Financial Results Briefing Report for Q3 FY03/23

Third Quarter of the Fiscal Year Ending March 2023

(April 1, 2022 to December 31, 2022)

WOW
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January 31, 2023
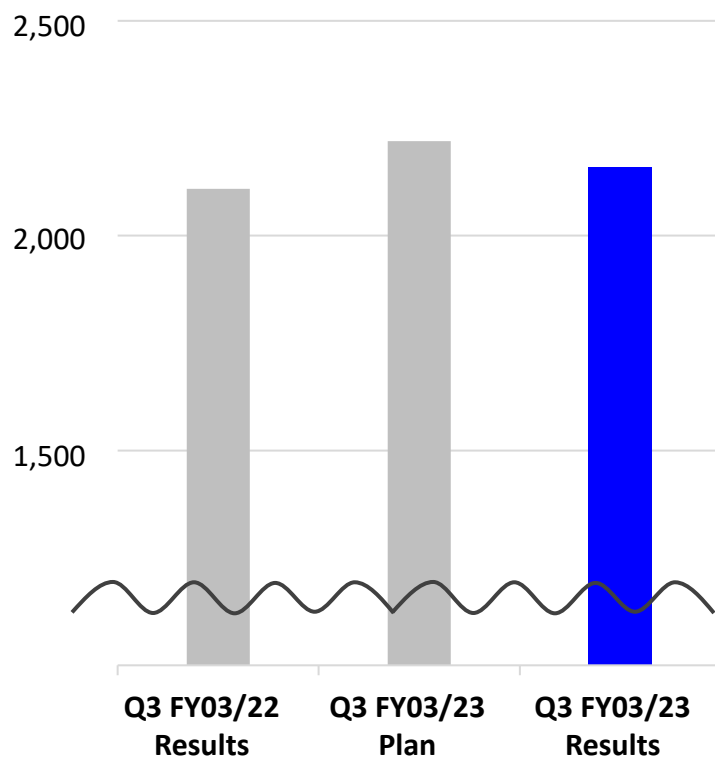
WOW WORLD GROUP Inc.

Contents

- **Q3 FY03/23 Results**

- **Earnings forecast for FY03/23**

- **Topics**

Revenue

2,159 Million yen

（Million yen）

2,500	
2,000	
1,500	

Q3 FY03/22 Results　Q3 FY03/23 Plan　Q3 FY03/23 Results

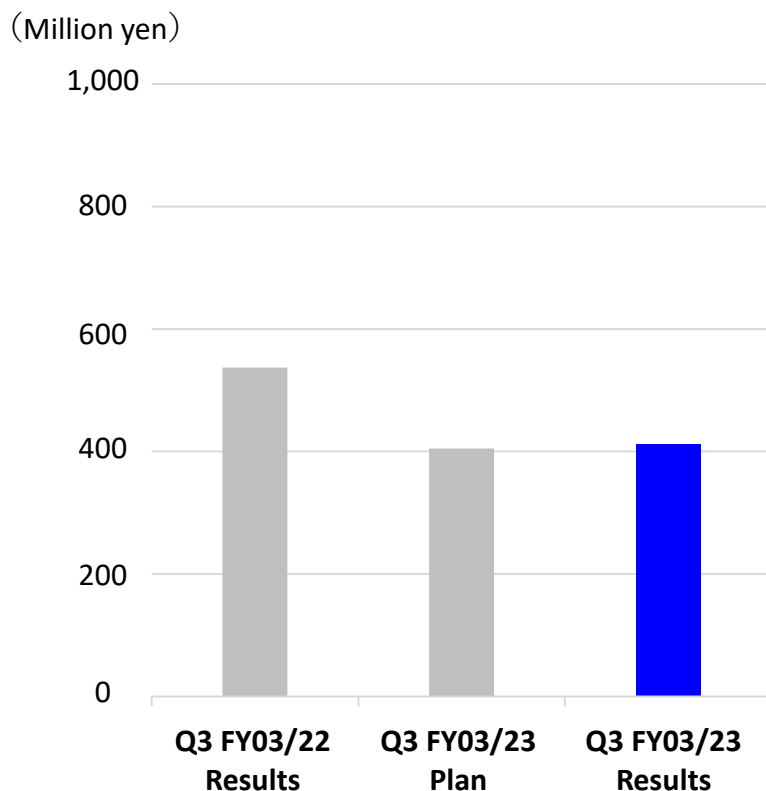［**Year-over-year basis ： +2.4％**］

- **Growth in cloud business: +9.2% year on year**
- **Increase in sales due to increase in large-scale web development projects : +9.8% year on year**
- **As we focused sales resources on our cloud business this period and had unusually large projects in the previous year, sales of the on-premiseversion declined comparatively : -26.7% year on year**
- **Other businesses: -32.9% year on year**
  - ✓ **Downturn due to the COVID-19 pandemic and seasonality in the e-commerce business, in which we are conducting test marketing**

［**Budget ratio ： -2.7％**］

- **Missed budget in the large-scale web development business and in the communication support and consulting business**

EBITDA

412 Million yen

（Million yen）

Q3 FY03/22 Results	Q3 FY03/23 Plan	Q3 FY03/23 Results

[**Year-over-year basis ： -23.2％**]

- Lower profit due to increase in upfront investment costs
- Initial sales promotion expenses for WOW engage press conference, etc
- Strengthening marketing, development and management systems
- Lower profit due to increase in one-time special expenses
- ISMAP certification costs required to continue transactions with government agencies
- Expenses for transition to a holding company structure (HD)

[**Budget ratio ： ＋1.7%**]

- Increase in capitalized amount due to focus on WOW engage development

Q3 FY03/23 Results

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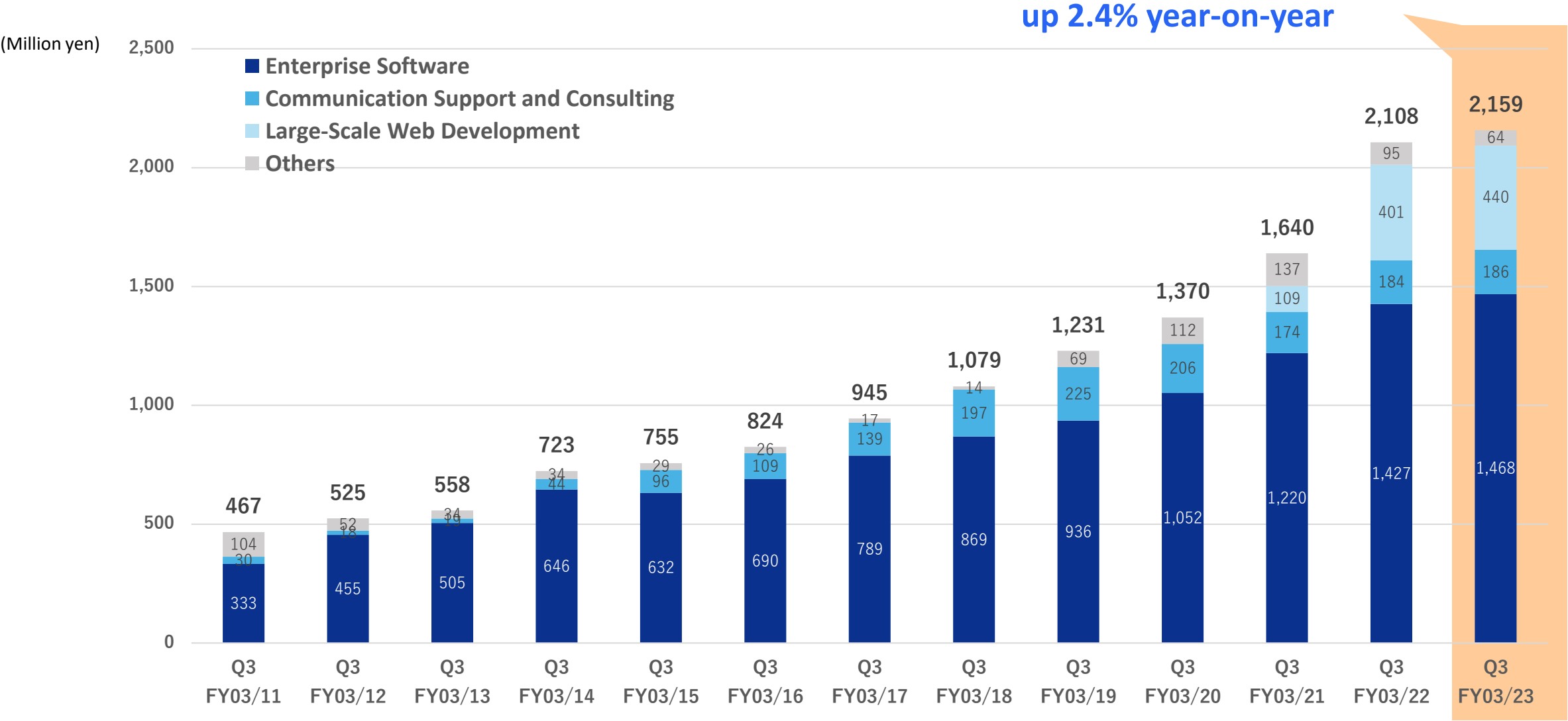|	
Enterprise Software	● Development and sales of communication platform "WEBCAS" series ● Development and sales of enterprise CMS "Connecty CMS on Demand" and "Connecty CDP" provided by Group company Connecty Inc.
Large-Scale Web Development	● Entrusted development of large-scale websites using "Connecty CMS on Demand" ● Operation support after website construction
Communication Support and Consulting	● Consulting for more effective use of the "WEBCAS" series, agency for email creation and distribution ● Implementation consulting of "Connecty CDP"
Others	● Operation of " Babychu ", an e commerce site for baby clothes by group company Mamachu Inc. Used as a research position to obtain hints for product development. ● Commissioned development business

(Million yen)

up 2.4% year-on-year

- Enterprise Software
- Communication Support and Consulting
- Large-Scale Web Development
- Others

	Q3 FY03/11	Q3 FY03/12	Q3 FY03/13	Q3 FY03/14	Q3 FY03/15	Q3 FY03/16	Q3 FY03/17	Q3 FY03/18	Q3 FY03/19	Q3 FY03/20	Q3 FY03/21	Q3 FY03/22	Q3 FY03/23
Total	467	525	558	723	755	824	945	1,079	1,231	1,370	1,640	2,108	2,159
Others	104	52		34	29	26	17	14	69	112	137	95	64
Large-Scale Web Development	30	18	16	44	96	109	139	197	225	206	109	401	440
Communication Support and Consulting											174	184	186
Enterprise Software	333	455	505	646	632	690	789	869	936	1,052	1,220	1,427	1,468

- **Revenue increased 2.4% year on year. While cloud services and large-scale web development business grew, the WEBCAS on-premise version saw a decline in sales**
- **EBITDA declined stemming from a 23.2% YoY decrease in profit due to an increase in outsourcing expenses for ISMAP[*3], initial sales promotion expenses for the new WOW engage service, and personnel expenses for WEBCAS and the large-scale web development business**
- **Operating profit declined 46.6% year on year due to the above cost increases and an increase in amortization of software assets due to added development investments**

(Million yen)

	Q3 FY03/22 Results [Japanese GAAP]	Q3 FY03/22 Results[*2] [IFRS]	Q3 FY03/23 Results	YoY (%)
Revenue	2,108	2,108	**2,159**	+2.4%
EBITDA[*1]	466	536	**412**	(23.2%)
EBITDA margin（%）	22.1%	25.5%	**19.1%**	
Operating profit	301	334	**178**	(46.6%)
Operating margin（%）	14.3%	15.8%	**8.3%**	
Profit (loss) before tax	299	330	**162**	(50.8%)
Profit attributable to owners of parent	167	204	**98**	(51.6%)

＊1 ：EBITDA　operating profit + depreciation / impairment / retirement loss (tangible / intangible fixed assets) + stock-based compensation expenses
＊2 ：This is the actual value after the audit for the application of IFRS and has been changed from the value disclosed at the beginning of the fiscal year.
＊3 ：ISMAP　Information system Security Management and Assessment Program. A system that aims to ensure the security level in the government's procurement of cloud services by evaluating and registering cloud services that meet the security requirements of the government in advance, thereby contributing to the smooth introduction of cloud services.

- Enterprise Software rose 2.9% year on year as sales increased for CMS, while decreasing for WEBCAS on-premises projects.
- Large-scale web development sales increased 9.8% year on year
- Communication support and consulting sales remained almost unchanged from the previous year
- In other businesses, sales declined 32.9% year on year due to a slump in the e-commerce business. This was mainly due to a decline in customer demand and delays in receiving original products due to the lockdowns in China

(Million yen)

			Q3 FY03/22 Results	Q3 FY03/23 Results	YoY(%)
Enterprise Software	Communication platform	Cloud	1,007	1,067	+6.0%
		On-premises	249	183	(26.7%)
			1,257	1,251	(0.5%)
	CMS		169	214	+26.4%
	CDP		-	2	-
			1,427	1,468	+2.9%
Large-scale web development	Construction		259	282	+9.0%
	Operation		141	157	+11.2%
			401	440	+9.8%
Communication support and consulting	Communication		184	185	+0.5%
	CDP		-	1	-
			184	186	+0.9%
Others			95	64	(32.9%)
Revenue total			2,108	2,159	+2.4%

※9

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- Monthly sales of WEBCAS premium version were impacted significantly by the decline in MRR (5 million/month) due to the migration of large projects to the on-premises version in Q4 of the previous fiscal year and recovered to the same level as the previous fiscal year due to the review of the sales system and the acquisition of new large-scale projects
- Monthly sales of WEBCAS standard version increased steadily (+14.9% year on year) due to up-selling and cross-selling customer success activities

(Million yen)

			Q3 FY03/22 Results	Q3 FY03/23 Results	YoY(%)
Communication platform	"WEBCAS" Premium version	Initial	86	78	(8.4%)
		Monthly	514	526	+2.3%
	"WECAS" Standard version	Initial	33	37	+10.6%
		Monthly	372	424	+14.9%
			1,007	1,067	+6.0%
CMS			169	214	+26.3%
CDP			-	2	-
Total cloud service revenue			1,177	1,285	+9.2%

- Enterprise Software profit declined (-2.7% year on year) due to lower sales of WEBCAS on-premises version licenses and a higher burden of higher software amortization
- Large-scale web development posted lower profit due to higher personnel costs and software amortization burden associated with strengthening our development structure, as well as higher server maintenance costs resulting from the weak yen (-38.9% year on year)
- Despite restrained investment in the wake of COVID-19, our communication support and consulting business reported higher profit due to steady progress in efforts focused on profitability (+7.0% year on year)
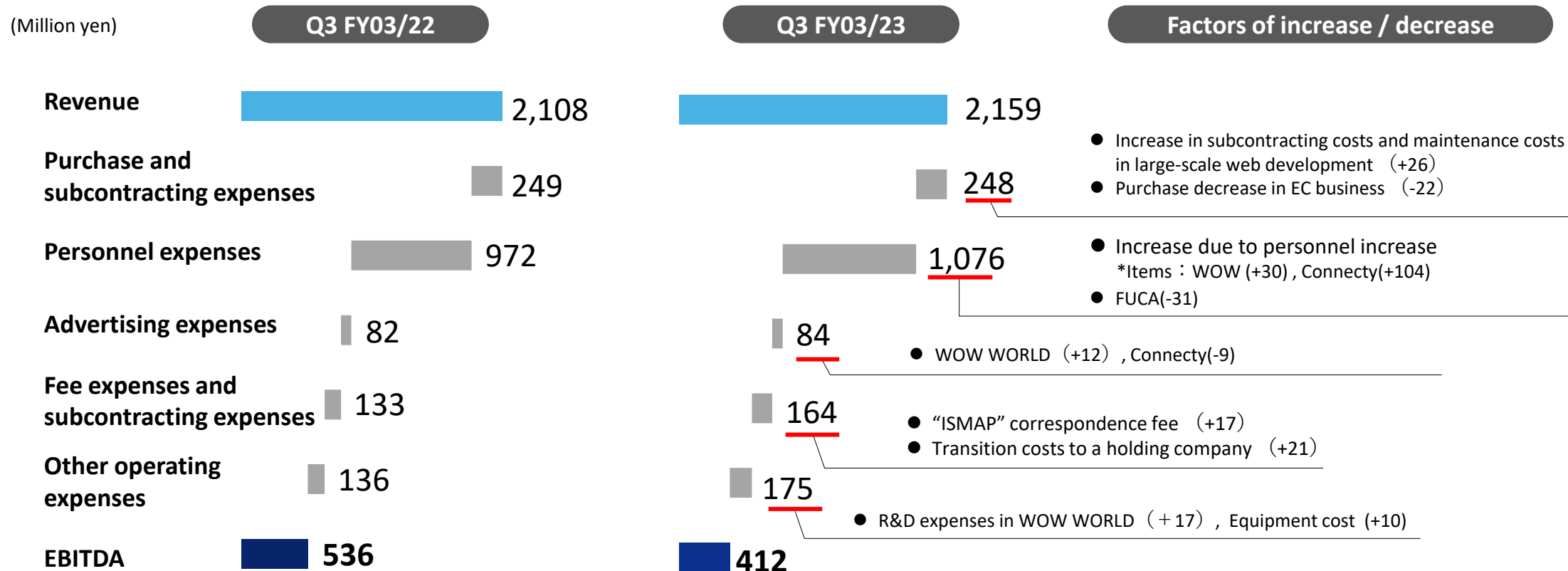

(Million yen)
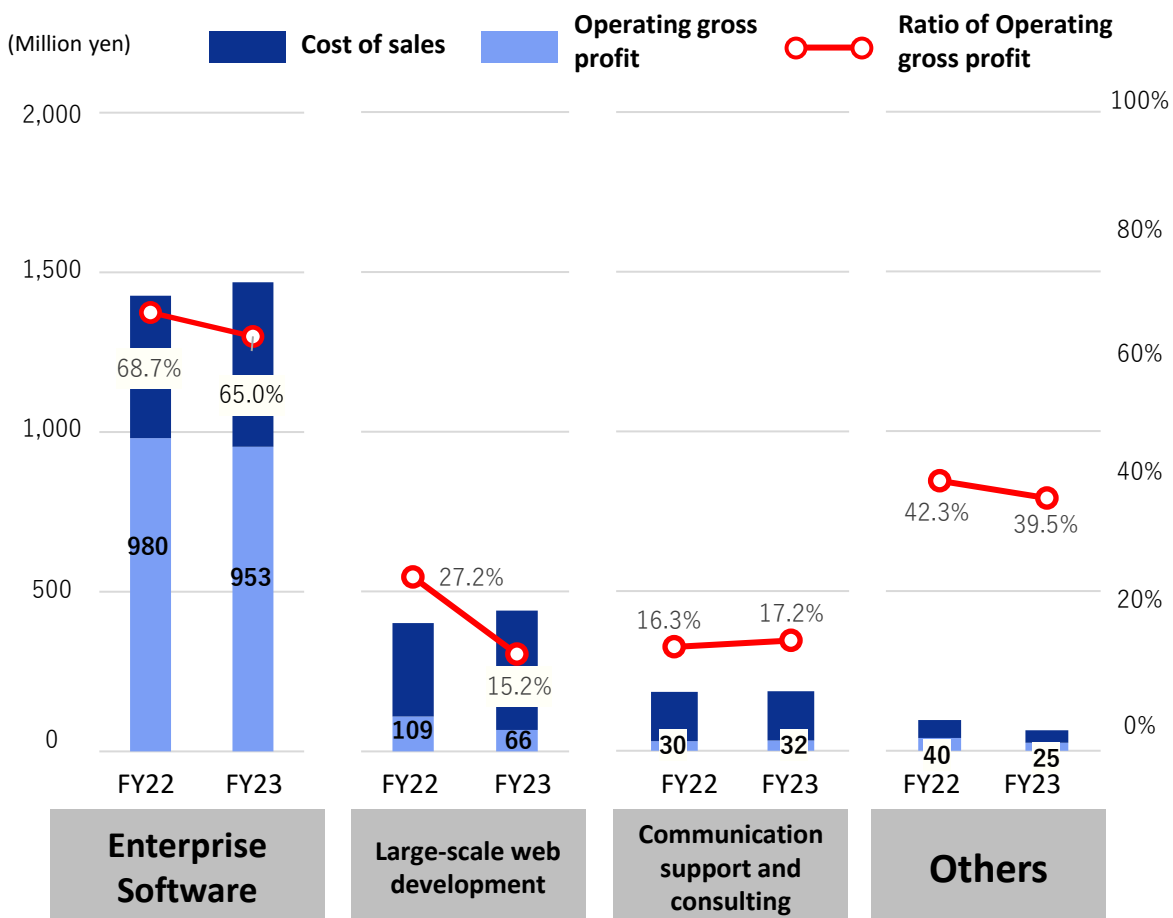
		Q3 FY03/22 Results	Q3 FY03/23 Results	YoY (%)
Enterprise Software	Operating gross profit	980	**953**	(2.7%)
	Ratio of Operating gross profit（%）	68.7％	**65.0%**	
Large-scale web development	Operating gross profit	109	**66**	(38.9%)
	Ratio of Operating gross profit（%）	27.2%	**15.2%**	
Communication support and consulting	Operating gross profit	30	**32**	+7.0%
	Ratio of Operating gross profit（%）	16.3%	**17.2%**	
Others	Operating gross profit	40	**25**	(37.3%)
	Ratio of Operating gross profit（%）	42.3%	**39.5%**	
IFRS adjustments		(11)	**(8)**	
Total	Operating gross profit	1,148	**1,069**	(6.8%)

Q3 FY03/23 Results │ EBITDA factors

- Revenue increased just 2.4% year on year due to sluggish WEBCAS on-premise version and e-commerce business sales; cloud services and large-scale web development businesses grew
- EBITDA declined stemming from a 23.2% YoY decrease in profit due to (1) strengthened marketing and development, (2) initial sales promotion expenses, etc. for the new WOW engage service, (3) expenses for ISMAP certification, and (4) one-time expenses for the transition to a holding company structure

(Million yen)

	Q3 FY03/22	Q3 FY03/23	Factors of increase / decrease
Revenue	2,108	2,159	
Purchase and subcontracting expenses	249	248	• Increase in subcontracting costs and maintenance costs in large-scale web development （+26） • Purchase decrease in EC business （-22）
Personnel expenses	972	1,076	• Increase due to personnel increase *Items：WOW (+30) , Connecty(+104) • FUCA(-31)
Advertising expenses	82	84	• WOW WORLD （+12）, Connecty(-9)
Fee expenses and subcontracting expenses	133	164	• "ISMAP" correspondence fee （+17） • Transition costs to a holding company （+21）
Other operating expenses	136	175	• R&D expenses in WOW WORLD （＋17）, Equipment cost (+10)
EBITDA	536	412	

■ **Breakdown of advance investment in anticipation of business expansion and outlook for future costs**

(Million yen)

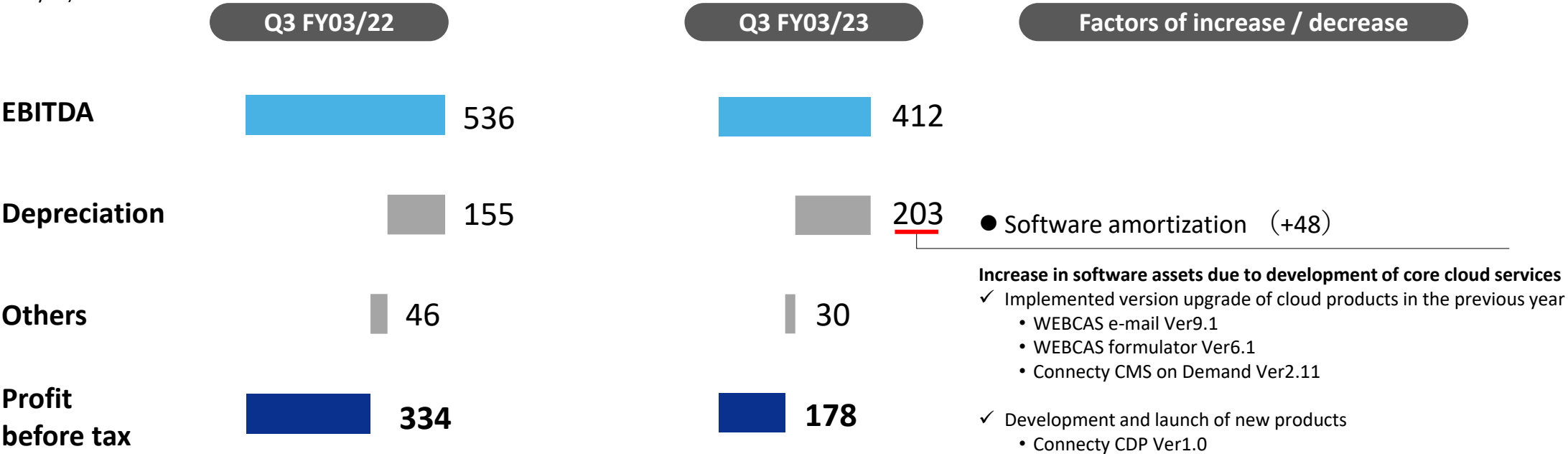| class	Content	detail	Q1-Q3 Results (YoY)	Q4 Forecast (YoY)	Full-year Forecast (YoY)
Advance investment	**HR investment of WOW WORLD** (Selling, general and administrative expenses)	Throughout the previous fiscal year, we strengthened marketing and planning systems in anticipation of future business expansion. We expect full-year results to be on a par with the previous fiscal year due to the complete amortization of stock options for executives and employees beginning Q2 onward.	**+3**	**(2)**	**+1**
	Development HR investment of Connecty	Securing development resources necessary for stable expansion of orders for large-scale web development in the future. On the other hand, outsourcing costs decreased (see next page)	**+53**	**+14**	**+67**
	"WOW engage" Related expenses	Initial promotional expenses (Press conference operating expenses, Teaser site, video production etc.)	**+14**	**±0**	**+14**
Total			**+70**	**+12**	**+82**

■ **Breakdown of one-off special expenses and the outlook for the occurrence of such expenses in the future**

(Million yen)

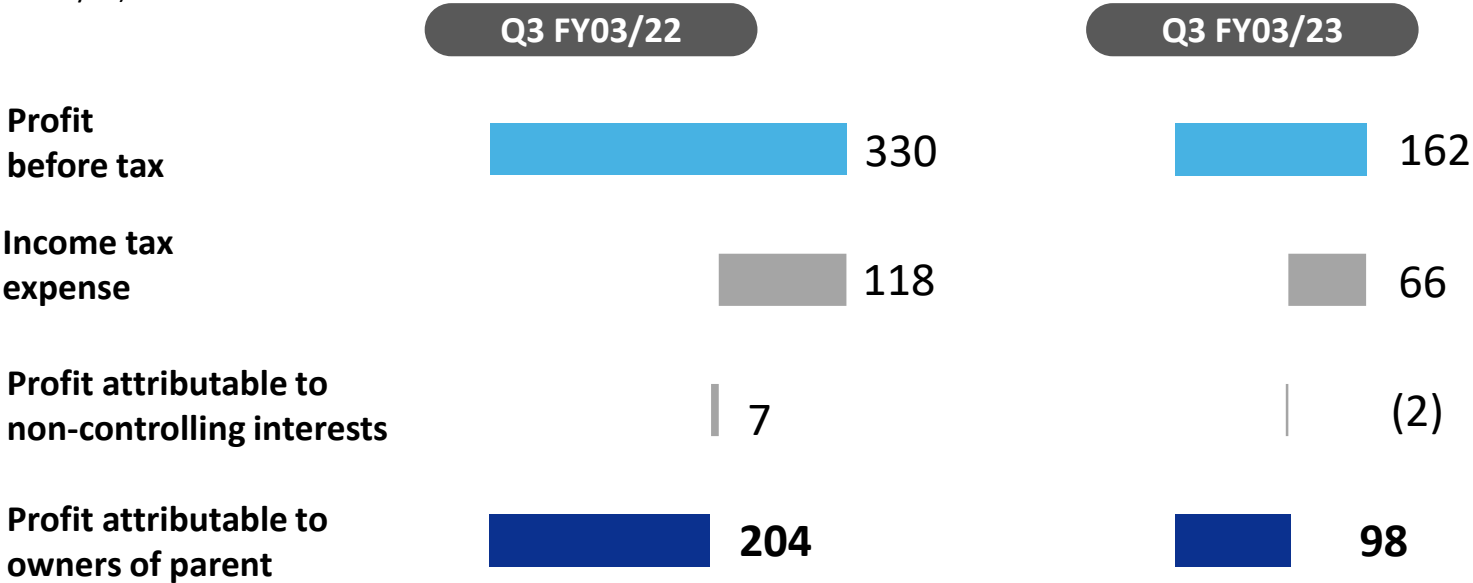| class	Content	detail	Q1-Q3 Results (YoY)	Q4 forecast (YoY)	Full-year forecast (YoY)
Special expenses	Subcontracting cost of Connecty	Subcontracting costs increased due to the delay in securing personnel for large-scale web development in the previous fiscal year; the impact is still being felt in the current fiscal year. We finished securing and training personnel in Q2 this year, and we intend to optimize internal resources and make productivity improvements. Therefore, we expect a decrease of 36 million year on year for the full year.	+10	(46)	(36)
	"ISMAP" expenses	Subcontracting expenses for a certification required for government transactions. Essential for future orders of cloud services from government agencies, and we consider acquisition desirable as quickly as possible.	+17	+5	+22
	Transition to a holding company	Consulting fees and other expenses (convocation notice for the ordinary general meeting of shareholders in June, etc.) as we transition to a holding company in October 2022.	+21	±0	+21
Total			+48	(41)	+7

■ **Increased depreciation costs due to enhanced development of "WEBCAS" and CMS and CDP**

(Million yen)

	Q3 FY03/22	Q3 FY03/23	Factors of increase / decrease
EBITDA	536	412	
Depreciation	155	203	● Software amortization （+48）
Others	46	30	
Profit before tax	**334**	**178**	

Increase in software assets due to development of core cloud services

✓ Implemented version upgrade of cloud products in the previous year
- WEBCAS e-mail Ver9.1
- WEBCAS formulator Ver6.1
- Connecty CMS on Demand Ver2.11

✓ Development and launch of new products
- Connecty CDP Ver1.0

■ Decrease in profit due to decrease in profit before tax

(Million yen)

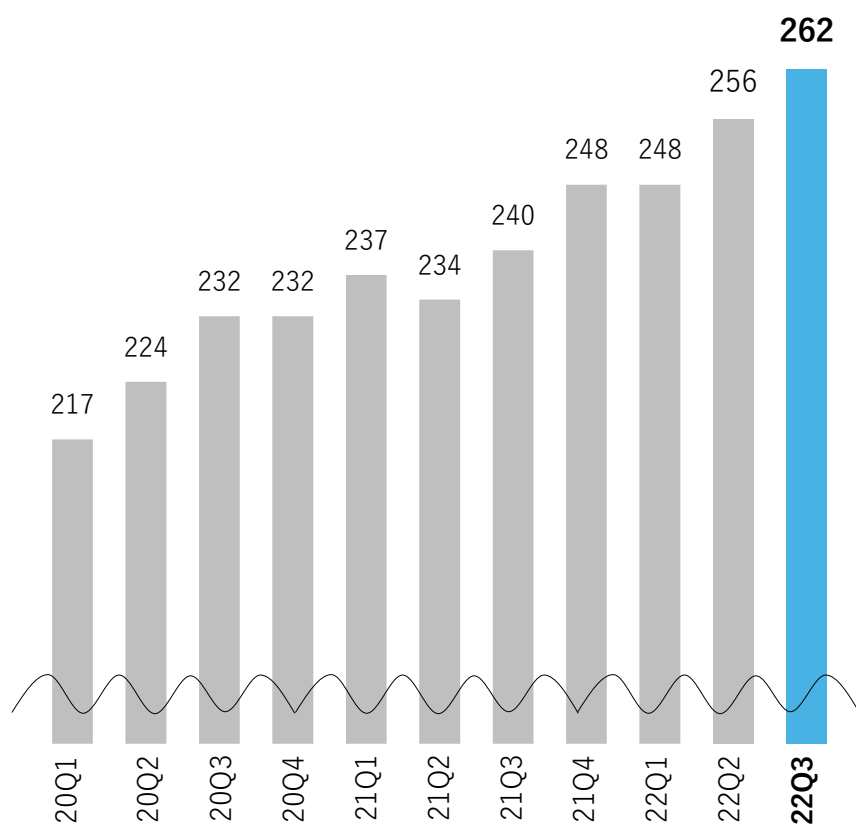|	Q3 FY03/22	Q3 FY03/23
Profit before tax	330	162
Income tax expense	118	66
Profit attributable to non-controlling interests	7	(2)
Profit attributable to owners of parent	**204**	**98**

16

- **WEBCAS standard version and Connecty CMS steadily increased against the backdrop of DX promotion**
- **WEBCAS premium version performed steadily due to the contribution of the acquisition of new projects including large-scale projects**
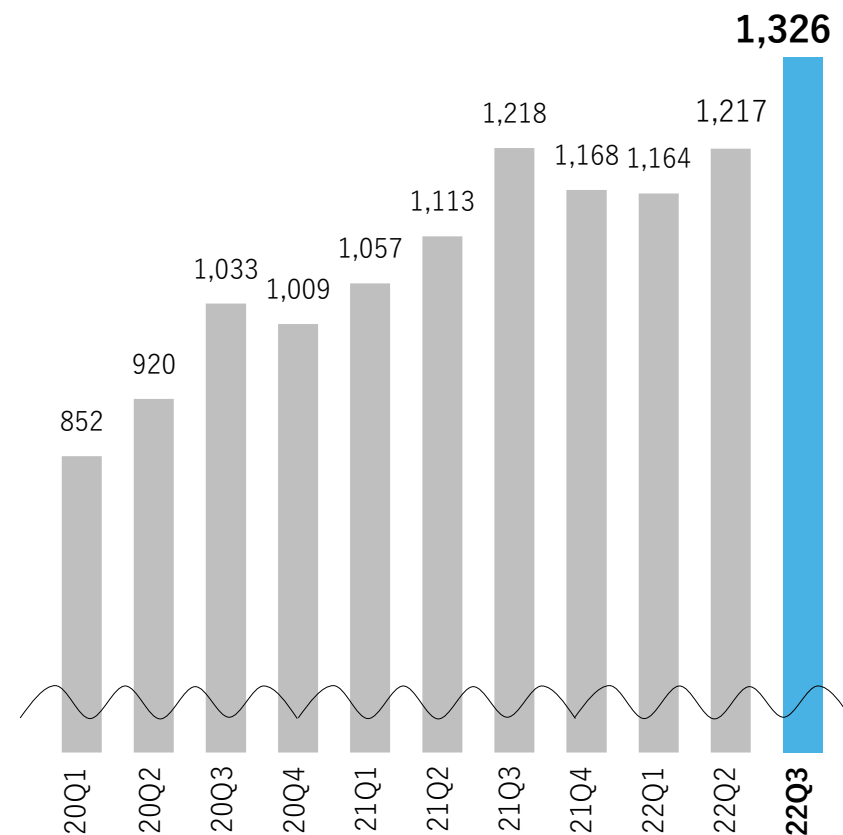
ARR (Annual Recurring Revenue)

(Million yen)

	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4	21Q1	21Q2	21Q3	21Q4	22Q1	22Q2	22Q3
Total	732	756	744	828	828	840	888	936	984	996	984	1,020	1,272	1,281	1,338	1,381	1,454	1,409	1,452	1,537	1,582
CMS													156	165	172	181	194	210	221	228	236
WEBCAS standard	288	324	276	300	324	324	324	348	372	384	360	384	444	456	491	504	552	532	557	578	608
WEBCAS premium	444	432	468	528	504	516	564	588	612	612	624	636	672	660	675	696	708	667	674	731	738

CMS

"WEBCAS" standard version

"WEBCAS" premium version

* Calculate by multiplying monthly sales of cloud services as of the end of each quarter(MRR) by 12

Q3 FY03/23 Results │ Cloud service KPI (WEBCAS)

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- **Results for the standard version increased significantly due to special demand for year-end and New Year's greeting e-mails**
- **We expect the premium version to increase steadily beginning in Q2 of this fiscal year due to the success of our strengthened sales system**
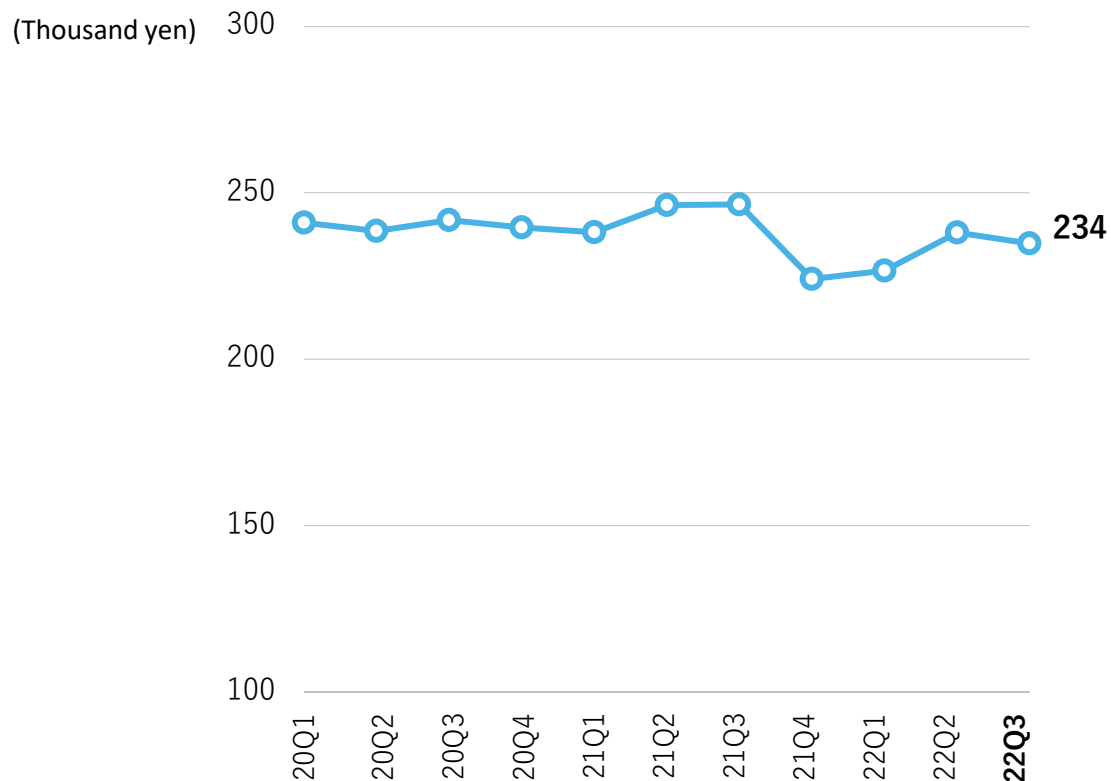
Renewal contracts ("WEBCAS" premium version)

Quarter	Value
20Q1	217
20Q2	224
20Q3	232
20Q4	232
21Q1	237
21Q2	234
21Q3	240
21Q4	248
22Q1	248
22Q2	256
22Q3	262

Renewal contracts ("WEBCAS" standard version)

Quarter	Value
20Q1	852
20Q2	920
20Q3	1,033
20Q4	1,009
21Q1	1,057
21Q2	1,113
21Q3	1,218
21Q4	1,168
22Q1	1,164
22Q2	1,217
22Q3	1,326

■ **Average revenue per user (ARPU) for the premium version declined due to the migration of a large project to the on-premises version in Q4 of the previous fiscal year; however, ARPU recovered thanks to a large project order in August of this fiscal year.**
■ **We saw a slight increased for the standard version due to successful up-selling and cross-selling under customer success activities.**

ARPU ("WEBCAS" premium version)

(Thousand yen)

234

ARPU = Average monthly sales per contract (excluding initial sales)

ARPU ("WEBCAS" standard version)

(Thousand yen)

38
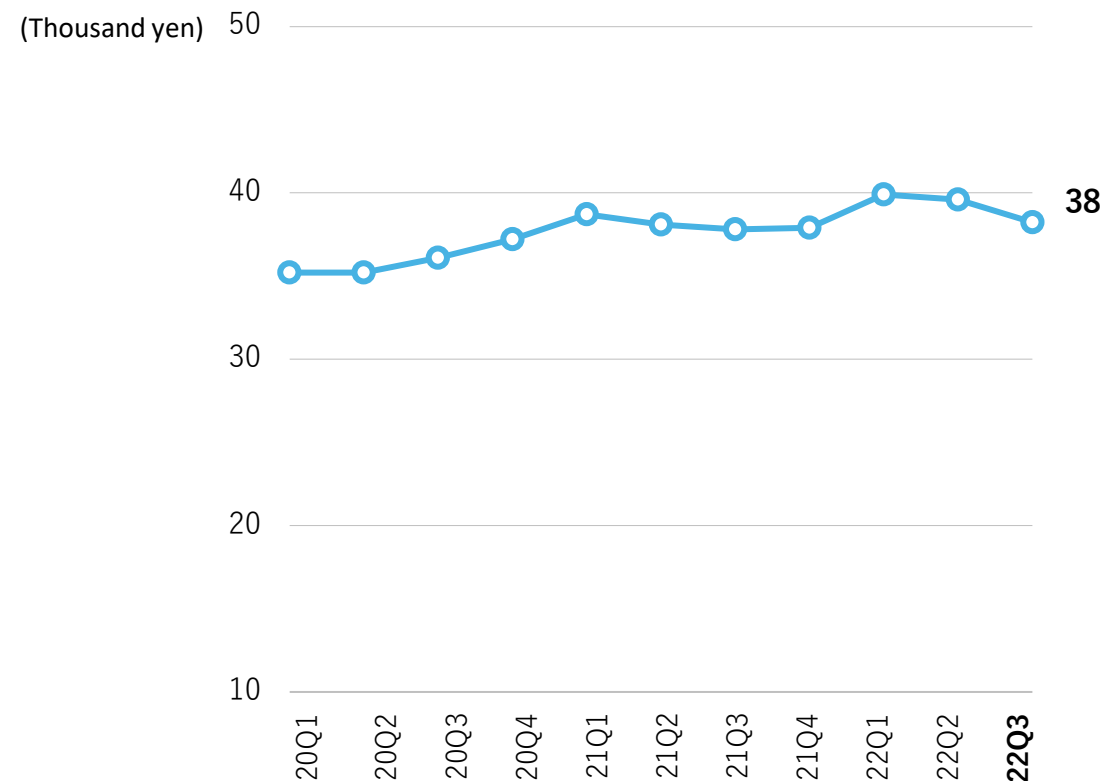
* Excluding option contracts and spot contracts

Q3 FY03/23 Results │ Cloud service KPI (WEBCAS)

■ **The premium version experienced almost no churn except for the migration of a large project to the on-premises version at the end of the previous fiscal year.**
■ **The standard version remained at 1% to 2%, although the fluctuation was relatively large due to the large number of contracts.**

Churn rate ("WEBCAS" premium version)

Temporary increase due to migration of large-scale projects to on-premises version

0.0%
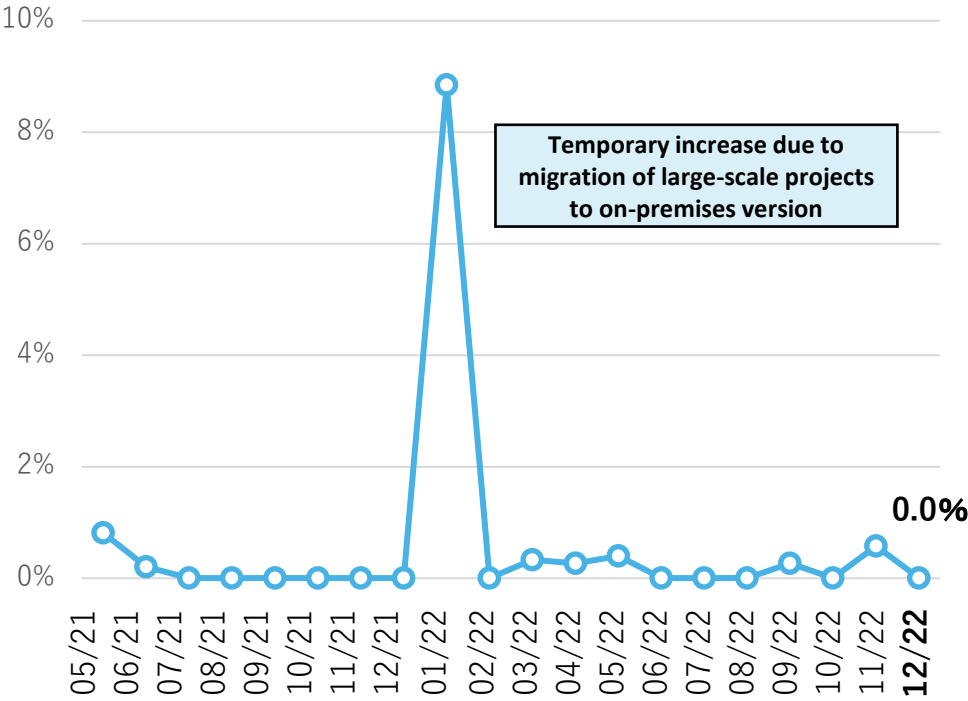
Churn rate ("WEBCAS" standard version)

0.9%
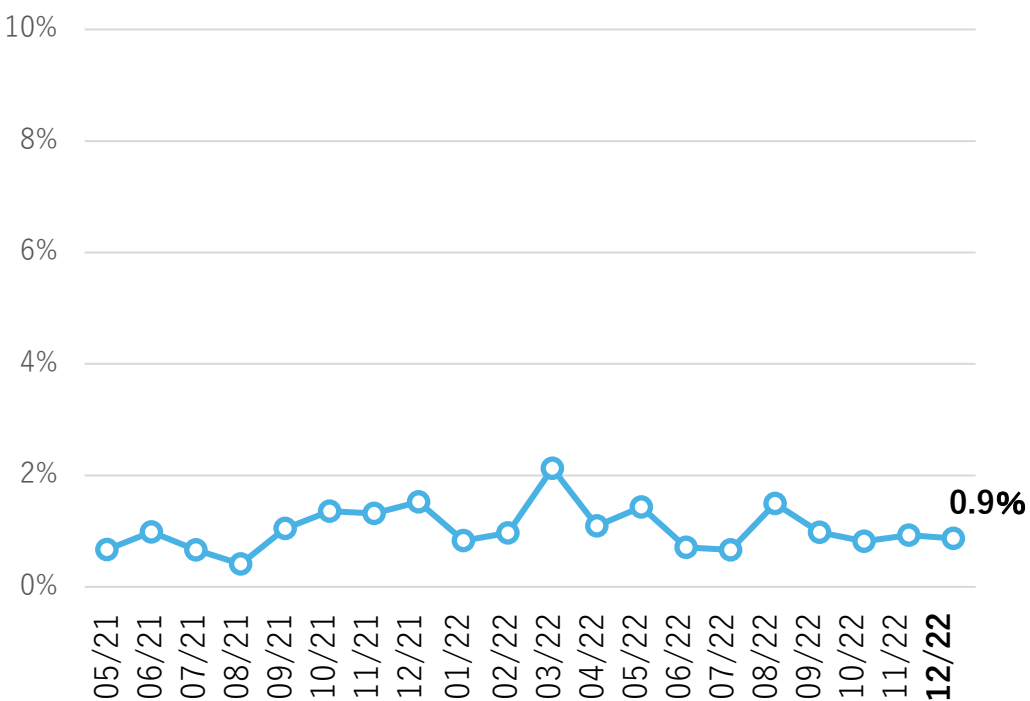
Churn Rate = Churn MRR* ÷ Last month MRR   *Spot contract (including option contract), which is a form of usage for a limited period of time, is excluded from cancellation MRR.

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- Steady introduction to new customers and increase in the number of customers due to high competitiveness
- APRU remained flat due to the relatively small number of deals acquired this term

Renewal contracts

ARPU

(Thousand yen)
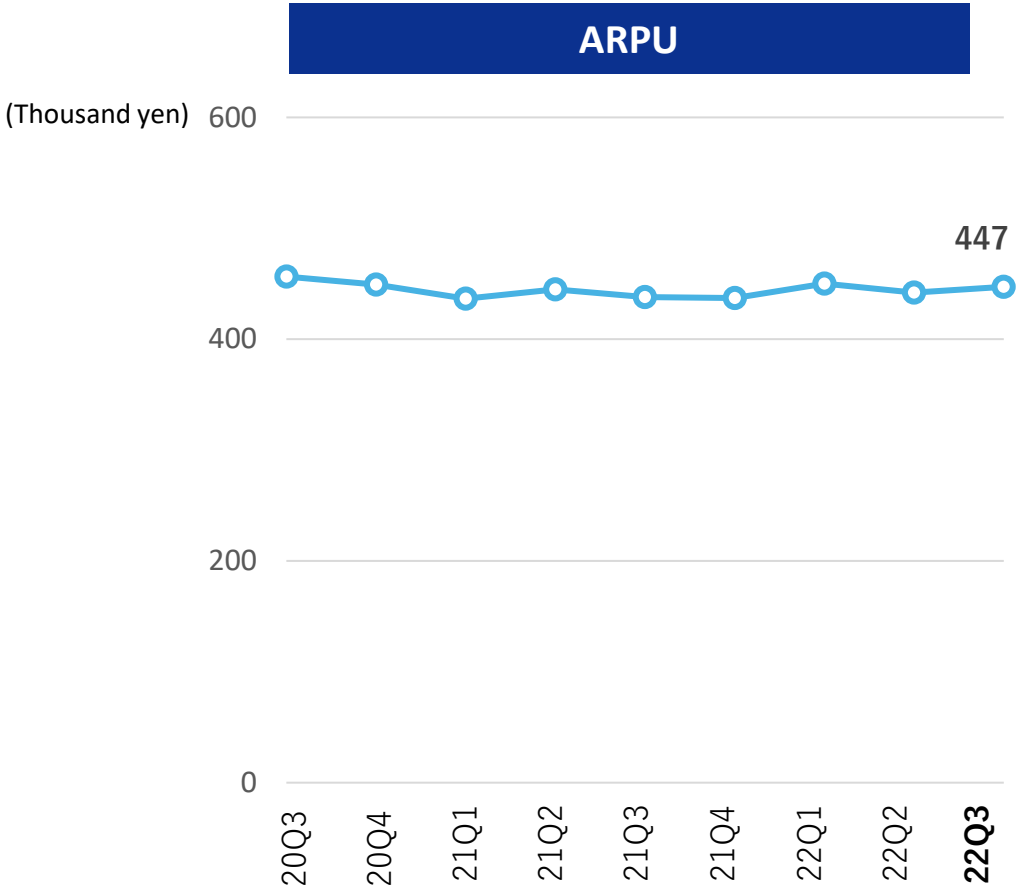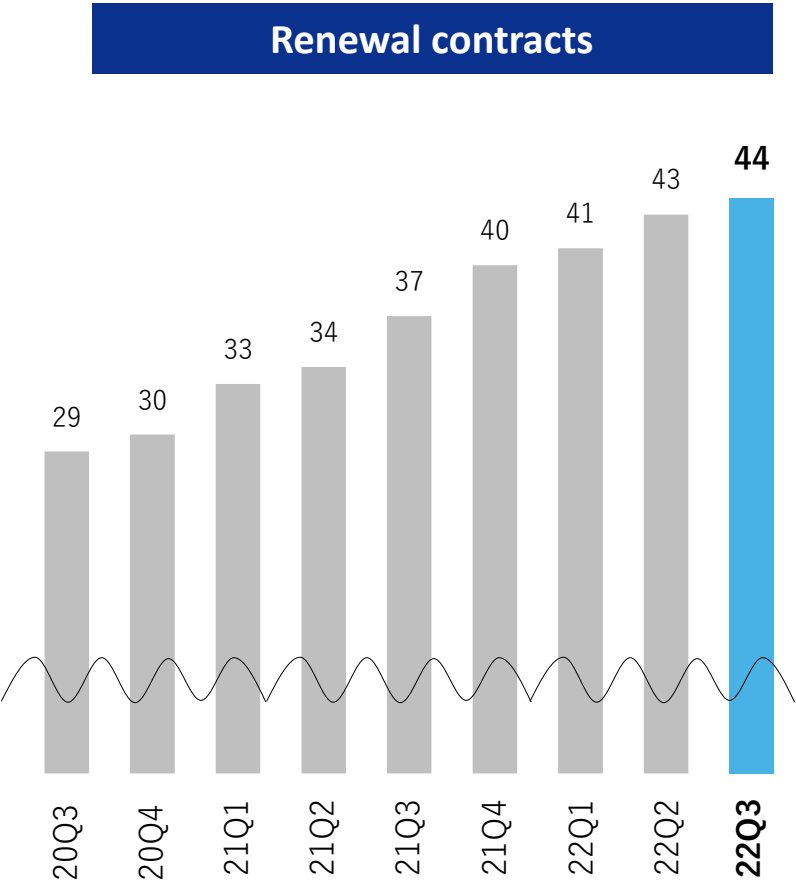
Earnings forecast for FY03/23

Earnings forecast for FY03/23 │ Profit and loss statement [IFRS]

■ **No change from full-year earnings forecast announced on August 5, 2022**

(Million yen)

	FY03/22 Results[2]	FY03/23 Revised forcast	YoY (%)
Revenue	2,833	**3,000**	＋5.9%
EBITDA[1]	666	**620**	(7.0%)
EBITDA margin (%)	23.5%	**20.7％**	
Operating profit	399	**330**	(17.3%)
Operating margin (%)	14.1%	**11.0％**	
Ordinary profit	394	**320**	(19.0%)
Profit attributable to owners of parent	244	**200**	(18.2%)

＊1：EBITDA　operating profit + depreciation / impairment / retirement loss (tangible / intangible fixed assets) + stock-based compensation expenses
＊2：This is the actual value after the audit for the application of IFRS and has been changed from the value disclosed at the beginning of the fiscal year.

■ **No change from full-year earnings forecast announced on August 5, 2022**

(Million yen)

			FY03/22 Results	FY03/23 Revised forcast	YoY (%)
Enterprise Software	**Communication platform**	**Cloud**	1,352	**1,447**	＋7.1%
		On-premises	324	**200**	(38.2%)
			1,676	**1,647**	(1.6%)
	CMS		234	**287**	+22.5%
	CDP		－	**11**	－
Large-Scale Web Development		**Construction**	378	**354**	(6.2%)
		Operation	191	**227**	＋19.0%
Communication Support and Consulting		**Communication**	228	**323**	+42.2%
		CDP	5	**52**	＋857.0%
Others			120	**95**	(20.7%)
Sales total			2,833	**3,000**	＋5.9%

Topics

Topics | Contents

WOW WORLD Group

- Notice Regarding Completion of Payment of New Shares as Restricted Stock Compensation (October 31, 2022)

- Notice Concerning Change in Major Shareholder and Largest Shareholder (December 6, 2022)

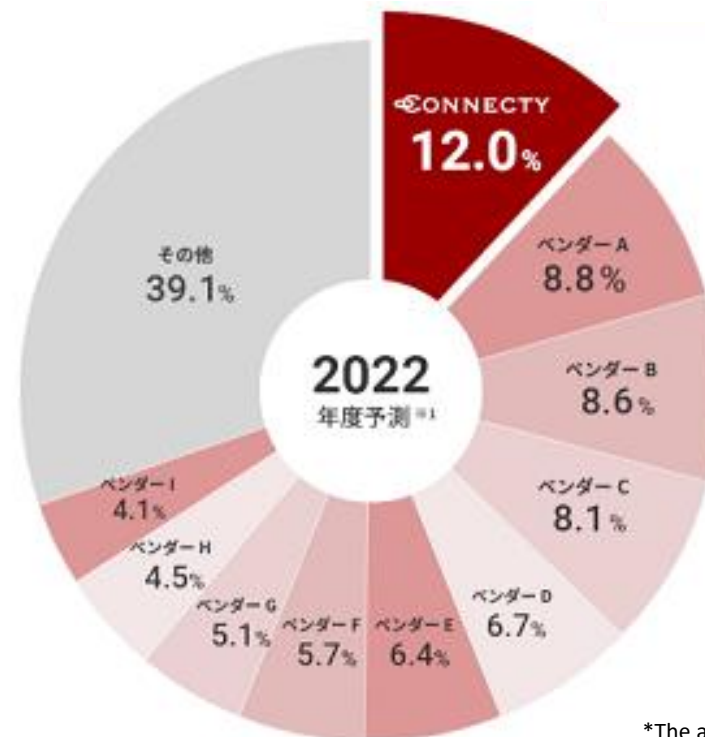- Notice Regarding Dissolution of Specified Subsidiary (January 11, 2022)

Product initiatives

- Newstream launches "Greeting Mail Production Service" (October 27, 2022)

- Connecty wins No.1 share in the CMS market in the manufacturing industry for a third consecutive year (November 7, 2022)

- WOW WORLD selected as a Good Service in the mail delivery system category of the BOXIL SaaS AWARD Winter 2022 (December 9, 2022)

- WOW WORLD selected as Good Service provider in the web survey tool system category of the BOXIL SaaS AWARD Winter 2022 (December 9, 2022)

- WOW WORLD incorporates two-factor authentication using one-time passwords into the WEBCAS series as a standard feature (December 26, 2022)

■ **Connecty's domestic cloud CMS for large enterprises, Connecty CMS on Demand, ranked No. 1 in the CMS market and manufacturing industry for a third consecutive year in the CMS Market/Manufacturing Industry category in the market research report ITR Market View: EC Site Construction/CMS/SMS Sending Service/E-Contract Service Market 2022 published by ITR Corporation**

その他 39.1%

CONNECTY 12.0%

ベンダーA 8.8%

ベンダーB 8.6%

ベンダーC 8.1%

ベンダーD 6.7%

ベンダーE 6.4%

ベンダーF 5.7%

ベンダーG 5.1%

ベンダーH 4.5%

ベンダーI 4.1%

2022 年度予測※1

*The article quoted is in Japanese only.

"ITR Market View： ITR Market View: EC Site Construction/CMS/SMS Sending Service/E-Contract Service Market 2022 " (ITR Corporation)

Topics | **WOW WORLD selected as a Good Service in the mail delivery system category of the BOXIL SaaS AWARD Winter 2022**

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- E-mail delivery system WEBCAS e-mail was selected as a Good Service in the e-mail delivery system category of BOXIL SaaS AWARD Winter 2022
- WEBCAS e-mail was also selected as No. 1 in the following four categories: No. 1 in Service Stability, No. 1 in Support Quality, No. 1 in Price Adequacy, and No. 1 in Sales Representative Favorability

*The article quoted is in Japanese only.

See below for details and selection criteria for "BOXIL SaaS AWARD Winter 2022".(Japanese only)
https://boxil.jp/awards/2022-winter/

Topics | **WOW WORLD selected as Good Service provider in the web survey tool system category of the BOXIL SaaS AWARD Winter 2022**

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- **WEBCAS formulator, a survey and form creation system, was selected as a Good Service in the web survey tool and system category of the BOXIL SaaS AWARD Winter 2022**
- **WEBCAS formulator was also selected as No. 1 in all nine word-of-mouth evaluations, including No. 1 in Ease of Use, No. 1 in Functional Satisfaction, and "No. 1 in Support Quality**

*The article quoted is in Japanese only.

See below for details and selection criteria for "BOXIL SaaS AWARD Winter 2022".(Japanese only)
https://boxil.jp/awards/2022-winter/

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- **The main services of the WEBCAS series now features two-factor authentication via a one-time password through the smartphone app, in addition to the conventional ID and password input**
- **One-time passwords are disposable passwords automatically generated after a certain period of time (roughly ten seconds or so) and cannot be reused. This type of authentication increases changes of preventing unauthorized login by a third party**

*Service screens are in Japanese only

※ One-time passwords are issued using Google Authenticator, an authentication system for smartphones provided by Google.
This app allows you to receive the authentication code required for two-factor authentication.

The purpose of this material is to help shareholders, investors, etc. understand information such as our management policy, plans, and financial status, and it is not intended to solicit investment such as purchase or sale of our shares.

The information provided in this material is our current plans, outlooks, strategies, etc. that are not historical facts are prospects for future performance, etc., which are based on currently available information. It is based on the judgment of our management team and contains risks and uncertainties.

Actual performance may differ significantly from the outlook for these performances due to various factors such as economic conditions, competitive conditions in the telecommunications industry, and the success or failure of new services. In the future, even if there is new information or future events, we are not obligated to update or correct the "outlook information" included in this announcement.

Creating a surprise-filled world with the power of people and technology.

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