

Consolidated Financial Summary for First Quarter of Fiscal Year Ending March 31, 2024 (Japanese Accounting Standards)

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): August 10, 2023

Scheduled date for commencement of dividend payments: –

Supplementary documents for financial results: Yes

Financial results briefing: None

August 10, 2023
Tokyo Stock Exchange, Prime Market
(URL: <https://avex.com/jp/en/>)

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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, 2024

(April 1, 2023 to June 30, 2023)

(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, 2024	31,973	12.3	1,881	(17.8)	1,985	(11.8)	2,704	61.4
First Quarter of Fiscal Year Ended March 31, 2023	28,473	46.6	2,288	772.1	2,250	977.1	1,675	–

(Note) Comprehensive income First Quarter of Fiscal Year Ending March 31, 2024: ¥1,424 million (14.8%)
First Quarter of Fiscal Year Ended March 31, 2023: ¥1,240 million (435.5%)

	Profit per share		Diluted profit per share	
	yen		yen	
First Quarter of Fiscal Year Ending March 31, 2024	59.90		–	
First Quarter of Fiscal Year Ended March 31, 2023	37.21		–	

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	million yen		million yen		%	
As of June 30, 2023	105,415		59,055		55.3	
As of March 31, 2023	108,915		58,838		53.3	

(Reference) Shareholders' equity As of June 30, 2023: ¥58,305 million
As of March 31, 2023: ¥58,074 million

2. Status of dividend payments

	Annual dividends				
	End of first quarter	End of second quarter	End of third quarter	End of year	Annual
	yen				
Year ended March 31, 2023	–	25.00	–	25.00	50.00
Year ending March 31, 2024	–				
Year ending March 31, 2024 (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, 2024 (April 1, 2023 to March 31, 2024)

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, 2024	2,000	(40.9)	2,200	(19.8)	48.73	

(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:	None
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, 2023:	45,558,800 shares
As of March 31, 2023:	45,558,800 shares
b. Treasury stock at end of term	
As of June 30, 2023:	410,382 shares
As of March 31, 2023:	410,302 shares
c. Average number of share (quarter-to-date)	
First Quarter of Fiscal Year Ending March 31, 2024:	45,148,490 shares
First Quarter of Fiscal Year Ended March 31, 2023:	45,029,976 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, 2024

(1) Summary of Operating Results

(Unit: million yen)

First quarter results	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ending March 31, 2024
Net sales	29,028	14,108	19,417	28,473	31,973
Cost of sales	20,475	8,795	12,537	17,947	20,881
Gross profit	8,552	5,313	6,880	10,526	11,092
Gross profit margin	29.5%	37.7%	35.4%	37.0%	34.7%
Personnel expenses	2,836	2,633	2,545	3,241	3,606
Sales promotion and advertising expenses	1,453	953	1,332	1,745	1,625
General expenses	3,896	2,780	2,739	3,251	3,978
Total SG&A expenses	8,186	6,367	6,617	8,237	9,210
Operating profit (loss)	366	(1,054)	262	2,288	1,881
Operating margin	1.3%	-%	1.4%	8.0%	5.9%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 20.2% year on year, to 116,969 million yen (January to June 2023; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 12.7% year on year, to 28,309 million yen (January to March 2023; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software increased 2.2% year on year, to 57,074 million yen (January to June 2023; according to a survey by the Japan Video Software Association).

In this business environment, with the aim of clarifying the social significance of its presence as a company, the Group defined a new corporate philosophy: “Making impossible entertainment, possible,” and announced the avex vision 2027, a medium-term management plan developed based on this philosophy, in May 2022. Under the priority strategy: “Seek to discover and develop ‘beloved’ intellectual property in many different regions and fields,” which was set out in the medium-term management plan, the Group stepped up its investment to discover, develop, create and acquire new IP in each business field.

In the first quarter under review, consolidated net sales increased to 31,973 million yen (up 12.3% year on year) due to higher sales in the music business. However, consolidated operating profit decreased to 1,881 million yen (down 17.8% year on year), chiefly reflecting rises in personnel and general expenses due to recovering sales activities, while consolidated profit attributable to owners of parent came to 2,704 million yen (up 61.4% year on year) due mainly to the posting of a gain on sales of investment securities as extraordinary income.

(2) Summary of Financial Position

Assets totaled 105,415 million yen at the end of the first quarter under review after a decrease of 3,499 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to decreases of 2,181 million yen in cash and deposits and 2,143 million yen in notes and accounts receivable - trade respectively, which more than offset an increase of 1,192 million yen in property, plant and equipment.

Liabilities were reduced by 3,716 million yen from the end of the previous consolidated fiscal year, to 46,360 million yen. This was chiefly attributable to a decline of 3,328 million yen in accounts payable - other.

Net assets increased 216 million yen from the end of the previous consolidated fiscal year, to 59,055 million yen. This was mainly due to increases of 1,542 million yen in retained earnings and 205 million yen in foreign currency translation adjustment respectively, which more than offset a decrease of 1,534 million yen in valuation difference on available-for-sale securities.

(3) Summary of Consolidated Financial Forecasts and Other Future Forecast Information

With respect to consolidated financial results forecasts for the fiscal year ending March 31, 2024, there is no change in the forecasts presented in a “Announcement Regarding Posting of Extraordinary Profit and Revision to Business Results” announced on May 25, 2023.

If any revision to the financial forecasts becomes necessary in the future, the Company will promptly disclose it.

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

(Unit: million yen)

	As of March 31, 2023	As of June 30, 2023
(Assets)		
Current assets		
Cash and deposits	48,143	45,962
Notes and accounts receivable - trade	22,206	20,063
Merchandise and finished goods	1,172	1,167
Programs and works in progress	2,801	3,139
Raw materials and supplies	221	224
Other	12,020	13,305
Allowance for doubtful accounts	(350)	(383)
Total current assets	86,217	83,478
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,110	2,079
Land	1,548	2,580
Other, net	892	1,083
Total property, plant and equipment	4,551	5,744
Intangible assets		
	3,505	3,483
Investments and other assets		
Investment securities	9,228	7,238
Other	5,465	5,525
Allowance for doubtful accounts	(54)	(54)
Total investments and other assets	14,640	12,709
Total non-current assets	22,697	21,937
Total assets	108,915	105,415
(Liabilities)		
Current liabilities		
Notes and accounts payable - trade	3,434	2,903
Current portion of long-term borrowings	3	3
Accounts payable - other	25,679	22,351
Income taxes payable	1,482	1,051
Refund liabilities	2,168	1,908
Provision for bonuses	884	364
Other	14,450	15,994
Total current liabilities	48,104	44,577
Non-current liabilities		
Long-term borrowings	6	5
Liabilities for retirement benefits	529	535
Other	1,436	1,241
Total non-current liabilities	1,972	1,782
Total liabilities	50,076	46,360

(Unit: million yen)

	As of March 31, 2023	As of June 30, 2023
(Net assets)		
Shareholders' equity		
Share capital	4,599	4,599
Capital surplus	5,526	5,526
Retained earnings	46,343	47,885
Treasury shares	(590)	(590)
Total shareholders' equity	55,878	57,420
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,538	1,004
Foreign currency translation adjustment	(182)	23
Remeasurements of defined benefit plans	(160)	(142)
Total of accumulated other comprehensive income	2,195	884
Non-controlling interests	764	750
Total net assets	58,838	59,055
Total liabilities and net assets	108,915	105,415

(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, 2022	For the first quarter ended June 30, 2023
Net sales	28,473	31,973
Cost of sales	17,947	20,881
Gross profit	10,526	11,092
Selling, general and administrative expenses		
Advertising expenses	1,135	1,154
Promotion expenses	609	470
Employees' salaries and bonuses	1,818	2,010
Provision for bonuses	370	330
Retirement benefit expenses	61	115
Other	4,242	5,127
Total selling, general and administrative expenses	8,237	9,210
Operating profit	2,288	1,881
Non-operating income		
Interest income	4	4
Dividend income	2	3
Share of profit of entities accounted for using equity method	14	26
Gain on valuation of investment securities	–	45
Foreign exchange gains	4	42
Other	22	8
Total non-operating income	49	130
Non-operating expenses		
Interest expenses	3	0
Loss on valuation of cryptocurrencies	59	4
Other	26	22
Total non-operating expenses	88	27
Ordinary profit	2,250	1,985
Extraordinary income		
Gain on sales of investment securities	–	1,624
Reversal of provision for contingent loss	50	–
Other	–	64
Total extraordinary income	50	1,688
Extraordinary losses		
Loss on liquidation of business	–	20
Loss on sales of shares of subsidiaries	–	14
Total extraordinary losses	–	34
Profit before income taxes	2,300	3,639
Income taxes - current	296	500
Income taxes - deferred	239	403
Total income taxes	535	903
Profit	1,764	2,735
Profit attributable to non-controlling interests	88	31
Profit attributable to owners of parent	1,675	2,704

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated First Quarter)

(Unit: million yen)

	For the first quarter ended June 30, 2022	For the first quarter ended June 30, 2023
Profit	1,764	2,735
Other comprehensive income		
Valuation difference on available-for-sale securities	(508)	(1,534)
Foreign currency translation adjustment	(2)	205
Remeasurements of defined benefit plans, net of tax	(10)	33
Share of other comprehensive income of associates accounted for using equity method	(2)	(15)
Total other comprehensive income	(524)	(1,311)
Comprehensive income	1,240	1,424
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,151	1,393
Comprehensive income attributable to non-controlling interests	88	31

(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