

Financial Results for the 3rd Quarter of Fiscal Year Ending November 30, 2021

Q&A Session Summary

Q1: In Business domain, corporate ARPA has been flat for three consecutive quarters. What are your thoughts on the next fiscal year?

A1: Corporate ARPA usually grows by about 2% every quarter. One of the factors behind the flat ARPA for this quarter was the decrease in the volume charge of STREAMED due to the declaration of a state of emergency.

Change in the sales mix is another reason as disclosed on page 86. When we changed pricing plans in 2019, we shifted most SME users to the monthly subscription, and they have been shifting to the annual subscription. The percentage of annual subscription has grown from 56% to 63% over the past year, which is a positive fact for us in terms of improving the churn rate. In addition, the percentage of small business plan users has grown to 53%, compared to 38% a year ago, partly due to the increase in new customers (light users).

As a result, ARPA in the web channel has been declining.

On the other hand, STREAMED is on a recovery trend in September and the number of cloud service users is growing at a good pace, so we can expect ARR and the number of users to increase strongly in Q4. We would like to achieve higher ARPA growth in the next fiscal year as the medium-sized corporate channel will grow further.

Q2: What is the status of the acquisition in the mid-segment in Business domain and what is the outlook for the future?

A2: Recently, acquisition of medium-sized companies has been growing very strongly. The percentage of mid-sized companies ARR in total corporate ARR has grown from 20% a year ago to over 25% at present. We believe the brand recognition has been getting higher, and customer acquisition through seminars and other events has been strong. In terms of services, in addition to Accounting Plus and HR, we released new modules such as fixed asset and HR management modules. We believe that the mid segment will continue to grow steadily.

Q3: Sales in Finance segment were negative YoY. What were the YoY and QoQ trends in KESSAI (the payment processing business) and Early Payment, respectively?

A3: We do not disclose detailed breakdowns, but KESSAI is basically a recurring model and grew both YoY and QoQ. Early Payment is not a recurring model, and due to the impact of tighter credit control, it has slightly decreased YoY. Recently, we set up a joint venture (our consolidated subsidiary) with MUFG Bank, and together with Money Forward Kessai, Inc.

and Biz Forward, Inc. (joint venture), we believe that we can return to the growth trend.

Q4: What is your forecast for the net adds in corporate customers, ARPU, and churn rate in Q4?

A4: We would like to refrain from making short-term forecasts, but we believe that the net adds and ARPA will grow at a good pace as we saw the strong demand in September.

Q5: You disclosed that 25% of the corporate ARR are from medium-sized companies. How many medium-sized companies did you have as of the end of Q3 and how did it change in the past few quarters?

A5: The number of medium-sized companies is a bit less than 5% of the total number of corporate users now and it was less than 2% at the end of November 2019. The ratio has been growing consistently since then. In contrast, ARR of medium-sized companies is more than 25%, which means ARPA in the mid segment is much higher than that of SMEs.

Q6: What is the current status and outlook of CAC, taking into account the competitive environment?

A6: Acquisition efficiency has been improving. Our brand recognition is getting higher, the sales activity is more productive with online meetings. Also, we have been improving our marketing initiatives. The conversion rate has been getting better. The payback period is about 18 months now, and we would like to invest more as long as it's within the range of 24 to 36 months. We will focus on the top line growth by investing the funds raised through the public offering in sales and marketing as long as it's reasonable.

Q7: You mentioned STREAMED is the reason why the corporate ARPA didn't grow that much from Q2, but can you explain how much impact it had?

A7: The impact of STREAMED and changes in the sales mix were pushed down about 1.6ppts. If we compare the two factors, the impact of STREAMED was larger.

Q8: Please elaborate Money Forward Points in relation to the Money Forward Business Card. According to the slides, you give 1 to 3% as a reward but do you expect a large amount of expense for this?

A8: We have been able to reduce costs by mostly creating and operating the service in-house, which has allowed us to redeem points. It will not be a large cost increase, and the model is profitable. Normally, the reward rate is 1%. If you use Money Forward Cloud, the reward rate is as high as 3%, but together with the SaaS fee, the model is profitable.

Q9: EBITDA surplus is a commitment for this fiscal year, but in light of the recent capital increase, what is your direction for the next fiscal year and beyond?

A9: We believe that the priority is to invest in sales and marketing. We would like to disclose our guidance for the next fiscal year in January, but the feedback we received from investors during the public offering is that what we should focus the most is to grow our business and market share, instead of focusing on short-term profit. We will continue to make investments while assessing cost-effectiveness.

Q10: With regard to ARPA for corporate clients, you mentioned that STREAMED had an impact, but if those irregular factors are excluded, what level of ARPA increase do you expect? Also, I feel that the growth of corporate ARPA was weak, given the fact that the percentage of medium-sized companies in ARR is expanding rapidly. Is it correct to assume that medium-sized companies usually use only a single module such as payroll or expense management, and we have a potential to cross-sell other modules to them over time, which will lead to the increase in ARPA?

A10: Naturally, ARPA increases 2% QoQ. Recently, we have been able to confirm a trend in which medium-sized companies use multiple products. We believe that cross-selling will progress over time and contribute to further increase in ARPA.

Q11: In the sole proprietor segment, the number of Money Forward ME customers grew sharply in the first half, but the QoQ growth slowed down slightly in Q3. Is it correct to assume that the referral of Money Forward ME customers to the tax return module has run its course? If you continue to attract Money Forward ME users, how many sole proprietors are currently using Money Forward ME, and how many potential customers do you have?

A11: The pace of the net increase slowed down because the tax return season ended. However, we had more net-adds compared to the same season in the last fiscal year. The net adds were around 3,500, which is better than 2,150 in the same period last year, and this was partly due to the referral from Money Forward ME. As for potential users, considering that we have 12 million Money Forward ME users, we believe we still have a potential to cross-sell the tax return module to Money Forward ME users. We are currently brushing up our tax return module and plan to update it by the next season.

Q12: You disclosed for the first time that 25% of corporate ARR is for medium-sized companies, and I have the impression that it has already increased considerably. To what extent do you expect this ratio to increase over the next year? What is management's

perspective on when and to what extent you plan to increase this ratio in the medium term?

A12: We have not made any specific guidance, but we are aggressively investing in sales and marketing and product development, and we are seeing strong growth in this channel. The mid market is an area where the upside of ARPA is large, and more growth can be expected in the future. As you can see on page 85, the monthly fee for SME is from 3,980 yen, and the monthly fee for V-One Cloud for medium-sized companies alone is 33,000 yen. Since ARPA will increase if multiple products are used, we would like to recommend one module and then cross-sell from there.

Q13: Why is Money Forward Pay for Business able to meet the financial needs of startups up to 50 million yen, whereas typical credit cards can only provide a maximum of 200,000 yen as a credit limit?

A13: We are providing prepaid cards, which is quite different from credit cards. Credit cards take a credit risk, but in the case of prepaid cards, the funds are deposited into the account in advance. However, even in the area of prepaid cards, the upper limit of settlement amount of 50 million yen is one of our strengths compared to other competing services. We have implemented anti-money laundering measures and have received VISA's approval to achieve these conditions.

Q14: I have the impression that net adds in corporate recurring revenue slowed down from Q2. Would you elaborate on this?.

A14: STREAMED has a seasonality, and there was a large increase in Q2 and a decrease in Q3. Sales are influenced by seasonality, but if you look at the number of users and ARPA, you can see that we are growing steadily.

Q15: With the enforcement of the revised Electronic Bookkeeping Law, I have observed that accountants are pointing out various practical issues. I would like to know if there are any new findings regarding your business, such as an increase or decrease in inquiries from customers, or any positive or negative impacts.

A15: We have the impression that this revision will have a large impact and more companies are now seriously considering paperless operations than ever before. I'd like to highlight Money Forward Cloud Expense as an example - it has been designed to fully fit for paperless operations, and this is one of its major advantages over its competitors.

Q16: There are signs that the invoice system is going to be used as a political tool, but do you see any changes in the situation toward its implementation?

A16: It is very important for Japanese society to improve productivity. This invoice system will lead to the digitization of invoices. We expect an increase in the number of Money Forward Cloud Invoice users, and we believe that digitalized invoices will also be easily incorporated to other modules. Overall, this has been becoming a great tailwind for us and we are promoting the #InvoiceForward project to share the information and provide related services.

Q17: As you grow more, we believe that a sizable amount of marketing investment is necessary to maintain the growth rate. Are you more conscious of maintaining or accelerating the top-line growth rate as your future marketing investment policy? Or, are you more concerned about customer acquisition efficiency?

A17: We are very conscious of both. Maintaining or accelerating the top-line growth rate is important, and we will invest in sales and marketing to achieve high growth. At the same time, we will monitor CAC to ensure that it does not deteriorate too much. Our in-house marketing operation is getting better, and we think we can maintain efficiency even if we invest a sizable amount for advertisement. We will make initiatives to become the No. 1 company in the SaaS x Fintech space in Japan.