

**Financial Results
for FY2023/3**

May 12th, 2023



COVER

COVER Corporation

Financial Results Briefing for Fiscal Year Ending March 2023

May 12th, 2023

Speaker

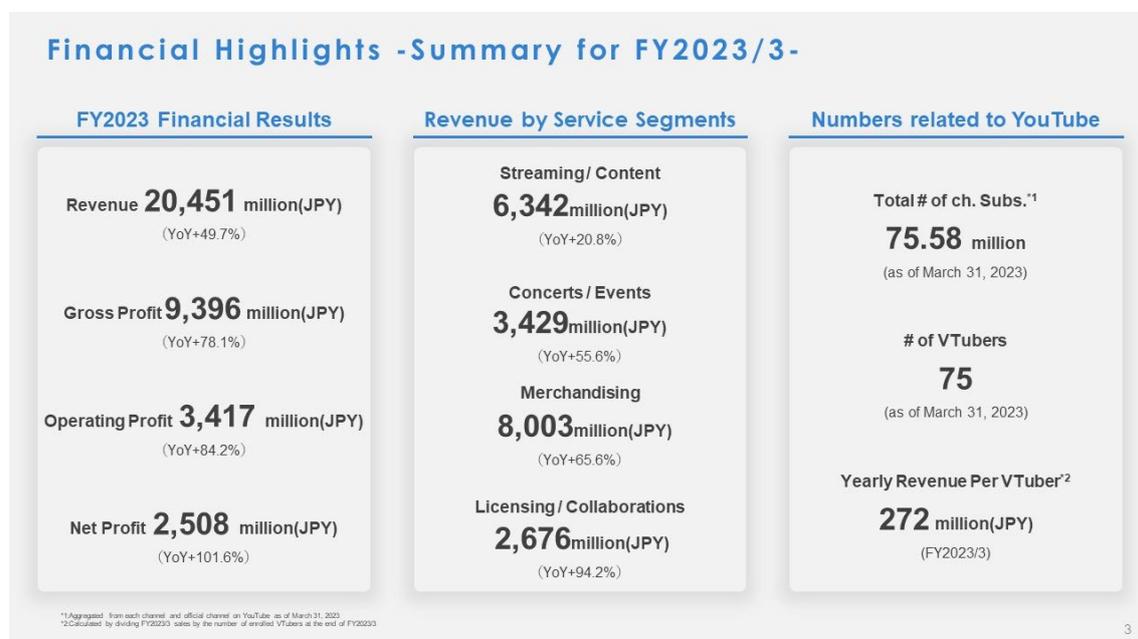
Motoaki Tanigo

Yosuke Kaneko

President and CEO

Executive Officer, CFO and Head of Corporate Planning

Yosuke Kaneko (hereinafter, Kaneko): As for the flow of today's presentation, I will give an overview of the financial results for the fiscal year ended March 2023 and the past fiscal year's performance, and then discuss our medium-term management policies and business plans for the current fiscal year.



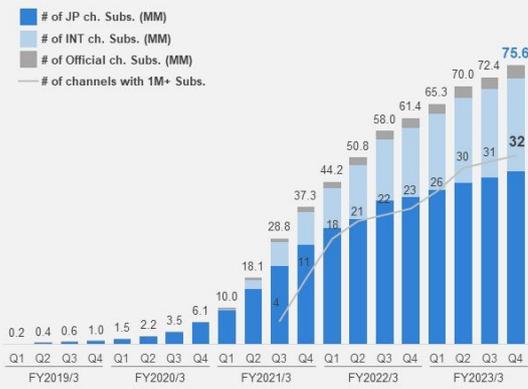
First, here are the financial highlights for the fiscal year ended March 2023. Revenue increased 49.7% from the previous year to 20,451 million yen, operating profit grew 84.2% to 3,417 million yen, and net profit was up 101.6% to 2,508 million yen, indicating an increase in both sales and income.

Since our earnings outlook exceeded the disclosure standards, we recently announced an upward revision to our earnings forecast, and the results are roughly in line with that announcement.

Current Status of Growth in Number of Fans

Due to the popularity of original music and short video content, fans have continued to grow steadily

■ # of ch. Subs. / # of channels with 1M+ Subs. *1



*1: YouTube Channel Subscriber Count

■ # of ch. Subs. by groups (as of March 31, 2023)



4

As for the growth in the number of fans, the total number of YouTube subscribers has grown to around 75 million as of March 31, 2023.

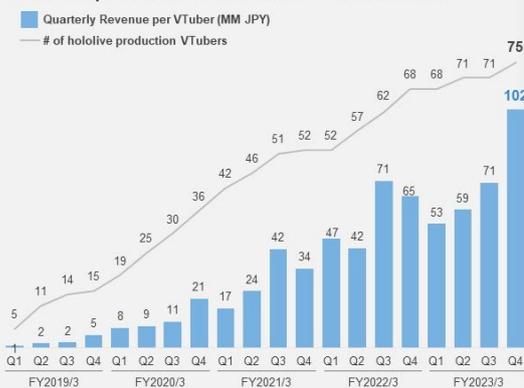
We believe that the last fiscal year saw a change in entertainment consumption trends due to the worldwide relaxation of quarantine measures against COVID-19.

On the other hand, for our VTubers, the number of fans still grew steadily due to the popularity of their original music and short videos.

Current Status of Revenue per VTuber

In the FY2023/3, we continued to debut new talent and further nurture our existing talent through merchandising and licensing projects.

■ Revenue per VTuber*1 / # of hololive Production VTubers



*1: Calculated by dividing quarterly revenue by the number of enrolled VTubers at the end of quarter

■ Strengthen activities of existing talents



■ Talent debuts in new areas



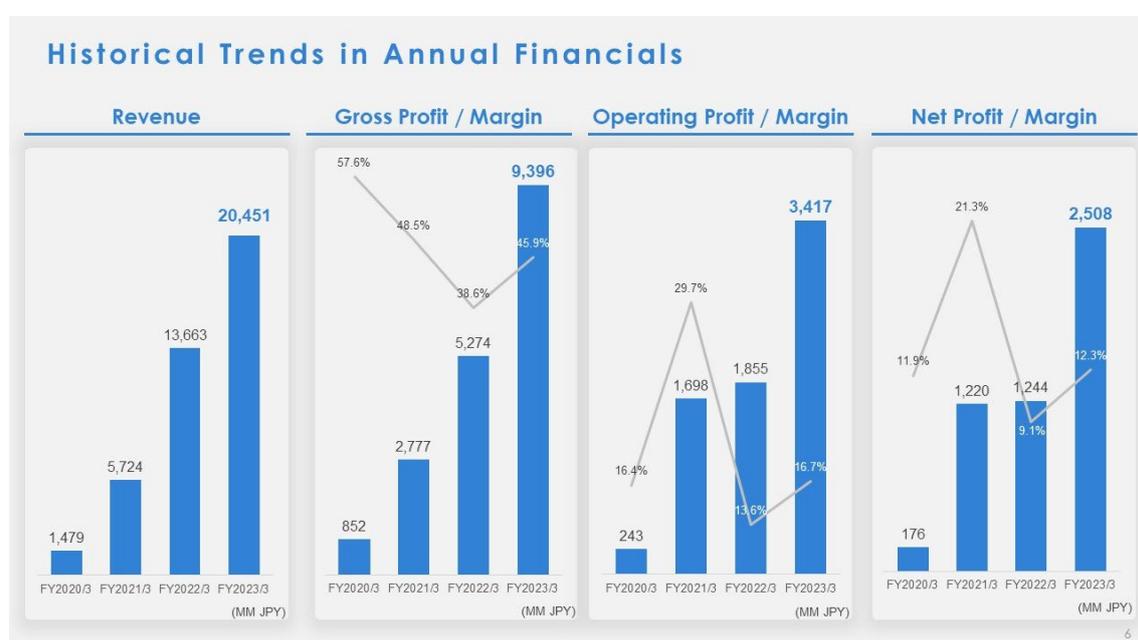
5

In the fiscal year that ended March 2023, we focused on strengthening the activities of existing VTubers and debuting new VTubers in new areas.

Regarding existing VTubers, in addition to large-scale in-house collaborations during the summer vacation period, year-end, and New Year holidays, we also worked for further recognition of VTubers such as Hoshimachi Suisei and Mori Calliope by publishing songs in partnership with major music labels.

Our company also launched our own English-speaking male VTuber group, which was a new area for us, and we are starting to see a relatively smooth start.

In addition, our ability to monetize each piece of IP has increased due to the expansion of merchandising and Licensing/Collaborations deals, resulting in a significant increase in revenue per VTuber in the second half of the year.

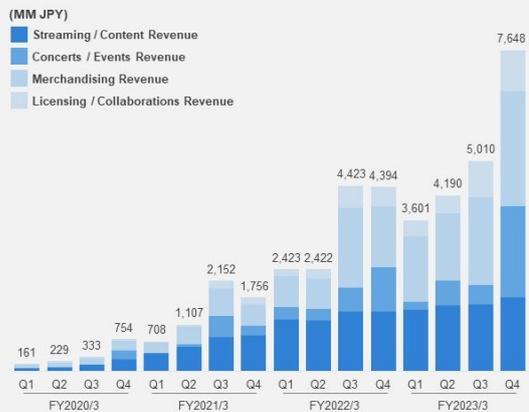


As a result, the full-year results show an increase in both sales and profit compared to the previous fiscal year.

The breakdown of factors will be explained on the following pages.

Historical Trends in Revenue

The fourth quarter recorded net sales of JPY 7,648 MM due to revenue from made-to-order merchandise in the middle of the year, strong Licensing/Collaborations projects, and stronger-than-expected performance at the 4th Fes./EXPO



■ 4th Fes./EXPO^{*1}

of visitors:

- 4th Fes. (Concert)
 - On-site : 15,000
 - Online : 84,000
- EXPO 2023 (Event) : Approx. 30,000

4Q Revenue Contribution : Approx. JPY 1.8 bn

■ Seasonality of made-to-order merchandise

- Made-to-order merchandise is recorded as an advance payment on the balance sheet at the time of order receipt and recorded as sales on the income statement at the time of shipment about three months later.
- Most of the pieces of made-to-order merchandise are anniversary items such as for talent anniversaries, etc., and sales tend to be posted in Q3 and Q4.

1: Official names: <hololive 4th fes. Our Bright Parade> Supported By Bushroad and <hololive SUPER EXPO 2023> Supported By Bushroad*

7

Looking at quarterly results, the most recent fourth quarter achieved record quarterly revenue levels due to revenue from made-to-order merchandise in the middle of the year, strong licensing/collaboration projects, and stronger-than-expected performance at the 4th Fes/EXPO.

Regarding the 4th Fes EXPO, the concert drew about 15,000 attendees on-site and 84,000 viewers online. The in-person EXPO event attracted a total of about 30,000 visitors on-site. As a result, the direct contribution of the Fes/EXPO to revenue for the fourth quarter was approximately 1.8 billion yen.

In addition, as for the Company's merchandising revenue, while the current revenue composition of made-to-order merchandise is high, the characteristics of made-to-order merchandise are such that the settlement amount is recorded as advance payment on the balance sheet at the time of order receipt and recorded as revenue on the income statement at the time of shipment about three months later.

Most of the pieces of our made-to-order merchandise are items from events such as VTuber anniversaries, etc., and sales tend to be posted in Q3 and Q4.

Historical Trends in Gross Profit and Gross Profit Margin

Gross profit margin increased over this quarter, due to Licensing/Collaborations and improvements to the product mix in MD*1

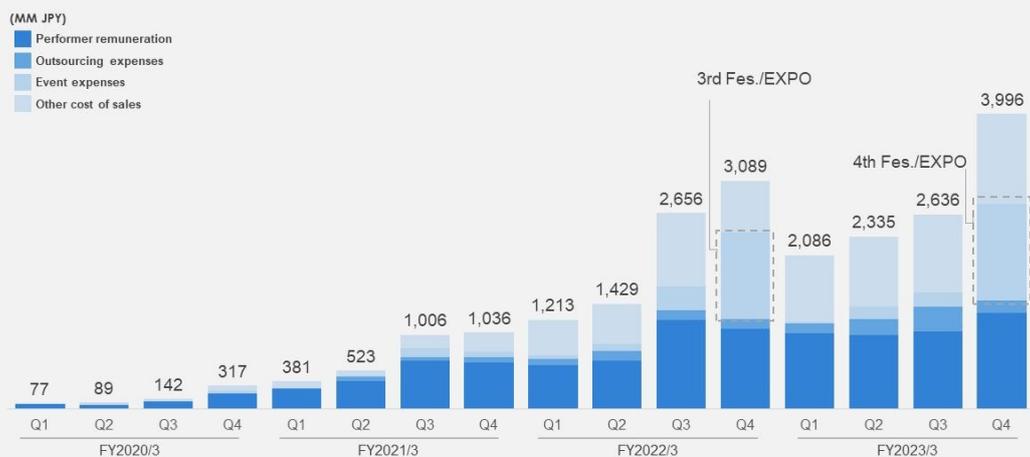


Gross profit for the entire company improved in both level and gross profit margin in the second half of the fiscal year. This was due to an increase in the sales mix of Merchandising and Licensing/Collaborations, both of which have relatively high gross profit margins, and an improved product mix in the merchandising area, which contributed to an increase in gross profit margin.

As mentioned earlier, due to the seasonality of Merchandising, our gross profit tends to increase in the second half of the fiscal year.

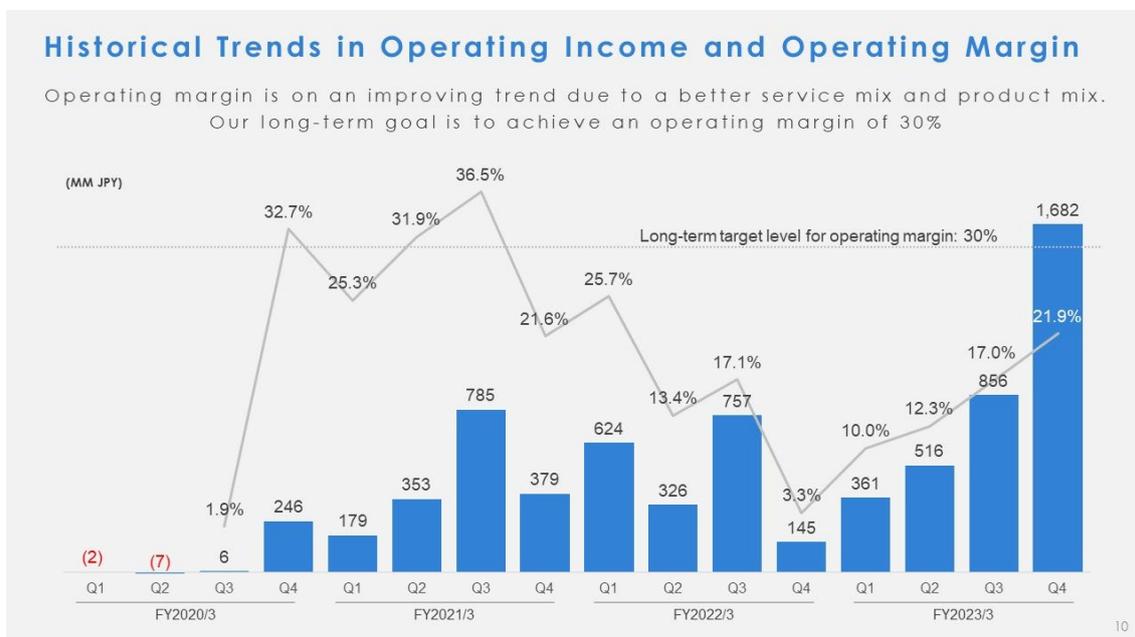
Historical Trends in Cost of Sales

Expenses rose during Q4 due to our yearly EXPO. However, change in variable costs was low due to revenue sources that were not dependent on performance



Operating income improved over the previous year in both levels and profit margins. This was thanks to a higher sales mix in the high gross margin commerce area and improved product mix in the Merchandising service. We also had limited growth in fixed SG&A expenses compared

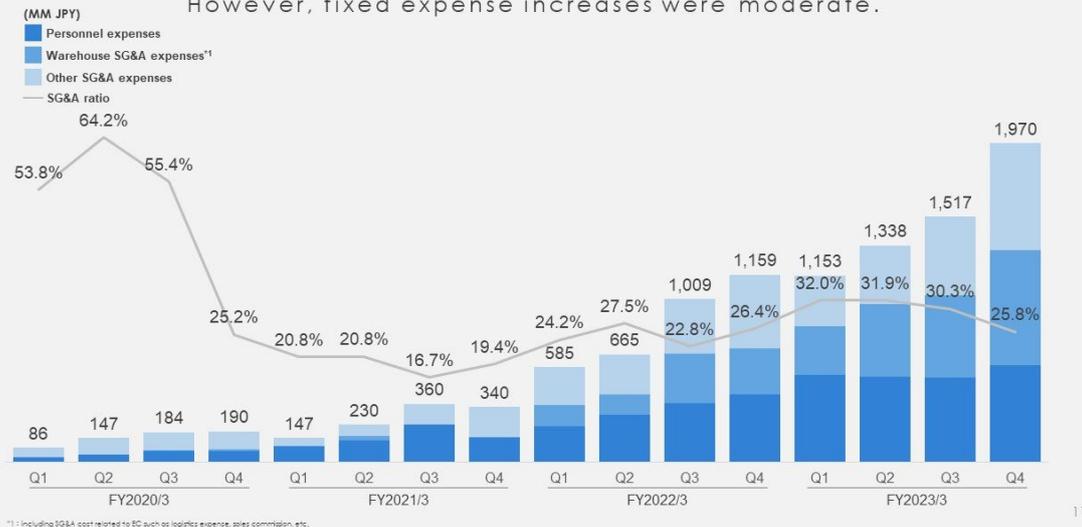
with gross profit growth. Although there may be quarters in the future where profits do not increase stably due to seasonality and other factors, we will aim for an operating margin of 30% over the medium to long term through continuous improvement in profitability.



Operating income improved over the previous year in both levels and profit margins. This was thanks to a higher sales mix in the high gross margin commerce area and improved product mix in the merchandising service. We also had limited growth in fixed SG&A expenses compared with gross profit growth. Although there may be quarters in the future where profits do not increase stably due to seasonality and other factors, we will aim for an operating margin of 30% over the medium to long term through continuous improvement in profitability.

Historical Trends in SG&A Expenses and SG&A ratio

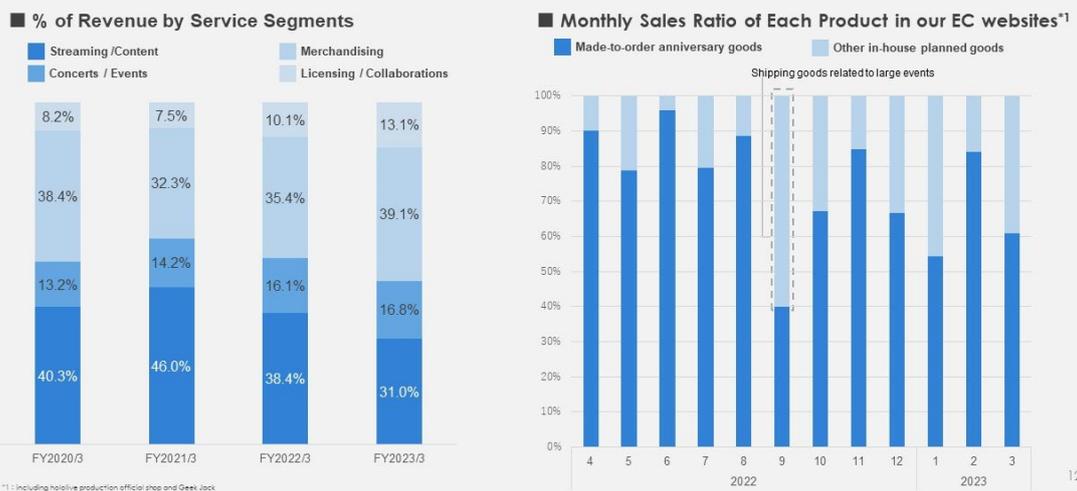
Due to increase in sales, there was an overall increase in SG&A expenses. However, fixed expense increases were moderate.



The line chart on the slide shows the ratio of SG&A expenses to net sales, and it showed a trend of improvement. In the fourth quarter of the fiscal year ended March 2023, other SG&A expenses, shown in light blue, appear a little bit larger because of the slight impact of one-time expenses such as advertising expenses for the large-scale event, “4th Fes./EXPO,” and IPO-related expenses.

Overview of Service Mix and Product Mix

The percentage of the commerce segment (MD, Licensing/Collaborations) in total revenue increased with the growing influence of IP and with improvements to the product mix.



As shown in the graph here, the percentage of the commerce area (merchandising, licensing/collaborations) in total net sales has increased to about 52% with the steadily growing influence of our brand IP.

We believe that our company’s business will continue to expand by developing a multifaceted commerce business while increasing the influence of our IP through streaming and concert/events.

We expect that the commerce area will continue to account for a higher share of total sales.

Looking at the current sales composition of the merchandising service, we can confirm that our product mix is improving, as the amount of in-house planned goods is increasing, with less direct contribution from performers and higher gross profit margins.

Examples of Newly Developed Products

To reach a wider range of consumers, as well as improve profitability, we will continue to expand on our annual inventory of mid priced projects.

■ 『hololive friends with u』



The first official branded merchandise of "hololive production" available from December 23, 2022.
Currently, the lineup has expanded to VOL.4, offering 23 plush toys.
Price on internal EC website: 3,300 yen

13

In the area of newly developed products, we have begun to expand our annual inventory of mid-price range products, which has been an action assignment for the company.

Until now, the unit price for the mainstream made-to-order products tended to be high as they were custom-manufactured with relatively small production lots, which made it difficult to reach a wide range of consumers through diverse distribution.

In addition, due to the nature of made-to-order products, it had become difficult to maintain a year-round supply of products to the relevant fans of our IP.

We will continue to approach these issues through the development of new products, aiming not only to improve profitability, but also to reach a wide range of consumers throughout the year through retail outlets and other channels.

Increase in Licensing-out Projects

Alongside the expanding influence of our IP, product licensing is also increasing

■OMOCAT, LLC



■LEVEL-5 Inc./NHN PlayArt Corp.



In addition to the above, we have developed a variety of licensing and collaboration products, including apparel, figurines, trading cards, and foods with toys attached, by leveraging the broad development capabilities of IP.

14

With the expanding influence of our IP, licensed products are also being introduced through several manufacturers. Products tailored to overseas regions and products under collaboration with other brands as well as in-game collaborations with other companies' games are increasing as well.

We plan to continue developing a variety of licensed and collaboration products, including apparel, figurines, trading cards by leveraging the broad capabilities of our IP.

Mission

Together, Let's Create Culture Loved by All.

We are continuing to build a platform to bring together unique and diverse content creators.

With the latest technology, users are exposed to new, exciting, high-quality experiences every single day.

We bring about the best 2D entertainment loved by all, regardless of age, gender, and nationality.

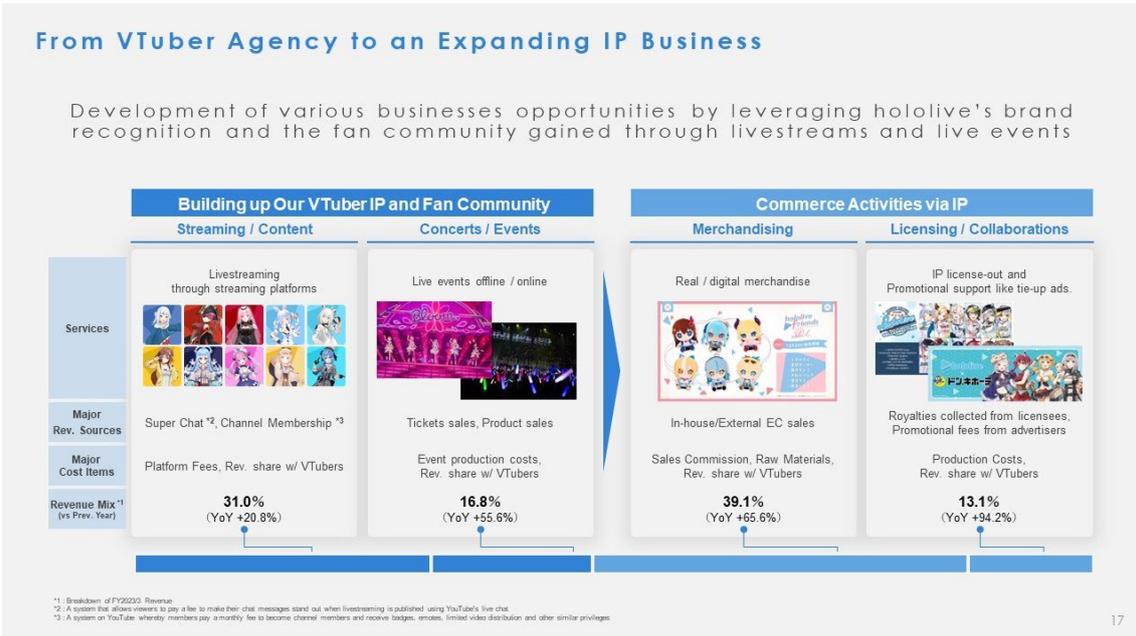
To bring all this to fruition, we continue to challenge the norm.

16

Motoaki Tanigo (hereinafter, Tanigo): I will give mid-to-long term policies of our company.

Our mission is "Together, Let's Create Culture Loved by All". We aim to create the best content alongside the top creators in Japan and the rest of the world; transforming it into culture that is

loved globally using the latest AR and livestreaming technologies.



This slide is an overview of our current business development. Currently, our company operates within a single business segment, but we have four main service lines within this segment. On the left, we support our VTuber activities through VTuber production and live/event development to further nurture our VTuber IPs. This is done to acquire a highly engaged fan community.

As shown in the sales composition ratio at the bottom of the chart, we do not depend only on the revenue from specific platforms such as YouTube, but have a variety of revenue channels, providing stability. In addition, unlike regular YouTube multi-channel network businesses, VTuber business has a strength in scalability with merchandising of IP-based animation contents.

Medium and Long-Term Strategy

Execute a 3 step growth strategy by leveraging high-value IP



18

COVER's growth strategy can be divided into three different phases.

In the first phase, we have focused on increasing the influence of hololive VTubers under our production agency and developing solid fan communities. As a result, we have been successful in consistently establishing a proven process to produce popular VTubers. In fact, we have the most subscribed VTubers in every key region.

In the second phase, we are focusing on expanding our commerce business, such as merchandise development and license/tie-up deals, while utilizing our planning capabilities.

In the medium term, we plan to further expand these activities with our in-house Metaverse service to create a unique experience and capture an even larger potential market.

Expanding TAM Through Business Development

TAM expansion into Anime-related entertainment via multifaceted business development. Metaverse services replace a portion of the existing gaming-related market



*1. Source: "Animation Industry Report 2022" by the Association of Japanese Animations, estimated animation-related market size in 2021 (based on sales of TV, film, video, distribution, merchandising, music, entertainment, livestreaming and events, and other businesses related to animation)
*2. Source: Kobikawa ASGI Research Institute, "Famitsu Game White Paper 2022" analyzed global game content market size in 2021

19

By developing our business in stages, we have gradually expanded our TAM (Total Addressable Market) outside of the live streaming market. We consider that we are coming to replace a part of the global traditional anime market by developing commerce globally with our anime-style VTubers and IP instead.

With the Metaverse service under development, we are planning on capturing the vast global gaming market.

Summary of Earnings Forecasts for FY2024/3

Earnings Forecasts for FY2024/3

Revenue 26,562 MM JPY
(YoY+29.9%)

Operating Profit 4,650 MM JPY
(YoY+36.1%)

Ordinary Profit 4,623 MM JPY
(YoY+36.6%)

Net Profit 3,236 MM JPY
(YoY+29.0%)

■ Debut of new VTubers

- We plan to debut new VTubers in Japan and overseas. Our goal is to reach an even greater fanbase while further enhancing the value of the hololive brand

■ Overseas expansion

- We will continue to market via our "hololive Meet" series of events, which launched in April 2022, and plan to participate in many more overseas events within the fiscal year
- There are plans in place to further expand our licensing business to other licensing companies overseas

■ Commerce development

- We will be continuing the development of additional profitable products. The goal is to market to a wider range of consumers while utilizing our IP
- There are plans to expand upon our current sales channels, including within retail

■ Metaverse services

- Plans regarding user involvement are in development
 - ✓ Tests are being implemented out for billing functionality within the "Holoearth Lobby". The beta version will be rolled out for functionality tests
 - ✓ Live events will be conducted to test virtual live functionality within Holoearth

21

The company's forecast for the fiscal year ending March 31, 2024, as of the beginning of the fiscal year, is expected to be as stated here. Although the previous year's results were higher than expected, we expect a sales growth of nearly 30% in the current fiscal year.

In addition, we expect to continue to improve profitability through business development in the commerce area. However, the fluctuation in performance will depend on the degree to which new VTubers gain popularity and the speed of our business development.

Please note that due to the seasonality, the progress of business performance tends to be concentrated in the second half of the fiscal year. Focus areas for business development are assumed to be those described on the right side of the page.

Promoting Group and Unit Initiatives: About Blue Journey

Our new music project, "Blue Journey", will be following a different style of music than usual

■ **Blue Journey**

This music project is different from our usual idol style music that is produced, but with rather much more emotional lyrics, with deeper meaning, an expression of the soul, and something you would want to sing at the top of your lungs.



Official YouTube channel "Blue Journey": <https://www.youtube.com/@BlueJourney>

22

I would also like to touch base on some other annual plans. First, in the area of streaming/content services, we will also continue to strengthen our existing VTuber IPs.

hololive's new music project "Blue Journey" follows a different theme from prior and shows a new side of our affiliated VTubers to their existing and new fan base. The music is distributed and released by EMI Records, a Japanese music label within the Universal Music Group, and the company will promote large-scale publishing in partnership with major labels.

Promoting Awareness through Collaboration: About hololive City

Multifaceted collaboration aiming for a new entertainment with the Yomiuri Shimbun to promote expansion of brand recognition beyond the conventional VTuber framework



- "hololive City Attractions," an amusement park project under collaboration with Tokyo Dome City Attractions
- "hololive City Summer Fair," a fair project to enjoy game and food
- "HOLolive PRIDE," a collaborative project with the Yomiuri Giants
- "hololive Airlines," a tour program by Yomiuri Travel Service Co., Ltd. targeting people living overseas and in rural areas
- "5th Generation Live 'Twinkle 4 you'," a first live program of hololive 5th generation at Tokyo Dome City Hall

23

We will also seek to expand recognition through large-scale collaborations with outside companies and media. The publicized summer event, hololive City, will promote the expansion of brand recognition beyond the conventional VTuber framework through a collaboration with *Yomiuri Shimbun*.

Specifically, the plan is to collaborate with various Tokyo Dome City facilities and live concerts throughout the summer vacation period, collaborations with the Yomiuri Giants, and tour planning targeting people living overseas and in more rural areas.

Overseas Expansion

In addition to holding a large-scale live concert in Los Angeles in July, hololive also plans to hold several overseas local events titled "hololive Meet 2023"



hololive English will hold its first full-scale live event at YouTube Theater (Los Angeles, USA) on Sunday, July 2, 2023 local time.



A joint project of five groups under the umbrella of "hololive production," was launched in April 2022. "hololive Meet" aims to develop a series of overseas events, including booths at overseas conventions, guest appearances by our talents at overseas events, as well as self-organized events.

24

A large-scale local live concert is scheduled to be held in Los Angeles in July as a marketing plan aimed at building further momentum overseas, especially in North America. Live VTuber

concerts with large local audiences are an experiment within the industry, and we hope to further increase the enthusiasm of the fan community in the North American region.

In addition, we plan to continue to hold a number of overseas local events, including those outside of North America, under the title “hololive Meet 2023.”

Progress in Long-Term Investment: New Motion Capture Studio

Newly acquired large-scale motion capture studio to start operation in FY2024/3



Recording environment

- The new studio will have multiple different facilities, such as a motion capture studio, chroma key studio, recording studio, etc.
- The recording facility will be the largest in Japan
- We have introduced the latest VICON*1 series “VICON VALKYRIE VK26” into our studio (26 megapixels and improved hand recognition accuracy)
→ In addition to recording motion with greater precision, motion can also be recorded with a large number of people or with differences in elevation such as steps

Distribution environment

- All studios use a unified IP switcher*2.
- Modification of the video transmission method to improve stability and redundancy while also reducing latency
- Enables recording and streaming of all videos in 4K
→ The system ensures broadcast quality of a TV station, and transmits and receives images between studios, making it easy to record and stream in multiple studios, bring in live bands, collaborate with real talent, and more

*1 Source: Collective name for companies and products that develop optical reflective motion capture systems.
*2 Source: Machine for switching camera images transmitted over IP (Stream Processor).

25

Now, we will also report on the progress related to long-term investments. First, the newly acquired large motion capture studio will begin operations in the fiscal year of 2023. This will enable the creation of content utilizing motion capture on a larger scale and with greater precision.

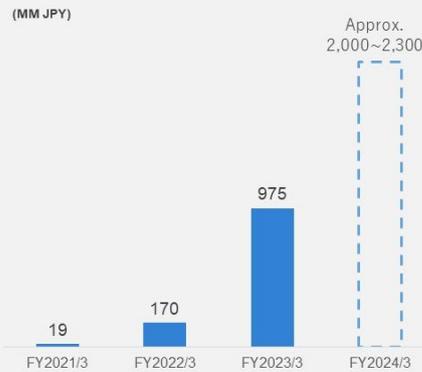
In terms of streaming capabilities, the studio infrastructure is also capable of transmitting large volumes of data with low latency that can meet the requirements for TV station-level quality, making it easy to record and distribute in multiple studios, bring in live bands, and collaborate with TV personalities.

Content distribution through the new studio in fiscal year 2023 is expected to progress in stages in parallel with studio trials for content production.

Progress in Long-Term Investments: Metaverse Services

Development costs for “Holoearth,” scheduled to be released to the public in 2024 and costs estimated JPY 2~2.3bn until FY2024/3, has been capitalized and recorded on the balance sheet

■ Trends in Software in progress



*1. Software in progress includes software assets other than those related to Metaverse

■ Future Initiatives

- **Virtual Live**
 - ✓“Proto Live Replay”
A re-run of “Proto Live”, the first mini-live event held in Holoearth on December 26, 2022, is scheduled for late-May.
 - ✓“Proto Live #2”
“Proto Live #2” is scheduled to be held in the summer for the purpose of testing newly added features.
- **Avatar Create**
Preparing a beta version for a simple avatar customization experience, aiming for the fall.
- **Sand Box Game**
Still under development, a new test play video will be released on the YouTube program “Holoearth TV.”

26

Next, about our metaverse project. With respect to our metaverse service “Holoearth,” which is scheduled to be released to the public in 2024, we have capitalized its development costs and recorded them on the balance sheet. We expect the capitalization amount to be about 2 to 2.3 billion yen by the time of public release.

In the current fiscal year, we plan to test the billing function and server load measures by involving users in the virtual live service.

Progress in Long-Term Investments: App for Fans (holoplus)

The closed beta test, which had approximately 11,000 people who applied in advance, confirmed potential high user engagement. Development is underway for public release this summer.

■ **Promotion of “Interaction to Support Your Favorite Talent” Among Fans**
“holoplus” is the official app of hololive production based on the concept of “supporting your favorite talents even more!”. While delivering information on products, events, etc. to a wide range of fans in an easy-to-understand and organized manner, the app also provides a fan community where fans can interact more closely with each other, creators, and production companies. There are plans for gradual expansion of functions and global support to provide a more convenient and fulfilling “supporting your favorite talent” than ever before.

** The above is a tentative design and configuration but is currently under production

27

Finally, we would also like to talk about the holoplus mobile application for fans that is in development.

As a fan community app, holoplus allows fans to interact more closely with other fans as well as with our VTubers and production companies.

The closed beta test, which targeted approximately 11,000 people who applied in advance, confirmed high user engagement. Development is underway for public release in this summer. With holoplus, we plan to gradually expand its functions with the aim of providing a more convenient and fulfilling “support your favorite VTuber experience” than ever before.

Q&A Session

Q&A: Current status and future development of in-house planned products

Question: You mentioned that the Company will be scaling up merchandising, especially in-house planned products. Could you please explain how the Company's in-house planned products are currently being developed, how much sales are being generated, and how the Company plans to expand them in the future?

Kaneko: The products we are currently developing that we have publicly disclosed are those that I described earlier in my presentation. Utilizing our intellectual property (IP) relating to our VTubers, we plan to brand them under our in-house project and release them as a product series.

Until now, pieces of made-to-order merchandise have been sold at relatively high unit prices, such as 15,000 yen for a set. But in order to make them accessible to younger customers and a wider range of casual followers, we are developing mid-range and low-priced products that can be easily distributed by retailers such as anime specialty stores.

As for sales performance, the ratio is gradually increasing, as presented in the light blue bar chart in the graph on the right side of the slide.

Although the number of SKUs for in-house planned products is still small compared with other products, we believe that we can steadily increase the number of sales and customers of in-house planned goods by increasing production capacity and expanding retail store distribution.

Question: If possible, can you give us an idea of the percentage increase in overall merchandising sales, including your in-house projects, perhaps referring to this fiscal year's sales?

Kaneko: For now, I think it's better to talk about our earnings forecast for the current fiscal year in terms of net sales growth. However, as I mentioned earlier, in terms of trends, the labor-intensive positions of our business—streaming/content and concerts/events—are important features to keep the fans entertained. Therefore, I think the trend to expand the scale of business through merchandising and licensing/collaborations will continue to strengthen.

As shown on the slide, merchandising accounted for 39.1% of sales in the fiscal year ended March 2022. We believe that a trend toward a larger ratio can be expected to a certain extent in the future.

Q&A: Situation of male VTubers

Question: At the moment, male VTubers are making their debut both in Japan and internationally. Please explain this situation.

Kaneko: The talented people that debuted last fiscal year are primarily male. A male VTuber group targeting English-speaking countries called “HOLOSTARS English -TEMPUS-,” which debuted last fiscal year, has now attracted a total of 1.34 million subscribers.

We have confirmed a considerable volume of simultaneous connections and number of customers who send Super Chat messages during streaming, so we have high expectations that there is a lot of room to expand commerce in the same way as the female VTubers in “hololive” while keeping fans entertained through streaming.

Q&A: Debut plans for new VTubers

Question: It has been quite some time since the last new domestic VTuber was added to the mainstay “hololive.” Do you have any plans for new debuts this fiscal year?

Kaneko: I think it would be best to refrain from going into more detail than what is included in the financial briefing, but as you can see from the excerpt of the briefing in the upper-right corner of the slide, we envision debuting several new VTubers both in Japan and overseas, with an eye to gaining a broader fan base.

Rather than unnecessarily extending the number of new VTuber debuts, our basic idea is to engage in solid productions at a pace that does not dilute the brand value of hololive productions, and to generate new debuts that contribute to the enhancement of the brand value.

Q&A: Focus on short videos, etc.

Question: About the studios that you have newly invested in. I read that short videos and other forms of expression are possible. What are the Company’s thoughts on its focus on short videos and other forms of expression, especially in reaching the young?

Kaneko: Now that quarantine measures against COVID-19 infections are being lifted to some extent, it is a trend that people of all ages, including the young, are increasingly watching short videos such as TikTok and YouTube Shorts. We believe that increasing the production of short content is effective in order to reach a wider audience, including younger people.

Q&A: Vision regarding purchasing of goods

Question: I received the impression that the Company is attempting to reach a broader customer base, including the offering of goods with unit prices in the medium range. Especially with regard to merchandising, do you anticipate that the casual followers who do not watch your streaming will also purchase your products? I would like to ask about the Company’s vision on the purchasing of goods.

Kaneko: We believe that the main purchasing audience will be fans and viewers. For example, there is currently a growing audience of middle- and high-school students, who are unable to make purchases on EC sites without their parents' permission for credit card payment. Additionally, people have been having more diverse viewing experiences lately, such as those who mainly watch clippings of videos or YouTube Shorts and do not watch streaming as much.

We consider these goods to be positioned as the first step for a wide range of fans to support their favorite artists.

Q&A: View of market environment

Question: Please tell us about the underlying streaming/content market environment? Looking at your competitors, it seems that the total viewing time has not increased much, but how is the situation at the Company? Also, even if the viewership of the main streaming is not growing that much, if the viewership of the short videos and clipped videos you mentioned earlier is growing, is it correct to understand that your fan community is expanding? Please tell us your view of the market environment.

Kaneko: In terms of the market environment, as I mentioned earlier, people turned to watching long videos as they worked from home and lacked readily available outside entertainment during COVID-19, but they are now shifting to short videos in response to changes in the environment, and the way they consume content is changing. However, in terms of fan head count, we believe that the interest in virtual talent content such as VTubers continues to be strong globally.

The demographic that is comfortable watching VTubers overseas and those that would like to try VTubing themselves continues to expand, so I believe that both we and our competitors are experiencing a certain level of high growth in such a macro environment. The growth of the market itself is quite strong, so rather than competing for a slice of the pie, we have a sense that the market will become a mutual expansion of each other's markets, with a certain degree of segregation.

As for the fan community, as I mentioned earlier, other than those who watch long videos, there continues to be a large segment of people who consume clipped content or engage in their own clipping. In addition, our fan community has the advantage of having a very large number of creators with creative talent.

There was a recent news story about a fighting game derived from our IP made by a fan that was uploaded on Steam and gained public attention. In this way, we recognize that fans create new content within the fan community, which in turn attracts new fans.

Q&A: Breakdown of Super Chat, membership and music sales

Question: I believe you mentioned that several artists have debuted from major record labels and that music sales are increasing. If possible, please give us a breakdown of Super Chat, membership and music sales within the streaming/content segment.

Kaneko: Although the number of people who listen to music through streaming and other means has been increasing, extensive distribution, such as monetizing highly profitable CD sales through nationwide distribution, has not progressed. In terms of economics, the reality is that it is not such a large component of the streaming/content segment. I believe that it has the potential to grow in the future as distribution becomes more multifaceted and as regional and customer demographics become more diverse.

On the other hand, as for revenue from YouTube, which makes up the bulk of the streaming/content segment, a large part of it comes from memberships and Super Chats. Furthermore, membership is more prevalent as a percentage of the total.

Question: With regard to membership, I assume there are some cancelations, but is it correct to understand that it is basically a recurring revenue model?

Kaneko: You're right. Rather than a short-term situation in which a significant increase or decrease in sales occurs over a short period of time, sales are gradually accumulated over time.

Q&A: Opportunities for metaverse platforms and game-related market

Question: I would like to ask about the long-term TAM concept that the CEO explained on slide 19 of the presentation. As part of your long-term business development, the slide mentions the game-related market as well as the metaverse platform. Could you please touch base on what kind of opportunities are available?

Tanigo (CEO) : We see the game-related market as a very large market for IP-based businesses. Only metaverse is shown in the diagram on the slide, but we also envision the game business in the form of licensing-out of IP, etc.

As for the metaverse we are developing, it has the nature of a platform that allows VTubers affiliated with the Company to play online games and perform online concerts as their own avatars. The form of billing is envisioned to be similar to the gaming business.

Question: Will such games be developed under in-house titles or via a collaboration? If under in-house titles, have you already secured the necessary know-how and human resources?

Tanigo (CEO): We refer to our service which combines online games with online concerts as the "metaverse." Therefore, it is a little different from the kind of service that other companies in

Japan and overseas are offering as metaverse, and you could rather imagine the kind of service that Fortnite is offering.

We have already secured human resources within the Company, and development is proceeding steadily targeting next year's launch.

Q&A: Possibility of exceeding operating margin of 30%

Question: On slide 10, it says, "Our long-term goal is to achieve an operating margin of 30%." Comparing this goal to the TAM slide, it is not clear whether the goal will be reached at or before the point of entry into the realm of the metaverse.

Kaneko: For example, I believe that selling digital goods in the metaverse can increase gross margin, but we are not aiming for a 30% level by relying on the metaverse.

I have explained that even now, the sales composition of the commerce segment, which has a high gross margin in the service mix, has grown and merchandising is becoming more profitable, and through these factors, we assume that it may approach 30%.

The speed at which each business will contribute will be influenced by factors such as the speed at which new investments and human resource investments are made, and how quickly business development can be accelerated in a way that contributes to profitability.

Q&A: Reason for net sales increase

Question: Net sales seems to have increased by approximately 50%, but how should we view this growth rate when you break it down into the number of customers and the unit price of customers?

Kaneko: We can say that both have grown as a trend, but the main factor is thought to be the increase in earning capacity per customer.

As we have often mentioned, this has been affected by the development of merchandising. This is a natural assumption since the composition of net sales shows an increasing proportion of merchandising and licensing/collaborations.

In terms of customer dynamics, some customers simply watch videos and pass by, as in the free-to-play games, while others eagerly purchase merchandise. This situation suggests that there is considerable contrast among customers from a monetization perspective.

Therefore, even without damaging LTV, the average spend per customer would rise by increasing the number of customers willing to pay.

Question: By the way, what percentage of your sales do you see in overseas markets?

Kaneko: We have explained that it has been about 30%, and I don't think the trend has changed.

Q&A: The basis for the 30% net sales growth figure

Question: The plan for this fiscal year assumes net sales growth of approximately 30%. Could you explain more about the basis for this figure?

Kaneko: Based on bottom-up estimates at the beginning of the fiscal year, we assume sales growth of about 30% as a result of growth in each service. Factors contributing to this include the debut of several new VTubers and overseas expansion, as noted on the right side of the slide.

In addition, at the Company we are working to expand distribution channels of retailers for our in-house planned products, and progress is being made in this area.

Q&A: The Company's strengths and reasons why new entrants are struggling

Question: You mentioned that the industry is currently in an oligopoly situation, but there are many new entrants. For example, major companies are entering the market, but do not seem to be doing well.

What do you think the strengths of the Company are and why are new entrants struggling? Please also tell us if there are any players that you think "could become competitors if they enter the market."

Kaneko: Having a strong and large fan community in this industry is a significant barrier to entry. I think the network externality of the fan community is a barrier to entry.

There is a cycle in which fans passionately clip content and recreate works, leading to an expansion of the fan base and boosting of VTubers. We understand that the early creation of such a fan community with a strong network externalities and an expansion cycle created a gap with newcomers. The importance of this cycle is also indicated in the briefing material on growth potential.

On the other hand, a new demographic could be a possible threat, but I think there could be different opinions on this. For example, VTubers with an anime-look currently possess marketability, but we believe that if a VTuber with a completely new type of content expands a large community outside of our network, that VTuber could be a threat.

Q&A: Changes in SG&A expenses

Question: If you are going to supply products regularly in the merchandising segment, how do you expect SG&A expenses around the supply chain, including logistics, to change compared with the past?

Kaneko: In terms of variable costs, it is inevitable that logistics expenses, such as warehouse SG&A costs, will rise to a certain degree in accordance with sales volume, but these costs will not increase in a monotonic and proportional manner.

For example, when handling large orders or doing B2B transactions, logistics costs can be more efficient than high-frequency distribution of small lots of goods, which would have such an impact.

Q&A: Sales composition ratio targets and strategies to increase the ratio

Question: I think the sales composition ratio of merchandising and promotions has increased considerably, but do you have an estimate for how much it will increase in the future?

I often hear the opinion that the ratio is low compared with other companies, but please touch base on what ratio the Company is aiming for.

Kaneko: There is no clear target for the net sales composition ratio, as it depends on the relative growth of each service segment.

However, regarding merchandising, distribution to retailers and anime specialty stores is still insufficient. Preparations for such distribution are well under way, and we are set on a clear path to handling sizable volume, while there are speed issues.

Since it is easier to expand the scale of merchandising and licensing/collaborations than the labor-intensive streaming/content segment, it is highly likely that the composition of such net sales will increase in the future.

Question: What specific measures do you have in mind? For example, what areas do you plan to approach, such as enhancing the ability to develop character goods, or strengthening the development of commercial distribution like wholesaling in the retail industry?

Kaneko: I believe we need to consider both sides. In the middle of the presentation, I mentioned that the number of SKUs for our in-house planned products is still low compared with the desired level, and we need to increase the number of product types. In addition, as we increase the number of product lines that can be easily distributed by wholesalers, we must also consider increasing the number of sales channels for our products at the same time.