

FY2022 (period ending March, 2022)

2Q

Financial Results

PAYROL

**Payroll.Inc (4489)
November 11,2021**

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Growth Strategy

Business Model

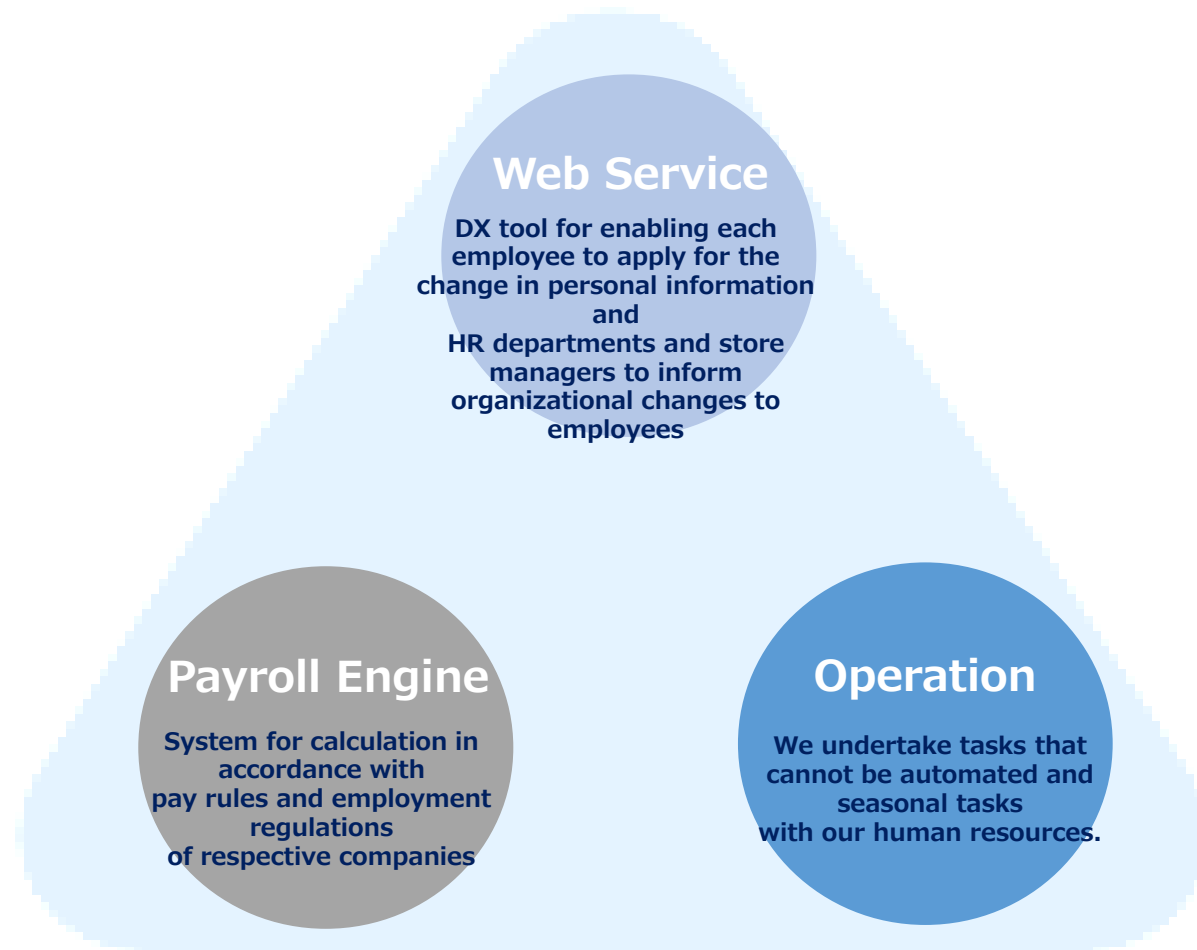
All enterprises must pay accurate salaries to all employees on respective payment days every month.

Our company is the only Japanese company that undertakes all of such “mission-critical” payroll tasks.

3 functions below are essential for payroll processing.

It's our huge advantage to provide all of these services.

Our business earns recurring revenues by processing payroll every month.

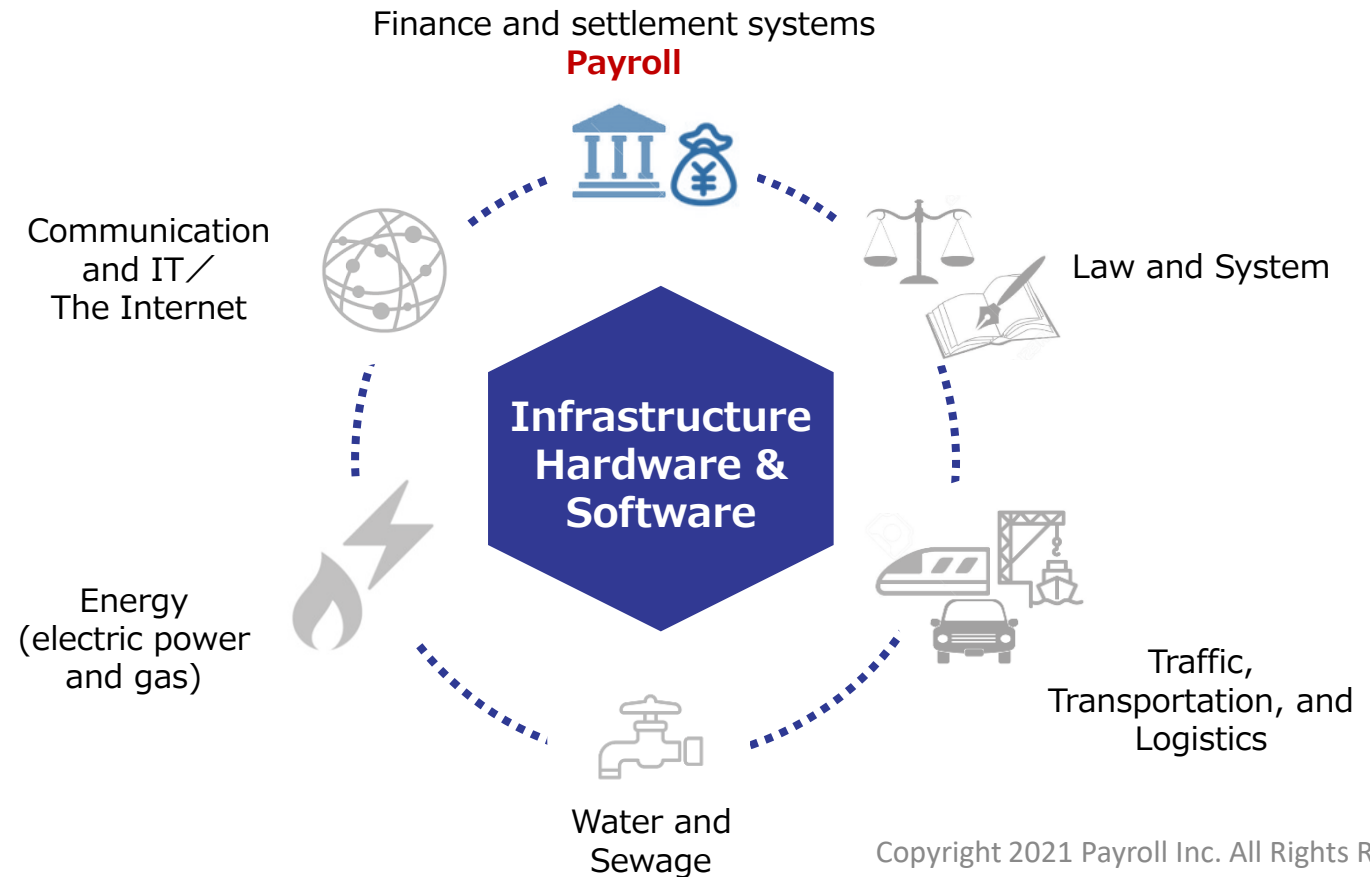


Corporate Vision

We will evolve and grow as a “software infrastructure enterprise” that offers services clients can co-use.

Our Mission

As payroll processing professionals, our top priority is to “provide customers a pleasant service experience.” We thoroughly pursue the highest level of specialty, security, reliability and efficiency of our services and support companies as “**Software Infrastructure**”.



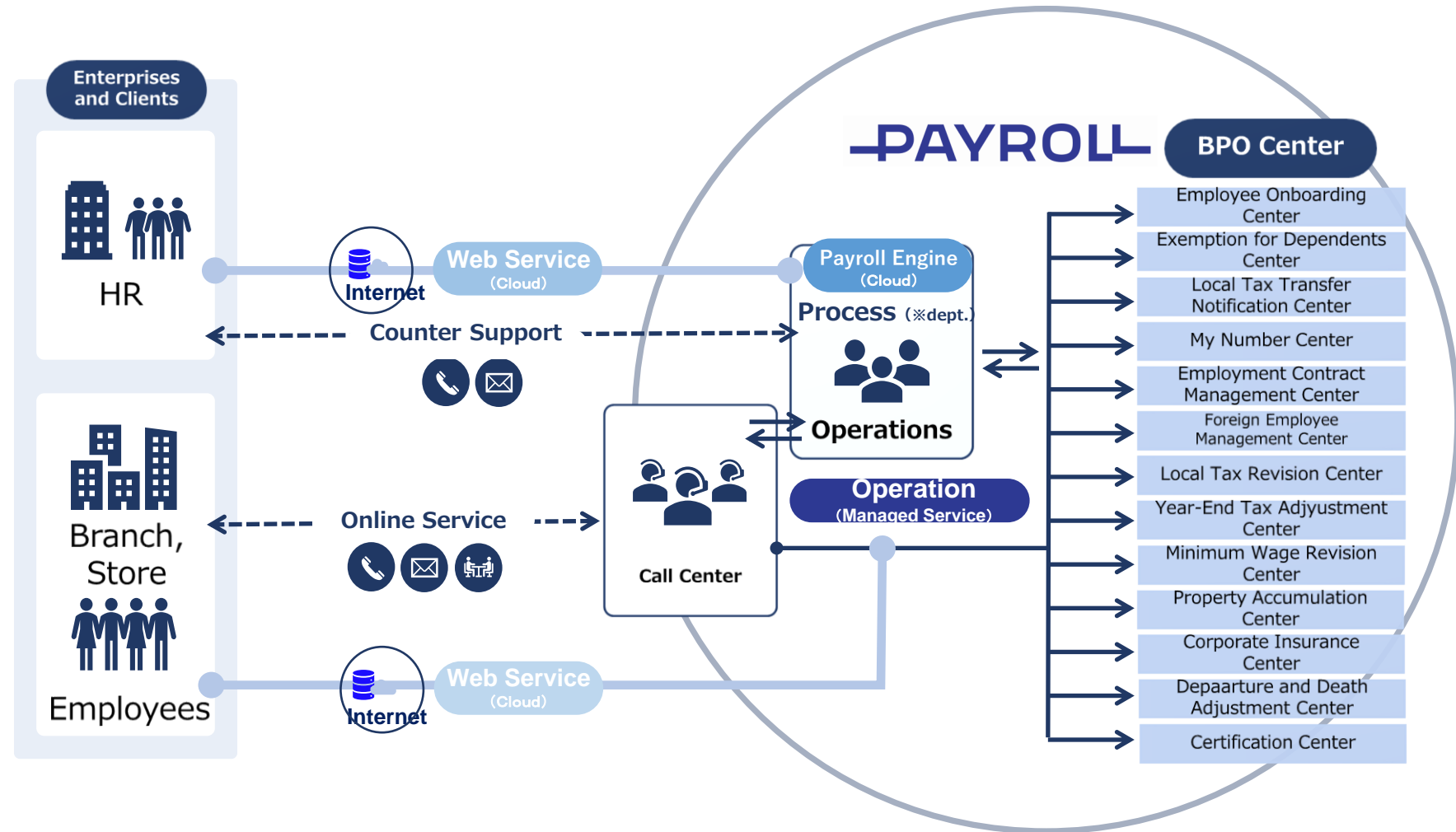
Service Overview

We offer comprehensive services that help client companies reduce man-hours and specialize in their core businesses by processing payroll on behalf of their HR departments.

The following 5 points are important for processing payroll in enterprises, and our comprehensive payroll services cover all of them.

- 1) Accurate payroll processing
- 2) A wide scope of operations
- 3) Security
- 4) BCP
- 5) Experience

Full Scope Outsourcing



※ enterprises=clients with over 1,000 employees

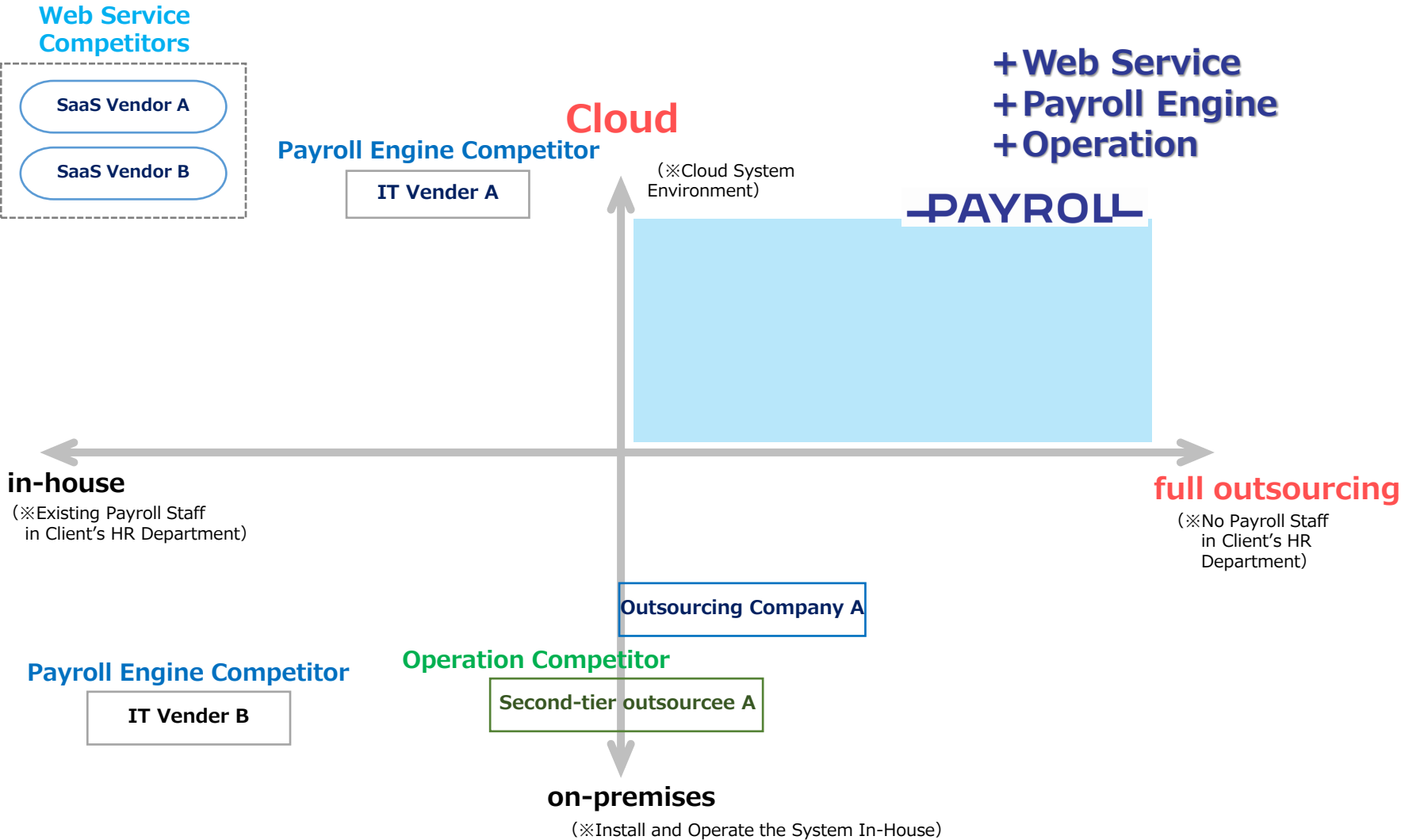
Unique Positioning

Only our company performs all of the three indispensable functions for processing payroll for enterprises, **Web Service, Payroll Engine, and Operation.**

SaaS vendors offer web services.

IT vendors offer payroll engines that would be used in-house.

PAYROLL



※ enterprises=clients with over 1,000 employees

Competitive Advantage

**Recurring-
revenue
business model**

**The scope of
our business
is broad.**

**Competitive
Advantage**

**High-Level
Security
System and
Compliance**

BCP

Competitive Advantage 1

Recurring-revenue business model

We managed to keep churn rate at low level.

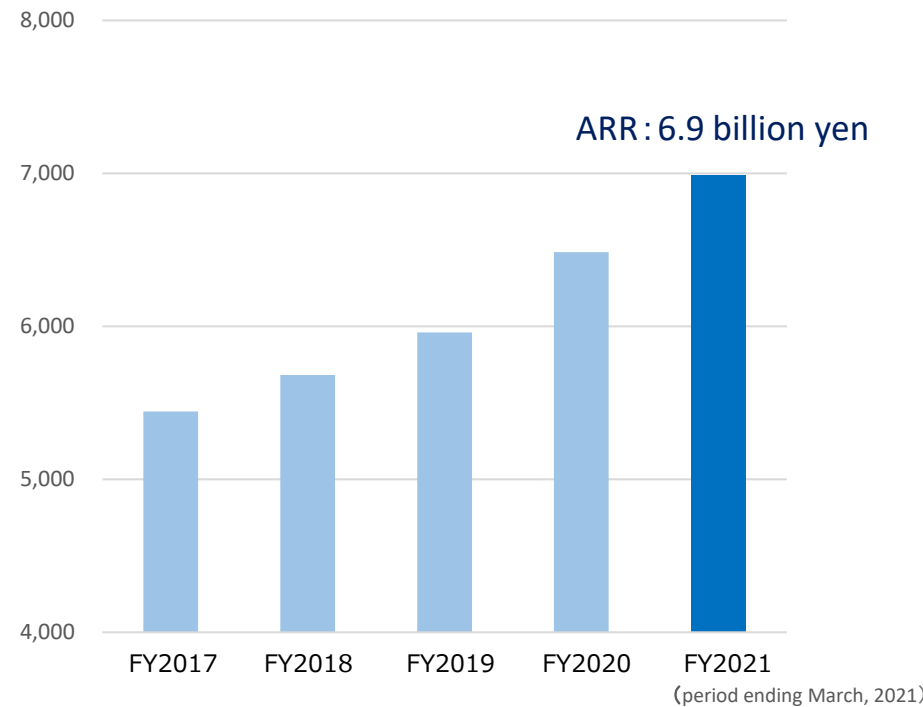
Churn Rate [Annual] : 1.7%)

※ Churn Rate [per month : 0.14%

(1.7%÷12months)

Then, we have established a recurring-revenue model.

ARR: Recurring-revenue business



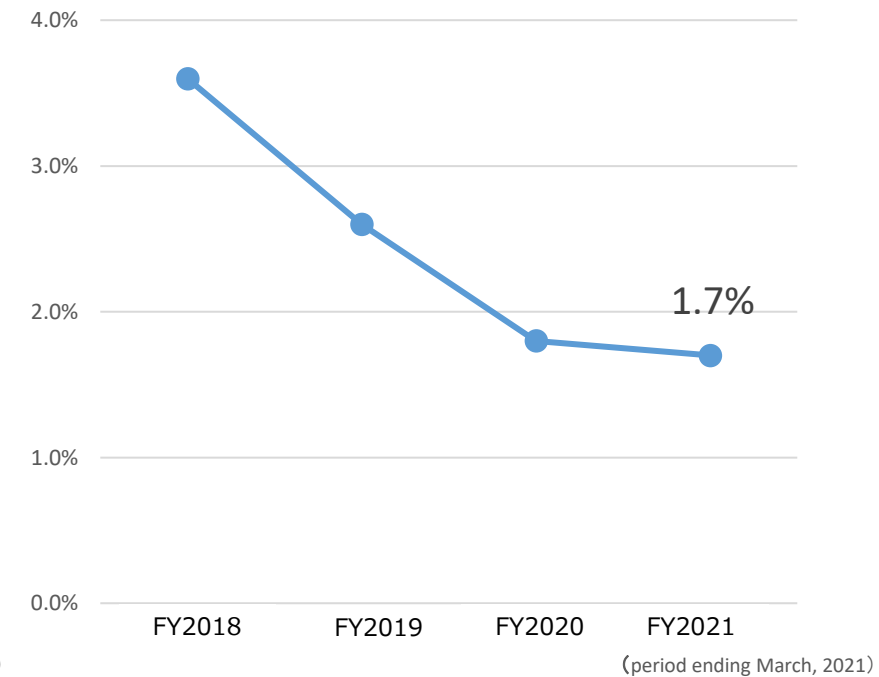
*ARR (Annual Recurring Revenue) = Estimated annual sales revenue (running fees only) from new business operations we undertook

※ With respect to payroll processing, is the sum of existing client ARR and new client ARR.

※ Anything other than the recurring-revenue (ie. Sales from initial stage, specification change, and year-end adjustment support services) are excluded.

※ FY2022 ARR=7.1 billion yen (as of today, 2Q)

Churn Rate (Annual)



※ Churn Rate = lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)

※ Lost client ARR : ARR of clients terminated

※ Exiting client ARR of the previous year end : ARR of clients operated at the year end

※ New client ARR : ARR of new client operated this year

Competitive Advantage 2

The scope of our business is broad.

The service menu can meet all the needs of enterprises.

High barriers to entry

Our service has advantages in quantity and quality compared with our competitors due to standardized business flow.

- Manual data entry
- Year-end adjustment/readjustment
- Pay statements
- Statutory pay statements
- Correction of reports of exemption for dependents, etc.
- Revision to local taxes
- Local taxes
- Management of labor contracts
- Management of group life insurance



- Management of property accumulation savings
- Issuance of certificates
- Management of the periods of stay of non-Japanese workers
- Management of families residing outside Japan
- Revision to minimum wages
- Management of salaries for loaned employees
- Management of wage garnishment
- Collection of data on employment
- Collection of data on personnel transfer



Advantages of our cloud service

- Notification of changes in personal affairs
- HR departments' notices
- Applications for exemption for dependents
- Change in organizations
- Applications for non-Japanese employees
- Attendance reports
- Recording of actual working hours
- Applications for shifts and work on holidays
- Applications for overtime work
- Applications for irregular work



- Payroll processing
- Calculation of seasonal bonuses
- Calculation of irregular bonuses
- Calculation of retirement benefits
- Calculation of provision for bonuses
- Calculation of points for retirement benefits
- Calculation of commutation expenses

★ Setting of computing logic

Competitive Advantage 3

High-Level Security System and Compliance

A robust security base is indispensable for undertaking important payroll processing.

Our security is top-level in this field and complies with security codes.

Obtained Privacy Mark



Obtained ISO27001, ISO27018



Obtained SOC 2 Report certification



Electronic Recording Devices Prohibited



USB
携帯電話
カメラ

Hokkaido BPO Center

Only authorized personnel can enter the archive.



保管庫

Strict Entry Restriction to Offices/Operational Centers

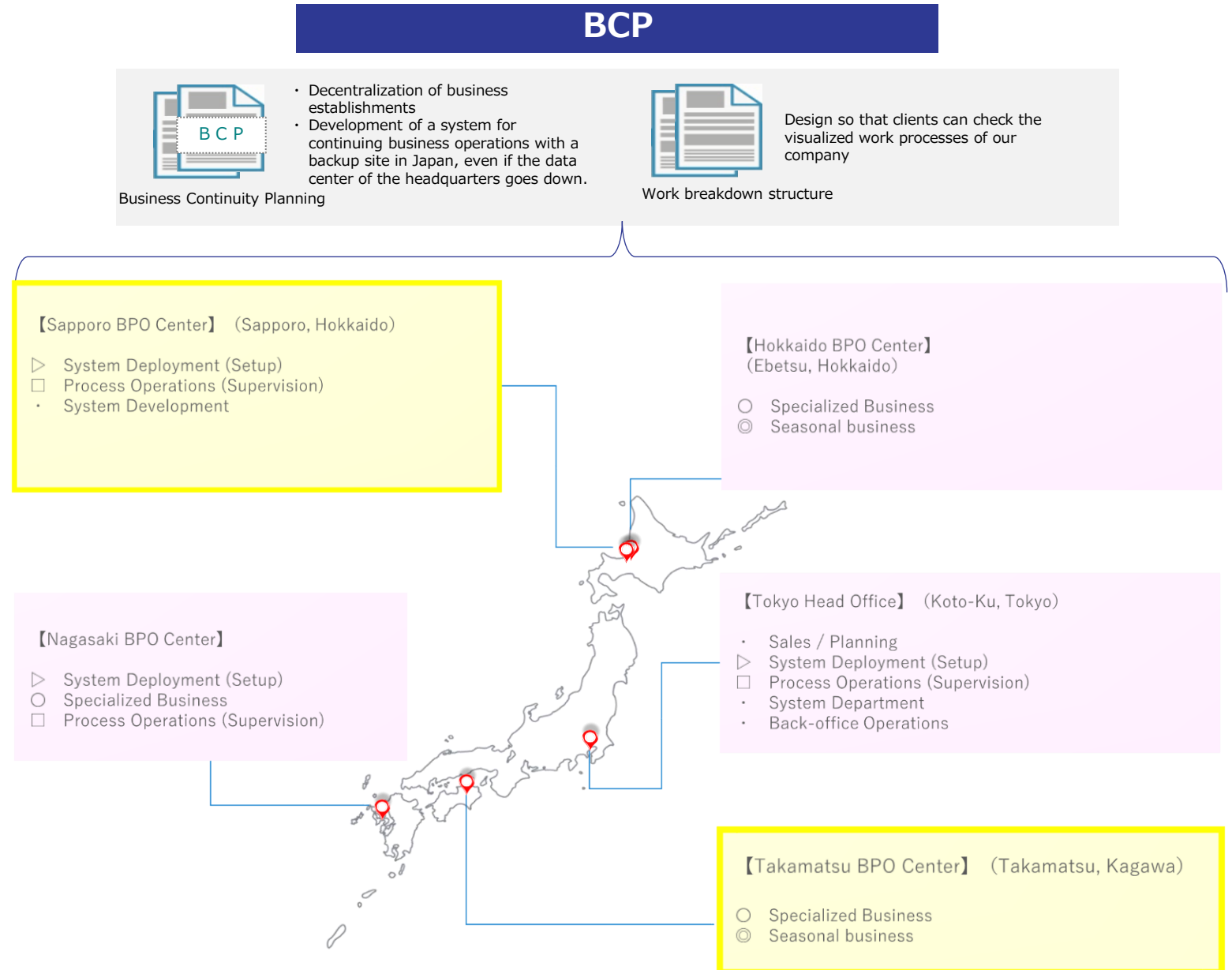


Hokkaido BPO Center

Competitive Advantage 4

BCP

Keeping up the foundation to deliver payment to our customers under any situation is critical and that's the reason why we are chosen by many customers.



(Payroll Processed)

We have large enterprise clients

Clients highly evaluate our services, and many enterprises fully entrust us with payroll processing.



▶ Manufacturing

- **Auto Parts Manufacturer** 14,000
- Semiconductor Manufacturer 8,000
- Medical Drug Manufacturer 4,500
- Machine Manufacturer 4,300



▶ Technology and Telecom

- **EC/IT Services** 14,000
- DeNA 2,400
- Microsoft 2,200
- Social Media Services 2,000
- Salesforce Japan 1,600



▶ Retail and Hospitality

- **Convenience Store Chain** 175,000
- McDonald's Japan 106,000
- **Supermarket Chain** 35,000
- **Sushi Chain** 35,000
- **Coffee Chain** 31,000

300 Enterprises
Payroll for **1 million**
employees processed



▶ Finance and Insurance

- AXA Life Insurance 8,000
- Foreign Insurance Company 4,900
- Tokai Tokyo Securities 2,900
- Life Insurance Company 2,200
- Domestic Bank 1,900



▶ Public Sector

- Vocational School 5,900
- National R&D Agency 4,800
- Toyo University 2,900
- Affiliated Organization of Tokyo 1,700
- National R&D Agency 1,500



▶ Service, Childcare, etc.

- **Bellsystem24** 27,800
- Cinema Complex 5,100
- ENEOS WING Corp. 5,100
- Swing Corp. 3,700
- VSN Inc. 3,000

Company Overview

- ❖ **Leading company** that undertakes payroll processing
- ❖ We offer **comprehensive services** including peripheral ones in addition to payroll processing.
- ❖ We offer payroll processing services to large enterprises with 1,000 or more employees and totaling up to **1 million employees** in whole Japan (FY 2021).
- ❖ **Recurring-revenue model based on recurring tasks** *Annual Recurring Revenue
- ❖ Payroll Processed: ARR*: **6.9 billion yen** (FY 2021)
- ❖ Churn Rate (Annual) : **1.7%** (FY 2021)

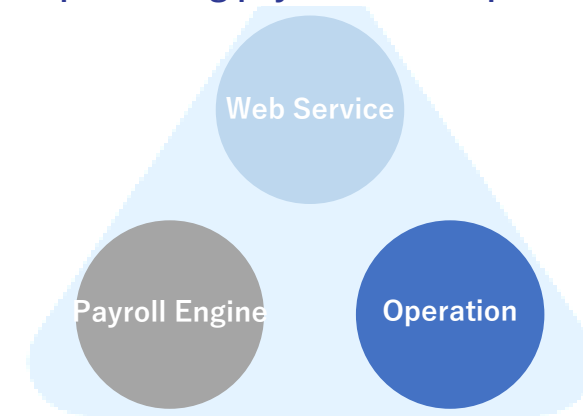
Financial Information (FY 2021, IFRS)

- ❖ Revenues: **7.48 billion yen**
- ❖ CAGR of Revenues (FY 3/2015 ⇒ FY 3/2020) : **10.2%***
(Up 3.2% in FY 3/2021, due to the coronavirus pandemic)
- ❖ EBITDA: **2.24 billion yen**, EBITDA margin: **30.0%**
- ❖ Operating Income: **1.22 billion yen**, Sales ratio: **16.4%**
- ❖ Owners' equity ratio: **51.1%**
- ❖ Operating Cash Flow: **2.02 billion yen**

* The figures before FY 3/2018 are just for reference, because the accounting standards were different.

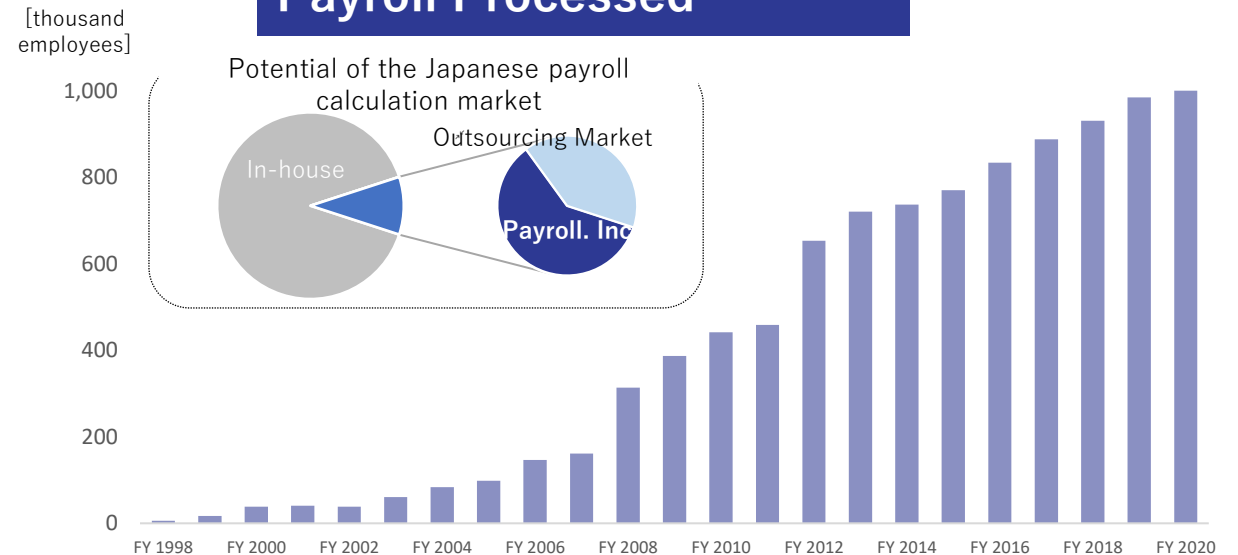
Services Provided

The only outsourcee that can perform the three indispensable functions for processing payroll for enterprises.



PAYROLL

Payroll Processed



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Growth Strategy

- **ARR from New Orders:** Up 14% year on year (For details, see Page 18.)
- **Support for year-end adjustment only:** 300 million yen up 59% year on year (For details, see Page 19.)
- **Operating (New Client) ARR:** down 7% year on year. **ARR of backlog of orders** was 1.1 billion yen as of the end of the 2nd quarter. (For details, see Page 20.) This is mainly due to the prolongation of the period for initial installation in the coronavirus pandemic.
- **Churn Rate (Annual) : 1.0%** We managed to keep churn rate at low level. (For details, see Page 21.)
- **Revenues:** Up 8.9% year on year (For details, see Page 22.)
- **Operating Income:** Down 24.6% year on year (For details, see Page 23.)

There were IPO-related expenses and temporary costs for renovating the headquarters, opening Takamatsu BPO Center on July 1, and integrating/abolishing Sapporo Bases on August 2. In addition, personnel expenses augmented due to the strengthening of the structure the management division for IPO and the fortification of the manufacturing structure for the second half.

However, the augmentation of these expenses was taken into account in the earnings forecast (disclosed on Jun. 22, 2021) and within our assumption.

Financial Results for 2Q of FY 2022

PAYROLL

(millions of yen,%)

	FY2022/ 2 Q		FY2021/ 2 Q		changes	Rate of increase
	performance	Sales ratio	performance	Sales ratio		
New Order : ARR	293	—	258	—	35	+13.6
Year-End Adjustment Support Services [Single Scope :Single Function Sale] (Order)	305	—	191	—	113	+59.0
Revenues	3,505	100%	3,218	100%	+287	+ 8.9
COGS	2,657	75.8	2,380	74.0	+277	+11.6
Gross Margin	847	24.2	838	26.0	+9	+ 1.1
SGA	593	16.9	421	13.1	+172	+40.9
Operating Income	324	9.3	430	13.4	△106	△24.6
Income before Income Tax	297	8.5	391	12.2	△94	△24.2
Net Income	307	8.8	257	8.0	+49	+19.2

*New Order: ARR: Estimated annual sales revenue (running fees only) from new business operations we undertook
ARR=Annual Recurring Revenue. For details, see Page 18

※ Sales of year-end adjustment support services: A services offered to clients that do not outsource payroll process, but only year-end adjustment.

Revenues: 3.5 billion yen, up 8.9%

The decrease of employees for which payroll processing is conducted amid the coronavirus pandemic has been covered by the growth of sales revenue due to new transactions.

Operating Income: 0.32 billion yen, down 24.6%

There were temporary costs and personnel expenses augmented for strengthening management structure for IPO and manufacturing structure for the increased transactions expected in the 2nd half.

However, the augmentation of these expenses was taken into account in the earnings forecast (disclosed on Jun. 22, 2021) and **within our assumption.**

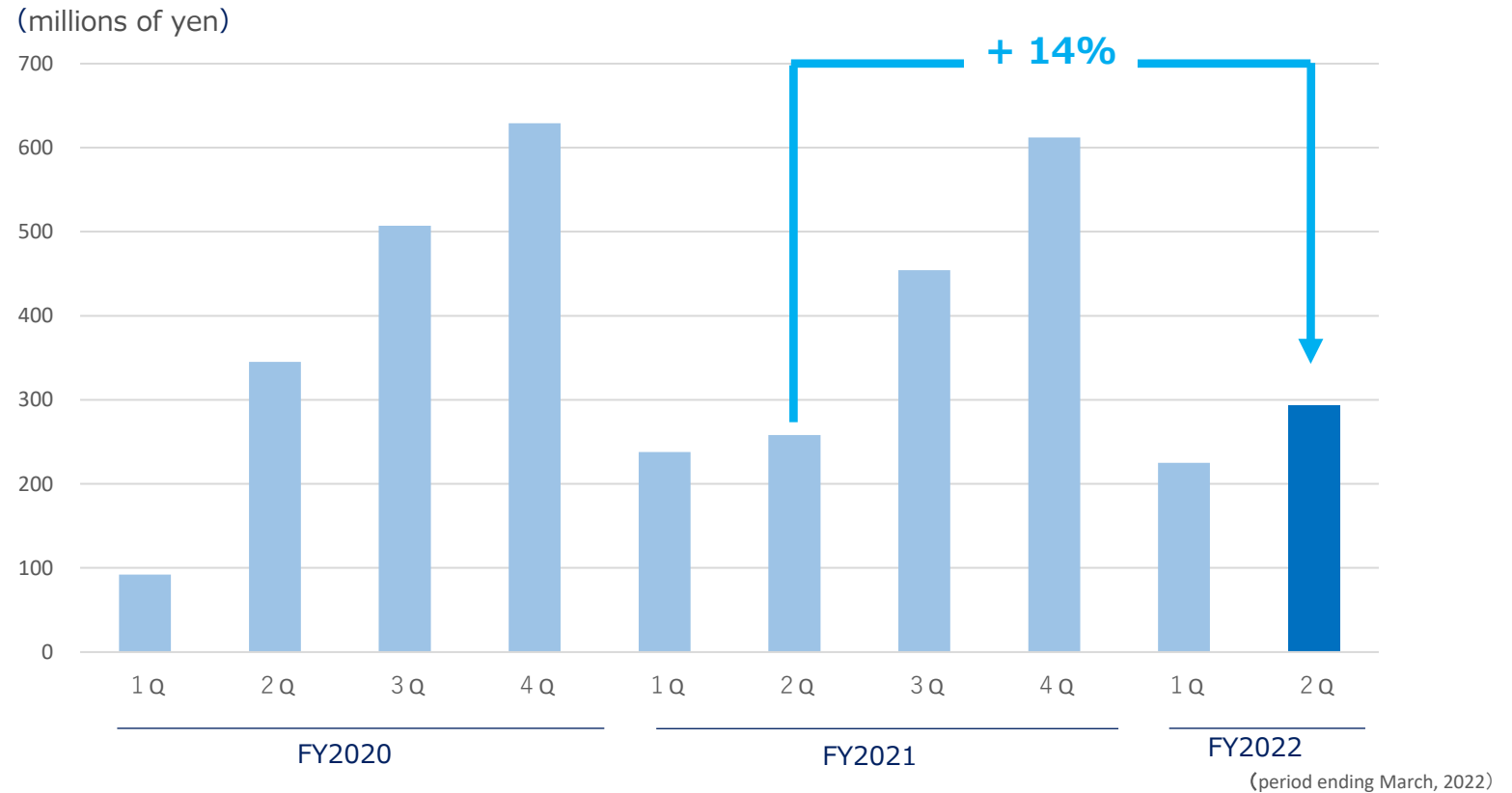
New Order : ARR

New Order (ARR) :
0.29 billion yen、 +14%
Steady growth

(For reference)
Order backlog: 1.1 billion yen
as of the end of Sep. 2021
 (990 million yen as of the end of Mar. 2021)

New Order : ARR (cumulative amount in each fiscal year)

※ARR (Annual Recurring Revenue) = Estimated annual sales revenue (running fees only) from new business operations we undertook



※Order backlog: Total sales revenue from transactions for which orders have been placed and actual operations are to be conducted

Year-End Adjustment Support Services

(Single Scope :Single Function Sale)

In this service, we support client companies that do not outsource payroll processing, but only year-end adjustment.

Sales posted in Jan. (4Q)

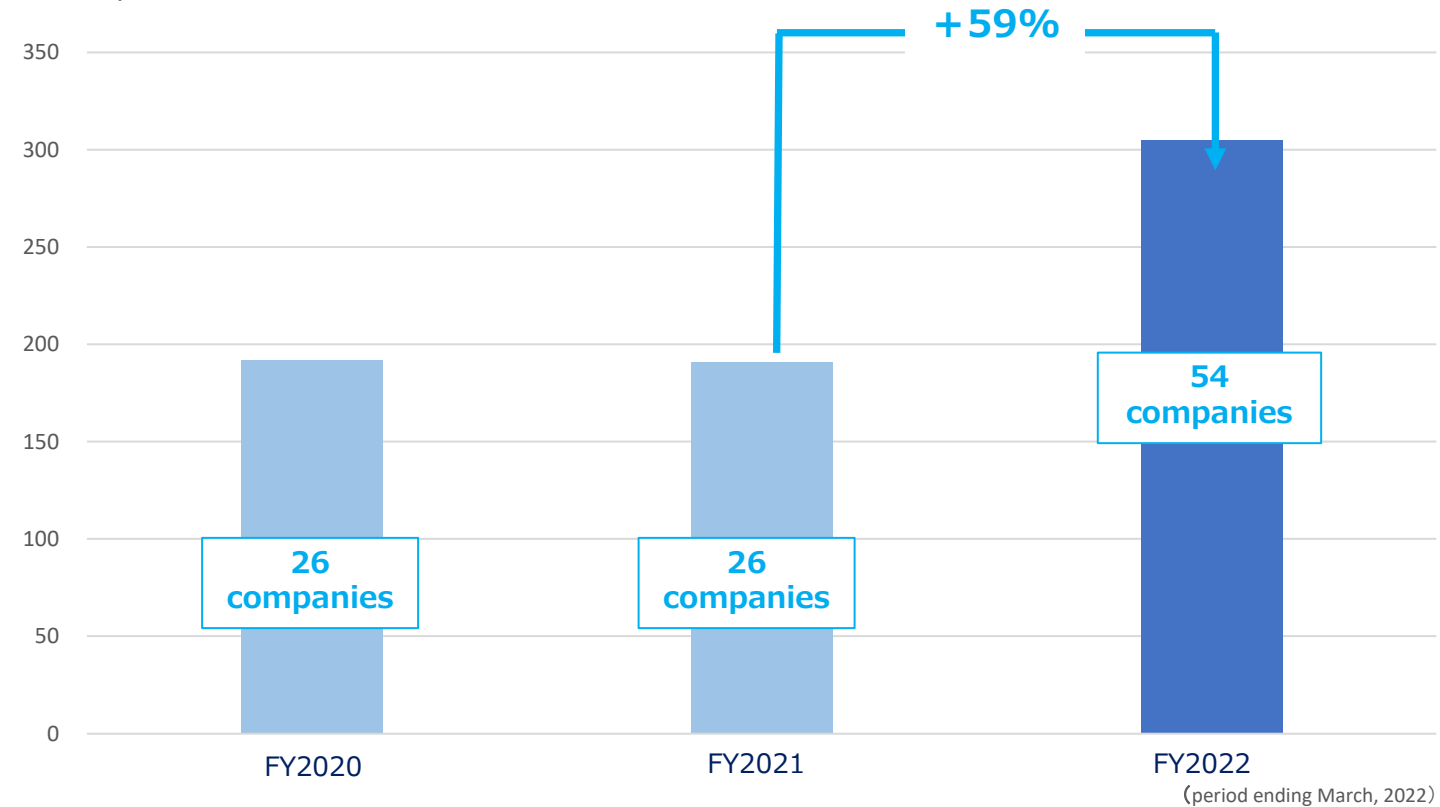
Sales from this service in the current term: 300 million yen, up 59% from the previous year

Purpose of this service

- Revenue expansion
- Acquiring lead generation

Year-End Adjustment Support Services Single Scope :Single Function Sale (Order)

(millions of yen)



Operating (New Clients): ARR

176million yen, Down 7% (YoY)

Expansion of the scale of each transaction and prolongation of each work period due to the coronavirus pandemic

Majority of the operation plans are conducted in the second half

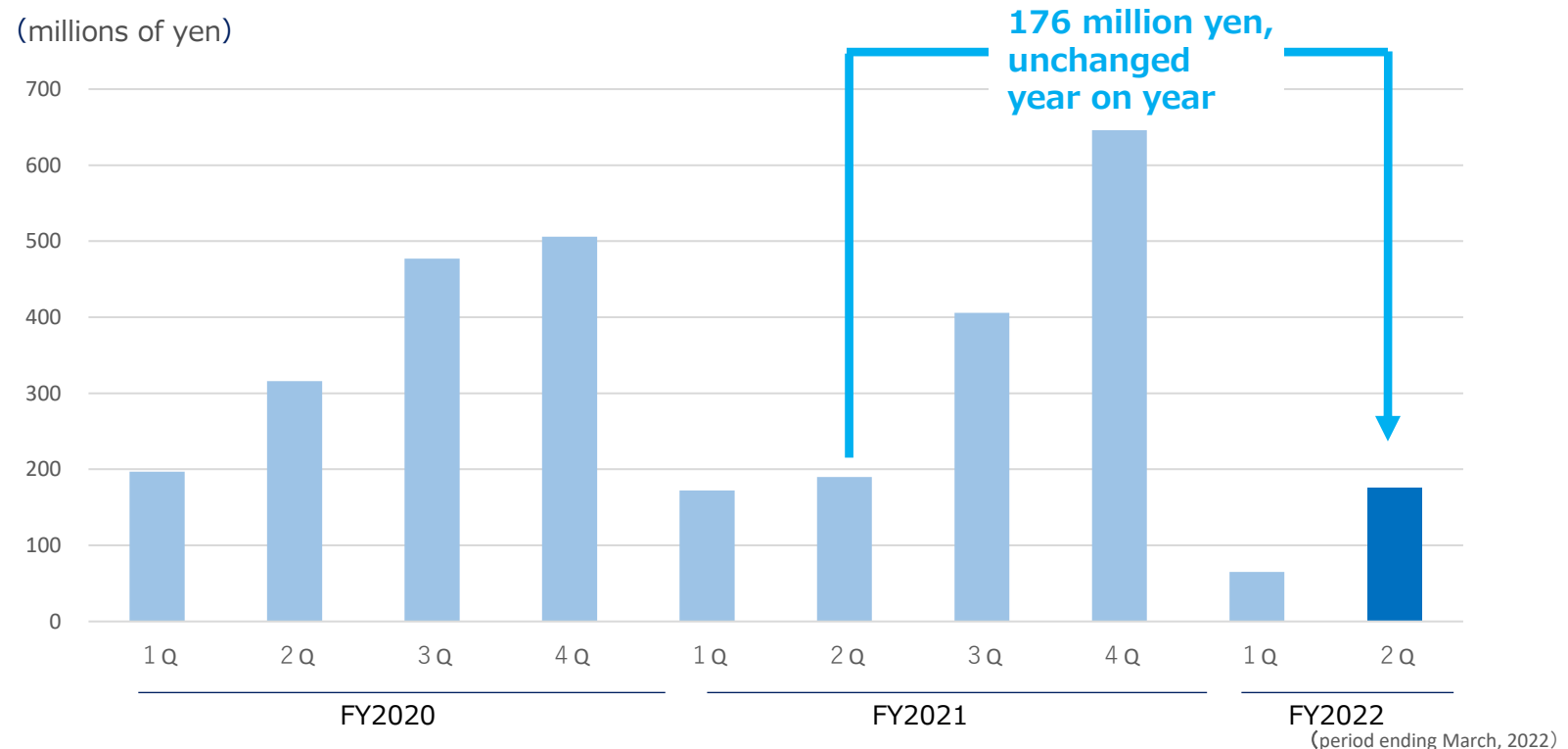
(For reference)

Order backlog: 1.1 billion yen
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(990 million yen as of the end of Mar. 2021)

Operating (New Clients): ARR (cumulative amount in each fiscal year)

※ARR (Annual Recurring Revenue) = Estimated annual sales revenue (running fees only) from new business operations we undertook

※Order backlog: Total sales revenue from transactions for which orders have been placed and actual operations are to be conducted



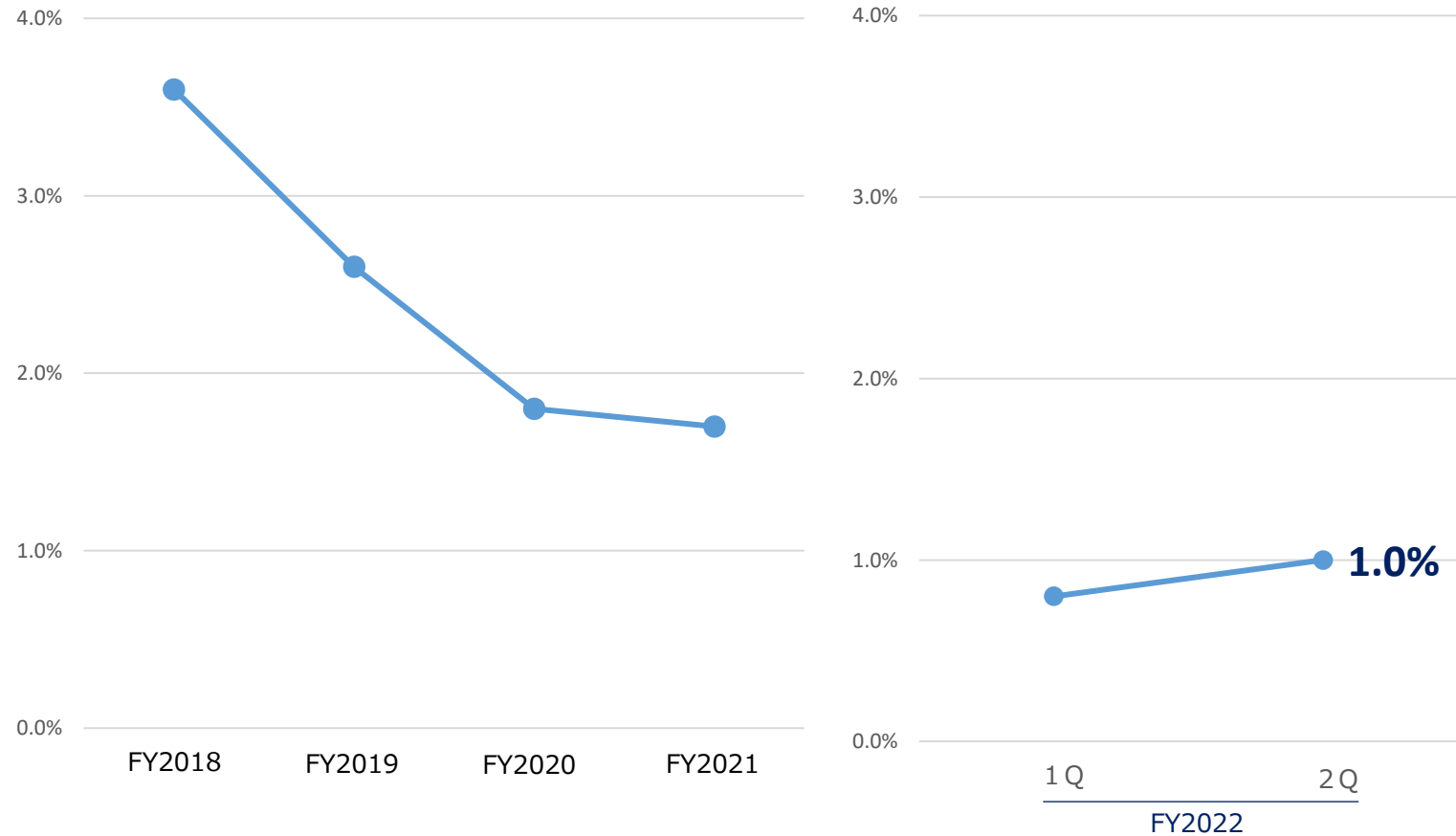
Churn rate (Annual)

Churn Rate (Annual) : 1.0%

- Managed to keep churn rate at low level
- per month 0.16%

(1.0% = 0.96% ÷ 6months = 0.16%)

Churn rate (Annual)



※ Churn Rate = lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)
 ※ Lost client ARR : ARR of clients terminated
 ※ Existing client ARR of the previous year end : ARR of clients operated at the year end
 ※ New client ARR : ARR of new client operated this year

Revenues

① Revenues (P3 System):

0.3 billion yen, Up 59%

② Revenues (SEP System):

1.1 billion yen Down 4%

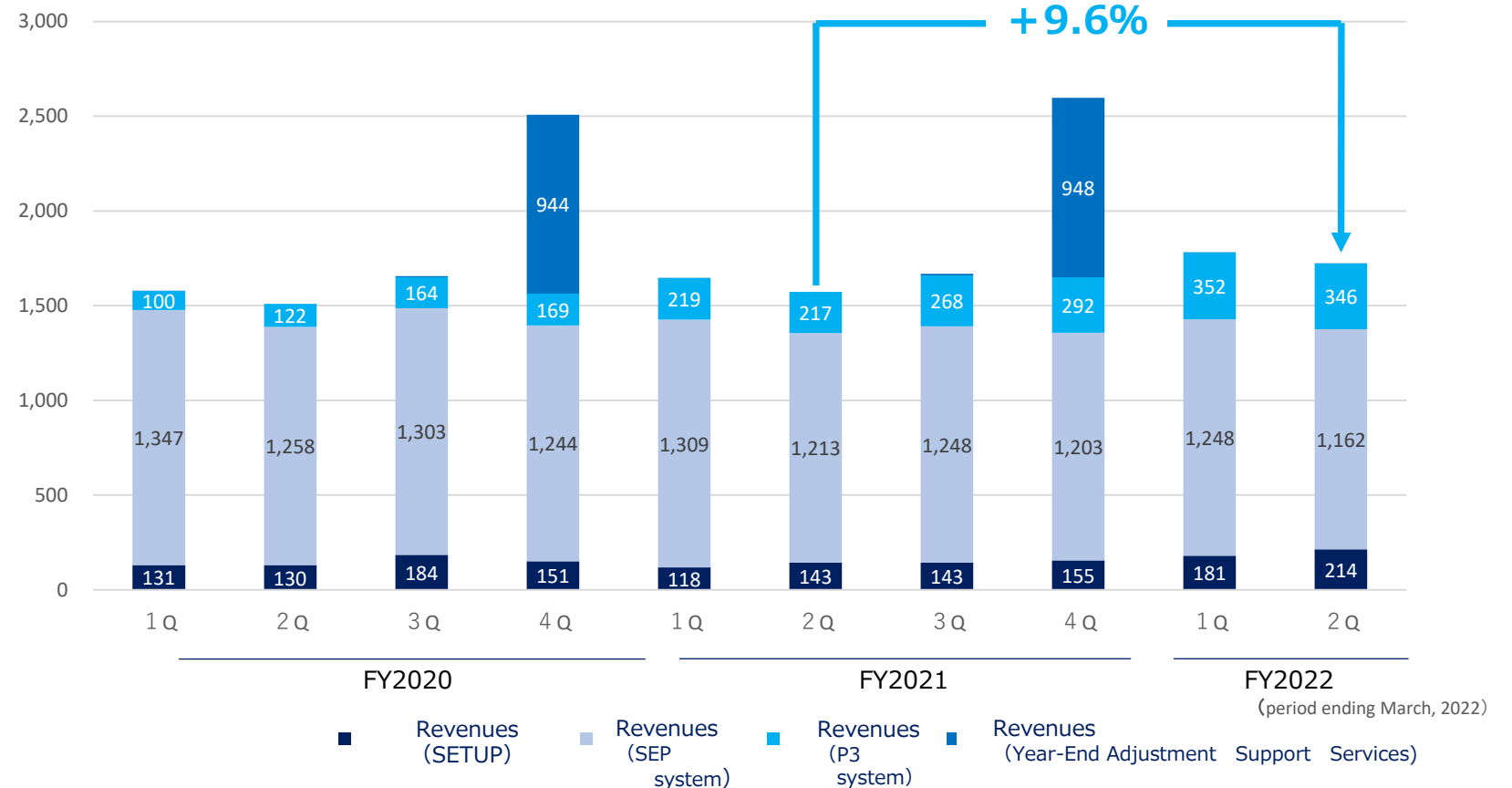
③ Revenues (Year-End Adjustment Support Services)

Orders have been placed and will contribute to the sales in the second half.

In the 2nd half, we aim to achieve our plan as scheduled. In 4Q, we are expecting sales from year-end adjustment services, increased number of new transactions, and increased number of new employees being re-hired at our present clients due to mitigation.

Revenues (Amount by the Quarter)

(millions of yen)



※ Revenues (SETUP) : Initial Fee
 ※ Revenues (SEP system) : Old system, ASP Service, Running Fee
 ※ Revenues (P3 system) : New system, Cloud Service, Running Fee

Operating Income

Operating Income: Down 24.6% year on year

Temporary costs (108 million yen) for IPO, renovating head office, opening Takamatsu BPO Center, and integrating/abolishing Sapporo Bases

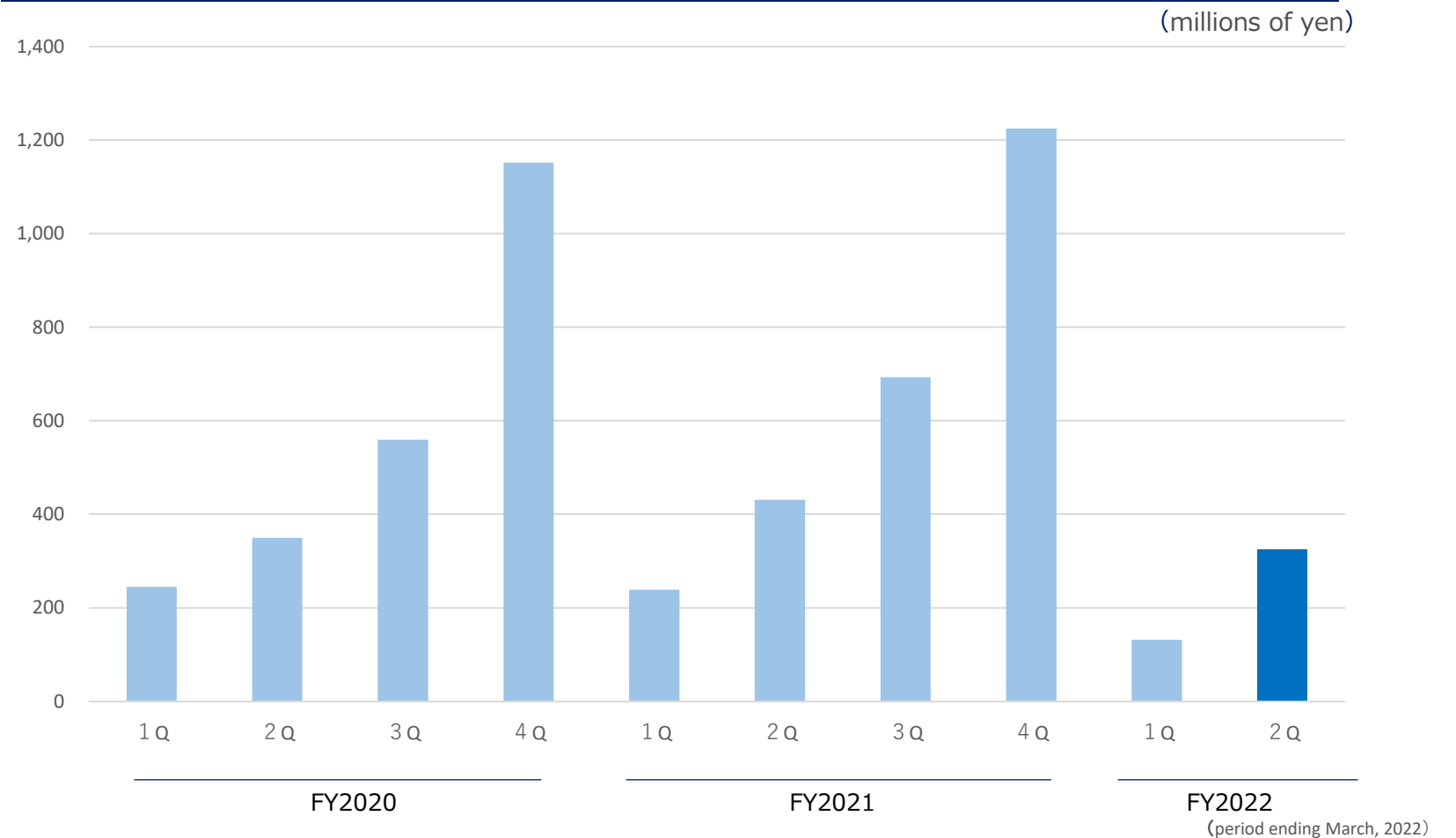
In addition, personnel costs augmented through the strengthening of the structure of the management division for IPO and the fortification of the manufacturing system for the second half.

These could not be offset by the growth of sales revenue.

However, the augmentation of these expenses had already been taken into account in the earnings forecasts (disclosed on Jun. 22, 2021) and is **within our assumption**.

In the second half, our performance is expected to be as planned, thanks to the year-end adjustment service that generates high profit and the increase in the number of new operations.

Operating income (cumulative amount in each fiscal year)



- In July this year, we started offering comprehensive payroll calculation services to **a leading cell phone company (with about 2,600 employees)**.
- On July 1 this year, we opened **Takamatsu BPO Center**.
This center carries out operations for fulfilling the BCP functions of Hokkaido BPO Center and Nagasaki BPO Center.
This term, this center will mainly offer Year-End Adjustment Support Services (Single Scope).
- On August 2 this year, we integrated/abolished two bases in Sapporo, and opened **Sapporo BPO Center**.
Through integration and abolishment, we aim to cement the cooperation among sections, improve productivity, and enhance our development capacity.
- On September 17 this year, we released **the smartphone app P-Appli**, automatic send-out of notifications.
(For details, see Page 25.)
We aim to offer new services to over million people through the upgrade/addition of the app.



“Notification on the release of the smartphone app P-Appli” dated Sep. 17, 2021

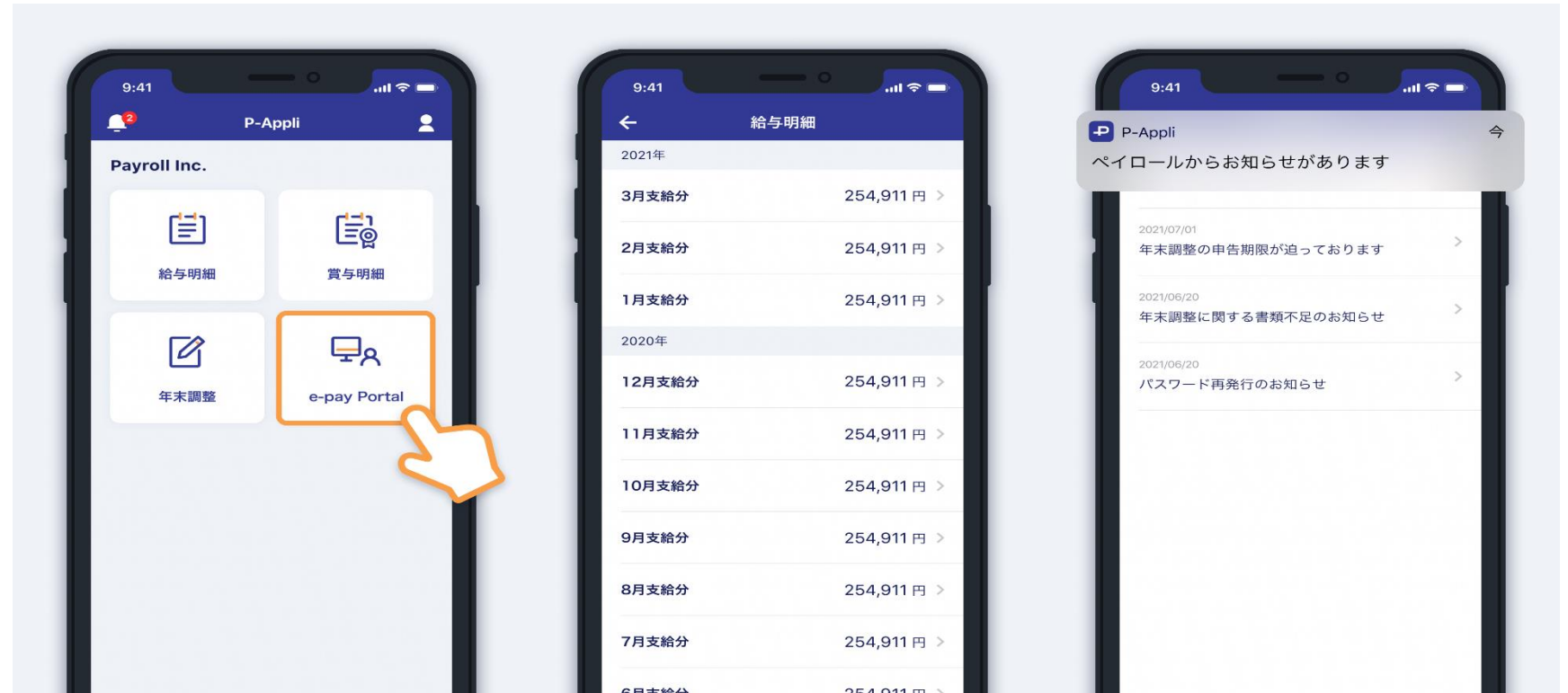
Potential of P-Appli: Sends out notifications to over million people

We aim to offer new services, by adding or upgrading the features of this app.

One touch

immediately

Simple



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(millions of yen, %)

FY2022 Financial Forecasts

Due to the year-end adjustment support service, majority of operating income is generated in the 2nd half.

Our performance in the second half is expected to be as planned, as the year-end adjustment support service is as planned.

	FY2022 / 2Q	Progress Rate	FY2022 '21.4-'22.3		FY2021 '20.4-'21.4		changes	Rate of increase
	performance		Forecast	Sales ratio	performance	Sales ratio		
Revenues	3,505	41%	8,569	100%	7,484	100%	+1,084	+14.5
COGS	2,657	44%	5,989	69.9	5,364	71.7	+624	+11.6
Gross Margin	847	33%	2,579	30.1	2,120	28.3	+459	+21.7
SGA	593	52%	1,141	13.3	965	12.9	+176	+18.2
Operating Income	324	22%	1,502	17.5	1,224	16.4	+277	+22.7
Income before Income Tax	297	21%	1,425	16.6	1,152	15.4	+272	+23.6
Net Income	307	28%	1,088	12.7	758	10.1	+330	+43.6

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Growth Strategy Summary

Stage 1

To increase client enterprises

Stage 2

Provision of BPaaS to SMB

Stage 3

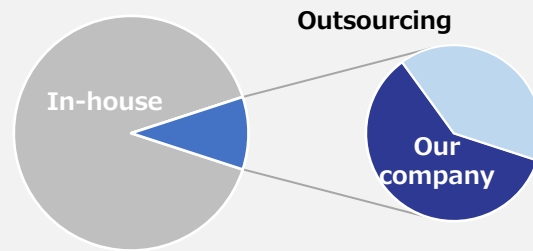
Payment HR Dashboard

Stage 4

To offer services to (B to) B to Employee (employees)

Stage 1: To increase client enterprises

- Currently. We increased our market share 6%

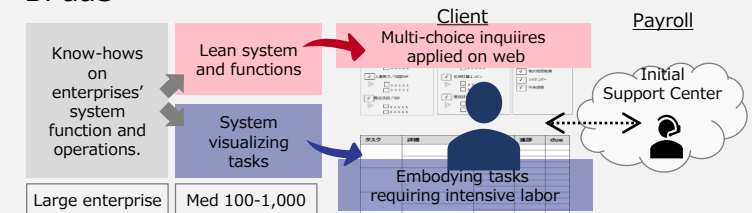


※ enterprises=clients with over 1,000 employees

New!

Stage 2: To offer BPaaS to SMB

- To cultivate a new market by introducing BPaaS



※SMB=small and medium business with 100-1,000 employees

New!

Stage 3: Payment HR Dashboard

- To anonymize and statistically analyze data on salaries of a million employees we hold
- To develop a new revenue source by offering a variety of statistical data to clients
- To offer information services while considering ISO30414 (guidelines for disclosure of information on human capital)

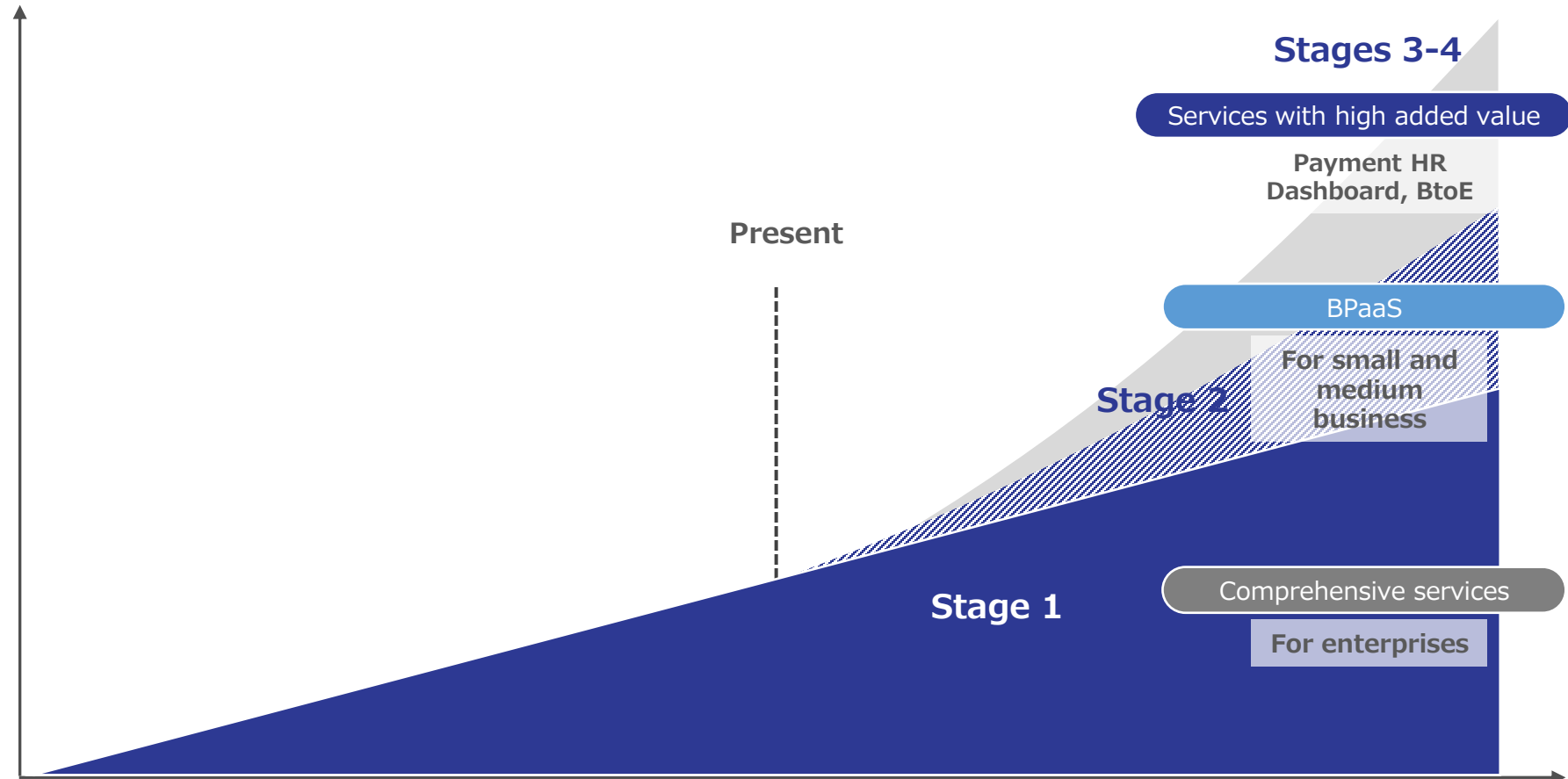
New!

Stage 4: To offer services to BtoE (employees)

- We will discuss the possibility of various BtoBtoE services related to salaries for employees of client companies.
- To create new business opportunities by directly contacting employees
- Digitalization of salary payment, payment of salaries as needed, etc.

Envisioned mid/long-term growth

- ① Enterprises: Expansion of our share in the fully-outsourcing market
- ② To increase small and medium business clients like large enterprises through BPaaS
- ③ For further growth, we will embody a business model with higher added value through Payment HR Dashboard and BtoE services.

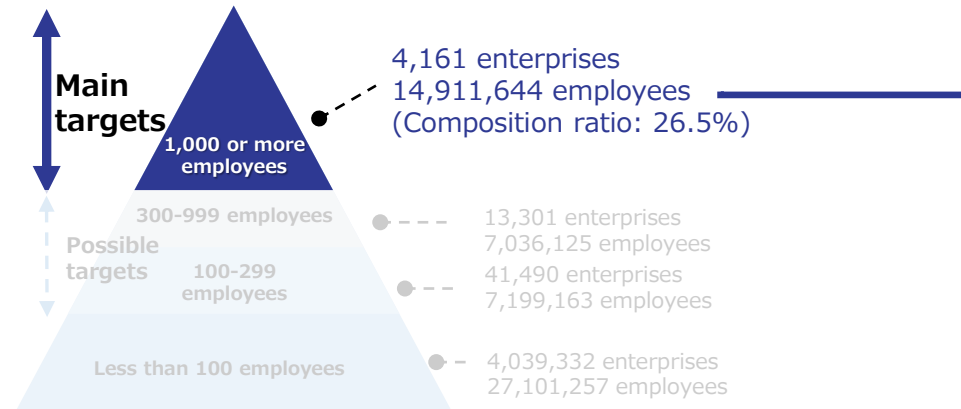


Growth Strategy 1

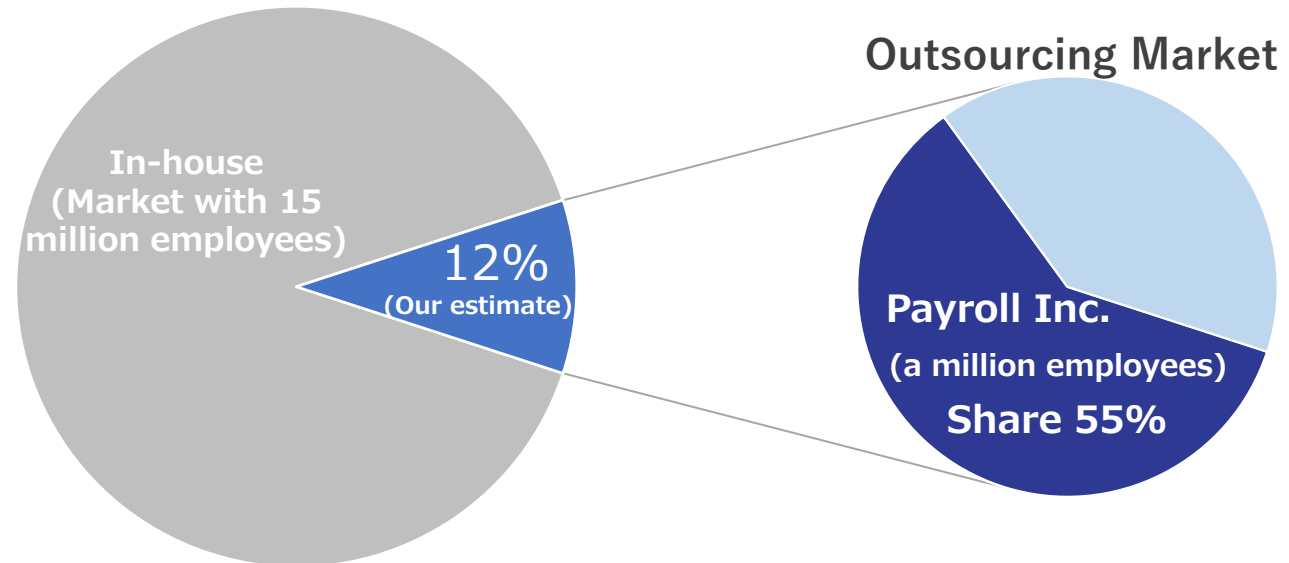
To increase orders from enterprises

As the number of employees in the target market is about 15 million, we aim to increase our share from a million.

We will keep strengthening the system for business operations, in parallel with the expansion of our business through new orders and transactions.



Potential of the payroll calculation market targeted at Japanese enterprises*



Source: Economic Census in 2014 – Basic Survey, the Ministry of Internal Affairs and Communications
 Surveyed in July 2014, released on November 30, 2015
 “National summary of enterprises, etc., Table 1, Enterprises and industries (middle classification), the number of enterprises, etc., the number of business operators, the number of male business operators, the number of female business operators, and the number of regular employees for each of 11 categories of corporate scale (including overseas) and 5 categories of management organizations”

* Potential of the payroll calculation market
 About 10% of enterprises have already outsourced payroll calculation.
 Our share in the outsourcing market is estimated to be 60%.

Growth Strategy 2

To offer BPaaS to SMB

To offer BPaaS services to SMB (small and medium business with 100-1,000 employees)

Our BPaaS

① Development of SaaS for setup

⇒ Simplifying initial settings,

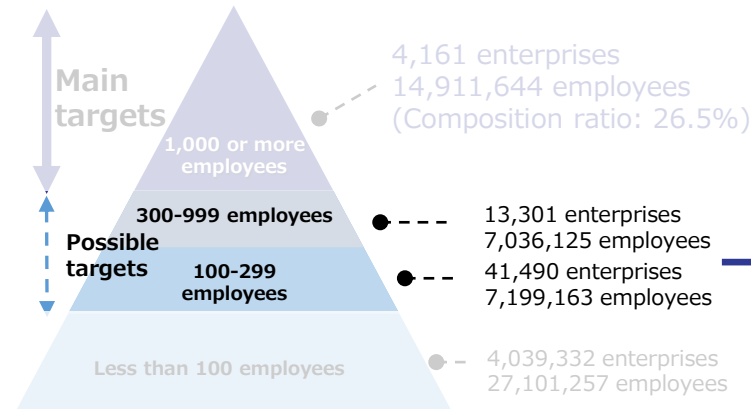
allowing full control in hand

② Cloud services for operations

⇒ HR managing the payroll process

③ On-demand BPO business

⇒ BPO services available at anytime when you need it

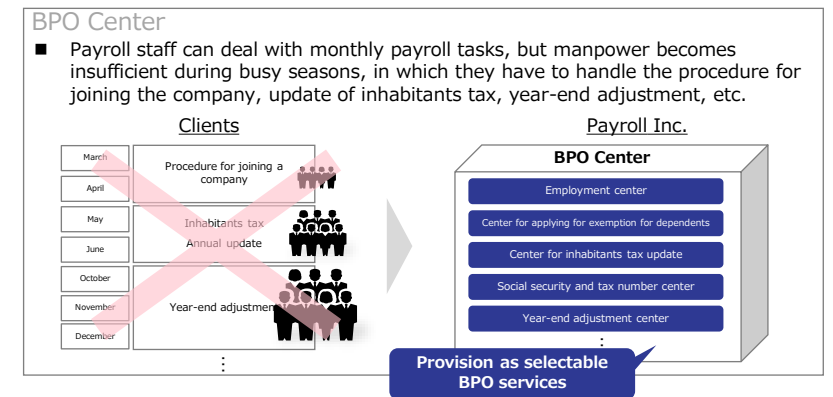
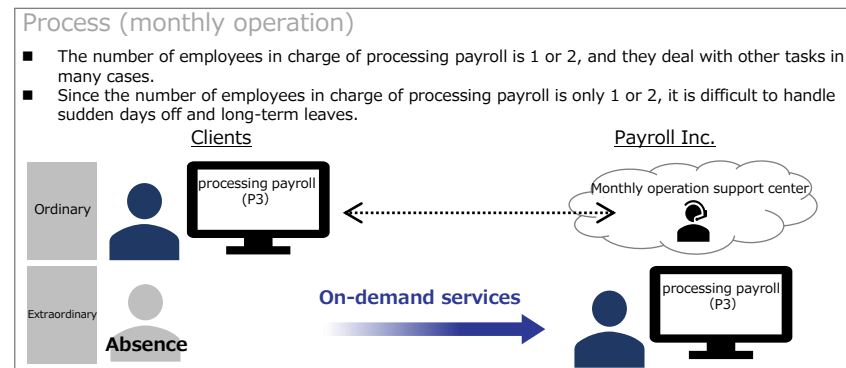
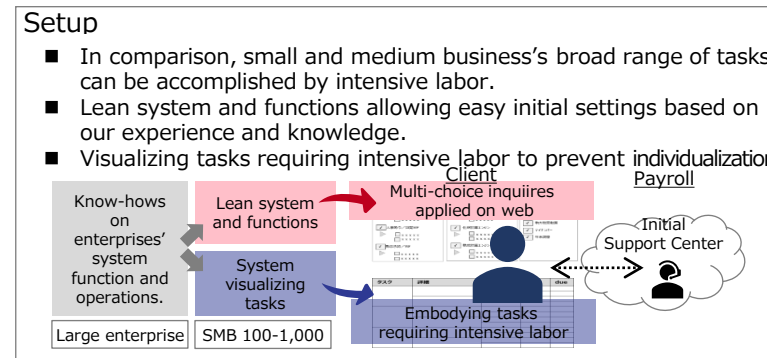


BPaaS:

Business Process as a service is a mix of SaaS (cloud services) and BPO.

In addition to providing software just right for the clients, on-demand BPO services can be provided to fulfill manpower shortages whenever needed.

Example of BPaaS



Growth Strategy 3

Payment HR Dashboard 【Image】

To anonymize and statistically analyze data on salaries of a million employees we hold

To develop a new revenue source by offering a variety of statistical data to clients

To offer information services while considering ISO30414 (guidelines for disclosure of information on human capital)

Payment HR Dashboard

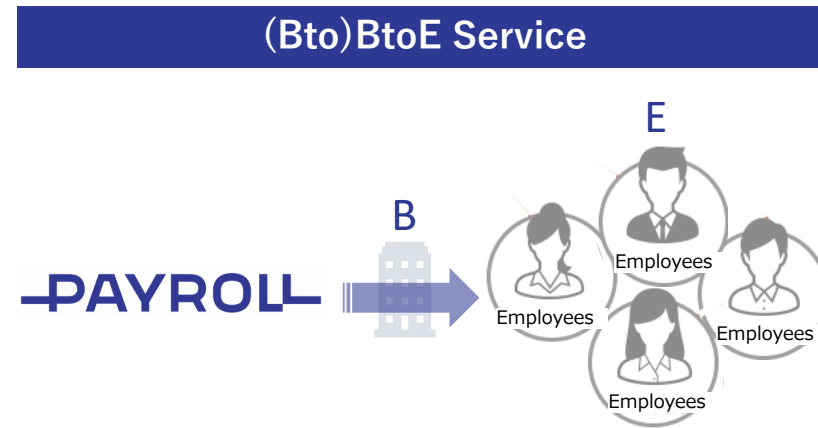


Growth Strategy 4

BtoE (employees) services

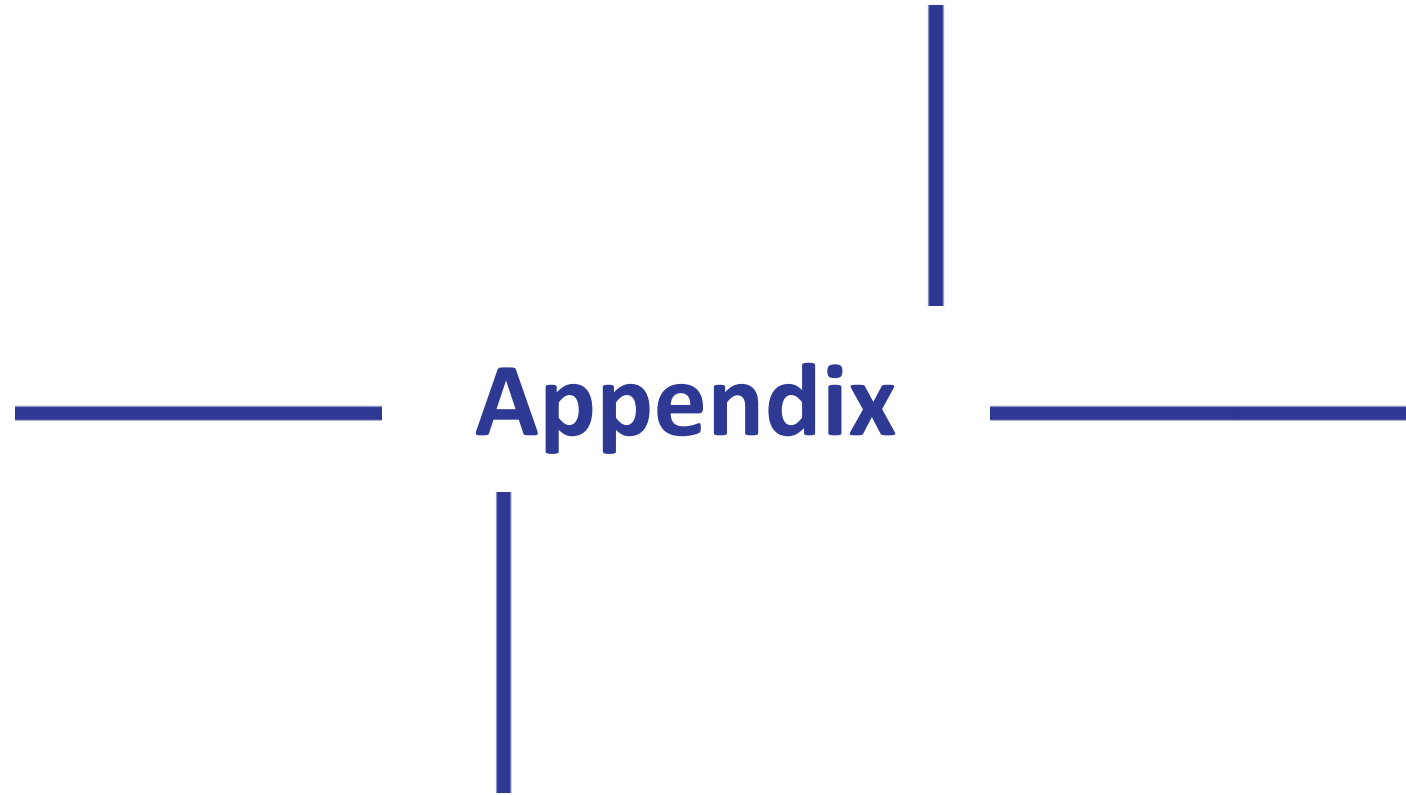
To create new services by directly contacting employees

Digitalization of salary payment, payment of salaries as needed, etc.



- We will discuss the possibility of various BtoBtoE services related to salaries for employees of client companies.
- We will create new business opportunities by directly contacting employees.
- Digitalization of salary payment, payment of salaries as needed, etc.

※ We obtain the consent of each client enterprise and each employee when offering BtoE services.



Appendix

Definition of management indicators

ARR	<ul style="list-style-type: none"> • Annual Recurring Revenue • Annualized sales (amount of orders received): Estimated annual sales revenue (running fees only) from new business operations we undertook
New Orde : ARR	<ul style="list-style-type: none"> • Annualized amount of orders received: Estimated annual sales revenue (running fees only) from new business operations we undertook
Order backlog : ARR	<ul style="list-style-type: none"> • Total sales revenue from transactions for which orders have been placed and actual operations are to be conducted
Operating (New Client) : ARR	<ul style="list-style-type: none"> • Annualized sales: Estimated annual sales revenue (running fees only) from new business operations we undertook
Churn rate	<ul style="list-style-type: none"> • Annual Churn rate • Churn Rate = $\text{lost client ARR} \div (\text{existing client ARR of the previous year end} + \text{new client ARR})$
Revenues (SEP system)	<ul style="list-style-type: none"> • Sales revenues from the old systems (ASP services) (running fees) • Monthly and seasonal sales included
Revenues (P3 system)	<ul style="list-style-type: none"> • Sales revenues (running fees) from the new systems (cloud services) • Monthly and seasonal sales included • The new system will be used for new clients
Revenues (SETUP)	<ul style="list-style-type: none"> • Initial fee for processing payroll • The sales calculated in accordance with the IFRS. The amount equally divided by the number of years of the contract period (basically 3 years) for each client is posted on a monthly basis.
Revenues (Year-End Adjustment Support Services)	<ul style="list-style-type: none"> • Sales revenue from year-end adjustment support • Sales revenue from our comprehensive payroll services and year-end adjustment support

Disclaimer

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However, the Company makes no representations or warranties of any kind, expresses or implies, about the completeness and accuracy.

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Therefore, the actual performance announced may vary depending on these various factors. In addition, the Company has no obligation to revise or publish the future prospects posted on this site

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