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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2024



Filing date: October 31, 2023

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 Quarterly report filing date (as planned): 14 November, 2023
 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, 2024 (April 1, 2023 – September 30, 2023)

(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 parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6 months ended Sept 30, 2023	46,686	12.3	967	(31.5)	938	(29.8)	700	(12.4)
6 months ended Sept 30, 2022	41,589	22.9	1,411	227.0	1,336	33.7	799	(52.8)

(Note) Comprehensive income: 2nd quarter ended September 30, 2023: ¥2,113 million / (23.2)%
 2nd quarter ended September 30, 2022: ¥2,750 million / 18.1%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
6 months ended Sept 30, 2023	15.78	—
6 months ended Sept 30, 2022	17.98	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Million yen	Million yen	%
As of Sept 30, 2023	76,556	38,496	47.4
As of March 31, 2023	81,888	40,303	44.1

(Reference) Shareholders' equity: As of September 30, 2023: ¥36,257 million
 As of March 31, 2023: ¥36,106 million

2. Dividends

	Dividend per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Annual
Year ended March 31,2023	Yen —	Yen 0.00	Yen —	Yen 15.00	Yen 15.00
Year ending March 31,2024	—	0.00			
Year ending March 31,2024 (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, 2024 (April 1, 2023 - March 31, 2024)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	100,000	6.2	4,000	3.4	3,500	(3.8)	2,200	(43.1)	49.34

(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): None
- (2) The application of specific accounting of the consolidated quarterly financial statements: Yes
- (3) Changes in accounting policies, accounting estimates and retrospective restatement
 - 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, 2023	44,741,467 shares	As of March 31, 2023	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of September 30, 2023	541,339 shares	As of March 31, 2023	156,042 shares
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3) Average number of shares

As of September 30, 2023	44,397,288 shares	As of September 30, 2022	44,469,282 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 second quarter of the consolidated fiscal year ending March 31, 2024

In the second quarter of the consolidated fiscal year, although the Japanese economy showed signs of recovery, the outlook remains uncertain due to soaring prices and manifestation of geopolitical risks caused by the situation in the Middle East and Ukraine.

As we enter the third year of our G-EST 2025 Mid-Term Plan set in FY2021, the group has reaffirmed that improvement of profitability is an important issue to realize our vision of becoming a “highly profitable group” in FY2025. Accordingly, the group has revised its four key strategies and has added “Expansion of game-related business” as a new strategy. In FY2023, we will tackle to achieve net sales of 110 billion yen, operating margin of 8% before goodwill and other amortization, and EBITDA of 11 billion yen in FY2025, following our policy “FY2023 is the year to get on growth path after establishment of basis for growth.”

Under these circumstances, the group’s performance in the second quarter of the consolidated fiscal year was as follows: Net sales were 46,686 million yen (up 12.3% year on year), operating income was 967 million yen (down 31.5%), ordinary income was 938 million yen (down 29.8%), and net income attributable to owners of the parent was 700 million yen (down 12.4%).

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the consolidated fiscal year, the name of the reportable segment “Production Services business” has been changed to “Production Technology Services business.” This represents a change in segment name only and has no impact on the segment information.

1) Content Creation business

In the second quarter of the consolidated fiscal year, the segment reported sales of 12,770 million yen (up 41.2% year on year) and operating income of 89 million yen (up 90.3%).

Sales of feature films and dramas significantly increased owing to the feature film “Godzilla Minus One” to be released on November 3, the Netflix feature film “Zombie 100: Bucket List of the Dead.” and other works. Sales of animation works increased owing to steady orders for TV series. Sales of the publishing business increased due in part to strong sales of the light novel “The Apothecary Diaries,” whose TV animated series started in October. On the other hand, sales of commercial production decreased due to sluggish performance in TV commercials, although there were a high number of orders for web commercials.

As a result, sales and operating income increased in the segment.

2) Production Technology Services business

In the second quarter of the consolidated fiscal year, the segment reported sales of 26,913 million yen (up 5.1% year on year) and operating income of 793 million yen (down 33.5%).

In domestic E2E services*¹, sales increased owing to solid sales of digital cinema services and localization, etc. In overseas E2E services*¹, while sales increased in digital cinema services and trailer production service supported by increase of new theatrical releases, operating income decreased due to a rise in fixed costs brought on by growth investments. In the game-related business*², among other factors, sales increased owing to 30% growth in Game 3DCG production. In post-production services for TV, sales and operating income declined due to weak orders.

As a result, sales increased, however operating income decreased in the segment.

*1 E2E services: End-to-end services. This is a general term for one-stop services ranging from post-production in the production of video content such as movies, dramas, and animation to media services for the localization (dubbing and subtitling) and distribution required for the distribution of said content through movie theaters, TV, and the Internet. Please note as the closing date for overseas E2E services is December 31, the results from January 1, 2023 to June 30, 2023 were reflected in the second quarter of the consolidated fiscal

year.

*2 Game-related business: 2D/3DCG production, debugging and software testing, creative talent dispatch and referral, etc. for games

3) Imaging Systems & Solutions business

In the second quarter of the consolidated fiscal year, the segment reported sales of 8,094 million yen (down 1.4% year on year) and operating income of 671 million yen (down 5.7%).

Sales of high-speed cameras significantly increased owing to recovery in production by settlement of semiconductor shortage and strong orders. On the other hand, sales of the broadcast imaging systems & solutions business decreased as it had sales of large projects in the previous year. Sales in optical measurement business and video and image processing LSIs declined due to deteriorating market environments and other factors.

As a result, sales and operating income decreased in the segment.

(2) Explanation of financial position

① Assets

Current assets decreased by 5,665 million yen (12.6%) from the end of the previous consolidated fiscal year to 39,305 million yen. This was mainly due to decreases in notes, accounts receivable - trade, and contract assets and in cash and deposits.

Non-current assets increased by 333 million yen (0.9%) from the end of the previous consolidated fiscal year to 37,250 million yen. This was mainly due to increases in buildings and structures, in “other” in property, plant and equipment, and in goodwill which had impact of exchange rate, while construction in progress decreased.

As a result, total assets decreased by 5,331 million yen (6.5%) from the end of the previous consolidated fiscal year to 76,556 million yen.

② Liabilities

Current liabilities decreased by 3,104 million yen (9.3%) from the end of the previous consolidated fiscal year to 30,100 million yen. This was mainly due to decreases in notes and accounts payable - trade and in contract liabilities.

Non-current liabilities decreased by 420 million yen (5.0%) from the end of the previous consolidated fiscal year to 7,958 million yen. This was mainly due to a decrease in long-term borrowings.

As a result, total liabilities decreased by 3,524 million yen (8.5%) from the end of the previous consolidated fiscal year to 38,059 million yen.

③ Net assets

Net assets decreased by 1,807 million yen (4.5%) from the end of the previous consolidated fiscal year to 38,496 million yen. This was mainly due to a decrease in non-controlling interests.

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

There are no revisions to the full-year forecasts for the consolidated fiscal year ending March 31, 2024, from the forecasts announced on May 11, 2023.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	March 31, 2023	September 30, 2023
Assets		
Current assets		
Cash and deposits	7,813,769	4,868,248
Notes and accounts receivable - trade, and contract assets	21,937,480	18,119,251
Inventories	12,460,112	12,621,406
Other	2,868,953	3,803,332
Allowance for doubtful accounts	(109,328)	(106,609)
Total current assets	44,970,987	39,305,629
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,213,112	12,823,455
Accumulated depreciation	(7,584,337)	(7,888,933)
Accumulated impairment	(619,501)	(612,947)
Buildings and structures, net	4,009,273	4,321,573
Machinery, equipment and vehicles	6,210,738	6,265,251
Accumulated depreciation	(5,525,748)	(5,574,998)
Accumulated impairment	(139,607)	(138,839)
Machinery, equipment and vehicles, net	545,383	551,413
Land	921,363	921,363
Leased assets	5,991,152	6,199,703
Accumulated depreciation	(871,877)	(949,083)
Accumulated impairment	(121,127)	(119,309)
Leased assets, net	4,998,147	5,131,310
Construction in progress	1,711,600	1,223,766
Other	7,801,738	8,788,964
Accumulated depreciation	(5,377,680)	(5,982,456)
Accumulated impairment	(135,685)	(143,568)
Other, net	2,288,372	2,662,939
Total property, plant and equipment	14,474,140	14,812,366
Intangible assets		
Goodwill	11,780,285	11,999,408
Other	2,460,007	2,599,118
Total intangible assets	14,240,292	14,598,527
Investments and other assets		
Investment securities	2,876,524	2,833,722
Shares of subsidiaries and affiliates	514,042	497,171
Leasehold and guarantee deposits	2,048,952	2,053,219
Deferred tax assets	2,420,133	2,195,630
Other	490,206	419,754
Allowance for doubtful accounts	(147,088)	(159,774)
Total investments and other assets	8,202,771	7,839,724
Total non-current assets	36,917,204	37,250,619
Total assets	81,888,191	76,556,248

(Thousands of yen)

	March 31, 2023	September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,133,738	5,592,806
Short-term borrowings	6,432,680	6,686,286
Lease liabilities	881,977	961,325
Accounts payable	1,769,403	1,867,424
Income taxes payable	1,172,785	530,040
Contract liabilities	7,591,449	6,259,951
Provision for bonuses	1,281,691	891,046
Provision for loss on orders received	1,100	2,200
Provision for loss on litigation	630,660	—
Asset retirement obligations	23,181	—
Other	6,286,605	7,309,525
Total current liabilities	33,205,274	30,100,606
Non-current liabilities		
Long-term borrowings	1,366,665	913,458
Lease liabilities	4,498,102	4,644,918
Long-term accounts payable	252,767	156,543
Deferred tax liabilities	196,598	212,691
Retirement benefit liability	1,241,071	1,256,118
Asset retirement obligations	653,518	663,773
Other	170,257	111,284
Total non-current liabilities	8,378,982	7,958,788
Total liabilities	41,584,257	38,059,394
Net assets		
Shareholders' equity		
Share capital	3,306,002	3,306,002
Capital surplus	13,020,018	12,155,677
Retained earnings	16,982,736	17,013,879
Treasury shares	(158,530)	(411,349)
Total shareholders' equity	33,150,226	32,064,210
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	713,553	846,113
Deferred gains or losses on hedges	20,740	38,582
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	2,237,081	3,324,225
Remeasurements of defined benefit plans	2,828	2,191
Total accumulated other comprehensive income	2,956,270	4,193,179
Non-controlling interests	4,197,436	2,239,463
Total net assets	40,303,934	38,496,854
Total liabilities and net assets	81,888,191	76,556,248

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

(Thousands of yen)

	6 months ended September 30, 2022	6 months ended September 30, 2023
Net sales	41,589,200	46,686,164
Cost of sales	29,497,045	33,821,236
Gross profit	12,092,154	12,864,927
Selling, general and administrative expenses	10,680,221	11,897,303
Operating income	1,411,932	967,624
Non-operating income		
Interest income	640	4,933
Dividend income	16,712	23,914
Foreign exchange gains	46,133	225,834
Other	90,049	78,460
Total non-operating income	153,536	333,143
Non-operating expenses		
Interest expenses	113,758	182,644
Equity in losses of affiliates	524	9,071
Administrative expenses for investment partnerships	—	96,567
Other	114,350	74,360
Total non-operating expenses	228,632	362,644
Ordinary income	1,336,836	938,123
Extraordinary income		
Gain on sale of non-current assets	7,001	252
Gain on sale of investment securities	28,000	290,067
Reversal of provision for loss on litigation	—	234,162
Compensation for forced relocation	277,370	—
Other	6,168	—
Total extraordinary income	318,540	524,482
Extraordinary losses		
Loss on retirement of non-current assets	1,894	1,283
Impairment losses	9,048	15,430
Office transfer related expenses	50,263	—
Extra retirement payments	170,228	—
Other	3,272	—
Total extraordinary losses	234,707	16,714
Net income before income taxes	1,420,669	1,445,891
Income taxes	548,238	569,768
Net income	872,430	876,123
Net income attributable to non-controlling interests	72,780	175,695
Net income attributable to owners of parent	799,650	700,427

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)

	6 months ended September 30, 2022	6 months ended September 30, 2023
Net income	872,430	876,123
Other comprehensive income		
Valuation difference on available-for-sale securities	(36,838)	136,875
Deferred gains or losses on hedges	—	17,842
Foreign currency translation adjustment	1,915,588	1,083,612
Remeasurements of defined benefit plans, net of tax	(330)	(637)
Total other comprehensive income	1,878,418	1,237,693
Comprehensive income	2,750,849	2,113,816
(Breakdown)		
Comprehensive income attributable to owners of parent	2,661,138	1,937,336
Comprehensive income attributable to non-controlling interests	89,711	176,480

(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 taxes for the consolidated fiscal year that includes the current second 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.

(Segment information and others)

[Segment information]

I. For the 6 months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

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

(Thousands of yen)

	Content Creation	Production Technology Services	Imaging Systems & Solutions	Sub total	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales						
Sales to external customers	9,029,270	24,727,181	7,823,188	41,579,640	9,559	41,589,200
Inter-segment sales or transfers	16,549	868,927	389,104	1,274,581	(1,274,581)	—
Total	9,045,820	25,596,109	8,212,292	42,854,222	(1,265,022)	41,589,200
Segment income	46,870	1,192,524	712,740	1,952,135	(540,202)	1,411,932

- (Notes) 1. Adjustment of segment income of (540,202) thousand yen consists of income/loss related to the company of 1,365,953 thousand yen and elimination of inter-segment transactions of (1,906,156) thousand yen.
2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

II. For the 6 months ended September 30, 2023 (from April 1, 2023 to September 30, 2023)

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

(Thousands of yen)

	Content Creation	Production Technology Services	Imaging Systems & Solutions	Sub total	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales						
Sales to external customers	12,729,065	26,245,479	7,707,197	46,681,742	4,421	46,686,164
Inter-segment sales or transfers	41,332	668,366	387,695	1,097,393	(1,097,393)	—
Total	12,770,397	26,913,845	8,094,892	47,779,136	(1,092,971)	46,686,164
Segment income	89,192	793,593	671,926	1,554,713	(587,088)	967,624

(Notes) 1. Adjustment of segment income of (587,088) thousand yen consists of income/loss related to the company of 1,037,966 thousand yen and elimination of inter-segment transactions of (1,625,055) thousand yen.

2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

2. Information regarding changes in reportable segments

Effective from the first quarter of the consolidated fiscal year, the name of the reportable segment “Production Services business” has been changed to “Production Technology Services business.” This represents a change in segment name only and has no impact on the segment information.

The segment Information for the second quarter of the previous fiscal year is presented with the new segment name.