

m-up holdings, Inc.

3661

Tokyo Stock Exchange Prime Market

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■ Summary

In 1H FY3/23, achieved significant increases in both sales and profits as there was a recovery to a certain extent from the COVID-19 pandemic and each business expanded steadily. Has made significant results by strengthening electronic tickets via coordination with major play guides

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, voiceover 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 September 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 over the past two years, the Company has been focusing on creating new value (including VR and NFT) anticipating the change in the relationship between artists and fans triggered by the COVID-19 pandemic as well as the DX in entertainment, and is taking steps to enter a new phase towards future growth.

2. Summary of the 1H FY3/23 results

In the 1H FY3/23 results, the Company saw a recovery to a certain extent from the COVID-19 pandemic and achieved a significant increase in both sales and profits, with net sales rising 23.0% year on year (YoY) to ¥7,764mn and operating profit growing 53.0% to ¥1,187mn. Steady progress was also made toward achieving the forecasts for the full fiscal year (particularly for profits). In the mainstay Fan Club, Fan Website and Other Businesses, the Company secured an increase in sales as the number of paying members increased again, after having fallen previously due to the COVID-19 pandemic. The EC Business performed well due to initiatives aligned with the resumption of live events and concerts, as well as the coordination with play guides on the EC portal. In the Electronic Tickets Business, amid the increase in live concerts and events with audiences, the business steadily expanded due to growth in the number of 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 continued upfront investments in electronic tickets and new businesses (including VR and NFT), there was a significant increase in profits due to the growth in highly profitable electronic tickets and other factors. In terms of activities, the Company produced positive results, such as progress on new businesses focused on the DX of fan services (such as starting the provision of NFT marketplace services) and strengthening electronic tickets via coordination with major play guides.

Summary

3. FY3/23 forecasts

For the FY3/23 results, the Company currently maintains its initial forecasts, which project continued double-digit rises in sales and profits, with net sales increasing 10.5% YoY to ¥15,000mn and operating profit rising 31.0% to ¥2,200mn. Assuming a recovery to a certain extent from the COVID-19 pandemic, the continued expansion of existing businesses and accumulation of new businesses are projected to contribute to the increase in sales. The reason the Company has left its initial forecasts unchanged despite the solid progress made in the 1H results (particularly for profits) is that it is cautiously viewing the uncertainties in the business environment, including the impacts of the COVID-19 pandemic, and plans to review its forecasts as appropriate while watching future developments and the launch of new businesses.

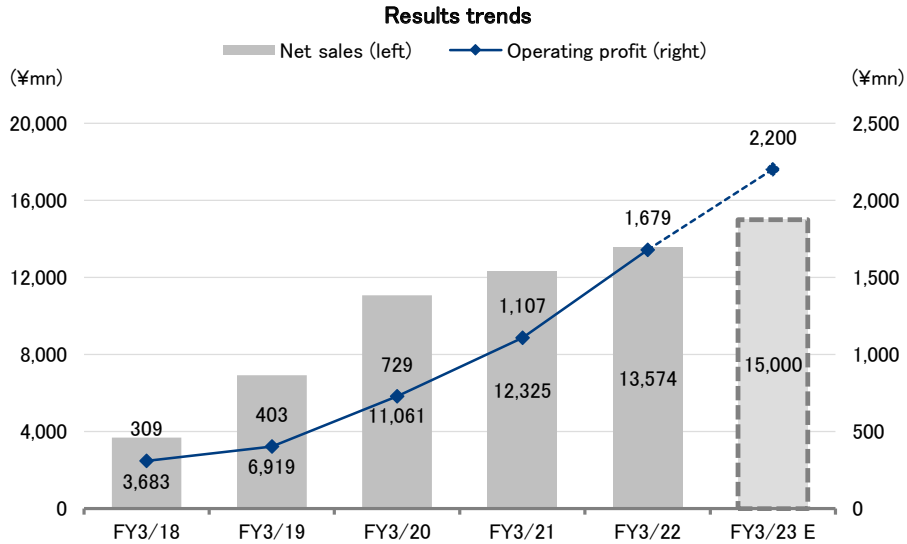
4. Future business strategy

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 FY3/23, achieved significant increases in net sales and profits due to factors including the increase in paying members, the expansion of the EC Business, and the growth of the Electronic Tickets Business
- Activities such as the provision of NFT marketplace services and strengthening electronic tickets by coordination with major play guides produced positive results
- In FY3/23, 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

Summary



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, voiceover 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.

Company outline

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 distribution markets specifically for entertainment-related content.

*2 Shabette Concier (Shabette Characters) is a voice-activated concierge service for smartphones provided by NTT DOCOMO, INC. 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.

Company outline

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*1 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)*2 and sales of commemorative content related to live performances (memory collections) in fee-based packages.

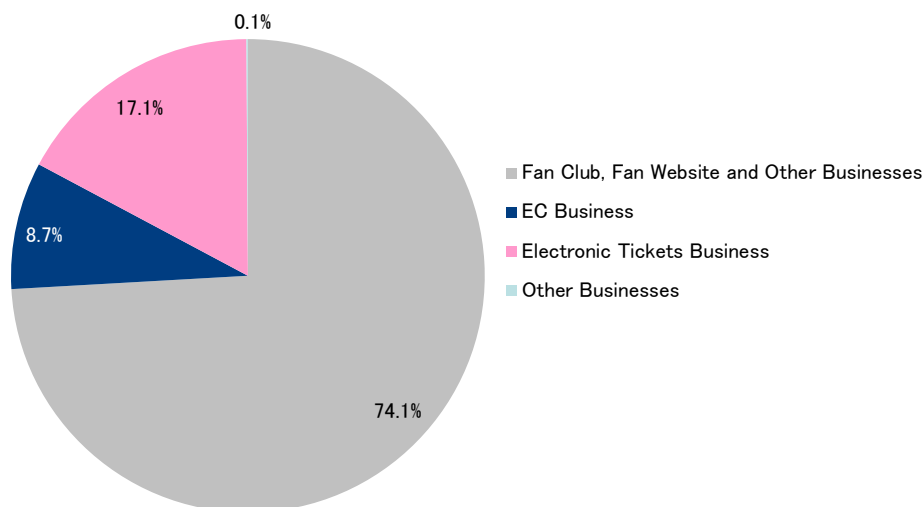
*1 A service that allows members to sell tickets to other people at a fixed price when they are unable to go to a live performance or other event. Unlike conventional ticket resale sites, the parties involved are not able to communicate individually and prices are fixed, which prevents tickets from being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

*2 The Company began V.LEAGUE (Japan Volleyball League Organization) official card collection services "VOLLEYBALL CARD COLLECTION -MEN-" and "VOLLEYBALL CARD COLLECTION -WOMEN-" from October 2022.

(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 FY3/23 results)



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

Company outline

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 "Chaku-Uta" ringtones. 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 ringtones, 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.

Company outline

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 October 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 is surely 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.

The Company's features

(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 recovery

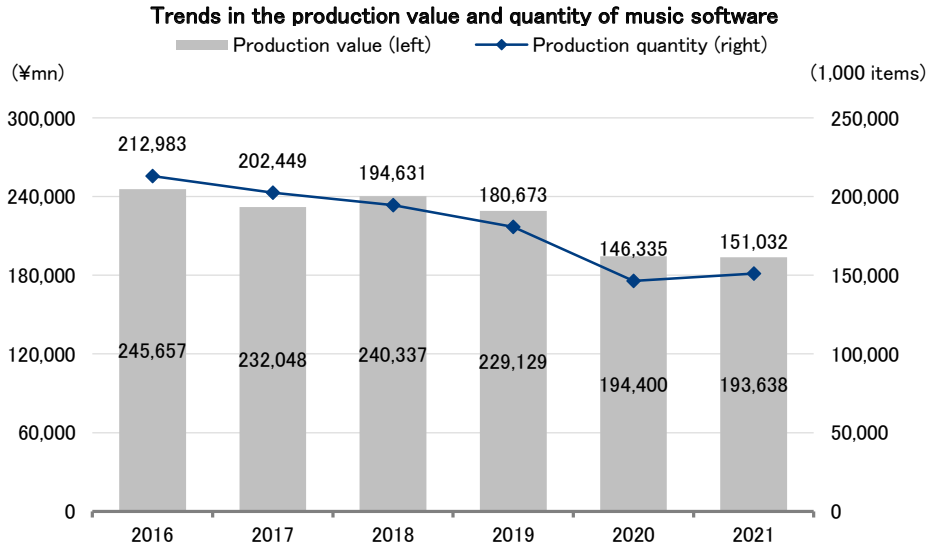
Looking at trends in markets related to music and artists, we see that they progressed solidly up to 2019. In particular, in music delivery, the use of streaming services grew rapidly, while the live concert market also showed signs of growth. However, in 2020, a year in which the impact of the COVID-19 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 2021, the production value of music software remained low at ¥193.6bn (down 0.4% YoY), but the music delivery sales amount increased 14.4% to ¥89.5bn, continuing the growth trend, and there seems to be solid demand in the market overall.

* Source: Recording Industry Association of Japan

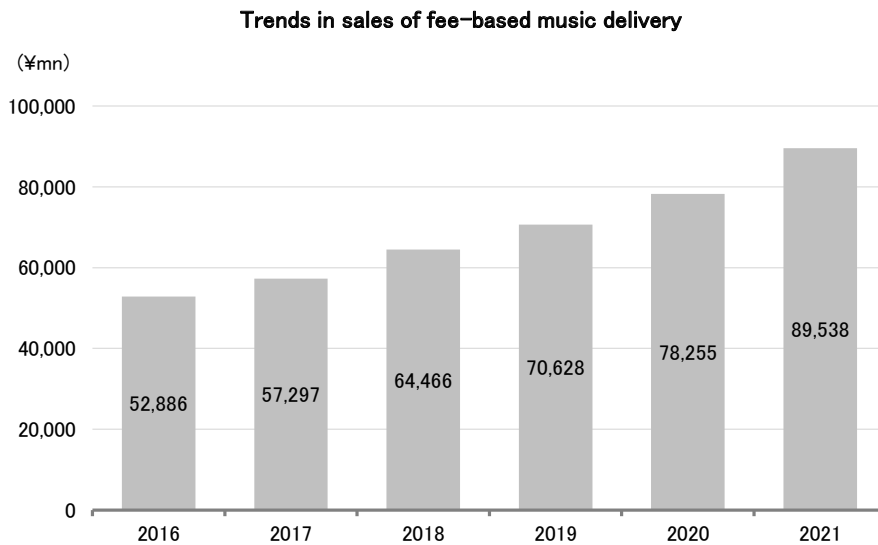
Also, in the live concert market, there were many cancellations and postponements due to the COVID-19 pandemic, resulting in a decrease in the number of live performances to 10,637 (down 66.6% YoY) and a drop in the number of audience members to 10.86 million (down 78.1%) in 2020 due to factors such as capacity restrictions*. In 2021, the number of live performances greatly recovered to 26,383 (up 148.0%), returning to approximately 80% of the number prior to the COVID-19 pandemic (2019). On the other hand, the number of audience members was still down 53.9% compared to before the COVID-19 pandemic to 22.84million (up 110.2% YoY) due to the remaining impact of capacity restrictions. Most importantly, live concerts are being resumed under substantial measures to prevent infections, and movements to relax capacity restrictions are spreading, so the number of live performances and number of audience members are trending toward recovery.

* Source: All Japan Concert & Live Entertainment Promoters Conference

Industry environment

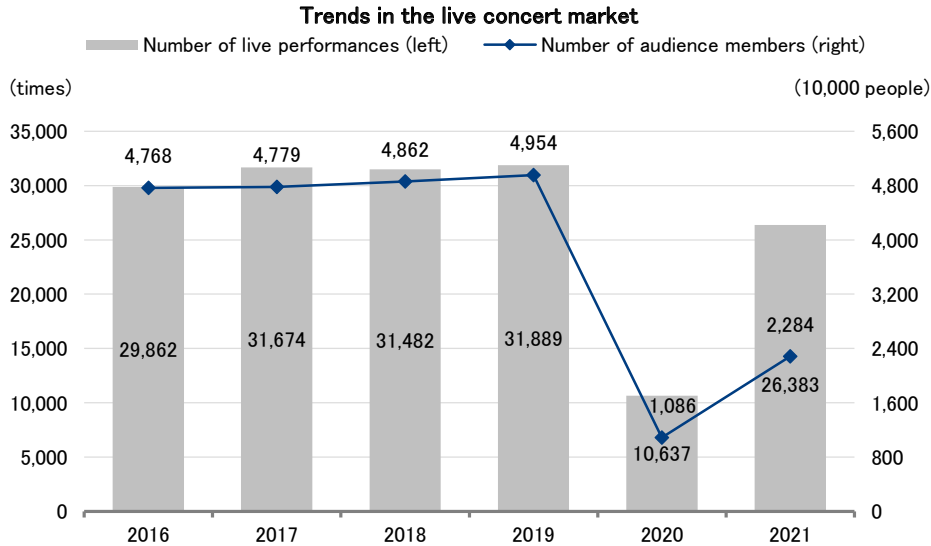


Source: Prepared by FISCO from the Recording Industry Association of Japan's web site



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

Industry environment



Source: Prepared by FISCO from the All Japan Concert & Live Entertainment Promoter's Conference's web site

Results trends

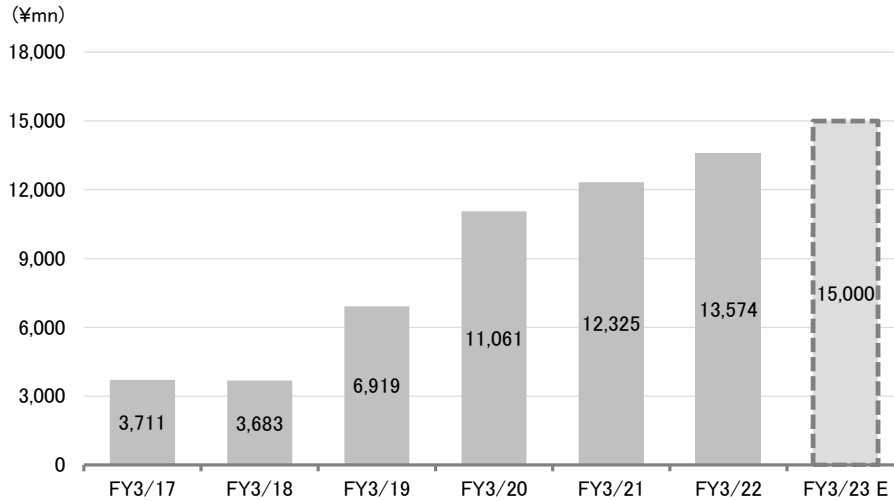
Centered on fan club web sites, stably maintaining results and the financial foundation. Aiming to consolidate synergies from each Group company and expand the business foundation

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 ringtones. 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 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 and FY3/22, years in which the impact of the COVID-19 pandemic were felt, the Company continued to see an increase in sales due to growth in the EC Business and the Electronic Tickets Business.

Results trends

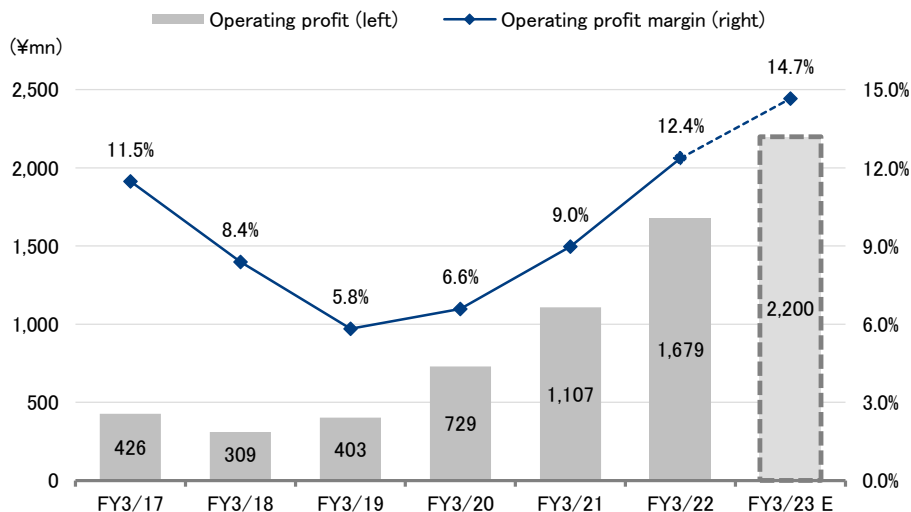
Trends in net sales



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

Looking at profit and loss, the operating profit margin trended around the high level of approximately 14% up to FY3/15. However, the operating profit margin was low for several years from FY3/16 due to factors including temporary costs such as those for the head office relocation, upfront investments in new businesses (including the VR business and Electronic Tickets Business) and M&A costs. However, from FY3/20, the operating profit margin has been on a recovery trend due to improved earnings due to higher sales and the elimination of temporary costs, and in FY3/22, the operating profit margin recovered to the level of 12.4%.

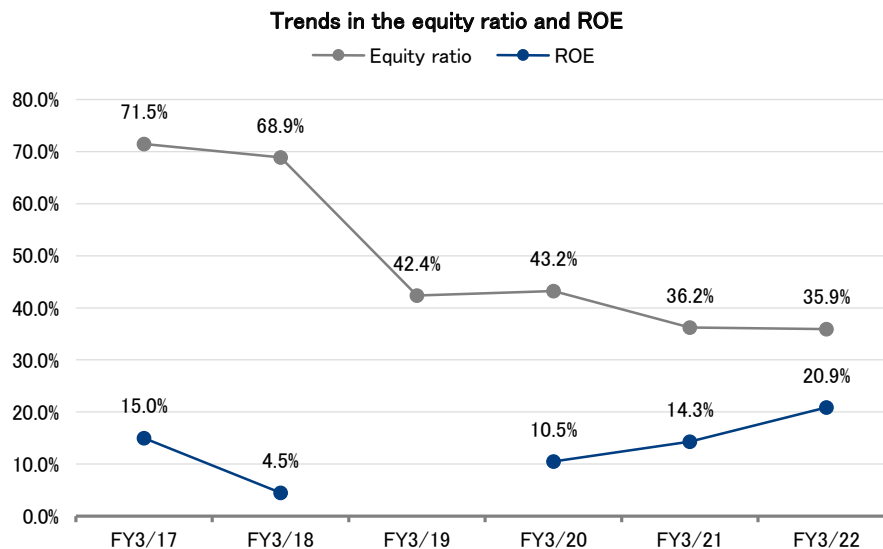
Trends in operating profit and the operating profit margin



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

Results trends

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. Meanwhile, ROE, which indicates capital efficiency, fell in FY3/18 due to a decline in the profit margin, but has been on a recovery trend from FY3/20 onward, and exceeded the 20% level in FY3/22.



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

In 1H FY3/23, net sales and profits increased significantly due to factors including the increase in paying members, the expansion of the EC Business, and the growth of the Electronic Tickets Business

2. Summary of the 1H FY3/23 results

In the 1H FY3/23 results, sales and profits increased considerably along with a recovery to a certain extent from the COVID-19 pandemic, with net sales rising 23.0% YoY to ¥7,764mn, operating profit growing 53.0% to ¥1,187mn, ordinary profit climbing 43.3% to ¥1,200mn, and profit attributable to owners of parent increasing 23.8% to ¥639mn. 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 the number of paying members increased again, after having fallen previously due to the COVID-19 pandemic. The EC Business performed well due to initiatives aligned with the resumption of live events and concerts, as well as the coordination with play guides on the EC portal. In the Electronic Tickets Business, amid the increase in live concerts and events with audiences, the business steadily expanded 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).

Results trends

Regarding profits, despite continued upfront investments in electronic tickets and new businesses (including VR and NFT), there was a significant increase in profits due to the growth in highly profitable electronic tickets* and other factors, and the operating profit margin increased significantly to 15.3% (compared to 12.3% in the same period in the previous fiscal year).

* Because the Electronic Tickets Business is a commission business, its gross margin ratio is extremely high despite the small amount of sales per ticket.

Looking at the financial condition, total assets were mainly flat, up 0.8% on the end of the previous fiscal year to ¥14,296mn. Shareholders' equity increased 10.9% to ¥5,653mn due to the accumulation of internal reserves, and the equity ratio improved to 39.5% (35.9% at the end of the previous fiscal year). Also, interest-bearing debt continues to be zero and a current ratio of 121.3% 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 increased, with net sales increasing 22.9% YoY to ¥6,431mn and segment profit rose 34.1% to ¥1,172mn. Within this, the mainstay Fan Club, Fan Website and Other Businesses managed to increase sales by 19.2% to ¥5,756mn as the number of paying members increased again, after having fallen previously due to the COVID-19 pandemic. The number of paying members at the end of September 2022 rose approximately 7% compared to the end of the previous fiscal year to a new record high due to the acquisition of new projects and other factors. Sales in the EC Business increased significantly by 67.3% to ¥674mn as a result of increasing the volume of products handled in alignment with live events and concerts being resumed and promoting coordination with play guides on the EC portal. In terms of profits, the Company achieved a significant increase in earnings due to the support from higher sales, despite ongoing upfront investments in new businesses, etc. The segment profit margin improved to 18.2% (16.7% in the same period in the previous fiscal year) due to growth in the particularly highly profitable EC Business.

Looking at activities, in the Fan Club, Fan Website and Other Businesses, approximately 10 new web sites were launched and acquisitions of new artists through FanplaKit*¹ have steadily increased. 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, 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 advanced sales and collection at venues, as well as 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 2022, 306 groups had registered (up 112.5% YoY), 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.

Results trends

(2) Electronic Tickets Business

Net sales increased 28.9% YoY to ¥1,325mn and segment profit jumped 111.5% to ¥338mn. Despite some continued impacts from the COVID-19 pandemic (such as restrictions on the number of audience members), amid the increase in live concerts and events with audiences, the increase in market share resulting from leveraging the strengths of electronic tickets (such as their advantage as an anti-infection measure*1) led to a large increase in both the number of electronic tickets handled and the number of ticket trades. The number of electronic tickets handled doubled to 2,380,000 tickets (1,130,000 in the same period in the previous fiscal year), and grew steadily towards the full fiscal year target of 3,440,000 tickets. The number of ticket trades doubled to 126,000 tickets (approximately 60,000 in the same period in the previous fiscal year) partially due to the benefit of coordination with major play guides, and there is strong momentum for further expansion going forward. There has been steady growth in peripheral services linked to electronic tickets (memory collections, memory collection prize drawing, etc.)*2, and this has contributed to the increase in spend per ticket. In addition to electronic tickets, businesses such as online content delivery*3 performed well. 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 of goodwill and upfront costs (including system coordination with Ticket PIA), and the segment profit margin improved greatly to 25.5% (15.6% in the same period in the previous fiscal year).

*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 as a separate service that 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 FY3/23 consolidated results

	1H FY3/22		1H FY3/23		Change	
	Result	Composition ratio	Result	Composition ratio	Amount	Rate
Net sales	6,314		7,764		1,450	23.0%
Content Business	5,234	82.9%	6,431	82.8%	1,197	22.9%
Electronic Tickets Business	1,028	16.3%	1,325	17.1%	296	28.9%
Other Businesses	52	0.8%	8	0.1%	-43	-84.1%
Cost of sales	4,253	67.4%	5,219	67.2%	966	22.7%
SG&A expenses	1,285	20.4%	1,357	17.5%	72	5.7%
Operating profit	775	12.3%	1,187	15.3%	411	53.0%
Content Business	874	16.7%	1,172	18.2%	298	34.1%
Electronic Tickets Business	160	15.6%	338	25.5%	178	111.5%
Other Businesses	14	28.0%	-26	-325.0%	-40	-
Adjustments	-273	-	-296	-	-23	-
Ordinary profit	838	13.3%	1,200	15.5%	362	43.3%
Profit attributable to owners of parent	516	8.2%	639	8.2%	122	23.8%
Depreciation	61		102		41	67.2%
Amortization of goodwill	109		109		0	0.0%

Source: Prepared by FISCO from the Company's financial results and supplementary results briefing materials

Results trends

Financial condition at the end of 1H FY3/23

	End of FY3/22	End of 1H FY3/23	Change	
			Amount	Rate
				(¥mn)
Current assets	10,063	9,836	-227	-2.3%
Cash and deposits	6,732	3,749	-2,983	-44.3%
Accounts receivable - trade	1,950	2,579	629	32.3%
Other	1,362	2,068	706	51.8%
Non-current assets	4,122	4,459	337	8.2%
Property, plant and equipment	1,078	1,037	-41	-3.8%
Intangible assets	1,002	1,378	376	37.5%
Goodwill	546	437	-109	-20.0%
Investments and other assets	2,041	2,044	3	0.1%
Total assets	14,185	14,296	111	0.8%
Current liabilities	8,642	8,103	-539	-6.2%
Accounts payable - trade	4,407	3,918	-489	-11.1%
Accounts payable - other	390	336	-54	-13.8%
Non-current liabilities	147	133	-14	-9.4%
Net assets	5,396	6,058	662	12.3%
Shareholders' equity	5,097	5,653	556	10.9%
Total liabilities and net assets	14,185	14,296	111	0.8%

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

3. Summary of 1H FY3/23

To summarize 1H FY3/23 from the above, based on the recovery from the COVID-19 pandemic to a certain extent and the significant increase in both sales and profits and the fact that progress toward the full fiscal year forecasts is steadily being made, we can evaluate the Company as generally performing well. In particular, in addition to the fact that the impacts from the COVID-19 pandemic have gradually subsided, changes in the environment accompanying the COVID-19 pandemic and the DX trend have been connected to the creation of new services (value), and this has led to growth in earnings. We see this as a positive sign for the future. Looking at the industry environment, while the number of live performances and concerts recovered to approximately 80% of the number prior to the COVID-19 pandemic, the number of audience members was still only around 45% of the number prior to the pandemic due to the impact of capacity restrictions, so there is still significant room for recovery. The fact that the Company has been able to continue to increase sales and profits in this kind of environment once again demonstrates the strength of the Company's business model and the appropriateness of its initiatives, which we commend. In terms of activities, as discussed later, the Company was able to achieve notable results towards future business expansion, including starting to provide NFT marketplace services, which have tremendous potential, as well as the system coordination with Ticket PIA (electronic tickets).

Main activities and results

Significant results in initiatives targeting the future, including starting to provide NFT marketplace services and coordination with Ticket PIA

1. Progress on the Fanpla Business, a new service

Regarding the Fanpla Evolution Project (Fanpla for ARTIST)*¹ which was launched in FY3/22, as discussed above, the fan club platform FanplaKit, online communities Fanpla Rooms and online prize draw service Fanpla Chance, which is aimed at fan clubs, each got off to a smooth start. In particular, FanplaKit creates new contact points for artists and fans, and there has been an increase in examples of it being introduced as a platform that allows artists to monetize on their own. This contributed to the current growth in earnings, and it can be said that the Company has also succeeded at accumulating assets for the future, including acquiring new artists and new members. Furthermore, since the start of FY3/23, the Company has also started providing Fanpla Action, a crowdfunding service specializing in entertainment, and Fanpla Owner, an NFT marketplace that connects artists and fans. Of these, regarding the NFT marketplace, it can be seen as an example of introducing blockchain technology into the fan business in the music entertainment domain. For starters, the Company successfully showed new value in fan items with a high level of scarcity value (such as limited-edition serial numbers, fan club member numbers*², and one-item auctions). Going forward, the Company is planning to develop NFT for music sales (sold in the winter of 2022), provide blockchain management of live event tickets (planned for spring of 2023), and offer the provision of metaverse spaces linked to fan clubs (planned for 2023), along with other initiatives. If the Company realizes these, the Company will begin to consider constructing contact points with artists and the creation of artist item economic zones on virtual spaces.

*¹ A project to create new value anticipating the changes in the relationship between artists and fans triggered by the COVID-19 pandemic as well as the DX in entertainment, and to support artist activity by strengthening fan engagement.

*² By creating NFTs, it is now possible for fans to acquire member numbers that were lost when former fan club members withdrew from fan clubs.

2. System coordination with Ticket PIA (electronic tickets)

On August 18, 2022, the Company announced a system coordination with Cloak, the ticket distribution and issuance platform provided by PIA Corporation <4337>. Up until now, it was possible to issue tickets sold through Ticket PIA with the Company's Chikepla electronic ticket, but with this system coordination, it is now possible to coordinate ticket issuance without the exchange of purchaser data among the staff of both companies, so operations will become more efficient. In addition, due to the fact that it is now possible to sell tickets on Ticket PIA up until right before the start of a live performance, even more usage of Chikepla electronic tickets can be expected. In addition, if Ticket Platform ticket issuance is adopted, it will become possible to also use Ticket Platform Trade, a lottery-format ticket secondary distribution service, and the level of convenience will dramatically increase for purchasers, and this will also provide a large advantage towards the growth of ticket trading (creation of a secondary distribution market) for both the Company and PIA. In addition to its existing partnership with eplus Inc., by partnering with industry leader PIA, the Company's strategy is to demonstrate initiative in both electronic tickets and ticket trading, and the Company plans to further accelerate this type of partnership activity going forward.

Results outlook

The Company has left its initial FY3/23 results outlook changed, and is expecting higher sales and profits due to growth in existing businesses and the accumulation of new businesses

1. FY3/23 results forecasts

For the FY3/23 results forecasts, the Company has currently left its initial forecasts unchanged, which call for continued double-digit rises in sales and profits, with net sales to increase 10.5% YoY to ¥15,000mn, operating profit to rise 31.0% to ¥2,200mn, ordinary profit to increase 28.1% to ¥2,200mn, and profit attributable to owners of parent to increase 38.3% to ¥1,350mn.

Assuming a recovery from the COVID-19 pandemic to a certain extent, the continued expansion of existing businesses and the accumulation of new businesses are projected to contribute to the increase in sales. In terms of profits, although upfront costs in new businesses will continue, the operating profit margin is expected to increase to approximately 15% due to the growth of highly profitable services (improvement in the sales mix). The reason the Company has left its initial forecasts unchanged despite the solid progress made in the 1H results (particularly for profits) is that it is cautiously viewing the uncertainty in the business environment, including the impacts of the COVID-19 pandemic, and the Company plans to appropriately review its forecasts while monitoring future developments and the situation regarding the launch of new businesses.

FY3/23 consolidated results forecasts

	(¥mn)					
	FY3/22		FY3/23		Change	
	Result	Composition ratio	Forecast	Composition ratio	Amount	Rate
Net sales	13,574		15,000		1,426	10.5%
Operating profit	1,679	12.4%	2,200	14.7%	521	31.0%
Ordinary profit	1,717	12.6%	2,200	14.7%	483	28.1%
Profit attributable to owners of parent	976	7.2%	1,350	9.0%	374	38.3%

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, in addition to the steady progress in 1H results, considering the fact that various drivers have grown smoothly, including the return of growth in the number of paying members, the steady launch of the new service Fanpla Business, and the fact the Electronic Tickets Business has gotten on track, we at FISCO think that the Company's results forecasts are fully achievable. In terms of costs, we believe that despite the expectation for upfront costs (such as electronic ticketing system development costs) targeting business growth in FY3/24 and beyond, these costs can be fully covered by the growth in net sales. Accordingly, it will be necessary to keep an eye on the possibility of results exceeding forecasts (especially for profits) if the impacts of the COVID-19 pandemic subside. Particular attention should be paid to the pathway towards acceleration of growth in the Electronic Tickets Business, for which system coordination with Ticket PIA was started. There are three factors when it comes to the future growth in electronic tickets. The first is the resolution of the impacts of the COVID-19 pandemic (such as restrictions on the number of audience members). The second is the progress in the switch to electronic ticketing (FISCO estimates the current ratio to be in the 10-15% range). The third is the Company maintaining and improving its market share in electronic ticketing. How each of these will drive results growth are important pieces of information in predicting the Company's growth potential from FY3/24 onward. Furthermore, we also have high hopes for the future development of NFT marketplace services, which have considerable potential.

Additionally, we think that the Company will be able to continue to achieve double-digit growth in both sales and profits in FY3/24 results. In particular, the Electronic Tickets Business is expected to get on a full-fledged growth track due to factors including additional coordination and the introduction of dynamic pricing* (ticket trading). If this happens, going forward it will be necessary to evaluate centered on profit growth based on the fact that the contribution of profits to results will become larger.

* A system in which ticket resale prices are determined fluidly based on supply and demand. Ticket trading (secondary distribution) is expected to become energized.

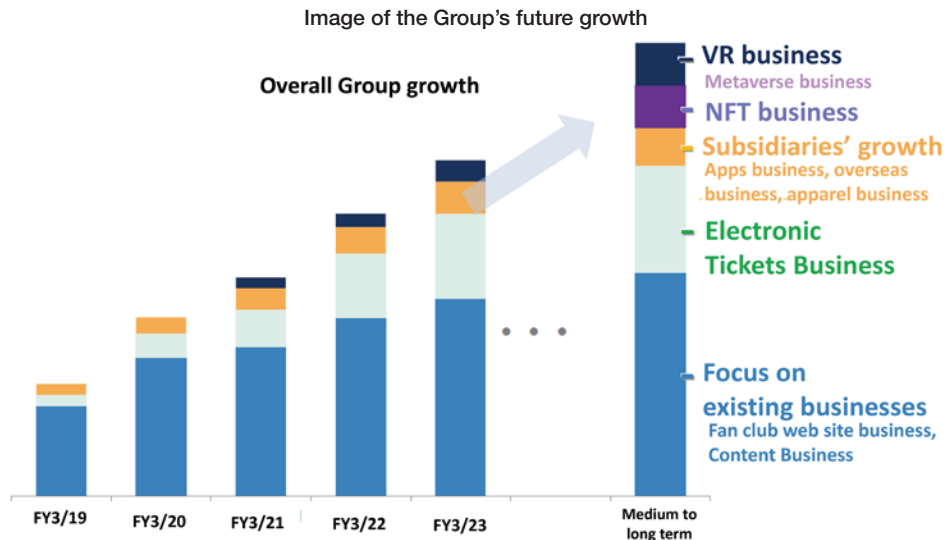
Future direction

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 on expanding 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.

Future direction



Source: From the Company's supplementary 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 (such as constructing contact points with artists and the creation of artist item economic zones on virtual spaces) 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.

Future direction

While the COVID-19 pandemic has impacted the entertainment industry, it has also triggered a change in the relationship between artists and fans and accelerated the DX of fan services, ushering in a period of great change for the industry along with the switch to 5G and the movement towards Web 3.0. 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.

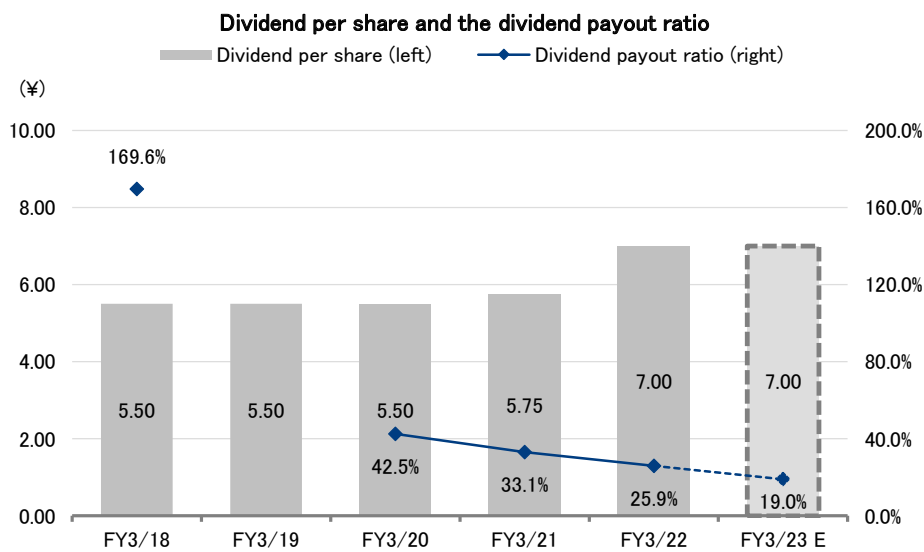
Returns to shareholders

Per share dividend for FY3/22 was ¥7.00, a ¥1.25 increase YoY. Forecasting the same dividend amount for FY3/23

The Company’s basic policy is to pay a dividend linked to results, targeting a dividend payout ratio of 30%. For FY3/22, along with forecasting a large increase in profits, it increased its dividend per share after adjusting for the stock split* by ¥1.25, thus significantly increasing its dividend to ¥7.00 per share. The Company is planning to pay a dividend of ¥7.00 per share, the same amount as the previous fiscal period, again in FY3/23.

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

Considering the Company’s strong financial foundation and business characteristics, such that it does not require capital investment, and that it has established multiple sources of earnings, we at FISCO think there is plenty of room for it to further increase dividends in accordance with profit growth.



Note: A dividend payout ratio for FY3/19 is not shown as a final loss was recorded. The Company implemented a four-for-one stock split, effective on January 1, 2022. Accordingly, the dividend amounts for FY3/18 through FY3/21 have been adjusted to account for the stock split. Source: Prepared by FISCO from the Company’s financial results

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