

Q&A for Fiscal 2019 Q2 Results

Consolidated Results

Q1: What is the progress of net sales and operating profit against the full-year forecasts?

In the first half, both net sales and operating profit progressed as planned against the full-year forecasts. In terms of net sales, we are expecting that the effects of strengthening the hiring of salespeople in the Sansan Business will gradually appear from the second half onward. In addition, the progress rate for achieving the targeted operating profit has become low, but this is due to the effect of strengthening advertising activities centered on TV commercials in the Sansan Business in the second quarter, as planned at the beginning of the fiscal year.

Q2: What are the reasons for the loss under operating profit in the second quarter (three-month results)?

In the Sansan Business, this came as a result of the strengthening of advertising activities centered on TV commercials but is in line with initial targets. In accordance with the increase in net sales, the multi-step profit or loss improved compared with the same period of the previous year.

Q3: 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 expenses.

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

Q4: What is the reason for personnel expenses having increased at a higher year-on-year rate than growth in net sales? By how much will they increase?

As we are currently strengthening hiring mainly in the sales department of the Sansan Business, the number of employees has increased by 61 in the first half of the current fiscal year compared with the last fourth quarter. As our target in the current fiscal year, we are advancing hiring activities for a total of approximately 200 employees.

Sansan Business

Q5: The net sales growth rate in the same period of the previous year has been gradually decreasing. Will this trend continue in the future?

As net sales increase, it becomes more and more difficult to sustain the same level of growth. However, the actual growth amount was higher than the same period of the previous year. We are currently increasing the number of sales department staff and are making progress with the strengthening of the sales structure, but the run-up period after hiring will take at least half a year. The effect will therefore not be immediate, but we are expecting that the effects from having carried out strengthening in the second half of the previous fiscal year will gradually appear in the latter half of the current fiscal year. In addition to the strengthening the sales structure, we are aiming to achieve high growth in net sales over the medium to long term while planning to increase sales per subscription by expanding the optional functions of "Sansan".

Q6: How far do you expect your segment 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.

Q7: Compared with the end of the previous quarter, the number of subscriptions has increased by 231 but by company size, which class is growing?

It was mainly the gaining of subscriptions from relatively small companies that drove volume growth. This was due, for example, to the hiring of salespeople, which was advanced in the second half of the previous fiscal year, and the effect of reorganizing the sales structure being promoted in the current fiscal year.

Q8: What is the reason for the moderate growth rate of monthly net sales per subscription compared with the same period of the previous year?

During the first half of the current fiscal year, while there was a steady increase in the monthly sales from existing subscriptions. At the same time, the acquisition of new subscriptions from relatively small companies has progressed smoothly thanks to the effects of having increased the number of sales personnel from the second half of the previous fiscal year. As a result, monthly net sales growth per subscription was moderate. The short-term level of monthly net sales per subscription fluctuates depending on such factors as the number of new subscriptions acquired, the sizes of the companies, and the ratio.

Q9: What has caused the drop in average monthly churn rate over the last 12 months, and to what level can you reduce this?

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 0.54%, we consider that there is not much more we can do to reduce this. Our focus is therefore on maintaining our current low level.

Q10: How many salespeople do you have in the Sansan Business, and how much has this increased?

Including Inside Sales and Customer Success, we have 205 salespeople as of November 30, 2019, which increased by 73 compared with the same period of the previous year and by five compared with the last quarter.

Q11: What factors contributed to the slowdown in the pace of hiring in the second quarter? Will there be any impact on net sales growth?

In the second quarter, the pace of hiring slowed down due to the seasonal effects of hiring activities, but the pace is expected to accelerate from the second half onward due to fluctuations every quarter. Since the number of employees has increased by 73 compared with the same period of the previous year, and the staffing in the sales department has been revised as appropriate, the slowdown in the pace of hiring is not having a significant impact on net sales growth at this time.

Eight Business

Q12: 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. In the first half, B2C service sales were +27.7% year-

on-year, while B2B service sales were +267.6%.

Q13: What services are driving net sales growth in B2B services?

The number of “Eight Company Premium” subscriptions grew by 149.8% compared with the same period of the previous year, and the “Eight Ads” advertising service and recruitment-related “Eight Career Design” service grew steadily. Please note that we do not disclose a breakdown of the net sales figures for each service.

Q14: What were the reasons for the slowdown in net sales growth in the second quarter (three-month results) compared with the first quarter?

The number of business events “Meets”, which started providing services in September 2018 and is helping to solve corporate issues, held in the second quarter was less than in the first quarter. Since this service is basically held irregularly according to the theme of the event and the needs of the participants, the number of events held on quarterly basis will fluctuate.

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 monthly profitability as soon as possible.

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