

FY2024 3Q Financial Results

PAYROLL

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Payroll Inc.

www.payroll.co.jp

1	FY2024/3Q Financial Results	pp.3-11
2	FY2024 Second Half Business Operation	pp.12-15
3	FY2024 Full-year Financial Forecasts	pp.16-17
4	Start of a Tender Offer for an MBO	pp.18-19
	Appendix	pp.20-21

1

FY2024/3Q Financial Results

Highlights of FY2024
3Q Financial Results

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Sales revenue

+9.4% YoY

Page 5

Operating income

+0.7% YoY

Page 5

ARR from new orders

260 million yen

Page 6

ARR from new operations

410 million yen

Page 7

ARR from backlog of orders

510 million yen

Page 8

Churn rate
(Ave. monthly churn rate)

0.19%

Page 9

Consolidated Financial Results of FY2024 3Q

Both revenues and operating income grew year on year.

(millions of yen,%)

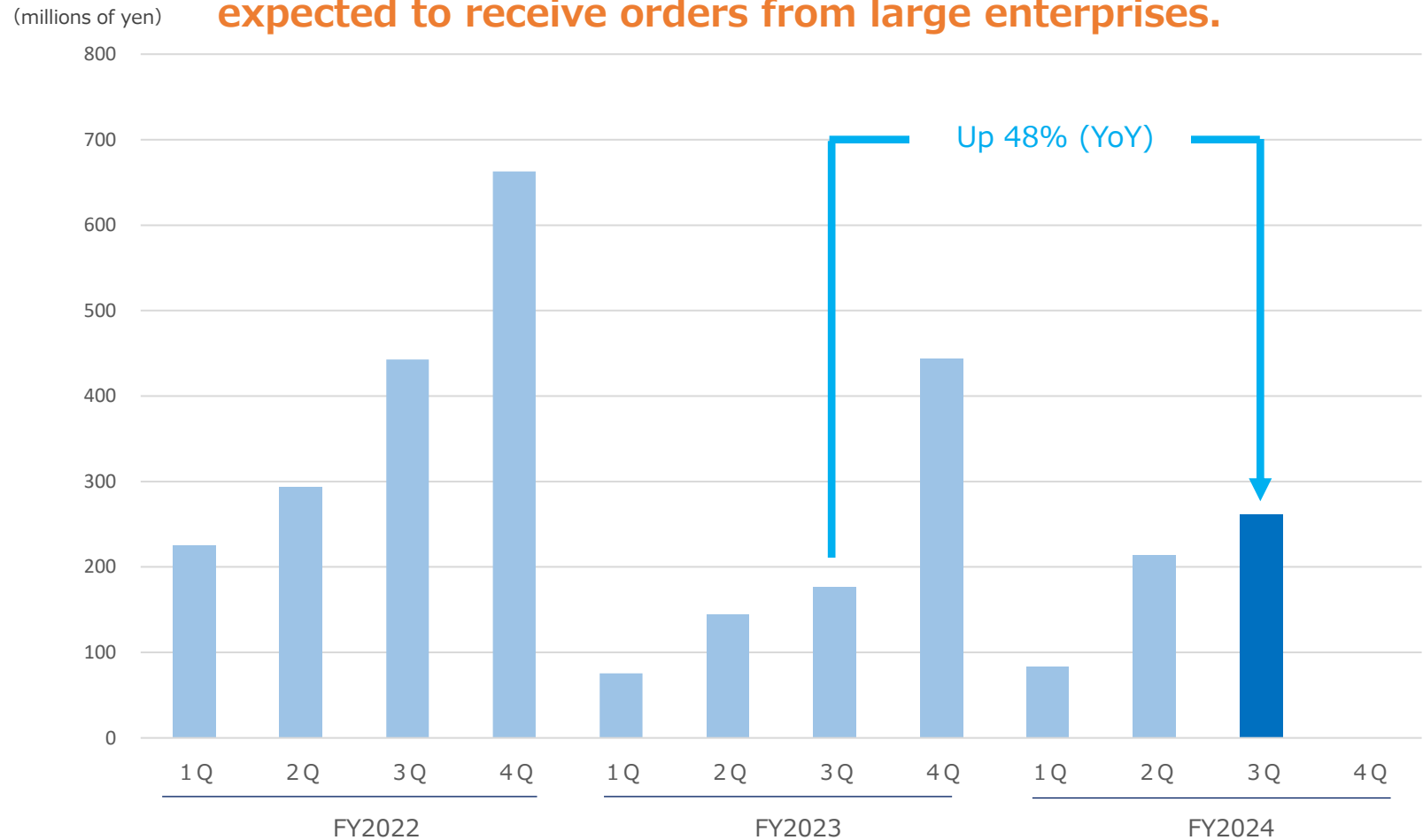
	FY2024 3Q		FY2023 3Q		Changes Rate of increase (%)	
	performance	%	performance	%	changes	%
Revenues	6,344	100.0	5,797	100.0	+547	+9.4
COGS	4,446	70.1	4,053	69.9	+392	+9.7
Gross Margin	1,898	29.9	1,743	30.1	+154	+8.9
SGA	1,069	16.9	952	16.4	+117	+12.3
Operating Income	858	13.5	851	14.7	+6	+0.7
Income before Income Tax	831	13.1	812	14.0	+19	+2.3
Profit	575	9.1	557	9.6	+18	+3.3

Both revenues and operating income grew year on year.

Revenues
6.34 billion yen
+9.4% year on year
Operating Income
850 million yen
+0.7% year on year

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

This term witnessed a gentle growth until 3Q, but in 4Q, we are expected to receive orders from large enterprises.



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

New Order : ARR

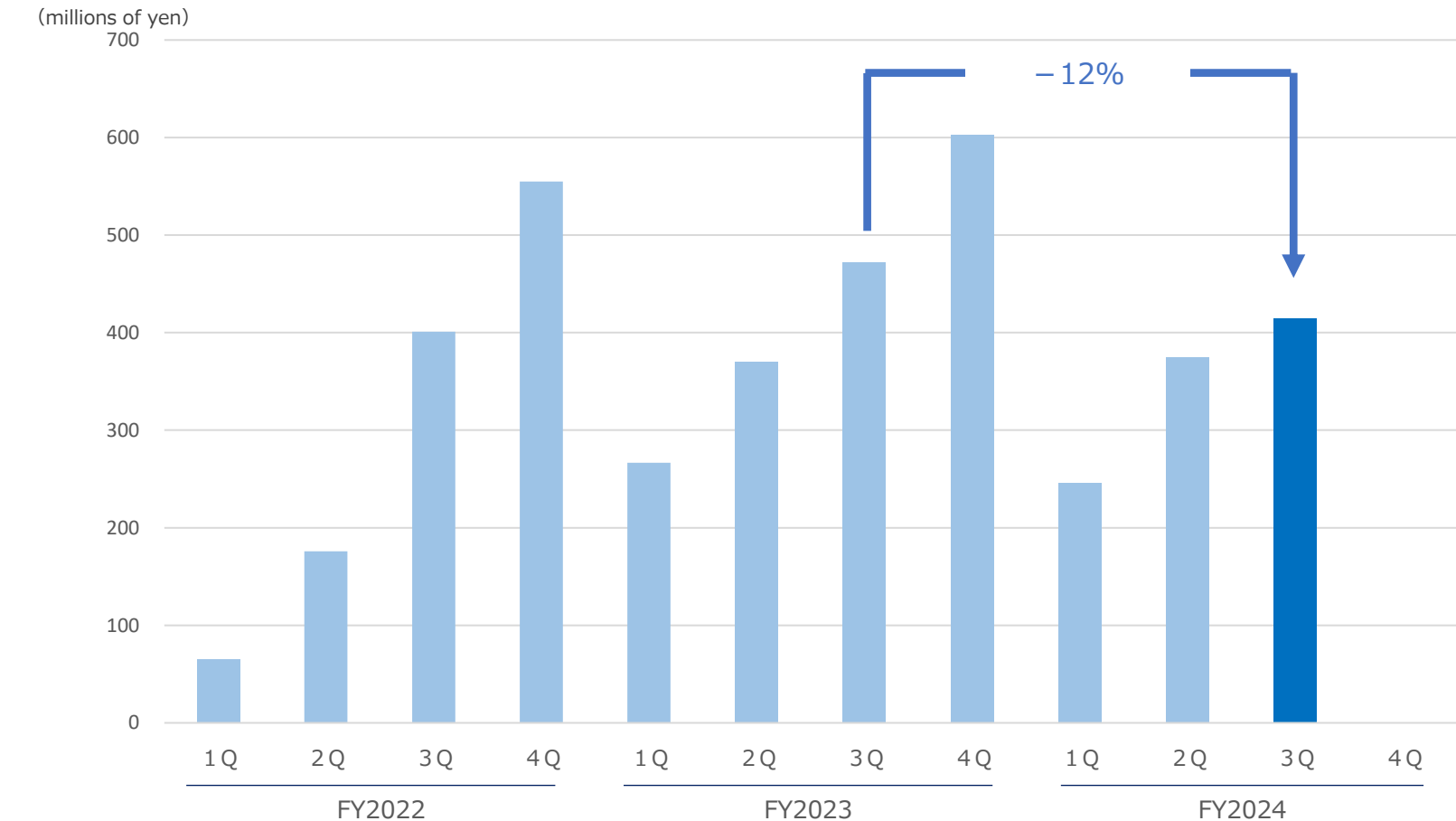
New Order (ARR) :
260 million yen,
up 48% (YoY)

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

Operating (New Clients): ARR

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

The number of orders received in 3Q of the previous fiscal year was small, so Operating (New Clients): ARR declined in 3Q of this term. In 4Q of this term, it is expected to recover thanks to the orders received in 4Q of the previous fiscal year.



※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

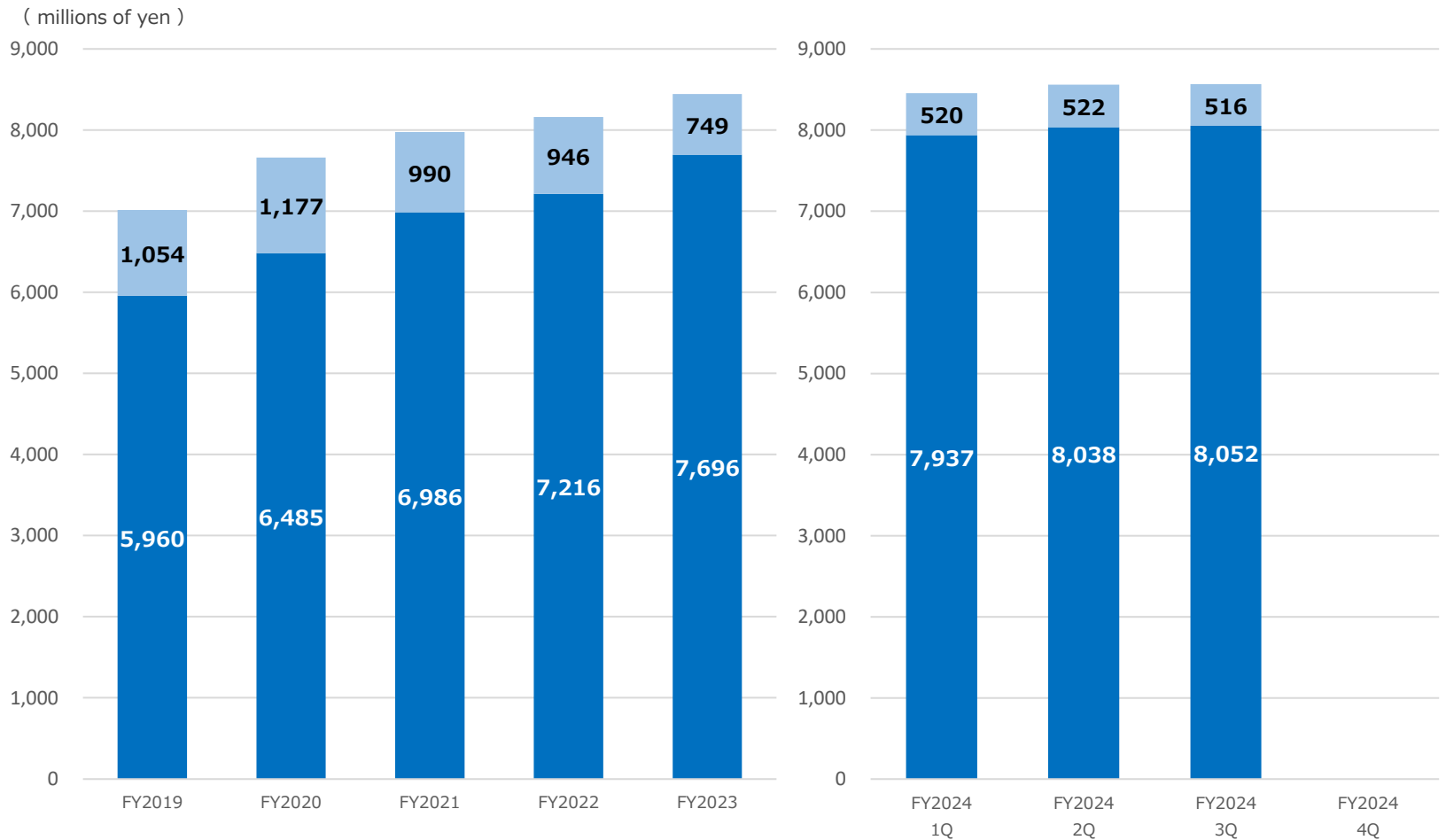
ARR from started operation and order backlog ARR

ARR from started operation: 8.05 billion yen
(up 350 million yen from the end of the previous term)

Order backlog ARR: 510 million yen
(down 230 million yen from the end of the previous term)

ARR from started operation + Order backlog ARR: 8.56 billion yen
(up 120 million yen from the end of the previous term)

Revenues increased due to the rise in ARR from started operation. Order backlog ARR decreased slightly from the second quarter, and is expected to grow in the fourth quarter, including that of BPaaS for SMBs.

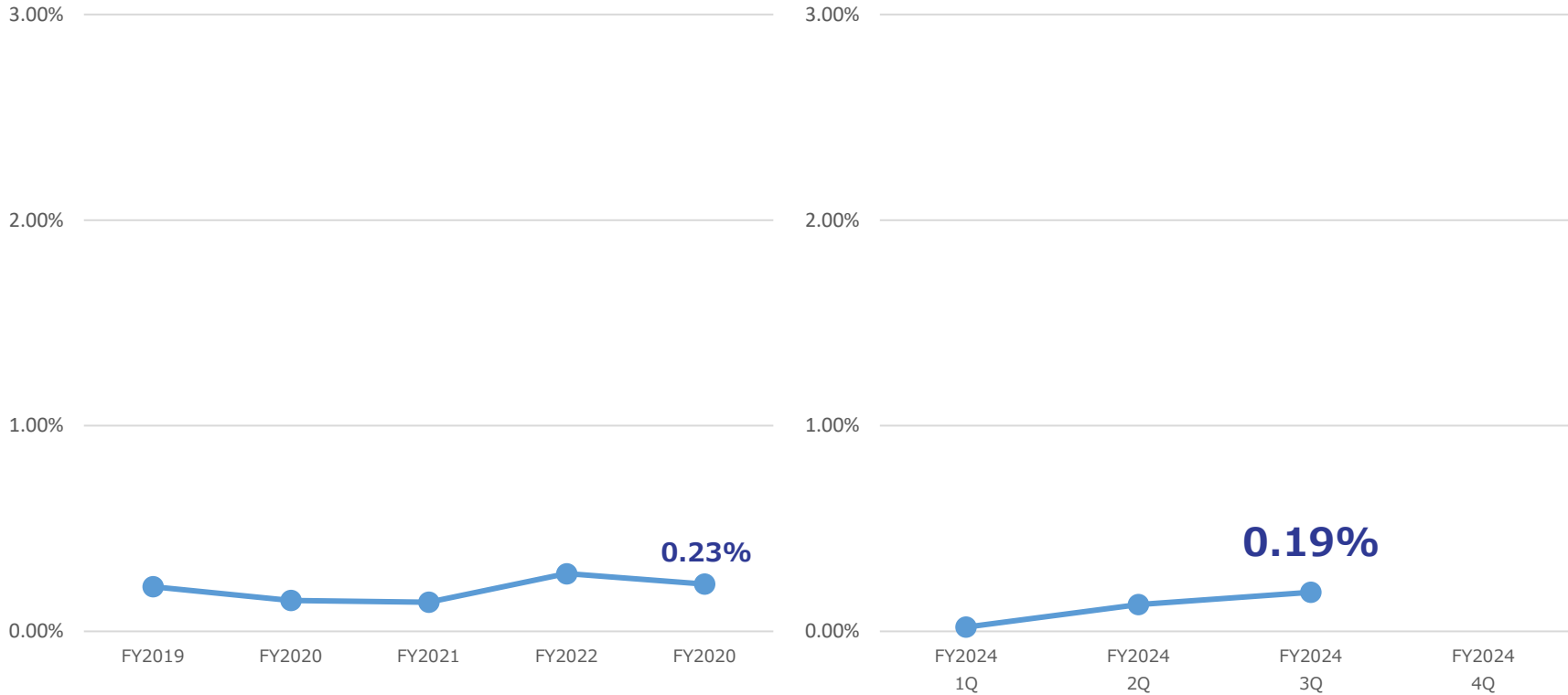


※ARR (Annual Recurring Revenue): Revenues from continuous transactions per year
 ※ARR from started operation: Revenues from already started continuous transactions per year
 ※Order backlog ARR: Total revenues from transactions for which orders have been placed and actual operations are to be conducted.

■ ARR from started operation ■ Order backlog ARR

Churn rate (Ave. monthly churn rate)

Churn rate has remained low and favorable.



Churn rate
(Ave. monthly churn rate)

Churn Rate: 0.19%

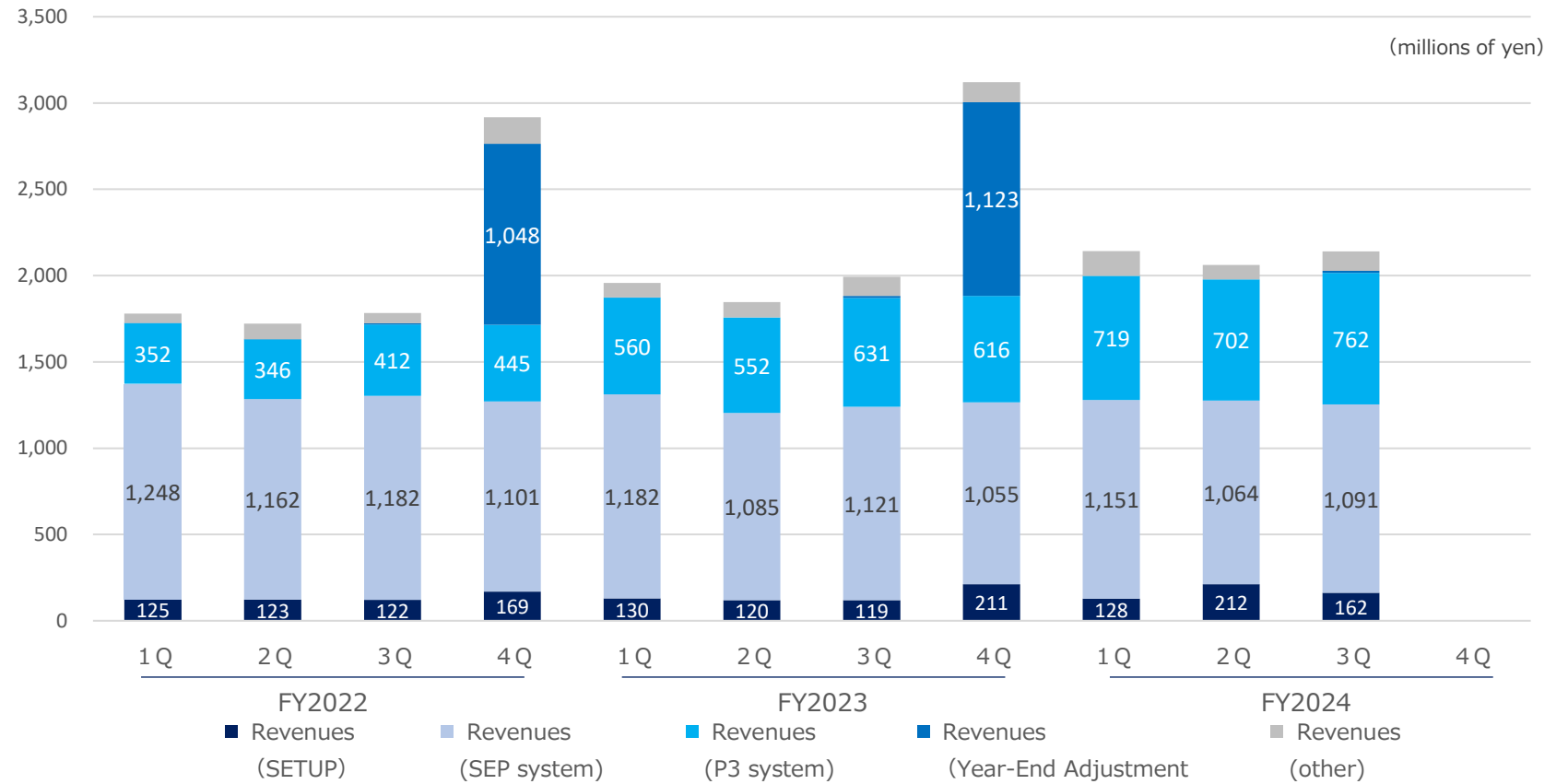
- ※ Churn Rate = (lost client ARR ÷ (existing client ARR of the previous year end + new client ARR)) ÷ Elapsed Months
- ※ Lost client ARR : ARR of clients terminated
- ※ Exiting client ARR of the previous year end : ARR of clients operated at the year end
- ※ New client ARR : ARR of new client operated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

Revenues

Steady growth, mainly thanks to the healthy performance of the new cloud system P3.

Revenues (Amount by the Quarter)

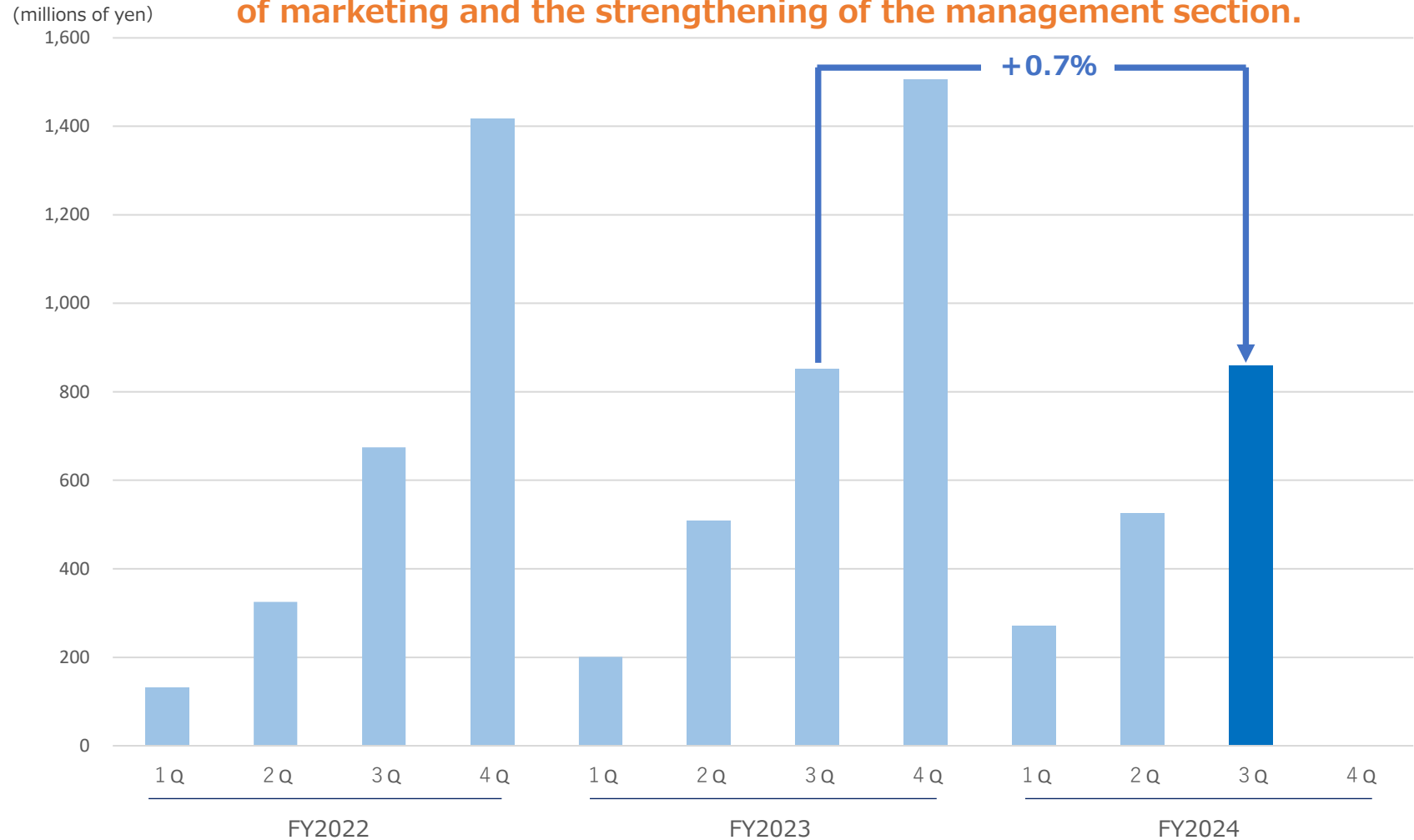
Revenues increased year on year and from the cumulative 3Q of the previous fiscal year, mainly thanks to the healthy performance of the new cloud system P3.



※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)

Growth rate was low, due to the augmentation of SGA caused by the enhancement of marketing and the strengthening of the management section.



Operating income

Operating income margin declined year on year, due to the improvement of systems and the increase of employees (cumulative 3Q: 14.7% → 13.5%, refer to page P5), but it is in line with our forecast.

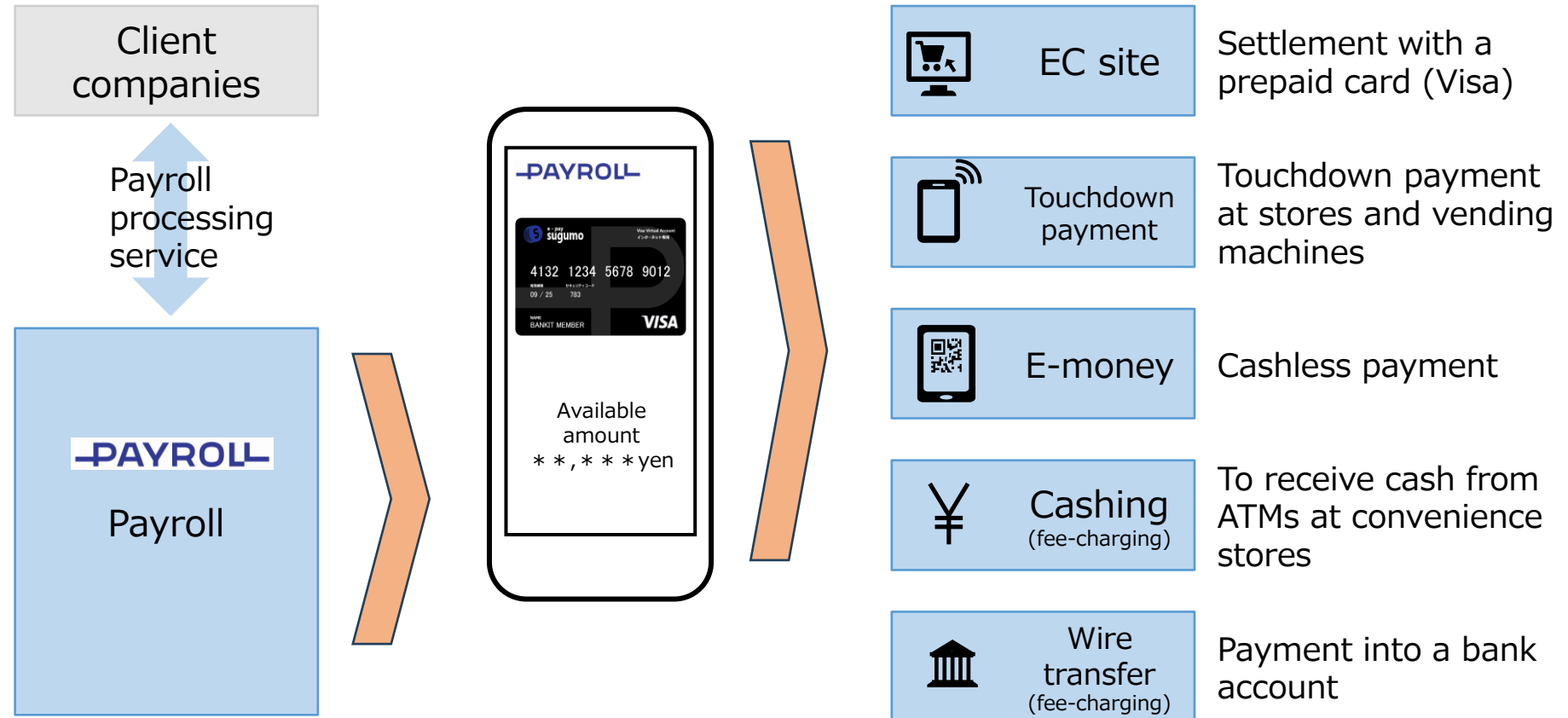
2

FY2024 Second Half Business Operation

On-demand Pay “e-pay sugumo”

Preparation for the operation of the on-demand payment system “e-pay sugumo” (to be launched in the spring of 2024)

Mainly clients in the restaurant and retail industries are thinking of adopting this. We concentrate on marketing this while developing systems and operation structures.



Schematic diagram of the “e-pay sugumo” service
After the launch of this service in the spring of 2024, we will expand services for client companies and their employees step by step.

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

Offering our service to not only enterprises, but also SMBs

In the fiscal year ending March 2024, about 10 SMBs are expected to entrust us.

“BPaaS 1.0 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 initial cost reduction of outsourcing, thus achieving flexible streamlining of business operations and personnel placement for each client.

We are explaining the necessity of outsourcing of non-core tasks in the future to companies, including prospective clients, and will continue sales activities so as not to miss business chances.

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

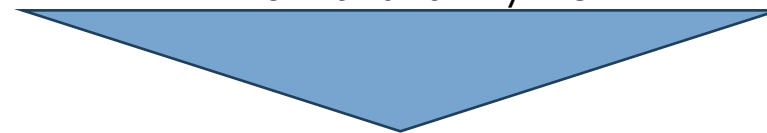
“e-pay HR KPI” service for reporting on human capital

**Addressing the needs for disclosure of non-financial information,
including information on human capital**
**In the fiscal year ending March 2024, about 90 companies are expected to
entrust us.**

At the symposium for empowering women organized by the Ministry of Health, Labour and Welfare in February 2024, we will give a presentation to introduce Pay Gap Report and our measures for obtaining the ISO30414 certification.

The Cabinet Office Ordinance stipulates that information on human capital shall be included in securities report.

Through the revision to the systems for the Act on Promotion of Women's Participation and Advancement in the Workplace, it is now mandatory to disclose information on “providing female workers with opportunities about occupational life” and “a good balance between work and family life.”



As there is a growing interest in business management focused on human capital through ESG investment and SDGs, our company will report information on client companies and statistical data on the world with “Pay Gap Report,” which offers information on human capital.

3

FY2024 Full-year Financial Forecasts

FY2024 Full-year Financial Forecasts

FY2024 Full-year Financial Forecasts

Additional expenses amounting to 140 million yen are expected as MBO-related expenses.

(millions of yen,%)

	FY2024 Full-year		FY2023 Full-year		Changes Rate of increase (%)	
	performance	%	performance	%	changes	%
Revenues	9,660	100.0	8,917	100.0	+742	+8.3
COGS	6,699	69.3	6,254	70.1	+444	+7.1
Gross Margin	2,961	30.7	2,662	29.9	+298	+11.2
SGA	1,476	15.3	1,318	14.8	+157	+11.9
Operating Income	1,562	16.2	1,500	16.8	+61	+4.1
Income before Income Tax	1,522	15.8	1,440	16.2	+81	+5.7
Profit	1,044	10.8	1,016	11.4	+28	+2.8

“Notification on execution of an MBO and encouragement of application” dated January 24, 2024 was disclosed, and additional expenses amounting to 140 million yen are expected as MBO-related expenses.

4 Start of a Tender Offer for an MBO

Start of a Tender Offer for an MBO

TA Associates Japan No. 1 Co., Ltd. decided to acquire the shares of our company through a tender offer.

Outline of the tender offer

- Buyer: TA Associates Japan No. 1 Co., Ltd.
- Target company: Payroll Inc.
- Categories of share certificates, etc. to be bought:
 1. Common shares
 2. Share acquisition rights
- Tender offer period:
Thursday, January 25, 2024 to Monday, March 11, 2024
- Tender offer price:
1,380 yen/common share

For details, please refer to the document released via the websites of Tokyo Stock Exchange and our company on January 24, 2024.

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	2,060	100.0	2,141	100.0		
COGS	1,412	72.2	1,288	69.8	1,352	67.8	2,200	70.5	1,527	71.3	1,500	72.8	1,419	66.3		
Gross Margin	544	27.8	557	30.2	642	32.2	919	29.5	615	28.7	560	27.2	722	33.7		
SGA	342	17.5	281	15.2	328	16.5	366	11.7	344	16.1	333	16.2	391	18.3		
Other Revenues	0	0.0	29	1.6	30	1.5	97	3.1	0	0.0	26	1.3	2	0.0		
Other Expenses	0	0.0	0	0.0	0	0.0	1	0.1	0	0.0	0	0.0	0	0.0		
Operating Income	201	10.3	305	16.6	344	17.3	648	20.8	270	12.6	253	12.3	333	15.6		
Income before Income Tax	187	9.6	291	15.8	332	16.7	628	20.1	261	12.2	245	11.9	323	15.1		
Profit	128	6.6	200	10.8	228	11.4	459	14.7	181	8.5	169	8.2	224	10.5		

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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