

m-up holdings, Inc.

3661

Tokyo Stock Exchange Prime Market

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Summary

Achieved significant profit growth in 1H FY3/24 due to the increase in the number of members and the growth of the EC Business, along with growth in Electronic Tickets. Rolling out a global strategy and next-generation businesses (VR, NFT, etc.)

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 500 sites, mostly focusing on musical artists. These web sites boast over 2.5 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 from 2020 onward, 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 FY3/24 results

In the 1H FY3/24 results, the Company saw a recovery from the COVID-19 pandemic and achieved an increase in both sales and profits, with net sales rising 14.2% year on year (YoY) to ¥8,865mn and operating profit growing 22.7% to ¥1,457mn. The mainstay Fan Club, Fan Website and Other Business (the “Fan Website Business”), the EC Business and the Electronic Tickets Business each expanded steadily. In the Fan Website Business, the growth in earnings was driven by the acquisition of new fan clubs and the accompanying increase in the number of paying members. The EC Business performed well due to initiatives aligned with the resumption of live events and concerts (growth in product transaction value). In the Electronic Tickets Business, amid the increase in live concerts and events with audiences, earnings were supported by both the growth in the number of tickets issued 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 higher expenses due to an office floor space expansion and upfront costs associated with new businesses, there was a significant increase in profits due to raising membership fees and growth in the highly-profitable EC Business and Electronic Tickets Business. In terms of activities, the Company was able to make progress in many areas both from a short-term and medium- to long-term perspective. For example, the Company rolled out new services for forming fandoms* and launched new businesses, advanced its global strategy centered on South Korea and China, and worked on next-generation business initiatives (VR, NFT, etc.)

* Extremely enthusiastic fan groups.

Summary

3. FY3/24 forecasts

For the FY3/24 results, the Company currently maintains its initial forecasts, which project rises in sales and profits, with net sales increasing 9.8% YoY to ¥17,500mn and operating profit rising 20.5% to ¥2,500mn. Assuming a continued recovery in live shows and concerts like in 1H, the Company expects the increase in the number of paying members accompanying the launch of new fan clubs and growth in the EC Business and the Electronic Tickets Business to drive earnings growth. In particular, in 2H the launch of many new projects is expected, including large fan clubs, and the Company plans to launch a service via a joint venture with a South Korean fan platform company (February 2024). In terms of profits, although the Company expects to continue to incur upfront costs, it will achieve high profit growth due to growth in the highly profitable EC Business and higher spend per person. In addition, in light of the steady progress in 1H results (especially in terms of profits), the Company plans to review the forecast as appropriate while monitoring the status of new business launches.

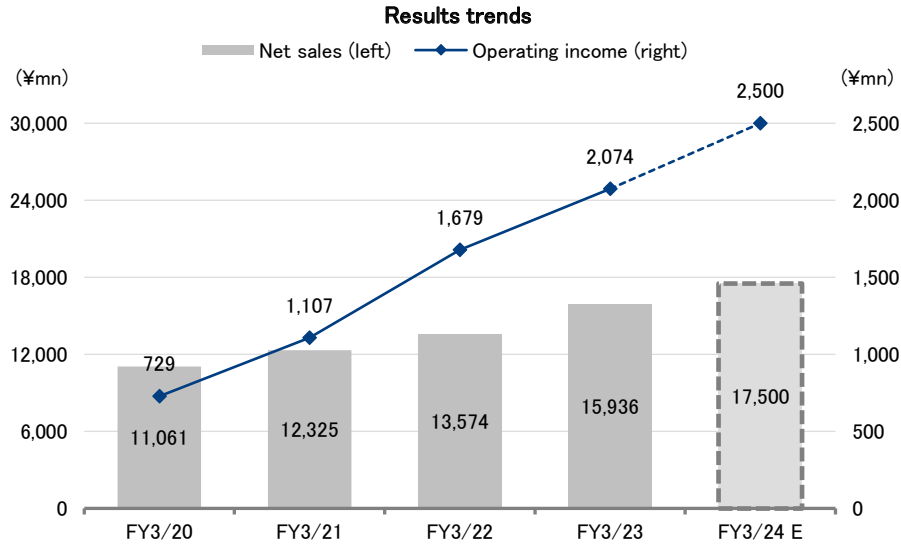
4. Future business strategy

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. The Company will also focus on a deeper cultural exchange in Asia, centered around pop culture. At FISCO, our assessment is that there is a highly likely acceleration of medium- to long-term growth due to the expansion of the Electronic Tickets Business, VR business and NFT business, whose markets are expected to grow, and the full-scale launch of the even more high potential global strategy.

Key Points

- Amid the recovery from the COVID-19 pandemic, in 1H FY3/24 the Company achieved large increases in net sales and profit due to the increase in paying members, growth in the EC Business, and growth in Electric Tickets
- In terms of activities, the Company made progress in many areas, including rolling out new services for forming fandoms and the launch of new businesses, advancing its global strategy, and in next-generation business initiatives
- The Company has left its forecasts for FY3/24 unchanged, and expects higher sales and profits (will revise as necessary in light of steady progress with current results)
- Going forward, intends to accelerate growth by strengthening acquisitions of strong IP and creating business synergies, including with the Electronic Tickets Business, VR 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 Website Businesses and EC Business. Fan Website 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 Website Business

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 500 sites*1, mostly focusing on musical artists. These web sites boast over 2.5 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*2, which is expected to become a new earnings model.

*1 Includes Fanpla Kit (fan club platform). Fanpla Kit is a SaaS-type platform that allows artists of all sizes to start a fan club without any initial or installation costs, and is packaged with functions necessary for managing a fan club as well as managing membership fees. Since opening in December 2020, the number of users and new members has steadily increased.

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

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.

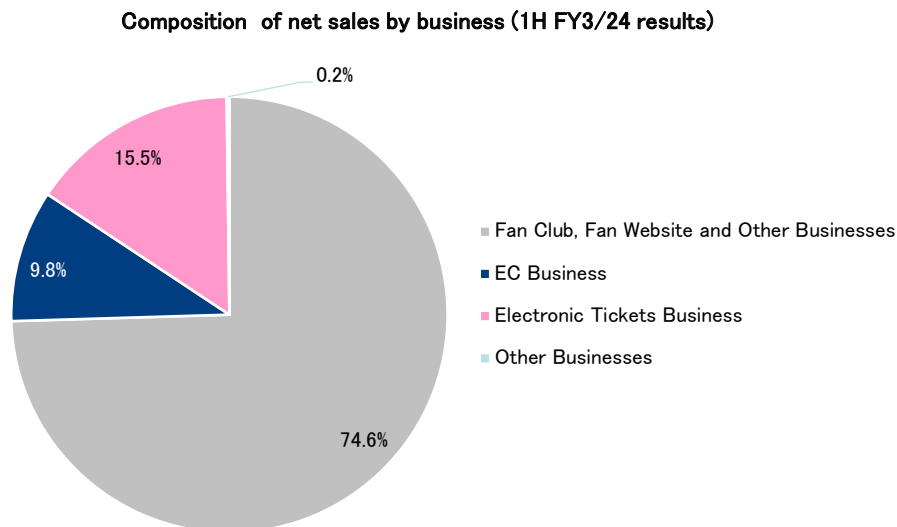
(2) Electronic Tickets Business

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-," as well as W.LEAGUE (Japan women's basketball league) official card collection service "WOMEN CARD COLLECTION."

(3) Other Businesses

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



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

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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.

List 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 Fan Website 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. Although the production value of music software declined mainly due to sales postponements, the music delivery sales amount expanded due to an increase in the use of streaming services in households, etc. In 2021 and 2022, the production value of music software remained low, but the music streaming sales amount stayed at a high level. Since entering 2023, the production value of music software (1H) recovered to ¥116.9bn (up 20.2% YoY), while music streaming remained strong, and the market expanded, supported by strong music demand.*

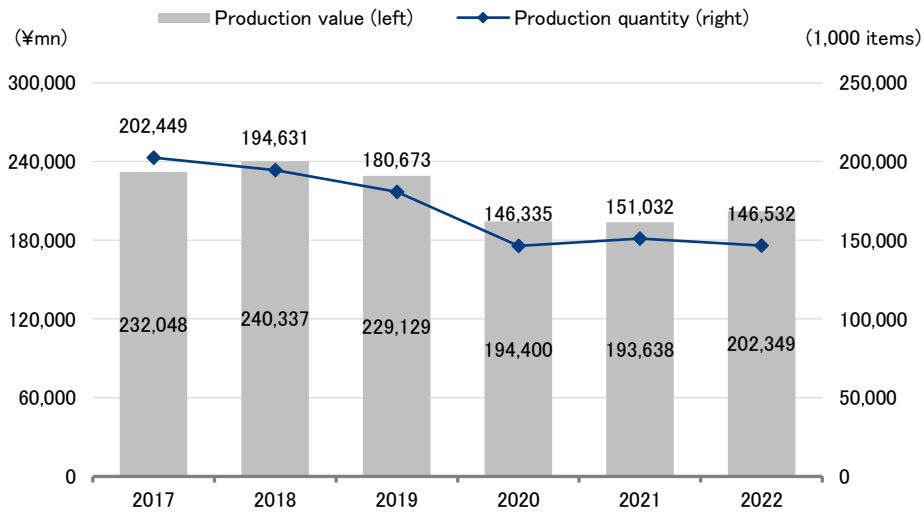
| * Source: Recording Industry Association of Japan |

Also, in the live concert market, there were many cancellations and postponements due to the COVID-19 pandemic, resulting in a significant decrease in the number of live performances and a drop in the number of audience members in 2020 due to factors such as capacity restrictions. In 2021, the number of live performances greatly recovered, 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 only around 45% the level before the COVID-19 pandemic due to the remaining impact of capacity restrictions. In 2022, capacity restrictions were eased, and performances at large venues resumed in earnest. This led to the number of performances reaching a level higher than the pre-COVID level, and the industry has returned to a growth track once again*.

| * Source: All Japan Concert & Live Entertainment Promoters Conference |

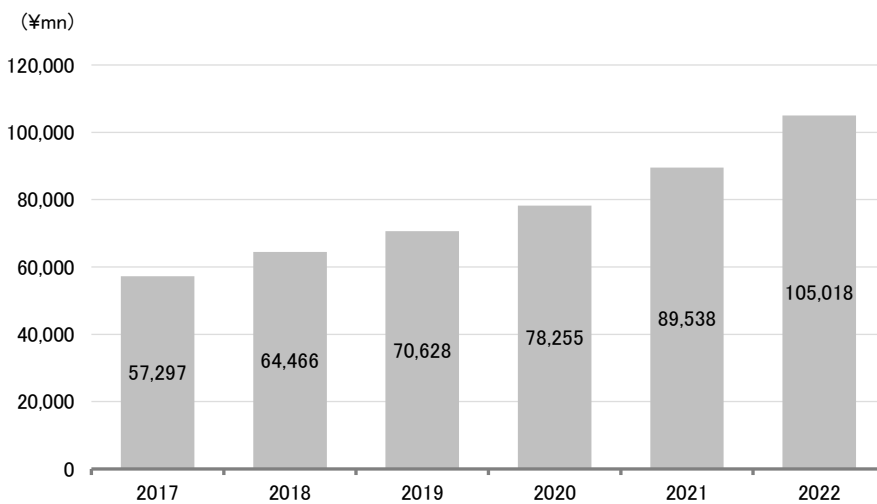
Industry environment

Trends in the production value and quantity of music software



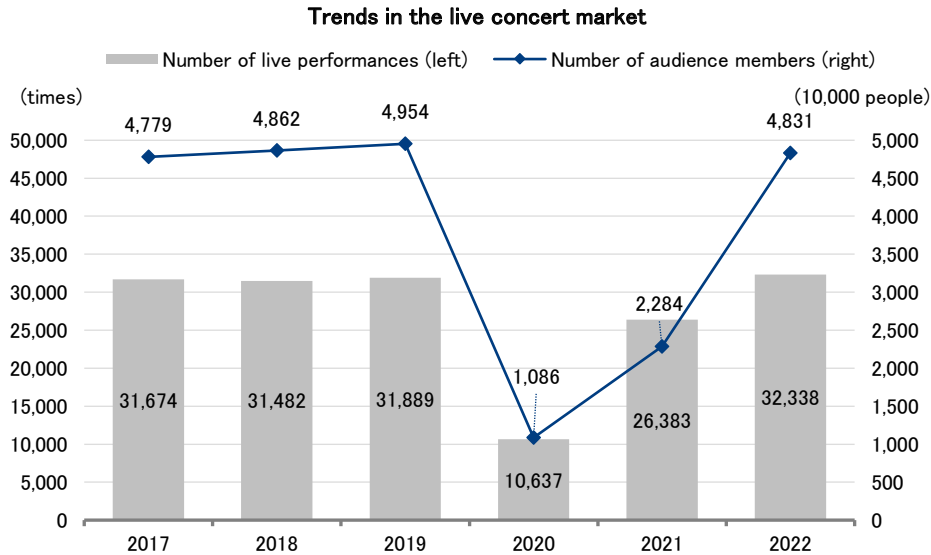
Source: Prepared by FISCO from the Recording Industry Association of Japan's web site

Trends in sales of fee-based music delivery



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

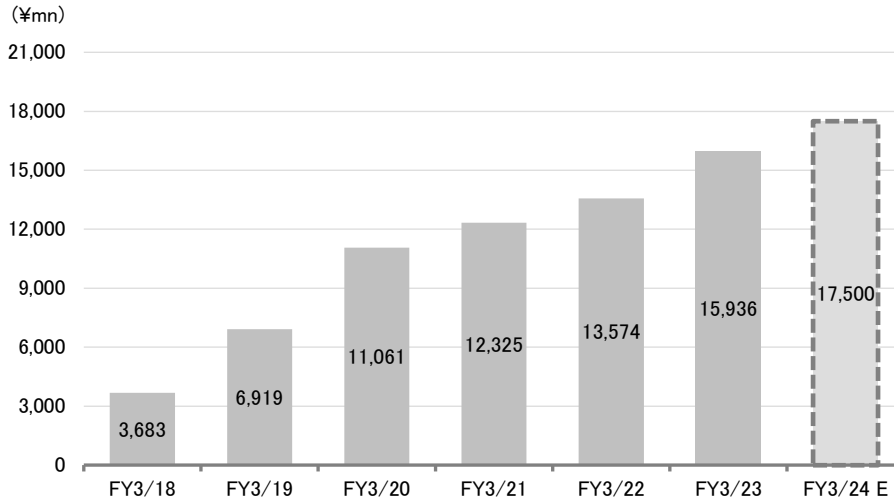
Centered on fan club web sites, stably maintaining results and the financial foundation. Aiming to consolidate synergies from each Group company and expand the business foundation

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 Fan Website Business and EC Business. Even in the years from FY3/21 onward, in which the impact of the COVID-19 pandemic were felt, the Company continued to see an increase in sales due to the launch of new services responding to the changing relationship between artists and fans and growth in the EC Business and the Electronic Tickets Business.

Results trends

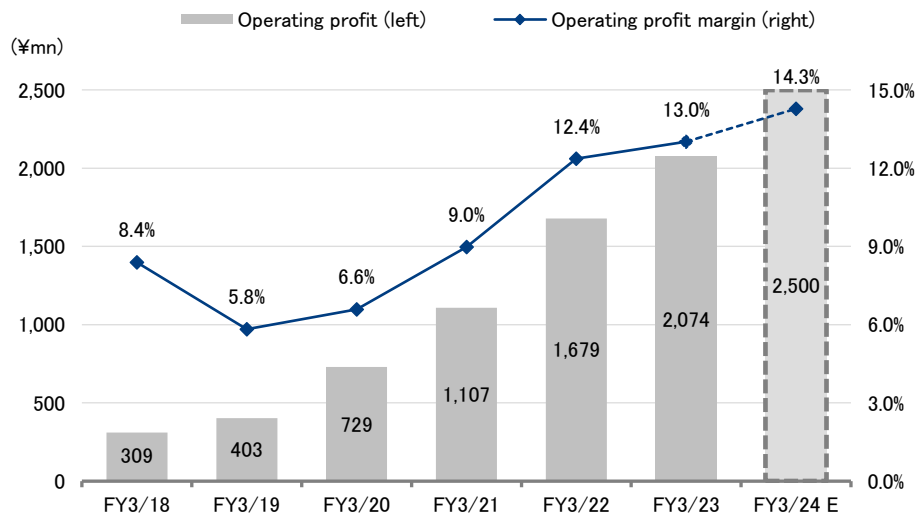
Trends in net sales



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 VR business and electronic tickets) 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 FY3/23, the operating profit margin recovered to the level of 13.0%.

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 was at about the 20% level in FY3/22.

In 1H FY3/24, the Company continued to post balanced profit growth due to the increase in the number of members, the expansion of the EC Business and growth of the Electronic Tickets Business

2. Summary of the 1H FY3/24 results

In the 1H FY3/24 results, sales and profits increased together with a recovery from the COVID-19 pandemic, with net sales rising 14.2% YoY to ¥8,865mn, operating profit growing 22.7% to ¥1,457mn, ordinary profit climbing 22.7% to ¥1,472mn, and profit attributable to owners of parent increasing 24.5% to ¥795mn. High-paced progress was also made toward achieving forecasts for the full fiscal year (particularly for profits).

The mainstay Fan Website Business, the EC Business and the Electronic Tickets Business each expanded steadily. In the Fan Website Business, the growth in earnings was driven by the acquisition of new fan clubs and the accompanying increase in the number of paying members. The EC Business performed well due to initiatives aligned with the resumption of live events and concerts (growth in product transaction value) and services aligned with fan needs, such as member-only sales and advance sales. In the Electronic Tickets Business, amid the increase in live concerts and events with audiences, earnings grew due to the growth in the number of tickets issued 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, etc.).

Regarding profits, despite the increase in expenses due to the rise in AWS server costs in conjunction with the expansion of office floor space and the depreciation of the yen, as well as the upfront investments in new business, the impact of membership fee hikes and the growth in the highly-profitable EC Business and Electronic Tickets Business resulted in a large increase in profit, and the operating profit margin increased to 16.4% (compared to 15.3% in the same period in the previous fiscal year).

Looking at the financial condition, total assets were mainly flat, down 0.7% on the end of the previous fiscal year to ¥16,328mn, due to the increase in accounts receivable – trade due to the expansion of the EC Business, which was offset by a decline in cash and deposits. Shareholders' equity was nearly flat, decreasing 0.2% to ¥6,152mn, as the positive factor of the accumulation of internal reserves was largely canceled out by the minus factor of treasury share buybacks and the change in the valuation difference on available-for-sale securities, and the equity ratio was 37.7% (basically the same as the 37.5% at the end of the previous fiscal year).

Results trends

Results for the main segments are described below.

(1) Content Business

Sales and profits increased, with net sales increasing 16.3% YoY to ¥7,476mn and segment profit rising 22.7% to ¥1,438mn. Within this, the mainstay Fan Website Business increased sales by 14.8% to ¥6,611mn, as new projects were acquired due to the expansion of use of the fan club platform (Fanpla Kit), which was accompanied by an increase in the number of paying members, and also supported by the raising of membership fees. There were 55 new fan clubs started (annual target = 75), and the number of members increased by roughly 70,000 in conjunction with the new acquisitions, and steady progress was made towards the annual target for the total number of members (up 10% YoY). Sales in the EC Business increased significantly by 28.4% to ¥865mn as a result of increasing the value of products handled in alignment with live events and concerts being resumed, capturing demand for electronic payment and advance sales/will call pickup services at concert venues, and the implementation of member-only sales, among other efforts. In terms of profits, the Company achieved a significant increase in profit due to the support from higher sales, despite ongoing upfront investments in new businesses, etc. The segment profit margin improved to 19.2% (18.2% in the same period in the previous fiscal year) due in particular to the raising of membership fees as well as growth in the highly profitable EC Business.

(2) Electronic Tickets Business

Net sales increased 3.4% YoY to ¥1,370mn and segment profit rose 17.1% to ¥396mn. Amid the increase in live concerts and events with audiences, the increase in market share resulting from leveraging the strengths of electronic tickets led to a large increase in the number of electronic tickets issued. In addition to working to combat unauthorized resales by growing the use of the secondary market with ticket trades, the Company started an official ticket secondary market service for professional baseball teams, as the Company ramped up its initiatives aimed at expanding tickets in the sports domain. The number of electronic tickets handled increased 17.6% YoY to 2,800,000 tickets and grew steadily towards the full fiscal year target of 5,500,000 tickets. Meanwhile, the number of ticket trades was 123,000 tickets, partially due to the fact that large tours will be held in 2H. This is a slow start towards the full fiscal year target of 350,000 ticket trades, but the number of events steadily increased by 16.2% YoY to 536 events. In addition to electronic tickets, online prize draws (Kujipura) and other efforts led to an increase in the per ticket spend, while the peripheral service of card collection apps for professional baseball and other cards contributed to earnings, including the newly launched volleyball and women's basketball apps. Regarding profits, growth in highly-profitable ticket sales (commission income) and higher unit prices led to a large increase in profit, and the segment profit margin improved to 28.9% (versus 25.5% in the year-earlier period).

3. Summary of 1H FY3/24

To summarize 1H FY3/24 from the above, amid the full-fledged recovery from the COVID-19 pandemic, not only was there high-paced progress on the earnings front, but we also see it as a positive sign for the future that a number of initiatives anticipating the change in how artists and fans interact as well as DX in fan services are now on track for growth. In particular, starting with the Fan Website Business, the fact that the EC Business and the Electronic Tickets Business are achieving well-balanced profit growth can be viewed as proof of the superiority of the Company's business model. In terms of activities, the Company was able to make progress in many areas both from a short-term and medium- to long-term perspective. For example, the Company rolled out new services for forming fandoms and launched new businesses, advanced its global strategy centered on South Korea and China (acquiring overseas IP, fan club development), and advanced next-generation business initiatives (VR, NFT, etc.).

Main activities and results

Working to expand new services and energize the global strategy targeting the future

1. Expansion of services providing new fan experiences

Regarding the Fanpla Evolution Project (Fanpla for ARTIST)* which was launched in FY3/22, as discussed above, in addition to the fact that the fan club platform FanplaKit has acquired a variety of IP, new businesses including online communities Fanpla Rooms, online prize draw service Fanpla Chance, which is aimed at fan clubs, Fanpla Action, the crowdfunding service based on the idea of co-creation between artists and fans, and Fanpla Owner, the NFT marketplace connecting artists and fans, have all grown steadily. Of these, regarding Fanpla Owner, in addition to digital art sales, making NFTs from official tickets (higher value due to the addition of benefits) as well as making NFTs from tickets to participate in artist support campaigns, the introduction of NFTs for large outdoor festivals (presented via air-drop to attendees) and other initiatives have led to an increase in the examples of utilizing NFT for collection to NFT with practical uses. With respect to Fanpla Chance, online prize draws have been carried out for events such as live shows and fan club anniversary events, and the Company is monetizing them while carrying out member services. In addition, as a new initiative, the Company is working on building a system that will increase the enthusiasm of fans and create a fandom by retaining them from auditions in order to acquire fans from an early stage.

* 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. Energizing the global strategy

In February 2023, the Company entered into a capital and business alliance with South Korea's Dear U Co., Ltd, which operates the private message service "DearU bubble,"* and will establish a joint venture company (Dear U plus) to introduce the Japanese version "bubble for JAPAN." (scheduled to start in February 2024). In addition, the Company has bolstered its ability to catch up on K-POP artists that are expected to be active in the Japanese music market and fan trends, and built a system to support expansion into Japan ahead of other companies and promote the acquisition of fan club projects.

* A private service where artists and fans can interact in a chat format. Through a cooperative structure between the joint venture and the Company group, the Company plans to work on localization and introducing artists meeting the needs of fans in the Japanese market.

In addition, the Company has been active in moving towards its global strategy, such as acquiring overseas IP and developing a fan club business in China. In addition to starting a Chinese fan club for Japanese artists who have gained tremendous support, especially in mainland China, the Company plans to build a system to support fan businesses for artists expanding overseas by accumulating operating know-how.

Main activities and results

3. Next-generation business initiatives

In the VR business, with LIVE content*1 as the pillar of the business, the Company is working to create new revenue foundations, including streaming a large number of new artists as well as holding paid events (September 2023)*2 using an all-at-once streaming system. Furthermore, the Company plans to expand its efforts in the BtoB field*3 through partnerships with HMD manufacturers and Metaverse companies, and expand platform functionality*4 in line with market expansion.

- *1 Bundled sales with VR gear, VR live streaming, multi-angle streaming through recording, etc.
- *2 The 180° 3D stereoscopic video provides an overwhelming sense of immersion and closeness, as well as a sense of unity as if you were enjoying a live performance together in real time, and plans are to expand nationwide in the future.
- *3 Content creation collaboration with HMD manufacturer PICO, which is under the corporate umbrella of ByteDance which operates TikTok, and other initiatives.
- *4 Start of high-quality audio streaming function (from November 2023), stereophonic sound, HMD function expansion, 2D stereoscopic video playback function, support for next-generation VR devices, etc.

Results outlook

Kept FY3/24 forecasts unchanged, and expecting higher sales and profits for the full year. In light of the steady progress in 1H results, the Company plans to revise the outlook as necessary while watching future conditions

1. FY3/24 results forecasts

For the FY3/24 results forecasts, the Company has currently left its initial forecasts unchanged, which project rises in sales and profits, with net sales to increase 9.8% YoY to ¥17,500mn, operating profit to rise 20.5% to ¥2,500mn, ordinary profit to increase 20.9% to ¥2,500mn, and profit attributable to owners of parent to increase 37.2% to ¥1,500mn.

Assuming a continued recovery in live shows and concerts like in 1H, the Company expects the increase in the number of paying members accompanying the launch of new fan clubs and growth in the EC Business and the Electronic Tickets Business to drive earnings growth. In particular, in 2H the launch of many new projects is expected, including large fan clubs, and as discussed above the Company plans to launch a service via a joint venture with a South Korean fan platform company (February 2024).

In terms of profits, although the Company expects investments for the development of Electronic Tickets and new businesses, and upfront costs in related to personnel, it will achieve high profit growth due to growth in the highly profitable EC Business and higher spend per person. In addition, in light of the steady progress in 1H results (especially in terms of profits), the Company plans to review the forecast as appropriate while monitoring the status of new business launches.

Results outlook

FY3/24 consolidated results forecasts

	FY3/23		FY3/24		Change	
	Result	Composition ratio	Forecast	Composition ratio	Amount	Rate
	(¥mn)					
Net sales	15,936		17,500		1,564	9.8%
Operating profit	2,074	13.0%	2,500	14.3%	426	20.5%
Ordinary prof	2,068	13.0%	2,500	14.3%	432	20.9%
Profit attributable to owners of parent	1,093	6.9%	1,500	8.6%	407	37.2%

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

2. FISCO's opinion

In addition to the steady progress in 1H results, based on the fact that in 2H an increase in paying members, expansion of the EC Business, and growth of the Electronic Tickets business are expected, we at FISCO think that the Company's results forecasts are fully achievable. In particular, in terms of profit, we expect the Company to explore the upside landing point. In addition to the launch of new services based on a joint venture with a South Korean platform company, we will be keeping a close eye on efforts to accelerate the global strategy, including the acquisition of overseas IP and the development of the fan club business in China. In the music and entertainment industry, which has been hit by scandals involving major entertainment agencies, we do not see any big negatives for the Company, which has been proactive in anticipating changes in the way artists interact with their fans and has been promoting various initiatives to form fandoms. Rather, we believe that the role (presence) of the Company's platform in the industry will become even more important.

Future direction

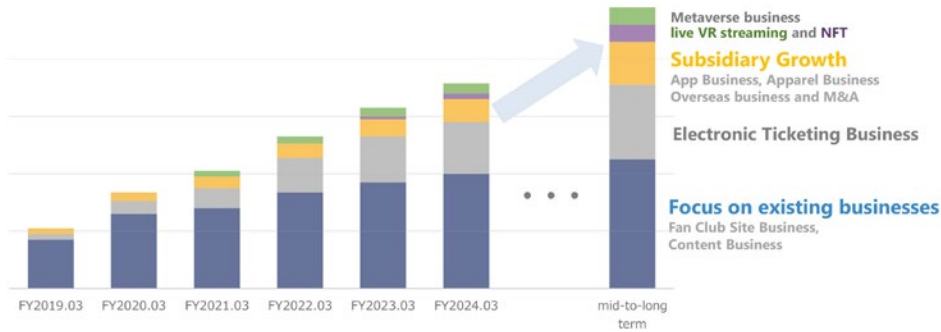
Will continue to accelerate growth by aiming to acquire strong IP and through mutual cooperation among the Electronic Tickets Business, the VR business, NFT business, and other businesses. Will also focus on full-fledged implementation of the global strategy (business development in Asia)

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

Image of the Group's future growth
 Overall Group growth



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. The Company will also focus on a global strategy (Asian expansion) around an axis of deeper cultural exchanges with South Korea and China, centered on pop culture.

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

At FISCO, we highly evaluate the launches of the Electronic Tickets Business, the VR business, and the NFT business, whose markets are expected to grow, as possibly leading to the acceleration of growth in the medium to long term. In particular, in the Electronic Tickets Business, not only is there 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. Going forward, we will be paying attention to developments and the speed of these developments. Also, in 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). 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 become 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 electronic tickets, VR 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. In addition, focusing on the possibilities of a full-fledged global strategy (Asian expansion), which has great potential, will become a new axis of growth.

Returns to shareholders

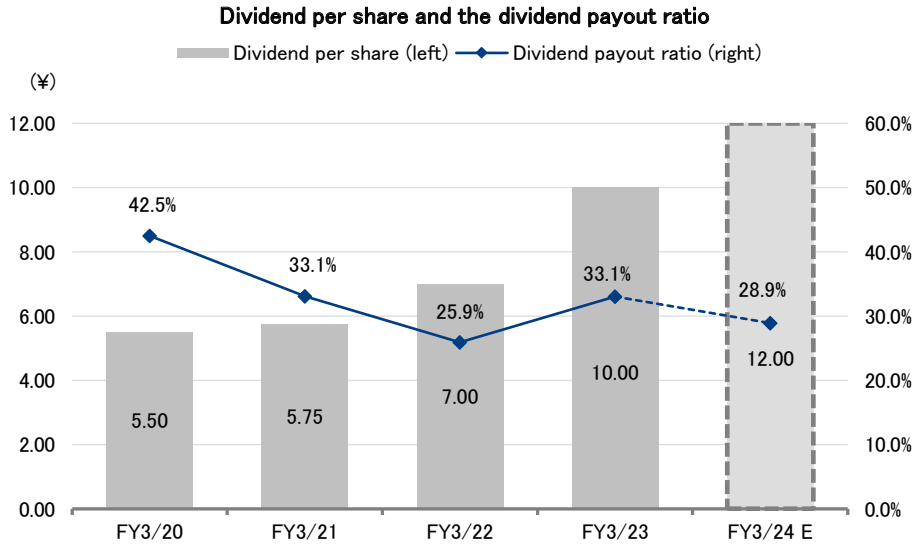
Planning FY3/24 per share dividend of ¥12, a YoY increase of ¥2

The Company's basic policy is to pay a dividend linked to results, targeting a dividend payout ratio of 30%. For FY3/23, the Company significantly increased its dividend per share after adjusting for the stock split by ¥3, to ¥10 per share. For 3/24, based on its forecast for a large increase in profit, the Company is planning to increase its dividend by ¥2 YoY, to ¥12 per share.

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.

In addition, the Company buys back treasury shares with the aim of enabling a flexible capital policy in response to changes in the business environment as well as enhancing shareholder returns and capital efficiency. Between August 16, 2023 and August 31, 2023, the Company acquired 100,000 treasury shares. Going forward, the Company plans to continue looking into share buybacks.

Returns to shareholders



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

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