October 15, 2019

Sansan, Inc.

Q&A for Fiscal 2019 Q1 Results

Consolidated Results

Q1: How do you evaluate the growth of net sales and operating profit against the full-year forecast?

In the first quarter, both net sales and operating profit progressed as planned against the full-year forecasts. The growth rate of operating profit is high, but this is partly due to the fact that no major advertising activities were carried out in the first quarter, which is as planned.

Q2: What is causing the improvement in gross profit margin? How much more do you expect this to grow?

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

Gross profit margin is already at a high level of 85.0% in the first quarter, so while we recognize that there is still some room for improvement, it is not a lot of room.

Q3: Why is the operating profit and net profit growth rate higher than the net sales growth rate?

This is mainly due to a decrease in the SG&A ratio thanks to decreased advertising expenses.

Q4: Advertising expenses have decreased year on year. Will this continue?

In the Sansan Business, the need for large advertising expenses is decreasing thanks to the success of advertising activities up to and including the previous fiscal year. In addition, the Eight Business is currently focused on monetizing B2B services rather than attracting new users, so it does not require large advertising costs.

As a result, the ratio of advertising expenses to net sales is expected to continue to decline.

Q5: An impairment loss has been recorded; will it have any impact on the full-year forecast?

Although an impairment loss (extraordinary loss) of software of ¥37 million, of which was from the Sansan Business, the Eight Business, and Corporate Expenses not belonging to any reportable segment was recorded, there is no change to the full-year earnings forecast of overall profitability.

Q6: Looking at previous results, deficit tends to increase in the second quarter. How about this year?

Looking at the results of the past two years, the second quarter tends to be less profitable than the first quarter due to differences in the timing of advertising activities and the amount of investment. In the current fiscal year

as well, since full-scale advertising activities are planned for the second quarter and beyond, the profit level in the second quarter may vary quite significantly from the first quarter.
There is however no change to the full-year earnings forecast of overall profitability.

Sansan Business

Q7: Why has the growth rate in net sales slowed compared to the past few years? Will this continue?

As net sales increases, it becomes more and more difficult to sustain the same level of growth. However, the actual growth amount was higher than the same period last year.
Currently, we are increasing the number of employees in the sales department and working to strengthen sales to large customers, however it takes some time for these additional staff to make their presence felt, so this measure has not yet fully effected our business results. We aim for high growth of net sales while continuing hiring, strengthening training and education for salespeople.

Q8: How far do you expect your operating profit margin to grow to?

As net sales growth continues, we expect the operating profit margin to grow too. However, our priority at present is not to focus on the profit margin, but on maintaining the strong net sales growth by necessary investment. Thus, we do not disclose any target profit margin.

Q9: Why is the increase in the number of subscriptions slowing compared to previous years? And yet why did it increase compared to the last quarter?

Our current effort is to focus on attracting larger customers, which generally take longer to convert, slowing down the pace at which we get new contracts. We aim for net sales growth by increasing the number of subscriptions and the sales per subscription, and believe that although the pace is slowing, the growth is still very healthy.
Compared to the previous quarter, the number of subscriptions increased. This was due to the increase in the number of subscriptions received from SMEs while we are in the process of strengthening our sales structure.

Q10: Why is monthly sales per subscription flat compared to the end of the previous quarter?

Monthly sales per subscription depends on the number of new subscriptions acquired and the size of the company. In the first quarter, the increase in sales personnel from the second half of the previous fiscal year has led to steady progress in acquiring orders from relatively small companies, hence the flatness.

Q11: What has caused the drop in last 12 months average of monthly churn rate, and what level can you reduce this further?

Besides developing innovative new features and functions, we have also improved our customer support. Combined, these have helped us to achieve a very high level of customer satisfaction. A churn rate at or below

1% is generally considered to be extremely low, so with ours already at 0.63%, we consider that there is not much more we can do to reduce this further. Our focus is therefore on maintaining our current low level.

Q12: How many salespeople do you have in the Sansan Business, and how much has this increased?

Including Inside Sales and Customer Success, we have 200 salespeople as of August 31, 2019 which increased by 72 compared to the same period last year and 24 compared the last quarter.

Q13: After increasing the number of salespeople, have you improved productivity and received new orders as expected?

Although it varies depending on the business and company in charge, generally, since a run-up period of about half a year is required after hiring, it is difficult to make a final decision at the present time, but mainly for small and medium-sized companies we recognize that this is a good start, with an increase in the number of contracts acquired.

Eight Business

Q14: How have you achieved such high net sales growth? What is the driver?

We have continued to strengthen monetization of our B2B paid services since the previous fiscal year, and as a result, we have achieved high net sales growth. B2C service sales were +29.7% year-on-year, while B2B service sales were + 419.0%.

Q15: What are the reasons behind the deficit? What is the main cost?

This is a phase in which monetization has just been strengthened since the previous fiscal year, and net sales have not yet reached the operating costs. By continuing to focus on monetizing paid B2B services, we aim to achieve profitability as soon as possible.

Q16: What is the reason behind the significant increase in the number of "Eight Company Premium" subscriptions?

This is as a result of strengthening the product value for small businesses.

This service was launched in October 2017, and since sales efforts were strengthened in May 2018, it is used by more than 1,000 companies as of the end of September 2019.

Q17: What is the progress of monetizing other paid B2B services?

While the growth rate of "Eight Company Premium" subscriptions increased +222.8% YoY, B2B service sales overall increased +419.0% YoY, showing that the other paid B2B services are also making good progress.

Other services include the advertising service "Eight Ads", business events service "Meets", and the recruitment service "Eight Career Design".

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