



Payroll Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 20, 2023

Event Summary

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[Number of Speakers]	2	
	Tetsuya Yuasa	Representative Director, President
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Presentation

Moderator: Thank you for your patience. Payroll Inc. will now hold a financial results meeting for Q2 of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedule to attend today's meeting. This information session will not only be held at the venue but will also be simultaneously distributed on the web. Please understand this in advance.

To begin, I would like to introduce today's attendees. Tetsuya Yuasa, President and Representative Director. Takahiro Kageyama, Director. Thank you for your cooperation.

Today's proceedings will begin with an explanation from President Yuasa, followed by a Q&A session.

We will now begin the briefing. President Yuasa, please go ahead.

Table of Contents



1	FY2024/2Q Financial Results	pp.3-12
2	FY2024 Second Half Business Operation	pp.13-17
3	FY2024 Full-year Financial Forecasts	pp.18-19
4	FY2024 Shareholder Return	pp.20-21
	Appendix	pp.22-23

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Yuasa: My name is Yuasa from Payroll Inc. Thank you very much for joining us today at our financial results briefing for Q2 of the fiscal year ending March 31, 2024.

Today's presentation will include an overview of Q2 results, H2 developments, and full-year forecasts, and will conclude with an explanation of shareholder returns.

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Highlights of FY2024 2Q Financial Results

PAYROLL

Sales revenue

+ 10.5% YoY

Page 5

Operating income

+ 3.5% YoY

Page 5

ARR from new orders

210 million yen

Page 7

ARR from new operations

370 million yen

Page 8

ARR from backlog of orders

520 million yen

Page 9

Churn rate (Ave. monthly churn rate)

0.13%

Page 10

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I would like to quickly explain the results for Q2 of the fiscal year ending March 31, 2024.

The financial results are as shown. I would like to draw your attention to the fact that sales revenue is up 10.5% over last year. I would like to explain the details from now on.

Consolidated Financial Results of FY2024 2Q

PAYROLL

Revenues and operating income have been healthy.

(millions of yen, %)

Revenues and operating income have been healthy.

Revenues
4.23 billion yen
+10.5% year on year
Operating Income
520 million yen
+3.5% year on year

	FY2024 2Q		FY2023 2Q		Changes Rate of increase (%)	
	performance	%	performance	%	changes	%
Revenues	4,203	100.0	3,803	100.0	+399	+10.5
COGS	3,027	72.3	2,701	71.0	+325	+12.0
Gross Margin	1,175	28.0	1,101	29.0	+74	+6.8
SGA	677	16.1	624	16.4	+53	+8.6
Operating Income	524	12.5	507	13.3	+17	+3.5
Income before Income Tax	507	12.1	479	12.6	+27	+5.8
Profit	351	8.4	329	8.7	+22	+6.8

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First of all, in terms of the overall numerical aspect, here is a YoY comparison of the half year-to-date period performance. Revenues and operating income remained at 10.5% and 3.5%, respectively. Revenues increased compared to the same period of the previous year due to new customer operations.

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Profits are up on a cumulative basis. Year-end adjustments for Q2 on a stand-alone basis have resulted in a decrease in the manufacturing profit margin due to system enhancements for the next fiscal year. However, this is a positive factor for H2, as our business model is heavily weighted toward H2. Simply put, since we have been enhancing the system since H2 of last year, a comparison between Q2 of last year and Q2 of this year shows that the current quarter looks worse due to the system enhancement, but the full-year results show that we can catch up.


Net income increased YoY, partly due to solid progress in sales revenue and operating income.

2Q Topics

FY2024 2Q Topics

- Preparation for the provision of the on-demand payment system “e-pay sugumo.”
Concluded a basic agreement with GMO Payment Gateway, Inc. (securities code: 3769, Prime Market of TSE), for the launch of services in the spring of 2024.
- Release of sale of “BPaaS 1.0,” which enables clients to adopt flexible payroll processing services.
We made efforts to offer services to not only large enterprises, but also SMBs, and received orders from 4 companies in the first half of FY 2024.
- We started the fee-charging service “e-pay HR KPI,” a human capital report for improving corporate value, and received orders from about 80 companies in the first half of FY 2024.
- Start of the comprehensive payroll processing outsourcing service for Seven-Eleven Japan Co., Ltd.

※ enterprises=clients with over 1,000 employees
 ※ SMB=small and medium business with 100-1,000 employees



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Next, I would like to discuss topics during H1 of the fiscal year. The first is the development of on-demand pay, which I have been explaining to you for some time.

Specifically, we have entered into a basic agreement with GMO Payment Gateway to launch the service in the spring of 2024 under the product name e-pay sugumo, which is an abbreviation for sugu moraeru, can be obtained immediately.

Although this is not directly related to the digital payment of salaries, we are looking forward to developments after April, as some of our clients are quite excited about this.

Another is BPaaS 1.0, which was launched in March of this year with the aim of expanding business from its focus on enterprise companies to small- and medium-sized SMB companies.

Four companies were commissioned in H1. I, myself, have the impression that there are not as many as expected. We have learned from our experience in the market that there is a clear distinction between companies with less than 1,000 or several hundred employees that require high-quality services such as ours, and companies that do not require such services at all.

The four companies we received orders from in H1 are subsidiaries of major companies, and they must take proper governance, compliance, or BCP measures. A company with that kind of recognition, or it is a company where certain employees have been doing payroll in an individualized manner for decades and it has become

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a black box, and if something like this pandemic happens, there is a risk that the payroll will stop. Companies that are thinking about this kind of thing tend to be very positive about us, and we tend to get a lot of orders.

We are planning to further develop our business by appealing to our customers with these points as our evaluation criteria.

Next, with the growing interest in ESG investment and SDGs, our clients require the human capital information and statistics that we manage for e-pay HR KPI. The fee-based service was launched in August of this year, with approximately 80 companies contracted in H1. This will be a form of charging for each use of the service, and we will continue to enhance the functionality of the service so that it can be used more and more.

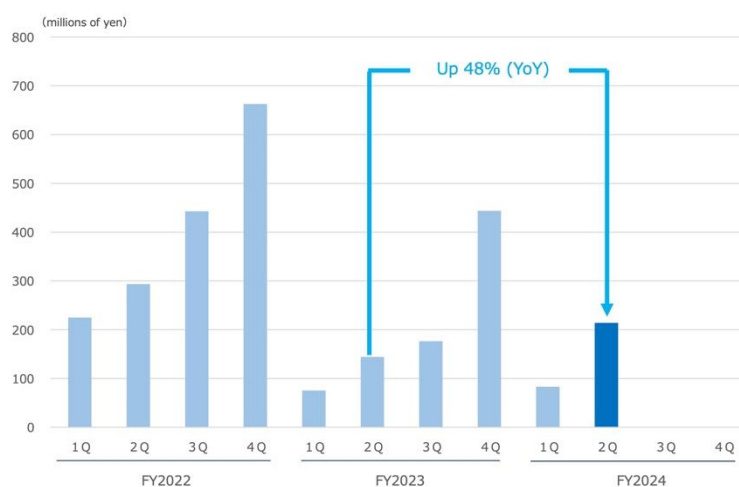
As we have since announced, Seven-Eleven's full-scope payroll has gone live without delay. The company has approximately 8,000 employees and is operating quite smoothly. We have been entrusted with 8,000 employees this time, but this is only the full-time employees of Seven-Eleven. We are determined to do our best in order to be entrusted with the work of about 350,000 people, including part-time workers or so-called crew members.

New Order : ARR

New Order (ARR) :
210 million yen,
up 48% (YoY)

The order receiving environment remains unchanged and we will keep focusing on receiving more orders.

New Order: ARR (cumulative amount in each fiscal year)



※New Order : ARR = Estimated annual sales revenue (running fees only) from new business operations we undertook

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Next is the new order ARR. New orders increased 48% over the same period last year. We will receive orders for large projects with an operating ARR in excess of JPY100 million in H2, and we expect these to become important projects in H2.

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Operating (New Clients): ARR

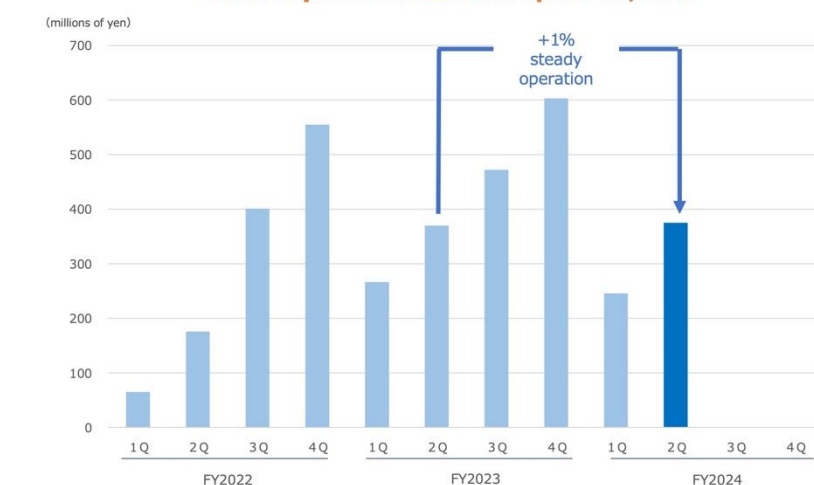
Operating (New Clients)
ARR: 370 million yen, up 1%
(YoY)

Progressed as planned as the operation of systems for major clients started like in 2Q of the previous term, in parallel with the smooth launch of P3, a new cloud service.

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Operating (New Clients): ARR (cumulative amount in each fiscal year)

Healthy in the second quarter, too



※Operating (New Clients): ARR = Estimated annual sales revenue (running fees only) from new business operations we undertook

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Next is the new operating ARR. The cloud-based P3 system, in conjunction with the smooth launch of the service, has been operating steadily as in Q2 of the previous year. Progress is in line with the Company's plan. P3 is now in a situation where it can operate stably due to its stability as a system and the establishment of in-house personnel with knowledge of the system.

In addition to that, the initial implementation has become quite stable. For this reason, we are expanding the scope of our outsourcing services to include services such as consulting services that specialize in payroll calculation operations by analyzing the implementation of a client's HR operations prior to receiving an order and dispatching knowledgeable personnel from our company to provide support for the various tasks that must be performed by the client during the initial implementation period.

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ARR from started operation and order backlog ARR

ARR from started operation: 8.03 billion yen
(up 340 million yen from the end of the previous term)

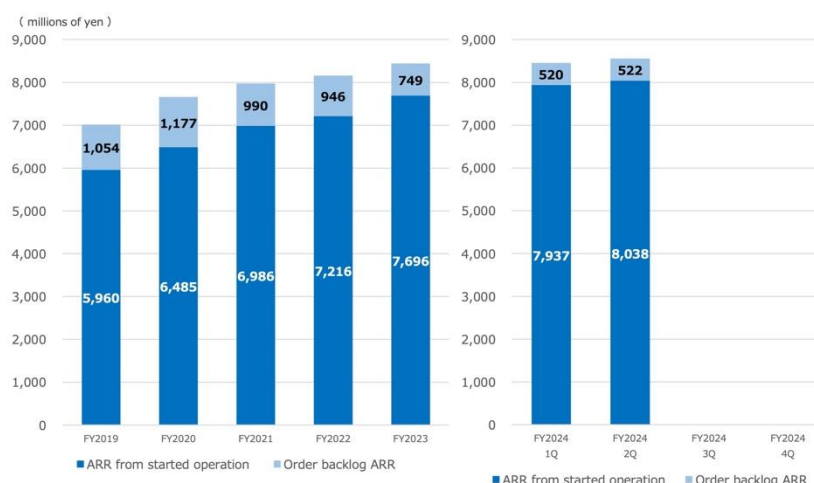
Order backlog ARR: 520 million yen
(down 220 million yen from the end of the previous term)

ARR from started operation + Order backlog ARR: 8.56 billion yen
(up 110 million yen from the end of the previous term)

Revenues increased due to the rise in ARR from started operation. Order backlog ARR increased slightly from the first quarter, and is expected to grow in the second half, including that of BPaaS for SMBs.

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Variations in ARR from started operation and order backlog ARR



※ARR (Annual Recurring Revenue): Revenues from continuous transactions per year
 ※ARR from started operation: Revenues from already started continuous transactions per year
 ※Order backlog ARR: Total revenues from transactions for which orders have been placed and actual operations are to be conducted.

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Next, the active ARR increased by JPY340 million over the previous year, while the backlog ARR decreased by JPY220 million.

Overall, we are in a situation where we would like to receive new orders with more certainty, but as I mentioned earlier, we expect the backlog of orders to increase in the future, as we are receiving orders from customers with annualized operating ARR in excess of JPY100 million.

Although the overall market trend is not declining, most of the payroll processing market in Japan is not outsourced but rather is handled in-house by human resources using packaged software. In many ways, this in-house processing is a situation that requires a very fundamental problem to be solved, based on the fact that the workforce is decreasing and the in-house personnel who can use such systems and know how to calculate payroll are aging.

This is a fact, and many business owners are aware of the risks involved. In this pandemic, SaaS vendors are offering services for only one part of payroll, not the entire payroll, and the introduction of such services has created the superficial impression that reforms have been made for a moment. For a moment there, we are on a staircase landing, and we are under a situation where the time to relax a bit is now continuing into this year.

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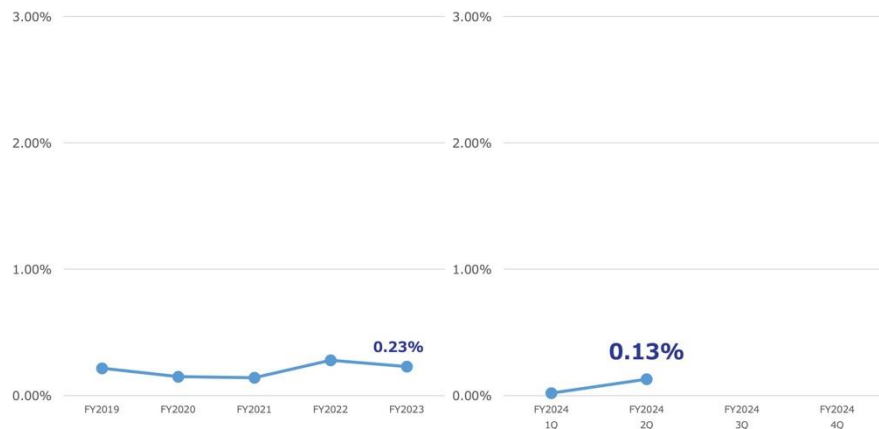
Churn rate (Ave. monthly churn rate)

Churn Rate: 0.13%

Churn rate has remained low and favorable.

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Churn rate (Ave. monthly churn rate)



※ Churn Rate = (lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)) ÷ Elapsed Months
 ※ Lost client ARR : ARR of clients terminated
 ※ Existing client ARR of the previous year end : ARR of clients operated at the year end
 ※ New client ARR : ARR of new client operated this year

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Next is the churn rate, which indicates the average monthly churn rate. As you can see, the churn rate has remained low and favorable at 0.13%.

Revenues

Sales revenue grew year on year (the cumulative second quarter), mainly thanks to the healthy performance of the new cloud system P3.

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Revenues (Amount by the Quarter)



※Revenues (SETUP) : Initial Fee
 ※Revenues (SEP system) : Old system, ASP Service. Running Fee
 ※Revenues (P3 system) : New system, Cloud Service. Running Fee
 ※Year-End Adjustment Support : Revenues from year-end adjustment support services

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As for sales revenue, P3 is running smoothly, and services for new active customers are running, resulting in a YoY increase in sales revenue.

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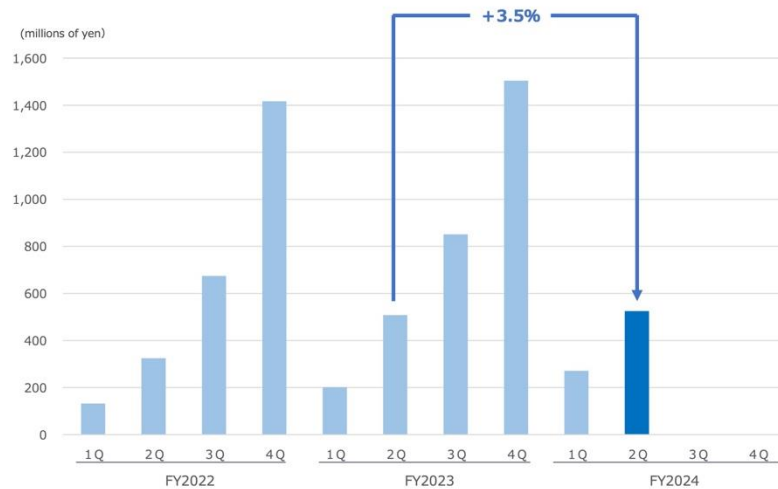
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Operating income

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Operating income (cumulative amount in each fiscal year)



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This is the change in operating income. Operating income increased steadily in line with the increase in sales revenue. As I mentioned at the beginning of this presentation, our business tends to be weighted toward H2, so I hope you understand that our business behavior is such that our profits, including year-end adjustments, will increase further in the future.

It is already November, so we are already in H2, and especially this year's year-end adjustment is being executed very steadily. In addition, we introduced AI-OCR for the first time this year, and it is proving to be quite effective.

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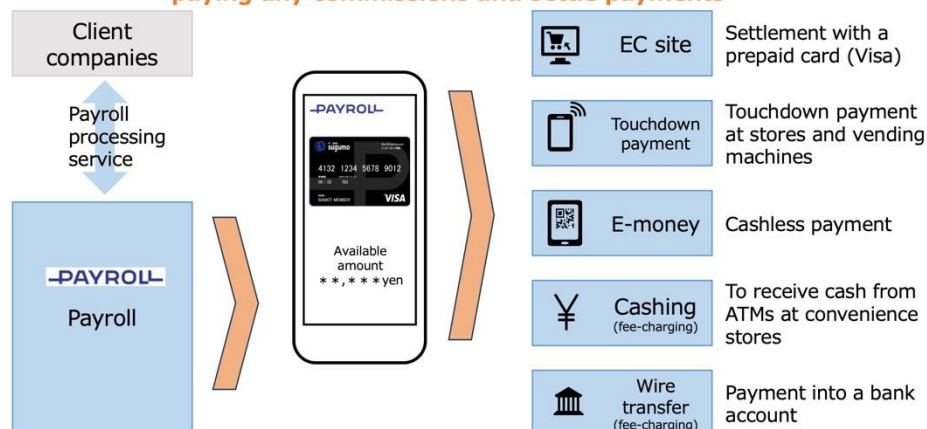
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On-demand Pay "e-pay sugumo"

-PAYROLL-

Preparation for the operation of the on-demand payment system "e-pay sugumo" (to be launched in the spring of 2024)

**Service of allowing each user to receive his/her salary
according to his/her work performance in advance without
paying any commissions and settle payments**



Schematic diagram of the "e-pay sugumo" service
After the launch of this service in the spring of 2024, we will expand
services for client companies and their employees step by step.

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Next, I will explain our business development in H2 of the fiscal year ending March 31.

In April of this year, the law authorized the payment of salaries in digital money. As a side note, various fund transfer operators have applied to the Ministry of Health, Labor and Welfare, but not a single company has been approved yet, and it is said that digital payment will disappear as it is. However, the e-pay sugumo product that we are offering is a system where you get paid for every day you work without commissions. The content is not salary payment but salary advance or loan, so it is not directly related to the payment of salary in digital money.

Based on the fact that we are on payroll, we are able to identify the maximum amount payable each day. This service is only available to our customers, but as we concluded a basic agreement with GMO Payment Gateway in the spring of next year, we will start offering a system that allows customers to charge their Visa cards, etc., only when necessary, and use them.

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On-demand Pay "e-pay sugumo"

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Preparation for the operation of the on-demand payment system "e-pay sugumo" (to be launched in the spring of 2024)

Employees can receive and use their salaries in their favorite ways whenever they want before the specified payday.

Merits for employees



Charge-free

Shopping with prepaid salary without any commissions



Easy to use

Reloading convenience cards and receiving cash

Merits for companies



Enhancement of recruitment

Contributing to the enhancement of recruitment



Maintenance of workforce

Reducing the risk of resignation of employees by enriching welfare



Charge-free operation

Companies do not need to pay operation fees, such as the system usage fee.

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Through these measures, hourly employees who work by the hour will no longer have to wait until the 25th of the next month to have money in hand to spend for what they worked on the 1st day of the month but will be able to work on the 1st day of the month and cash it out on the 2nd day and use it to live on. We have this dream to change the common practice in Japan of paying salaries once a month.

On the other hand, from the corporate side, it is now very difficult to recruit part-time workers, and in this sense, the program is expected to be effective in securing human resources and preventing turnover. We are actively holding seminars and other events and have received a very positive response, so we believe this product will be the key to our future payroll and contracting services.

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BPaaS 1.0

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Business expansion based on “BPaaS1.0” targeted at SMBs, too

Offering our service to not only enterprises, but also SMBs

We engage in marketing targeted at mainly subsidiaries (SMBs) of existing client enterprises and received orders from 4 companies in the first half of FY2024.

“BPaaS 1.0 comprises a minimum basic service required for payroll processing of clients and optional services available when needed. This retains the staff in charge of payroll for the time being and enables initial cost reduction of outsourcing, thus achieving flexible streamlining of business operations and personnel placement for each client.

We are explaining the necessity of outsourcing of non-core tasks in the future to companies, including prospective clients, and will continue sales activities so as not to miss business chances.

enterprises=clients with over 1,000 employees

SMB=small and medium business with 100-1,000 employees

BPaaS: Abbreviation for Business Process as a Service; an integrated service that comprehensively provides BPO, cloud computing, and infrastructure including BCP and information security

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Next is BPaaS, for the so-called SMB market. The most significant feature of BPaaS is that it is a service that can be implemented in stages, rather than having us take on the full scope of the service at one time.

If we take on the entire project at full scope, there will be elements that will make it difficult to suddenly reduce the number of corporate HR personnel responsible for payroll, so we are proceeding with the idea of outsourcing only the system in the first phase and outsourcing peripheral operations in the second phase.

As I mentioned earlier, the four companies that we received orders from in H1 are companies that are currently at risk due to the current situation of having a specific payroll manager who only has the ability to do payroll. These companies wanted to standardize their operations and eliminate the risk of a payroll disruption in the event of a pandemic or disaster.

This BPaaS is another service that we are aiming to provide on-demand, such as ordering BPO services only when the person in charge takes a sudden leave of absence, or when you have to recruit many people who have suddenly retired, so you can use the web service only when you need it. We believe it will be important to continue to strengthen our functions toward this goal.

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e-pay HR KPI

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"e-pay HR KPI" service for reporting on human capital

Addressing the needs for disclosure of non-financial information, including information on human capital

Launched fee-charging services in August this year, and received orders from about 80 companies in the first half of FY2024.

Client companies require information on human capital and statistics managed by our company in "e-pay HR KPI" due to growth of investments in ESG and interest in SDGs.

Our company aims to become a company that offers business process undertaking and human capital information disclosure services for personnel/labor affairs and payroll processing and lead the domain of personnel/labor affairs.

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Next, I would like to discuss the HR KPI product. On January 23, 2023, the Employment Environment and Equal Opportunity Subcommittee of the 55th Labor Policy Council, organized by the Ministry of Health, Labor and Welfare, cited our Pay Gap Report as an example of a company that is making advanced efforts to disclose information.

The Company aims to become a leader in the HR field, mainly by providing services in payroll operations, disclosure of human capital information, and HR KPI.

In terms of human capital, we are pioneering the acquisition of ISO 30414 next spring. Therefore, we would like to expand the necessary human capital disclosure information that we have experienced in our own operations and would like to further incorporate it into this HR KPI service in order to proceed with the order.

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FY2024 Full-year Financial Forecasts

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FY2024 Full-year Financial Forecasts

No revision to the earnings forecast announced at the beginning of FY 2024

(millions of yen, %)

	FY2024 Full-year		FY2023 Full-year		Changes Rate of increase (%)	
	Forecasts	%	performance	%	changes	%
Revenues	9,742	100.0	8,917	100.0	+825	+9.3
COGS	6,751	69.3	6,254	70.1	+497	+7.9
Gross Margin	2,990	30.7	2,662	29.9	+328	+12.3
SGA	1,365	14.0	1,318	14.8	+47	+3.6
Operating Income	1,701	17.5	1,500	16.8	+201	+13.4
Income before Income Tax	1,651	17.0	1,440	16.2	+211	+14.7
Profit	1,133	11.6	1,016	11.4	+117	+11.5

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Next is the forecast for the full year. With the increase in sales revenue, operating income is also growing steadily, and we believe that we will adhere to the earnings forecast disclosed at the beginning of the fiscal year. We believe that we will be able to maintain this full-year plan, as we are making good progress.

Shareholder Return

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The annual dividend for FY 2024: 15 yen, up 5 yen from the previous year

To maintain the return to shareholders by increasing dividends stably and continuously

We will distribute surplus to shareholders while increasing dividends stably and continuously.

For this term, we plan to pay an annual dividend of 15 yen/share, up 5 yen/share from the previous term.

In the previous year, we paid a term-end dividend only, but this term, we will pay an interim dividend as well as a term-end dividend for flexible return to shareholders.

FY2024

Interim dividend (scheduled for December 8, 2023) 7.50 yen

Term-end dividend (scheduled for early June 2024) 7.50 yen

Variation in payout ratio

FY2022 8.2%

FY2023 17.6%

FY2024 23.6% (Scheduled)

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Finally, I would like to explain our shareholder return policy. In terms of shareholder returns, we paid only one year-end dividend of JPY10 for the previous fiscal year, but for the current fiscal year, we plan to pay two dividends per year, including an interim dividend, for an annual dividend of JPY15, an increase of JPY5 per year, in order to flexibly respond to shareholder returns.

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These are the financial results for Q2 of 2024, although we have gone through pretty fast. Thank you very much.

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Question & Answer

Moderator [M]: Thank you for your explanation. We would now like to begin the question-and-answer session. Please note that people at the venue will be given priority first.

Now, is there anyone in the audience who has any questions? Please raise your hand.

Imai [Q]: Thank you very much for your valuable time. My name is Imai from Tokai Tokyo Securities. Regarding your question, I have one point to ask.

I would like to hear more about the on-demand pay e-pay sugumo you explained at the beginning. You have indicated that the project is scheduled to start in the spring of 2024, but I would like to ask you in detail how you plan to develop and market to customers.

Yuasa [A]: Thank you. First of all, I would like to talk about the e-pay sugumo product. What we are doing now, by next spring, is providing a web service for our clients' employees to report their service, family transfers, and address changes through our website, including applications for which account to have their salaries deposited into. Part of the system is to have a screen where people can apply to use e-pay sugumo, and when they do, the payment gateway will create a Visa account for them.

In daily operations, if you want to collect JPY50,000 in salary today, we receive the JPY50,000, check whether we can pay the JPY50,000 or not, and connect the results to Payment Gateway, i.e., Visa. GMO Payment Gateway and we are currently collaborating on the development of such a system.

The first step in our sales process is to explain to our existing customers what e-pay sugumo is and to invite them to introduce it.

We are also conducting sales and seminars for our non-clients to promote the use of this service for the recruitment of [inaudible] and to prevent people from leaving their company.

Imai [M]: I understand very well. Thank you very much.

Moderator [M]: Are there any other questions from the audience? So, web participants, do you have any questions? I will now read the text question.

Participant [Q]: Regarding the BPaaS service for SMBs, we know that there is a clear need for the service, but have there been any changes in the speed of progress or the number of customers as envisioned in the medium-term plan?

Kageyama [A]: Thank you for your question. We have basically made assumptions for each part of the mid-term plan, but we assumed that [inaudible] would sell quite widely, so we do not think that this part will sell that widely in its current form. However, there is a part of the business that did not meet the forecast of the medium-term business plan, and it is not selling well to SMBs. In fact, H1 of the fiscal year we had four companies, so we believe that there is a certain market for our services, and we are not thinking about changing the mid-term plan.

Moderator [M]: Thank you very much. This is a follow-up question. We have received a total of four questions, so I would like to answer them one by one.

Participant [Q]: Would a price increase for payroll services be considered in an inflationary environment?

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Yuasa [A]: In our current situation, we have two types of customers: those using a cloud-based system called P3, and those using a core system called SEP, which is a conventional on-premise or ASP service type. We are already in the process of migrating about seven major clients from the old SEP system to the new cloud system, and we are in the process of a full-scale mass migration starting next year, which will have the effect of eliminating duplication of systems and operations.

We call the transition of customers from SEP to P3 the PX, and our plan is to discuss rate revisions with customers after the PX is completed. We are not planning to raise prices directly and immediately now.

Participant [Q]: Thank you. Continuing question. The new order ARR for your payroll service appears to be slightly weak. Can you tell us more about the current situation, including the pipeline? I also have a question about e-pay sugumo orders and what kind of movement is taking place.

Yuasa [A]: Thank you. We agree with you that new orders for payroll accounting may be slightly weak.

There are two things I would like to mention. The first is that we have a number of large projects in H2 of the fiscal year, although it remains to be seen whether we will be able to win them. I believe that we will reach our target for new orders for the full year.

The other point is that, as I mentioned earlier in my explanation, the rising tide of outsourcing payroll in Japan is momentarily calming down. Again, the labor relations staff in charge of payroll is getting older, the system is still legacy and EOL is close by, and so on. The overwhelming majority of companies are fundamentally concerned about how to handle their payroll operations.

The current situation is that this part of the system appears to have been momentarily DXed and improved with the introduction of SaaS. As a result, I am certain that there will eventually be another big wave because the fundamental solution has not been made. Therefore, I read that the situation is now momentarily calming down, which is having an impact on the situation.

Participant [Q]: Thank you. Let me skip ahead one and ask you to elaborate a bit more on the idea of e-pay sugumo's impact on revenue.

Kageyama [A]: Thank you. As for e-pay sugumo, it is currently not included in the mid-term plan. I can't talk too much about specifics in that sense because of the numerical approach, but I will just give you an idea of what I mean.

Basically, as explained earlier, if you want to receive your pay for a day worked on the 1st and a day worked on the 5th, for example, before receiving your paycheck, you can apply for JPY10,000 deposit through the web service and use that amount of money.

In fact, we assume that there will be no cash-in to our company at the time the JPY10,000 is applied for, and the cash-in will be made at the time the card is actually used. In other words, sales will be generated when an application for JPY10,000 is submitted and the employee uses the JPY10,000 at a shopping site, store, or other location.

By doing so, we can ensure that employees apply for and use the system on a daily basis. We are trying to do a system whereby sales will increase by doing so.

Conversely, since we are trying to provide this at no cost to the user, we think it would be quite convenient for employees to use it, as if they were really receiving their pay in advance. We intend to make this service such that basically the more people use it, the more our sales and profits will increase.

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Moderator [M]: Thank you very much. We have received two more questions about Seven-Eleven, so I will summarize them since they overlap a little bit.

Participant [Q]: You have launched a service for Seven-Eleven. What is the key to actually getting the 350,000 crew of the company to use your service? How far will the service develop? What are the certainties and challenges? If the rest will develop again, what is the time frame we are talking about?

Yuasa [A]: First of all, it is important to understand that the payroll for crew members and the payroll for regular employees are quite different. Seven-Eleven as well as other convenience stores are our customers, but we also have payrolls of their franchise crews. It is quite different from the general payroll picture, and on top of that, there are 350,000 people, so it remains to be seen what speed Seven-Eleven's intentions will allow us to move forward in the future.

We have created an interface with Seven-Eleven's core system. I believe that this has allowed us to gain recognition as a company that can properly provide services to its regular employees. We are not at liberty to say how long it will take after the evaluation of our technology, system technology, and consulting capabilities, but we would like to do this business, and we will do our best to market our services. We hope you understand that this is where we are at.

Moderator [M]: Thank you for your questions and for your answers. This is a follow-up question. We have also received this by text.

Participant [Q]: When will the PX end?

Yuasa [A]: The medium-term management plan we are working on runs through next fiscal year, and we will announce the medium-term management plan for the next fiscal year and beyond next fiscal year, which will take place next year.

Moderator [M]: Thank you for your questions and for your answers. With that, we will conclude the question-and-answer session.

For further inquiries, please contact Suzuki in the business administration department.

This concludes the presentation of the financial results of Payroll Inc. for Q2 of the fiscal year ending March 31, 2024. Thank you very much for your participation to the end.

[END]

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