

Consolidated Financial Results for the Second Quarter Ended September 30, 2016 [J-GAAP]

Heiwa Corporation

November 9, 2016

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: Yes

(for institutional investors and securities analysts)

Financial Highlights

As of and for the six months ended September 30, 2015 and 2016

(Amounts less than one million yen are omitted.)

1. Consolidated Operating Results

	Six months ended September 30, 2015	YoY	Six months ended September 30, 2016	YoY
	(million yen)	(%)	(million yen)	(%)
(1) Consolidated financial results				
Net sales	119,620	7.8	93,633	(21.7)
Operating income	26,446	(7.7)	23,275	(12.0)
Ordinary income	25,896	(8.3)	22,819	(11.9)
Profit attributable to owners of parent	19,248	6.5	14,758	(23.3)
Earnings per share (yen)	213.80		149.88	
Diluted earnings per share (yen)	213.42		149.71	

(Note) Comprehensive income: Six months ended September 30, 2016: ¥ 14,082 million, -28.6% YoY
 Six months ended September 30, 2015: ¥ 19,711 million, +8.1% YoY

	As of March 31, 2016	As of September 30, 2016
	(million yen)	(million yen)
(2) Consolidated financial position		
Total assets	450,715	444,184
Net assets	198,873	209,045
Shareholders' equity ratio (%)	44.1	47.1
Net assets per share (yen)	2,019.56	2,122.31

(Reference) Shareholders' equity: As of September 30, 2016: ¥ 209,017 million
 As of March 31, 2016: ¥198,841 million

2. Dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	(yen)				
FY3/2016	—	40.00	—	40.00	80.00
FY3/2017	—	40.00			
FY3/2017 (Forecast)			—	40.00	80.00

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

3. Consolidated Results Forecast for Year Ending March 31, 2017

	FY 3/2017	
	Full year (million yen)	YoY (%)
Net sales	205,200	(4.5)
Operating income	39,000	0.1
Ordinary income	37,700	0.7
Profit attributable to owners of parent	30,000	6.6
Earnings per share (yen)	304.70	

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

* Notes

(1) Changes in significant subsidiaries during the six months ended September 30, 2016 (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. Summary information (notes) (2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements” on page 6 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 September 30, 2016
99,809,060 shares as of March 31, 2016
- (ii) Number of shares of treasury stock
1,323,337 shares as of September 30, 2016
1,351,011 shares as of March 31, 2016
- (iii) Average number of shares during the period
98,469,094 shares for the six months ended September 30, 2016
90,028,848 shares for the six months ended September 30, 2015

* Presentation of status of quarterly review procedures

This quarterly statement of financial results is not subject to the requirement to undergo quarterly review procedures based on the Financial Instruments and Exchange Act. However, the review procedures for quarterly consolidated financial statements based on the Financial Instruments and Exchange Act have been completed as of the release of this quarterly statement of financial results.

* 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. Supplementary briefing materials for the quarterly financial results will be posted on the Company’s homepage soon after this financial results is released.

○ Contents

1. Qualitative information on quarterly financial results.....	4
(1) Explanation of operating results	4
(2) Explanation of financial position	5
(3) Explanation of future predictions, such as consolidated results forecasts.....	5
2. Summary information (notes).....	6
(1) Changes in significant subsidiaries during the consolidated cumulative second quarter under review	6
(2) Application of special accounting treatment peculiar to preparation of quarterly consolidated financial statements.....	6
(3) Changes in accounting policies or estimates and retrospective restatements.....	6
(4) Additional information.....	6
3. Consolidated financial statements	7
(1) Consolidated balance sheet	7
(2) Consolidated statements of income and comprehensive income	9
(3) Notes concerning quarterly consolidated financial statements	10
(Notes concerning the assumption of a going concern)	10
(Notes in case of significant fluctuations in value of shareholders' equity).....	10
(Segment information, etc.)	10

1. Qualitative information on quarterly financial results

(1) Explanation of operating results

In the consolidated cumulative second quarter under review, the Japanese economy continued to display a moderate trend towards recovery, due to improvements in employment and income. However, financial markets are unstable due to issues caused by Britain's exit from the EU and concerns about the slowing of overseas economies. The future outlook is unclear, with concerns that consumer sentiment may worsen.

In the pachinko and pachislot machine industry, under the leadership of the industry organization, we have been transitioning to machines that comply with new standards by having limited addictiveness, with the aim of creating an environment that is attractive to a wider range of players. Furthermore, we expect our competitors to release pachinko and pachislot machines in a focused manner in the 3rd quarter, due to collection and removal from the market of "pachinko machines with features that may differ from tested machines" by the end of December this year, based on the "Statement on Promoting Soundness in the Pachinko and Pachislot Industry," released in June this year by the Pachinko and Pachislot Industry 21st Century Club, which comprises 14 industrial organizations. This has caused pachinko parlors to further tighten their carefully selective purchasing policies, leading to weak demand for new machines.

In the golf industry, demand for golf was weak due to the impact of inclement weather, such as several typhoons making landfall in August and September, in addition to the occurrence of the 2016 Kumamoto earthquake in April.

In this environment, the pachinko and pachislot machine business has adopted "producing machines that aim for novelty and differentiation" and "enhancing earning potential" as its basic policies, and has promoted each accordingly. Similarly, the golf business has adopted "enhancing management structure," "promoting membership," and "promoting M&A and management outsourcing" as its basic policies, and has implemented similar promotion.

As a result of the above, results for the cumulative second quarter period under review were as follows: Net sales amounted to 93,633 million yen (down 21.7% year on year); operating income amounted to 23,275 million yen (down 12.0% year on year); ordinary income amounted to 22,819 million yen (down 11.9% year on year); and profit attributable to owners of parent totaled 14,758 million yen (down 23.3% year on year).

Segment results are summarized below.

Furthermore, from the first quarter of the consolidated fiscal period, we have made changes to reporting segment classifications, and said changes have been applied to the results of the relevant segments for the same quarter in the previous year for the purpose of the following year on year comparisons.

(Pachinko and pachislot machine business)

In the pachinko and pachislot machine business, we released pachinko machines such as "*GIRLS und PANZER*," which renders a tank battle between high school girls using a unique device and display for pachinko machines; and "*Flame of Recca 2*," which is the second machine model in its series, and is based on the popular comic books of the same name, selling a total of 70 thousand units (down 103 thousand units year on year). With regard to pachislot machines, we released titles such as "*Nangoku Monogatari*," which is the newest iteration of the "*Nangoku*" series, and is fitted with a rotary lamp; and "*Lupin the Third: Kesareta Lupin*," which is the pachislot edition of our popular pachinko machine, which has received high praise for its rendering, selling a total of 63 thousand units (up 32 thousand units year on year).

As a result of the above, net sales amounted to 52,243 million yen (down 32.9% year on year), and operating income amounted to 17,754 million yen (down 12.1% year on year).

(Golf business)

In the golf business, the number of visitors fell short of expectations due to the effects of inclement weather, etc.; however, visitors increased year on year and there was a slight rise in revenue per customer thanks to contributions from golf courses acquired in the previous fiscal year. However, net sales were down year on year for the golf business, mainly due to membership promotion falling short of the favorable levels of last year, and the reduction of the number of operating sites in April from three to one in the service area business, which is calculated in the golf business segment from this fiscal year onwards. Operating income was down year on year, in spite of a limited contribution from a reduction in utilities costs due to low oil prices, and a revision of promotion costs, which were unable to cover the decline in sales.

As a result of the above, net sales amounted to 41,390 million yen (down 1.0% year on year), and operating income amounted to 7,449 million yen (down 6.8% year on year).

(2) Explanation of financial position

Assets

Total assets amounted to 444,184 million yen, down 6,531 million yen from the end of the previous consolidated fiscal year. Securities increased by 6,570 million yen, raw materials and supplies increased by 3,980 million yen, merchandise and finished goods increased by 3,004 million yen, and investment securities increased by 2,216 million yen; however, cash and deposits decreased by 13,857 million yen, other in current assets decreased by 5,484 million yen, land decreased by 2,321 million yen, and notes and accounts receivable - trade decreased by 1,411 million yen.

Liabilities

Liabilities amounted to 235,139 million yen, down 16,703 million yen from the end of the previous fiscal year. Notes and accounts payable - trade increased by 6,117 million yen and short-term loans payable increased by 2,000 million yen; however, current portion of bonds decreased by 8,000 million yen, other in current liabilities decreased by 7,500 million yen, current portion of long-term loans payable decreased by 4,690 million yen, and long-term loans payable decreased by 4,157 million yen.

Net Assets

Net assets increased by 10,172 million yen from the end of the previous consolidated fiscal year to 209,045 million yen, due to factors such as retained earnings decreasing by 3,938 million yen due to distribution of surplus, in spite of the inclusion of profit attributable to owners of parent causing retained earnings to increase by 14,758 million yen, as well as valuation difference on available-for-sale securities decreasing by 764 million yen.

As a result, the shareholders' equity ratio was 47.1%, as opposed to 44.1% 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, 2017 remain unchanged from the announcement on May 11, 2016.

2. Summary information (notes)

(1) Changes in significant subsidiaries during the consolidated cumulative second quarter under review

No matters to record.

(2) 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 second quarter consolidated accounting period. Tax expenses were calculated by multiplying the quarterly income before taxes by said estimate of the effective tax rate.

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

No matters to record.

(4) Additional information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) has been applied starting from the consolidated first quarter.

3. Consolidated financial statements

(1) Consolidated balance sheet

(Million yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	95,101	81,244
Notes and accounts receivable - trade	16,076	14,664
Electronically recorded monetary claims - operating	1,628	1,957
Securities	11,401	17,971
Merchandise and finished goods	5,066	8,070
Raw materials and supplies	5,597	9,577
Other	16,672	11,188
Allowance for doubtful accounts	(529)	(619)
Total current assets	151,013	144,053
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	58,785	57,940
Land	195,715	193,393
Other, net	17,430	18,705
Total property, plant and equipment	271,931	270,039
Intangible assets	6,363	6,086
Investments and other assets		
Investment securities	10,526	12,743
Other	11,427	11,803
Allowance for doubtful accounts	(546)	(541)
Total investments and other assets	21,407	24,004
Total non-current assets	299,701	300,130
Total assets	450,715	444,184
Liabilities		
Current liabilities		
Notes and accounts payable - trade	20,183	26,301
Short-term loans payable	—	2,000
Current portion of long-term loans payable	48,488	43,797
Current portion of bonds	8,000	—
Income taxes payable	3,975	5,605
Provision	3,684	2,314
Other	18,870	11,370
Total current liabilities	103,202	91,388
Non-current liabilities		
Long-term loans payable	85,447	81,290
Net defined benefit liability	4,264	4,261
Other	58,927	58,198
Total non-current liabilities	148,639	143,750
Total liabilities	251,842	235,139

(Million yen)

	As of March 31, 2016	As of September 30, 2016
Net assets		
Shareholders' equity		
Capital stock	16,755	16,755
Capital surplus	54,842	54,846
Retained earnings	128,087	138,907
Treasury shares	(1,512)	(1,484)
Total shareholders' equity	198,172	209,024
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,250	486
Remeasurements of defined benefit plans	(582)	(493)
Total accumulated other comprehensive income	668	(6)
Subscription rights to shares	31	27
Non-controlling interests	0	0
Total net assets	198,873	209,045
Total liabilities and net assets	450,715	444,184

(2) Consolidated statements of income and comprehensive income

(Million yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	119,620	93,633
Cost of sales	75,600	52,515
Gross profit	44,020	41,118
Selling, general and administrative expenses	17,573	17,843
Operating income	26,446	23,275
Non-operating income		
Interest income	134	51
Dividend income	26	26
Gain on redemption of securities	308	454
Income from sales of electric power	92	90
Other	243	240
Total non-operating income	804	862
Non-operating expenses		
Interest expenses	600	498
Commission fee	322	5
Provision for loss on disaster	—	382
Other	432	431
Total non-operating expenses	1,354	1,318
Ordinary income	25,896	22,819
Extraordinary income		
Gain on reversal of subscription rights to shares	0	—
Total extraordinary income	0	—
Extraordinary losses		
Loss on sales of non-current assets	—	8
Impairment loss	—	518
Loss on sales of shares of subsidiaries and associates	282	—
Other	—	8
Total extraordinary losses	282	535
Profit before income taxes	25,614	22,283
Income taxes	5,783	7,524
Profit	19,831	14,758
Profit attributable to		
Profit attributable to owners of parent	19,248	14,758
Profit attributable to non-controlling interests	583	0
Other comprehensive income		
Valuation difference on available-for-sale securities	(169)	(764)
Remeasurements of defined benefit plans, net of tax	50	88
Total other comprehensive income	(119)	(675)
Comprehensive income	19,711	14,082
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	19,128	14,082
Comprehensive income attributable to non-controlling interests	583	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.

(Segment information, etc.)

[Segment information]

I. Previous consolidated cumulative second quarter (April 1, 2015 to September 30, 2015)

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	77,814	41,806	119,620	-	119,620
Internal net sales and transfers between segments	-	2	2	(2)	-
Total	77,814	41,808	119,623	(2)	119,620
Segment profit	20,207	7,994	28,202	(1,755)	26,446

(Notes)

1. The figure of -1,755 million yen for segment profit adjustments includes 10 million yen in elimination of transactions between segments and -1,765 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.

II. Consolidated cumulative second quarter under review (April 1, 2016 to September 30, 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	52,243	41,390	93,633	-	93,633
Internal net sales and transfers between segments	-	5	5	(5)	-
Total	52,243	41,395	93,638	(5)	93,633
Segment profit	17,754	7,449	25,203	(1,928)	23,275

(Notes)

1. The figure of -1,928 million yen for segment profit adjustments includes 5 million yen in elimination of transactions between segments and -1,934 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. Matters relating to changes in reporting segments, etc.

Starting from the consolidated first quarter, the information service business, which had previously been included under “Other,” has been reclassified under the “Pachinko and pachislot machine business” reporting segment, and the service area restaurant and shop operating business, which had previously been included under “Other,” has been reclassified under the “Golf business” reporting segment as a result of revisions to management classifications.

The segment information for the previous consolidated cumulative second quarter was created using the new segment classifications.

3. 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 second quarter under review.