

Financial Results for the 3rd Quarter of Fiscal Year Ending November 30, 2020

Q&A Session Summary

Q1. Is it correct to understand that the growth rate of recurring revenue in Business domain was around 25% YoY, and this is the natural growth rate for you at this moment? Can you explain if there were any special factors behind it?

A1. Total growth rate of recurring revenue in Q3 was 26% YoY, but if we break it down to sole proprietors who are mainly using Money Forward Tax Return, and accounting offices and corporates who are mainly using Money Forward Accounting or Money Forward Cloud Accounting Plus, the results were pretty different. Growth rate for accounting offices and corporates was more than 30%, while that for sole proprietors was lower than that, which resulted in an overall growth rate of 25%. We are working on measures to achieve 30% or more growth next year. We are starting to see some good outcomes in Q3 and expect stronger growth as we are accelerating the acquisition of corporate customers and STREAMED will also accelerate the growth from Q4 onwards (for the next tax return season).

Q2. On page 20 of the financial results presentation, MRR churn rate for Q3 was -1.2%, but what about the results for a shorter period, such as for the last six months? Negative churn appears to have approached around 0% in my calculation.

A2. As explained in the Q2 presentation, at the time of the pricing change in 2019, we moved users without any request to monthly subscription. Some users then switched to annual subscription, so the annual subscription ratio has been increasing. As it is discounted by about one month compared to the monthly subscription, when the ratio increases, ARPA declines, but the churn rate should improve. On the other hand, the number of users with high unit prices increased. Those factors were offset and as a result, MRR churn rate continues to be negative. The number in the financial results presentation includes the effect of plan change in 2019 so it should be a bit worse than -1.2% for the recent couple of months. Customer churn rate was 2.2% in Q2 and was improved to 1.1% in Q3. This is mainly because the tax filing season ended, but we believe that an increase in annual subscription ratio and the better product quality also contributed to it.

Q3. Please tell us about any quantitative targets of the recently announced Money Forward

Cloud ERP, such as the estimated unit price and the pace of sales expansion. Also, what differentiates your products and sales methods from existing players offering cloud ERP?

A3. We have not announced quantitative figures at this time, but Money Forward Cloud Accounting Plus, which is the core of our ERP system, is being implemented at a pace faster than expected. Larger companies, such as Pasona Group, are now using our services. So far, Money Forward Cloud Accounting Plus, Money Forward Cloud Payroll, Money Forward Cloud Expense, and Money Forward Cloud Attendance have been offered to mid-sized corporates, and we feel that there is a very strong demand for these services.

We have three differentiating factors. First, our customers can start from introducing one product. Even when it's difficult to switch from the existing accounting system, customers can introduce other modules which meet their needs. Second, the price is cheaper than incumbent ERP systems. Third, our ERP has a powerful account aggregation engine, which can minimize manual work to enhance the productivity of back-office operation.

Money Forward Cloud Expense, which is being adopted by mid-sized corporates, are receiving great feedback from users as it is easier to use compared to services offered by other players. For example, using our smartphone app, managers can approve reimbursement requests while they are out of the office. It's important to improve the quality of services and offer it with competitive prices and with flexibility so that users can introduce our services one by one.

Q4. ARPA rose by around 4,000 yen from Q2, even if you exclude the impact of R&AC. I wonder if it's more from an increase in the number of users with higher unit prices, rather than from an increase due to cross-selling.

A4. As shown on page 22 of the financial results presentation, ARPA showed strong growth in Q3. Excluding the impact of the acquisition of R&AC, which offers services with higher ARPA, it went up by about 3,600 yen in Q3. The reasons for this were: (1) the number of clients per accounting office is increasing and (2) the number of mid-sized corporate customers with high unit prices is increasing.

Regarding R&AC, CEO Takayama has been providing services in the cash reconciliation field for 16 years and has expertise in providing services to mid- to large-sized corporates. We would like to strengthen our sales in mid- to large market as a group by taking advantage of their knowledge.

Q5. You stopped offering the online lending service Money Forward BizAccel in July. Can you explain the reason for it? Would you re-enter the market once the issues you faced have been resolved?

A5. Although the service was growing, growth was weaker and the amount of loan per company was smaller than we expected. Market conditions also changed as financial institutions are willing to provide financing during the pandemic. We felt that it would be difficult to significantly exceed the value provided by existing financial institutions. It was a profitable model in the medium to long term, but we stopped the service by considering resource allocation as other services are growing much faster. We are not thinking of re-entering the market at this moment.

Q6. What is the reason for the increase in net sales of SmartCamp and in non-recurring revenue in Business domain?

A6. SmartCamp, which joined the group in November 2019, has been growing dramatically since then. In Q2, demand for SaaS services rose sharply during the declaration of the state of emergency, thus BOXIL grew substantially. In Q3, the growth speed went back to normal. On the other hand, BALES, an inside sales support service which has been used by large corporations, drove growth in Q3.

The main growth driver of non-recurring revenue was implementation support fee for mid-sized corporates. Owing to IT implementation subsidies etc, it was more than doubled compared to Q2.

Q7. I believe the approach to the mid-sized segment will be different from that to small companies. Will unit economics also be different?

A7. The sales approach is different. For small companies, we sell our services mainly through our website or through accounting offices, but for mid-sized corporates, we approach them directly. So, the cost structure is different, but ARPA is higher for mid-sized corporates, and as a result, profitability will be higher for mid-sized corporates in the future. Once our product reaches a certain level after the launch, we believe that this is a highly profitable market, and we will strengthen our sales and customer success functions so that our customers will be happy to use our products.

Q8. You mentioned that you need to strengthen Home domain. Can you elaborate on that?

A8. Net sales of premium charge have been growing at a good pace at 26% YoY, but we are looking for new ways of monetization. We have been trying various services such as Money Forward Mall, Money Forward Money Advice, Money Forward Okane Sensei, and Money Forward Career. We have verified the product market fit in some of these services and we are working to monetize them.

In the next fiscal year, we would like to create a different pricing plan, in addition to the current premium plan which charges about 500 yen per month. Also, we would like to provide services such as Money Forward Okane Sensei, in which users can input their data and receive advice that contributes to solving their problems, to enhance the value of the services.

Q9. How much more expensive is Money Forward Cloud ERP compared to your services for sole proprietors and SMEs?

A9. We have not announced pricing for some products, but the prices of services in Business domain we already offer are listed on page 89 of the financial results presentation. In our cloud ERP, Money Forward Cloud Accounting Plus will be the core service, and Money Forward Cloud Expense, Money Forward Cloud Payroll, Money Forward Cloud Attendance as well as the new services announced this time will be included.

The price will vary depending on the size of the company, but for example, for a company with more than 100 employees, the monthly price will be more than 100,000 yen when they use Money Forward Cloud Accounting Plus, Money Forward Cloud Expense, Money Forward Cloud Payroll, and Money Forward Cloud Attendance. On the other hand, the monthly price for SMEs has been around 5,000 yen. We anticipate this will be a major growth driver of ARPA.

Q10. I believe that the advantage of being able to offer a competitive product like V-ONE Cloud to mid-sized corporates is quite significant. Can you give us an example of how much can R&AC contribute to enhance productivity in the cash reconciliation process compared to other companies' products?

A10. The acquisition of R&AC is a really big deal for us, as they have 90% of the market share and we have always thought that their products are the best in the industry. Cash

reconciliation service is a great match for accounting service, and their products and team are important for us to enter the mid-market.

Although I don't have detailed data to compare productivity with other services, we can say that it is by far the most productive product in the market and that is the reason why they have such a high market share. There are still many companies that reconcile receivables manually, so there should be a great potential in companies with a certain volume of payments. We hope that their services will become our core products for expanding sales in mid-sized corporate channel.

MF KESSAI has been using R&AC's service for a long time because it has many customers. After the introduction, its accounting operations have become much more efficient. By the way, we have also been using the service of SmartCamp, which joined our group last year, and we thought it was great, so we asked them to join our group. I feel that we could build a good relationship with R&AC before joining the group. Its team is excellent.

Q11. Why did you see an increase in the number of clients of accounting offices? Is that due to the "1 Billion Yen Support Campaign"?

A11. Yes, "1 Billion Yen Support Campaign" and IT implementation subsidies have been good triggers to introduce our services. We have also been receiving inquiries from companies and accounting offices to use Money Forward Cloud for telework.

Q12. Is it possible for R&AC to promote their services to companies using other accounting services while they are a part of Money Forward group?

A12. The advantage of cloud service is to integrate data with third parties, so we will continue to collaborate with them and to approach potential customers that use other services. Also, we will continue to create easy-to-use services so that more users choose us.

Q13. Did ARPA increase or decrease in channels other than accounting office channel?

A13. ARPA for mid-sized corporates is steadily improving as larger customers are increasing. In addition, services with higher unit prices such as Money Forward Cloud Accounting Plus

and Money Forward Cloud Expense enjoy brisk sales. On the other hand, as announced in Q2, the ratio of annual subscription is increasing and ARPA is slightly declining in web channel. In total, ARPA increased by around 4,000 yen in the last three months.

Q14. You mentioned that you are making progress in acquiring mid-sized corporates, but which product is the best seller?

A14. In particular, the introduction of Money Forward Cloud Accounting Plus, Money Forward Cloud Payroll, and Money Forward Cloud Expense is steadily increasing, and cross-selling is also progressing.

Q15. What is the background of the progress in acquiring mid-sized corporates in Q3?

A15: The quality of our services has been steadily improving and we are now able to meet the needs of our customers. In addition, there is a growing trend to shift back office operations to the cloud for telework, and we are receiving more inquiries.

Q16. I would like to know about the breakdown of net sales, profitability, and the differences in products in each channel of Business domain.

A16. We do not disclose the breakdown of net sales, but ARPA tends to be higher for accounting offices and mid-sized corporates. In terms of profitability, accounting office channel has sales and customer success teams, so the cost structure is different from web channel. However, we can say that accounting office channel and mid-sized corporate channel are more profitable as ARPA is higher. In terms of the functionality, one of the differences between Money Forward Cloud Accounting for SME and Money Forward Cloud Accounting Plus for mid-sized corporates is the journal approval function. Since main users of Money Forward Cloud Accounting Plus are listed companies or pre-IPO companies, this kind of function is needed to ensure internal control.

Q17. Which level of corporates do you refer to as mid-sized corporates?

A17. The volume zone is the ones with 100 to 1,000 employees. Money Forward Cloud Expense is used by companies with around 5,000 employees, so we can say that our services can be used by companies with thousands of employees.

Q18. In the cloud accounting software market, your competitor also seems to be expanding their business. What is the strength of Money Forward? I would like to know how you are going to differentiate yourself from your competitor.

A18. Since the release of Money Forward Cloud Accounting in 2013, we have been receiving feedback from accounting offices across Japan to develop services easy to use for them and their clients. We believe that we have a higher market share among the players offering cloud accounting service for accounting offices. Our culture to support our customers, as you can see in our catchphrase "The Cloud Service that Moves Your Heart," is the key as well as the easy-to-use user interface. We have been improving our services so that more accounting offices and SMEs throughout Japan use our services.

In terms of the difference between us and our competitor, we think that our competitor has strength in sole proprietor channel, while we have strength in SMEs and accounting office channel. We would like to make use of our current strengths in the mid-sized corporate channel as well.

In addition, our competitor provides their products as a bundle service, but our customers can subscribe to our service one by one. Some customers start with only an expense management module or attendance management module. Furthermore, we are delighted to have received the highest rating for customer satisfaction and chosen as the most recommended cloud accounting software. We believe that we received great feedback as a result of our sincere efforts to listen to our customers.

Q19. Is there a possibility of promoting your services for mid-sized corporates by partnering with sales agents? I believe that indirect sales is an option to accelerate your growth as hiring field sales personnel should be difficult in the current job market.

A19. It's important to have sales channels to respond to our customer needs, and we would like to focus on indirect sales as well in the future. We are promoting Money Forward Cloud Expense, etc. in partnership with NTT DoCoMo as their customers are compatible with

mobile services. We are also in partnership with Fujitsu Japan. We would like to provide value-added services that our partners would recommend.

You mentioned the difficulty in hiring field sales in the current job market, but we are good at hiring and making good progress.

Q20. What is the outlook for non-recurring revenue in X domain from Q4 onward? You mentioned that inquiries are increasing, but have they already led to contracts? How many ongoing projects do you have?

A20. At the beginning of this fiscal year, we forecasted that net sales in X domain were expected to increase by at least 29% YoY. We saw great progress with 44% YoY growth for Q3 YTD. As you can see on page 47 of the financial results presentation, recurring revenue has been steadily growing and the business base is getting stronger. We started several new initiatives as you can see in the presentation. We have co-developed a portal site for corporate clients with NTT Data for Yokohama Bank and Hokuriku Bank. We expect to see strong growth in this domain, as financial institutions are in need of digital transformation in their touchpoints with individual and corporate customers. We expect to achieve our initial guidance for this fiscal year. We have enough pipeline for next fiscal year onward, and we expect further growth in the future.

Q21: Which system change shown on page 25 of the financial results presentation will have the most positive effect on your business?

A21. There is no one factor in particular that will have a major impact, but each will have a big impact. For example, under the Electronic Bookkeeping Law, you don't have to keep paper documents or submit them to the accounting division if you take photos of your receipts. This will improve the productivity of companies, and since this is a nationwide change, the impact will be significant.

The details of the invoice system have not yet been finalized, but we believe it will be a tailwind for us if all corporate data is digitized.

Year-end tax adjustment, including collecting and writing paper documents, is a troublesome process. If we can do it online, we can reduce the amount of time and effort as well as mistakes. We believe Japan needs to digitalize, and we want to contribute to it by growing our business.