



Net Protections HD

Net Protections Holdings, Inc.

Financial Results Presentation for the Nine Months Ended December 31,
2022

February 14, 2023

※The transcription of Q&A is listed from page 40.

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Good afternoon, everyone, and thank you for taking time out of your busy schedules to join us. I am Kazuharu Watanabe, CFO of Net Protections Holdings. I would like to begin the financial results presentation for the third quarter of the fiscal year ending March 31, 2023.

CEO Shibata is attending the ICC Summit today. He is making a presentation at the event in an effort to expand our business network.

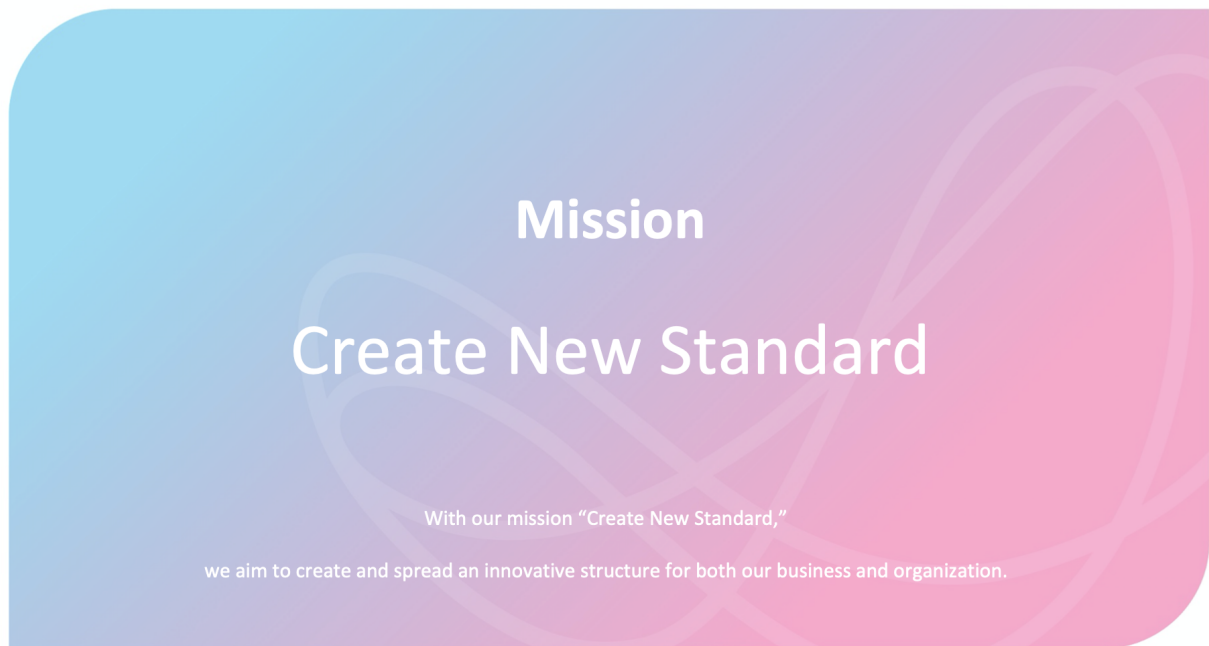
This event has previously led multiple merchants to adopt our services, and Shibata himself is working to promote our business. Therefore, I, Watanabe, will be the main speaker this time.

This is today' s agenda.

I will start by giving you an outline of the company and some business highlights, after which I will discuss our third-quarter financial results.

Finally, I will provide you with an explanation of our growth strategy.

Mission



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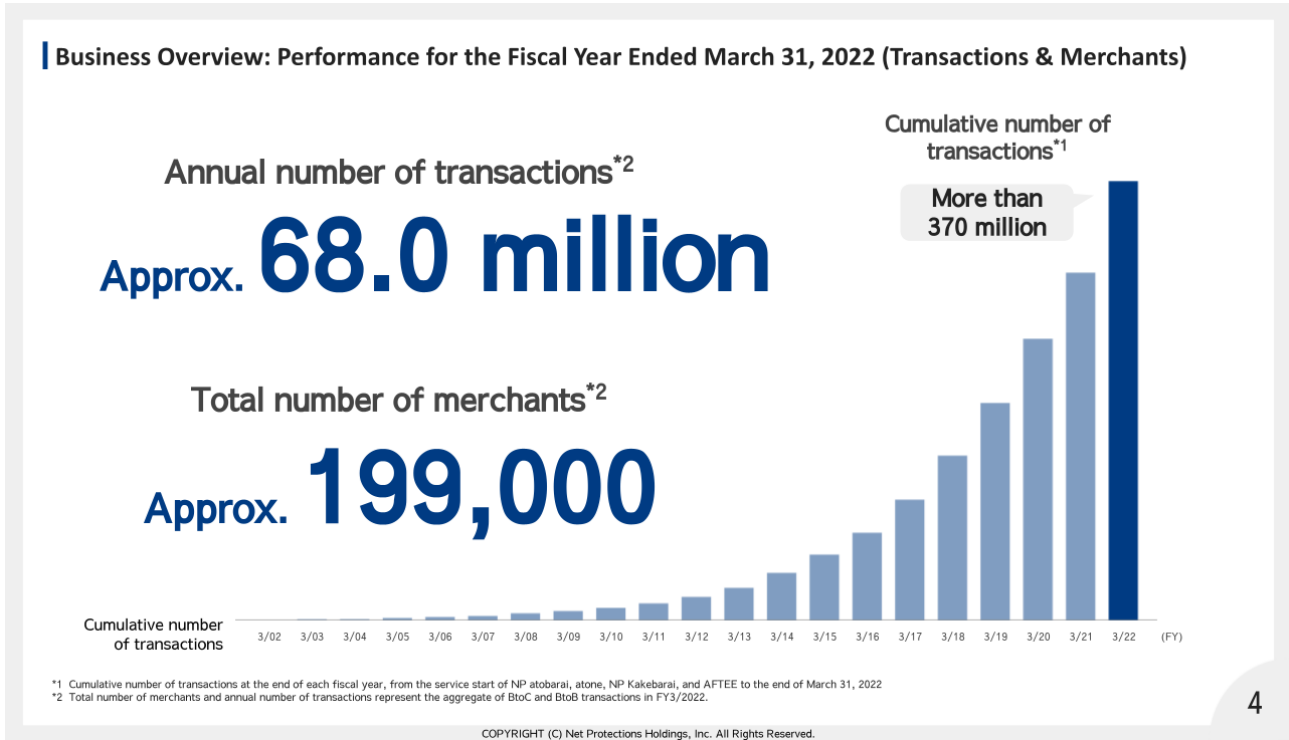
This page is placed at the beginning of the material at every meeting.

We truly respect our management philosophy, and has set up the mission to “Create New Standard.”

What makes us unique is that we also want to create a new standard not only for our business, but also for our organization,

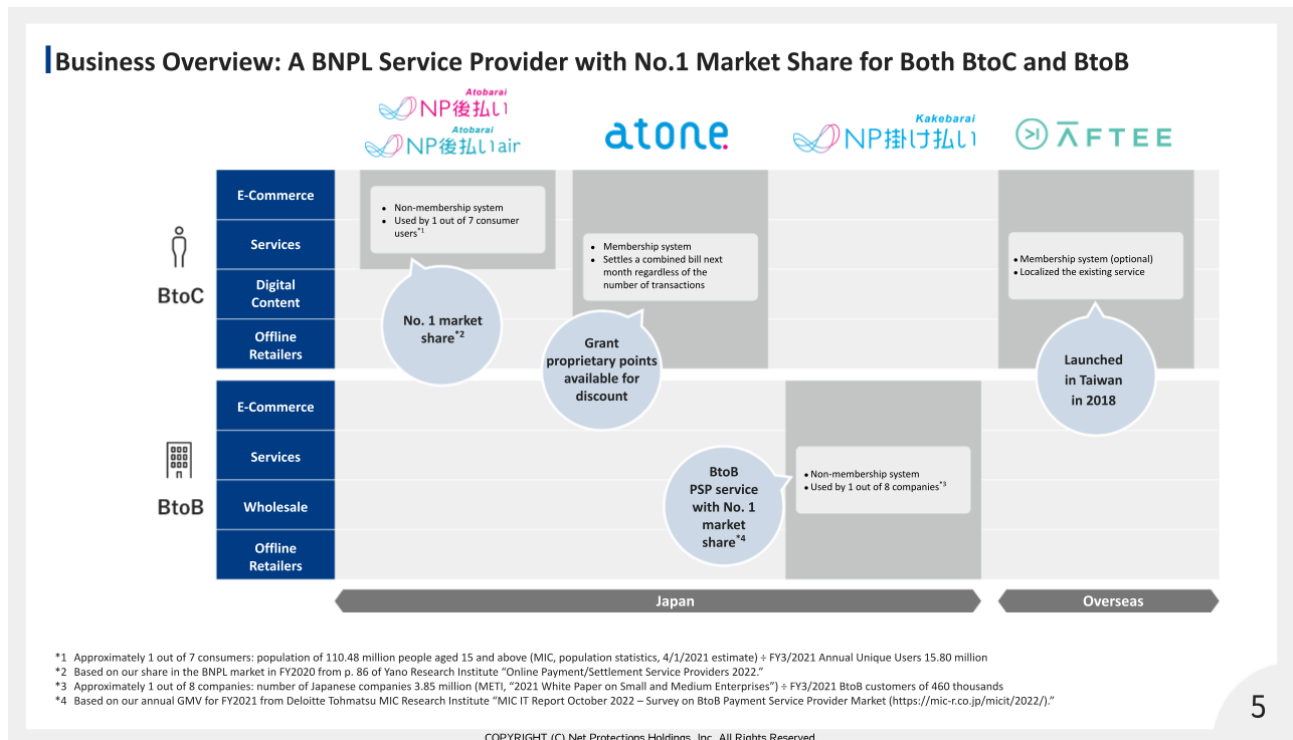
and as part of that, we have adopted “teal organization,” which is quite unusual for a listed company.

Business Overview: Performance for the Fiscal Year Ended March 31, 2022 (Transactions & Merchants)



Since our foundation, we have steadily increased the number of merchants, and our services are used in various BtoC, BtoB, and overseas settings.

Business Overview: A BNPL Service Provider with No.1 Market Share for Both BtoC and BtoB



We provide five services, which are all “Buy Now Pay Later (BNPL)” services.

Both NP Atobarai, a BtoC service, and NP Kakebarai, a BtoB service, boast the number-one shares of their respective payment services markets.

We aim to establish our position as a comprehensive BNPL service provider by developing and offering services that fit in each of the markets.

Our vision is to become a payment infrastructure provider offering BNPL services that users can use anytime and anywhere.

Business Overview: Reasons Why Our BtoC Services Are Chosen

Business Overview: Reasons Why Our BtoC Services Are Chosen

We offer payment services with security, convenience, and benefits. No credit card and pre-registration required.

Secure

No credit card is required, thus eliminating risk of information leakage or unauthorized use



Convenient

Ready to use at over 190,000 online stores without sign-up



Beneficial

The reward points program^{*1} makes shopping more affordable



*1 Sign-up is required to use reward points.

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This slide presents the reasons why our BtoC Services are chosen.

We are proudly offering BNPL, which is secure, convenient, and beneficial for users.

Recently, an increasing number of payment providers have entered the BNPL market, but most of them require an application like credit cards, and the service cannot be used until the results of the screening process are out.

We offer cardless payment services that are secure with no information leakage or unauthorized use.

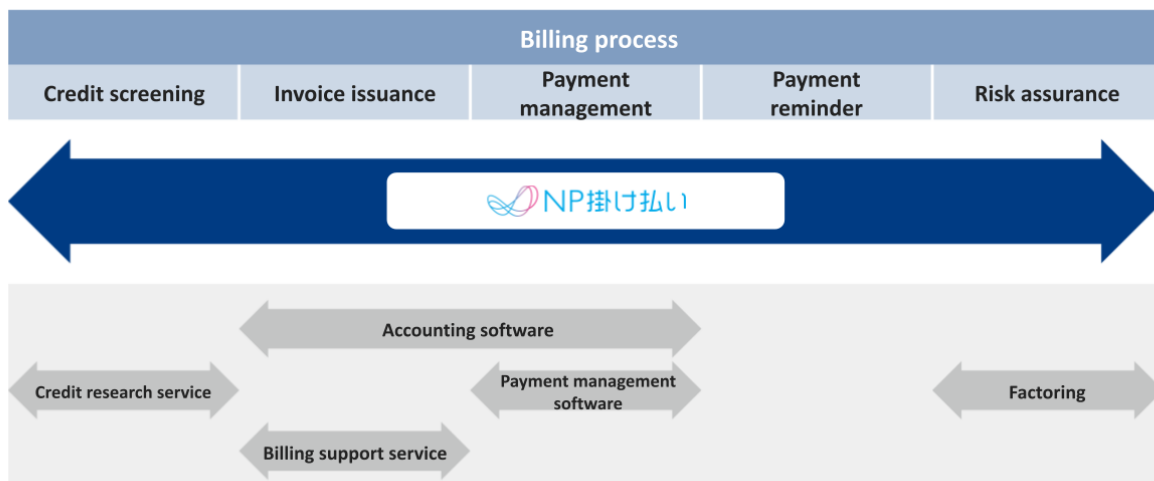
Also, there is no need to sign up to use. Our services are instantly available at over 190,000 e-commerce stores. Furthermore, if you sign up as a member, you will receive exclusive points that can be used for discounts.

We believe that our BtoC Services can be accepted as we provide a seamless payment service that is secure and easy to use anywhere and by anyone.

Business Overview: Reasons Why Our BtoB Service Is Chosen

Business Overview: Reasons Why Our BtoB Service Is Chosen

NP Kakebarai, our BtoB service, is a Business Process Outsourcing (BPO) service for BtoB transactions that allows merchants to outsource the entire billing process (credit screening, invoice issuance, payment management, payment reminders, and risk-free guarantee).



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Next is the reasons why our BtoB service is chosen.

BtoB is seeing an increase in billing-related services, but most of these services handle only part of the billing process. Not many services offer one-stop, fully outsourceable services like ours.

For example, growing companies add new customers every month.

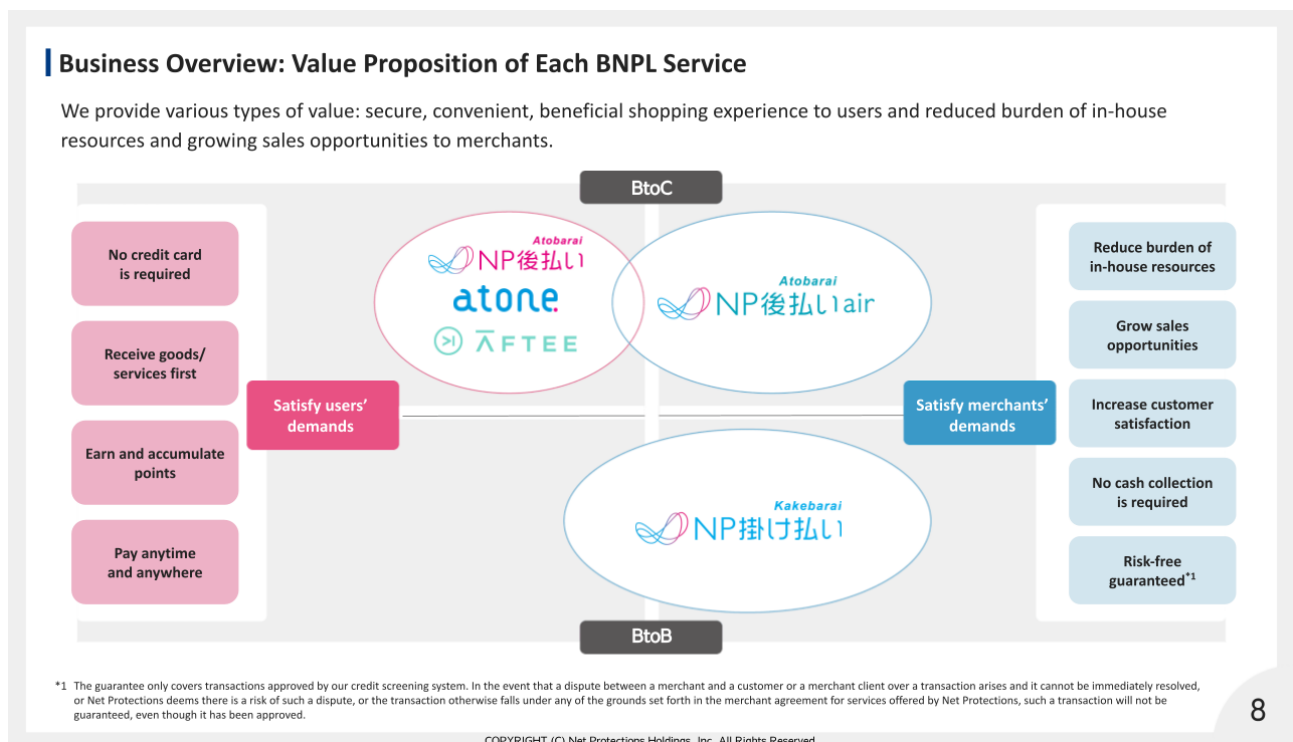
They may wish to sell on credit, but handling credit screening in-house is difficult, so they have to use professional services. Moreover, the number of invoices will increase, and so will the accounting workload. It is even harder to follow up on delayed payments and send reminders.

Risk assurance of a business partner's bankruptcy is another thing to consider.

Recently, many companies have been promoting digital transformation to improve productivity. However, as the billing process involves a wide range of tasks, using and managing different services for each of them are quite challenging.

Our BtoB service has been chosen as a BPO service that allows merchants to outsource the entire billing process, including credit screening, invoice issuance, payment management, payment reminders, and risk-free guarantee.

Business Overview: Value Proposition of Each BNPL Service



Moving on, I will explain our value proposition of each service.

NP Atobarai, atone, and AFTEE are services that mainly satisfy the needs of users. They offer a safe and secure payment method because users do not need a credit card, so there is no risk of information being divulged, and because payment is only made after confirming receipt of the product. Furthermore, NP Atobarai and atone are the only BNPL services that reward points to users, making users more beneficial.

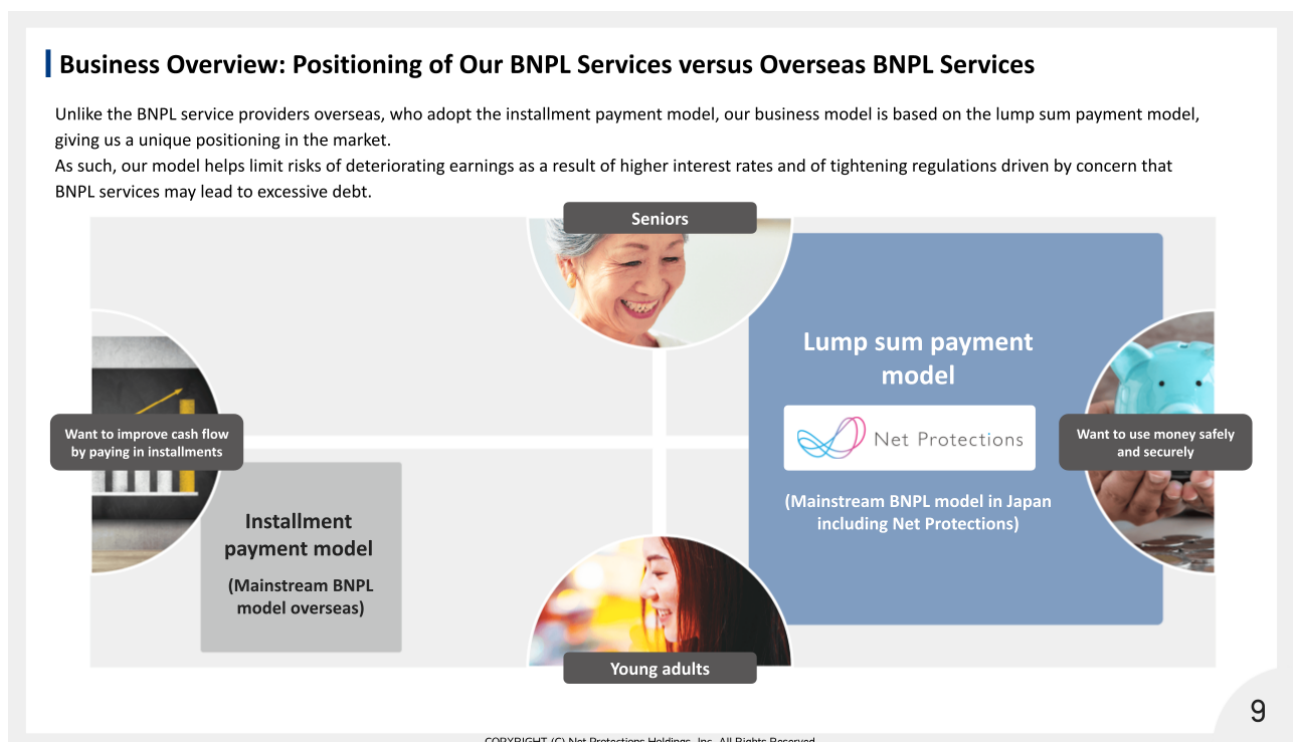
NP Atobarai air and NP Kakebarai are services that mainly meet the needs of merchants.

They are Business Process Outsourcing (BPO) services that allow merchants to outsource the entire billing process, from credit screening to the issuance of invoices and payment reminders.

Merchants have adopted our BNPL services because they take away the burden and stress of cash collection and accounting.

With BNPL services, there is always a risk of delinquency, or nonpayment, but with all our services it is us that assumes nonpayment risk.

Business Overview: Positioning of Our BNPL Services versus Overseas BNPL Services



Our BNPL services allow users to pay for their purchases in a lump sum at a later date.

Users span a broad range of generations, and they use the services as a safe and secure payment method that allows them to manage their cash and prevent their credit card information from being leaked.

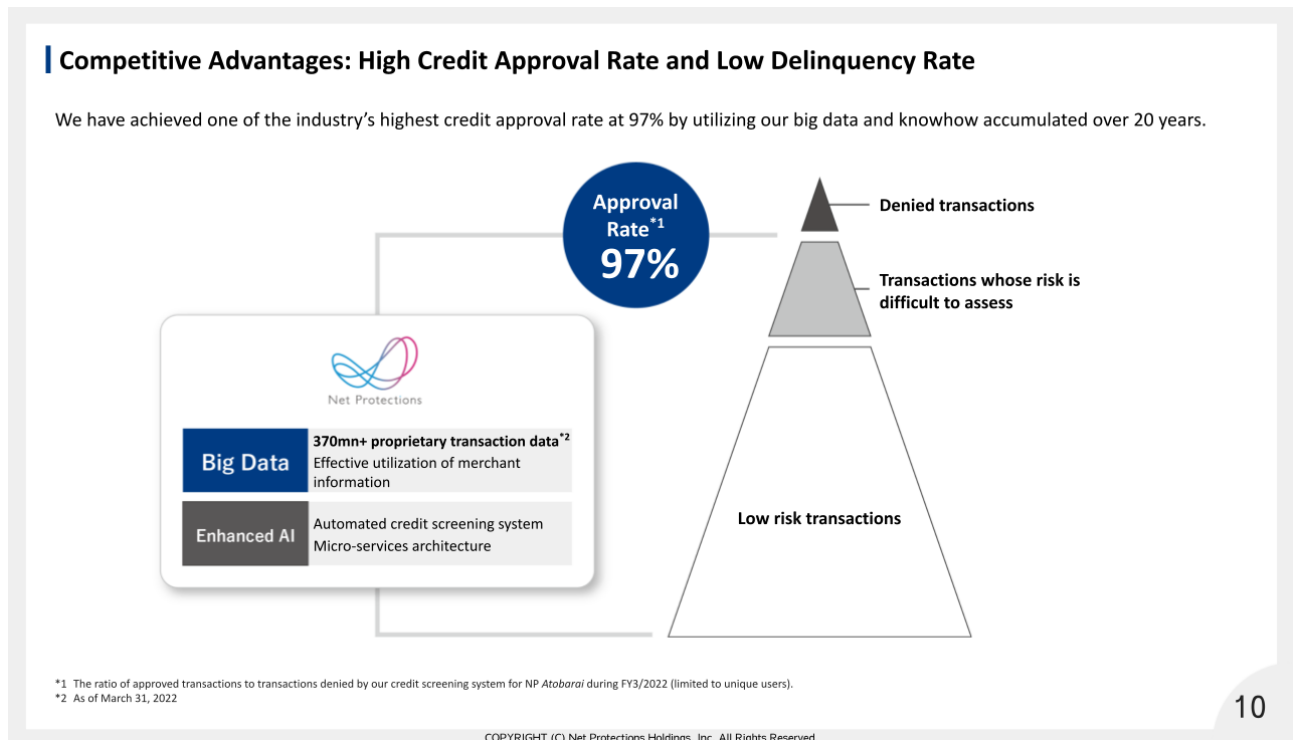
With overseas BNPL services, on the other hand, users make payments on an installment basis. As their main users are young adults, the overseas BNPL services are used as financial services for cash management.

Recently, the media reported risks of BNPL service providers seeing their earnings deteriorate as a result of higher interest rates and of tightening regulations driven by concern that BNPL services may lead to excessive debt.

But these stories concern overseas BNPL firms that provide an installment payment plan to the younger generation, and therefore not relevant to our services.

Furthermore, through the Japan BNPL Association, of which CEO Shibata is a chairman and whose membership comprises eight major domestic BNPL service providers, we communicate as necessary with the Ministry of Economy, Trade and Industry and other central government ministries and agencies, and endeavor to ensure the sector as a whole offers services in a proper manner.

Competitive Advantages: High Credit Approval Rate and Low Delinquency Rate



Our approval rate is the biggest source of competitive advantage for our services.

We have a high approval rate of 97% while achieving a low delinquency rate. Our approval rate is one of the highest in the industry, and achieved through knowhow accumulated over the past 20 years.

Combining big data with AI technology, we are able to make speedy yet sophisticated credit approval decisions.

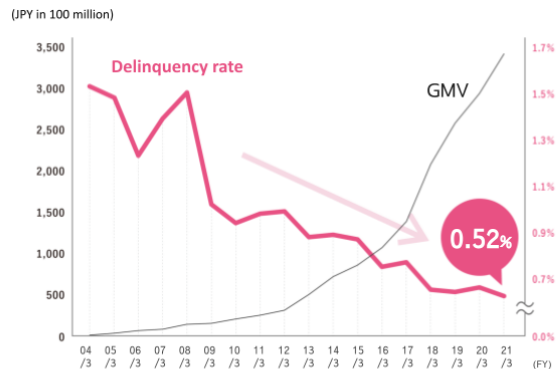
Many businesses are using our services because of this high approval rate, which truly sets us apart from our competitors.

Competitive Advantages: High Credit Approval Rate and Low Delinquency Rate

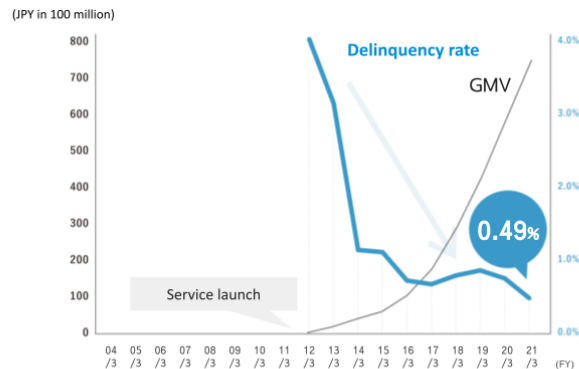
Competitive Advantages: High Credit Approval Rate and Low Delinquency Rate

We have achieved the lowest delinquency rate in the industry by utilizing our accumulated credit screening knowledge. We succeeded in further improvement of the latest delinquency rate for BtoB (NP *Kakebarai*), which came in at 0.49%.

Delinquency rate in BtoC (NP *Atobarai*)



Delinquency rate in BtoB (NP *Kakebarai*)



*1 Ratio of outstanding unpaid transactions for NP *Atobarai* in excess of 18 months to total transactions recorded during such fiscal period on a GMV basis. The ratio for FY3/2021 is based on unpaid transactions as of the end of December 2022 (including transactions prior to writing off of delinquent debt).

*2 Ratio of outstanding unpaid transactions for NP *Kakebarai* in excess of 14 months to total transactions recorded during such fiscal period on a GMV basis. The ratio for FY3/2021 is based on unpaid transactions as of the end of December 2022 (including transactions prior to sale of receivables and writing off of delinquent debt).

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At the same time, our strong point lies in that two conflicting objectives are satisfied: achieving a high approval rate, while keeping the delinquency rate low.

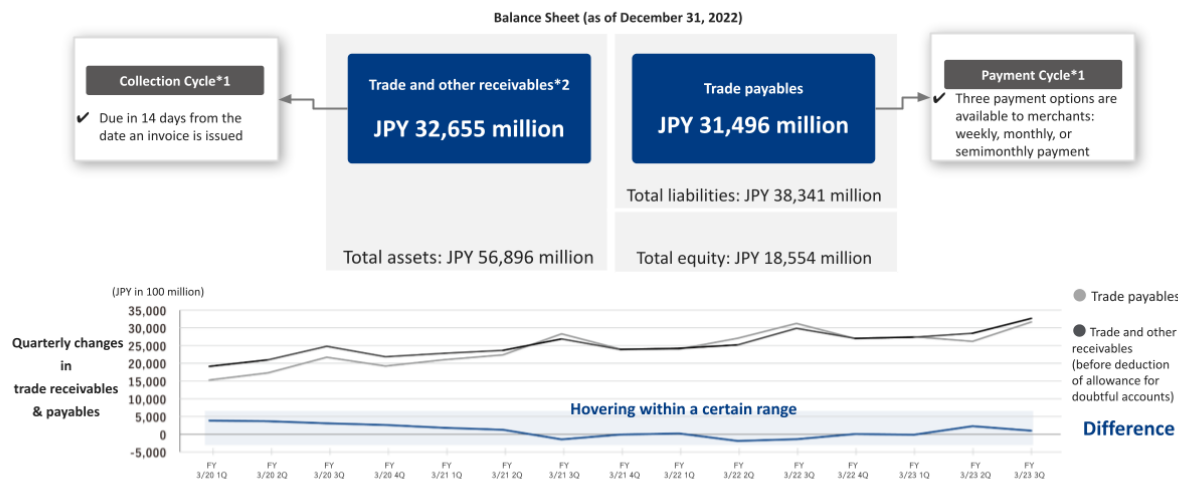
By utilizing BtoC credit know-how, we have been able to achieve a low level of non-payment even in BtoB at an early stage. In fact, the delinquency rate in the BtoB business has further improved to 0.49%, down from 0.5%.

Competitive Advantages: Balance Sheet with Low Working Capital

Competitive Advantages: Balance Sheet with Low Working Capital

We do not need to borrow money or take other funding measures to raise working capital because our trade receivables and payables are well-balanced over the short term.

We therefore have limited financial risk even in the current phase of rising interest rates.



*1 In case of NP Atobarai

*2 Trade and other receivables represent the figures before deduction of allowance for doubtful accounts.

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Another competitive advantage of our business is that we have achieved a balance sheet with low working capital.

Users of our NP Atobarai service pay us within 14 days, while we pay the merchants weekly, once a month, or twice a month, which helps balance our short-term cash position. In other words, our financial position is not affected by the current phase of rising interest rates, as we do not need incremental borrowings.

In NP Kakebarai, the BtoB business where transactions have been growing recently, the purchasing company's payment is due at the end of the month following the month of transaction, while our payment to the merchant is made on the 10th of the month after next. This is a standard payment cycle.

By controlling payment deadlines in this way, we can hedge our balance-sheet risk, which is one of our strengths.

Business Highlights



Business Highlights

Business Metrics: Highlights

Business Metrics: GMV

Service Implementation Track Record

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Moving on, let me share with you the key highlights of our financial results.

Business Metrics: Highlights (9 Months)

Business Metrics: Highlights (9 Months)

FY3/23 9 months GMV ^{*1} (non-GAAP)

JPY372.8bn

(+4.4% YoY)

Total Operating Revenue

JPY14.43bn

(+1.7% YoY)

Gross Profit ^{*2} (non-GAAP)

JPY5.70bn

(-2.0% YoY)

*1 GMV: The total amount of payments (including consumption taxes) made through services provided by the Group, such as NP Atobarai, atone, NP Kakeborai, and AFTEE

*2 Gross profit: Revenue - (Collection expense + Invoicing expense + Allowance for doubtful accounts (addition) + Bad debt expense + Loss on sale of trade receivables + Credit screening expense + NP point expense + Other payment related expenses)

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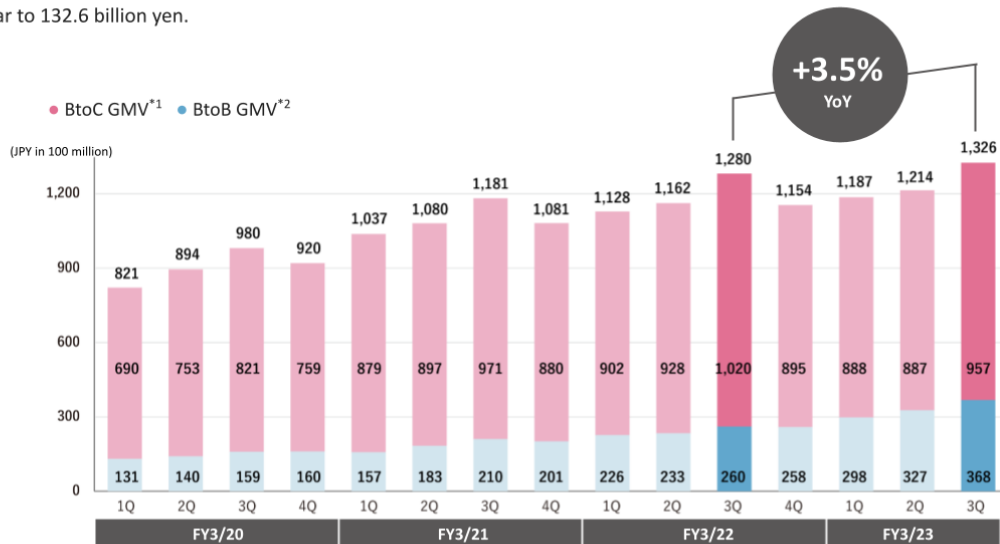
Cumulative GMV for the nine months ended December 31, 2022 was 372.8 billion yen, increasing 4.4% year on year.

Total operating revenue climbed 1.7% year on year to 14.43 billion yen, while gross profit slipped 2.0% year on year to 5.70 billion yen.

Business Metrics: GMV (Quarterly Changes in Group Total GMV)

Business Metrics: GMV (Quarterly Changes in Group Total GMV)

Total GMV for the third quarter of the fiscal year ending March 31, 2023 for the services provided by the Group increased 3.5% year on year to 132.6 billion yen.



*1 Total amount of payments (including consumption tax) made through services provided by the Group, such as NP Atobarai, atone, and AFTEE

*2 Total amount of payments (including consumption tax) made through NP Kakebarai provided by the Group

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Group total GMV for the third quarter alone was 132.6 billion yen, rising 3.5% year on year. Breaking that down, the figure for BtoC was 95.7 billion yen, while that for BtoB was 36.8 billion yen.

Although the impact of the Pharmaceutical and Medical Device (PMD) Act has eased for BtoC, the growth rate still has not improved.

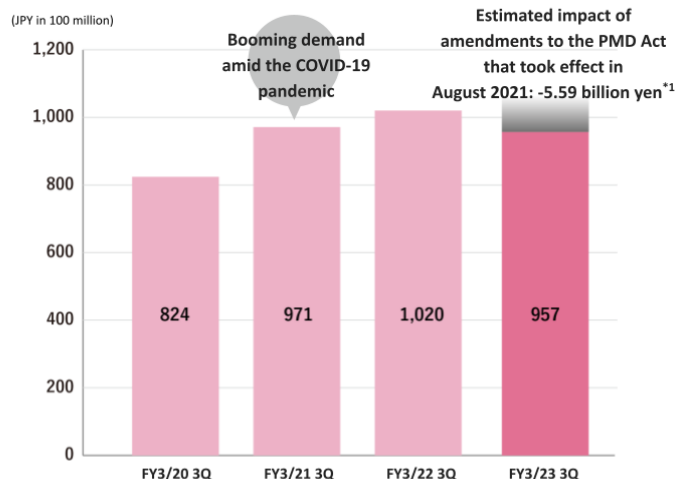
On the other hand, BtoB, our main business, continued to grow at a high rate.

Business Metrics: BtoC GMV (3Q Trend)

Business Metrics: BtoC GMV (3Q Trend)

GMV of the BtoC business for the third quarter of the fiscal year ending March 31, 2023 decreased 6.1% year on year to 95.7 billion yen.

BtoC GMV (3Q trend)



*1 Calculated by Net Protections.

Factors

- With one year having passed since the amendments to the PMD Act, the impact on GMV for the beauty and health category was mitigated.
- Although GMV decreased by slightly over 2.0 billion yen in 3Q due to the withdrawal of an unprofitable large merchant, the impact on profit was limited.

GMV of the BtoC business for the third quarter dipped 6.1% year on year to 95.7 billion yen.

With one year having passed since the amendments to the PMD Act, the negative impact has been reduced to 5.59 billion yen.

Despite the limited impact of the amended PMD Act, GMV was below last year's level. This was due to the withdrawal of an unprofitable large merchant.

The profit from the large merchant was low in the first place, but the volume of their inquiries was increasing. Considering operational costs, we determined that it was not profitable.

With this experience in mind, we will pursue GMV growth with a strong focus on profitability.

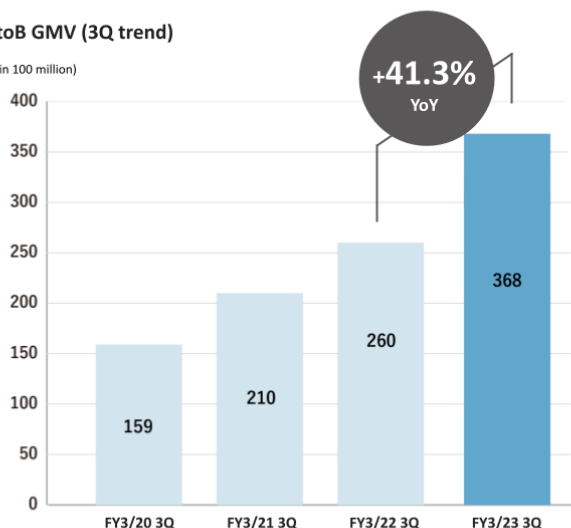
Business Metrics: BtoB GMV (3Q Trend)

Business Metrics: BtoB GMV (3Q Trend)

GMV of the BtoB business for the third quarter of the fiscal year ending March 31, 2023 increased 41.3% year on year to 36.8 billion yen.

BtoB GMV (3Q trend)

(JPY in 100 million)



Factors

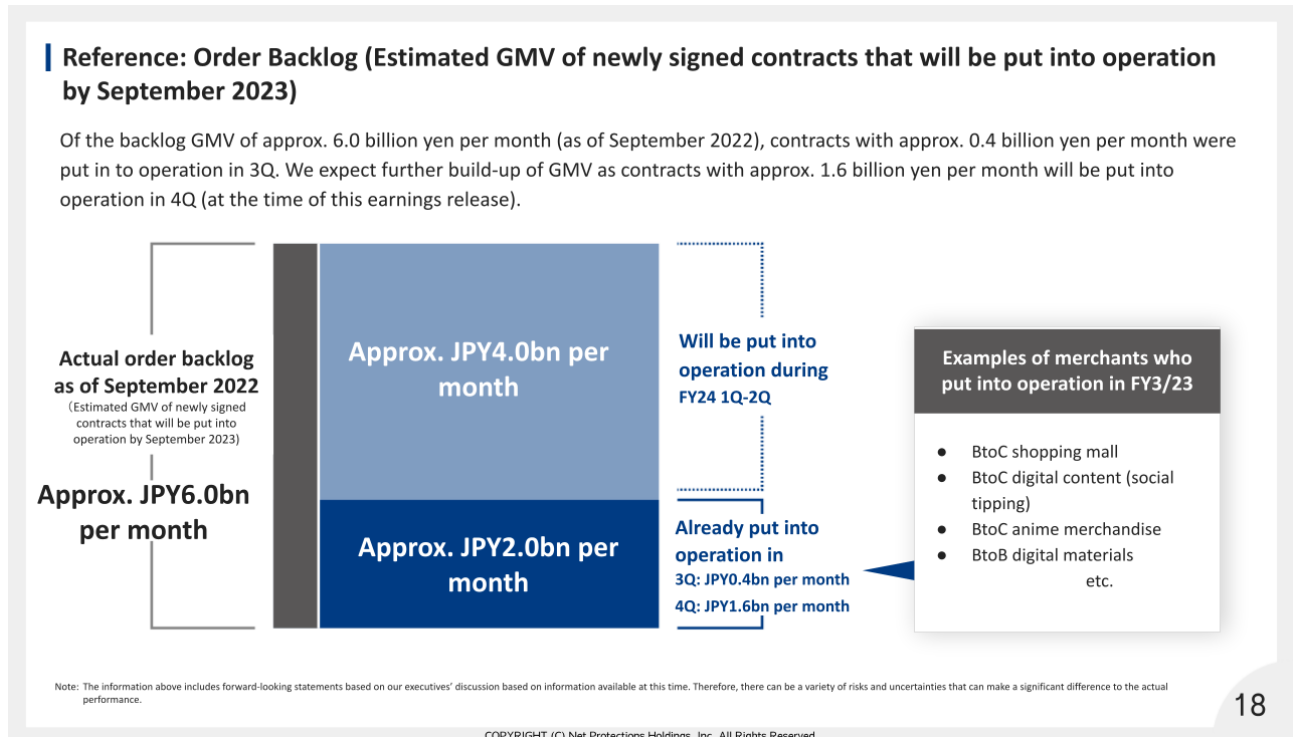
- Thanks to a continued recovery trend backed by the resumption of economic activity, growth occurred across the full spectrum of sectors, and especially at large merchants.
 - Advertising and advertising production: +313.9%
 - Food wholesale: +73.3%
 - Construction and other materials: +49.4%
- The service also supports the qualified invoice system. By saving time and effort for merchants that will introduce the system, we offer an even more convenient BtoB settlement service.

GMV for the third quarter of the fiscal year ending March 31, 2023 was 36.8 billion yen, increasing 41.3% year on year.

As in the previous quarter, the sectors positively affected by the resumption of economic activity performed especially well, with GMV soaring by 73.3% in food wholesale and a whopping 313.9% in advertising and advertising production, which was mainly due to the posting of help-wanted ads by restaurants and bars.

In addition, recently there has been an increase in “day job” and “spare time” job services in various industries, not limited to restaurants and bars, and this provides a tailwind for our BtoB business. Our services have been adopted to meet their billing needs.

Reference: Order Backlog (Estimated GMV of newly signed contracts that will be put into operation by September 2023)



I will discuss the order backlog that we announced with the second quarter financial results.

The total estimated GMV of newly signed contracts is approximately 6.0 billion yen per month, but the timing of the operation varies by contract.

Of this amount, approximately 0.4 billion yen came from merchants that put into operation in the third quarter, with 1.6 billion yen in the fourth quarter as of today.

This means that we succeeded in building up approximately 2.0 billion yen per month in the third and fourth quarters combined.

We will follow up to ensure that the remaining monthly orders of approximately 4.0 billion yen will be realized. At the same time, we will push forward with sales activities to further increase our order backlog.

Track Record: Service Implementation Status in Target Markets (1Q–3Q)

Track Record: Service Implementation Status in Target Markets (1Q–3Q)

Major players have introduced our services one after another in target markets, including BtoB, BtoC, and overseas (Taiwan). We are expanding the provision of our services in non-merchandise sales such as digital content and ticket sales.



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Here are just some of the merchants that newly adopted our services by the end of the third quarter.

Our services were adopted by players from a broad range of sectors, in both BtoC and BtoB segments, and are particularly growing in areas such as digital content and ticketing.

As well as in the merchandise sales area, BNPL demands are increasing in the non-merchandise sales area, on which we are focusing our efforts.

Financial Results for the Nine Months Ended December 31, 2022



Financial Results for the Nine Months Ended December 31, 2022

Financial Results for the Nine Months Ended December 31, 2022

Total Operating Revenue/Gross Profit/Adjusted EBITDA

Breakdown of Total Operating Revenue/Gross Profit by BtoC/BtoB

Analysis of Year-on-Year Change in SG&A Expenses

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Now, I will report on our financial results for the nine months ended December 31, 2022.

Financial Results: For the Nine Months Ended December 31, 2022

Financial Results: For the Nine Months Ended December 31, 2022

Total operating revenue for the nine months ended December 31, 2022 increased 1.7% year on year to 14,436 million yen, whereas gross profit decreased 2.0% year on year to 5,708 million yen. As a result, adjusted EBITDA amounted to 1,645 million yen.

(JPY in millions)	Results	YoY		Reference: Full-year forecast	
		Results	Percentage change	Full-year forecast	Progress rate
GMV (non-GAAP) ^{*1}	372,824	357,151	+4.4%	496,200	75.1%
Total operating revenue	14,436	14,192	+1.7%	19,390	74.5%
Revenue	14,069	13,852	+1.6%	18,886	74.5%
Gross profit (non-GAAP) ^{*2}	5,708	5,827	-2.0%	7,290	78.3%
Operating profit	(43)	1,095	-	(730)	-
EBITDA (non-GAAP) ^{*3}	1,021	2,099	-51.3%	756	135.0%
(Marketing expenses) ^{*4}	623	233	+167.0%	993	62.8%
Adjusted EBITDA (non-GAAP) ^{*5}	1,645	2,602	-36.8%	1,750	94.0%

^{*1} GMV: The total amount of payments (including consumption taxes) made through services provided by the Group, such as NP Atoborai, atone, NP Kakebarai, and AFTEE

^{*2} Gross profit: Revenue - (Collection expense + Invoicing expense + Allowance for doubtful accounts (addition) + Bad debt expense + Loss on sale of trade receivables + Credit screening expense + NP point expense + Other payment related expenses)

^{*3} EBITDA: Operating profit + (Depreciation and amortization + Share-based payment expenses + Loss on disposal of property, plant and equipment + Impairment loss - Gain from reversal of impairment losses)

^{*4} Marketing expenses: Sales promotion expenses (excluding agency commissions) + Advertising expenses

^{*5} Adjusted EBITDA: EBITDA + (IPO-related expenses + Marketing expenses)

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GMV for the nine months ended December 31, 2022 climbed 4.4% year on year to 372,824 million yen.

Total operating revenue edged up 1.7% to 14,436 million yen, and gross profit slipped 2.0% to 5,708 million yen.

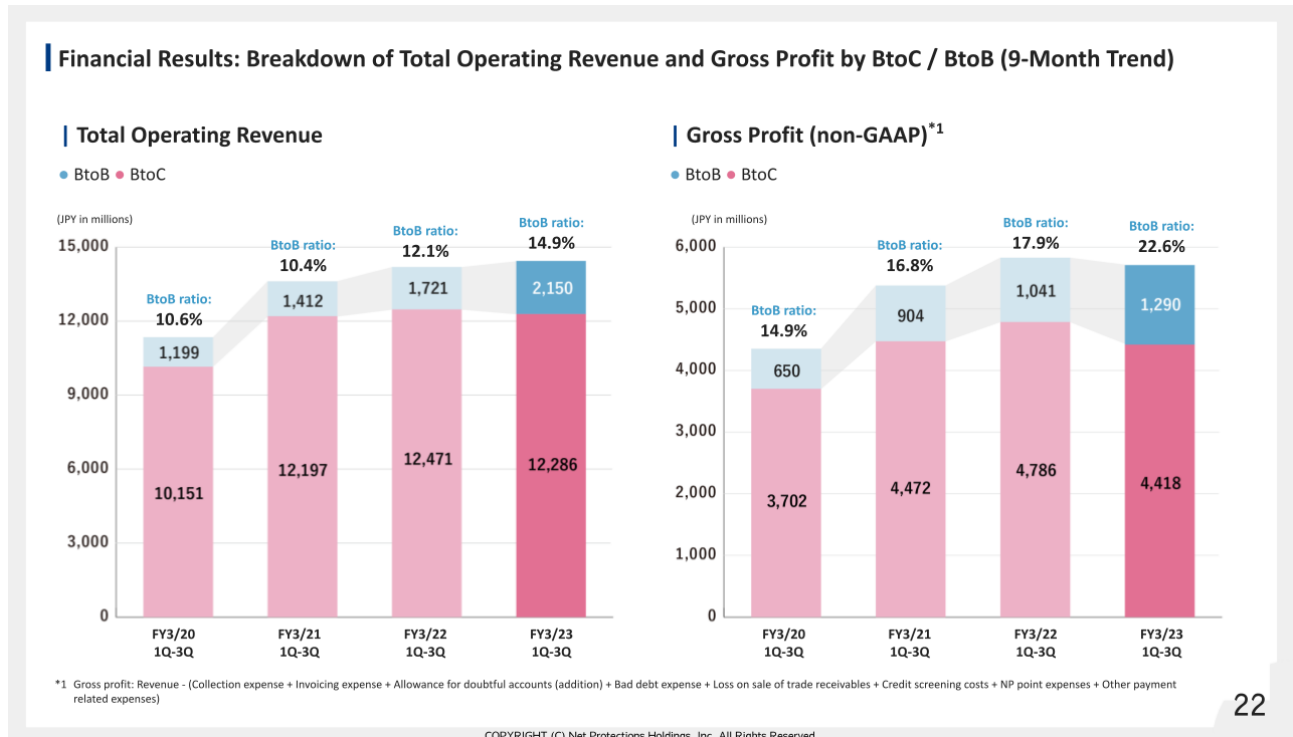
BtoB's higher share of GMV lowered total operating revenue and gross profit relative to GMV.

Operating profit was minus 43 million yen, and adjusted EBITDA was 1,645 million yen.

This was because we made aggressive investments in sales and marketing in an effort to acquire merchants.

We will go into more detail from the next slide.

Financial Results: Breakdown of Total Operating Revenue and Gross Profit by BtoC / BtoB (9-Month Trend)



Here are total operating revenue and gross profit by business segment.

Our total operating revenue includes invoicing and collection fees, and we receive 225 yen per invoice.

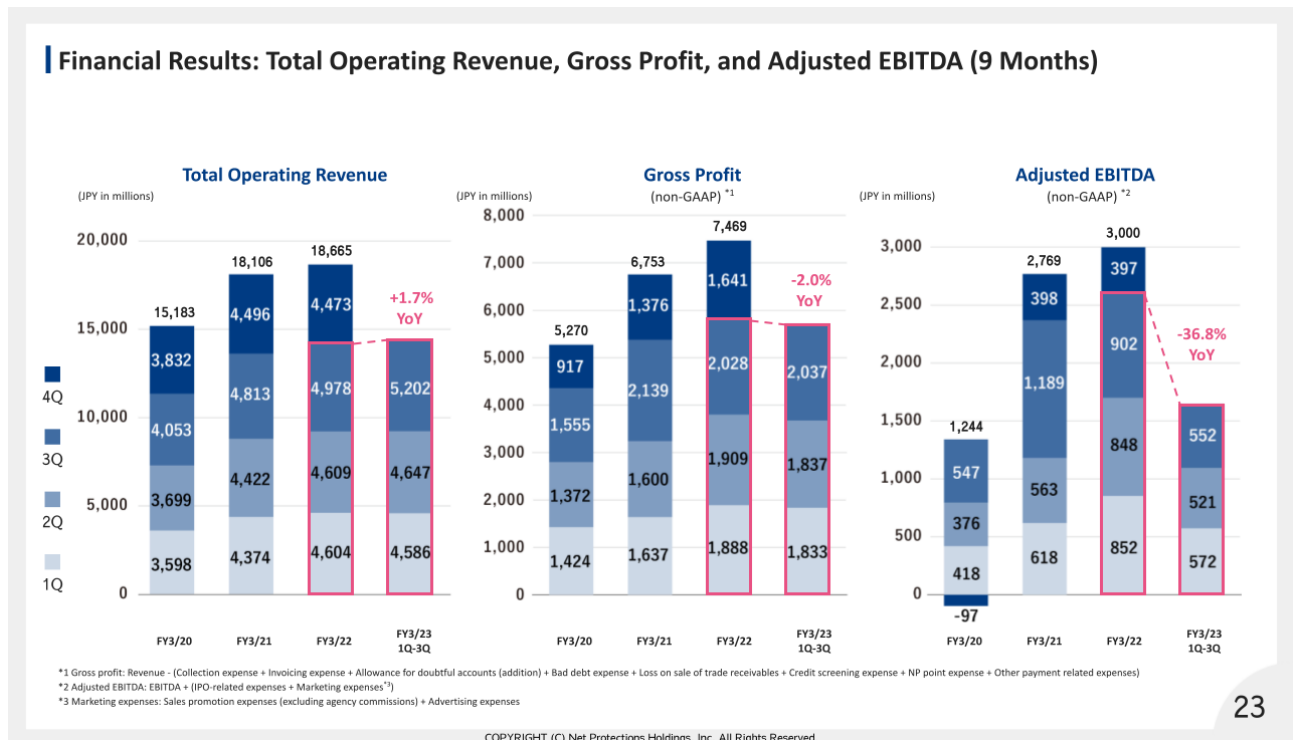
In many BtoC transactions, we offer most customers pay-as-you-go billing. In contrast, BtoB payments are on a monthly basis, so invoices are issued only once per month.

As a result, the ratio of total operating revenue to GMV is higher for BtoC and lower for BtoB.

BtoB' s share of GMV for 9 months was 26.7%, but its share of total operating revenue was 14.9% due to the invoicing and collection fees. However, since invoicing and collection fees are incurred as costs, the impact on gross profit is limited.

BtoB is slightly lower than BtoC in terms of the gross profit margin. Nevertheless, BtoB is, in essence, profitable enough, so we intend to continue building up GMV.

Financial Results: Total Operating Revenue, Gross Profit, and Adjusted EBITDA (9 Months)



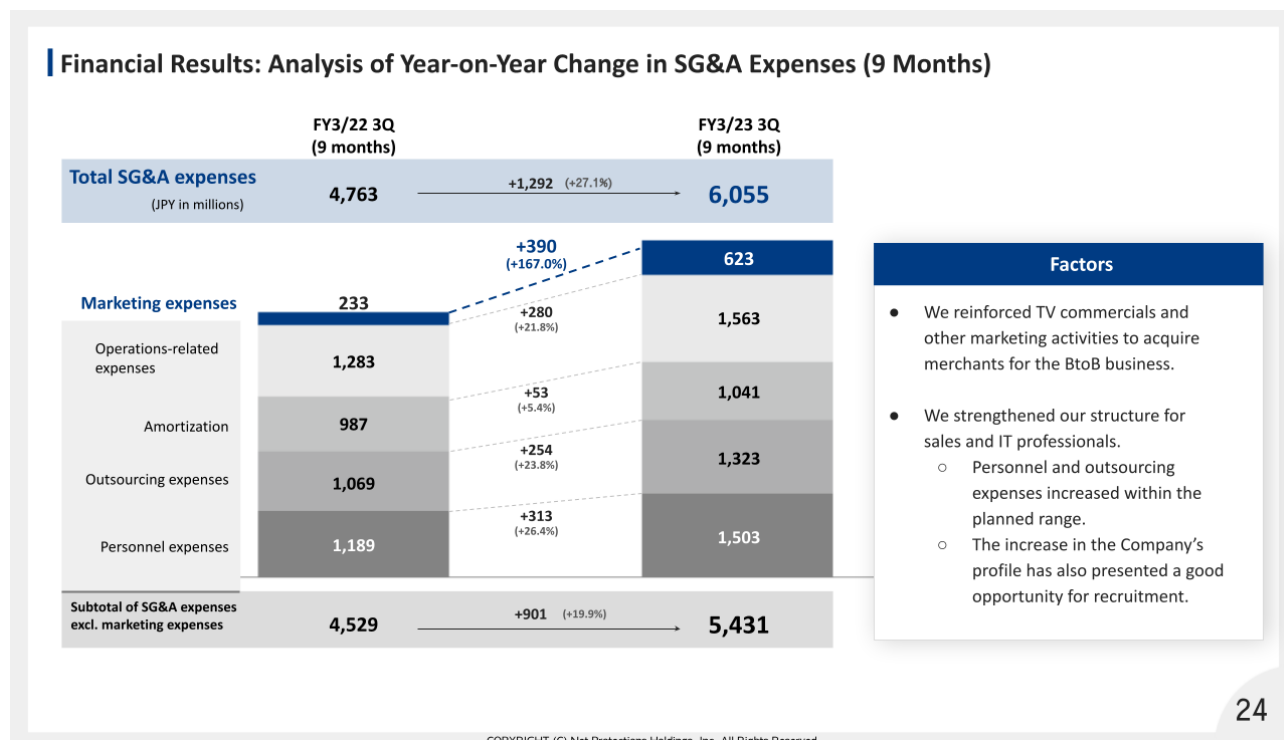
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Moving on, we will look at the trend of total operating revenue, gross profit, and adjusted EBITDA.

Adjusted EBITDA is calculated by adding marketing expenses back to EBITDA, and it decreased 36.8% year on year as a result of hiring more sales and IT personnel to strengthen our structure.

Details will be explained in the next slide on SG&A expenses.

Financial Results: Analysis of Year-on-Year Change in SG&A Expenses (9 Months)



These are the factors behind the change in SG&A expenses for the nine months ended December 31, 2022.

SG&A expenses saw a year-on-year increase of 1,292 million yen, the largest part of which were attributable to marketing expenses, followed by personnel expenses.

Marketing expenses soared in the third quarter due to the airing of TV commercials for NP Kakebarai, a BtoB business.

The rise in personnel expenses was the result of strengthening our sales and IT human resources with the aim of responding to the increase in deals and accelerating feature development.

All of these are positioned as aggressive investments needed to grow GMV in the future.

Growth Strategy



Growth Strategy

Medium-Term Business Plan

Market Size

Key Measures

- Marketing Activities

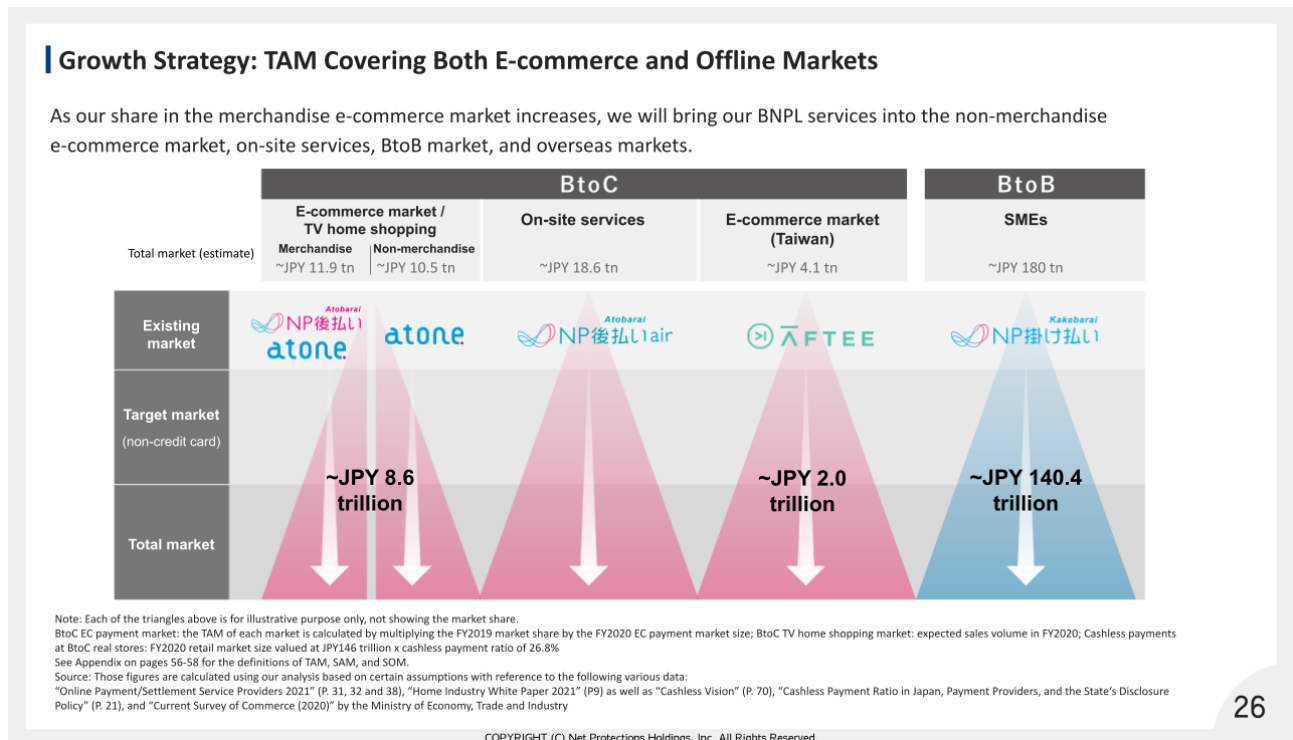
- Alliance

- atone Expansion

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The last part will be the progress of the growth strategy.

Growth Strategy: TAM Covering Both E-commerce and Offline Markets



Our primary strategy is to expand our market share.

We are expanding the provision of our services in new fields such as merchandise and non-merchandise sales of e-commerce, TV home shopping, overseas, and BtoB.

Also, we have an increasing number of inquiries and adoptions of our services mainly in the areas of digital content, such as digital ticketing and entertainment, and on-site services for installation and repair of residential equipment, such as gas and hot water heaters.

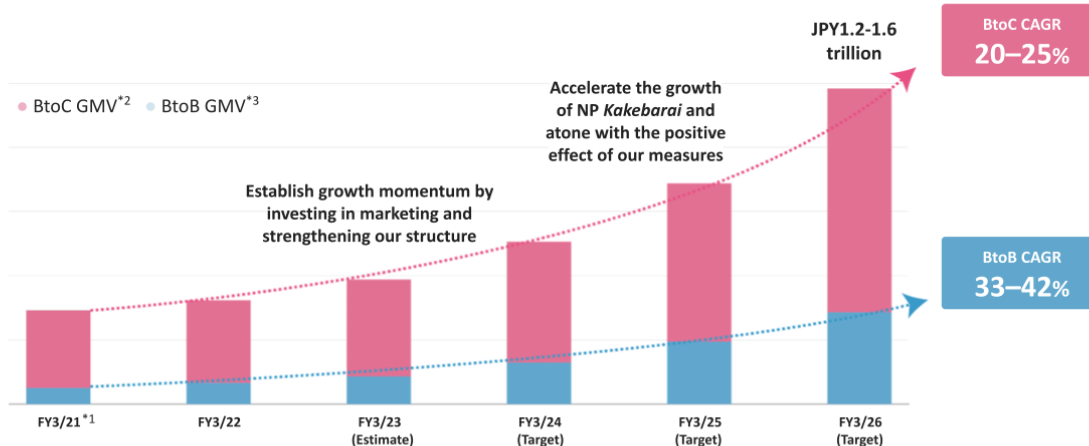
We expect this market to grow as a new market with high potential, where no significant competition exists.

By expanding the domains and regions in which we do business in this way, and digging deeper into each, we will deliver high growth through both lateral and vertical business development.

Growth Strategy: Medium-Term Business Plan

Growth Strategy: Medium-Term Business Plan

The effect of investments we started from the fiscal year ending March 31, 2023 is expected to appear from the following fiscal year, thus we expect the growth rate will increase in phases.



^{*1} GMV in the fiscal year ended March 31, 2021: JPY438.1 billion (BtoC: JPY362.9 billion; BtoB: JPY75.3 billion)

^{*2} The total amount of payments (including consumption taxes) made through services provided by the Group, such as NP Atobarai, atone, and AFTEE

^{*3} The total amount of payments (including consumption taxes) made through NP Kakebarai provided by the Group

The information above includes forward-looking statements based on our executives' discussion based on information available at this time. Therefore, there can be a variety of risks and uncertainties that can make a significant difference to the actual performance.

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Under our medium-term management plan, we are aiming for GMV growth to 1.2 to 1.6 trillion in the fiscal year ending March 31, 2026, and have positioned the year as one for strengthening our foothold for establishing growth momentum.

We will be investing aggressively in marketing and strengthening our structure, with the goal of achieving high growth from the fiscal year ending March 31, 2024 onwards.

In particular, we intend to make the BtoB business the second business pillar through constant growth.

Growth Strategy: Key Measures

Growth Strategy: Key Measures

Key measures aimed at growth of GMV and operating revenue.

Enhance marketing activities



- ✓ Acquire merchants by raising our brand awareness
- ✓ Expand our share in the payment market in Taiwan by improving penetration rate

Seek alliance



- ✓ Partnership with major platform operators
- ✓ Promote digital transformation of billing operations through alliance with regional banks and shinkin banks

Extend atone functions & services



- ✓ Implement a new function, BNPL without sign-up
- ✓ Enhance transfer of users for merchants
- ✓ Accelerate the use of atone at physical stores

Strengthen our structure to facilitate the implementation of the key measures

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We have three key measures for GMV growth.

For strengthening our marketing activities, we will be investing aggressively in growing businesses. We are going to focus on two services: NP Kakebarai in BtoB and AFTEE in Taiwan.

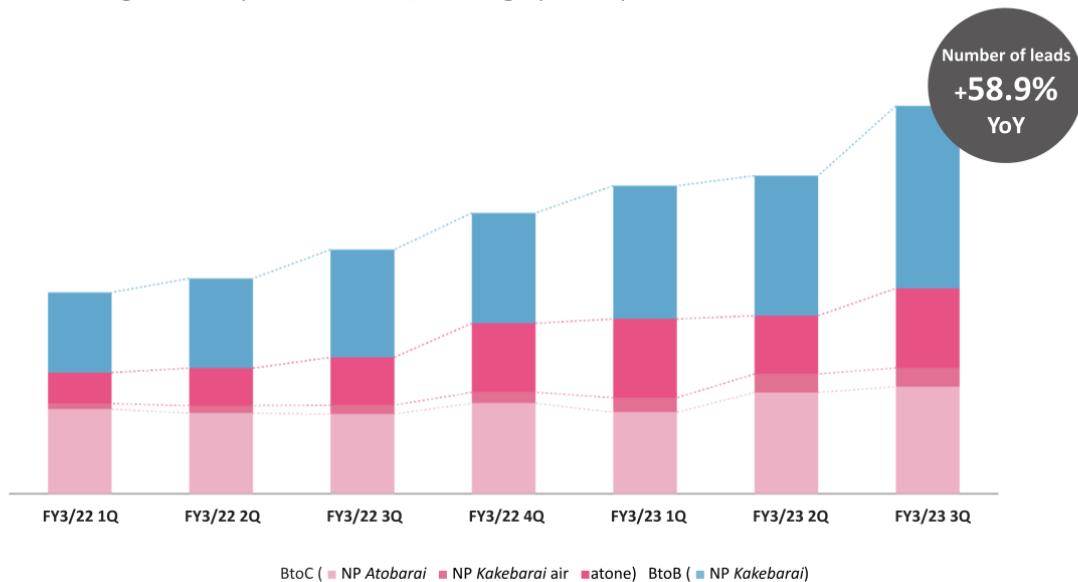
For alliance, we are going to partner with major platform operators to build up our value chain. We are also going to drive digital transformation in billing operations through partnerships with regional banks.

Previously, the main strategy for promoting atone was to develop a common interface that enables simultaneous introduction of NP Atobarai and atone, but now we are also ready to expand other important features, so we will promote these new features as well.

Growth Strategy: Quarterly Changes in Lead Generation

Growth Strategy: Quarterly Changes in Lead Generation

Number of leads grew steadily for each service, recording a year-on-year increase of 58.9% in 3Q.

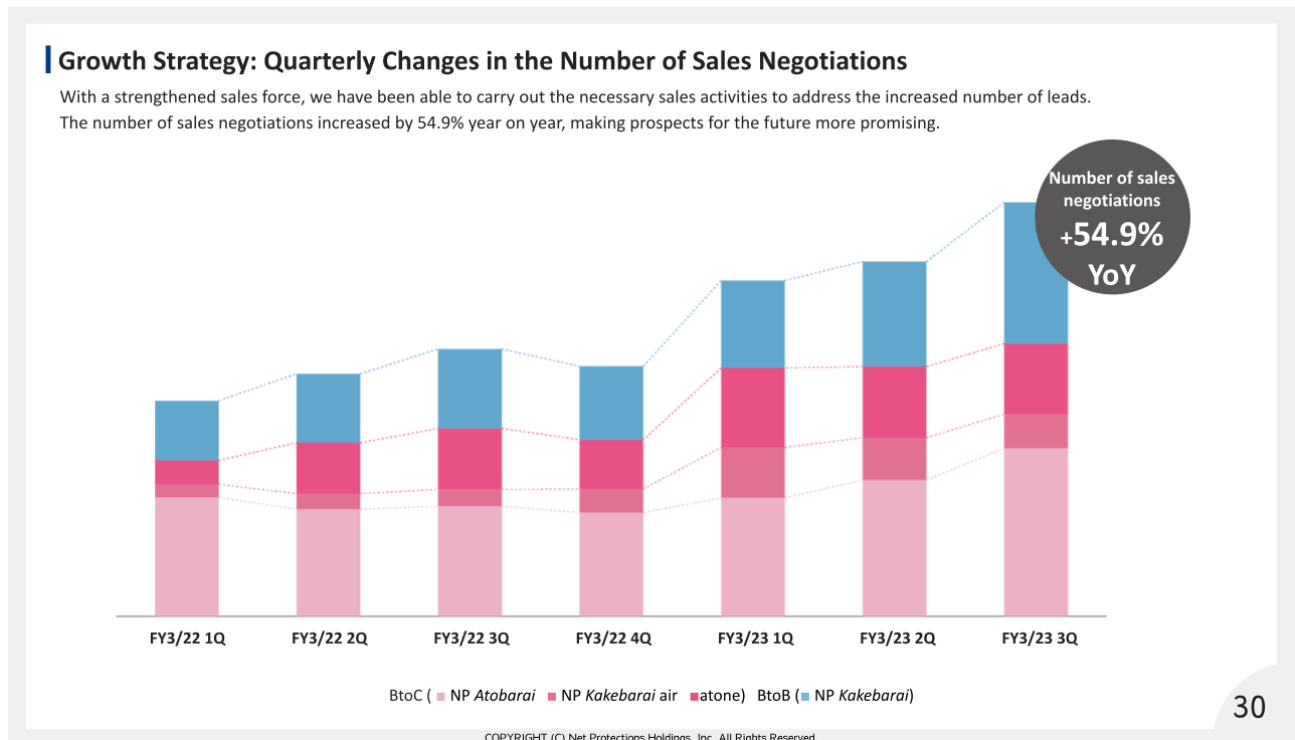


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This slide shows the number of leads by each service, such as inquiries for information materials and sales negotiations with potential customers referred by partners.

As you can see, inquiries are increasing in all services, indicating high potential.

Growth Strategy: Quarterly Changes in the Number of Sales Negotiations



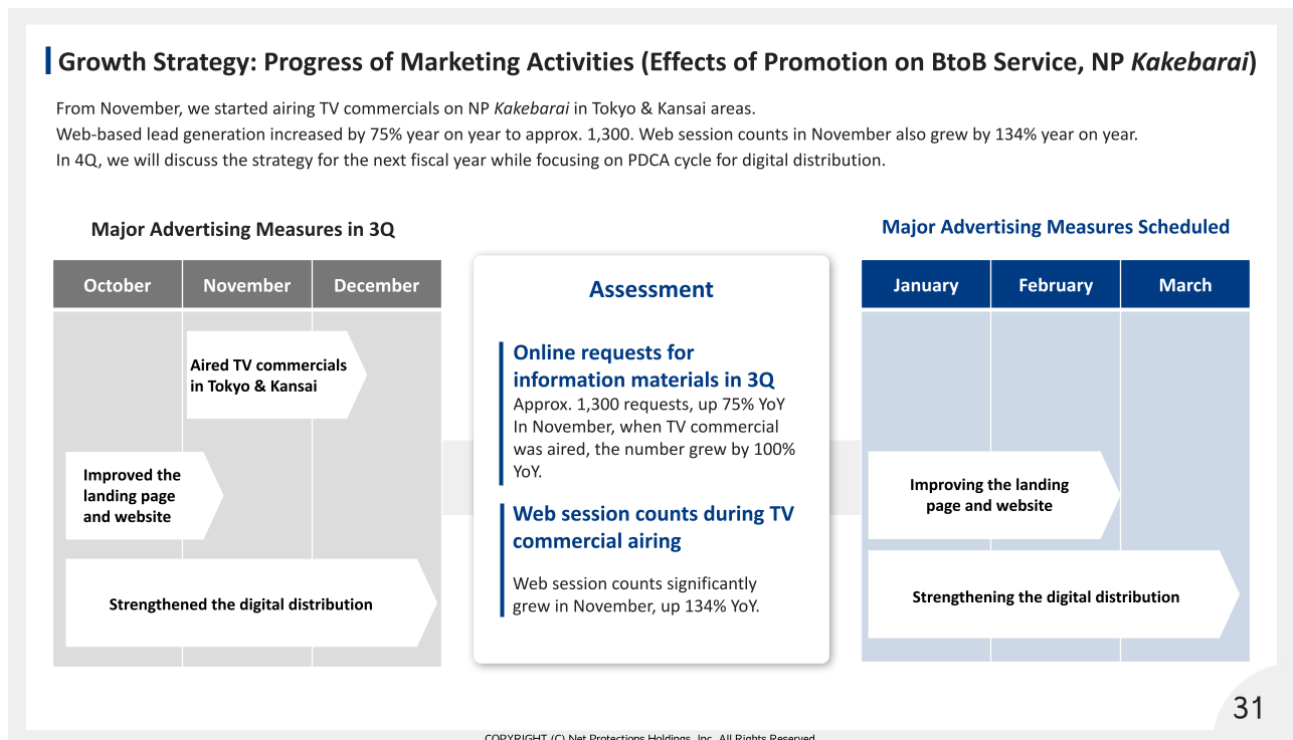
This slide shows the numbers of sales negotiations.

The number of sales negotiations is a leading indicator that directly correlates with future GMV, and it increased by 54.9% year on year.

The growth rate in the number of leads, which I explained earlier, is almost the same as that in the number of sales negotiations here.

I'd say that strengthening our marketing and sales force in the first half paid off.

Growth Strategy: Progress of Marketing Activities (Effects of Promotion on BtoB Service, NP Kakebarai)



In this slide, I would like to explain our marketing efforts.

In the current fiscal year, we are making marketing investments with a focus on NP Kakebarai, a growing BtoB business.

During the first half, our TV commercials were aired for trial in provincial regions, and we checked the creative aspect of the ad. After a series of such examinations, they were broadcast in the Tokyo and Kansai areas in November and December.

During the period when the TV commercials were aired, web session counts, or the number of site visits, jumped by 134%, and the number of requests for information materials rose by 75%.

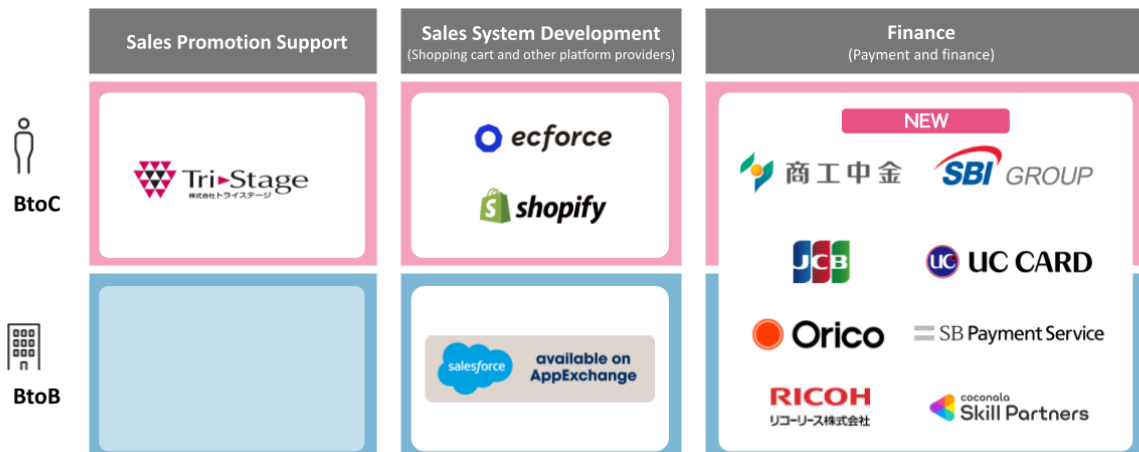
In the fourth quarter, we will utilize digital advertising to more aggressively capture potential customers who have flowed into the website but have not yet requested information materials. At the same time, we will consider marketing strategies for the next fiscal year.

Growth Strategy: Alliance (Moving from Payment Support to Business Support with Partners)

Growth Strategy: Alliance (Moving from Payment Support to Business Support with Partners)

In January 2023, we joined the SBI DX Database^{*1} by partnering with SBI Neo Financial Services, Co., Ltd. to accelerate digital transformation of invoicing operations of small and medium-sized enterprises by leveraging the SBI Group network.

Alliance partners (excerpt)



^{*1} The SBI DX Database offers a wide lineup of solutions that contribute to the promotion of digital transformation of small and medium-sized companies by making full use of the network developed by the SBI Group through investments in venture companies.

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Next is our alliance strategy.

By forging partnerships not only in the payment domain, but also with providers of services that are essential for the business activities of merchants, such as sales promotion support and sales system development, we will be expanding our sales/support network.

We have announced a partnership with SBI Neo Financial Services and Shoko Chukin Bank.

This will be an initiative to promote support for digital transformation in billing operations for small and medium-sized enterprises by leveraging the both partners' network.

Growth Strategy: Alliance (Strengthening Business Alliance with Regional and Shinkin Banks and Regional Sales Structure)



With regard to digital transformation, a pressing task for regional corporations is to enhance operational efficiency, as they are faced with challenges such as a shortage of personnel.

Therefore, we forge business partnerships with regional financial institutions and Shinkin banks to facilitate digital transformation in regional areas.







In the third quarter, we announced a new business partnership with Ehime Bank.

In addition to the regional bank tie-up, we are also in the process of setting up regional offices and assigning dedicated sales representatives to accelerate local sales.

Growth Strategy: atone Expansion - Release of New Function, atone without Sign-up

Growth Strategy: atone Expansion - Release of New Function, atone without Sign-up

Non-membership payment reduces the hurdles that first-time users need to clear to use, while membership payment encourages repeat use for more benefits and greater convenience.

	Non-membership (no sign-up needed)	Membership (a simple sign-up needed)
How to use	Easy to use with mobile phone number and email address SMS authentication	Membership provides advanced security and convenience App authentication or eKYC authentication
Payment term	Payment for each purchase is due within 10 days from the invoice issuance BNPL per purchase	Available for next-month payment Purchases in the same month are consolidated Pay per purchase or Next-month payment
Payment method	Convenience store or bank  CVS  Pay easy	Direct debit Available  CVS  Direct debit Pay easy  Paper invoice  Electronic barcode
Additional functions		Reward points Login service Available for offline stores

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The first initiative to expand the use of atone is the implementation of a new feature that allows customers to use atone without sign-up.

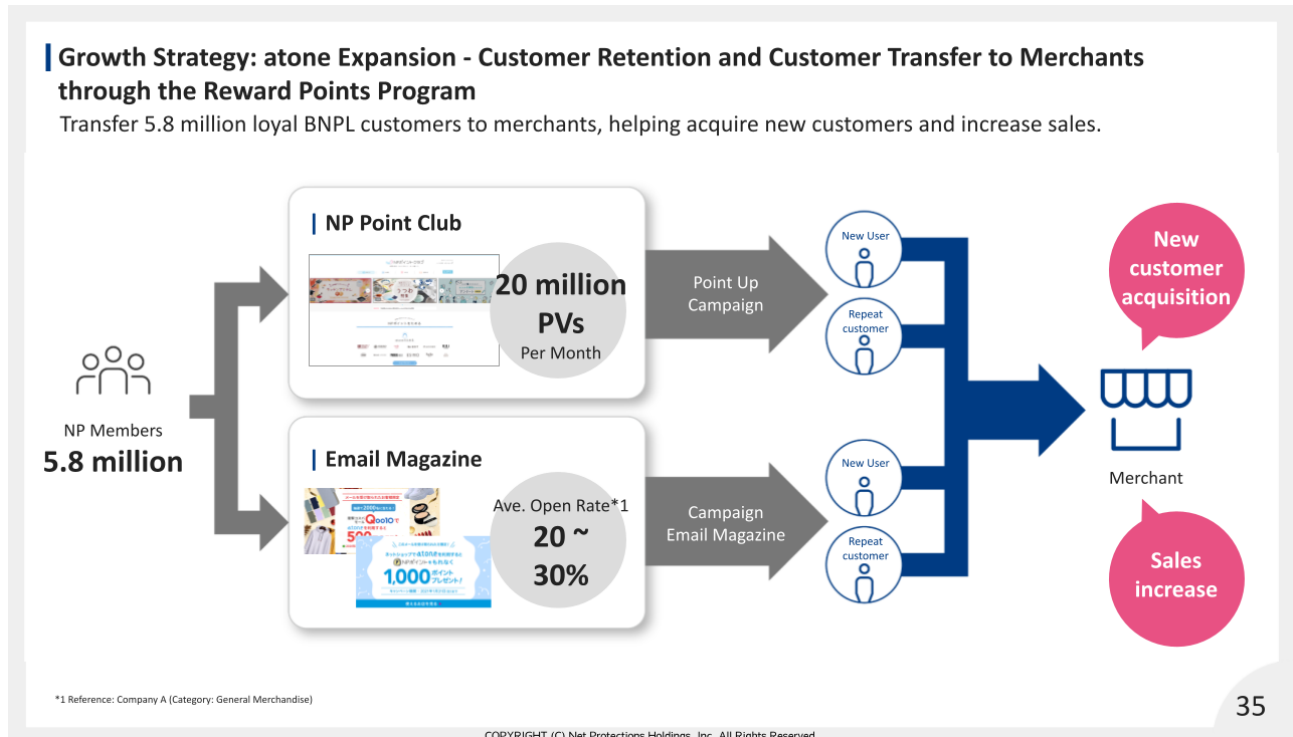
The new feature makes atone much easier to use for first-time users because it does not require any registration.

Merchants will be able to enjoy higher conversion rate, so their sales can be expected to increase.

Since the launch of this new service, a significant increase has been seen in the closing rate of large deals, and we are feeling a positive response.

Also, we expect atone's payment share to increase because it does not require sign-up anymore.

Growth Strategy: atone Expansion - Customer Retention and Customer Transfer to Merchants through the Reward Points Program



The second atone expansion measure is to provide additional value to merchants by sending customers through the reward points program.

The reward points program is definitely effective in customer retention. Furthermore, we are experimenting on how it works in sending customers to merchants, and we are also starting to see the results here as well.

Campaign email newsletters sent to members have an average open rate of 20 to 30%, making them an effective means for merchants to acquire new customers.
















We believe that already having 5.8 million BNPL users as NP members will be a significant advantage.

Growth Strategy: atone Expansion - Expanding Target Markets (Offline Payment)

Growth Strategy: atone Expansion - Expanding Target Markets (Offline Payment)

Members with certain payment records can also enjoy BNPL at physical stores.
atone is available at 160,000 stores nationwide.

Available stores *non-exhaustive list

Convenience stores / Grocery stores	Drugstores
   	   
Restaurants	Daily necessities stores
   	  

* Some stores are not available

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The third atone expansion measure is offline payment.



QR payments are becoming popular in physical stores. Linked up with JCB's Smart Code, atone is now available at 160,000 stores nationwide.

Until now, we have not actively rolled out offline payment due to delinquency concerns, but we intend to gradually release it from loyal members.

Growth Strategy: atone Expansion (Summary)

Growth Strategy: atone Expansion (Summary)

We will evolve atone into an essential payment service for shopping by increasing the value proposition to both merchants and users.

 Merchants		 Users	
LTV improvement <ul style="list-style-type: none"> Next-month payment Reward points 	Service scope expansion <ul style="list-style-type: none"> Physical stores Digital content E-commerce merchandise 	Flexible payment period <ul style="list-style-type: none"> Next-month payment BNPL per purchase 	Various payment methods <ul style="list-style-type: none"> Convenience store payment Electronic barcode/Pay easy Direct debit
Brand / UX enhancement <ul style="list-style-type: none"> White Label OEM 	New customer acquisition <ul style="list-style-type: none"> More than 5.8 million users Customer transfer campaigns 	Security enhancement <ul style="list-style-type: none"> SMS authentication Fraud detection with more than 300 million transactions data 	Benefits <ul style="list-style-type: none"> Reward points Sales promotion campaigns

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Here is a table listing the needs of merchants and users for atone's expansion.

We must maintain and improve the safety and security that are the fundamental needs of BNPL users. At the same time, we intend to further open up the market by increasing the value that atone provides to both merchants and users.

This is the end of our results briefing for the nine months ended December 31, 2022. Thank you for your attention.

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※Please note that the transcription of the Q&A session below has been edited as it included some overlaps. We appreciate your understanding. Also, we have compiled a Q&A style supplementary material on matters expected to be of high interest.

Q&A: Impact of global BNPL regulations on our earnings

Moderator: What impact do you think global BNPL regulations will have on your earnings?

Watanabe: We view our BNPL services as being fundamentally different from BNPL services abroad.

With most overseas BNPL services, payment is in installments. Given that the business model for credit card revolving payment services is to charge interest to users, overseas BNPL service providers have chosen the business model in which they take as little interest as possible from users and earn most of their money through fees from merchants. I believe this is what led to the shift from credit cards to BNPL, especially among younger people. Recently, interest rates have been rising, and the more their businesses expand, the more they need additional funds to offer payment in installments, so the heavier their interest burden has become. In addition, in other countries there is the social problem of young people being saddled with excessive debt because they are using the BNPL services as a means of obtaining credit.

We, on the other hand, do not offer installment payments. All we offer is safe and secure lump sum BNPL service. Therefore, the problem of excessive debt, which has become an issue overseas, will not impact our services because our services are unaffected by rising interest rates and not used for credit purposes.

Q&A: Our potential for additional market share gains due to JACCS' withdrawal and cost-cutting by competitors

Moderator: Is there additional room for you to increase your market share in BtoC as a result of factors such as JACCS' withdrawal from the BNPL business and cost-cutting by other competitors?

Watanabe: With JACCS' withdrawal from the BNPL business, we have been able to interact with and acquire many merchants, and we expect this to contribute to GMV.

In the past, some of our competitors were chasing short-term GMV and were not very profit-conscious, but recently I feel that they are changing the way they operate their businesses to focus more on profit, so I believe that we will be able to increase our profits in a healthy competitive environment.

Q&A: Effects of broader business alliances

Moderator: It is good to see your business partners increasing in number, with the addition of UC Card and SBI, for example, but it is difficult to see how gaining new business partners one after another will help boost the value of your shares, given that your alliances with your current business partners are not yet producing much in the way of visible results. I would appreciate it if I could understand how each partnership is translating into customer acquisition and product development, and what the economics of the deals are like.

I would also like it if you could share your measurements of the effectiveness of the increased advertising spend from 3Q, and what percentage of the increase in the number of sales negotiations during the current fiscal year has been converted into actual contracts.

Watanabe: As I explained earlier on slides 32–33 of the presentation, the number of partners is indeed increasing rapidly. The purpose of these alliances is to expand our sales network. Each of our partners already has a nationwide sales network, and we

need to be able to take advantage of these networks. It would take a lot of time and money for us to build up our own sales network from scratch, so we believe this to be a highly effective approach. The actual benefits are as shown in the sections on lead generation and sales negotiations on slides 29–30 of the presentation.

However, it takes time from the initial interactions until the contracts are signed and services actually start being provided. At this point, we are not in a situation where we can precisely confirm the final rate of conversion into contracts, but we intend to keep a close eye on this going forward.

Q&A: Negative scenarios for GMV

Moderator: I have two questions to ask about GMV. First, is it correct to assume that the negative impact of the increased fees for collection agency services completely ended in 3Q? Second, can you tell us about possible negative scenarios for the future, such as stealth marketing regulations and an economic downturn?

Watanabe: We were very concerned about the impact of the increased fees for collection agency services. However, when we lifted the lid, we found that there were hardly any instances of merchants passing the increase on to users, and users then leaving because they did not like the higher prices. This was because most merchants were wary of losing users and swallowed the increase on their own. Therefore, even looking ahead, we do not envisage a scenario in which customer attrition spikes.

As for possible negative scenarios, first, we do not view stealth marketing regulations as being directly related to our business. However, I think the economy will be affected to some degree. We are concerned that e-commerce consumption is currently weak, and we are wary of a decline in overall consumption, not just e-commerce, because soaring prices have tightened people's purse strings.

Q&A: Possibility of increases in fee rates in response to rising interest rates

Moderator: Is there any possibility to increase the service fee charged to merchants in response to rising interest rates?

Watanabe: Our fee rates are not directly linked to interest rates. Since we do not offer installment payments in Japan, only lump-sum payments, and would not require additional financing even if GMV were to reach a certain size, asking for higher fees due to rising interest rates is not something we are currently considering.

Q&A: Impact on profit or loss of the withdrawal of an unprofitable large merchant

Moderator: You mentioned there was a withdrawal of an unprofitable large merchant in 3Q. How much of a positive impact will this have on your profit or loss? Also, how many other unprofitable merchants are there?

Watanabe: This unprofitable merchant was initially profitable for us, but as the volume of transactions grew, so did the delinquencies, and given the increased burden of inquiries due to the growing number of users, we could hardly make any profit at all from them recently. Therefore, although GMV was reduced by approximately two billion yen (for the first nine months of the current fiscal year) due to the withdrawal, there was almost no impact on profit.

As for the question of how many other unprofitable merchants there are, we have no intention of offering our services at a loss. Of course, large merchants have large transaction volumes, so we sometimes respond to their requests. However, our service is a business that can make accumulative profits with a low churn rate, thus as long as our services are introduced in a way that enables profits to be made, we can expand it going forward.

In addition, with large merchants, profit margins inevitably tend to be lower, but many of our merchants are small to medium-sized ones who do not try to renegotiate their rates very often, so in the aggregate, profit margins are higher. Therefore, our approach is to put together a portfolio that is balanced overall.

Q&A: Order backlog as of December 31, 2022

Moderator: What was the order backlog as of the end of December?

Watanabe: We are not disclosing specific amounts at this time, but we have been receiving plenty of inquiries recently. With *atone*, in particular, we have been receiving inquiries from businesses involved in digital content.

Q&A: Will the full-year budget for marketing expenses be used up?

Moderator: You mentioned that you will be concentrating on digital advertising in 4Q instead of TV commercials, but is it correct to say that the full-year budget you initially anticipated will be used up?

Watanabe: That understanding is right. Originally, the plan was for the TV commercials to run until the end of last year, so please realize that we have made no major changes to our plans.

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