



Summary of Consolidated Financial Results (Japanese Accounting Standards)
for the Second Quarter of the Fiscal Year Ending December 31, 2018

August 14, 2018

Company name: AOI TYO Holdings Inc.
 Stock Exchange: Tokyo Stock Exchange
 Code: 3975
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 Scheduled date of submission of quarterly report: August 14, 2018
 Scheduled date of commencement of dividend payment: September 14, 2018
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: Yes (For institutional investors/analysts)

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter (from January 1, 2018 to June 30, 2018)

(1) Consolidated operating results (The percentages are year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q2 FY2018:	30,864	-8.5	1,746	-26.0	1,680	-27.1	1,170	-1.6
Q2 FY2017:	33,729	—	2,358	—	2,305	—	1,189	—

(Note) Comprehensive income Q2 FY2018: 1,095 million yen (-9.5%) Q2 FY2017: 1,211 million yen (—%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q2 FY2018:	49.22	48.57
Q2 FY2017:	50.15	49.40

(Note) No year-on-year change is stated for Q1 FY2017, as AOI TYO Holdings was established on January 4, 2017.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Q2 FY2018:	55,672	25,680	44.5
FY2017	59,737	25,706	41.3

(For reference) Shareholders' equity Q2 FY2018: 24,788 million yen FY2017: 24,675 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017	—	8.00	—	22.00	30.00
FY2018	—	8.00	—	—	—
FY2018 (forecast)	—	—	—	22.00	30.00

(Note) Revisions to dividends forecast published most recently: No

3. Consolidated Financial Results Forecast for FY2018 (from January 1, 2018 to December 31, 2018)

(Percentages represent year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	64,000	-9.2	3,800	-17.7	3,700	-15.8	2,300	-17.3	96.70

(Note) Revisions to earnings forecast published most recently: No

* Notes

(1) Important changes in subsidiaries for the first quarter under review (Changes is specified subsidiaries resulting in change in scope of consolidation): No

New: — companies

Excluded: — companies

(2) Application of accounting treatment specific to the preparation of quarterly consolidated financial statements:

Not applicable

(3) Changes in accounting policies, and changes or restatements of accounting estimates

(i) Changes in accounting policies due to revisions to accounting standards etc. : Not applicable

(ii) Changes in accounting policies other than (i) : Not applicable

(iii) Changes in accounting estimates: : Not applicable

(iv) Restatements of accounting estimates: : Not applicable

(4) Number of issued shares (common stock)

(i) Number of issued shares (including treasury stock

Q2 FY2018	24,566,447 shares	FY2017	24,566,447 shares
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(ii) Number of treasury stock at end of period

Q2 FY2018	1,066,767 shares	FY2017	745,627 shares
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(iii) Average number of issued shares

Q2 FY2018	23,785,594 shares	Q2 FY2017	23,729,742 shares
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(Note) Treasury stock includes 418,900 shares held by Trust & Customer Services Bank, Ltd. (trust account E) as trust property related to a board benefit trust system.

* This summary of quarterly financial results is not included in the scope of the quarterly review.

* Appropriate use of earnings forecasts and other notes to financial statements

- Earnings forecasts and other forward-looking statements in this document are based on information available and judgments deemed rational at the time of publication. Forward-looking statements are not a guarantee of future performance. Actual earnings may differ materially due to a variety factors. For more about assumptions underlying earnings forecasts and cautions regarding the use of earnings forecasts, see *I. Qualitative Information on Quarterly Financial Results (3) Description of Information on Outlook* on P.3 of Attachments.

- We will hold a financial results briefing with institutional investors and analysts on August 30, 2018. Materials distributed during this meeting will be published later the same day. Video from this session will be published on our corporate website as quickly as possible after the meeting. In addition to the above-mentioned briefing, we will hold a similar session for our individual investors.

Attachments

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1. Qualitative Information on Results in the Second Quarter

(1) Discussion of operating results

Any forward-looking statements below are based on AOI TYO Group judgments as of the end of the consolidated second quarter of the current fiscal year.

The AOI TYO Group consists of AOI TYO Holdings Inc. and consolidated subsidiaries. Our mission is to bridge the gap between company and consumer through emotion, reaching across the barriers of media as we engage in our business activities. We are an *emotion creation company* that designs experiences which move people to emotion-based action through our mainstay business in advertising video production.

Our growth drivers consist of customer solutions (via business directly with advertisers and online video content marketing) and our overseas business, through which we aim for sustainable growth and corporate value improvement.

The Japanese economy continued to recover moderately throughout the first six months of the fiscal year ending December 2018, driven by improved corporate earnings and employment. Recovering consumer spending was also a positive factor. At the same time, concerns remain about trade issues and the potential negative impact of such risks on the global economy.

Within this environment, cumulative second quarter sales in our growth-oriented solutions business, particularly services directly to advertisers, were solid. Our Overseas Business outperformed the same quarter in the prior fiscal year, owing in part to the addition of a Malaysian advertising production agency as a consolidated subsidiary. On the other hand, our mainstay Advertising Video Production Business recorded results lower year on year, mainly due to stricter order acceptance (greater emphasis on profitability from early stages of order acceptance and work-style reform), a decline in print sales*, and a delay in recording sales for certain projects into the following quarter. However, Advertising Video Production Business sales for this accounting period were level with the same period in the prior fiscal year. Recent orders have been steady, reflected by an order backlog of ¥14,331 million as of the end of cumulative consolidated second quarter (increase of 2.3% year on year).

Despite incurring up-front costs associated with the formation of a new company, our ongoing efforts to instill management control of external expenditures related to advertising video production kept year-on-year profit declines smaller in scope than sales declines.

As a result, the AOI TYO Group recorded net sales of ¥30,864 million for the six-month period ending June 2018, representing an 8.5% decrease year on year. Operating profit amounted to ¥1,746 million (26.0% decrease), while ordinary profit and profit attributable to owners of parent amounted to ¥1,680 million and ¥1,170 million, representing decreases of 27.1% and 1.6%, respectively. Selling, general and administrative expenses included ¥160 million in amortization of goodwill associated with M&A activity.

*Historically, television commercial content had been copied to media (“printed”) and delivered to each broadcast station. The AOI TYO Group recognized the sales and profits of this activity in our accounting records. As of October 2017, this content can be delivered via online data transmission (printless format), leading us to expect a decline in related sales and profits over time.

AOI TYO Group reportable segments consist of our Advertising Business and our Video-Related Business. However, the Video-Related Business accounts for only a small portion of overall results. As this segment does not represent a significant source of material information, we have omitted disclosure of reportable segments.

(2) Discussion of financial position

Assets, Liabilities, and Net Assets

Total assets as of the end of the consolidated second quarter amounted to ¥55,672 million, a ¥4,065 million decrease compared to the end of the prior consolidated fiscal year. This decrease was mainly due to decreases in cash and deposits and notes and accounts receivable - trade of ¥2,111 million and ¥3,725 million respectively, offset in part due to an increase in work in process of ¥1,453 million.

Liabilities decreased ¥4,040 million to ¥29,991 million. Although long-term loans payable increased ¥2,015 million, short-term loans payable and accounts payable - trade decreased ¥4,620 million and ¥1,351 million, respectively.

Net assets amounted to ¥25,680 million, a decrease of ¥25 million compared to the end of the prior consolidated fiscal year. While retained earnings rose ¥1,170 million due to profit attributable to owners of parent, the AOI TYO Group paid ¥530 million in dividend payments and recorded an increase of ¥541 million in treasury stock.

Summary of Cash Flows

Cash and cash equivalents amounted to ¥10,267 million as of the end of the consolidated second quarter, representing a year-on-year decrease of ¥2,105 million.

The following paragraphs summarize cash flow activity for the six-month period ended June 2018.

Cash Flows From Operating Activities

Cash flows from operating activities amounted to ¥3,148 million, compared to cash used in operating activities of ¥325 million for the same period in the prior fiscal year. This result was mainly due to profit before income taxes of ¥2,166 million and a decrease in accounts receivable of ¥4,674 million. At the same time, we recorded an increase in inventories of ¥1,475 million and a decrease in notes and accounts payable-trade of ¥1,490 million.

Cash Flows From Investing Activities

Cash used in investing activities amounted to ¥1,309 million, compared to ¥944 million for the same period in the prior fiscal year. This result was mainly due to ¥774 million in outlays for of property, plant, and equipment, ¥497 million in outlays for intangible assets, and ¥679 million in outlays for investment securities. At the same time, we recorded ¥1,331 million in proceeds from the sale of property, plant, and equipment.

Cash Flows From Financing Activities

Cash used in financing activities amounted to ¥3,895 million, compared to cash from financing activities of ¥433 million for the same period in the prior fiscal year. This result was mainly due to a ¥4,600 million decrease in short-term loans payable, ¥1,578 million in outlays for repayments of long-term loans payable, and ¥3,610 million in cash proceeds from long-term loans payable.

(3) Discussion of consolidated results forecasts

See *Notice Concerning Revisions to Second Quarter and Full-Year Consolidated Earnings Forecasts for the Fiscal Year Ending December 2018*, published on August 10, 2018 (Japanese only), for more about AOI TYO Group consolidated earnings forecasts for the fiscal year ending December 2018.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheets

(Thousands of yen)

	FY2017 (December 31, 2017)	Q2 FY2018 (June 30, 2018)
Assets		
Current assets		
Cash and deposits	12,573,956	10,462,152
Notes and accounts receivable - trade	17,813,558	14,087,663
Electronically recorded monetary claims - operating	6,208,110	5,381,635
Merchandise and finished goods	16,128	15,607
Work in process	3,629,657	5,083,382
Other	1,297,266	1,224,211
Allowance for doubtful accounts	(35,271)	(38,497)
Total current assets	41,503,406	36,216,155
Non-current assets		
Property, plant and equipment		
Land	4,289,822	3,610,315
Other	3,390,024	3,681,559
Total property, plant and equipment	7,679,846	7,291,874
Intangible assets		
Software	171,168	175,363
Software in progress	975,504	1,400,255
Goodwill	4,106,706	4,192,793
Other	15,723	15,853
Total intangible assets	5,269,103	5,784,265
Investments and other assets		
Investment securities	2,787,996	3,359,593
Lease and guarantee deposits	1,318,377	1,615,210
Other	1,255,572	1,480,119
Allowance for doubtful accounts	(76,430)	(75,202)
Total investments and other assets	5,285,515	6,379,720
Total non-current assets	18,234,466	19,455,859
Total assets	59,737,872	55,672,015

(Thousands of yen)

	FY2017 (December 31, 2017)	Q2 FY2018 (June 30, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	7,341,915	5,990,283
Short-term loans payable	10,443,335	5,823,135
Current portion of long-term loans payable	2,329,624	2,386,582
Advances received	758,125	1,350,522
Income taxes payable	1,175,623	952,798
Provision for bonuses	82,298	147,692
Other	3,144,339	2,640,984
Total current liabilities	25,275,262	19,291,998
Non-current liabilities		
Long-term loans payable	3,465,280	5,480,692
Long-term deposits received	3,501,199	3,501,199
Provision for directors' retirement benefits	285,345	249,861
Provision for management board incentive plan trust	105,832	160,701
Net defined benefit liability	248,570	264,815
Asset retirement obligations	355,935	395,409
Other	794,392	646,599
Total non-current liabilities	8,756,557	10,699,278
Total liabilities	34,031,819	29,991,276
Net assets		
Shareholders' equity		
Capital stock	5,000,000	5,000,000
Capital surplus	12,074,353	12,178,266
Retained earnings	7,823,773	8,467,010
Treasury shares	(711,360)	(1,252,488)
Total shareholders' equity	24,186,766	24,392,788
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	444,466	397,907
Foreign currency translation adjustment	42,391	(4,561)
Remeasurements of defined benefit plans	1,884	2,345
Total accumulated other comprehensive income	488,742	395,692
Subscription rights to shares	140,824	117,071
Non-controlling interests	889,719	775,185
Total net assets	25,706,052	25,680,738
Total liabilities and net assets	59,737,872	55,672,015

(2) Quarterly consolidated statements of income and statements of comprehensive income

Quarterly consolidated statements of income

Cumulative consolidated second quarter

(Thousand of yen)

	Q2 FY2017 (January 1, 2017 — June 30, 2017)	Q2 FY2018 (January 1, 2018 — June 30, 2018)
Net sales	33,729,059	30,864,424
Cost of sales	26,885,548	24,713,361
Gross profit	6,843,510	6,151,063
Selling, general and administrative expenses	4,484,883	4,405,029
Operating profit	2,358,627	1,746,033
Non-operating income		
Interest income	6,762	5,741
Dividend income	14,346	19,887
Gain on investments in partnership	30,781	—
Other	55,320	65,915
Total non-operating income	107,211	91,544
Non-operating expenses		
Interest expenses	44,833	40,312
Commission fee	82,551	78,529
Share of loss of entities accounted for using equity method	2,587	3,683
Other	30,062	34,450
Total non-operating expenses	160,034	156,976
Ordinary profit	2,305,804	1,680,601
Extraordinary income		
Gain on sales of non-current assets	—	401,336
Gain on sales of investment securities	18,142	83,875
Gain on step acquisitions	11,732	—
Other	1,059	288
Total extraordinary income	30,934	485,500
Extraordinary losses		
Impairment loss	23,587	—
Loss on liquidation of subsidiaries and associates	12,979	—
Loss on cancellation of rental contracts	19,091	—
Other	2,835	—
Total extraordinary losses	58,493	—
Profit before income taxes	2,278,244	2,166,101
Income taxes - current	1,005,285	1,015,079
Income taxes - deferred	73,608	(44,156)
Total income taxes	1,078,893	970,922
Profit	1,199,351	1,195,178
Profit attributable to non-controlling interests	9,354	24,389
Profit attributable to owners of parent	1,189,996	1,170,789

Quarterly consolidated comprehensive statements of income

Cumulative consolidated second quarter

	(Thousand of yen)	
	Q2 FY2017 (January 1, 2017 — June 30, 2017)	Q2 FY2018 (January 1, 2018 — June 30, 2018)
Profit	1,199,351	1,195,178
Other comprehensive income		
Valuation difference on available-for-sale securities	8,555	(46,558)
Foreign currency translation adjustment	604	(47,664)
Remeasurements of defined benefit plans, net of tax	(238)	461
Share of other comprehensive income of entities accounted for using equity method	2,914	(5,592)
Total other comprehensive income	11,835	(99,354)
Comprehensive income	1,211,186	1,095,824
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,202,720	1,077,831
Comprehensive income attributable to non-controlling interests	8,466	17,992

(3) Consolidated statements of cash flows

(Unit: thousand yen)

	Q2 FY2017 (January 1, 2017 – June 30, 2017)	Q2 FY2018 (January 1, 2018 – June 30, 2018)
Cash flows from operating activities		
Profit before income taxes	2,278,244	2,166,101
Depreciation	420,500	450,968
Impairment loss	23,587	—
Amortization of goodwill	152,934	160,709
Increase (decrease) in allowance for doubtful accounts	31,111	3,621
Increase (decrease) in provision for bonuses	15,240	65,474
Increase (decrease) in provision for directors' retirement benefits	(67,328)	(35,484)
Increase (decrease) in provision for management board incentive plan trust	19,896	54,868
Increase (decrease) in net defined benefit liability	(35,234)	16,557
Interest and dividend income	(21,109)	(25,628)
Interest expenses	44,833	40,312
Commission fee	82,551	78,529
Loss (gain) on sales of investment securities	(18,142)	(83,875)
Loss (gain) on sales of non-current assets	1,020	(401,336)
Decrease (increase) in notes and accounts receivable - trade	(2,782,786)	4,674,709
Decrease (increase) in inventories	(1,070,133)	(1,475,939)
Increase (decrease) in notes and accounts payable - trade	(878,742)	(1,490,387)
Increase (decrease) in accounts payable - other	(336,652)	(231,749)
Increase (decrease) in accrued consumption taxes	284,637	(559,907)
Increase (decrease) in advances received	1,354,951	595,923
Decrease (increase) in other assets	178,737	41,554
Increase (decrease) in other liabilities	336,308	102,181
Other, net	87,028	30,145
Subtotal	101,452	4,177,348
Interest and dividend income received	20,899	25,733
Proceeds from insurance income	4,797	7,095
Interest expenses paid	(45,314)	(35,407)
Income taxes paid	(407,540)	(1,025,813)
Net cash provided by (used in) operating activities	(325,706)	3,148,955
Cash flows from investing activities		
Purchase of property, plant and equipment	(459,021)	(774,463)
Proceeds from sales of property, plant and equipment	3,658	1,331,515
Purchase of intangible assets	(275,632)	(497,111)
Purchase of investment securities	(135,300)	(679,863)
Payments for lease and guarantee deposits	(119,694)	(324,939)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(319,161)
Other, net	41,184	(45,788)
Net cash provided by (used in) investing activities	(944,805)	(1,309,812)

	(Thousands of yen)	
	Q2 FY2017 (January 1, 2017 – June 30, 2017)	Q2 FY2018 (January 1, 2018 – June 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,896,641	(4,600,975)
Proceeds from long-term loans payable	20,000	3,610,043
Repayments of long-term loans payable	(976,512)	(1,578,399)
Repayments of lease obligations	(74,206)	(45,038)
Cash dividends paid	(274,617)	(527,725)
Proceeds from exercise of share options	71,106	60,860
Purchase of treasury shares	(14,028)	(537,764)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(120,958)	(183,225)
Commission fee paid	(85,449)	(78,529)
Other, net	(8,301)	(14,275)
Net cash provided by (used in) financing activities	433,674	(3,895,029)
Effect of exchange rate change on cash and cash equivalents	(5,132)	(49,328)
Net increase (decrease) in cash and cash equivalents	(841,969)	(2,105,215)
Cash and cash equivalents at beginning of period	3,155,905	12,372,307
Increase in cash and cash equivalents resulting from share transfer	4,975,139	–
Cash and cash equivalents at end of period	7,289,075	10,267,091

(4) Notes to quarterly consolidated financial statements

(Notes on the premise of a going concern)

Not applicable.

(Notes in the event of significant changes in shareholders' equity)

Not applicable.