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Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2024 (J-GAAP)



February 6, 2024

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 Planned quarterly report filing date: February 6, 2024
 Planned dividend payment date: —
 Supplemental material of quarterly results: Available
 Planned quarterly results briefing: Not available

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2024 (April 1, 2023 – December 31, 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 parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Dec 31, 2023	71,458	4.8	2,224	(18.8)	2,003	(16.2)	1,434	(18.7)
Nine months ended Dec 31, 2022	68,200	22.6	2,740	41.4	2,391	(2.3)	1,763	(28.3)

(Note) Comprehensive income: Nine months ended December 31, 2023: ¥3,328 million / (28.2)%
 Nine months ended December 31, 2022: ¥4,635 million / 54.5%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec 31, 2023	32.35	—
Nine months ended Dec 31, 2022	39.61	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Dec 31, 2023	78,142	39,718	47.9
As of March 31, 2023	81,888	40,303	44.1

(Reference) Shareholders' equity: As of December 31, 2023: ¥37,438 million
 As of March 31, 2023: ¥36,106 million

2. Dividends

	Dividend per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual
Fiscal year ended March 31, 2023	Yen —	Yen 0.00	Yen —	Yen 15.00	Yen 15.00
Fiscal year ending March 31, 2024	—	0.00	—		
Fiscal year ending March 31, 2024 (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, 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 parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	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 shares issued (common shares)

1) Number of shares issued at the end of the period (including treasury stock)

As of December 31, 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 the period

As of December 31, 2023	541,339 shares	As of March 31, 2023	156,042 shares
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3) Average number of shares during the period

As of December 31, 2023	44,331,329 shares	As of December 31, 2022	44,508,174 shares
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*** These consolidated quarterly financial results are exempted from quarterly review by a certified public 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 the Company deemed to be reasonable at the time of publication, and the Company does not guarantee its future performance. Actual results may differ significantly due to various factors.

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1. Qualitative Information on Quarterly Results

(1) Explanation of operating results

① Overview of the first nine months of the fiscal year

In the first nine months of the fiscal year ending March 31, 2024 (the “fiscal year” or “FY2023”), although the Japanese economy is slowly recovering, the outlook remains uncertain due to rising prices, intensifying conflict in the Middle East, and the prolonged situation in Ukraine.

IMAGICA GROUP Inc. (the “Company”) and its subsidiaries (collectively, the “Group”) have reaffirmed that improvement of profitability is an important issue to realize its vision of becoming a “highly profitable group” in FY2025, as we move forward with the third year of our G-EST 2025 Mid-Term Plan set in FY2021. Accordingly, the Group has revised its four key strategies and has added “Expansion of game-related business” as a new strategy. In FY2023, we are striving to achieve net sales of 110 billion yen, operating margin of 8% (before goodwill and other amortization), 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 nine months of the fiscal year was as follows: Net sales were 71,458 million yen (up 4.8% year on year), operating income was 2,224 million yen (down 18.8%), ordinary income was 2,003 million yen (down 16.2%), and net income attributable to owners of parent was 1,434 million yen (down 18.7%).

② Performance by business segment

Financial results by business segment are as follows.

Effective from the first quarter of the fiscal year, the reportable segment “Production Services” has been renamed “Production Technology Services.” This change is merely nominal and has no impact on the details of segment information.

1) Content Creation business

In the first nine months of the fiscal year, the segment reported sales of 19,630 million yen (up 10.7% year on year) and operating income of 540 million yen (up 89.0%).

Sales of feature films and dramas remained at the same level as the previous fiscal year owing to the feature films "Rohan au Louvre" released in May and “Godzilla Minus One” released in November, the Netflix series “YuYu Hakusho,” which began streaming in December, and other major works. Sales of animation works significantly increased owing to CG animation works and TV series with strong orders. Sales in the publishing business increased owing to strong sales of books including the light novel “The Apothecary Diaries,” whose TV animated series started in October. Sales of commercial production increased in web commercials owing to high number of orders although sluggish performance in TV commercials due to weak orders.

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

2) Production Technology Services business

In the first nine months of the fiscal year, the segment reported sales of 40,639 million yen (up 2.5% year on year) and operating income of 1,403 million yen (down 34.6%).

In domestic E2E services^{*1}, sales and operating income increased mainly owing to solid sales of digital cinema services and localization services. In overseas E2E services, sales increased owing to the growth in digital cinema services and trailer production services supported by an increase in new theatrical releases as well as the impact of foreign exchange rates, although the demand for localization of older works for video streaming service settled down and pushed down sales. However, operating income decreased due to a rise in personnel costs, depreciation expenses and the other costs brought on by expanding bases globally. In the game-related business^{*2}, sales increased as Game 3DCG production remained solid, among other factors. In post-production services for TV, sales and operating income declined due to weak orders.

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

*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 through movie theaters, TV, and the Internet. Meantime, the closing date for overseas E2E services is December 31, and therefore the results from January 1, 2023 to September 30, 2023 are reflected in those for the first nine months of the 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 nine months of the fiscal year, the segment reported sales of 12,783 million yen (up 1.2% year on year) and operating income of 1,144 million yen (down 3.3%).

Sales of high-speed cameras significantly increased as orders remained strong. On the other hand, sales of broadcast imaging systems & solutions decreased due to weak orders. Sales and operating income of video and image processing LSIs continued to decline mainly due to deteriorating market environments, although sales of optical measurement slightly increased.

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

(2) Explanation of financial position

① Assets

Current assets decreased by 3,945 million yen (8.8%) from the end of the previous fiscal year to 41,025 million yen. This was mainly due to decreases in cash and deposits, notes and accounts receivable - trade, and contract assets, while inventories increased.

Non-current assets increased by 200 million yen (0.5%) from the end of the previous fiscal year to 37,117 million yen. This was mainly due to increases in buildings and structures and in “other” in property, plant and equipment, while construction in progress and deferred tax assets decreased.

As a result, total assets decreased by 3,745 million yen (4.6%) from the end of the previous fiscal year to 78,142 million yen.

② Liabilities

Current liabilities decreased by 2,376 million yen (7.2%) from the end of the previous fiscal year to 30,828 million yen. This was mainly due to decreases in contract liabilities and notes and accounts payable - trade.

Non-current liabilities decreased by 783 million yen (9.3%) from the end of the previous fiscal year to 7,595 million yen. This was mainly due to a decrease in long-term borrowings.

As a result, total liabilities decreased by 3,160 million yen (7.6%) from the end of the previous fiscal year to 38,424 million yen.

③ Net assets

Net assets decreased by 585 million yen (1.5%) from the end of the previous fiscal year to 39,718 million yen. This was mainly due to a decrease in non-controlling interests, while foreign currency translation adjustment increased.

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

There are no revisions to the full-year forecasts for the 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	December 31, 2023
Assets		
Current assets		
Cash and deposits	7,813,769	4,377,280
Notes and accounts receivable - trade, and contract assets	21,937,480	19,138,472
Inventories	12,460,112	13,552,625
Other	2,868,953	4,067,750
Allowance for doubtful accounts	(109,328)	(111,113)
Total current assets	44,970,987	41,025,014
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,213,112	13,105,399
Accumulated depreciation	(7,584,337)	(8,038,995)
Accumulated impairment	(619,501)	(612,405)
Buildings and structures, net	4,009,273	4,453,998
Machinery, equipment and vehicles	6,210,738	6,143,471
Accumulated depreciation	(5,525,748)	(5,477,994)
Accumulated impairment	(139,607)	(137,211)
Machinery, equipment and vehicles, net	545,383	528,265
Land	921,363	921,363
Leased assets	5,991,152	6,061,501
Accumulated depreciation	(871,877)	(949,533)
Accumulated impairment	(121,127)	(89,060)
Leased assets, net	4,998,147	5,022,907
Construction in progress	1,711,600	1,272,217
Other	7,801,738	9,065,841
Accumulated depreciation	(5,377,680)	(6,287,991)
Accumulated impairment	(135,685)	(140,079)
Other, net	2,288,372	2,637,771
Total property, plant and equipment	14,474,140	14,836,523
Intangible assets		
Goodwill	11,780,285	11,933,678
Other	2,460,007	2,564,776
Total intangible assets	14,240,292	14,498,454
Investments and other assets		
Investment securities	2,876,524	2,847,833
Shares of subsidiaries and affiliates	514,042	449,712
Leasehold and guarantee deposits	2,048,952	2,027,344
Deferred tax assets	2,420,133	2,209,181
Other	490,206	403,809
Allowance for doubtful accounts	(147,088)	(155,234)
Total investments and other assets	8,202,771	7,782,646
Total non-current assets	36,917,204	37,117,624
Total assets	81,888,191	78,142,639

(Thousands of yen)

	March 31, 2023	December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,133,738	6,374,307
Short-term borrowings	6,432,680	7,163,188
Lease liabilities	881,977	960,136
Accounts payable	1,769,403	1,949,884
Income taxes payable	1,172,785	575,171
Contract liabilities	7,591,449	6,097,137
Provision for bonuses	1,281,691	643,658
Provision for loss on orders received	1,100	500
Provision for loss on litigation	630,660	—
Asset retirement obligations	23,181	—
Other	6,286,605	7,064,384
Total current liabilities	33,205,274	30,828,368
Non-current liabilities		
Long-term borrowings	1,366,665	686,434
Lease liabilities	4,498,102	4,492,725
Long-term accounts payable	252,767	168,224
Deferred tax liabilities	196,598	205,416
Retirement benefit liability	1,241,071	1,278,036
Asset retirement obligations	653,518	664,248
Other	170,257	100,762
Total non-current liabilities	8,378,982	7,595,847
Total liabilities	41,584,257	38,424,215
Net assets		
Shareholders' equity		
Share capital	3,306,002	3,306,002
Capital surplus	13,020,018	12,155,677
Retained earnings	16,982,736	17,747,716
Treasury shares	(158,530)	(411,349)
Total shareholders' equity	33,150,226	32,798,047
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	713,553	852,137
Deferred gains or losses on hedges	20,740	29,101
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	2,237,081	3,775,626
Remeasurements of defined benefit plans	2,828	1,872
Total accumulated other comprehensive income	2,956,270	4,640,805
Non-controlling interests	4,197,436	2,279,569
Total net assets	40,303,934	39,718,423
Total liabilities and net assets	81,888,191	78,142,639

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

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net sales	68,200,306	71,458,362
Cost of sales	49,003,240	50,950,328
Gross profit	19,197,066	20,508,033
Selling, general and administrative expenses	16,456,158	18,283,545
Operating income	2,740,907	2,224,488
Non-operating income		
Interest income	1,433	7,449
Dividend income	26,117	34,747
Foreign exchange gains	—	102,672
Other	139,921	121,129
Total non-operating income	167,473	265,999
Non-operating expenses		
Interest expenses	191,203	285,034
Equity in losses of affiliates	6,572	8,200
Administrative expenses for investment partnerships	—	104,778
Foreign exchange losses	160,660	—
Other	158,478	88,590
Total non-operating expenses	516,915	486,604
Ordinary income	2,391,464	2,003,882
Extraordinary income		
Gain on sale of non-current assets	7,070	2,644
Gain on sale of investment securities	28,000	290,067
Gain on sale of shares of subsidiaries and affiliates	132,878	145,943
Reversal of provision for loss on litigation	—	234,162
Compensation for forced relocation	416,055	—
Other	1,909	12,372
Total extraordinary income	585,913	685,189
Extraordinary losses		
Loss on retirement of non-current assets	3,785	1,523
Impairment losses	13,935	18,327
Loss on valuation of shares of subsidiaries and affiliates	—	41,940
Office transfer related expenses	61,862	—
Extra retirement payments	170,228	—
Other	5,221	14,343
Total extraordinary losses	255,032	76,135
Net income before income taxes	2,722,345	2,612,936
Income taxes	838,911	969,963
Net income	1,883,433	1,642,973
Net income attributable to non-controlling interests	120,321	208,708
Net income attributable to owners of parent	1,763,112	1,434,264

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)

	Nine months ended December 31, 2022	Nine months ended December 31, 2023
Net income	1,883,433	1,642,973
Other comprehensive income		
Valuation difference on available-for-sale securities	(42,791)	142,899
Deferred gains or losses on hedges	—	8,361
Foreign currency translation adjustment	2,794,869	1,535,242
Remeasurements of defined benefit plans, net of tax	(284)	(956)
Total other comprehensive income	2,751,793	1,685,548
Comprehensive income	4,635,227	3,328,521
(Breakdown)		
Comprehensive income attributable to owners of parent	4,493,223	3,118,799
Comprehensive income attributable to non-controlling interests	142,003	209,721

(3) Notes to quarterly consolidated financial statements
(Notes on 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.

(Special accounting method applied to quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after tax effect accounting on net income before income taxes for the fiscal year that includes the third quarter and multiplying net income before income taxes for the quarter by the estimated effective tax rate.

However, if using this estimated effective tax rate results in extremely unreasonable tax expenses, the statutory effective tax rate is used after adjusting net income (loss) before income taxes for material differences that are not temporary.

(Segment information and others)

[Segment information]

I. For the nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales						
Sales to external customers	17,627,671	38,473,727	12,087,135	68,188,534	11,772	68,200,306
Inter-segment sales or transfers	104,249	1,171,442	547,877	1,823,569	(1,823,569)	—
Total	17,731,921	39,645,169	12,635,012	70,012,103	(1,811,796)	68,200,306
Segment income	285,810	2,147,007	1,184,033	3,616,851	(875,944)	2,740,907

(Notes) 1. Adjustment to segment income of (875,944) thousand yen consists of income (loss) related to the Company of 1,192,718 thousand yen and elimination of inter-segment transactions of (2,068,662) thousand yen.

2. Segment income is adjusted against operating income on the quarterly consolidated financial statements.

II. For the nine months ended December 31, 2023 (from April 1, 2023 to December 31, 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	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales						
Sales to external customers	19,572,583	39,619,450	12,259,674	71,451,708	6,653	71,458,362
Inter-segment sales or transfers	57,820	1,020,188	524,070	1,602,079	(1,602,079)	—
Total	19,630,403	40,639,639	12,783,745	73,053,788	(1,595,426)	71,458,362
Segment income	540,123	1,403,073	1,144,530	3,087,726	(863,238)	2,224,488

(Notes) 1. Adjustment to segment income of (863,238) thousand yen consists of income (loss) related to the Company of 923,088 thousand yen and elimination of inter-segment transactions of (1,786,326) 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 fiscal year, the reportable segment “Production Services” has been renamed “Production Technology Services.” This change is merely nominal and has no impact on the details of segment information.

Segment information for the nine months ended December 31, 2022 is presented using the new name.