” announced on May 15, 2019.

[Progress in the second half of the fiscal year ending March 31, 2020]

In the pachinko/pachislot distribution services business, we have already commenced sales of several pachinko/pachislot machines, including the mainstay title *NEON GENESIS EVANGELION Rebirth of Angels*, as well as *Pachislot Salaryman Kintaro -MAX-*, *CARD BATTLE PACHI-SLOT MOBILE SUIT GUNDAM X-OVER*, and *ayumi hamasaki -LIVE in CASINO-*. In addition, preparations for the launch of titles, scheduled for release in the fourth quarter, are proceeding smoothly.

Tsuburaya Productions is expanding its business both in Japan and overseas. During the fiscal year under review, the distribution of *ULTRAMAN*, a 3DCG animation series in NETFLIX and elsewhere, as well as season 2 production, merchandising and licensing, progressed largely as planned.

The performance of the other companies was also favorable, and the business for the fiscal year under review was in line with the plan.

\*Pachinko/pachislot machine based on *Regulation Partially Amending the Ordinance for Enforcement of the Act on Control and Improvement of Amusement Business and the Regulations for the Verification of Licenses, Formats and Other Aspects of Pachinko and Pachislot Machines* effective on February 1, 2018

(2) Analysis of financial position

(Assets)

Current assets decreased ¥6,790 million from the end of the previous fiscal year to ¥41,434 million. This was mainly due to a decrease in cash and deposits and a decrease in notes and accounts receivable-trade.

Property, plant and equipment decreased ¥986 million from the end of the previous fiscal year to ¥5,178 million. This was mainly due to a decrease in tools, furniture and fixtures.

Intangible assets decreased by ¥161 million from the end of the previous fiscal year to ¥3,009 million. This was mainly due to a decrease in goodwill.

Investments and other assets decreased ¥4,368 million from the end of the previous fiscal year to ¥6,266 million. This was mainly due to a decrease in investment securities.

As a result, total assets amounted to ¥55,889 million, down ¥12,306 million from the end of the previous fiscal year.

(Liabilities)

Current liabilities decreased ¥5,212 million from the end of the previous fiscal year to ¥16,541 million. This was mainly due to a decrease in notes and accounts payable-trade and a decrease in short-term loans payable.

Non-current liabilities decreased ¥3,354 million from the end of the previous fiscal year to ¥7,982 million. This was mainly due to a decrease in long-term loans payable.

As a result, total liabilities amounted to ¥24,524 million, down ¥8,566 million from the end of the previous fiscal year.

(Net assets)

Net assets decreased ¥3,740 million from the end of the previous fiscal year to ¥31,365 million. This was mainly due to a decrease in retained earnings.

(Analysis of cash flows)

Cash and cash equivalents (hereinafter referred to as "cash") at the end of the second quarter of the current fiscal year decreased by ¥5,581 million from the end of the previous fiscal year to ¥23,226 million.

(Cash flows from operating activities)

Net cash used in operating activities was ¥2,361 million (¥4,177 million used in the same period of the previous fiscal year). This was mainly attributable to a loss before income taxes of ¥2,902 million, a decrease in notes and accounts payable-trade of ¥3,102 million, a decrease in notes and accounts receivable-trade of ¥2,052 million, depreciation of ¥726 million, and amortization of goodwill of ¥279 million.

(Cash flows from investing activities)

Net cash provided by investing activities amounted to ¥1,715 million (¥1,652 million provided in the same period of the previous fiscal year). This was mainly due to proceeds from sales of investment securities of ¥3,519 million and purchase of non-current assets of ¥1,621 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥4,935 million (compared with ¥531 million used in the same period of the previous fiscal year). This was mainly due to repayments of long-term loans payable of ¥3,324 million, a decrease of short-term loans payable of ¥1,496 million, and cash dividends paid of ¥331 million.