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

Company name: IMAGICA GROUP Inc. Filing date: February 4, 2021
 Securities code: 6879 Stock exchange listing: Tokyo 1st section
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 Quarterly report filing date (as planned): February 4, 2021
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: No

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the fiscal year ending March 31, 2021 (April 1, 2020 – December 31, 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	%
9 months ended Dec. 31, 2020	58,670	(13.0)	(2,369)	—	(2,729)	—	(663)	—
9 months ended Dec. 31, 2019	67,405	6.3	357	—	(310)	—	815	—

(Note) Comprehensive income: 3rd quarter ended December 31, 2020: (1,135) millions of yen / — %
 3rd quarter ended December, 2019: 142 millions of yen / — %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended Dec. 31, 2020	(14.96)	—
9 months ended Dec. 31, 2019	18.49	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
3rd quarter ended Dec. 31, 2020	71,387	24,645	31.0
As of March 31, 2020	62,154	27,478	40.3

(Reference) Shareholders' equity: As of December 31, 2020: 22,099 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: None

**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 : None

***Notes:**

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): Yes
(Name) Pixelogic Holdings, LLC

(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 December 31, 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 December 31, 2020	353,231 shares	As of March 31, 2020	468,341 shares
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3) Average number of shares

As of December 31, 2020	44,338,006 shares	As of December 31, 2019	44,087,258 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 Third 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 Third Quarter

(1) Explanation of operating results

(Overview of the first three quarters of consolidated fiscal year ending March 31, 2021)

The business environment in Japan showed signs of a gradual recovery from October onward, owing to emergency economic measures designed to combat the spread of the novel coronavirus (COVID-19), and the resumption of economic activities. Improvement in the performance of the IMAGICA Group was also seen, but we expect the severe business environment to persist as recent signs of further spread of COVID-19 have been seen.

The Group's financial performance for the first three quarters of consolidated fiscal year ending March 31, 2021 resulted in net sales of 58,670 million yen (a decline of 13.0% year-on-year), an operating loss of 2,369 million yen (compared to operating income of 357 million yen in the same period of the previous fiscal year), and an ordinary loss of 2,729 million yen (compared to an ordinary loss of 310 million yen in the same period of the previous fiscal year). Net loss attributable to owners of the parent was 663 million yen (compared to a profit of 815 million yen in the same period of the previous fiscal year), due to 2,091 million yen recorded as a gain on step acquisitions in extraordinary income.

(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 three quarters of consolidated fiscal year ending March 31, 2021 resulted in net sales of 13,888 million yen (a decline of 30.7% year-on-year) and an operating loss of 562 million yen (compared to an operating loss of 203 million yen in the same period of the previous fiscal year).

Stagnation in the number of TV commercial projects, a decline in the number of TV animation series produced, and changes in delivery schedules and TV program broadcasting schedules continued. However, sales showed signs of a rebound from October onward from the release of live action films and anime feature film productions that had been postponed, as well as the commencement of OTT streaming of drama planned and produced by the Group's subsidiary. While live music performance recordings were suspended or postponed, streaming of live performances without audiences has become a mainstream practice and the number of such performances is increasing.

As a result, the Content Creation Business Segments saw a decline in sales and an expansion of the operating loss in the first three quarters of consolidated fiscal year ending March 31, 2021 despite current signs of improvement in performance.

2) Production Services

The financial performance of the Production Services Business Segment in the first three quarters of consolidated fiscal year ending March 31, 2021 resulted in net sales of 32,743 million yen (a decline of 8.2% year-on-year) and an operating loss of 2,308 million yen (compared to an operating loss of 550 million yen in the same period of the previous fiscal year).

Media and post-production services continued to secure orders for post-production services for TV programs. Post-production services for TV commercials and animation saw signs of a rebound in orders. While digital cinema saw sluggish orders due to the decline in new projects, orders for encoding and other services were firm on the back of growth in OTT projects. Orders for video streaming, and archiving services grew mainly due to the resumption of sports events and shift toward streaming of live recording.

In international media services, dubbing studios gradually resumed operations and orders are showing signs of rebounding. However, conditions in Europe and the U.S. remain severe.

In human talent services, companies continued to place 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 number of new projects in the debugging business increased and Game 3DCG production was also firm.

The performance described above resulted in a decline in sales and an expansion of the operating loss for the Production Services Business Segment as a whole during the first three quarters of consolidated fiscal year ending March 31, 2021, despite current signs of improving performance.

*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 the international media services area have a fiscal year-end of December 31. The financial performance for this area during the first three quarters of fiscal year ending March 31, 2021 therefore reflects the results for January 1 through September 30, 2020.

3) Imaging Systems & Solutions

The financial performance of the Imaging Systems & Solutions Business Segment in the first three quarters of consolidated fiscal year ending March 31, 2021 resulted in net sales of 12,997 million yen (an increase of 1.7% year-on-year) and operating income of 842 million yen (a decline of 43.0% year-on-year).

In the video systems business area, the online delivery system for TV commercials saw an increase in the number of commercials delivered due to expanding market needs, securing growth in sales. However, some projects for broadcasting stations declined or shrunk in size.

In the imaging business area, conditions remained tough for high-speed cameras in Japan, Europe, and the U.S., while sales showed signs of rebounding in the Asian region. Sales of video and image processing LSI for Taiwan and China continued to remain firm. In the mobile solutions area, continued expansion of demand for mobile data communications achieved a substantial increase in sales.

The performance described above resulted in an increase in sales for the Imaging Systems & Solutions Business Segment as a whole during the first three quarters of consolidated fiscal year ending March 31, 2021. However, operating income was lower than the same period in the previous fiscal year, mainly due to the timing of decrease in order for large projects.

(2) Explanation of Financial Position

(Assets Statement)

Current assets decreased by 224 million yen (or 0.6%) from the end of the previous consolidated fiscal year to 35,070 million yen. This was mainly due to a fall in notes and accounts receivable- trade.

Non-current assets increased by 9,457 million yen (or 35.2%) from the end of the previous consolidated fiscal year to 36,317 million yen. This was mainly due to an increase in goodwill.

Consequently, total assets increased by 9,232 million yen (or 14.9%) from the end of the previous fiscal year to 71,387 million yen.

(Liabilities Statement)

Current liabilities increased by 6,584 million yen (25.6%) from the end of the previous consolidated fiscal year to 32,347 million yen. This increase was mainly due to an increase in short-term loans payable which more than compensated for a decrease in income taxes payable, and notes and accounts payable-trade.

Non-current liabilities increased by 5,480 million yen (61.5%) from the end of the previous consolidated fiscal year to 14,394 million yen. This increase was mainly due to an increase in long-term loans payable.

The above factors resulted in total liabilities of 46,741 million yen, an increase of 12,065 million yen (34.8%) from the end of the previous consolidated fiscal year.

(Net Assets)

Net assets declined by 2,832 million yen (10.3%) from the end of the previous consolidated fiscal year to 24,645 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

(Extraordinary income recorded)

As we disclosed in a notice entitled "Notice of transfer of equity-method affiliated company (consolidation)" on August 7, 2020, we acquired additional shares in the equity method affiliate, Pixelogic Holdings, LLC, making the company and its four subsidiaries consolidated subsidiaries. A gain of 2,091 million yen associated with the step acquisition was recorded as extraordinary income.

(Impact on performance)

The extraordinary income recorded is incorporated into the financial forecast for consolidated fiscal year ending March 31, 2021 disclosed on October 30, 2020, and the financial forecast remains unchanged.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2020	December 31, 2020
Assets		
Current assets		
Cash and deposits	7,339,777	7,641,972
Notes and accounts receivable- trade	16,609,098	15,631,902
Inventories	9,734,028	8,965,152
Other	1,665,660	2,931,255
Allowance for doubtful accounts	(53,471)	(100,157)
Total current assets	35,295,092	35,070,124
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,343,459	3,510,191
Machinery and equipment	133,153	108,676
Land	1,705,819	1,705,819
Lease Assets	735,973	627,449
Construction in progress	341,285	219,148
Other	1,563,637	1,926,021
Total Property, plant and equipment	7,823,328	8,097,307
Intangible assets		
Software	1,242,332	1,120,887
Goodwill	3,167,870	15,480,725
Other	4,085,856	3,849,219
Total Intangible assets	8,496,059	20,450,832
Investments and other assets		
Investment securities	2,296,170	2,668,782
Stocks of subsidiaries and affiliates	2,691,296	1,066,611
Long-term loans receivable	1,986,264	277,014
Lease and guarantee deposits	1,466,390	1,649,235
Deferred tax asset	1,852,835	1,850,202
Other	375,336	377,878
Allowance for doubtful accounts	(128,070)	(120,801)
Total Investments and other assets	10,540,222	7,768,921
Total Non-current assets	26,859,610	36,317,062
Total assets	62,154,703	71,387,186

(Thousands of yen)	March 31, 2020	December 31, 2020
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,060,774	4,943,842
Short-term loans payable	5,004,318	14,002,546
Accounts payable	3,027,865	3,970,364
Income taxes payable	1,504,588	138,612
Advances received	4,939,345	4,437,674
Provision for bonuses	1,245,383	406,449
Provision for directors compensations based on profit	106,568	—
Provision for loss on order received	218,878	79,784
Other	3,654,716	4,367,837
Total current liabilities	25,762,438	32,347,112
Non-current liabilities		
Long-term loans payable	5,510,940	10,278,112
Long-term accounts payable-other	174,097	148,018
Deferred tax liabilities	283,312	1,049,301
Net defined benefit liabilities	1,233,649	1,309,110
Other	1,711,796	1,609,827
Total non-current liabilities	8,913,796	14,394,371
Total Liabilities	34,676,235	46,741,484
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	6,845,317
Treasury stock	(479,516)	(361,659)
Total shareholders' equity	25,428,120	22,352,500
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	187,009	451,832
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(529,312)	(685,670)
Re-measurements of defined benefit plans	(1,082)	(1,218)
Total accumulated other comprehensive income	(361,318)	(252,989)
Stock acquisition right	11,484	11,484
Non-controlling Interests	2,400,180	2,534,706
Total Net assets	27,478,467	24,645,702
Total liabilities and Net assets	62,154,703	71,387,186

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

Quarterly Consolidated Statements of Income

(Thousands of yen)	9 months ended December 31, 2019	9 months ended December 31, 2020
Net sales	67,405,791	58,670,351
Cost of sales	50,485,820	45,738,026
Gross profit	16,919,971	12,932,325
Selling, general and administrative expenses	16,562,348	15,302,107
Operating income (loss)	357,622	(2,369,782)
Non-operating income		
Interest income	124,313	198,568
Dividend income	31,270	23,407
Other	123,372	142,896
Total non-operating income	278,956	364,872
Non-operating expenses		
Interest expenses	255,916	227,305
Equity in losses of affiliates	460,583	344,200
Foreign exchange losses	91,580	48,944
Other	139,093	103,863
Total non-operating expenses	947,173	724,314
Ordinary loss	(310,595)	(2,729,224)
Extraordinary income		
Gain on sales of non-current assets	1,650,441	2,770
Gain on step acquisitions	—	2,091,698
Other	37,813	122,042
Total extraordinary income	1,688,254	2,216,511
Extraordinary losses		
Loss on sales of non-current assets	—	263
Loss on retirement of non-current assets	19,310	40,411
Impairment loss	—	75,525
Loss on sales of investment securities	13,650	—
Other	26,893	38,430
Total extraordinary losses	59,854	154,631
Net income (loss) before income tax	1,317,804	(667,344)
Income taxes	1,001,906	502,486
Net income (loss)	315,898	(1,169,831)
Net loss attributable to non-controlling interests	(499,177)	(506,432)
Net income (loss) attributable to owners of the parent	815,076	(663,398)

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	9 months ended December 31, 2019	9 months ended December 31, 2020
Net income (loss)	315,898	(1,169,831)
Other comprehensive income		
Valuation difference on available-for-sale securities	59,768	264,180
Deferred gains or losses on hedges	1,613	—
Foreign currency translation adjustment	(232,477)	(229,996)
Re-measurements of defined benefit plans	(2,642)	(136)
Total other comprehensive income	(173,737)	34,046
Comprehensive income	142,160	(1,135,784)
(Breakdown)		
Comprehensive income attributable to owners of parent	703,923	(555,069)
Comprehensive income attributable to non-controlling interests	(561,763)	(580,714)

(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 December 31, 2020.

(Segment information and others)

[Segment Information]

I. For the 9 months ended December 31, 2019 (from April 1, 2019 to December 31, 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	19,959,876	34,981,687	12,455,848	67,397,412
Inter-segment sales or transfers	78,594	681,447	328,711	1,088,753
Total	20,038,471	35,663,134	12,784,560	68,486,166
Segment income (loss)	(203,206)	(550,237)	1,478,415	724,972

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	8,379	67,405,791
Inter-segment sales or transfers	(1,088,753)	—
Total	(1,080,374)	67,405,791
Segment income (loss)	(367,349)	357,622

Notes:

- The segment income (loss) adjustment of (367,349) thousand yen consists of 1,284,431 thousand yen in incomes of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,651,781) thousand yen.
- The segment income (loss) adjustment is based on the operating profit item in the Quarterly Consolidated Statements of Income.

II. For the 9 months ended December 31, 2020 (from April 1, 2020 to December 31, 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	13,828,736	32,150,368	12,678,822	58,657,927
Inter-segment sales or transfers	60,220	593,403	318,638	972,261
Total	13,888,956	32,743,772	12,997,460	59,630,189
Segment income (loss)	(562,949)	(2,308,059)	842,133	(2,028,875)

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	12,423	58,670,351
Inter-segment sales or transfers	(972,261)	—
Total	(959,837)	58,670,351
Segment income (loss)	(340,907)	(2,369,782)

Notes:

- The segment income (loss) adjustment of (340,907) thousand yen consists of 1,250,985 thousand yen in incomes of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,591,892) 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 third quarter of the previous consolidated fiscal year show the figures after the changes to the reportable segments were made.
3. Information on assets by reportable segment
- Additional shares were acquired in Pixelogic Holdings, LLC, which was an equity method affiliate, during the third quarter of consolidated fiscal year ending March 31, 2021, including the company and its four subsidiaries in the scope of consolidation. This resulted in an increase of 13,659,705 thousand yen in Production Services segment assets as of December 31, 2020 compared to the end of the previous consolidated fiscal year (March 31, 2020).

4. Information on impairment losses, goodwill, etc. by reportable segment

(Material impairment loss on non-current assets)

An impairment loss of 75,525 thousand yen on non-current assets was posted in Production Services.

(Material changes in goodwill amount)

Additional shares were acquired in Pixelogic Holdings, LLC, which was an equity method affiliate, during the third quarter of consolidated fiscal year ending March 31, 2021, including the company and its four subsidiaries in the scope of consolidation. This resulted in an increase of 12,777,550 thousand yen in goodwill in Production Services. This goodwill amount is the provisional amount because the allocation of the acquisition price was not completed as of the end of the third quarter of consolidated fiscal year ending March 31, 2021.