

Translation

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Summary of Non-Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending December 2022 (Japanese GAAP)

November 11, 2022

Company name: THECOO Inc.

Listing exchange: Tokyo Stock Exchange

Securities code: 4255

URL: <https://thecoo.co.jp/>

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Scheduled filing date of statutory financial report: November 11, 2022

Scheduled date for commencing dividend payments: —

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Financial Results for the First Three Quarters (January 1, 2022–September 30, 2022) of the Fiscal Year Ending December 31, 2022

(1) Consolidated Operating Results (Cumulative)

(The percentage figures represent changes from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First three quarters of fiscal year ending December 31, 2022	3,052	24.4	(170)	—	(168)	—	(204)	—
First three quarters of fiscal year ended December 31, 2021	2,452	—	(59)	—	(60)	—	(64)	—
	Profit per share		Diluted profit per share					
	Yen		Yen					
First three quarters of fiscal year ending December 31, 2022	(99.83)		—					
First three quarters of fiscal year ended December 31, 2021	(35.60)		—					

(Notes) 1. The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year.

2. Diluted profit per share is not shown in the above table, because profit per share was negative although there are residual shares.

(2) Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
First three quarters of fiscal year ending December 31, 2022	3,341	1,472	44.0
Fiscal year ended Dec. 2021	3,220	1,696	52.6

(Reference) Shareholders' equity First three quarters of fiscal year ending December 31, 2022 1,470 million yen

Fiscal year ended Dec. 2021 1,694 million yen

(Note) The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year.

2. Dividends per Share

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total
Fiscal year ended December 2021	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Fiscal year ending December 2022	—	0.00	—		
Fiscal year ending December 2022 (forecast)				0.00	0.00

(Note) Revision to the most recently published dividend forecast : None

3. Forecast of Financial Results for the Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(The percentage figures represent changes from the same period of the previous year.)

	Net sales		Operating profit		Ordinary profit		Profit		Profit per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,200	—	(250)	—	(250)	—	(300)	—	(144.69)

(Notes) 1. Revision to the most recently published earnings forecast : None

2. Due to the adoption of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) from the beginning of the fiscal year ending December 31, 2022, the above forecasts reflect the application of the newly applied accounting standard. Therefore, the rate of change from the same period of the previous year is not shown.

* Explanatory notes

(1) Adoption of accounting treatment specific to the preparation of quarterly financial statements : None

(2) Changes in accounting policies, changes in accounting estimates, and restatements

- (i) Changes in accounting policies due to revisions to accounting standards and other regulations : Yes
- (ii) Changes in accounting policies due to other reasons : None
- (iii) Changes in accounting estimates : None
- (iv) Restatements : None

(Note) For details, please refer to "2. Quarterly Financial Statements and Main Notes: (4) Notes to Quarterly Financial Statements (Changes in accounting policies)" on page 6 of the Attachment.

(3) Number of shares issued and outstanding (common shares)

1. Number of shares issued and outstanding (including treasury shares) at end of period	As of September 30, 2022	2,073,455 shares	As of December 31, 2021	2,021,355 shares
2. Number of treasury shares at end of period	As of September 30, 2022	— shares	As of December 31, 2021	— shares
3. Average number of shares during the period (cumulative from the beginning of the fiscal year)	First three quarters of fiscal year ended Dec. 2022	2,052,611 shares	First three quarters of fiscal year ended Dec. 2021	1,821,355 shares

* This summary of financial results is not subject to quarterly review procedures by certified public accountants or audit firm.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to the Company and certain premises that the Company deems to be reasonable. Accordingly, such statements should not be construed as a guarantee of achieving the results by the Company. Actual financial results and the like may differ materially due to various factors. For the conditions forming the assumptions on which earnings forecasts are based and explanatory notes for use of earnings forecasts, etc., please see the explanations on the forecast information described in "1. Qualitative Information on the Financial Results: (3) Explanations on Earnings Forecast and Other Forward-Looking Information" on page 3 of the Attachment.

(How to obtain supplementary explanatory materials for financial results)

Supplementary explanatory materials for financial results were disclosed on TDnet on the same day and will also be posted on the Company website. The briefing for institutional investors and securities analysts is scheduled to be held on Tuesday, November 22, 2022, online from the perspective of mitigating the spread of COVID-19 infections.

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1. Qualitative Information on the Financial Results

(1) Explanation of Operating Results

During the first three quarters ended September 30, 2022, challenges remained in the Japanese economy, although there were signs of a pickup partly due to the effects of various policies against the spread of COVID-19 infections. The future remains unpredictable in the face of ongoing uncertainties of the outlook, given the COVID-19 infection trends in Japan and abroad, declines in stock markets globally stemming from the Russian invasion of Ukraine, and concerns regarding prolonged inflation owing to soaring resource prices.

Amidst these conditions, the Company is committed to its mission of being a “partner in the current transformation” and its vision of “Keep Challenging to Make the Impossible Possible.” Today, with social media in its heyday, we have captured the trend of many-to-many communication—a drastic change from the one-to-many era—and have established the Fanicon business, a fully membership-based and fully fee-based fan community platform, the name of which originated from Fan (fan) + Icon*, to provide a new type of service. Along with the Fanicon business, the Company conducts Corporate Agency Sales, an inherited business.

As for the market environment for the Fanicon business, the size of the monthly subscription-type online community platform service market (based on membership fees) is projected to be 24,800 million yen (actual) in fiscal year 2020, 41,500 million yen (estimate) in fiscal year 2021 (up 67.3% year-on-year), and 58,000 million yen (up 39.8% year-on-year) in fiscal year 2022, according to “Fan Community Business 2022,” a study by Yano Research Institute Ltd. The market has grown significantly over the years as artists, creators, and others who were restricted from offline activities due to the impact of the pandemic have increasingly turned to the Internet as a new venue for their activities, and the more services can be centrally and comprehensively managed on a platform, allowing community founders to focus on their entertainment and creative activities.

As for the market environment for the Corporate Agency Sales business, the Internet advertising market will continue to grow at a high rate of 2,705.2 billion yen, up 21.4% year-on-year, according to “Advertising Expenditures in Japan in 2021” by Dentsu Inc., with the share of total advertising expenditures accounted for by media reaching 39.8%, up 3.6 percentage points from the previous year. As such, the Company expects this market to continue to grow steadily in the future.

In the Fanicon business, the Company provides smartphone app “Fanicon” to icons and their fans. Fanicon is a one-stop fan community platform that offers full membership and purely fee-based options with functions that promote two-way communication between icons and fans, such as live-streaming, group chat, limited posting, and scratch (online lottery). It also offers functions that have been available in conventional fan clubs, such as merchandise and ticket sales. The platform allows anyone with a fan base to establish a Fanicon (subject to compliance with the Fanicon Terms of Use)—regardless of the number of fans—and to manage a fan community by selecting from a wide variety of functions only those most suitable for their fan base. BLACKBOX³, a distribution studio that is available free of charge to icons using Fanicon, is equipped with a large four-sided LED panel and the latest music distribution equipment to support both digital and real communication between icons and fans. Moreover, in September 2022, the Company set up “PEAKS STUDIO,” within our office that is currently used for a variety of purposes including live distribution and program recording.

In the Corporate Agency Sales business, the Company serves its clients in Japan and abroad by proposing advertising and other measures using influencers as well as providing management and consulting for online advertising. These operations have gained a very favorable reputation, helping to achieve steady growth of the business.

As a result of these endeavors, the Company posted net sales of 3,052,403 thousand yen (up 24.4% year on year), operating loss of 170,508 thousand yen (in contrast to operating loss of 59,070 thousand yen for the year-earlier period), and ordinary loss of 168,150 thousand yen (in contrast to ordinary loss of 60,226 thousand yen for the year-earlier period) for the first three quarters of the current fiscal year. The Company also recorded income taxes - deferred, including reversal of deferred tax assets, leading to a loss of 204,915 thousand yen (in contrast to a loss of 64,832 thousand yen for the year-earlier period).

a. Fanicon Business

The Fanicon business provides and manages the Fanicon fan community platform.

Fanicon is a platform where icons and their fans gather, and that matches the needs of icons wanting to offer value as icons with the needs of fans looking to connect with icons. Unlike conventional fan clubs, this is a service for icons and fans, with a networking effect that allows icons—the owners of fan communities—and the fans who comprise those communities to work together to make their community thrive, and to connect with others who share their interests.

All Fanicon members (fans) are paying subscribers, and the Fanicon business is based on a recurring revenue business model in which members' subscription fees are recorded as net sales. Point-based sales have also been on the rise in recent years, and the Company anticipates stable, continuous revenues.

Acquiring new icons is essential for stable membership growth. While the Company has a dedicated team that is continuously conducting marketing activities to acquire new icons, it has obtained the cooperation of partner companies and others for acquiring certain icons with a large fan base. This has led to steady growth in the number of new communities.

Meanwhile, the growth rate of non-subscription sales (purchase of points, in particular) was lower than expected in comparison with the product mix assumed at the beginning of the fiscal year. This has placed gross profit on a downward trend and selling, general and administrative expenses on an upward trend.

The icon churn rate has remained low as in the previous fiscal year owing to proposals for seasonal and personal event-based measures for icons, and to the implementation of customer success measures that enhance the value of the fan experience.

As a result, this segment reported net sales of 1,767,344 thousand yen (up 31.3% year on year) and segment loss of 255,536 thousand yen (in contrast to segment loss of 94,700 thousand yen for the year-earlier period).

b. Corporate Agency Sales Business

In the Corporate Agency Sales business, the Company has secured steady growth by strengthening its endeavors on marketing and inside sales, resulting not only in continued orders for existing projects but also in growth in new projects with domestic and overseas clients.

As a result, this segment reported net sales of 1,285,058 thousand yen (up 16.1% year on year) and segment profit of 85,027 thousand yen (up 138.6% year on year).

(Note) Artists, influencers, celebrities, and others who own fan communities and are subject to the enthusiasm of the fans.

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the first three quarters of the fiscal year increased by 121,056 thousand yen from the end of the previous fiscal year to 3,341,177 thousand yen. The main factors were a 130,203 thousand yen increase in other current assets, a 224,292 thousand yen increase in property, plant and equipment in accordance with office relocation, a 20,071 thousand yen increase in intangible fixed assets due to capitalization of new development costs as software, a 101,226 thousand yen increase in investments and other assets, a 158,664 thousand yen decrease in cash and deposits, and a 193,934 thousand yen decrease in notes and accounts receivable - trade.

Accounts receivable - trade include those related to sales that the Company recognizes as revenue on a net basis in certain transactions where it serves as an agent in the Fanicon and Corporate Agency Sales businesses. For this reason, the scale of accounts receivable - trade is large relative to net sales and tends to increase in line with increases in sales of this service.

(Liabilities)

Total liabilities at the end of the first three quarters of the current fiscal year increased by 344,993 thousand yen from the end of the previous fiscal year to 1,868,707 thousand yen. The main factors were a 47,147 thousand yen increase in accounts payable - trade, a 284,334 thousand yen increase in advances received owing to an increase in the number of fans in the Fanicon business, a 15,252 thousand yen decrease in accounts payable - other, a 13,625 thousand yen decrease in income taxes payable, a 35,800 thousand yen decrease in other current liabilities, and 20,800 thousand yen decrease in current portion of long-term borrowings due to repayments.

(Net assets)

Net assets at the end of the first three quarters of the current fiscal year decreased by 223,936 thousand yen from the end of the previous fiscal year to 1,472,469 thousand yen. The main factors were a 13,044 thousand yen increase in share capital and capital surplus due to the exercise of share acquisition rights, a 31,929 thousand yen decrease in the opening balance of retained earnings due to the application of the Accounting Standard for Revenue Recognition, etc., and recording of 204,915 thousand yen net loss.

(3) Explanations on Earnings Forecast and Other Forward-Looking Information

As for the earnings forecast for the fiscal year ending December 31, 2022, the Company has revised its earnings forecast announced on February 10, 2022 based on recent performance trends. For details, please refer to "Notice Concerning Revisions to Full-Year Earnings Forecast and Recording of Income Taxes - Deferred" (Japanese) announced today (November 11, 2022).

2. Quarterly Financial Statements and Main Notes

(1) Quarterly Balance Sheet

	(Unit: Thousands of yen)	
	Previous fiscal year (as of December 31, 2021)	First three quarters of current fiscal year (as of September 30, 2022)
Assets		
Current assets		
Cash and deposits	2,044,935	1,886,271
Notes and accounts receivable - trade	837,861	643,926
Other	36,252	166,455
Allowance for doubtful accounts	(3,782)	(5,920)
Total current assets	2,915,266	2,690,733
Non-current assets		
Property, plant and equipment	235,968	460,260
Intangible assets	—	20,071
Investments and other assets	68,885	170,111
Total non-current assets	304,853	650,444
Total assets	3,220,120	3,341,177
Liabilities		
Current liabilities		
Accounts payable - trade	447,129	494,276
Current portion of long-term borrowings	67,040	46,240
Accounts payable - other	365,528	350,275
Income taxes payable	19,955	6,330
Advances received	440,491	724,825
Asset retirement obligations	6,240	—
Other	129,103	93,303
Total current liabilities	1,475,489	1,715,252
Non-current liabilities		
Long-term borrowings	39,680	39,680
Asset retirement obligations	8,545	77,514
Other	—	36,260
Total non-current liabilities	48,225	153,455
Total liabilities	1,523,714	1,868,707
Net assets		
Shareholders' equity		
Share capital	752,400	758,922
Capital surplus	1,656,696	948,815
Retained earnings	(714,402)	(236,844)
Total shareholders' equity	1,694,693	1,470,893
Stock acquisition rights	1,713	1,575
Total net assets	1,696,406	1,472,469
Total liabilities and net assets	3,220,120	3,341,177

(2) Quarterly Statement of Income

First three quarters (cumulative)

(Unit: Thousands of yen)

	First three quarters of the previous fiscal year (January 1, 2021 – September 30, 2021)	First three quarters of the current fiscal year (January 1, 2022 – September 30, 2022)
Net sales	2,452,999	3,052,403
Cost of sales	1,548,531	1,852,005
Gross profit	904,467	1,200,397
Selling, general and administrative expenses	963,538	1,370,905
Operating profit (loss)	(59,070)	(170,508)
Non-operating income		
Advertising revenue	133	152
Foreign exchange gains	—	3,104
Other	6	46
Total non-operating income	139	3,303
Non-operating expenses		
Interest expenses	1,236	945
Foreign exchange losses	58	—
Total non-operating expenses	1,295	945
Ordinary profit (loss)	(60,226)	(168,150)
Extraordinary income		
Gain on reversal of share acquisition rights	1	—
Total extraordinary income	1	—
Profit (loss) before income taxes	(60,225)	(168,150)
Income taxes - current	1,775	2,027
Income taxes - deferred	2,832	34,737
Total income taxes	4,607	36,764
Profit (loss)	(64,832)	(204,915)

(3) Notes to Quarterly Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in the event of significant changes in the amount of shareholders' equity)

In accordance with the resolution of the Ordinary General Meeting of Shareholders held on March 29, 2022, effective as of the same day, the Company reduced 714,402 thousand yen from other capital surplus and transferred the amount to retained earnings brought forward to cover a deficit position, based on the provisions set forth in Article 452 of the Companies Act.

The Company has applied the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the current fiscal year. The impact of this change is described in "Notes (Changes in accounting policies)."

(Changes in accounting policies)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the current fiscal year, and decided to recognize revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

The main changes due to the adoption of the Accounting Standard for Revenue Recognition, etc. are as follows.

In the Fanicon business, the Company previously recognized revenue from the purchase of paid points within the Fanicon app at the time the paid points were consumed. In accordance, however, with the application of the Accounting Standard for Revenue Recognition, etc., the Company has decided to calculate the unit price per purchase, including free points granted at the time of purchase of paid points as well as paid points.

In addition, if the performance obligation is to arrange the provision of goods or services promised with customers through another party, revenue is recognized on a net basis as the Company acts as an agent.

In accordance with the transitional treatment prescribed in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the first quarter of the current fiscal year is added to or deducted from retained earnings at the beginning of the first quarter, and the new accounting policy is applied from the resulting opening balance.

As a result, the opening balance of retained earnings for the fiscal year ending December 31, 2022, decreased by 31,929 thousand yen due to the application of the Accounting Standard for Revenue Recognition. Net sales decreased by 128,765 thousand yen, cost of sales decreased by 126,511 thousand yen, and operating loss, ordinary loss, and loss before income taxes each increased by 2,254 thousand yen in the first three quarters of the current fiscal year.

Furthermore, in accordance with the transitional treatment stipulated in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), information on breakdown of revenue from contracts with customers has not been presented for the first three quarters of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the first quarter of the current fiscal year. In accordance with the transitional treatment stipulated in Paragraph 19 of the "Accounting Standard for Fair Value Measurement" and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement, etc. is to be applied prospectively. Note that the application has not affected the quarterly financial statements.

(Segment information, etc.)

[Segment information]

I. First three quarters of the previous fiscal year (January 1, 2021 – September 30, 2021)

1. Information on net sales and profit or loss by reportable segment

(Unit: Thousands of yen)

	Reportable segment			Amount recorded in quarterly statement of income
	Fanicon business	Corporate Agency Sales business	Total	
Net sales Revenue from contracts with customers				
Net sales to outside customers	1,345,768	1,107,230	2,452,999	2,452,999
Inter-segment sales or transfers	—	—	—	—
Total	1,345,768	1,107,230	2,452,999	2,452,999
Segment profit (loss)	(94,700)	35,629	(59,070)	(59,070)

(Note) Total segment profit (loss) is adjusted with operating loss shown on the quarterly statement of income.

2. Information on impairment loss from non-current assets, goodwill and other items by reportable segment

Not applicable.

II. First three quarters of the current fiscal year (January 1, 2022 – September 30, 2022)

1. Information on net sales and profit or loss by reportable segment

(Unit: Thousands of yen)

	Reportable segment			Amount recorded in quarterly statement of income
	Fanicon business	Corporate Agency Sales business	Total	
Net sales Revenue from contracts with customers				
Net sales to outside customers	1,767,344	1,285,058	3,052,403	3,052,403
Inter-segment sales or transfers	—	—	—	—
Total	1,767,344	1,285,058	3,052,403	3,052,403
Segment profit (loss)	(255,536)	85,027	(170,508)	(170,508)

(Note) Total segment profit (loss) is adjusted with operating loss shown on the quarterly statement of income.

2. Information related to changes in reportable segments

As described in “Changes in accounting policies,” the Company has applied the Accounting Standard for Revenue Recognition, etc. from the beginning of the first quarter of the current fiscal year, and accordingly changed its method for calculating profit (loss) for operating segments given that it has changed accounting methods for revenue recognition.

For the first three quarters of the current fiscal year, as a result of this change, Fanicon business net sales decreased 128,765 thousand yen and segment loss increased 2,254 thousand yen compared with the previous method.

3. Information on impairment loss from non-current assets, goodwill and other items by reportable segment

Not applicable.