COMPANY RESEARCH AND ANALYSIS REPORT

m-up holdings, Inc.

3661

Tokyo Stock Exchange First Section

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Summary

In 1H FY3/22, sales and profits increased due to growth in the Electronic Tickets Business despite the impact of the COVID-19 pandemic. Initiatives focused on the digital transformation (DX) of fan services produced notable results

1. Company outline

m-up holdings, Inc. <3661> (hereafter, also "the Company") conducts integrated business development from delivery of various digital content, such as anime characters, stamps, music, and e-books, to e-commerce and electronic tickets on the axis of the fan club web site business that covers a wide range of genres centered on artists, including TV personalities, voice over actors, and anime. It is one of the largest operators of fan club web sites in Japan with over 300 sites, mostly focusing on musical artists. These web sites boast over two million paying members, which is also the highest number in Japan. CEO and Representative Director Koichiro Mito previously worked in the music industry (at a record company), so the Company's strength lies in acquisitions of strong IP (intellectual property), including artists, TV personalities, athletes, and anime characters, and it is developing several official web sites that cover a wide variety of categories and genres. The Company's results, which are supported by a membership base of core fans, have trended stably, and alongside the major expansion of the business foundation through making EMTG Co., Ltd. a fully owned subsidiary in October 2018, it launched the Electronic Tickets Business, in which market growth is expected, and transitioned to a holding company structure in April 2020. Although some parts of its business have been impacted by the COVID-19 pandemic, it is taking steps to enter a new phase toward future growth through initiatives such as launching a VR video distribution platform (the VR business), which has been long awaited by fans, and entering the NFT marketplace business.

2. Summary of the 1H FY3/22 results

In the 1H FY3/22 results, the Company continued to secure an increase in sales and profits despite the impact of the COVID-19 pandemic, with net sales rising 7.0% year on year (YoY) to ¥6,314mn and operating profit growing 40.1% to ¥775mn. Steady progress was also made toward achieving the forecasts for the full fiscal year (particularly for profits). In the Content Business, the mainstay Fan Club, Fan Website and Other Businesses secured an increase in sales as member numbers increased again, after having fallen previously due to the COVID-19 pandemic. On the other hand, the EC Business saw a reactionary downturn in sales due to the decline in special demand (an increase in demand for goods, etc. for concerts that were postponed and cancelled) experienced in the same period of the previous fiscal year. In the Electronic Tickets Business, although the business experienced the effects of the COVID-19 pandemic such as a decrease in the number of live concerts held and restrictions on the number of audience members, the business roughly doubled in scale and made a significant contribution to overall sales growth. This was due to growth in the number of electronic tickets handled by leveraging the strengths of electronic tickets (such as their advantage as an anti-infection measure) and an increase in spend per customer by adding peripheral services (such as online prize draws). Regarding profits, despite the reactionary downturn in the EC Business, the growth of the Electronic Tickets Business (which returned to profitability) resulted in a large rise in profits, and operating profit margin also improved significantly to 12.3% (9.4% in the same period in the previous fiscal year). Activities such as new business initiatives focused on the DX of fan services and entry into the NFT business, which is expected to become a new earnings model, produced notable results.

3. FY3/22 forecasts

For the FY3/22 results, at present the Company has maintained its initial forecasts, which project double-digit rises in sales and profits, with net sales increasing 10.3% YoY to ¥13,600mn and operating profit rising 17.4% to ¥1,300mn. Based on a conservative outlook that assumes the impact of the COVID-19 pandemic will continue, the recovery of existing businesses is anticipated to remain gradual, but the accumulation of new services and businesses linked to existing businesses is expected to secure growth in sales. The reason the Company has left its initial forecasts unchanged despite the fast-paced progress made in the 1H results (particularly for profits) is that it is cautiously viewing the development of the Omicron variant, which is currently spreading, and its impact. Additionally, the forecast for the year-end dividend is an increase of ¥5 per share to ¥28, before adjustment for a stock split.

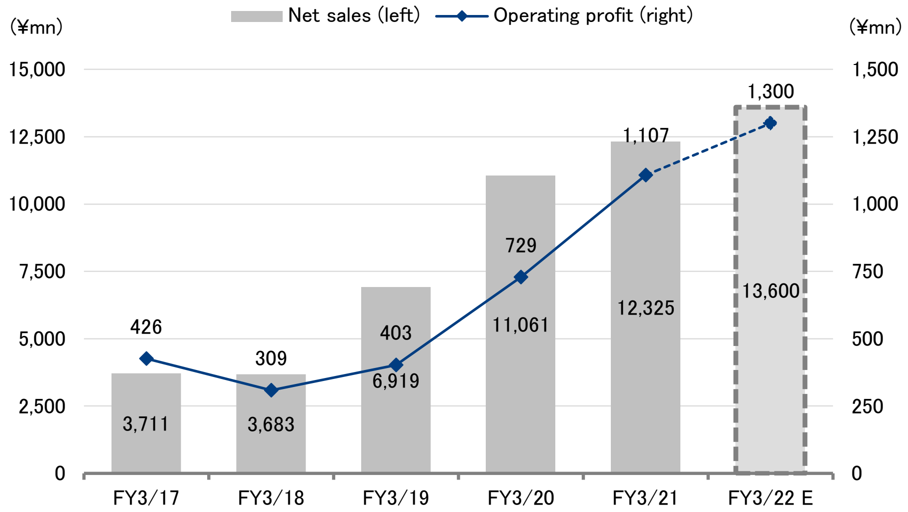
4. Future business strategy

The points for future business strategy are 1) continuing to strengthen the foundation, 2) pursuing business synergies, and 3) accelerating growth through actively investing in businesses. Specifically, the Company plans to continue activities toward acquiring strong IP (strengthening the foundation), while pursuing business synergies in various areas, such as developing the proprietary VR business by utilizing the Company's expertise in IP and video delivery, creating a fan web site platform by combining IP and apps, and entering the NFT marketplace business by utilizing IP. In addition to introducing the electronic tickets service on its fan club web sites and in the VR live business, the Company will conduct OEM supply for the apps of other companies and create a secondary distribution market that utilizes ticket trade center functions. In such ways, the plan is to actively invest in new businesses to accelerate growth. At FISCO, our assessment is that accelerating medium- to long-term growth is highly likely due to the launches of the VR business, Electronic Tickets Business, and NFT business, whose markets are expected to grow.

Key Points

- In 1H FY3/22, despite the continued impact of the COVID-19 pandemic, sales and profits increased due to a recovery in the number of members of fan club web sites and the growth of the Electronic Tickets Business
- Activities such as new business initiatives focused on the DX of fan services and entry into the NFT business produced notable results
- In FY3/22, projects increases in sales and profits after considering the impact of the COVID-19 pandemic (with initial forecasts maintained at present)
- Going forward, intends to accelerate growth by strengthening acquisitions of strong IP and creating business synergies, including with the VR business, Electronic Tickets Business, and NFT business

Results trends



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

Company outline

Provides fan club web sites and various types of content for smartphones. Has also participated in the Electronic Tickets Business, VR business, and NFT business, whose markets are expected to grow

1. Business overview

The Group conducts integrated business development from delivery of various digital content, such as anime characters, stamps, music, and e-books, to e-commerce and electronic tickets on the axis of the fan club web site business that covers a wide range of genres centered on artists, including TV personalities, voice over actors, and anime. The Company's provision of value is organically connecting users through various media, like smartphones and PCs, with various rights owners (artists, music offices, record companies, character companies, etc.) while expanding this base of highly loyal members who are the fans. At the same time, it entails providing a wide range of products and services, such as advance sales of concert tickets and provision of music, as well as digital content (CDs, DVDs, Blu-rays, etc.) and goods. By leveraging its expansive number of leading artists and content, the Company has created synergies throughout the Group and expanded and diversified its business foundation by mutually utilizing them.

The Company worked to expand its business foundation, including by launching the Electronic Tickets Business, which is expected to grow, by making a fully owned subsidiary of EMTG on October 1, 2018. From April 1, 2020, the Company transitioned to a holding company structure in order to optimally allocate management resources, realize speedy decision-making, and pursue further Group synergies. Since 2020, although some parts of its business have been impacted by the COVID-19 pandemic, the Company has been taking steps to enter a new phase by steadily establishing the VR business, which has been long awaited by fans, as well as efforts such as growing the Electronic Tickets Business, which is expected to be a growth market, and participating in an NFT business.

There are three reportable segments: the Content Business, Electronic Tickets Business, and Other Businesses. The Content Business is further subdivided into Fan Club, Fan Website and Other Businesses and EC Business. Fan Club, Fan Website and Other Businesses, which have been the main businesses since the Company's foundation, provide a high percentage of total sales. However, the plan is to grow the EC Business and Electronic Tickets Business going forward, while making these business work together.

Summaries of each of the businesses are provided below.

(1) Content Business

a) Fan Club, Fan Website and Other Businesses

This business mainly involves the management of fan club web sites for smartphones and PCs and the provision of various types of digitally delivered content and apps. In particular, for the mainstay fan club web sites, it manages official sites that deliver the latest information and exclusive content on artists and idols, as well as other celebrities such as actors, TV personalities, and athletes. This business also includes providing member-only content, delivery of music, and sales of goods. It is one of the largest operators of fan club web sites in Japan with over 300 sites, mostly focusing on musical artists. These web sites boast over two million paying members, which is also the highest number in Japan, who are a source of earnings. Also, by creating apps for fan clubs and adding various functions (developing platforms), it is responding to user needs and expanding opportunities to acquire earnings. Since FY3/21, in addition to launching an app exclusively for viewing live content equipped with comment and gifting functions, it began providing a service to deliver live content in VR and a variety of VR video content. Initiatives in addition to this include the development of new businesses focused on the DX of fan services and entry into the NFT marketplace*1, which is expected to become a new earnings model (details below). Conversely, regarding the delivery of various types of content, it provides a range of content on themes including popular anime characters and TV personalities, such as Shabette Concier (Shabette Characters)*2, kisekae (themes for apps), stamps, and decorative email templates. In addition, it is actively providing content for all-you-can-use services developed by carriers for a monthly fee.

*1 An NFT (non-fungible token) marketplace built on blockchain technology to handle even secondary and subsequent markets specifically for entertainment-related content.

*2 Shabette Concier (Shabette Characters) is a voice-activated concierge service for smartphones provided by NTT DOCOMO. By telling the character displayed on the smartphone what users want to do or search, the service can understand their intentions and provide optimal answers on the screen using information, services and the device's functions.

b) EC Business

This business involves sales of music video products; CDs, DVDs, and Blu-rays; and artists' goods related to these products, mainly through fan club web sites managed by the Group. Its features include targeting the core fan group (members of fan club web sites), developing a new distribution route to sell directly to fans, handling artists from those with major to independent distribution, and effectively conducting sales promotions by providing original perks (artists' goods, etc.) when selling packaged products. It has also recently launched new services (advanced sales, a service for collecting items at venues, etc.) that can be used smoothly for sales of goods at live performances and event venues, and is aiming to expand sales opportunities that go beyond the EC framework.

(2) Electronic Tickets Business

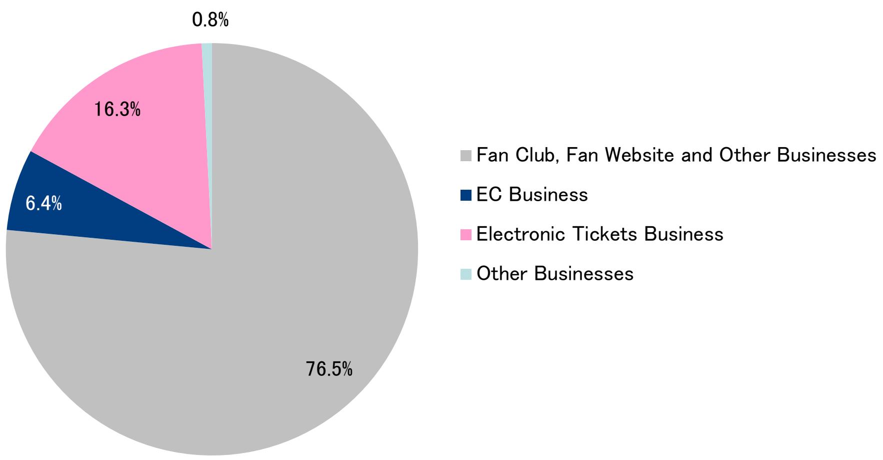
This business was launched through making EMTG a fully owned subsidiary in October 2018, and is comprised of earnings from the electronic tickets and ticket trade* businesses and various peripheral services. In addition to live music, it provides an electronic tickets service for a wide variety of events, including so-called greeting events to meet members of idol groups, sporting events such as professional baseball and figure skating, and leisure facilities such as amusement parks. It has also started services including a platform for sales of viewing passes for online-delivered content linked with the live content delivery implemented by the Content Business. On the other hand, it is also working to diversify its monetization methods through services ancillary to electronic tickets, including providing a card collection app (adopted by 8 professional baseball teams and all 36 B-League teams) and sales of commemorative content related to live performances (memory collections) in fee-based packages.

* A service that allows members to sell tickets to other people at a fixed price when they are unable to go to a live performance or other event. Unlike conventional ticket resale sites, the parties involved are not able to communicate individually and prices are fixed, which prevents tickets from being resold at excessively high prices.

(3) Other Businesses

Other Businesses include earnings of consolidated subsidiaries which are unassociated with the above segments and mainly develop new businesses.

Composition of net sales by business (1H FY3/22 results)



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

2. Group structure

On April 1, 2020, the Group transitioned to a holding company structure. There are eight operating companies (consolidated subsidiaries) under the holding company in a structure that emphasizes uniqueness and facilitates swift decision making at each Group company while creating synergies within the Group and diversifying sources of earnings.

Overview of Group companies

Source: From the Company's supplementary results briefing materials

3. History

The Company was established by CEO and Representative Director Koichiro Mito in December 2004 (Head Office: Shibuya Ward, Tokyo) in order to provide fee-based content and conduct online sales for mobile phones and PCs.

The mobile content market expanded alongside the spread of mobile phones and the development of the IT environment, so the Company's results trended steadily, mainly for ring tones. In particular, the provision of carriers' new services greatly affected the Company's results. In October 2006, it opened Artists Official Call to provide melodic ring tones, acting as the office site of the mobile phone carriers providing the content. Also, in February 2007, it opened and launched e-commerce business through ROYAL Roc, the official mobile phone carrier site for an exclusive shop handling mainly fashion related to artists and TV personalities. Moreover, in July 2007, it opened Artists Official Decome as an official mobile phone carrier site and thereby entered into content fields other than music.

A major turning point for the Company was in September 2008 when it opened the GLAY MOBILE official mobile phone carrier site and started to manage fan club web sites. As well as being in a field that utilizes the features of the Company, an expert in the entertainment industry, it was able to capture highly loyal fan groups as paying members and thereby establish a stable business foundation that was not easily affected by technological and market trends. In particular, by guiding visitors of fan club web sites to direct sales sites for CDs, DVDs, and artists' goods, it was able to generate synergies with the e-commerce business, and became the driver of the Company's growth.

The Company was listed on the Tokyo Stock Exchange (TSE) Mothers market in March 2012. In May 2012, it acquired from Adways Inc. <2489> all of the shares of Adways Entertainment, Co., Ltd., which mainly manages Korean wave web sites, and made it a subsidiary (absorption merger in May 2013). In September 2013, its listing was upgraded to the TSE First section. Furthermore, in September 2018, it launched the Electronic Tickets Business by making EMTG a fully owned subsidiary. On April 1, 2020, it transitioned to a holding company structure.

The Company's features

Earnings model in which increases in the number of members drive results growth. Strengths include acquiring strong IP and integrated business development

The Company's earnings model is one in which increases in the number of members drive results growth. Therefore, the secret to its success can be that it is acquiring strong IP (content) and has many sites with powerful customer appeal. Alongside this, it is building the member base by minimizing the member churn rate, and introducing a framework to increase the unit price per member, including through cooperation between the EC Business and Electronic Tickets Business. It is utilizing its strengths described below with the aim of differentiating itself from other companies and to effectively create value.

(1) Framework to acquire strong IP and realize management of sites with powerful customer appeal
With many of those involved coming from content holders in the music and other industries, such as record companies, in addition to having a good understanding of the entertainment industry, the Company has used this experience of being involved in content production to its favor in acquiring artists, TV personalities, anime characters and others with powerful customer appeal, discovering content and planning sites. It also captures core fan groups as members by providing original perks on fan club web sites, and has a framework to minimize the member churn rate by offering benefits that vary depending on the length of membership and continuously providing members with related content and original perks. In this way, it aims to build the member base.

(2) Results from managing popular sites in various content fields
Starting with the management of sites produced for members and e-commerce, the Company manages a wide range of official sites covering various categories and genres. This leads to the accumulation of expertise and building of trust, which serves to disperse risk in addition to serving as a strength when acquiring content from content holders. In addition, many sites are ranked among the top-ranking official mobile phone carrier sites.

(3) Integrated business model that generates synergies
Focusing on the Content Business and conducting integrated business development of the EC Business and Electronic Tickets Business, synergies are generated that produce mutually beneficial effects for each business. In particular, visitors to fan club web sites are guided to e-commerce sites, such as for sales of CDs, DVDs, and artists' goods, while the electronic tickets and ticket trade services cooperate, which creates a new channel to directly reach core fan groups and contributes to improving the unit price per customer. In addition, the Group is conducting effective measures to acquire members, including advanced ticket sales for members, members-only sales, and premium ticket trade services for members. Moreover, in the future, we can also expect synergies with the VR business and NFT business.

(4) Competitive advantages of the Electronic Tickets Business and VR business

The Electronic Tickets Business, which was launched in FY3/19, has competitive advantages with its electronic ticket app that offers a stamp to smartphone screens and ticket trade center functions. In particular, the creation of a secondary distribution market utilizing ticket trade center functions not only becomes an incentive for capturing members, but also contributes to countermeasures against unauthorized resales being promoted by the government and various industries. While aiming to coordinate with other companies, it is highly likely to become the de facto standard in the future. Furthermore, for the VR business, which started providing services from FY3/21, it is considered that its acquisitions of strong IP through relationships with various rights holders will become a powerful weapon. It also seems that the plan is to achieve differentiation through VR experiences unique to the Group. Moreover, by handling a consortium system through strategic partnerships with each company, dynamic developments (value creation) through collaborations with other companies can be expected.

Industry environment

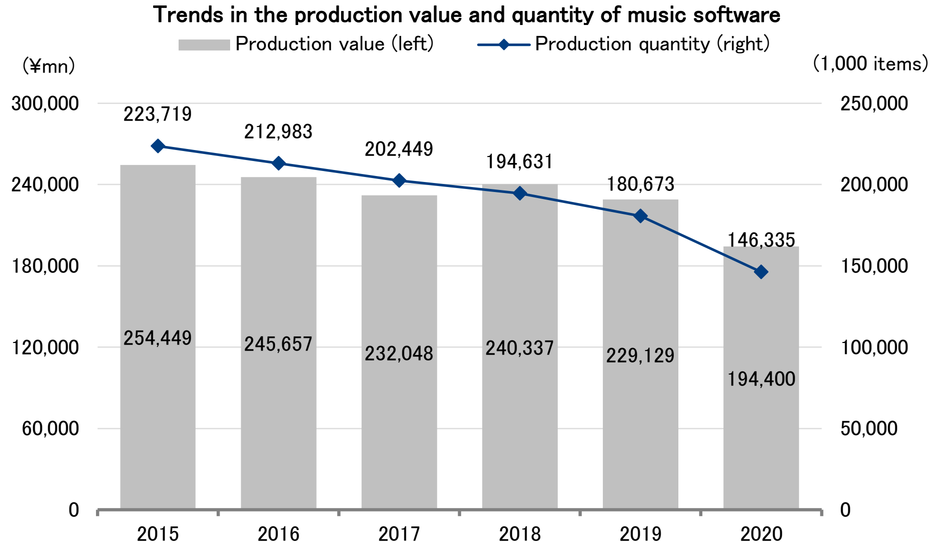
Music delivery is growing steadily amid the COVID-19 pandemic. The live concert market is also on a path to gradual recovery

Looking at trends in markets related to music and artists, we see that they progressed solidly up to 2019. In particular, in music delivery, the use of streaming services grew rapidly, while the live concert market also showed signs of growth. However, in 2020, a year in which the impact of the COVID-19 pandemic was felt, results showed a great deal of contrast*. The production value of music software declined to ¥194.4bn (down 15.2% YoY) mainly due to sales postponements. On the other hand, the music delivery sales amount increased to ¥78.2bn (up 10.8%), due to an increase in the use of streaming services in households, etc. In the first half of 2021 (January to June), the production value of music software returned to growth, increasing to ¥88.0bn (up 5.8%), while the music delivery sales amount continued to grow to ¥43.6bn (up 15.5%).

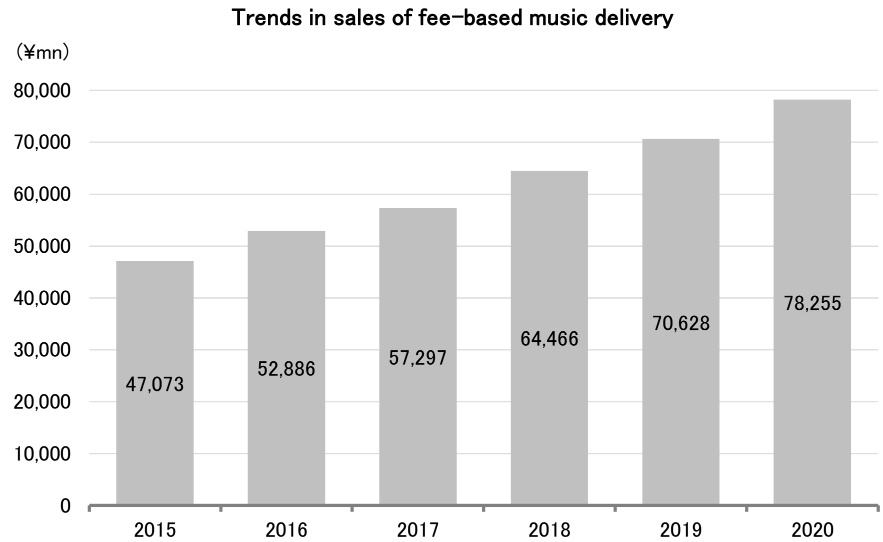
* Source: Recording Industry Association of Japan

Also, in the live concert market, there were many cancellations and postponements due to the COVID-19 pandemic, resulting in a decrease in the number of live performances to 43,372 (down 68.2% YoY) and a drop in the number of audience members to 14.8 million (down 82.1%) in 2020 due to factors such as capacity restrictions. Accordingly, the market shrank by about 80% in terms of size, decreasing to ¥110.6bn (down 81.9%)*. However, currently, restrictions on holding events are gradually being eased and live concerts are being resumed under substantial measures to prevent infections, so the number of live performances and number of attendees are slowly recovering.

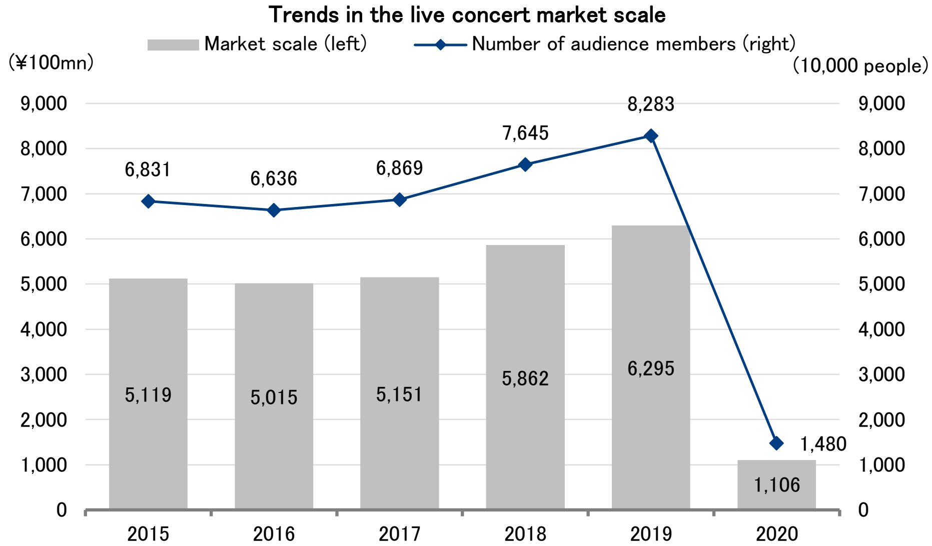
* Source: Live Entertainment Research Committee



Source: Prepared by FISCO from the Recording Industry Association of Japan's web site



Source: Prepared by FISCO from the Recording Industry Association of Japan's web site



Source: Prepared by FISCO based on information from the Live Entertainment Research Committee

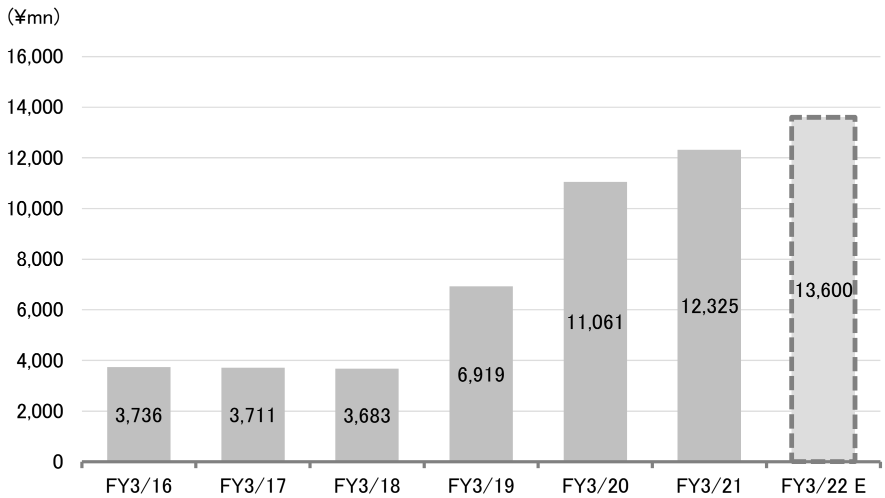
Results trends

Centered on fan club web sites, stably maintaining results and the financial foundation. Aiming to consolidate synergies from each Group company and expand the business foundation

1. Past results trends

Looking back on past results, net sales growth was sluggish up to FY3/18. In the mainstay (mobile) Content Business, the main factors adversely impacting results included the shift from feature phones to smartphones and rapid contraction of music content, centered on ring tones. In this situation, the core member base, mainly for fan club web sites, supported the foundation of results. But the slow pace of acquisitions for new sites caused growth to be sluggish. However, results grew significantly for two consecutive fiscal years from FY3/19. This was because the number of fan club web sites and the member base largely doubled through making EMTG a fully owned subsidiary, which led to the improvement of results in the Content Business and EC Business. In addition, the new addition of the Electronic Tickets Business was a positive factor for results. In FY3/21, a year in which the impact of the COVID-19 pandemic was felt, the Company secured an increase in sales, mainly due to the growth of the EC Business.

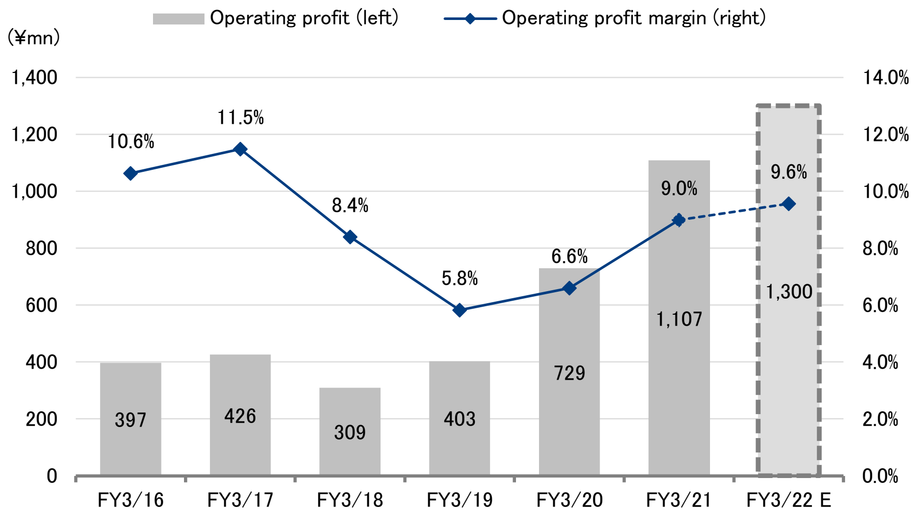
Trends in net sales



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

In profit-loss as well, the operating profit margin trended around the high level of approximately 14% up to FY3/15. However, it fell in FY3/16 due to factors including a product-valuation reduction following a clearing of product inventory, head office relocation, and temporary costs such as those relating to warehouse transfers. The operating profit margin also trended at a low level from FY3/18 onwards, mainly due to upfront investments in new businesses (including the VR business and Electronic Tickets Business) and M&A expenses. However, in FY3/20 efforts were made to improve the operating profit margin to a certain extent through improved earnings due to higher sales and the elimination of temporary costs, and in FY3/21, the operating profit margin recovered to the 9.0% level.

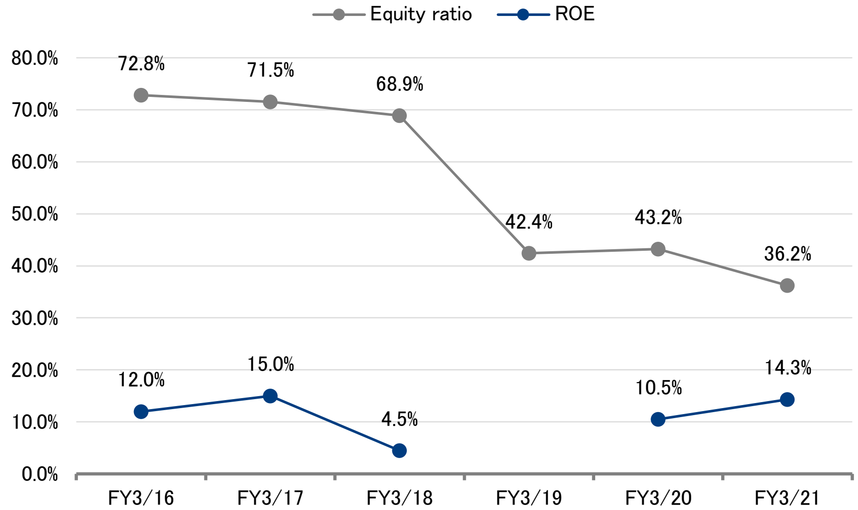
Trends in operating profit and the operating profit margin



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

Financially, the Company continues to practice debt-free management from its business characteristic of not requiring capital investment, and the equity ratio, which indicates the stability of the financial foundation, has trended at a high level. It fell significantly in FY3/19, but this was due to the expansion of total assets following EMTG being made a consolidated subsidiary. However, there are no concerns about the stability of the Company's financial foundation due to it being debt free with a current ratio at a high level. ROE, which indicates capital efficiency, fell in FY3/18 due to a decline in the profit margin, but recovered to a level above 10% from FY3/20 onward.

Trends in the equity ratio and ROE



Note: In FY3/19, ROE could not be calculated rationally due to a special accounting technical factor, and is therefore not shown
Source: Prepared by FISCO from the Company's financial results

2. Summary of the 1H FY3/22 results

In the 1H FY3/22 results, sales and profits continued to increase even as the Company struggled with the COVID-19 pandemic, with net sales rising 7.0% YoY to ¥6,314mn, operating profit growing 40.1% to ¥775mn, ordinary profit climbing 43.7% to ¥838mn, and profit attributable to owners of parent increasing 44.6% to ¥516mn. Steady progress was also made toward achieving forecasts for the full fiscal year (particularly for profits).

In the Content Business, the mainstay Fan Club, Fan Website and Other Businesses secured an increase in sales as member numbers increased again, after having fallen previously due to the COVID-19 pandemic. On the other hand, the EC Business saw a reactionary downturn in sales due to the decline in special demand (an increase in demand for goods, etc. for concerts that were postponed and cancelled) experienced in the same period of the previous fiscal year. In the Electronic Tickets Business, although the business experienced the effects of the COVID-19 pandemic such as a decrease in the number of live events and concerts held and restrictions on the number of audience members, the business roughly doubled in scale and made a significant contribution to overall sales growth. This was due to growth in the number of electronic tickets (including ticket trades) handled by leveraging the strengths of electronic tickets (such as their advantage as an anti-infection measure) and an increase in spend per customer by adding peripheral services (such as online prize draws).

Regarding profits, despite the reactionary downturn in the highly profitable EC Business*, the growth of the Electronic Tickets Business (which returned to profitability) resulted in a large rise in profits, and operating profit margin also improved significantly to 12.3% (9.4% in the same period in the previous fiscal year).

* Net sales in the EC Business are comprised of sales commissions, so the cost to sales ratio is extremely low (and the gross margin ratio is high).

Looking at the financial condition, total assets were up ¥438mn on the end of the previous fiscal year to ¥12,199mn, mainly due to increases in cash and deposits, accounts receivable - trade, and prepaid expenses (royalty payments), despite a decrease in non-current assets mainly caused by amortization of goodwill and the sale of investment securities (held for the purpose of pure investment). Shareholders' equity increased by ¥513mn to ¥4,768mn due to the accumulation of internal reserves and the equity ratio also improved to 39.1% (36.2% at the end of the previous fiscal year). Also, interest-bearing debt continues to be zero and a current ratio of 122.9% was secured, so there are no concerns about the Company's financial stability.

Results for the main segments are described below.

(1) Content Business

Sales and profits decreased, with net sales falling 1.7% YoY to ¥5,234mn and segment profit shrinking 10.4% to ¥874mn. Within this, the mainstay Fan Club, Fan Website and Other Businesses managed to increase sales by 1.3% to ¥4,831mn as member numbers increased again, after having fallen previously due to the COVID-19 pandemic. However, sales in the EC Business fell 27.8% to ¥403mn due to a decline in special demand (an increase in demand for goods, etc. for concerts that were postponed and cancelled) experienced in the same period of the previous fiscal year. On the other hand, sales levels in the EC Business are still around 1.4 times higher than pre-COVID-19 pandemic levels (1H FY3/20) suggesting that the Company is steadily raising its earnings foundation by capturing the shift to digital. Regarding profit-loss, although profits shrank due to a rebound decrease in the highly profitable EC Business, the segment profit margin remained high at 16.7% (18.3% at the end of the previous fiscal year).

Looking at activities, in Fan Club, Fan Website and Other Businesses, 15 new web sites were launched and the acquisition of new artists through FanplaKit*1 seemed to go smoothly. Also, the creation of apps for fan clubs (development of apps for each artist), as well as the FanStream*2 live content viewing app and live content delivery through VR, were well received by fans due to the COVID-19 pandemic, so the Company is planning to enhance convenience and strengthen fan communication by combining various functions, particularly placing links to EC sites and FanStream delivery within artist apps. In the EC Business, 13 new stores were launched and sales of tour goods and live content delivery goods increased due to the development of services that are in line with fan needs, such as collection at venues and member-only sales.

*1 A Software as a Service (SaaS) platform that packages the functions needed to establish and operate a fan club, including member management, without any initial or installation costs for artists of any size. As of the end of September 2021, 141 groups had registered, mostly new artists.

*2 An app exclusively for viewing live content equipped with functions to support artists by posting comments and giving gifts while viewing performances.

(2) Electronic Tickets Business

The business realized a return to profitability through a significant increase in sales, with net sales increasing 87.9% YoY to ¥1,028mn and segment profit of ¥160mn (a loss of ¥146mn YoY). Although the COVID-19 pandemic continued to have an impact (such as restrictions on the movement of people), there was a gradual recovery for a variety of events compared with the same period in the previous fiscal year when the majority of live concerts were cancelled or postponed. In addition to this, the Company leveraged the strengths of electronic tickets as an anti-infection measure*1 to smoothly grow the number of electronic tickets handled to 1,130,000 for 1H FY3/22 (140,000 in the same period in the previous fiscal year). The Company is now poised to achieve a new full-year record high of 2,300,000 tickets handled (1,300,000 in the previous fiscal year). Regarding ticket trades, by appropriately delivering a secondary market that is adapted to the COVID-19 pandemic, the Company is forecasting a new full-year record high of 100,000 ticket trades (51,000 in the previous fiscal year). Furthermore, significant growth in peripheral services linked to electronic tickets (memory collections, memory collection prize draw)*2 has nearly doubled spend per customer, which made a big contribution to increasing sales. In addition to electronic tickets, businesses such as online content delivery*3 performed well, which not only boosted the Company's results, but also contributed to earnings for the artists. There was also steady growth in card collection apps for professional baseball and other cards, mainly due to collaborative projects between teams and partnerships with ballparks. Regarding profits, the big growth in sales more than compensated for amortization including goodwill and the upfront costs of launching new services, resulting in a return to profitability.

*1 In addition to encouraging contactless operations, the implementation of smartphone facial verification and temperature sensing is also being planned.
*2 Memory collections are digital content packs that enable users to continue to enjoy memories of a live event through their smartphones (including content like welcome messages from artists, special photos from the day of the event, messages from artists recorded directly after the performance, and a prize draw to win signed goods). Memory collection prize draws provide the online prize draws (toy vending machine-style) as a separate service that fully guarantees users to win deluxe prizes contained in memory collections.
*3 Such as StreamPass, a platform for sales of viewing passes for live performances and online-delivered content, and MeetPass, a one-to-one online chat service.

Summary of the 1H FY3/22 consolidated results

(¥mn)

	1H FY3/21		1H FY3/22		Change	
	Result	Composition ratio	Result	Composition ratio	Amount	Rate
Net sales	5,902	-	6,314	-	412	7.0%
Content Business	5,325	90.2%	5,234	82.9%	-91	-1.7%
Fan Club, Fan Website and Other Businesses	4,767	80.8%	4,831	76.5%	63	1.3%
EC Business	557	9.5%	403	6.4%	-154	-27.8%
Electronic Tickets Business	547	9.3%	1,028	16.3%	480	87.9%
Other Businesses	29	0.5%	52	0.8%	22	78.2%
Cost of sales	4,119	69.8%	4,253	67.4%	133	3.2%
SG&A expenses	1,228	20.8%	1,285	20.4%	56	4.6%
Operating profit	554	9.4%	775	12.3%	221	40.1%
Content Business	976	18.3%	874	16.7%	-101	-10.4%
Electronic Tickets Business	-146	-26.7%	160	15.6%	306	-
Other Businesses	-1	-5.4%	14	28.0%	16	-
Adjustments	-274	-	-273	-	1	-
Ordinary profit	583	9.9%	838	13.3%	254	43.7%
Profit attributable to owners of parent	357	6.0%	516	8.2%	159	44.6%
Depreciation	65		61		-3	-6.0%
Amortization of goodwill	109		109		-	-

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

Financial condition at the end of 1H FY3/22

(¥mn)

	End of FY3/21	End of 1H FY3/22	Change	
			Amount	Rate
Current assets	7,572	8,585	1,012	13.4%
Cash and deposits	4,740	4,996	256	5.4%
Accounts receivable - trade	1,431	1,613	181	12.7%
Other	1,399	1,974	575	41.1%
Non-current assets	4,189	3,614	-574	-13.7%
Property, plant and equipment	759	751	-8	-1.1%
Intangible assets	1,159	1,009	-150	-13.0%
Goodwill	764	655	-109	-14.3%
Investments and other assets	2,269	1,853	-416	-18.3%
Total assets	11,761	12,199	438	3.7%
Current liabilities	7,104	6,984	-119	-1.7%
Accounts payable - trade	2,789	3,163	374	13.4%
Accounts payable - other	1,019	827	-192	-18.8%
Non-current liabilities	203	182	-20	-10.3%
Net assets	4,454	5,032	578	13.0%
Shareholders' equity	4,255	4,768	513	12.1%
Total liabilities and net assets	11,761	12,199	438	3.7%

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

3. Summary of 1H FY3/22

To summarize 1H FY3/22 from the above, in terms of results, the Company was able to realize increases in sales and profits despite the continuation of the COVID-19 pandemic. This can be considered as proof of the strength of its integrated business development and earnings foundation. In particular, its ability to increase member numbers after a temporary decrease caused by the COVID-19 pandemic and the growth it has achieved in the Electronic Tickets Business, which is expected to be a growth market, are positive signs for the future. In terms of activities, it has read the changes in the business environment driven by the COVID-19 pandemic and taken a direction focused on the DX of fan services and also entered the NFT business, which has potential to be a new earnings model. Therefore, it can be said that the Group has achieved notable results in consideration of the business expansion from FY3/23 onwards.

Main activities and results

As the relationship between artists and fans changes, the Company is creating new value focused on the DX of fan services

1. Launch of the Fanpla Business Promotion Department

Fanplus, Inc., which operates the fan web sites for musical artists that are the core of the Group's operations, is responding to the changing relationship between artists and fans driven by the COVID-19 pandemic by launching the Fanpla Evolution Project to create new value focused on the DX of fan services and to support activities by artists. Although it is already engaged in the digitalization of fan services (such as fan club, goods and tickets), going forward it will further continue these efforts (such as introducing live content delivery apps and POS registers, and launching online prize draws), while also strengthening new business initiatives, including making fan services interactive (online communities, crowdfunding) and further evolving services with a view to overseas expansion. In December 2021, it established the Fanpla Business Promotion Department to promote the new businesses. The aim is to realize new digital businesses that connect artists and fans based on businesses including FanplaKit (a fan club web site platform), which is already registering new artists, FanplaRooms (online communities)*1, FanplaChance (an online prize draw service), FanplaAction (a crowdfunding service)*2, and FanplaOwner (an NFT marketplace, details below), and accelerate efforts toward commercialization in FY3/23.

*1 Online communities dedicated to content delivery that can be used to provide live content streaming as a monthly subscription service. This platform creates a new way of communication by enabling members-only rooms and member-exclusive programs to be created as soon as the same day with no initial costs, realizing delivery of live content easily with low latency on smartphones.
*2 A crowdfunding service primarily for artists. It can provide this service while also increasing opportunities for contact between artists and fans, such as linking projects to fan clubs and fan web sites, and enabling the implementation of ideas submitted by fans.

2. Entering the NFT marketplace business

In December 2021, the decision was made to launch FanplaOwner, an NFT marketplace based on blockchain technology. FanplaOwner is a proprietary NFT marketplace created by the Company where users can buy NFTs related to entertainment. It is equipped with a royalty function that aims to create income for artists and also enables artists and other stakeholders to receive a share of earnings from secondary and later markets. The Company plans to first create NFT content featuring likenesses and illustrations of musical artists, videos, and audio, and then promote the business to make the NFT marketplace into a new earning model for future artist activities and a service where fans can enjoy a new experience. It also plans to maximize synergies within the Group, such as working with Tixplus, inc., a consolidated subsidiary that provides services including digital trading cards (an app) featuring professional baseball and other sports teams, to provide sports-related NFT content. Additionally, going forward, it is considering further applications such as enabling users to display NFT content they have purchased in metaverse spaces*.

* Online virtual spaces realized in 3D.

Results outlook

The FY3/22 results outlook remains the same as initial forecasts at present, with higher sales and profits to be secured after considering the impact of COVID-19

1. FY3/22 results forecasts

For the FY3/22 results forecasts, at present the Company has left its initial forecasts unchanged, which call for double-digit rises in sales and profits, with net sales to increase 10.3% YoY to ¥13,600mn, operating profit to rise 17.4% to ¥1,300mn, ordinary profit to increase 11.3% to ¥1,300mn, and profit attributable to owners of parent to increase 31.7% to ¥830mn. Based on a conservative outlook that assumes the impact of the COVID-19 pandemic will continue, the recovery of existing businesses is anticipated to remain gradual, but the accumulation of new services and businesses linked to existing businesses is expected to secure growth in sales. The reason the Company has left its initial forecasts unchanged despite the fast-paced progress made in the 1H results (particularly for profits) is that it is cautiously viewing the development of the Omicron variant, which is currently spreading, and its impact.

FY3/22 consolidated results forecasts

(¥mn)

	FY3/21		FY3/22		Change	
	Result	Composition ratio	Forecast	Composition ratio	Amount	Rate
Net sales	12,325		13,600		1,274	10.3%
Operating profit	1,107	9.0%	1,300	9.6%	192	17.4%
Ordinary profit	1,168	9.5%	1,300	9.6%	131	11.3%
Profit attributable to owners of parent	633	5.1%	830	6.1%	196	31.7%

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

2. FISCO's opinion

While it will be necessary to continue to pay attention to how the COVID-19 pandemic develops, we at FISCO think that the Company's results forecasts are fully achievable, considering the progress made on the 1H results and its steady launches of new services that cater to changes in the business environment, such as online live content (live content delivery apps and VR MODE) and online prize draws. There is also a strong possibility that results will exceed forecasts (particularly for profits).

For FY3/23, FISCO sees a possibility that the sales growth will be maintained, mainly due to the sustained growth of the Electronic Tickets Business and accumulation of new businesses. It is also possible that as the end of the COVID-19 pandemic draws closer, the recovery of real events will further accelerate growth in results. For profits, although continued upfront investment in new businesses and the like are expected, it seems that the profit margin will continue to improve further due to the improvement of profits driven by an increase in sales.

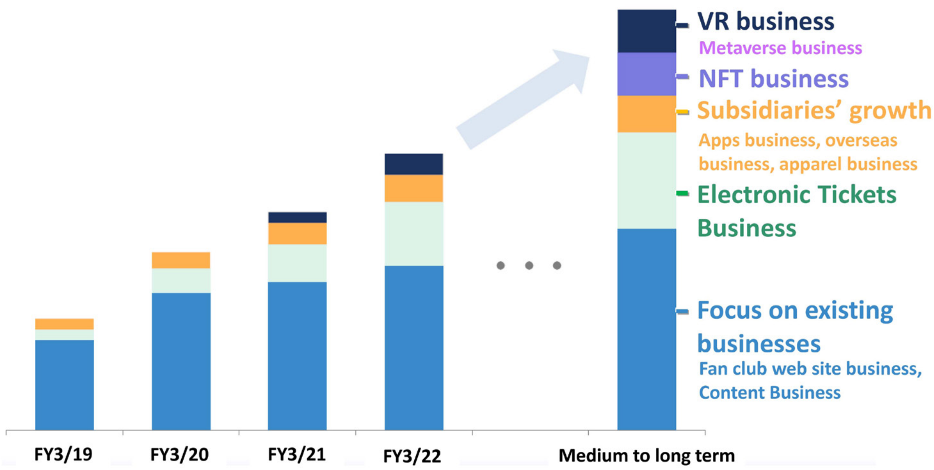
Future direction

Will continue to accelerate growth by aiming to acquire strong IP and through mutual cooperation among the Electronic Tickets Business, the VR business, NFT business, and other businesses

1. Image of future growth

The Company's basic strategy up to the present time has been to work to expand the base of highly loyal members, with fan club web sites as the starting point, and to increase synergies from related content and the EC Business. Moreover, going forward it is depicting a strategy of accelerating growth in the Group as whole by adding mutual coordination among the Electronic Tickets Business, the VR business, and the newly launched NFT business.

Image of the Group's future growth



Source: From the Company's results briefing materials

2. Points for the business strategy

The Company's points for its business strategy in the future are 1) continuing to strengthen the foundation, 2) pursuing business synergies, and 3) accelerating growth by actively investing in businesses. Specifically, it plans to continue activities toward acquiring strong IP (strengthening the foundation), while pursuing business synergies in various areas, such as developing the proprietary VR business by utilizing its expertise in IP and video delivery, developing official apps by combining IP and apps, and entering the NFT marketplace business by utilizing IP. It will also introduce the electronic tickets service into the Group's fan club web sites and VR live business, as well as conduct OEM supply for other companies' apps and create a secondary distribution market by utilizing ticket trade center functions. In such ways, its plan is to actively invest in new businesses toward accelerating growth.

3. FISCO's points to focus on in the medium to long term

At FISCO, we highly evaluate the launches of the VR business, the Electronic Tickets Business, and NFT business, whose markets are expected to grow, as possibly connecting to the acceleration of growth in the medium to long term. In particular, for the VR business, the key to success would seem to be the Company acquiring IP and providing VR experiences in ways unique to it, and its skill in creating charging points (monetization). In the Electronic Tickets Business as well, needless to say there is a competitive advantage from having a business model that can become the de facto standard, but also various other possibilities remain hidden beyond simply selling electronic tickets, such as cross-selling (sales of tickets and goods for other artists, various types of VR experiences, etc.) through capturing members on a cloud system, and by demonstrating initiative toward creating a secondary distribution market. So going forward, we shall be paying attention to developments and the speed of these developments. Furthermore, in the NFT Business, an area that has a strong affinity with IP and fan databases, the creation of never-before-seen fan experiences and value will be possible new sources of earnings for the Company, and it is also expected that the business will contribute to supporting activities by artists.

While the COVID-19 pandemic is impacting the entertainment industry, it is also driving a change in the relationship between artists and fans and accelerating the DX of fan services, ushering in a period of great change for the industry. It can be said that as a leading company for fan services, the major themes for the Company will be opportunities for further evolution and contribution to the development of the entertainment industry. Based on this, the Company can be expected to carry out the integrated development of multiple growth fields (including VR, electronic tickets, and NFTs) which will be the key to the future development of the industry and to realize synergies between these. This is undoubtedly an important role, and it can be assumed that it will be accompanied by great potential for growth.

Returns to shareholders

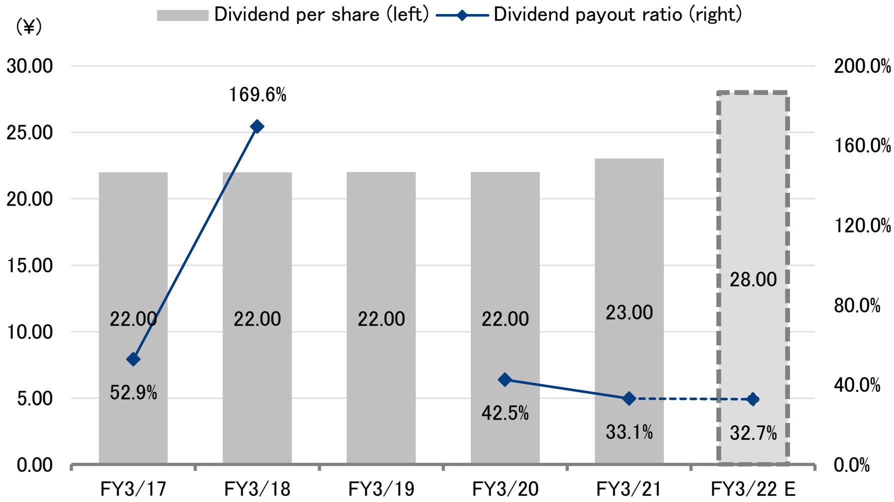
Annual dividend per share forecast for FY3/22 is an increase of ¥5 YoY to ¥28 before adjustment for a stock split. A four-for-one stock split was implemented on January 1, 2022

The Company's basic policy is to pay a dividend linked to results, targeting a dividend payout ratio of 30%. In FY3/21, it increased its dividend per share by ¥1 YoY to ¥23 (a dividend payout ratio of 33.1%). In FY3/22, in anticipation of a large increase in profits, it plans to significantly increase its dividend per share by ¥5 to ¥28 before adjustment for a stock split* (an increase of ¥1.25 to ¥7 after adjustment). The forecast dividend payout ratio is 32.7%.

* The Company implemented a four-for-one stock split, effective on January 1, 2022.

The Company has been increasing dividends from FY3/21 onward. Considering its strong financial foundation and business characteristics, such as that it does not require capital investment, and that it has established multiple sources of earnings, we at FISCO think there remains plenty of room for it to further increase dividends in accordance with profit growth in the future.

Dividend per share and the dividend payout ratio



Note: A dividend payout ratio for FY3/19 is not shown as a final loss was recorded
The expected result for FY3/22 is before adjustment for the stock split
The forecast dividend per share after the stock split is a YoY increase of ¥1.25 to ¥7
Source: Prepared by FISCO from the Company's financial results

Disclaimer

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