

Consolidated Financial Results for the Third Quarter Ended December 31, 2017 [J-GAAP]

Heiwa Corporation

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Stock code: 6412
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Preparation of supplementary briefing materials for quarterly financial results: Yes

Holding of any briefing session for quarterly financial results: No

Financial Highlights

As of and for the nine months ended December 31, 2016 and 2017

(Amounts less than one million yen are omitted.)

1. Consolidated Operating Results

	Nine months ended December 31, 2016	YoY	Nine months ended December 31, 2017	YoY
	(million yen)	(%)	(million yen)	(%)
(1) Consolidated financial results				
Net sales	149,502	(13.8)	100,233	(33.0)
Operating income	35,834	(8.3)	12,252	(65.8)
Ordinary income	35,370	(7.6)	11,649	(67.1)
Profit attributable to owners of parent	23,417	(17.3)	5,920	(74.7)
Earnings per share (yen)	237.81		60.09	
Diluted earnings per share (yen)	237.53		60.04	

(Note) Comprehensive income: Nine months ended December 31, 2017: ¥ 6,092 million, -73.3% YoY
 Nine months ended December 31, 2016: ¥ 22,813 million, -20.8% YoY

	As of March 31, 2017	As of December 31, 2017
	(million yen)	(million yen)
(2) Consolidated financial position		
Total assets	449,152	428,815
Net assets	217,405	215,691
Shareholders' equity ratio (%)	48.4	50.3
Net assets per share (yen)	2,206.80	2,187.89

(Reference) Shareholders' equity: As of December 31, 2017: ¥ 215,677 million
 As of March 31, 2017: ¥ 217,381 million

2. Dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	(yen)				
FY3/2017	—	40.00	—	40.00	80.00
FY3/2018	—	40.00	—		
FY3/2018 (Forecast)				40.00	80.00

(Note) Revision of the most recently disclosed dividend forecast: None

3. Consolidated Results Forecast for Year Ending March 31, 2018

	FY 3/2018	
	Full year (million yen)	YoY (%)
Net sales	132,400	(28.9)
Operating income	11,500	(68.6)
Ordinary income	10,400	(70.8)
Profit attributable to owners of parent	4,400	(83.7)
Earnings per share (yen)	44.66	

(Note) Revision of the most recently disclosed consolidated results forecast: None

* Notes

(1) Changes in significant subsidiaries during the nine months ended December 31, 2017 (Changes in specified subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements: Yes

(Note) Refer to “2. Consolidated financial statements and main notes (3) Notes concerning quarterly consolidated financial statements (Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements)” on page 9 for details.

(3) Changes in accounting policies or estimates and retrospective restatements

- (i) Any change arising from revision of accounting standards: None
- (ii) Any change arising from factors other than (i) above: None
- (iii) Changes in accounting estimates: None
- (iv) Retrospective restatements: None

(4) Number of shares issued (common stock)

- (i) Number of shares issued (including treasury stock)
 - 99,809,060 shares as of December 31, 2017
 - 99,809,060 shares as of March 31, 2017
- (ii) Number of shares of treasury stock
 - 1,231,083 shares as of December 31, 2017
 - 1,303,693 shares as of March 31, 2017
- (iii) Average number of shares during the period
 - 98,521,419 shares for the nine months ended December 31, 2017
 - 98,474,535 shares for the nine months ended December 31, 2016

* This quarterly statement of financial results is not subject to quarterly review procedures.

* Explanations about the appropriate use of consolidated results forecasts and other noteworthy points:

1. Forward-looking statements in this document, such as the consolidated financial results outlook, are based on information currently available to the Company and certain assumptions deemed reasonable. The Company does not guarantee the accuracy of these forecasts. Furthermore, actual results, etc. may differ significantly from forecast figures due to a number of factors. For assumptions on which results forecasts are based, as well as notes concerning the usage of forecasts, etc. refer to “1. Qualitative information on quarterly financial results (3) Explanation of future predictions, such as consolidated results forecasts” on page 5.

2. The financial results briefing materials distributed at the briefing will be posted on the Company’s website soon after the statement of financial results is released.

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1. Qualitative information on quarterly financial results

(1) Explanation of operating results

In the consolidated cumulative third quarter under review, the Japanese economy continued to expand gradually, with increasing exports due to growth in overseas economies, in addition to improvements in individual consumption and corporate profitability due to the recovery in employment and the earnings environment resulting from various government policies.

In the pachinko and pachislot machine industry, we will need to respond to the Enforcement Regulations of the Act on Control and Improvement of Amusement Business, etc., and the Regulations Concerning Authorization and Model Approval for Amusement Machines (hereinafter collectively the “Regulations”), which were scheduled to be revised with an enforcement date of February 1, 2018, from the perspective of transitioning to machines with limited addictiveness and limiting gambling fixation, etc. and produce pachinko and pachislot machines with new forms of appeal with an eye to restoring the market, which has been contracting of late.

In the golf industry, we continue to face issues such as the declining golfing population and the aging of the golf-playing demographic, and initiatives aimed at further increasing the popularity of golf, such as attracting younger players and expanding playing styles to suit the ages of players, are increasingly important.

In this environment, the pachinko and pachislot machine business has adopted “producing machines that evoke emotion in players” and “ensuring high profitability,” as its basic policies, and promoted each accordingly. Similarly, the golf business has adopted “increasing the value of golf courses” and “enhancing earning potential” as its basic policies, and implemented similar promotions.

Due to the above, results for the cumulative third quarter under review were as follows: Net sales amounted to 100,233 million yen (down 33.0% year on year); Operating income amounted to 12,252 million yen (down 65.8% year on year); Ordinary income amounted to 11,649 million yen (down 67.1% year on year); And profit attributable to owners of parent totaled 5,920 million yen (down 74.7% year on year).

Segment results are summarized below.

(Pachinko and Pachislot Machine Business)

In the pachinko and pachislot machine business, for pachinko machines, we released machines such as “*Fujiko : Lupin The End*” and “*Galaxy Express 999*,” selling a total of 79 thousand units (down 74 thousand units year on year), and for pachislot machines, we released machines such as “*Pachislot Girl Friend BETA: Seio Gakuen Memorial*,” and “*Sengoku Otome TYPE-A*,” selling a total of 11 thousand units (down 52 thousand units year on year).

Due to the increased uncertainty with regard to the future outlook that has carried over from the previous fiscal year, from the transition to machines with limited addictiveness and the revisions to the Regulations that are scheduled to take effect on February 1, 2018, demand from pachinko parlors has focused on series with proven records. As such, the industry environment is rapidly changing. We drastically revised the sales schedule to adapt to this industry environment, and as a result, we sold two new pachinko models in the third quarter and did not sell any pachislot models.

As a result of the above, net sales amounted to 34,132 million yen (down 60.4% year on year), and operating income amounted to 3,106 million yen (down 88.3% year on year).

(Golf Business)

In the golf business, we acquired and commenced operation of five golf courses. Moreover, we chose eight

courses from among our holdings, including the Sobu Country Club Sobu Course and PGM Golf Resort Okinawa, were selected to launch our high-grade golf brand “GRAND PGM” in July. The selected courses conducted initiatives such as course improvements, renovating and refurbishing clubhouses, staff training, revision of restaurant menus, and reviewing products stocked by pro shops, in order to provide the high level of service that is expected of a high-grade golf course. We are working to increase per-customer spending and thus strengthen our profitability.

Although sales were low in October 2017 due to poor weather and typhoons, good weather in November and December, in addition to contributions from the golf courses acquired in the previous and current fiscal year, resulted in sales growth over the previous year. Profit decreased over the previous fiscal year due to costs related to new golf courses and “GRAND PGM.”

As a result of the above, net sales amounted to 66,100 million yen (up 4.3% year on year), and operating income amounted to 11,494 million yen (down 5.4% year on year).

(2) Explanation of financial position

Assets

Total assets amounted to 428,815 million yen, down 20,336 million yen from the end of the previous consolidated fiscal year. Land increased by 6,803 million yen, buildings and structures (net) increased by 5,406 million yen, and merchandise and finished goods increased by 2,796 million yen; however, cash and deposits decreased by 26,892 million yen, notes and accounts receivable decreased by 4,155 million yen, property, plant, equipment and other (net) decreased by 2,465 million yen, and investment securities decreased by 1,422 million yen.

Liabilities

Liabilities amounted to 213,124 million yen, down 18,623 million yen from the end of the previous consolidated fiscal year. Long-term loans payable (including the current portion of long-term loans payable) decreased by 9,735 million yen, other in current liabilities decreased by 5,480 million yen, income taxes payable decreased by 2,470 million yen, and provisions decreased by 2,029 million yen.

Net Assets

Net assets decreased by 1,713 million yen from the end of the previous consolidated fiscal year to 215,691 million yen, due to factors such as retained earnings from the inclusion of profit attributable to owners of parent earnings increasing by 5,920 million yen, while retained earnings due to distribution of surplus decreased by 7,880 million yen.

As a result, the shareholders' equity ratio was 50.3%, as opposed to 48.4% at the end of the previous consolidated fiscal year.

(3) Explanation of future predictions, such as consolidated results forecasts

Consolidated results forecasts for the year ending March 31, 2018 remain unchanged from the consolidated results forecasts announced in the Announcement of Revision of Forecast released on October 24, 2017.

2. Consolidated financial statements and main notes

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	69,753	42,860
Notes and accounts receivable - trade	12,803	8,647
Electronically recorded monetary claims - operating	1,860	1,929
Securities	36,823	35,648
Merchandise and finished goods	2,489	5,285
Raw materials and supplies	5,432	5,908
Other	16,862	16,306
Allowance for doubtful accounts	(574)	(599)
Total current assets	145,449	115,987
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	60,671	66,077
Land	195,176	201,980
Other, net	18,025	15,560
Total property, plant and equipment	273,874	283,618
Intangible assets	6,354	7,067
Investments and other assets		
Investment securities	12,806	11,383
Other	11,245	11,308
Allowance for doubtful accounts	(577)	(550)
Total investments and other assets	23,474	22,141
Total non-current assets	303,702	312,827
Total assets	449,152	428,815
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,380	5,181
Electronically recorded obligations - operating	9,953	9,577
Current portion of long-term loans payable	37,501	29,903
Income taxes payable	4,198	1,728
Provision	3,628	1,598
Other	16,514	11,033
Total current liabilities	75,176	59,023
Non-current liabilities		
Long-term loans payable	95,416	93,278
Net defined benefit liability	4,343	4,587
Other	56,811	56,235
Total non-current liabilities	156,570	154,101
Total liabilities	231,747	213,124

(Million yen)

	As of March 31, 2017	As of December 31, 2017
Net assets		
Shareholders' equity		
Capital stock	16,755	16,755
Capital surplus	54,849	54,857
Retained earnings	147,268	145,308
Treasury shares	(1,474)	(1,396)
Total shareholders' equity	217,398	215,523
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	404	452
Remeasurements of defined benefit plans	(422)	(298)
Total accumulated other comprehensive income	(17)	154
Subscription rights to shares	24	13
Non-controlling interests	0	0
Total net assets	217,405	215,691
Total liabilities and net assets	449,152	428,815

(2) Consolidated statements of income and comprehensive income

(Million yen)

	Nine months ended December 31, 2016	Nine months ended December 31, 2017
Net sales	149,502	100,233
Cost of sales	87,116	64,890
Gross profit	62,385	35,342
Selling, general and administrative expenses	26,551	23,090
Operating profit	35,834	12,252
Non-operating income		
Interest income	106	134
Dividend income	31	41
Gain on sales of securities	44	—
Gain on redemption of securities	625	64
Income from sales of electric power	121	117
Gain on sales of raw materials	40	164
Other	370	298
Total non-operating income	1,339	822
Non-operating expenses		
Interest expenses	703	516
Commission fee	173	119
Loss on retirement of non-current assets	64	501
Provision for loss on disaster	297	43
Other	565	243
Total non-operating expenses	1,803	1,425
Ordinary profit	35,370	11,649
Extraordinary income		
Gain on sales of non-current assets	—	30
Gain on reversal of subscription rights to shares	—	0
Total extraordinary income	—	30
Extraordinary losses		
Loss on sales of non-current assets	8	—
Loss on retirement of non-current assets	8	30
Impairment loss	518	—
Loss on valuation of investment securities	—	45
Total extraordinary losses	535	75
Profit before income taxes	34,834	11,603
Income taxes	11,416	5,683
Profit	23,418	5,920
Profit attributable to		
Profit attributable to owners of parent	23,417	5,920
Profit attributable to non-controlling interests	0	0
Other comprehensive income		
Valuation difference on available-for-sale securities	(736)	47
Remeasurements of defined benefit plans, net of tax	132	123
Total other comprehensive income	(604)	171
Comprehensive income	22,813	6,092
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	22,813	6,092
Comprehensive income attributable to non-controlling interests	0	0

(3) Notes concerning quarterly consolidated financial statements

(Notes concerning the assumption of a going concern)

No matters to record.

(Notes in case of significant fluctuations in value of shareholders' equity)

No matters to record.

(Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements)

With regard to tax expenses of the Company and some subsidiaries, the Company has estimated the effective tax rate after the application of tax effect accounting to the income before taxes for the consolidated fiscal year, including the third quarter consolidated accounting period. Tax expenses were calculated by multiplying the quarterly income before taxes by said estimate of the effective tax rate.

However, in cases where calculating tax expenses using the estimate of the effective tax rate leads to a conspicuously unreasonable result, the quarterly income before taxes was multiplied by the statutory effective tax rate having adjusted for major differences that do not amount to temporary difference, etc.

(Segment information, etc.)

[Segment information]

I. Previous consolidated cumulative third quarter (April 1, 2016 to December 31, 2016)

1. Information concerning net sales and profit and loss by reporting segment

(Million yen)

	Reporting segment			Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Pachinko and pachislot machine business	Golf business	Total		
Net sales					
Net sales to external customers	86,115	63,386	149,502	-	149,502
Internal net sales and transfers between segments	-	12	12	(12)	-
Total	86,115	63,398	149,514	(12)	149,502
Segment profit	26,569	12,155	38,725	(2,891)	35,834

(Notes)

1. The figure of -2,891 million yen for segment profit adjustments includes 6 million yen in elimination of transactions between segments and -2,897 million yen in unclassifiable operating expenses. Unclassifiable operating expenses are expenses relating to management departments of the reporting company.

2. Segment profit is adjusted according to the operating income recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income.

2. Information relating to impairment loss or goodwill, etc. on non-current assets by reporting segment

(Major impairment loss relating to non-current assets)

With regard to corporate assets not allocated to reporting segments, impairment loss on land classified as idle assets was calculated as an extraordinary loss.

The amount of impairment loss was calculated as 518 million yen for the consolidated cumulative third quarter under review.

II. Consolidated cumulative third quarter under review (April 1, 2017 to December 31, 2017)

Information concerning net sales and profit and loss by reporting segment

(Million yen)

	Reporting segment			Adjustments (Note 1)	Amount recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income (Note 2)
	Pachinko and pachislot machine business	Golf business	Total		
Net sales					
Net sales to external customers	34,132	66,100	100,233	-	100,233
Internal net sales and transfers between segments	-	13	13	(13)	-
Total	34,132	66,114	100,247	(13)	100,233
Segment profit	3,106	11,494	14,601	(2,349)	12,252

(Notes)

1. The figure of -2,349 million yen for segment profit adjustments includes 4 million yen in elimination of transactions between segments and -2,353 million yen in unclassifiable operating expenses. Unclassifiable operating expenses are expenses relating to management departments of the reporting company.

2. Segment profit is adjusted according to the operating income recorded in quarterly consolidated statements of income and consolidated statements of comprehensive income.