

Financial Results Presentation

First Half for FYE Mar. 2023

November 9, 2022

Stock code : 6879

<https://www.imagicagroup.co.jp/>



Contents of Today's Presentation

- I First Half Financial Results Summary for FYE Mar. 2023**
- II Progress on Mid-Term Plan "G-EST 2025"**

Nobuo Fuse, Representative Director, President

G-EST means: From four key strategies

G: The "3Gs," Growth, Global, and Group

E: E2E and Live Entertainment (global E2E business, live entertainment business)

S: System (Imaging Systems & Solutions business)

T: Transformation (Transformation business)

* Fiscal years in this presentation are abbreviated as follows: Fiscal year ended March 31, 2023 → FYE Mar. 2022

Key Points of Financial Results

1 **Company-wide operating income before goodwill amortization was approximately 2.2 billion yen, an increase of 1.0 billion yen from the previous year**

2 **Production Services continues to be driven by overseas demand, with profit increasing by 1.0 billion yen from the previous year**

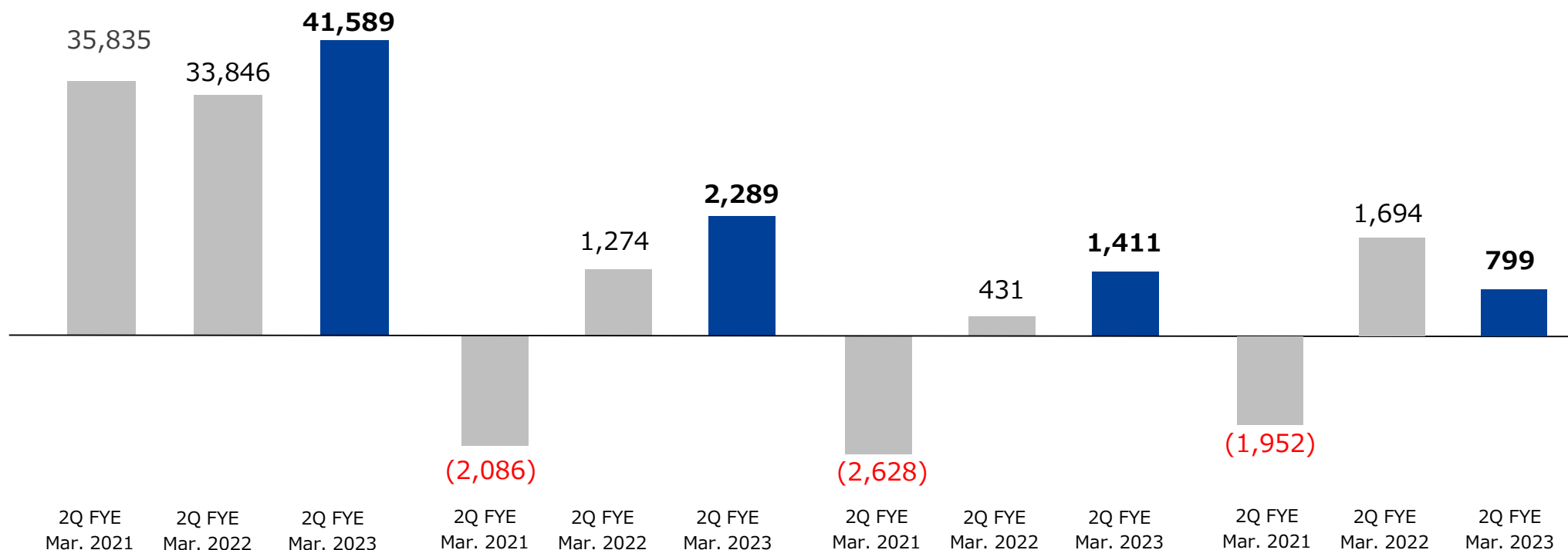
3 **Net income attributable to owners of the parent decreased by 800 million yen due to an increase in income taxes and the absence of extraordinary income recorded in the previous year**

Highlights of Financial Results

- The company secured a significant increase in both sales and profits. Net income declined from the previous year due to the absence of extraordinary gains recorded in the previous year and an increase in income taxes, etc.

(Million Yen)

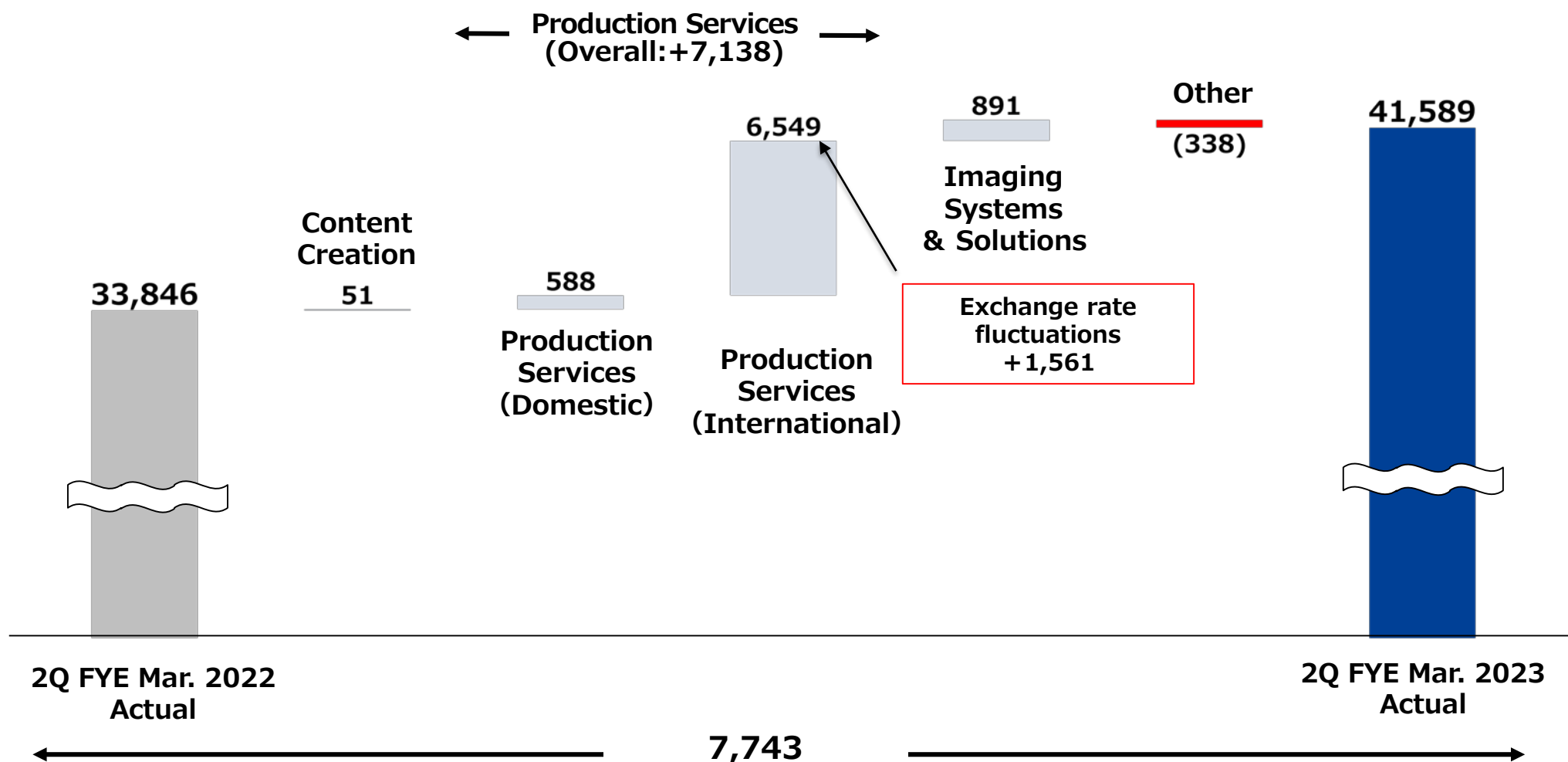
Net sales	Operating income (loss) before goodwill amortization	Operating income(loss)	Net income (loss) attributable to owners of the parent
41,589	2,289	1,411	799
YoY +7,743 (+22.9%)	YoY +1,015 (+79.7%)	YoY +980 (+227.0%)	YoY (895)



Analysis of Increase/Decrease in Net Sales (YoY)

- Sales increased in all segments, especially Production Services (International), in which sales increased by 6.5 billion yen.

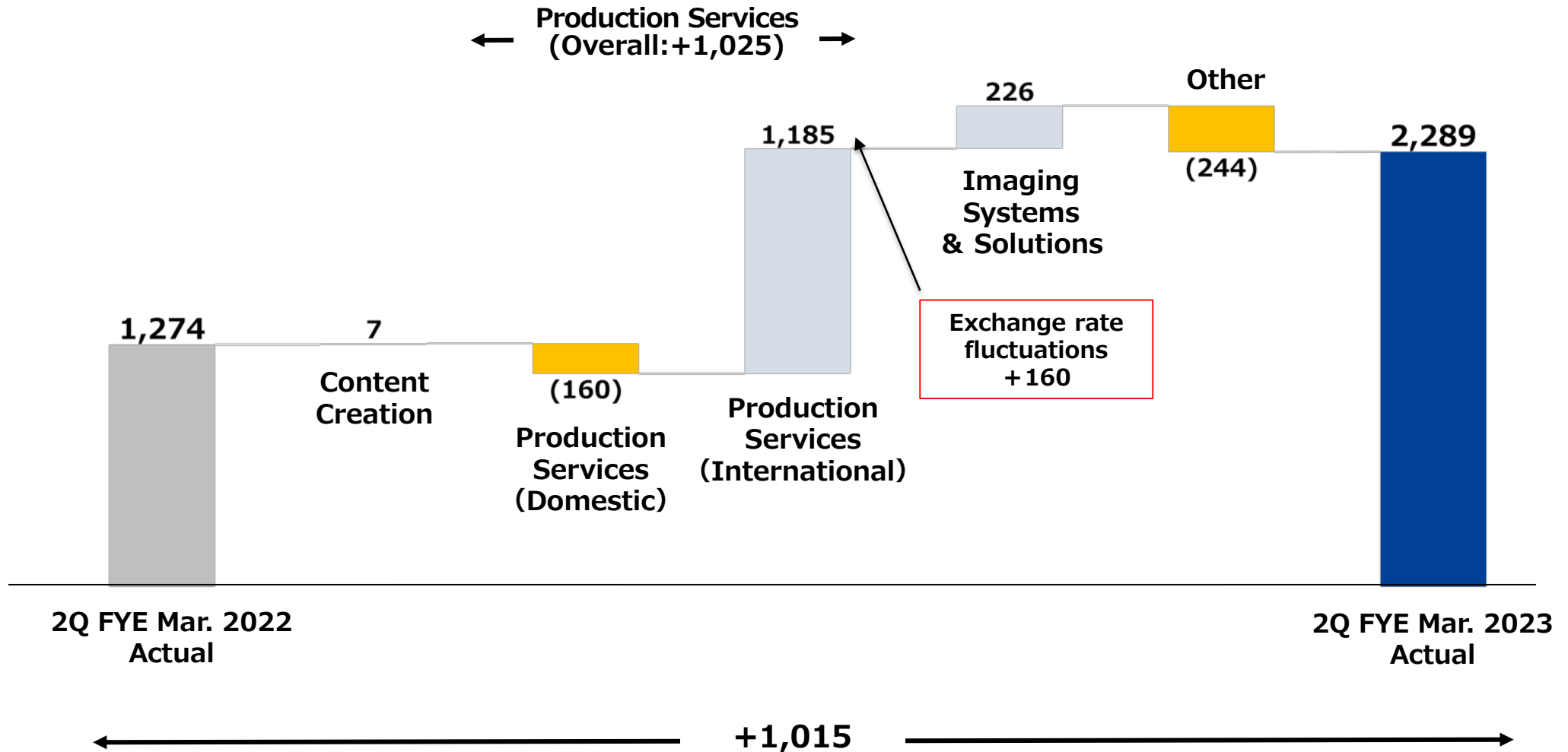
(Million Yen)



Analysis of Increase/Decrease in Operating Income before goodwill amortization (YoY)

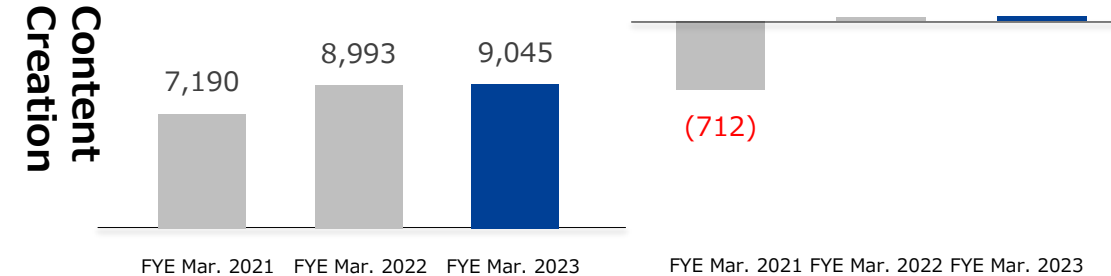
- Profit increased by 1.0 billion yen in Production Services and 200 million in Imaging Systems & Solutions. On a consolidated basis, profit increased by 1.0 billion yen.

(Million Yen)



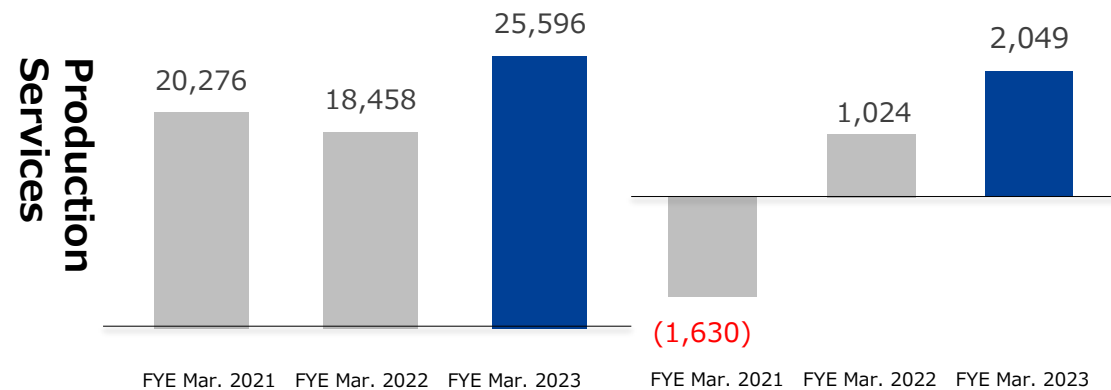
Overview by Segment (FYE Mar. 2021-2023 1H actual)

(Unit: million yen)



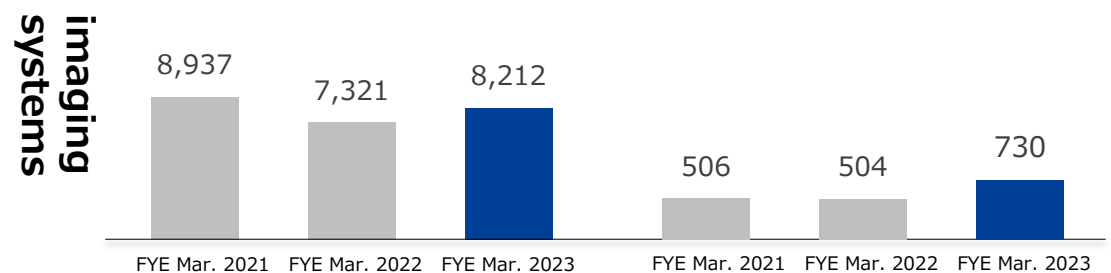
Increase in sales and profit

- ✓ Robust net sales in feature film, drama, and TV commercial production
- ✓ In anime production, gross profit improved



Increase in sales and profit

- ✓ Overseas: Strong results in E2E services for video streaming service providers
- ✓ Domestic: Strong results in E2E services and post-production services, but fixed costs associated with site relocation increased



Increase in sales and profit

- ✓ Broadcast Imaging Systems & Solutions, Image Processing LSI, and optical measurement remained strong
- ✓ Orders for high-speed cameras were solid, but net sales were flat YoY due to reasons including shortages of semiconductors

FYE Mar.2023: Full-year forecasts

•The impact of the semiconductor shortage is still unclear, and there was a special demand in the second half of the previous year, so the full-year forecast remains unchanged.

(Million yen)	FYE Mar.2022	FYE Mar.2023		
	Actual	Financial forecast	YoY change	YoY change
Net sales	80,184	88,000	7,816	9.7%
Operating income before goodwill amortization	5,131	5,200	69	1.3%
(Profit margin)	6.4%	5.9%		
Operating income	3,417	3,600	183	5.3%
(Profit margin)	4.3%	4.1%		
Ordinary income	3,934	3,300	(634)	(16.1%)
Net income attributable to parent company shareholders	2,729	2,100	(629)	(23.0%)
Net income per share (yen)	61.49	47.30	(14.19)	(23.0%)

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(Re-posting) Mid-Term Plan "G-EST 2025"

Become a Group consisted of a balanced, highly profitable businesses that is resilient even under adverse circumstances

<Key Strategies>

1. Expand "Global E2E" Business

2. Establish a new Live Entertainment business

3. Generate Additional Business Value in the Imaging Systems & Solutions business

4. Complete Transformation in the "Transformational business"

<Strategic Measures>

Achieve company transformation through DX

Strengthen R&D capabilities

Secure & activate talented employees

<Resolve Social Challenges and Achieve Sustainable Growth>

SDGs initiatives

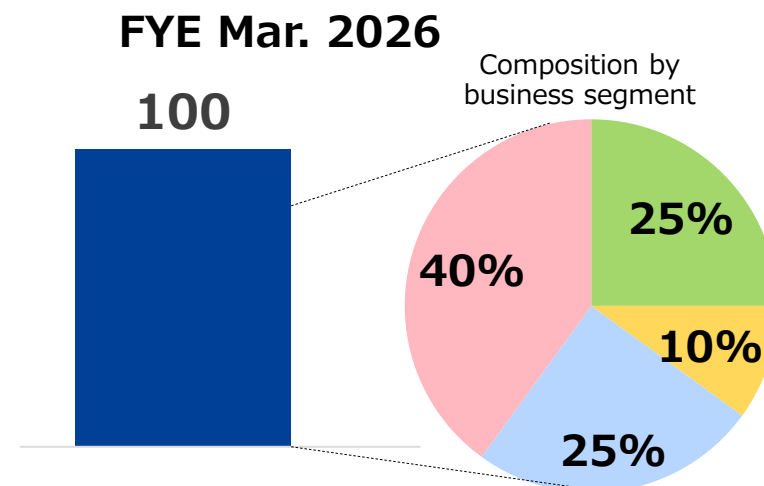
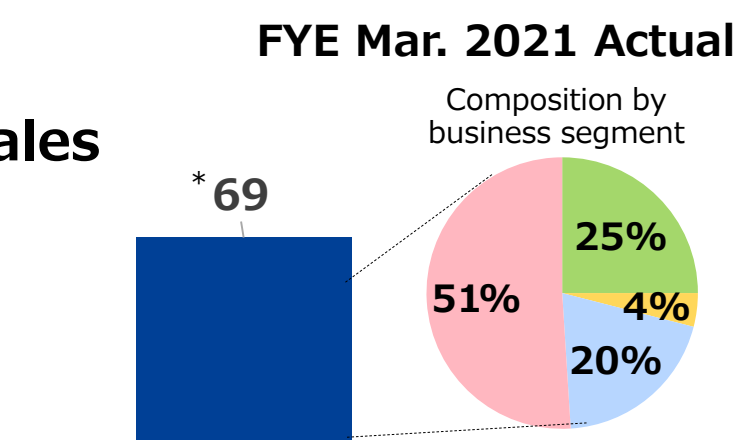
(Re-posting) Financial Goals in the Mid-Term Plan "G-EST 2025"

- Targeting to become a balanced business structure



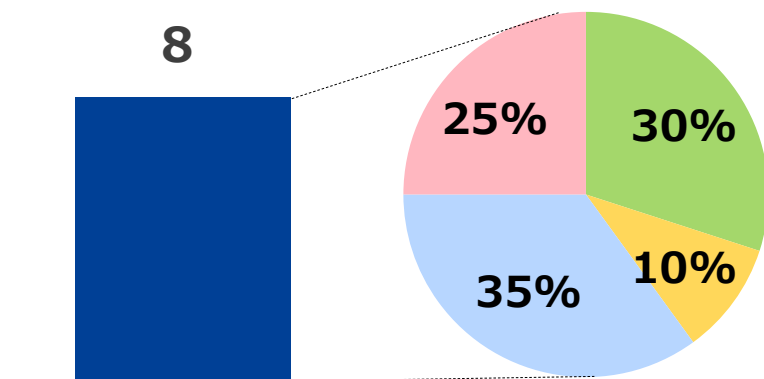
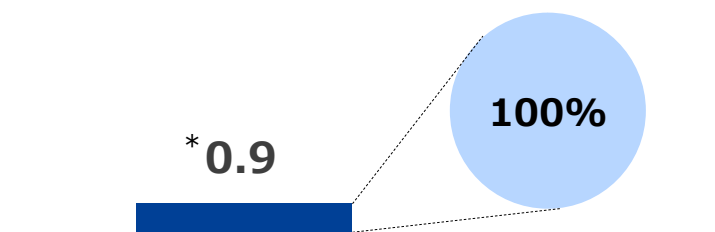
(Billion Yen)

Net sales



Operating income

(Before goodwill amortization)



* Net sales and operating income for FYE Mar. 2021 were adjusted for the impact from a change in accounting policies in overseas M&A and the Imaging Systems & Solutions business, for purposes of comparison.

FYE Mar. 2023 Highlights and Progress as of 1H

1

Growth investments for 2025 will be carried out (approx. 3.5 billion yen)



Growth investments are progressing according to plan. The expansion of overseas sites in the Global E2E Business is scheduled for completion by the end of the year

2

For net sales in the Global E2E Business, the live entertainment business and the Transformational Business, we aim to exceed levels in the Mid-Term Plan



All businesses are making steady progress toward exceeding the levels of the Mid-Term Plan

3

In the Imaging Systems Business, we aim to improve profitability and increase sales and profit

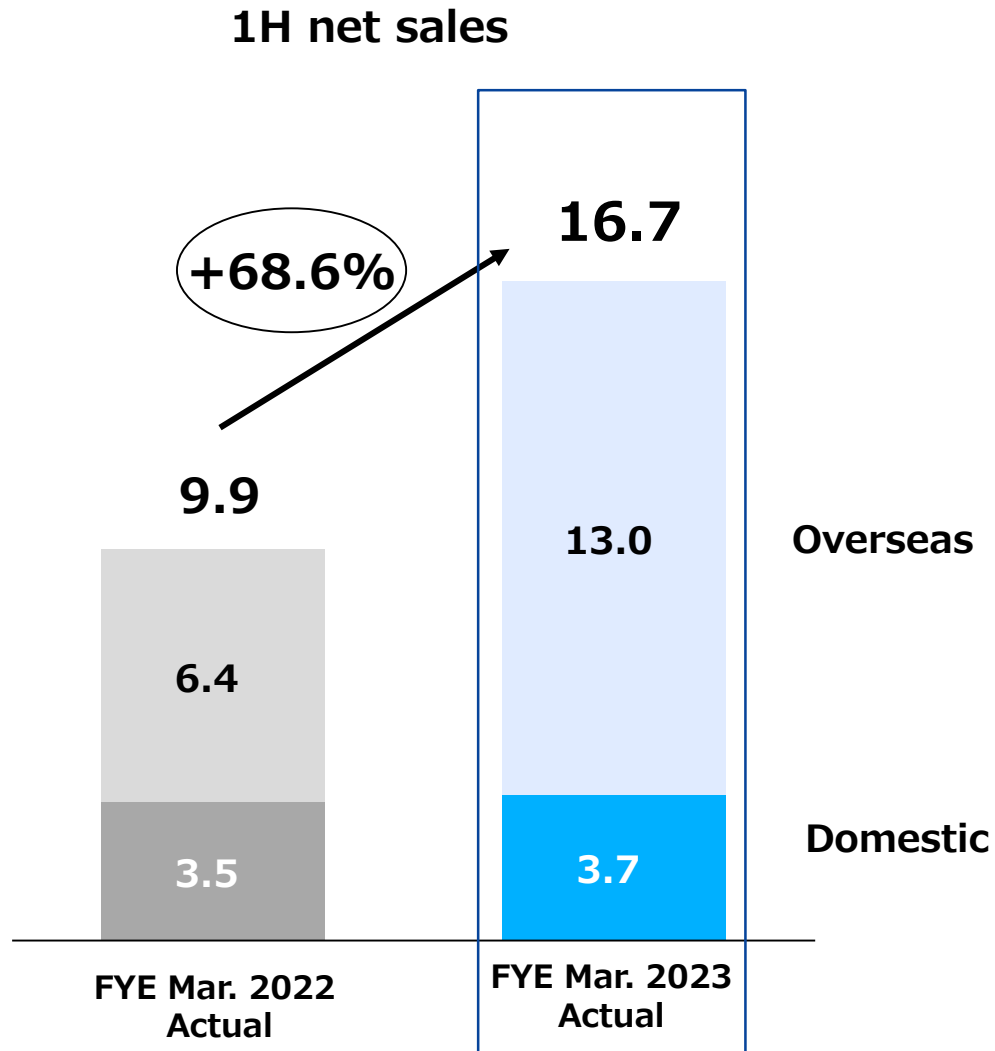


**1H: 15% increase in sales; 2.2-point increase in operating margin;
8.7% actual**

Expand Global E2E Business

- Strong overseas performance led to a significant YoY increase of +68.6%

(billion yen)



FYE Mar. 2023 Progress Report

- ✓ **Overseas site expansion is proceeding in line with the Mid-Term Plan**
 - (1) Site expansion is scheduled for completion within the year
 - (2) Additional development of in-house IT systems is also progressing
- ✓ **Movements in the video streaming market**
 - Demand remains strong due to increase in distribution platforms and increase in non-English speaking productions

Pixelogic Progress in site expansion

• Completion of construction expected within FYE Mar. 2023













	Details of expansion		Construction progress
U.S. LA	<ul style="list-style-type: none"> ✓ Headquarters and all service function sites ✓ 1st floor expansion and expansion of audio-related equipment 		90% Completion
United Kingdom London	<ul style="list-style-type: none"> ✓ Site for sales and all service functions for European customers ✓ Expansion of service-related facilities and office space 		December: Scheduled for completion
Egypt Cairo	<ul style="list-style-type: none"> ✓ Technology development site for the original IT system "pHelix" ✓ In addition to the development site functions, service provision capabilities are under expansion ✓ Office relocation and expansion in line with strengthening of service functions 		November: Scheduled for completion
South Africa Cape Town	<ul style="list-style-type: none"> ✓ Site for production of English master files that are the base for subtitling/dubbing ✓ In addition to English-related services, capabilities for provision of other services are being expanded. Office relocation and expansion in line with strengthening of personnel and service functions 		December: Scheduled for completion
South Korea	<ul style="list-style-type: none"> ✓ Acquisition of local dubbing studio in May 2022 to strengthen dubbing services ✓ Office relocation and expansion to strengthen subtitling and dubbing service capabilities 		In progress

Movements in the global video streaming market

- Demand continues to grow due to an increase in the number of distribution platforms and the number of non-English works

1. Increase in distribution platforms

Since 2020, own-brand distribution platforms for major Hollywood studios have increased and competition has intensified

Start of distribution	Brand		Distribution Platform
2006		⇒	
2007	–		
2008		⇒	
2019		⇒	
2020		⇒	
2020		⇒	
2021		⇒	

2. Increased production and distribution of non-English speaking works

Production and distribution of non-English speaking films by Disney, Netflix, and others have increased

Citation from Nihon Keizai Shimbun electronic edition (September 10, 2022)

Increased investment in content worldwide, connected through locally produced works

(Previous text omitted)

Competition for users is intensifying and content investment is increasing. Netflix invested \$17.7 billion worldwide in FY2021. Disney CEO Bob Chapek also said the company is increasing content investment. While a general comparison is not possible, in FY2021, TBS' production expenses increased 9% from the previous fiscal year to 96.1 billion yen, while NHK's expenses were 307 billion yen.

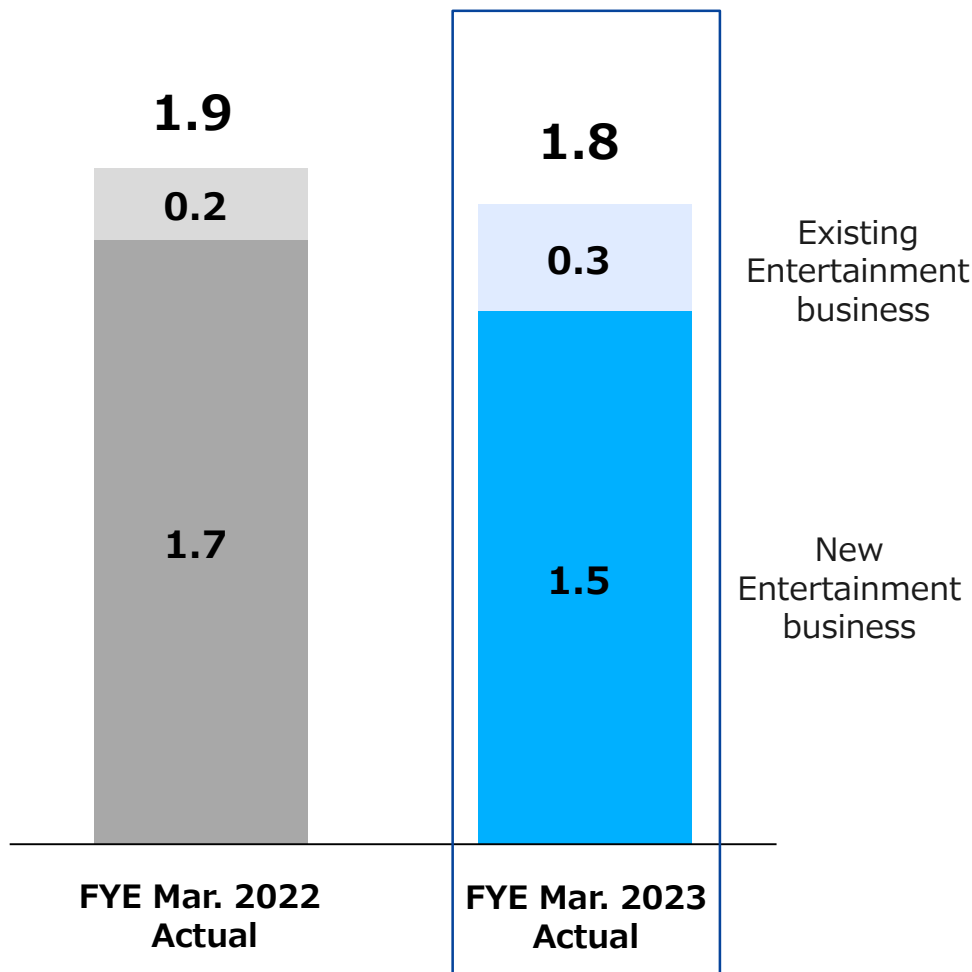
Companies are pinning their hopes on locally produced works such as the hit South Korean drama "Squid Game" to help retain users. Netflix plans to distribute 15 original live action films from Japan by 2022. Disney has set a goal of independently producing and distributing over 50 works in the Asia-Pacific region by 2023. (Subsequent text omitted)

Establish a new Live Entertainment business

• Net sales decreased, due to the reactionary decline from the special event demand of the previous year

(billion yen)

1H net sales



FYE Mar. 2023 Progress Report

✓ New initiatives

- (1) Demonstration experiment for new 3D space production
- (2) Participation in the Toranomom Hills Joint Project

✓ Toward further business expansion

Strengthening of alliances with major companies is underway

New initiatives for business model construction

High-definition live viewing on wide screen

- ✓ Demonstration experiment of live viewing using vertical imaging and state-of-the-art transparency screens
- ✓ Cooperation from Digital Innovation City Council (Tokyo) and Mori Building



Toward joint business development with the Tokyo Metropolitan Government, Mori Building, local governments, and major companies

Experiential theme park

Join in projects through a consortium of 11 companies to create and communicate new urban experiences and content



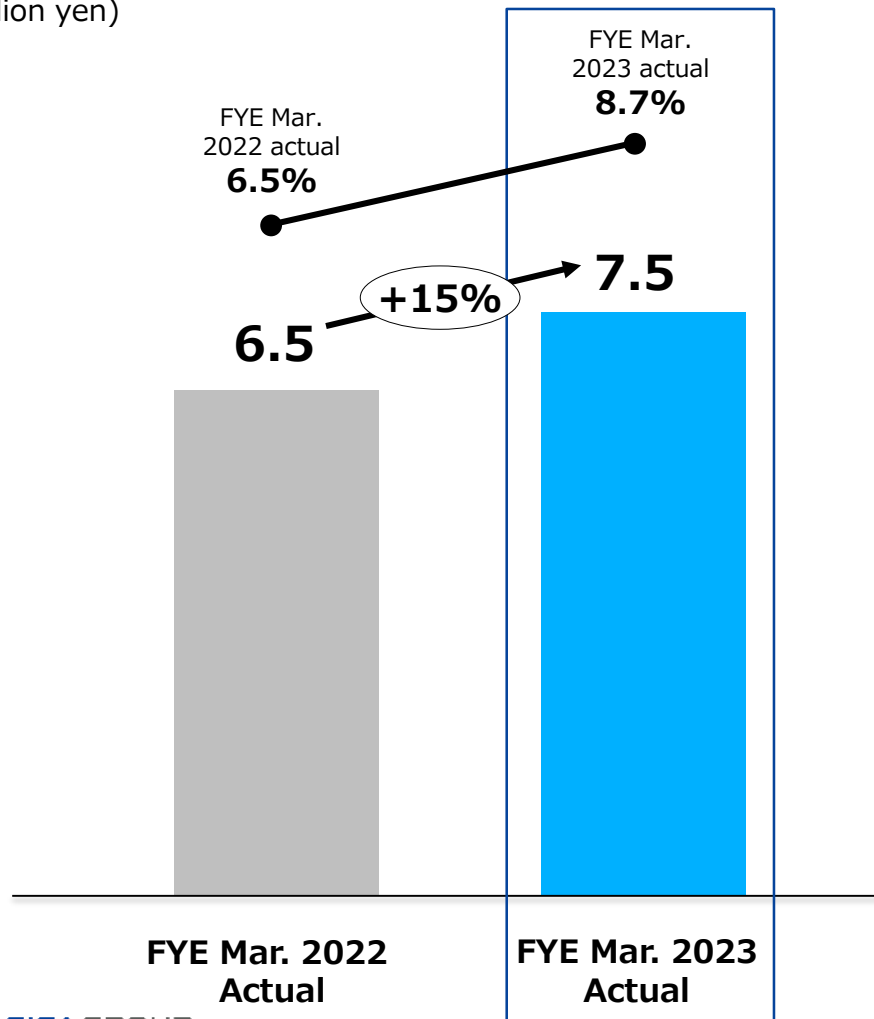
Toward the realization of an Urban Space Metaverse

Generate Additional Business Value in the Imaging Systems & Solutions business

• Net sales increased by 15% YoY; operating margin increased by 2.2 points to 8.7% YoY

1H net sales and operating margin (before goodwill amortization)

(billion yen)

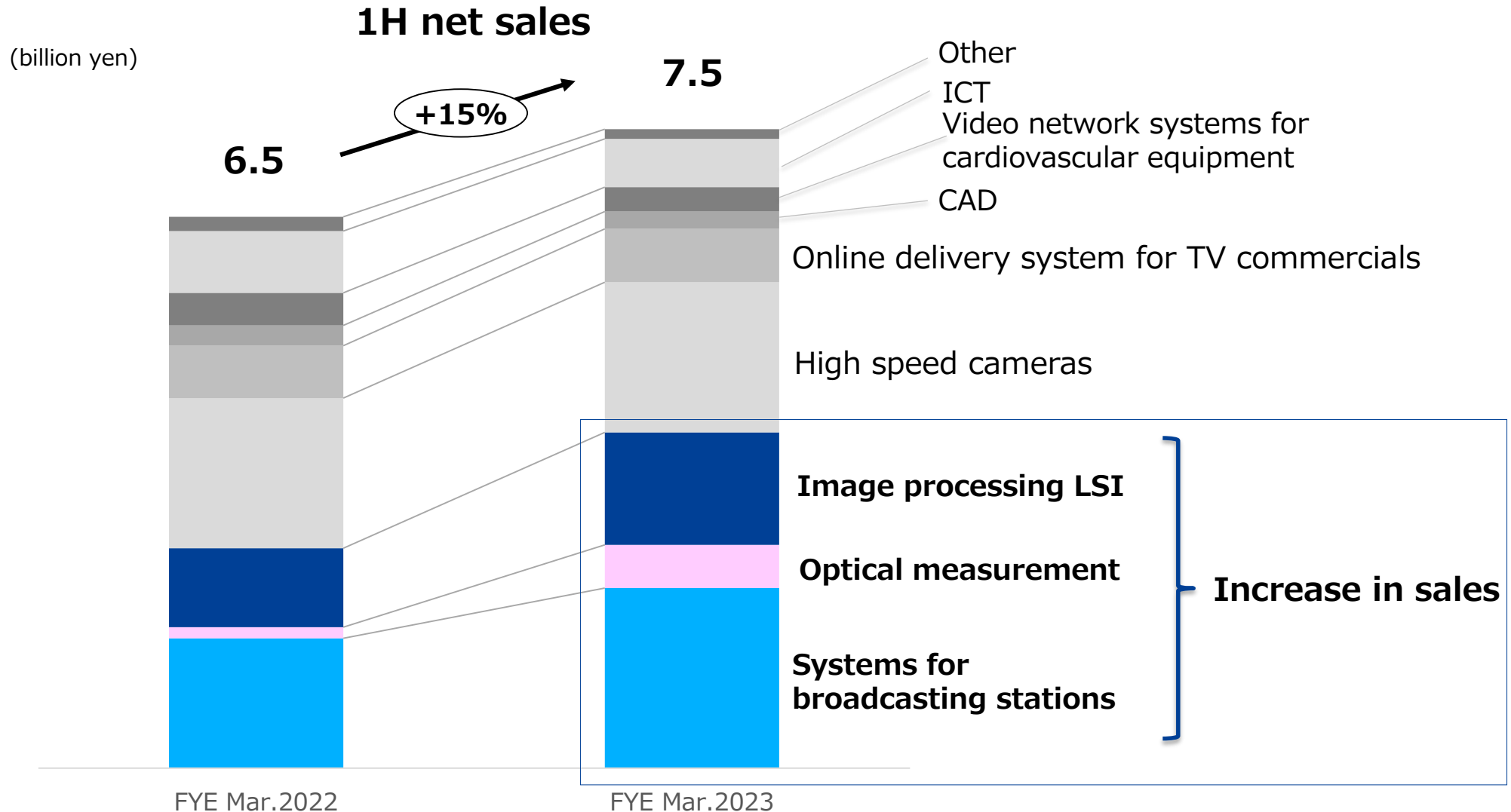


FYE Mar. 2023 Progress Report

- ✓ **Niche Top Business: High-speed cameras**
 - (1) Orders for two new products are strong
 - (2) Stabilization of semiconductor supply will require time
- ✓ **Optical Measurement Business**
 - (1) Optical elements: Orders for 5G are expanding
 - (2) Optical measurement: Recovery in business targeting the U.S. and China
- ✓ **Systems for broadcasting stations**
 - Two new services are under proposal and development
 - (1) Automatic Broadcasting Control System
 - (2) Virtual broadcasting system

Imaging Systems & Solutions Business: Sales breakdown by business (1H,actual)

- Sales increased in Systems for broadcasting stations, Optical Measurement, and Image Processing due to robust orders



High-speed cameras: New products launched

- Released two new products in two years (since FYE Mar. 2021); orders are steadily being received

Compact Lightweight

Launched April 5: FASTCAM Nova S20

Industry-leading shooting speed
1.1 million frames/second

Lightweight model
1/3 of weight of past models

Shock-resistant sealed enclosure



- Easy to carry; enables high-speed outdoor shooting



Applications: electrode welding experiments for EV rechargeable batteries, etc.

Customers: Automobile manufacturers

Picture: Electrode welding experiment

High-resolution

Launched August 4:

FASTCAM Nova R5-4K, R3-4K

Compared to past products

2.3x enhanced resolution

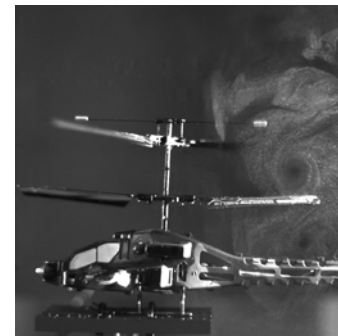
→ Achieves **4K resolution**

Shooting speed at 4K resolution

1,250 frames/second



- Enables high-quality shooting with a high angle of view



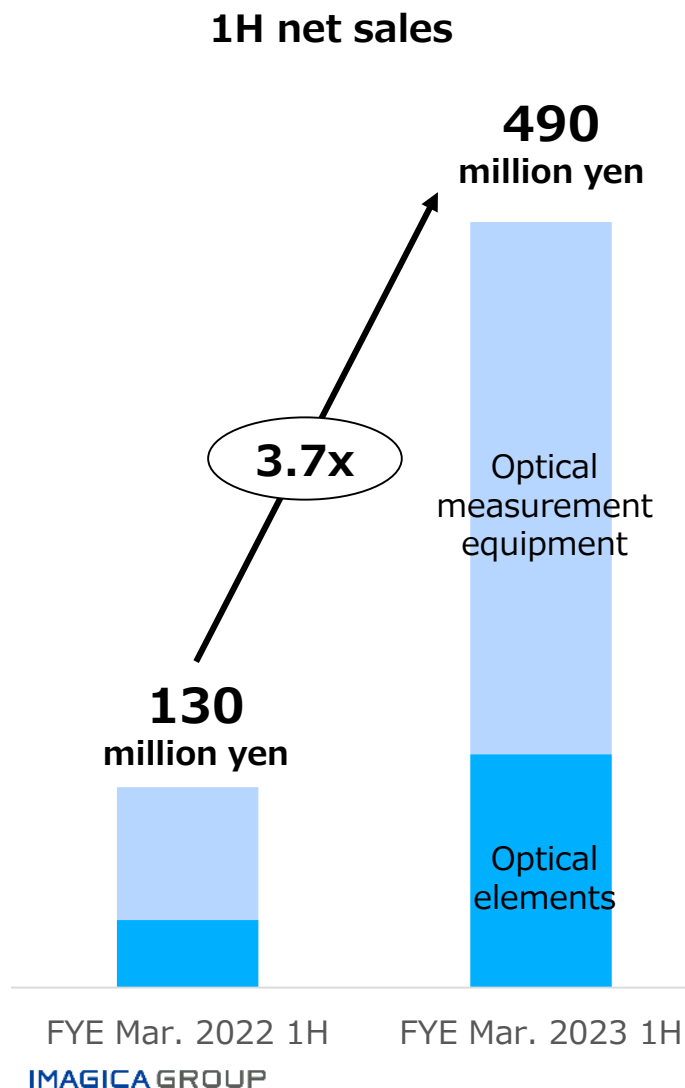
Applications: Airflow analysis for aircraft wings, etc.

Customers: Aircraft manufacturers

Picture: Airflow analysis using helicopter rotors

Optical measurement business

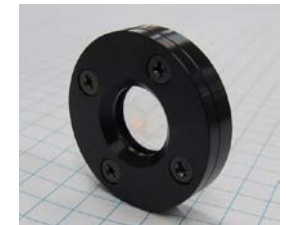
- Net sales of both optical elements and optical measurement equipment increased significantly due to recovery in capital investments.



Optical elements

Expansion in fields including high-speed optical communications and semiconductor inspection, using state-of-the-art photonic crystal optical control technology

- ✓ Orders recovered due to selection as **elements for devices for 5G optical communications**
- ✓ Promotion of sales activities to develop new markets
 - (1) Start of promotion for 6G optical communications
 - (2) Introduction of prototypes with a view for entering the laser processing market



Optical measurement equipment

Expansion of optical measurement systems incorporating proprietary optical elements into applications including LCD film production and inspection

- ✓ Robust sales for applications including **inspection of plastic lenses for smartphones in the U.S. and China**
- ✓ Future Prospects
 - 1) Expansion into new fields such as autonomous driving-related parts inspection
 - 2) Strengthening of sales in Europe and the U.S.



Systems for broadcasting stations

- Two new services for broadcasting stations are under development

Automatic Broadcasting Control System

- ✓ A system that automates the management, editing, and sending of news program imaging materials

Pilot operation is underway for packaged programs such as news

Virtual broad-casting system

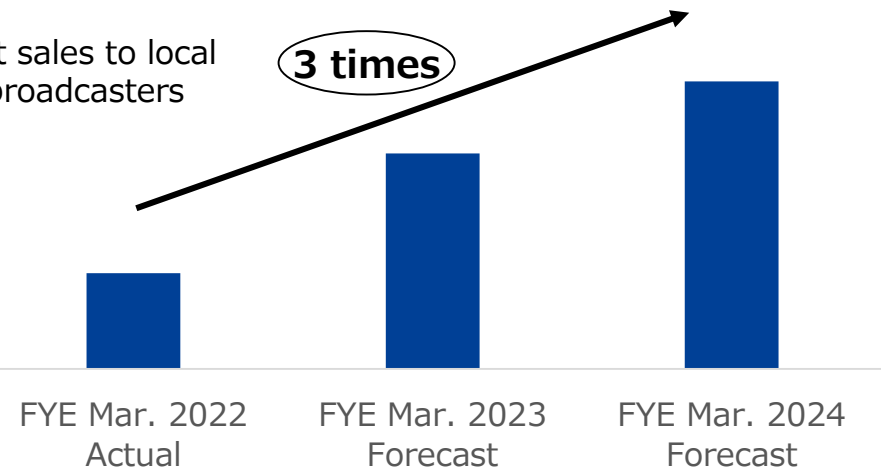
- ✓ A system that creates a CG-based virtual space without the need for sets in studios
- ✓ Enables imaging direction not possible on actual studio sets, with applicability to weather forecasting, news, sports programs, etc.

- ✓ Local broadcasters are increasingly adopting the system
- ✓ Planned 2023 net sales are to be 3 times the net sales of 2021

Virtual broadcasting system (example image)



Net sales to local
broadcasters

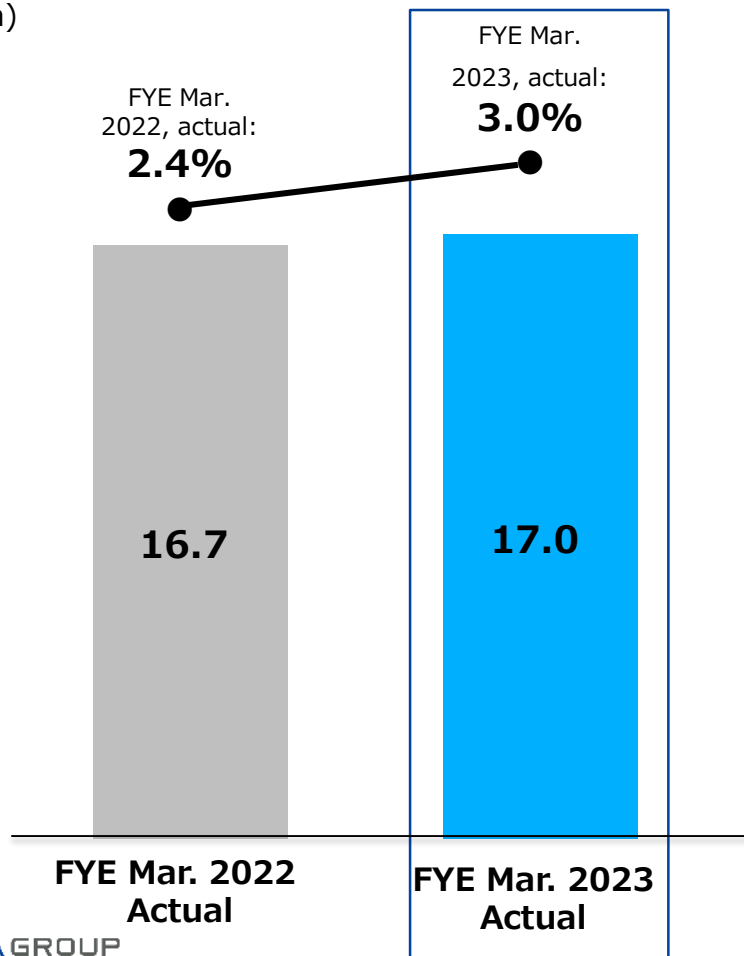


Complete Business Transformation

- Operating margin increased by 0.6 points to 3.0% due to improvement of gross margin in anime production, etc.

1H net sales and operating margin (before goodwill amortization)

(billion yen)



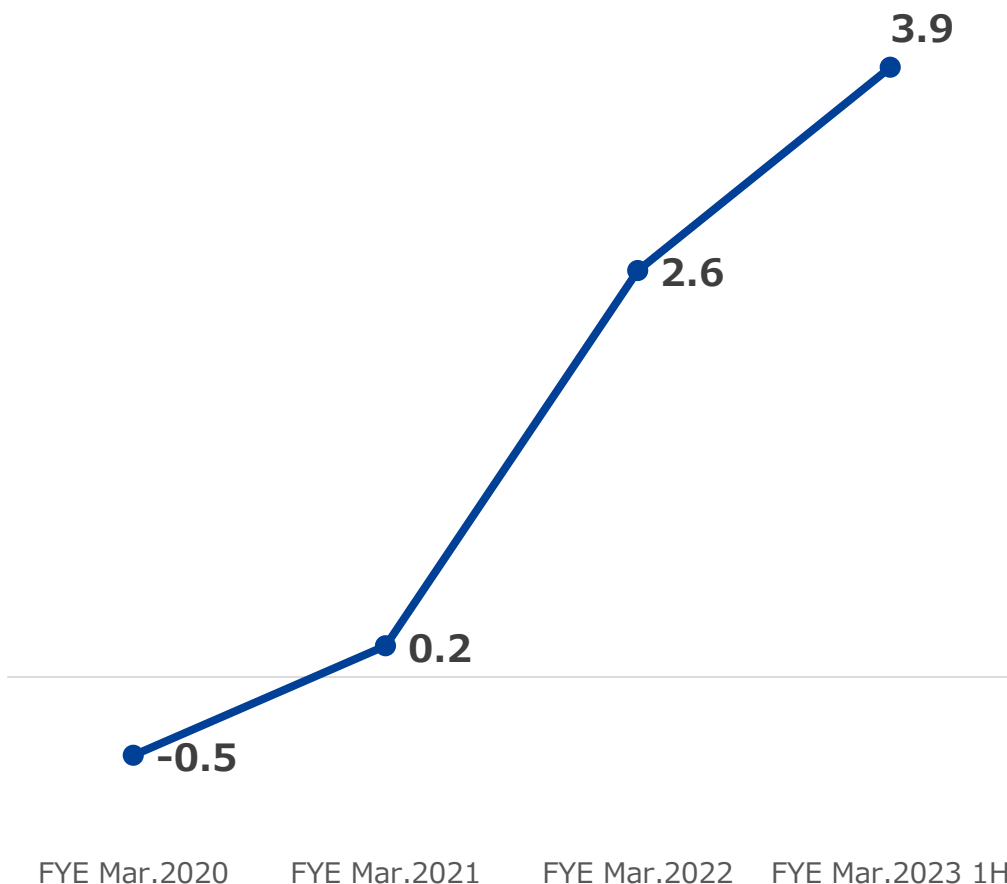
FYE Mar. 2023 Progress Report

- ✓ Improvement of gross margin in the Anime Production Business
- ✓ Promotion of creation of proprietary IP
- ✓ Content production for video streaming service providers

Improvement of gross margin in the Anime Production Business

- **Gross margin has improved significantly since bottoming out in FYE Mar. 2020 (COVID-19 pandemic)**

With the TV Anime Production Business FYE Mar. 2019 gross margin as 1, the graph shows a comparison of the increases and decreases in profit for each fiscal year



Factors behind improvement in gross margin

- ✓ **Strict management of per-production earnings**
- ✓ **Improvement of efficiency of anime production sites**
Through full digitalization of anime production, etc., promotion of efficiency at production sites
- ✓ **Reduction of fixed costs**
Reduction in floor space through establishment of remote work systems and digitalization of document management

Strengthening of earnings base through expansion of original IPs

- We aim to develop varied original IPs and strengthen our earnings base



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"ODD TAXI"

April 2021 TV anime broadcast
April 2021 Distribution on Amazon Prime
(Currently being distributed on other platforms)
April 2022 Feature film production

Following feedback to TV anime broadcasts, we are expanding operations of feature film production, events, exhibitions, stage productions, etc.



(Written by Natsu Hinata, illustrated by Touko Shino, published by Shufunotomo Infos Co., Ltd.)

"The Apothecary Diaries"

- Hero Bunko published by Shufunotomo Infos Co., Ltd.
- From 2017: Comic book adaptation and licensing out
- Series cumulative total: **18 million copies**

*Includes comics and paperbacks

Further development is being planned



BULLBUSTER
フルバスター

©P.I.C.S.

"BULLBUSTER"

An original project developed solely by P.I.C.S. Co., Ltd.; two novelization volumes from KADOKAWA are available

Further development is being planned



(Written by Junpei Inuzuka, illustrated by Katsumi Enami, published by Shufunotomo Infos Co., Ltd.)

"Restaurant to Another World"

- Hero Bunko published by Shufunotomo Infos Co., Ltd.
- 2016: Comic book adaptation and licensing out
- 2021: TV anime second series aired through OLM production

Further development is being planned

SDGs: Advancing initiatives aligned with three themes

- **Group-wide SDG-related activity: Hands-on classes for children**
 - ✓ Start of a group-wide project offered together with local communities to provide hands-on classes for children to learn independently through curiosity and inquisitiveness via imaging, and to nurture the ability of children to think and create on their own
 - ✓ We will continuously promote the project under the project name “CREUCATION® ACADEMY”

CREUCATION ACADEMY

Together with local communities, hands-on classes to nurture the ability of children to think and create on their own



* "CREUCATION ACADEMY": A term combining "Creative" and "Education". "CREUCATION" is a registered trademark of IMAGICA GROUP.

Progress rate by Key Strategy (net sales)

• Overall progress rate of 47% with respect to full-year plan; all businesses progressing according to plan

(billion yen)

■ Global E2E Business

Services for video streaming service providers continues to do well; site expansion is scheduled for completion by the end of the year, with the aim of expanding orders

(Progress rate: 60.5%)

16.7

Full-year plan
27.6 billion yen

■ Live Entertainment Business

Strengthening of alliances with major companies

(Progress rate: 39.1%)

1.8

Full-year plan
4.6 billion yen

■ Imaging Systems

Stabilization of semiconductor supply for high-speed cameras will take time, but progress is steady overall

(Progress rate: 40.5%)

7.5

Full-year plan
18.5 billion yen

■ Transformation

Progress is underway toward achievement of plans, including improvement of anime earnings and production of content for video streaming

(Progress rate: 42.9%)

17.8

Full-year plan
39.6 billion yen

Contact for inquiries:

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