

FY2023 3Q Financial Results

PAYROLL

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Payroll.Inc

www.payroll.co.jp

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FY2023/3Q Financial Results Overview

Highlights of FY2023
3Q Financial Results

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Sales revenue

+ 9.6% YoY

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Operating income

+ 26.3% YoY

Page 6

ARR from new orders

170 million yen

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ARR from new operations

470 million yen

Page 9

ARR from backlog of orders

610 million yen

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Churn rate
(Ave. monthly churn rate)

0.23%

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- On November 24, 2022, our company published “Pay Gap Report” disclosing information on human capital and human capital initiatives.
- Continuing sales activities for large projects for enterprise* in order to increase orders
- Currently conducting sales promotion targeted at a group of subsidiaries of existing clients in preparation for the launch of BPaaS services for SMBs* (scheduled for March 2023)
- Preparing for the launch of the report on human capital “e-pay HR KPI” paid service (scheduled to launch in the summer to autumn of 2023)

※ enterprises=clients with over 1,000 employees

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

※ BPaaS: Abbreviation for Business Process as a Service; an integrated service that comprehensively provides BPO, cloud computing, and infrastructure including BCP and information security

Financial Results of FY2023 3Q



(millions of yen,%)

	FY2023 3Q		FY2022 3Q		Changes Rate of increase (%)	
	performance	%	performance	%	changes	%
Revenues	5,797	100.0	5,287	100.0	+510	+9.6
COGS	4,053	69.9	3,908	73.9	+145	+3.7
Gross Margin	1,743	30.1	1,379	26.1	+364	+26.4
SGA	952	16.4	903	17.1	+49	+5.4
Operating Income	851	14.7	674	12.8	+177	+26.3
Income before Income Tax	812	14.0	632	12.0	+179	+28.3
Net Income	557	9.6	538	10.2	+18	+3.4
Net Income (Real)	557	9.6	433	8.2	+123	+28.5

※Net Income (Real) : Net Income excluding the impact of the tax effect accounting in FY 3/2022

Both Sales and Operating Income were Healthy

Actual quarterly profit excluding the impact of tax effect accounting in the previous term increased by 28.5%, due to an increase in active ARR (see Page 10)

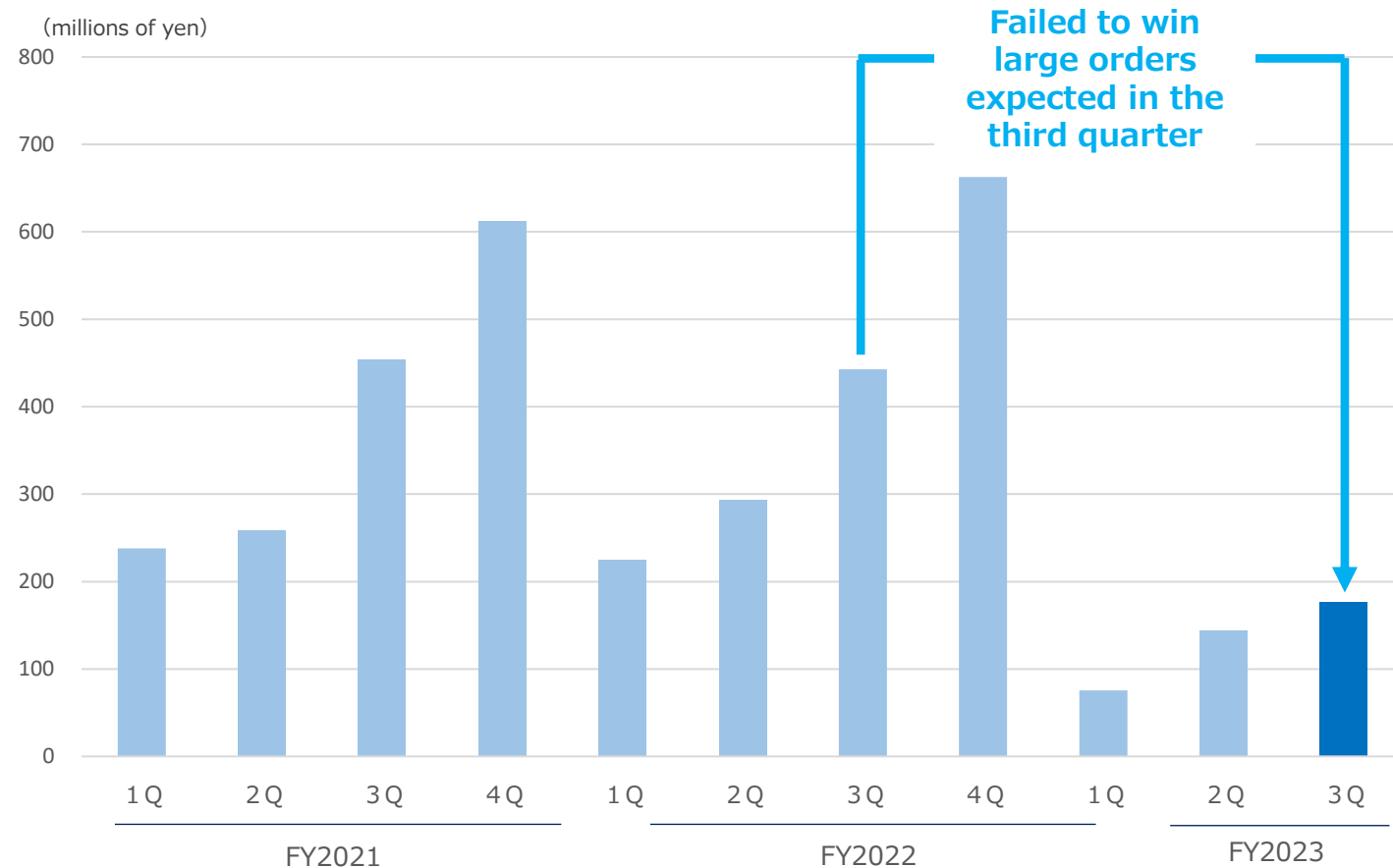
New Order : ARR

New Order(ARR) :
170 million yen,
down 60% (YoY)

Failed to win large orders
expected in the third quarter.
This is not because of the
deterioration of the order
receiving environment. We
will continue to focus on
acquiring orders for these
projects.

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



Activities to Receive More Orders

- For the large orders expected in the third quarter, we will continue to support the customers and maintain the relationship with them, with a great likelihood of success to win orders from them when the customers' structures are in place.
- Several activities for enterprise* are in progress, and we believe our business will accelerate if our customers recognize the challenge in improving their overall efficiency of HR operations after DX.
- BPaaS services for SMBs* are scheduled to be launched in March 2023, and sales promotion targeted at a group of subsidiaries of existing customers is already underway.
- On November 24, 2022, "Pay Gap Report," disclosing information on human capital and human capital initiatives, was published, and based on this, the human capital report "e-pay HR KPI" paid service will also be offered to customers (in the summer to autumn of 2023).

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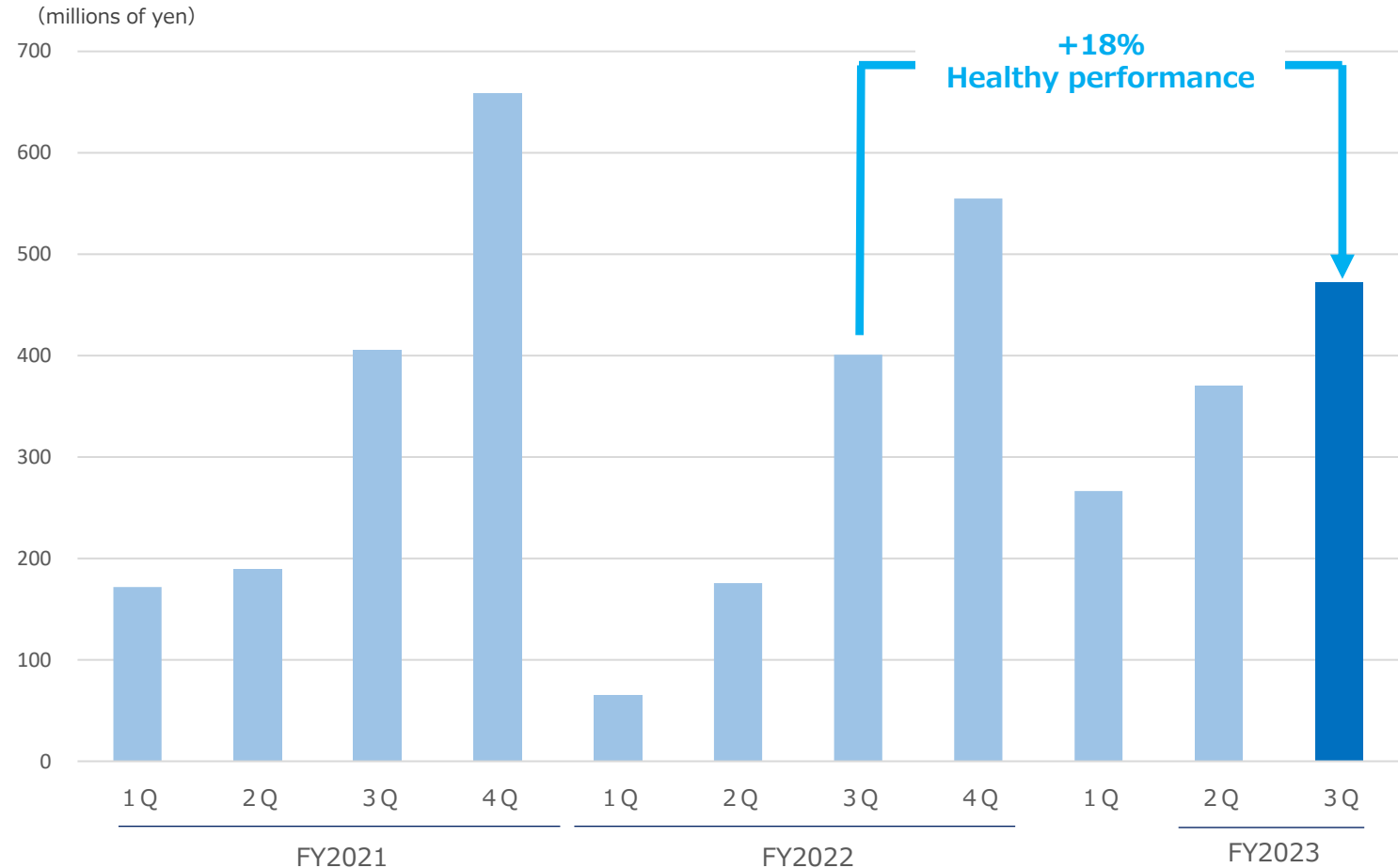
Operating (New Clients): ARR

Operating (New Clients) ARR: 470 million yen, up 18% (YoY)

Steady increase in new active ARR due to the smooth service launch of P3, a new system for cloud services.

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



ARR from started operation and order backlog ARR

FY2023 3Q

ARR from started operation:
7.53 billion yen

(up 310 million yen from the end of the previous term)

Order backlog ARR: 610 million yen

(down 330 million yen from the end of the previous term)

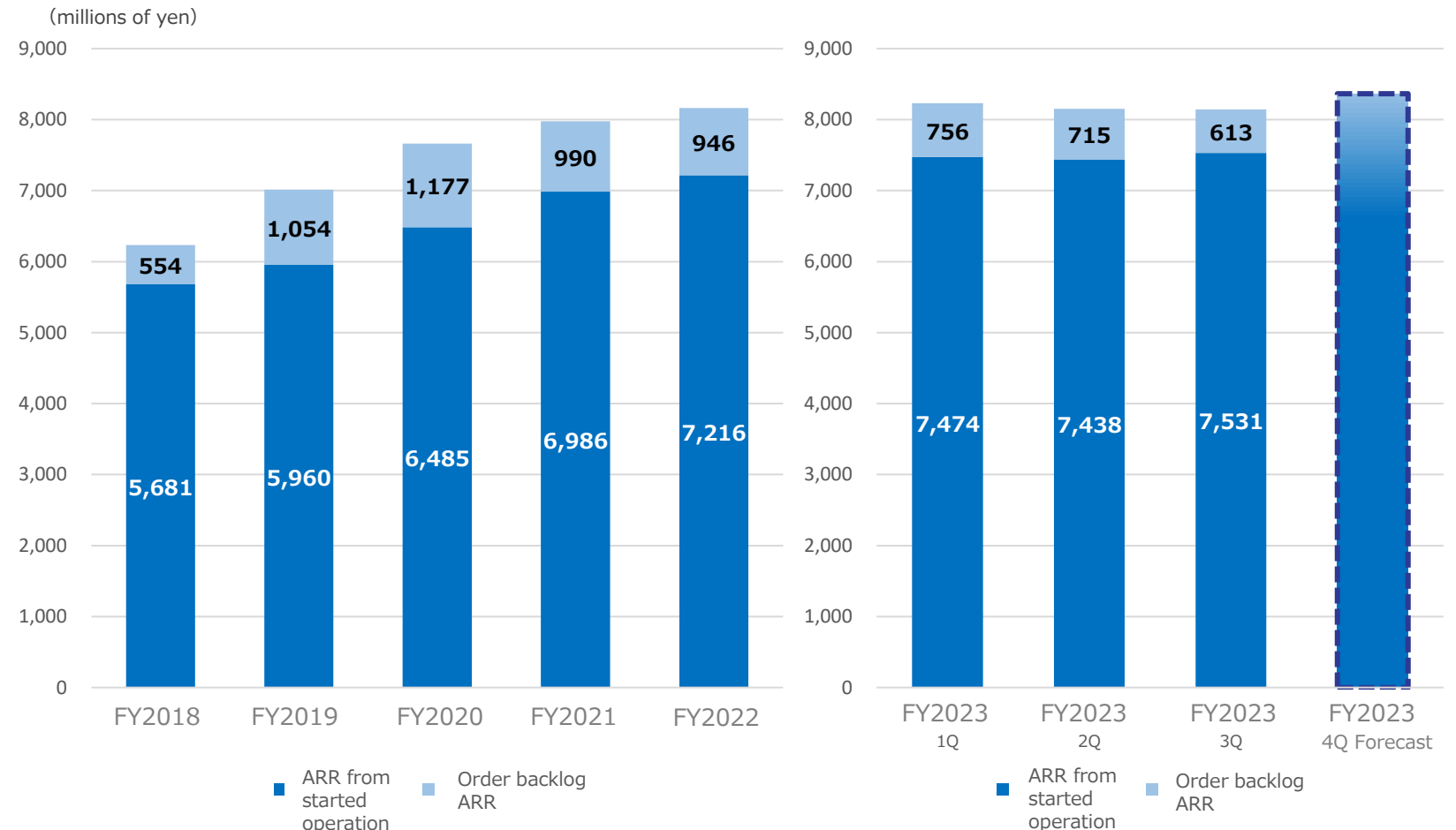
ARR from started operation + Order backlog ARR:
8.15 billion yen

(down 10 million yen from the end of the previous term)

Sales increased due to an increase in ARR from started operations. ARR from started operation and order backlog ARR decreased due to the failure to win large orders.

Variations in ARR from started operation and order backlog ARR

- ※ARR (Annual Recurring Revenue): sales revenue from continuous transactions per year
- ※ARR from started operation: sales revenue from already started continuous transactions per year
- ※Order backlog ARR: Total sales revenue from transactions for which orders have been placed and actual operations are to be conducted.

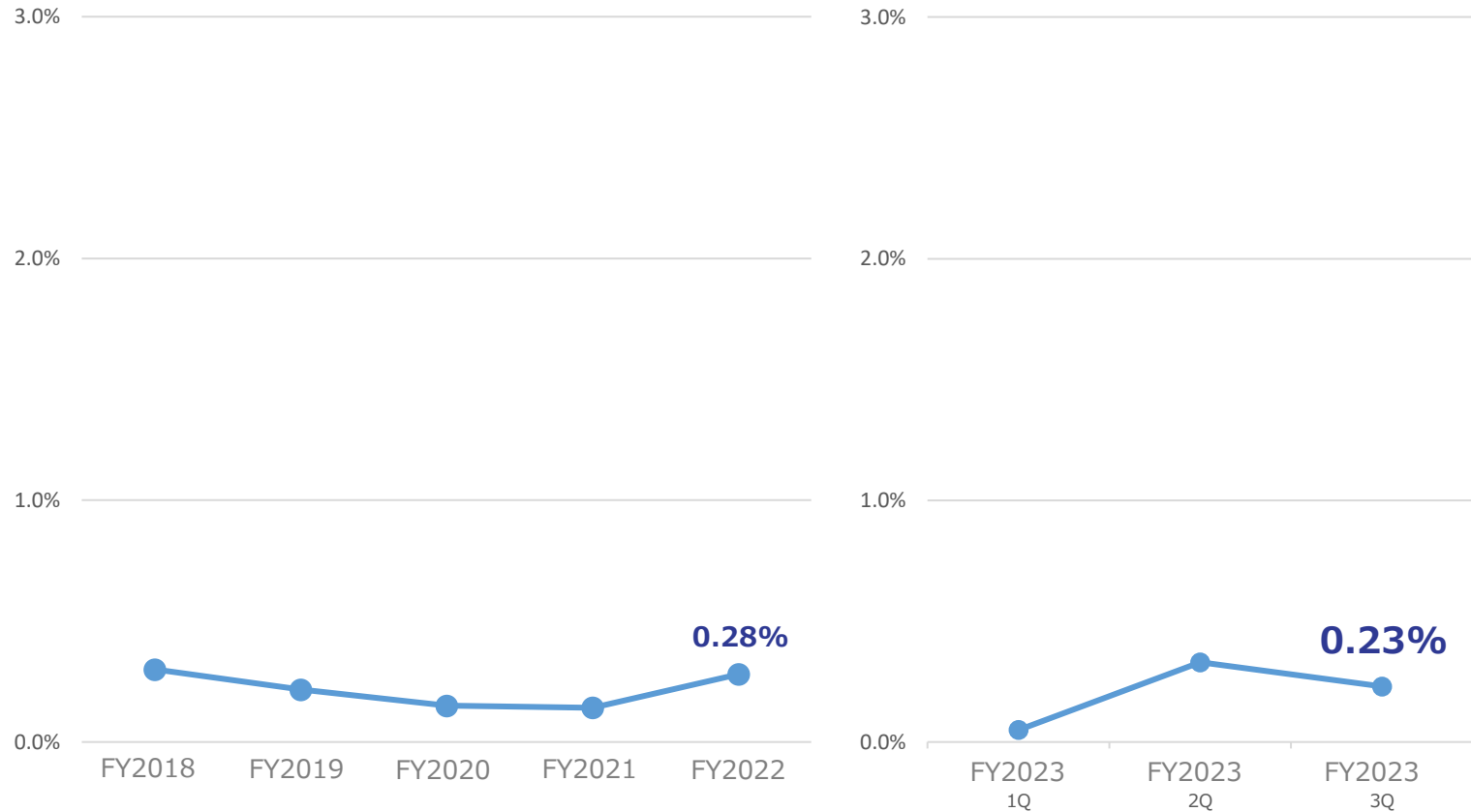


Churn rate
(Ave. monthly churn rate)

Churn Rate: 0.23%

Annual churn rate has remained low and favorable. This is considered to prove a certain level of customer satisfaction.

Churn rate (Ave. monthly churn rate)



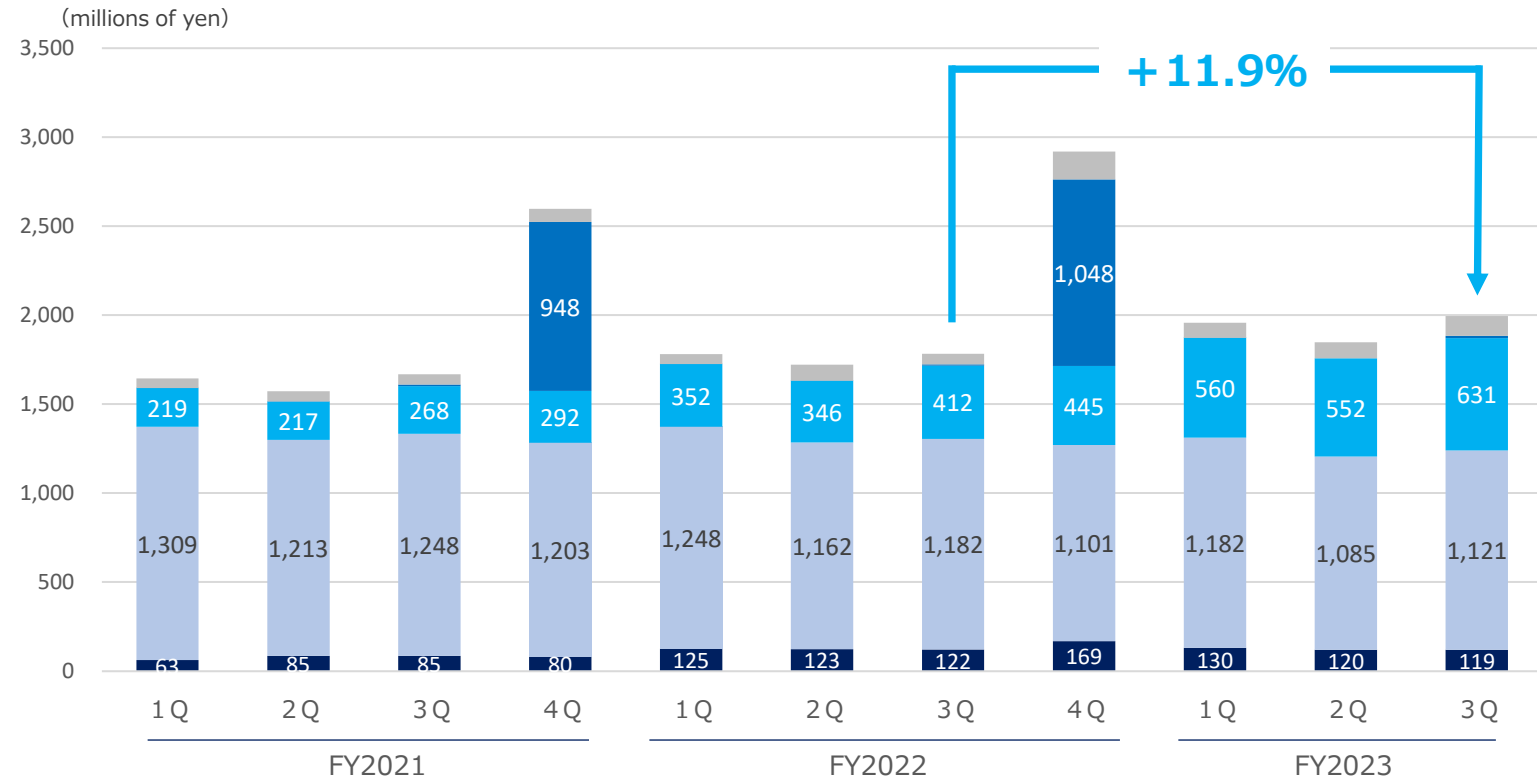
- ※ Churn Rate = (lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)) ÷ Elapsed Months
- ※ Lost client ARR : ARR of clients terminated
- ※ Exiting client ARR of the previous year end : ARR of clients operated at the year end
- ※ New client ARR : ARR of new client operated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

Revenues

3Q
Sales revenue of P3:
630 million yen, up
53% (YoY)

Sales increased due to
the steady growth of the
P3 system.
The sales of the old
system SEP are expected
to decrease due to
customers switching to
P3.

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
 ■ Revenues (Year-End Adjustment Support Services)
 ■ Revenues (other)

※Revenues (SETUP) : Initial Fee
 ※Revenues (SEP system) : Old system, ASP Service. Running Fee
 ※Revenues (P3 system) : New system, Cloud Service. Running Fee
 ※Year-End Adjustment Support : Sales revenue from year-end adjustment support services

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FY2023 Full-year Financial Forecasts

FY2023 Full-year Financial Forecasts

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(millions of yen, %)

	FY2023 3Q		FY2023 Full-year		FY2022 Full-year		Changes Rate of increase (%)	
	performance	Progress Rate	Forecast	%	performance	%	changes	%
Revenues	5,797	65.2	8,890	100.0	8,207	100.0	+683	+8.3
COGS	4,053	63.8	6,356	71.5	5,811	70.8	+545	+9.4
Gross Margin	1,743	68.8	2,534	28.5	2,396	29.2	+137	+5.7
SGA	952	79.7	1,195	13.4	1,189	14.5	+6	+0.5
Operating Income	851	57.9	1,470	16.5	1,416	17.3	+53	+3.8
Income before Income Tax	812	57.4	1,413	15.9	1,360	16.6	+52	+3.9
Net Income	557	57.4	970	10.9	1,089	13.3	△119	△11.0
Net Income (Real)	557	57.4	970	10.9	984	12.0	△119	△1.4

※Net Income (Real) : Net Income excluding the impact of the tax effect accounting in FY 3/2022

Sales revenue: 8.89 billion yen,
up 8.3% (YoY)

Operating income: 1.47 billion
yen, up 3.8% (YoY)

(No change from the initial
forecast)

The decrease in net income was
due to the impact of tax effect
accounting in the previous fiscal
year.

Due to the application of pro forma
standard taxation according to an increase
in the company's capital through the
public offering made in connection with
the company's listing in the fiscal year
ended March 31, 2022, there is the
reversal of deferred tax liabilities resulting
from the change in the tax rate, and
income tax decreased by the amount of
the impact of such change.

- On January 23, 2023, our “Pay Gap Report” was introduced at “the 55th Employment Environment and Equal Employment Subcommittee of the Labor Policy Council” organized by the Ministry of Health, labor and Welfare, as “an example of a company that is working on even further advanced disclosure of information.”
Our company aims to become a leading company in the field of human resources and labor affairs, by providing services such as BPO services in human resources and labor affairs and payroll operations, as well as services to disclose human capital information (e-pay HR KPI). In addition, we have been improving the evaluation system in order to improve the wage gap and realize appropriate evaluations, from the viewpoint of “human capital.” We also strive to provide services related to human resources and labor affairs to our customers.
- Several activities for enterprise* are in progress, and we will take advantage of opportunities to expand our business, by never missing out on the payroll and HR operation efficiency needs of customers, including new customers.
- BPaaS services for SMBs* are scheduled to be launched in March 2023, with the aim of expanding sales to a group of clients’ subsidiaries, in addition to the existing contract customers, and making our products adopted by new customers.

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FY2023 3Q Shareholder Return

FY2023 3Q Shareholder Return

FY2023 3Q

Term-end dividend (scheduled for early June 2023) 10.00 yen

(Dividend per share)

Our company regards the return of profits to shareholders as an important management policy.

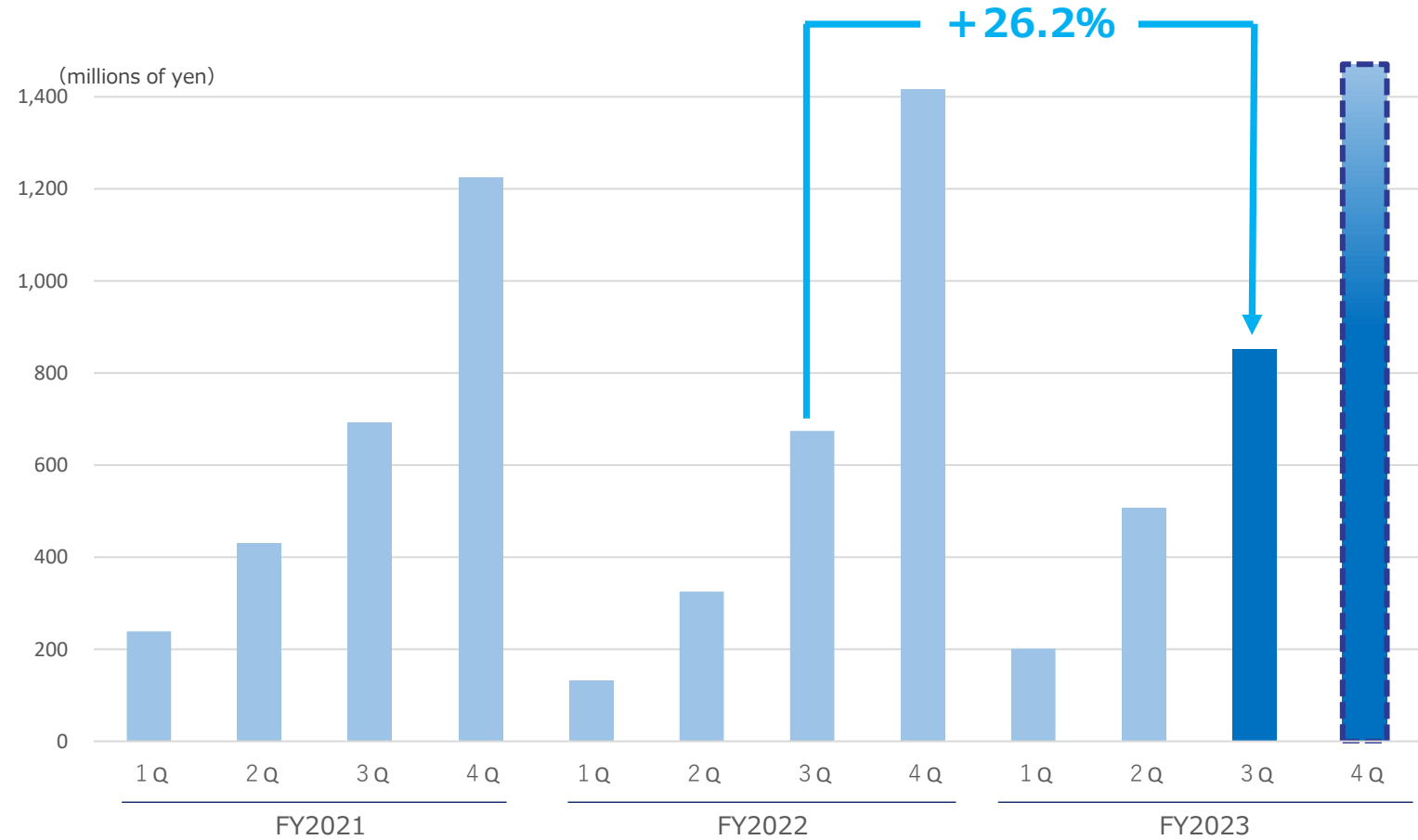
Our basic policy is to pay dividends from retained earnings in a manner that achieves stable and continuous dividend increases for shareholders, with a long-term goal of a consolidated dividend payout ratio of approximately 30%.



Appendix

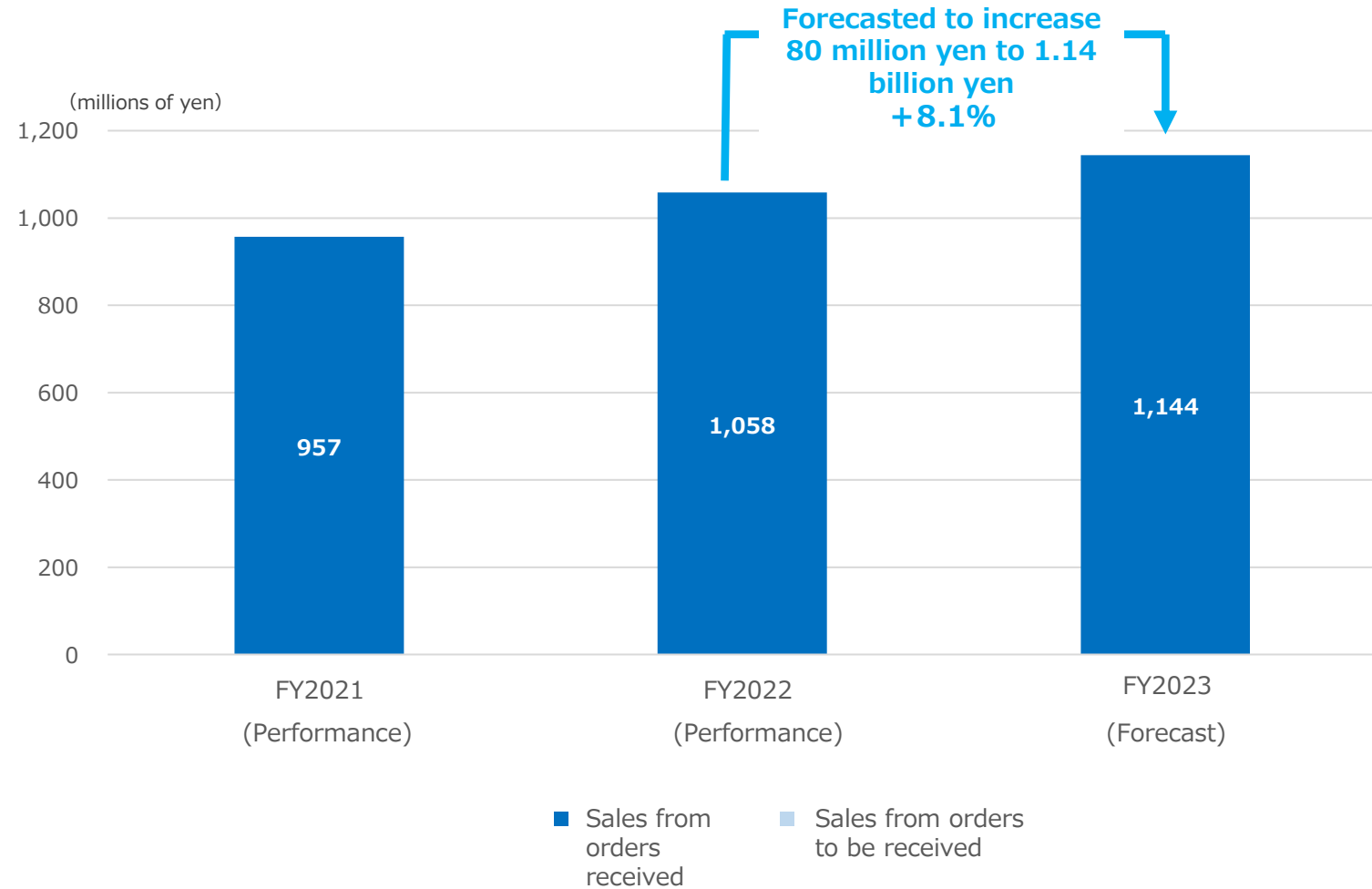
Variation in Operating Income

Variation in Operating Income (year-to-date)



Variation in Sales Revenue from Year-End Adjustment Support

Variation in Sales Revenue from Year-End Adjustment Support (yearly)



The forecasts and forward-looking statements in this document are based on our company's judgment at the time when this material was prepared and include potential risks and uncertainties.

Therefore, please be aware that changes in various factors may cause actual results and performance to differ materially.



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