

Imagica Robot Group Financial Results Presentation for FY2017

Imagica Robot Holdings Inc.
May 25, 2018

FY2017 financial results

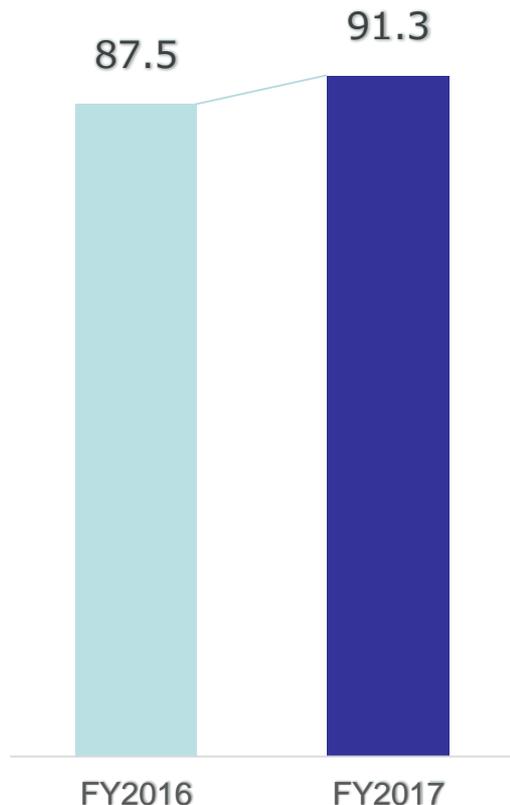
Highlights of financial results

(¥billion)

Net Sales

91.3bn

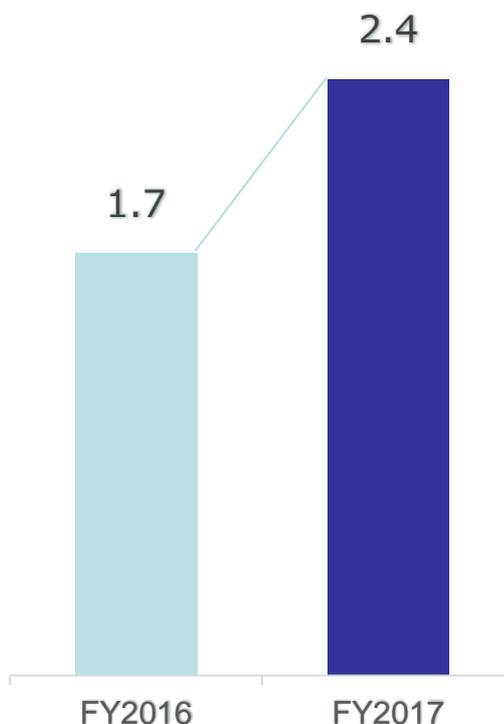
YoY
+3.7bn



Operating income

2.4bn

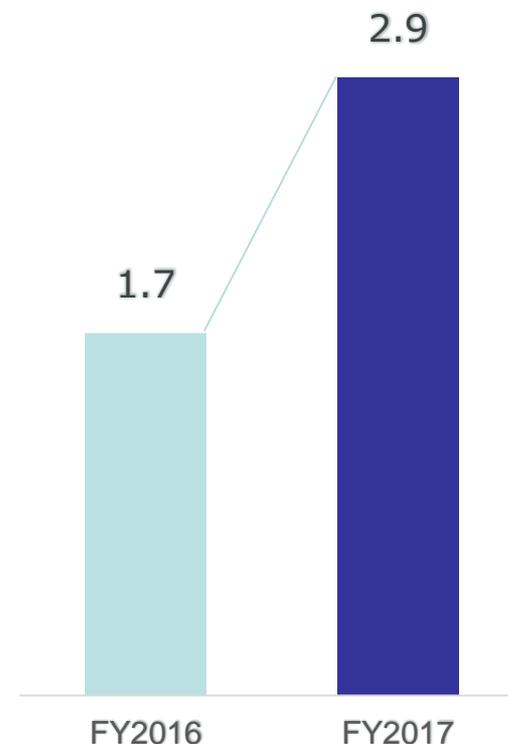
YoY
+0.7bn



Net income attributable to owners of the parent

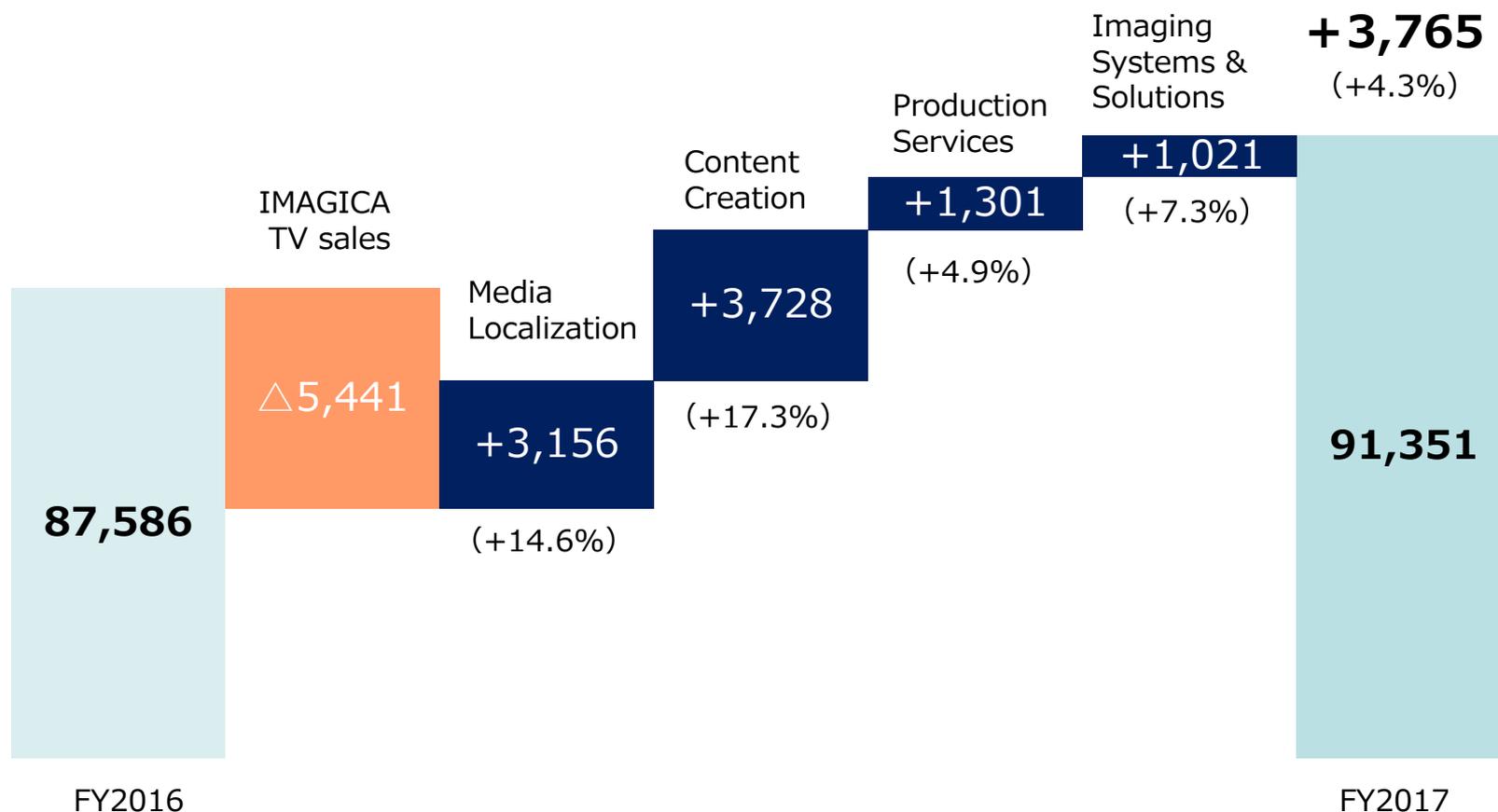
2.9bn

YoY
+1.2bn



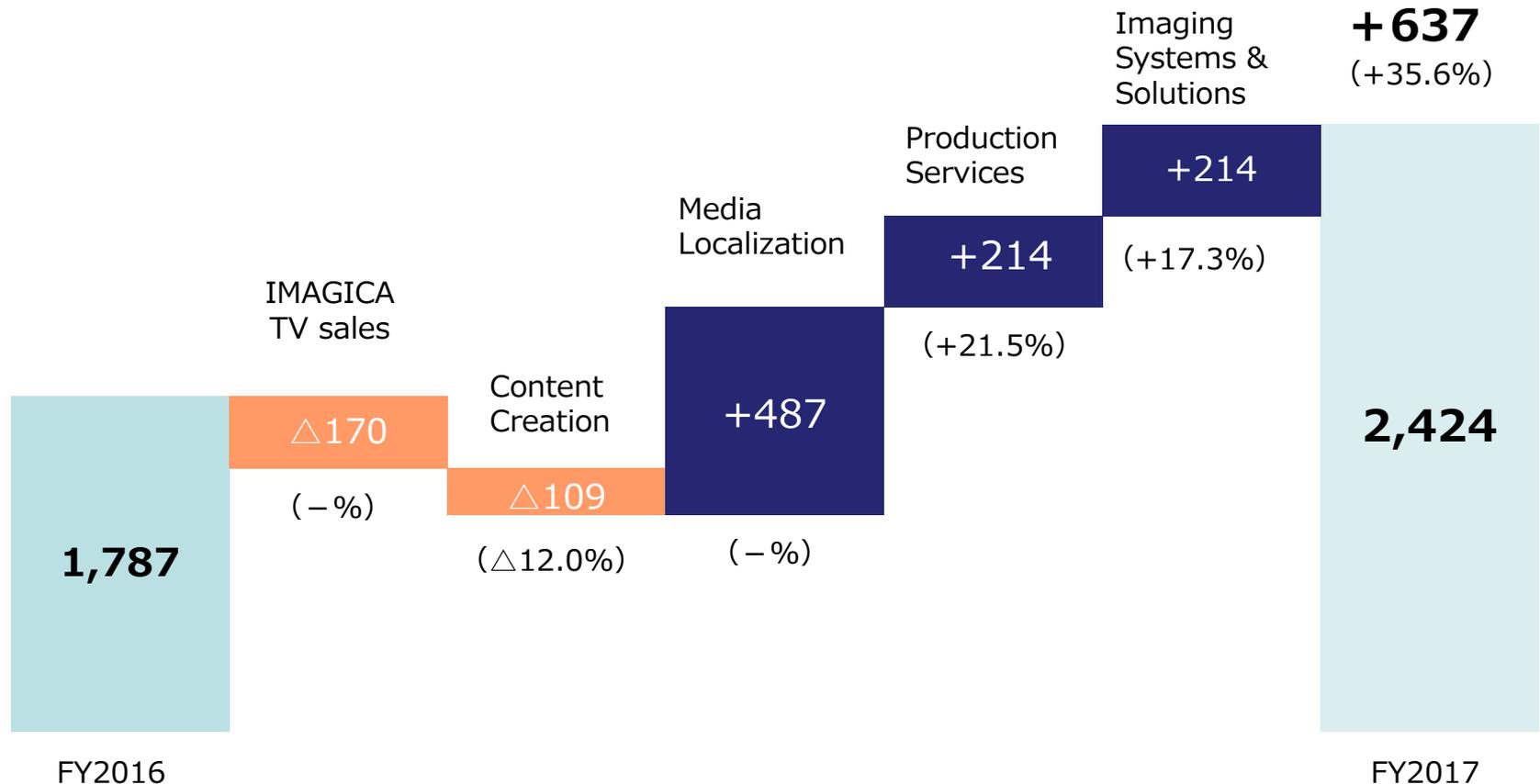
Net sales were up 4% YoY as the decrease resulting from selling IMAGICA TV was covered by other segments

(Sales grew +9,206million yen or +11% YoY without the impact of sales of IMAGICA TV)



Improved profitability of the Media Localization segment contributed to up 637 million yen or up 35.6% YoY

(Operating income grew +807 million yen or +45.1% YoY without the impact of sales of IMAGICA TV)



Key points from segment-specific earnings

(million yen)

Content Creation

| Net sales (YoY ratio) | OP income (YoY) |
|------------------------|-------------------|
| 25,289 (+17.3%) | 799 (△109) |

- Film, TV animation, CM production was favorable
- Royalty revenues from theater animation declined YoY

Production Services

| Net sales (YoY ratio) | OP income (YoY) |
|-----------------------|---------------------|
| 27,725 (+4.9%) | 1,209 (+214) |

- Editing: Digital cinema, OTT favorable
- Contracting: Game CG, debugging business favorable

Media Localization

| Net sales (YoY ratio) | OP income (YoY) |
|-----------------------|--------------------|
| 24,814 (14.6%) | △674 (+487) |

- OTT business favorable
- European direct margin ratio improved

Imaging Systems & Solutions

| Net sales (YoY ratio) | OP income (YoY) |
|-----------------------|---------------------|
| 14,997 (7.3%) | 1,449 (+214) |

- 4K broadcasting system sales, maintenance increased
- LSI (for video) sales in China favorable

* * OTT = "Over The Top" means the companies excluding telecommunications that provide contents such as video and audio.

FY2017 financial results by segments

| (million yen) | | FY2016 | FY2017 | | | Analysis |
|---------------------------------|--------------------------------|--------------------------|------------------------|-----------|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Actual | Actual | YoY ratio | YoY | |
| Content Creation | Net sales | 21,560 | 25,289 | 17.3% | 3,728 | <ul style="list-style-type: none"> ➢ Film, TV animation, CM production was favorable. ➢ Decrease royalty from production committee YoY |
| | Operating income (OP raito) | 908 (4.2%) | 799 (3.2%) | △12.0% | △109 | |
| Production Services | Net sales | 26,424 | 27,725 | 4.9% | 1,301 | <ul style="list-style-type: none"> ➢ Orders of post-production from TV program was decreased due to TV programming reshuffle, etc. ➢ Business for Digital cinema and OTT were strong. ➢ Game CG, debugging business was favorable |
| | Operating income (OP raito) | 995 (3.8%) | 1,209 (4.4%) | 21.5% | 214 | |
| Media Localization | Net sales | 21,658 | 24,814 | 14.6% | 3,156 | <ul style="list-style-type: none"> ➢ OTT business favorable ➢ Performance was improved due to improvement of direct margin in Europe. |
| | Operating income (OP raito) | △ 1,161 (---%) | △ 674 (---%) | - | 487 | |
| Imaging Systems & Solutions | Net sales | 13,976 | 14,997 | 7.3% | 1,021 | <ul style="list-style-type: none"> ➢ Increase sales in 4K-broadcasting system and maintenance service. ➢ Sales in LSI for film and images for China was strong. |
| | Operating income (OP raito) | 1,235 (8.8%) | 1,449 (9.7%) | 17.3% | 214 | |
| Others(Consolidated adaptation) | Net sales | 3,966 | △1,475 | - | △5,441 | (* FY2016 includes the net sales and operating income of IMAGICA TV.) |
| | Operating income | △190 | △360 | - | △170 | |
| Consolidated | Net sales | 87,586 | 91,351 | 4.3% | 3,765 | |
| | Operating income (OP raito) | 1,787 (2.0%) | 2,424 (2.7%) | 35.6% | 636 | |

* OTT = "Over The Top" means the companies excluding telecommunications that provide contents such as video and audio.

FY2018 Business Forecast

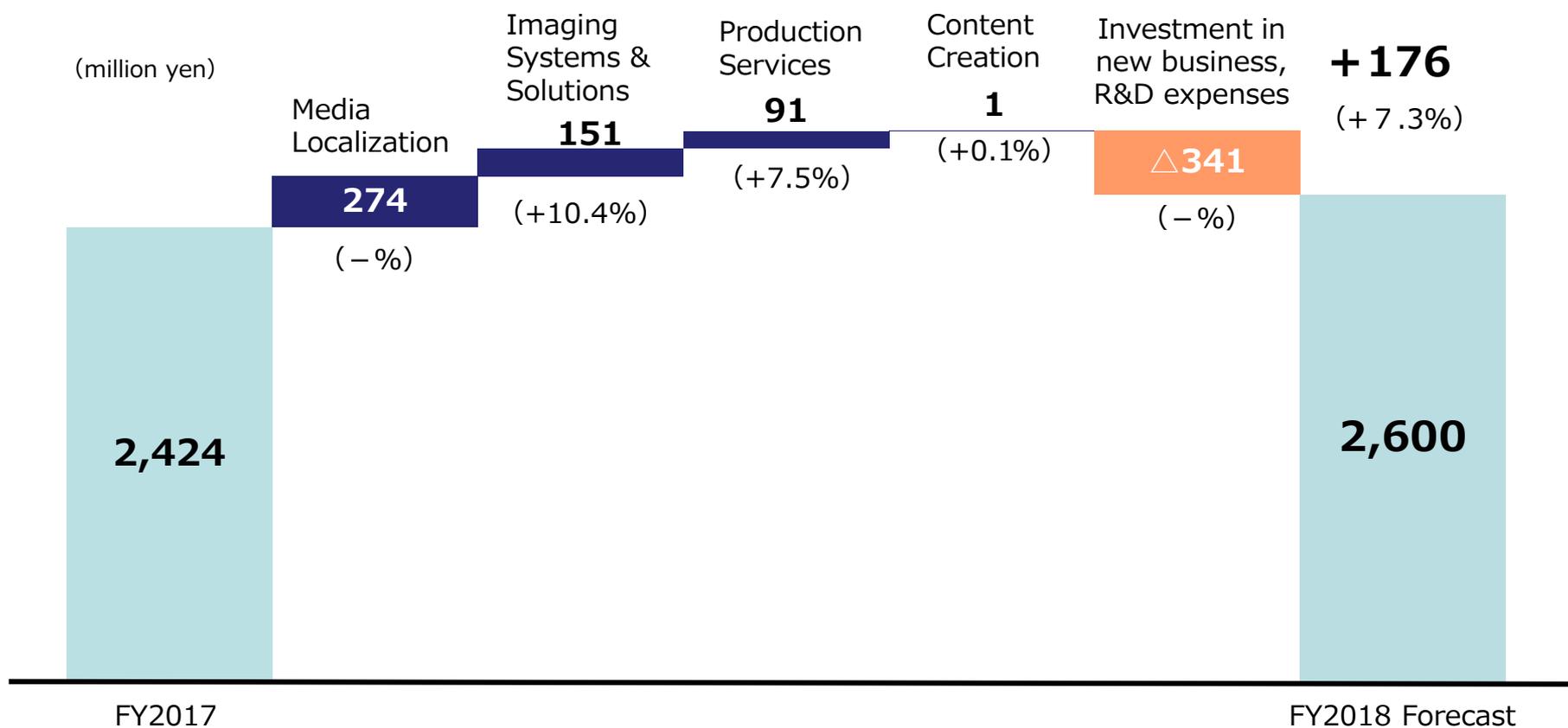
FY2018 Full-Year Business Forecast

- ✓ Forecasting higher net sales and operating income
- ✓ Net income decreased 1.3 billion yen YoY (Recorded gains on sales of IMAGICA TV on extraordinary income in the previous year)

| (million yen) | FY2016 | FY2017 | FY2018 | | |
|-------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------|--------|
| | Actual | Actual | Plan | YoY ratio | YoY |
| Net Sales | 87,586 | 91,351 | 95,000 | 4.0% | 3,649 |
| Operating income | 1,787 | 2,424 | 2,600 | 7.3% | 176 |
| (ratio) | (2.0%) | (2.7%) | (2.7%) | | |
| Ordinary income | 2,014 | 2,424 | 2,450 | 1.1% | 26 |
| (ratio) | (2.3%) | (2.7%) | (2.6%) | | |
| Net income (loss) attributable to owners of the parent | 1,707 | 2,937 | 1,600 | △45.5% | △1,337 |
| Earnings per share of common | 38.3 | 65.9 | 35.9 | △45.5% | △30.0 |
| (Reference) Operating income before goodwill (OP ratio before goodwill) | 3,270 (3.7%) | 3,878 (4.2%) | 4,203 (4.4%) | 8.3% | 325 |

FY2018 Operating income by segments: YoY Change Factors

- **Forecasting increased income (517 million yen) for all business segments but forecasting total increase in income to be 176 million yen due to conducting lay foundation for future growth**



FY2018 Business Forecast by segments

| (million yen) | | FY2017 | FY2018 | | | Factor |
|---------------------------------|---------------------------------|------------------------|-------------------------|-----------|--------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | Actual | Forecast | YoY ratio | YoY | |
| Content Creation | Net sales | 25,289 | 23,200 | △8.3% | △2,089 | <ul style="list-style-type: none"> ➤ Major film production and royalty revenues from films decreased YoY TV ➤ TV animation and CM production was favorable |
| | Operating income (OP raito) | 799 (3.1%) | 800 (3.4%) | 0.1% | 1 | |
| Production Services | Net sales | 27,725 | 29,900 | 7.8% | 2,175 | <ul style="list-style-type: none"> ➤ Aimed to improve income from TV post production business through work optimization ➤ Organizational restructuring to strengthen CG/VFX ➤ Game CG, debugging favorable |
| | Operating income (OP income) | 1,209 (4.3%) | 1,300 (4.3%) | 7.5% | 91 | |
| Media Localization | Net sales | 24,814 | 27,700 | 11.6% | 2,886 | <ul style="list-style-type: none"> ➤ Invest in upgrade of studios to strengthen dubbing ➤ Updated IT systems to improve workflow ➤ Focused on improving per customer margin |
| | Operating income (OP ratio) | △ 674 (---%) | △ 400 (---%) | - | 274 | |
| Imaging Systems & Solutions | Net sales | 14,997 | 15,500 | 3.4% | 503 | <ul style="list-style-type: none"> ➤ Planning to launch new high-speed video cameras ➤ Sales of 4K broadcasting systems remain favorable ➤ Optical measurement business grew |
| | Operating income (OP rratio) | 1,449 (9.6%) | 1,600 (10.3%) | 10.4% | 151 | |
| Others(Consolidated adaptation) | Net sales | △1,474 | △1,300 | - | 174 | <ul style="list-style-type: none"> ➤ Increased investments for new business creation and R&D |
| | Operating income | △359 | △700 | - | △341 | |
| Consolidated | Net sales | 91,351 | 95,000 | 4.0% | 3,649 | |
| | Operating income (OP ratio) | 2,424 (2.6%) | 2,600 (2.7%) | 7.3% | 176 | |

Dividend policy and Dividend forecast

Dividend policy

The target consolidated payout ratio is 30%, with a basic policy of distribution according to consolidated results. In the event that an extraordinary factor such as an extraordinary loss will significantly impact net income, when determining the dividend, a comprehensive review will be conducted that includes maintaining stable dividends for shareholders, future business expansion and the status of internal reserves based on a payout ratio that basically takes special factors into account.

| | Dividend | Net income attributable to owners of the parent | Per share Net income attributable to owners of the parent | Payout ratio | (Reference) *Payout ratio without IMAGICA TV impact |
|-------------------|-------------------|-------------------------------------------------|-----------------------------------------------------------|--------------|--------------------------------------------------------|
| FY2017 (Actual) | 10 _{yen} | 2,938 _{million yen} | 65.98 _{yen} | 15.2% | 31.2% |
| FY2018 (Forecast) | 10 _{yen} | 1,600 _{million yen} | 35.93 _{yen} | 27.8% | — |

<Note>

* Payout ratio without IMAGICA TV impact = dividend payout ratio calculated based on 32.03 yen, which is the per share net income attributable to parent company shareholders when we exclude the 2,177 million yen in gains on sale of IMAGICA TV.

■ Conducted share buyback with total value of 512 million yen, equivalent to 1.1% of total shares issued

- Transaction date : May 25, 2018
- Share price : 1,024 yen (final stock price on May 24)
- Total shares acquired : 500,000 shares
- Ratio to total shares issued : 1.1%
- Acquisition amount : 512 million yen
- Purpose :

To improve capital efficiency and establish platform for dynamic capital strategy in the future

Evolving into New Group

New group name

IMAGICA GROUP

New company name

株式会社IMAGICA GROUP

IMAGICA GROUP Inc.

Background of name change and ideal structure

➤ Comprehensive Group brand reconstruction

Getting back to our founding principles, we adopted IMAGICA as a common group keyword and as the new Group name to express the entirety of our Group business. IMAGICA borrows from the Latin word “imaginica”, which means “related to images”.

➤ Desired effect, expectations

We will use this name change as an opportunity to increase our overall Group brand recognition through internal and external brand promotion.



Elevating our presence will strengthen our new client development, business partnerships with other companies, and personnel hiring.

IMAGICA GROUP

Group Management Principles

We approach the creation of new value with integrity and commitment and strive to achieve visual communications that deliver surprise and excitement to people around the world.

Our Ideal Situation for 2020 (Vision)

To be an Only One creative & technology group that delivers world-class visual content, production services, and imaging systems solutions.

IMAGICA GROUP Values – The “4 We’s”

We lead

We will continue to respond quickly to changes in society and be an industry leader.

We collaborate

We will apply our strengths as a global one-stop solutions provider to offer customers premium value.

We serve

We will continue to use advanced technology and our commitment to excellence to respond to all our customer needs.

We discover

We will continue our pursuit of that which moves people and the innovation that propels business.

FY2018 Strategy

The strategy from FY2015 to FY2020

| FY2015 | FY2016 | FY2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> Acquisition of SDI | <ul style="list-style-type: none"> Acquisition of OLM | <ul style="list-style-type: none"> Announcement of Mid-term management plan 2020 Review of segment Sales of IMAGICA TV |
|  <p data-bbox="305 578 917 614">Globalization, business expansion</p> | |  <p data-bbox="1294 564 1825 685">Selection and Integration Strengthening of governance Planting seeds</p> |
| FY2018 | FY2019 | FY2020 |
| | | <ul style="list-style-type: none"> Final year of Mid-term management plan 2020 |
|  <p data-bbox="125 1092 1188 1178">Establish platform for growth and revenue Continue planting seeds (Capital investments, R&D, M&A)</p> | |  <p data-bbox="1381 1092 1632 1178">Reap benefits Next stage</p> |

Year to establish platform for achieving our 2020 Medium-Term Business Plan

①

**Establish growth platform:
Upfront investments in growth businesses**

②

**Build revenue platform:
Improve profitability of low-profit business**

Establish growth platform

Dynamic investments with focus on growth businesses

| | Amount (FY2018 plan) |
|----------------------------------------|-------------------------|
| Capital investment, IT, contents, etc. | 4 billion yen |
| R&D expenses | 2 billion yen |

Examples of investment

- Content Creation
- Media Localization
- Imaging Systems & Solutions
- New business development, R&D

Investment in content

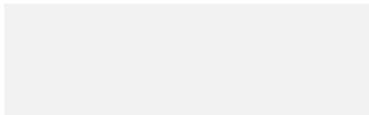
Advertisement × entertainment

「OVER DRIVE」

- Work by Eiichiro Hasumi (director signed with ROBOT)
- Original film based on planning & development with DENTSU

ROBOT

June 1 Release



*For copyright reasons, images are not posted.

(Movie image)



©2018「OVER DRIVE」製作委員会

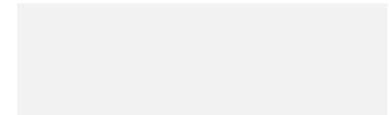
Original TV animation

「Space Bug」

- Japan-Korea collaboration based on screenplay and direction by Hiroyuki Nakao (director signed with P.I.C.S.)
- Simultaneous production of Japanese language/English dubbing with focus on overseas market

P.I.C.S.

July 8 Release



*For copyright reasons, images are not posted.

(Work image)



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**Develop new schemes and original content
collaborating with other companies**

- **Promote investments that solidify competitive advantage + improve profitability**
 - Expand dubbing business: Upgrade dubbing studio
 - Use IT system investments to pursue optimization (workflow improvements, etc.)



Optical measurement business grew – High-speed polarization camera

High-speed polarization image sensor: **visualization of light and airflow**

CRYSTA series



PI-1P/PI-1WP

- **World's first** high-speed camera with sensitivity for **polarization** invisible to the human eye
- **Enables measurement and visualization of various physical quantities and physical properties** such as stress and object recognition
- **Applicable in a wide range of fields**
Bio, military, aviation & space, food & pharmaceuticals, etc.

Optical measurement business grew – KAMAKIRI series

KAMAKIRI series

System that detects the optical distortions of optical film or glass used in smartphones and LCD panels



Compared to conventional detection systems:

- Testing speed up to **1000x** faster
- **Over 400x** more measurement points

- Increase in types of detectable optical distortions
- Major reduction in man-hours
- Can measure broad spectrum optimal distortions
- Various uses, including film and glass manufacturers

■ Invest in development of new businesses with imaging technology

- Collaborate with external organizations and companies
- Start internal venture system

■ R&D by Group R&D departments

Gather information and promote R&D of advanced technology for image production

(Examples of research)

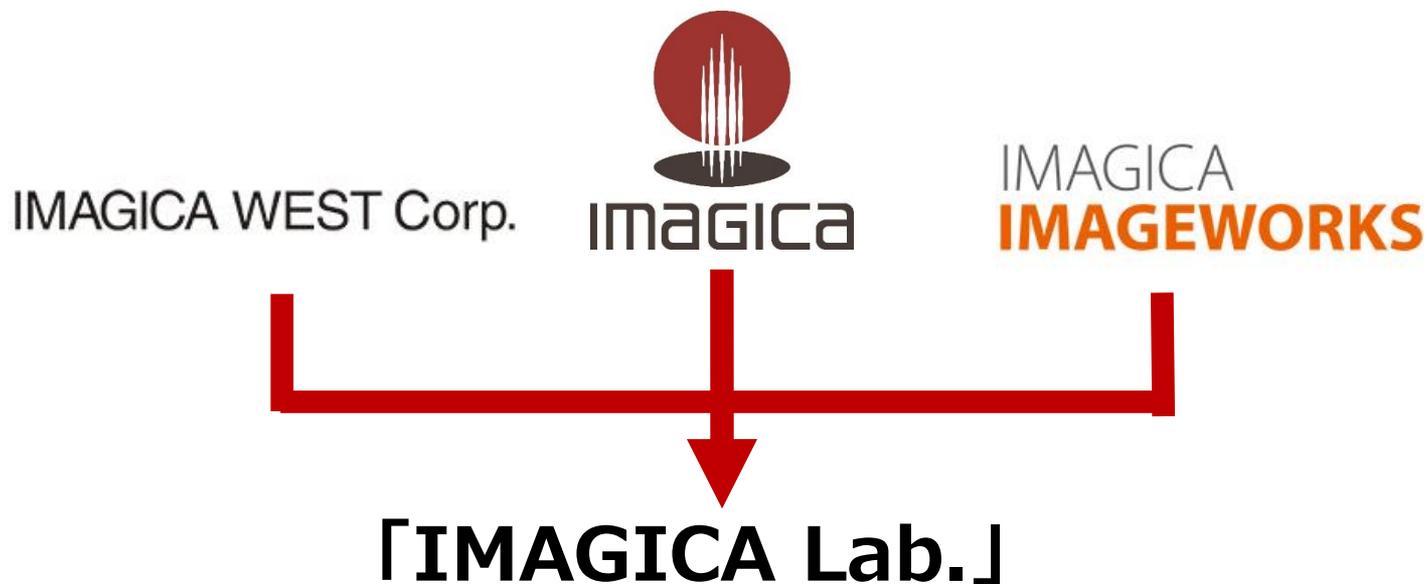
Improve efficiency of video processing using AI

Development of learning analysis system using AI

Build foundation for profit

■ Merger of IMAGICA and two subsidiaries (October 1)

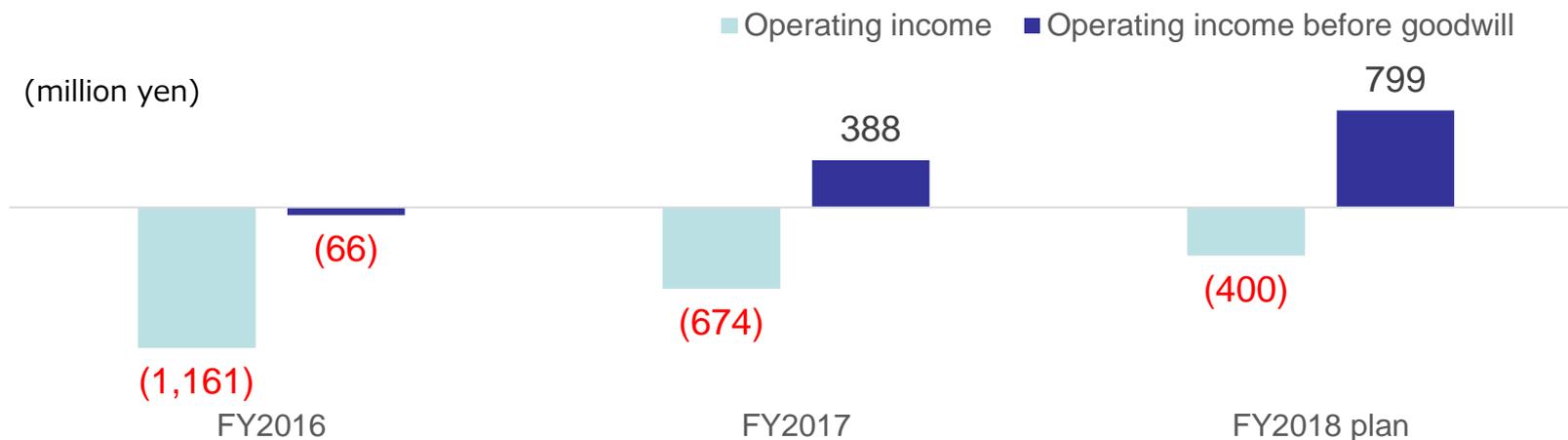
- Increase orders in growth fields and reorganize production structure:
Archive business, Web video, CG/VFX domain
- Optimize system for orders received and management functions:
Strengthen sales structure for new contacts in existing clients, eliminate redundant administrative operations



Focused on profit improvement

| Category | Area of improvement |
|---------------------|-----------------------------------------------------------------|
| Sales | Improve direct margin ratio, increase transactions with OTT |
| Process improvement | IT system investments to improve workflow and processes |
| Cost management | Reduce costs such as outsourcing costs, translation costs, etc. |
| Synergies with PPC | Joint sales activities, Capability sharing |

Media Localization Operating income



Mid-term management plan 2020

KPI in 2020

| | FY2018 plan | | FY2020 goal |
|------------------|--------------|---------------------------------------------------------------------------------------|---------------|
| Net sales | ¥95bn |  | ¥100bn |
| OP ratio | 2.7% |  | 5.0% |

Topics

New business model trials using 4K/8K

- In collaboration with other companies through participation in “Next Generation Contents Distribution Forum”, we conducted a trial (a demonstration experiment) of a new business combining technologies of 4K / 8K and advanced video distribution system.
- Demonstration experiment

February 8 Streaming 4K/HDR content to movie theaters

March 1 Live video streaming to planetariums

March 31 Live viewing using 12K wide video

Live viewing using 12K wide video

- One demonstration experiment: "TOKYO GIRLS COLLECTION" held at Yokohama Arena was filmed with a 4K camera and delivered to another venue in Omotesando by Live video.

Screening on wide screen realizes a sense of high realism and high definition.

