English translation

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Consolidated financial results (Japanese Accounting Standards) for the First Quarter of the fiscal year ending March 31, 2019

Filing date: July 31, 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
Inquiries: Masakazu Morita, Director and Executive Officer
Quarterly report filing date(as planned): July 31, 2018
Dividend payment date(as planned): –
Supplemental material of quarterly results: Yes
Convening briefing of quarterly results: –

(In millions of yen)

1. Consolidated Financial Results for the First Quarter ending June 30, 2018 (April 1, 2018 - June 30, 2018)

(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	%
3 months ending June 30, 2018	19,362	(8.1)	(876)	–	(839)	–	(536)	–
3 months ended June 30, 2017	21,073	11.1	644	–	665	–	1,641	–

(Note) Comprehensive income: 1st quarter ending June 30, 2018: (1,083) millions of yen /－%
1st quarter ended June 30, 2017: 1,686 millions of yen /－%

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
3 months ending June 30, 2018	(12.10)	–
3 months ended June 30, 2017	36.87	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
1st quarter ending June 30, 2018	65,713	31,046	42.4
Year ended March 31, 2018	70,529	32,978	41.7

(Reference) Shareholders' equity: 1st quarter ending June 30, 2018: 27,872 millions of yen
Year ended March 31, 2018: 29,425 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 31,2018	–	–	–	10.00	10.00
Year ending March 31,2019	–				
Year ending March 31,2019 (Forecast)		–	–	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, 2019
(April 1, 2018 - March 31, 2019)

(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 31,2019	93,000	1.8	1,750	(27.8)	1,650	(31.9)	1,100	(62.5)	24.70

(Note) Changes in earnings forecast from the latest disclosed information : Yes
(Reference) It is included goodwill amortization 1.6 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): None

(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 June 30, 2018	44,531,567 shares	As of March 31, 2018	44,531,567 shares

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

As of June 30, 2018	500,108 shares	As of March 31, 2018	108 shares

3) Average number of shares

As of June 30, 2018	44,355,635 shares	As of June 30, 2017	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 First Quarter

(1) Explanation of operating results

(Overview of the first quarter of the consolidated fiscal year ending March 31, 2019)

During the first quarter of the consolidated fiscal year under review, the Japanese economy saw exports and production and service activities improve, supported by recovery in overseas economy, mainly the U.S. Furthermore, consumer spending also picked up due to strong employment and income situation.

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

Consequently, the Group reported net sales of 19,362 million yen (down 8.1% year-on-year), operating loss of 876 million yen (operating income of 644 million yen in the previous year), ordinary loss of 839 million yen (ordinary income of 665 million yen in the previous year), and net loss attributable to owners of the parent of 536 million yen (net income attributable to owners of the parent of 1,641 million yen in the previous year).

(Performance by Business Segment)

1) Content Creation

During the first quarter of the consolidated fiscal year under review, the segment saw net sales decrease from the previous year since the recognition of revenue from theater animations slipped to the second quarter, although it posted revenue from dramas for over-the-top (OTT) platforms in addition to theater movies. Meanwhile the segment reported operating loss due to a temporary rise in production costs for a new series title that started in April 2018 and full-CG works, although orders for TV animation production were steady.

Consequently, the segment posted operating loss of 374 million yen (operating income of 92 million yen in the previous year) on net sales of 4,685 million yen (down 10.4% year-on-year).

2) Production Services

Revenue from the post production service for TV animation and the digital cinema service solidly increased from the previous year. However, revenue from the post production service for TV programs decreased from the previous year, since the orders decreased due to the TV programming reshuffle. Meanwhile the segment reported operating loss despite its efforts to reduce costs in the administrative division and review capital expenditures, since it failed to cover a decline in gross profit caused by decreased sales.

In the Personnel Consulting Service, the personnel agency, debugging service, and CG production businesses grew steadily.

Consequently, the segment posted operating loss of 11 million yen (operating income of 300 million yen in the previous year) on net sales of 6,228 million yen (down 6.8% year-on-year).

3) Media Localization

The Localization business in Europe remained stable. However, the Media Localization service in Americas and Asia saw revenue decreased from the previous year, since the orders for the OTT platform was much lower than expected and the competition with other companies that engage in the localization service was intensifying. Operating loss increased from the previous year owing to a fall in gross profit caused by decreased sales and a rise in fixed costs including production-related costs.

Consequently, the segment posted operating loss of 591 million yen (operating loss of 56 million yen in the previous year) on net sales of 5,840 million yen (down 3.2% 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 three months from January 1, 2018 to March 31, 2018 to the segment's results for the first quarter of the consolidated fiscal year ending March 31, 2019.

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4) Imaging Systems & Solutions

The professional video equipment saw net sales and operating income decrease from the previous year. This was because the delivery of a large order was delayed to the second quarter or later. Meanwhile, sales in the imaging business and orders for online systems of TV CM delivery were strong, leading to a rise in net sales and operating income. Moreover, in the LSI Development sector, shipments of video and image processing LSI for China continued growing steadily, resulting in an increase in net sales and operating income.

Consequently, the segment posted operating income of 204 million yen (down 43.6% year-on-year) on net sales of 2,919 million yen (down 14.4% year-on-year).

Explanation of financial position

(Assets Statement)

Current assets decreased by 4,101 million yen (or 10.3%) from the end of the previous consolidated fiscal year to 35,559 million yen. This was mainly due to a fall in notes and accounts receivable- trade.

Non-current assets decreased by 714 million yen (or 2.3%) from the end of the previous consolidated fiscal year to 30,153 million yen. This was mainly due to a fall in goodwill.

Consequently, total assets declined by 4,816 million yen (or 6.8%) from the end of the previous fiscal year to 65,713 million yen.

(Liabilities Statement)

Current liabilities decreased by 1,299 million yen (or 5.4%) from the end of the previous consolidated fiscal year to 22,594 million yen. This was mainly due to a fall in accounts payable and provision for bonuses.

Non-current liabilities declined by 1,584 million yen (or 11.6%) from the end of the previous consolidated fiscal year to 12,072 million yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 2,884 million yen (or 7.7%) from the end of the previous consolidated fiscal year to 34,666 million yen.

(Net Assets)

Net assets declined by 1,931 million yen (or 5.9%) from the end of the previous consolidated fiscal year to 31,046 million yen. This was mainly due to posting net loss attributable to owners of the parent, decrease retained earnings because of payment of dividends and purchase of treasury stock.

(2) Explanation of consolidated forecasts

The Group has revised its full-year forecasts of consolidated operational results for the year ending March 31, 2019 announced on May 8, 2018. For details, please refer to “Revision on consolidated forecast” announced today (on July 31, 2018).

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)	Year ended March 31, 2018	1st quarter ending June 30, 2018
Assets		
Current assets		
Cash and deposits	11,131,784	10,449,868
Notes and accounts receivable- trade	18,415,035	13,835,053
Inventories	8,031,571	9,149,535
Other	2,142,656	2,175,803
Allowance for doubtful accounts	(60,010)	(50,797)
Total current assets	39,661,037	35,559,463
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,823,616	3,643,687
Machinery and equipment	175,420	175,499
Land	2,943,085	2,944,295
Lease Assets	914,502	950,115
Construction in progress	99,593	152,043
Other	1,632,753	1,731,250
Total Property, plant and equipment	9,588,971	9,596,893
Intangible assets		
Software	1,213,321	1,172,612
Goodwill	7,255,938	6,795,843
Other	5,163,572	4,757,236
Total Intangible assets	13,632,833	12,725,692
Investments and other assets		
Investment securities	4,436,692	4,552,577
Stocks of subsidiaries and affiliates	614,858	629,479
Lease and guarantee deposits	1,167,132	1,173,295
Deferred tax asset	1,054,660	1,114,575
Other	488,717	474,081
Allowance for doubtful accounts	(115,614)	(112,998)
Total Investments and other assets	7,646,445	7,831,011
Total Non-current assets	30,868,250	30,153,596
Total assets	70,529,288	65,713,060

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(Thousands of yen)	Year ended March 31, 2018	1st quarter ending June 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable- trade	5,788,972	5,271,109
Short-term loans payable	4,982,314	4,940,332
Accounts payable	3,626,139	3,083,921
Income taxes payable	711,802	260,757
Provision for bonuses	1,514,231	753,518
Provision for directors compensations based on profit	95,778	41,273
Provision for loss on order received	63,449	61,528
Other	7,111,729	8,182,084
Total current liabilities	23,894,417	22,594,526
Non-current liabilities		
Long-term loans payable	8,891,288	7,773,420
Long-term accounts payable-other	601,062	380,646
Deferred tax liabilities	1,011,906	934,939
Net defined benefit liabilities	1,259,724	1,280,316
Other	1,892,742	1,702,820
Total non-current liabilities	13,656,725	12,072,142
Total Liabilities	37,551,142	34,666,669
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	15,190,725	15,190,725
Retained earnings	9,749,118	8,767,173
Treasury stock	(42)	(512,042)
Total shareholders' equity	28,184,716	26,690,772
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,689,371	1,774,361
Deferred gains or losses on hedges	(388)	2,247
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(443,870)	(580,243)
Re-measurements of defined benefit plans	3,942	3,346
Total accumulated other comprehensive income	1,241,121	1,181,778
Non-controlling Interests	3,522,306	3,173,840
Total Net assets	32,978,145	31,046,391
Total liabilities and Net assets	70,529,288	65,713,060

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

Quarterly consolidated statements of income

(Thousands of yen)	3months ended June 30, 2017	3months ending June 30, 2018
Net sales	21,073,526	19,362,044
Cost of sales	15,186,262	14,615,586
Gross profit	5,887,263	4,746,457
Selling, general and administrative expenses	5,242,319	5,622,937
Operating income	644,943	(876,479)
Non-operating income		
Interest income	1,034	673
Dividend income	17,665	15,764
Equity in earnings of affiliates	2,704	7,146
Foreign exchange gains	5,950	42,695
Other	38,886	50,598
Total non-operating income	66,241	116,877
Non-operating expenses		
Interest expenses	37,729	70,015
Other	8,200	9,980
Total non-operating expenses	45,930	79,995
Ordinary income	665,254	(839,597)
Extraordinary income		
Gain on sales of non-current assets	-	1,173
Gain on sales of subsidiaries and affiliates' stocks	2,177,929	-
Total extraordinary income	2,177,929	1,173
Extraordinary losses		
Loss on sales of non-current assets	110	-
Loss on retirement of non-current assets	1,659	3,197
Loss on valuation of investment securities	14,150	47
Provision of Allowance for Doubtful Accounts for Subsidiaries and Affiliates	34,905	-
Relocation-related expenses	-	18,500
Other	107	-
Total extraordinary losses	50,933	21,744
Income before income taxes	2,792,250	(860,168)
Income taxes	1,213,346	33,542
Profit (loss)	1,578,903	(893,711)
Profit (loss) attributable to non-controlling interests	(62,915)	(357,081)
Profit (Loss) attributable to owners of parent	1,641,818	(536,629)

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Quarterly consolidated statements of comprehensive income

(Thousands of yen)	3months ended June 30, 2017	3months ending June 30, 2018
Profit (Loss)	1,578,903	(893,711)
Other comprehensive income		
Valuation difference on available-for-sale securities	306,085	82,852
Deferred gains or losses on hedges	-	2,635
Foreign currency translation adjustment	(197,355)	(275,144)
Re-measurements of defined benefit plans	(683)	(596)
Total other comprehensive income	108,046	(190,252)
Comprehensive income	1,686,949	(1,083,963)
Comprehensive income attributable to owners of parent	1,850,389	(595,973)
Comprehensive income attributable to non-controlling interests	(163,439)	(487,989)

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(3) Notes to quarterly consolidated statements

Segment information

I. For the 3 months ended June 30,2017 (from April 1, 2017 to June 30, 2017)

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

(Thousands of yen)	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	5,203,521	6,552,363	5,945,154	3,336,189	21,037,228
Inter-segment sales or transfers	25,630	132,429	85,920	75,542	319,523
Total	5,229,151	6,684,792	6,031,074	3,411,732	21,356,751
Segment profit (loss)	92,070	300,494	(56,919)	363,236	698,881

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	36,298	21,073,526
Inter-segment sales or transfers	(319,523)	-
Total	(283,224)	21,073,526
Segment profit (loss)	(53,937)	644,943

Notes:

1. The Segment profit (loss) adjustment of (53,937) thousand yen consists of 1,142,071 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,196,009) thousand yen.
2. 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 3 months ending June 30,2018 (from April 1, 2018 to June 30, 2018)
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	4,663,959	6,055,183	5,738,458	2,862,777	19,320,379
Inter-segment sales or transfers	21,993	173,607	101,863	56,254	353,720
Total	4,685,953	6,228,791	5,840,322	2,919,032	19,674,099
Segment profit (loss)	(374,212)	(11,914)	(591,514)	204,968	(772,672)

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	41,664	19,362,044
Inter-segment sales or transfers	(353,720)	-
Total	(312,055)	19,362,044
Segment profit (loss)	(103,806)	(876,479)

Notes:

1. The Segment profit (loss) adjustment of (103,806) thousand yen consists of 1,096,368 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,200,175) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.