November 15, 2023

# ■ Earnings Presentation for the Second Quarter in the Fiscal Year Ending March 31, 2024: Q&A Session Summary

## TV Advertising Revenue

1. What is your outlook for the advertising market in the second half of the fiscal year? What are the assumptions for the time and spot advertising market and TV Asahi's prospect for advertising revenue?

   In addition, the inventory for spot advertising is expected to be higher in November and December compared with the previous year due to the major sports event held in the same period last year. Advertisers, on the other hand, do not seem to have a big appetite to advertise, except in certain industries. In light of the status of advertising slots, can you also tell us about advertisers' willingness to advertise.

- ➢ In the first half of the fiscal year, the television industry as a whole broadcast world sports championships such as swimming, basketball, volleyball and rugby, and witnessed great success in terms of real-time viewing. This demonstrated the innate power of television content and a corresponding boost in advertising was expected. Unfortunately, the advertising volume in the Tokyo area was 91.4% YoY for the spot market and under 95% YoY for the time and spot market combined.
- ➢ Regarding the market conditions in the second half of the fiscal year, I understand the question implies that, in the third quarter (October-December) results of the Tokyo area, it would be natural for spot to exceed 100% YoY, considering the effects of last year's *FIFA World Cup Qatar 2022*. As of now, spot advertising volume in the Tokyo area is about 98% YoY, and we are seeing 94-95% YoY for November and mid-90% YoY range for December. In the area as a whole, until November the figure is lower than the previous year due to lack of demand, but in December the YoY decline is due to the inability to keep up with rising demand. For the fourth quarter (January-March), advertising companies forecast approximately at 95% YoY for the spot market. We have yet to start sales for January, so this 95% YoY is a reference point for the Tokyo area at the moment. In the first half of the fiscal year, the spot advertising volume in the Tokyo area was 91.4% YoY, so the fourth quarter is expected to be above that level.
- ➢ As for our spot advertising sales revenue, it is estimated to be approximately102% YoY in October and above 100% YoY in November and December. As for December, in particular, we see the situation is still in flux due to end-of-year budgets and adjustments to business conditions. We are unable to discuss January and beyond in

detail at this point, but the results of our interviews with advertisers indicate that business seems to remain at the same level as last year. We believe there is no specific reason to be pessimistic, judging from the expected recovery in December.

- As for the current status of advertisers, beer companies are actively increasing advertising volume. “Beverage and food,” “transportation and leisure,” and “finance and insurance” are also good candidates. Looking ahead, we expect a recovery in “automobiles,” “information and communications,” and the IT sector that includes foreign companies. For the time being, we will continue to increase our market share while successfully selling our inventory by providing solution measures for advertisers. We believe we will be able to embrace the advantages over our competitors in the event market conditions return to the previous year’s level from the current decrease.

**Costs**

2. With regard to costs including those for program production, if advertising revenues are lower than expected in the second half of the fiscal year, is there room to reduce program production costs and other costs?

- Our program production cost budget is 78.5 billion yen for this fiscal year. The spending for the first half of the fiscal year was in line with the budget.
- In the second half of the fiscal year, we have the *AFC Asian Cup Qatar 2023* and TV Asahi 65th Anniversary line-up coming up and are also in the process of strengthening our regular programs. We are conscious of making cost-controlling efforts, and in the event advertising revenues fall short of our expectations, we will manage flexibly and make prudent decisions, such as adopting creative solutions in production methods at each production level, while maintaining the quality of our programs.
- We have been proceeding with a company-wide cost management initiative since the beginning of the fiscal year. We have established a cross-sectional team to conduct company-wide cost inspections and it is already showing results.
- We will comprehensively promote the above initiatives, including program production costs, and make the utmost effort to secure profits.

**Internet Business**

3. What is the growth strategy for the video distribution business? What measures are needed to further strengthen the different services, such as ABEMA, AVOD, and SVOD, from a medium- to long-term perspective? To what extent do you think additional strategic investments will be necessary in the future?

- First, as for the AVOD business, the market has been growing significantly. On the other hand, as the number of distributed content is increasing dramatically, it is becoming important to capture as many viewers as possible and gain high viewership numbers, by not letting our content get buried. Needless to say, it's all about enhancing content, but we will also focus more on digital and social media marketing. We aim to increase sales that exceed market growth, with a sales strategy that leverages UltraImpression, the only video ad distribution platform operated by a TV station.
- The recognition of ABEMA increased dramatically as a result of last year's *FIFA World Cup Qatar 2022* broadcast and its service has further increased penetration with approximately 18 million weekly active users (WAU), an increase of 20% from the previous year. Corporate earnings are also in the improvement phase. As it is well known, in the U.S., FAST, Free Ad-supported Streaming TV service, has been growing significantly. With aim to instigate a similar trend in Japan, we look forward to accelerating its growth by strengthening ABEMA NEWS and focusing more on synergy with large-scale terrestrial content such as sports.
- TELASA, the SVOD service, has been profitable since the first year, and has been doing well as TV Asahi's SVOD Headquarters. In addition to archive content, original and spin-off content linked to terrestrial drama and variety programs, which are produced by TV Asahi, contributes to member acquisition. Our current goal is to achieve 2 million members.
- In terms of news distribution, subscribers to "ANNnewsCH" on YouTube surpassed 3 million in January and have now reached 3.61 million. Undoubtedly, it is the largest subscriber base among Japanese news media. While earning steady revenues from external platforms including YouTube and Yahoo, we will further strengthen our own media platform, "Tele-Asa news," by increasing original content and collaborating with ABEMA.

**Animation Business**

4. In addition to the video distribution business, the animation business has been growing significantly in recent years. TV Asahi has animation production arms such as TOEI ANIMATION CO., LTD. and SHIN-EI ANIMATION Co., Ltd. What measures do you plan to take in the future in terms of expanding your animation business?

- In our management plan “BREAKOUT STATION! TV Asahi for the New Era: Management Plan 2023-2025,” we have positioned “animation and games” as a new business area derived from content and plan to accelerate development and growth. Specifically, we have been pursuing three measures.
- The first is actively expanding the business, including overseas markets, of the two major nationally beloved animation series, *Doraemon* and *Crayon Shin chan*, which are broadcast on our channels.
- The second measure regards the new late-night animation slot where we are developing animation such as *BLUELOCK* targeting younger audiences, aiming to expand into animation-based game businesses.
- The third measure is to move more strongly into intellectual property business, with an eye on developing original works for which we can pursue vertically integrated intellectual property business. Specifically, there are two courses of action. One is where we converted BookLive Co., Ltd. into an equity method affiliate in April, to jointly develop original content, create such works into animation and drama on our channel, and further expanding the business. The other is where we created a program in our variety program zone in the late-night hours, “Barabara Daisakusen,” in which entertainers and viewers develop manga together from scratch and create the manga into animation and drama series. As the manga is developed within the program, the manga has the potential to gradually gain recognition as the program progresses. We believe this type of development takes advantage of the characteristics of television broadcast. We will continue to expand our animation business by steadily enhancing animation content with a year to two years ahead in mind.

**Media City "Tokyo Dream Park"**

5. With regard to the construction of Tokyo Dream Park, the initial investment amount was set at 32 billion yen. Is there any change in the total project cost as construction costs are on the rise? Also, what kind of events and concert programs are planned after completion?

- When initially submitting the proposal for the land bid to the Tokyo Metropolitan Government, we estimated the total investment amount would be 32 billion yen. Since then, the size of the building has increased by 1.5 times to enhance business prospects.
- Also, as pointed out, construction costs have risen due to the current economic situation, soaring construction material costs and labor issues.
- We will refrain from giving a detailed amount due to confidentiality, but we have pursued persistent negotiations with the construction company and believe we are proceeding with a building plan that ensures the feasibility of the project.
- In this Tokyo waterfront area, the Tokyo Metropolitan Government has launched the Tokyo Bay eSG Project aiming to build a city for the future. This summer, we held an event in partnership with the Tokyo Metropolitan Government. In addition, this entire area continues to be developed on a large scale by major developers, and there is no doubt that the population will increase year by year and that it will become a destination visited by many people including inbound visitors. We will focus on providing entertainment that takes such bay area characteristics into account and rather believe that the place is quite suitable for entertainment.
- We have planned and operated events and shows at *SUMMER STATION* and EX THEATER, have accumulated experience, and assume we can achieve stable earnings. Specifically, we have established a dedicated strategy center at TV Asahi for business development, although construction has just started, with approximately 40 employees to plan various monetization schemes, including specific events, concerts, and programs. Moreover, we will launch a management company in near future.

**Other Businesses**

6. What is your box-office goal for the film *Totto-Chan The Little Girl at the Window*?

- The original work of the film *Totto-Chan The Little Girl at the Window* has been read through the ages and has already sold more than 25 million copies worldwide, being translated into more than 20 languages. It is a bestseller that is popular all over the world, and this is its first animated film.
- This is a work that can be enjoyed by people of all ages, regardless of gender. I will refrain from referring to specific figures, but I am very hopeful that it will contribute to sales this year.

**Shareholder Returns**

7. Other companies in the same industry are conducting share buybacks. What is the current status regarding share buybacks, dividend policy, and strategic holdings?

- As stated in the management plan, there is no change in the basic policy of continuing to strive for shareholder returns through commemorative and special dividends in addition to stable common dividend payments. We have raised our dividend forecast for this fiscal year by 10 yen per share to 50 yen per share, the same as last year, and will continue to maintain 50 yen as the base amount for the dividend going forward.
- There is a hurdle in share buybacks as we do not have ample margin to meet the requirement of “35% or more of tradable shares of listed stocks” as set by the TSE Prime Market listing standards. However, our policy of shareholder returns does not change and share buybacks will be considered as an option while observing the situation.
- The significance of strategic holdings is validated quantitatively and qualitatively on a regular basis, and shares whose significance has declined are sold as appropriate. In the first half of this fiscal year, we have sold a few holdings and have made progress in accordance with the policy. We will continue to reduce strategic holdings on an ongoing basis, including in the second half of this fiscal year.

**Capital Policies and ROE**

8. I understand that there is a background such as the relationship with major shareholders. There has also been an announcement by the Tokyo Stock Exchange "Action on Cost of Capital-Conscious Management and Other Requests" regarding room for ROE improvement via measures such as capital policies in the future. Please tell us your thoughts on ROE.

- With respect to "Action on Cost of Capital-Conscious Management and Other Requests" announced by the Tokyo Stock Exchange in March, we regard ROE and cost of capital as important management indicators. In addition to expanding the profit level of our core business, we plan to appropriately control our capital by investing in growth areas, selling strategic holdings whose significance has declined, and returning profits to shareholders.
- As for cross shareholdings in light of reducing strategic holdings, we believe that attractive content is becoming increasingly important as the media environment continues to change significantly. We believe that maintaining and strengthening the relationship with TOEI COMPANY, Ltd. and TOEI ANIMATION CO., LTD., which have a reputation for excellent intellectual property and production capabilities, will lead to continuous growth. As such, we intend to continue to hold shares in TOEI COMPANY, Ltd. and TOEI ANIMATION CO., LTD., which are equity method affiliates.