

English translation

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Consolidated financial results (Japanese Accounting Standards) for the Second Quarter of the fiscal year ending March 31, 2018

Filing date: November 7, 2017

Company name: Imagica Robot Holdings Inc.

Stock exchange listings: Tokyo 1st section

Securities code: 6879

URL: <https://www.imagicarobot.jp/en/>

Representative: Makoto Tsukada, President

Tel: +81-3-6741-5742

Inquiries: Masakazu Morita, Director and Executive Officer

Quarterly report filing date(as planned): November 7, 2017

Dividend payment date(as planned): –

Supplemental material of quarterly results: –

Convening briefing of quarterly results: –

(In millions of yen)

1. Consolidated Financial Results for the Second Quarter ending September 30, 2017 (April 1, 2017 - September 30, 2017)

(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	%
6months ending September 30, 2017	42,263	6.7	1,131	395.8	1,218	347.2	1,856	566.0
6months ended September 30, 2016	39,615	33.1	228	–	272	–	278	906.4

(Note) Comprehensive income: 2st quarter ending September 30, 2017 : 2,091 millions of yen / – %
2st quarter ended September 30, 2016 : (1,442) millions of yen / – %

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
6 months ending September 30, 2017	41.69	–
6 months ended September 30, 2016	6.26	–

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
2st quarter ending September 30, 2017	66,034	31,608	42.6
Year ended March 31, 2017	68,207	29,941	38.6

(Reference) Shareholders' equity: 2st quarter ending September 30, 2017: 28,157 millions of yen
Year ended March 31, 2017: 26,313 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, 2017	–	0.00	–	10.00	10.00
Year ending March 31, 2018	–	0.00			
Year ending March 31, 2018 (Forecast)		0.00	–	10.00	10.00

(Note) Changes in dividends forecast from the latest disclosed information: No

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3. Consolidated forecast for the fiscal year ending March 31, 2018 (April 1, 2017 - March 31, 2018)

(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, 2018	87,900	0.4	1,800	0.7	1,800	(10.6)	2,300	34.7	51.6

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

(Reference) It is included goodwill amortization 1.4 billion yen due to the acquisition as an expense in the operating income.

* Notes

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

Name of subsidiaries newly consolidated: IMAGICA TV Corporation

(2) Applying 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 standard: 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 September 30, 2017	44,531,567 shares	As of March 31, 2017	44,531,567 shares
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2) Number of treasury stock at the end of fiscal year

As of September 30, 2017	108 shares	As of March 31, 2017	108 shares
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3) Average number of shares

As of September 30, 2017	44,531,459 shares	As of June 30, 2016	44,531,459 shares
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(Explanation about the appropriate usage of business prospects and other special notes)

• The above-mentioned business forecasts were based on the information available as of the date of the release of this report.

• Future events may cause the actual results to be significantly different from the forecasts.

(Disclaimer)

This document is a translation of the Japanese original. The Japanese original has been disclosed in Japan in accordance with Japanese accounting standards and the Financial Instruments and Exchange Act. This document does not contain or constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on this document. In the case that there is any discrepancy between the Japanese original and this document, the Japanese original is assumed to be correct.

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1. Qualitative Information on Results in the Second Quarter

(1) Explanation of operating results (Summary of this second quarter)

During the cumulative consolidated second quarter, the Japanese economy saw further improvements in the production activities of enterprises amid a recovery in exports. While seasonal factors held back the recovery in personal consumption, the employment and income situation remained strong.

Against this backdrop, the Group expanded business broadly in the Content Creation segment, and rallied its collective energies in an effort to enhance its profitability and financial structure.

Consequently, the consolidated performance for the cumulative consolidated second quarter was as follows: Net sales was 42,263 million yen (up 6.7% year-on-year), operating income was 1,131 million yen (up 395.8% year-on-year), ordinary income was 1,218 million yen (up 347.2% year-on-year), and net income attributable to owners of the parent was 1,856 million yen (up 566.0% year-on-year).

The Group recorded 2,177 million yen in extraordinary income, which represents the gain on the sales of subsidiaries/affiliates' stock following the complete divestiture of Imagica TV Corp on April 3, 2017.

(Performance by Business segments)

From the cumulative consolidated first quarter, the Group reorganized its reportable segments from six to four segments. The new segments are: Content Creation (formerly Video Software), Production Services (combines the former Video Technology Services and Human Resources Consulting segments), Media Localization, and Imaging Systems & Solutions. Accordingly, as regards the following year-on-year changes, the figures for the equivalent period of the previous year were reclassified to reflect the segment reorganization.

(The Group discontinued the Broadcasting segment after it sold Imagica TV, a core company of the segment, on April 3, 2017).

1) Content Creation

The Content Creation segment saw an increase in TV drama and TV animation productions and strong performance in projection mapping video and live music performance videos, contributing significantly to higher net sales. Operating income, however, declined 289 million yen year-on-year due to year-on-year decreases in distribution from production committee and TV commercial productions during the first quarter.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 10,705 million yen (up 18.0% year-on-year) and operating income of 277 million yen (down 51.1% year-on-year).

2) Production Services

Previous fiscal year's strong performance in encoding services for OTT platforms and digital cinema services continued in this quarter, contributing to an increase in net sales and operating income. As regards post-production, orders were favorable in each market.

The human resources consulting business performed well, while the growing demand for smartphone games led to an increase in net sales in the game CG production and debugging businesses.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 13,642 million yen (up 10.0% year-on-year) and operating income of 611 million yen (up 71.4% year-on-year).

3) Media Localization

The Media Localization segment reported significant improvements in its performance. In the U.S., OTT platforms-oriented business performed well, contributing significantly to higher revenue. The segment also benefitted from a formidable improvement in operating losses. This improvement was attributable to a revenue-driven increase in gross income; it also reflected the discontinuation of the temporary sales and general administrative expenses that arose in the equivalent period of the previous year.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 12,235 million yen (up 19.5% year-on-year) and operating income of 25 million yen (compared to operating losses of 1,024 million yen in the equivalent period of the previous year).

The closing date for SDI Media Group, Inc. and its subsidiary is December 31. Accordingly, as far as the above segment results are concerned, the cumulative consolidated second quarter represents a six month period from January 1 to June 30, 2017.

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4) Imaging Systems & Solutions

The Imaging Systems & Solutions saw slight year-on-year decreases in net sales and operating income. A factor behind this result was the fact that the delivery of optical measurement cameras was set for the third quarter onward. The professional video equipment business performed well, with an increase in sales of imported systems driven by the shift from HD to 4K in the live broadcasting sector, and an increase in orders for the company's exclusive text-superimposition system and maintenance service.

Consequently, for the cumulative consolidated second quarter, the segment posted net sales of 6,419 million yen (up 11.7% year-on-year) and operating income of 440 million yen (up 22.9% year-on-year).

Explanation of financial position

(Assets Statement)

Current assets declined 363 million yen (0.9%) from the end of the previous consolidated fiscal year, to 38,343 million yen. The main cause of this decline was a decrease in notes and accounts receivable, which offset an increase in cash and deposits.

Non-current assets declined 1,809 million yen (6.1%) from the end of the previous consolidated fiscal year, to 27,691 million yen. This main cause of this decline was a decrease in deferred tax asset.

Consequently, total assets declined 2,172 million yen (3.2%) from the end of the previous consolidated fiscal year, to 66,034 million yen.

(Liabilities Statement)

Current liabilities declined 2,020 million yen (8.3%) from the end of the previous consolidated fiscal year, to 22,252 million yen. The main cause of this decline was a decrease in notes and accounts payable.

Non-current liabilities declined 1,818 million yen (13.0%) from the end of the previous consolidated fiscal year, to 12,173 million yen. The main cause of this decline was a decrease in long-term loans payable and net defined benefit liabilities.

Consequently, total liabilities declined 3,839 (10.0%) from the end of the previous consolidated fiscal year, to 34,426 million yen.

(Net Assets)

Net assets rose 1,666 million yen (5.6%) from the end of the previous consolidated fiscal year, to 31,608 million yen. The main cause of this rise was an increase in retained earnings.

(2) Explanation of consolidated forecasts

We have revised consolidated forecast for fiscal year ending March 31, 2018 that was announced on August 3, 2018, based on the recent performance trend. Please refer to the press release "Revision on consolidated forecast" that was announced today for more information.

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

	Year ended March 31, 2017	2st quarter ending September 30, 2017
Assets		
Current assets		
Cash and deposits	8,716,936	10,722,861
Notes and accounts receivable- trade	17,648,525	14,761,829
Inventories	9,909,273	10,122,880
Deferred tax asset	929,336	800,747
Other	1,561,625	1,990,102
Allowance for doubtful accounts	(59,198)	(55,168)
Total current assets	38,706,498	38,343,253
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,872,655	3,760,011
Machinery and equipment	233,414	202,364
Land	2,943,085	2,943,085
Construction in progress	79,696	61,376
Other	2,554,998	2,513,404
Total Property, plant and equipment	9,683,850	9,480,243
Intangible assets		
Software	1,380,473	1,265,600
Goodwill	7,203,768	6,616,056
Other	4,422,632	3,986,234
Total Intangible assets	13,006,874	11,867,891
Investments and other assets		
Investment securities	3,718,646	4,424,014
Stocks of subsidiaries and affiliates	475,571	497,543
Lease and guarantee deposits	1,186,175	1,099,059
Deferred tax asset	1,137,903	106,024
Other	482,494	439,751
Allowance for doubtful accounts	(190,640)	(222,999)
Total Investments and other assets	6,810,152	6,343,394
Total Non-current assets	29,500,876	27,691,528
Total assets	68,207,375	66,034,781

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	Year ended March 31, 2017	2st quarter ending September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable- trade	6,722,108	4,467,697
Short-term loans payable	4,793,499	4,677,433
Accounts payable	3,234,345	3,195,798
Income taxes payable	1,235,608	791,385
Provision for bonuses	1,394,256	886,382
Provision for directors compensations based on profit	113,707	52,434
Provision for loss on order received	92,734	69,483
Other	6,687,338	8,112,091
Total current liabilities	24,273,600	22,252,705
Non-current liabilities		
Long-term loans payable	8,735,073	7,489,746
Long-term accounts payable-other	216,815	625,922
Deferred tax liabilities	1,036,147	1,017,463
Net defined benefit liabilities	2,070,931	1,185,365
Other	1,933,232	1,855,482
Total non-current liabilities	13,992,200	12,173,979
Total Liabilities	38,265,800	34,426,685
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	15,189,280	15,190,196
Retained earnings	7,256,468	8,667,483
Treasury stock	(42)	(42)
Total shareholders' equity	25,690,622	27,102,552
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,080,094	1,582,393
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(443,718)	(513,128)
Re-measurements of defined benefit plans	4,308	4,038
Total accumulated other comprehensive income	622,752	1,055,370
Non-controlling Interests	3,628,199	3,450,173
Total Net assets	29,941,574	31,608,096
Total liabilities and Net assets	68,207,375	66,034,781

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(2) Quarterly consolidated statements of income and statements of comprehensive income Quarterly consolidated statements of income

	6months ended September 30, 2016	6months ending September 30, 2017
Net sales	39,615,116	42,263,840
Cost of sales	27,672,284	30,727,333
Gross profit	11,942,831	11,536,506
Selling, general and administrative expenses	11,714,645	10,405,269
Operating income	228,185	1,131,237
Non-operating income		
Interest income	3,405	2,212
Dividend income	36,296	26,165
Equity in earnings of affiliates	22,588	20,972
Foreign exchange gains	-	58,133
Other	152,299	73,140
Total non-operating income	214,589	180,623
Non-operating expenses		
Interest expenses	67,953	76,893
Foreign exchange losses	80,842	-
Other	21,463	16,359
Total non-operating expenses	170,259	93,252
Ordinary income	272,515	1,218,608
Extraordinary income		
Gain on sales of non-current assets	3,923	0
Gain on step acquisitions	190,403	-
Gain on sales of subsidiaries and affiliates' stocks	-	2,177,929
Other	20,492	-
Total extraordinary income	214,819	2,177,929
Extraordinary losses		
Loss on sales of non-current assets	234	165
Loss on retirement of non-current assets	25,140	8,295
Impairment loss	19,098	14,139
Loss on valuation of investment securities	276	14,150
Provision of allowance for doubtful accounts for subsidiaries and affiliates	31,194	34,905
Loss on valuation of stocks of subsidiaries and affiliates	187,324	-
Other	160	6,657
Total extraordinary losses	263,429	78,313
Income before income taxes	223,906	3,318,224
Income taxes	361,254	1,570,170
Profit (loss)	(137,348)	1,748,053
Profit (loss) attributable to non-controlling interests	(416,073)	(108,275)
Profit (Loss) attributable to owners of parent	278,724	1,856,329

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Quarterly consolidated statements of income

	6months ended September 30, 2016	6months ending September 30, 2017
Profit (Loss)	(137,348)	1,748,053
Other comprehensive income		
Valuation difference on available-for-sale securities	(68,451)	502,341
Deferred gains or losses on hedges	(35)	-
Foreign currency translation adjustment	(1,249,926)	(158,208)
Re-measurements of defined benefit plans	13,463	(270)
Total other comprehensive income	(1,304,948)	343,862
Comprehensive income	(1,442,297)	2,091,916
Comprehensive income attributable to owners of parent	(406,533)	2,288,947
Comprehensive income attributable to non-controlling interests	(1,035,763)	(197,030)

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(3) Quarterly consolidated cash flow statement

	6months ended September 30, 2016	6months ending September 30, 2017
Cash flows from operating activities		
Income before income taxes	223,906	3,318,224
Depreciation and Amortization	1,341,315	1,297,248
Amortization of goodwill	431,007	431,766
Increase (decrease) in net defined benefit liabilities	56,295	(828,647)
Increase (decrease) in allowance for doubtful accounts	78,645	41,305
Increase (decrease) in provision for bonuses	(237,453)	(452,513)
Interest and dividend income	(39,702)	(28,377)
Interest expenses	67,953	76,893
Equity in (earnings) losses of affiliates	(22,588)	(20,972)
Loss (gain) on sales of non-current assets	21,451	8,460
Loss (gain) on sales of socks of subsidiaries and affiliates	-	(2,177,929)
Decrease (increase) in notes and accounts receivable-trade	3,377,376	2,396,658
Decrease (increase) in inventories	(3,483,417)	(615,953)
Increase (decrease) in notes and accounts payable-trade	(974,590)	(1,851,226)
Other, net	755,804	1,724,242
Subtotal	1,596,004	3,319,181
Interest and dividend income received	47,488	26,549
Interest expenses paid	(73,284)	(77,427)
Income taxes (paid) and refund	(232,029)	(1,381,572)
Net cash provided by (used in) operating activities	1,338,178	1,886,730
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,058,553)	(725,436)
Proceeds from sales of property, plant and equipment	38,771	1,307
Purchase of intangible assets	(200,203)	(233,347)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(4,294,199)	-
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	-	2,941,715
Purchase of stocks of subsidiaries and affiliates	(5,000)	(1,000)
Other, net	180,172	2,499
Net cash provided by (used in) investing activities	(5,339,012)	1,985,739
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	782,670	(220,836)
Proceeds from long-term loans payable	3,000,000	-
Repayments of long-term loans payable	(945,396)	(1,115,856)
Cash dividends paid	(667,971)	(445,314)
Others, net	(186,123)	(126,427)
Net cash provided by (used in) financing activities	1,983,178	(1,908,435)
Effect of exchange rate change on cash and cash equivalents	(244,106)	41,884
Net increase (decrease) in cash and cash equivalents	(2,261,762)	2,005,919
Cash and cash equivalents at beginning of period	12,048,741	8,715,927
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	453,683	-
Cash and cash equivalents at end of period	10,240,662	10,721,846

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(4) Notes to quarterly consolidated statements

Segment information

- I. For the six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)
Information about operating revenue and profit (loss) by reportable segment

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	9,068,285	11,996,078	10,200,177	5,406,092	36,670,633
Inter-segment sales or transfers	2,178	401,255	42,253	340,924	786,612
Total	9,070,464	12,397,333	10,242,431	5,747,016	37,457,245
Segment profit (loss)	567,079	356,634	(1,024,624)	358,628	257,717

	Other (Note 1)	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income (Note 3)
Net sales			
Sales to external customers	2,890,665	53,817	39,615,116
Inter-segment sales or transfers	1,152	(787,764)	-
Total	2,891,817	(733,947)	39,615,116
Segment profit (loss)	129,776	(159,308)	228,185

Notes:

1. The "Other" category is for operating segments that are not included among the reportable segments, and it shows data pertaining to divested subsidiaries.
2. The Segment profit (loss) adjustment of (159,308) thousand yen consists of 1,165,140 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,324,449) thousand yen.
3. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.

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II. For the six months ending September 30,2017 (from April 1,2017 to September 30,2017) Information about operating revenue and profit (loss) by reportable segment

	Content Creation	Production Services	Media Localization	Imaging Systems & Solutions	Sub total
Net sales					
Sales to external customers	10,570,915	13,337,053	12,084,964	6,196,640	42,189,574
Inter-segment sales or transfers	135,023	305,671	150,329	222,907	813,932
Total	10,705,939	13,642,725	12,235,294	6,419,547	43,003,506
Segment profit (loss)	277,217	611,147	(25,263)	440,823	1,303,924

	Adjustments (Note 2)	Amount in the quarterly consolidated statement of income(Note 3)
Net sales		
Sales to external customers	74,266	42,263,840
Inter-segment sales or transfers	(813,932)	
Total	(739,666)	42,263,840
Segment profit (loss)	(172,686)	1,131,237

Notes:

1. The Segment profit (loss) adjustment of (172,686) thousand yen consists of 1,080,200 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,252,887) thousand yen.
2. The segment profit (loss) adjustment is based on the operating income item in the quarterly consolidated statements of income.