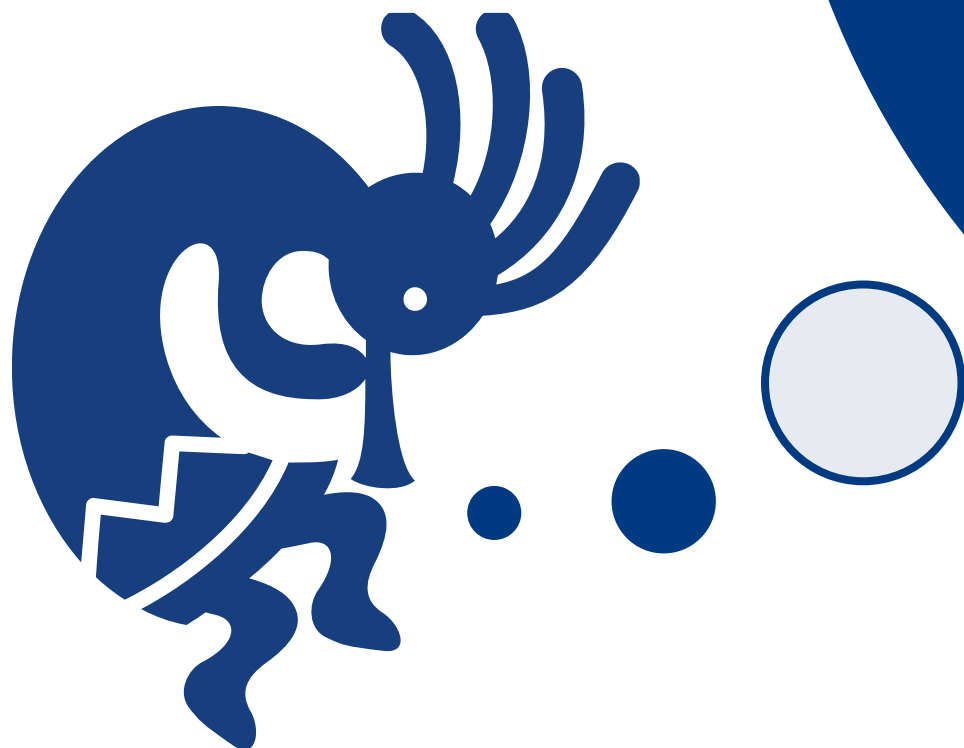


FY2021

# Financial Results

KOKOPELLI Inc. (stock code: 4167)

May 16, 2022





**01**

## **Corporate Overview**

**Mission/Corporate Overview/Our Service/  
Sustainable Development Goals (SDGs)**

# Find the future in corporate value

In concert with financial institutions,  
we help sprout the seeds of  
possibilities in companies across Japan.



Name: **KOKOPELLI Inc.**

Address: **Kioicho Bldg. 11<sup>th</sup> floor, 3-12 Kioicho, Chiyoda-ku, Tokyo**

Established: **June 2007**

CEO: **Shigeru Kondo**

Capital: **808 million yen**  
\*As of March 31, 2022

Employees: **66 (permanent & part-time)**  
\*As of March 31, 2022

Overview: **Business platform**

- Operation of “Big Advance”, a management support platform for SMEs
- DX Solutions



# Service Contents

- BtoB SaaS model service to support SMEs' growth and regional development (\*1)

## Big Advance

### Management support platform for SMEs

Provide services for SMEs in concert with financial institutions nationwide



## DX Solutions

### Corporate Portal Site

Provide regional financial institutions with corporate portal sites of SMEs

### "FAI", the AI Module

Development of AI (\*2) Module (\*3) tailored to SMEs



### IT support service

Provide services to SMEs and professional advisors mainly via SHARES



(\*1) Abbreviation for "Software as a Service". Software applications offered on Cloud by service providers which users can access through the network.

(\*2) Abbreviation for "Artificial Intelligence". A computer system which exhibits human-like intelligence such as learning, inference, perception, and judgment.

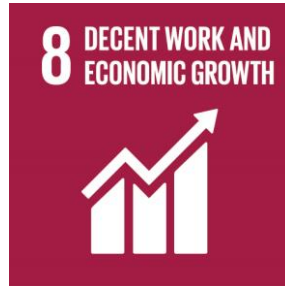
(\*3) A group of functions categorized in a re-usable form, where specification for each component is fixed and standardized.

## Sustainable Development Goals (SDGs)

- We strive to “Find the future in corporate value”, and “make technologies accessible to SMEs” through on-going efforts to add corporate value and commit to resolving social issues through our engagements.



KOKOPELLI Inc. supports Sustainable Development Goals (SDGs).



8.3

Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the births and growth of micro-, small- and medium-sized enterprises by improving access to financial services.



9.1

Develop quality, reliable, sustainable and resilient regional and trans-border infrastructures, to support economic development and human well-being, with a focus on affordable and equitable access for all.



17.17

Encourage and promote effective public, public-private, and civil society partnerships, building on the experience and resourcing strategies based on a wealth of partnerships experiences.

02

**Our Overview  
(Big Advance)**

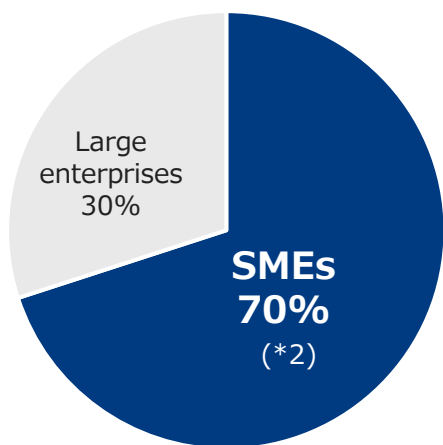
**Overview & Challenges for SMEs / Overview & Challenges for Regional Financial Institutions / Our Business (Big Advance) / How “Big Advance” Works / DX Support for SMEs**



- Main challenge is to improve productivity. A 10% increase will add 18 trillion yen to the economy. (\*1)

## Current: SMEs have a massive presence in Japan

Ratio of workers at SMEs



**3.58 million**

SMEs/small enterprises

(\*2)

Ratio of SMEs vs total

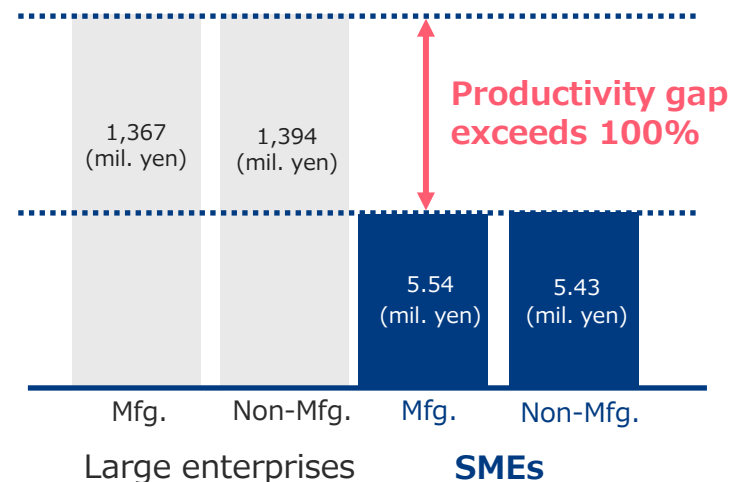
**99.7%**

(\*2)

## Issue: SMEs have low productivity

SME's productivity stands at app. **5.49 mil. yen** (\*3\*4)

Comparison of productivity



(\*1) Our calculation, based on \*2 and \*3 above. (Total workers at SMEs of app.32mil. X 5.49 mil. yen X 10%)

(\*2) Ministry of Internal Affairs and Communications and METI, "2016 Economic Census"

(\*3) Small and Medium Enterprise Agency "2020 White Paper on Small and Medium Enterprises in Japan"

(\*4) The average of 5.54 million yen and 5.43 million yen

# Overview & Challenges for Regional Financial Institutions

- Need to secure stable income and promote DX (digital transformation) at SMEs

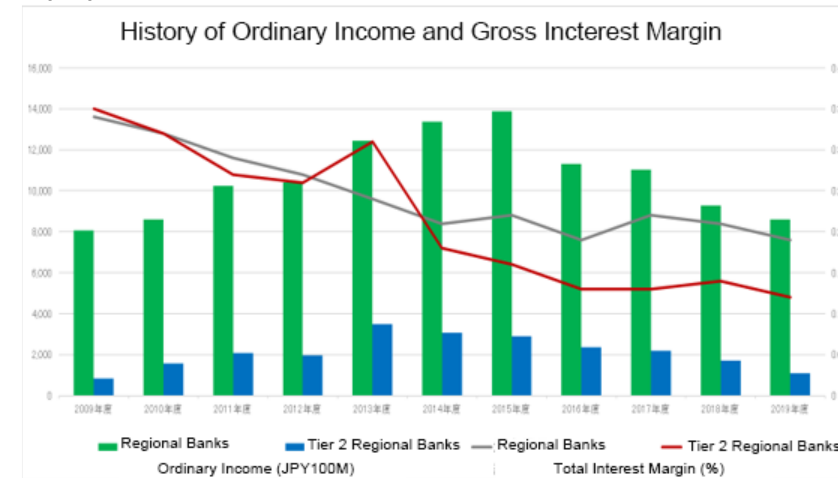
## Current: Act as a principal players in regional financial market

Outstanding loans to SMEs: **275 trillion yen**

Type	Number	Outstanding loans to SMEs (*1 *2)
Regional Banks	64	164 trillion yen
2 <sup>nd</sup> Tier Regional Banks	37	36 trillion yen
Credit Unions	254	64 trillion yen
Credit Associations	145	11 trillion yen
<b>Total</b>	<b>500</b>	<b>275 trillion yen</b>
Mega Banks (Ref.)	4	115 trillion yen

## Issue: SMEs have low productivity

- Stagnant profit growth from lending (\*3)
- Low demand for funding, intense competition and prolonged period of super-low interest rate have been causing severe headwinds for businesses.
- Banking Act was amended to drive forward the FinTech evolution (\*4)



(\*1) Our calculation, based on “A list of SMEs and Regional Banks in each Prefecture (as of March 2021)” by Small and Medium Enterprise Agency

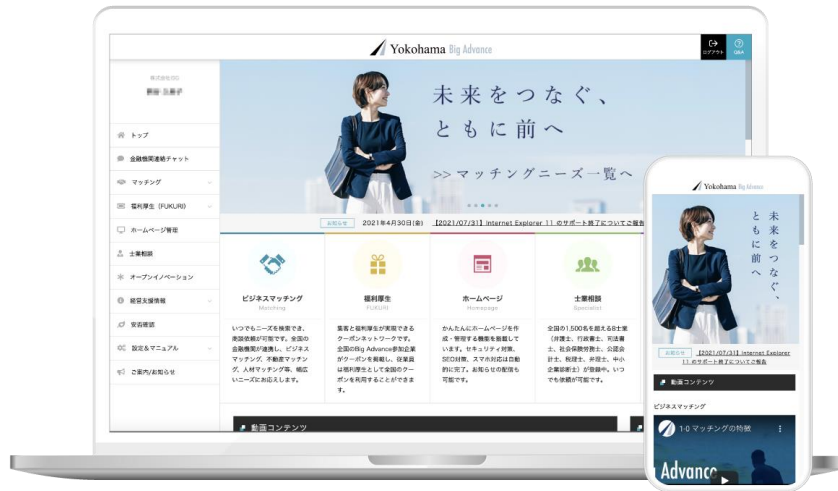
(\*2) Our calculation, based on disclosures for outstanding loans to SMEs from Mega Banks (Mitsubishi UFJ, Mitsui Sumitomo, Mizuho, Resona) as of March 2021.

(\*3) Our analysis, based on “2019 Financial Results Trend” by Japanese Bankers Association.

(\*4) Amendments in 2016: “Facilitating investments into FinTech companies, introducing registration for cryptocurrency exchange operators”; and Amendments in 2018: “Introduction of registration system for electronic payment business operators and use of Open API”

# Our Business (Big Advance)

- A BtoB SaaS model management support platform for SME clients of financial institutions.



## Business matching

Search for business matches across different regions through financial institutions.



## Automatic homepage creation

Easily set up homepages by entering simple details into prescribed format.



## Business chat

Smooth intra-company communications regardless of time and place.



## Subsidies and grants

Access proprietary database with details of all municipalities across the country.



## Discussion with professional

Connect with the most appropriate advisors in times of need.



## "FUKURI" welfare program

Deliver welfare and benefits to employees in the form of coupons which can be used on the website.



## Safety check

Check safety of employees in times of emergencies with a push of a button.

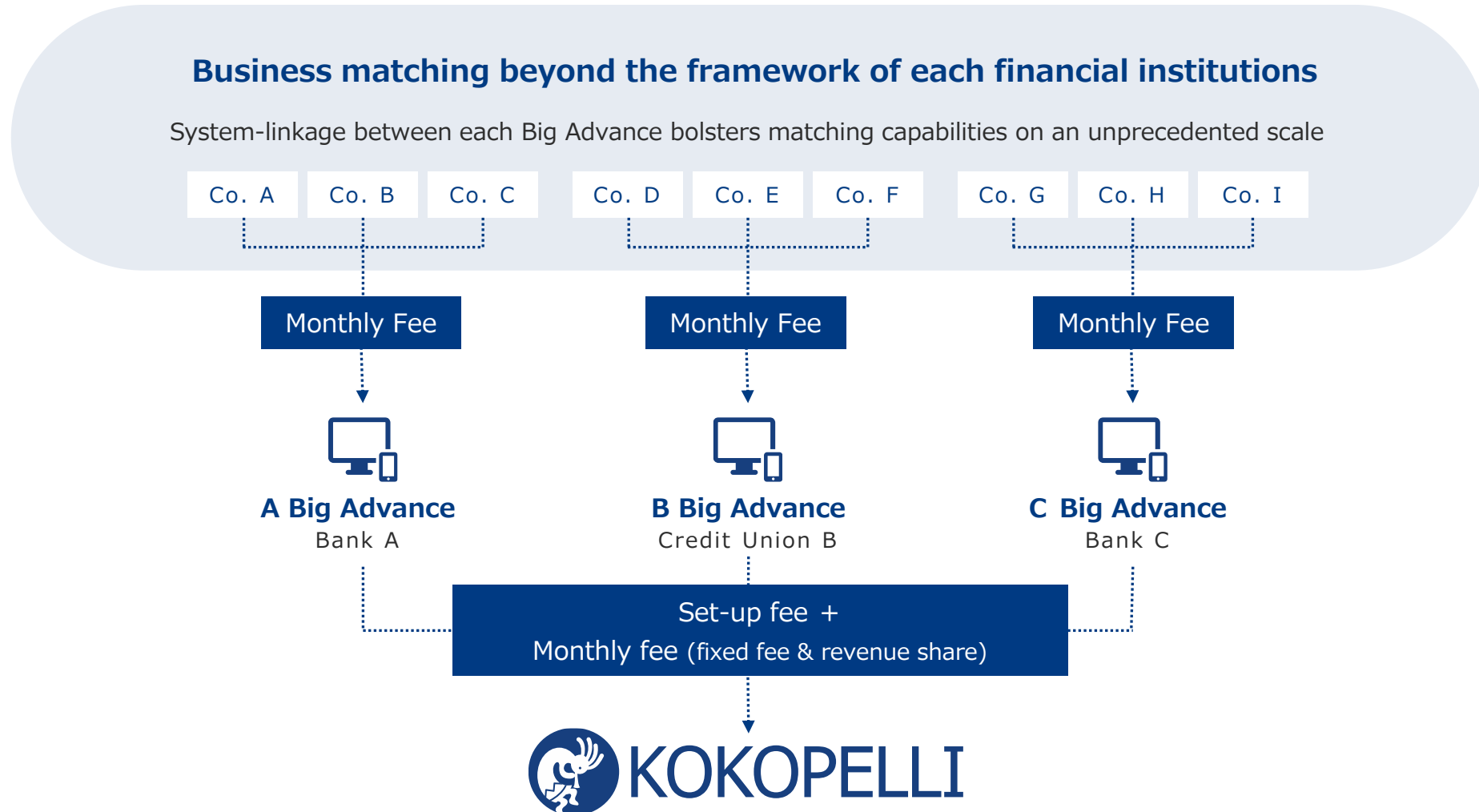


## Chat with financial institutions

Communicate directly with people in charge at financial institutions.

## How “Big Advance” Works









- Each financial institution offers services to SMEs as “(institution name) Big Advance”
- Cut across the regional and institutional frameworks to create unprecedented opportunities.



# Support for DX by SMEs

- Provides a wealth of functions with competitive price offers to accelerate the pace of DX at SMEs.

Big Advance features all necessary functions to make DX a reality.

Features for DX	Big Advance	Other Services						
 Introduction and usage supports by person in financial institutions	✓							
 Business Matching	✓	✓						
 Website Creation	✓		✓					
 Business Chat	✓			✓				
 Subsidies/Grant	✓				✓			
 Professional Advice	✓					✓		
 Welfare Program	✓						✓	
 Safety Confirmation	✓							✓
Monthly Fee per a company	All inclusive 3,300 Yen/M	A company 1,500 Yen/M	B company 3,000 Yen/M	C company Fee for use	D company 1,000 Yen/M	E company Fee for use	F company 500-1,000 Yen/M/employee	G company Fee for use

03

## **FY2021 Financial Results**

**FY2021 Results Highlight / FY2021 Profit and Loss Statement / Quarterly Sales Trend/Sales Trend for Big Advance / Trends in Quarterly Operating Income and Loss / Trends in Quarterly Cost Structure / Factors Affecting Operating Income and Loss / Quarterly Trends in Member Companies / Trend in the number of BA-installed Financial Institutions / Sustaining users with quick improvements to functions / Big Advance Celebrates 4th anniversary**

## Sales

**1,642** million yen  
(+60.4% YoY)

## Operating profit

**358** million yen  
(+42.5% YoY)

## Current status of Big Advance

Number of BA-installed  
financial institutions

**83**

Number of member companies

**72,050**

Average churn rate

**1.56%** (\*1)

(\*1) Churn rate : Unsubscribed companies during the month / Subscribed member companies at month-end (12-month average from April 2021 to March 2022)

## FY2021 Profit and Loss Statement

- Sales fell short and profits were slightly below forecast due to the number of Big Advance member companies missing initial estimates, although the number of financial institutions and member companies using Big Advance increased significantly compared to the previous year, resulting in a notable sales increase and record-high profits.
- In the IT support service, the business transfer of back-office outsourcing business for SMEs resulted in an extraordinary gain of 34 million yen.

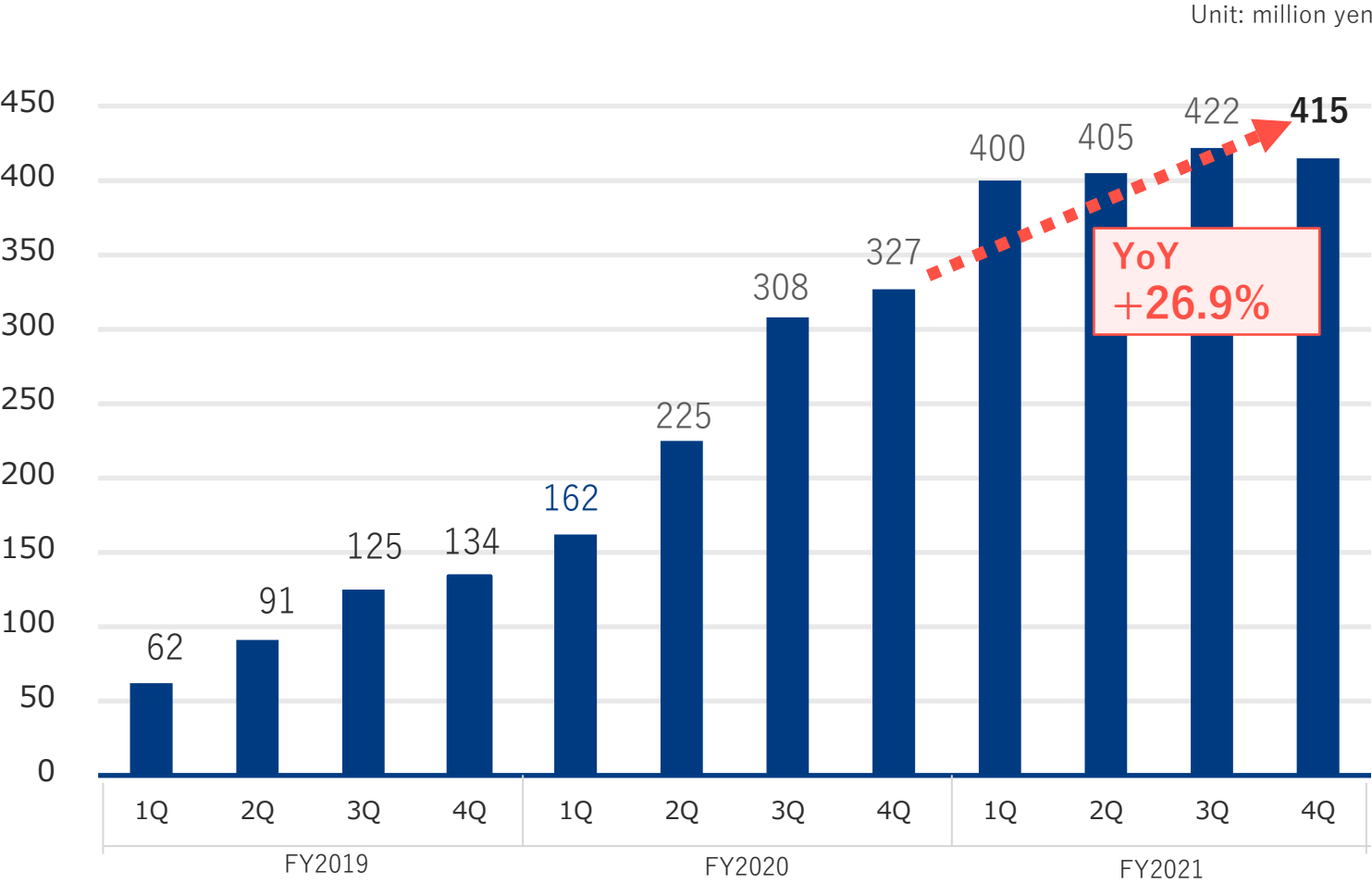
Unit: million yen

	FY2020 (Actual)	FY2021 (Actual)	vs. FY2020	FY2021 (Forecast)	vs. Forecast
Net Sales	1,024	1,642	160.4%	1,800	91.2%
Gross profit	637	1,019	160.0%	1,060	96.1%
Gross profit ratio	62.2%	62.1%	▲0.1P	58.9%	3.2P
Operating Income	251	358	142.5%	360	99.4%
Operating income ratio	24.6%	21.8%	▲2.8P	20.0%	1.8P
Ordinary Income	239	356	149.2%	360	98.9%
Extraordinary income/loss	-	33	-	-	-
Net Income	253	281	110.0%	288	97.6%



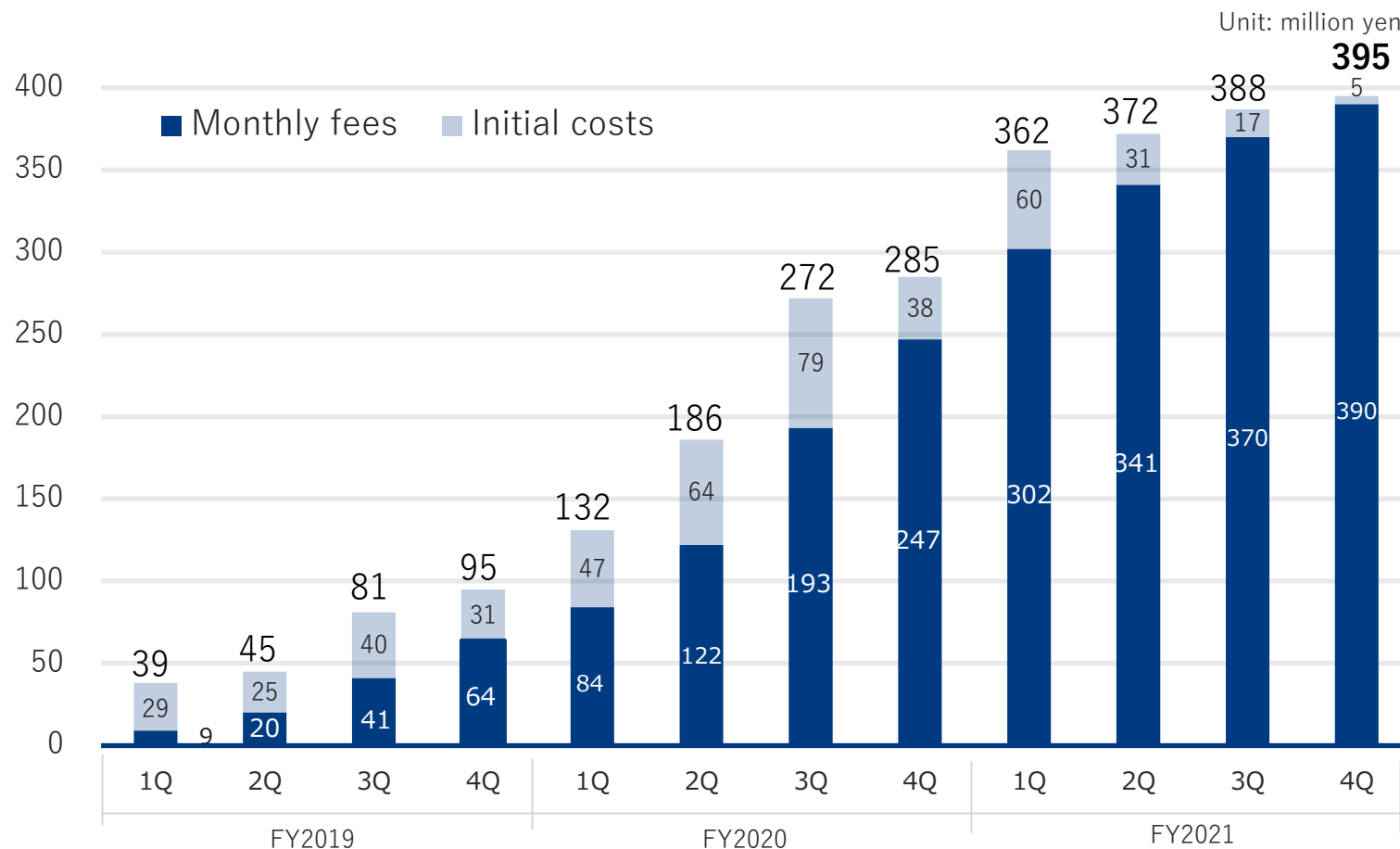
# Quarterly Sales Trend

- Although sales were up for Big Advance, quarterly sales were down from the last quarter due to a drop in sales at the IT support service caused by the business transfer.
- Net sales were 415 million yen, +88 million yen YoY



## Sales trend for Big Advance

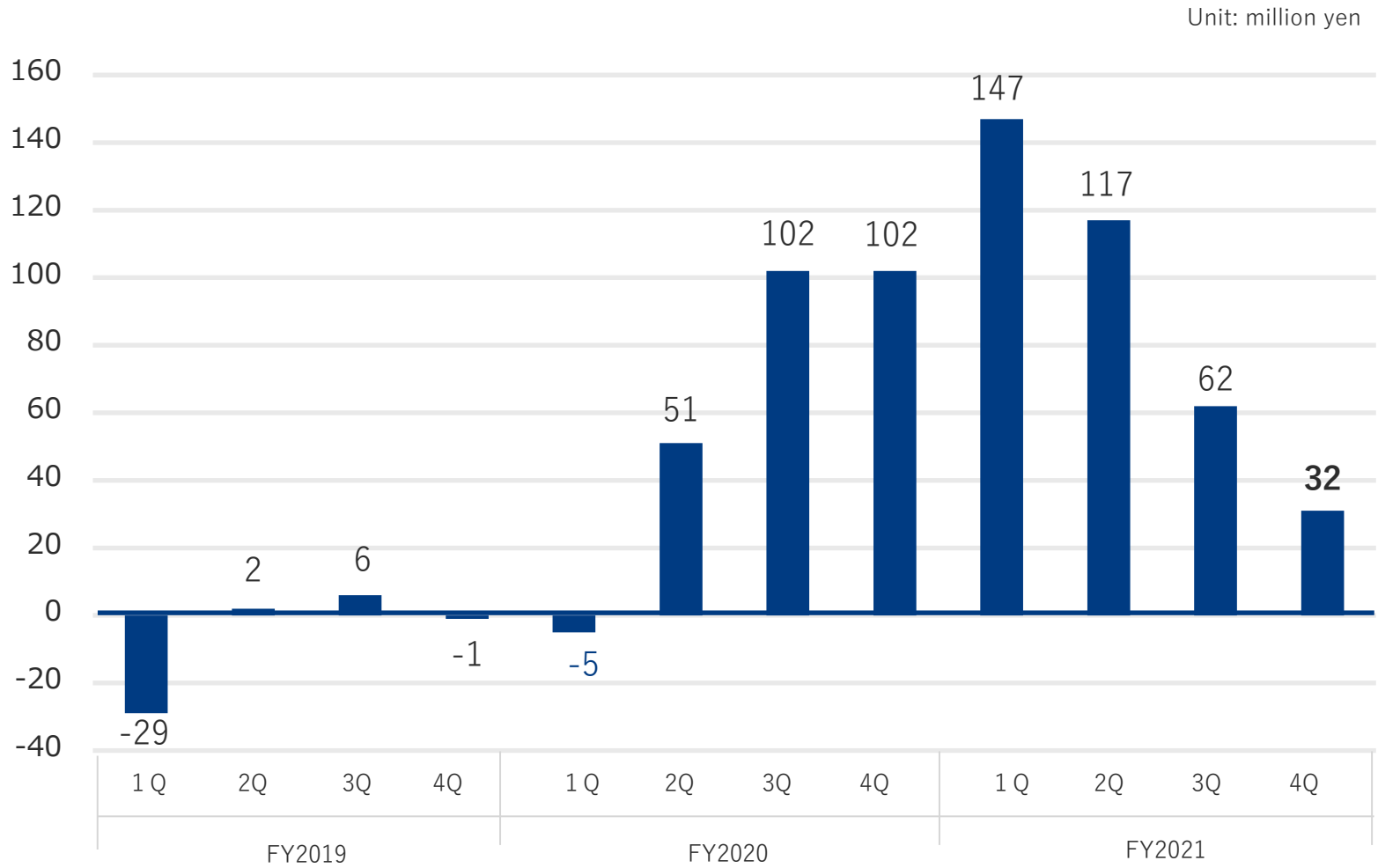
- Increase in the number of BA-installed financial institutions and member companies boosted recurring revenue of monthly subscription fees.
- Quarterly sales kept growing in 4Q FY2021 on the back of higher monthly subscription fees, despite drop in initial cost for Big Advance.



(\*) Monthly fee: revenue share of the financial institution's monthly maintenance and operation cost and monthly fee for Big Advance; Initial cost: cost incurred to set up Big Advance.

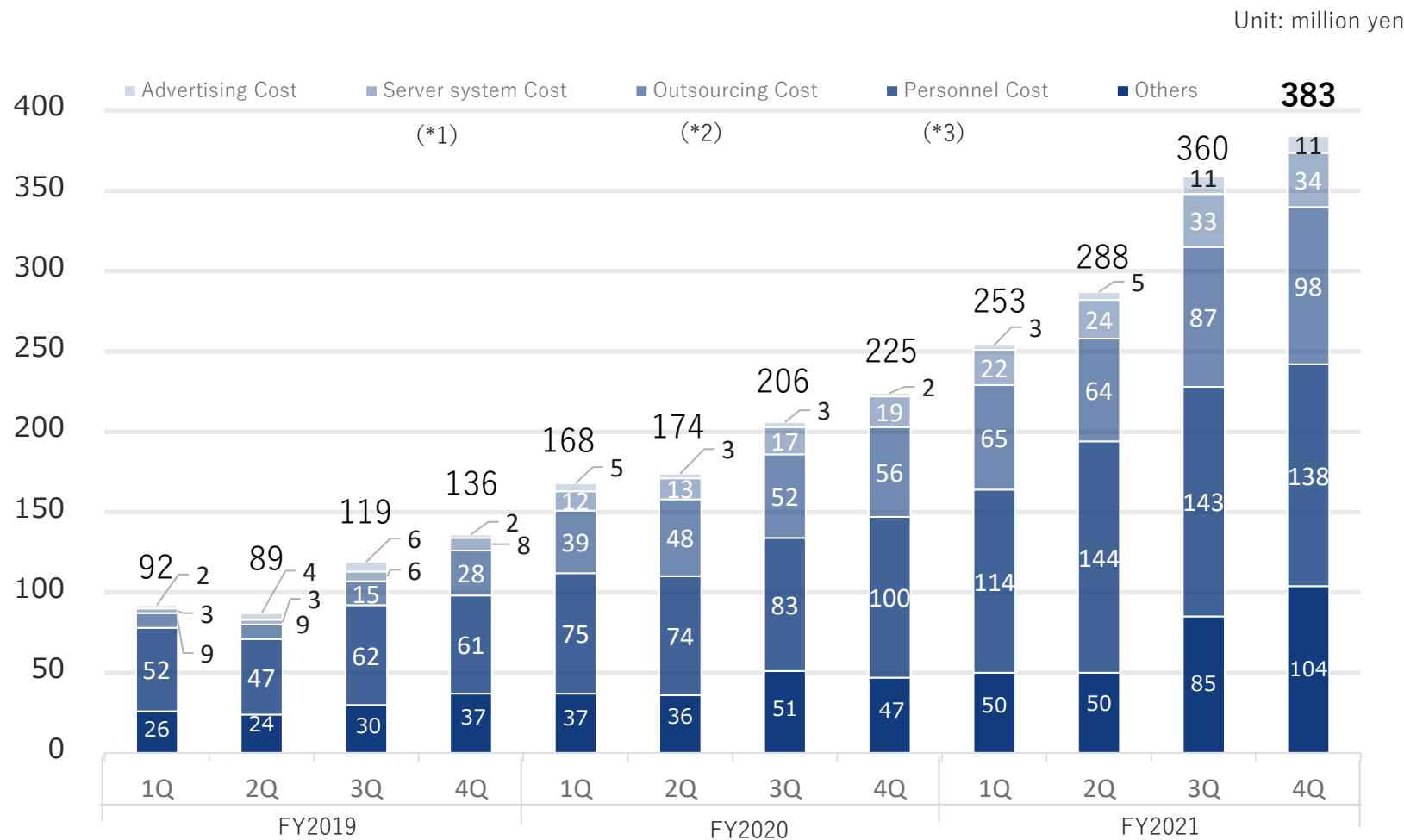
## Trends in Quarterly Operating Income/Loss

- Operating income was 32 million yen, down from 3Q due to an increase in outsourcing costs for adding new functions on Big Advance and office relocation expenses.



## Trends in Quarterly Cost Structure

- Other expenses increased due to costs of outsourcing development of new features on Big Advance and office relocation costs.



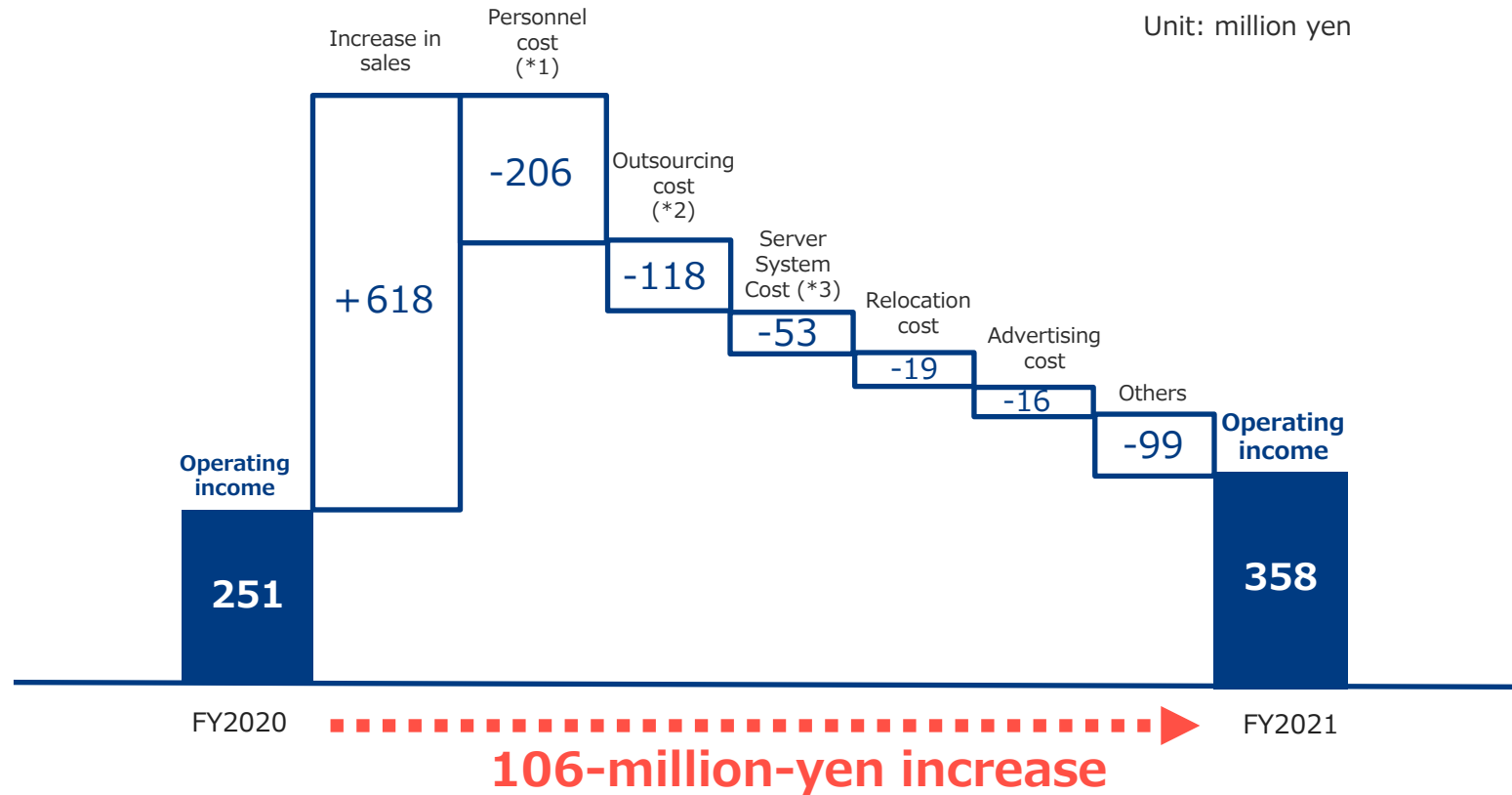
(\*1) AWS and web system usage fees. CoGS

(\*2) Cost of outsourcing development to external engineers. CoGS

(\*3) Salary for engineers, sales, customer service, corporate employees and executive pay, plus social insurance and recruitment costs. Total of CoGS and SGA.

## Factors Affecting Operating Income/Loss

- Operating income rose due to higher sales, exceeding the rise in personnel, outsourcing, server system costs, etc..



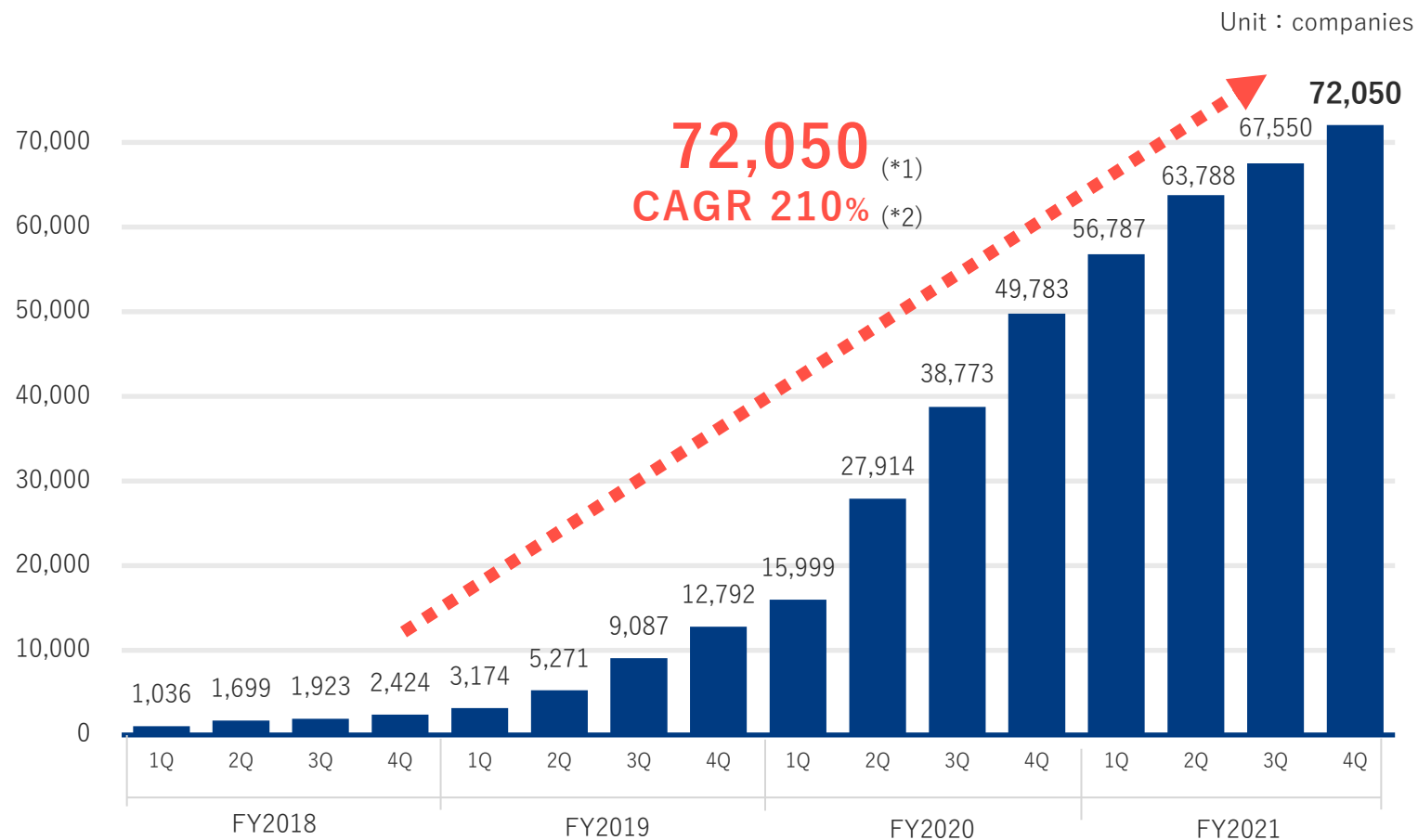
(\*1) Salary for engineers, sales, customer service, corporate employees and executive pay, plus social insurance and recruitment costs. Total of CoGS and SGA.

(\*2) Development costs outsourced to external engineers. CoGS.

(\*3) AWS, web system usage fees. CoGS.

## Quarterly Trends of Member Companies

- Member companies increased by 4,500 to 72,050 from the end of 3Q (+22,267 YoY)
- CAGR stayed high in FY2021, even though member companies rose at a slower pace than the previous year, due to the limited support provided to financial institutions for acquiring new members amid the prevention measures for coronavirus.

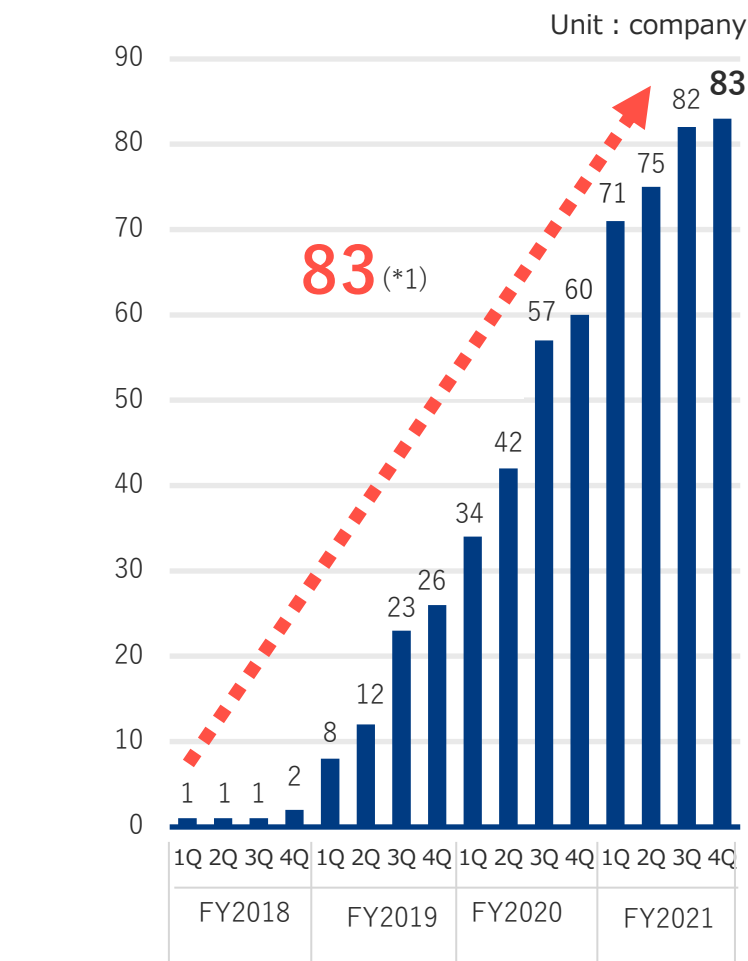


(\*1) As of FY2021

(\*2) CAGR : Annual average growth rate from FY2018 to FY2021

# Trends in the number of BA-installed Financial Institutions

- The number of BA-installed Financial Institutions reached 83, +1 from 3Q (+23 YoY)



(\*1) As of FY2021

## Hokkaido / Tohoku Region

Aomori Bank / Asahikawa Credit Union / Iwate Bank / Kita-Nippon Bank / The 77 Bank / Shonai Bank / Sendai Bank / Daichi Mirai Credit Union/ Toho Bank / Hokuyo Bank

## Hokuriku Region

Kanazawa Credit Union / Sanjo Shinkin Bank / Toyama Credit Association / Niigata Shinkin Bank / Fukui Bank / Fukui Credit Union / Fukuho Bank / Hokuriku Bank

## Kanto / Koshinetsu Region

Alupuscho Shinkin Bank / Ashikaga Bank / Asuka Shinkumi Bank / Kawasaki Credit Union / Kofu Credit Union / Seibu Credit Union / Shinonome Credit Union / Joyo Bank / Suwa Shinkin Bank / Daiko Bank / Chiba Bank / Chiba Kogyo Bank / Chiba Credit Union / Tokyo Star Bank / Tokyo Higashi Credit Union / Towa Bank / Tochigi Bank / Nagano Bank / Hanno Credit Union / Higashi Nihon Bank / Hiratsuka Credit Union / Mito Shinkin Bank / Yokohama Bank / Yokohama Credit Union

## Tokai Region

Gifu Shinkin Bank / Kuwana Mie Credit Union / Seishin Credit Union / Takayama Credit Union / Chukyo Bank / Tono Credit Union / Toyokawa Credit Union / Nagoya Bank / Hekikai Credit Union / Mishima Credit Union

## Kansai Region

Ikeda Senshu Bank / Kinokuni Shinkin Bank / Kiyo Bank / Kyoto Bank / Shiga Bank / Shiga Chuo Credit Union / Tajima Bank / Tajima Credit Union / Nara Chuo Shinkin Bank / Himeji Shinkin Bank / Minato Bank

## Chugoku / Shikoku Region

Iyo Bank / Ehime Bank / Kure Credit Union / Kochi Bank / Sanin Godo Bank / Shikoku Bank / Tamashima Credit Union / Tomato Bank

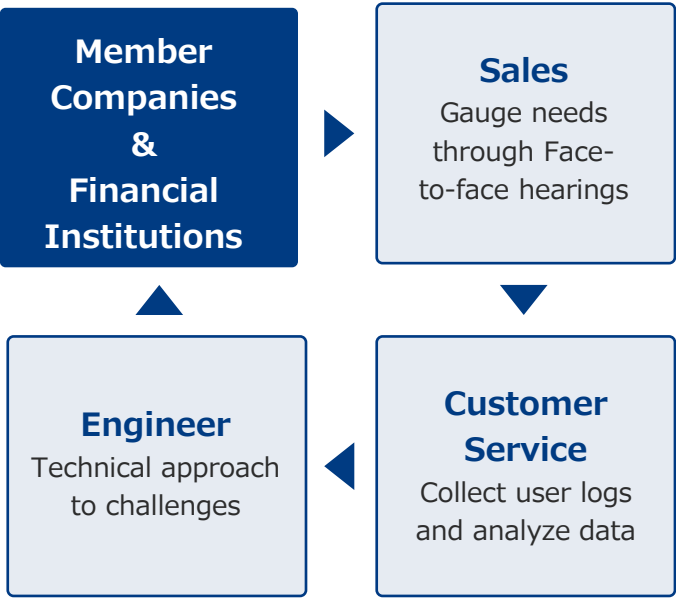
## Kyushu / Okinawa Region

Oita Bank / Okinawa Bank / Okinawa Kaiho Bank / Kagoshima Sougo Shinkin Bank / Koga Shinkin Bank / Saga Bank / Nishi Nihon City Bank / Higo Bank / Fukuoka Chuo Bank / Nagasaki Bank / Minami Nippon Bank / Miyazaki Bank

# Sustaining users with quick improvements to functions

- Average annual churn rate stayed in the 1% range, on the back of efforts to collect and quickly reflect the needs of financial institutions and member companies in our services to heighten customer satisfaction and convenience.

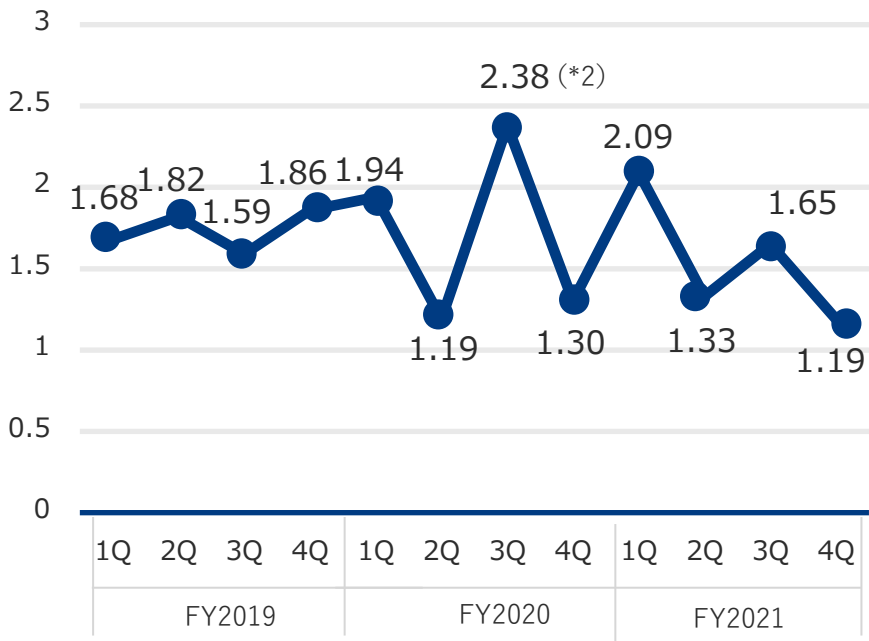
## Cycle of functional upgrades



## Ave. Annual Churn Rate at 1.56%

(\*1)

### Ave. Quarterly Churn Rate



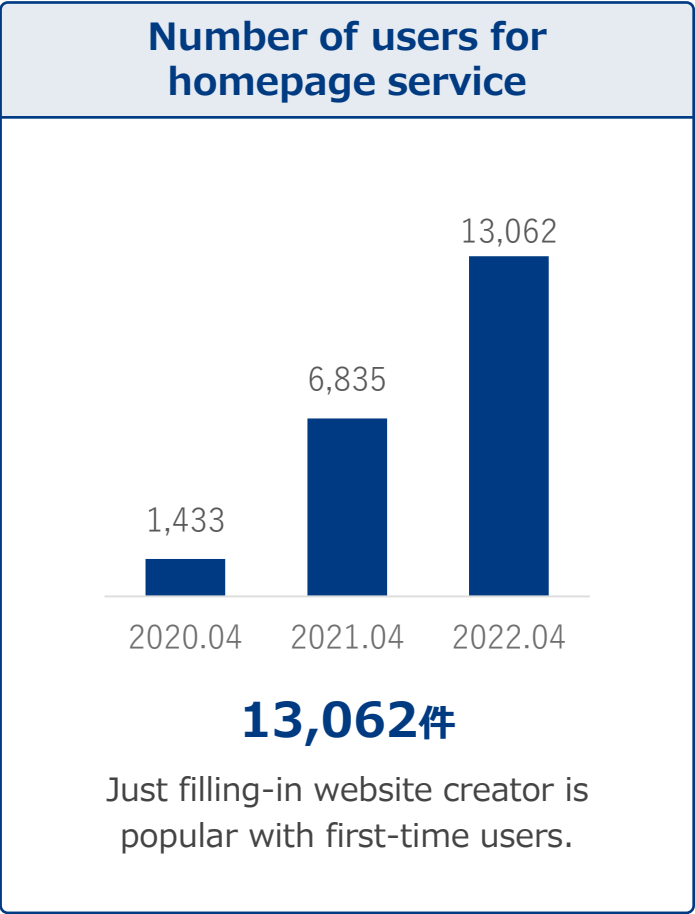
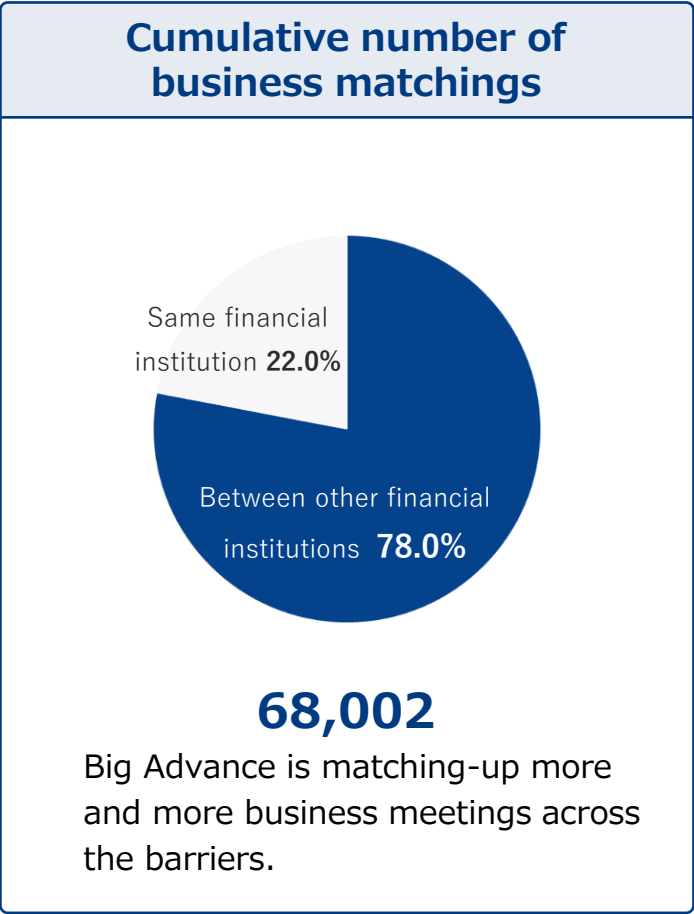
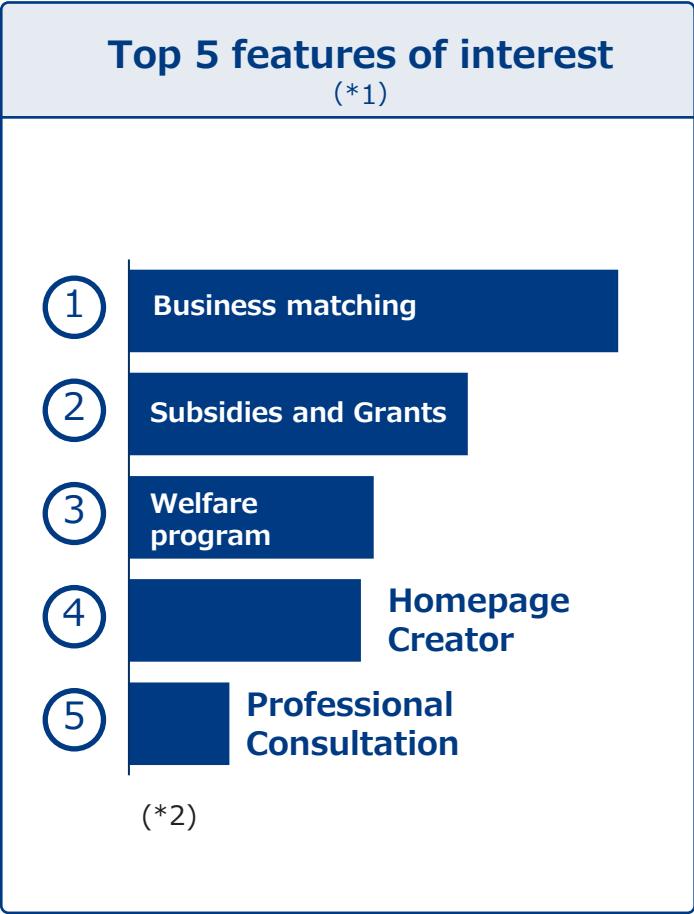
(\*1) Churn rate: (Unsubscribed companies during the month) / (Subscribed companies at previous month end (12-month average from April 2021 to March 2022))

(\*2) One-off increase in churn rate due to special factors at certain financial institutions in December 2020. Average churn rate in 3Q FY2020 is 1.67% without this effect.



# Big Advance celebrates 4th anniversary

- Our journey goes on, in partnership with financial institutions to sprout the seeds of possibilities in companies across Japan.



(\*1) Results based on surveys at time of member registration (On release in April 2021 to end of March 2022)

(\*2) Business matching (78%), Subsidies and Grants (54%), Welfare program “FUKURI” (39%), Homepage Creator (37%), Professional Consultation (16%), Others

# 04

## Mid-term Management Plan (FY2022-FY2024)

### Agendas for the Mid-term

Mission / To become a core infrastructure for SMEs / Advantages of using Big Advance(1) / Advantages of using Big Advance (2) / Advantages of using Big Advance (3)

### Mid-term Targets and Evaluation Indicators

3-year growth targets / Evaluation indicators

### Strategy Roadmap

Revised "Growth Strategy Roadmap" to meet target / New "Growth Strategy Roadmap" / Attracting more users (1):Expanding the user base / Attracting more users (2):Expanding of user base / Attracting more users (3):Stronger ties with local governments / Attracting more users(4):Expanded functions and data usage / Launch of the new "Management Discussion Forum" / New functions pending release / Strategy to raise ARPA (1):Use of Open Platform / Strategy to raise ARPA (2):New business development / Strategy for DX Solutions: DX Support for financial institutions / Strategy for DX Solutions: DX Support for financial institutions / Growth scenarios in the mid-term management plan / Further expansion of user base / Potential market with room for further expansion / Improved stock incentives

## Mission

- To create the largest management support platform for SMEs in Japan



### Find the future in corporate value.

To realize this mission, KOKOPELLI has consistently developed services to support SMEs since its establishment.

Unfortunately, many businesses do not see the light of day because they do not communicate the core values they have to offer.

Our challenge is to harness the power of technology to sprout and nurture these seeds of buried value, growth opportunities, and business potential to take them into the futures ahead.

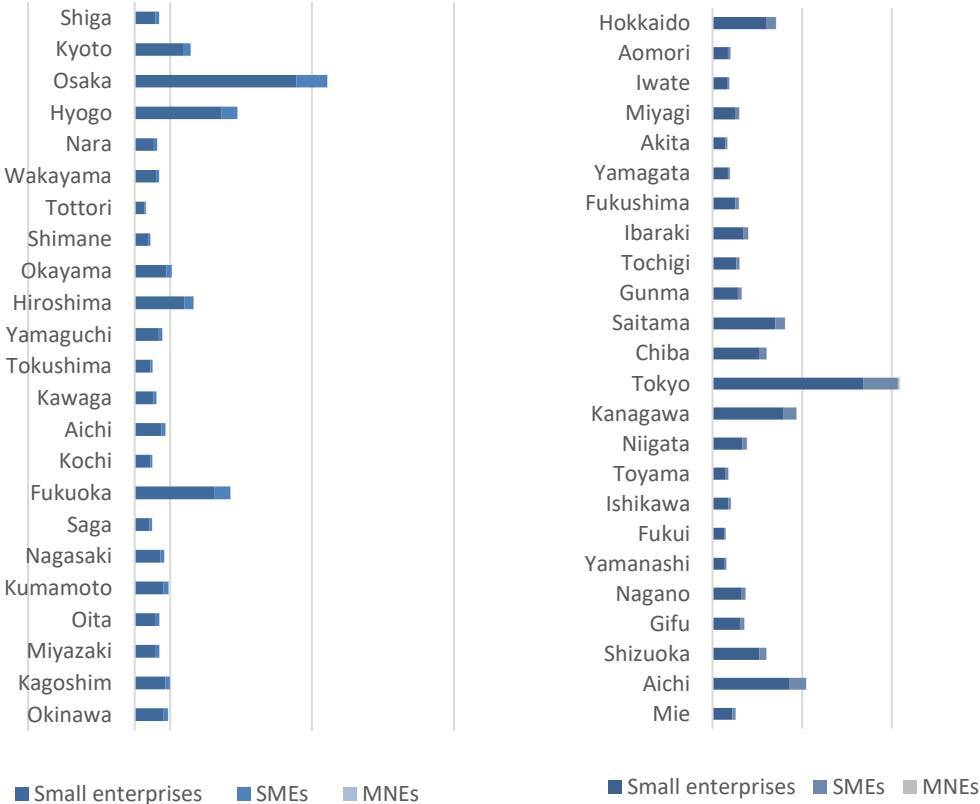
We combine technology and innovation to create business models to improve labor productivity and deliver services that are truly valuable to the companies we serve.

# To become a core infrastructure for SMEs

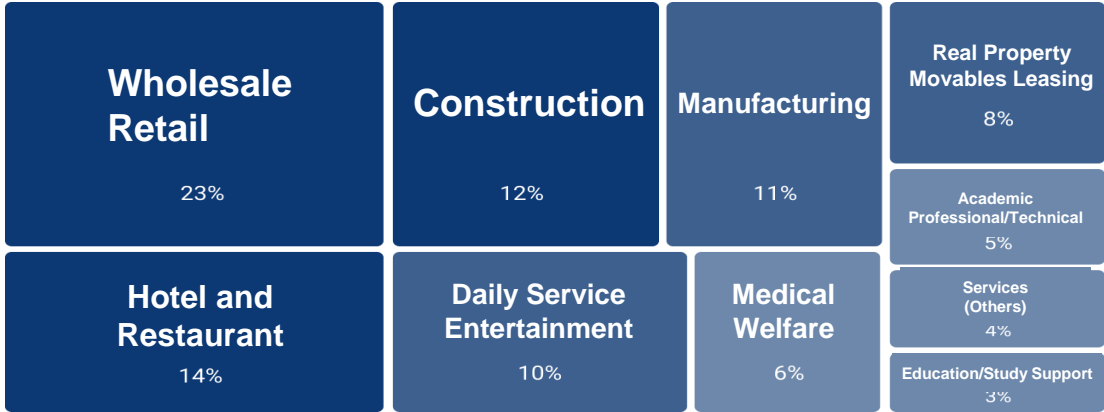
- To become the absolute leader in the DX market for Japanese SMEs in the next 3 years (FY2022-FY2024).
- Of the nation's 3.58 million businesses, 99.7% are small and medium-sized enterprises and 84.9% are small businesses.
- Small businesses are distributed in each region.
- The top 3 industries are wholesale/retail, lodging/restaurant services, and construction.

Definition of SMEs and small businesses			
	SME		Of which small business
Sector type	Capital or employees		Employees
Mfg. and others	300 mil. JPY or less	300 or less	20 staffs or less
Wholesale	100 mil. JPY or less	100 or less	5 staff or less
Service	50 mil. JPY or less	100 or less	5 staff or less
Retail	50 mil. JPY or less	50 or less	5 staff or less

Number of companies by prefecture  
(Source: The Small and Medium Enterprise Agency, as of 6 June 2016)



Number of companies by industry (Source: The Small and Medium Enterprise)



Transportation, postal service...2% / Information Technology...1% / Finance, Insurance...1% / Combined services...0% / Mining, Quarrying of stone and gravel...0% / Electricity, gas, heat and water services...0%

## Advantages of using Big Advance (1)

- A thorough delivery of WEB services to local companies, based on established network of local financial institutions.

**Effective networking  
with local financials**

**Effective networking  
with SMEs across the country**

**Fusion of in-person and  
technology-based services**

**Data-driven  
analysis and returns**

# Advantages of using Big Advance (2)

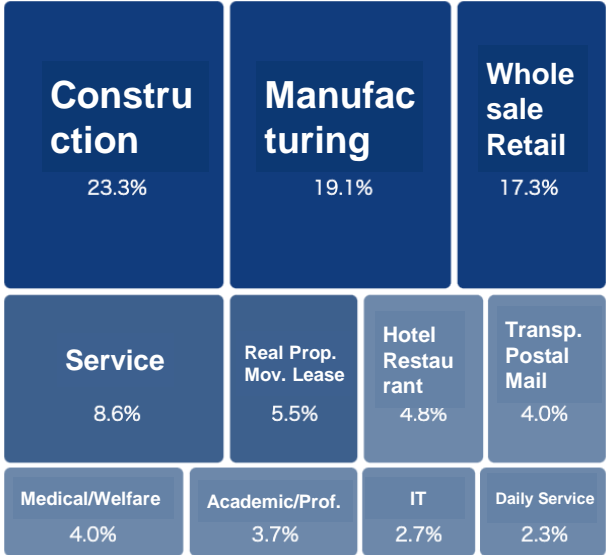
## Effective networking with local financial institutions

- An established network of Japan's largest regional financial institutions, including regional banks, second-tier regional banks, shinkin banks, and credit unions, regardless of business category.
- Comprises 83 Financial institutions that have introduced Big Advance with head offices spanning across 42 prefectures (47 prefectures including branches) and approximately 5,700 branches.



## Effective networking with SMEs across the country

- A very effective network of 70,000 or more companies registered with Big Advance nationwide.
- Able to provide services to small, like-sized companies across the sector that were difficult to reach with web-based services.

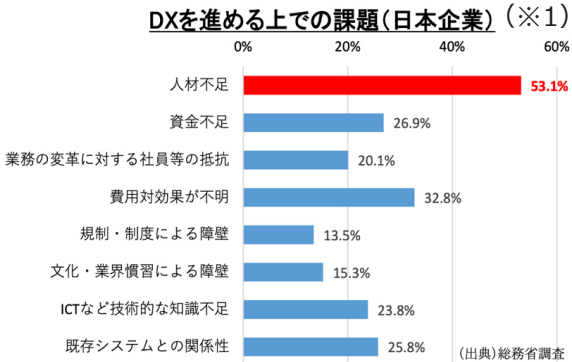


The top three industries of the member companies are construction, manufacturing and wholesale/retail.

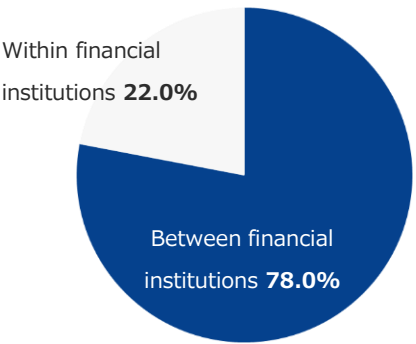
# Advantages of using Big Advance (3)

## Fusion of in-person and technology-based services

- Trusted personnel at financial institutions in close contact with companies on a daily basis will support the installation and operation of Big Advance to promote DX.
- Share the core values of local companies with those across the country via the web.



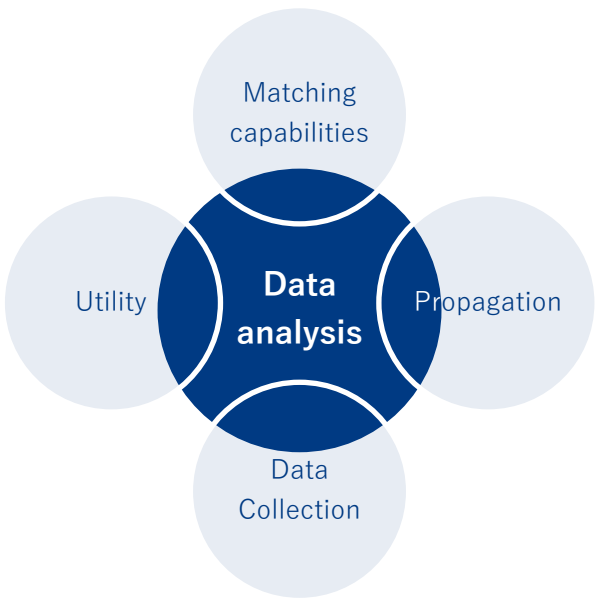
The main issues with DX is “lack of personnel” at 53.1%.



Business talks between regional and financial institutions comprise 78% of the business matching function offered by Big Advance.

## Data-driven analysis and returns

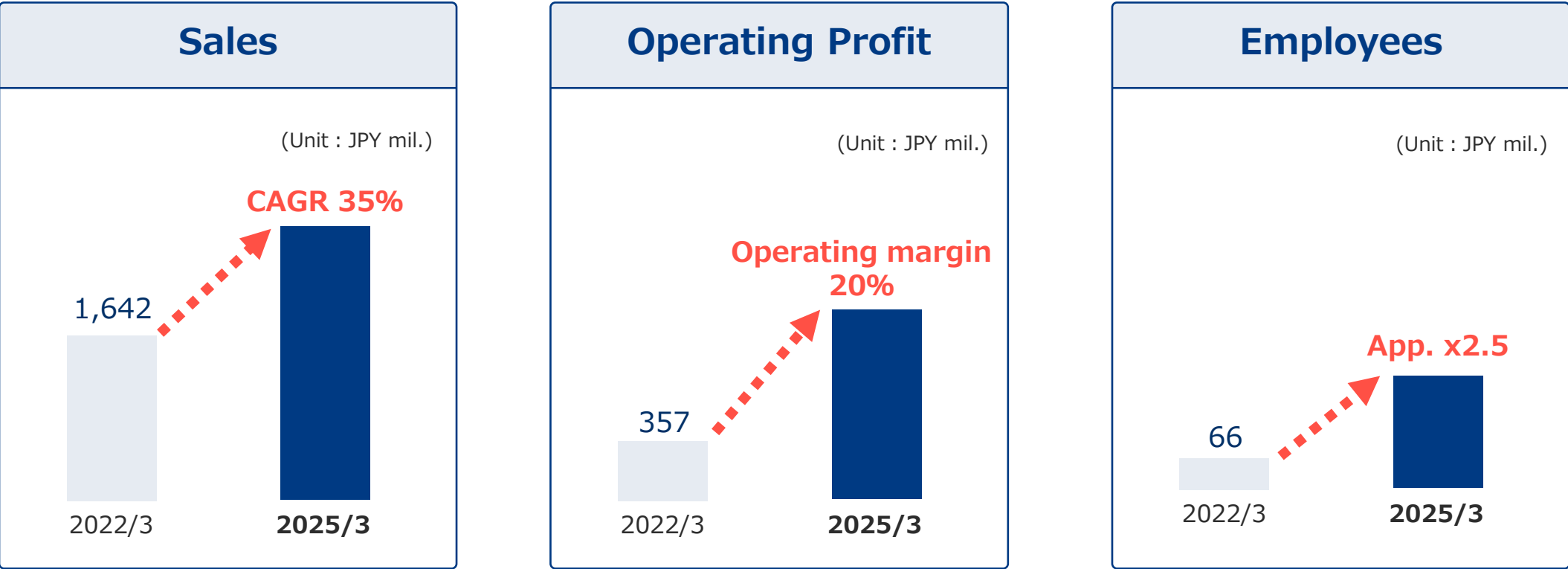
- Core business support to clients of financial institutions by offering data collected by Big Advance (data provisions to begin in April 2022).
- Business matching function offers AI-driven recommendations of business activities to companies.
- Presents ways of using Big Advance on the web, depending on the company's usage, to facilitate the DX process (starting in May 2022).



(※1) Ministry of Internal Affairs and Communications, Japan “2021 White Paper Information and Communications in Japan”

### 3 years growth target

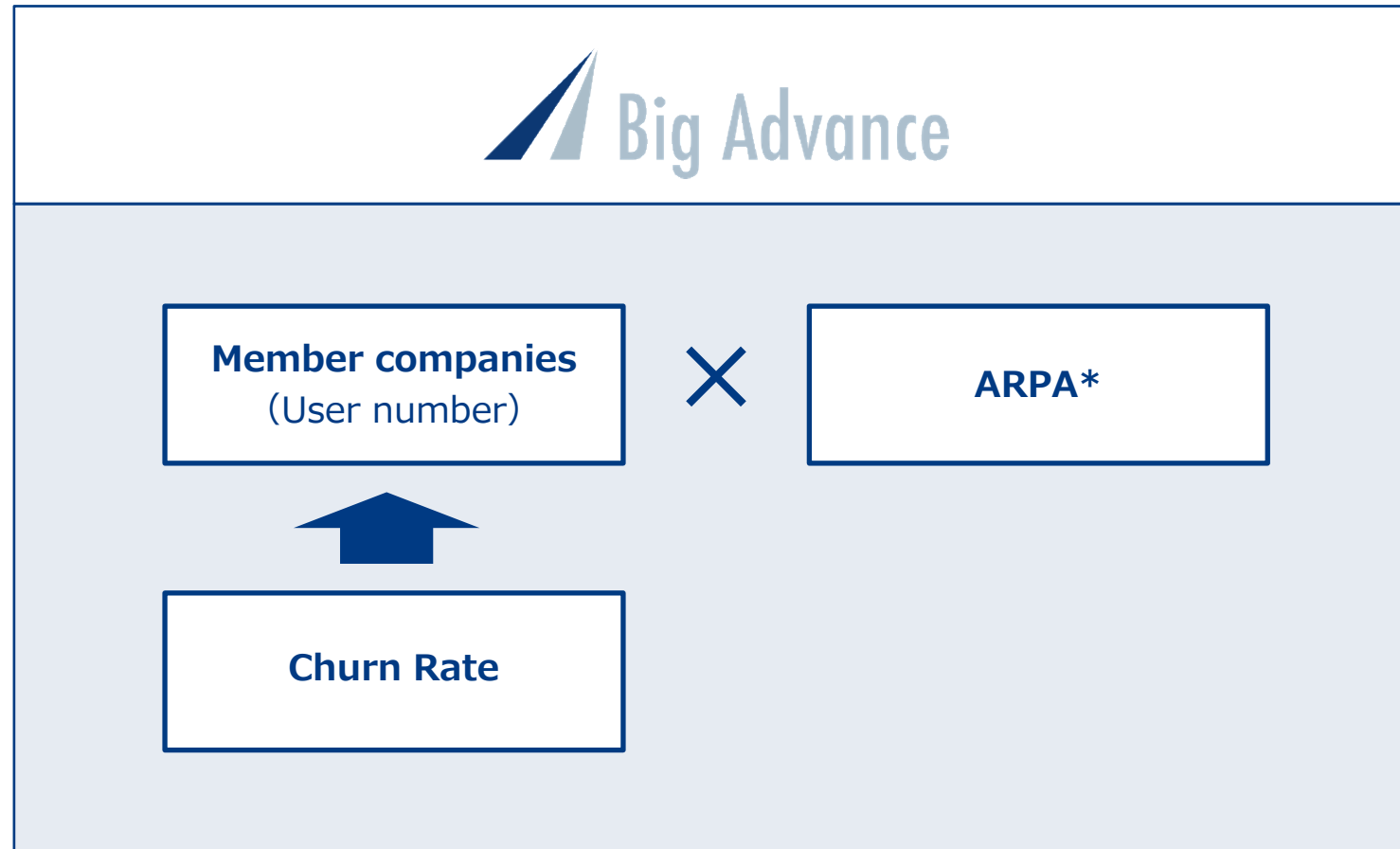
- Target sales growth of CAGR35% from FYE2022/3 to FYE2025/3 through attracting more users, ARPA expansion and DX Solution strategies.
- Operating profit to temporarily decline for FYE2023/3 due to planned investments, but set to target a 20% margin by FY2024 through sales growth exceeding investments made to drive growth.
- Anticipating around 1/4 of sales in FY2024 to derive from new services and new businesses.



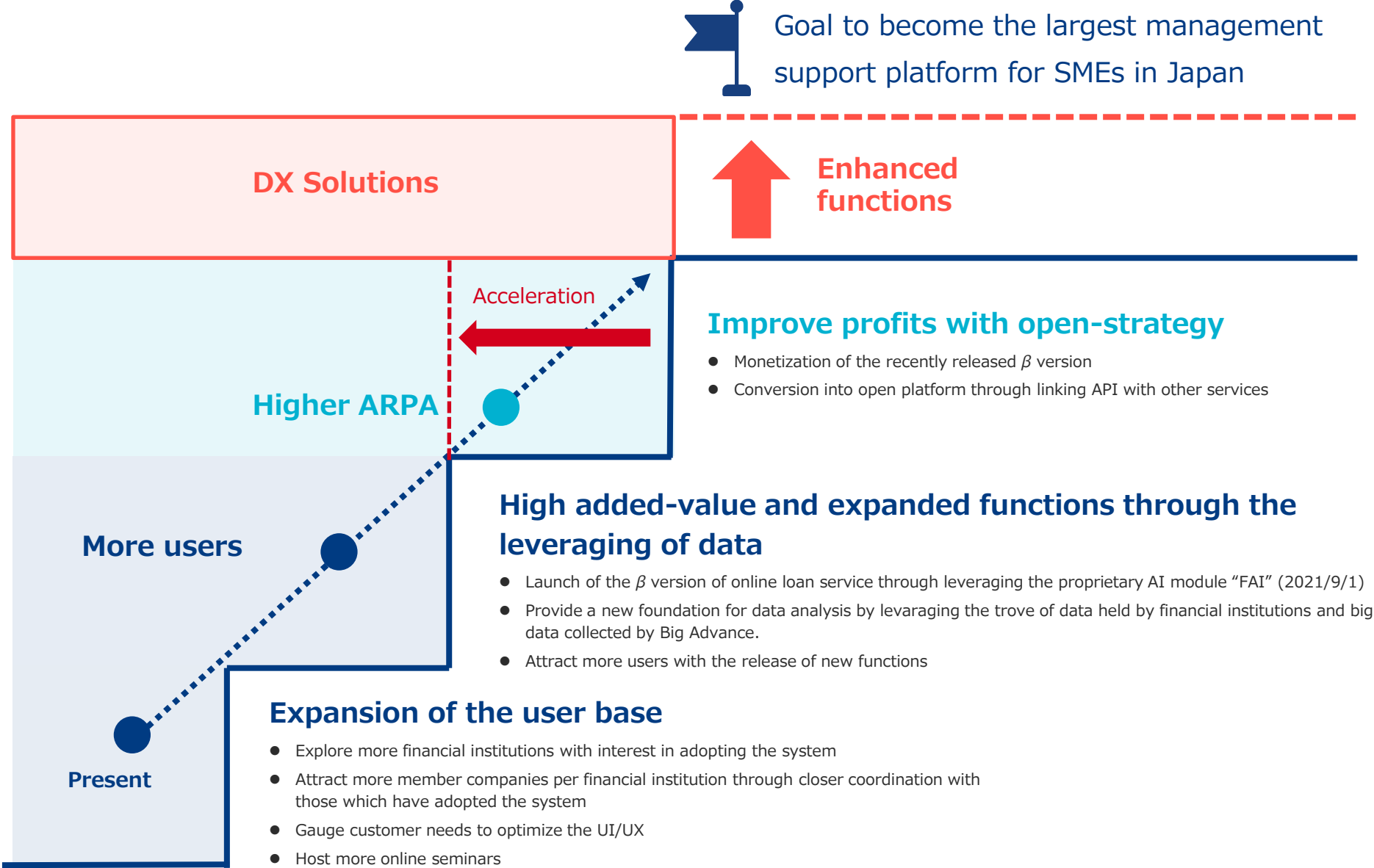


## Evaluation indicators

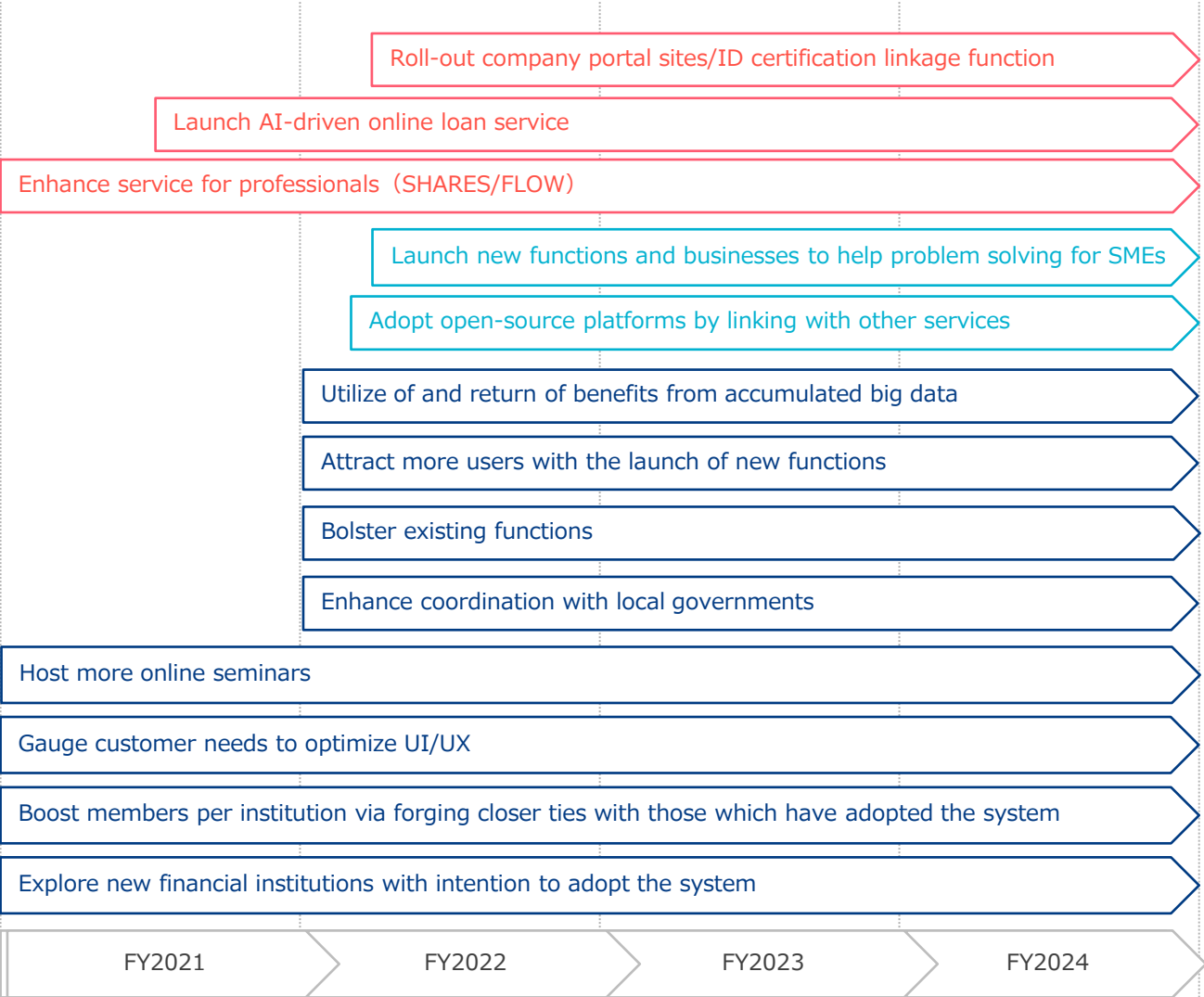
- Expected to bolster sales through higher price per customer (ARPA) along with more member companies (users).



(\*) ARPA stands for Average Revenue per Account, referring to average sales per account.

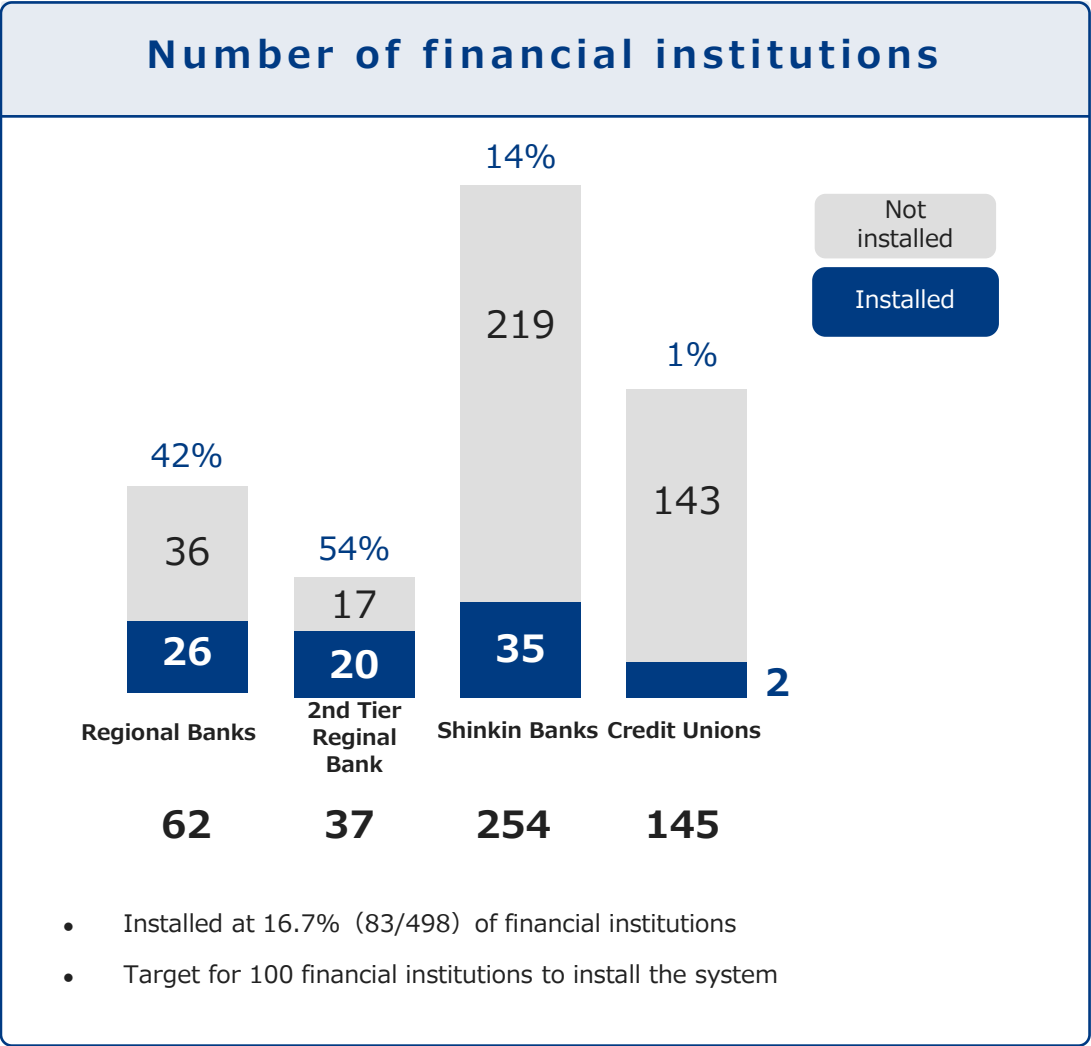


Strategy for DX Solutions	DX support for financial institutions DX support for professionals
Strategy for boosting ARPA	Adoption of open-platform and development of new business
Strategy for attracting more users	Leveraging of data and expansion of functions
	Expansion of user base

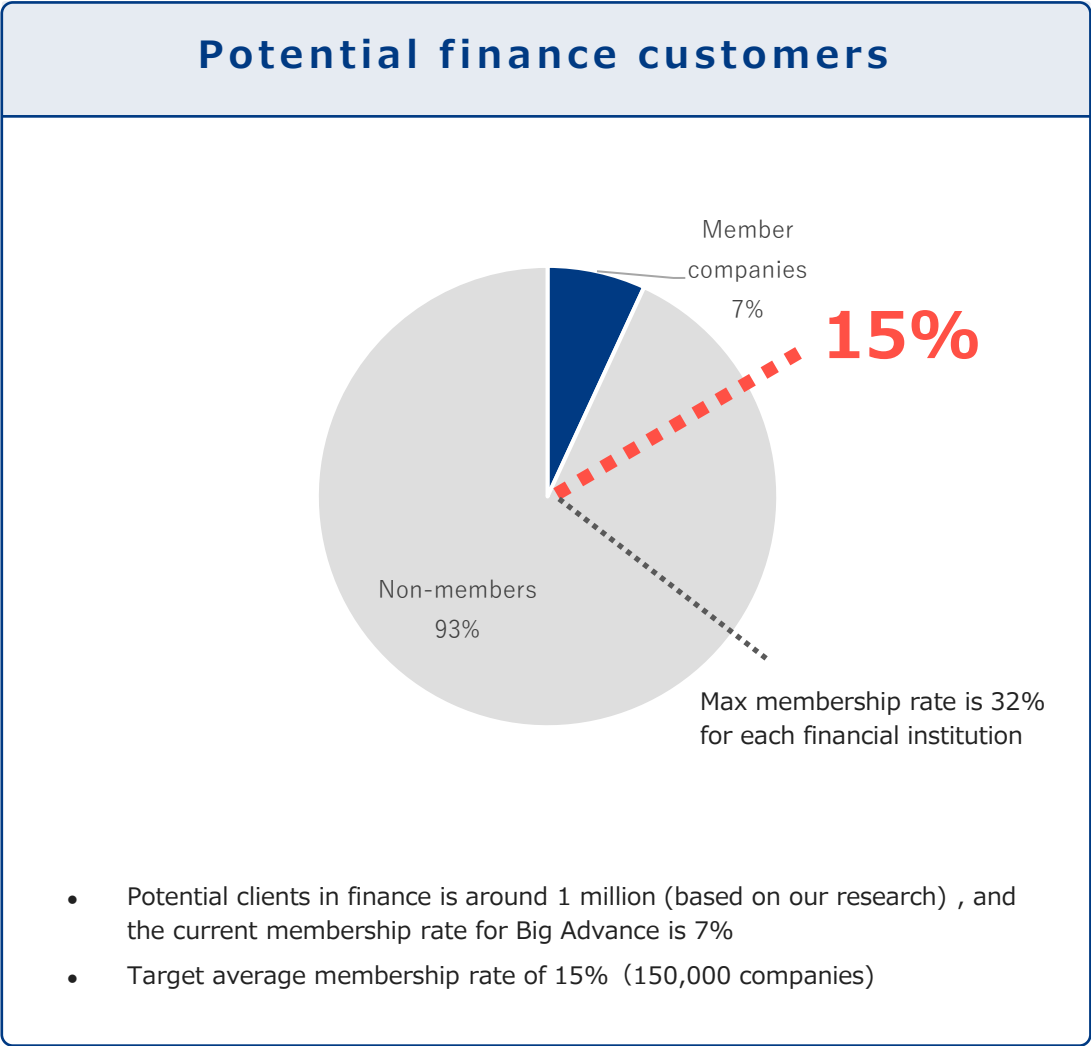


The largest management support platform for SMEs

# Attracting more users(1):Expanding the user base



(as of 31 March 2022)



(Based on the 83 BA-installed financial institutions)

## Attracting more users(2):Expanding of user base

- Opening new regional sales offices to strengthen relations with financial institutions and local governments



## Attracting more users(3):Stronger ties with local governments

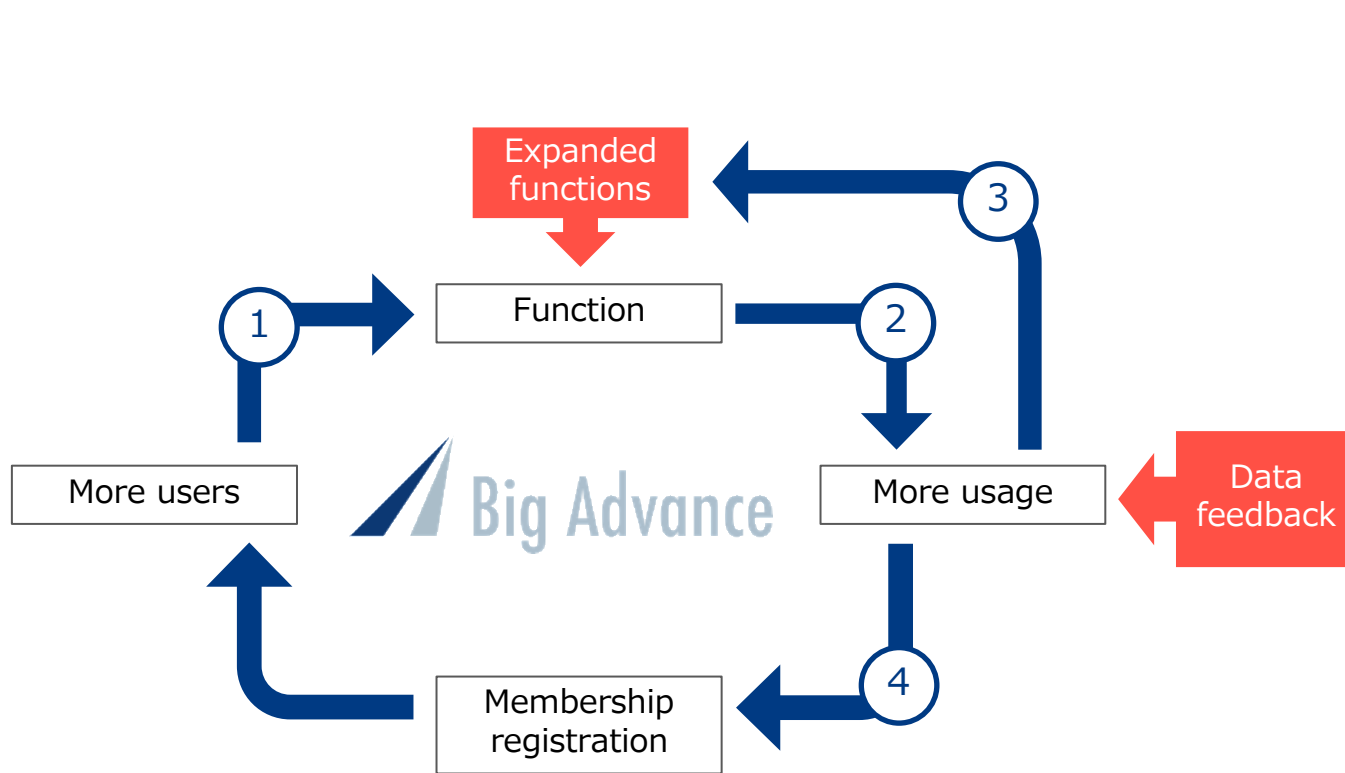
- In February 2022, a "Partnership Agreement on the Promotion of Local Economy" was signed in Kamimine Town, Saga Prefecture, with Kamimine Town, Kamimine Town Chamber of Commerce and Industry and Saga Bank to prop up the local economy and promote DX for businesses in the area with Big Advance.



From left, Shigeru Kondo of Kokopelli Inc., Mr. Kingo Tominaga, Senior Managing Director of Saga Bank, Mr. Yuhei Takehiro, Mayor of Kamimine Town, Mr. Hiroki Nakayama, Chairman of Kamimine Town Chamber of Commerce and Industry

## Attracting more users(4):Expanded functions and data usage

- Facilitate the expansion of functions and data usage, to create a growth cycle for the service.



- More users will facilitate the networking effect and add value to the service. Also, examples will be shown of how the users can take advantage of the service (tutorial).
- Users will increase usage as more value is extracted from the service. More functions will also be added based on user needs.
- Increased usage will propel the use of other functions and improve the churn rate.
- Higher usage will lead to new users, and providing feedback of success stories to financial institutions will bring in even more.

## Launch of the new “Management Discussion Forum”

- “Management Discussion Forum” launched in April 2022, a communication tool for managers to discuss issues with each other.
- Provide a place of casual communication and discussion for managers with business issues to help each other solve problems.



### Features

- ✓ Network comprised of trusted member companies
- ✓ Easy access to managers around the country via the internet
- ✓ Managers can share each others' experiences to solve problems



# New functions pending release

- Planning an additional service to propagate the importance of business inheritance for SMEs (in summer 2022).
- Planning an online service for issuing invoices, taking into account of the Electronic Record Retention Law (ERRL) and the invoice framework (in autumn 2022).

## Business Inheritance service



- Article columns on business inheritance
- Trends in business inheritance policies
- Simulations on stock and inheritance tax

## Cloud-based invoice service (Tentative)

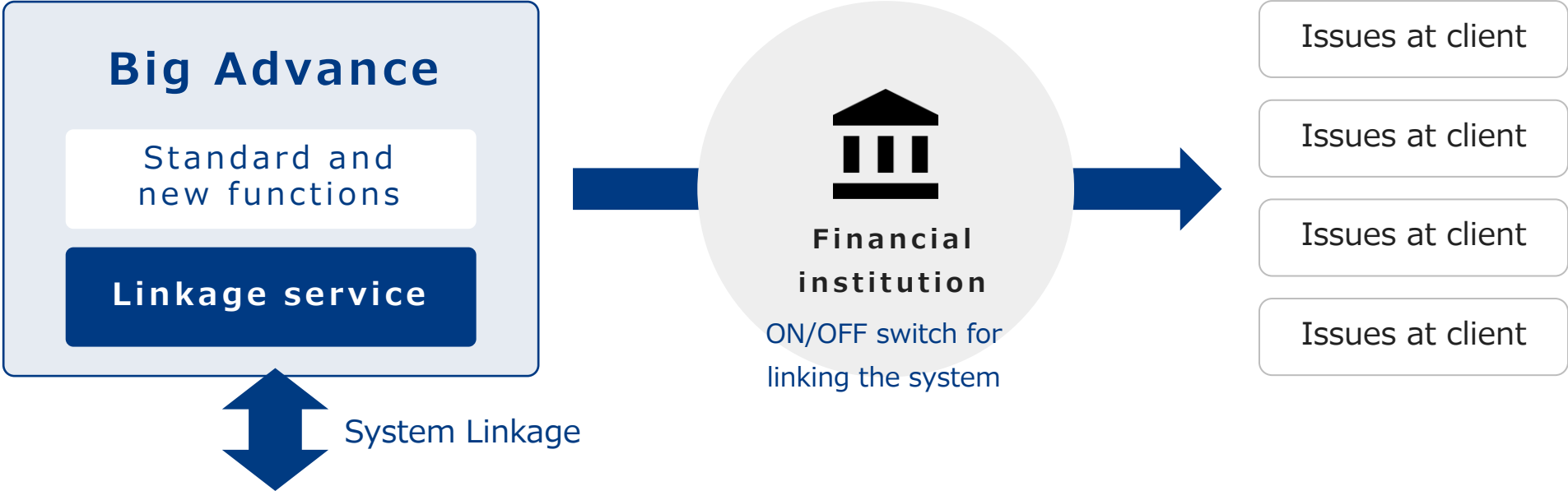


Stakeholder	Issues
Japan	The number of managers above 70 (average retirement age) is expected to reach around 2.45 million by 2025, of which 1.27 million (1/3 of all companies in Japan) have no successors in line.
SMEs	Without any preparations for business inheritance, companies may be forced to shut down when a successor is suddenly needed and cannot be found. (Family turmoil, loss of employees, termination of business contracts).
Financial institutions	Bankruptcy at borrowers due to failure of succession leads to slump in the local economy. Alternative business lines other than lending is therefore an imperative.

\*Above is a tentative interface, which may get an overhaul at time of release.

# Strategy to raise ARPA(1):Use of Open Platform

- Provide solutions to a variety of issues faced by financial institutions and SMEs, by linkage groupwares for tracking workflows and attendance, as well as external services with a specific focus on SME operations.



## Big Advance Open Platform (BOP)

Attendance tracker/ Performance evaluations	Accounting system	Outsourcing of calling
Workflow management	Groupware	Rental of OA equipment and office automation
Launch EC sites	SFA · CRM	Marketing automation
CO2 emission management	Benefits and higher employee satisfaction (ES)	Others

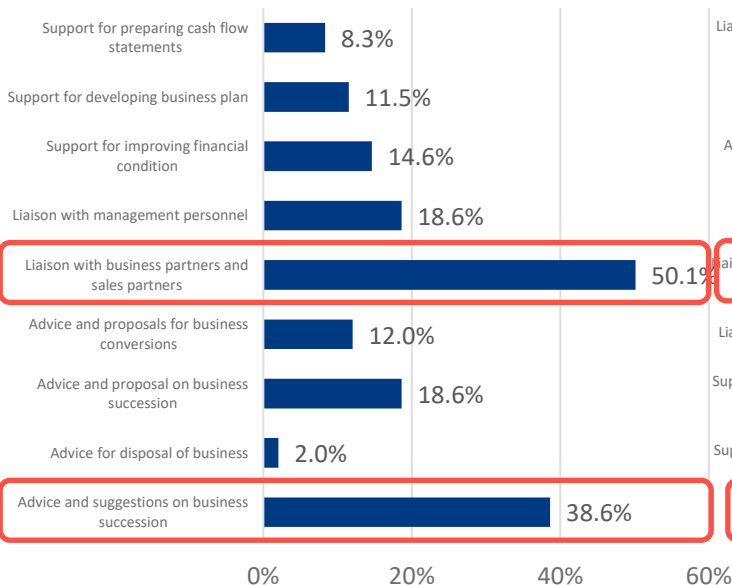
## Strategy to raise ARPA(2):New business development

- Develop solutions to resolve various issues encountered by SMEs.
- Take M&A opportunities into account of any solutions.

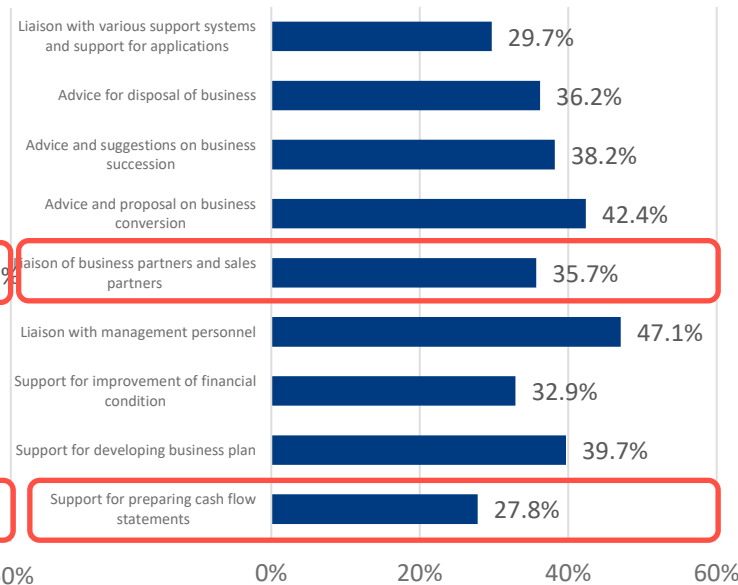
### Company surveys

Services from financial institutions wanted by SMEs, which they would pay for. (\*1)

#### Services in demand

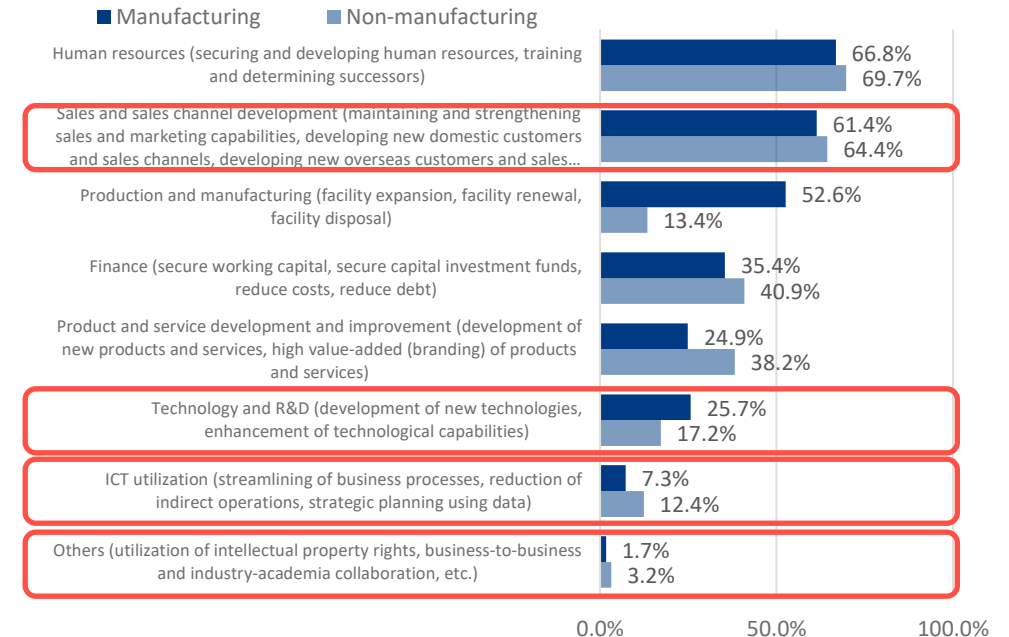


#### Services worth paying a commission



### Survey on SMEs' issues and public support needs

Major issues faced by small enterprises (\*2)



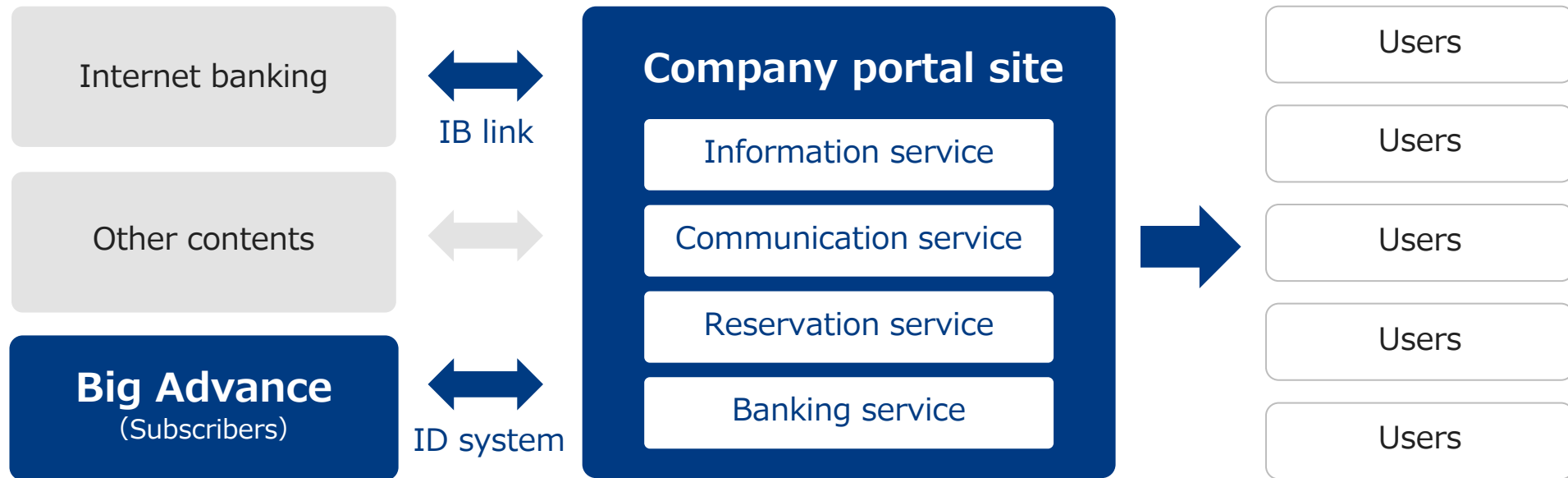
(\*1) Financial Services Authority "The JFSA Strategic Priorities July 2021-June 2022"

(\*2) The Small and Medium Enterprise Agency "2020 White Paper on Small Enterprises in Japan"

  ...Services already offered by Big Advance

## Strategy for DX Solutions: DX support for financial institutions

- Provide company portal sites and ID certification linkage systems for financial institutions.
- Strengthen relationship between financial institutions and corporate clients through the use of digital systems.
- Provide a one-stop service to help with issues faced by companies by linking-up with Big Advance.



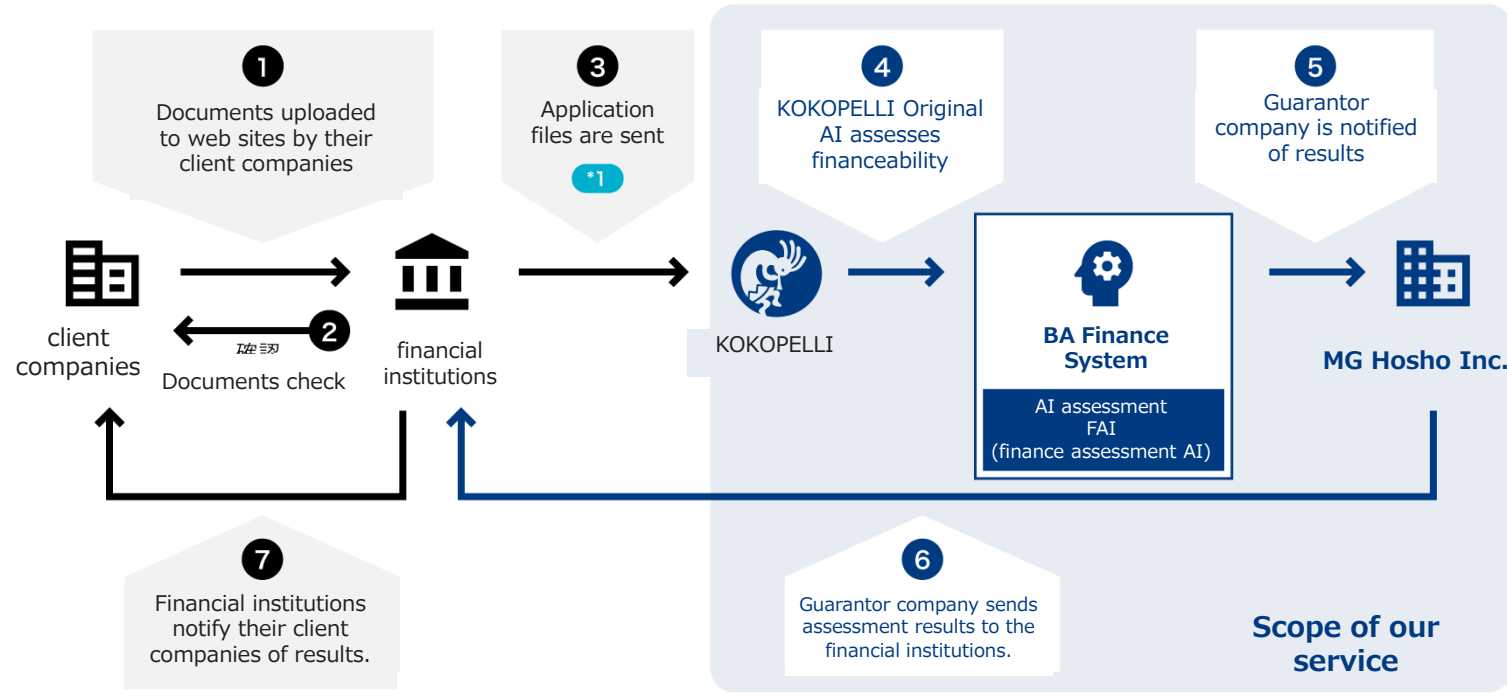
### Track records

Company portal sites: Kyoto Bank/Okinawa Bank

Linked-up ID certification system: Chiba Bank/Yokohama Bank/The Senshu Ikeda Bank/The San-In Godo Bank, Ltd./The Nishi-Nippon City Bank/...and 2 others

## Strategy for DX Solutions: DX Support for financial institutions

- Provide the financial institutions' online loan service
- Develop proprietary AI algorithms that allows credit evaluation from financial data and cash-in/out information from bank accounts.



**$\beta$  version to be released in September 2021 from Higo Bank**

### Feature (1)

Completed online, for speedy procurement of funds.

### Feature (2)

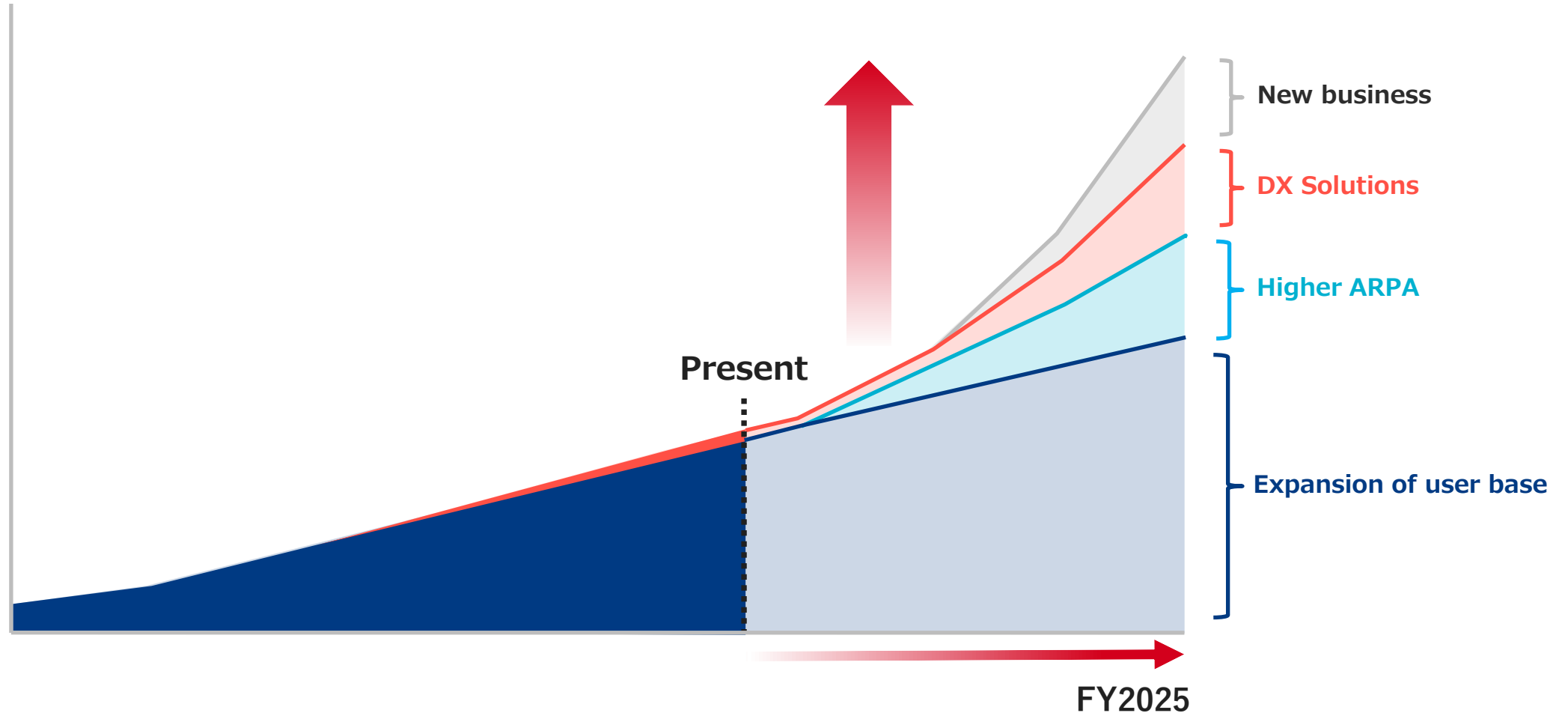
Our proprietary AI-driven credit rating module, "FAI" makes decisions based on financial data and bank account cash-ins /cash-outs.

### Feature (3)

Provides 100% backing from insurance companies.

## Growth scenarios in the mid-term management plan

- Provide new functions and links with services offered by other companies to push up ARPA, on the back of expanded user base.
- Also build-up sock revenues from DX services and new businesses to achieve rapid and then sustainable growth going forward.



# Further expansion of user base

- Target clients of regional financial institutions operating small enterprises across Japan.



## Supplemental Information related to SMEs

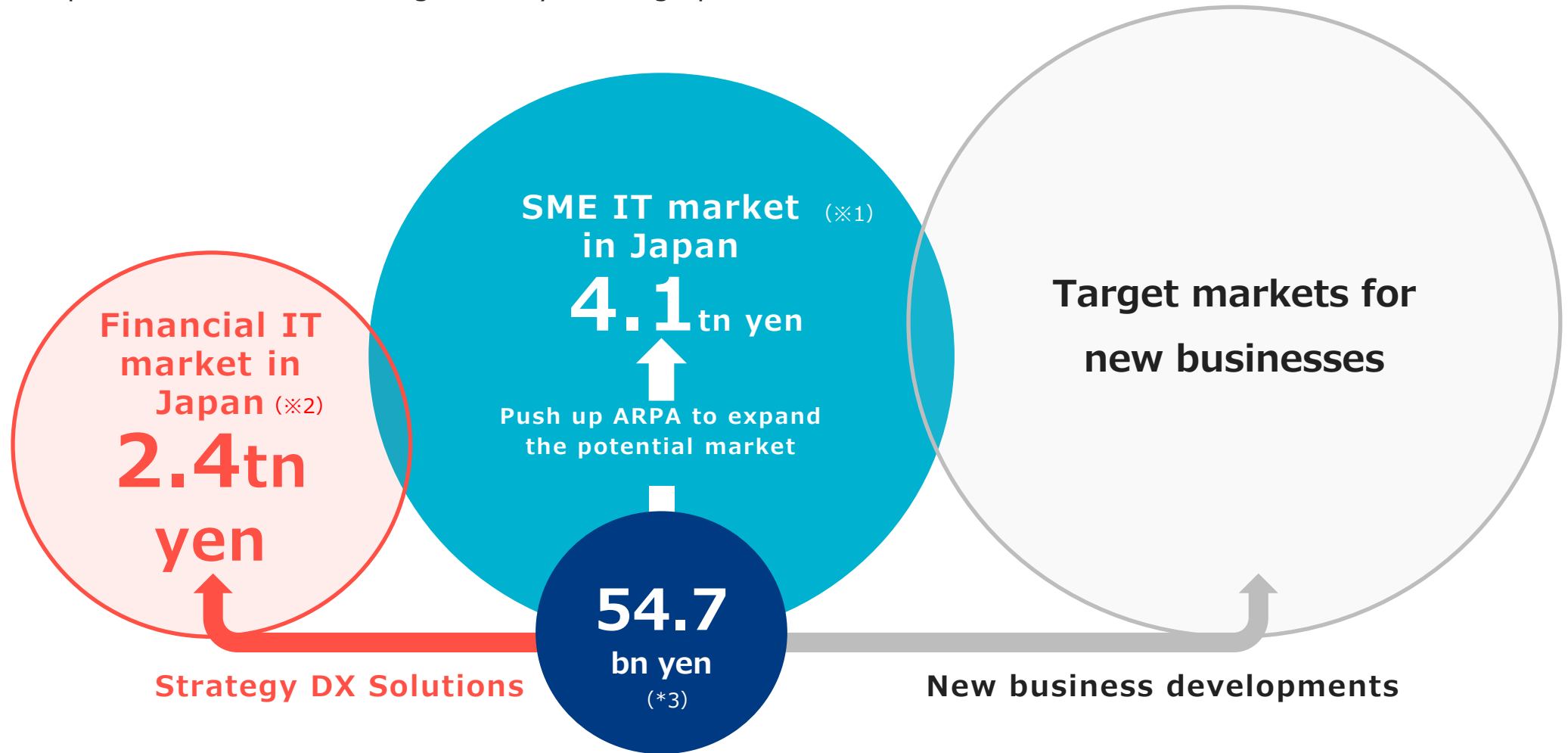
- Exit rate of SMEs trends at around 3%
- In the past 20 years, the highest exit rate was 4.2% in 2010 after the Lehman Shock
- Exit rate : 3.5% "2020 White Paper on SMEs" P114
- Entry rate : 4.4% "2020 White Paper on SMEs" P114

Source: "Financial System Report – Annex (July 2019)", Bank of Japan, "Economic Census 2016", Ministry of Internal Affairs and Communications/Ministry of Economy, Trade and Industry, and Financial Services Authority website

(\*1) Total number of corporate clients of BA-installed financial institutions (83 companies) = 6.49 million in total (as of March 31, 2021)  
 (\*2) Installation rate at clients = Big Advance member companies / number of corporate clients of the 83 BA-installed financial institutions (as of March 31, 2021)  
 (\*3) 150,000 companies / Number of corporate clients of the 83 BA-installed financial institutions (as of March 31, 2021)  
 (\*4) 3.58 million SMEs "2016 Economic Census" x 84.9% small businesses "Number of small and medium-sized enterprises (as of June 2016)"

## Potential market with room for further expansion

- Raise ARPA through offering new functions and links with other companies' services, as well as an expanded user base.
- Also achieve rapid and then sustainable growth by building up stock revenue from DX services and new businesses.



(\*1) IDC Japan "Domestic SMB IT Market Forecast 2018"

(\*2) IDC Japan "Domestic FinTech Market Size 2022"

(\*3) Target customer base x Current fee plan=54.7 billion yen



## Improved stock incentives

- Upgrade scheme for granting stock options and restricted stocks to executives and employees.

<b>Objective</b>	<ul style="list-style-type: none"><li>• Grant incentive for executives and employees for mid- to long-term business growth.</li><li>• Offer competitive salaries for recruiting top talent.</li></ul>
<b>Detail of the scheme</b>	<ul style="list-style-type: none"><li>• The ratio of restricted stock and stock options shall be decided based on the stock price and other factors at the time of grant.</li><li>• Assumes an annual issuance cap of approximately 1% of outstanding shares, with a maximum dilution of 5% over the next five years.</li><li>• 2.4% of total shares outstanding, including restricted stock and unexercised stock options as of FY2021.</li></ul>

**05**

## **FY2022 estimates**

**First year policy based on the new "Growth Strategy Roadmap" / Management Policy for FY2022 / Performance forecast for FY2022 / Factors pushing up cost in operating income FY2022**

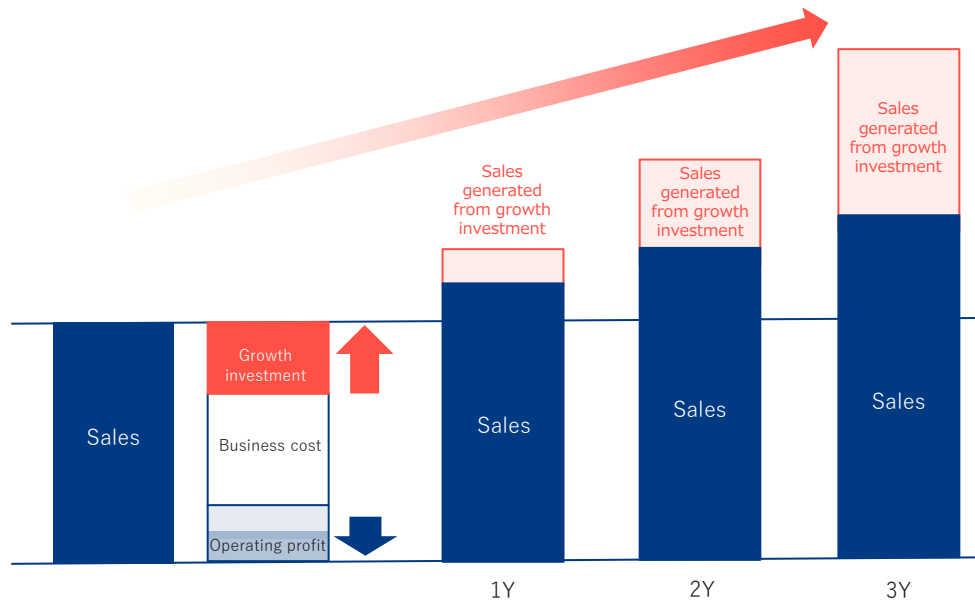
## First year policy based on the new "Growth Strategy Roadmap"

- Advance the growth strategy ahead of schedule to cope with changes in condition and higher number of member companies in FY2021.

<b>Old policy</b>	<ul style="list-style-type: none"> <li>• Sales growth through more member companies and financial institutions for Big Advance</li> <li>• Growth by raising ARPA through the release of new features and services after joining more member companies</li> </ul>
<b>New policy</b>	<ul style="list-style-type: none"> <li>• Enhance data return and support system to increase the number of member firms per financial institution</li> <li>• Set up a department dedicated to business development and promote growth by raising ARPA with new functions and services</li> <li>• Carry out open-platform conversion ahead of schedule to meet the variety of needs of member companies and financial institutions</li> <li>• Bolster corporate portal sites to accelerate the DX process at financial institutions</li> </ul>
<b>Impact on Performance</b>	<ul style="list-style-type: none"> <li>• For FY2022, a large temporary decline in operating income is expected due to aggressive investments for growth</li> <li>• For next year onwards, we aim to boost sales growth and profits by increasing ARPA through attracting more users with new functions and services.</li> </ul>

## Management policy for FY2022

- FY2022 Forecast: Expecting operating income to drop temporarily due to the aggressive investments made to drive growth.
- For next year onwards, new functions and services are expected to attract more users and push up ARPA to accelerate the pace of sales growth and improve profit margins.



## Profit and Investment Policy

- ✓ Take this phase as an investment opportunity to put more into hiring and products to drive mid-term growth
- ✓ Boost sales and profit through facilitating growth to overtake the temporary decline in operating income
- ✓ Invest in growth to generate sales in the future

## FY2022 Forecast

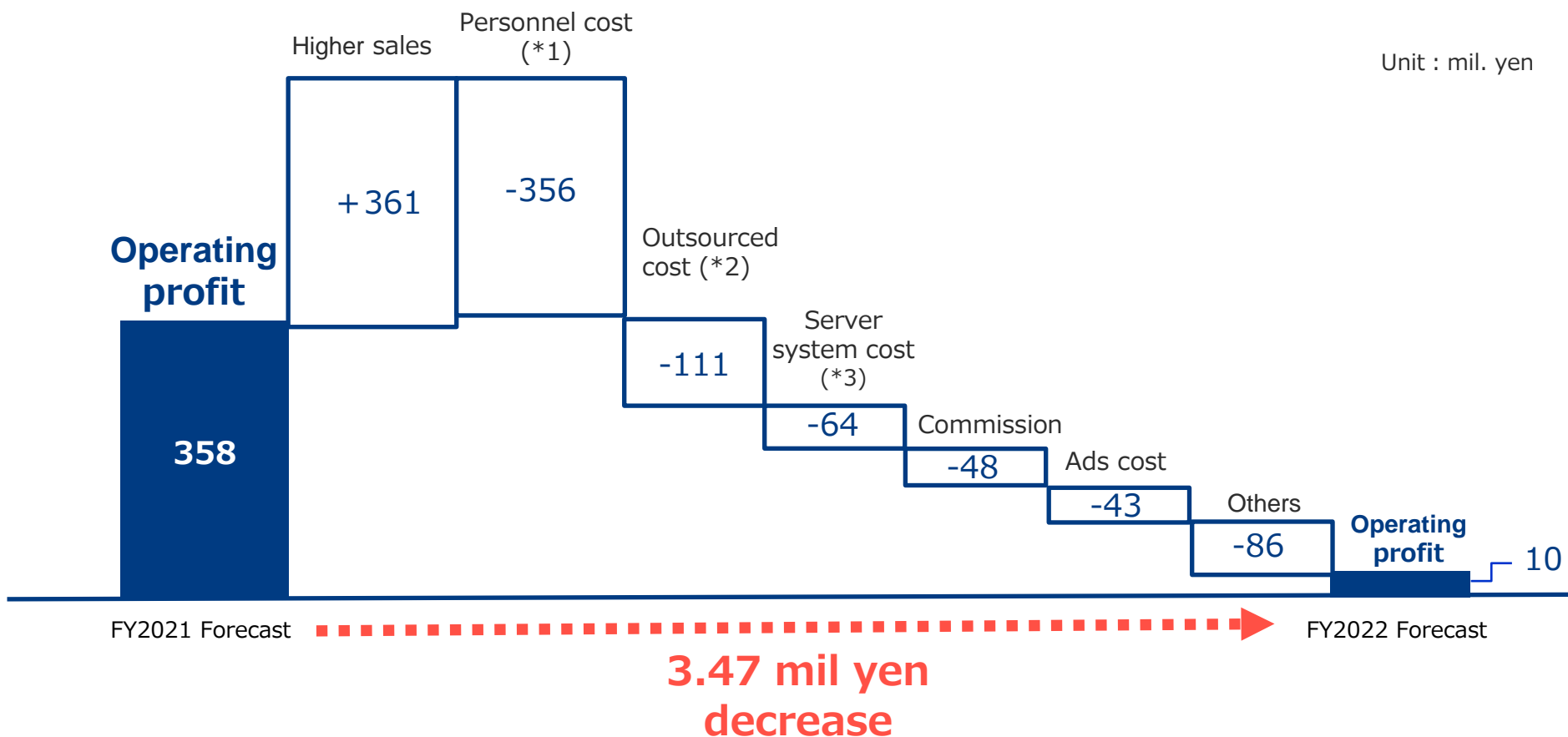
- Sales are expected to rise by 21.8% YoY on the back of more financial institutions and member companies adopting Big Advance.
- For CoGs and SGA, an increase in hiring of engineers and outsourcing to develop new functions, together with recruitment of sales and CS staff to strengthen support for financial institutions, are expected to weigh on personnel, hiring, and outsourcing expenses.
- Operating profit is expected to remain positive despite aggressive investments, mainly in hiring and outsourcing as mentioned above.

Unit : mil. yen

	FY2021 (Actual)	FY2022 (Forecast)	Variance	YoY
Sales	1,642	2,000	357	121.8%
Cost of Sales	1,019	1,078	58	105.7%
Operating Profit	358	10	▲ 348	2.8%
Recurring Profit	356	10	▲ 346	3.9%
Net Profit	281	6	▲ 275	2.1%

## Factors driving up cost in operations for FY2022

- Expect operating income to remain positive, but to fall significantly due to up-front investment in recruitment and personnel expenses and outsourcing of engineers.



(\*1) Engineer, sales, CS and corporate employee salaries, executive compensation and social insurance premiums, and recruiting costs. Total of CoGS and SG&A expenses.

(\*2) Outsourced development costs to external engineers. CoGS

(\*3) AWS and web usage fees. CoGS

- The contents contained this document are based on generally accepted economic, social and other conditions as of the date of preparation and certain assumptions that we judged to be reasonable, but may be subject to change without notice due to changes in the business environment or other reasons.
- The materials and information provided in this document contain so-called "forward-looking statements". They are based on current expectations, forecasts, and assumptions that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include general industry and market conditions, and general national and international economic conditions, such as interest rate and forex swings.
- The Company assumes no obligation to update or revise the "forward-looking information" contained in this document, even in the event of new information released or future incidents.

