

## **Q&A for Fiscal 2018 Results**

### **Fiscal 2018 Results**

**Q1: *Your net sales growth is very strong, what are the drivers of that?***

**A1:** This growth mainly comes from the Sansan B2B business (accounting for 94% of net sales). We have been able not only to increase the number of subscriptions, but crucially, we have also been able to consistently increase the sales per subscription. The Eight B2C business also achieved 100% growth, further boosting the overall growth.

**Q2: *Why has the growth rate in net sales slowed compared to the past few years?***

**A2:** As the scale of net sales increases, it is very hard to sustain the same level of growth. However, the actual growth amount was higher than in fiscal 2017. Currently, in aiming for a high growth rate, we are promoting aggressive hiring mainly in the Sansan division's sales department.

**Q3: *What is causing the improvement in gross profit margin?***

**A3:** One of our main cost of sales is in business card digitization, and through our technological ingenuity, we have been able to significantly reduce this cost. However, digitization for the Eight Business is not included in the cost of sales, as it is not directly related to net sales. Thus increases in net sales from the Eight Business also contribute to the improvement of the gross profit margin.

**Q4: *What is the reason for the significant improvement (reduction) in the operating loss?***

**A4:** This is primarily due to a significant reduction in advertising expenditure, together with the aforementioned net sales growth.

**Q5: *Why such a significant drop in advertising expenses?***

**A5:** A similar amount was spent on advertising for the Sansan Business during fiscal 2018, but there was a significant reduction in advertising costs for the Eight Business from fiscal 2017 to fiscal 2018. This was due to an advertising campaign aimed at attracting Eight users during fiscal 2017, whereas fiscal 2018 was focused on monetization.

## **Sansan Business**

### **Q6: Why does operating profit have a higher growth rate than net sales?**

**A6:** As a SaaS business with a subscription-based model, although some upfront investment is necessary, variable costs are low. Investment in advertising over the past few years has led to current high net sales growth and profitability.

### **Q7: How far do you expect your operating profit margin to grow to?**

**A7:** For reasons such as those in A6, as net sales growth continues, we expect the 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.

### **Q8: Why is the increase in the number of subscriptions slowing compared to previous years?**

**A8:** Our current growth strategy is to focus on attracting larger customers, which generally take longer to convert, slowing down the pace at which we get new contracts, but also increasing the sales per subscription. Nevertheless, we are still attracting new customers, and believe that although the pace is slowing, the growth is still very healthy.

### **Q9: Why is the sales per subscription growing so much?**

**A9:** As mentioned elsewhere, we are focused on selling to larger customers, encouraging company-wide use in existing customers, and increasing unit price due to the launch of new functions and services. Hence the strong increase in monthly sales per subscription.

### **Q10: What has caused the drop in churn rate, and how can you reduce this further?**

**A10:** Besides developing innovative new features and functions, we have also improved our customer support. Combined, these have helped us to achieve a very high level of customer satisfaction. A churn rate at or below 1% is generally considered to be extremely low, so with ours already at 0.66%, we consider that there is not much more we can do to reduce this further. Our focus is therefore on maintaining our current low level.

### **Q11: How many salespeople do you have in the Sansan division, and how much has this increased?**

**A11:** Including inside sales, customer success, and customer support we have over 170, which grew from 50 during fiscal 2018.

## **Eight Business**

### **Q12: How have you achieved 100% net sales growth?**

**A12:** We focused strongly on monetization during fiscal 2018, causing a strong upsurge in net sales.

**Q13: Why did the operating loss drop so dramatically?**

**A13:** Concurrent with the strong net sales growth, advertising costs were reduced significantly compared to fiscal 2017. Fiscal 2017 was focused on attracting more users, hence the advertising expenditure, whereas fiscal 2018 was focused on monetization.

**Q14: Why has the user growth rate slowed?**

**A14:** Due to the aforementioned cuts to advertising expenditure and shift in focus to monetization, our user growth rate has slowed. Nevertheless, we gained over 300,000 new users during fiscal 2018 despite the reduction in advertising, so the growth is still healthy.

**Q15: How are you introducing and monetizing the B2B aspect of Eight?**

**A15:** We developed and promoted “Eight Premium for Corporations”, which is essentially a paid B2B service within Eight. That has been very successful since its introduction. In September 2018 and January 2019 respectively, we introduced the business event service “Meets” and the recruitment platform “Eight Career Design”.

**Fiscal 2019 Forecasts**

**Q16: You anticipate a net sales growth rate of 35.4% in fiscal 2019, but why can you not aim higher than this?**

**A16:** We are hiring many staff mainly in the Sansan division’s sales department and developing our product as a business infrastructure platform and monetizing Eight Business, which should help us in the short-term, and fundamentally also bring strong growth in the medium- and long-term. Seeing the results of those measures will help us to aim for high net sales growth in future.

**Q17: Why do you expect to make a profit in fiscal 2019?**

**A17:** We expect to make a profit during fiscal 2019, thanks to continued net sales growth.

**Q18: Why do you not disclose your forecasts for profit attributable to parent company owners?**

**A18:** We are expecting an increased estimate of taxable income due to improved performance in the medium term. Accordingly, it is possible that we will record deferred income taxes due to an increase in deferred tax assets pertaining to tax loss carryforward in fiscal 2019, but as it is difficult to detail the amount to be recorded in deferred income taxes based on prospective business performance, etc. for fiscal 2020, concrete forecasts for profit attributable to parent company owners are not disclosed. We are expecting profitability in profit attributable to parent company owners.

**Q19: *What is your outlook by segment?***

**A19:** Although we do not disclose forecasts by segment, basically we anticipate no significant change in the ratio between Sansan and Eight Businesses.

**Q20: *What is your plan for hiring?***

**A20:** We plan to continue hiring, mainly focused on the Sansan sales department, aiming to increase the number of employees by approximately 200 by the end of fiscal 2019.

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