Consolidated financial results (Japanese Accounting Standards) for the Third Quarter of the fiscal year ending March 31, 2022

Filing date: February 4, 2022

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Stock exchange listing: Tokyo 1st section
Securities code: 6879
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Supplemental material of quarterly results: Yes
Convening briefing of quarterly results: Yes

(Millions of yen, rounded down)

1. Consolidated Financial Results for the Third Quarter of the fiscal year ending March 31, 2022 (April 1, 2021 – December 31, 2021)

(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, 2021	55,618	(5.2)	1,938	―	2,448	―	2,460	―
9 months ended Dec. 31, 2020	58,670	(13.0)	(2,369)	―	(2,729)	―	(663)	―

(Note) Comprehensive income: 3rd quarter ended December 31, 2021: 3,000 millions of yen / ― %
3rd quarter ended December 31, 2020: (1,135) millions of yen / ― %

	Earnings per share of common stock	Diluted earnings per share of common stock
	Yen	Yen
9 months ended Dec. 31, 2021	55.42	―
9 months ended Dec. 31, 2020	(14.96)	―

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Dec 31, 2021	69,512	33,232	43.8
As of March 31, 2021	60,446	29,832	45.4

(Reference) Shareholders' equity: As of December 31, 2021: 30,423 millions of yen
As of March 31, 2021: 27,450 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 31,2021	―	0.00	―	0.00	0.00
Year ending March 31,2022	―	0.00	―		
Year ending March 31,2022 (Forecast)				10.00	10.00

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

3. Consolidated forecast for the fiscal year ending March 31, 2022 (April 1, 2021 - March 31, 2022)

(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 Mar.2022	77,000	(11.2)	2,000	–	2,500	–	2,500	(27.6)	56.32

(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): Yes

(2) The application of specific accounting of the consolidated quarterly financial statements: No

(3) Changes in accounting policies, accounting estimates and retrospective
1) Changes in accounting policies based on revisions of accounting standards: Yes
2) Changes in accounting policies other than ones based on revisions of accounting standards: Yes
3) Changes in accounting estimates: Yes
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, 2021	44,741,467 shares	As of March 31, 2021	44,741,467 shares

2) Number of treasury stock at the end of fiscal year

As of December 31, 2021	345,938 shares	As of March 31, 2021	353,231 shares

3) Average number of shares

As of December 31, 2021	44,391,917 shares	As of December 31, 2020	44,338,006 shares

***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 Forecasts and Other Forward-looking Information*" on page 4 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 consolidated fiscal year ending March 31, 2022)

The business environment surrounding the IMAGICA GROUP saw changes in the social environment due to the novel coronavirus (COVID-19) pandemic, in addition to rapid technological innovations. These factors are bringing about many changes in our imaging-related businesses such as the emergence of the online live market and video streaming market. The IMAGICA GROUP formulated G-EST 2025, our new mid-term plan, based on our view that these changes present growth opportunities. We have positioned fiscal year ending March 31, 2022, the initial year of this plan, as the year in which we will build the foundation for transforming into a highly profitable business, and are pursuing initiatives aimed at achieving the plan in each business segment.
The Group's financial performance for the third quarter of consolidated fiscal year ending March 31, 2022 resulted in net sales of 55,618 million yen (down 5.2% year-on-year), an operating income of 1,938 million yen (compared to an operating loss of 2,369 million yen in the third quarter of the previous fiscal year), and an ordinary income of 2,448 million yen by posting non-operating income including subsidy income of 641 million yen (compared to an ordinary loss of 2,729 million yen in the third quarter of the previous fiscal year). Net profit attributable to owners of the parent was 2,460 million yen (compared to a loss of 663 million yen in the third quarter of the previous fiscal year).
The decline in net sales resulted from the implementation of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereafter, the "Revenue Recognition Accounting Standard") and related guidance from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022, and the sales of all shares held in SDI Media Group, Inc. at the end of last fiscal year, removing it from consolidation.
See "(Changes in accounting policies, etc.)" and "(Segment information and others)" under "2. Quarterly Consolidated Financial Statements, (3) Notes to Quarterly Consolidated Statements" for further details on the impact of the implementation of the Revenue Recognition Accounting Standard and related guidance on the financial status and operating results of the IMAGICA GROUP.

(Performance by business segment)

The financial results by business segment are as follows.
One subsidiary (IMAGICA LIVE Corp.), which was previously included in the Production Services business segment, was reclassified to the Imagining Systems & Solutions business segment from the first quarter of consolidated fiscal year ending March 31, 2022. The consolidated fiscal year comparisons for the third quarter are based on the new classification.

1) Content Creation

The financial performance of the Content Creation business segment in the third quarter of consolidated fiscal year ending March 31, 2022 resulted in net sales of 15,284 million yen (up 10.0% year-on-year) and an operating income of 177 million yen (compared to an operating loss of 562 million yen in the third quarter of the previous fiscal year).
For feature films, TV dramas, TV animation and other productions, the delivery of some feature films was postponed until the fourth quarter, but some dramas for video streaming service providers were delivered, so sales were healthy. For TV commercials, the number of orders received was on a track to recovery, and profitability improved. Orders were also strong for online streaming of live music performances and shooting music videos.
The above factors resulted in an increase in both sales and operating income in the Content Creation business segment.

2) Production Services

The financial performance of the Production Services business segment in the third quarter of consolidated fiscal year ending March 31, 2022 resulted in net sales of 29,776 million yen (down 6.3% year-on-year) and an operating income of 1,116 million yen (compared to an operating loss of 2,340 million yen in the third quarter of the previous fiscal year).
For domestic E2E services*1, orders for services for video streaming service providers (video file compression, conversion, and other encoding and localization services) were healthy, due in part to collaboration with Pixelogic Holdings LLC (hereafter, PXL), which became a consolidated subsidiary last fiscal year. In addition, the number of orders for digital cinema services for Japanese and non-Japanese works recovered, as the number of feature films increased. We continuously secured orders for post-production services for feature films and animation works.
For international E2E services, PXL kept receiving a healthy number of orders for localization from video streaming service providers. Also, as theaters in Europe and the U.S. were reopened, the sales of digital cinema services got back on a recovery track.
In post-production services for TV programs and TV commercials, etc. *2, the sales of services for TV commercials remained favorable, and the demand for the online delivery system grew thanks to the recovery of the advertisement market.
In game production, human talent services, etc. *3, the number of orders for game production-related services, such as 3DCG production and debugging, was healthy.

Sales for the Production Services business segment as a whole declined due to the sale of all shares held in SDI Media Group, Inc. at the end of last fiscal year, removing the subsidiary from consolidation. However, the structural reform completed last fiscal year and the healthy performance of E2E services inside and outside Japan led to improvement in profit.

*1 E2E services: Refers to an integrated end-to-end (E2E) service that covers the entire post-production process for feature films, dramas, animation, and other audio/video content up to media services for localization (subtitling/dubbing) and distribution of these through all kinds of media, including theaters, TV, and video streaming via the Internet.

*2 As part of the restructuring of the Production Services business, the description of services collectively called "media and post-production services" up to last fiscal year has been revised to "E2E services" and "post-production services for TV programs and TV commercials, etc."

*3 The names of "human talent services" and "digital content" used up to last fiscal year have been revised to "game production, human talent services, etc."

*Companies in the international E2E services area have a fiscal year-end of December 31. The financial performance for this area during the third quarter of fiscal year ending March 31, 2022 therefore reflects the results for January 1 through September 30, 2021.

3) Imaging Systems & Solutions

The financial performance of the Imaging Systems & Solutions business segment in the third quarter of consolidated fiscal year ending March 31, 2022 resulted in net sales of 11,782 million yen (down 15.6% year-on-year) and an operating income of 1,023 million yen (up 17.0% year-on-year).

Regarding systems for broadcasting stations, demand remained sluggish. On the other hand, the sales of high-speed cameras were on a track to recovery in Japan and grew from the previous year in other Asian countries, Europe, and the U.S. The online delivery system for TV commercials continued to see strong sales due to expansion in market needs, while video and image processing LSI saw strong domestic and overseas sales, in particular in North America and South Korea.

Moreover, IMAGICA LIVE Corp. was included in the Imaging Systems & Solutions business in the first quarter of consolidated fiscal year ending March 31, 2022 due to segment reclassification. The number of orders for live sports relay and streaming services for archived videos was healthy.

The full amount of compensation received from customers for sale of mobile communication lines was previously recognized as revenue. However, the implementation of the Revenue Recognition Accounting Standard and related guidance has resulted in a year-on-year decrease in net sales due to the change in the method of recognizing revenue for the net amount after amounts paid to suppliers are deducted from the total amount of the sale. However, demand still remains healthy.

The above factors resulted in a decrease in sales and an increase in profit in the Imaging Systems & Solutions business segment.

(2) Explanation of Financial Position

(Assets)
Current assets increased by 6,373 million yen (20.9%) from the end of the previous consolidated fiscal year to 36,814 million yen. This was mainly due to an increase in inventories.
Non-current assets increased by 2,692 million yen (9.0%) from the end of the previous consolidated fiscal year to 32,698 million yen. This was mainly due to an increase in buildings and structures.
Consequently, total assets increased by 9,066 million yen (15.0%) from the end of the previous consolidated fiscal year to 69,512 million yen.

(Liabilities Statement)

Current liabilities increased by 6,664 million yen (30.1%) from the end of the previous consolidated fiscal year to 28,782 million yen. This was mainly due to a decrease in short-term loans payable, while contract liabilities and accounts payable increased.

Non-current liabilities decreased by 998 million yen (11.8%) from the end of the previous consolidated fiscal year to 7,497 million yen. This was mainly due to a decrease in long-term loans payable.

The above factors resulted in total liabilities of 36,279 million yen, an increase of 5,666 million yen (18.5%) from the end of the previous consolidated fiscal year.

(Net Assets)
Net assets increased by 3,399 million yen (11.4%) from the end of the previous consolidated fiscal year to 33,232 million yen. This was mainly due to an increase in retained earnings and foreign currency translation adjustment.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Information

Regarding the full-year forecasts for fiscal year ending March 31, 2022, there is no change to the revised earnings forecast announced on December 24, 2021. When calculating annual operating income, the amortization of goodwill, etc.* amounting to about 1.6 billion yen was included in expenses.
*Amortization of goodwill, etc. = Goodwill amortization + amortization of intangible fixed assets in the wake of M&A

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)	March 31, 2021	December 31 2021
Assets		
Current assets		
Cash and deposits	6,908,657	6,014,666
Notes and accounts receivable- trade	15,159,083	–
Notes and accounts receivable - trade, and contract assets	–	16,034,856
Inventories	6,499,812	12,721,501
Other	1,918,018	2,097,436
Allowance for doubtful accounts	(44,735)	(54,242)
Total current assets	30,440,836	36,814,218
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,065,365	5,283,098
Machinery and equipment	85,810	771,260
Land	1,705,819	1,705,819
Lease Assets	475,187	368,614
Construction in progress	526,880	207,959
Other	1,365,805	1,690,637
Total Property, plant and equipment	7,224,868	10,027,389
Intangible assets		
Goodwill	12,048,747	12,134,414
Other	2,464,367	2,675,788
Total Intangible assets	14,513,115	14,810,202
Investments and other assets		
Investment securities	3,163,483	2,412,511
Stocks of subsidiaries and affiliates	1,095,950	457,886
Lease and guarantee deposits	1,641,911	2,195,714
Deferred tax asset	2,154,662	2,613,416
Other	328,808	297,308
Allowance for doubtful accounts	(117,446)	(116,393)
Total Investments and other assets	8,267,369	7,860,444
Total Non-current assets	30,005,354	32,698,036
Total assets	60,446,190	69,512,254

(Thousands of yen)	March 31, 2021	December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable- trade	5,416,309	6,579,603
Short-term loans payable	7,402,726	5,520,120
Accounts payable	1,212,857	2,861,044
Income taxes payable	211,609	333,896
Advances received	2,811,112	–
Contract liabilities	–	7,905,097
Provision for bonuses	977,286	739,017
Provision for loss on order received	79,660	19,771
Provision for loss on litigation	531,408	549,662
Other	3,474,389	4,274,011
Total current liabilities	22,117,359	28,782,224
Non-current liabilities		
Long-term loans payable	5,384,905	4,297,724
Long-term accounts payable-other	148,018	209,429
Net defined benefit liabilities	550,324	540,646
Deferred tax liabilities	1,219,724	1,291,468
Asset retirement obligations	627,722	654,548
Other	565,200	503,456
Total non-current liabilities	8,495,895	7,497,274
Total Liabilities	30,613,255	36,279,498
Net assets		
Shareholders' equity		
Capital stock	3,306,002	3,306,002
Capital surplus	13,238,832	13,220,501
Retained earnings	10,966,151	13,516,326
Treasury stock	(361,659)	(351,569)
Total shareholders' equity	27,149,326	29,691,260
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	880,107	442,022
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(559,947)	309,369
Re-measurements of defined benefit plans	(688)	(1,190)
Total accumulated other comprehensive income	301,538	732,267
Stock acquisition right	11,484	–
Non-controlling Interests	2,370,585	2,809,227
Total Net assets	29,832,935	33,232,755
Total liabilities and Net assets	60,446,190	69,512,254

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

Quarterly Consolidated Statements of Income

(Thousands of yen)	9 months ended December 31, 2020	9 months ended December 31, 2021
Net sales	58,670,351	55,618,324
Cost of sales	45,738,026	39,227,628
Gross profit	12,932,325	16,390,696
Selling, general and administrative expenses	15,302,107	14,452,390
Operating income (loss)	(2,369,782)	1,938,305
Non-operating income		
Interest income	198,568	814
Dividend income	23,407	22,240
Subsidy income	52,290	641,165
Equity in earnings of affiliates	–	109
Other	90,606	84,416
Total non-operating income	364,872	748,746
Non-operating expenses		
Interest expenses	227,305	152,391
Equity in losses of affiliates	344,200	–
Foreign exchange losses	48,944	17,101
Other	103,863	68,679
Total non-operating expenses	724,314	238,172
Ordinary income (loss)	(2,729,224)	2,448,879
Extraordinary income		
Gain on sales of non-current assets	2,770	4,560
Gain on sales of investment securities	–	414,702
Gain on sale of shares of subsidiaries and associates	–	417,882
Gain on step acquisitions	2,091,698	–
Other	122,042	21,657
Total extraordinary income	2,216,511	858,802
Extraordinary losses		
Loss on sales of non-current assets	263	–
Loss on retirement of non-current assets	40,411	64,692
Office transfer related expenses	22,316	477,468
Other	91,639	17,803
Total extraordinary losses	154,631	559,965
Net income (loss) before income tax	(667,344)	2,747,716
Income taxes	502,486	180,998
Net income (loss)	(1,169,831)	2,566,717
Net income (loss) attributable to non-controlling interests	(506,432)	106,482
Net income (loss) attributable to owners of the parent	(663,398)	2,460,235

Quarterly Consolidated Statements of Comprehensive Income

(Thousands of yen)	9 months ended December 31, 2020	9 months ended December 31, 2021
Net income (loss)	(1,169,831)	2,566,717
Other comprehensive income		
Valuation difference on available-for-sale securities	264,180	(436,099)
Foreign currency translation adjustment	(229,996)	870,289
Re-measurements of defined benefit plans	(136)	(502)
Total other comprehensive income	34,046	433,687
Comprehensive income	(1,135,784)	3,000,405
(Breakdown)		
Comprehensive income attributable to owners of parent	(555,069)	2,890,964
Comprehensive income attributable to non-controlling interests	(580,714)	109,440

(3) Notes to Quarterly Consolidated Statements

(Notes regarding ongoing concern assumption)

No relevant matters to be noted.

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

No relevant matters to be noted.

(Changes in accounting policies, etc.)

(Changes in accounting policies)

(Changes accompanying implementation of the Accounting Standard for Revenue Recognition and related guidance)
The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, revised March 31, 2020; hereafter, the "Revenue Recognition Accounting Standard") and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. Under this standard, the amount the company expects to receive in exchange for goods and services is recognized as revenue when control over the promised goods or services is transferred to the customer. The main changes from implementation of the Revenue Recognition Accounting Standard and related guidance are as follows:

(1) Recognition of revenue on product export sales
For export sales of imaging equipment, etc., revenue was previously recognized when the goods cleared customs. This has changed to the method of recognizing revenue once control over the asset is deemed to have transferred to the customer, according to the transaction terms.

(2) Recognition of revenue on transactions involving multiple fulfillment obligations in a single contract
In the Content Creation business, revenue on transactions involving multiple fulfillment obligations in a single contract was previously recognized once all obligations were completely fulfilled in cases where the obligations were highly interrelated. For transactions in which the customer performs an inspection for each of the fulfillment obligations, this has changed to the method of recognizing revenue for each fulfilled obligation once the customer has performed the inspection and deemed each individual obligation fulfilled.

(3) Recognition of revenue on agency transactions
For mobile communication lines, revenue was previously recognized on the total amount of the sale received from the customer. This has changed to the method of recognizing revenue for the net amount after deducting payments to suppliers from the full amount. This resulted from determining the company's role (provided directly or as an agent) in providing the goods or services to the customer.

The implementation of the Revenue Recognition Accounting Standard and related guidance follows the transitional treatment in the exception clause of Paragraph 84 of the Revenue Recognition Accounting Standard. The new accounting standard was applied to the balance of retained earnings from the beginning of the period and retained earnings were adjusted for the cumulative impact assuming application of the new accounting standard retroactively before the beginning of the accounting period for the first quarter of consolidated fiscal year ending March 31, 2022.
However, we have applied the method specified in Paragraph 86 of the Revenue Recognition Accounting Standard and have not retroactively applied the new accounting policy to contracts for which nearly all of the revenue recognized prior to the beginning of the first quarter of consolidated fiscal year ending March 31, 2022, was handled according to the previous accounting method.
These changes resulted in a decrease in retained earnings at the beginning of the first quarter of consolidated fiscal year ending March 31, 2022 of 9,934 thousand yen. It also resulted in decreases of 4,558,109 thousand yen in net sales and 4,555,322 thousand yen in cost of sales for the third quarter of the fiscal year ending March 31, 2022. The operating income, ordinary income and net income before income tax decreased by 2,787 thousand yen, respectively.
Due to implementation of the Revenue Recognition Accounting Standard and related guidance, "Notes and accounts receivable-trade," which was presented in "Current assets" in the Quarterly Consolidated Balance Sheets for the previous fiscal year, is included in "Notes and accounts receivable-trade, and contract assets" from the first quarter of consolidated fiscal year ending March 31, 2022. Likewise, "Advances received," which was presented in "Current liabilities," is included "Contract liabilities" from the first quarter of consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment specified in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the new method of presentation has not been retroactively applied to the previous consolidated fiscal year.

(Changes accompanying implementation of the Accounting Standard for Fair Value Measurement)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereafter, “Fair Value Accounting Standard”) and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. In accordance with the transitional treatment specified in Paragraph 19 of the Fair Value Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy specified in the Fair Value Accounting Standard and related standards were applied prospectively. The change did not have any impact on the quarterly consolidated financial statements.

(Changes in accounting policies that are difficult to differentiate from changes in accounting estimates)

The IMAGICA GROUP and its domestic subsidiaries have mainly used the declining balance method of depreciation for property, plant, and equipment (excluding lease assets). We have changed this to the straight-line depreciation method from the first quarter of consolidated fiscal year ending March 31, 2022.

In light of the change from an era in which state-of-the-art equipment functions and editing services were strengths to an era in which we are called upon to perform an integrated range of complex work in a secure environment for worldwide simultaneous release, the IMAGICA GROUP response up to fiscal year ended March 31, 2021 included revising the international strategy, undertaking structural reform and Group business reorganization, using fixed assets effectively, and invigorating creative talent by establishing an office environment that accommodates new workstyles.

We took advantage of the opportunity presented by implementing the measures mentioned above to consider the status of property, plant, and equipment use. This revealed that the risk of rapid technological and economic obsolescence is now lower and property, plant, and equipment can be expected to operate stably over the remaining useful life, based on our New Mid-Term Plan "G-EST 2025.” We therefore decided that the equal allocation of costs under the straight-line depreciation method is a more reasonable reflection of the actual usage of property, plant, and equipment.

Compared to the previous method, this change resulted in an increase of 103,023 thousand yen in the operating income, ordinary income and net income before income tax, respectively, for the third quarter of consolidated fiscal year ending March 31, 2022.

(Segment information and others)

[Segment Information]

I. For the 9 months ended December 31, 2020 (from April 1, 2020 to December 31, 2020)

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

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	13,828,736	31,158,125	13,671,066	58,657,927
Inter-segment sales or transfers	60,220	625,920	291,626	977,767
Total	13,888,956	31,784,046	13,962,692	59,635,695
Segment income (loss)	(562,949)	(2,340,684)	874,759	(2,028,875)

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	12,423	58,670,351
Inter-segment sales or transfers	(977,767)	–
Total	(965,343)	58,670,351
Segment income (loss)	(340,907)	(2,369,782)

Notes:

1. The segment income (loss) adjustment of (340,907) thousand yen consists of 1,250,985 thousand yen in income of the Company and intersegment transaction eliminations of (1,591,892) thousand yen.
2. The segment income (loss) adjustment is based on the operating loss item in the Quarterly Consolidated Statements of Income.

2. Information on assets by reportable segment

In the third quarter of consolidated fiscal year ending March 31, 2022, we acquired more shares of Pixelogic Holdings LLC, which had been an equity-method affiliate, and included it and its 4 subsidiaries in the scope of consolidation. Accordingly, the assets in the “Production Services” business segment increased 13,530,580 thousand yen between the end of the previous consolidated fiscal year and the end of the third quarter of consolidated fiscal year ending March 31, 2022. Here, the amount of said assets reflects the important revision to the initial allocation of the acquisition cost due to the provisional accounting for business combination.

3. Information on impairment losses, goodwill, etc. by reportable segment

(Important change in goodwill amount)

In the third quarter of consolidated fiscal year ending March 31, 2022, we acquired more shares of Pixelogic Holdings LLC, which had been an equity-method affiliate, and included it and its 4 subsidiaries in the scope of consolidation. Accordingly, the goodwill in the “Production Services” business segment increased 11,856,512 thousand yen. Here, said goodwill amount reflects the important revision to the initial allocation of the acquisition cost due to the provisional accounting for business combination.

II. For the 9 months ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

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

(Thousands of yen)

	Content Creation	Production Services	Imaging Systems & Solutions	Sub total
Net sales				
Sales to external customers	15,057,014	28,903,978	11,304,452	55,265,445
Inter-segment sales or transfers	227,424	872,984	477,810	1,578,219
Total	15,284,438	29,776,962	11,782,263	56,843,664
Segment income	177,340	1,116,667	1,023,675	2,317,683

	Adjustments (Note 1)	Amount in the Quarterly Consolidated Statements of Income (Note 2)
Net sales		
Sales to external customers	352,878	55,618,324
Inter-segment sales or transfers	(1,578,219)	–
Total	(1,225,340)	55,618,324
Segment income	(379,377)	1,938,305

Notes:

1. The segment income adjustment of (379,377) thousand yen consists of 768,753 thousand yen in income of the Company and intersegment transaction eliminations of (1,148,131) thousand yen.
2. The segment income adjustment is based on the operating income item in the Quarterly Consolidated Statements of Income.

2. Notes concerning changes in reportable segments

(Changes in reportable segments)

One consolidated subsidiary (IMAGICA LIVE Corp.) was previously included in the Production Services segment. It has been reclassified and included in the Imaging Systems & Solutions segment from the first quarter of consolidated fiscal year ending March 31, 2022.

The figures provided in “Information regarding net sales and profit (loss) by reportable segment” for the third quarter of the previous consolidated fiscal year show the figures after the changes to the reportable segments were made.

(Changes in accounting policies)

As stated in “Changes in accounting policies,” the Revenue Recognition Accounting Standard and related guidance were implemented from the beginning of the first quarter of consolidated fiscal year ending March 31, 2022. The changes in the method of accounting for revenue

recognition also resulted in the same changes in the method of calculating business segment income or loss.

Compared to the previous method, this change resulted in an increase of 45,462 thousand yen in sales for Content Creation, a decrease of 1,554 thousand yen in sales for Production Services, and a decrease of 4,602,017 thousand yen in sales for Imaging Systems & Solutions. It also decreased segment income by 1,233 thousand yen for Content Creation and by 1,554 thousand yen for Production Services for the third quarter of consolidated fiscal year ending March 31, 2022.

(Change in property, plant, and equipment depreciation method)

As stated in “Changes in accounting policies that are difficult to differentiate from changes in accounting estimates,” the Group and its domestic consolidated subsidiaries previously used the declining balance method for depreciating property, plant, and equipment (excluding lease assets). The method of depreciation was changed to the straight-line method from the first quarter of consolidated fiscal year ending March 31, 2022.

Compared to the previous method, this change resulted in increases of 7,977 thousand yen in the segment income for Content Creation, 30,699 thousand yen in the segment income for Production Services, 41,251 thousand yen in the segment income for Imaging Systems & Solutions, and 23,093 thousand yen in adjustments, respectively, for the third quarter of consolidated fiscal year ending March 31, 2022.