English translation

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Consolidated financial results (Japanese Accounting Standards) for the First Quarter of the fiscal year ending March 31, 2020

Filing date: July 31, 2019

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): July 31, 2019

Dividend payment date(as planned): –

Supplemental material of quarterly results: Yes

Convening briefing of quarterly results: No

(Japanese yen amounts of less than 1 million have been rounded down)

1. Consolidated Financial Results for the First Quarter of the fiscal year ending March 31, 2020 (April 1, 2019 - June 30, 2019)

(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	%
First quarter ended June 30,2019	21,747	12.3	(681)	–	(841)	–	586	–
First quarter ended June 30,2018	19,362	(8.1)	(876)	–	(839)	–	(536)	–

(Note) Comprehensive income: 1th quarter ended June 30, 2019: 32 millions of yen /－%
1th quarter ended June 30, 2018: (1,083) millions of yen /－%

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
First quarter ended June 30,2019	13.32	–
First quarter ended June 30,2018	(12.10)	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of June 30, 2019	61,275	27,649	41.5
As of March 31, 2019	64,725	27,897	38.9

(Reference) Shareholders' equity: As of June 30, 2019: 25,427 millions of yen
As of March 31, 2019: 25,150 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 31,2019	–	0.00	–	5.00	5.00
Year ending March 31,2020	–	0.00	—		
Year ending March 31,2020 (Forecast)				5.00	5.00

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, 2020
(April 1, 2019 - March 31, 2020)

(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 y	%	Millions of y	%	yen
Year ending March 31,2020	95,000	(5.0)	1,680	(81.0)	1,200	(52.0)	1,800	–	40.86

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

(Reference) It is included goodwill amortization 1.1 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) IMAGICA TOTAL SERVICE

(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, 2019	44,531,567 shares	As of March 31, 2019	44,531,567 shares

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

As of June 30, 2019	478,341 shares	As of March 31, 2019	478,341 shares

3) Average number of shares

As of June 30, 2019	44,053,226 shares	As of June 30, 2018	44,355,635 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, 2020)

Considering growth opportunities and business issues around, the Imagica Group (the "Group"), we have determined the new mid-term business strategy named "Integration to 2021" by aiming to build a balanced business portfolio along with growth potential and profitability, accelerating the Group's structure reform. Based on this new mid-term business strategy, we have positioned this fiscal year as a year to regain profitability and have set "Motivate "Integration to 2021" on imaging" our basic policy. Each business segment has been working on their own key issues.

The Group's consolidated cumulative period of this first quarter, was net sales of 21.747 billion yen (+12.3% year on year), operating loss of 681 million yen (compared to 876 million yen in the previous year), ordinary loss of 841 million yen (compared to 839 million yen in the previous year), and net income attributable to owners of the parent was 586 million yen (compared to net loss 536 million yen in the previous year). Extraordinary income was 1.655 billion yen by the transfer of non-current assets and such.

(Performance by Business Segment)

1) Content Creation

The financial performance of the contents creation business segment in the consolidated cumulative period of this first quarter was net sales of 7.83 billion (+67.1% year on year), operating loss of 31 million yen (compared to 374 million yen in the previous year).

For the net sales, in the theater-film business, this business segment received more orders for large-scale budgeted films than the previous year. Due to favorable increase in the number of orders for production of TV animation series, TV commercials, and music videos, sales resulted increased.

Operating profit increased due to the following reasons.

a) Increased gross profit by increased net sales
b) Operating profit increased by reducing production cost on animation work
c) Operating profit increased by writing-off one-time amortization pertaining to OLM, Inc. at the end of the previous consolidated fiscal year, which contributed to lighten goodwill amortization.

2) Production Services

The financial performance of the production service business segment in the consolidated cumulative period of this first quarter was net sales of 5.965 billion yen (-4.2% year on year), operating loss of 101 million yen (compared to 11 million yen in the previous year). Due to successful work-flow improvement in line with the work-style reform law and cost management, post-production services for films, animations, and TV programs were solidly improved. Nevertheless, sales and profit declined due to sell-out of a subsidiary in the human resource services area and investment in digital contents business expansion.

3) Media Localization

The financial performance of the media localization business segment in the consolidated cumulative period of this first quarter was net sales of 5.122 billion yen (-12.3% year on year), operating loss of 685 million yen (compared to 591 million yen in the previous year). For the net sales, sales decreased due to decline in orders in Europe (temporary) and sell-out of two consolidated subsidiaries. Although operation loss was posted due to decreased gross income caused by sales decline, production-flow reform and reduction of fixed cost have kept on to minimize effects on declining in sales.

This business segment has collaborated with Pixelogic Holdings, LLC which has become an equity-method

affiliate of the Group, and has been also working towards the second quarter, on increasing orders for new over-the-top (OTT) platforms.

4) Imaging Systems & Solutions

The financial performance of the imaging systems and solutions business segment in the consolidated cumulative period of this first quarter was net sales of 3.154 billion yen (+8.1% year on year), operating income of 160 million yen (-21.5% year on year).

For the net sales, the imaging systems area showed a strong performance driven by new product sales of high-speed cameras in Europe. The video system area resulted in sales increased mainly in commercial on-line delivery system. Operating profit declined as some big order in the video system area got postponed to the second quarter, and sales of video and imaging LSI to the Chinese market got decreased, influenced by US-China trade friction.

*The business area called “Professional video equipment area” and reported until the previous year, we have changed the name to “Video system area” in order to meet its latest type of business. This is applicable as of the consolidated cumulative period of this first quarter.

Explanation of financial position

(Assets Statement)

Current assets decreased by 5,140 million yen (or 12.8%) from the end of the previous consolidated fiscal year to 34,978 million yen. This was mainly due to a fall in notes and accounts receivable- trade.

Non-current assets increased by 1,690 million yen (or 6.9%) from the end of the previous consolidated fiscal year to 26,296 million yen. This was mainly due to a fall in land, while an increase in stocks of subsidiaries and affiliates.

Consequently, total assets declined by 3,449 million yen (or 5.3%) from the end of the previous fiscal year to 61,275 million yen.

(Liabilities Statement)

Current liabilities decreased by 1,956 million yen (or 7.3%) from the end of the previous consolidated fiscal year to 24,755 million yen. This was mainly due to a fall in notes and accounts payable- trade and advance payment, while an increase in short-term loans payable.

Non-current liabilities declined by 1,245 million yen (or 12.3%) from the end of the previous consolidated fiscal year to 8,870 million yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 3,201 million yen (or 8.7%) from the end of the previous consolidated fiscal year to 33,626 million yen.

(Net Assets)

Net assets declined by 247 million yen (or 0.9%) from the end of the previous consolidated fiscal year to 27,649 million yen. This was mainly due to decrease non-controlling interests, while an increase in retained earnings.

(2) Explanation of consolidated forecasts

The Group has not revised its full-year forecasts of consolidated operational results for the year ending March 31, 2020 announced on May 14, 2019.

English translation

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)	As of March 31, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	6,079,172	4,458,849
Notes and accounts receivable- trade	19,043,240	14,823,356
Inventories	11,352,166	12,011,060
Other	3,704,760	3,731,324
Allowance for doubtful accounts	(60,006)	(45,667)
Total current assets	40,119,332	34,978,924
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,502,684	3,421,749
Machinery and equipment	117,391	107,814
Land	2,944,295	1,705,819
Lease Assets	800,677	718,696
Construction in progress	60,508	87,102
Other	1,658,500	1,587,679
Total Property, plant and equipment	9,084,058	7,628,862
Intangible assets		
Software	1,189,223	1,189,119
Goodwill	3,769,751	3,644,534
Other	4,377,450	4,356,331
Total Intangible assets	9,336,425	9,189,985
Investments and other assets		
Investment securities	2,780,364	2,994,510
Stocks of subsidiaries and affiliates	306,705	3,307,236
Lease and guarantee deposits	1,177,433	1,269,791
Deferred tax asset	1,407,252	1,360,348
Other	624,476	672,622
Allowance for doubtful accounts	(110,528)	(126,474)
Total Investments and other assets	6,185,703	9,478,034
Total Non-current assets	24,606,187	26,296,882
Total assets	64,725,520	61,275,806

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(Thousands of yen)	As of March 31, 2019	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,657,281	5,258,849
Short-term loans payable	5,375,309	5,979,813
Accounts payable	3,688,369	3,759,002
Income taxes payable	646,989	566,927
Advance payment	5,735,832	4,293,152
Provision for bonuses	1,131,264	603,114
Provision for directors compensations based on profit	146,678	32,585
Provision for loss on order received	73,117	38,950
Other	3,257,658	4,223,320
Total current liabilities	26,712,502	24,755,715
Non-current liabilities		
Long-term loans payable	6,169,835	5,324,793
Long-term accounts payable-other	316,773	180,363
Deferred tax liabilities	493,520	493,208
Net defined benefit liabilities	1,356,280	1,175,372
Other	1,779,206	1,696,849
Total non-current liabilities	10,115,616	8,870,587
Total Liabilities	36,828,119	33,626,303
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	14,816,170	14,816,170
Retained earnings	7,286,290	7,652,704
Treasury stock	(489,754)	(489,754)
Total shareholders' equity	24,857,620	25,224,035
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	741,443	652,329
Deferred gains or losses on hedges	(1,346)	-
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(442,700)	(442,661)
Re-measurements of defined benefit plans	12,919	12,037
Total accumulated other comprehensive income	292,382	203,773
Non-controlling Interests	2,747,397	2,221,695
Total Net assets	27,897,401	27,649,503
Total liabilities and Net assets	64,725,520	61,275,806

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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, 2018	3months ended June 30, 2019
Net sales	19,362,044	21,747,863
Cost of sales	14,615,586	16,853,006
Gross profit	4,746,457	4,894,857
Selling, general and administrative expenses	5,622,937	5,576,601
Operating income	(876,479)	(681,744)
Non-operating income		
Interest income	673	12,096
Dividend income	15,764	13,370
Rent income	13,941	17,991
Equity in earnings of affiliates	7,146	-
Foreign exchange gains	42,695	-
Other	36,656	41,127
Total non-operating income	116,877	84,584
Non-operating expenses		
Interest expenses	70,015	83,544
Equity in losses of affiliates	-	1,340
Foreign exchange losses	-	134,491
Other	9,980	24,512
Total non-operating expenses	79,995	243,888
Ordinary income	(839,597)	(841,047)
Extraordinary income		
Gain on sales of non-current assets	1,173	1,647,502
Other	-	7,750
Total extraordinary income	1,173	1,655,252
Extraordinary losses		
Loss on disposal of non-current assets	3,197	9,202
Loss on valuation of investment securities	47	-
Relocation-related expenses	18,500	-
Total extraordinary losses	21,744	9,202
Income(loss) before income tax	(860,168)	805,001
Income taxes	33,542	700,540
Profit (loss)	(893,711)	104,461
Profit (loss) attributable to non-controlling interests	(357,081)	(482,219)
Profit (Loss) attributable to owners of parent	(536,629)	586,680

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Quarterly consolidated statements of comprehensive income

(Thousands of yen)	3months ended June 30, 2018	3months ended June 30, 2019
Profit (Loss)	(893,711)	104,461
Other comprehensive income		
Valuation difference on available-for-sale securities	82,852	(90,353)
Deferred gains or losses on hedges	2,635	1,346
Foreign currency translation adjustment	(275,144)	18,017
Re-measurements of defined benefit plans	(596)	(881)
Total other comprehensive income	(190,252)	(71,870)
Comprehensive income	(1,083,963)	32,590
Comprehensive income attributable to owners of parent	(595,973)	498,071
Comprehensive income attributable to non-controlling interests	(487,989)	(465,470)

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(3) Notes to quarterly consolidated statements

Segment information

I. For the First quarter ended June 30,2018 (from April 1, 2018 to June 30, 2018)

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	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	4,685,963	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.

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II. For the First quarter ended June 30,2019 (from April 1, 2019 to June 30, 2019)
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	7,797,163	5,734,153	5,117,610	3,096,478	21,745,406
Inter-segment sales or transfers	32,957	231,413	5,234	58,091	327,697
Total	7,830,120	5,965,567	5,122,845	3,154,570	22,073,103
Segment profit (loss)	(31,313)	(101,144)	(685,421)	160,982	(656,896)

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income (Note 2)
Net sales		
Sales to external customers	2,457	21,747,863
Inter-segment sales or transfers	(327,697)	-
Total	(325,240)	21,747,863
Segment profit (loss)	(24,847)	(681,744)

Notes:

1. The Segment profit (loss) adjustment of (24,847) thousand yen consists of 1,612,944 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,637,791) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.