

Sansan, Inc.

Earnings Results Briefing for FY2022 Q1

October 14, 2022

Event Summary

[Company Name]	Sansan, Inc.	
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[Date]	October 14, 2022	
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[Time]	10:00 – 10:42 (Total: 42 minutes, Presentation: 14 minutes, Q&A: 28 minutes)	
[Venue]	Webcast	
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[Participants]	109	
[Number of Speakers]	1 Muneyuki Hashimoto Director, Executive Officer, CFO	
[Analyst Names]*	Takashi Miyazaki Goldman Sachs Kenichi Ito Ichiyoshi Research Institute Hiroshi Yamashina Macquarie Capital Securities David Gibson MST Financial Naoki Hiraoka Nomura Securities	

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Moderator: Now that the time has come, we would like to begin the presentation of financial results for Q1 of the fiscal year ending May 31, 2023.

We are going to use the financial results presentation materials for today's presentation. We will be sharing screens via Zoom, but if you are joining us by phone, please visit our IR website to view the materials.

Next, Mr. Hashimoto, Director and CFO of the Company, will give an overview of the financial results for about 15 minutes. There will then be the question-and-answer session until 11:00 AM.

Now, Mr. Hashimoto, will give you an explanation.

Hashimoto: Thank you for attending our financial results presentation today. I am CFO Hashimoto.

I would like to explain the results for Q1 of the fiscal year ending May 31, 2023.

1 Consolidated Financial Results for FY2022 Q1

Highlights of FY2022 Q1 Results

Consolidated net sales up 24.3% YoY

Net Sales: Sansan/Bill One Business 23.7% growth, Eight Business 25.8% growth
ARR ⁽¹⁾: 21.9% growth to ¥20,809 million

Steady progress made against full-year earnings forecasts

No change to consolidated earnings forecasts announced at beginning of fiscal year
Decrease in adjusted operating profit ⁽²⁾ due to strengthening of personnel recruitment and marketing activities, in line with plan.

High growth continued for Bill One cloud-based invoice management solution

Bill One MRR ⁽¹⁾ up 332.1% YoY, to ¥140 million
ARR (as of August 2022) was ¥1,690 million

(1) Following review of calculation method, FY2021 Q1 value for annual recurring revenue changed
(2) Operating profit+ share-based payment expenses+ expenses arising from business combinations (amortization of goodwill and amortization of intangible assets)

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See page five. There are three highlights of the Q1 results for FY2023/05.

The first point is that consolidated net sales increased 24.3% YoY. ARR increased 21.9% to JPY20,809 million.

Second, the Q1 results were favorable compared to the consolidated earnings forecast. The decrease in adjusted operating income is due to the strengthening of human resource recruitment and marketing activities to achieve medium-term sales growth, which is in line with the full-year forecast.

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Third, I would like to discuss Bill One, an invoice management service that continues to show high growth. Bill One's MRR in August 2022 was about 4.4 times higher than in the same period last year, with an ARR of JPY1.69 billion.

1 Consolidated Financial Results for FY2022 Q1

Overview of Consolidated Financial Results

Net sales up 24.3% YoY, but adjusted operating profit decreased because of growth investments
Profit at each stage under ordinary profit decreased owing to large gain on sale of investment securities recorded in same period of previous year.

	(millions of yen)	FY2021	FY2022	
		Q1 Results	Q1 Results	YoY
Consolidated Results	Net Sales	4,597	5,714	+24.3%
	Gross Profit	4,088	4,930	+20.6%
	Gross Profit Margin	88.9%	86.3%	-2.6 pt.
	Adjusted Operating Profit	-85	-227	—
	Adjusted Operating Profit Margin	—	—	—
	Ordinary Profit	754	-173	—
	Profit Attributable to Owners of Parent	652	-325	—
	EPS ⁽¹⁾	5.23 yen	-2.61 yen	—

(1) As the Company conducted a four-for-one common stock split effective December 1, 2021, EPS was calculated on the assumption that the stock split was conducted at the beginning of the fiscal year ended May 31, 2022.

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Consolidated results are shown on page six, as you see it.

Sales remained steady, increasing 24.3%. Adjusted operating income, which has been adopted as a management indicator since the current period, decreased by JPY142 million from the same period last year to a negative JPY227 million due to the execution of growth investments.

Adjusted operating income, again, is the sum of operating income plus stock-based compensation expense and various expenses incurred in connection with the business combination. The decrease in ordinary income and net income attributable to shareholders of the parent company was mainly due to the fact that a gain on sales of investment securities of JPY979 million was recorded in the same period of the previous year.

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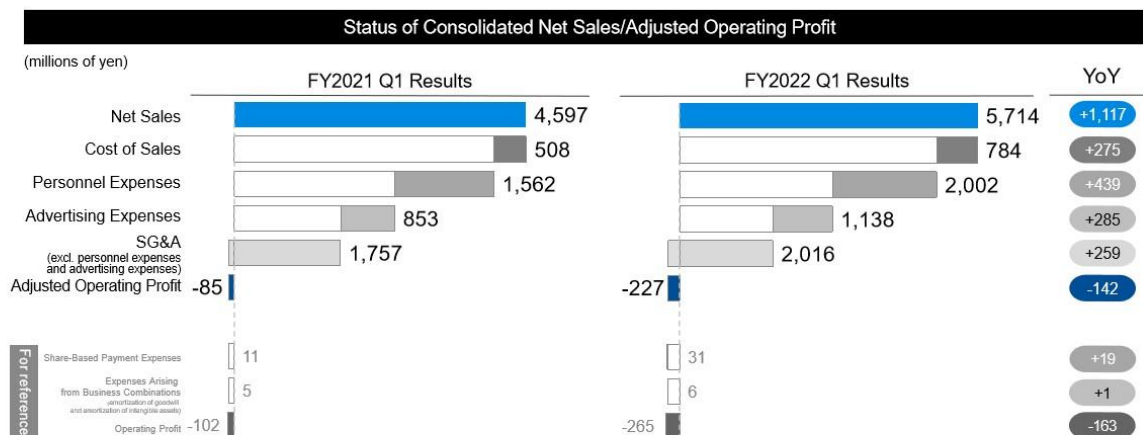
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Factors Contributing to Changes in Adjusted Consolidated Operating Profit

Personnel expenses up ¥439 million (28.1%), and advertising expenses up ¥285 million (33.4%) YoY, because of strengthening of personnel recruitment and advertising activities, respectively



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On page seven, I will explain the factors behind the change in adjusted consolidated operating income.

While net sales increased by JPY1,117 million, adjusted operating income decreased mainly due to the strengthening of personnel hiring and marketing activities, which are being promoted as part of the growth strategy.

The number of consolidated employees increased by 188 YoY to 1,199, resulting in a JPY439 million increase in personnel expenses. In addition, advertising expenses increased by JPY285 million YoY as a result of the promotion of marketing with Sansan, Inc. Bill One.

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Results by Segment

Increased net sales and adjusted operating profit (reduced deficit) in both Sansan/Bill One and Eight Businesses. Adjustments amount (adjusted operating loss) up ¥250 million YoY, owing to more employees, etc.

		FY2020	FY2021	
		Q1 Results	Q1 Results	YoY
(millions of yen)				
Net Sales	Consolidated	4,597	5,714	+24.3%
	Sansan/Bill One Business	4,160	5,147	+23.7%
	Eight Business	424	533	+25.8%
	Others	13	55	+308.0%
	Adjustments	-1	-21	—
Adjusted Operating Profit	Consolidated	-85	-227	—
	Sansan/Bill One Business	1,142	1,221	+6.9%
	Eight Business	-176	-135	—
	Others	2	-9	—
	Adjustments	-1,054	-1,304	—

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Page eight is a summary by segment.

Both the Sansan Bill One and Eight businesses reported increases in sales and earnings.

The negative adjustment amount is growing, but this is mainly due to the increase in various costs associated with the increase in headcount, mainly in the corporate division.

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Sansan / Bill One Business Overview

Against backdrop of Sansan's steady growth and high growth of Bill One, net sales up 23.7% YoY
Even while investing in Sansan and Bill One's growth, adjusted operating profit up 6.9% YoY

	(million yen)	FY2020	FY2021	
		Q1 Results	Q1 Results	YoY
Sansan/Bill One Business	Net Sales	4,160	5,147	+23.7%
	Sansan	4,068	4,701	+15.5%
	Sansan Recurring Sales	3,899	4,451	+14.1%
	Sansan Other Sales	169	250	+48.1%
	Bill One	89	401	+346.1%
	Others	2	44	+1,916.7%
	Adjusted Operating Profit	1,142	1,221	+6.9%
	Adjusted Operating Profit Margin	27.5%	23.7%	-3.8 pt.

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See page nine. I will explain the results by segment.

First, I would like to discuss the performance of the Sansan Bill One business.

Net sales increased 23.7% YoY to JPY5,147 million due to the strong sales of Sansan and the continued high growth of Bill One.

Sansan sales increased 15.5% YoY. In addition, Bill One sales increased by approximately 4.5 times compared YoY.

Other sales growth has been strong, but this is due to Contract One and other factors. Contract One contracts totaled 88 as of August 31, 2022.

Adjusted operating income increased steadily to JPY1,221 million, up 6.9% from the same period last year, although the profit margin declined due to investments in Sansan Bill One.

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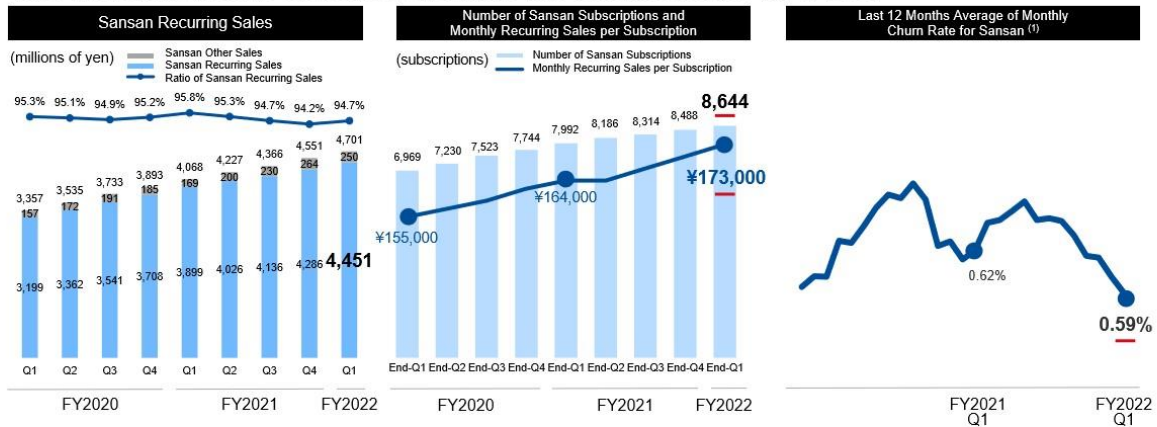
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Sansan / Bill One Business : Sansan Recurring Sales, Number of Sansan Subscriptions and Monthly Recurring Sales per Subscriptions, Last 12 Months Average of Monthly Churn Rate for Sansan

**Sansan recurring sales up 14.1% YoY, Sansan other net sales up 48.1%.
 Number of subscriptions up 8.2% YoY and monthly recurring sales per subscription up 5.5% YoY.
 Last 12 months average of monthly churn rate has remained low, at 1% or less.**



(1) Ratio of decreased monthly fees associated with contract cancellations to total monthly fees for existing contracts

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See page 10. I would like to explain Sansan's performance.

The graph on the left side of the slide shows Sansan's stock sales, which increased 14.1% YoY. Sansan and other sales increased 48.1%, mainly due to a recovery in initial costs.

The graph in the center of the slide shows the number of Sansan contracts and monthly stock sales per contract. The number of contracts increased 8.2% from the end of the same period last year to 8,644. Monthly stock sales per contract increased 5.5% YoY. Compared to the previous quarter, the increase of 0.6 percentage points was mainly due to an increase in the unit cost of new clients, mainly SMEs, as a result of Sansan's product renewal.

The right side of the slide shows Sansan's average monthly churn rate over the last 12 months. Product renewal improved convenience for existing customers, resulting in a churn rate of 0.59%, down 0.03 points from the same period last year.

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Sansan / Bill One Business : Sansan Development Schedule

Use of some post-product reform functions commenced June 2022.

Plan to install functions that display email contact information and enable searches after October 2022.

FY2021		FY2022	
Q 3	Q 4	Q 1	Q 2
<ul style="list-style-type: none"> Added Contact Inbox function (December) 	<ul style="list-style-type: none"> Browsing of company information (March) Add website inquiry form integration (May) 	<ul style="list-style-type: none"> Strengthened integration with Teikoku Databank (June) Risk Intelligence for companies/people (August) 	<ul style="list-style-type: none"> Email contact display and search functions (August) DM solution function <p>(additions as necessary)</p>

Page 11 is the schedule for Sansan's product renewal.

The use of some of the new functions after the revamp began in June 2022 and new functions are being developed to accumulate and visualize contact point information from October 2022 onward.

In addition, we plan to add other functions that will enable direct mail delivery and management from Sansan.

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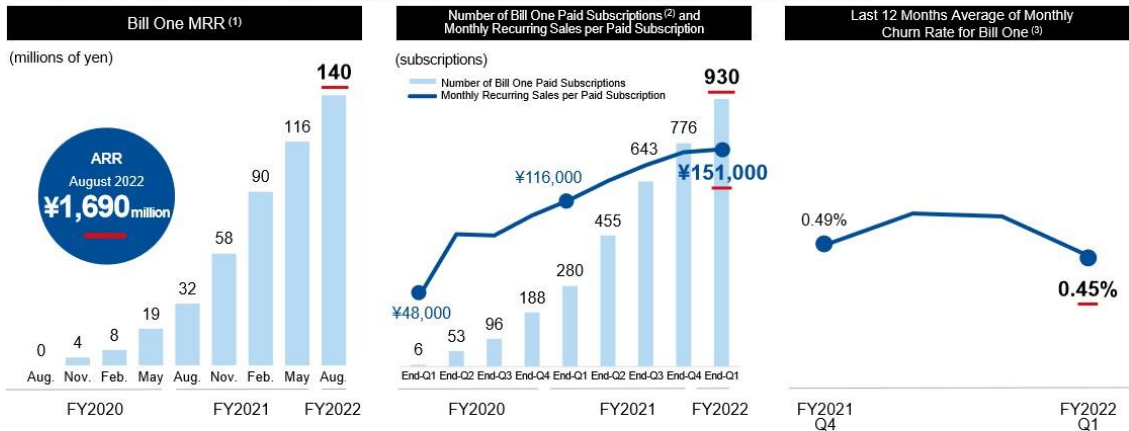
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Sansan / Bill One Business : Bill One MRR, Paid Subscriptions, and Monthly Recurring Sales per Paid Subscription, Last 12 Months Average of Monthly Churn Rate for Bill One

MRR up 332.1% YoY, ARR (as of August 2022) was ¥1,690 million

Number of paid subscriptions up 232.1% YoY, monthly recurring sales per paid subscription up 30.2% YoY, last 12 months average of monthly churn rate has remained low, at 0.45%



(1) Following review of calculation method, values prior to FY2021 Q4 changed.

(2) Values up to FY2021 Q4 and changed following revision of aggregation timing, from when subscription completion concluded to start of service use (when calculation method prior to revision applied, value for FY2022 Q1 was 1,015 subscriptions).

(3) Ratio of decrease in monthly fees associated with contract cancellations to total monthly fees from existing Bill One subscriptions.

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Next, I would like to explain about Bill One's track record. See page 12.

First, on the left side of the slide is a graph showing the MRR for Bill One. In August 2022, Bill One's MRR increased 4.4 times YoY to JPY140 million, resulting in an ARR of JPY1.69 billion. The previous year's figures have been revised due to the revision of the MRR calculation method effective from the current period.

Orders received in August 2022, excluding October and November of last year when there was a rush demand just before the implementation of the revised Electronic Bookkeeping Act, were the highest ever. This is due to the success of Bill One's strengthened sales force and the gradual increase in corporate awareness and interest in the invoice system.

Next, the center of the slide shows the number of Bill One paid subscriptions and the monthly stock sales per paid subscription. The number of paid subscriptions increased by approximately 3.3 times YoY to 930, due to the acquisition of new contracts from medium-size and large companies, etc. Per paid subscription monthly stock sales increased by 30.2% to JPY151,000.

The number of paid subscriptions was revised from 1,015 to 1,015 in Q1 of the current fiscal year as the calculation method prior to the revision was applied.

And on the right side of the slide is the average monthly churn rate for the last 12 months, which was low at 0.45%.

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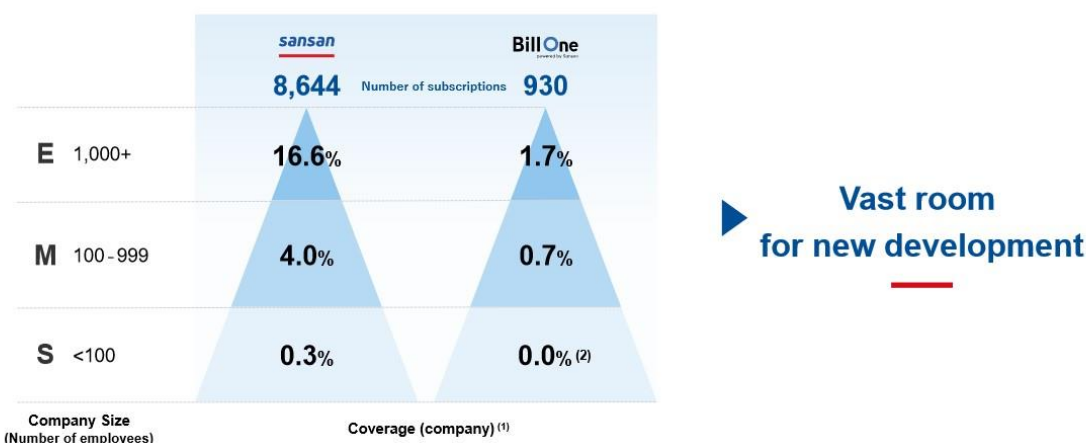
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Sansan / Bill One Business : Bill One User Company Coverage by Company Size

Based on Sansan performance, significant scope for coverage expansion in Bill One's usage by major companies



(1) The coverage is calculated with the number of subscription in each services for FY2022 Q1 end as the numerator and the number based on Economic Census for Business Activity in 2016 issued by the Statistics Bureau as the denominator

(2) Bill One paid subscriptions only.

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See page 13.

The left graph shows the percentage of companies using Sansan and the right graph the percentage of companies using Bill One by size of company.

In terms of coverage of large companies with more than 1,000 employees, Sansan's coverage is only 16.6% as of the end of August 2022, so there is still much room for new development, and Bill One's coverage is 1.7%, leaving more room for new development than Sansan.

By strengthening our sales structure, marketing activities, and expanding our functions, we hope to increase our market share among large companies.

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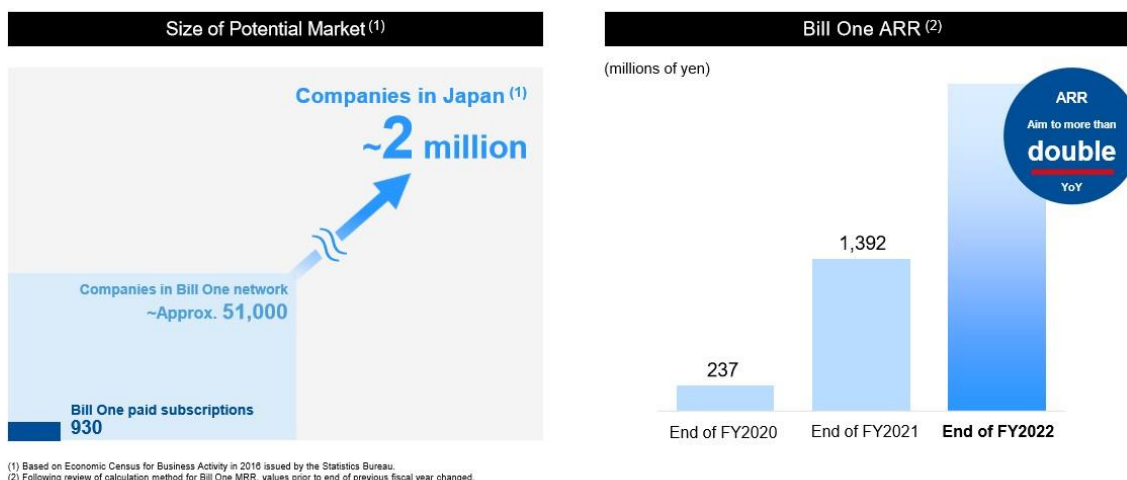
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Sansan / Bill One Business : Size of Potential Market and Bill One ARR

Since all companies are targeted regardless of their industry or size, vast room for development exists in Japan. Aiming to more than double ARR YoY by end of FY2022.



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See page 14. As the last part of Bill One, I would like to explain about the invoice network and ARR.

Bill One aims to expand its invoice network to enable quick and smooth communication between businesses and to further enhance user convenience.

The invoice network consists of free users and companies that send invoices to contracted users in addition to the number of paid subscriptions explained earlier, which totaled approximately 51,000 companies at the end of August 2022.

Currently, the total amount of invoices exchanged between companies participating in the network exceeds JPY800 billion per month, as in August 2022, which is equivalent to approximately JPY10 trillion per year.

We continue to aim for continued high growth in Bill One and expect ARR in May 2023 to more than double YoY levels by strengthening our sales structure and marketing efforts.

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Eight Business Overview

Sales up 25.8% YoY owing to expansion of B2B services.
Adjusted operating loss shrank by ¥40 million YoY.

	(millions of yen)	FY2020	FY2021	
		Q1 Results	Q1 Results	YoY
Eight Business	Net Sales	424	533	+25.8%
	B2C Services	71	72	+2.1%
	B2B Services	352	460	+30.6%
	Adjusted Operating Profit	-176	-135	—
	Adjusted Operating Profit Margin	—	—	—
	Number of Eight Users ⁽¹⁾	2.96 million people	3.15 million people	+0.18 million people
	Number of Eight Team Subscriptions	2,342	3,008	+28.4%

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

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Next, I will explain the Eight business. See page 15.

Net sales increased 25.8% YoY to JPY533 million due to the expansion of B2B services.

Adjusted operating income decreased by JPY40 million in the deficit amount due to the increase in revenue.

The number of Eight users increased by 180,000 YoY to 3.15 million.

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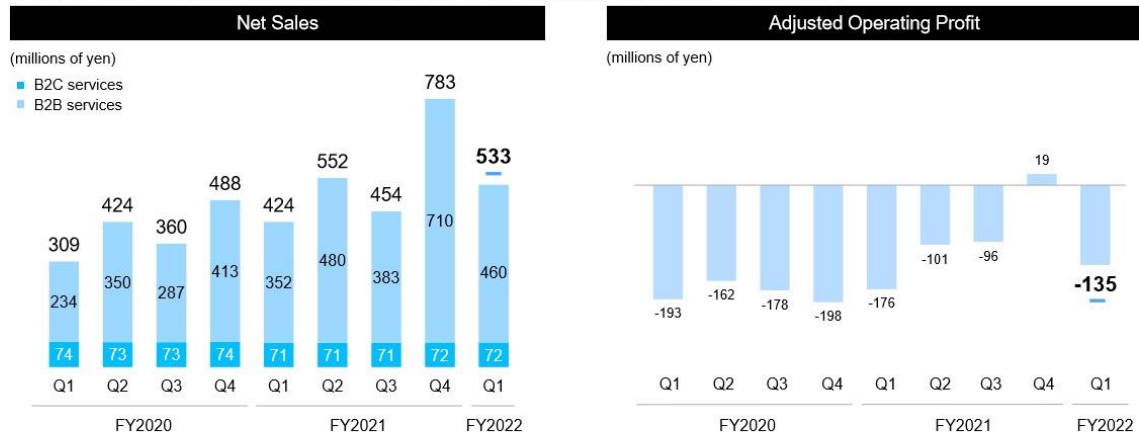
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Eight Business: Net Sales, Adjusted Operating Profit

Decrease in B2B service net sales compared with previous Q4 because of factors that include absence of large-scale business events.

Plan to aim for adjusted operating profit to return to profitability for FY2022.



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Page 16 shows the quarterly results of the Eight business.

Revenues were down compared to the previous quarter, mainly due to the absence of large business events in Q1. Note that Climbers, a large business event, will be held in Q2 and Q4.

Although the Company posted negative adjusted operating income, the results are in line with the plan, as the Company aims to return to profitability for the full year.

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Consolidated Financial Forecasts

No change to consolidated earnings forecast announced at beginning of fiscal year.

Aim for solid growth in consolidated net sales and growth in adjusted consolidated operating profit that exceeds sales growth in FY2022.

	(millions of yen)	FY2021	FY2022 ⁽¹⁾	
		Full-year Results	Full-year Forecasts	YoY
Consolidated Forecasts	Sales	20,420	25,117 ~25,764	+23.0% ~+26.2%
	Sansan/Bill One Business	18,105	21,998 ~22,632	+21.5% ~+25.0%
	Eight Business	2,213	2,900 ~3,010	+31.0% ~+36.0%
	Adjusted Operating Profit	730	917 ~1,288	+25.5% ~+76.3%
	Adjusted Operating Profit Margin	3.6%	3.7% ~5.0%	+0.1 pt. ~+1.4 pt.

(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 explain our outlook for the full year. See page 18.

I would like to explain our consolidated earnings forecast for the current fiscal year.

Although there is no change to the forecast announced at the beginning of the fiscal year, consolidated sales are expected to increase from 23% to 26.2% YoY due to the effects of the product renewal in Sansan and Eight and the continued high growth in Bill One.

Adjusted operating income is expected to increase from 25.5% to 76.3% YoY due to strong sales growth, despite an expected increase in selling, general, and administrative expenses due to the execution of investments for growth.

Since marketing activities for the current fiscal year are planned to be heavily weighted toward Q1, a negative adjusted operating income was recorded in Q1, but a positive amount is expected to be recorded from Q3 onward.

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Medium-Term Financial Targets (FY2022–FY2024)

Aiming for solid growth in net sales and stable profit growth



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Finally, I would like to explain our mid-term financial goals. See page 19.

From FY2023/05 to FY2025/05, we aim to achieve both sales growth and profit growth. The most important management indicator will be the growth rate of consolidated net sales, and we aim to achieve a growth rate of at least 20% each fiscal year.

As for adjusted operating income, which excludes non-recurring expenses, we aim to improve profit margins each fiscal year while investing in sales growth in each of our businesses.

This concludes the explanation. Thank you very much.

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Question & Answer

Moderator [M]: We will now begin the question-and-answer session.

Does anyone have any questions?

Well, Mr. Miyazaki, please.

Miyazaki [Q]: I'm Miyazaki from Goldman Sachs. Thank you for taking my questions. Thank you for your explanation. I have two questions.

First, I think you explained that you have been making progress generally in line with the plan, but I think there is a range in the full-year plan. What was the status of Sansan Bill One in Q1? Was it toward the upper line of the plan, or did it stay in the lower line of the plan? First, I would like to know if there is any response or prospect for Q2 and beyond, especially since you conducted extensive advertising in Q1.

May I ask you to answer this question first, please?

Hashimoto [A]: Thank you.

In answer to your question, we feel that we were in the middle of the range. If I separate Sansan and Bill One, I still have the same feeling. On the other hand, clearly separating Sansan and Bill One, I would rather optimize the allocation of limited resources and combined growth rate of the two from a managerial standpoint. So, taking this into consideration, we are currently looking at the total growth rate as being somewhere in the middle of the range.

As for the latest feeling, I feel that the response continues to be good. However, there are the effects of the product renewal, and I am not sure if we will be able to break through the upper end of this range. We continue to aim at the upper end while strengthening sales activities.

Miyazaki [Q]: Thank you very much.

The second point is that, although this overlaps with what you just said, Bill One is experiencing very strong momentum or sentiment, and you mentioned that orders were already good in August. I am aware that Sansan's top line is still not that light, although the impact of COVID-19 has gradually disappeared over the past few quarters.

Is there any possibility of change in the mindset of Sansan's clients, such as the impact of the reopening, or is it necessary for your company to revamp its products and marketing to raise the top line, or do you expect a recovery in Sansan's top line due to some other change in the world situation? Can you share your view on this, please?

Hashimoto [A]: Thank you.

First of all, the background to the product renewal is the fact that the number of business cards exchanged has not increased much. The number of business cards captured is increasing daily, and compared to this time last year, it has increased considerably.

However, despite the increase in the number of customers compared to before the pandemic, the number of cards taken in and business cards exchanged has not increased that much compared to before the pandemic.

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I am sure that many of you are aware that the number of online meetings has increased compared to before the pandemic and with this background in mind, we have revamped the product to make it stand as a database, not just a business card exchange or business card management tool.

I am not sure if the results of these efforts have been very successful at this stage, but what I would say is that we are getting a good response from our existing customers by first appealing to them about the increased value of the product innovation and then upselling them to higher editions. I have a feeling that this is working well.

On the other hand, in terms of how many new customers we can impress and how much we can sell our products, I think we still have a long way to go. We are just beginning in our sales activities, and I think we still have a long way to go in terms of the actual level of orders we receive.

If we can focus more on new customers after we have completed the first round of existing customers, the number of new customers acquired each quarter will recover, although it is slightly lower than last year's. I am hopeful that this will happen and that we'll see the results in Q2 and Q3.

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

Moderator [M]: Now, please continue, Mr. Ito.

Ito [Q]: I am Ito from Ichiyoshi Economic Research Institute.

This partially overlaps with the question just asked, but in terms of the unit price, how much would upselling to existing customers and product renewal contribute to an upward factor in terms of stock per contract?

Hashimoto [A]: It is very difficult to make a general statement because it is a case-by-case basis, but for example, in terms of the average unit price, this quarter we saw a 5.5% increase compared to last year and a 5.5% increase in monthly stock sales, which is about JPY10,000, unit per customer, more than in Q1 last year.

This JPY10,000 is a small amount of money, but with more than 8,000 customers, raising the unit price by JPY10,000 has quite a large impact. So, I see it somewhat has a good number.

This 5.5% increase in unit price is probably the largest increase in unit price in the last four quarters or the last 12 months. We do not yet have a strong sense of whether this is an effect of the product renewal or a random fluctuation, but we feel that the product renewal is probably having an effect.

Ito [Q]: By the way, the rate of penetration, in other words, what percentage of your existing customers are using this upsell and new functionality?

Hashimoto [A]: I don't know that number, so I can't answer that question, but I don't think it is a very large number.

Ito [Q]: So, there is still room for more upside in the future?

Hashimoto [A]: Yes.

Ito [Q]: Thank you very much.

My second question may be a bit technical, but I believe the number of employees decreased in the last quarter. Was this due to an increase in quitting or a problem with the timing of people coming in? I was just wondering because I think your company was very good at hiring people and was able to recruit good people.

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Hashimoto [A]: Thank you.

We view this as a seasonal issue. In fact, in September and October, we are expecting about 70 people to join our company in two months, and this is not just a schedule, but almost an actual result. In terms of the full-year plan, I would say that we are almost in line. We plan to hire about 280 people this year, and I think we are coming along at that pace.

On the other hand, in the months of June, July, and August, we had a large number of new graduates hired in April, and we tried to use our resources and focus on onboarding them, so we slowed down our hiring somewhat. We have been generally in line with our plan, but I think this quarter is the only quarter wherein we have been slowing down our hiring.

Ito [Q]: How about the turnover?

Hashimoto [A]: I don't feel that the turnover rate has increased significantly. Although a certain number of employees are leaving the Company, maybe the average turnover rate is not that low, but it is not particularly high, so I think it is well within the average turnover rate.

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

Moderator [M]: Does anyone have any other questions?

Well then, Mr. Takizawa, please and thank you.

Takizawa [Q]: I am Takizawa, from Fidelity Investment.

One point I would like to confirm is that I am a little concerned about KPIs for productivity per employee, especially per sales person, and KPIs related to advertising effectiveness. Has there been any decline in these KPIs?

This is because, in terms of superficial figures, labor cost is 28%. In the past, it appeared on the surface that advertising expenses were increasing to 33% or rated at 30%, while sales were growing at about 25% of the total, and the pace of customer acquisition, especially in the area of business card management, had not yet risen that much. I would appreciate it if you could confirm whether there is some background, such as the fact that you are targeting large customers, including Bill One, so the lead time is increasing, or whether there is some decline in the KPI as I mentioned earlier.

Hashimoto [A]: Thank you.

First of all, it is difficult to determine productivity on a quarterly basis, but if we look at past trends over a long-term span of three or five years, for example, I feel that it is inevitable that productivity will decline. So, I understand that doubling the number of sales people does not mean doubling the number of orders, but it is something that settles at a level less than double.

However, we are making various efforts to reduce the rate of decline as much as possible, or rather, to prevent it, including sales training, raising the quality of leads that come in in the first place, and various other initiatives. We are making various efforts to maintain sales productivity and not going lower as much as possible.

On the other hand, we are fortunate to have multiple products, and Bill One, for example, is currently achieving a higher level of sales productivity than Sansan, so I believe we have a system in place that allows us to allocate resources appropriately across multiple products in terms of resource flexibility.

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Regarding the effectiveness of advertising, I feel that it varies depending on the lifecycle of the product, but I think it is very effective, especially for Bill One. With the tailwind of the legal revision of the invoice system, I think we have been able to invest in advertising quite efficiently in terms of attracting leads by appealing to them.

Although Sansan does not seem to generate sales or orders immediately after advertising, we have always checked the cost-effectiveness of our advertising investments in the past, and we can expect a certain level of effectiveness and appeal to existing clients as well as new clients. In particular, we are running TV commercials this fiscal year immediately after the product renewal, so I think it was a very effective investment to raise awareness of the fact that Sansan has changed.

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

Moderator [M]: Now, please continue, Mr. Yamashina.

Yamashina [Q]: Macquarie, this is Yamashina. Thank you for taking my questions. I have two questions regarding customer trends.

In particular, the seasonality of Bill One. For example, is it the number of invoice scans or is the appropriateness out or not? Monthly stock sales per contract is up, but could you tell us to see if this is, in essence, an increase in the mix of larger customers or an increase in the number of documents to process within each customer? This is the first point.

Hashimoto [A]: In terms of Bill One's seasonality in terms of order acquisition, our products are basically purchased by accountants, so for example, in April and May, when the fiscal year ends, accountants are busy, so I think it is difficult to receive orders in those months. On the other hand, once you get past these months, I don't think there is that much seasonality after that.

In terms of the seasonality of scanning, from the end of March to April, in line with budgets or financial results, clients renew contracts for the fiscal year and billing activities associated with such renewals are likely to occur. So, we see more contracts sending in March and April.

Yamashina [Q]: So, is it my understanding that there is no particular increase or decrease in this quarter?

Hashimoto [A]: Yes, that's right. In terms of seasonal cycle, I think so. On the other hand, we are sensing an increase in awareness of the invoice system, so we feel that there is a tailwind in this direction.

Yamashina [Q]: I understand.

Second, I would like to ask about the impact of the external environment. I think that customers have been affected by various factors, especially by inflation and the weak yen, but have you seen any impact in this area, such as investment restraints or interruptions in investment decisions?

Hashimoto [A]: We are taking a variety of information very carefully, but frankly speaking, I do not feel that there is a headwind at this point. Of course, in our day-to-day sales activities with our customers, there are times when we are not able to receive orders as we would like, but this is not because of inflation or a strong sense of uncertainty about the future of the economy, but rather because of the functions of our products and the value we can provide. So, we do not have a particular sense of crisis regarding economic trends at the moment.

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

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Moderator [M]: Okay, then, Mr. Gibson, please continue.

Gibson [Q]*: Two questions, please.

On the first point, I would like to know what you can tell us about your plan to offer Bill One in Southeast Asia.

Second, on a related note, I don't think there are many Japanese software companies that have succeeded overseas with this kind of content. Can you tell us why you think your company can succeed overseas?

Thank you.

Hashimoto [A]: Thank you.

As for overseas development, we have begun development in Southeast Asia, but I don't think we are in the phase of making huge investments in the big picture at all. I think we are in a situation where we are going to do as much as we can on a smaller scale.

However, the need for Bill One is very high, especially among Japanese companies and offices overseas. There are two things.

First, although it depends on the country, there are countries and industries where paper invoices, order forms, purchase orders, and the like are still being handled, and I think that sales activities to the overseas offices of Japanese companies there will be surprisingly well received. Therefore, we are currently strengthening our overseas bases.

Another reason is that Japanese companies sometimes want to know what kind of invoices are being exchanged at their overseas subsidiaries so that they can control and govern them. We would like to accumulate orders from overseas offices to the extent we can while looking at scenarios such as selling to Japanese offices of Japanese companies and having them use our services at their overseas offices.

Although we have not yet reached the phase where we can increase the growth rate of the entire Company, we are seeing a steady increase in the number of cases.

Gibson [M]*: Thank you very much.

Moderator [M]: Now, Mr. Miyazaki, please.

Miyazaki [Q]: This is Miyazaki from Goldman Sachs. Sorry, this is the second time.

The first point is to ask about the competitive environment for Bill One. In recent months, services similar to Bill One have been launched by companies such as Money Forward and freee, although I forget the timing of their launch, as well as by companies such as InfoMart and RAKUS.

I think that your company is growing, but I would like to know if you are aware of any competitive environment, such as price competition, or whether your company is winning or losing against the market growth. This is my first question.

The other point is that you have explained the adjusted operating income and operating income, but I think the plan for the new fiscal year only includes adjusted operating income. I am sorry this may sound too short-term or detailed, and you said that it will become profitable, I believe you mentioned for the adjusted operating income, after Q3, but how long do you think the difference between adjusted operating income and operating income will continue?

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Also, in Q2, should we expect that both adjusted operating income and operating income will certainly continue to be in the red to that extent already, or, to the extent possible, how your company's expenses will swing this year, and what kind of slope the bottom line will improve toward Q2 and Q3? I would appreciate your comments, to the extent possible, please.

Hashimoto [A]: Thank you.

Regarding the first point, Bill One's competitive environment, I do not think that the environment has changed significantly. There continues to be a certain level of competition, and each project is always, well, not always, compared to other companies' products, and I think we will sell our products in such an environment.

However, I am not so sure that price pressure is very strong. Although competition is fierce, we will compete by developing products well, improving product functions, and increasing the value we can offer. We have a strategy of not competing on price, and I think we just need to implement it.

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(1) Deloitte Tohmatsu MIC Economic Research Institute, "The Present and Future of the Market of Online Invoice Receiving Solution Service Market, Expected to Grow at a Staggering Rate" (MIC IT Report, July 2022).

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As shown on page 40 of the document, we think we are number one in terms of market share in terms of sales. As long as we stay in this position, we are in the situation that we receive more orders and make more sales than other competitors.

As for the second point, the adjusted operating income, we were in the red in Q1, but as I mentioned earlier, we will be in the black from Q3 onward, and I think that is the plan for the full year. In Q2, there are still some variables in some measures, so it is difficult to determine whether or not the cumulative total will be in the black as of Q2, but we expect that Q2 alone will probably be profitable. I think that is what is building up in Q3 and Q4.

This year, the annual budget for advertising expenses is a little over JPY3 billion, and we are spending 35% to 40% of that amount in Q1. Even if we divide the advertising expenses into three parts for the remaining three quarters, we estimate that this alone will free up JPY200 million or JPY300 million or so per quarter, which should be enough to cover the level of the operating deficit in Q1 operating expenses.

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As for the difference between the adjusted operating income and operating income, the amount shown on page seven for Q1 is JPY37 million, but I expect this amount to increase a little more in Q2, Q3, and Q4. I am not able to say it clearly as it depends on stock price, but the stock price level will be a little high and it is not so large as to cause an operating deficit, so I hope you understand that the stock price will remain within this range.

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

Moderator [M]: Now, does anyone have any other questions?

Now, Mr. Hiraoka, please.

Hiraoka [Q]: Thank you for taking my questions. Hiraoka from Nomura Securities. One question, please.

What do you envision for the time frame for the Sansan revamp to be effective? Some of the leads would take about a year for the longest ones. You mentioned that the contribution will start in Q3 of this year, but do you think that medium-size projects with a lead time of about six months will start contributing to H2 of the year, and projects for large companies that take about one year will start in H1 of the next fiscal year? Please tell us about the image of the time frame when they become effective.

Hashimoto [A]: Thank you.

I think we are starting to see a certain effect on the segment of existing customers that are not S- or M-scale, or enterprise, but less than that. As I explained earlier, the unit price per customer is also rising, and I believe this is due to the effects of the product renewal, but I will continue to monitor this closely in Q2.

I think that the effect of this renewal is yet to be seen in the existing enterprise area and new customers. As for the existing enterprise area, since it is enterprise to begin with, it would still take a little more time because of the long lead time. I hope to see it in Q2 and Q3.

As for new customers, we are continuing to develop functions for product renewal, but it will take a little more time. We are hoping to see the effectiveness of renewal as a form of new client acquisition in H2, Q3 and Q4, so that we know the renewal works well.

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

Moderator [M]: Does anyone have any other questions?

Since there are no further questions, I will now conclude the financial results briefing.

Thank you very much for joining us today.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
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