English translation

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

Filing date: October 31, 2018

Company name: IMAGICA GROUP Inc. Stock exchange listings: Tokyo 1st section

Securities code: 6879 URL: https://www.imagicagroup.co.jp/en/

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Quarterly report filing date(as planned): October 31, 2018

Dividend payment date(as planned): –

Supplemental material of quarterly results: Yes

Convening briefing of quarterly results: Yes

(In millions of yen)

1. Consolidated Financial Results for the Second Quarter ending September 30, 2018 (April 1, 2018 - September 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	%
6 months ending Sept 30, 2018	41,904	(0.8)	(710)	–	(649)	–	(164)	–
6 months ended Sep 30, 2017	42,263	6.7	1,131	395.8	1,218	347.2	1,856	566.0

(Note) Comprehensive income: 2st quarter ending September 30, 2018: (1,207) millions of yen /－%
2st quarter ending September 30, 2017: 2,091 millions of yen /－%

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
3 months ending June 30, 2018	(3.71)	–
3 months ended June 30, 2017	41.69	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
2st quarter ending Sep 30, 2018	67,166	30,990	41.5
Year ended March 31, 2018	70,529	32,978	41.7

(Reference) Shareholders' equity: 2st quarter ending September 30, 2018: 27,846 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)		–	–	5.00	5.00

(Note) Changes in dividends forecast from the latest disclosed information: Yes

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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	90,000	(1.5)	500	(79.4)	500	(79.4)	700	(76.2)	15.90

(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 September 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 September 30, 2018	478,339 shares	As of March 31, 2018	109 shares

3) Average number of shares

As of September 30, 2018	44,200,631 shares	As of September 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 second quarter of the consolidated fiscal year ending March 31, 2019)

The Japanese economy during the cumulative consolidated second quarter saw mild recovery on reinvigorated consumer spending driven by a strong wage environment. On the other hand, the economy lacked transparency regarding the impact of problems such as trade disputes and economic conditions overseas.

Our Group expanded business broadly in the Content Creation segment, and rallied its collective energies in an effort to enhance its profitability and financial structure. On October 1, 2018, we changed our company name from Imagica Robot Holdings Inc. to IMAGICA GROUP Inc.

During The consolidated performance for the cumulative consolidated second quarter was as follows: Net sales were 41,904 million yen (down 0.8% YoY), operating losses were 710 million yen (cumulative second quarter of previous fiscal year resulted in operating income of 1,131 million yen), ordinary losses were 649 million yen (cumulative second quarter of previous fiscal year resulted in ordinary income of 1,218 million yen), and net losses attributable to owners of the parent were 164 million yen (cumulative second quarter of previous fiscal year resulted in net income attributable to owners of parent of 1,856 million yen).

(Performance by Business Segment)

1) Content Creation

During the cumulative consolidated second quarter, sales were largely unchanged year on year. Although the number of big-budgeted film decreased year on year, the number of television commercial projects increased and orders received for TV animation production were firm. We recorded operating losses due to increased production costs for big-budgeted theatrical animation, new TV animation series that started in April of this year, and full CG animation.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 10,697 million yen (down 0.1% YoY) and operating losses of 329 million yen (cumulative second quarter of previous fiscal year resulted in operating income of 277 million yen).

2) Production Services

Net sales for post-production service declined. Although post-production services for TV animation were favorable and earnings from digital cinema services, digital network services, and human resource consulting were firm, post-production services for TV programming saw a decline in orders due to changes in work structures attributable to workstyle reform policies and the TV programming reshuffle. We recorded operating losses for the segment. While we are implementing measures to reduce administrative costs and reevaluating capital expenditures, those efforts were not enough to cover the decline in gross profits attributable to lower sales.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 13,266 million yen (down 2.8% YoY) and operating losses of 28 million yen (cumulative second quarter of previous fiscal year resulted in operating income of 611 million yen).

3) Media Localization

Sales of localization services in European markets are growing steadily but revenues declined in the Americas and Asia due to significantly lower-than-expected orders of localization services for OTT platforms and increasingly intensifying market competition.

Although we continue to reevaluate our production structure, which we expanded in response to increased orders during the previous fiscal year (FY March 2017), operating income declined on lower net sales.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 12,143 million yen (down 0.8% YoY) and operating losses of 828 million yen (cumulative second quarter of previous fiscal year resulted in operating losses of 25 million yen).

As the fiscal year for the SDI Media Group, Inc. and its subsidiaries closes on December 31, for the cumulative consolidated second quarter earnings for this segment reflect earnings for the six-month period between January 1, 2018 and June 30, 2018.

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4) Imaging Systems & Solutions

Earnings for imaging systems & solutions segment resulted in increased revenues and income. Net sales for the imaging business were firm, particularly in Japan, and sales of professional video equipment to broadcast stations were particularly strong. The LSI development segment continued to record favorable shipments for China.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 6,704 million yen (up 4.4% YoY) and operating income of 671 million yen (up 52.3% YoY).

Explanation of financial position

(Assets Statement)

Current assets decreased by 1,496 million yen (or 3.8%) from the end of the previous consolidated fiscal year to 38,164 million yen. This was mainly due to a fall in notes and accounts receivable- trade and an increase in inventories.

Non-current assets decreased by 1,865 million yen (or 6.0%) from the end of the previous consolidated fiscal year to 29,002 million yen. This was mainly due to a fall in investment securities and goodwill.

Consequently, total assets declined by 3,362 million yen (or 4.8%) from the end of the previous fiscal year to 67,166 million yen.

(Liabilities Statement)

Current liabilities increased by 565 million yen (or 2.4%) from the end of the previous consolidated fiscal year to 24,459 million yen. This was mainly due to a fall in accounts payable and provision for bonuses and an increase in other.

Non-current liabilities declined by 1,939 million yen (or 14.2%) from the end of the previous consolidated fiscal year to 11,717 million yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 1,374 million yen (or 3.7%) from the end of the previous consolidated fiscal year to 36,176 million yen.

(Net Assets)

Net assets declined by 1,988 million yen (or 6.0%) from the end of the previous consolidated fiscal year to 30,990 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 July 31, 2018. For details, please refer to “Revision on consolidated forecast and dividend forecast and Recording of extraordinary profit” (on October 31, 2018).

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)	Year ended March 31, 2018	2st quarter ending September 30, 2018
Assets		
Current assets		
Cash and deposits	11,131,784	11,678,353
Notes and accounts receivable- trade	18,415,035	14,551,436
Inventories	8,031,571	9,960,815
Other	2,142,656	2,016,474
Allowance for doubtful accounts	(60,010)	(42,550)
Total current assets	39,661,037	38,164,529
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,823,616	3,689,612
Machinery and equipment	175,420	159,358
Land	2,943,085	2,944,295
Lease Assets	914,502	874,263
Construction in progress	99,593	41,466
Other	1,632,753	1,739,810
Total Property, plant and equipment	9,588,971	9,448,807
Intangible assets		
Software	1,213,321	1,115,896
Goodwill	7,255,938	6,665,070
Other	5,163,572	4,772,364
Total Intangible assets	13,632,833	12,553,332
Investments and other assets		
Investment securities	4,436,692	3,658,384
Stocks of subsidiaries and affiliates	614,858	644,862
Lease and guarantee deposits	1,167,132	1,168,597
Deferred tax asset	1,054,660	1,176,104
Other	488,717	458,263
Allowance for doubtful accounts	(115,614)	(106,032)
Total Investments and other assets	7,646,445	7,000,180
Total Non-current assets	30,868,250	29,002,320
Total assets	70,529,288	67,166,850

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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	5,885,120
Short-term loans payable	4,982,314	5,278,868
Accounts payable	3,626,139	2,937,499
Income taxes payable	711,802	377,652
Provision for bonuses	1,514,231	948,428
Provision for directors compensations based on profit	95,778	69,418
Provision for loss on order received	63,449	119,268
Other	7,111,729	8,843,427
Total current liabilities	23,894,417	24,459,685
Non-current liabilities		
Long-term loans payable	8,891,288	7,469,960
Long-term accounts payable-other	601,062	371,022
Deferred tax liabilities	1,011,906	947,503
Net defined benefit liabilities	1,259,724	1,304,898
Other	1,892,742	1,623,685
Total non-current liabilities	13,656,725	11,717,071
Total Liabilities	37,551,142	36,176,756
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	15,190,725	15,188,696
Retained earnings	9,749,118	9,139,788
Treasury stock	(42)	(489,753)
Total shareholders' equity	28,184,716	27,083,646
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,689,371	1,337,225
Deferred gains or losses on hedges	(388)	1,007
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(443,870)	(559,860)
Re-measurements of defined benefit plans	3,942	2,750
Total accumulated other comprehensive income	1,241,121	763,190
Non-controlling Interests	3,522,306	3,143,256
Total Net assets	32,978,145	30,990,093
Total liabilities and Net assets	70,529,288	67,166,850

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

Quarterly consolidated statements of income

(Thousands of yen)	6months ended September 30, 2017	6months ending September 30, 2018
Net sales	42,263,840	41,904,658
Cost of sales	30,727,333	31,404,935
Gross profit	11,536,506	10,499,722
Selling, general and administrative expenses	10,405,269	11,210,436
Operating income	1,131,237	(710,713)
Non-operating income		
Interest income	2,212	1,531
Dividend income	26,165	24,414
Equity in earnings of affiliates	20,972	22,310
Foreign exchange gains	58,133	62,379
Other	73,140	122,430
Total non-operating income	180,623	233,065
Non-operating expenses		
Interest expenses	76,893	154,658
Other	16,359	17,046
Total non-operating expenses	93,252	171,704
Ordinary income	1,218,608	(649,353)
Extraordinary income		
Gain on sales of non-current assets	-	1,770
Gain on sales of investment securities	-	369,510
Gain on sales of subsidiaries and affiliates' stocks	2,177,929	-
Total extraordinary income	2,177,929	371,281
Extraordinary losses		
Loss on sales of non-current assets	165	24,293
Loss on disposal of non-current assets	8,295	10,463
Impairment loss	14,139	9,070
Provision of Allowance for Doubtful Accounts for Subsidiaries and Affiliates	34,905	-
Relocation-related expenses	-	18,500
Other	20,807	5,621
Total extraordinary losses	78,313	67,948
Income before income taxes	3,318,224	(346,020)
Income taxes	1,570,170	281,926
Profit (loss)	1,748,053	(627,946)
Profit (loss) attributable to non-controlling interests	(108,275)	(463,931)
Profit (Loss) attributable to owners of parent	1,856,329	(164,014)

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Quarterly consolidated statements of comprehensive income

(Thousands of yen)	6months ended September 30, 2017	6months ending September 30, 2018
Profit (Loss)	1,748,053	(627,946)
Other comprehensive income		
Valuation difference on available-for-sale securities	502,341	(356,307)
Deferred gains or losses on hedges	-	1,396
Foreign currency translation adjustment	(158,208)	(223,381)
Re-measurements of defined benefit plans	(270)	(1,192)
Total other comprehensive income	343,862	(579,485)
Comprehensive income	2,091,916	(1,207,431)
Comprehensive income attributable to owners of parent	2,288,947	(641,946)
Comprehensive income attributable to non-controlling interests	(197,030)	(565,485)

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(3) Notes to quarterly consolidated statements

Segment information

I. For the 6 months ended September 30,2017 (from April 1, 2017 to September 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	10,570,915	13,337,053	12,084,964	6,196,640	42,189,574
Inter-segment sales or transfers	135,023	305,671	150,329	222,907	813,932
Total	10,705,939	13,642,725	12,235,294	6,419,547	43,003,506
Segment profit (loss)	277,217	611,147	(25,263)	440,823	1,330,924

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	74,266	42,263,840
Inter-segment sales or transfers	(813,932)	-
Total	(739,666)	42,263,840
Segment profit (loss)	(172,686)	1,131,237

Notes:

1. The Segment profit (loss) adjustment of (172,686) thousand yen consists of 1,252,887 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,080,200) 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 6 months ending September 30,2018 (from April 1, 2018 to September 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	10,612,807	12,725,565	11,956,521	6,546,958	41,841,852
Inter-segment sales or transfers	84,527	540,910	186,649	157,173	969,260
Total	10,697,334	13,266,475	12,143,171	6,704,132	42,811,113
Segment profit (loss)	(329,550)	(28,253)	(828,861)	671,196	(515,469)

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	62,805	41,904,658
Inter-segment sales or transfers	(969,260)	-
Total	(906,455)	41,904,658
Segment profit (loss)	(195,244)	(710,713)

Notes:

1. The Segment profit (loss) adjustment of (195,244) thousand yen consists of 1,002,382 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,197,626) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.