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FY 4/2024 (ending April 2024) Q2 Financial Results

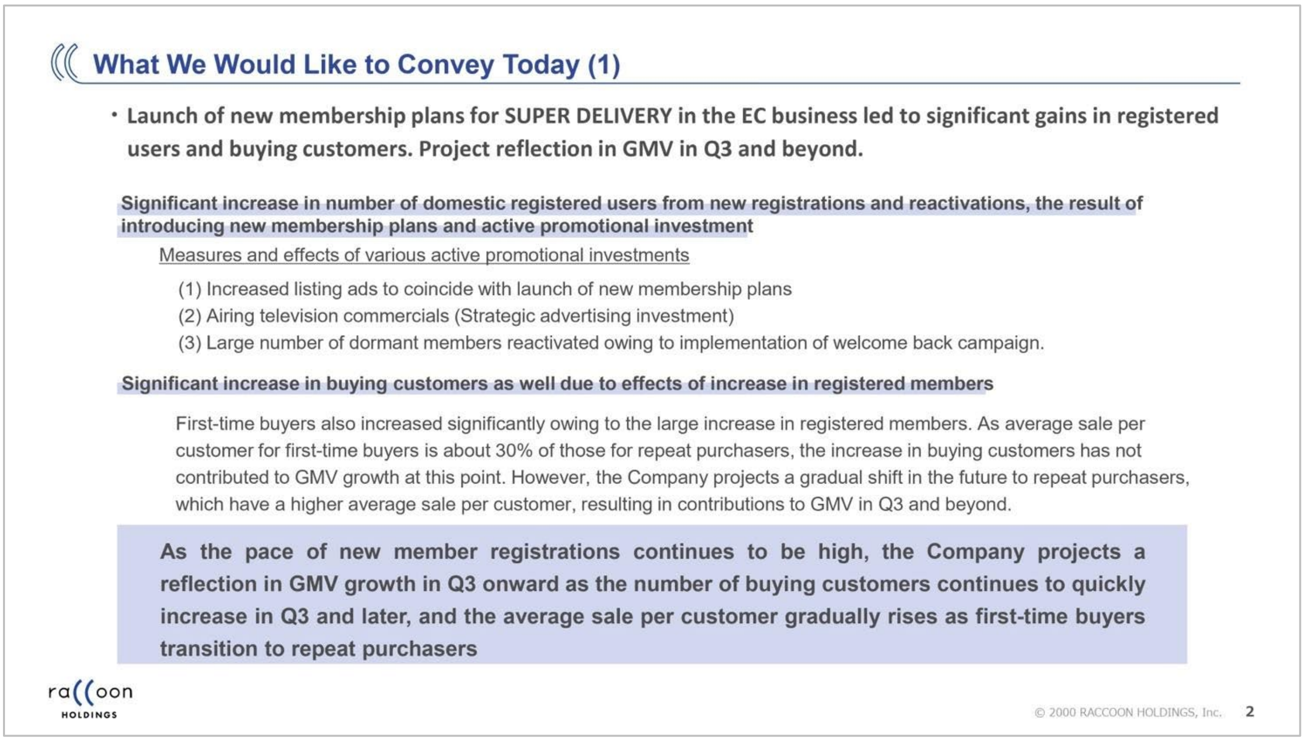
November 30, 2023

RACCOON HOLDINGS, Inc. Code: 3031 TSE Prime Market

The following is a transcription of RACCOON HOLDINGS, Inc. financial results presentation for Q2 of the fiscal year ending April 30, 2024, which was released on November 30, 2023.

[Speaker]

Satoshi Konno, Executive Vice President of Finance & Director, RACCOON HOLDINGS, Inc.



Konno: I am Konno of RACCOON HOLDINGS, Inc. Thank you very much for attending our Q2 financial results presentation today.

First, we have summarized in two pages what we would like to share with you today. First, I would like to talk about the new membership plans for SUPER DELIVERY in the EC business, which finally started on September 1 in Q2.

We are implementing various measures in the EC and financial businesses this fiscal year. Of these, the most significant measure is the introduction of the new membership plans for the SUPER DELIVERY in the EC business, in which we are investing most heavily. This is also a very significant measure that has significantly improved our performance in Q2 under review, and will further improve it in Q3 and beyond, as well as in the next fiscal year and the year after next.

It has been two months since the new membership plans were launched at the end of Q2. I will explain its startup and how it is affecting the financial results, especially in Q2.

First, let me discuss the details of the new membership plans. Users of SUPER DELIVERY include both retail and non-retail buyers in Japan. We used to charge a membership fee of JPY2,000 per month without fail, but we have introduced a free plan with no membership fee, while retaining the paid plan.

The aim was to increase the pace of growth in the number of registered users and buying customers in retailers and to grow GMV, and as a result, GMV has progressed very well.

Of course, there was a risk of failure and some anxiety, but we took the plunge, and as a result, things are going very well. We are gaining confidence that this will contribute to GMV growth in Q3 and beyond.

The introduction of the new membership plans alone would have significantly increased the number of member registrations, but in addition to this, we increased listing ads and aired TV commercials for SUPER DELIVERY as an experiment, including new tests.

At the same time, the welcome back campaign was implemented to encourage members who had previously introduced paid plans but had suspended their membership to reactivate them with the introduction of the free plan.

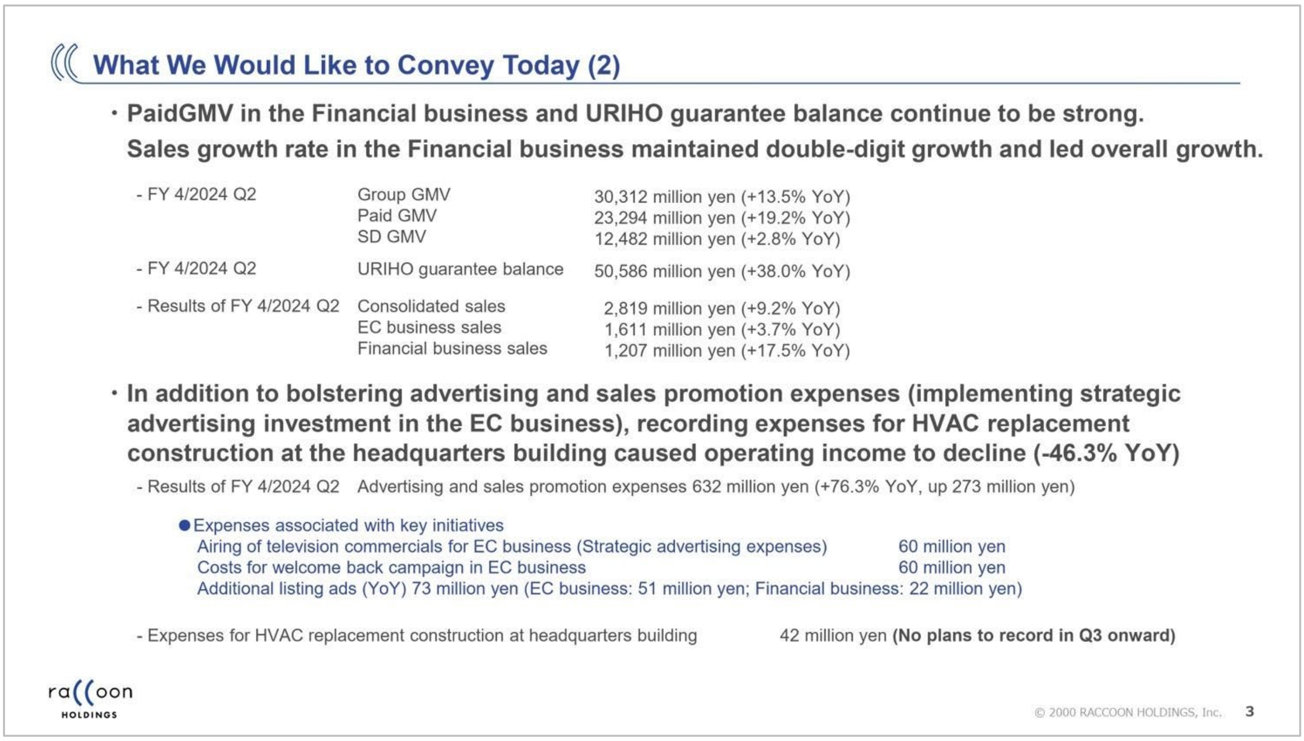
This has resulted in a very large increase in the number of registered members and buying customers. Specific figures will be explained later.

However, as with businesses of other companies, new members always start with very small purchase amounts. This will also be shown later in the graphs and other information. As noted on the slide, the average sale per customer for first-time buyers is very low, about 30% of repeat purchasers. The usual pattern is that over time, first-time buyers convert to repeat purchasers, and the average sale per customer increases approximately threefold.

The measures progressed very well in Q2, but since the plans have only been in place for two months since their inception, they have not yet been reflected in GMV.

As a result of the introduction of the free plan, as we have talked about before, KPIs are getting much better, and the number of registered members and buying customers is increasing. On the other hand, GMV growth is still inadequate, so sales growth is not that good.

In addition, TV commercials, advertisements, and the large number of points awarded in the welcome back campaign are upfront investments, and as a result, the figures in Q2 are not very good. However, this is transitory. The KPI move has given us confidence for Q3 and beyond.



Financial business. The EC and financial businesses are our two important pillars, and the financial business continues to do well. Paid GMV grew 19.2% over the previous year, and URIHO guarantee balance also grew 38%.

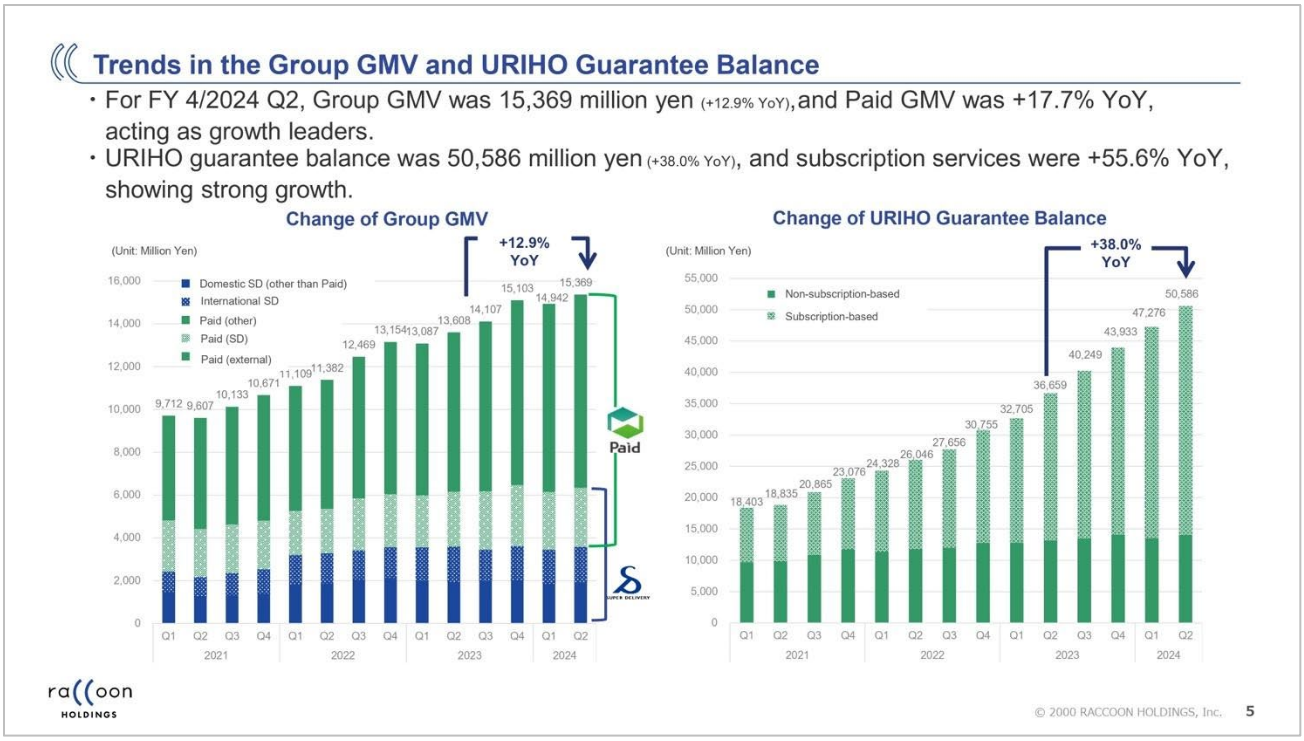
As a result, Group GMV, which includes the EC business and guarantees such as paid and URIHO, has grown by 13.5% since the previous quarter, and the URIHO guarantee balance has continued to do very well with 38% growth YoY.

The cost aspect is also a very important part, so we have summarized the main points. Advertising and sales promotion expenses have increased greatly because, as we reported earlier, they have been greatly augmented with the change in membership plans. In addition to the increased costs from the welcome back campaign, the financial business is also increasing its advertising expenses as an upfront investment.

Please see "Expenses associated with key initiatives" in blue on the slide. Expenses increased by JPY60 million for the airing of TV commercials in the EC business, JPY60 million for the granting of points for the welcome back campaign in the EC business, and JPY73 million for the additional listing advertisements (YoY). The breakdown of the additional listing ads is JPY51 million for the EC business and JPY22 million for the financial business. While these are negative factors for profits in the short term, we are increasingly confident that they will return as profits in the future.

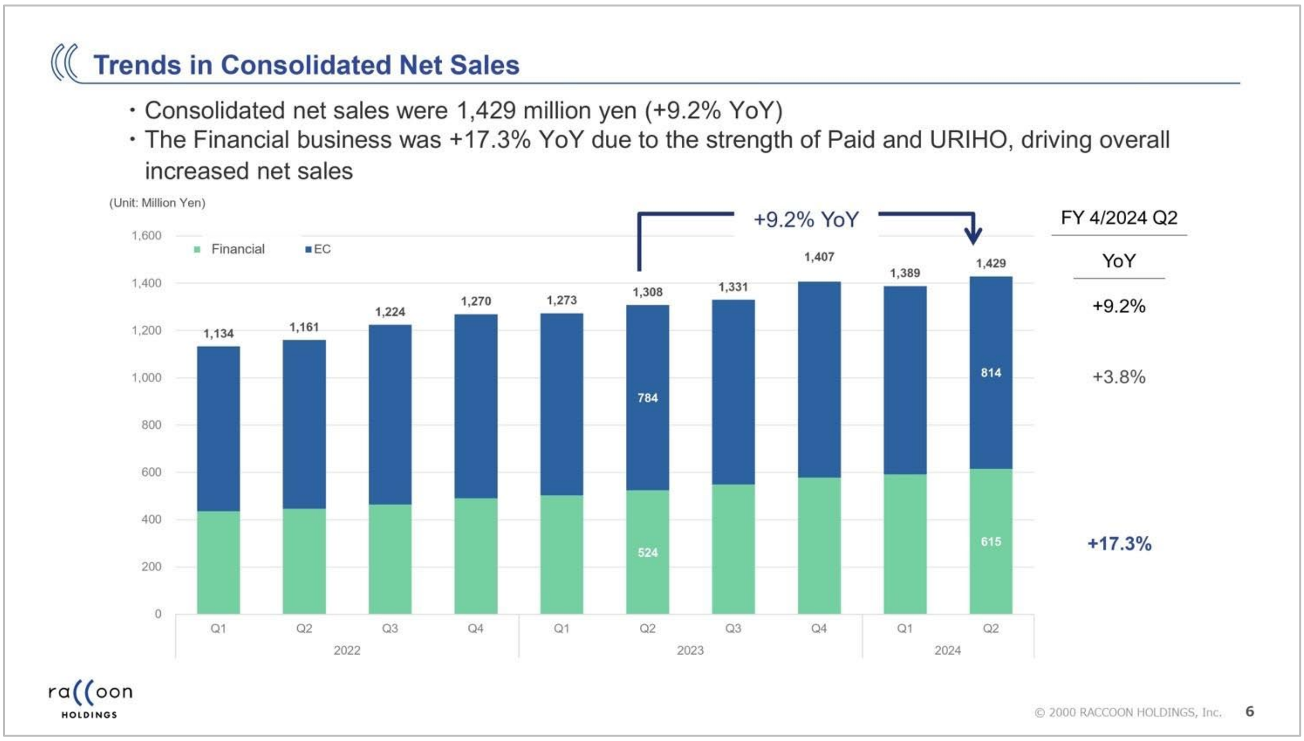
In addition, an irregular factor was the replacement of the air conditioning system in the head office building in Q2, which cost JPY42 million. Since the work began in Q2 and ended in Q2, the expenses are only for Q2 and will not be recorded for Q3 and beyond.

These are the most important topics I wanted to share with you today.



The page shows the trends in the Group GMV and the URIHO guarantee balance. Group GMV is a combination of SUPER DELIVERY GMV and paid GMV. SUPER DELIVERY also uses paid for settlement, and the overlapping portion is the light green area in the graph on the slide. As you can see, Group GMV has been performing well, albeit with some seasonal volatility.

You will also notice that the URIHO guarantee balance on the right side of the slide has also been very steady.



Consolidated net sales. Consolidated net sales totaled JPY1,429 million, a growth of 9.2% over the previous year. As in Q1 and last year, the growth rate of the financial business was higher than that of the EC business in this Q2. The financial business grew 17.3% YoY, driving overall sales growth.

On the other hand, the growth rate of the EC business is relatively low at 3.8% YoY, but as I reported earlier, we believe it will pick up in the future due to the effects of our measures.

Consolidated Results Summary

Consolidated net sales were +9.2% YoY, and increased advertising and sales promotion expenses due to implementation of active promotional investment in the EC business led to operating income being -46.3% YoY.

(Unit: Million Yen)

	FY 4/2023	FY 4/2024						
	Q2	Q2		Rate of progress		Initial forecasts		
	Previous period	Current period	YoY					
Net sales	2,582	2,819	9.2%	43.8%	45.2%	6,240	~	6,440
EC business	1,554	1,611	3.7%	-	-		-	
Financial business	1,027	1,207	17.5%	-	-		-	
Gross profit	2,107	2,278	8.1%	-	-		-	
EC business	1,225	1,273	3.9%	-	-		-	
Financial business	875	998	14.0%	-	-		-	
Consolidated adjustment	5	6	-	-	-		-	
Operating income	607	326	-46.3%	31.1%	38.4%	850	~	1,050
EC business	638	428	-32.9%	-	-		-	
Financial business	264	251	-4.9%	-	-		-	
Consolidated adjustment	-296	-354	19.6%	-	-		-	
Operating margin	23.5%	11.6%	-11.9pts	-	-		-	
Ordinary income	629	326	-48.1%	31.1%	38.4%	850	~	1,050
Net income	383	202	-47.1%	31.2%	38.2%	530	~	650
Margin	14.8%	7.2%	-7.7pts	-	-		-	

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Consolidated financial results. Net sales increased 3.7% in the EC business and 17.5% in the financial business from the previous year. Operating income was down 32.9% YoY for the EC business and down 4.9% YoY for the financial business. In both cases, advertising is the main factor.

Consolidated Results Summary (Excluding advertising and sales promotion expenses)

- Operating income excluding advertising and sales promotion expenses was flat owing to the effects of an increase in selling and administrative expenses stemming from the implementation of reduced shipping fees in international regions excluding Asia in the EC business
- Operating income excluding expenses for HVAC replacement construction at the headquarters building (42.00 million) was +3.6% YoY.

(Unit: Million Yen)

	FY 4/2023	FY 4/2024						
	Q2	Q2		Rate of progress		Initial forecasts		
	Previous period	Current period	YoY					
Net sales	2,582	2,819	9.2%	43.8%	45.2%	6,240	~	6,440
EC business	1,554	1,611	3.7%	-	-	-		
Financial business	1,027	1,207	17.5%	-	-	-		
Advertising and sales promotion expenses	359	632	76.3%	-	-	-		
EC business	279	481	72.3%	-	-	-		
Financial business	78	150	90.9%	-	-	-		
Operating income (Excluding advertising and sales promotion expenses)	966	959	-0.7%	39.6%	42.3%	2,270	~	2,420
EC business	918	910	-0.9%	-	-	-		
Financial business	343	402	17.1%	-	-	-		
Operating margin	37.4%	34.0%	-3.4pts	-	-	-		

Consolidated results excluding advertising and sales promotion expenses. We show this as our underlying growth potential. Operating income was essentially flat YoY in the EC business and grew 17.1% YoY in the financial business.

There are other factors besides advertising expenses that have contributed to flat operating income in the EC business. As we will explain later in the overseas business section, we have lowered our shipping fees significantly.

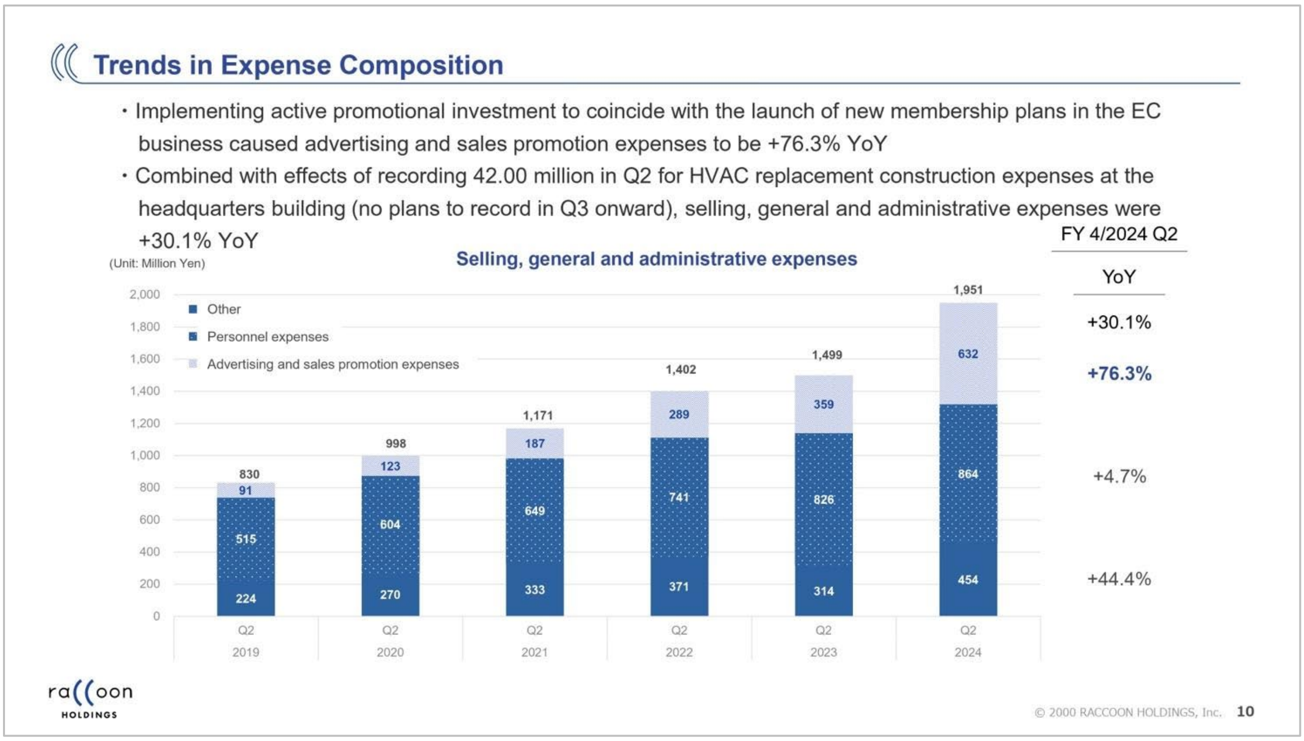
Shipping fee is an indirect cost; we receive shipping fees from our international customers and pay our warehouse and shipping companies. In the past, a considerable profit was made from shipping fees, resulting in a slightly negative impact on GMV. Therefore, we have lowered shipping fees to a level where we neither lose nor gain, and we are stimulating demand from our overseas customers.

As a result, growth rates have increased significantly, especially in far-flung countries such as the United States. However, the profit growth is smaller than in the previous year due to the loss of profit from shipping fees.

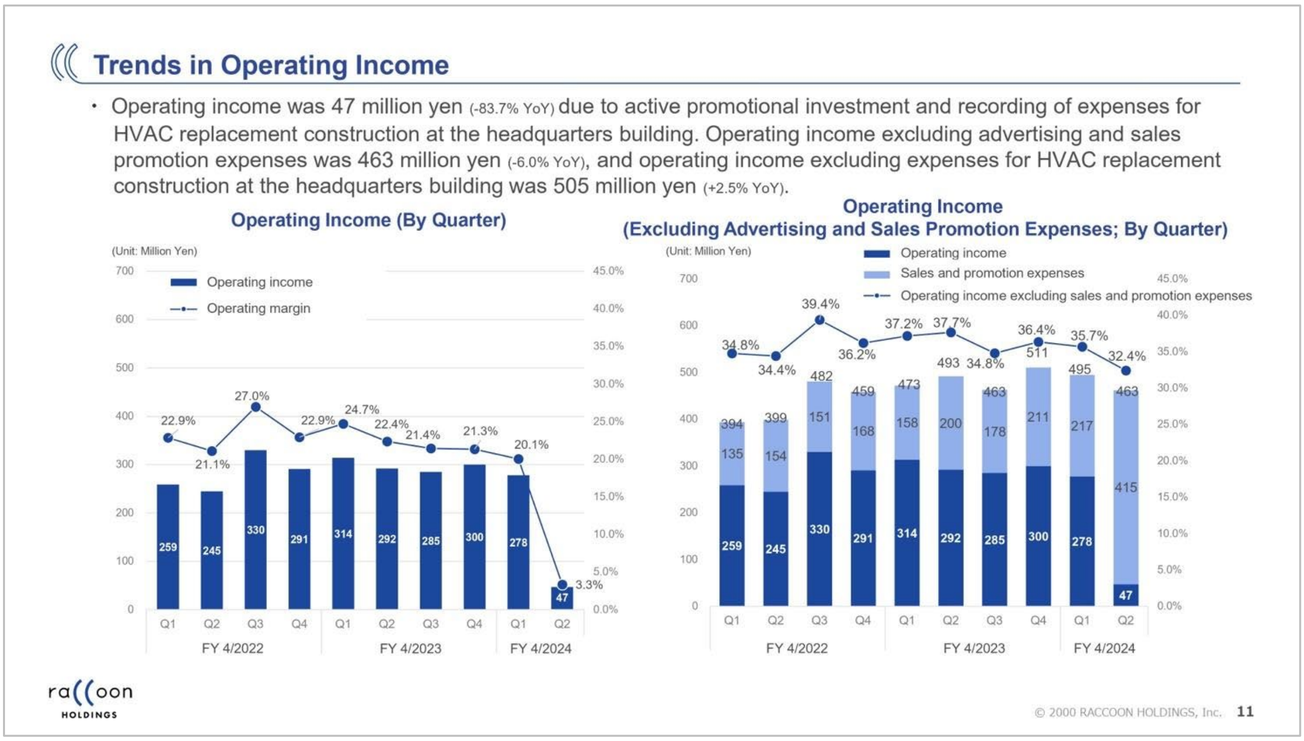
Trends in Gross Profit

- Gross profit was 1,157 million yen (+8.9% YoY)
- Gross profit in the Financial business achieved double-digit growth of +16.0% YoY through stable rate of cost of sales due to appropriate control of credit screening, alongside strong performance in URIHO and Paid

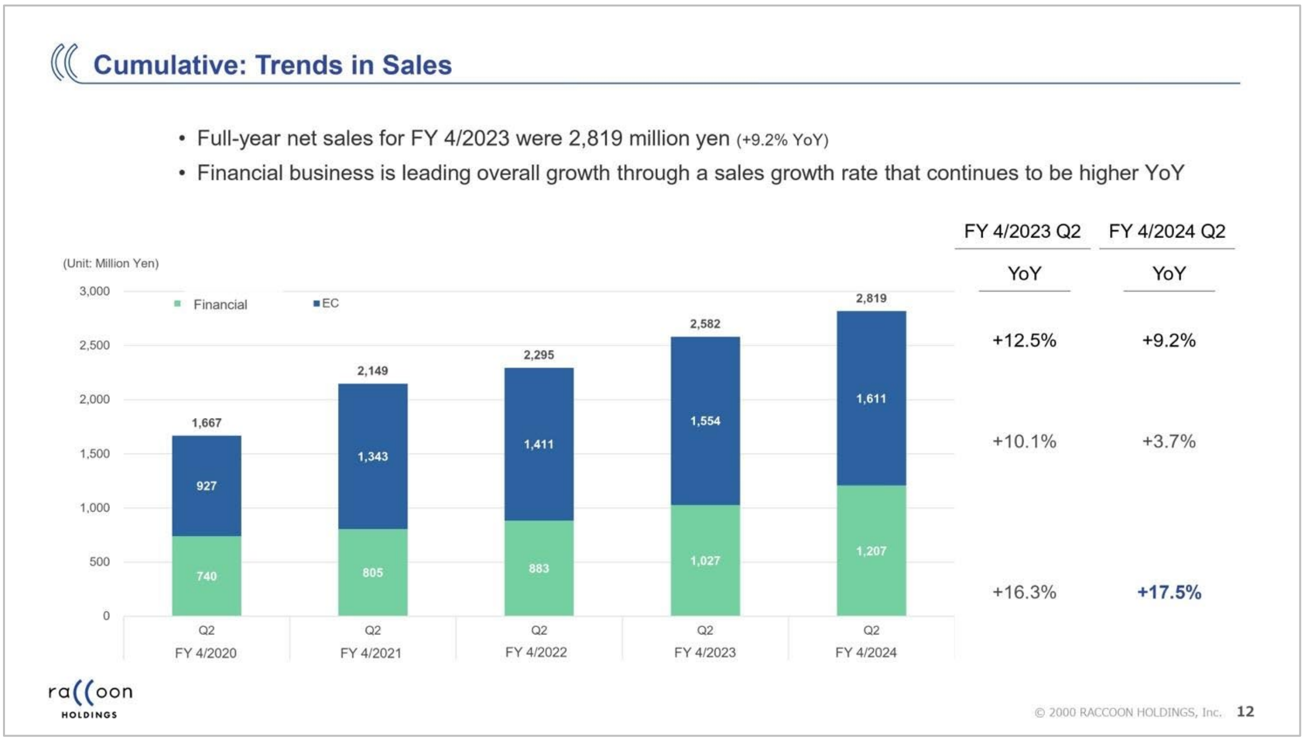
Trends in gross profit. This growth was roughly in line with sales growth. Double-digit growth was driven by a stable cost-of-sales ratio in the financial business and strong performance of URIHO and paid. Details will be explained later.



The expense composition has changed significantly. The largest increase was in advertising expenses, which rose to JPY632 million from JPY359 million in Q2 of last year. In addition, the JPY42 million for the HVAC replacement work I mentioned earlier is included in other. Most of the increase in other expenses from JPY314 million to JPY454 million in the same period of the previous year was due to the replacement of the air conditioning system.



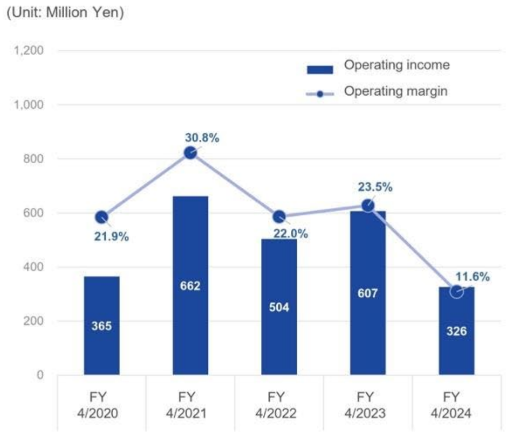
Trends in operating income. As previously announced, operating income decreased significantly in Q2. As shown in the graph on the right side of the slide, the main reason is that profits are being used for advertising and sales promotion expenses as an upfront investment. In addition to this, there was also the impact of air conditioning replacement work.

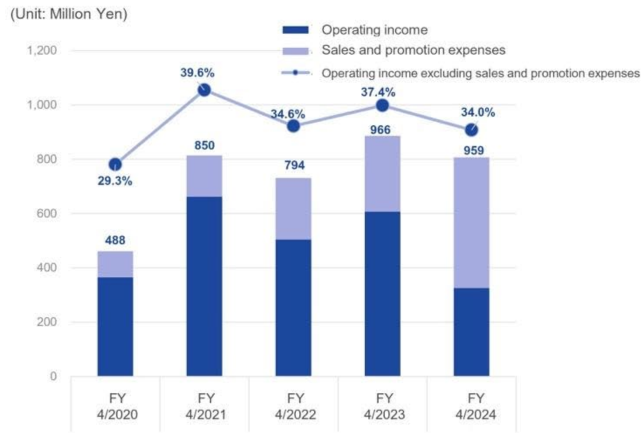


Cumulative sales trends. Sales have been relatively strong, with the financial business in particular growing steadily.

Cumulative: Trends in Operating Income

- Operating income was down due to increased advertising and sales promotion expenses and recording of HVAC replacement construction expenses for the headquarters building, causing operating margin to decline to 11.6%.
- Operating margin excluding advertising and sales promotion expenses was 34.0%, maintaining a high level.





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This is the cumulative operating income trend. As you can see, almost the same as the trend in Q2 alone that I reported earlier, profits are being used as upfront investment for advertising and sales promotion expenses.

Cash Flows

- The decrease in cash flows from investing activities is due to the implementation of startup corporate support via venture capital

	FY 4/2023 Q2	FY 4/2024 Q2	Change
Cash flows from operating activities	635 million yen	684 million yen	48 million yen
Cash flows from investing activities	-96 million yen	-294 million yen	-198 million yen
Free cash flows	539 million yen	389 million yen	-149 million yen
Cash flows from financing activities	-570 million yen	-725 million yen	-155 million yen
Net increase (decrease) in cash and cash equivalents	-31 million yen	-336 million yen	-304 million yen
Cash and cash equivalents at end of period	5,302 million yen	5,091 million yen	-211 million yen

Cash flows. There is not much to talk about, but cash flow from operating activities has been very good.

The only difference is cash flow from investing activities. As reported in the press release, we have invested in VC funds as one of the ways we acquire customers, especially in the financial business. This will bring in leading start-up ventures. This investment in the VC funds resulted in an increase in cash used for investing activities and a decrease in cash.

As a result of investing in VC funds, we have been able to acquire customers from startup companies via VC funds. We are in the process of realizing that leading venture companies can become our customers.

EC Business **FY 4/2024 Q2 Conclusion**

- Domestic new member registrations and buying customers increased significantly owing to active promotional investment coinciding with launch of new membership plans. Average sale per customer for new purchasers is about 30% of repeat customers.
  Through a gradual future transition to repeat customers, the Company projects an increase in repeat customers and an improvement in average sale per customer, which will be reflected in GMV growth.
- The effects of lower shipping fees are being seen in international areas other than Asia, with GMV growth in applicable countries at +14.1% YoY.

Business segment		Key KPIs	Measures	Goals	FY 4/2024 Q2 Results	FY 4/2024 Targets	Targets for FY 4/2025 Mid-term Management Plan[1]
EC	Domestic	GMV	• Increased promotions for the purpose of increasing customers • Introduced a new membership plan (from September 2023) • Implemented welcome back campaign (from September 2023)	• **Increase registered users** **- Increase first-time purchasers** **- Limit terminations** **- Increase continuation rate** • **Create loyal customers**	8,713 million yen (+3.1% YoY)	19,950 million yen (+14.0% YoY)	26,500 million yen (CAGR +19%)
EC	International	GMV	• Fine-tuning promotional measures by region • Aggressively developed measures for growth regions	• **Growth recovery in regions with weak demand** • **Accelerate growth in growth regions**	3,272 million yen (+1.2% YoY)	7,878 million yen (+24.6% YoY)	11,000 million yen (CAGR +25%)
EC	Total	GMV			11,985 million yen (+2.6% YoY)	27,829 million yen (+16.8% YoY)	37,500 million yen (CAGR +20%)

1. CAGR is the average annual growth rate of the results of FY 4/2022 through the targets of the FY 4/2025 Mid-term Management Plan

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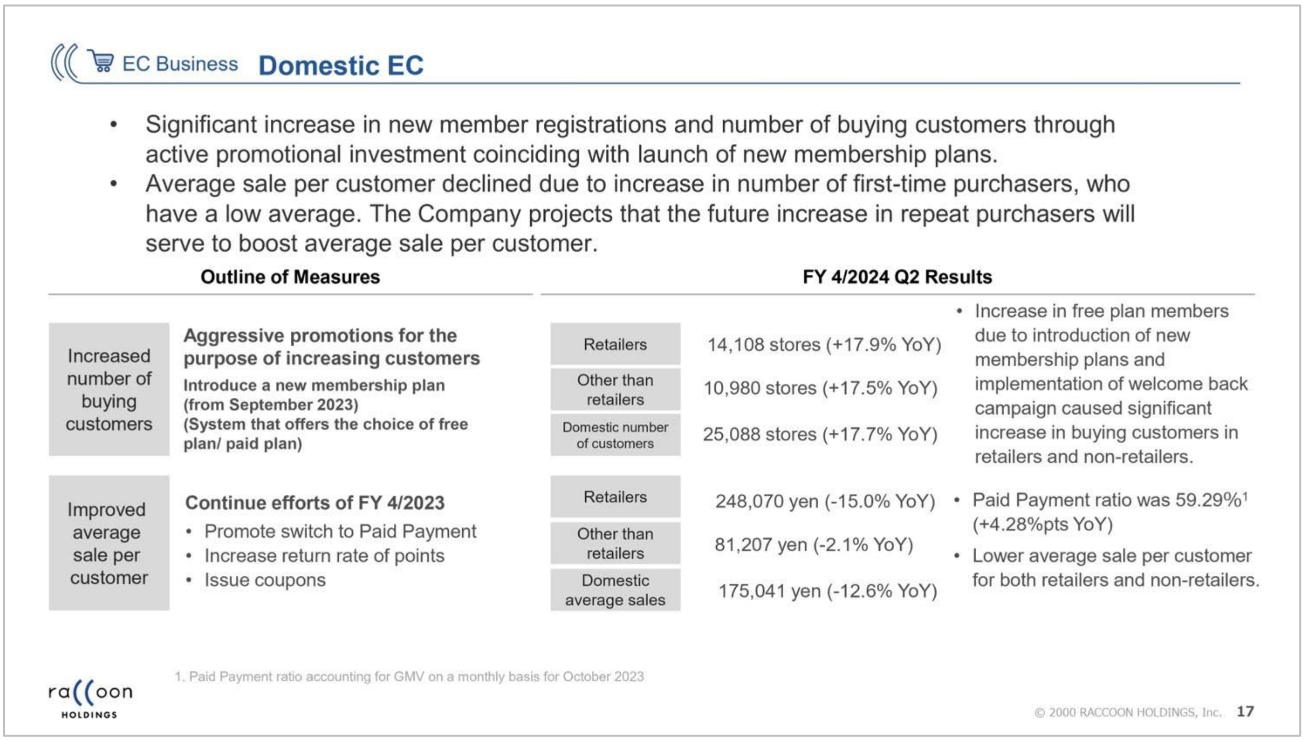
I would like to explain the EC business. First, a summary. As reported at the beginning of this meeting, the most significant measure in Japan was the introduction of new membership plans, for which we invested in advertising and other promotional activities. The goal is to increase the number of first-time buyers, reduce membership withdrawal, and increase the continuation rate. For those who pay the monthly membership fee of JPY2,000 for the standard plan, our goal is to turn them into loyal customers.

In terms of overseas sales, we will promote sales promotion measures that are tailored to each region. I will explain the figures by country later. We will invest aggressively in growth areas, and in areas where demand is weak, we will curtail investment in some cases.



Domestic EC. This section explains the movement in the number of buying customers and the average sale per buying customer. The increase in the number of buying customers is going strong, with retailers increasing significantly, up 17.9% over the previous year.

The number of buying customers other than retailers also grew, up 17.5% YoY. We had expected that the number of non-retailers would not increase much since they originally did not pay the JPY2,000 per month membership fee, but due to the side effects of increased listing ads and TV commercial airings, the number of buying customers other than retailers increased as much as the retailers. The number of domestic customers increased 17.7% over the previous year, with the welcome back campaign also contributing to the increase.

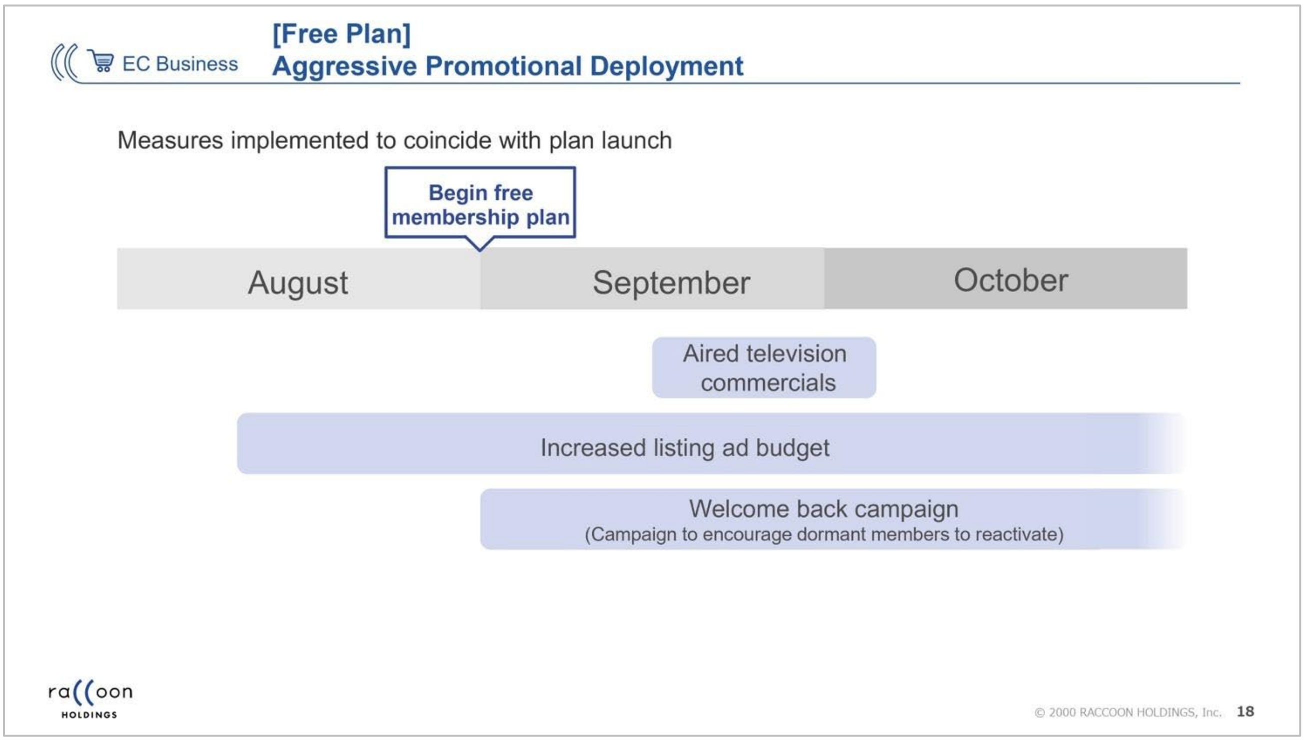
At the same time, we are also taking steps to improve the average sale per customer. However, the average sale per retail customer fell 15% from the previous year, while the average sale per non-retail customer fell 2.1% from the previous year, and the domestic average sale fell 12.6% from the previous year.

The numbers do not look good at first glance, but there are some things to keep in mind. As I reported earlier, the average sale for new customers is very low. This was predictable from the beginning, and its impact has been felt strongly. The percentage of customers with low average sale in the early stages, such as new and revived members, has increased significantly in the overall number of customers, and this has led to a decline in the average sale per customer.

This is the reason why GMV was still not positive in Q2. Past statistics give us reason to be confident that the growth rate of GMV is sure to increase in the future.

On the other hand, unfortunately, there are also market-derived reasons. This is evident in the figures for other than retailers. Of course, the increase in new customers is one of the reasons, but probably the decline in average sale per customer, which stems from the market, is also a factor. We assume that the decline in average sales per customer, which stems from the poor market for small and medium-sized businesses, would be about 2% to 3%.

As for the rest, I hope you understand that it is a short-term decrease in the average sale per customer due to our measures. Of course, it would have been better without this 2% to 3% drop, but we expect a solid recovery at some point in the future. We have high hopes that if the number of customers increases along with the recovery, GMV will be able to grow solidly.



Again, let me explain how we conducted the promotion. The free membership plan started at the beginning of September during the Q2 of August, September, and October. Prior to that, we increased the amount of listing ads by about double and implemented them during the month of August. Simultaneously, with the introduction of the free membership plan in September, the welcome back campaign for dormant members was also launched, and TV commercials were run from mid-September through the first half of October.

I have told you that we have made good progress in changing the plans, and I will show you the figures on this as well. Whether or not we will continue to disclose this in the future remains to be seen, but I hope this will provide you with information on initial trends.

The slide shows the number of new retail and non-retail member registrations per month. Both are up slightly in August, which is due to increased listing ads.

Furthermore, as a result of the introduction of the free plan in September, the number of registrations jumped dramatically. The number of new retail registrations has risen from about 1,500 to about 2,500, and the number of new non-retail registrations has risen from about 2,000 to about 3,500.

Since we do not receive membership fees from these newly registered customers, it is meaningless unless they actually make a purchase. However, the graph on the right showing the number of new buying customers is showing solid results.

This has been particularly effective since retailers no longer pay the JPY2,000 membership fee that was originally charged. The number of new buying customers has increased from about 300 to about 800, which shows that it has been quite effective.

EC Business

[Free Plan]
Effects of Introducing Free Plan

- The number of members moving from the Standard Plan (2,000 yen monthly membership fee) to the Free Plan (No monthly membership fee) was lower than expected in Q2.

	Q1		Q2
Number of Standard Plan Members	**12,292 stores**	→	**10,589 stores**
	-1,943 stores (Standard Plan -> Free Plan) +240 stores (Free Plan -> Standard Plan)		
Membership Fee Net Sales	**77 million yen**	→	**70 million yen**

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We had received many concerns that the loss of some membership fees caused by the introduction of the free period would have a very large impact, but as it turned out, the negative impact was much less than we had anticipated.

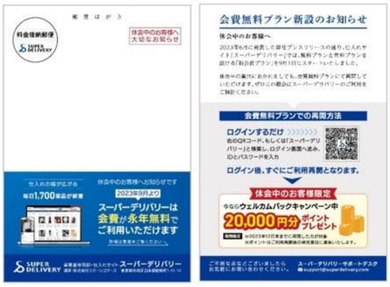
We had expected that more of our current standard plan customers, who had been paying the JPY2,000 per month membership fee, would want to move to the new free plan, which has no monthly fee. While there were some of such customers, the number of standard members has decreased from 12,292 to only 10,589.

Membership fee net sales fell from JPY77 million in Q1 to JPY70 million in Q2, a decrease of JPY7 million, but we had expected a larger decline, so we are relieved.

Free Plan (Free)
Promoting Dormant Member Reactivation

- 6,372 stores reactivated due to the welcome back campaign and 2,037 stores purchased. The status of repeat purchases after reactivation is also trending favorably.
- While continuing the welcome back campaign in Q3, the Company will engage in measures to promote purchases by members that have reactivated.

Implementing Welcome Back Campaign



- Aggressive approach via DM and email
- Presented members with 20,000 yen in points

Reactivated members	6,372 stores
Number of purchasers	2,037 stores
Share of Q2 domestic purchasers	8.1%
Average sale per customer	37,305 yen

- Although the initial average sale per customer for reactivating members is low due to the use of 20,000 yen in points, it is simply a low initial value and the Company projects sale per customer to rise similarly to other customers as they transition to repeat purchasers.
- Reactivating members that have made purchases in the past are counted as repeat purchasers for the initial purchase after reactivation.

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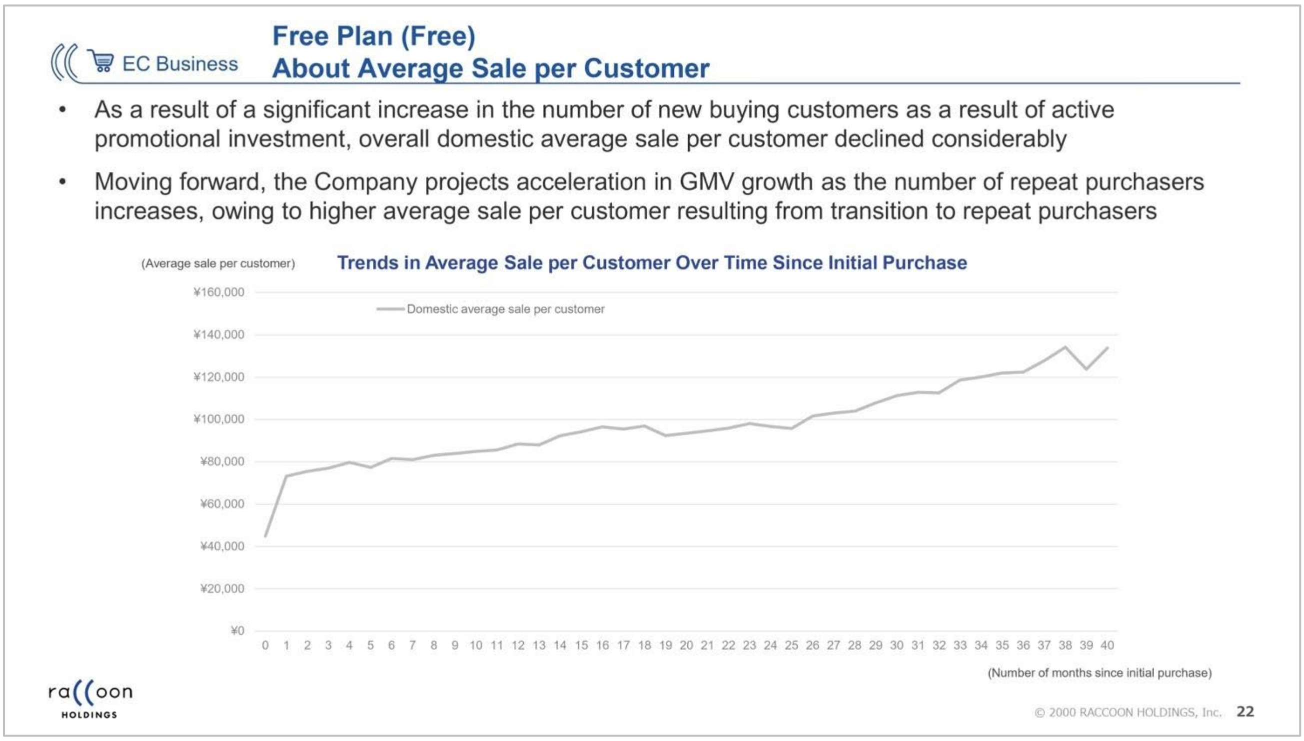
About promoting the activation of dormant members. 20,000 points were awarded to a large number of dormant members. In other words, it is a "free use of JPY20,000" campaign.

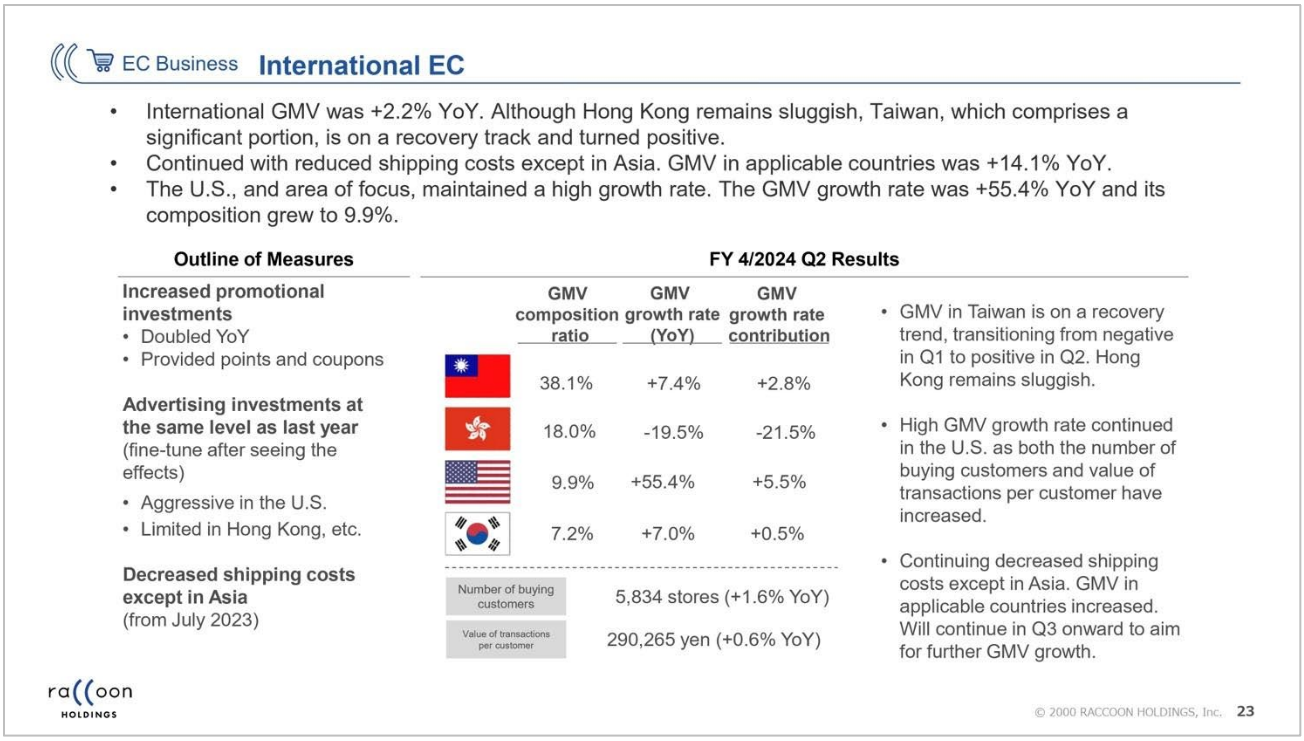
As a result of various forms of notification, such as DMs, e-mails, and phone calls using an outsourcing company, as well as the granting of points, we have indeed had many members return. More than 6,000 members have returned, of which 2,000 have purchased.

However, as with new members, the average sale per customer is very low. Of course, not everyone will buy next month and beyond, but due to the good situation of repeat purchases from reactivating members, we believe that the average sale per customer will be even higher than JPY37,000 in the future.



I will explain how the average sale per customer is really going to increase. In the slides, we have shown you our past results. This is the trend of the average sale per customer after the initial purchase. Please think of it as a kind of historical average.

The number at the bottom of the graph is the number of months elapsed, and you can see that the average sales increase progressively as this number increases. We expect the average sales to increase in the future, depending on the pace of the increase in new customers. In the early stages, the seemingly bad figures, the decline in the average sale per customer, show up. However, the past trends show that the figure would turn positive over time.



We did not devote many pages to international EC, so I will add some explanations. First, international GMV grew 2.2% YoY. This is very low at first glance, but there are quite a few good buds emerging.

Specifically, Taiwan's GMV growth rate contribution grew by 2.8%. The Taiwan business had been in negative growth since the end of the COVID-19 pandemic, but has returned to positive growth since July, the last month of Q1.

There are many factors that contribute to this. When asked on site, for example, items used in the house like dishes, cups, and teacups become big sellers during the COVID-19 pandemic. The fact that people were beginning to go out and those items sold less and less was one of the factors that were reducing our sales in Taiwan. But it has almost completely bottomed out.

The increase in membership registration has led to a solid increase in GMV, with GMV growth returning to plus 7.4%. Taiwan operations account for about 40% of total international GMV. The GMV has finally turned positive in Q2, and we have high expectations for the future.

Unfortunately, the Hong Kong business continues to be negative, with a GMV growth rate of negative 19.5%. As we have explained previously, political factors have led to a considerable reduction in advertising investment in Hong Kong. We have not given up, but our GMV growth rate has been negative because we have reduced advertising in accordance with our policy of daring not to invest in areas that are not cost-effective. However, this negative impact is being offset by the positive turnaround in the Taiwan business.

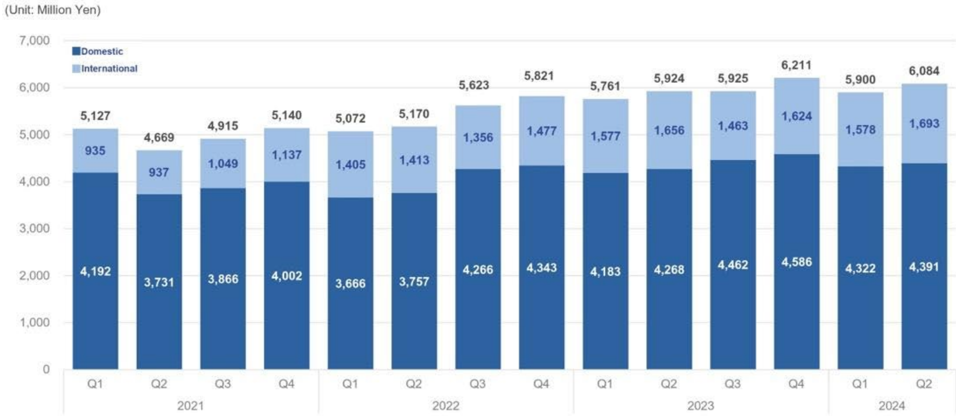
On the other hand, performance in the US was very good, with a positive GMV growth rate of 55.4%. On a monthly basis, this was higher in some months. This is due to the fact that the US market itself is very large, and in addition, the reduction in shipping fees that I mentioned earlier has been very effective.

Although a reduction in shipping fees may not seem to produce a positive effect because it leads to a worsening of costs on a YoY basis, it has a very significant effect in terms of growing GMV. Not only in the US, but in countries where the distance is very great, this contributes to raising the growth rate of GMV all the more.

The US has also become a fairly important component, with 9.9% of the total. As for the US business, we do not see many factors that would lead to a slowdown and expect high growth. Furthermore, we believe that the Taiwan business will return to double-digit growth. Thus, we believe that we can expect quite a lot from our overseas business in the future.

EC Business **Trends in SUPER DELIVERY Gross Merchandise Value (GMV) (by Quarter)**

- Internationally, GMV declined in Hong Kong, but achieved a record high through continued growth primarily in countries with reduced shipping costs.
- Domestically, the number of new buying customers grew significantly owing to active promotional investment. Moving forward, the Company expects GMV growth to accelerate as customers transition to repeat customers and the number of repeat customers increases.



FY 4/2024 Q2	
YoY	QoQ
+2.7%	+3.1%
+2.2%	+7.3%
+2.9%	+1.6%

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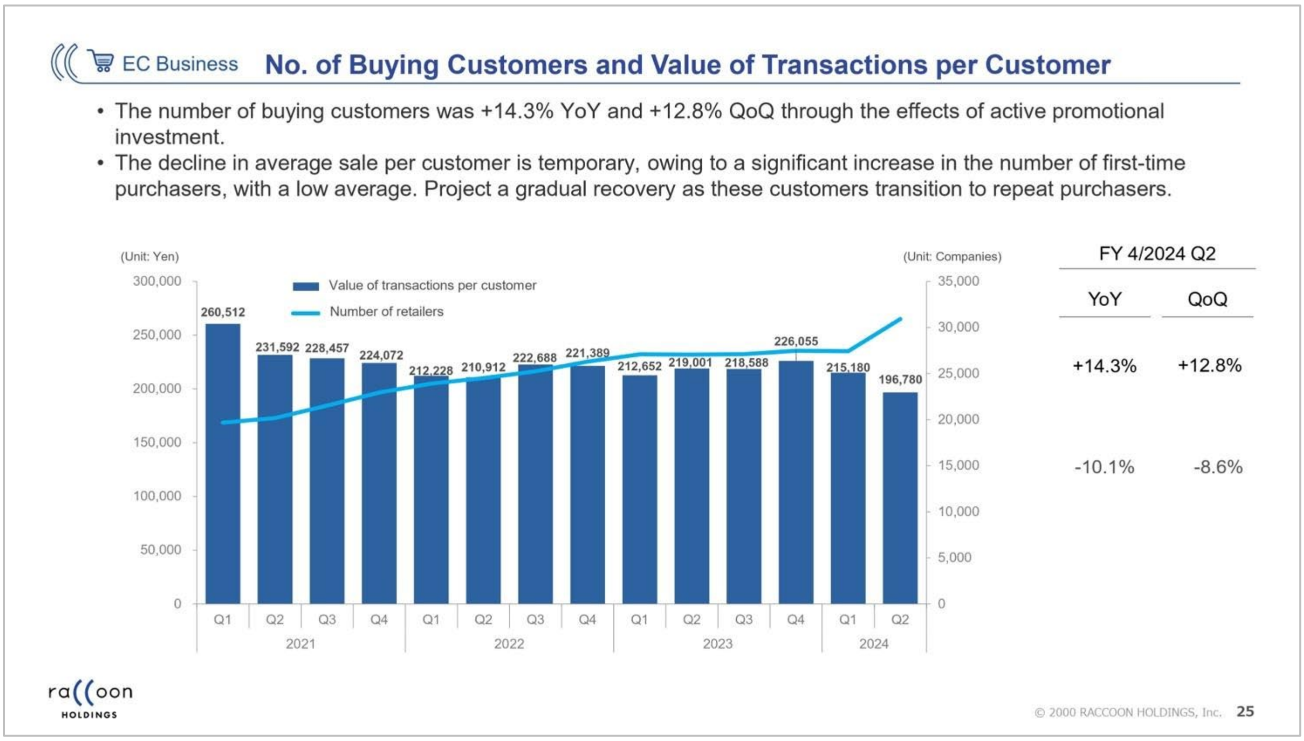
You see the graph of the SUPER DELIVERY gross merchandise value on the slide.



The number of buying customers and the average sale per customer is also as shown in the slide. The number of buying customers has increased significantly since Q2, but the average sale per customer has temporarily dropped due to the factors I reported earlier.

Here you see the number of repeat purchasers and first-time purchasers, which we always show. The number of first-time purchasers is increasing. This is a two-month increase from September. I believe that we can aim for the same pace or even a little higher in the future. We are already back to the same level as when we rapidly increased the registration at the beginning of the pandemic.

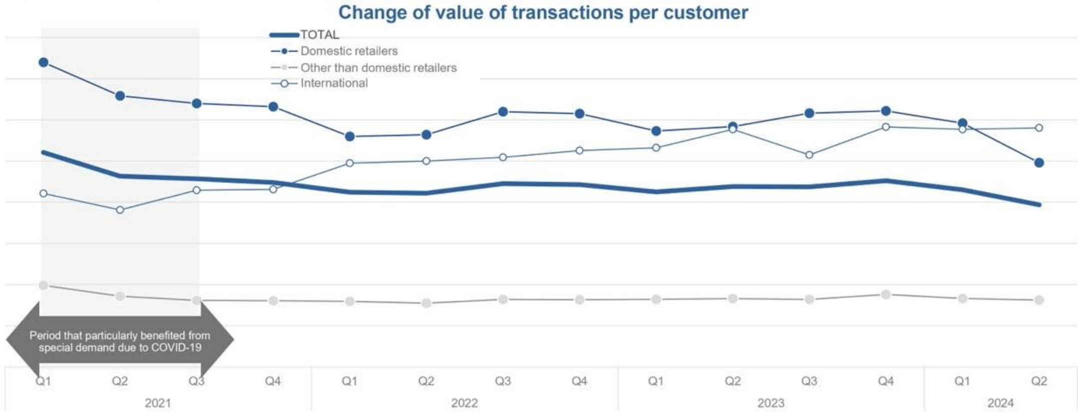
Customers who returned through the welcome back campaign and have made a purchase in the past are included in the graph as repeat purchasers. The number of repeat purchasers has also increased considerably.

The pace of purchases by first-time purchasers has also increased. As a certain percentage of first-time purchasers will accumulate as repeat purchasers in the future, the angle of increase in repeat purchasers should be steeper than before when the Q3 graph is added. We are looking forward to it very much.

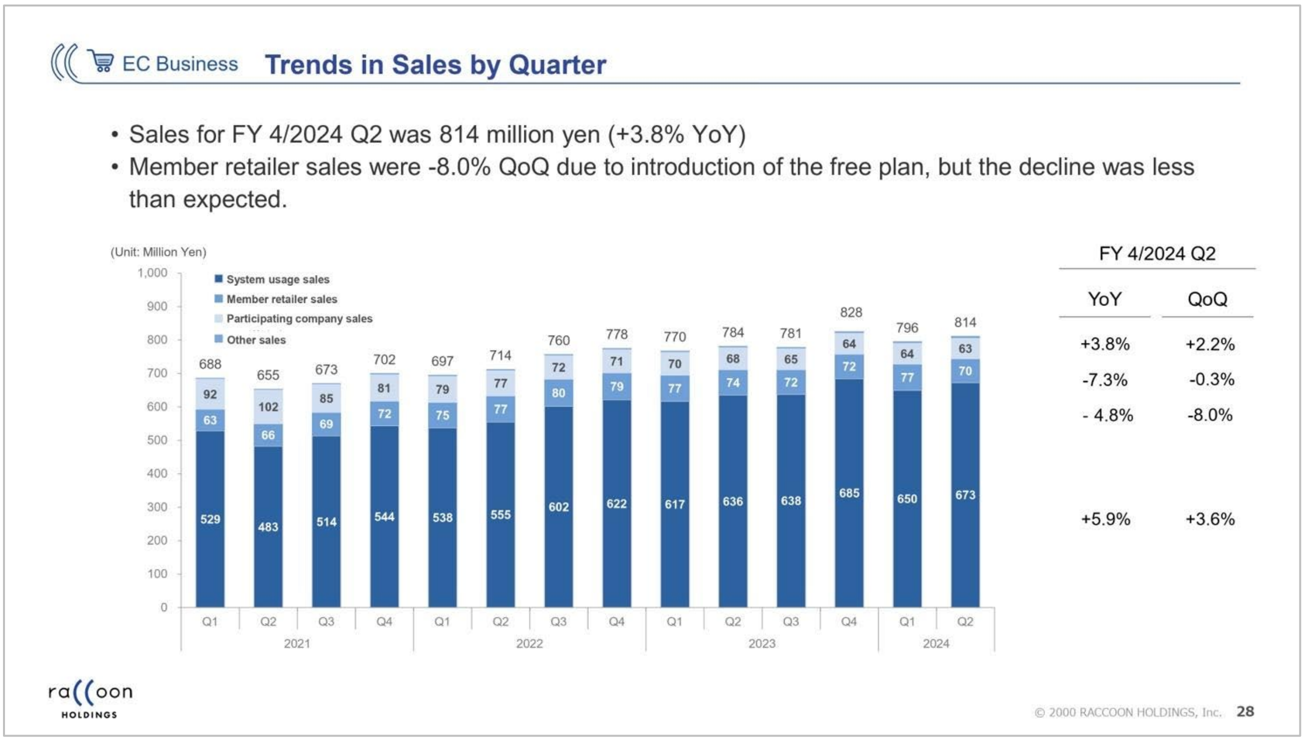
EC Business Trend in Value of Transactions per Customer

- Domestic value of transactions per customer declined in retail (-16.2% QoQ) and non-retail (-2.3% QoQ) due to the effects of a significant increase in the number of first-time purchasers.
- International value of transactions per customer was strong in the U.S. at +13.7% QoQ, and combined primarily with regions with reduced shipping costs, GMV growth and a recovery in value of transactions per customer, recovered to +0.6% QoQ.

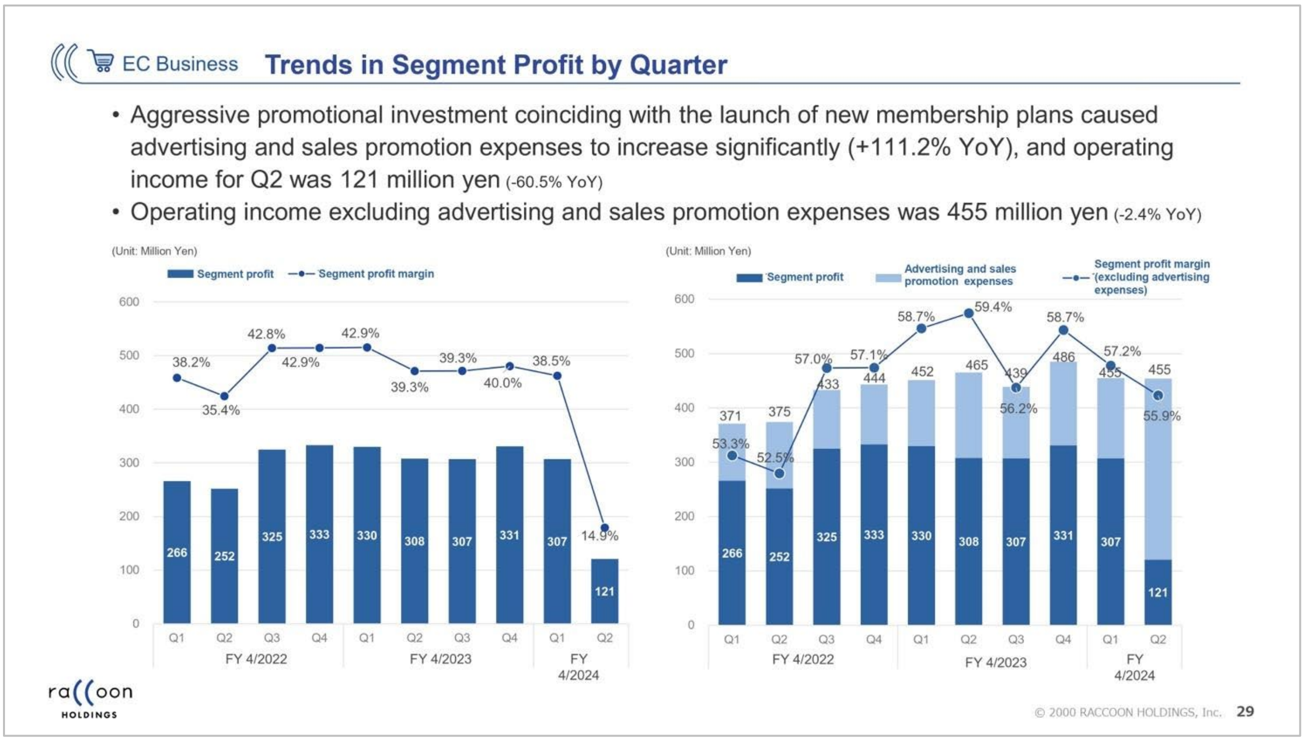
Change of value of transactions per customer



Here you see the trend in the value of transactions per buying customer. As explained earlier, this has dropped significantly due to factors such as the increase in new retailers. Please understand that an increase in new members always has a temporary negative impact, but this time, especially since the free membership service started and the number of new members increased all at once, the impact is naturally significant.



Quarterly sales trends are shown in the slide.



Quarterly segment profit trends are shown in the slide. The impact of advertising was significant.

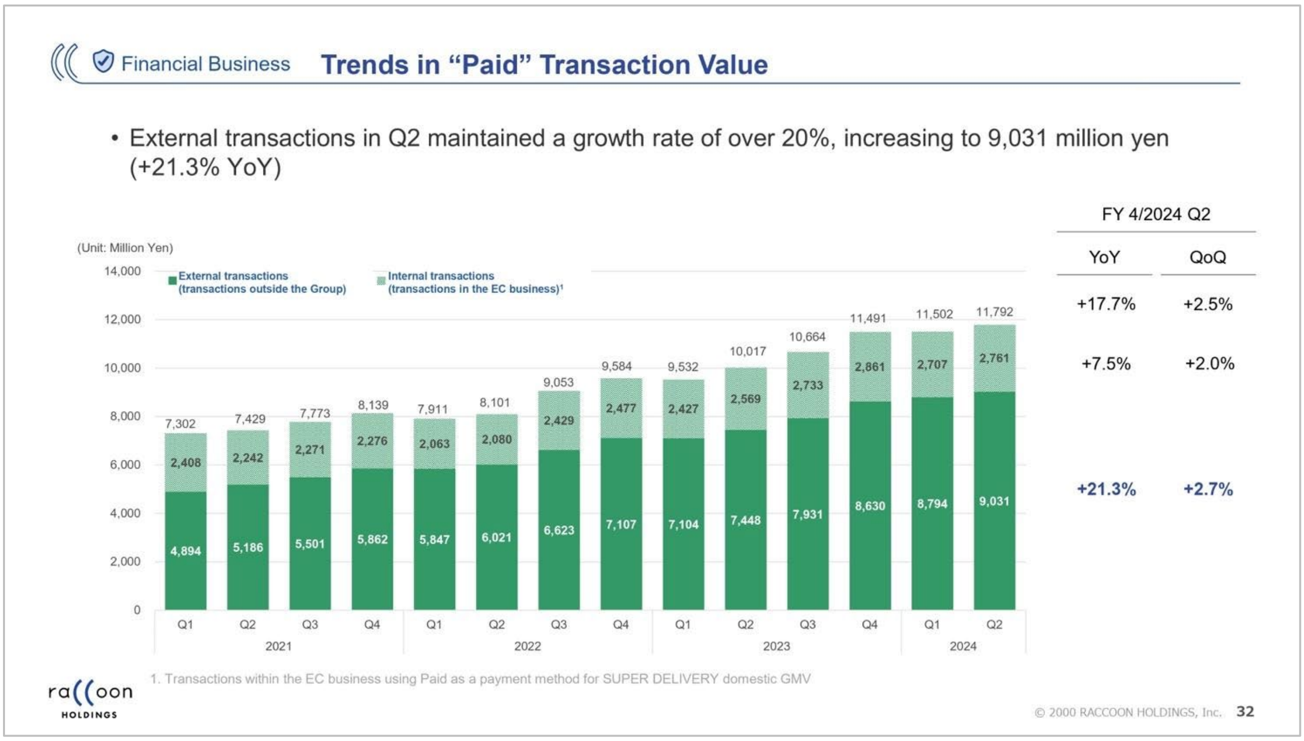
FY 4/2024 Q2 Conclusion

	Business segment	Key KPIs	Measures	Goals	FY 4/2024 Q2 Results	FY 4/2024 Targets	Targets for FY 4/2025 Mid-term Management Plan[1]
Financial	Paid	Transaction volume	• Aggressive development through promotional measures • Customer referrals through cooperation with VCs	• Increase the number of member companies	**17,825 million yen (+22.5% YoY) Continued steady growth**	39,058 million yen (+25.5% YoY)	42,128 million yen (CAGR +18%)
Financial	URIHO	Guarantee balance	• Aggressive development through promotional measures • Increasing proposal schemes • Increasing eligible receivables	• Increase the number of companies using subscriptions • Increase non-subscription-based guarantee balances	**50,586 million yen (+38.0% YoY) Continued growth exceeding expectations**	58,347 million yen (+32.8% YoY)	70,000 million yen (CAGR +32%)

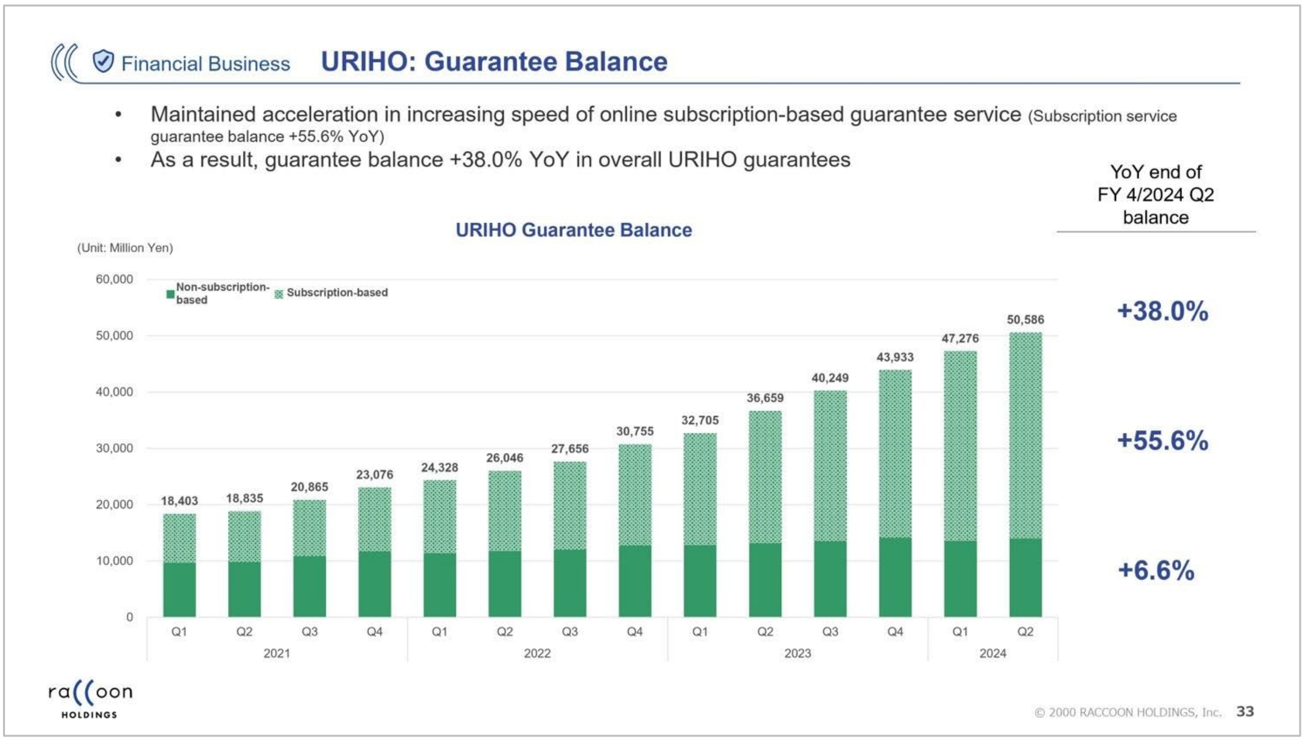
Aim for a level that significantly exceeds Mid-term Management Plan targets

1. CAGR is the average annual growth rate of the results of FY 4/2022 through the targets of the FY 4/2025 Mid-term Management Plan

I would like to explain the financial business. Paid is progressing very well, with a 22.5% increase in transaction volume over the previous year. The number of member companies has been increasing, and the average sale per customer has also been rising. URIHO guarantee balance is also very favorable, increasing 38% YoY to JPY50,586 million.



As for paid, our real sales come from external transaction volume, that is, the amount of money spent by external customers other than SUPER DELIVERY, companies that have nothing to do with our EC business. We have been able to maintain 20% growth in external transaction volume for a long time, and with JPY9,031 million recorded in the quarter under review, we are in a very good position.

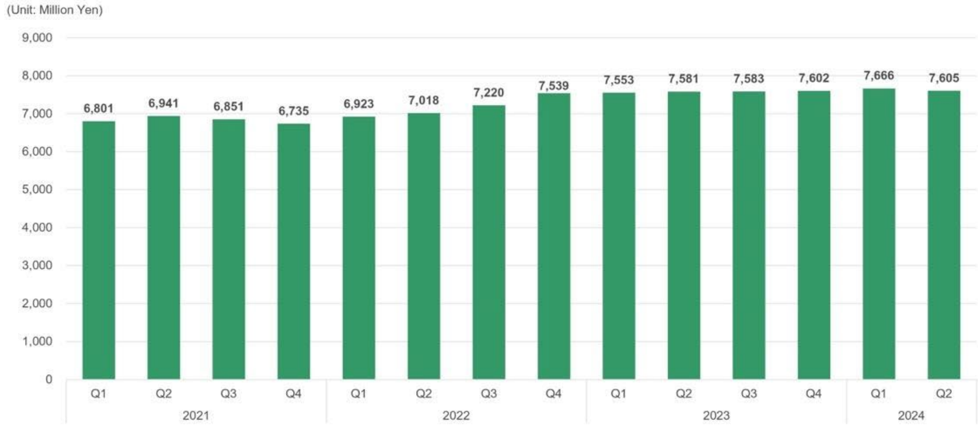


The URIHO guaranteed balance. This is also very favorable, with a 38% overall increase in the balance of guarantees. As for the subscription-based URIHO, which has become our mainstay, the guarantee balance increased 55.6% over the previous year. Moreover, even with respect to models that are no longer mainstays, the balance of guarantees has grown by 6.6%, albeit by single digits.

Financial Business

Trends in the Rent Guarantee Balance (Actual Basis)

- The guarantee balance remained steady, standing at 7,605 million yen as of Q2 (+0.3% YoY, -0.8% QoQ)



FY 4/2024 Q2	
YoY	QoQ
+0.3%	-0.8%

*The figures indicate the actual guarantee balance calculated by the formula of guarantee balance / guarantee period x average implementation period. Accordingly, the figures differ from the balances indicated in the relevant Summary of Financial Results and Securities Report.

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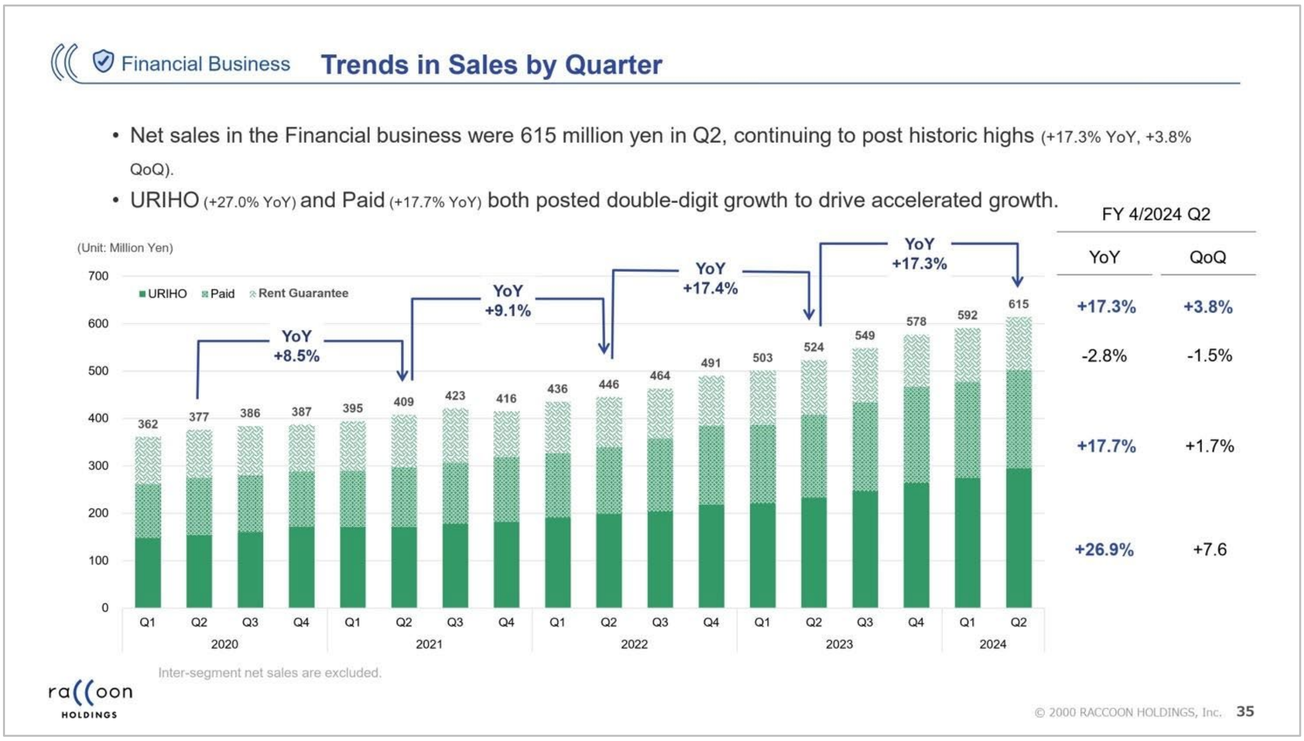
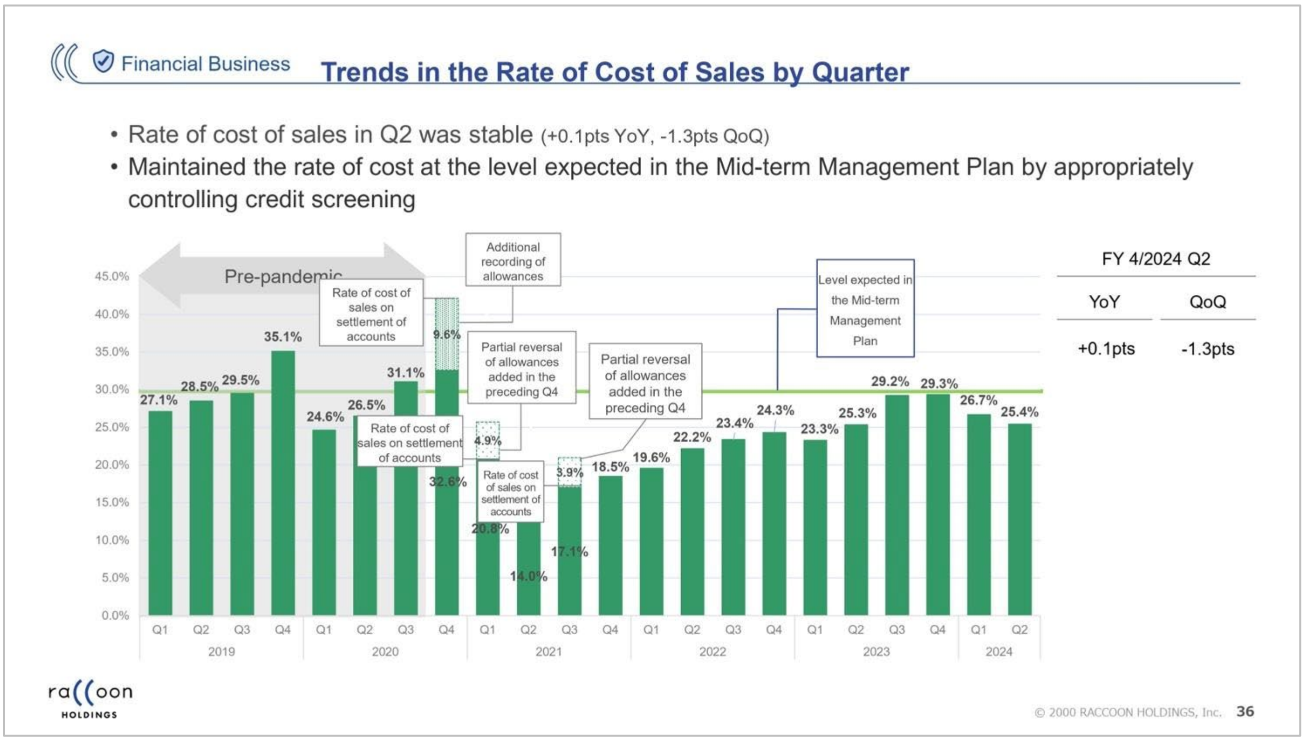
The balance of rent guarantees has remained steady, albeit slightly decreasing.



Quarterly sales. The things I just explained are what lead to sales. Sales are very favorable, up just under 20% over the previous year, which is about the same growth rate as the previous year. Since the denominator has increased, the growth rate would normally decrease, but we have been able to produce the same growth rate as last year, which shows the hard work of the financial business.

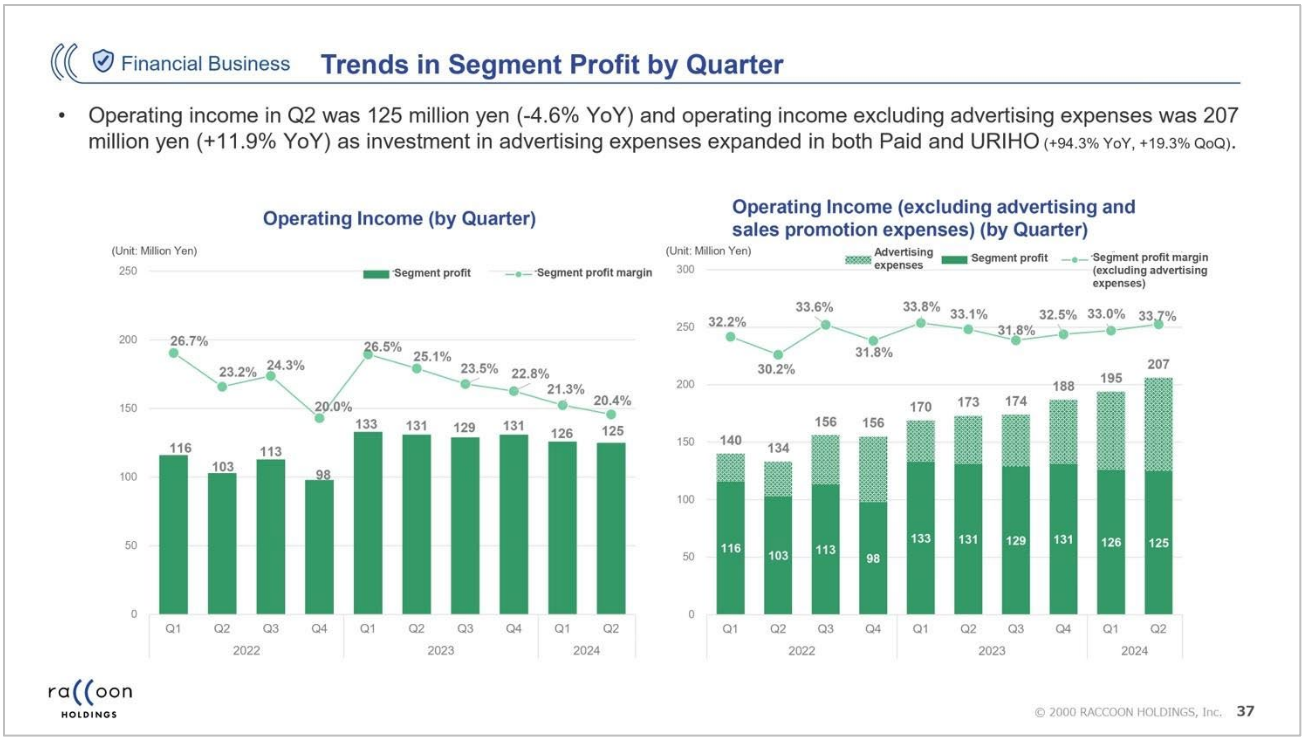


The biggest problem, and the one we are often asked about, is cost of sales. We hear concerns, especially since bankruptcies are very much on the rise and the repayment of zero-zero loans is beginning to occur.

We always receive the question, "With more and more small businesses going bankrupt, won't RACCOON see an increase in client defaults?" We have been able to control it very well.

Of course, volatility is inevitable, but the cost ratio is slightly lower than in Q1, and the profit margin is higher. We are not at all worried because defaults have not increased significantly, and collections have been rather well proceeding.

It is difficult to have those outside the Company understand that we do not have to worry, but please understand that there is no sense within the Company of a turn for the worse in the future and we are doing well.



Quarterly segment profit. Profits have remained mostly flat, which is due to the gradual increase in advertising, which is an upfront investment. We dare to increase this. Operating income excluding advertising and sales promotion expenses, as shown on the slide, is also very favorable.

As for how far and how long we will continue advertising as an upfront investment, please understand that the financial business is becoming overwhelmingly capable of generating profits.

Question & Answer

Q&A: Cost continuity

Participant: I wonder if the only expense that will disappear after Q3 is the cost of the HVAC replacement project? Should we expect the point investment to increase since it will contribute for two to three months? Please explain what strategic expenses are transitory and what are continuous relating to the start of new plans.

Konno: I think it was indeed somewhat difficult to understand. First, as you understand, the cost of replacing the air conditioning system will not be incurred at all from Q3. Therefore, it is clear that the cost is reduced by JPY42 million.

As for the point investment, the big one was the cost of the welcome back campaign. 20,000 points were awarded to reactivating dormant members. It had a two-month time limit, but after the points were granted, a very large number of customers used the points in the early stages, which resulted in costs.

However, since the number of reactivating members to whom points are awarded is fixed to begin with, the cost will decrease gently after the initial sharp increase. Therefore, I believe that the cost will decrease considerably since the Q3 and will not increase in the future.

In addition, the TV commercials for SUPER DELIVERY conducted in the EC business will continue somewhat beyond Q3, but the second round of TV commercials currently being conducted on local stations will be temporarily terminated. Advertising expenses are expected to decrease in Q3 because the cost of conducting TV commercials is smaller than in Q2.

We are currently increasing our listing ads to about double the level. There is a relatively high likelihood that it will continue, although it may be reduced slightly in the future.

Q&A: Why the number of buying customers in the overseas EC business has reversed

Participant: The number of buying customers in the overseas EC business appears to have exceeded that of the domestic EC business. Please tell us why."

Konno: As you asked. Thank you for noticing. In fact, foreign EC is in very good shape these days. One factor is that the number of registered members has increased enormously, and the average sales per customer has significantly increased in some countries. Therefore, as I explained earlier, I believe that double-digit growth is possible in the future.

However, the factors that led to the reversal in the number of purchasing customers vary from country to country and are therefore unpredictable. As I mentioned earlier, the decline in demand for certain products in Taiwan has slowed down, and I believe that the number of registrations has steadily built up as a result of people who were buying those products no longer leaving the service. On the other hand, in the US, we see the reduction of shipping fees as one of the factors.

Although the answer may be ambiguous, we believe that in Q2, in addition to the situation in each country, the post-COVID-19 reactionary decline has bottomed out overseas as a whole, and the business in each country is beginning to grow as it should.

Q&A: Where to record the cost of replacing the air conditioning system in the head office building

Participant: Were the costs of replacing the air conditioning in the headquarters building allocated proportionally to the EC and financial businesses?

Konno: This is not prorated and is included in the adjustments, so it does not have a negative impact on the results of the EC and financial businesses.

Q&A: Profit impact of lower overseas shipping fees

Participant: What is the profit impact associated with a reduction in international shipping fees?

Konno: The amount is in the tens of millions of yen, and is not at all close to JPY50 million.

<h2>Q&A: Pace of digging up dormant members on a monthly basis</h2>

Participant: What is the monthly pace of reactivating dormant members?

Konno: On a monthly basis, of course, the number of revivals was overwhelmingly high in the first month of September and has now calmed down considerably. I personally feel that the reactivation has been steadier than anticipated. However, the monthly pace was very high in September and slightly lower in October.

Q&A: Outlook for advertising and sales promotion expenses in the second half

Participant: What is your forecast for advertising and sales promotion expenses in H2?

Konno: As for the EC business, I explained earlier. The cost of listing ads is expected to continue to some extent. We expect TV commercial expenses to be smaller than in Q2 and basically decrease.

Advertising expenses in H2 in the financial business may increase. The reason for this is that, as we have announced this term, we have set aside a separate JPY300 million strategic investment line in addition to our regular budget, which will be used mainly for mass advertising. JPY100 million of this amount was used for the SUPER DELIVERY TV commercial.

This framework will probably be used for the financial business as well. We will make another announcement when we have a concrete decision. We cannot say for sure because the timing has not been determined, but we believe that these factors will increase the cost of the financial business compared to H1.

Q&A: Value of transactions per customer by country for overseas EC and number of contracts

Participant: Could you give us an idea of the movement of transaction value per customer by country for overseas EC and number of contracts?

Konno: Since giving specific numbers would be problematic, I will only give you an idea. Although I do not know exact figures, most recently in the Taiwanese business, the number of buying customers has increased while the transaction value per customer has remained almost flat. In Hong Kong, the number of buying customers has decreased significantly, although the transaction value per customer is good. In the US, both the number of buying customers and the transaction value per customer are increasing.

Incidentally, the transaction value per customer is very high in the US compared to Hong Kong and Taiwan. Although the difference does not reach 1.5 times, it is more than JPY100,000. Considering the size of the market, we feel that our policy of discounting shipping fees to increase GMV in the US was not a mistake.

Q&A: Factors behind the sluggish growth of GMV in the EC business and future measures

Participant: GMV in the EC business appears to be sluggish. I believe one of the reasons is the slow growth of existing customers. Are there any indications that this is due to the continuing impact of the reactionary decline from the pandemic, a decline in consumer demand due to inflation, etc.? Please add any additional information on what steps you will take to address those issues. Do you have the policy to cover this with new members and increased transactions?

Konno: I believe this is the main theme of this briefing. As you say, we have struggled with GMV itself for several quarters.

It is not quite correct to say that there was a rebound decline from the pandemic; masks and sterilization products, which grew due to COVID-19, have been declining for quite some time. Rather, we believe the biggest factor is that even after the pandemic, the small and medium-sized retail market, which is our customer base, has not quite recovered.

Of course, as you asked, the decline in consumer demand due to inflation is also a factor. The economy is not booming, and inflation is keeping people from buying things.

As for inbound, that is another story. Our wholesale business has also been negatively affected, not by the direct effects of the COVID-19, but by the state of the world. It is not something we can control, but I am sure that at some point the situation will recover.

Current consumption behavior is rather toward large retailers such as department stores, but I believe that there will be a revival of consumption at small and medium-sized retailers at some point in the future, when our average sales per customer will be pulled up.

We have not yet announced any specific measures to raise the average sale per customer, but we have been implementing a variety of softer measures other than points and coupons for some time. Therefore, we expect that the average sale per customer will probably bottom out eventually and pull back up at some point.

Because GMV growth is multiplicative, if we can steadily increase the number of customers toward the time when the average sale per customer pulls up or stops dropping, it will grow. Therefore, at this stage, we are committed to increasing the number of registrations and purchases. Although it may be difficult to see from the outside, we are taking various measures to stop or raise average sale per customer.

Also, our market has a very large number of potential customers. We too feel that we should have steered our efforts to increase the number of customers at an earlier stage. Several investors have asked us, "Why don't you take the plunge and make certain investments?" This time, the investment is being implemented even though profits are down. What we need to do now is to increase the number of our base customers.

Q&A: First-time purchase ratio

Participant: You mentioned that the increase in first-time purchasers was one of the reasons for the decline in the average sale per customer, but the breakdown of the number of buying customers on page 26 shows that the ratio of first-time purchasers has not increased, since the number of repeat purchasers has also increased. What is happening?

Konno: My explanation was a bit confusing. The reason is the reactivated membership. As explained earlier, the number of revived customers is about 6,000, of which about 2,000 are purchasing customers. Sorry to complicate things a bit, but a reactivated member is someone who has registered in the past but stopped buying products for some reason, or has registered but never bought any products. Therefore, some of the reactivated members may or may not have purchased in the past.

Since those who have made a purchase are positioned as repeat purchasers, they are included in the repeat purchasers on the graph on the slide. In other words, part of the increasing number of repeat purchasers includes reactivated members, and new customers who have not made a purchase in the past are first-time purchasers.

Unfortunately, reactivated members, whether they have purchased in the past or not, are starting with a very low transaction value, resulting in an increase in the percentage of customers with low value of transactions.

Q&A: Advertising expenses and evaluation of profit growth in the first half

Participant: Did you spend as much on advertising in Q2 as you had planned? Or did you spend more than planned at the beginning of the period because the effects of the measures were greater than expected? Also, how do you evaluate the profit growth in H1, including the replacement of air conditioners?

Konno: We did not increase expenses. However, we had not actually decided on the timing of the TV commercial, using part of the JPY300 million originally planned. Therefore, except for that part, the expenses were in line with the plan, and we have not added any expenses.

Profit growth in H1, including the cost of HVAC replacement work, has not received a poor evaluation within the Company. The situation is not bad, just slightly below expectations.

As a side note, as I mentioned at the beginning of this presentation, the KPIs for Q2 were very good, and we are very excited about future growth. However, for the reasons I discussed earlier, sales growth has not yet manifested itself very well in Q2. The P/L for Q2 does not look very good because of the increased cost of money spent.

The Company, including myself, is confident that our future performance will be absolutely excellent. Of course, due to the upfront investment structure, sales follow later, so there is a disconnect between our sense and the P/L for Q2, which is very unpleasant. I have repeated this explanation today for your understanding.

Q&A: Why overseas EC is strong

Participant: I'm sorry to ask all these questions about overseas EC, but it seems to me that the business has also been favorable in countries other than the US, Korea, Hong Kong, and Taiwan. Is there a reason for this?

Konno: The impact of shipping fees is quite significant. Countries covered include the US as well as Canada, Australia, and other non-Asian countries. The results for countries subject to price reductions were good across the board. When only countries subject to price reductions are selected, the GMV growth rate is 14.1%.

The implementation of price reductions has by no means resulted in a loss. Last year, we had made a profit in some areas, so we gave this back to our customers. Although the YoY comparisons have looked very bad, we believe this is a measure that should be undertaken in light of future growth.

Q&A: Concerns about point hoppers

Participant: Do we need to worry about the number of buying customers like point hoppers?

Konno: Of course, there are such customers. In particular, since we are awarding 20,000 points to reactivated members, a certain number of customers will use their points and then disappear. However, this is factored in as a cost. Of course, it would be ideal if all customers were repeat customers, but we knew that was impossible, of course.

I think it is safe to say that customers who buy products even after spending JPY20,000 worth of points are not point hoppers. We, too, were a little concerned, but the repeat rate is better than we expected, and as a result we don't seem to have to worry too much.