Financial Results Briefing Materials for the Second Quarter of the Fiscal Year Ending December 31, 2022

Kinjiro Co., Ltd

August 9, 2022

1. Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2022 (FY2022)

2. Growth Strategy

Highlights for the Second Quarter of FY2022

■ **Key performance indicators (KPIs)**

Number of cloud licenses	Increased by 17,143 from the end of the last quarter (increased by 180.3% year on year) to 417,873
Recurring revenue	Continued to grow briskly (average annual growth: 14.3%)
ARPU	Edged up to 353 yen for Kinjiro Enterprise
Cloud-based contract cancellation rate	Remained low at 0.22%

Summary of Consolidated Financial Results for the Second Quarter of FY2022

	Rate of achievement against 1H forecast	YoY change
Net sales	91%	Down 4% to 1,644 million yen
Operating profit	122%	Up 2% to 183 million yen
Ordinary profit	121%	Up 1% to 181 million yen
Profit	123%	Up 4% to 123 million yen

Consolidated statement of income

(Unit: Million yen)

	FY2022 1H forecast	FY2022 2Q results	Achievement rate		FY2021 2Q results	YoY change
Net sales	1,800	1,644	91%		1,710	-4%
Operating profit	150	183	122%		179	+2%
Ordinary profit	**150**	**181**	**121%**		**180**	**+1%**
Profit	100	123	123%		118	+4%

YoY Changes in Net Sales by Business Segment

Net sales

(Unit: Million yen)

Business Segment	Sales segment	FY2021 2Q results	FY2022 2Q results	YoY change
Cloud Business	Cloud License	708	808	+14%
	Cloud Consultation Support	229	176	-23%
	Others	74	48	-34%
	Subtotal	1,011	1,033	+2%
On-Premises Business	Premium support	295	288	-2%
	Software Products	225	170	-24%
	Software Consultation Support	121	104	-14%
	Employment Information Devices	49	46	-6%
	Subtotal	692	610	-12%
Net sales		1,710	1,644	-4%
Recurring revenue*		1,013	1,105	+9%

*Includes revenue from cloud licensing, premium support, and other services.
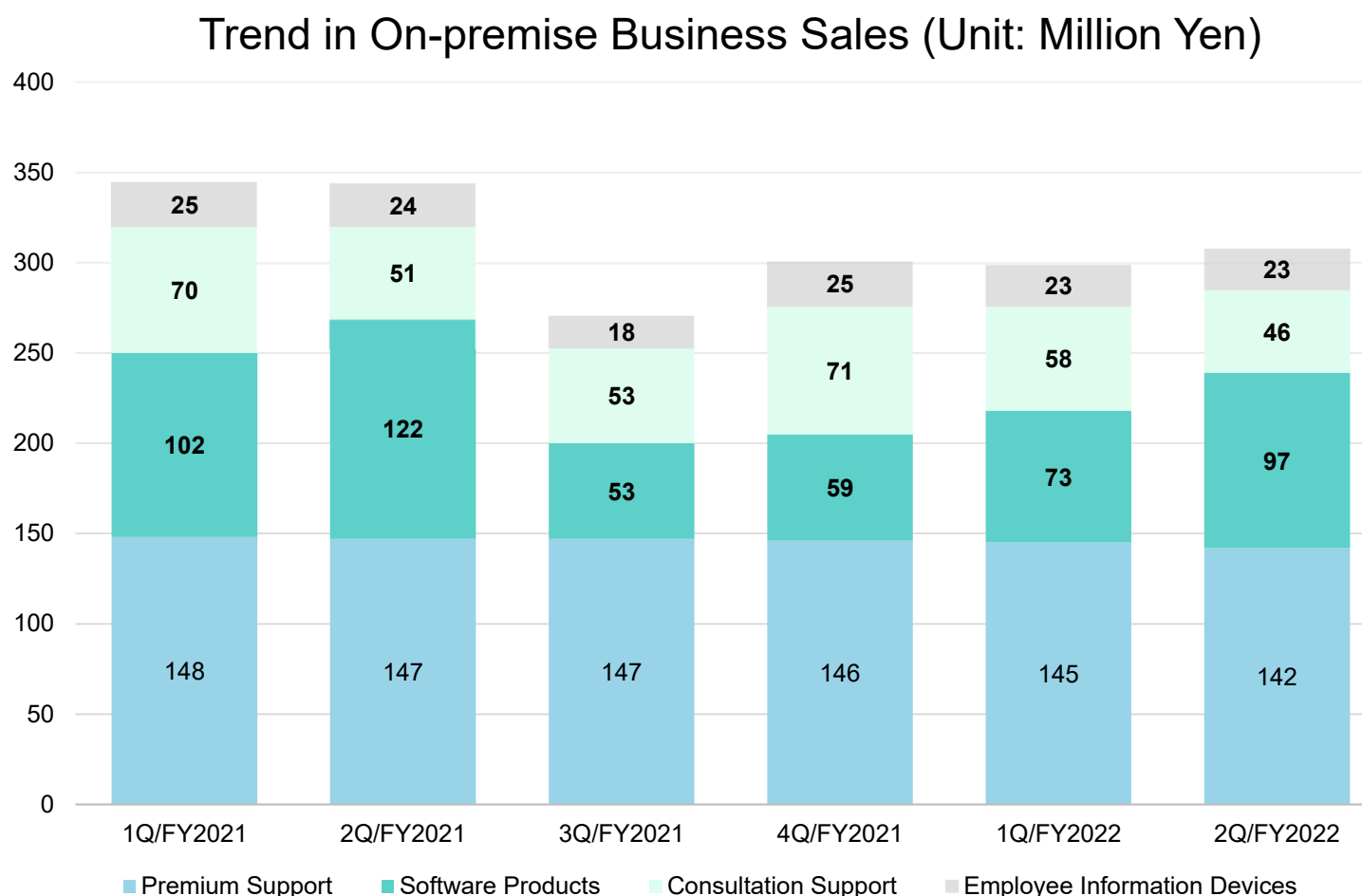
Sales in Cloud Business

- Cloud License sales grew by 14% year on year to 808 million yen.
- Cloud Consultation Support sales decreased by 23% year on year to 176 million yen, due to enhanced productivity in introduction support enabling prompt service launch, which resulted in declined average revenue per project.
- Meanwhile, sales in the Others category (employment information devices, etc.) decreased by 34% year on year to 48 million yen.

Trend in cloud business sales (Unit: Million Yen)

	1Q/FY2021	2Q/FY2021	3Q/FY2021	4Q/FY2021	1Q/FY2022	2Q/FY2022
Others	43	30	18	35	24	24
Consultation support	118	111	96	123	85	91
Cloud License	349	358	375	385	396	411

■ Cloud License   ■ Consultation support   ■ Others
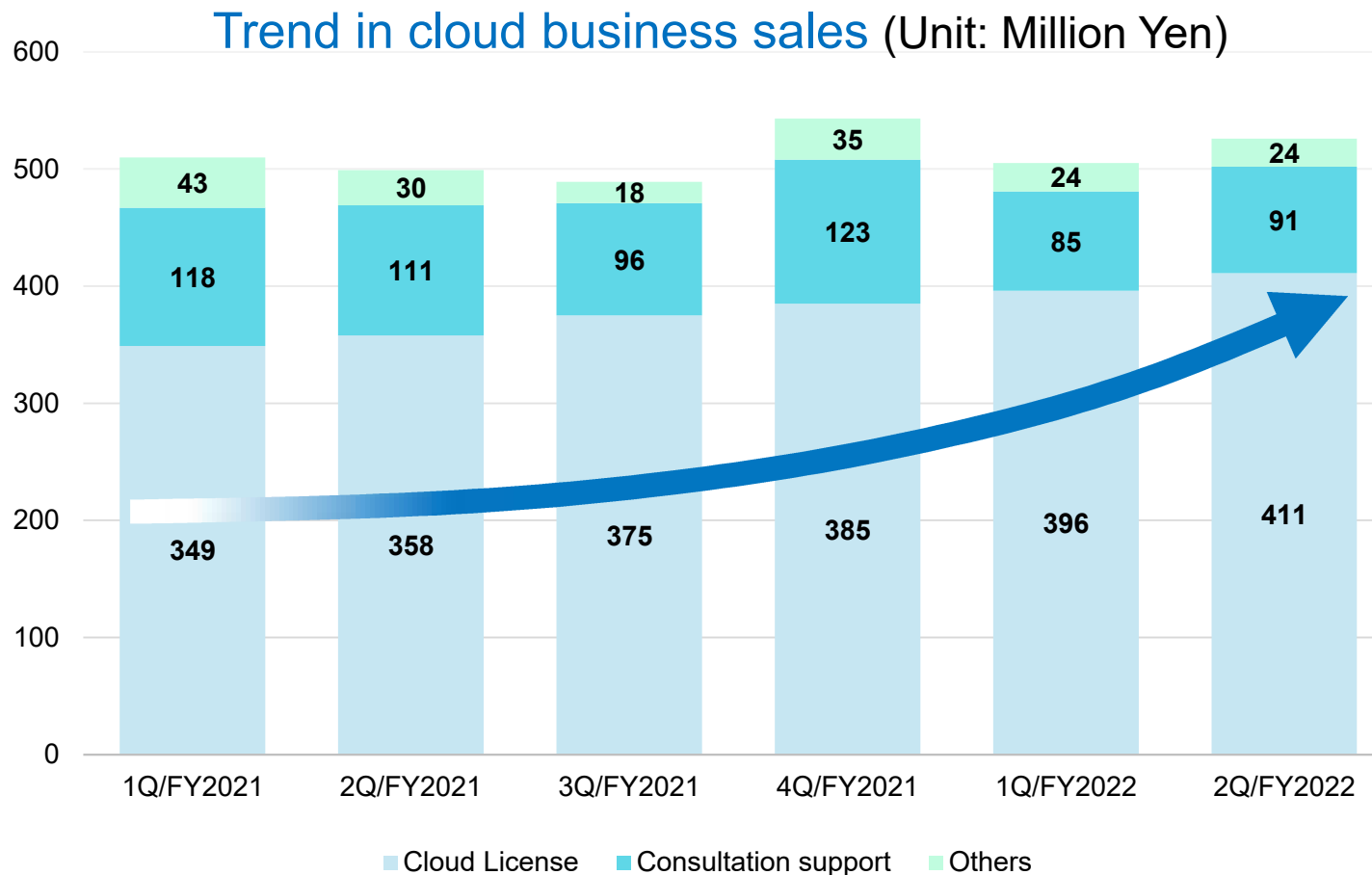
Sales in On-Premises Business

- Premium Support sales decreased by 2% year on year to 288 million yen.
- Software Products sales decreased by 24% year on year to 170 million yen,
  while Software Consultation Support sales declined by 14% year on year to 104 million yen, primarily due to an
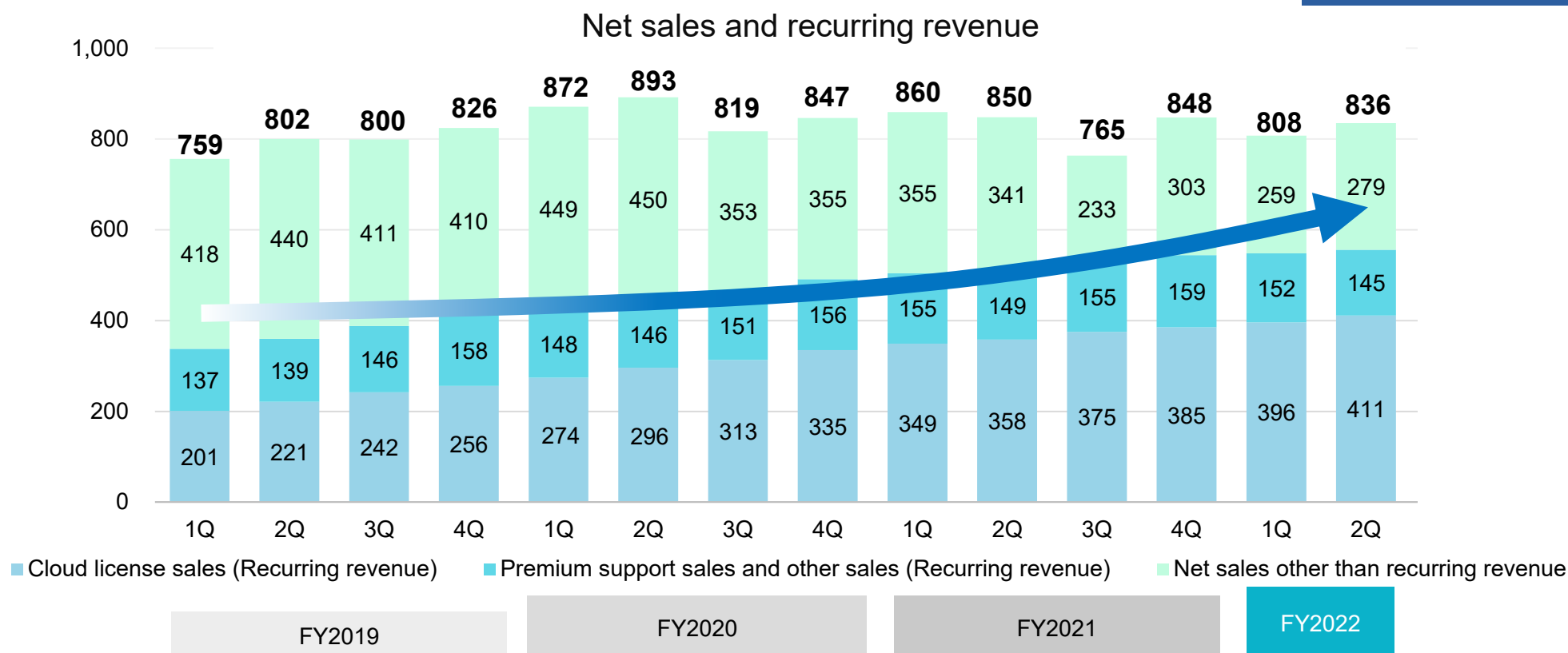 increase in customer needs for cloud business.

Trend in On-premise Business Sales (Unit: Million Yen)

	1Q/FY2021	2Q/FY2021	3Q/FY2021	4Q/FY2021	1Q/FY2022	2Q/FY2022
Employee Information Devices	25	24	18	25	23	23
Consultation Support	70	51	53	71	58	46
Software Products	102	122	53	59	73	97
Premium Support	148	147	147	146	145	142

Legend: Premium Support / Software Products / Consultation Support / Employee Information Devices

Quarterly Trend in Net Sales and Recurring Revenue

■ Recurring revenue, which comprises Cloud License sales and Premium Support sales, is showing solid growth on a quarter-by-quarter basis.
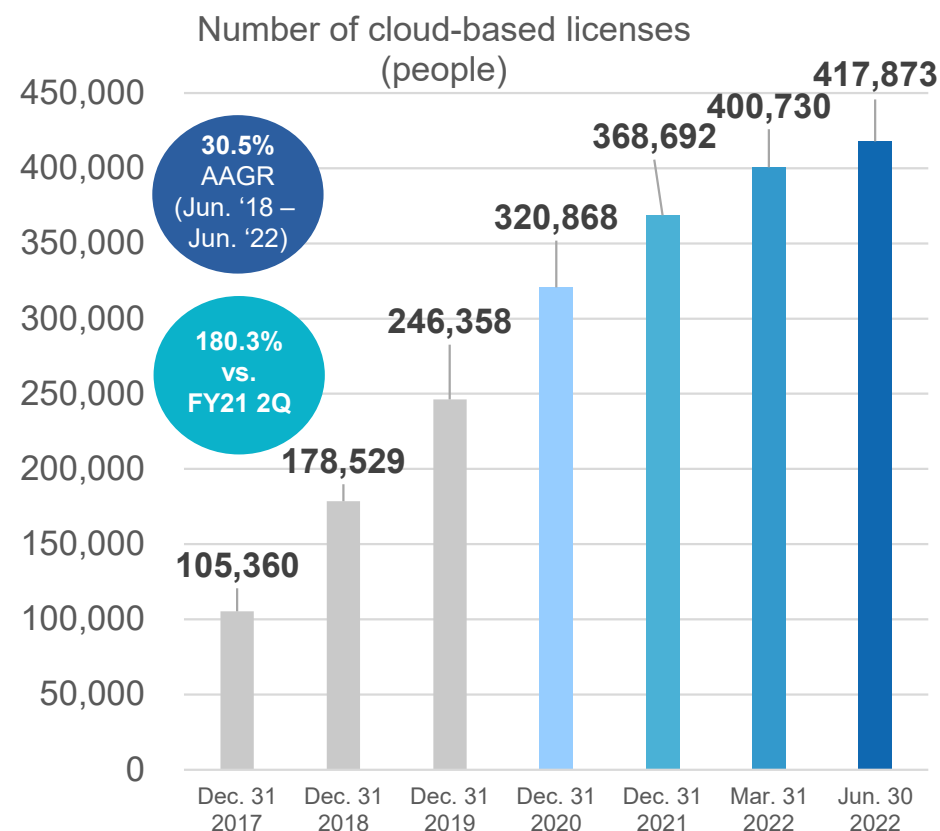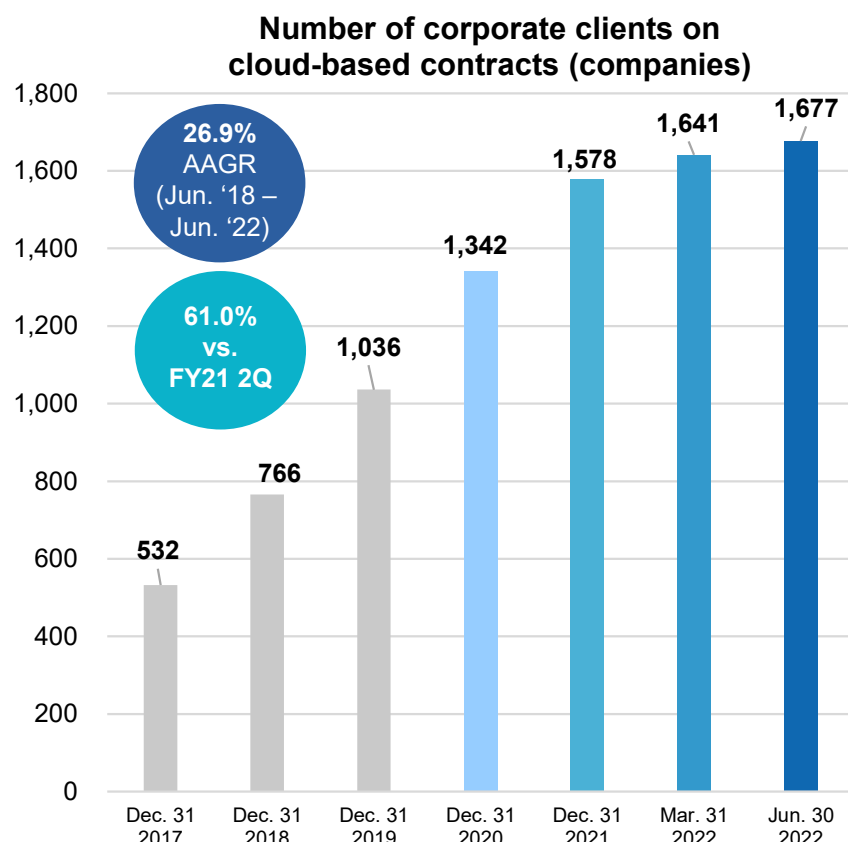
14.3%
Recurring revenue average annual growth rate
(Jun. '20 - Jun. '22)

Net sales and recurring revenue

	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Total	759	802	800	826	872	893	819	847	860	850	765	848	808	836
Net sales other than recurring revenue	418	440	411	410	449	450	353	355	355	341	233	303	259	279
Premium support sales and other sales	137	139	146	158	148	146	151	156	155	149	155	159	152	145
Cloud license sales	201	221	242	256	274	296	313	335	349	358	375	385	396	411

■ Cloud license sales (Recurring revenue)   ■ Premium support sales and other sales (Recurring revenue)   ■ Net sales other than recurring revenue

FY2019	FY2020	FY2021	FY2022

Number of Corporate Clients on Contract and Number of Licenses

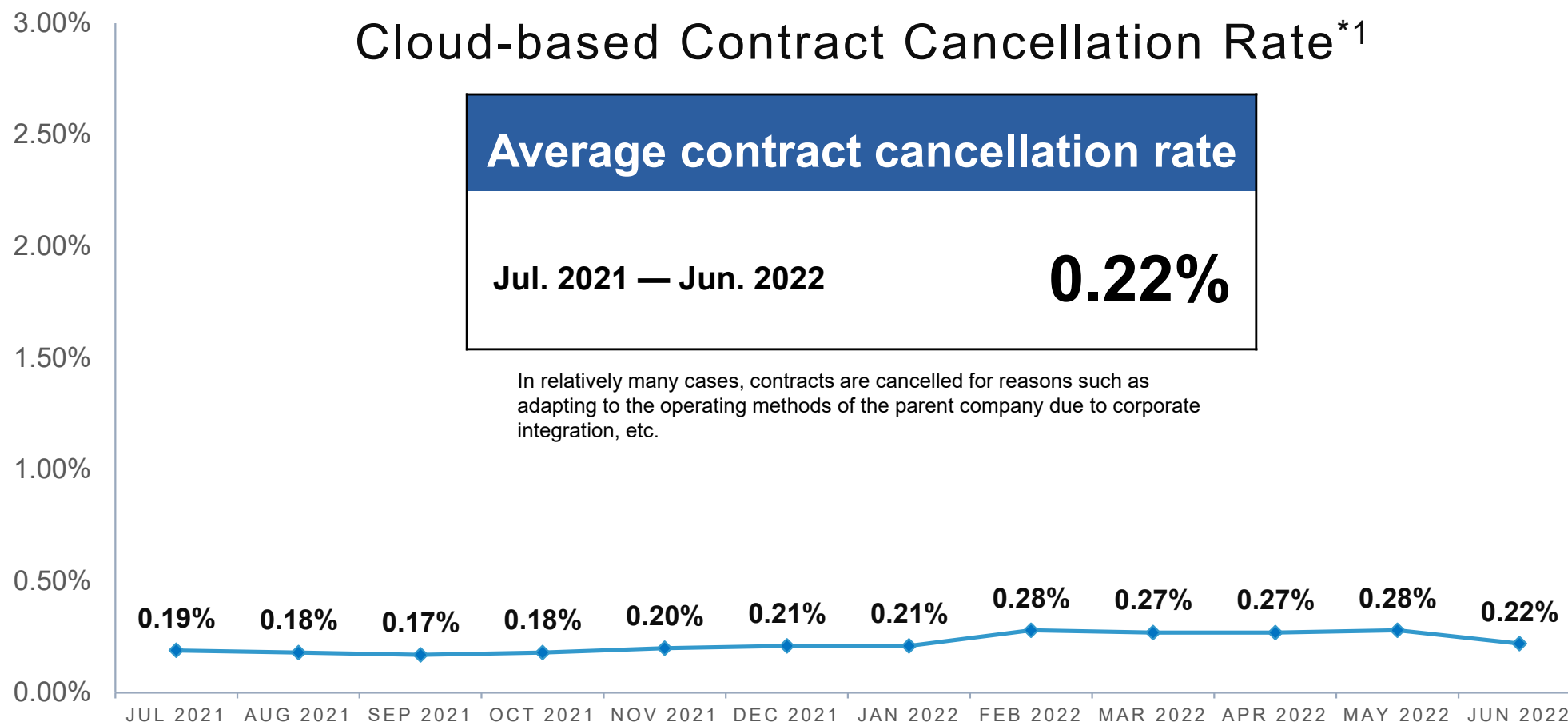- High growth continues in the number of licenses, with an average annual growth rate (AAGR) of 30.5%.

Number of corporate clients on cloud-based contracts (companies)

26.9% AAGR (Jun. '18 – Jun. '22)

61.0% vs. FY21 2Q

Date	Value
Dec. 31 2017	532
Dec. 31 2018	766
Dec. 31 2019	1,036
Dec. 31 2020	1,342
Dec. 31 2021	1,578
Mar. 31 2022	1,641
Jun. 30 2022	1,677

Number of cloud-based licenses (people)

30.5% AAGR (Jun. '18 – Jun. '22)

180.3% vs. FY21 2Q

Date	Value
Dec. 31 2017	105,360
Dec. 31 2018	178,529
Dec. 31 2019	246,358
Dec. 31 2020	320,868
Dec. 31 2021	368,692
Mar. 31 2022	400,730
Jun. 30 2022	417,873

*1 The number of licenses for each employee at a corporate client is counted as one, even where the employee uses multiple services (Recruitment, HR, Salary, *Health x Life*).

ARPU trend

ARPU	March 2021	June 2021	September 2021	December 2021	March 2022	June 2022
Enterprise	351 yen	350 yen	349 yen	351 yen	353 yen	353 yen
Smart	156 yen	153 yen	153 yen	160 yen	117 yen	117 yen

Cloud-based Contract Cancellation Rate

■ The average rate of cloud-based contracts cancelled per month remains low at 0.22%.

Cloud-based Contract Cancellation Rate[1]

Average contract cancellation rate	
Jul. 2021 — Jun. 2022	**0.22%**

In relatively many cases, contracts are cancelled for reasons such as adapting to the operating methods of the parent company due to corporate integration, etc.

	JUL 2021	AUG 2021	SEP 2021	OCT 2021	NOV 2021	DEC 2021	JAN 2022	FEB 2022	MAR 2022	APR 2022	MAY 2022	JUN 2022
	0.19%	0.18%	0.17%	0.18%	0.20%	0.21%	0.21%	0.28%	0.27%	0.27%	0.28%	0.22%

[1] Monthly average cancellation rate. Calculated by dividing revenue from customers who cancelled their contracts in the current month by revenue from total customers in the previous month.

Cost Structure

■ Cost structure for the first half of the fiscal year ending December 31, 2022

Expend trend (consolidated)
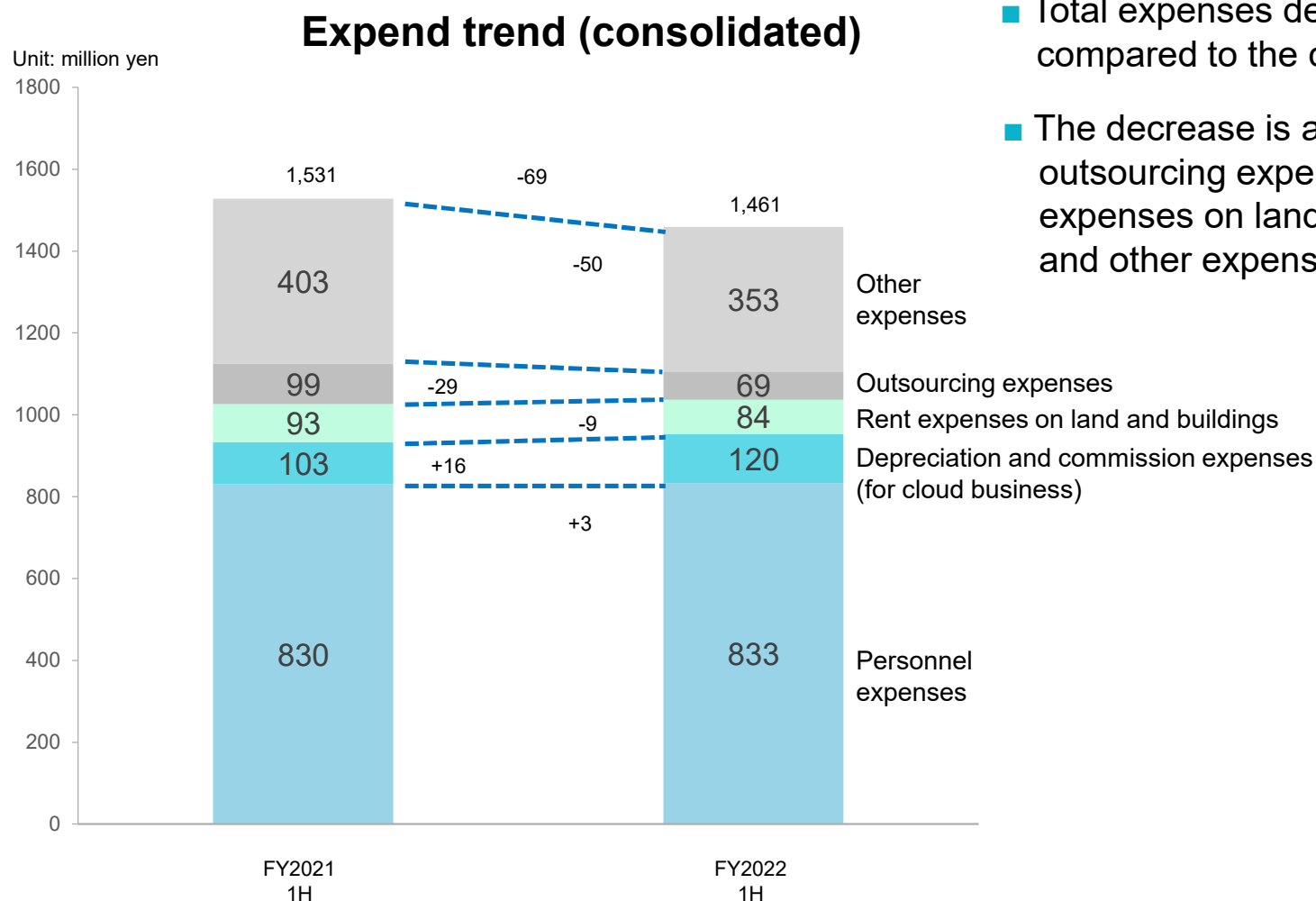
Unit: million yen

■ Total expenses decreased by 69 million yen compared to the costs in 1H FY2021.

■ The decrease is attributable to the declines in outsourcing expenses (-29 million yen), rent expenses on land and buildings (-9 million yen), and other expenses (-50 million yen).

Sales Growth Strategy

Strategy A	**B-to-B, Mainstay business: Accelerate acquisition of new customers for "work style reform and health & productivity management"**
Strategy B	**B-to-B, Mainstay business: Shift 900,000 on-premises user licenses to cloud-based services**
Strategy C	**B-to-B, New business: Cloud front / private cloud**
Strategy D	**B-to-E / B-to-C, Expand sales in platform businesses with revenues from monetization of 350,000 users of B-to-E and B-to-C services, as well as AI, electronic medical records, third-party services, etc.**

Net sales

Strategy D

Strategy C

Strategy B

Strategy A

2022   **2023**   **2024**   **2025**   **2026**
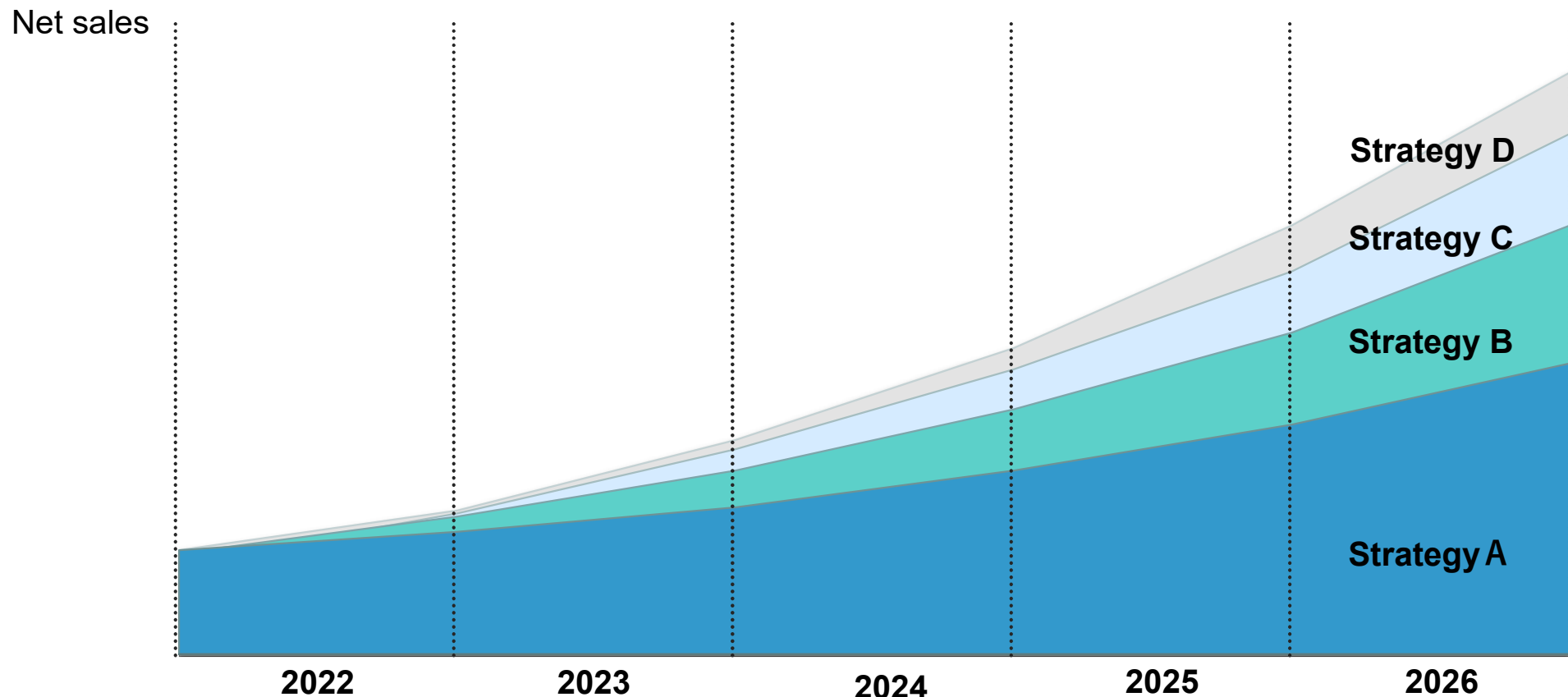
Growth Strategy A/B: HRM Business (Workstyle Reform & Health & Productivity Management)

HRM all-in-one solutions for realizing corporate client's work style reform and health & productivity management

Support business growth by enhancing employee labor productivity and work engagement

SERVICE

Provisioning
Video support
FAQ page
Alliance with third parties

SUPPORT

Communication
Introduction support
Follow-ups
Consultation

HRM
Human Resource Management

SUPPORT

Communication
Introduction support
Service by public health nurses
Consultation

SERVICE

Provisioning
Stress check proxy service
Health check database
Health improvement program support

UK **Attendance**
Work mgt. / Overtime mgt.
PTO mgt. / Workload mgt.
Shift mgt. / Response to law revisions

UK **Workflow**
Expense settlement / Request for approval
Electronic application / Contract mgt.

UK **HR**
HR mgt. / HR utilization
HR evaluation / Evaluation systems

UK **Salaries**
Salary calculation

Attendance management

Operational efficiency

Personnel utilization

Personnel evaluation

UK
Universal Kinjiro

HRM
HumanResourceManagement
Low-code development app
AI analysis

Integrated data

HL
Health × Life

Mental care

Physical condition maintenance

Health management

Work engagement

Health maintenance
Stress check
Pulse surveys
Condition mgt.

Health care
Number of steps / Body weight
Blood pressure / Heart rate / Temperature

Health promotion
Health screening / Complete medical checkup

Improve labor productivity

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Growth Strategy A. How to Acquire New Customers

Maintain relationships of trust with existing customers and partners

Direct sales strategy

Reach new customers

Partner strategy

Certification system

Strengthen direct sales, and promote finely-tuned follow-ups and proposals for new products/services as well as product development
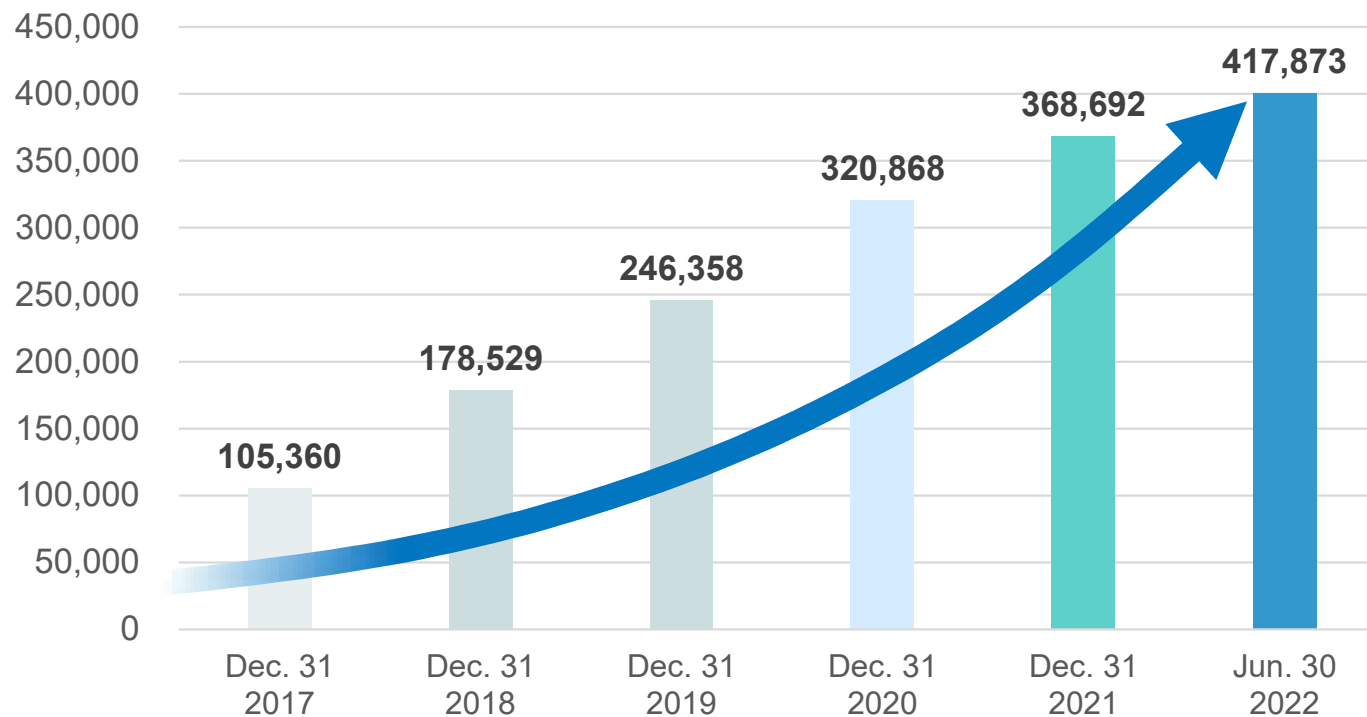
Promote a new partner strategy for organizing SIers in each of the 47 prefectures, on top of the existing partner strategy

Growth Strategy A: Expand Sales to New Customers (Workstyle Reform & Health & Productivity Management)

■ **Boost sales of the cloud business by acquiring new customers to keep expanding cloud license sales**

■ **Meanwhile, the on-premises business will be continued.**

Number of cloud-based licenses

Date	Number of cloud-based licenses
Dec. 31 2017	105,360
Dec. 31 2018	178,529
Dec. 31 2019	246,358
Dec. 31 2020	320,868
Dec. 31 2021	368,692
Jun. 30 2022	417,873

30.5%
Average annual growth rate
(Jun. 2018 – Jun. 2022)

Growth Strategy B: Shift On-premises Users to Cloud

Shift 900,000 licenses, which account for approx. 80% of 1.18 million Kinjiro Enterprise on-premises user licenses, to cloud-based services, with _Universal Kinjiro_, which was released in December 2021, as a trigger service

On-premises
User Licenses
1.18 million*
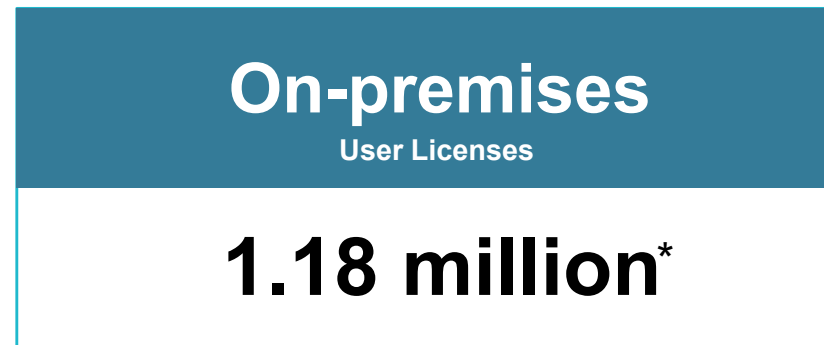
*Result as of June 30, 2022

Move approx. 80% to cloud-based services

*Estimated based on current customer needs

Growth Strategy B: Boosting ARPU

When migrating 900,000 licenses out of 1.18 million on-premises user licenses of *Kinjiro Enterprise* to cloud-based services, boost ARPU by cross-selling

Approx. 900,000 licenses
500 yen per license *

x 12 months =

Approx. 5.4B yen

* The average revenue per license (ARPU) will be increased from the current level of approx. 350 yen to at least 500 yen per license through promotion of the use of *Health x Life, Health x Life Pro*, and subsystems such as Labor Cost Management and AI.

Growth Strategy C: New Business – Cloud Front Strategy

Integrated data analysis

API integration

Optimal allocation

Private cloud

App collaboration

AI prediction

Source credential integration

Single sign-on

Multifactor authentication
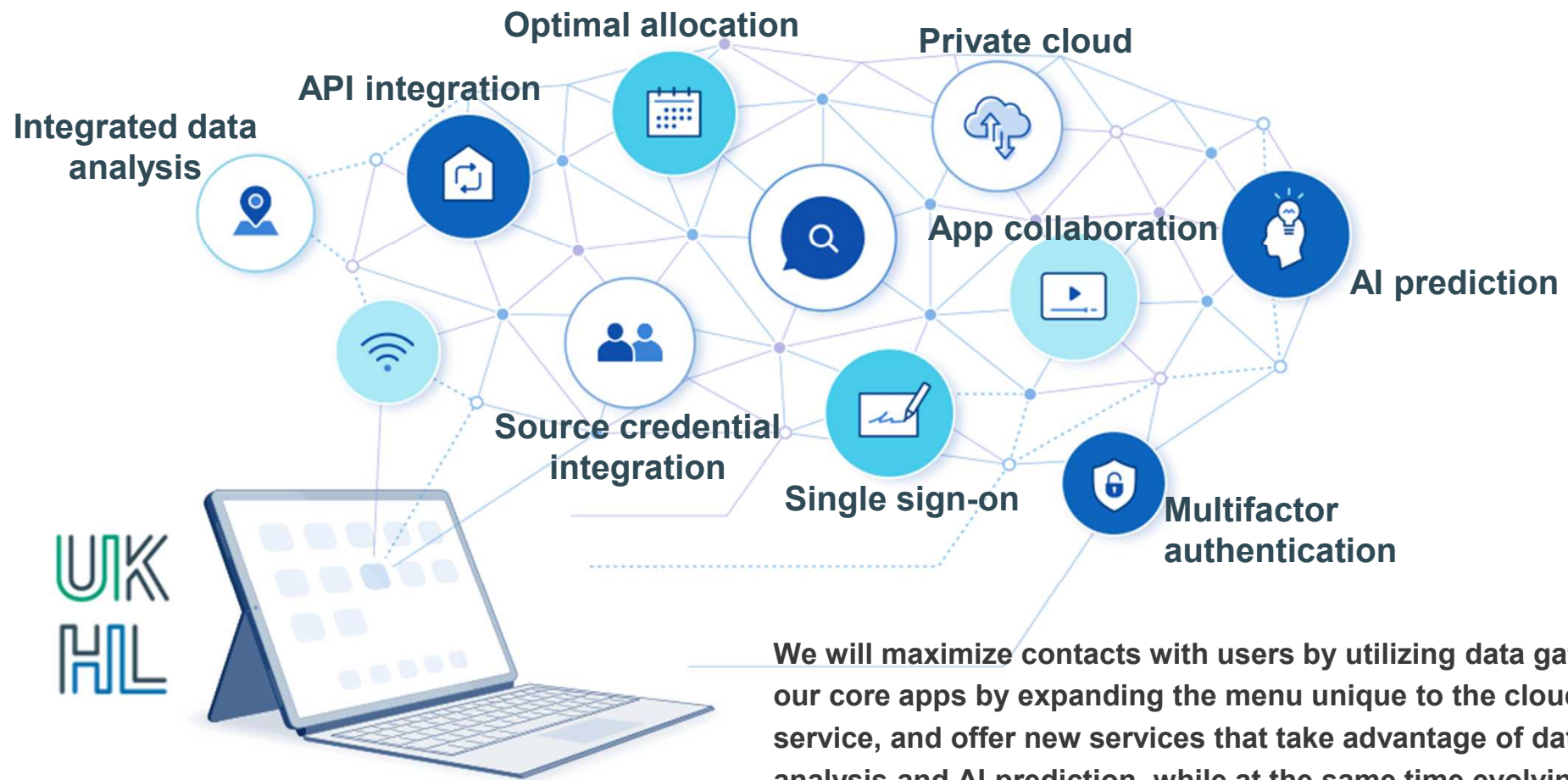
We will maximize contacts with users by utilizing data gathered by our core apps by expanding the menu unique to the cloud-based service, and offer new services that take advantage of data analysis and AI prediction, while at the same time evolving our platform in a way that appeals to business users by enhancing integration functions.

Growth Strategy C: New Business – Cloud Front Strategy

1 **Evolve the cloud base**   Flexibly utilize cloud assets, expand private cloud (for individual customers)

2 **Strengthen the cloud front**   Provide integrated authentication for our company's app and other apps

3 **Develop data and AI service business**   Strengthen AI services utilization of work styles, health screenings, stress checks, and lifestyle information
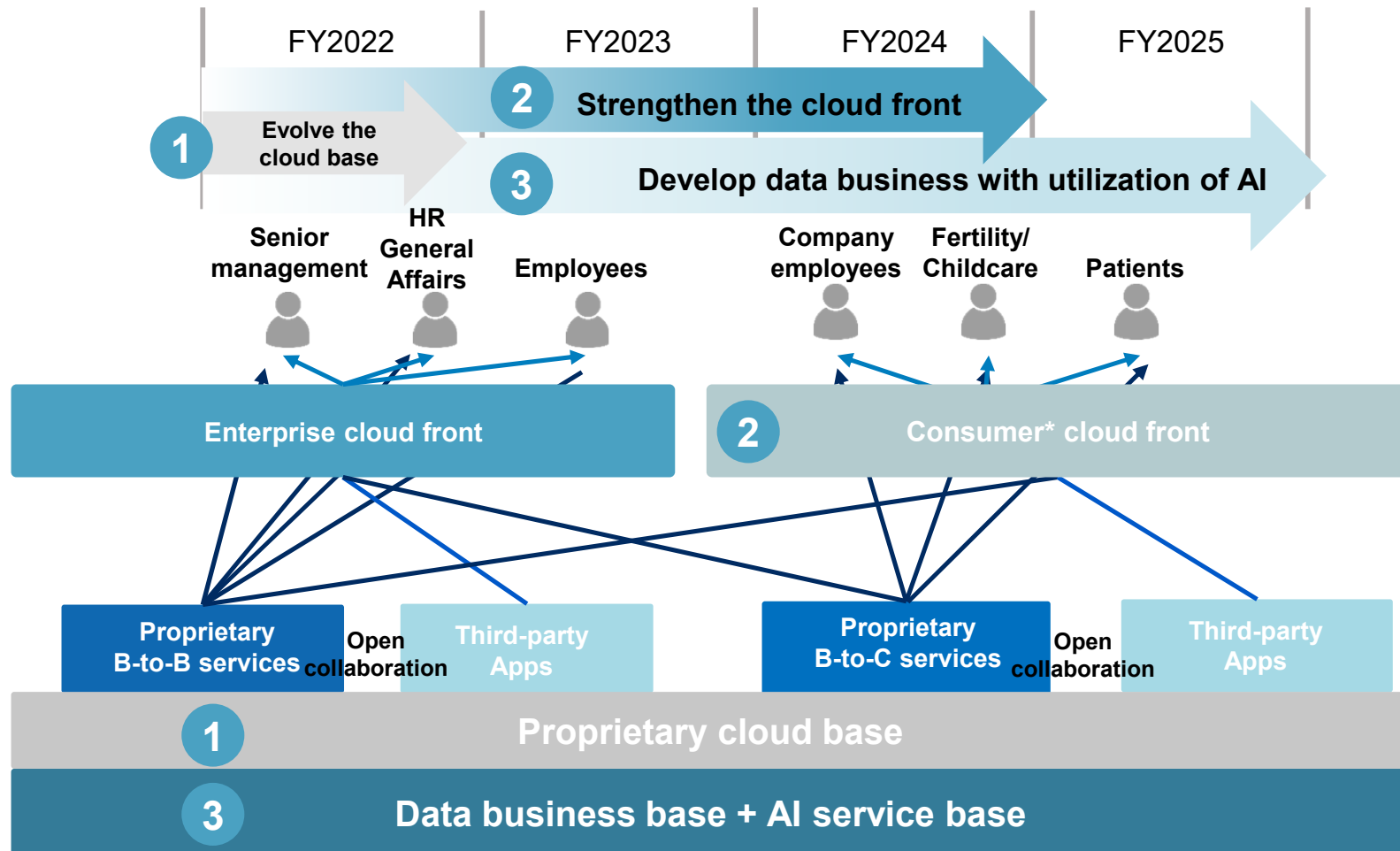
Growth Strategy D: Consumer Business Utilizing Platforms

Consumer registration
Monetization from the utilization by 350,000 users

HRM & HL (system diagram of B-to-B-to-E / B-to-C monetization)

- (1) Monthly subscription services
- (2) Remote medical services
- (3) Proprietary content services
- (4) Advertising — Contingent compensation
- (5) E-commerce (affiliates) — Contingent compensation
- (6) Third parties (other company's) content service — Contingent compensation
- (7) Data business *AI services — Data purchase fees / Data sales

HRM & HL Platform

AI analysis

- Health screening data
- Daily activities data
- Vital data and sleep data
- Medical treatment and prescription data
- Stress check data
- Test results data
- Fertility and birth data
- Pediatric data

Enterprises/Employees (E)

- Services
- Service usage fees

Various telephone, ID, and card payments

Transmission fees

Service Usage fees

General consumers (C)

Advertising, etc.

Growth Strategy D: Evolution of Platform Business

- Enhance services for employees (B-to-B-to-E) through *HRM & HL Platform* and expand services for consumers (B-to-C)
- Strengthen our function as a health & productivity management platform used by clinical physicians, industrial physicians, and public health nurses through the inclusion of electronic medical records and remote treatment services
- Continue expanding AI services that were developed utilizing work styles, health screenings, stress checks, and lifestyle information
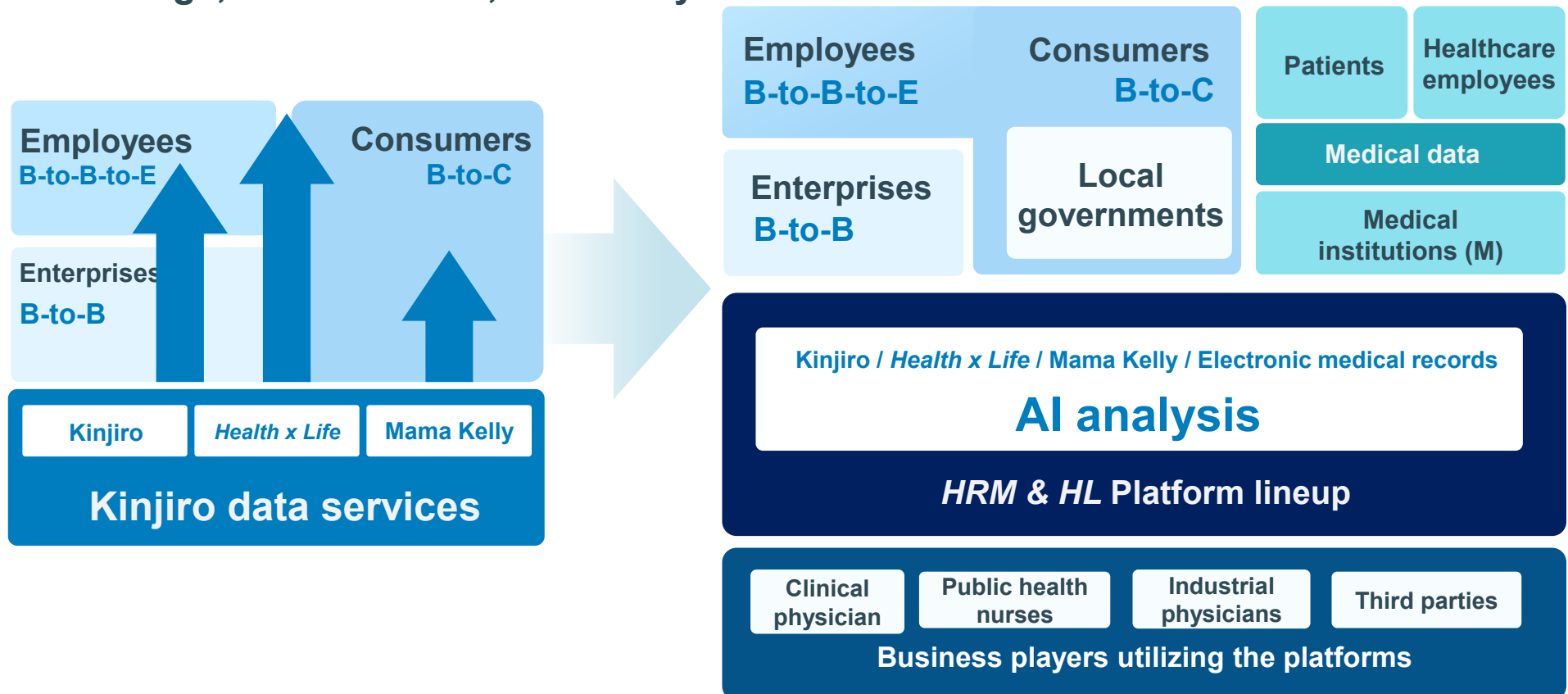
Kinjiro Enterprise Installations Breakdown by Scale and Industry

- **Breakdown of implementation by number of employees (On-premises) *1.18 million users**

Mainly mid- and large-sized enterprises
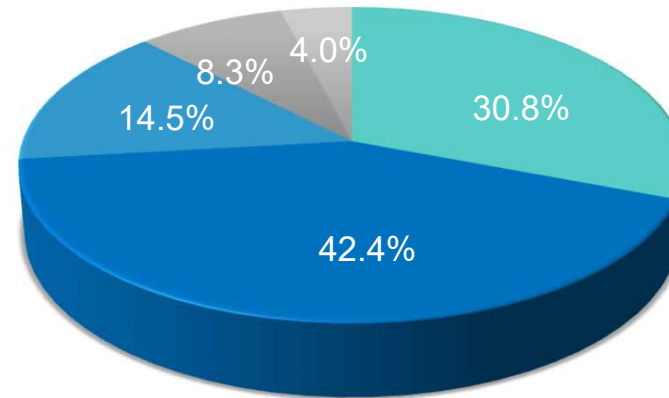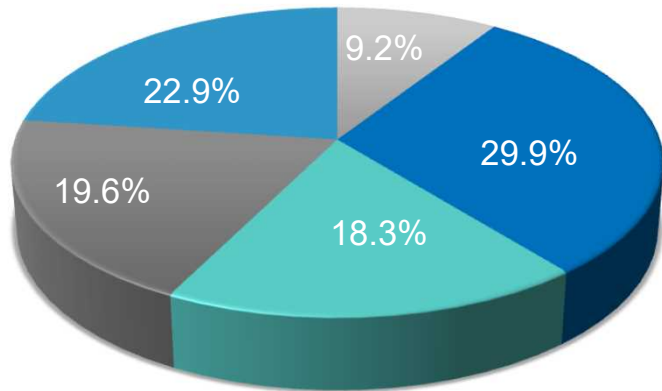
9.2%
29.9%
18.3%
19.6%
22.9%

(As of June 30, 2022)

◼ 1-100 ◼ 101-300 ◼ 301-500 ◼ 501-1,000 ◼ 1,000 or more

- **Breakdown of implementation by number of employees (Cloud)* 0.41 million users**

8.3% 4.0%
14.5%
30.8%
42.4%

(As of June 30, 2022)

◼ 1-100 ◼ 101-300
◼ 301-500 ◼ 501-1,000
◼ 1,000 or more

- **Breakdown of client numbers by industry**

  ***Implementation at a diverse range of different enterprises**

2.9% 2.4% 1.9% 1.3% 0.7%
4.1%
4.4%
5.3%
6.1%
7.0%
8.1% 10.8% 18.3% 26.6%
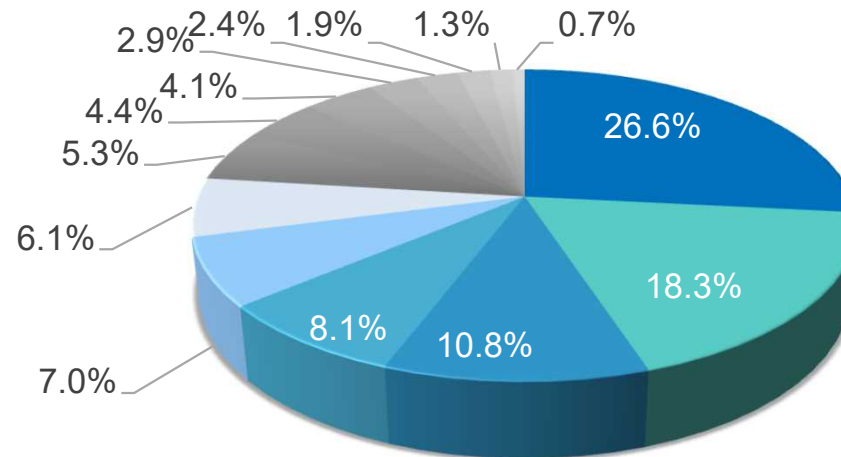
◼ Manufacturing
◼ Wholesale/retail
◼ Medical/welfare
◼ Construction
◼ Services
◼ Transport & postage
◼ Academic & specialist/technical services
◼ Information & communications
◼ Real estate & rental
◼ Accomodation, food, & entertainment
◼ Lifestyle services & entertainment
◼ Finance & insurance
◼ Education & learning support
◼ Others

(As of June 30, 2022)

Work Style Reform and Health & Productivity Management Initiatives

Initiative	Content

Improving health & productivity	- Health examinations and stress checks [Examination rate] 100%
	- Consultations with industrial physicians and public health nurses
	  [Industrial physician consultations] Online consultations: 10, Face-to-face: 2
	  [Public health nurse consultations] Online consultations: 4, Face-to-face: 11
	- Improvement in the anomaly observation rate for diabetes: Improvement rate 27% (YoY Change)
	- Supported employees' improvement of lifestyle-related diseases based on results of health examinations, stress checks, and overtime work
	- Enhance employees' motivation to improve their own health with health point management [Annual point-based return system]
	- Distribute wearable devices (average steps increased 191%)
	- COVID-19 PCR tests (general vaccine management, body temperature management)
	- Support for optional expenses related to influenza and health examinations
	- Continuous implementation of morning radio calisthenics
	- Improve dietary habits and literacy (distributed drinks)
	- Implement smoking cessation support programs for smokers

Improving work styles	- Revise working environments as a result of COVID-19 pandemic (utilization of teleworking and staggered shifts) - Promote use of paid time-off (PTO) during birthday month - Childcare support plans (nursery school fee subsidy, utilization of childrearing leave for male employees, teleworking for employees with children, and shortened working hours)
Training and education	- Training for different levels of seniority and departments / promoted women's health maintenance / conducted training on work style reforms - Internal newsletter from public health nurse / dissemination of health-related information [Delivered once every month] - Educational seminars for external parties: conducted 26
Internal communication	- Paid subsidies to support club activities of internal sports clubs [once every six months] - Paid expenses related to communications within each department [once every six months]