

FY2022 (period ending March, 2022)

3Q

Financial Results

PAYROL

**Payroll.Inc (4489)
February 14, 2022**

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FY2022 Financial Forecasts

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Appendix

ARR from new orders

**As healthy as
440 million yen,**
nearly unchanged year on
year

(For details, see page 6)

ARR from new operations

400 million yen,
nearly unchanged year on year

- The primary reason is the prolongation of the initial installation period due to the coronavirus pandemic.
- Operations are conducted mainly in the second half.

(For details, see page 7)

ARR from backlog of orders

As of the end of the 3rd quarter,
**operations for
900 million yen are
still to be conducted**

(For details, see page 7)

Churn rate

Ave. monthly churn rate is
0.2% which is **very low**
but is as expected

(For details, see page 8)

Sales revenue

grew 8.2%
year on year

(For details, see page 9)

Operating income

Dropped 2.6%
year on year

(For details, see page 10)

Financial Results for 3Q of FY 2022

PAYROLL

(millions of yen,%)

	FY2022/3Q		FY2021/3Q		changes	Rate of increase
	performance	Sales ratio	performance	Sales ratio		
New Order : ARR	443	—	454	—	—	—
Order backlog : ARR	914	—	1,105	—	—	—
Revenues	5,287	100%	4,886	100%	+ 400	+ 8.2
COGS	3,908	73.9	3,587	73.4	+ 320	+ 8.9
Gross Margin	1,379	26.1	1,299	26.6	+ 80	+ 6.2
SGA	903	17.1	662	13.5	+ 241	+36.4
Operating Income	674	12.8	692	14.2	△ 18	△ 2.6
Income before Income Tax	632	12.0	634	13.0	△ 1	△ 0.3
Net Income	538	10.2	416	8.5	+ 122	+29.3

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

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

Revenues: 5.2 billion yen, up 8.2%
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 operations.

Operating Income: 0.67 billion yen, down 2.6%
There were temporary costs (108 MYen) 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 were already taken into account in the earnings forecast (disclosed on Jun. 22, 2021) and was as expected. If not for the expense, operating income would've gained yoy.

New Order : ARR

New Order (ARR) :

0.44 billion yen,

Down 2%(YoY)

※Stable growth as scheduled

(For reference)

Order backlog:

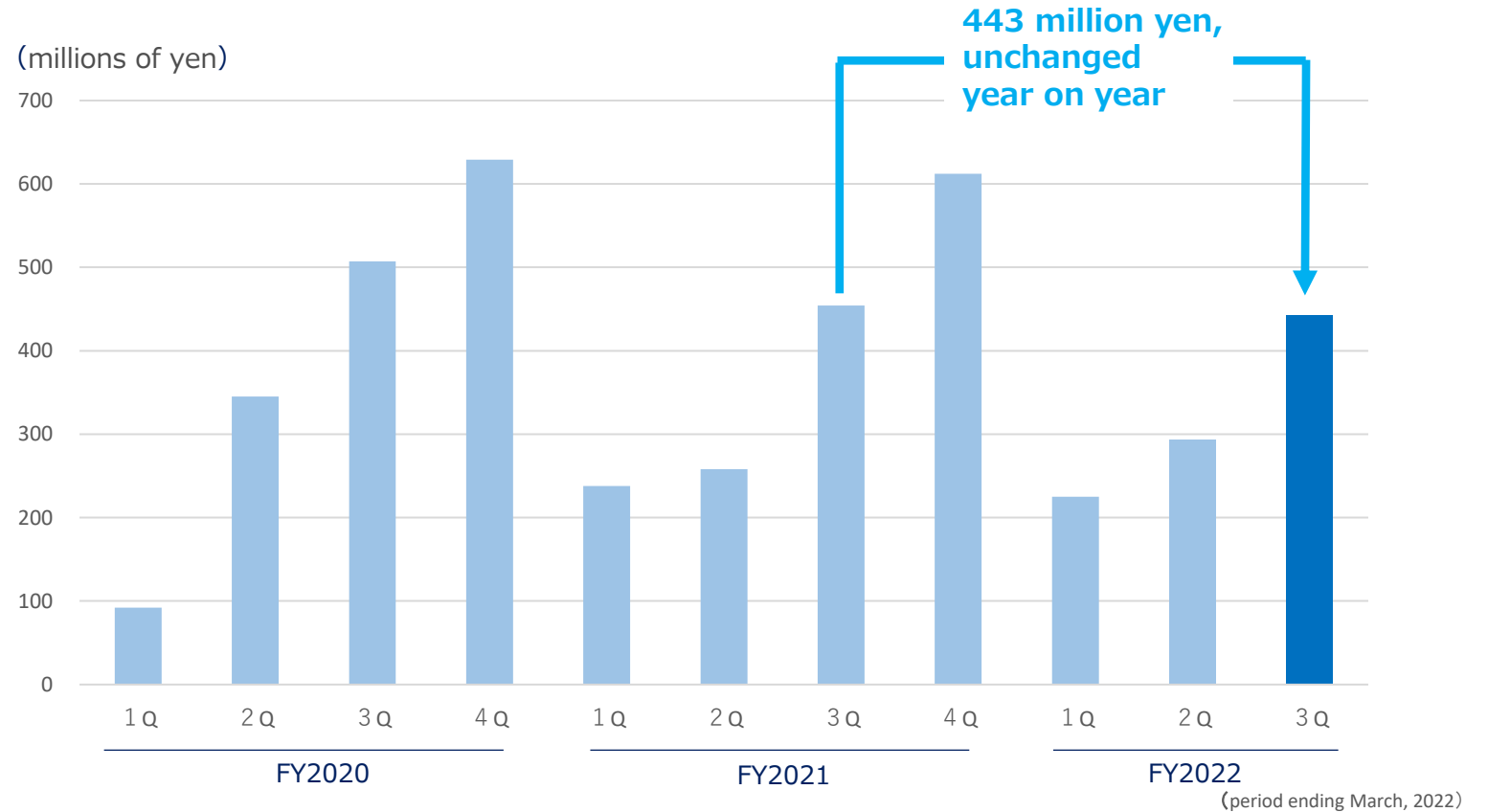
0.91 billion yen

as of the end of Dec. 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

Operating (New Clients): ARR

401million yen, Down 1% (YoY)

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

Majority of the operation plans are conducted in the second half

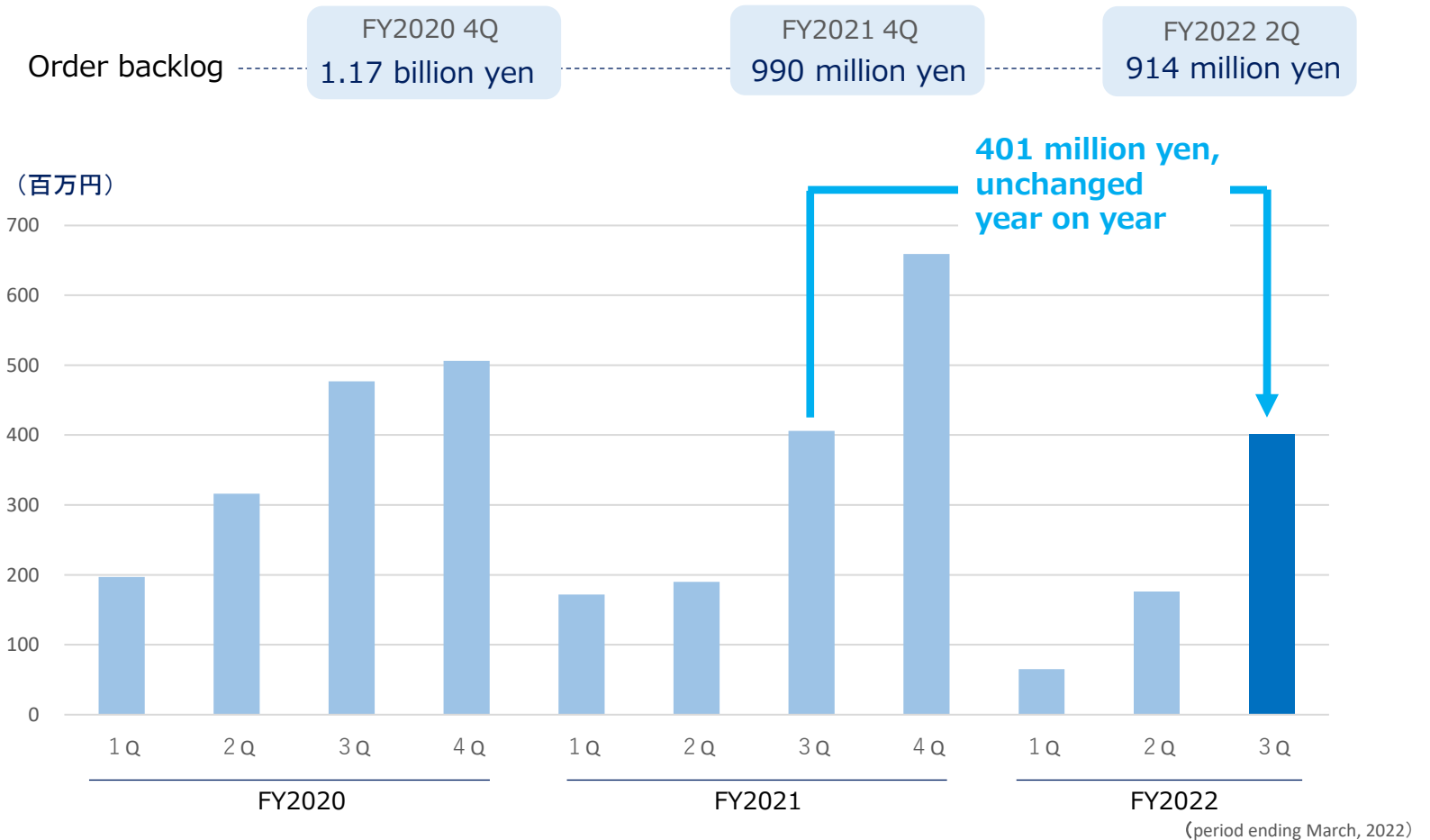
(For reference)

Order backlog: 0.91 billion yen as of the end of Dec. 2021 (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 (Ave. monthly churn rate)

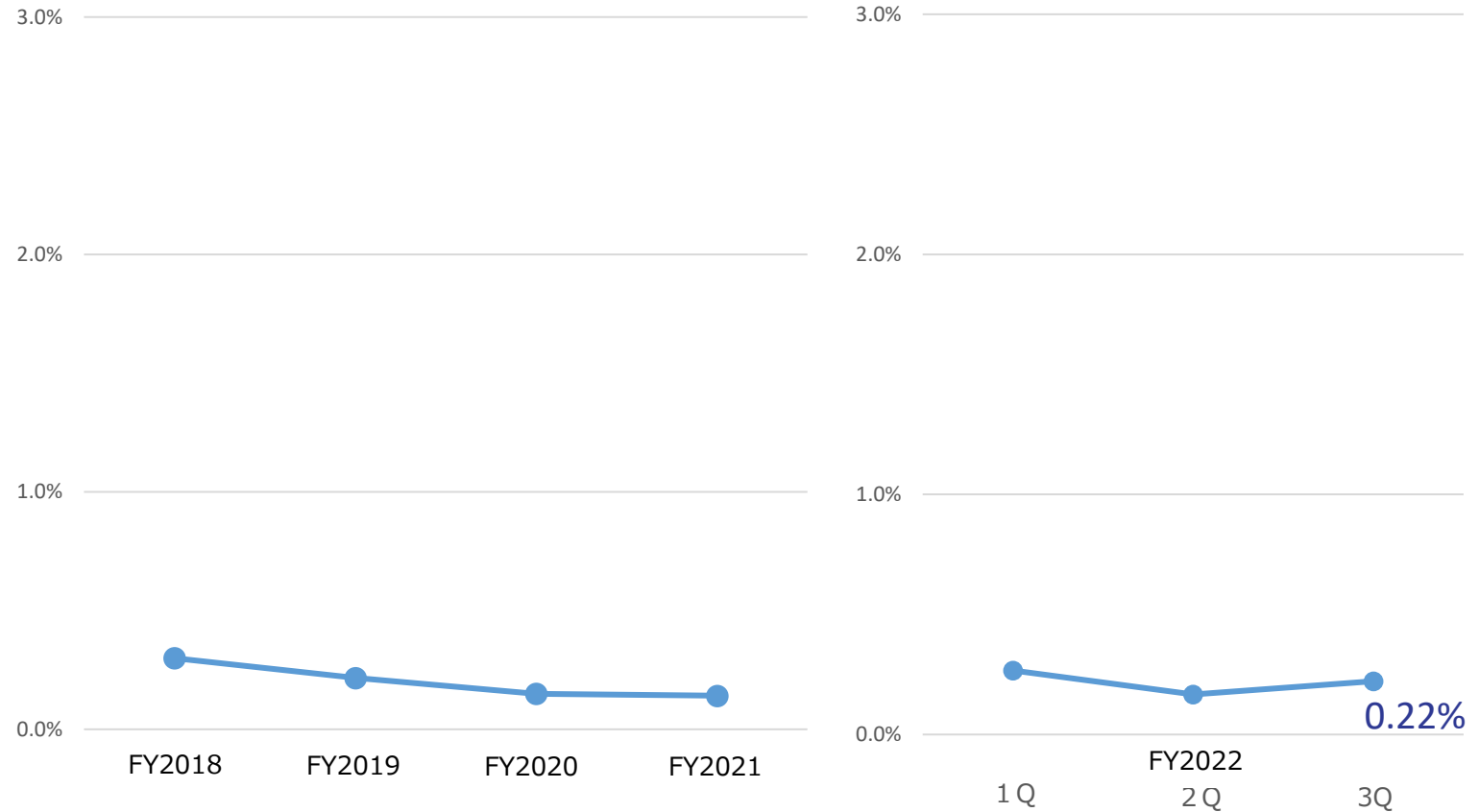
Churn Rate

(Ave. monthly churn rate) :
0.22%

- Managed to keep churn rate at low level
- Lower annual churn rate compared to the average.

(3Q : 0.22% × 9months ≒ 2.0%)

Churn rate (Ave. monthly churn rate)



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

Revenues

① Revenues (P3 System):

0.4 billion yen, Up 54%

② Revenues (SEP System):

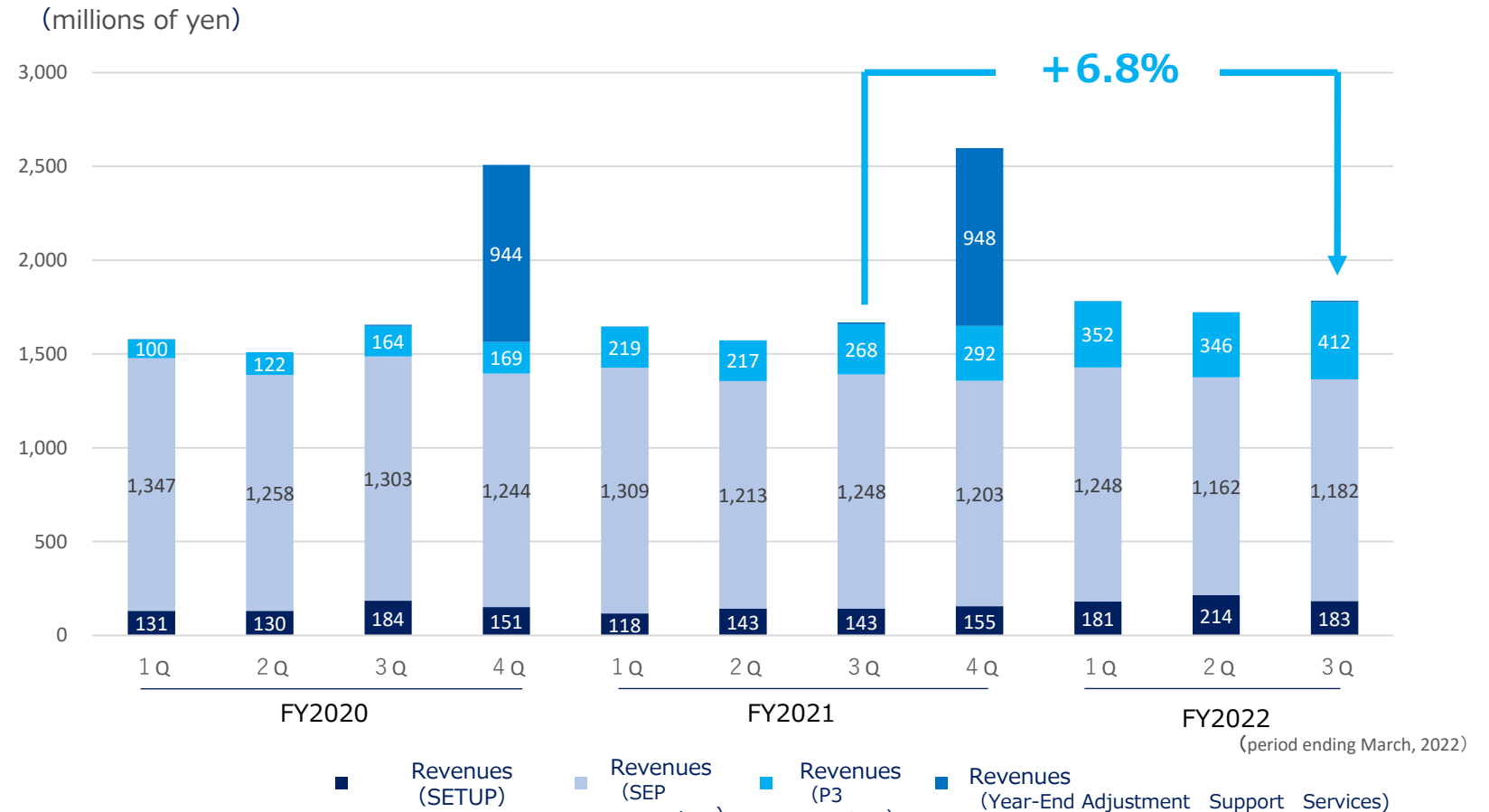
1.1 billion yen Down 5%

③ Revenues (Year-End Adjustment Support Services)

Orders of new projects have been set and placed and are expected to contribute to 4Q sales.

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 operations, and new projects.

Revenues (Amount by the Quarter)



※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 2.6% year on year

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

Increase of upfront cost in the 1st half

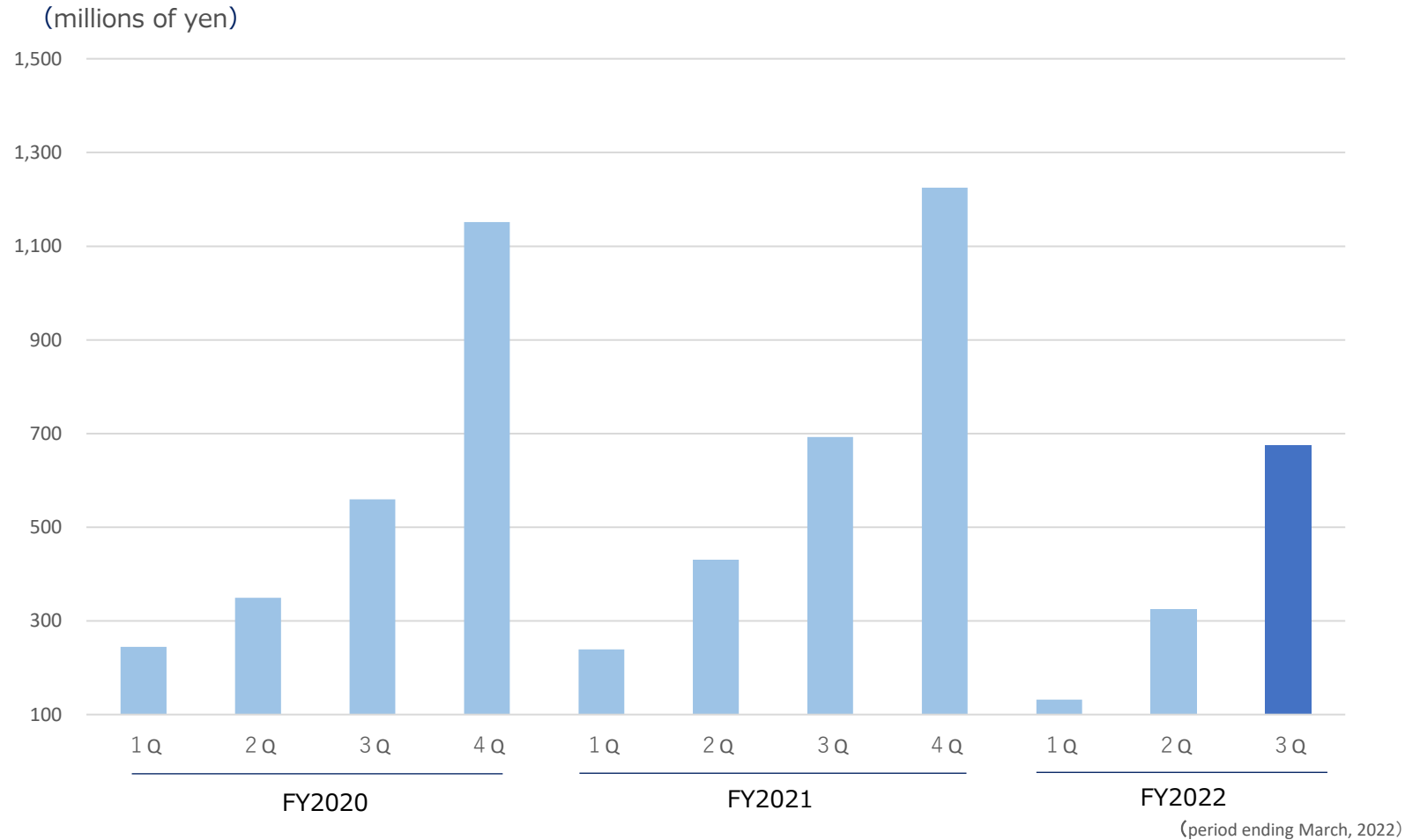
In addition, personnel costs augmented through the strengthening of the structure of the management division for IPO and the fortification of the manufacturing system for the second half.

Impact of tax effect accounting (+40 MYen)

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, we aim to be on target regarding the year-end adjustment service, increased number of new operations, and new projects.

Operating income (cumulative amount in each fiscal year)



- In Dec. 2021, we closed a deal for comprehensive payroll processing services with **Glory Ltd.**
- In Dec. 2021, we announced “Notification on the **Establishment of ‘the Nomination and Remuneration Advisory Committee’.**”
 - It was established as an arbitrary advisory body of the board of directors, for the purpose of further tightening corporate governance by improving fairness, objectivity, and transparency of processes for nominating directors and determining their remuneration.
- In Dec. 2021, we announced “Notification on **the Designation of Treasury Stock as Margin Trading Issue.**”
 - Its purpose was to increase the liquidity of our company’s shares and improve its supply demand balance expecting it leads to the activation of trading and the realization of fair share price.

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Appendix

(millions of yen, %)

FY2022 Financial Forecasts

Our revenue is weighed heavily on the latter half of the year.

In 4Q, we aim to be on target regarding the year-end adjustment service, increased number of new operations, and new projects.

	FY2022 /3Q	Progress Rate	FY2022 '21.4-'22.3		FY2021 '20.4-'21.4		changes	Rate of increase
	performance		Forecast	Sales ratio	performance	Sales ratio		
Revenues	5,287	62%	8,569	100%	7,484	100%	+1,084	+14.5
COGS	3,908	65%	5,989	69.9	5,364	71.7	+624	+11.6
Gross Margin	1,379	53%	2,579	30.1	2,120	28.3	+459	+21.7
SGA	903	79%	1,141	13.3	965	12.9	+176	+18.2
Operating Income	674	45%	1,502	17.5	1,224	16.4	+277	+22.7
Income before Income Tax	632	44%	1,425	16.6	1,152	15.4	+272	+23.6
Net Income	538	49%	1,088	12.7	758	10.1	+330	+43.6

Return to Shareholders in FY2022

In the long term, we aim to achieve a consolidated payout ratio of **around 30%**.

We will pay a **term-end dividend** for FY2022 and provide shareholders registered as of the end of June 2022 with **benefits of commemorating listing**.

- Our business is a “recurring business” which relies on the stock of existing clients but is **firm in profits and cash flow**.
- We acknowledge distribution of profit to shareholders as one of our important management objective.
- **In the long term, we aim to achieve a consolidated payout ratio of around 30%** by executing **stable and continuous increase of dividend**.

【Term-end dividend】

According to the policy for return to shareholders, we will pay a term-end dividend of **5 yen/share** for FY2022.

*Record date: March 31, 2022

*For details, see “Notification on dividends from surplus” dated February 14, 2022.

【Shareholder benefits for commemorating listing】

We will **send a QUO card worth 3,000 yen** to each of shareholders who are written or recorded in the shareholder registry as of the end of June 2022 and hold 3 trading lots of our company’s shares (300 shares) or more.

*Record date: June 30, 2022

*For details, see “Notification on shareholder benefits for commemorating listing” dated February 14, 2022.

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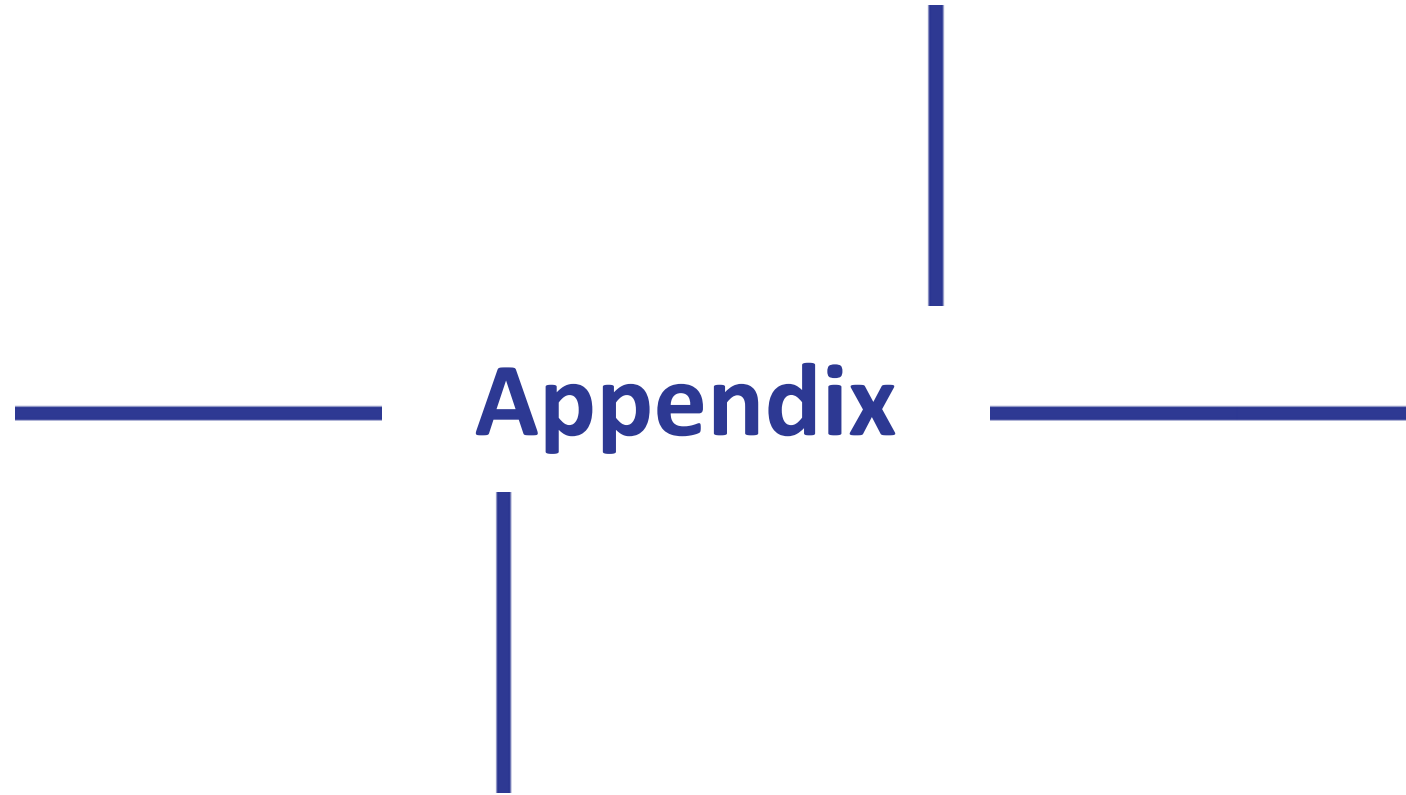
FY2022/3Q Financial Results

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FY2022 Financial Forecasts

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Appendix



Appendix

Classifying new order, order backlog, and new client



Point of contract
(Not yet counted as sales)

Backlog + pre-setup

Post-setup
= start of recurring monthly sales revenue

【New Order : ARR】

- Annualized amount of orders received: Estimated annual sales revenue (running fees only) from new business operations we undertook

【Order backlog : ARR】

- Total sales revenue from transactions for which orders have been placed and actual operations are to be conducted

【Operating (New Client) : ARR】

- Annualized sales: Estimated annual sales revenue (running fees only) from new business operations we undertook

Definition of management indicators

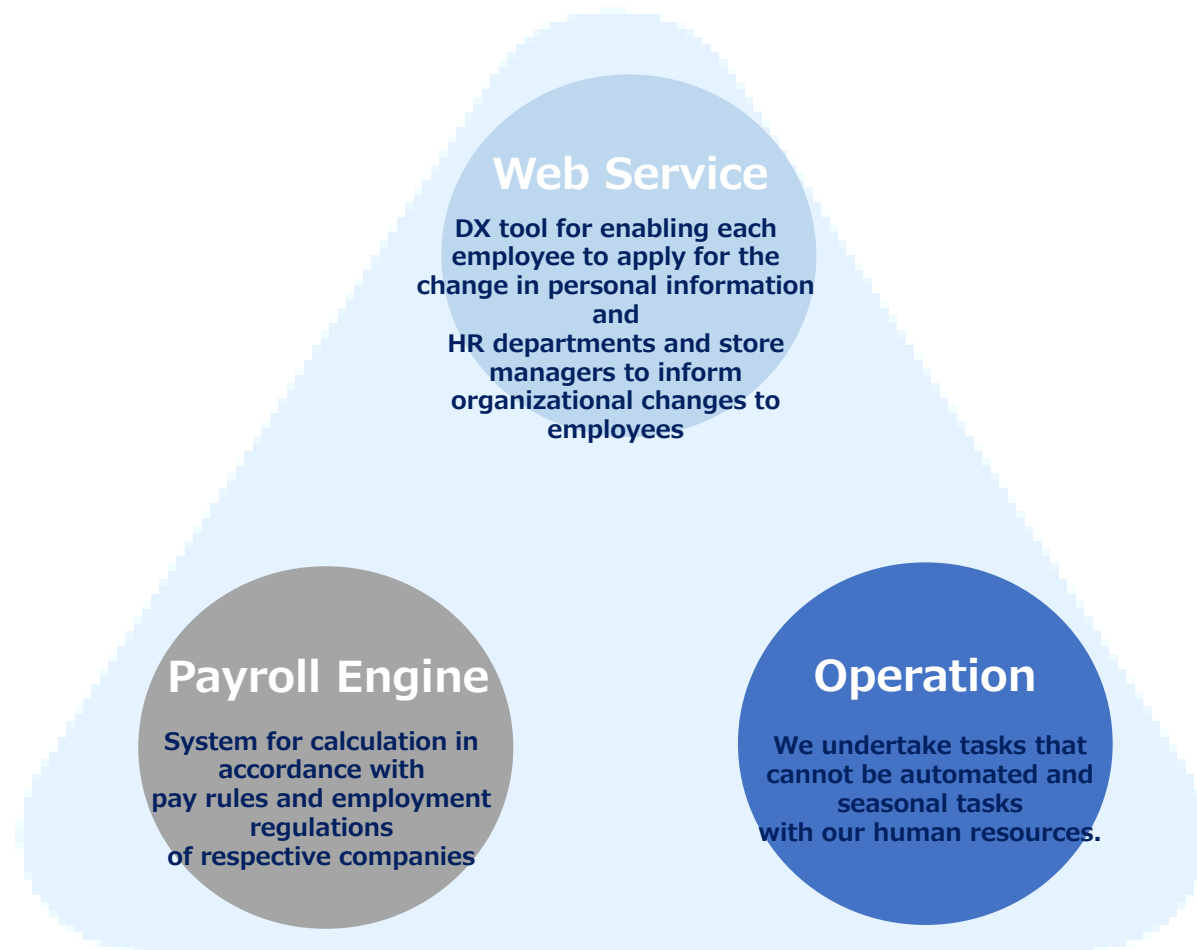
ARR	<ul style="list-style-type: none"> • Annual Recurring Revenue • Annualized sales (amount of orders received): Estimated annual sales revenue (running fees only) from new business operations we undertook
New Orde : ARR	<ul style="list-style-type: none"> • Annualized amount of orders received: Estimated 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 • $\text{Churn Rate} = \text{lost client ARR} \div (\text{existing client ARR of the previous year end} + \text{new client ARR})$
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

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.

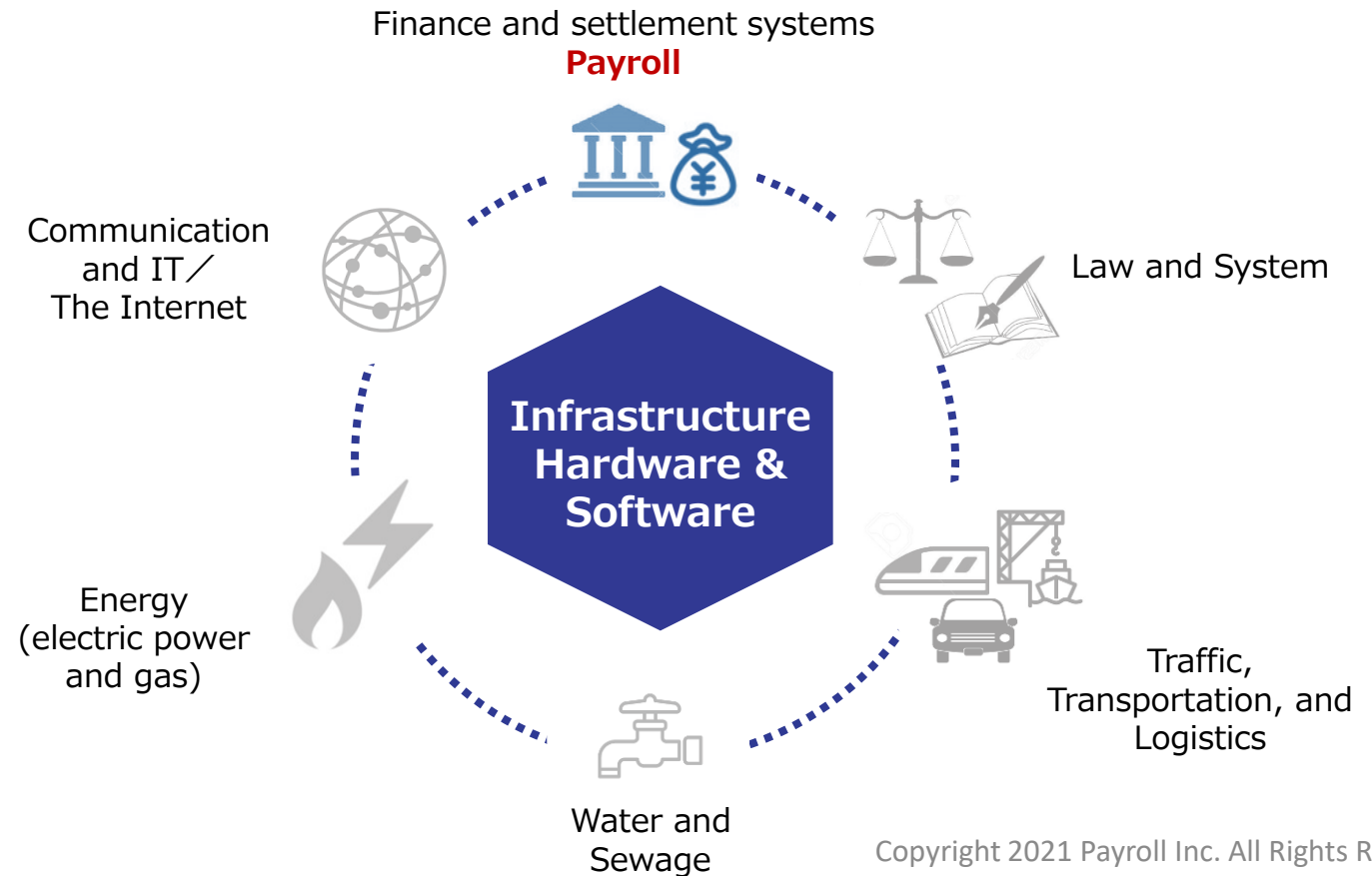


Corporate Vision

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**”.



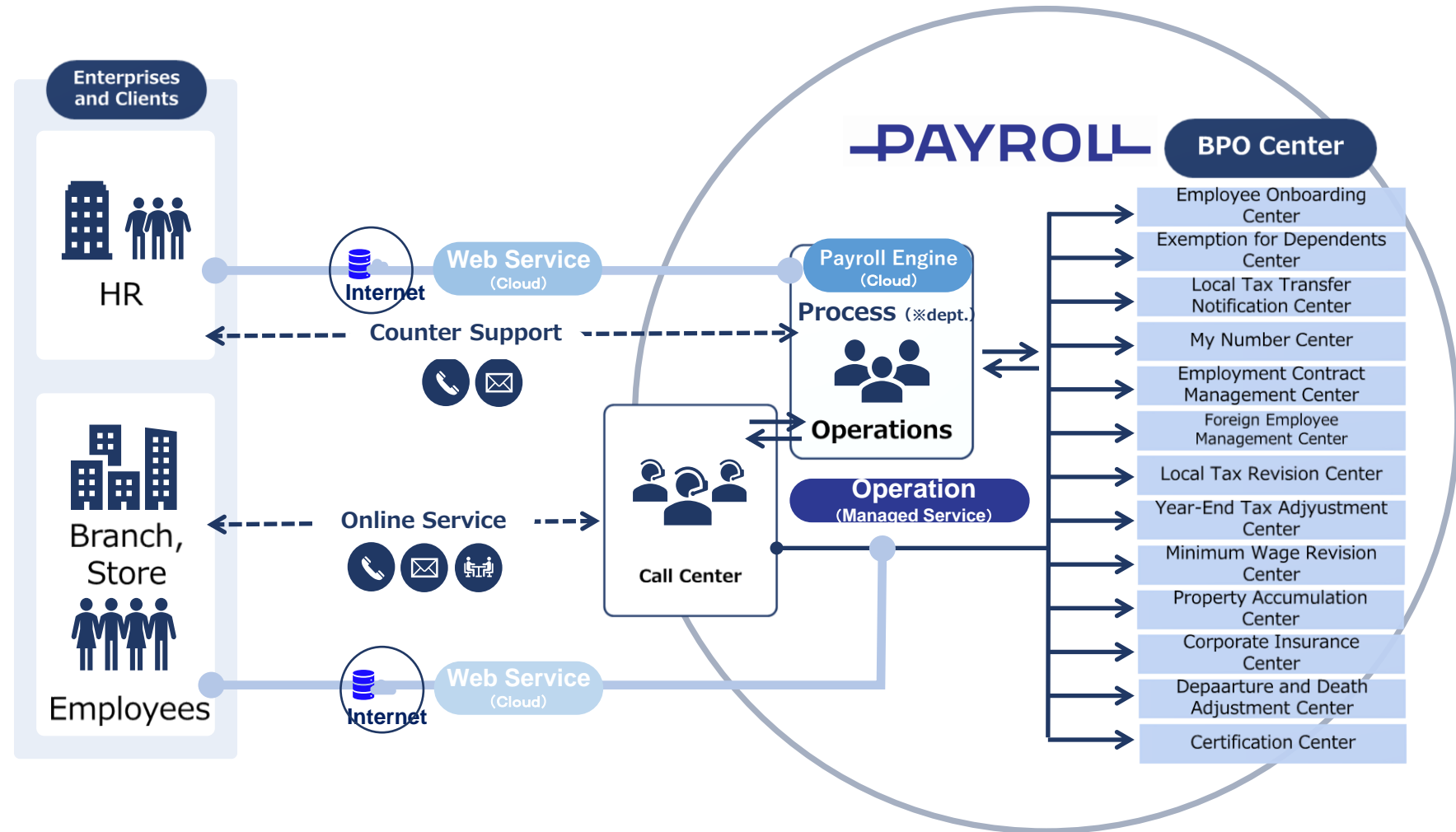
Service Overview

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

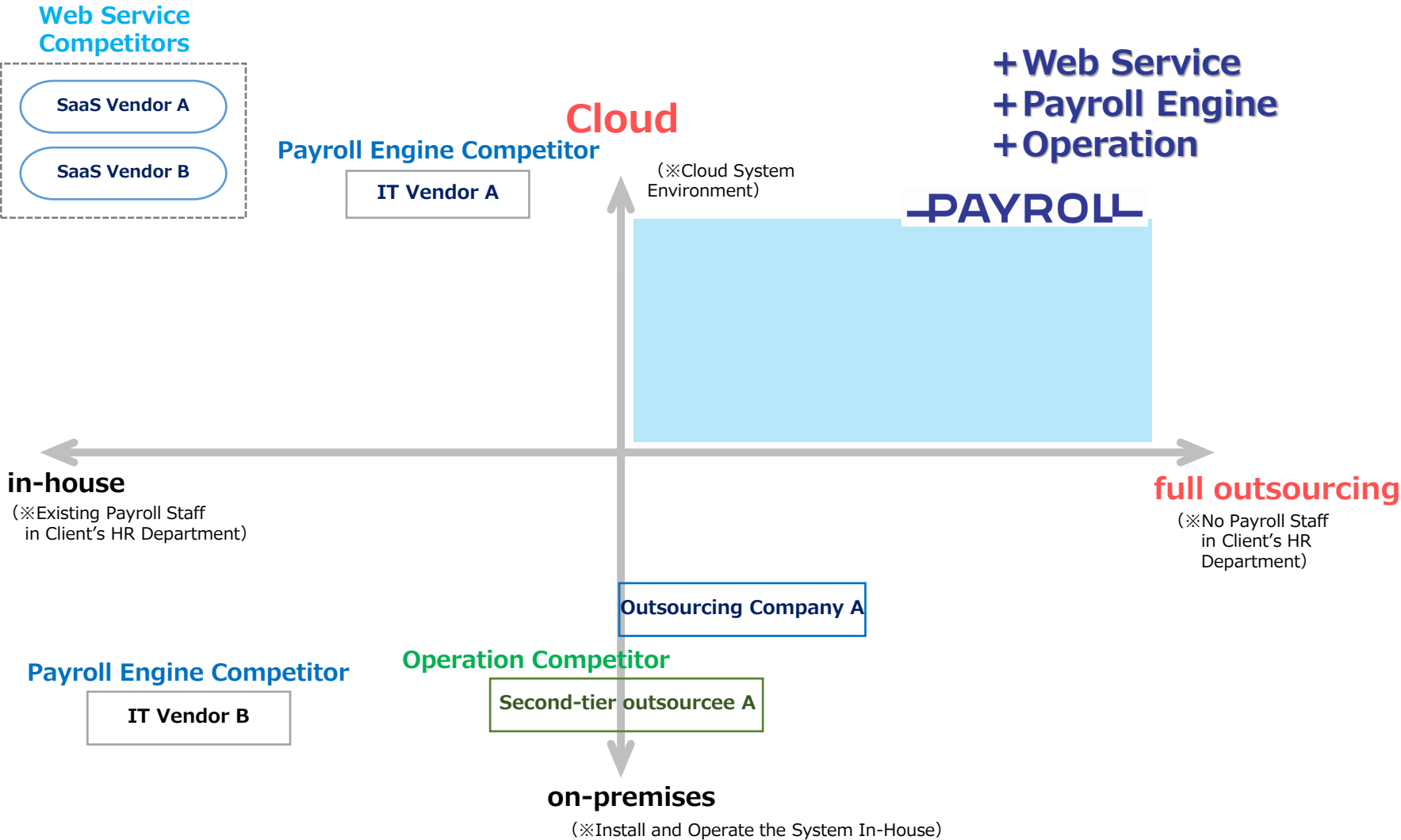
Unique Positioning

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.

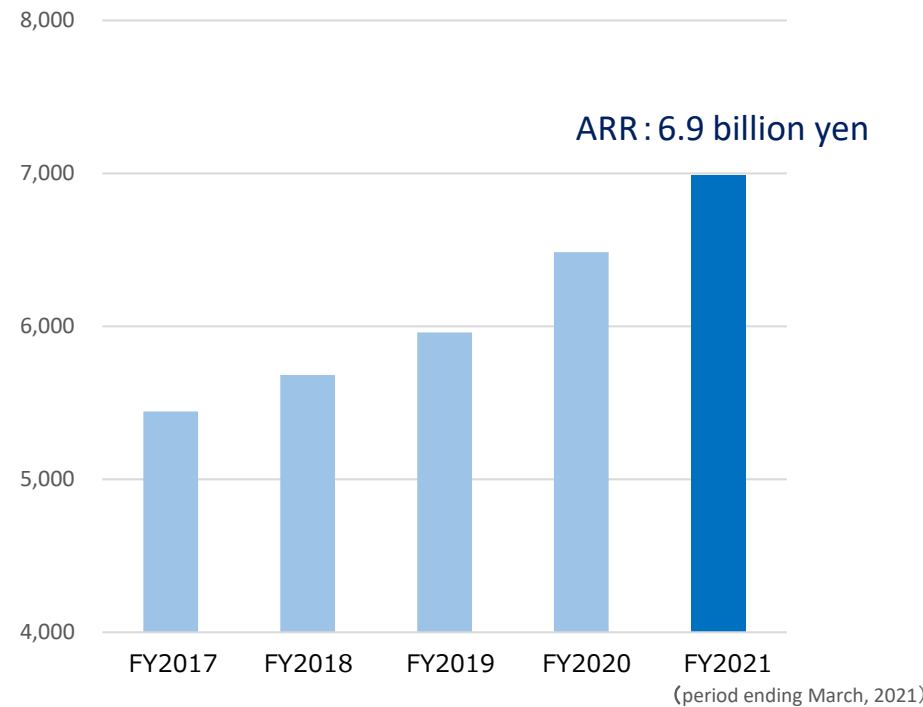
Churn Rate [Annual] : 1.7%)

※ Churn Rate [per month : 0.14%

(1.7%÷12months)

Then, we have established a recurring-revenue model.

ARR: Recurring-revenue business



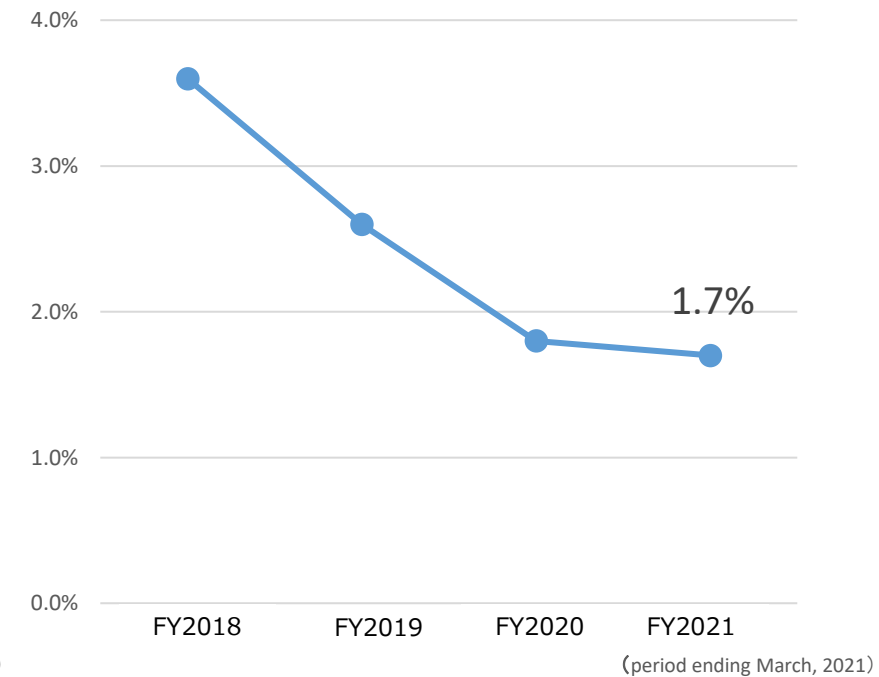
*ARR (Annual Recurring Revenue) = Estimated annual sales revenue (running fees only) from new business operations we undertook

※ 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.



Strict Entry Restriction to Offices/Operational Centers

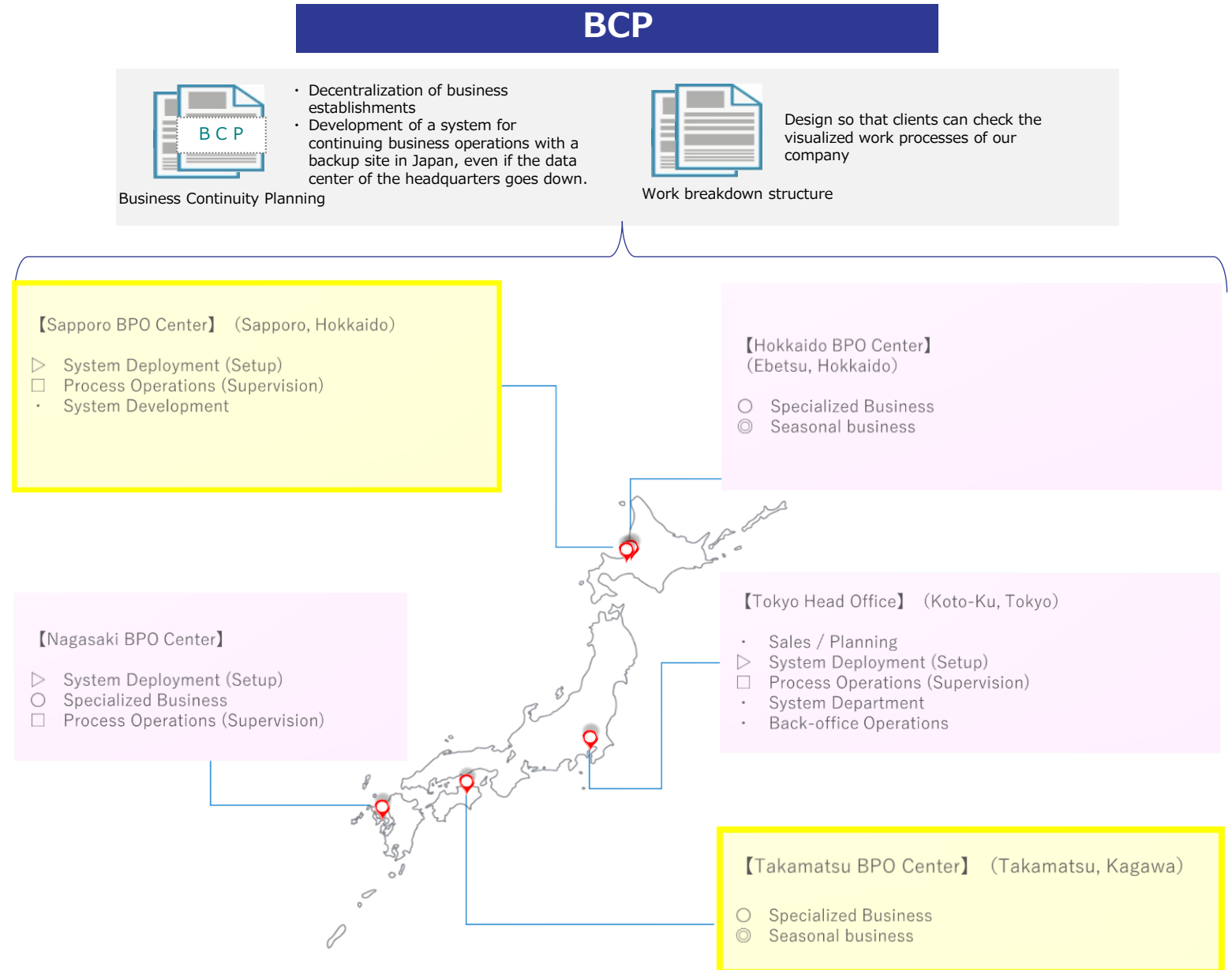


Hokkaido BPO Center

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

260 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)

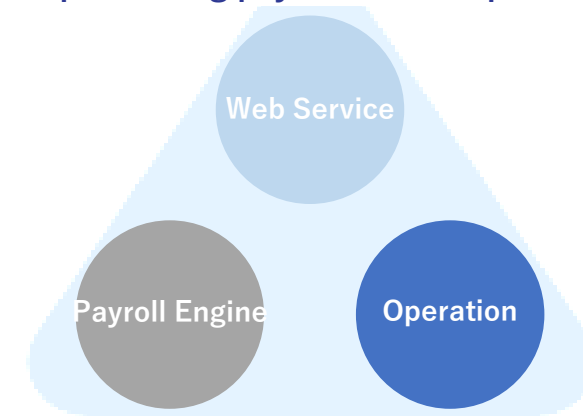
Financial Information (FY 2021, IFRS)

- ❖ 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.

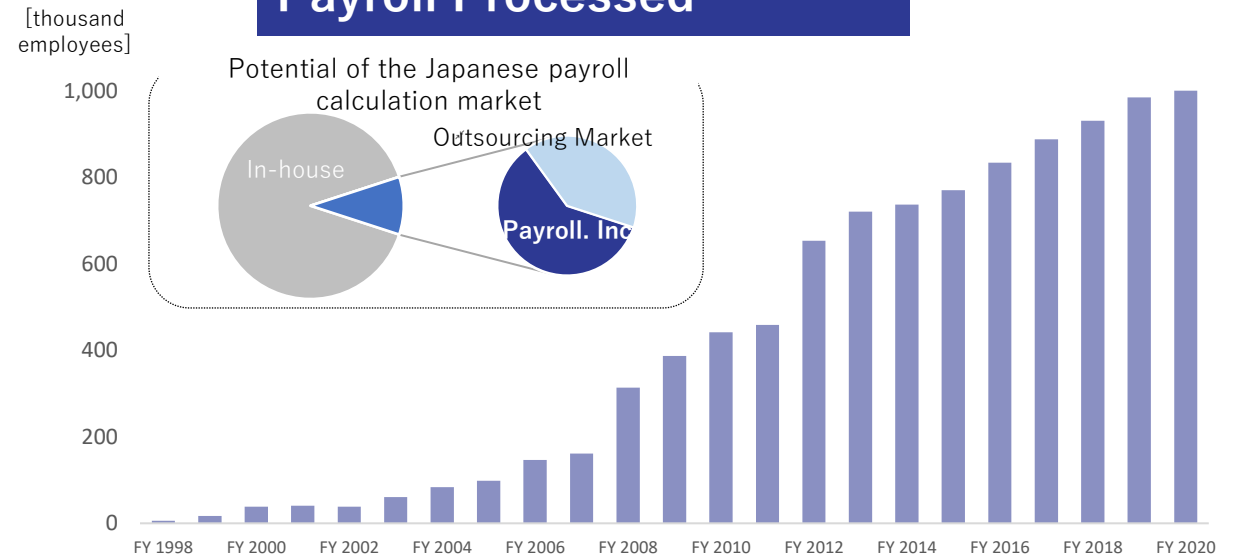
Services Provided

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



PAYROLL

Payroll Processed



Growth Strategy Summary

Stage 1

To increase client enterprises

Stage 2

Provision of BPaaS to SMB

Stage 3

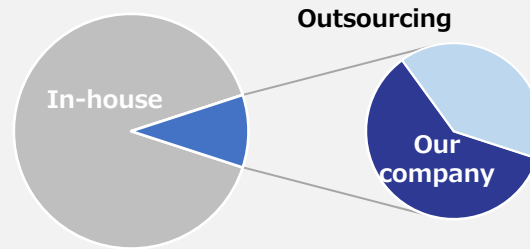
Payment HR Dashboard

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%

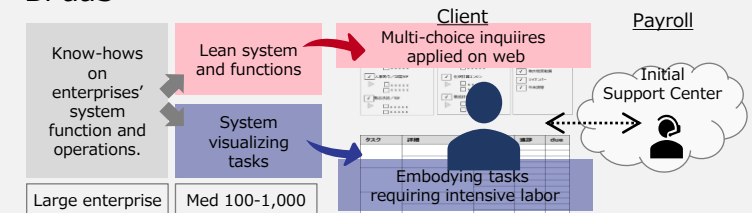


※ enterprises=clients with over 1,000 employees

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)

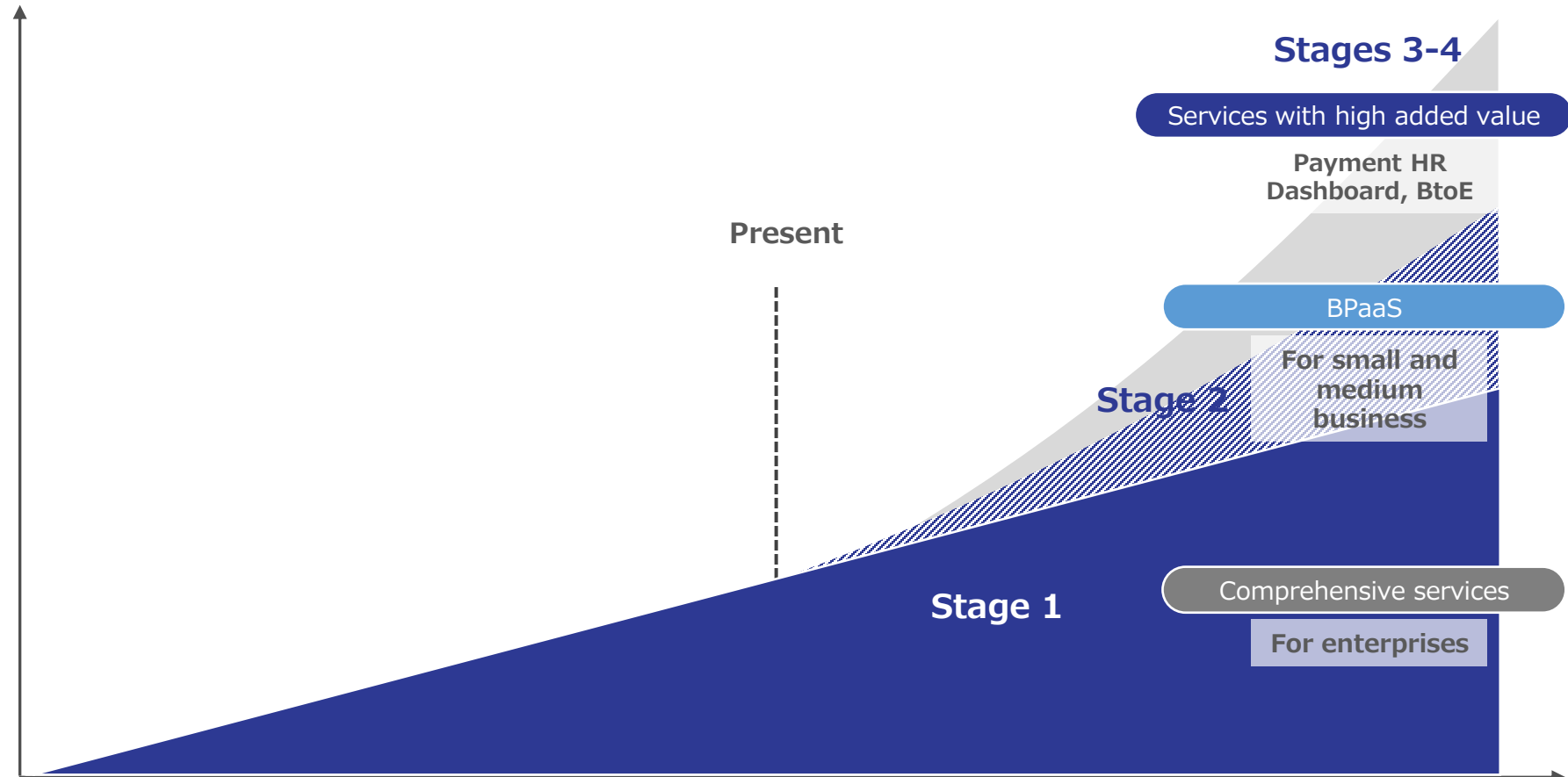
New!

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

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

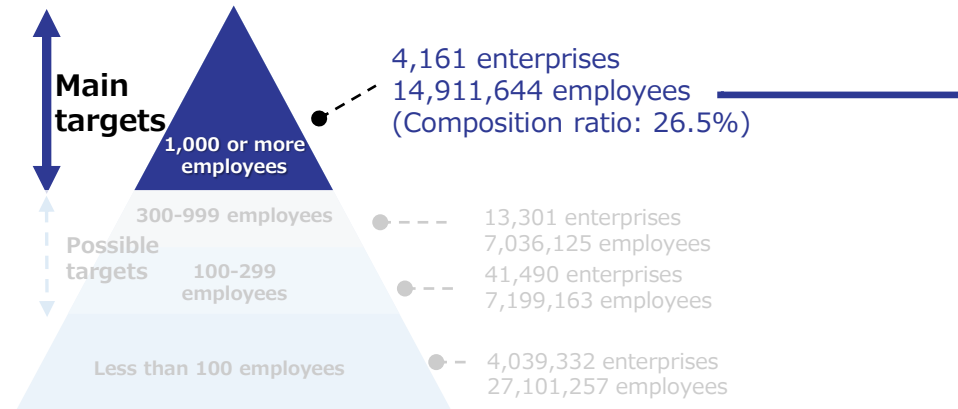


Growth Strategy 1

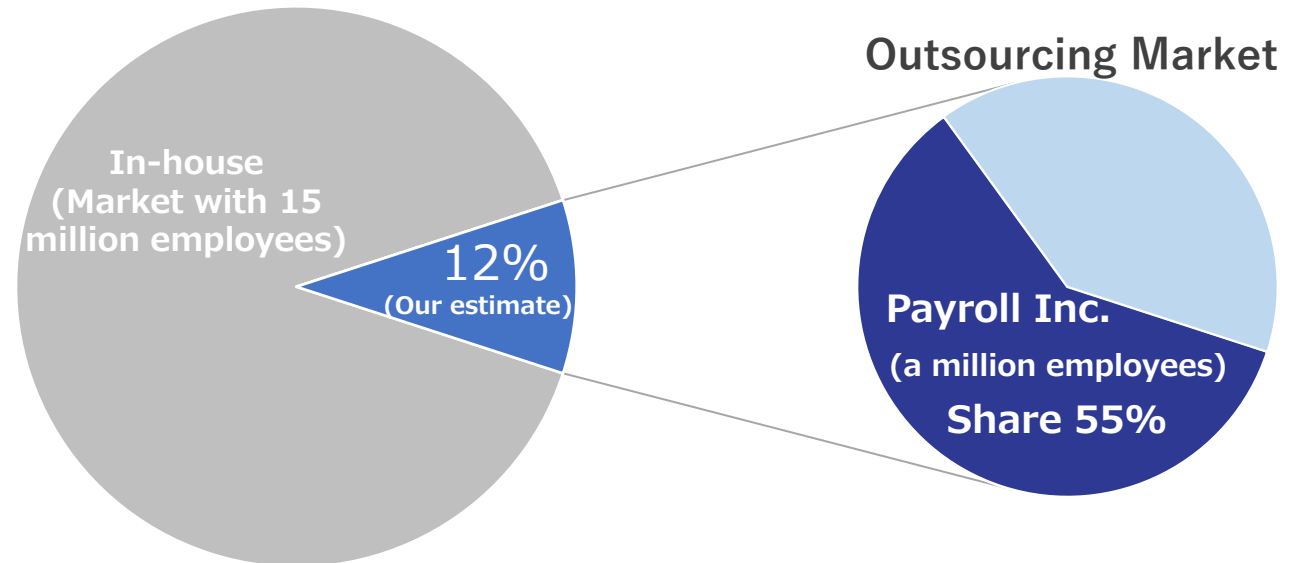
To increase orders from enterprises

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

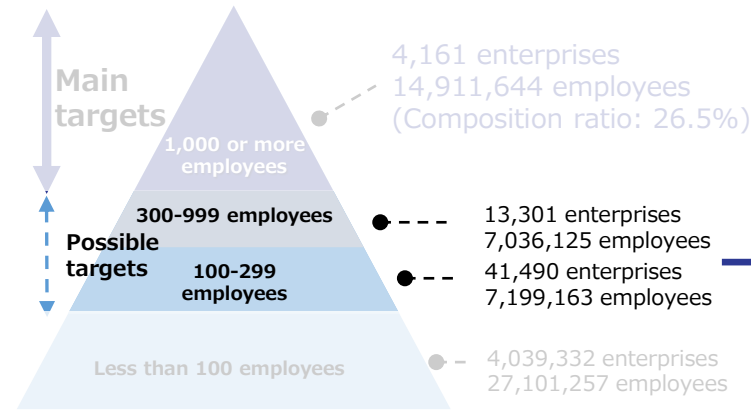
⇒ Simplifying initial settings, allowing full control in hand

② Cloud services for operations

⇒ HR managing the payroll process

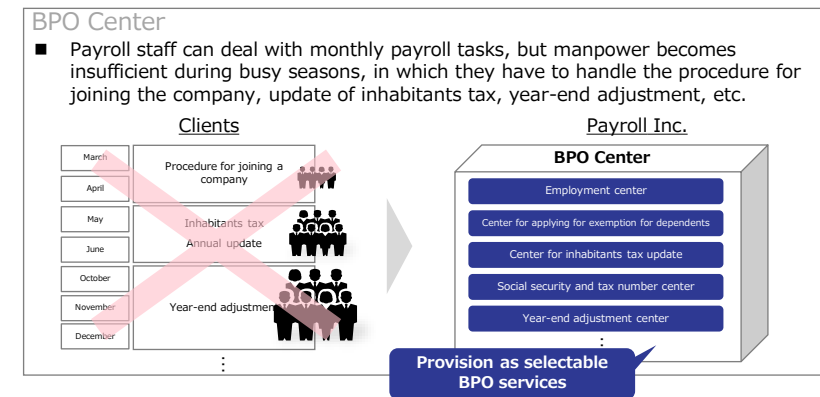
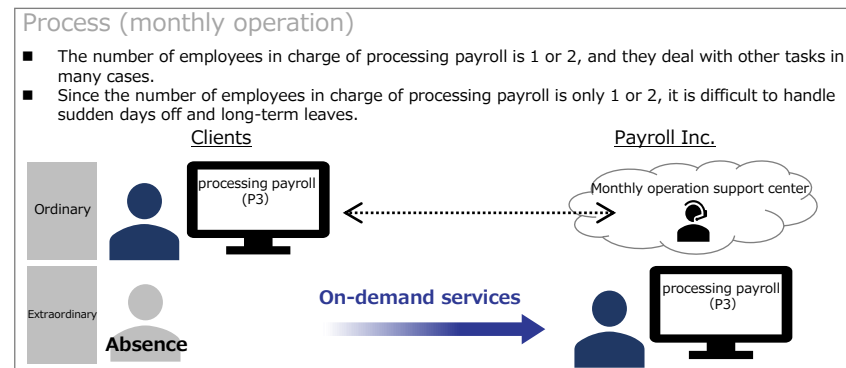
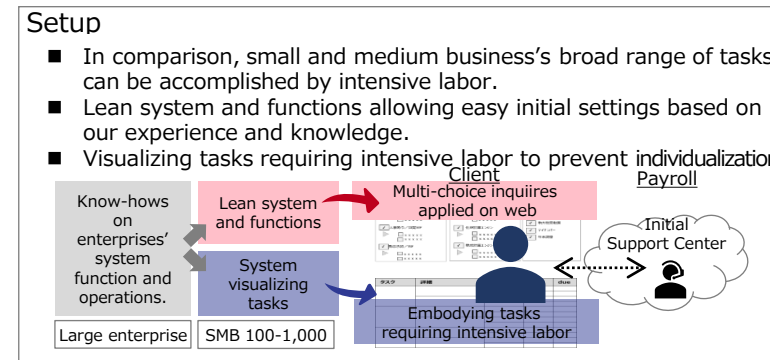
③ On-demand BPO business

⇒ 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)

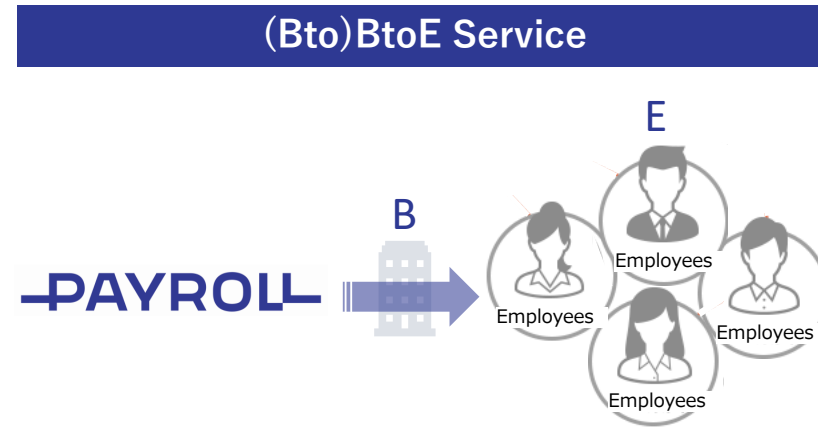


Growth Strategy 4

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.

Disclaimer

In preparing these materials, Payroll, Inc. (“the Company”) relies upon and assumes the accuracy and completeness of all available information.

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

This presentation may contain future assumptions, prospects and forecasts based on planning, but these forward-looking statements are based on the information that is currently available to us, and on certain assumptions that we assume to be reasonable, but the Company does not promise to achieve these.

Major differences may occur between the forecast and the actual performance, including changes in economic conditions, consumer needs and user preferences; competition with other companies; changes in laws, regulations and others; and a number of other future factors.

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

A thick blue L-shaped line graphic is positioned on a white background. The vertical line starts at the top center and extends downwards. The horizontal line starts from the left edge, crosses the vertical line, and extends to the right edge. The word "PAYROL" is centered horizontally on the horizontal line, with the vertical line passing through the letter 'P'.

PAYROL