



Net Protections HD

Net Protections Holdings, Inc.

Financial Results Presentation for the Three Months Ended June 30, 2023

August 14, 2023

※Q&A will be uploaded at a later date.

Agenda

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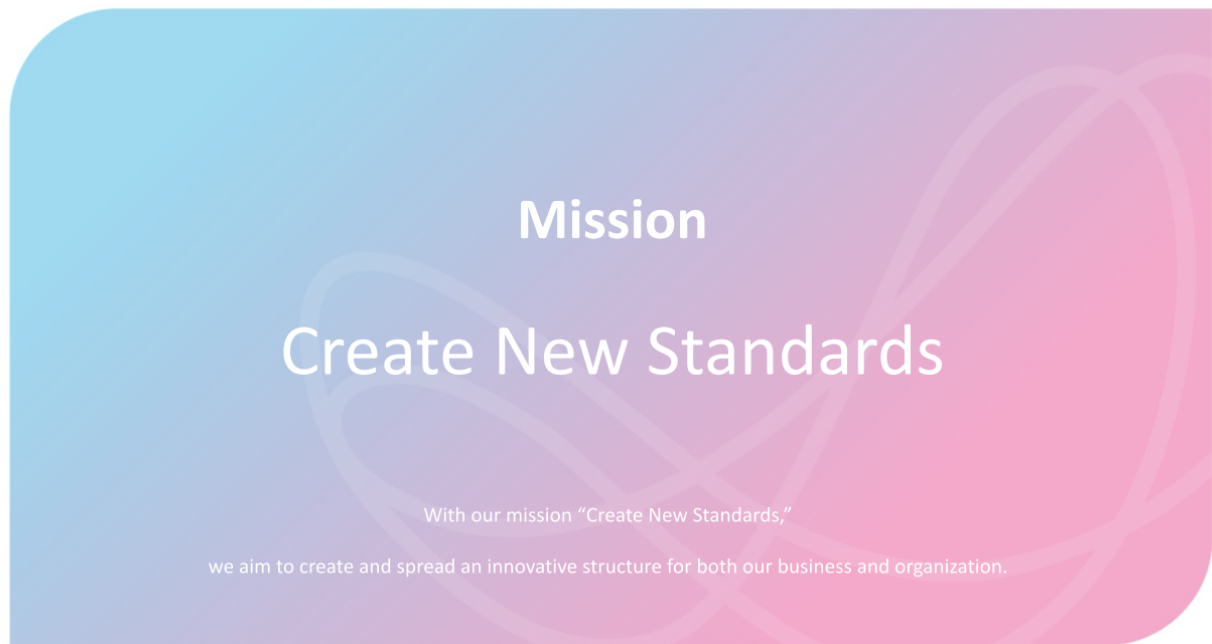
Good afternoon, everyone. I am Shin Shibata, CEO of Net Protections Holdings.

I would like to begin the financial results presentation for the first quarter of the fiscal year ending March 31, 2024.

These are the agendas for today.

We will discuss these agendas in the order of Highlights of Group Financial Results, Future Direction, Summary of Financial Results by Services, and Management Topics.

Mission



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This is our Mission.

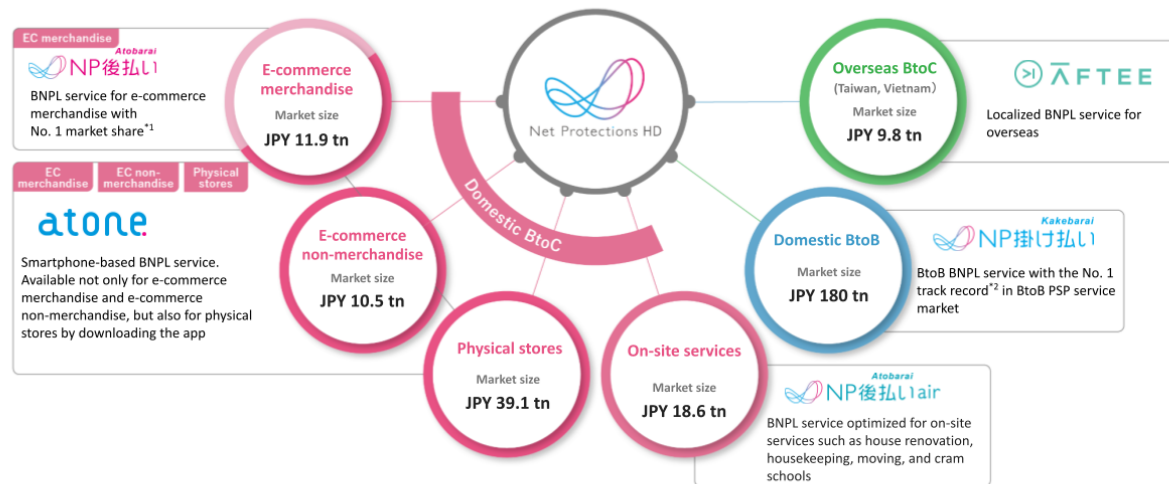
We aim to "Create New Standards" in terms of both business and organization.

We have also adopted a "teal organization," which is rare among listed companies.

Business Overview: Service Lineup and Target Markets

Business Overview: Service Lineup and Target Markets

A Comprehensive BNPL Provider Expanding Services to BtoC, BtoB, and overseas.



*1 Our estimate based on the "75th E-commerce and E-learning Sales Ranking" published in the January 7, 2021 edition of the Tsuanshimbun.

*2 Based on our annual GMV for FY2021 from Deloitte Tohmatsu MIC Research Institute "MIC IT Report October 2022 - Survey on BtoB Payment Service Provider Market (<https://mic-r.co.jp/micit/2022/>)."

See Appendix on pages 67-69 for the definitions of TAM, SAM, and SOM.

Source: Those figures are calculated using our analysis based on certain assumptions with reference to the following various data:

"Cashless Vision" (P. 70), "Cashless Payment Ratio in Japan, Payment Providers, and the State's Disclosure Policy" (P. 21), and "Current Survey of Commerce (2020)" by the Ministry of Economy, Trade and Industry.

*Taiwan Cards and Payments - Opportunities and Risks to 2024" (P. 26 and 30) by GlobalData, and "e-Economy SEA 2022" etc.

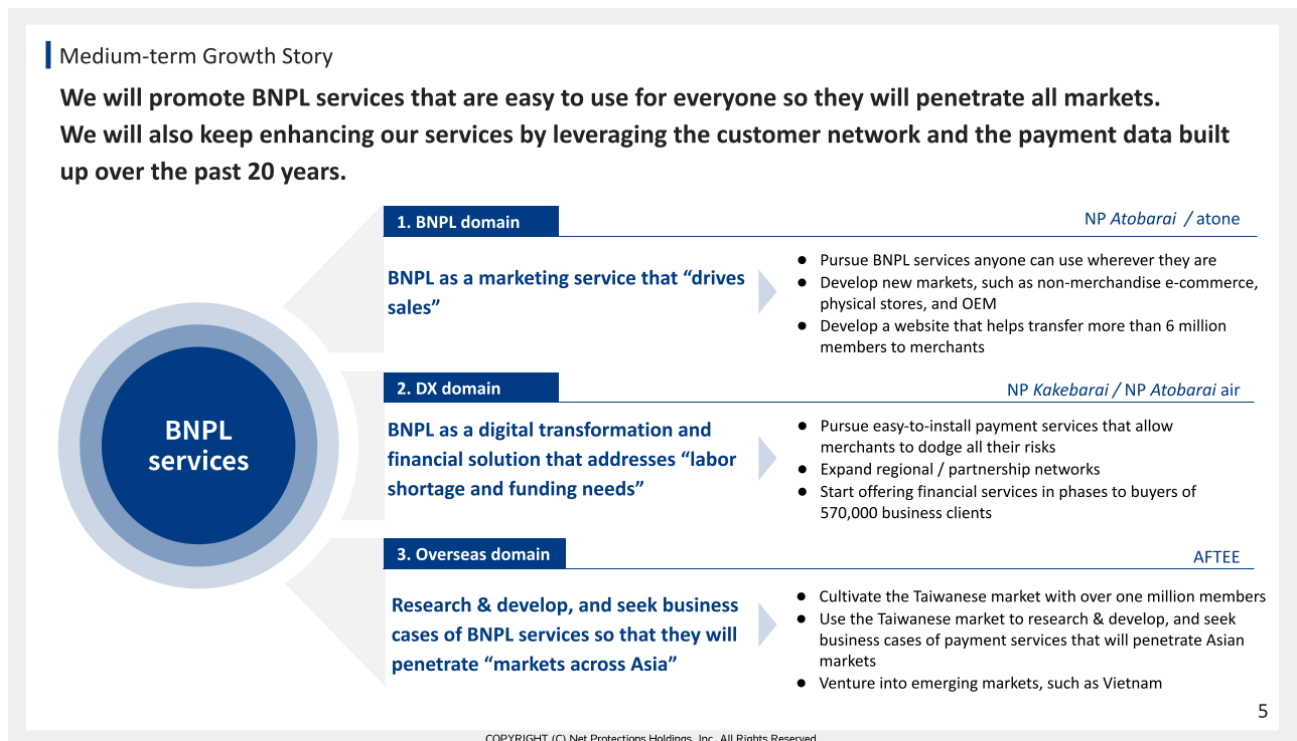
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This is a summary of our services and target markets.

We think it is very rare to be a comprehensive BNPL provider in the world with a wide range services; BtoC, BtoB, and even overseas.

NP Atobarai is growing steadily, and atone, NP Atobarai air, NP Kakebarai, and AFTEE are all growing rapidly.

Medium-term Growth Story



This is our growth story for the future.

We will officially start utilizing the networks and data we have obtained through the provision of payment services.

To develop the atone business, we aim to spread out the service first and then evolve the service into a marketing service that transfers our members to other e-commerce shops.

NP Kakebarai takes the delinquency risk of buyers of our 570,000 business clients annually.

We will start offering financial services for such buyers by leveraging the data acquired through the provision of NP Kakebarai.

AFTEE has been growing steadily. We will bring this service to Asia with a view to tapping into the market in the long run.

Highlights of Group Financial Results



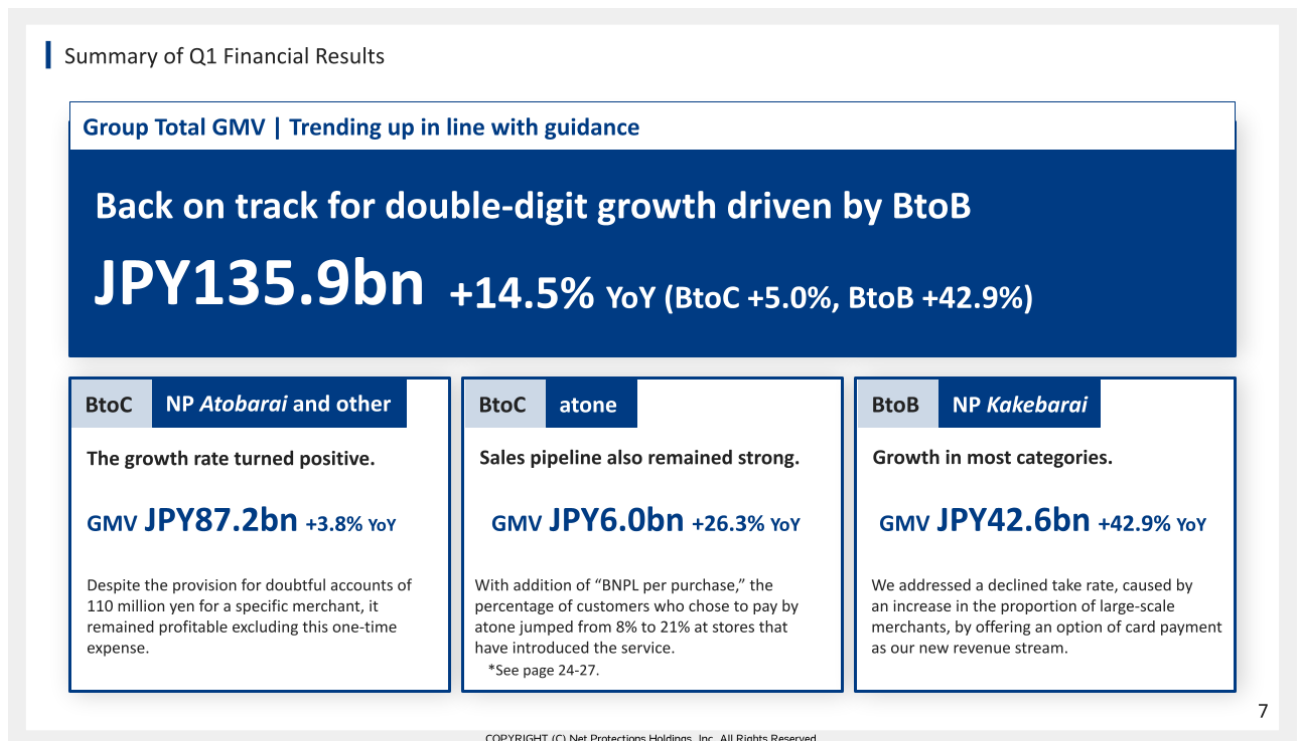
Highlights of Group Financial Results

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Watanabe, CFO, will explain the highlights of the group financial results.

Summary of Q1 Financial Results



This is a summary of the first quarter financial results.

Total GMV grew approximately 15% year on year, showing signs that it was gaining growth momentum.

NP Atobarai is back on a steady growth path, with its growth rate having turned positive.

As for atone, the BNPL per purchase performed better than expected.

As a result, the inflow of new projects has been very strong. In fact, we are highly optimistic about the future of atone.

NP Kakebarai has continued to grow rapidly at a rate exceeding 40%.

The take rate and gross profit have been on the decline as the proportion of large-scale merchants has increased.

However, we are adding new features for business clients, such as card payment, to create a new revenue stream.

Financial Results: Summary of Consolidated Financial Results for the Three Months Ended June 30, 2023

Financial Results: Summary of Consolidated Financial Results for the Three Months Ended June 30, 2023

GMV has progressed 50.8% against the guidance for H1.

We have kept the full-year guidance unchanged as we can offset the one-time increase in allowance for doubtful accounts by holding down SG&A expenses.

Summary of financial results

(JPY in millions)

	FY24/3 Q1 results	YoY percentage change	H1 forecast*4		Q1 proforma results	YoY percentage change
			Amount	Progress rate		
GMV (non-GAAP)	135,928	+14.5%	267,342	50.8%		
Total operating revenue	5,173	+12.8%	10,097	51.2%		
Revenue	5,044	+13.9%	9,857	51.2%		
Gross profit (non-GAAP)*1	1,806	-1.5%	3,763	48.0%	1,917	+4.6%
SG&A expenses	2,278	+18.8%	4,680	48.9%		
Other operating expenses	11	-6.7%				
Of SG&A expenses, marketing expenses*3	160	+0.0%	450	35.7%		
Operating profit (loss)	(354)	-	(676)	-	(244)	-
EBITDA (non-GAAP)*2	16	-95.9%	61	27.2%	127	-69.1%

*1 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)

*2 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)

*3 Marketing expenses: Sales promotion expenses (excluding agency commissions) + Advertising expenses

*4 Consistent with Consolidated Financial Results for the Fiscal Year Ended March 31, 2023 dated May 14, 2023

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These are the consolidated financial results for the three months ended June 30, 2023.

GMV increased 14.5% year on year to 135,928 million yen and total operating revenue increased 12.8% year on year to 5,173 million yen, both exceeding the guidance. Both the BtoC and BtoB businesses have grown as expected, marking a good start.

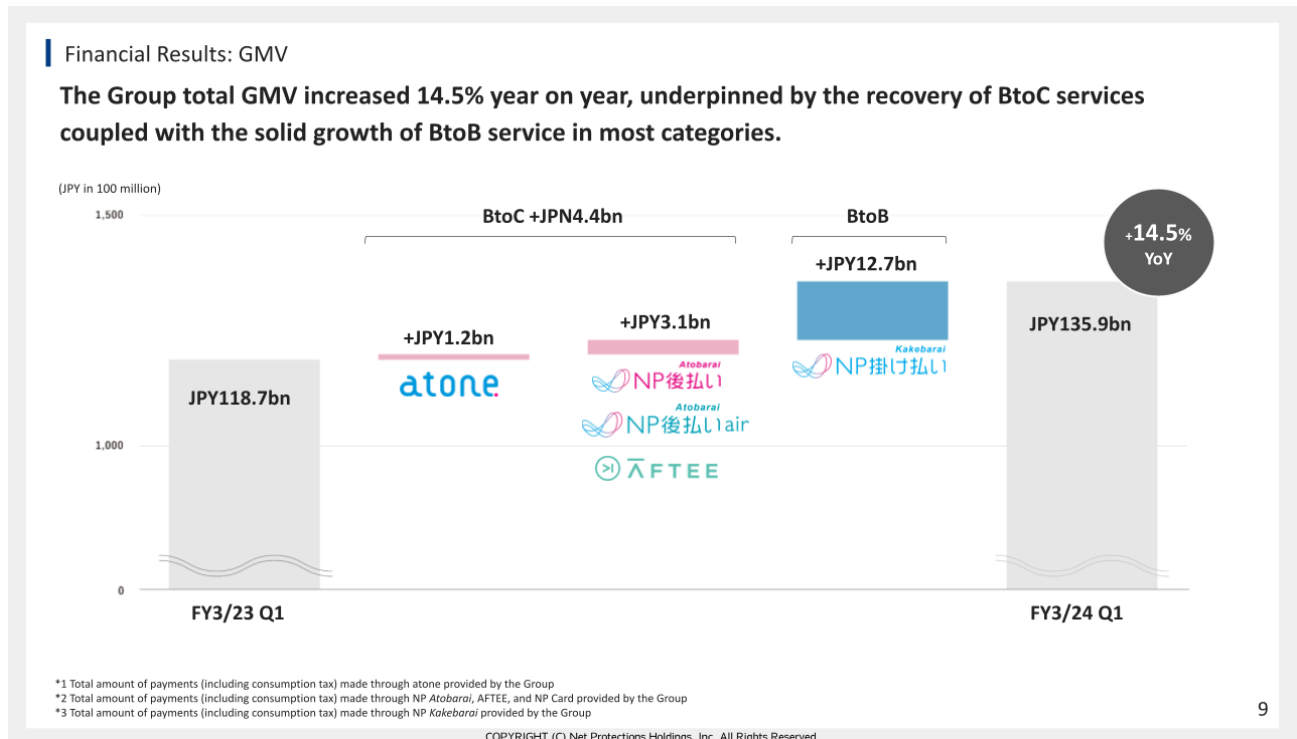
Gross profit decreased 1.5% year on year to 1,806 million yen.

This is attributable to posting provision for doubtful accounts of 110 million yen for a specific merchant in the NP Atobarai business.

Although this is an unexpected addition to allowance for doubtful accounts, we have kept the full-year guidance unchanged as we can offset the amount by streamlining operations that incur SG&A expenses going forward.

Note that the estimates excluding the provision for doubtful accounts are posted on the right side for your reference.

Financial Results: GMV



This slide shows how our GMV increased year on year.

The BtoC services are on the recovery trend.

atone, in particular, has marked a significant growth. In addition, multiple large-scale merchants plan to start their operations in around this winter.

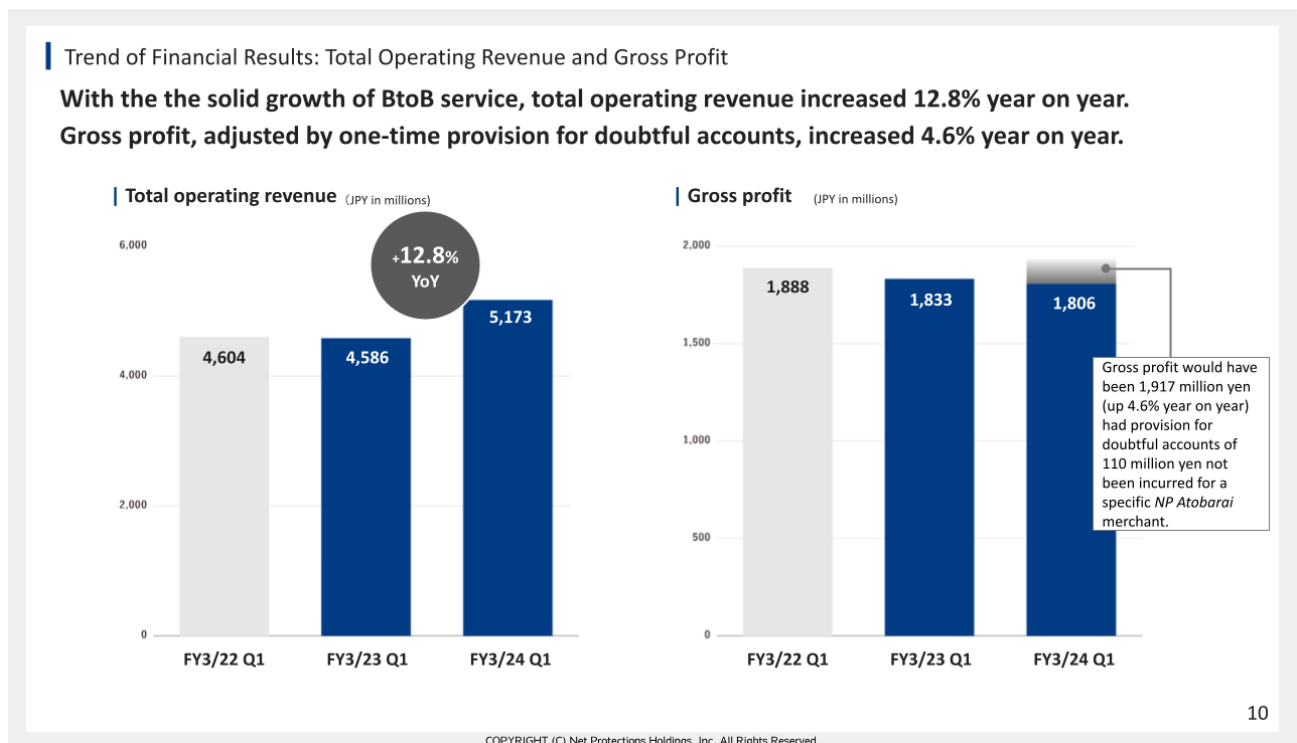
We expect that the recognition and market presence of atone as a service will increase significantly.

NP Atobarai air, an BNPL service for on-site services, also has been growing steadily.

Moreover, the BtoB service has remained strong.

While transactions relating to the food and beverage industry has been growing driven by the reopened economic activities, transactions in all categories have been growing.

Trend of Financial Results: Total Operating Revenue and Gross Profit



This slide shows the trends of total operating revenues and gross profits.

Actual operating revenues and gross profits are as shown. For your reference, increases in total operating revenue reflect the price hike of invoicing fees in September last year.

As for gross profit, as mentioned earlier, we additionally recognized provision for doubtful accounts of 110 million yen for a specific NP Atobarai merchant.

We have examined the financial standings of all merchants and have confirmed there are no other merchants like this specific merchant.

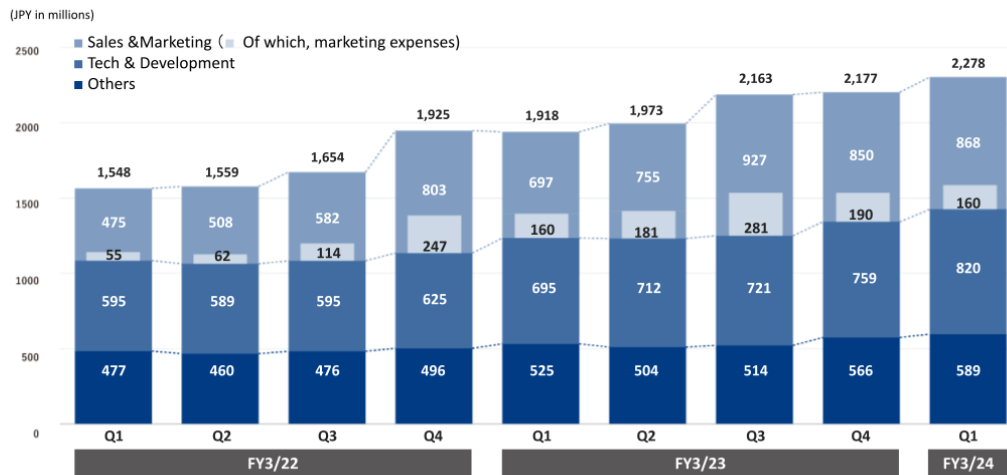
We therefore believe that this is just a one-time adjustment.

Nevertheless, we will make continued efforts to strengthen the monitoring of merchants.

Quarterly Trend of SG&A Expenses

Quarterly Trend of SG&A Expenses

Since Q4 of the previous fiscal year, we have continued efforts to strengthen the functions of Sales & Marketing and Tech & Development as an upfront investment to expand the scale of operations. The reinforcement was completed in FY3/24 Q1, and there will be no significant growth going forward.



*1 Sales & Marketing: Personnel, outsourcing, operations related, marketing, and other expenses related to sales and marketing

*2 Tech & Development: Personnel, outsourcing, operations related, and other expenses related to system development, credit related operations, and other operations.

*3 Others: SG&A expenses other than *1 and *2 (personnel and outsourcing expenses related to back-office operations, outsourcing expenses of help desk for services, etc.)

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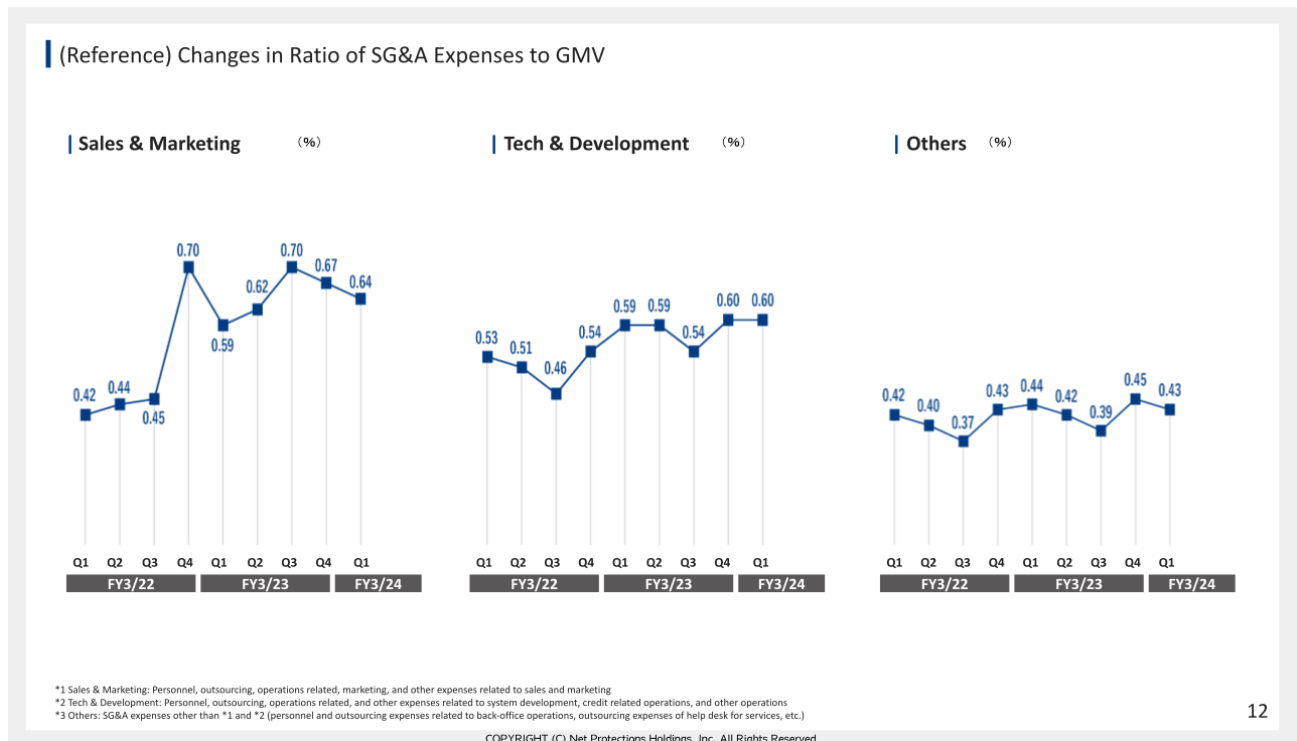
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The graph shows the trend of SG&A expenses.

Increases in SG&A expenses are attributable to the expenses for recruiting team members and outsourcing aimed at strengthening our structure, which we have continued since last year.

The amount, however, will not increase significantly from now on as we will be able to secure enough team members soon.

(Reference) Changes in Ratio of SG&A Expenses to GMV



This is the reference information showing the trends of the ratio of SG&A expenses to GMV.

Future Direction



Future Direction

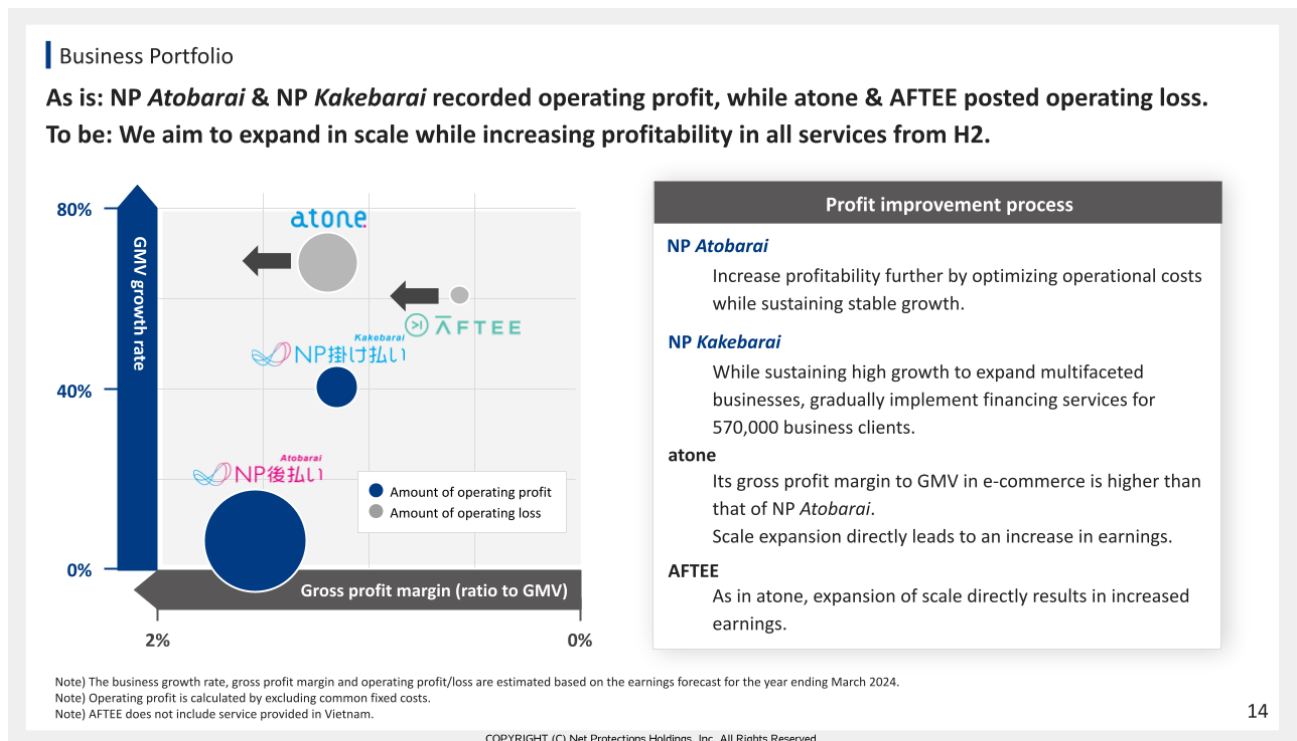
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From here, Shibata will speak again.

I would like to explain our future direction.

Business Portfolio



First of all, let me explain our business portfolio.

On this chart, the vertical and horizontal axes represent the GMV growth rate and gross profit margin, respectively, and the size of the bubble indicates the amount of operating profit of each service.

While NP Atobarai and NP Kakebarai are profitable, investments outstripped revenues in growth businesses such as atone and AFTEE.

As a result, the company as a whole is in deficit when common fixed costs related to back-office operations are included.

Going forward, we work to increase earnings in each service.

For NP Atobarai, we seek to further increase profitability by optimizing operational costs while sustaining stable growth.

In NP Kakebarai, we will expand the earnings scale through increased GMV, and create new source of earnings by offering full-fledged financing services to business clients.

As for atone, its gross profit margin in the e-commerce market is higher than that of NP Atobarai. Therefore, expansion of its scale will directly lead to an increase in earnings.

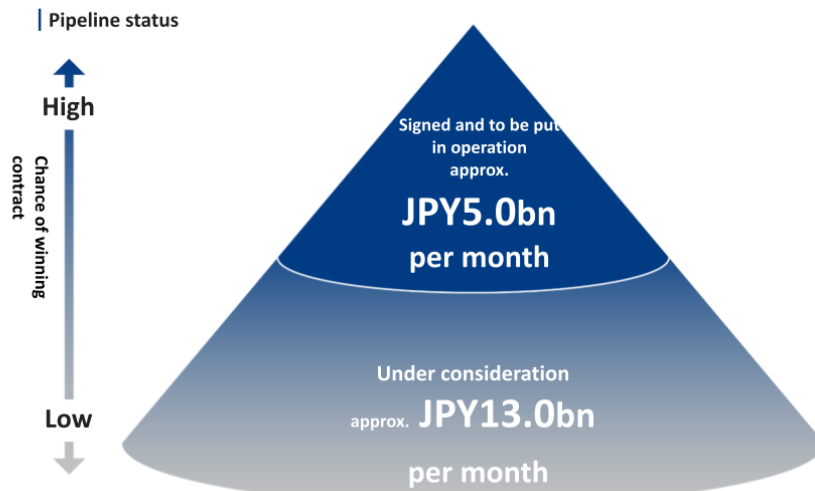
For AFTEE as well, expansion of scale is important.

GMV: Sales Pipeline Status

GMV: Sales Pipeline Status

As of June 2023, the backlog GMV with contracts yet to be put in operation was 5.0 billion yen per month (estimate).

Pipeline has been built up to its highest-ever level.



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Our sales pipeline has been built up to its highest-ever level.

GMV of newly signed contract amounted to approximately 5.0 billion yen per month.

In addition, the amount of leads in consideration phase that are currently under negotiation reached approximately 13.0 billion yen.

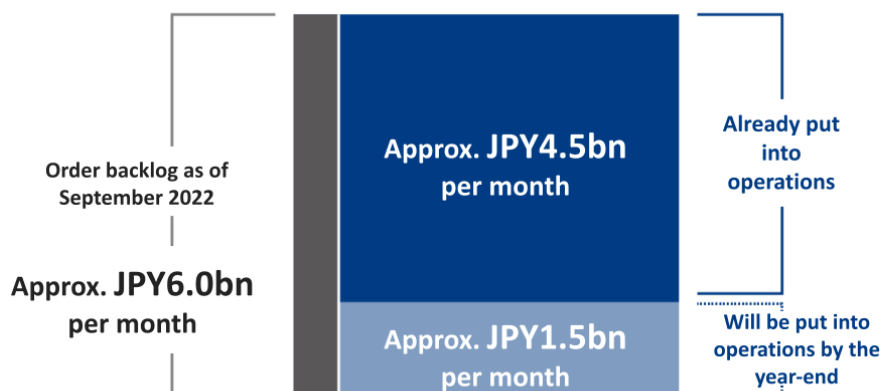
These include particularly large number of leads for atone and NP Kakebarai.

What matters most is how we can convert these leads into closed deals with a high chance of winning.

Reference: Progress of the past sales pipeline

Reference: Progress of the past sales pipeline

Of order backlog of 6.0 billion yen per month as of September 2022, contracts with 4.5 billion yen per month have been put into operation.



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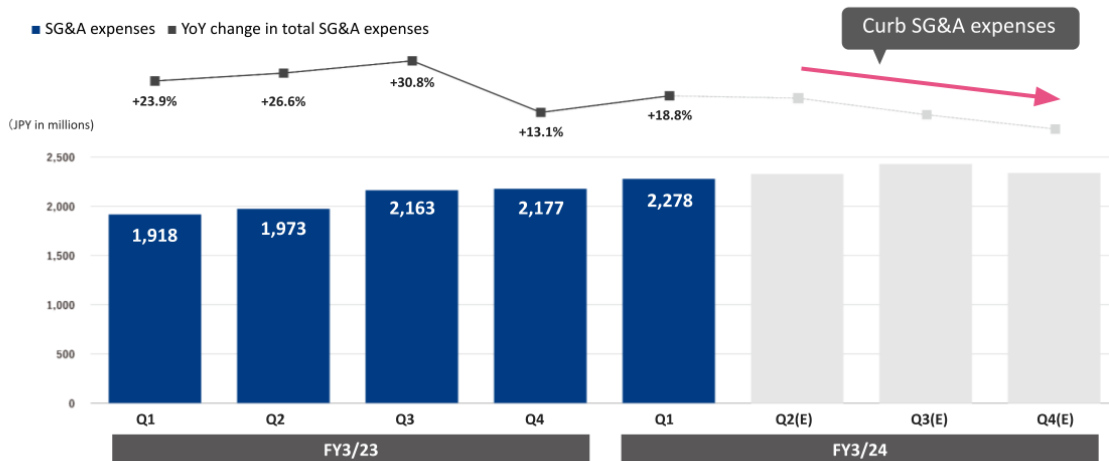
For your reference, this slide shows the status of order backlog with contracts put into operation as of September 2022.

Contracts with 4.5 billion yen have been put into operations during the past nine months, and the remainder is scheduled to be put into operation by the end of this year. As indicated here, we have been able to successfully follow up the signed contracts as well.

Quarterly Changes and Outlook of SG&A

Quarterly Changes and Outlook of SG&A

We will reduce SG&A expenses by increasing sales & marketing productivity, aiming to achieving profitability in the fiscal year ending March 2025.



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During the previous fiscal year, we have made up-front investments. From now on, we will be committed to reduce costs.

The gray-colored bars in the chart represent estimated SG&A expenses from Q2 onward. The increase is planned to go down as shown.

Since the sales personnel has increased to a sufficient level, we will improve efficiency by, for example, insourcing the previously outsourced operations.

Thanks to the accumulated marketing know-how, we should be able to deliver comparable or better results while keeping down the investments.

As there is room for cost improvements in call center operations mainly through the use of AI, we will launch a project to promote the initiative.

We plan to return to profitability in the year ending March 2025 by increasing GMV and gross profit while reducing SG&A expenses.

Summary of Financial Results by Services



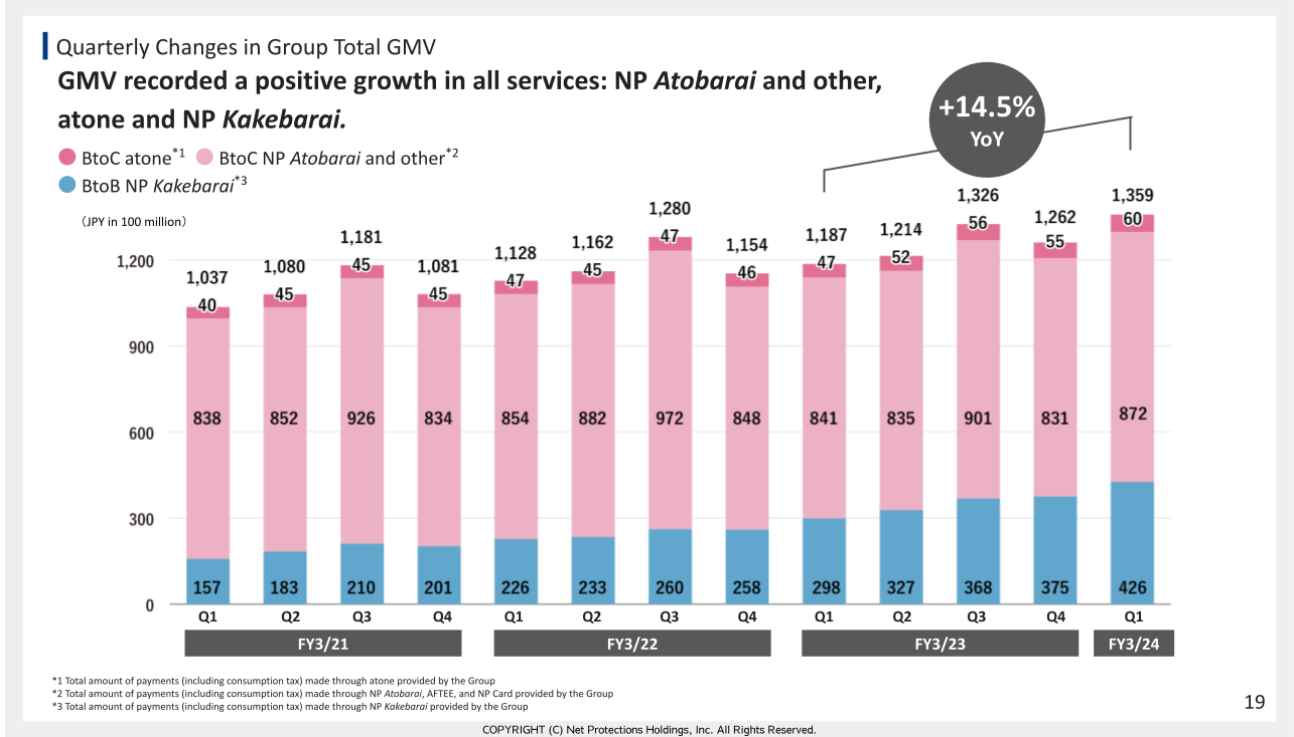
Summary of Financial Results by Services

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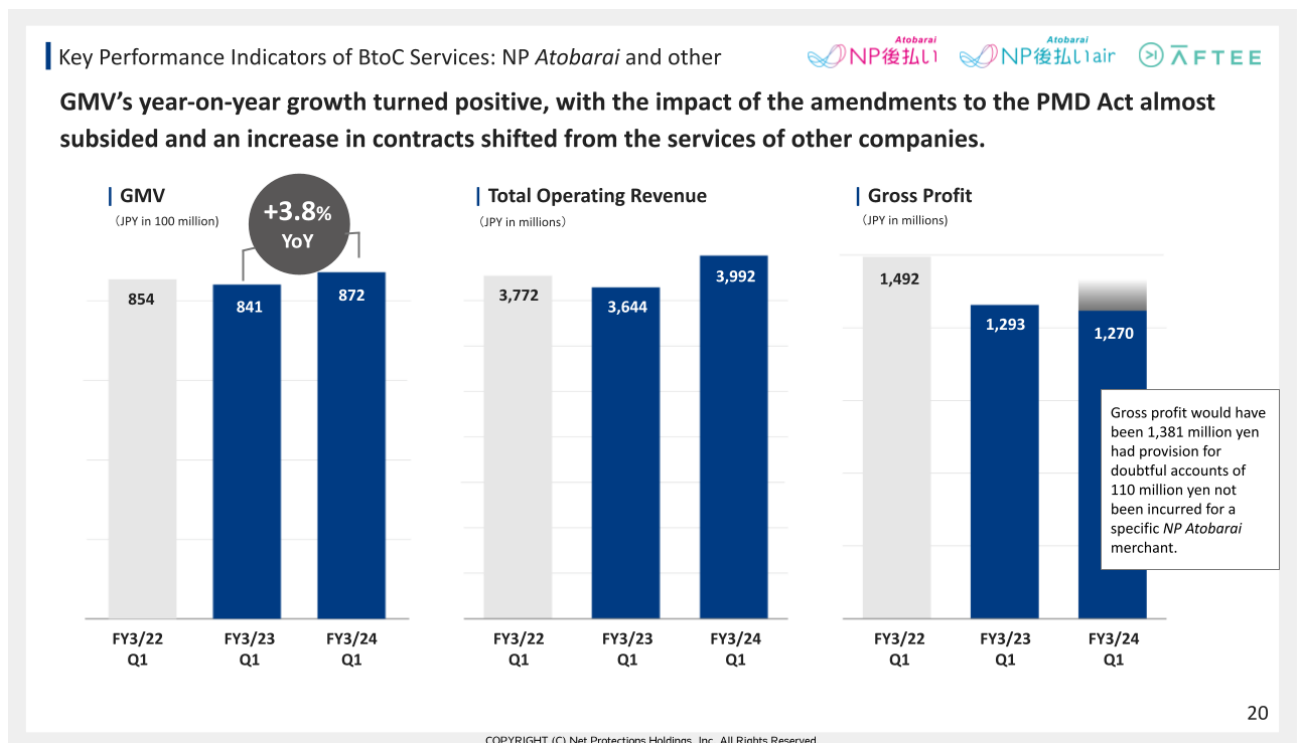
Next, let me explain the summary of the financial results by services.

Quarterly Changes in Group Total GMV



This is the trend of each service' s share in GMV.

Key Performance Indicators of BtoC Services: NP Atobarai and other



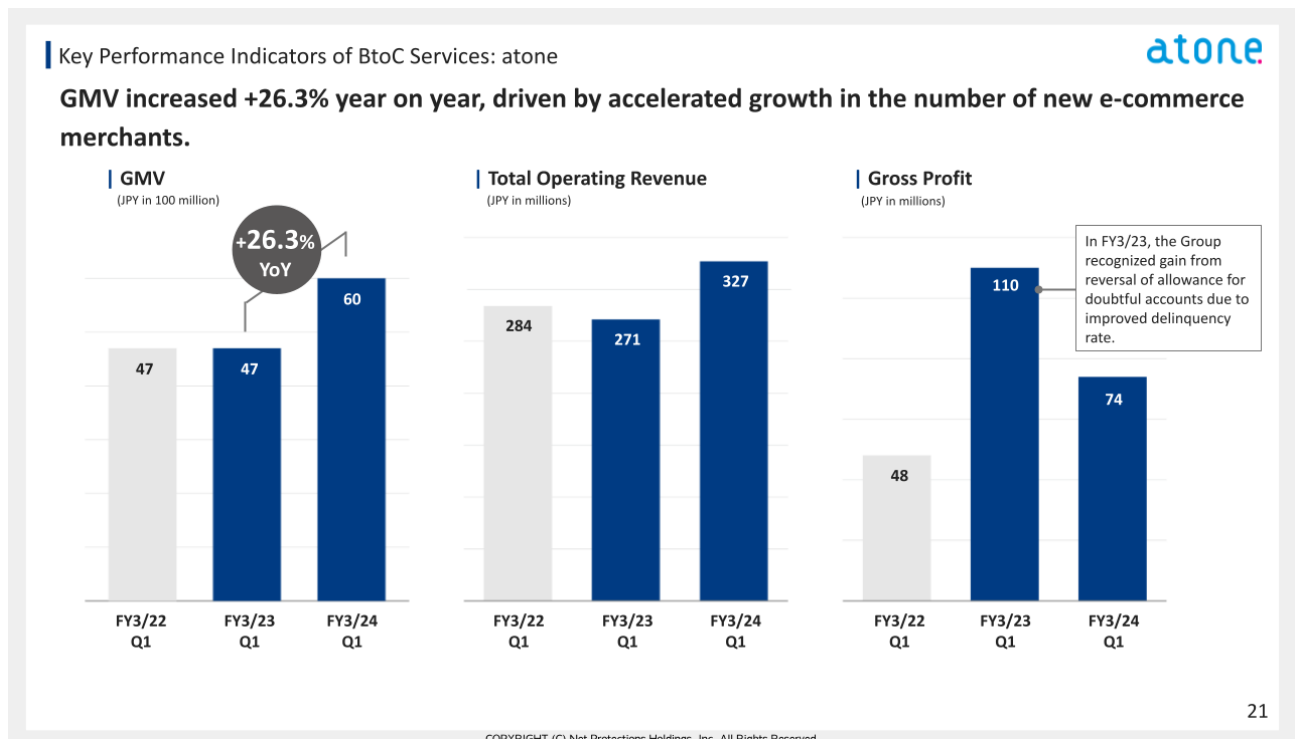
This slide shows the results of BtoC services such as NP Atobarai and other, which exclude atone.

The growth of GMV turned to positive as the impact of PMD Act amendments has bottomed out, and also supported by merchants' shifts away from the services of other companies to our services.

As I explained earlier, gross profit decreased due to the recognition of provision for doubtful accounts related to some transactions.

However, this is a one-off factor only for this quarter, and we expect gross profit to build up in proportion to GMV and total operating revenue.

Key Performance Indicators of BtoC Services: atone



Moving on, the performance of BtoC services: atone.

GMV increased 26.3% year on year.

The growth driver was the increasing number of e-commerce businesses that introduced atone in apparel, entertainment and other industries since the second half of the previous fiscal year.

The up-and-down in gross profit is affected by the timing of provision and reversal of allowance for doubtful account.

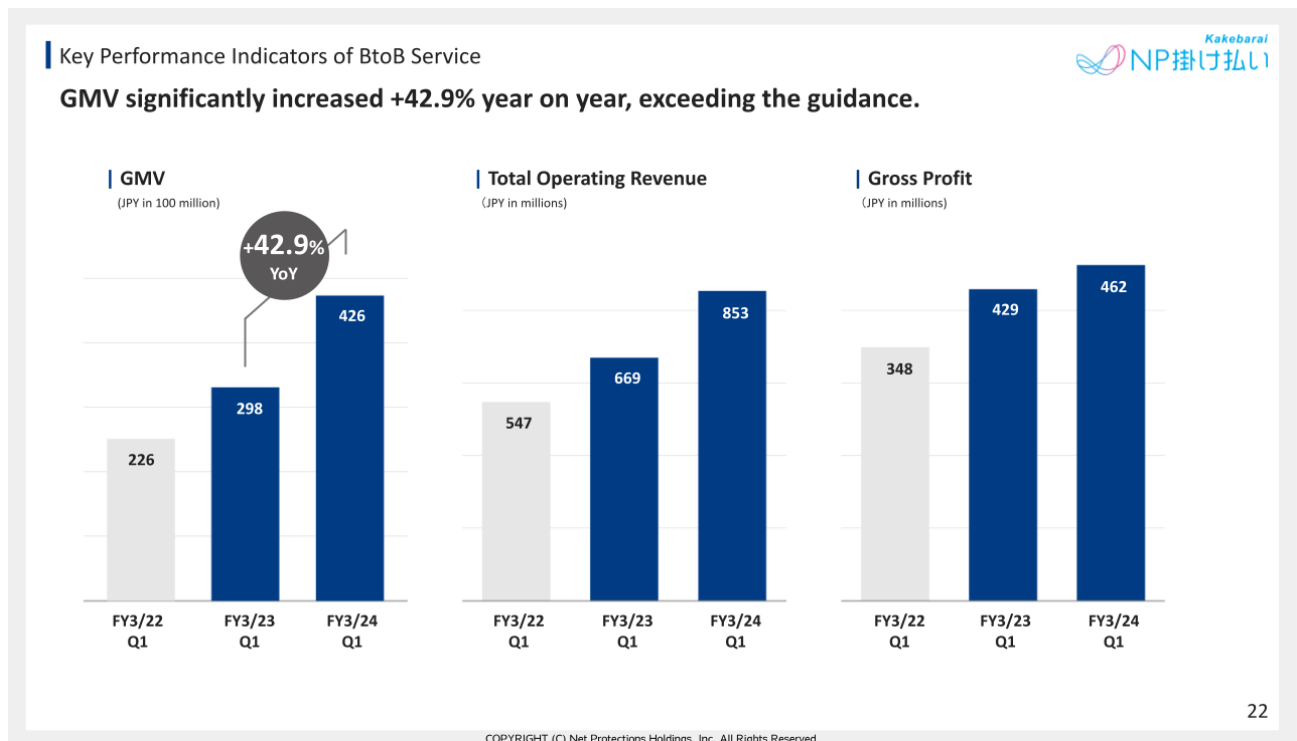
In new service like atone, provisions are often made conservatively, and reversed in line with the decline in delinquency rate.

In the previous fiscal year, we recognized a large amount of gain from reversal of allowance for doubtful account due to an improvement in the delinquency rate.

Although it is difficult to see clearly from these quarterly figures alone, we have been able to steadily improve the delinquency rate.

Accordingly, costs will be reduced, and profitability will increase.

Key Performance Indicators of BtoB Service



In this slide, we look at the performance of BtoB service: NP Kakebarai.

Transactions increased not only in the robust food and beverage industry but in almost all industries, resulting in a growth rate exceeding guidance.

For BtoB service, we are confident about achieving growth in GMV, because new contracts have been increasing mainly from large merchants.

However, service fees, or operating profit margins are generally low compared to BtoC services. Therefore, how to increase profitability will be important.

Gross profit was affected also by a slightly increased delinquency rate, which has been on the rise with increasing number of bankruptcies.

The number of business clients has increased to over 570,000 in line with the growth of GMV.

We are considering increasing profit opportunities by providing financing services to those clients.

Management Topics



Management Topics

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The last part will be management topics.

BtoC Services: atone - Overview of BNPL Per Purchase Feature

BtoC Services: atone - Overview of BNPL Per Purchase Feature			atone
Unlike our existing next month payment, atone BNPL Per Purchase does not require sign-up. As all they need to do is SMS authentication to start shopping, the feature contributes greatly to acquiring new users.			
	BNPL Per Purchase	Next month payment	
Sign-up	Not required SMS authentication	Required Easy online sign-up	
Reward points	None	0.5% *Campaigns are eligible for members only	
Payment method	Convenience store, wire-transfer *Paperless	Direct debit, convenience store, wire-transfer *Paperless	
Benefits	Simple, easy to use	Reward points earned on shopping Easy payment with direct debit	

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This topic is a highlight of today's presentation.

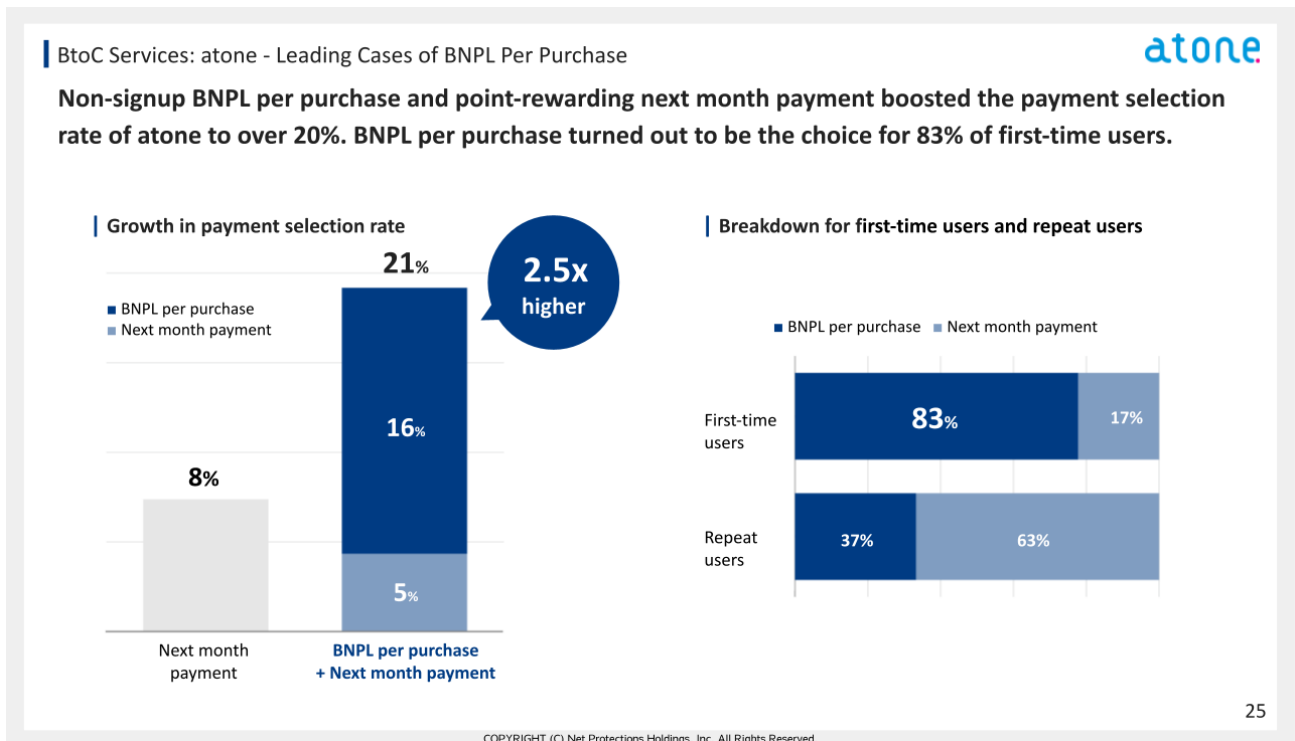
The BNPL per purchase, which we have been mentioning as the centerpiece of our atone strategy, has been launched.

We are pleased to report that we have been able to verify its effectiveness.

Simply put, while next month payment requires sign-up for membership, BNPL per purchase does not.

Therefore, it lowers the hurdle for customers who use a BNPL service for the first time, and improves conversion rate, which means that it will directly contribute to increasing sales.

BtoC Services: atone - Leading Cases of BNPL Per Purchase



This slide shows the results of it.

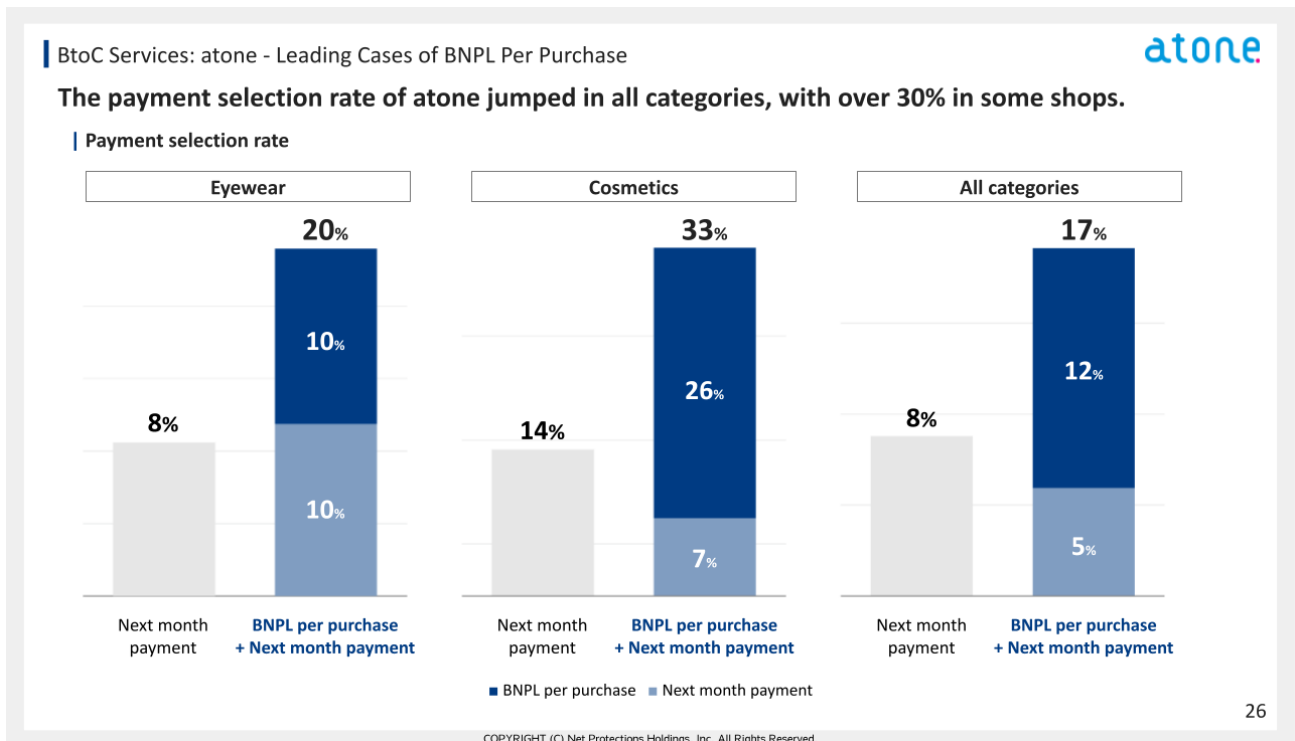
After atone merchants additionally adopted BNPL per purchase, the percentage of atone selected rose to 2.5 times, with its share of in-store payments growing to 21%. Our actual survey of user trends showed that as many as 83% of first-time users chose BNPL per purchase, which was what we aimed for. Meanwhile, the percentage of next month payment, which offers better benefits and convenience, has also increased among repeat users.

BNPL per purchase, which requires no sign-up, is attracting new users, while next month payment, which offers more beneficial services, is increasing repeat users.

The two features are being used as we intended.

Furthermore, we have provided full explanations of this data during our sales negotiations with merchants, leading to a substantial enhancement of our closing probability.

BtoC Services: atone - Leading Cases of BNPL Per Purchase



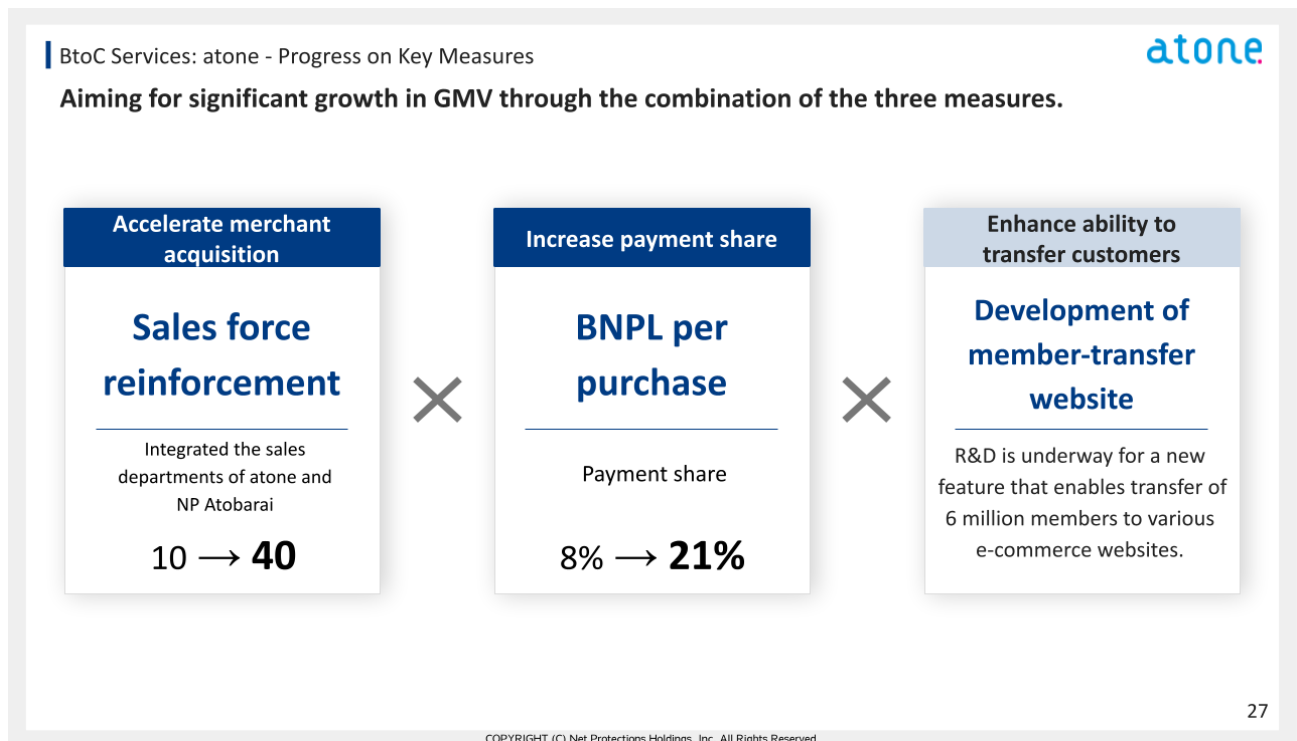
The other three stores, which began using BNPL per purchase at the same time, also showed a significant increase in the payment selection rate.

The average payment selection rate in the four stores is 23%, making it the second most important payment used after credit cards.

While other BNPL service and QR code payment options were available, the selection rate exceeded our expectations,

giving us even more confidence in our ability to expand sales in the future.

BtoC Services: atone - Progress on Key Measures



As shown in this slide, we are carrying out our key measures for atone on track.

We revamped our sales structure this past April, particularly working to strengthen the expansion of atone sales.

In addition, with the addition of BNPL per purchase in June, we have succeeded in increasing atone's share.

We have been negotiating with almost all of the existing top merchants that have already adopted atone, and several major merchants have decided to introduce BNPL per purchase.

And soon, we will implement a new feature to transfer members to merchants.

We will be releasing a website within a month or two that will post information on campaigns in place at each merchant.

We expect that once the website begins to function with the ability to transfer 6 million members to merchants, it will evolve into a payment method as a marketing service.

We aim for significant GMV growth through the combination of the three measures.

Management Topics

Management Topics



Larger share of electronic barcode billing expected to improve profitability

From the end of June, NP Atobarai top merchants have been switching to electronic barcode billing. The gross profit margin for NP Atobarai as a whole is expected to increase by about 2%.



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And, other topics.

In September 2022, we launched the electronic barcode billing feature for NP Atobarai, and from the end of June, top NP Atobarai merchants have been switching to electronic barcode billing across the board.

Now the gross profit margin for NP Atobarai as a whole is expected to increase by about 2%.

Management Topics

Management Topics



The number of AFTEE members exceeded one million in Taiwan

AFTEE in Taiwan has crossed the 1 million mark in membership.
We will continue to expand our merchant base and membership.



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AFTEE in Taiwan has surpassed 1 million members.

This represents that a penetration rate of AFTEE in Taiwan is about 1 in 20 people.

Although it is still a passing point, reaching the 1 million mark is proof of a certain level of acceptance in the Taiwanese market.

We will further strive to expand our merchant base so that more and more people can use AFTEE.

Management Topics

Management Topics

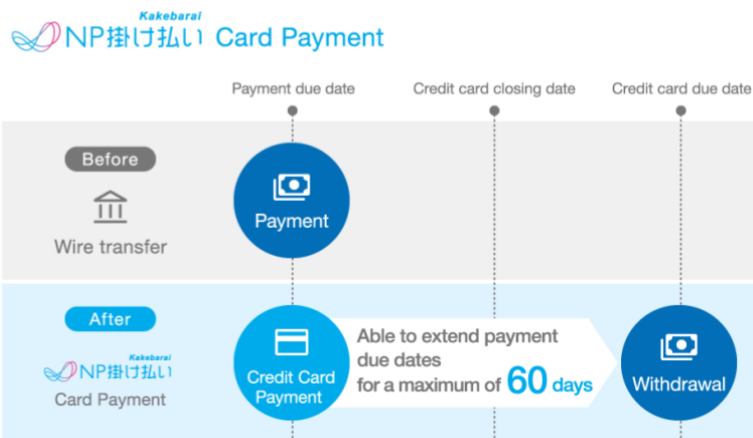


NP Kakebarai Card Payment - a feature newly available for NP Kakebarai

NP Kakebarai allows 570,000 business clients to pay by credit card after they receive invoices.

The new feature will be tested at certain stores first, to be expanded in phases.

Research is also underway to offer other financial services.



*The number of days carried over depends on the date of the card payment application and the due date on the card being used.

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The last topic of this quarter is a new feature of NP Kakebarai: card payment.

The service allows purchasing companies to switch from "pay the bill next month" to "pay with credit cards up to 60 days later," as a means to improve their cash flow.

With this feature, we aim to add value to the payment service and provide an additional source of revenue.

In BtoB service, we intend to improve profitability by enhancing other finance services.

This is the end of our results briefing for the three months ended June 30, 2023.

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