

# Consolidated Financial Summary for the Interim Period of Fiscal Year Ending March 31, 2020 (Japanese Accounting Standards)

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 8, 2019

Scheduled date for commencement of dividend payments: December 5, 2019

Supplementary documents for financial results: Yes

Financial results briefing: Yes (for institutional investors and securities analysts)

November 7, 2019  
Tokyo Stock Exchange, First Section  
(URL <https://avex.com/jp/en/>)

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

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

(April 1, 2019 to September 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	%
Interim Period of Fiscal Year Ending March 31, 2020	61,189	(26.3)	(688)	—	(1,187)	—	(1,762)	—
Interim Period of Fiscal Year Ended March 31, 2019	83,012	21.4	3,712	340.4	3,778	515.1	1,584	—

(Note) Comprehensive income Interim Period of Fiscal Year Ending March 31, 2020: -¥1,433 million (-%)  
Interim Period of Fiscal Year Ended March 31, 2019: ¥1,851 million (-%)

	Net income per share	Diluted net income per share
	yen	yen
Interim Period of Fiscal Year Ending March 31, 2020	(40.60)	—
Interim Period of Fiscal Year Ended March 31, 2019	36.75	36.58

### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
As of September 30, 2019	119,112	49,122	38.5
As of March 31, 2019	125,808	52,055	38.6

(Reference) Shareholders' equity As of September 30, 2019: ¥45,900 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	—	25.00			
Year Ending March 31, 2020 (forecast)			—	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	64.47

(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): Yes

New: – company (Company name) – Excluded: 1 company (Company name) EntameCoin Inc.

(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 September 30, 2019: 45,223,600 shares

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

b. Treasury stock at end of term

As of September 30, 2019: 1,763,078 shares

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

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

Interim Period of Fiscal Year Ending March 31, 2020: 43,398,112 shares

Interim Period of Fiscal Year Ended March 31, 2019: 43,116,947 shares

(Note) The number of shares of treasury stock at the end of term, includes shares of Avex Inc. (the “Company”) (85,500 shares in the second 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 (99,639 shares in the second quarter of the fiscal year ending March 31, 2020, and 149,987 shares in the second 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 Interim Period of Fiscal Year Ending March 31, 2020” on page 4 of the accompanying materials.

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

### (1) Summary of Operating Results

(Unit: million yen)

Interim Period 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	68,606	75,648	68,405	83,012	61,189
Cost of sales	48,425	54,231	48,967	60,067	44,658
Gross profit	20,181	21,417	19,438	22,945	16,531
Gross profit margin	29.4%	28.3%	28.4%	27.6%	27.0%
Personnel expenses	5,492	6,394	6,097	6,626	5,647
Sales promotion and advertising expenses	5,941	4,334	3,947	4,802	3,948
General expenses	7,335	7,720	8,550	7,803	7,624
Total SG&A expenses	18,768	18,449	18,594	19,232	17,220
Operating income (loss)	1,412	2,967	843	3,712	(688)
Operating margin	2.1%	3.9%	1.2%	4.5%	−%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 6.7% year on year, to 167,432 million yen (January to September 2019; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 5.9% year on year, to 34,006 million yen (January to June 2019; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 15.2% year on year, to 113,999 million yen (preliminary data for January to September 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.

To achieve medium- to long-term growth in this business environment, the entire Group is working to actively invest in the creation of new hit content, develop new business through alliances with promising partners around the world, create a business structure which can respond to technological and innovation-led changes in the market, and achieve a working environment which facilitates the development of dynamic talent.

During the interim period of the fiscal year under review, net sales totaled 61,189 million yen (down 26.3% year on year), operating loss came to 688 million yen (compared to operating profit of 3,712 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent landed at 1,762 million yen (compared with profit attributable to owners of parent, 1,584 million yen in the same period of the previous fiscal year). This is due to a decrease in sales of music software products and the number of live concerts for the Music Business, despite the increase in sales of video software products for the Anime & Visual Content Business and decrease in selling, general, and administrative expenses for the Digital Business.

### (2) Summary of Financial Position

Assets totaled 119,112 million yen at the end of the second quarter under review after a decrease of 6,695 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a decrease of 3,446 million yen in cash and deposits and 2,031 million yen in notes and accounts receivable.

Liabilities were reduced by 3,762 million yen from the end of the previous consolidated fiscal year, to 69,990 million yen. This was primarily the result of a decrease of 4,671 million yen in other current liabilities, a decrease of 2,489 million yen in accounts payable-other, and a decrease of 1,534 million yen in long-term loans payable, which more than offset an increase of 6,500 million yen in short-term loans payable.

Net assets decreased 2,932 million yen from the end of the previous consolidated fiscal year, to 49,122 million yen.

This was chiefly attributable to declines of 2,885 million yen in retained earnings and 238 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. Quarterly Consolidated Financial Statements and Major Notes****(1) Quarterly Consolidated Balance Sheets**

(Unit: million yen)

	As of March 31, 2019	As of September 30, 2019
<b>(Assets)</b>		
Current assets		
Cash and deposits	22,832	19,386
Notes and accounts receivable-trade	17,863	15,831
Merchandise and finished goods	1,799	1,628
Programs and works in progress	3,924	3,583
Raw materials and supplies	390	447
Other current assets	11,421	11,027
Allowance for doubtful accounts	(185)	(182)
Total current assets	58,047	51,721
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	16,473	16,145
Land	29,770	29,770
Other property, plant and equipment, net	1,403	1,198
Total property, plant and equipment	47,647	47,114
Intangible assets	4,729	4,912
Investments and other assets		
Investment securities	8,509	8,121
Other investments and other assets	6,905	7,274
Allowance for doubtful accounts	(31)	(32)
Total investments and other assets	15,384	15,364
Total noncurrent assets	67,761	67,391
Total assets	125,808	119,112
<b>(Liabilities)</b>		
Current liabilities		
Notes and accounts payable-trade	1,412	1,536
Short-term loans payable	7,500	14,000
Current portion of long-term loans payable	3,058	3,057
Accounts payable-other	25,866	23,377
Income taxes payable	986	771
Provision for bonuses	1,264	15
Allowance for returned goods	3,827	3,620
Provision for point card certificates	55	48
Other current liabilities	20,300	15,629
Total current liabilities	64,272	62,056
Noncurrent liabilities		
Long-term loans payable	7,617	6,083
Liabilities for retirement benefits	568	582
Other noncurrent liabilities	1,293	1,268
Total noncurrent liabilities	9,480	7,933
Total liabilities	73,753	69,990

(Unit: million yen)

	As of March 31, 2019	As of September 30, 2019
(Net assets)		
Shareholders' equity		
Capital stock	4,333	4,392
Capital surplus	5,051	5,109
Retained earnings	42,888	40,003
Treasury stock	(3,565)	(3,414)
Total shareholders' equity	48,708	46,091
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	120	75
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustments	(67)	(48)
Total of accumulated retirement benefits	(237)	(218)
Total of accumulated other comprehensive income	(183)	(190)
Subscription rights to shares	513	443
Non-controlling interests	3,017	2,778
Total net assets	52,055	49,122
Total liabilities and net assets	125,808	119,112

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

(Unit: million yen)

	For the interim period ended September 30, 2018	For the interim period ended September 30, 2019
Net sales	83,012	61,189
Cost of sales	60,067	44,658
Gross profit	22,945	16,531
Selling, general and administrative expenses		
Advertising expenses	3,316	2,983
Promotion expenses	1,485	965
Employee salaries and bonuses	4,028	3,620
Provision for bonus payments	537	10
Retirement benefit cost	145	205
Other selling, general and administrative expenses	9,718	9,434
Total selling, general and administrative expenses	19,232	17,220
Operating income (loss)	3,712	(688)
Non-operating income		
Interest income	7	8
Dividend income	7	5
Compensation income	—	26
Exchange gain	261	—
Other non-operating income	40	25
Total non-operating income	317	67
Non-operating expenses		
Interest expenses	40	34
Equity in losses of affiliates	135	363
Loss on investments in partnership	68	77
Other non-operating expenses	7	89
Total non-operating expenses	251	565
Ordinary income (loss)	3,778	(1,187)
Extraordinary income		
Gain on sales of investment securities	—	120
Gain on reversal of subscription rights to shares	26	11
Gain on transfer from business divestitures	56	—
Total extraordinary income	83	132
Extraordinary loss		
Impairment loss	—	85
Loss on valuation of investment securities	—	58
Loss on liquidation of business	—	30
Provision for loss on business liquidation	214	—
Loss on change in equity	97	—
Loss on sales of investment securities	40	—
Loss on retirement of noncurrent assets	8	—
Total extraordinary loss	360	174
Income (loss) before income taxes	3,501	(1,230)
Income taxes-current	978	589
Income taxes-deferred	604	(393)
Total income and other taxes	1,583	196
Net income (loss)	1,918	(1,426)
Profit attributable to non-controlling interests	333	335
Profit (loss) attributable to owners of parent	1,584	(1,762)

Quarterly Consolidated Statements of Comprehensive Income  
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2018	For the interim period ended September 30, 2019
Net income (loss)	1,918	(1,426)
Other comprehensive income		
Valuation difference on available-for-sale securities	135	(39)
Deferred gains or losses on hedges	—	0
Foreign currency translation adjustments	(116)	18
Adjustment for retirement benefits	(34)	25
Share of other comprehensive income of associates accounted for using equity method	(51)	(12)
Total other comprehensive income	(66)	(7)
Comprehensive income	1,851	(1,433)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,517	(1,769)
Comprehensive income attributable to non-controlling interests	333	335



(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

(Changes to Accounting Policy)

(Application of IFRS 16 - Leases)

Starting from the first quarter of the fiscal year under review, the Company has applied IFRS 16 – Leases to certain of the Company's consolidated subsidiaries overseas. This means that the lessee, in principle, recognizes all leases as assets and liabilities on the balance sheet.

During the interim period of the fiscal year under review, the impact on the Company's quarterly consolidated financial statements is negligible.

(Additional Information)

(Issuing Company Shares to Employees, etc. via Trust)

In August 2017, the Company re-introduced its trust-type employee stock ownership plan (the "ESOP trust") to act as an incentive plan (the "Plan") for all Group employees. It seeks to increase the Company's corporate value in the medium- to long-term by raising work motivation, encouraging employee participation in Company management, and furthering business management aimed at increasing Company share prices.

1. Overview

The Plan works by having an ESOP trust, established for the purpose of delivering Company shares to the Avex Employee Stock Ownership Plan, collectively acquire shares appropriate to the size of the AESA ahead of time, then sell those shares back to the AESA over roughly five years starting from the trust's establishment. The Company and the ESOP trust are considered to be the same entity when accounting for the acquisition and disposition of Company shares. Therefore, Company shares held by the trust are recorded on the quarterly consolidated balance sheets, the quarterly consolidated statements of income, and quarterly consolidated statements of comprehensive income, the same as any asset, liability, profit, or loss.

2. Company Shares Remaining in the Trust

Company shares remaining in the trust are recorded as treasury stock under the assets, according to the carrying value of the trust (excluding ancillary expenses). The carrying value of this treasury stock and the corresponding number of shares for the previous consolidated fiscal year came to 111,000 shares valued at 169 million yen, while the second quarter of the fiscal year under review recorded 85,000 shares at 130 million yen.

3. Carrying Value of Debt Accounted for Using the Gross Price Method

The carrying value of debt accounted for using the gross price method totaled 175 million yen for the previous consolidated fiscal year and 140 million yen for the second quarter of the fiscal year under review.