

(Japanese Accounting Standards)

February 4, 2021
Tokyo Stock Exchange, First Section
(URL: <https://avex.com/jp/en/>)

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

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

TEL: (03) 6447-5366

* Notes

(1) Changes in significant subsidiaries during term 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:	None
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 December 31, 2020:	45,343,500 shares
As of March 31, 2020:	45,223,600 shares

b. Treasury stock at end of term

As of December 31, 2020:	1,684,212 shares
As of March 31, 2020:	1,735,298 shares

c. Average number of shares (year-to-date)

Nine-month period of fiscal year ending March 31, 2021:	43,581,259 shares
Nine-month period of fiscal year ended March 31, 2020:	43,420,602 shares

(Note) The number of shares of treasury stock at the end of term includes shares of Avex Inc. (the “Company”) (6,300 shares in the third quarter of the fiscal year ending March 31, 2021 and 57,700 shares in the fiscal year ended March 31, 2020) 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 (33,056 shares in the third quarter of the fiscal year ending March 31, 2021 and 93,290 shares in the third quarter of the fiscal year ended March 31, 2020).

* 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.

1. Qualitative Information on Consolidated Results, etc. for the Nine-Month Period of Fiscal Year Ending March 31, 2021

(1) Summary of Operating Results

(Unit: million yen)

Nine-month period results	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ending March 31, 2021
Net sales	123,043	121,075	122,621	100,312	54,707
Cost of sales	90,479	86,050	87,729	71,437	37,368
Gross profit	32,563	35,024	34,891	28,875	17,339
Gross profit margin	26.5%	28.9%	28.5%	28.8%	31.7%
Personnel expenses	10,008	9,843	9,936	8,860	8,047
Sales promotion and advertising expenses	6,581	6,773	6,931	5,932	4,099
General expenses	12,173	13,754	12,070	11,732	8,803
Total SG&A expenses	28,762	30,372	28,938	26,526	20,950
Operating income (loss)	3,801	4,651	5,952	2,349	(3,610)
Operating margin	3.1%	3.8%	4.9%	2.3%	—%

In the entertainment industry, to which the Group belongs, the production of music software, including music videos, was down 15.2% year on year, to 194,400 million yen (January to December 2020; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 10.4% year on year, to 57,532 million yen (January to September 2020; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 13.7% year on year, to 137,137 million yen (January to December 2020; 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.

Under these business conditions, the Group has been seeking to achieve medium- to long-term growth by working to create strong intellectual property, such as by discovering and developing artists and talents, planning and developing anime, video, and game productions, pursuing new businesses utilizing technology in order to develop businesses in collaboration with promising partners both in Japan and overseas.

During the nine-month period of the fiscal year under review, consolidated net sales decreased to 54,707 million yen (down 45.5% year on year), due to voluntary restraints on live performances and events to prevent the spread of COVID-19. The consolidated operating loss came to 3,610 million yen (compared with consolidated operating income of 2,349 million yen in the same period of the previous fiscal year). The consolidated loss attributable to owners of parent was 4,284 million yen (compared to profit of 59 million yen in the same period of the previous fiscal year) due to a loss caused by the suspension of live performances and other events, a loss on disaster paid to employees as compensation for absence from work, and extra retirement payments associated with the implementation of the voluntary retirement plan.

(2) Summary of Financial Position

Assets totaled 121,189 million yen at the end of the third quarter under review after an increase of 775 million yen from the end of the previous consolidated fiscal year. This was chiefly attributable to a 7,853 million yen increase in cash and deposits and a 917 million yen increase in other investments and other assets, partially offset by a 5,892 million yen decrease in notes and accounts receivable-trade and a 2,146 million yen decrease in other current assets. Liabilities increased by 7,035 million yen from the end of the previous consolidated fiscal year, to 77,999 million yen. This was mainly due to an increase of 10,000 million yen in short-term loans payable, which offset a decrease of 4,455 million yen in accounts payable-other.

Net assets decreased 6,259 million yen from the end of the previous consolidated fiscal year, to 43,189 million yen. This was chiefly attributable to a decline of 6,465 million yen in retained earnings.

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

While forecasts for consolidated business results for the fiscal year ending March 31, 2021 have yet to be determined due to difficulty with rationally estimating the impact of COVID-19 and uncertainty in the number of employees to be offered voluntary retirement, the Group has announced the full-year consolidated business results based on information available as of this moment.

For details, refer to “Notice on Revision of Financial Results Forecasts and Year-end Dividend Forecast for the Fiscal Year Ending March 31, 2021,” announced on December 24, 2020.

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

(Unit: million yen)

	As of March 31, 2020	As of December 31, 2020
(Assets)		
Current assets		
Cash and deposits	17,956	25,809
Notes and accounts receivable-trade	18,100	12,207
Merchandise and finished goods	1,243	1,730
Programs and works in progress	4,012	4,113
Raw materials and supplies	275	475
Other current assets	13,025	10,878
Allowance for doubtful accounts	(181)	(168)
Total current assets	54,432	55,047
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	15,282	14,694
Land	29,770	29,782
Other property, plant and equipment, net	892	740
Total property, plant and equipment	45,945	45,217
Intangible assets	4,878	5,046
Investments and other assets		
Investment securities	7,490	7,316
Other investments and other assets	7,699	8,616
Allowance for doubtful accounts	(31)	(55)
Total investments and other assets	15,158	15,878
Total noncurrent assets	65,981	66,142
Total assets	120,414	121,189
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,470	1,765
Short-term loans payable	16,000	26,000
Current portion of long-term loans payable	3,065	3,082
Accounts payable-other	21,824	17,368
Income taxes payable	632	1,062
Provision for bonuses	503	16
Allowance for returned goods	3,244	2,826
Provision for point card certificates	43	41
Provision for contingent loss	455	455
Other current liabilities	17,210	21,063
Total current liabilities	64,449	73,680
Noncurrent liabilities		
Long-term loans payable	4,563	2,258
Liabilities for retirement benefits	711	727
Other noncurrent liabilities	1,240	1,332
Total noncurrent liabilities	6,515	4,319
Total liabilities	70,964	77,999

(Unit: million yen)

	As of March 31, 2020	As of December 31, 2020
(Net assets)		
Shareholders' equity		
Capital stock	4,392	4,443
Capital surplus	5,109	5,161
Retained earnings	39,559	33,093
Treasury stock	(3,371)	(3,293)
Total shareholders' equity	45,689	39,404
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	686	813
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustments	(87)	(63)
Total of accumulated retirement benefits	(277)	(147)
Total of accumulated other comprehensive income	321	602
Subscription rights to shares	370	231
Non-controlling interests	3,068	2,951
Total net assets	49,449	43,189
Total liabilities and net assets	120,414	121,189

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

Quarterly Consolidated Statements of Income
(Consolidated Nine-Month Period)

(Unit: million yen)

	For the nine-month period ended December 31, 2019	For the nine-month period ended December 31, 2020
Net sales	100,312	54,707
Cost of sales	71,437	37,368
Gross profit	28,875	17,339
Selling, general and administrative expenses		
Advertising expenses	4,375	3,274
Promotion expenses	1,557	825
Employee salaries and bonuses	5,522	5,155
Provision for bonus payments	268	15
Retirement benefit cost	308	375
Other selling, general and administrative expenses	14,493	11,303
Total selling, general and administrative expenses	26,526	20,950
Operating income (loss)	2,349	(3,610)
Non-operating income		
Interest income	14	7
Dividend income	5	2
Surrender value of insurance policies	—	167
Subsidy income	—	27
Compensation income	26	—
Other non-operating income	34	52
Total non-operating income	81	257
Non-operating expenses		
Interest expenses	54	55
Equity in losses of affiliates	376	308
Loss on investments in investment partnerships	87	1
Other non-operating expenses	112	96
Total non-operating expenses	631	462
Ordinary income (loss)	1,799	(3,815)
Extraordinary income		
Gain on sales of investment securities	120	2,043
Subsidies for employment adjustment	—	393
Gain on reversal of subscription rights to shares	12	142
Total extraordinary income	133	2,578
Extraordinary loss		
Impairment loss	85	374
Loss on disaster	—	1,064
Extra retirement payments	—	1,331
Loss on retirement of noncurrent assets	87	4
Loss on valuation of investment securities	58	—
Loss on liquidation of business	30	—
Other extraordinary loss	—	163
Total extraordinary loss	262	2,937
Income (loss) before income taxes	1,670	(4,175)
Income taxes-current	838	857
Income taxes-deferred	248	(1,215)
Total income and other taxes	1,086	(358)
Net income (loss)	583	(3,816)
Profit attributable to non-controlling interests	524	467
Profit (loss) attributable to owners of parent	59	(4,284)

Quarterly Consolidated Statements of Comprehensive Income
(Consolidated Nine-Month Period)

(Unit: million yen)

	For the nine-month period ended December 31, 2019	For the nine-month period ended December 31, 2020
Net income (loss)	583	(3,816)
Other comprehensive income		
Valuation difference on available-for-sale securities	20	134
Deferred gains or losses on hedges	3	—
Foreign currency translation adjustments	(15)	24
Adjustment for retirement benefits	40	116
Share of other comprehensive income of associates accounted for using equity method	(10)	6
Total other comprehensive income	38	280
Comprehensive income	622	(3,535)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	96	(4,003)
Comprehensive income attributable to non-controlling interests	525	467

(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

(Additional Information)

(Transaction for Granting the Company's Shares to Employees, etc. through a Trust)

In August 2017, the Company reintroduced the trust-type employee stock ownership plan (the "ESOP trust") as an incentive plan for Group employees (the "Plan") designed to enhance the value of Group companies in the medium and long terms by furthering the style of business administration aimed at increasing the value of their shares, in addition to raising the motivation of Group employees and encouraging them to take part in Group management.

1. Outline of the Transaction

Under the Plan, the ESOP trust, established to transfer the Company's shares to the Avex Employee Stock Holding Partnership (the "Partnership"), acquires, in advance and in bulk, shares on a scale scheduled for acquisition by the Partnership, and sells the shares to the Partnership over a period of about five years after the establishment of the trust.

The Company and the ESOP trust are treated as a single entity for accounting for the acquisition and disposal of the Company's shares. Accordingly, assets including the Company's shares owned by the ESOP trust, liabilities, and profits or losses are posted by including them in quarterly consolidated balance sheets, quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income.

2. Treasury Stock Left in the Trust

The Company's shares left in the trust is posted as treasury stock under the category of net assets using their book value (excluding the amount of ancillary expenses). The book value of and the number of shares in the concerned treasury stock were 87 million yen and 57,000 shares, respectively, at the end of the previous fiscal year. Their book value and number were 9 million yen and 6,000 shares, respectively, at the end of the third quarter under review.

3. Book Value of Loans Payable Posted as a Result of the Application of the Gross Price Method

At the end of the previous fiscal year: 107 million yen

At the end of the third quarter under review: 75 million yen

(Accounting Calculation in Connection with the Spread of COVID-19)

The Group has reviewed the assumptions at the end of the second quarter of the current fiscal year, including the timing of the impact of the COVID-19 pandemic, taking into account the situation of the COVID-19 pandemic up to the nine-month period of the fiscal year under review.

As a result, the Group has performed accounting calculations, assuming that the negative effects of the COVID-19 pandemic will recover moderately from the second half of fiscal 2021.

(Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System)

With regard to the transition to the group tax sharing system established in the Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020) and items for which the system of nonconsolidated taxation was reviewed in line with the transition, the Company and some of its consolidated subsidiaries in Japan posted the amount of deferred tax assets and the amount of deferred tax liabilities in accordance with the stipulations of tax laws prior to their amendments without applying the provisions of Paragraph 44 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 issued on February 16, 2018) in accordance with the method of treatment prescribed in Paragraph 3 of the Practical Solution on the Treatment of Tax Effect Accounting for the Transition

from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39 issued on March 31, 2020).

(Transfer of noncurrent assets)

The Company's Board of Director passed a resolution on the transfer of noncurrent assets as described below at its meeting held on December 24, 2020, and the Company concluded a contract on December 28, 2020.

1. Reason for the transfer

The Company has decided to transfer the noncurrent assets it owns for the purpose of effectively using its management resources, ensuring financial flexibility and reviewing existing ways of working based on working in an office.

2. Details of the assets to be transferred

(1) Name of the assets	Avex Building
(2) Location	3-1-30 Minami-Aoyama, Minato-ku, Tokyo
(3) Land	5,065.79 m ²
(4) Building	Total floor area: 28,344.20 m ²
(5) Book value	42.9 billion yen

3. Measures after the transfer

Regarding its future office, the Company will conclude a lease back agreement with the transferee and occupy the premises for a certain period.

4. Overview of the transferee

The Company will refrain from disclosure based on an agreement with the transferee.

There is no particular matter to mention about capital, personal and business relationships with the transferee and as a related party of the transferee.

5. Schedule of the transfer

(1) Date of resolution at the Board of Directors meeting	December 24, 2020
(2) Date of contract	December 28, 2020
(3) Date of property delivery	March 26, 2021 (planned)