

# Consolidated Financial Highlights for the First Quarter of the fiscal year ending March 31, 2022

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IMAGICA GROUP Inc.

Code: 6879

August 3, 2021



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- ✓ Consolidated operating income before goodwill amortization\* turned into the black, reaching a level that exceeded FYE March 2020 (prior to the COVID-19 pandemic).

\*including amortization of some intangible assets (Pages 4,7)

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- ✓ In Production Services (international), the strong start of Pixelogic will boost growth and profitability from the second quarter onward. (Page 11)

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- ✓ Production Services (domestic) recorded substantial growth in profit owing to benefits from structural reform. (Page 9)
- ✓ Content Creation saw a rebound in profit level to the FYE March 2020 (pre-COVID-19) level. (Page 8)

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- ✓ The full-year forecasts for FYE March 2022 were revised upward, increasing the forecasts for ordinary income (+700 million yen) and net income (+1.2 billion yen) to 2 billion yen. (Page 13)

(Reference)

## Disclosure of Operating Income before Goodwill Amortization



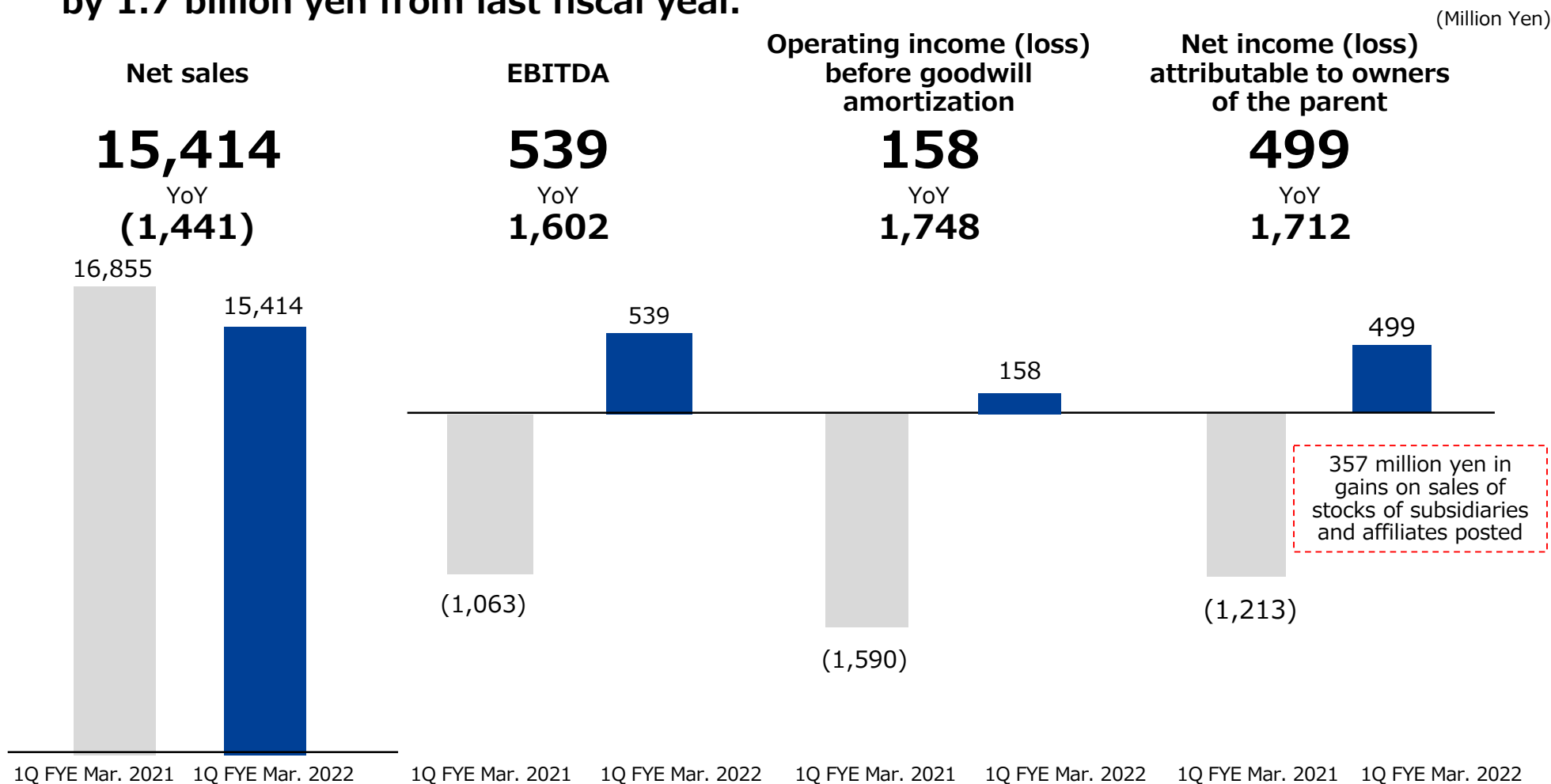
We will disclose operating income before goodwill amortization as a key indicator from the first quarter of FYE March 2022 onward, to appropriately reflect the actual status of the IMAGICA GROUP.

(Million Yen)	1Q FYE Mar. 2022	FYE Mar. 2022 Full year	New Mid-Term Plan "G-EST 2025"
	Actual	Plan	Goal
Net sales	<b>15,414</b>	<b>75,000</b>	<b>100,000</b>
Operating income	<b>(255)</b>	<b>1,500</b>	
Operating income before goodwill amortization	<b>158</b>	<b>3,100</b>	<b>8,000</b>

Operating income before goodwill amortization includes: Operating income, goodwill amortization and amortization of intangible fixed assets accompanying M&A.

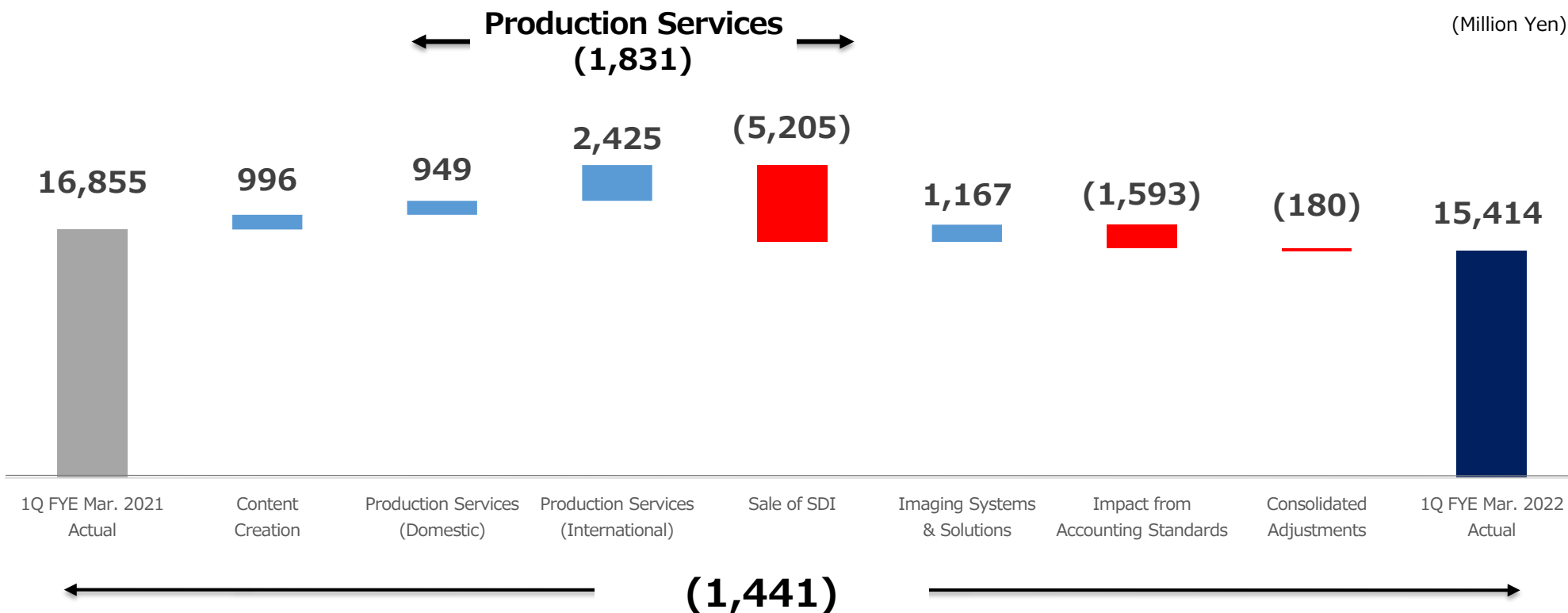
# Highlights of Financial Results for the First Quarter

- Net sales decreased due to the sale of an overseas subsidiary (SDI Media Group, Inc.).
- Operating income before goodwill amortization turned into the black and improved by 1.7 billion yen from last fiscal year.



# Contributing Factors to Increases (Decreases) in Net Sales (vs 1Q FYE Mar 2021)

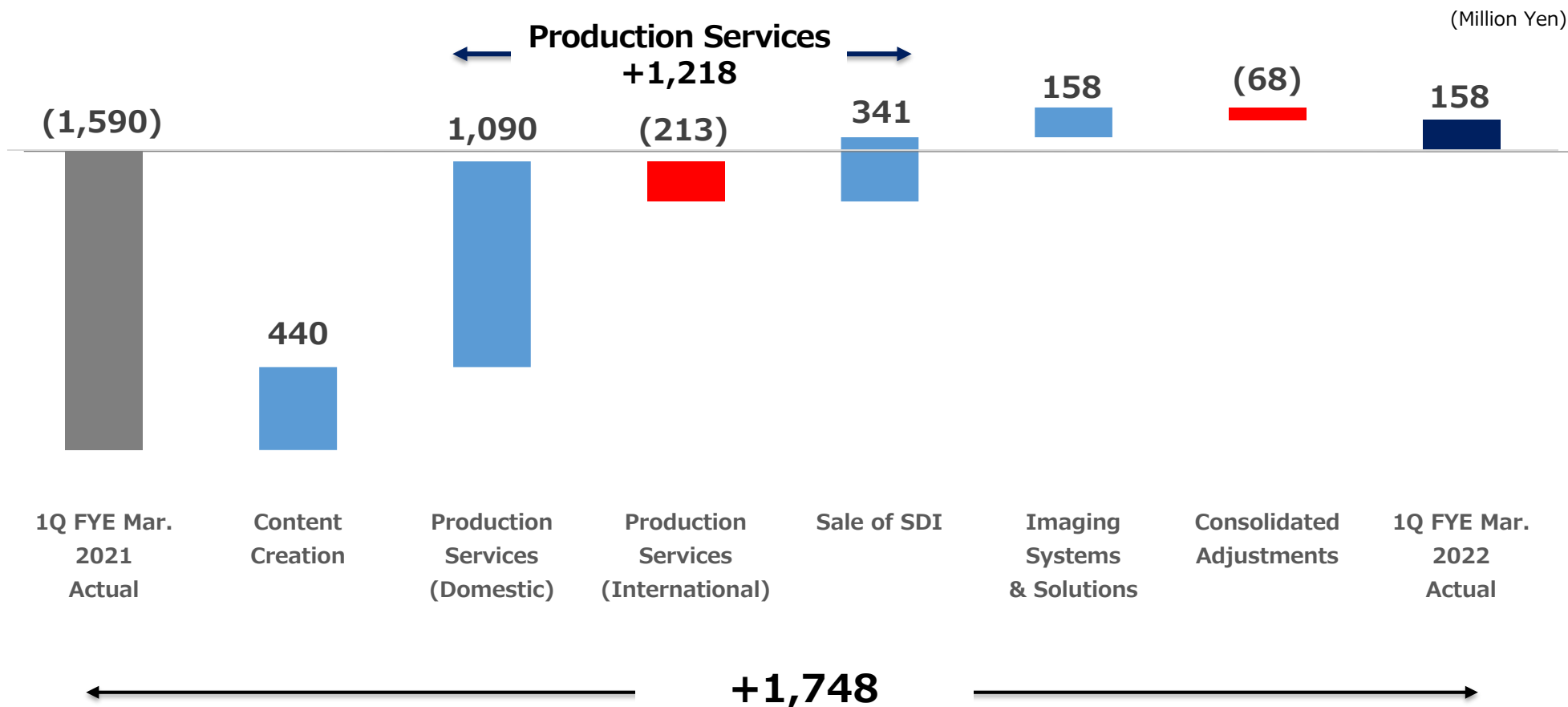
- All business segments achieved growth in net sales when the decrease due to the sale of SDI is excluded.



- ✓ Net sales decreased by 5.2 billion yen due to the sale of SDI and by 1.59 billion yen due to the impact from a change in accounting standard\*<sup>1</sup>.
- ✓ In Production Services, global E2E services\*<sup>2</sup> got off to a good start.

# Contributing Factors to Increases (Decreases) in Operating Income before Goodwill Amortization (compared to the previous fiscal year)

- All business segments achieved growth in operating income before goodwill amortization. Production Services, in particular, achieved substantial growth due to structural reform\*3.

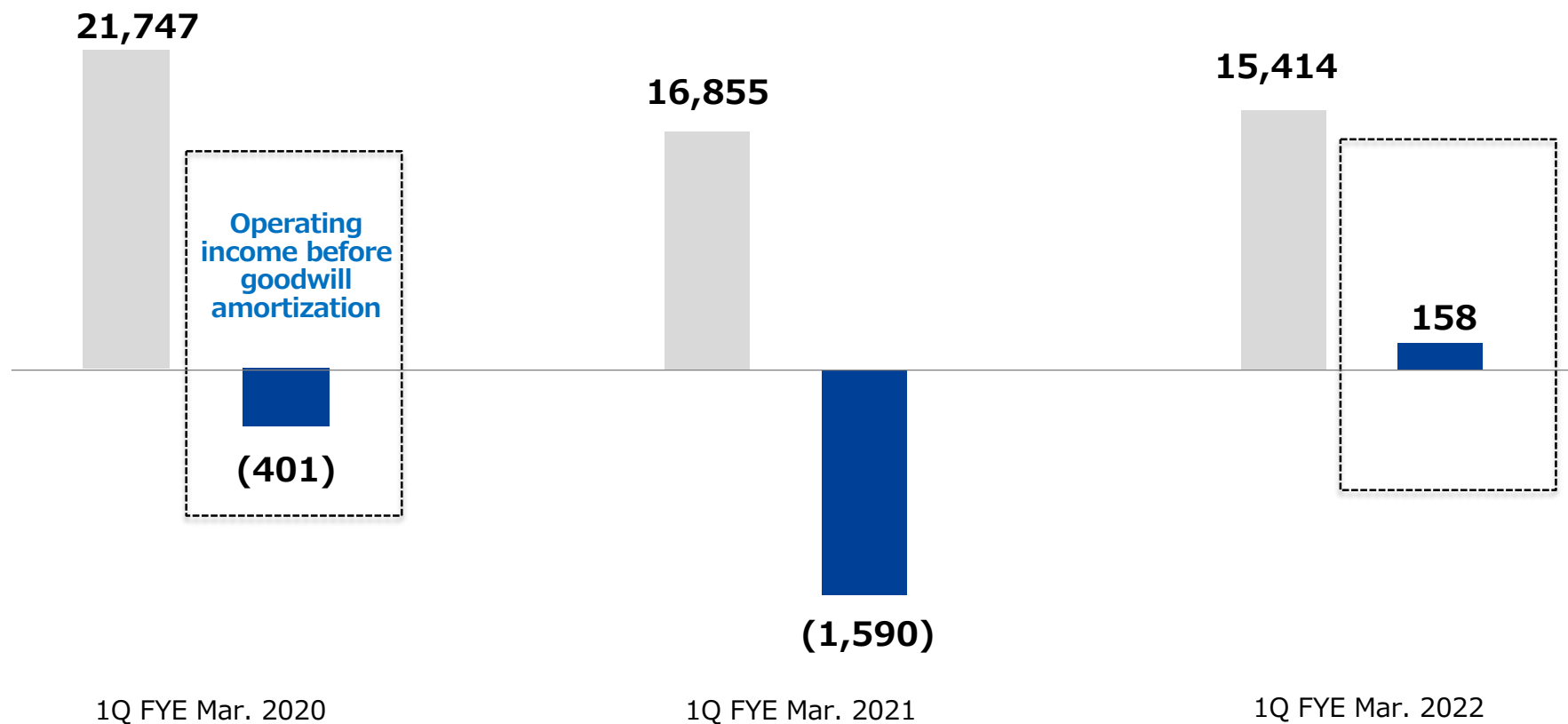


# Comparison to 1Q FYE March 2020 (pre-COVID-19) (company-wide basis)

- Operating income before goodwill amortization in Production Services improved compared to before the COVID-19 pandemic. The improvement resulted from reorganization of the global business structure\*<sup>4</sup> and structural reform\*<sup>3</sup> in Production Services.

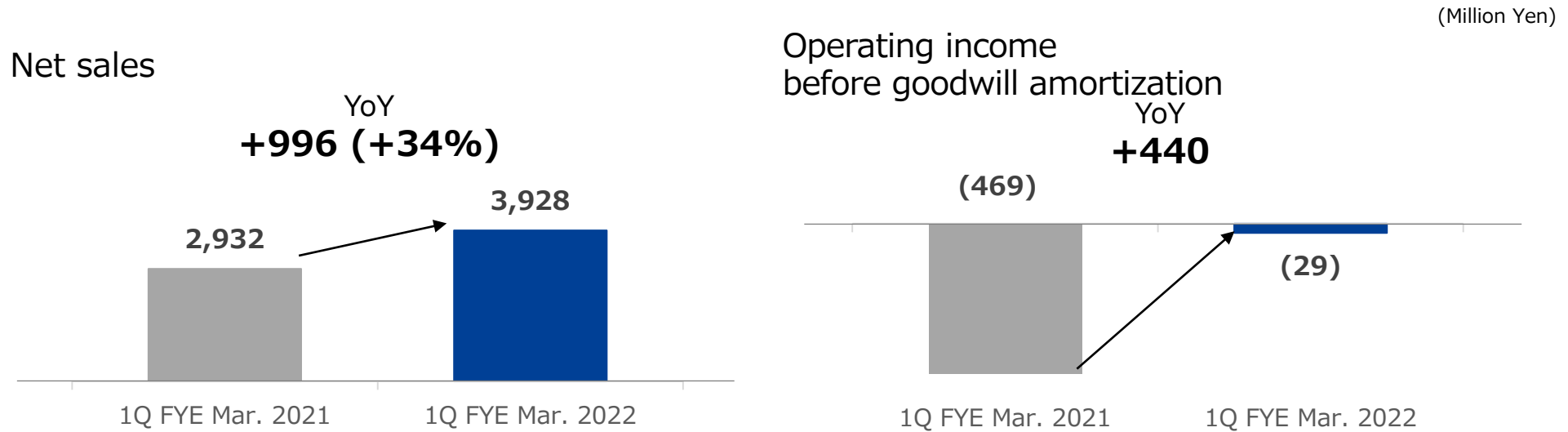
(Million Yen)

## Net sales



# Content Creation (Quarterly Performance)

- Commercial production and music-related orders rebounded and net sales increased.
- Cost reductions achieved contributed to substantial growth in operating income before goodwill amortization.



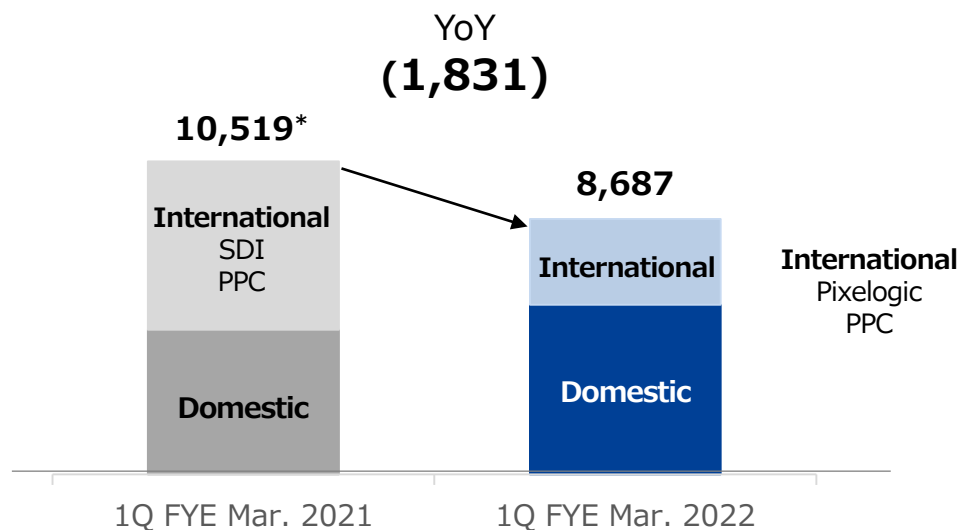
- ✓ Increased activity in the advertising market resulted in a rebound in orders for TV commercial production.
- ✓ Some feature films and TV dramas were delayed into the second quarter onward.
- ✓ Orders for online streaming of live music performances and shooting music videos were strong.
- ✓ Operating income before goodwill amortization rebounded to the pre-COVID-19 level seen in FYE March 2020 (loss before goodwill amortization: -31 million yen).



# Production Services (Quarterly Performance)

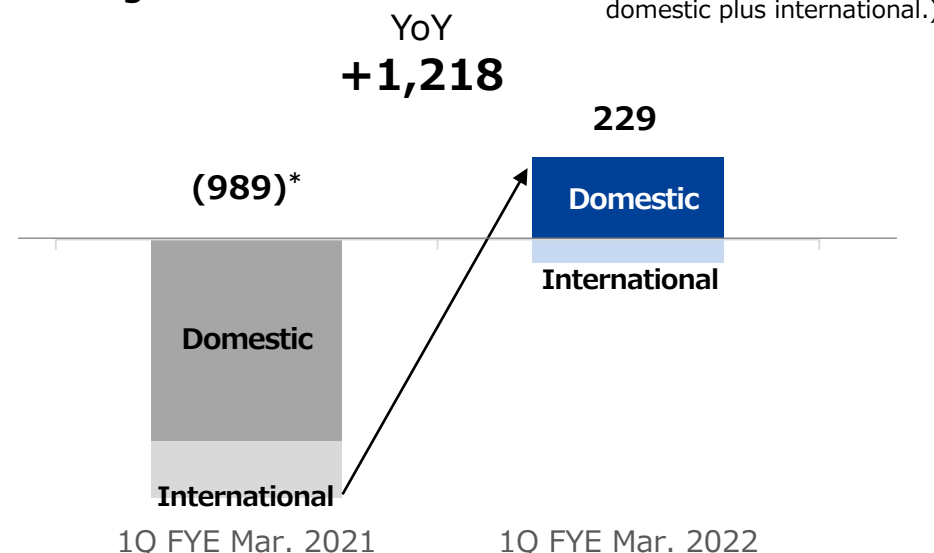
- This segment achieved substantial growth in operating income before goodwill amortization despite the decrease in net sales due to the sale of SDI. The growth resulted from the benefits of structural reform and strong sales of global E2E services\*2.

Net sales



Operating income before goodwill amortization

(Million Yen)

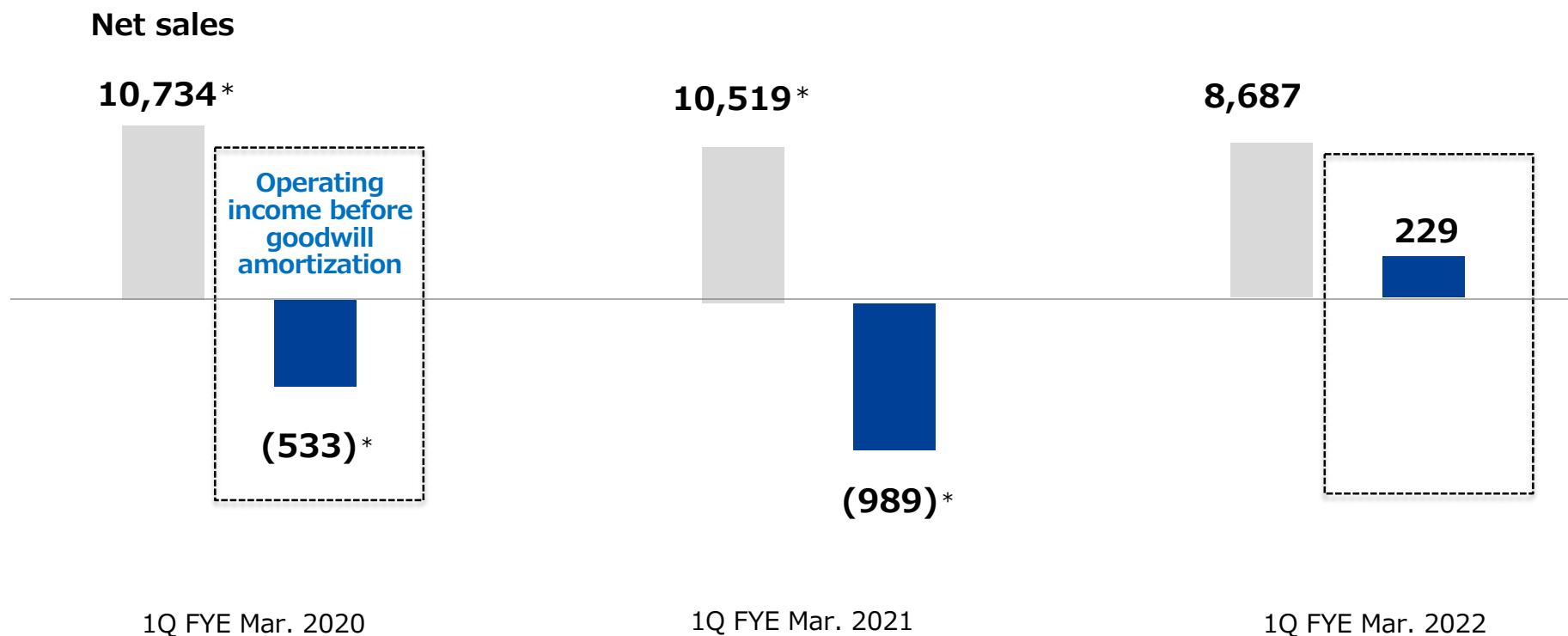


- ✓ In the domestic business, collaboration with Pixelogic contributed to an expansion in orders for encoding (video file compression and conversion) and localization services. Orders increased for post-production services for TV programs and TV commercials. The implementation of structural reform reduced fixed costs and substantially improved operating income before goodwill amortization.
- ✓ In the international business, sales of Pixelogic services for video streaming service providers\*5 were strong, despite the decrease in net sales due to the sale of SDI.
- ✓ Sales for Pixelogic localization services were strong, while sales of feature film trailer production services in Europe and the U.S. declined due to the COVID-19 pandemic.

# Production Services Comparison to 1Q FYE March 2020 (pre-COVID-19)

- Operating income before goodwill amortization in Production Services improved compared to before the COVID-19 pandemic. The improvement resulted from reorganization of the global business structure<sup>\*4</sup> and structural reform<sup>\*3</sup>.

(Million Yen)



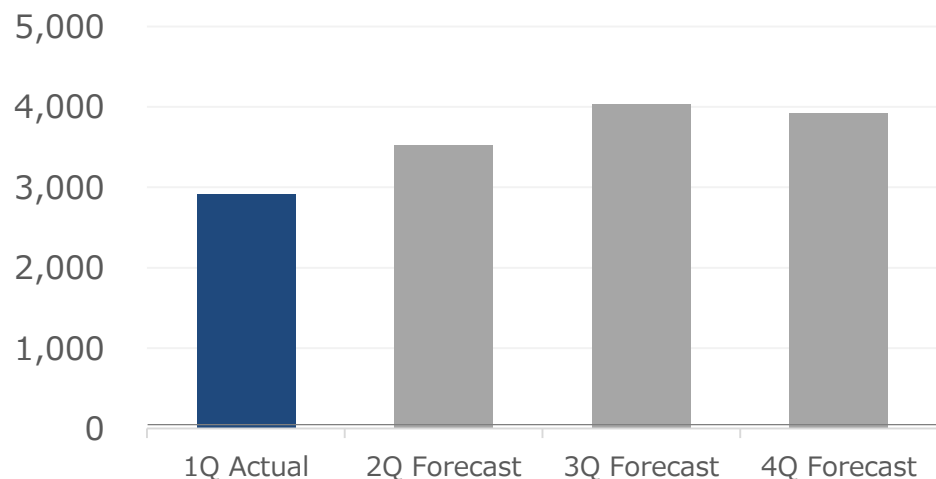
\* IMAGICA LIVE Corp. performance was excluded from net sales and operating income (loss) due to the reclassification of the subsidiary into another segment.

# Production Services (International) Quarterly Consolidated Performance Forecast

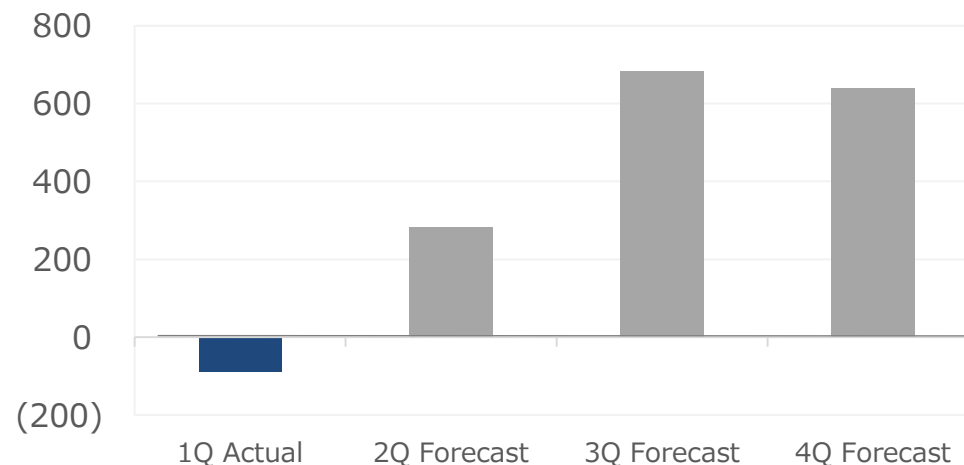
**We expect a return to profitability and profit growth from the second quarter onward as film-related business rebounds in Europe and the U.S.**

(Million Yen)

Net sales



Operating income  
before goodwill amortization

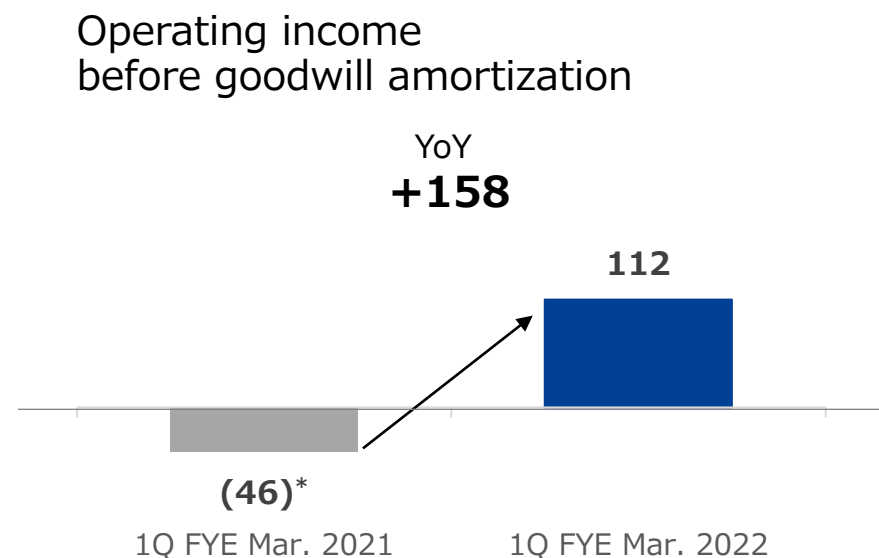
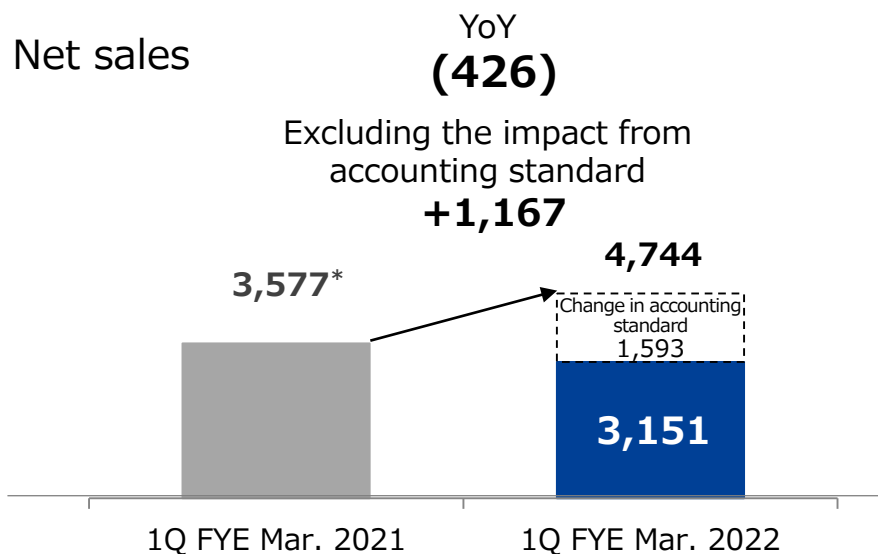


- ✓ We expect strong orders for services performed for video streaming service providers\*<sup>5</sup> from the second quarter onward.
- ✓ We expect the resumption of movie theater operation and new feature film releases in Europe and the U.S. to lead to growth in orders for distribution services\*<sup>6</sup> and digital cinema services\*<sup>7</sup> from the second quarter onward.

# Imaging Systems & Solutions (Quarterly Performance)

Net sales increased by 1.1 billion yen, if the impact from a change in accounting standard\* is excluded.

(Million Yen)



- ✓ The online delivery system for TV commercials\*<sup>8</sup> saw firm orders due to the expansion in market needs.
- ✓ Sales of high-speed cameras was sluggish in Japan, but rebounded in Asia and Europe.
- ✓ Sales of video and image processing LSI were strong, mainly in Japan, North America, and South Korea.

\* Impact from a change in accounting standard: Impact from posting the net amount for mobile communication line sales.

\* IMAGICA LIVE Corp. performance was added to Imaging Systems & Solutions net sales and operating income (loss) from 1Q FYE March 2022 due to the reclassification of the subsidiary into this segment.

Revisions to ordinary income and net income mainly resulted from posting non-operating income and extraordinary income.

(Million Yen)	FYE Mar. 2021	FYE Mar. 2022				
	Actual	Forecast disclosed on May 13, 2021	YoY	Full-year forecast	Change from May 13 <sup>th</sup> forecast	Percentage change from May 13 <sup>th</sup> forecast
Net sales	<b>86,727</b>	75,000	(11,727)	<b>75,000</b>	0	0 %
Operating income (loss)	<b>(1,084)</b>	1,500	2,584	<b>1,500</b>	0	0
(Operating margin)	(%)	(2.0%)	–	<b>(2.0%)</b>	–	–
Ordinary income (loss)	<b>(1,343)</b>	1,300	2,643	<b>2,000</b>	*1 700	53.8%
Net income (loss) attributable to owners of parent	<b>3,454</b>	800	(2,654)	<b>2,000</b>	*2 1,200	150.0%
Earnings (Loss) per share (Yen)	<b>77.89</b>	18.02	(58.87)	<b>45.06</b>	27.04	150.0%
Operating income before goodwill amortization	<b>320</b>	3,100	2,780	<b>3,100</b>	0	0

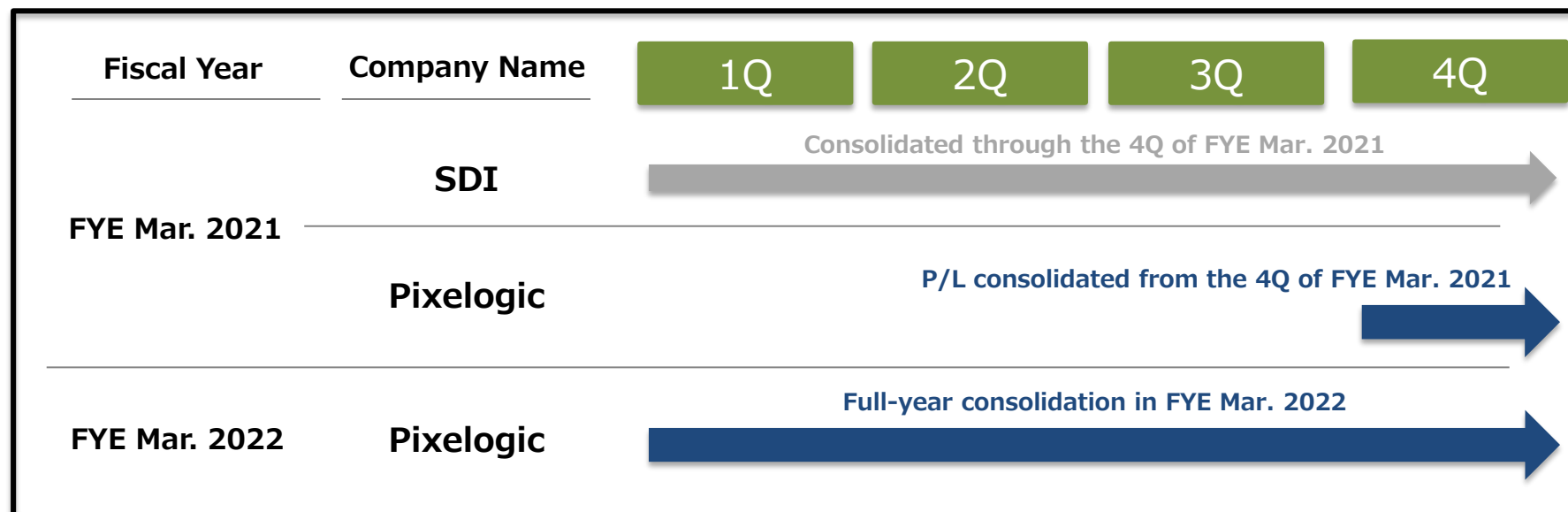
\*1 Reason for increase in ordinary income: We plan to post 640 million yen in subsidy income in the second quarter due to debt relief on a loan Pixelogic received as part of government COVID-19 assistance measures. (See the August 3, 2021 news release for further information.)

\*2 Reasons for increase in net income: A gain of 357 million yen on the sale of affiliate shares was posted in the first quarter, and we plan to post a gain of 395 million yen on sales of investment securities in the second quarter. (See the July 12, 2021 news release for further information.)

# Appendix.

# (Reference) Change in Overseas Subsidiaries in Production Services

- ✓ The P/L of Pixelogic, which provides E2E service, was consolidated from the fourth quarter of FYE March 2021.
- ✓ All shares held in SDI were sold at the end of March 2021, removing it from the scope of consolidation.



\* Pixelogic has a fiscal year-end of December 31. The financial performance during the first quarter of FYE March 2022 therefore reflects the results for January 1 through March 31, 2021.

# Consolidated Statements of Income



(Million Yen)	1Q FYE Mar. 2021	1Q FYE Mar. 2022		
	Actual	Actual	YoY	% YoY
Net sales	<b>16,855</b>	<b>15,414</b>	(1,441)	(8.6%)
Gross profit	<b>3,357</b>	<b>4,386</b>	1,028	30.6%
(Gross margin)	19.9%	28.5%		
Operating loss	<b>(1,868)</b>	<b>(255)</b>	1,613	–
(Operating margin)	-	-		
Ordinary loss	<b>(1,942)</b>	<b>(285)</b>	1,656	–
(Ordinary margin)	-	-		
Extraordinary income	<b>0</b>	<b>358</b>	358	54281.3%
Extraordinary losses	<b>90</b>	<b>4</b>	(86)	(95.5%)
Net income (loss) before income tax	<b>(2,031)</b>	<b>69</b>	2,101	–
Net profit (loss) attributable to owners of parent	<b>(1,213)</b>	<b>499</b>	1,712	–
(Reference) Operating income (loss) before goodwill amortization	<b>(1,590)</b>	<b>158</b>	1,748	–



# Consolidated Balance Sheets

(Million Yen)		As of Mar. 31, 2021	As of June 30, 2021	YoY	Main Factors
Assets	Current assets	30,440	29,056	(1,384)	Cash and deposits: (1,109) Notes and accounts receivable-trade and contract assets: (3,215)
	Cash and deposits	6,908	5,799	(1,109)	Inventories: +2,413 Other: +526
	Non-current assets	30,005	31,679	1,674	Investment securities: +126 Shares of subsidiaries and affiliates: (769)
	Goodwill	12,048	12,727	678	Deferred tax assets: +427
<b>Total Assets</b>		<b>60,446</b>	<b>60,735</b>	289	
Liabilities / Net Assets	Current liabilities	22,117	21,389	(727)	Notes and accounts payable-trade: (63) Short-term loans payable: +1,498
	Short-term loans payable	7,402	5,904	(1,498)	Income taxes payable: (75) Advances received: (2,811)
	Non-current liabilities	8,495	8,034	(461)	
	Long-term loans payable	5,384	4,977	(407)	Long-term loans payable: (407)
	<b>Total Liabilities</b>	<b>30,613</b>	<b>29,424</b>	<b>(1,189)</b>	
	Shareholders' equity	27,149	27,739	590	(Reference) Equity capital
	Accumulated other comprehensive income	301	1,144	842	As of March 31, 2021: 27,450 (45.4%)
	Stock acquisition rights	11	11	–	As of June 30, 2021: 28,883 (47.6%)
	Non-controlling interests	2,370	2,416	45	
	<b>Total Net Assets</b>	<b>29,832</b>	<b>31,311</b>	<b>1,478</b>	
<b>Total Liabilities and Net Assets</b>		<b>60,446</b>	<b>60,735</b>	289	
<b>Net Cash</b>		<b>(5,878)</b>	<b>(5,082)</b>	796	(Cash and deposits – long-term and short-term loans payable)

# Financial Results by Segment

(Million Yen)		1Q FYE Mar. 2021	1Q FYE Mar. 2022			Reference
		Actual	Actual	YoY	% YoY	
Content Creation	Net sales	<b>2,932</b>	<b>3,928</b>	996	34.0%	
	Operating loss	<b>(469)</b>	<b>(30)</b>	438	—	
	(Operating margin)	—	—			
	Operating loss before goodwill amortization	<b>(469)</b>	<b>(29)</b>	440	—	
Production Services	Net sales	* <b>10,519</b>	<b>8,687</b>	(1,831)	(17.4%)	<b>+3,373 (+63.5%)</b>
	Operating loss	<b>(1,267)</b>	<b>(174)</b>	1,092	—	* Change when impact from the sale of SDI is excluded.
	(Operating margin)	—	—			
	Operating income (loss) before goodwill amortization	<b>(989)</b>	<b>229</b>	1,218	—	
Imaging Systems & Solutions	Net sales	* <b>3,577</b>	<b>3,151</b>	(426)	(11.9%)	<b>+1,167 (+32.6%)</b>
	Operating income (loss)	<b>(46)</b>	<b>103</b>	149	—	* Change when impact from change in accounting standard is excluded
	(Operating margin)	—	3.3%			
	Operating income (loss) before goodwill amortization	<b>(46)</b>	<b>112</b>	158	—	
Others	Net sales	<b>(172)</b>	<b>(353)</b>	(180)	—	
	Operating loss	<b>(85)</b>	<b>(153)</b>	(68)	—	
Consolidated total	Net sales	<b>16,855</b>	<b>15,414</b>	(1,441)	(8.6%)	
	Operating loss	<b>(1,868)</b>	<b>(255)</b>	1,613	—	
	Operating income (loss) before goodwill amortization	<b>(1,590)</b>	<b>158</b>	1,748	—	

\* The change in subsidiaries included in segments resulted in changes to net sales and operating income (loss) in the Production Services, Imaging Systems & Solutions, and Other business segments.

## Dividend policy

The Group considers the return of profits to shareholders as an important management objective. Our basic policy is to distribute earnings in line with consolidated results. We target a consolidated payout ratio of 30% and aim to maintain stable dividends and increase the level of dividends.

If any special factor, such as an extraordinary gain or loss, significantly impacts the net income of a given fiscal year, our general policy is to take the special factor into consideration in determining dividends, after consideration of all aspects, including provision of stable dividends to shareholders, future business development, and retained earnings.

**There is no change in the dividend forecast of five yen per share for FYE March 2022 disclosed on May 13, 2021 based on the policy stated above.**

- \*1 Impact from a change in accounting standard  
This refers to the impact from the change in accounting standard in the Imaging Systems & Solutions business segment, which resulted in posting the net amount for mobile communication line sales.
- \*2 Global E2E services  
Refers to an integrated end-to-end (E2E) service that covers the entire post-production process for feature films, TV dramas, animation, and other audio/video content up to media services for localization (subtitling/dubbing) and distribution of these through all kinds of media, including theaters, TV, and video streaming via the Internet.
- \*3 Structural reform  
The structural reform discussed in this document refers to the voluntary retirement implemented in the Production Services business segment to achieve sustainable growth and a rebound in financial performance of the IMAGICA GROUP, as stated ["Notice of Establishment of New Subsidiaries, Structural Reform of Production Services, and Group Business Reorganization"](#) disclosed on January 22, 2021 (posted in English on February 9, 2021).
- \*4 Reorganization of the global business structure  
As stated on Page 14 of "Financial Results Fiscal Year Ended March 31, 2021 (FYE Mar. 2021)" disclosed on May 19, 2021, this refers to reorganization of the global business structure by adding Pixelogic as a consolidated subsidiary, selling SDI, and establishing Imagica Entertainment Media Services.

- \*5 Video streaming service providers  
Refers to companies that provide video streaming services on a platform through the Internet.
- \*6 Distribution services  
Refers to the encoding, authoring, and packaging necessary for distribution of video content on all types of media, including movie theaters, video streaming through the Internet, and DVD/BD packages.
- \*7 Digital cinema services  
Refers to services for DCP (Digital Cinema Package) production and DCP delivery for digital showing in movie theaters, KDM distribution, and other services (KDM: An abbreviation of Key Delivery Message, the key for unlocking DCP encryption).
- \*8 Online delivery system for TV commercials  
Refers to the service for online delivery of TV commercial source materials, etc. (service provided by PHOTRON: C.M. HARBOR).

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**DISCLAIMER:**

The forward-looking statements for the current and future business periods described in this document are formulated based on the plans and prospects of the Group as of the date on which these materials were disclosed. Actual performance may differ from numerical forecasts due to the uncertainties inherent in the judgments and assumptions made, as well as possibility of future changes that may occur in business management and internal and external circumstances.