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Smaregi, Inc.

Q2 FY2025 Financial Results Briefing

December 16, 2024

Event Summary

[Company Name]	Smaregi, Inc.
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[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q2 FY2025 Financial Results Briefing
[Fiscal Period]	FY2025 Q2
[Date]	December 16, 2024
[Number of Pages]	25
[Time]	10:30 – 11:19 (Total: 49 minutes, Presentation: 20 minutes, Q&A: 29 minutes)
[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	2 Ryuhei Miyazaki — Representative Director Kohei Takamadate — Business Strategy Division Director

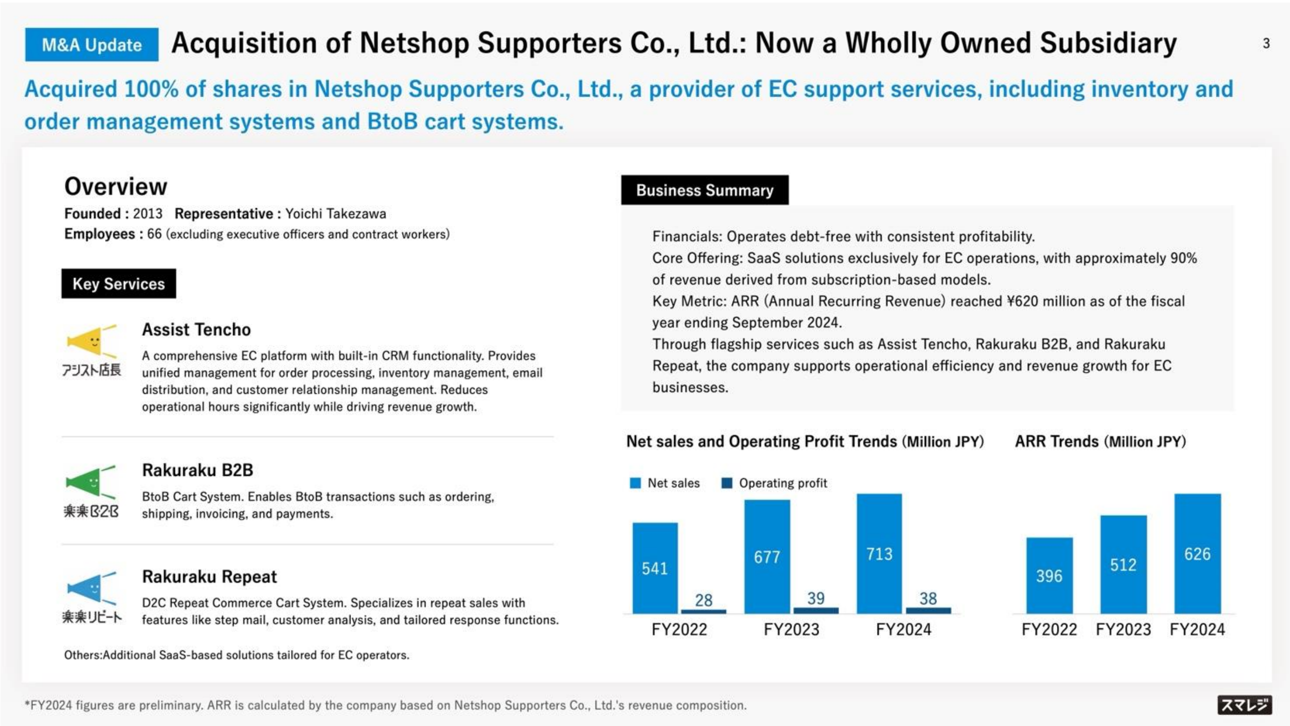
Presentation

Moderator: The time has arrived, so we will begin. Thank you for participating in the financial results briefing for Q2 of the fiscal year ending April 30, 2025, of Smaregi, Inc.

Let me quickly explain today's schedule. First of all, we will talk about the acquisition of a subsidiary and the revision of our dividend forecast that were announced on December 13. It will be followed by an explanation of our Q2 financial results and a Q&A session at the end of the meeting.

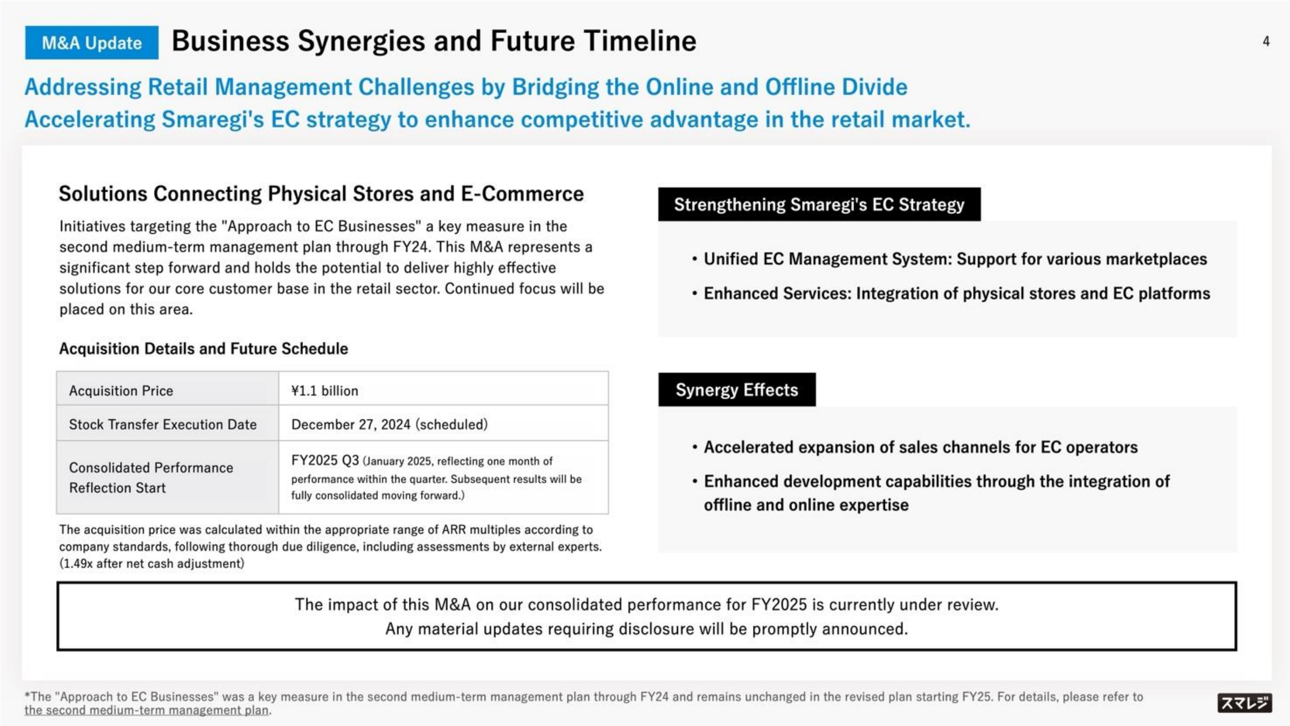
To ask questions during the Q&A, please use the Q&A button on the viewing screen or send us an email. When sending an email, please indicate in the subject line that your question is about the financial results briefing. We look forward to receiving your many questions. Now, Mr. Miyazaki, you may have the floor.

Miyazaki: Good morning, everyone. I am Miyazaki, Representative Director. Thank you very much for attending today's financial results briefing. First of all, I would like to talk about the acquisition of the subsidiary and the revision of our dividend forecast that were announced on the same day as our financial results.



We have decided to make Netshop Supporters a company that provides services to support e-commerce, or EC, such as inventory and order management systems tailored to EC and B-to-B cart systems, into a wholly owned subsidiary.

In addition to cash registers and sales analysis, we have been providing systems to support back-office operations in retail stores, including product ordering, purchasing, inventory management, and customer information management. However, we have not been able to fully strengthen our services for EC. We are actively considering M&A based on whether it is faster to develop in-house or to acquire, and in the process, we were able to make a connection with a company that specializes in EC store support and we decided to turn it into our subsidiary.



There are two main synergies expected from this M&A. The first is the acceleration of the expansion of sales channels to EC businesses, and the second is the strengthening of our development capabilities by integrating real store and online know-how.

Netshop Supporters, which will become our subsidiary, is an all-in-one provider of inventory management, order management systems, B-to-B cart systems, and other systems necessary in EC operations. We believe that we can help boost the sales of stores developing EC sales and develop better systems by combining our respective know-how.

EC and brick-and-mortar stores each have their own advantages and disadvantages, but by leveraging the strengths of both of our companies, we can achieve greater results. Since solutions in this field are still in their infancy, we will take this subsidiary acquisition as an opportunity to continue strengthening our development capabilities and creating new value.

This acquisition, however, is related to our approach to EC businesses, which was one of the strategies under our second medium-term management plan through the fiscal year ended April 2024. Through this M&A, we believe that we will be able to provide new value to our major customers in the retail industry, and it will also serve as an opportunity for us to significantly accelerate our expansion in the EC domain.

Our second medium-term management plan has been partially revised, so while it is not included in the reinforcement strategies under our plan that has been announced, we plan to further strengthen our focus in this area and develop more effective measures in the future to achieve our long-term plan, VISION 2031.

Announcement of Dividend from Surplus (Year-End Dividend, First Dividend)

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We have consistently upheld a fundamental policy of returning profits to our shareholders. However, as we have been in a growth phase, we prioritized securing internal reserves necessary for future business expansion and strengthening our financial foundation, which has resulted in no dividend payments since our founding.

Following our listing, revenue growth temporarily slowed during the COVID-19 pandemic. Nevertheless, we managed to secure stable profitability. Furthermore, under our long-term plan "VISION2031," launched in 2021, we adopted a strategy of "prioritizing business growth even at the expense of reduced profitability." This approach allowed us to achieve high growth rates without significant declines in profitability. Taking into account that we now maintain sufficient internal reserves aligned with the current scale of our business activities, we have decided to initiate shareholder returns.

Dividend Policy

Our fundamental policy is to ensure shareholder returns with a focus on stability and continuity, after securing sufficient funds for strategic growth investments such as M&A. This approach also considers the business growth results of the current fiscal year, financial position, and external environment.

Payout ratio

We plan to implement an annual year-end dividend with a target payout ratio of approximately 20%.

Revision of the Dividend Forecast (from May 1, 2024 to April 30, 2025)

	Annual Dividends (JPY)		
	End of 2nd Quarter	End of Year	Total
Previous Forecast	0.00	0.00	0.00
Revised Forecast	-	15.00	15.00
FY2025 Result	0.00	-	-
FY2024 Result	0.00	0.00	0.00

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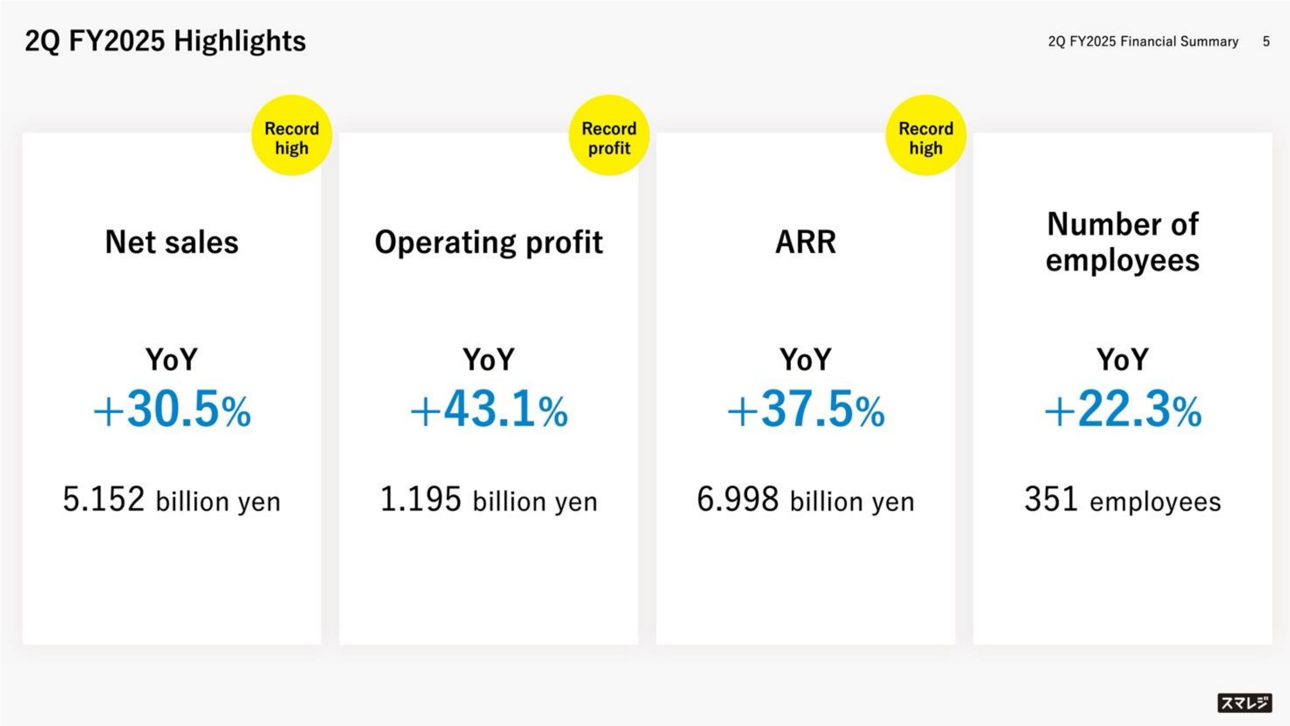
Next, I will discuss the revision of our dividend forecast. It is on page 15 of the financial results presentation materials. The Company recognizes that returning profits to shareholders is an important management issue and has made it our fundamental policy to realize the return of profits to shareholders. However, as we are still in the process of growth, we prioritized securing internal reserves necessary for future business expansion and strengthening our financial position, and this resulted in no dividend payments since our founding.

Going forward, we plan to pay a year-end dividend once a year with a payout ratio of approximately 20% in accordance with our fundamental policy of returning profits to shareholders. We will do so after securing sufficient funds for strategic growth investments such as M&A, while giving due consideration to stability and continuity, taking into account our business performance for the current fiscal year, financial position, and external environment.

Our director, Mr. Takamadate, will now discuss our business performance, so this concludes my explanation regarding our timely disclosure. After his explanation, there will be time for questions and answers. Please send us your questions at any time.

Takamadate: Hello. I am Takamadate, Director of Smaregi. Thank you for participating in our financial results briefing. I will now explain our financial results for Q2 of the fiscal year ending April 30, 2025. Thank you.



Now, let us go to the highlights of our business performance from page five of the financial results presentation materials. Compared to the same period last year, net sales increased 30.5% to JPY5.152 billion, operating profit rose 43.1% to JPY1.195 billion, and ARR jumped 37.5% to JPY6.998 billion. The number of employees stood at 351, a net increase of 16 from Q1.

These are the semi-annual results for the fiscal year ending April 30, 2025, and net sales, operating profit, and ARR were all record highs on a semi-annual basis. ARR is almost JPY7 billion, which is on track against the ARR target we have set in our medium-term management plan.

Statement of Income

2Q FY2025 Financial Summary 6

Strong Performance Drives Net Sales Growth of +30.5% YoY and Operating Profit Growth of +43.1% YoY

(million yen)	FY2025 2Q May - Oct. 2024	FY2024 2Q May - Oct. 2023	YoY	FY2025 Plan	FY2025 2Q % achieved
Net sales	5,152	3,947	+30.5%	10,688	48.2%
Cost of sales	2,008	1,495	+34.3%	-	-
Gross profit	3,143	2,451	+28.3%	-	-
SG&A expenses	1,948	1,615	+20.6%	-	-
Operating profit	1,195	835	+43.1%	2,033	58.8%
Ordinary profit	1,184	835	+41.9%	2,033	58.3%
Profit	792	558	+41.9%	1,414	56.0%

Earnings structure

(million yen)

Our statement of income and balance sheet are shown on pages six and seven of the presentation materials. There were no significant special factors in the income statement. We are on track to achieve our full-year plan of JPY10.7 billion in net sales and JPY2 billion in operating profit.

Balance Sheet

2Q FY2025 Financial Summary 7

Solid Performance Boosts Net Assets by +28.3% YoY, Maintaining a Stable Financial Base with an Equity Ratio of 74.0%

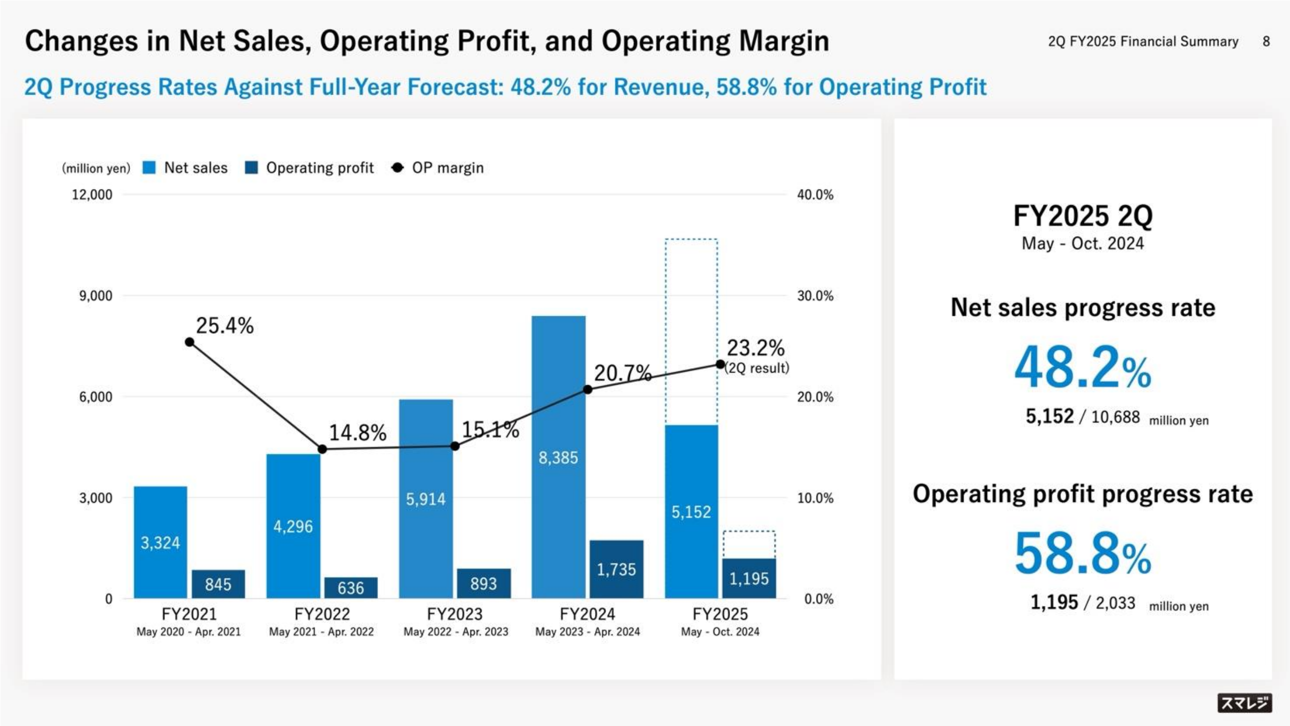
(million yen)	FY2025 2Q	FY2024 2Q	YoY	FY2025 1Q	QoQ
Current assets	7,704	5,931	+29.9%	6,914	+11.4%
Cash and deposits	6,033	4,658	+29.5%	5,219	+15.6%
Non-current assets	1,512	1,115	+35.5%	1,360	+11.1%
Total assets	9,216	7,047	+30.8%	8,275	+11.4%
Current liabilities	2,238	1,631	+37.2%	1,794	+24.8%
Non-current liabilities	157	102	+54.0%	114	+37.3%
Total liabilities	2,396	1,733	+38.2%	1,908	+25.5%
Total net assets	6,820	5,314	+28.3%	6,366	+7.1%
Total liabilities and net assets	9,216	7,047	+30.8%	8,275	+11.4%

Equity Ratio

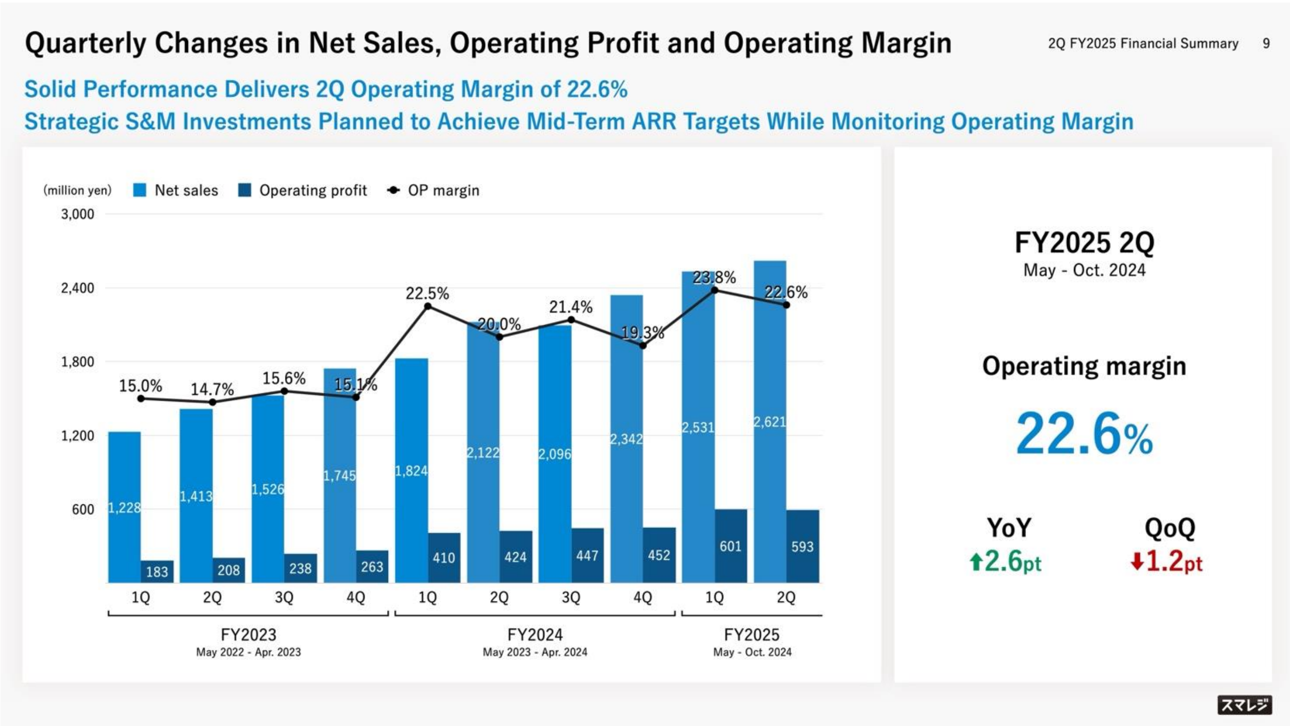
74.0%

Assets / Liabilities/Net Assets (million yen)

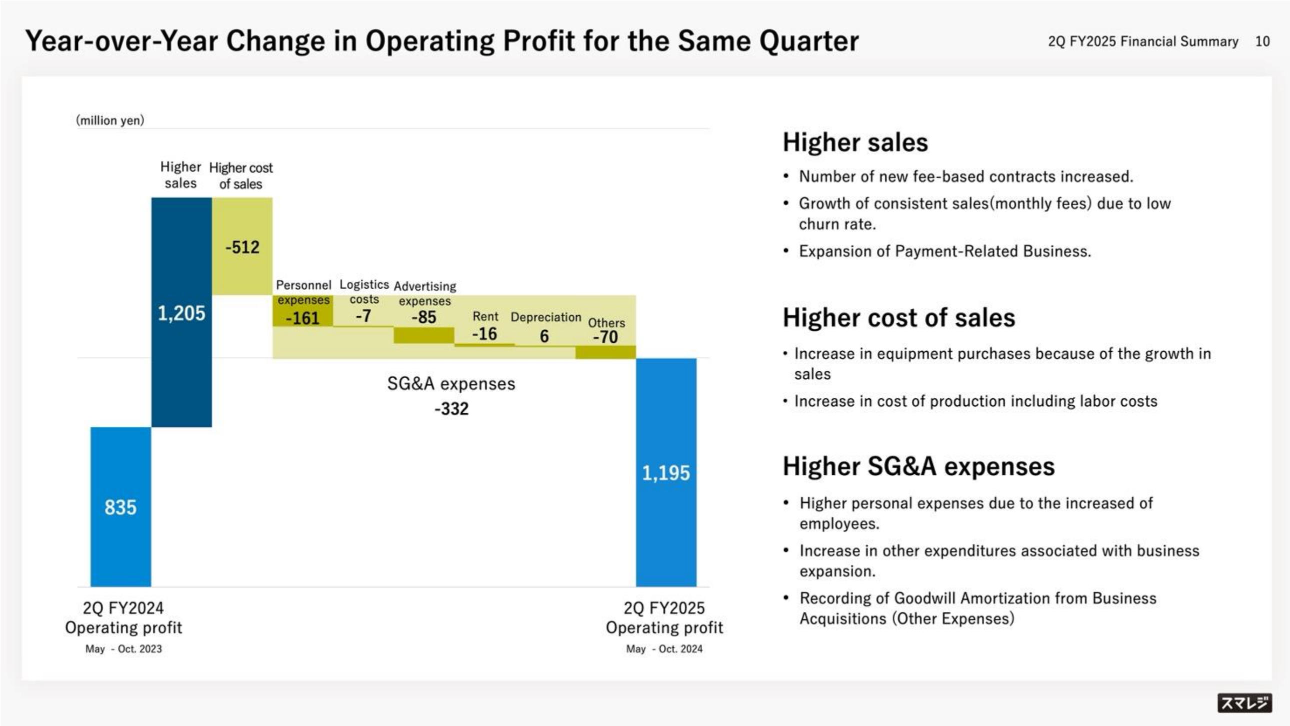
As for the balance sheet, our liabilities have been on a slight upward trend since Q1, but that is mainly due to an increase in deposits received due to the expansion of the payment business and an increase in income tax payable.



Next, I would like to show you the five-year trend of our business performance. Net sales are 48.2% of the full-year forecast of JPY10.7 billion. Likewise, the progress rate of our operating profit versus the plan is 58.8%.

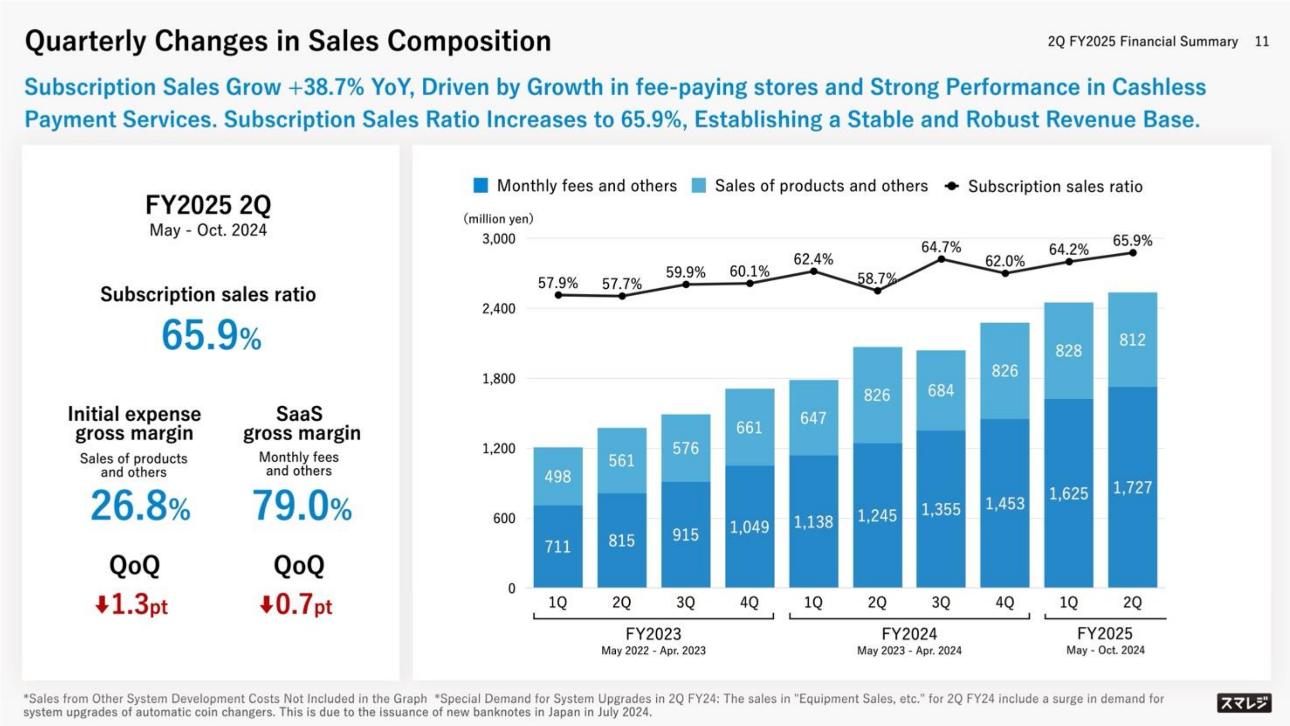


Continuing on, these are the quarterly trends. Operating profit margin decline a little from Q1 at 22.6%, but our gross margin fell owing to the slight impact of the rise in projects for coping with the printing of new banknotes. This one is also to be discussed later, but there was no significant change in costs.



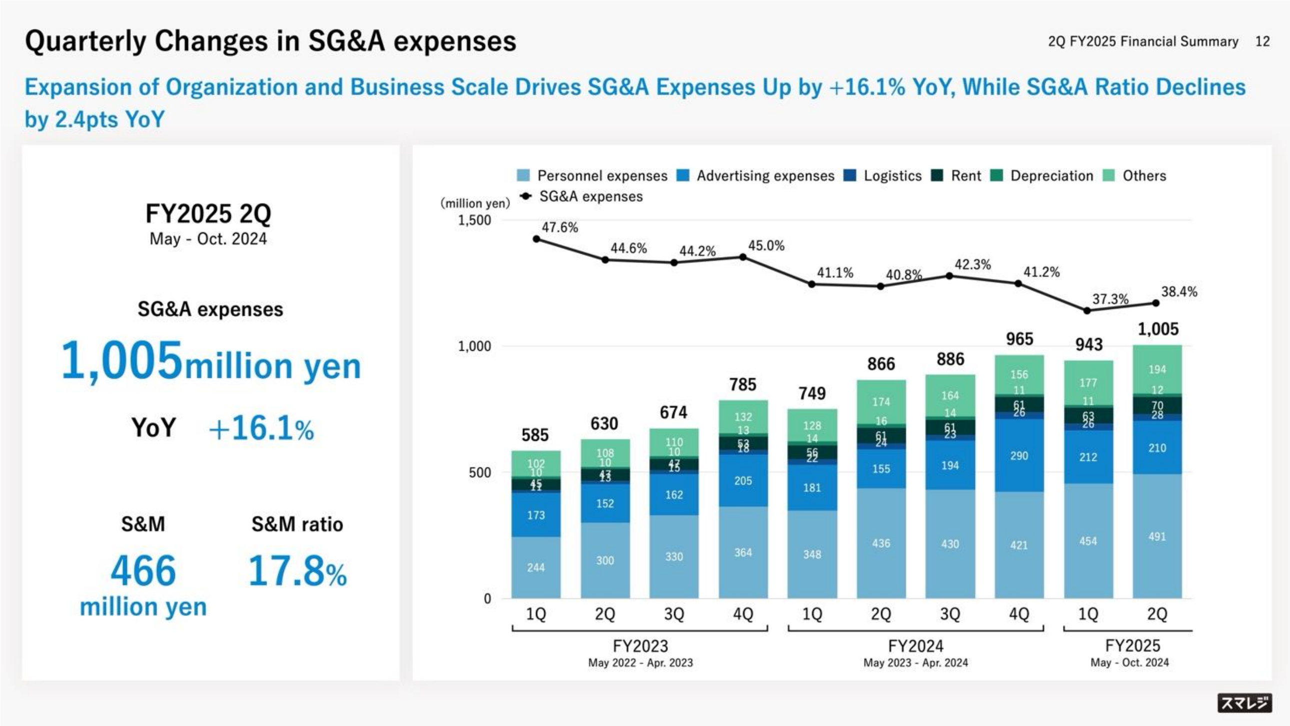
Next, this is an analysis of the YoY changes in the operating profit base. It shows here that the increase in net sales is JPY1,205 million, compared to a negative figure for cost of sales, personnel expenses and so on, which means that costs have increased.

Cost of sales went up due to the jump in net sales, personnel expenses climbed owing to the increase in personnel, and advertising expenses slightly rose, but other expenses have not changed significantly on a YoY basis. The goodwill from the acquisition of the system for osteopathic clinics, which has been recorded since Q1, is posted as an amortization expense in the other expenses.

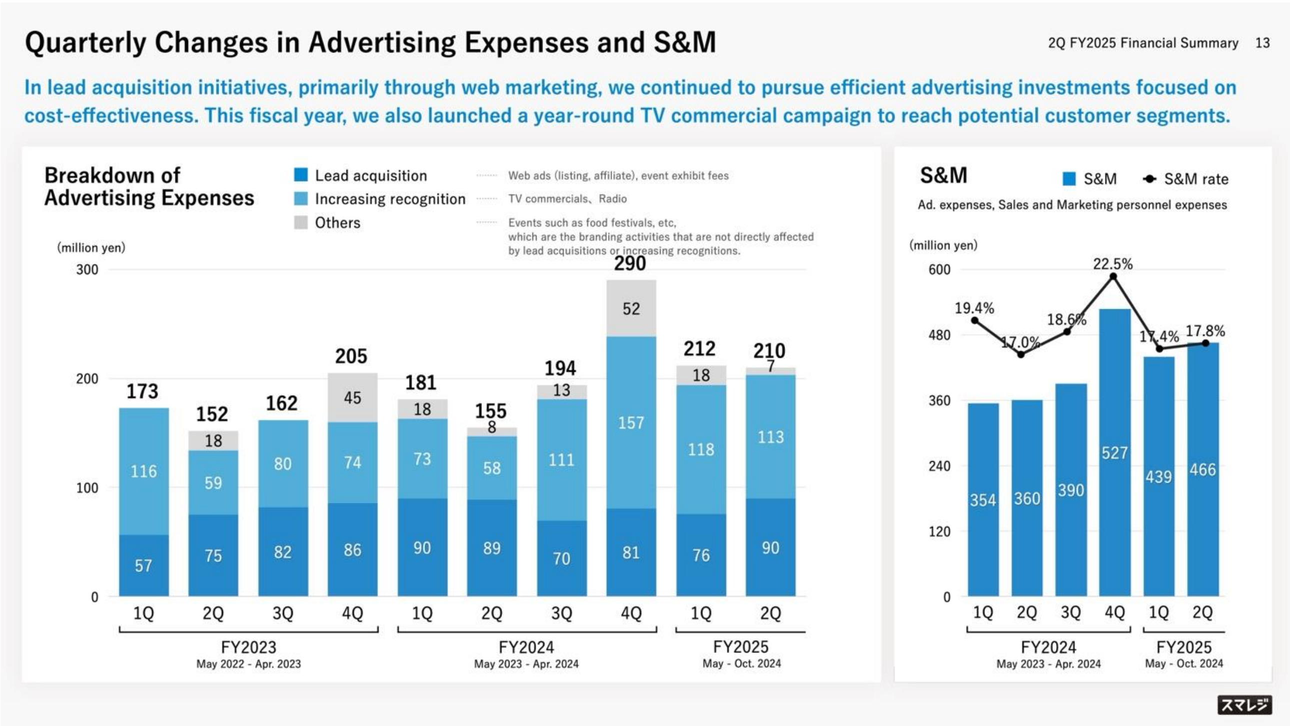


Please take a look at the quarterly breakdown. These are the quarterly changes in our net sales, and they are broken down into subscriptions, such as monthly usage fees, and initial sales, such as equipment sales related to installation. Subscriptions accounted for 65.9% of our total sales.

I mentioned earlier that our gross profit margin slightly decreased, but the decline in gross profit margin from initial cost here is mainly due to the increase in low-margin reprinting. Incidentally, we have received a few orders for new banknote printing during in H1, but we expect that these will be almost completely gone in H2.

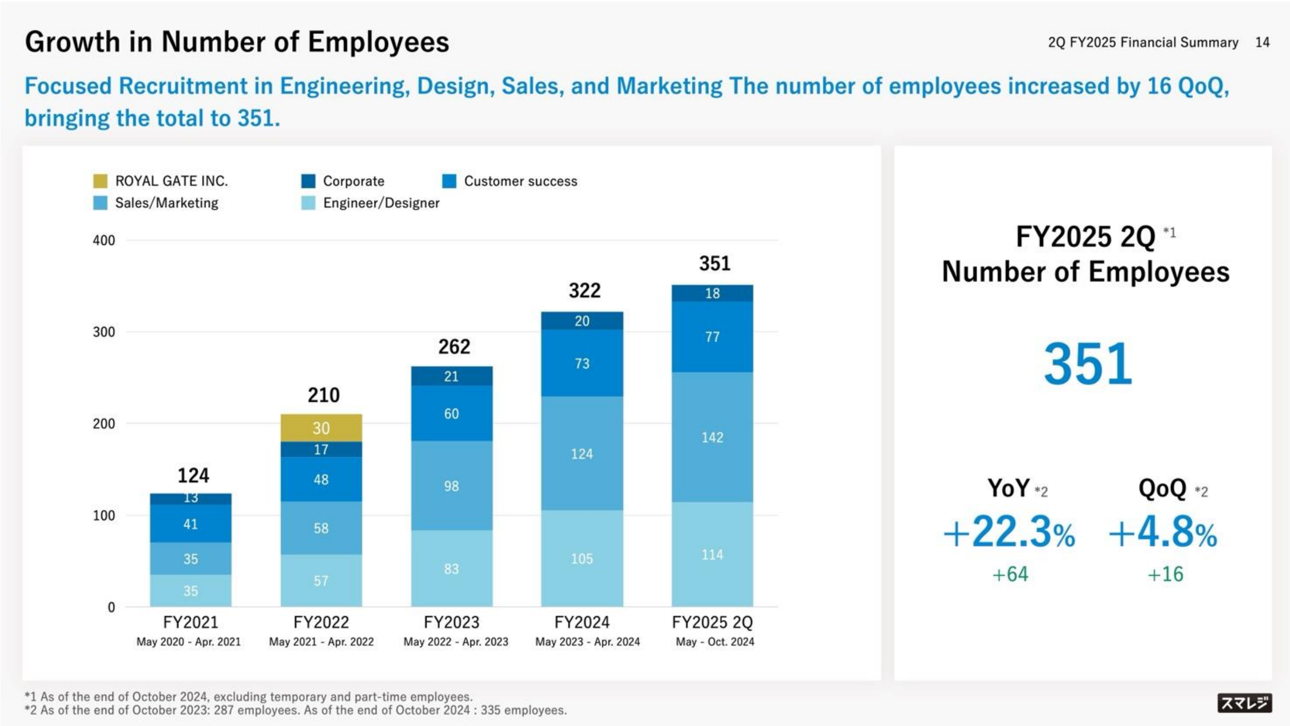


Next, SG&A expenses. In Q2, these expenses totaled JPY1,005 million. Although there was a slight jump from Q1, the increase was mainly due to business expansion, such as higher personnel expenses. Advertising expenses are discussed on the next page.

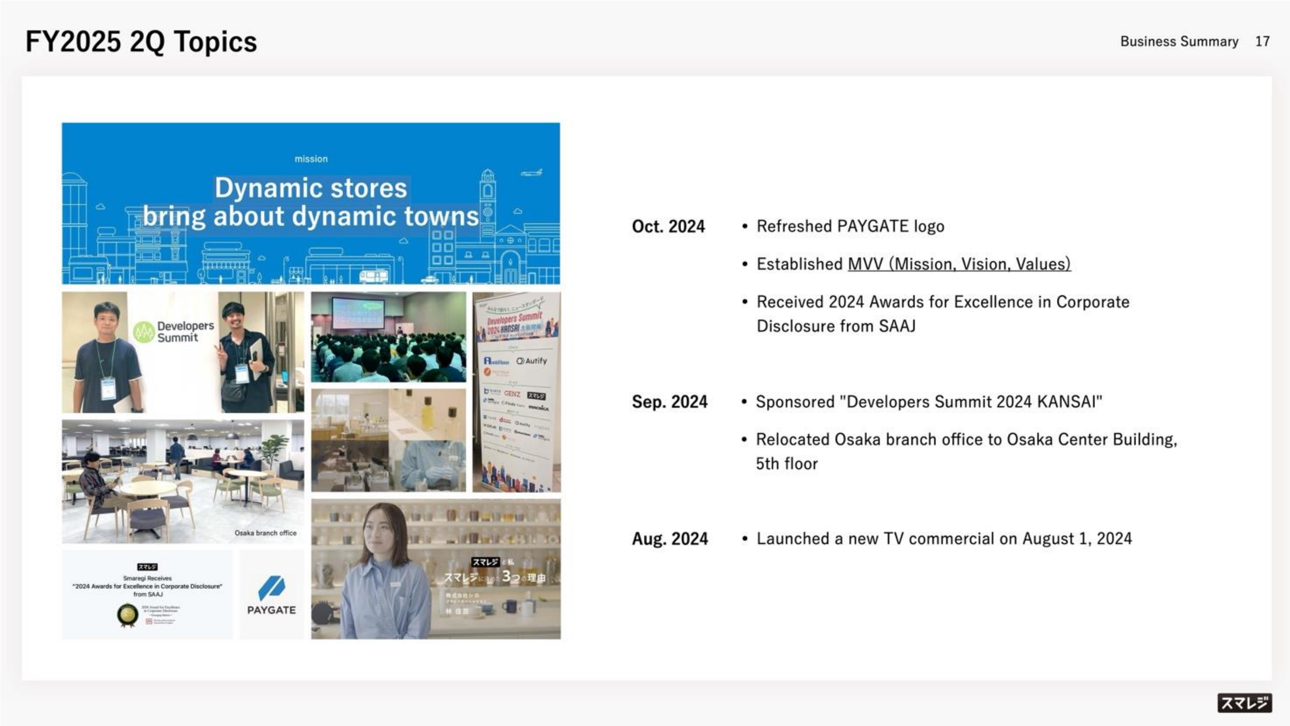


Here are the changes in our advertising expenses. Continuing from the previous fiscal year, we carried out advertising activities. S&M came to JPY466 million, or 17.8% against sales. In Q2, these expenses include JPY90 million in advertising for direct lead acquisition purposes and JPY113 million for TV, radio, and other means to boost recognition of our brand.

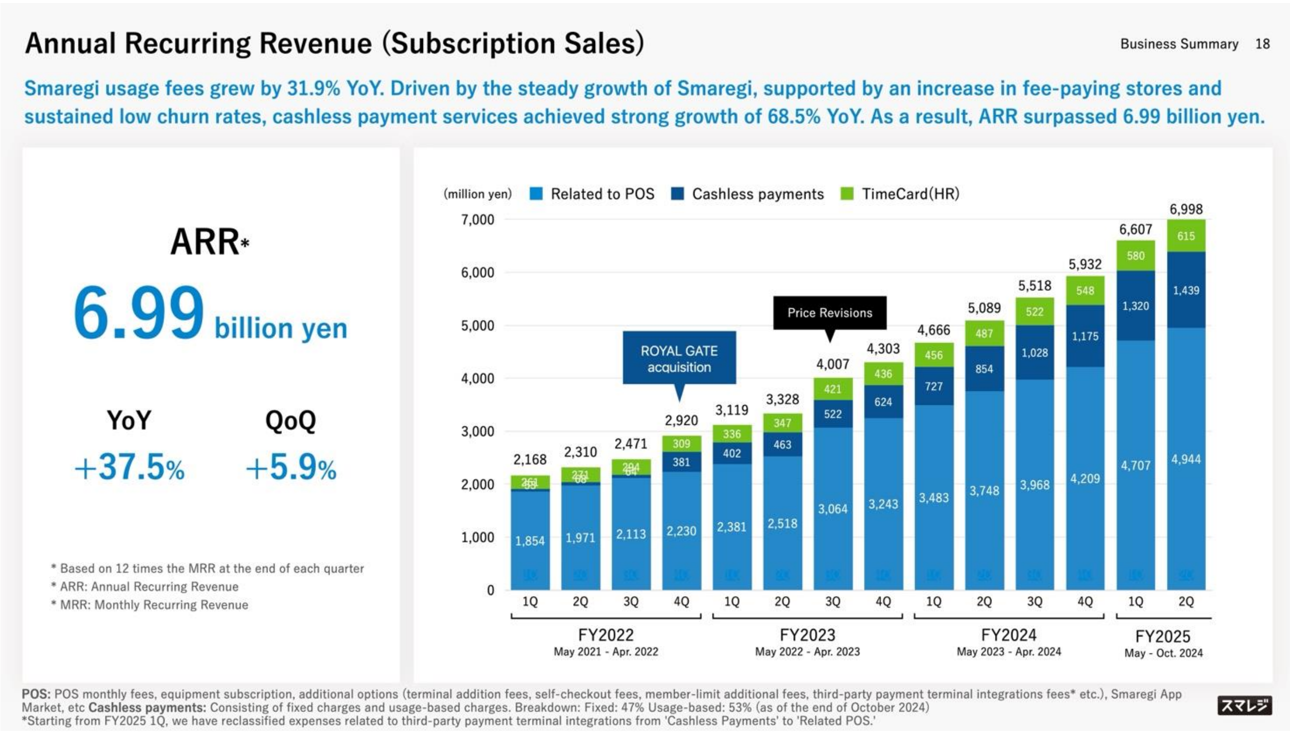
As for advertising expenses for acquiring leads, I mentioned at the last briefing that the scope of our advertising would gradually expand due to better sales proficiency and other factors. Now, the amount of such advertising expenses is on an upward trend owing to the rise in new advertising and initiatives. We would like to capture more needs not only through mere acquisition efficiency improvement, but also through the enhancement of our sales efficiency.



This shows the number of our employees. On the left side, the figures shown are the figures as of the end of the fiscal year, up until the previous fiscal year. The number of employees increased by 29 from the end of the previous fiscal year and by 64 YoY to 351. We have not disclosed a net increase target for this fiscal year, but we intend to continue to aggressively pursue this target as our business expands.

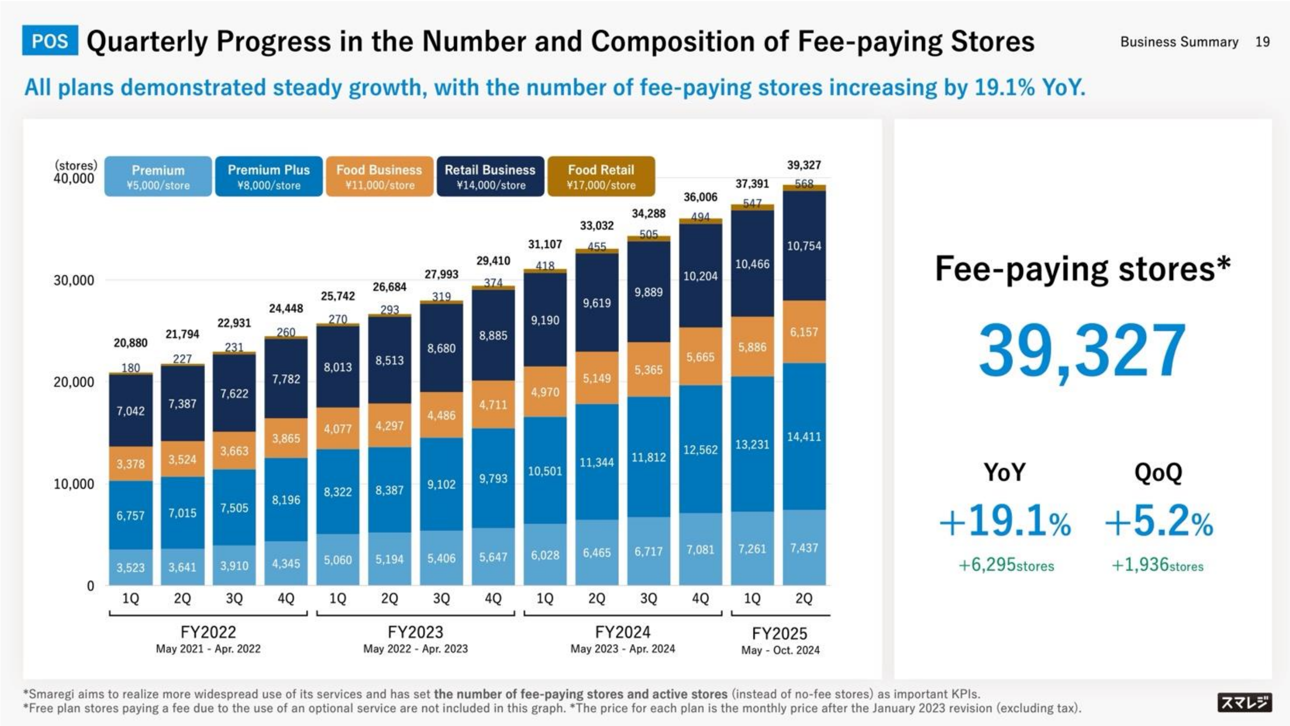


I will now continue with a report on the status of our business. Please turn to page 17. The topics for Q2 are listed here. In conjunction with the change of our representative, we have renewed our mission, vision, and values. Please visit our corporate website for more information. Below, we have listed those topics, including receiving an award for excellence in corporate disclosure, and sponsoring the Developers Summit, an event for engineers, and our president, with our representative, Mr. Miyazaki, speaking at the event.

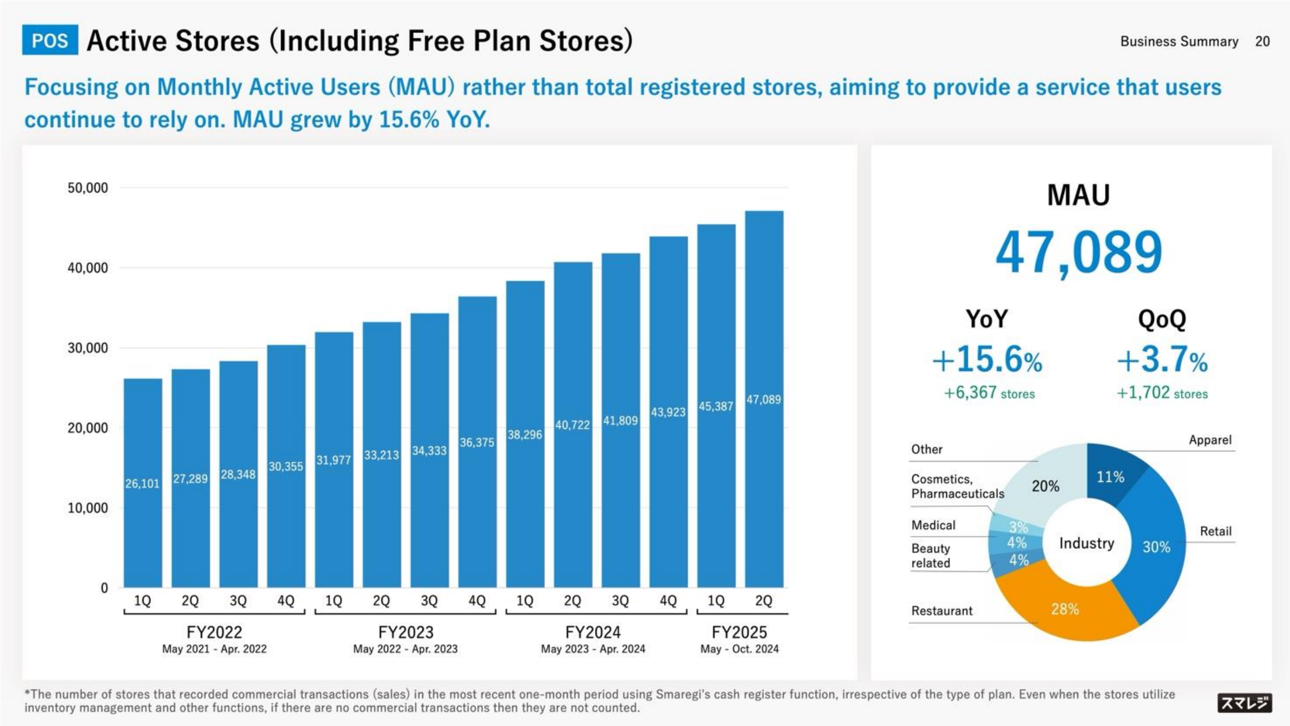


Next, let us look at ARR, which is the most important KPI in our long-term vision. Due to the growth in the number of customers, ARR almost hit JPY7 billion at JPY6.99 billion. This represented an increase of 37.5%

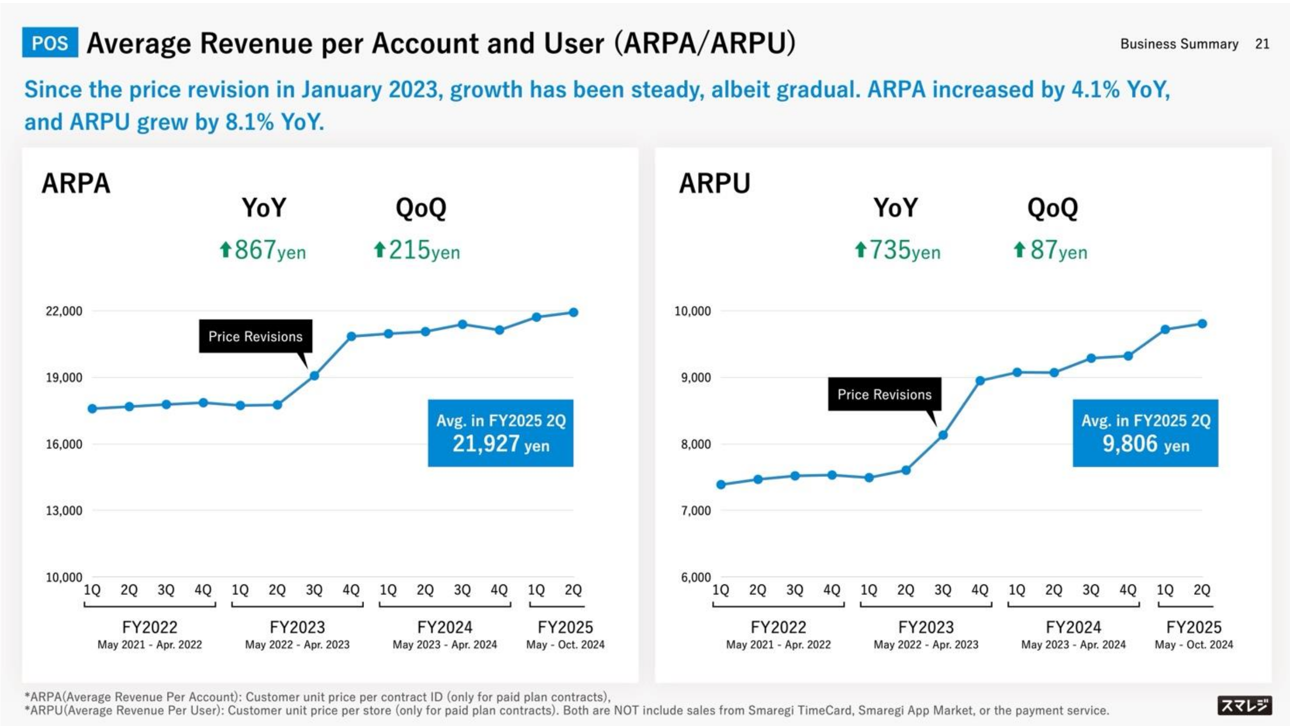
YoY. Cross-selling of POS and payment services continues to be strong, with payment services maintaining high growth of 68% YoY.



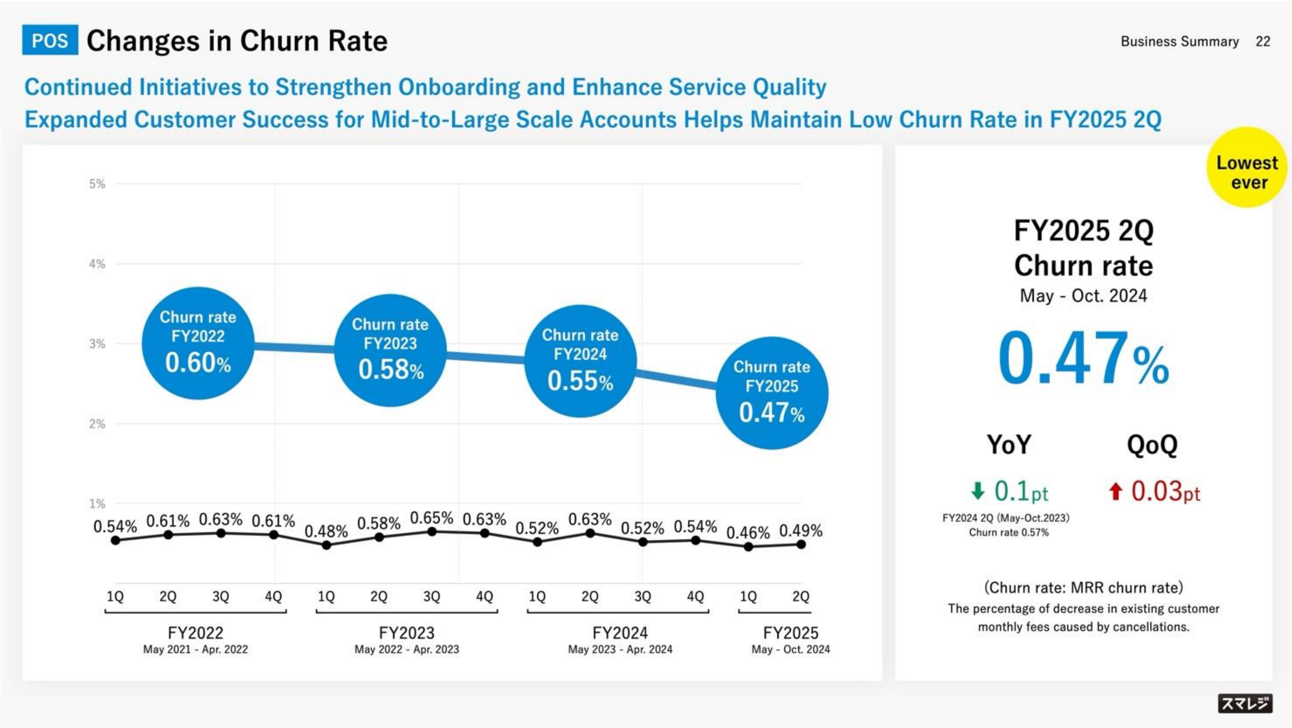
The slides from here will be KPIs only for the main Smaregi POS. The various KPI figures are as shown in the materials. First, with regard to the number of fee-paying stores, we are tracking the number of fee-paying stores and active stores as key indicators related to the target ARR. The number of stores subscribing to the fee-based plan totaled 39,327, an increase of 6,295 YoY.



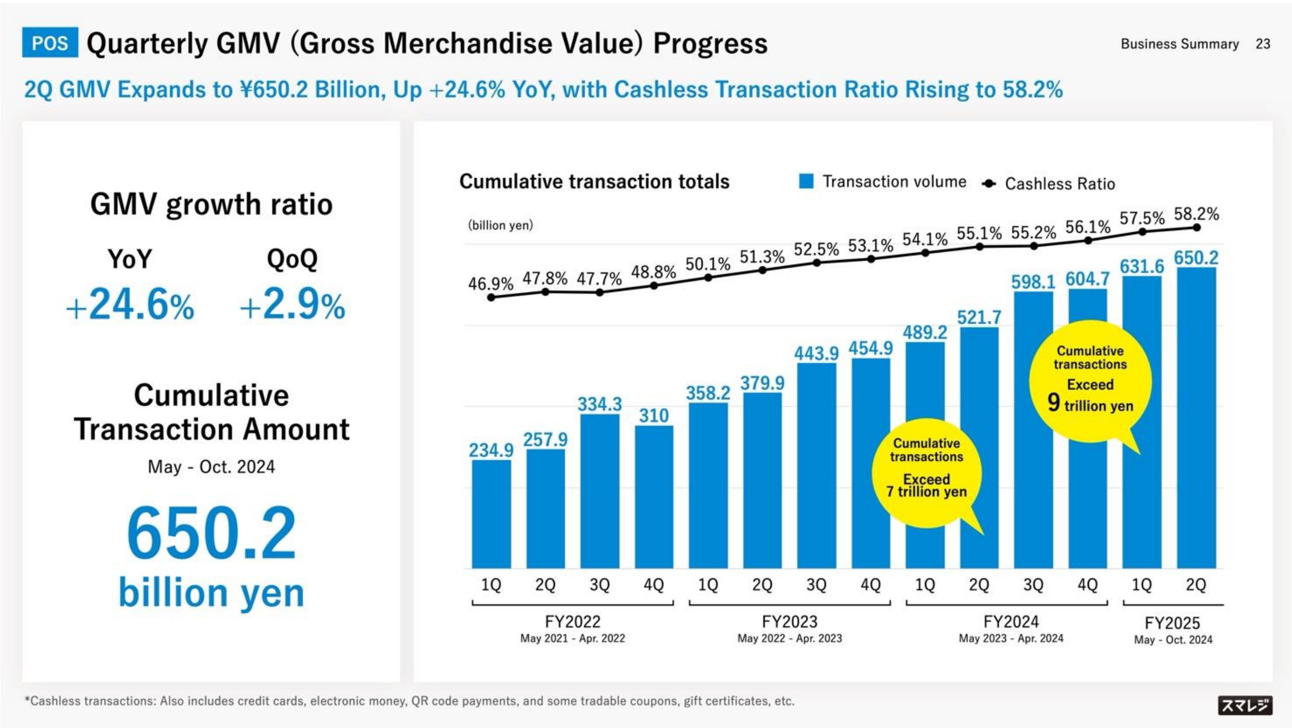
Next is the number of active stores. This is the number of stores that actually used the service, and these stores include those that are using the service as free users, in addition to the paid plans mentioned earlier. This is also a key indicator for assessing whether or not the stores are really using the service, as it does not include stores that have only registered for the free plan but are not using it. The number of stores exceeded 40,000 for the first time in the previous fiscal year, but in Q2, the number of stores reached 47,089.



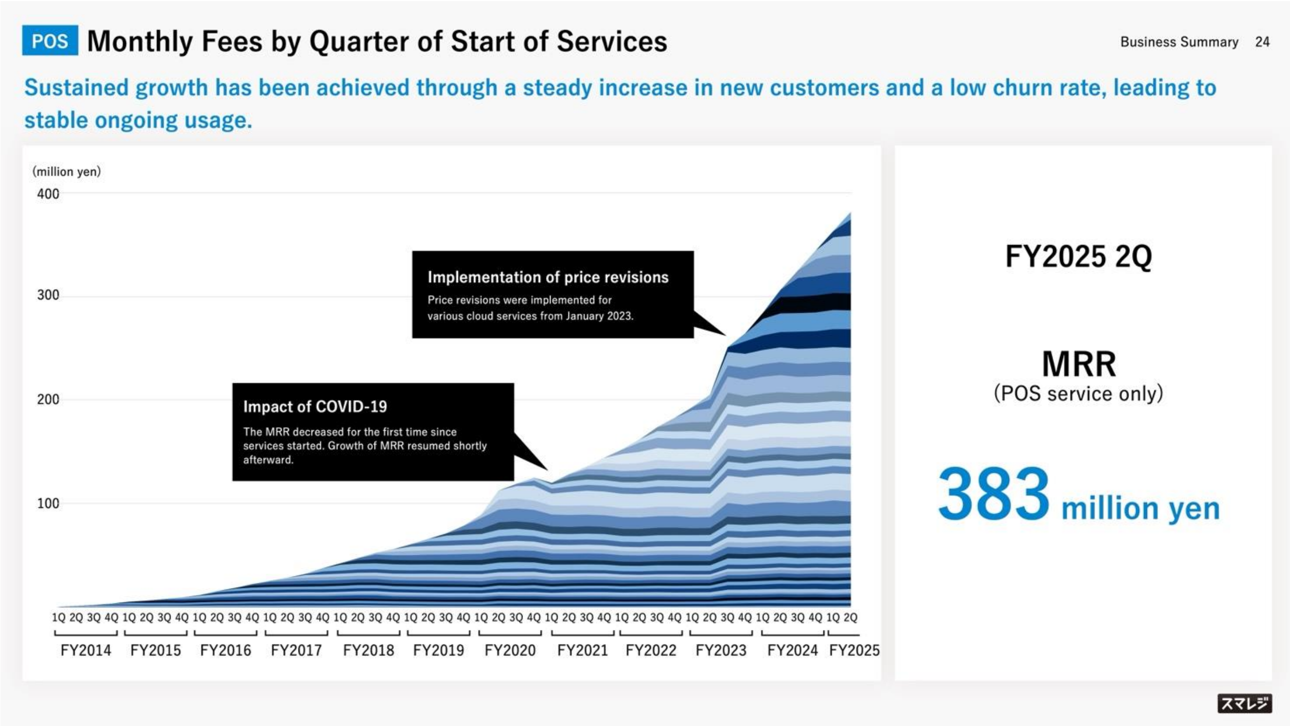
Next is the unit price per customer, or the ARPA/ARPU. Both indicators have been rising slightly since the turn of this fiscal year. As we mentioned in the Q1 briefing, we have classified the increase in the cost of linking with other companies' payment services as a POS category, and as you can see, it rose sharply in Q1. The cost of linking with payment services will increase in the future, and the number of equipment rentals and equipment subscription plans at the time of installation will also continue to grow, so we expect a slight jump in the unit price per customer.



Next, we have here the churn rate. The churn rate did not change much, but in Q2, it was 0.49%, or 0.47% in H1, so we have the lowest churn rate to date.



To continue, this shows the GMV. This is the distribution value and sales value of all users of the POS cash register. In Q2, the total amount was JPY650.2 billion, a 24% increase YoY. The cashless ratio continues to rise, but this is due to the widespread adoption of various types of electronic payments and the cross-selling of our payment service, PAYGATE, to Smaregi POS users. We expect the ratio to increase as this progresses.



This will be the last slide. This is a POS-only figure, but the MRR as of Q2 was JPY380 million. The speed at which MRR has risen has increased since the price revision, and we hope to continue expanding without losing this momentum. This is my presentation of our financial summary for Q2 of the fiscal year ending April 30, 2025.

As Mr. Miyazaki explained at the beginning of this briefing, our business domain is expanding through new M&A, although it may be in a related area. We would like to carefully design a group of products centered on POS and develop them so that each domain can grow toward our long-term ARR goal. That's all from me.

Question & Answer

Moderator [M]: Okay, I would like to start the Q&A session now. We will try to answer as many questions as time permits. Please use the Q&A button at the bottom of the screen or send us your questions by email. If you send us an email, please indicate in the subject line that you have questions about the financial results briefing. Similar questions may be answered together. Now, Mr. Miyazaki and Mr. Takamadate, please begin.

Takamadate [M]: All right. I would like to answer the questions you have asked. We will start by answering the questions we received on the pre-registration form.

Participant [Q]: When do you plan to start paying dividends?

Miyazaki [A]: I will answer. As we have disclosed in the revision of dividend forecast that we announced on December 13, for the fiscal year ending April 30, 2025, it will be a year-end dividend and it will be notified in July 2025.

Participant [Q]: What are the features of your highly functional cloud POS system? What areas of your POS system functionality or overall business model do you think still have room for improvement? I have a similar question about your advantages over competitors, and a question I just received in real time, and that is what do you consider to be your strengths and weaknesses compared to BASE, Shopify and so forth?

Takamadate [M]: This may be a bit too much of a summary, but may I ask Mr. Miyazaki to start? The question about advantages over competitors.

Miyazaki [A]: Let me briefly explain our three advantages. First is high functionality, as we provide not only sales operations, but also inventory management, customer management, sales analysis, and numerous other functions necessary for store operations.

Second, confirmation coordination and ability to be linked. It can be linked to external systems through APIs, and we think one of its strengths is its seamless integration with our own systems, such as CRM and ERP. Third, we have a full 365-day support system. I believe other companies do not have it, but most of our employees are in-house and can provide expert support to help you master the multifunctional Smaregi.

As for where there is room for improvement in our business model, running a store involves a variety of tasks other than selling. Each of them can be a business system or a service, and the services we currently offer include payment services and time and attendance management. Now, when it comes to retail stores, there are many physical stores that have online stores behind them, so this is also an area we are paying attention to.

Second, we believe that the market itself still has great potential. Our main target is 890,000 stores with two to 99 stores, and we currently have 47,000 active stores, so I believe there is still room for further development.

The question is, what are the strengths of Netshop Supporters' services compared to those of BASE, Shopify and so forth? BASE and Shopify are companies that provide platforms for online stores, and Netshop Supporters, which we acquired through the recent M&A, is a service that centrally manages inventory for BASE, Shopify, Rakuten Mall, and Yahoo! Mall, and other companies, so I think it is a bit different. That is all.

Takamadate [M]: Thank you very much. Continuing on, here are the questions we have received in advance.

Participant [Q]: Regarding the growth rate, is it slowing down or not?

Takamadate [A]: I will answer that question. As I explained earlier about the increase in the number of fee-paying stores and active stores, and I think that the number of stores we acquire has roughly been the same YoY.

Acquiring new stores is seasonal, and it also depends largely on such factors as whether the acquired users have multiple stores or not, so this is an area where the numbers tend to fluctuate a little bit. I think we can say that there has not been much of a slowdown in the acquisition of new stores, but such fluctuation factor plays quite a large part, so I think that there has been a slight decrease in some quarters. If we look at the previous quarter, we will see that there are some areas where the number of stores acquired is declining. I don't think the trend is slowing down that much. Continuing on, we have received advance questions.

Participant [Q]: This is with regard to plans on the use of AI.

Miyazaki [A]: At this point, we are undecided, but I think there are many possibilities in the future, such as sales forecasting and inventory optimization.

Takamadate [M]: Thank you very much. To continue, here is another advance question.

Participant [Q]: I understand that large customers need to be able to handle detailed POS orders to some degree, but could you please explain, to the extent possible, your specific standards and internal structure for handling those?

Miyazaki [A]: We would like to decide whether or not to respond based on whether or not the requested functionality is versatile enough. Even if it cannot be incorporated into the core functionality, we believe we can respond to detailed requests through the use of APIs and the app market. As for our internal structure, we created a sales team for enterprises at the beginning of this year, and in October, we launched a development team to provide API development support for enterprise customers.

Takamadate [M]: Thank you very much. All right, next question.

Participant [Q]: Can you please tell us the size of the market? Please tell us how the number of stores currently covered by your services, multiplied by the adoption rate and market share, would equal 40,000 stores.

Takamadate [A]: I will answer this one. In the latter part of the financial results presentation materials, there is a section that describes the market. We are targeting 890,000 midsize stores. Our main target are those with between two and 99 stores.

Currently, there are about 47,000 active stores, so I would say that our market share is about 5% of that. If we talk about the size of the market, how big would it be if we were to capture all of it? If we assume JPY10,000 per month and there are 890,000 stores, then I think our monthly target would be JPY8.9 billion or JPY10 billion. Continuing on, the same person.

Participant [Q]: Can you please tell us about the changes in your competitive advantage? In particular, please include the changes in the market share of your competing products. Is your company's competitive advantage expanding or contracting? How are they measured and evaluated?

Takamadate [A]: There are many competing companies that offer similar services, but few of them disclose the number of stores or other figures, so it is difficult to measure. Some of our competitors have already disclosed their figures to the public, so of course they have resolved these issues, but looking at the pace at which we are acquiring stores, I feel that we are progressing at a relatively advantageous pace compared to our competitors.

As for the reasons for this, I believe that Mr. Miyazaki mentioned our advantages earlier. I think one of the reasons why we are being chosen is that we are highly regarded for our high functionality and our ability to handle detailed functional requirements such as inventory management.

As for the M&A and strengthening of the EC domain that were discussed at the beginning, I believe that these strategies will be effective in terms of demonstrating our advantage in the market, particularly in the retail sector. Therefore, we will continue to refine these strategies to improve our competitive advantage and usability from the user's point of view. Now, we will continue with the advance questions.

Participant [Q]: Why did the stock price plummet? We have received a timely question as to why the stock price has plummeted. However, I think it is just today.

Miyazaki [A]: We often receive various opinions about stock prices, but we refrain from commenting on stock prices regardless of market conditions and trends. We, the management team, will continue to focus on improving our business performance.

Takamadate [M]: We will do our best so that they will appreciate. Continuing on, here is a question we are receiving in real time.

Participant [Q]: How about linking your company's commercials with videos with Mr. Watanabe a little more?

Takamadate [A]: We are airing a program on YouTube with the support of Mr. Watanabe from Unjash. That is Smaregi Presents. I think you're asking this question after watching that. We simply prioritize making the show interesting, and we don't structure it in a way that would interrupt the flow of the show just to insert Smaregi.

However, as you can see, we have included an introduction to Smaregi at the beginning and put images of the Smaregi showroom and products in between, as we are trying to make the video as natural as possible to watch. I hope you will all take a look at it, as it is very interesting. Thank you very much.

Participant [Q]: I think some stores still use old-fashioned cash registers. What is the adoption rate of the cloud POS cash registers of your company and those of other companies among the 890,000 stores?

Takamadate [A]: This hasn't been made public, so I don't know, but Mr. Miyazaki, how much is it?

Miyazaki [A]: I don't know.

Takamadate [A]: Since only our figures have been made public, it may be a little difficult to say. But as I said earlier, our market share of the 890,000 stores is roughly 5%, and if you include figures from other companies, I imagine it's probably still around 10%. Therefore, a lot of customers are still using existing cash registers, and we feel that there is a very strong demand from customers to switch to cloud POS, so we would like to effectively capture this demand and expand our market share.

Participant [Q]: This is a continuation of the earlier question about strengths and weaknesses versus BASE and Shopify. What are your plans at this stage to address this weakness? In addition, should we expect more competition than ever with Recruit when it comes to real stores and EC services?

Miyazaki [A]: I'm not sure which one you mean by that weakness, but first let me correct you, we did not buy services like BASE or Shopify. As I explained earlier, we have made M&A mainly for software for centralized management of mall inventory.

In fact, we had been developing a similar system for several years. Such system was a centralized mall inventory management system for Amazon, Yahoo, and Rakuten. In addition, there are various other malls, and if we count, there would 20 to 30 of them. We believe that our mall support has been significantly enhanced through our M&A with Netshop Supporters.

As for the question about whether we should expect more competition than ever with Recruit when it comes to real stores and EC services, I don't know much about Recruit's strategy, but I think they are mainly focused on restaurants. So, when it comes to whether we should anticipate it or not, I don't think we need to anticipate it. However, we have now basically completed most of our real stores, so we are in a position where we are confident that we are now ready to further strengthen our collaboration with EC.

Takamadate [M]: Thank you very much. This is a question we are receiving in real time.

Participant [Q]: How many of the new users you have acquired are transferring from other companies' cloud POS?

Takamadate [A]: I will answer this one. Of the stores that have been acquired by Smaregi, roughly half are existing stores and half are new stores. The ratio won't change much, but of this half are existing stores that are already using cash registers, and we will be replacing them.

Although we do not disclose this information publicly, if we break down their numbers, they include customers who are using conventional cash registers, and some customers who are already using cloud POS but find their functions do match their needs, so they want upgraded functions or plans. These customers sometimes contact Smaregi and switch over to us, but the number is not very large. Continuing on, here is a question we received in real time.

Participant [Q]: I have read reviews saying that your products are highly functional and multi-functional, so their initial adoption can be difficult. In addition to support by CS, please let us know if there is anything else you are working on in this regard.

Miyazaki [A]: I will answer. As you say, they are highly functional. We have been developing POS for about 10 years and updating it every month, so it has hundreds of functions. We are aware that this is an issue that needs to be addressed, and we are working to create a system that will allow us to focus more than ever before on the success part, such as onboarding and setup on the operation side, and assisting with data registration after sales has concluded the contract.

Takamadate [M]: Now, this is another question we have received in real time.

Participant [Q]: What are the most common questions asked in meetings with institutional investors?

Takamadate [A]: Okay, I will answer this one. I have quite a few opportunities to talk with institutional investors, mainly during this IR period. As for what we talk about regarding Smaregi, it is about how much it can grow, the growth rate including future prospects, and then the profitability in relation to that. We are often asked to talk about how much profit we can generate by making growth investments that guarantee growth.

When we get into the details, we talk about how we are marketing, and also about CS, which partly overlaps with what Mr. Miyazaki said earlier. How are we handling customer service? We are often asked to discuss in great detail field sales, inside sales, and what kind of strategies we are using to capture the needs of our customers.

Participant [Q]: This is regarding the number of employees. The number is increasing every year, but in which areas are you currently allocating people?

Miyazaki [A]: Is the ratio of job types generally disclosed?

Moderator [A]: Yes.

Miyazaki [A]: So, I guess we are increasing the number of jobs while maintaining the same ratio of job types. If you ask us if there is a particular type of job that we focus on in terms of job types, the answer would be no.

Participant [Q]: Do you have any measures in place to ensure that your customers attract customers?

Takamadate [A]: I will answer this one. We naturally have customers who are highly influential and who have a strong ability to communicate, so we call these customers the Smaregi Users Group. Although it is a relatively closed group, we invite influential people who we think could become the core of users to give seminars. We also create opportunities for users who are currently using Smaregi or thinking of using Smaregi in the future to get together.

So, quite a lot of things have come out, including how they actually use it, bad points, and areas for improvement. While Smaregi absorbs those inputs, I think it also provides a good opportunity for users who participate in the event to actually introduce Smaregi.

Participant [Q]: Your target is from two to 99 stores, but what is the median number of your customers?

Takamadate [A]: Okay, I'll go. We have a large number of small-scale customers, such as those with five or fewer stores. There are a lot of SMBs, and but that has led to the strengthening of management stability to some degree. I am not saying that we're specifically targeting them, but they are a very large customer demographic. We have many customers with one store, and many customers with five or fewer stores. So, with that, I think it will probably be in the low single digits.

Participant [Q]: I think your company's sales policy has been mainly focused on inbound sales, but in the future, will you be focusing on outbound sales too? What are you currently working on?

Miyazaki [A]: As you said, our main focus is on inbound sales, but we have talked about how we are going to acquire medium- and large-scale projects in our new medium-term management plan. Accordingly, this year, we have begun to work on outbound sales, although it is within enterprise sales.

Participant [Q]: There is a bit of overlap, but what is the user ratio between restaurants and retail stores?

Takamadate [A]: I would say that there are more retailers than restaurants, and in terms of a broad spectrum of retailers, about 40% to 50% of them are using our services. In contrast, when it comes to restaurants, the ratio is about 20% to 30%. These two industries make up the majority, at 70% or 80%.

Participant [Q]: Considering gross profit, if the number of employees rises sharply as the business expands, sales will increase but profits will not, so I would like to ask about your strategies in that area.

Takamadate [A]: I believe what you're saying is that if you raise the number of employees as your business expands your profit margins will not go up. As our sales grow, our business operations expand, and we do have to hire people. At the moment, however, we have not been able to get more personnel in line with our sales growth rate. So, there is a part of the operating profit margin that has increased a little accordingly.

As to the question on whether the number of personnel needs to be increased in line with sales growth a business model, there are some aspects where this is not the case. At Smaregi, we are hiring more personnel ahead of schedule because we are planning to boost our workforce five to ten years down the line. That is why we are hiring a little ahead of schedule in some areas.

So in terms of the pace of personnel increase, I think there probably won't be much more increase. In other words, there is a slight discrepancy between the pace of sales growth and personnel increase, so I think the profit margin is likely to increase slightly.

Participant [Q]: As the number of employees increases, I think it will become more difficult to unify the decision-making process within the Company. What measures are you taking internally? Please tell us whether you create a set of targets or not, what you want to happen in the future, and what your company culture is like.

Miyazaki [A]: It will become more difficult to reach consensus. You are right. That is also why we changed the Mission, Vision and Values section some time ago. The values part, in particular, was significantly changed. It is almost a rephrasing, but the first is, going as far as we can! The second is, specifying requests instead of defining requirements. And the third is, doing work that our families can be proud of. That’s how we changed our values. Talking about our corporate culture, there are many executives who really adhere to these three values, and I hope that even non-executives will do the same.

Let me explain each of them. Going as far as we can! Simply put, it is a challenge, and we take on the challenge with passion. Each person has their own roles and responsibilities, but the goal is to surpass our own limits and goals.

The second is specifying requests instead of defining requirements. This may be an unfamiliar phrase, but it means that we should face the essential needs and issues that lie beyond what the other person says and try to create fundamental solutions rather than temporary solutions if you are in development or propose such solutions if you are in sales.

Third, doing work that our families can be proud of. When in doubt, make your decision based on whether your actions would make your family proud or bring shame to them. This is also a temporary thing, and the message that we are trying to send to each department is to engage in work that they can be proud of, so rather than forcefully selling something to the customers in front of us, we should make sure that they are happy. That is all.

Takamadate [M]: So, I think we have answered all of your questions. Thank you for all your questions. We were a little worried that no one would ask any questions, but we received a lot. All right then, since there seem to be no more questions, we will now conclude the question-and-answer session. Thank you very much.

Miyazaki [M]: As we have reported, we have embarked on M&A to significantly strengthen both of our EC systems. Until now, it has been Smaregi for real stores, but with the seamless integration of Netshop, we intend to make steady progress toward our long-term goal. Thank you for your time today.

Takamadate [M]: Thank you very much.

Moderator [M]: Here is an announcement from IR. We also provide the latest IR information via our newsletter and online. We also send them out monthly, so please register with us. Finally, we ask for your cooperation in filling out the survey. After this briefing, a survey form will appear at the bottom of the screen you are viewing. It is a simple process that takes about 30 seconds to complete, so please send us your honest opinions and impressions.

This concludes the presentation of our financial results for Q2 of the fiscal year ending April 30, 2025. Thank you very much for watching until the end. Thank you for your continued support.

[END]

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