COMPANY RESEARCH AND ANALYSIS REPORT

AOI TYO Holdings Inc.

3975

Tokyo Stock Exchange First Section

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Summary

Joint holding company established through the management integration of AOI Pro. and TYO
Healthy start with 1H FY12/17 results exceeding initial forecast

AOI TYO Holdings Inc. <3975> is a joint holding company established through the management integration of AOI Pro. Inc. and TYO Inc. AOI TYO Group mainly plans and creates TV commercials and also handles solutions business that includes direct transactions with advertisers, online videos and other digital contents. It holds a top share in TV commercial production through the management integration of two the leading industry firms.

The decision to proceed with management integration took into account the lack of prospects for major growth in conventional TV commercial production as well as likely expansion of business scope related to advertising, including methodology and structural changes. It comes against a backdrop of diversification of media (primarily through the Internet) and devices (smartphones, tablets, and others) and major shifts in industry landscape with advances in technology innovations, such as communications speed, data analysis, VR*1, and AR*2. This integration aims to realize economies of scale and create synergies and also accelerate the pace of new value creation and business expansion through consolidation and effective utilization of business resources.

*1 VR (virtual reality) refers to the technologies and methods to realize various types of experiences, including in virtual worlds, portraying something like the real world that goes beyond time and space.
*2 AR (augmented reality) refers to the technologies and methods to realize an augmented reality by adding some other information to the information that people can perceive in the real world.

AOI TYO Group had a healthy start in 1H FY12/17 with increases in sales and profits exceeding initial targets at ¥33,729mn in net sales (+4.1% YoY) and ¥2,358mn in operating income (+15.1%). Mainstay advertising video production business and other businesses were relatively upbeat and growth in the solutions business, which is positioned as a growth area, contributed substantially to higher sales. Furthermore, while SG&A expenses increased because of costs related to the integration and other items, operating income still expanded thanks to a boost from stronger sales and production cost savings, and operating margin improved to 7.0% (from 6.3% YoY). Progress with integration benefits is still just beginning, but we think AOI TYO Group already has some accomplishments with aggressive investments in growth areas, enhanced business efficiency, and other efforts.

AOI TYO Group raised FY12/17 forecast in light of 1H results, recent conditions, and other factors. It expects ¥66,000mn in net sales (added ¥1,000mn) and ¥4,100mn in operating income (added ¥600mn). These revisions factored in 1H upside, and the 2H outlook is fundamentally unchanged. While this stance appears conservative (particularly in earnings) given 1H results, it discounted for negative impact from weaker profitability related to the shift to printless* delivery in the advertising video production business. We think the forecast is attainable given substantial expansion of demand in the focus areas of video (digital) advertising market and the solutions field, and healthy accumulation of the order balance at the end of June 2017.

* TV commercial materials have traditionally been copied to a memory media (printed) for delivery to various broadcast media and sales and profits from such copies were booked. AOI TYO Group expects decline in printing sales over the next few years from October 2017 due to the transition to online data submissions.

Summary

AOI TYO Group envisions longer-term growth driven by solutions business and overseas activities (China and Southeast Asia). In the existing mainstay advertising video production business, meanwhile, it targets steady growth by promoting rigorous streamlining and efficiency and a lean organization that adapts to a printless model. The outlook sets FY12/21 goals of at least 12% in ROE and ¥8bn EBITDA (based on 11.2% average growth over four years with FY12/17 targets as the starting point). We think the "experience design*" business field, which AOI TYO Group aims to expand through promotion of a solutions-type business model, offers a market with large potential. We also expect the Company's experience and knowhow cultivated in video production to provide a differentiating factor and see a large advantage from its credibility (brand strength) and financial clout. We will be particularly focusing on new value creation in the context of specific results obtained from management integration and aggressive investments in growth fields.

* This refers to production of all types of contents, including VR, AR, and MR, leveraging technology, knowhow, and resources cultivated in domestic advertising video production, data collection and analysis, and story design using data analysis.

Key Points

- Joint holding company established through the management integration of AOI Pro. and TYO and holds a top share in TV commercial production
- Had a healthy start in 1H FY12/17 exceeding initial targets
- Benefited from expansion of solutions business, a focus area, and production cost savings in the advertising video production business
- Raised FY12/17 full-year forecast
- Expansion of "experience design business field" through new value creation and overseas initiatives likely to drive longer-term earnings growth

Company profile

Joint holding company established through the management integration of AOI Pro. and TYO and holds a top share in TV commercial production

1. Business overview

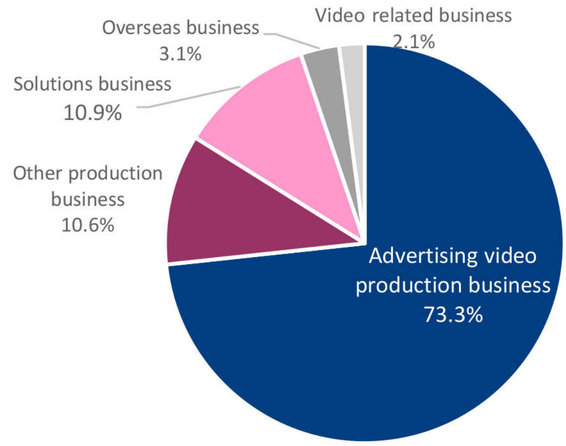
AOI TYO Holdings <3975> is a joint holding company that owns AOI Pro. and TYO. AOI TYO Group plans and creates TV commercials and also handles solutions business that includes direct transactions with advertisers, online videos and other digital contents. It was founded in January 2017 through management integration of two leading industry firms and holds a top share in TV commercial production*.

* The industry's three major firms controlled a combined 30-40% share with Tohokushinsha Film Corporation <2329> as the leader and then AOI Pro. and TYO for many years. This management integration moved AOI TYO Group into the top position.

AOI TYO Group has advertising business and video related business segments and five sub-segments (advertising video production, other production, solutions, overseas, and video related). While the traditional mainstay advertising video production business generates 73.3% of overall sales, solutions business, a growth area, has been expanding substantially recently and is attracting attention as a growth driver.

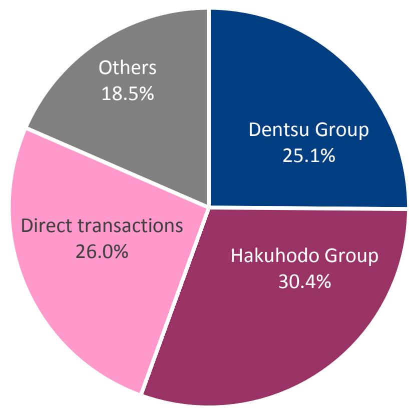
Sales mix by customer consists of 25.1% to the Dentsu Group, 30.4% to the Hakuhodo Group, 26.0% in direct transactions, and 18.5% to others. Direct transaction business has been a TYO strength and is still growing after the management integration in correlation with the solutions business.

Sales composition by business (1H FY12/17 result)



Source: Prepared by FISCO from the Company's results briefing materials

Sales ratio by customer (1H FY12/17 result)



Source: Prepared by FISCO from the Company's results briefing materials

Below we review each of these business areas.

(1) Advertising video production business

This business plans and produces TV commercials and other advertising videos. It was also the primary segment at AOI Pro. and TYO and holds a top share now thanks to integration of the two leading firms. Both companies have created many excellent TV commercials amid continuation of a robust orders environment. However, this business is confronting concerns about decline in profitability due to changes in media value amid advances by the Internet and other technologies and the printless shift. It needs business structure reforms and improved efficiency.

(2) Other production business

Production business besides advertising videos includes movies and dramas, event planning and production, web production, and sales promotional material production.

(3) Solutions business

This business provides measures for problem solving for customers. While it currently is roughly equal to results from TYO General Business Division Headquarters*1 and AOI Pro.'s subsidiary Quark tokyo Inc.*2, it also contains the VR business, which is mainly being promoted by AOI Pro.'s Experience Design Dept., as a growth area.

*1 Supplies one-stop solutions mainly through multi-faceted media activities via direct transactions with advertisers.
*2 Provides PDCA solutions for online content strategy formulation, planning, production, data analysis, and media distribution, centered on videos.

(4) Overseas business

The overseas business operates sites in China and Southeast Asia (Thailand, Vietnam, Singapore, Indonesia, Malaysia, and India) and seeks to expand transactions with local companies, including Japanese affiliates. Both AOI Pro. and TYO have been actively engaged in many regions. This segment is positioned as a growth driver.

(5) Video related business

This business covers activities besides advertising, including photo studios for general consumers* and music video production.

* Operated by AOI Pro.'s subsidiary Hollyhock Inc. This business started with the first store at Tokyo Midtown in Roppongi and has been adding other sites. It currently has four stores.

2. History

(1) AOI Pro.

AOI Pro. goes back to Aoi Advertising Promotion Inc., which was established in 1963 to produce TV commercials, in Tokyo's Minato Ward. It solidified a business base as a video production company focused on TV commercials. In 1990, it listed shares on JASDAQ, taking the lead in this industry, with the aim of making further advances and strengthening social credibility.

It subsequently created numerous videos that attracted substantial interest, fueling healthy growth and listed on the First Section of the Tokyo Stock Exchange in 2000. These gains established a firm position as one of the major TV commercial production companies.

In September 2011, meanwhile, it launched an overseas site to handle TV commercial production in Indonesia. In October 2014, it added nakamino Co., Ltd.*, which specializes in online video platform effect measurement and operation, to the group (equity-method affiliate) through a capital alliance with the aim of full-fledged ramp-up of video contents marketing, a new growth area. These initiatives gave it an edge versus peers in building operations to address diversifying media, growing demand for online videos and other digital contents, and entry by Japanese companies into the fast-growing Asian region.

* It acquired this entity as a consolidated subsidiary at the end of December 2015 through an injection of additional capital and changed the company name to Quark tokyo Inc. in April 2016.

(2) TYO

TYO was established as a commercial production company in April 1982 in Roppongi, Minato Ward, Tokyo. It was the last of the three major commercial production companies to be established. Hiroaki Yoshida (Representative Director of AOI TYO Holdings), together with five other commercial creators, established the Company with the dream of “Creating an Ideal Company of Creators, by Creators, for Creators.”

The company listed on JASDAQ in 2002. It expanded business by leveraging its creative capabilities of having been involved in the production of numerous TV commercials that left an impression with consumers, notably one promoting travel to Kyoto for Central Japan Railway Company (JR Central) <9022>. Upon changing to the TSE Second Section in October 2013, its listing was reassigned to the First Section in January 2014.

TYO has been involved in various types of content production, including TV commercials, digital media (web, etc.) and events. Its strength is providing optimal, one-stop solutions for advertisers’ advertising promotions and promotional activities. It led the industry* with a sales structure and accumulation of knowledge in dealing directly with advertisers and has focused on building long-term relationships with advertisers, expanding project sizes and capturing sales promotion expenses. Furthermore, it has been actively engaged in overseas expansion.

* Since starting direct transactions with advertisers in July 2003, the current TYO General Business Division Headquarters has taken charge of the entire TYO Group’s direct transactions with advertisers.

Management integration

Aims to tackle changes in the business environment and build a competitive advanced business model

1. Background

In the background to the management integration is the diversification of media and devices (such as smartphones and tablets) focused on the Internet, and in addition, the major changes to the industry environment, including communication speeds and data analysis, and also the progress being made in technological innovations, such as VR and AR. In this environment, it is anticipated that while on the one hand major growth in TV commercial production, which has been the mainstay up to the present time, is unlikely, on the other hand the advertising-related business areas will expand, with accompanying changes to their methods and structures. Based on this sort of awareness of the business environment, the companies judged that integration was to grow in the medium to long term to expand market share, strengthen negotiation power, and maintain robust capital strength. They also want to build a competitive and advanced business model by newly forming a group to lead the industry and concentrating and effectively utilizing management resources.

2. Objective

The management integration seeks to create new sensations worldwide by pursuing an advanced business model ahead of changes in the environment and merging creativity cultivated from many years of advertising videos with the latest technologies and diverse data.

3. Effects

(1) Strengthening the advertising video production operations

In the advertising video production business, which is the core operations, the Company is pursuing integration effects in the areas of brand competitiveness, operational efficiency, new technological developments, and cost competitiveness. In other words, while on the one hand it is aiming to maximize sales opportunities by preserving the previous competitive relations between the brands, on the other hand it intends to improve operational efficiency through the sharing of personnel and business streamlining measures, and also to promote cost competitiveness by joint procurement and mutual utilization of the filming equipment rental departments.

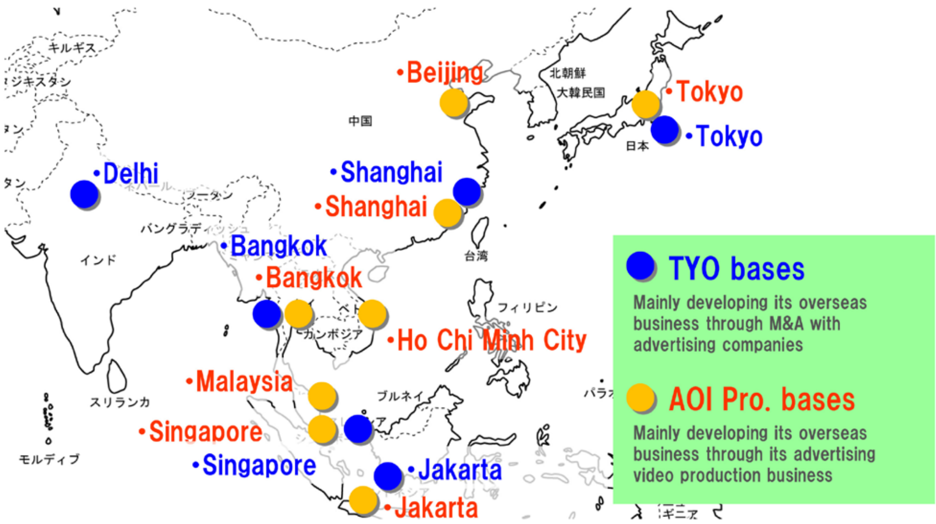
(2) Promoting strategic business areas

The Company is aiming to integrate TYO's direct transactions with advertisers, which it had been working on strategically, with the video content marketing that AOI Pro. had been focusing on in the same way. Specifically, TYO's strength is in direct transactions with advertisers, for which it has established a sales system and accumulated expertise, but it needs to be also able to provide the solutions that advertisers require for the web and online video. Conversely, AOI Pro.'s strength is in video content marketing and it is able to provide solutions in the online video market, which will continue to expand, but it also needs the sales capabilities necessary for direct transactions with advertisers. It is considered that the two companies will be able to generate synergies by mutually utilizing each other's respective strengths.

(3) Accelerating the development of the overseas business

For the overseas business, AOI Pro. had been developing its video production business while TYO had been pursuing M&A with advertising companies, so there are no overlapping functions. Therefore, from the fact that their policies, of expanding clients from Japanese companies to local companies located overseas, are consistent, they are aiming to accelerate their Asia strategy through the mutual use of both companies' bases.

Status of overseas bases



Source: Company materials

In addition, it will become possible to efficiently allocate both companies' management resources in growth fields, based on a shared management strategy, through utilizing the joint holding company system. It is considered that in addition to increasing the management agility and efficiency, this will enable them to positively take risks like never before and enhance their ability to adapt to changes to the industry.

Financial highlights

Healthy start in 1H FY12/17 exceeding the initial outlook

In the results for 1H FY12/17, net sales increased 4.1%* YoY to ¥33,729mn, operating income increased 15.1% to ¥2,358mn, ordinary income rose 25.5% to ¥2,305mn, and profit attributable to owners of parent rose 44.1% to ¥1,189mn, for an increase in sales and profits and above the initial forecast.

* Previous-year results use combined amounts for consolidated results of AOI Pro. and TYO on a calendar-year basis (pro forma; 12-month basis).

Sales grew at a healthy pace in the mainstay advertising video production business and other areas and also received a strong boost from the solutions business, a growth area. Additionally, "direct transactions," which are linked to growth in the solutions business, are expanding in the customer breakdown. Decline in sales to the Dentsu <4324> Group, meanwhile, reflects the impact of individual projects, and sales are likely to improve on a full-year basis.

In earnings, AOI TYO Group sharply reduced production costs through stricter reviews and selection at the orders stage and rigorous income management. While SG&A expenses increased considerably due to costs related to the integration and other items, operating income still moved upward and operating margin improved to 7.0% (vs. 6.3% in the previous year) thanks to the offsetting boost from higher sales and lower production costs. We think integration-related costs totaled roughly ¥300mn, including amortization of goodwill*, stock purchase costs, and holding company setup costs. Nevertheless, items besides amortization of goodwill and higher rent appear to be one-time costs.

* Amortization of goodwill were ¥152mn, including the integration-related portion of circa ¥100mn (annual amount at 20-year amortization is around ¥200mn).

Regarding the financial situation, total assets are ¥52,269mn and shareholders' equity is ¥23,218mn. We are not concerned about stability of the financial basis given the robust 44.4% equity ratio and 171.9% current ratio. Additionally, interest-bearing debt totaled ¥10,857mn, putting the D/E ratio at just 0.44x. Goodwill (intangible fixed assets) is ¥4,218mn, or 8.0% of total assets.

1H FY12/17 financial highlights

(¥mn)

	1H FY12/16 result		1H FY12/17 result		Change		1H FY12/17 initial forecast		Achievement rate
		Ratio		Ratio		Change rate		Ratio	
Net sales	32,392		33,729		1,337	4.1%	32,000		105.4%
Advertising video production business	25,024	77.3%	24,723	73.3%	-301	-1.2%	-	-	-
Other production business	4,545	14.0%	3,566	10.6%	-979	-21.5%	-	-	-
Solutions business	1,157	3.6%	3,687	10.9%	2,530	218.7%	-	-	-
Overseas business	1,075	3.3%	1,056	3.1%	-19	-1.8%	-	-	-
Video related business	593	1.8%	697	2.1%	104	17.5%	-	-	-
Cost of sales	-	-	26,885	79.7%	-	-	-	-	-
SG&A expenses	-	-	4,484	13.3%	-	-	-	-	-
Operating income	2,049	6.3%	2,358	7.0%	309	15.1%	1,600	5.0%	147.4%
Ordinary income	1,837	5.7%	2,305	6.8%	468	25.5%	1,400	4.4%	164.6%
Profit attributable to owners of parent	825	2.5%	1,189	3.5%	364	44.1%	500	1.6%	237.8%
EBITDA	2,563		2,932		369	14.4%			
Sales ratio by customer									
Dentsu Group	9,814	30.3%	8,473	25.1%	-1,341	-13.7%			
Hakuhodo Group	9,536	29.4%	10,258	30.4%	722	7.6%			
Direct transactions	7,023	21.7%	8,773	26.0%	1,750	24.9%			
Other	6,020	18.6%	6,225	18.5%	205	3.4%			

Source: Prepared by FISCO from the Company's results briefing materials

Financial position as of the end of June 2017 (financial ratio)

(¥mn)

	As of the end of June 2017	Comment
Current assets	35,025	
Cash and deposits	7,584	
Notes and accounts receivable – trade	20,369	
Work in process	5,861	
Non-current assets	17,244	
Property, plant and equipment	8,085	
Intangible assets	4,886	Goodwill ¥4,218mn
Investments and other assets	4,272	
Total assets	52,269	
Current liabilities	20,371	
Accounts payable – trade	6,169	
Short-term loans payable	6,259	
Advances received	2,227	
Non-current liabilities	7,704	
Long-term loans payable	2,374	
Long-term deposits received	3,501	
Total liabilities	28,075	
Net assets	24,193	
Shareholders' equity	22,935	
Equity ratio	44.4%	
Current ratio	171.9%	
D/E ratio	0.44 times	

Source: Prepared by FISCO from the Company's financial results

Activity results

Realizing some benefits from aggressive investment in growth areas and improved business efficiency

1. Mainstay business conditions and primary initiatives

(1) Advertising video production business

Advertising video production sales dropped by just 1.2% YoY to ¥24,723mn amid a flat (or declining) trend in the TV commercial and other conventional media advertising production market, but was generally firm. A key point is the contribution to higher overall profitability from a rise in effective profit margin* to 33.8% (vs. 32.2% in the previous year). Establishment of sales operations with heightened emphasis on profitability, including stricter review and selection from the orders stage and rigorous production cost management, paid off.

* Effective profit is the value obtained by subtracting external spending and production costs from net sales.

(2) Solutions business

Sales in the solutions business, a focus area, rose substantially with a 218.7% YoY increase to ¥3,687mn, including large increase for the TYO General Business Division Headquarters to ¥2,384mn (+170.0% YoY) and AOI Pro.'s subsidiary Quark tokyo to ¥1,286mn (vs. ¥175mn in the previous year). The former benefited from major project orders from new advertisers (newcomer growth companies) in direct transactions with advertisers, a core area, and growth in deals with existing advertisers. The latter started ramping up deal orders in the second year of full-fledged operations. Direct transactions with large companies, in particular, are growing thanks to expansion of demand in PDCA video contents marketing.

In VR business handled by AOI Pro. (AOI VR), meanwhile, prospects are finally taking shape with the release of the business-use VR Insight™*1 service line's prototype of VR ON AIR TEST (VR OAT)*2, the first service.

*1 Launched together with ALTITUDE INC., BlueMeme Inc., FOVE, Inc., NeuroSky Japan Inc, Up-frontier, Inc., and BRYCEN Co., Ltd. to start development of the VR Insight™ platform in March 2017. This project addresses the subconscious field with sensing technologies and assesses "insights" by quantifying reactions. AOI Pro. plans to proactively design a new business and develop services based on VR Insight™.

*2 VR OAT is a framework for video evaluation. It enhances research by retrieving data on the vital reactions (eye movement, brainwave, electrocardiograph, heartbeat, etc.) of the viewer in real time, and then combining that data with a survey filled out before and after viewing. It is characterized by use of "real reactions" and scientifically ascertains decision-making and behavior from subconscious processes not recognized by the person (deep psychology and latent awareness). It aims to understand the "impact of videos on emotions." AOI Pro. intends to commercialize this process.

2. Progress with the integration effect

Measures geared toward early realization of the integration effect are 1) reorganizing the corporate division, 2) aggressively investing in growth areas, and 3) lowering external spending. Progress with the integration effect is still just getting started, but it provided some lift to investments in growth areas (particularly VR) and improved business efficiency.

(1) Reorganization of the corporate division

While the corporate division is slated for consolidation into the holdings company in January 2018, offices have already been integrated by divisions. There is also a new R&D team (Pathfinder Room) to develop and research new businesses and cultivate overseas human resources.

(2) Aggressive investment in new fields

Besides VR OAT mentioned above, other initiatives are developing VR contents*1, establishing a value creative consortium*2, and forming a venture fund*3.

*1 AOI Pro. announced a beta version of WONDERFUL WORLD – VR Private Tour™ VR contents for experiencing wonderful places around the world and in Japan while holding a virtual guide's hand.

*2 AOI TYO Holdings is collaborating with amana inc. <2402>, Synergy Marketing, Inc., and DIC Corporation <4631> to establish a value creative consortium (provisional name) for accumulating and sharing technologies, knowhow, and creative resources from the participating firms and seeking creative optimization with human "value" as a common standard.

*3 TYO established Ad Hack Ventures, which aims to invest in venture companies with advertising needs, jointly with Field Management.

(3) Reduction of external spending

AOI TYO Group achieved some results with efforts to improve business efficiency and build a framework to receive orders. It also intends to consolidate the filming equipment rental business.

Business performance outlook

Raised FY12/17 forecast, steadily expanding the solutions business

AOI TYO Group raised FY12/17 forecast from period-start levels in light of 1H results, recent conditions, and other factors. It expects ¥66,000mn in net sales (+¥1,000mn vs. initial forecast) ¥4,100mn in operating income (+¥600mn), ¥3,800mn in ordinary income (+¥600mn), ¥1,850mn in net profit attributable to owners of parent (+¥450mn), and ¥5,234mn in EBITDA (+¥604mn).

In net sales, it projects a firm trend in advertising video production business throughout the year and counts on the solutions business, a target area, to drive results growth. In earnings, meanwhile, SG&A expenses are likely to be higher due to increased costs related to the integration, but operating income should still rise on benefits from stronger sales and lower production costs and the forecast anticipates 6.2% operating margin.

These revisions factored in 1H upside, and the 2H outlook is basically unchanged. To reach FY12/17 forecast, AOI TYO Group needs 2H results at ¥32,270mn in net sales and ¥1,741mn in operating income. While this stance appears conservative (particularly in earnings) given the 1H outcome, it discounted for negative impact from weaker profitability related to the printless trend in the advertising video production business.

We think the forecast is attainable given substantial expansion of demand in the video (digital) advertising market and solutions field that are being targeted and healthy accumulation of orders to ¥14,016mn at the end of June 2017 (with 1H orders totaling ¥33,499mn). It should be noted that earnings might overshoot if the printless trend occurs later than anticipated.

FY12/17 forecast

(¥mn)

	FY12/17				Change	
	Initial forecast		Revised forecast			
		Ratio		Ratio		% change
Net sales	65,000		66,000		1,000	1.5%
Operating income	3,500	5.4%	4,100	6.2%	600	17.1%
Ordinary income	3,200	4.9%	3,800	5.8%	600	18.8%
Profit attributable to owners of parent	1,400	2.2%	1,850	2.8%	450	32.1%
EBITDA	4,630		5,234		604	13.0%

Source: Prepared by FISCO from the Company's results briefing materials

Growth strategy

Longer-term growth drivers are the solutions business and overseas initiatives supplying new value

AOI TYO Group depicts a longer-term growth image with solutions business (including related production business) and overseas business (China and Southeast Asia) driving stronger performance. In the existing mainstay advertising video production business, meanwhile, it targets steady growth by promoting rigorous streamlining and efficiency and a lean organization that adapts to a printless model. The outlook sets FY12/21 goals of at least 12% in ROE and ¥8bn EBITDA (11.2% average growth over four years with FY12/17 targets as the starting point).

We attribute use of EBITDA as the goal to emphasis on earnings growth and the prospect of M&A activities (since EBITDA does not count amortization of goodwill). AOI TYO Group aims to realize EBITDA growth by investing aggressively in projects likely to deliver profitability exceeding the cost of shareholders' equity and also improve shareholder returns (dividend payout ratio) and capital efficiency (ROE).

1. Solutions business

It aims to expand orders from new and existing advertisers in direct transactions from advertisers, which it has already been handling. Also, it hopes to provide the general public with new experiences by developing and producing contents that incorporate the latest technologies, such as VR, AR, MR, IoT, and AI. It also seeks to accumulate knowledge, including new data and emotion data obtained from these experiences, for application in the integrated marketing business (supplying solutions that integrate from brand strategy formulation to effect measurement and analysis). Furthermore, it intends to make advances to high value-added businesses utilizing data (such as DMP and strategic consulting). The approach seeks to foster a solutions-proposal business model and shift to knowledge-intensive business while harnessing experiences, knowledge, networks, and other resources from past advertising video production business. To achieve this, it will focus on reinforcement of operations and personnel (communication designers, data specialists, and others), including external people. Additionally, it will pursue aggressive investments to gather and accumulate data, integrate with external data, and develop and build schemes for effect measuring and analysis and IT services.

2. Overseas initiatives

AOI TYO Group plans to continue bolstering sites in China and Southeast Asia that the two companies pursued thus far. In Southeast Asia, it plans to strengthen production capabilities and expand business via M&A. Additionally, it intends to leverage collaboration and mutual utilization of human networks and resources in the video production and advertising agency businesses that the two companies have built locally.

We do not see the EBITDA goal (¥8bn) as an easy level in light of decline in profitability from the printless shift and burden from investments in new growth areas amid slim prospect of growth in demand for mainstay TV commercial production (advertising video production business). Nevertheless, we think the "experience design" business field, which AOI TYO Group aims to expand through promotion of a solutions-type business model, offers a market with large potential. We also expect the Company's experience and knowhow cultivated in video production to provide a differentiating factor and see a large advantage from its credibility (brand strength) and financial clout (especially for expansion of business with clients having a nationwide reach and investment strategy including M&A). We will be particularly focusing on new value creation (such as VR content and data utilization) in the context of specific results obtained from aggressive investments in business integration and growth fields.

Shareholder return policy

Aiming for at least 30% consolidated payout ratio

AOI TYO Holdings has presented a dividend policy of targeting at least 30% consolidated dividend payout ratio and dividend hikes accompanying a higher effective profit level. Furthermore, it is adopting DOE (dividend on equity ratio) as an indicator (with a goal of 4% in FY12/21) and seeks to raise this value from the standpoint of supplying a continuous and steady dividend.

The FY12/17 dividend target is ¥28 (¥8 interim and ¥20 period-end) and works out to a 35.9% consolidated payout ratio.

AOI TYO Holdings is promoting share buybacks of up to 400,000 shares (or ¥400mn in total purchase amount) during May 16, 2017 to May 15, 2018 and had already purchased 261,400 shares as of September 30, 2017.

Furthermore, it provides benefits to shareholders listed or registered in the shareholder register as of June 30 (with ownership of 500 or more shares) with an original QUO card* and original photo collection with a photo shooting (40 people selected from applicants in a lottery).

* ¥3,000 for 500 or more shares, ¥5,000 for 1,000 or more shares, and ¥10,000 for 2,000 or more shares.

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