Financial Results for the Fiscal Year Ended November 30, 2020
Q&A Session Summary

Q1. The target growth rate for Business domain in FY11/21 is over 37%. I think that achieving this target will require maintaining the growth rate of the business for corporates. In the latest quarter, recurring revenue for corporates grew by 41% YoY, or 34% excluding R&AC. What do you think about the sustainability of this growth rate?

A1. The lower limit of the full-year net sales forecast for Business domain for FY11/21 is 9.95 billion yen, a 37% increase from FY11/20. Among these, we expect around 2.8 billion yen to come from net sales of Smartcamp and other non-recurring revenue. Since it was shy of 1.9 billion yen in FY11/20, we expect a certain amount of growth here. About half of the net sales of R&AC, which joined the group by M&A last year, are included in the non-recurring revenue, which is also helping to drive growth. As for the future growth of recurring revenue, the acquisition of corporate customers has been progressing very steadily, and in addition to the acquisition of customers in web channel and through accounting firms, sales from medium-sized corporates have also been strong in the context of the new concept of *Money Forward Cloud ERP*. Based on these circumstances, we expect recurring revenue for corporate customers to grow at a rate in the high 30% range.
On the other hand, we think that the recurring revenue growth rate from sole proprietor customers will be relatively low, partly due to the downward trend in ARPA. This is because more and more customers are shifting to annual plans. Shifting to annual plans from monthly plans will lower ARPA by about 20% compared to monthly plans. We expect this shift to continue and ARPA to decline, and taking this into account, we expect recurring revenue for sole proprietor customers to grow at a rate of 5-10% in FY11/21.

Q2. It was mentioned that the amount of transactions in factoring business declined in QoQ due to tighter credit controls. Are there signs of an increase in doubtful accounts, or do you foresee the increasing risk in the near future?

A2. Currently there are no signs of an increase in doubtful accounts, but the approval rate for the applications is decreasing as a result of solid credit management. We think that risks of doubtful accounts may increase if the impact of the COVID-19 is prolonged. Therefore, we manage our business while discussing this issue at the board meeting. We will continue to closely monitor the external environment.

Q3. It seems that M&A is placed as one of the means for growth, but I would like to confirm whether or not you have enough capacity for investment.

A3. We continue to have good relationships with banks, and they have provided us with short-term loans payable for Money Forward Kessai and loans payable for past M&As. In addition to the three megabanks, many other financial institutions, including Resona Bank and The Shoko Chukin Bank, are supporting us. When Smartcamp joined the group, they were making losses as they were in the growth stage. Therefore, the loans payable for the acquisition from banks were limited. However, as disclosed in the financial results

presentation, Smartcamp has continued to grow in FY11/20, and we believe that the acquisition has been very successful.
For the step acquisition of R&AC, the second step was done by means of stock swap. We will consider stock swap as an option for M&A.

Q4. As a driver of ARPA, it is mentioned that the ratio of annual plans for web channel has increased more than expected, but to what extent has this affected ARPA for corporate customers? Also, to what extent did the sales from medium-sized corporates contribute to the change in ARPA?

A4. The breakdown of plans for corporate customers in web channel is shown on page 96 of the financial results presentation, and the ratio of the annual plans, which was around 33% a year ago, has now risen to 58%. In the short term, ARPA will decrease, but in the long term, the customer churn rate will improve, so we think that this is a positive trend.
The breakdown of plans for sole proprietors in web channel is shown on page 97 of the financial presentation, and the ratio of the annual plans has risen from 13% a year ago to 41%. We think this is also a positive trend in the long run.
On the other hand, as shown in the comparison with the initial forecasts on page 20 of the financial presentation, net sales in Business domain were 7.3 billion yen, but this includes about 160 million yen of the net sales from R&AC, which joined the group during FY11/20, so if we exclude this effect, sales were slightly below the initial plan.
As mentioned above, the main factor is the decrease in ARPA due to the increase in the ratio of annual plans. The impact of this trend is about 0.8 billion yen. Compared to our initial forecast, there was a 10% decrease in ARPA in web channel.
Overall trend of ARPA (including accounting office channel and direct sales channel) is shown in the right figure on page 31 of the financial presentation. ARPA for corporate customers rose by 8.1% QoQ from Q2 to Q3, but if we exclude the impact of the acquisition of R&AC, which provides services with high unit prices, this growth rate was about 3% QoQ. The growth rate from Q3 to Q4 was 2.9%, which means that average sequential ARPA growth for corporate customers is about 3%. ARPA has been increasing due to the progress in expanding sales to medium-sized corporates with high unit prices such as expense management and HR.

Q5. You mentioned that the number of sales leads has increased due to the effect of TV commercials in Business domain, but what changes have you seen in the acquisition of new customers, including the size of customers? Also, what is your outlook for customer acquisition in FY11/21 and how will you use the cost?
According to the forecast for FY11/21, it seems that advertising expenses will be reduced by a little over 1 billion yen. What kind of advertising expenses are you planning to reduce? Also, if sales exceed your expectations, are you planning to increase advertising expenses?

A5. The number of requests for information materials for *Money Forward Cloud Accounting Plus* and *Money Forward Cloud ERP* for medium-sized corporates has been increased thanks to TV commercials.
As for the outlook for customer acquisition in FY11/21, we think that the expanding service lineup will contribute to the acquisition of medium-sized corporates.

Expenses temporarily increased in Q4 FY11/20 due to the impact of aggressive advertising, including measures to gain recognition. For this reason, we expect a decrease in FY11/21, but we think that the advertising expense level in the forecast is sufficient to acquire new customers and achieve our targets. If sales exceed our expectations, we would increase advertising expenses. However, as the external environment continues to change, we will flexibly manage cost-effectiveness.

Q6. It was mentioned that the number of data requests from potential customers increased significantly after the large-scale marketing campaign from October to December 2020. What is the ratio of corporate customers and sole proprietor customers? Also, how long does it take for customers to onboard after a request for data?

A6. The ratio of corporate customers has been increasing due to aggressive advertising campaigns such as TV commercials for corporates. However, the number of sole proprietor customers is also increasing. The integration of *Money Forward Cloud Tax Return* with *Money Forward ME* is progressing too.
The sales lead time is expected to be 1 to 3 months for SMEs in web channel, and 3 months to 1 year for medium-sized corporates.

Q7. What is the reason why the improvement in EBITDA exceeds the improvement in operating profit in FY11/21?

A7. The definition of EBITDA is as defined in the footnote on page 73 of the financial presentation, and the reason why the improvement in EBITDA exceeds that in operating profit is due to the increase in amortization and share-based remuneration expenses. Amortization comes from goodwill and software. Amortization of goodwill will increase in FY11/21 due to the acquisition of R&AC. Another factor is the increase in share-based remuneration expenses because of the issuance of RS to executives and employees.

Q8. Could you explain the competitive environment? In particular, what is the situation regarding the growth of small and medium-sized corporates and the growth rate of the number of medium-sized corporate customers, along with the respective competitive environment?

A8. With regard to the competitive environment, there are still very few players that provide cloud-based services for back office. It is not easy to enter the market because it requires upfront investment and the know-how of engineers, and we do not think that the competitive environment has changed recently.
On the other hand, the cloud penetration rate in the accounting software market is still low, so we have been receiving inquiries from corporates including fast growing companies that want to introduce cloud-based software. We think that the acquisition of corporate customers is going very well.

Q9. The company is developing a wide range of services, but what is the situation of hiring the personnel necessary for growth?

A9. We do not think that our recruitment capacity is declining. We have been strengthening our recruitment, and in particular, referral recruitment has been strong. Through employee referrals, very talented people are joining us, including former executives from listed companies and partners from law firms.
Also, I (Tsuji) attend the final interviews for new graduates by myself, and every year I am able to meet with talented and motivated people, and I believe that our recruitment capacity has been improving.
In FY11/20, due to the impact of COVID-19, the number of people who joined our group fell below the target. Since we mainly work remotely, onboarding was difficult and took longer compared to the case that we can meet in the office.
As we have accumulated the know-how of new employee onboarding amid remote work, we would like to reaccelerate recruitment in FY11/21, especially for engineers and designers.

Q10. What is the outlook for the impact of COVID-19? You have bases for service development in Tokyo, Osaka, Kyoto, Fukuoka, and Vietnam, but what is the purpose of having a base for service development in Vietnam?

A10. First of all, we believe that the impact of COVID-19 will accelerate the adoption of remote work and cloud-based services in society as a whole. This is the second time that the state of emergency has been declared, and many people are taking the step to work remotely for the safety and health of their employees, and are interested in our cloud services. As negative factors of COVID-19, a slowdown in net sales from media/advertising in Home domain and a slowdown in the number of scanned receipts using *Money Forward Cloud Expense* and *STREAMED* in Business domain might happen, but overall, we think COVID-19 is a tailwind for us.
The reason for setting up a base for service development in Vietnam is that the supply and demand for engineering in Japan is very tight. In Vietnam, there are a lot of talented engineers, so we set up a base for service development. Currently, we have bases in Tokyo, Kyoto, Osaka, Fukuoka, and Vietnam, each of which has its own unique and very good culture, and we believe that this has a positive impact on development.

Q11. With the amendment of the Financial Instruments Intermediary Act, are there any opportunities in the PFM and cloud accounting services?

A11. We are considering various options and think that there are opportunities to start services that benefit Home users. There are no definite plans at this time, but we would like to take advantage of this legal revision to deliver new value to our users.

Q12. Is it correct to understand that the large increase in non-recurring revenue in Business domain is due to an increase in orders from medium-sized corporates as a result of large-scale marketing investments?

Q12. As shown on page 29 of the financial presentation, non-recurring revenue nearly doubled in the fourth quarter.
One of the major factors was that R&AC was consolidated for three months in Q4, whereas it was consolidated for one month in Q3. We also recorded sales related to IT implementation subsidies. In addition, Knowledge Labo, a group company providing consulting services, is performing very well.
There was a slight impact of the increase in non-recurring revenue related to implementation support for medium-sized corporates. There was an increase in sales leads from medium-sized corporates as a result of large-scale marketing investment, but considering the lead time and other factors, we expect the increase in inquiries from medium-sized corporates to make greater contribution to recurring and non-recurring revenue starting from FY11/21.

Q13. You have disclosed the earnings forecast as a range, but what are the assumptions behind the earnings forecast? What are the uncertainties? Is it correct to understand that the lower limit of the sales growth rate has been set conservatively?

A13. The upper and lower limits of the earnings forecast are shown on page 71 of the financial presentation. We have continuously disclosed its earnings forecast in a range since IPO. Since each business is growing at a very high rate, we disclose the forecast in a range that takes into account the lower limit and the upside factors of the net sales of each business.
Although the overall sales scale is getting larger, we are determined to achieve a sales growth rate of 40%, and set the upper limit of net sales at 15.75 billion yen. Of course, if net sales in each domain grow steadily, we think that this figure is attainable.
The lower limit of each domain is shown on page 72 of the financial presentation, and we believe that each domain has the potential to generate more sales than stated. The uncertainty is how much upside can be expected.
As for whether we have set the lower limit of the sales growth rate conservatively, we have set it relatively conservatively with the intention of achieving it without fail. The management team will execute the business, aiming for the upper end of the range.
Regarding profit and loss, as we have been guiding for the past two years, we expect EBITDA to be positive this fiscal year.

Q14. With respect to guidance, why are you going to decrease advertising expenses, compared to FY11/20? Also, it seems that the number of employees will increase significantly, but is it correct to understand that this is mainly due to an increase in sales personnel for Business domain?

A14. We have secured a sufficient budget for advertising expenses to achieve growth, but if sales continue to grow steadily, we plan to make additional investments in marketing. Since our business has a low churn rate and sales are built up on a recurring basis, we hope to make disciplined investments while monitoring the progress of the business.
As for sales staff, we will increase the number of employees mainly in Business domain. We will hire sales personnel, engineers, and designers. We would like to have excellent people join us for expanding our business.