

FY2024 1Q Financial Results

PAYROLL

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Payroll Inc.

www.payroll.co.jp

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FY2024/1Q Financial Results

Highlights of FY2024
1Q Financial Results

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Sales revenue

+ 9.5% YoY

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Operating income

+ 34.6% YoY

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ARR from new orders

80 million yen

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ARR from new operations

240 million yen

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ARR from backlog of orders

520 million yen

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Churn rate

(Ave. monthly churn rate)

0.02%

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Consolidated Financial Results of FY2024 1Q

Revenues and operating income have been healthy.

(millions of yen,%)

	FY2024 1Q		FY2023 1Q		Changes Rate of increase (%)	
	performance	%	performance	%	changes	%
Revenues	2,142	100.0	1,957	100.0	+185	+9.5
COGS	1,527	71.3	1,412	72.2	+114	+8.1
Gross Margin	615	28.7	544	27.8	+71	+13.1
SGA	344	16.1	342	17.5	+1	+0.4
Operating Income	270	12.6	201	10.3	+69	+34.6
Income before Income Tax	261	12.2	187	9.6	+74	+39.5
Profit	181	8.5	128	6.6	+52	+40.7

Revenues and operating income have been healthy.

Revenues
2.14 billion yen
+9.5% year on year

Operating Income
270 million yen
+34.6% year on year

FY2024 1Q Topics

- Released “BPaaS 1.0,” which enables clients to adopt flexible payroll processing services.
Endeavored to offer the services to SMBs in addition to enterprises for which we have worked so far and received new orders from two companies in 1Q.
- Started to concretely consider service design, business operation, etc. in preparation for introducing “salary payout in digital money” and realizing “On-demand pay”
- Preparing for the launch of the report on human capital “e-pay HR KPI”

※ enterprises=clients with over 1,000 employees

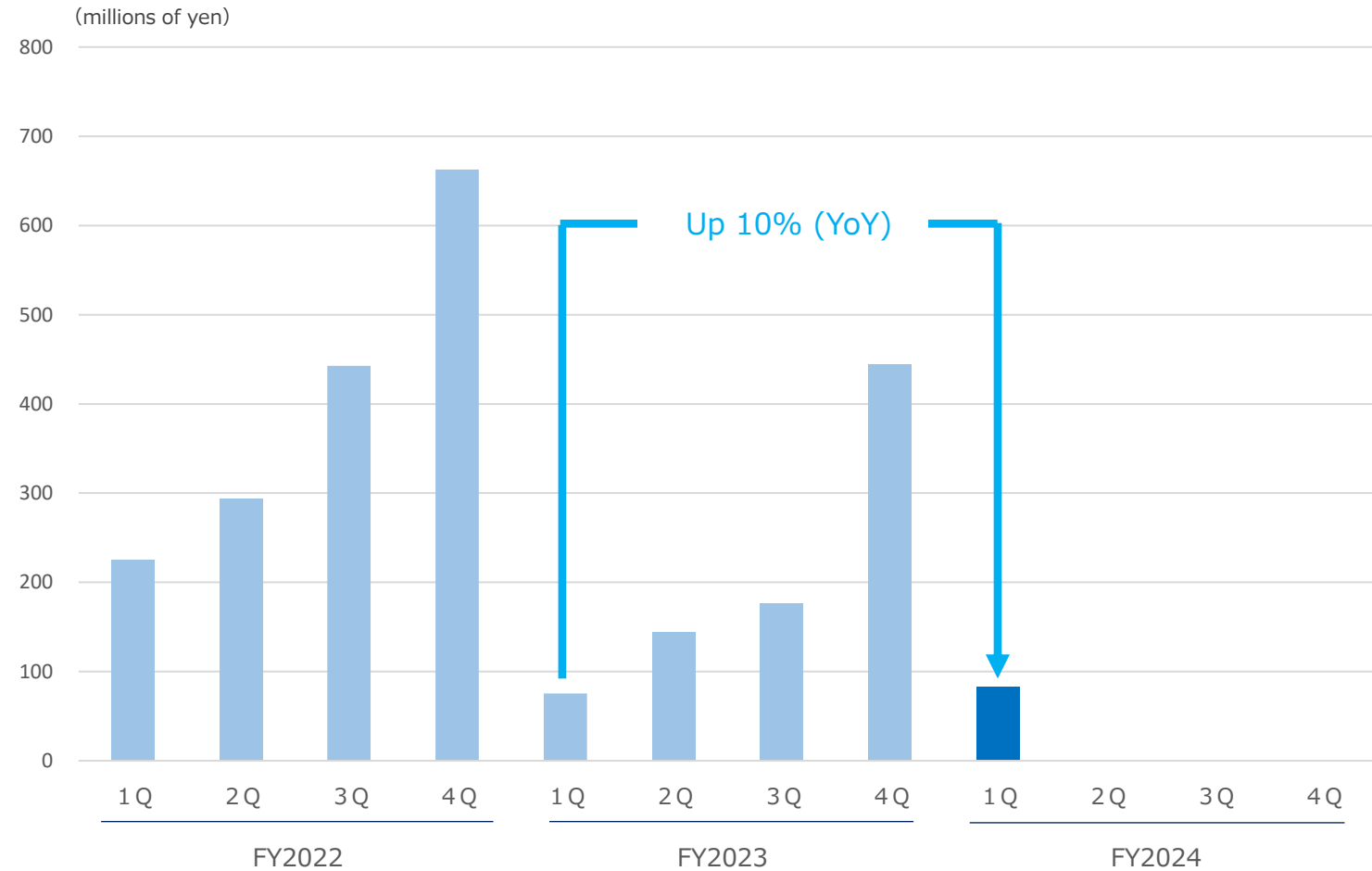
※ SMB=small and medium business with 100-1,000 employees

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

New Order : ARR

New Order (ARR) :
80 million yen,
up 10% (YoY)

The order receiving environment remains unchanged and we will keep focusing on receiving more orders.

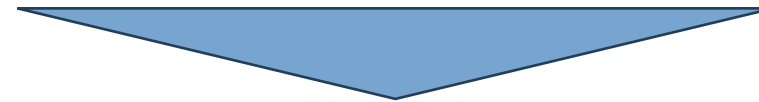


※New Order : ARR = Estimated annual sales revenue (running fees only) from new business operations we undertook

The state of payroll processing and the order receiving environment in Japan

Many companies are facing multifaceted issues due to delay in DX, obsolescence of systems, designated processes for the staff in charge of payroll, labor shortage, etc.

- Many companies use their own payroll systems developed in-house and HR department staff conduct payroll processing, which includes manual work.
- Companies allocate more staff during busy periods.
- 70% of companies keep using a legacy system (surveyed by our company)
- Legacy systems account for 90% in government and municipal offices (surveyed by our company)



The order receiving environment remains unchanged for us.

We expect a steady growth of the number of orders owing to the establishment of an outsourcing system that stands out with a full-scope payroll processing service which does not allow other companies to catch up, comprehensively offering the three functions of a digitalized online service which timely collects information on staff, a payroll engine which processes payroll through logic based on the company's employment regulations, and operation conducted in place of companies.

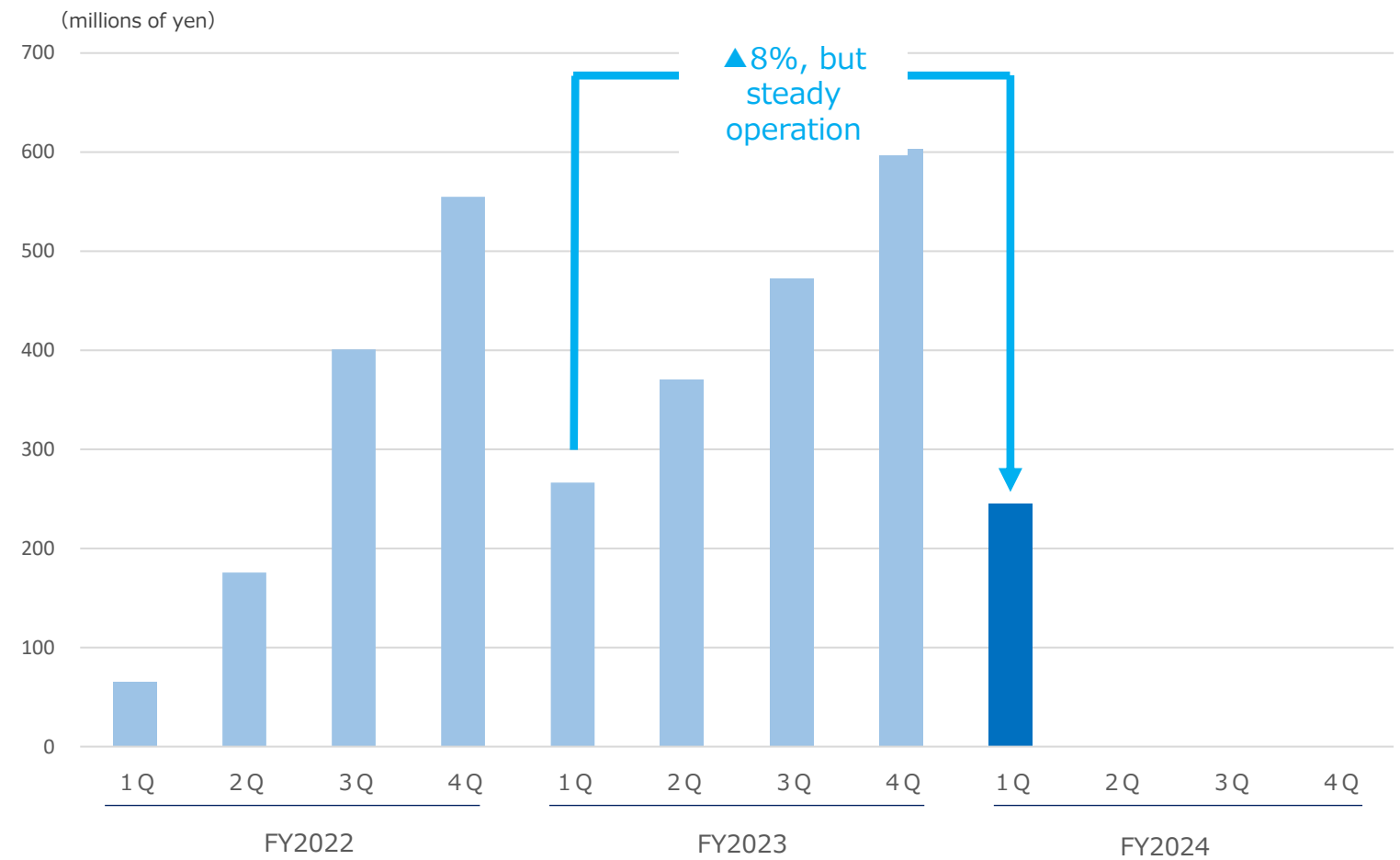
Operating (New Clients): ARR

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

Operating (New Clients) ARR: 240 million yen, down 8% (YoY)

Projects for major clients started in 1Q of this term, like in 1Q of the previous term

Progressed as planned as the operation of systems for major clients started like in 1Q of the previous term, in parallel with the smooth launch of P3, a new cloud service.



※Operating (New Clients): ARR = Estimated annual sales revenue (running fees only) from new business operations we undertook

Variations in ARR from started operation and order backlog ARR

ARR from started operation and order backlog ARR

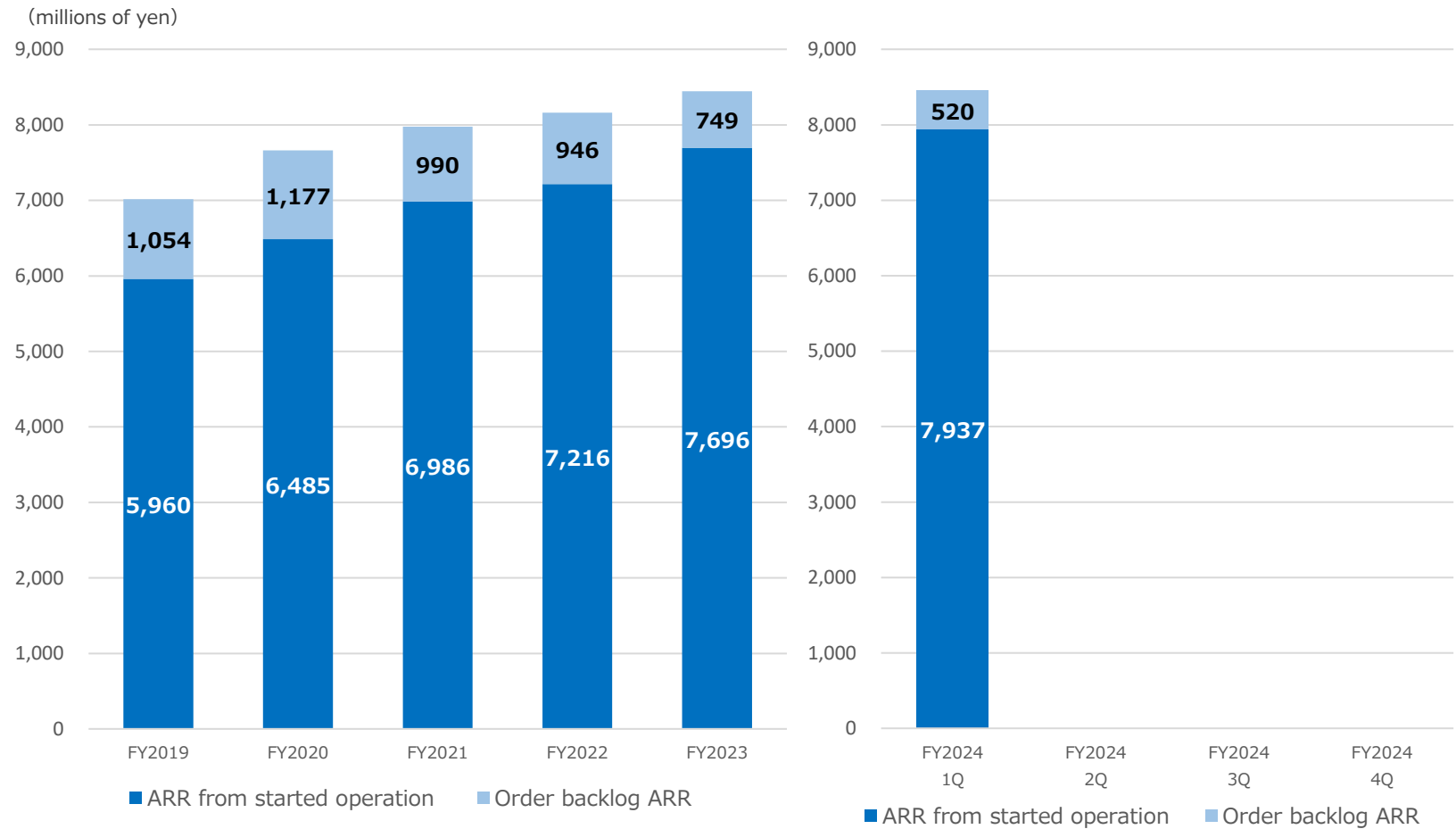
ARR from started operation:
7.93 billion yen
(up 240 million yen from the end of the previous term)

Order backlog ARR: 520 million yen
(down 220 million yen from the end of the previous term)

ARR from started operation + Order backlog ARR:
8.45 billion yen
(up 10 million yen from the end of the previous term)

Revenues increased due to the rise in ARR from started operation.

We expect growth of order backlog ARR, including BPaaS for SMBs, from 2Q.



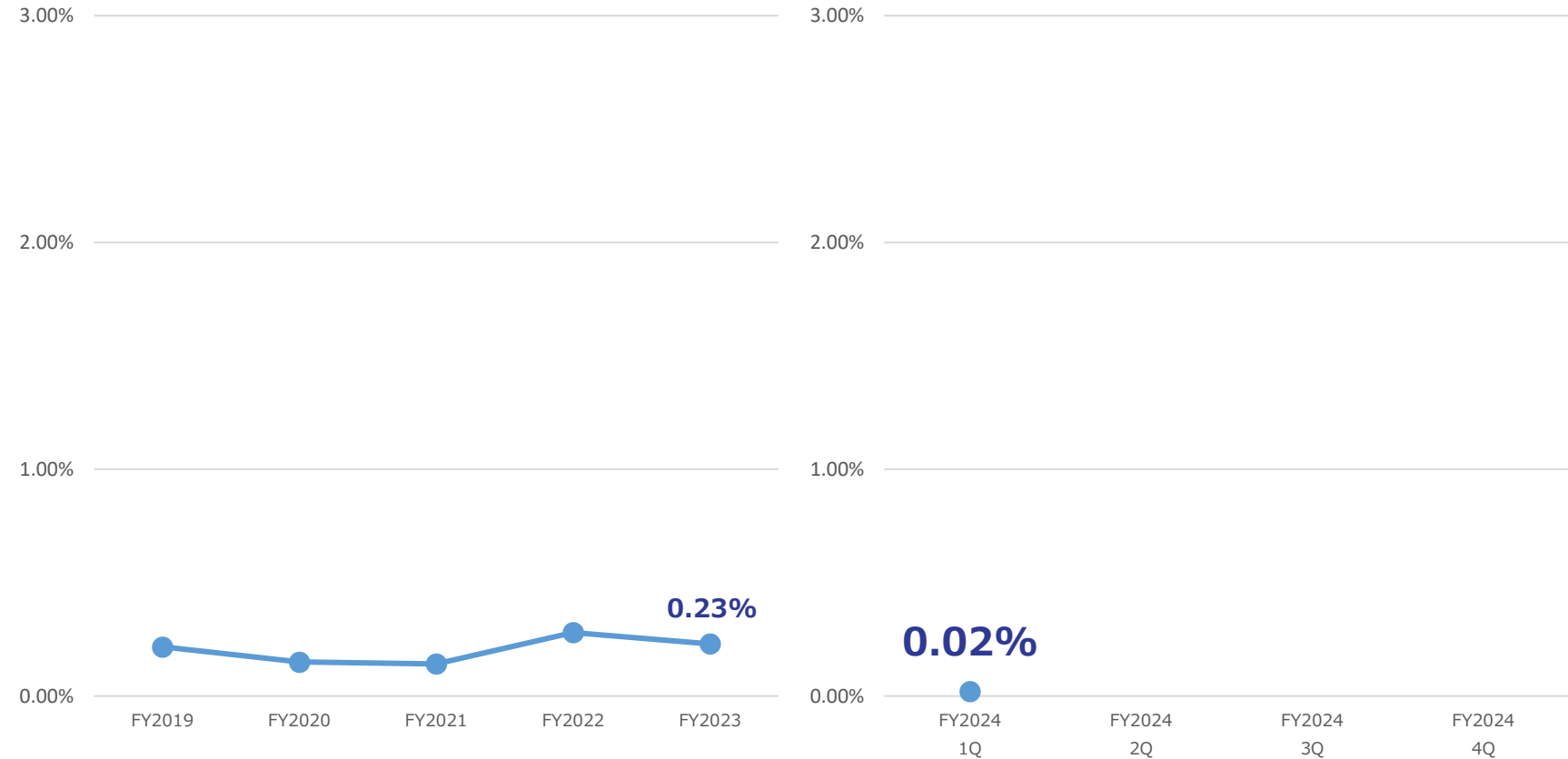
※ARR (Annual Recurring Revenue): Revenues from continuous transactions per year
 ※ARR from started operation: Revenues from already started continuous transactions per year
 ※Order backlog ARR: Total revenues from transactions for which orders have been placed and actual operations are to be conducted.

Churn rate (Ave. monthly churn rate)

Churn rate
(Ave. monthly churn rate)

Churn Rate: 0.02%

Annual churn rate has remained low and favorable.

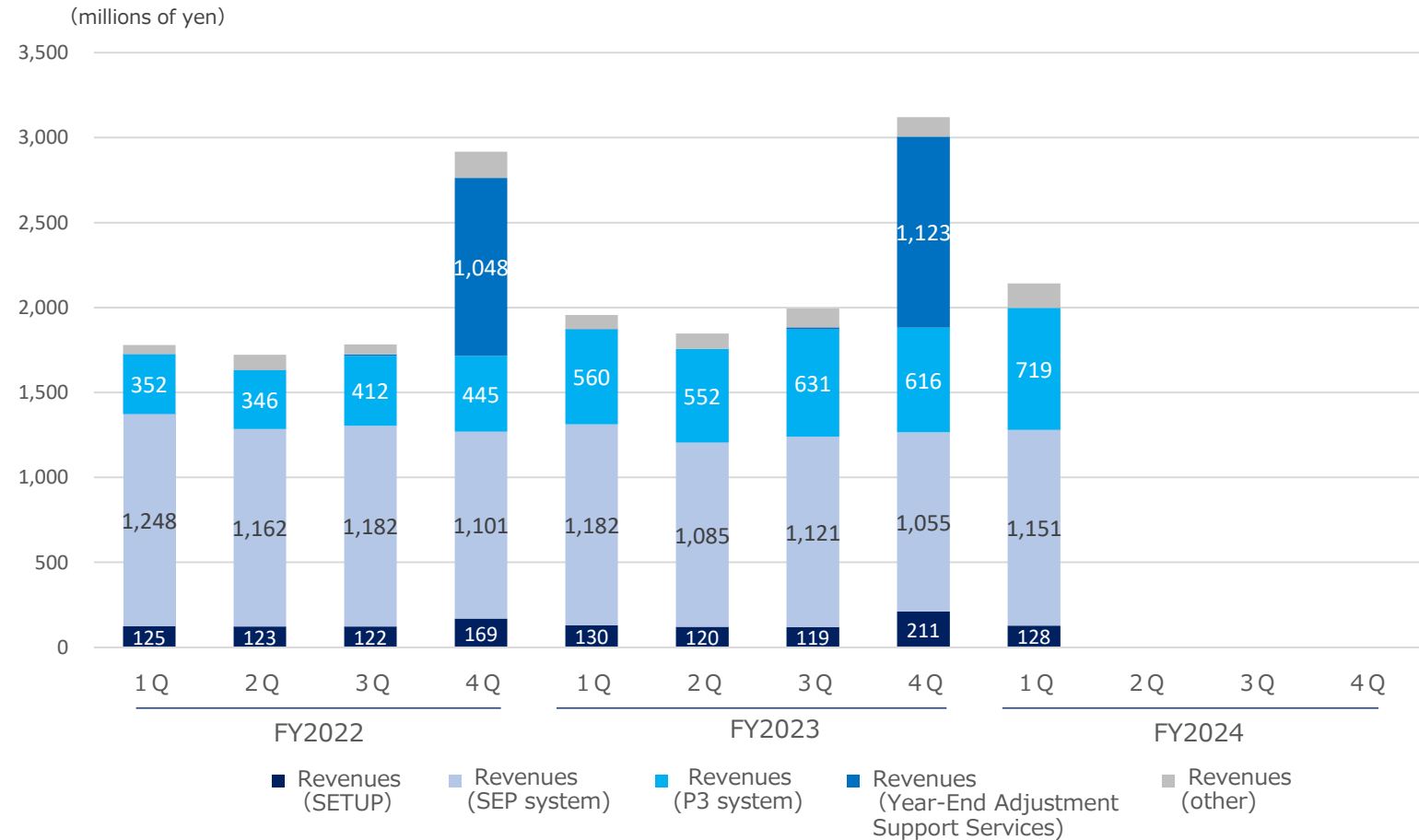


- ※ Churn Rate = (lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)) ÷ Elapsed Months
- ※ Lost client ARR : ARR of clients terminated
- ※ Exiting client ARR of the previous year end : ARR of clients operated at the year end
- ※ New client ARR : ARR of new client operated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

Revenues

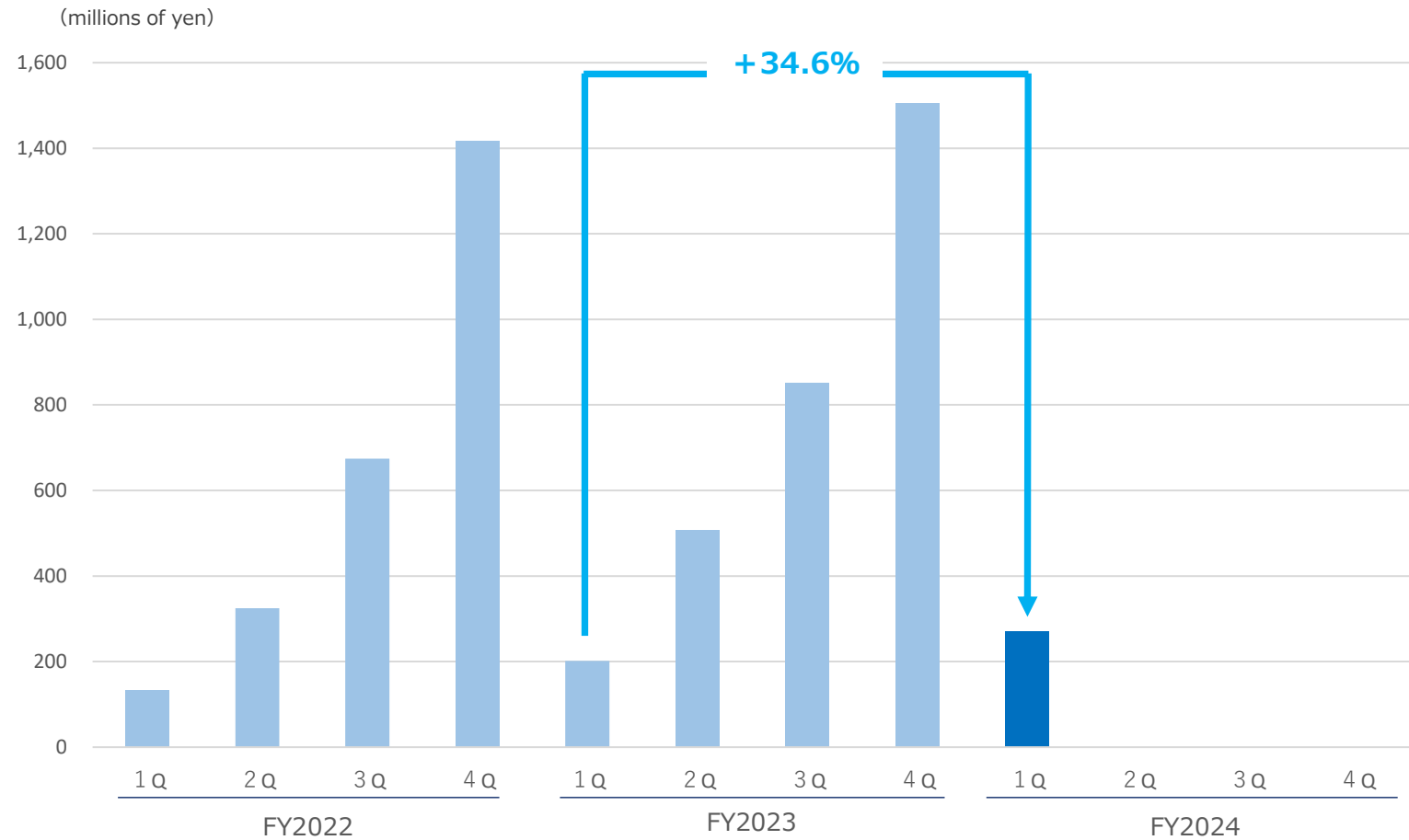
Growth of revenues, mainly owing to the smooth operation of the new system P3.

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
- ※Year-End Adjustment Support : Revenues from year-end adjustment support services

Operating income (cumulative amount in each fiscal year)



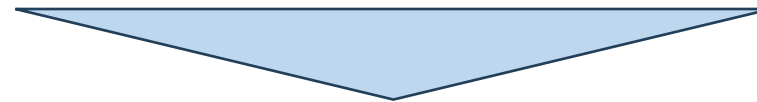
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Business Operation in FY2024

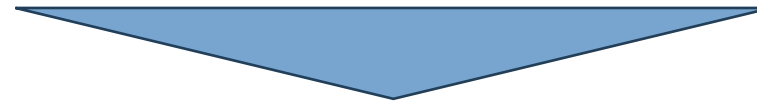
Business expansion based on “BPaaS1.0” targeted at SMBs, too

Offering our service to not only enterprises, but also SMBs

Companies have reached a significant turning point where they prioritize securing personnel for core operations and choose to outsource the non-core operation of payroll processing.



“BPaaS 1.0,” which was released in March 2023, comprises a minimum basic service required for payroll processing of clients and optional services available when needed. This retains the staff in charge of payroll for the time being and enables cost reduction in the early stages of outsourcing, thus achieving flexible streamlining of business operations and personnel placement for each client.



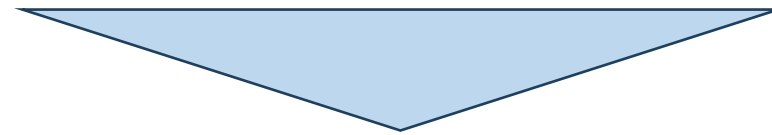
Working on spreading the service among about 450 subsidiaries (SMBs) of enterprises that are our clients

- ※ 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

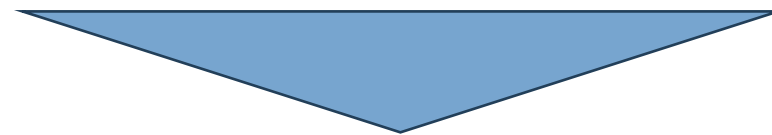
**Beyond payment with digital money – Business expansion with
On-demand Pay**

**Expansion of salary prepayment service without any fees
for employees**

“Digital wage payout” (salary payout in digital money) started in April 2023



Aiming for business expansion based on our original “On-demand pay,” which allow employees to receive salary before their payday without any fees

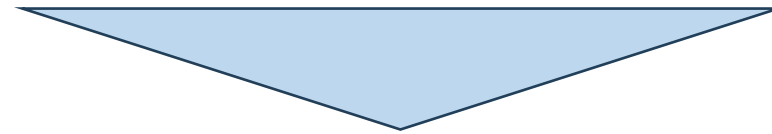


Holding concrete discussions regarding the service design, business operation, etc. with fund transfer service providers, etc. to realize “On-demand pay”

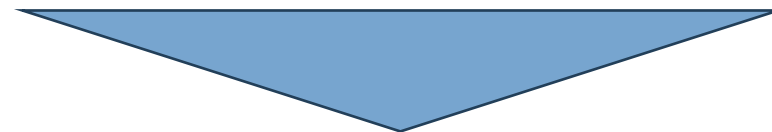
“e-pay HR KPI” service for reporting on human capital

Addressing the needs for disclosure of non-financial information, including information on human capital

Prototype of “e-pay HR KPI” released in October 2022 (free)



“Pay Gap Report,” which was produced based on the data analyzed by “e-pay HR KPI,” was introduced at the “55th Sectorial Committee on Employment Environment and Equal Employment, Labor Policy Council” held by the Ministry of Health, Labour and Welfare in January 2023.



A paid service will be launched in August 2023 as client companies require information on human capital and statistics managed by our company in “e-pay HR KPI” due to growth of investments in ESG and interest in SDGs.

Appendix

Revenues and profit grew year on year

(millions of yen,%)

	FY2023								FY2024							
	1Q		2Q		3Q		4Q		1Q		2Q		3Q		4Q	
	Performance	%	Performance	%	Performance	%	Performance	%	Performance	%	Performance	%	Performance	%	Performance	%
Revenues	1,957	100.0	1,846	100.0	1,994	100.0	3,119	100.0	2,142	100.0						
COGS	1,412	72.2	1,288	69.8	1,352	67.8	2,200	70.5	1,527	71.3						
Gross Margin	544	27.8	557	30.2	642	32.2	919	29.5	615	28.7						
SGA	342	17.5	281	15.2	328	16.5	366	11.7	344	16.1						
Other Revenues	0	0.0	29	1.6	30	1.5	97	3.1	0	0.0						
Other expenses	0	0.0	0	0.0	0	0.0	1	0.1	0	0.0						
Operating Income	201	10.3	305	16.6	344	17.3	648	20.8	270	12.6						
Income before Income Tax	187	9.6	291	15.8	332	16.7	628	20.1	261	12.2						
Profit	128	6.6	200	10.8	228	11.4	459	14.7	181	8.5						

Variations in quarterly consolidated results

Regarding seasonal fluctuations in performance

As one of payroll processing services, we offer a service of supporting year-end adjustment, and sales revenue and profit tend to be larger in January (the fourth quarter). Accordingly, business performance varies from quarter to quarter in the same fiscal year.

For details, please refer to page 18 of the securities report submitted on June 28, 2023.

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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