

Sansan, Inc.

Earnings Results Briefing for FY2023 Q2

January 12, 2024

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Chika Terada	Representative Director, CEO, CPO
	Muneyuki Hashimoto	Director, Executive Officer, CFO
[Analyst Names]*	Naoki Hiraoka	Nomura Securities
	Hiroshi Yamashina	Macquarie Capital Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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Presentation

Moderator: It is now time to begin the earnings results briefing for FY2023 Q2 of Sansan, Inc.

I would like to introduce today's speakers. Mr. Terada, Representative Director, CEO, CPO. Mr. Hashimoto, Director, Executive Officer, CFO.

Next, I would like to introduce today's presentation materials, which will be shared via Zoom. If you are joining us via telephone, please view the materials on our IR website.

Today, Mr. Terada will give a 10-minute presentation on the financial results, followed by a question-and-answer period until 6:00 PM.

Now, Mr. Terada will start the presentation.

1 Consolidated Financial Results for FY2023 Q2

Highlights of FY2023 Q2 YTD Results

Steady progress in consolidated net sales, adjusted consolidated operating profit ⁽¹⁾ increased significantly

Consolidated net sales up 33.0% YoY, ARR ⁽²⁾ up 34.2%, to ¥29,430 million.

Adjusted operating profit increased significantly, by 704.2%, owing to net sales growth, while improving investment in personnel recruitment, etc.

Solid sales growth in Sansan, the sales DX solution

Sansan net sales up 15.5% YoY, to ¥11,012 million, accelerating growth

Strengthened sales structure through personnel recruitment, etc.

Continued high sales growth in Bill One, the cloud-based invoice management solution

Bill One net sales up 188.2% YoY, to ¥2,588 million, quarterly net increase in MRR ⁽³⁾ hit record high.

Revised the ARR target for FY2023-end upward to ¥7.5 billion yen, owing to strong sales growth.

(1) Operating profit + share-based payment expenses + expenses arising from business combinations (amortization of goodwill and amortization of intangible assets)
(2) Annual Recurring Revenue
(3) Monthly Recurring Revenue

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Terada: Thank you very much for attending our earnings presentation today. Once again, my name is Terada, CEO. Today, I will provide an explanation.

First, please see page four, which highlights the FY2023 Q2 YTD results.

First, net sales grew 33% YoY, accelerating the growth rate from the previous quarter. Adjusted operating profit increased significantly to 704.2%, mainly due to the growth in net sales.

Second, sales of the sales DX solution Sansan grew steadily, with the growth rate accelerating from the same period of the previous year, mainly due to the strengthening of the sales structure.

Third, Bill One, our invoice management solution, delivered a strong performance with revenues approximately 2.9 times higher than in the same period last year; MRR was the highest quarterly net increase

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in our history, and we have revised our ARR target upward for the end of May 2024 on the back of this high growth.

1 Consolidated Financial Results for FY2023 Q2

Overview of Consolidated Financial Results

Net sales up 34.6% YoY, accelerating sales growth. Adjusted operating profit up 29.6% YoY owing to sales growth, etc., Ordinary profit significantly increased, by 166.3% YoY, compared with FY2022 Q2 which recorded share of loss of entities accounted for using equity method.

	(millions of yen)	FY2022	FY2023		(For Reference) FY2023	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
Consolidated Results	Net Sales	6,109	8,222	+34.6%	15,726	+33.0%
	Gross Profit	5,269	6,912	+31.6%	13,423	+31.6%
	Gross Profit Margin	86.3%	84.1%	-2.2 pts.	85.4%	-0.9 pts.
	Adjusted Operating Profit	292	379	+29.6%	522	+704.2%
	Adjusted Operating Profit Margin	4.8%	4.6%	-0.2 pts.	3.3%	+2.8 pts.
	Ordinary Profit	59	157	+166.3%	268	—
	Profit Attributable to Owners of Parent	464	117	-75.4%	143	-5.1%
	EPS	3.81 yen	0.94 yen	-75.5%	1.14 yen	-5.5%

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I will now explain the results for the first three months of Q2. Please refer to page five.

Sales growth accelerated from Q1, with an increase of 34.6%. Excluding the newly consolidated portion due to M&A, the organic growth rate was 31.3%. The gross profit margin deteriorated by 2.2 percentage points YoY, mainly due to an increase in the composition of Bill One, which still has relatively low profit margins.

Adjusted operating profit increased 29.6% YoY, mainly due to sales growth, and in H1, adjusted operating profit was about eight times that of the same period last year, mainly due to sales growth and a decrease in the ratio of advertising expenses to sales.

Ordinary profit increased 166.3%, mainly due to the absence of the effect of investment gains/losses in the equity method, which was recorded in the same period of the previous year.

Profit attributable to owners of parent decreased by 75.4% YoY, mainly due to the absence of gains on sales of stocks of subsidiaries and affiliates recorded in the same period of the previous fiscal year.

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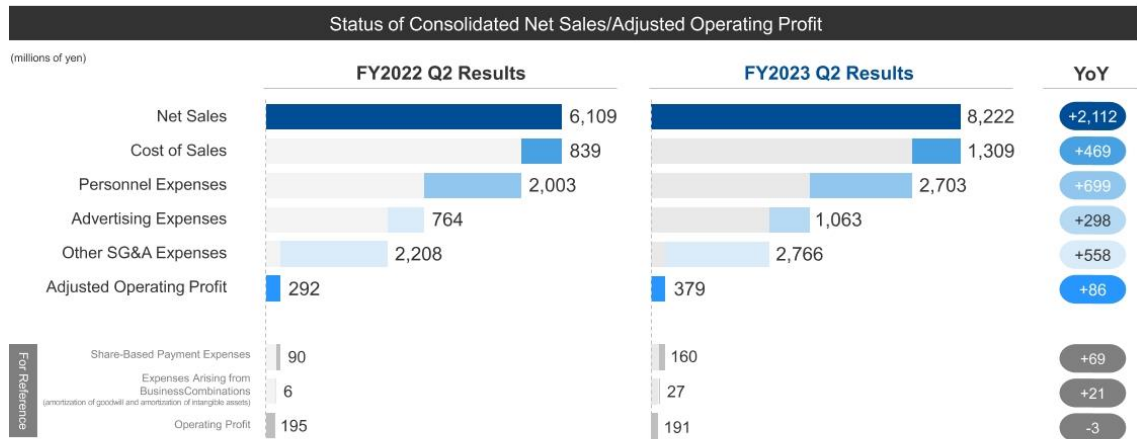
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Factors Contributing to Changes in Adjusted Consolidated Operating Profit

Adjusted operating profit up ¥86 million YoY owing to sales growth, etc., despite increased advertising expenses by ¥298 million YoY and personnel expenses by ¥699 million YoY for growth strategy.



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Next, I will explain the factors behind the change in adjusted operating profit. Please see page six.

As a result of enhanced marketing and recruitment, advertising expenses increased by JPY298 million and personnel expenses increased by JPY699 million from the same period last year, but adjusted operating profit increased by JPY86 million from the same period last year due to sales growth and other factors.

Adjusted operating profit is the sum of operating profit plus stock-based compensation-related expenses and various expenses incurred in connection with the business combination. While adjusted operating profit increased, operating profit decreased, mainly due to a JPY69 million increase in stock-based compensation-related expenses in Q2.

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Results by Segment

Increased net sales and adjusted operating profit (turned positive) in both Sansan/Bill One and Eight businesses.
Negative YoY increase in adjustment amount (adjusted operating profit) mainly reflects increased headcount associated with growth investments.

		FY2022	FY2023		(For Reference) FY2023	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
(millions of yen)						
Net Sales	Consolidated	6,109	8,222	+34.6%	15,726	+33.0%
	Sansan/Bill One Business	5,369	7,207	+34.2%	14,023	+33.3%
	Eight Business	702	909	+29.5%	1,509	+22.1%
	Others	45	140	+207.6%	257	+154.8%
	Adjustments	-7	-34	—	-64	—
Adjusted Operating Profit	Consolidated	292	379	+29.6%	522	+704.2%
	Sansan/Bill One Business	1,743	2,008	+15.2%	3,907	+31.8%
	Eight Business	-14	96	—	4	—
	Others	-1	-10	—	-36	—
	Adjustments	-1,434	-1,714	—	-3,353	—

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Page seven is a summary by segment.

Both the Sansan/Bill One and Eight businesses posted increases in revenue and earnings. In addition, the performance of Institute of Language Understanding Inc., which became a group company in June 2023, has contributed to the others segment since Q1 of the fiscal year ending May 31, 2024.

The negative adjustments in Adjusted operating profit operating profit increased, but this is mainly due to an increase in various expenses resulting from an increase in headcount in the human resources, branding, and corporate divisions as we pursue our growth strategy. The details of the adjusted amount are shown on page 27 of the Appendix.

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Sansan / Bill One Business Overview

Net sales up 34.2% YoY backed by solid growth of Sansan and strong growth of Bill One.
Adjusted operating profit up 15.2% YoY while implementing growth investments for Sansan and Bill One.

		FY2022	FY2023		(For Reference) FY2023	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
(millions of yen)						
Sansan/ Bill One Business	Net Sales	5,369	7,207	+34.2%	14,023	+33.3%
	Sansan	4,831	5,572	+15.4%	11,012	+15.5%
	Sansan Recurring Sales	4,588	5,286	+15.2%	10,401	+15.1%
	Sansan Other Sales	242	285	+18.0%	610	+24.0%
	Bill One	496	1,427	+187.3%	2,588	+188.2%
	Others	41	206	+396.5%	422	+391.0%
	Adjusted Operating Profit	1,743	2,008	+15.2%	3,907	+31.8%
	Adjusted Operating Profit Margin	32.5%	27.9%	-4.6 pts.	27.9%	-0.3 pts.

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Please see page eight. This section describes results by segment.

First, let me discuss the results of the Sansan/Bill One business. Net sales increased 34.2% YoY on the back of solid growth in Sansan and high growth in Bill One. Adjusted operating margin decreased by 4.6 percentage points, mainly due to increased marketing investment in Sansan, but adjusted operating profit increased by 15.2%, mainly due to sales growth.

Sansan sales grew 15.4% over the same period last year. In addition, Bill One sales increased approximately 2.9 times compared to the same period of the previous year.

Others sales grew significantly, mainly due to the contribution of CREATIVE SURVEY INC. which became a group company in March 2023. The number of contracts for Contract One, the contract database included in this category, increased by 84 YoY to 193.

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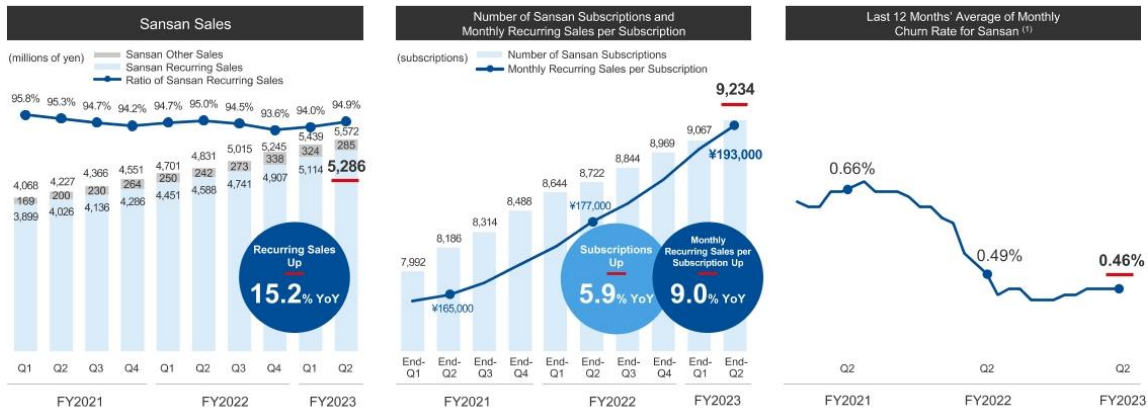
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Sansan/Bill One Business: Status of Key Indicators



Steady growth in subscriptions and monthly recurring sales per subscription owing to sales structure enhancement for medium- and large-sized companies, etc.
Churn rate down 0.03 points YoY to 0.46%, maintaining a low rate below 1%.



(1) Ratio of decreased MRR associated with contract cancellations to total MRR for existing contracts of Sansan

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Please see page nine for a detailed explanation of Sansan's KPIs.

The graph on the left side of the slide shows Sansan's recurring sales, which increased 15.2% over the same period last year.

The graph in the center of the slide shows the number of Sansan subscriptions and monthly recurring sales per subscription. The number of subscriptions increased 5.9% from the end of the same period last year to 9,234, and monthly recurring sales per subscription increased 9% from the same period last year as a result of the acquisition of new subscriptions through the strengthening of the sales structure and other measures.

The net increase in the number of subscriptions at the end of Q2 was 167, a significant increase compared to 98 at the end of Q1. This is because there was a one-time negative impact in Q1 due to the elimination and consolidation of some optional plans. Therefore, in Q2, the impact was eliminated, and the net increase in contracts was solid.

The right side of the slide shows Sansan's average monthly churn rate over the last 12 months, which as of November 2023 was 0.46%, maintaining a low churn rate of less than 1%.

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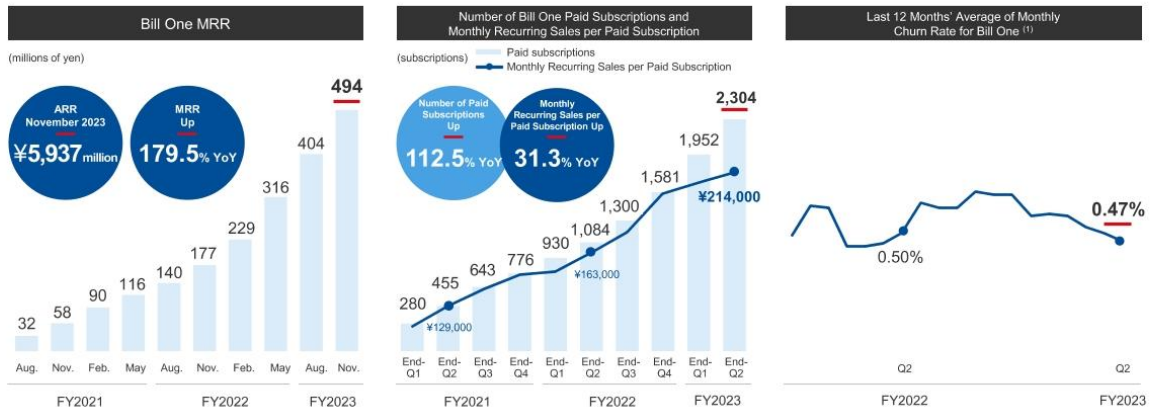


Sansan/Bill One Business: Status of Key Indicators



MRR up 179.5% YoY, and ARR hit ¥5.9 billion as of November 2023.

Steady growth in paid subscriptions and monthly recurring sales per paid subscription, owing to strengthened marketing activities and sales structure.



(1) Ratio of decreased MRR associated with contract cancellations to total MRR for existing contracts of Bill One

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Please see page 10 for a detailed description of Bill One's KPIs.

The graph on the left side of the slide shows Bill One's MRR, which was approximately 2.8 times higher than the same period last year, making it the largest quarterly net increase in the Company's history.

The graph in the center of the slide shows the number of Bill One paid subscriptions and monthly recurring sales per paid subscription. The number of paid subscriptions increased approximately 2.1 times from the same period of the previous year as a result of progress in acquiring new medium and large companies. In addition, monthly recurring sales per paid subscription rose 31.3% YoY.

The right side of the slide shows Bill One's average monthly churn rate over the last 12 months, which as of November 2023 was 0.47%, maintaining a low churn rate of less than 1%.

As for the current situation, the invoice system started in October, and the grace period of the Electronic Bookkeeping Act ended at the end of December 2023. In terms of sales activities in Q3, although the rush demand to comply with the invoice system has disappeared, we believe that we can continue to achieve stable growth as we are strengthening our structure by hiring more sales personnel and expanding sales through distributors.

New orders in Q2 remained strong, and we expect strong performance in H2 and beyond.

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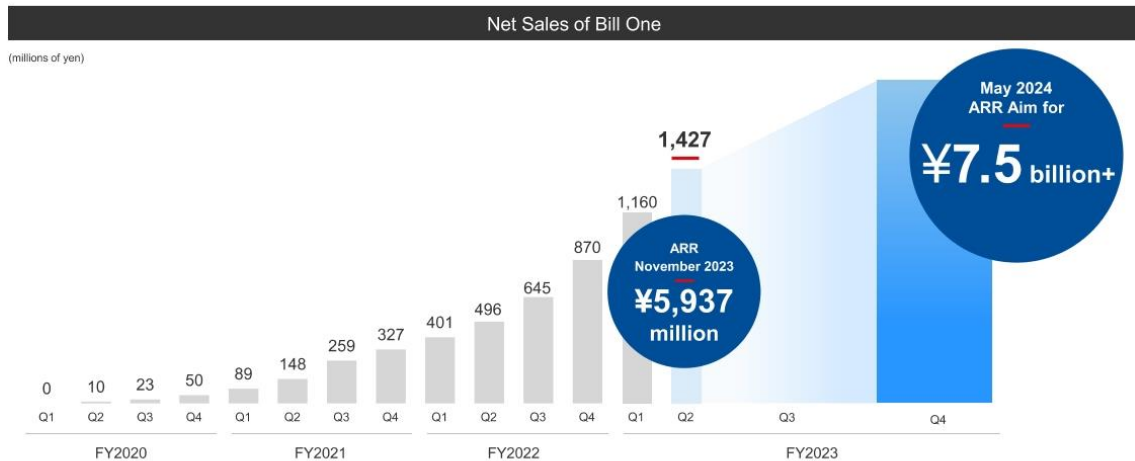
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Sansan/Bill One Business: Upward Revision of ARR Target for Bill One

Revised Bill One ARR target for FY2023-end from ¥7.0+ to ¥7.5+ billion, owing to strong sales growth YTD.



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Please see page 11. Against the backdrop of this recent strong performance, we have revised upward our ARR target for Bill One at the end of May 2024, from JPY7 billion or more to JPY7.5 billion or more, which we had set at the beginning of the period.

Eight Business Overview

Net sales up 29.5% YoY owing to steady growth of B2B services and solid growth of B2C services.

Adjusted operating profit turned positive owing to sales growth and the profitability-focused business operation.

		FY2022	FY2023		(For Reference) FY2023	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
(millions of yen)						
Eight Business	Net Sales	702	909	+29.5%	1,509	+22.1%
	B2C Services	74	85	+15.2%	166	+13.6%
	B2B Services	628	824	+31.2%	1,342	+23.3%
	Adjusted Operating Profit	-14	96	—	4	—
	Adjusted Operating Profit Margin	—	10.6%	—	0.3%	—
Eight Business	Number of Eight Users ⁽¹⁾	3.20 million people	3.43 million people	+0.23 million people		
	Number of Eight Team Subscriptions	3,195 subscriptions	4,194 subscriptions	+31.3%		

(1) Number of confirmed users who registered their business card to their profile after downloading the app.

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Next, I would like to explain the Eight business. Please see page 12.

Net sales increased 29.5% YoY on the back of solid performance in both BtoB and BtoC services. Adjusted operating profit returned to the black in both the Q2 and year-to-date results due to increased revenue and business operations focused on profitability.

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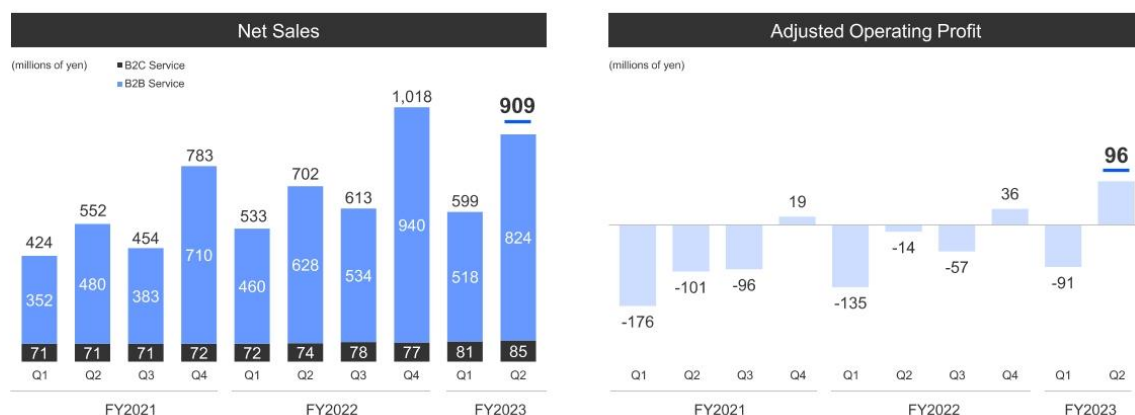
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Eight Business: Net Sales, Adjusted Operating Profit



B2B net sales up QoQ owing to holding large-scale business events.
Q2 adjusted operating profit turned positive for the first time.



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Page 13 shows the quarterly results.

The significant increase in sales in Q2 compared to Q1 is mainly due to the large business events held. This was also the first time in Q2 that adjusted operating profit was in the black.

In the current fiscal year, we plan to hold another major business event in Q4, and we expect adjusted operating profit to be in the black for the full year.

Consolidated Financial Forecasts

Consolidated Financial Forecasts

No change to consolidated earnings forecast announced at beginning of FY, owing to smooth progress Q2YTD according to the plan.

		FY2022	FY2023 ⁽¹⁾	
		Full-Year Results	Full-Year Forecasts	YoY
Consolidated Results	Net Sales	25,510	32,653 to 33,674	+28.0% to +32.0%
	Sansan/Bill One Business	22,516	29,046 to 29,835	+29.0% to +32.5%
	Sansan	19,793	22,664 to 22,861	+14.5% to +15.5%
	Bill One	2,414	5,673 to 6,156	+135.0% to +155.0%
	Eight Business	2,867	3,153 to 3,354	+10.0% to +17.0%
	Adjusted Operating Profit	942	1,240 to 1,852	+31.7% to +96.6%
	Adjusted Operating Profit Margin	3.7%	3.8% to 5.5%	+0.1 pts. to +1.8 pts.

(1) We do not disclose specific forecast figures for operating profit (loss) and below, as it is difficult to make a reasonable estimate of expenses related to stock-based compensation, which may vary significantly depending on the level of our stock price, and certain non-operating profit (loss) and other items.

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Finally, I would like to talk about our full-year outlook, which you can find on page 15.

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The H1 results are on track to meet the full-year forecast, and there is no change from the figures announced at the beginning of the fiscal year.

That concludes today's explanation. Thank you very much.

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Question & Answer

Moderator [M]: We will now begin the question-and-answer session. Please note that we will be transcribing the Q&A session in written form. If you would like to ask a question and would like your company name and name to remain private, please ask to remain anonymous. If you wish to ask a question in web format, please change your name to any four letters of the alphabet.

We would like to receive questions from as many people as possible. Therefore, we will limit the number of questions to two at a time. If you have more than two questions, please raise your hand again.

Now, does anyone have any questions? Mr. Miyazaki, please ask your questions.

Miyazaki [Q]: This is Miyazaki from Goldman Sachs. Thank you very much. Now I would like to ask you two questions.

The first question is about Bill One's ARR target of JPY7.5 billion or more, and I would like to know if there is room for upward movement here. Quantitatively, Bill One's ARR was JPY5.9 billion at the end of H1, and the net increase in ARR in Q1 and Q2 was roughly JPY1 billion to JPY1.1 billion, so do you expect a certain degree of slowdown in Q3 and Q4, or are you being a bit conservative? I would like to ask you about your impressions in this area.

Second, I would like to ask again about the target for adjusted operating profit for the current fiscal year. Your company has indicated a range for the full-year plan. I am sure that you have some idea of how you will use expenses in H2, so I would appreciate any suggestions you can give me.

Thank you.

Terada [A]: Thank you very much. I would like to respond to the first point and Hashimoto would like to respond to the second point. We have revised the ARR of Bill One upward to JPY7.5 billion, based on our target that we can achieve JPY7.5 billion. We would like to aim even higher, and we are managing our business based on the feeling that there is room for upward movement.

Second point, Mr. Hashimoto will answer.

Hashimoto [A]: To answer your second question, we disclosed a range of 3.8% to 5.5% in terms of full-year guidance and adjusted operating margin. At the moment, I think it will probably settle somewhere in the middle of the range.

However, we have several cost-consuming measures in the pipeline for H2. Depending on whether the timing is in May or June, for example, the figures may differ considerably, but this is still within the range where we can make sufficient adjustments based on our will and timing. We would like to keep the figures in the middle of the range or even above the middle of the range.

Miyazaki [M]: I understand. Thank you very much.

Moderator [M]: Next, Mr. Hiraoka from Nomura Securities. Please ask your questions.

Hiraoka [Q]: Thank you. My name is Hiraoka, Nomura Securities. I would like to ask you two questions as well.

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The first question is regarding Bill One. Compared to Q1, which was particularly strong before the start of the invoice system, the amount of revenue growth does not seem to have slowed down much in Q2. You mentioned at the last briefing that the customer side was busy, but what was the situation like in Q2? Could you reiterate and tell us when you think the peak of the impact of the invoice system will be? Also, I would like to know more about the monthly pace of revenue growth between September and November, for example.

The second question concerns the balance between sales and profits. Some SaaS companies are now making higher profits in response to increased revenues. In the current stock market, there is also a phase in which profitable companies are ahead. I understand that your company's stance is to increase sales by also spending money, but please tell us if there has been any change in your thinking regarding the balance between revenue increase and profit.

That is all.

Terada [A]: As before, I will answer the first point and Mr. Hashimoto will answer the second point.

First of all, I have a feeling that there was a rush demand before the invoice system in Q2 itself. Now that the rush demands to comply with invoice system and the Electronic Bookkeeping Act are over, we are amid the post-invoice and post-Electronic Bookkeeping Act. Although there are some aspects that seem to have leveled off to a certain extent within the scope of our initial forecast, we feel that we can expand beyond that level, and we have reflected that in the upward revision.

The essential value of Bill One itself, which is to accelerate the monthly closing of accounts, is, on the flip side, that there are many companies that are still running operations without a corresponding system in place after the invoice system was introduced. For such companies, issues have become apparent and there is strong demand from them, so I have a feeling that we will be able to further expand our business in the future, along with our continued aggressive efforts to increase personnel.

Hashimoto [A]: Secondly, I would like to respond to your second point. The sales growth rate for the three months of this Q2 exceeded 34%, and we have not achieved such a growth rate on a quarter basis since before the COVID-19 pandemic. We are very positive about the fact that the sales growth rate has been accelerating as a result of our hiring and advertising efforts.

On the other hand, as you pointed out, we were very conscious of profits, and we have made a profit in Q2.

We are confident that we will be able to record profits in Q3 and Q4, so we are confident that we will be able to generate profits for the full year as per our guidance. Last year, we issued a guidance that the Company will achieve a growth rate of profit that exceeds the growth rate of sales every year. I would like to manage the Company with a stronger awareness of profits.

Although we do not have any new guidelines or indicators, we would like to manage our business with a greater awareness of profit.

Hiraoka [Q]: Thank you very much. Regarding the first point, since the invoice system had some effect, is it correct to say that in September and October, there was a boost from the invoice system, but that it flattened out in November, and that after that you will use that as a launching pad to increase sales while hiring employees, etc.?

Terada [A]: That understanding is correct.

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Hiraoka [Q]: Thank you. Regarding the second point, is it correct to understand that because you have become more profit-conscious, you will achieve results this quarter not at the lower end of the range, but in the middle or even above the range as you mentioned earlier?

Hashimoto [A]: Yes.

Hiraoka [M]: All right, that's all I have to say. Thank you very much.

Moderator [M]: Next, Mr. Yamashina, Macquarie Capital Securities. Please ask your questions.

Yamashina [Q]: This is Yamashina from Macquarie. Thank you for your explanation. I have two points as well.

The first point is the concept of cost of sales for this quarter. Since there is a large increase compared to Q1, please tell us what factors are responsible for this and what will happen in H2 and beyond.

The second point is the future development of Bill One. Please tell us how you intend to increase the usage of Bill One by customers who have already installed the solution. In particular, I would like to hear about your sales policy for increasing the ARPU of existing customers, if you have such a policy.

Thank you.

Terada [M]: The first point will be answered by Mr. Hashimoto and I will answer the second point. Thank you very much.

Hashimoto [A]: First, as you can see from the cost of sales figures, the gross profit margin in Q2 was lower than in the past, and the cost of sales ratio was higher than in the past.

This was explained earlier, but if you compare the two businesses of Bill One and Sansan, Bill One has a higher cost-of-sales ratio and slightly lower profitability. The more Bill One's business accounts for, the worse its cost of sales ratio is going to be, and this has a significant impact on the cost of sales ratio.

In particular, since the invoice system started in October, the number of invoices received has increased dramatically, and the cost of receiving invoices has been much higher than we had expected. In fact, the cost of converting Bill One invoices to data has actually doubled compared to Q1, and I think the impact of this has been very large.

I am confident that over the medium to long term, through various initiatives, we will be able to lower costs, as we have done in the past with business card data conversion, so I expect costs will eventually return to normal.

On the other hand, we are very positive about the dramatic increase in the number of invoices taken in, as we believe that customer adherence has increased dramatically.

Terada [A]: Second, I understand that you are asking how we can increase ARPU. One of our efforts is to increase the number of items to be entered in response to the invoice system, for example, as Mr. Hashimoto mentioned earlier. In addition, in consideration of the recent market environment, we are also raising the prices of Bill One itself at times.

This is, of course, not in the nature of raising the existing contract itself all at once, but rather a negotiated increase at the time of subscription renewal. It is not a matter of suddenly raising prices in a flash, which will result in an increase in profits. I believe that ARPU itself will rise as the effect of the price increase itself is factored into the structure.

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In addition, as was the case with the Bill One card, Bill One itself has become deeply involved in the invoicing business, and opportunities in certain peripheral areas are becoming clearer and more resolved, and we are preparing solutions and options for them. Bill One itself is an invoicing system. We are now aiming to go one step further and evolve into a suite of services to accelerate the monthly closing of accounts for accountants. Once these offerings are in place, we will be able to provide a structure that allows a single company to use such services, which is an extremely important factor in increasing ARPU, and we feel that we are taking steps toward that end.

Yamashina [Q]: Thank you very much. Regarding the second point, I understand that your company has done the invoice part for now out of the process from the [inaudible] cashless estimate to the payment part. Is it correct to say that you will be expanding the scope of the peripheral areas to be covered in the future?

Terada [A]: There is a limit to what I can say, but there is of course that direction is possible. For example, we are currently working on products such as Order One, and there is also the concept of pre-invoice and post-invoice operations.

On the other hand, when we look at the accounting side, there are various pains involved in so-called invoice receipt operations and account payables, but there are also various pains involved in account receivables, and for example, customers who use credit cards also have pains involved in expense reimbursement. Of course, there are existing solutions, but we are also beginning to see solutions that only we can provide or solutions that are unique to us. For example, there is a way of thinking about expanding in these areas, and we are exploring possibilities while considering both sides.

Yamashina [Q]: I understand. Is this additional functionality or options coming out so soon that we should probably be aware of next fiscal year or the year after next, or are you talking about something that will already be available relatively in H2? How should we take that into account?

Terada [A]: As for when the PMF of products will be, that will be a different challenge, but we would like to release the initial products within a certain range, such as six months or so, and at present, when we launch a new product, we always do so, but we also have a certain level of sales. We always do this when we launch a new product, and we are also making a certain amount of sales. The timing for accelerating the product after launch and PMF is a different story, but we are proceeding on the same timeframe as I just mentioned.

Yamashina [M]: I understand very well. Thank you very much.

Moderator [M]: Are there any other questions? Since there seems to be no one else with a question, we will end here.

This concludes the financial results briefing. Thank you very much for your time today.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
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