



Smaregi, Inc.

Q1 FY2024 Financial Results Briefing

September 14, 2023

Event Summary

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[Event Name]	Q1 FY2024 Financial Results Briefing	
[Fiscal Period]	FY2024 Q1	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	3	
	Hiroshi Yamamoto	Representative Director
	Kohei Takamadate	Business Strategy Division Director
	Megumi Shikichi	Financial Accounting Manager

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Presentation

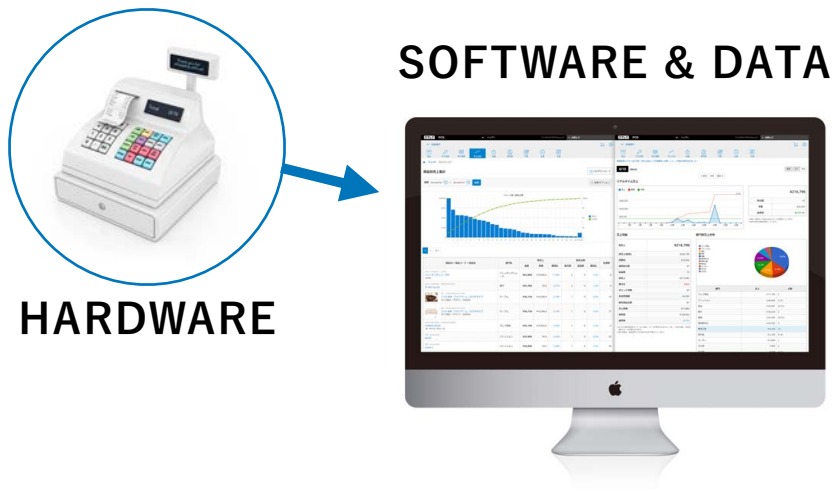
Shikichi : It is now time to start. Thank you for participating in our financial results briefing for Q1 of the fiscal year ending April 30, 2024, of Smaregi, Inc.

Now, let me explain today's flow. This financial results presentation will be presented in two parts, the first half and the second half. In the first 30 minutes, Mr. Yamamoto will give an overview of the Company, followed by a Q&A session. In the first half of the Q&A, we will only accept questions regarding the Company profile. Please note that if you send us questions about the financial results, we will answer them in the Q&A in the latter half of this section.

Now, Mr. Yamamoto, please begin.

Yamamoto: Good morning, everyone. I am Yamamoto, Representative Director of Smaregi. Thank you very much for participating in our financial results briefing today. In the first part of the presentation, I would like to focus mainly on providing an overview to first-time participants to get them acquainted with Smaregi. Thank you.

Smaregi specializes in software and data.



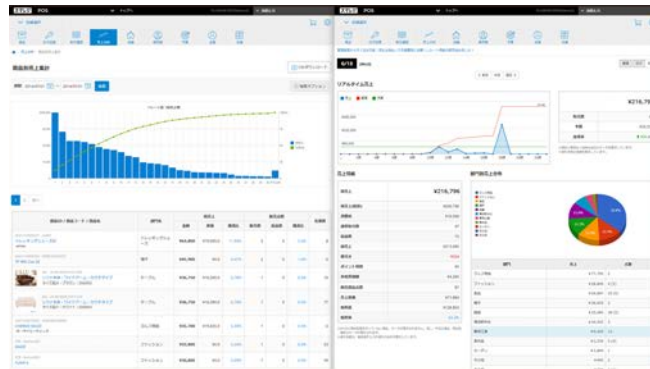
Smaregi is an iPad cash register company. In plain terms, we deal with cashiers of the store, but our cash registers are a bit different from the traditional ones. That is, while cash registers have been made by electronics manufacturers such as Toshiba and Sharp, Smaregi was born to specialize in the software and data that are inside them.

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The Age of Data Management is Coming.



Data collection → Analysis → Conjugation

I just referred to Smaregi as an iPad cash register, but I actually think it doesn't have to be an iPad. There will be no issue if it's replaced with mobile ordering, ticket machines, or e-commerce sites. This is because we believe that the era of data management will come, in which data such as who bought what, when, where, how many, and at what price, will be collected, analyzed, and utilized.

スマレジ Our philosophy

**OPEN DATA,
OPEN SCIENCE!!**

This is our management philosophy: open data and open science. Data is very important in management. It is much more advantageous to walk with a map or other data in hand than groping around in the dark. We would like to be the kind of company that shines a flashlight on store operators walking in the dark.

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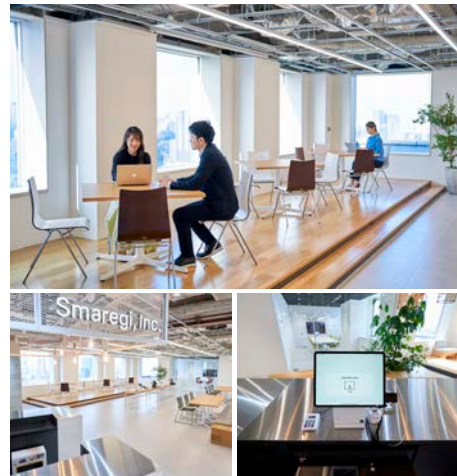
Company overview

1. Company overview

Smaregi, Inc.

HQ Osaka, Japan

Est. May 2005; established
Sep. 2011; Smaregi(POS) released



First, an overview of the Company.

The Company was founded in 2005 and is in its 19th year of operation. At first, we were engaged in website development and contracted system development, but in 2010, we started developing our own POS cash register system, Smaregi, as an in-house service, and released it the following year, in 2011, making this year the 13th year for the Smaregi service.

Company overview - Locations

1. Company overview

Office
4

Osaka, Tokyo, Sapporo(Hokkaido),
and Nagoya(Aichi)

Showroom
6

Osaka, Ebisu, Shinagawa,
Shinjuku, Nagoya, and Fukuoka

Employees
272



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We currently have four office locations in Osaka, Tokyo, Sapporo, and Fukuoka, plus six showrooms in Osaka, Ebisu, Shinagawa, Shinjuku in Tokyo, Nagoya, and Fukuoka. We have 272 employees, as of the end of July 2023, and we are actively recruiting more and more.

Company overview - Board members

1. Company overview

Representative Director

**Hiroshi
Yamamoto**



Executive Vice President and Director

**Ryutaro
Minato**

COO



Director

**Ryuhei
Miyazaki**

CTO



Director

**Kohei
Takamadate**

CFO



I, the Representative and Mr. Minato, the Vice President, are both former engineers. Our veteran members of the Company, including myself and the Vice President, had experience in developing POS systems for drugstores on contract in the past, and came up with the idea of Smaregi. Therefore, one of our strengths has been the abundance of rather serious retail-oriented features since the beginning of our release.

Our founders, Mr. Tokuda and Mr. Mochizuki, are still involved in the Company as advisors and auditors.

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Our business

2. Our business

Smaregi (POS)
A new, cloud-based POS register system that enables efficient store management and data analysis.


Active stores
38,296



PAYGATE
Multi-cashless payment service.



TimeCard
A cloud-based attendance management and payroll system.



Others
SES and EC stores etc.

Our main service offering is Smaregi, a highly functional cloud-based POS cash register used by restaurants and retailers to manage and analyze sales information.

Conventional POS cash registers seen in convenience stores consist of a large, dedicated machine and embedded software, whereas Smaregi can be used with an iOS device such as an iPhone or iPad and a Wi-Fi environment.

The service was released in September 2011, and currently there are 31,107 paid plan stores and 38,296 active stores, including paid and free.

Other services include the attendance management service Smaregi Time Card, a cashless payment service, and an App Market.

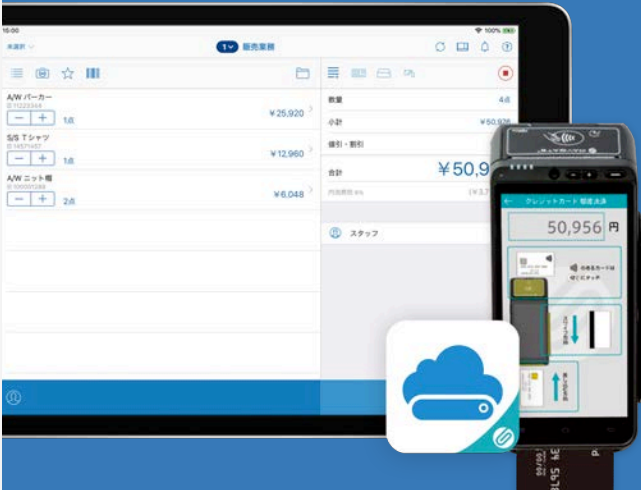
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Our business - Payment service

2. Our business



The one-stop payment platform

PAYGATE

Released in May 2022


The image shows a tablet displaying a POS system interface with a list of items and their prices, and a smartphone displaying a payment confirmation screen with a total amount of ¥50,956. A cloud icon with a lock symbol is overlaid on the bottom left of the smartphone screen.

Among peripheral services, cashless payment services have grown significantly in the past few years. In December 2021, we acquired Royal Gate, a payment processing company, and are selling a set of its multi-payment service, PAYGATE, integrated with Smaregi. POS cash registers and cashless payments have a very high affinity and are growing as a major revenue driver for our company.

Our business - Smaregi AppMarket

2. Our business

Creating touch-points across various industries.



スマレジ AppMarket

Released in July 2020

The image features the Smaregi AppMarket logo and a screenshot of the app's interface. The interface shows a list of applications for sale, including Uber Eats LINK, Kitchen Monitor, Mobile order for Smaregi, and others, each with a price tag. A shopping cart icon is overlaid on the top right of the app screenshot.

In addition, one of our unique initiatives that we are strengthening is the Smaregi App Market, which was released in 2020. It is a platform that provides extensions to Smaregi and timecards as applications and is inspired by Salesforce's AppExchange and Cybozu's kintone.

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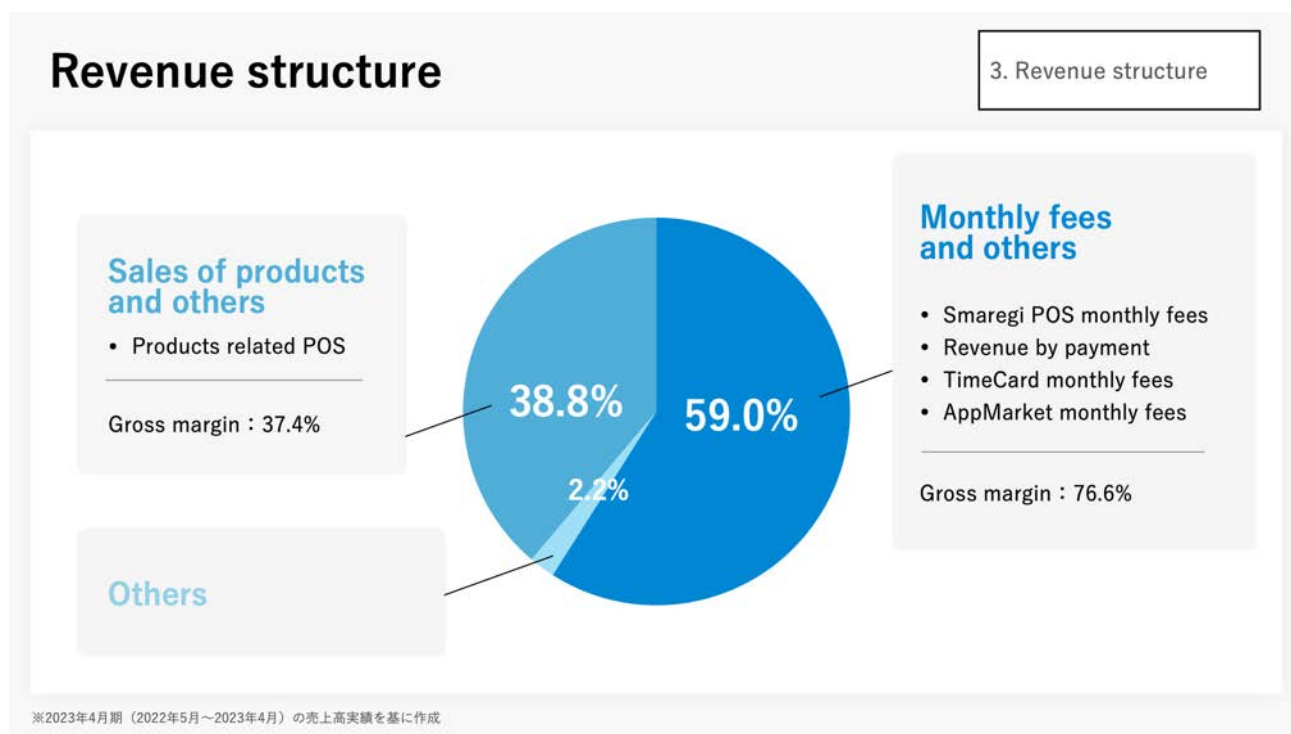
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The apps in the App Market are mainly developed by third-party development partners, and the revenue sharing model is 30% for us and 70% for the developers.

So far, add-on applications have appeared for niche industries such as dry cleaners, direct sales, and beauty salons, and playing a role in expanding the base of Smaregi users by creating touchpoints for industries that are difficult to develop with Smaregi alone.



The revenue structure is shown in the graph.

There are two main categories: monthly usage fees, etc. and equipment sales, etc.

Monthly usage fees, etc. consist of monthly usage fees for our cloud services such as Smaregi, timecards, and cashless payment. Equipment sales, etc., are initial costs, and consist of the sale of equipment such as iPads purchased at the installation, cash drawers to store cash, receipt printers, barcode readers, and so on.

The basic structure is a subscription service, so monthly usage fees, etc., basically accumulate with each acquisition. In contrast, equipment sales, etc., tend to rise and fall each month depending on the number of acquisitions and seasonality.

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Smaregi (POS) - Monthly fees

4. Smaregi (POS)

Standard	Premium	Premium plus <small>Most popular</small>	Food business	Retail business
¥ 0	¥ 5,000	¥ 8,000	¥ 11,000	¥ 14,000
		Call center	Call center	Call center
Basic function for cash register.	Premium plans and above allow for multi-store management.	Customer management for 100,000 records, point management, and phone support.	Full-feature solution for restaurants.	Full-feature solution for retailers with outstanding inventory management.
	6,266 stores	10,864 stores	5,026 stores	9,328 stores

I will now explain the fee structure of the software.

Although you need to purchase the equipment that makes up the cash register, there is no up-front cost for the software itself, just monthly usage fees. Monthly usage fees begin with the free Standard Plan, with basic cash register functions, and four paid plans are available depending on the functions users require.

Premium plans and above are paid plans, and in principle, paid plans are promoted in business negotiations. Starting with Premium Plus, telephone support is available, and our expert operators are available 365 days a year from 9:00 AM to 10:00 PM.

In addition, the higher-end food business and retail business, plans are industry-specific plans, with advanced features specific to the restaurant and retail industries, respectively. In terms of number of stores, Premium Plus has the most, followed by retail businesses.

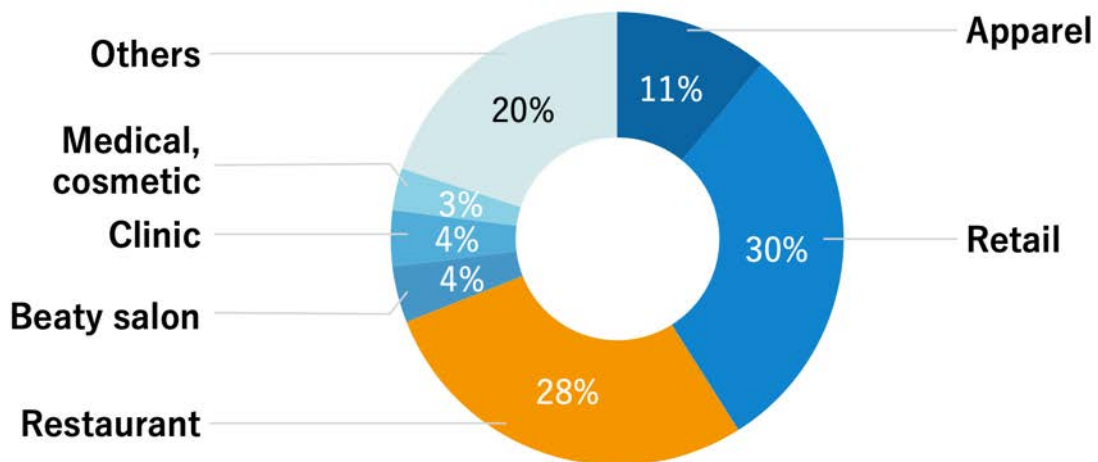
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Smaregi (POS) - User's industries

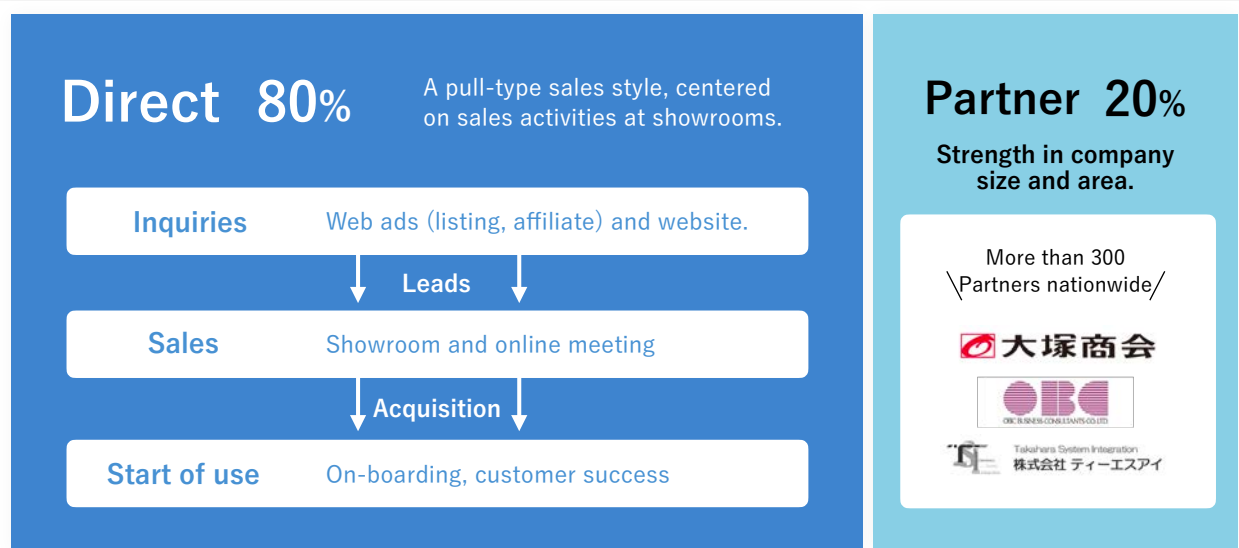
4. Smaregi (POS)



Looking at the user industries of Smaregi, the retail industry in general, including apparel, accounts for 40%, while restaurants account for just under 30%, with retail and restaurant accounting for nearly 70% of the total. Other businesses include beauty and barber stores, clinics, events, pop-up stores, and many other types of businesses.

Sales strategy

5. Sales strategy



Sales strategy. There are two main sales methods: direct sales and partner sales. The ratio is 80% direct sales and 20% partners. Direct sales have grown significantly, and partner sales have also grown significantly.

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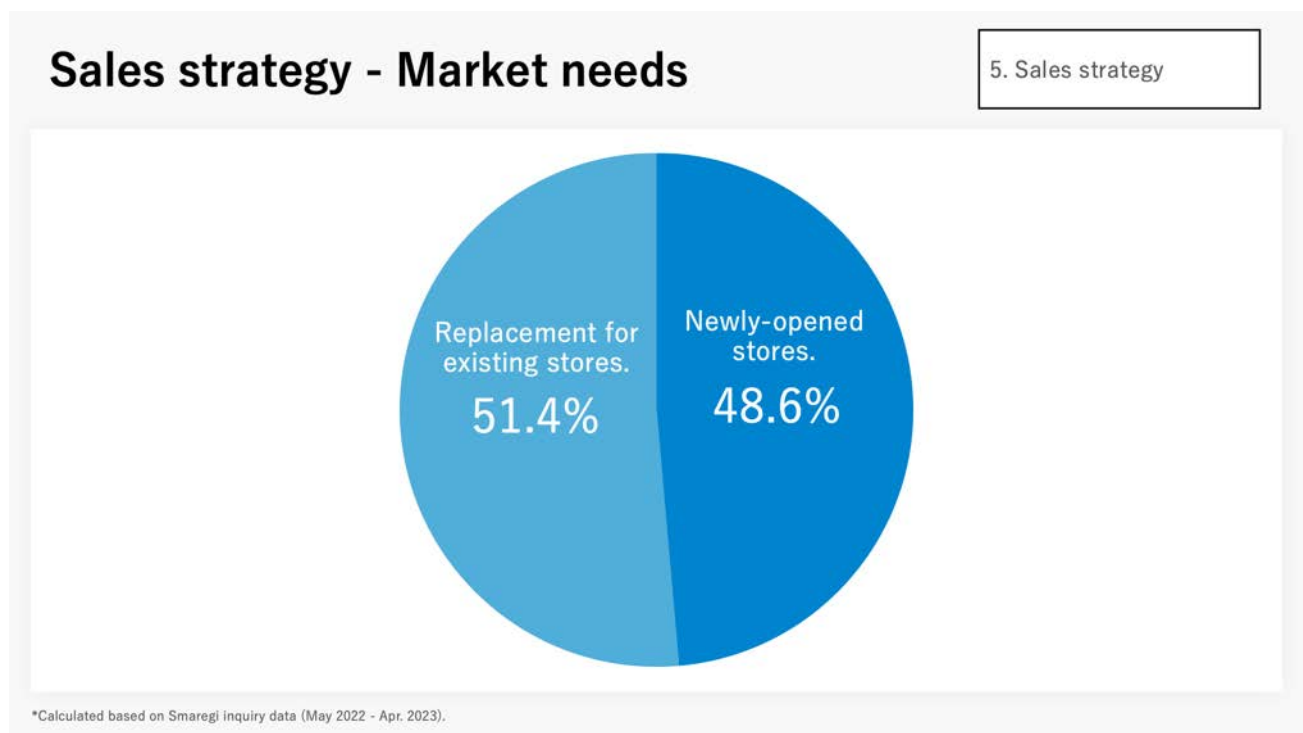
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Direct sales are now a pull-type sales style, centered on sales activities at showrooms where customers make appointments to visit, and thankfully the number of inquiries continues to increase year after year, so we rarely make so-called "push sales visits" to customers. Customers who inquire online are either taken directly to an online business meeting or to one of our six showrooms located throughout Japan, where they are guided through a business meeting with actual equipment demonstration.

In addition, users themselves can also sign online contracts on our website without having to negotiate.

Our partners include Otsuka Shokai, OBC, TSI, and about 300 other companies with expertise in a wide range of industries. By tying Smaregi to the partner's own products and selling them together, they are proposing Smaregi as well. We are able to approach companies that are difficult to approach on our own, such as companies with multiple storefronts—over 100 stores, for example—or companies that have a customer base in a regional area.



As for the timing of the approach to stores, for example, if you go from door to door in a shopping district and suggest to existing stores that they should replace their cash registers, it is difficult to gain customers. On the contrary, if you are opening a new store, you will always need at least one cash register, or there are times when you may want to consider switching to a different system, such as when the contract for the cash register of an existing store expires, or when the depreciation of the hardware is complete. Those are great business opportunities. In fact, the introduction of Smaregi is also divided almost equally between the two.

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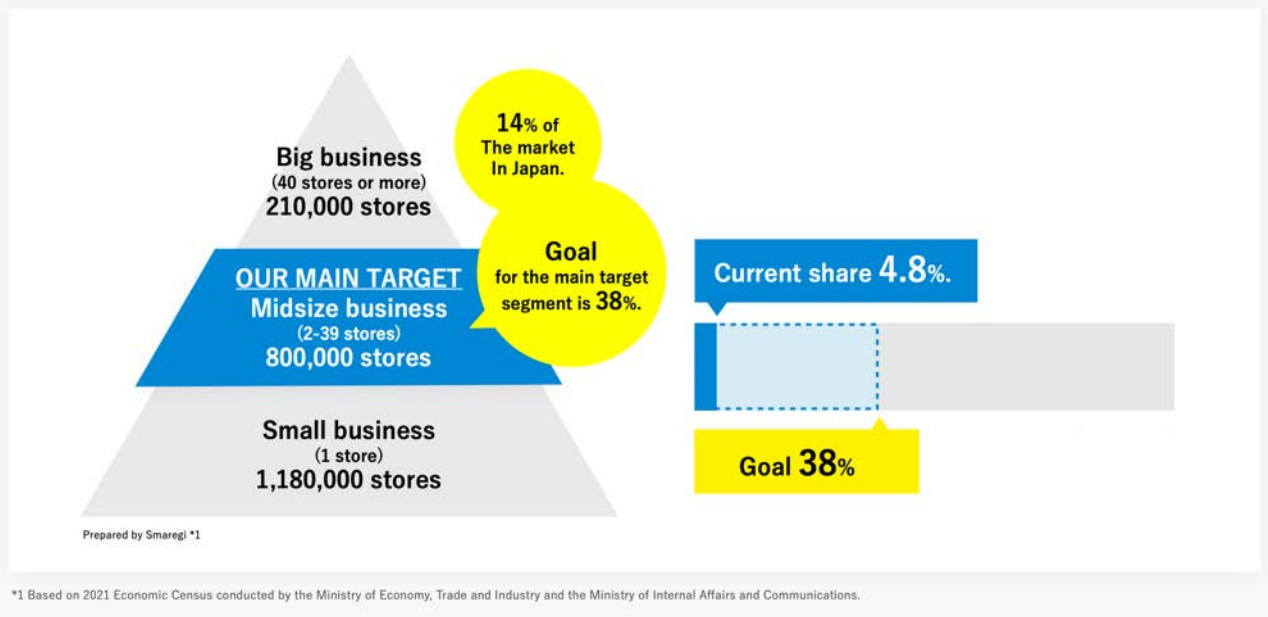
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Market size and core target

6. Market size & target

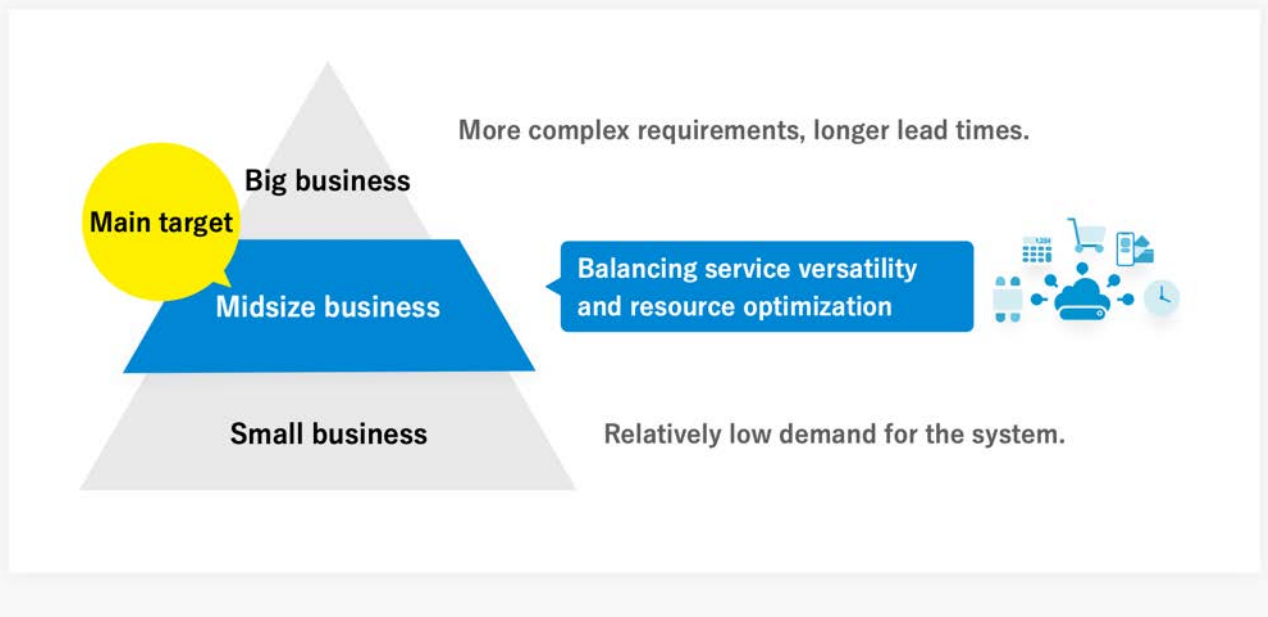


As for market size and share, there are approximately 2.2 million stores and outlets throughout Japan, including retail and restaurant, which are the main user groups of Smaregi, as well as service and medical, etc.

Our main target is about 800,000 medium-sized stores with roughly 2 to 40 storefronts. The current number of active stores is about 38,000, so the market share is still about 4.8% relative to the target. We believe that there is still a lot of room for growth. Our goal is to make Smaregi Number One in Japan with 300,000 active stores and 38% market share, or roughly 30% market share in the cash register industry in FY2031, eight years from now.

Market size and core target

6. Market size & target



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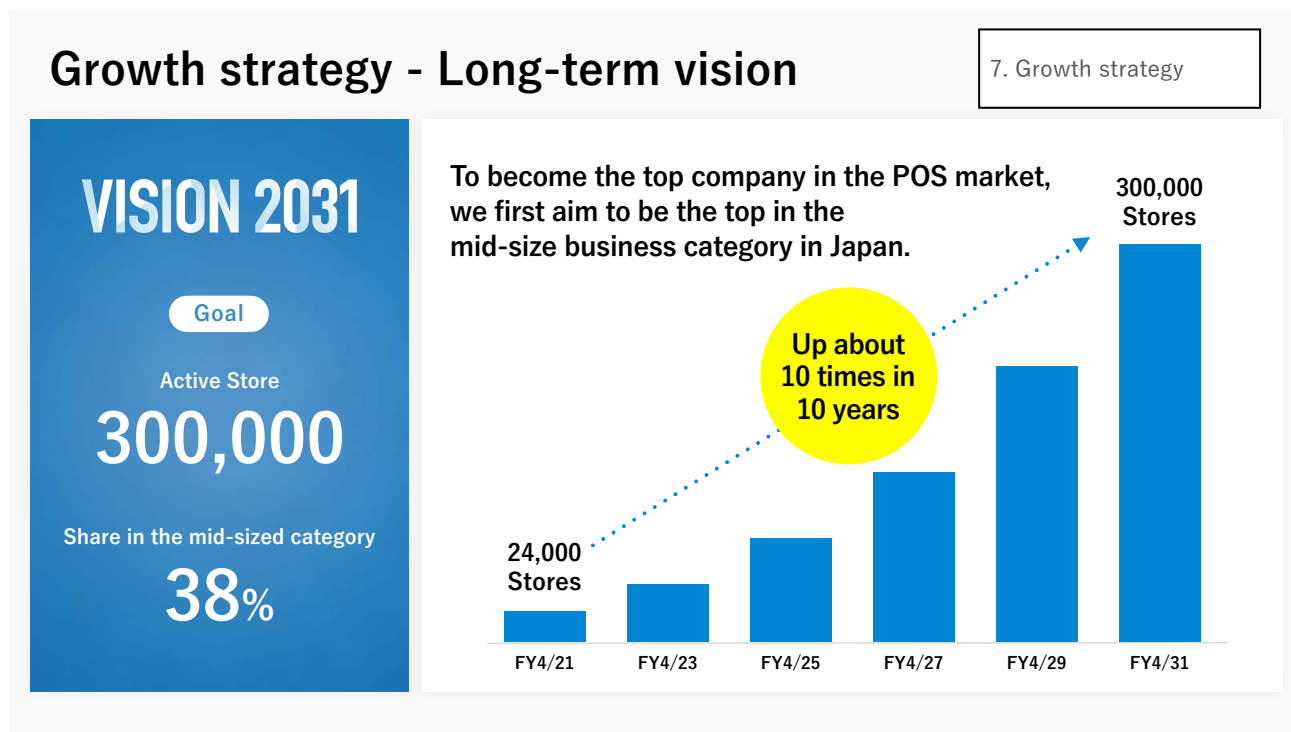
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As to why we are focusing on the medium-scale segment, in the case of small-scale operations with only one storefront, the store owner can grasp the status of the store to some extent in his/her mind, so a proper system is not necessary.

Also, if a business is too large, the lead time to get it up and running tends to be very long due to the complexity of the system requirements, and a lot of individual customization must be done. For these reasons, we are targeting medium-sized businesses that can easily adopt a paid plan without customization.



As for the future of Smaregi, as indicated in our long-term vision, VISION 2031, we aim to capture the top share of the POS market in Japan by 2031. As a specific number, we have set a goal of 300,000 active stores.

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Second Medium-term Management Plan

FY4/24 - FY4/26

Plan for Increasing ARR

As part of this process, we have announced a medium-term management plan. The second medium-term management plan has started this fiscal year. In addition to strengthening business investments centered on advertising expenses and cross-selling of settlement and timecards, which were set forth in the first medium-term management plan, we will achieve ARR growth by promoting the market segmentation strategy and approach to e-commerce businesses, which were newly added in the second medium-term management plan.

Second Medium-term Management Plan

7. Growth strategy



We have set ARR as our most important KPI, not sales targets. This means that the most important revenue component is software usage fees, not equipment sales.

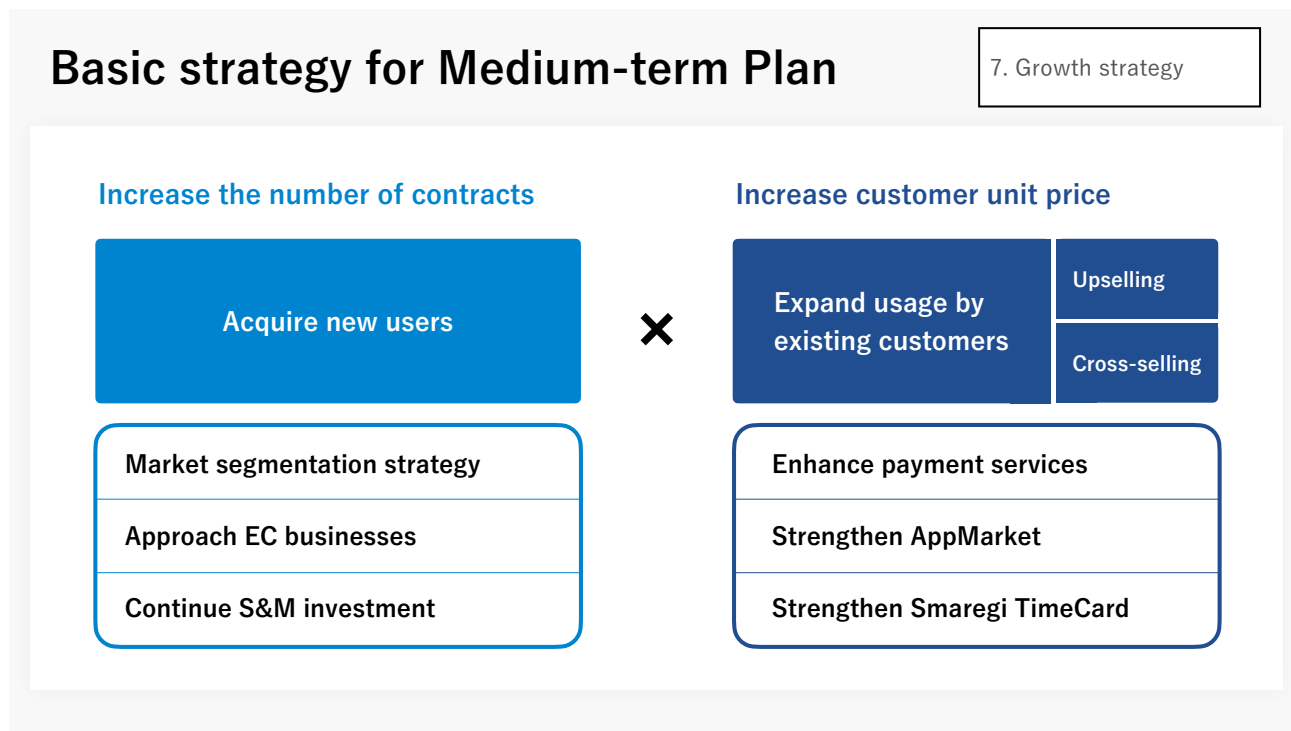
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Specifically, we aim to achieve an ARR of JPY9.46 billion by the end of the fiscal year ending April 30, 2026, and a compound annual growth rate of 30% in ARR over the three-year period beginning April 2024.



To achieve ARR, it is necessary not only to increase the number of customers, but also to increase the average spending per customer. To increase customer numbers, we will continue promoting our market segmentation strategies, approaches to e-commerce businesses, and sales and marketing investments. As for increasing the average spending per customer, we will accelerate the cross-selling of cashless payment, which we acquired through M&A last year, strengthening of the App Market, and attendance services for store employees.

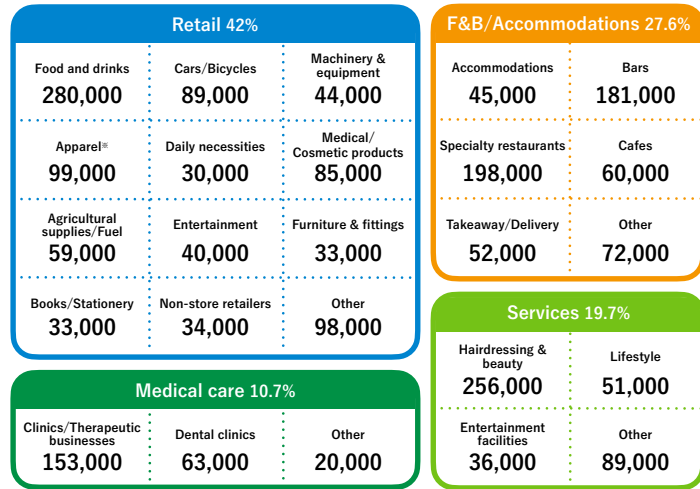
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Break down the broad target segments and strengthen the approach to specific industries.



*Clothing, drapery, fabric, bedding, etc.

(stores)

Prepared by Smaregi based on the "2016 Economic Census for Business Activity," Ministry of Economic, Trade and Industry/Ministry of Internal Affairs and Communications.

The first measure to increase the number of customers is a market segmentation strategy.

Smaregi mainly targets the retail and restaurant industries, but as you can see, both the retail and restaurant industries are actually very fragmented.

Because of this, even within a company, the direction tends to diverge. For example, while our sales team is saying we should capture the bookstore market, the marketing department might be saying, "Let's focus on cosmetics stores," or the development team might be saying, "Let's focus on developing a self-service checkout machine." It would be a waste if the power of the Company were to be dispersed, so we decided to unify the areas of focus throughout the Company.

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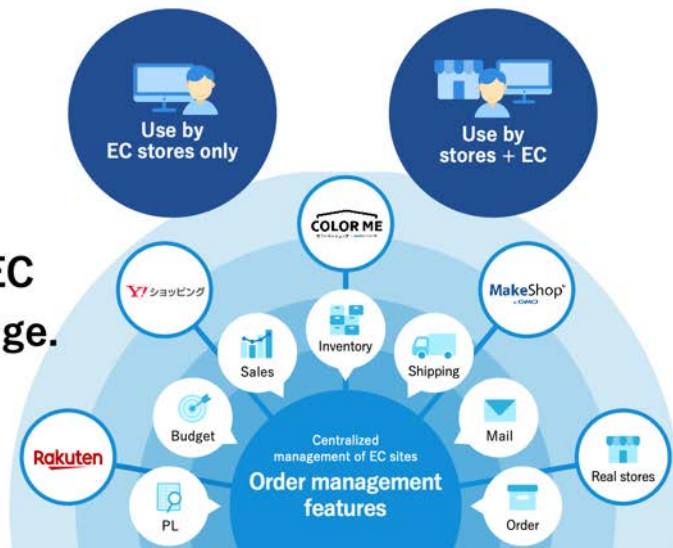
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Increase customers

Approach EC businesses

7. Growth strategy

Enabling use of Smaregi by EC stores through EC-EC linkage and EC-store linkage.



*We plan to update the functions successively, such as compatibility with mall EC carts, etc.

The second measure: to approach EC businesses. Most of Smaregi's customers who are in the retail industry probably also operate an e-commerce business. Since EC is now an inseparable and important measure for retailers, we recognize that it is absolutely necessary to make the linkage with EC easier and more seamless. Ultimately, we will promote the use of Smaregi to retailers who do not have stores and operate solely through e-commerce.

Increase customers

Continue S&M investment

7. Growth strategy

Investing in Both Cognitive Advertising and Lead Generation.



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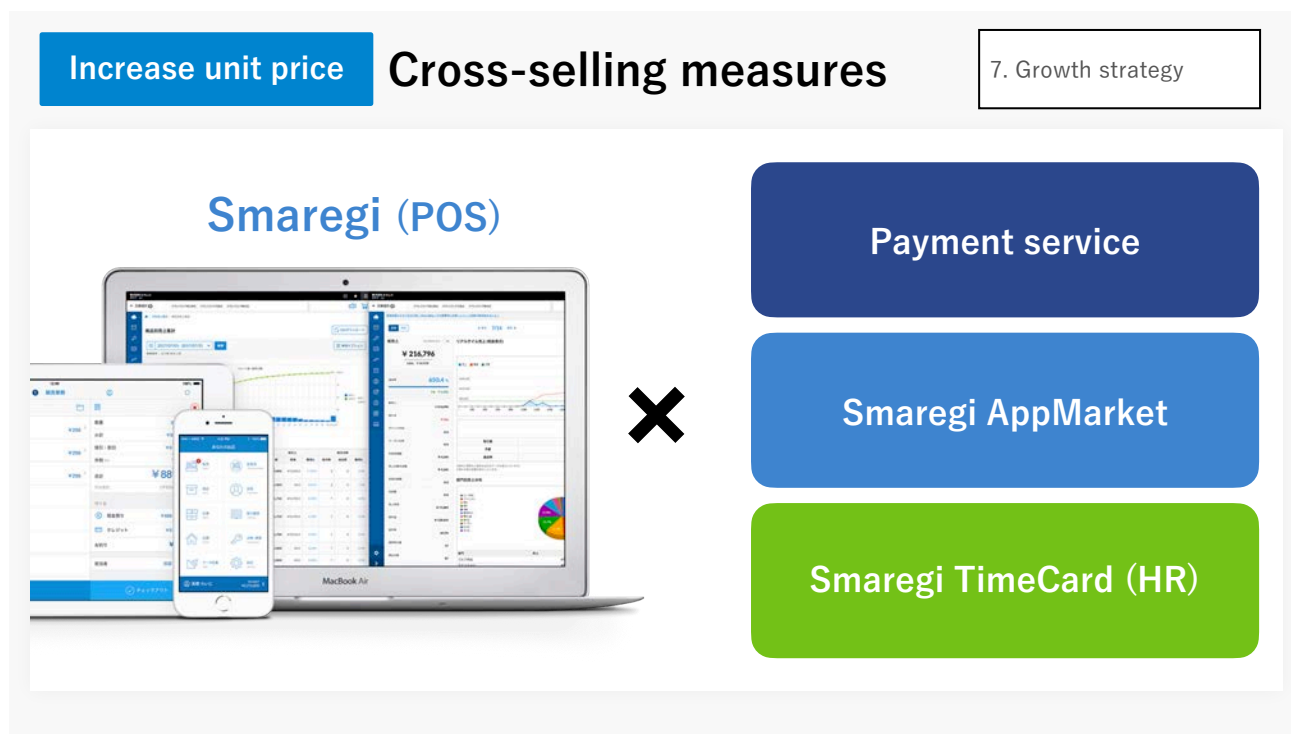
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The third measure to increase the number of customers is to continue to invest in sales and marketing. This means increasing leads through TV commercials and other advertising efforts. In one previous mid-term plan, this was the first priority measure, but this time it has been downgraded to the third priority.

Before, we didn't know how to do it as we hadn't done much advertising, so we made it our top priority, but now that we have accumulated some know-how, we have reduced its importance.



We also want to improve our products so that we can receive inquiries without relying on advertisements. Therefore, we are shifting to place more weight on research and development expenses while adjusting the space to increase advertising expenses.

We also have three measures to increase the average spending per customer: App Market, cashless payment, and HR service for time and attendance.

We will focus on increasing affinity of these with Smaregi and selling them as a set with Smaregi. By increasing both the number of customers and cost per customer, we aim to maximize business performance.

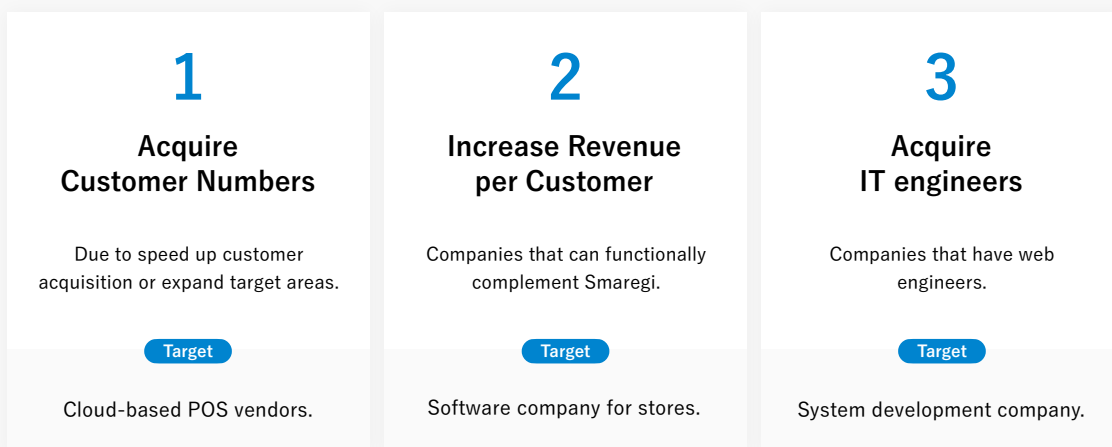
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M&A strategy

7. Growth strategy



Finally, regarding M&A, companies that are an extension of the strategies we discussed today are targeted for M&A. We are now considering, based on the criteria, whether it would be faster if we created it ourselves, or whether it would be faster to do an M&A.

VISION 2031

TO BE THE NEW STANDARD

Unlocking Data Accessibility for Everyone.

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

That is why we are committed to creating an era in which everyone can easily utilize data as a matter of course, "TO BE THE NEW STANDARD." That is all from me.

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Question & Answer

Shikichi [M]: We will now proceed with the Q&A. Mr. Yamamoto, please begin.

Yamamoto [M]: Sure. We have received many questions. Thank you. However, we have received many questions about the most recent financial results, so I will leave that to the latter part of this presentation.

Participant [Q]: The first question is if we could explain the stock and flow in our business and the competitive relationships.

Yamamoto [A]: As we mentioned in our explanation about the stock and flow, the Smaregi requires equipment sales. You need iPads, receipt printers, cash drawers, payment terminals, and so on, so sales of such equipment will be the flow. For the stock, the software part, whether it is Smaregi, the Smaregi software, or the payment service usage fees, those kinds of things accumulate monthly.

The breakdown is shown in the financial results presentation material, but the stock has been gradually increasing—it was originally about 50% and 50%. Both are growing.

Regarding competition, it is difficult to say, but I think the market is relatively divided according to business type, business category, and size. For example, it is difficult to imagine an iPad cash register in a convenience store, and such a cash register would be the domain of a major company such as Toshiba Tec or NEC, while a relatively easy-to-use iPad POS such as Smaregi would be used in cafes and independent stores. I also think that apparel select stores, furniture stores, and other such places would be suitable.

One solution is for restaurants, the other is for retailers, and the other is relatively segregated by size.

I think the traditional market for electronics manufacturers is relatively geared towards large companies. For individual stores, where a system is not necessary, a very simple tool such as Recruit's AirREGI and Square from the US, can be easily introduced. Therefore, I would say that Smaregi is for a bit larger sized market than that, with two to three stores and up to about 10 stores in particular.

A lot more questions are coming in, but yes, next.

Participant [Q]: Your customers are mainly retailers, and I think you will expand your market by targeting in other industries and one day hit bottom. How do you see the growth potential in such a case?

Yamamoto [A]: The number of stores in Japan as a whole is about 2 million, so I think that is the bottom, or the point at which we hit our stride, but at the current pace of growth, we recognize that we will have customers for the time being. Also, as mentioned in our mid-term plan, we are targeting EC as well.

We would like to expand our business into the e-commerce area as well, since they are also in the retail business and need to manage inventory and have a system for ordering. Therefore, what we would like to do is expand into the EC market.

We have tried overseas expansion once before, five or six years ago, but it did not go well and we had to pull out of the project, but I think overseas expansion is another possibility in the future.

I will move on to the next question.

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Participant [Q]: I understand that Smaregi has a large amount of valuable data from stores. Are you thinking of offering new services using new technologies such as AI?

Yamamoto [A]: Currently, we have collected data on approximately JPY6 trillion worth of transactions. Major distributors, such as Aeon Mall and other large size supermarkets, have been using POS data for a long time to look at market trends, but there has never been a time in history when data on small- and medium-sized businesses, which are Smaregi's target group, was collected in the same database and in the same format.

We certainly have them, and whether or not we use AI is another story, but we are certainly looking for ways to create new value. We have been exploring this for several years, but I think we are not yet in a position to directly generate revenue.

We would like to continue to take on challenges, and in particular, we would like to feed back the data accumulated by the stores to them. We don't think Smaregi will monopolize all the profits by absorbing all of the stores' data and are certainly considering the possibility of returning some of the revenue to the stores, or rather, sharing some of the data with them, and aiming to generate revenue from that. However, at this point, I cannot say when or how we will realize the business.

Thank you. I'll go to the next question.

Participant [Q]: How does Smaregi differ from its rivals such as Recruit's AirREGI, and what are Smaregi's strengths? Regarding increasing the average spending per customer, are you considering another price increase?

Yamamoto [A]: Thank you for your question. Competitors, such as Recruit's AirREGI, are increasing their market share a lot, but I think it is more for small-scale business, such as for individual stores. One of the features of Smaregi is that it is very good at linking multiple stores and summarizing and analyzing 3 or 10 stores in all.

The other thing is that the restaurant and retail industries are in completely different competitive environments. Smaregi is not only a cash register for the retail industry, but also a back-end inventory management system, especially when it comes to apparel, they need to keep track of sizes, colors, and the arrival of new products each season.

Smaregi is pretty good at managing inventory, and we've worked on it to a great extent. If you look at the functions of the cash register alone, it is difficult to differentiate it much. However, in the retail industry, only Smaregi is able to provide in-depth backyard systems, or management systems, that are behind the scenes of a store. Therefore, it is strong in the retail market.

Restaurants do not often manage foodstuffs. Unless you're a major restaurant, you don't do this, but for example, you have a reservation service, or you take orders with handheld devices. I think it's common to see that when you take an order with a handheld device, the data, or the order, is sent to the kitchen, and the food is prepared. Recruit probably has something like that ordering system in place now, and of course, Smaregi also has them.

I think the environment is rather competitive. There are some differences between the restaurant industry, where the competitive environment is a little more intense, and the retail industry, where there is not as much competition.

Company Representative [M]: We have three more minutes, I'm sorry.

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Yamamoto [A]: We are not currently considering another price increase to increase the average spending per customer. we may increase in a few years, but not at this time.

Participant [Q]: What are your thoughts on financing in M&A?

Yamamoto [A]: We did an M&A with one company. We are considering it again, but rather than suddenly considering a very large M&A, we would like to accumulate small M&As and get better at PMI, etc. We have about JPY4 billion in cash on hand, so we are considering M&A with the cash first.

Participant [Q]: What is the strategic intent behind having a free standard plan with no hope of profit, other than peripherals?

Yamamoto [A]: Regarding the fact that we cannot earn revenue from the free standard plan, the freemium strategy allows for a relatively easy trial, but it also aims for psychological safety by providing a low introductory threshold and starting at JPY0.

I'll go to the next question. Can we do three more? Time is running out. One more.

Participant [Q]: Can the invoice system be a business opportunity for Smaregi? What do you think needs to happen to make POS cash registers even more popular?

Yamamoto [A]: Thank you for your question. The change of the taxation system, the timing of the consumption tax hike, the change to a new banknote or coinage, and other such factors will provide business opportunities. The invoice system will not be so much. However, we already have a cash register system that supports the invoice system, so if the old cash registers are not compatible with the invoice system, there is a great possibility that the old cash registers will be replaced by Smaregi, etc.

That's all, I guess. Can we have at least one more?

Participant [Q]: At the time of installation of a cash register, do you basically purchase cash register peripherals from your company? Is it possible to prepare my own iPad, etc., and purchase only the software?

Yamamoto [A]: Peripheral devices are not normally sold at general electronics stores, so I think it would be quicker to purchase them from Smaregi, after all. Most of our customers buy them as a set, but of course it is also possible to buy them elsewhere and buy only the Smaregi software.

Sorry, I have two more questions left, but that is all. I hope to be able to answer the rest of the questions in the second half, if I have time. Thank you.

Shikichi [M]: That concludes the first half part of the presentation, our company overview.

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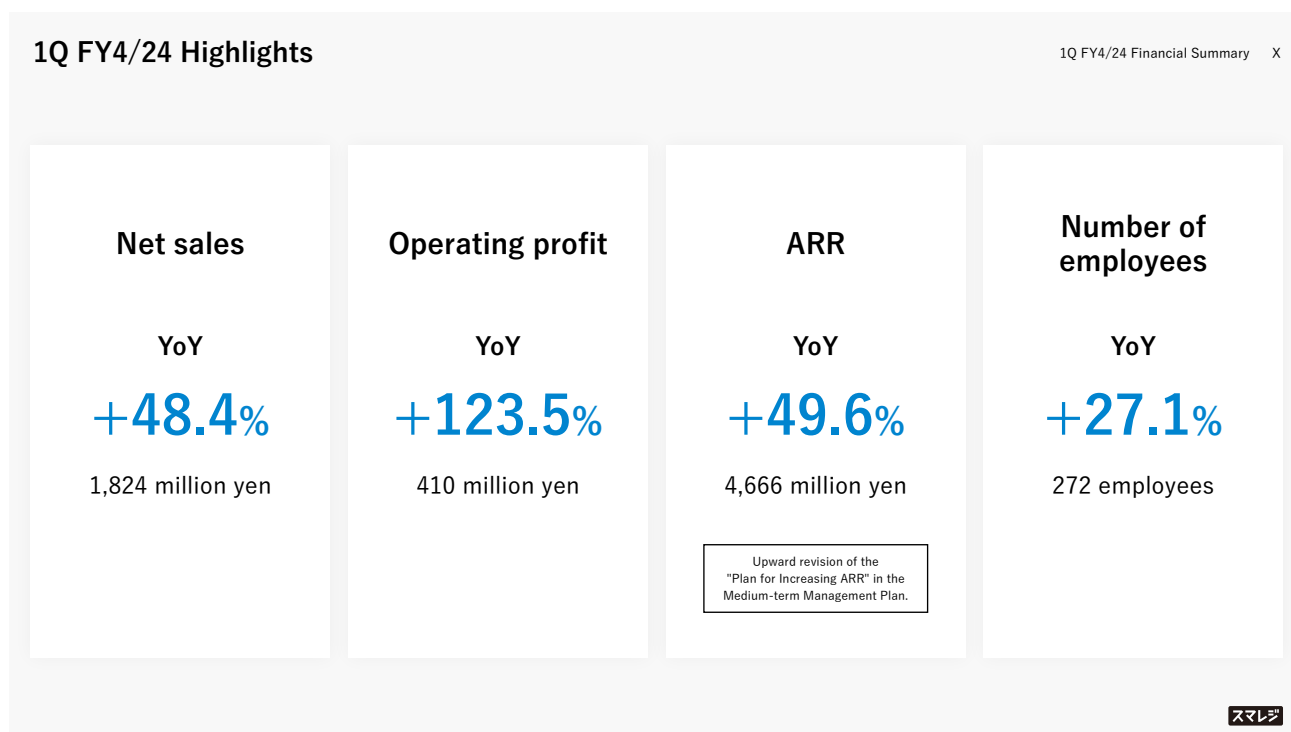
Presentation

Shikichi: It is now time to start. Thank you for participating in our financial results briefing for Q1 of the fiscal year ending April 30, 2024, of Smaregi, Inc.

I now will explain the flow for the second half of the presentation. First, Director Takamadate will provide an explanation of the Q1 financial results and mid-term management plan update disclosed yesterday, followed by a Q&A session.

In the Q&A session in the second half of the briefing, we will only accept questions related to the contents of the financial statements. The first half of the Q&A regarding the company profile has been completed. If you have any additional questions, please send them to the inquiry form on our IR website.

Takamadate: Hello, I am Takamadate, director of Smaregi. Thank you very much for participating in our financial results briefing today. I will now explain the results for Q1 of the fiscal year ending April 2024. Thank you.



Here are the performance highlights. Sales increased 48% YoY to JPY1,824 million. Operating income increased by 123% to JPY410 million. ARR increased by 49% to JPY4,666 million. The number of employees increased by 58 to 272.

Q1 landed better than planned. In comparison to the same period of the previous year, the impact of the price revision implemented in January of this year was significant.

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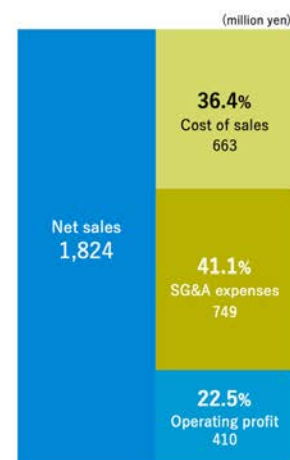
Statement of Income

1Q FY4/24 Financial Summary X

Net sales grew 48.4% YoY due to an increase in subscription sales, among other factors. Operating profit grew significantly by 123.5% YoY on the back of strong business performance and improvements in gross margin.

(million yen)	1Q FY4/24 results (May - Jul. 2023)	1Q FY4/23 results *1 (May - Jul. 2022)	YoY change	FY4/24 plan (May 2023 - Apr. 2024)	1Q FY4/24 % achieved (May - Jul. 2023)
Net sales	1,824	1,228	+48.4%	7,688	23.7%
Cost of sales	663	460	+44.3%	—	—
Gross profit	1,160	768	+50.9%	—	—
SG&A expenses	749	585	+28.1%	—	—
Operating profit	410	183	+123.5%	914	44.9%
Ordinary profit	410	186	+120.6%	914	44.9%
Profit	274	359 ^{※2}	-23.8%	636	43.1%

Earnings structure



*Amounts are rounded down to the nearest million yen.

*1 As ROYAL GATE INC., formerly a consolidated subsidiary, was absorbed into the company on July 1, 2022, ROYAL GATE's results for May and June have not been included in the 1Q FY4/23 results.
*2 Due to the absorption merger of ROYAL GATE INC., gain on extinguishment of tie-in shares (extraordinary income) and income taxes-deferred (gain) were recorded.

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

As for the net income, the growth was negative compared to the previous year, caused by a special factor. In the previous year there was an increase of over JPY200 million as a result of the absorption of a subsidiary.

Balance Sheet

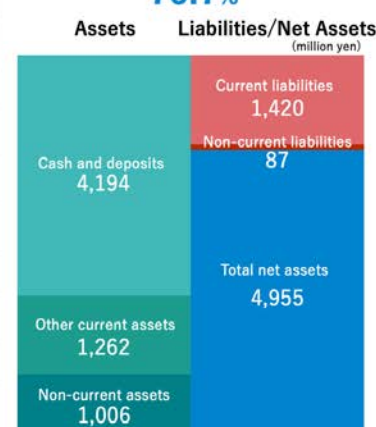
1Q FY4/24 Financial Summary X

Cash and deposits increased 31.2% YoY due to strong business performance, and current liabilities increased 58.9% YoY due to an increase in advances received. The financial foundation remained stable with equity ratio at 76.7%.

(million yen)	1Q 4/24 results (May - Jul. 2023)	1Q 4/23 results (May - Jul. 2022)	YoY change	Q4 FY4/23 (Feb. - Apr. 2023)	QoQ change
Current assets	5,456	4,198	+30.0%	5,160	+5.7%
Cash and deposits	4,194	3,197	+31.2%	3,957	+6.0%
Non-current assets	1,006	889	+13.2%	996	+1.0%
Total assets	6,463	5,088	+27.0%	6,156	+5.0%
Current liabilities	1,420	893	+58.9%	1,388	+2.3%
Non-current liabilities	87	86	+1.2%	87	+0.0%
Total liabilities	1,507	979	+53.9%	1,475	+2.1%
Total net assets	4,955	4,108	+20.6%	4,681	+5.9%
Total liabilities and net assets	6,463	5,088	+27.0%	6,156	+5.0%

Equity Ratio

76.7%



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The balance sheet shows a steady increase in cash and cash equivalents due to the accumulation of cash flow. Current liabilities have increased from the same period last year, mainly due to an increase in accounts payable and advances received as a result of business expansion.

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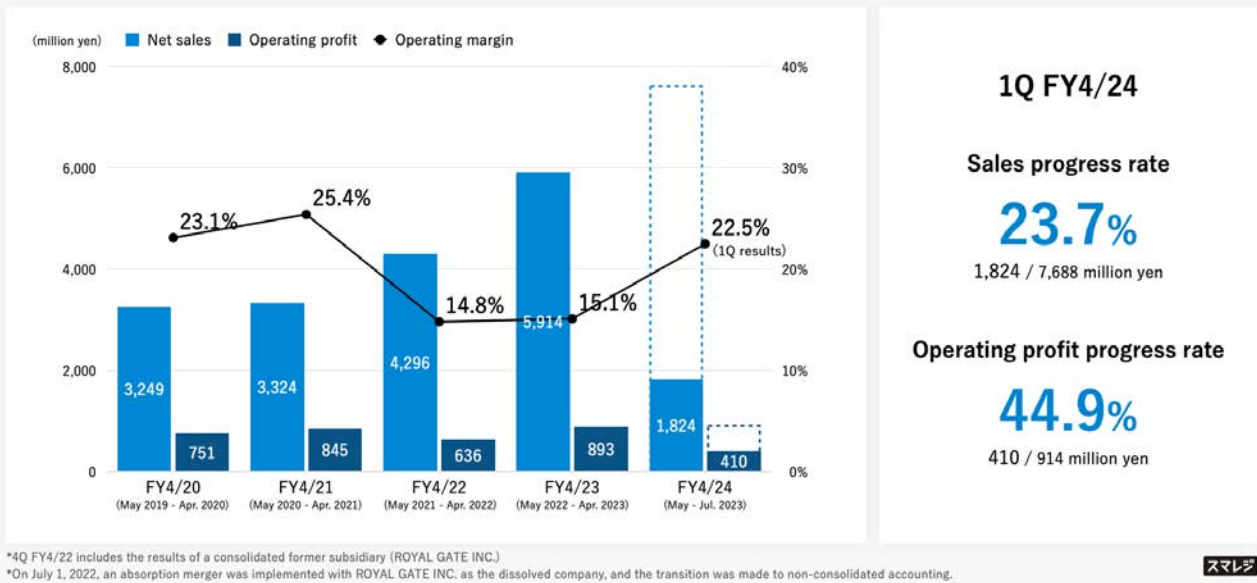
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Changes in Net Sales, Operating Profit, and Operating Margin

1Q FY4/24 Financial Summary X

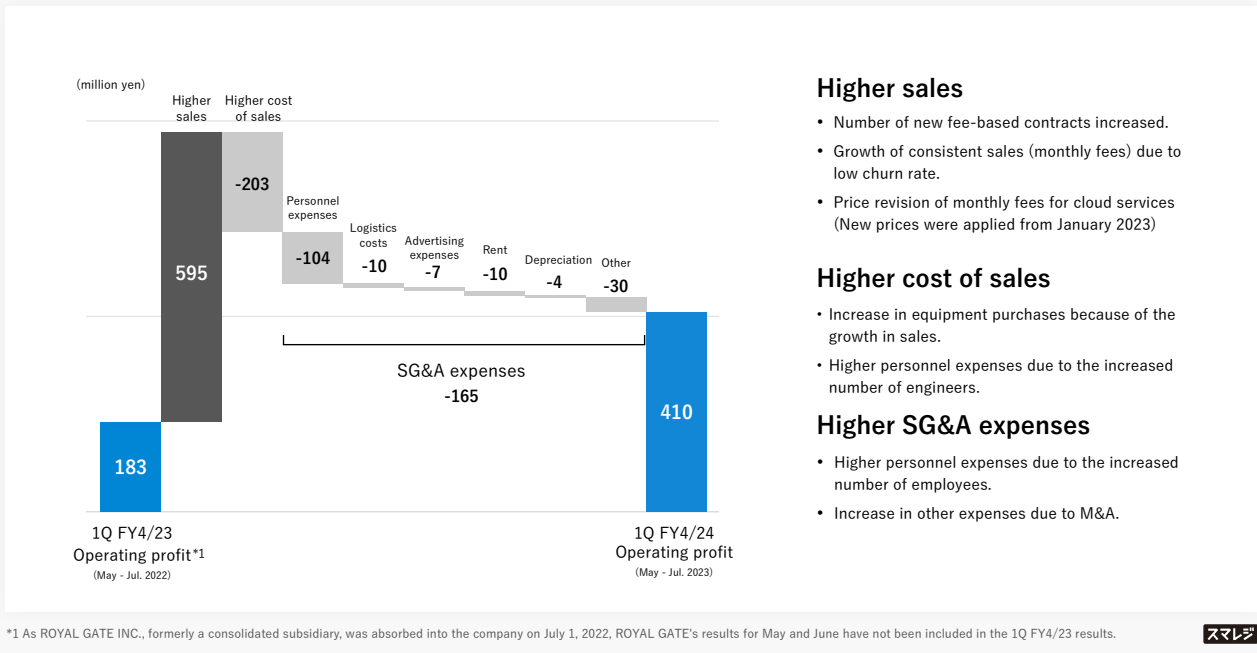
1Q operating profit progress rate was 44.9% against the full-year plan due to strong business performance and improvements in gross margin. With the aim of ensuring definite achievement of the Medium-term Management Plan (ARR target), we plan to invest actively according to progress.



Next, I would like to show you the five-year trend of our business performance. Although our performance once stagnated due to the impact of COVID-19, we have been back on a growth path for the past two years. For Q1 of this fiscal year, operating income has already exceeded 40% of the full-year plan, and the profit margin is 22.5%, an upward swing. We plan to make more aggressive investments in Q2 and beyond with the aim of further increasing the growth rate.

Analysis of Changes in Operating Profit (YoY change)

1Q FY4/24 Financial Summary X



This is compared to the same period last year, but the increase in sales was JPY595 million. In contrast, the negative figures for cost of goods sold, labor costs, etc., indicate an increase in costs.

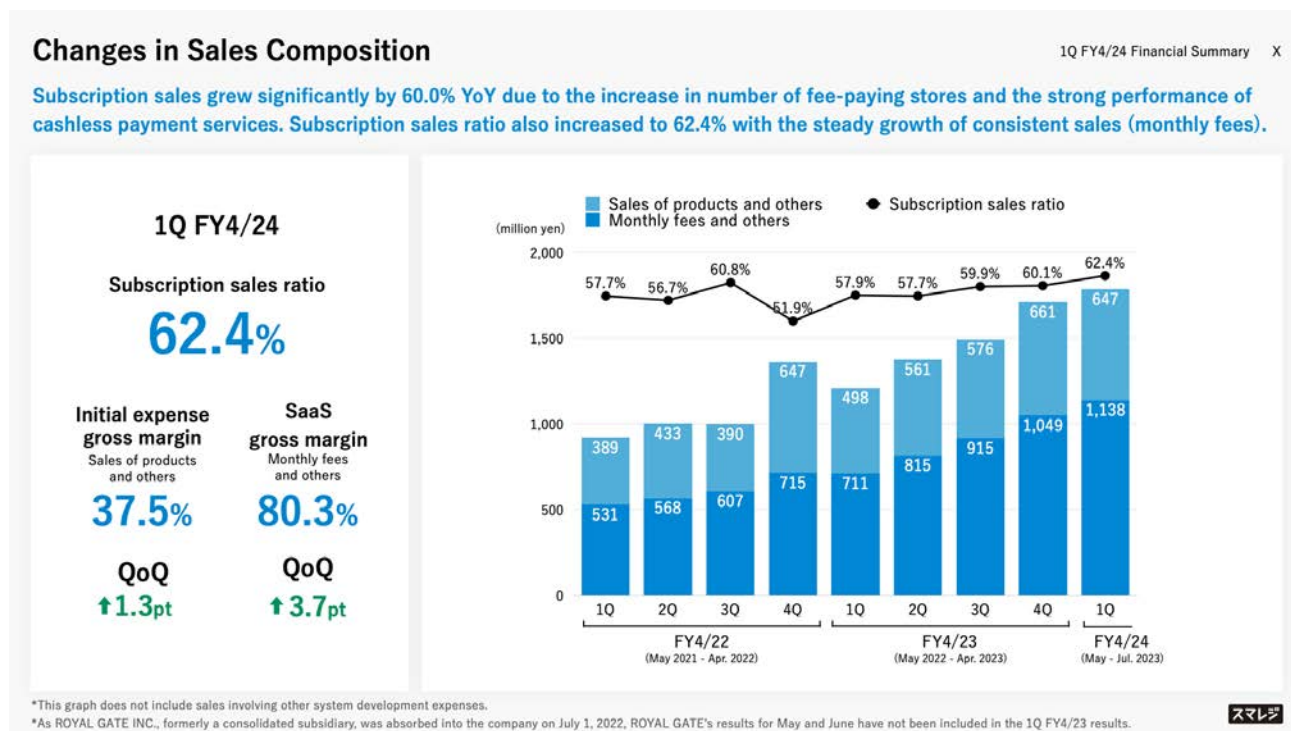
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Cost of sales increased with the increase in sales, and personnel expenses increased with the increase in headcount, but other expenses did not change much from the same period of the previous year. The gross profit margin and operating profit margin improved because we made progress in acquiring new customers and there were not many cancellations due to price revisions, which had less negative impact than expected.



Please take a look at the quarterly performance trend. This shows the quarterly performance trend in sales. The quarterly sales figures are broken down into subscriptions and initial sales, with subscriptions accounting for 62% of total sales.

Although there is a balance with the initial installation cost, the ratio has gradually increased since the same period last year due to the addition of the new payment service business and the steady acquisition of POS and other services.

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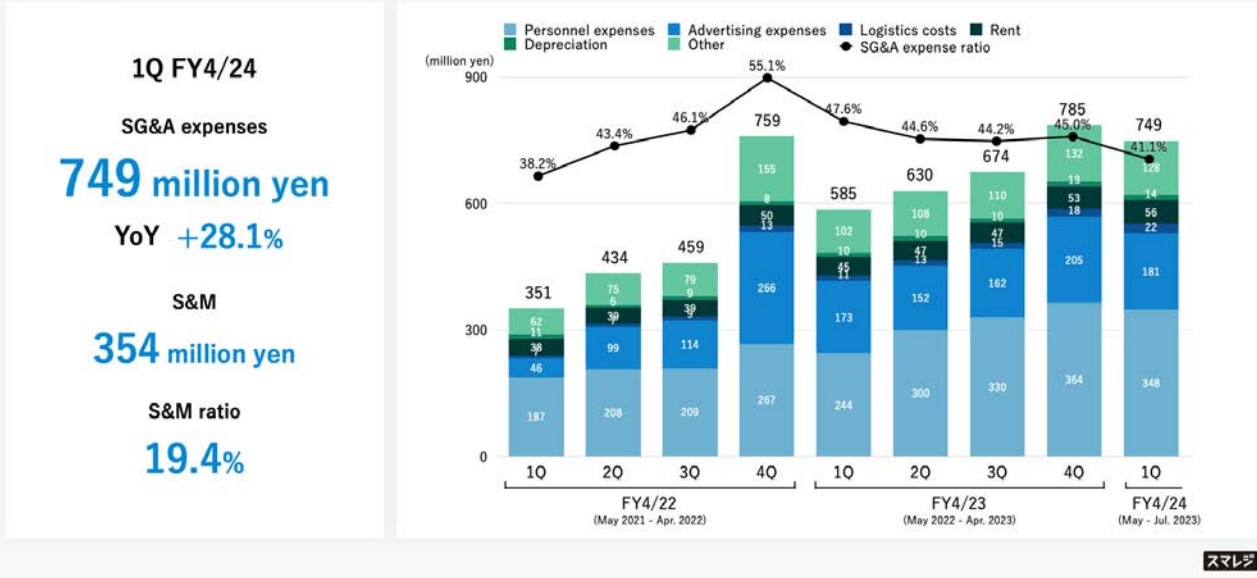
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Quarterly Changes in SG&A Expenses

1Q FY4/24 Financial Summary X

With the aim of ensuring definite achievement of the Medium-term Management Plan (ARR target), we plan to invest actively according to progress, while controlling SG&A expense ratio within the planned range. Personnel expenses increased 42.5% YoY due to organizational expansion and increase in base salary.



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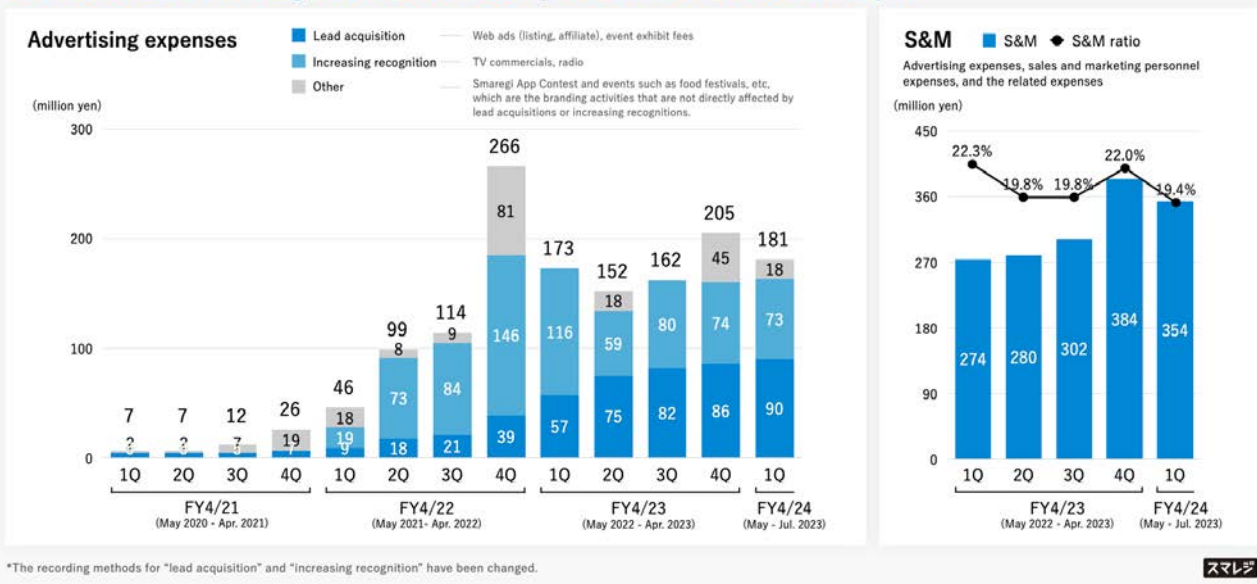
Next is SG&A expenses. In Q4 of the previous fiscal year, personnel and advertising expenses were a little higher than usual due to bonuses, large events, etc. Therefore, although there was a slight decrease in Q1 when compared quarterly, I think we were able to control unnecessary costs to reduce them as much as possible. S&M came in at JPY354 million, 19.4% of sales.

Quarterly Changes in Advertising Expenses/S&M

1Q FY4/24 Financial Summary X

We are continuing with efficient investments with a focus on airing TV commercials in the regional areas (increasing recognition) and online marketing strategies (lead acquisition).

S&M increased 28.7% YoY alongside the increase in sales personnel based on our recruitment plan.



*The recording methods for "lead acquisition" and "increasing recognition" have been changed.

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Advertising expenses. We continued our advertising activities from the previous fiscal year. In Q1, JPY90 million ads were for sales leads-generating purposes, and JPY73 million were for TV and radio ads for awareness-getting purposes. Although it was almost the same as the previous quarter, we intend to conduct aggressive marketing after careful examination of cost-effectiveness.

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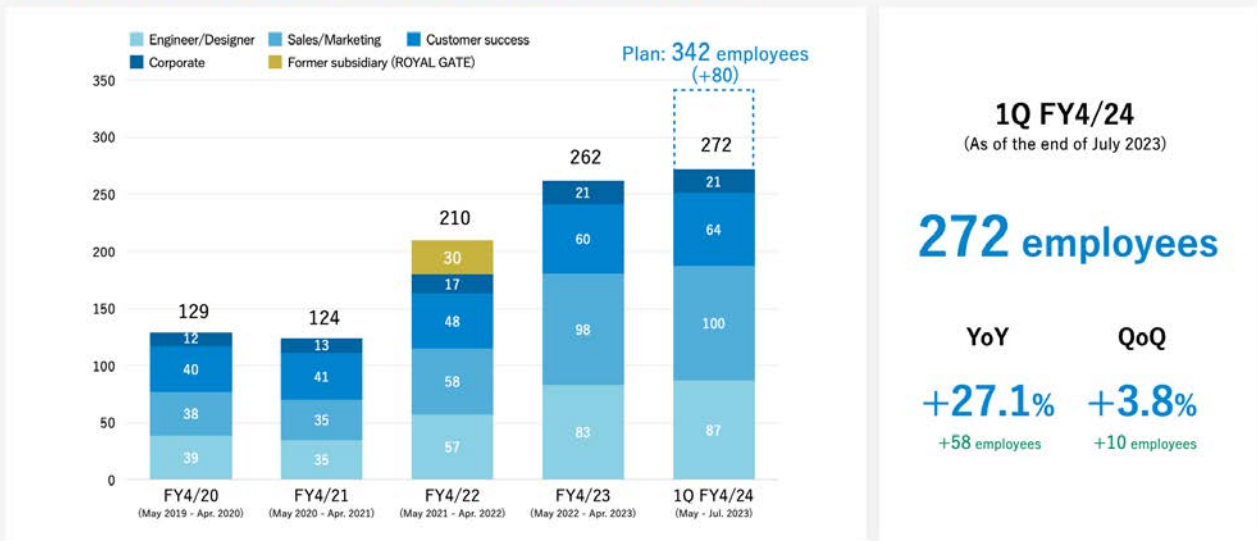
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Growth in Number of Employees

1Q FY4/24 Financial Summary X

The number of employees increased by 10 employees QoQ to 272. In FY4/24, we plan to increase the number of employees by 80 employees YoY (+30.5%) to a total of 342 employees.



1Q FY4/24
(As of the end of July 2023)

272 employees

YoY **+27.1%**
+58 employees

QoQ **+3.8%**
+10 employees

*Number of employees as of the end of July 2023, excluding temporary employees and part-time employees.
*The classification of engineers belonging to Smaregi TechFarm has been changed from "Corporate" to "Engineer/Designer."

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This shows the number of employees. On the left, through the previous period, the figures are for the end of the fiscal year. The number of employees increased by 10 from the end of the previous period and by 58 from the same period last year to 272. We intend to continue to aggressively hire as our business expands.

1Q FY4/24 Topics

Business Summary X

- Jul. 2023**
 - Inaugural issue of the web magazine "Hero Interview" Promoted the use of Smaregi App Market
 - Exhibited in RETAIL-TECH OSAKA 2023. Acquired 2.8 times more business opportunities than the previous year.
 - New** Saki Igawa, former Asia representative of BLUE BOTTLE COFFEE Inc., assumed office as Outside Director.
*Right side of the two photos in the middle row, left column
- Jun. 2023**
 - New** Shugo Suzuki, General Manager of the Partner Promotion Department, assumed office as Executive Officer.
*Left side of the two photos in the middle row, left column
- May 2023**
 - Established the SME Digital Transformation Consortium with Smaregi as the coordinating company
Started receiving applications for the Subsidies for Introduction of IT 2023 (second year)
 - Held the food festival, Smaregi presents "Harapeko CIRCUS," for the second time. It was attended by 126,000 visitors, more than the previous year.

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Next, we would like to provide a business summary. Topics for Q1 are listed. There have been two executive changes, with Mr. Suzuki being promoted internally to become an executive officer in June, and Mr. Igawa, formerly of BLUE BOTTLE, being appointed as an outside director in July. In addition, there were several other events and other activities to raise awareness.

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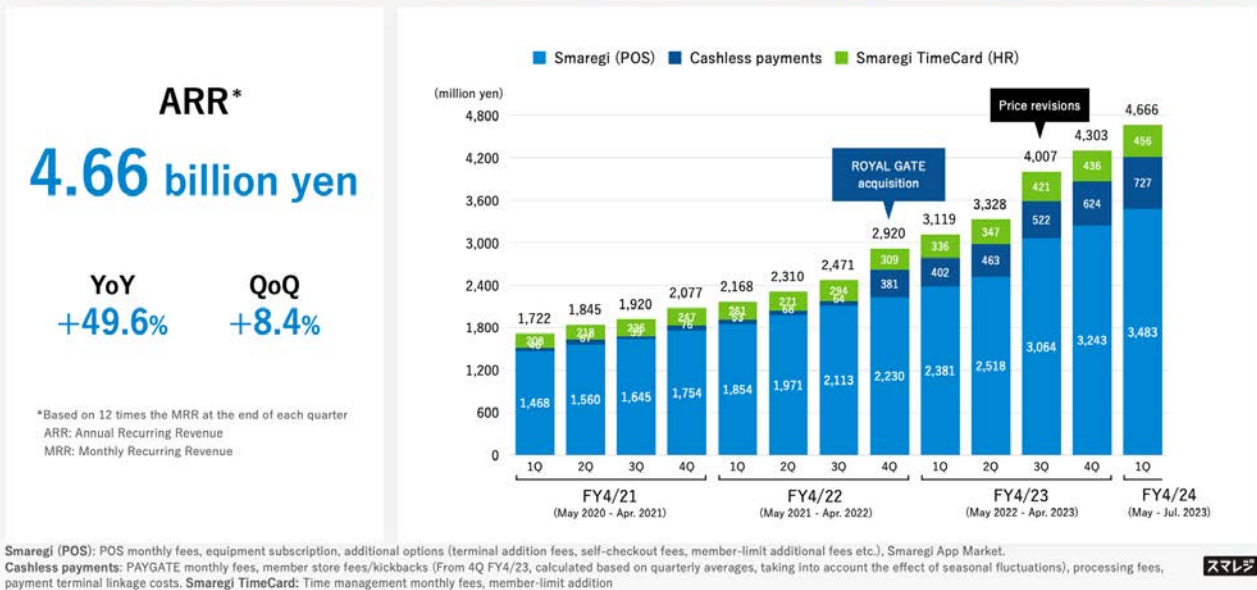
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Annual Recurring Revenue (Subscription Sales)

Business Summary X

Cashless payments achieved high growth with an increase of 80.8% YoY. ARR grew by 49.6% YoY due to various positive factors, including the utilization of the Subsidies for Introduction of IT, launch of the Invoice System, and receiving orders for large projects.



This is the transition of ARR, which is our most important KPI. ARR was JPY4,660 million, or 49.6% YoY, due to an increase in customers and the impact of price revisions.

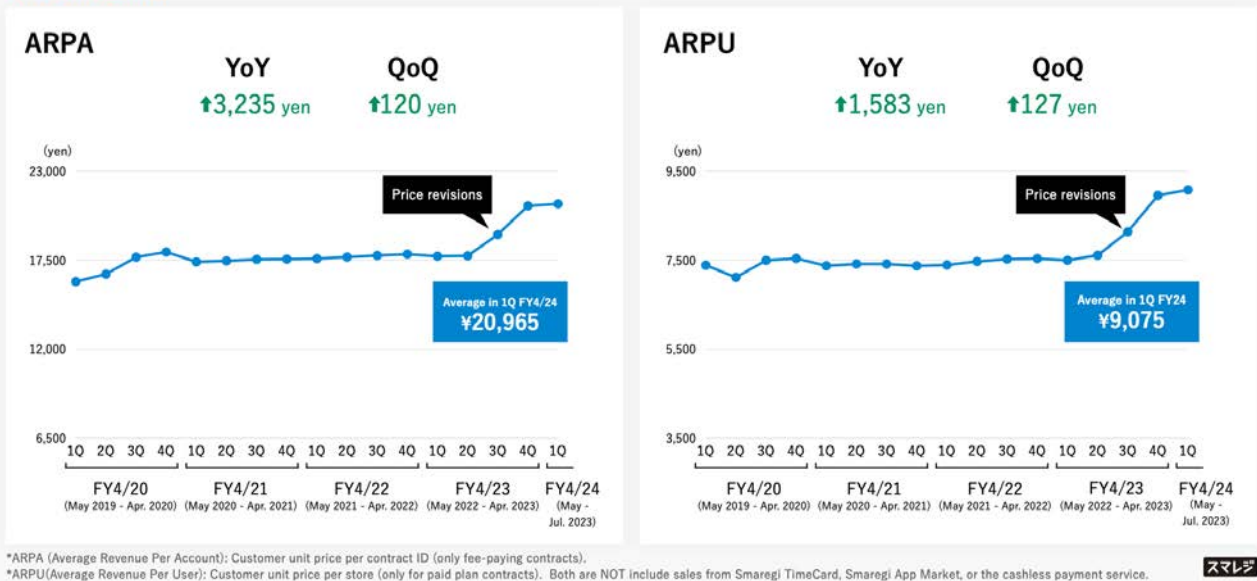
Cross-selling has been strong, and payment services on a stand-alone basis grew by a significant 80% over the previous year. The growth rate of payment services in Q4 of the last fiscal year was plus 63% over the previous year, so I think the growth rate is increasing considerably.

We will aim for ARR JPY5,590 million for the full year, so further accumulation will be necessary.

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

Business Summary X

As the impact of price revisions*1 stabilize, both ARPA and ARPU increased by about 18 - 19% from before the price revisions.



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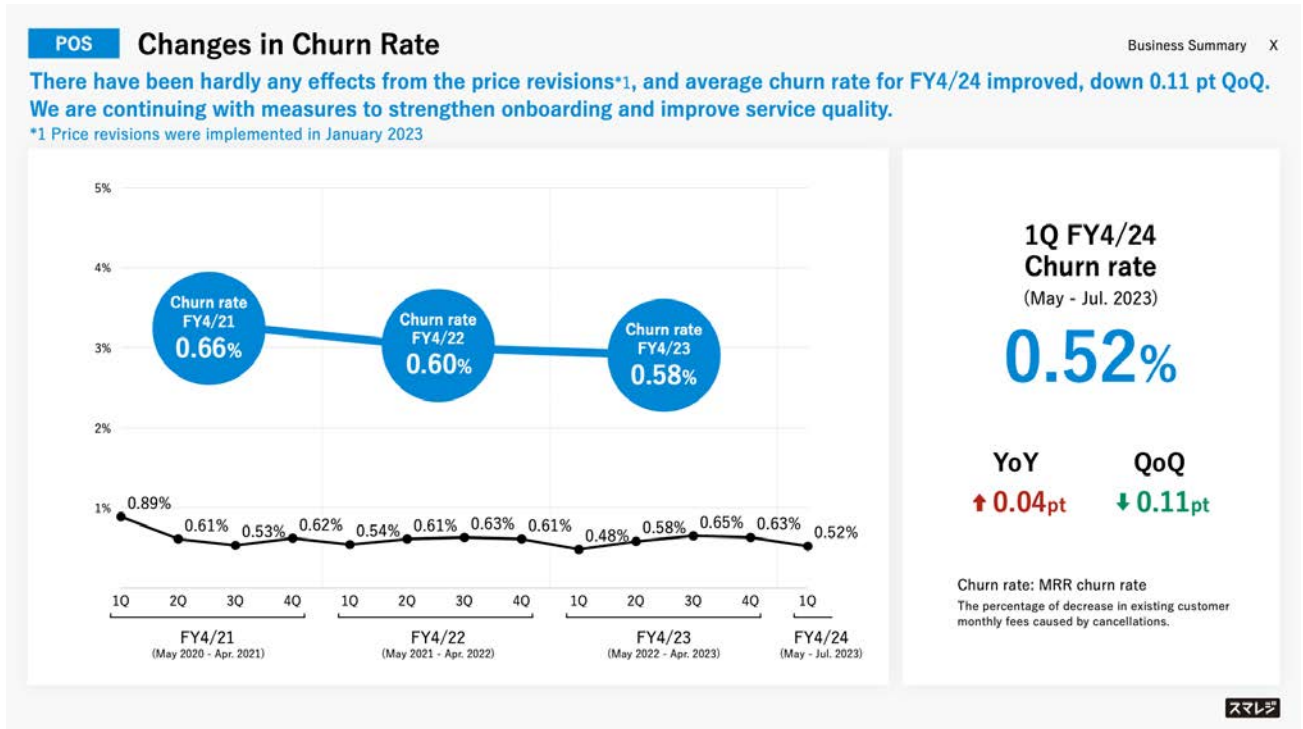
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From here on, the KPIs are only for the main POS, Smaregi.

The various KPI figures are as shown in the materials. Although the impact of the price revision caused a large increase in the average spending per customer, this Q1 was almost the same level as Q4 of the previous fiscal year, and I believe that the impact of the revision has subsided. Both ARPA and ARPU increased by about 18% compared to before the price revision.



On the other hand, there was no significant change in churn rates. We originally anticipated that the revision would have an impact until this Q1, but we did not see any major churn, and I think we have reached a point where we can relax.

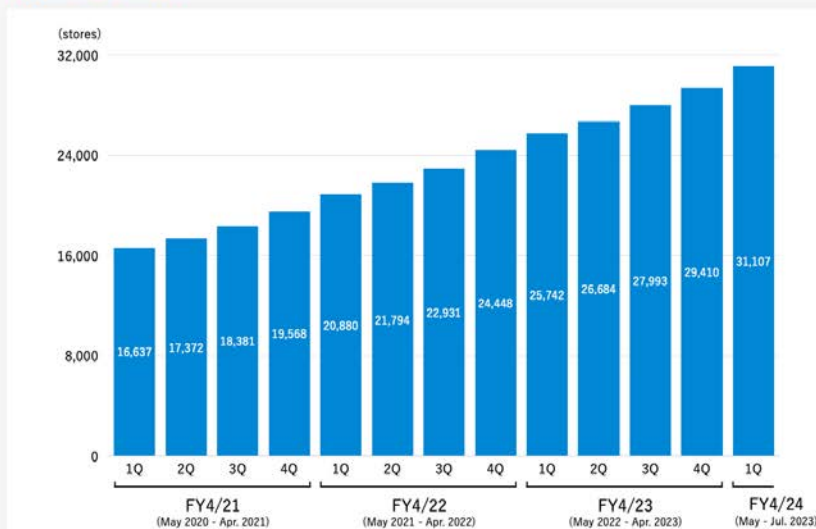
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The number of fee-paying stores continued to grow steadily even after the price revisions, with contributions from cashless payment services.



Fee-paying stores*

31,107

YoY **+20.8%**
+5,365 stores

QoQ **+5.8%**
+1,697 stores

*Monthly disclosure of the latest information on the number of fee-paying stores
Smaregi discloses information on the number of fee-paying stores every month. As of August 31, 2023, the number of fee-paying stores is 31,921 stores. For details, please refer to the [IR site](#).

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



The next slide shows the number of paying stores, but the number of registered stores is no longer listed in this presentation material. I would like to focus on the number of paying stores and the number of active stores as key indicators that are more directly related to revenue.

The number of stores subscribing to the fee-based plan totaled 31,107. The number of stores increased by 5,365 YoY. In Q4 of the previous fiscal year, we saw an increase of 4,962 stores for the year, so the pace of net growth is increasing due to an increase in incoming leads and a reduction in cancellations.

Continuing, here is a breakdown of the plans used by customers. Each plan is increasing steadily, with food retail in particular showing a large increase as a percentage. But I think this is because the population is originally small.

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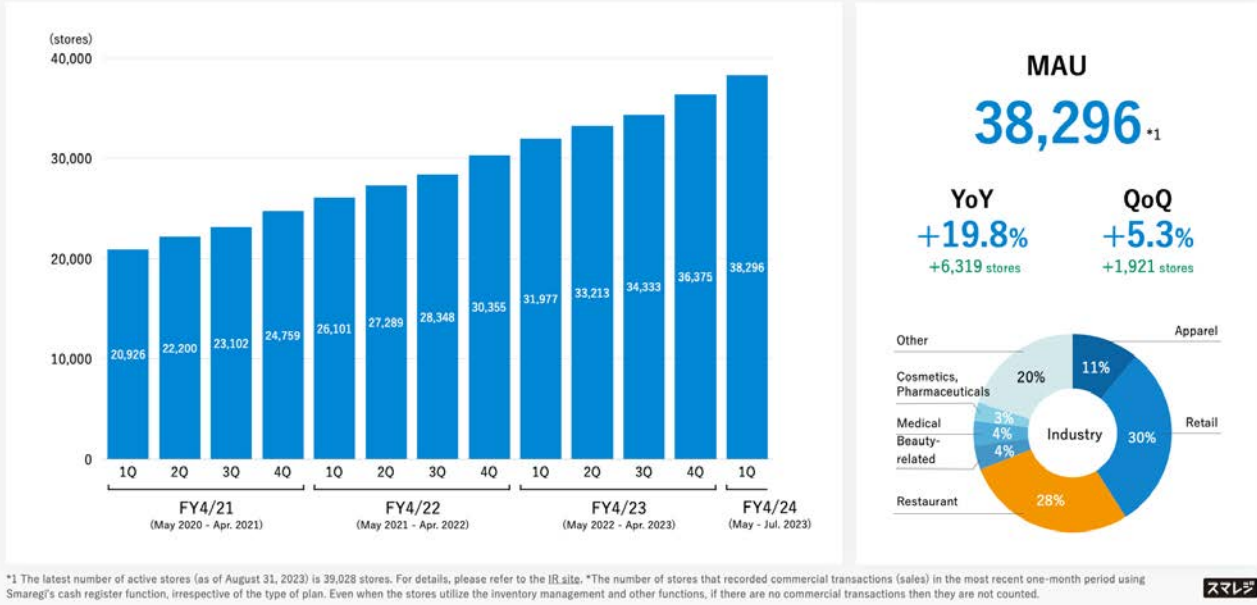
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POS Active Stores (Including Free Plan Stores)

Business Summary X

Building up toward the target of 300,000 active stores, we aim to provide a good service that customers can truly continue to use.

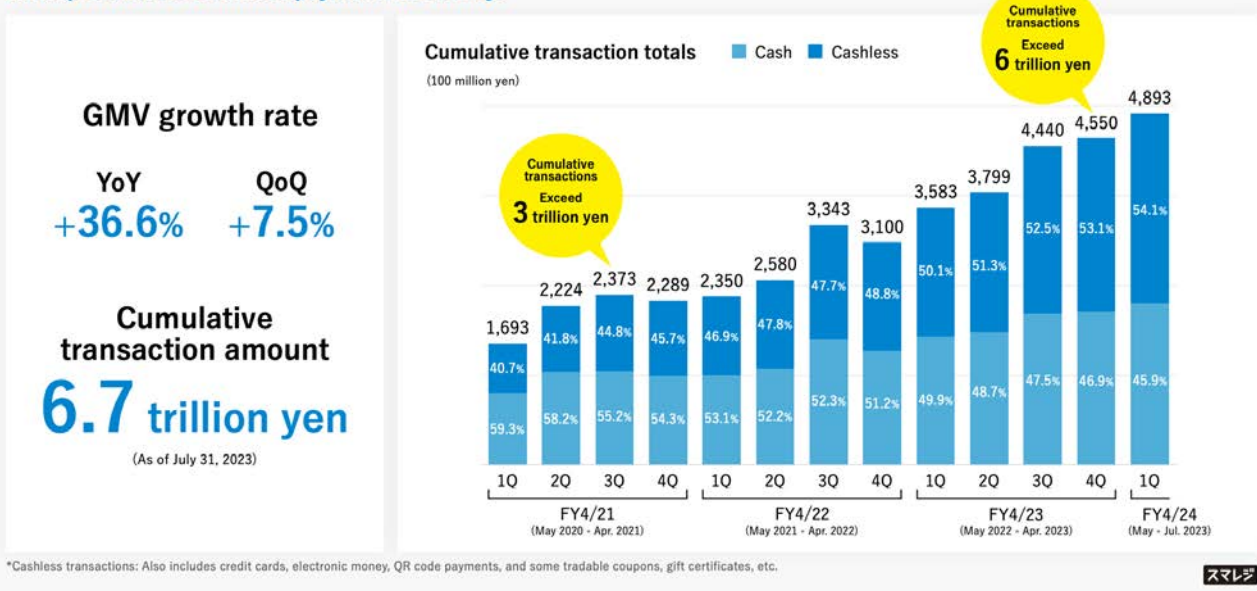


Next is the number of active stores. This is the number of stores that actually used the service and includes free plan users in addition to the paid plans mentioned earlier. This is also an important indicator to measure whether the system is really being used, since it does not include stores that have only signed up for the free plan but are not using it. Q1 was 38,296 stores, also in line with the plan.

POS Quarterly GMV (Gross Merchandise Value) Progress

Business Summary X

GMV for 1Q grew 36.6% YoY to 489.3 billion yen! Smaregi's cashless transactions also increased 4.0 pt YoY on the back of widespread use of cashless payments in society.



This is GMV, the distribution value and sales value of all POS cash register users. In Q1, the total amount was JPY489.3 billion, up 36% from the same period last year. I think part of the reason that the growth is outpacing the pace of store growth is that they have become much more active since the period when they were restrained under COVID-19.

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Lastly, we have revised upward the ARR target in our medium-term management plan. Since the previous year's landing was JPY4.3 billion, which was higher than expected, we have revised the subsequent three-year period to match that launchpad. As a result, the ARR target for the fiscal year ending April 2026 has been changed from JPY9.1 billion to JPY9.46 billion.

This is the end of my explanation of an overview of the financial results for Q1 of the fiscal year ending April 2024 and an update of the mid-term management plan.

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Question & Answer

Shikichi [M]: We will now proceed with the Q&A. Please note that similar questions will be answered together.

When inquiring by e-mail, please state that you are inquiring about the financial results briefing. In addition, we have already finished accepting questions regarding the Company profile in H1. Please check the archived video to be released tomorrow or submit your questions using the inquiry form on our IR website.

Now, again, Mr. Takamadate, please begin.

Takamadate [M]: Now, I would like to answer your questions. We have received many questions and would like to answer them as we compile a few. We have received questions largely related to performance and questions related to hiring.

Participant [Q]: Against the ARR target, as an investment period you planned mild growth in operating profit, but at what point does the profit start to increase? Was the SG&A in Q1 as planned, and regarding the reason for the improvement in the gross margin, which you touched on a little earlier, is there room for further improvement? For the operating margin of 22%, is it sustainable beyond Q2? We have received questions in this area.

Takamadate [A]: As for the plan, it is mild, and we are still in the investment phase. We will continue to invest to grow, so I think it is still unclear whether this profit margin will continue.

However, profits in this Q1 were also higher than planned, and I think that SG&A expenses were a little less than planned. As I explained earlier, there have been improvements in the gross profit margin and profitability due to higher unit prices and other factors, so I think the increase in profits will be gradual and in tandem with sales expansion.

Participant [Q]: Continuing, regarding hiring. What is your recruitment plan, which you said 70 people in your plan and which quarters do you plan to recruit mainly? I'm asking if there is a bias. You did not hire as many in Q1, and I would like to know what kind of effort you are trying to recruit good people.

Takamadate [A]: In that area, the seasonality is mostly in Q4 from March to April, but there is no particular bias toward any particular quarter. We use various recruitment services and other means to promote recruitment, and we also have systematized and utilized referrals from employees.

We are very selective in our hiring, and I would say that our criteria, or rather, the standards that lead to hiring, are quite strict. Naturally, recruitment fluctuates and was a bit slow in Q1, but we hope to be able to recruit as planned for the full fiscal year.

Participant [Q]: Also related to recruitment, you said that there has been a significant increase of more than 50 people. Please tell me the background of the surge at this time. I think it's a strategic move, but I wonder how many months it will take for it to be reflected in business results.

Takamadate [A]: The timing of the hiring was in line with the expansion of our business. Since we are not a business that depends on the individual, the number of employees does not increase at the same rate as the sales increase. However, since we are planning further expansion in accordance with our mid-term management plan, we are hiring a little ahead of schedule in preparation for this expansion.

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As for how long it will take to be reflected in business results, for example, in sales, it takes about three months of training for a salesperson to become a force to be reckoned with.

Participant [Q]: I saw from the data that even with the price increase, there was no loss of customers, and I was wondering what the factors were that kept customers from leaving?

Takamadate [A]: I think this is because the characteristics of our products make them difficult to replace.

The price was raised by more than 10%, but the original price was not that high, and we had not changed the price at all since the service was launched. It wasn't that high as a percentage, so I guess it was within an acceptable range.

Another very important part of our actions was that we provided users with a thorough explanation after issuing a press release regarding the price increase, and I believe this was a success.

Takamadate [M]: I guess that's all the questions I have. Do you have any questions? I would like to give you some time. We just received one.

Participant [Q]: What is your idea of the total amount of advertising expenses for this fiscal year?

Takamadate [A]: It is a little difficult to say, but compared to the growth in sales, the plan is not to grow as much as sales. I explained earlier that the ratio of S&M to sales is 19%, and we are consciously managing this ratio, and our plan is that it will be approximately the same for the full year.

I would like to answer the questions you asked in H1.

Participant [Q]: Which of the paid plans for Smaregi is the most profitable?

Takamadate [A]: Higher priced plans have higher profit margins.

Participant [Q]: I was wondering how you perceive the risk of AirREGI moving from the small-scale to the medium-scale domain.

Takamadate [A]: As Mr. Yamamoto mentioned earlier about the competitors in the first half of the briefing, while I think the market is relatively well separated, there are cases where there are naturally some conflicts when a company is selected at a competition.

So, I think we will be competing with them, but we believe that Smaregi has product features that can make a difference in areas such as retail use and inventory management, which are considered strengths over other companies, so I think we can compete by making a strong case for our product features at the frontline.

Yamamoto [A]: Also, AirREGI is rather enclosed with their own solutions.

Takamadate [A]: I don't want to talk too much about other companies' AirREGI, but AirPay and AirREGI are often packaged together, so Smaregi has the advantage of being able to link with other companies' services through APIs.

Participant [Q]: It looks like you will never reach the 300,000 stores goal for the fiscal year ending April 2031, at the current rate of growth. Is there a chance that the pace will pick up at some point? Please provide the rationale for this.

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Takamadate [A]: At the current pace, I think it's understandable that you may think we are not reaching our target, but we are in the process of increasing the number of services we can provide, including payment services, although this is not a diversification.

The number of stores disclosed now does not yet include payment service and HR services such as attendance, so I hope to announce the number of stores provided by the Smaregi Group at some point. We are firmly aiming for 300,000 stores with the services we provide as a group. To this end, we would like to make investments even if the profit margin declines slightly, and to proceed in a manner that places the highest priority on improving the growth rate. Can we answer a few more questions?

Participant [Q]: What type of stores will be the focus area of your market segmentation strategy in the retail and restaurant industries?

Takamadate [A]: In retail, we are still in the selection process. One idea is to go for very niche areas, such as apparel, where Smaregi already has a slight advantage. There is also a strategy of going for a relatively large market.

Specifically, apparel and niche areas such as bicycle shops, for example, are being considered.

In addition to that, there is the App Market, a service where you can buy optional features, but there are applications for each industry that have been included in the App Market. Through this, we will also focus on providing services in a way that will be a beneficial attachment to industry.

Participant [Q]: Next. This is a question that is not related to your business performance, but I would like to know which other industries other than retail do you think are promising markets?

Takamadate [A]: There is a bit of overlap with the previous question, but we are considering a strategy to stand out in each industry. Of course, the restaurant industry is also a large market, and we are seeing an increase in the number of customers in some areas, including salons and medical facilities.

In any case, the specifications required will differ depending on the type of business, and we would like to provide meticulous functions through such specifications.

Participant [Q]: This is the last question. Do you have any thoughts on shareholder benefits?

Takamadate [A]: As Yamamoto always talks about, including dividends, our policy is to invest in growth and return profits to our shareholders.

I would like to conclude our question-and-answer session now. Thank you for all your questions.

That's all from me. We had a very good start in Q1. We will continue to grow in Q2 and beyond and will continue to move forward to achieve our ARR goals. Thank you very much for your time today

Shikichi [M]: Thank you very much for a lot of questions. Now, lastly, 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.

This time, we delivered our presentation in two parts, the first half and the second half. Hope you enjoyed it.

This concludes the financial results briefing for Q1 of the fiscal year ending April 2024.

Thank you for your participation throughout the entire presentation. We ask you for your continued support.

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