COMPANY RESEARCH AND ANALYSIS REPORT

AOI TYO Holdings Inc.

3975

Tokyo Stock Exchange First Section

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Index

Summary

In FY12/19, profits decreased and were below forecast, despite higher sales. Under a new management structure, the Company aims to shift to management with priority on “quality over quantity”

1.Aims of founding the Company and its medium-term policies

AOI TYO Holdings Inc. <3975> is a joint holding company established in January 2017 through the management integration of AOI Pro. Inc. and TYO Inc. AOI TYO Group mainly plans and creates TV commercials and also focuses on Solutions Business that includes direct business with advertisers and video content marketing. It holds a top share in TV commercial production through the management integration of the two 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, 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. Recently, the Company’s business performance has leveled off due to factors such as the impacts of the growing shift to printless delivery and work-style reform, along with Group company reorganization and system integration. However, the Company has largely brought these major management issues to a successful conclusion. Accordingly, it has now shifted to a new management structure. By advancing to the next step, the Company intends to accelerate its activities further in line with its medium-term policies.

*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.

2. FY12/19 results overview

In FY12/19, the Company reported lower profits despite higher sales. Net sales were ¥65,229mn (+0.7% YoY), and operating income was ¥2,118mn (-38.3%). Net sales increased across all businesses except for the Overseas Business, where overseas subsidiaries were reorganized. Notably, the mainstay Video Advertising Business saw sales return to positive growth due to an increase in online video production sales, while the Solutions Business saw steady growth in direct business with advertisers. On the profit front, the impact of a decline in high-margin print sales was within the expected range. However, profits declined and were below forecasts, due to factors such as a decrease in the effective profit margin associated with increased order volume, which was compounded by higher costs associated with work-style reform and new enterprise systems implementations. Moreover, the Company recorded extraordinary losses. The main components were a loss on the reorganization of unprofitable subsidiaries and an impairment loss on software in preparation for systems integration. On the other hand, qualitatively-speaking, significant progress was made on initiatives to expand growth fields, such as the establishment of a joint venture with strategic partner Cyber Communications, Inc.

3. FY12/20 forecast

For its FY12/20 forecast, the Company foresees substantial improvement in profitability despite mostly flat net sales. Net sales are forecast to decline 0.4% YoY to ¥65,000mn, while operating income is forecast to increase 18.0% to ¥2,500mn. The Company expects lower sales in the Video Advertising Business due to the impact of factors such as the reorganization of unprofitable subsidiaries. However, net sales is projected to grow across all other businesses. On the profit front, the Company plans to strive for a substantial improvement in profitability by improving the effective profit margin and reducing costs, despite projecting an increase in costs related to hiring and training more personnel. That said, the impact of the novel coronavirus, which was not factored into the initial forecasts, warrants caution.

4. Growth strategy

Based on rapid changes in the environment, the Company disclosed new medium-term policies in March 2019. A key difference with previous policy is the change to management with priority on "quality over quantity." To ensure that it continues as a powerful group capable of responding to any era, the Company calls for development of businesses that meet needs and changes, full utilization of human resource capabilities, and continuation of healthy profits. It also continues to emphasize sustainability and shareholder return and wants to generate ROE that exceeds COE.

Key Points

- In FY12/19, profits decreased and were below forecast, despite higher sales
- The Company has largely brought its major management issues to a successful conclusion, despite some pressure on profits from costs related to the reorganization of subsidiaries and systems integration
- In FY12/20, the Company plans to strive for a substantial improvement in profitability under a new management structure
- Based on the new medium-term policies announced in March 2019, the Company has shifted to a management approach emphasizing "quality over quantity" and is aiming for sustainable growth

Company profile

Joint holding company established for the integration of AOI Pro. and TYO.
Holds a top industry share for TV commercial production

1. Business overview

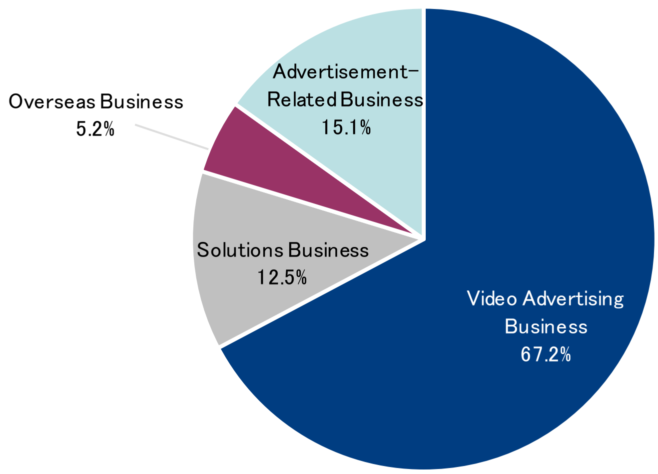
AOI TYO Holdings is a joint holding company that owns AOI Pro. and TYO. AOI TYO Group plans and creates TV commercials and also handles Solutions Business that includes direct business with advertisers and video content marketing. It was founded in January 2017 through management integration of two leading industry firms and holds a top share in TV commercial production.

AOI TYO Group consists of a single Advertising Business segment and four sub-segments (Video Advertising, Advertisement-Related, Solutions, Overseas)*. While the mainstay Video Advertising Business generates about 65% of overall sales, Solutions Business and Overseas Business are attracting attention as a growth driver.

* Changed business categories and names from FY12/19 (details covered below).

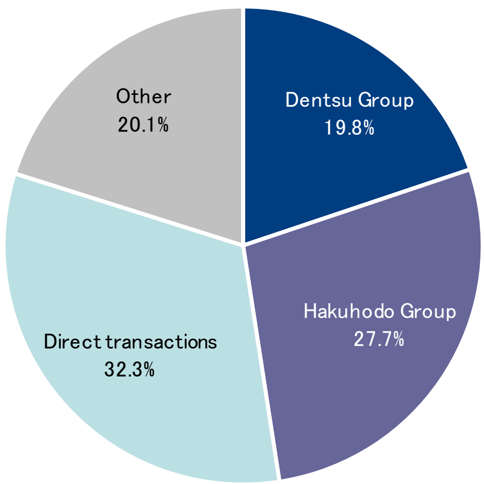
Sales mix by customer was well balanced with 19.8% to the Dentsu <4324> Group, 27.7% to the Hakuhodo (Hakuhodo DY Holdings Inc. <2433>) Group, 32.3% in direct transactions, and 20.1% to others. Additionally, sales composition by media type is TV commercial production at 58.2%, entertainment contents at 3.9%, digital contents at 19.3%, overseas at 4.4%, and other at 14.2%. "Digital contents" is growing rapidly along with expansion in online video advertising demand as a trend.

Sales composition by business (FY12/19 result)



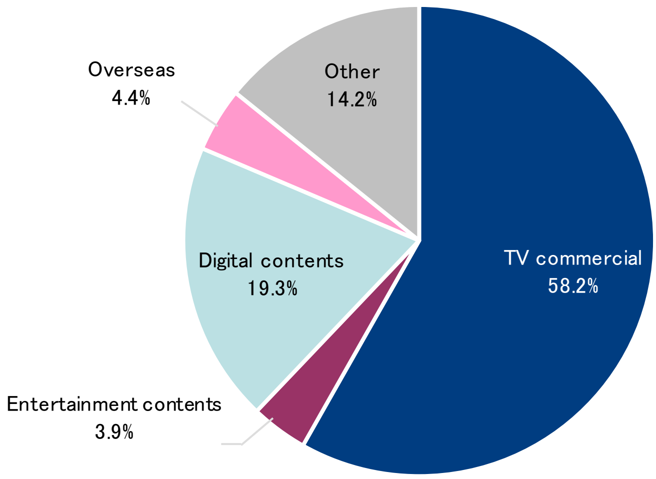
Source: Prepared by FISCO from the Company's results briefing materials

Sales ratio by customer (FY12/19 result)



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

Sales composition ratios by medium (FY12/19 results)



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

Below we review each of these business areas.

(1) Video Advertising Business

The Company plans and produces TV commercials, online video and other advertising video. As for TV commercials, this was the main business for AOI Pro. and TYO, and integration of these two major industry firms established a top market share. Both firms produce numerous excellent works amid continuation of a healthy orders environment. While the Company faces concerns about profitability decline because of changes in advertising media related to the growing Internet presence and the printless shift as well as the need for income structure reforms and better work efficiency, it aims to establish a dominant position in high-quality video advertising, its strength, including the expanding online video market.

(2) Solutions Business

This business provides measures for problem solving for customers. It currently is roughly equal to results from TYO Offering Management Business Unit*1 and AOI Pro.'s subsidiary Quark tokyo Inc.*2.

*1 Supplies one-stop solutions mainly through multi-faceted media activities via direct business with advertisers.
*2 Provides services that range from marketing strategy formulation mainly for videos to all PDCA solutions required by communications in the digital era.

(3) Overseas Business

The Overseas Business operates sites centered on Southeast Asia (Thailand, Vietnam, Singapore, Indonesia, Malaysia, and India), engaging in business with both Japanese-affiliates and local companies. This business includes video production orders received from overseas. Both AOI Pro. and TYO have been actively engaged in many regions, and this segment is positioned as a future growth driver. AOI TYO Group has also been actively engaging in M&A. In July 2019, K&L ISC, a joint venture with Malaysian advertising company ISC Innovators, was turned into a consolidated subsidiary. Meanwhile, the Company also worked on restructuring the business portfolio to better meet future developments. This included the reorganization of the poorly-performing local subsidiary in Beijing.

(4) Advertisement-Related Business

This business includes the planning and production of movies, TV dramas, and events; production of digital content, promotional content, and music videos. The Company's strategy is to enclose the market by building up its track record by entering areas that have an affinity with the mainstay business, and by bolstering peripheral solutions (promotions and content).

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 Second Section of the Tokyo Stock Exchange in 1998 and on the First Section in 2000. It 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 content 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 turned this entity into 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 TV commercial production company in April 1982 in Roppongi, Minato Ward, Tokyo. It was established the latest among other major commercial production companies. Hiroaki Yoshida (honorary chairman of AOI TYO Holdings), and together with five other commercial creators, including Kazuyoshi Hayakawa (representative director, president and CEO of TYO Inc.) 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, online videos, digital contents 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 business with advertisers in July 2003, the current TYO Offering Management Business Unit has taken charge of the entire group's direct business with advertisers.

(3) Background to the management integration (January 2017)

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, major growth in TV commercial production, which had been the mainstay up to the present time, is unlikely, but 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 necessary to grow in the medium to long term to expand market share, strengthen negotiation power, and maintain robust capital strength. They also wanted to build a competitive and advanced business model by newly forming a group to lead the industry and concentrating and effectively utilizing management resources.

Financial highlights

In FY12/19, profits decreased and were below forecast, despite higher sales.
The Company will work to solidify its foundation for shifting to a high profit structure

1. FY12/19 results

In FY12/19, the Company reported lower profits despite higher sales. Net sales were ¥65,229mn (+0.7% YoY), operating income was ¥2,118mn (-38.3%), ordinary income was ¥1,763mn (-47.0%), and loss attributable to owners of parent was ¥1,280mn (versus profit of ¥1,952mn in FY12/18). Notably, the Company posted a net loss because it recorded an impairment loss in connection with measures to solidify its foundation. Profits finished the fiscal year below the Company’s forecasts.

Net sales increased across all businesses except for the Overseas Business. Notably, the mainstay Video Advertising Business saw sales return to positive growth due to an increase in online video production sales amid a continuing decrease in print sales, while the Solutions Business saw steady growth in direct business with advertisers. In the Advertising-Related Business, event-related sales by newly consolidated subsidiaries made a significant contribution.

In terms of net sales by customer, net sales to major advertising agencies ended up decreasing slightly, with a significant decrease in sales to the Dentsu Group partially offset by an increase in sales to the Hakuhodo Group. On the other hand, sales from direct business with advertisers, an area of focus, benefited from steady growth in orders for TV commercials, events and other projects from both new and existing customers. It is notable that the share of sales from direct business with advertisers has increased to more than 30% of overall sales.

On the profit front, the impact of a decline in high-margin print sales was within the expected range. However, operating income decreased and was below forecast, due to factors such as a decrease in the effective profit margin associated with increased order volume, which was compounded by higher costs associated with work-style reform and new enterprise systems implementations, and the impact of certain poorly performing subsidiaries. Moreover, the Company posted a net loss because of the recording of extraordinary losses. The main components were a loss on reorganization of poorly performing subsidiaries, an impairment loss on software in preparation for systems integration and a loss on valuation of investment securities.

In terms of financial condition, total assets decreased 4.1% from the end of FY12/18 to ¥53,352mn, due mainly to an impairment loss on software and valuation loss on investment securities. Meanwhile, equity capital decreased substantially by 8.7% versus end-FY12/18 to ¥22,935mn because of the recording of a net loss. Based on this, the equity ratio edged down to 43.0% (versus 45.1% at the end of FY12/18).

FY12/19 results overview

(¥mn)

	FY12/18		FY12/19		Change		FY12/19				
	Results	Ratio	Results	Ratio	Amount	Change rate	Initial forecast	Ratio	Revised forecast (announced on August 9)	Ratio	Achievement rate
Net sales	64,792	-	65,229	-	437	0.7%	65,000	-	63,600	-	102.6%
Video Advertising Business	43,663	67.4%	43,860	67.2%	197	0.5%	43,400	66.8%	-	-	-
Solutions Business	7,447	11.5%	8,145	12.5%	698	9.4%	8,000	12.3%	-	-	-
Overseas Business	4,038	6.2%	3,378	5.2%	-660	-16.3%	4,500	6.9%	-	-	-
Advertisement-Related Business	9,644	14.9%	9,846	15.1%	202	2.1%	9,100	14.0%	-	-	-
Cost of sales	52,052	80.3%	53,514	82.0%	1,462	2.8%	-	-	-	-	-
Gross profit	12,740	19.7%	11,715	18.0%	-1,024	-8.0%	-	-	-	-	-
Selling, general and administrative expenses	9,307	14.4%	9,596	14.7%	289	3.1%					
Operating income	3,433	5.3%	2,118	3.2%	-1,314	-38.3%	2,600	4.0%	2,300	3.6%	92.1%
Ordinary income	3,325	5.1%	1,763	2.7%	-1,562	-47.0%	2,500	3.8%	2,150	3.4%	82.0%
Profit attributable to owners of parent	1,952	3.0%	-1,280	-2.0%	-3,232	-	1,300	2.0%	1,050	1.7%	-
EBITDA	4,777		3,606		-1,171	-24.5%					
Order backlog	13,191		14,606		1,415	10.7%					
Sales ratio by customer											
Dentsu Group	15,053	23.2%	12,941	19.8%	-2,112	-14.0%					
Hakuhodo Group	17,225	26.6%	18,088	27.7%	863	5.0%					
Direct transactions	19,366	29.9%	21,072	32.3%	1,706	8.8%					
Other	13,146	20.3%	13,125	20.1%	-21	-0.2%					

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

Financial position as of the end of December 2019

(¥mn)

	As of the end of December 2018	As of the end of December 2019	Change	
			Amount	Change rate
Current assets	35,937	36,003	65	0.2%
Cash and deposits	9,836	9,111	-724	-7.4%
Notes and accounts receivable - trade	16,731	16,873	142	0.9%
Work in process	4,256	4,510	254	6.0%
Non-current assets	19,693	17,348	-2,344	-11.9%
Property, plant and equipment	7,235	7,084	-150	-2.1%
Intangible assets	5,772	4,275	-1,497	-25.9%
Investments and other assets	6,685	5,988	-696	-10.4%
Total assets	55,631	53,352	-2,279	-4.1%
Current liabilities	20,114	18,343	-1,770	-8.8%
Accounts payable - trade	8,126	8,697	570	7.0%
Short-term loans payable	7,936	6,273	-1,663	-21.0%
Advances received	1,136	899	-236	-20.8%
Non-current liabilities	9,837	11,645	1,807	18.4%
Long-term loans payable	4,549	6,672	2,122	46.7%
Long-term deposits received	3,501	3,501	-	-
Total liabilities	29,951	29,988	36	0.1%
Net assets	25,679	23,363	-2,316	-9.0%
Shareholders' equity	24,972	22,970	-2,001	-8.0%
Equity ratio	45.1%	43.0%		
Current ratio	178.7%	196.3%		
D/E ratio	0.50 times	0.56 times		

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

2. Segment performance and activity results

(1) Video Advertising Business

Internet advertising spending surpassed terrestrial TV advertising spending*1, making the Internet the top medium for advertising spending for the first time. In this environment, the Company's video advertising sales returned to positive growth*2, increasing 0.5% YoY to ¥43,860mn. The decline in print sales (¥430mn) was within the expected range. As the impact of workstyle reform ran its course, higher sales were generated from an increase in online video production. Meanwhile, on the profit front, the effective profit margin fell to 32.8% (vs. 35.5% in FY12/18) in connection with increased order volume, as well as the impact of a decline in high-margin print sales. Naturally, the Company plans to redouble its efforts to improve the effective profit margin going forward.

*1 According to "Advertising Expenditures in Japan 2019" announced by DENTSU INC., Internet advertising spending in 2019 grew substantially to ¥21,048mn (+19.7% YoY), surpassing TV media advertising spending of ¥18,612mn (-2.7%) for the first time. Meanwhile, moves are afoot to reassess the reach of TV commercials, so it will be increasingly important to implement a mixed media strategy that gives full play to the advantages of each medium.

*2 In FY12/18, as workstyle reform was introduced progressively, sales decreased as the Company narrowed down projects with an emphasis on profitability. Meanwhile, the effective profit margin improved significantly. In FY12/19, while emphasizing profitability, the Company has slightly shifted course to a policy of actively seeking to win projects that will pave the way for the future.

(2) Solutions Business

Solutions Business sales rose steadily by 9.4% to ¥8,145mn. In particular, TYO Offering Management Business Unit sales (excluding media placement purchases) increased significantly by 27.1% to ¥4,723mn. Orders for TV commercials, events and other projects increased from both new and existing customers. It appears that the Company succeeded with its efforts to upgrade and expand the customer base to include not only new companies but also clients that have a national reach. Meanwhile, sales at Quark tokyo (and Mediator) declined 6.2% to ¥2,087mn. Sales were sluggish due to a bottleneck in hiring and training personnel, as well as the fact that existing major projects entered an operational phase (causing a contraction in sales). That said, Quark Tokyo (and Mediator) have grown their business offerings* in response to client needs, and this can be seen as a positive sign for the future.

* Expanded to upstream offerings such as marketing communication and consulting, beyond planning, production, streaming and operation of video.

(3) Overseas Business

Net sales in the Overseas Business declined 16.3% YoY to ¥3,378mn. Naturally, this decline was due mainly to the reorganization of an underperforming Beijing local subsidiaries and restructuring (temporary downsizing) of subsidiaries in Southeast Asia. These measures can be seen as laying the groundwork for reinforcing the Company's business for the future.

(4) Advertisement-Related Business

Net sales in the Advertisement-Related Business increased by 2.1% YoY to ¥9,846mn. While lower net sales* were recorded for movie/TV drama and other entertainment content, operations such as event production, PR, digital content and production of sales promotion materials performed favorably, including the benefits of M&As of event production companies.

* In FY12/18, the film "Shoplifters," which was funded and produced by AOI Pro. and directed by Hirokazu Koreeda, contributed significantly to business results.

3. FY12/19 performance summary

Based on the foregoing, business results in FY12/19 can be summarized as follows. Profits decreased sharply, including the impact of one-time impairment losses. However, net sales returned to positive growth in the Video Advertising Business due to an increase in online video production. Direct business with advertisers, an area of focus, is getting fully on track owing to growth in the customer base. These developments can be described as positive signs. Also, as will be discussed later in this report, the Company has started to reorganize unprofitable subsidiaries, including those overseas, and conduct systems integration. These efforts can be assessed positively because they will help to accelerate future endeavors. Meanwhile, outstanding issues include the bottleneck in accelerating personnel hiring and training. In particular, securing personnel with expertise in fields such as data utilization, in addition to video production personnel as a matter of course, is a crucial theme for driving growth in key fields (such as video content marketing) in the future.

Main Topics

Progress on collaboration with other companies and addressing management issues. Advancing to the next step by shifting to a new management structure

1. Joint venture established with Cyber Communications

On February 12, 2019, Quark tokyo created a strategic partnership with Cyber Communications, and on August 20, 2019, the joint venture Mediator, Inc.* was established. Mediator provides communications planning and content production for various media attributes, advertising formats, and targets, providing consulting services between clients and media. With the collaboration between Cyber Communications, which possesses expertise in digital media, and Quark tokyo, which boasts strengths in digital-age communications planning and creative direction, Mediator aims to become a media communications agency offering one-stop services in communications and creative, ad distribution plan design and implementation for the benefit of both media and clients.

* Ownership ratios: Quark tokyo: 66.6%; Cyber Communications: 33.4%

2. Implemented systems integration and reorganization of subsidiaries

The Company has also begun to unify systems in order to advance management integration further. With a shared platform, the Company plans to accelerate Group reorganization, which will pave the way for streamlining operations and reducing costs. In addition, the Company has worked to reorganize Group companies* and withdraw from unprofitable businesses, and it recorded extraordinary losses upfront, all at once. As a result, the Company has removed any hidden negative factors, along with putting a framework in place to shift to a high profit structure.

* The Company implemented measures such as excluding Beijing subsidiaries from the scope of consolidation (June 2019), converting Dainichi Co., Ltd. to an equity-method affiliate (December 2019), and conducting the absorption-type merger of Wasa-be Advertising Inc. into AOI Pro. (January 2020).

3. Shift to a new management structure

In the three years since its management integration, the Company has largely brought its management issues* to a successful conclusion. For example, it has responded to environmental changes and solidified its foundation. Accordingly, the Company has shifted to a new management structure, thereby advancing to the next step. Representative director, chairman, and CEO Hiroaki Yoshida resigned from his directorship and assumed the post of honorary chairman. In conjunction with this change, Mr. Yasuhito Nakae was appointed as representative director, president & CEO, from his former post of representative director, president & COO, and Mr. Hiroaki Uekubo was appointed as representative director, vice president & COO, from his former post of managing director. As a result, the Board of Directors now comprises Mr. Yasuhito Nakae (representative director, president & CEO), Mr. Hiroaki Uekubo (representative director, vice president & COO) and Mr. Satoshi Yuzurihara (executive director and CFO), as well as three external directors. In addition, the Management Committee is the highest body for holding substantial discussions on management policies. The Management Committee comprises three internal directors and four AOI TYO Holdings general managers (two of whom are women) as well as the representative directors/presidents of AOI Pro. and TYO. With this management structure, the Company intends to accelerate decision-making and execution speed for a more integrated group organization.

* Major management issues include Group company reorganization and systems integration, as well as responses to changes in the environment, such as progress on printless delivery and workstyle reform.

Business performance outlook

In FY12/20, the Company will strive for a substantial improvement in profitability.
That said, the impact of the novel coronavirus, an unexpected factor, warrants caution

1. FY12/20 forecast

For its FY12/20 forecast, the Company expects to strive for a substantial improvement in profitability despite mostly flat net sales. Net sales are forecast to decline 0.4% YoY to ¥65,000mn, while operating income is forecast to increase 18.0% to ¥2,500mn. Ordinary income is projected to increase 36.1% to ¥2,400mn and profit attributable to owners of parent is forecast at ¥1,400mn (compared with a loss of ¥1,280mn in FY12/19).

Net sales are expected to remain mostly flat from FY12/19 because lower sales are anticipated in the Video Advertising Business owing to factors such as the impact of the reorganization of underperforming subsidiaries. Meanwhile, sales are expected to increase steadily across all businesses other than the Video Advertising Business.

On the profit front, the Company plans to strive for a substantial improvement in profitability by improving the effective profit margin and reducing costs associated with factors such as software and underperforming subsidiaries, despite projecting an increase in costs related to hiring and training more personnel*. The operating margin is also forecast to improve to 3.8% (from 3.2% in FY12/19).

* 151 new employees are scheduled to be brought onboard Group-wide in April 2020. In addition, the Company plans to hire approximately 30 mid-career professionals in strategic fields. This hiring will result in an increase in costs of ¥400mn year on year.

FY12/20 forecast

(¥mn)

	FY12/19		FY12/20		Change	
	Results	Ratio	Plan	Ratio	Amount	Change rate
Net sales	65,229	-	65,000	-	-229	-0.4%
Video Advertising Business	43,860	67.2%	42,800	65.8%	-1,060	-2.4%
Solutions Business	8,145	12.5%	8,500	13.1%	355	4.4%
Overseas Business	3,378	5.2%	3,500	5.4%	122	3.6%
Advertisement-Related Business	9,846	15.1%	10,200	15.7%	354	3.6%
Operating income	2,118	3.2%	2,500	3.8%	382	18.0%
Ordinary income	1,763	2.7%	2,400	3.7%	637	36.1%
Profit attributable to owners of parent	-1,280	-2.0%	1,400	2.2%	2,680	-

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

2. Segment forecast and activity policy

(1) Video Advertising Business

Net sales in the Video Advertising Business are forecast to decrease by 2.4% YoY to ¥42,800mn. The main factors behind the lower sales forecast are the reorganization of unprofitable subsidiaries, as well as a continued projected decline in print sales (¥394mn). Turning to profits, the Company plans to strive for a substantial improvement in profitability mainly by improving the effective profit margin and reorganizing subsidiaries.

(2) Solutions Business

Net sales in the Solutions Business are forecast to increase 4.4% YoY to ¥8,500mn. The TYO Offering Management Business Unit is expected to deliver growth as orders for TV commercials, events and other projects continue to increase. Meanwhile, Quark tokyo (and Mediator) intend to focus on hiring and training personnel in order to expand their business offerings. As far as business performance is concerned, Quark tokyo (and Mediator) seem to position the current period as an upfront investment phase.

(3) Overseas Business

Net sales in the Overseas Business are forecast to increase 3.6% YoY to ¥3,500mn. Given that the reorganization of unprofitable subsidiaries and restructuring are largely complete, the Overseas Business intends to once again strengthen its businesses, including the establishment of new locations.

(4) Advertisement-Related Business

Net sales in the Advertisement-Related Business are forecast to increase by 3.6% YoY to ¥10,200mn. In this segment, event production, public relations and other operations are expected to continue performing favorably.

We at FISCO believe that the Company's forecasts are reasonable, judging by the Company's healthy order backlog* as of December 31, 2019, and anticipated performance variables at the beginning of FY12/20 (such as the impact of the reorganization of subsidiaries). That said, the impact of novel coronavirus, which was not included in the initial forecast, now warrants caution. In particular, event cancellations and other such decisions have been made in rapid succession in response to a heightened mood of self-restraint since March. For this reason, the impact of these factors will need to be watched carefully at quarterly earnings announcements and other key events. Meanwhile, improvement in the effective profit margin, growth in key fields, and progress on hiring and training personnel bear watching from a long-term perspective. Notably, personnel have become a direct driver of the Company's future growth potential. Therefore, it will be crucial to pay attention to priorities such as the number of mid-career professionals hired, as well as the quality of personnel and training plans after hiring.

* The order backlog as of December 31, 2019 was ¥14,606mn (+10.7% compared to December 31, 2018).

Growth strategy

Based on rapid changes in the environment, the Company is changing to a management with an emphasis on “quality over quantity” targeting sustainable growth

The Company disclosed new medium-term policies in March 2019 in order to address a variety of environment changes two years after the merger. A key difference with previous policy is the change to management with priority on “quality over quantity.” To ensure that it continues as a powerful group capable of responding to any era, the Company calls for development of businesses that meet needs and changes, full utilization of human resource capabilities, and continuation of healthy profits. Because of the switch from quantity to quality and rapid changes in the environment, the Company decided against using sales, profits, and other numerical goals as KPI. However, it still emphasizes sustainability and shareholder return and wants to generate ROE that exceeds COE*.

* AOI TYO Holdings estimates that the cost of shareholder equity is currently about 8%.

1. Direction of business initiatives

The Company wants to solidify an overwhelming position by deepening its production of high-quality video and movies for branding, its strength, along the lines of existing activities and bolster and "broaden" peripheral solutions (promotions and contents). In particular, for its mainstay video advertising, it hopes to secure market survivor profits as the No.1 firm in the TV commercial production market, the mainstay up to now, and acquire market share, mainly for higher-priced video, in the online video market that is growing substantially. Additionally, it outlines a strategy of optimizing video production and distribution (reach) by analyzing and utilizing data and recruiting related market opportunities (including events, public relations, influencer marketing, video distribution, etc.) by strengthening various functions and collaborating with other companies. In peripheral solutions, meanwhile, it aims to realize a high value-added business model by bolstering video as content (developing IP, etc.), strengthening event and PR business through M&A and capital alliances, and developing solutions that utilize video.

2. Human resources

The Company wants to cultivate numerous employees capable of proposing and realizing total communications and recruit professionals in a variety of communication methods. Measures for realizing these goals include hiring people with qualities needed to handle total communications, forming expert teams (total communication expert team, online video expert team, etc.), cultivating human resources through seconding and interaction (utilization of rotation/FA programs, seconding to group companies with different functions, etc.), and strengthening the educational system (classroom lectures and enhancement of on-the-job training for total communication projects).

3. Overseas Business

In fast-growing Asia (Southeast Asia, etc.), the Company intends to strengthen joint efforts through collaboration among multiple sites, rather than just relying on individual sites, and build a potent income structure based on unique "products" and rational capital composition (allocation of capital that reflects individual site profitability, including underperforming reorganization). As examples of "collaboration," it has already established an overseas strategy division, held an Asian meeting, and deployed infrastructure and communication tools. Although the Company recently made the move to reorganize the underperforming Beijing local subsidiaries, benefits appear to be gradually emerging in some areas. In development of unique products, it envisions a strategy of packaging IP assets and technology developed and obtained through alliances in Japan as solutions. The Company intends to look at deployment in areas outside of Asia as well.

While the Company currently faces negative impacts from external factors, such as advances in the printless shift and responses to work-style reform, we believe it has significant opportunities over the longer term from various structural changes (media diversification, technology advances, etc.). In particular, its business model based on production of high-quality videos, an important strength, and a strategy that leverages its overwhelming position constitute unique advantages. A key issue is finding ways to capture more of the overall market while bolstering peripheral solutions, such as promotions and contents. We think realization of high added value by leveraging new technology (VR contents, data utilization, etc.) is an important aspect too. The Company's approach to reinforcing its corporate structure to expand business fields, such as collaboration with external companies, including M&A deals, and recruitment of human resources with robust expertise, hence is likely to strongly influence future growth potential. We have high expectations for the Company's future business initiatives. With this in mind, we will be watching the Company closely to see how it accelerates various measures under its new management structure.

Shareholder returns

Aiming for a dividend payout ratio of at least 30%

The Company presented “a dividend payout ratio of at least 30%” as its dividend policy.

For the FY12/19 dividend, the Company paid a full-year dividend of ¥20 per share (¥8 interim, ¥12 period-end), a decline of ¥10 YoY, as initially planned. With regard to share buybacks, the Company purchased a total of 105,000 shares (the total value of shares purchased was approximately ¥79mn). For the FY12/20 dividend, the Company plans to pay a full-year dividend of ¥20 per share (¥8 interim, ¥12 period-end), the same amount as FY12/19. (The consolidated dividend payout ratio is forecast at 33.6%.)

Moreover, the Company plans to provide shareholder benefits to investors with 500 or more shares of AOI TYO Holdings, who are listed or registered on the shareholder register as of June 30, 2020. The shareholder benefits will be conferred according to the number of shares held. They will include original QUO cards and an original gift catalog, in addition to an AOI TYO Experience for Shareholders (a Group tour invitation). From 2021, the Company plans to switch to a shareholder benefit program for buy-and-hold shareholders only. Specifically, the eligibility for shareholder benefits will be changed to shareholders who have continuously owned at least 500 shares for at least one year, and are listed or registered on the shareholder register as of June 30 each year.

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