

Consolidated Financial Summary for the First Nine Months of Fiscal Year Ending March 31, 2017 (Japanese Accounting Standards)

Avex Group Holdings Inc.

Code No: 7860

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Scheduled date to submit the Quarterly Securities Report (*Shihanki Houkokusho*): February 10, 2017

Scheduled date for commencement of dividend payments: –

Supplementary documents for financial results: Yes

Financial results briefing: None

February 9, 2017
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Note: All amounts are rounded down to the nearest million yen.

1. Consolidated financial results for the nine-month period of fiscal year ending March 31, 2017

(April 1, 2016 to December 31, 2016)

(1) Consolidated operating results

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	%
Nine-month Period of Fiscal Year Ending March 31, 2017	123,043	12.6	3,801	6.0	3,031	31.3	17	(96.9)
Nine-month Period of Fiscal Year Ended March 31, 2016	109,245	(9.2)	3,585	12.5	2,308	(30.9)	550	(84.5)

(Note) Comprehensive income
 Nine-month Period of Fiscal Year Ending March 31, 2017: ¥942 million (84.5%)
 Nine-month Period of Fiscal Year Ended March 31, 2016: ¥510 million (–%)

	Net income per share	Diluted net income per share
	yen	yen
Nine-month Period of Fiscal Year Ending March 31, 2017	0.40	0.39
Nine-month Period of Fiscal Year Ended March 31, 2016	12.81	12.72

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	million yen	million yen	%
Nine-month Period of Fiscal Year Ending March 31, 2017	119,318	51,166	39.9
Fiscal Year ended March 31, 2016	111,208	52,392	44.2

(Reference) Shareholders' equity
 Nine-month Period of Fiscal Year Ending March 31, 2017: ¥47,598 million
 Fiscal Year Ended March 31, 2016: ¥49,158 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
Fiscal Year ended March 31, 2016	–	25.00	–	25.00	50.00
Fiscal Year ending March 31, 2017	–	25.00	–		
Fiscal Year ending March 31, 2017 (forecast)				25.00	50.00

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

3. Forecasts for consolidated earnings for the year ending March 31, 2017 (April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	Yen
Fiscal Year ending March 31, 2017	162,000	5.1	5,200	(28.5)	4,300	(29.0)	500	(88.4)	11.63

(Note) Revisions to earnings forecasts published most recently: Yes

* Notes

(1) Changes in significant subsidiaries during period under review (changes in specific subsidiaries in conjunction with changes in scope of consolidation): None

New: – companies (Company name) Excluded: – companies (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:	Yes
2. Changes in accounting policies other than 1:	None
3. Changes in accounting estimates:	None
4. Restatement:	None

(3) Outstanding shares (ordinary shares)

1. Shares outstanding at the end of the following periods (including treasury stock)	
Nine-month Period of Fiscal Year Ending March 31, 2017:	45,000,000 shares
As of March 31, 2016:	45,000,000 shares
2. Treasury stock at the end of the following periods	
Nine-month Period of Fiscal Year Ending March 31, 2017:	1,899,848 shares
As of March 31, 2016:	2,059,724 shares
3. Average number of share	
Nine-month Period of Fiscal Year Ending March 31, 2017:	42,989,495 shares
Nine-month Period of Fiscal Year Ended March 31, 2016:	42,992,426 shares

* Presentation on the status of quarterly review procedure

This consolidated quarterly financial results release is outside the scope of quarterly review procedure based on Japan's Financial Instruments and Exchange Act. It is under the review procedure of quarterly consolidated financial statements based on Japan's Financial Instruments and Exchange Act at the time of disclosure of this report.

* Explanation for appropriate use of forecasts of operating results and other notes

The forecasts for operating results et al. 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 et al. may greatly differ from the forecasts due to various factors. For assumptions used for the forecasts of operating results 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 for the Nine-month Period Ended December 31, 2016”on page 4 of the accompanying materials.

1. Qualitative Information on Consolidated Operating Results and Financial Position for the Nine-month Period Ended December 31, 2016

(1) Summary of Operating Results

(Unit: million yen)

Nine-month Period results	Fiscal year ended March 31, 2013	Fiscal year ended March 31, 2014	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ending March 31, 2017
Net sales	102,909	118,872	120,315	109,245	123,043
Cost of sales	65,640	81,588	86,250	77,511	90,479
Gross profit	37,268	37,284	34,064	31,733	32,563
Gross profit margin	36.2%	31.4%	28.3%	29.0%	26.5%
Personnel expenses	9,698	9,838	8,823	8,551	10,008
Sales promotion and advertising expenses	7,719	8,252	7,928	8,338	6,581
General expenses	8,709	11,045	14,126	11,258	12,173
Total SG&A expenses	26,126	29,136	30,879	28,148	28,762
Operating income	11,142	8,148	3,185	3,585	3,801
Operating margin	10.8%	6.9%	2.6%	3.3%	3.1%

During the first nine months of the fiscal year under review, the Japanese economy continued its mild recovery, although a certain amount of weakness was evident. Amid continued improvement in the employment and income environments, the economy is expected to continue to recover modestly, a trend that is partly due to the effects of government policies.

As for the entertainment industry to which the Group belongs, production of music software, including music videos, was down 3.5% year on year, to 245,657 million yen (January to December 2016; according to a survey by Recording Industry Association of Japan). Sales of paid music downloads were up 12.7% year on year, to 38,854 million yen (January to September 2016; according to a survey by Recording Industry Association of Japan). Sales of video software declined 6.3% year on year, to 204,474 million yen (January to December, 2016; according to a survey by Japan Video Software Association). The market size of the live entertainment business contracted 12.1% year on year, to 112,105 million yen (January to June 2016; according to a survey by All Japan Concert & Live Entertainment Promoter's Conference) due to the effects of the closure of a large-scale venue for renovations.

In the midst of this business environment, the Group is working to build a structure focusing on the growth markets of Live, Anime, and Digital, and is pursuing total optimization to promote business synergies under the Avex group growth strategy 2020, which it announced in May 2016.

In the first nine months of the fiscal year under review, the Group's consolidated net sales totaled 123,043 million yen (up 12.6% year on year), due in part to a rise in sales of video software and an increase in attendance at live concerts. Operating income came to 3,801 million yen (up 6.0% year on year). Profit attributable to owners of parent totaled 17 million yen (down 96.9% year on year), chiefly due to the posting of an equity in losses of affiliates.

(2) Summary of Financial Position

Assets totaled 119,318 million yen at the end of the third quarter under review, up 8,109 million yen from the end of the previous consolidated fiscal year. This was mainly due to increases of 8,214 million yen in cash and deposits and 3,347 million yen in other property, plant and equipment, net, which offset a decrease of 3,007 million yen in programs and works in progress.

Liabilities increased by 9,335 million yen from the end of the previous consolidated fiscal year, to 68,151 million yen. The major causes of this increase were a rise in accounts payable-other of 4,394 million yen, an increase in long-term loans payable (including the current portion) of 3,600 million yen, and an increase in short-term loans payable of 2,000 million yen.

Net assets decreased 1,225 million yen from the end of the previous consolidated fiscal year, to 51,166 million yen. This was primarily attributable to a decline in retained earnings of 2,179 million yen, despite an increase in the total of accumulated retirement benefits of 344 million yen and a decrease in treasury stock of 313 million yen (an increase in net assets).

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

In regards to the summary of consolidated earnings forecasts for the fiscal year ending March 31, 2017, the financial forecasts presented in the “Consolidated Financial Summary for the Year Ended March 31, 2016” announced on May 11, 2016 have been revised.

For details, please refer to the “Announcement Regarding Revisions to Earnings Forecasts” published on February 9, 2017.

2. Matters Relating to Summary Information (Notes)

(1) Important Changes in Subsidiaries During the Consolidated Period under Review

Not applicable

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

(Changes in accounting policies)

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

Following the revision of the Corporation Tax Act, in the first quarter of this fiscal year the Company and its domestic consolidated subsidiaries began applying the Practical Solution on a change in the depreciation method due to Tax Reform 2016 (ASBJ PITF No. 32, June 17, 2016). It now employs the straight-line method in place of the declining-balance method for the depreciation of facilities accompanying buildings and structures acquired on or after April 1, 2016.

In the nine-month period under review, the effect of this change on the quarterly consolidated financial statements is minor.

(3) Additional Information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

The Group began applying the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) in the first quarter of this consolidated fiscal year.

(Valuation Reserve for Inventory Purchase Commitments)

In preparation for losses arising from a fall in the profitability of inventories, the Group recorded an estimated unrecoverable amount for inventories that it has agreed to purchase but that have not yet been purchased.

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

(Unit: million yen)

	As of March 31, 2016	As of December 31, 2016
(Assets)		
Current assets		
Cash and deposits	21,107	29,321
Notes and accounts receivable-trade	21,271	23,380
Securities	1,003	-
Merchandise and finished goods	1,300	1,453
Programs and works in progress	6,616	3,609
Raw materials and supplies	610	454
Other current assets	11,963	10,961
Allowance for doubtful accounts	(252)	(511)
Total current assets	63,620	68,668
Noncurrent assets		
Property, plant and equipment		
Land	29,770	29,770
Other property, plant and equipment, net	2,383	5,731
Total property, plant and equipment	32,154	35,501
Intangible assets	5,457	4,654
Investments and other assets		
Investment securities	5,310	6,074
Other investments and other assets	4,929	4,625
Allowance for doubtful accounts	(263)	(206)
Total investments and other assets	9,976	10,493
Total noncurrent assets	47,588	50,649
Total assets	111,208	119,318
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	2,020	1,713
Short-term loans payable	8,500	10,500
Current portion of long-term loans payable	-	180
Current portion of bonds	720	-
Accounts payable-other	24,356	28,750
Income taxes payable	865	969
Provision for bonuses	1,066	439
Allowance for returned goods	4,163	4,264
Valuation reserve for inventory purchase commitments	-	1,226
Other current liabilities	13,786	13,903
Total current liabilities	55,478	61,947
Noncurrent liabilities		
Bonds payable	-	3,420
Liabilities for retirement benefits	2,126	1,746
Other noncurrent liabilities	1,210	1,037
Total noncurrent liabilities	3,337	6,203
Total liabilities	58,816	68,151

(Unit: million yen)

	As of March 31, 2016	As of December 31, 2016
(Net assets)		
Shareholders' equity		
Capital stock	4,229	4,229
Capital surplus	4,999	4,999
Retained earnings	44,906	42,726
Treasury stock	(4,033)	(3,719)
Total shareholders' equity	50,102	48,236
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	55	68
Deferred gains or losses on hedges	(1)	(0)
Foreign currency translation adjustments	(139)	(192)
Total of accumulated retirement benefits	(857)	(513)
Total of accumulated other comprehensive income	(943)	(637)
Subscription rights to shares	643	706
Non-controlling interests	2,589	2,861
Total net assets	52,392	51,166
Total liabilities and net assets	111,208	119,318

(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, 2015	For the nine-month period ended December 31, 2016
Net sales	109,245	123,043
Cost of sales	77,511	90,479
Gross profit	31,733	32,563
Selling, general and administrative expenses		
Advertising expenses	7,076	5,380
Promotion expenses	1,261	1,200
Employee salaries and bonuses	4,807	5,882
Provision for bonus payments	548	438
Retirement benefit cost	303	862
Other selling, general and administrative expenses	14,150	14,997
Total selling, general and administrative expenses	28,148	28,762
Operating income	3,585	3,801
Non-operating income		
Interest income	10	8
Dividend income	5	4
Exchange gain	6	85
Other non-operating income	44	32
Total non-operating income	67	130
Non-operating expenses		
Interest expenses	32	19
Equity in losses of affiliates	1,082	777
Loss on investments in partnership	172	–
Other non-operating expenses	56	103
Total non-operating expenses	1,343	900
Ordinary income	2,308	3,031
Extraordinary income		
Gain on reversal of subscription rights to shares	329	5
Compensation income	–	51
Total extraordinary income	329	57
Extraordinary loss		
Impairment loss	199	470
Expenses related to rebuilding	235	–
Loss on retirement of fixed assets	–	24
Total extraordinary loss	434	494
Income before income taxes	2,204	2,594
Income taxes-current	668	2,430
Income taxes-deferred	1,082	(472)
Total income and other taxes	1,750	1,957
Net income	453	636
Profit (loss) attributable to non-controlling interests	(97)	619
Profit attributable to owners of parent	550	17

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

(Unit: million yen)

	For the nine-month period ended December 31, 2015	For the nine-month period ended December 31, 2016
Net income (loss)	453	636
Other comprehensive income		
Valuation difference on available-for-sale securities	0	16
Deferred gains or losses on hedges	(9)	1
Foreign currency translation adjustments	1	(11)
Adjustment for retirement benefits	(49)	341
Share of other comprehensive income of associates accounted for using equity method	113	(43)
Total other comprehensive income	57	305
Comprehensive income	510	942
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	608	322
Comprehensive income attributable to non-controlling interests	(97)	619

(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