

AOI TYO Holdings

Earnings Presentation

Second Quarter, FYE December 2020

September 2, 2020

AOI TYO Holdings Inc.

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1. Summary of Consolidated Financial Results

Response to COVID-19

Since February	Much of our film production and editing processes for commercial production fall under the Three C's (closed, crowded, close-contact spaces to be avoided); we have taken measures in a stepwise fashion to prevent the spread of infection
Under the Japanese government's state of emergency declaration (Apr 7 - May 25)	We took measures such as temporarily suspending operations at filming/editing studios and requesting postponements from advertising companies/advertisers involved in filming projects
After state of emergency lifted (May 25)	We entered into an advisory contract with a medical coordination company, drafted our own guidelines for production work, and then restarted filming and editing operations, taking a number of measures to prevent the spread of infection

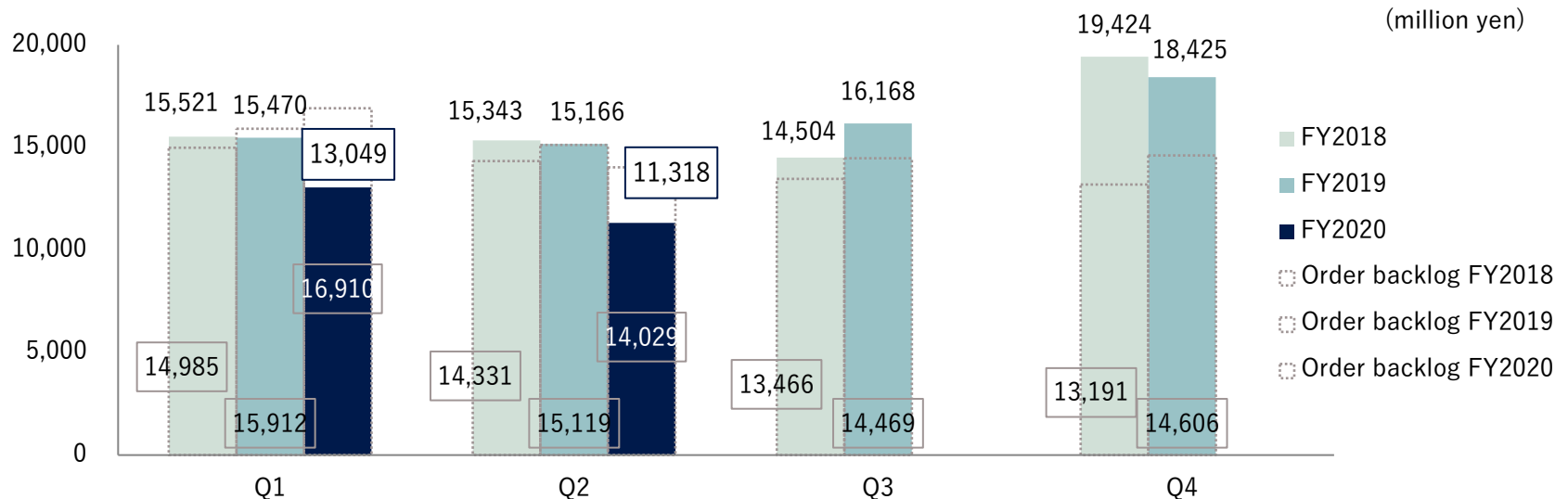
Financial Highlights

- Significant decrease in net sales due to impact from spread of COVID-19.
- Sales declines also had a significant impact on profits, recording losses at each stage of profit.

(million yen)	Q2 FY2018	Q2 FY2019	Q2 FY2020	YoY Change
Net Sales	30,864	30,636	24,367	-6,269
Operating Income	1,746	816	-881	-1,697
Ordinary Income	1,680	637	-1,047	-1,685
Profit Attributable to Owners of Parent	1,170	257	-956	-1,213
EBITDA	2,357	1,531	-313	-1,845

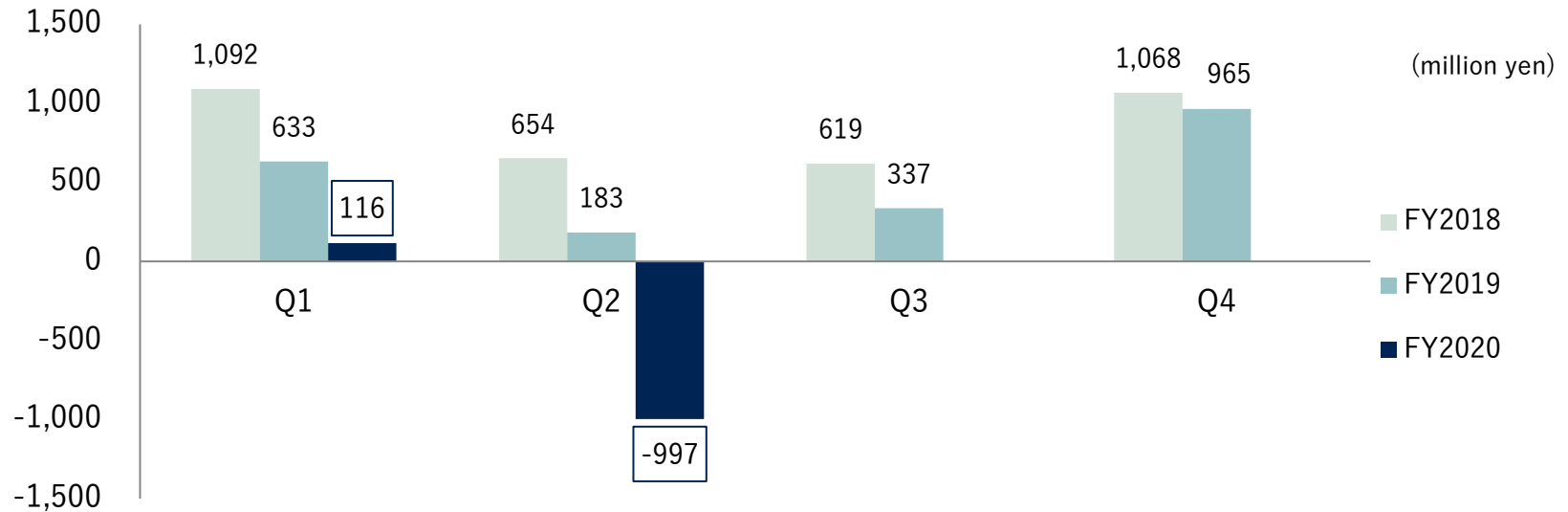
Trend of Net Sales by Quarter and Order Backlog

- The negative impact on sales of postponements or cancellations of projects due to COVID-19 amounted to ¥5,400 million (70% delayed until Q3 or later).
- Order volumes also fell sharply due to future uncertainty and suspension of economic activity during the state of emergency; the balance of order volumes at the end of Q2 was ¥14,029 million (down 7.2% year-on-year).



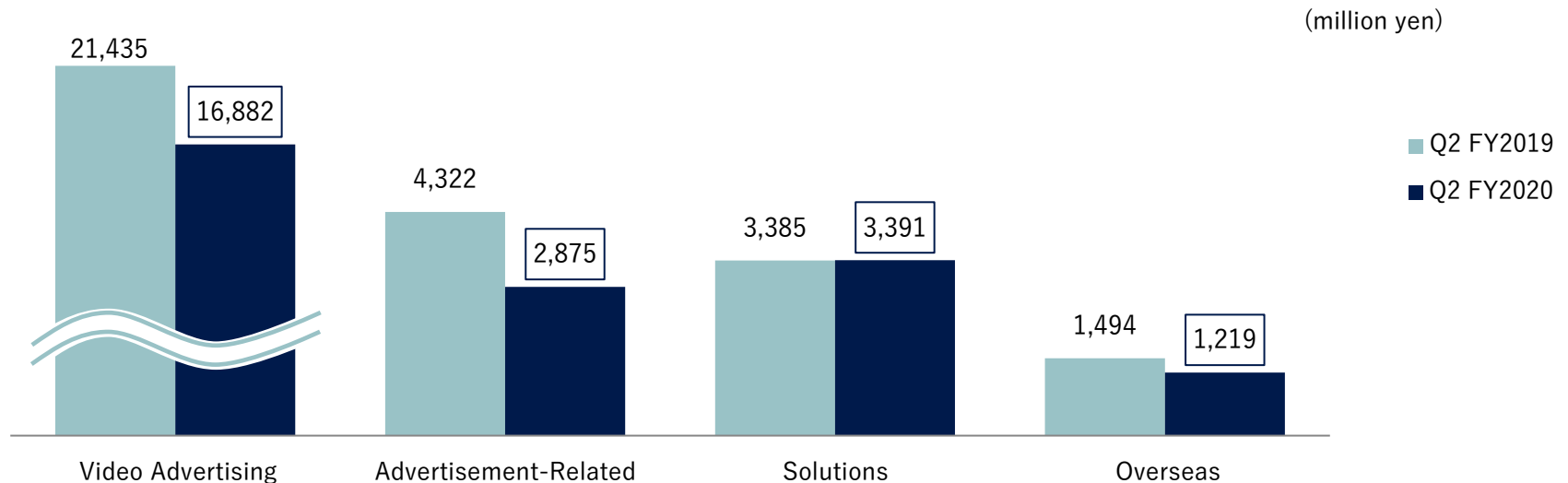
Trends of Operating Income by Quarter

- Operating losses were recorded for Q2 due to a decline in net sales, despite elimination of costs related to restructuring at poorly performing subsidiaries and software recorded as impairment loss in the prior year.



Net Sales by Business Segment

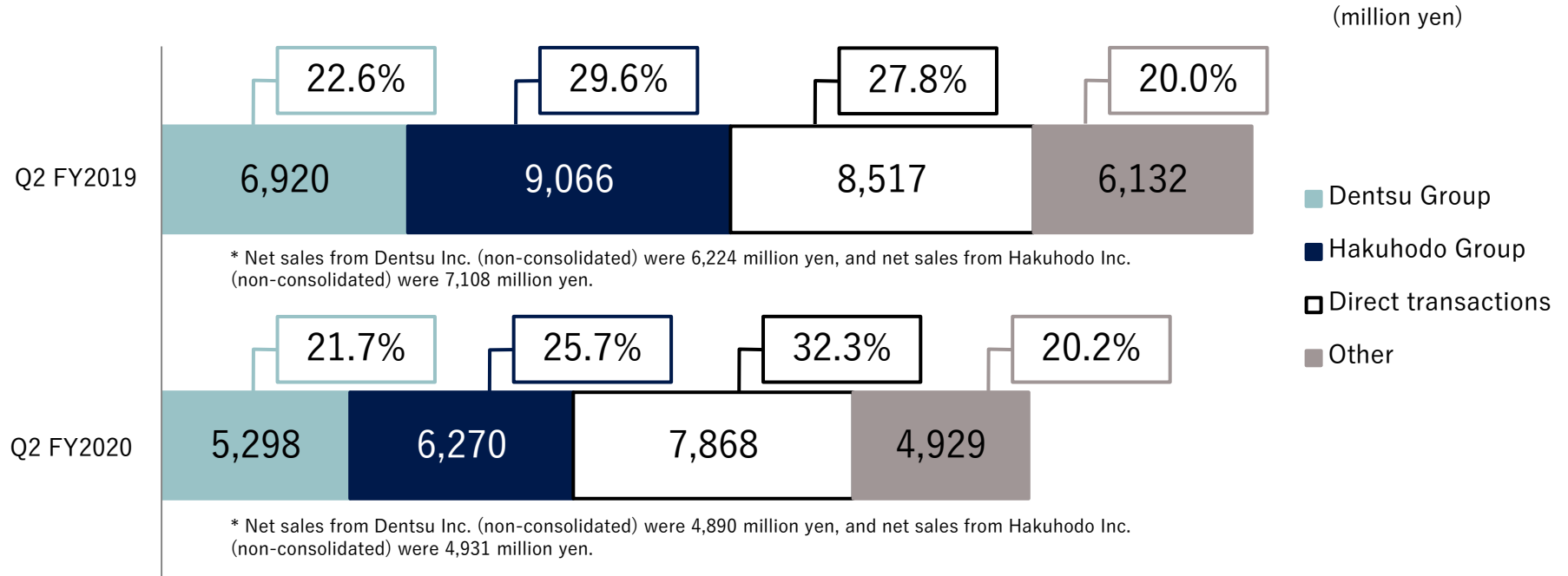
- In the Solutions Business, though net sales were nearly unchanged year-on-year, impact from COVID-19 caused net sales to fall dramatically in the Video Advertising Business, with decreases also in Advertisement-Related Business due to the suspension and postponement of various events.



Overview of Business Segments

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

Net Sales by Customer



Net Sales by Medium

(million yen)	Q2 FY2019	Component Ratio	Q2 FY2020	Component Ratio	YoY Change
TV commercial production	18,169	58.6%	14,106	57.3%	-4,063
TV commercial	17,367	56.0%	13,596	55.2%	-3,771
Printed commercial materials	803	2.6%	511	2.1%	-292
Entertainment contents	1,046	3.4%	1,128	4.6%	+81
Digital contents	6,402	20.6%	5,782	23.5%	-620
Overseas	1,491	4.8%	1,082	4.4%	-409
Other	3,908	12.6%	2,541	10.3%	-1,367
Total	31,017	100.0%	24,639	100.0%	-6,378

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

Summary of Consolidated Balance Sheet

- Cash and cash equivalents amounted to ¥13,307 million, as we maintained a high 277.2% liquidity ratio.
- We closed commitment lines with a number of financial institutions for a combined ¥12 billion, securing sufficient liquidity. (¥0.0 billion outstanding as of June 2020)

(million yen)	FY2019	Q2 FY2020	Major Components
Current Assets	36,003	32,572	Cash and deposits (+4,196); notes and accounts receivable (-8,846); electronically recorded monetary claims (+1,628)
Non-current Assets	17,348	17,000	
Total Assets	53,352	49,573	
Current Liabilities	18,343	11,751	Accounts payable (-4,637); short-term loans payable (-3,200)
Non-current Liabilities	11,645	15,871	Long-term loans payable (+4,281)
Total Liabilities	29,988	27,622	
Total Net Assets (percentage of total assets)	23,363 (43.8%)	21,951 (44.3%)	Retained earnings(-1,242)
Total Liabilities and Net Assets	53,352	49,573	

2. Consolidated Earnings Forecast

Future Outlook

Premises

We assume that the spread of COVID-19 and the accompanying state of economic activities will continue at least through the year

*We do not assume a similar postponement/suspension of orders due to re-declaration of a state of emergency by the Japanese government triggered by greater spread of the virus

Immediate Situation

Efforts to prevent the spread of infection will suppress economic activity and lead to deterioration of the economy both in Japan and overseas, resulting in reductions in corporate demand for advertising

Outlook

Though order volumes will be lowest in Q2 it would be difficult to expect a broad recovery in order volumes in Q3/Q4

Revised Consolidated Earnings Forecast

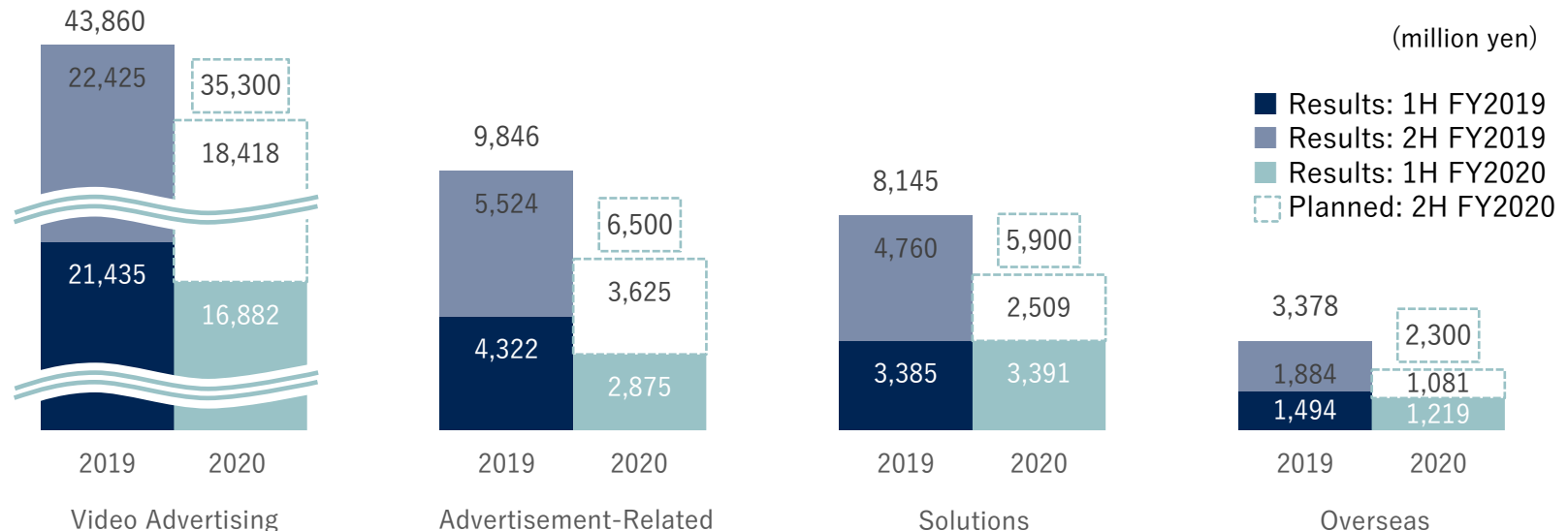
- Though net sales in the second half of the year will increase compared to the first half, we forecast that operating profit levels will not reach profitability.

(million yen)	1H FY2020 Results	2H FY2020 Forecast	YoY Change	FY2020 Forecast	YoY Change
Net Sales	24,367	25,633	-8,960	50,000	-15,229
Operating Income	-881	-519	-1,821	-1,400	-3,518
Ordinary Income	-1,047	-453	-1,579	-1,500	-3,263
Profit Attributable to Owners of Parent	-956	-544	-543	-1,500	-220
EBITDA	-313	83	-1,992	-230	-3,837

*this results forecast has significant potential to fluctuate upward or downward depending on the state of the spread of COVID-19 going forward.

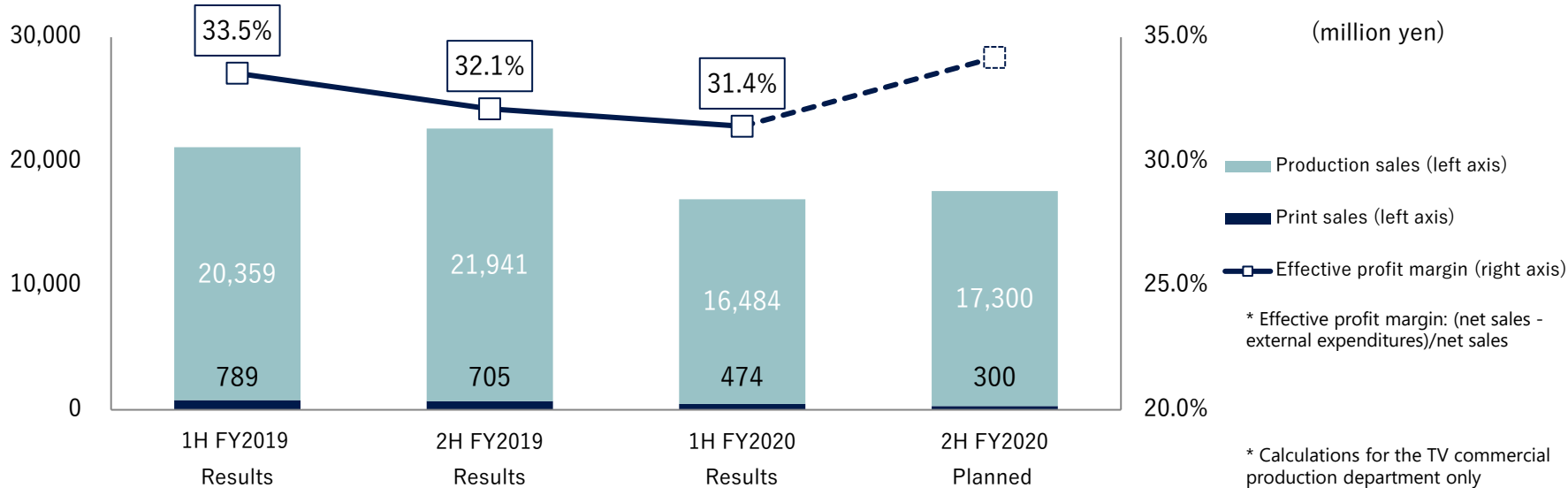
Revised Net Sales Plan by Business Segment

- Net sales for the Video Advertising Business and Advertisement-Related Business in the second half are forecast to increase versus the first half due to a restart of economic activities after the lifting of the state of emergency.
- Net sales for the Solutions Business in the second half are forecast to decrease versus the first half; this is because despite remaining flat year-on-year, demand for advertising in the second half is to fall.



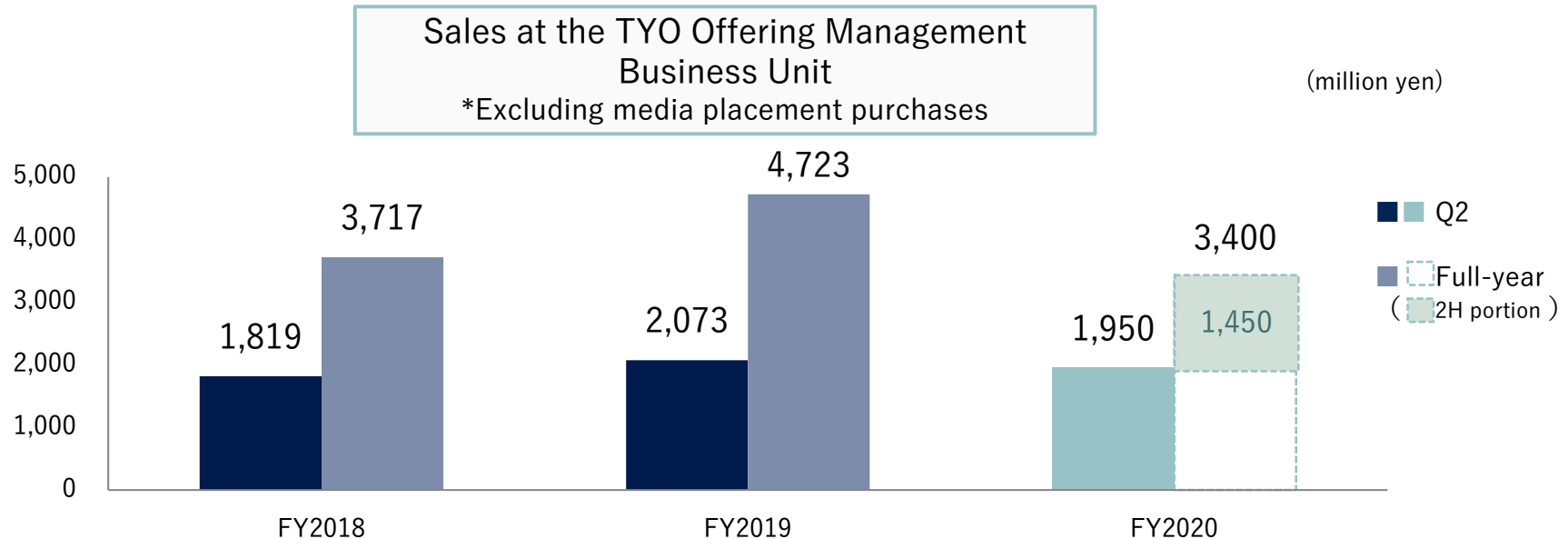
Video Advertising Business

- Though net sales will be lowest in Q2 and increase in the second half, broad recovery is difficult to expect at present.
- Effective profit margin in the first half declined due to factors such as impact from cost billings due to suspended/postponed projects, with levels falling slightly below initial plans in the second half.



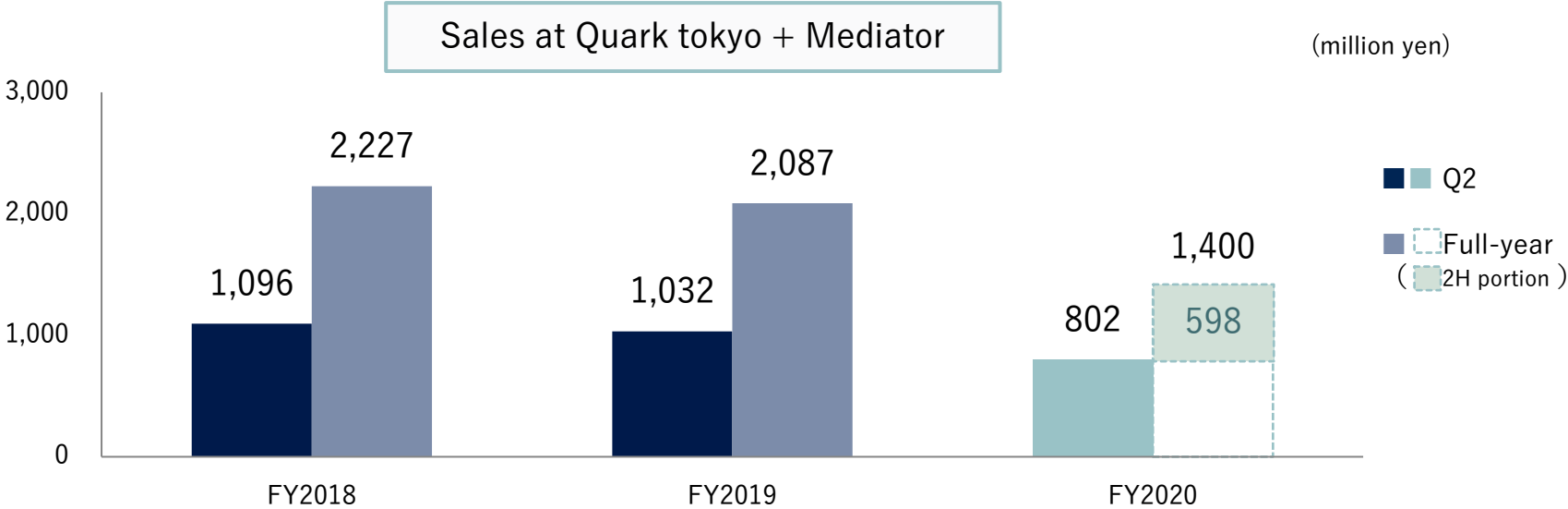
Solutions Business (1) - TYO Offering Management Business Unit

- Net sales in the first half were flat year-on-year with increasing orders from Internet-related companies and others.
- In the second half, with suspensions/postponements in existing projects, it is currently difficult to expect new orders, and net sales are forecast to fall below first half levels.



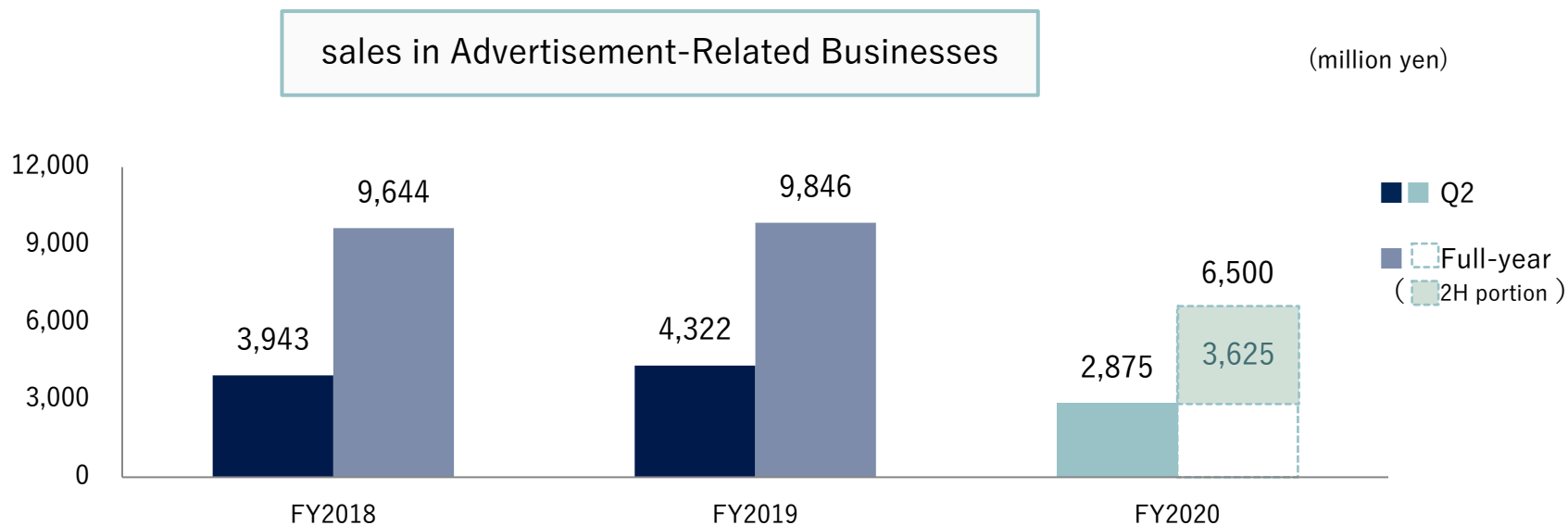
Solutions Business (2) - Quark tokyo + Mediator

- We cannot currently expect increased sales in the second half due to impact from budget cuts among existing clients caused by the suspension of Olympics-related projects and reduction in advertising demand, as well as voluntary restraint in face-to-face sales in Q2.



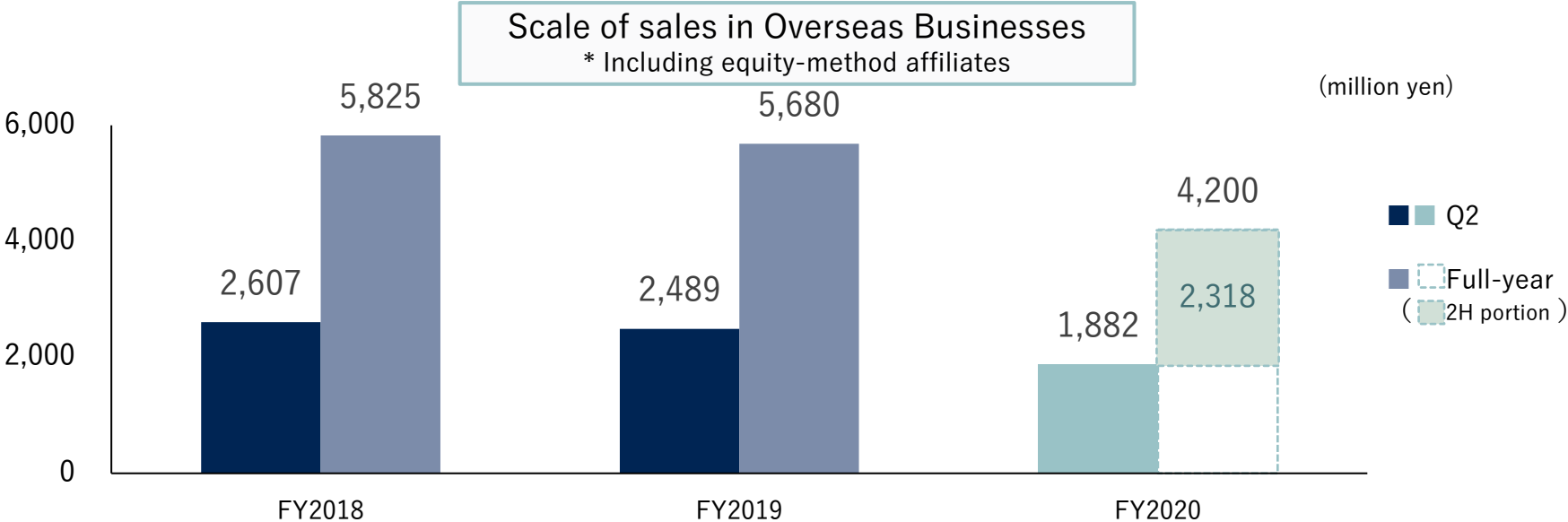
Advertisement-Related Business

- Event-related net sales are expected to increase in the second half due to relaxation of restrictions and acquisition of online services projects.



Overseas Business

- Compared to the first half, which was affected by lockdowns and other elements, operations have resumed in the second half in countries/regions where economic activity restrictions were lifted, with a gradual recovery expected.



On Reduction of Directors' Compensations and Dividends

- We expect results to be at the lowest level this year, and for the year-end dividend for the fiscal year ended December 2020, we have decided to maintain the ¥12 level from the previous year from a perspective of maintaining a stable dividend level as much as possible.

	End of Q2	End of FY	Total
Results: Fiscal Year Ended 2019/12(Reference)	8 yen	12 yen	20 yen
FY2020 Forecast	-	12 yen	12 yen
FY2020 Results	0 yen	-	-

- We will reduce directors' compensations given consideration to reducing fixed expenses and taking very seriously the business environment, business performance trends, revisions to dividend forecasts, and other factors.

Scope	Directors (excluding External Directors)
Reduction Details	10% reduction in monthly compensation
Applicable Period	The six months from September 2020 to February 2021

3. Medium-Term Plan

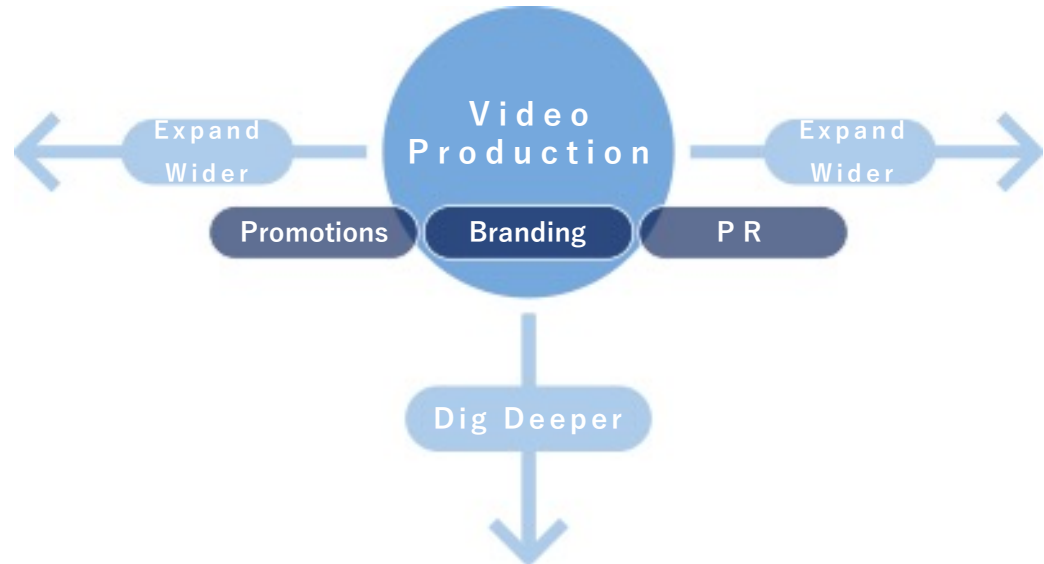
Medium-Term Policies (Created March 2019)

■ Basic policy

- Be a powerful corporate group capable of responding to any era

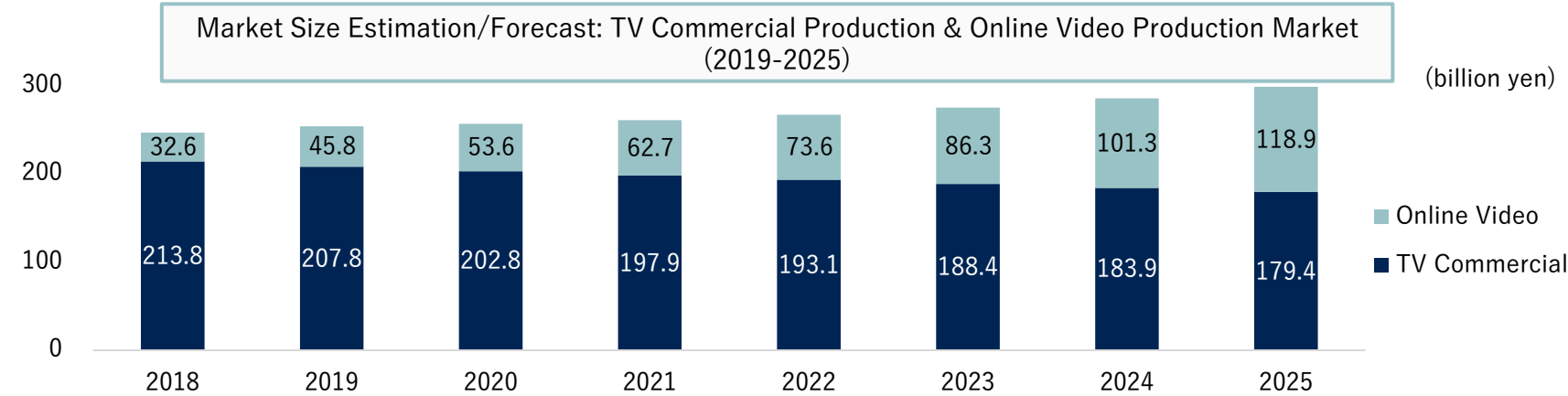
■ Business development policy

- Dig Deeper
- Expand Wider



Business Environment

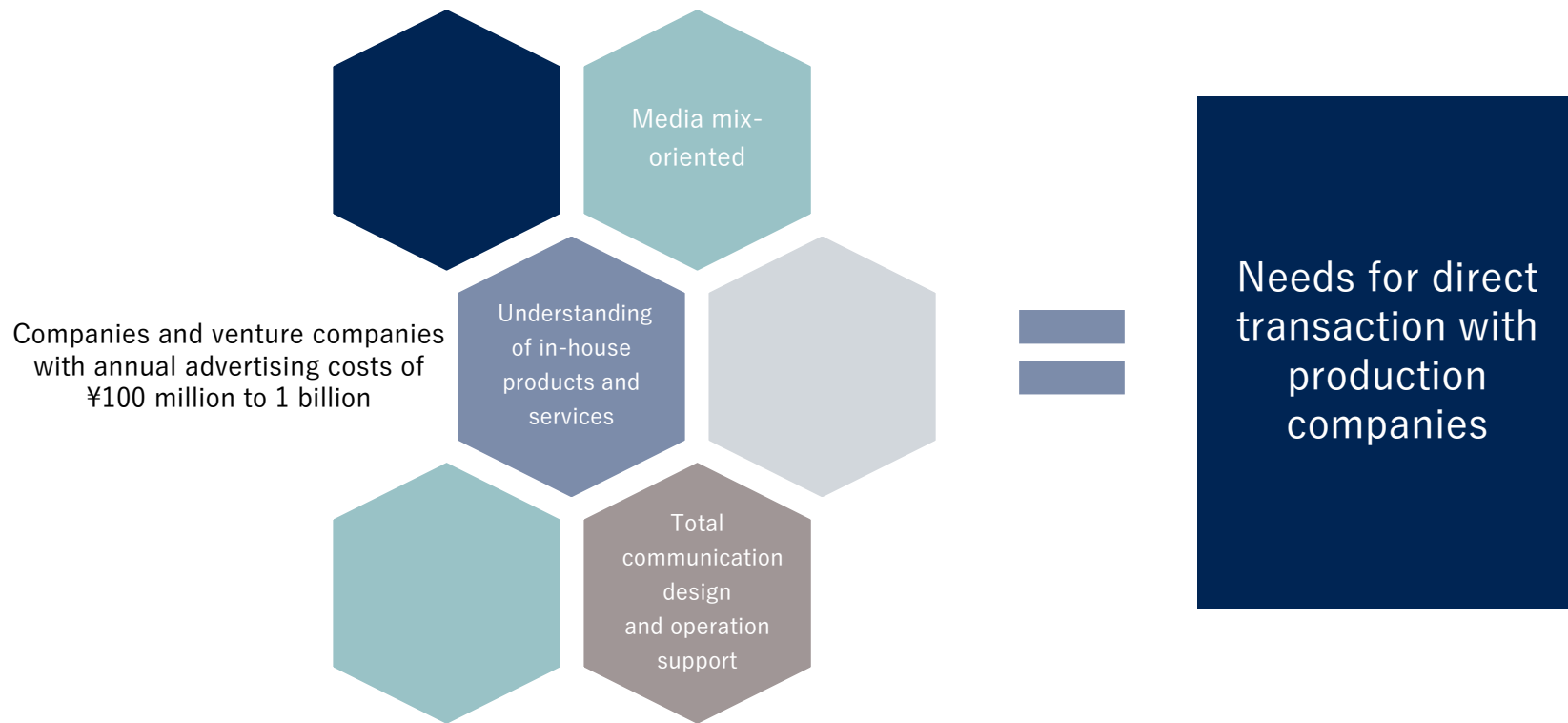
- Despite a shrinking TV commercial market at a pace of up to 2% annually, with the accelerated shift to digital, the online video advertising market is expected to grow at a pace of around 20% per year.
- Of this growth, though some will be in high-priced brand videos, an area we are involved in, there is also to be significant growth in low to medium-priced videos.



* Sources: Dentsu - *Advertising Expenses in Japan*, Mizuho Bank Industry Research Division, CyberAgent Online Video Research Institute/digitalInfact, AOI TYO Holdings analysis

* Impact from COVID-19 is not included in these estimations/forecasts

Advertiser Needs



Corporate Slogan

Produce the future. Produce emotion. Produce people.

Producing *the future* is tackling growth areas;
producing *emotion* is digging deeper into our strengths;
producing *people* is creating a place where our people - our assets - can grow.

These are the goals that
our employees will take on together as we aim for corporate growth.

*"Produce" refers to creating the tangible and the intangible, as well as creating value.

Theme and Priority Measures

Theme : Group-wide update of production functions

Key Measures : Restructuring Business Segments

- (1) Reforming business/organizational structures
- (2) Clarifying initiatives in each business
- (3) Deepening and strengthening Group management

Segments and Initiatives for Focus

Content Production Business

Engaged in advertising video production and post-production with advertising companies as core clients

Shoring up production business with advertising companies

Capturing low to medium-priced digital projects

Diversifying post-production business

Planning, producing XR content (VR/AR)

Communication Design Business

Engaged in providing solutions and in PR, events, and similar services primarily in direct transactions with advertisers

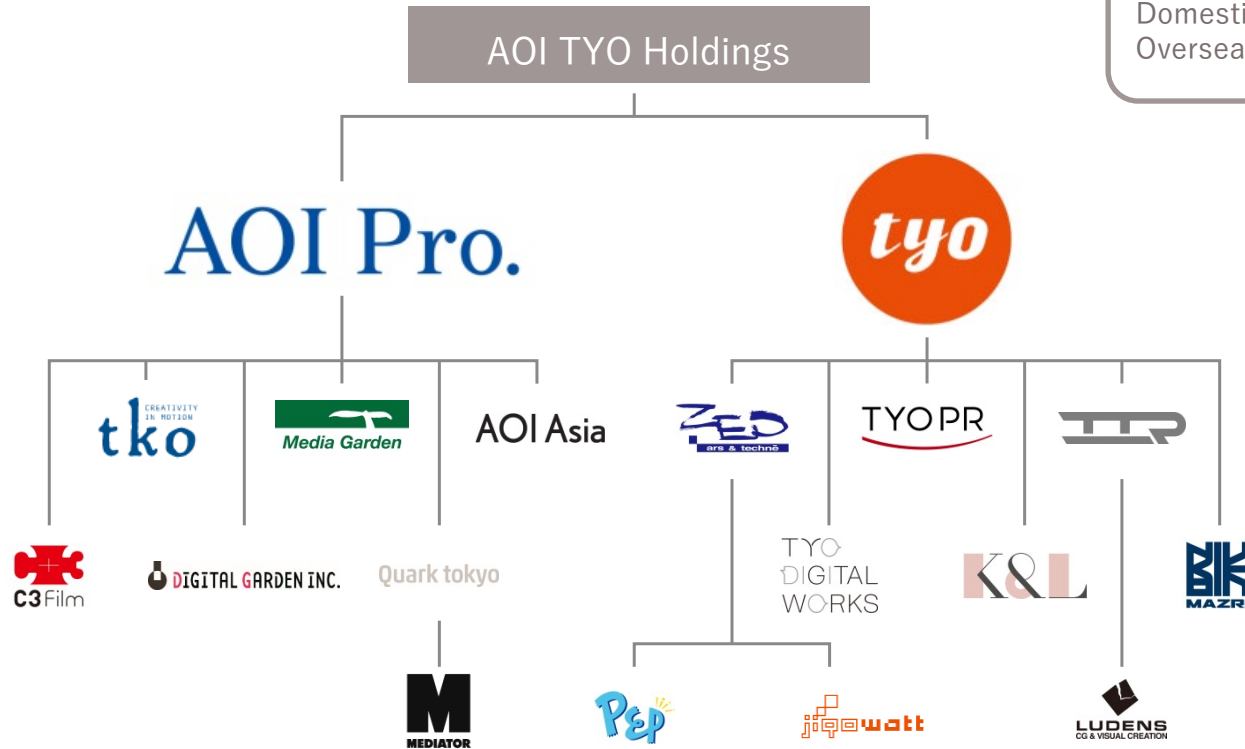
Expanding repeat customer pool

Contracting for total execution

Providing integrated marketing/planning

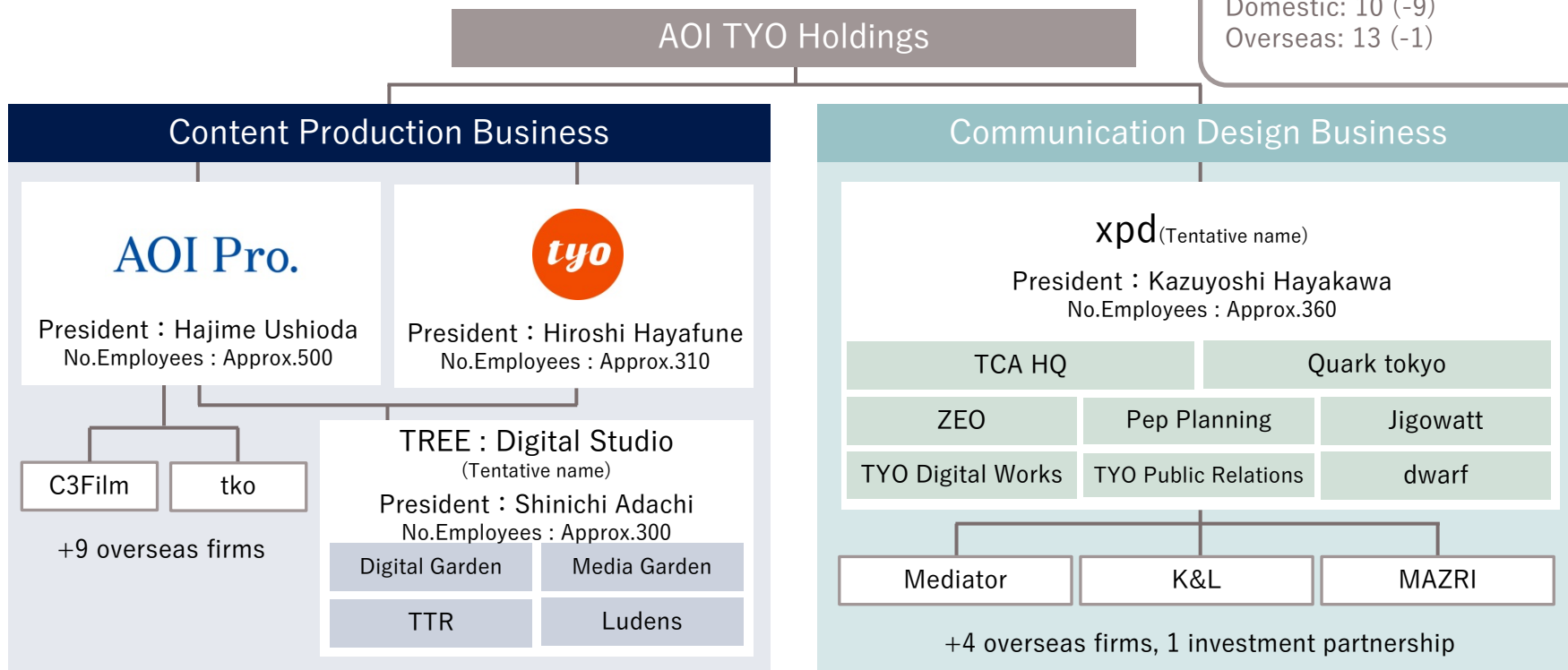
Current Organizational Structure

Consolidated subsidiaries: 33
 Domestic: 19
 Overseas: 14



New Organizational Structure after January 2021 (Tentative)

Consolidated subsidiaries: 23
 Domestic: 10 (-9)
 Overseas: 13 (-1)



Content Production Business

- Leverage industry-leading share and cultivated expertise as strengths to pursue high quality and productivity to shore up business. Simultaneously, expand the scope of work to the low to medium-priced digital video market, where market growth is expected.

Shoring up production businesses with advertising companies: 33%+ effective profit margin

Boosting orders for new/digital projects:

Net sales
+¥5 billion
or more

- Review of sales management methods
- Cultivating young producers
- Acquiring orders from platform owners

Reduction of external production costs:

¥250 million
reduction

- Consolidation into a specialized purchasing department

Capturing low to medium-priced digital projects: Net sales +¥600 million or more

- Unification of production for low to medium-priced projects from clients other than major advertising companies
- Gradually raise the effective profit margin to 50%
- Discovery of human resources at academy facilities (AOI Film Craft Lab) and expansion of videographer network

Diversification of post-production: Net sales +¥500 million or more

- Expanding audio editing, color grading, CG
- Editing low to medium-priced video projects
- Virtual studios
- XR business development centered on the events domain

Communication Design Business

- Engages in corporate communication from overall design to specific formation.
- We will work to strengthen our customer base and provide higher value-added services.

Strength (1)

- In the advertising/marketing solutions domain, we can independently provide omnidirectional execution from video, to digital solutions, PR, events, spatial design, and more

Strength (2)

- Can ensure efficiency and speed within budget



Net sales
+ ¥9 billion

Human Resources Strategy

■ Human Resource Management Policy

Basic policy: *To produce talent who create emotions that will be remembered and passed down for generations*

Keywords: (1) Together (2) Morality (3) Challenge

■ Group human resources strategy

- Standardization of forming candidate groups/managing candidate screening in new graduate recruitment
- Review of evaluation system/compensation structure
- Building an environment of cultivation and career development

Cost Reductions

- Reduce office costs, transportation costs, and more by altering work styles, including shifting to remote work.
- Optimize corporate costs by increasing productivity.

Reduction of
Max **¥2.0 billion**

(Reference)
FY2019 costs:
¥20.4 billion

Office-related costs: **-¥550 million**

- Land rent: -¥480 million
Consolidating offices, reducing leased area 30%
- Consumables cost: -¥30 million
Recommending remote work
- Utilities costs: -¥30 million
Consolidating offices, remote work

Corporate costs: **-¥1.0 billion**

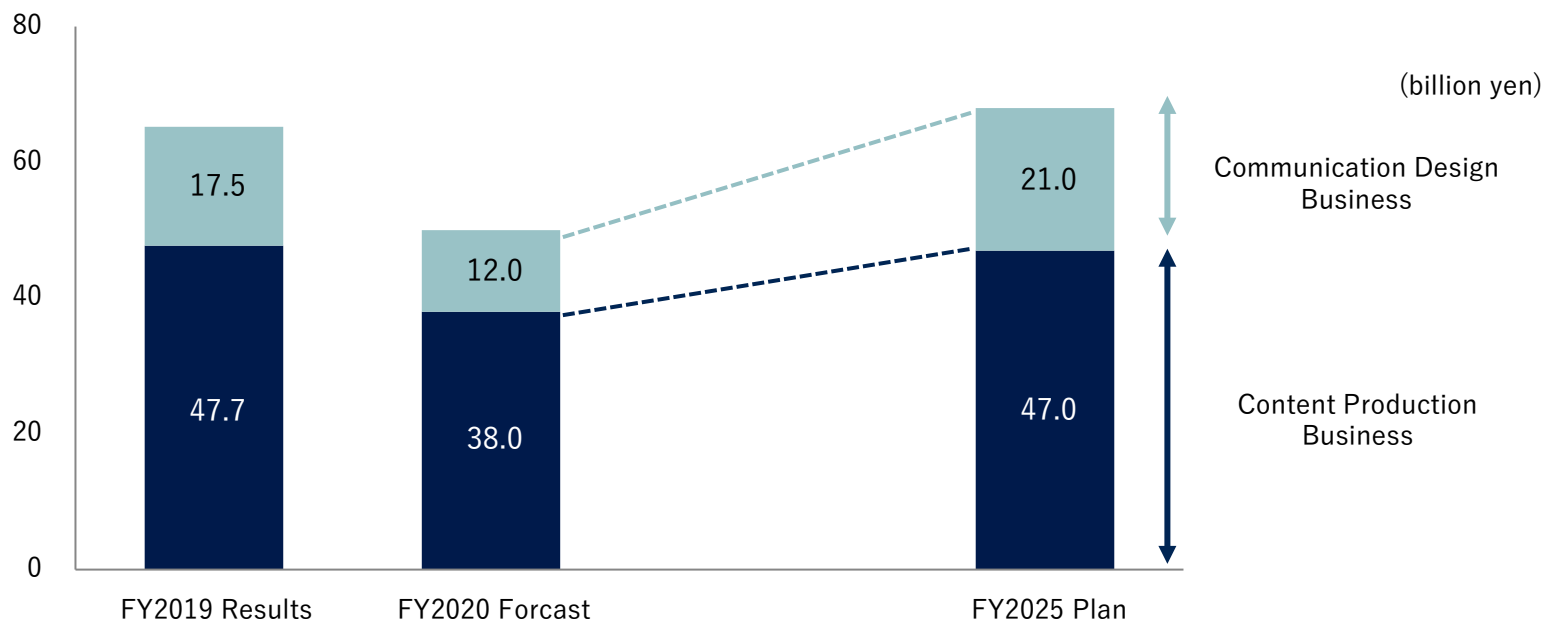
- Personnel, outsourcing costs
Performance-linked portion, etc.
(reductions peak in FY2022)
- Business consignment expenses/commission fees
Efficiency from office/system integration

Other across-the-board reductions in costs: **-¥450 million**

- Entertainment/travel/meeting expenses: -¥300 million
Flat 30% reduction
- Advertising expenses: -¥40 million
- Other expenses: -¥100 million
Flat 10% reduction

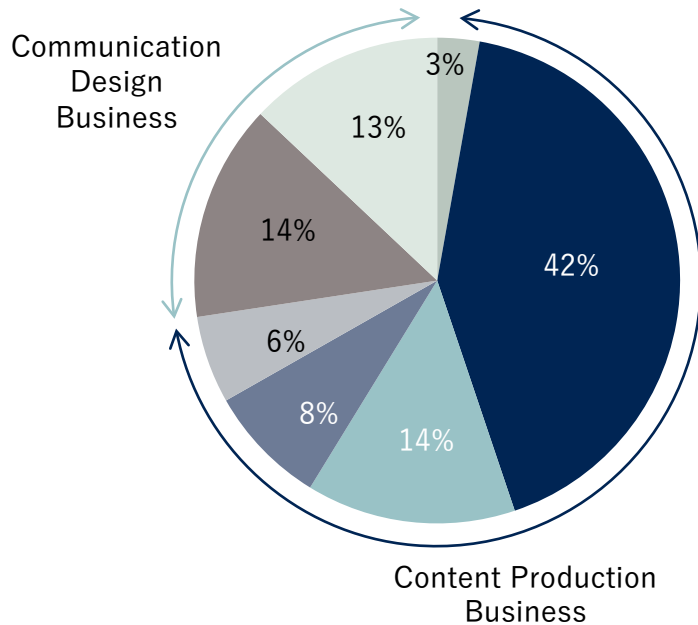
Results Plan

■ Net Sales **¥68** billion ■ Operating Income **¥4.4** billion

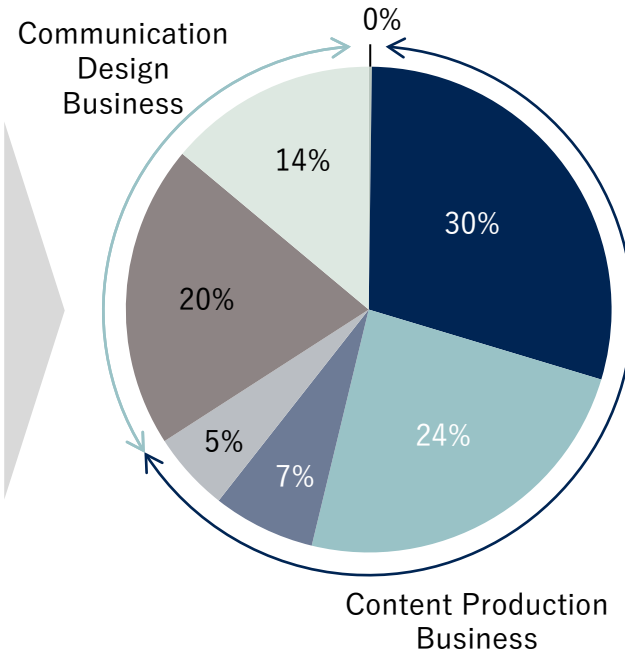


Composition of Net Sales

< FY2019 Results(Reference) >

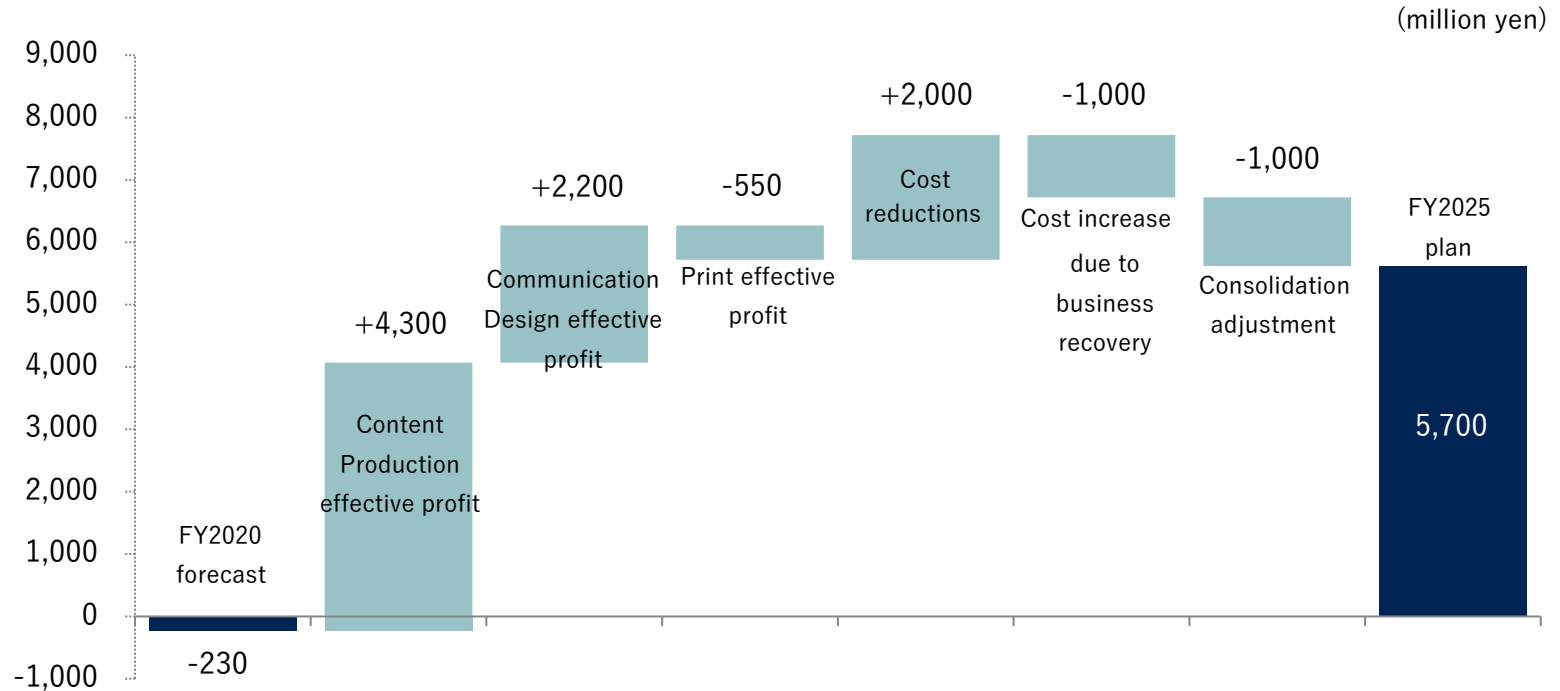


< FY2025 Plan >



- Print
- TV commercials
- Digital
- Post-production
- Entertainment content, etc.
- Solutions Business (former)
- Events/PR, etc.

EBITDA



FY2025 KPIs

Financial

EBITDA **¥5.7 billion** *FY2020 forecast: -¥230 million

ROE **10%+**

Non-
financial

Employee engagement improvement

Contribution to of the SDGs

Shareholder Return

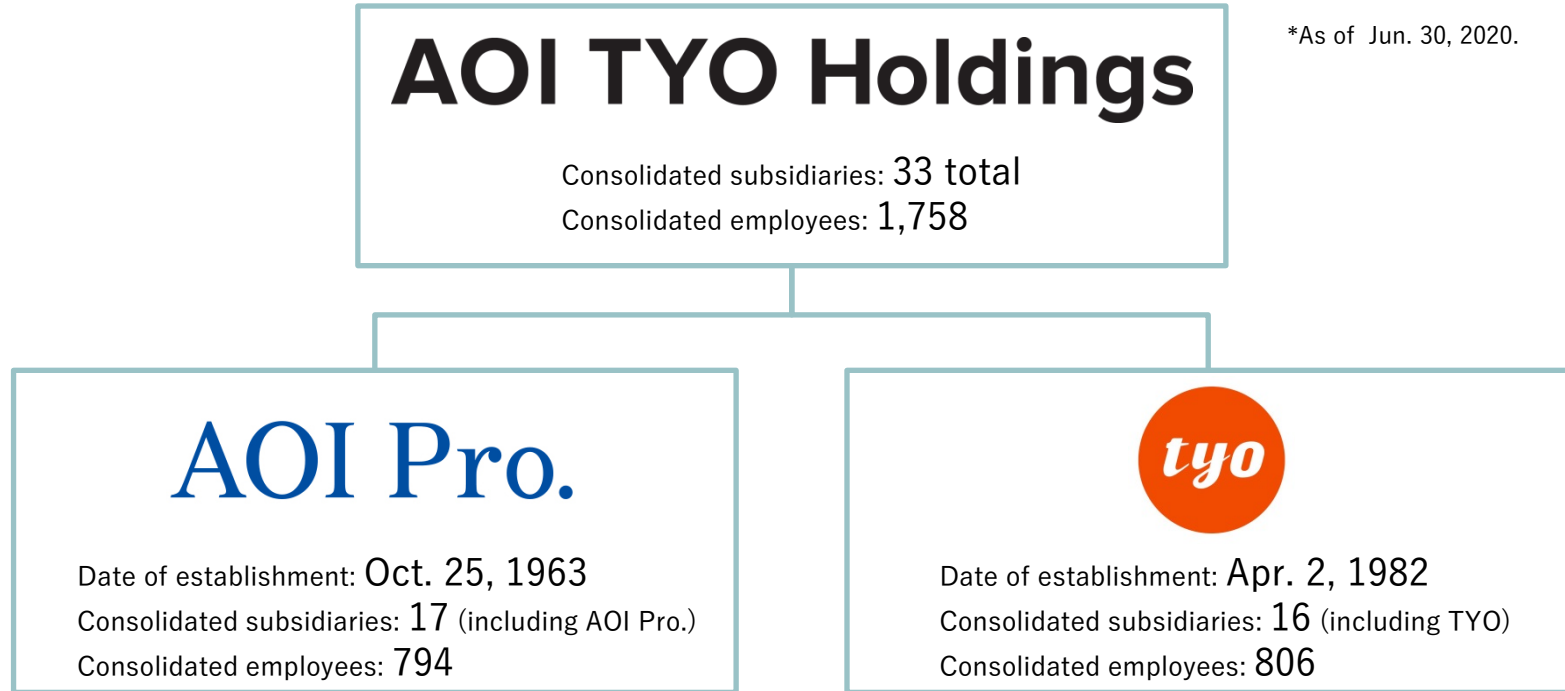
■ Basic policy

- consolidated dividend payout ratio of **30%** or more

Constantly aim to improve corporate value and appropriately distribute profits based on our performance and in consideration of ongoing, stable distribution.

4. Appendix - Stock Information, etc

AOI TYO Group

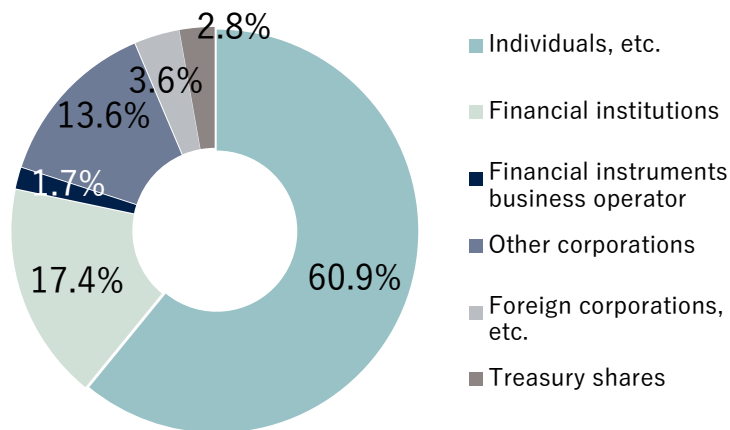


Status of Stock and Shareholders (as of Jun. 30, 2020)

Number of Shares and Shareholders

Total number of shares issued	24,566,447
Total number of shareholders	16,170

Shareholder Composition by Type of Shareholder



Status of Large Shareholders

	Shareholder Name	Number of Shares Held	Shareholding Ratio
1	Cosmo Channel	1,153,740	4.83%
2	IMAGICA GROUP Inc.	1,018,000	4.26%
3	The Master Trust Bank of Japan, Ltd. (Trust Account)	807,400	3.38%
4	Japan Trustee Services Bank, Ltd. (Trust Account)	669,900	2.81%
5	Fields Corporation	479,660	2.01%
6	Yoshihiro Takebayashi	478,100	2.00%
7	Japan Trustee Services Bank, Ltd. (Trust Account 5)	417,500	1.75%
8	Trust & Custody Services Bank, Ltd. (Trust Account E)	411,200	1.72%
9	Hitoshi Hara	400,000	1.68%
10	Credit Suisse Securities (Japan) Limited	340,500	1.43%

* The shareholding ratios are calculated by subtracting treasury shares (691,252).

* The number of shares held by Cosmo Channel Co., Ltd. includes 320,900 shares under a stock loan agreement with Japan Securities Finance Co., Ltd.

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.

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Contact (<http://aoityo.com/en/contact.html>)