Sansan, Inc.

Earnings Results Briefing for FY2023

July 12, 2024

Event Summary

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[Venue]	Webcast
[Venue Size]	
[Participants]	

[Number of Speakers]	2	
	Chika Terada	Representative Director, CEO, CPO
	Muneyuki Hashimoto	Director, Executive Officer, CFO
[Analyst Names]*	Naoki Hiraoka	Nomura Securities
	Hiroshi Yamanishi	Macquarie Capital Securities
	Kazuki Oyama	Mizuho Securities
	Norihiro Miyazaki	Goldman Sachs
	Yuki Kaneko	BofA 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.

Presentation

Moderator: The time has come, and we will now open the Sansan, Inc. full-year financial results briefing for the fiscal year ending May 31, 2024.

Here are today's speakers. This is Terada, President, CEO and CPO. This is Hashimoto, Director, Executive Officer and CFO.

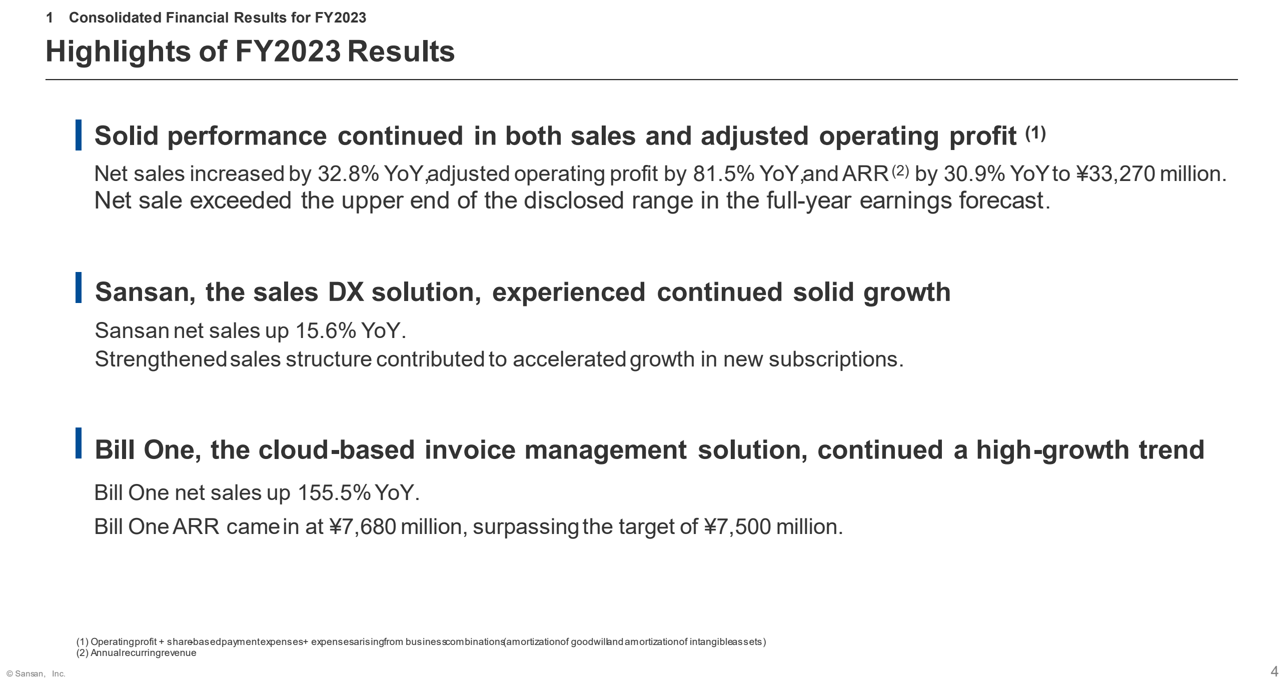
Next, I would like to present today's materials. We will be sharing the financial results presentation materials on screen via Zoom, but if you are joining us by phone, please visit our IR site to view the materials.

Following is today's time schedule. After a 20-minute presentation by Terada and Hashimoto on the financial overview and growth strategy, the Q&A session will be held until 11:00 AM.

Terada will provide an explanation as soon as possible.

Terada: Thank you for attending our earnings presentation today. I am Terada, CEO.

First, I will discuss our full-year results and growth strategy for the fiscal year ending May 31, 2024, and our full-year forecast for the fiscal year ending May 31, 2025. CFO Hashimoto will then talk about the mid-term financial policy.



Highlights of the full-year results for the fiscal year ending May 31, 2024. First, both net sales and adjusted operating income were strong, with net sales exceeding the upper end of the disclosed range of the earnings forecast announced at the beginning of the period and adjusted operating income exceeding the median.

Second, the sales DX service Sansan saw sales grow steadily as growth in the number of contracts accelerated due to the strengthening of the sales structure and other factors.

Third, sales of Bill One, an invoice management service, continued to grow at a high rate, mainly due to the strengthening of the sales structure, and the ARR for May 2024 exceeded JPY7.6 billion, exceeding the target.

1 Consolidated Financial Results for FY2023

Overview of Financial Results

The Sansan Group continued its high-growth trend, with net sales up 32.8% YoY and adjusted operating profit up 81.5% YoY. The line-item profits below ordinary profit significantly increased year on year due to the absence of one-off expenses related to trust-type stock options recorded in the previous fiscal year.

	(millions of yen)	FY2022	FY2023		(Reference) FY2023	
		Full-Year Results	Full-Year Results	YoY	Q4 Results	YoY
Financial Results	Net sales	25,510	33,878	+32.8%	9,644	+31.5%
	Gross profit	21,827	28,814	+32.0%	8,165	+34.3%
	Gross profit margin	85.6%	85.1%	-0.5 pts.	84.7%	+1.8 pts.
	Adjusted operating profit	942	1,709	+81.5%	595	+227.3%
	Adjusted operating profit margin	3.7%	5.0%	+1.3 pts.	6.2%	+3.7 pts.
	Ordinary profit	122	1,224	+903.3%	546	–
	Profit attributable to owners of parent	-141	953	–	413	–
	EPS	-¥1.13	¥7.59	–	¥3.29	–

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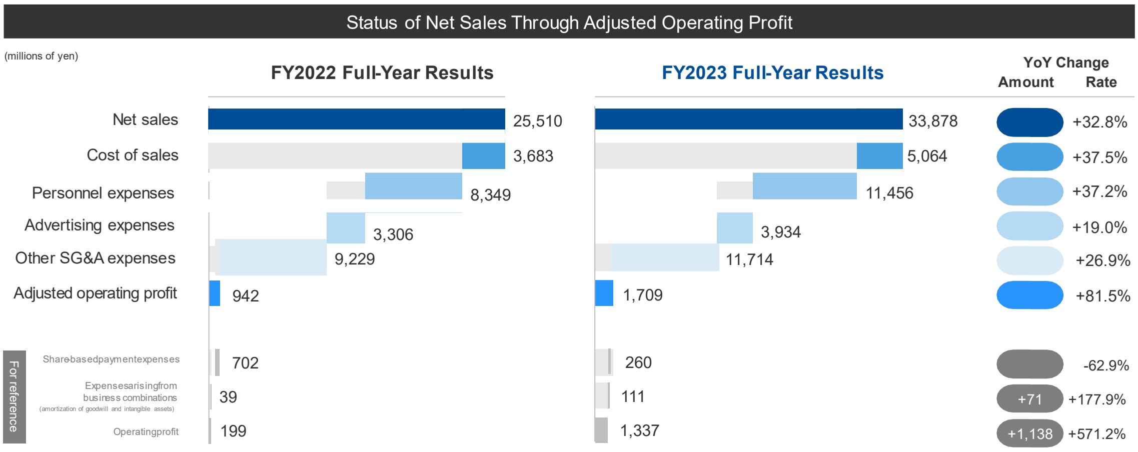
The Company's operating results are shown on page five. Net sales grew 32.8% YoY, of which organic growth was 30.2%, excluding new consolidations due to M&A.

The decline in gross profit was due to an increase in the composition of Bill One, which still has a relatively low profit margin, but the profit margin for Bill One itself bottomed out in October to November of last year, when the invoice system was introduced, and has continued to improve every month since.

Adjusted operating income increased 81.5% YoY, mainly due to sales growth. The significant increase in ordinary income and lower step income was due to an increase in adjusted operating income and the impact of one-time expenses related to trust-type stock options recorded in Q4 of the previous fiscal year.

Contributors to Changes in Adjusted Operating Profit

Advertising expenses and personnel expenses increased YoY by ¥627 million and ¥3,107 million, respectively, resulting from the execution of growth strategies. Nevertheless, adjusted operating profit increased by ¥767 million owing to robust sales growth and a lower advertising expenses ratio.



I will explain the factors behind the increase in adjusted operating income. In line with the growth strategy, personnel expenses increased by JPY3,107 million YoY and the rate of increase exceeded the rate of sales growth, while advertising expenses increased only JPY627 million, or 19% of the total increase. These and other factors resulted in an increase in adjusted operating income of JPY767 million and an improvement in the profit margin of 1.3 percentage points from the same period last year.

Results by Segment

The Sansan/Bill One and Eight businesses increased both net sales and adjusted operating profit YoY, with the Eight business turning to black on a full-year basis. The negative YoY increase in adjustments for adjusted operating profit mainly reflects an increased headcount resulting from the execution of growth strategies.

	(millions of yen)	FY2022	FY2023		(Reference) FY2023	
		Full-Year Results	Full-Year Results	YoY	Q4 Results	YoY
Net Sales	Consolidated	25,510	33,878	+32.8%	9,644	+31.5%
	Sansan/Bill One Business	22,516	29,948	+33.0%	8,278	+31.7%
	Eight Business	2,867	3,548	+23.8%	1,267	+24.5%
	Others	198	519	+161.3%	140	+163.3%
	Adjustments	-72	-137	–	-42	–
Adjusted Operating Profit	Consolidated	942	1,709	+81.5%	595	+227.3%
	Sansan/Bill One Business	7,005	8,675	+23.8%	2,386	+32.0%
	Eight Business	-170	314	–	321	+792.1%
	Others	-36	-79	–	-17	–
	Adjustments	-5,856	-7,201	–	-2,095	–

Segment overview. Both the Sansan/Bill One and Eight businesses reported increases in both revenue and earnings. In particular, the Eight business achieved full-year profitability for the first time since the service was launched.

In the other segment, the results of the Institute of Language Understanding, Inc. which became a group company in June 2023, are consolidated from Q1.

The negative adjustment for operating income has increased, but this is mainly due to increased expenses associated with the increase in headcount in the human resources, branding, and corporate divisions as we pursue our growth strategy.

A detailed breakdown of adjustments is provided on page 42 of this document. This adjustment will be allocated to each segment from Q1 of the fiscal year ending May 31, 2025.

Please refer to page 43 of this document for segment income after allocation, although these figures are for reference only.

1 Consolidated Financial Results for FY2023

Sansan/Bill One Business Overview

Sansan showed solid growth, and Bill One continued a high-growth trend, with the segment sales up 33.0% YoY. Adjusted operating profit increased by 23.8% YoY despite a lower profit margin due to recruiting sales personnel and strengthening marketing activities.

	(millions of yen)	FY2022	FY2023		(Reference) FY2023	
		Full-Year Results	Full-Year Results	YoY	Q4 Results	YoY
Sansan/ Bill One Business	Net sales	22,516	29,948	+33.0%	8,278	+31.7%
	Sansan	19,793	22,889	+15.6%	6,130	+16.9%
	Sansan recurring sales	18,688	21,509	+15.1%	5,662	+15.4%
	Sansan other sales	1,104	1,379	+24.9%	468	+38.3%
	Bill One	2,414	6,168	+155.5%	1,898	+118.1%
	Others	308	889	+188.1%	248	+47.4%
	Adjusted operating profit	7,005	8,675	+23.8%	2,386	+32.0%
	Adjusted operating profit margin	31.1%	29.0%	-2.1 pts.	28.8%	–

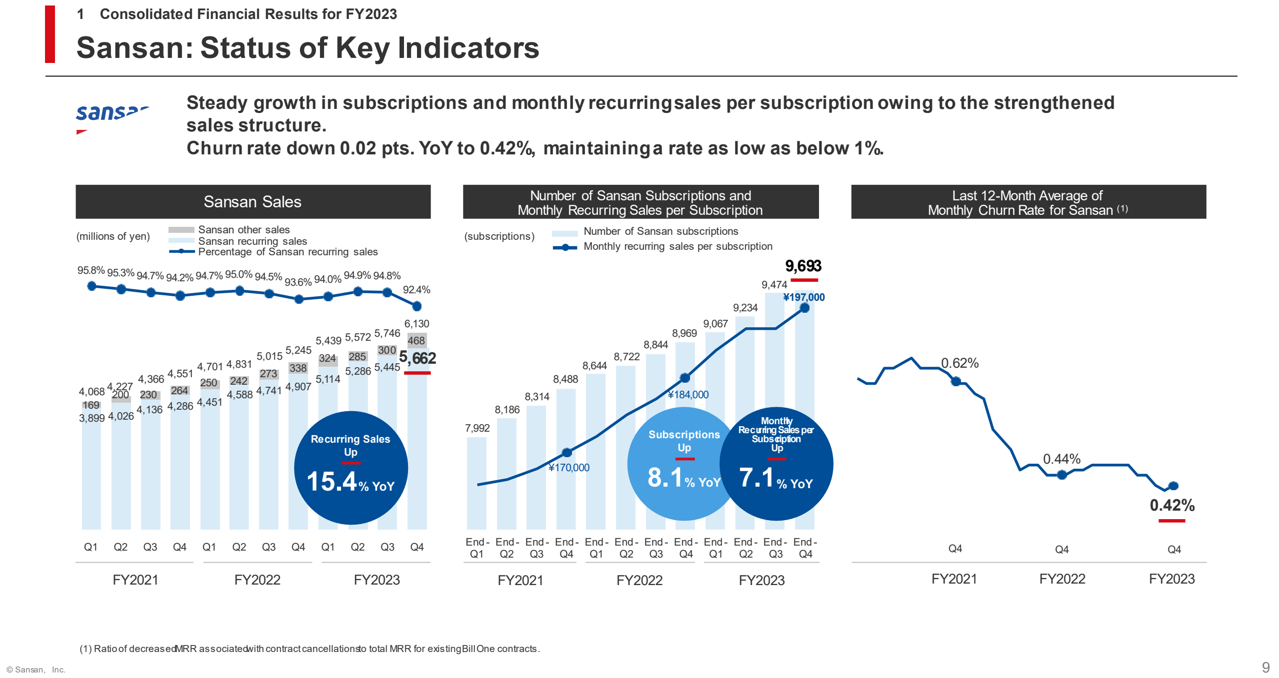
Next, I will explain the results by segment.

First, here are the results of the Sansan/Bill One business. Both Sansan and Bill One worked to strengthen their sales structures by hiring personnel, resulting in a 33% increase in net sales and a 23.8% increase in adjusted operating income compared to the same period last year.

By service, Sansan posted solid results in Q4, with sales up 16.9% YoY, accelerating its growth rate. Bill One sales remained strong throughout the period, growing 155.5% YoY.

The lower growth rate of other sales in Q4 was due to the absence of the effect of the new consolidation of Creative Survey.

The number of contracts for Contract One, a contract database included in other sales, increased by 82 to 222.



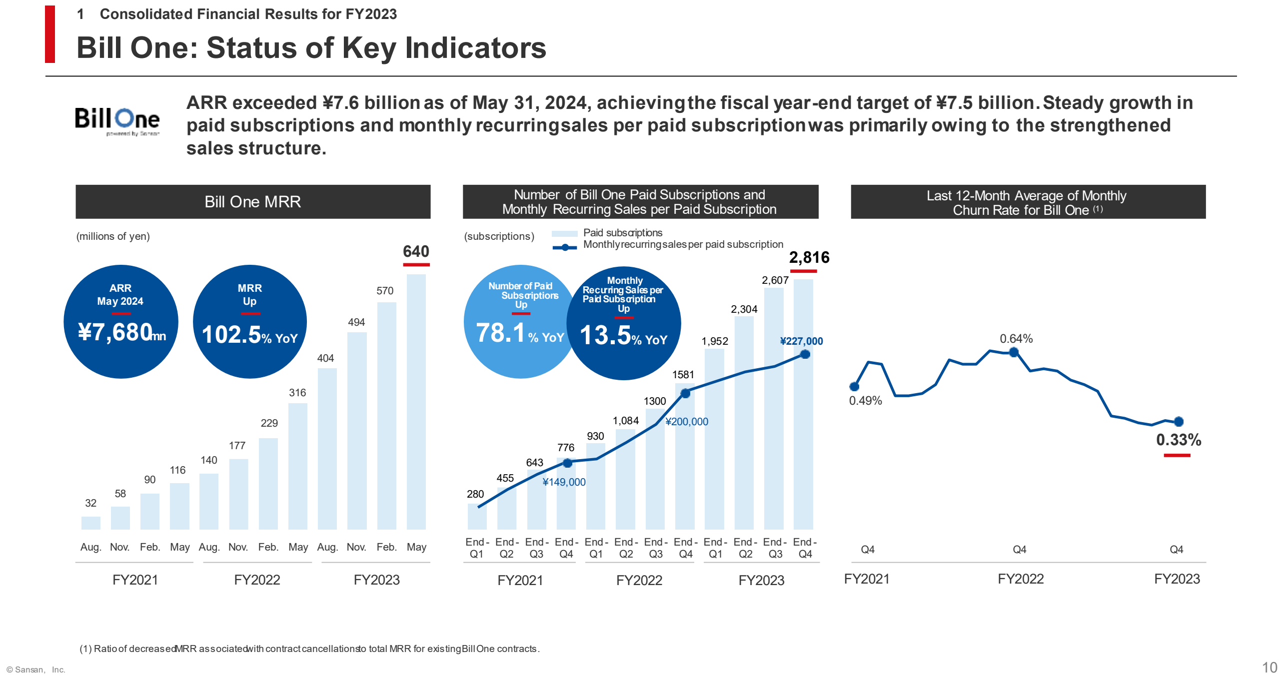
Sansan's KPI's are explained below. The graph on the left shows Sansan's stock sales. Q4 was solid, with a 15.4% increase over the same period last year.

The center graph shows the number of contracts and monthly stock sales per contract. The number of contracts increased 8.1% YoY, while monthly stock sales per contract rose 7.1%.

Although we started sales activities under the new pricing structure in February 2024, the effect of this new pricing structure will mainly be visible from the fiscal year ending May 2025, and we consider that the effect on the current fiscal year's results was limited.

The graph on the right shows Sansan's average monthly churn rate over the last 12 months. The surrender rate at the end of the period was 0.42%, maintaining a low level.

For your reference, I would like to discuss the status of new orders in Q4. The new order amounts here are a mixture of several natures, including those already reflected in sales in Q4 and those that will begin to be recorded in the following Q1. The value of these orders was up approximately 23% from the same period last year and up approximately 28% from Q3, making this the highest quarterly order amount ever recorded.



Bill One's KPIs are explained below. The graph on the left is the MRR for Bill One. May 2024 results were up 102.5% YoY and ARR exceeded JPY7.6 billion, achieving the target of JPY7.5 billion.

Next is the central graph. As a result of steady new acquisitions throughout the year, the number of paid subscriptions increased 78.1% YoY and monthly stock sales per paid subscription rose 13.5%.

Bill One is also working to optimize its pricing structure, which we view as partially contributing to the improvement in monthly stock sales per contract in Q4.

Although the net increase in new contracts in Q4 was lower than in the past, this was due to the fact that sales resources were more intensively allocated to medium-sized and large companies in the process of optimizing the pricing structure, and the results are in line with our business strategy.

The graph to the right shows Bill One's average monthly churn rate over the last 12 months. The surrender rate at the end of the period was 0.33%, maintaining a very low level.

The current order situation has been somewhat affected by the disappearance of rush demand due to the invoice system. As was the case in Q3, new orders in Q4 have also been favorable, and we expect to receive even stronger orders in the following fiscal year at an early date.

Eight Business Overview

eight

Net sales of the Eight Business was up 23.8% YoY, owing to steady growth of B2B services and solid growth of B2C services. The Group achieved profitability for the first time on a full-year basis due to profitability-focused operations on top of an increase in net sales.

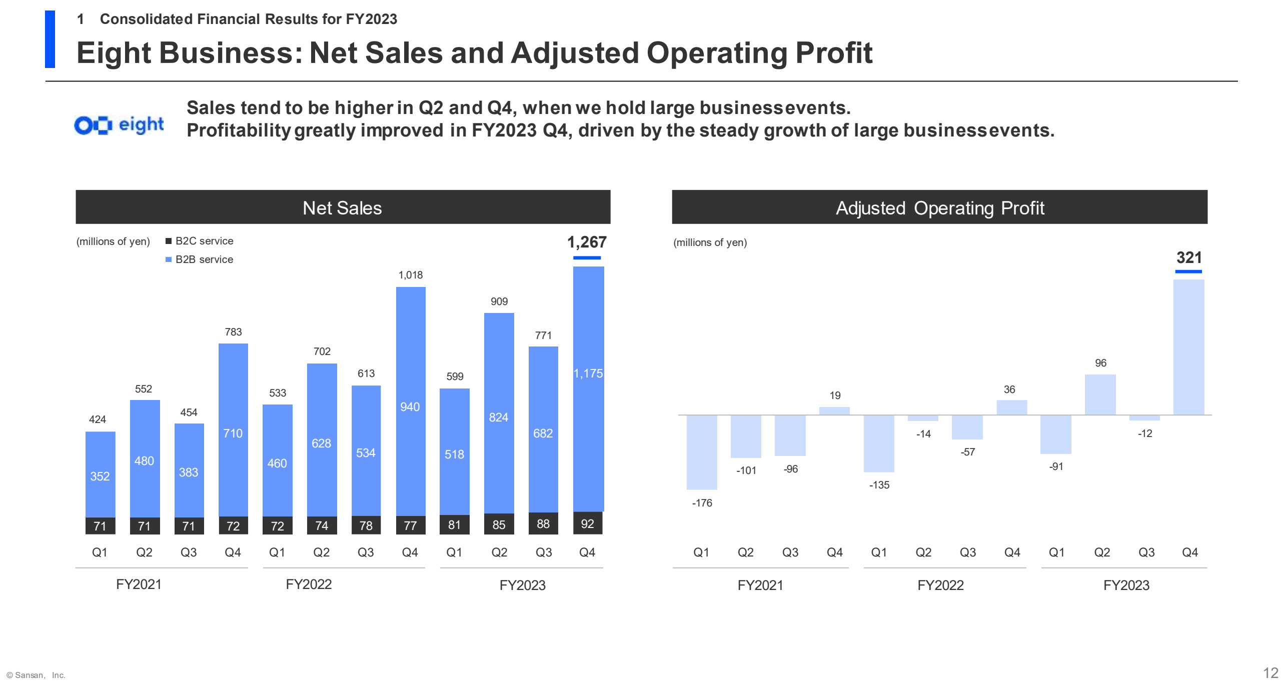
	(millions of yen)	FY2022	FY2023		(Reference) FY2023	
		Full-Year Results	Full-Year Results	YoY	Q4 Results	YoY
Eight Business	Net sales	2,867	3,548	+23.8%	1,267	+24.5%
	B2C services	303	347	+14.7%	92	+18.9%
	B2B services	2,563	3,200	+24.8%	1,175	+25.0%
	Adjusted operating profit	-170	314	–	321	+792.1%
	Number of Eight users (1)	3.31 million	3.72 Million	+0.41 Million		
	Number of Eight Team subscriptions	3,703 subscriptions	4,608 subscriptions	+24.4%		

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

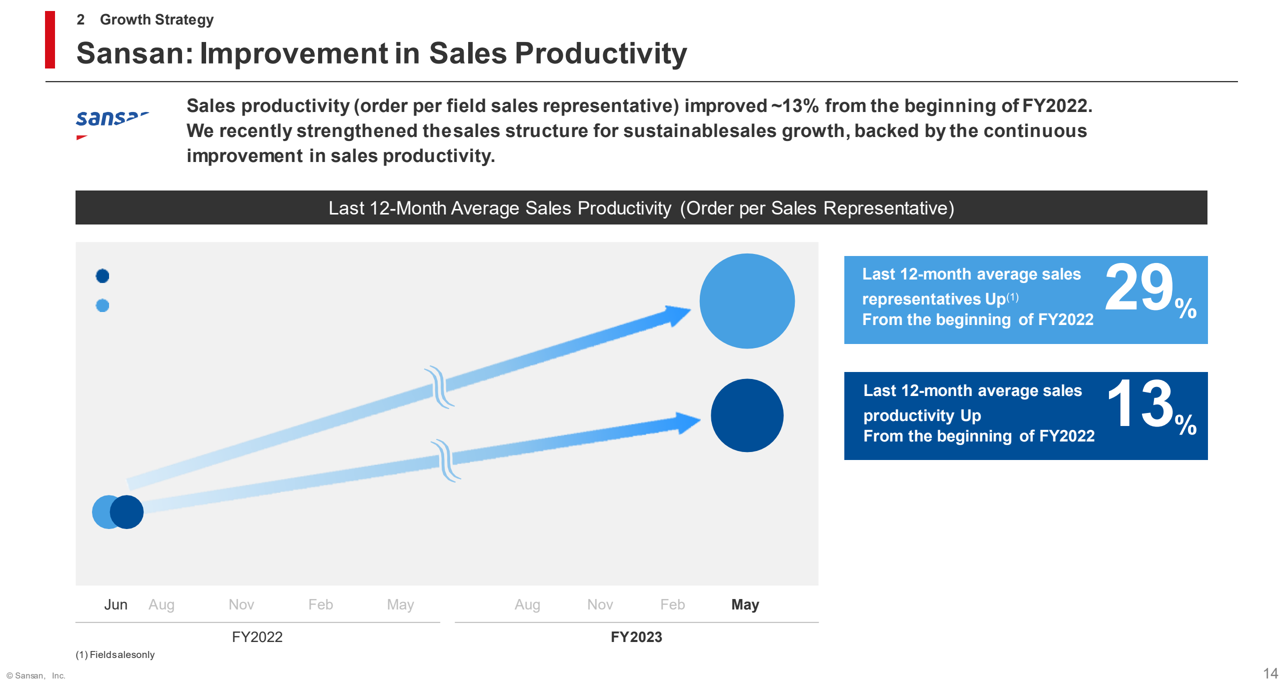
Explanation of the Eight Businesses. Both BtoB and BtoC services contributed to growth, resulting in a 23.8% YoY increase in net sales.

In BtoB services, the event business and Eight Team performed particularly well, with Eight Team achieving favorable results thanks to a steady increase in the number of contracts as well as price revisions.

As a result, adjusted operating income returned to profitability for the full year for the first time since the service was launched, helped by the shift in business operations to a focus on profitability.



Quarterly performance trends. During the period under review, as in the previous year, both net sales and adjusted operating income were strong due to a large business event held in Q4.



Next, I will discuss growth strategies for our key services.

First, let's talk about Sansan. Sansan has improved its sales productivity by about 13% over the past two years, thanks to a variety of effects, including product enhancements and a recovery in demand in after coronavirus pandemic has ended.

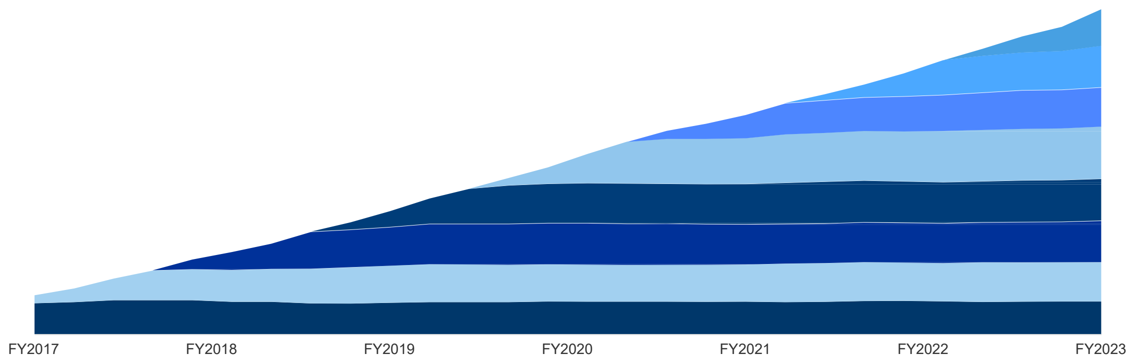
Against the backdrop of this productivity improvement, we have recently worked to strengthen our sales structure, increasing the number of field sales personnel by approximately 29%. We expect the newly hired staff to contribute to sales growth in the future.

2 Growth Strategy

Sansan: Net Revenue Retention

We achieved a stable negative churn rate (1) thanks to the solid upselling for the existing customers.

Sansan Sales Stack-up: Accumulation of Net Sales by Service-in Timing (2) (Recurring Sales)



(1) Status where increase of revenue generated by existing subscriptions is greater than revenue reduced resulting from cancellation.
(2) Created based on monthly Sansan license charge (unaudited).

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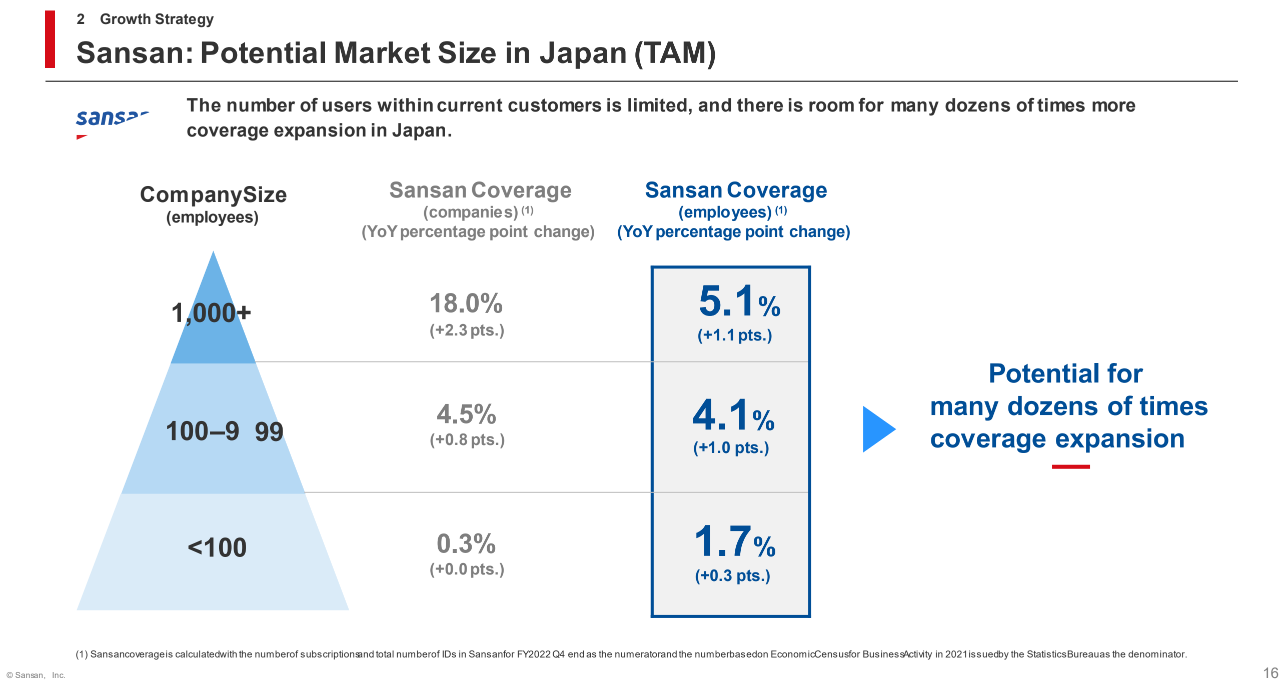
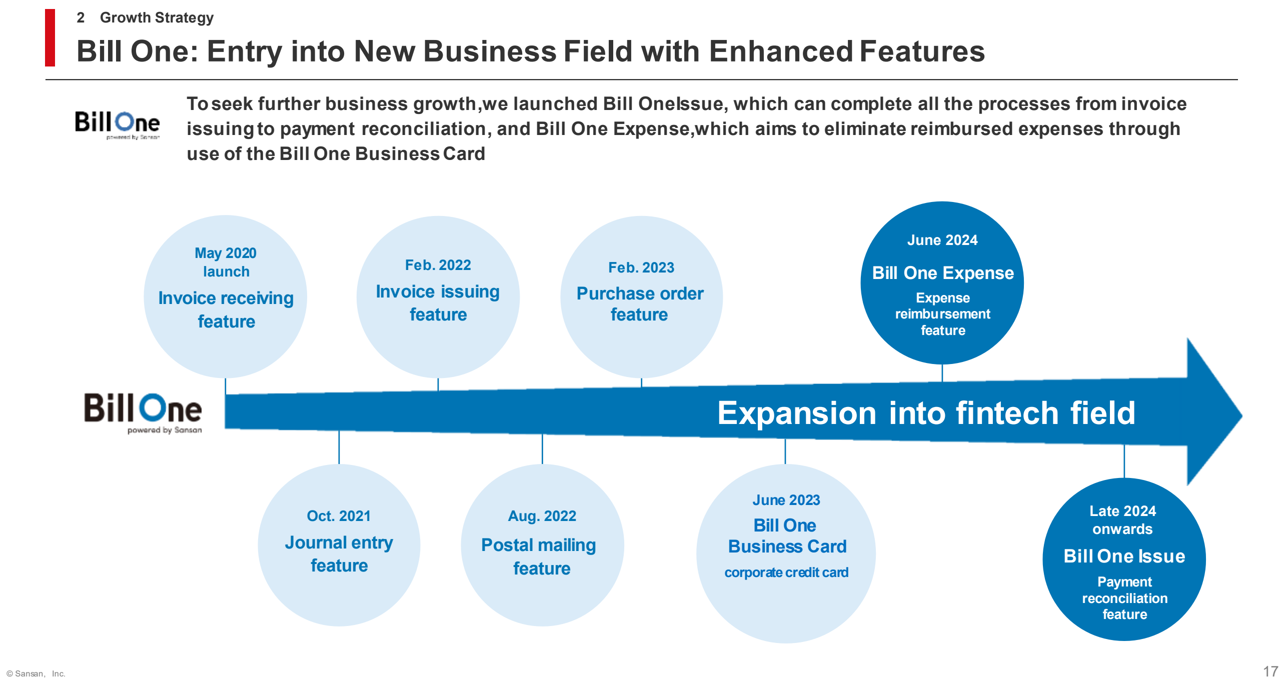
Sansan is not only acquiring new clients, but also upselling to existing clients is going well. The so-called negative churn, a situation in which the increase in revenue from existing contracts exceeds the decrease in revenue due to service cancellations, has also been realized consistently.

We will continue to improve Net Revenue Retention by further focusing on up-selling.



About TAM. The number of Sansan users is only about 5% of the total workforce as a denominator. Therefore, we believe there remains room for expansion by dozens of times.

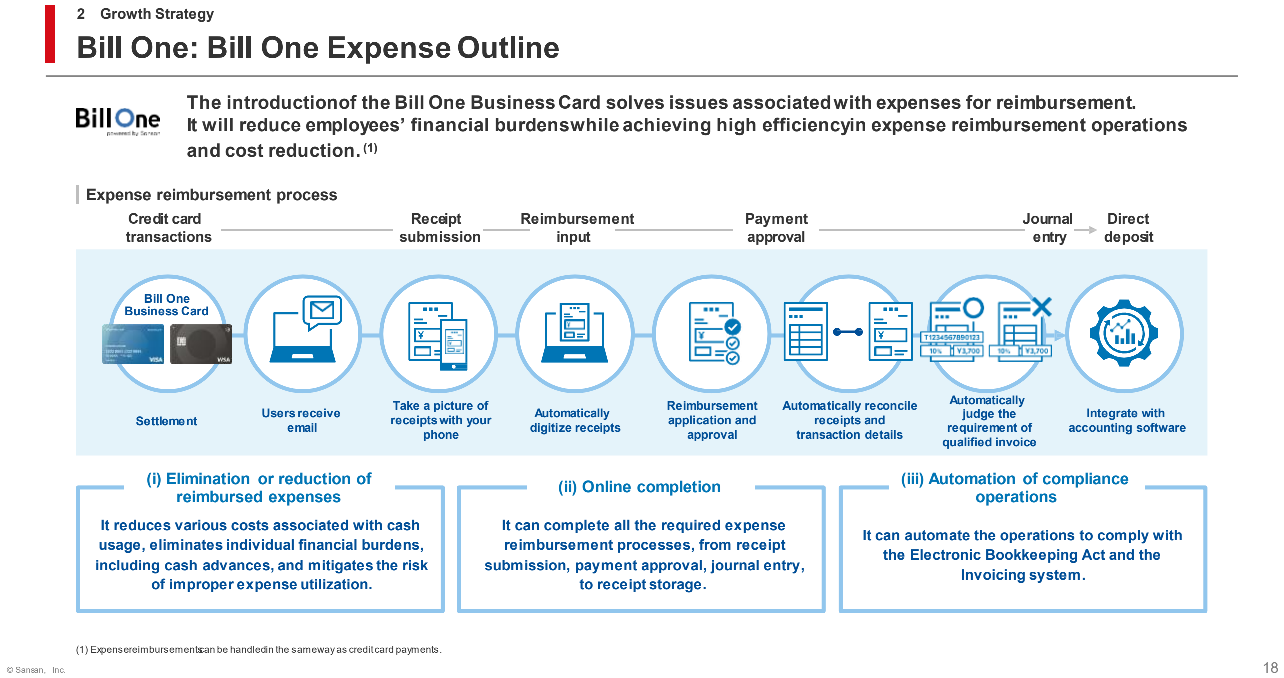


Bill One's growth strategy will be explained. Bill One also continues to strengthen its sales structure but will also work to expand its area of deployment.

Since the service was launched in May 2020, it has grown around the invoice receipt functionality, and in February 2022, it added invoicing functionality.

In June 2023, we also expanded our business into the fintech area by offering corporate credit cards as an issuer.

As announced in May 2024, we will provide an expense reimbursement function using the Bill One business card from June 2024, and a payment reconciliation function from H2 of 2024, which will allow users to complete the entire process from invoice issuance to payment reconciliation in a single operation.



Among the new features, an overview of the Bill One expense reimbursement function will be presented. Bill One Expense eliminates the need for employees to advance money and reduces the financial burden on employees while improving the efficiency of expense reimbursement operations and reducing costs.

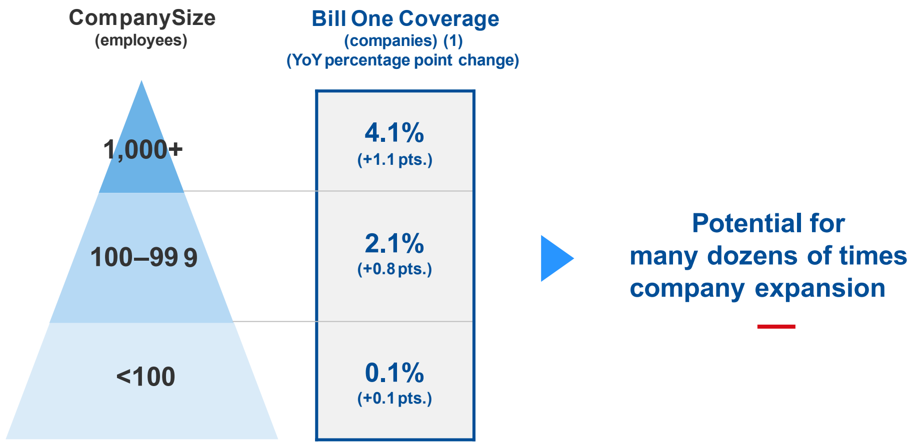
We have already begun sales activities and have received such a positive response that we can say that it is a market fit, and we expect it to contribute to Bill One's growth over the medium to long term.

2 Growth Strategy

Bill One: Potential Market Size in Japan (TAM)

Bill One

There is a large potential market, even in Japan. Aiming for sustainable high growth, centered on Bill One Receive while enhancing the service's value proposition.



(1) Sansan coverage is calculated with the number of subscriptions and total number of IDs in Sansan for FY2022 Q4 end as the numerator and the number based on Economic Census for Business Activity in 2021 issued by the Statistics Bureau as the denominator.

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This is about Bill One's TAM. Today, Bill One has more than 2,800 paid subscriptions and approximately 182,000 companies in the so-called invoice network that have contact with Bill One.

However, it is still a small scale compared to the approximately 2 million companies in Japan, and we believe there is still room for significant growth in the future.

3 Full-Year Forecasts for FY2024

Full-Year Forecasts

Aim for the sales growth rate of 27.0%–30.0%.
Adjusted operating profit margin is expected to improve 2.0–5.0 pts YoY, with accelerating the pace of profit improvement.

	(millions of yen)	FY2023		FY2024 (1)	
		Full-Year Results	YoY	Full-Year Forecasts	YoY
Earnings Forecasts	Net Sales	33,878	+32.8%	43,026 to 44,042	+27.0% to +30.0%
	Sansan/Bill One Business	29,948	+33.0%	37,734 to 38,483	+26.0% to +28.5%
	Sansan	22,889	+15.6%	26,552 to 26,781	+16.0% to +17.0%
	Bill One	6,168	+155.5%	9,870 to 10,486	+60.0% to +70.0%
	Eight Business	3,548	+23.8%	4,683 to 4,896	+32.0% to +38.0%
	Adjusted Operating Profit	1,709	+81.5%	3,012 to 4,404	+76.2% to +157.6%
	Adjusted Operating Profit Margin	5.0%	+1.3 pts.	7.0% to 10.0%	+2.0 pts. to +5.0 pts.

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

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I would like to explain our full-year earnings forecast. Please see page 21 for our full year forecast for the fiscal year ending May 31, 2025.

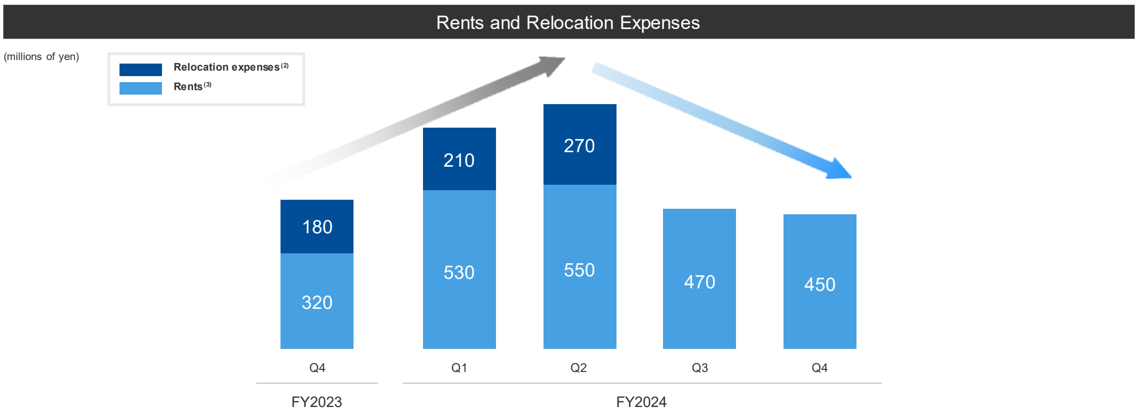
Sales are expected to increase between 27% and 30% over the same period last year. As a breakdown, we expect Sansan's growth rate to increase from 16% to 17% and Bill One's growth rate to increase from 60% to 70%, backed by the growth strategy we explained earlier. The Eight business is expected to grow between 32% and 38%, with business events and Eight Team driving growth.

Adjusted operating income is expected to increase from 76.2% to 157.6%, and the adjusted operating margin is expected to increase from 2.0 points to 5.0 points.

3 Full-Year Forecasts for FY2024

Major Cost Forecasts

We estimate increases in personnel expenses [1] and advertising expenses as two major SG&A items by 29% and 16%, respectively, in addition to a rise in rents and one-off relocation expenses due to the head office relocation.



(1) Combined cost of employee salaries, benefits, and legal welfare expenses
(2) One-off expenses for relocating the head office (consisting of accelerated depreciation expense, repair expense, etc., at the current head office).
(3) Rent for all offices.

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Please see page 22 for a forecast of major costs. First of all, as major expenses, we expect personnel expenses to increase by around 29% YoY and advertising expenses by around 16%.

In addition, since the head office will be relocated from Q1 to Q2, we anticipate an increase in costs associated with this matter, and including rent and relocation-related expenses, we estimate that costs will increase by approximately JPY1.2 billion for the full fiscal year.

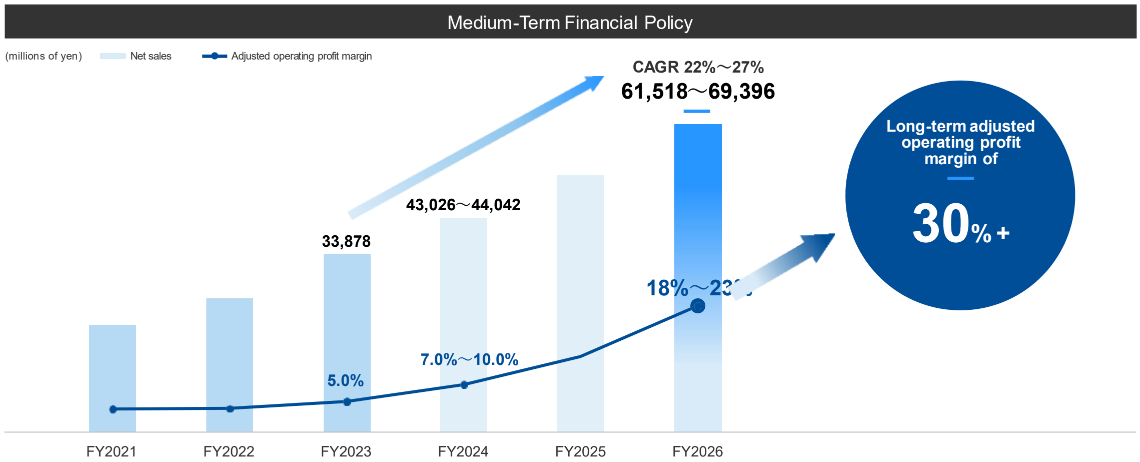
Rent expense will temporarily rise significantly due to double rent and double rent payments for a certain period of time but are expected to decline slightly from Q3 when this will end. Relocation-related expenses include one-time costs such as accelerated depreciation, repairs, and moving expenses associated with the termination of the current head office contract and are not expected to be incurred after the fiscal year ending May 2026.

This concludes my explanation. Mr. Hashimoto will continue the presentation.

4 Medium-Term Financial Policy (FY2024-FY2026)

Medium-Term Financial Policy

Aim for a three-year compound annual growth rate (CAGR) of consolidated net sales to be 22% to 27% through FY2026. Adjusted operating profit margin for FY2026 is expected to be 18% to 23%.



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Hashimoto: I am CFO Hashimoto. I would like to explain our medium-term financial policy for the period from the fiscal year ending May 31, 2025, to the fiscal year ending May 31, 2027.

In its earnings announcement for the fiscal year ending May 31, 2022, the Company announced its medium-term financial policy, which targets sustained consolidated sales growth in the mid-20% range or higher for the three-year period from May 31, 2023, to May 31, 2025, and an increase in adjusted operating margin in each quarter.

Now that we have more certainty about our medium-term business, we are announcing a new policy. First, for sales, we are targeting a CAGR of 22% to 27% over the next three years. As a result, consolidated net sales for the fiscal year ending May 2027 are projected to range from JPY61,518 million to JPY69,396 million.

In addition, we aim to grow adjusted operating income at a faster pace than before, while making the necessary investments to grow consolidated sales, with a profit margin of 18% to 23% in the fiscal year ending May 31, 2027.

While we will continue to operate our business with the sales growth rate as the most important priority, we believe that the foundation is now in place to sufficiently expand the profit margin as the scale of our business has grown and the certainty of profit generation has increased.

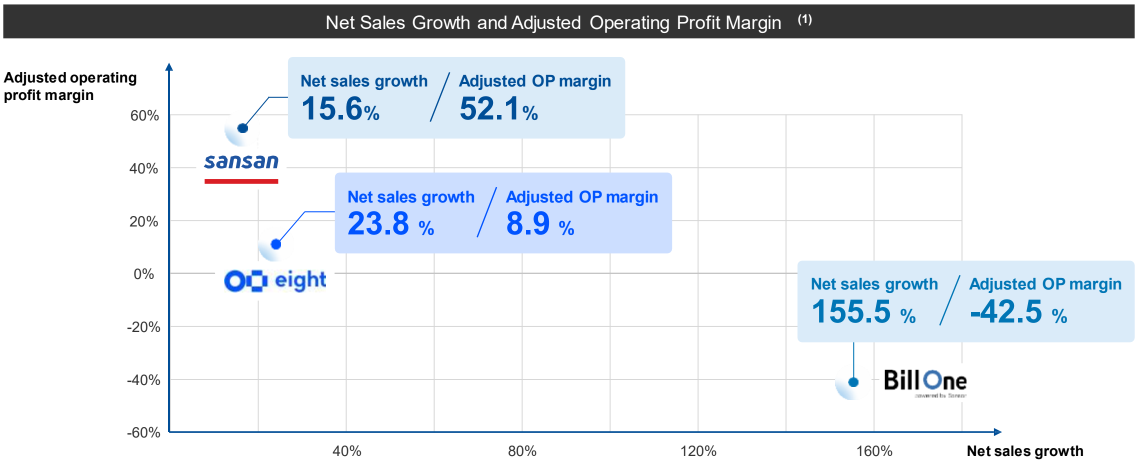
Here is the outlook for major costs in the future. We expect the cost of sales ratio to decline over the medium to long term due to improved profitability of Bill One, and we expect costs related to S&M and sales and marketing, as well as G&A as a percentage of sales, which are primarily back-office related costs, to decline in line with historical trends.

We believe that a long-term profit margin of at least 30% can be achieved when the growth rate of the business is on par with the market average.

4 Medium-Term Financial Policy (FY2024-FY2026)

Current Business Portfolio

As the current business portfolio comprises businesses in different development phases in terms of net sales growth and adjusted operating profit margin, we allocate a portion of cash generated stably by Sansan to Bill One, a high-growth business.



(1) Financial Results for FY2023. Adjusted operating profit is before allocation of corporate expenses.

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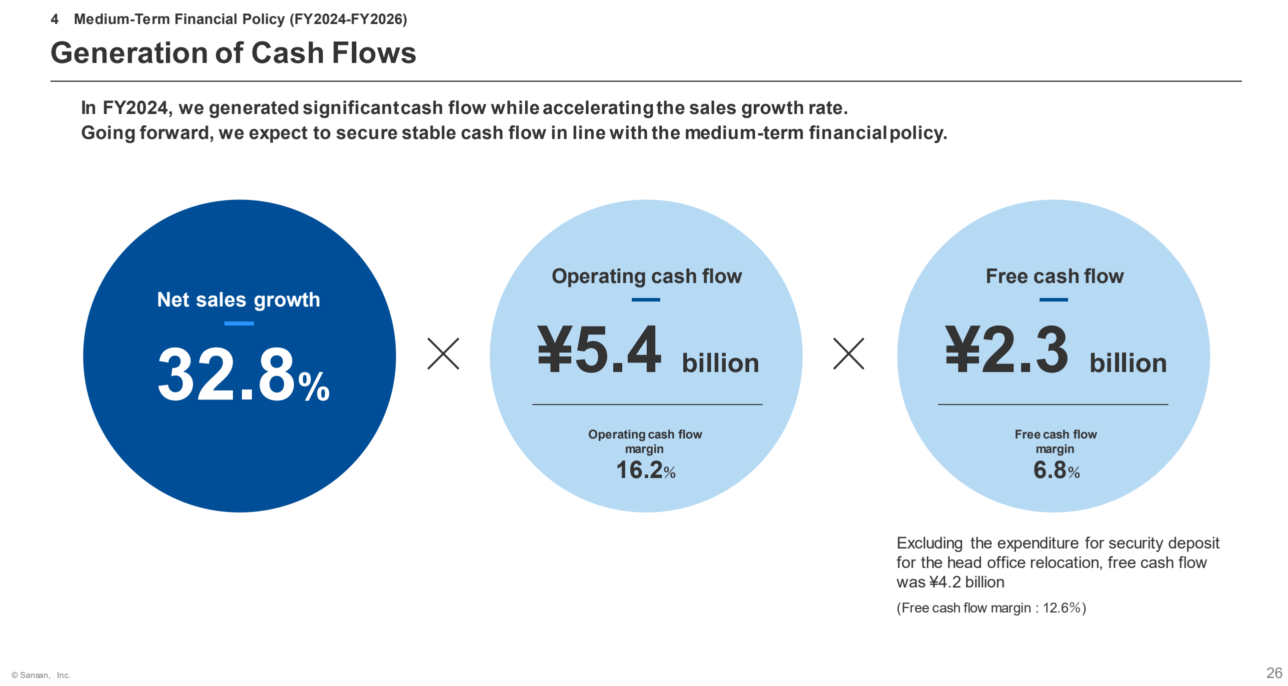
The following chart shows sales growth by major service and adjusted operating margin before allocation of head office and other expenses.

Sansan will continue to achieve high profit margins while maintaining stable sales growth as in the past. A portion of the cash generated by Sansan will be invested primarily in Bill One, which has a high sales growth rate, and in new businesses that are deemed promising in the future.

By building such a business portfolio, we believe that we will be able to fully meet the medium-term financial policy I explained earlier, even if we execute various investments, including new businesses.



We have been aggressively making the investments necessary for the growth of our key services, and despite this, we are already generating stable operating cash flow and free cash flow.

For the fiscal year ending May 2024, operating cash flow was approximately JPY5.4 billion and free cash flow was approximately JPY2.3 billion. In the fiscal year ending May 2024, there is a security deposit for the relocation of the head office as a one-time expenditure, and free cash flow after deducting this amount is approximately JPY4.2 billion.

Going forward, we aim to increase cash flow margin as we pursue management in line with our medium-term financial policy.

Acquisition of Treasury Shares

Resolved to purchase treasury shares as part of shareholder returns, considering financial conditions, stock price trends, and the share dilution rate through the exercise of stock options.
Plans to continue considering flexible share buybacks, with stock market trends and financial conditions in mind.

Overview of Treasury Share Repurchase	
Reason for repurchase	Implemented as part of shareholder returns, considering current financial conditions, medium- to long-term financial policy, recent stock price trends, and rate of share dilution resulting from stock options.
Class of stock subject to repurchase	Common shares of the Company
Total number of shares to be repurchased	200,000 shares (upper limit) (ratio to the total number of shares issued [excl. treasury shares]: 0.16%)
Total repurchase cost	¥300 million (upper limit)
Repurchase period	July 12, 2024 to August 31, 2024
Repurchase method	Open market purchase on the Tokyo Stock Exchange

Against this backdrop, we have decided to repurchase our own shares as part of our share return program, and I would like to explain this. Since our business is in the growth phase, we have not been returning profits to shareholders in the form of dividends or share buybacks.

While the business will continue to be in a growth phase, the acquisition was resolved after taking into consideration the current financial situation, medium-term financial policy, current stock price trends, and the dilution ratio of shares due to stock options.

Based on these circumstances, the Company will consider implementing flexible shareholder return policies and will disclose a quantitative shareholder return policy in the medium term.

This concludes the explanation. Thank you very much.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. Now, does anyone have any questions? Mr. Hiraoka of Nomura Securities, please.

Hiraoka [Q]: Thank you for your help. I am Hiraoka of Nomura Securities. Thank you very much. I would like to ask two questions, please.

The first question is about the newly issued mid-term financial policy. I don't think we have ever been given such clear numerical profit targets. Please tell us what kind of discussion there was about what was put forth and what message President Terada would like to convey to the market.

Also, I believe that numerical targets are given in ranges. Are there any thoughts on how the lower limit is more certain to be achieved but the upper limit is challenging, etc.?

Terada [A]: I would like to say a few words about the first point before Hashimoto answers.

Although we ourselves believe that the sales growth rate is our top priority, there is no doubt that we are now in a position to generate sufficient profits this fiscal year, including the details of the financial results I have explained to you. Based on this, we have come to this decision because we believe that we should present an appropriate outlook to the market.

Hashimoto [A]: We have been discussing this for quite a long time in the Company, and we wanted to issue our financial policy at this time because we have gained confidence in our business and financial situation, and also because we have increased the certainty of our business by hiring a lot of people in the past 12 months last year and in the fiscal year ending May 31, 2024.

In the announcement of financial results for the fiscal year ending May 31, 2022, we announced that we would continue to pursue this policy for the next three years, and the final year of the policy is now the beginning of the new fiscal year. We discussed within the Company whether to issue a new financial policy here, including the feeling that the financial policy announced there could already be achieved with a fair degree of certainty.

The disclosed information is presented in a range with upper and lower limits, but there are some areas that cannot be foreseen, so the ranges are not based on any particular upper and lower limit scenarios.

Hiraoka [Q]: As a follow-up, how do you envision the breakdown of sales for the fiscal year ending May 31, 2027, if you break it down by Sansan business, Bill One business, Eight business, and new business, etc.?

Hashimoto [A]: I have a vague idea. In terms of sales growth, Sansan will at least maintain the level of the guidance for this fiscal year, and the same goes for Eight and other businesses, with Bill One filling the rest.

On the other hand, there are many things that are not known two or three years in the future, so the Company as a whole, as the portfolio diagram also shows, will continue with its approach of allocating people and sales resources to highly productive businesses and taking orders there.

So, rather than breakdown, it is based on the concept of optimal allocation while looking at productivity per person throughout the Company.

Hiraoka [Q]: Just to follow up a bit more, looking at the financial policy chart, it looks like sales and profit margin improvement will be significant in the final year. Could you tell us a little more about what assumptions you are making, i.e., whether you will temporarily save expenses in the fiscal year ending May 31, 2027 to generate profits, or whether the idea is to generate profits in a natural way?

Hashimoto [A]: It does not specifically say that we will do this in the fiscal year ending May 31, 2027, just that the graph looks like that, and we have not made any particular commitment for the fiscal year ending May 31, 2027.

Hiraoka [Q]: Okay, second point. I have a question regarding the Company's plan for this fiscal year. Regarding sales, I believe that the Eight business is planning to increase sales over the previous year. How about this one, such as what is factored in, etc.?

Hashimoto [A]: The Eight business landed this fiscal year with a significant increase from the figure we gave guidance for last year. The organization is in very good shape, and I think the probability of sales increase is increasing considerably.

By service, one of the driving forces is Eight Team, which I mentioned earlier in my presentation. We are going to provide a business card management service within Eight, and we raised the flat fee for this service last year, unlike Sansan and Bill One, so I think its growth will contribute considerably to the current and next fiscal year.

The other is the event business, about which we will continue to increase the number and scale of events from the past, which will contribute to sales growth.

One more thing, is that we have executed one small M&A deal at our subsidiary logmi, Inc., and I believe that this M&A deal will also contribute to our sales for this and the new fiscal year.

Hiraoka [M]: I understand very well. That's all from me. Thank you very much.

Moderator [M]: Okay, Mr. Yamashina from Macquarie, please.

Yamashina [Q]: I'm Yamashina from Macquarie. Thank you for your explanation. I also have a question each at the current fiscal year plan and at the mid-term financial policy.

First of all, if we look at the current fiscal year plan in terms of subtracting expenses, we see that you are looking at operating expenses of approximately JPY40 billion at both the upper and lower ends of the range.

Are these figures based on the idea that if profits go up as they are, they will go up as they are? Or, how do I first think about whether the cost structure would change in some lower or upper limit case?

Hashimoto [A]: We do not have a lower limit scenario and an upper limit scenario, and we do not have the concept that we will make these types of investments, but rather we have a relatively wide range of sales, and the margin and cost ratio are determined accordingly. It is not based on any particular scenario, but rather on the idea that additional investment will or will not be made in any given case.

Yamashina [Q]: For the medium-term plan, the figures you have given us on page 24 of the presentation material for the fiscal year ending May 31, 2027, these are also expenses. If you look at it in terms of subtraction, I think you can calculate the operating expenses to be between JPY50 billion and JPY42 billion, roughly.

I think this is basically an increase in personnel that would be the main cost increase, is that my understanding? Or, since advertising expenses are expected to grow at a rate of about 16% this fiscal year, not as much as sales, is it correct to imagine that such advertising expenses will be considerably lower in the fiscal year ending May 31, 2027, if we use that approach? Please explain this area.

Hashimoto [A]: This is just an image, but I think the idea is that advertising expenses will continue to grow in-line with sales, but in a much more moderate manner, increasing a little at a time.

In terms of personnel costs, last year was a year in which we did a great job of hiring, so compared to that year, I think we are in a phase in which those already hired are being trained, rather than hiring the same number of people. So I think the ratio of labor costs will also decrease.

In addition, excluding labor costs, costs linked to headcount account for a significant portion of labor costs, so we imagine that these costs will also moderate in terms of the growth rate of costs along with recruitment.

Yamashina [Q]: If we go to page 41 of the supplemental material, would this be an image of both R&D, S&M, G&A, and overall compression, if so?

Hashimoto [A]: Yes, that's right. I am wondering if the Company as a whole will do the same in terms of its cost structure.

Yamashina [M]: Okay, thank you.

Moderator [M]: Now, Mr. Oyama from Mizuho Securities, please.

Oyama [Q]: Thank you for your help. I am Oyama of Mizuho Securities. Thank you very much. I would like to ask you again about your perception of the competitive environment at Bill One.

Some new players are entering the market as the invoice system begins to be applied and the cloud shift in invoice receipt and issuance is in full swing. I would like to ask you about the risks and perceptions of an increasingly competitive environment.

Terada [A]: The number of players has increased over the past few years, but as a matter of fact, the landscape from our perspective has not changed in terms of, as an example, the rate of competitive appearances or competitive win rates.

Rather, the most important aspect is to onboard the significant number of people we hired last year, and how we can reduce the time it takes to get to the point of productivity, which is the highest priority internally.

Oyama [Q]: How is Bill One incorporated into the Model 4 mid-term financial policy? I think we are in the phase of just beginning to monetize, but what is the current response after the launch?

Terada [A]: This overlaps with what Hashimoto mentioned earlier, but from a medium- to long-term perspective, our attitude is to constantly innovate and release new products, rather than basically calculating a breakdown of how each product fits into the market.

In this context, we look at the overall productivity per salesperson to some extent and estimate that this is the level that can be achieved, and if there is an upward swing, this is the level that can be achieved. In terms of incorporating this into the mid-term financial policy, I think the situation is a bit difficult to mention each product separately.

I mentioned earlier that I do not see any particular change on the demand side in the competitive environment for Bill One. As you know, the situation is different for expense reimbursement and invoicing, but clearly, we are entering an existing market regarding the expense reimbursement.

While the figures on hand show that the market is growing steadily, the competitive environment, or rather the rate of competition, is quite different from that of the products we have been working on until now.

Oyama [Q]: In the area of expense reimbursement, you mentioned that the competitive environment, or rather the rate of competition, is different from that of the previous products. Is that pretty much the perception of a place where the existing players are somewhat crowded, and where there is a high incidence of competition?

Terada [A]: It is too early to make a quantitative analysis since it has only just been released, but as far as I have heard preliminary figures, and also from a qualitative sense, there are of course a variety of products when it comes to expense reimbursement, and the market perception is that there is a high rate of competition.

On the other hand, we ourselves don't feel that we have copied or imitated anything that already exists. We are aware that we are providing a unique product based on the concept of eliminating reimbursement of expenses and accelerating the monthly closing of accounts. Therefore, the competition is designed to maintain high productivity, resulting in a competitive win rate similar to that of existing products, even though the rate of competition is increasing.

Oyama [M]: I understood very well. Thank you very much.

Moderator [M]: Okay, Mr. Miyazaki from Goldman Sachs Securities, please.

Miyazaki [Q]: Thank you for your help. I am Miyazaki from Goldman Sachs Securities. Thank you very much. I would like to ask you two questions about the sales outlook for the mid-term plan.

The first point is that in the Sansan business, the comment made earlier indicates that you are creating an image of maintaining the same level of revenue growth rate as planned for the current fiscal year.

I would like to know where the expansion factor lies as to the amount of revenue increase when that happens. Since I believe that the price optimization will have a certain effect this fiscal year, how should we recognize the growth drivers for the next fiscal year and beyond?

Terada [A]: As a supplementary note, Hashimoto said earlier that he expects the Sansan business to grow at a certain rate in the medium term, about the same as this fiscal year. However, as I mentioned earlier, the reality is that we ultimately adopt the view that the total number of salespeople and their productivity will be about this much.

In this context, of course, when creating the figures, in terms of length and width, we have assumed that Sansan would be about this size and Bill One would be about this size, as I mentioned in the reference.

Sansan itself has been in business for 18 years since its establishment, and your perception of Sansan may be that it is a business card management service. But inside, we are developing various functions, adding various features, and expanding various solutions. That activity has been and will continue to be a constant premise, and originally, essentially, TAM is still a broad premise, as I mentioned earlier.

I think I can say now that we will continue to strive for the same rate of growth as before, or even increase it if necessary, through repeated innovation and value-added growth through innovation.

Miyazaki [Q]: I would like to ask for one minor point, if you have any additional information. In terms of how you made the assumptions for productivity in the medium-term financial policy, did you feel that productivity would remain flat at the current level, or did you expect a gradual decline as the scale of the project grows?

Hashimoto [A]: The figures are based on the conservative assumption that there will be a constant decline.

Miyazaki [Q]: One more point I wanted to ask: Regarding the sales forecast range in the mid-term financial policy, if sales were to fall below the lower end of the range in the plan, are there any additional measures that could be taken? For example, is it possible that you will be doing additional price revisions or introducing new products?

Terada [A]: Our basic stance is to maximize as much as possible underfoot, rather than to say that we are likely to fall below the lower limit or exceed the upper limit. If there is an opportunity, a product area with potential, or a unique value that we can bring to the market, we will continue to bring it out. We also assume that if any of them are productive and require additional investment, we will do so.

In the process, we are forecasting that we will be able to achieve this level of results, or rather, the total amount that we can claim as our medium-term financial policy, as I have just mentioned. I think the answer would be that this is not a concept that we are going to implement these measures to meet these numbers.

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

Moderator [M]: Okay, Mr. Kaneko, please.

Kaneko [Q]: Thank you for your help. This is Kaneko from BofA Securities. Thank you very much.

I have a question about Bill One expenses and issuance. Could you please tell us about the selling process? Do you envision cross-selling to current recipient customers or establishing a new sales force to sell to them?

Terada [A]: First of all, the phases of the product are quite different for expenses and issuance/reconciliation. Expenses have already reached the stage where they are being put into the marketplace and are being expanded to some extent. For issuance and reconciliation, the issuance itself has been done from the beginning but we are still in the business development phase of total solutions that include the reconciliation. So it is in a different phase.

As for expenses, naturally, the first priority is to upsell to existing users. However, in any case, a dedicated sales force has been assigned to this area, and that force will be responsible for up-selling to existing users. Naturally, the assumption is that we will also seek to sell new products outside of the existing ones.

Kaneko [Q]: I think the issuing side, including the automation of payment reconciliation, is quite new regarding this concept. How is the feedback, etc. from the user side since the announcement? I am very aware that you have not launched yet.

Terada [A]: As was the case with Sansan and the early days of Bill One, this reconciliation is an existing market in terms of the issuance function, but the combination of reconciliation and issuance is quite unique, so we are still exploring how to appeal to customers.

We have not yet released the product, but on the other hand, we have already received some advance orders from the perspective of the accounting department, which is the one we are facing at Bill One.

For there, I am very positive about being able to solve that problem. We are still in the challenging phase of finding out how we can appeal to customers to accept the new workflow, how we can promote the changeover to invoicing, and what kind of pricing and in what form they will buy the product.

Kaneko [Q]: One last question. What type of customers are currently receiving demand in the form of advance orders?

Terada [A]: Pretty much, that trend is not there yet, and this is for better or worse, but Bill One itself is provided to horizontal, and Sansan is also provided to horizontal. The same is true for expense reimbursement, but the current issuance and reconciliation is also a prior order from 10 companies or less, and there is not much of an industry characteristic there. We are considering including that, but also including where we should focus our efforts to launch the market since we are in the early phase.

Kaneko [Q]: In terms of company size, would you say that large and midsize companies are basically the main players?

Terada [A]: I feel that we are still in the trial stage, including that. Some of our current customers are in the small business or small category as defined by us, while others are in the enterprise category, but we are not there yet.

Since this is a complete changeover of issuing operations and providing reconciliation, including the uniqueness of this solution, we expect to sell from a relatively low position in our segment, and then move up as we build up a track record.

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

Moderator [M]: Okay, Mr. Hiraoka from Nomura Securities, please.

Hiraoka [Q]: Thank you for your help. I am Hiraoka of Nomura Securities. Please let me add two more questions.

I am very sorry that this is about the short term, but the first question is about the Bill One project. I believe the amount of QoQ revenue growth has slowed in response to the invoice system that went into effect in October 2023. Can you tell us anything about the status of orders in the Bill One business as of the end of Q4, and also your company's outlook for when the amount of revenue growth will recover?

Terada [A]: I think there was a certain amount of backlash from the invoice system, and I think we fought through the last three quarters of last term in that environment. We are now looking at the after-invoice system, or rather, the post-invoice system, which has become the norm, and rather than reacting to it, we are looking at how long it will take the new hire to reach productivity of one.

In fact, we have done a lot of internal analysis, and to take it to the extreme, there is no significant difference in the productivity of salespeople who have become somewhat competitive, including before and after the invoice system. So, rather, all the focus is on how the junior members coming in can be aligned on how to sell Bill One and the value of Bill One, be on-boarded, and produce a certain level of productivity early.

In the end, we will be able to answer this question only if we can bring the orders to a state of increasing growth in each quarter, which is exactly what we did before the invoice system was introduced, therefore, I think that is something we will challenge this term.

Hiraoka [Q]: Then I understood that orders will improve a little bit during this quarter and recover as the amount of revenue increase, but that will start from about Q1.

Terada [A]: The sound was cut off a little, but I will read and answer your question.

Naturally, the amount of monthly and month-by-month orders, or to summarize a bit, the amount of orders per quarter, is the number before it is recorded as sales, but we are chasing this number anyway. So this will be Q1 of the current term, after the four quarters of the previous term, the three quarters of the previous term, and the two quarters of the previous term.

We will maximize the amount of orders received during each quarter, and we will determine the amount of productivity per sales person after taking into account the ramp time, and at this point we are factoring in a certain amount of increase. I think that is what we need to do this term to ensure that.

Hiraoka [Q]: Secondly, I believe the Sansan and Bill One businesses do price optimization. Can you tell us what the status of price optimization for new and existing customers is at the end of this quarter?

Terada [A]: Unlike Eight, or rather our main products, all of our BtoB enterprise solutions are the same, but new price is not applied uniformly to existing customers, but rather is negotiated with the customer at the time of contract renewal.

Naturally, there are various forms of price optimization. For example, in the case of Sansan, we plan to enhance its functionality to change the structure of licensing, which in turn will lead to higher sales per contract. Therefore, when we negotiate contract renewals on an individual basis, we will include an evaluation of new functions and new added value in our negotiations.

As for Sansan, we have been successful in switching to a new licensing system and in renewing existing contracts, so I think this can be factored into the figures for this fiscal year. We would also like to take the same approach with Bill One, and hope to translate the effects of the price optimization into increased revenues from existing customers.

Hiraoka [M]: I understand very well. That's all from me. Thank you very much.

Moderator [M]: That concludes today's financial results presentation. Thank you very much for your time today.

[END]

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