

Financial Results Presentation for the Six Months Ended August 31, 2024 Q&As

- Date: October 16th, 2024
- Speaker : Hiro Matsuoka, President & CEO, TOHO CO., LTD.

Q1: There is a title whose original manga work is ending, but is it possible to continue to increase the value of the IP by continuing to publish original theater stories, etc.?

A1: We think this is quite possible. On the other hand, we are fully aware that, as long as the work is based on a manga, we must consult with the original author of the work, the rights holders, and the publishers to ensure that we have a mutual understanding.

For example, among our content, *Doraemon* and *Crayon Shin-chan* are still being developed as anime series and movies, even though the original manga series have ended. The same may be true of other companies' works, such as *Dragon Ball*.

When it comes to anime, we believe we can create a number of very favorable situations for developing original stories. This is also based on the wonderful original work of manga, and since the anime is created on that foundation, how can we visualize the manga's strong appeal? How do we continue to do that? This can only be done with the understanding of the fans, and also with the understanding of the manga artists, rights holders, and publishers. So, while there may be such challenges, we believe that it is quite possible to continue the original theater story on an ongoing basis.

Q2: Regarding film distribution in the North American region, is there a possibility of increased theater distribution in the future? How should profitability be considered in such a case? How much do you plan to distribute per year?

A2: If you had asked me this question yesterday, I probably would have responded in a different way. Now that we have welcomed GKIDS, a wonderful distribution company, into our group, I think that a major issue for us will be how to get GKIDS to play an active role in our cinema business.

When we distribute films in North America, we do not assume that every film is worthy of North American distribution. We had been thinking of using our subsidiary, TOHO International to distribute films that were worthy of doing in North America, and now we have the addition of GKIDS as an option.

In response to the question of whether theater distribution is likely to increase in the future, I think it will be very important to produce such films in Japan first.

As for profitability, there is a risk, of course, but if we distribute the products ourselves, we do not have to distribute income and profits to other parties, which increases our profit margin. It is difficult to say exactly how many films we will have, but as the number of excellent Japanese films increases in the future, we are looking forward to having not only Toho's films but also non-Toho films in our collection.

Q3: How is the response to the screening of *My Hero Academia* that started last week in North America? Please tell us about any opportunities or challenges you have seen as a result of switching to in-house distribution. I would also like to know how the acquisition of GKIDS will change the distribution business in North America.

A3: Since last weekend, TOHO International has been handling the theater distribution of the latest *My Hero Academia* film in North America. The previous film was shown in about 1,500 theaters in the US, and this time it is shown in 1,800. However, judging from the information we have at the moment, we are not yet close to the numbers we had expected. We recognize that this is a bit of a soft number.

We are aware that there are various issues, barriers, and reasons for this, and we would like to collect and analyze such information as soon as possible, so that we can understand the situation and make the best use of it for the future.

I feel the importance of connecting with fans through in-house distribution, which is the same not only in Japan but also in any other country. If we leave this to someone else, those people will connect with the fans. Toho will lose contact with those fans. In other words, it is important for us to be involved as much as possible from upstream to downstream. In this process, we believe that the North American distribution business is very significant.

As I have said many times today, welcoming the company GKIDS into our group is very significant and a great option for us. In the future, we would like to research and consider how to handle the North American distribution business together with GKIDS.

Q4: Next question is related to M&A. Could you tell us anything about the medium-term earnings impact of the capital and business alliance with Bandai Namco Holdings Inc. that was announced in August?

A4: We have had a very good relationship with Bandai Namco Holdings. Therefore, in entering into this capital and business alliance, we have a big and concrete goal: to pool our know-how each other and create original IPs to be developed worldwide.

If these specific goals are achieved, our mid- to long-term income and profits will naturally be impacted. At this point, we are still in the process of determining which IPs will be deployed and how they will be deployed, so I cannot answer your question about how much impact this will have at this point.

However, we hope to achieve a high impact for our company's earnings by developing original IP while drawing on the strengths of both companies.

Q5: Looking at the most recent financial results, it appears that there has been a shift from a one-off movie model, in other words, a dependence on box-office revenues, to a sustainable growth model based on IPs, and a dependence on the thickness of IPs. Is this the form that Toho is aiming for? Am I correct in understanding that way?

A5: We are very happy if you understand it that way. These days, especially in the animation world, I think the term "IP business" has entirely fitted our approach.

In other words, there is an animated series, it grows, merchandising begins to move, and making a movie increases the value of that animated series, which in turn increases the reputation of the next series, which leads to business. We will do this continuously and expand not only domestically but also internationally. This is the IP business we are aiming for. With our animated series and strong IP, we have been able to gradually develop such things.

In fact, *GODZILLA* is also aiming to become an IP business. *GODZILLA* has a history of approximately 70 years, but if you ask me whether we have been developing *GODZILLA* as an IP in various ways, I might say that I am not very confident. Until now, we have rather opted for a business model in which we leave the business to others to make income and profit.

However, under the direction of our then President Shimatani, we bought back the rights to the *GODZILLA* merchandising rights worldwide, and Toho now handles the *GODZILLA* business. And it is

not only *GODZILLA* that Toho produces, but also Hollywood is developing *GODZILLA* in TV series and in movies. If these videos are seen by the public, it will naturally have an impact on the merchandising business.

We believe that *GODZILLA* is another great asset for us to develop our IP business. In the future, we hope to develop IPs not only in anime, *GODZILLA*, but also in live action. We also believe that if we can develop original IPs, we can generate significant income and profits. We have been discussing this internally and are aiming in that direction.

Q6: We then received a question regarding TOHO Animation. I have the impression that various companies are interested in anime, and competition to acquire leading productions is intensifying. I believe that Toho will be able to demonstrate its superiority through its track record, collaboration with leading studios, and presence in the film business, etc. Could you please tell us what strategy you will adopt in the competition for future acquisitions of leading productions?

A6: It is very difficult to give you a specific answer on how to do this or that, and the only thing I can say is that Toho has always been and will continue to be responsive with the comprehensive strengths of Toho.

I believe that Toho already had the ability to find IPs or projects that would become the source of great anime, and the production capabilities to deliver them to the fans. By incorporating animation production studios into our group, we are now able to demonstrate our power to really create animated works.

And in developing them overseas, we also have a distribution company GKIDS, and of course, in developing the film business in the domestic market, we can more than adequately utilize Toho's box office distribution network. We believe that by utilizing the theatrical business, we can bring out even more of the appeal of these animated works, as is the case with works such as *Spirited Away* and *SPY x FAMILY*.

We will continue to work to be recognized as a company with comprehensive strengths by offering comprehensive proposals based on Toho's various resources.

Q7: Please tell us why the operating profit margin of the cinema business has increased so much YoY. What is the room for improvement in the operating margin over the medium term and what are the key points for improvement?

A7: We call this our own production, and I think it is very significant that we have shifted to a business model in which we manage our own productions, we are in charge of production, and Toho bears most of the production costs.

And here is the important part: such works are naturally risky. If a film fails, Toho will bear most of the loss, but thankfully, the various productions we have planned and produced have been generating very good business in recent years. They have produced results.

With this in mind, I think it can be said that the growth in profits is more pronounced than the growth in revenues. I also mentioned earlier about *The Floor Plan*. For films such as *GODZILLA MINUS ONE*, a large portion of the revenue comes to Toho.

Therefore, I believe that furthering these efforts and making them successful will be the key to increasing our mid- to long-term profits and profit margins.

Q8: You have made an upward revision of financial results this time, but is it your understanding that the initial forecast at the beginning of the period was conservative? Please explain the reasons for the difference from the initial forecast. Do you consider the outlook for H2 to be not conservative?

A8: We had many, many discussions internally and felt that the JPY55 billion of operating profit of initial forecast was quite a challenging one. As a result, we were able to achieve much higher numbers than we had expected. Perhaps you may say that Toho is still conservative, but we are proud to say, "Not at all, we have produced the best possible numbers."

Still, I believe that exceeding that number is, as I mentioned earlier, the true appeal and destiny of the entertainment business and the rights business. Sometimes it goes up, sometimes it goes down. This volatility is a characteristic of the entertainment business.

Therefore, we can only say that the JPY55 billion is a very high figure, but the H1 results were excellent, even better than that.

For H2 as well, we are presenting a figure that is higher than our usual forecast, or budget, as the case may be. In order to get there, we would like to work on various works and projects in the future.

Q9: Regarding GKIDS, I am aware that there are some areas of business that overlap with Crunchyroll, but is there any risk of a change or worsening of the relationship with Crunchyroll?

A9: We have had and will continue to have a great business partnership with Crunchyroll.

This may be my perception, but I think that Crunchyroll is more of a distribution business model, while GKIDS is primarily a theater distribution business model. So, while there is some overlap, it does not mean that all of our business areas overlap.

We hope to continue to work with Crunchyroll to achieve various successes in the future, and at the same time, we would like to use GKIDS to grow Toho's animation business.

Q10: I have the impression that revenues related to secondary use of films, such as distribution, are increasing, especially for GODZILLA. What are the factors? To what extent did it contribute to the H1 results?

A10: It is difficult to go into details, but for *GODZILLA MINUS ONE*, we sold the domestic and overseas rights separately to different distributors.

What this means is that, after all, for works that are appreciated around the world, we can have a variety of options. In other words, I think we have been able to put the principle of competition to work.

It may be difficult to put us in such a situation for all works, but if we produce a good work, it may have been difficult in the past, but now fans around the world can access the work through distribution. In other words, if we create good works, we can deliver them to our fans around the world. I believe that *GODZILLA MINUS ONE* or other animated works are solid embodiment of this. We feel that this is one of the reasons why the distribution business is growing so much.