

Translation

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Summary of Non-Consolidated Financial Results for the Fiscal Year Ended December 2022 (Japanese GAAP)

February 10, 2023

Company name: THECOO Inc.

Listing exchange: Tokyo Stock Exchange

Securities code: 4255

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

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Scheduled date for next ordinary general meeting of shareholders: March 28, 2023

Scheduled filing date of statutory financial report: March 29, 2023

Scheduled date for commencing dividend payments: —

Preparation of supplementary materials on financial results: Yes

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

(Amounts are rounded down to the nearest million yen)

1. Financial Results for the Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(1) Operating Results

(The percentage figures represent year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended December 31, 2022	4,279	22.9	(212)	—	(210)	—	(488)	—
Fiscal year ended December 31, 2021	3,482	50.1	(100)	—	(119)	—	(109)	—
	Profit per share		Diluted profit per share		Return on equity	Return on assets	Operating profit/net sales	
	Yen		Yen		%	%	%	
Fiscal year ended December 31, 2022	(237.37)		—		(33.9)	(6.8)	(5.0)	
Fiscal year ended December 31, 2021	(59.78)		—		(10.0)	(4.8)	(2.9)	

(Reference) Share of profit or loss of entities accounted for using equity method

Fiscal year ended December 31, 2022: - million yen Fiscal year ended December 31, 2021: - million yen

(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	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	3,004	1,188	39.5	572.65
As of December 31, 2021	3,220	1,696	52.6	838.39

(Reference) Shareholders' equity As of December 31, 2022 1,187 million yen
As of December 31, 2021 1,694 million yen

(3) Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal year ended December 31, 2022	188	(344)	(55)	1,832
Fiscal year ended December 31, 2021	275	(127)	1,298	2,044

2. Dividends per Share

	Annual dividends per share					Total dividends	Payout ratio	Dividends/net assets
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 2021	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ended December 2022	—	0.00	—	0.00	0.00	—	—	—
Fiscal year ending December 2023 (forecast)	—	0.00	—	0.00	0.00		—	

3. Forecast of Financial Results for the Fiscal Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(Percentage figures indicate year-on-year changes for full year and changes from the same period of the previous year for quarters)

	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	5,200	—	(490)	—	(490)	—	(490)	—	(236.31)

(Note) No financial results forecast has been made for the first two quarters for the fiscal year ending December 31, 2023.

* Explanatory notes

(1) 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

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

1. Number of shares issued and outstanding (including treasury shares) at end of period	As of December 31, 2022	2,073,555 shares	As of December 31, 2021	2,021,355 shares
2. Number of treasury shares at end of period	As of December 31, 2022	— shares	As of December 31, 2021	— shares
3. Average number of shares during the period	Fiscal year ended December 31, 2022	2,057,872 shares	Fiscal year ended December 31, 2021	1,826,834 shares

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

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

(Notes on forward-looking statements)

The earnings forecast 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. Actual financial results and the like may differ materially from the forecast 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 "1. Qualitative Information on the Financial Results for the Period under Review: (4) Future Outlook" on page 4 of the Attachment.

(How to obtain supplementary explanatory materials for financial results)

The briefing for institutional investors and securities analysts is scheduled to be held on Monday, February 20, 2023, online from the perspective of mitigating the spread of COVID-19 infections. Supplementary explanatory materials to be used for the briefing will be disclosed on TDnet immediately after the announcement of financial results and will also be posted on the Company website.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

As of the end of the fiscal year under review, economic activities in Japan started to head for a pickup amid an ongoing shift to the new phase of coping with COVID-19, such as relaxation of activity restrictions and overseas travel restrictions under the pandemic. The global landscape still remains uncertain, however, given the prolonged situation in Ukraine, soaring raw material prices and increasing depreciation of the yen, as well as the slowdown in economic activities due to China's zero-COVID policy.

Meanwhile, the Japanese economy and the entertainment industry in which we operate are moderately returning to life, as evidenced by the gradual increase in the number of real live concerts, held mainly in the Tokyo metropolitan area and in the three major cities of Tokyo, Nagoya and Osaka, with the capacity at its fullest.

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 (social networking services) 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. Moreover, according to “Estimates and Forecasts of Domestic Market for Influencer Marketing 2020-2027” surveyed by CyberBuzz, Inc. and Digital InFact, Inc., the domestic influencer marketing market in 2023 is estimated to be 74.1 billion yen, up 20.5% year on year. This shows that the market scale has expanded significantly over the past few years, as the figure was 33.2 billion yen in 2020.

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 4,279,916 thousand yen (up 22.9% year on year), operating loss of 212,572 thousand yen (in contrast to operating loss of 100,754 thousand yen as of the previous fiscal year end), and ordinary loss of 210,452 thousand yen (in contrast to ordinary loss of 119,690 thousand yen as of the previous fiscal year end) as of the end of the fiscal year under review. Moreover, as the Company recorded impairment loss for its business assets related to the Fanicon business, it posted a loss of 488,468 thousand yen (in contrast to a loss of 109,200 thousand yen as of the previous fiscal year end).

1) 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 2,440,614 thousand yen (up 27.0% year on year) and segment loss of 345,012 thousand yen (in contrast to segment loss of 165,104 thousand yen for the previous fiscal year).

2) 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 1,839,301 thousand yen (up 17.9% year on year) and segment profit of 132,439 thousand yen (up 105.8% year on year).

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

(2) Overview of Financial Position for the Fiscal Year under Review

(Current assets)

Current assets at the end of the fiscal year under review decreased by 291,384 thousand yen from the end of the previous fiscal year to 2,623,881 thousand yen. The main factors were a 202,173 thousand yen decrease in cash and deposits and a 119,457 thousand yen decrease in 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.

(Non-current assets)

Non-current assets at the end of the fiscal year under review increased by 75,660 thousand yen from the end of the previous fiscal year to 380,514 thousand yen. The main factors were a 147,245 thousand yen increase in buildings and a 81,373 thousand yen increase in tools, furniture and fixtures in accordance with head office relocation, a 114,346 thousand yen increase in leasehold deposits and a 13,120 thousand yen decrease in deferred tax assets.

(Current liabilities)

Current liabilities at the end of the fiscal year under review increased by 234,355 thousand yen from the end of the previous fiscal year to 1,709,844 thousand yen. The main factors were a 125,755 thousand yen increase in accounts payable - trade, a 261,966 thousand yen increase in advances received owing to an increase in the number of fans in the Fanicon business, and a 115,089 thousand yen decrease in accounts payable – other.

(Non-current liabilities)

Non-current liabilities at the end of the fiscal year under review increased by 57,330 thousand yen from the end of the previous fiscal year to 105,555 thousand yen. The main factors were a 69,075 thousand yen increase in asset retirement obligations in accordance with head office relocation, a 9,061 thousand yen increase in lease liabilities, and a 22,880 thousand yen decrease due to transfer to current portion of long-term borrowings and repayment of long-term borrowings.

(Net assets)

Net assets at the end of the fiscal year under review decreased by 507,411 thousand yen from the end of the previous fiscal year to 1,188,995 thousand yen. The main factors were a 6,563 thousand yen increase in share capital and legal capital surplus, respectively, and recording of 488,468 thousand yen net loss.

(3) Overview of Cash Flows for the Fiscal Year under Review

The balance of cash and cash equivalents ("net cash") at the end of the fiscal year under review amounted to 1,832,762 thousand yen (a decrease of 212,173 thousand yen from the end of the previous fiscal year).

The status of cash flows and their major factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 188,655 thousand yen (in contrast to net cash provided amounting to 275,365 thousand yen in the previous fiscal year). The main factors of cash inflows were recording of depreciation of 74,572 thousand yen, increase in advances received of 230,037 thousand yen in accordance with an increase in the number of fans in the Fanicon business, etc., decrease in trade receivables of 121,828 thousand yen and increase in trade payables of 125,755 thousand yen. The main factors of cash outflows were decrease in accounts payable - other of 117,483 thousand yen, increase in prepaid expenses of 7,503 thousand yen and recording of loss before income taxes of 470,574 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities totaled 344,906 thousand yen (in contrast to net cash used amounting to 127,993 thousand yen in the previous fiscal year). The main factor for cash outflows was purchase of property, plant and equipment of 188,312 thousand yen in accordance with head office relocation.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 55,922 thousand yen (in contrast to net cash provided amounting to 1,298,382 thousand yen in the previous fiscal year). The cash inflows were due to proceeds from issuance of shares of 12,987 thousand yen, and the cash outflows were due to repayment of long-term borrowings of 64,960 thousand yen.

(4) Future Outlook

With the impact of COVID-19 prolonging, it still remains difficult to foresee economic trends going forward. As for the environment surrounding the Company, the live entertainment-related market such as music live concerts and stage performances is moderately returning to life, as evidenced by the increasing number of live performances with the capacity at its fullest.

The Company has upheld "digitization of the entertainment industry" as its medium- to long-term goal and, as its first step, provides Fanicon, a new-era fan community app that promotes communications between icons and their fans, positioning it as the growth business. It offers closed and psychologically secure services, as all Fanicon members are paying members on a subscription basis. Meanwhile, the Corporate Agency Sales business promotes influencer marketing by facilitating communications between fans and icons in an open environment, such as YouTubers and Instagrammers, and is positioned as the core business that can maintain stable sales on an ongoing basis.

Looking ahead, in order to further expand the Fanicon business, the Company will focus on increasing the number of subscription-based paying users by acquiring new icons, developing new services that will lead to higher ARPU (average revenue per fan), and strengthening back-end development to ensure stable operation of the service on a continuous basis. As for the Corporate Agency Sales business, which is the core business, the Company will keep aiming at expanding its market share while continuing to increase the workforce.

With regard to net sales for the fiscal year ending December 31, 2023, the Company anticipates an increase in sales from point purchases by running such seasonal events as Valentine's Day and events held for each icon as well as by reinforcing the live streaming function of Fanicon, on top of an increase in sales from monthly usage fees through an increase in the number of users in accordance with the acquisition of new icons in the Fanicon business.

In the Corporate Agency Sales business, the Company anticipates receiving not only continued orders for existing projects but also larger projects both in Japan and abroad, by stably conducting marketing and inside sales operations.

In terms of operating profit, the Company expects an increase in personnel expenses due to strengthened hiring of staff for development and customer success, etc. and an increase in expenses associated with office relocation, as it will continue to invest in business expansion for the Fanicon business, which is an upfront investment project.

Based on the above, the Company forecasts net sales of 5,200 million yen, operating loss of 490 million yen, ordinary loss of 490 million yen, and net loss of 490 million yen for the fiscal year ending December 31, 2023.

Note that the above earnings forecast is based on information available as of the date of announcement of this document. Actual results may differ from the forecast figures due to various factors in the future.

2. Basic Principle on the Choice of Accounting Standards

For the time being, the Company makes it a policy to prepare its financial statements based on Japanese GAAP, in view of the comparability for the period covered by the financial statements and inter-company comparability.

With regard to the application of the International Financial Reporting Standards (IFRS), the Company intends to respond to the application in an appropriate manner, taking into account the situations of various factors both in and outside Japan.

3. Financial Statements and Main Notes

(1) Balance Sheet

(Unit: Thousands of yen)

	Previous fiscal year (as of December 31, 2021)	Current fiscal year (as of December 31, 2022)
Assets		
Current assets		
Cash and deposits	2,044,935	1,842,762
Notes receivable - trade	12,595	10,224
Accounts receivable - trade	825,266	705,808
Supplies	607	—
Advance payments to suppliers	—	31,889
Prepaid expenses	23,312	30,815
Other	12,332	10,428
Allowance for doubtful accounts	(3,782)	(8,046)
Total current assets	2,915,266	2,623,881
Non-current assets		
Property, plant and equipment		
Buildings	117,982	265,228
Accumulated depreciation	(19,589)	(137,033)
Buildings, net	98,393	128,195
Machinery and equipment	160,904	160,904
Accumulated depreciation	(33,520)	(160,178)
Machinery and equipment, net	127,384	726
Tools, furniture and fixtures	26,237	107,610
Accumulated depreciation	(16,046)	(41,187)
Tools, furniture and fixtures, net	10,190	66,423
Leased assets	—	17,486
Accumulated depreciation	—	(2,428)
Lease assets, net	—	15,057
Total property, plant and equipment	235,968	210,402
Investments and other assets		
Deferred tax assets	13,120	—
Leasehold deposits	55,764	170,110
Other	1	1
Total investments and other assets	68,885	170,111
Total non-current assets	304,853	380,514
Total assets	3,220,120	3,004,395

(Unit: Thousands of yen)

	Previous fiscal year (as of December 31, 2021)	Current fiscal year (as of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	447,129	572,885
Current portion of long-term borrowings	67,040	24,960
Lease liabilities	—	4,475
Accounts payable - other	365,528	250,439
Accrued expenses	98,457	97,311
Income taxes payable	19,955	8,463
Advances received	440,491	702,457
Deposits received	21,985	36,758
Unearned revenue	2,200	—
Asset retirement obligations	6,240	—
Other	6,460	12,093
Total current liabilities	1,475,489	1,709,844
Non-current liabilities		
Long-term borrowings	39,680	16,800
Lease liabilities	—	9,061
Deferred tax liabilities	—	2,073
Asset retirement obligations	8,545	77,620
Total non-current liabilities	48,225	105,555
Total liabilities	1,523,714	1,815,400
Net assets		
Shareholders' equity		
Share capital	752,400	758,963
Capital surplus		
Legal capital surplus	752,400	758,963
Other legal capital surplus	904,296	189,893
Total capital surplus	1,656,696	948,856
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(714,402)	(520,398)
Total retained earnings	(714,402)	(520,398)
Total shareholders' equity	1,694,693	1,187,421
Stock acquisition rights	1,713	1,573
Total net assets	1,696,406	1,188,995
Total liabilities and net assets	3,220,120	3,004,395

(2) Statement of Income

	(Unit: Thousands of yen)	
	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net sales	3,482,025	4,279,916
Cost of sales	2,192,742	2,608,762
Gross profit	1,289,283	1,671,153
Selling, general and administrative expenses	1,390,037	1,883,726
Operating profit (loss)	(100,754)	(212,572)
Non-operating income		
Interest income	7	17
Advertising revenue	161	194
Foreign exchange gains	62	3,011
Other	114	47
Total non-operating income	345	3,270
Non-operating expenses		
Interest expenses	1,451	1,150
Listing expenses	17,829	—
Total non-operating expenses	19,281	1,150
Ordinary profit (loss)	(119,690)	(210,452)
Extraordinary income		
Gain on reversal of share acquisition rights	1	—
Total extraordinary income	1	—
Extraordinary losses		
Impairment losses	—	* 260,077
Other	—	44
Total extraordinary losses	—	260,121
Profit (loss) before income taxes	(119,689)	(470,574)
Income taxes - current	2,631	2,700
Income taxes - deferred	(13,120)	15,194
Total income taxes	(10,488)	17,894
Profit (loss)	(109,200)	(488,468)

Schedule of Cost of Sales

(Unit: Thousands of yen)

		Previous fiscal year (January 1, 2021 – December 31, 2021)		Current fiscal year (January 1, 2022 – December 31, 2022)	
Category	Note number	Amount (thousands of yen)	Composition ratio (%)	Amount (thousands of yen)	Composition ratio (%)
I. Expenses		2,192,742	100.0	2,608,762	100.0
Cost of sales		2,192,742	100.0	2,608,762	100.0

(Notes) *1 Major breakdown is as follows.

Item	Previous fiscal year (thousands of yen)	Current fiscal year (thousands of yen)
Cost of purchase for Fanicon	974,526	1,099,478
Outsourcing expenses	936,575	1,193,297

(Cost accounting method)

Actual cost accounting based on the job-order cost system is applied for cost accounting.

(3) Statement of Changes in Equity

Previous fiscal year (January 1, 2021 to December 31, 2021)

(Unit: Thousands of yen)

	Shareholders' equity			
	Share capital	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	90,000	90,000	904,296	994,296
Cumulative effects of changes in accounting policies				
Restated balance	90,000	90,000	904,296	994,296
Changes of items during period				
Issuance of new shares	662,400	662,400	—	662,400
Profit (loss)				
Net changes in items other than shareholders' equity				
Total changes during period	662,400	662,400	—	662,400
Balance at end of period	752,400	752,400	904,296	1,656,696

	Shareholders' equity			Stock acquisition rights	Total net assets
	Retained earnings		Total shareholders' equity		
	Other retained earnings	Total retained earnings			
	Retained earnings brought forward				
Balance at beginning of period	(605,202)	(605,202)	479,093	1,714	480,807
Cumulative effects of changes in accounting policies					
Restated balance	(605,202)	(605,202)	479,093	1,714	480,807
Changes of items during period					
Issuance of new shares			1,324,800		1,324,800
Profit (loss)	(109,200)	(109,200)	(109,200)		(109,200)
Net changes in items other than shareholders' equity				(1)	(1)
Total changes during period	(109,200)	(109,200)	1,215,599	(1)	1,215,598
Balance at end of period	(714,402)	(714,402)	1,694,693	1,713	1,696,406

Current fiscal year (January 1, 2022 to December 31, 2022)

(Unit: Thousands of yen)

	Shareholders' equity			
	Share capital	Capital surplus		
		Legal capital surplus	Other capital surplus	Total capital surplus
Balance at beginning of period	752,400	752,400	904,296	1,656,696
Cumulative effects of changes in accounting policies				
Restated balance	752,400	752,400	904,296	1,656,696
Changes of items during period				
Issuance of new shares	6,563	6,563	—	6,563
Profit (loss)				
Net changes in items other than shareholders' equity				
Deficit disposition			(714,402)	(714,402)
Total changes during period	6,563	6,563	(714,402)	(707,839)
Balance at end of period	758,963	758,963	189,893	948,856

	Shareholders' equity			Stock acquisition rights	Total net assets
	Retained earnings		Total shareholders' equity		
	Other retained earnings	Total retained earnings			
	Retained earnings brought forward				
Balance at beginning of period	(714,402)	(714,402)	1,694,693	1,713	1,696,406
Cumulative effects of changes in accounting policies	(31,929)	(31,929)	(31,929)		(31,929)
Restated balance	(746,331)	(746,331)	1,662,764	1,713	1,664,477
Changes of items during period					
Issuance of new shares			13,126		13,126
Profit (loss)	(488,468)	(488,468)	(488,468)		(488,468)
Net changes in items other than shareholders' equity				(139)	(139)
Deficit disposition	714,402	714,402			
Total changes during period	225,933	225,933	(475,343)	(139)	(475,482)
Balance at end of period	(520,398)	(520,398)	1,187,421	1,573	1,188,995

(4) Cash Flow Statement

	(Unit: Thousands of yen)	
	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Cash flows from operating activities		
Loss before income taxes	(119,689)	(470,574)
Depreciation	50,873	74,572
Impairment losses	—	260,077
Increase (decrease) in allowance for doubtful accounts	(7,566)	4,263
Interest and dividend income	(7)	(17)
Interest expenses	1,451	1,150
Listing expenses	17,829	—
Loss on retirement of property, plant and equipment	—	44
Gain on reversal of share acquisition rights	(1)	—
Decrease (increase) in trade receivables	20,177	121,828
Decrease (increase) in inventories	(607)	607
Decrease (increase) in prepaid expenses	22,790	(7,503)
Decrease (increase) in advance payments to suppliers	—	(31,889)
Increase (decrease) in trade payables	206,901	125,755
Increase (decrease) in advances received	199,292	230,037
Increase (decrease) in accounts payable - other	(150,707)	(117,483)
Increase (decrease) in accrued expenses	36,101	(1,148)
Increase (decrease) in unearned revenue	(400)	(2,200)
Increase (decrease) in deposits received	735	14,772
Other	533	(9,873)
Subtotal	277,707	192,421
Interest and dividends received	7	15
Interest paid	(1,451)	(1,150)
Income taxes paid	(897)	(2,630)
Net cash provided by (used in) operating activities	275,365	188,655
Cash flows from investing activities		
Purchase of property, plant and equipment	(127,820)	(188,312)
Purchase of intangible assets	—	(32,032)
Payments into time deposits	—	(10,000)
Payments of leasehold and guarantee deposits	—	(151,186)
Proceeds from refund of leasehold deposits	—	36,839
Other	(173)	(215)
Net cash provided by (used in) investing activities	(127,993)	(344,906)
Cash flows from financing activities		
Repayment of long-term borrowings	(24,960)	(64,960)
Repayments of lease liabilities	—	(3,949)
Proceeds from issuance of shares	1,323,342	12,987
Net cash provided by (used in) financing activities	1,298,382	(55,922)
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	1,445,754	(212,173)
Cash and cash equivalents at beginning of fiscal year	599,181	2,044,935
Cash and cash equivalents at end of fiscal year	2,044,935	1,832,762

(5) Notes to 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 195,920 thousand yen, cost of sales decreased by 188,809 thousand yen, and operating loss, ordinary loss, and loss before income taxes each increased by 7,111 thousand yen in the fiscal year under review.

(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 financial statements.

(Statement of income)

* Impairment losses

Previous fiscal year (January 1, 2021 through December 31, 2021)

Not applicable.

Current fiscal year (January 1, 2022 through December 31, 2022)

The Company recorded impairment losses on the following asset groups.

Use	Location	Type	Amount
Business assets for the Fanicon business	Tokyo Prefecture	Buildings	119,940 thousand yen
		Machinery and equipment	94,872 thousand yen
		Tools, furniture and fixtures	15,447 thousand yen
		Software	24,376 thousand yen
		Software in progress	5,441 thousand yen
		Total	260,077 thousand yen

The Company classifies each business, which is the smallest unit that generates cash flows, as a basic unit, where assets are grouped by the unit for which income and expenditures can be monitored on an ongoing basis. Of these, the book value of the business assets related to the Fanicon business was reduced to a collectible amount, and the reduced amount was recorded as impairment losses under extraordinary losses, because operations of the Fanicon business continue to incur losses although the business is expected to grow going forward.

Furthermore, although the collectible amount is measured by the value in use, it is calculated to be zero as no future cash flows are expected.

(Profit or loss of entities accounted for using equity method)

Not applicable.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

(1) Method of determining reportable segments

The Company's reportable segments are its components for which separate financial information is available and which are subject to periodic reviews by the Board of Directors to determine the allocation of management resources and evaluate their performance.

The Company has established business divisions by service at its head office, and each division formulates comprehensive strategies and conducts business activities for the services it handles.

Accordingly, the Company consists of segments categorized by service based on the business divisions, and has the two reportable segments of Fanicon business and Corporate Agency Sales business.

(2) Types of products and services of each reportable segment

The Fanicon business distributes and operates Fanicon, a fan community app.

The Corporate Agency Sales business is mainly engaged in influencer sales and online advertising.

2. Methods of calculating sales, profit or loss for each reportable segment

The accounting treatments for the reportable segments are based on the accounting policy in the preparation of financial statements. The profit of each reportable segment indicates the figure of operating profit. There have been no inter-segment transactions.

3. Information on net sales, profit or loss by reportable segment

Previous fiscal year (January 1, 2021 – December 31, 2021)

(Unit: Thousands of yen)

	Reportable segment			Total
	Fanicon business	Corporate Agency Sales business	Total	
Net sales				
Net sales to outside customers	1,922,427	1,559,598	3,482,025	3,482,025
Inter-segment sales or transfers	—	—	—	—
Total	1,922,427	1,559,598	3,482,025	3,482,025
Segment profit (loss)	(165,104)	64,350	(100,754)	(100,754)
Other items				
Depreciation	44,970	5,903	50,873	50,873

(Notes) 1. Segment assets and segment liabilities are not indicated as assets and liabilities are not allocated to the business segments. However, depreciation and other items of the assets that are not allocated are allocated to the respective business segments based on reasonable allocation standards.

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

Current fiscal year (January 1, 2022 – December 31, 2022)

(Unit: Thousands of yen)

	Reportable segment			Total
	Fanicon business	Corporate Agency Sales business	Total	
Net sales				
Net sales to outside customers	2,440,614	1,839,301	4,279,916	4,279,916
Inter-segment sales or transfers	—	—	—	—
Total	2,440,614	1,839,301	4,279,916	4,279,916
Segment profit (loss)	(345,012)	132,439	(212,572)	(212,572)
Other items				
Depreciation	63,064	9,293	72,358	72,358
Impairment losses	260,077	—	260,077	260,077

- (Notes) 1. Segment assets and segment liabilities are not indicated as assets and liabilities are not allocated to the business segments. However, depreciation and other items of the assets that are not allocated are allocated to the respective business segments based on reasonable allocation standards.
2. Total segment profit (loss) is adjusted with operating loss shown on the statement of income.
3. Impairment losses of 260,077 thousand yen have been recorded for non-current assets related to the business assets of the Fanicon business segment.

[Related information]

Previous fiscal year (January 1, 2021 – December 31, 2021)

1. Information by product and service

The information is omitted as the same information is disclosed in the segment information.

2. Information by geographic area

(1) Net sales

The information is omitted as net sales to outside customers in Japan account for more than 90% of net sales on the statement income.

(2) Property, plant and equipment

The information is omitted as the amount of property, plant and equipment located in Japan accounts for more than 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information by major customer

The information is omitted because, out of net sales to external customers, no party accounts for 10% or more of net sales on the statement of income.

Current fiscal year (January 1, 2022 – December 31, 2022)

1. Information by product and service

The information is omitted as the same information is disclosed in the segment information.

2. Information by geographic area

(1) Net sales

The information is omitted as net sales to outside customers in Japan account for more than 90% of net sales on the statement income.

(2) Property, plant and equipment

The information is omitted as the amount of property, plant and equipment located in Japan accounts for more than 90% of the amount of property, plant and equipment on the balance sheet.

(3) Information by major customer

The information is omitted because, out of net sales to external customers, no party accounts for 10% or more of net sales on the statement of income.

[Information about impairment losses on non-current assets by reportable segment]

Previous fiscal year (January 1, 2021 – December 31, 2021)

Not applicable.

Current fiscal year (January 1, 2022 – December 31, 2022)

(Unit: Thousands of yen)

	Fanicon business	Reportable segment		Total
		Corporate Agency Sales business	Total	
Impairment losses	260,077	—	260,077	260,077

[Information about amortization and unamortized balance of goodwill by reportable segment]

Not applicable.

[Information about gain on bargain purchase by reportable segment]

Not applicable.

(Per share information)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net assets per share	838.39 yen	572.65 yen
Profit (loss) per share	(59.78 yen)	(237.37 yen)

(Notes) 1. Diluted profit per share is not shown in the above table, because profit per share was negative although there are residual shares.

2. The basis of calculating profit (loss) per share is as follows.

(Thousands of yen)

Item	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Profit (loss) per share		
Profit (loss)	(109,200)	(488,468)
Amount not attributable to common shareholders	—	—
Profit (loss) for common share	(109,200)	(488,468)
Average number of common shares during period	1,826,834 shares	2,057,872 shares
Description of residual shares not included in the calculation of diluted profit per share due to the absence of dilutive effects	—	—

(Significant subsequent events)

Not applicable.