

Sansan, Inc.

Earnings Results for FY2022 Q2

January 13, 2023

Event Summary

[Company Name]	Sansan, Inc.	
[Company ID]	4443-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Earnings Results for FY2022 Q2	
[Fiscal Period]	FY2023 Q2	
[Date]	January 13, 2023	
[Number of Pages]	27	
[Time]	17:00 – 17:45 (Total: 45 minutes, Presentation: 20 minutes, Q&A: 25 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Chika Terada	Representative Director & CEO
	Muneyuki Hashimoto	Director, Executive Officer, CFO
[Analyst Names]*	Leo Mochizuki	BofA Securities
	Takashi Miyazaki	Goldman Sachs
	Kenichi Ito	Ichiyoshi Research Institute
	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 start time is here, we would like to begin the presentation of the financial results for Q2 of the fiscal year ending May 31, 2023.

I would like to introduce today's speakers. Mr. Chika Terada, CEO of Sansan, Inc., and Mr. Muneyuki Hashimoto, CFO.

As for 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.

Mr. Terada and Mr. Hashimoto will explain the financial results for about 20 minutes. Thereafter, we will hold a question-and-answer session until 6:00 PM.

Now, Mr. Terada will give you an explanation.

1 Consolidated Financial Results for FY2022 Q2 (six months)

Highlights of FY2022 Q2YTD Results

Steady progress made against full-year earnings forecasts

Consolidated net sales up 23.5% YoY, ARR ⁽¹⁾ up 22.5%, to ¥21,925 million
No change to consolidated earnings forecasts announced at beginning of FY2022

Profit recorded in adjusted operating profit ⁽²⁾

Adjusted operating profit, in which a deficit was recorded in same period of previous fiscal year, is now in profit due to net sales growth, etc.

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

Bill One net sales up 276.2% YoY, to ¥898 million
ARR (as of November 2022) was ¥2,124 million

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

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Terada: Thank you very much for participating in our earnings results briefing today. This is Terada, CEO of Sansan. I will explain the highlights of the H1 results and the development of the Bill One service.

Please see page four of the materials.

The following are highlights of the H1 results for the fiscal year ending May 31, 2023.

The H1 results were in line with the full-year forecasts. Among others, adjusted operating profit, which was in the red in the same period of the previous year, turned positive, mainly due to sales growth, despite aggressive investments in human resource recruitment and marketing activities.

In addition, the Bill One cloud-based invoice management solution continued to grow at a high rate. Bill One's sales increased approximately 3.7-fold YoY, with an ARR of JPY2,124 million in November 2022.

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Overview of Consolidated Financial Results

Net sales up 23.5% YoY, adjusted operating profit up ¥154 million YoY.
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	
		Q2YTD Results	Q2YTD Results	YoY
Consolidated Results	Net Sales	9,577	11,824	+23.5%
	Gross Profit	8,446	10,200	+20.8%
	Gross Profit Margin	88.2%	86.3%	-1.9 pt.
	Adjusted Operating Profit	-89	65	—
	Adjusted Operating Profit Margin	—	0.5%	—
	Ordinary Profit	643	-113	—
	Profit Attributable to Parent's Owners	573	151	-73.7%
	EPS ⁽¹⁾	4.60 yen	1.21 yen	-73.7%

(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 FY2021.

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Our consolidated results are shown on page five.

Net sales increased 23.5% YoY and adjusted operating profit increased JPY154 million YoY to JPY65 million.

The decreases in ordinary profit and other profit came in reaction to a gain on sales of investment securities worth JPY979 million in the same period of the previous year. While we incurred ordinary loss, we reported profit attributable to owners of parent. This was mainly due to an extraordinary gain of JPY431 million from the sale of shares in affiliated companies.

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Results by Segment

Increased net sales and adjusted operating profit (reduced deficit) in both Sansan/Bill One and Eight Businesses.

		FY2021	FY2022	
		Q2YTD Results	Q2YTD Results	YoY
(millions of yen)				
Net Sales	Consolidated	9,577	11,824	+23.5%
	Sansan/Bill One Business	8,548	10,516	+23.0%
	Eight Business	976	1,235	+26.6%
	Others	54	101	+85.4%
	Adjustments	-2	-29	—
Adjusted Operating Profit	Consolidated	-89	65	—
	Sansan/Bill One Business	2,380	2,964	+24.5%
	Eight Business	-277	-149	—
	Others	2	-11	—
	Adjustments	-2,194	-2,739	—

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Page six shows the results by segment.

The Sansan/Bill one business was driven by the strong performance of Bill One and performed well against the full-year forecast. As for Sansan, we continue to monitor the specific effects of the product renewal, and orders are steadily increasing. In addition, compared to a year ago, there was an improvement and recovery in operating productivity, which suggests a certain level of possible response to solid growth in H2 and beyond.

On the other hand, although the Eight business made progress in reducing its deficit, it was somewhat sluggish relative to the earnings forecast.

A certain percentage of the -JPY2,739 million in adjustments to adjusted operating profit represents expenses related to the expansion of personnel in charge of recruitment and investments related to company-wide branding, which were aggressively conducted as part of the company-wide strategy.

CFO Hashimoto will explain the details, including the KPIs, later.

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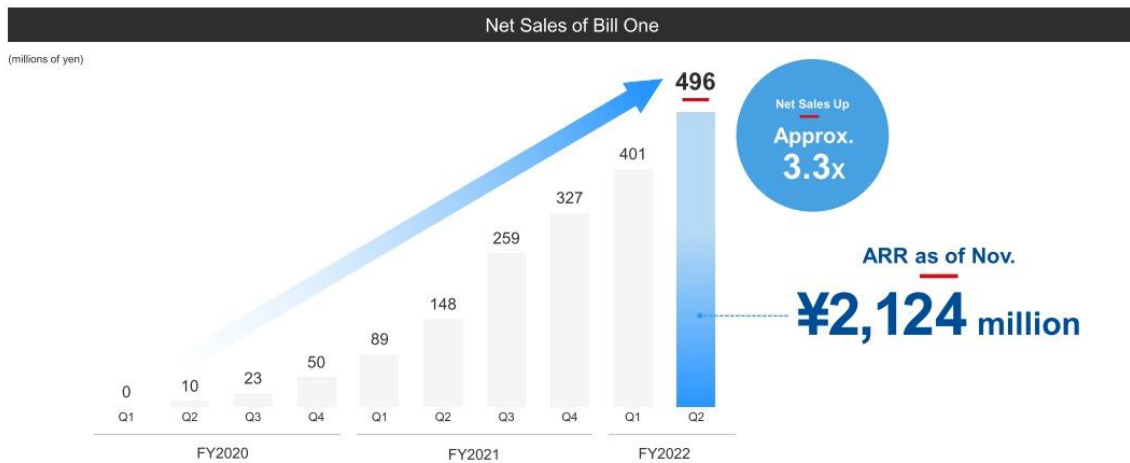
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Net Sales

Rapid growth in net sales since May 2020 service launch.
ARR (as of November 2022) exceeded ¥2.0 billion.



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Next, I would like to take this opportunity to explain again the overall picture of Bill One, which has continued to grow rapidly, including an overview of the service. Please see page eight.

Bill One's ARR exceeded JPY2 billion just 30 months after its launch in May 2020. We believe that this level of growth is one of the fastest among all B2B SaaS businesses, and we have attracted the attention of many investors, both in Japan and overseas.

Service Outline

Making all forms of invoices receivable online, while promoting DX transformation of invoice operations through accurate digitization. Following the introduction of Bill One, customers achieve smooth responses to various legal amendments and fast monthly closing of accounts.



⁽¹⁾ Data conversion accuracy when conditions specified by Sansan, Inc. are met.
⁽²⁾ Planning to released in Summer 2023.

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Here again I will give an overview of the Bill One service and its key points. Please see page nine.

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The invoicing process is separated into the receiver side and the issuer side.

Bill One is a service that focuses on the receiver side. Bill One will receive invoices sent by post or emails on behalf of clients, scan them, and digitize them accurately. Therefore, Bill One enables users to complete various workflows, such as viewing, checking, and approving invoices based on accurate data, on the cloud, thereby streamlining invoice-related operations and accelerating monthly book closing operations.

In response to requests from our users, we are now also developing an invoice issuing function. In the future, we plan to respond to various legal changes, including the planned introduction of the invoice system, in terms of functionality.

The main pricing model is for monthly subscriber companies based on the number of invoices, which are to be converted to data, but for companies with fewer than 100 employees, we offer a free plan with certain conditions.

2 Deployment of Bill One, the Cloud-based Invoice Management Solution

Customer Base and Positioning

Regardless of industry or business type, acquiring various customers.
Achieved #1 sales in cloud invoice receiving service market.



(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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Please see page 10.

As a result, Bill One has achieved a high market share and won the number one position in sales in the cloud invoice receiving service market.

At the beginning of the service, most of the contracts were with small companies, but as shown on the left side of the slide, we are now attracting medium and large-sized companies in a variety of industries. We expect further growth in the future. First, let me explain the external environment of the invoicing sector.

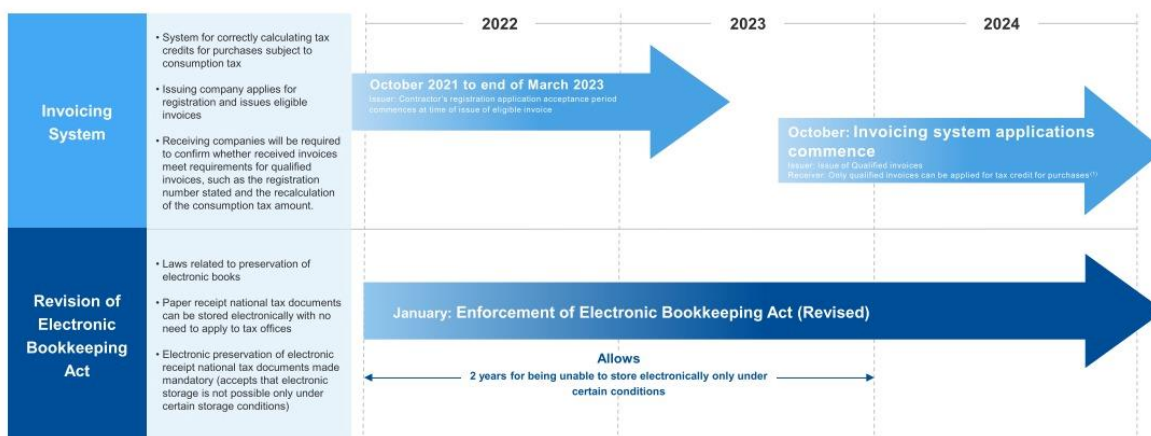
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External Environment in Invoicing Arena

In addition to invoicing system and Revision of Electronic Bookkeeping Act, various changes—including introduction of digital invoices (Peppol format)—expected to occur in environment surrounding invoices.



(1) Certain transitional measures

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Please see page 11.

In Japan, the public and private sectors are promoting the digitization of invoices, including through legal reforms, and companies need to adapt to the new business practices.

To briefly discuss only the key points, first, under the invoice system to be introduced in October 2023, a so-called qualified invoice will be required in order to receive a credit for purchase tax. Not only will the issuing company need to prepare a qualified invoice, but the receiving company will also have the new task of verifying that it is a qualified invoice, that it contains the required information, and that the registration number on it is correct.

In addition, the revised Electronic Bookkeeping Act, which went into effect in January last year, requires that invoices received electronically be stored as electronic data.

In addition, efforts are underway to promote the use of digital invoicing. A digital invoice refers to a standardized electronic invoice that can be used commonly among companies, and is promoted by the Digital Agency in cooperation with the E-Invoice Promotion Association, of which we are a managing corporation.

It is assumed that transactions based on the Peppol format, which has been adopted as a standard format for digital invoicing, will become popular.

However, it will be difficult for all companies to suddenly switch to the Peppol format, and for a certain period of time, invoicing operations will be complicated by a mixture of traditional paper and PDF invoices and digital invoices.

As the demand for services that solve these problems increases rapidly, we believe that Bill One's ability to provide such functions will act as a driving force for the service's growth.

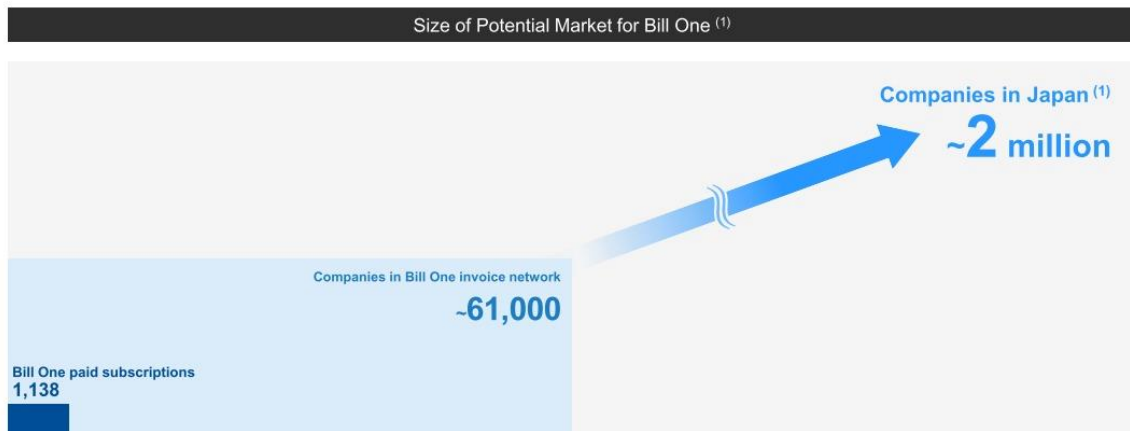
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Size of Potential Market in Japan

Since all companies are targeted, regardless of their industry or size, vast room for development exists in Japan.
Aiming to expand invoice network toward improvement in user convenience



(1) Based on Economic Census for Business Activity in 2016 issued by the Statistics Bureau.

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Please see page 12. Against the backdrop of this external environment, I will talk about the potential market and how much room there is for Bill One to grow.

Bill One is a service that targets all companies, regardless of industry or business type, but with only 1,138 paid subscriptions as of November 30, 2022, there is still significant room for development in Japan alone. Recently, we have taken on the challenge of expanding some of our business overseas, and we will continue to strengthen our access to the broader markets.

Another feature of Bill One's business model is the ability to build an invoice network consisting not only of companies that receive invoices, but also companies that send invoices. As of the end of November 2022, the number of participating companies in the Bill One invoice network was 61,000, some 2.7 times the previous year's number, and the total amount of invoices exchanged among the participating companies in the network exceeded JPY1 trillion, or approximately JPY12 trillion on an annual basis.

In the future, while aiming to further expand the invoice network, we will consider the creation of new business models and the development of functions utilizing the network.

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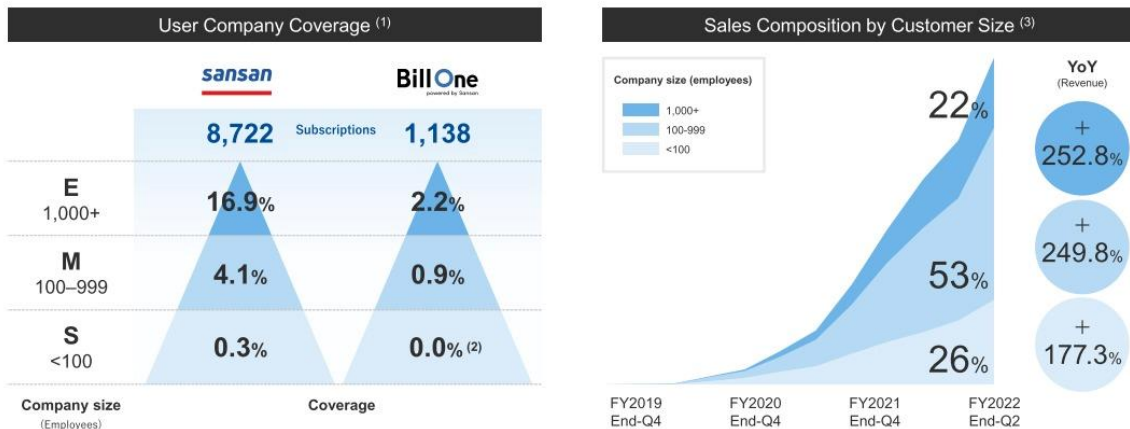
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Room for Expanded Medium- and Large-sized Company Coverage

Strong brand recognition of Sansan and robust customer base centered on medium- and large-sized companies making significant contribution to Bill One's gaining credibility.
Income from medium- and large-sized companies continuing to expand, bringing expectations of coverage expansion.



(1) The coverage is calculated with the number of subscription in each services for FY2022 Q2 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) Paid subscriptions only. (3) Created based on Bill One monthly fee amounts (unaudited).

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Please see page 13.

As I explained earlier, Bill One has vast room for expansion, and we hope to continue our high growth by expanding our coverage of medium and large-sized companies in particular. We see the assets we have developed at Sansan as working effectively to achieve this goal.

We expect that Sansan's high recognition and reliability, as well as its solid customer base that has cultivated medium and large-sized companies, will contribute to Bill One's growth.

The figure on the left side of the slide shows the percentage of companies using Sansan and Bill One, and the percentage of coverage of large companies with more than 1,000 employees was only 2.2% as of the end of November 2022, indicating the vast room for further development.

In fact, as a result of our efforts to strengthen our sales structure and advertising activities for this development, we have steadily continued to expand our coverage of medium and large-sized companies. Of the MRR at the end of Q2 of the fiscal year ending May 2023, 75% of the revenue came from medium and large-sized corporate users, who had a high growth rate.

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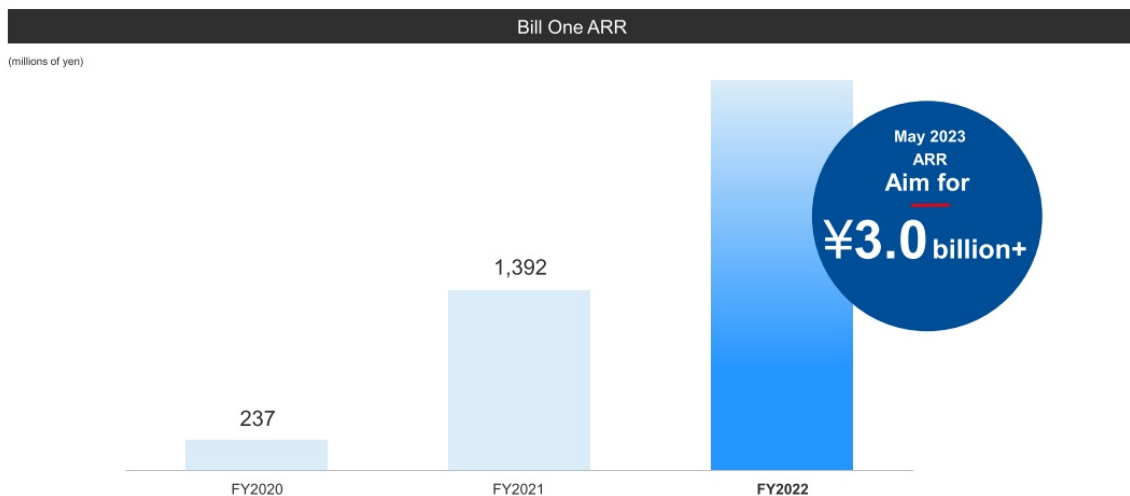
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Targets for FY2022

Based on strong results up to and including Q2, aiming for ARR of ¥3.0 billion+ for FY2022



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Please see page 14. I will talk about goals.

For Bill One, we currently place the highest priority on the growth of ARR. The business continues to grow at a faster pace than when Sansan was launched, exceeding its ARR target of JPY1 billion for the previous fiscal year and reaching JPY1.3 billion.

At the beginning of the fiscal year ending May 2023, we set a target of more than double the previous year's ARR, but we have revised the target slightly upward to over JPY3 billion, based on the strong performance up to Q2.

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3 Full-year Forecasts

Consolidated Financial Forecasts for FY2022

Results for first half of fiscal year progressing steadily, no change in consolidated earnings forecasts

	(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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Now, at the end of my explanation, I would like to talk about our consolidated business outlook. Please refer to page 16 for the consolidated earnings forecasts for the current fiscal year.

As for the H1 results, both net sales and adjusted operating profit progressed steadily in line with the range of the full-year earnings forecasts, and there is no change to the full-year earnings forecasts disclosed at the beginning of the year.

3 Full-year Forecasts

Medium-term Financial Targets (FY2022–FY2024)

Aiming for solid growth in net sales and stable profit growth

Important management indicators

1 Consolidated net sales

Continue solid growth in the 20%+ range or higher

2 Adjusted consolidated operating profit

Improvement of profit margin in each fiscal year

Sansan/Bill One Business

Recording adjusted operating profit of ¥10 billion+ for Sansan and Bill One (excluding Others, such as new services in Sansan/Bill One Business segment)

Eight Business

Recording stable adjusted operating profit for full-year

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In addition, as shown on page 17, there are no changes to the medium-term financial targets.

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For the three years through the fiscal year ending May 31, 2025, we aim to achieve both solid growth in consolidated sales and stable profit growth.

This concludes my explanation.

Next, CFO Hashimoto will explain the three-month results from Q2.

Consolidated Financial Results for FY2022 Q2 (three months)

Overview of Consolidated Financial Results

Net sales up 22.7% YoY

Profit and loss at each stage posted a surplus due to increase in net sales, etc.

	(millions of yen)	FY2021	FY2022		(For Reference) FY2022	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
Consolidated Results	Net Sales	4,979	6,109	+22.7%	11,824	+23.5%
	Gross Profit	4,357	5,269	+20.9%	10,200	+20.8%
	Gross Profit Margin	87.5%	86.3%	-1.2 pt.	86.3%	-1.9 pt.
	Adjusted Operating Profit	-4	292	—	65	—
	Adjusted Operating Profit Margin	—	4.8%	—	0.5%	—
	Ordinary Profit	-111	59	—	-113	—
	Profit Attributable to Owners of Parent	-78	476	—	151	-73.7%
	EPS ⁽¹⁾	-0.63 yen	3.81 yen	—	1.21 yen	-73.7%

(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 FY2021.

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Hashimoto: I'm Hashimoto, CFO. I would like to explain our business results for the three months of Q2.

The three-month results for Q2 are shown on page 20.

Net sales totaled JPY6,109 million, up 22.7% YoY. The slowdown in growth compared to Q1 was mainly due to a slight slowdown in the Eight business.

We reported profit at each stage, mainly due to the increase in sales, despite the execution of growth investments.

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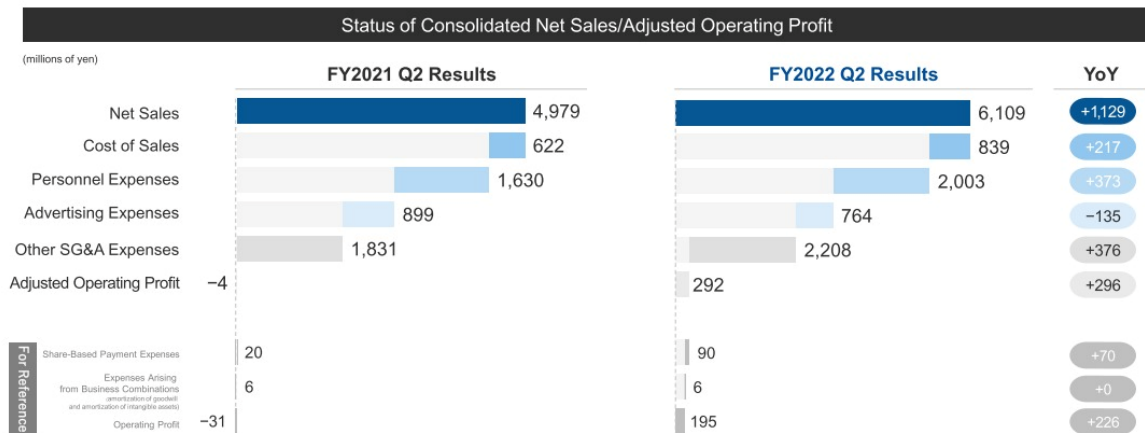
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Factors Contributing to Changes in Adjusted Consolidated Operating Profit

Personnel expenses up ¥373 million (22.9%) YoY because of stronger personnel recruiting.

As investment in advertising expenses was planned to be concentrated in the previous quarter (Q1), these were down ¥135 million (-15.0%) YoY in Q2.



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Next, I will explain the factors behind the changes in adjusted consolidated operating profit. Please see page 21.

The number of consolidated employees increased by 181 YoY to 1,253 people, as a result of the continued enhancement of company-wide recruitment since the previous fiscal year, and personnel expenses increased by JPY373 million YoY.

On the other hand, advertising expenses for Q2 decreased by JPY135 million YoY, partly because marketing activities for the current fiscal year were planned to be most heavily weighted in Q1.

As a result, adjusted operating profit increased JPY296 million YoY, putting the Company into the black.

The increase of JPY70 million in stock-related compensation expenses, an adjustment item, was due to stock options with stock price conditions issued to employees and directors, the cost of which fluctuates depending on the stock price level.

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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 ¥294 million YoY, owing to more employees of corporate division, etc.

		FY2021	FY2022		(For Reference) FY2022	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
(millions of yen)						
Net Sales	Consolidated	4,979	6,109	+22.7%	11,824	+23.5%
	Sansan/Bill One Business	4,387	5,369	+22.4%	10,516	+23.0%
	Eight Business	552	702	+27.2%	1,235	+26.6%
	Others	40	45	+11.3%	101	+85.4%
	Adjustments	-1	-7	—	-29	—
Adjusted Operating Profit	Consolidated	-4	292	—	65	—
	Sansan/Bill One Business	1,237	1,743	+40.8%	2,964	+24.5%
	Eight Business	-101	-14	—	-149	—
	Others	0	-1	—	-11	—
	Adjustments	-1,139	-1,434	—	-2,739	—

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Page 22 shows the results by segment.

Both the Sansan/Bill one and Eight businesses reported increases in both sales and profit.

The negative adjustment amount expanded by JPY294 million YoY. More than half of the increase was due to various costs associated with the expansion of the workforce, mainly in the corporate division.

Sansan/Bill One Business Overview

Net sales up 22.4% YoY.

Adjusted operating profit up 40.8% YoY because of higher sales and lower advertising expenses.

		FY2021	FY2022		(For Reference) FY2022	
		Q2 Results	Q2 Results	YoY	Q2YTD Results	YoY
(millions of yen)						
Sansan/ Bill One Business	Net Sales	4,387	5,369	+22.4%	10,516	+23.0%
	Sansan	4,227	4,831	+14.3%	9,532	+14.9%
	Sansan Recurring Sales	4,026	4,588	+14.0%	9,039	+14.0%
	Sansan Other Sales	200	242	+20.8%	492	+33.2%
	Bill One	148	496	+233.9%	898	+276.2%
	Others	11	41	+249.3%	86	+510.4%
	Adjusted Operating Profit	1,237	1,743	+40.8%	2,964	+24.5%
	Adjusted Operating Profit Margin	28.2%	32.5%	+4.3 pt.	28.2%	+0.4 pt.

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Please see page 23. I will explain the financial results by segment.

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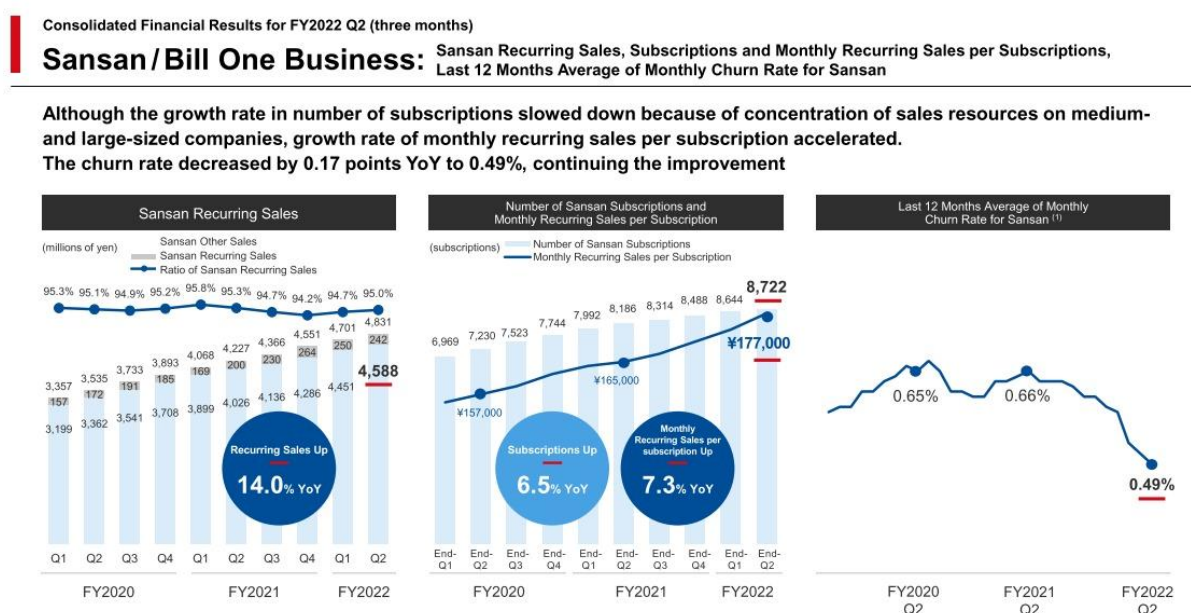
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First, I will talk about the achievements of the Sansan/Bill one business.

Sales grew 22.4% YoY, a slower growth rate than in Q1, but the total order value of Sansan/Bill one for the three months of Q2 reached a record high, and we expect solid sales growth in H2 and beyond. The order amount includes amounts that have not yet been placed in service and are not reflected in net sales.

As for the breakdown of sales, Sansan grew 14.3% YoY and Bill One grew 233.9% YoY. Growth in other sales is attributable to Contract One and others. The number of contracts for Contract One totaled 109 as of November 30, 2022.

Adjusted operating profit increased 40.8% YoY to JPY1,743 million, mainly due to higher sales and lower advertising expenses.



Please see page 24. I will explain Sansan's track record.

The graph on the left side of the slide shows Sansan's recurring sales, which grew 14% YoY, unchanged from the growth rate and trends in Q1.

Sansan other sales increased 20.8%, mainly due to a recovery in initial costs.

In terms of order value, orders received during the three-month period of Q2 were approximately 40% higher than those received a year earlier. In addition, we expect steady sales growth in H2 and beyond, as sales productivity is on a recovery trend and the effects of future product renewals are expected.

The graph in the center of the slide shows the number of Sansan subscription and monthly recurring sales per subscription. The number of Sansan subscriptions increased 6.5% YoY to 8,722. The net increase was only 78, but this was due to a decrease in new acquisitions of small companies with 99 or fewer employees, as a result of shifting new sales resources to medium and large-sized companies.

Monthly recurring sales per subscription increased by 7.3% YoY. The growth rate increased by 1.8 percentage points from Q1, indicating an acceleration in the rate of growth.

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In H2, we plan to further strengthen our sales structure to acquire large corporate clients, including the establishment of a department dedicated to new Sansan sales.

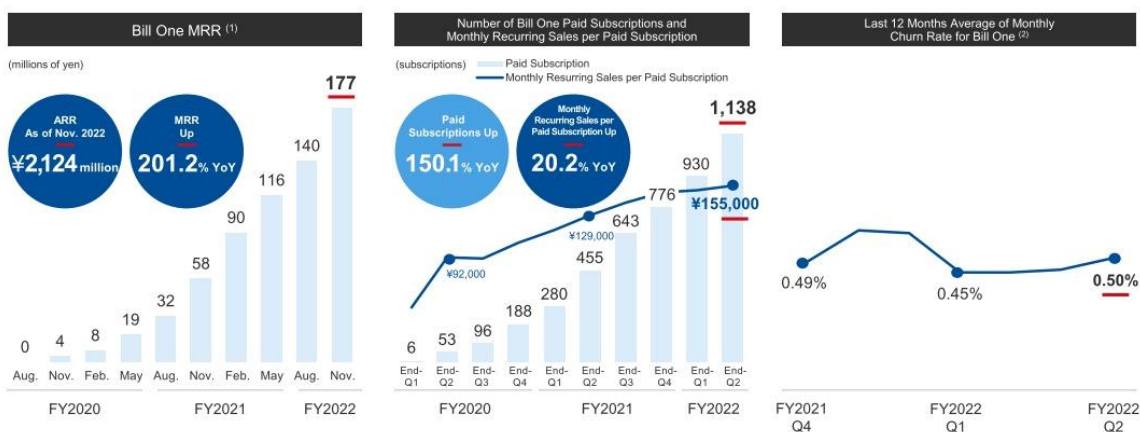
The right side of the slide shows the last 12 months average monthly churn rate for Sansan. The churn rate continued to improve, decreasing 0.17 percentage point YoY to 0.49%. We believe this is due to the improved convenience of the service as a result of product renewals, and the churn rate was at an all-time low as far as we have been able to measure.

Consolidated Financial Results for FY2022 Q2 (three months)

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 201.2% YoY, and ARR exceeded ¥2.0 billion as of November 2022.

Number of paid subscriptions up 150.1% YoY, accelerating growth even when compared with net increase in Q1.



(1) Monthly Recurring Revenue

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

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Please see page 25. Let me explain Bill One's business performance.

The graph on the left side of the slide shows Bill One's MRR for the single month of November, which was about three times the previous year's result, leading to the highest three-month net increase on record. As a result, ARR surpassed JPY2 billion, totaling JPY2,124 million.

The graph in the center of the slide shows the number of Bill One paid subscriptions and monthly recurring sales per paid subscription. There was progress in new acquisitions of medium and large-sized companies and the number of paid subscriptions increased approximately 2.5-fold YoY to 1,138. The net increase in paid subscriptions in the quarter increased by 54 from Q1, with the acquisition of new contracts accelerating.

Monthly recurring sales per paid subscription increased 20.2% YoY to JPY155,000, and with large new orders also being received, there are high expectations for future increases.

The right side of the slide shows the last 12 months average of the monthly churn rate for Bill One. The churn rate remained low at 0.5%.

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Eight Business Overview

Net sales up 27.2% YoY owing to expansion of B2B services.

		FY2021	FY2022		(For Reference) FY2022
		Q2 Results	Q2 Results	YoY	Q2YTD Results
					YoY
Eight Business	Net Sales	552	702	+27.2%	1,235
	B2C Services	71	74	+4.2%	146
	B2B Services	480	628	+30.6%	1,088
	Adjusted Operating Profit	-101	-14	—	-149
	Number of Eight Users ⁽¹⁾	3.01 million people	3.20 million people	+0.18 million people	
	Number of Eight Team Subscriptions	2,481	3,195	+28.8%	

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

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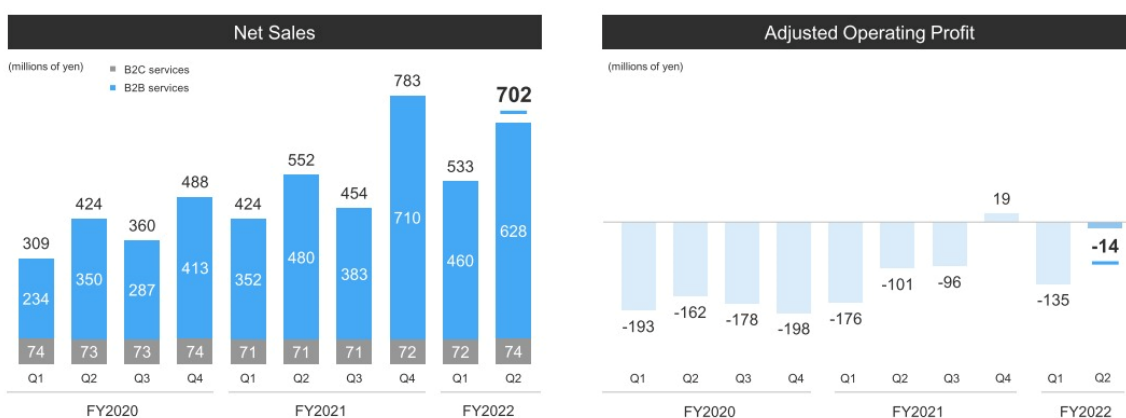
Finally, I will discuss the Eight business. Please see page 26.

Net sales increased 27.2% YoY due to the expansion of B2B services, but the result was somewhat sluggish compared to the forecast at the beginning of the year.

The amount of adjusted operating loss decreased slightly with the increase in net sales.

Eight Business: Net Sales, Adjusted Operating Profit

B2B service net sales increased significantly vs. previous Q1 because of holding of business events, etc.
Reduced deficit in adjusted operating profit in accordance with net sales increase.



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Page 27 shows the quarterly results of the Eight business.

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Sales growth was somewhat sluggish, as I mentioned earlier, but holding business events led to an increase in sales from Q1.

In Q4 of the current fiscal year, we plan to hold many events and continue our efforts to grow sales.

As for adjusted operating profit, even if net sales fall below the forecast for the segment, we intend to improve profit by emphasizing profit management perspectives and implementing cost controls and other measures.

This concludes today's presentation. Thank you very much.

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Question & Answer

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

We plan to provide a written transcript of the questions and answers. If you wish to keep your company name and your name private, please request anonymity.

Please note that we would like to receive questions from everyone, so each person may ask up to two questions at a time. If you have three or more questions, please raise your hand again.

Now, does anyone have any questions?

Mr. Mochizuki, please go ahead.

Mochizuki [Q]: My name is Leo Mochizuki from the Bank of America. Thank you for your explanation. I have two questions. The first one is regarding Sansan, and the second one is regarding Bill One.

Regarding Sansan, CFO Hashimoto mentioned earlier that there are a lot of orders that are not reflected in net sales. Would you please tell us what the driver was for those orders? If possible, could you please explain whether the so-called product renewal was gradually having an effect?

Terada [A]: I feel that the effect of the product renewal was gradually being reflected in quantitative figures. As Mr. Hashimoto mentioned earlier, we place considerable emphasis on sales productivity, and since sales productivity has increased dramatically since the previous year, I believe that the continuation of this trend itself can be regarded as an effect of the product renewal, and we have a strong response for H2.

Mochizuki [Q]: Thank you very much. Incidentally, as an effect of this, I think your company is looking at the order amount with the greatest concern, but is it your understanding that, as in Q2, customer acquisition will not be so strong, but rather ARPU will tend to show a stronger tendency?

Terada [A]: I think that is the trend. In fact, in the sales field, we follow only new MRR and order amounts.

On the other hand, as Mr. Hashimoto mentioned earlier, we have newly established a sales force in response to the strategic necessity of acquiring new large-sized corporates from a medium to long-term perspective. In H2 and thereafter, in addition to raising ARPU, we would like to take a step further in acquiring large-sized corporates.

Mochizuki [Q]: Thank you for your detailed explanation.

The second question is about Bill One. I think the situation is very strong, so I would like to be a little more specific. If you look at Q2, September, October, and November, and if possible, if you look at the current trend in December and January, are you seeing a fairly steady upward momentum?

In short, are you seeing a stronger momentum of the trend as you get closer to the introduction of the invoice system? Or is the favorable situation a result of the efforts of your sales force?
Can you provide some more details, including macro information?

Terada [A]: In conclusion, I think both are right. However, I don't feel that the invoice system or the macro environment itself is the main driving force as you might imagine. I think that we have gained the ability to

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communicate to our customers through sales about the value that Bill One essentially has as a DX service that accelerates monthly closing activities.

This is not limited to Bill One. As the quarterly flow of Sansan, there are Q1, Q2, Q3, and Q4. What happens in Q3 will depend on whether or not Bill One's invoice system will act as a driving force. In any case, Bill One itself will continue to operate even beyond the introduction of the invoice system, and we believe that this is basically due to our ability to convey to our customers the essential value of the business that accelerates monthly book closing activities.

In this context, I think that the macro environment such as the invoice system and the revised Electronic Bookkeeping Act can be used to push customers to the next level, or rather they are a boost for them as to why they need to use Book One.

Mochizuki [M]: Thank you for your explanation.

Moderator [M]: Next person, Mr. Miyazaki, please.

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

The first question is about Bill One. You mentioned that your Company's sales force is doing well in terms of appeal, and that there is a certain boost in the macroeconomic environment. I would like to know about the competitive environment.

You say you are number one in market share on the receiver side, but are there any other parties that could defy you with similar services as your company is doing so well? Also, I understand that there are companies, such as RAKUS, which provide services on the issuer side. I wonder if you could tell us about the competitive environment, such as whether there is any competition with such companies. Thank you.

Terada [A]: Thank you for the question.

I don't think there were any significant changes in the competitive environment during the quarter in question. On the other hand, as has been the case since the previous quarter, there are a considerable number of companies claiming to have functions similar to those of Bill One, so there is naturally a certain amount of competition on business sites. We are closely monitoring how we are able to win, taking this as a KPI for sales.

We still have a lot of customers that use Bill One without competition with other companies. We are aware that we have a fairly overwhelming share in terms of the number of subscription cases and sales acquisition as Bill One is appealing to the white space market and is able to win competition, and that this is backed up by our competitive edge. Thus we would like to continue to leverage this ability to pursue growth.

Bill One also has some functions for the issuing side, but we are not particularly focusing our sales activities on the issuing side, as there are other players who are ahead of us in this area. We are only offering this service as an extension to our invoice-receiving service.

Miyazaki [Q]: Thank you very much.

The second question: As you explained, while Q2 has seen a slowdown in top-line growth compared to Q1, today's explanation shows that you are quite confident for H2, and as I think you explained a little earlier in your question, while Q2 looked weak, what was the factor that performed well in Q2 and gives you confidence in the acceleration of growth rate for H2? Is that visible in any of the KPIs you presented today, or is it

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something that is not shown in any of the figures yet, but that you can expect growth in H2 on a perception basis? I would like to know more about this. Thank you.

Terada [A]: To put it briefly, the Eight business, as I explained earlier, has been weak compared to the initial plan, but for the Sansan/Bill one segment, the current response to the growth in productivity of the core Sansan service is the strongest indication for H2.

Bill One has also shows accumulated growth being higher than we thought at the beginning of the year. The Sansan is entering a phase where it will be able to further increase orders by increasing the number of salespeople while its productivity continues to grow. That is why we can talk about the strong growth of the Sansan/Bill one segment.

Also, if you look at the Company as a whole, there are some areas where Eight is slightly behind the plan, but when you look at the total, I think you can say that it is growing steadily in line with the business plan, which is what I was explaining earlier.

Miyazaki [Q]: Thank you very much. I think you talked about sales productivity previously, but can you confirm where you are measuring it and how it is improving, and can you confirm that, as you mentioned earlier, the orders are already reflected in MRR or ARR, and that ARR and MRR are increasing more than sales? Is that the reason why you are confident in H2, or is there any other pipeline in which you can be confident?

Terada [A]: There is a time lag of slightly longer than one month between the receipt of orders and the start of recording sales. The financial results, both sales and ARR, cover those that have started providing the services and reporting sales.

On the other hand, our salespersons are following order amounts, so they are tracking some leading indicators at hand. For example, when we talk about sales productivity, we look at things like the order value per head or sales per head for the month and track how they compare to the same period last year, or to the previous month, or to the previous quarter, and if those indicators are improving, we see that sales productivity is increasing. Therefore, the record-high order amount that Mr. Hashimoto mentioned earlier was not all reflected in the current financial results, but some of it was reflected and some other parts will be reflected in the future.

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

Moderator [M]: Next person, Mr. Ito, please.

Ito [Q]: This is Kenichi Ito from Ichiyoshi Research Institute Inc. Thank you for your explanation. I have two questions.

The first one is about the Sansan business. Looking back at H1 for product renewal, President Terada, do you feel that the renewal was generally progressing as expected during the current fiscal year? Or, to be honest, did you wish it had been done a bit more in H1? Are you dissatisfied a little about the H1 results and trying to catch up in H2? Please tell us one more time what you think of the response to this product renewal.

The second question is about Bill One. With the start of the invoice system in October 2023, is there any change in demand by company size before and after this? For example, large-sized companies are expected to respond to the change ahead of October 2023, so it seems that you will easily win subscriptions with those companies until October 2023 and after that, small and medium-sized companies will respond later. Is there a bumpy tendency in the largest customer segment before and after October?

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Or are you not yet in the phase of worrying about such things, and since you are chasing the maximum number of subscriptions and unit price, don't you need to worry so much about the growth rate in particular? I would appreciate it if you could give us some indication of the demand situation by subscriber company size before and after the introduction of the invoice system. Thank you.

Terada [A]: Thank you for the questions.

First of all, rather than looking back at H1 as a whole, we are now measuring the effects of the renewal and other measures by looking at the monthly response and qualitative and quantitative data each month.

In this context, the latest figures for October and November show that the effects of the renewal were steadily emerging, and based on this, we have even slightly increased the number of sales personnel hired for H2. I think we are finally getting a response in that sense, and rather than H1 as a whole, I think the most recent few months are finally starting to show signs of improvement.

And as for Bill One, I have to admit that we still can't read it honestly. As I mentioned earlier, there are aspects that are easy to understand, so I have explained them in terms of the macro environment, but in fact, Bill One itself is essentially a DX service to increase productivity in areas like accounting.

We are now in the process of marketing the product with the aim of accelerating the implementation of the invoice system, after the value of the product has been evaluated in this sense. However, as the start of the invoice system gets closer, it is unclear in which direction the launching pressure will go. Anyway, Bill One will continue even after the introduction of the invoice system. The implementation of the revised Electric Bookkeeping Act, which has been postponed for two years, is coming soon, so I would like to keep our efforts focused on selling products based on their intrinsic value, while also taking into account the various macroeconomic conditions.

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

Moderator [M]: Next person, Mr. Hiraoka, please.

Hiraoka [Q]: Hello. I'm Naoki Hiraoka from Nomura Securities. I would like to ask two questions.

The first question is regarding Sansan's ARPU improvement. I find that the trend of ARPU improvement is even stronger in Q2 compared to Q1. For example, could you tell us in detail what features are attracting customers and causing up-selling?

Hashimoto [A]: Let me answer the question.

The product renewal I mentioned earlier had a certain effect, and I believe that this contributed to a certain degree to the increase in the unit price. Although we have not raised prices directly as a result of the product revamp, I wonder if such efforts have been successful, for example, in raising the utilization rate within a single company.

On the other hand, as I explained when I mentioned that there was not a sharp net increase, we shifted our focus on medium and large-sized companies, raising the percentage of sales accounted for by large-sized companies and leading to the improvement of ARPU.

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

The second question concerns the future renewal of Sansan. In revamping Sansan, you have added various functions, and I believe you have achieved a certain level of success in terms of ARPU improvement. Are you

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aware that you have completed the renewal process and will continue to acquire new contracts through sales, or do you want to continue with further renewal? If the latter is right, what features do you think will be needed in the future?

Terada [A]: The latter is right. We are in the process of revamping the concept and adding features that embody it one by one.

For example, even though we are now able to import e-mails, there are still some parts that are difficult for users to use in terms of UI/UX, so we are considering how to improve such parts. The renewal itself includes expansion of the database and contact points. We continue to expand data while we generate various kinds of data internally, in addition to the partnership with Teikoku Databank.

In terms of extending the points of contact, for example, making Contract One contract information available on Sansan is a function that fits with the concept of the current renewal. We will continue to add more and more functions, including those that are linked to Sansan products.

Yamaoka [M]: I understand. Thank you very much. That is all from me.

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

Mr. Miyazaki, please go ahead.

Miyazaki [Q]: This is Miyazaki from Goldman Sachs. This is the second time for me to ask a question.

You mentioned earlier that Bill One has a customer base and expertise cultivated by Sansan as a means or base for expansion, but I wonder if you feel that cross-selling is actually expanding.

I remember that there were a certain number of customers who only used Bill One, and I think that cross-selling was increasing a little. I wonder if you could confirm the changes in the past few months, the outlook for H2, and whether cross-selling is likely to be the key to Bill One expansion.

Terada [A]: I don't have the sense that cross-selling is sharply increasing and driving overall growth. We continue to promote the use of Bill One by Sansan users, but as you mentioned, I believe that we are expanding the Bill One business through its own development.

To add to the nuance of what I said earlier, Sansan itself, for example, has a series of activities such as acquiring leads through marketing, then having the inside sales staff call on possible customers, or holding seminars and having the inside sales staff call on the participants, and then inviting them into business negotiations. In terms of customer contact, there is a synergy between Sansan and Bill One in terms of touching large-sized companies.

When we look at actual orders and sales, cross-selling is not necessarily the most important factor in driving overall sales, but I think we can say with certainty that the assets cultivated by Sansan are being utilized throughout the entire process.

Miyazaki [Q]: Thank you very much.

On a similar note, I think you mentioned earlier about re-launching a sales force dedicated to Sansan and branding. Your company has been changing its sales structure from time to time to suit the needs of each opportunity, and most recently, I have the impression that the same sales persons have been selling both Sansan and Bill One.

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Please correct me if I am wrong, but again, are you in a situation where you are making slight changes to the current operating structure to make it better, or did you say earlier that you are not in such situation? I would like to know about the organizational part of the Company in terms of the sales approach. Could you give me some information?

Terada [A]: Thank you for the question.

First, as you mentioned, we have the sales structure that we change quite frequently to achieve the best possible results.

The premise is that we will hire more salespeople in H2 than we planned at the beginning of the period, and we will increase and hire more for now. Until now, in the structure of Sansan sales, or the DX service, the Sansan sales team was selling Bill One and also Contract One. For Bill One, we had a dedicated sales force.

What we are trying to do starting this January is to create a new sales force for Sansan as a separate product sales team. We will continue to sell multiple products to existing customers, but in order to acquire new logos and customers with whom we have no prior dealings, we have decided to assign dedicated sales representatives not only to Bill One, but also to Sansan.

We think that we will have to determine whether this will, in fact, increase sales productivity.

Miyazaki [Q]: Just to confirm something, I wonder if it is correct when you said that you intend to increase hiring beyond your initial plan at the beginning of the year, and is it more like the hiring environment is becoming easier for your Company given the economic uncertainty in Japan? I would like to know more about this.

Terada [A]: In H2, we increased the headcount for sales recruitment from the initial plan. In terms of the recruitment environment, as you have pointed out, we think it is easier for us.

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

Moderator[M]: Next person, Mr. Ito, please.

Ito [Q]: I'm sorry for asking a question again. I would like to add one more point about advertising expenses. My understanding is that in Q1, you were somewhat unable to spend the planned amount. I think there were some areas where you were somewhat unable to use up all of the money, even excluding the golf sponsorship. In Q2, however, did you try to catch up and use up the entire planned amount? Or, if we look at the full year, will the amount not used up in Q1 still be unaccounted for compared to the initial plan? Can you give us a forecast and update on advertising costs?

Hashimoto [A]: As you said, there were some parts that we could not fully use in Q1, but I think we were able to catch up a lot in Q2.

I think it is important to conduct effective advertising activities, not necessarily to spend the budget as planned, but on that basis, in terms of the ratio to the annual advertising budget, we conducted advertising activities of about 60% or less in Q1 and Q2. While there was still a heavy emphasis on Q1 and Q2, I feel that the pace was in line with our original plan at the beginning of the year.

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

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

As there appear to be no further questions, we would like to conclude the financial results briefing.

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Thank you very much for joining us today.

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