

# Consolidated Financial Summary for First Quarter of Fiscal Year Ending March 31, 2021 (Japanese Accounting Standards)

August 6, 2020

Avex Inc.

Tokyo Stock Exchange, First Section  
(URL <https://avex.com/jp/en/>)

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): August 7, 2020

Scheduled date for commencement of dividend payments: –

Supplementary documents for financial results: Yes

Financial results briefing: None

Note: All amounts are rounded down to the nearest million yen.

## 1. Consolidated operating results for the first quarter of fiscal year ending March 31, 2021

(April 1, 2020 to June 30, 2020)

### (1) Consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

|                                                    | Net sales   |        | Operating income |       | Ordinary income |        | Profit (loss) attributable to owners of parent |   |
|----------------------------------------------------|-------------|--------|------------------|-------|-----------------|--------|------------------------------------------------|---|
|                                                    | million yen | %      | million yen      | %     | million yen     | %      | million yen                                    | % |
| First Quarter of Fiscal Year Ending March 31, 2021 | 14,108      | (51.4) | (1,054)          | –     | (1,309)         | –      | (1,704)                                        | – |
| First Quarter of Fiscal Year Ended March 31, 2020  | 29,028      | (10.1) | 366              | 136.0 | 121             | (50.1) | (348)                                          | – |

(Note) Comprehensive income First Quarter of Fiscal Year Ending March 31, 2021: -¥28 million (–%)  
First Quarter of Fiscal Year Ended March 31, 2020: -¥97 million (–%)

|                                                    | Net income per share | Diluted net income per share |
|----------------------------------------------------|----------------------|------------------------------|
|                                                    | yen                  | yen                          |
| First Quarter of Fiscal Year Ending March 31, 2021 | (39.18)              | –                            |
| First Quarter of Fiscal Year Ended March 31, 2020  | (8.04)               | –                            |

### (2) Consolidated financial position

|                      | Total assets | Net assets  | Shareholders' equity ratio |
|----------------------|--------------|-------------|----------------------------|
|                      | million yen  | million yen | %                          |
| As of June 30, 2020  | 111,071      | 47,772      | 40.3                       |
| As of March 31, 2020 | 120,414      | 49,449      | 38.2                       |

(Reference) Shareholders' equity As of June 30, 2020: ¥44,714 million  
As of March 31, 2020: ¥46,010 million

## 2. Status of dividend payments

|                                       | Annual dividends     |                       |                      |             |        |
|---------------------------------------|----------------------|-----------------------|----------------------|-------------|--------|
| (Record date)                         | End of first quarter | End of second quarter | End of third quarter | End of year | Annual |
|                                       | yen                  | yen                   | yen                  | yen         | yen    |
| Year Ended March 31, 2020             | –                    | 25.00                 | –                    | 25.00       | 50.00  |
| Year Ending March 31, 2021            | –                    |                       |                      |             |        |
| Year Ending March 31, 2021 (forecast) |                      | –                     | –                    | –           | –      |

(Note) Revisions to dividend forecasts published most recently: None

Dividend payments for the fiscal year ending March 31, 2021 are yet to be determined.

## 3. Forecasts for consolidated sales and income for the year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

Forecasts for consolidated business results are yet to be determined due to the difficulty in rationally estimating the impact of the COVID-19 coronavirus pandemic at this current stage. Moving forward, the Group will promptly announce forecasts for business results at such a time as it becomes possible to disclose them.

\* Notes

(1) Changes in significant subsidiaries during term under review (changes in specific subsidiaries in conjunction with changes in scope of consolidation): None  
 New: – company (Company name) – Excluded: – (Company name) –

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and changes in or restatement of accounting estimates

|                                                                                          |      |
|------------------------------------------------------------------------------------------|------|
| 1. Changes in accounting policies in conjunction with revisions to accounting standards: | None |
| 2. Changes in accounting policies other than 1:                                          | None |
| 3. Changes in accounting estimates:                                                      | None |
| 4. Restatement:                                                                          | None |

(4) Outstanding shares (ordinary shares)

|                                                                 |                   |
|-----------------------------------------------------------------|-------------------|
| a. Shares outstanding at end of term (including treasury stock) |                   |
| As of June 30, 2020:                                            | 45,223,600 shares |
| As of March 31, 2020:                                           | 45,223,600 shares |
| b. Treasury stock at end of term                                |                   |
| As of June 30, 2020:                                            | 1,718,858 shares  |
| As of March 31, 2020:                                           | 1,735,298 shares  |
| c. Average number of share (quarter-to-date)                    |                   |
| First Quarter of Fiscal Year Ending March 31, 2021:             | 43,495,209 shares |
| First Quarter of Fiscal Year Ended March 31, 2020:              | 43,352,519 shares |

(Note) The number of shares of treasury stock at the end of term includes shares of Avex Inc. (the “Company”) (41,200 shares in the first quarter of the fiscal year ending March 31, 2021 and 57,700 shares in the fiscal year ended March 31, 2020) held in trust-type employee stock ownership plan (ESOP) accounts. The shares of the Company held in the ESOP accounts are included in the treasury shares that are deducted in the calculation of the average number of shares outstanding during the term (50,752 shares in the first quarter of the fiscal year ending March 31, 2021 and 106,356 shares in the first quarter of the fiscal year ended March 31, 2020).

\* This financial summary is outside the scope of audit procedures by certified public accountants and audit firm.

\* Explanation for forecasts of operations and other notes

The forecasts for operating results and others contained in this release are based on data and information that the Group has obtained so far and specific assumptions that the Group judges to be reasonable. Please note, therefore, that the actual results and others may greatly differ from the forecasts due to various factors.

## 1. Qualitative Information on Consolidated Results, etc. for the First Quarter of Fiscal Year Ending March 31, 2021

### (1) Summary of Operating Results

(Unit: million yen)

| First Quarter results                    | Fiscal year ended March 31, 2017 | Fiscal year ended March 31, 2018 | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 | Fiscal year ending March 31, 2021 |
|------------------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|-----------------------------------|
| Net sales                                | 35,722                           | 32,449                           | 32,276                           | 29,028                           | 14,108                            |
| Cost of sales                            | 25,357                           | 22,747                           | 23,623                           | 20,475                           | 8,795                             |
| Gross profit                             | 10,364                           | 9,701                            | 8,652                            | 8,552                            | 5,313                             |
| Gross profit margin                      | 29.0%                            | 29.9%                            | 26.8%                            | 29.5%                            | 37.7%                             |
| Personnel expenses                       | 3,181                            | 3,164                            | 2,934                            | 2,836                            | 2,633                             |
| Sales promotion and advertising expenses | 1,908                            | 1,764                            | 2,071                            | 1,453                            | 953                               |
| General expenses                         | 3,761                            | 3,611                            | 3,491                            | 3,896                            | 2,780                             |
| Total SG&A expenses                      | 8,851                            | 8,540                            | 8,497                            | 8,186                            | 6,367                             |
| Operating income (loss)                  | 1,513                            | 1,161                            | 155                              | 366                              | (1,054)                           |
| Operating margin                         | 4.2%                             | 3.6%                             | 0.5%                             | 1.3%                             | –%                                |

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 27.7% year on year, to 83,233 million yen (January to June 2020; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 11.5% year on year, to 18,756 million yen (January to March 2020; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 8.5% year on year, to 71,439 million yen (preliminary data for January to June 2020; according to a survey by the Japan Video Software Association). The digital video distribution market is expected to continue to grow, given the enhancement of video distribution services and the environmental changes that will improve user convenience, such as responses to TV devices and the dissemination of 5G.

Under these business conditions, the Group has been seeking to achieve medium- to long-term growth by working to create strong intellectual properties, such as by discovering and developing artists and talent and planning and developing anime productions in collaboration with video games, pursuing new businesses utilizing technology, and developing businesses in collaboration with promising partners both in Japan and overseas, such as by hosting events overseas making use of the Company's intellectual property.

In the first quarter under review, consolidated net sales decreased to 14,108 million yen (down 51.4% year on year), mainly due to voluntary restraints on live performances and events to prevent the spread of the novel coronavirus disease (COVID-19). The consolidated operating loss came to 1,054 million yen (compared to consolidated operating income of 366 million yen posted in the first quarter of the previous fiscal year). The consolidated loss attributable to owners of parent was 1,704 million yen (compared to a loss of 348 million yen posted in the first quarter of the previous fiscal year).

(2) Summary of Financial Position

Assets totaled 111,071 million yen at the end of the first quarter under review after a decrease of 9,342 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decrease of 10,348 million yen in notes and accounts receivable-trade.

Liabilities were reduced by 7,666 million yen from the end of the previous consolidated fiscal year, to 63,298 million yen. This was primarily a result of a decrease of 10,531 million yen in accounts payable-other and 2,009 million yen in other current liabilities, which more than offset an increase of 6,000 million yen in short-term loans payable.

Net assets decreased 1,676 million yen from the end of the previous consolidated fiscal year, to 47,772 million yen. This was mainly due to a decrease of 2,811 million yen in retained earnings, which offset an increase of 1,424 million yen in valuation difference on available-for-sale securities.

(3) Summary of Consolidated Financial Forecasts and Other Future Forecast Information

As stated in the Consolidated Financial Summary for the Fiscal Year Ended March 31, 2020 released on May 14, 2020, the Group offers no consolidated financial forecast for the fiscal year ending March 31, 2021 given the difficulty at this stage of rationally estimating the impact of COVID-19.

Moving forward, the Group will promptly announce forecasts for business results at such a time as it becomes possible to disclose them.

**2. Quarterly Consolidated Financial Statements and Major Notes****(1) Quarterly Consolidated Balance Sheets**

(Unit: million yen)

|                                            | As of March 31, 2020 | As of June 30, 2020 |
|--------------------------------------------|----------------------|---------------------|
| <b>(Assets)</b>                            |                      |                     |
| Current assets                             |                      |                     |
| Cash and deposits                          | 17,956               | 18,382              |
| Notes and accounts receivable-trade        | 18,100               | 7,751               |
| Merchandise and finished goods             | 1,243                | 1,355               |
| Programs and works in progress             | 4,012                | 4,374               |
| Raw materials and supplies                 | 275                  | 281                 |
| Other current assets                       | 13,025               | 10,658              |
| Allowance for doubtful accounts            | (181)                | (175)               |
| Total current assets                       | 54,432               | 42,629              |
| Noncurrent assets                          |                      |                     |
| Property, plant and equipment              |                      |                     |
| Buildings and structures, net              | 15,282               | 15,100              |
| Land                                       | 29,770               | 29,770              |
| Other property, plant and equipment, net   | 892                  | 853                 |
| Total property, plant and equipment        | 45,945               | 45,723              |
| Intangible assets                          | 4,878                | 4,953               |
| Investments and other assets               |                      |                     |
| Investment securities                      | 7,490                | 9,380               |
| Other investments and other assets         | 7,699                | 8,415               |
| Allowance for doubtful accounts            | (31)                 | (30)                |
| Total investments and other assets         | 15,158               | 17,764              |
| Total noncurrent assets                    | 65,981               | 68,441              |
| Total assets                               | 120,414              | 111,071             |
| <b>(Liabilities)</b>                       |                      |                     |
| Current liabilities                        |                      |                     |
| Notes and accounts payable-trade           | 1,470                | 772                 |
| Short-term loans payable                   | 16,000               | 22,000              |
| Current portion of long-term loans payable | 3,065                | 3,064               |
| Accounts payable-other                     | 21,824               | 11,293              |
| Income taxes payable                       | 632                  | 960                 |
| Provision for bonuses                      | 503                  | 6                   |
| Allowance for returned goods               | 3,244                | 2,955               |
| Provision for point card certificates      | 43                   | 41                  |
| Provision for contingent loss              | 455                  | 455                 |
| Other current liabilities                  | 17,210               | 15,201              |
| Total current liabilities                  | 64,449               | 56,751              |
| Noncurrent liabilities                     |                      |                     |
| Long-term loans payable                    | 4,563                | 3,812               |
| Liabilities for retirement benefits        | 711                  | 720                 |
| Other noncurrent liabilities               | 1,240                | 2,014               |
| Total noncurrent liabilities               | 6,515                | 6,547               |
| Total liabilities                          | 70,964               | 63,298              |

|                                                       | (Unit: million yen)  |                     |
|-------------------------------------------------------|----------------------|---------------------|
|                                                       | As of March 31, 2020 | As of June 30, 2020 |
| (Net assets)                                          |                      |                     |
| Shareholders' equity                                  |                      |                     |
| Capital stock                                         | 4,392                | 4,392               |
| Capital surplus                                       | 5,109                | 5,109               |
| Retained earnings                                     | 39,559               | 36,747              |
| Treasury stock                                        | (3,371)              | (3,346)             |
| Total shareholders' equity                            | 45,689               | 42,903              |
| Accumulated other comprehensive income                |                      |                     |
| Valuation difference on available-for-sale securities | 686                  | 2,110               |
| Deferred gains or losses on hedges                    | 0                    | 0                   |
| Foreign currency translation adjustments              | (87)                 | (84)                |
| Total of accumulated retirement benefits              | (277)                | (215)               |
| Total of accumulated other comprehensive income       | 321                  | 1,811               |
| Subscription rights to shares                         | 370                  | 372                 |
| Non-controlling interests                             | 3,068                | 2,686               |
| Total net assets                                      | 49,449               | 47,772              |
| Total liabilities and net assets                      | 120,414              | 111,071             |

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income  
Quarterly Consolidated Statements of Income  
(Consolidated First Quarter)

(Unit: million yen)

|                                                    | For the first quarter<br>ended June 30, 2019 | For the first quarter<br>ended June 30, 2020 |
|----------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Net sales                                          | 29,028                                       | 14,108                                       |
| Cost of sales                                      | 20,475                                       | 8,795                                        |
| Gross profit                                       | 8,552                                        | 5,313                                        |
| Selling, general and administrative expenses       |                                              |                                              |
| Advertising expenses                               | 1,127                                        | 831                                          |
| Promotion expenses                                 | 326                                          | 121                                          |
| Employee salaries and bonuses                      | 1,812                                        | 1,649                                        |
| Provision for bonus payments                       | 27                                           | 5                                            |
| Retirement benefit cost                            | 102                                          | 129                                          |
| Other selling, general and administrative expenses | 4,790                                        | 3,629                                        |
| Total selling, general and administrative expenses | 8,186                                        | 6,367                                        |
| Operating income (loss)                            | 366                                          | (1,054)                                      |
| Non-operating income                               |                                              |                                              |
| Interest income                                    | 1                                            | 5                                            |
| Dividend income                                    | 5                                            | 1                                            |
| Other non-operating income                         | 8                                            | 16                                           |
| Total non-operating income                         | 15                                           | 22                                           |
| Non-operating expenses                             |                                              |                                              |
| Interest expenses                                  | 11                                           | 18                                           |
| Equity in losses of affiliates                     | 186                                          | 222                                          |
| Other non-operating expenses                       | 61                                           | 37                                           |
| Total non-operating expenses                       | 260                                          | 278                                          |
| Ordinary income (loss)                             | 121                                          | (1,309)                                      |
| Extraordinary income                               |                                              |                                              |
| Subsidies for employment adjustment                | —                                            | 128                                          |
| Gain on sales of investment securities             | 120                                          | —                                            |
| Gain on reversal of subscription rights to shares  | 9                                            | —                                            |
| Total extraordinary income                         | 129                                          | 128                                          |
| Extraordinary loss                                 |                                              |                                              |
| Impairment loss                                    | 85                                           | —                                            |
| Loss on disaster                                   | —                                            | 564                                          |
| Loss on liquidation of business                    | 30                                           | —                                            |
| Total extraordinary loss                           | 116                                          | 564                                          |
| Income (loss) before income taxes                  | 134                                          | (1,746)                                      |
| Income taxes-current                               | 380                                          | 290                                          |
| Income taxes-deferred                              | (104)                                        | (518)                                        |
| Total income and other taxes                       | 275                                          | (227)                                        |
| Net loss                                           | (141)                                        | (1,518)                                      |
| Profit attributable to non-controlling interests   | 207                                          | 185                                          |
| Profit (loss) attributable to owners of parent     | (348)                                        | (1,704)                                      |

Quarterly Consolidated Statements of Comprehensive Income  
(Consolidated First Quarter)

(Unit: million yen)

|                                                                                        | For the first quarter<br>ended June 30, 2019 | For the first quarter<br>ended June 30, 2020 |
|----------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Net loss                                                                               | (141)                                        | (1,518)                                      |
| Other comprehensive income                                                             |                                              |                                              |
| Valuation difference on available-for-sale securities                                  | 18                                           | 1,431                                        |
| Deferred gains or losses on hedges                                                     | (0)                                          | —                                            |
| Foreign currency translation adjustments                                               | 18                                           | 3                                            |
| Adjustment for retirement benefits                                                     | 10                                           | 38                                           |
| Share of other comprehensive income of associates accounted<br>for using equity method | (4)                                          | 16                                           |
| Total other comprehensive income                                                       | 43                                           | 1,489                                        |
| Comprehensive income                                                                   | (97)                                         | (28)                                         |
| (Comprehensive income attributable to)                                                 |                                              |                                              |
| Comprehensive income attributable to owners of parent                                  | (305)                                        | (214)                                        |
| Comprehensive income attributable to non-controlling<br>interests                      | 207                                          | 185                                          |

### (3) Notes Concerning Consolidated Quarterly Financial Statements

(Notes on Going Concern Assumptions)

Not applicable

(Note Regarding Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Additional Information)

(Transaction for Granting the Company's Shares to Employees, etc. through a Trust)

In August 2017, the Company reintroduced the trust-type employee stock ownership plan (the "ESOP trust") as an incentive plan for Group employees (the "Plan") designed to enhance the value of Group companies in the medium and long terms by furthering the style of business administration aimed at increasing the value of their shares, in addition to raising the motivation of Group employees and encouraging them to take part in Group management.

#### 1. Outline of the Transaction

Under the Plan, the ESOP trust, established to transfer the Company's shares to the Avex Employee Stock Holding Partnership (the "Partnership"), acquires, in advance and in bulk, shares on a scale scheduled for acquisition by the Partnership, and sells the shares to the Partnership over a period of about five years after the establishment of the trust.

The Company and the ESOP trust are treated as a single entity for accounting for the acquisition and disposal of the Company's shares. Accordingly, assets including the Company's shares owned by the ESOP trust, liabilities, and profits or losses are posted by including them in quarterly consolidated balance sheets, quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.

#### 2. Treasury Stock Left in the Trust

The Company's shares left in the trust is posted as treasury stock under the category of net assets using their book value (excluding the amount of ancillary expenses). The book value of and the number of shares in the concerned treasury stock were 87 million yen and 57,000 shares, respectively, at the end of the previous fiscal year. Their book value and number were 62 million yen and 41,000 shares, respectively, at the end of the first quarter under review.

#### 3. Book Value of Loans Payable Posted as a Result of the Application of the Gross Price Method

At the end of the previous fiscal year: 107 million yen

At the end of the first quarter under review: 107 million yen

(Accounting Calculation in Connection with the Spread of COVID-19)

COVID-19 has been causing adverse effects on business results for the Group because the Group has been exercising voluntary restraints on live performances and events as part of efforts to prevent the spread of the disease.

For that reason, the Group preformed accounting calculations, assuming that the negative effects of COVID-19's spread will continue until the middle of fiscal 2020 and business results will start recovering slowly in the second half of the fiscal year.

This assumption remains unchanged from the previous fiscal year.

(Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

With regard to the transition to the group tax sharing system established in the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) and items for which the system of nonconsolidated taxation was reviewed in line with the transition, the Company and some of its consolidated subsidiaries in Japan posted the

amount of deferred tax assets and the amount of deferred tax liabilities in accordance with the stipulations of tax laws prior to their amendments without applying the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 issued on February 16, 2018) in accordance with the method of treatment prescribed in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39 issued on March 31, 2020).