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Consolidated financial results (Japanese Accounting Standards) for the Third Quarter of the fiscal year ending March 31, 2020

Company name: IMAGICA GROUP Inc. Filing date: February 5, 2020
 Securities code: 6879 Stock exchange listing: Tokyo 1st section
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 Quarterly report filing date (as planned): February 6, 2020
 Dividend payment date (as planned): —
 Supplemental material of quarterly results: Yes
 Convening briefing of quarterly results: No

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the fiscal year ending March 31, 2020 (April 1, 2019 – December 31, 2019)

(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	%
9 months ended Dec. 31, 2019	67,405	6.3	357	—	(310)	—	815	—
9 months ended Dec. 31, 2018	63,387	(1.7)	(691)	—	(685)	—	(307)	—

(Note) Comprehensive income: 3rd quarter ended December 31, 2019: 142 millions of yen / — %
 3rd quarter ended December 31, 2018: (2,128) millions of yen / — %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended Dec. 31, 2019	18.49	—
9 months ended Dec. 31, 2018	(6.97)	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
3 rd quarter ended Dec. 31, 2019	60,281	28,145	42.7
Year ended March 31, 2019	64,725	27,897	38.9

(Reference) Shareholders' equity: 3rd quarter ended December 31, 2019: 25,748 millions of yen
 Fiscal year ended March 31, 2019: 25,150 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, 2019	—	0.00	—	5.00	5.00
Year ending March 31, 2020	—	0.00			
Year ending March 31, 2020 (Forecast)		—	—	5.00	5.00

(Note) Changes in dividends forecast from the latest disclosed information: None

**3. Consolidated forecast for the fiscal year ending March 31, 2020
(April 1, 2019 - March 31, 2020)**

(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
Year ending March 31, 2020	93,000	3.1	1,200	29.6	400	(49.3)	1,200	-	27.21

(Note) Changes in earnings forecast from the latest disclosed information : Yes

(Reference) Operating income includes amortization of goodwill and other expenses of 1.1 billion yen

***Notes:**

(1) Material changes in subsidiaries during this period (changes in scope of consolidations resulting from change in subsidiaries): Yes

(Name) IMAGICA TOTAL SERVICE

(2) The application of specific accounting of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective

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 December 31, 2019	44,719,667 shares	As of March 31, 2019	44,531,567 shares
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2) Number of treasury stock at the end of fiscal year

As of December 31, 2019	468,341 shares	As of March 31, 2019	478,341 shares
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3) Average number of shares

As of December 31, 2019	44,087,258 shares	As of December 31, 2018	44,151,318 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. For preconditions of the assumptions and special instructions regarding the appropriate use of financial forecasts, please refer to "1. Qualitative Information on Results in the Third Quarter, (3) Explanation of Consolidated Financial Forecast and Forward-looking Statements" on page 3 of the supplemental material.

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1. Qualitative Information on Results in the Third Quarter

(1) Explanation of Operating Results

(Overview of the third quarter of the consolidated fiscal year ending March 31, 2020)

In view of growth opportunities and business challenges surrounding the IMAGICA GROUP (the "Group"), the Group developed a new mid-term business strategy "*Integration to 2021*", aiming to accelerate structural reform while establishing a balanced business portfolio sustaining profitable growth.

Based on this new mid-term business strategy, the Group has positioned the current fiscal year as a year to reinforce its earning structure, adopting "*Motivate - Integration to 2021 - on imaging*" as its basic policy, through which each business segment has been engaging in efforts in their respective focus areas.

In the consolidated cumulative third quarter of the fiscal year ending March 31, 2020, the Group posted net sales of 67.45 billion yen (up 6.3% compared to the same period of last year) and operating income of 357 million yen (operating loss of 691 million yen in the same period of last year). Due to the posting of foreign exchange loss and equity-method investment loss, ordinary loss of 310 million yen (ordinary loss of 685 million yen in the same period of last year), and net income attributable to owners of the parent of 815 million yen (net loss of 307 million yen in the same period of last year). The Group posted extraordinary gain of 1.688 billion yen as a result of non-current asset transfer.

(Performance by Business Segment)

The financial results by business segment are as follows:

1) Content Creation

The financial performance of the Content Creation Business Segment in the consolidated cumulative period of the third quarter resulted in net sales of 20.038 billion (up 22.7% compared to the same period of last year), and operating loss of 203 million yen (operating loss of 149 million yen in the same period of last year).

In the first half of the fiscal year, the Content Creation Business Segment showed an increase in sales, owing to the expanded scale and increased number of theatrical film productions of both anime and live action films compared with the same period of the previous year, alongside the positive trend in the increased number of TV commercials and concert recordings, including major live-music performances. With regards to the third quarter, there was a reduction in the number of TV anime series produced and a carry-over of feature film productions into the next fiscal year.

In terms of profit and loss, an operating loss was posted due to the valuation loss of investment in production committees for feature film productions.

2) Production Services

The financial performance of the Production Services Business Segment in the consolidated cumulative period of the third quarter resulted in net sales of 19.249 billion yen (down 4.1% compared to the same period of last year), and operating income of 183 million yen (up 7.5% compared to the same period of last year).

In the visual content post-production and E2E services* area, digital cinema services made favorable progress and post-production services for feature films and anime performed well. As a result, sales remained on a similar level to last year and effective cost control measures have contributed to profit improvement. Meanwhile, the sales and profit in human talent services declined compared to last year, owing to the sale of one of the consolidated subsidiaries and investing in the expansion of the digital content business.

*E2E services: Refers to an integrated end-to-end (E2E) service that covers the entire post-editing process from localization (subtitling/dubbing) to distribution of feature films and other source videos.

¹Distribution refers to a comprehensive service which includes the creation of data from the original version of the completed work, QC and distribution tailored to the requirements of release/delivery format of visual contents (theater, VOD, DVD/BD, etc.), and the management of the process and source materials.

3) Media Localization

The financial performance of the Media Localization Business Segment in the consolidated cumulative period of the third quarter resulted in net sales of 16.516 billion yen (down 9.5% compared to the same period of last year), and operating loss of 729 million yen (operating loss of 1.211 billion yen in the same period of last year).

In the Media Localization Business Segment, net sales declined due to the sale of two consolidated subsidiaries and ongoing slowdown in sales for broadcasters in Europe. However, the operating loss improved despite the revenue decrease, due to favorable performance of highly profitable production projects and the cost reduction effort by optimizing fixed costs.

Additionally, partnering with Pixelogic Holding, LLC, the Group's Equity method affiliate since April 2019, the Group has been continuously working to secure the growing revenue from newly launching video streaming platforms.

4) Imaging Systems & Solutions

The financial performance of the Imaging Systems and Solutions Business Segment in the consolidated cumulative period of the third quarter resulted in net sales of 12.784 billion yen (up 27.4% compared to the same period of last year), and operating income of 1.478 billion yen (up 79.8% compared to the same period of last year).

In the video systems business area, in addition to a major project for a broadcasting station posted in the first half of the fiscal year, the completion and delivery of various other projects are progressing smoothly. Sales from the online delivery system of TV commercials are also growing steadily commensurate with expanding market needs. In the imaging business area, sales of new high-speed camera products in Europe and the United States remained strong, contributing to a significant increase in the overall sales and profits of the Imaging Systems and Solutions Business Segment.

*The business that had been described and reported as the “professional video equipment business” until the previous consolidated fiscal year has been renamed to “video systems business” in line with the Group’s current business structure.

(2) Explanation of Financial Position

(Assets Statement)

Current assets decreased by 5.161 billion yen (or 12.9%) from the end of the previous consolidated fiscal year to 34.957 billion yen. This was mainly due to the decrease in cash and deposits, notes and accounts receivable, while inventories increased.

Non-current assets increased by 717 million yen (or 2.9%) from the end of the previous consolidated fiscal year to 25.323 billion yen. This was mainly due to a reduction in property following the sale of the Akasaka Video Center and an increase in shares of subsidiaries and affiliates following the acquisition of shares in Pixelogic Holdings, LLC.

Consequently, total assets decreased by 4.444 billion yen (or 6.9%) from the end of the previous fiscal year to 60.281 billion yen.

(Liabilities Statement)

Current liabilities decreased by 3.645 billion yen (or 13.6%) from the end of the previous consolidated fiscal year to 23.067 billion yen. This was mainly due to a decrease in notes and accounts payable, short-term loans payable, advances received and provision for bonuses.

Non-current liabilities decreased by 1.047 billion yen (or 10.4%) from the end of the previous consolidated fiscal year to 9.068 billion yen. This was mainly due to a decrease in long-term loans payable, long-term accounts payable and net defined benefit liability.

Consequently, total liabilities decreased by 4.692 billion yen (or 12.7%) from the end of the previous consolidated fiscal year to 32.135 billion yen.

(Net Assets)

Net assets increased by 248 million yen (or 0.9%) from the end of the previous consolidated fiscal year to 28.145 billion yen. This was mainly due to a decrease in non-controlling interests, while there was an increase in retained earnings.

(3) Explanation of Consolidated Financial Forecast and Forward-looking Statements

The Group has revised its consolidated financial forecast for the fiscal year ending March 31, 2020 from that announced on May 14, 2019. For details, please see “Notice Concerning Revision of Consolidated Financial Forecast” released February 5, 2020.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	Fiscal year ended March 31, 2019	9 months ended December 31, 2019
Assets		
Current assets		
Cash and deposits	6,079,172	5,720,764
Notes and accounts receivable- trade	19,043,240	13,436,154
Inventories	11,352,166	12,702,357
Other	3,704,760	3,144,546
Allowance for doubtful accounts	(60,006)	(46,460)
Total current assets	40,119,332	34,957,362
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,502,684	3,274,521
Machinery and equipment	117,391	152,374
Land	2,944,295	1,705,819
Lease Assets	800,677	662,822
Construction in progress	60,508	354,113
Other	1,658,500	1,454,301
Total Property, plant and equipment	9,084,058	7,603,951
Intangible assets		
Software	1,189,223	1,142,709
Goodwill	3,769,751	3,215,129
Other	4,377,450	4,033,467
Total Intangible assets	9,336,425	8,391,306
Investments and other assets		
Investment securities	2,780,364	3,060,322
Stocks of subsidiaries and affiliates	306,705	2,799,557
Lease and guarantee deposits	1,177,433	1,466,307
Deferred tax asset	1,407,252	1,466,167
Other	624,476	669,394
Allowance for doubtful accounts	(110,528)	(133,021)
Total Investments and other assets	6,185,703	9,328,728
Total Non-current assets	24,606,187	25,323,986
Total assets	64,725,520	60,281,348

(Thousands of yen)	Fiscal year ended March 31, 2019	9 months ended December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,657,281	5,404,571
Short-term loans payable	5,375,309	4,593,809
Accounts payable	3,688,369	3,411,168
Income taxes payable	646,989	473,514
Advance payment	5,735,832	5,051,859
Provision for bonuses	1,131,264	608,956
Provision for directors compensations based on profit	146,678	89,148
Provision for loss on order received	73,117	120,393
Other	3,257,658	3,314,026
Total current liabilities	26,712,502	23,067,449
Non-current liabilities		
Long-term loans payable	6,169,835	5,657,035
Long-term accounts payable-other	316,773	174,126
Deferred tax liabilities	493,520	454,283
Net defined benefit liabilities	1,356,280	1,217,223
Other	1,779,206	1,565,616
Total non-current liabilities	10,115,616	9,068,286
Total Liabilities	36,828,119	32,135,736
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,299,825
Capital surplus	14,816,170	14,865,376
Retained earnings	7,286,290	7,881,099
Treasury stock	(489,754)	(479,516)
Total shareholders' equity	24,857,620	25,566,785
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	741,443	801,823
Deferred gains or losses on hedges	(1,346)	266
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(442,700)	(613,203)
Re-measurements of defined benefit plans	12,919	10,276
Total accumulated other comprehensive income	292,382	181,230
Stock acquisition right	–	11,520
Non-controlling Interests	2,747,397	2,386,075
Total Net assets	27,897,401	28,145,612
Total liabilities and Net assets	64,725,520	60,281,348

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

Quarterly Consolidated Statements of Income

(Thousands of yen)	9 months ended December 31, 2018	9 months ended December 31, 2019
Net sales	63,387,860	67,405,791
Cost of sales	47,127,991	50,485,820
Gross profit	16,259,869	16,919,971
Selling, general and administrative expenses	16,950,960	16,562,348
Operating income (loss)	(691,090)	357,622
Non-operating income		
Interest income	1,782	124,313
Dividend income	33,562	31,270
Equity in earnings of affiliates	38,788	—
Foreign exchange gains	33,055	—
Other	167,670	123,372
Total non-operating income	274,859	278,956
Non-operating expenses		
Interest expenses	242,071	255,916
Equity in losses of affiliates	—	460,583
Foreign exchange losses	—	91,580
Other	26,964	139,093
Total non-operating expenses	269,036	947,173
Ordinary income (loss)	(685,267)	(310,595)
Extraordinary income		
Gain on sales of non-current assets	2,801	1,650,441
Gain on investment securities	369,510	37,813
Total extraordinary income	372,312	1,688,254
Extraordinary losses		
Loss on sales of non-current assets	24,326	—
Loss on disposal of non-current assets	23,723	19,310
Loss on sales of investment securities	—	13,650
Relocation-related expenses	22,100	25,200
Other	14,803	1,693
Total extraordinary losses	84,953	59,854
Net income (loss) before income tax	(397,908)	1,317,804
Income taxes	527,048	1,001,906
Net income (loss)	(924,957)	315,898
Net income (loss) attributable to non-controlling interests	(617,393)	(499,177)
Net income (loss) attributable to owners of the parent	(307,564)	815,076

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	9 months ended December 31, 2018	9 months ended December 31, 2019
Profit (Loss)	(924,957)	315,898
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,047,546)	59,768
Deferred gains or losses on hedges	388	1,613
Foreign currency translation adjustment	(154,193)	(232,477)
Re-measurements of defined benefit plans	(1,788)	(2,642)
Total other comprehensive income	(1,203,139)	(173,737)
Comprehensive income	(2,128,097)	142,160
(Breakdown)		
Comprehensive income attributable to owners of parent	(1,448,999)	703,923
Comprehensive income attributable to non-controlling interests	(679,097)	(561,763)

(3) Notes to Quarterly Consolidated Statements

(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

(Notes on the event of material changes in the amount of shareholders' equity)

No relevant matters to be noted.

(Segment information and others)

[Segment Information]

I. For the 9 months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	16,220,120	19,368,893	17,971,102	9,742,475	63,302,591
Inter-segment sales or transfers	114,025	701,233	269,150	292,893	1,377,302
Total	16,334,146	20,070,127	18,240,252	10,035,368	64,679,894
Segment profit (loss)	(149,283)	170,817	(1,211,659)	822,344	(367,781)

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	85,268	63,387,860
Inter-segment sales or transfers	(1,377,302)	—
Total	(1,292,033)	63,387,860
Segment profit (loss)	(323,309)	(691,090)

Notes:

1. The segment profit (loss) adjustment of (323,309) thousand yen consists of 893,477 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,216,787) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income (loss) item in the Quarterly Consolidated Statements of Income.

II. For the 9 months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

Information regarding net sales and profit (loss) by reportable segment

(Thousands of yen)

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	19,959,876	18,525,204	16,456,483	12,455,848	67,397,412
Inter-segment sales or transfers	78,594	724,035	59,826	328,711	1,191,168
Total	20,038,471	19,249,240	16,516,310	12,784,560	68,588,581
Segment profit (loss)	(203,206)	183,546	(729,751)	1,478,415	729,004

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	8,379	67,405,791
Inter-segment sales or transfers	(1,191,168)	—
Total	(1,182,789)	67,405,791
Segment profit (loss)	(371,382)	(357,622)

Notes:

1. The segment profit (loss) adjustment of (371,382) thousand yen consists of 1,281,935 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,653,317) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income (loss) item in the Quarterly Consolidated Statements of Income.