



Smaregi, Inc.

3Q FY2023 Financial Results Briefing

March 16, 2023

Event Summary

[Company Name]	Smaregi, Inc.	
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[Event Language]	JPN	
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[Date]	March 16, 2023	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	1	
	Hiroshi Yamamoto	Representative Director
[Analyst Names]*	Daisuke Harada	QUICK Corporate Valuation Research Center

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

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Presentation

Moderator: The time has arrived, and we will begin. Thank you for your participation in the Smaregi, Inc., Q3 FY2023 Financial Results Briefing.

Today's flow will begin with an explanation of the financial results disclosed yesterday, followed by a Q&A session.

Mr. Daisuke Harada, Senior Analyst, Research Department, QUICK Corporate Valuation Research Center has been invited as a special guest for this financial results presentation. We will have a Q&A session in the second half of the briefing, where he will be able to ask various questions from an analyst's point of view. Please stay with us to the end.

Now, Mr. Yamamoto, please.

Revision of FY4/23 Full-year Earnings Forecast

3Q FY4/23 Financial Summary 4

Full-year earnings forecast was revised upwards due to steady growth in the number of fee-paying stores and the effects of efficient investment.


Full-year Earnings Forecast for 4/23 (May 1, 2022 - April 30, 2023)

(million yen)	Net sales	Operating profit	Ordinary profit	Profit
Previous projections (A)	5,593	651	651	403
Projections (B)	5,816	850	853	843
Change (B-A)	222	199	201	439
(%)	4.0%	30.6%	31.0%	109.1%

Reasons for revising the earnings forecast

Due to steady growth in the number of fee-paying stores, net sales is expected to be slightly higher than the net sales forecast announced initially.

Additionally, with respect to proactive investment in advertising based on the Medium-term Management Plan, the realization of efficient investment is anticipated to bring both operating profit and ordinary profit above figures set out in the initial plan.



Yamamoto: Good morning, everyone. I am Yamamoto, Representative Director of Smaregi. Thank you very much for your cooperation today. Once again, thank you for watching.

I would like to begin with an overview of the Q3 results.

First, I would like to discuss the revision of the earnings forecast. We disclosed the revision of our full-year earnings forecast at the same time as the settlement of accounts yesterday.

Net sales are now forecast at JPY5,816 million, compared to the previous forecast of JPY5,593 million. Since the beginning of this fiscal year, we have been gradually exceeding the plan, and in the end, it is expected to slightly exceed the original plan. This is not the result of any particular major project or a particularly large sales increase in any month, but rather a gradual increase in performance throughout the year.

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Operating income was set at JPY651 million but has now been revised to JPY850 million. Profits have also been the result of a gradual buildup since Q1, and there was a possibility that we would increase hiring and advertising expenses in H2, especially in Q4, so we left them as they were. We have revised our full-year plan upward because we believe that we will still be able to make a slight upward swing after the end of Q3.

Net income has been recorded since Q1, so I will explain it again. We merged our subsidiary, Royal Gate Inc. At that time, we recorded an adjustment for income taxes, which resulted in an increase over the initial plan for the period.

Statement of Income

3Q FY4/23 Financial Summary 5

Net sales grew by 42.8% YoY due to the increase in subscription sales, among other factors (Including the impact of price revisions on January sales). Full-year plan for FY4/23 was revised upwards. Progress rate was 71.7% for net sales and 75.2% for operating profit.

(million yen)	3Q FY4/23 results (May 2022 - Jan. 2023)	3Q FY4/22 results *1 (May 2021 - Jan. 2022)	YoY change	FY4/23 plan *2 (May 2022 - Apr. 2023)	3Q FY4/23 % achieved (May 2022 - Jan. 2023)
Net sales	4,168	2,919	+42.8%	5,816	71.7%
Cost of sales	1,636	1,050	+55.7%	—	—
Gross profit	2,532	1,868	+35.5%	—	—
SG&A expenses	1,892	1,246	+51.9%	—	—
Operating profit	639	622	+2.8%	850	75.2%
Ordinary profit	642	612	+4.9%	853	75.2%
Profit	675	576	+17.2%	843	80.2%

***2
Full-year earnings forecast
was revised upwards**

The full-year earnings plan was reviewed, and operating profit, ordinary profit, and profit were revised upwards. (Refer to P4)

*Amounts are rounded down to the nearest million yen.

*1 The results for 3Q FY4/22 was the figures based on a consolidated accounting.



We proceed to the next. We will now move on to the income statement.

Net sales now total JPY4,168 million in Q3 accumulated results. The progress rate against the newly set plan is 71.7%. We believe that we will be able to achieve this goal on schedule in Q4, as the monthly amount will build up and we are also approaching a slightly busier season.

The operating income ratio is now JPY639 million, and the progress rate for Q3 is 75.2%.

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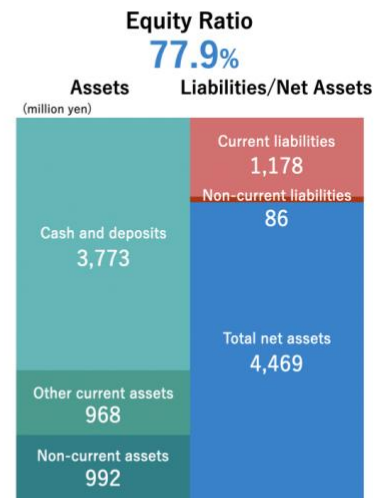


Balance Sheet

3Q FY4/23 Financial Summary 6

Non-current assets increased 59.0% YoY and current liabilities increased 40.7% YoY due to the absorption merger of a subsidiary and growth in business scale. Stable financial foundation was maintained with equity ratio of 77.9%.

(million yen)	3Q FY4/23 results (May 2022 - Jan. 2023)	3Q FY4/22 results *1 (May 2021 - Jan. 2022)	YoY change	2Q FY4/23 results (May - Oct. 2022)	QoQ change
Current assets	4,741	4,623	+2.5%	4,498	+5.4%
Cash and deposits	3,773	3,865	-2.4%	3,606	+4.6%
Non-current assets	992	624	+59.0%	943	+5.3%
Total assets	5,733	5,247	+9.3%	5,441	+5.4%
Current liabilities	1,178	837	+40.7%	1,054	+11.8%
Non-current liabilities	86	81	+5.9%	87	-1.5%
Total liabilities	1,264	919	+37.6%	1,141	+10.8%
Total net assets	4,469	4,328	+3.2%	4,299	+4.0%
Total liabilities and net assets	5,733	5,247	+9.3%	5,441	+5.4%



*1 The results for 3Q FY4/22 was the figures based on a consolidated accounting.

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Next page, please. Balance sheet.

Fixed assets were up 59% YoY, and current liabilities were JPY1,178 million, up 40.7%.

In fixed assets, as I mentioned earlier, a major factor is the recognition of deferred tax assets due to the merger with Royal Gate Inc., which was a subsidiary. On the current liabilities side, there was an increase in advances received. In addition, the expansion of business scale led to an increase in the provision for bonuses, accrued consumption tax, and income taxes.

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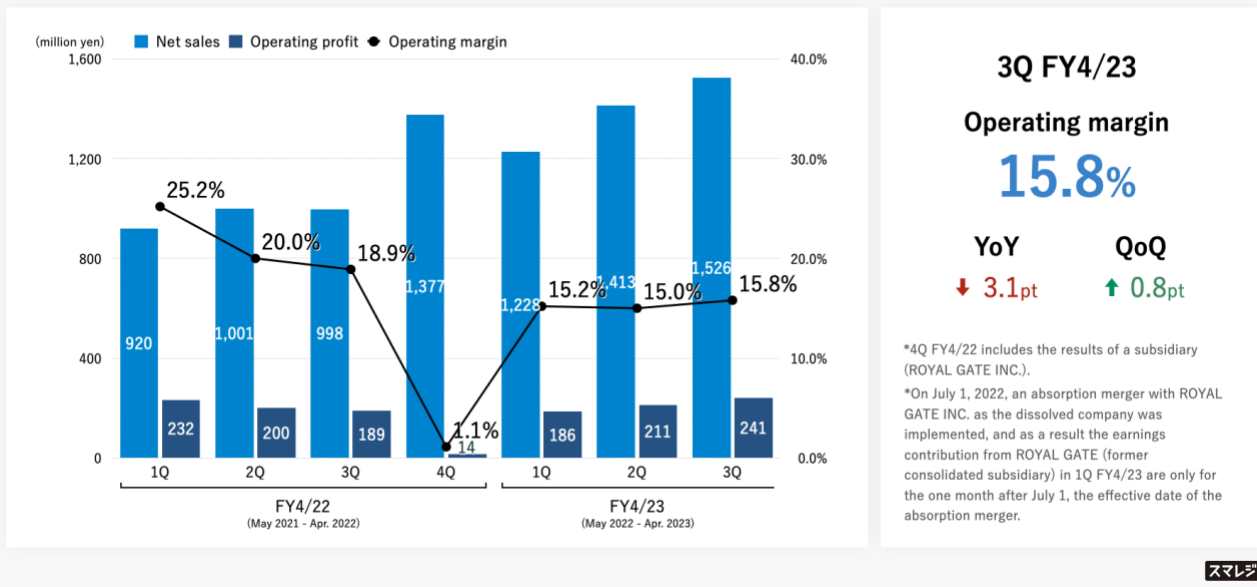
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Quarterly Changes in Net Sales, Operating Profit and Operating Margin

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S&M investment in the Medium-term Management Plan is continuing while maintaining an operating margin of about 15.0%.



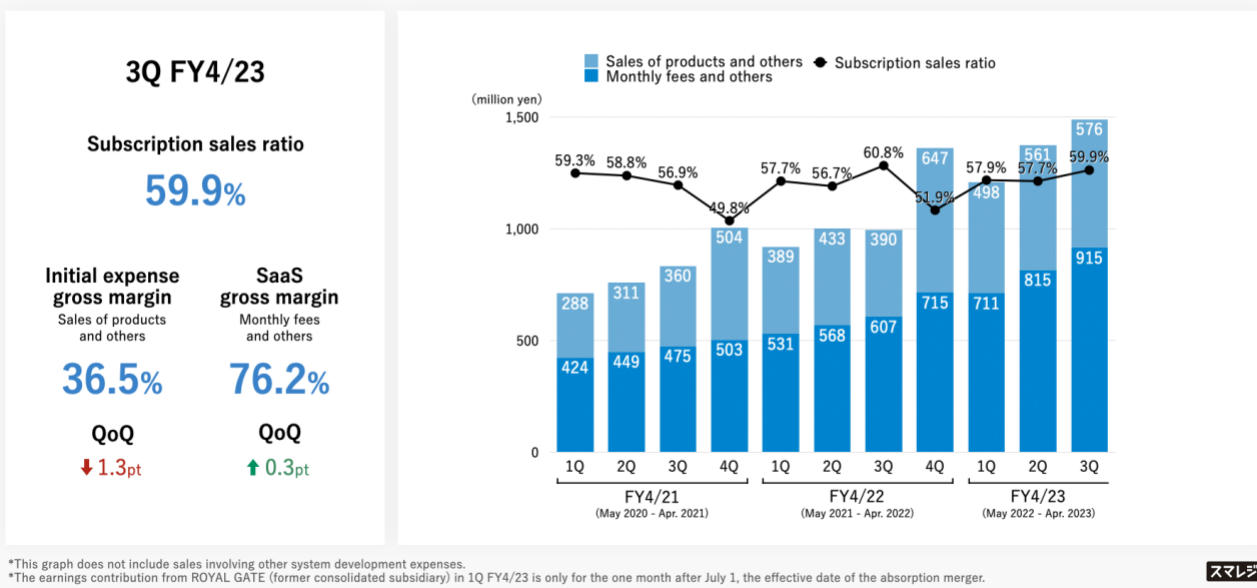
The following is the quarterly trend of net sales, operating income, and operating margin.

Sales for Q3 totaled JPY1,526 million. Operating income was JPY241 million, resulting in an operating margin of 15.8%.

Changes in Sales Composition

3Q FY4/23 Financial Summary 10

Subscription sales (monthly fees and others) grew significantly by 50.7% YoY due to the increase in the number of fee-paying stores and the impact of price revisions. *Price revisions were implemented from January 2023. This impacted the results for one month in the 3Q accounts.



Next is a quarterly breakdown of sales. I explain this every time, but there are two main categories of sales for Smaregi.

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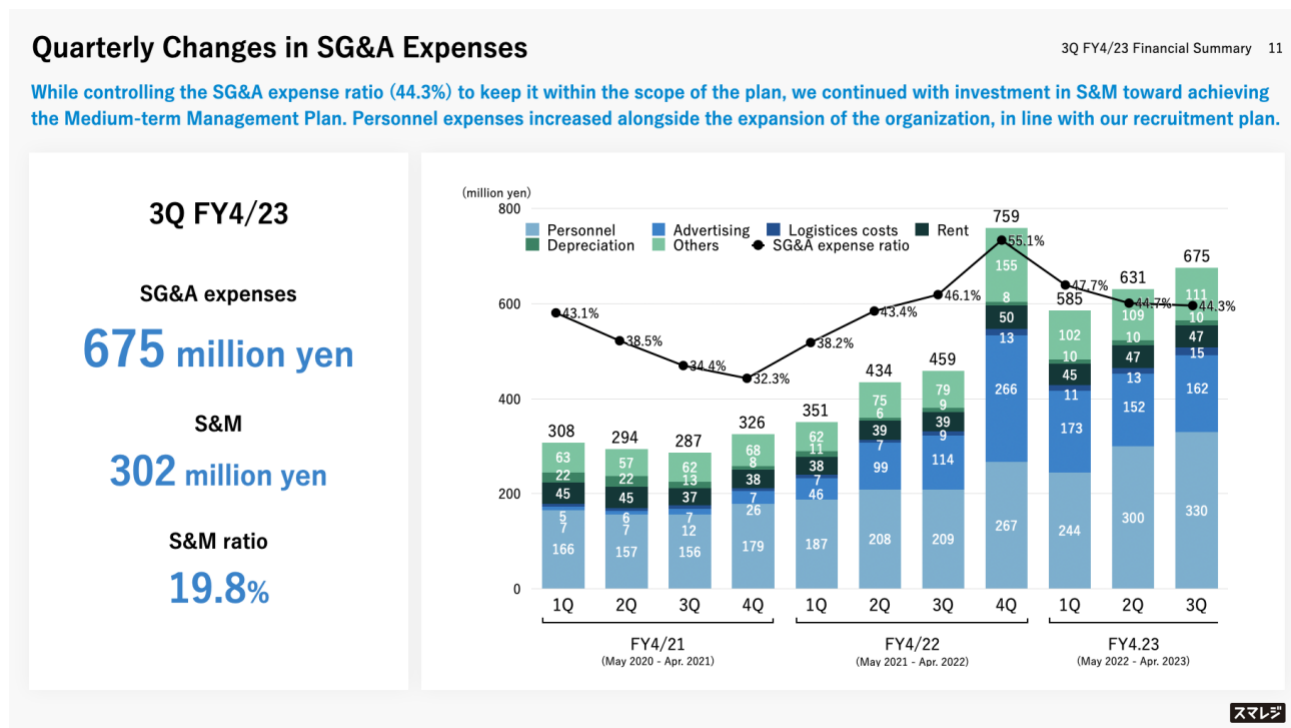
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The JPY915 million in the blue line on the graph is the monthly usage fee for the Smaregi service, and the monthly usage fee for the Smaregi Time Card service. Then the monthly settlement turnover or settlement fee is included. This is the stock revenue.

The light blue JPY576 million was recorded, including equipment sales. In this case, there is no initial cost for Smaregi itself, but due to the nature of a cash register, it involves the sale of that are configured as a cash register such as receipt printers and barcode readers. This is one-shot sales, and roughly 40% of total sales are from one-shot sales such as equipment sales.

The initial cost, or gross profit margin on equipment sales, is roughly 36.5%, and the gross profit margin on monthly usage fees for stock is 76.2%.



The following is a summary of SG&A expenses. This one is slightly inflated, or rather, labor costs have gone up a bit. Recruitment is progressing as planned. Advertising and promotion expenses have been evenly distributed since Q1 of the current fiscal year.

At this time, Q3 SG&A expenses result in JPY675 million.

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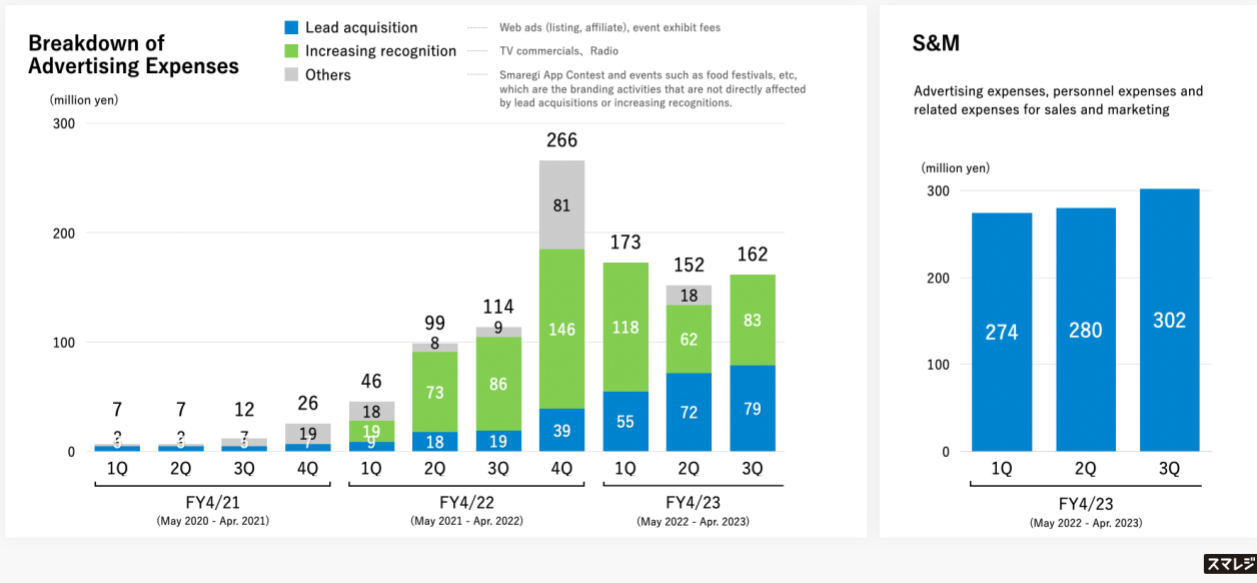
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Quarterly Changes in Advertising Expenses

A new TV commercial started airing in January 2023.

We are continuing to invest in advertising while verifying its effects with a focus on measures to expand awareness and acquire leads.



The following is a quarterly trend of advertising expenses. Here is the breakdown: JPY79 million related to lead acquisition in blue. The yellow green is recognition acquisition, TV commercials and radio, which amounted to JPY83 million, and others.

As you can see from the graph, Q1 of last fiscal year was very low, and the budget was increased and digested in H2. In response to this reflection, the current fiscal year has resulted in a solid digestion of the results from Q1. We expect that Q4 will probably be about the same.

Sales and marketing expenses resulted in JPY302 million in Q3.

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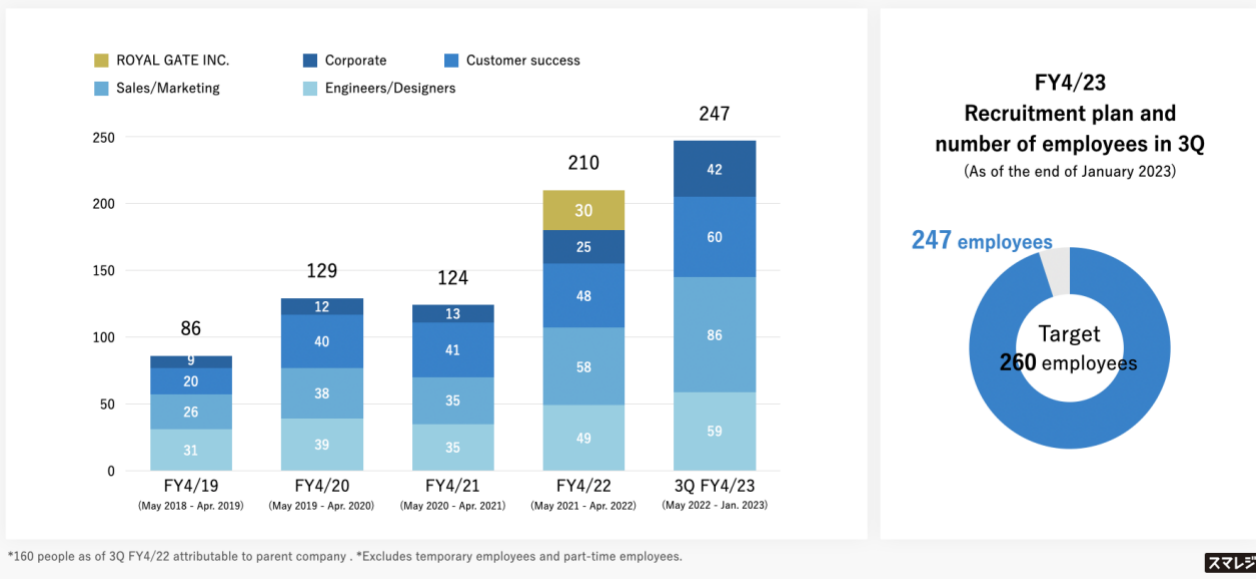
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Growth in Number of Employees

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We strengthened organizational capabilities across all departments. The number of employees increased 54.4% YoY. In FY4/23, with an additional 50 employees compared to the previous period, we are implementing the recruitment plan to reach the target total of 260 employees.



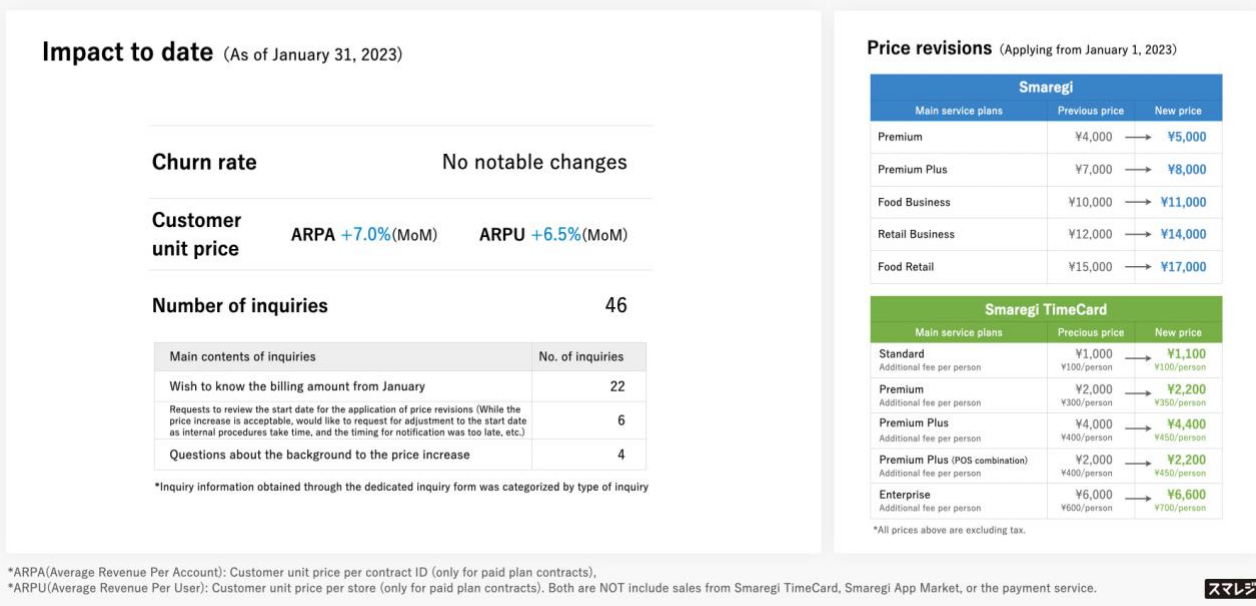
Next is the number of employees. We had expected to hire about 260 people for the full year, but as of Q3 of this year, we have hired 247 people, and we are in the midst of an intense recruiting drive.

The graph on the left shows a breakdown of the various departments: development, sales, marketing, call center support, corporate team, and overall, there is a shortage of people all over the place.

Impact of price revisions

Business Summary 15

Cloud service prices were revised from January 2023 with the aim of strengthening the operational system.



The next page is a report on the results, or rather the impact at this point, of the price revision.

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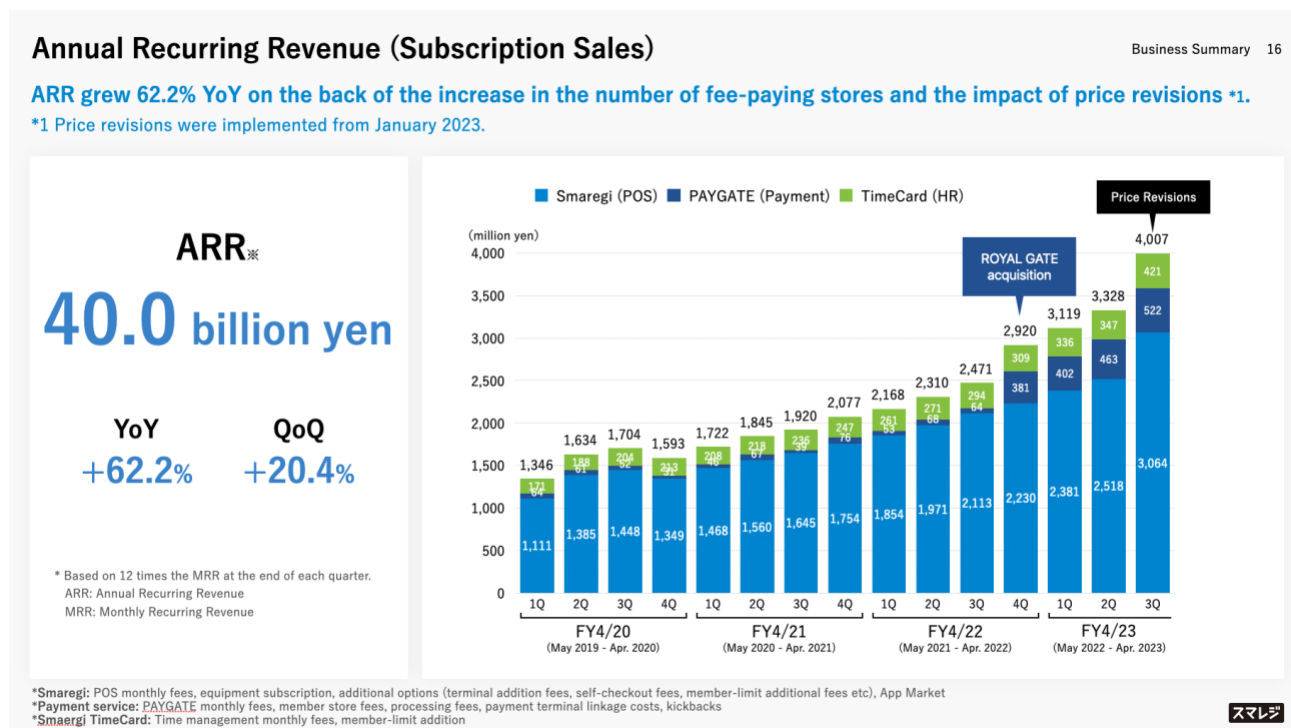
Overall, we raised the prices of Smaregi and Smaregi Time Card in January. The average price increase is roughly 16%. There has been no noticeable impact or change yet in terms of churn rates. The unit price per customer is naturally rising, but since we only recorded one month's worth of sales in Q3, we expect it to rise a bit more from Q4. Q3 was only slightly higher.

There were 46 inquiries. The main contents are listed here, but we received the inquiries as follows: they would like to know how much the monthly fee will be for their stores, and since the announcement was made in December and the price increase started in January, they would like to delay it a little because they think the announcement is too sudden. Then I got questions like why did you raise the price?

The total was 46 cases out of about 10,000 customers now, so I think it was a small number.

I don't think that this is the end of the story. Cash registers and POS registers are difficult to replace suddenly, so if a customer decides to cancel their account after this price change, they will have to switch to another company, which will probably take a few months or so to switch.

Of course, we will do our best to prevent such cancellations, or at least to minimize them, but it is possible that customers are steadily preparing to cancel their contracts without our knowledge, so we will pay constant attention.



Continuing on, here are the ARR trends. ARR was set as the most important indicator in the mid-term management plan, and the actual results amounted to JPY4 billion.

The breakdown is light blue, JPY3,064 million is the fee for the use of Smaregi. Dark blue is settlement services, JPY522 million. The green color is the attendance management service, Smaregi Time Card, which accumulated JPY421 million, bringing the Company total to JPY4 billion.

The impact of the price revision was very large, so there has been a large increase in sales.

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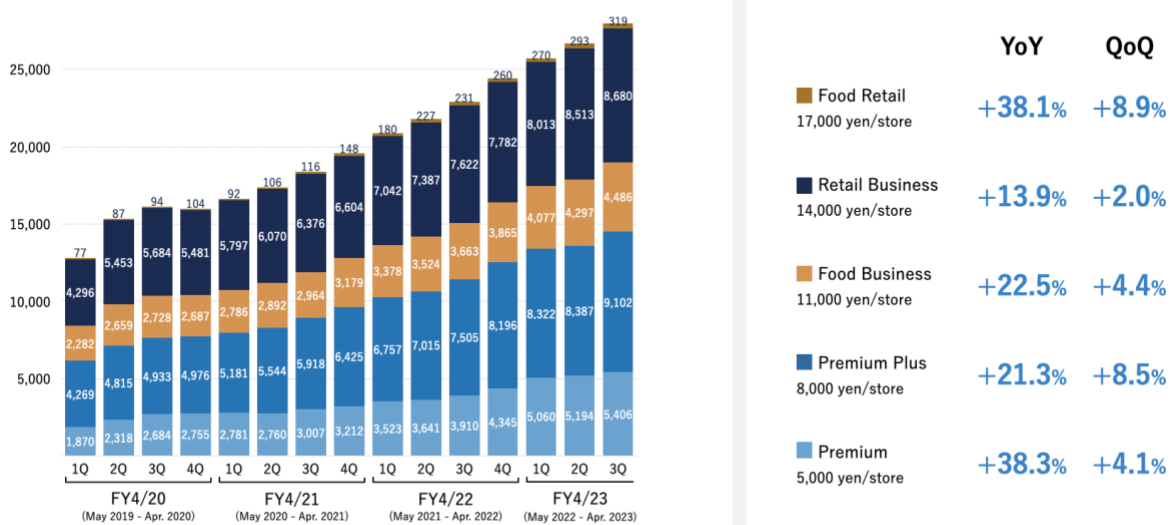
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POS Composition of Plan Categories with Fees

Business Summary 20

Despite plan revisions accompanying the price revisions, the increasing trend is sustained through steady growth for each plan.



*Free plan stores paying a fee due to the use of an optional service are not included in this graph.
*Please refer to the IR site for the latest number of stores per plan (as of February 28, 2023).

*The price for each plan is the monthly price after the January 2023 revision (excluding tax).



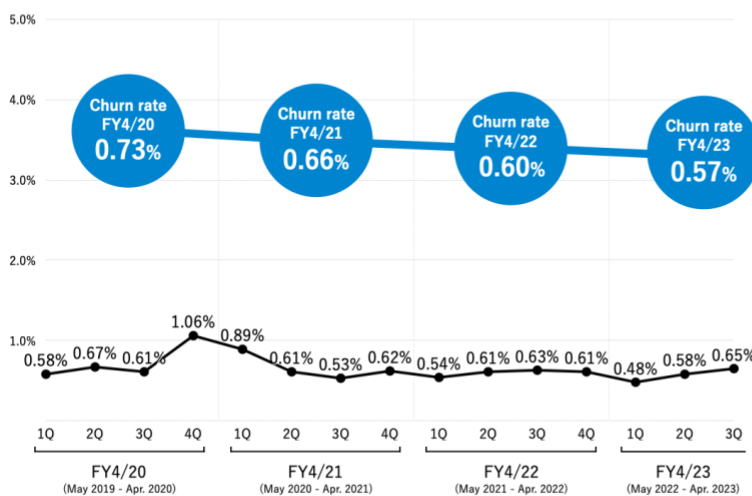
Next is the transition and breakdown of paid stores.

There are currently five paid plans, all of which are growing steadily. The total for paid plans is now up to 27,993 stores.

POS Churn Rate

Business Summary 22

We have continued measures to strengthen onboarding and improve service quality, and the average churn rate remained at a low level. The price revisions have had mostly no impact, and in 3Q FY4/23 the average churn rate remained at a low level.



3Q FY4/23
Churn rate
(May 2022 - Jan. 2023)

0.57%

YoY ↓ 0.02pt
QoQ ↑ 0.07pt

Cumulative churn rate
for 3Q FY4/22 is 0.59%
(May 2021-Jan. 2022)

Churn rate: MRR churn rate
The percentage of decrease in existing
customer monthly fees caused by
cancellations.



Continuing on, here is the churn rate.

I think we are keeping it relatively low. There has been no major change here, and the churn rate is now 0.57% for the current fiscal year-to-date.

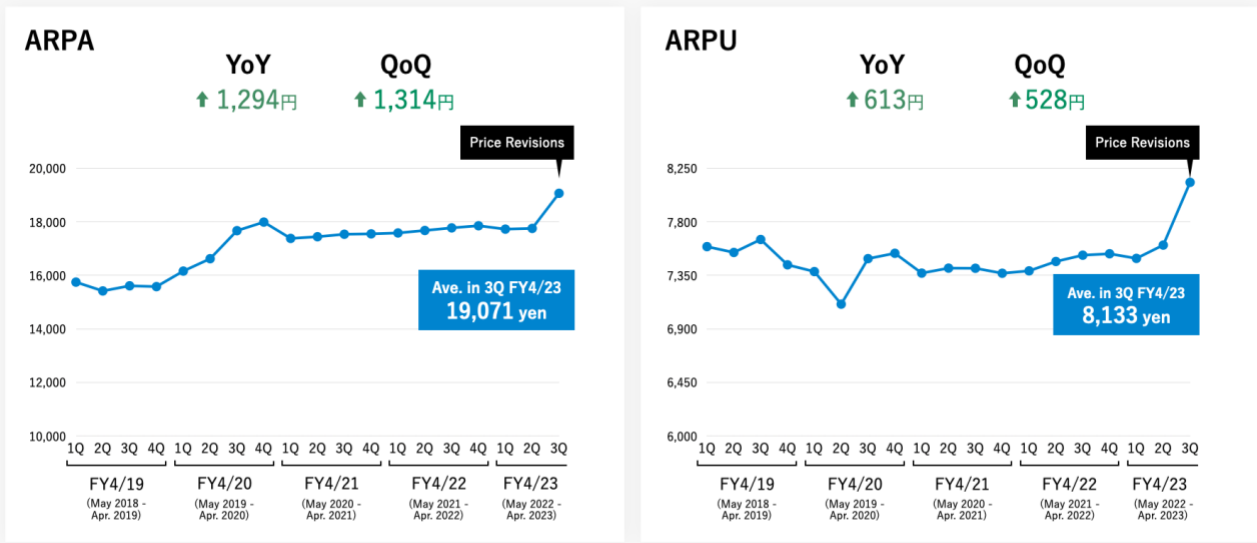
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Customer unit price increased significantly due to the impact of the price revisions *1. The average number of stores per paid subscription is 2.34.
 *1 Price revisions were implemented from January 2023. This impacted the results for one month in the 3Q accounts.



*ARPA(Average Revenue Per Account): Customer unit price per contract ID (only for paid plan contracts).
 *ARPU(Average Revenue Per User): Customer unit price per store (only for paid plan contracts). Both are NOT include sales from Smaregi TimeCard, Smaregi App Market, or the payment service.



This is followed by the POS cash register’s customer unit cost. The price revision I mentioned earlier was shown here slightly, but the ARPA and ARPU have gone up by JPY19,071 and JPY8,133, respectively, due to the influence of the price revision.

Since Q3 is the average of the three months of November, December, and January, and January is the only month affected by the price revision, the average is still a little low, but I think it will probably go up a little more from Q4.

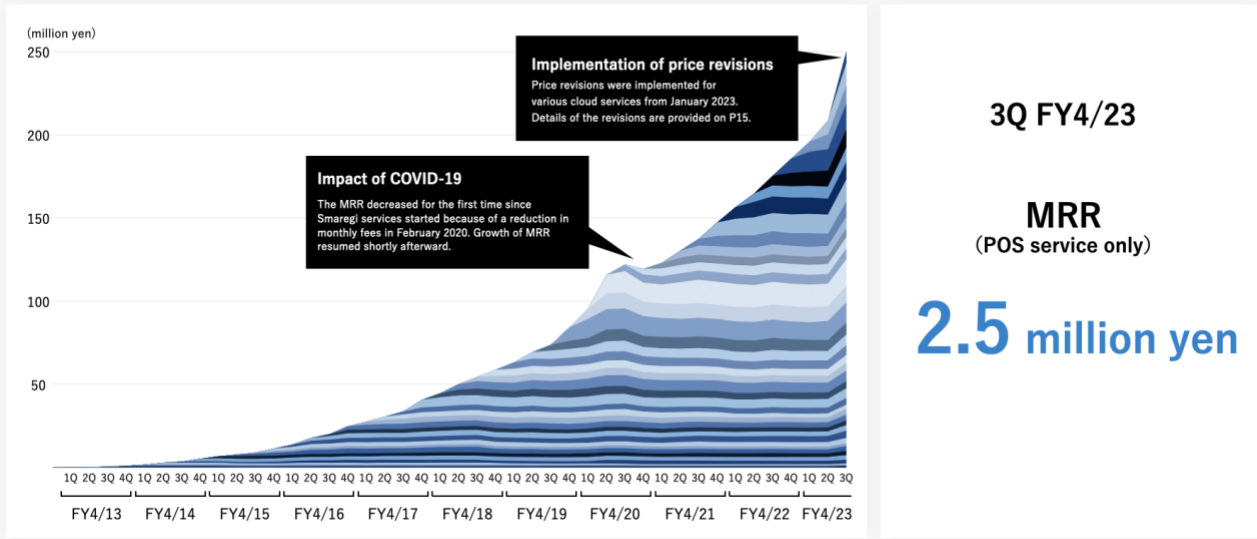
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MRR increased due to the price revisions. We are achieving sustainable growth through the steady growth of MRR brought about by new contracts and the stable, continuous use of services by customers due to a low churn rate.



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



Continuing on, MRR. This was also affected by the price revision, which was implemented for all customers, so MRR increased equally for both old users and recent subscribers. At present, the MRR for Smaregi alone is JPY250 million.

This is a summary of the financial results for Q3.

中期経営計画の前倒し更新について

「VISION2031」達成に向けた第2次中期経営計画へ

「VISION2031」達成に向けた第1次中期経営計画（2022年4月期～2024年4月期）のKPI「ARR50億」の達成確度が大幅に上がったことと、社内意識改革に成功したことから、残り1年を待たずに前倒し終了とし、「VISION2031」達成に向けた第2次中期経営計画（2024年4月期～2026年4月期）に移行します。

社内意識改革

- 売上高からARR重視へ
- コロナ禍の閉塞感打破
- 成長率を重視し、広告宣伝費等に投資。減益覚悟でアクセルを踏む

VISION 2031
TO BE THE NEW STANDARD



ARR : Annual Recurring Revenue (年間経常収益)



At the same time, we have disclosed our new mid-term management plan, so I would like to move on to the explanation of that plan.

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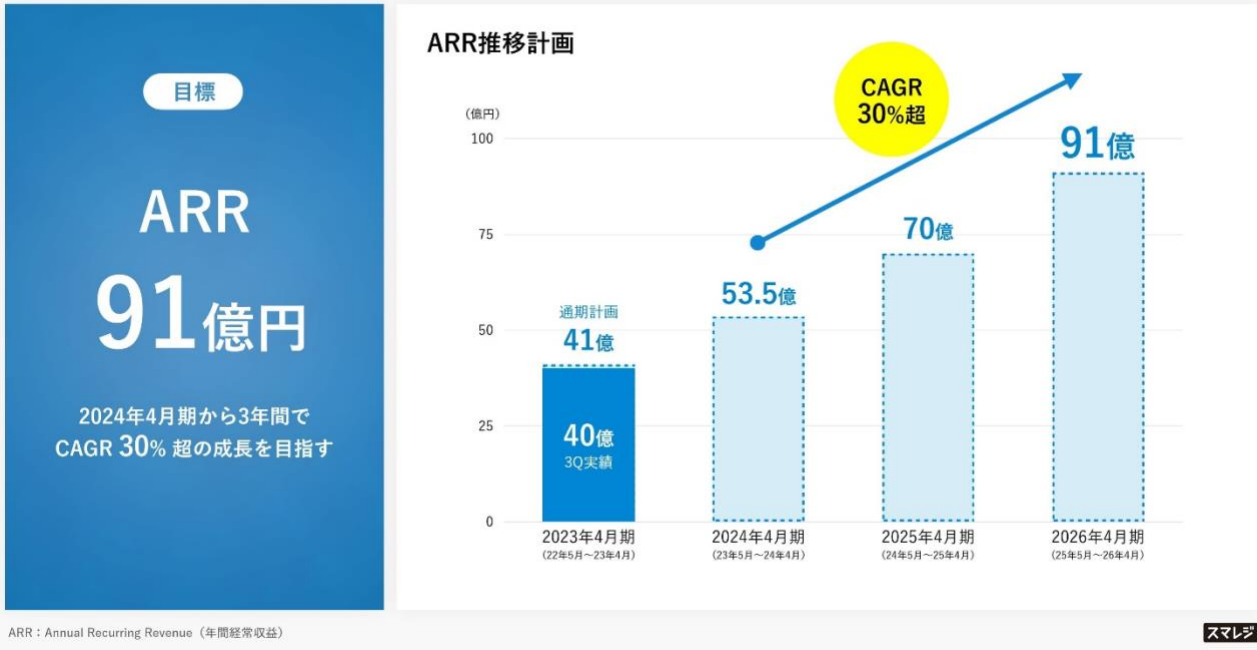
Originally, the mid-term management plan up until yesterday was now halfway through the second year of the three-year plan. One of the reasons for this was to express our intention to grow further from the stagnation caused by the coronavirus disaster. The intention to emphasize ARR in the mid-term management plan, using the SaaS KPI matrix, and to grow as a SaaS. To this end, although, originally, Smaregi placed considerable importance on the operating profit margin, we started the mid-term management plan as an effort to accelerate the growth path by spending advertising and promotional expenses, and to prepare for a decrease in profits.

The internal awareness reform in this area has successfully penetrated the Company, and ARR, one of the KPI indicators, has increased significantly. The probability of achieving the previous mid-term management plan is likely to be achieved, so it seems that the mid-term management plan has fulfilled its mission.

In order to move on to the next phase of the plan, we have now created a new mid-term management plan without waiting for the final year of the plan. Therefore, we have announced our mid-term management plan for the next three years starting from the next fiscal year.

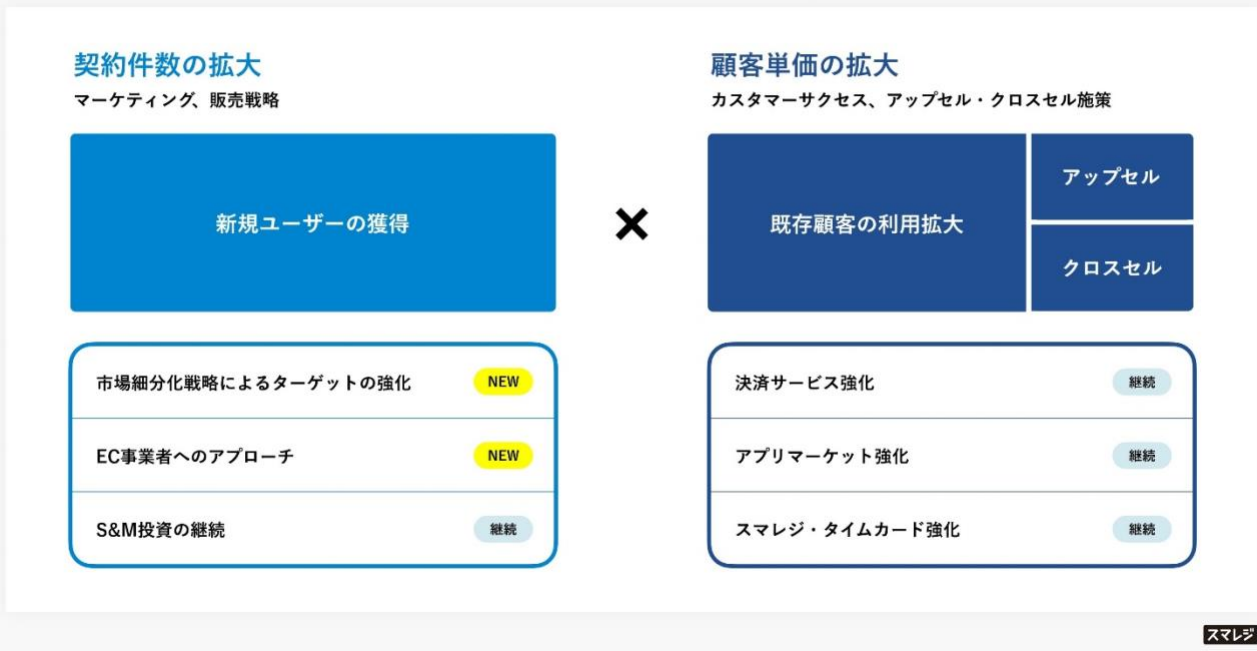
At the time of the last mid-term management plan, we put together a long-term plan, which we have carried over as it is, VISION 2031, which is a big long-term plan for 2031, meaning the 10 years from the start of the last mid-term management plan.





This time, ARR continues to be used as a KPI. The ARR for Q3 was JPY4 billion, and if we set the full-year plan at JPY4.1 billion, we are aiming for an annual growth rate of more than 30%, or at least 30% from there. We aim to achieve ARR of JPY5.35 billion in the next fiscal year, JPY7 billion in the following year, and JPY9.1 billion in the final year.

第2次中期経営計画の基本戦略



The way to achieve the plan is as follows. If we break down ARR into the number of customers and average revenue per customer, I think we can say that we will increase the number of customers. With regard to measures to increase the number of stores to use, one is a new market segmentation strategy. The other approach was set up for EC businesses. The third is to continue to invest in sales and marketing expenses and,

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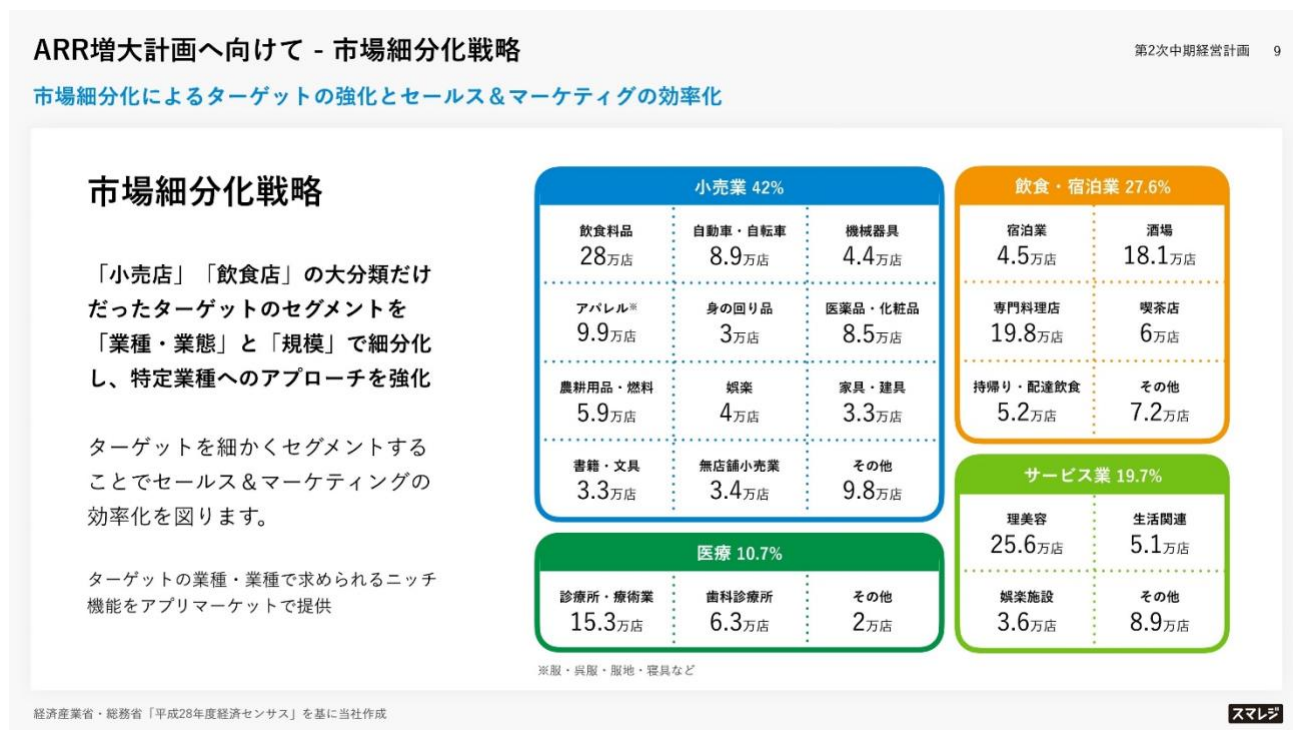
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although this is a continuation, we are planning to expand the number of customers by focusing on these three areas.

One way to increase the unit price per customer is, of course, to cross-sell through peripheral services centered on Smaregi, but another way is to strengthen the settlement service. Next is the app market, an initiative unique to Smaregi, and we are strengthening the app market. The other is a service called Smaregi Time Card, which is used to manage employees at stores, and is an HR service for time and attendance management, and we would like to cross sell this. These are the three points.



The first of all, these which I just described, is a market segmentation strategy for customer acquisition. I have always said that retailers and restaurants are the customers of Smaregi, but if you look closely at the retailers, you can see in this figure that some are clothing stores, some are general merchandise stores, some are bookstores, etc. In fact, the word retailer is actually subdivided into many different types and categories of businesses. It is the same for restaurants. There are many different stores.

The cash registers may be the same, but the store's operations are completely different. And since the Smaregi functions not only as a cash register but also as a business system for the store, the requirements for the business system are completely different, and it would be very labor-intensive to deal with all of them.

We are trying to focus on a specific industry, for example, if it is apparel, we are trying to focus on apparel and dig deeper. We wanted to be number one in the apparel industry by doing so. That is the strategy.

We are still discussing internally, and we are still in the process of deciding which areas we will strategically focus on, but we will decide where we will focus our efforts.

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※対応モールECカート等、順次機能アップデート予定

スマレジ

Another is that among Smaregi customers, there are many retailers, and nowadays, retailers are not only physical stores, but also online stores, which may be most of them.

It is much more efficient to unify the sales and inventory management of the physical store and the sales and the inventory management of the online store within the company, so we will unify the management of Smaregi and Smaregi inventory management with the management of other companies' EC orders, shipments, and inventory management.

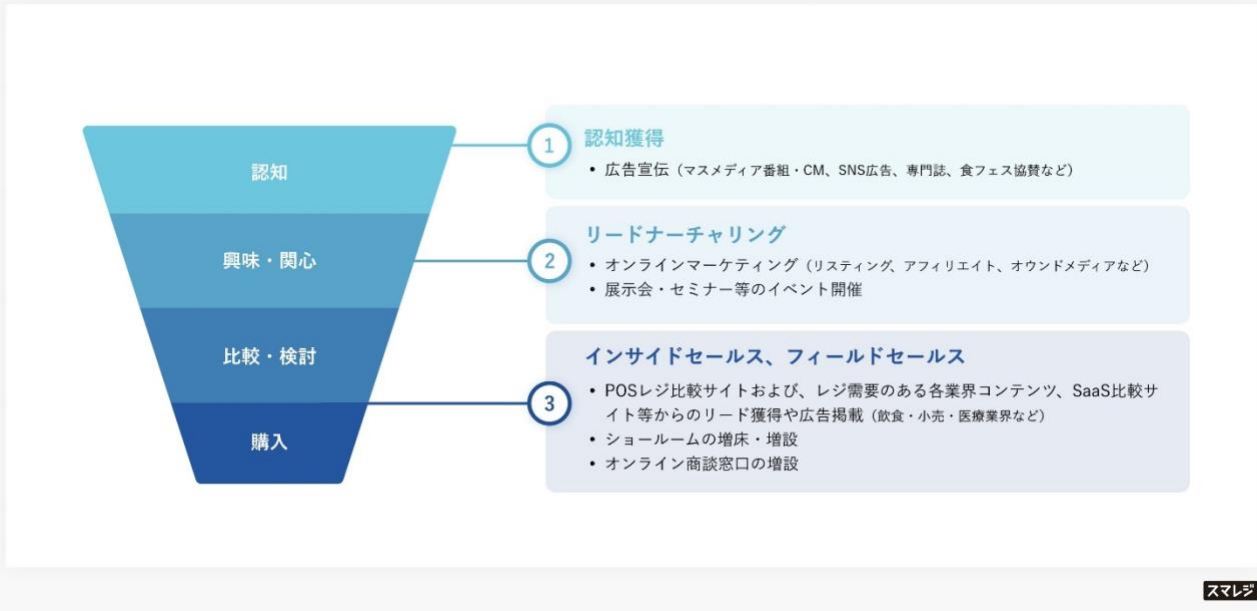
We would like to realize such a system, and by adding this system, Smaregi customers who use Smaregi only in stores can also use it for EC management. We believe that TAM will expand a little by reaching out to the more than 30,000 stores registered with Rakuten, for example.

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認知獲得からリードに寄り添ったマーケティング活動により、サービス利用に繋げる



Next, from a management perspective, we have been implementing a variety of measures to invest in sales and marketing expenses, and we will continue to do so appropriately, while carefully sorting out what is effective and what is not.

既存顧客の利用拡大による競争優位性・顧客満足度の向上とアップセル・クロスセルによる顧客単価の拡大をはかる

アプリマーケット

顧客満足度の向上

- 業種に特化したニッチ機能の提供により、顧客単価向上とカスタマーエクスペリエンス (CX) 向上を目指す
- 開発パートナーとの連携を強化し、アプリ数増大を目指す
- 小売業向けにECカートやSNS連携を強化。OMO・オムニチャネル領域を充実化させる

決済サービス

収益モデルの拡大

- GMVを源泉とした収益モデルの構築
- 吸収合併したロイヤルゲート社業務の改善 (PMIおよび再構築) を継続
- POSサービスとのセット販売を中心としたスマレジとのクロスセル展開
- オンライン決済領域 (事前予約、事前注文、テーブル注文など) へのチャレンジ

スマレジタイムカード

店舗向け機能強化とHR強化

- スマレジが得意とする小売・アパレル・飲食向けの機能開発
- 従業員管理や勤怠給与管理全般を強化し、業種問わないCV獲得と規模拡大に伴う解約防止策として取り組む
- CMや展示会出展、既存顧客へのアップセル訴求を実施

スマレジ

The next step is to increase the unit price per customer. Centering on Smaregi, there is an app market where you can attach or remove additional functions to Smaregi. We aim to improve the unit price per customer here.

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We are now focusing on payment services. We have a payment service called PAYGATE, which we acquired through M&A just over a year ago, and we are proposing this to our existing Smaregi customers as well as to new customers as a set with Smaregi in the future.

The other is attendance management, which we have been working on for some time, called Smaregi Time Card. Part-time workers and staff management, payroll calculation, shift scheduling, and attendance management and HR services for stores. We are continuing our efforts to further deepen the cross-selling of these products and to raise the Company's unit price per customer in these three areas.

スマレジのM&A戦略 スマレジについて 19

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。

1

顧客数の獲得

顧客獲得のスピードアップ、
またはターゲット領域拡大の
ためのM&A

対象企業

クラウド系POSベンダー

2

顧客単価の向上 (ラインナップ充実)

スマレジを機能的に補完しうる
企業のM&A。クロスセル・
アップセルをねらう。

対象企業

スマレジと直接的なシナジーが望める
店舗向けソフトウェア企業

3

ITエンジニアの獲得

web系エンジニアを保有する
企業。プロダクトを保有して
いなくて構わない。

対象企業

システム開発会社、Sler、制作会社

スマレジ

Of course, we are moving forward with our plan, but I believe that M&A is an essential part of that plan. The M&A policy, one is to acquire the number of customers. We are considering mergers and acquisitions to acquire more customers, in the sense of accelerating the increase in the number of original customers. This is simply the same industry. Increase the number of customers by merging and acquiring other companies in the same industry.

The second is to increase the cost per customer, which is targeted at companies that have solutions and services for stores that have a high affinity for Smaregi.

The third is to acquire IT engineers. As it is difficult to acquire IT engineers, we are targeting system development companies and production companies that have a large number of good engineers.

We are not looking to diversify, but rather to actively pursue M&A opportunities with companies that are an extension of the roadmap that Smaregi is currently drawing up.

That concludes my presentation of the new mid-term management plan and Q3 financial summary.

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Question & Answer

Moderator [M]: Okay, 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 items, we will reply with a summary of the contents. Please understand this in advance.

Let us begin by introducing our special guests and panelists. Mr. Daisuke Harada, Senior Analyst, Research Department, QUICK Corporate Valuation Research Center, has been invited as a special guest to this financial results presentation. I would like to ask you various questions from an analyst's point of view, Mr. Harada.

Harada [M]: Thank you very much. My name is Harada, and I am in charge of small- and medium-sized growth companies at the QUICK Corporate Valuation Research Center. Thank you for your cooperation.

Yamamoto [M]: Thank you for coming all the way to Osaka today. Best regards.

Harada [M]: Thank you for this valuable opportunity.

Yamamoto [A]: Let's get started. We will be answering questions from those received during registration for the information session. There was one case.

We have received questions asking for the number of new graduates hired, the number of mid-career hires, and the number of employees leaving the Company.

New graduates are actually not doing it at all, zero. Engineering internships are accepted. We have been doing this like a part-time job, but we have not hired new graduates to date.

98 mid-career hires this year. 98, this includes M&A hires. About 100 people. The number of leavers was slightly higher this year, with 29. For reference, there were nine employees who left the Company in the last fiscal year.

Harada [Q]: Since you have mentioned something related to human resources, I would like to ask you a number of questions in this area.

First of all, regarding the current hiring environment, I have heard that some companies have had difficulty hiring engineers at times, but have recently become somewhat able to hire. On the other hand, I have also heard that it is challenging to hire sales resources. What about your hiring situation?

Yamamoto [A]: There were times when it was difficult to hire engineers, for example, and there were other times when it was difficult to hire salespeople in Tokyo, but if you look at the full year as a whole, we are hiring as planned.

As mentioned in the materials, the Company as a whole has about 250 employees, of which 98 are hired recently, so nearly half of them have been with the Company for less than a year. That's why the burden on the seniors is a little heavy, and education is a big issue. I feel that their hands are full in the field, and we have been working hard to teach them and help them quickly become competitive.

Harada [Q]: By the way, what kind of backgrounds do your salespeople and mid-career people come from?

Yamamoto [A]: It's varied. Some were store staff, some worked in apparel, and some were in SaaS sales, which has nothing to do with anything else. Also, some of our competitors, some of whom sold POS.

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Harada [Q]: I've received some questions related to sales and marketing, and I'm wondering how to exactly you acquire customers, do you start with advertising for gaining sales inquiries or do you use an agency to reach out potential customers or something like that?

And as far as the POS register, there's a free part, but how long does it take to shift to paying customers, how much time does it take to get there in the first place, and what is the customer acquisition path in this area?

Yamamoto [A]: Thank you. First of all, in terms of sales, we rarely go door to door or make phone calls. Basically, it is a web-based lead acquisition. It means that leads are acquired on the Web and inside sales moves first.

Customers can also sign up online on their own, or rather on their own, and can do so without a business meeting. What percentage would that be, not that many? There are many free plans, but with such a pathway.

Then there is the pattern of having a contact person from our company at the time of the inquiry, negotiating with the client, and signing the contract. Right now, about 30% of our business is negotiated and contracted online.

We have four showrooms in Tokyo: Shinjuku, Ebisu, Shibuya, and Shinagawa. There are also locations in Osaka, Nagoya, and Fukuoka. There is a pattern in which you come there, and a sales representative is assigned to you to negotiate a business deal and sign a contract. That is direct sales.

There are hundreds of distributors, and approximately 20% to 30% of all contracts are through partners, while 70% to 80% are direct sales.

I think that having a salesperson in charge has a higher closing rate, of course.

The other thing you mentioned was the free plan. Conversion from a free plan to a paid plan is actually not very common. It is true that we do have people using the service on a trial basis, but it is also true that about two months after using the service on a trial basis, they move on to a paid plan. Most probably that is the pattern.

But those who choose the free plan want to use the free plan forever, and very few switch to the paid plan from there.

Conversely, therefore, customers who are looking for a paid plan from the beginning will sign up for a paid plan from the start. Therefore, it is not that they gradually grow from free to paid, but rather the customer has a specific plan that he or she wants from the beginning, and if the plan is suddenly paid for, it is much more likely to be paid for.

Harada [Q]: Okay, thank you. Moving on to the next question, one of the major developments in the current situation is the price revision. You explained that there is currently no significant impact regarding the churn rate, but are there any effects such as a slight impact on acquiring new customers or sales leads, or any observed movement towards downgrades? I'd like to know more about that.

Yamamoto [A]: Thank you. We disclose the number of stores on a monthly basis, usually at the beginning of each month, so please take a look at that first. We are informing this on LINE from IR, so please register on LINE.

There has been no particular slowdown. Another seasonal factor is that February and March are relatively busy months every year. It's a little bit more exciting. This year has been rather exciting as well, so I don't think there will be much of a negative impact.

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Harada [Q]: Continuing on, I would like to ask a question that is probably of great interest to everyone: the new mid-term management plan.

First of all, could you follow up on the timing, since you have explained the reason for the review, why you announced the update of the mid-term management plan at this time in the first place?

Yamamoto [A]: The timing was partly because the previous medium-term plan was still in the process of being implemented, but as I mentioned earlier, I felt that the objectives of the original medium-term plan had been fulfilled. For example, they were making considerable progress in changing their awareness of the importance of ARR and SaaS KPIs, as well as spending more money on advertising.

The other part of the previous medium-term plan included a statement of intent to bring the Company back to a growth path after the stagnation during the coronavirus pandemic. I think we were able to make a good appeal both internally and externally in this area. The final target of the previous medium-term plan was to exceed JPY5 billion in ARR, and since we have reached JPY4 billion as of this point, I think we have a pretty good idea that we will be able to achieve that goal. Therefore, we decided to end the previous medium-term plan and move on to the next one, so we created a new one.

I think there is a question as to why we are releasing it in Q3 instead of the full year or in Q4, but the previous mid-term plan was actually disclosed in Q3. By releasing the product in Q3, we will be able to start at the beginning of the fiscal year, or rather, have a period of time to prepare internally.

If we release the mid-term plan in Q4, the new plan will come out after the new fiscal year starts internally, so we decided to disclose it in Q3 in order to make the timing a little earlier and to prepare for it sooner.

Harada [Q]: Okay, thank you. Before to start talking about the contents of the new medium-term plan, I would like to reiterate the external environment to begin with.

The environment has changed in such a way that the last mid-term plan was formulated during the coronavirus pandemic and the current mid-term plan is determined after the pandemic. Also, I wonder if you can see the changes in the area between the previous medium-term plan and the current medium-term plan, such as integration. Could you please follow up a bit on the external environment in this area?

Yamamoto [A]: When the coronavirus pandemic hit, there were times when restaurants were in trouble and concerts and other events could not be held. At the time, I thought it was a bit tough, but there was no immediate decrease in customers after that. There were a certain number of inquiries during the pandemic.

I have a feeling that there is a certain amount of demand from people who are opening stores or switching from expensive systems to inexpensive ones such as Smaregi, which is rather cheap, in order to cut costs, regardless of the situation. Then we decided to advertise more and more and actively try to get them.

Therefore, the negative impact of the coronavirus was only for a specific period of time in 2020, and after that, if we advertised and conducted activities rather well, the number of customers increased, so I think that there was very little direct relationship with external factors.

I believe that inbound traffic will increase from now on, or that it will be a very good tailwind. There are many more stores where they have closed, but there are also stores that will reopen, so I would like to take care of those areas.

Harada [Q]: And then, just a little bit more about the competitive situation, what is your share among the mid-size store market right now, what are your competitive advantages in terms of price and service when compared to your competitors?

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Yamamoto [A]: Thank you. The cash register at the store, the function of checking out the products in the cart, and the checkout mechanism of receiving the money and handing over the products, whether cash or cashless, are the only functions that can be differentiated. I don't think there is that much differentiation.

So, although there are several competitors, in terms of the cash register alone, Smaregi is free, and some other companies are also free, so I think it is quite difficult to differentiate them.

As for where to create monetization points from there, I would like to see Smaregi used as a business system. In addition to accounting, there is of course sales management, and if it is a retail store, ordering and purchasing, moving inventory, and displaying products. I would like to create a business system that includes inventory management.

I think that is one of the depths that other companies do not have. As I mentioned in the mid-term plan, there is an app market. There are so many different types and categories of retail stores that it would be very difficult to cover them one by one.

For example, if it were a bookstore, it would be like a two-level barcode. A barcode is usually a single barcode, but a book has two barcodes. The system needs to cover that properly, for example. At roadside stations, nearby farmers sell vegetables on consignment, but it is difficult to sell at roadside stations unless the cash register is equipped with a consignment sales function.

It is impossible for Smaregi to cover all industries and business categories, so other third-party system development companies can develop and sell additional parts, even niche parts, and even if the basic functions are provided by Smaregi, they can develop and sell only the parts to be added to the basic functions. I think that is now a huge advantage that our competitors do not have.

Harada [Q]: I understand. Now, let's continue with the breakdown of the medium-term plan. First of all, you have set a target of JPY9.1 billion for ARR. ARR is consisted with Smaregi, payment services and timecards, so what kind of equation are you drawing for the future when you reach JPY9.1 billion?

Regarding the ARR, the impact of price increases seems to have peaked, and I wonder if the growth of ARR will slow down in the future. Can you tell me more about whether you can continue to expand this area steadily in the future?

Yamamoto [A]: Smaregi itself is roughly three-quarters, or 75%, of the ARR breakdown. The rest of the items are Smaregi Time Card and payments, but there were no payments to begin with. We had been using only Smaregi and Smaregi Time Card, but since the growth of payment seems to be very good, we would like to raise the ratio of payment a little, and we would like to do so intentionally.

I would like to propose this to existing Smaregi customers, and I would also like to propose it as a set to future Smaregi customers who have a contract with us. After all, there is a very high affinity between cash registers and cashless payments, and I would like to focus on that.

Of course, we will also focus on attendance management, but in terms of weight, I think payment is stronger.

Of course, I do not think the current composition ratio will change significantly. The core of the business will be Smaregi, and we will cross-sell payment services, or rather, we will work to be used as a set. I think that trend will remain the same, proposing more things like that and attendance management.

Harada [Q]: Continuing on, you mentioned that you are going to strengthen your EC business as part of the ARR91 mid-term plan, but how many EC businesses are actually operated by your services at this point? In terms of future growth, are these the areas in which your company will be able to win?

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If anything, Smaregi is more of a service for actual stores, and that's where the channel is, but can you tell us how you plan to attack this channel, which is a bit weaker than this one at the moment?

Yamamoto [A]: It's a behind-the-scenes or backyard function, so it's hard to make it stand out, but for years, customers of Smaregi have been asking for linkage with EC, or that it would be more convenient if it were linked to EC. Although some parts of the system are finally being realized, we have not yet reached the point where we can use the system comprehensively and conveniently. Therefore, we need to create a world where the inventory of stores can be viewed on the Internet, for example.

We have not been able to approach retailers who are only doing e-commerce with Smaregi. I think the first thing we should do is to ask stores to manage EC together with us. Therefore, I would like to communicate more with existing customers to find out what is inconvenient and what is convenient. I can see that there are many inconvenient areas that are covered by analog, so I think we can break through if we can make them more convenient.

Another approach for retailers that only do EC is that they do not have a sales channel as Smaregi, so I think this will be a new approach, so we will see how it goes.

Harada [Q]: Do you have any actual results from those who are currently using EC only?

Yamamoto [A]: No one uses Smaregi only for EC.

Harada [Q]: So you expecting the growth in the future, right?.

Yamamoto [A]: Yes, that's right. We even use our Smaregi as an in-house system, and since Smaregi is also involved in e-commerce, we are accumulating know-how within the Company.

Harada [Q]: Okay, thank you. Next, I think this is also an important piece to achieve ARR. Please explain the background of how you were able to solid growth of ARR in the third quarter. Also, it is said that there is fierce competition among various companies in this field, such as promoting terminals at a low price. In such a competitive environment, I would like to know how you intend to grow the payment service.

Yamamoto [A]: Thank you. In terms of payment alone, I think it would be quite challenging. I believe that other companies are now offering such services as card payment and QR payment with a single terminal. In other words, I think we tend to compete on price. I believe that the strength of Smaregi lies in its strong POS, so I think the most basic premise is to propose a set of products with POS.

The payment terminal, PAYGATE, has a SIM card that can be inserted into the terminal, so it is actually possible to make payments outdoors, even when there is no Wi-Fi or line connection. We would like to promote and develop such areas, but we are still in the process of sorting out how much of the JPY9.1 billion we want to spend, what order we will prioritize them, and where we will start. We will not be able to achieve the JPY9.1 billion unless we do something in that area. I would like to steadily build on that one by one.

Selling a set with POS is a prerequisite, and then we will not be consumed by price competition, or rather, we will not compete there. Along with the ability to use outside, PAYGATE has an Android interface, but by inserting a POS into it, it can also be used outside or as a handheld device, for example. There are various usage scenes, so I will aim there. Now it is about those three.

Harada [Q]: I understand. I have been asked about the payment functionality, and I was wondering if it does not compete with QR payments such as PayPay, PASMO, or credit card payments, etc.? Are the layers different?

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Yamamoto [A]: The strength of PAYGATE is that it is a single terminal that can be used for credit card payments, PayPay payments, and transportation-related payments, all within a single terminal.

The service is designed to combine disparate services, such as PayPay QR payment only, or PayPay QR, transportation system reader, and credit card reader at the cash register into one.

I mean, of course, there is PayPay on the other side of PAYGATE, and there are also credit card companies. I think the best way to interpret this is to say that it is a window that combined these services.

Harada [Q]: I have another question related to the medium-term plan, specifically about concrete actions for market segmentation. Earlier you mentioned that you will further delve into industries and business types, but could you provide more details on that?

Yamamoto [A]: We haven't decided where to target yet, but for example, internally the marketing department is saying that beauty looks good and we will develop beauty-related stores, while the development team is adding functions for a completely different type of business, or adding some functionality for restaurants, etc. Each department tends to be rather disjointed, with the sales department going after the department store.

If we aim at this intentionally, we will of course welcome any customer who comes to us, and we will of course conduct business negotiations with any type of industry or business category, but there has been no push from us, or strategic focus on where to dig deeper. However, until now, we have not been able to push or strategically focus on a specific area to dig deeper.

We would then dig deep into some specific industry in each department, or rather the Company as a whole, do research, study the industry, include features that would be useful for that industry, and do marketing and sales to find out what approach would sell for that industry. We are working with the idea of unifying all of these company directions.

I would like to disclose more specific actions a little further down the road, as soon as they are decided.

Harada [Q]: Okay, thank you. Also, related to the medium-term plan, the area of concern this time is profit. The last mid-term plan was an action that was prepared to reduce profits, but this time, you haven't mentioned any particular decrease in profits. If we look at the cost structure of your company, the major cost effects are sales and marketing and hiring.

As for the sales and marketing area, right now, considering the current shift from mass marketing to lead acquisition, I am predicting that the growth of advertising expenditures themselves during the mid-term period will not be as high as before. How about this?

Yamamoto [A]: The top line is growing all the time now, and we will continue to increase sales in the future, but we are thinking of setting a limit for advertising expenses in the future, such as how much we should budget for advertising expenses in relation to sales. Therefore, I think advertising expenses themselves will increase gradually. It will increase in tandem with sales.

However, there is no use in relying solely on these efforts. For example, as I mentioned earlier, it takes a lot of effort to strategically attack specific industries or to dig deeper, so we will spend on advertising and promotion. Little by little perhaps, the budget will increase. This is the kind of attitude that we will take, prioritizing and working on the other areas.

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Harada [Q]: So, you would say that you invest a lot in human resources? If the CAGR is 30% or more, and the denominator becomes larger, it will become more difficult. I am wondering if we need to expand the system and personnel and proceed with a greater sense of scale than we have now.

Yamamoto [A]: Of course, to increase the number of leads, we need marketing personnel, and as the number of leads increases, we need to increase the number of sales team members, and as the number of customers increases, we need to increase the number of call center and support members. This is all done in-house at the call center, so I think we need to increase the number of support members as well, so in the end, everything and every department will need more people.

Also, so is development. We would always maintain it in a new way. The development is always necessary because once a product is made, it is not the end of the process, and we need to keep making it better and better. In addition, we will also need people to conduct research and development to create the next pillar of our business, so it is necessary to constantly increase the number of people we have.

I would like to be able to generate a large number of sales and profits with as few people as possible, but I have not yet set a firm benchmark for this. I don't think it will be enough to just increase the number of people unnecessarily, so I would like to set a per capita sales amount in relation to sales in the future.

Harada [Q]: Another question I've received in relation to the mid-term plan is how the market segmentation strategy relates to the app market.

Yamamoto [A]: The market segmentation strategy seems to be a bit of a contradiction, though, because it's about specializing somewhere and digging deep, and the app market can dig as deep as possible into various industries.

Rather than intentionally creating an app market, third-party development partners create a variety of apps based on their own assumptions about what is needed and what will sell. We as a Smaregi are not controlling this, and a variety of wide-ranging apps are available. And we are very hopeful that a hit film will be produced. We hope there will be a wide variety of applications.

As Smaregi, we want to target specific industries here, so of course Smaregi itself can create apps on the app market. Therefore, while we would like to see a wide range of apps from various industries and business categories in the app market, Smaregi will intentionally create apps for specific industries within that market. I would like to work in both directions.

Harada [Q]: Okay, thank you. I have a few more questions that are not related to the medium-term plan.

We are asked again for a possible cancellation due to the monthly fee increase. Please tell us what measures you are taking to prevent cancellations, or what you are doing about it.

Yamamoto [A]: There are customers who are large in scale, which means a large number of stores, but there are customers who are conspicuously large. We need to communicate well with those customers, because if, for example, a customer with several hundred stores suddenly cancels, we will be in trouble. We do what we can to support them by communicating with them early on rather than chasing after them later to see what causes them to cancel.

If the store has to close, it is natural that it will be cancelled, but we cannot prevent the closure, so I think the only thing we can do is to stay close to our customers.

The possibility of cancellations due to price increases was touched on a bit in the first half of the article, but to be frank, there are some things we don't know. I don't think it's likely that they will cancel suddenly, or that

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they will cancel next month because of the price increase. Switching cash registers and POS systems is a very time-consuming process, so I think there is still a possibility that a customer could be prepared to switch from Smaregi system when the price goes up, and then just cancel six months later.

We don't know that yet, but if they negotiate or consult with us, we will talk with them and recognize them, but if they are preparing for a transfer without the knowledge of our Smaregi, we won't know that. Therefore, for large customers, we will communicate with them, but since we have more than 10,000 customers, it would be impossible for us to work with all of them one by one. I would like to distinguish between different layers of customers, or rather, I would like to communicate appropriately with each layer.

Harada [Q]: Okay. Then, as a factor in the steady increase in the top line so far, do you think that many customers are installing POS cash registers for the first time, or are many customers switching from other companies? If you have a lot of replacements, what are the clear factors that make the decision to switch?

Yamamoto [A]: Thank you. We have customers who already owned a store and want to introduce Smaregi. So, they have a cash register or another company's POS register previously and they want to replace it with Smaregi, which is usually always half of the business meeting. Roughly half of our customers say they are considering a Smaregi because they have to choose a cash register when they open a new store, such as opening a store now or adding a store when they have several stores. I imagine it is about half and half. Is it correct?

Company Representative [A]: It is correct.

Yamamoto [A]: Is that a factor, of switching from other companies? If it wasn't a POS, for example, there are so many people who use a regular cash register and then use Excel to manage inventory. If they are managing inventory of products in Excel, for example, a clothing store, how many shirts and jackets you have, what colors and sizes are available, and where they are located, all of that is managed in Excel.

They can get to a certain point, but then they go bankrupt. When they looked up inventory management and cloud computing, they found Smaregi, and switched to it.

Also, there are a few things that other companies can't do that we can do with Smaregi. For example, they may switch to us because of the availability of APIs, the app market, etc. That's how I feel.

Also, for private businesses, for example, if there is a restaurant where the grandfather runs a Chinese restaurant, and the owner says he will continue to run the restaurant as long as I am healthy, such a restaurant would not think of replacing the POS system. I think that managers in their 30s and 40s who are looking to increase the number of stores and sales would be a good match.

Harada [Q]: Thank you very much. Is this the last time this is asked as a question? This is another question that I have been wondering about, not many users switch from free to paid. Is there a possible strategy to discontinue the free plan once some market share is gained? Or the question of how to somehow monetize the data of customers using the free plan or something like that.

Since you are offering a free plan, could you please tell us what you are going to do about it?

Yamamoto [A]: The free plan is an easy way to get started, and the initial psychological hurdle is much lower, so in that sense I think it is better to keep the free plan, but of course the free plan is not profitable, so I think it is possible to make it paid only. But we don't have such a plan now.

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For example, we can offer apps from the app market to customers on the free plan, and since there are paid apps, there is a possibility of monetizing other parts of the service, even though the Smaregi itself is on the free plan.

Also, I wonder that Mr. Harada just mentioned if the data can be converted into something of value. POS data is indeed stored on the Smaregi servers for about JPY5 trillion worth of transaction data. Can't we find some statistics or regularity from it and use it for something? Although we have been working for more than five years to see if we can monetize the data by making it valuable in some way, we do not have any specific product or package at the moment. It may happen again in the future, but for now I don't think so.

I think we need to steadily monetize the service through monthly usage fees and settlement fees first.

Harada [Q]: Thank you very much. As inbound traffic increases, will it be easier to increase the number of new installations of Smaregi?

Yamamoto [A]: I think it is easy to increase. I know it's almost forgotten off the top of everyone's head, but 2019 was a great year for inbound. This was true in Shinsaibashi, Osaka, and Kyoto, but it is also true in more rural areas, and foreign tourists are coming in droves. From souvenir shops to restaurants in tourist areas, they need more people. There was a time not so long ago when the more we opened, the more customers came in, but we had no staff.

In that case, as is the case even now, it is a matter of running operations with a small number of people during the coronavirus disaster or running operations with a small number of people at a single store, whichever way you look at it. Like Smaregi and cashless, he said, they make operations more efficient. People often talk about DX in stores, but in terms of streamlining store operations, adding Smaregi and other digital tools is a very effective way to increase the number of stores.

Harada [Q]: Since we are in Osaka, the World Expo is coming up in 2025. I am wondering if inbound will be more active in that area.

Yamamoto [A]: Yes, that's right. I would like to see more customers there as well, and also a tax-free function. Smaregi has a tax exemption function. The government had already started to promote inbound tourism country wide, and there was an initiative to create many duty-free stores there. The Smaregi also has a tax-free function from 2018 or 2019, but that function has been hard to sell because of the coronavirus disaster, but I think it will come back again. In that sense, I am looking forward to it.

Sorry, I'll answer one more. Thank you for your many questions.

Harada [Q]: I think you have answered most of the questions we have received.

The other question is whether we will be able to monetize the app market, which is also included in the mid-term plan this time. My understanding is that the app market is currently the one of key factors for introducing Smaregi, but monetization by itself is not progressing very well. What will you do in this area during the mid-term plan? Can you tell us how you intend to strengthen this area through the med-term plan?

Yamamoto [A]: Direct sales come from the app market, where third parties and development partners can create and sell apps. Since Smaregi distributes, the developer takes 70% of the sales, and Smaregi receives 30% of the sales.

Therefore, since Smaregi share is about 30% of the distribution amount in the app market, it is certainly difficult for Smaregi to generate so many sales. But steadily we are building up there now, too. But when I say tiny, I mean tiny.

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Rather, as we have talked about many times today, we would like to have a lineup of many very niche functions. We believe that if there are many customers in various industries and business categories who have problems, we can cover a wide range of aspects by having many applications that can solve those problems, even if they are niche. The competitors don't have it, but if the combination of Smaregi and the Smaregi app can achieve this, I believe it will be a great advantage.

In terms of increasing the number of clients, or the types of businesses targeted. As for the increase in the target audience for Smaregi, I believe it will contribute greatly, and I plan to put a lot of effort into it in the future.

Harada [Q]: Okay, thank you. In addition to the question, we have also received a request for KPIs to track the progress of the mid-term plan, such as the number of EC businesses and the number of EC-registered stores.

Yamamoto [A]: Thank you very much. We will provide several cut-off points for the progress of the medium-term plan, for example, the transition of EC businesses, and so on. If TAM progress has gone from 0% to 0.1%, it is difficult to show the progress. I would like to keep an eye on the situation and offer what I can. Thank you for your input.

That is all for the Q&A. Thank you very much for your many questions. Thank you very much, Mr. Harada.

Harada [M]: Thank you very much.

Moderator [M]: Once again, thank you all for your many questions. We have extended our time a little bit, and I would like to thank you all once again for staying with us until the end.

Last but not least, here is an announcement from IR. As Yamamoto mentioned earlier, we also provide the latest 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 space for individual interviews for investors, if you would like to take advantage of this.

Yamamoto [M]: Thank you very much for your time.

Following on from the previous event, this time I was given the opportunity to work on doing a Q&A session with a special guest. Thank you very much, analyst Harada-san, for coming all the way to Osaka.

Harada [M]: Thank you for this valuable opportunity. This time, if you could show me how to grow the Company in the mid-term plan and long-term, along with the target figures, I would be excited to follow as an analyst. I hope that you will continue to provide us with excellent IR activities. Thank you very much.

Yamamoto [A]: Thank you. Please come to Osaka again. We will take on the challenge of new initiatives based on the new mid-term plan.

We will disclose specific details of our efforts as they become available, and we ask for your continued support. Thank you very much for your time today.

[END]

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