



**Summary of Consolidated Financial Results (Japanese Accounting Standards)
for the Third Quarter of the Fiscal Year Ending December 31, 2020**

November 13, 2020

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 Stock Exchange: Tokyo Stock Exchange
 Code: 3975
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 Scheduled date of submission of quarterly report: November 13, 2020
 Scheduled date of commencement of dividend payment: -
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: No

(Rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter (from January 1, 2020 to September 30 2020)

(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	%
Q3 FY2020	34,450	-26.4	-1,260	—	-1,325	—	-1,368	—
Q3 FY2019	46,804	3.2	1,153	-51.3	921	-61.2	348	-77.1

(Note) Comprehensive income Q3 FY2020: -1,515 million yen (-%) Q3 FY2019: 106 million yen (-92.5%)

	Net income per share	Diluted net income□ per share
	Yen	Yen
Q3 FY2020	-58.33	—
Q3 FY2019	14.81	14.76

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Q3 FY2020	49,438	21,578	42.9
FY2019	53,352	23,363	43.0

(For reference) Shareholders' equity Q3 FY2020: 21,197 million yen FY2019: 22,935 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2019	—	8.00	—	12.00	20.00
FY2020	—	0.00	—	—	—
FY2020 (forecast)	—	—	—	12.00	12.00

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

3. Consolidated Financial Forecast for FY2020 (January 1, 2020 to December 31, 2020)

(The percentages are year-on-year changes.)

	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	50,000	-23.3	-1,400	—	-1,500	—	-1,500	—	-63.94

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

* Notes

(1) Important changes in subsidiaries for the third 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)

Q3	FY2020	24,566,447 shares	FY2019	24,566,447 shares
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(ii) Number of treasury stock at end of period

Q3	FY2020	1,102,626 shares	FY2019	1,109,564 shares
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(iii) Average number of issued shares

Q3	FY2020	23,461,018 shares	Q3 FY2019	23,506,884 shares
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(Note)

The number of treasury stock includes the shares that Trust & Custody Services Bank, Ltd. (trust account E) holds as trust property related to a Board Benefit Trust system. (Q3 FY2020: 411,200 shares, FY2019: 418,900 shares)

* This summary of financial results is not subject to review by a certified public accountant or certified public accounting firm.

* Explanation on the proper use of results forecasts and other notes

The forward-looking statements, including results forecasts, in this document are based on information that AOI TYO Holdings has obtained at the time of publication and certain assumptions that it believes to be reasonable. Actual results may differ materially from the forecasts due to a variety of reasons. For more about assumptions underlying earnings forecasts and cautions regarding the use of earnings forecasts, see 1. *Qualitative Information on Results* (3) *Discussion of consolidated results forecasts* on P.3 of Attachments.

Attachments

1. Qualitative Information on Results in the Third Quarter	2
(1) Discussion of operating results	2
(2) Discussion of financial position	2
(3) Discussion of consolidated results forecasts	3
2. Quarterly Consolidated Financial Statements and Major Notes	4
(1) Quarterly consolidated balance sheets	4
(2) Quarterly consolidated statements of income and statements of comprehensive income	6
(3) Notes to quarterly consolidated financial statements	8
(Notes on the premise of a going concern)	8
(Notes in the event of significant changes in shareholders' equity)	8

1. Qualitative Information on Results in the Third Quarter

(1) Discussion of operating results

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

During the cumulative consolidated third quarter, concerns about the spread of COVID-19 remained, while business confidence began improving and the economy showed signs of recovery amid the gradual resumption of economic activity in Japan and overseas. However, the base of recovery under the new normal has been modest, and any additional waves of infections could result in stronger calls for activity restraints and deteriorating consumer confidence. These factors could lead to persisting fears of a slow recovery. Amid these circumstances, the Japanese advertising market, severely impacted by COVID-19, has continued to underperform the previous year.

After the lifting of the state of emergency declaration in Japan, the AOI TYO Group resumed filming and editing work under advertising video production measures to prevent the spread of COVID-19. We continue to engage in steady production operations in the with-COVID-19 era. However, net sales for the cumulative consolidated third quarter decreased year on year. This decrease was due to factors including the impact of significantly declines in order backlog during the cumulative consolidated second quarter, which resulted in lower sales to major advertising agencies in our Video Advertising Business. Our Advertisement-Related Business experienced continued cancellations and postponements of various events, while our Solutions Business, which had been performing level year on year through the second quarter, reported lower results due to voluntary restraints on in-person sales activities during the state of emergency. On the other hand, order backlog for the cumulative consolidated third quarter rose ¥930 million compared with the end of the cumulative consolidated second quarter, amounting to ¥15,399 million.

Although the group recorded another operating loss for the cumulative consolidated third quarter, we reduced the size of the loss compared to the cumulative consolidated second quarter. This result was mainly due to strict reductions in advertising expenses, entertainment/travel/meeting expenses, and other expenses to reduce costs up to ¥2.0 billion ahead of the schedule announced in our August 24, 2020 medium-term plan. The group also improved effective profit margin and other factors which had declined due to the impact of cost billings for projects that had been canceled or postponed due to the impact of COVID-19. We also recorded ¥311 million in business restructuring expenses related to seven office relocations and reduced floor space.

As a result, the AOI TYO Group recorded net sales of ¥34,450 million for the consolidated third quarter, representing a 26.4% decrease compared to year-ago quarter. Operating loss amounted to ¥1,260 million (¥1,153 million of operating profit in the same period of prior fiscal year), while ordinary loss amounted to ¥1,325 million (¥921 million of ordinary profit in the same period of prior fiscal year), and loss attributable to owners of parent amounted to ¥1,368 million (¥348 million of profit attributable to owners of parent in the same period of prior fiscal year). Selling, general and administrative expenses included ¥246 million in amortization of goodwill associated with M&A activity.

(2) Discussion of financial position

Total assets as of the end of the consolidated third quarter amounted to ¥49,438 million, a ¥3,913 million decrease compared to the end of the prior consolidated fiscal year. This decrease was mainly due to a decrease in cash and deposits of ¥5,127 million, notes and accounts receivable of ¥8,028 million and electronically recorded monetary claims of ¥2,091 million.

Liabilities decreased by ¥2,128 million compared with the end of the prior fiscal year to ¥27,859 million. Although long-term loans payable increased ¥3,190 million, short-term loans payable and accounts payable decreased ¥3,200 million and ¥3,159 million, respectively.

Net assets amounted to ¥21,578 million, a decrease of ¥1,784 million compared to the end of the prior consolidated fiscal

year, mainly due to decrease in retained earnings of ¥1,368 million by the net loss attributable to shareholders of the parent company and ¥286 million by dividend payments.

(3) Discussion of consolidated results forecasts

① Response to and Impact of COVID-19

After the state of emergency was lifted on May 25, we applied new standards for safety in production work, and, in addition to a series of information from national and local governments and various domestic and overseas film production guideline examples, we have entered into an advisory contract with a medical coordination company, drafting our own guidelines for production work. During filming, we have also required attendance of a hygiene management team which includes healthcare professionals, and we are taking a number of other measures to prevent the spread of COVID-19 in filming and editing work, such as health checks, and regularly conducting and checking disinfection and ventilation. Further, we are also implementing remote video editing methods, while continuing to encourage our employees to work from home.

However, concerns persist about additional waves of COVID-19 infections and the pace of recovery continues to be modest. As a result, it is difficult to imagine a dramatic improvement corporate demand for advertising.

Meanwhile, as the pace of change accelerates over the medium term in the evolution of information and communication technologies, diversification of media, and transformation of behavior patterns in a post-corona society, it is certain that there will be growing needs for planning and production of video-centric communication tools in order to deepen engagement between companies and consumers. These changes also present a business expansion opportunity for AOI TYO Holdings.

In response to these circumstances, we formulated and announced on August 24 our group medium-term plan for the five years from fiscal 2021 to 2025. We formulated this medium-term plan under the theme, update of production functions. To respond to this era of change, we intend to change our traditional business structure, which relied heavily on advertising video production. We plan to transition to a two-business structure consisting of the Content Production Business, which will continue to receive orders from advertising companies as we pursue greater efficiencies and scope in the video production business, and the Communication Design Business, which consists of direct transactions with advertisers in providing services from communications design to execution to respond to the changing needs of advertisers. As we pursue this change in structure, we will also engage in further group management in consolidated offices, pursuing operational efficiencies, and engaging in other ways to reduce costs by up to ¥2.0 billion (FY2019 through FY2022). In accordance with this medium-term plan, we plan to conduct a major reorganization of the group in January 2021, while we also accelerate our efforts to reduce costs.

As of the end of September 2020, AOI TYO Holdings maintains a high level of consolidated cash and deposits, at ¥14,238 million, and a high current ratio of 246.6%. Further, we have concluded commitment lines with a number of financial institutions for a combined ¥12 billion (¥0 billion outstanding as of September 2020). We have also secured long-term loans of ¥7,200 million to ensure sufficient liquidity.

② Future Outlook

Order backlog, which decreased significantly during the consolidated second quarter, rose during the consolidated third quarter. We expect net sales for the consolidated fourth quarter to increase as well. Given these developments, we will not revise the results forecast for the year ending December 2020 as announced on August 24, 2020.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheets

	(Unit: thousand yen)	
	FY 2019 (December 31, 2019)	Q3 FY2020 (September 30, 2020)
Assets		
Current assets		
Cash and deposits	9,111,122	14,238,684
Notes and accounts receivable - trade	16,873,978	8,845,691
Electronically recorded monetary claims - operating	4,413,564	2,322,137
Merchandise and finished goods	7,301	7,090
Work in process	4,510,288	5,887,872
Other	1,125,296	1,276,621
Allowance for doubtful accounts	(37,727)	(30,551)
Total current assets	36,003,823	32,547,546
Non-current assets		
Property, plant and equipment		
Land	3,606,822	3,593,652
Other	3,477,826	2,869,049
Total property, plant and equipment	7,084,649	6,462,702
Intangible assets		
Software	161,589	252,044
Goodwill	4,010,215	3,635,961
Other	103,479	15,994
Total intangible assets	4,275,284	3,903,999
Investments and other assets		
Investment securities	1,787,051	1,547,884
Deferred tax assets	1,328,303	1,854,892
Lease and guarantee deposits	1,522,658	1,628,345
Other	2,125,874	2,259,790
Allowance for doubtful accounts	(775,409)	(766,274)
Total investments and other assets	5,988,478	6,524,638
Total non-current assets	17,348,413	16,891,341
Total assets	53,352,237	49,438,888

(Unit: thousand yen)

	FY 2019 (December 31, 2019)	Q3 FY2020 (September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	8,697,200	5,537,583
Short-term loans payable	3,200,000	-
Current portion of long-term loans payable	3,073,876	4,409,220
Advances received	899,779	1,705,107
Income taxes payable	428,710	104,602
Provision for bonuses	72,660	101,901
Other	1,970,931	1,337,773
Total current liabilities	18,343,158	13,196,189
Non-current liabilities		
Long-term loans payable	6,672,675	9,863,674
Long-term deposits received	3,501,199	3,501,199
Provision for directors' retirement benefits	261,883	256,456
Provision for management board incentive plan trust	254,811	241,000
Net defined benefit liability	267,504	325,714
Asset retirement obligations	491,279	327,451
Other	195,809	148,222
Total non-current liabilities	11,645,165	14,663,720
Total liabilities	29,988,323	27,859,910
Net assets		
Shareholders' equity		
Capital stock	5,000,000	5,000,000
Capital surplus	12,172,896	12,173,895
Retained earnings	7,056,711	5,401,802
Treasury shares	(1,259,085)	(1,249,912)
Total shareholders' equity	22,970,523	21,325,785
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,693	(65,006)
Foreign currency translation adjustment	(44,141)	(62,113)
Remeasurements of defined benefit plans	(1,945)	(984)
Total accumulated other comprehensive income	(35,393)	(128,105)
Share acquisition rights	86,274	85,338
Non-controlling interests	342,508	295,959
Total net assets	23,363,913	21,578,978
Total liabilities and net assets	53,352,237	49,438,888

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

Quarterly consolidated statements of income

Consolidated third quarter

(Unit: thousand yen)

	Q3 FY 2019 (January 1, 2019 – September 30, 2019)	Q3 FY2020 (January 1, 2020 – September 30, 2020)
Net sales	46,804,296	34,450,117
Cost of sales	38,458,276	29,764,114
Gross profit	8,346,020	4,686,002
Selling, general and administrative expenses	7,192,968	5,946,832
Operating profit	1,153,052	(1,260,829)
Non-operating income		
Interest income	5,577	1,952
Dividend income	17,633	10,035
Subsidy Income	-	211,745
Insurance return	29,600	34,706
Other	103,705	101,682
Total non-operating income	156,517	360,122
Non-operating expenses		
Interest expenses	56,833	63,875
Commission fee	132,892	123,248
Share of loss of entities accounted for using equity method	98,389	138,295
Other	100,296	99,356
Total non-operating expenses	388,410	424,774
Ordinary profit (loss)	921,158	(1,325,481)
Extraordinary income		
Gain on sales of non-current assets	-	6,270
Gain on sales of investment securities	323,073	3,299
Gain on sales of shares of subsidiaries and associates	-	35,319
Other	3,024	936
Total extraordinary income	326,097	45,825
Extraordinary losses		
Loss on sales of shares of subsidiaries and associates	34,146	-
Impairment loss	-	116,673
Loss on liquidation of subsidiaries and associates	279,462	-
Business restructuring expenses	-	311,113
Loss on sales of investment securities	65,374	-
Other	-	24,011
Total extraordinary losses	378,983	451,798
Profit (loss)before income taxes	868,271	(1,731,455)
Income taxes - current	623,595	177,545
Income taxes - deferred	(72,982)	(511,393)
Total income taxes	550,613	(333,847)

(Unit: thousand yen)

	Q3 FY 2019 (January 1, 2019 – September 30, 2019)	Q3 FY2020 (January 1, 2020 – September 30, 2020)
Profit (loss)	317,658	(1,397,607)
Loss attributable to non-controlling interests	(30,546)	(29,207)
Profit (loss) attributable to owners of parent	348,205	(1,368,400)

Quarterly consolidated comprehensive statements of income
Consolidated third quarter

(Unit: thousand yen)

	Q3 FY 2019 (January 1, 2019 – September 30, 2019)	Q3 FY2020 (January 1, 2020 – September 30, 2020)
Profit (loss)	317,658	(1,397,607)
Other comprehensive income		
Valuation difference on available-for-sale securities	(181,466)	(75,700)
Foreign currency translation adjustment	(34,615)	(36,771)
Remeasurements of defined benefit plans, net of tax	856	960
Share of other comprehensive income of entities accounted for using equity method	4,088	(5,983)
Total other comprehensive income	(211,136)	(117,494)
Comprehensive income	106,521	(1,515,102)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	138,489	(1,480,858)
Comprehensive income attributable to non-controlling interests	(31,967)	(34,244)

(3) 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.