

AOI TYO Holdings

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

August 2018

AOI TYO Holdings Inc.

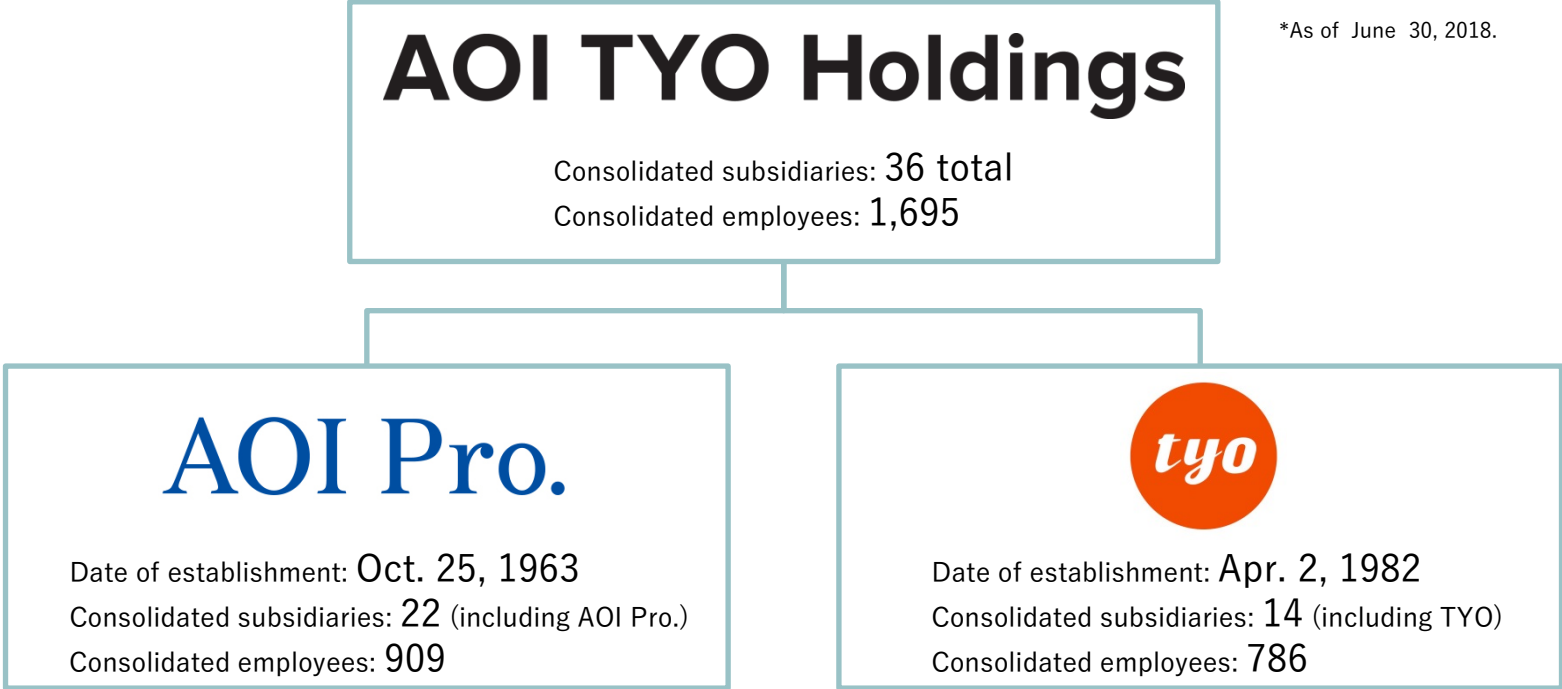
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1. Business Environment

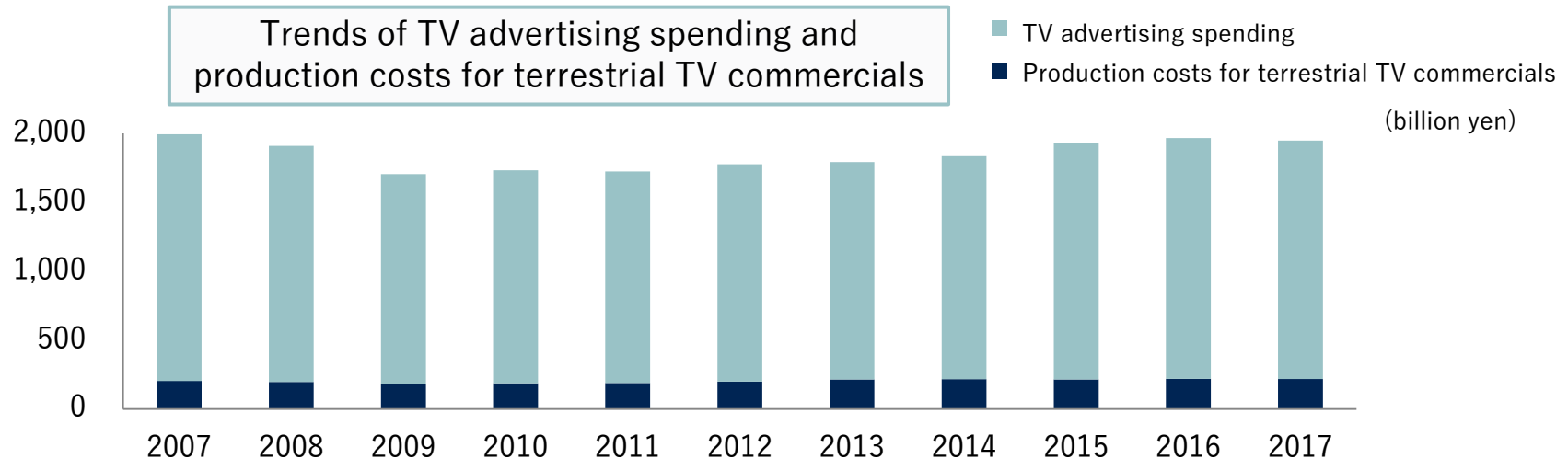
Founding of AOI TYO Holdings

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



Changing Business Environment (1): Changes in the Advertising Market

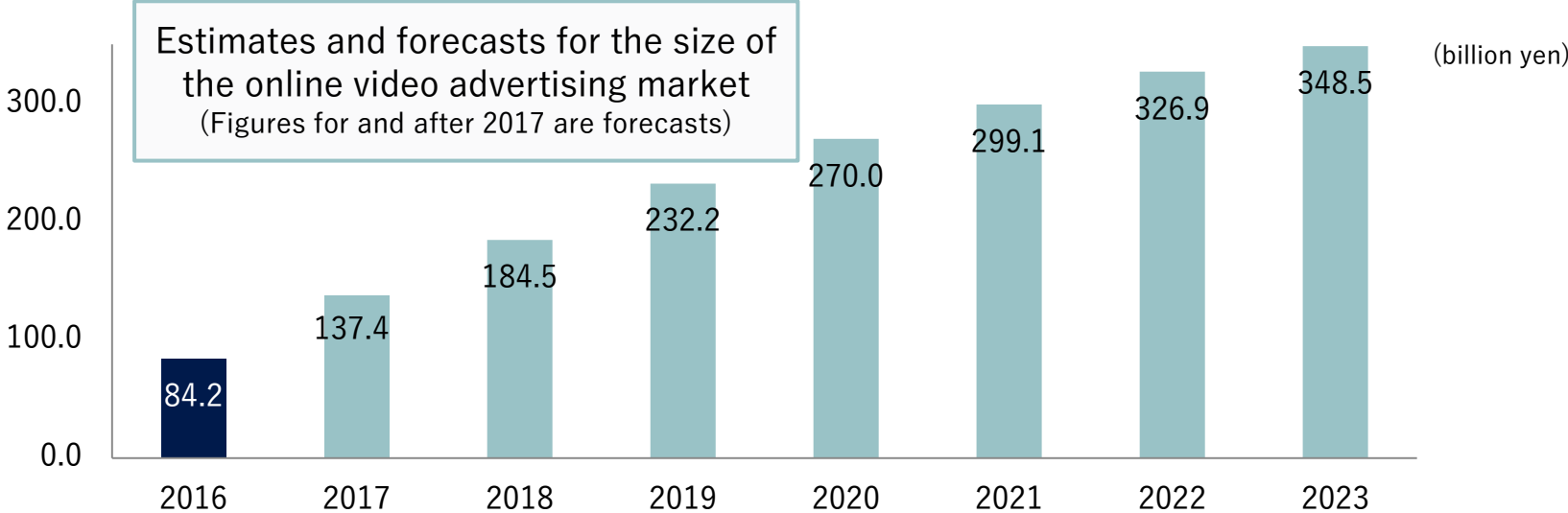
- The TV advertising market has transitioned from flat to decline over the past several years.
- TV advertising spending in 2017 totaled 1,947 billion yen (99.1% of the previous year).
- Of the above total, production costs for terrestrial TV commercials amounted to 217 billion yen (99.3% of the previous year).



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

Changing Business Environment (1): Changes in the Advertising Market

- 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.

Changing Business Environment (2): Work-Style Reform

- Advertising industry groups recommending new work styles through round-table discussions.
- Leading advertising industry companies and industry groups cooperating to encourage reduction in long work hours.

Clients

Industry Group: JAA
(Japan Advertisers Association
Inc.)

Advertising Companies

Industry Group:
JAAA
(Japan Advertising
Agencies Association)

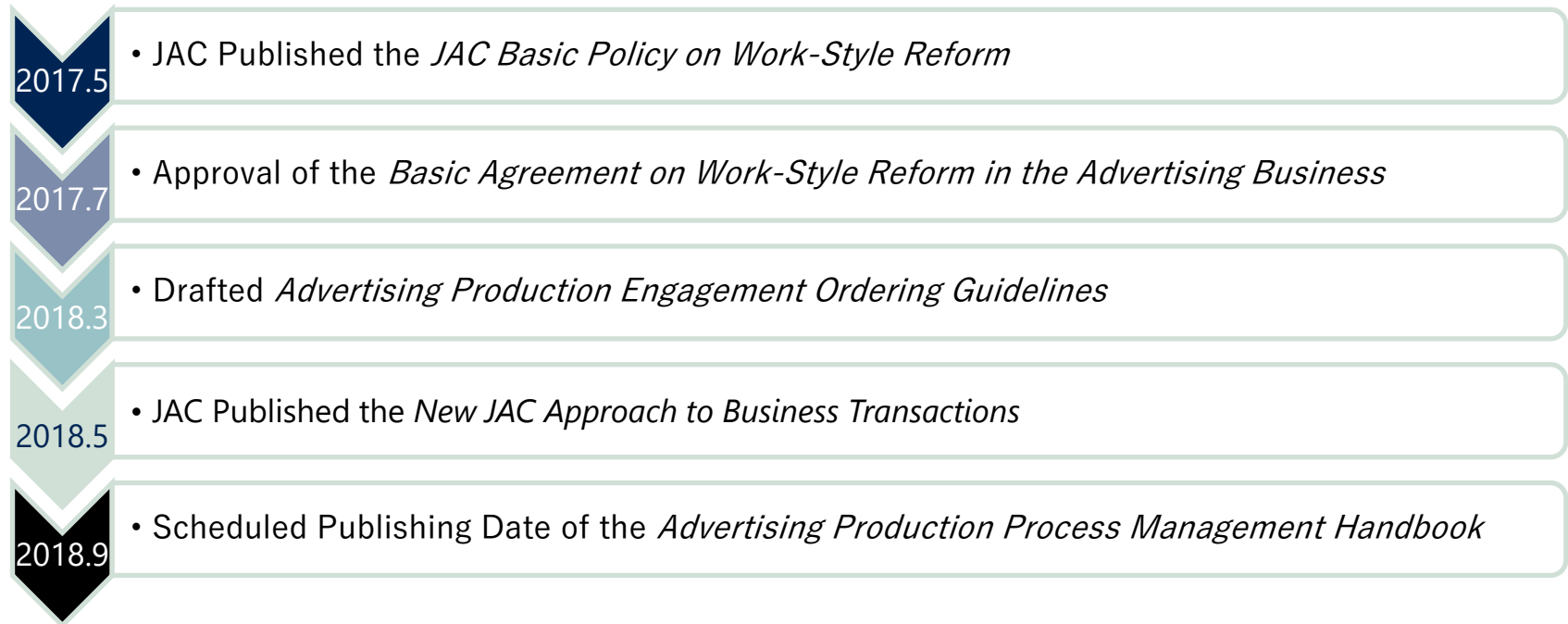
Video Production Companies

Industry Group: JAC
(Japan Ad. Contents Association)

JAC Membership (Regular Members)
2018: 92 Companies
(2008: 114 Companies)

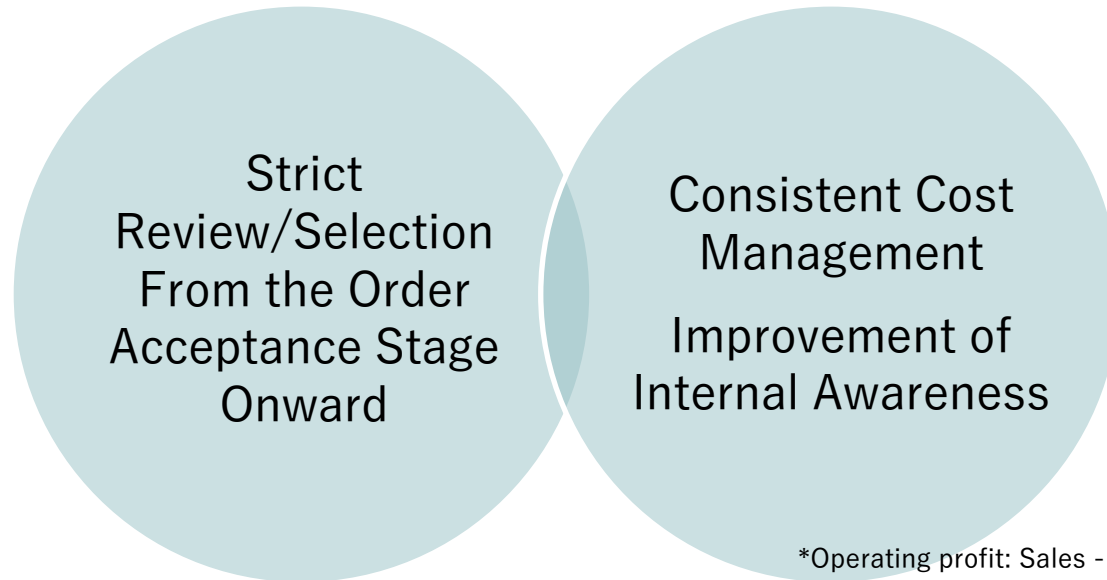
Changing Business Environment (2): Work-Style Reform

- Advertising-Related Groups and JAC have undertaken a number of initiatives:



Responding to a Changing Business Environment (1): Video Production Efficiency

- Establish and commit to a sales management system that emphasizes profitability.
- Prioritize operating profit* over sales volume to improve profit margin* over time.



*Operating profit: Sales - external expenditures

*Profit margin: Operating profit / sales

Responding to a Changing Business Environment (2): Growing our Solutions Business

- Provide a one-stop platform offering optimal solutions to solve customer issues related to changing media and devices.

- Engage directly with advertisers to offer a one-stop platform supporting integrated media

TYO Offering
Management
Business Unit



- Provides end-to-end PDCA solutions for the entire production cycle, from marketing strategy to digital-era communications

Quark tokyo



- Experience design solutions and services using vital sign data
- Established February 2018

SOOTH



2. Summary of Consolidated Financial Results

Financial Highlights

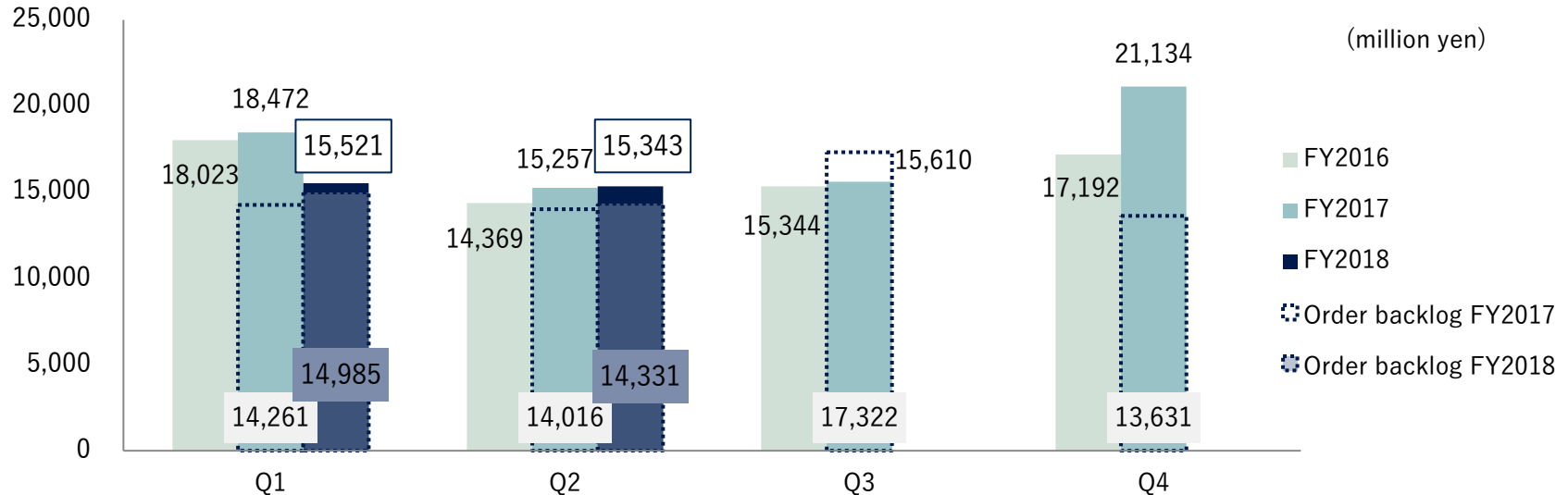
- Net sales underperformed forecast, due to (1) consistent profit management emphasizing profitability, (2) strict order acceptance associated with work-style reform, and (3) delay in recording sales for certain projects. However, profit margin improved while declines in operating income were held to a minimum.

(million yen)	Q2 FY2016	Q2 FY2017	Q2 FY2018	YoY Change	Vs. Forecast (Beginning of Period)
Net Sales	32,392	33,729	30,864	-2,864	-4,136
Operating Income	2,049	2,358	1,746	-612	-254
Ordinary Income	1,837	2,305	1,680	-625	-220
Profit Attributable to Owners of Parent	825	1,189	1,170	-19	-130
EBITDA	2,563	2,932	2,357	-574	-333

* 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

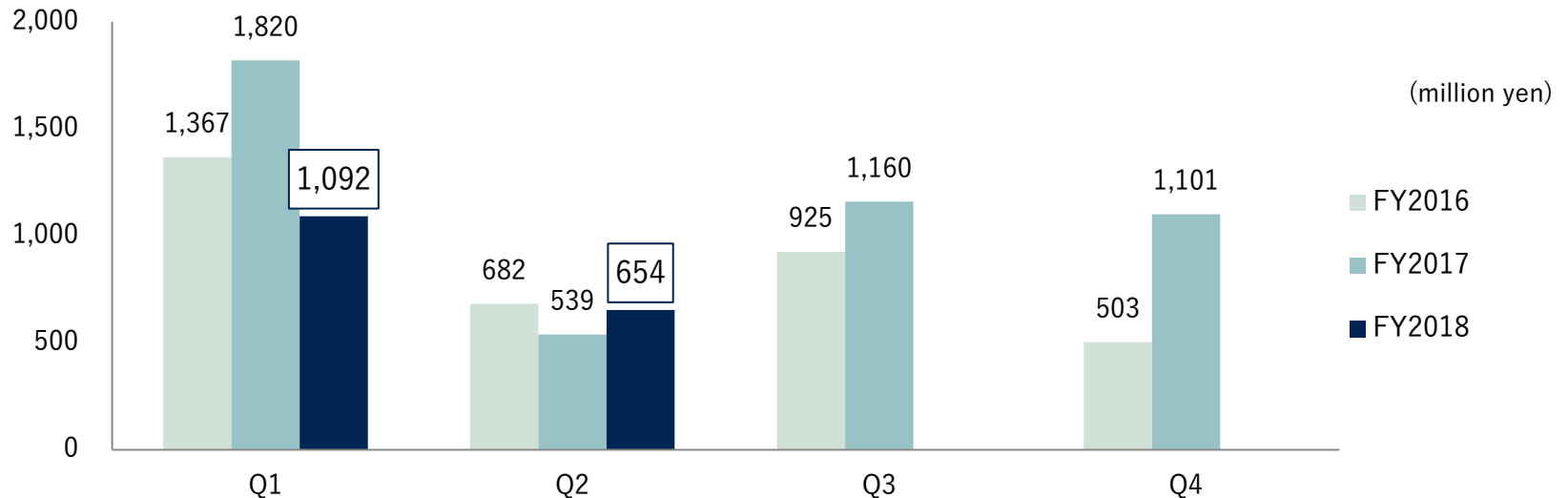
- While Q1 sales underperformed year on year, Q2 sales were even.
- Order backlog as of the end of Q2 amounted to 14,331 million yen (2.3% higher year on year); recent order volume has been strong.



* 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

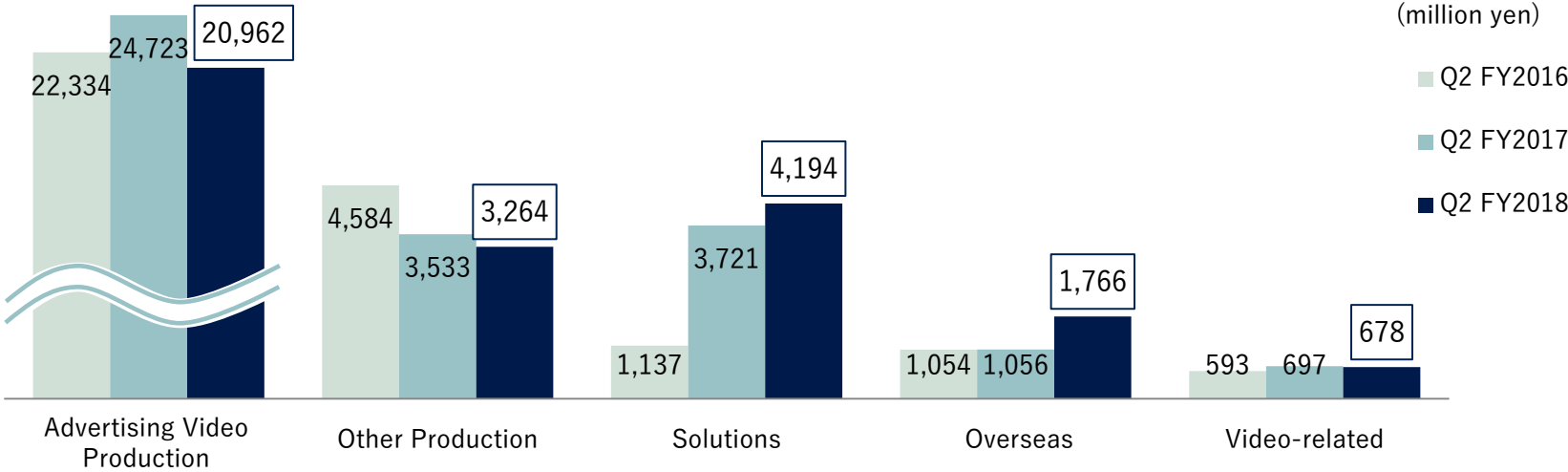
- Due to strict management of external expenditures, Q1 operating income year-on-year decline was smaller in scope than decline in year-on-year sales.
- While Q2 SG&A rose year on year, operating income also rose.



* 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 fell.
- Solutions Business sales were strong.
- Overseas Business sales rose, mainly due to the addition of a newly consolidated advertising production subsidiary in Malaysia.



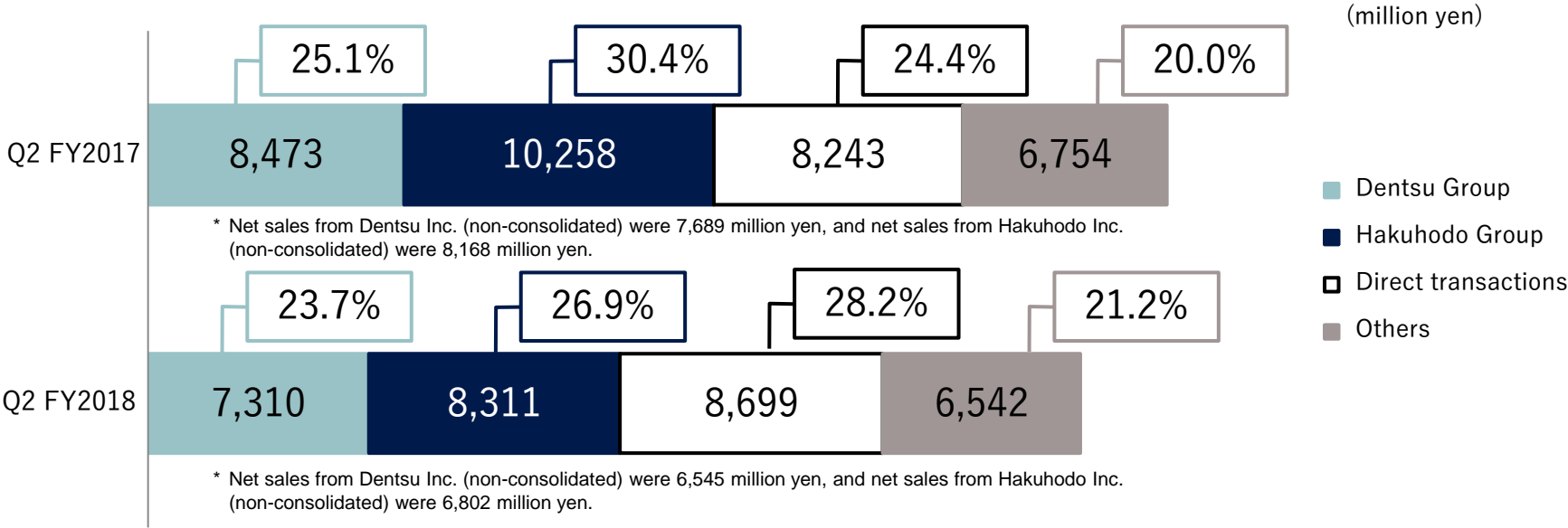
Overview of Business Segments

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

- Although sales to advertising agencies fell, our Solutions Business continued to perform well, expanding business directly with advertisers.



Net Sales by Medium

(million yen)

Medium	FY2017	Component Ratio	YoY Change	Q2 FY2018	Component Ratio	YoY Change
TV commercial production	44,778	63.2%	2,138	18,740	61.2%	-3,160
Original work	38,657	54.6%	2,673	15,945	52.1%	-2,782
Printed commercial materials	2,746	3.9%	-271	1,061	3.5%	-277
Other	3,375	4.8%	-264	1,734	5.7%	-101
Entertainment contents	3,875	5.5%	902	1,355	4.4%	-55
Digital contents	11,550	16.3%	2,079	5,270	17.2%	-475
Overseas	1,894	2.7%	75	982	3.2%	334
Other	8,727	12.3%	701	4,252	13.9%	77
Total	70,825	100.0%	5,895	30,599	100.0%	-3,279

* 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	Q2 FY2018	Major Components
Current Assets	41,503	36,216	Cash and deposits (-2,111); notes and accounts receivable (-3,725); electronically recorded monetary claims (-826); work in process (+1,453)
Non-current Assets	18,234	19,455	Property, plant, and equipment (-387); intangible assets (+515); investments and other assets (+1,094)
Total Assets	59,737	55,672	
Current Liabilities	25,275	19,291	Accounts payable (-1,351); short-term loans payable (-4,260); advances received (+592); income taxes payable (-222)
Non-current Liabilities	8,756	10,699	Long-term loans payable (+2,015)
Total Liabilities	34,031	29,991	
Total Net Assets (percentage of total assets)	25,706 (43.0%)	25,680 (46.0%)	Retained earnings (+634); treasury stock (-541)
Total Liabilities and Net Assets	59,737	55,672	

Consolidated Statement of Cash Flow

(million yen)	Q2 FY2018	Major Components
Net cash provided by (used in) operating activities	3,148	Profit before income taxes (2,166); decrease (increase) in notes and accounts receivable and inventories (3,198); advances received (595); depreciation and amortization (450); notes and accounts payable-trade (-1,490); income taxes (-1,025); accrued consumption tax (-559)
Net cash provided by (used in) investing activities	-1,309	Property, plant, and equipment and intangible assets (-1,271); investment securities (-679); lease and guarantee deposits (-324); sale of property, plant, and equipment (1,331); subsidiary stock (-319)
Net cash provided by (used in) financing activities	-3,895	Short-term loans payable (-4,600); long-term loans payable (+2,032); Dividend payments (-527); treasury stock (-537)
Cash and cash equivalents at beginning of period	12,372	
Increase in cash and cash equivalents resulting from share transfer	-	
Cash and cash equivalents at end of period	10,267	

3. Consolidated Earnings Forecast

Revised Consolidated Earnings Forecast

- In addition to the factors discussed above, we expect to record dividend income related to movies funded and produced by an AOI TYO Group company. Accordingly, we do not intend to revise beginning-of-period forecasts for profits at this time, despite the first-half downturn in sales and a slight downward forecast revision.

(million yen)	FY2018 Previous Forecast	FY2018 Latest Revised Forecast
Net Sales	70,000	64,000
Operating Income	3,800	3,800
Ordinary Income	3,700	3,700
Profit Attributable to Owners of Parent	2,300	2,300
EBITDA	5,230	5,230

*Published February 14, 2018

*Published August 10, 2018

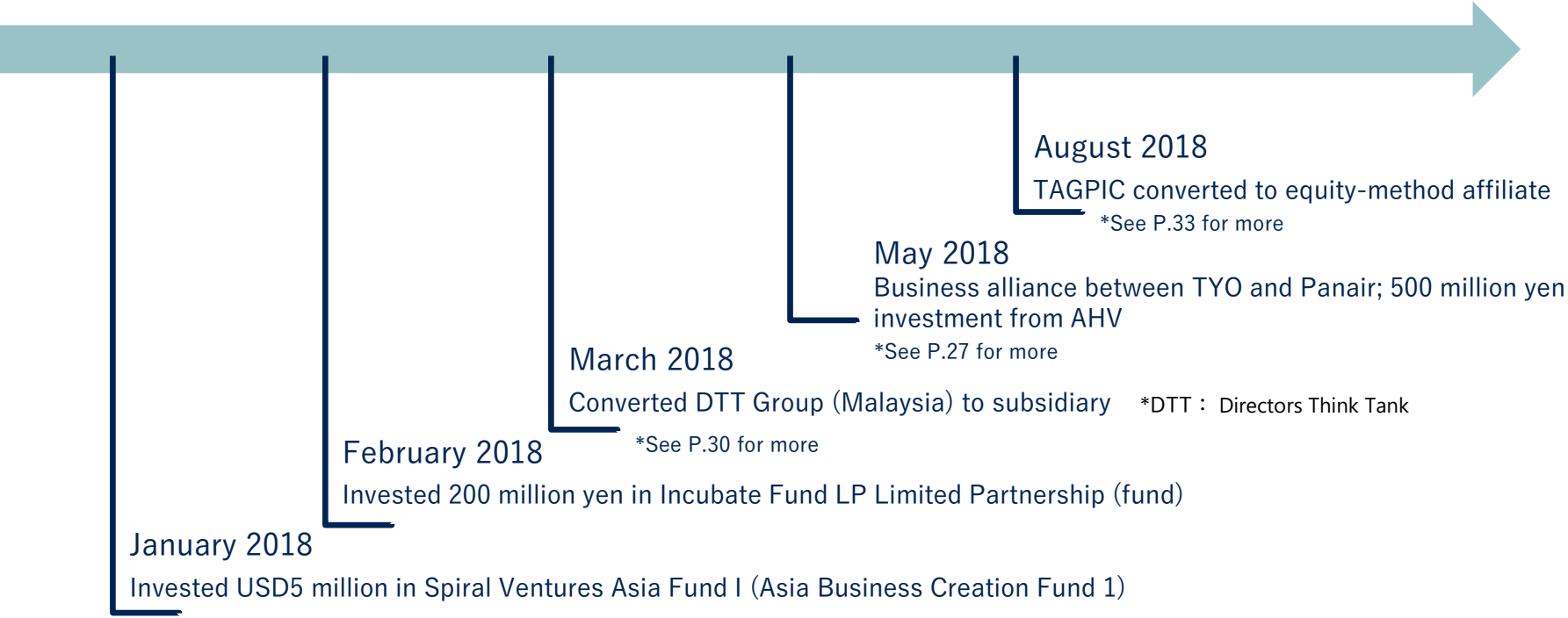
Progress in Consolidated Earnings Forecast

(million yen)	FY2018	FY2018		FY2018	
	Q2 Result	Fiscal Year Forecast	YoY Change	Amount Req'd in Second Half	YoY Change
Net Sales	30,864	64,000	-2,865	33,136	-3,608
Operating Income	1,746	3,800	-612	2,054	-207
Operating margin	5.7%	5.9%	-	-	-
Ordinary Income	1,680	3,700	-625	2,020	-69
Profit Attributable to Owners of Parent	1,170	2,300	-19	1,130	-462
EBITDA	2,357	5,230	-526	-	-

4. Current Initiatives for Various Businesses

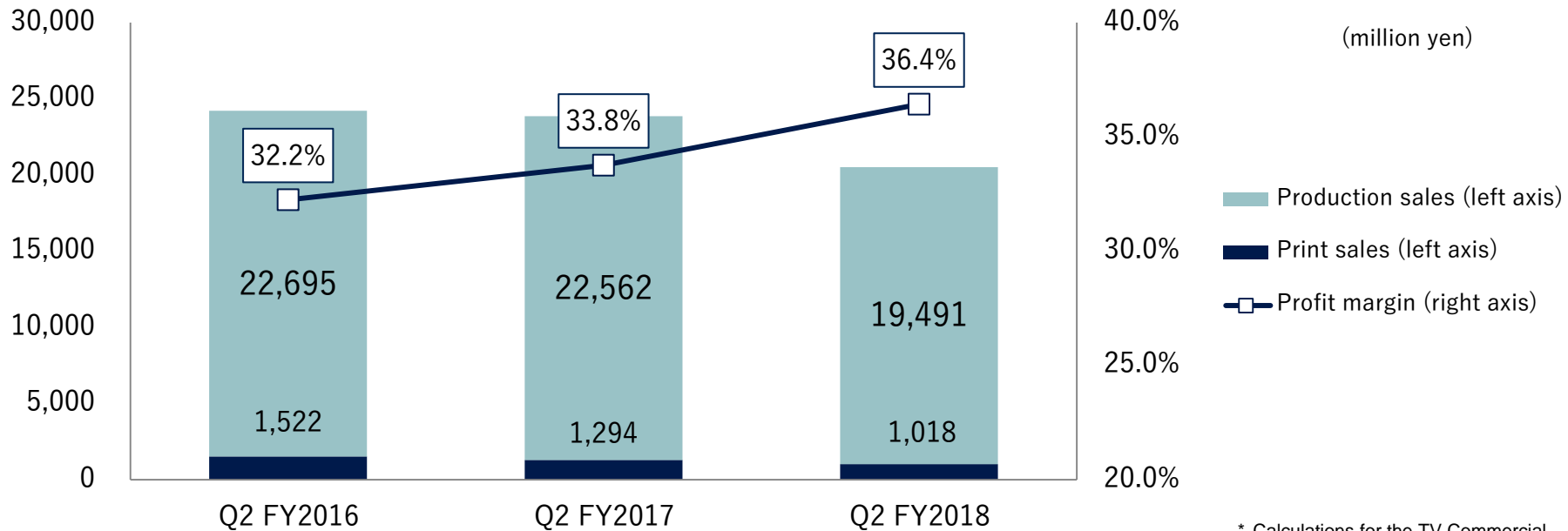
Growth Strategy Progress

- Investment and alliance strategies according to the growth strategy of each business.



Initiatives in the Advertising Video Production Business

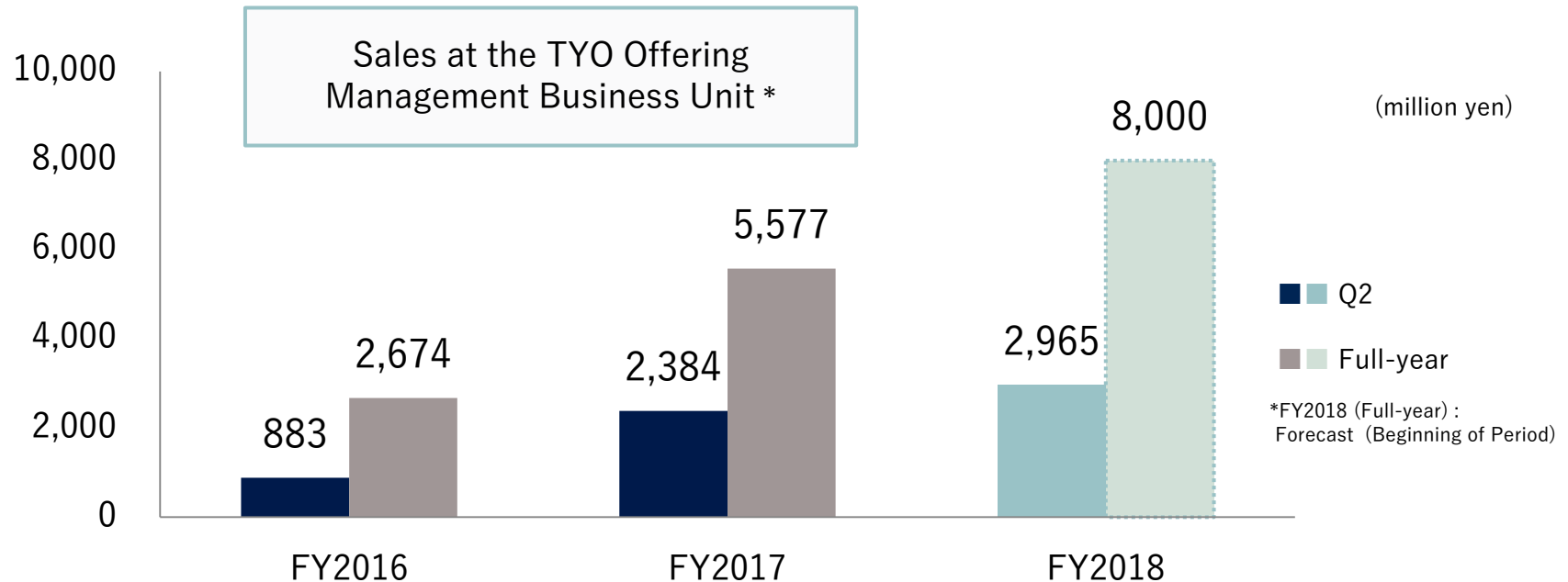
- Ongoing profit margin improvement through careful and consistent external expenditure management.



* Calculations for the TV Commercial Production Department only

Initiatives in the Solutions Business (1)

- Strong sales growth through doing business directly with advertisers.



* Renamed from TYO General Business Division Headquarters

Case study

Business Alliance with Panair: Electric Power Management via AI and Big Data

In May 2018, TYO formed a signed a partnership agreement with Panair, Inc.
At the same time, venture fund Ad Hack Ventures invested 500 million yen.

Panair provides the proprietary *Panair Cloud*, Japan's first* power distribution cloud platform utilizing artificial intelligence and Big Data. Panair formed a new joint venture with TEPCO Energy Partner, Inc. in April 2018, and the company has been developing other IT-based energy services attracting attention not only in the electric power industry, but also in the wider energy industry. *Offered since the April 2016 electricity market deregulation; Panair internal research.

The TYO-Panair alliance enjoys the full support of TYO creative strengths in branding, public relations, and advertising, which contribute to Panair brand value and recognition. The objective of the partnership is to speed the adoption of Energy Tech IT technologies in the energy field. The Ad Hack Ventures investment in Panair cements the TYO-Panair partnership, while bringing further branding support.

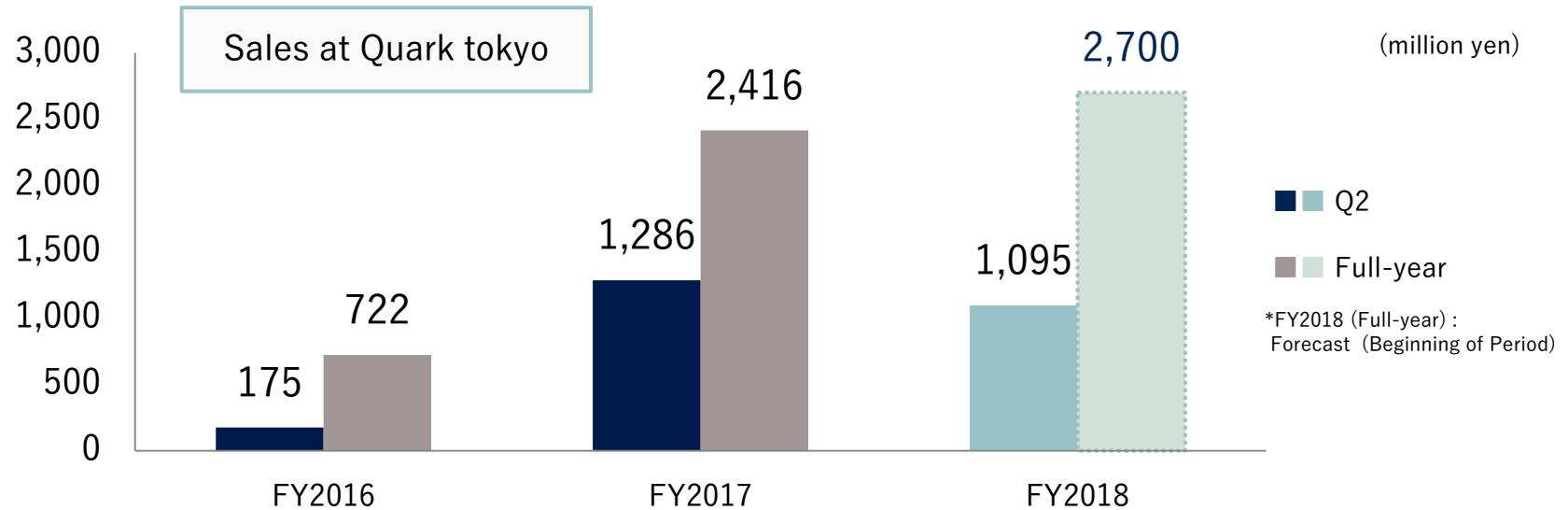
Panair Overview

Company Name:	Panair, Inc.
Representative:	Tatsuhiko Nagoshi, President and CEO
Capital:	3.12463 billion yen (including capital reserves)
Business Lines:	Development and operation of the Panair Cloud power distribution platform; electricity retail sales
URL:	https://corp.panair.jp
Investment Overview:	Third-party allocation of shares



Initiatives in the Solutions Business (2)

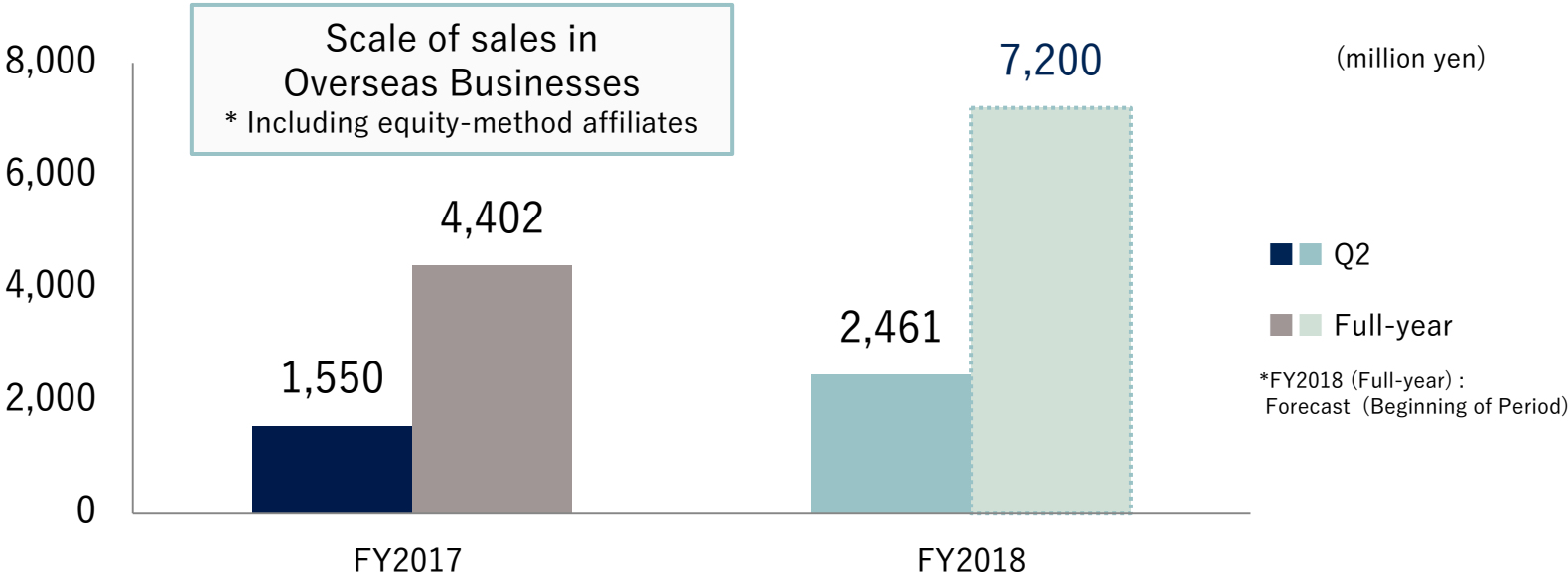
- While Quark tokyo recorded higher online video advertising production revenues year on year, sales were lower overall, mainly due to a major planning and consulting project in the same period of the prior fiscal year.



Initiatives in the Overseas Business

- Sales grew significantly, mainly due to converting the DTT Group (Malaysia) to a subsidiary.

*DTT : Directors Think Tank



Case study

Malaysia Video Production Company *Directors Think Tank* Becomes Group Subsidiary

The AOI TYO Group acquired the shares of Reserve Tank, holding company to Directors Think Tank (DTT) and March 2018, adding these entities to the group.

Since 2008, the Malaysian advertising market has continued to grow. In particular, advertising on premium channels has grown significantly at 24.7% compared to 2016. The market is expected to continue to grow in the future. *Source: Malaysia Media Planning Guide (2016, 2015, 2014)

In the 10 years since being established, DTT has grown into one of only a handful of major video production companies in Malaysia. In addition to offices in Kuala Lumpur, the company also has offices in Jakarta Indonesia, receiving numerous orders for projects from China and other neighboring countries. DTT has won numerous awards for their productions, and was the most awarded production company in the Southeast Asian region in 2017.

DTT group companies include The Tankers, which provides production support when production companies from overseas film in Malaysia, and Directors Think Tank Singapore, which serves as a base of sales activities in Singapore where many companies locate their world headquarters.

This acquisition of DTT stock will lead to better coordinated partnerships and greater growth in the Southeast Asian market.

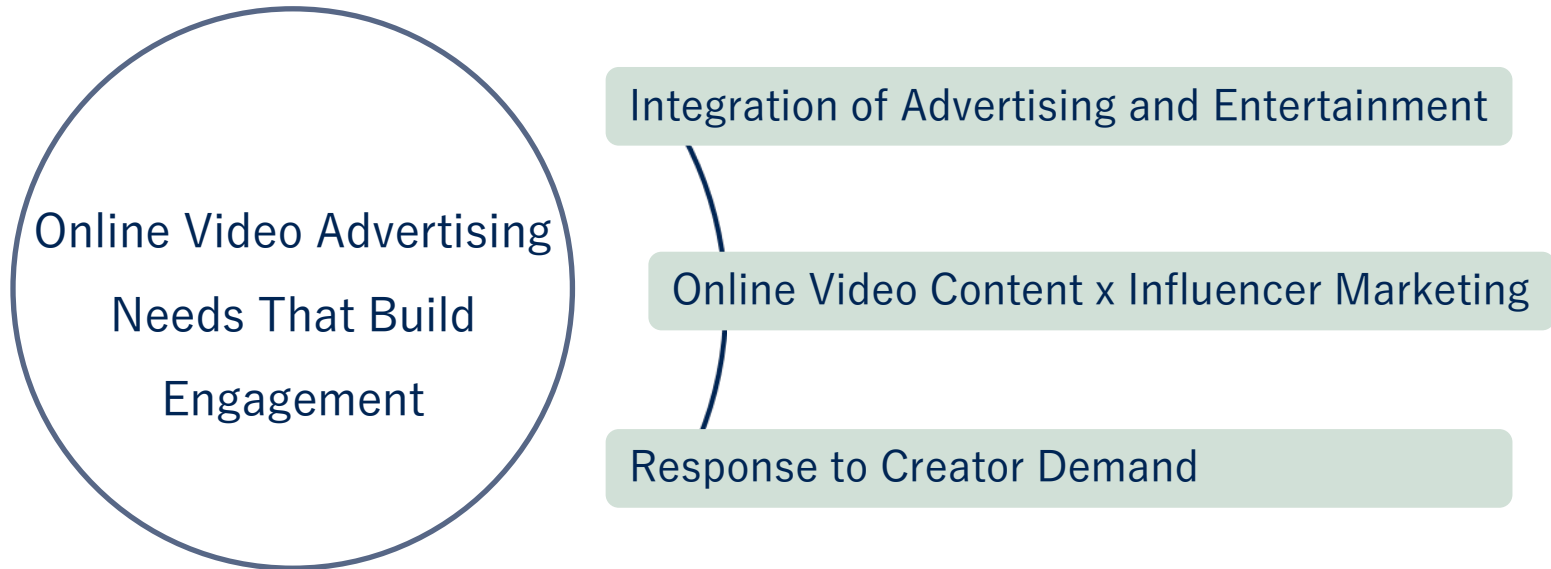
DTT Overview

Company Name:	Directors Think Tank Sdn. Bhd.
Location:	32, Jalan 19/31, Seksyen 19, 46300 Petaling Jaya, Selangor, Malaysia
Representative:	Rajay Singh
Business Lines:	Online video planning and production specializing in TV advertising and corporate public relations
Capital:	2.6 million yen
Established:	November 2007
Ownership:	Reserve Tank Sdn. Bhd. (100%)



Online Video Advertising in the 5G Era

- 5G* technology will create an explosion in online video advertising in the year 2020 and beyond.
- We will create new value, developing business models that meet needs for high-quality online video content.



*New technology forecasted for the 2020s, facilitating a high-capacity, low cost, low power consumption network system capable of handling increases in traffic.
Various entities are pursuing research and development for massive simultaneous device connections associated with ultra-high-speed communications, low latency, and the spread of IoT and IoE.

Case study - Integration of Advertising and Entertainment

Director Hirokazu Kore-eda's *Shoplifters* Wins the prestigious Palme d'Or at the Cannes Film Festival

AOI Pro. invested in and produced director Hirokazu Kore-eda's film, *Shoplifters*, which won the Palme d'Or in the Competition Division of the 71st Cannes International Film Festival. The film was the fifth ever Japanese entry to win the Palme d'Or, and the first to win in 21 years.

Shoplifters also won the ARRI/OSRAM Award for Best International Film in the CineMasters Competition of the 36th Munich International Film Festival, the first ever such award for a Japanese film.

As of August 22, *Shoplifters* earned domestic box office receipts of more than 4.3 billion yen, viewed by a cumulative 3.55 million people.

The coming 5G era will bring a fusion of entertainment content and video advertising. Traditional advertising models will change significantly as advertising content transforms from a tool communicating brand information to a tool linking brands and consumers together in relationships. To keep up with these changes, content producers must be able to develop and produce outstanding content that reaches consumer emotions through video images.

The AOI TYO Group will be one of the leading companies engaged in producing this type of entertainment content. We will leverage our skills to grow our video production business even further.

(C) 2018 *Shoplifters* Production Committee



Case study - Online Video Content x Influencer Marketing

Tagpic, Asia's Largest Influencer Marketing Company Becomes Equity-Method Affiliate AOI TYO Strengthens Presence in the Online Video Content x Influencer Marketing Sector

In July 2018, AOI Pro. entered into an equity and business partnership with Tagpic Inc. In August, Tagpic was converted to an equity-method affiliate.

Tagpic was the first influencer marketing company in Japan to specialize in Instagram promotions featuring influencers. Today, the company has a network of more than 4,000 social media influencers around the world. With a reach of almost 810 million* followers, Tagpic is regarded as owning the largest influencer platform in Asia, and has numerous successful promotions for major corporate clients under its belt.

*Figure represents the total number of influencer followers (may include duplicates). (Source: Tagpic internal survey as of June 2018)

More companies than ever are using online video marketing on social media platforms. Tagpic is deeply knowledgeable in Internet online video broadcasting, being an expert in influencer casting and management, and owning the PICFEE branding online video distribution network. Combining the AOI Pro. video production skill set with Tagpic expertise, we aim to expand the reach of both companies into other sectors, growing our businesses together. The AOI TYO Group plans to leverage this partnership to create new value for client brand strategy through Online Video Content x Influencer Marketing.

Tagpic Overview

Company Name: Tagpic Inc.

Representative: Ayumi Yasuoka, CEO

Business Lines: Influencer casting on Instagram, YouTube, Twitter and other platforms;
Instagram brand consulting;
Management and sales on the PICFEE branding online video distribution network
IGTV, YouTuber talent production

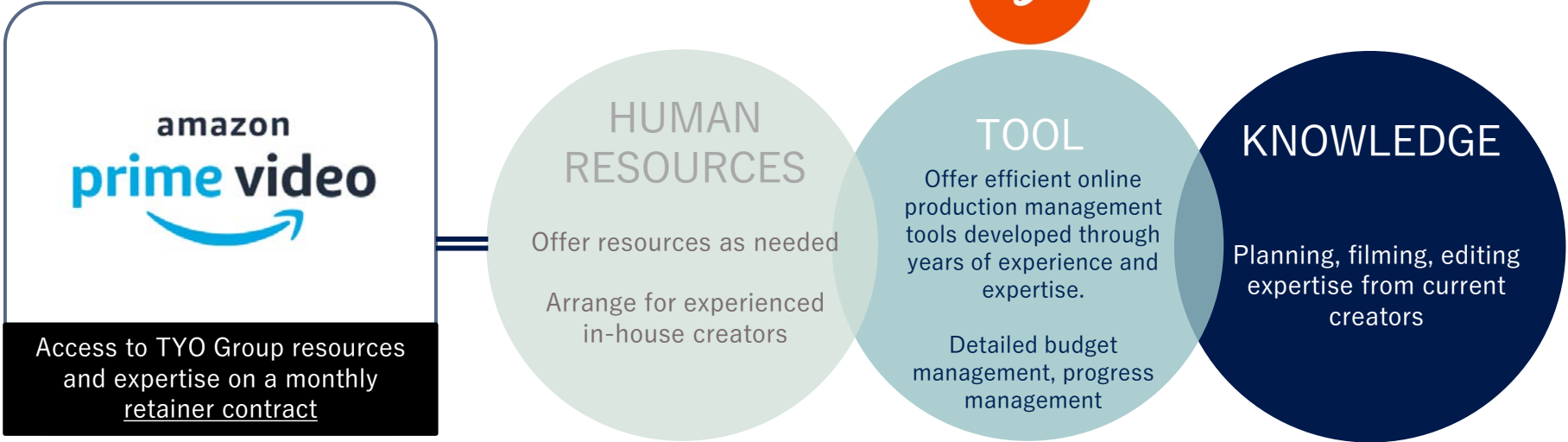
URL: <http://tagppic.jp>

#TAGPIC

Case study - Response to Creator Demand

- Answering rapidly growing corporate needs for creators.
- New MovieBox human resources solutions service from TYO Offering Management.

Example Contract:



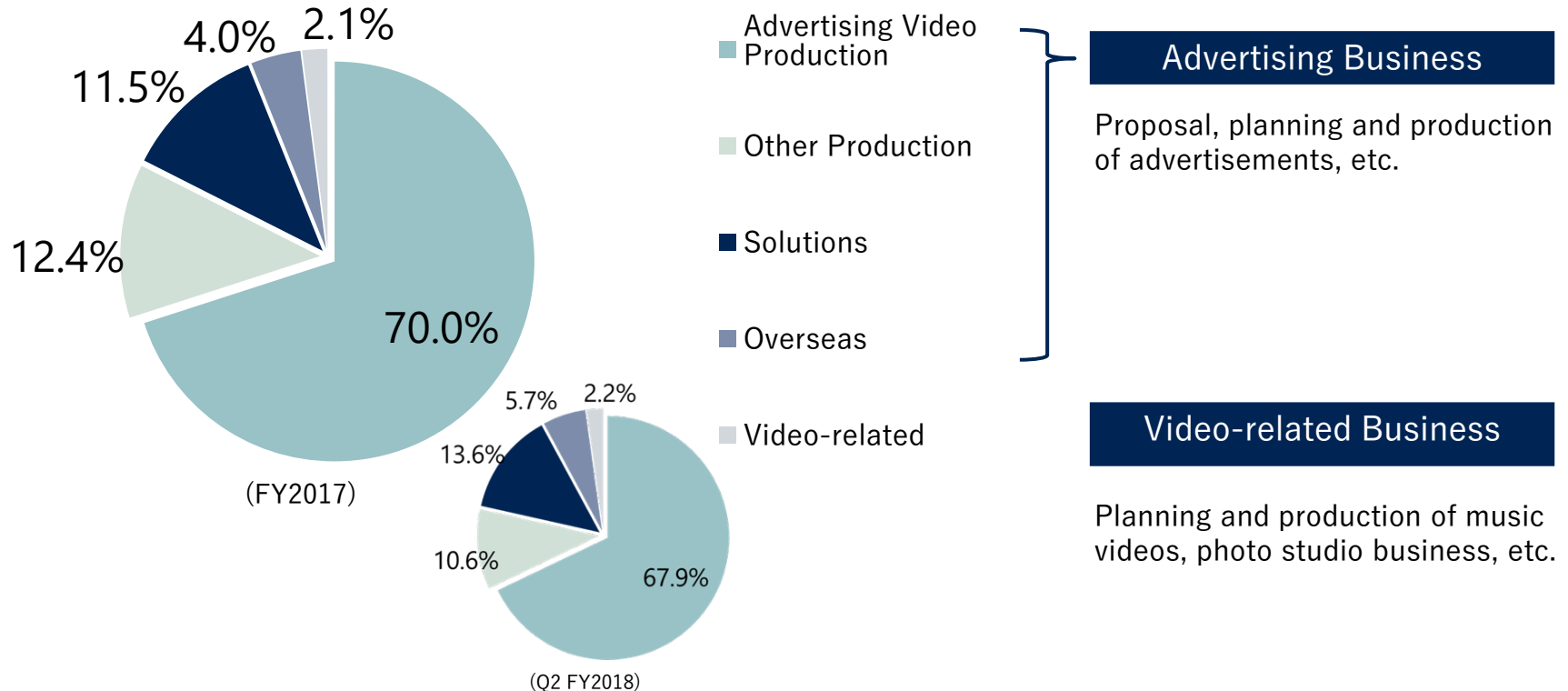
5. Appendix – Company Profile, Stock Information, etc.

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	http://aoityo.com/en/

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

Net Sales Composition Ratio by Business Segment



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 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.

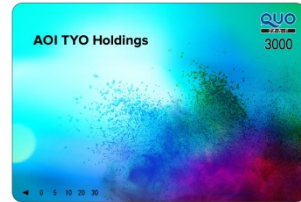
	Period of Purchase	Type of Shares	Total Number of Shares Purchased	Total Value of Shares purchased
Previous Purchase	May 16, 2017 - Feb. 27, 2018	Common Stock	261,400 shares	289,631,200 yen
Current Purchase	Jun. 1, 2018 – May 31, 2019	Common Stock	400,000 shares	531,200,000 yen

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.



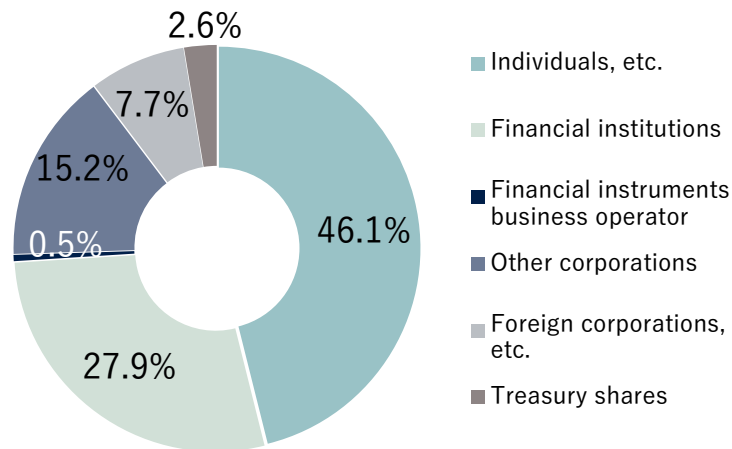
Status of Stock and Shareholders (as of June 30, 2018)

Number of Shares and Shareholders

Total number of shares issued	24,566,447
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Total number of shareholders	12,915
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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)	2,057,100	8.60%
2	The Master Trust Bank of Japan, Ltd. (Trust Account)	1,485,100	6.21%
3	Cosmo Channel	1,153,740	4.82%
4	Imagica Robot Holdings Inc.	1,018,000	4.26%
5	Fields Corporation	479,660	2.01%
6	Trust & Custody Services Bank, Ltd. (Trust Account E)	418,900	1.75%
7	Hitoshi Hara	400,000	1.67%
8	The Bank of New York Mellon (International) Limited 131800	399,800	1.67%
9	The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	383,500	1.60%
10	Fumiko Hara	328,000	1.37%

* The shareholding ratios are calculated by subtracting treasury shares (647,867).

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)