

English translation

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Consolidated financial results (Japanese Accounting Standards) for the Third Quarter of the fiscal year ending March 31, 2019

Filing date: February 7, 2019
Stock exchange listings: Tokyo 1st section

Company name: IMAGICA GROUP Inc.

Securities code: 6879 URL: <https://www.imagicagroup.co.jp/en/>

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Quarterly report filing date(as planned): February 7, 2019

Dividend payment date(as planned): —

Supplemental material of quarterly results: Yes

Convening briefing of quarterly results: No

(In millions of yen)

1. Consolidated Financial Results for the Third Quarter of the fiscal year ending March 31, 2019 (April 1, 2018 - December 31, 2018)

(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	%
Third quarter ended Dec 31, 2018	63,387	(1.7)	(691)	—	(685)	—	(307)	—
Third quarter ended Dec 31, 2017	64,464	6.5	1,646	131.1	1,721	63.7	2,197	136.3

(Note) Comprehensive income: 3rd quarter ended December 31, 2018: (2,128) millions of yen / — %
3rd quarter ended December 31, 2017: 2,796 millions of yen / — %

	Earnings per share of common stock	Diluted earnings per share of common stock
	yen	yen
Third quarter ended Dec 31, 2018	(6.97)	—
Third quarter ended Dec 31, 2017	49.36	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio to total assets
	Millions of yen	Millions of yen	%
As of Dec 31, 2018	66,122	30,058	40.9
As of March 31, 2018	70,529	32,978	41.7

(Reference) Shareholders' equity: As of Dec 31, 2018: 27,039 millions of yen
As of March 31, 2018: 29,425 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, 2018	—	0.00	—	10.00	10.00
Year ending March 31, 2019	—	0.00	—		
Year ending March 31, 2019 (Forecast)				5.00	5.00

(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, 2019 (April 1, 2018 - March 31, 2019)

(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	%	
Year ending March 31, 2019	90,000	(1.5)	500	(79.4)	500	(79.4)	700	(76.2)	15.90 yen

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

(Reference) It is included goodwill amortization 1.6 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): None

(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 December 31, 2018	44,531,567 shares	As of March 31, 2018	44,531,567 shares
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2) Number of treasury stock at the end of fiscal year

As of December 31, 2018	478,341 shares	As of March 31, 2018	108 shares
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3) Average number of shares

As of December 31, 2018	44,151,318 shares	As of September 30, 2017	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 Third Quarter

(1) Explanation of operating results

(Overview of the third quarter of the consolidated fiscal year ending March 31, 2019)

During the third quarter of the consolidated fiscal year ending March 31, 2019, the Japanese economy continued to show signs of a moderate recovery, as private consumption picked-up from stable employee wage gains. Meanwhile, the degree of impact of various trade and foreign economy issues on the Japanese economy remained unpredictable.

Our Group expanded business broadly in the Content Creation segment, and rallied its collective energies in an effort to enhance its profitability and financial structure. On October 1, 2018, we changed our company name from Imagica Robot Holdings Inc. to IMAGICA GROUP Inc.

During the performance for the third quarter of the consolidated fiscal year ending March 31, 2019 was as follows: Net sales were 63,387 million yen (down 1.7% YoY), operating losses were 691 million yen (the third quarter of previous fiscal year resulted in operating income of 1,646 million yen), ordinary losses were 685 million yen (the third quarter of previous fiscal year resulted in ordinary income of 1,721 million yen), and net losses attributable to owners of the parent were 307 million yen (the third quarter of previous fiscal year resulted in net income attributable to owners of parent of 2,197 million yen).

(Performance by Business Segment)

1) Content Creation

During the third quarter of the consolidated fiscal year ending March 31, 2019, Content Creation revenues declined compared to the year-ago quarter. Despite substantial accomplishments by television commercials, projection mapping, and out of home advertisements, not as many major feature films were produced as in the previous year. Creation of feature film adaptations of anime, some of the TV anime episodic series, and full computer graphics increased production costs, and Contents Creation consequently posted an operating loss.

Consequently, for the consolidated third quarter, the segment posted net sales of 16,334 million yen (down 6.8% YoY) and operating losses of 149 million yen (the third quarter of previous fiscal year resulted in operating income of 703 million yen).

2) Production Services

Post-production services for TV animations, human resource services for IT jobs, and meteorological information services received solid orders. Although the post-production service for TV programs took structural reform measures in line with the work-style reform law and made some improvements compared to the first half of the fiscal year, its revenues and profits declined.

Consequently, for the consolidated third quarter, the segment posted net sales of 20,070 million yen (down 1.4% YoY) and operating income of 170 million yen (down 81.3% YoY).

3) Media Localization

Media Localization as a whole posted a revenue increase, with the European region achieving steady growth. The Americas and Asia regions dropped revenues due to changes in OTT customer trends, but started to show some signs of recovery. Despite the ongoing review of the production capacity, which was expanded in the previous year (Q3, ending March 31, 2018) to accommodate the volume increase occurring at the time, operating income declined.

Consequently, for the consolidated third quarter, the segment posted net sales of 18,240 million yen (up 1.1% YoY) and operating losses of 1,211 million yen (the third quarter of previous fiscal year resulted in operating losses of 362 million yen).

As the fiscal year for the SDI Media Group, Inc. and its subsidiaries closes on December 31, for the cumulative consolidated third quarter earnings for this segment reflect earnings for the nine-month period between January 1, 2018 and September 31, 2018.

4) Imaging Systems & Solutions

Driven by domestic sales, the imaging systems area of the business showed strong performance. The professional video equipment area achieved steady sales with the broadcasters in particular. The LSI development area also successfully continued to ship video and imaging LSI to the Chinese market. Imaging Systems and Solutions consequently achieved a revenue and profit increase.

Consequently, for the consolidated third quarter, the segment posted net sales of 10,035 million yen (up

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4.3% YoY) and operating income of 822 million yen (up 29.5% YoY).

Explanation of financial position

(Assets Statement)

Current assets decreased by 1,060 million yen (or 2.7%) from the end of the previous consolidated fiscal year to 38,600 million yen. This was mainly due to a fall in notes and accounts receivable- trade and an increase in inventories.

Non-current assets decreased by 3,346 million yen (or 10.8%) from the end of the previous consolidated fiscal year to 27,521 million yen. This was mainly due to a fall in investment securities and goodwill.

Consequently, total assets declined by 4,407 million yen (or 6.2%) from the end of the previous fiscal year to 66,122 million yen.

(Liabilities Statement)

Current liabilities increased by 1,178 million yen (or 4.9%) from the end of the previous consolidated fiscal year to 25,073 million yen. This was mainly due to a fall in provision for bonuses and an increase in other.

Non-current liabilities declined by 2,666 million yen (or 19.5%) from the end of the previous consolidated fiscal year to 10,989 million yen. This was mainly due to a fall in long-term loans payable.

Consequently, total liabilities decreased by 1,487 million yen (or 4.0%) from the end of the previous consolidated fiscal year to 36,063 million yen.

(Net Assets)

Net assets declined by 2,919 million yen (or 8.9%) from the end of the previous consolidated fiscal year to 30,058 million yen. This was mainly due to decrease retained earnings and valuation difference on available-for-sale securities.

(2) Explanation of consolidated forecasts

The Group has not revised its full-year forecasts of consolidated operational results for the year ending March 31, 2019 announced on October 31, 2018.

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2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated balance sheets

(Thousands of yen)	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	11,131,784	8,527,877
Notes and accounts receivable- trade	18,415,035	14,140,122
Inventories	8,031,571	12,898,655
Other	2,142,656	3,076,023
Allowance for doubtful accounts	(60,010)	(41,984)
Total current assets	39,661,037	38,600,693
Non-current assets		
Property, plant and equipment		
Buildings and structures	3,823,616	3,634,737
Machinery and equipment	175,420	146,437
Land	2,943,085	2,944,295
Lease Assets	914,502	853,441
Construction in progress	99,593	21,140
Other	1,632,753	1,711,152
Total Property, plant and equipment	9,588,971	9,311,205
Intangible assets		
Software	1,213,321	1,180,280
Goodwill	7,255,938	6,531,436
Other	5,163,572	4,719,369
Total Intangible assets	13,632,833	12,431,087
Investments and other assets		
Investment securities	4,436,692	2,664,280
Stocks of subsidiaries and affiliates	614,858	259,150
Lease and guarantee deposits	1,167,132	1,163,532
Deferred tax asset	1,054,660	1,339,018
Other	488,717	465,185
Allowance for doubtful accounts	(115,614)	(111,961)
Total Investments and other assets	7,646,445	5,779,205
Total Non-current assets	30,868,250	27,521,497
Total assets	70,529,288	66,122,191

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(Thousands of yen)	As of March 31, 2018	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable- trade	5,788,972	6,193,413
Short-term loans payable	4,982,314	5,439,659
Accounts payable	3,626,139	3,139,076
Income taxes payable	711,802	288,499
Provision for bonuses	1,514,231	648,405
Provision for directors compensations based on profit	95,778	105,663
Provision for loss on order received	63,449	132,519
Other	7,111,729	9,126,131
Total current liabilities	23,894,417	25,073,370
Non-current liabilities		
Long-term loans payable	8,891,288	6,677,901
Long-term accounts payable-other	601,062	368,267
Deferred tax liabilities	1,011,906	958,682
Net defined benefit liabilities	1,259,724	1,341,288
Other	1,892,742	1,643,753
Total non-current liabilities	13,656,725	10,989,892
Total Liabilities	37,551,142	36,063,263
Net assets		
Shareholders' equity		
Capital stock	3,244,915	3,244,915
Capital surplus	15,190,725	15,188,696
Retained earnings	9,749,118	8,996,239
Treasury stock	(42)	(489,754)
Total shareholders' equity	28,184,716	26,940,096
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,689,371	646,077
Deferred gains or losses on hedges	(388)	-
Revaluation reserve for land	(17,933)	(17,933)
Foreign currency translation adjustment	(443,870)	(530,611)
Re-measurements of defined benefit plans	3,942	2,153
Total accumulated other comprehensive income	1,241,121	99,686
Non-controlling Interests	3,552,306	3,019,145
Total Net assets	32,978,145	30,058,928
Total liabilities and Net assets	70,529,288	66,122,191

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

(Thousands of yen)	Third quarter ended December 31, 2017	Third quarter ended December 31, 2018
Net sales	64,464,904	63,387,860
Cost of sales	47,038,039	47,127,991
Gross profit	17,426,864	16,259,869
Selling, general and administrative expenses	15,779,940	16,950,960
Operating income	1,646,924	(691,090)
Non-operating income		
Interest income	3,218	1,782
Dividend income	34,406	33,562
Equity in earnings of affiliates	39,860	38,788
Foreign exchange gains	26,233	33,055
Other	111,780	167,670
Total non-operating income	215,499	274,859
Non-operating expenses		
Interest expenses	117,322	242,071
Other	23,181	26,964
Total non-operating expenses	140,503	269,036
Ordinary income	1,721,919	(685,267)
Extraordinary income		
Gain on sales of non-current assets	5,280	2,801
Gain on sales of investment securities	-	369,510
Gain on sales of subsidiaries and affiliates' stocks	2,177,929	-
Total extraordinary income	2,183,210	372,312
Extraordinary losses		
Loss on sales of non-current assets	183	24,326
Loss on disposal of non-current assets	13,946	23,723
Impairment loss	14,139	9,070
Relocation-related expenses	-	22,100
Occupational accidents related losses	88,809	-
Other	87,432	5,733
Total extraordinary losses	204,512	84,953
Income(loss) before income tax	3,700,617	(397,908)
Income taxes	1,672,092	527,048
Profit (loss)	2,028,524	(924,957)
Profit (loss) attributable to non-controlling interests	(169,351)	(617,393)
Profit (Loss) attributable to owners of parent	2,197,876	(307,564)

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Quarterly consolidated statements of comprehensive income

(Thousands of yen)	Third quarter ended December 31, 2017	Third quarter ended December 31, 2018
Profit (Loss)	2,028,524	(924,957)
Other comprehensive income		
Valuation difference on available-for-sale securities	820,317	(1,047,546)
Deferred gains or losses on hedges	-	388
Foreign currency translation adjustment	(52,086)	(154,193)
Re-measurements of defined benefit plans	142	(1,788)
Total other comprehensive income	768,373	(1,203,139)
Comprehensive income	2,796,898	(2,128,097)
Comprehensive income attributable to owners of parent	3,000,319	(1,448,999)
Comprehensive income attributable to non-controlling interests	(203,421)	(679,097)

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(3) Notes to quarterly consolidated statements

Segment information

I. For the Third quarter ended December 31, 2017 (from April 1, 2017 to December 31, 2017)

Information about operating revenue 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	17,377,352	19,864,977	17,792,428	9,322,736	64,357,495
Inter-segment sales or transfers	145,754	495,586	257,000	298,205	1,196,547
Total	17,523,107	20,360,563	18,049,429	9,620,941	65,554,043
Segment profit (loss)	703,368	912,396	(362,961)	635,054	1,887,856

	Adjustments (Note 1)	Amount in the quarterly consolidated statement of income(Note 2)
Net sales		
Sales to external customers	107,408	64,464,904
Inter-segment sales or transfers	(1,196,547)	-
Total	(1,089,139)	64,464,904
Segment profit (loss)	(240,932)	1,646,924

Notes:

1. The Segment profit (loss) adjustment of (240,932) thousand yen consists of 1,023,480 thousand yen in profits of holding companies (consolidated financial statement-submitting companies) and intersegment transaction eliminations of (1,264,413) thousand yen.
2. 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 Third quarter ended December 31, 2018 (from April 1, 2018 to December 31, 2018) 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	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 statement 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 item in the quarterly consolidated statements of income.