

Consolidated Financial Summary for First Quarter of Fiscal Year Ending March 31, 2023
(Japanese Accounting Standards)

August 4, 2022

Avex Inc.

Tokyo Stock Exchange, Prime Market
(URL <https://avex.com/jp/en/>)

Code No: 7860

Representative: Katsumi Kuroiwa, President, CEO

Contact: Shinji Hayashi, Representative Director, CFO

TEL: (03) 6447-5366

Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): August 8, 2022

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, 2023

(April 1, 2022 to June 30, 2022)

(1) Consolidated operating results

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First Quarter of Fiscal Year Ending March 31, 2023	28,473	46.6	2,288	772.1	2,250	977.1	1,675	–
First Quarter of Fiscal Year Ended March 31, 2022	19,417	37.6	262	–	208	–	11	–

(Note) Comprehensive income First Quarter of Fiscal Year Ending March 31, 2023: ¥1,240 million (435.5%)
First Quarter of Fiscal Year Ending March 31, 2022: ¥231 million (–%)

	Profit per share		Diluted profit per share	
	yen		yen	
First Quarter of Fiscal Year Ending March 31, 2023	37.21		–	
First Quarter of Fiscal Year Ended March 31, 2022	0.27		0.27	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	million yen		million yen		%	
As of June 30, 2022	98,931		60,712		58.5	
As of March 31, 2022	97,801		60,694		59.2	

(Reference) Shareholders' equity As of June 30, 2022: ¥57,908 million
As of March 31, 2022: ¥57,872 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, 2022	–	25.00	–	25.00	50.00
Year ending March 31, 2023	–				
Year ending March 31, 2023 (forecast)		25.00	–	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, 2023 (April 1, 2022 to March 31, 2023)

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

	Operating profit		Profit attributable to owners of parent		Profit per share	
	million yen	%	million yen	%	Yen	
Year ending March 31, 2023	1,000	(61.3)	400	(56.5)	8.88	

(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 June 30, 2022:	45,440,100 shares
As of March 31, 2022:	45,440,100 shares
b. Treasury stock at end of term	
As of June 30, 2022:	410,124 shares
As of March 31, 2022:	410,124 shares
c. Average number of share (quarter-to-date)	
First Quarter of Fiscal Year Ending March 31, 2023:	45,029,976 shares
First Quarter of Fiscal Year Ended March 31, 2022:	42,070,804 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 business results and other forward-looking statements 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 First Quarter of Fiscal Year Ending March 31, 2023

(1) Summary of Operating Results

(Unit: million yen)

First quarter results	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ending March 31, 2022	Fiscal year ending March 31, 2023
Net sales	32,276	29,028	14,108	19,417	28,473
Cost of sales	23,623	20,475	8,795	12,537	17,947
Gross profit	8,652	8,552	5,313	6,880	10,526
Gross profit margin	26.8%	29.5%	37.7%	35.4%	37.0%
Personnel expenses	2,934	2,836	2,633	2,545	3,241
Sales promotion and advertising expenses	2,071	1,453	953	1,332	1,745
General expenses	3,491	3,896	2,780	2,739	3,251
Total SG&A expenses	8,497	8,186	6,367	6,617	8,237
Operating profit (loss)	155	366	(1,054)	262	2,288
Operating margin	0.5%	1.3%	−%	1.4%	8.0%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 10.4% year on year, to 97,278 million yen (January to June 2022; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 18.5% year on year, to 25,109 million yen (January to March 2022; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 19.7% year on year, to 55,820 million yen (January to June 2022; according to a survey by the Japan Video Software Association). However, the digital video distribution market is expected to continue to grow, going forward, with video distribution services expected to become established and popular more broadly.

In this business environment, the Group sought to fulfill two missions, namely, i) the establishment of an earnings structure not dependent on the live performance market and ii) the entry into the global market and a new technology market. To establish a new earnings structure, the Group signed new contracts with parties who are popular among young people, namely, artists, celebrities and creative professionals, engaged in content production, launched online live performances through paid distribution services, and expanded sales channels for its music streaming services. In addition, the Group advanced initiatives to explore the potential of future entertainment in the global market and new technology market, such as the development and launch of new artists targeting the global market and sales of NFT content in the virtual world called the metaverse.

In the first quarter under review, consolidated net sales climbed to 28,473 million yen (up 46.6% year on year), consolidated operating profit jumped to 2,288 million yen (up 772.1% year on year), and consolidated profit attributable to owners of parent came to 1,675 million yen (compared to 11 million yen in the same period of the previous fiscal year), reflecting increased sales in the music business.

(2) Summary of Financial Position

Assets totaled 98,931 million yen at the end of the first quarter under review after an increase of 1,129 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to increases of 912 million yen in Other in current assets and 706 million yen in notes and accounts receivable - trade, which more than offset a decline in investment securities.

Liabilities increased by 1,111 million yen from the end of the previous consolidated fiscal year, to 38,218 million yen. This was primarily due to an increase of 1,924 million yen in Other in current liabilities, despite decreases of 444 million yen in notes and accounts payable - trade and 204 million yen in provision for bonuses.

Net assets increased 18 million yen from the end of the previous consolidated fiscal year, to 60,712 million yen. This was mainly due to an increase of 560 million yen in retained earnings, which offset a decrease of 505 million yen in valuation difference on available-for-sale securities.

(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, 2023, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2022” announced on May 12, 2022 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, 2022	As of June 30, 2022
(Assets)		
Current assets		
Cash and deposits	44,671	44,941
Notes and accounts receivable - trade	13,855	14,562
Merchandise and finished goods	1,058	1,154
Programs and works in progress	5,175	4,944
Raw materials and supplies	301	258
Other	10,436	11,348
Allowance for doubtful accounts	(172)	(181)
Total current assets	75,326	77,027
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,945	2,173
Land	1,548	1,548
Other, net	860	710
Total property, plant and equipment	4,354	4,431
Intangible assets		
	4,156	4,099
Investments and other assets		
Investment securities	8,564	7,877
Other	5,591	5,702
Allowance for doubtful accounts	(191)	(207)
Total investments and other assets	13,964	13,372
Total non-current assets	22,475	21,903
Total assets	97,801	98,931
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	2,556	2,111
Current portion of long-term borrowings	7	7
Accounts payable - other	16,052	15,911
Income taxes payable	264	491
Refund liabilities	2,446	2,278
Contract liabilities	46	53
Provision for bonuses	575	371
Provision for contingent loss	95	45
Other	13,407	15,332
Total current liabilities	35,451	36,603
Non-current liabilities		
Long-term borrowings	9	7
Liabilities for retirement benefits	350	357
Other	1,295	1,249
Total non-current liabilities	1,655	1,615
Total liabilities	37,106	38,218

(Unit: million yen)

	As of March 31, 2022	As of June 30, 2022
(Net assets)		
Shareholders' equity		
Share capital	4,521	4,521
Capital surplus	5,422	5,422
Retained earnings	45,924	46,485
Treasury shares	(590)	(590)
Total shareholders' equity	55,278	55,839
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,750	2,244
Foreign currency translation adjustment	(160)	(163)
Remeasurements of defined benefit plans	4	(11)
Total of accumulated other comprehensive income	2,593	2,069
Non-controlling interests	2,822	2,804
Total net assets	60,694	60,712
Total liabilities and net assets	97,801	98,931

(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, 2021	For the first quarter ended June 30, 2022
Net sales	19,417	28,473
Cost of sales	12,537	17,947
Gross profit	6,880	10,526
Selling, general and administrative expenses		
Advertising expenses	1,013	1,135
Promotion expenses	319	609
Employees' salaries and bonuses	1,742	1,818
Provision for bonuses	50	370
Retirement benefit expenses	23	61
Other	3,468	4,242
Total selling, general and administrative expenses	6,617	8,237
Operating profit	262	2,288
Non-operating income		
Interest income	5	4
Dividend income	3	2
Share of profit of entities accounted for using equity method	–	14
Subsidy income	6	10
Other	11	17
Total non-operating income	26	49
Non-operating expenses		
Interest expenses	1	3
Share of loss of entities accounted for using equity method	42	–
Loss on valuation of cryptocurrencies	–	59
Other	36	26
Total non-operating expenses	80	88
Ordinary profit	208	2,250
Extraordinary income		
Reversal of provision for contingent loss	–	50
Subsidies for employment adjustment	35	–
Gain on reversal of share acquisition rights	29	–
Total extraordinary income	64	50
Extraordinary losses		
Loss on disaster	67	–
Loss on valuation of investment securities	9	–
Total extraordinary losses	77	–
Profit before income taxes	195	2,300
Income taxes - current	128	296
Income taxes - deferred	(20)	239
Total income taxes	107	535
Profit	88	1,764
Profit attributable to non-controlling interests	76	88
Profit attributable to owners of parent	11	1,675

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated First Quarter)

(Unit: million yen)

	For the first quarter ended June 30, 2021	For the first quarter ended June 30, 2022
Profit	88	1,764
Other comprehensive income		
Valuation difference on available-for-sale securities	186	(508)
Foreign currency translation adjustments	(3)	(2)
Remeasurements of defined benefit plans, net of tax	(47)	(10)
Share of other comprehensive income of associates accounted for using equity method	7	(2)
Total other comprehensive income	143	(524)
Comprehensive income	231	1,240
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	154	1,151
Comprehensive income attributable to non-controlling interests	76	88

(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 Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Fair Value Measurement Implementation Guidance") at the beginning of the first quarter under review. It will continue to implement the new accounting policy stipulated in the Fair Value Measurement Implementation Guidance according to the provisional treatment stipulated in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance.

The application of the Fair Value Measurement Implementation Guidance mentioned above has no impact on quarterly financial statements.

(Additional Information)

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

No significant changes have been made to accounting calculation in connection with the spread of COVID-19.

(Application of the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)

The Company and certain of its consolidated subsidiaries in Japan made a shift from the consolidated taxation system to the group tax sharing system in the first quarter of the fiscal year under review. Consequently, with respect to accounting processing and disclosures for income tax, local corporate income tax and tax effect accounting, the Company started to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 42 issued August 12, 2021, hereinafter "PITF No. 42"). In addition, based on Paragraph 32-(1) of PITF No. 42, the Company considers that there will be no impact of changes in its accounting policy resulting from the application of PITF No. 42.