



Smaregi, Inc.

Q1 FY2023/4 Information Session for Institutional Investors

September 13, 2022

Event Summary

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[Participants]		
[Number of Speakers]	4	
	Hiroshi Yamamoto	Representative Director
	Ryutaro Minato	Executive Vice President and Director
	Megumi Shikichi	Financial Accounting Manager, Management Department
	Eiko Endo	IR Manager, President's Office

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Presentation

Endo: The time has arrived, and we would like to begin. Thank you very much for joining us today for the presentation of the financial results for Q1 of FY2023 of Smaregi, Inc.

I would like to begin with an overview of the financial results in line with the explanatory materials disclosed yesterday. Then, Q&A will follow. We look forward to hearing from you. We plan to post a video of today's event on our website at a later date, but please be assured that the information of those who asked questions and the audience will not be made public. Please also use the chat function to contact us.

Let me continue by introducing today's speaker. Mr. Yamamoto, please.

Yamamoto: My name is Yamamoto, Representative Director of Smaregi, Inc. Thank you very much for your time today. I would like to proceed with this discussion with myself and Vice President Minato.

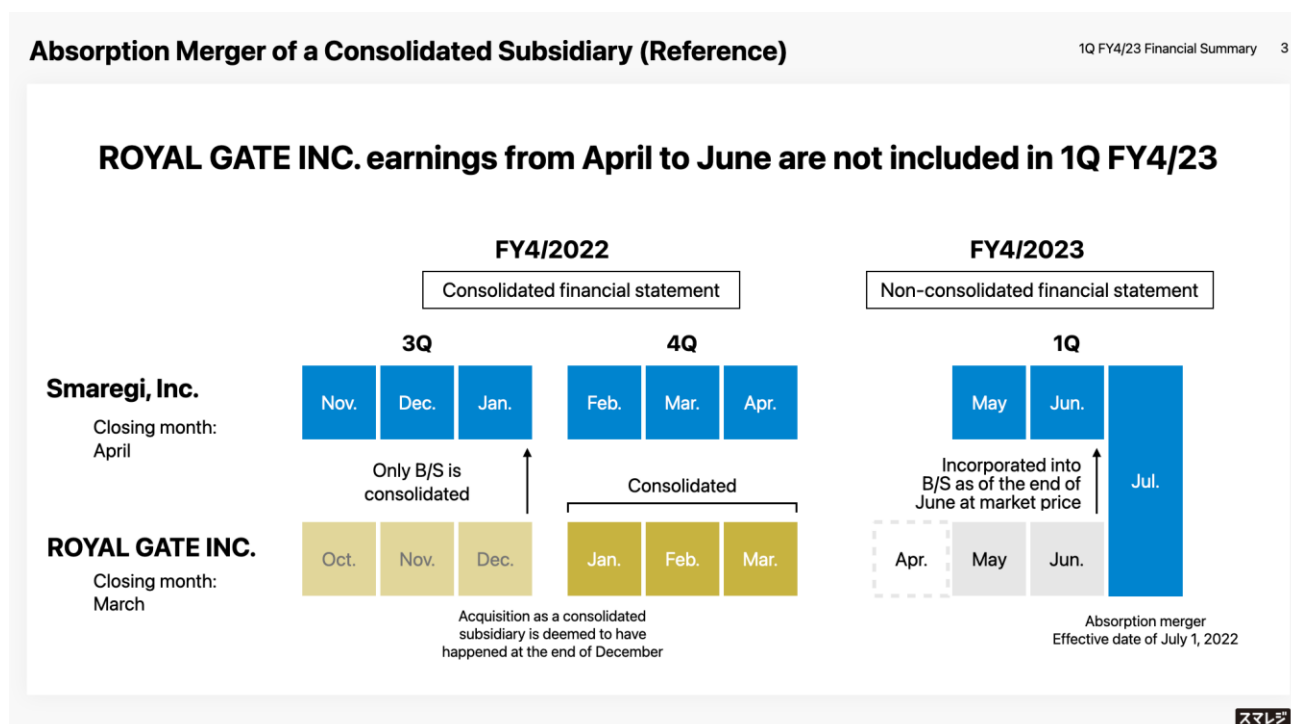
Mr. Minato, thank you for your time.

Minato: This is Minato. Thank you.

Yamamoto: Also, from the finance and accounting team, Shikichi will be joining us for a bit of commentary, and although she is not on the screen, she is beside me.

Shikichi: Thank you.

Yamamoto: Once again, thank you for watching. I would like to begin with an overview of the financial results.



As this is a presentation of financial results for Q1 of FY2023, I would like to begin with a few notes. The Company merged Royal Gate in July, which became a subsidiary last December, and is now back to non-

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consolidated financial results. So, while Q4 of the previous quarter was consolidated accounting, this time it is non-consolidated accounting, so please note that.

Ms. Shikichi, can I have an explanation?

Shikichi: This time, we are closing the accounts on a non-consolidated basis since we merged Royal Gate Inc. on July 1, during Q1, and it became one company at the end of July. Therefore, the figures for April, May, and June, where Royal Gate was present, were not consolidated this time, so the results are not included in the stand-alone Smaregi accounts, and the assets and liabilities at the end of June are accepted at market value.

Yamamoto: Thank you very much. The sales of subsidiary Royal Gate Inc. for April, May and June are not included and that is what is in the B/S. This means that only July is the combined portion.

Statement of Income 1Q FY4/23 Financial Summary 5


Operating profit declined YoY due to aggressive investment in marketing and recruiting activities but steadily progressed as planned. Quarterly profit increased due to the merger with a subsidiary, and net sales grew 33.6% YoY.

(million yen)	1Q FY4/23 results (May - Jul 2022)	1Q FY4/22 results (May - Jul 2021)	YoY change	FY4/23 plan (May 2022 - Apr. 2023)	1Q FY4/23 % achieved (May - Jul. 2022)
Net sales	1,228	920	+33.6%	5,593	22.0%
Cost of sales	456	336	+35.8%	—	—
Gross profit	772	583	+32.3%	—	—
SG&A expenses	585	351	+66.7%	—	—
Operating profit	186	232	-19.8%	651	28.6%
Ordinary profit	188	222	-15.1%	651	29.0%
Profit	362	149	+142.5%	403	89.8%

Absorption merger with a consolidated subsidiary
 At the Board of Directors meeting held on April 15, 2022, the decision was made to merge with ROYAL GATE INC., a consolidated subsidiary and the merger took place on July 1, 2022.

Regarding the increase in quarterly profit
 1. Recorded a gain on extinguishment of tie-in shares due to the merger (extraordinary income)
 2. As a result of estimating future taxable income after the merger and examining the recoverability of deferred tax assets, recorded a gain on income taxes-deferred.

*Amounts are rounded down to the nearest million yen.



Now let's move on to the income statement.

Net sales totaled JPY1,228 million, up 33.6% from the same period last year. Operating income was JPY186 million, a decrease of 19.8% from the same period last year, but this was a slight downward swing, or rather, it is progressing as planned, as we tried to digest advertising expenses earlier than last year.

The bottom line shows that net income for the quarter was JPY362 million, which is already 89.8% of the total progress for the entire year.

As you can see the area surrounded with a black frame on the right side, but due to liquidation procedures resulting from the absorption of a consolidated subsidiary, it is on the net income after taxes.

Can you explain a little bit about that?

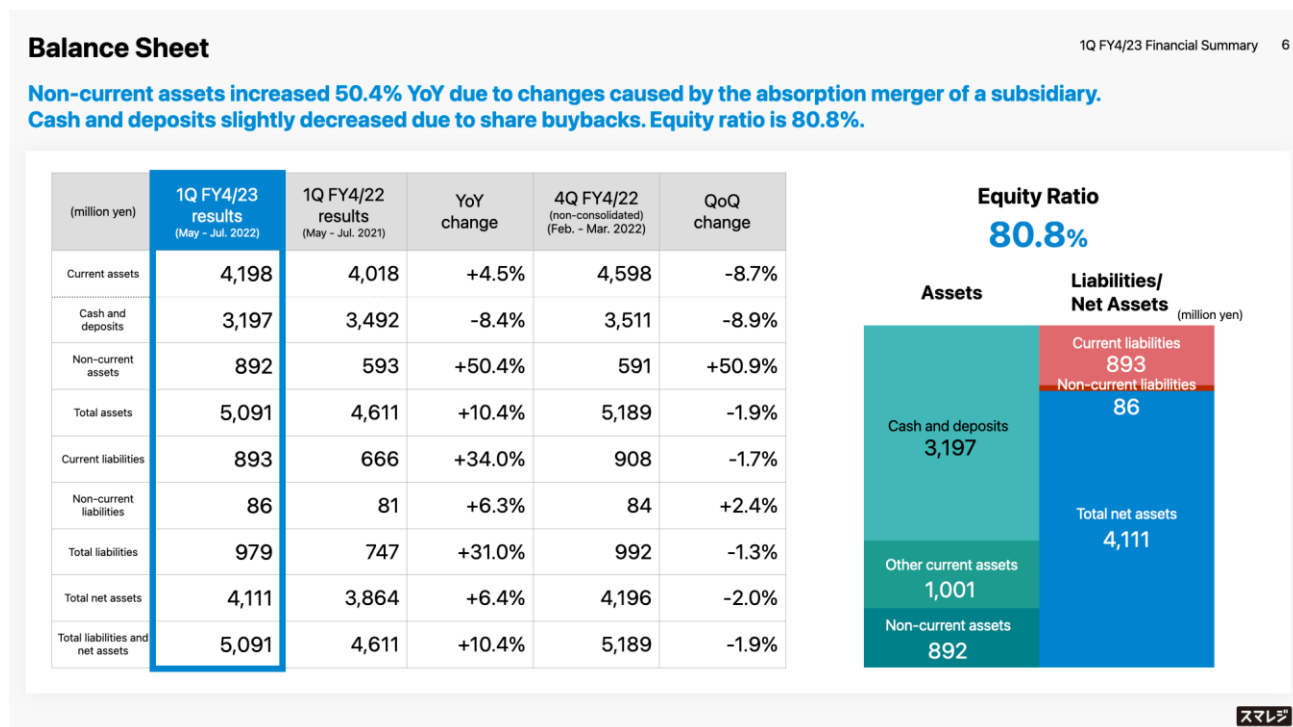
Shikichi: As a result of the merger with the subsidiary on July 1, we will record an extraordinary gain of JPY58 million, which is called gain on extinguishment of tie-in shares, although there is no detailed description here. As a result, income before income taxes amounted to JPY246 million.

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The recording of JPY175 million in income taxes-deferred, an item unique to tax effect accounting, as a negative item after adjusting for income taxes, resulted in net income after taxes of JPY362 million, a figure movement that is a bit unusual.



Yamamoto: Thank you very much. Next is the balance sheet.

A small change has occurred due to the absorption merger, and fixed assets are plus 50.4% in YoY. A few more share buybacks have been conducted, resulting in a slight decrease in cash and cash equivalents.

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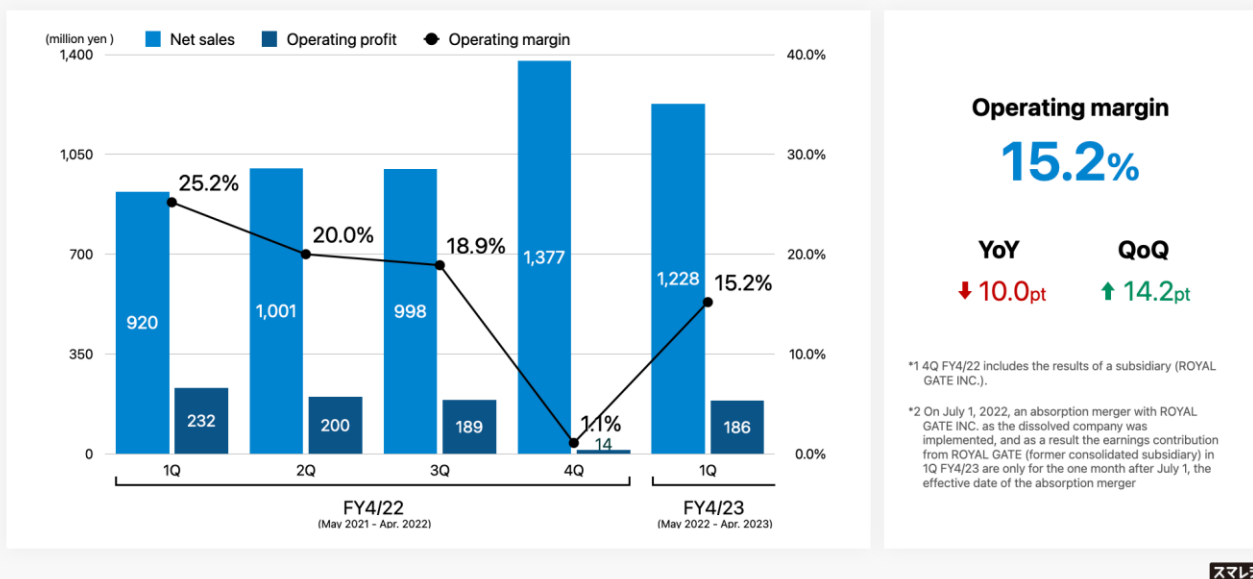
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Quarterly Changes in Net Sales, Operating Profit and Operating Margin

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S&M investment in the Medium-term Management Plan is continuing.

Operating margin, which had declined due to intensive investment in bonuses and advertising expenses, recovered to 15.2%.



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Next, the following table shows the quarterly trends in net sales and operating income ratio.

Sales for Q1 were JPY1,228 million, a slight decrease from the previous, Q4's, sales of JPY1,377 million, but we are not particularly worried about this, or rather, I think it is as planned as usual, since Q4 is usually a very exciting time of the year, due to seasonal factors.

The operating profit margin was 15.2%, and this was also adjusted in Q4 of the previous fiscal year.

The operating profit margin was down due to the advertising budget at the end of the quarter and the payment of a year-end bonus but has now returned to the previous level.

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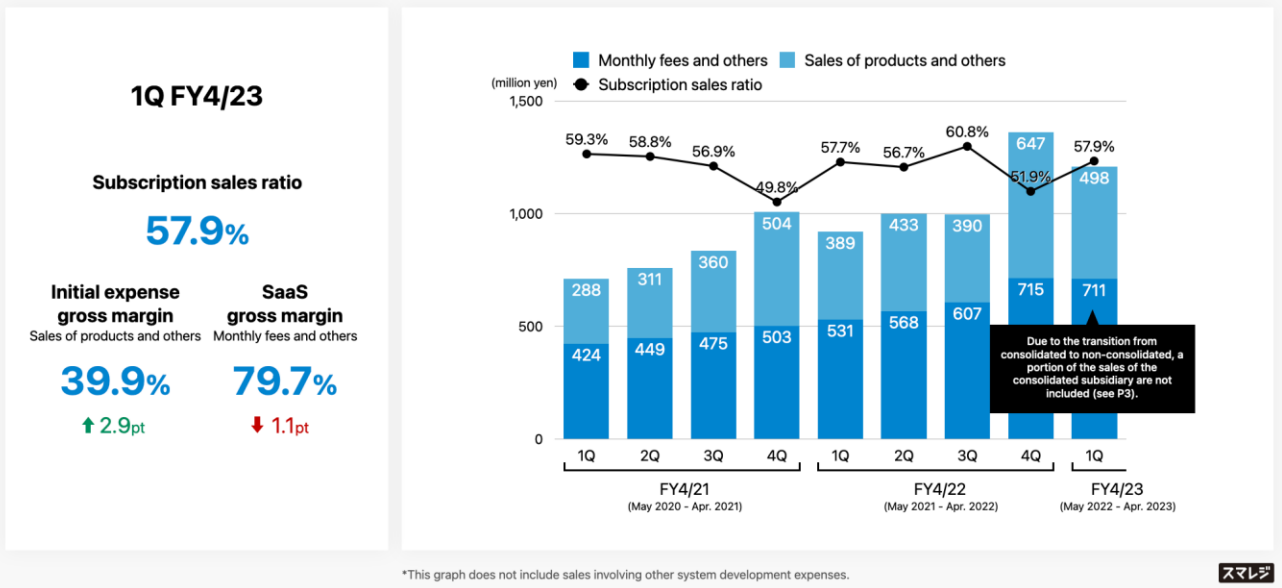
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Changes in Sales Composition

1Q FY4/23 Financial Summary 9

Sales of products and others declined QoQ due to seasonal factors, but grew 28.2% YoY.
 Subscription sales (monthly fees and others) grew 33.9% YoY despite the impact of the merger (see P3).



The next section shows the breakdown of sales.

As I have explained each time, the breakdown is divided into two parts: the darker blue area in the graph shows monthly usage fees, etc.; and the lighter blue area shows equipment sales, etc., which are flow revenues.

It appears that stock income decreased from JPY715 million to JPY711 million, but as I have annotated in black, this is also a slight decrease due to the fact that the results of some subsidiaries are not included, but the situation is actually an increase.

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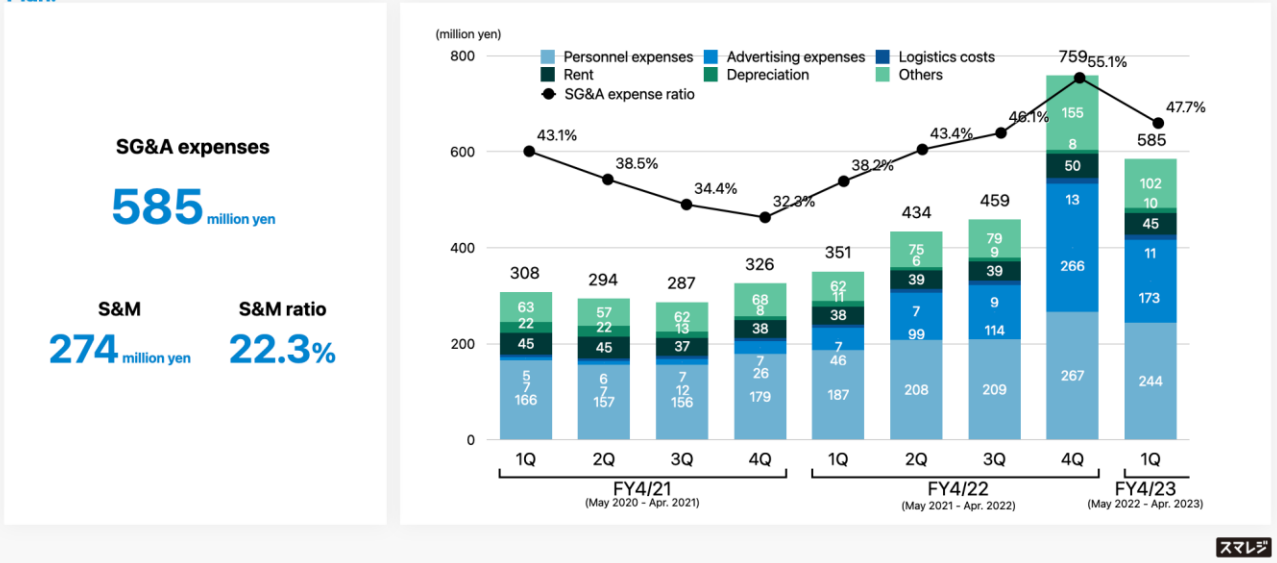


Quarterly Changes in SG&A Expenses

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The SG&A expense ratio, which had temporarily risen due to concentrated investments in bonuses and advertising expenses, recovered to 47.7%.

Advertising expenses were 277.5% YoY, with continuing investment in S&M toward achieving the Medium-term Management Plan.



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Please continue with the explanation of SG&A expenses, Mr. Minato.

Minato: This is the change of selling, general and administrative expenses.

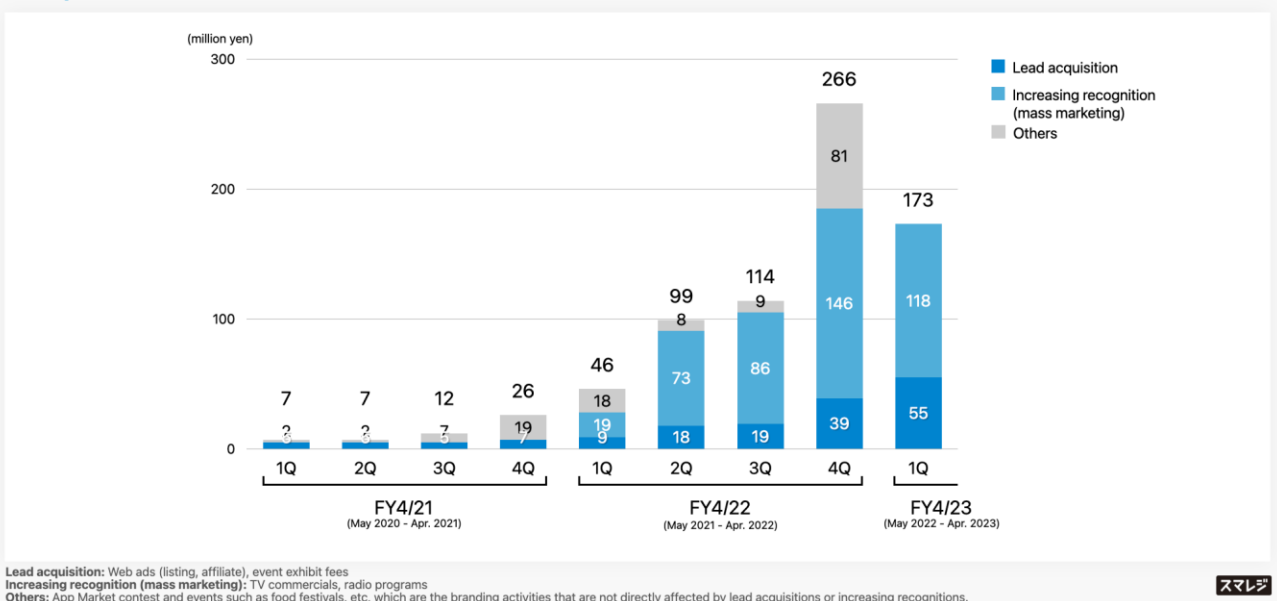
Although we are concentrating on advertising and publicity spending in the current fiscal year, the SG&A-to-sales ratio has recovered to 47.7%.

As for the ratio of S&M expenses in SG&A expenses, we used JPY274 million, 22.3% of the total as a percentage of sales.

Quarterly Changes in Advertising Expenses

1Q FY4/23 Financial Summary 12

In parallel with expanding awareness through mass marketing such as TV commercials, we are also implementing measures to acquire leads.



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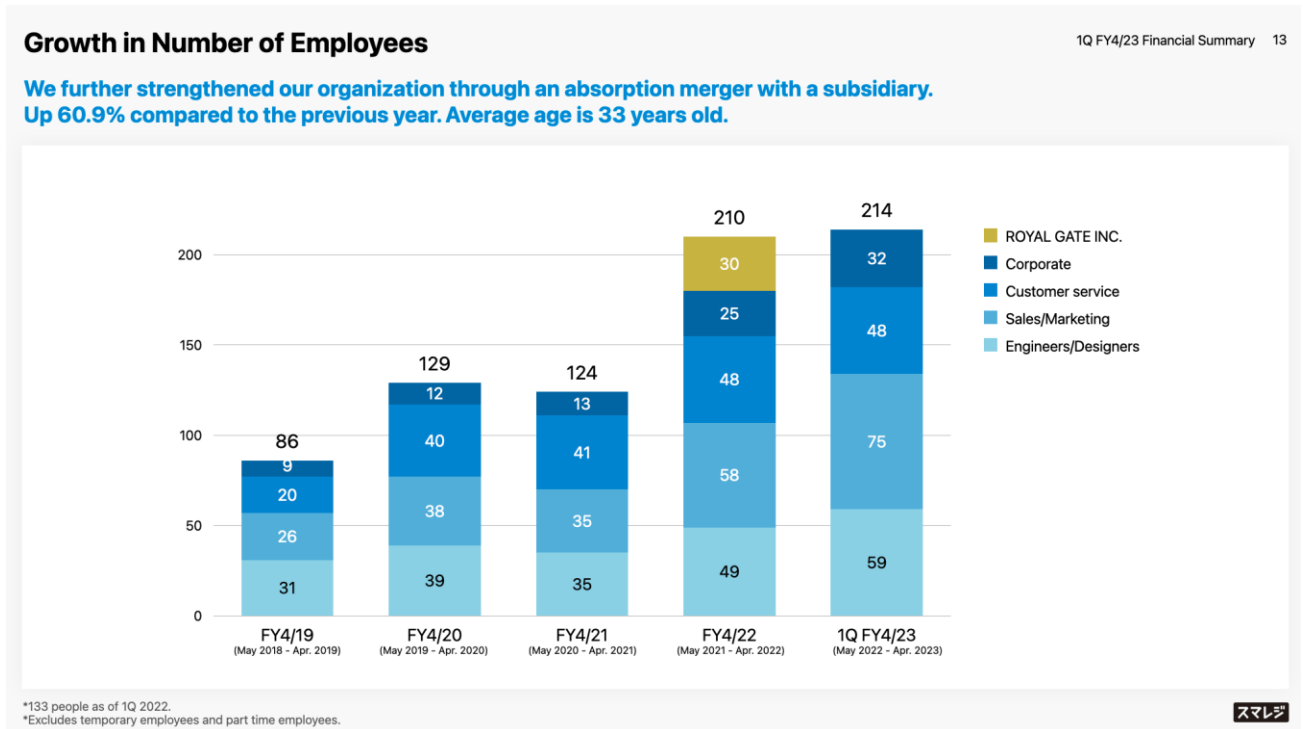
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Next, please. This is the quarterly change in advertising expenses within S&M expenses.

The blue area at the bottom of this graph shows advertising expenses used for lead acquisition, and the light blue area above it shows advertising expenses used for recognition acquisition, TV commercials, radio, etc.

As of the end of 1Q, JPY173 million had been spent.

As in the previous fiscal year, we will continue to spend on advertising and publicity in the current fiscal year as well, but we will do so in a controlled manner while keeping an eye on SG&A expenses so as not to reduce profits.



Yamamoto: Next is the number of employees.

The number of employees has increased again due to the absorption of a subsidiary, and we are actively recruiting in all departments. We are short of people in all departments, so we have asked our recruiting team to expedite their activities as quickly as possible.

We expect to increase the number of employees by roughly plus-50 in the current fiscal year.

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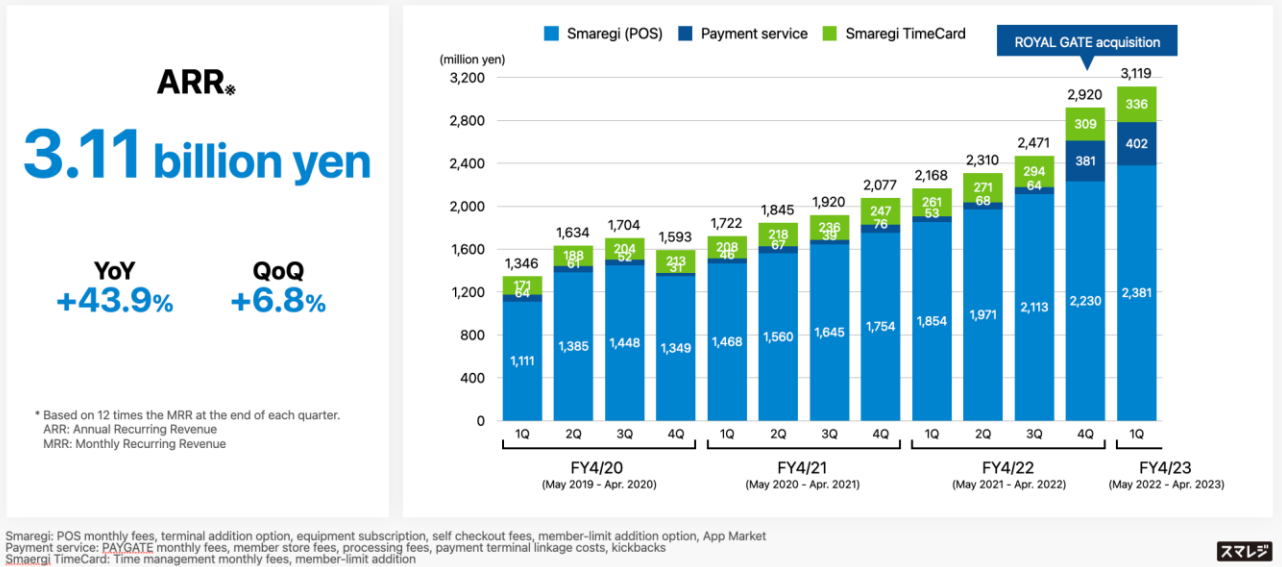
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Annual Recurring Revenue (Subscription Sales)

Even amid the COVID-19 pandemic, the number of fee-paying stores has remained solid. Acquisition of payment service (ROYAL GATE) and growth of Smaregi TimeCard also contributed, with ARR growing 43.9% YoY.



Next is the trend of ARR, which is listed as a key indicator in the medium-term management plan.

ARR results amounted to JPY3.11 billion. Compared to the same quarter of the previous year, the growth was plus 43.9%.

Since last time, we have tried to show a breakdown of this ARR, with blue being the Smaregi usage fee and dark blue being the payment service.

The payment service is about JPY400 million, which is the combined revenue of Royal Gate and Smaregi-Payments, which was originally there. The green color above that is the combined ARR of the attendance management service called Smaregi-Time Card, which amounts to JPY.11 billion.

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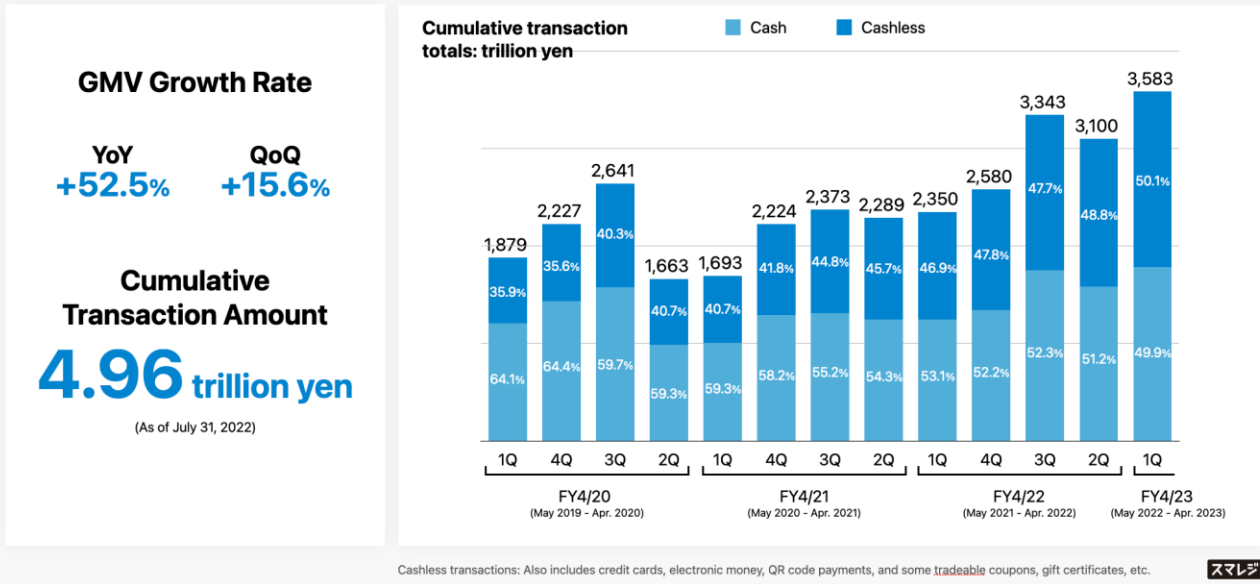
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POS Quarterly GMV (Gross Merchandise Value) Progress

Business Summary 17

Although there are fluctuations due to the COVID-19 pandemic and contractions in economic activity, Smaregi's economic zone is steadily expanding (cumulative transaction amount exceeded 5 trillion yen in August 2022)

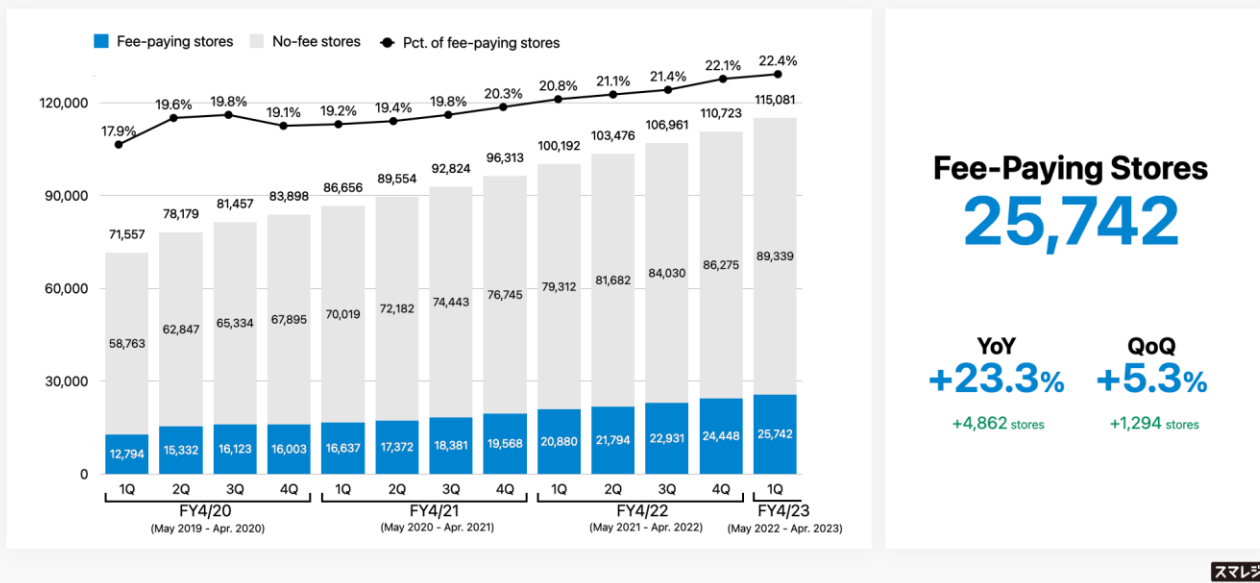


As for the amount in circulation, we announced at the end of August that the cumulative transaction volume exceeded JPY5 trillion, and it amounted to JPY4.96 trillion at the end of Q1. This is for reference only, but it shows the ratio of cash transactions to cashless transactions, which is roughly half and half.

POS Composition of Plan Categories with Fees

Business Summary 18

Despite the long-running COVID-19 pandemic, the customer base expanded continuously. The fee-paying store ratio also increased by 1.6 percentage points YoY, to 22.4%.



Next, the number of stores, Minato-san, please.

Minato: These are quarterly trends in the number of registered and paid stores. The number of registered stores increased by 115,081 and the number of paid stores increased by 25,742, or 23.3% YoY.

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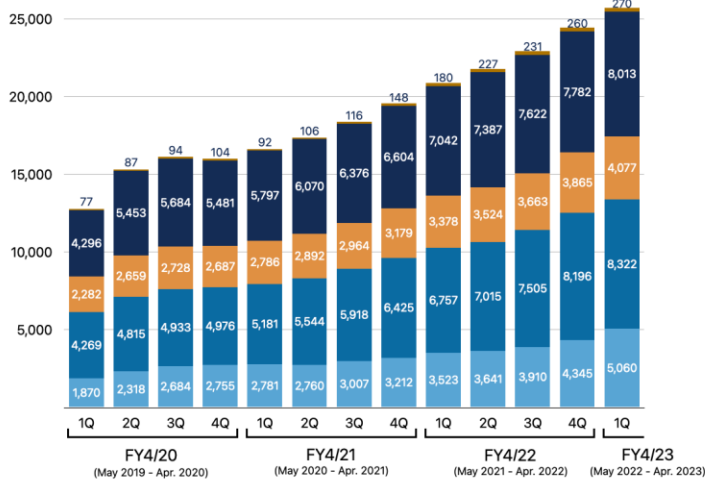
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POS Composition of Plan Categories with Fees

The proportion of low-priced Premium plans has increased.



	YoY	QoQ
Food Retail 16,500 yen monthly/store	+50.0%	+3.8%
Retail Business 13,200 yen monthly/store	+13.8%	+3.0%
Food Business 11,000 yen monthly/store	+20.7%	+5.5%
Premium Plus 7,700 yen monthly/store	+23.2%	+1.5%
Premium 4,400 yen monthly/store	+43.6%	+16.5%

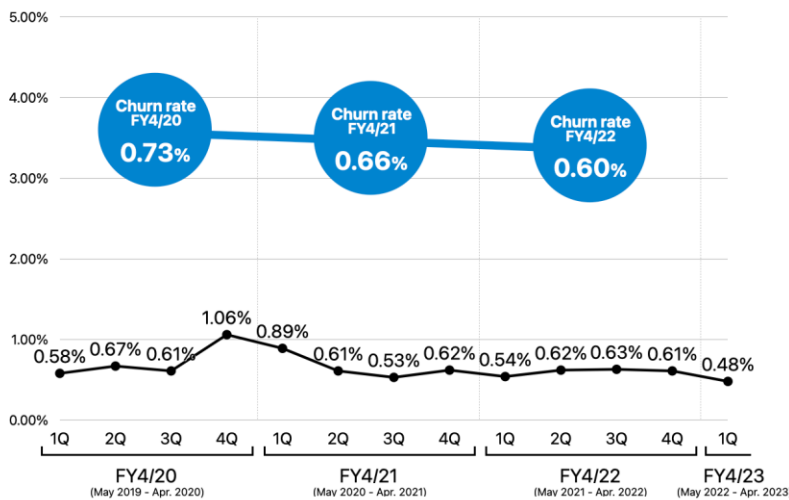
Standard plan stores paying a fee due to the use of an optional service are not included in this graph.



The plan breakdown among its paid stores is as follows: all plans are increasing steadily.

POS Churn Rate

We have continued measures to strengthen onboarding and improve service quality, and in 1Q FY4/23 the average churn rate remained at a low level.



1Q FY4/23
Churn rate
May 2022 - Jul. 2022
0.48%

YoY	QoQ
↓ 0.06pt	↓ 0.13pt

The churn rate is the monthly recurring revenue churn rate, which is the decrease in existing customer monthly fees caused by cancellations.



Continuing on, here is the churn rate.

The churn rate here is the MRR churn rate based on monthly fees. The churn rate remains at a low level.

I think it is down quite a bit, 0.48% in Q1, but there is some deviation on a monthly basis, so I hope you can see the average for the full year.

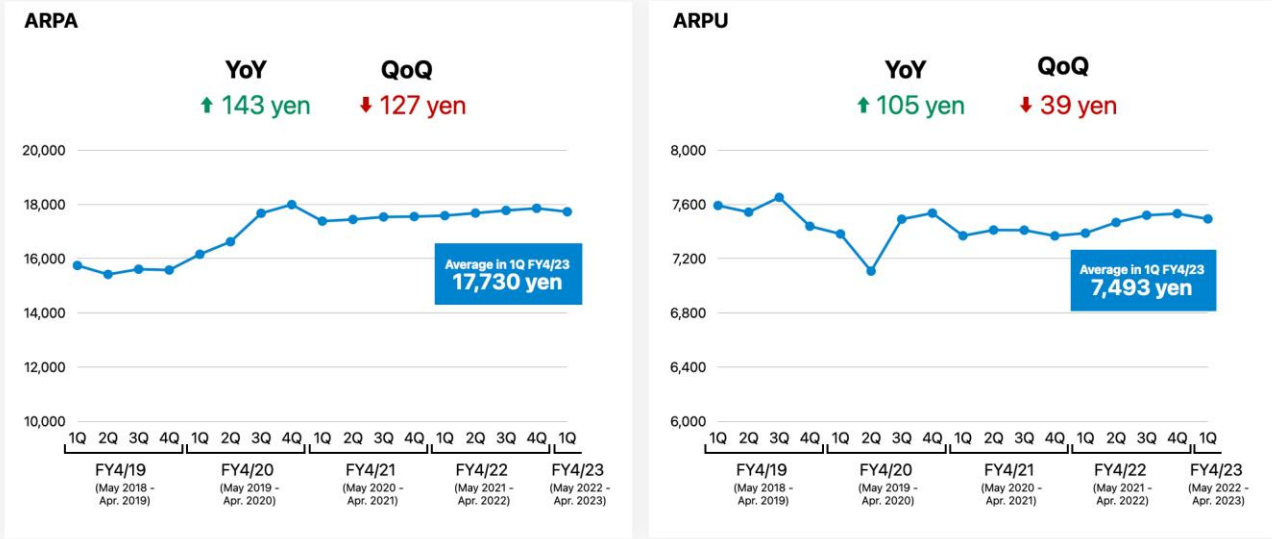
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Both ARPA and ARPU slightly decreased due to changes in existing customer plans and the number of stores. The average number of stores per paid subscription is 2.37.



Does not include Smaregi TimeCard, Smaregi App, or the payment service.



Next are the trends in unit price per customer and ARPA/ARPU.

ARPA, the average customer unit price per company is JPY17,730, and ARPU, the average customer unit price per store, is JPY7,493.

The customer unit price here is for Smaregi usage fees only, and does not include cross-sold timecard or payment sales.

Although there appears to have been a slight decrease in Q1, the YoY figure shows a slight increase, and I believe that the situation is stable, with no major changes.

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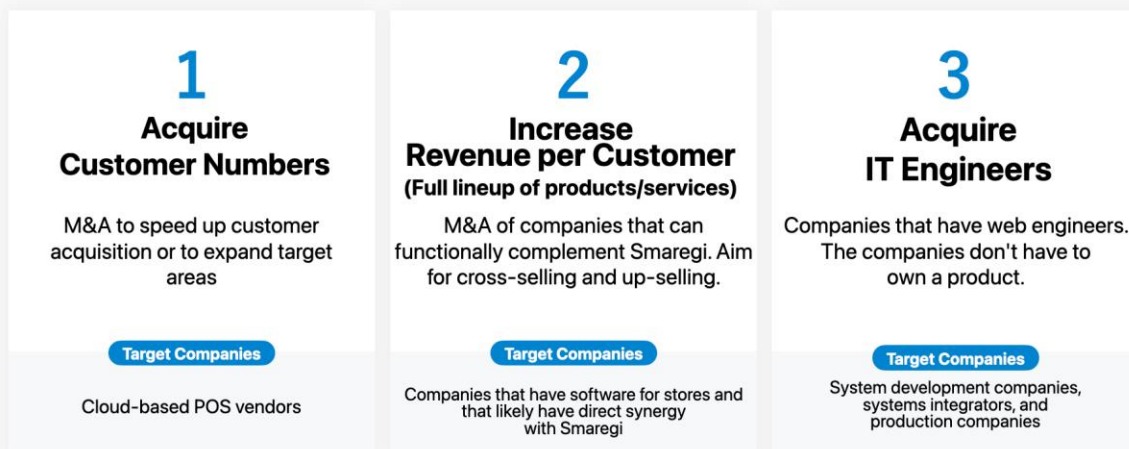
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Smaregi's M&A Strategy

Business Outline 32

We are actively considering M&A with a focus on companies that have direct business synergies.
We are also considering acquiring IT engineers as well.



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Yamamoto: We included M&A strategies this time.

We would like to actively pursue M&A as one of the growth drivers for the future, but it is difficult to say when this will happen because we are dealing with other parties.

As regards to policies, we have set three.

The first and the second is the number of customers and the unit price of customers. The first is to acquire the number of customers, which means that the vendor, which is a vendor in the same industry but is developing a cloud-based POS system, aims to increase the speed of acquiring customers. Or we are considering M&A in the sense of expanding our target area slightly.

The second is the unit price of customers, the client of Smaregi. We have a solution that is expected to sell directly to the target audience or that will please the customer. In other words, we would like to M&A companies that have direct synergies with Smaregi and are developing software for stores, or such services. This would mean cross-selling.

The third is the acquisition of IT engineers. It's often called Acqui-hiring, but it's getting harder and harder to acquire IT engineers year by year. We target system development companies, Sler, and small web production companies for M&A with the aim of acquiring such engineers.

We are focusing on the above three points to continue our consideration.

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VISION 2031

2022/6/13 UPDATE

KPI Aiming for 300,000 active stores and a 14% market share in Japan

Smaregi does not set the number of accounts or registered stores as target indicators, but sets the number of active stores as our KPI with the aim of becoming a POS system that is actually used.



<https://corp.smaregi.jp/ir/management/vision2031.php>

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Last but not least, last year, about a year and a half ago, we announced our medium- to long-term vision for SMAREGI, and we are now in the second year of activities based on that vision.

Our long-term goal is to have 300,000 active stores. In other words, to become Japan's number one POS vendor, with the top market share in Japan.

From now on, we will increase the speed even further and work to become a leading POS company in Japan. We look forward to your continued support. Thank you for your support.

I have rambled on, but I would like to conclude my explanation of the financial results.

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Question & Answer

Endo [M]: We will now move on to the Q&A.

Let us begin with the comments we received on the registration form for the information session. We have received comments asking us to accelerate the timing of the achievement of the mid-term management plan.

Yamamoto [M]: Thank you for your support. The medium-term management plan is a three-year plan that will end in the next fiscal year, with ARR as the most important KPI. The plan calls for an ARR target of JPY2.7 billion in the first year, JPY3.67 billion in the current year, and to surpass JPY5 billion in ARR in the final year.

In the first year, it landed at a little over JPY2.9 billion, up from JPY2.7 billion. It would be best to accelerate the process this fiscal year as well, but first of all, we would like to move forward to surpass the JPY3.67 billion mark as soon as possible during the current fiscal year.

Endo [M]: Continuing on, we have a question coming in, please.

Yamamoto [Q]: Thank you very much. We received one question. Please tell us about the Owl Solution business, the cloud services business that was acquired as mentioned in the financial summary. We have been asked what kind of development we can expect in the future. Can you please take care of this, Mr. Minato?

Minato [A]: Owl Solution is in the business of creating apps for stores, and we already have 30,000 active paying Smaregi customers, so we would like to sell more and more store apps as a cross-sell to those customers. Cross-sell merchandise.

Yamamoto [Q]: Is the plan to put it on the Smaregi app market?

Minato [A]: That part is not clear yet.

Yamamoto [A]: We don't know yet. The company is originally from Fukuoka, isn't it? Development and sales are also on a very small scale, but we have them working in our Fukuoka office right now.

Continuing on, your net income built up considerably in Q1. Did you include this in your plan for this fiscal year? We have been asked if there is a strong possibility of an upward swing in the current fiscal year. As I explained at the beginning of this presentation, net income after taxes has increased considerably, but because of the merger of subsidiaries, it was recorded as an extraordinary amount, so it has been hastily added on to the current year's plan.

I've often been asked if you are going to revise the plan upward or otherwise. How is it?

Shikichi [A]: I would like to explain as promptly as possible, when the figures become available, so that we can provide meaningful information to investors, if I may say that we are in violation of the requirements for timely disclosure.

Yamamoto [Q]: So, you are going to organize it a little more and add it to the current year's plan, and then there is a possibility of revising the plan once you have an accurate figure. Thank you very much.

Continuing on, ARPA/ARPU is down slightly QoQ, but we expect it to increase in the future. When do you think the manifestation of that rise will be, then, Mr. Minato, may I ask?

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Minato [A]: As I mentioned earlier, the amount of money that we are paying in ARPA/ARPU for Smaregi is only the monthly usage fee of Smaregi, and we are not yet able to add the cross-selling amount to the total. Therefore, in terms of cross-selling users alone, the cost per customer has increased.

The ARPA/ARPU graph that we have been showing for a long time, for example, ARPA per company, for example, can go up significantly if a large number of customers are acquired by a large company, and it can go down slightly if many customers with two or fewer stores are acquired that are not large companies. In the current situation, the unit price per customer for Smaregi does not go up that much, so I would like to provide more information on cross-selling in the future.

Currently, we are cross-selling timecard and payment businesses more and more, and we believe that the unit cost per customer of cross-selling users is increasing.

Yamamoto [Q]: You are saying that this document is only for the POS cash register part? Thank you very much. When is the time of manifestation? Still not sure?

Minato [A]: Yes.

Yamamoto [Q]: Let me move on. We are asked how the ARR is performing against the plan? In fact, there was a fairly large boost from the Royal Gate M&A, so we believe we are making good progress on that front. How is it going? As planned?

Minato [A]: Yes, that's right. I think the plan is going well.

Yamamoto [A]: Let's say it is as planned. How about other questions?

Endo [M]: Ladies and gentlemen, are there any other question? We have received a few.

Yamamoto [Q]: Thank you very much. If there are no questions during this response, I would like to finish with this. The question is if it is possible to provide monthly transition information for Payment Services and timecards as well. I have received this request, is this something I can put out? What do you think? It's still small, the numbers are still small. Monthly still, but it is difficult.

Minato [A]: Yes, that's right.

Yamamoto [A]: I am just now starting to show the breakdown of the quarterly ARR trends. I have the monthly numbers of stores for Smaregi out now on a monthly basis, but what is quite large is fine when it is large, but when it is a little sluggish, it can be quite misleading, or something like that. I am wondering if it is difficult to read the data on a monthly basis? I think it would be difficult at this point.

I have received many more questions, so I would like to continue and answer these three questions.

How was the impact of the seventh coronavirus wave? I would like to ask if there have been any changes in the stores where you have [been] introduced? Mr. Minato, how is the effect of coronavirus?

Minato [A]: I honestly don't think the seventh wave had much impact. The number of leads and business negotiations dropped due to the corona outbreak and the declaration of a state of emergency, but nothing in particular dropped during this seventh wave, and we were able to acquire customers steadily, so we do not think there was much impact on the number of business negotiations.

Yamamoto [Q]: Thank you very much. Next is, how difficult is it to acquire engineers? Are there any other measures besides acquisitions? Also, what about measures for retains? Tech Farms and such.

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Minato [A]: Yes, the Tech Farms have been able to recruit well to some extent. I don't think it is that difficult to hire young engineers, but I have the impression that it is difficult to hire mid-level and above.

Yamamoto [A]: It is getting tougher every year. The unit cost of acquiring engineers is high, and the annual salary of engineers is rising rapidly, so it is getting tougher and tougher. Originally, we had created a development base only in Osaka, but now we have expanded to Fukuoka and are also recruiting in Fukuoka. Also, full remote is also employed with some conditions.

As I explained at the beginning, the Tech Farm is just as the name implies: we are planting seeds to nurture technology, actively hiring young engineers and young inexperienced engineers, and developing them in-house. Such project has already started. We are making good progress there as well. We are taking such measures in addition to M&A, and we hope that M&A will accelerate the process.

Next up. You explained that the slightly lower churn rate is due to seasonal factors, but could you explain?

Minato [A]: There are seasonal factors, or rather, monthly fluctuations. For example, if a major customer cancels, the churn rate will go up. There are monthly fluctuations, so I would like you to look at the average. It is something like 0.1%, so I think it is a number that can be moved by quite a small amount.

Yamamoto [Q]: If you look at it in the long run, is it around 0.6% or so?

Minato [A]: Yes.

Yamamoto [Q]: Thank you very much. I would like to make this question the last one. In the document, you mentioned that the ratio of low-cost and premium plans has increased, but what factors have allowed you to keep your ARPA/ARPU? You mentioned that all plans are doing well, so is that why? You explained the lower-priced plans among the paid plans are growing. How is it cost per customer was flat when it should have been declining?

Minato [A]: In terms of the per-customer cost per company, even with a low unit price plan, if we can acquire customers with a large number of stores, we will be able to maintain our ARPA. This time, the low-cost plan rose, and Premium Plus did not grow that much, but there were some small customers who were Premium Plus customers who changed to Premium, so we are seeing such a wave.

In terms of the ratio of the amount accumulated in this quarter to the amount accumulated up to now, the quarterly movement is still small, and although the ratio of low-priced and premium plans has increased a little, it does not appear to be that large a change. Overall.

Yamamoto [Q]: So, you are saying that the increase/decrease numbers for rate plans are shown on a quarterly basis, but ARPU and ARPA are not based on the quarterly increase in ARPA, but rather on the total number of ARPU and ARPA, so the denominator is the 26,000 fee-based stores, so there is no significant impact.

Minato [A]: Yes.

Yamamoto [M]: Okay, thank you.

Endo [M]: Thank you all for your many questions.

Finally, here is a notice from IR. We also provide IR information through newsletters and other means. We also distribute informative reports such as the monthly store count for Smaregi. We hope you will subscribe.

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Now, this is the third financial results presentation that we will be delivering via live streaming. There are still many things we are not used to, and at the beginning of today's video, we delivered an unflattering image of a handmade product, but thank you very much for watching this.

After the briefing, a questionnaire will be displayed on the Zoom screen. Please send us your honest opinions and impressions of this simple content, which will only take about one minute to complete. The IR section also includes a section for individual interviews and additional questions, so please take advantage of this.

Yamamoto: This was a short presentation, but I would like to conclude the financial results briefing.

We are already in Q2 and are working on how to carry out activities especially from Q2 to H2. We are starting many new challenges, such as increasing the number of payment services, conducting various BizDevs on the app market, and increasing the number of apps, etc. We also have a fair number of new employees, or rather new members, joining the Company every month, and we are actively building the organization or team.

We will do our best to achieve our business results for the current fiscal year, and then create a framework to accelerate our efforts in the next fiscal year and beyond, so we look forward to your continued support.

Mr. Minato, any other word?

Minato [M]: Thank you very much.

Yamamoto [M]: Now I would like to end. Thank you very much for watching today.

[END]

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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