

Q&A for Fiscal 2019 Q3 Results

Revision of Full-year Financial Forecasts and Impact of Novel Coronavirus (COVID-19) Infections

Q1: What were the primary factors behind the downward revision of the full-year financial results forecast?

In the Eight Business, we factored in the plans for holding “Meets” business events and took into account the financial results up to and including the second quarter. In addition to the resulting major review and the expectation that the number of events would decrease, the downward revision was due to the spread of novel coronavirus (COVID-19) infections and our adoption of a wait-and-see attitude with regard to the holding of a large-scale event planned for the fourth quarter. In the same Eight Business, we are developing the recruitment-related “Eight Career Design” service. Although use of this service has been steadily expanding since its launch about a year ago, the growth rate has become slower than was expected at the beginning and thus is having a partial effect on the forecasts.

In the Sansan Business, as a result of the strengthening of the sales structure, which proceeded from the second half of the previous fiscal year, steady growth continued year on year through the third quarter. However, due to the spread of the novel coronavirus (COVID-19), the business environment is partially uncertain in the fourth quarter from the aspect of new subscription acquisition.

Q2: In what ways do you think you will be impacted by the novel coronavirus (COVID-19) infections from the next term onward?

If the spread of novel coronavirus (COVID-19) infections were to continue, in addition to the impact that would have on business events in the Eight Business, it is expected that sales activities in the Sansan Business would be affected to some extent, such as in terms of the number of leads acquired and the number of business discussions arranged. On the other hand, our “Sansan” service is cloud based, and since it possesses the feature of being able to access customer information on a high-security basis regardless of location and time, the service is also equipped for aspects that support a variety of work styles, including remote work.

It is expected that, for the time being, the business environment will continue to be uncertain, but we will implement appropriate cost controls by flexibly reviewing our investment plans, including our advertising activities and personnel recruitment. The financial result forecast figures for the next term are currently under review and, should disclosure be judged possible, the plan is to make them known in July, when we announce the financial results for the fiscal year ending May 2020.

Q3: Won't the Sansan Business be affected in the event that the number of business card exchanges decreases due to more widespread remote work and other work styles?

No significant impact is expected on existing contracts in the Sansan Business, which currently accounts for most of the Company's financial result performance. Since the “Sansan” payment model is based on annual usage fees that are determined in advance and are in the form of annual subscriptions, the results for existing contracts are less susceptible to short-term changes in the business environment.

Consolidated Results

Q4: Could you provide a reason for the net sales growth rate in the third quarter (three-month financial results) being slightly lower than the second quarter?

This is because, in the Eight Business, the number of “Meets” business events held in the third quarter

was down in comparison with the second quarter, and net sales growth slowed.

The net sales growth rate of the Sansan Business gathered pace compared with the second quarter, owing to the effects of the strengthening of the sales structure that we have been promoting since the second half of the previous fiscal year.

Q5: What was the reason for the loss attributable to owners of parent in the third quarter (three-month financial results)?

The main contributory factor was the recording of an extraordinary ¥54 million event cancellation loss due to the spread of the novel coronavirus infections in the third quarter. For the full year, we are expecting profit attributable to owners of parent to return to profitability.

Q6: What is the reason for personnel expenses having increased at a higher year-on-year rate than growth in net sales? By how much will they increase?

As we are currently strengthening hiring mainly in the sales department of the Sansan Business, the number of employees has increased by 176 compared with the same period of the previous year.

Q7: Advertising expenses have decreased year on year?

As a certain amount of Sansan Business advertising activity has already taken place, the need for more increases in advertising spending is diminishing. In addition, the Eight Business is currently focused on monetizing B2B services, so it does not require large advertising expenses.

Sansan Business

Q8: What is the reason for the net sales growth rate in the third quarter (three-month financial results) being faster than in the second quarter?

Aside from the effects of strengthening the sales structure, centered on increasing the number of salespeople, which we have advanced from the second half of the previous fiscal year, the reason is that productivity per salesperson has been gradually improving.

Q9: How far do you expect your segment operating profit margin to grow to?

As net sales growth continues, we expect the operating profit margin to grow too. However, our priority at present is not to focus on the profit margin, but on maintaining the strong net sales growth by necessary investment. Thus, we do not disclose any target profit margin.

Q10: What was the reason for the significant increase in the number of subscriptions compared with the end of the previous quarter?

This was mainly due to the effects of the strengthening of the sales structure, centered on increasing the number of salespeople, which we have been promoting since the second half of the previous fiscal year, and the effects of the review of the pricing strategy implemented in December 2019. The number of subscriptions increased by 324 compared with the end of the previous quarter, a record-high increase on a quarterly basis.

Q11: Why did growth rate for monthly net sales per subscription for the same period in the previous year increase in the third quarter?

With regard to new subscriptions, although the percentage of companies with low monthly net sales is relatively large and was a factor in pushing down the average price per subscription, monthly sales growth per subscription accelerated overall as a result of a steady increase in usage under existing subscriptions. The short-term level of monthly net sales per subscription fluctuates depending on such factors as the

number of new subscriptions acquired, the sizes of the companies, and the ratio.

Q12: How many salespeople do you have in the Sansan Business, and how much has this increased?

Including Inside Sales and Customer Success, we have 219 salespeople as of February 29, 2020, which increased by 76 compared with the same period of the previous year and by 14 compared with the last quarter.

Q13: What is the overview of Sansan Plus, a new business strategy?

A business platform development that enables further improvements in operational efficiency and data value, “Sansan Plus” will, on the basis of accurate business card data, provide a variety of applications with participating Sansan Plus Partner companies, undertake the organization of the various data accumulated within a company and offer consulting on digital utilization.

For further information, please refer to the “Notification regarding Announcement of Sansan Plus Business Card-based Business Platform” disclosed on March 11, 2020. (the following URL)

https://ir.corp-sansan.com/en/ir/news/20200312SansanPlus/main/0/link/Sansan_Plus_english_final.pdf

Eight Business

Q14: What is the reason for net sales in the third quarter (three-month financial results) having decreased in comparison with the second quarter?

Having taken into account the financial results up to and including the second quarter, the decrease in net sales came as a result of the major review of the plans for holding “Meets” business events and the consequent reduction in the number of times such events were held in the third quarter. Having been held five times in the second quarter, in contrast the meetings were held only twice in the third quarter.

Q15: What are the reasons behind the deficit? What is the main cost?

This is a phase in which monetization has just been strengthened since the previous fiscal year, and net sales have not yet reached the operating costs. By continuing to focus on monetizing paid B2B services, we aim to achieve monthly profitability as soon as possible.

Q16: Could you please provide specific examples of how the plans for holding “Meets” business events were changed as a result of the review?

Under the initial plan, we scheduled the holding of a total of 14 meetings in the second half of the fiscal year. As a result of the review, however, we expected to be limited to holding them a total of five times (including those changed to online meetings). We do not disclose the forecasts for the individual revenues from each event, and each will vary according to, for example, its size and characteristics.

Q17: Could you please provide a reason for the launch of the recruitment-related “Eight Career Design” service having been slower than expected?

Usage has been steadily increasing since the launch of the service about a year ago, but as this is a new service that has only just started, the main factor has been that calculating a precise financial results forecast has been difficult. We believe that the accumulation of recruitment results and other data will be important in steadily strengthening the financial results from this service in the years to come.

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