



## **Smaregi, Inc.**

Q2 FY2024 Financial Results Briefing

December 14, 2023

## Event Summary

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<b>[Company Name]</b>	Smaregi, Inc.
<b>[Company ID]</b>	4431-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q2 FY2024 Financial Results Briefing
<b>[Fiscal Period]</b>	FY2024 Q2
<b>[Date]</b>	December 14, 2023
<b>[Number of Pages]</b>	26
<b>[Time]</b>	10:30 – 11:29 (Total: 59 minutes, Presentation: 36 minutes, Q&A: 23 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	3
	Ryuhei Miyazaki                      Development Department Director
	Kohei Takamadate                    Business Strategy Division Director
	Megumi Shikichi                    Financial Accounting Manager, Management Department

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## Presentation

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**Shikichi:** The time has arrived, and we will begin. Thank you for participating in the financial results briefing for Q2 of the fiscal year ending April 30, 2024 of Smaregi, Inc.

Let me quickly explain today's process. This briefing will also be presented in two parts, the first half and the second half. In the first half hour, Mr. Miyazaki, Director and CPO, will give an overview of the Company, followed by a Q&A session. The first half of the Q&A will answer questions about the company profile. Please note that questions regarding financial results will be answered in the Q&A session in the latter half of this presentation.

Next, we will provide information on how to ask questions. Questions can be submitted via the Q&A button on the viewing screen or by e-mail. If you send your question by e-mail, please indicate in the subject line that your question is about the financial results briefing. We look forward to hearing your many questions. If you would like to contact us for information other than questions, please use the chat function as well.

Now, Mr. Miyazaki, please.

**Miyazaki:** Good morning, everyone. I am Miyazaki, Smaregi's Development Department Director. Thank you for attending today's financial results meeting.

The first part of the talk will focus mainly on an overview for first-time visitors to get acquainted with Smaregi.

Once again, I would like to briefly introduce myself. My name is Miyazaki, and I am in charge of the project at CPO. I joined our company in 2011 and have been involved in the development and planning of Smaregi since its inception, and I became a director in 2019. Thank you very much for your cooperation today.

Smaregi is an iPad cash register company. In layman's terms, it is a cash register company for stores, but it is completely different from the cash registers of the past. While cash registers made by Toshiba, Sharp, and others have been produced by electronics manufacturers, we, at Smaregi, were born to specialize in the software and data that are the contents of cash registers.

At the beginning, I referred to Smaregi as an iPad cash register, but I actually think it doesn't have to be an iPad. There is no problem replacing with mobile ordering, ticket machines, e-commerce sites, etc. This is because we believe that the era of data management can be realized by analyzing and utilizing such data as who bought what, where, and when, and we are confident that this is what is coming.

This is our management philosophy, open data and open science. Data is very important in management. It is much more convenient to walk with a map or data in hand than to grope around in the dark. Smaregi wants to be the kind of company that shines a flashlight on store managers walking in the dark.

The Company was founded in 2005 and is in its 19th year of operation. At first, we were doing website development and contracted system development. We have developed our own service, Smaregi, since 2010 and released it in 2011. This fiscal year marks the 13th year of service.

The Company currently has four offices in Osaka, Tokyo, Sapporo, and Fukuoka. In addition, we have six showrooms: Osaka, Ebisu, Shinagawa, Shinjuku, Nagoya, and Fukuoka.

We have 287 employees and are actively recruiting and growing.

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President Yamamoto and Vice President Minato are originally engineers.

The oldest members of the Company, led by the President and Vice President, had experience in the past in contracted development of POS systems for drugstores, which resulted in the conception of Smaregi. Therefore, from the time of its release, it has been rich in features for full-scale retailing, which is one of its strengths.

The founders of the Company, Tokuda and Mochizuki, are still involved in the Company as advisors and auditors.

Our main service offering is Smaregi, a highly functional cloud-based POS cash register used by restaurants and retailers to manage and analyze sales information. Conventional POS cash registers that you see in convenience stores are configured to require a large, dedicated machine, but Smaregi can be used as long as you have an iOS device, such as an iPad or iPhone, and a Wi-Fi environment. The service was released in September 2011.

Currently there are 33,737 paid plan stores. The number of active stores, as of the end of November, is 41,689, including paid and free stores.

Other services include the time and attendance service Smaregi Time Card, the cashless payment service PAYGATE, and the App Market.

Among the peripheral services, PAYGATE, a cashless payment service, has grown significantly over the past few years. In December 2021, we acquired Royal Gate, a payment processing company, which we are selling as a set by integrating it with Smaregi.

The affinity between POS cash registers and cashless payments is very high and growing as a significant revenue stream for us.

In addition, we are strengthening the Smaregi App Market as a unique initiative of our company. It is a platform that provides extended functions of Smaregi and time cards as applications and is inspired by Salesforce's AppExchange and Cybozu's kintone.

App Market apps use a revenue-sharing model, with third-party development partners playing a central role and revenue shared 3:7 between the Company and the developer.

So far, niche industry-specific apps have appeared, such as those for dry cleaners and direct produce sales outlets, creating touchpoints for industries that are difficult to tap with Smaregi alone and expanding the base of Smaregi users.

The revenue structure is shown in the graph. There are two main categories: monthly usage fees and equipment sales.

The monthly fee, however, consists of monthly usage fees for our cloud services, such as Smaregi, time cards, and payment. Equipment sales are like the initial cost and consist of the sale of equipment, such as cash drawers, receipt printers, and bar code readers. Since this is a subscription service, the structure is basically built up by acquiring monthly usage fees, and equipment sales tend to rise and fall depending on seasonality. The fee structure is explained below.

Although you must purchase the equipment that makes up the cash register, there is no up-front cost for the software, just a monthly fee. Monthly usage fees begin with the standard plan, a free plan with basic cash register functions, and four paid plans are available depending on the functions required by the user. Premium

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plans and above are paid plans, and in principle, paid plans are promoted in business negotiations. Starting with the Premium Plus plan and above, telephone support is available 365 days a year, from 9:00 AM to 10:00 PM, with our expert operators on call. The food business and retail business are industry-specific plans, which are higher-end plans with advanced features specific to the restaurant and retail industries, respectively.

In terms of number of stores, Premium Plus has the largest number of stores, followed by the retail business. Smaregi is a POS, but looking at user industries, 40% of users are in retail in general, including apparel, and just under 30% are in restaurant, with retail and restaurant accounting for 70% of the total. Other uses include beauty treatments, clinics, events, pop-up stores, and many other types of businesses.

There are two main sales methods: direct sales and partner sales. The ratio is 80% direct sales and 20% partners. Direct sales and partner sales have each grown significantly. Direct sales are by appointment for visits to the showroom, which is a pull-type sales style focusing on sales activities.

We are grateful for the increasing number of inquiries we receive each year, so we rarely do what we call push sales, in which we visit the client's office. We either conduct online business meetings with customers who inquire online or direct them to one of the six showrooms I just described, where they can meet with us to discuss their needs with actual equipment in motion. Other users can also make online contracts from our site without having to negotiate with us.

Our partners include Otsuka Shokai, OBC, TSI, and approximately 300 other companies with expertise in a wide range of industries and business sectors. It is as if they are proposing our Smaregi by tying it to their own products. The meaning of doing this is that it is possible to reach a customer base that is difficult to approach with Smaregi alone, such as a company with multiple stores or in a regional area, for example, with more than 100 stores.

There are two timing approaches to stores: new openings and existing stores. The reason why we do not make door-to-door sales calls is that it is difficult to penetrate the market. However, a major business opportunity is when a new cash register opens, or when a switch to a different system is being considered, such as when an existing cash register contract expires or when the depreciation of hardware is completed. In fact, as I mentioned earlier, the adoption of Smaregi is almost bifurcated between these two.

The market size and market share are 2.2 million stores nationwide, including retail, restaurant, service, and medical stores, which are the main user groups of Smaregi, and our main target is about 800,000 stores in the mid-size segment of approximately 2 to 40 stores.

The current number of active stores is about 41,000, so that is still only 5.1% of the target. Therefore, there is still a lot of growth ahead.

The goal is 300,000 active stores in 2031, eight years from now. We are aiming for a 38% market share. If we exceed 30% market share in the cash register industry, we will naturally become number one in Japan. I would like to make Smaregi the best in Japan.

As to why the focus on the mid-size segment, in the case of small-scale, i.e., only one store, store owners can organize to some extent without putting in a system in the extreme, so it is often not necessary. On the other hand, if the system is too large, the lead time to go live tends to be overwhelmingly long due to the complexity of the system requirements, and a lot of individual customization must be done.

For these reasons, we are targeting a medium-size group that can easily adopt a paid plan without customization.

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As for the future of Smaregi, as indicated in our long-term vision, VISION 2031, we aim to achieve the top share in the POS market by 2031, and specifically, we have set a target of 300,000 active stores.

As the second process of the plan, the second medium-term management plan has started this fiscal year. In the first stage, we will strengthen business investments, mainly in advertising, decision-making, and cross-selling of time cards, while in the second stage, we will achieve ARR growth by promoting market segmentation strategies and approaches to e-commerce businesses.

We set ARR as our most important KPI, not sales targets. It means that software usage fees, not equipment sales, are the most important part of the sales mix. Specifically, I would like to have an ARR of JPY9.46 billion by April 2026, and a compound annual growth rate of ARR exceeding 30% over the three-year period beginning in the fiscal year ending April 2024.

In order to achieve ARR, it is necessary not only to increase the number of customers, but also to increase the price per customer. With regard to the number of customers, we are considering market segmentation strategies, approaches to e-commerce businesses, and continued S&M investments, while with regard to the amount per customer, we are considering strengthening our settlement services, application market, and Time Card, which is an attendance service.

The market segmentation strategy for measures to increase the number of customers is that Smaregi originally mainly targets retail and food and beverage, but as you can see, the retail and food and beverage industries are actually very complexly segmented. This is the reason why our sales and marketing departments are sometimes unable to determine the direction of development. Therefore, our strategy is to find the industries with the highest synergy for us and unify the areas we attack.

The second measure to increase the number of customers is to approach EC businesses. Smaregi's customers are particularly in the retail industry, but most of them are probably running e-commerce sites. Since EC is an inseparable and important measure for retailers, we recognize that it is absolutely necessary to make the link with EC easier and more seamless. Ultimately, we will make Smaregi available to e-commerce-only retailers who do not have a storefront.

The third measure to increase the number of customers is to continue S&M investment. This means increasing the number of leads through TV commercials and other advertising. In one previous mid-term management plan, we were actively investing as our first priority, but this time, we have downgraded it to the third priority. The reason for this was that we did not know how to do it, and we were in the trial-and-error stage, but now that we have accumulated some know-how, we have reduced the level of importance. To put it in an extreme way, we also want to enhance our products so that we can receive inquiries without relying on advertisements in the future. Therefore, we are shifting to R&D expenses while adjusting the pace at which we are accumulating advertising expenses.

As for the enhancement of cross-selling, there are also three measures to increase the cost per customer. We are planning to focus on the App Market, cashless payment, and time and attendance services, each of which have a high affinity with Smaregi, by selling them as a set.

We aim to maximize performance by combining both this number of customers and the price per customer.

Finally, M&A, we are targeting companies that are an extension of the strategies we discussed today. We will consider M&A based on whether it would be faster for us to make the product or to buy it.

We are committed to supporting stores by promoting data management through the sale of Smaregi. We believe that when stores are energized, the town is energized, and in turn, society is energized. Therefore, we

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will create an era in which everyone can easily manage data as a matter of course, "TO BE THE NEW STANDARD."

That is all.

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## Question & Answer

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**Shikichi [M]:** Okay, we will now proceed with the Q&A. We will answer as many questions as time permits, so please send us your questions via the Q&A button at the bottom of the screen or by e-mail. When submitting questions by e-mail, please indicate in the subject line that your question is about the financial results briefing. Please note that identical questions will be answered together. Again, please note that if you send us questions about the financial results, we will answer them in the Q&A in the latter half of this presentation.

Now, again, Mr. Miyazaki, please.

**Miyazaki [M]:** Now, we will answer your questions as soon as possible. Please wait a moment. I have received several and would like to respond to them by reciting them. Let me recite the question.

**Participant [Q]:** What is your confidence and rationale for being competitive with other companies in your industry and new entrants?

**Miyazaki [A]:** I have some confidence, and I would like to explain our rationale.

Comparing our work to that of air registry, we work in a task-driven manner because we believe in the value of making our customers happy. So, since we are confronting each and every one of our customers' issues, I believe that this will lead to fundamental improvements in store management.

On the other hand, the method of solving fundamental problems and impact is different from those whose real purpose is to direct people to their own media, so I think we can be competitive in this area.

**Participant [Q]:** Next question. Do you have any plans for overseas expansion?

**Miyazaki [A]:** At the moment, we do not have such a plan, but we have established a subsidiary in Vietnam, so we are planning to utilize human resources overseas as well. I cannot say there is no possibility, but I would like to aim for overseas expansion and service development if the opportunity arises.

**Participant [Q]:** In the competitive comparison, I heard that there is a software-based POS company called VINX, and I think they are particularly strong in retail, supermarkets, general merchandise stores, and food supermarkets. What are the major technical differences between your company and theirs? Can your company differentiate and penetrate? Is it possible to confront them in a medium-size target in the first place?

**Miyazaki [A]:** To answer your question there, I think it is probably something like a very large scale. I imagine that general merchandising stores and food supermarkets have their own operations, but if they do not, we may be able to handle them.

However, if there is a difference in cost between what we can do and what we cannot do, or if there is something that the customer definitely wants to customize, they will go to someone other than us, and it will probably cost a certain amount. I think it is a matter of whether the customer is willing to compromise with us or not.

Therefore, if the target is a medium-size or larger company that is willing to be flexible to some extent, we may be able to generalize the functions and proceed with the implementation. On the other hand, I don't think it's worth forcing to go for it.

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**Participant [Q]:** Second, you mentioned that your company's POS installations are half replacement of existing and half new store openings. I believe that the response to the invoice system may also be a tailwind in part, but if there is an impact, how much, if any, is the contribution to increased sales?

**Miyazaki [A]:** Regarding the impact on invoices, my conclusion is that there is almost none. The invoice system is a legal system, so it is a matter of course, and we do not see much upselling or new inflows as a result of it. We have received a few inquiries from customers regarding our website and leads, but we have not received any special demand that greatly exceeds our monthly pace.

**Participant [Q]:** What are the competitive advantages and challenges your company faces?

**Miyazaki [A]:** Competitive environment advantage. The competitive environment will be answered separately for food and beverage and retail.

The competition in the food and beverage industry is quite fierce, as the major players are in the food and beverage industry, and there are many companies that are strong in the food and beverage industry, such as USEN and AirREGI. As for how to respond to this, there would be no end to individual customization, so I would like to implement functions by capturing niche demand or trends in the app market.

In the retail business, we are to some extent the lead company, so we rarely lose out to competition. If we are going to lose, it will be to a very large company, such as Toshiba TEC or Sharp, and we are trying to enhance our product power so that we can beat even these very large companies.

Regarding the issues our company is facing, there is a shortage of engineers, and we are currently doing our best to recruit them. One measure of this is the establishment of a subsidiary in Vietnam.

**Shikichi [M]:** We are pressed for time, and this is the last question to be read.

**Participant [Q]:** What makes you competitive with other companies targeting the mid-size segment?

**Miyazaki [A]:** We have long had a policy of sharing what we can't do and have been opening our API to the public for a long time. Simply put, we are asking to design your store freely using another company's system. On the other hand, other companies may have their own strategies to use only their own systems, but it is difficult for a single company to have all the tools necessary to apply them to their own company.

Since we are not aiming to increase sales by holding on to the tools, we are free to do our best in this area, so I think it is a battle between sharing and ownership. The difference is whether to fight as a single company or to have other companies' systems collaborate with ours to increase customer satisfaction. In terms of competitive points, I would say that we are widely open to collaborations with other companies.

There are still some questions that we have not answered, but due to time constraints, I will end the first half here. Please note that we will answer the remaining questions if we have more time in the second half of the Q&A session. Thank you for all the questions.

**Shikichi [M]:** That concludes the first part of the company briefing. Immediately following this, we will provide an explanation of the Q2 financial results disclosed yesterday. Please wait for a while until we start the presentation.

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# Presentation

**Shikichi:** The time has arrived, and we will begin. Once again, thank you very much for your participation in the financial results briefing for Q2 of the fiscal year ending April 30, 2024 of Smaregi.

I will explain the second half of the process as soon as possible. First, Mr. Takamadate, Director and CFO, will give an explanation of the Q2 financial results disclosed yesterday, followed by a Q&A session. In the Q&A session in the second half, we will answer your questions about the financial results. The first half of the Q&A regarding the company profile has been completed. If you have any questions, please send them via the inquiry form on our IR website.

Next, we will guide you on how to ask questions. Questions can be submitted via the Q&A button on the viewing screen or by e-mail. If you send your question by e-mail, please indicate in the subject line that your question is about the financial results briefing. We look forward to hearing your many questions. If you would like to contact us for information other than questions, please use the chat function as well.

Now, Mr. Takamadate, please.

**Takamadate:** Hello. I am Takamadate, Director of Smaregi. Thank you for participating in the financial results briefing.

For my part, I will be discussing the results for Q2 of the fiscal year ending April 2024. Best regards.

## Revision of FY4/24 Full-Year Earnings Forecast

3

Cloud services overall achieved greater growth than planned. Furthermore, special demand to accommodate the new banknotes occurred earlier than anticipated.

### Full-year Earnings Forecast for FY4/24 (May 1, 2023 - April 30, 2024)

(million yen)	Net sales	Operating profit	Ordinary profit	Profit
Previous projections (A)	7,688	914	914	636
Projections (B)	8,012	1,303	1,303	884
Change (B-A)	324	388	388	247
(%)	4.2%	42.4%	42.5%	39.0%

### Reasons for revising the earnings forecast

Net sales are expected to be slightly higher than initially planned due to the strong performance of cloud services overall, above and beyond the plans, as well as special demand to accommodate the new banknotes, anticipated next fiscal year, occurring earlier than expected.

Furthermore, operating profit and ordinary profit are expected to exceed the initial plans due to control of advertising activities accompanying strong business performance, and a major review of advertising expenses with an emphasis on cost efficiency.



First, prior to the Q2 results, I would like to discuss the revision of the full-year forecast.

As we reported in our previous earnings announcement, we have decided to revise our earnings forecast for the current fiscal year, as we expect to exceed our initial plan due to steady progress in earnings, in addition to our response to special demand and cost control.

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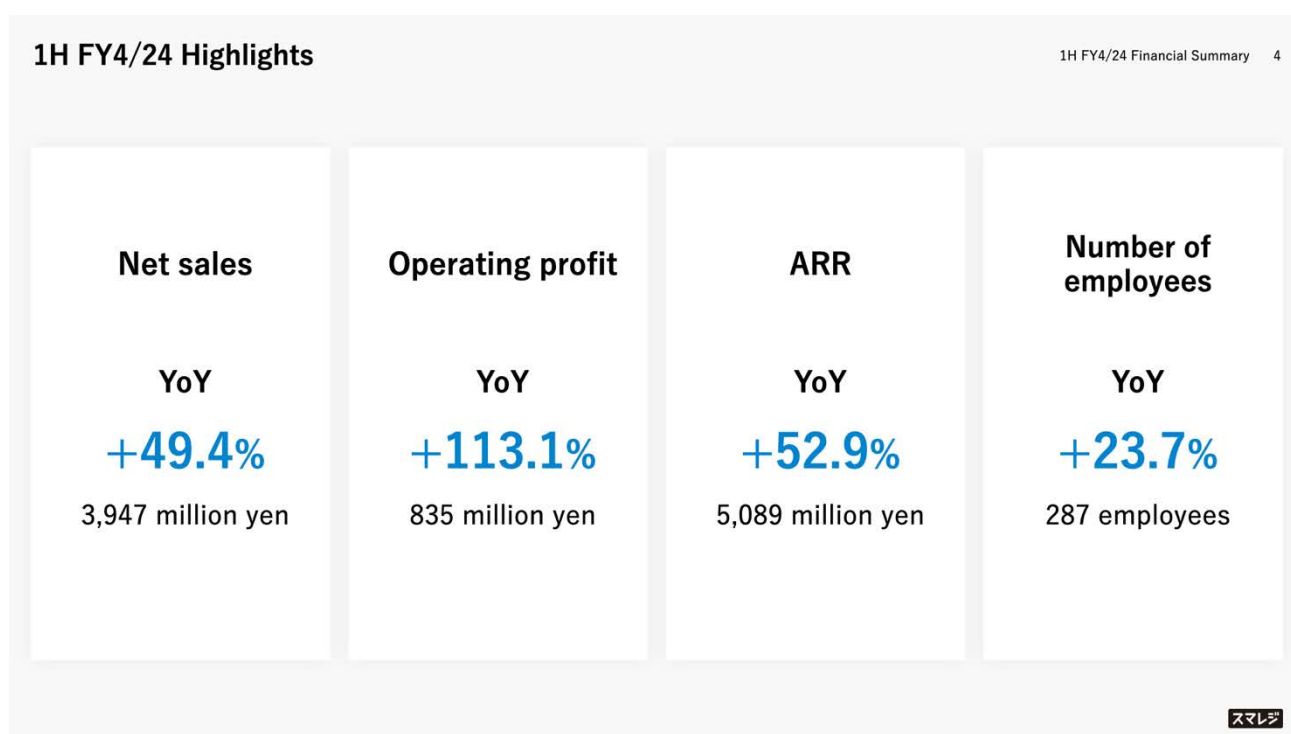


The previously announced forecasts were net sales of JPY7,688 million, operating income and ordinary income of JPY914 million, and a net income of JPY636 million, but the revised forecasts are net sales of JPY8,012 million, operating income and ordinary income of JPY1,303 million, and a net income of JPY884 million.

Then, here are the highlights of our performance.

Compared to the same period last year, sales increased 49% to JPY3,947 million, operating income increased 113% to JPY835 million, and ARR increased 52.9% to JPY5.089 billion. There are also 287 employees, a net increase of 15 from Q1.

Following Q1, Q2 landed better than planned. The ARR, including post-settlement, has been steady and exceeded JPY5 billion.



The income statement and balance sheet are shown on pages five to six of the explanatory materials.

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## Statement of Income

1H FY4/24 Financial Summary 5

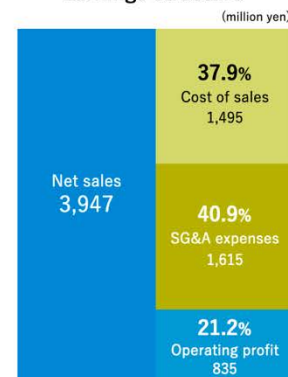
Net sales grew 49.4% YoY and operating profit grew 113.1% YoY.

Full-year earnings forecast was revised in response to the strong business performance until 2Q.

(million yen)	1H FY4/24 results (May - Oct. 2023)	1H FY4/23 results *1 (May - Oct. 2022)	YoY change	FY4/24 plan *2 (May 2023 - Apr. 2024)	1H FY4/24 % achieved (May - Oct. 2023)
Net sales	3,947	2,641	+49.4%	8,012	49.3%
Cost of sales	1,495	1,034	+44.6%	-	-
Gross profit	2,451	1,607	+52.5%	-	-
SG&A expenses	1,615	1,215	+33.0%	-	-
Operating profit	835	391	+113.1%	1,303	64.1%
Ordinary profit	835	394	+111.8%	1,303	64.1%
Profit	558	500 <sup>*3</sup>	+11.7%	884	63.2%

\*2 FY4/24 full-year earnings forecast was revised. (Refer to P3.)

### Earnings structure



\*1 As ROYAL GATE INC., formerly a consolidated subsidiary, was absorbed into the company on July 1, 2022, ROYAL GATE's results for May and June, 2022 have not been included in the FY4/23 results.

\*3 Due to the absorption merger of ROYAL GATE INC., gain on extinguishment of tie-in shares (extraordinary income) and income taxes-deferred (gain) were recorded.



As stated above, net income increased slightly from the previous year due to an increase of more than JPY200 million in the previous year as a result of the absorption of a subsidiary, but this is a special factor.

## Balance Sheet

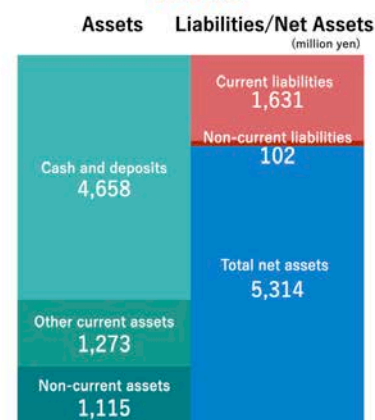
1H FY4/24 Financial Summary 6

Net assets increased 23.8% YoY due to strong business performance, while current liabilities increased 54.7% YoY due to an increase in advances received. Stable financial foundation was maintained with equity ratio of 75.4%.

(million yen)	1H FY4/24 results (May - Oct. 2023)	1H FY4/23 results (May - Oct. 2022)	YoY change	1Q FY4/24 results (May - Jul. 2023)	QoQ change
Current assets	5,931	4,498	+31.9%	5,456	+8.7%
Cash and deposits	4,658	3,606	+29.2%	4,194	+11.0%
Non-current assets	1,115	936	+19.1%	1,006	+10.8%
Total assets	7,047	5,434	+29.7%	6,463	+9.0%
Current liabilities	1,631	1,054	+54.7%	1,420	+14.8%
Non-current liabilities	102	87	+16.9%	87	+17.5%
Total liabilities	1,733	1,141	+51.8%	1,507	+15.0%
Total net assets	5,314	4,293	+23.8%	4,955	+7.2%
Total liabilities and net assets	7,047	5,434	+29.7%	6,463	+9.0%

### Equity Ratio

75.4%



As for the balance sheet, cash and deposits are steadily increasing due to the accumulation of cash flow. Current liabilities increased compared to the same period last year, mainly due to an increase in advances received in conjunction with business expansion and special demand, as well as an increase in income taxes.

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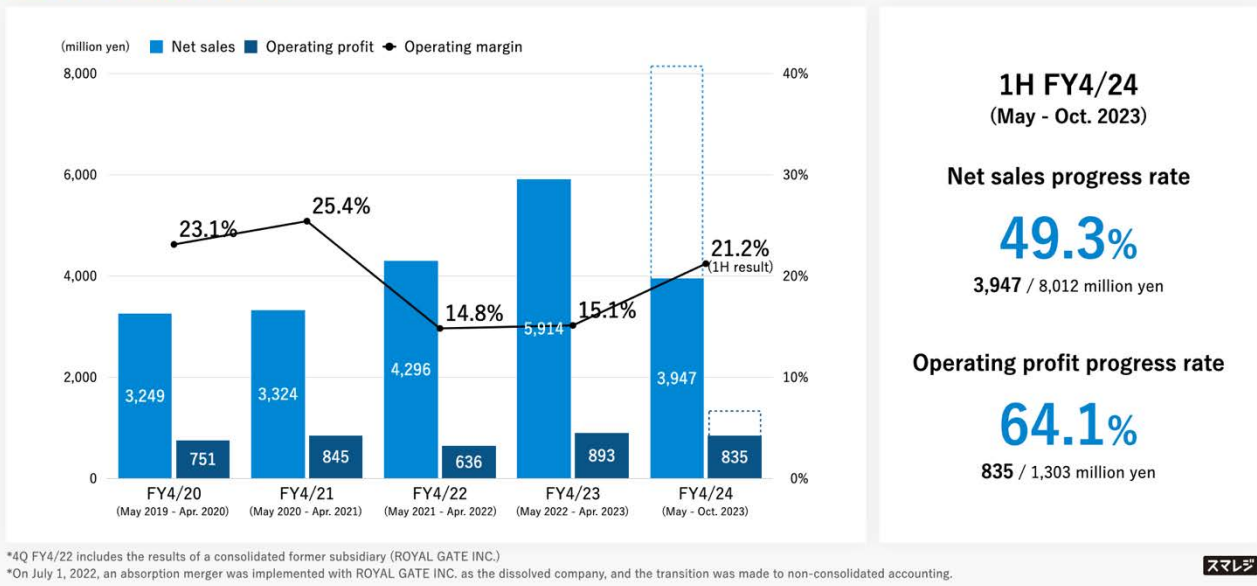
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## Changes in Net Sales, Operating Profit, and Operating Margin

1H FY4/24 Financial Summary 7

The net sales progress rate in 1H FY4/24 was 49.3% and operating profit progress rate was 64.1% against the revised full-year earnings forecast.



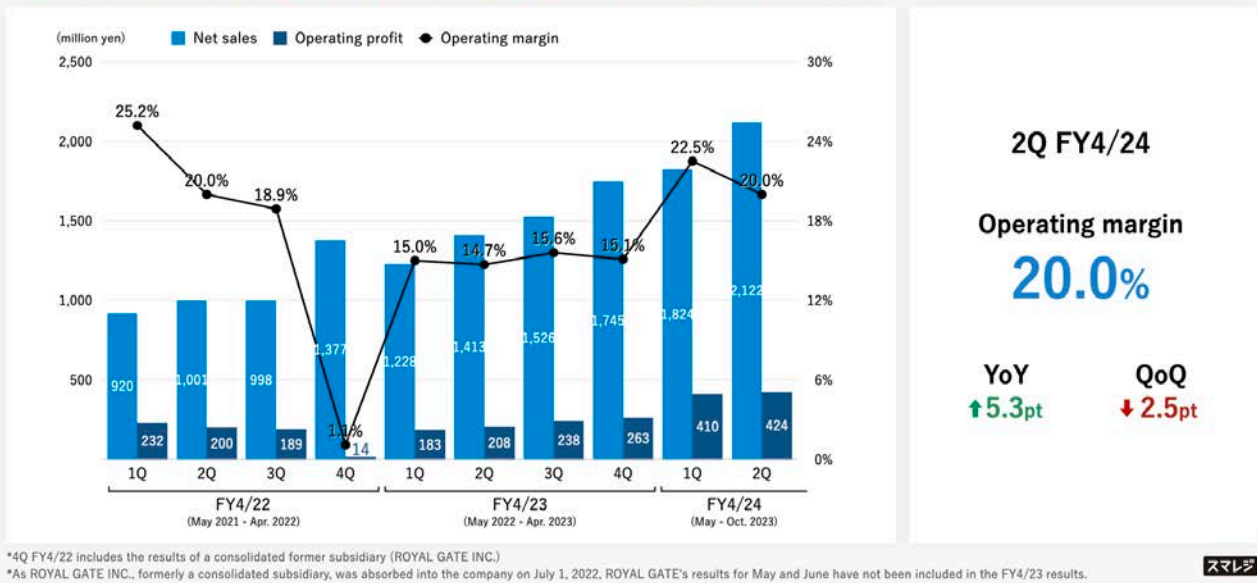
The following is a five-year trend of business performance.

Net sales are 49% ahead of the revised full-year forecast of JPY8 billion, and operating income is 64% ahead of the new plan.

## Quarterly Changes in Net Sales, Operating Profit and Operating Margin

1H FY4/24 Financial Summary 8

Operating margin for 1H was 20.0% as a result of strong business performance and cost control. We plan to continue with active investment based on the plans in 3Q and beyond.



The following are the quarterly trends.

The operating margin was 20%, down from Q1, but it continues to be strong.

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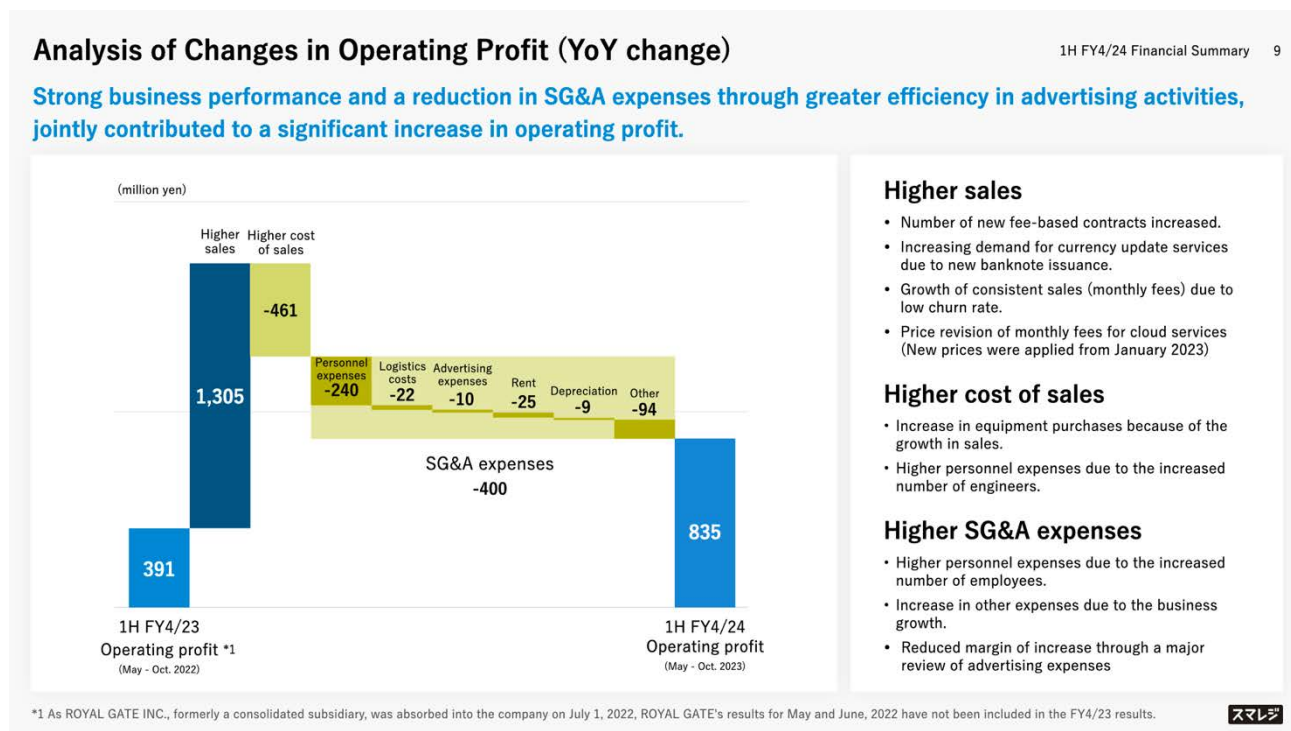
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We plan to make more aggressive investments in Q3 and beyond with the aim of further increasing our growth rate.



The increase in sales was JPY1,305 million, compared to the same period last year.

In contrast, the negative figures for cost of goods sold, labor costs, etc., indicate that costs have increased.

While the cost of sales increased with the increase in net sales, and personnel expenses fluctuated due to the increase in head count, other costs did not change much from the same period last year.

New acquisitions progressed, and on a YoY basis, the impact of price revisions led to an improvement in the operating margin.

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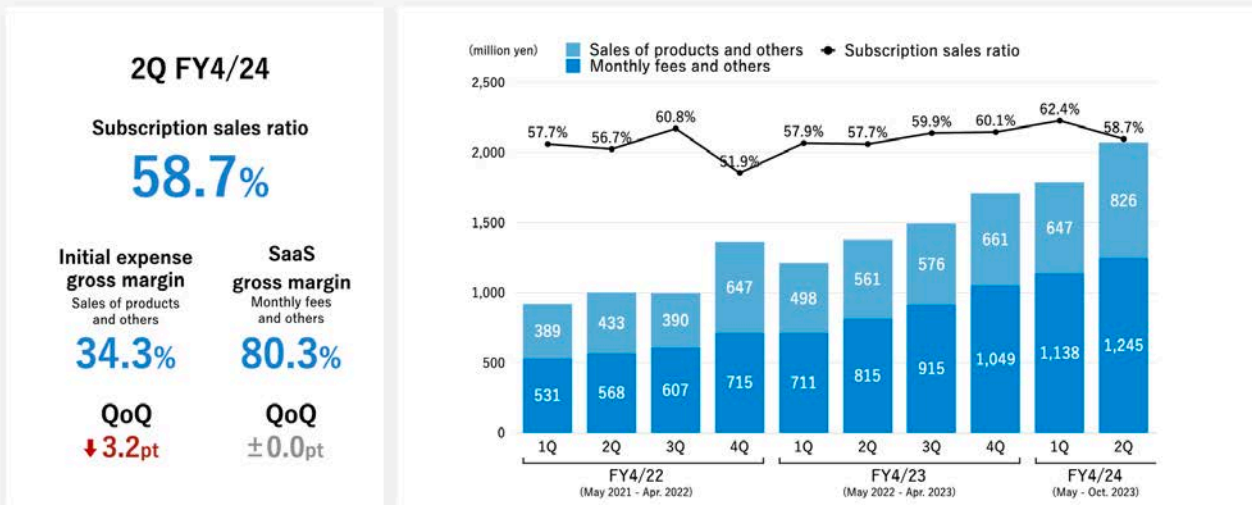
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## Quarterly Changes in Sales Composition

1H FY4/24 Financial Summary 10

Subscription sales grew 52.8% YoY on the back of the increase in the number of fee-paying stores and the strong performance of cashless payment services. Sales of products and others also grew 47.2% YoY, partly due to the receipt of orders for work to update automatic change machines to accommodate new banknotes.



\*This graph does not include sales involving other system development expenses.

\*As ROYAL GATE INC., formerly a consolidated subsidiary, was absorbed into the company on July 1, 2022, ROYAL GATE's results for May and June 2023 have not been included in the 1Q FY4/23 results.



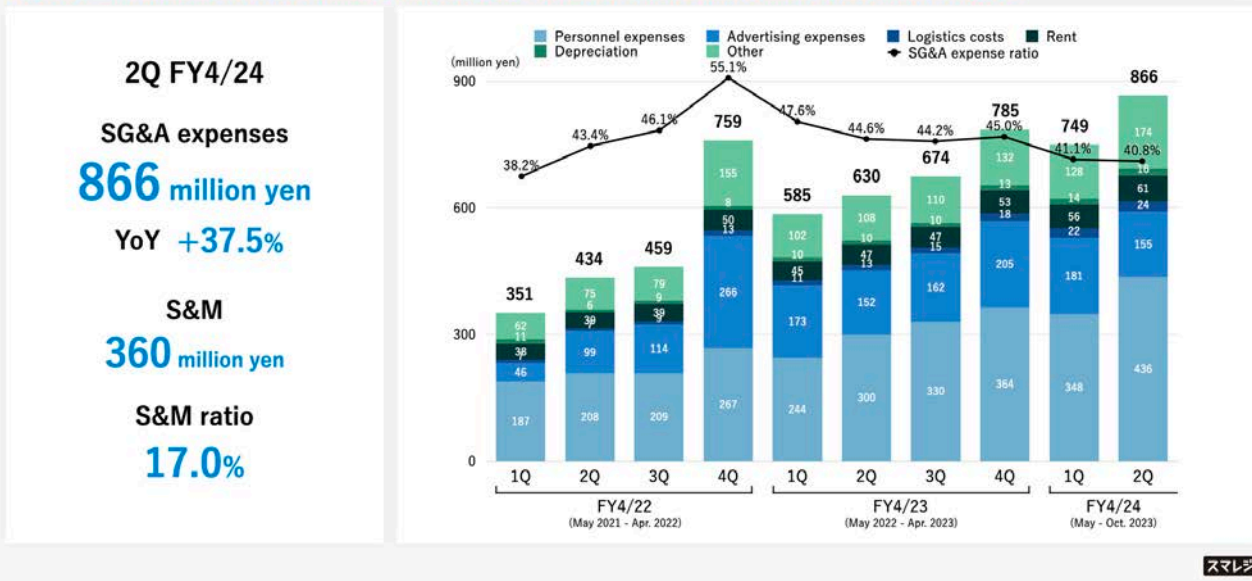
Please see quarterly trends.

The quarterly sales figures are broken down into subscriptions, such as monthly usage fees, and initials, such as equipment sales related to installation, with subscriptions accounting for 58% of the total sales. This is down about 4% from Q1, the previous quarter, but I think this may be due to the inclusion of special demand for equipment sales and other items to handle the new bills.

## Quarterly Changes in SG&A Expenses

1H FY4/24 Financial Summary 11

Personnel expenses increased 45.4% YoY alongside the expansion of the organization. We will continue to invest actively as planned, with the aim of achieving the Medium-term Management Plan (ARR target).



Then, there are SG&A expenses.

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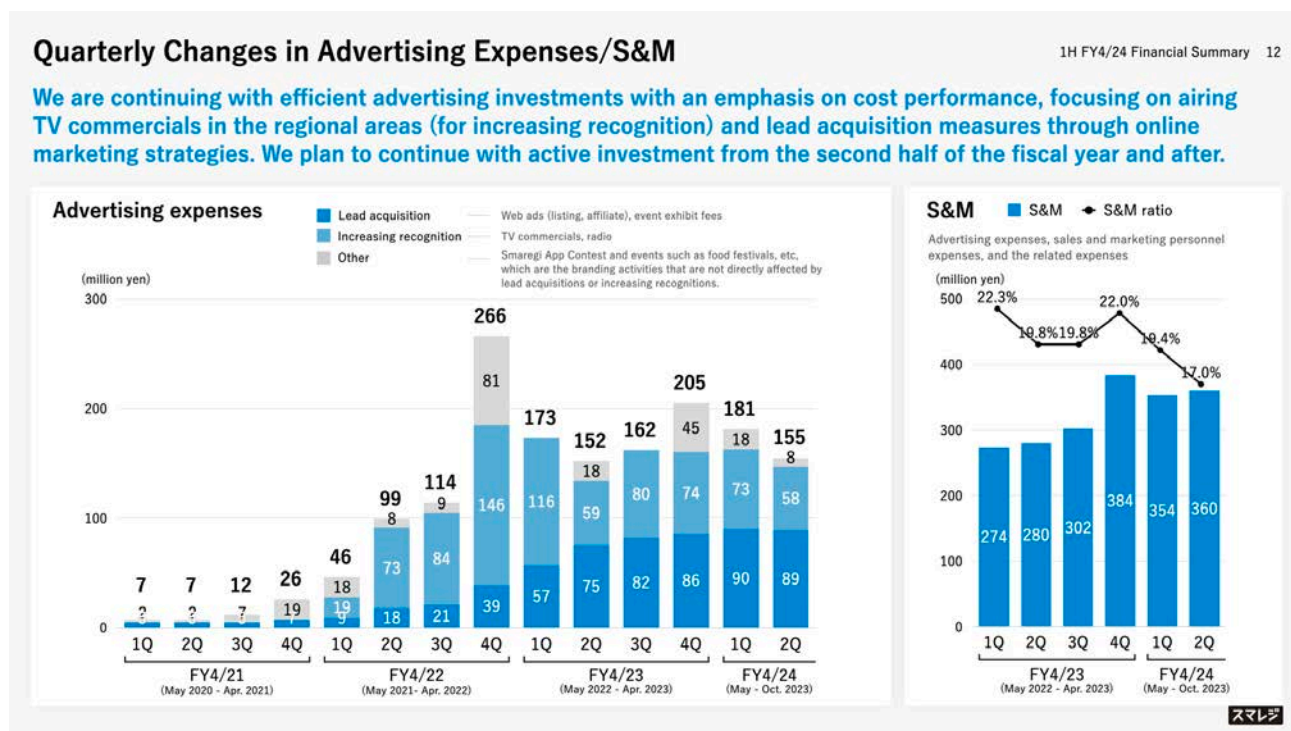
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At the last financial results meeting, I mentioned that Q4 of the last fiscal year had bonuses and major events, and that Q1 will be a little lower due to the absence of such factors.

In this Q2, total SG&A expenses increased by about JPY120 million. This is due to an increase in other expenses, which include personnel costs and R&D expenses, partly because of favorable hiring. Advertising expenses have also decreased, which I will discuss on the next page.



S&M was JPY360 million, or 17% vs. sales.

Advertising expenses. We continued our advertising activities from the previous fiscal year. The second quartile includes JPY89 million ads for direct lead acquisition purposes and JPY58 million for TV, radio, and other forms of awareness acquisition.

The amount of recognition has dropped a little, but I think this is mainly due to the cost of producing TV commercials and the lower unit cost of placing them.

I would like to continue to market aggressively in Q3 and beyond, after careful examination of cost-effectiveness.

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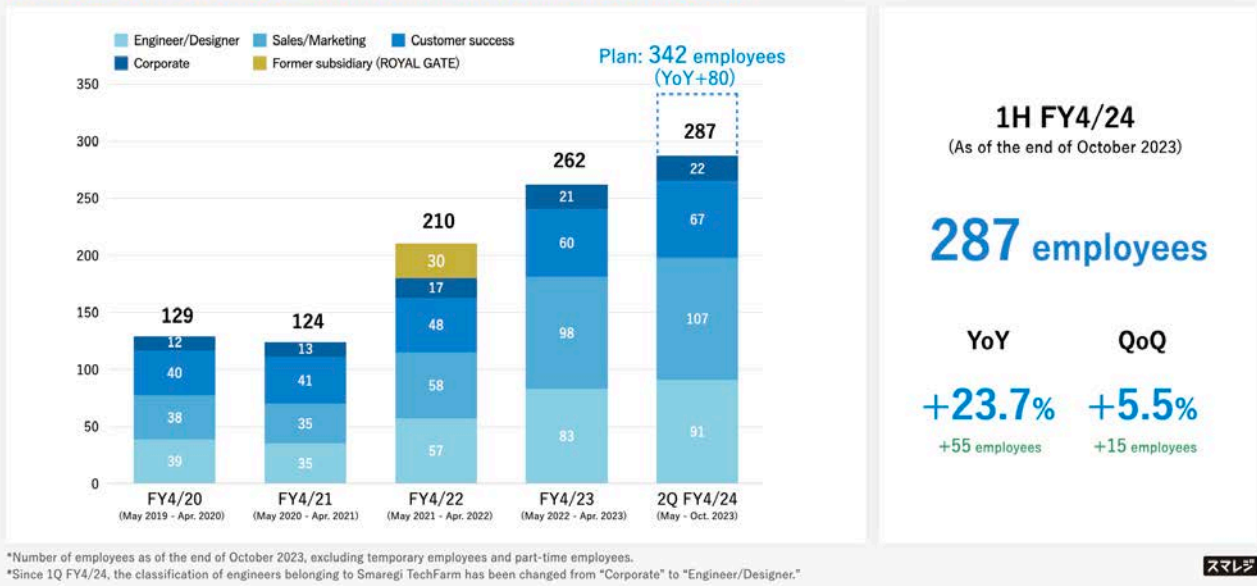




## Growth in Number of Employees

1H FY4/24 Financial Summary 13

The number of employees increased by 15 employees QoQ to 287. In FY4/24, we plan to increase the number of employees by 80 employees YoY (+30.5%) to a total of 342 employees.



Employees.

The figures to the left of the previous period are those at the end of the fiscal year. The number of employees increased by 25 from the end of the previous period and by 55 from the same period last year to 287. There was talk of a slight lag in Q1, but compared to Q1, we had a net gain of 15.

We will continue to actively promote this project as our business expands.

## 2Q FY4/24 Topics

Business Summary 15



- Oct. 2023**
  - 5th edition of Smaregi Ventures: Invested in COUNTERWORKS Inc., a marketplace for commercial real estate.
  - Announced program sponsorship for "UNJASH Watabe goes location scouting with the dream of appearing on a terrestrial gourmet program someday," a popular YouTube channel featuring towns and shops.
- Sep. 2023**
  - Relocated and expanded Shibuya Showroom to a good location near Ebisu station.
- Aug. 2023**
  - Co-sponsored "BEPPU ONSEN SHOWER FES 2023 (BOSF23)," a public-private tourism co-creation event held in Beppu City, Oita Prefecture. Smaregi's cashless payment system was used in the event.
  - Held the inaugural "Online Seminar on the Utilization of IT Introduction Subsidy".

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I will continue with a report on the status of the business.

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Asia's Meetings, Globally

First of all, the topic is Smaregi Ventures, CVC. The fifth round of funding was made.

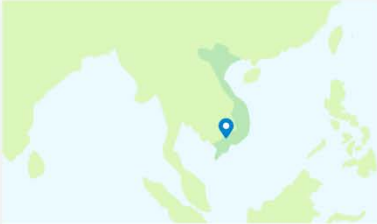
We also sponsored several other events to raise awareness. One of them is with Mr. Watabe from Unjash. It's the one on the lower right of the images. YouTube has been well received and the content is very interesting. It's a program in which Mr. Watabe visits a restaurant without appointment, and when it's time to pay the bill, he sells Smaregi. We hope you will take a look.

Also, it's the top of the photo. We have relocated our Shibuya showroom to a new location just outside Ebisu Station. We hope to see you here as well when you are in the area.

## Establishment of Subsidiary in Vietnam

Business Summary 16

**We established Smaregi Vietnam, Co., Ltd. as Smaregi's overseas software development base. We aim to boost our service development capability by hiring outstanding IT engineers both in Japan and overseas.**



**Smaregi Vietnam, Co., Ltd.**

**Location** Ho Chi Minh City, Vietnam 🇻🇳

**CEO** Yosuke Otani  
\*Smaregi's employee also serves concurrently as the legal representative

**Business** Software design and development

**Capital** 2 billion Vietnamese dong (approx. 12 million yen)  
100% owned by Smaregi

**Date of establishment** Feb. 2024 (provisional)

**Purpose of establishment**

- Strengthen overseas software development bases
- Secure development resources for in-house services

**Anticipated effects of establishing a development base in Vietnam**

- Realize sustainable software development from a global perspective
- Boost overall services for the Group by securing outstanding development talents

For the immediate future, we will focus solely on **in-house development projects**, and promote the development and updating of Smaregi and services provided by the Company. The impact on FY4/24 results is minor, and there are no plans to transition to the reporting of consolidated financial results.

**Why Vietnam?**

Vietnam's ICT industry, which is growing steadily, produces about 60,000 young IT human resources every year. It has built an environment that can continuously nurture outstanding development talents.

No. of successful candidates in computer science and IT-related selections yearly \*1

50,000 - 57,000 ppl.

The Vietnam government's plans to produce ICT human resources\*2


1.5 million ppl. by 2030

The projected IT human resource supply in Japan in 2030 is approximately 850,000 people.\*3

\*1 TopDev, "Vietnam IT Market Report 2023"

\*2 Vietnam Government, "National digital transformation program through 2025, with orientations toward 2030" (Decision No. 749/QĐ-TTg 2020)

\*3 METI, "Model Project for Developing and Securing Human Resources to Promote Innovation Through IT Ventures, etc."



Next, as mentioned by Miyazaki in the first half of the presentation, we announced the establishment of a subsidiary in Vietnam.

It is a bit of an exaggeration to say subsidiaries, but they are development centers. We create a development base and hire engineers locally as well. We are planning to be involved in the development of our own Smaregi service.

As stated, we do not plan to consolidate the Company for the time being, as the impact is negligible.

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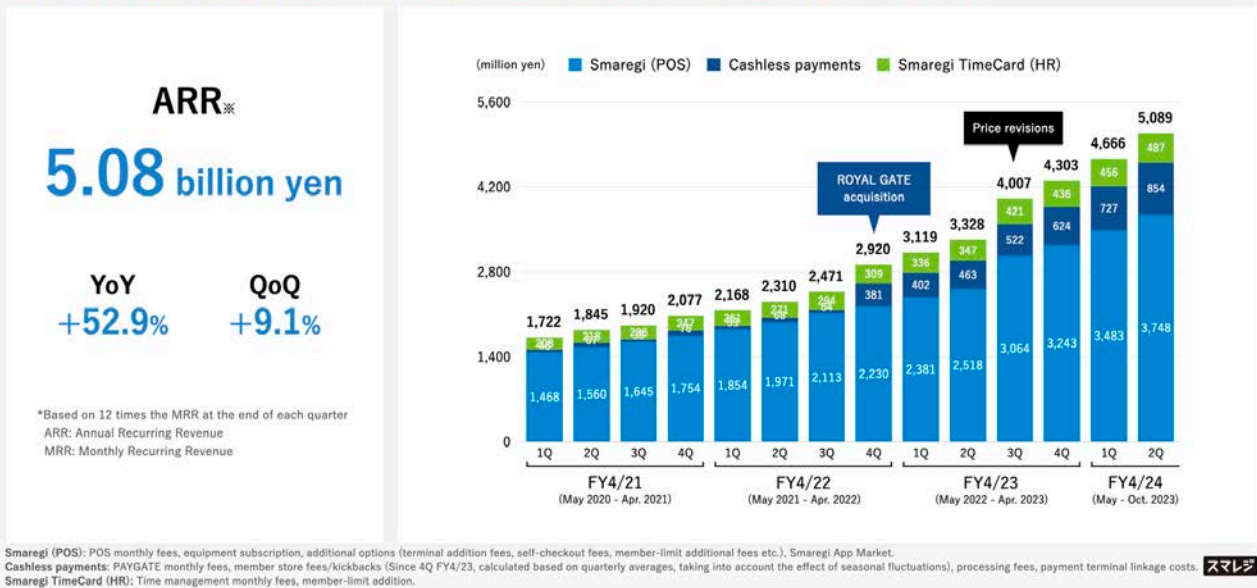
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# Annual Recurring Revenue (Subscription Sales)

Cashless payments continued to achieve high growth from 1Q with an increase of 84.4% YoY. ARR grew by 52.9% YoY due to cross-selling with POS systems, receiving orders for large projects, and other factors.



Next is the trend of ARR, which is the most important KPI.

The increase in customers and the impact of price revisions resulted in an ARR of JPY5.08 billion, an increase of 52.9% over the same period last year.

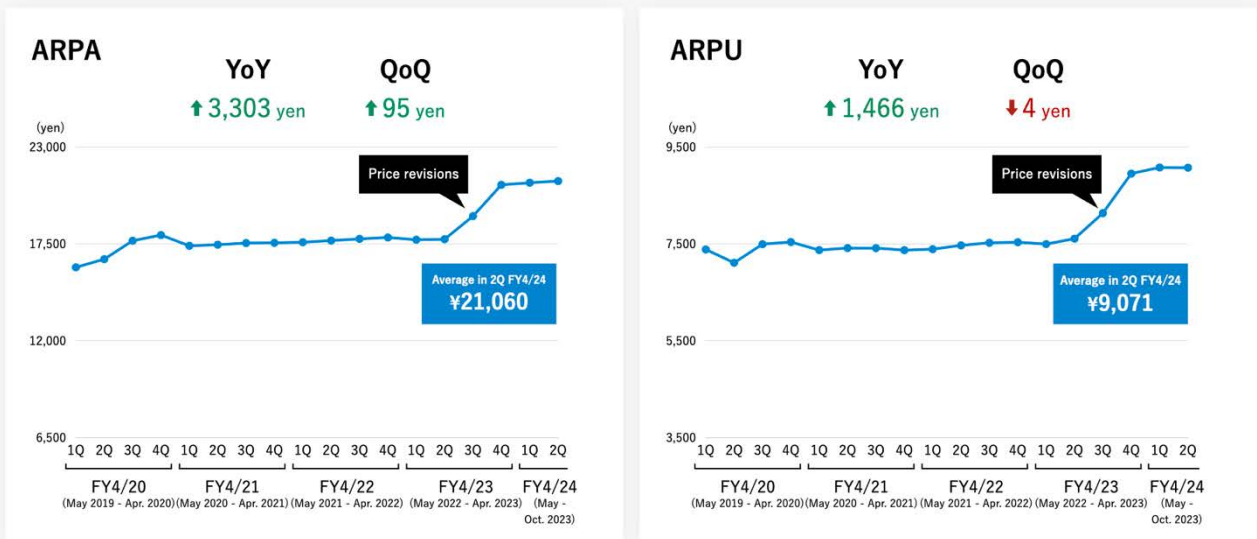
Cross-selling has been strong, with payment services growing by a significant 84% YoY. The YoY growth rate in the last Q1 was plus 80%, so the growth rate is even higher in payment services.

We are aiming for an ARR of JPY5.59 billion for the full year, so further accumulation will be necessary.

## POS Average Revenue per Account and User (ARPA/ARPU)

Both ARPA and ARPU increased by about 18% - 19% from before the price revisions.

(Price revisions were implemented in January 2023)



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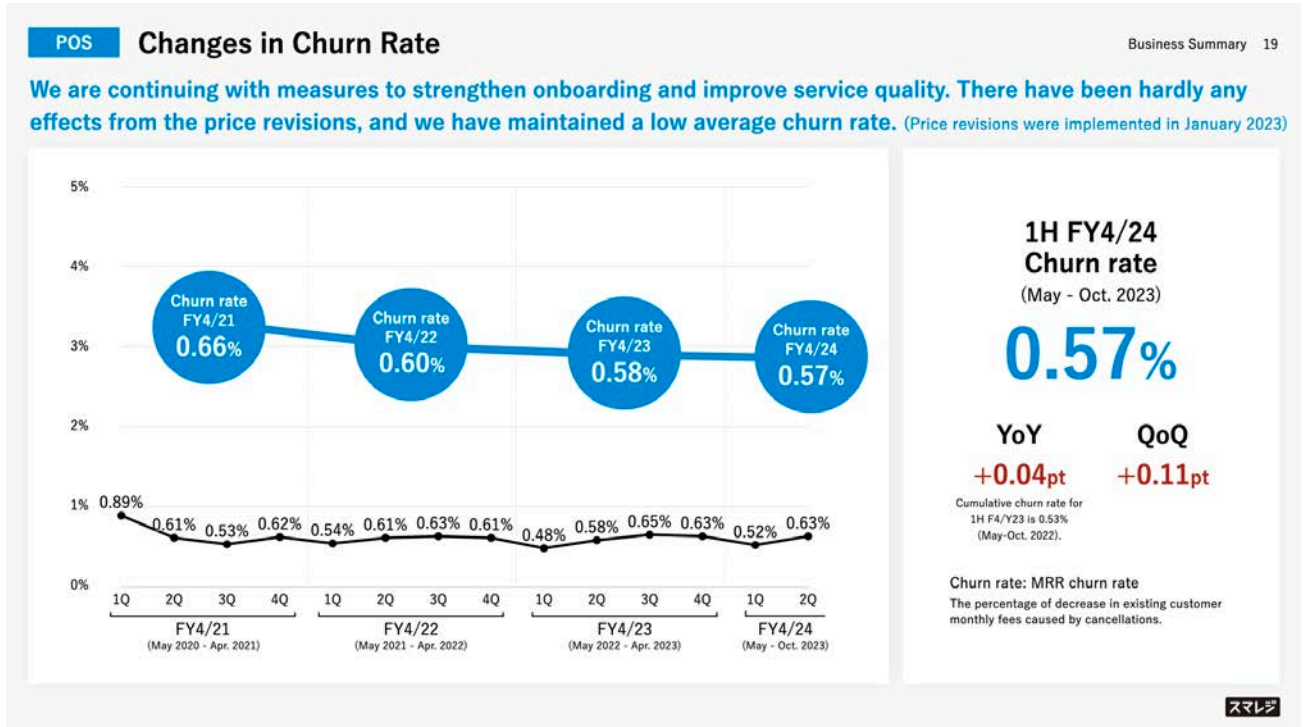
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From here on, the KPIs are only for the main business, POS Smaregi.

The various KPI figures are as shown in the document, but it is the unit cost per customer. Although the price revision caused a large increase, the impact of the revision itself has subsided, and I think the situation is now stable.

Compared to before the price revision, both ARPA and ARPU increased by slightly less than 20%.



Churn rate.

There was no change in the churn rate. We had assumed that the revisions would have an impact, but the trend remained the same, with no major churn seen. I think the impact has subsided here as well.

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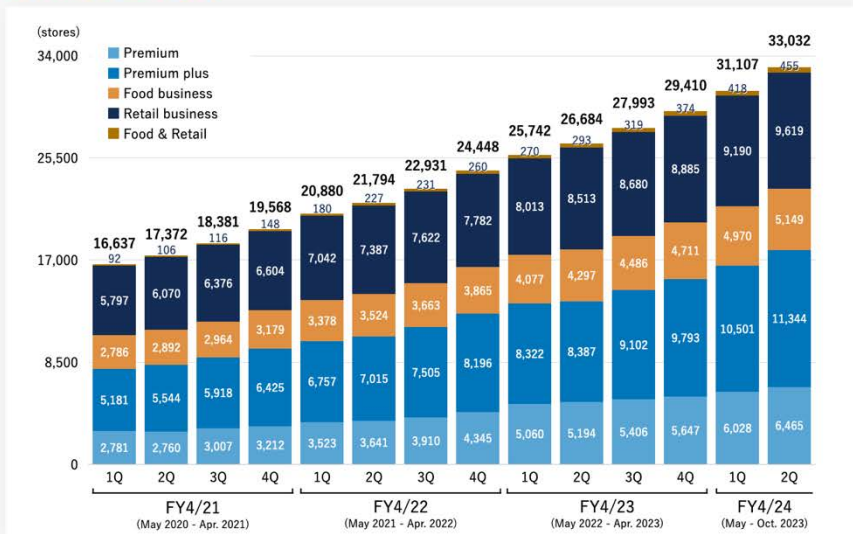
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Adoption is progressing across a wide range of industries and business scales, and the number of fee-paying stores increased 6.2% QoQ.



Fee-paying stores\*

33,032

YoY +23.8%  
+6,348 stores

QoQ +6.2%  
+1,925 stores

\*Monthly disclosure of the latest information on the number of fee-paying stores

Smaregi discloses information on the number of fee-paying stores every month. As of November 30, 2023, the number of fee-paying stores is 33,737 stores. For details, please refer to the [IR site](#).

\*Smaregi aims to realize more widespread use of its services, and has set the number of fee-paying stores and active stores (instead of no-fee stores) as important KPIs.  
\*Free plan stores paying a fee due to the use of an optional service are not included in this graph.



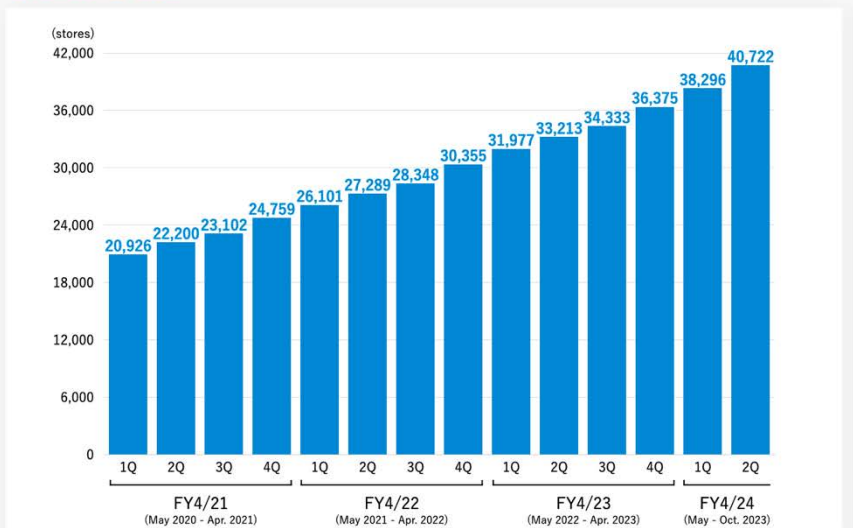
Number of paid stores.

The number of registered stores has been eliminated from the previous presentation. The intent is to focus on the number of paying stores and the number of active stores as key indicators.

The number of stores subscribing to the fee-based plan totaled 33,032.

Q1 of the previous fiscal year had a YoY increase of 5,365 stores, so the pace of net growth has increased due to an increase in new acquisitions and a reduction in cancellations.

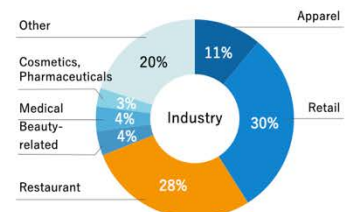
The number of active stores has exceeded the 40,000 mark. We aim to provide a good service that customers can continue to use.



MAU  
40,722\*1

YoY +22.6%  
+7,509 stores

QoQ +6.3%  
+2,426 stores



\*1 The latest number of active stores (as of November 30, 2023) is 41,689 stores. For details, please refer to the [IR site](#). \*The number of stores that recorded commercial transactions (sales) in the most recent one-month period using Smaregi's cash register function, irrespective of the type of plan. Even when the stores utilize the inventory management and other functions, if there are no commercial transactions then they are not counted.



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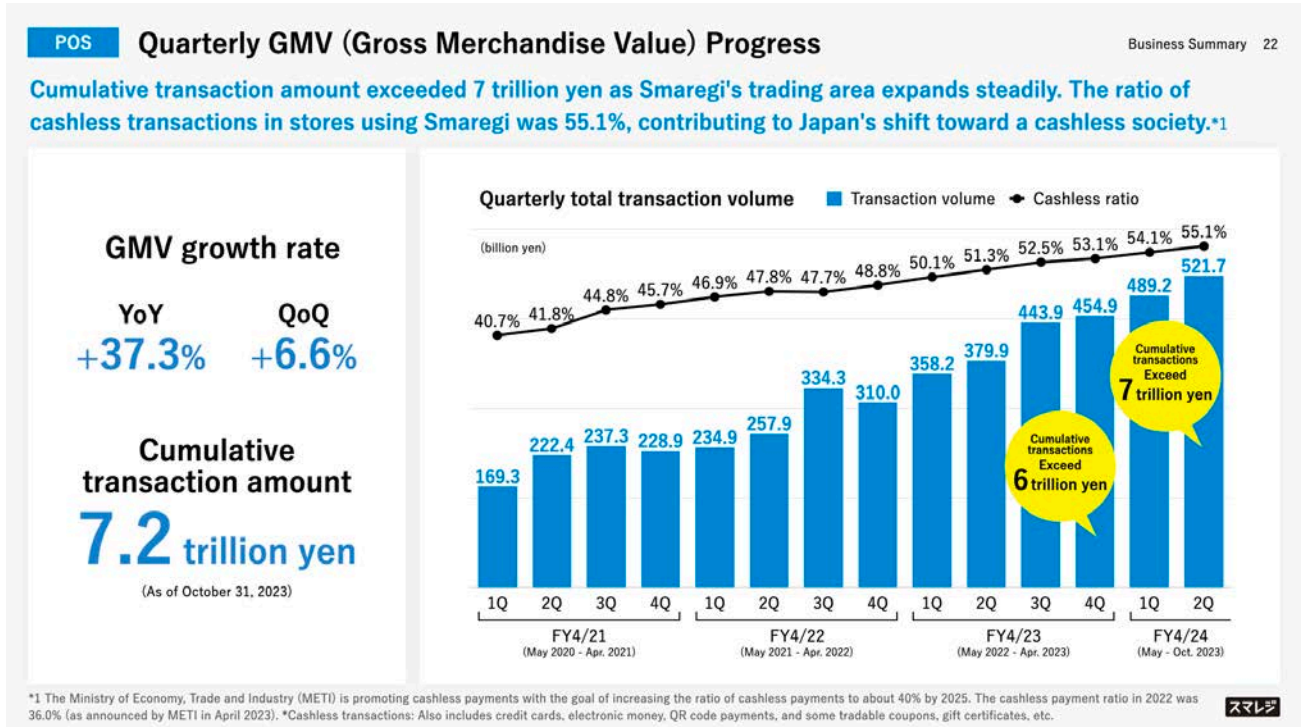
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Number of active stores.

This is the number of stores that have actually used the service and includes stores with free subscriptions and free users, in addition to the paid plans mentioned earlier. This is also an important indicator to measure whether or not the stores are really using the service, since it does not include stores that have only signed up for the free plan and are not using it.

Q2 had 40,722 stores, exceeding 40,000 for the first time.



This is followed by the GMV, the total distribution value of POS cash register users, and the amount of sales settled.

In Q2, the total amount was JPY521.7 billion, up 37% from the same period last year.

Cashless transactions are increasing, and cash payments are decreasing. This is something that I am sure everyone realizes on a daily basis, but the figures are in line with the spread of QR payments and other forms of payment.

In terms of cumulative GMV, this also exceeded JPY7 trillion for the first time.

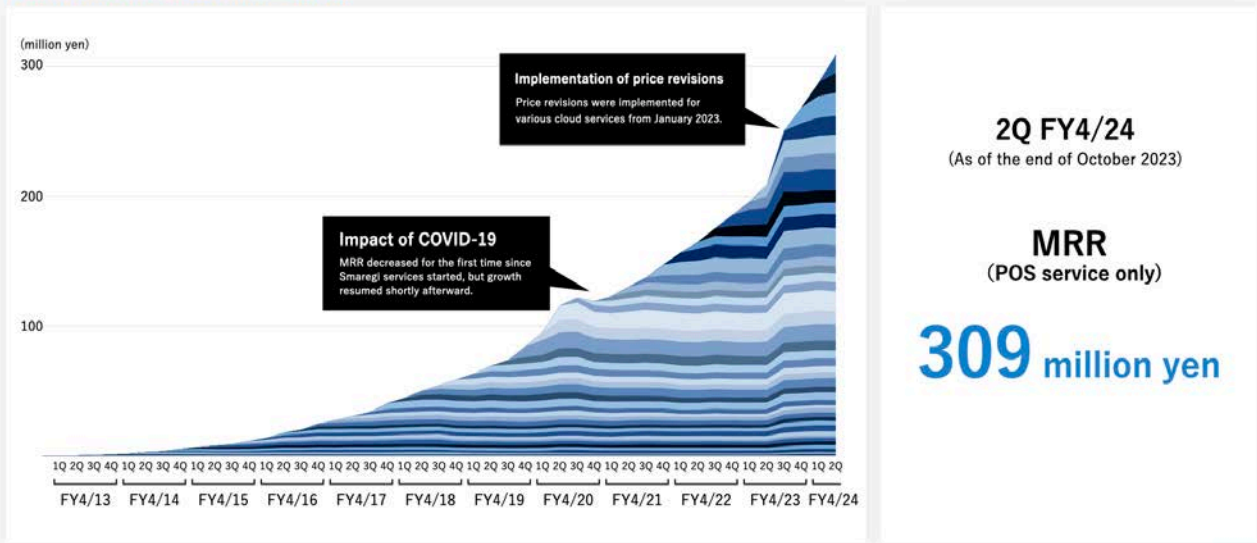
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The robust growth in the number of paid stores contributed to an expansion in MRR. Our sustained growth is driven by stable, ongoing customer usage.



\*Although monthly fees for Smaregi were reduced in March - April 2020 in consideration of the impact of the COVID-19 pandemic, the impact of this reduction measure has not been included in the graph above. 

These are POS-only numbers, but the total MRR for Q2, the monthly stock sales, JPY300 million.

MRR grew significantly due to the implementation of price revisions for all users. As explained earlier, unit prices have increased and churn rates have been reduced to some extent, resulting in an increase in the pace of net store growth. Therefore, the speed of MRR accumulation and the angle of this curve are also increasing.

This is my explanation of the financial results for Q2 of the fiscal year ending April 30, 2024 and the revision of the full-year earnings forecast.

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## Question & Answer

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**Shikichi [M]:** So, we will proceed with the Q&A from here. Please click the Q&A button at the bottom of the screen or send us your question by e-mail. Please note that similar questions will be answered together. When submitting questions by e-mail, please indicate in the subject line that your question is about the financial results briefing. The Q&A session on the company profile has already ended in the first half of the meeting. Please check the archived video to be released tomorrow or submit your questions using the inquiry form on our IR website.

Now, again, Mr. Takamadate, please.

**Takamadate [M]:** I would like to answer your questions immediately. We will start by answering the questions we received on the pre-registration form.

**Participant [Q]:** First of all, in the upward revision, it says that JPY1,800 million in sales for the new banknote correspondence is an expense for this fiscal year, but looking at the increase in equipment sales in Q2, is it correct that the new banknote correspondence was completed in Q2? The question related to the new banknote correspondence is whether the special demand is transitory.

**Takamadate [A]:** We did not expect to see the new banknote correspondence at the time of the previous forecast, but sales are rising, mainly from Q2, and will continue to occur in Q3 and beyond.

Since equipment sales will also increase, mainly due to an increase in new acquisitions, you might think that the JPY1,800 million has been booked, but the progress is only about half or 2/3 of the total. However, if there is a tax increase or other change in the future, we will respond to such changes on a case-by-case basis.

**Participant [Q]:** Next, I think the growth in head count is only about 5% compared to the 30% growth in labor costs QoQ, which you gave us beforehand. What are the factors behind this? For example, they gave a good base increase, a department head with a higher salary, and hired more engineers. Also, other expenses have grown, but has this been affected by the growth in recruitment costs? If there are any items that have grown, we would be happy to hear about them.

**Takamadate [A]:** You are referring to labor costs. We have increased the base salary, and we have also increased bonuses, although not by much. Also, we are offering stock-based compensation, but there is a need to adjust the amount of the allowance in relation to the stock price. In Q2, the stock price was performing well. Partly because of this, labor costs have increased in the sense of adjustment.

In terms of recruitment, thanks to an increase in the number of applications from excellent personnel, I have the impression that the annual income level of the people we hire is somewhat higher than before.

As for the other expenses section, research and development expenses are recorded from Q2. As for Q2, there was a JPY30 million appropriation.

**Participant [Q]:** The next question is whether customers who cancel are more likely to switch to another company's service or to quit the store.

**Takamadate [A]:** I think the largest number of customers cancel their contracts when they close or go out of business.

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**Participant [Q]:** Continuing on, you are planning a 5% decrease in operating income for H2 of the fiscal year, but did you expect a decrease from the beginning of the fiscal year? We have been asked to indicate any factors that would cause a decrease in profit in H2.

**Takamadate [A]:** There are two main reasons for this, one being seasonal factors. Due to the number of business days in December and January, there is a slight seasonal drop in sales every year. The impact there is one and the same.

As we have talked about repeatedly in our financial results briefings, we want to invest aggressively in such areas as expanding recognition and acquiring human resources for long-term rather than medium-term growth, while also generating current profits. This is a growth-oriented strategy.

In H2 of the fiscal year, we expect a slight decrease in profit due to a large advertising event planned for H2 of the fiscal year and an increase in personnel expenses for hiring.

**Participant [Q]:** Continuing on, I would appreciate it if you could tell us what you have done so far with regard to price revisions and where you see this going in the future. We have been asked if it is correct to assume that because of the high switching costs, there will be almost no cancellations even if there is a price revision.

**Takamadate [A]:** We made our first price revision in January of this year after the service was launched, but at this point, we have no plans for what we will do next. In response to the question about the idea that there will be almost no churn even if the price is revised because switching costs are high, there is that factor, and I think that the nature of the product, which is used closely in business operations, makes it difficult to change.

**Participant [Q]:** Inbound demand is returning, but is this included in the plan? What are your thoughts on the impact on business performance, etc.?

**Takamadate [A]:** We have not incorporated any directly disclosed earnings forecasts. However, in terms of impact on our business performance, for example, if there is a strong desire to open new stores, or if the amount of payment for the payment service increases, the amount of payment commissions we receive may increase. The situation is not actively included in the plan at this time.

**Participant [Q]:** Continuing on, this is a bit difficult question to answer, but I was asked why your company, a business close to consumers, is using Unjash Watabe, who has a strong negative image.

**Takamadate [A]:** It's not hard to understand why people have a strong negative image of him, but Unjash Watabe originally had a great deal of knowledge about restaurants. For example, you can tell whether it is Kanto or Kansai style by smelling the exhaust outside an oden restaurant. We are sponsoring this YouTube video because we believe that he has an in-depth understanding of how these stores are managed and are therefore very interesting as human resources.

We are not throwing away the money, so we are also considering the publicity or recognition effect of the sponsorship to some extent.

Continuing on, I would like to answer some of the questions I received in the first half that I did not answer. I would like to finish with the next question because there is only a little bit of time.

**Participant [Q]:** You asked in the first half of the question if we could target the hairdressing and beauty industry, which has a large number of stores.

**Takamadate [A]:** I think this is part of our strategy to subdivide the business category, but of course, we are also targeting beauty salons and, as Miyazaki mentioned in the first half of the presentation, clinics.

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I think you mentioned the App Market in the first half, and I think there are detailed practices, or flows, for each industry in the App Market. We plan to respond to the situation and release such applications as needed for use in the beauty and clinic areas.

We will now end the question-and-answer session. Thank you for your many questions. That's all from me.

Good progress was also made in Q2. We will continue to move forward in Q3 and beyond to achieve further growth in H2 so that we can achieve ARR's revised full-year forecast.

Thank you very much.

**Shikichi [M]:** How did you like our two-part program? Here is an announcement from IR. We also provide the latest IR information via our newsletter and on LINE. We also send out monthly reports full of information, such as monthly registered store counts, etc. Please register with us.

Finally, we ask for your cooperation in filling out the survey. After this information session, a survey form will appear on the screen you are viewing. Please send us your frank opinions and impressions.

This concludes the presentation of financial results for Q2 of the fiscal year ending April 30, 2024. Thank you very much for watching to the end today. Thank you for your continued support.

[END]

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#### **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].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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