

# NexTone Inc.

7094

Tokyo Stock Exchange Growth Market

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## Summary

### On track to achieve full-year FY3/25 forecasts amid favorable market environment

Since its establishment in 2016, NexTone Inc. <7094> (hereafter, also “the Company”) has been providing comprehensive music agent services in the entertainment domain, primarily the music field. The Company’s businesses include Copyright Management, Digital Distribution (DD) and Music Publishing, with a focus on managing copyrighted works on behalf of artists, composers, lyricists, and other creatives. NexTone’s main competitor in the Copyright Management Business, the Company’s core business, is the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC). The copyright management market in Japan is dominated by NexTone and JASRAC. In FY3/24, the Company’s share of copyright royalties collected was 7.8%.

#### 1. Summary of 1H FY3/25 results

In 1H FY3/25, the Company reported consolidated net sales of ¥9,415mn, up 112.2% year on year (YoY), operating profit of ¥378mn, down 13.9%, ordinary profit of ¥397mn, down 9.8%, and profit attributable to owners of parent of ¥293mn, down 2.2%. The large increase in net sales was driven by the consolidation of RecoChoku Co., Ltd. and Eggs Co., Ltd., which became subsidiaries in September 2023, and a strong performance by the Copyright Management Business and the DD Business due to an increase in the number of copyrighted songs and master recordings managed by the Company. The double-digit decline in operating profit reflected higher personnel, IT system and other costs related to the business consolidations. 1H FY3/25 results were upbeat, with net sales and profits both exceeding the Company’s forecasts.

#### 2. FY3/25 forecasts

For FY3/25, the Company forecasts an increase in sales and profits, with consolidated net sales of ¥20,000mn, up 48.9% YoY, operating profit of ¥1,000mn, up 54.1%, ordinary profit of ¥1,000mn, up 53.0%, and profit attributable to owners of parent of ¥600mn, up 13.0%. We believe it is on track to achieve these targets, supported by an increase in the number of copyrighted songs and master recordings managed by the Company.

#### 3. Medium-term business plan

The Company has released a medium-term business plan for FY3/25 to FY3/27. The plan calls for sustained double-digit growth in both sales and profits. FY3/27 targets are net sales of ¥27.0bn, operating profit of ¥2.4bn, and an operating margin of 8.9%, compared with net sales of ¥13.4bn, operating profit of ¥0.6bn, and an operating margin of 4.9% in FY3/24.

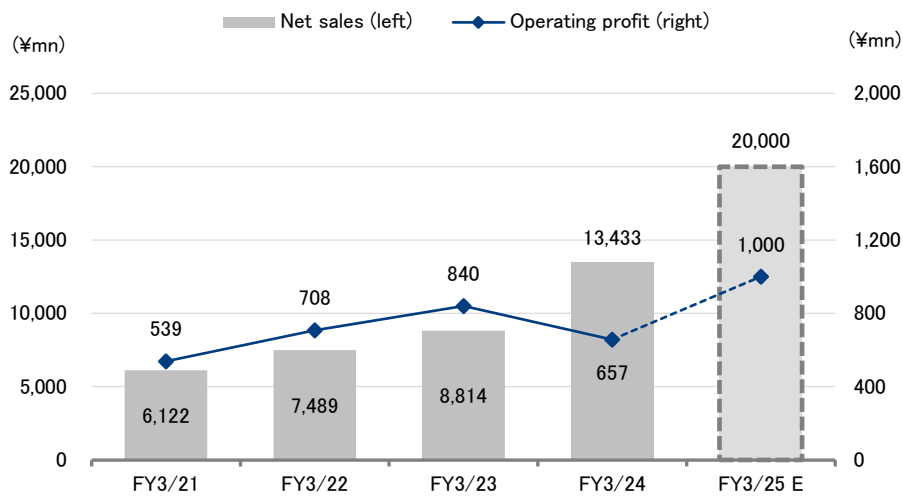
The management of some songs by famous girl idol groups was transferred from JASRAC to the Company on April 1, 2024, and it plans to continue strengthening marketing efforts to win new management contracts and secure the transfer of additional music rights for idol groups. It also aims to move into rights management for karaoke performances by lobbying the relevant authorities (Agency for Cultural Affairs, etc.) In addition to continued growth in the Copyright Management Business and the DD Business—two existing stable businesses—the Company also wants to become a powerful, comprehensive “Only One Agent” by focusing on business support services as a new growth driver, primarily casting & promotion and agent services. As a company targeting sustained growth, with a long-term goal of capturing 50% of the music rights management market in Japan, we believe NexTone is a name to watch.

Summary

**Key Points**

- NexTone's mainstay Copyright Management Business and JASRAC dominate Japan's rights management market
- 1H FY3/25 profits declined, but targets were achieved; steady progress
- NexTone forecasts higher sales and profits YoY in FY3/25; on track to achieve full-year targets, supported by growth in number of managed copyrighted songs and master recordings

**Results trends**



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

## Company overview

### Provider of comprehensive music agent services with copyright management as its core business

#### 1. Company overview

Since its establishment in 2016, NexTone has been providing comprehensive music agent services in the entertainment domain, primarily the music field. The Company's businesses include Copyright Management Business, DD Business and Music Publishing Business, with a focus on managing copyrighted works on behalf of artists, composers, lyricists, and other creatives. The Company's business segments are the Copyright Management Business, DD Business, Music Publishing Business, and Other.

#### Company overview

The Copyright Management Business is entrusted by lyricists, composers, music publishers, and other copyright holders to license the use of their musical works and collect and distribute royalties. This business and JASRAC dominate Japan's copyright management market. The DD Business provides digital content, primarily music, to distributors in Japan and overseas. The Music Publishing Business distributes music via the internet. In addition, the Company operates a casting & promotion service business, which coordinates the promotion of content use such as artist bookings, user invitations to live performances, rights handling related to music tie-ups, support for streaming live performances to households, and live viewings. It also has a system development business, which develops and provides content distribution-related IT systems, such as handling systems for copyrights and master recordings.

## 2. Company history

Japan enacted the Copyright Act in 1899, but this failed to curb unauthorized performances of musical works, so a new law, the Act on Intermediary Business Concerning Copyrights (hereafter, the "Intermediary Business Act") was enacted in 1939. The purpose of the new law was to create, in principle, a single organization in each rights field to centrally manage copyrights under the guidance and supervision of the government, to ensure copyrights were appropriately enforced. In the year that the Intermediary Business Act came into force, the Great Japanese Music Copyright Association (later renamed JASRAC) was established in the music field as the sole copyright management organization for music, a role it continued for many years.

On October 1, 2001, the Intermediary Business Act was abolished and the Act on Copyright, etc. Management Service came into force. Under the new law, the business licensing system was changed to a registration system, and the royalty approval system was changed to a notification system, ending the principle of a single organization for each rights field. This opened the door for private companies to provide copyright management services. One of NexTone's predecessor companies, e-License Inc., was founded in September 2000 by Akihiro Mino (Chairman and Advisor to the Company until June 2019) on the expectation that the new Act on Copyright, etc. Management Service would be enacted. Another predecessor company, Japan Rights Clearance Inc. (JRC), was established in December 2000 with investment from 11 artist management offices. Yuji Arakawa, the current COO of NexTone, was appointed Representative Director of JRC.

Both companies operated their own Copyright Management Businesses for around 15 years, but Masahiro Anan, then President of e-License (now CEO of NexTone), believed it was rational for e-License, which had the second-largest market share at the time, and JRC, the market's third-largest player, to merge in order to create a rival to JASRAC to introduce healthy competition in the music rights market. Masahiro Anan took his proposal to Yuji Arakawa, who agreed to the merger. The merger was realized in February 2016 and the new company was named NexTone.

The Company listed on the Mothers section of the Tokyo Stock Exchange (TSE) on March 30, 2020 and transferred to the TSE Growth Market on April 4, 2022. In September 2023, the Company acquired 51.7% of shares (ratio of voting rights) in RecoChoku Co., Ltd. from existing shareholders, making it and its subsidiary Eggs Co., Ltd. consolidated subsidiaries.

## Business overview

### Providing end-to-end services, from copyright management to content use promotion

#### 1. Copyright Management Business

The Company is registered with the Agency for Cultural Affairs as a Copyright Management Business operator, as stipulated in the Act on Copyright, etc. Management Service, and manages copyrighted works in the music field. The Company's music copyright management operations are based on classifications in copyright law, but it also classifies and manages music copyrights further into four groups and nine types of use, in line with actual conditions of use and other factors.

##### (1) Four groups

Rights are classified into four main groups: 1) Performing rights, etc. 2) Mechanical rights, etc. 3) Publication rights, etc. and 4) Rental rights

Performing rights, etc. are the rights to license the performance and showing of copyrighted works at concerts, live performances and other events, as background music in retail stores, movie theaters and other venues, banquet hall live music venues, and karaoke rooms. Of these, the Company plans to start rights management operations for banquet hall live music venues and karaoke rooms, including karaoke performances, as soon as the framework for licensing out and managing rights is in place (timing still to be determined).

Mechanical rights, etc. are the rights to license the reproduction of works for CDs, movies, DVDs, video games, commercials, and other types of media.

Publication rights, etc. are the rights to license the printing of works (lyrics/music scores) in sheet music, lyric collections, magazines, books and other publications.

Rental rights are the rights to license the work for CD rentals and other rental media.

##### (2) Nine types of use

The Company further classifies rights based on type of use: 1) Screenings at movie theaters, in-store background music, etc.; 2) Banquet hall live music venues, karaoke bars, etc.; 3) Recordings for movies; 4) Recordings for videograms, etc.; 5) Recordings for video games; 6) Reproduction for advertisements (reproduction for TV and radio commercials, reproduction for Internet commercials, copying lyrics to printed advertisements, etc.); 7) Broadcasting/cable broadcasting\*1 (broadcasting on TV/radio, etc.); 8) Interactive distribution\*2 (distribution to smartphones and PCs, etc.); and 9) Commercial on-demand karaoke\*3 (duplication for singing at karaoke facilities, public transmission, etc.).

\*1 The right to license the use of copyrighted works for TV, radio, or cable broadcasting

\*2 The right to license the use of copyrighted works across computer networks such as the internet, including music services for smartphones and PCs. Interactive distribution accounted for the majority of transaction volume in 2Q FY3/25, at 65.4%.

\*3 The right to license the use of copyrighted works for installing in karaoke databases and transmitting to terminals in karaoke facilities

#### Business overview

Of the above, the Company manages copyrighted works in the four groups: 1) Performing rights, etc., 2) Mechanical rights, etc., 3) Publication rights, etc., and 4) Rental rights, and in eight types of use: screening and background music, recordings for movies, recordings for videograms, recordings for games, reproduction for advertising purposes, broadcasting and cable broadcasting, interactive distribution, and commercial on-demand karaoke.

Copyright holders have the right to choose their own copyright management methods, but it is common in the music field for rights holders to outsource management of their works to copyright management companies, as this is more efficient and ensures greater accuracy in royalties collection. Also, from the perspective of rights users, obtaining permission from numerous copyright holders each time a work is used is labor-intensive. Outsourcing rights management to companies therefore creates an environment where copyrighted works can be used smoothly, provided the user follows the correct procedures for reporting the use of content and pays the royalty fees. NexTone establishes rules and royalty fees for the management and use of musical content, and with the authority of rightsholders, acts as an agent for promoting the use of the content by granting permission to users and collecting royalty fees. It should be noted that there is a time lag of roughly one to two fiscal quarters between the use of the musical works and the booking of sales in the Copyright Management Business.

Subsidiary MCJP Inc. provides business services to music publishers. These services include calculating redistribution amounts and preparing copyright contracts and copyright work notifications on their behalf, thereby reducing the copyright management workload and improving business efficiency for music publisher clients.

## 2. Digital Distribution (DD) Business

The Digital Distribution (DD) Business supplies and distributes music content to music distribution services in Japan and overseas. It licenses master recordings (recorded and edited master versions of musical works) from rights holders and provides the music to users via music distribution services. Since launching the business in 2003, the Company has been a pioneer in this field in Japan. The Company has accumulated considerable expertise in the music distribution market through contracts with rights holders that own music content, such as record manufacturers, music production companies, music publishers, and animation and video game developers. Music distribution services are allowing even more users to access master recordings containing copyrighted works managed by the Company, which receives royalties both for the master recordings and for the copyrights. The business is contributing to growth in copyright royalties by building its own content distribution platform to promote the use of musical content.

## 3. Music Publishing Business

This business distributes music over the internet. In music distribution for individuals, users can purchase and download single songs or stream music as a subscription-based service. Music for commercial users includes background music distribution services for retail stores, karaoke rooms, and wedding venues. The main services are music download services RecoChoku and “dmusic” and music streaming service “dhits,” all aimed at individuals, and the Otoraku music service for business users.

## 4. Other

The Other segment includes the casting & promotion service business, the system development, maintenance & operation business, the solutions business, and the agent business.

## Business overview

**(1) Casting & promotion service business**

This business provides total support, including rights handling, for the various needs of users and rights holders. Specifically, the business plans and carries out supporting sales for live music concerts and events, coordinates the promotion of use of music and visual works, books artists for various events, distributes and promotes live viewings and movies, coordinates live streaming to households, and sponsors and co-sponsors events.

**(2) System development, maintenance & operation business**

This business specializes in the development of IT systems for back-end operations related to music, video and other content in the entertainment industry, such as content distribution, royalty contract management, licensing and distribution management, and royalty calculation and distribution to related rights holders. Specifically, the business develops and provides rights handling systems for copyrights and master recording rights, develops and provides content distribution systems, and develops and operates various in-house systems.

**(3) Solutions business**

Subsidiary RecoChoku provides e-commerce and other direct sales support to rights holders, primarily in the music industry.

**(4) Agent business**

Subsidiary Eggs operates the Eggs music platform, which provides a space for music lovers and artists, primarily independent artists, to connect. It also supports the activities of independent artists, including through CD releases, music distribution, and promotion.

**5. Strengths**

The Company's strengths are the high barriers to entry in its business field, the provision of end-to-end services from copyright management to promotion of music use, and stable, recurring business that generates the majority of sales.

When the Act on Copyright, etc. Management Service came into force in 2001, over 20 private companies entered the market, but all have either exited the field or downsized their operations, leaving just NexTone and JASRAC as the only two real players in the market. The Copyright Management Business has high barriers to entry, as it takes significant time and up-front investment to generate profits. Specifically, companies need system management capabilities to handle the vast amounts of data and information related to daily copyright use, as well as the stable and continuous outsourcing of music management from leading copyright holders. In these respects, the Company is uniquely positioned to compete with JASRAC, having actively invested in systems at an early stage and built long-term, wide-ranging relationships and networks in the music industry.

The Company's main point of difference with JASRAC is the type of contract it uses. JASRAC employs trust agreements, under which the rights holder must transfer the music copyright to JASRAC. With this type of contract, artists are charged usage fees each time they perform the music live or at concerts, even if they created the work themselves. In contrast, NexTone uses outsourcing agreements, which allows the rights holder to retain the copyright and outsource management of the copyrighted work to the Company. Singer-songwriters and other artists who create their own music appear to be choosing NexTone because of its business approach and philosophy, with a growing number of artists transferring copyright management from JASRAC to the Company. In FY3/24, JASRAC collected ¥137.16bn in copyright royalties, while NexTone collected ¥11.55bn, giving respective market shares of 92.2% and 7.8%. However, NexTone's share is gradually rising.



Business overview

The Company also leverages usage data for music obtained by its Copyright Management Business to supply master recordings to music distributors and to coordinate the promotion of music content use through casting and other means. This is accelerating the pace of song uptake by users, maximizing sales from each content asset. NexTone is the only company in the sector that provides end-to-end support from copyright management to promotion of music content use, setting it apart from competitors.

In addition, the Company's Copyright Management Business, the DD Business, and the Music Publishing Business generate most of their sales from stable, recurring business. This structure translates into higher profits as the number of copyrighted songs and master recordings handled by the Company increases. Japan's music market continues to expand, supported by growth in music streaming music services and other online services. The Company is targeting sustained growth in profits, driven by this market expansion.

## Results trends

### Profits declined in 1H FY3/25 due to the consolidation of subsidiaries, but results beat the Company's forecasts

#### 1. Summary of 1H FY3/25 results

In 1H FY3/25, the Company reported consolidated net sales of ¥9,415mn, up 112.2% YoY, operating profit of ¥378mn, down 13.9%, ordinary profit of ¥397mn, down 9.8%, and profit attributable to owners of parent of ¥293mn, down 2.2%.

The Company's forecasts for 1H were net sales of ¥9,200mn and operating profit of ¥270mn. Net sales exceeded the forecast by more than ¥210mn (over 2.3%) and operating profit beat the forecast by more than ¥100mn (over 37.0%). While 1H profits fell YoY, performance versus the Company's forecasts was firm.

The steep rise in net sales was driven by the consolidation of RecoChoku and Eggs, which became subsidiaries in the previous fiscal year, and by a strong performance by the Copyright Management Business and the DD Business due to an increase in the number of copyrighted songs and master recordings managed by the Company. The double-digit decline in operating profit reflected higher personnel, IT system and other costs related to the business consolidations. The main positive factor for operating profit was an increase in net sales in existing businesses (impact of +¥330mn), while the main negatives were higher personnel expenses (-¥30mn), higher IT system and other costs (-¥60mn), and the inclusion of losses from newly consolidated companies RecoChoku and Eggs (-¥290mn).

#### 1H FY3/25 results

	1H FY3/24		1H FY3/25		YoY	
	Results	vs. Net sales	Results	vs. Net sales	Change amount	Change %
Net sales	4,437	-	9,415	-	4,978	112.2%
Operating profit	439	9.9%	378	4.0%	-61	-13.9%
Ordinary profit	440	9.9%	397	4.2%	-43	-9.8%
Profit attributable to owners of parent	299	6.7%	293	3.1%	-6	-2.2%

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

## Increase in number of managed copyrighted songs and master recordings, but IT system investment by subsidiaries weighing on profits

### 2. Trends by business segment

#### (1) Copyright Management Business

In 1H FY3/25, the Copyright Management Business reported growth in net sales of ¥726mn, up 27.8% YoY, and operating profit of ¥332mn, up 37.2%. Both net sales and profits rose sharply, supported by growth in the streaming music and video distribution service markets, an increase in the number of songs managed by the Company, and growth in collected performance rights royalties for concerts and other events. The operating margin improved 3.1 percentage points (pp) to 45.7% on the back of higher net sales. As of end-2Q FY3/25, the business managed 611,000 copyrighted songs, up 16.2% (+85,000 songs) from end-FY3/24.

#### (2) Digital Distribution (DD) Business

In 1H FY3/25, the DD Business reported net sales of ¥4,704mn, up 30.3% YoY, and operating profit of ¥436mn, down 6.8%. Net sales growth was driven by an increase in the number of managed master recordings, expansion in the streaming music distribution and video distribution service markets, and increased use of master recordings for animation and video games and by internet creators such as VTubers. As of end-2Q FY3/25, the business managed 1,378,000 master recordings, up 9.1% (+115,000 recordings) from end-FY3/24. Operating profit declined due to upfront investment in system development for new RecoChoku services.

#### (3) Music Publishing Business

The Music Publishing Business reported net sales of ¥3,713mn and operating profit of ¥640mn. The consolidation of RecoChoku led to net increases in both sales and profits. Earnings were firm due to a steady performance by the “dhits” subscription music distribution service—the main service in the business—and an increase in the number of retail stores signed up to the background music (BGM) distribution service. Effective December 1, 2024, the monthly subscription fee for “dhits” was increased from ¥550 to ¥690 (both inclusive of tax) along with the rollout of new features. From late November, a new recommended playlist function that automatically generates and creates playlists of similar tunes and related songs based on music selected by the user was added, and from December 1st, a new music video (MV) playlist function was added that allows users to also enjoy their music in video form.

#### (4) Other

The Other segment reported net sales of ¥722mn, up 44.2% YoY, and an operating loss of ¥237mn (versus operating profit of ¥36mn in 1H FY3/24). Concerts by popular groups and live viewings of popular musicals drove the large increase in net sales. However, factors such as upfront investment by Eggs in IT system development to build a new fan community website led to the operating loss. Eggs plans to launch the new service in 2H FY3/25.

### 3. Financial position and management indicators

As of end-1H FY3/25, total assets were ¥13,733mn, up ¥498mn from the end of the previous fiscal year. Looking at the main factors behind the change in total assets, in current assets, cash and deposits increased ¥715mn due to solid results by the Copyright Management Business, DD Business, and Music Publishing Businesses. There was no significant change in non-current assets, which increased ¥19mn from the end of the previous fiscal year.

Results trends

Total liabilities increased ¥282mn from the end of the previous fiscal year to ¥8,363mn. Current liabilities rose ¥485mn, reflecting an increase in accounts payable - other for royalties distribution to copyright holders in line with an increase in transaction volume in the Copyright Management Business. Non-current liabilities did not change significantly, declining ¥25mn.

Total net assets increased ¥215mn from the end of the previous fiscal year to ¥5,370mn. Retained earnings rose ¥293mn due to the booking of profit attributable to owners of parent. Non-controlling interests declined ¥93mn.

The equity ratio at end-FY3/24 deteriorated 15.1pp from end-FY3/23 due to an increase in debt associated with the consolidation of RecoChoku and Eggs. However, the ratio improved 1.2pp as of end-2Q FY3/25 due to the increase in retained earnings. The Company has no interest-bearing debt and is in a strong net cash position (cash and deposits minus interest-bearing debt) of ¥8,762mn. To support sustained growth in profits, it plans to invest in personnel and IT systems and explore M&A options.

**Consolidated balance sheets and key management indicators**

	End-FY3/23	End-FY3/24	End-1H FY3/25	Change amount
	(¥mn)			
<b>Current assets</b>	6,707	10,343	10,822	479
Cash and deposits	6,041	8,046	8,762	715
<b>Non-current assets</b>	1,113	2,891	2,910	19
Property, plant and equipment	12	152	128	-24
Intangible non-current assets	781	2,072	2,103	31
<b>Total assets</b>	7,821	13,235	13,733	498
<b>Current liabilities</b>	3,875	7,502	7,810	308
<b>Non-current liabilities</b>	371	577	552	-25
<b>Total liabilities</b>	4,246	8,080	8,363	282
<b>Total net assets</b>	3,574	5,155	5,370	215
<b>Total liabilities and net assets</b>	7,821	13,235	13,733	498
<b>&lt;Management indicators&gt;</b>				
Equity ratio	45.7%	30.6%	31.8%	1.2pp

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

## ■ Outlook

### **Aims to increase amount of copyright royalties collected, lift market share to 10% in medium term and to 50% over long term**

#### 1. FY3/25 forecasts

For FY3/25, the Company forecasts an increase in sales and profits, with consolidated net sales of ¥20,000mn, up 48.9% YoY, operating profit of ¥1,000mn, up 54.1%, ordinary profit of ¥1,000mn, up 53.0%, and profit attributable to owners of parent of ¥600mn, up 13.0%.

#### Outlook

Forecasts by business segment are: net sales of ¥1.59bn (+28.2% YoY) and operating profit of ¥0.74bn (+42.3%) in the Copyright Management Business; net sales of ¥10.20bn (+34.9%) and operating profit of ¥1.06bn (+34.2%) in the DD Business; net sales of ¥7.43bn (+86.7%) and operating profit of ¥1.63bn (2.7x year-earlier level) in the Music Publishing Business; and net sales of ¥1.77bn (+35.1%) and an operating loss of ¥0.31bn (deterioration of ¥0.23bn YoY) in the Other segment.

Operating profit in 1H FY3/25 was 37.8% of the full-year forecast, but the Company's forecasts are weighted to 2H. Also, net sales and operating profit both beat 1H forecasts. We believe the Company is on track to achieve its full-year forecasts, supported by a steady increase in the number of managed copyrighted songs and master recordings amid a favorable market environment.

## 2. Medium-term business plan

The Company has released a medium-term business plan for FY3/25 to FY3/27. The plan calls for sustained double-digit growth in both sales and profits. FY3/27 targets are net sales of ¥27.0bn, operating profit of ¥2.4bn, and an operating margin of 8.9%, compared with net sales of ¥13.4bn, operating profit of ¥0.6bn, and an operating margin of 4.9% in FY3/24.

The plan also includes key performance indicators (KPIs), divided into business KPIs and financial KPIs. Business KPIs are: growth in transaction volume of 10–20%; copyright royalties collection market share of 10% in the medium term and 50% over the long term; increase in the number of managed songs of 100,000 or more per fiscal year; and increase in the number of master recordings handled of 230,000 or more per fiscal year. Financial KPIs for FY3/27 are: net sales of ¥27.0bn or higher; net sales growth of 10-20% YoY; and an operating margin of 9% or higher.

The Company also aims to list on the TSE Prime Market in FY3/27. Currently, the requirement that Prime-listed companies need to have reported consolidated ordinary profit totaling ¥2.5bn for the two most recent fiscal years is preventing the transfer of its listing to the Prime Market, but the Company expects to meet this requirement by FY3/26.

The management of some songs by famous girl idol groups was transferred from JASRAC to the Company on April 1, 2024, and it plans to continue strengthening marketing efforts to win new management contracts and secure the transfer of additional music rights for idol groups. It also aims to move into rights management for karaoke performances by lobbying the relevant authorities (Agency for Cultural Affairs, etc.) In addition to continued growth in the Copyright Management Business and the DD Business—two existing stable businesses—the Company also wants to become a powerful, comprehensive “Only One Agent” by focusing on business support services as a new growth driver, primarily casting & promotion and agent services. As a company targeting sustained growth, with a long-term goal of capturing 50% of the music rights management market in Japan, we believe NexTone is a name to watch.



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