Results Briefing Materials for First Three Quarters of Fiscal Year Ending December 2022

THECOO Inc.　TSE Growth: 4255

1. Executive Summary
2. Company Overview
3. Revisions to Earnings Forecast for FY2022
4. FY2022-3Q Results
5. Results by Segment: Fanicon Business
6. Results by Segment: Corporate Agency Sales Business
7. Growth Strategies
8. Appendix

01 / Executive Summary

1-1

Summary of 3Q Results for the Fiscal Year Ending December 31, 2022

- Announced revisions to earnings forecast due to an increase in sales promotion expenses, etc.

Company-wide

Net sales: 1,066 million yen **+9.7% YoY**

Quarterly sales increased 32.7% YoY to 1,289 million yen after factoring in recording at gross.

Operating profit: -47 million yen **-44 million yen YoY**

Improvement of operating profit failed to accelerate due to larger-than-budget SG&A expenses and lower gross profit margin from product mix changes, leading to revisions to earnings forecast.

Fanicon business

Number of Icons:	**2,461**	+16.4% YoY
Number of fans:	**201,000**	+39.6% YoY

Solid growth was achieved from the year-earlier quarter in these most important KPIs for the Fanicon business.

Corporate Agency Sales business

KPIs, net sales, and operating profit all performed well.

02 / Company Overview

2-1

Company Overview

Name:	THECOO Inc.
Representative:	Masato Taira, President and CEO
Established:	January 2014
Share capital:	758 million yen (as of September 30, 2022)
Date of listing:	December 22, 2021
Location:	2-34-17 Jingumae, Shibuya-ku, Tokyo
Number of executives and regular employees:	129 (as of September 30, 2022, excluding temporary (part-time) employees)
Our services:	Fanicon business Corporate Agency Sales business
Fiscal year end:	December
Listed market:	TSE Growth





2-2

Two Core Businesses

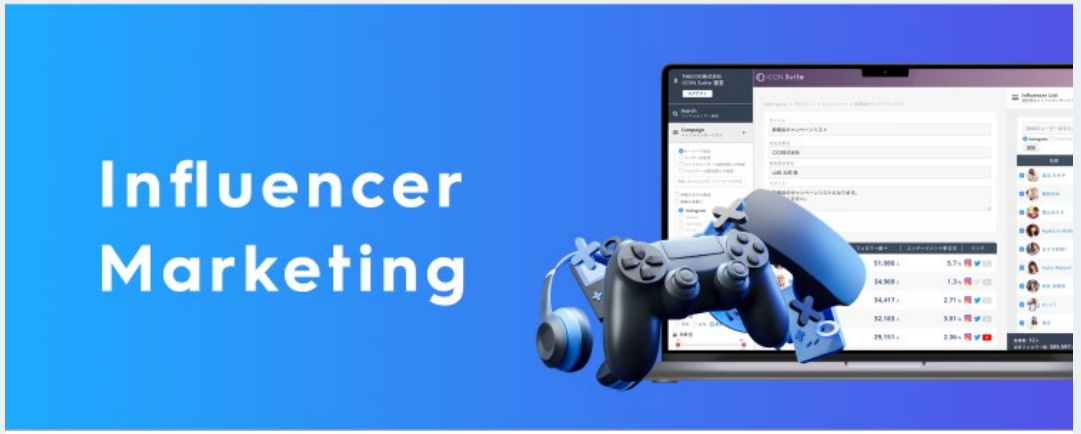
- Two core businesses covering BtoC and BtoB
- Sharing data, customer base and expertise, etc.



Fanicon business

BtoC

Fanicon is a fan community app available on its website and Android/iOS stores. It offers such original functions as chat, live-streaming and online lottery, as well as functions available in conventional fan clubs, including settlement and ticket sales.



Corporate Agency Sales business

BtoB

The business conducts influencer sales business that leverages YouTubers and Instagrammers to support influencer marketing measures, and online advertising business that provides consulting services for pay-per-click (PPC) advertising and social media management.

03 / Revisions to Earnings Forecast for FY2022

3-1

Revisions to Earnings Forecast

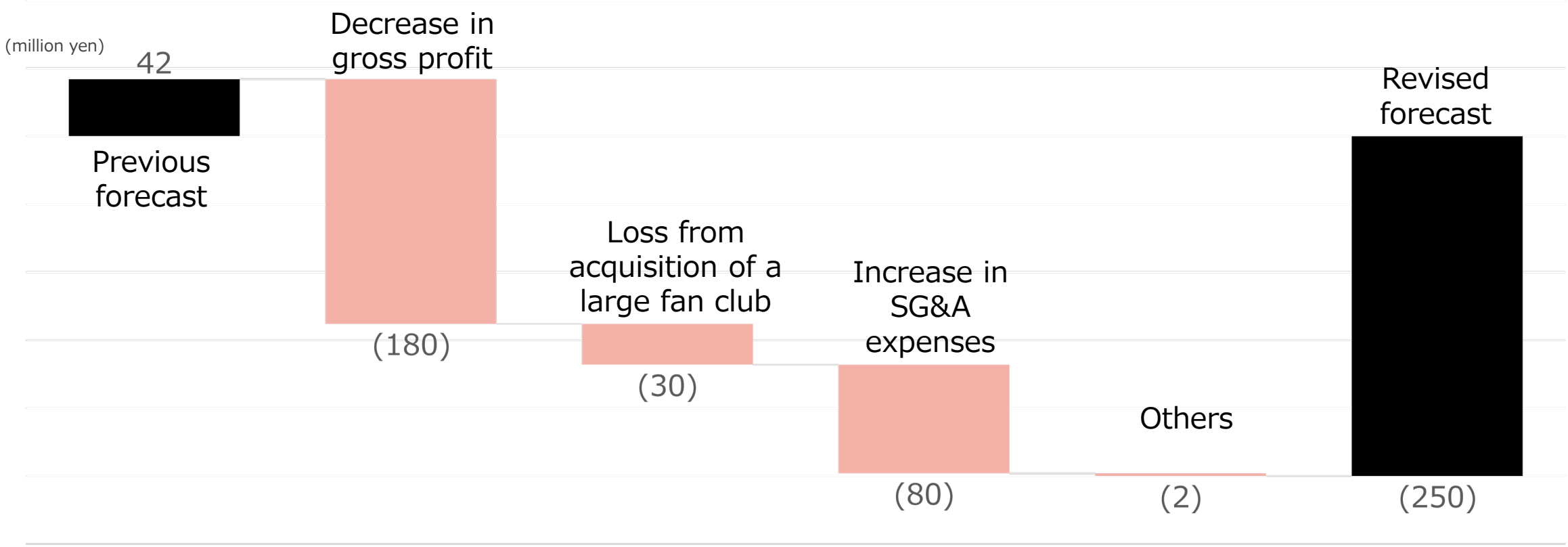
- Although the number of Icons and fans, the most important KPIs of the Fanicon business, are growing steadily, the impact of changes in accounting standards has led to revised net sales forecast of 4,200 million yen, down 8.7% from the initial forecast.
- Contract with a large fan club, which was acquired in the first half of FY2022, was terminated in 3Q. Acquisition costs are increasing.
- Operating profit is forecast to be ▲250 million yen due to a larger-than-expected increase in SG&A expenses.

(million yen)	Net sales	Operating profit	Ordinary profit	Profit
Previous forecast (A)	4,600	42	41	49
Revised forecast (B)	4,200	(250)	(250)	(300)
Change (B-A)	(400)	(292)	(291)	(349)
Change rate (%)	(8.7%)	-	-	-
(Reference) Previous fiscal year results Fiscal year ended Dec. 2021	3,482	(100)	(119)	(109)

3-2

Thinking behind Operating Profit Forecast

- Gross profit is forecast to decrease from the budget figure due to sluggish growth in point sales, which have a higher margin among non-subscription sales.
- It is deemed to be difficult to sharply curb the increase in sales promotion expenses in 4Q and thereafter.



3-3

Measures to start in 4Q FY2022

- Control profits by reviewing rates for low-margin products and strengthening management systems.

Main factors that led to the downward revision of profits

(1) Decline in gross profit

Conceivable factors
- Changes in product mix for sale
- Decrease in gross profit margin
- Increase in sales of low-margin products (e-commerce sales, ticket sales)
- Recruitment of customer success is lagged

(2) Increase in sales promotion expenses

Conceivable factors
- Increase in acquisition costs for large fan club projects
- Lack of awareness of linkage between costs and sales among staff
- Insufficient human resources (delays in staff recruitment, etc.)

Measures to start in 4Q FY2022

- Review rates and operations for low-margin products such as e-commerce and ticket sales
- Strengthen management systems
- Strengthen staff recruitment

04 / FY2022-3Q Results

4-1

Company-Wide: FY2022-3Q Results: Statement of Income

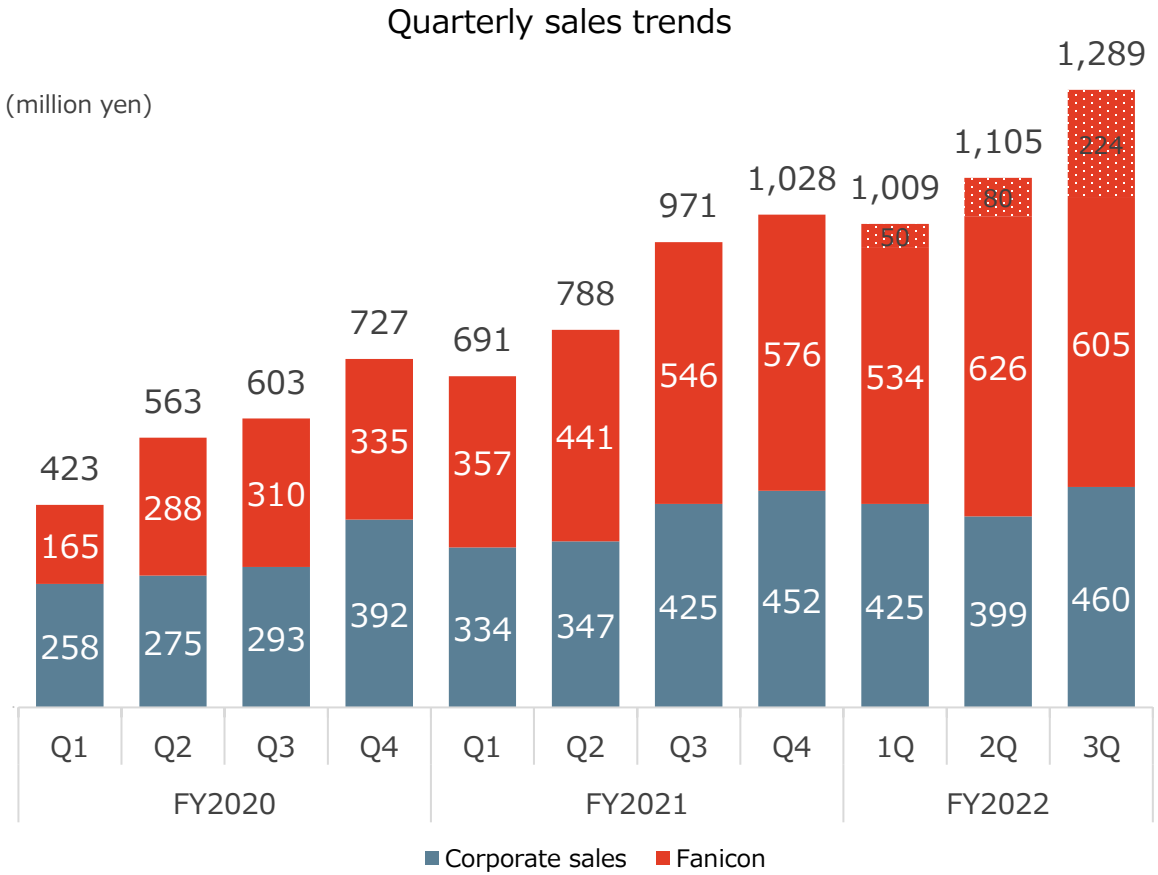
- SG&A expenses have increased more rapidly than the net sales growth rate.

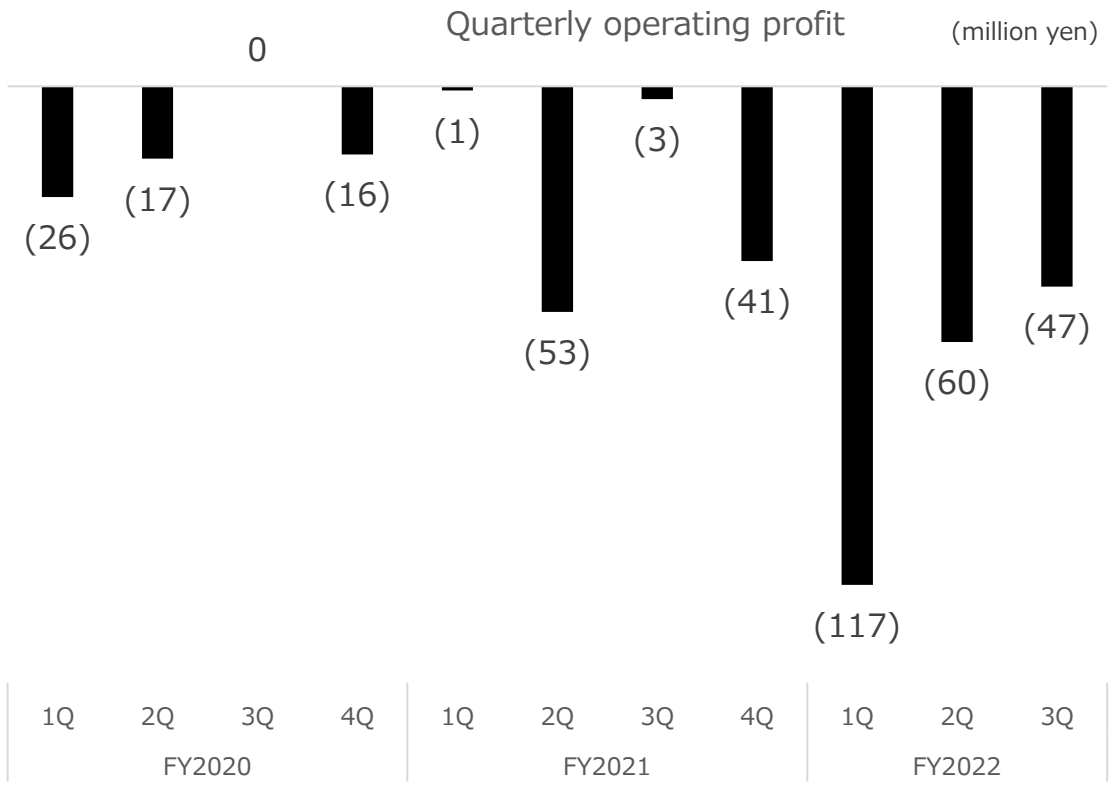
(million yen)	FY2022-3Q (July - September 2022)					Cumulative total through FY2022-3Q (Jan. - Sep. 2022)		
	Results	Same period in previous fiscal year		Same period in previous fiscal year		Results	Same period in previous fiscal year	
		Results	YoY	Results	QoQ		Results	YoY
Net sales	1,066	972	9.7%	1,026	3.9%	3,052	2,452	24.5%
Gross profit	428	360	18.9%	387	10.6%	1,200	904	32.7%
Gross profit margin	40.2%	37.0%	+3.2pt	37.7%	+2.5pt	39.3%	36.9%	+2.4pt
SG&A expenses	475	364	30.5%	393	20.9%	1,370	963	42.3%
Operating profit	-47	-3	-	-6	-	-170	-59	-
Ordinary profit	-47	-4	-	-3	-	-168	-60	-
Profit	-83	-5	-	-4	-	-204	-64	-

4-2

Company-Wide: Quarterly Sales and Operating Profit Trends

- Quarterly sales increased 32.7% YoY after factoring in recording at gross.
- Quarterly operating profit: -47 million yen (-44 million yen YoY)





*Dot pattern portion indicates consideration of recording at gross

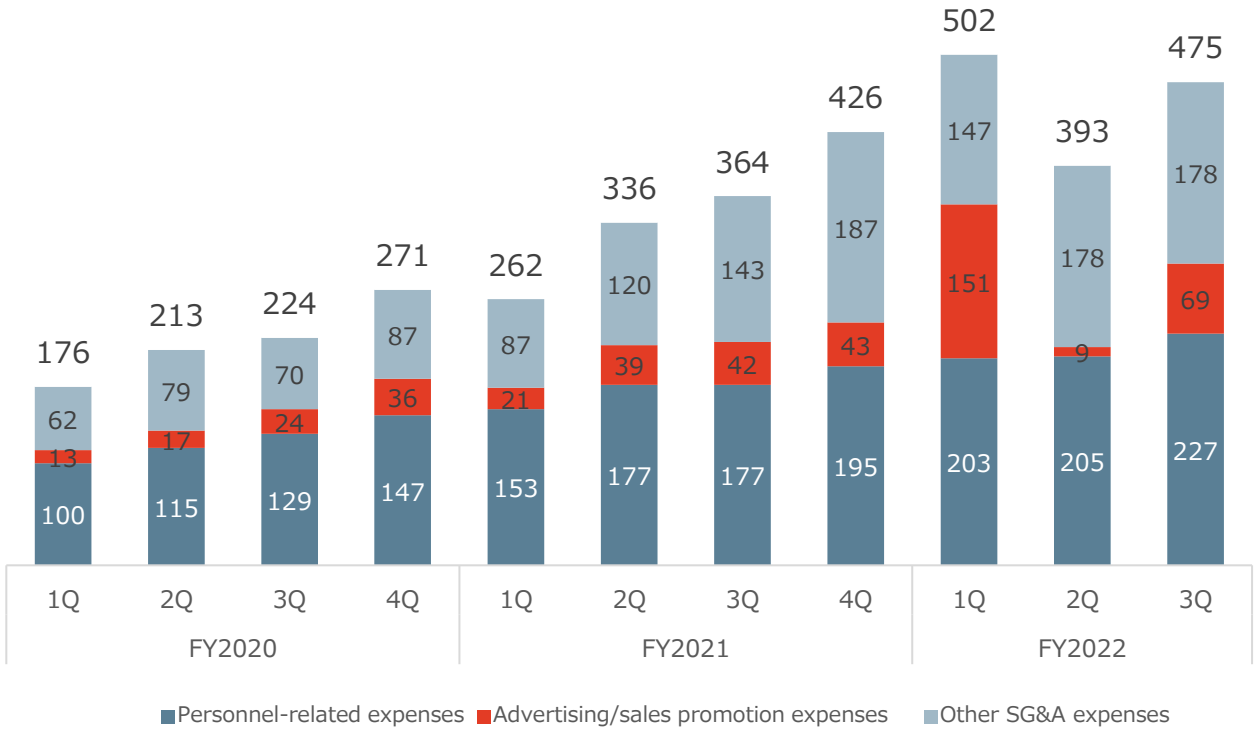
4-3

Company-Wide: SG&A Expenses and Number of Executives and Regular Employees

- With an increase in sales promotion expenses not fully controlled, SG&A expenses put the squeeze on operating profit.

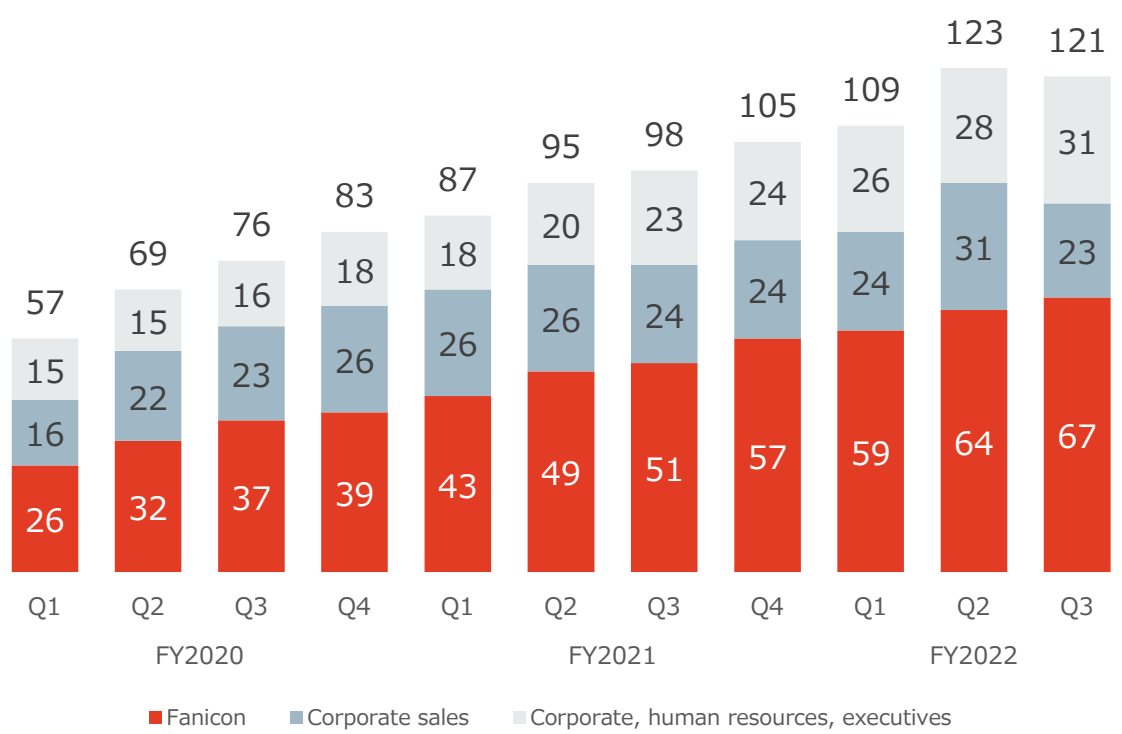
(million yen)

SG&A expenses



(people)

Number of executives and regular employees

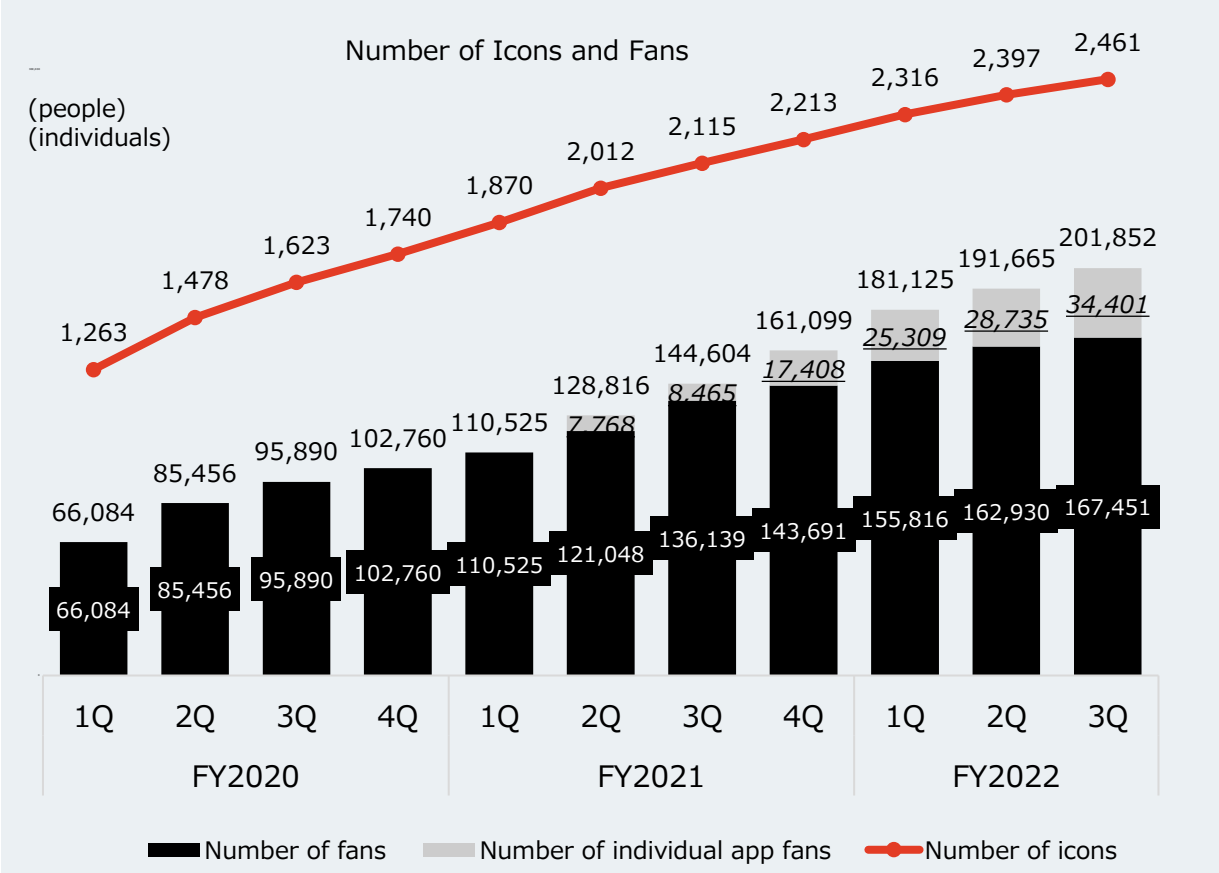


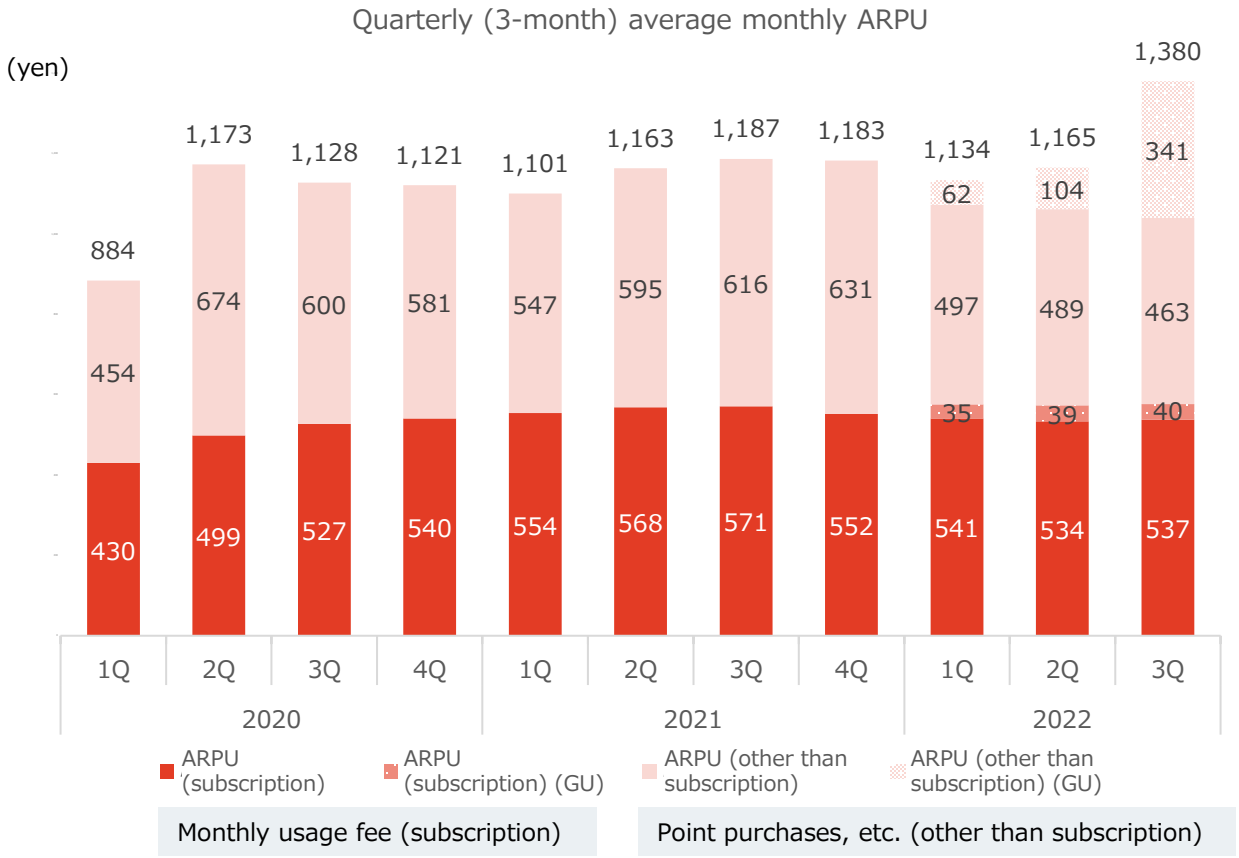
05 / Results by Segment: Fanicon Business

5-1

[Fanicon Business] KPIs

- The number of Icons increased 16.4% YoY, while the number of fans rose 39.6% YoY.
- Average revenue per unit (ARPU) was up 16.3% YoY to 1,380 yen after factoring in recording at gross.





* Large-scale fan club operation projects commissioned in 1Q are excluded from KPIs as they differ in nature from conventional fan community operation.

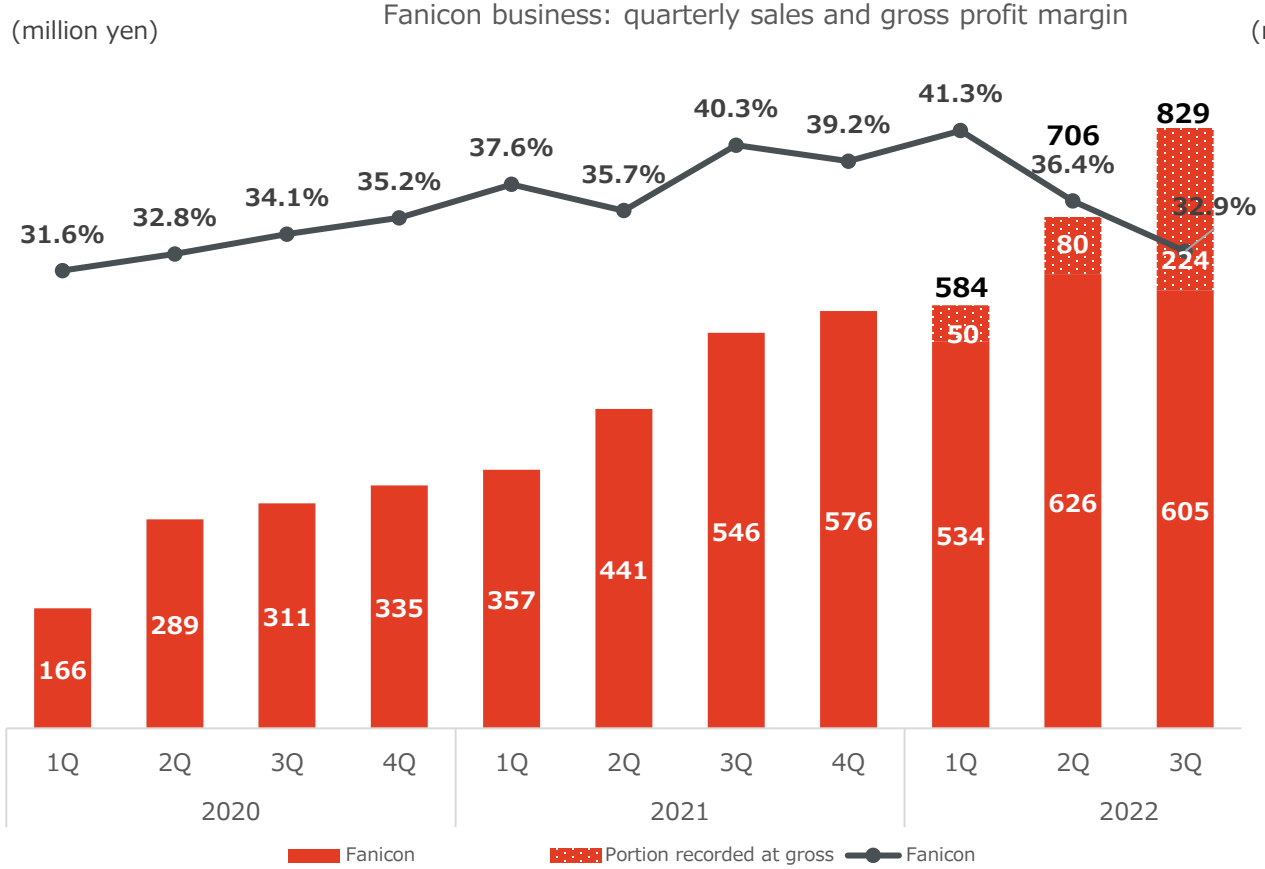
* Dot pattern portion indicates consideration of recording at gross

5-2

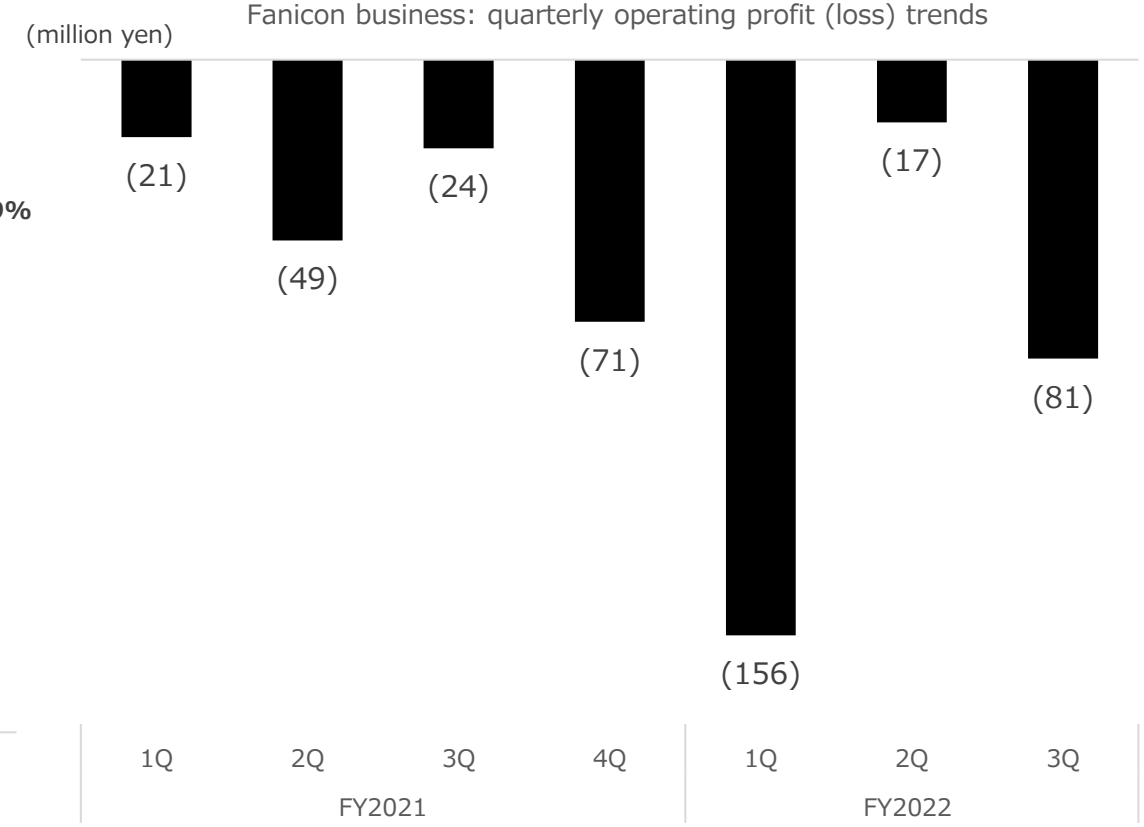
[Fanicon Business] Quarterly Sales and Gross Profit Margin / Operating Profit Trends

- Sales of Fanicon business department grew steadily to 829 million yen, or up 51.8% YoY, on a gross basis.
- Meanwhile, gross profit margin decreased due to changes in product mix.

Fanicon business: quarterly sales and gross profit margin



Fanicon business: quarterly operating profit (loss) trends



* Dot pattern portion indicates consideration of recording at gross

(Note) Starting with this document, gross profit margin is calculated based on sales after factoring in recording at gross (in contrast, the figure was calculated based on net sales for financial and accounting purposes in the results briefing materials for the periods through FY2022-2Q).

[Topics] Example of Fanicon Opening in FY2022-3Q (July - September)



Opening date: August 6
Icon name: aobozu
Fan community name:
Official fan community “OTOnoMOTO”
500 yen/month



Release date: August 8
Icon name: chay
Fan community name: Official fan community “chay's mate”
500 yen/month



Release date: August 29
Icon name: New members of Choutokkyuu (Bullet Train)
Shuya (backing vocal), Masahiro, Aloha and Haru (main dancers)
580 yen/month



Release date: August 26
Icon name: BLVCKBERRY
Fan community name:
Official fan community “TEAM CHARISMA”
500 yen/month



Opening date: September 18
Icon name: Each member of Broken By The Scream
Fan community name:
Io Nodsukidaira “BLACKCHAPEL”
Ayame Yabusame “♡Pyon Pyon Land♡”
Kagura Uriin “KagurATELIER”
Tsubaki Nanaougi “Tsubaki Nanaougi no Nanatsubaen”
300/1,000 yen per month



Opening date: September 26
Icon name: yourness
Fan community name:
Official fan community “Hamster Densetsu”
500 yen/month

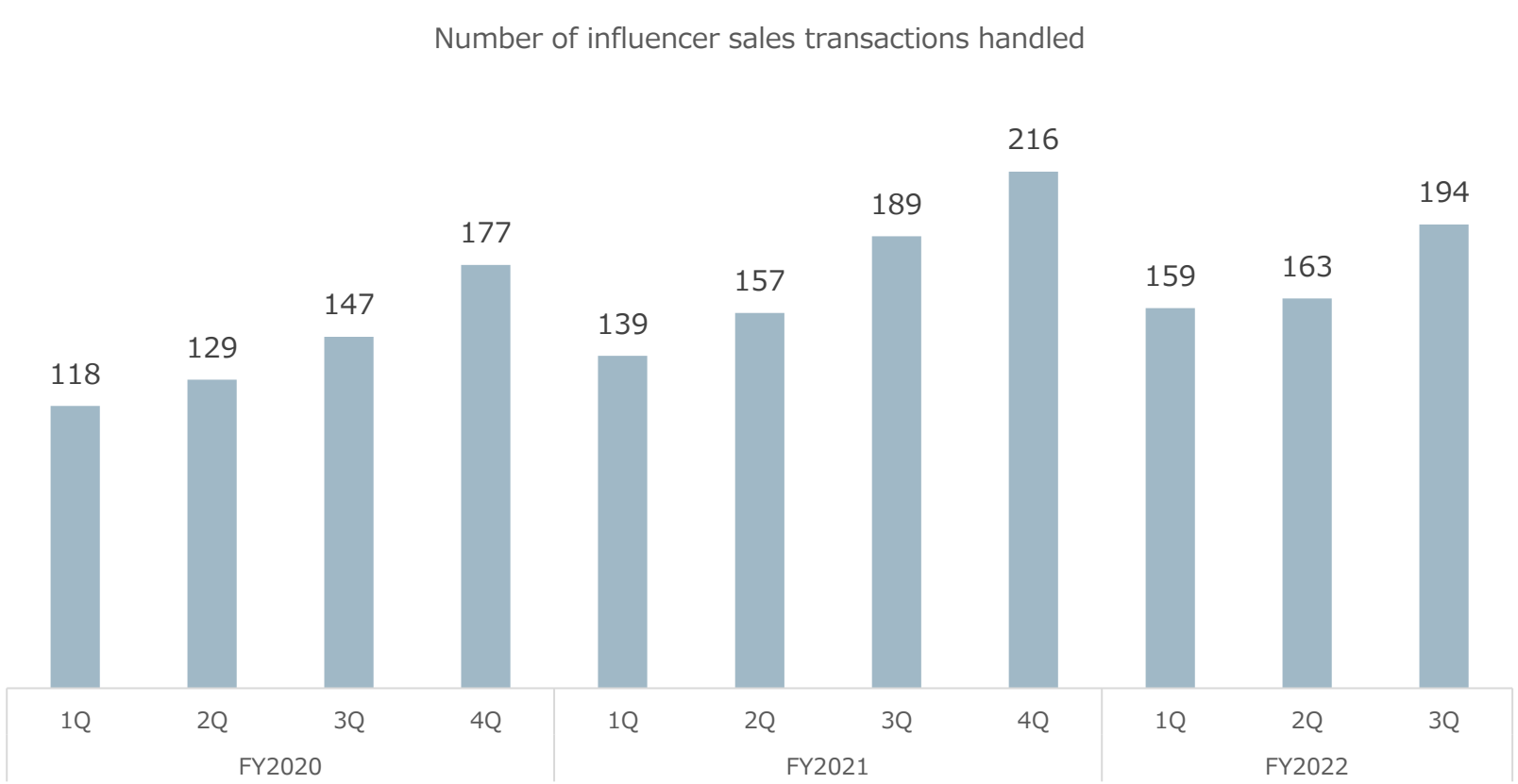
06 / Results by Segment: Corporate Agency Sales Business

6-1

[Corporate Agency Sales Business] KPIs

- The number of influencer sales transactions was 194, up 2.6% YoY.

(number of cases)



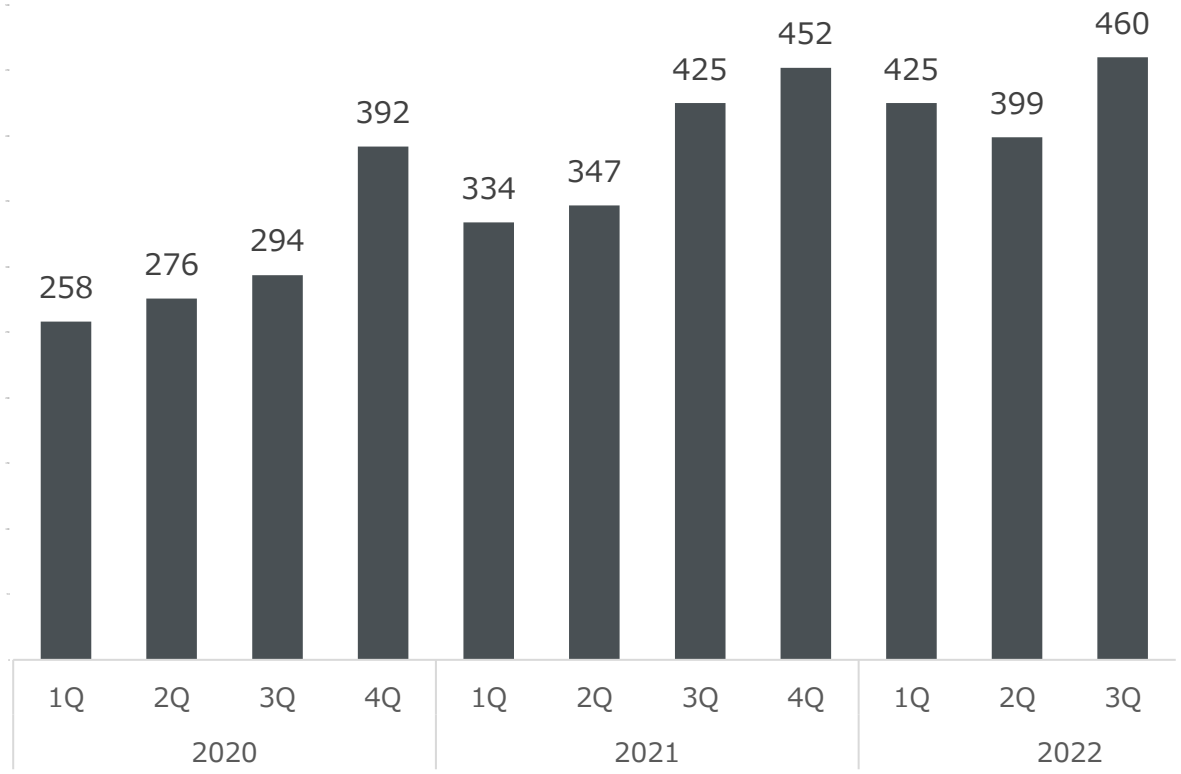
6-2

[Corporate Agency Sales Business] Quarterly Sales and Operating Profit Trends

- Sales increased 8.2% YoY to 460 million yen.

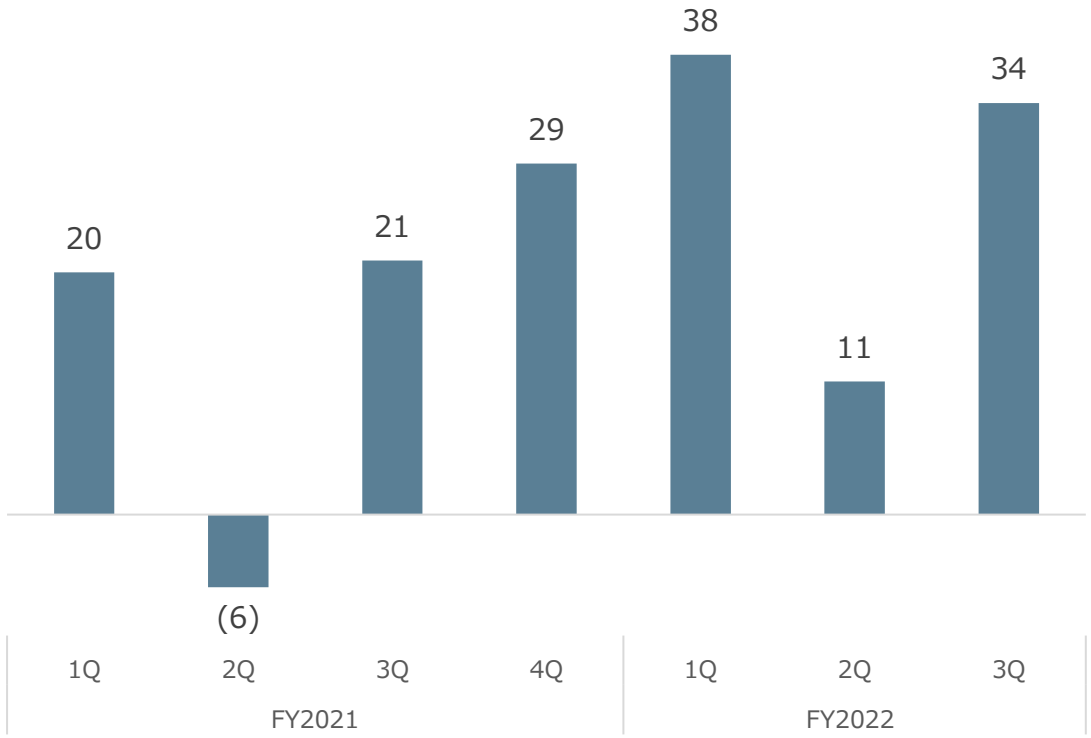
(million yen)

Sales of Corporate Agency Sales business



(million yen)

Operating profit of Corporate Agency Sales business

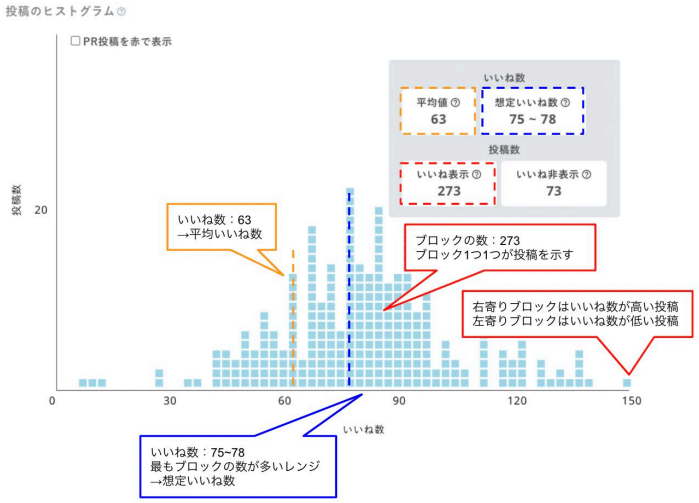


6-3

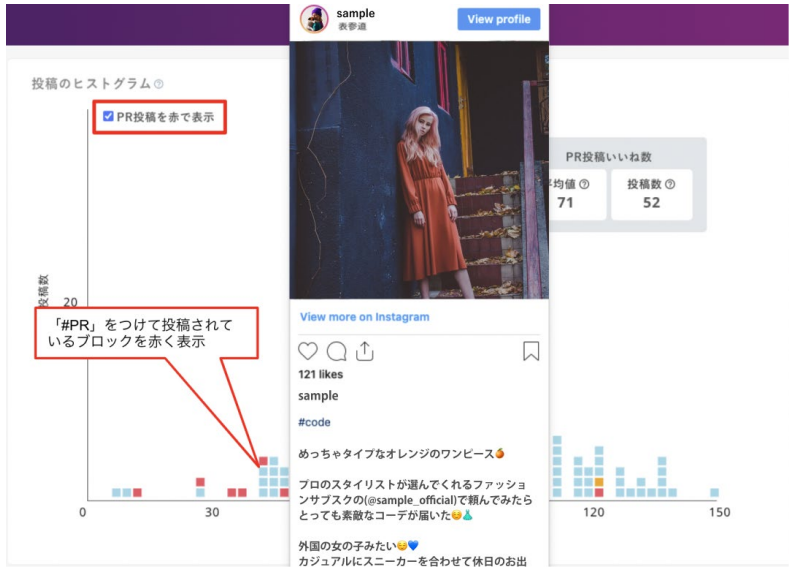
[Topics] Functions to Visualize Influencer Engagement

- Added “Posting Histogram,” which visualizes Instagram influencers’ posting engagement, to “iCON Suite,” an influencer marketing tool.

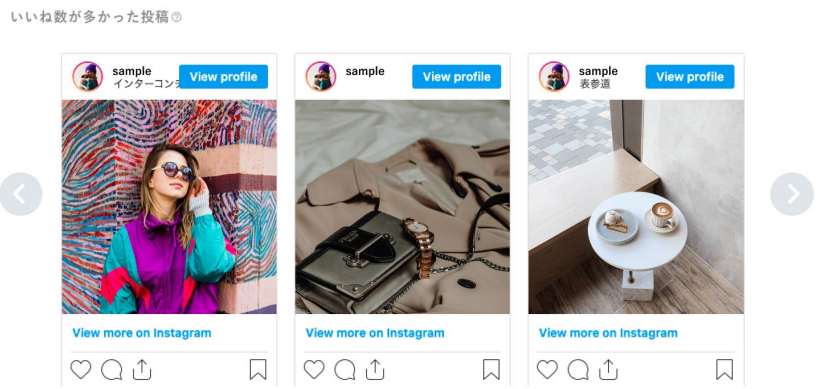
Estimate the effectiveness of PR postings based on the mode of “like” responses to postings



Estimates the effectiveness of PR postings by using past “#PR” postings as the benchmark



Understand the influencers’ worldview based on postings that attracted many “like” responses



07 / Growth Strategies

7-1

Medium-Term Growth

In accordance with the revisions to earnings forecast for FY2022, the Company has determined that the illustrative figures for its medium-term growth need to be revised.

7-2

Medium-Term Management Policy

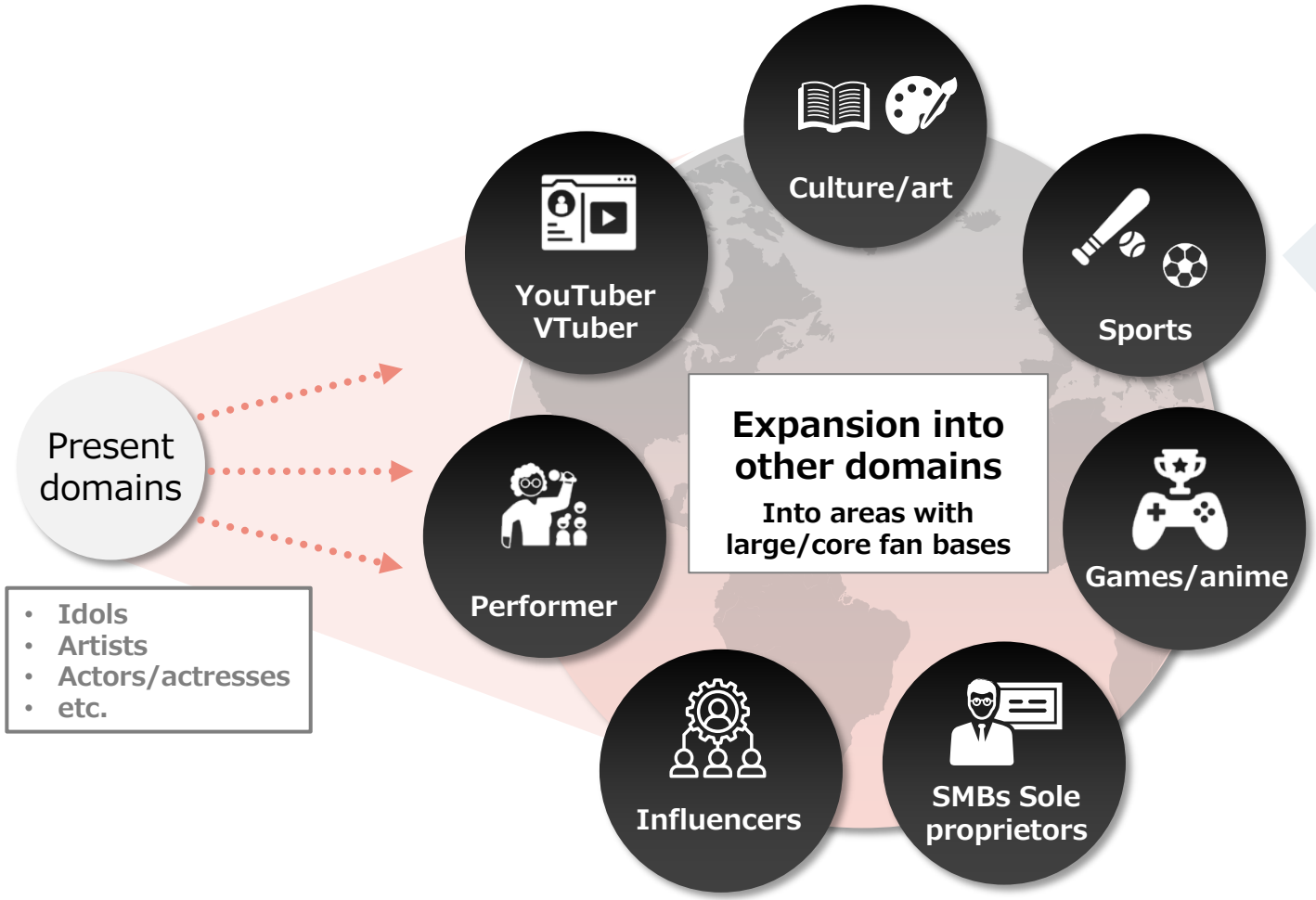
- **Fanicon business**
  - “Our aim is to build a world where fans become a community with Icons at the core”
    - Expand sales by increasing the number of Icons through genre expansion and overseas development
    - Improve ARPU through function expansion
    - Lead the fan business market online by incorporating Web3 concepts such as NFT and Metaverse to generate more value in Icons’ digital products
- **Corporate Agency Sales business**
  - “We will build a world of “sampo Yoshi” 1) under the slogan of “empowerment of the individual”
  - Leveraging technology to provide high quality, data-based services
- **Company-wide**
  - Creating Synergy Across Two Businesses: Realizing the Passion Economy

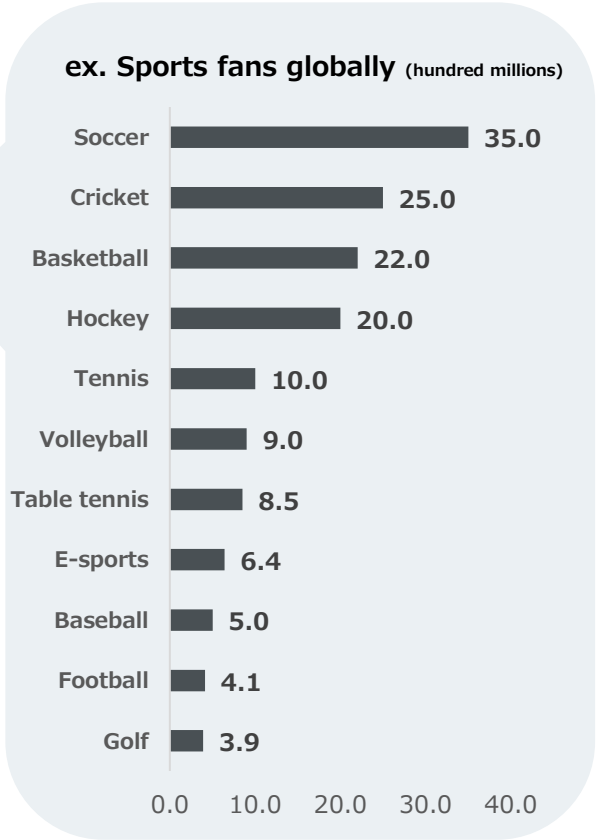
1) “Sampo yoshi” refers to an environment in which a “win-win” cycle is established among three parties, which are Icons (influencers), fans (users), and advertisers (companies).

7-3

Icon Increase Measure 1: Achieve Growth by Expanding into Areas Other than Entertainment

- Expanding into genres such as sports that have passionate fandoms. Aiming to acquire more Icons.





Source: E-sports data courtesy of Newzoo, other data courtesy of Sports Show

7-4

Icon Increase Measure 2: Full-Fledged Expansion Overseas

- Aiming for expansion of Icon/fan base in overseas markets (particularly South Korea) through expanded functionality in the form of multilingual support and real-time translation.

Multilingual Support

Chinese (Cantonese, Mandarin)

English

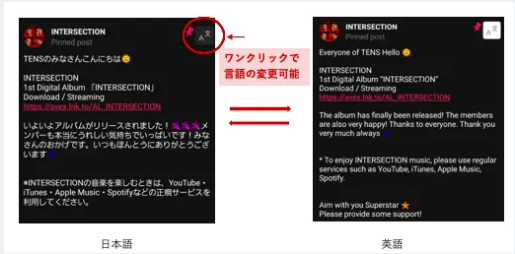
Korean

Japanese

+

Real-time Translation

Real-time translation of fans' interactions



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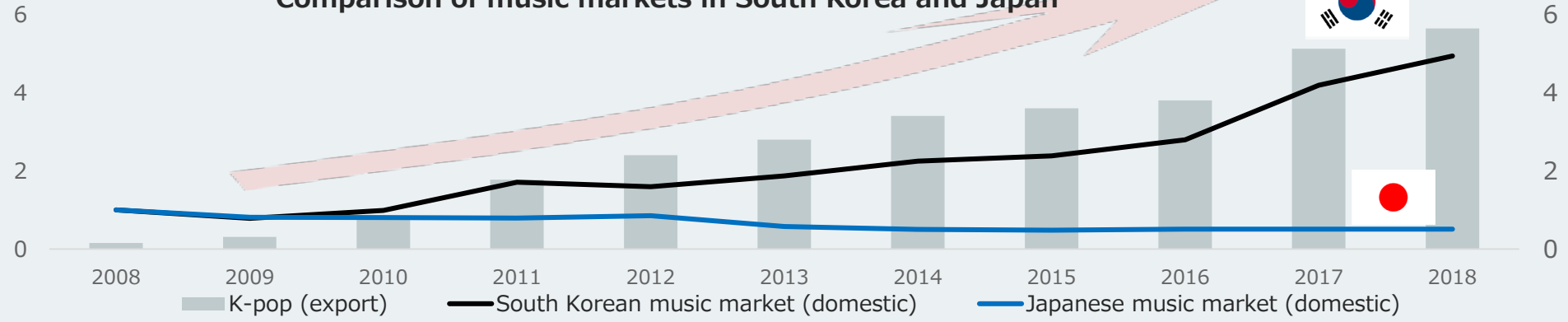
Augmentation of Functionality

Music market scale of South Korea and Japan (with 2008 at "1") Changes in scale

Total exports (USD, hundred millions)

Comparison of music markets in South Korea and Japan

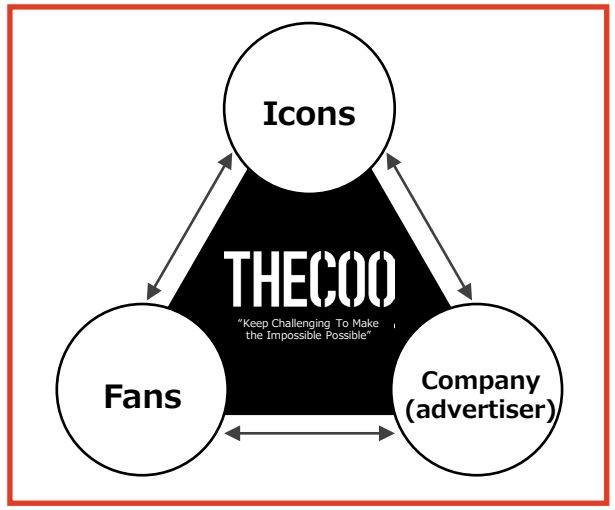


Source: Prepared by the Company based on International Federation of the Phonographic Industry (IFPI) Report

Accelerating overseas expansion with the South Korean market, which leads the Asian entertainment industry, as first step in our overseas strategy

Potential as “Platform”

- Promote a hybrid strategy that leverages the assets of the Fanicon and Corporate Sales businesses to transform the Web3 world into a platform that connects Icons, fans, and companies.
- Creating a “Passion Economy” 1) world.



- **Incorporating Web3 concepts, lead the fan business online**
- **Promoting hybrid strategy across Fanicon and Corporate Sales businesses**

Note 1) The term “passion economy” was coined by Li Jin, a partner at famous US venture capital firm Andreesen Horowitz, in an article she wrote in 2019.
It refers to “an economic sphere created by a new digital platform that allows individuals with the ability to communicate through the widespread use of social media to build their own audience interested in their individuality and passions.”

THECOO Inc.'s Vision of Future of "Fan Communities" Within the Web3 Concept

Now

- Support Icons in selling NFT[1)]
- Construction of Fan Art generation system by fans

Next

- Fans transformed into a community "DAO"[2)] that supports the Icon's growth

Later

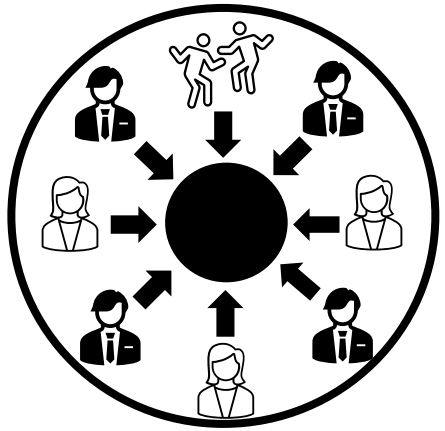
- Support ICO[3)] by issuing tokens for each community

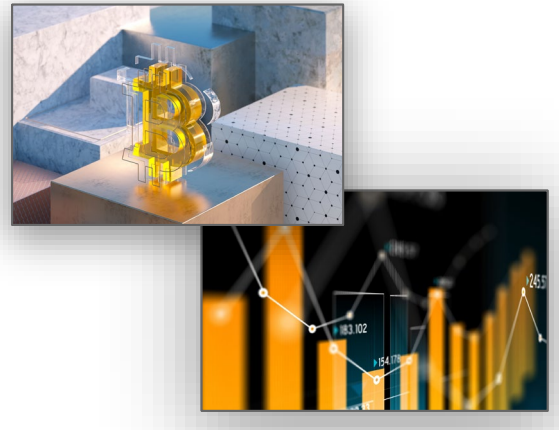
1) NFT stands for "non-fungible token."

2) DAO stands for "decentralized autonomous organization."

3) ICO stands for "initial coin offering."







08 / Appendix

FY2022-3Q Balance Sheet

(million yen)	End of September 2022	End of December 2021	Change from previous fiscal year-end	Major factors
Current assets	2,690	2,915	-7.7%	
Cash and deposits	1,886	2,044	-7.7%	
Notes and accounts receivable - trade	643	837	-23.2%	
Other	161	34	373.5%	Advance payment based on a contract with a large fan club
Non-current assets	650	304	113.8%	
Property, plant and equipment	460	235	95.7%	Increase due to office relocation
Intangible assets	20	-	-	Increase due to capitalization of new development costs as software
Investments and other assets	170	68	150.0%	Leasehold deposit payments for new offices
Total assets	3,341	3,220	3.8%	

(million yen)	End of September 2022	End of December 2021	Change from previous fiscal year-end	Major factors
Current liabilities	1,715	1,475	16.3%	
Accounts payable - trade	494	447	10.5%	
Accounts payable - other	350	365	-4.1%	
Advance payments received	724	440	64.5%	Increase due to growth in number of Fanicon fans
Other	147	223	-34.1%	Decrease in accrued expenses
Non-current liabilities	153	48	218.8%	Due to recording of Deferred tax liabilities and asset retirement obligations
Total liabilities	1,868	1,523	22.7%	
Share capital	758	752	0.8%	
Capital surplus	948	1,656	-42.8%	Decrease due to application of new standard for revenue recognition, etc.
Retained earnings	-236	-714	-	
Other	2	2	0.0%	
Total net assets	1,472	1,696	-13.2%	
Total liabilities and net assets	3,341	3,220	3.8%	

Fan Communities of a New Era
Continuously support the ones we love in interactive communities.

Fanicon is the app for a fully fee-based, fully membership-based fan community platform developed and operated by THECOO. Artists and influencers are called “icons” and set up their own communities on Fanicon. Their fans join such communities by paying membership fees.

Fanicon is characterized by its interactivity. In conventional fan clubs, newsletters and other contents prepared by icons are enjoyed by their fans only unilaterally. Such one-way dissemination of information can sometimes be a burden to the operation of icons, and they may have to spend less time on their primary activities (as musicians, etc.).

Offering a scheme that allows fans and icons to mutually disseminate contents, Fanicon aims to create a venue to support truly sustainable activities among them.



Why Purely Fee-Based and Full Membership System?

- There is a reason why we dare to choose a membership system when “typical services” are open and free-of-charge.
- Making it a purely fee-based and full membership system will contrarily increase loyalty and lead to sustainable activities.



Retain fans

Evolving from “fans” who simply enjoy the content to members of one community. An increase in the sense of belonging leads to a decrease in the attrition rate.



Establish a stable revenue base

A monthly subscription-based membership system provides a stable revenue base. A wide variety of pay-per-use elements allows for maximization of revenue.



Psychological security

Making it purely fee-based ensures that the space is guaranteed to exist only for particularly enthusiastic fans. It allows for safe interaction and heightens fan enthusiasm.

Examples of Icons that Use It (excerpts)

- Fanicon communities have been opened by Icons from a wide range of categories including idols, artists, actors, musicians, celebrities, YouTubers, sports teams, and K-pop idols.



MUCC



I Don’t Like Mondays



Seikima-II



ARUKARA



Atsushi Horie
STRAIGHTNER



Mao
SLD



Yuki Izawa



Seiya Konishi



All Japan Pro Wrestling



ukka



Minami Takahashi



Minami Minegishi



Moe Ito



Hajime Syacho



@Azuki



YOKARO-MON



DOZLE Corp.

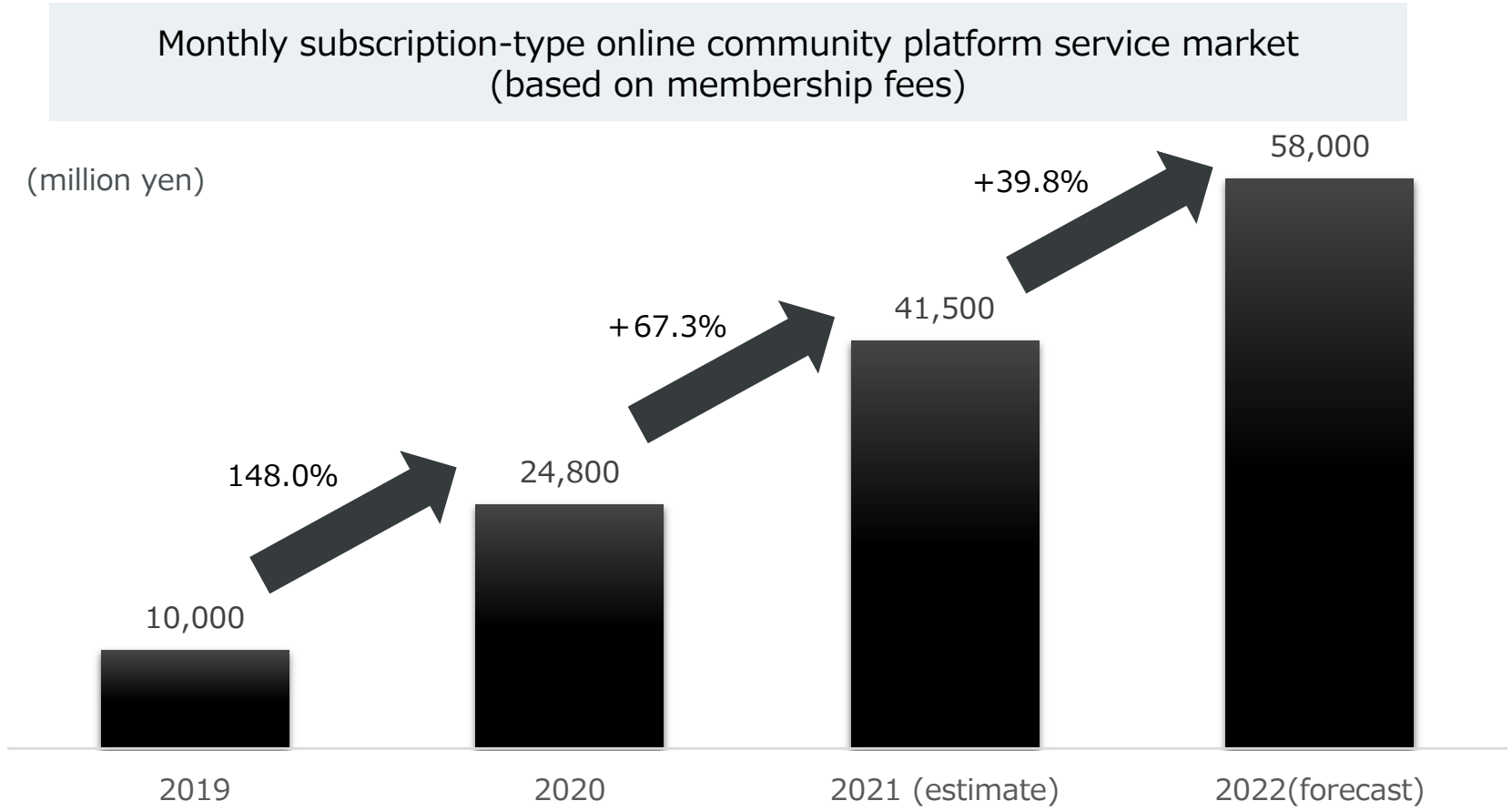


Kodai Matsuura

ポルカドットスティングレイ / ネクライトーキー / POLYSICS / 小室哲哉 / access / 宇野実彩子（AAA) / 大木伸夫（ACIDMAN） / 赤澤遼太郎 / 小西成弥 / 阪本奨悟 / 小南光司 / 井澤勇貴 / 鈴木福 / のん / 木﨑ゆりあ GANGPARADE / Devil ANTHEM. / 渡辺美優紀 / RAB リアルアキバボーイズ / 帝国プリンスキングダム〜ぷりだむ〜 / カンコンキンシアター（関根勤） / Popteen / ふにゃっしー 他

Rapidly-Growing Fan Community Business Market

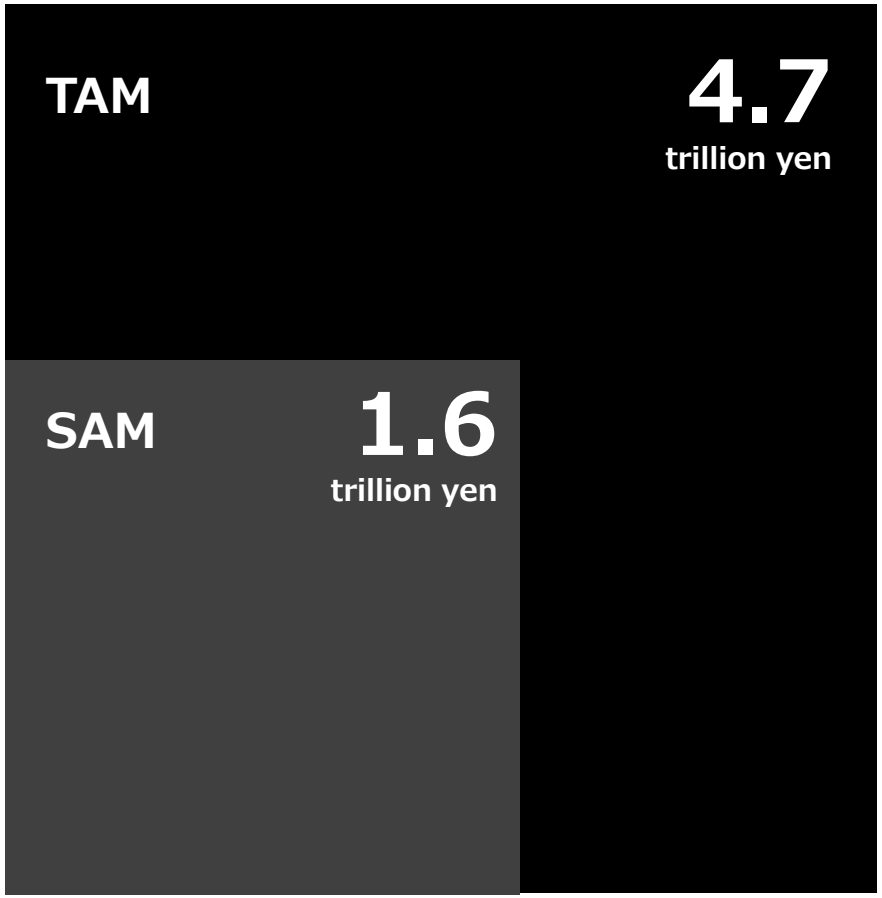
- According to “Fan Community Business 2022,” a study by Yano Research Institute, in 2021, the market is expected to grow 67.3% year-on-year to 41.5 billion yen.



Source: Fan Community Business 2022, Yano Research Institute (released in April 2022)

Vast Market Potential (our SAM and TAM)

- Vast market potential with room for future expansion with “Web3”



Entertainment business Market	**Our TAM 1)** Scale of the entertainment business market—which is becoming increasingly DX-oriented—including the fan club, live entertainment, digital content, and online advertising markets
Fan Club Market scale	**Our SAM 2)** THECOO’s estimated fan club market size

Notes:
1) TAM is short for “Total Addressable Market.” The term refers to the market scale assumed by the Company and is not intended to indicate the objective market scale for the businesses operated by the Company as of the date of disclosure of this material. These are estimates made by the Company based on external statistical data and publicly available materials. Because of the inherent limitations of statistical data and estimates concerning their accuracy, the actual market scale may differ from the estimated figures. Please refer to p. 59 for specific methods for calculation.
2) SAM is short for “Service Available Market.” The scale of the fan club market assumed by the Company based on the Ministry of Internal Affairs and Communications' July 2021 “Population Estimates“ and the Yano Research Institute's June 25–July 8, 2021 online survey “Research on Consumption Behavior of “Fans“, ” which shows per capita spending and the number of fans, including potential fans. Refer to “Our SAM (Fan Club Market Scale)” page for specific methods for calculation.

Company-Wide: Changes from FY2022-1Q

1) Application of the Accounting Standard for Revenue Recognition

Under the previous standard, ticket sales within “Fanicon” were recorded at gross.
Under the new standard, however, ticket sales are recorded at net.

2) Fanicon business individual app

Net sales are recorded for apps where the operating entity is on the Icon side, not THECOO.
As sales of individual apps are expected to grow and account for a larger proportion of Fanicon's total net sales than in the recent past, the Company discloses figures for individual apps when such can be indicated.
Factors that improve gross profit margin due to recording as net.

3) ARPU

The Company continued to disclose what was recorded at gross in the current fiscal year's materials to facilitate understanding of past growth trends (concerned that it could be misleading to reflect changes in accounting standards as is).

The above information is based on consultations with the audit firm at this time and is subject to change.

Management Team

- Founded and operated by a management team that made ties at Google LLC.
- Pursuing “individual” enrichment and customer satisfaction through KPI-focused management.



President & CEO

Masato Taira

Graduate of Department of Sociology, Hitotsubashi University
Was involved in sales, marketing, and business development at ITOCHU Corporation, DoCoMo AOL, and Sony.
He joined Google in 2007. As an executive manager, he strengthened sales to SMEs and was instrumental in the company's growth in the Japanese market.
He loves rock music more than anything.



Director & COO

Hiroki Shimokawa

Graduate of Faculty of Law, The University of Tokyo
After having worked for NTT East and NTT Communications, he joined Google in 2008.
For six years, Shimokawa worked to promote Google AdWords in the advertising sales division. After leaving the organization, he founded THECOO Inc. together with Masato Taira.



Director, CFO and General Manager, Corporate Headquarters

Shigeki Mori

Graduate of Faculty of Business and Commerce, Keio University; MBA, University of Southern California
After holding key positions in the finance and corporate planning departments of several foreign-backed companies and then managing the business management department of an e-commerce startup, which was his previous workplace, he joined THECOO Inc. in December 2017.



Director

Toshimichi Nozawa

Graduate of Yachiyo International University (now Shumei University)
After having worked for Recruit Co., Ltd., Doubleclick Japan Inc., and Google LLC, he joined Freee K.K. as an executive officer in charge of the human resources and recruitment department. He has been in charge of THECOO Inc.’s human resources department since August 2021.

Outside Director **Tetsuo Karasawa**

Graduate of School of Commerce, Waseda University
After having worked at Pioneer Corporation and served as president and representative director and chairman of MTV Japan, president and representative director of LaLa Media Corporation, and president, executive officer, and chairman of GONZO K.K., he became an outside director of THECOO Inc.

Outside Director **Yoshihiro Aita**

Graduate of Faculty of Humanities, Sophia University
After joining Sony Corporation, he was involved in the marketing of professional products to overseas markets. Since then, after working in business planning in overseas markets and developing the Chinese market, he joined Sony Network Communications Inc. He served on the Board of Directors. Currently, he is the president of AiTIA Corporation, which he also founded. He was appointed as an outside director of THECOO Inc.

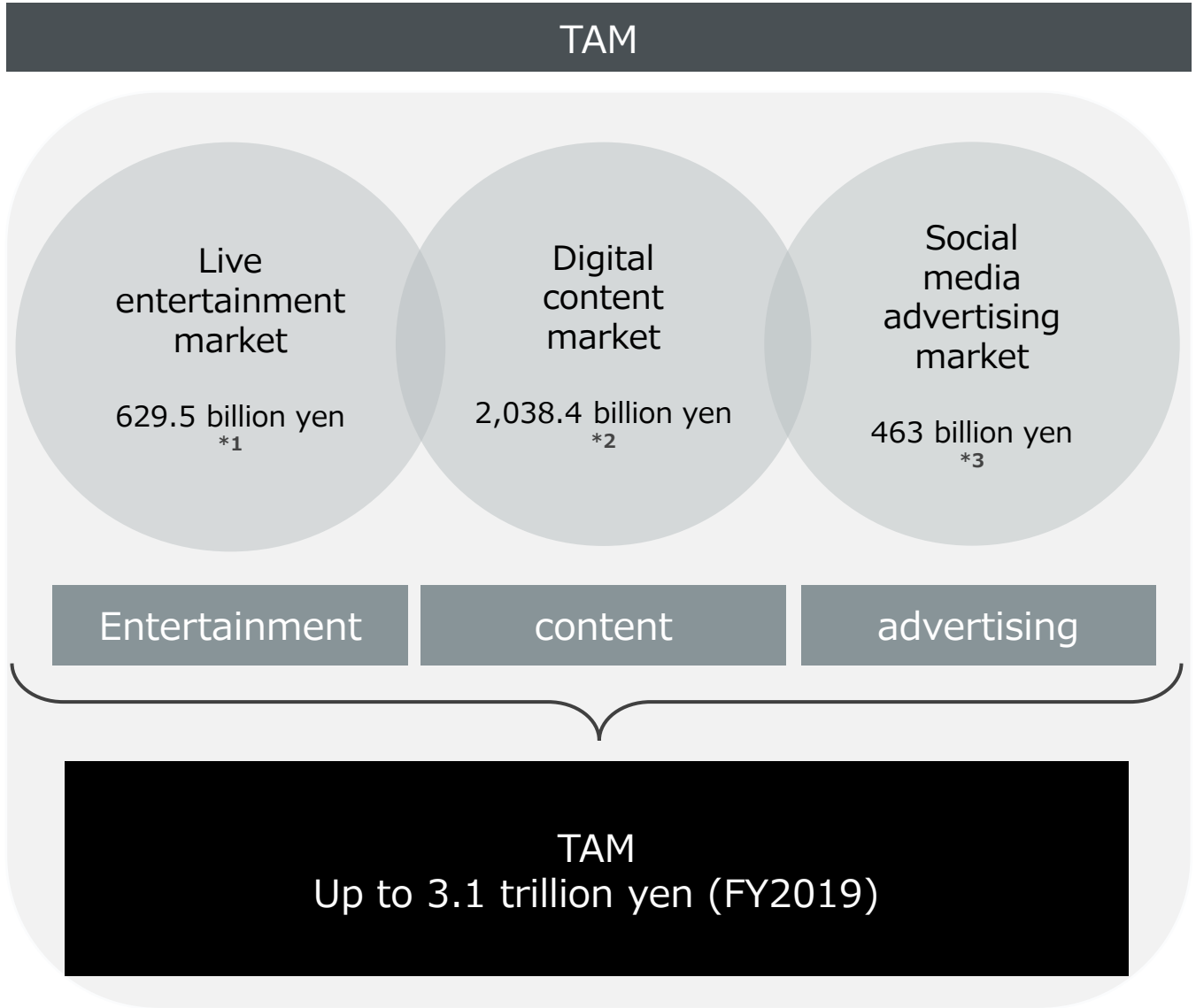
History

- Persistently tackling challenges to create new business.

January 2014	Founded in the online advertising business by three executives that made ties at Google LLC.
January 2015	Launched “iCON CAST,” a matching platform for YouTubers and advertisers.
February 2016	Company name changed from Ruby Marketing Inc. to THECOO Inc.
August 2016	Began offering the influencer marketing planning tool “iCON Suite.”
December 2017	Launched “Fanicon” business, a membership-based fan community platform.
July 2019	Launched “Fanicon” e-commerce and ticket service functions.
October 2019	Launched overseas support for Fanicon.
April 2021	Opened creator and artist-oriented distribution studio “BLACKBOX³.”
April 2021	Launched “Cassette,” a live-streaming platform to attract new fans.
May 2021	Entered into a business tie-up with NTT DoCoMo regarding live business.
December 2021	Listed on the Mothers market of the Tokyo Stock Exchange (now TSE Growth).
August 2022	Relocated head office (Sumitomo Fudosan Harajuku Building).

Our TAM

- Scale of the entertainment business market, including live entertainment, digital content, and online advertising markets, where digital transformation is advanced.
- Vast market potential for future expansion of both core businesses.



*1: Prepared by the Company based on the Live Entertainment White Paper (as FY2020 was influenced by the pandemic, FY2019 is applied). Live entertainment market scale = total estimated ticket sales for music concerts and stage performance events

*2: Prepared based on Ministry of Economy, Trade and Industry, "The Global Market for Content - Japan Market Appearance," fiscal 2019 Market Scale. Preliminary calculations based on 1USD = 100 yen. Defined as the total digital content market for music (music downloads, music streaming, advertising) video (video distribution (SVOD and TVOD), VR video, advertising (video sharing sites, etc.), games (console games, computer games (downloads), mobile games, VR applications, VR games, advertising)

*3: Market scale in fiscal 2019 from a domestic social media marketing market trend study by CyberBuzz and Digital Infact. Defined as total of social media advertising (ads on YouTube, Facebook/Instagram, LINE, Twitter, and TikTok, and excluding ads on blog sites).

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Factors that may cause results to differ materially from those described in these statements include, but are not limited to, changes in national and international economic conditions and trends in the industries in which the Company operates.

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