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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2023

Company name: IMAGICA GROUP Inc. Filing date: November 2, 2022
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 Quarterly report filing date (as planned): November 2, 2022
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: Yes

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Second Quarter of the fiscal year ending March 31, 2023 (April 1, 2022 – September 30, 2022)

(1) Consolidated Operating Results

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
6 months ended Sept 30, 2022	41,589	22.9	1,411	227.0	1,336	33.7	799	(52.8)
6 months ended Sept 30, 2021	33,846	(5.6)	431	—	999	—	1,694	—

(Note) Comprehensive income: 2nd quarter ended September 30, 2022: 2,750 millions of yen / 18.1 %
 2nd quarter ended September 30, 2021: 2,328 millions of yen / — %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
6 months ended Sept 30, 2022	17.98	—
6 months ended Sept 30, 2021	38.17	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Sept 30, 2022	83,883	35,925	39.5
As of March 31, 2022	73,384	34,025	42.4

(Reference) Shareholders' equity: As of September 30, 2022: 33,132 millions of yen
 As of March 31, 2022: 31,149 millions of yen

2. Dividends

	Dividend per share				
	1st quarter- end	2nd quarter- end	3rd quarter- end	Year-end	Annual
	yen	yen	yen	yen	yen
Year ended March 31,2022	—	0.00	—	15.00	15.00
Year ending March 31,2023	—	0.00			
Year ending March 31,2023 (Forecast)			—	15.00	15.00

(Note) Changes in dividends forecast from the latest disclosed information: None

3. Consolidated forecast for the fiscal year ending March 31, 2023 (April 1, 2022 - March 31, 2023)

(Percentage represents change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share of common stock
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Fiscal year ending March 31, 2023	88,000	9.7	3,600	5.3	3,300	(16.1)	2,100	(23.0)	47.30

(Note) Changes in earnings forecast from the latest disclosed information : None

*Notes:

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): None

(2) The application of specific accounting of the consolidated quarterly financial statements: Yes

(3) Changes in accounting policies, accounting estimates and retrospective

1) Changes in accounting policies based on revisions of accounting standards: Yes

2) Changes in accounting policies other than ones based on revisions of accounting standards: Yes

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)

1) Number of issued and outstanding shares at the end of fiscal year (including treasury stock)

As of September 30, 2022	44,741,467 shares	As of March 31, 2022	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of September 30, 2022	155,842 shares	As of March 31, 2022	345,938 shares
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3) Average number of shares

As of September 30, 2022	44,469,282 shares	As of September 30, 2021	44,390,071 shares
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***Consolidated quarterly financial results are exempted from quarterly review by a public certified accountant or an auditing firm.**

(Explanation regarding the appropriate usage of financial forecasts and other special instructions)

Forward-looking statements, such as financial forecasts, presented in this document are based on information available and certain assumptions deemed to be reasonable to the Company at the time of publication, and are not to be read as guarantees of future performance by the Company. For preconditions of the assumptions and special instructions regarding the appropriate use of financial forecasts, please refer to "1. Qualitative Information on Results in the Second Quarter, (3) Explanation of Consolidated Financial Forecast and Forward-looking Statements" on page of the supplemental material.

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1. Qualitative Information on Results in this Quarter

(1) Explanation of operating results

① Overview of the second quarter of the consolidated fiscal year ending March 31, 2023

In the imaging-related business, the Group's main business domain, the market environment is undergoing dizzying changes, including rapid technological innovation, the emergence of online live shows and new forms of entertainment utilizing the metaverse due to social changes caused by the COVID-19 pandemic, and fiercer competition among video streaming service providers.

Viewing this environment as an opportunity for growth, the Group has launched its mid-term plan "G-EST 2025." In the fiscal year ending March 31, 2023, the second year of the plan, we plan to "continue to build the foundation for conversion to a high profitability Group" and will maintain our efforts to promote various initiatives based on our four key strategies.

During the second quarter of the consolidated fiscal year ending March 31, 2023, net sales were 41,589 million yen (up 22.9% year on year), operating income was 1,411 million yen (up 227.0% year on year), ordinary income was 1,336 million yen (up 33.7% year on year), and net income attributable to owners of the parent was 799 million yen (down 52.8% year on year). The decrease in net income attributable to owners of the parent was due to an increase in income taxes compared to the previous year.

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the consolidated fiscal year ending March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which was previously included in "Adjustments," was reclassified to the Content Creation business segment because of an increase in its importance.

Comparisons and analyses for the second quarter of the consolidated fiscal year ending March 31, 2023, are based on the new classification.

1) Content Creation business

Net sales for the second quarter of the consolidated fiscal year were 9,045 million yen (up 0.6% year on year), and operating income was 46 million yen (up 19.0% year on year).

In feature films and dramas, the number of projects increased from the previous fiscal year, and net sales remained steady. In production of TV commercials, orders showed movement toward recovery from the previous year. The gross margin ratio for animation productions is improving due to strict per-production profit management and the streamlining of production. In the live entertainment business, orders were robust.

These developments resulted in an increase in sales and profit for the overall Content Creation business segment.

2) Production Services business

Net sales for the second quarter of the consolidated fiscal year were 25,596 million yen (up 38.7% year on year), and operating income was 1,192 million yen (up 489.7% year on year).

In domestic E2E services*, post-production services for feature films, drama series, and feature animations were firm. Orders for digital cinema services also increased. In addition, net sales remained strong in the areas of encoding and localization, including compression and conversion of video files, as we continued to secure orders from video streaming service providers.

In overseas E2E services, both net sales and profit grew significantly due to continued strong demand for localization for video streaming service providers.

In post-production services for TV programs and TV commercials, net sales remained solid due to an increase in live broadcasting and distribution projects for live events and sports events, despite difficulties attributable to the rebound from large-scale event projects in the previous fiscal year.

In game production and human talent services, etc., orders for game 3DCG production, debugging, and other services remained strong.

As a result, net sales and income grew for the overall Production Services business.

* E2E services: End-to-end services. Refers to an integrated end-to-end (E2E) service that covers the entire post-production process for feature films, dramas, animation, and other audio/video content through 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.

* Overseas E2E services have a settlement date of December 31, so E2E earnings from January 1, 2022, to June 30, 2022, are reflected in the results for the second quarter of the consolidated fiscal year ending March 31, 2023.

3) Imaging Systems & Solutions business

In terms of performance for the second quarter of the consolidated fiscal year, net sales were 8,212 million yen (up 12.2% year on year), and operating income was 712 million yen (up 46.6% year on year).

For the high-speed camera business, orders were received steadily partly due to the release of two new models, but shipment delays continued due to the impact of semiconductor shortages. Sales increased in the Broadcast Imaging Systems & Solutions segment, with contribution from a large project that was ordered in the first quarter. In the Optical Measurement Business, net sales of both optical elements and optical measurement systems increased significantly in line with the recovery in capital investments. Sales of online delivery of TV commercials remained strong, and robust sales of image processing LSIs continued in Japan and overseas (especially in Asia).

Therefore, net sales and income rose for the overall Imaging Systems & Solutions business.

(2) Explanation of financial position

① Assets

Current assets increased by 3,443 million yen (8.4%) from the end of the previous consolidated fiscal year to 44,510 million yen. This was primarily due to a decrease in cash and deposits and an increase in inventory assets.

Non-current assets increased by 7,055 million yen (21.8%) from the end of the previous consolidated fiscal year to 39,372 million yen. This was primarily due to an increase in lease assets and an increase in goodwill attributable to foreign currency translation effects.

As a result, total assets increased by 10,499 million yen (14.3%) from the end of the previous consolidated fiscal year to 83,883 million yen.

② Liabilities

Current liabilities increased by 4,536 million yen (14.1%) from the end of the previous consolidated fiscal year to 36,815 million yen.

This was primarily due to increases in contract liabilities and short-term loans payable, amid a decrease in notes and accounts payable.

Non-current liabilities increased by 4,062 million yen (57.4%) from the end of the previous consolidated fiscal year to 11,142 million yen. This was primarily due to an increase in lease obligations included under Non-current liabilities in Others, net, amid a decrease in long-term loans payable.

As a result, total liabilities increased by 8,599 million yen (21.8%) from the end of the previous consolidated fiscal year to 47,958 million yen.

③ Net assets

Net assets increased by 1,899 million yen (5.6%) from the end of the previous consolidated fiscal year to 35,925 million yen.

This was primarily due to an increase in foreign currency translation adjustments.

(3) Explanation of consolidated forecasts and other forward-looking information

There are no revisions to the full-year forecasts for the consolidated fiscal year ending March 31, 2023, from those announced on May 13, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2022	September 30, 2022
Assets		
Current assets		
Cash and deposits	6,420,308	4,752,136
Notes and accounts receivable - trade, and contract assets	18,849,395	17,789,699
Inventories	13,613,658	18,968,207
Other	2,223,017	3,058,334
Allowance for doubtful accounts	(39,570)	(57,800)
Total current assets	41,066,808	44,510,577
Non-current assets		
Property, plant and equipment		
Buildings and structures	5,448,367	5,469,488
Machinery, equipment and vehicles	832,609	798,706
Land	1,705,807	1,705,807
Lease Assets	303,675	5,169,238
Other	1,878,964	2,164,010
Total Property, plant and equipment	10,169,425	15,307,251
Intangible assets		
Goodwill	11,482,801	12,959,037
Other	2,352,770	2,553,012
Total Intangible assets	13,835,572	15,512,049
Investments and other assets		
Investment securities	2,670,687	2,643,098
Stocks of subsidiaries and affiliates	385,838	502,002
Lease and guarantee deposits	2,066,324	2,127,186
Deferred tax asset	3,051,529	3,093,418
Other	286,596	345,967
Allowance for doubtful accounts	(148,462)	(158,014)
Total Investments and other assets	8,312,513	8,553,659
Total Non-current assets	32,317,511	39,372,961
Total assets	73,384,320	83,883,538

(Thousands of yen)	March 31, 2022	September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable- trade	8,884,981	7,118,552
Short-term loans payable	4,170,485	5,495,351
Accounts payable	1,824,055	1,144,759
Income taxes payable	850,863	336,202
Contract liabilities	8,373,707	14,135,909
Provision for bonuses	1,594,260	814,406
Provision for loss on order received	3,717	3,096
Provision for loss on litigation	584,309	685,213
Asset retirement obligations	41,401	—
Other	5,951,109	7,082,337
Total current liabilities	32,278,892	36,815,830
Non-current liabilities		
Long-term loans payable	4,019,743	3,683,409
Long-term accounts payable-other	208,183	291,506
Deferred tax liabilities	396,815	436,551
Net defined benefit liabilities	1,311,241	1,287,528
Asset retirement obligations	636,938	642,600
Other	507,067	4,800,723
Total non-current liabilities	7,079,990	11,142,318
Total Liabilities	39,358,882	47,958,149
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,223,561	13,020,018
Retained earnings	13,785,809	13,917,901
Treasury stock	(351,569)	(158,379)
Total shareholders' equity	29,963,804	30,085,543
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	610,074	565,116
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	595,800	2,502,576
Re-measurements of defined benefit plans	(2,483)	(2,814)
Total accumulated other comprehensive income	1,185,458	3,046,946
Non-controlling Interests	2,876,174	2,792,899
Total Net assets	34,025,437	35,925,388
Total liabilities and Net assets	73,384,320	83,883,538

(2) Quarterly Consolidated Statements of Income and Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

(Thousands of yen)	6 months ended September 30, 2021	6 months ended September 30, 2022
Net sales	33,846,057	41,589,200
Cost of sales	23,987,688	29,497,045
Gross profit	9,858,368	12,092,154
Selling, general and administrative expenses	9,426,616	10,680,221
Operating income	431,751	1,411,932
Non-operating income		
Interest income	558	640
Dividend income	14,041	16,712
Rent income	32,776	32,193
Equity in earnings of affiliates	1,196	—
Foreign exchange gains	5,669	46,133
Other	661,029	57,855
Total non-operating income	715,273	153,536
Non-operating expenses		
Interest expenses	101,087	113,758
Equity in losses of affiliates	—	524
Other	46,422	114,350
Total non-operating expenses	147,510	228,632
Ordinary income	999,514	1,336,836
Extraordinary income		
Gain on sales of non-current assets	813	7,001
Compensation for forced relocation	—	277,370
Other	792,747	34,168
Total extraordinary income	793,560	318,540
Extraordinary losses		
Loss on retirement of non-current assets	10,946	1,894
Office transfer related expenses	224,131	50,263
Extra retirement payments	—	170,228
Other	2,131	12,320
Total extraordinary losses	237,210	234,707
Net income before income tax	1,555,865	1,420,669
Income taxes	(191,788)	548,238
Net income	1,747,654	872,430
Net income attributable to non-controlling interests	53,311	72,780
Net income attributable to owners of the parent	1,694,342	799,650

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	6 months ended September 30, 2021	6 months ended September 30, 2022
Net income	1,747,654	872,430
Other comprehensive income		
Valuation difference on available-for-sale securities	(178,691)	(36,838)
Foreign currency translation adjustment	759,644	1,915,588
Re-measurements of defined benefit plans	(335)	(330)
Total other comprehensive income	580,617	1,878,418
Comprehensive income	2,328,271	2,750,849
(Breakdown)		
Comprehensive income attributable to owners of parent	2,274,794	2,661,138
Comprehensive income attributable to non-controlling interests	53,477	89,711

(3) Notes related to quarterly consolidated financial statements

(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

(Notes in the event of significant changes in shareholders' equity)

No relevant matters to be noted.

(The application of specific accounting of the consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by rationally estimating the effective tax rate after applying tax effect accounting to net income before income tax for the consolidated fiscal year that includes the current second quarter and multiplying net income before income taxes for the quarter by the estimated effective tax rate.

However, if the calculation of tax expenses using this estimated effective tax rate leads to obviously irrational results, the statutory effective tax rate is used after adjusting income/loss before income taxes for material differences that do not fall under temporary differences.

(Changes in accounting policies)

(1) Adoption of FASB Accounting Standards Codification (ASC) No. 842, "Leases"

As of the beginning of the first quarter of the consolidated fiscal year ending March 31, 2023, ASC No. 842, "Leases," was adopted for foreign consolidated subsidiaries that have adopted U.S. GAAP.

In principle, therefore, all leases of lessees are recorded as assets and liabilities. When applying this standard, the Company follows transitional treatment and recognizes the cumulative effect of a change in accounting policy at the date of adoption.

As a result, "Lease assets (net)" under property, plant, and equipment, "Other" under current liabilities, and "Other" under non-current liabilities increased 3,002,985 thousand yen, 384,364 thousand yen, and 2,735,036 thousand yen, respectively, at the beginning of the first quarter of the current fiscal year. The effect on retained earnings at the beginning of the first quarter of the current consolidated fiscal year and the effect on the quarterly consolidated statement of income for the second quarter of the current consolidated fiscal year are immaterial.

(2) Change in method for calculating tax expenses

Previously, with the exception of some consolidated subsidiaries, tax expenses were calculated using the basic method. However, in order to further improve the efficiency of the Company and its consolidated subsidiaries' quarterly accounting operations, effective from the first quarter of the current consolidated fiscal year, the Company has changed the method it uses to calculate tax expenses to rationally estimating the effective tax rate after applying tax effect accounting to net income before income taxes for the consolidated fiscal year and then multiplying the estimated effective tax rate and net income before income taxes for the quarter.

Since the impact of this change is immaterial, it has not been retrospectively applied.

(Segment information and others)

[Segment Information]

I. For the 6 months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	8,927,902	17,931,664	6,978,803	33,838,371
Inter-segment sales or transfers	65,967	526,427	342,277	934,672
Total	8,993,870	18,458,092	7,321,080	34,773,043
Segment Income	39,372	202,234	486,246	727,853

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	7,685	33,846,057
Inter-segment sales or transfers	(934,672)	—
Total	(926,986)	33,846,057
Segment Income	(296,101)	431,751

Notes:

1. The segment income adjustment of (296,101) thousand yen consists of income/loss related to the Company of 874,051 thousand yen and elimination of inter-segment transactions of (1,170,153) thousand yen.
2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

II. For the 6 months ended September 30, 2022 (from April 1, 2022 to September 30, 2022)

1. Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	9,029,270	24,727,181	7,823,188	41,579,640
Inter-segment sales or transfers	16,549	868,927	389,104	1,274,581
Total	9,045,820	25,596,109	8,212,292	42,854,222
Segment income	46,870	1,192,524	712,740	1,952,135

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	9,559	41,589,200
Inter-segment sales or transfers	(1,274,581)	—
Total	(1,265,022)	41,589,200
Segment income	(540,202)	1,411,932

Notes:

1. Adjustment of segment income of (540,202) thousand yen consists of income/loss related to the Company of 1,365,953 thousand yen and elimination of inter-segment transactions of (1,906,156) thousand yen.
2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

2. Note concerning changes in reportable segments

Effective from the first quarter of the consolidated fiscal year ending March 31, 2023, one consolidated subsidiary (IMAGICA EEX Inc.), which was previously included in "Adjustments," was reclassified to the Content Creation business segment because of an increase in its importance.

"Information regarding net sales and income (loss) by reportable segment" for the second quarter of the previous fiscal year is presented based on the new classification.