Financial Results for the 1st Quarter of Fiscal Year Ending November 30, 2022
Q&A Session Summary

Q1. Even taking into account seasonality, the sequential growth rate of acquisitions of sole proprietors was different level. Please tell us the reason behind it, including the effect of advertising. Also, please explain why ARPA of sole proprietor channel in Q1, which usually drops in QoQ, improved.

A1. The acquisition of sole proprietors was very strong in Q1. There were various reasons for this. For example, the mobile app released last year has become an excellent channel for user acquisition. Also, as mentioned at the time of Q4 announcement, we have been improving product functions and users can now download necessary tax return schedules more easily. Better brand awareness through aggressive advertising is another reason. On top of that, as mentioned on page 56, the number of users of both *Money Forward ME* and tax return module is increasing – synergies between the two domains are emerging. In the previous Q1, the number of users who both use *Money Forward ME* and tax return module was about 25,000. In the current Q1, the number is over 37,000, and more than one third of the paying users of *Money Forward Tax Return* are also using *Money Forward ME*, meaning a large number of users are already using both services. When used together, data can be easily linked from PFM app to tax return module.
Also, there was no extension of deadline for tax returns this year, which is a positive factor for Q1 and it will be slightly negative factor for Q2.

ARPA changes depending on the ratio of annual and monthly plans. The improvement in ARPA is due to the fact that the mix has almost been the same as explained on page 106.

Q2. Sales guidance looks conservative when looking at the Q1 growth rate while SaaS ARR guidance seems bullish. Which non-recurring revenue do you expect to be weak?

A2. It's not like sales are conservative and SaaS ARR is bullish. Both are reasonable estimates. The Q1 results were revised upward during Q1 but landed even higher. Since non-recurring revenue is difficult to forecast due to its nature, the sales guidance range is wide.
As noted on page 11, non-recurring revenue in X domain was substantial in the previous Q2, and we expect negative YoY growth in coming Q2. Due to this factor, we expect Q2

net sales to grow +19% to +27% YoY. However, we expect a fairly high growth rate of +35% to +40% YoY for Business domain.

SaaS ARR growth rate was +40% YoY in this Q1, which is quite high, and it will be +34 to +38% YoY in Q2 as noted on page 12. Again, corporate customer channel is expected to grow at a particularly high rate of +40 to +45% YoY in Q2.

I would like to explain two minor definition changes of ARR: First, as noted in Note 1 on page 12, premium charge for *Money Forward for XX Bank* which was previously shown in Home domain have been retroactively revised to be recorded in X domain to more closely reflect the actual business. As a result, for example, Home's ARR for the last Q4 was reduced by 47 million yen, and the same amount was added in X. This is an inter-domain adjustment and does not affect the total ARR.
The second minor change is that the revision of the calculation method for the past Q2 for corporate channel in Business domain, and we plan to use this definition in coming Q2. More specifically, this relates to the seasonality of *STREAMED* during the tax filing season. We believe it is appropriate to normalize the seasonality to present the actual business situation more accurately. In the past, we have adjusted the Q1 figures, but for Q2, we have used the May figures as ARR without adjustment. In reality, we also see the tax filing seasonality in Q2, so we decided to make the same adjustment for Q2 by using the one third of net sales from March to May as ARR instead of the snapshot of May.

Q3. How much was HiTTO's net sales contribution in Q1? Also, please explain Next Solution's quarterly net sales and its impact on ARPA.

A3. Regarding HiTTO, two-month results were consolidated in Q1, with net sales of 70 million yen and ARR of 400 million yen. The growth rate of ARR for corporate clients in Business domain is +47% YoY if HiTTO's net sales are included, and +40% YoY when it's excluded, as noted on page 12.
As for Next Solution, which we announced the M&A today, P&L will be consolidated from Q3. Their net sales are expected to be 200 million yen in the 2nd half, which will be recorded as "net sales from finance-related service" in Home domain. There will be no impact on premium charge, ARR or ARPA.

Q4. Please provide a breakdown of ARR growth for corporates. In your Q4 briefing session, you said you would like to increase ARR of corporate users from 7.4 billion yen to 10.9 – 11.9 billion yen in this fiscal year. ARR increased by 2.8 billion yen YoY in Q1 alone, which I assume is above your expectation. Please tell us about the progress in ARPA and net-adds in each channel (small- and medium-sized companies) and which areas were particularly favorable compared to the initial forecast.

A4. We don't have any plans to revise the full-year ARR forecast at this time, but we see that Q1 has started nicely toward this goal.
Sequential user acquisition in the last Q1 was around 4,000, while that for this Q1 was slightly less than 5,300 as shown in the left chart on page 22, so it's now 30% better. This is generally in line with our initial guidance.

One factor that was better than expected was the steady increase in ARPA. *STREAMED* is growing nicely since the usage volume of existing users increased, rather than an increase in users. By the way, ARPA of *STREAMED* has seasonality, so I recommend you compare YoY results instead of QoQ results. Also, as explained earlier, ARPA of *STREAMED* for past Q2 has been adjusted.
As shown in the right chart of page 22, ARPA of corporate users grew 6.5% QoQ excluding HiTTO, of which 2.5% was due to the *STREAMED*'s seasonality and the rest was mainly due to growth in the mid segment. Basically, growth of ARPA for corporate users is driven by two factors: an increase in the ratio of midsize users and an increase in ARPA of midsize corporate users, both of which continued to grow in Q1. ARPA of corporate users grew 10% YoY excluding the impact of *HiTTO*. Two-third of this 10% growth is due to the improvement of mid segment ratio. The percentage of mid-sized companies in Business domain has increased from about 4% a year ago to about 5% in terms of the number of companies, and from about 20% to over 30% on an ARR basis. The remaining one third is due to the rise in ARPA of mid-sized companies, since our services are now adopted by larger companies as well. Over the past year, ARPA for mid-sized companies has increased by 20% excluding *HiTTO* and by 40% when including it.

Q5. What is the background of *STREAMED*'s strong performance? Was the impact of the Electronic Bookkeeping Act significant?

A5. As for *STREAMED*, we focus on attracting new users and promoting usage through

customer success. Integration between *STREAMED* and cloud accounting is getting better. The Electronic Bookkeeping Act is a tailwind for us for sure. Regarding the Electronic Bookkeeping Act, we have been updating *Money Forward Cloud Box,* where you can automatically save vouchers, and we aim to further focus on the marketing initiatives.

Q6. Customer churn rate in Business domain was 1.3%, up 30 basis points YoY. Please explain the reason.

A6. The main factor is the increase in the ratio of sole proprietors. Since this is the tax filing season, churn occurs to some extent.

Q7. How do you analyze the effects of advertising in Q1? Although the tax filing season ended, is it OK to assume that the same level of advertising expenditures will be invested in Q2 and beyond?

A7. Although we made a fairly large investment in Q1, the net-adds of Business domain were very strong - 1.5 times better than last Q1, and we believe it is cost-effective. We did TV commercials for *Money Forward ME* and seasonal advertisements for tax filing in Q1, but we expect to increase advertising for corporate clients in Q2. We will continue to use web marketing, in-taxi ads, and some TV commercials, while monitoring the effects. Thanks to the marketing team led by new CMO and our third-party partners who understand us well, we were able to produce a commercial that captured user insights accurately. Our SEO team is also doing a great job.

Q8. Finance domain is expanding again. What is your view for the future, including the contribution of your business partners? Also, is the market environment changing?

A8. In the previous fiscal year, there were several bad debts, so we reviewed our screening and sales structure. We have recently strengthened our screening program by hiring experts from major regional banks. We have also been gaining larger customers and partners in *Money Forward Kessai,* the settlement agency business. We believe that Finance domain is steadily progressing including Biz Forward but will continue to monitor the market environment with caution. The current bad debt ratio itself is almost

unchanged.

Q9. Please explain operating income/loss and EBITDA guidance for Q2. Are advertising expenses the same level as in Q1? How far behind is recruitment?

A9. As you can see in Q2 guidance disclosed today, EBITDA is expected to be negative 1.4 to negative 1.9 billion yen, operating loss to be 1.9 to 2.4 billion yen, and advertising expenses to be 1.6 to 1.8 billion yen, which means the level of loss is almost same as the advertising expenses. We hired about 130 new employees in Q1 and 170 to 270 members will join in Q2, including about 40 new graduates. In SaaS industry, once products have enough functions, the ability to recruit directly affects sales growth, so we are building an organization that is easy to work in and rewarding to work for. As the company grows in size, HR development is also important, so we are strengthening 1-on-1 training, goal-setting training, and leadership program, etc.

Q10. You will continue aggressive advertising according to your Q2 guidance. You explained that you are monitoring the investment effects in Q1, but given the lead time for mid-sized companies, it seems that it takes more time to determine the investment effects. How do you monitor the effectiveness and judge the investment?

A10. Although it takes time for receiving an order, we are monitoring indicators in each step before the actual order, and we see great results. Our policy is to keep the CAC/payback period between 24 to 36 months. The actual results were around 20 months, so it's within the range. Although CAC/payback period tends to be longer in mid-sized segment, it is within the expected range. Investment efficiency is being closely monitored by channel.

Q11. How are Q1 marketing effects reflected in Q2 guidance?

A11. Based on Q1 marketing results, we expect advertising expenses in Q2 to be 1.6 to 1.8 billion yen, the same level as in Q1.

Q12. Please tell us the assumed range of net additions and ARPA growth rate in Q2 guidance. Also, what is the recent win rate versus the competitor? In the previous quarter, you mentioned that the win rate was 70%.

A12. There is no significant change in the win rate. We will continue to develop and cater great services. Net additions and ARPA forecasts are not disclosed.

Q13. Is it correct to understand that the QoQ increase for mid segment is accelerating even if we exclude about 100 existing *HiTTO* users? Given that aggressive advertising spending began in Q1, is it possible that the number of mid-sized clients excluding *HiTTO* will further accelerate in Q2?

A13. That is correct. The biggest factor behind the acceleration of ARR growth in the mid segment is the increase in ARPA for new mid-sized users. We will continue to work on improving ARR by cross-selling to existing users, and of course we would like to accelerate the speed of acquisition in Q2 and beyond, so we are conducting aggressive marketing. We would like to achieve 40 to 45% growth for ARPA for corporate customers in Q2.

Q14. I was looking at page 76 and 77 and noticed that the breakdown of full-year SaaS ARR and net sales is revised slightly downward for Home and upward for X recurring revenue from the initial forecast. What is the reason behind this?

A14. Net sales from premium charges of *Money Forward for XX*, which targets financial institutions, have been revised retroactively since charges are recognized in X domain from this fiscal year to be in line with the actual business operations.

Q15. There seems to be a growing trend toward investing in asset management and financial planning companies to develop those services in-house. If you cater your own financial products directly, you might need to discuss how to deal with conflicts of interest with users.

A15. Our basic idea is to provide the best solution to users. If we cannot add values by

utilizing data and AI, there is no need for us to develop own services. On the other hand, if we can differentiate our services by adding values, we might expand our business. We are still in the process of searching for the best solutions, and we will continue to discuss keeping "User Focus", our most important value, in our mind.

Q16. Various companies provide services such as expense reimbursement, attendance management, electronic contracts, etc. In a market like Japan where the population is declining, what do you think of the situation with so many service providers? I hope Japan will soon be a country where all we need to do is to introduce your products.

A16. We believe that it is good for users that various players are entering the DX market. As a service provider, we would like to increase the value of our services. Although this is a growing market, it is not an easy market, and I think we will see more M&As in the medium term. We would like to continue to be the best company in sales, customer success, development, and many other areas.