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Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025 (J-GAAP)



July 30, 2024

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 Planned dividend payment date: —
 Supplemental material of financial results: Available
 Planned financial results briefing: Not available

(Millions of yen, rounded down)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025

(April 1, 2024 – June 30, 2024)

(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	%
Three months ended June 30, 2024	20,060	(15.7)	(544)	—	(498)	—	(519)	—
Three months ended June 30, 2023	23,797	19.8	345	27.2	394	28.9	305	474.5

(Note) Comprehensive income: Three months ended June 30, 2024: ¥25 million / (95.9)%
 Three months ended June 30, 2023: ¥631 million / (14.7)%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2024	(11.76)	—
Three months ended June 30, 2023	6.86	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2024	77,030	39,213	48.4
As of March 31, 2024	78,694	39,906	48.1

(Reference) Shareholders' equity: As of June 30, 2024: ¥37,244 million
 As of March 31, 2024: ¥37,828 million

(Note) In the first quarter of the fiscal year ending March 31, 2025, the Company finalized the provisional accounting treatments related to business combinations, and the figures for the fiscal year ended March 31, 2024 reflect the details of the provisional accounting treatments.

2. Dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
Fiscal year ended March 31, 2024	Yen —	Yen 0.00	Yen —	Yen 15.00	Yen 15.00
Fiscal year ending March 31, 2025	—				
Fiscal year ending March 31, 2025 (Forecast)		0.00	—	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, 2025 (April 1, 2024 - March 31, 2025)

(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
Full year	Million yen 98,000	% (1.7)	Million yen 3,700	% (5.7)	Million yen 3,200	% (14.2)	Million yen 2,000	% (15.7)	Yen 45.25

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

* Notes:

(1) Significant changes in the scope of consolidation during the period: 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: Yes

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 June 30, 2024	44,741,467 shares	As of March 31, 2024	44,741,467 shares
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2) Number of treasury stock at the end of the period

As of June 30, 2024	541,346 shares	As of March 31, 2024	541,346 shares
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3) Average number of shares during the period

As of June 30, 2024	44,200,121 shares	As of June 30, 2023	44,585,425 shares
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*** Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None**

*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. Overview of Operating Results, etc.

(1) Overview of operating results for this period

① Overview of the first three months of the fiscal year

The Group has positioned the current consolidated fiscal year as a year for “expanding its growth path and promoting business transformation.” The Group is pushing forward with business operations focused on growth businesses aimed at expanding the Group’s business (game-related business, IP creation, and high-speed camera business) and on transformation businesses aimed at improving profitability (global E2E business, TV-related business).

As a result of these efforts, the Group’s performance in the first three months of the fiscal year was as follows: Net sales were 20,060 million yen (down 15.7% year on year), operating loss of 544 million yen (compared to operating income of 345 million yen in the same period of the previous fiscal year), ordinary loss of 498 million yen (compared to ordinary income of 394 million yen in the same period of the previous fiscal year), and net loss attributable to owners of parent was 519 million yen (compared to net income of 305 million yen in the same period of the previous fiscal year)..

② Performance by business segment

Financial results by business segment are as follows.

1) Content Creation business

In the first three months of the fiscal year, the segment reported sales of 5,345 million yen (down 25.4% year on year) and operating income of 481 million yen (up 863.8%).

Sales of feature films and dramas decreased, reflecting the fact that the previous fiscal year had seen several major works. However, sales for commercial production increased, owing to solid inflows of orders for TV commercials. Sales of animation works also increased owing to strong orders for CG animation works and TV series. Sales and operating income in the publishing business also increased owing to strong sales of the original “The Apothecary Diaries” novel and its accompanying comic book series, as well as the recording of distribution-related income from the TV animation production committee.

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

2) Production Technology Services business

In the first three months of the fiscal year, the segment reported sales of 11,571 million yen (down 12.3% year on year) and operating loss of 1,016 million yen (compared to operating income of 321 million yen in the same period of the previous fiscal year).

In domestic E2E services^{*1}, sales increased mainly owing to solid sales of film-editing and digital cinema services.

In overseas E2E services^{*1}, sales decreased mainly due to sluggish sales of localization services as a result of production delays and cancellations on the back of the Hollywood actors’ and writers’ strike. Furthermore, operating income decreased significantly due mainly to a fall in gross profit resulting from the decrease in sales.

In the game-related business^{*2}, sales increased as orders for Game 3DCG production increased in response to a scaling-up of our production system, among other factors.

Meanwhile, in post-production services for TV, sales declined with weak orders due to changes in the environment surrounding the domestic TV industry.

As a result, sales and 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. Meanwhile, the closing date for overseas E2E services is December 31, and therefore the results from January 1, 2024 to March 31, 2024 are reflected in those for the first three 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 three months of the fiscal year, the segment reported sales of 3,579 million yen (down 7.8% year on year) and operating income of 325 million yen (up 27.0%).

Sales of high-speed cameras increased, owing in part to solid orders of shipments for automobile-related applications, particularly in Europe, as well as the impact of exchange rates. Sales of broadcast imaging systems & solutions decreased following the recording of sales of large projects in the previous fiscal year. Further, sales of video and image processing LSIs declined mainly due to slower recovery in orders for inventory adjustment of the domestic customers.

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

(2) Overview of financial situation for this period

With regard to the business combination made on February 8, 2024, between mediafellows GmbH and one of its subsidiaries, provisional accounting was carried out in the previous fiscal year. However, with the finalization being made in the first quarter of the current fiscal year, the amount used in the year-on-year comparison and analysis is one that reflects significant revisions made to the initial amount allocated for the acquisition following this finalization of the provisional accounting method.

① Assets

Current assets decreased by 1,345 million yen (3.3%) from the end of the previous fiscal year to 39,943 million yen. This was mainly due to a decrease in notes and accounts receivable - trade, and contract assets. While inventories and cash and deposits increased.

Non-current assets decreased by 318 million yen (0.9%) from the end of the previous fiscal year to 37,086 million yen. This was mainly due to a decrease in leased assets.

As a result, total assets decreased by 1,664 million yen (2.1%) from the end of the previous fiscal year to 77,030 million yen.

② Liabilities

Current liabilities decreased by 211 million yen (0.7%) from the end of the previous fiscal year to 28,739 million yen. This was mainly due to decreases in notes and accounts payable – trade and income taxes payable despite an increase in contract liabilities.

Non-current liabilities decreased by 760 million yen (7.7%) from the end of the previous fiscal year to 9,077 million yen. This was mainly due to a decrease in lease liabilities and long-term borrowings.

As a result, total liabilities decreased by 971 million yen (2.5%) from the end of the previous fiscal year to 37,816 million yen.

③ Net assets

Net assets decreased by 692 million yen (1.7%) from the end of the previous fiscal year to 39,213 million yen. This was mainly due to decreases in retained earnings and valuation difference on available-for-sale securities, 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, 2025, from the forecasts announced on May 09, 2024.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	March 31, 2024	June 30, 2024
Assets		
Current assets		
Cash and deposits	5,242,625	5,961,426
Notes and accounts receivable - trade, and contract assets	20,572,387	15,890,875
Inventories	11,536,441	13,676,496
Other	3,997,518	4,460,982
Allowance for doubtful accounts	(60,000)	(46,058)
Total current assets	41,288,972	39,943,723
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,081,194	13,109,118
Accumulated depreciation	(8,155,338)	(8,328,961)
Accumulated impairment	(598,722)	(598,722)
Buildings and structures, net	4,327,134	4,181,433
Machinery, equipment and vehicles	5,904,211	5,932,296
Accumulated depreciation	(5,212,534)	(5,247,658)
Accumulated impairment	(137,053)	(137,053)
Machinery, equipment and vehicles, net	554,623	547,585
Land	921,363	921,363
Leased assets	5,411,365	5,039,722
Accumulated depreciation	(734,703)	(800,296)
Accumulated impairment	(89,060)	(87,503)
Leased assets, net	4,587,602	4,151,922
Construction in progress	1,516,451	1,360,554
Other	9,016,129	9,342,976
Accumulated depreciation	(6,303,911)	(6,602,769)
Accumulated impairment	(125,339)	(123,791)
Other, net	2,586,878	2,616,415
Total property, plant and equipment	14,494,052	13,779,274
Intangible assets		
Goodwill	11,411,410	11,719,889
Other	3,096,544	3,233,265
Total intangible assets	14,507,955	14,953,154
Investments and other assets		
Investment securities	3,081,638	2,841,849
Shares of subsidiaries and affiliates	1,480,535	1,480,535
Leasehold and guarantee deposits	2,000,866	1,972,614
Deferred tax assets	1,672,072	1,864,542
Other	326,433	350,647
Allowance for doubtful accounts	(157,899)	(155,825)
Total investments and other assets	8,403,647	8,354,364
Total non-current assets	37,405,654	37,086,793
Total assets	78,694,627	77,030,516

(Thousands of yen)

	March 31, 2024	June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,799,221	5,455,321
Short-term borrowings	5,143,423	6,790,889
Lease liabilities	983,578	959,312
Accounts payable	2,530,291	2,274,726
Income taxes payable	1,432,145	254,290
Contract liabilities	4,886,312	6,885,320
Provision for bonuses	1,393,870	718,632
Provision for loss on orders received	11,380	815
Other	5,770,083	5,399,907
Total current liabilities	28,950,308	28,739,215
Non-current liabilities		
Long-term borrowings	3,120,478	2,797,123
Lease liabilities	4,015,709	3,538,809
Long-term accounts payable	519,874	533,650
Deferred tax liabilities	214,227	219,955
Retirement benefit liability	1,219,274	1,237,948
Asset retirement obligations	667,624	672,360
Other	80,746	77,497
Total non-current liabilities	9,837,935	9,077,345
Total liabilities	38,788,243	37,816,561
Net assets		
Shareholders' equity		
Share capital	3,306,002	3,306,002
Capital surplus	12,149,768	12,150,230
Retained earnings	18,686,599	17,515,296
Treasury shares	(411,354)	(411,354)
Total shareholders' equity	33,731,016	32,560,175
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,076,431	896,927
Deferred gains or losses on hedges	30,654	22,644
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	3,024,687	3,797,806
Remeasurements of defined benefit plans	(16,227)	(15,032)
Total accumulated other comprehensive income	4,097,613	4,684,413
Non-controlling interests	2,077,752	1,969,366
Total net assets	39,906,383	39,213,955
Total liabilities and net assets	78,694,627	77,030,516

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

(Thousands of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net sales	23,797,342	20,060,758
Cost of sales	17,586,453	14,173,666
Gross profit	6,210,888	5,887,091
Selling, general and administrative expenses	5,865,674	6,431,508
Operating income (loss)	345,213	(544,416)
Non-operating income		
Interest income	2,391	4,323
Dividend income	21,266	19,851
Foreign exchange gains	170,071	129,440
Other	39,113	46,252
Total non-operating income	232,843	199,867
Non-operating expenses		
Interest expenses	89,428	126,172
Equity in losses of affiliates	2,370	—
Other	91,473	27,480
Total non-operating expenses	183,272	153,652
Ordinary income (loss)	394,784	(498,201)
Extraordinary income		
Gain on sale of non-current assets	93	10
Gain on sale of investment securities	280,984	—
Total extraordinary income	281,077	10
Extraordinary losses		
Loss on retirement of non-current assets	1,277	412
Total extraordinary losses	1,277	412
Net income (loss) before income taxes	674,583	(498,603)
Income taxes	161,553	67,881
Net income (loss)	513,029	(566,485)
Net income (loss) attributable to non-controlling interests	207,244	(46,670)
Net income (loss) attributable to owners of parent	305,784	(519,814)

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Three months ended June 30, 2023	Three months ended June 30, 2024
Net income (loss)	513,029	(566,485)
Other comprehensive income		
Valuation difference on available-for-sale securities	168,642	(167,990)
Deferred gains or losses on hedges	17,649	(8,009)
Foreign currency translation adjustment	(67,861)	766,950
Remeasurements of defined benefit plans, net of tax	(318)	1,194
Total other comprehensive income	118,112	592,144
Comprehensive income	631,141	25,658
(Breakdown)		
Comprehensive income attributable to owners of parent	425,777	78,498
Comprehensive income attributable to non-controlling interests	205,364	(52,839)

(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 first 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.

(Changes in account policies)

The Company has applied the "Accounting Standard for Current Income Taxes, etc." (ASBJ Statement No. 27, October 28, 2022; hereinafter, referred to as "Revised Accounting Standard, 2022") and other standards from the beginning of the first quarter of the current fiscal year.

With regard to the accounting classification used for income taxes, etc. (other comprehensive income taxation), the Company acts in accordance with the transitional treatment provided for in the proviso to Paragraph 20-3 of the Revised Accounting Standard, 2022 and the proviso to Paragraph 65-2 (2) of Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereinafter, referred to as the "Revised Guidance on Tax Effect Accounting"). This change in accounting policy will have no material impact on the quarterly consolidated financial statements.

Furthermore, with regard to the amendments made in relation to the review of treatments in the consolidated financial statements for the deferment of profits/losses arising from the sale of shares, etc., of subsidiary companies between consolidated companies for tax purposes, Revised Accounting Standard, 2022 has been applied from the beginning of the first quarter of the current fiscal year. This change in accounting policy has been applied retroactively, and the quarterly consolidated financial statements and the annual consolidated financial statements for the previous quarter and previous fiscal year reflect this retroactive application. This change in accounting policy will have no impact on the quarterly consolidated financial statements and the annual consolidated financial statements for the previous quarter and previous fiscal year.

(Notes on Segment information and others)

I. For the three months ended June 30, 2023 (from April 1, 2023 to June 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	7,151,041	12,918,776	3,725,318	23,795,136	2,205	23,797,342
Inter-segment sales or transfers	15,772	281,228	158,188	455,189	(455,189)	—
Total	7,166,814	13,200,005	3,883,507	24,250,326	(452,984)	23,797,342
Segment income	49,989	321,173	256,490	627,653	(282,439)	345,213

(Notes) 1. Adjustment to segment income of (282,439) thousand yen consists of income (loss) related to the Company of 1,332,343 thousand yen and elimination of inter-segment transactions of (1,614,783) thousand yen.

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

II. For the three months ended June 30, 2024 (from April 1, 2024 to June 30, 2024)

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	5,344,945	11,271,318	3,430,645	20,046,909	13,848	20,060,758
Inter-segment sales or transfers	595	299,828	148,905	449,329	(449,329)	—
Total	5,345,541	11,571,146	3,579,551	20,496,239	(435,481)	20,060,758
Segment income (loss)	481,796	(1,016,973)	325,734	(209,442)	(334,973)	(544,416)

(Notes) 1. Adjustment to segment income (loss) of (334,973) thousand yen consists of income (loss) related to the Company of 1,982,477 thousand yen and elimination of inter-segment transactions of (2,317,451) thousand yen.

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

(Notes on quarterly consolidated statements of cash flows)

The Group has not prepared quarterly consolidated statements of cashflows for the first three months of the fiscal year. Depreciation and amortization (including amortization associated with intangible assets, excluding goodwill) and goodwill amortization for the first quarter of the consolidated fiscal year are as follows:

(Thousands of yen)		
	Three months ended June 30, 2023	Three months ended June 30, 2024
Depreciation and amortization	645,840	840,117
Goodwill amortization	390,973	443,964