

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

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 8, 2021

Scheduled date for commencement of dividend payments: December 2, 2021

Supplementary documents for financial results: Yes

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

November 4, 2021
Tokyo Stock Exchange, First Section
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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, 2022
(April 1, 2021 to September 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	%
Interim Period of Fiscal Year Ending March 31, 2022	46,304	35.1	2,634	—	2,623	—	1,612	—
Interim Period of Fiscal Year Ended March 31, 2021	34,279	(44.0)	(2,229)	—	(2,557)	—	(3,289)	—

(Note) Comprehensive income Interim Period of Fiscal Year Ending March 31, 2022: ¥1,569 million (—%)
Interim Period of Fiscal Year Ended March 31, 2021: -¥732 million (—%)

	Net income per share	Diluted net income per share
	yen	yen
Interim Period of Fiscal Year Ending March 31, 2022	37.03	37.02
Interim Period of Fiscal Year Ended March 31, 2021	(75.53)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
As of September 30, 2021	94,438	60,920	61.6
As of March 31, 2021	105,105	58,339	52.6

(Reference) Shareholders' equity As of September 30, 2021: ¥58,143 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
	yen	yen	yen	yen	yen
Year ended March 31, 2021	—	25.00	—	96.00	121.00
Year ending March 31, 2022	—	25.00			
Year ending March 31, 2022 (forecast)			—	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	3,000	—	1,800	(86.0)	40.65

(Note) Revisions to earnings forecasts published most recently: Yes

* 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 (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: Yes
 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, 2021:	45,440,100 shares
As of March 31, 2021:	45,343,500 shares
b. Treasury stock at end of term	
As of September 30, 2021:	421,948 shares
As of March 31, 2021:	3,927,388 shares
c. Average number of share (quarter-to-date)	
Interim Period of Fiscal Year Ending March 31, 2022	43,538,752 shares
Interim Period of Fiscal Year Ended March 31, 2021	43,547,440 shares

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

* Explanation for forecasts of business results 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, 2022

(1) Summary of Operating Results

(Unit: million yen)

Interim period 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	68,405	83,012	61,189	34,279	46,304
Cost of sales	48,967	60,067	44,658	23,060	28,797
Gross profit	19,438	22,945	16,531	11,218	17,507
Gross profit margin	28.4%	27.6%	27.0%	32.7%	37.8%
Personnel expenses	6,097	6,626	5,647	5,360	5,646
Sales promotion and advertising expenses	3,947	4,802	3,948	2,330	2,989
General expenses	8,550	7,803	7,624	5,756	6,236
Total SG&A expenses	18,594	19,232	17,220	13,447	14,872
Operating income (loss)	843	3,712	(688)	(2,229)	2,634
Operating margin	1.2%	4.5%	-%	-%	5.7%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 1.1% year on year, to 136,288 million yen (January to September 2021; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 15.5% year on year, to 43,609 million yen (January to June 2021; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 1.0% year on year, to 93,458 million yen (January to August 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 interim period of the fiscal year under review, consolidated net sales increased to 46,304 million yen (up 35.1% 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 2,634 million yen (compared to a consolidated operating loss of 2,229 million yen in the same period of the previous fiscal year). Consolidated profit attributable to owners of parent was 1,612 million yen (compared to a loss attributable to owners of parent of 3,289 million yen in the same period of the previous fiscal year).

(2) Summary of Financial Position

Assets at the end of the interim period under review decreased 10,667 million yen, to 94,438 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decline of 9,687 million yen in cash and deposits.

Liabilities were reduced by 13,247 million yen from the end of the previous consolidated fiscal year, to 33,518 million yen. This was primarily due to decreases of 5,918 million yen and 5,634 million yen in accounts payable - other and income taxes payable, respectively.

Net assets increased 2,580 million yen from the end of the previous consolidated fiscal year, to 60,920 million yen. This was mainly due to a decrease of 5,048 million yen in treasury shares (increase in net assets), despite a decrease of 2,382 million yen in retained earnings.

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

In regards 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 have been changed.

For further details, please refer to “Notice on Revision of Financial Results Forecasts” announced on November 4, 2021.

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

(Unit: million yen)

	As of March 31, 2021	As of September 30, 2021
(Assets)		
Current assets		
Cash and deposits	52,654	42,967
Notes and accounts receivable-trade	14,120	14,868
Merchandise and finished goods	1,366	1,198
Programs and works in progress	4,652	4,151
Raw materials and supplies	300	279
Other current assets	11,904	11,309
Allowance for doubtful accounts	(281)	(291)
Total current assets	84,716	74,484
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,082	1,174
Land	1,548	1,548
Other property, plant and equipment, net	479	432
Total property, plant and equipment	3,110	3,156
Intangible assets		
	3,864	3,804
Investments and other assets		
Investment securities	7,143	6,823
Other investments and other assets	6,320	6,405
Allowance for doubtful accounts	(49)	(235)
Total investments and other assets	13,414	12,994
Total noncurrent assets	20,389	19,954
Total assets	105,105	94,438
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,457	2,071
Current portion of long-term loans payable	54	4
Accounts payable - other	18,341	12,423
Income taxes payable	6,040	406
Provision for bonuses	500	452
Allowance for returned goods	2,892	2,787
Provision for point card certificates	37	49
Provision for contingent loss	225	125
Other current liabilities	15,588	13,637
Total current liabilities	45,138	31,956
Noncurrent liabilities		
Long-term loans payable	4	2
Liabilities for retirement benefits	390	415
Other noncurrent liabilities	1,231	1,144
Total noncurrent liabilities	1,626	1,561
Total liabilities	46,765	33,518

(Unit: million yen)

	As of March 31, 2021	As of September 30, 2021
(Net assets)		
Shareholders' equity		
Capital stock	4,443	4,521
Capital surplus	5,171	5,416
Retained earnings	50,209	47,826
Treasury stock	(5,655)	(607)
Total shareholders' equity	54,168	57,158
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,120	1,075
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustments	(119)	(130)
Total of accumulated retirement benefits	135	39
Total of accumulated other comprehensive income	1,137	985
Subscription rights to shares	119	88
Non-controlling interests	2,914	2,687
Total net assets	58,339	60,920
Total liabilities and net assets	105,105	94,438

(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, 2020	For the interim period ended September 30, 2021
Net sales	34,279	46,304
Cost of sales	23,060	28,797
Gross profit	11,218	17,507
Selling, general and administrative expenses		
Advertising expenses	1,840	2,399
Promotion expenses	490	589
Employee salaries and bonuses	3,411	3,531
Provision for bonus payments	10	450
Retirement benefit cost	253	46
Other selling, general and administrative expenses	7,441	7,854
Total selling, general and administrative expenses	13,447	14,872
Operating income (loss)	(2,229)	2,634
Non-operating income		
Interest income	5	9
Dividend income	1	10
Subsidy income	12	28
Exchange gain	–	27
Other non-operating income	32	17
Total non-operating income	52	93
Non-operating expenses		
Interest expenses	35	5
Equity in losses of affiliates	292	21
Loss on investments in investment partnerships	1	2
Other non-operating expenses	51	76
Total non-operating expenses	380	105
Ordinary income (loss)	(2,557)	2,623
Extraordinary income		
Reversal of provision for contingent loss	–	57
Subsidies for employment adjustment	263	41
Gain on reversal of subscription rights to shares	–	29
Other extraordinary income	–	17
Total extraordinary income	263	145
Extraordinary loss		
Loss on disaster	826	221
Loss on valuation of investment securities	–	10
Total extraordinary loss	826	231
Income (loss) before income taxes	(3,120)	2,536
Income taxes-current	621	235
Income taxes-deferred	(832)	580
Total income and other taxes	(210)	815
Net income (loss)	(2,910)	1,721
Profit attributable to non-controlling interests	379	108
Profit (loss) attributable to owners of parent	(3,289)	1,612

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2020	For the interim period ended September 30, 2021
Net income (loss)	(2,910)	1,721
Other comprehensive income		
Valuation difference on available-for-sale securities	2,072	(60)
Foreign currency translation adjustments	17	(11)
Adjustment for retirement benefits	77	(93)
Share of other comprehensive income of associates accounted for using equity method	10	13
Total other comprehensive income	2,177	(152)
Comprehensive income	(732)	1,569
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(1,111)	1,460
Comprehensive income attributable to non-controlling interests	379	108

(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 applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Accounting Standard"), etc. at the beginning of the first quarter. Revenues are therefore recognized at the time when control over goods or services that the Group promises to provide is transferred to customers and at monetary amounts that it expects to receive in exchange for such goods or services. 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 are adjusted in retained earnings at the beginning of the first quarter, and the new accounting policy has been applied, starting with the initial balance thereof.

As a result, net sales in the interim period of the fiscal year under review decreased 672 million yen, and the cost of sales decreased 683 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 revenues arising in relation to contracts with customers for the interim period of the previous fiscal year is not stated.

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

The Group applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Accounting Standard"), etc. at the beginning of the first quarter. Therefore, new accounting policies, which are stipulated in the Fair Value Measurement Accounting Standard, etc., are applied into the future 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).

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).