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Consolidated financial results (Japanese Accounting Standards) for the First Quarter of the fiscal year ending March 31, 2024

Company name: IMAGICA GROUP Inc. Filing date: August 1, 2023
 Securities code: 6879 Stock exchange listing: Tokyo Prime
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 Quarterly report filing date (as planned): August 1, 2023
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: None

(Millions of yen, Rounddown)

1. Consolidated Financial Results for the First Quarter of the fiscal year ending March 31, 2024 (April 1, 2023 – June 30, 2023)

(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	%
3 months ended June 30, 2023	23,797	19.8	345	27.2	394	28.9	305	474.5
3 months ended June 30, 2022	19,861	28.9	271	—	306	—	53	(89.3)

(Note) Comprehensive income: 1st quarter ended June 30, 2023: 631 millions of yen / (14.7) %
 1st quarter ended June 30, 2022: 740 millions of yen / (43.3) %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
3 months ended June 30, 2023	6.86	—
3 months ended June 30, 2022	1.20	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of June 30, 2023	76,297	38,852	47.0
As of March 31, 2023	81,888	40,303	44.1

(Reference) Shareholders' equity: As of June 30, 2023: 35,860 millions of yen
 As of March 31, 2023: 36,106 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 31,2023	—	0.00	—	15.00	15.00
Year ending March 31,2024	—				
Year ending March 31,2024 (Forecast)		0.00	—	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, 2024 (April 1, 2023 - March 31, 2024)

(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, 2024	100,000	6.2	4,000	3.4	3,500	(3.8)	2,200	(43.1)	49.34

(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 restatement

1) Changes in accounting policies based on revisions of accounting standards: None

2) Changes in accounting policies other than ones based on revisions of accounting standards: None

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 June 30, 2023	44,741,467 shares	As of March 31, 2023	44,741,467 shares
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2) Number of treasury stock at the end of fiscal year

As of June 30, 2023	156,042 shares	As of March 31, 2023	156,042 shares
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3) Average number of shares

As of June 30, 2023	44,585,425 shares	As of June 30, 2022	44,395,529 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.

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1. Qualitative Information on Results in this Quarter

(1) Explanation of operating results

① Overview of the first quarter of the consolidated fiscal year ending March 31, 2024

In the first quarter of the consolidated fiscal year, the legal status of the COVID-19 was downgraded to "Class 5," in Japan and Japanese economic and social activities began to recover gradually though the outlook is still uncertain.

As we enter the third year of our G-EST 2025 Mid-Term Plan set in FY2021, the Group has reaffirmed that improvement of profitability is an important issue to realize our vision of becoming a "highly profitable group" in FY2025. Accordingly, the Group has revised its four key strategies and has added "Expansion of game-related business" as a new strategy. In FY2023, we will undertake a variety of measures to achieve net sales of 110 billion yen, operating margin of 8% before amortization of goodwill, etc., and EBITDA of 11 billion yen in FY2025, following our policy "FY2023 is the year to get on growth path after establishment of basis for growth."

Under these circumstances, the Group's performance in the first quarter of the consolidated fiscal year was as follows: Net sales were 23,797 million yen (up 19.8% year on year), operating income was 345 million yen (up 27.2%), and ordinary income was 394 million yen (up 28.9%). Net income attributable to owners of the parent was 305 million yen (up 474.5%) because of decrease of extraordinary losses and increase of extraordinary income.

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the consolidated fiscal year, the name of the reportable segment "Production Services business" has been changed to "Production Technology Services business." This represents a change in segment name only and has no impact on the segment Information.

1) Content Creation business

In the first quarter of the consolidated fiscal year, the segment reported sales of 7,166 million yen (up 72.7% year on year) and operating income of 49 million yen (compared to operating loss of 193 million yen in the same period of the previous fiscal year).

Sales of feature films and dramas significantly increased owing to release of major works for theater and video streaming service, including the feature film "Rohan au Louvre" released on May 26 and the Netflix feature film "Zombie 100: Bucket List of the Dead" scheduled for worldwide exclusive streaming from August 3. Sales of animation works increased owing to steady orders for TV series. Sales of the publishing business increased. The new 13th volume of the light novel "The Apothecary Diaries" was published in February and sales of the novel were stronger than expected with the news of its coming TV animated series. On the other hand, sales of commercial production decreased due to weak orders.

As a result, sales and operating income increased in the segment.

2) Production Technology Services business

In the first quarter of the consolidated fiscal year, the segment reported sales of 13,200 million yen (up 10.4% year on year) and operating income of 321 million yen (down 9.6%).

In domestic E2E services*¹, sales remained at the same level as the previous year, with solid sales of digital cinema services.

In overseas E2E services*¹, sales increased in the digital cinema services and trailer production service, supported by increase of new theatrical releases.

In the game-related business*², sales increased as orders for Game 3DCG production, debugging, etc. remained strong.

On the other hand, in post-production services for TV, sales declined due to weak orders for TV commercials.

As a result, sales increased, however operating income decreased in the segment. Significant decline of operating income of post-production services for TV commercials was not covered with increase of operating income in E2E services.

*1 E2E services: End-to-end services. This is a general term for one-stop services ranging from post-production in the production of video content such as movies, dramas, and animation to media services for the localization (dubbing and subtitling) and distribution required for the distribution of said content through movie theaters, TV, and the Internet. Please note as the closing date for overseas E2E services is December 31, the results from January 1, 2023 to March 31, 2023 were reflected in the first quarter of the consolidated fiscal year.

*2 Game-related business: 2D/3DCG production, debugging and software testing, creative talent dispatch and referral, etc. for games

3) Imaging Systems & Solutions business

In the first quarter of the consolidated fiscal year, the segment reported sales of 3,883 million yen (down 8.1% year on year) and operating income of 256 million yen (down 21.2%).

Sales of high-speed cameras increased owing to recovery in production by settlement of semiconductor shortage and strong orders. On the other hand, sales of the broadcast imaging systems & solutions business decreased as it had sales of large projects in the previous year. Sales of the optical measurement business declined due to lower orders than expected in optical elements. Sales of video and image processing LSIs declined due to deteriorating world market conditions.

As a result, sales and operating income decreased in the segment.

(2) Explanation of financial position

① Assets

Current assets decreased by 5,153 million yen (11.5%) from the end of the previous consolidated fiscal year to 39,817 million yen. This was mainly due to decrease in notes, accounts receivable and contract assets and in cash and deposits.

Non-current assets decreased by 437 million yen (1.2%) from the end of the previous consolidated fiscal year to 36,480 million yen. This was mainly due to increase in buildings and structures, while goodwill and construction in progress decreased.

As a result, total assets decreased by 5,590 million yen (6.8%) from the end of the previous consolidated fiscal year to 76,297 million yen.

② Liabilities

Current liabilities decreased by 3,868 million yen (11.6%) from the end of the previous consolidated fiscal year to 29,336 million yen. This was mainly due to decrease in notes and accounts payable and in contract liabilities.

Non-current liabilities decreased by 270 million yen (3.2%) from the end of the previous consolidated fiscal year to 8,108 million yen. This was mainly due to decrease in long-term loans payable and in lease liabilities.

As a result, total liabilities decreased by 4,138 million yen (10.0%) from the end of the previous consolidated fiscal year to 37,445 million yen.

③ Net assets

Net assets decreased by 1,451 million yen (3.6%) from the end of the previous consolidated fiscal year to 38,852 million yen. This was mainly due to decrease in non-controlling interests.

(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, 2024, from the forecasts announced on May 11, 2023.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2023	June 30, 2023
Assets		
Current assets		
Cash and deposits	7,813,769	6,534,501
Notes, accounts receivable - trade and contract assets	21,937,480	17,478,746
Inventories	12,460,112	12,150,735
Other	2,868,953	3,758,418
Allowance for doubtful accounts	(109,328)	(104,829)
Total current assets	44,970,987	39,817,573
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,009,273	4,274,669
Machinery, equipment and vehicles	545,383	567,695
Land	921,363	921,363
Lease Assets	4,998,147	4,960,214
Construction in progress	1,711,600	1,443,652
Other	2,288,372	2,377,087
Total Property, plant and equipment	14,474,140	14,544,683
Intangible assets		
Goodwill	11,780,285	11,455,388
Other	2,460,007	2,423,180
Total Intangible assets	14,240,292	13,878,569
Investments and other assets		
Investment securities	2,876,524	2,899,675
Stocks of subsidiaries and affiliates	514,042	494,657
Lease and guarantee deposits	2,048,952	2,061,465
Deferred tax asset	2,420,133	2,368,417
Other	490,206	387,124
Allowance for doubtful accounts	(147,088)	(154,435)
Total Investments and other assets	8,202,771	8,056,904
Total non-current assets	36,917,204	36,480,157
Total assets	81,888,191	76,297,730

(Thousands of yen)	March 31, 2023	June 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable- trade	7,133,738	5,666,818
Short-term loans payable	6,432,680	5,687,826
Lease Liabilities	881,977	904,671
Accounts payable	1,769,403	1,420,516
Income taxes payable	1,172,785	596,452
Contract liabilities	7,591,449	6,350,070
Provision for bonuses	1,281,691	671,619
Provision for loss on order received	1,100	1,600
Provision for loss on litigation	630,660	683,865
Asset retirement obligations	23,181	—
Other	6,286,605	7,353,551
Total current liabilities	33,205,274	29,336,994
Non-current liabilities		
Long-term loans payable	1,366,665	1,139,582
Lease Liabilities	4,498,102	4,423,404
Long-term accounts payable-other	252,767	273,657
Deferred tax liabilities	196,598	199,149
Net defined benefit liabilities	1,241,071	1,249,260
Asset retirement obligations	653,518	656,198
Other	170,257	167,074
Total non-current liabilities	8,378,982	8,108,327
Total Liabilities	41,584,257	37,445,321
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,020,018	13,017,093
Retained earnings	16,982,736	16,619,236
Treasury stock	(158,530)	(158,530)
Total shareholders' equity	33,150,226	32,783,802
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	713,553	882,196
Deferred gains or losses on hedges	20,740	38,389
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	2,237,081	2,171,100
Re-measurements of defined benefit plans	2,828	2,509
Total accumulated other comprehensive income	2,956,270	3,076,263
Non-controlling Interests	4,197,436	2,992,342
Total net assets	40,303,934	38,852,408
Total liabilities and net assets	81,888,191	76,297,730

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

Quarterly Consolidated Statements of Income

(Thousands of yen)	3 months ended June 30, 2022	3 months ended June 30, 2023
Net sales	19,861,611	23,797,342
Cost of sales	14,366,860	17,586,453
Gross profit	5,494,751	6,210,888
Selling, general and administrative expenses	5,223,393	5,865,674
Operating income	271,357	345,213
Non-operating income		
Interest income	278	2,391
Dividend income	16,006	21,266
Foreign exchange gains	85,038	170,071
Other	55,352	39,113
Total non-operating income	156,675	232,843
Non-operating expenses		
Interest expenses	50,203	89,428
Equity in losses of affiliates	4,649	2,370
Administrative expenses for investment partnerships	—	42,438
Other	66,872	49,035
Total non-operating expenses	121,725	183,272
Ordinary income	306,307	394,784
Extraordinary income		
Gain on sales of non-current assets	2,923	93
Gain on sales of investment securities	—	280,984
Compensation for forced relocation	138,685	—
Total extraordinary income	141,609	281,077
Extraordinary losses		
Loss on retirement of non-current assets	1,640	1,277
Extra retirement payments	170,228	—
Other	47,685	—
Total extraordinary losses	219,554	1,277
Net income before income tax	228,362	674,583
Income taxes	145,385	161,553
Net income	82,976	513,029
Net income attributable to non-controlling interests	29,746	207,244
Net income attributable to owners of the parent	53,230	305,784

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	3 months ended June 30, 2022	3 months ended June 30, 2023
Net income	82,976	513,029
Other comprehensive income		
Valuation difference on available-for-sale securities	2,900	168,642
Deferred gains or losses on hedges	—	17,649
Foreign currency translation adjustment	654,645	(67,861)
Re-measurements of defined benefit plans	(377)	(318)
Total other comprehensive income	657,167	118,112
Comprehensive income	740,144	631,141
(Breakdown)		
Comprehensive income attributable to owners of parent	708,553	425,777
Comprehensive income attributable to non-controlling interests	31,591	205,364

(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 first 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.

(Segment information and others)

[Segment Information]

I. For the 3 months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

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

(Thousands of yen)

	Content Creation	Production Technology Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	4,145,021	11,648,297	4,060,900	19,854,219
Inter-segment sales or transfers	4,672	307,413	164,138	476,224
Total	4,149,693	11,955,710	4,225,039	20,330,443
Segment Income(loss)	(193,668)	355,187	325,674	487,192

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	7,391	19,861,611
Inter-segment sales or transfers	(476,224)	—
Total	(468,832)	19,861,611
Segment Income(loss)	(215,835)	271,357

Notes:

1. The segment income (loss) adjustment of (215,835) thousand yen consists of income/loss related to the Company of 1,502,576 thousand yen and elimination of inter-segment transactions of (1,718,411) thousand yen.
2. Segment income (loss) is adjusted against operating income on the quarterly consolidated financial statements.

II. For the 3 months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

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

(Thousands of yen)

	Content Creation	Production Technology Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	7,151,041	12,918,776	3,725,318	23,795,136
Inter-segment sales or transfers	15,772	281,228	158,188	455,189
Total	7,166,814	13,200,005	3,883,507	24,250,326
Segment income	49,989	321,173	256,490	627,653

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	2,205	23,797,342
Inter-segment sales or transfers	(455,189)	—
Total	(452,984)	23,797,342
Segment income	(282,439)	345,213

Notes:

1. Adjustment of segment income of (282,439) thousand yen consists of income/loss related to the Company of 1,332,343 thousand yen and elimination of inter-segment transactions of (1,614,783) thousand yen.
2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

2. Information regarding changes in reportable segments

Effective from the first quarter of the consolidated fiscal year, the name of the reportable segment "Production Services business" has been changed to "Production Technology Services business." This represents a change in segment name only and has no impact on the segment information.

The segment information for the first quarter of the previous fiscal year is presented with the new segment name.

(Significant subsequent events)

(Acquisition of Treasury Stock)

The Company resolved acquisition of treasury stock at the Board of Directors on June 27, 2023, pursuant to Article 156 of the Companies Act of Japan, which applies pursuant to Article 165, Paragraph 3 of that law and acquired as follows.

As referred in “3. Result of acquisition”, the Company has completed the acquisition resolved at the Board of Directors on June 27, 2023.

1. Reason for acquisition of treasury stock

The intent of the acquisition of treasury stock is to enhance capital efficiency and to prepare for an agile capital strategy in the future.

2. Details of acquisition

- | | |
|---------------------------------------|--|
| (1) Type of shares to be acquired: | Common stock of the Company |
| (2) Total number of shares acquired: | 500,000 shares (maximum)
(Percentage of outstanding shares (excluding treasury shares): 1.1%) |
| (3) Total acquisition cost of shares: | JPY 400,000,000 yen (maximum) |
| (4) Acquisition period: | June 28, 2023 to September 30, 2023 |
| (5) Method of acquisition: | Market purchase on the Tokyo Stock Exchange
(Any trading method by securities companies) |

3. Result of acquisition

As a result of market purchase, the Company acquired 500,000 shares (JPY 339,978,600) of common stock of the Company during July 1 2023 to July 12, 2023.