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Consolidated financial results (Japanese Accounting Standards) for the Third Quarter of the fiscal year ending March 31, 2023

Company name: IMAGICA GROUP Inc. Filing date: February 7, 2023
 Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/> Stock exchange listing: Tokyo Prime
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 Quarterly report filing date (as planned): February 7, 2023
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: None

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the fiscal year ending March 31, 2023 (April 1, 2022 – December 31, 2022)

(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, 2022	68,200	22.6	2,740	41.4	2,391	(2.3)	1,763	(28.3)
9 months ended Dec. 31, 2021	55,618	(5.2)	1,938	—	2,448	—	2,460	—

(Note) Comprehensive income: 3rd quarter ended December 31, 2022: 4,635 millions of yen / 54.5 %
 3rd quarter ended December 31, 2021: 3,000 millions of yen / — %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended Dec. 31, 2022	39.61	—
9 months ended Dec. 31, 2021	55.42	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Dec. 31, 2022	84,780	37,859	41.2
As of March 31, 2022	73,384	34,025	42.4

(Reference) Shareholders' equity: As of December 31, 2022: 34,964 millions of yen
 As of March 31, 2022: 31,149 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 31,2022	—	0.00	—	15.00	15.00
Year ending March 31,2023	—	0.00	—		
Year ending March 31,2023 (Forecast)				15.00	15.00

(Note) Changes in dividends forecast from the latest disclosed information: None

3. Consolidated forecast for the fiscal year ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(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
Fiscal year ending March 31, 2023	88,000	9.7	3,600	5.3	3,300	(16.1)	3,800	39.2	85.59

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

*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: Yes

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

1) Changes in accounting policies based on revisions of accounting standards: Yes

2) Changes in accounting policies other than ones based on revisions of accounting standards: Yes

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, 2022	44,741,467 shares	As of March 31, 2022	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of December 31, 2022	156,042 shares	As of March 31, 2022	345,938 shares
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3) Average number of shares

As of December 31, 2022	44,508,174 shares	As of December 31, 2021	44,391,917 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.

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1. Qualitative Information on Results in this Quarter

(1) Explanation of operating results

① Overview of the third quarter of the consolidated fiscal year ending March 31, 2023

In the imaging-related business, the Group's main business domain, the market environment is undergoing dizzying changes, including rapid technological innovation, the emergence of online live shows and new forms of entertainment utilizing the metaverse due to social changes caused by the COVID-19 pandemic, and fiercer competition among video streaming service providers.

Viewing this environment as an opportunity for growth, the Group has launched its mid-term plan "G-EST 2025." In the fiscal year ending March 31, 2023, the second year of the plan, we plan to "continue to build the foundation for conversion to a high profitability Group" and will maintain our efforts to promote various initiatives based on our four key strategies.

During the third quarter of the consolidated fiscal year ending March 31, 2023, net sales were 68,200 million yen (up 22.6% year on year), operating income was 2,740 million yen (up 41.4% year on year), ordinary income was 2,391 million yen (down 2.3% year on year), and net income attributable to owners of the parent was 1,763 million yen (down 28.3% year on year). Ordinary income decreased due to the recording of 748 million yen in non-operating income, including subsidy income, in the previous year. The decrease in net income attributable to owners of the parent was due to an increase in income taxes compared to the previous year.

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the consolidated fiscal year ending March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which was previously included in "Adjustments," was reclassified to the Content Creation business segment because of an increase in its importance.

Comparisons and analyses for the third quarter of the consolidated fiscal year ending March 31, 2023, are based on the new classification.

1) Content Creation business

Net sales for the third quarter of the consolidated fiscal year were 17,731 million yen (up 14.2% year on year) and operating income was 285 million yen (up 21.7% year on year).

Net sales of feature films and dramas remained strong due to an increase in the number of projects from the previous fiscal year. In the third quarter in particular, sales increased significantly due to the recording of a major project for a video streaming service provider. In commercial production, the number of orders for projects has struggled to meet expectations from the third quarter. The gross margin for animation productions is improving due to strict per-production profit management and the streamlining of production. In the live entertainment business, orders were robust.

These developments resulted in an increase in sales and profit for the overall Content Creation business segment.

2) Production Services business

Net sales for the third quarter of the consolidated fiscal year were 39,645 million yen (up 33.1% year on year) and operating income was 2,147 million yen (up 92.3% year on year).

In domestic E2E services*, post-production services for feature films, drama series, and feature animations remained strong. Orders for digital cinema services also increased. In addition, net sales remained strong in the areas of encoding and localization, including compression and conversion of video files, as we continued to secure orders from video streaming service providers.

In overseas E2E services, demand for localization for video streaming service providers remained strong, and foreign exchange effects also contributed to a significant increase in sales.

In post-production services, etc. for TV programs and TV commercials, the number of orders for TV commercials has struggled to meet expectations since the third quarter.

In game production and human talent services, etc., orders for game 3DCG production, debugging, and other services remained strong.

As a result, net sales and income grew for the overall Production Services business.

* E2E services: End-to-end services. Refers to an integrated end-to-end (E2E) service that covers the entire post-production process for feature films, dramas, animation, and other audio/video content through to media services for localization (subtitling/dubbing) and distribution of these through all kinds of media, including theaters, TV, and video streaming via the Internet.

* Overseas E2E services have a settlement date of December 31, so E2E earnings from January 1, 2022, to September 30, 2022, are reflected in the results for the third quarter of the consolidated fiscal year ending March 31, 2023.

3) Imaging Systems & Solutions business

Net sales for the third quarter of the consolidated fiscal year were 12,635 million yen (up 7.2% year on year) and operating income was 1,184 million yen (up 15.7% year on year).

In high-speed cameras, net sales increased year on year as the impact of the semiconductor shortage began to ease and product shipments began to recover. In Broadcast Imaging Systems & Solutions, net sales failed to grow due to low orders for projects. In the Optical Measurement Business, net sales of both optical elements and optical measurement systems increased in line with recovery in capital investments. Sales of online delivery of TV commercials remained strong, and sales of Image processing LSIs continued to be strong in Japan and overseas (especially in Asia).

Therefore, net sales and income rose for the overall Imaging Systems & Solutions business.

(2) Explanation of financial position

① Assets

Current assets increased by 3,098 million yen (7.5%) from the end of the previous consolidated fiscal year to 44,165 million yen. This was mainly due to a decrease in cash and deposits and an increase in inventory assets, including work in process for production.

Non-current assets increased by 8,297 million yen (25.7%) from the end of the previous consolidated fiscal year to 40,614 million yen.

This is mainly due to an increase in lease assets resulting from the start of application of U.S. lease accounting standards and an increase in goodwill resulting from the foreign currency translation effect.

As a result, total assets increased by 11,395 million yen (15.5%) from the end of the previous consolidated fiscal year to 84,780 million yen.

② Liabilities

Current liabilities increased by 3,466 million yen (10.7%) from the end of the previous consolidated fiscal year to 35,745 million yen.

This was primarily due to increases in contract liabilities and short-term loans payable, amid a decrease in notes and accounts payable.

Non-current liabilities increased by 4,095 million yen (57.8%) from the end of the previous consolidated fiscal year to 11,175 million yen.

This was primarily due to an increase in lease obligations included under Non-current liabilities in others, net, amid a decrease in long-term loans payable.

As a result, total liabilities increased by 7,561 million yen (19.2%) from the end of the previous consolidated fiscal year to 46,920 million yen.

③ Net assets

Net assets increased by 3,834 million yen (11.3%) from the fiscal year ended March 31, 2022 to 37,859 million yen.

This was primarily due to an increase in retained earnings and foreign currency translation adjustments.

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

Revisions have been made to the full-year financial forecast figures for the fiscal year ending March 31, 2023 from the forecast announced on May 13, 2022. For details, see the "Notice Concerning the Recording of Extraordinary Profit/Loss and Revision of Consolidated Financial Forecast" released today (February 7, 2023).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2022	December 31, 2022
Assets		
Current assets		
Cash and deposits	6,420,308	5,098,713
Notes and accounts receivable - trade, and contract assets	18,849,395	18,268,693
Inventories	13,613,658	17,749,330
Other	2,223,017	3,101,787
Allowance for doubtful accounts	(39,570)	(52,974)
Total current assets	41,066,808	44,165,551
Non-current assets		
Property, plant and equipment		
Buildings and structures	5,448,367	5,412,989
Machinery, equipment and vehicles	832,609	847,416
Land	1,705,807	1,705,807
Lease Assets	303,675	5,413,316
Other	1,878,964	2,751,787
Total Property, plant and equipment	10,169,425	16,131,317
Intangible assets		
Goodwill	11,482,801	13,253,339
Other	2,352,770	2,596,822
Total Intangible assets	13,835,572	15,850,162
Investments and other assets		
Investment securities	2,670,687	2,649,847
Stocks of subsidiaries and affiliates	385,838	496,023
Lease and guarantee deposits	2,066,324	2,184,050
Deferred tax asset	3,051,529	3,087,596
Other	286,596	377,613
Allowance for doubtful accounts	(148,462)	(162,041)
Total Investments and other assets	8,312,513	8,633,090
Total Non-current assets	32,317,511	40,614,570
Total assets	73,384,320	84,780,121

(Thousands of yen)	March 31, 2022	December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable- trade	8,884,981	6,479,181
Short-term loans payable	4,170,485	5,706,579
Accounts payable	1,824,055	1,233,400
Income taxes payable	850,863	226,673
Contract liabilities	8,373,707	12,539,184
Provision for bonuses	1,594,260	585,525
Provision for loss on order received	3,717	700
Provision for loss on litigation	584,309	627,061
Asset retirement obligations	41,401	—
Other	5,951,109	8,346,724
Total current liabilities	32,278,892	35,745,031
Non-current liabilities		
Long-term loans payable	4,019,743	3,441,885
Long-term accounts payable-other	208,183	303,295
Deferred tax liabilities	396,815	440,763
Net defined benefit liabilities	1,311,241	1,309,286
Asset retirement obligations	636,938	641,706
Other	507,067	5,038,518
Total non-current liabilities	7,079,990	11,175,455
Total Liabilities	39,358,882	46,920,487
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,223,561	13,020,018
Retained earnings	13,785,809	14,881,363
Treasury stock	(351,569)	(158,530)
Total shareholders' equity	29,963,804	31,048,854
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	610,074	559,164
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	595,800	3,377,105
Re-measurements of defined benefit plans	(2,483)	(2,767)
Total accumulated other comprehensive income	1,185,458	3,915,569
Non-controlling Interests	2,876,174	2,895,210
Total Net assets	34,025,437	37,859,634
Total liabilities and Net assets	73,384,320	84,780,121

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

Quarterly Consolidated Statements of Income

(Thousands of yen)	9 months ended December 31, 2021	9 months ended December 31, 2022
Net sales	55,618,324	68,200,306
Cost of sales	39,227,628	49,003,240
Gross profit	16,390,696	19,197,066
Selling, general and administrative expenses	14,452,390	16,456,158
Operating income	1,938,305	2,740,907
Non-operating income		
Interest income	814	1,433
Dividend income	22,240	26,117
Rent income	49,131	50,483
Equity in earnings of affiliates	109	—
Other	676,449	89,438
Total non-operating income	748,746	167,473
Non-operating expenses		
Interest expenses	152,391	191,203
Equity in losses of affiliates	—	6,572
Foreign exchange losses	17,101	160,660
Other	68,679	158,478
Total non-operating expenses	238,172	516,915
Ordinary income	2,448,879	2,391,464
Extraordinary income		
Gain on sales of non-current assets	4,560	7,070
Gain on sale of shares of subsidiaries and associates	417,882	132,878
Compensation for forced relocation	—	416,055
Other	436,359	29,909
Total extraordinary income	858,802	585,913
Extraordinary losses		
Loss on retirement of non-current assets	64,692	3,785
Office transfer related expenses	477,468	61,862
Extra retirement payments	—	170,228
Other	17,803	19,156
Total extraordinary losses	559,965	255,032
Net income before income tax	2,747,716	2,722,345
Income taxes	180,998	838,911
Net income	2,566,717	1,883,433
Net income attributable to non-controlling interests	106,482	120,321
Net income attributable to owners of the parent	2,460,235	1,763,112

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	9 months ended December 31, 2021	9 months ended December 31, 2022
Net income	2,566,717	1,883,433
Other comprehensive income		
Valuation difference on available-for-sale securities	(436,099)	(42,791)
Foreign currency translation adjustment	870,289	2,794,869
Re-measurements of defined benefit plans	(502)	(284)
Total other comprehensive income	433,687	2,751,793
Comprehensive income	3,000,405	4,635,227
(Breakdown)		
Comprehensive income attributable to owners of parent	2,890,964	4,493,223
Comprehensive income attributable to non-controlling interests	109,440	142,003

(3) Notes related to quarterly consolidated financial statements

(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

(Notes in the event of significant changes in shareholders' equity)

No relevant matters to be noted.

(The application of specific accounting of the consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to net income before income tax for the consolidated fiscal year that includes the current third quarter and multiplying net income before income taxes for the quarter by the estimated effective tax rate.

However, if the calculation of tax expenses using this estimated effective tax rate leads to obviously irrational results, the statutory effective tax rate is used after adjusting income/loss before income taxes for material differences that do not fall under temporary differences.

(Changes in accounting policies)

(1) Adoption of FASB Accounting Standards Codification (ASC) No. 842, "Leases"

As of the beginning of the first quarter of the consolidated fiscal year ending March 31, 2023, ASC No. 842, "Leases," was adopted for foreign consolidated subsidiaries that have adopted U.S. GAAP.

In principle, therefore, all leases of lessees are recorded as assets and liabilities. When applying this standard, the Company follows transitional treatment and recognizes the cumulative effect of a change in accounting policy at the date of adoption.

As a result, "Lease assets (net)" under property, plant, and equipment, "Other" under current liabilities, and "Other" under non-current liabilities increased 3,002,985 thousand yen, 384,364 thousand yen, and 2,735,036 thousand yen, respectively, at the beginning of the first quarter of the current fiscal year. The effect on retained earnings at the beginning of the first quarter of the current consolidated fiscal year and the effect on the quarterly consolidated statement of income for the third quarter of the current consolidated fiscal year are immaterial.

(2) Change in method for calculating tax expenses

Previously, with the exception of some consolidated subsidiaries, tax expenses were calculated using the basic method. However, in order to further improve the efficiency of the Company and its consolidated subsidiaries' quarterly accounting operations, effective from the first quarter of the current consolidated fiscal year, the Company has changed the method it uses to calculate tax expenses to rationally estimating the effective tax rate after applying tax effect accounting to net income before income taxes for the consolidated fiscal year and then multiplying the estimated effective tax rate and net income before income taxes for the quarter.

Since the impact of this change is immaterial, it has not been retrospectively applied.

(Segment information and others)

[Segment Information]

I. For the 9 months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

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	15,399,522	28,903,978	11,304,452	55,607,953
Inter-segment sales or transfers	131,354	872,984	477,810	1,482,149
Total	15,530,876	29,776,962	11,782,263	57,090,102
Segment Income	234,869	1,116,667	1,023,675	2,375,213

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	10,371	55,618,324
Inter-segment sales or transfers	(1,482,149)	—
Total	(1,471,778)	55,618,324
Segment Income	(436,907)	1,938,305

Notes:

1. The segment income adjustment of (436,907) thousand yen consists of income/loss related to the Company of 766,218 thousand yen and elimination of inter-segment transactions of (1,203,125) thousand yen.
2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

II. For the 9 months ended December 31, 2022 (from April 1, 2022 to December 31, 2022)

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	17,627,671	38,473,727	12,087,135	68,188,534
Inter-segment sales or transfers	104,249	1,171,442	547,877	1,823,569
Total	17,731,921	39,645,169	12,635,012	70,012,103
Segment income	285,810	2,147,007	1,184,033	3,616,851

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	11,772	68,200,306
Inter-segment sales or transfers	(1,823,569)	—
Total	(1,811,796)	68,200,306
Segment income	(875,944)	2,740,907

Notes:

- Adjustment of segment income of (875,944) thousand yen consists of income/loss related to the Company of 1,192,718 thousand yen and elimination of inter-segment transactions of (2,068,662) thousand yen.
- Segment income is adjusted against operating income on the quarterly consolidated financial statements.

2. Note concerning changes in reportable segments

Effective from the first quarter of the consolidated fiscal year ending March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which was previously included in "Adjustments," was reclassified to the Content Creation business segment because of an increase in its importance.

"Information regarding net sales and income (loss) by reportable segment" for the third quarter of the previous fiscal year is presented based on the new classification.