Q&A Regarding 2Q FY2024 Financial Results (Summary)

This Q&A summarizes the main questions from investors at the financial results presentation.
Some contents have been edited for ease of understanding.

Q1. The current revised forecast predicts a full-year operating loss of 1.5 billion yen for Production Technology Services, but to what extent has risk been factored in? Are you factoring in maximum possible risk, or risk at the current level? Also, when do you believe the overseas business will become profitable?

A. Regarding risks for this fiscal year, we assume that the current revised forecast represents the bottom. As for making the overseas business profitable, we implemented cost reductions of $13 million this fiscal year, and if we can exceed our projected net sales levels next fiscal year, we believe we will be able to achieve profitability at an early stage. Even if it appears that net sales will not reach the projected levels, we will continue to implement cost reductions in order to secure profits.

Q2. Workforce reductions in the overseas business of Production Technology Services have progressed in the second half of the year, but I would like to know why this does not seem to be having much of an effect on profits. Also, given the full-year losses, is there a risk of goodwill impairment?

A. The effects of the workforce reductions implemented in June and October in the overseas business have already been factored into the current revised forecast, but their effects can only be seen about two months after implementation. In addition, we have had to pay lump-sum retirement allowances due to the workforce reductions, therefore these measures will not have a significant impact on this fiscal year’s profits. Moreover, due to changes in the business environment, the risk of goodwill impairment cannot be said to be zero.

Q3. Regarding overseas business, it seems that you do not have a full understanding of the situation at overseas subsidiaries. I would like to know your thoughts on issues concerning the overseas management structure.

A. The current poor performance in overseas business is largely due to a decrease in orders caused by intensifying competition between video streaming platforms, and we recognize that our predictions for this, along with those of local management, were overly optimistic. We have designed performance-linked incentives for local management, and carried out a second round of workforce reductions with strong leadership from Japan. We are conducting business by communicating as much as possible with local management as well as local clients.

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Q4. You are actively working to restructure your current business portfolio, and I get the impression that you are doing so based on profitability. Once the system is in place, what kind of business portfolio do you envision? Are there any new business sectors you would like to include?

A. Our first goal is to strengthen upstream processes in the entertainment sector. We have been undertaking video production contracts for many years, but we deeply recognize that it is the upstream processes, including IP, that create value. Our belief is that video production reinforces the upstream processes. We believe that strengthening our upstream processes, including IP, will lead to a stronger connection of the value chain within the Group.

Our second goal is to expand our business in non-entertainment sectors (industrial fields). We have been involved in the entertainment sector for a long time, but in terms of performance, businesses in non-entertainment sectors (industrial fields) are making stronger contributions. We plan to strengthen upstream processes, including IP, in the entertainment sector, while also expanding our business in non-entertainment sectors (industrial fields), primarily focusing on test and measurement. To do this, we believe M&As will be one of the necessary options.

Q5. The operating income margin for Content Creation in the first half of the year was 9%, but while animation production and royalty revenue made contributions, robots struggled with low profitability. It seems strict cost adjustments are being made for overseas business, but shouldn't measures also be taken for domestic business?

A. It is true that highly profitable royalty revenue is contributing to improved margins for Content Creation, but we have also been building earnings base in other areas, and one of the results of this is that by thoroughly managing profits in animation production, we are building a structure that does not incur losses. The same can be said for robots. With regard to content and commercial production, we no longer have any large loss-making projects as seen in the past, and we believe profit management is working well. On the other hand, we are aware that although losses will not be incurred, this is not a business that will generate large profits, therefore we are trying the businesses other than production. We believe that as these become successful, our business will look different better than it does now.

Q6. Looking at the situation of other companies and game publishers, it seems difficult to predict the future of the game-related business. I would like to know your strategy to achieve success going forward.

A. The strength of our game-related business lies in 3DCG art production. We recognize that the global mobile game market is tough and that the situation for game publishers is polarized, but many of our clients with whom we have done business for many years are very solid and have strong IP, therefore we are able to work with high quality and high efficiency. Accordingly, we have not been directly affected by the market and our business is doing well.

Q7. In the first half of the year, Imaging Systems & Solutions are said to have performed better than forecast, but on the other hand, sales of high-speed cameras to China as well as sales of semiconductors were sluggish. Please tell us your thoughts on the market environment for these businesses and when you expect them to recover.

A. High-speed cameras have had a significant impact on performance, but sales outside of China are doing well. Sales of video and image processing LSIs were affected by the Chinese market, and are not expected to recover until next fiscal year or later. However, given the size of the business, this will not have a significant impact.

End.