

# **AOI TYO Holdings**

Consolidated Financial Results for the First Quarter  
of the Fiscal Year Ending December 31, 2018

May 2018

AOI TYO Holdings Inc.

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# 1. Summary of Consolidated Financial Results

# Financial Highlights

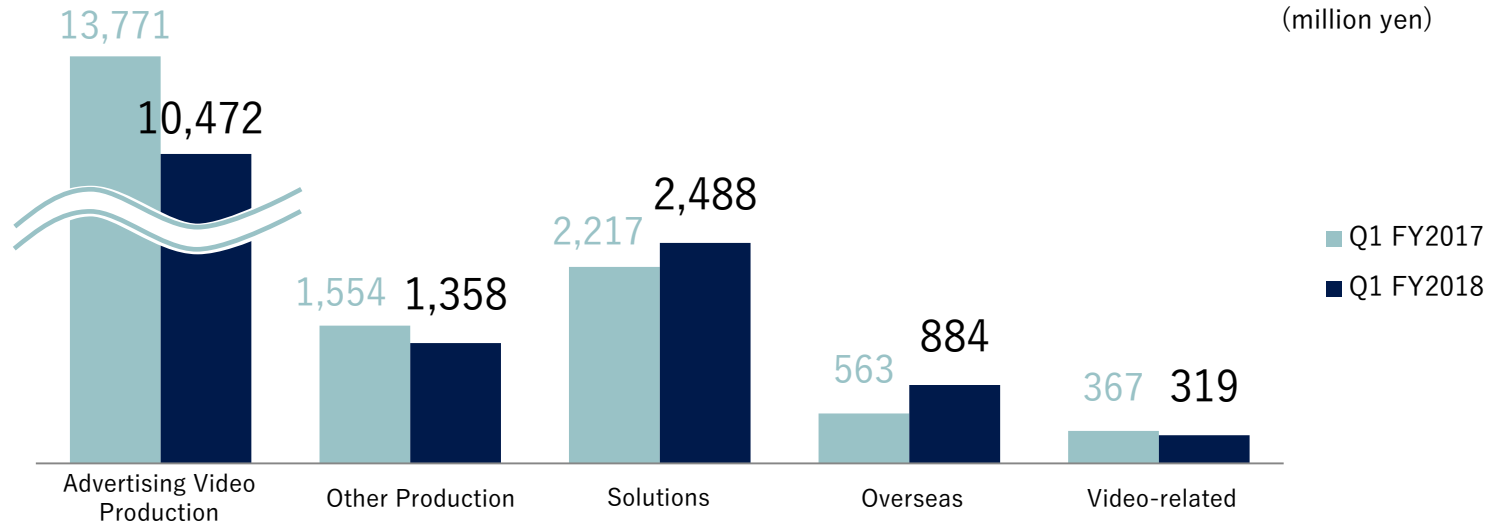
- Both sales and income decreased year on year.
- Extraordinary income of 385 million yen recognized due to the sale of TYO head office (Shinagawa-Ku, Meguro).

(million yen)	Q1 FY2016	Q1 FY2017	Q1 FY2018	YoY Change
Net Sales	18,023	18,472	15,521	-16.0%
Operating Income	1,367	1,820	1,092	-40.0%
Ordinary Income	1,169	1,776	1,031	-41.9%
Profit Attributable to Owners of Parent	498	1,016	842	-17.0%
EBITDA	1,635	2,094	1,406	-32.8%

\* 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

- Net sales in the Advertising Video Production Business decreased, largely as results of the close inspection and selection of orders based on a profitability-oriented operation, order controls for promoting work-style reforms, and a decline in printing of television commercial materials.
- Net sales increased in the Solution Business and Overseas Business, both positioned as strategic areas.



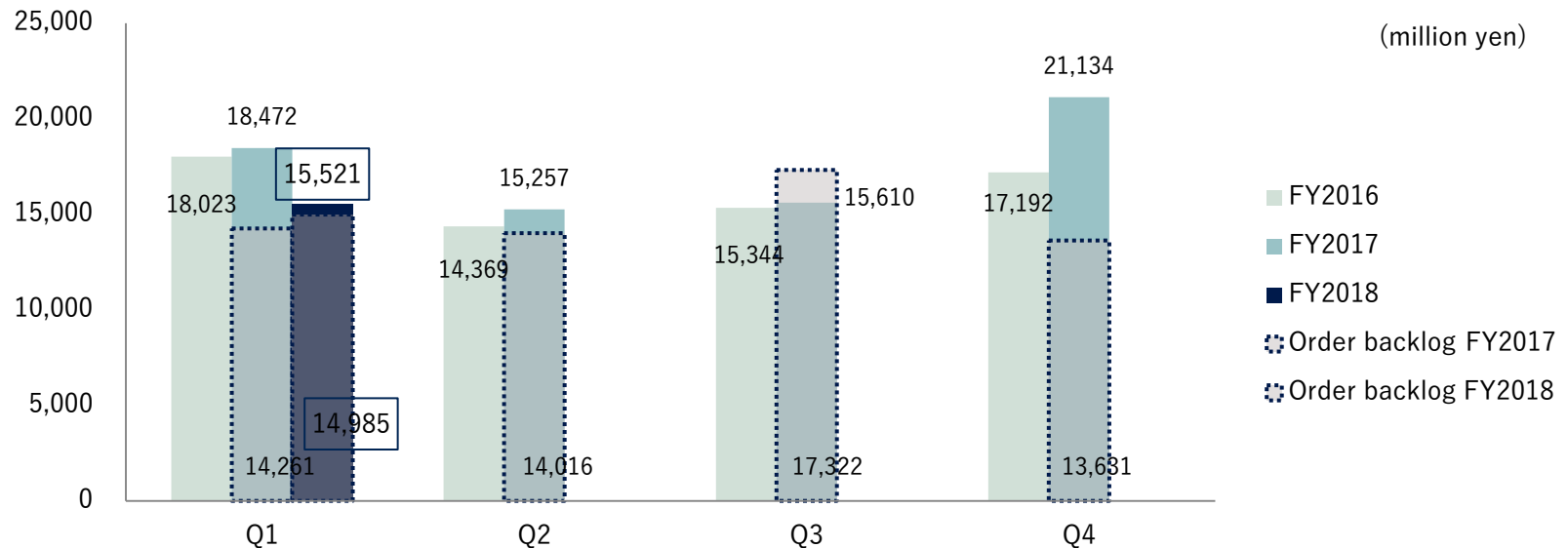
# Overview of Business Segments

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, website production and promotional materials.
Solutions	Delivery of measures to solve customer issues, which includes direct business with advertisers, marketing and communication focused on videos, and experience design solutions using data. Positioned as a strategic area and focusing efforts.
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.

# Trend of Net Sales by Quarter and Order Backlog

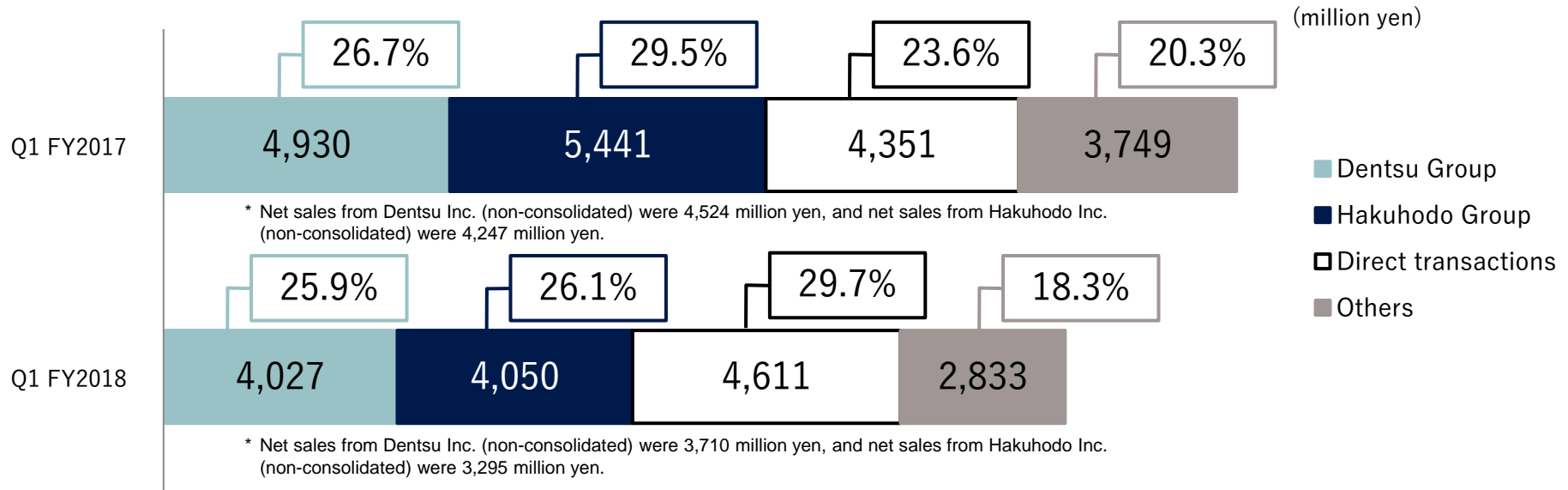
- The backlog of orders increased 5.1% year on year, to 14,985 million yen, due partly to carryover of some of the orders to the following quarter. The order situation has been steady.



\* 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 Customer

- The Solution Business continued to show strong performance and direct transactions with advertisers increased, while decrease in sales to advertising agencies, due primarily to the selection of orders in the Advertising Video Production Business.





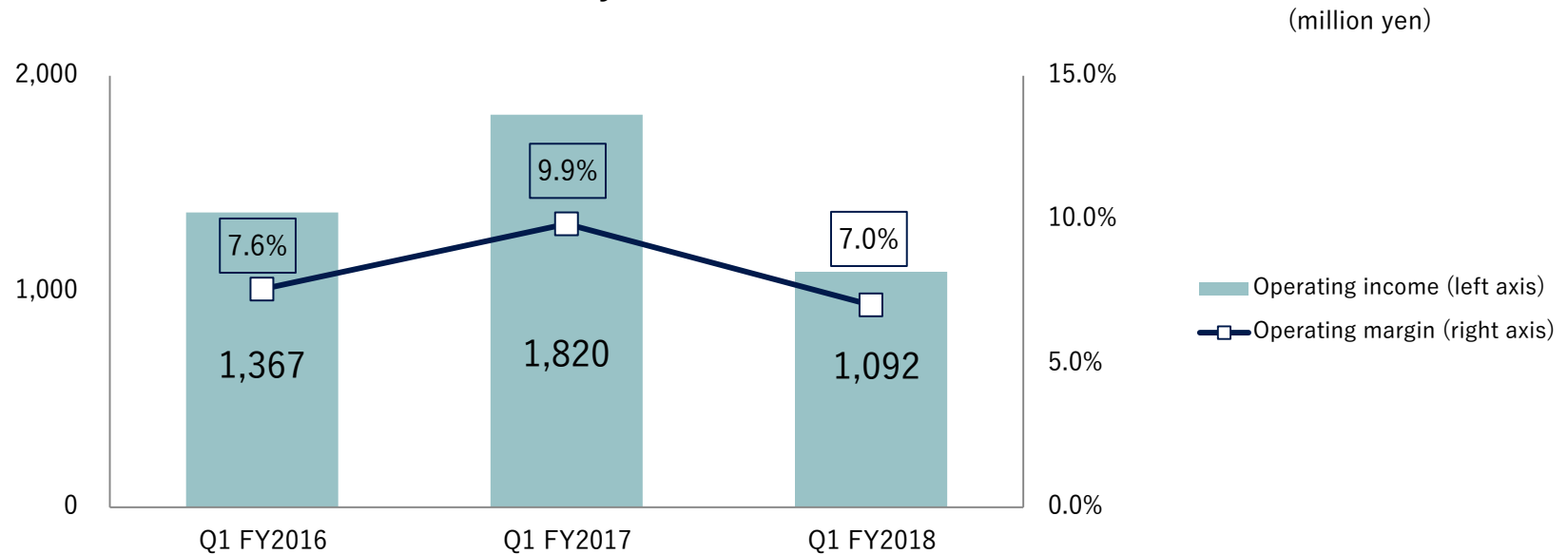
# Net Sales by Medium

Medium	Q1 FY2017	(million yen)		
		Q1 FY2018	Component Ratio	YoY Change
TV commercial production	12,030	9,708	61.9%	-2,322
Original work	10,474	8,485	54.1%	-1,989
Printed commercial materials	673	531	3.4%	-143
Other	883	692	4.4%	-190
Entertainment contents	496	265	1.7%	-231
Digital contents	3,443	2,872	18.3%	-571
Overseas	318	627	4.0%	310
Other	2,235	2,200	14.0%	-35
Total	18,524	15,673	100.0%	-2,850

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

# Trends of Operating Income and Operating Margin

- Operating profit fell year on year owing chiefly to a decline in net sales and advance expenses that arose in connection with actions such as the establishment of a new subsidiary.



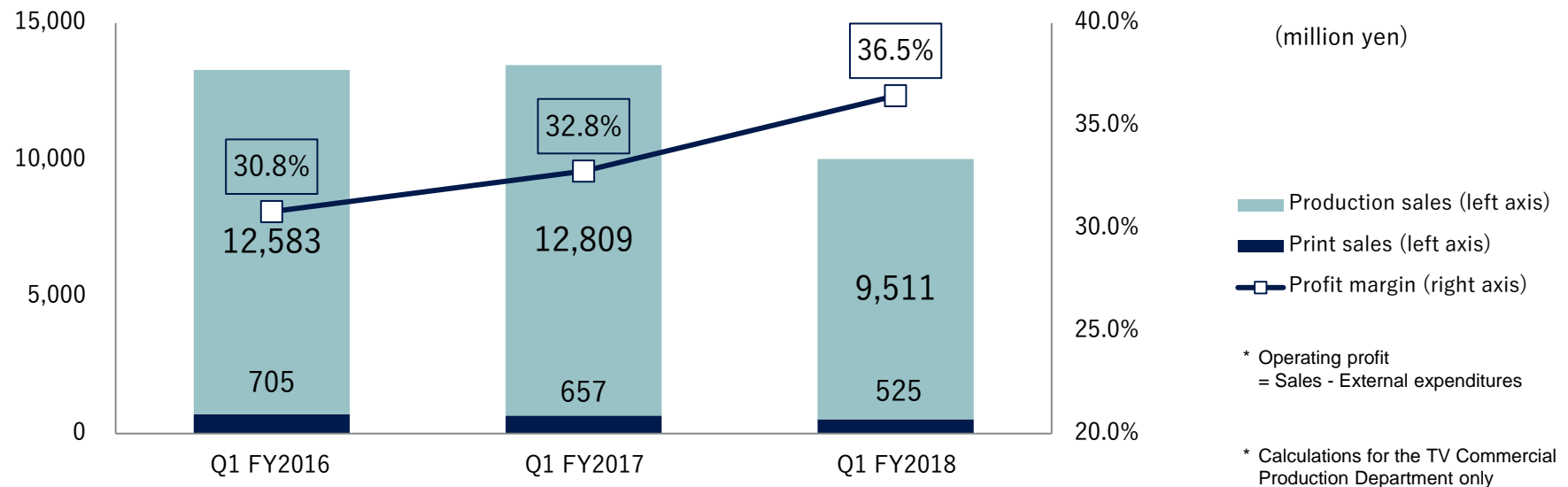
\* The results for 2016 are simple totals of the consolidated financial results of AOI Pro. Inc. and TYO Inc. for the calendar years (based on pro forma statements for the end of the fiscal year ending December 31).

# Summary of Consolidated Balance Sheet

(million yen)	FY 2017	Q1 FY2018	Major Components
Current Assets	41,503	39,728	Cash and deposits (12,044 million yen), notes and accounts receivable (16,867 million yen), electronically recorded monetary claims (4,620 million yen), and work in process (4,849 million yen)
Non-current Assets	18,234	18,623	Property, plant, and equipment (7,167 million yen), intangible assets (5,664 million yen), and investments and other assets (5,791 million yen)
Total Assets	59,737	58,351	
Current Liabilities	25,275	23,833	Accounts payable (6,774 million yen), short-term loans payable including current portion of long-term loans payable (11,573 million yen), and income taxes payable (730 million yen)
Non-current Liabilities	8,756	8,394	Long-term loans payable (3,136 million yen) and long-term deposits received (3,501 million yen)
Total Liabilities	34,031	32,228	
Total Net Assets (percentage of total assets)	25,706 (43.0%)	26,123 (44.7%)	Capital stock (5,000 million yen), capital surplus (12,077 million yen), and retained earnings (8,135 million yen)
Total Liabilities and Net Assets	59,737	58,351	

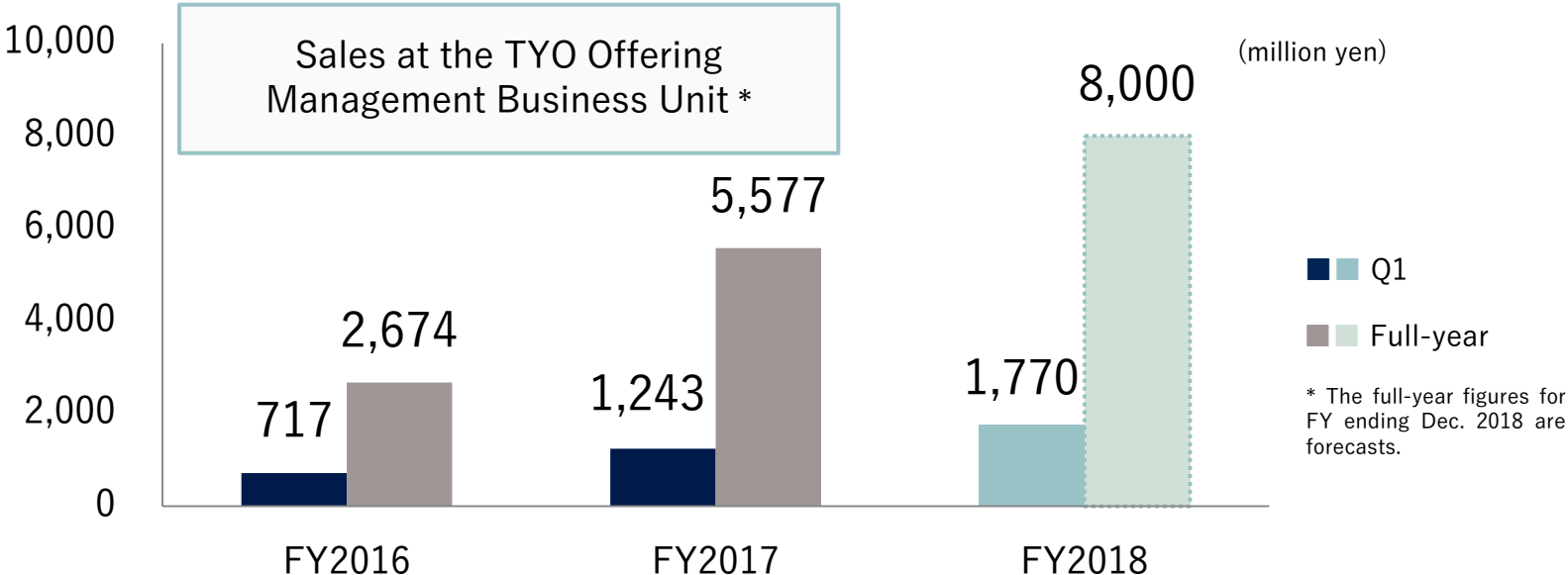
# Initiatives in the Advertising Video Production Business

- The profit margin continued to increase significantly, while net sales decreased mainly as results of the close inspection and selection of orders focused on profitability from the stage of order acceptance, as well as order controls for promoting work-style reforms.



# Initiatives in the Solutions Business (1)

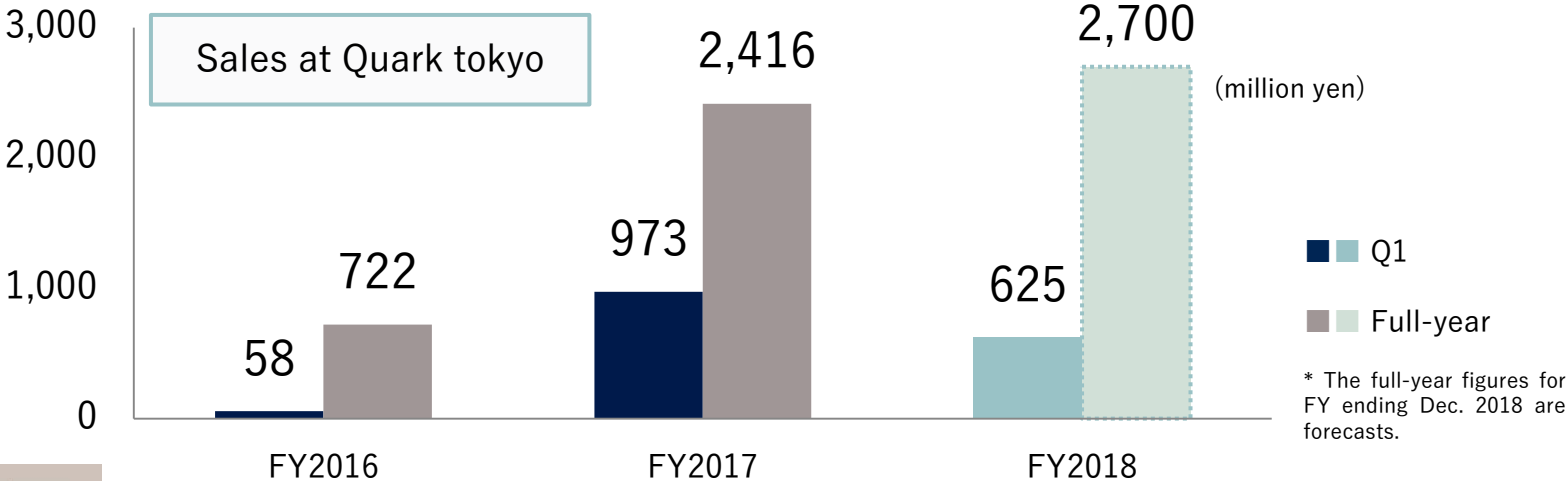
- In direct transactions with advertisers, sales continued to increase steadily through larger orders.



\* Renamed from TYO General Business Division Headquarters

# Initiatives in the Solutions Business (2)

- At Quark tokyo, net sales were in line with the forecast, despite of a decrease year on year derived from large orders received in the previous year.



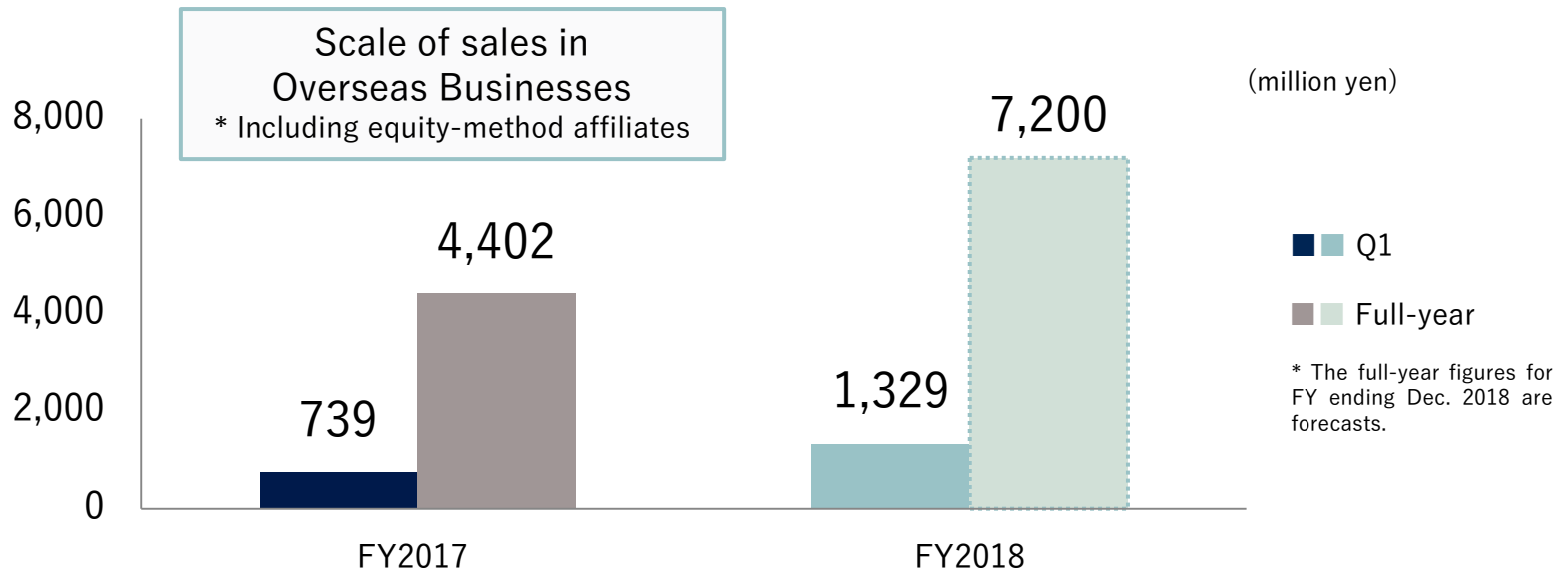
## Quark tokyo

The company has collected specialists in various fields and uses a one-stop framework to provide Plan-Do-Check-Act (PDCA) solutions for all stages of video materials, with a special focus on online content, ranging from strategy drafting, planning, production, and data analysis, to media distribution.

# Initiatives in the Overseas Business

- Sales grew substantially due to the acquisition of VF MEDIA (Vietnam) as an equity method affiliate and DTT Group (Malaysia) as consolidated subsidiaries.

※ VF MEDIA : VIEWFINDER MEDIA  
DTT : DIRECTORS THINK TANK



## 2. Consolidated Earnings Forecast



# Progress in Consolidated Earnings Forecast

- For this Q1, while net sales were below the forecast, profit was generally in line, thanks partly to an increase in the profitability in Advertising Video Production Business.

(million yen)	FY 2018	FY 2018		FY 2018		(Ref.) Full-year Forecast
	Q1 Result	1H Forecast	YoY Change	Amount Required for Q2	YoY Change	
Net Sales	15,521	35,000	1,271	19,479	4,222	70,000
Operating Income	1,092	2,000	-358	908	370	3,800
Operating margin	7.0%	5.7%	-	-	-	5.4%
Ordinary Income	1,031	1,900	-405	869	340	3,700
Profit Attributable to Owners of Parent	842	1,300	111	458	285	2,300
EBITDA	1,406	2,690	-242	-	-	5,230

# Shareholder Return

- Dividend: AOI TYO Holdings plans to pay a dividend of 30 yen per share (ordinary dividends) for the fiscal year ending December 31, 2018.

	End of Q2	End of FY	Total	Dividend Payout Ratio	DOE
FY 2017	8 yen	22 yen (incl. commemorative dividend of 10 yen)	30 yen (incl. commemorative dividend of 10 yen)	25.6%	2.9%
FY 2018 (forecast)	8 yen	22 yen	30 yen	31.4%	2.8%

- 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
Previous Purchase	May 16, 2017 - Feb. 27, 2018	Common Stock	261,400 shares	289,631,200 yen
(Plan) Current Purchase	Jun. 1, 2018 – May 31, 2019	Common Stock	400,000 shares (maximum)	680,000,000 yen (maximum)

### 3. Appendix

– Company Profile, Business Environment, etc.

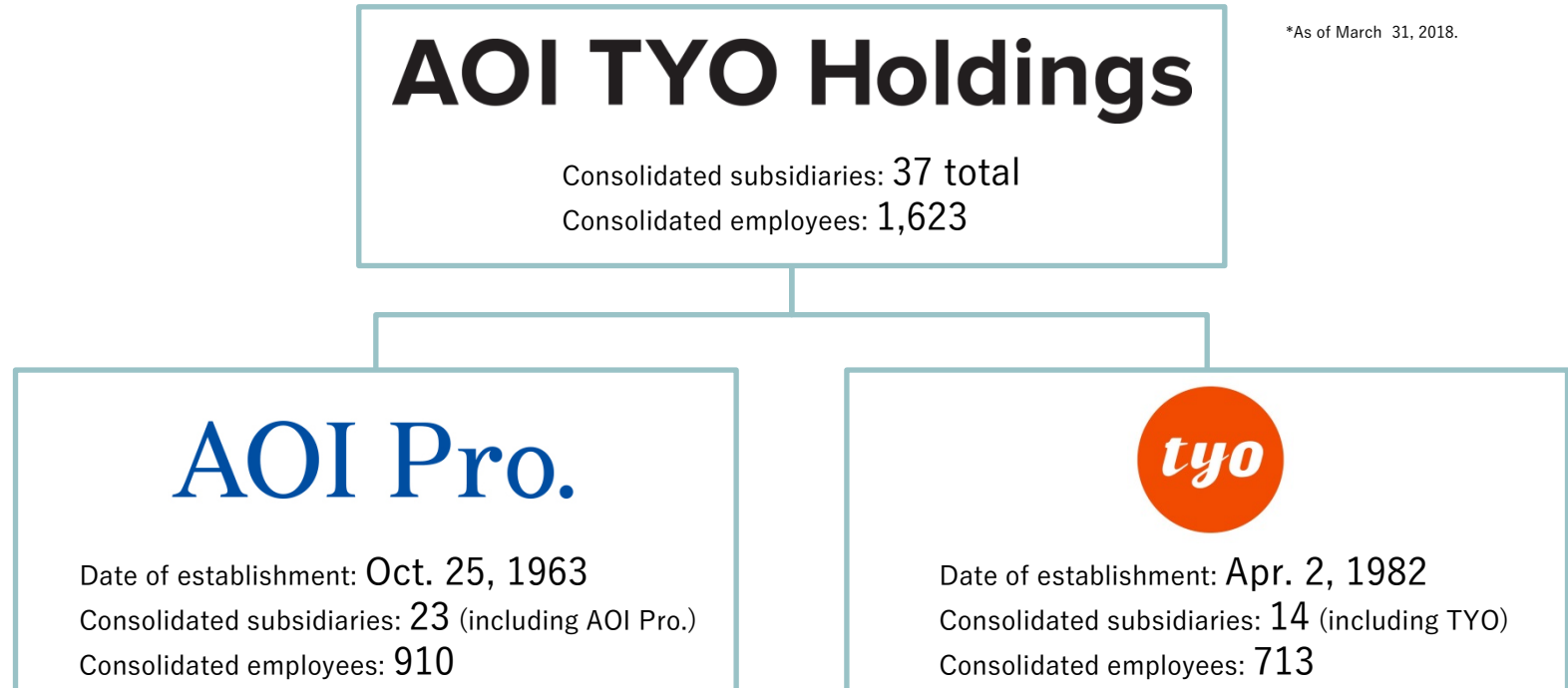
# Company Profile

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>

\* The head office was relocated on March 28, 2018.

# Founding of AOI TYO Holdings

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



# Handling Changes in the Business Environment

Print-less (\*)

Work style reform

Diversification of media and devices

Internet advertisement

Expanding the business fields surrounding advertisement

Improvement of profit margin

- Building a management structure that stresses profitability

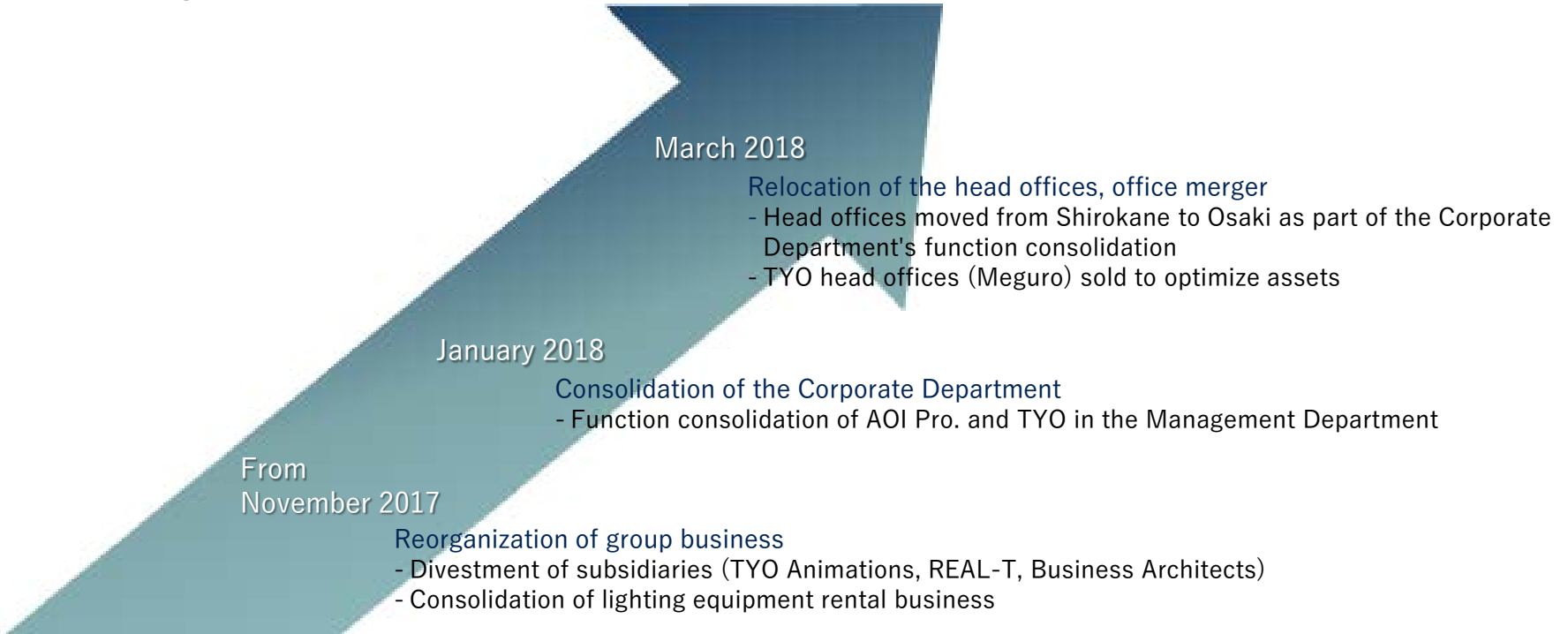
Expanding sales for our Solutions Business

- Providing a framework to allow one-stop shopping for appropriate solutions for our customers' problem-solving needs

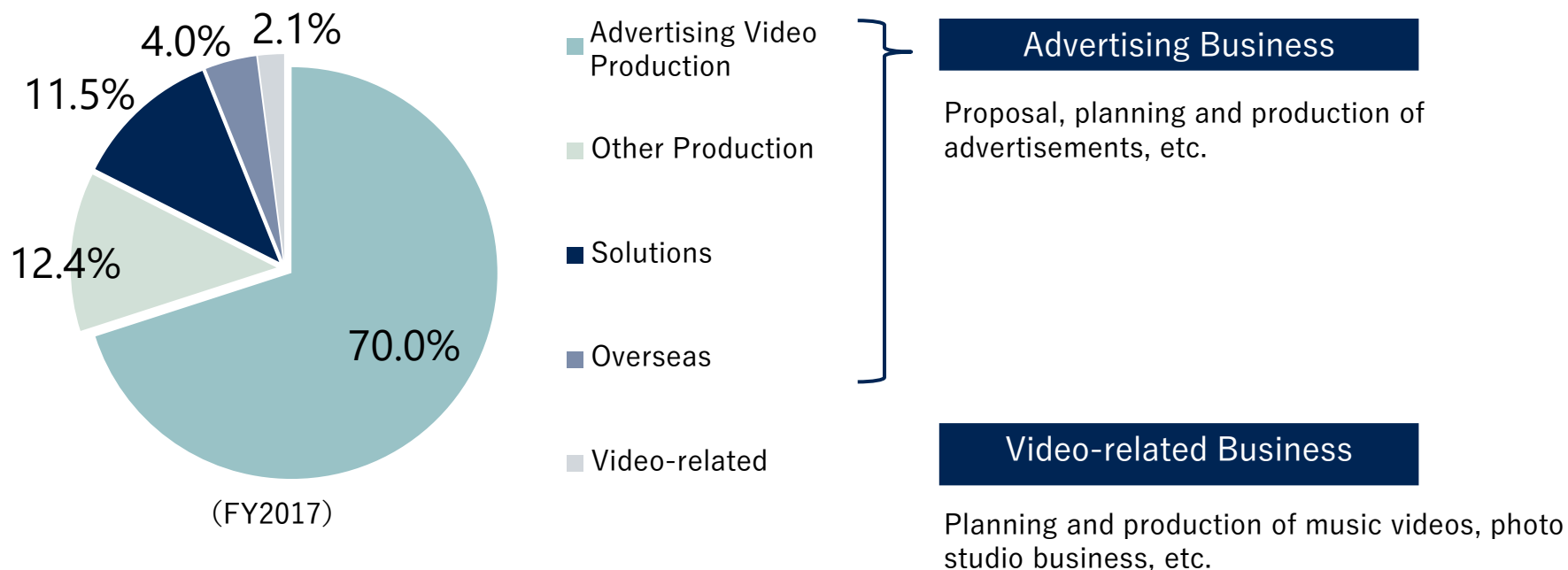
\* To date, reproduction (printing) to TV commercial material storage media has been used for posting materials to each broadcast media, and this reproduction has generated both sales and profits. From October 2017, however, the system began gradually shifting to online data delivery, and print sales are expected to decline as a result.

# Post Merger Integration

- The following initiatives are being pursued for quick realization of the management integration effect.



# Net Sales Composition Ratio by Business Segment



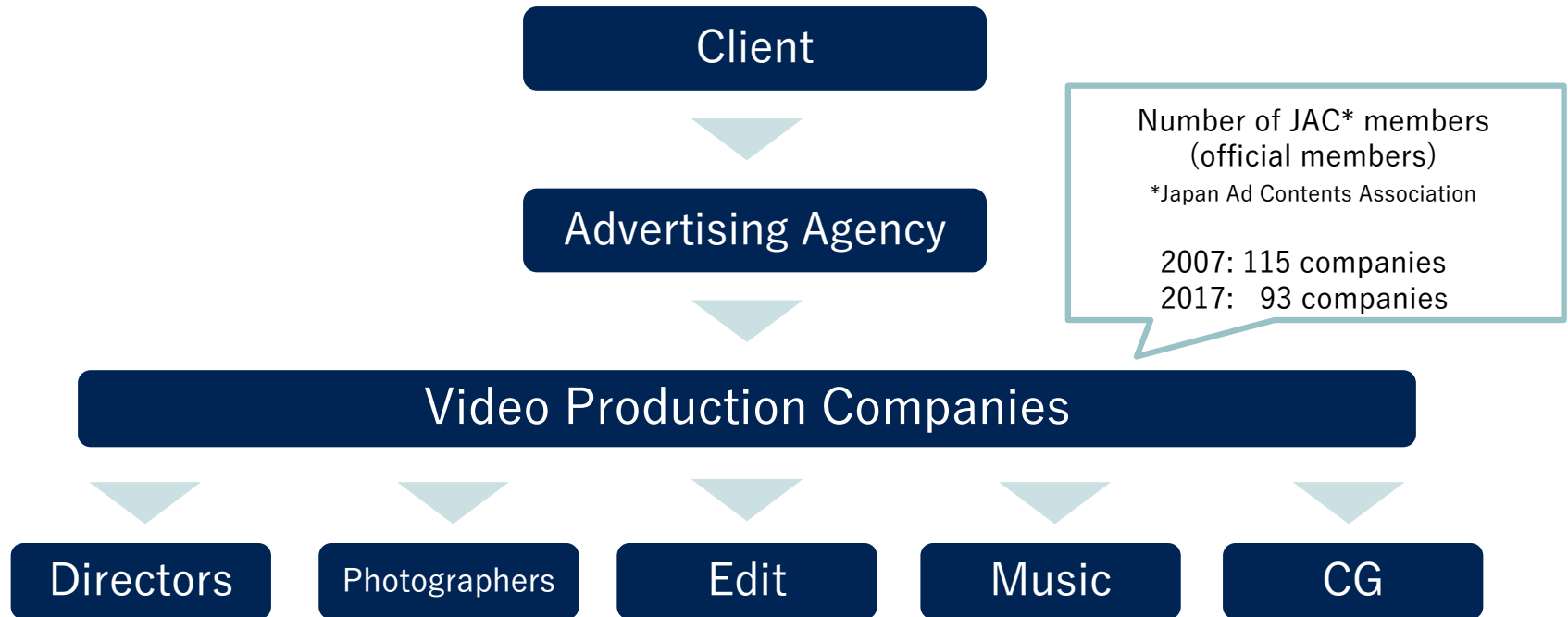


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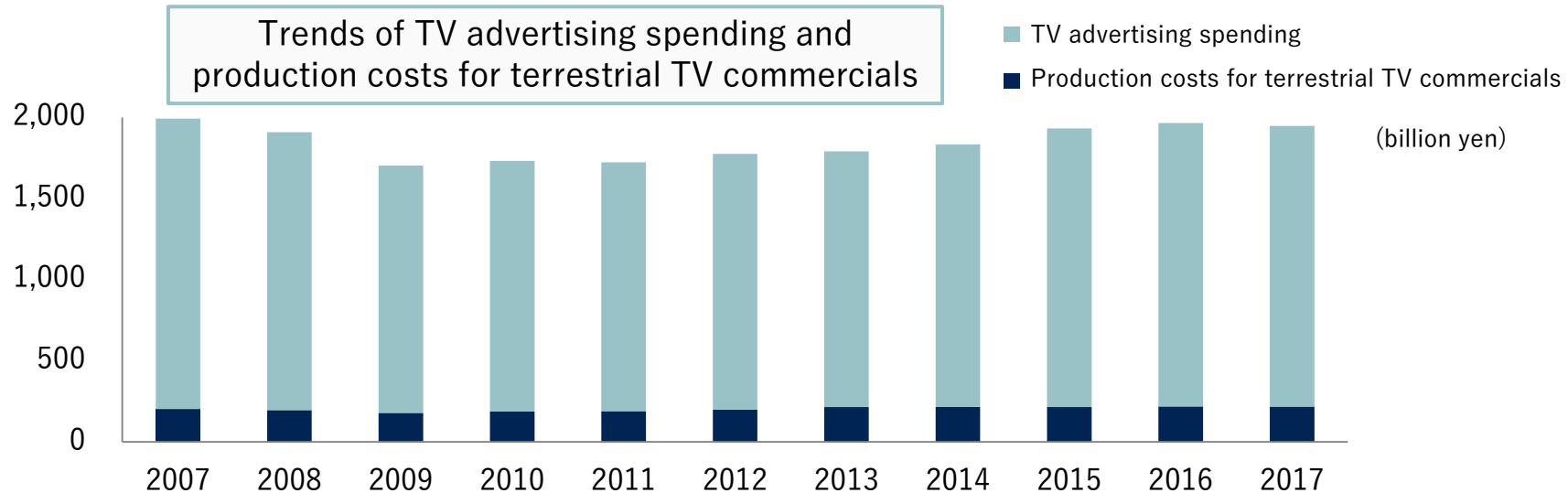
# TV Ad Production

## ■ Flow of TV ad production



# Trends in TV Ad Market in Japan

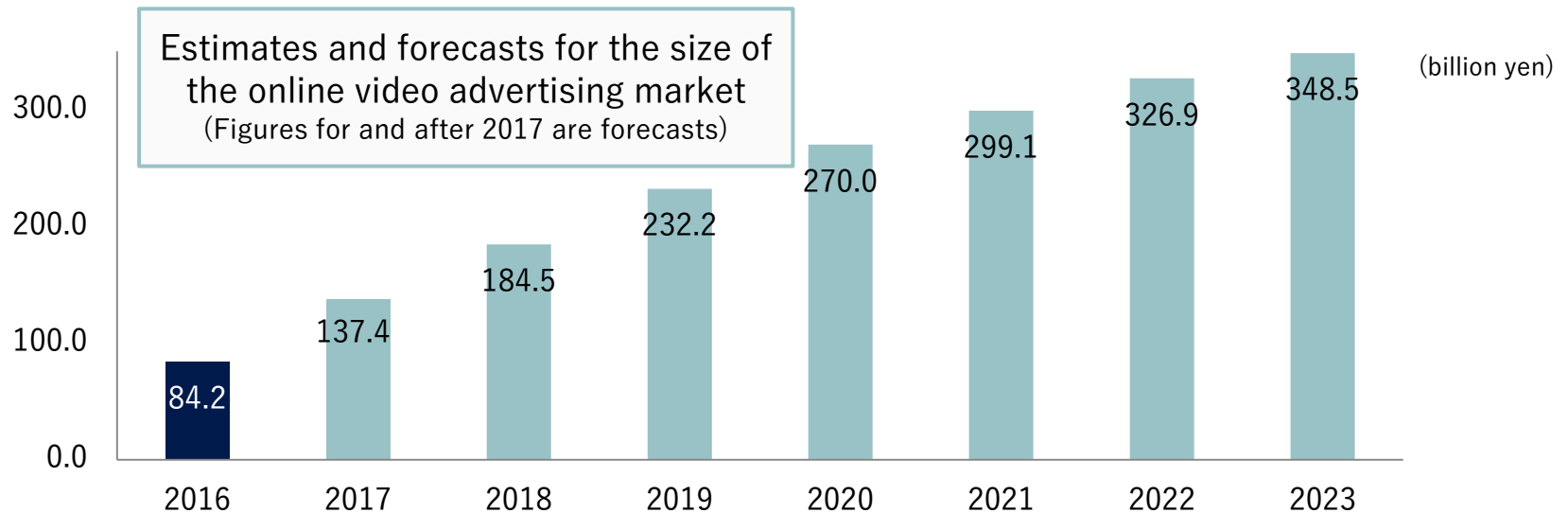
- TV advertising spending in 2017 totaled 1,947 billion yen (99.1% of the previous year).
- Of the above total, production costs for terrestrial TV commercials amounted to 217 billion yen (99.3% of the previous year).



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

# Trends in Online Video Ad Market in Japan

- The size of the online video Ad market was 137.4 billion yen in 2017 after growing 163% from the previous year.
- An increase in demand for smartphone video advertising led the growth of the market, which is expected to exceed 200 billion yen by 2019 and 348.5 billion yen by 2023.



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

# KPI Targeted in Fiscal Year 2021: Maximization of Shareholder Value

- Maximize shareholder value, through striving to increase capital efficiency (ROE) and shareholder returns.
- Maximize EBITDA through active investment in projects whose rate of return can exceed the cost of shareholders' equity.

ROE

12% or higher

EBITDA

(Earnings before interest, taxes,  
depreciation, and amortization)

8.0 billion yen

# Shareholder Dividend Policy

- The consolidated dividend payout ratio set to be 30% or higher, aiming to increase dividends associated with actual profit growth.
- Use dividend on equity (DOE) as an indicator and work to increase the ratio, in view of providing continuous and stable dividends.

Consolidated Dividend  
Payout Ratio

30% or higher

DOE

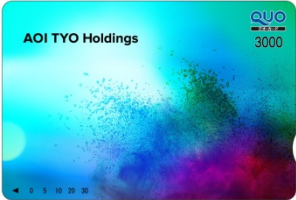
Approx. 4%  
(FY 2021)

# 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 of each year.

## Gift of original Quo Cards

500 shares or more	3,000 yen card
1,000 shares or more	5,000 yen card
2,000 shares or more	10,000 yen card



## Photography and production of original photo album

500 shares or more (40 shareholders: randomly selected from those who enter the draw)

Photos are taken at the Hollyhock Tokyo Midtown studio operated by Hollyhock Inc., a company in the AOI TYO Group, and the album is given as a gift.  
(Product name: GraphBook™)

\* GraphBook™ is a registered trademark of Hollyhock Inc.

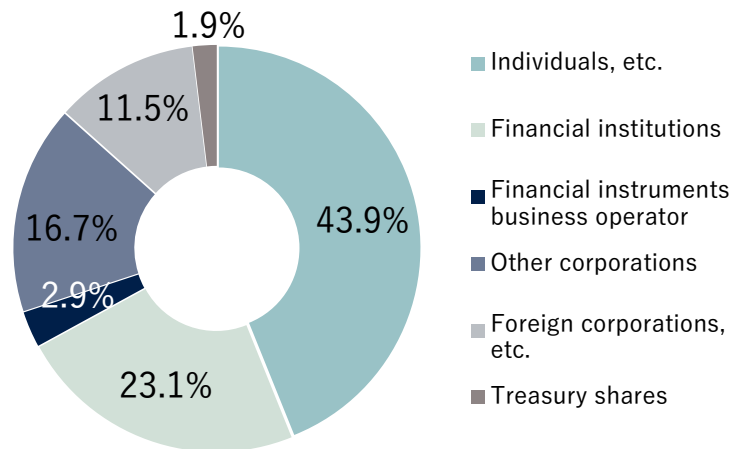


# Status of Stock and Shareholders (as of December 31, 2017)

## Number of Shares and Shareholders

Total number of shares issued	24,566,447
Total number of shareholders	12,534

## Shareholder Composition by Type of Shareholder



## Status of Large Shareholders

	Shareholder Name	Number of Shares Held	Shareholding Ratio
1	Japan Trustee Services Bank, Ltd. (Trust Account)	1,963,800	8.15%
2	Cosmo Channel	1,153,740	4.79%
3	Imagica Robot Holdings Inc.	1,018,000	4.22%
4	Fields Corporation	879,660	3.65%
5	The Master Trust Bank of Japan, Ltd. (Trust Account)	719,100	2.98%
6	The Bank of New York Mellon (International) Limited 131800	663,000	2.75%
7	Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	415,600	1.72%
8	Hitoshi Hara	400,000	1.66%
9	Fumiko Hara	328,000	1.36%
10	Japan Trustee Services Bank, Ltd. (Trust Account 5)	306,700	1.27%

\* The shareholding ratios are calculated by subtracting treasury shares (471,127).



## 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:  
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