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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2021

Company name: IMAGICA GROUP Inc. Filing date: October 30, 2020
 Stock exchange listing: Tokyo 1st section
 Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/>
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 Quarterly report filing date (as planned): October 30, 2020
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: Yes

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Second Quarter of the fiscal year ending March 31, 2021 (April 1, 2020 – September 30, 2020)

(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, 2020	35,835	(24.4)	(2,628)	—	(2,928)	—	(1,952)	—
6 months ended Sept 30, 2019	47,422	13.2	275	—	(192)	—	865	—

(Note) Comprehensive income: 2nd quarter ended September 30, 2020: (2,435) millions of yen / —%
 2nd quarter ended September, 2019: 10 millions of yen / —%

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
6 months ended Sept 30, 2020	(44.05)	—
6 months ended Sept 30, 2019	19.64	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Sept 30, 2020	56,957	22,026	36.6
As of March 31, 2020	62,154	27,478	40.3

(Reference) Shareholders' equity: As of September 30, 2020: 20,828 millions of yen
 As of March 31, 2020: 25,066 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 31,2020	—	0.00	—	5.00	5.00
Year ending March 31,2021	—	0.00			
Year ending March 31,2021 (Forecast)			—	0.00	0.00

(Note) Changes in dividends forecast from the latest disclosed information: Yes

The previously undetermined interim and year-end dividends have been set at zero dividends.

3. Consolidated forecast for the fiscal year ending March 31, 2021 (April 1, 2020 - March 31, 2021)

(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 31,2021	84,000	(10.7)	(2,200)	—	(2,650)	—	(1,150)	—	(25.91)

(Note) Changes in earnings forecast from the latest disclosed information : Yes

The financial forecast for consolidated fiscal year ending March 31, 2021 was previously undetermined. We have now calculated the financial forecast based on information and projections available at present. Please refer to "1. Qualitative Information on Results in the Second Quarter, (3) Explanation of Consolidated Forecasts and Other Forward-looking Information" on page 5 of the supplemental material for further details.

***Notes:**

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): None

(2) The application 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 standards: 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, 2020	44,741,467 shares	As of March 31, 2020	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of September 30, 2020	353,231 shares	As of March 31, 2020	468,341 shares
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3) Average number of shares

As of September 30, 2020	44,312,754 shares	As of September 30, 2019	44,056,942 shares
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***Consolidated quarterly financial results are exempted from quarterly review by a public certified accountant or an auditing firm.**

(Explanation regarding the appropriate usage of financial forecasts and other special instructions)

Forward-looking statements, such as financial forecasts, presented in this document are based on information available and certain assumptions deemed to be reasonable to the Company at the time of publication, and are not to be read as guarantees of future performance by the Company. For preconditions of the assumptions and special instructions regarding the appropriate use of financial forecasts, please refer to "1. Qualitative Information on Results in the Second Quarter, (3) Explanation of Consolidated Financial Forecast and Forward-looking Statements" on page 3 of the supplemental material.

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1. Qualitative Information on Results in the Second Quarter

(1) Explanation of operating results

(Overview of the second quarter of consolidated fiscal year ending March 31, 2021)

During the first half of consolidated fiscal year ending March 31, 2021, there was no end in sight to the spread of the novel coronavirus (COVID-19) and both social and economic activities were restricted. The IMAGICA GROUP also implemented steps to prevent the spread of the virus to the maximum extent possible as business activities were resumed. While signs of gradual improvement have been seen in each business segment, COVID-19 is still having a major impact on Group business conditions.

The Group's financial performance for the first half of fiscal year ending March 31, 2021 resulted in net sales of 35,835 million yen (a decline of 24.4% year-on-year), an operating loss of 2,628 million yen (compared to an operating income of 275 million yen in the first half of the previous fiscal year), an ordinary loss of 2,928 million yen (compared to an ordinary loss of 192 million yen in the first half of the previous fiscal year), and a net loss attributable to owners of the parent of 1,952 million yen (compared to a profit of 865 million yen in the first half of the previous fiscal year).

(Performance by business segment)

The financial results by business segment are as follows.

Please note that Production Services and Media Localization were integrated from the first quarter of consolidated fiscal year ending March 31, 2021, thereby reducing the four reportable segments to three: Content Creation, Production Services, and Imaging Systems & Solutions.

1) Content Creation

The financial performance of the Content Creation Business Segment in the first half of consolidated fiscal year ending March 31, 2021 resulted in net sales of 7,190 million yen (a decline of 53.5% year-on-year) and an operating loss of 712 million yen (compared to an operating loss of 26 million yen in the first half of the previous fiscal year).

Some feature film productions were released at the end of the second quarter, but other film productions were postponed to the third quarter or later, causing the recognition of sales to be postponed to the third quarter or later. While shooting of TV commercials is gradually resuming, live music performance recordings continue to be suspended or postponed. Conditions also caused changes in animated TV program broadcasting schedules in addition to a decline in the number of TV animation series produced. The above factors resulted in a decline in sales and an expansion of the operating loss in the Content Creation Business Segment.

2) Production Services

The financial performance of the Production Services Business Segment in the first half of consolidated fiscal year ending March 31, 2021 resulted in net sales of 20,719 million yen (a decline of 12.7% year-on-year) and an operating loss of 2,224 million yen (compared to an operating loss of 751 million yen in the first half of the previous fiscal year).

Media and post-production services^{*1} continued to secure orders for post-production services for TV programs. Post-production for TV commercials, digital cinema services, video streaming, and archiving services saw a rebound in orders during the second quarter, compared to the first quarter.

Orders for international media services decreased as the lockdowns in various countries in Europe and North America to prevent the spread of COVID-19 caused suspension of production for new projects.

In human talent services, companies placed restrictions on new hiring activities and this resulted in a decline in demand in the creative talent dispatch and referral business compared to the previous year. In the digital content business, the shift to remote operation for the production of Game 3DCG maintained sales on par with last fiscal year, despite the decline in operations in the debugging business.

The above factors resulted in a decline in sales and an expansion of the operating loss in the Production Services Business Segment.

^{*1} Media and post-production services: Refers to the entire range of services relating to video production technology, including post-production services, E2E services^{*2}, filming, and archiving services.

^{*2} E2E services: Refers to an integrated end-to-end (E2E) service that covers the entire post-editing process from localization (subtitling/dubbing) to distribution^{*3} of feature films, TV dramas, and other source videos.

^{*3} Distribution refers to a comprehensive service which includes the creation of data from the original version of the completed work, QC and distribution tailored to the requirements of release/delivery format of visual contents (theater, VOD, DVD/BD, etc.), and the management of the process and source materials.

^{*} Companies in international media services have a fiscal year-end of December 31. The financial performance for this area during the second quarter of fiscal year ending March 31, 2021 therefore reflects the results for January 1 through June 30, 2020.

3) Imaging Systems & Solutions

The financial performance of the Imaging Systems & Solutions Business Segment in the first half of consolidated fiscal year ending March 31, 2021 resulted in net sales of 8,495 million yen (a decline of 5.1% year-on-year) and operating income of 558 million yen (a decline of 55.3% year-on-year).

In the video systems business area, sales of the online delivery system for TV commercials was strong, while recognition of sales from projects for broadcasting stations were postponed to the third quarter or later, due to postponement of system equipment deliveries. In the imaging business area, conditions were tough for high-speed cameras in Japan, Europe, and the U.S., while sales showed signs of rebounding in the Asian region. In the mobile solutions area, continued expansion of domestic demand for mobile data communications resulted in sales growth, and sales were also steady for video and image processing LSI for Taiwan and China.

The above factors resulted in a decline in sales and profit in the Imaging Systems & Solutions Business Segment.

(2) Explanation of Financial Position

(Assets Statement)

Current assets decreased by 4,634 million yen (or 13.1%) from the end of the previous consolidated fiscal year to 30,661 million yen.

This was mainly due to a fall in notes and accounts receivable- trade.

Non-current assets decreased by 563 million yen (or 2.1%) from the end of the previous consolidated fiscal year to 26,296 million yen.

This was mainly due to a decrease in goodwill and stocks of subsidiaries and affiliates.

Consequently, total assets declined by 5,197 million yen (or 8.4%) from the end of the previous fiscal year to 56,957 million yen.

(Liabilities Statement)

Current liabilities increased by 594 million yen (2.3%) from the end of the previous consolidated fiscal year to 26,356 million yen.

This increase was mainly due to an increase in advance payments and short-term loans payable which more than compensated for a decrease in notes and accounts payable-trade, income taxes payable, and provision for bonuses.

Non-current liabilities decreased by 339 million yen (3.8%) from the end of the previous consolidated fiscal year to 8,574 million yen.

This decrease was mainly due to a decrease in long-term loans payable, which more than compensated for an increase in deferred tax liabilities.

The above factors resulted in total liabilities of 34,931 million yen, an increase of 255 million yen (0.7%) from the end of the previous consolidated fiscal year.

(Net Assets)

Net assets declined by 5,452 million yen (19.8%) from the end of the previous consolidated fiscal year to 22,026 million yen.

This was mainly due to a decrease in capital surplus and retained earnings.

(3) Explanation of consolidated forecasts and other forward-looking information

The impact of COVID-19 on business activities made it difficult to calculate a reasonable financial forecast for fiscal year ending March 31, 2021 and we therefore did not disclose a forecast. We have now calculated the financial forecast based on information and projections available at present, and are therefore disclosing the forecast.

During the first quarter of consolidated fiscal year ending March 31, 2021, voluntary restraints on economic activity to prevent the spread of COVID-19 had a serious impact on the various business activities of the IMAGICA GROUP. Business activities gradually resumed during the second quarter. Orders for post-production for television programs rebounded, and sales of high-speed cameras and sales of video and image processing LSI in the Asian region rebounded. Performance is also expected to improve in the third quarter onward due to the scheduled release of feature film productions that have been ordered and anticipated orders for projects from broadcasting stations in the video systems business. Based on these projections, the Group forecasts consolidated financial performance as follows: Net sales of 84,000 million yen, an operating loss of 2,200 million yen, an ordinary loss of 2,650 million yen, and a net loss attributable to owners of the parent of 1,150 million yen. The financial forecast provided above may change, depending on the conditions and timing of gaining control over COVID-19.

* (Reference) The operating loss noted above includes approximately 1,300 million yen for amortization of goodwill, etc..

The Group has entered a major period of transformation in our core imaging business due to an environment and social changes precipitated by the recent spread of the novel coronavirus in addition to rapid advancement in technological innovation.

The Group is accelerating reforms aimed at accomplishing "Integration to 2021" by seizing the business opportunities presented by these changes in the environment to take on the challenge of offering new types of entertainment through imaging, producing visual content that suits new lifestyles, using imaging in non-entertainment fields such as healthcare and education, and other initiatives to transform our business model and create new businesses.

<Dividend forecast>

The Group considers the return of profits to shareholders as an important management objective. Our basic policy is to distribute earnings in line with consolidated results. We target a consolidated payout ratio of 30% and aim to maintain stable dividends and increase the level of dividends. We project a net loss attributable to owners of the parent for this fiscal year. We have therefore decided to declare zero year-end dividends based on the basic policy stated above.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2020	September 30, 2020
Assets		
Current assets		
Cash and deposits	7,339,777	5,871,379
Notes and accounts receivable- trade	16,609,098	11,661,475
Inventories	9,734,028	10,816,774
Other	1,665,660	2,364,964
Allowance for doubtful accounts	(53,471)	(53,534)
Total current assets	35,295,092	30,661,059
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,343,459	3,226,095
Machinery and equipment	133,153	114,780
Land	1,705,819	1,705,819
Lease Assets	735,973	632,057
Construction in progress	341,285	151,637
Other	1,563,637	1,680,987
Total Property, plant and equipment	7,823,328	7,511,377
Intangible assets		
Software	1,242,332	1,150,710
Goodwill	3,167,870	2,864,123
Other	4,085,856	3,874,802
Total Intangible assets	8,496,059	7,889,636
Investments and other assets		
Investment securities	2,296,170	2,617,035
Stocks of subsidiaries and affiliates	2,691,296	2,437,383
Long-term loans receivable	1,986,264	1,982,584
Lease and guarantee deposits	1,466,390	1,446,265
Deferred tax asset	1,852,835	2,175,208
Other	375,336	359,073
Allowance for doubtful accounts	(128,070)	(121,983)
Total Investments and other assets	10,540,222	10,895,566
Total Non-current assets	26,859,610	26,296,579
Total assets	62,154,703	56,957,639

(Thousands of yen)	March 31, 2020	September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,060,774	4,240,950
Short-term loans payable	5,004,318	7,055,761
Accounts payable	3,027,865	3,999,151
Income taxes payable	1,504,588	275,699
Advances received	4,939,345	7,145,756
Provision for bonuses	1,245,383	784,347
Provision for directors compensations based on profit	106,568	—
Provision for loss on order received	218,878	40,653
Other	3,654,716	2,814,563
Total current liabilities	25,762,438	26,356,883
Non-current liabilities		
Long-term loans payable	5,510,940	5,047,719
Long-term accounts payable-other	174,097	148,018
Deferred tax liabilities	283,312	435,790
Net defined benefit liabilities	1,233,649	1,285,535
Other	1,711,796	1,657,315
Total non-current liabilities	8,913,796	8,574,378
Total Liabilities	34,676,235	34,931,261
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	14,871,552	12,562,840
Retained earnings	7,730,081	5,556,559
Treasury stock	(479,516)	(361,659)
Total shareholders' equity	25,428,120	21,063,743
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	187,009	406,792
Deferred gains or losses on hedges	—	(5,897)
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(529,312)	(616,913)
Re-measurements of defined benefit plans	(1,082)	(1,026)
Total accumulated other comprehensive income	(361,318)	(234,977)
Stock acquisition right	11,484	11,484
Non-controlling Interests	2,400,180	1,186,127
Total Net assets	27,478,467	22,026,377
Total liabilities and Net assets	62,154,703	56,957,639

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income
Quarterly Consolidated Statements of Income

(Thousands of yen)	6 months ended September 30, 2019	6 months ended September 30, 2020
Net sales	47,422,306	35,835,183
Cost of sales	36,064,990	28,213,928
Gross profit	11,357,316	7,621,255
Selling, general and administrative expenses	11,081,854	10,249,792
Operating profit (loss)	275,462	(2,628,536)
Non-operating income		
Interest income	62,733	134,751
Dividend income	22,305	15,408
Foreign exchange gains	—	12,017
Other	86,519	103,158
Total non-operating income	171,558	265,336
Non-operating expenses		
Interest expenses	169,528	152,274
Equity in losses of affiliates	280,735	339,691
Foreign exchange losses	106,311	—
Other	82,820	73,494
Total non-operating expenses	639,395	565,460
Ordinary loss	(192,374)	(2,928,661)
Extraordinary income		
Gain on sales of non-current assets	1,650,357	1,194
Compensation for forced relocation	—	121,825
Other	7,753	216
Total extraordinary income	1,658,110	123,236
Extraordinary losses		
Loss on sales of non-current assets	—	263
Loss on retirement of non-current assets	16,520	29,036
Impairment loss	—	73,135
Other	14,146	16,302
Total extraordinary losses	30,666	118,738
Net income (loss) before income tax	1,435,069	(2,924,162)
Income taxes	1,024,996	(436,957)
Net income (loss)	410,072	(2,487,205)
Net loss attributable to non-controlling interests	(455,305)	(535,049)
Net income (loss) attributable to owners of the parent	865,378	(1,952,155)

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	6 months ended September 30, 2019	6 months ended September 30, 2020
Net income (loss)	410,072	(2,487,205)
Other comprehensive income		
Valuation difference on available-for-sale securities	(181,870)	219,140
Deferred gains or losses on hedges	1,312	(5,897)
Foreign currency translation adjustment	(217,412)	(161,240)
Re-measurements of defined benefit plans	(1,761)	55
Total other comprehensive income	(399,730)	52,058
Comprehensive income	10,341	(2,435,146)
(Breakdown)		
Comprehensive income attributable to owners of parent	507,838	(1,825,815)
Comprehensive income attributable to non-controlling interests	(497,496)	(609,330)

(3) Notes to Quarterly Consolidated Statements
(Notes regarding ongoing concern assumption)
No relevant matters to be noted.

(Notes concerning material changes in the amount of shareholders' equity)

The Group acquired additional shares in a consolidated subsidiary during the second quarter of consolidated fiscal year ending March 31, 2021. This decreased the capital surplus by 2,237,130 thousand yen.

The Group also granted 115,110 shares of treasury stock as restricted stock compensation, based on the resolution passed by the Board of Directors on June 30, 2020. This decreased the capital surplus by 71,582 thousand yen and treasury stock by 117,856 thousand yen.

The above changes resulted in a capital surplus of 12,562,840 thousand yen and 361,659 thousand yen in treasury stock as of September 30, 2020.

(Segment information and others)

[Segment Information]

I. For the 6 months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	15,409,488	23,235,180	8,772,148	47,416,816
Inter-segment sales or transfers	44,762	508,761	182,914	736,438
Total	15,454,250	23,743,941	8,955,062	48,153,255
Segment income (loss)	(26,420)	(751,200)	1,250,617	472,997

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	5,490	47,422,306
Inter-segment sales or transfers	(736,438)	—
Total	(730,948)	47,422,306
Segment income (loss)	(197,535)	275,462

Notes:

- The segment income (loss) adjustment of (197,535) thousand yen consists of 1,445,767 thousand yen in incomes of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,643,303) thousand yen.
- The segment income (loss) adjustment is based on the operating profit item in the Quarterly Consolidated Statements of Income.

II. For the 6 months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	7,165,162	20,393,202	8,271,045	35,829,410
Inter-segment sales or transfers	25,170	326,361	224,235	575,767
Total	7,190,332	20,719,563	8,495,281	36,405,178
Segment income (loss)	(712,178)	(2,224,281)	558,909	(2,377,550)

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	5,773	35,835,183
Inter-segment sales or transfers	(575,767)	—
Total	(569,994)	35,835,183
Segment income (loss)	(250,986)	(2,628,536)

Notes:

- The segment income (loss) adjustment of (250,986) thousand yen consists of 1,338,912 thousand yen in incomes of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,589,898) thousand yen.
- The segment income (loss) adjustment is based on the operating loss item in the Quarterly Consolidated Statements of Income.

2. Note concerning changes in reportable segments

The IMAGICA GROUP previously had four business segments: Content Creation, Production Services, Media Localization, and Imaging Systems & Solutions. The Production Services and Media Localization business segments were integrated from the first quarter of consolidated fiscal year ending March 31, 2021, thereby reducing the number of reportable business segments to three: Content Creation, Production Services, and Imaging Systems & Solutions.

The figures provided in "Information regarding net sales and profit (loss) by reportable segment" for the second quarter of the previous consolidated fiscal year show the figures after the changes to the reportable segments were made.