

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

November 10, 2022

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

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 14, 2022

Scheduled date for commencement of dividend payments: December 1, 2022

Supplementary documents for financial results: Yes

Financial results briefing: Yes (briefing for institutional investors and securities analysts planned to be held by video streaming)

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, 2023

(April 1, 2022 to September 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	%
Interim Period of Fiscal Year Ending March 31, 2023	54,060	16.7	3,619	37.4	3,771	43.8	3,207	99.0
Interim Period of Fiscal Year Ended March 31, 2022	46,304	35.1	2,634	–	2,623	–	1,612	–

(Note) Comprehensive income Interim Period of Fiscal Year Ending March 31, 2023: ¥2,744 million (74.9%)
Interim Period of Fiscal Year Ended March 31, 2022: ¥1,569 million (–%)

	Profit per share		Diluted profit per share	
	yen		yen	
Interim Period of Fiscal Year Ending March 31, 2023	71.17		–	
Interim Period of Fiscal Year Ended March 31, 2022	37.03		37.02	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	million yen		million yen		%	
As of September 30, 2022	104,625		62,357		56.9	
As of March 31, 2022	97,801		60,694		59.2	

(Reference) Shareholders' equity As of September 30, 2022: ¥59,485 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	–	25.00	–	–	–
Year ending March 31, 2023 (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, 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	4,000	54.9	3,300	258.8	73.15	

(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, 2022:	45,558,800 shares
As of March 31, 2022:	45,440,100 shares
b. Treasury stock at end of term	
As of September 30, 2022:	410,154 shares
As of March 31, 2022:	410,124 shares
c. Average number of share (quarter-to-date)	
Interim Period of Fiscal Year Ending March 31, 2023:	45,073,426 shares
Interim Period of Fiscal Year Ended March 31, 2022:	43,538,752 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 Interim Period of Fiscal Year Ending March 31, 2023

(1) Summary of Operating Results

(Unit: million yen)

Interim period results	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ending March 31, 2023
Net sales	83,012	61,189	34,279	46,304	54,060
Cost of sales	60,067	44,658	23,060	28,797	33,704
Gross profit	22,945	16,531	11,218	17,507	20,356
Gross profit margin	27.6%	27.0%	32.7%	37.8%	37.7%
Personnel expenses	6,626	5,647	5,360	5,646	6,539
Sales promotion and advertising expenses	4,802	3,948	2,330	2,989	3,429
General expenses	7,803	7,624	5,756	6,236	6,767
Total SG&A expenses	19,232	17,220	13,447	14,872	16,736
Operating profit (loss)	3,712	(688)	(2,229)	2,634	3,619
Operating margin	4.5%	–%	–%	5.7%	6.7%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 11.5% year on year, to 152,018 million yen (January to September 2022; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 16.0% year on year, to 50,602 million yen (January to June 2022; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 15.7% year on year, to 85,614 million yen (January to September 2022; according to a survey by the Japan Video Software Association). The digital video distribution market however 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 interim period of the fiscal year under review, consolidated net sales climbed to 54,060 million yen (up 16.7% year on year), consolidated operating profit jumped to 3,619 million yen (up 37.4% year on year), and consolidated profit attributable to owners of parent came to 3,207 million yen (up 99.0% year on year), reflecting increased sales in the music business.

(2) Summary of Financial Position

Assets totaled 104,625 million yen at the end of the interim period under review after an increase of 6,823 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to increases of 3,782 million yen in cash and deposits, 2,328 million yen in notes and accounts receivable - trade and 1,502 million yen in other current assets.

Liabilities increased by 5,161 million yen from the end of the previous consolidated fiscal year, to 42,268 million yen. This was primarily due to increases of 3,069 million yen in other current liabilities and 1,625 million yen in notes and accounts payable - trade.

Net assets increased 1,662 million yen from the end of the previous consolidated fiscal year, to 62,357 million yen. This was chiefly attributable to an increase of 2,092 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, 2023, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2022” announced on May 12, 2022 have been changed.

For further details, please refer to “Notice on Revision of Financial Results Forecasts” announced on November 10, 2022.

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

(Unit: million yen)

	As of March 31, 2022	As of September 30, 2022
(Assets)		
Current assets		
Cash and deposits	44,671	48,454
Notes and accounts receivable - trade	13,855	16,184
Merchandise and finished goods	1,058	1,538
Programs and works in progress	5,175	4,775
Raw materials and supplies	301	304
Other	10,436	11,938
Allowance for doubtful accounts	(172)	(218)
Total current assets	<u>75,326</u>	<u>82,976</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,945	2,144
Land	1,548	1,548
Other, net	860	719
Total property, plant and equipment	<u>4,354</u>	<u>4,412</u>
Intangible assets	4,156	3,697
Investments and other assets		
Investment securities	8,564	8,039
Other	5,591	5,688
Allowance for doubtful accounts	(191)	(188)
Total investments and other assets	<u>13,964</u>	<u>13,538</u>
Total non-current assets	<u>22,475</u>	<u>21,648</u>
Total assets	<u>97,801</u>	<u>104,625</u>

(Unit: million yen)

	As of March 31, 2022	As of September 30, 2022
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	2,556	4,181
Current portion of long-term borrowings	7	5
Accounts payable - other	16,052	15,984
Income taxes payable	264	1,183
Refund liabilities	2,446	2,235
Contract liabilities	46	54
Provision for bonuses	575	593
Provision for contingent loss	95	-
Other	13,407	16,477
Total current liabilities	35,451	40,716
Non-current liabilities		
Long-term borrowings	9	7
Liabilities for retirement benefits	350	360
Other	1,295	1,182
Total non-current liabilities	1,655	1,551
Total liabilities	37,106	42,268
(Net assets)		
Shareholders' equity		
Share capital	4,521	4,599
Capital surplus	5,422	5,500
Retained earnings	45,924	48,017
Treasury shares	(590)	(590)
Total shareholders' equity	55,278	57,527
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,750	2,119
Foreign currency translation adjustment	(160)	(136)
Remeasurements of defined benefit plans	4	(24)
Total of accumulated other comprehensive income	2,593	1,958
Non-controlling interests	2,822	2,871
Total net assets	60,694	62,357
Total liabilities and net assets	97,801	104,625

(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, 2021	For the interim period ended September 30, 2022
Net sales	46,304	54,060
Cost of sales	28,797	33,704
Gross profit	17,507	20,356
Selling, general and administrative expenses		
Advertising expenses	2,399	2,491
Promotion expenses	589	937
Employees' salaries and bonuses	3,531	3,831
Provision for bonuses	450	592
Retirement benefit expenses	46	128
Other	7,854	8,755
Total selling, general and administrative expenses	14,872	16,736
Operating profit	2,634	3,619
Non-operating income		
Interest income	9	14
Dividend income	10	2
Share of profit of entities accounted for using equity method	–	89
Gain on investments in investment partnerships	–	72
Exchange gain	27	40
Subsidy income	28	10
Other	17	30
Total non-operating income	93	259
Non-operating expenses		
Interest expenses	5	11
Share of loss of entities accounted for using equity method	21	–
Loss on valuation of cryptocurrencies	–	61
Loss on investments in partnership	2	–
Other	76	34
Total non-operating expenses	105	107
Ordinary profit	2,623	3,771
Extraordinary income		
Gain on sales of investment securities	–	1,080
Reversal of provision for contingent loss	57	50
Subsidies for employment adjustment	41	–
Gain on reversal of share acquisition rights	29	–
Other	17	112
Total extraordinary income	145	1,243
Extraordinary losses		
Impairment loss	–	371
Loss on disaster	–	371
Loss on valuation of investment securities	221	–
Other	10	–
Total extraordinary losses	–	20
Profit before income taxes	231	392
Income taxes - current	2,536	4,622
Income taxes - deferred	235	1,100
Total income taxes	580	142
Profit	815	1,243
Profit attributable to non-controlling interests	1,721	3,379
Profit attributable to owners of parent	108	171

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2021	For the interim period ended September 30, 2022
Profit	1,721	3,379
Other comprehensive income		
Valuation difference on available-for-sale securities	(60)	(635)
Foreign currency translation adjustment	(11)	24
Remeasurements of defined benefit plans, net of tax	(93)	(20)
Share of other comprehensive income of associates accounted for using equity method	13	(3)
Total other comprehensive income	(152)	(635)
Comprehensive income	1,569	2,744
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,460	2,572
Comprehensive income attributable to non-controlling interests	108	171

(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 of the fiscal year 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.