



Smaregi, Inc.

Q2 FY2023/4 Information Session for Institutional Investors

December 15, 2022

Event Summary

[Company Name]	Smaregi, Inc.	
[Company ID]	4431-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 FY2023/4 Information Session for Institutional Investors	
[Fiscal Period]	FY2022 Q2	
[Date]	December 15, 2022	
[Number of Pages]	26	
[Time]	10:30 – 11:33 (Total: 63 minutes, Presentation: 17 minutes, Q&A: 46 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Hiroshi Yamamoto	Representative Director
	Eiko Endo	IR Manager, President's Office
[Analyst Names]*	Kenichi Ito	ICHIYOSHI RESEARCH INSTITUTE INC.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Endo: It is now time to start, so we will begin. Thank you for participating in our financial results briefing for Q2 of the fiscal year ending April 30, 2023, of Smaregi, Inc.

Today's flow will begin with an explanation of the financial results disclosed yesterday, followed by a Q&A session. Questions are always welcome via the Q&A button on the viewing screen or by e-mail. We look forward to your questions. We also encourage you to use our chat function for non-question related inquiries.

Mr. Kenichi Ito, Analyst, Corporate Research Department, ICHIYOSHI RESEARCH INSTITUTE INC., has been invited as a special guest for this financial results presentation. We will invite him to participate in the Q&A session in the second half of the briefing, where he will ask various questions from an analyst's perspective. Please see to the end.

Now, Mr. Yamamoto, please begin.

Yamamoto: Good morning, everyone. My name is Yamamoto from Smaregi, Inc. Thank you very much for your time today.

The first half of the presentation will be a brief overview of the financial results, and the second half will be an interactive Q&A session with an analyst, Mr. Ito. As was announced earlier, we will be accepting real-time questions, and we hope to receive many of them, so please do not hesitate to ask.

価格改定について

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今まで以上にサービスの拡充・改善を実施してゆくため、運営体制の強化を目的とし、2023年1月1日より全ユーザーを対象にサービスの価格を改定いたします。

スマレジ			タイムカード		
主な料金プラン	旧価格 (税抜)	新価格 (税抜)	主な料金プラン	旧価格 (税抜)	新価格 (税抜)
プレミアム	4,000円	5,000円	スタンダード ユーザー追加	1,000円 100円/人	1,100円 100円/人
プレミアムプラス	7,000円	8,000円	プレミアム ユーザー追加	2,000円 300円/人	2,200円 350円/人
フードビジネス	10,000円	11,000円	プレミアムプラス ユーザー追加	4,000円 400円/人	4,400円 450円/人
リテールビジネス	12,000円	14,000円	プレミアムプラス (POSセット利用) ユーザー追加	2,000円 400円/人	2,200円 450円/人
フードリテール	15,000円	17,000円	エンタープライズ ユーザー追加	6,000円 600円/人	6,600円 700円/人

※現時点では業績への影響を算定することが困難であり、業績予想の修正が必要と判断される場合には速やかにお知らせいたします。

スマレジ

Let me begin with an overview of the financial results. As we disclosed the price revision on December 7, we have received many inquiries about it, so I would like to explain it first.

For all users, including existing customers, we have revised the prices of the monthly usage fees for Smaregi and the related product, Smaregi TimeCard.

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The overall price increase is roughly 15%. Half of Smaregi's sales come from software usage fees and monthly subscription fees, and the other half comes from sales of peripheral devices, such as receipt printers and cash drawers that handle cash. Half of the sales are subject to this price increase.

Although we have given guidance that the outlook for the future is still unknown, we have naturally run some simulations internally. However, it is still difficult to see how many cancellations there will be, how much impact there will be on new contracts, and potential customers. We will make an announcement as soon as we have a certain degree of certainty. Thank you.

損益計算書

2023年4月期2Q 決算概要 5

会社合併の影響により四半期純利益が増加、売上高はYoY+37.5%に成長
積極的なS&M投資により営業利益はYoYで低下するも、今期計画に対して61.1%の進捗

(百万円)	2023年4月期 2Q実績 (22年5月～10月)	2022年4月期 2Q実績 (21年5月～10月)	前年同期比 YoY	2023年4月期 通期計画 (22年5月～23年4月)	2023年4月期 2Q進捗率 (22年5月～10月)
売上高	2,641	1,921	+37.5%	5,593	47.2%
売上原価	1,026	702	+46.2%	—	—
売上総利益	1,615	1,218	+32.5%	—	—
販売費及び 一般管理費	1,217	786	+54.8%	—	—
営業利益	397	432	-8.0%	651	61.1%
経常利益	400	422	-5.2%	651	61.5%
四半期 (当期) 純利益	506	283	+78.5%	403	125.5%

連結子会社の吸収合併

2022年4月15日開催の取締役会において、連結子会社である株式会社ロイヤルゲートを吸収合併することを決議し、2022年7月1日付で吸収合併いたしました。

四半期純利益の増加について

- ①合併による抱合せ株式消滅差益(特別利益)の計上
- ②合併後に将来の課税所得を見積り、繰延税金資産の回収可能性を検討した結果、法人税等調整額(益)を計上

※記載金額は百万円未満を切り捨てて表示しております。

スマレジ

This is the income statement.

As of the end of Q2, the sales progress rate was 47.2%. Net sales were JPY2,641 million, cost of sales was JPY1,026 million, gross profit was JPY1,615 million, SG&A expenses were JPY1,217 million, operating profit was JPY397 million, ordinary profit was JPY400 million, and quarterly net income was JPY506 million, all of which are slightly inflated. The explanation is shown on the right.

We made Royal Gate Inc., a payment company, as a subsidiary, and then, merged it in July. The net income has been accumulated as a result of the recognition of a gain on extinguishment of tie-in shares due to that absorption merger, and the recognition of a gain on adjustment for income taxes as a result of examining the recoverability of deferred tax assets based on an estimate of future taxable income after the merger.

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貸借対照表

2023年4月期2Q 決算概要 6

子会社の吸収合併による変動が発生し、固定資産はYoY+52.0%、流動負債はYoY+44.3%
自己資本比率は79.0%と安定した財務基盤を維持

(百万円)	2023年4月期 2Q実績 (22年5月～10月)	2022年4月期 2Q実績 (21年5月～10月)	前年同期比 YoY	2023年4月期 1Q実績 (22年5月～7月)	前四半期比 QoQ
流動資産	4,498	4,213	+6.7%	4,198	+7.1%
うち現預金	3,606	3,647	-1.1%	3,197	+12.8%
固定資産	943	620	+52.0%	892	+5.7%
資産合計	5,441	4,834	+12.6%	5,091	+6.9%
流動負債	1,054	730	+44.3%	893	+18.0%
固定負債	87	81	+7.6%	86	+1.7%
負債合計	1,141	811	+40.6%	979	+16.5%
純資産合計	4,299	4,022	+6.9%	4,111	+4.6%
負債・ 純資産合計	5,441	4,834	+12.6%	5,091	+6.9%



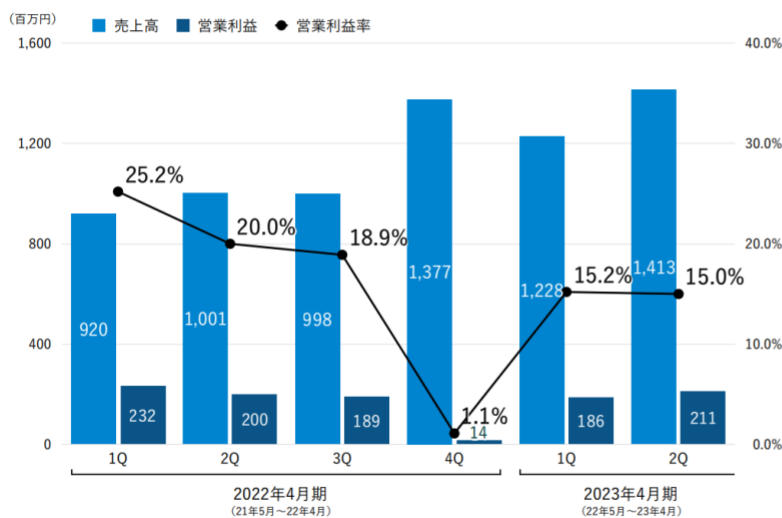
スマレジ

Next is the balance sheet. This is also a result of the absorption merger, which has resulted in an increase in fixed assets and current liabilities, but otherwise maintains a stable financial base.

売上高・営業利益・営業利益率の四半期推移

2023年4月期2Q 決算概要 9

営業利益率15%程度の水準を維持しながら中期経営計画のS&M投資を継続中



2023年4月期 2Q

営業利益率
15.0%

YoY

↓ 5.0pt

QoQ

↓ 0.2pt

※ 2022年4月期4Qは子会社(株式会社ロイヤルゲート)の業績を含む

※ 2023年7月1日付で株式会社ロイヤルゲートを消滅会社とする吸収合併を実施したことにより、2023年4月期1Qのロイヤルゲート(旧連結子会社)の業績寄与分は吸収合併の効力発生日である7月1日以降の1ヶ月分のみ

スマレジ

The following is the quarterly trend of net sales, operating profit, and operating margin. Net sales for the quarter were JPY1,413 million. We believe that we are building up well. The operating margin was 15%. This is almost the same level as the previous quarter.

Although advertising expenses and other expenses will be mentioned later, we feel that we have been able to control the operating margin to some extent better than in the previous fiscal year.

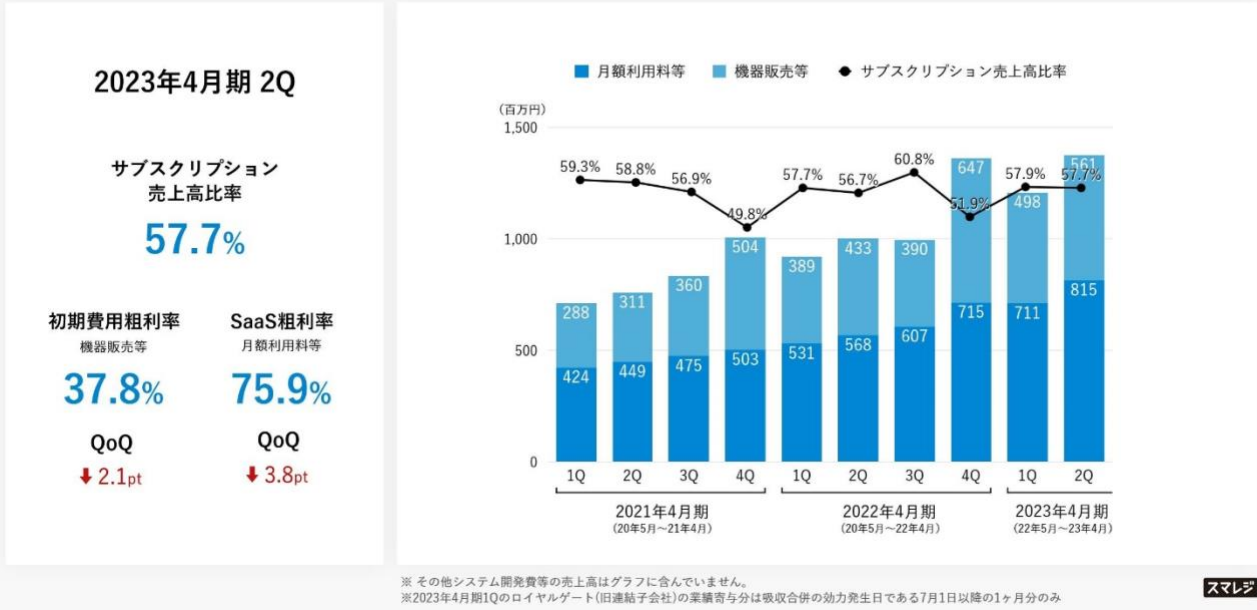
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決済会社ロイヤルゲートのM&Aシナジーにより、サブスクリプション売上高（月額利用料等）はYoY+43.5%と大きく成長



The next slide is about the quarterly changes in net sales.

As explained in the price change section at the beginning of this explanation, there are two major segments, or categories, with about half of the sales coming from monthly subscription fees and the other half from equipment sales.

The dark blue portion of the graph shows JPY815 million for monthly usage fees, etc. and JPY561 million for equipment sales, etc. Subscriptions accounted for 57.7% of sales.

As for the gross profit margin, the gross profit margin on initial costs was about 37% to just under 40%, and the gross profit margin on SaaS was 75.9%. The gross profit margins declined slightly in both categories. Since Royal Gate, a payment company, was originally a loss-making company, its profit margin was a little low. Our gross profit margin has fallen slightly as a result of incorporating this.

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販売費及び一般管理費の推移

2023年4月期2Q 決算概要 11

販管費率（44.7%）を計画範囲内でコントロールしながら、中期経営計画達成に向けたS&M投資を継続
組織の拡大に伴い、人件費が増加

2023年4月期 2Q

販売費及び
一般管理費

631百万円

S&M **280**百万円 S&M比率 **19.8%**



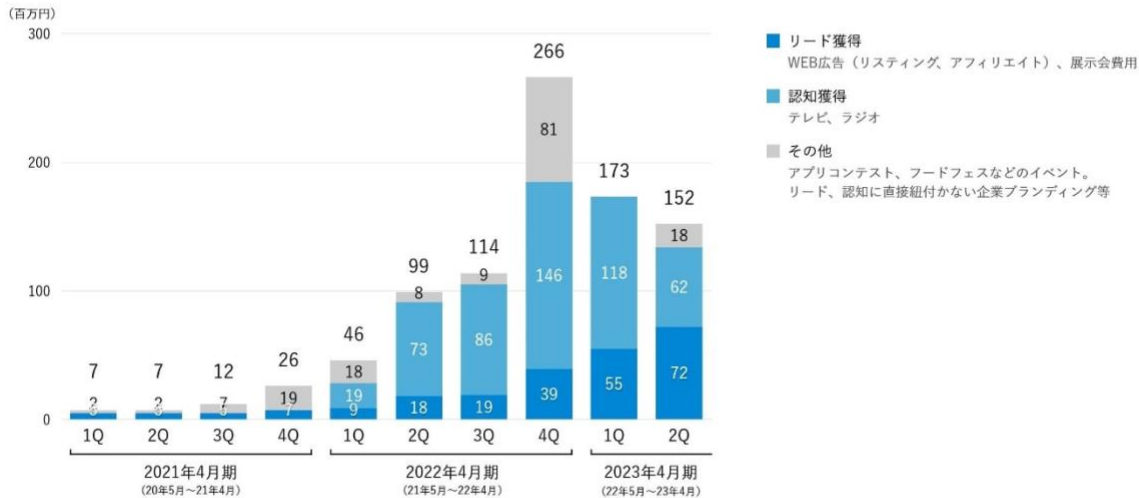
スマレジ

The next [slide] shows the changes in SG&A expenses. The total amount was JPY631 million. Since net sales for the quarter were JPY1.4 billion and S&M expenses amounted to JPY280 million, S&M ratio was 19.8%. This was mainly due to the increase in personnel costs and the use of advertising expenses.

広告宣伝費の四半期推移

2023年4月期2Q 決算概要 12

TVCM等のマス広告を活用した認知拡大とリード獲得施策を並行して実施中



スマレジ

Next is the quarterly changes in advertising expenses.

It can be said that advertising expenses were considerably lower than in Q1. The graph shows the trend from the previous year. Last year, we were not able to spend much in Q1, but in H2, especially in Q4, the budget was used up in one fell swoop and not used evenly.

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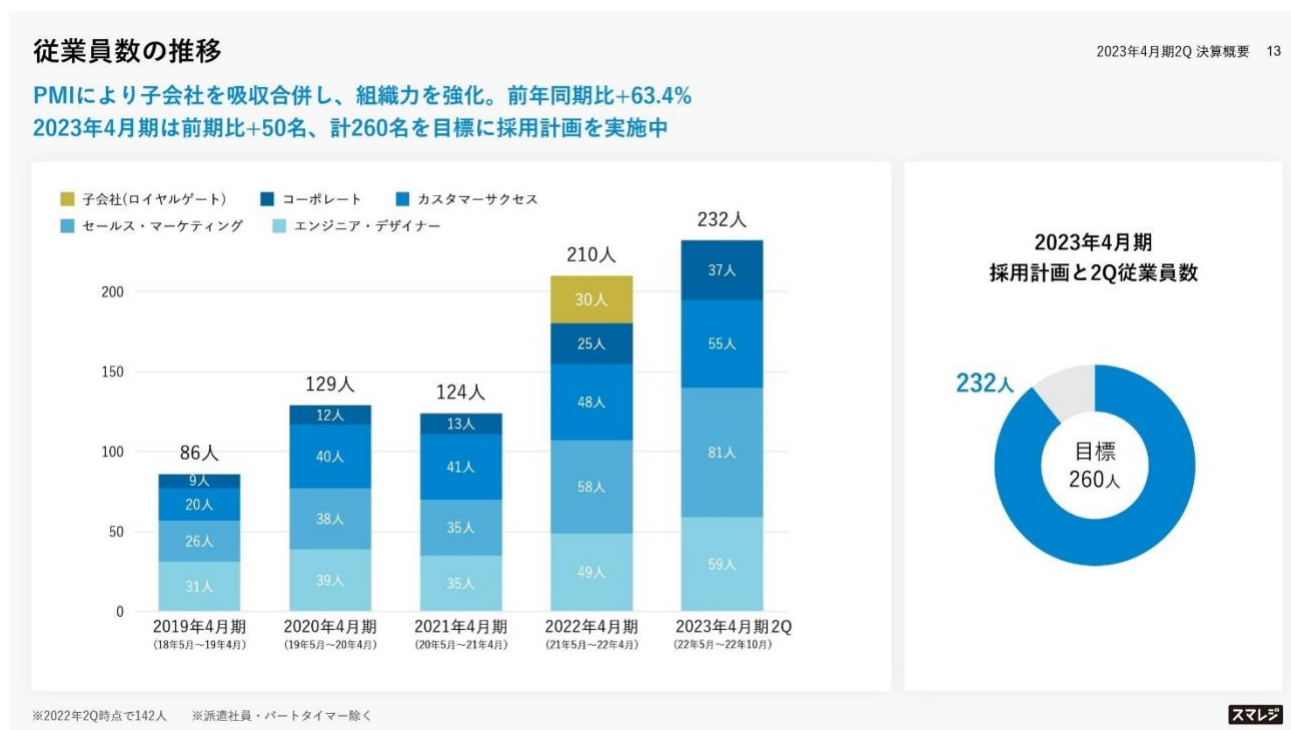
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However, this fiscal year, we have reflected on this situation and adopted a strategy of using advertisements well from Q1, so we believe that we were able to spend well in Q1 and Q2.

The breakdown is divided into three categories: advertising for lead acquisition, advertising for increasing recognition, and others. We are gradually spending more on advertising to acquire leads and spending less to increase recognition.



Next is the growth in number of employees.

We are now up to 232 employees. Through IR activities, we have received many questions about the number of employees for the current fiscal year, so we have included disclosure of the number of employees as a plan or target for the current fiscal year, which is 260.

Although it is not necessarily going to be as planned, we will continue our recruiting activities with a goal of 260 employees by the end of this fiscal year.

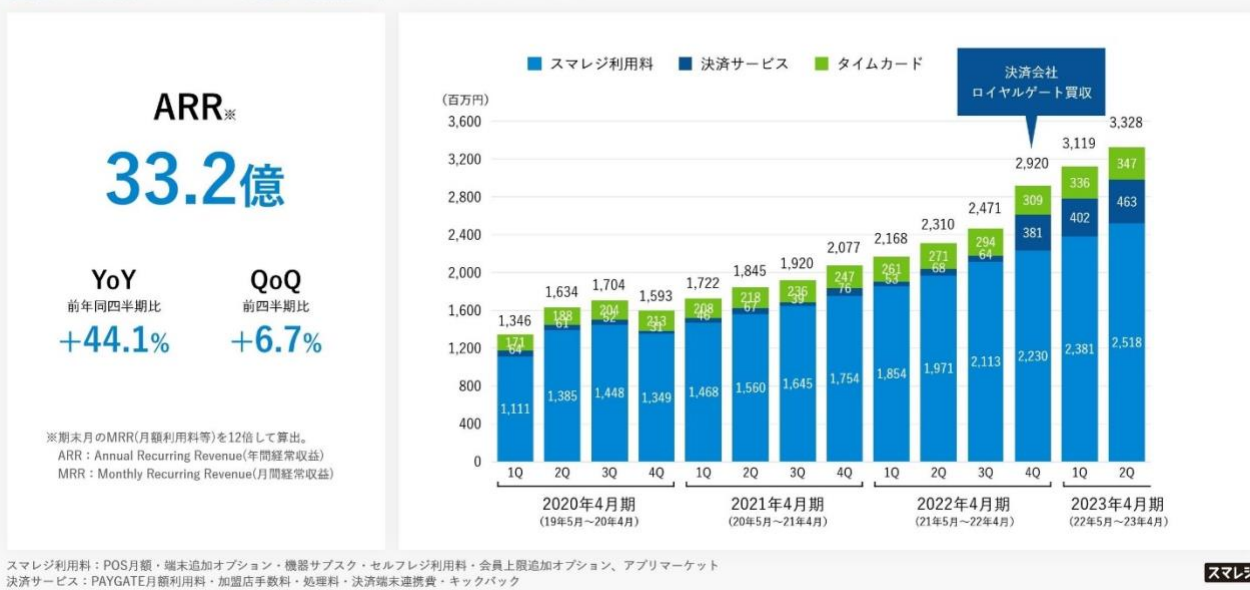
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ARR (サブスクリプション売上高) の推移

コロナ禍においてもスマレジの有料店舗数は堅調に推移。
買収した決済サービスの成長が貢献し、ARRはYoY+44.1%



Next is the trend of ARR.

ARR is the most important KPI in our mid-term management plan, and we are targeting JPY3.67 billion for the current fiscal year. The actual results so far are JPY3.32 billion.

We recognize that the ARR of the payment service is growing significantly due to the accumulation of monthly usage fees and payment fees, in addition to the monthly usage fees for the Smaregi service and the monthly usage fees for the attendance service called Smaregi TimeCard.

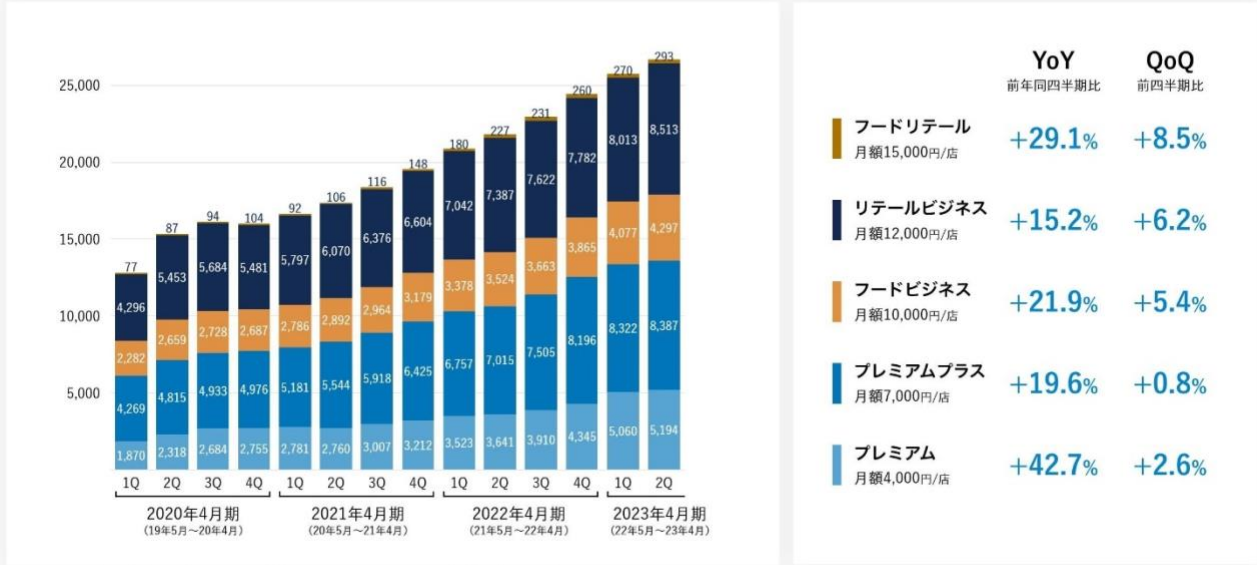
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各プラン堅調に推移。小売業向けリテールビジネスプランも再び増加基調



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 ※各プラン料金は全て税抜価格です。



Continuing with the composition of plan categories with fees.

The total number of paying stores is 26,684. The total number of registered stores, including no-fee plans, now stands at 118,631. Therefore, there are 91,947 no-fee stores.

Each plan is steadily increasing. The retail business plan is growing a little, but this is not due to any particular factor, and we think it is within the margin of error. Rather than focusing on one or the other, all plans are equally growing.

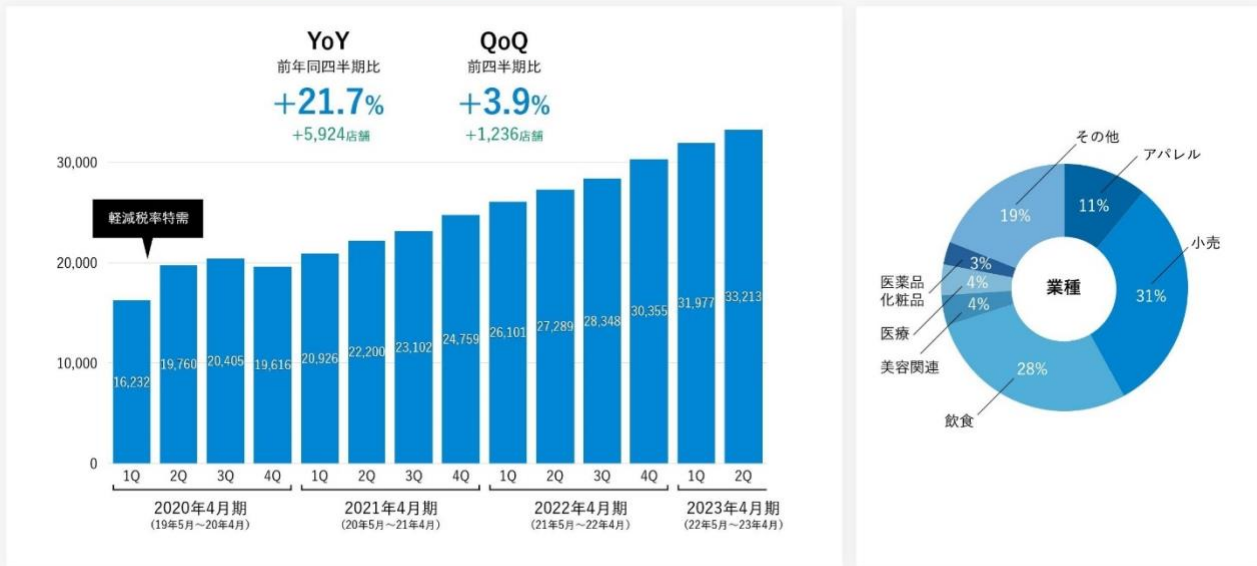
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アクティブ店舗数30万店達成の目標に向けて着実に積み上げ中



※プラン種別を問わず、POSレジ機能で直近1ヵ月の間に商取引（売上）の記録を行った店舗数。在庫管理やその他の機能を利用していても、商取引がない場合はカウントされません。

スマレジ

This is the number of active stores.

One of our KPIs is the number of active stores, and although we announce that we have more than 110,000 registered stores, there are many accounts that are not actually being used. The monthly usage fee for Smaregi includes both no-fee and paid plans, and the no-fee plan includes many customers who have registered only for an account but do not use the service. Therefore, we place importance on the index of active stores.

Most of the 26,684 stores on the paid plan are naturally active, but the no-fee plan is rather mostly inactive, with about 7,739 stores now active on the no-fee plan.

As a long-term plan, we are currently working toward our goal of 300,000 active stores by 2031.

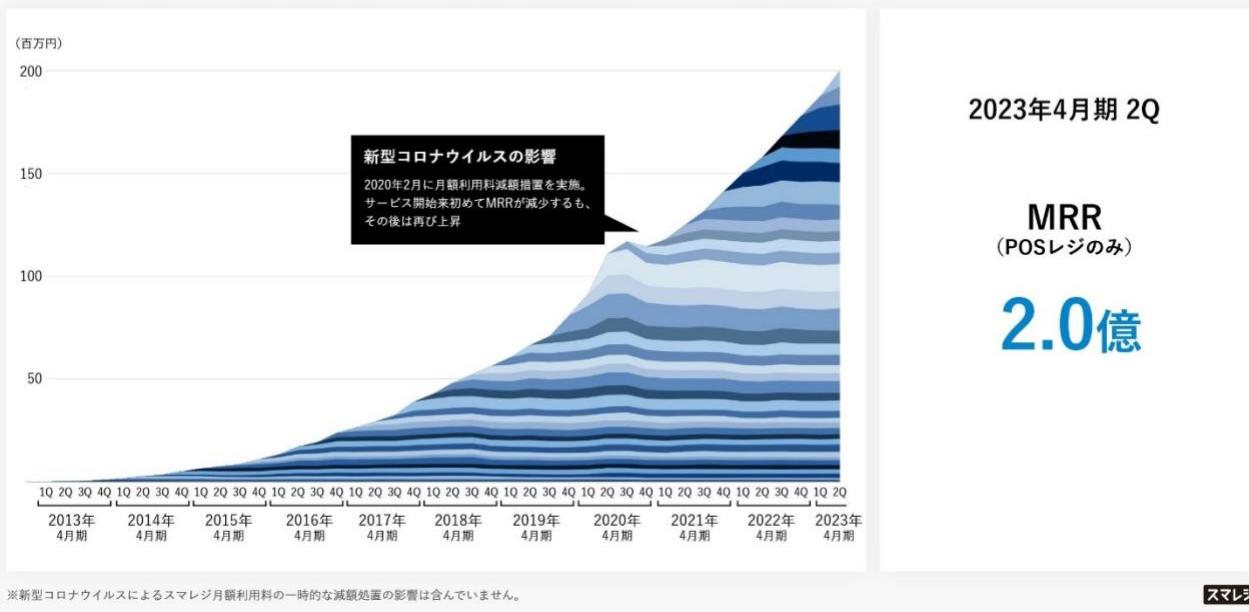
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新規獲得によるMRRの純増と低解約率による安定した継続利用によって、持続的成長を実現



※新型コロナウイルスによるスマレジ月額利用料の一時的な減額処置の影響は含んでいません。

スマレジ

Next is the MRR by quarter of start of service.

This graph shows the MRR accumulated by customers since the beginning of the fiscal year ending April 30, 2023, and this graph shows a steady accumulation.

This table shows the results for POS registers only, which is written in parentheses, with MRR JPY200 million for Smaregi's POS service alone.

Since the churn rate is low, I think we can see that customers who have been using the service for a long time are also continuing to use it, as shown in this lower layer.

We are also working on cross-selling, or raising the revenue per customer, by offering Smaregi TimeCard and PAYGATE, a payment service, to Smaregi users. We have not been able to fully compile the data, but we would like to disclose it when it has been successfully compiled. This cross-selling activity itself is being pursued rather aggressively.

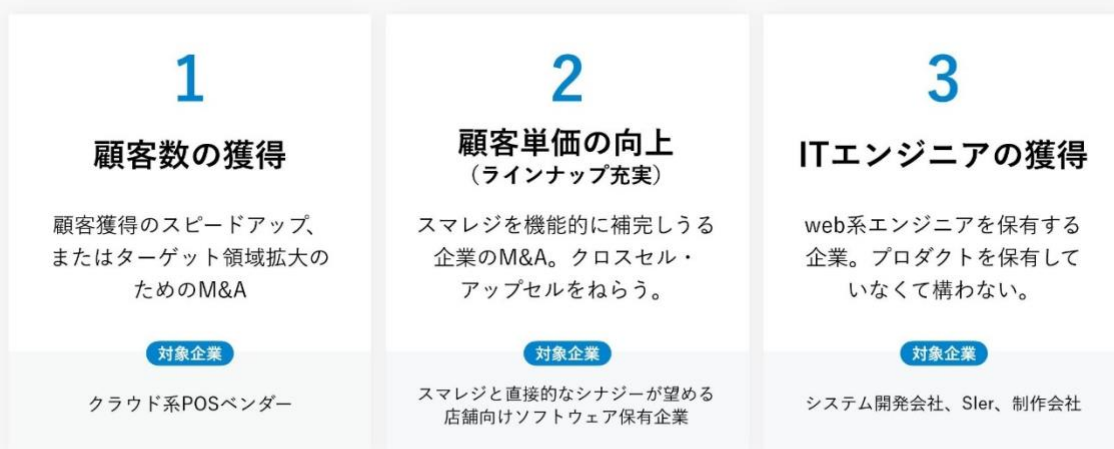
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直接的な事業シナジーのある企業を中心にM&Aを積極的に検討しています。
また、ITエンジニア獲得のためのアクハイアリングも併せて検討しています。



スマレジ

Lastly, in terms of Smaregi's M&A strategy, we are a software company, so when we think about future growth, we are debating whether we should create services one by one or whether it would be quicker to do so through M&A. We are aware that we can accelerate our growth speed by actively conducting M&A based on such a build or buy approach.

We have three policies. Simply put, our policy is to have Smaregi as the main axis and not diversify too much beyond that. We would like to target services or companies that contribute to increasing the number of customers and the revenue per customer for the first and the second policies. Therefore, the first is to acquire more customers, which means that we are widely considering other companies in the same industry and cloud-based POS vendors, domestically as well as overseas.

The second is to increase the revenue per customer, which is targeted at software companies and digital gadget companies that provide services that fit perfectly with Smaregi's customers.

The third is to acquire IT engineers. It is challenging to acquire IT engineers not only for our company, but for any company. We are targeting companies that have a large number of engineers, such as system development companies and system integrator companies, for the purpose of acquiring IT engineers.

We are now considering M&A for these three targets.

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スマレジ誕生から10年。
次の10年に向け、さらなる成長にチャレンジします！

VISION 2031

2022/6/13 UPDATE

KPI

アクティブ店舗数30万店舗、国内市場シェア14%を目指す！

スマレジはアカウント数や登録店舗数を目標指標にせず、
実際に使われるレジを目指し、アクティブ店舗数を重要指標として設定しています。



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

スマレジ

Now, going to the last page, the medium-term management plan.

We are now right in the middle of the second year, so we have progressed right to the middle of the medium-term management plan.

Our major goal is to break through the JPY5 billion ARR mark, and we are currently at JPY3.32 billion. This year's target is JPY3.67 billion, so I think it is becoming quite realistic. We will continue our activities to increase ARR and MRR as our most important priority.

We will also continue to work hard toward our long-term goal of surpassing 300,000 active stores by 2031.

I am afraid that this was a bit abbreviated, but I would like to conclude with the explanation of the financial results.

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Question & Answer

Endo [M]: We will now proceed with the Q&A. We will answer as many questions as time permits, so please use the Q&A button at the bottom of the screen or send us your questions by e-mail.

For similar questions, we will answer them all together. If we are unable to answer everything in time, we will send a collection of answers to all participants later.

Next, we would like to introduce our panelist. Mr. Kenichi Ito, Analyst, Corporate Research Department, ICHIYOSHI RESEARCH INSTITUTE INC., has been invited as a special guest to this financial results presentation. We hope to receive a variety of questions from an analyst's perspective.

Mr. Ito, please go ahead.

Ito [Q]: Thank you. Looking at the questions you have received, I would like to start with a question about the price increase, as it is one of the most frequently asked questions.

I will start with a simple question: Why was the price raised in the first place?

Yamamoto [A]: Thank you. It is somewhat a policy, but it was not that we were having a particularly difficult time due to soaring costs or the impact of foreign exchange rates. For many years now, and especially since our listing, we have received comments from foreign institutional investors that we should raise our prices, or even if we raised our prices a little more, our customers would follow us.

As for the Smaregi service, the last time we set this price was in 2014, so it is now over seven years old, and we have had two major version upgrades in the last seven years. We have been updating or improving the functions of the software every month, but we had lost the timing to revise the price. Therefore, rather than raising the price due to a rise in costs, we decided to raise the price slightly because we believe that we have raised our service level sufficiently and that our customers are satisfied with our services to a certain degree.

We raised the price in the hope that we could use the funds from this price increase to raise the level of service again, leading to a good cycle.

Ito [Q]: I see. Is it correct to understand that the ARR and MRR will be affected by the January's sudden price increase?

Yamamoto [A]: Yes. The increased price will be reflected from the January billing. Will it be reflected in sales from February?

Endo [A]: The price will increase from January.

Yamamoto [A]: It's from January sales.

Ito [Q]: This time, I think it is about 15% overall, on average. I think everyone is probably concerned about the possibility of a slowdown in the acquisition of new customers simply on the negative side, or existing churn.

In fact, I think the price was raised after quite a bit of simulation, so I don't think I would say zero, but I personally feel that it may not be that much of an impact. The nature of POS is very essential in the first place and not a luxury item.

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Therefore, I don't think it will affect you that much, but what do you think of the response? As for the churn rate, do you have any certain rate that you think would work out well up to this level, or do you have a rough idea of the impact?

Yamamoto [A]: I think the stores may not like the idea, but our engineers and staff are determined to provide a good service, so we will do our best.

In terms of new contracts, Smaregi is a freemium model, or rather, there is a no-fee plan. The no-fee plan will continue as is, so the low hurdles for introduction and low hurdles for consideration will remain the same. From there, the register functions can be used free of charge, then we charge a fee for the one step further function with a business system. This model will remain the same.

Therefore, I believe that the initial low hurdle for introduction will not change. We are still considering a bad case scenario for new contracts. I don't think that a 15% price increase will result in a decrease in customer subscriptions much, but we are still assuming both cases.

As for cancellations, there may be some customers who decide to cancel their contracts because they cannot afford the higher prices. I would like to keep a close eye on that. As you mentioned that it is not a luxury item, the cash registers need to be replaced, and since they are necessities, a considerable period of consideration is required when replacing them. We are assuming that the churn rate may increase in the next three to six months after the price increase as the negative effect, instead of January.

Ito [Q]: I understand. Thank you.

One question we have received regarding the price increase is whether there will be another initial cost to customers when they replace their cash registers because of this price increase. Is that basically what it would be? I believe there are several devices, such as Glory's, that your company uses. When this is switched to another company, for example, will the customer have to make an initial investment in the hardware as well?

Yamamoto [A]: There are several cloud POS competitors, but to some extent there is not that much lineup of devices. For example, we use Epson, Glory for automatic change machines, and a printer manufacturer called Star Micronics. There are only a few other companies in the lineup, so it is likely that other POS vendors are using the same equipment, so switching costs may not be that high.

However, I think that the time and inconvenience of having to stop and re-register the POS data that has been accumulated is more expensive than the cost of the equipment, and the switching cost may be high.

Ito [Q]: I see. Thank you.

I believe you answered this earlier, but are there any large customers that may be delayed in price revisions? If so, what is the ratio? Since you say that there may be gradual cancellations due to the price increase, doesn't that mean that all impacts will show in January?

Yamamoto [A]: By large scale customers, do you mean several hundred stores or something like that? It's the same for all customers, whether they are large companies or individual merchants.

Just a few things, regarding this price increase.

It was announced on December 7, so it's been about a week already, but we haven't received that many inquiries. We are receiving some, but not a great number of inquiries. Some customers told us that it is too short of the period between the announcement on December 7 and the introduction on January 1, and they said they would not be able to prepare for that. We will make a few exceptions and delay the price increase

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a little bit for those customers who are not ready to accept the price change. But for most of them, we will change prices starting January 1. We will increase prices for almost all of them.

Ito [Q]: Next, one of the very many questions we have been getting is what do you do about advertising costs?

As you explained earlier, you have been trying to spend consistently since Q1, and I think there were quite a few people who felt that advertising expenses did not increase as much as they had expected in Q2 as well. We would like to know how you view advertising expenses in H2 and beyond and, based on that, in the next fiscal year and beyond.

I am wondering if it is not a model where the more advertisements you run, the more your monthly billing IDs will increase, even with the price increase. I think there might have been quite a few people who inferred that advertising expenses would not increase that much in the next fiscal year and beyond even with this price increase.

Can you give us your thoughts on advertising?

Yamamoto [A]: Originally, we had not done much advertising, so we decided to gather knowledge, and, for the last year and a half, we have been trying various measures such as TV commercials, radio ads, and SNS ads, and if they were effective, we continued them, and if they were not, we considered other advertising.

As I mentioned earlier in the presentation, I think we are getting pretty good at distributing the budget throughout the year. The amount might be small, but we would like to do so carefully. Sales staff are getting a pretty good feeling that the more advertising we do, the more leads and inquiries we get.

We can see that we are able to increase potential leads if we go a step further. However, as the number of leads increased rapidly and the number of business negotiations increased, each negotiation became a little rougher than before. We have been hiring salespeople for a long time, but we have seen a slight decline in the closing rate of these salespeople, and we have also seen that they have not been able to successfully guide customers to contracts and deliveries. It was a waste.

It would be a waste if the closing rate drops even though we have gone to the trouble of using advertisements, so we are reviewing this once again, and are also working on internal training and creating a system that enables even new employees to successfully navigate the entire process from lead acquisition to delivery and customer success.

That said, we are using advertising on the edge of the line. I felt that if we advertise any further, our operations will probably become cluttered, so we kept it to the very last possible moment.

Ito [Q]: Is your company's sales force quite dependent on individual expertise, or do the results vary greatly from person to person?

Yamamoto [A]: We rarely make sales proposals, but one thing that is very difficult when we receive inquiries from customers is that, for example, if a clothing store wants to install a cash register because they are having trouble managing their inventory, we cannot make a proposal unless we have some know-how in inventory management, or we cannot guide the customer.

On the other hand, there will be different requirements from wanting to install a cash register in a café. If it were a café, we would tell them to operate it in a certain way. If it is an izakaya, we would tell them to set the register and operate it in a different way.

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Each business type is very detailed, and it is difficult to ask a salesperson who joined the Company three months ago to answer all the questions in a multi-faceted manner.

We will be accumulating knowledge as a team and then handling it as a team. Nevertheless, I still think that a minimum knowledge of each salesperson is necessary.

Ito [Q]: I see. In that case, the price increase will of course enable you to recruit more people, but you need to also improve the quality of the supply side.

Yamamoto [A]: Yes. I would like to make sure that the advertisements used in both ways will lead to a successful contract.

Ito [Q]: I see. If so, would it be correct to say that you will continue to monitor the growth of the human resource area in the next fiscal year and beyond, while forecasting the advertising area somewhat during the term?

Yamamoto [A]: Yes.

Ito [Q]: I understand. Thank you.

I would like to ask you my question now. I think that your company's most important KPI right now is the number of paying stores, and you have been advertising since last year with the aim of increasing the number of paying stores to about 500 per month this fiscal year. I have been following the progress of KPI since last year, hoping to see some positive results.

After H1, I had the impression that things were gradually improving in November, even though the progress was still a bit unsatisfactory. Can you tell me what is missing to increase the monthly number of stores to another level, and if there are any issues this fiscal year?

Yamamoto [A]: Though there are cross-selling services such as payment services and Smaregi TimeCard, our main foundation is Smaregi. We are not only spending on advertising, but we have also started organizing user groups. We have organized one user group before, and we were talking with existing users about posting their stores. In the context of store management or to promote local towns, we started to organize off-line meetings and study groups among users.

We are working to expand the scope of this event by inviting people who are not Smaregi users to join. In this way, existing users can take the initiative and involve non-users, and users can tell them how they can better manage their stores if they use Smaregi in this way. In a sense, we can nurture leads, and the users can do that for us.

Then I was going to say something else just now, but I forgot. We are starting to take on some new challenges, and we would like to provide services that are more generous and convincing than those that simply advertise and reap the rewards, so it may be difficult to explode all at once.

Ito [Q]: How is business confidence on the customer side? I think that your company will get some impact from food service, retail, domestic travelers, and possibly even inbound travelers, as there will be another round of travel support after January. Do you feel that the external environment has improved in this area?

Yamamoto [A]: I have not been able to listen to all of their voices, but I think there were many who were depressed or defensive at one time. But now, there are many who would like to reopen new stores from this point on.

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In the context of DX, they are considering the use of cash registers, and in response to the problem of not being able to hire part-timers, we have received inquiries about replacing the cash register with a contactless ticket vending machine, cashless machines, etc., due to the influence of COVID-19 as well as about improving the operation and opening new stores, so I don't think the outlook is bleak.

Ito [Q]: I see. Thank you.

The next major topic was the return of about JPY60 million in ARR from Q1 to Q2 in the payment services area, which I think was a major highlight. The Company acquired a company with a considerable loss, the President himself has been taking the lead in PMI, and I think it is starting to produce some results.

What is the current status of the payment services?

Yamamoto [A]: I think it's great that MRR has built up considerably with the payment service. I think there is still a lot of potential because the affinity with the Smaregi and the service is very high. Since this was our first M&A after going public, we created a PMI team from various departments and are still working on it, and I think we have accumulated a lot of know-how.

However, as you mentioned earlier, we bought a loss-making company. The deficit is decreasing considerably, or rather, I think it is showing in our business performance, but it does not affect us that much. We are working hard on improving the operations of the loss-making company and internal reforms. Even though we are spending a significant number of resources on it, if we can overcome this, I believe that the affinity of our services will improve even further.

Ito [Q]: What is the reason for the acceleration in growth from Q1 to Q2?

Yamamoto [A]: For existing Smaregi customers, as well as for new clients, we always make a set proposal to consider PAYGATE, and we are getting a certain number of contracts, so I think there is an impact there.

Ito [Q]: I see. Which is more responsive: existing or new? Are both equally responsive?

Yamamoto [A]: Both. I mentioned earlier that we have started a user group, but to be frank, salespeople at Smaregi devote so much time each month to acquiring new customers that they don't have time to do follow-up work with customers after they sign a contract. Once a contract is signed, they need to work on the next potential client. Therefore, the customer success team, not the sales team, does the follow-up work, but I felt that there was not enough communication with existing customers. We started a user group for that as well.

It may sound a bit harsh, but as we are planning to cross-sell or make various proposals to existing users, if the distance between us and them is too long, it will be like cold calling again. We thought it would be better to make a closer call to the customer and ask them what they think of such and such a product, so that the temperature would be higher. We have been doing user groups for that as well.

Not all new customers, of course, say that they also introduce the payment service, but there are a certain number who say yes. Existing users are another story. If we talked about the product while closing the distance between Smaregi and the customer, they would be willing to consider it. I think the nature of the work will be different between them, so we may do it in different ways.

Ito [Q]: As mentioned in today's presentation material, your company discloses its GMV, and since it is just under JPY400 billion for three months, the monthly equivalent is more than JPY100 billion in payments made by your Smaregi users. Since about half of the sales are cashless, the potential of the payment business is very high in your company, and I think that you have the potential to achieve an ARR as high as that of Smaregi just by making solid cross-selling efforts. Am I correct?

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Yamamoto [A]: We are doing our best to make sure that is the case. If we say that we will not sign a contract unless the Smaregi and payment system are a set, we will lose flexibility.

For example, we have a relationship with some customers who want to use only Smaregi because they are all using other companies' payment systems in the shopping arcade, so we will work with the customers, but we will try to encourage them to use the payment system when we have the opportunity.

Ito [Q]: Will there be more new customers for Smaregi that you were able to get through payment system?

Yamamoto [A]: Yes. The advertising expenses for acquiring leads have increased a little, but it is completely through keyword advertising, so to speak, through listings and other advertising. Up until now, we have only used keywords such as POS, inventory, and cash registers, but we have added cashless and payment to those keywords. We are now getting more leads from cashless and payment keywords, which is a positive development.

Ito [M]: Indeed, if I were planning to open a restaurant, I would first be concerned about how to do the payment before thinking about a POS register.

Yamamoto [M]: There are many different payment systems.

Ito [Q]: I see. Thank you.

I'm sorry, there is a question we received. It goes back to the previous question. Paid stores increased by 22% YoY. What would the total be between existing and new?

Also, are they a chain store or an individual stores? As I recall, last year there were quite a few large contracts with chain stores, but what is the situation by size this year?

Yamamoto [A]: In terms of percentage, not much has changed since before. The two types of customers are roughly evenly split between those who are opening new stores and those who are already operating stores and are replacing them. The breakdown of business meetings is roughly 50/50. The ratio of new store openings and cash register replacements is roughly half and half.

It is true that the number of large companies is increasing, but the number of inquiries from individual stores is also increasing, so in terms of the scale of inquiries, the number of both large companies and individual stores seems to be increasing.

Ito [Q]: I understand.

We received another question. You have set a goal of 300,000 active stores for the current number of 30,000, but can you tell us a little more about the details here and how you plan to proceed along this path?

Yamamoto [A]: In the sales strategy, I said I forgot what to say, but it's the same thing. I always tell people that the targets of Smaregi are retails and restaurants, and that we are targeting two major types of businesses. A closer look reveals that among retail stores, there are food retailers, apparel stores where manufacturers sell directly, select stores, furniture stores, used clothing stores, general merchandise stores, and so on. The business categories are highly subdivided.

Restaurants are the same, and restaurants are more segmented, with pizza shops, fast food, beef bowl chains, cafes, etc. The business categories are very subdivided. Each customer needs a completely different system. If we look only at the checkout part, everyone can use the system in the same way, but if we look behind the

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system to the point where it is easy to monetize the system, the functions that everyone wants are very different. We started to understand very clearly that the operations they want to do are different.

It would be quite difficult for Smaregi to implement all of this, one by one, if we were to create the functions. With the version called Smaregi 4.0, we are developing an app market. The basic part of the system that can be used in any store will be provided by Smaregi, and we will provide it as a platform. From there, niche functions tailored to each business type and detailed in-depth functions can be developed not only by Smaregi, but also by third parties and third-party companies through APIs. We are working on that kind of ecosystem activity, where we can also resell them.

This is now the biggest feature of Smaregi. None of our competitors are currently doing this. We will dig deep into this area and carefully work with development partners to provide each of the functions that stores in various business categories have been asking for. I would like to adopt such a strategy, which will lead to future sales strategies and product development, and I would like to work on such an axis in the future.

Ito [M]: Then I think it probably connects to the price increase. If people simply compare your prices and current features with the competitors, they might choose the other company, as it is a little cheaper.

On the other hand, if the app market is going to be very well developed, they may think that they need to keep in touch with Smaregi as Smaregi will continue to develop, and if they don't use Smaregi, they may not be able to solve certain things later. Then, this slight price increase is not going to be a problem at all. I think it will be understandable from the customers' point of view.

Yamamoto [M]: Yes. I hope so.

Ito [Q]: The unit price of apps itself is not that high in the app market by any means, so I think it will be quite a while before the app market contributes to earnings.

On the other hand, I think the number of applications has increased considerably. How do you see this?

Yamamoto [A]: Regarding the app market, we have a BizDev team, and we have about a little under 100 apps now, increasing to about ninety-something, and there are a lot of different apps out there. In the past, customer and member management at stores used to involve handing out membership cards and stamp cards, but nowadays there are so many LINE member applications.

Also, while using the Smaregi system, the LINE mini-application linkage and app linkage are selling very well.

Also, retailers are always doing e-commerce, so I think Shopify is growing very fast right now. We have been receiving a lot of positive feedback about the integration of Smaregi and Shopify, such as the sharing of inventory. It seems that such hits are gradually emerging.

Ito [Q]: Is the number of partners who develop that expanding steadily? Can I assume that it is still growing?

Yamamoto [A]: Yes. Partners can get started much more easily by adding functions they need on top of Smaregi, rather than creating a POS register from scratch. I believe that the number of development partners will still increase, as it would be quite beneficial to create an additional application for Smaregi to reach the customers of the more than 30,000 stores that are currently active.

Ito [Q]: We received a few questions regarding future business performance. I think you are limited in what you can tell us about the Company's plans for the next year and beyond at this stage? I honestly believe that there are a certain number of people who feel that it will be profitable next year based on H1 results, as is the case with today's stock price.

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That said, on the other hand, there was talk earlier about recruiting and training people well and increasing advertising to some extent along with that, so I'm wondering how that would work? Considering this medium-term plan, your stance was don't look at profits so much, but maximizing ARR is one of the main premises of the plan.

On the other hand, now that we are about halfway through, I was wondering if your perspective has changed a bit, and I think there are some people who think that you will grow while retaining some more profit. Has your investment policy changed a bit between the stage when you formulated the medium-term plan and now that you are about halfway through it?

Yamamoto [A]: Yes. There was a period just over a year ago when the stock price dropped dramatically, not only for Smaregi, and in my conversations with institutional investors, I received a lot of advice to step on the gas more and more, and to invest more in growth, even if it means going into the red. In the last one year or so, the opinion has changed to one that proper profit is more highly regarded, and I am aware that the way we are viewed in our IR activities has changed considerably.

Smaregi itself was originally a company that was very good at making profits, so right after it was listed on the stock exchange and before the current mid-term business plan, it was easy to achieve an operating profit margin of 20% to 25%. So, in total, our operating profit margin is around 10% to 15%.

From here, I am not sure yet whether we still have to create growth drivers even if we have to go into the red. I also talked about the advertising expenses, and how the closing rate is declining, and I really don't want to waste money. I believe that the corporate culture is not to take a big plunge. It's more that how much we will be able to hold on in this situation.

I think this is a company that can quickly become profitable. I think we are good at shedding waste. Now the challenge for the current management team is how well we can make use of the money.

Ito [Q]: I understand. Thank you.

I will read out some of the questions we received.

First of all, many comments said that your disclosures on the IR are great. I strongly agree with this, as an analyst. You provide monthly reports and other information, which are very clear.

In this context, we have a question as to whether you can disclose in a timely manner if there is a large client acquisition in the future?

Yamamoto [A]: First of all, thank you for the compliment on the IR. We are working on a team now. We would like to continue to do so with fair disclosure in mind.

We are grateful that MRR accumulates at once when we acquire a large customer; however, if a customer cancels the contract, the MRR can drop dramatically, and there are large fluctuations. We put importance on large clients as well as small- and medium-sized individual shops. We would like to treat them equally. I am not sure if we will do PR, even when we acquire a large customer. I think it would be a bit difficult, as the customer may or may not give us permission to publish it.

Ito [Q]: By the way, what is the approximate number of stores in your company right now with relatively large-scale customers?

Yamamoto [A]: There are some chain store customers with 500 stores to 600 stores.

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Ito [Q]: So, a cloud-based POS cash register can handle up to that scale?

Yamamoto [A]: Yes. There is no problem at all in using it as a cash register in a store. When the number of stores grows to several hundred, it is necessary to connect them to the core system and various information systems, so of course, Smaregi alone is not enough. It can be used by chain stores as long as it is just a cash register in the store.

Ito [Q]: We have received a question about Q2, perhaps in response to the announcement of the price increase. It says: "I was expecting an upward revision. You said earlier that the impact of the price increase is honestly not at all predictable, but what do you mean by 'a certain degree of certainty' when you said at the beginning that you will make an announcement after you have 'a certain degree of certainty'?"

Yamamoto [A]: I can't say anything yet about the outlook for performance. I'm sorry.

Ito [Q]: Next, this is an accounting question, about the allocation of the acquisition cost of Webnics K.K.. I'm sorry, I'm not quite sure what this is about. Could you explain?

Yamamoto [A]: We haven't disclosed it too widely, but we bought one service from a system development company in Fukuoka, and I think that's what the question is about. It is for reservation management for stores and a service to create store apps, but since it was not that big, we did not cover it as a topic. Is the question asking about the acquisition cost of the company?

Ito [Q]: Is there a possibility that negative goodwill will appear as an extraordinary gain?

Endo [A]: We can't give you a clear answer at this time because we are in the process of discussing the PPA regarding the allocation of acquisition costs with Webnics K.K.. At this point, we are looking at the possibility of a goodwill accrual gain as unlikely.

Ito [M]: I have gone through all the questions that we received and the ones that I wanted to ask you.

Yamamoto [M]: Thank you very much. How many questions have you received? I am not able to see it.

Ito [Q]: Earlier, you mentioned the preconditions for achieving 300,000 active stores. What is the GMV, what percentage of that is your payment system, and what take rate can we expect for the payment system?

Yamamoto [A]: I see. GMV in the current fiscal year of 300,000 stores? I'm sorry, but we haven't figured that out yet.

Ito [M]: A little over JPY100 billion per month with 300,000 stores, or 10 times that if you do a simple calculation.

Yamamoto [A]: 10 times more. So, I say it's around JPY3 trillion. The take rate is not that high, but the take rate before the acquisition of PAYGATE was very low. We were only able to get a little bit of money from the Smaregi Payments, but this time, the take rate is quite high, but still not that high.

Moreover, there are various types of payments, and for example, with VISA and MasterCard, we receive a relatively large amount of profit, while with JCB and AMEX, we receive almost none. QR and other things are also different from each other, so it's hard to say, but it is very low, like zero point something. It is a buildup of that.

Right now, the fixed monthly portion of PAYGATE's MRR is quite large, and the payment fee is still small. We expect more in the future.

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Ito [M]: In any case, with the increase in the number of stores and the number of active stores itself, I still think that the total payment amount and GMV will increase to a certain scale.

Yamamoto [M]: Yes. That's how it piles up.

Ito [Q]: I think that the fees for a payment service that customers would have incurred have probably been reduced a bit more than they would have been by joining your company than when PAYGATE had been a stand-alone company. How is the synergy around here?

Yamamoto [A]: PAYGATE used to adopt a sales method in which prices were not stable or rates were determined on a case-by-case basis, but we changed it to a uniform rate, and I think this has stabilized the revenue per case considerably. We are still at that level.

Ito [Q]: I understand. Is there still quite a bit of room for improvement in this area?

Yamamoto [A]: There is more.

Ito [M]: Perhaps the take rate itself has some market price, so I think it is like trying to keep up with the market price. By making it uniform among them, the average is a little more, or a lot more.

Yamamoto [A]: It's up quite a bit. We are also negotiating with credit card companies in a variety of ways, and I feel that our negotiating power has increased considerably since we now have more than 30,000 existing Smaregi merchants active, so it is becoming easier for us to earn a relatively high profit margin. It is getting easier to get them every year. We negotiate with credit card companies on the premise that Smaregi will be the best in Japan in the future, so it is much easier for us to do so.

Ito [M]: I have read all the questions.

Yamamoto [M]: Thank you for asking questions on behalf of everyone.

Endo [M]: Thank you all for your many questions, some of which we have summarized and answered.

Now, finally, I would like to make an announcement from IR.

We also provide IR information via our newsletter and LINE. We also send out informative reports every month, including monthly registered store counts, so please be sure to sign up. We also have a section for individual interviews and additional questions. Please take advantage of them.

Yamamoto [M]: Please register. Are you registered?

Ito [M]: I get your emails all the time.

Yamamoto [M]: Thank you very much. We are doing both an email newsletter and LINE, so please sign up.

We are now in the middle of December, which naturally means we are approaching Q3. December is usually a bit of a quieter month than usual, because in December, during the year-end and New Year's holidays, everyone is not in a situation where they are considering replacing their cash registers when the stores are busy, so it is difficult to increase performance during this Q3.

Nevertheless, everyone is busy on site and working now, so we will continue to tighten up and do our best in Q3, and I think we are now in a rather good trend, so we will continue to push forward and do our best to achieve good results for the full year of this fiscal year as well. We look forward to your continued support.

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Today, as a new challenge, we have invited an analyst, Mr. Ito, to come all the way to Osaka, to the head office of Smaregi, and we have proceeded in an interactive manner.

IR would like to challenge new things more and more, and we would be very happy if you could give us your impressions of today's event, so please give us your feedback. Thank you.

Mr. Ito, do you have a final word?

Ito [M]: Thank you for inviting me to this wonderful and honorable meeting today. I support your company's rapid growth and look forward to working with you in the future.

Yamamoto [M]: That is all. Thank you for joining us today. We ask for your continued support.

[END]

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