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Consolidated financial results (Japanese Accounting Standards) for the Third Quarter of the fiscal year ending March 31, 2018

Filing date: February 8, 2018

Company name: Imagica Robot Holdings Inc. Stock exchange listings: Tokyo 1st section
Securities code: 6879 URL: https://www.imagicarobot.jp/en/
Representative: Makoto Tsukada, President Tel:+81-3-6741-5742
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Quarterly report filing date(as planned): February 8, 2018
Dividend payment date(as planned): –
Supplemental material of quarterly results: –
Convening briefing of quarterly results: –

(In millions of yen)

1. Consolidated Financial Results for the Third Quarter ending December 31, 2017 (April 1, 2017 - December 31, 2017)

(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	%
6months ending September 30, 2017	64,464	6.5	1,646	131.1	1,721	63.7	2,197	136.3
6months ended September 30, 2016	60,552	27.7	712	–	1,051	902.0	929	168.4

(Note) Comprehensive income: 3st quarter ending December 31, 2017 : 2,796 millions of yen /－%
3st quarter ended December 31, 2017 : (845) millions of yen /－%

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
6 months ending September 30, 2017	49.36	–
6 months ended September 30, 2016	20.88	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
2st quarter ending September 30, 2017	66,671	32,340	43.3
Year ended March 31, 2017	68,207	29,941	38.6

(Reference) Shareholders' equity: 3st quarter ending December 31, 2017: 28,869 millions of yen
Year ended March 31, 2017: 26,313 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 31,2017	–	0.00	–	10.00	10.00
Year ending March 31,2018	–	0.00			
Year ending March 31,2018 (Forecast)		0.00	–	10.00	10.00

(Note) Changes in dividends forecast from the latest disclosed information: No

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3. Consolidated forecast for the fiscal year ending March 31, 2018
(April 1, 2017 - March 31, 2018)

(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
Year ending March 31,2018	90,000	2.8	2,000	1.9	2,000	(0.7)	2,400	40.6	53.9

(Note) Changes in earnings forecast from the latest disclosed information : Yes
(Reference) It is included goodwill amortization 1.4 billion yen due to the acquisition as an expense in the operating income.

* Notes

(1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from change is subsidiaries): Yes
Name of subsidiaries newly consolidated: IMAGICA TV Corporation

(2) Applying of specific accounting of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective
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 standard: 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 December 31, 2017	44,531,567 shares	As of March 31, 2017	44,531,567 shares

2) Number of treasury stock at the end of fiscal year

As of December 31, 2017	108 shares	As of March 31, 2017	108 shares

3) Average number of shares

As of December 31, 2017	44,531,459 shares	As of June 30, 2016	44,531,459 shares

(Explanation about the appropriate usage of business prospects and other special notes)
・The above-mentioned business forecasts were based on the information available as of the date of the release of this report.
・Future events may cause the actual results to be significantly different from the forecasts.

(Disclaimer)
This document is a translation of the Japanese original. The Japanese original has been disclosed in Japan in accordance with Japanese accounting standards and the Financial Instruments and Exchange Act. This document does not contain or constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on this document. In the case that there is any discrepancy between the Japanese original and this document, the Japanese original is assumed to be correct.

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1. Qualitative Information on Results in the Third Quarter

(1) Explanation of operating results

(Summary of this second quarter)

During the third quarter of the consolidated fiscal year under review, the Japanese economy saw exports and production activities continue recovering moderately, while it witnessed consumer spending revived steadily against the backdrop of strong employment and income situation.

Under such environment, the Imagica Robot Holdings Group (the "Group") developed its business extensively in the Content Creation segment and endeavored to improve its profitability and strengthen its balance sheet by exerting its collective ability.

Consequently, the Group reported net sales of 64,464 million yen (up 6.5% year-on-year), operating income of 1,646 million yen (up 131.1% year-on-year), ordinary income of 1,721 million yen (up 63.7% year-on-year), and net income attributable to owners of the parent of 2,197 million yen (up 136.3% year-on-year).

Meanwhile, the Group recorded an extraordinary income of 2,177 million yen as gain on sales of shares of subsidiaries and associates, since it transferred all interest in Imagica TV Corp. to WOWOW INC. on April

(Performance by Business segments)

From the first quarter of the consolidated fiscal year ending March 31, 2018, the Group has reorganized its reportable segments from six segments to the following four segments: Content Creation (former Video Software), Production Services (former Video Technology Services and Human Resources Consulting), Media Localization, and Imaging Systems & Solutions. In the year-on-year comparison of performance by business segment, the Group reclassified the figures for the year-earlier period to reflect the above segment reorganization.

(The Group discontinued the Broadcasting segment, since it sold Imagica TV Corp., a core company of the segment, on April 3, 2017.)

1) Content Creation

During the third quarter of the consolidated fiscal year under review, revenues from sales of movies grew from the previous year, and the production of projection mapping videos and live music performance videos increased steadily. These significantly contributed to a rise in net sales. However, operating income decreased by 122 million yen from the year-earlier period due to a year-on-year fall in distributions from the movie production committee in the first quarter of the consolidated fiscal year under review.

Consequently, the segment posted operating income of 703 million yen (down 14.9% year-on-year) on net sales of 17,523 million yen (up 19.0% year-on-year).

2) Production Services

Revenues from post production in television and commercial film fields decreased from the previous year due to a fall in orders caused by the TV programming reshuffle, etc. However, revenues from encoding and localizing services for over-the-top (OTT) platforms and digital cinema services grew sharply from the previous year, contributing to an increase in net sales and operating income. Revenues from the personnel agency business rose, while revenues from the temporary staffing service declined due to a fall in the number of personnel dispatched. Meanwhile, revenues from the CG production and debugging businesses, works done by contract, expanded.

Consequently, the segment posted operating income of 912 million yen (up 21.0% year-on-year) on net sales of 20,360 million yen (up 7.9% year-on-year).

3) Media Localization

The Media Localization segment saw its business results improve sharply. The OTT platform-related business grew steadily, contributing greatly to a rise in net sales. Moreover, the segment's operating loss decreased significantly due to the improvement of direct margin in Europe and the reduction in temporary expenses related to selling, general and administrative expenses, which were incurred in the corresponding year-earlier period.

Consequently, the segment posted operating loss of 362 million yen (operating loss of 1,204 million yen in the previous year) on net sales of 18,049 million yen (up 17.7% year-on-year).

Since the fiscal year of SDI Media Group, Inc. and its subsidiary ends on December 31, the Group reflected their performance of nine months from January 1, 2017 to September 30, 2017 to the

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segment's results for the third quarter of the consolidated fiscal year ending March 31, 2018 under review.

4) Imaging Systems & Solutions

The professional video equipment business performed robustly. This was attributable to an increase in sales of imported systems due to a rise in demand supported by the shift from the HD format to the 4K format in the live broadcasting sector and a growth in orders for the Group's internally-developed text-superimposition system and maintenance service.

Moreover, in the LSI Development sector, shipments of video and image processing LSI for China increased, leading to a rise in net sales and operating income.

Consequently, the segment posted operating income of 635 million yen (up 70.1% year-on-year) on net sales of 9,620 million yen (up 15.0% year-on-year).

Explanation of financial position

(Assets Statement)

Current assets increased by 155 million yen (or 0.4%) from the end of the previous consolidated fiscal year to 38,861 million yen. This was mainly due to a rise in inventories.

Non-current assets decreased by 1,691 million yen (or 5.7%) from the end of the previous consolidated fiscal year to 27,809 million yen. This was mainly due to a fall in deferred tax assets.

Consequently, total assets declined by 1,536 million yen (or 2.3%) from the end of the previous fiscal year to 66,671 million yen.

(Liabilities Statement)

Current liabilities decreased by 1,351 million yen (or 5.6%) from the end of the previous consolidated fiscal year to 22,922 million yen. This was mainly due to a fall in notes and accounts payable-trade.

Non-current liabilities declined by 2,583 million yen (or 18.5%) from the end of the previous consolidated fiscal year to 11,408 million yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 3,935 million yen (or 10.3%) from the end of the previous consolidated fiscal year to 34,330 million yen.

(Net Assets)

Net assets grew by 2,398 million yen (or 8.0%) from the end of the previous consolidated fiscal year to 32,340 million yen. This was mainly due to an increase in retained earnings.

(2) Explanation of consolidated forecasts

The Group has revised its full-year forecasts of consolidated operational results for the year ending March 31, 2018 announced on November 7, 2017. For details, please refer to "Revision on consolidated forecast" announced today (on February 8, 2018).

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

	Year ended March 31, 2017	3st quarter ending December 31, 2017
Assets		
Current assets		
Cash and deposits	8,716,936	9,855,286
Notes and accounts receivable- trade	17,648,525	14,766,571
Inventories	9,909,273	11,045,048
Deferred tax asset	929,336	617,920
Other	1,561,625	2,635,940
Allowance for doubtful accounts	(59,198)	(58,985)
Total current assets	38,706,498	38,861,781
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,872,655	3,754,175
Machinery and equipment	233,414	185,012
Land	2,943,085	2,943,085
Construction in progress	79,696	35,532
Other	2,554,998	2,482,876
Total Property, plant and equipment	9,683,850	9,400,682
Intangible assets		
Software	1,380,473	1,207,619
Goodwill	7,203,768	6,499,612
Other	4,422,632	3,897,131
Total Intangible assets	13,006,874	11,604,363
Investments and other assets		
Investment securities	3,718,646	4,880,916
Stocks of subsidiaries and affiliates	475,571	540,432
Lease and guarantee deposits	1,186,175	1,106,275
Deferred tax asset	1,137,903	59,214
Other	482,494	442,570
Allowance for doubtful accounts	(190,640)	(224,966)
Total Investments and other assets	6,810,152	6,804,442
Total Non-current assets	29,500,876	27,809,488
Total assets	68,207,375	66,671,270

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	Year ended March 31, 2017	3st quarter ending December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,722,108	5,441,296
Short-term loans payable	4,793,499	4,583,573
Accounts payable	3,234,345	3,505,906
Income taxes payable	1,235,608	562,480
Provision for bonuses	1,394,256	658,772
Provision for directors compensations based on profit	113,707	72,162
Provision for loss on order received	92,734	152,290
Other	6,687,338	7,945,857
Total current liabilities	24,273,600	22,922,339
Non-current liabilities		
Long-term loans payable	8,735,073	6,609,380
Long-term accounts payable-other	216,815	618,162
Deferred tax liabilities	1,036,147	1,183,358
Net defined benefit liabilities	2,070,931	1,226,348
Other	1,933,232	1,771,211
Total non-current liabilities	13,992,200	11,408,460
Total Liabilities	38,265,800	34,330,799
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	15,189,280	15,190,196
Retained earnings	7,256,468	9,009,030
Treasury stock	(42)	(42)
Total shareholders' equity	25,690,622	27,444,099
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,080,094	1,900,680
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(443,718)	(462,003)
Re-measurements of defined benefit plans	4,308	4,451
Total accumulated other comprehensive income	622,752	1,425,195
Non-controlling Interests	3,628,199	3,471,175
Total Net assets	29,941,574	32,340,470
Total liabilities and Net assets	68,207,375	66,671,270

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(2) Quarterly consolidated statements of income and statements of comprehensive income

Quarterly consolidated statements of income

	9months ended December 31, 2016	9months ending December 31, 2017
Net sales	60,552,670	64,464,904
Cost of sales	42,572,003	47,038,039
Gross profit	17,980,667	17,426,864
Selling, general and administrative expenses	17,267,878	15,779,940
Operating income	712,788	1,646,924
Non-operating income		
Interest income	4,345	3,218
Dividend income	51,754	34,406
Equity in earnings of affiliates	42,557	39,860
Foreign exchange gains	182,440	26,233
Other	188,765	111,780
Total non-operating income	469,863	215,499
Non-operating expenses		
Interest expenses	106,444	117,322
Other	24,560	23,181
Total non-operating expenses	131,004	140,03
Ordinary income	1,051,647	1,721,919
Extraordinary income		
Gain on sales of non-current assets	287,933	5,280
Gain on step acquisitions	190,403	-
Gain on sales of subsidiaries and affiliates' stocks	-	2,177,929
Other	20,492	-
Total extraordinary income	498,829	2,183,210
Extraordinary losses		
Loss on sales of non-current assets	2,650	183
Loss on retirement of non-current assets	36,169	13,946
Impairment loss	21,837	14,139
Loss on valuation of stocks of subsidiaries and affiliates	187,324	-
Loss On Workers Compensation		88,809
Other	46,499	87,432
Total extraordinary losses	294,481	204,512
Income before income taxes	1,255,994	3,700,617
Income taxes	774,798	1,672,092
Profit (loss)	481,195	2,028,524
Profit (loss) attributable to non-controlling interests	(448,787)	(169,351)
Profit (Loss) attributable to owners of parent	929,983	2,197,876

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Quarterly consolidated statements of income

	9months ended December 31, 2016	9months ending December 31, 2017
Profit (Loss)	481,195	2,028,524
Other comprehensive income		
Valuation difference on available-for-sale securities	140,940	820,3171
Deferred gains or losses on hedges	1,004	-
Foreign currency translation adjustment	(1,487,008)	(52,086)
Re-measurements of defined benefit plans	18,155	142
Total other comprehensive income	(1,326,908)	768,373
Comprehensive income	(845,712)	2,796,898
Comprehensive income attributable to owners of parent	323,875	3,000,319
Comprehensive income attributable to non-controlling interests	(1,169,588)	(203,431)

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(3) Notes to quarterly consolidated statements

Segment information

I. For the 9 months ended December 31,2016 (from April 1,2016 to December 31,2016)

Information about operating revenue and profit (loss) by reportable segment

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	14,690,117	18,228,002	15,257,909	7,976,955	56,152,985
Inter-segment sales or transfers	34,097	649,165	71,829	388,037	1,143,130
Total	14,724,125	18,877,168	15,329,738	8,364,933	57,296,115
Segment profit (loss)	826,225	754,352	(1,204,467)	373,238	749,349

	Other (Note 1)	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income(Note 3)
Net sales			
Sales to external customers	4,315,749	83,936	60,552,670
Inter-segment sales or transfers	1,728	(1,144,858)	-
Total	4,317,477	(1,060,922)	60,552,670
Segment profit (loss)	214,249	(250,809)	712,788

Notes:

1. The “Other” category is for operating segments that are not included among the reportable segments, and it shows data pertaining to divested subsidiaries.
2. The Segment profit (loss) adjustment of (250,809) thousand yen consists of 1,097,209 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,348,019) thousand yen.
3. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.

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II. For the 9 months ending December 31,2017 (from April 1,2017 to December 31,2017)
Information about operating revenue and profit (loss) by reportable segment

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	17,377,352	19,864,977	17,792,428	9,322,736	64,357,495
Inter-segment sales or transfers	145,754	495,586	257,000	298,205	1,196,547
Total	17,523,107	20,360,563	18,049,429	9,620,941	65,554,043
Segment profit (loss)	703,368	912,396	(362,961)	635,054	1,887,856

	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income(Note 3)
Net sales		
Sales to external customers	107,408	64,464,904
Inter-segment sales or transfers	(1,196,547)	
Total	(1,089,139)	64,464,904
Segment profit (loss)	(240,932)	1,646,924

Notes:

1. The Segment profit (loss) adjustment of (240,932) thousand yen consists of 1,023,480 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,264,413) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.