Translation

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

August 12, 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: August 12, 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 Two Quarters (January 1, 2022–June 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 two quarters of fiscal year ending December 31, 2022	1,986	—	(123)	—	(120)	—	(121)	—
First two quarters of fiscal year ended December 31, 2021	—	—	—	—	—	—	—	—

	Profit per share	Diluted profit per share
	Yen	Yen
First two quarters of fiscal year ending December 31, 2022	(59.44)	—
First two quarters of fiscal year ended December 31, 2021	—	—

(Notes) 1. As the quarterly financial statements are not prepared for the first two quarters of the fiscal year ended December 31, 2021, the figures for the first two quarters of the fiscal year ended December 31, 2021, and the percentage change from the same period of the previous year are not shown.

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

3. 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 two quarters of fiscal year ending December 31, 2022	3,443	1,548	44.9
Fiscal year ended Dec. 2021	3,220	1,696	52.6

(Reference) Equity First two quarters of fiscal year ending December 31, 2022 1,546 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) and others 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
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 2021	—	0.00	—	0.00	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	4,600	—	42	—	41	—	49	—	24.24

(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 8 of the attached materials.

(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 June 30, 2022	2,056,605 shares	As of December 31, 2021	2,021,355 shares
2. Number of treasury shares at end of period	As of June 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)	As of June 30, 2022	2,044,206 shares	First two quarters of fiscal year ended Dec. 2021	— shares

(Note) The average number of shares during the period is not stated because quarterly financial statements were not prepared for the first two quarters of the fiscal year ended December 31, 2021.

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

* 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 4 of the attachments.

(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 Monday, August 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 two quarters ended June 30, 2022, challenges remained in the Japanese economy. There were signs of a recovery, however, partly attributable to the effects of various policies against the spread of COVID-19 infections. Uncertainty surrounding 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 renders the future difficult to predict.

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 a fully membership-based service, the name of which originated from Fan (fan) + Icon*, to provide a new type of service. The Company has two businesses: the Fanicon business, which provides a fully fee-based fan community platform, and Corporate Sales, an inherited business.

As for the market environment for the Fanicon business, according to “Fan Community Business 2022,” a study by Yano Research Institute Ltd., 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. 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 Sales business, according to “Advertising Expenditures in Japan in 2021” by Dentsu Inc., the Internet advertising market will continue to grow at a high rate of 2,705.2 billion yen, up 21.4% year-on-year. The share of total advertising expenditures accounted for by media reached 39.8%, up 3.6 percentage points from the previous year, and 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.

In the Corporate Sales business, the Company has steadily grown its business by proposing advertising and other measures using influencers to clients in Japan and overseas, and by gaining a very favorable reputation for both online advertising management and consulting.

As a result, the Company reported net sales of 1,986,095 thousand yen, operating loss of 123,443 thousand yen, ordinary loss of 120,844 thousand yen, and net loss of 121,505 thousand yen for the first two quarters of the current fiscal year.

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. The Company has a dedicated team that is continuously conducting sales activities to acquire new icons. However, in the case of certain large icons, it has obtained the cooperation of partner companies and others, and as a result, there has been steady growth in the number of new communities.

The acquisition cost of a large fan club—recorded in sales promotion expenses in the first quarter—was partially reduced because it was determined during the second quarter that the amount could be reduced more than originally expected despite being estimated at the maximum amount based on information initially available. The icon churn rate has remained low as in the previous fiscal year owing to the implementation of customer success measures that enhance the value of the fan experience, and to proposals for seasonal and personal event-based measures for icons.

As a result, this segment reported net sales of 1,161,371 thousand yen and segment loss of 174,036 thousand yen.

b. Corporate Sales Business

In the Corporate Sales business, the strengthening of marketing and inside sales efforts has resulted 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 824,724 thousand yen and segment profit of 50,593 thousand yen.

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

(2) Explanation of Financial Position

i. Assets, liabilities and net assets

(Assets)

Total assets at the end of the first two quarters of the fiscal year increased by 223,209 thousand yen from the end of the previous fiscal year to 3,443,329 thousand yen.

The main factors were a 183,474 thousand yen increase in other current assets, a 77,526 thousand yen decrease in cash and deposits, a 12,553 thousand yen increase in intangible fixed assets due to capitalization of new development costs as software, and a 152,765 thousand yen increase in investments and other assets.

Accounts receivable include accounts receivable - trade related to sales in which the Company recognizes revenue on a net basis as an agent in certain transactions in the Fanicon and Corporate 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 two quarters of the current fiscal year increased by 371,261 thousand yen from the end of the previous fiscal year to 1,894,975 thousand yen. The main factors were a 217,428 thousand yen increase in accounts payable - trade, a 26,827 thousand yen increase in accounts payable - other, a 178,205 thousand yen increase in advances received owing to an increase in the number of fans in the Fanicon business, a 9,475 thousand yen decrease in income taxes payable, and 14,560 thousand yen in repayment of current portion of long-term borrowings.

(Net assets)

Net assets at the end of the first two quarters of the current fiscal year decreased by 148,052 thousand yen from the end of the previous fiscal year to 1,548,353 thousand yen. The main factors were a 5,384 thousand yen increase in share capital and capital surplus due to the exercise of stock 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 and other standards, and a 121,505 thousand yen net loss.

ii. Cash flows

Cash and cash equivalents (“net cash”) at the end of the first two quarters of the current fiscal year amounted to 1,957,409 thousand yen, down 87,526 thousand yen from the end of the previous fiscal year, mainly due to loss before income taxes of 120,844 thousand yen.

The following outlines the status of cash flows for the first two quarters of the current fiscal year.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 130,177 thousand yen. The main factors of increase were a decrease in trade receivables of 55,133 thousand yen, an increase in trade payables of 217,428 thousand yen, and an increase in advances received of 146,276 thousand yen owing to an increase in the number of fans in the Fanicon business. The main factors of decrease were loss before income taxes of 120,844 thousand yen and other decreases of 220,330 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities totaled 208,525 thousand yen. This was mainly attributable to 35,116 thousand yen in expenditures for the purchase of property, plant and equipment related to office relocation, etc., and 151,186 thousand yen in other investment activities.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 9,178 thousand yen. This was due to 14,560 thousand yen in repayment of long-term borrowings and 5,382 thousand yen in proceeds from issuance of shares upon exercise of stock acquisition rights.

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

As for the earnings forecast for the fiscal year ending December 31, 2022, there are no changes to the forecast figures announced on February 10, 2022.

2. Quarterly Financial Statements and Main Notes

(1) Quarterly Balance Sheet

(Unit: Thousands of yen)

	Previous fiscal year (December 31, 2021)	First two quarters of current fiscal year (June 30, 2022)
Assets		
Current assets		
Cash and deposits	2,044,935	1,967,409
Notes and accounts receivable - trade	837,861	782,727
Other	36,252	219,726
Allowance for doubtful accounts	(3,782)	(3,960)
Total current assets	2,915,266	2,965,903
Non-current assets		
Property, plant and equipment	235,968	243,221
Intangible assets	—	12,553
Investments and other assets	68,885	221,651
Total non-current assets	304,853	477,426
Total assets	3,220,120	3,443,329
Liabilities		
Current liabilities		
Accounts payable - trade	447,129	664,557
Current portion of long-term borrowings	67,040	52,480
Accounts payable - other	365,528	392,356
Income taxes payable	19,955	10,480
Advances received	440,491	618,696
Asset retirement obligations	6,240	6,240
Other	129,103	101,924
Total current liabilities	1,475,489	1,846,735
Non-current liabilities		
Long-term borrowings	39,680	39,680
Asset retirement obligations	8,545	8,560
Total non-current liabilities	48,225	48,240
Total liabilities	1,523,714	1,894,975
Net assets		
Shareholders' equity		
Share capital	752,400	755,092
Capital surplus	1,656,696	944,985
Retained earnings	(714,402)	(153,434)
Total shareholders' equity	1,694,693	1,546,643
Stock acquisition rights	1,713	1,710
Total net assets	1,696,406	1,548,353
Total liabilities and net assets	3,220,120	3,443,329

(2) Quarterly Statement of Income

First two quarters of current fiscal year

(Unit: Thousands of yen)

	First two quarters of the current fiscal year (January 1, 2022 – June 30, 2022)
Net sales	1,986,095
Cost of sales	1,213,935
Gross profit	772,159
Selling, general and administrative expenses	895,602
Operating loss	(123,443)
Non-operating income	
Advertising revenue	116
Foreign exchange gains	3,124
Other	16
Total non-operating income	3,257
Non-operating expenses	
Interest expenses	658
Total non-operating expenses	658
Ordinary loss	(120,844)
Loss before income taxes	(120,844)
Income taxes - current	2,241
Income taxes deferred	(1,579)
Total income taxes	661
Loss	(121,505)

(3) Quarterly Cash Flow Statement

(Unit: Thousands of yen)

	First two quarters of the current fiscal year (January 1, 2022 – June 30, 2022)
Cash flows from operating activities	
Loss before income taxes	(120,844)
Depreciation	28,405
Increase (decrease) in allowance for doubtful accounts	177
Interest and dividend income	(6)
Interest expenses	658
Decrease (increase) in trade receivables	55,133
Decrease (increase) in inventories	607
Increase (decrease) in trade payables	217,428
Increase (decrease) in advances received	146,276
Increase (decrease) in accounts payable - other	25,955
Other	(220,330)
Subtotal	133,461
Interest and dividends received	6
Interest paid	(658)
Income taxes paid	(2,631)
Net cash provided by (used in) operating activities	130,177
Cash flows from investing activities	
Purchase of property, plant and equipment	(35,116)
Purchase of intangible assets	(12,223)
Payments into time deposits	(10,000)
Other	(151,186)
Cash flows from investing activities	(208,525)
Cash flows from financing activities	
Repayment of long-term borrowings	(14,560)
Proceeds from issuance of shares	5,382
Cash flows from financing activities	(9,178)
Effect of exchange rate changes on cash and cash equivalents	—
Net increase (decrease) in cash and cash equivalents	(87,526)
Cash and cash equivalents at beginning of fiscal year	2,044,935
Cash and cash equivalents at end of first two quarters	1,957,409

(4) 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 and others 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, etc.).”

(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) and others from the beginning of the first quarter of the current fiscal year. When control of the promised goods or services is transferred to the customer, revenue is recognized in an amount reflecting the expected consideration in return for those goods or services.

The main changes due to the adoption of the Accounting Standard for Revenue Recognition and other standards 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, 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 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 48,940 thousand yen, cost of sales decreased by 47,552 thousand yen, and operating loss, ordinary loss, and loss before income taxes each increased by 1,388 thousand yen in the first two quarters of the current 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) and others 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 is to be applied prospectively. Note that the application has not affected the quarterly financial statements.

(Segment information, etc.)

[Segment information]

I. First two quarters of the current fiscal year (January 1, 2022–June 30, 2022)

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

(Unit: Thousands of yen)

	Reportable segment			Quarterly statement of income recorded amount
	Fanicon Business	Corporate Sales Business	Total	
Net sales Revenue from contracts with customers				
Net sales to outside customers	1,161,371	824,724	1,986,095	1,986,095
Transactions with other segments	—	—	—	—
Total	1,161,371	824,724	1,986,095	1,986,095
Segment profit (loss)	(174,036)	50,593	(123,443)	(123,443)

(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 and others 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 two quarters of the current fiscal year, as a result of this change, Fanicon business net sales decreased 48,940 thousand yen and segment loss increased 1,388 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.