COMPANY RESEARCH AND ANALYSIS REPORT

AOI TYO Holdings Inc.

3975

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Summary

In the 1H FY12/20, sales and profits declined significantly (recorded a loss) due to the impact of the coronavirus.Announced a new five-year medium-term management plan and intends to implement measures to respond to environmental changes and improve profitability

1. Company overview and history since establishment

AOI TYO Holdings Inc. <3975> is a joint holding company established in January 2017 through the management integration of AOI Pro. Inc. and TYO Inc. The AOI TYO Group mainly plans and creates TV commercials and also focuses on its Solutions Business that includes direct business with advertisers and video content marketing. It holds a top share in TV commercial production through the management integration of the two leading industry firms.

The decision to proceed with management integration took into account the lack of prospects for major growth in conventional TV commercial production as well as likely expansion of business scope related to advertising, including methodology and structural changes. It comes against a backdrop of diversification of media (primarily through the internet) and devices (smartphones, tablets, and others) and major shifts in the industry landscape with advances in technology, such as communications speed, data analysis, VR*1, and AR*2. This integration aims to realize economies of scale, create synergies and accelerate the pace of new value creation and business expansion through consolidation and effective utilization of business resources.

*1 VR (virtual reality) refers to the technologies and methods to realize various types of experiences, including in virtual worlds, portraying something like the real world that goes beyond time and space.
*2 AR (augmented reality) refers to the technologies and methods to realize an augmented reality by adding some other content to the information that people can perceive in the real world.

2. 1H FY12/20 results overview

In the 1H FY12/20 results, net sales decreased 20.5% year on year (YoY) to ¥24,367mn and the operating loss was ¥881mn (compared to operating income of ¥816mn in the same period in the previous fiscal year). Due to the spread of the novel coronavirus pandemic (hereafter, the coronavirus), sales and profits decreased significantly (recorded a loss for each profit item). In particular, results in the Video Advertising Business declined greatly, mainly due to postponements of TV commercial production following the restriction on activities because of the coronavirus. Sales also declined in the Advertisement-Related Business, including due to the cancellations and postponements of various events. In profits as well, although the Company worked to keep costs down on the whole, it recorded an operating loss as profits were pushed down by the decline in sales.

3. FY12/20 forecasts

For the FY12/20 results, the Company once again announced revised forecasts on August 24 based on factors including the impact of the coronavirus and the 1H results conditions. The forecasts are for net sales to decrease 23.3% YoY to ¥50,000mn and an operating loss of ¥1,400mn (operating income of ¥2,118mn in the previous fiscal year), and while a recovery to a certain extent is expected in the 2H FY12/20, the outlook is that the Company will continue to record a loss. Based on the assumption that the impact of the coronavirus will continue at least for the rest of the year, although orders received bottomed out in the 1H FY12/20, the situation is that a major recovery will be difficult in the 3Q and 4Q. Therefore, the outlook for the full fiscal year is for sales and profits to decline and that each profit item will not reach profitability.

4. Growth strategy

In March 2019, the Company formulated its medium-term management policies and it has progressed changing to management that emphasizes “quality over quantity.” However, due to the impact of the coronavirus, major changes to lifestyles have caused the speed of environmental changes to further accelerate and responding to advertisers’ new needs has become an urgent task. Therefore, the Company has announced a new five-year medium-term management plan in order to accelerate its medium-term management policies. Nevertheless, there has been no major change in direction going forward. Under the theme of “Group-wide update of production functions,” the policy is to implement a major reorganization of the Group in order to respond to an era of reforms. The targets for the plan’s final fiscal year (FY2025) are consolidated net sales of ¥68bn, consolidated operating income of ¥4.4bn, EBITDA of ¥5.7bn, and ROE of at least 10%. In particular, the results targets are premised on emphasizing an improvement in profitability, including through cost reductions.

Key Points

- In the 1H FY12/20, sales and profits decreased significantly (recorded a loss for each profit item) due to the impact of the coronavirus
- For the full-year FY12/20 results, although recovery to a certain extent is expected in the 2H, the outlook is that each of the profit items will not reach profitability
- The newly announced five-year medium-term management plan has set the theme of “Group-wide update of production functions” and a policy to implement a major reorganization of the Group in order to respond to an era of reforms
- The targets for the plan’s final fiscal year (FY2025) are consolidated net sales of ¥68bn and consolidated operating income of ¥4.4bn, and the Company will work to improve profitability through cost reductions

Company profile

Joint holding company established for the integration of AOI Pro. and TYO. Holds a top industry share for TV commercial production

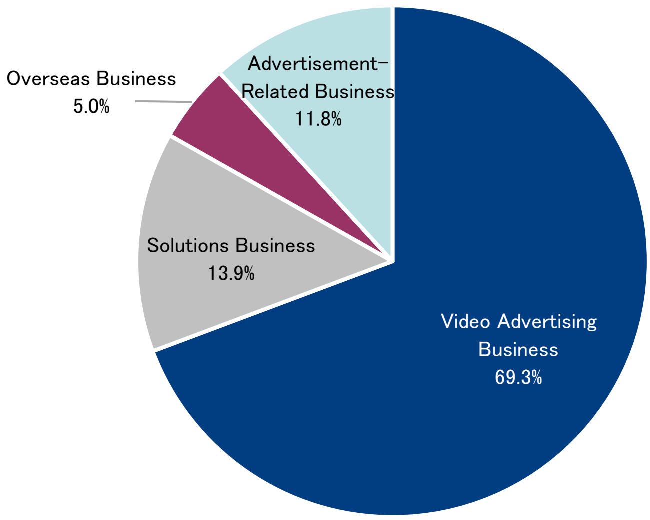
1. Business overview

AOI TYO Holdings is a joint holding company that owns AOI Pro. and TYO. The AOI TYO Group plans and creates TV commercials and is engaged in its Solutions Business that includes direct business with advertisers and video content marketing. It was founded in January 2017 through management integration of two leading industry firms and holds a top share in TV commercial production.

The AOI TYO Group consists of a single Advertising Business segment and four sub-segments (Video Advertising, Advertisement-Related, Solutions, Overseas). While the mainstay Video Advertising Business generates about 70% of overall sales, the Solutions Business is attracting attention as a growth driver.

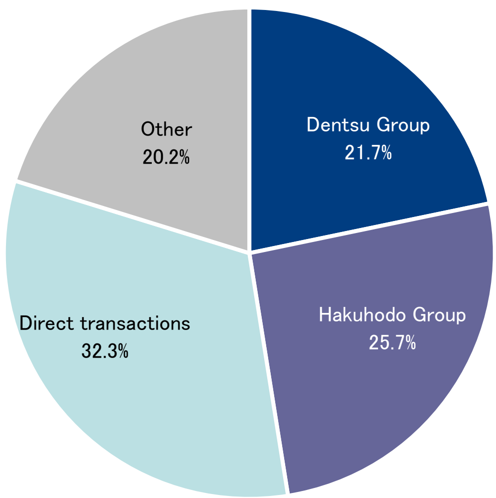
Sales mix by customer was well balanced with 21.7% to the Dentsu Group <4324>, 25.7% to the Hakuhodo Group (Hakuhodo DY Holdings Inc.) <2433>, 32.3% in direct transactions, and 20.2% to others. Additionally, sales composition by media type is TV commercial production at 57.3%, entertainment content at 4.6%, digital content at 23.5%, overseas at 4.4%, and other at 10.3%. “Digital content” is growing rapidly along with expansion in online video advertising demand as a trend.

Sales composition by business (1H FY12/20 result)



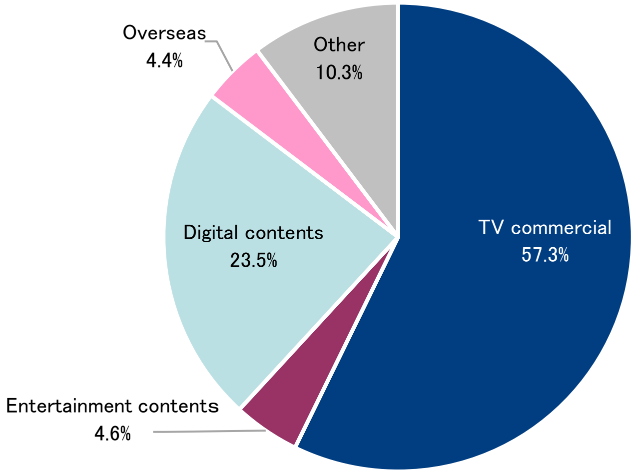
Source: Prepared by FISCO from the Company’s results briefing materials

Sales composition ratios by customer (1H FY12/20 result)



Source: Prepared by FISCO from the Company’s results briefing materials

Sales composition ratios by medium (1H FY12/20 result)



Source: Prepared by FISCO from the Company's results briefing materials

Below, we review each of these business areas.

(1) Video Advertising Business

The Company plans and produces TV commercials, online video and other advertising video. As for TV commercials, this was the main business for AOI Pro. and TYO, and integration of these two major industry firms established a top market share. Both firms produce numerous excellent works amid continuation of a healthy orders environment. While the Company faces concerns about profitability decline because of changes in advertising media related to the growing internet presence and the printless shift as well as the need for income structure reforms and better work efficiency, it aims to establish a dominant position in high-quality video advertising, its strength, including in the expanding online video market.

(2) Solutions Business

This business provides measures for problem-solving for customers. Its results currently roughly equate to the combined results of the TYO Offering Management Business Unit*1 and AOI Pro.'s subsidiary Quark tokyo Inc.*2 (including its subsidiary Mediator, Inc.*3).

*1 Supplies one-stop solutions mainly through multifaceted media activities via direct business with advertisers.
*2 Provides services that range from marketing strategy formulation mainly for videos to all PDCA solutions required by communications in the digital era.
*3 A joint venture between Quark tokyo and Cyber Communications Inc. of the Dentsu Group (established August 20, 2019).

(3) Advertisement-Related Business

This business includes planning and production of movies, TV dramas, and events and production of digital content, promotional content, and music videos. The Company's strategy is to enclose the market by building up its track record by entering areas that have an affinity with the mainstay business and bolstering peripheral solutions (promotions and content).

(4) Overseas Business

The Overseas Business operates sites centered on Southeast Asia (Thailand, Vietnam, Singapore, Indonesia, Malaysia, and India), engaging in business with both Japanese-affiliates and local companies. This business includes video production orders received from overseas. Both AOI Pro. and TYO have been actively engaged in many regions. The Company has also worked on restructuring the business portfolio to better respond to future developments. This included the reorganization of a poorly performing local subsidiary in Beijing.

2. History

(1) AOI Pro.

AOI Pro. goes back to Aoi Advertising Promotion Inc., which was established in 1963 to produce TV commercials, in Tokyo's Minato Ward. It solidified a business base as a video production company focused on TV commercials. In 1990, it listed shares on JASDAQ, taking the lead in this industry, with the aim of making further advances and strengthening social credibility.

It subsequently created numerous videos that attracted substantial interest, fueling healthy growth and listed on the Second Section of the Tokyo Stock Exchange in 1998 and on the First Section in 2000. It established a firm position as one of the major TV commercial production companies.

In September 2011, meanwhile, it launched an overseas site to handle TV commercial production in Indonesia. In October 2014, it added nakamino Co., Ltd.*, which specializes in measurement and operation of online video platform effects, to the group (equity-method affiliate) through a capital alliance with the aim of full-fledged ramp-up of video content marketing, a new growth area. These initiatives gave it an edge versus peers in building operations to address diversifying media, growing demand for online videos and other digital content, and entry by Japanese companies into the fast-growing Asian region.

* It turned this entity into a consolidated subsidiary at the end of December 2015 through an injection of additional capital and changed the company name to Quark tokyo Inc. in April 2016.

(2) TYO

TYO was established as a TV commercial production company in April 1982 in Roppongi, Minato Ward, Tokyo. It was established after other major commercial production companies had been formed. Hiroaki Yoshida (honorary chairman of AOI TYO Holdings), together with five other commercial creators, including Kazuyoshi Hayakawa (representative director, president and CEO of TYO Inc.), established the company with the dream of "Creating an Ideal Company of Creators, by Creators, for Creators."

The company listed on JASDAQ in 2002. It expanded business by leveraging its creative capabilities of having been involved in the production of numerous TV commercials that left an impression with consumers, notably one promoting travel to Kyoto for Central Japan Railway Company (JR Central) <9022>. Upon the market being changed to the Second Section of the Tokyo Stock Exchange in October 2013, the Company's listing was reassigned to the First Section in January 2014.

TYO has been involved in various types of content production, including TV commercials, online videos, digital content and events. Its strength is providing optimal, one-stop solutions for advertisers' advertising promotions and promotional activities. It led the industry with a sales structure and accumulation of knowledge in dealing directly with advertisers* and has focused on building long-term relationships with advertisers, expanding project sizes and capturing sales promotion expenses. Furthermore, it has been actively engaged in overseas expansion.

* Since starting direct business with advertisers in July 2003, the current TYO Offering Management Business Unit has taken charge of the entire group's direct business with advertisers.

(3) Background to the management integration (January 2017)

In the background to the management integration is the diversification of media and devices (such as smartphones and tablets) focused on the internet, in addition to dramatic changes to the advertising industry environment, including communications speed and data analysis, and the progress being made in technological innovations, such as VR and AR. In this environment, major growth in TV commercial production, which had been the Company's mainstay up to the present time, is unlikely, but advertising-related business areas will expand, with accompanying changes to their methods and structures.

Based on this sort of awareness of the business environment, the companies judged that integration was necessary to grow in the medium to long term to expand market share, strengthen negotiation power, and maintain robust capital strength. They also wanted to build a competitive and advanced business model by newly forming a group to lead the industry and concentrating and effectively utilizing management resources.

Financial highlights

In the 1H FY12/20, sales and profits decreased significantly (recorded a loss for each profit item) due to the impact of the coronavirus

1. 1H FY12/20 results

In the 1H FY12/20 results, net sales decreased 20.5% YoY to ¥24,367mn, operating loss was ¥881mn (operating income of ¥816mn in the same period in the previous fiscal year), ordinary loss was ¥1,047mn (ordinary income of ¥637mn), and loss attributable to owners of parent was ¥956mn (profit attributable to owners of parent of ¥257mn). Results declined significantly due to the impact of the coronavirus and losses were recorded for every profit item.

Net sales declined significantly in every business except the Solutions Business. In particular, results in the Video Advertising Business declined greatly, mainly due to postponements to TV commercial production following the restriction on activities because of the coronavirus. Sales also declined in the Advertisement-Related Business, including due to the cancellations and postponements of various events. It seems that of the approximately ¥6.2bn decline in sales, the impact of the coronavirus was responsible for around ¥5.4bn, and of this amount, 70%, or approximately ¥3.6bn, was due to postponements from the 3Q FY12/20 onwards. Orders received also trended at a low level due to the suspension of economic activities and the sense of uncertainty about the future due to the coronavirus. As a result, at the end of the 1H, the backlog of orders had declined 7.2% compared to the end of the previous fiscal year to ¥14bn.

Looking at net sales by customer, they declined for every channel, but the decreases were particularly large for major advertising agencies like the Dentsu Group and Hakuhodo Group.

In profits, in addition to the reductions in depreciation and development costs following the impairment treatment of software in FY12/19, there were reductions in other costs, including costs to reorganize unprofitable subsidiaries, etc. and transportation and entertainment costs, and the Company worked to keep costs down on the whole. However, it still recorded a significant operating loss as profits were pushed down by the decline in sales.

Regarding financial condition, total assets decreased 7.1% compared to the end of the previous fiscal period to ¥49,573mn, mainly due to the decline in trades receivable following the fall in sales. However, shareholders' equity decreased 6.0% to ¥21,560mn because of the recording of a net loss, and therefore the equity ratio was basically unchanged at 43.5% (43.0% at the end of previous fiscal period). Conversely, the Company secured funds on hand of ¥13,307mn, up 46.1% compared to the end of the previous fiscal period, while it also established a commitment line (a borrowing framework) of ¥12bn with multiple financial institutions, so there are no financial concerns, including about liquidity.

1H FY12/20 results overview

(¥mn)

	1H FY12/19		1H FY12/20		Change	
	Results	Ratio	Results	Ratio	Amount	Change rate
Net sales	30,636		24,367		-6,269	-20.5%
Video Advertising Business	21,435	70.0%	16,882	69.3%	-4,553	-21.2%
Solutions Business	3,385	11.0%	3,391	13.9%	6	0.2%
Advertisement-Related Business	4,322	14.1%	2,875	11.8%	-1,447	-33.5%
Overseas Business	1,494	4.9%	1,219	5.0%	-275	-18.4%
Cost of sales	24,900	81.3%	21,163	86.9%	-3,736	-15.0%
Selling, general and administrative expenses	4,919	16.1%	4,084	16.8%	-834	-17.0%
Operating income	816	2.7%	-881	-3.6%	-1,697	-
Ordinary income	637	2.1%	-1,047	-4.3%	-1,685	-
Profit attributable to owners of parent	257	0.8%	-956	-3.9%	-1,213	-
EBITDA	1,531		-313		-1,844	-
Order backlog	15,119		14,029		-1,090	-7.2%
Sales ratio by customer						
Dentsu Group	6,920	22.6%	5,298	21.7%	-1,622	-23.4%
Hakuhodo Group	9,066	29.6%	6,270	25.7%	-2,796	-30.8%
Direct transactions	8,517	27.8%	7,868	32.3%	-649	-7.6%
Other	6,132	20.0%	4,929	20.2%	-1,203	-19.6%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Financial position as of the end of June 2020

(¥mn)

	As of the end of December 2019	As of the end of June 2020	Change	
			Amount	Change rate
Current assets	36,003	32,572	-3,431	-9.5%
Cash and deposits	9,111	13,307	4,196	46.1%
Notes and accounts receivable - trade	16,873	8,027	-8,846	-52.4%
Work in process	4,510	4,344	-165	-3.7%
Non-current assets	17,348	17,000	-347	-2.0%
Property, plant and equipment	7,084	6,837	-247	-3.5%
Intangible assets	4,275	3,932	-342	-8.0%
Investments and other assets	5,988	6,231	243	4.1%
Total assets	53,352	49,573	-3,778	-7.1%
Current liabilities	18,343	11,751	-6,591	-35.9%
Accounts payable - trade	8,697	4,059	-4,637	-53.3%
Short-term loans payable	6,273	4,444	-1,829	-29.2%
Advances received	899	1,704	804	89.4%
Non-current liabilities	11,645	15,871	4,226	36.3%
Long-term loans payable	6,672	10,953	4,281	64.2%
Long-term deposits received	3,501	3,501	-	-
Total liabilities	29,988	27,622	-2,365	-7.9%
Net assets	23,363	21,951	-1,412	-6.0%
Shareholders' equity	22,935	21,560	-1,374	6.0%
Equity ratio	43.0%	43.5%		
Current ratio	196.3%	277.2%		
D/E ratio	0.56 times	0.71 times		

Source: Prepared by FISCO from the Company's financial results

2. Segment performance and activity results

(1) Video Advertising Business

Net sales fell significantly, declining 21.2% YoY to ¥16,882mn. In particular, following the declaration of a state of emergency (April 7 to May 25), sales were affected by various measures, including that filming was almost entirely stopped and requests to postpone TV commercial production. But the extent of the decline in sales of digital content, including for online videos, was small, which can be seen to indicate a structural change. In profits, an external factor of the decline in highly profitable print sales overlapped with effects including actual-costs claims from the cancellations and postponements of projects, and the effective profit margin fell to 31.4% (33.5% in the same period in the previous fiscal year). However, net sales bottomed out in the 1H, and the outlook is that the effective profit margin will recover in the 2H.

(2) Solutions Business

Net sales were basically unchanged, increasing 0.2% YoY to ¥3,391mn. Of this amount, the TYO Offering Management Business Unit's sales (excluding media purchase placements) were supported by the increase in orders from online-related companies and others, and sales were secured at the same level as in the previous fiscal year. Conversely, sales in Quark tokyo (and Mediator) were sluggish, including due to cancellations of projects related to the Olympics and Paralympics and reductions in the budgets of existing companies, mainly due to the slump in advertising demand.

(3) Advertisement-Related Business

Net sales declined significantly, decreasing 33.5% YoY to ¥2,875mn. This decline was mainly caused by the cancellations and postponements of various events due to the coronavirus.

(4) Overseas Business

Net sales decreased, falling 18.4% YoY to ¥1,219mn, as they were greatly affected by the coronavirus, including by the lockdowns in various countries.

Business performance outlook

In FY12/20, although a recovery to a certain extent is expected in the 2H, the outlook is that the severe earnings environment will continue

1. FY12/20 forecasts

For the FY12/20 results, the Company once again announced revised forecasts on August 24 based on factors including the impact of the coronavirus and the 1H FY12/20 results conditions. It is forecasting that net sales will decrease 23.3% YoY to ¥50,000mn, operating loss of ¥1,400mn (operating income of ¥2,118mn in the previous fiscal year), ordinary loss of ¥1,500mn (ordinary income of ¥1,763mn), and loss attributable to owners of parent of ¥1,500mn (loss of ¥1,280mn). Compared to the 1H FY12/20, a recovery to a certain extent is expected in the 2H, but the outlook is that each of the profit items will not reach profitability.

Assuming that the impact of the coronavirus will continue for at least the rest of the year, there are concerns about a cooldown in companies' advertising demand. In this situation, sales in the Video Advertising Business and in the Advertisement-Related Business are expected to recover to a certain extent in the 2H FY12/20 due to the restart of economic activities after the declaration of a state of emergency. However, although orders received bottomed out in the 1H, the situation is that a major recovery will be difficult in the 3Q and 4Q, so the full fiscal year outlook is that sales will decline YoY.

In profits also, although the loss can be expected to improve in the 2H FY12/20, including from sales bottoming out and the improvement in the effective profit margin (in the Video Advertising Business), the outlook is that all of the profit items will not reach profitability and that the extent of the loss for the full fiscal year will increase further.

FY12/20 forecasts

(¥mn)

	FY12/19		FY12/20		Change	
	Results	Ratio	Forecasts	Ratio	Amount	Change rate
Net sales	65,229		50,000		-15,229	-23.3%
Video Advertising Business	43,860	67.2%	35,300	70.6%	-8,560	-19.5%
Solutions Business	8,145	12.5%	5,900	11.8%	-2,245	-27.6%
Advertisement-Related Business	9,846	15.1%	6,500	13.0%	-3,346	-34.0%
Overseas Business	3,378	5.2%	2,300	4.6%	-1,078	-31.9%
Operating income	2,118	3.2%	-1,400	-2.8%	-3,518	-
Ordinary income	1,763	2.7%	-1,500	-3.0%	-3,263	-
Profit attributable to owners of parent	-1,280	-2.0%	-1,500	-3.0%	-219	-

Source: Prepared by FISCO from the Company's results briefing materials

2. FY12/20 results outlook for each business

(1) Video Advertising Business

Net sales are forecast to decrease 19.5% to ¥35,300mn. However, the outlook is that sales will increase in the 2H FY12/20 compared to in the 1H, because following the restart of economic activities, progress is being made, including in restarting operations through creating proprietary guidelines* (measures to prevent the infection from spreading) and for introducing video production methods in remote work. In profits, the effective profit margin is expected to improve.

* It refers to concluding an advisory contract with a medical coordination company and creating proprietary guidelines for production operations. The aim is to thoroughly implement measures to prevent the infection from spreading, such as taking a team when filming to manage hygiene measures, including medical practitioners, and conducting health checks and regularly implementing and confirming disinfection and ventilation.

(2) Solutions Business

Net sales are forecast to decrease 27.6% to ¥5,900mn. In the 1H FY12/20, sales of about the same level YoY were secured, but there have been cancellations and postponements of existing projects. The outlook is that sales will decrease in the 2H more than in the 1H, due to the effects of self-restraint on face-to-face sales activities in the 1H. However, the Company has currently restarted full-fledged sales activities and from the 4Q, it intends to accumulate projects for growth from the next period onwards.

(3) Advertisement-Related Business

Net sales are forecast to decrease 34.0% YoY to ¥6,500mn. However, as anticipated in the Video Advertising Business, event-related sales are expected to recover to a certain extent in the 2H FY12/20, mainly due to the relaxing of restrictions on activities and acquisitions of projects in online services.

(4) Overseas Business

Net sales are forecast to decline 31.9% YoY to ¥2,300mn. Sales are expected to decrease more in the 2H FY12/20 than in the 1H, but operations are restarting in countries and regions that have lifted the restrictions on economic activities, so the outlook is for a gradual recovery.

3. Opinion of FISCO's analyst

In order to achieve the FY12/20 results forecasts for the full year, the Company must secure net sales of at least ¥25,633mn in the 2H and maintain operating loss under ¥519mn. Although there are concerns about a temporary slowdown in advertising demand due to the coronavirus, the Company's results forecasts are at levels that rationally incorporate the anticipated risk factors, so at the very least, we consider the risk of results further decreasing to be low. The points to focus on related to a recovery and growth from FY12/21 onwards are how will it uncover slumping demand and how will it increase orders. In particular, we regard an important theme to be that it shows specific responses to structural changes, including to the environmental changes caused by the coronavirus.

Growth strategy

Has announced a new five-year medium-term management plan based on the theme of "Group-wide update of production functions" and measures include business and organizational structural reforms

1. Announcement of a new medium-term management plan

In order to respond to rapid environmental changes, the Company formulated medium-term management policies in March 2019. Setting its basic policy to "be a powerful corporate group capable of responding to any era," it has changed to management that emphasizes "quality over quantity." In particular, in addition to further deepening its production of high-quality video and movies for branding, which is one of the Company's strengths, it has indicated a direction of strengthening peripheral solutions and widening the business scope. But upon entering this year, results are currently declining significantly due to the impact of the coronavirus, while major changes to ways of living are causing the speed of environmental changes to further accelerate and responding to advertisers' new needs has become an urgent task. Based on this situation, in order to accelerate the medium-term management policies, the Company announced a new five-year medium-term management plan on August 24, 2020. However, there will be no major change of direction going forward. The key points are that to further accelerate the realization of the medium-term management policies, it has set "Group-wide update of production functions" as the theme and it will implement a major reorganization of the Group in order to respond to an age of reforms.

2. Environmental awareness that forms the assumptions

It is forecast that the TV commercial market will shrink at a maximum pace of around 2% a year, but that the online video advertising market will grow by around 20% a year due to the acceleration of the shift to digital. In this sort of environment, brand videos with high unit prices, which are one of the Company's strengths, will continue to grow, but this growth will be limited and it seems that low- to medium-priced videos will grow significantly. On the other hand, in terms of developments among advertisers, for SMEs and venture companies with annual advertising budgets in a range of ¥100mn to ¥1bn, it will be necessary to have in place a structure to provide a one-stop service, from marketing-orientated communication design through to planning, production, and management. In particular, who will be responsible for the actual execution (production) is being viewed as important, and needs are rising for direct transactions with production companies like the Company.

3. Priority measures

(1) Business and organizational structural reforms

The Company's business structure has focused on advertisement video production so far, but it will change to a two-business structure. The Content Production Business will be responsible for the advertising video production noted above and center on consignment work from advertising agencies, and the Communication Design Business will be responsible for work from communication design through to execution centered on direct transactions with advertisers. Also, it will reduce the number of consolidated subsidiaries from 33 companies to 23 companies.

(2) Measures for each business

1) Content Production Business

This business will consolidate the work of the production subsidiaries in the former Video Advertising Business and the former Overseas Business and part of the work of the former Advertisement-Related Business. Leveraging its top share in the industry and the expertise it has cultivated so far, it will aim to support the pursuit of high quality and high productivity. Moreover, it will expand its scope to include the low- to medium-priced digital video market that is expected to grow. Also, the Company's policy is to focus on content planning and production that utilizes diversified post production (including sound editing and CG operations) and virtual space technologies like VR and AR.

2) Communication Design Business

The business will consolidate the operations of the former Solutions Business, Advertisement-Related Business, and Overseas Business, excluding production subsidiaries. In addition to aiming to strengthen the customer base, it will provide higher value-added integrated marketing and communication services, and expand the range of services to omnidirectional execution for promotion.

(3) Deeping and strengthening Group management and reducing costs

Based on the newly formulated human resources management policy, the Company is strengthening recruitment of new graduates (including unifying selection management), reviewing the evaluation and remuneration systems and working on measures to bring together all the human resources in the Group, including by constructing a human resource development environment. It is also aiming for cost reductions of a maximum amount of ¥2bn, such as by consolidating offices, encouraging remote work, and improving productivity through digital transformation.

4. Key performance indicators (KPI) and results targets

The Company's targets for the medium-term management plan's final fiscal year (FY12/25) are consolidated net sales of ¥68bn, consolidated operating income of ¥4.4bn, EBITDA of ¥5.7bn, and ROE of at least 10%. However, results in FY12/20 are expected to greatly decline temporarily due to the impact of the coronavirus, but it is still aiming for sustainable growth from FY12/21 onwards. In particular, the targets are premised on emphasizing an improvement to profitability through cost reductions. Also, breaking down the net sales target of ¥68bn, the plan is to increase sales from the Content Production Business to ¥47bn (up ¥9bn from the FY12/20 forecast) and from the Communication Design Business to ¥21bn (up ¥9bn). Moreover, its policy is to work to improve employee engagement and to contribute to the SDGs.

5. Points to focus on in the future according to FISCO's analyst

At FISCO, we consider that although results at the current time have temporarily regressed due to the impact of the coronavirus, if looking from a medium- to long-term perspective at the structural changes that have been underway since the past, major opportunities can be seen and the issues going forward will be how the Company will respond quickly to changes due to the coronavirus and how it will utilize them positively. In this sense, the current business and organizational structural reforms are on the perfect timing, and we expect them to be the start of its return to a growth trajectory. In the medium-term management plan as well, the cost reductions and other tasks are at levels that are fully achievable. Rather, what we should focus on is whether and how the Company can improve by adding value. In particular, starting from the axis of the new strategy, or in other words, the provision of a full line of services through direct transactions with SMEs and venture companies, we shall be closely following how the Company will increase its competitive advantage through the provision of new value, including the planning and production of content that utilizes the latest digital technologies and the provision of integrated marketing planning, and also what effects this will have on results (particularly on profitability).

Shareholder returns

The newly announced medium-term management plan is aiming for a consolidated dividend payout ratio of at least 30%

Going forward, the Company's basic dividend policy is to continue with a "consolidated dividend payout ratio of at least 30%." Based on this and the viewpoint of continuing to stably pay dividends, it has indicated that its policy is to return profits to shareholders appropriately according to results.

In FY12/20, although the forecast is for an overall loss, from the viewpoint of maintaining stable dividend payments to the greatest possible extent, the Company plans to pay a period-end dividend of ¥12 per share, continuing on from FY12/19.

Also, with the aim of promoting medium- to long-term shareholding, the Company has introduced a shareholder benefits program. Specifically, it plans to provide shareholders listed or recorded in the shareholders' register on June 30 of each year that have held at least 5 units (500 shares) of the Company's shares continuously for at least 1 year with gifts depending on the number of shares held, including original QUO cards and perks from its original benefits program catalog.

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