

# Consolidated Financial Summary for First Quarter of Fiscal Year Ending March 31, 2020 (Japanese Accounting Standards)

August 8, 2019

Avex Inc.

Tokyo Stock Exchange, First Section

Code No: 7860

(URL <https://avex.com/jp/en/>)

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): August 9, 2019

Scheduled date for commencement of dividend payments: –

Supplementary documents for financial results: Yes

Financial results briefing: None

Note: All amounts are rounded down to the nearest million yen.

## 1. Consolidated operating results for the first quarter of fiscal year ending March 31, 2020

(April 1, 2019 to June 30, 2019)

### (1) Consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
First Quarter of Fiscal Year Ending March 31, 2020	29,028	(10.1)	366	136.0	121	(50.1)	(348)	–
First Quarter of Fiscal Year Ended March 31, 2019	32,276	(0.5)	155	(86.6)	242	(77.9)	(145)	–

(Note) Comprehensive income First Quarter of Fiscal Year Ending March 31, 2020: -¥97 million (-%)  
First Quarter of Fiscal Year Ended March 31, 2019: -¥43 million (-%)

	Net income per share	Diluted net income per share
	yen	yen
First Quarter of Fiscal Year Ending March 31, 2020	(8.04)	–
First Quarter of Fiscal Year Ended March 31, 2019	(3.37)	–

### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
As of June 30, 2019	121,055	50,262	39.0
As of March 31, 2019	125,808	52,055	38.6

(Reference) Shareholders' equity As of June 30, 2019: ¥47,226 million  
As of March 31, 2019: ¥48,524 million

## 2. Status of dividend payments

	Annual dividends				
(Record date)	End of first quarter	End of second quarter	End of third quarter	End of year	Annual
	yen	yen	yen	yen	yen
Year Ended March 31, 2019	–	25.00	–	25.00	50.00
Year Ending March 31, 2020	–				
Year Ending March 31, 2020 (forecast)		25.00	–	25.00	50.00

(Note) Revisions to dividend forecasts published most recently: None

## 3. Forecasts for consolidated sales and income for the year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

Note: Figures in percentages denote the year-on-year change.

	Operating income		Profit (loss) attributable to owners of parent		Net income per share
	million yen	%	million yen	%	Yen
Year Ending March 31, 2020	7,200	1.6	2,800	18.9	64.57

(Note) Revisions to earnings forecasts published most recently: None

## \* Notes

- (1) Changes in significant subsidiaries during period under review (changes in specific subsidiaries in conjunction with changes in scope of consolidation): None  
 New: – company (Company name) – Excluded: – (Company name) –

- (2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements: None

- (3) Changes in accounting policies and changes in or restatement of accounting estimates
- |  |      |
|--|------|
| 1. Changes in accounting policies in conjunction with revisions to accounting standards: | Yes  |
| 2. Changes in accounting policies other than 1:  | None |
| 3. Changes in accounting estimates:  | None |
| 4. Restatement:  | None |

- (4) Outstanding shares (ordinary shares)

- a. Shares outstanding at end of term (including treasury stock)

As of June 30, 2019: 45,141,500 shares

As of March 31, 2019: 45,141,500 shares

- b. Treasury stock at end of term

As of June 30, 2019: 1,777,178 shares

As of March 31, 2019: 1,846,078 shares

- c. Average number of share (quarter-to-date)

First Quarter of Fiscal Year Ending March 31, 2020: 43,352,519 shares

First Quarter of Fiscal Year Ended March 31, 2019: 43,090,831 shares

(Note) The number of shares of treasury stock as of June 30, 2019 includes shares of Avex Inc. (the “Company”) (99,600 shares in the first quarter of the fiscal year ending March 31, 2020 and 111,100 shares in the fiscal year ended March 31, 2019) held in trust-type employee stock ownership plan (ESOP) accounts. The shares of the Company held in the ESOP accounts are included in the treasury shares that are deducted in the calculation of the average number of shares outstanding during the term (106,356 shares in the first quarter of the fiscal year ending March 31, 2020 and 156,759 shares in the first quarter of the fiscal year ended March 31, 2019).

\* This financial summary is outside the scope of audit procedures by certified public accountants and audit firm.

## \* Explanation for forecasts of operations and other notes

The forecasts for operating results and others contained in this release are based on data and information that the Group has obtained so far and specific assumptions that the Group judges to be reasonable. Please note, therefore, that the actual results and others may greatly differ from the forecasts due to various factors. For assumptions used for the forecasts and precautions regarding the use of these forecasts, please refer to “(3) Summary of Consolidated Financial Forecasts and Other Future Forecast Information” under “1. Qualitative Information on Consolidated Results, etc. for the First Quarter of Fiscal Year Ending March 31, 2020” on page 4 of the accompanying materials.

## 1. Qualitative Information on Consolidated Results, etc. for the First Quarter of Fiscal Year Ending March 31, 2020

### (1) Summary of Operating Results

(Unit: million yen)

First Quarter results	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ending March 31, 2020
Net sales	31,463	35,722	32,449	32,276	29,028
Cost of sales	22,312	25,357	22,747	23,623	20,475
Gross profit	9,151	10,364	9,701	8,652	8,552
Gross profit margin	29.1%	29.0%	29.9%	26.8%	29.5%
Personnel expenses	2,576	3,181	3,164	2,934	2,836
Sales promotion and advertising expenses	3,144	1,908	1,764	2,071	1,453
General expenses	3,759	3,761	3,611	3,491	3,896
Total SG&A expenses	9,480	8,851	8,540	8,497	8,186
Operating income (loss)	(329)	1,513	1,161	155	366
Operating margin	–%	4.2%	3.6%	0.5%	1.3%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 1.9% year on year, to 115,087 million yen (January to June 2019; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 4.7% year on year, to 16,819 million yen (January to March 2019; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 9.3% year on year, to 78,107 million yen (preliminary data for January to June 2019; according to a survey by the Japan Video Software Association). The digital video distribution market is expected to continue to grow, given the enhancement of video distribution services and the environmental changes that will improve user convenience, such as responses to TV devices and the dissemination of 5G.

In this business environment, the Company is actively investing in the creation of hit content and business development through collaborations with promising partners in Japan and overseas with the aim of achieving medium- to long-term growth. It is also instituting company-wide reforms such as the restructuring of its business organization to respond to the changes in the market environment associated with technological innovations and the development of an environment for cultivating energetic human resources.

In the first quarter of the fiscal year under review, the Company's consolidated net sales totaled 29,028 million yen (down 10.1% year on year), due in part to a decrease in the sales of music software products and the number of live concerts in the Music Business. Meanwhile, operating income came to 366 million yen (up 136.0% year on year), and loss attributable to owners of parent stood at 348 million yen (compared to loss attributable to owners of parent of 145 million yen in the same period of the previous fiscal year), primarily as a result of an increase in sales of video software products in the Anime & Visual Content Business and a decrease in selling, general, and administrative expenses in the Digital Business.

### (2) Summary of Financial Position

Assets totaled 121,055 million yen at the end of the first quarter under review after a decrease of 4,753 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decrease of 5,136 million yen in notes and accounts receivable-trade.

Liabilities were reduced by 2,960 million yen from the end of the previous consolidated fiscal year, to 70,792 million yen. This was primarily a result of a decrease of 5,712 million yen in accounts payable-other, 1,498 million yen in other current liabilities, and 1,232 million yen in provision for bonuses, which more than offset an increase of 6,500 million yen in short-term loans payable.

Net assets decreased 1,792 million yen from the end of the previous consolidated fiscal year, to 50,262 million yen. This was chiefly attributable to declines of 1,471 million yen in retained earnings and 416 million yen in non-controlling interests.

(3) Summary of Consolidated Financial Forecasts and Other Future Forecast Information

In regards to the summary of consolidated financial forecasts for the fiscal year ending March 31, 2020, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2019” announced on May 9, 2019 have remained unchanged.

Should any events occur in the future that will impact on the Company’s consolidated results, the Company will promptly disclose the details of these events.

## 2. Matters Relating to Summary Information (Notes)

(1) Important Changes in Subsidiaries During the Consolidated Period Under Review (Changes in specified subsidiaries in conjunction with changes in the scope of consolidation)

Not applicable

(2) Application of Particular Accounts Procedures to the Preparation of Quarterly Consolidated Financial Statements

Not applicable

(3) Changes in Accounting Policies and Changes in or Restatement of Accounting Estimates

(Application of IFRS 16 Leases)

The Company’s consolidated subsidiaries operating overseas that have adopted IFRS began the application of IFRS 16 Leases in the first quarter of the fiscal year under review. This requires lessees in lease contracts to post, in principle, all leases on the balance sheet as assets and liabilities.

The effect of this change on the quarterly consolidated financial statements for the first quarter of the fiscal year under review is immaterial.

(4) Additional Information

(Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts)

In August 2017, the Company reintroduced the trust-type employee stock ownership plan (ESOP) as an incentive plan (the “Plan”) to the employees of Avex Group, so as to bolster their professional motivation and encourage their participation in business management, and to enhance corporate value in the medium to long term by further promoting management that aims to improve the value of its shares.

1. Outline of the transaction

Under this Plan, the trust-type employee stock ownership plan (ESOP) that is established to transfer the Company’s shares to the Avex Employee Stock Holding Partnership (the “Partnership”) will acquire in advance the number of shares that is to be acquired by the Partnership, and sell the shares to the Partnership over approximately five years after the establishment of the trust.

The acquisition and disposal of the Company’s shares are accounted based on the assumption that the Company and the trust account are the same entity. As a result, assets, including the Company’s shares, liabilities, profits and losses related to the trust account are included in the quarterly consolidated balance sheets, statements of income, and statements of comprehensive income

2. Treasury stock remaining in the trust

Treasury stock remaining in the trust is recorded as treasury stock in net assets based on the book value (excluding the amount of ancillary expenses) in the trust. Book value and the number of the treasury stock were 169 million yen and 111 thousand, respectively, in the previous consolidated fiscal year, and 151 million yen and 99 thousand, respectively, in the first quarter of the consolidated fiscal year under review.

3. Book values of loans payable that were recorded reflecting the application of the gross price method

Previous consolidated fiscal year: 175 million yen

First quarter of the consolidated fiscal year under review: 175 million yen

**3. Quarterly Consolidated Financial Statements and Major Notes****(1) Quarterly Consolidated Balance Sheets**

(Unit: million yen)

	As of March 31, 2019	As of June 30, 2019
<b>(Assets)</b>		
Current assets		
Cash and deposits	22,832	22,593
Notes and accounts receivable-trade	17,863	12,726
Merchandise and finished goods	1,799	1,837
Programs and works in progress	3,924	4,159
Raw materials and supplies	390	349
Other current assets	11,421	11,969
Allowance for doubtful accounts	(185)	(182)
Total current assets	58,047	53,453
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	16,473	16,344
Land	29,770	29,770
Other property, plant and equipment, net	1,403	1,268
Total property, plant and equipment	47,647	47,383
Intangible assets	4,729	4,824
Investments and other assets		
Investment securities	8,509	8,455
Other investments and other assets	6,905	6,971
Allowance for doubtful accounts	(31)	(32)
Total investments and other assets	15,384	15,393
Total noncurrent assets	67,761	67,601
Total assets	125,808	121,055
<b>(Liabilities)</b>		
Current liabilities		
Notes and accounts payable-trade	1,412	1,284
Short-term loans payable	7,500	14,000
Current portion of long-term loans payable	3,058	3,059
Accounts payable-other	25,866	20,154
Income taxes payable	986	1,037
Provision for bonuses	1,264	31
Allowance for returned goods	3,827	3,651
Provision for point card certificates	55	53
Other current liabilities	20,300	18,802
Total current liabilities	64,272	62,075
Noncurrent liabilities		
Long-term loans payable	7,617	6,866
Liabilities for retirement benefits	568	575
Other noncurrent liabilities	1,293	1,275
Total noncurrent liabilities	9,480	8,717
Total liabilities	73,753	70,792

(Unit: million yen)

	As of March 31, 2019	As of June 30, 2019
(Net assets)		
Shareholders' equity		
Capital stock	4,333	4,333
Capital surplus	5,051	5,051
Retained earnings	42,888	41,416
Treasury stock	(3,565)	(3,435)
Total shareholders' equity	48,708	47,366
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	120	139
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustments	(67)	(48)
Total of accumulated retirement benefits	(237)	(230)
Total of accumulated other comprehensive income	(183)	(139)
Subscription rights to shares	513	435
Non-controlling interests	3,017	2,600
Total net assets	52,055	50,262
Total liabilities and net assets	125,808	121,055

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

Quarterly Consolidated Statements of Income

(Consolidated First Quarter)

(Unit: million yen)

	For the first quarter ended June 30, 2018	For the first quarter ended June 30, 2019
Net sales	32,276	29,028
Cost of sales	23,623	20,475
Gross profit	8,652	8,552
Selling, general and administrative expenses		
Advertising expenses	1,316	1,127
Promotion expenses	754	326
Employee salaries and bonuses	1,983	1,812
Provision for bonus payments	3	27
Retirement benefit cost	72	102
Other selling, general and administrative expenses	4,365	4,790
Total selling, general and administrative expenses	8,497	8,186
Operating income	155	366
Non-operating income		
Interest income	4	1
Dividend income	7	5
Exchange gain	133	—
Other non-operating income	14	8
Total non-operating income	158	15
Non-operating expenses		
Interest expenses	20	11
Equity in losses of affiliates	5	186
Loss on investments in partnership	45	—
Other non-operating expenses	0	61
Total non-operating expenses	71	260
Ordinary income	242	121
Extraordinary income		
Gain on sales of investment securities	—	120
Gain on reversal of subscription rights to shares	23	9
Gain on transfer from business divestitures	56	—
Total extraordinary income	80	129
Extraordinary loss		
Impairment loss	—	85
Loss on liquidation of business	—	30
Loss on retirement of noncurrent assets	2	—
Total extraordinary loss	2	116
Income before income taxes	321	134
Income taxes-current	151	380
Income taxes-deferred	121	(104)
Total income and other taxes	272	275
Net income (loss)	48	(141)
Profit attributable to non-controlling interests	193	207
Profit (loss) attributable to owners of parent	(145)	(348)



Quarterly Consolidated Statements of Comprehensive Income  
(Consolidated First Quarter)

(Unit: million yen)

	For the first quarter ended June 30, 2018	For the first quarter ended June 30, 2019
Net income (loss)	48	(141)
Other comprehensive income		
Valuation difference on available-for-sale securities	22	18
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustments	(67)	18
Adjustment for retirement benefits	(17)	10
Share of other comprehensive income of associates accounted for using equity method	(29)	(4)
Total other comprehensive income	(91)	43
Comprehensive income	(43)	(97)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(236)	(305)
Comprehensive income attributable to non-controlling interests	193	207

(3) Notes Concerning Consolidated Quarterly Financial Statements

(Notes on Going Concern Assumptions)

Not applicable

(Note Regarding Significant Changes in the Amount of Shareholders' Equity)

Not applicable