



Net Protections HD

Net Protections Holdings, Inc.

Q&A of Financial Results Presentation for the Six Months Ended  
September 30, 2023

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※This is a transcript of the Q&A. The main part was disclosed on the day of the results briefing. Please click [here](#) for the main part.

# Question & Answer

**Moderator [Q]:** Please tell us as much as possible about AFTEE' s prospects.

**Shibata [A]:** H1 has remained strong with growth exceeding 50%. We hope to continue to grow GMV further while increasing gross profit margins and making profits. Since we have already made considerable progress in improving the outstanding delinquency rate and other costs of sales, profitability is expected to further improve in the future.

Also, we have successfully released it in Vietnam, and it has been introduced in medium-sized malls. We hope to proceed with the verification process.

**Moderator [Q]:** Next question. Please explain if there is any progress on business synergies with JCB and Ricoh Leasing.

**Shibata [A]:** Both JCB and Ricoh Leasing have made progress in business collaboration. First of all, JCB has been introducing all of our services to a wide range of clients, and we are very grateful to them. For atone, we have also released a virtual card that can be used at JCB merchants. We hope to expand virtual card merchants in the future.

JCB is also a credit card brand that accepts NP Kakebarai card payment.

Ricoh Leasing is taking on the upfront payment system for BtoB. In addition, other collaboration projects are currently being discussed.

**Moderator [Q]:** Next question. I see that you are working on various initiatives for atone. However, what measures will lead directly to GMV at an early stage?

**Shibata [A]:** We believe that the shopping cart integration that we mentioned is the key. Until now, even when we managed to make progress with clients, we faced challenges where they would be reluctant if system development is required. If we can integrate atone with many shopping cart providers, it would directly lead to the GMV growth.

Therefore, it will benefit us and the clients who use the integrated shopping carts. We are doing our best to acquire clients who use the integrated shopping carts. We also have BNPL per purchase, with more

than 20% of the payment share, and we have atone shops that can transfer customers. Therefore, we hope to utilize these sales weapons.

**Moderator [Q]:** Next question. Although the business plan indicates 50% growth in the full year for atone, is it likely to progress as planned?

**Shibata [A]:** There was a major company that was scheduled to start operations in H2, but this is likely to be delayed until the next fiscal year or later, resulting in a possible delay in our plan.

Nonetheless, I believe we can increase the growth rate itself since we are steadily acquiring new customers more than we initially expected.

**Moderator [Q]:** Next question. What is the reason for leaving the corporate plan unchanged, as well as your outlook for H2? Is it correct to assume that H1' s upward performance contributed to a favorable situation for H2? Also, are there any obstacles to higher growth in H2?

**Shibata [A]:** Although there was a slight upward movement in H1, there was a loss at one company resulting from inappropriate use. Therefore, we haven' t achieved much growth if the loss is included. I think we can manage to proceed steadily in H2, so we have left the corporate plan unchanged.

**Moderator [Q]:** Next question. What are the effects for promoting in-house operations for sales marketing from the next fiscal year and beyond?

**Shibata [A]:** We are seeing the personnel costs increased for full-time team members. It's notable to say that we are gradually reducing outsourcing costs to offset it. Another thing is the reduction in SG&A expenses. I believe that it will contribute to the reduction in SG&A expenses.

**Watanabe [A]:** I think the effects of a reduction in outsourcing fees will be significant.

**Moderator [Q]:** Next question. With corporate and personal bankruptcies on the rise, what is your outlook for future credit screening costs for BtoB and BtoC?

**Shibata [A]:** First of all, we are seeing BtoB being directly affected, with bad debt costs increasing at a rate of 10% ~ 20%.

As a countermeasure, we are currently tightening credit screening, but at the same time, BtoB transactions are also growing. Although risk is increasing as anticipated, we can acquire more new merchants, too.

In fact, there are currently no effects on BtoC, and we are continuing our efforts to further improve the credit screening system for BtoC. Therefore, I believe we can expect improved profit rates in the next fiscal year.

**Watanabe [A]:** That's right. Although Shibata mentioned that the credit screening cost increased 10% ~ 20% for BtoB, it was originally very low at 0.5%. An increase would be as high as 0.6%, and we continue to retain this extremely low level. We recognize that our company's strength lies in keeping these rates low amid such situations.

**Moderator [Q]:** Next question. Are there any changes in BtoB inquiries due to the implementation of the new invoice system?

**Shibata [A]:** I haven't heard from our team members regarding any significant changes.

In any case, we are now experiencing an increase in inquiries due to the increased risk mentioned earlier.

**Moderator [Q]:** Next question. Is there any chance that NP Atobarai would be affected by the restriction against stealth marketing? Because Beauty and Cosmetics consist of a high proportion of NP Atobarai.

**Shibata [A]:** I honestly cannot say for sure. However, according to what we heard from merchants, there weren't significant effects so far. However, the performance was slightly weak in September and October. On the other hand, the slightly weak performance has recovered lately, so I don't think it has led to significantly adverse effects.

**Moderator [Q]:** Next question. What can we expect from the collaboration between NTT Data's CAFIS Pitt and atone?

**Shibata [A]:** There was originally one major company that was chosen for this project. However, it will be delayed to the next fiscal year and beyond.

On the other hand, we can utilize CAFIS Pitt, such as In-house payments, with almost no system development. If one or two companies introduce atone using CAFIS Pitt, we expect that we can officially aim to introduce atone as OEM.

**Moderator [Q]:** Next question. How do you see the probability of achieving the guidance for H2?

**Shibata [A]:** I believe operating profit and net profit are the most important, and I personally think the probability of achievement is high.

**Watanabe [A]:** That's right. As mentioned earlier, although a major company is expected to be delayed to the next fiscal year, we still do our best to achieve GMV. SG&A expenses are successfully being curbed, so I believe we can reduce it without much difficulty.

**Moderator [Q]:** Next question. While the order backlog declined by JPY2.3 billion from Q1 to Q2, GMV rose by only JPY2 billion. How should I interpret the relationship between these two figures?

**Shibata [A]:** Although we originally expected that a major company would start operations, the project was returned to the consideration stage due to several reasons.

Therefore, some order backlogs have already started operations, while some have returned to the consideration stage.

On the other hand, I believe that our ability to increase the new order backlog to JPY2 billion in three months is a positive factor. The increase of projects in the consideration stage is also one of the positive trends in the future, realizing how much order backlog we can acquire every quarter for the future.

**Watanabe [A]:** That's right. You can see in the graph that projects in the consideration are growing and also for the areas indicated in dark blue. This is where the status is progressing from the consideration stage. I think you can understand that the increase in both will lead to a very promising future.

**Moderator [Q]:** Next question. Would it be difficult to change the structure of declining gross profit margin to GMV?

**Shibata [A]:** Actually, this is exactly where I believe we can increase gross profit margin from the next fiscal year and beyond, including improvements to the credit screening system for NP Atobarai, atone, and AFTEE.

On the other hand, as the ratio of major companies is increasing for BtoB, I expect it to slightly decrease. However, as the financial services for buyers gradually stabilizes, we can expect it to recover in a favorable direction.

**Watanabe [A]:** That's right. Page 5 depicts our future direction. We plan to boost profitability by promoting a platform that helps increase sales instead of just functioning as a payment platform.

Although BtoB faces difficulties when it comes to take rates, we are hoping to boost profit by offering financial solutions or promoting DX in order to raise profitability.

**Moderator [Q]:** Next question. Is there any chance that the large merchants may not be in operation?

**Shibata [A]:** Although it depends on the circumstances of the client, at this point, we expect that the project will be operational in the next fiscal year. I honestly cannot say much about this.

**Moderator [Q]:** With the decline in the stock price, have you received any inquiries wishing to acquire your capital?

**Watanabe [A]:** We have not received any direct offers so far.

**Moderator [M]:** Okay, thank you. As there seem to be no further questions from the audience, we would like to conclude the question-and-answer session.

For any questions that could not be answered during this session, we will answer your questions individually at a later date. Thank you very much for your questions.

**Company Representative [M]:** Thank you.

**Moderator [M]:** That concludes the financial results presentation of Net Protections Holdings.

Thank you very much for your attention throughout the presentation.

**Company Representative [M]:** Thank you.

[END]

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#### Document Notes

1. Portions of the document where the audio is unclear are marked with [Inaudible].
2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
3. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.

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