

Consolidated Financial Summary for the Interim Period of Fiscal Year Ending March 31, 2019 (Japanese Accounting Standards)

Avex Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): November 9, 2018

Scheduled date for commencement of dividend payments: December 6, 2018

Supplementary documents for financial results: Yes

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

November 8, 2018
Tokyo Stock Exchange, First Section
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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, 2019 (April 1, 2018 to September 30, 2018)

(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, 2019	83,012	21.4	3,712	340.4	3,778	515.1	1,584	—
Interim Period of Fiscal Year Ended March 31, 2018	68,405	(9.6)	843	(71.6)	614	(75.0)	(633)	—

(Note) Comprehensive income Interim Period of Fiscal Year Ending March 31, 2019: ¥1,851 million (—%)
Interim Period of Fiscal Year Ended March 31, 2018: -¥13 million (—%)

	Net income per share	Diluted net income per share
	yen	yen
Interim Period of Fiscal Year Ending March 31, 2019	36.75	36.58
Interim Period of Fiscal Year Ended March 31, 2018	(14.70)	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
As of September 30, 2018	127,556	52,312	38.2
As of March 31, 2018	132,887	52,460	36.6

(Reference) Shareholders' equity As of September 30, 2018: ¥48,694 million
As of March 31, 2018: ¥48,639 million

2. Status of dividend payments

(Record date)	Annual dividends				
	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, 2018	—	25.00	—	25.00	50.00
Year Ending March 31, 2019	—	25.00			
Year Ending March 31, 2019 (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, 2019 (April 1, 2018 to March 31, 2019)

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, 2019	7,000	0.9	2,650	1.9	61.41

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

(2) Changes in accounting policies and changes in or restatement of accounting estimates

1. Changes in accounting policies in conjunction with revisions to accounting standards:	None
2. Changes in accounting policies other than 1:	None
3. Changes in accounting estimates:	None
4. Restatement:	None

(3) Outstanding shares (ordinary shares)

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

As of September 30, 2018: 45,141,500 shares

As of March 31, 2018: 45,062,600 shares

b. Treasury stock at end of term

As of September 30, 2018: 1,951,036 shares

As of March 31, 2018: 1,976,286 shares

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

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

Interim Period of Fiscal Year Ended March 31, 2018: 43,083,855 shares

* 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, 2019” on page 4 of the accompanying materials.

1. Qualitative Information on Consolidated Results, etc. for the Interim Period of Fiscal Year Ending March 31, 2019

(1) Summary of Operating Results

(Unit: million yen)

Interim Period results	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ending March 31, 2019
Net sales	78,729	68,606	75,648	68,405	83,012
Cost of sales	56,686	48,425	54,231	48,967	60,067
Gross profit	22,042	20,181	21,417	19,438	22,945
Gross profit margin	28.0%	29.4%	28.3%	28.4%	27.6%
Personnel expenses	5,713	5,492	6,394	6,097	6,626
Sales promotion and advertising expenses	4,914	5,941	4,334	3,947	4,802
General expenses	9,635	7,335	7,720	8,550	7,803
Total SG&A expenses	20,263	18,768	18,449	18,594	19,232
Operating income (loss)	1,779	1,412	2,967	843	3,712
Operating margin	2.3%	2.1%	3.9%	1.2%	4.5%

The Japanese economy moderately recovered during the interim period of the fiscal year under review. Looking ahead, the economy is expected to continue its modest recovery based on ongoing improvements in the employment and income condition and the effects of various government policies.

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 10.4% year on year, to 179,374 million yen (January to September 2018; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 13.4% year on year, to 32,110 million yen (January to June 2018; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 1.9% year on year, to 134,506 million yen (preliminary data for January to September 2018; according to a survey by the Japan Video Software Association). The digital video distribution market is expected to continue to grow in the future, given the stronger promotion of video distribution services and the environmental changes that will lead to the enhanced convenience of users such as response to TV devices and the dissemination of 5G.

In this business environment, the Group is implementing group-wide reforms such as active investment in offering new entertainment experiences and creating successful works, etc. and the development of an environment for cultivating and promoting energetic human resources with the aim of achieving medium-to long-term growth based on “Avex Group Growth Strategy 2020 -Towards an Innovative Future of Entertainment,” announced in May 2016. In the interim period of the fiscal year under review, the Group’s consolidated net sales totaled 83,012 million yen (up 21.4% year on year), operating income came to 3,712 million yen (up 340.4% year on year), and profit attributable to owners of parent was 1,584 million yen (compared to a loss attributable to owners of parent of 633 million yen in the same period of the previous fiscal year) due in part to growth in sales of music software products and high-profit live performances held in the Music Business.

(2) Summary of Financial Position

Assets totaled 127,556 million yen at the end of the second quarter under review after a decrease of 5,331 million yen from the end of the previous consolidated fiscal year. This was mainly due to decreases of 4,291 million yen in cash and deposits and 2,545 million yen in other current assets, which could not be offset by an increase of 1,336 million yen in investment securities.

Liabilities were reduced by 5,184 million yen from the end of the previous consolidated fiscal year, to 75,243 million yen. The major factors of this reduction included decreases of 3,108 million yen in accounts payable-other,

1,500 million yen in short-term loans payable, and 1,478 million yen in long-term loans payable.

Net assets decreased 147 million yen from the end of the previous consolidated fiscal year, to 52,312 million yen.

This was chiefly attributable to a decline of 249 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, 2019, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2018” announced on May 10, 2018 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)

EntameCoin Inc. was established in the first quarter, and it is included in the scope of consolidation.

(2) Additional Information

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

Effective from the beginning of the first quarter of the consolidated fiscal year under review, the Company applies Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018). As a result, the Company now classifies deferred tax assets as investments and other assets, and deferred tax liabilities as noncurrent liabilities.

(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 245 million yen and 161 thousand, respectively, in the previous consolidated fiscal year, and 207 million yen and 135 thousand, respectively, in the second 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: 250 million yen

Second quarter of the consolidated fiscal year under review: 212 million yen

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

(Unit: million yen)

	As of March 31, 2018	As of September 30, 2018
(Assets)		
Current assets		
Cash and deposits	28,184	23,892
Notes and accounts receivable-trade	19,963	20,004
Merchandise and finished goods	1,582	2,450
Programs and works in progress	3,676	3,539
Raw materials and supplies	420	372
Other current assets	12,770	10,225
Allowance for doubtful accounts	(187)	(190)
Total current assets	66,410	60,293
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	15,792	16,273
Land	29,770	29,770
Other property, plant and equipment, net	1,409	1,428
Total property, plant and equipment	46,972	47,472
Intangible assets	5,117	4,855
Investments and other assets		
Investment securities	7,085	8,422
Other investments and other assets	7,601	6,543
Allowance for doubtful accounts	(299)	(31)
Total investments and other assets	14,387	14,934
Total noncurrent assets	66,477	67,262
Total assets	132,887	127,556
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,716	2,108
Short-term loans payable	11,500	10,000
Current portion of long-term loans payable	3,058	3,078
Accounts payable-other	29,590	26,482
Income taxes payable	1,100	780
Provision for bonuses	932	537
Allowance for returned goods	4,337	4,183
Provision for loss on business liquidation	—	214
Provision for point card certificates	50	52
Other current liabilities	15,781	16,903
Total current liabilities	68,068	64,341
Noncurrent liabilities		
Long-term loans payable	10,692	9,213
Liabilities for retirement benefits	540	569
Other noncurrent liabilities	1,126	1,118
Total noncurrent liabilities	12,359	10,902
Total liabilities	80,427	75,243

(Unit: million yen)

	As of March 31, 2018	As of September 30, 2018
(Net assets)		
Shareholders' equity		
Capital stock	4,275	4,333
Capital surplus	5,045	5,051
Retained earnings	43,220	43,238
Treasury stock	(3,798)	(3,760)
Total shareholders' equity	48,742	48,863
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33	173
Deferred gains or losses on hedges	(0)	(0)
Foreign currency translation adjustments	42	(122)
Total of accumulated retirement benefits	(178)	(218)
Total of accumulated other comprehensive income	(102)	(169)
Subscription rights to shares	775	823
Non-controlling interests	3,044	2,795
Total net assets	52,460	52,312
Total liabilities and net assets	132,887	127,556

(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, 2017	For the interim period ended September 30, 2018
Net sales	68,405	83,012
Cost of sales	48,967	60,067
Gross profit	19,438	22,945
Selling, general and administrative expenses		
Advertising expenses	2,967	3,316
Promotion expenses	979	1,485
Employee salaries and bonuses	4,053	4,028
Provision for bonus payments	52	537
Retirement benefit cost	109	145
Other selling, general and administrative expenses	10,432	9,718
Total selling, general and administrative expenses	18,594	19,232
Operating income	843	3,712
Non-operating income		
Interest income	5	7
Dividend income	5	7
Exchange gain	2	261
Gain on investments in partnership	111	–
Other non-operating income	36	40
Total non-operating income	161	317
Non-operating expenses		
Interest expenses	31	40
Equity in losses of affiliates	320	135
Loss on investments in partnership	–	68
Other non-operating expenses	37	7
Total non-operating expenses	390	251
Ordinary income	614	3,778
Extraordinary income		
Gain on transfer from business divestitures	–	56
Gain on reversal of subscription rights to shares	31	26
Total extraordinary income	31	83
Extraordinary loss		
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	7	8
Reversal of foreign currency translation adjustment	179	–
Total extraordinary loss	186	360
Income before income taxes	459	3,501
Income taxes-current	678	978
Income taxes-deferred	32	604
Total income and other taxes	710	1,583
Net income (loss)	(251)	1,918
Profit attributable to non-controlling interests	382	333
Profit (loss) attributable to owners of parent	(633)	1,584

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Interim Period)

(Unit: million yen)

	For the interim period ended September 30, 2017	For the interim period ended September 30, 2018
Net income (loss)	(251)	1,918
Other comprehensive income		
Valuation difference on available-for-sale securities	2	135
Deferred gains or losses on hedges	3	—
Foreign currency translation adjustments	211	(116)
Adjustment for retirement benefits	(74)	(34)
Share of other comprehensive income of associates accounted for using equity method	94	(51)
Total other comprehensive income	237	(66)
Comprehensive income	(13)	1,851
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(396)	1,517
Comprehensive income attributable to non-controlling interests	382	333

(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

(Significant Subsequent Events)

Not applicable