



Net Protections Holdings, Inc.

Q&A of Financial Results Presentation for the Nine Months Ended
December 31, 2023

February 14, 2024

※This is a transcript of the Q&A. The main part was disclosed on the day of the results briefing. Please click [here](#) for the main part.

Comment from CEO Shibata

Shibata, CEO [M]: I would like to summarize again what I have said today.

First of all, we expect SG&A expenses to remain mostly unchanged in the next fiscal year. In addition, we expect NP Atobarai to be more profitable due to the administrative fees for late payments. I think we are almost there to achieve profitability.

About NP Kakebarai, I think it will continue to grow steadily as it is. We believe that if we can bring down the delinquency rate a little more, we can further increase profitability.

One last thing I would like to mention is atone. atone is the business we are devoting most of our resources right now. As I just briefly mentioned earlier, our sales pipeline is growing very well, so I think we will see more and more prominent stores starting to operate one after another from about the end of this fourth quarter. We expect this momentum to increase further in the next fiscal year.

To borrow a metaphor, the engine of NP Kakebarai is now being ignited. If the engine of atone is ignited as well, I think that we will be able to increase profits as long as we can keep SG&A expenses under control. We believe we are finally ready.

We appreciate your continued support.

Question & Answer

Participant [Q]: When did you start working on improving fraud detection logic and when was it launched? Is it possible to make continuous and frequent improvements going forward?

Shibata, CEO [A]: It is something that the team is continuously working on, and we just found a major improvement point this time, and I think it was reflected in the results.

In addition to that, there were some findings on the Taiwanese side, which were also very important. We are now in the process of incorporating them into NP Atobarai and atone, so we expect further improvement going forward.

Participant [Q]: Is there any improvement in the fraud detection logic for BtoB service, NP Kakebarai?

Shibata, CEO [A]: Up until now, we have focused on expanding GMV for NP Kakebarai. However, we are now in the midst of working on improving the credit screening process in light of the current unfavorable macro environment.

We have already found some measures to be taken now, so I do not think that the delinquency rate will worsen any further. We believe that we will be able to improve the situation in the next fiscal year and beyond.

Participant [Q]: I think that the upward trend in profit for the nine months has given you some margin in your full-year forecast. What kind of expenses and measures do you intend to use for this surplus?

Watanabe, CFO [A]: I think we have made some savings, but we are not thinking of using them up in any way. We will try to do our business as initially planned. Our current policy is to reduce the deficit for the full year.

Participant [Q]: Is it correct to assume that the Company can be profitable from Q1 of the next fiscal year?

Watanabe, CFO [A]: We are in the process of drawing up our new budget, and if you look at page 10, you will see that our GMV trends are cyclical.

First, our GMV rises in Q1, then reaches its highest level in Q3, and then slightly gets lower in Q4. Therefore, in Q1 of the next fiscal year, GMV is likely to be little lower than in this Q3. Therefore, I think it is a bit difficult to say that we can be profitable from the next Q1.

On the other hand, the implementation of administrative fees for late payments, which I mentioned earlier, will take effect from Q2, so we expect to return to profitability from Q2. We are now thinking that the cumulative total will be offset in Q1 and Q2 and be in the black from Q3.

Participant [Q]: You mentioned that the improvement of fraud detection logic and the implementation of administrative fees for late payments will contribute between JPY500 million and JPY1 billion in revenue per year. Can you break this down into these two categories respectively?

Watanabe, CFO [A]: I would like to refrain from giving a clear number here. We have some assumptions here, but rather than giving you a figure, let me refrain from doing so here. Thank you.

Participant [Q]: You mentioned that you are going to offer installment payments as a new atone service. Please tell me what is the difference between atone and Atokara or Paidy, and how enthusiastic you are about competing with these services.

Shibata, CEO [A]: First of all, Atokara has just made an announcement, and we are still not completely sure how it will come to be. However, I think this is an area where Paidy has been.

We would like to observe their movements first and consider how to utilize the know-how from AFTEE in Taiwan.

Also, rather than focusing on installment payments alone, we would like to consider what type of membership service we can offer to our customers. We are already discussing this internally, and we would like to create something unique and powerful.

Participant [Q]: Do you also plan to offer long-term installment payments?

Shibata, CEO [A]: We are under consideration right now. We are not likely to offer long-term installment payments from the beginning.

Participant [Q]: If you started to offer installment payment service, we assume that your balance-sheet will expand and also that your loan provision ratio will increase. In that case, could you please tell us how your company will manage its cash flow?

Watanabe, CFO [A]: As I mentioned earlier, we already have our accumulated know-how in AFTEE Taiwan. Therefore, we would like to adopt these measures and try to make this ratio as low as possible.

Of course, funds will be laid aside, so the balance sheet will expand accordingly. However, we have sufficient funds, including a commitment line, so we are not worried about that. That's all from me.

Participant [Q]: I have heard in the past that one of your company's strengths was having no installment payment service, and this was a strength that merchants could use without worry.

Now that you are starting to offer installment payment service, is this because there was such a strong demand for installment payment from merchants?

Shibata, CEO [A]: Demand from existing merchants is not that strong. In fact, there are many merchants with low unit prices on our platform, so there is not much demand for installment payment.

However, we have not been able to penetrate the high-end market, where customers prefer to pay in installments, so we are planning to target that market.

Participant [Q]: Please tell us if there is any acceleration of your merchant acquisition or any positive impact on GMV as a result of offering installment payment service.

Shibata, CEO [A]: Since we are still in progress, we are not able to factor it into our budget yet. However, we are actually able to approach more industries, and we think there is a great business potential for the next fiscal year and the year after that.

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