



Net Protections HD

Net Protections Holdings, Inc.

Financial Results Presentation for the Six Months Ended September 30,
2023

November 14, 2023

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

Financial Results Presentation for the Six Months Ended September 30, 2023



Net Protections Holdings, Inc.
(TSE Prime Market: 7383)

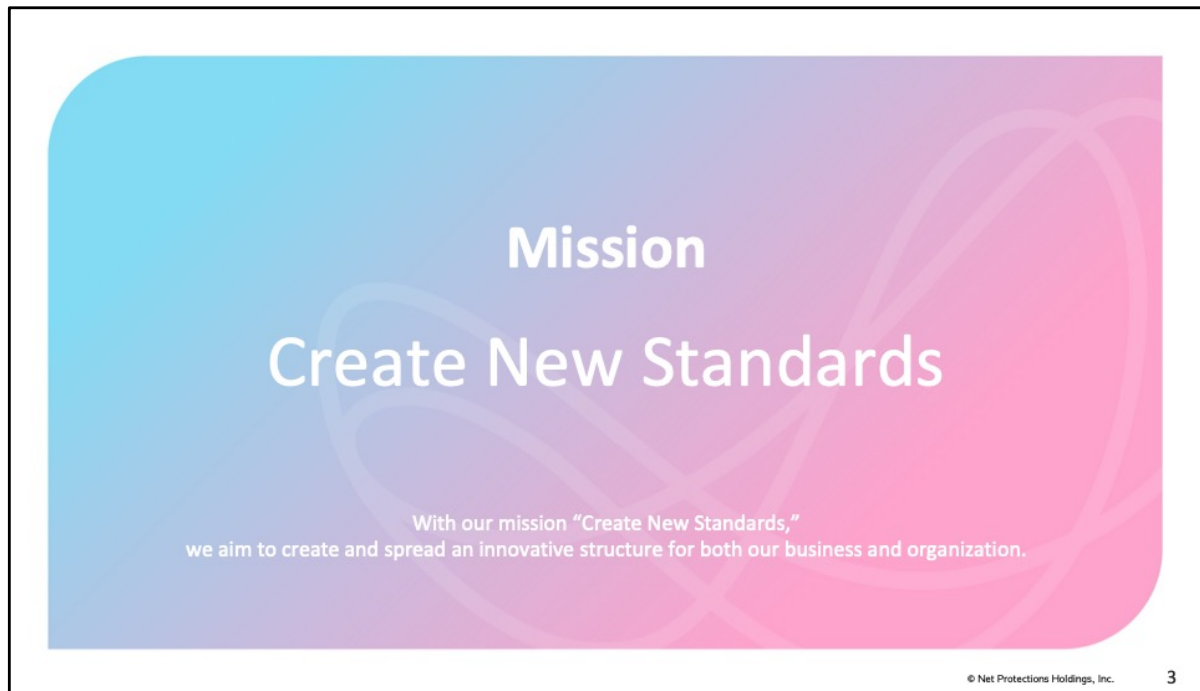
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Good afternoon, everyone. I am Shin Shibata, CEO of Net Protections Holdings.
I would like to begin the financial results presentation for the second quarter of the fiscal
year ending March 31, 2024.

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These are the agendas for today.

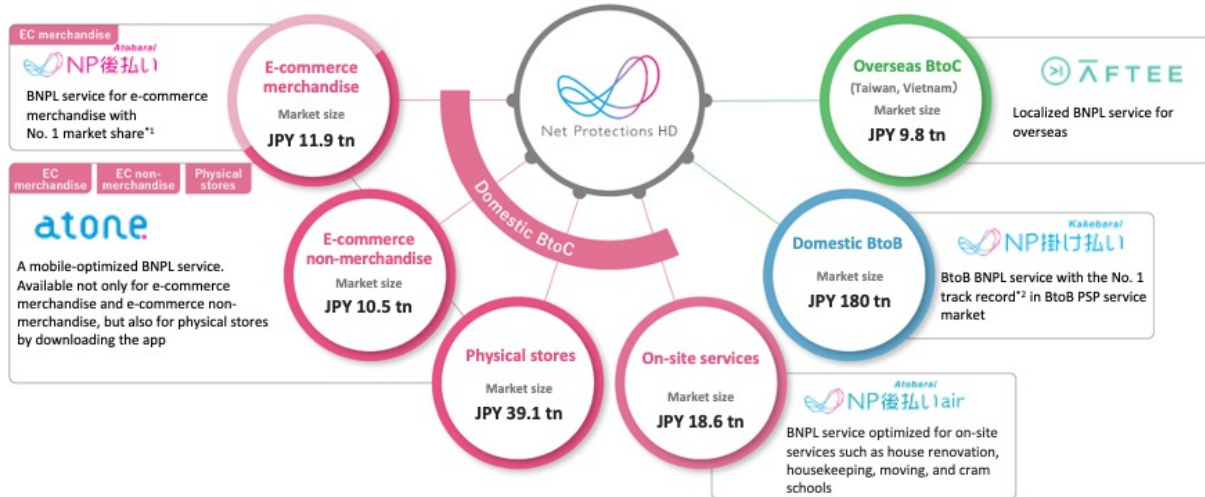
We will discuss these agendas in the order of highlights of group financial results, summary of financial results by services, and management topics.



This is our Mission.
Please skip to page 5.

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/micr/2022/>)."

See Appendix on pages 64-66 for the definitions of TAM, SAM, and SOM.

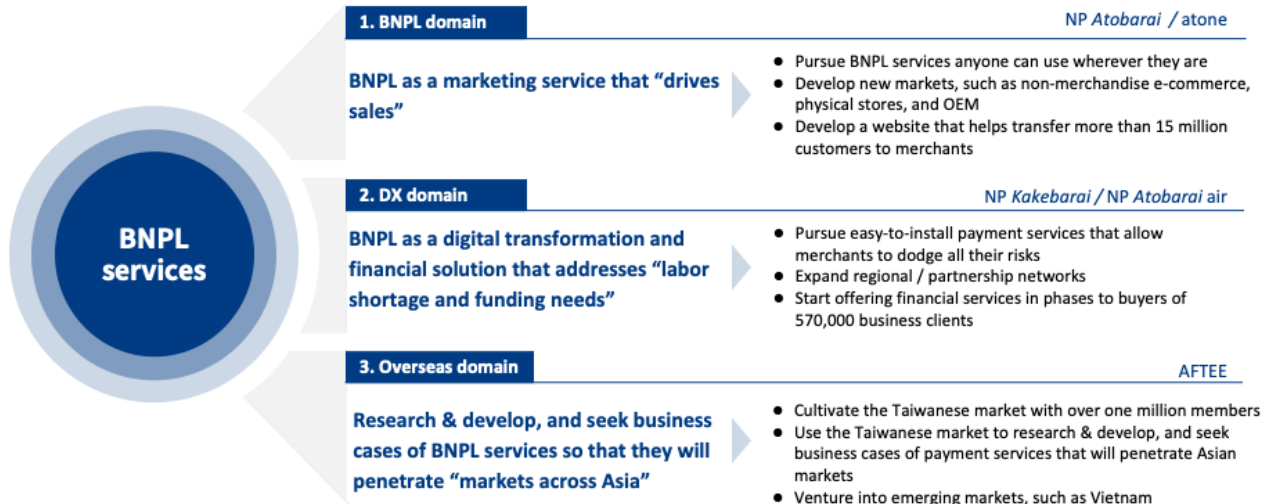
Source: Those figures are calculated using our analysis based on certain assumptions with reference to the following various data:

"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.

Medium-term Growth Story

We will promote BNPL services that are easy to use for everyone so they will penetrate all markets.
We will also keep enhancing our services by leveraging the customer network and the payment data built up over the past 20 years.



This is our growth story for the future.

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

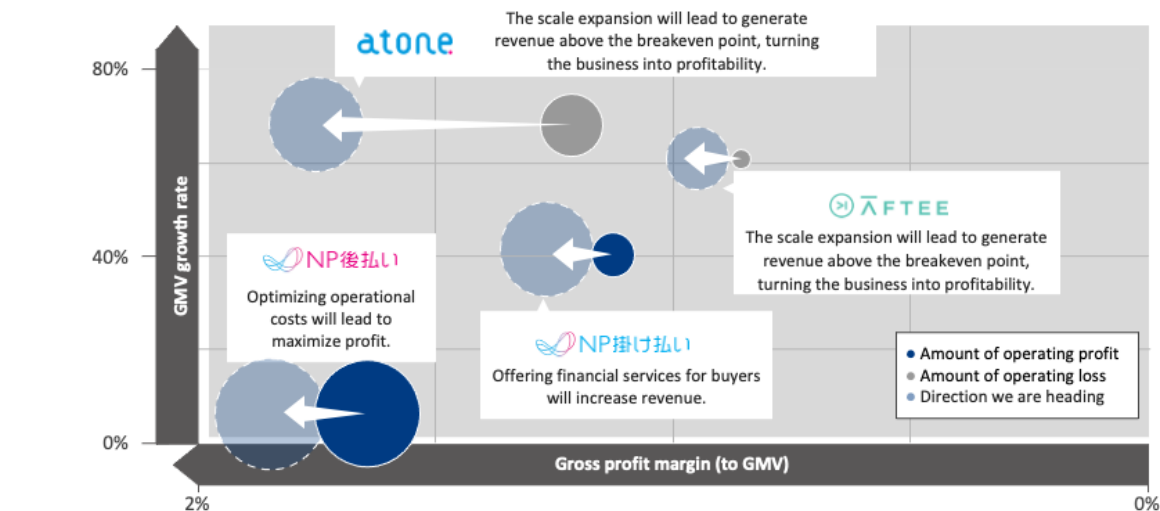
atone not only is a payment service, but also is evolving into a marketing service that can transfer our customers to other e-commerce shops.

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.

Business Portfolio and Its Direction

Now that we have completed strengthening our structure to expand in scale, we are ready to increase revenues from all service categories and build up profits.



Note) The GMV growth rates, gross profit margin, and operating profit/loss are estimated based on the earnings forecasts for the fiscal year ending March 31, 2024.
 Note) Operating profit (loss) is calculated by excluding common fixed costs.
 Note) AFTEE does not include service provided in Vietnam.

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Let me explain our current business portfolio and its future direction.

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

While NP *Atobarai* and NP *Kakebarai* are profitable, the amounts of investment outstripped revenues in growth businesses such as *atone* and *AFTEE*.

Going forward, we will turn all services profitable, as we have completed strengthening the structure.

NP *Atobarai* will seek to further increase profitability by optimizing operational costs.

NP *Kakebarai* will expand the revenue scale through increased GMV and create a new revenue stream by offering full-fledged financing services for buyers.

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 profit.

For *AFTEE* as well, expansion of scale is important.



Highlights of Group Financial Results

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

Summary of H1 Financial Results (for Six Months Ended September 30, 2023)

Group Total GMV | Outpacing guidance

H1 guidance achieved, underpinned by continued positive GMV growth in all service categories

GMV **JPY273.8bn** **+14.0% YoY**
(BtoC +4.8%, BtoB +40.2%)

BtoC **NP Atobarai and other**

GMV is on a steady growth trajectory.

In November 2023, a major cosmetics merchant put the service into operation for its e-commerce transactions. Adoption of the service by other new merchants are also well underway.

*See page 27

GMV **JPY173.7bn** **+3.7% YoY**

BtoC **atone**

GMV of new merchants has been building up strongly.

Shopping cart integration has progressed with multiple e-commerce operators, which is expected to accelerate the timing of the service adoption and operation by new merchants.

* See page 23-24

GMV **JPY12.3bn** **+23.5% YoY**

BtoB **NP Kakebarai**

GMV recorded a significant growth backed by a virtuous cycle, in which both new and existing transactions are increasing.

GMV **JPY87.7bn** **+40.2% YoY**

This is a summary of financial results for the first half of the fiscal year ending March 31, 2024.

GMV continued to record a positive growth in all service categories. The Group total GMV marked a double-digit growth of 14% like it did in the first quarter, beating the H1 guidance. NP *Atobarai* continued to record a positive growth throughout the first half.

As we have announced today to the press, a major cosmetics merchant put NP *Atobarai* in operation, we have got the second half off to a good start.

As for atone, GMV increased more than 20% year on year backed by the solid growth of GMV with new e-commerce merchants.

As key measures for further growth have proven successful, we would like to discuss these measures in detail later.

GMV for NP *Kakebarai* came in better than expected, recording a 40% year-on-year increase. We are in a virtuous cycle, in which both new and existing transactions are increasing.

Financial Results: Summary of H1 Financial Results (for Six Months Ended September 30, 2023)

We achieved the H1 guidance.

Operating profit/loss came in better than expected, with allowance for doubtful accounts recognized for a single merchant during Q1 being offset with reduced SG&A expenses.

Summary of financial results (JPY in millions)

	FY3/24 H1 results	YoY percentage change	H1 forecast*4		H1 proforma results	H1 forecast progress rate
			Amount	Progress rate		
GMV (non-GAAP)	273,822	+14.0%	267,342	102.4%		
Total operating revenue	10,330	+11.9%	10,097	102.3%		
Revenue	10,080	+12.6%	9,857	102.3%		
Gross profit (non-GAAP)*1	3,682	+0.3%	3,763	97.9%	3,793	100.8%
SG&A expenses	4,522	+16.2%	4,680			
Other operating expenses	17	-18.2%				
Of SG&A expenses, marketing expenses*3	337	-1.4%	450			
Operating profit (loss)	(605)	—	(676)		(495)	—
EBITDA (non-GAAP)*2	142	-81.0%	61	233.0%	253	413.5%

The following is the proforma results excluding the one-time increase in allowance for doubtful accounts of JPY110 million recognized for a single merchant in the NP Atobarai service during Q1.

*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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This is a summary of financial results for the six months ended September 30, 2023.

GMV increased 14.0% year on year to 273,822 million yen and total operating revenue increased 11.9% year on year to 10,330 million yen, both beating the guidance.

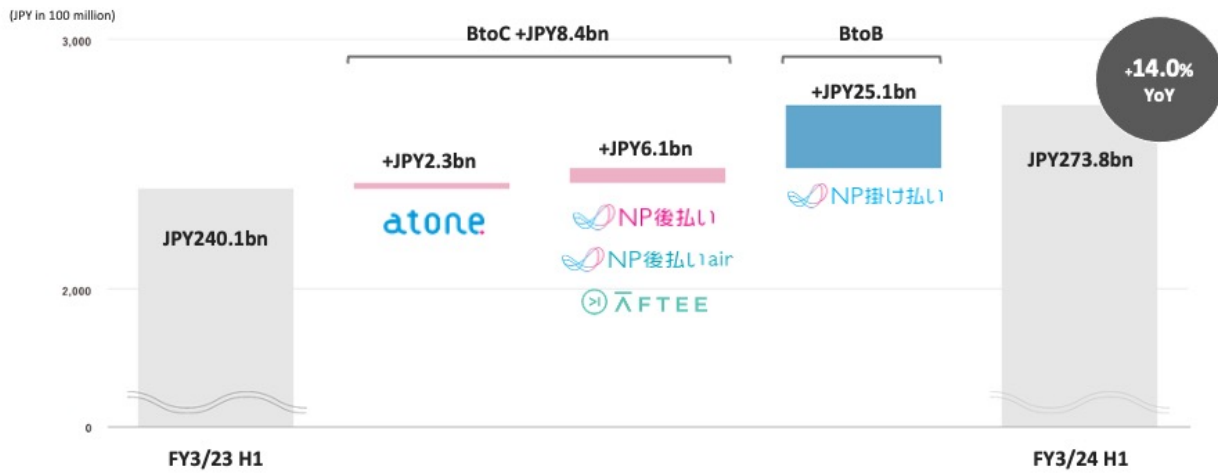
Operating loss was also less than the guidance.

We managed to offset the one-time increase in allowance for doubtful accounts of 110 million yen recognized during the first quarter with a reduction in SG&A expenses.

We believe the GMV growth as planned while irregular cost increases were offset is a proof that the productivity of the Group on the whole has been improving.

Financial Results: GMV for H1 (for Six Months Ended September 30, 2023)

The Group total GMV increased 14.0% year on year, underpinned by continued growth of GMV in all service categories.



*1 Total amount of payments (including consumption tax) made through atone provided by the Group

*2 Total amount of payments (including consumption tax) made through NP Atobarai, AFTEE, and NP Card provided by the Group

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

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This slide shows how our GMV increased year on year.

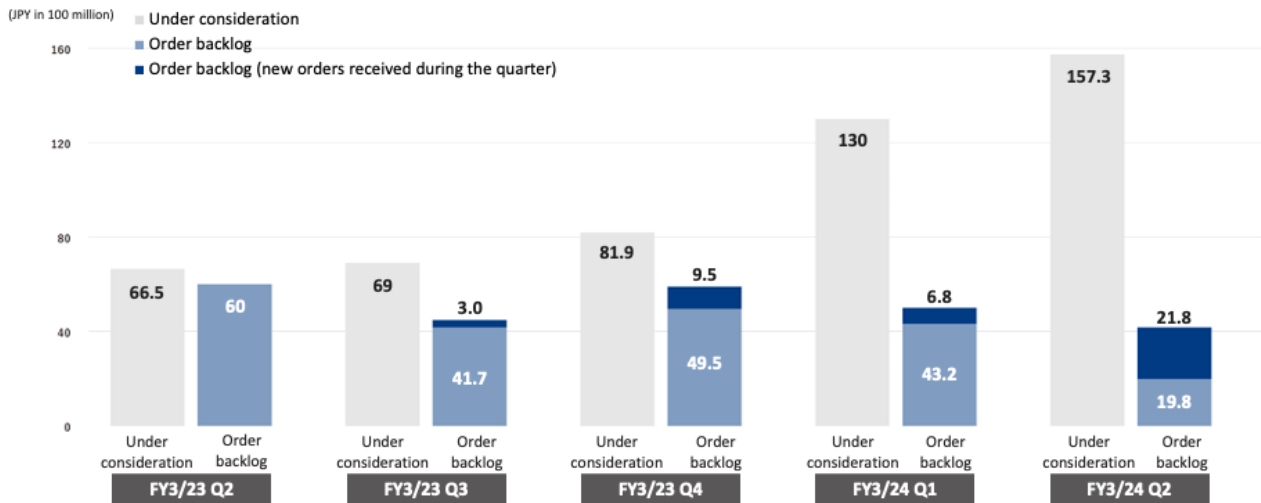
In the BtoC Services, atone, NP Atobarai, as well as AFTEE in Taiwan, have been growing steadily in GMV.

The BtoB Service successfully recorded a year-on-year increase of more than 25.0 billion yen, becoming a core service that drives the growth of the Group.

GMV: Sales Pipeline Status

New orders have been brisk, supported by strengthened sales structure.

The number of contracts under consideration is also on the rise, which is a positive sign of a further increase in orders received.



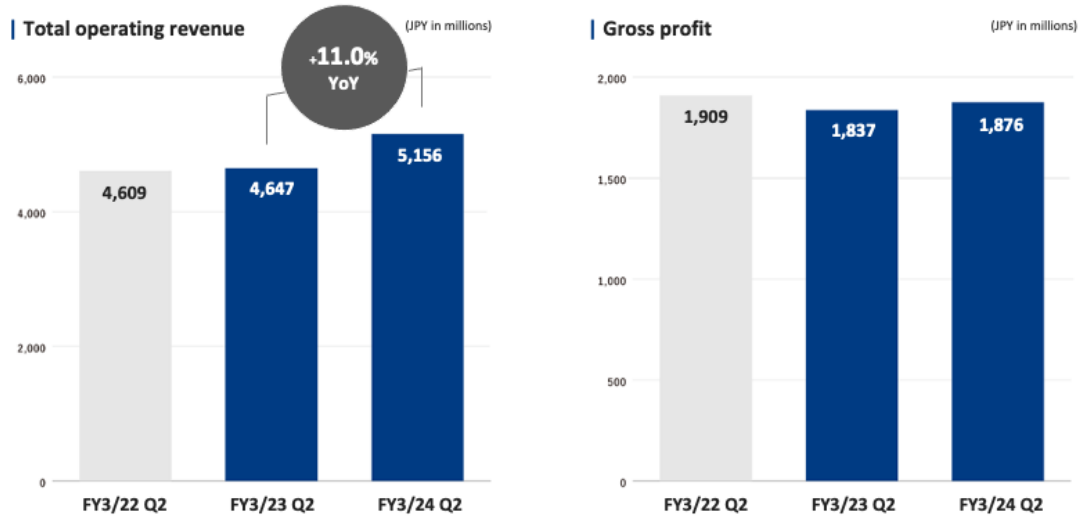
This slide shows the status of sales pipeline, a leading indicator for GMV growth in the future.

The number of projects whose status was updated from “Under consideration” to “Orders received” have been increasing thanks to the strengthening of the sales structure.

The number of projects whose status is “Under consideration” has also increased significantly, which is a positive sign of a further increase in orders received down the road. Along with the strengthening of the sales structure, the sales process based on a division of tasks (field sales, inside sales, etc.) has been fully on track, which is also a positive sign of further accelerating revenue in the future.

Trend of Financial Results: Total Operating Revenue and Gross Profit

Total operating revenue has marked a double-digit YoY growth of 11.0%, driven by GMV growth. Gross profit also has also trended up, backed by reduced delinquency rates achieved through improved credit screening processes.



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This slide shows the trends of total operating revenue and gross profit.

To add more comments on the actual total operating revenues and gross profits as shown above,

an increase in total operating revenue has reflected the effect of the price increase of invoicing fees that we implemented in September last year.

Despite the allowance for doubtful accounts for a single merchant irregularly recognized during the first quarter,

no comparable incidents took place during the second quarter as we made thoroughgoing efforts to improve our credit screening process immediately after the incident occurred.

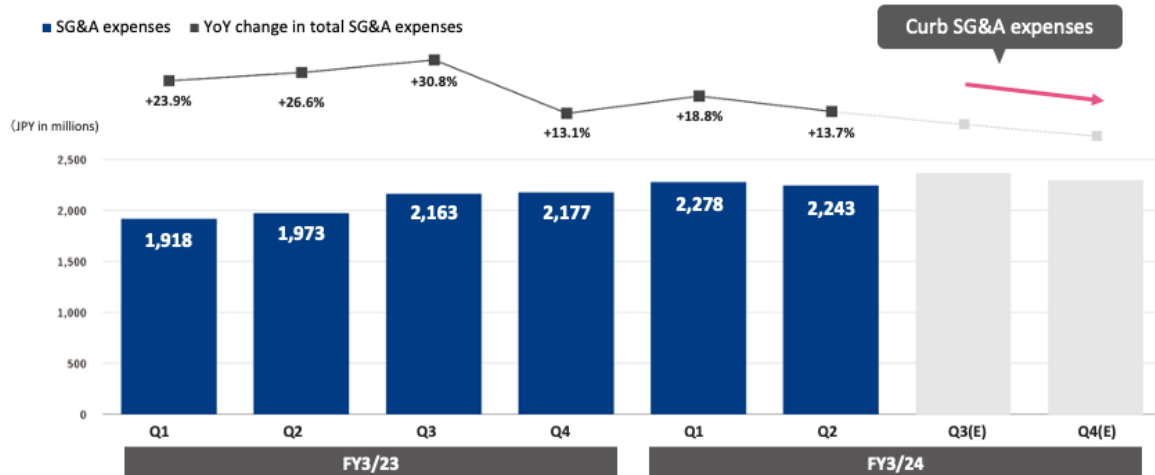
As a result, gross profit is back on an upward trend.

We believe we can continue to drive up gross profit going forward.

Quarterly Trend and Outlook of SG&A Expenses

Total SG&A expenses for Q2 fell short of those for Q1.

We will continue to make efforts to curb expenses for Q3 and onward with the aim of building a structure under which an increase in revenue directly leads to an increase in profits.



Total SG&A expenses for Q2 decreased quarter on quarter.

As we successfully curbed expenses while steadily increasing revenue, we are confident that an increase in revenue will directly lead to an increase in profits.

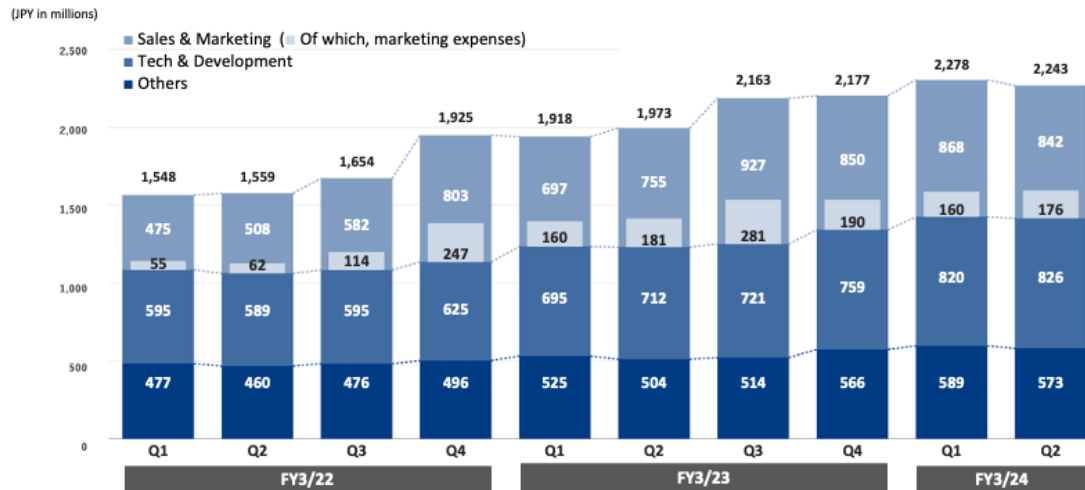
Last month, we announced a plan to downsize our head office space.

This is part of our efforts to respond to the expansion of remote work, which we expect will help reduce SG&A expenses by around 100 million yen in the next fiscal year and beyond.

In the fiscal year ending March 31, 2024, we will incur restoration costs; nevertheless, we can offset the amount by reducing overall costs during the fiscal year.

Quarterly Changes in SG&A Expenses

We completed strengthening our structure and promoted insourcing the previously outsourced tasks, thereby reducing total SG&A expenses.



*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.)

The graph shows the breakdown of SG&A expenses. Until the end of the first quarter, we focused on recruiting personnel engaged in the sales & Marketing.

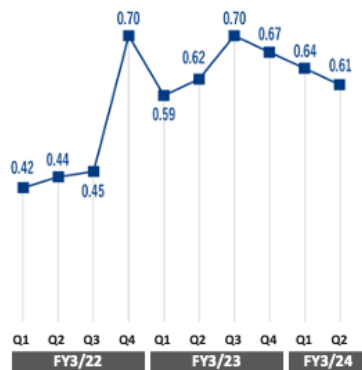
As we now have a structure in place, we will, in principle, stop recruiting mid-career professionals in the second half.

In addition, from the second half onward, our team members started taking on and insourcing the previously outsourced tasks, and this reduced total SG&A expenses.

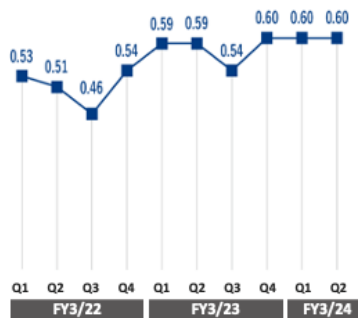
As we will continue to insource Sales & Marketing, we believe we can further increase our productivity down the road.

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

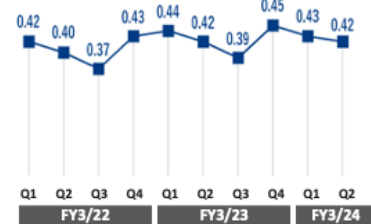
Sales & Marketing (%)



Tech & Development (%)



Others (%)



*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.)

This is the reference information showing the changes in the ratio of SG&A expenses to GMV. You can see the effect of the operating leverage. The ratio has declined over the past quarters because we increased GMV while curtailing SG&A expenses.

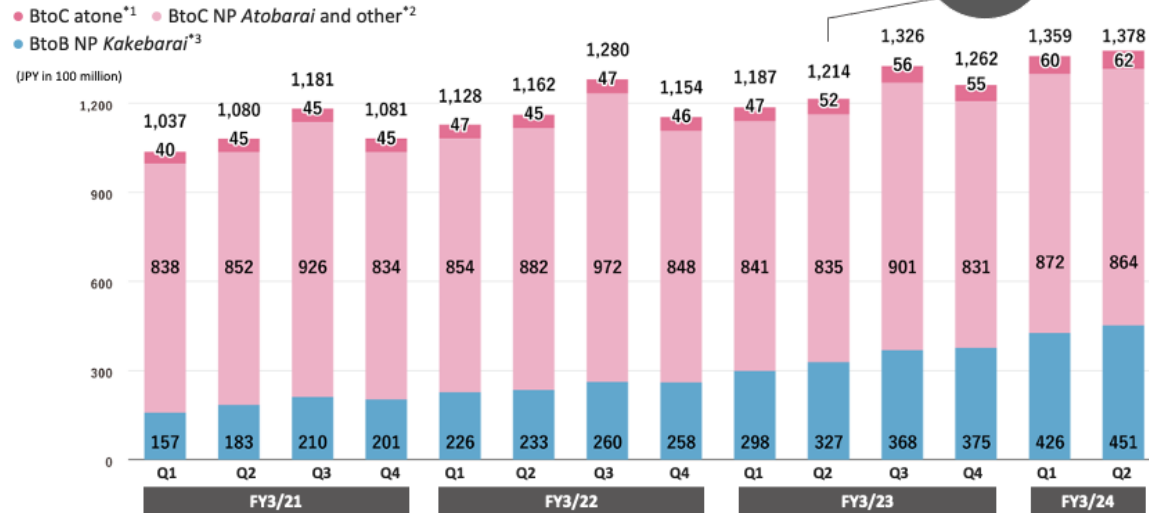


Summary of Financial Results by Services

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

Quarterly Changes in Group Total GMV

GMV recorded a positive growth in all services: NP Atobarai and other, atone and NP Kakebarai.



*1 Total amount of payments (including consumption tax) made through atone provided by the Group

*2 Total amount of payments (including consumption tax) made through NP Atobarai, AFTEE, and NP Card provided by the Group

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

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

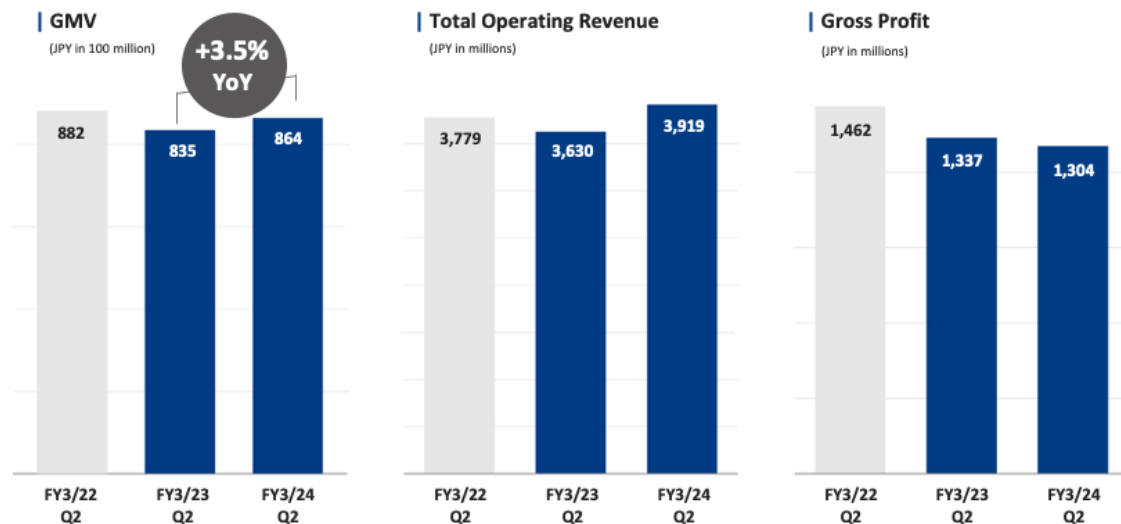
GMV for the second quarter increased 13.5% year on year.

Although our GMV in the third quarter of each fiscal year is the largest of the year, the GMV in the second quarter has already exceeded that of the third quarter of the previous year, indicating that the growth is getting bigger.

Key Performance Indicators of BtoC Services: NP Atobarai and other



GMV increased by 3.5% year on year, making steady growth.



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

The services continued a stable growth as the first quarter.

The decline in gross profit is due to the impact of the allowance for doubtful accounts.

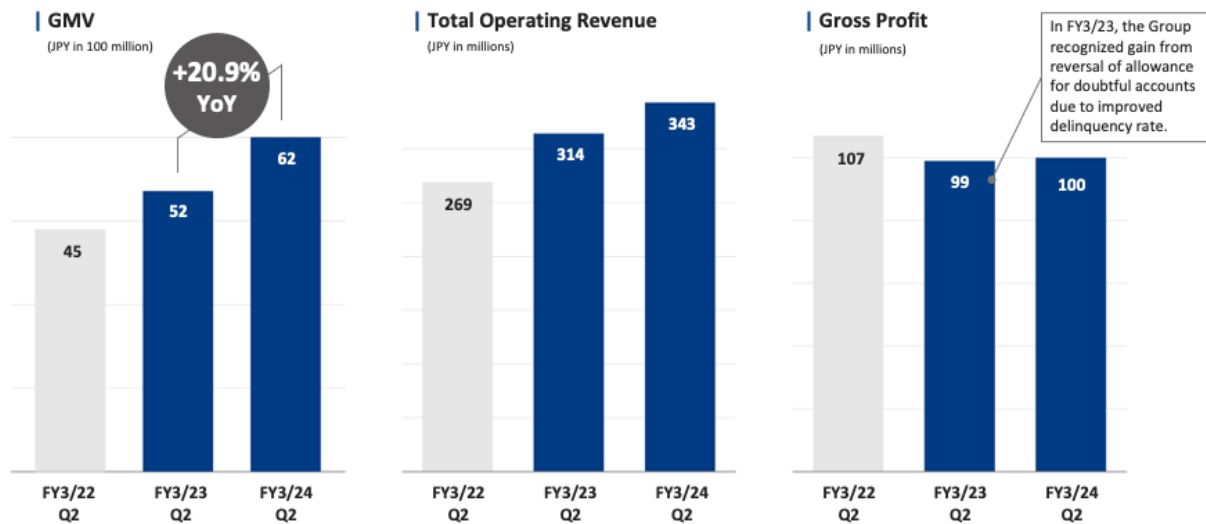
The allowance for doubtful accounts increased in the second quarter, but on the other hand, we recognized reversal of allowance for doubtful accounts of several tens of millions yen in October, indicating that the delinquency rate is under control at a low level.

As a countermeasure against late payments and non-payments, we started considering how to deal with habitual delinquents by, for example, taking measures of tightening credit screening and collecting late fees.

Key Performance Indicators of BtoC Services: atone



GMV increased by 20.9% year on year, driven by an increased number of new e-commerce merchants.



Moving on to the performance of BtoC services: atone. GMV increased by 20.9% year on year, keeping a pace of a 20% year-on-year growth from the first quarter.

Gross profit has remained unchanged year on year because of the timing of provision and reversal of allowance for doubtful accounts like NP Atobarai.

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

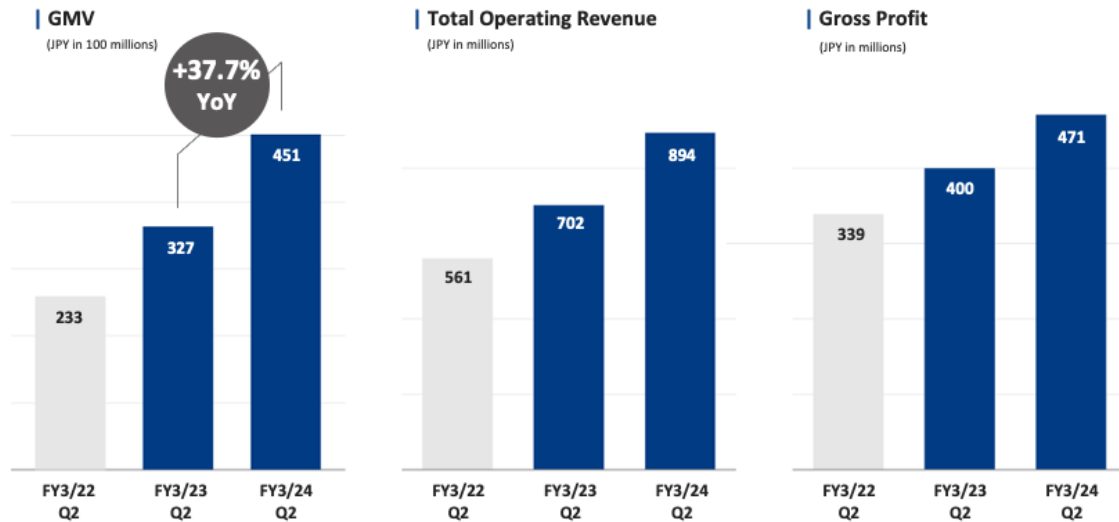
In the previous fiscal year, we recognized a large amount of gain from reversal of allowance for doubtful accounts due to an improvement in the delinquency rate.

We have been able to consistently improve the delinquency rate, which will enable us to reduce costs and increase profitability.

Key Performance Indicators of BtoB Service



**We had a virtuous cycle in which both new and existing transactions are increasing.
GMV increased by 37.7% year on year, keeping a significant growth.**



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

We had a very favorable cycle of acquiring new merchants that introduced our service and increasing our share of the payment service at existing merchants.

By industry sector, recruiting related transactions mainly by restaurants or transactions by wholesalers are on a rise.

The optional service for BtoB customers, “credit card payment,” which we introduced in the first quarter, was well received, so we decided to expand this service line.

Furthermore, we intend to further increase profitability by offering more financial services that enable BtoB customers to delay their payments and to improve their cash flow.

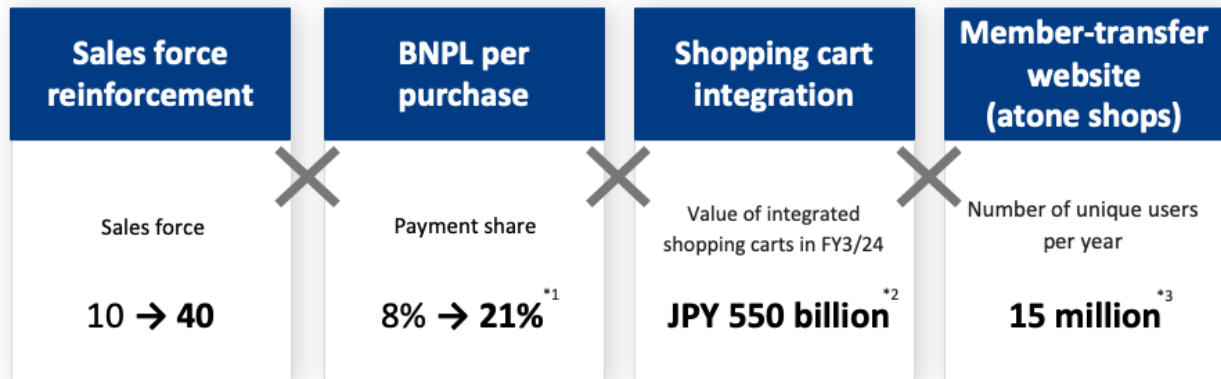


Management Topics

The last part will be management topics.

We aim for a significant growth in GMV by acquiring new merchants.

We also focus on developing features to be chosen by e-commerce shops and reinforcing our sales force.



^{*1} Payment share at the time of introducing BNPL per purchase to Next month payment

^{*2} GMV of e-commerce shops using shopping carts to be newly integrated with our payment system or to be added to extend functionality in FY3/24.

^{*3} Potential number of atone shops (the annual number of unique users that use our BtoC service)

This slide shows a growth strategy for our mainstay business, atone.

We already explained the reinforcement of our sales force and the release of BNPL per purchase in the first quarter.

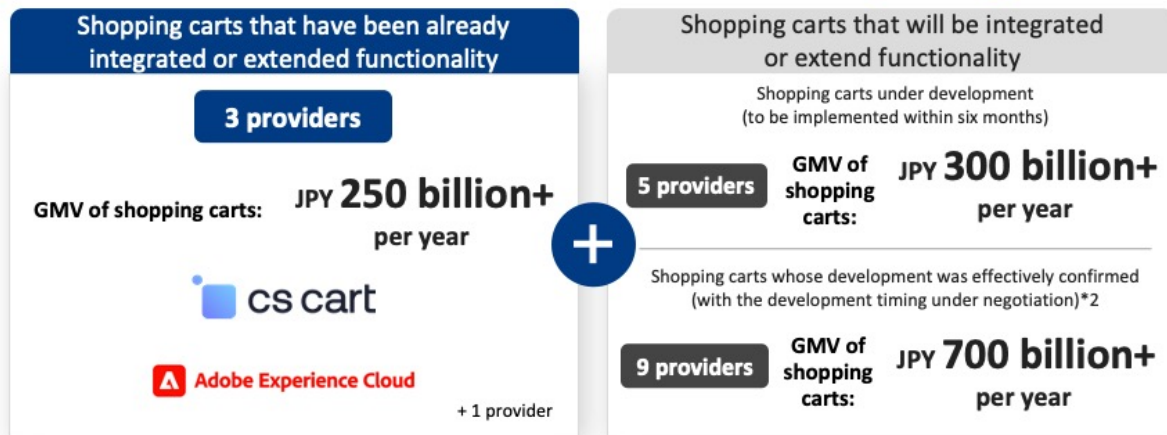
During the second quarter, we made progress on two key measures, which are the shopping cart integration and the member-transfer website.

I will explain these measures in detail from the next slide.

We expect GMV of shopping carts integrated with our payment system (GMV of e-commerce shops that use the shopping carts) to reach JPY 550 billion^{*1} in FY3/24.

E-commerce shops can use atone instantly without system development.

The size of the total accessible market is expanding



^{*1} Our estimate
^{*2} Includes PSPs

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This slide shows the big picture of e-commerce shopping carts to be newly integrated with our payment system or to add extended functionality.

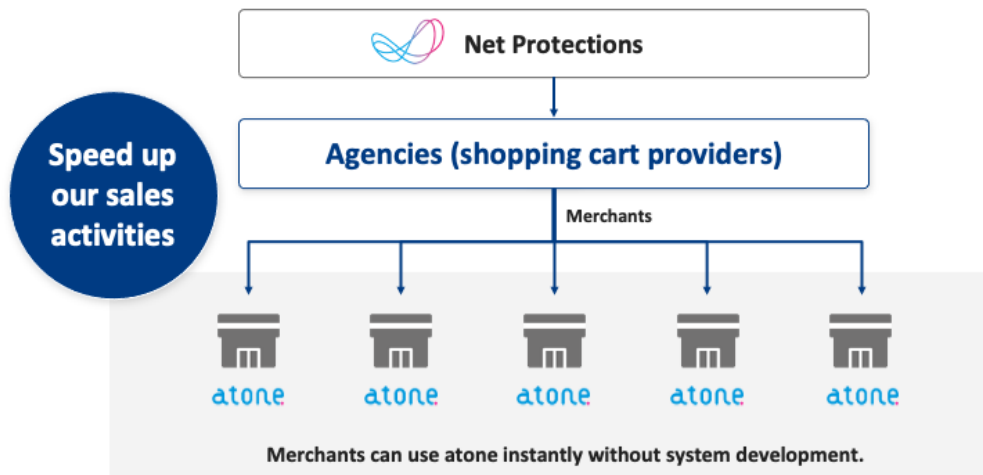
Integrating our atone payment system with an e-commerce shopping cart provider's system enables e-commerce shops using the shopping cart to use atone instantly. Thus, it lowers the hurdle to introduce atone significantly.

GMV of e-commerce shops using shopping carts to be integrated is expected to be 550 billion yen for the current fiscal year alone.

If we include that for the next fiscal year and beyond, it is expected to be over 1.2 trillion yen. So, this market would be very easily accessible for atone.

We are currently negotiating with many more shopping cart providers to further expand atone's accessibility.

We strengthen sales of atone with the help of shopping cart providers acting as our sales agent. By expanding the sales network, we speed up the introduction of our service.



We will enter into an agency agreement with each of e-commerce shopping cart providers to have them carry out sales activities of atone.

The agreement will bring economic benefits to the providers, so they can actively carry out sales activities on behalf of us.

Our strategy is to speed up the introduction of atone by expanding our network of such agencies.

We have launched our campaign website, atone shops, to provide points reward and sale information. The website can transfer 15 million BNPL users to merchants' e-commerce websites.



The next topic is another key measure for atone. We launched our campaign website, atone shops, this October.

Our atone merchants can post information on their campaigns, such as points reward and cashback, on this website without any fee and attract our 15 million BNPL users to their own e-commerce websites.

The number of monthly PVs has already exceeded 10 million in the first month, and we expect the number to further increase going forward.

With the industry's first BNPL services with a feature to transfer customers to merchants, we aim for GMV growth by being chosen by both e-commerce shops and users and by increasing their use of our services.



*1 The figures show the potential atone shops has — i.e., the numbers of annual unique users and e-commerce merchants using the Company's BtoC services. The BtoC services require sign-up for membership or service implementation.

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This is a value proposition model of atone shops.

Merchants can approach new customers without paying any shop listing or advertising fee. This website allows merchants to use the saved costs to offer a higher points reward rate to users and focus on sales promotion.

The better campaigns offered by merchants, the more users attracted to this website, and the more users attracted to this website, the more merchants will use our services — creating a virtuous cycle.

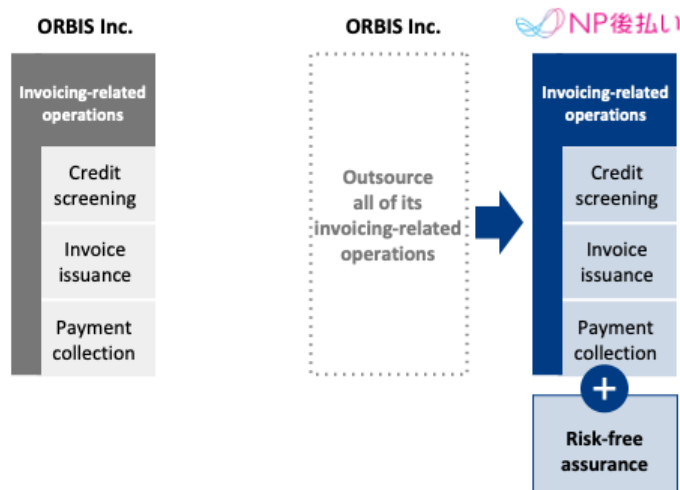
While the atone shops website is already becoming a powerful tool for our sales activities, it could also be a big reason for e-commerce shops to introduce atone.

Our atone shops is the industry's first service of this kind, and we believe it will also bring competitive advantage over other BNPL service providers.

ORBIS Inc., a company offering skincare and other beauty brands, has introduced NP Atobarai to replace its own in-house BNPL system.

Before: Use its own in-house BNPL system

After: Introduce NP Atobarai



Background of the introduction of NP Atobarai

ORBIS wanted to:

- Reduce the burden on in-house resources by outsourcing invoicing and payment collection operations, and
- Realize more flexible workstyles

The last topic is about NP Atobarai.

From today, November 14, ORBIS Inc., a leading cosmetics brand, has started to put NP Atobarai in operation.

ORBIS originally used its own in-house BNPL system; however, with the primary aim of reducing the burden on in-house resources, it has switched to NP Atobarai.

While there are many other major e-commerce companies that currently use their own in-house BNPL systems, we expect that they will gradually outsource it for the reasons such as labor shortages.

This is the end of our results briefing for the six months ended September 30, 2023. Thank you for your attention.

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