

# New Mid-Term Business Strategy

FY2019 – FY2021

May 31, 2019



# Agenda

---

## **I Financials**

- 1. FY2018 Results**
- 2. FY2019 Forecast**

## **II New Mid-Term Business Strategy**

- 1. Progress and Challenges**
- 2. Opportunities**
- 3. Key Measures**
- 4. Target**

[ I Financials]

## **1. FY2018 Results**

1. FY2018 Results  
 (1) Highlight of Financial Results

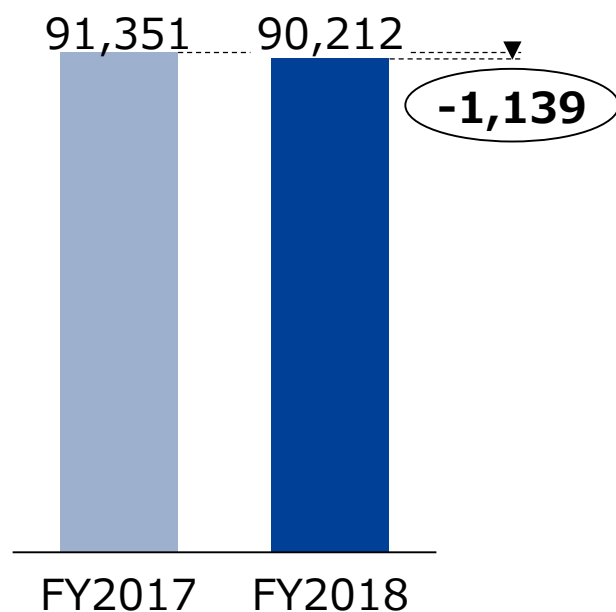
Operating income decreased

Net Sales

(Million yen)

**¥90,212**

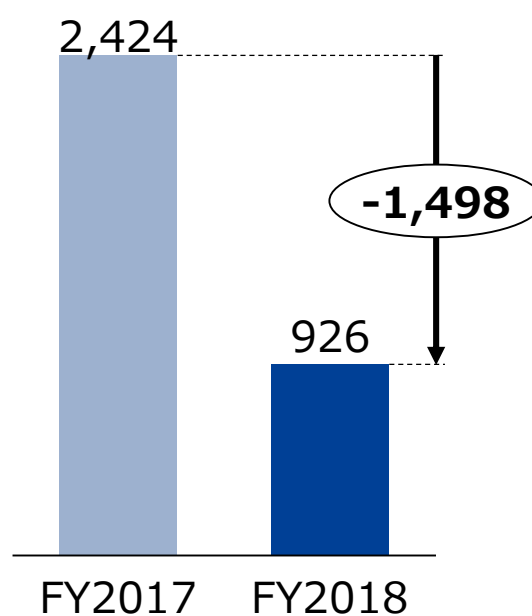
YoY  
 -¥1,139(99%)



Operating Income

**¥926**

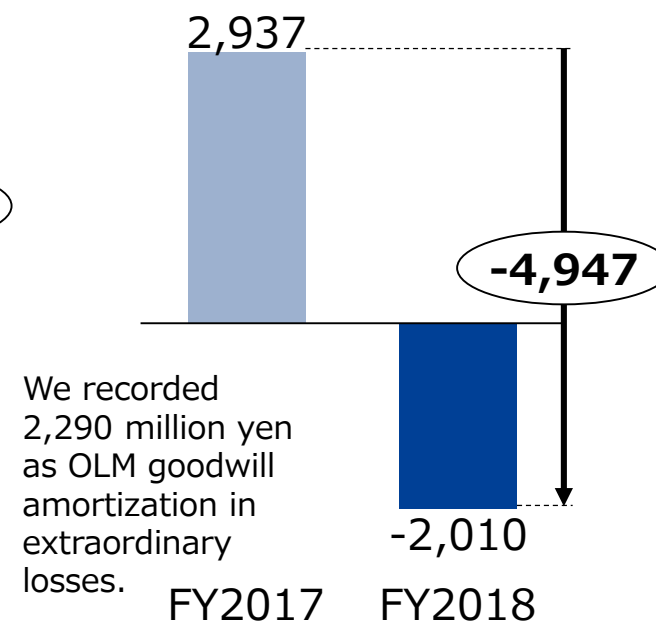
YoY  
 -¥1,498 (38%)



Net Profit Attributable To Owners of the Parent

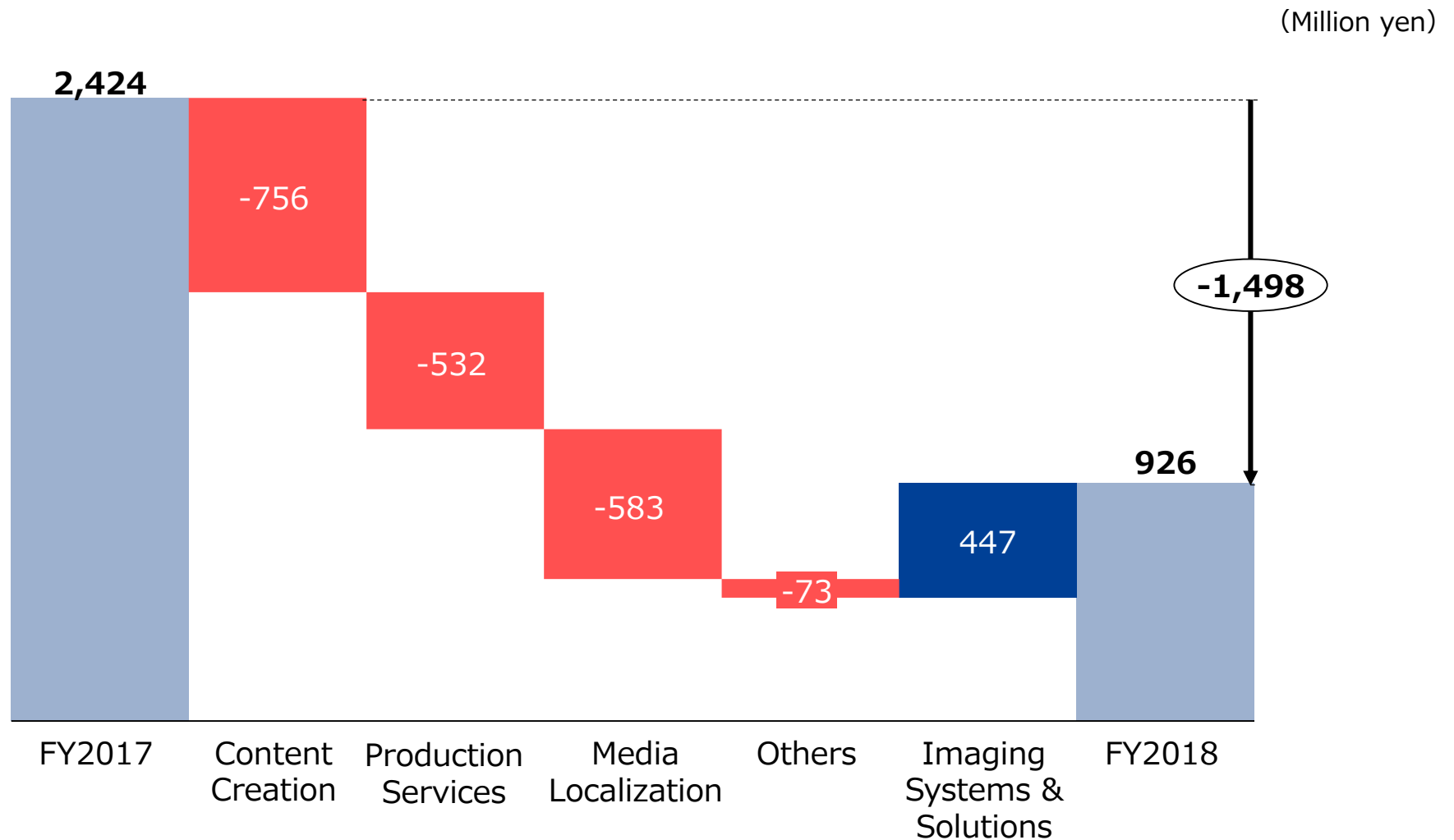
**-¥2,010**

YoY  
 -¥4,947



1. FY2018 Results  
(2) Operating Income

Imaging Systems & Solutions increased, while the other three segments decreased.



1. FY2018 Results

(3) Financial Results by Segment

(Million yen)		FY2017	FY2018			Overview
		Actual	Actual	YoY	YoY ratio	
Content Creation	Net sales	25,289	23,429	-1,860	-7.4%	<ul style="list-style-type: none"> <li>➤ New businesses (live-entertainment / publisher)</li> <li>➤ Less live-action feature films than previous year</li> <li>➤ Increased in animation production cost</li> </ul>
	Operating income (Op ratio)	799 (3.2%)	43 (0.2%)	-755		
Production Services	Net sales	27,725	27,529	-195	-0.7%	<ul style="list-style-type: none"> <li>➤ TV animation post production, IT human resources, and weather forecast resulted well</li> <li>➤ TV episodic post-production dropped sales/profit</li> <li>➤ Edit team work-style reform on going</li> </ul>
	Operating income (Op ratio)	1,209 (4.4%)	677 (2.5%)	-532		
Media Localization	Net sales	24,814	24,916	101	0.4%	<ul style="list-style-type: none"> <li>➤ Invested in Pixelogic for global E2E business</li> <li>➤ Special localization needs ceased, sales dropped</li> <li>➤ Delay of fixed cost cut measures lowered profit</li> </ul>
	Operating income (Op ratio)	-674 (---%)	-1,257 (---%)	-583		
Imaging Systems & Solutions	Net sales	14,997	15,946	948	6.3%	<ul style="list-style-type: none"> <li>➤ Imaging systems business in Japan was strong</li> <li>➤ Video system solution for broadcasters did well</li> <li>➤ Video and imaging LSI to China went well</li> </ul>
	Operating income (Op ratio)	1,449 (9.7%)	1,896 (11.9%)	447		
Others	Operating income	-360	-433	-73		
Consolidated	Net sales	91,351	90,212	-1,139	-1.2%	
	Operating income (Op ratio)	2,424 (2.7%)	926 (1.0%)	-1,498		

[ I Financials]

## **2. FY2019 Forecast**

## 2. FY2019 Forecast

### (1) Policy and Consolidation Indicators

Position : A year to regain profitability

Policy : Motivate "Integration to 2021" on imaging

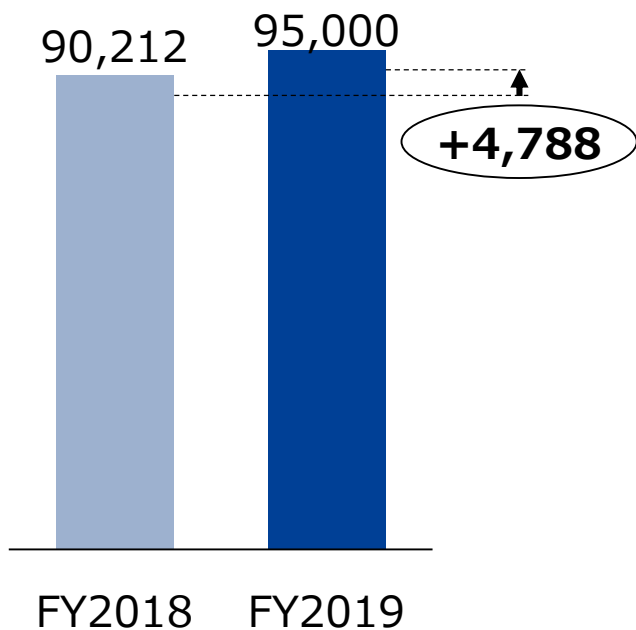
(Million yen)

#### Net Sales

**95,000**

YoY

+4,788 (105%)

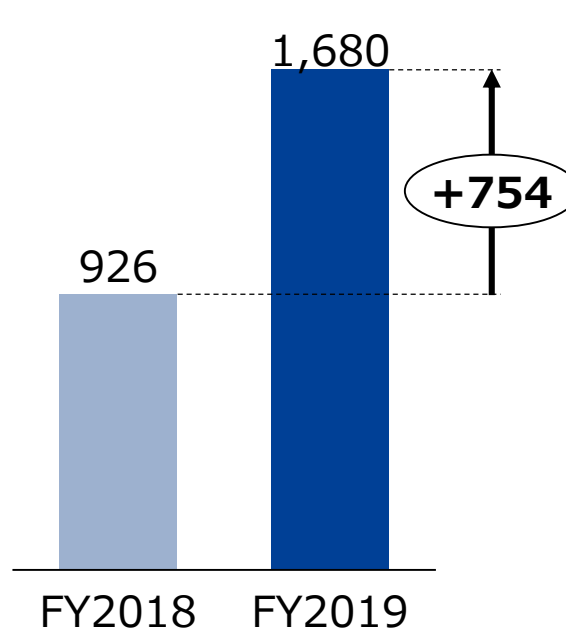


#### Operating Income

**1,680**

YoY

+¥754 (181%)

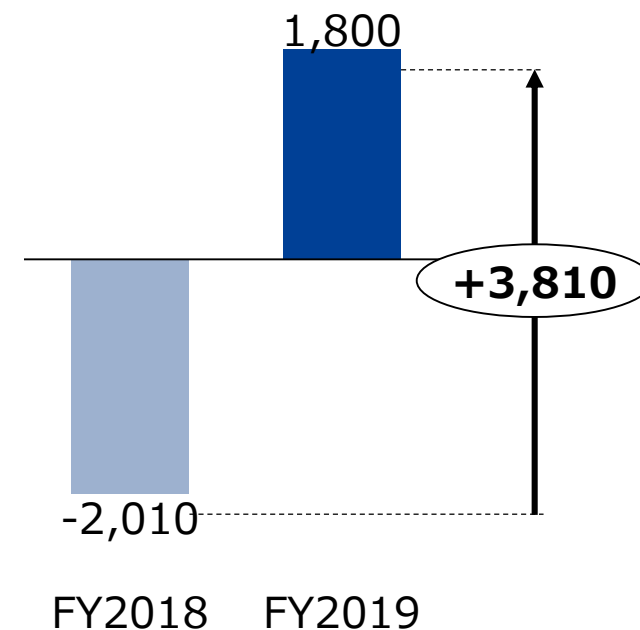


#### Net Profit Attributable to Owners of the Parent

**1,800**

YoY

+3,810





## (2) Priority Measure by Segment

Segments	Focus Area - Action
<b>Content Creation</b>	<ul style="list-style-type: none"> <li>• <b>Animation</b> – restructure production processes</li> <li>• <b>Transform into a solutions business</b> – transition from labor intensive to knowledge intensive (creative)</li> </ul>
<b>Production Services</b>	<ul style="list-style-type: none"> <li>• <b>E2E service</b> – expand</li> <li>• <b>TV business</b> – rebuild by optimizing workflows</li> <li>• <b>Cloud platform</b> – develop the basis for this business</li> <li>• <b>Human resource consulting and Media</b> – strengthen</li> </ul>
<b>Media Localization</b>	<ul style="list-style-type: none"> <li>• <b>E2E service</b> – globally expand</li> <li>• <b>Feature films</b> (higher margin) – increase share</li> <li>• <b>IT</b> – utilize more for improved operational efficiency</li> </ul>
<b>Imaging Systems &amp; Solutions</b>	<ul style="list-style-type: none"> <li>• <b>New high-speed cameras</b> - boost sales</li> <li>• <b>Newly entered markets</b> (optical measurement, FA, and motor vehicle crash test) - strengthen position</li> <li>• <b>Next generation camera, systems and sensors</b> - accelerate development</li> <li>• <b>Broadcast system integration</b> – expand the business</li> </ul>

[ II New Mid-Term Business Strategy]

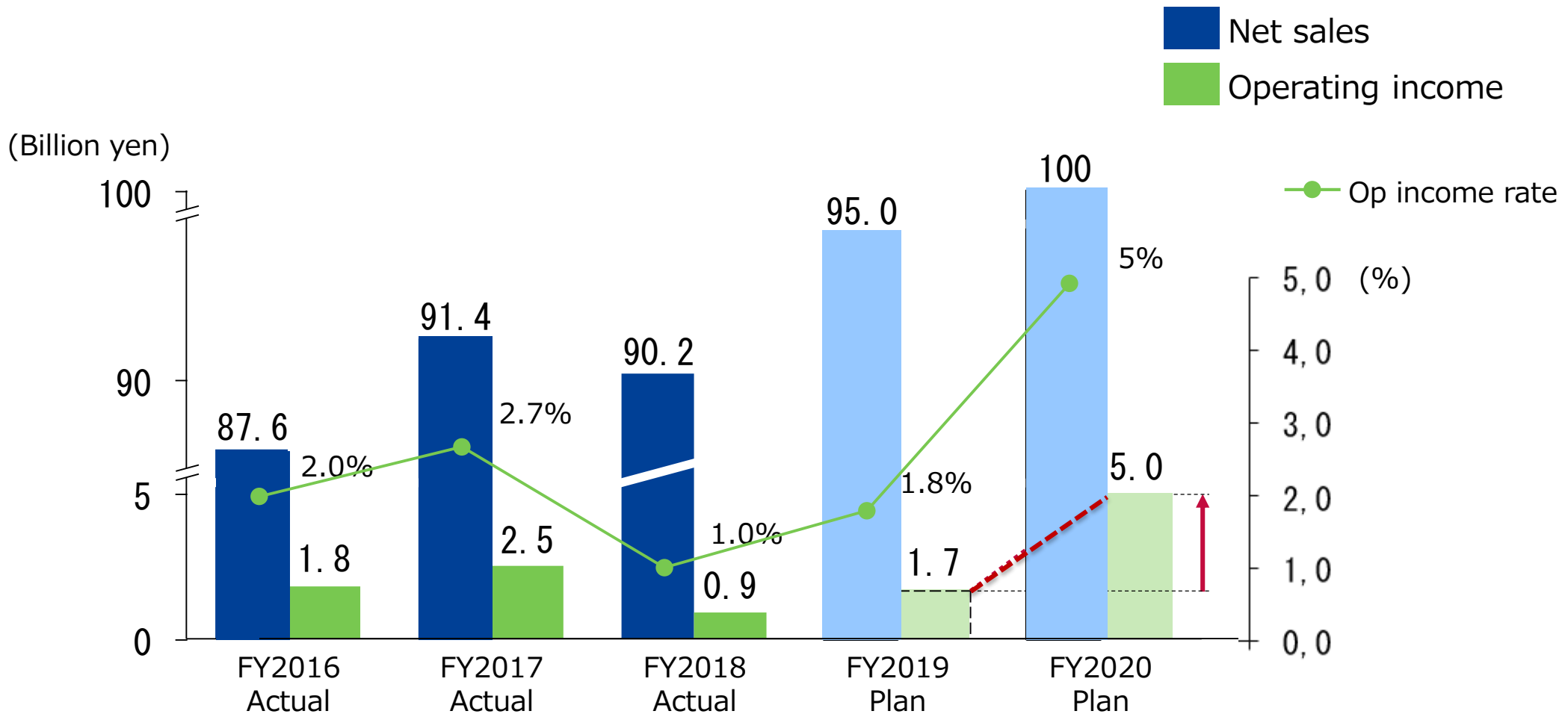
## **1 . Progress and Challenges**

1. Progress and Challenges

(1) Management KPIs in the Original Mid-Term Plan

# Achieving target in FY2020 is challenging

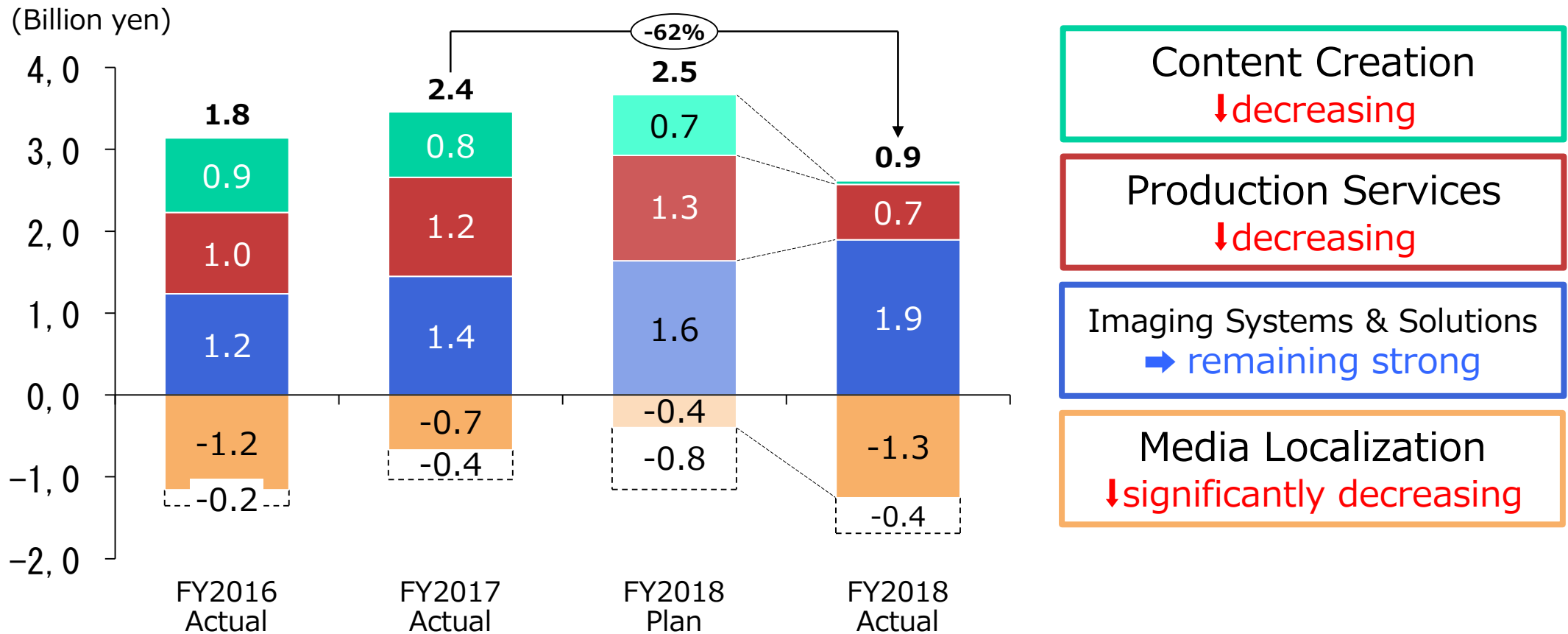
Net sales ¥100 billion and Op rate 5%



(2) Operation Income by Segment

**Imaging Systems & Solutions: in line with the plan**

**Other Segments: falling far behind the plan**



## (3) Reasons for Falling Behind the Original Plan

---

### **1 . Underperformance by Media Localization Segment**

- High cost structure and dependency on sales increase
- Delay in executing productivity optimizing initiatives like IT investment

### **2 . Delay in shifting to new business model**

- Unsuccessful attempt to reform the existing profit structure
- Unaccomplished attempt to shift from labor-intensive business

1. Progress and Challenges  
(4) Existing Challenges

---

Three major business challenges are recognized.

**Business Challenges**

- 1. Underperformance by Media Localization Segment**
- 2. Delay in shifting to new business model**
- 3. Reliance on Imaging Systems & Solutions for profit**



**Need for a New Mid-Term Business Strategy**

[ II New Mid-Term Business Strategy]

## **2. Opportunities**

## 2. Opportunities

### (1) Environment and Opportunities

---

New video markets arise as video technology and business environment advance

#### ■ Expanding – video usage and video viewing range

Innovation in imaging technology

Filming & editing devices, CG/VFX, and AR/VR

Sophistication of visual resolution

4K/8K, 3D/4D, and HDR

Advances in networking technology

5G

**Diversified  
Usage of imageries**

Smartphone/SNS/OTT

**Seize the chance**

#### ■ Growing markets of video streaming and video technology

Video production market

TV, CM, feature film, and packaging

Video streaming and  
video technology markets

OTT, digital cinema, projection mapping

**Shrinking**

**Growing strong**

**Go overseas  
Win market share**

**Lead the growth**



## Group's Mission

We are dedicated to being a visual communications group that brings amazing and inspiring experiences to the people around the world by creating new values with honesty.

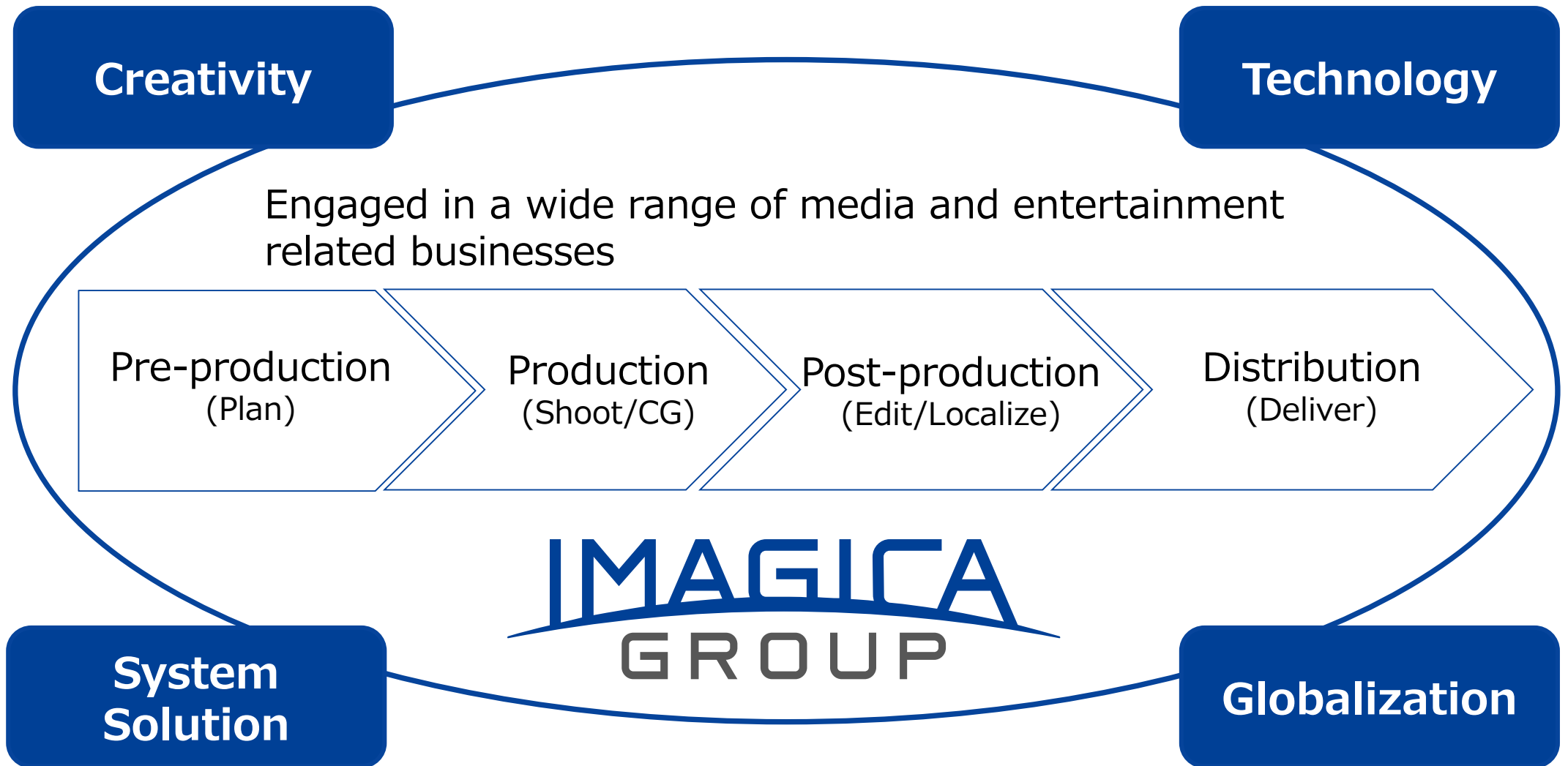
## Group's Value of 4we's

**We lead; We collaborate; We serve; and We discover**

## Group's Vision

Our vision is to use the Group's integration to become the world's only one creative technological organization to realize visual communication across the globe.

2. Opportunities  
(3) Core Competence



A unique corporate group offering one-stop video services

## (4) Group's Key Strategy

We have developed a new mid-term business strategy

### **“Integration to 2021”,**

based on our business challenges and opportunities

We will accelerate the Group's structural reform and build a well-balanced business portfolio with those 5 key strategies below.

### **5 Key Strategies**

- 1. Develop a new global strategy**
- 2. Improve profitability of the existing businesses**
- 3. Transition to a new business model**
- 4. Create and develop new businesses**
- 5. Develop human resources and promote the work-style reform**

**Business portfolio with growth potential and profitability**

[ II New Mid-Term Business Strategy]

### **3. Key Strategy and Measures to Implement**

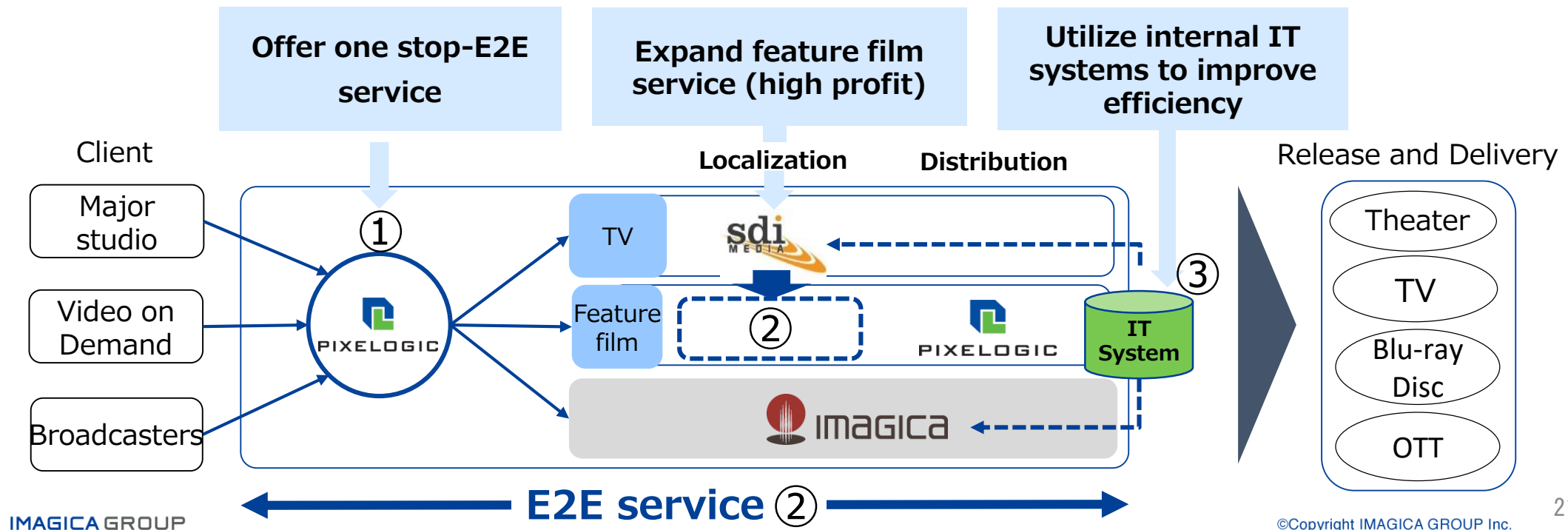
### 3. Key Strategy and Measures to Implement (1) New Global Strategy

Production Services

Media Localization

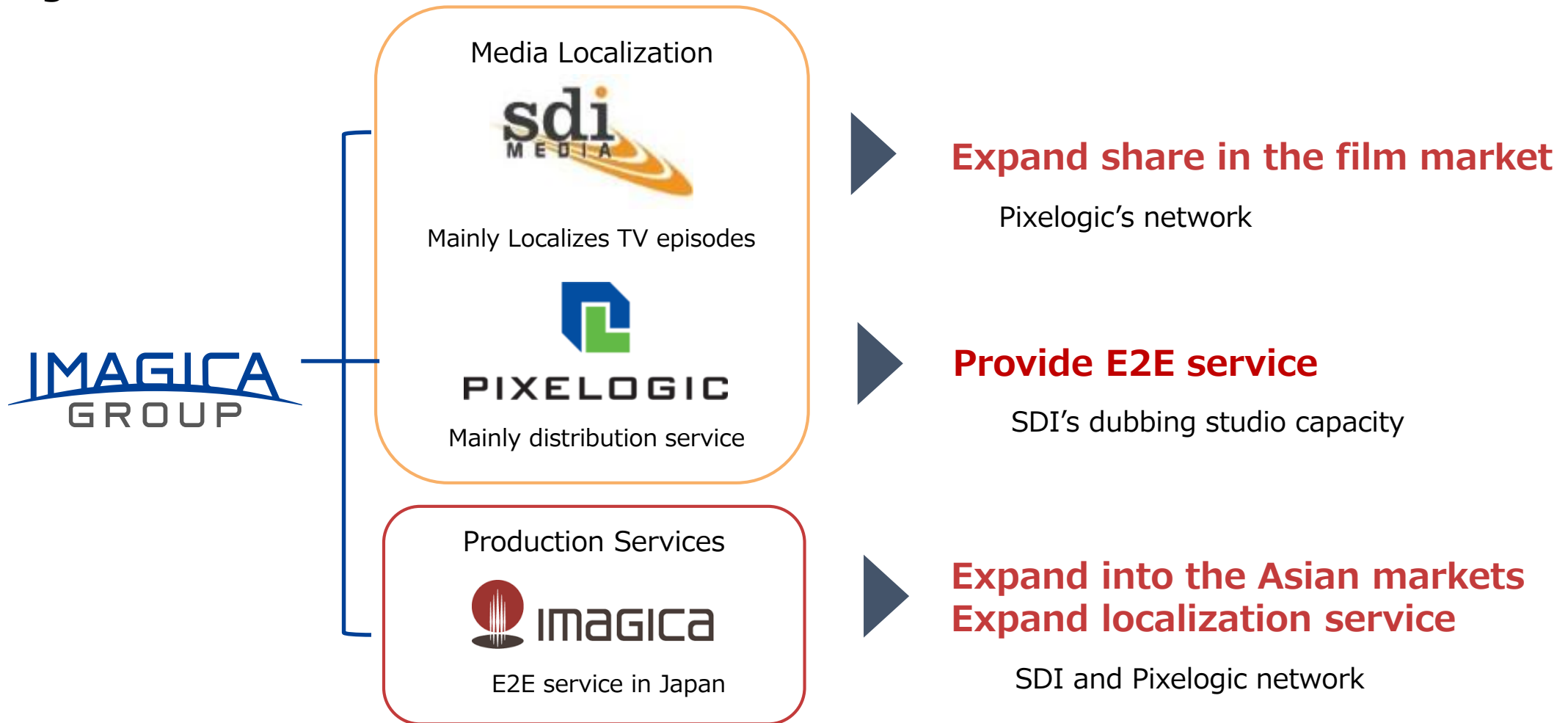
## Strategic investment in Pixelogic for a business alliance to provide global end-to-end(E2E) services

- 1. Global one-stop service = **Sales expansion**
- 2. Expanded business fields = **Profitability improvement**
- 3. Improved operational efficiency = **Productivity increase**



### 3. Key Strategy and Measures to Implement (1) New Global Strategy (Cont'd)

Video streaming industry is growing globally (OTT-led, increased content volume)  
**We will execute those 5 key strategies in “Integration to 2021” to expand the global E2E service**



### 3. Key Strategy and Measures to Implement (2) Improve Existing Business' Profitability

---

#### Content Creation

## 1. Animation

- High labor and outsourcing costs



## Cost control

- Level out schedule; avoid losing work time
- Manage person-hour by project; control the budget
- Maximize offshore production teams in Malaysia

#### Content Creation

## 2. CM and Feature film

- CM: profit drop due to shift to digital (less physical media duplication/delivery)
- Feature film: lower rate of recouping investments



## From labor-intensive to creative

- Promote solution business by combining branding and ICT
- Enter into experience-based media business

#### Production Services

## 3. Post-production

- Decreased TV program volume due to The Work-Style Reform Bill



## Maximize creators' operation efficiency

- Revisit unprofitable deals
- Improve productivity by revising workflows

### 3. Key Strategy and Measures to Implement (3) New Business Model

Content Creation

#### 1. Expand business by IP

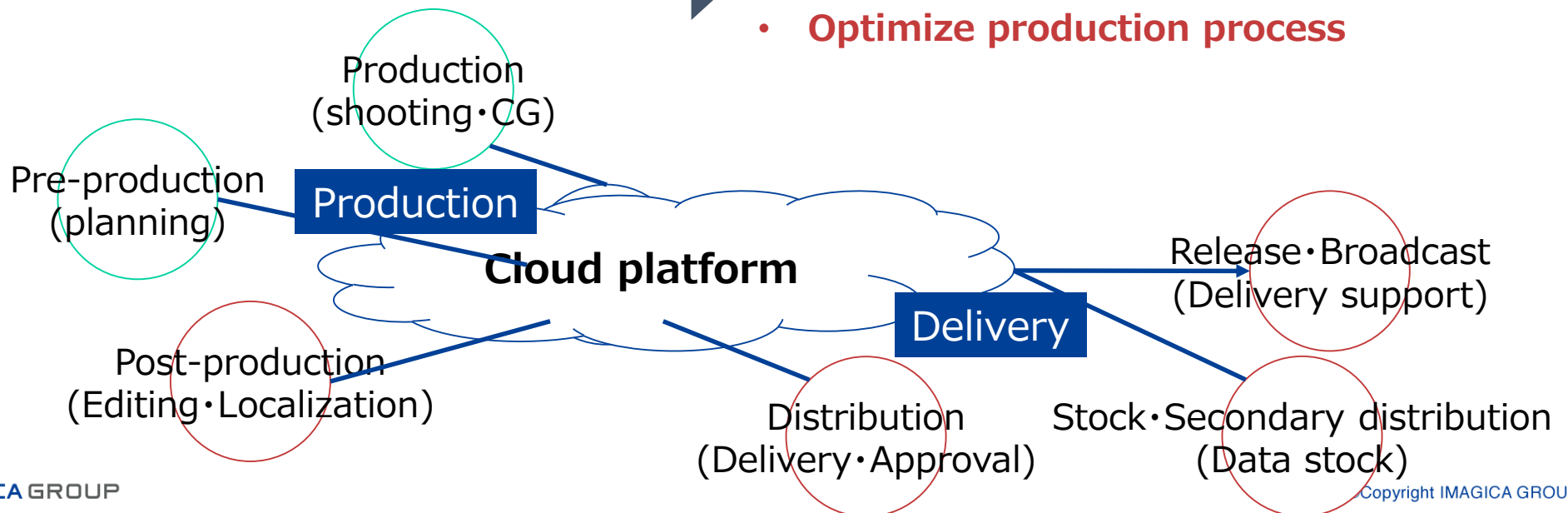
Break away from made-to-order style of filmmaking

- Create original contents in-house
- **Gain profit throughout the value chain**—IP, production, and box office

Production Services

#### 2. Develop a cloud system for the entire production process

- Visualize complicated production process
- Make a flexible production system; standardize quality management
- **Optimize production process**





### 3. Key strategy and Measures to Implement (4) Create and Develop New Businesses

Content Creation

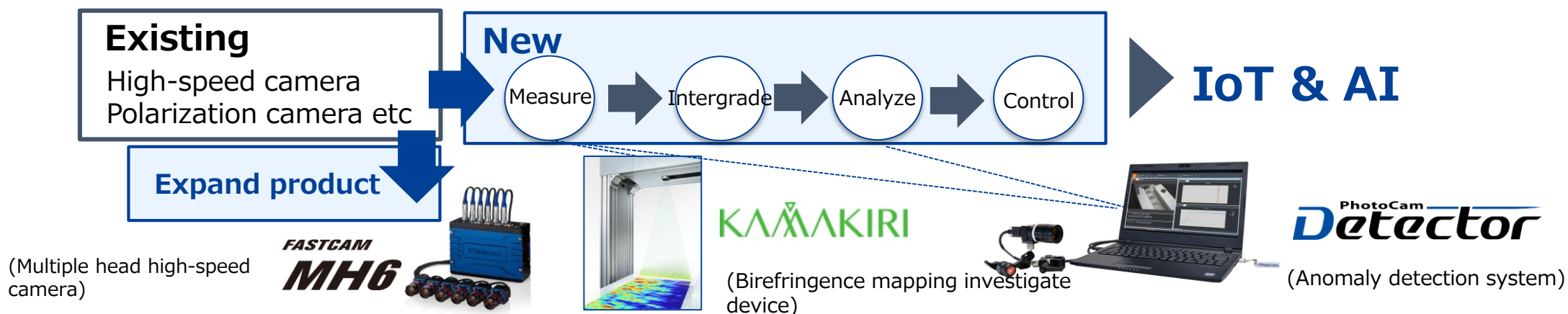
#### 1. Expand live entertainment business with a partner

- Strengthen experiential communication
- Co-create with a partner keen on market expansion

Imaging System & Solutions

#### 2. Expand the business fields, starting with image sensing technology

- Increase product categories
- Develop more fields (measuring, integrating, analyzing, and controlling by visual data)



#### 3. Create new businesses by M&A IMAGICA GROUP

- Engage in significant active investment

## (5) Human Resources Development and Work-Style Reform

---

### 1. Human resources development

- **Executive talent**

Lead the Group

- **Global talent**

Promote global businesses

- **Professional talent**

- Perform with high creativity
- Play key role in developing new technologies



#### **Succession planning**

- Continuous, systematic successor development in line with the succession plan
- Select young executive candidates and systematic training program

#### **Talent management**

- Define the type of talents and skill sets needed
- Systematically conduct recruitment, training and rotation

### 2. Work-style reform

- Work-life-balance of each personnel
- High creativity



#### **Mindset reform and productivity improvement**

- Carry out diverse and flexible ways of working
- Develop career and improve skill sets of personnel
- Utilize IT

[ II New Mid-Term Business Strategy]

## **4. Key Strategy and Target**

#### 4. key Strategy and Target

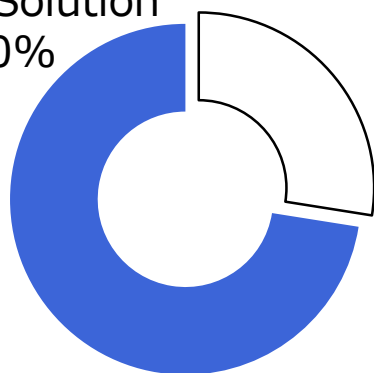
### (1) Target Operating Income Before Goodwill Amortization

**New global strategy, existing businesses' improved profitability, and new businesses through M&A**

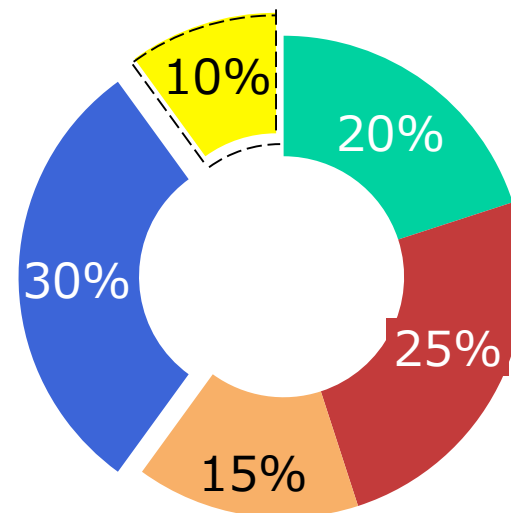


**a well-balanced business portfolio**

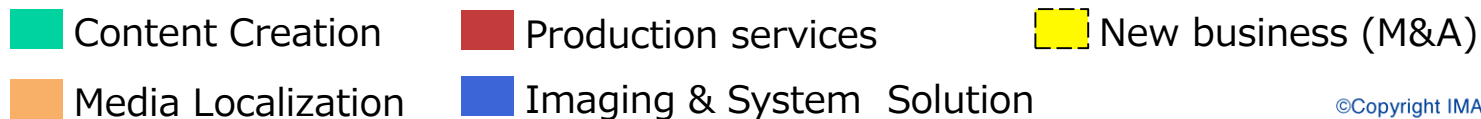
Imaging & System Solution  
is more than 70%



FY2018  
2.5billion

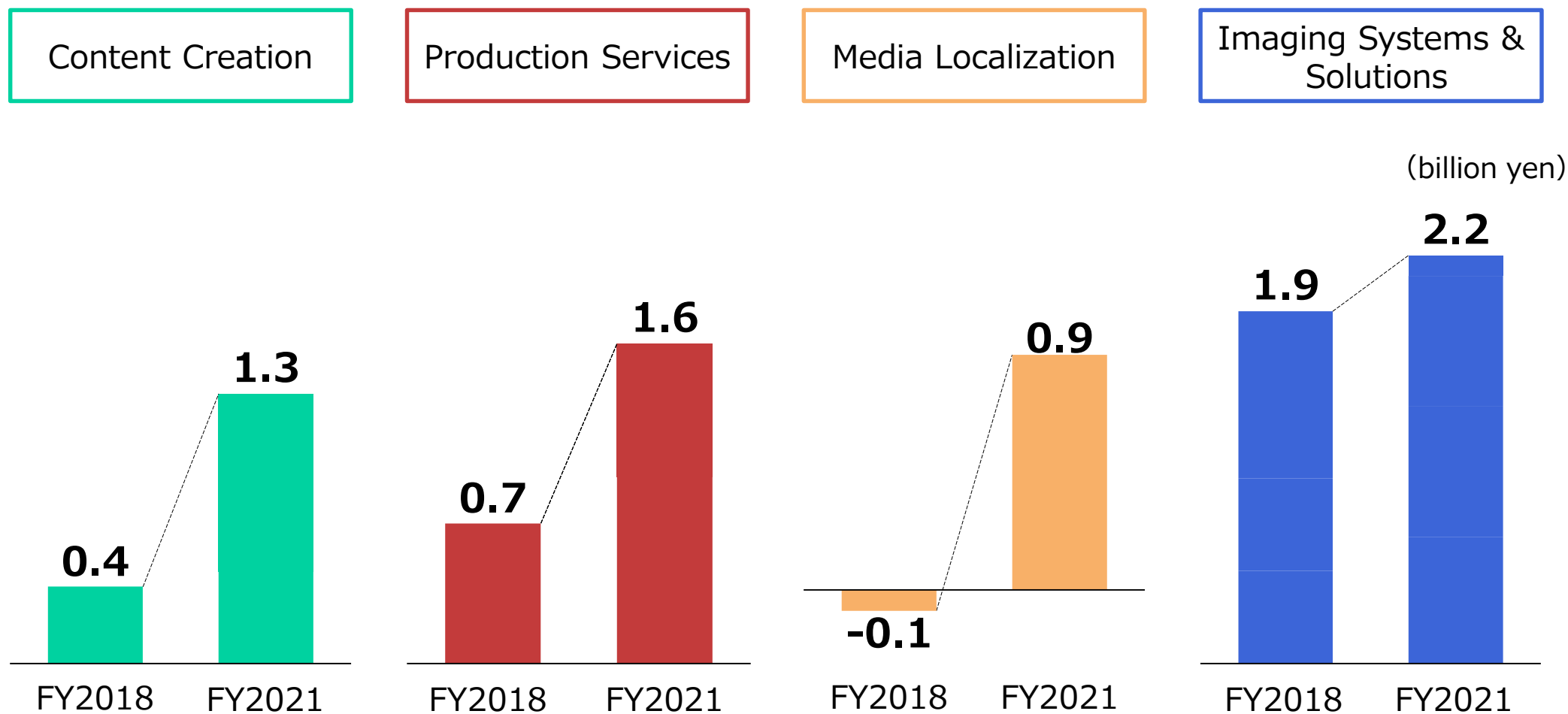


FY2021  
**6.0billion**



#### 4. Key Strategy and Target

### (2) Target Operating Income Before Goodwill Amortization by Segment



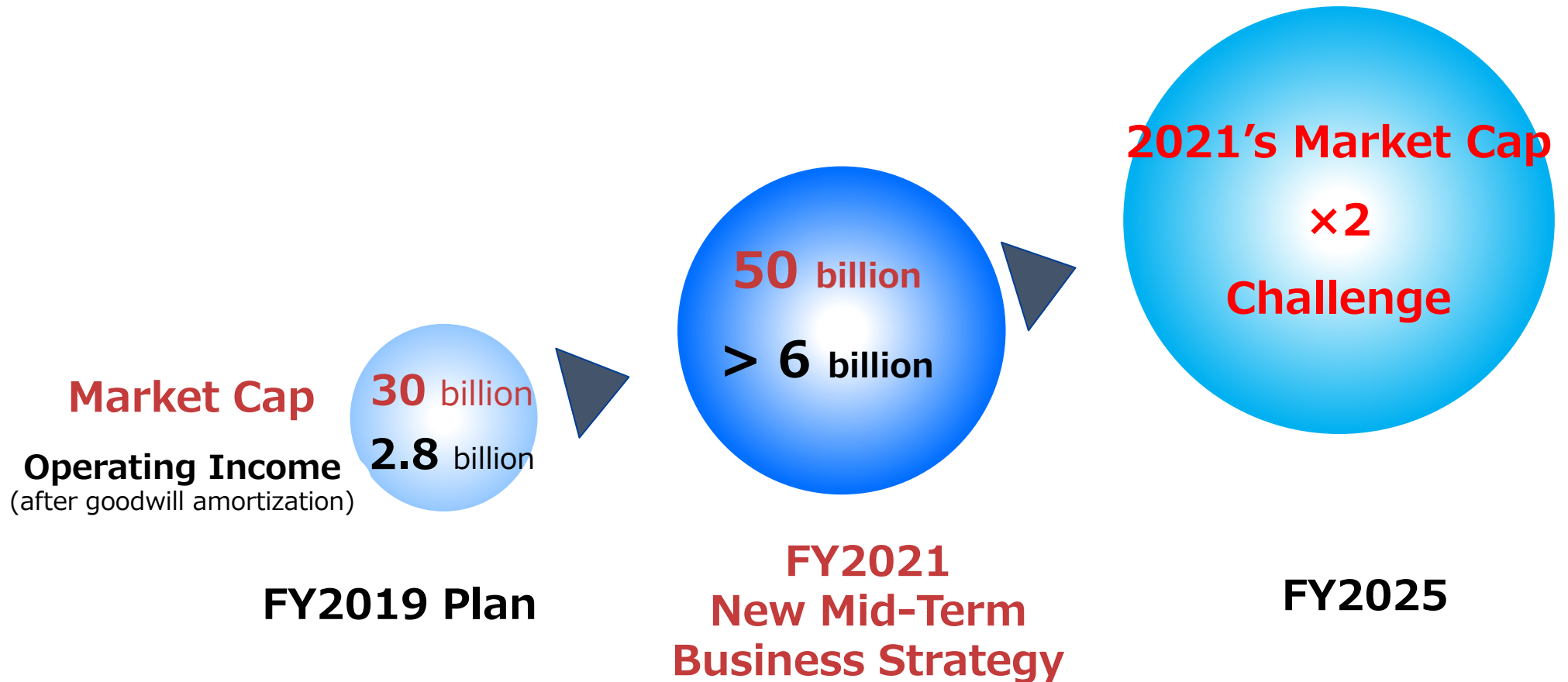
4. Key Strategy and Target  
(3) Raise Group's Corporate Value

---

New Mid-Term Business Strategy

## Integration to 2021

to achieve market capitalization of 50 billion yen in 2021



# IMAGICA GROUP

## **For more information, please contact/visit us at**

Planning Dept., IMAGICA GROUP INC.

11<sup>th</sup> Floor, Uchisaiwaicho Tokyu Bldg.,

Uchisaiwaicho, Chiyoda-ku, Tokyo 100-0011

**T E L : +81-3-6741-5742      F A X : +81-3-6741-5752**

**Email : [ir@imagicagroup.co.jp](mailto:ir@imagicagroup.co.jp)**

**URL : <https://www.imagicagroup.co.jp/>**

### **Disclaimer:**

This document includes the Group's business plan and future outlook in line with its forecasts. The future outlook is formulated from information currently available to the Group and the outlook is susceptible to future economical environment, competitive landscape, success or failure of new services and other uncertain factors. Thus, the Group asks you for your understanding that the actual performance may differ from the future outlook stated in this document. Additionally, our Group shall not bear any responsibility to update the outlook after the disclosure of this document.