

English translation

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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2020

Company name: IMAGICA GROUP Inc. Filing date: October 31, 2019
 Stock exchange listings: Tokyo 1st section
 Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/>
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 Quarterly report filing date(as planned): October 31, 2019
 Dividend payment date(as planned): –
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: Yes

(In millions of yen)

1. Consolidated Financial Results for the Second Quarter ending March 31, 2020 (April 1, 2019 - September 30, 2019)

(1) Consolidated Operating Results

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended Sept 30, 2019	47,422	13.2	275	–	(192)	–	865	–
6 months ended Sep 30, 2018	41,904	(0.8)	(710)	–	(649)	–	(164)	–

(Note) Comprehensive income: 2nd quarter ended September 30, 2019: 10 millions of yen / – %
 2nd quarter ended September 30, 2018: (1,207) millions of yen / – %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	yen
6 months ended Sept 30, 2019	19.64	–
6 months ended Sept 30, 2018	(3.71)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
2nd quarter ended Sept 30, 2019	59,255	27,644	42.9
Year ended March 31, 2019	64,725	27,897	38.9

(Reference) Shareholders' equity: 2nd quarter ended September 30, 2019: 25,443 millions of yen
 Year ended March 31, 2019: 25,150 millions of yen

2. Dividends

	Dividend per share				
	1st quarter- end	2nd quarter- end	3rd quarter- end	Year-end	Annual
	yen	yen	yen	yen	yen
Year ended March 31, 2019	–	0.00	–	5.00	5.00
Year ending March 31, 2020	–	0.00			
Year ending March 31, 2020 (Forecast)		–	–	5.00	5.00

(Note) Changes in dividends forecast from the latest disclosed information: No

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3. Consolidated forecast for the fiscal year ending March 31, 2020 (April 1, 2019 - March 31, 2020)

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share of common stock
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Year ending March 31, 2020	95,000	5.0	1,680	81.0	1,200	52.0	1,800	-	40.86

(Note) Changes in earnings forecast from the latest disclosed information : No

(Reference) It is included goodwill amortization 1.1 billion yen due to the acquisition as an expense in the operating income.

* Notes

(1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from change in subsidiaries): Yes (Name) IMAGICA TOTAL SERVICE

(2) Applying of specific accounting of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective

1) Changes in accounting policies based on revisions of accounting standards: None

2) Changes in accounting policies other than ones based on revisions of accounting standard: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)

1) Number of issued and outstanding shares at the end of fiscal year (including treasury stock)

As of September 30, 2019	44,531,567 shares	As of March 31, 2019	44,531,567 shares
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2) Number of treasury stock at the end of fiscal year

As of September 30, 2019	468,341 shares	As of March 31, 2019	478,341 shares
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3) Average number of shares

As of September 30, 2019	44,056,942 shares	As of September 30, 2018	44,200,631 shares
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(Explanation about the appropriate usage of business prospects and other special notes)

- The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
- Future events may cause the actual results to be significantly different from the forecasts.

(Disclaimer)

This document is a translation of the Japanese original. The Japanese original has been disclosed in Japan in accordance with Japanese accounting standards and the Financial Instruments and Exchange Act. This document does not contain or constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on this document. In the case that there is any discrepancy between the Japanese original and this document, the Japanese original is assumed to be correct.

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1. Qualitative Information on Results in the Second Quarter

(1) Explanation of operating results

(Overview of the second quarter of the consolidated fiscal year ending March 31, 2020)

Considering growth opportunities and business issues around, the Imagica Group (the "Group"), we have determined the new mid-term business strategy named "Integration to 2021" by aiming to build a balanced business portfolio along with growth potential and profitability, accelerating the Group's structure reform.

Based on this new mid-term business strategy, we have positioned this fiscal year as a year to regain profitability and have set "Motivate "Integration to 2021" on imaging" our basic policy. Each business segment has been working on their own key issues.

In the consolidated cumulative second quarter of the fiscal year ending March 31, 2020, the Group recorded net sales of 47.422 billion yen (up 13.2% year on year), operating income of 275 million yen (operational loss of 710 million yen in the same quarter of the prior year), ordinary loss of 192 million yen (649 million yen in the same quarter of the prior year), and profit attributable to owners of parent of 865 million yen (164 million yen in the same quarter of the prior year). It recorded extraordinary gain of 1,658 million yen as a result of fixed asset transfer.

(Performance by Business Segment)

1) Content Creation

The financial performance of the contents creation business segment in the consolidated cumulative period of this second quarter was net sales of 15.454 billion (+44.5% year on year), operating loss of 26 million yen (compared to 329 million yen in the previous year).

The content creation business segment showed a significant increase in sales. Contributing factors were expanded scale of theatrical film production, including anime and live action films, and increased number of commercials and concert recordings, including major live-music performances. These trends remained strong. Operational income improved as a result of increased gross margin from sales growth. Contributing factors also included, among other things, reduced production cost of television anime series and reduced amortization cost from the one-time goodwill amortization done at the end of the prior consolidated fiscal year.

2) Production Services

The financial performance of the production service business segment in the consolidated cumulative period of this second quarter was net sales of 12.676 billion yen (-4.4% year on year), operating loss of 57 million yen (compared to 28 million yen in the previous year).

In the area of post-production and E2E services for video content, digital cinema services performed well and post-production services for feature films and anime remained firm. As a result, sales maintained the same level from the prior year. Additionally, cost control measures proved effective and profit improved. On the other hand, sales and profit decreased compared to the prior year for the human resource services, caused by the sale of one of the affiliated companies and investment for the expansion of digital content business.

(E2E services: An end-to-end (E2E) service covers an entire process from localization (subtitling/dubbing) to distribution of feature films and other source videos (creation, inspection, and distribution of data tailored to the requirements of release/delivery format).

3) Media Localization

The financial performance of the media localization business segment in the consolidated cumulative period of this second quarter was net sales of 11.120 billion yen (-8.4% year on year), operating loss of 692 million yen (compared to 828 million yen in the previous year).

For the media localization business, net sales dropped as two of the consolidated subsidiaries were sold, and as business remained slow for localization of television programs in Europe. Nevertheless, profit was gained as a result of keeping the impact of sales loss under control, by maintaining highly profitable production deals as well as by examining the production system and clearly reducing fixed costs. Additionally, there has been an ongoing effort to secure increased volume of new orders for video streaming platforms, by working together with Pixelogic Holdings, LLC, the Group's equity-method affiliate since April 2019.

4) Imaging Systems & Solutions

The financial performance of the imaging systems and solutions business segment in the consolidated cumulative period of this second quarter was net sales of 8.955 billion yen (+33.6% year on year), operating income of 1.25 billion yen (+86.3% year on year).

The imaging systems and solutions business achieved significant sales and profit.

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In the video systems part of the business, a major project was completed in the second quarter, and the sale of online transmission system for commercials continued to do well in line with increasing market needs. In the imaging part of the business, sales of the new high-speed camera is continued to grow in Europe and in America.

*Until the previous consolidated fiscal year, this part of the Group's business was called the "professional video equipment area." To better suit the Group's updated business category, it was changed to "imaging systems and solutions."

Explanation of financial position

(Assets Statement)

Current assets decreased by 6.217 billion yen (or 15.5%) from the end of the previous consolidated fiscal year to 33.901 billion yen. This was mainly due to a fall in notes and accounts receivable- trade and in inventories.

Non-current assets increased by 747 million yen (or 3.0%) from the end of the previous consolidated fiscal year to 25.353 billion yen. This was mainly due to a fall in land, while an increase in stocks of subsidiaries and affiliates.

Consequently, total assets declined by 5.469 billion yen (or 8.5%) from the end of the previous fiscal year to 59.255 billion yen.

(Liabilities Statement)

Current liabilities decreased by 3.376 billion yen (or 12.6%) from the end of the previous consolidated fiscal year to 23.336 billion yen. This was mainly due to a fall in advance payment and notes and accounts payable-trade.

Non-current liabilities declined by 1.84 billion yen (or 18.2%) from the end of the previous consolidated fiscal year to 8.274 billion yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 5.217 billion yen (or 14.2%) from the end of the previous consolidated fiscal year to 31.61 billion yen.

(Net Assets)

Net assets declined by 252 million yen (or 0.9%) from the end of the previous consolidated fiscal year to 27.644 billion yen. This was mainly due to decrease non-controlling interests, while an increase in retained earnings.

(2) Explanation of consolidated forecasts

The Group has not revised its consolidated forecast for the fiscal year ending March 31, 2020 announced on May 14, 2019.

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	6,079,172	5,278,143
Notes and accounts receivable- trade	19,043,240	14,698,981
Inventories	11,352,166	10,483,764
Other	3,704,760	3,488,267
Allowance for doubtful accounts	(60,006)	(47,213)
Total current assets	40,119,332	33,901,943
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,502,684	3,293,406
Machinery and equipment	117,391	122,098
Land	2,944,295	1,705,819
Lease Assets	800,677	660,636
Construction in progress	60,508	163,780
Other	1,658,500	1,570,419
Total Property, plant and equipment	9,084,058	7,516,160
Intangible assets		
Software	1,189,223	1,120,381
Goodwill	3,769,751	3,377,962
Other	4,377,450	4,160,593
Total Intangible assets	9,336,425	8,658,936
Investments and other assets		
Investment securities	2,780,364	2,769,395
Stocks of subsidiaries and affiliates	306,705	2,976,765
Lease and guarantee deposits	1,177,433	1,333,657
Deferred tax asset	1,407,252	1,579,999
Other	624,476	653,041
Allowance for doubtful accounts	(110,528)	(134,280)
Total Investments and other assets	6,185,703	9,178,579
Total Non-current assets	24,606,187	25,353,676
Total assets	64,725,520	59,255,620

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(Thousands of yen)	As of March 31, 2019	As of September 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,657,281	5,366,863
Short-term loans payable	5,375,309	5,918,097
Accounts payable	3,688,369	4,138,153
Income taxes payable	646,989	878,775
Advance payment	5,735,832	2,727,806
Provision for bonuses	1,131,264	898,339
Provision for directors compensations based on profit	146,678	64,580
Provision for loss on order received	73,117	93,281
Other	3,257,658	3,250,398
Total current liabilities	26,712,502	23,336,297
Non-current liabilities		
Long-term loans payable	6,169,835	4,812,259
Long-term accounts payable-other	316,773	180,263
Deferred tax liabilities	493,520	461,622
Net defined benefit liabilities	1,356,280	1,190,677
Other	1,779,206	1,629,857
Total non-current liabilities	10,115,616	8,274,680
Total Liabilities	36,828,119	31,610,977
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	14,816,170	14,811,781
Retained earnings	7,286,290	7,931,402
Treasury stock	(489,754)	(479,516)
Total shareholders' equity	24,857,620	25,508,583
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	741,443	560,813
Deferred gains or losses on hedges	(1,346)	(33)
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(442,700)	(619,162)
Re-measurements of defined benefit plans	12,919	11,157
Total accumulated other comprehensive income	292,382	(65,157)
Stock acquisition right	-	11,835
Non-controlling Interests	2,747,397	2,189,382
Total Net assets	27,897,401	27,644,643
Total liabilities and Net assets	64,725,520	59,255,620

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(2) Quarterly consolidated statements of income and statements of comprehensive income

Quarterly consolidated statements of income

(Thousands of yen)	6months ended September 30, 2018	6months ended September 30, 2019
Net sales	41,904,658	47,422,306
Cost of sales	31,404,935	36,064,990
Gross profit	10,499,722	11,357,316
Selling, general and administrative expenses	11,210,436	11,081,854
Operating income (loss)	(710,713)	275,462
Non-operating income		
Interest income	1,531	62,733
Dividend income	24,414	22,305
Rent income	33,725	35,575
Equity in earnings of affiliates	22,310	–
Foreign exchange gains	62,379	–
Other	88,704	50,943
Total non-operating income	233,065	171,558
Non-operating expenses		
Interest expenses	154,658	169,528
Equity in losses of affiliates	–	280,735
Foreign exchange losses	–	106,311
Other	17,046	82,820
Total non-operating expenses	171,704	639,395
Ordinary income (loss)	(649,353)	(192,374)
Extraordinary income		
Gain on sales of non-current assets	1,770	1,650,357
Gain on investment securities	369,510	7,753
Total extraordinary income	371,281	1,658,110
Extraordinary losses		
Loss on sales of non-current assets	24,293	–
Loss on disposal of non-current assets	10,463	16,520
Loss on sales of investment securities	–	13,650
Relocation-related expenses	18,500	–
Other	14,691	496
Total extraordinary losses	67,948	30,666
Income(loss) before income tax	(346,020)	1,435,069
Income taxes	281,926	1,024,996
Profit (loss)	(627,946)	410,072
Profit (loss) attributable to non-controlling interests	(463,931)	(455,305)
Profit (Loss) attributable to owners of parent	(164,014)	865,378

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Quarterly consolidated statements of comprehensive income

(Thousands of yen)	6months ended September 30, 2018	6months ended September 30, 2019
Profit (Loss)	(627,946)	410,072
Other comprehensive income		
Valuation difference on available-for-sale securities	(356,307)	(181,870)
Deferred gains or losses on hedges	1,396	1,312
Foreign currency translation adjustment	(223,381)	(217,412)
Re-measurements of defined benefit plans	(1,192)	(1,761)
Total other comprehensive income	(579,485)	(399,730)
Comprehensive income	(1,207,431)	10,341
Comprehensive income attributable to owners of parent	(641,946)	507,838
Comprehensive income attributable to non-controlling interests	(565,485)	(497,496)

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(3) Notes to quarterly consolidated statements

Segment information

- I. For the 6 months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)
Information about operating revenue and profit (loss) by reportable segment

(Thousands of yen)	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	10,612,807	12,725,565	11,956,521	6,546,958	41,841,852
Inter-segment sales or transfers	84,527	540,910	186,649	157,173	969,260
Total	10,697,334	13,266,475	12,143,171	6,704,132	42,811,113
Segment profit (loss)	(329,550)	(28,253)	(828,861)	671,196	(515,469)

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income (Note 2)
Net sales		
Sales to external customers	62,805	41,904,658
Inter-segment sales or transfers	(969,260)	-
Total	(906,455)	41,904,658
Segment profit (loss)	(195,244)	(710,713)

Notes:

- The Segment profit (loss) adjustment of (195,244) thousand yen consists of 1,002,382 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,197,626) thousand yen.
- The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.

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II. For the 6 months ended September 30,2019 (from April 1, 2019 to September 30, 2019)
Information about operating revenue and profit (loss) by reportable segment

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	15,409,488	12,127,117	11,108,062	8,772,148	47,416,816
Inter-segment sales or transfers	44,762	549,139	12,548	182,914	789,364
Total	15,454,250	12,676,256	11,120,611	8,955,062	48,206,181
Segment profit (loss)	(26,420)	(57,753)	(692,156)	1,250,617	(474,287)

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	5,490	47,422,306
Inter-segment sales or transfers	(789,364)	-
Total	(783,874)	47,422,306
Segment profit (loss)	(198,824)	(275,462)

Notes:

1. The Segment profit (loss) adjustment of (198,824) thousand yen consists of 1,444,478 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,643,303) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.