

Consolidated Financial Summary for Interim Period of Fiscal Year Ending March 31, 2021 (Japanese Accounting Standards)

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 6, 2020

Scheduled date for commencement of dividend payments: December 3, 2020

Supplementary documents for financial results: Yes

Financial results briefing: Yes (Video streaming will be provided to institutional investors and securities analysts.)

November 5, 2020
Tokyo Stock Exchange, First Section
(URL <https://avex.com/jp/en/>)

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

1. Consolidated operating results for the interim period of fiscal year ending March 31, 2021 (April 1, 2020 to September 30, 2020)

(1) Consolidated operating results

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	%
Interim Period of Fiscal Year Ending March 31, 2021	34,279	(44.0)	(2,229)	—	(2,557)	—	(3,289)	—
Interim Period of Fiscal Year Ended March 31, 2020	61,189	(26.3)	(688)	—	(1,187)	—	(1,762)	—

(Note) Comprehensive income Interim Period of Fiscal Year Ending March 31, 2021: -¥732 million (—%)
Interim Period of Fiscal Year Ended March 31, 2020: -¥1,433 million (—%)

	Net income per share	Diluted net income per share
	yen	yen
Interim Period of Fiscal Year Ending March 31, 2021	(75.53)	—
Interim Period of Fiscal Year Ended March 31, 2020	(40.60)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
As of September 30, 2020	113,089	47,201	38.9
As of March 31, 2020	120,414	49,449	38.2

(Reference) Shareholders' equity As of September 30, 2020: ¥43,965 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	—	25.00			
Year Ending March 31, 2021 (forecast)			—	—	—

(Note) Revisions to dividend forecasts published most recently: None
Year-end dividend payments for the fiscal year ending March 31, 2021 are yet to be determined.

3. Forecasts for consolidated operating results 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 difficulty in rationally estimating the impact of COVID-19 at this stage and uncertainty in the number of employees to be offered voluntary retirement. 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 September 30, 2020: 45,343,500 shares

As of March 31, 2020: 45,223,600 shares

b. Treasury stock at end of term

As of September 30, 2020: 1,700,102 shares

As of March 31, 2020: 1,735,298 shares

c. Average number of shares (year-to-date)

Interim Period of Fiscal Year Ending March 31, 2021: 43,547,440 shares

Interim Period of Fiscal Year Ended March 31, 2020: 43,398,112 shares

(Note) The number of shares of treasury stock at the end of term includes shares of Avex Inc. (the "Company") (22,300 shares in the interim period 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 (41,073 shares in the interim period of the fiscal year ending March 31, 2021 and 99,639 shares in the interim period 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 Interim Period of Fiscal Year Ending March 31, 2021

(1) Summary of Operating Results

(Unit: million yen)

Interim period 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	75,648	68,405	83,012	61,189	34,279
Cost of sales	54,231	48,967	60,067	44,658	23,060
Gross profit	21,417	19,438	22,945	16,531	11,218
Gross profit margin	28.3%	28.4%	27.6%	27.0%	32.7%
Personnel expenses	6,394	6,097	6,626	5,647	5,360
Sales promotion and advertising expenses	4,334	3,947	4,802	3,948	2,330
General expenses	7,720	8,550	7,803	7,624	5,756
Total SG&A expenses	18,449	18,594	19,232	17,220	13,447
Operating income (loss)	2,967	843	3,712	(688)	(2,229)
Operating margin	3.9%	1.2%	4.5%	—%	—%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 20.5% year on year, to 120,281 million yen (January to August 2020; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 11.0% year on year, to 37,758 million yen (January to June 2020; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 7.3% year on year, to 94,399 million yen (January to August 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 property, such as by discovering and developing artists and talents, planning and developing anime, video, and game productions, pursuing new businesses utilizing technology, and developing businesses in collaboration with promising partners both in Japan and overseas.

During the interim period of the fiscal year under review, consolidated net sales decreased to 34,279 million yen (down 44.0% year on year), due to voluntary restraints on live performances and events to prevent the spread of COVID-19. The consolidated operating loss came to 2,229 million yen (compared with a consolidated operating loss of 688 million yen in the same period of the previous fiscal year). The consolidated loss attributable to owners of parent was 3,289 million yen (compared to a loss of 1,762 million yen in the same period of the previous fiscal year) due to a loss on disaster posted for a loss caused by the suspension of live performances and other events and compensation for absence from work paid to employees.

(2) Summary of Financial Position

Assets totaled 113,089 million yen at the end of the second quarter under review after a decrease of 7,324 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decrease of 7,227 million yen in notes and accounts receivable-trade.

Liabilities were reduced by 5,076 million yen from the end of the previous consolidated fiscal year, to 65,887 million yen. This was primarily a result of a decrease of 10,683 million yen in accounts payable-other, 3,501 million yen in other current liabilities and 1,462 yen in long-term loans payable, which more than offset an increase of 10,000 million yen in short-term loans payable.

Net assets decreased 2,247 million yen from the end of the previous consolidated fiscal year, to 47,201 million yen. This was mainly due to a decrease of 4,378 million yen in retained earnings, which offset an increase of 2,066 million yen in valuation difference on available-for-sale securities.

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

Forecasts for consolidated business results for the fiscal year ending March 31, 2021 are yet to be determined due to difficulty in rationally estimating the impact of COVID-19 at this stage and uncertainty in the number of employees to be offered voluntary retirement.

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 September 30, 2020
(Assets)		
Current assets		
Cash and deposits	17,956	18,447
Notes and accounts receivable-trade	18,100	10,872
Merchandise and finished goods	1,243	1,686
Programs and works in progress	4,012	3,441
Raw materials and supplies	275	274
Other current assets	13,025	9,192
Allowance for doubtful accounts	(181)	(169)
Total current assets	54,432	43,744
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	15,282	14,931
Land	29,770	29,770
Other property, plant and equipment, net	892	798
Total property, plant and equipment	45,945	45,500
Intangible assets	4,878	4,927
Investments and other assets		
Investment securities	7,490	10,227
Other investments and other assets	7,699	8,718
Allowance for doubtful accounts	(31)	(29)
Total investments and other assets	15,158	18,916
Total noncurrent assets	65,981	69,345
Total assets	120,414	113,089
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,470	1,411
Short-term loans payable	16,000	26,000
Current portion of long-term loans payable	3,065	3,070
Accounts payable-other	21,824	11,140
Income taxes payable	632	987
Provision for bonuses	503	10
Allowance for returned goods	3,244	2,945
Provision for point card certificates	43	41
Provision for contingent loss	455	455
Other current liabilities	17,210	13,708
Total current liabilities	64,449	59,772
Noncurrent liabilities		
Long-term loans payable	4,563	3,101
Liabilities for retirement benefits	711	721
Other noncurrent liabilities	1,240	2,292
Total noncurrent liabilities	6,515	6,115
Total liabilities	70,964	65,887

(Unit: million yen)

	As of March 31, 2020	As of September 30, 2020
(Net assets)		
Shareholders' equity		
Capital stock	4,392	4,443
Capital surplus	5,109	5,161
Retained earnings	39,559	35,180
Treasury stock	(3,371)	(3,318)
Total shareholders' equity	45,689	41,466
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	686	2,752
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustments	(87)	(69)
Total of accumulated retirement benefits	(277)	(183)
Total of accumulated other comprehensive income	321	2,499
Subscription rights to shares	370	373
Non-controlling interests	3,068	2,862
Total net assets	49,449	47,201
Total liabilities and net assets	120,414	113,089

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

Quarterly Consolidated Statements of Income
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2019	For the interim period ended September 30, 2020
Net sales	61,189	34,279
Cost of sales	44,658	23,060
Gross profit	16,531	11,218
Selling, general and administrative expenses		
Advertising expenses	2,983	1,840
Promotion expenses	965	490
Employee salaries and bonuses	3,620	3,411
Provision for bonus payments	10	10
Retirement benefit cost	205	253
Other selling, general and administrative expenses	9,434	7,441
Total selling, general and administrative expenses	17,220	13,447
Operating loss	(688)	(2,229)
Non-operating income		
Interest income	8	5
Dividend income	5	1
Subsidy income	–	12
Compensation income	26	–
Other non-operating income	25	32
Total non-operating income	67	52
Non-operating expenses		
Interest expenses	34	35
Equity in losses of affiliates	363	292
Loss on investments in investment partnerships	77	1
Other non-operating expenses	89	51
Total non-operating expenses	565	380
Ordinary loss	(1,187)	(2,557)
Extraordinary income		
Subsidies for employment adjustment	–	263
Gain on sales of investment securities	120	–
Gain on reversal of subscription rights to shares	11	–
Total extraordinary income	132	263
Extraordinary loss		
Impairment loss	85	–
Loss on disaster	–	826
Loss on valuation of investment securities	58	–
Loss on liquidation of business	30	–
Total extraordinary loss	174	826
Loss before income taxes	(1,230)	(3,120)
Income taxes-current	589	621
Income taxes-deferred	(393)	(832)
Total income and other taxes	196	(210)
Net loss	(1,426)	(2,910)
Profit attributable to non-controlling interests	335	379
Profit (loss) attributable to owners of parent	(1,762)	(3,289)

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2019	For the interim period ended September 30, 2020
Net loss	(1,426)	(2,910)
Other comprehensive income		
Valuation difference on available-for-sale securities	(39)	2,072
Deferred gains or losses on hedges	0	—
Foreign currency translation adjustments	18	17
Adjustment for retirement benefits	25	77
Share of other comprehensive income of associates accounted for using equity method	(12)	10
Total other comprehensive income	(7)	2,177
Comprehensive income	(1,433)	(732)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(1,769)	(1,111)
Comprehensive income attributable to non-controlling interests	335	379

(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 33 million yen and 22,000 shares, respectively, at the end of the second 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 second quarter under review: 75 million yen

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

The Group has revised the assumptions, including the timing of the impact of COVID-19, stated in Additional Information ("Accounting Calculation in Connection with the Spread of COVID-19") in the financial statements for the previous fiscal year, taking into account the situation of the COVID-19 pandemic up to the interim period of the fiscal year under review.

As a result, the Group has performed accounting calculations, assuming that the negative effects of COVID-19 will continue for a certain period of time during the fiscal year ending March 31, 2021, and business results will start recovering slowly thereafter.

(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).