

Consolidated Financial Summary for First Quarter of Fiscal Year Ending March 31, 2022 (Japanese Accounting Standards)

August 5, 2021

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 6, 2021

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, 2022

(April 1, 2021 to June 30, 2021)

(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	%
First Quarter of Fiscal Year Ending March 31, 2022	19,417	37.6	262	–	208	–	11	–
First Quarter of Fiscal Year Ended March 31, 2021	14,108	(51.4)	(1,054)	–	(1,309)	–	(1,704)	–

(Note) Comprehensive income First Quarter of Fiscal Year Ending March 31, 2022: ¥231 million (–%)
First Quarter of Fiscal Year Ended March 31, 2021: –¥28 million (–%)

	Net income per share		Diluted net income per share	
	yen		yen	
First Quarter of Fiscal Year Ending March 31, 2022	0.27		0.27	
First Quarter of Fiscal Year Ended March 31, 2021	(39.18)		–	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	million yen		million yen		%	
As of June 30, 2021	94,863		59,435		59.8	
As of March 31, 2021	105,105		58,339		52.6	

(Reference) Shareholders' equity As of June 30, 2021: ¥56,694 million
As of March 31, 2021: ¥55,306 million

2. Status of dividend payments

	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	End of year	Annual
Year ended March 31, 2021	–	25.00	–	96.00	121.00
Year ending March 31, 2022	–				
Year ending March 31, 2022 (forecast)		25.00	–	25.00	50.00

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

3. Forecasts for consolidated business results for the fiscal year ending March 31, 2022 (April 1, 2021 to March 31, 2022)

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

	Operating income		Profit (loss) attributable to owners of parent		Net income per share	
	million yen	%	million yen	%	Yen	
Year ending March 31, 2022	1,000	–	0	–	0.00	

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

1. Qualitative Information on Consolidated Results, etc. for the First Quarter of Fiscal Year Ending March 31, 2022

(1) Summary of Operating Results

(Unit: million yen)

First quarter results	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ending March 31, 2022
Net sales	32,449	32,276	29,028	14,108	19,417
Cost of sales	22,747	23,623	20,475	8,795	12,537
Gross profit	9,701	8,652	8,552	5,313	6,880
Gross profit margin	29.9%	26.8%	29.5%	37.7%	35.4%
Personnel expenses	3,164	2,934	2,836	2,633	2,545
Sales promotion and advertising expenses	1,764	2,071	1,453	953	1,332
General expenses	3,611	3,491	3,896	2,780	2,739
Total SG&A expenses	8,540	8,497	8,186	6,367	6,617
Operating income (loss)	1,161	155	366	(1,054)	262
Operating margin	3.6%	0.5%	1.3%	–%	1.4%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 5.8% year on year, to 88,009 million yen (January to June 2021; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 13.0% year on year, to 21,191 million yen (January to March 2021; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 2.7% year on year, to 69,527 million yen (January to June 2021; 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.

In these business conditions, the Group has been seeking to achieve medium- to long-term growth through working to create strong intellectual properties by discovering and developing artists, talent and creators and reinforcing the lineup of works handled with the planning and development of original works including music, anime productions, video content and the licensing of other companies' works. The Group has also actively facilitated the joint development of new content and the overseas expansion of content owned by the Company in collaboration with promising partners both in Japan and overseas who operate globally.

In the first quarter under review, consolidated net sales increased to 19,417 million yen (up 37.6% year on year), mainly due to a rise in the number of music packaged products sold and the number of live performances and events. Consolidated operating profit came to 262 million yen (compared to a consolidated operating loss of 1,054 million yen posted in the first quarter of the previous fiscal year). Consolidated profit attributable to owners of parent was 11 million yen (compared to a loss of 1,704 million yen posted in the first quarter of the previous fiscal year).

(2) Summary of Financial Position

Assets totaled 94,863 million yen at the end of the first quarter under review after a decrease of 10,241 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to decreases of 7,051 million yen in cash and deposits and 2,102 million yen in notes and accounts receivable - trade.

Liabilities were reduced by 11,337 million yen from the end of the previous consolidated fiscal year, to 35,428 million yen. This was primarily a result of decreases of 5,632 million yen in income taxes payable and 3,375 million yen in accounts payable - other.

Net assets increased 1,095 million yen from the end of the previous consolidated fiscal year, to 59,435 million yen. This was mainly due to a decrease of 5,045 million yen in treasury shares (increase in net assets), despite a decrease of 3,967 million yen in retained earnings.

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

With respect to the summary of consolidated financial forecasts for the fiscal year ending March 31, 2022, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2021” announced on May 13, 2021 remain unchanged.

If any revision to the financial forecasts becomes necessary in the future, the Company will promptly disclose it.

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

(Unit: million yen)

	As of March 31, 2021	As of June 30, 2021
(Assets)		
Current assets		
Cash and deposits	52,654	45,603
Notes and accounts receivable-trade	14,120	12,017
Merchandise and finished goods	1,366	1,217
Programs and works in progress	4,652	4,206
Raw materials and supplies	300	328
Other current assets	11,904	10,815
Allowance for doubtful accounts	(281)	(288)
Total current assets	<u>84,716</u>	<u>73,900</u>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,082	1,197
Land	1,548	1,548
Other property, plant and equipment, net	479	450
Total property, plant and equipment	<u>3,110</u>	<u>3,196</u>
Intangible assets	3,864	3,830
Investments and other assets		
Investment securities	7,143	7,116
Other investments and other assets	6,320	6,873
Allowance for doubtful accounts	(49)	(53)
Total investments and other assets	<u>13,414</u>	<u>13,936</u>
Total noncurrent assets	<u>20,389</u>	<u>20,963</u>
Total assets	<u>105,105</u>	<u>94,863</u>
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,457	1,522
Current portion of long-term loans payable	54	4
Accounts payable - other	18,341	14,966
Income taxes payable	6,040	408
Provision for bonuses	500	53
Allowance for returned goods	2,892	2,636
Provision for point card certificates	37	37
Provision for contingent loss	225	225
Other current liabilities	15,588	13,960
Total current liabilities	<u>45,138</u>	<u>33,813</u>
Noncurrent liabilities		
Long-term loans payable	4	3
Liabilities for retirement benefits	390	405
Other noncurrent liabilities	1,231	1,206
Total noncurrent liabilities	<u>1,626</u>	<u>1,614</u>
Total liabilities	<u>46,765</u>	<u>35,428</u>

	(Unit: million yen)	
	As of March 31, 2021	As of June 30, 2021
(Net assets)		
Shareholders' equity		
Capital stock	4,443	4,443
Capital surplus	5,171	5,338
Retained earnings	50,209	46,241
Treasury stock	(5,655)	(609)
Total shareholders' equity	54,168	55,414
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,120	1,315
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustments	(119)	(122)
Total of accumulated retirement benefits	135	87
Total of accumulated other comprehensive income	1,137	1,280
Subscription rights to shares	119	89
Non-controlling interests	2,914	2,651
Total net assets	58,339	59,435
Total liabilities and net assets	105,105	94,863

(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 ended June 30, 2020	For the first quarter ended June 30, 2021
Net sales	14,108	19,417
Cost of sales	8,795	12,537
Gross profit	5,313	6,880
Selling, general and administrative expenses		
Advertising expenses	831	1,013
Promotion expenses	121	319
Employee salaries and bonuses	1,649	1,742
Provision for bonuses	5	50
Retirement benefit cost	129	23
Other selling, general and administrative expenses	3,629	3,468
Total selling, general and administrative expenses	6,367	6,617
Operating income (loss)	(1,054)	262
Non-operating income		
Interest income	5	5
Dividend income	1	3
Other non-operating income	16	18
Total non-operating income	22	26
Non-operating expenses		
Interest expenses	18	1
Equity in losses of affiliates	222	42
Other non-operating expenses	37	36
Total non-operating expenses	278	80
Ordinary income (loss)	(1,309)	208
Extraordinary income		
Subsidies for employment adjustment	128	35
Gain on reversal of subscription rights to shares	–	29
Total extraordinary income	128	64
Extraordinary loss		
Loss on disaster	564	67
Loss on valuation of investment securities	–	9
Total extraordinary loss	564	77
Income (loss) before income taxes	(1,746)	195
Income taxes-current	290	128
Income taxes-deferred	(518)	(20)
Total income and other taxes	(227)	107
Net income (loss)	(1,518)	88
Profit attributable to non-controlling interests	185	76
Profit (loss) attributable to owners of parent	(1,704)	11

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated First Quarter)

(Unit: million yen)

	For the first quarter ended June 30, 2020	For the first quarter ended June 30, 2021
Net income (loss)	(1,518)	88
Other comprehensive income		
Valuation difference on available-for-sale securities	1,431	186
Foreign currency translation adjustments	3	(3)
Adjustment for retirement benefits	38	(47)
Share of other comprehensive income of associates accounted for using equity method	16	7
Total other comprehensive income	1,489	143
Comprehensive income	(28)	231
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(214)	154
Comprehensive income attributable to non-controlling interests	185	76

(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

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has decided to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter under review and recognize revenue from goods or services which the Group promised to provide at an amount expected to be received in exchange for the goods or services at the time when control over the promised goods or services has been transferred to a customer. As a result, for transactions in which the role of the Group in the provision of goods or services to customers falls under that of an agent, the Group has changed the past method of recognizing the total amount of consideration received from customers as revenue to the method of recognizing revenue at the net amount after deducting the amount paid to third parties from the total consideration.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative effects in case of retroactively applying the new accounting policy to before the beginning of the first quarter under review are adjusted in retained earnings at the beginning of the first quarter under review, and the new accounting policy is applied from this initial balance.

As a result, net sales in the first quarter under review decreased 487 million yen, and cost of sales decreased 487 million yen. The impact on the balance of retained earnings at the beginning of the period is minor.

In addition, in accordance with the provisional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information that breaks down revenue from contracts with customers for the first quarter of the previous fiscal year is not stated.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Group has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. from the beginning of the first quarter under review and apply the new accounting policy stipulated in the Fair Value Measurement Accounting Standard, etc. according to the provisional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019) into the future.

The application of the Fair Value Measurement Accounting Standard and others mentioned above has no impact on quarterly financial statements.

(Additional Information)

(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.

Therefore, the Group has performed accounting calculations, assuming that the negative effects of the COVID-19 pandemic will recover moderately from the second half of fiscal 2021.

There are no significant changes to this assumption 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).