

## Financial Results for the 1st Quarter of Fiscal Year Ending November 30, 2020

### Q&A Session Summary

Q1 What was the YoY growth rate of recurring revenue in Business domain when excluding Smartcamp Co., Ltd.? In light of the changes in operating environment due to COVID-19, I would like to know the Company's outlook on both existing businesses and Smartcamp Co., Ltd.'s business.

A1 Recurring revenue in Business domain excluding Smartcamp Co., Ltd. increased by 58% YoY. Concerning COVID-19, for our existing businesses in Business domain, we believe that the promotion of remote work and initiatives for the IT Introduction Subsidy among other factors are likely to serve as a tailwind. As for Smartcamp Co., Ltd., we hope to increase net sales through promoting their services, since demand for cloud services and remote work is currently on the rise.

Q2 Regarding the thorough review of overall costs, what are the specifics, and how much impact will this have?

A2 We will first review rent expenses taking into account the current state of remote work. We are also considering reviewing server costs. As for expenses for SaaS services and other services that are used in our daily operations, we are sorting out what is absolutely necessary and what is not. We expect it will be possible to reduce several tens of million yen in costs by various aspects such as shifting certain operations from outsourcing to in-house, or reviewing initiatives for raising employees' motivation.

Q3 It has been reported in the media that applications for *MF KESSAI* have been rising rapidly; how is the number of actual loans executed trending? I would also like to know the Company's view on credit control and financing.

A3 While the number of applications has been increasing, the number of loans executed has not increased as much. We are performing careful screening and executing loans by setting relatively high standards. Although it is relatively easy to screen clients with whom we have an ongoing relationship, other clients require careful screening. Therefore, the number of actual loans is not increasing at the same rate as the number of applications.

As for financing, since a credit line is set with our main financing bank, we have been working to extend this line for the past few months. We are holding discussions with financial institutions as we are considering an off-balance sheet structure in the future.

Q4 With regards to Business domain, I acknowledged that the level of net revenue retention has been maintained since the end of November 2019, but would like to know the status of new customer acquisitions, as this is unclear.

A4 While we do not disclose the breakdown of net revenue retention as well as breakdown of new customers from the new plan versus other services, the number of churns increased temporarily when introducing the new pricing plan last year; however, more recently, acquisition of new customer has gradually been recovering, reaching levels prior to introducing the new pricing plan.

Q5 With regards to the cost plan, specifically, "thoroughly reviewing overall costs" and "improving productivity" among others mentioned in the financial results presentation materials (P.10), does this imply a certain amount of reduction in, or curb in increase of specific expense items? For example, the Company's FY11/20 plan assumed an increase of ¥1.2 billion YoY in advertising expenses and ¥1.8 billion YoY in personnel expenses. Have these forecasts changed?

A5 We are reviewing all expense items. We will make efficient investments in advertising expenses in the context of rising demand for remote work, etc. accompanying changes in the social environment. We plan to control initiatives that take a longer time to bear fruit, such as raising company recognition.

As for personnel expenses, we have not halted recruitment, and many new graduates have been joining the company. For mid-career recruitment, we are conducting careful selection to recruit personnel in high positions, including at the management level. Although expense forecasts have not changed significantly, details will most likely be adjusted going forward, and we will disclose such matters when they are ready for disclosure. We acknowledge that the external environment is changing, and will therefore make investments while keeping an eye on their effects.

Q6 Regarding *MF KESSAI*, there was a case during the previous fiscal year where rather large credit losses occurred in certain loans and sufficient insurance could not be collected. Can we assume that approximately 90% of default risks will be hedged going forward, as was previously explained?

A6 Allowance for doubtful accounts is originally reserved based on past results. Therefore, we have reserved a sufficient amount. In addition, up to 90% is insured as in the past. For certain loans, we are controlling and taking on risks of more than 10%, considering insurance costs and the Company's credit decision. While the amount is not large, in an environment where COVID-19 is spreading widely, we are working toward controlling/decreasing excessive insurance.

Q7 Regarding net sales of Business domain, since FY3/19 net sales of Smartcamp Co., Ltd. was approximately ¥600 million, I expect their net sales for this quarter was nearly ¥200 million, and even excluding this figure, it can be inferred that trended firmly YoY. What is the reason behind this?

A7 Net sales of Smartcamp Co., Ltd. was ¥250 million, and therefore, even if this is excluded, net sales of Business domain is trending firmly. We implemented the "¥1 Billion Support Campaign" in the accountants marketing channel, and the number of clients of accounting firms installing our services increased per accounting firm. Steady growth is also being driven by the tax return season.

Q8 Regarding the challenge in Home domain, judging from the initial plan, I believe that the growth rate for net sales of Home domain in FY11/20 is expected to slow down relative to previous terms, and would like to reconfirm what the challenges are, and what kind of initiatives will be taken to boost net sale.

A8 As we have explained in the past, while we are promoting visualization of cash flow as well as financial wealth in *Money Forward ME*, our next big challenge is to shift our focus from visualization to resolving issues. We have already released various services including *Money Forward Okane Sensei* which offers advice, and *Money Forward Okane no Soudan* which matches users with financial planners, have completed product-market fit, and have seen positive results. However, with regards to the matching service with financial planners, since offline meetings cannot be conducted now due to COVID-19, we believe some more

time will be needed including for shifting to online. We believe our challenge is to sufficiently monetize such issue-resolving services.

Q9 With regards to costs, I imagine that advertising expenses will decrease somewhat, and undigested costs will incur for such reasons as suppressing recruitment, affected by the postponement of the Olympic Games and COVID-19, but during this upfront investment phase, can I assume that expenses will be spent according to initial forecasts in terms of the full year?

A9 Again, we intend to invest firmly in prospective areas to achieve medium- to long-term growth, but since circumstances have been changing drastically, we do not think we should use expenses simply because we promised to in our initial plan. We will respond flexibly while paying close attention to the circumstances, and explain any changes as they arise.

Q10 What is the Company's criteria for selecting services to be offered in *Money Forward Cloud Store*? At the session explaining the joining of Smartcamp Co., Ltd. to the Group, President Tsuji's comment—that it is important to create a "community" for domestic SaaS to proficiently compete with overseas SaaS—left a strong impression. I would like to know what value standards the Company places as it continues to expand its service lineup going forward.

A10 We wish to provide high-quality services in areas where we do not yet offer our services, as is the case with communication tool, *Chatwork*, and the video conference tool that we introduced during this session. Currently, we have not set clear value standards, but needless to say, we need to check that service contents and prices meet certain standards, since we will be the ones providing these services. We plan to promptly develop value standards.

Q11 I believe the use of cloud in back office operations will progress going forward, and would like to know the Company's current view on whether they aim to establish partnerships with the best-of-breed companies—for example, TeamSpirit Inc. for attendance management, RAKUS Co., Ltd. for expense managements, and Info Mart Corporation for Invoicing—or continue to offer proprietary services. I would also like to know the competitive edge for which users select the Company's services.

A11 While numerous services are being provided by various company, the services we provide are as listed in the financial results presentation material (P.18). We would of course be happy if users select our services, but we believe the users have the final say, since optimal cloud services differ depending on business size, industry and business type. We therefore have no intention of enforcing customer loyalty. Our services are basically based on open API, and we believe that the benefit of cloud services is that they enable users to connect with services which they believe to be desirable. In a world that values such openness, we aim to become the No.1 service in the back office area which users will eagerly utilize.

With regards to competitive edge of our services, while the situation differs for each of our various services, we consider ourselves to be among the best-in-class in Japan in the back office area, including in cloud accounting, payroll calculation, and expense management services. For example, *Money Forward Cloud Expense* enables users to claim expenses easily on mobile devices by connecting services leveraging on our account aggregation technology. We also believe that the service level of *Money Forward Cloud Accounting* is among the finest in the industry. We believe that it is important to work relentlessly not only on our development capabilities, but also user experience, and customer success so that users can make full use of our services, and thus, we hope to collaborate closely with accounting firms and labor and social security attorney firms until back office operations genuinely improve.

Q12 I believe that the number of companies that encounter cash flow issues may increase going forward affected by COVID-19, and would like to know the status of the following in and after April.

- Are there cases where SMEs are actually facing trouble with their cash flow?
- How does the Company view the possibility of churn rate rising as a result of bankruptcy or other factors?
- How does the Company view the upside or opportunity loss of loans as a business opportunity?

A12 While it is difficult to foresee the situation in and after April, certain areas are encountering difficulty depending on industry and business type; for example, restaurant, hotel, travel, sports and other industries. Although it will depend on support measures by the government, some companies are actually starting to face issues.

While there is currently no apparent rise in churn rate due to bankruptcies, we expect that it may rise going forward. We will manage our businesses by preparing various scenarios, including by assuming worst-case scenarios.

As for the upside of loans, it will be difficult for the Company to meet all demands for loans considering our financial strength. We will therefore deploy our businesses while introducing financial institutions with more financial strength in the area of loans such as the Japan Finance Corporation. Although there may be opportunity losses, we believe we need to place priority on providing services as best as we can to clients with whom we have ongoing relationships, rather than hitting the accelerator to increase the number of transactions. Of course, we plan to also provide new clients with our services, but do not envision a drastic increase. In the Finance domain which includes finance-related businesses, we aim to offer services in areas where we can adequately support clients while taking into account the capacity of the Company's balance sheet.