

# **AOI TYO Holdings**

Consolidated Financial Results  
for the Fiscal Year Ended December 31, 2018

March 4, 2019

AOI TYO Holdings Inc.

## Contents

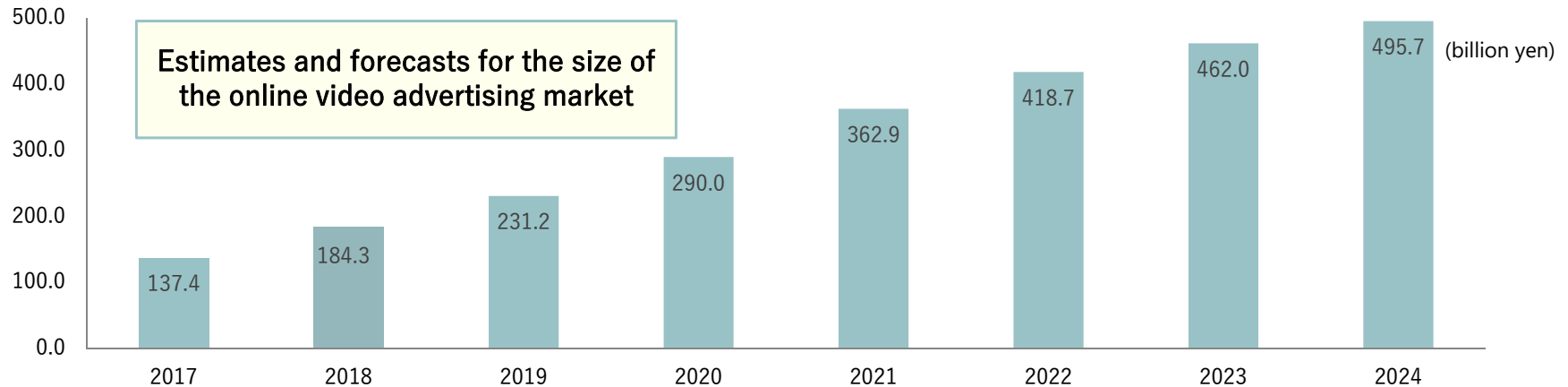
1. Business Environment
2. Medium-Term Policies
3. Summary of Consolidated Financial Results
4. Consolidated Earnings Forecast
5. Current Initiatives for Various Businesses
6. Appendix – Company Profile, Stock Information, etc.



# 1. Business Environment

# Business Environment (1): Expanding Online Video Advertising Market

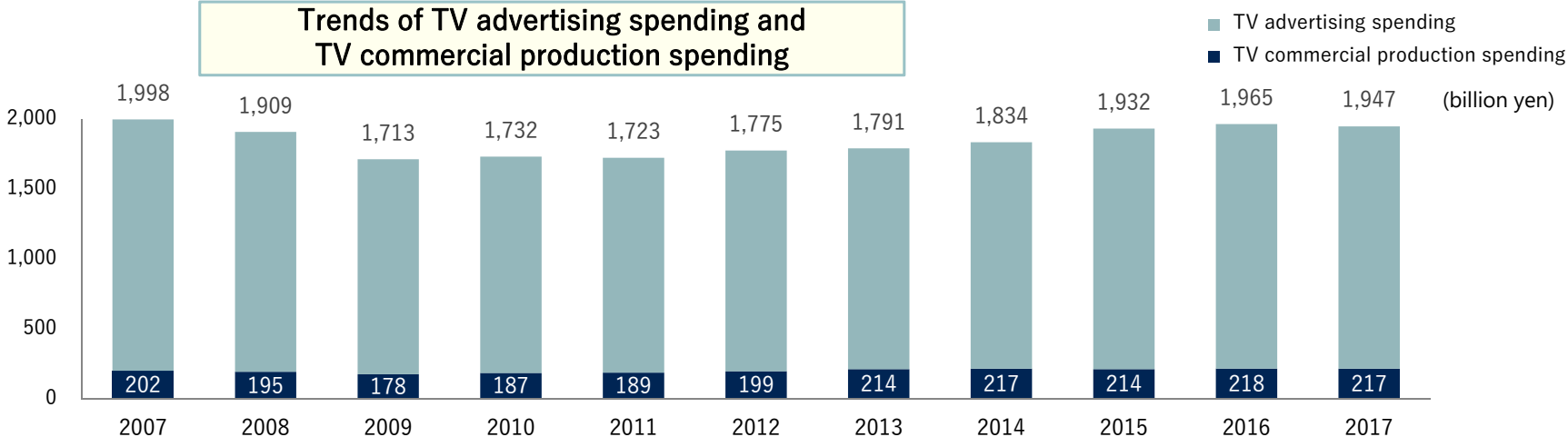
- The size of the online video Ad market was 184.3 billion yen in 2018 after growing 134% from the previous year.
- Expected to exceed 290 billion yen by 2020 and 495.7 billion yen by 2024.
- Healthy demand for brand video advertising among major advertising sponsors.
- Despite being an “every-person-a-camera-person” era in which anyone can make videos, very few videos are high-quality productions capable of generating profits.



Source: Online Video Research Institute, by CyberAgent, Inc., and Digital InFact, Inc.

# Business Environment (2): TV Commercial Production Spending

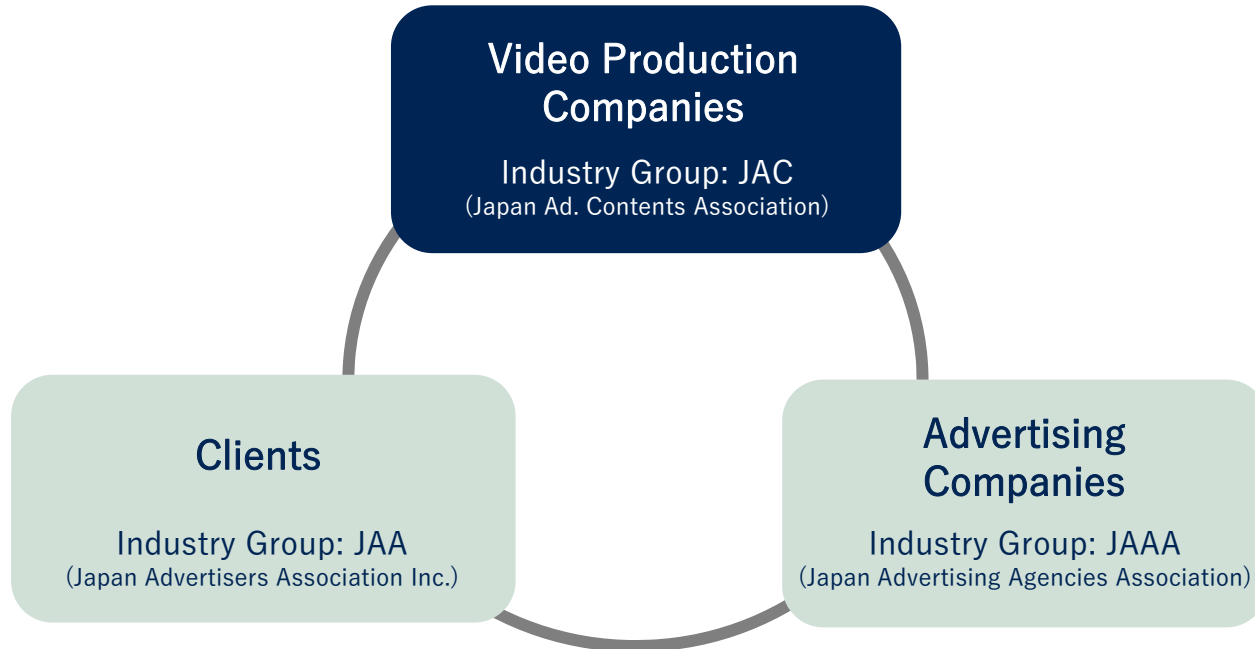
- Since 2009, TV advertising spending and TV commercial production spending have been level (or slightly lower).
- TV advertising spending amounted to 1,947 billion yen in 2017; TV commercial production spending were 217 billion yen.
- Despite growth in internet advertising spending, advertisers are reassessing the reach of TV.



Source: "Advertising Expenditures in Japan 2017," Dentsu Inc.

# Business Environment (3): Work-Style Reform

- Advertising industry groups have established forums for industry talks aimed at advancing new work styles and reducing excessive labor hours.





## 2. Medium-Term Policies

# AOI TYO Group Strengths

Assets

- Unique Assets: Our People
- Of 1,650 group employees, 1,400 are engaged in creative work
- These creatives have produced notable results:
  - ✓ No.1 share of the TV commercial production market
  - ✓ More than 2,000 commercials annually
  - ✓ More than 50 years of experience and expertise
  - ✓ High-quality video/image production leading to numerous awards \*Palme d'Or, ACC Grand Prix, and many more

Business Model

Make the most of the Strengths of Our People

Provide Video Content Solutions

Facilitate Communications Between Businesses and Consumers

This business model remains unchanged, now as ever



# Toward Quality Over Quantity

Our Past

## The Goals We Pursued in the Past

Grow through higher quantity  
of TV commercials  
(= vertical/siloed growth)



Growth = Expansion in Scale

Our Future

## The Goals We Will Pursue in the Future

Be a powerful corporate group capable of responding to any era

Make the most of the strengths  
of our people

Build core strength through exponential  
growth in **quality** and **volume** of **people**,  
rather than technology

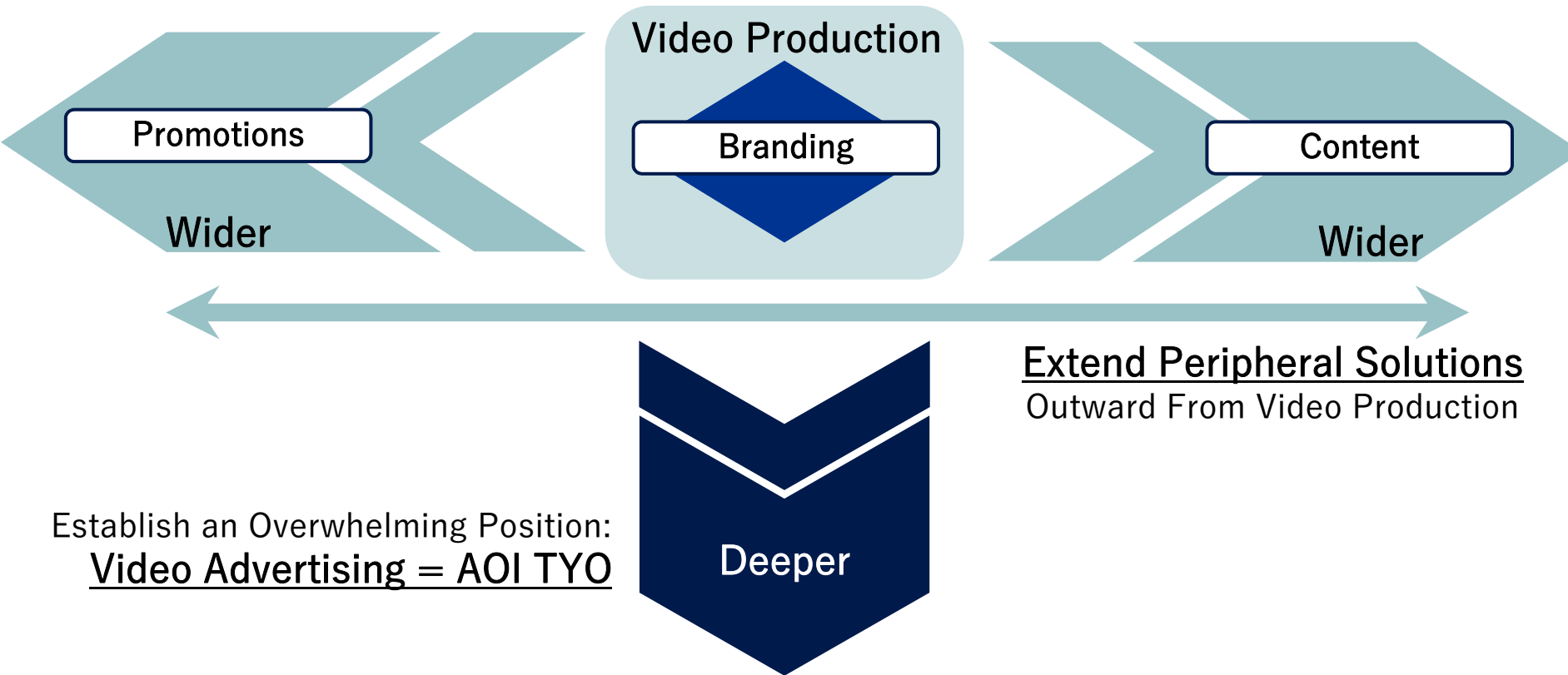
Develop businesses in response  
to needs and change

Dig **deeper** while expanding **wider**

Continue to deliver  
appropriate profits

**Results-oriented**, rather than  
goal-oriented, **stable profits**

# Dig Deeper, Expand Wider



Establish an Overwhelming Position:  
Video Advertising = AOI TYO

Extend Peripheral Solutions  
Outward From Video Production

# Dig Deeper: Capture Video Advertising Demand

Environmental Changes

Online Video  
+  
5G Networks

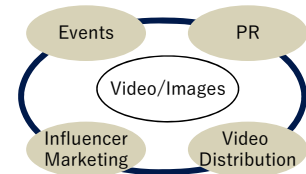
- ◆ Increase in demand for high production value video
- ◆ Expanding needs for video

Growing number of applications for video  
Rapidly rising demand for video creators

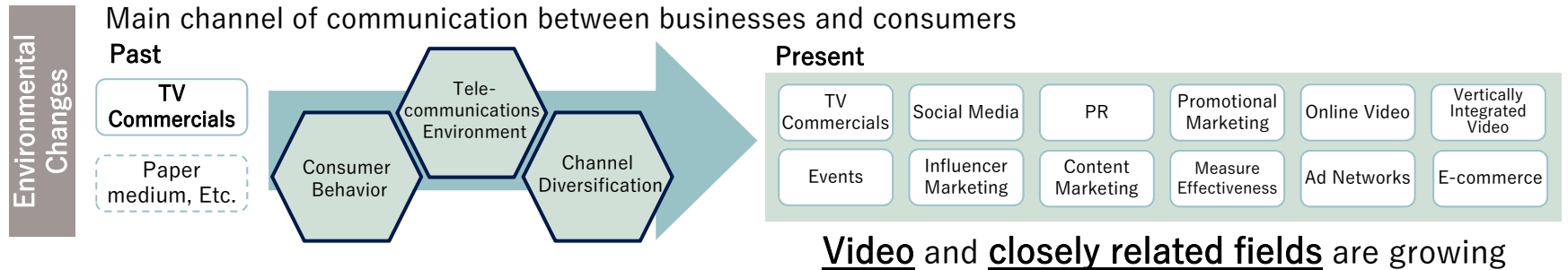
Response

## Establish an Overwhelming Position: Video Advertising = AOI TYO

- 1 Capture Demand for Branded Video Production
  - @TV commercial production industry:  
Capture benefits as the No.1 company among remaining players
  - @Online video market:  
Capture **high production value video segment**
- 2 Create + Deliver
  - Use data analysis to **create and deliver (distribute) = Optimal results**
- 3 Surround the Market
  - Win **all-inclusive orders** through effective functions and external collaborations



# Expand Wider: Provide More Peripheral Solutions



## Extend Peripheral Solutions Outward From Video Production

**Response**

**1** Video as More Effective Content

Continue to improve video planning and production capabilities  
⇒ Stronger video content business

**2** Capture External Resources

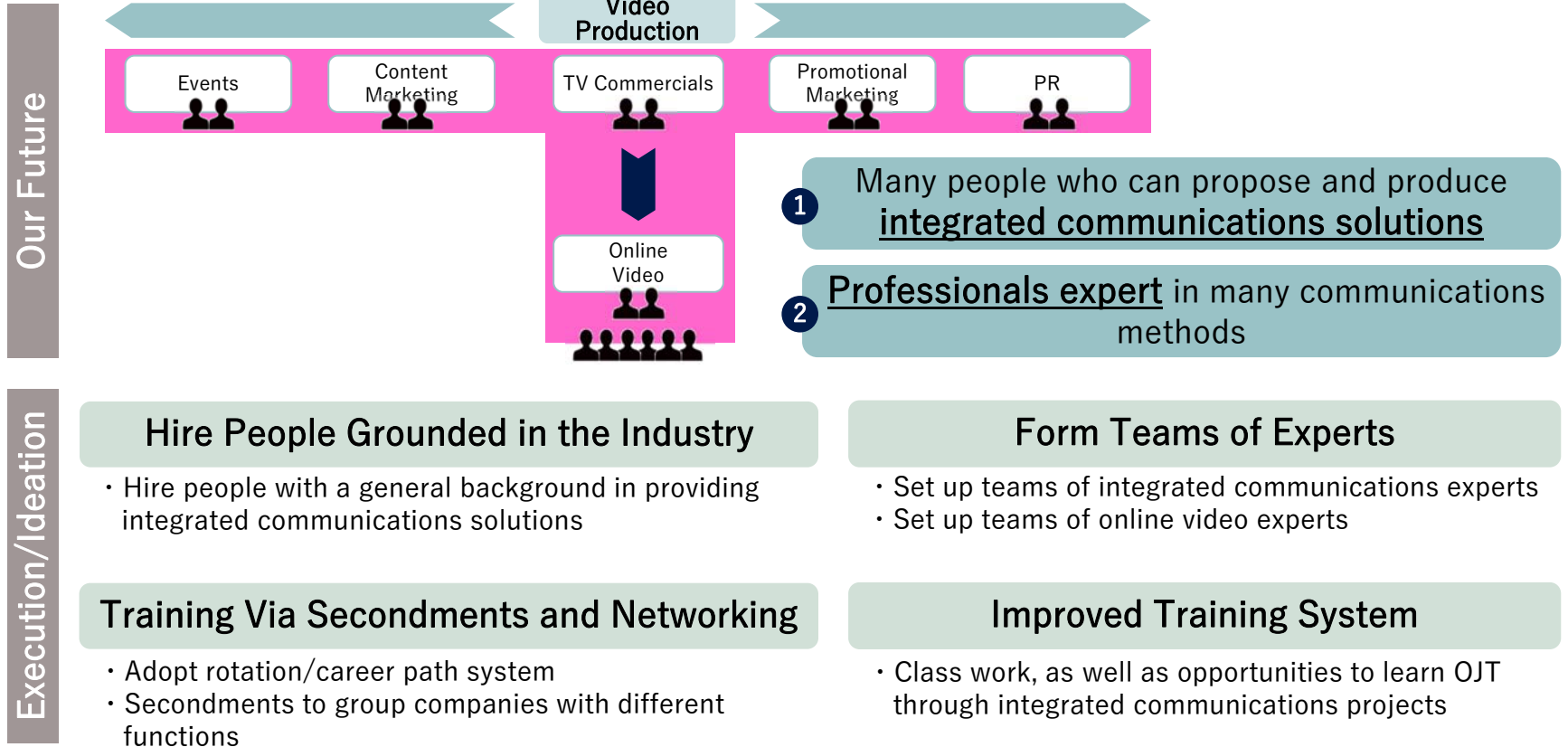
M&A and Equity Partnerships  
⇒ Build stronger capabilities in events, PR, etc.

**3** Diversify Business Model

Develop video-based solutions  
⇒ Create high-value-added business models  
(beyond ad production on a contract basis)

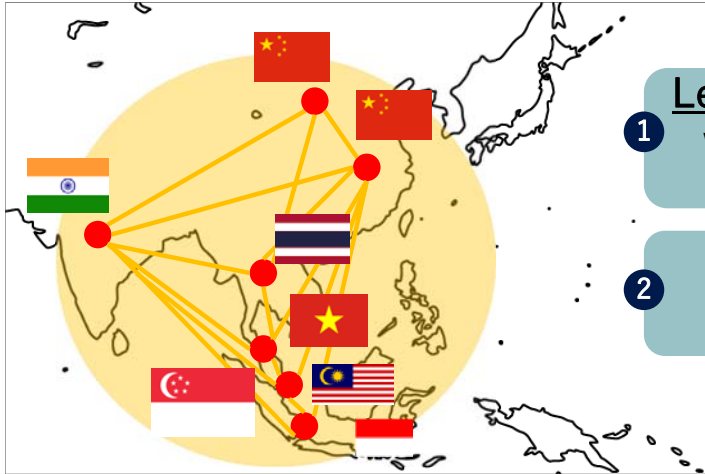


# Our People



# Overseas Growth

Our Future



1 **Leverage stronger coordination among locations** to work as an integrated whole, rather than individual points of contact

2 **Solid profit structure** based on unique products/services and a rational capital structure

\*Studying whether expansion other than Asia is feasible

Execution/Ideation

## Working as an Integrated Business

- New HD Overseas Strategy Div. launched July 2018
- Sponsored Asia Mtg.
- Adopted infrastructure/communications tools

## Develop Unique Products/Services

- Create packaged solutions from IP and technology developed/partnered in Japan

## Revise Capital Structure

- Increase/decrease capital depending on location profitability

# Our Future

## Toward Quality Over Quantity

To avoid the pursuit of quantity as a management target and considering the rapid changes in the business environment, we have decided against using sales/profit goals as KPIs in the future

Former FY2021 Goals

EBITDA	8.0 billion yen
ROE	12% or higher
DOE	Approx. 4%

Superseded

## Results-Oriented, Stable Profits

However, we will continue to emphasize sustainability and profit returns to shareholders, aiming to keep ROE above cost of shareholders' equity

## 3. Summary of Consolidated Financial Results



# Financial Highlights

- Net sales underperformed prior year due to (1) consistent profit management emphasizing profitability, (2) strict order acceptance associated with work-style reform, and (3) the trend toward printless delivery. At the same time, effective profit margin improved, limiting the negative impact on operating profit.

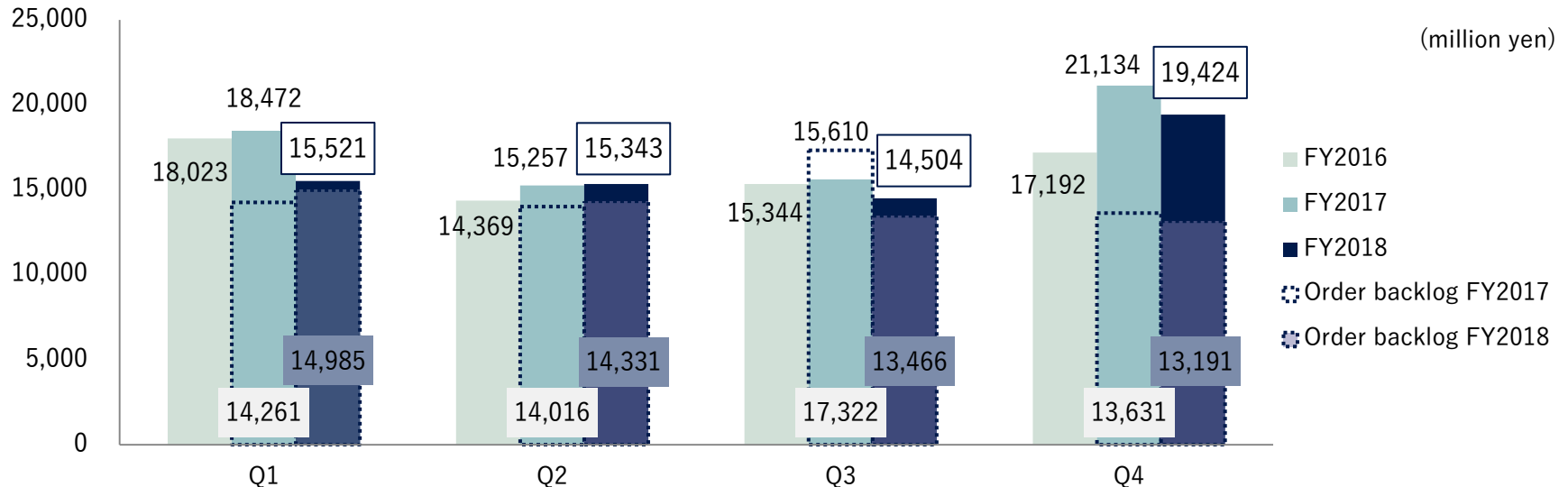
(million yen)	FY2016	FY2017	FY2018	YoY Change
Net Sales	64,928	70,473	64,792	- 5,681
Operating Income	3,422	4,619	3,433	- 1,186
Ordinary Income	2,963	4,394	3,325	- 1,068
Profit Attributable to Owners of Parent	1,095	2,781	1,952	- 829
EBITDA	4,389	5,755	4,777	- 978

\* Effective profit margin: (net sales - external expenditures)/net sales

\* The results for 2016 are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc. for the calendar years (based on pro forma statements for the end of the fiscal year ending December 31).

# Trend of Net Sales by Quarter and Order Backlog

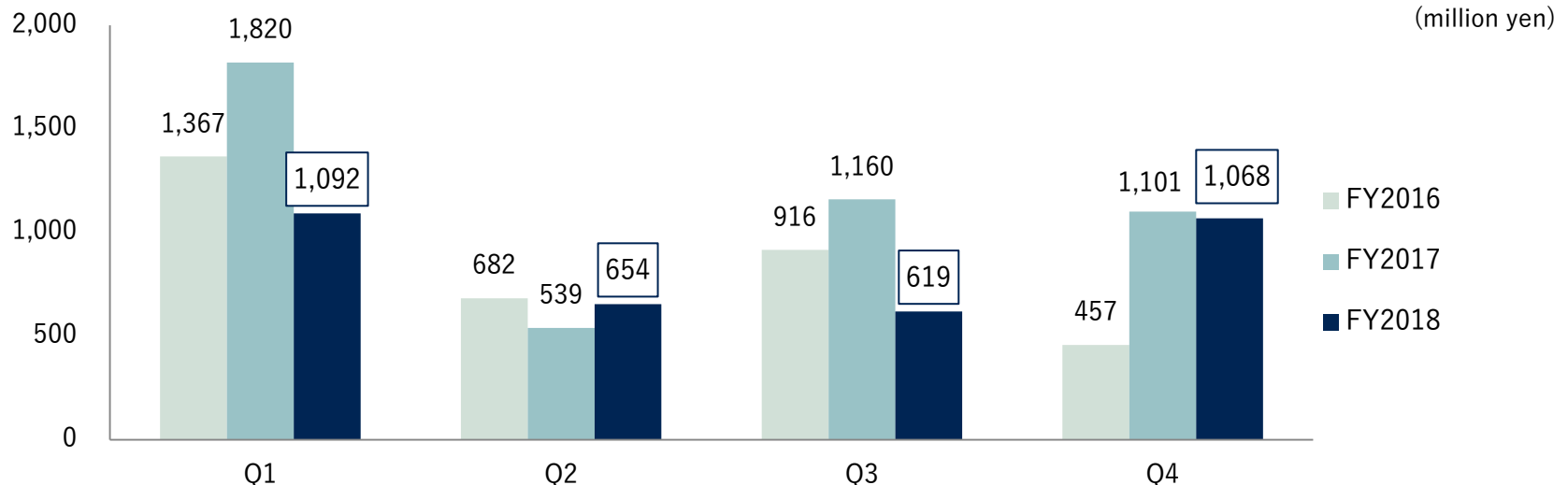
- Q4 in the prior year included sales from a major movie production. Eliminating this factor, sales in Q2 and later were nearly level.
- Order backlog as of the end of period amounted to 13,191 million yen (3.2% lower year on year).



\* The results for 2016 are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc. for the calendar years (based on pro forma statements for the end of the fiscal year ending December 31).

# Trends of Operating Income by Quarter

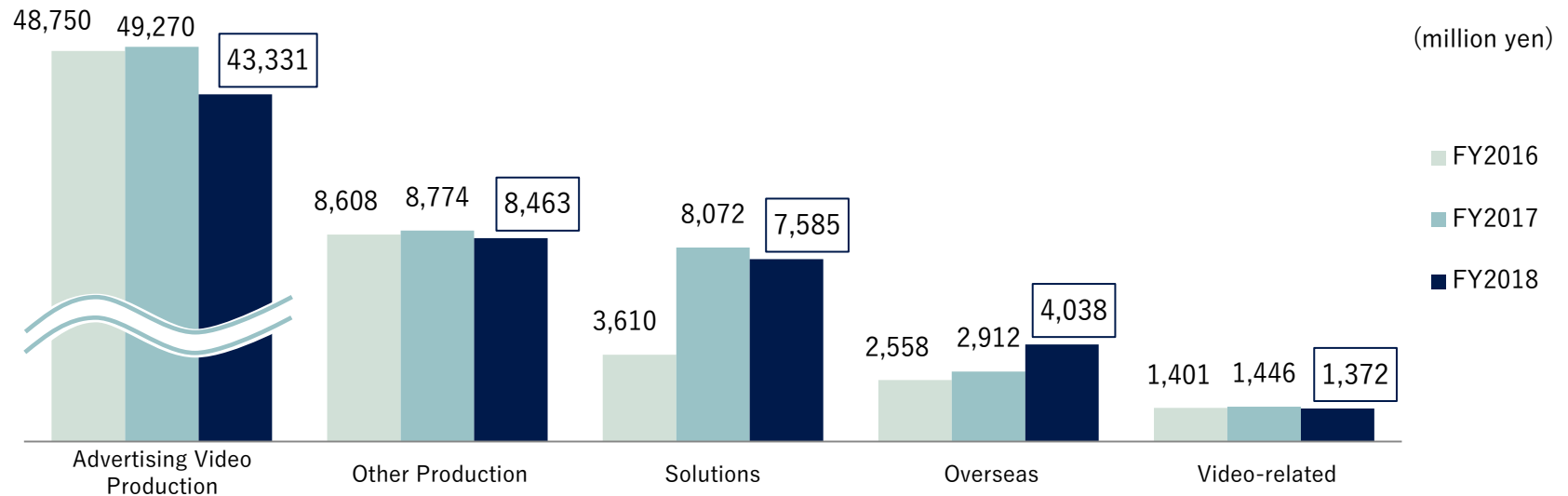
- Q4 operating income was nearly level with the prior year. Launch of new systems resulted in rising costs, while lower performance in high-margin print sales served as another negative factor. At the same time, effective profit margin improvements and dividend revenue from movie investments and production offset these negative factors.



\* The results for 2016 are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc. for the calendar years (based on pro forma statements for the end of the fiscal year ending December 31).

# Net Sales by Business Segment

- Advertising Video Production Business sales were lower due to strict control over order acceptances and the shift toward printless delivery.
- Overseas Business sales rose, mainly due to the addition of a newly consolidated advertising production subsidiary in Malaysia.





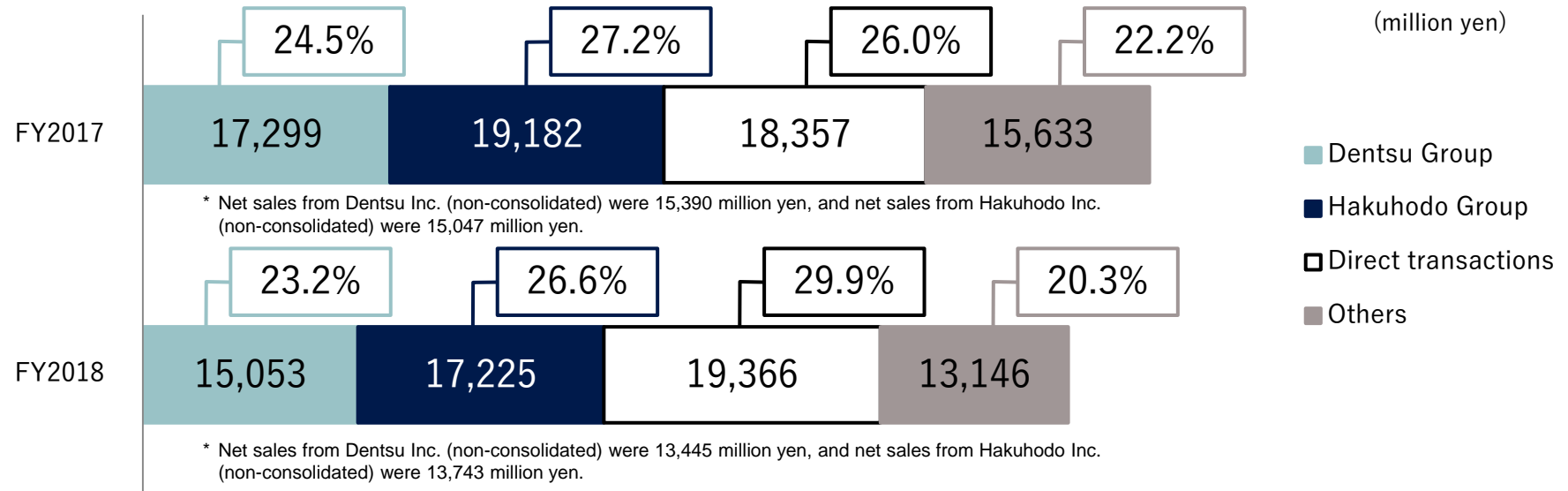
# Overview of Business Segments

Business	Overview
Advertising Video Production	Planning and production of advertising videos such as television commercials. The core business of AOI Pro. and TYO, whose merger resulted in the largest share in the industry of the business.
Other Production	Production of materials other than advertising videos, which includes the planning and production of movies, TV dramas, events, digital contents production and promotional materials.
Solutions	Delivers solutions that solve customer issues. Services include direct engagement with advertisers and one-stop online video advertising solutions (planning, production, media distribution, data analysis). Experience design and marketing support based on vital sign data collected during VR experiences.
Overseas	Offices in China and Southeast Asia working to grow business with Japan-based and local companies. Promoting M&As in this segment.
Video-related	Projects other than advertising, including the operation of photo studios and the production of music videos.

\* The Advertising Business Segment includes Advertising Video Production, Other Production, Solutions, and Overseas Business.  
The Video-related Business Segment includes Video-related Businesses.

# Net Sales by Customer

- Sales to advertising agencies declined.
- Sales from direct business with advertisers rose with video production, event, PR, and other services.



# Net Sales by Medium

(million yen)

Medium	FY2017	Component Ratio	FY2018	Component Ratio	YoY Change
TV commercial production	44,119	63.2%	38,632	58.9%	- 5,487
Original work	38,360	54.2%	32,458	49.5%	- 5,902
Printed commercial materials	2,745	3.9%	1,914	2.9%	- 831
Other	3,014	4.3%	4,260	6.5%	1,246
Entertainment contents	3,865	5.5%	3,083	4.7%	- 782
Digital contents	11,312	16.0%	10,293	15.7%	- 1,019
Overseas	2,801	4.0%	4,242	6.5%	1,441
Other	8,727	12.3%	9,302	14.2%	575
Total	70,825	100.0%	65,552	100.0%	- 5,273

\* The results are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc.

# Summary of Consolidated Balance Sheet

(million yen)	FY2017	FY2018	Major Components
Current Assets	41,503	36,307	Cash and deposits (-2,737); notes and accounts receivable (-1,082); electronically recorded monetary claims (-1,934); work in process (+626)
Non-current Assets	18,234	19,327	Property, plant, and equipment (-444); intangible assets (+503); investments and other assets (+1,033)
Total Assets	59,737	55,634	
Current Liabilities	25,275	20,114	Accounts payable (+785); short-term loans payable (-4,666)
Non-current Liabilities	8,756	9,840	Long-term loans payable (+1,084)
Total Liabilities	34,031	29,954	
Total Net Assets (percentage of total assets)	25,706 (43.0%)	25,679 (46.2%)	Retained earnings (+1,231); treasury stock (-478)
Total Liabilities and Net Assets	59,737	55,634	

# Consolidated Statement of Cash Flow

(million yen)	FY2018	Major Components
Net cash provided by (used in) operating activities	5,379	Profit before income taxes (3,483); depreciation and amortization (1,012); decrease (increase) in notes and accounts receivable (3,123)
Net cash provided by (used in) investing activities	- 2,060	Acquisition of PPE (-1,354); Sale of PPE (1,328); Acquisition of intangible assets (-676); Acquisition of investment securities (-681)
Net cash provided by (used in) financing activities	- 5,862	Change in short-term loans payable (-4,701); Proceeds from long-term loans payable (3,643) Repayment of long-term loans payable (-2,708)
Cash and cash equivalents at beginning of period	12,372	
Cash and cash equivalents at end of period	9,790	

## 4. Consolidated Earnings Forecast



# Consolidated Earnings Forecast

- Stricter order acceptance for work-style reform, the ongoing shift to printless delivery, and up-front investments in training and hiring costs for future growth will have a negative impact on operating income. In light of these and other factors, we project operating income for FY2019 to be lower compared to FY2018.

(million yen)	FY2018	FY2019 Forecast	YoY Change
Net Sales	64,792	65,000	+ 207
Operating Income	3,433	2,600	- 833
Ordinary Income	3,325	2,500	- 825
Profit Attributable to Owners of Parent	1,952	1,300	- 652
EBITDA	4,777	4,060	- 717

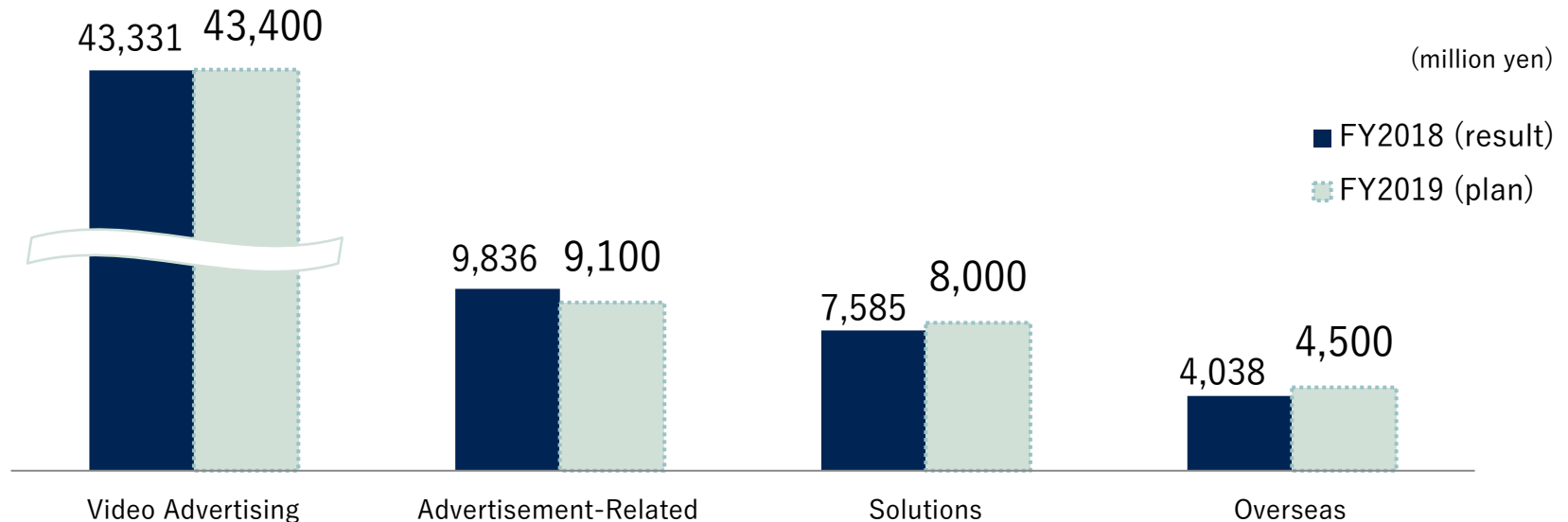
# Revised Business Classifications

- We have revised our business classifications in line with our new medium-term policies.

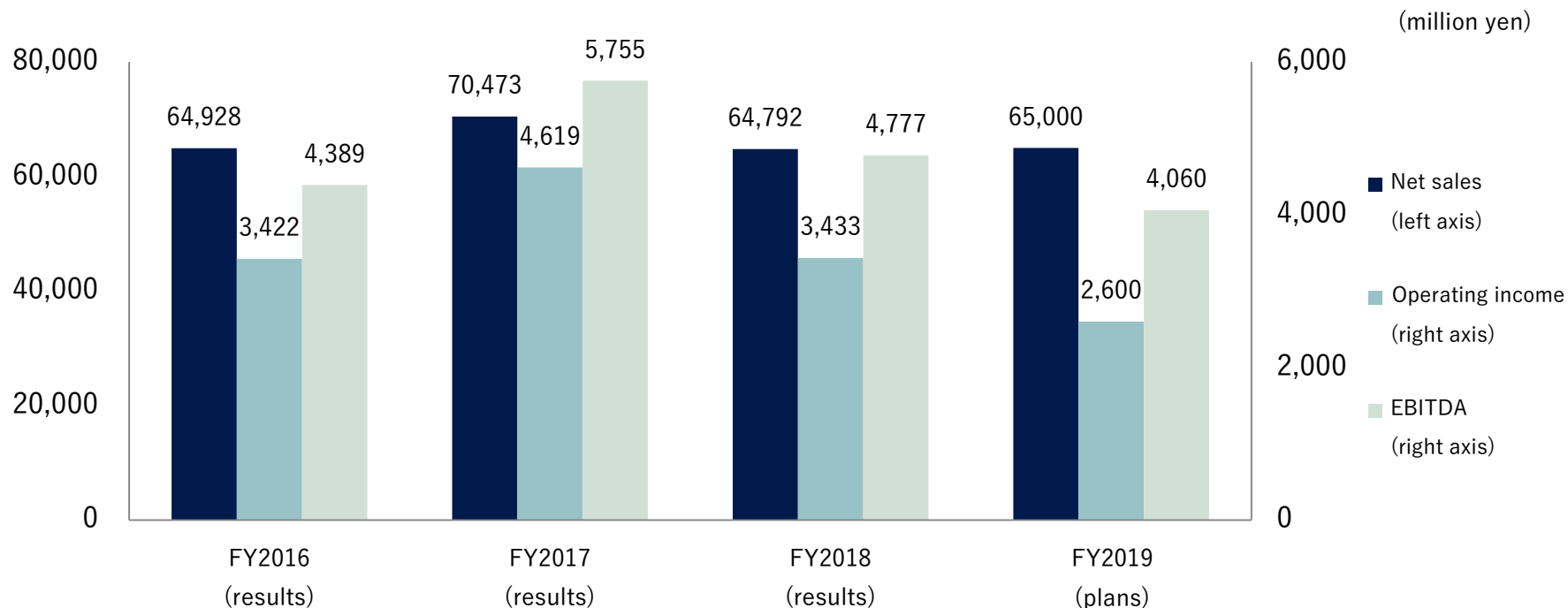
Prior		New	Overview	
Advertising Video Production	→	Video Advertising	Planning and production of TV commercials, online video, and other video advertising	
Other Production	→	Advertisement-Related	Planning and production of movies, TV dramas, and events; production of digital content, promotional content, and music videos	
Solutions		Solutions	Solutions that answer customer issues (direct business with advertisers, video content marketing, etc.)	
Overseas		Overseas	Business in Southeast Asia and other locations overseas; video production orders received from overseas	
Video-related				

# Net Sales Plan by Business Segment

- Strict order acceptance associated with work-style reform and other factors have resulted in sales plans essentially level with prior year.



# Net Sales, Operating Income, and EBITDA Trends



\* The results for 2016 are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc. for the calendar years (based on pro forma statements for the end of the fiscal year ending December 31).

# Dividends

Policy: 30%-plus consolidated payout ratio

## ■ FY2018

- Scheduled at 30 yen per share, as forecast
- Total of 531 million yen in share buybacks ⇒ Total return ratio of 64.5%

## ■ FY2019

- Forecast dividend of 20 yen per share
- Up to 600 million yen in share buybacks scheduled ⇒ Total return ratio of 83.0% (projected)

	End of Q2	End of FY	Total	Dividend Payout Ratio
FY2018 (plan)	8 yen	22 yen	30 yen	36.4%
FY2019 (forecast)	8 yen	12 yen	30 yen	36.4%

# Purchase of treasury shares

- AOI TYO Holdings made the following decisions concerning the purchase of treasury shares.

	Period of Purchase	Type of Shares	Total Number of Shares Purchased	Total Value of Shares purchased
FY2017	May 16, 2017 - Feb. 27, 2018	Common Stock	261,400 shares	289 million yen
FY2018	Jun. 1, 2018 – Jun. 7, 2018	Common Stock	400,000 shares	531 million yen
FY2019 (plan)	Mar. 1, 2019 – Feb. 29, 2020	Common Stock	500,000 shares (maximum)	600 million yen (maximum)



# Shareholder Benefit Program

- The following shareholder benefits are provided to investors with 500 or more shares of AOI TYO Holdings, who are listed on the share register as of June 30, 2019.

## Shareholder Gifts

500 shares or more	Original Quo Card	3,000 yen
1,000 shares or more	Original Quo Card	5,000 yen
2,000 shares or more	Original Catalog	value of 10,000 yen

\*Original catalog allows shareholders to choose from original products, Quo Cards, or charitable donations

## Animation Studio Tour

500 shares or more (randomly selected from those who enter the draw)

Studio tour of AOI TYO Group character development and stop-motion animation division TYO/dwarf

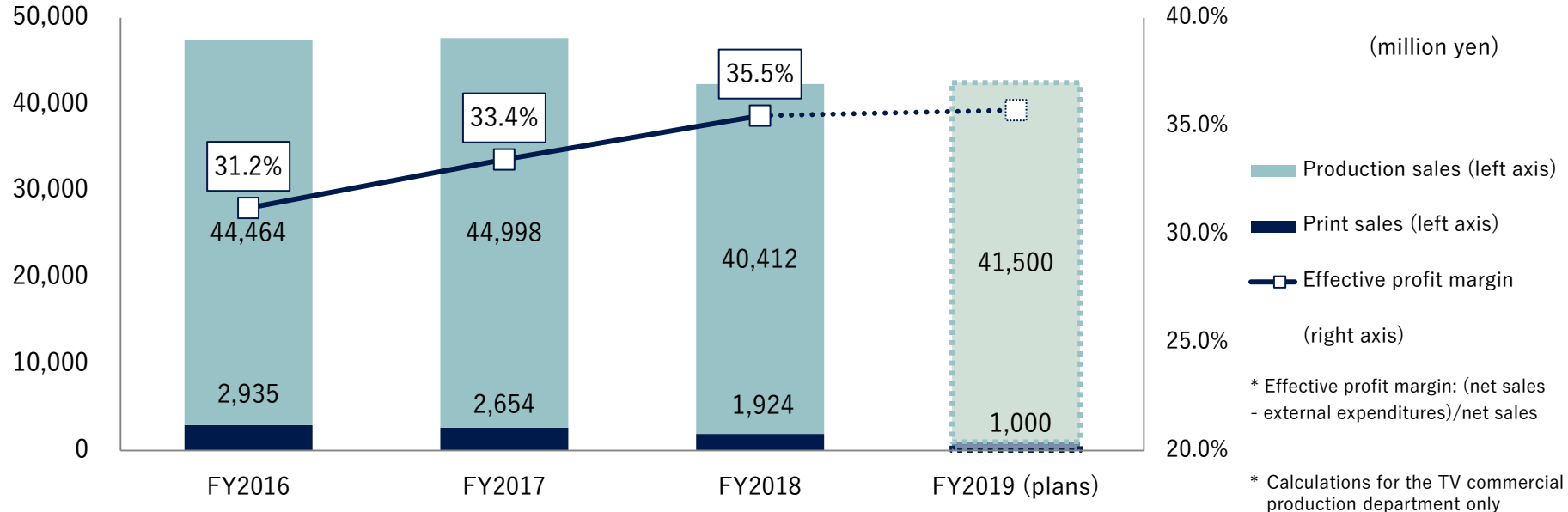


©NHK・TYO

## 5. Current Initiatives for Various Businesses

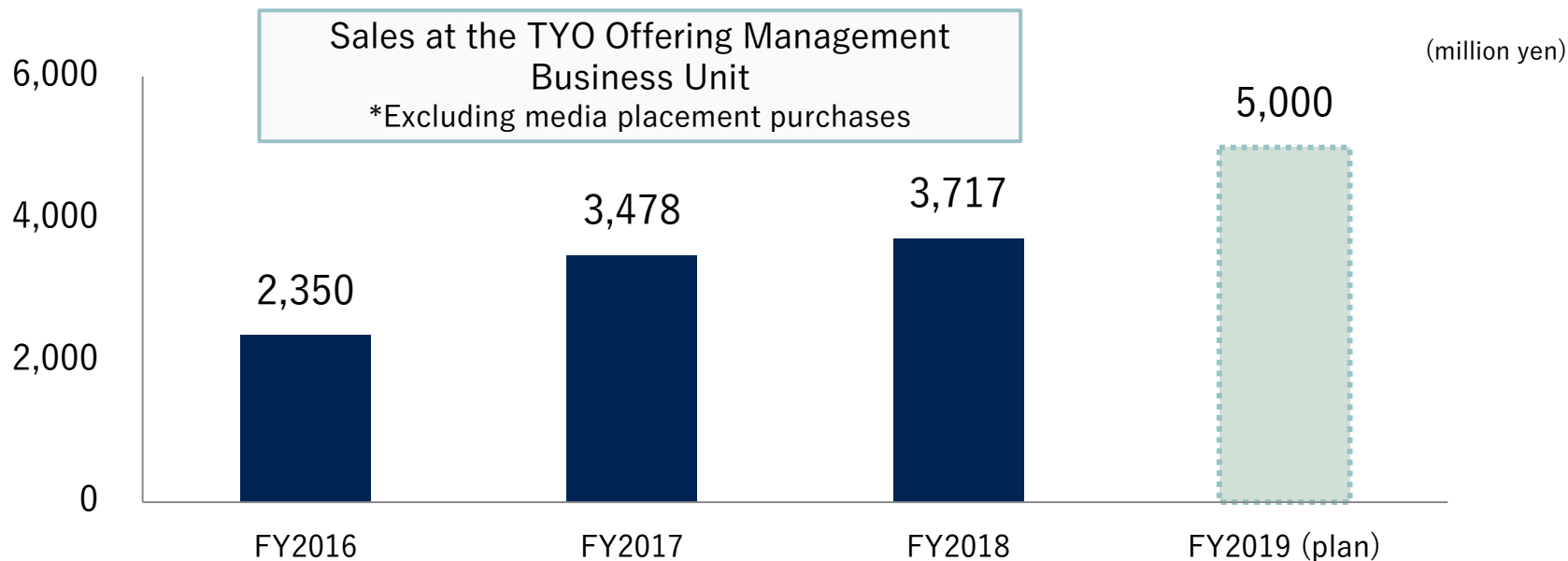
# Initiatives in the Video Advertising Business

- Shift toward printless delivery resulted in lower print sales for FY2018; however, effective profit margin continued to improve, mainly due to careful and consistent external expenditure management.



# Initiatives in the Solutions Business (1)

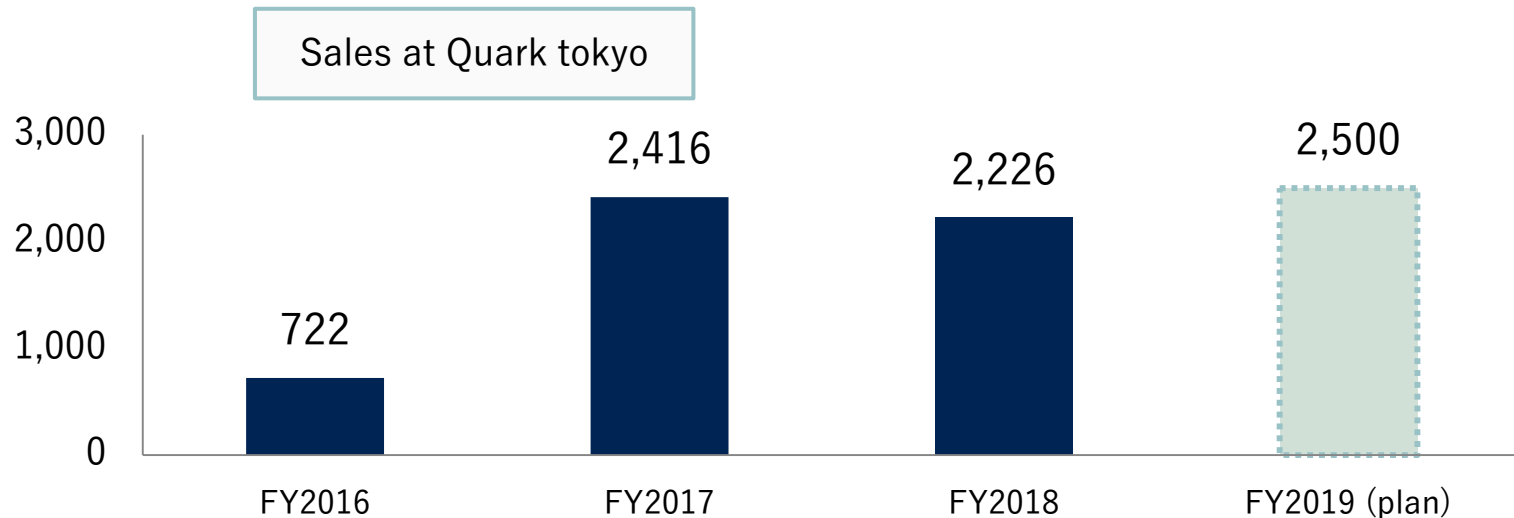
- Beyond winning new TV commercial work from startup companies, we will expand orders from national clients to include digital content, event production and management, and PR, growing FY2019 orders.



# Initiatives in the Solutions Business (2)

- Quark tokyo recorded higher video advertising production revenues in FY2018. Sales were lower overall, however, mainly due to a major planning and consulting project in the prior fiscal year.
- In FY2019, we will work to grow packaged sales (content production and distribution) and cross-sales, mainly in marketing to the younger consumer segment.

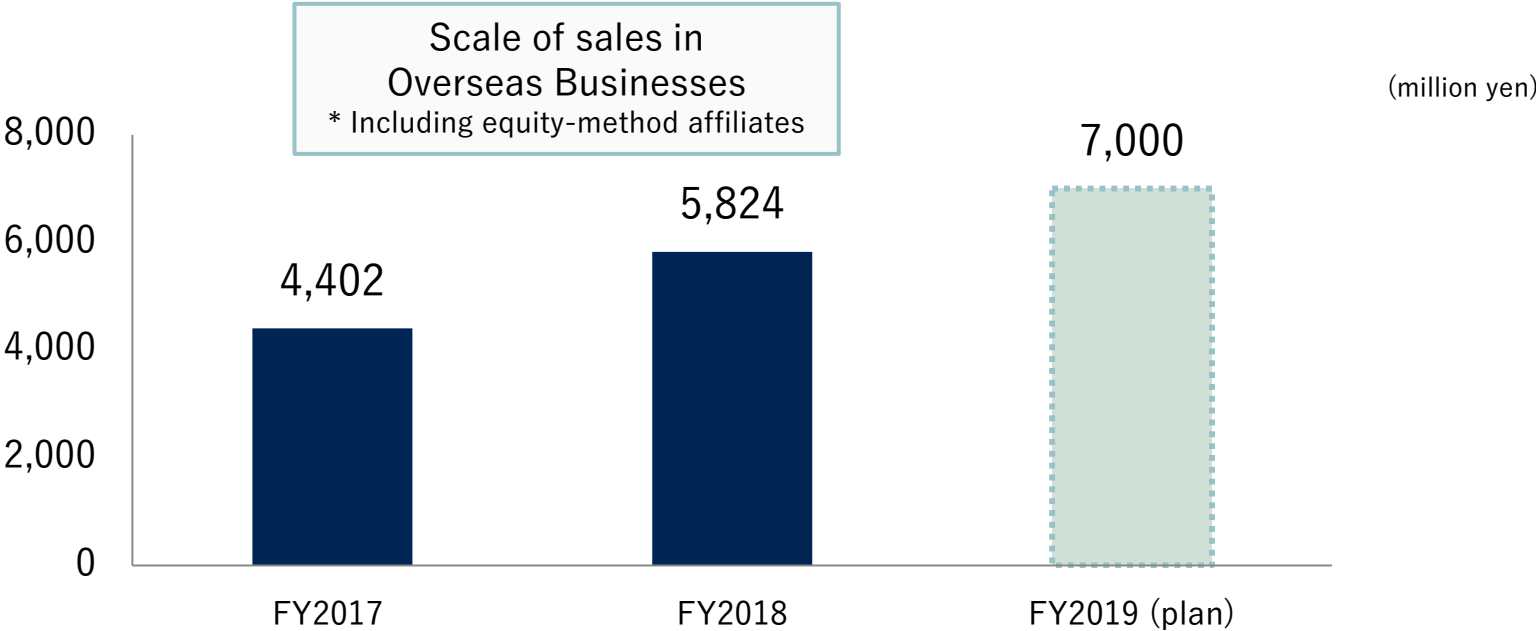
(million yen)



# Initiatives in the Overseas Business

- The scope of FY2018 sales increased due to the addition of DTT Group companies (Malaysia) as subsidiaries.

※ DTT : DIRECTORS THINK TANK





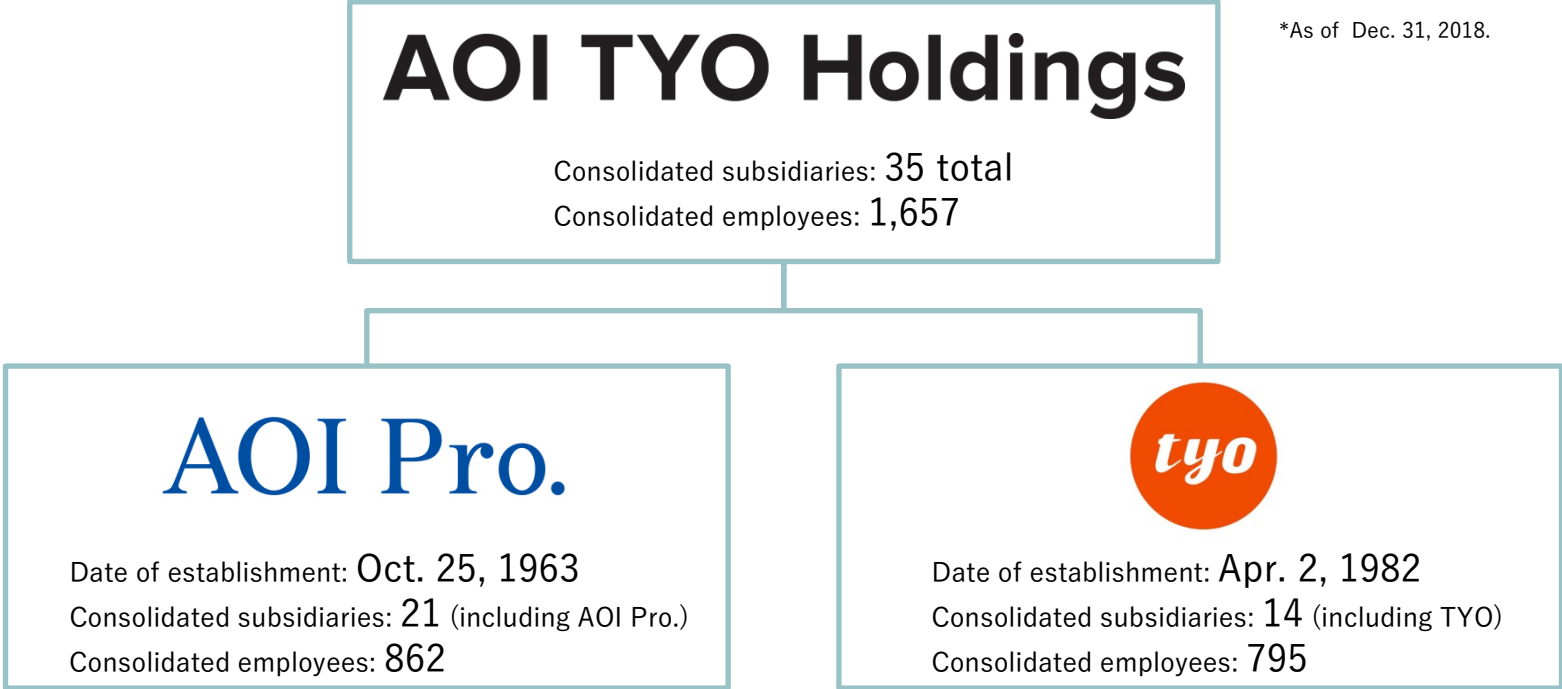
## 6. Appendix – Company Profile, Stock Information, etc.

# Company Profile

Company Name	AOI TYO Holdings Inc.
Representatives	Hiroaki Yoshida, Representative Director, Chairman & CEO Yasuhito Nakae, Representative Director, President & COO
Establishment	January 4, 2017
Capital	5.0 billion yen
Fiscal Year-end	December 31
Location of Head Office	1-5-1 Osaki, Shinagawa-ku, Tokyo 141-8580, Japan +81 3-6893-5005 (main)
Securities Code	3975 First Section of the Tokyo Stock Exchange
URL	<a href="http://aoityo.com/en/">http://aoityo.com/en/</a>

# Founding of AOI TYO Holdings

- Founded in January 2017, following the management integration of AOI Pro. and TYO.



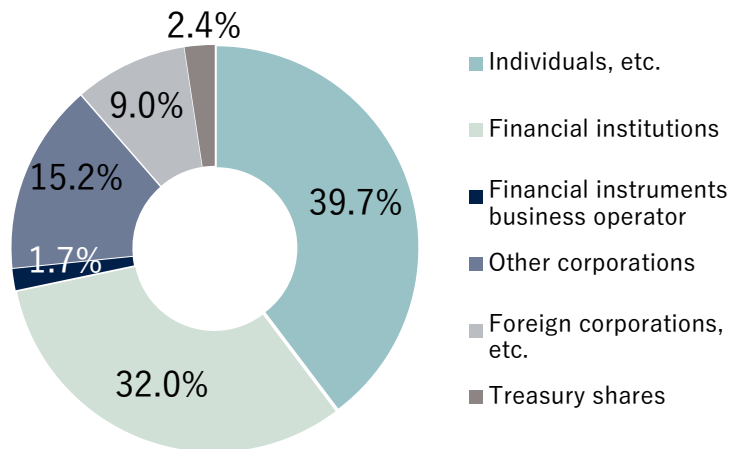
# Status of Stock and Shareholders (as of Dec. 31, 2018)

## Number of Shares and Shareholders

Total number of shares issued	24,566,447
-------------------------------	------------

Total number of shareholders	11,011
------------------------------	--------

## Shareholder Composition by Type of Shareholder



## Status of Large Shareholders

	Shareholder Name	Number of Shares Held	Shareholding Ratio
1	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,956,500	8.16%
2	Japan Trustee Services Bank, Ltd. (Trust Account)	1,890,200	7.88%
3	Cosmo Channel	1,153,740	4.81%
4	IMAGICA GROUP Inc.	1,018,000	4.25%
5	Japan Trustee Services Bank, Ltd. (Trust Account 9)	558,200	2.33%
6	Fields Corporation	479,660	2.00%
7	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	475,300	1.98%
8	Trust & Custody Services Bank, Ltd. (Trust Account E)	418,900	1.75%
9	Japan Trustee Services Bank, Ltd. (Trust Account 5)	418,000	1.74%
10	Hitoshi Hara	400,000	1.67%

\* The shareholding ratios are calculated by subtracting treasury shares (594,257).



## Disclaimer

This document includes future forecasts that reflect the plans and outlook of AOI TYO Holdings.

The future forecasts and related descriptions are based on information available to the company at the time of the preparation of this document, and the forecasts are affected by the economic environment of the company's businesses, competition, the results of new services provided, and other factors that involve uncertainties. Please acknowledge, therefore, that the actual business results may deviate significantly from the forecasts and related information provided in this document.

In addition, the company does not have any obligation to update and publish the information concerning future forecasts in this document after its publication.

Please contact the following for any questions:  
Financial Planning & IR Department (+81 3-3779-8415)