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Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2024 (J-GAAP)



February 6, 2024

Company name: IMAGICA GROUP Inc. Stock exchange listing: Tokyo Prime
 Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/>
 Representative: Nobuo Fuse, Representative Director, President Tel: +81-3-5777-6295
 Inquiries: Masakazu Morita, Director and Senior Managing Executive Officer
 Planned quarterly report filing date: February 6, 2024
 Planned dividend payment date: —
 Supplemental material of quarterly results: Available
 Planned quarterly results briefing: Not available

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2024 (April 1, 2023 – December 31, 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 | % |
| Nine months ended Dec 31, 2023 | 71,458 | 4.8 | 2,224 | (18.8) | 2,003 | (16.2) | 1,434 | (18.7) |
| Nine months ended Dec 31, 2022 | 68,200 | 22.6 | 2,740 | 41.4 | 2,391 | (2.3) | 1,763 | (28.3) |

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥3,328 million / (28.2)%
 Nine months ended December 31, 2022: ¥4,635 million / 54.5%

| | Basic earnings per share | Diluted earnings per share |
|--------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Nine months ended Dec 31, 2023 | 32.35 | — |
| Nine months ended Dec 31, 2022 | 39.61 | — |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|----------------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| As of Dec 31, 2023 | 78,142 | 39,718 | 47.9 |
| As of March 31, 2023 | 81,888 | 40,303 | 44.1 |

(Reference) Shareholders' equity: As of December 31, 2023: ¥37,438 million
 As of March 31, 2023: ¥36,106 million

2. Dividends

| | Dividend per share | | | | |
|--|--------------------|--------------------|-------------------|-----------------|--------------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Annual |
| Fiscal year ended March 31, 2023 | Yen — | Yen 0.00 | Yen — | Yen 15.00 | Yen 15.00 |
| Fiscal year ending March 31, 2024 | — | 0.00 | — | | |
| Fiscal 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 shares issued (common shares)

1) Number of shares issued at the end of the period (including treasury stock)

| | | | |
|-------------------------|-------------------|----------------------|-------------------|
| As of December 31, 2023 | 44,741,467 shares | As of March 31, 2023 | 44,741,467 shares |
|-------------------------|-------------------|----------------------|-------------------|

2) Number of treasury stock at the end of the period

| | | | |
|-------------------------|----------------|----------------------|----------------|
| As of December 31, 2023 | 541,339 shares | As of March 31, 2023 | 156,042 shares |
|-------------------------|----------------|----------------------|----------------|

3) Average number of shares during the period

| | | | |
|-------------------------|-------------------|-------------------------|-------------------|
| As of December 31, 2023 | 44,331,329 shares | As of December 31, 2022 | 44,508,174 shares |
|-------------------------|-------------------|-------------------------|-------------------|

*** These consolidated quarterly financial results are exempted from quarterly review by a certified public 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 the Company deemed to be reasonable at the time of publication, and the Company does not guarantee its future performance. Actual results may differ significantly due to various factors.

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1. Qualitative Information on Quarterly Results

(1) Explanation of operating results

① Overview of the first nine months of the fiscal year

In the first nine months of the fiscal year ending March 31, 2024 (the “fiscal year” or “FY2023”), although the Japanese economy is slowly recovering, the outlook remains uncertain due to rising prices, intensifying conflict in the Middle East, and the prolonged situation in Ukraine.

IMAGICA GROUP Inc. (the “Company”) and its subsidiaries (collectively, the “Group”) have reaffirmed that improvement of profitability is an important issue to realize its vision of becoming a “highly profitable group” in FY2025, as we move forward with the third year of our G-EST 2025 Mid-Term Plan set in FY2021. Accordingly, the Group has revised its four key strategies and has added “Expansion of game-related business” as a new strategy. In FY2023, we are striving 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 first nine months of the fiscal year was as follows: Net sales were 71,458 million yen (up 4.8% year on year), operating income was 2,224 million yen (down 18.8%), ordinary income was 2,003 million yen (down 16.2%), and net income attributable to owners of parent was 1,434 million yen (down 18.7%).

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the fiscal year, the reportable segment “Production Services” has been renamed “Production Technology Services.” This change is merely nominal and has no impact on the details of segment information.

1) Content Creation business

In the first nine months of the fiscal year, the segment reported sales of 19,630 million yen (up 10.7% year on year) and operating income of 540 million yen (up 89.0%).

Sales of feature films and dramas remained at the same level as the previous fiscal year owing to the feature films "Rohan au Louvre" released in May and “Godzilla Minus One” released in November, the Netflix series “YuYu Hakusho,” which began streaming in December, and other major works. Sales of animation works significantly increased owing to CG animation works and TV series with strong orders. Sales in the publishing business increased owing to strong sales of books including the light novel “The Apothecary Diaries,” whose TV animated series started in October. Sales of commercial production increased in web commercials owing to high number of orders although sluggish performance in TV commercials due to weak orders.

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

2) Production Technology Services business

In the first nine months of the fiscal year, the segment reported sales of 40,639 million yen (up 2.5% year on year) and operating income of 1,403 million yen (down 34.6%).

In domestic E2E services^{*1}, sales and operating income increased mainly owing to solid sales of digital cinema services and localization services. In overseas E2E services, sales increased owing to the growth in digital cinema services and trailer production services supported by an increase in new theatrical releases as well as the impact of foreign exchange rates, although the demand for localization of older works for video streaming service settled down and pushed down sales. However, operating income decreased due to a rise in personnel costs, depreciation expenses and the other costs brought on by expanding bases globally. In the game-related business^{*2}, sales increased as Game 3DCG production remained solid, among other factors. In post-production services for TV, sales and operating income declined due to weak orders.

As a result, sales increased, but 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 through movie theaters, TV, and the Internet. Meantime, the closing date for overseas E2E services is December 31, and therefore the results from January 1, 2023 to September 30, 2023 are reflected in those for the first nine months of the 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 first nine months of the fiscal year, the segment reported sales of 12,783 million yen (up 1.2% year on year) and operating income of 1,144 million yen (down 3.3%).

Sales of high-speed cameras significantly increased as orders remained strong. On the other hand, sales of broadcast imaging systems & solutions decreased due to weak orders. Sales and operating income of video and image processing LSIs continued to decline mainly due to deteriorating market environments, although sales of optical measurement slightly increased.

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

(2) Explanation of financial position

① Assets

Current assets decreased by 3,945 million yen (8.8%) from the end of the previous fiscal year to 41,025 million yen. This was mainly due to decreases in cash and deposits, notes and accounts receivable - trade, and contract assets, while inventories increased.

Non-current assets increased by 200 million yen (0.5%) from the end of the previous fiscal year to 37,117 million yen. This was mainly due to increases in buildings and structures and in “other” in property, plant and equipment, while construction in progress and deferred tax assets decreased.

As a result, total assets decreased by 3,745 million yen (4.6%) from the end of the previous fiscal year to 78,142 million yen.

② Liabilities

Current liabilities decreased by 2,376 million yen (7.2%) from the end of the previous fiscal year to 30,828 million yen. This was mainly due to decreases in contract liabilities and notes and accounts payable - trade.

Non-current liabilities decreased by 783 million yen (9.3%) from the end of the previous fiscal year to 7,595 million yen. This was mainly due to a decrease in long-term borrowings.

As a result, total liabilities decreased by 3,160 million yen (7.6%) from the end of the previous fiscal year to 38,424 million yen.

③ Net assets

Net assets decreased by 585 million yen (1.5%) from the end of the previous fiscal year to 39,718 million yen. This was mainly due to a decrease in non-controlling interests, while foreign currency translation adjustment increased.

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

There are no revisions to the full-year forecasts for the 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 | December 31, 2023 |
|--|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,813,769 | 4,377,280 |
| Notes and accounts receivable - trade, and contract assets | 21,937,480 | 19,138,472 |
| Inventories | 12,460,112 | 13,552,625 |
| Other | 2,868,953 | 4,067,750 |
| Allowance for doubtful accounts | (109,328) | (111,113) |
| Total current assets | 44,970,987 | 41,025,014 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 12,213,112 | 13,105,399 |
| Accumulated depreciation | (7,584,337) | (8,038,995) |
| Accumulated impairment | (619,501) | (612,405) |
| Buildings and structures, net | 4,009,273 | 4,453,998 |
| Machinery, equipment and vehicles | 6,210,738 | 6,143,471 |
| Accumulated depreciation | (5,525,748) | (5,477,994) |
| Accumulated impairment | (139,607) | (137,211) |
| Machinery, equipment and vehicles, net | 545,383 | 528,265 |
| Land | 921,363 | 921,363 |
| Leased assets | 5,991,152 | 6,061,501 |
| Accumulated depreciation | (871,877) | (949,533) |
| Accumulated impairment | (121,127) | (89,060) |
| Leased assets, net | 4,998,147 | 5,022,907 |
| Construction in progress | 1,711,600 | 1,272,217 |
| Other | 7,801,738 | 9,065,841 |
| Accumulated depreciation | (5,377,680) | (6,287,991) |
| Accumulated impairment | (135,685) | (140,079) |
| Other, net | 2,288,372 | 2,637,771 |
| Total property, plant and equipment | 14,474,140 | 14,836,523 |
| Intangible assets | | |
| Goodwill | 11,780,285 | 11,933,678 |
| Other | 2,460,007 | 2,564,776 |
| Total intangible assets | 14,240,292 | 14,498,454 |
| Investments and other assets | | |
| Investment securities | 2,876,524 | 2,847,833 |
| Shares of subsidiaries and affiliates | 514,042 | 449,712 |
| Leasehold and guarantee deposits | 2,048,952 | 2,027,344 |
| Deferred tax assets | 2,420,133 | 2,209,181 |
| Other | 490,206 | 403,809 |
| Allowance for doubtful accounts | (147,088) | (155,234) |
| Total investments and other assets | 8,202,771 | 7,782,646 |
| Total non-current assets | 36,917,204 | 37,117,624 |
| Total assets | 81,888,191 | 78,142,639 |

(Thousands of yen)

| | March 31, 2023 | December 31, 2023 |
|---|-------------------|-------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 7,133,738 | 6,374,307 |
| Short-term borrowings | 6,432,680 | 7,163,188 |
| Lease liabilities | 881,977 | 960,136 |
| Accounts payable | 1,769,403 | 1,949,884 |
| Income taxes payable | 1,172,785 | 575,171 |
| Contract liabilities | 7,591,449 | 6,097,137 |
| Provision for bonuses | 1,281,691 | 643,658 |
| Provision for loss on orders received | 1,100 | 500 |
| Provision for loss on litigation | 630,660 | — |
| Asset retirement obligations | 23,181 | — |
| Other | 6,286,605 | 7,064,384 |
| Total current liabilities | 33,205,274 | 30,828,368 |
| Non-current liabilities | | |
| Long-term borrowings | 1,366,665 | 686,434 |
| Lease liabilities | 4,498,102 | 4,492,725 |
| Long-term accounts payable | 252,767 | 168,224 |
| Deferred tax liabilities | 196,598 | 205,416 |
| Retirement benefit liability | 1,241,071 | 1,278,036 |
| Asset retirement obligations | 653,518 | 664,248 |
| Other | 170,257 | 100,762 |
| Total non-current liabilities | 8,378,982 | 7,595,847 |
| Total liabilities | 41,584,257 | 38,424,215 |
| 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 | 17,747,716 |
| Treasury shares | (158,530) | (411,349) |
| Total shareholders' equity | 33,150,226 | 32,798,047 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 713,553 | 852,137 |
| Deferred gains or losses on hedges | 20,740 | 29,101 |
| Revaluation reserve for land | (17,933) | (17,933) |
| Foreign currency translation adjustment | 2,237,081 | 3,775,626 |
| Remeasurements of defined benefit plans | 2,828 | 1,872 |
| Total accumulated other comprehensive income | 2,956,270 | 4,640,805 |
| Non-controlling interests | 4,197,436 | 2,279,569 |
| Total net assets | 40,303,934 | 39,718,423 |
| Total liabilities and net assets | 81,888,191 | 78,142,639 |

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

(Thousands of yen)

| | Nine months ended December 31, 2022 | Nine months ended December 31, 2023 |
|--|--|--|
| Net sales | 68,200,306 | 71,458,362 |
| Cost of sales | 49,003,240 | 50,950,328 |
| Gross profit | 19,197,066 | 20,508,033 |
| Selling, general and administrative expenses | 16,456,158 | 18,283,545 |
| Operating income | 2,740,907 | 2,224,488 |
| Non-operating income | | |
| Interest income | 1,433 | 7,449 |
| Dividend income | 26,117 | 34,747 |
| Foreign exchange gains | — | 102,672 |
| Other | 139,921 | 121,129 |
| Total non-operating income | 167,473 | 265,999 |
| Non-operating expenses | | |
| Interest expenses | 191,203 | 285,034 |
| Equity in losses of affiliates | 6,572 | 8,200 |
| Administrative expenses for investment partnerships | — | 104,778 |
| Foreign exchange losses | 160,660 | — |
| Other | 158,478 | 88,590 |
| Total non-operating expenses | 516,915 | 486,604 |
| Ordinary income | 2,391,464 | 2,003,882 |
| Extraordinary income | | |
| Gain on sale of non-current assets | 7,070 | 2,644 |
| Gain on sale of investment securities | 28,000 | 290,067 |
| Gain on sale of shares of subsidiaries and affiliates | 132,878 | 145,943 |
| Reversal of provision for loss on litigation | — | 234,162 |
| Compensation for forced relocation | 416,055 | — |
| Other | 1,909 | 12,372 |
| Total extraordinary income | 585,913 | 685,189 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 3,785 | 1,523 |
| Impairment losses | 13,935 | 18,327 |
| Loss on valuation of shares of subsidiaries and affiliates | — | 41,940 |
| Office transfer related expenses | 61,862 | — |
| Extra retirement payments | 170,228 | — |
| Other | 5,221 | 14,343 |
| Total extraordinary losses | 255,032 | 76,135 |
| Net income before income taxes | 2,722,345 | 2,612,936 |
| Income taxes | 838,911 | 969,963 |
| Net income | 1,883,433 | 1,642,973 |
| Net income attributable to non-controlling interests | 120,321 | 208,708 |
| Net income attributable to owners of parent | 1,763,112 | 1,434,264 |

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)

| | Nine months ended December 31, 2022 | Nine months ended December 31, 2023 |
|--|--|--|
| Net income | 1,883,433 | 1,642,973 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (42,791) | 142,899 |
| Deferred gains or losses on hedges | — | 8,361 |
| Foreign currency translation adjustment | 2,794,869 | 1,535,242 |
| Remeasurements of defined benefit plans, net of tax | (284) | (956) |
| Total other comprehensive income | 2,751,793 | 1,685,548 |
| Comprehensive income | 4,635,227 | 3,328,521 |
| (Breakdown) | | |
| Comprehensive income attributable to owners of parent | 4,493,223 | 3,118,799 |
| Comprehensive income attributable to non-controlling interests | 142,003 | 209,721 |

(3) Notes to quarterly consolidated financial statements
(Notes on 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.

(Special accounting method applied to quarterly consolidated financial statements)

(Calculation of tax expenses)

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

However, if using this estimated effective tax rate results in extremely unreasonable tax expenses, the statutory effective tax rate is used after adjusting net income (loss) before income taxes for material differences that are not temporary.

(Segment information and others)

[Segment information]

I. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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 | 17,627,671 | 38,473,727 | 12,087,135 | 68,188,534 | 11,772 | 68,200,306 |
| Inter-segment sales or transfers | 104,249 | 1,171,442 | 547,877 | 1,823,569 | (1,823,569) | — |
| Total | 17,731,921 | 39,645,169 | 12,635,012 | 70,012,103 | (1,811,796) | 68,200,306 |
| Segment income | 285,810 | 2,147,007 | 1,184,033 | 3,616,851 | (875,944) | 2,740,907 |

(Notes) 1. Adjustment to 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.

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

II. For the nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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 | 19,572,583 | 39,619,450 | 12,259,674 | 71,451,708 | 6,653 | 71,458,362 |
| Inter-segment sales or transfers | 57,820 | 1,020,188 | 524,070 | 1,602,079 | (1,602,079) | — |
| Total | 19,630,403 | 40,639,639 | 12,783,745 | 73,053,788 | (1,595,426) | 71,458,362 |
| Segment income | 540,123 | 1,403,073 | 1,144,530 | 3,087,726 | (863,238) | 2,224,488 |

(Notes) 1. Adjustment to segment income of (863,238) thousand yen consists of income (loss) related to the Company of 923,088 thousand yen and elimination of inter-segment transactions of (1,786,326) 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 fiscal year, the reportable segment “Production Services” has been renamed “Production Technology Services.” This change is merely nominal and has no impact on the details of segment information.

Segment information for the nine months ended December 31, 2022 is presented using the new name.