

Consolidated Financial Summary for the First Nine Months 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*): February 10, 2022

Scheduled date for commencement of dividend payments: –

Supplementary documents for financial results: Yes

Financial results briefing: None

February 10, 2022
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 nine-month period of fiscal year ending March 31, 2022 (April 1, 2021 to December 31, 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	%
Nine-Month Period of Fiscal Year Ending March 31, 2022	76,032	39.0	3,926	–	4,012	–	2,407	–
Nine-Month Period of Fiscal Year Ended March 31, 2021	54,707	(45.5)	(3,610)	–	(3,815)	–	(4,284)	–

(Note) Comprehensive income Nine-month period of fiscal year ending March 31, 2022: ¥5,150 million (–%)
 Nine-month period of fiscal year ended March 31, 2021: -¥3,535 million (–%)

	Net income per share		Diluted net income per share	
	yen		yen	
Nine-Month Period of Fiscal Year Ending March 31, 2022	54.67		–	
Nine-Month Period of Fiscal Year Ended March 31, 2021	(98.31)		–	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	million yen		million yen		%	
As of December 31, 2021	104,006		63,308		58.2	
As of March 31, 2021	105,105		58,339		52.6	

(Reference) Shareholders' equity As of December 31, 2021: ¥60,546 million
 As of March 31, 2021: ¥55,306 million

2. Status of dividend payments

(Record date)	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	End of year	Annual
	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 operating results for the 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: None

* 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 December 31, 2021:	45,440,100 shares
As of March 31, 2021:	45,343,500 shares
b. Treasury stock at end of term	
As of December 31, 2021:	410,034 shares
As of March 31, 2021:	3,927,388 shares
c. Average number of share (quarter-to-date)	
Nine-month period of fiscal year ending March 31, 2022:	44,036,807 shares
Nine-month period of fiscal year ended March 31, 2021:	43,581,259 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 Nine-Month Period of Fiscal Year Ending March 31, 2022

(1) Summary of Operating Results

(Unit: million yen)

Nine-month 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	121,075	122,621	100,312	54,707	76,032
Cost of sales	86,050	87,729	71,437	37,368	48,392
Gross profit	35,024	34,891	28,875	17,339	27,640
Gross profit margin	28.9%	28.5%	28.8%	31.7%	36.4%
Personnel expenses	9,843	9,936	8,860	8,047	8,516
Sales promotion and advertising expenses	6,773	6,931	5,932	4,099	5,136
General expenses	13,754	12,070	11,732	8,803	10,060
Total SG&A expenses	30,372	28,938	26,526	20,950	23,713
Operating income (loss)	4,651	5,952	2,349	(3,610)	3,926
Operating margin	3.8%	4.9%	2.3%	—%	5.2%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 0.4% year on year, to 193,638 million yen (January to December 2021; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 14.6% year on year, to 65,916 million yen (January to September 2021; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 0.2% year on year, to 136,926 million yen (January to December 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.

During the nine-month period of the fiscal year under review, consolidated net sales increased to 76,032 million yen (up 39.0% year on year), reflecting a rise in sales from the music business in particular due to the weakened impact of COVID-19. Consolidated operating income came to 3,926 million yen (compared to a consolidated operating loss of 3,610 million yen in the same period of the previous fiscal year). Consolidated profit attributable to owners of parent was 2,407 million yen (compared to a loss attributable to owners of parent of 4,284 million yen in the same period of the previous fiscal year).

(2) Summary of Financial Position

Assets totaled 104,006 million yen at the end of the third quarter under review after a decrease of 1,098 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decrease of 9,707 million yen in cash and deposits, more than offsetting increases of 5,132 million yen and 3,594 million yen in notes and accounts receivable-trade and investment securities, respectively.

Liabilities were reduced by 6,067 million yen from the end of the previous consolidated fiscal year, to 40,698 million yen. This was primarily due to a decrease of 5,613 million yen in income taxes payable.

Net assets increased 4,968 million yen from the end of the previous consolidated fiscal year, to 63,308 million yen. This was mainly due to a decrease of 5,065 million yen in treasury shares (increase in net assets) and an increase of 2,732 million yen in valuation difference on available-for-sale securities, despite a decrease of 2,709 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 Interim Period of Fiscal Year Ending March 31, 2022,” which was announced on November 4, 2021, remain unchanged because losses are expected to be posted in the fourth quarter of the fiscal year under review.

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 December 31, 2021
(Assets)		
Current assets		
Cash and deposits	52,654	42,947
Notes and accounts receivable-trade	14,120	19,252
Merchandise and finished goods	1,366	1,045
Programs and works in progress	4,652	4,202
Raw materials and supplies	300	341
Other current assets	11,904	12,656
Allowance for doubtful accounts	(281)	(350)
Total current assets	84,716	80,095
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	1,082	1,166
Land	1,548	1,548
Other property, plant and equipment, net	479	685
Total property, plant and equipment	3,110	3,400
Intangible assets		
	3,864	4,145
Investments and other assets		
Investment securities	7,143	10,738
Other investments and other assets	6,320	5,810
Allowance for doubtful accounts	(49)	(183)
Total investments and other assets	13,414	16,365
Total noncurrent assets	20,389	23,911
Total assets	105,105	104,006
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,457	1,995
Current portion of long-term loans payable	54	4
Accounts payable - other	18,341	19,062
Income taxes payable	6,040	427
Provision for bonuses	500	661
Allowance for returned goods	2,892	2,688
Provision for point card certificates	37	60
Provision for contingent loss	225	125
Other current liabilities	15,588	13,413
Total current liabilities	45,138	38,439
Noncurrent liabilities		
Long-term loans payable	4	1
Liabilities for retirement benefits	390	425
Other noncurrent liabilities	1,231	1,831
Total noncurrent liabilities	1,626	2,259
Total liabilities	46,765	40,698

(Unit: million yen)

	As of March 31, 2021	As of December 31, 2021
(Net assets)		
Shareholders' equity		
Capital stock	4,443	4,521
Capital surplus	5,171	5,416
Retained earnings	50,209	47,500
Treasury stock	(5,655)	(589)
Total shareholders' equity	54,168	56,848
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,120	3,853
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustments	(119)	(146)
Total of accumulated retirement benefits	135	(9)
Total of accumulated other comprehensive income	1,137	3,697
Subscription rights to shares	119	-
Non-controlling interests	2,914	2,761
Total net assets	58,339	63,308
Total liabilities and net assets	105,105	104,006

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 Quarterly Consolidated Statements of Income
 (Consolidated Nine-Month Period)

(Unit: million yen)

	For the nine-month period ended December 31, 2020	For the nine-month period ended December 31, 2021
Net sales	54,707	76,032
Cost of sales	37,368	48,392
Gross profit	17,339	27,640
Selling, general and administrative expenses		
Advertising expenses	3,274	4,001
Promotion expenses	825	1,134
Employee salaries and bonuses	5,155	5,319
Provision for bonus payments	15	666
Retirement benefit cost	375	69
Other selling, general and administrative expenses	11,303	12,521
Total selling, general and administrative expenses	20,950	23,713
Operating income (loss)	(3,610)	3,926
Non-operating income		
Interest income	7	14
Dividend income	2	11
Equity in gains of affiliates	–	54
Subsidy income	27	47
Surrender value of insurance policies	167	–
Other non-operating income	52	53
Total non-operating income	257	181
Non-operating expenses		
Interest expenses	55	7
Equity in losses of affiliates	308	–
Loss on investments in investment partnerships	1	2
Other non-operating expenses	96	86
Total non-operating expenses	462	95
Ordinary income (loss)	(3,815)	4,012
Extraordinary income		
Gain on reversal of subscription rights to shares	142	114
Reversal of provision for contingent loss	–	57
Subsidies for employment adjustment	393	41
Gain on sales of investment securities	2,043	–
Other extraordinary income	–	17
Total extraordinary income	2,578	230
Extraordinary loss		
Impairment loss	374	–
Loss on disaster	1,064	238
Loss on valuation of investment securities	–	10
Extra retirement payments	1,331	–
Loss on retirement of noncurrent assets	4	–
Other extraordinary loss	163	–
Total extraordinary loss	2,937	248
Income (loss) before income taxes	(4,175)	3,994
Income taxes-current	857	695
Income taxes-deferred	(1,215)	708
Total income and other taxes	(358)	1,404
Net income (loss)	(3,816)	2,590
Profit attributable to non-controlling interests	467	182
Profit (loss) attributable to owners of parent	(4,284)	2,407

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Nine-Month Period)

(Unit: million yen)

	For the nine-month period ended December 31, 2020	For the nine-month period ended December 31, 2021
Net income (loss)	(3,816)	2,590
Other comprehensive income		
Valuation difference on available-for-sale securities	134	2,716
Foreign currency translation adjustments	24	(27)
Adjustment for retirement benefits	116	(140)
Share of other comprehensive income of associates accounted for using equity method	6	11
Total other comprehensive income	280	2,560
Comprehensive income	(3,535)	5,150
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(4,003)	4,967
Comprehensive income attributable to non-controlling interests	467	182

(3) Notes Concerning Consolidated Quarterly Financial Statements

(Notes on Going Concern Assumptions)

Not applicable

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

Following a resolution at a meeting of the Board of Directors held on May 27, 2021, the Company made disposition with respect to 3,500,000 shares of its treasury stock through the implementation of a third-party allotment to CyberAgent, Inc. on June 14, 2021.

Mainly as a result of the disposition, during the nine-month period of the fiscal year under review, treasury shares decreased 5,065 million yen, standing at 589 million yen at the end of the nine-month period of the fiscal year under review.

(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 nine-month period of the fiscal year under review decreased 1,601 million yen, and the cost of sales decreased 1,631 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 nine-month 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)

The COVID-19 pandemic has been affecting the Group's business results, because the Group has been exercising voluntary restraints on holding some live performances and events as part of efforts to prevent the spread of the disease.

It is difficult at this time to accurately expect when the COVID-19 pandemic will be contained going forward, etc. However, the Group has performed accounting calculations, based on the assumption of a gradual recovery from the negative effects of the pandemic.

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).