Financial Results Briefing Materials for the Second Quarter of the Fiscal Year Ending December 31, 2021

(TSE Mothers: 4013)

STRICTLY PRIVATE AND CONFIDENTIAL

August 11, 2021

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1. Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2021 (FY2021)

Summary of Financial Results for the Second Quarter of FY2021

- The deviation rate of net sales from the forecast for 1H was -11%, partly due to the impact of the COVID-19 pandemic on the on-premises business.
- The deviation rate of profit from the forecast for 1H was 4%, even though net sales were below the forecast for 1H.

Consolidated statement of income (Unit: Million yen)

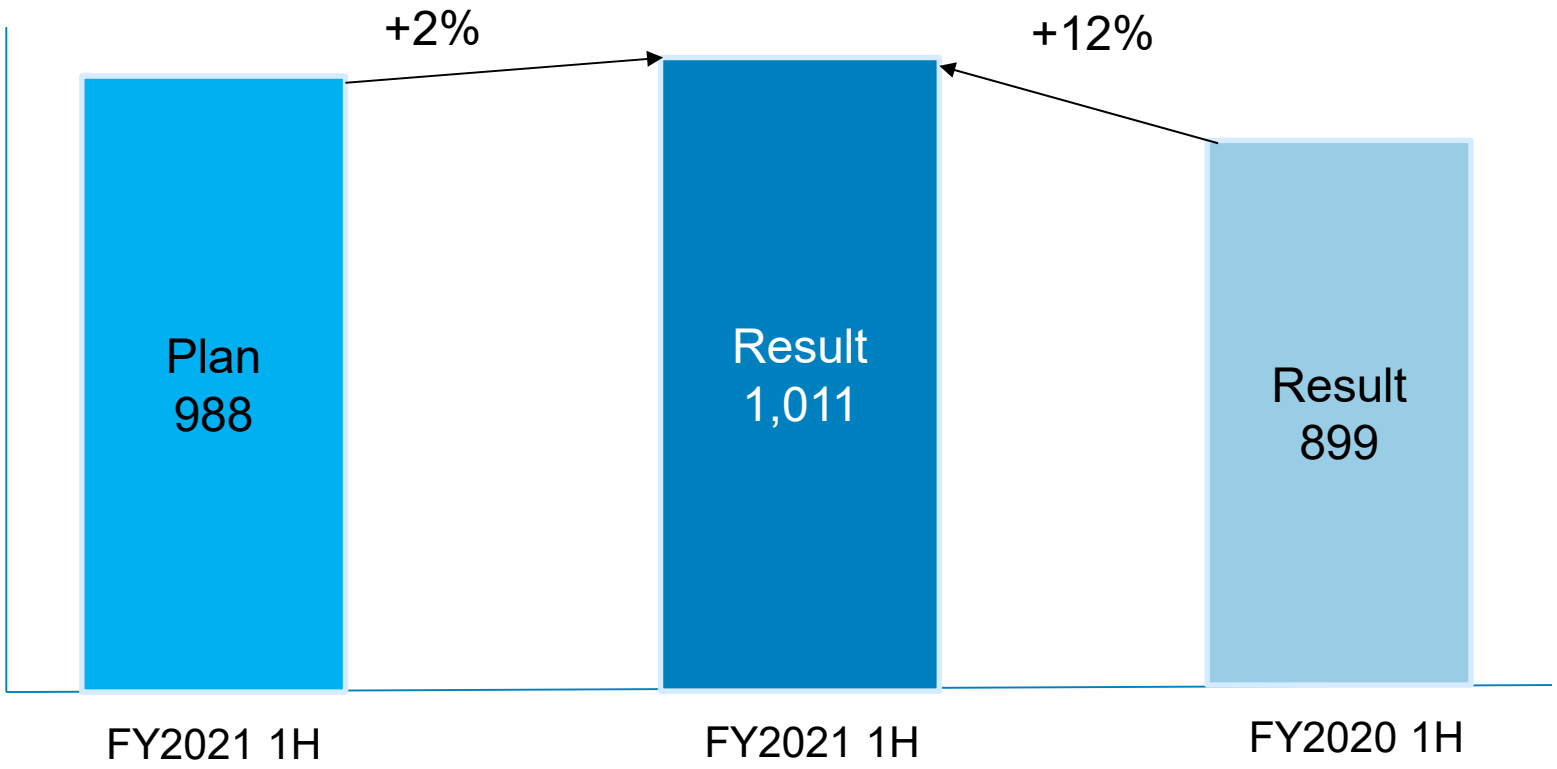
	FY2021 1H forecast	FY2021 2Q results	Rate of divergence	YoY change
Net sales	1,916	**1,710**	-11%	-3%
Operating profit	161	**179**	11%	-48%
Ordinary profit	162	**180**	11%	-48%
Profit	113	**118**	4%	-48%

Sales in Cloud Business

- Net sales were 1,011 million yen, up 2% year-on-year, exceeding the target, even though the business was impacted by the COVID-19 pandemic. Net sales were up 12% year-on-year. (Cloud license sales alone grew 24% year-on-year.)

Comparison with the forecast for 1H and the result for the same period of the previous year
(Unit: Million yen)

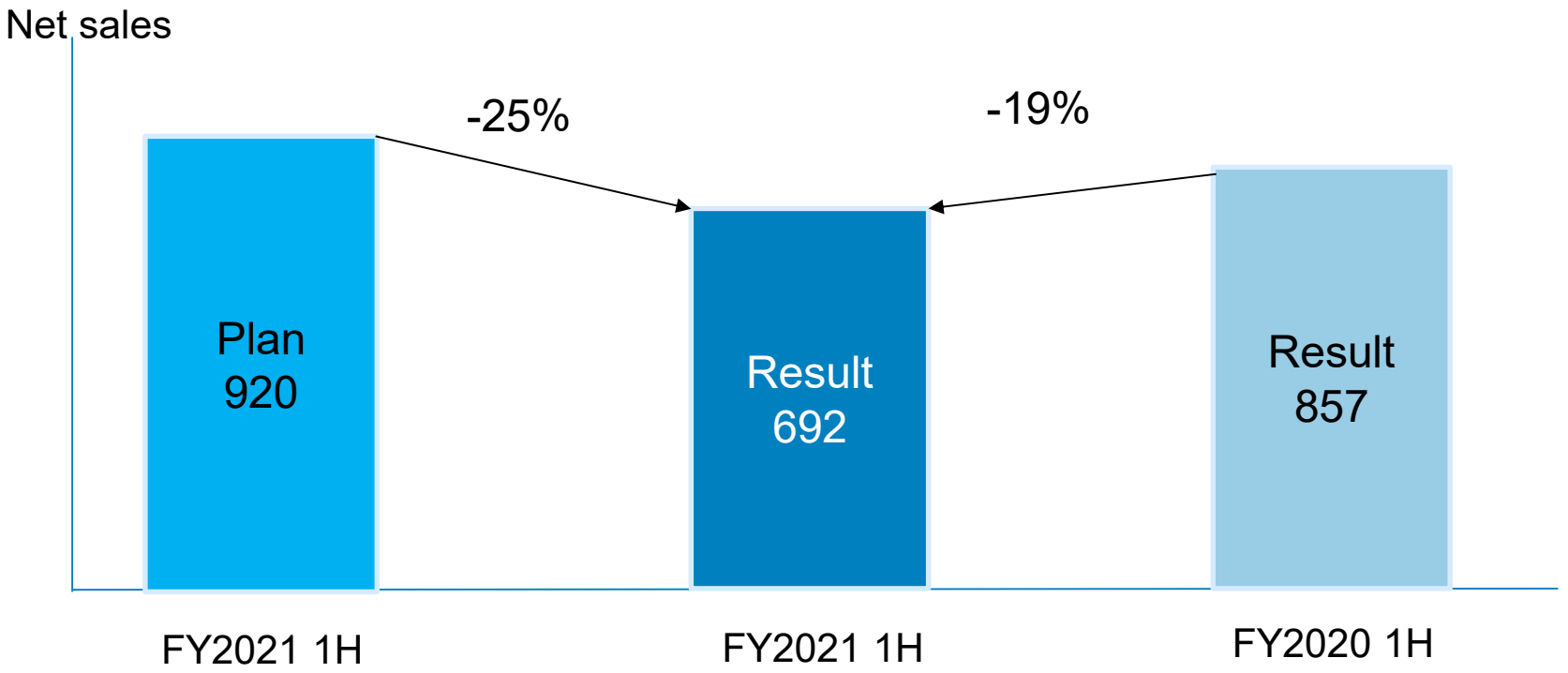
Net sales



Sales in On-premises Business

- Net sales were 692 million yen, down 25% against the plan, due to factors including the postponement of orders by corporate clients in consideration of the impact of COVID-19, as well as a shift to cloud-based-contracts, and down 19% year-on-year.

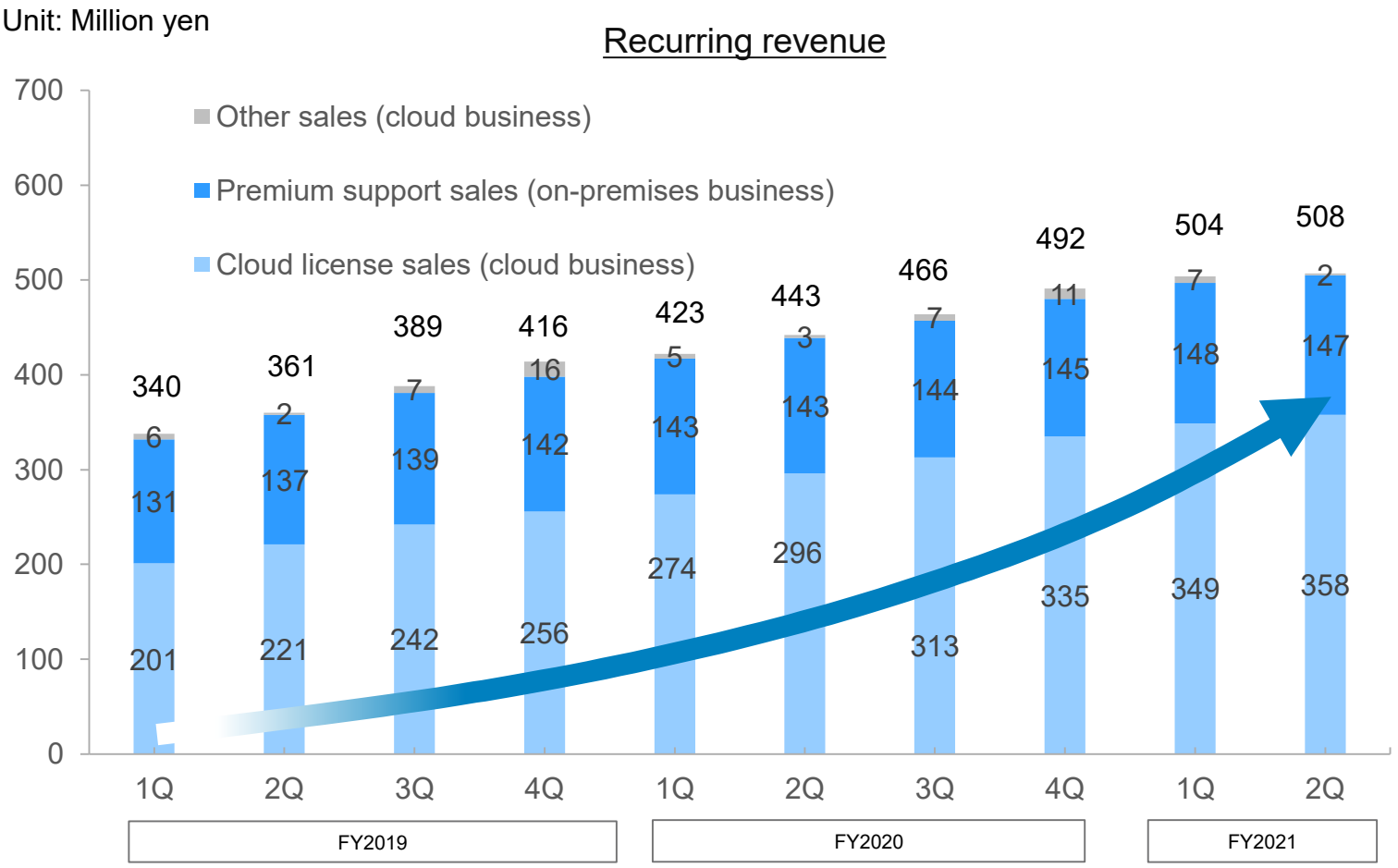
Comparison with the forecast for 1H and the result for the same period of the previous year
(Unit: Million yen)



Quarterly Trend in Recurring Revenue

- Recurring revenue, primarily composed of cloud license sales and premium support sales, is also growing on a quarter-by-quarter basis. Cloud license sales in particular display an average quarterly growth rate of 6.7%.

Unit: Million yen



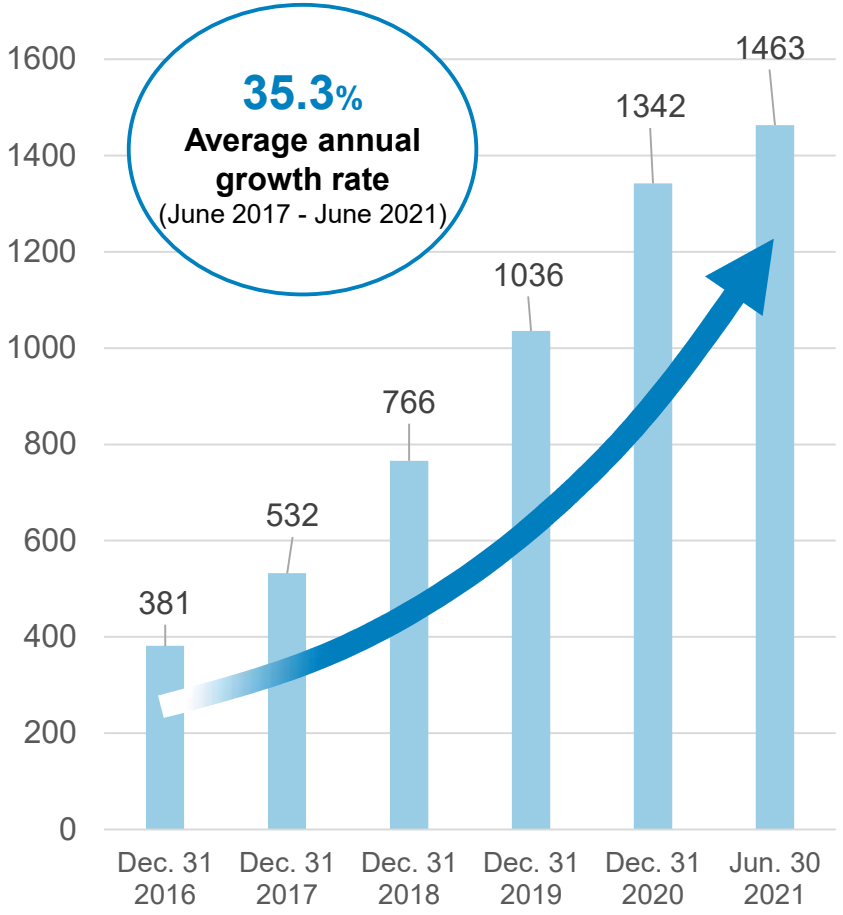
6.7%
Average quarterly growth rate
(June 2019 – June 2021)

Number of Corporate Clients on Contract and Number of Licenses*1

- High growth continues in the number of licenses, with an average annual growth rate of 42.1%.

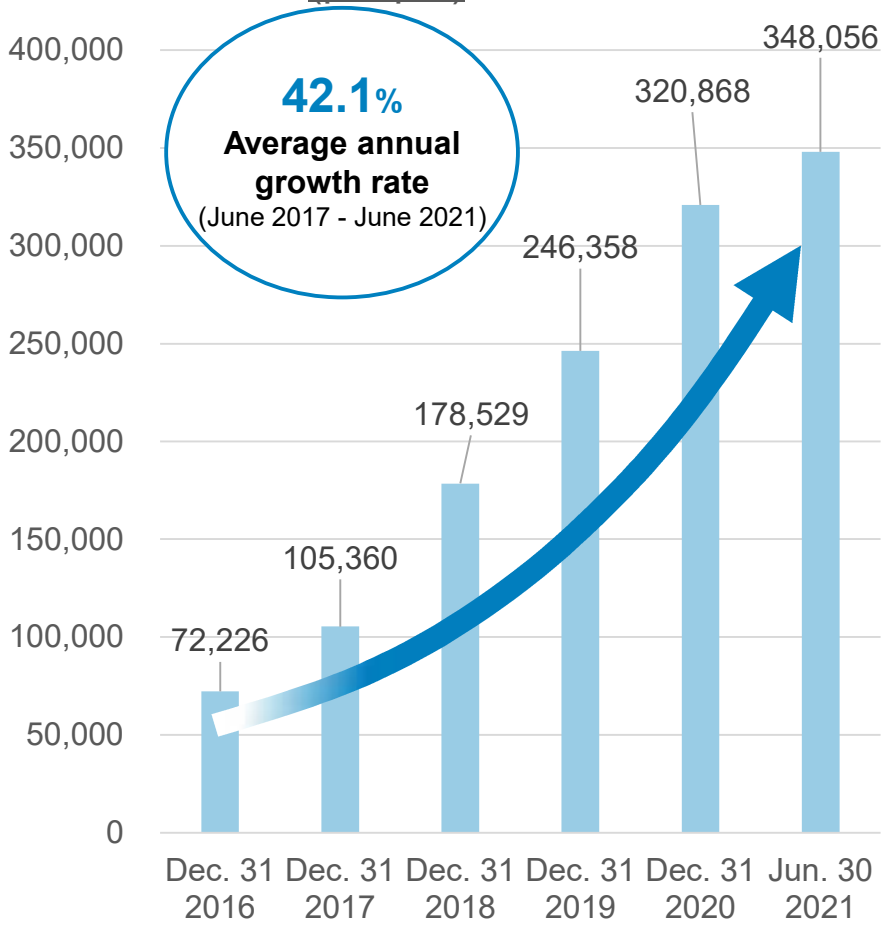
Number of corporate clients on cloud-based contracts (companies)

End of 2Q



Number of cloud-based licenses (people)

End of 2Q



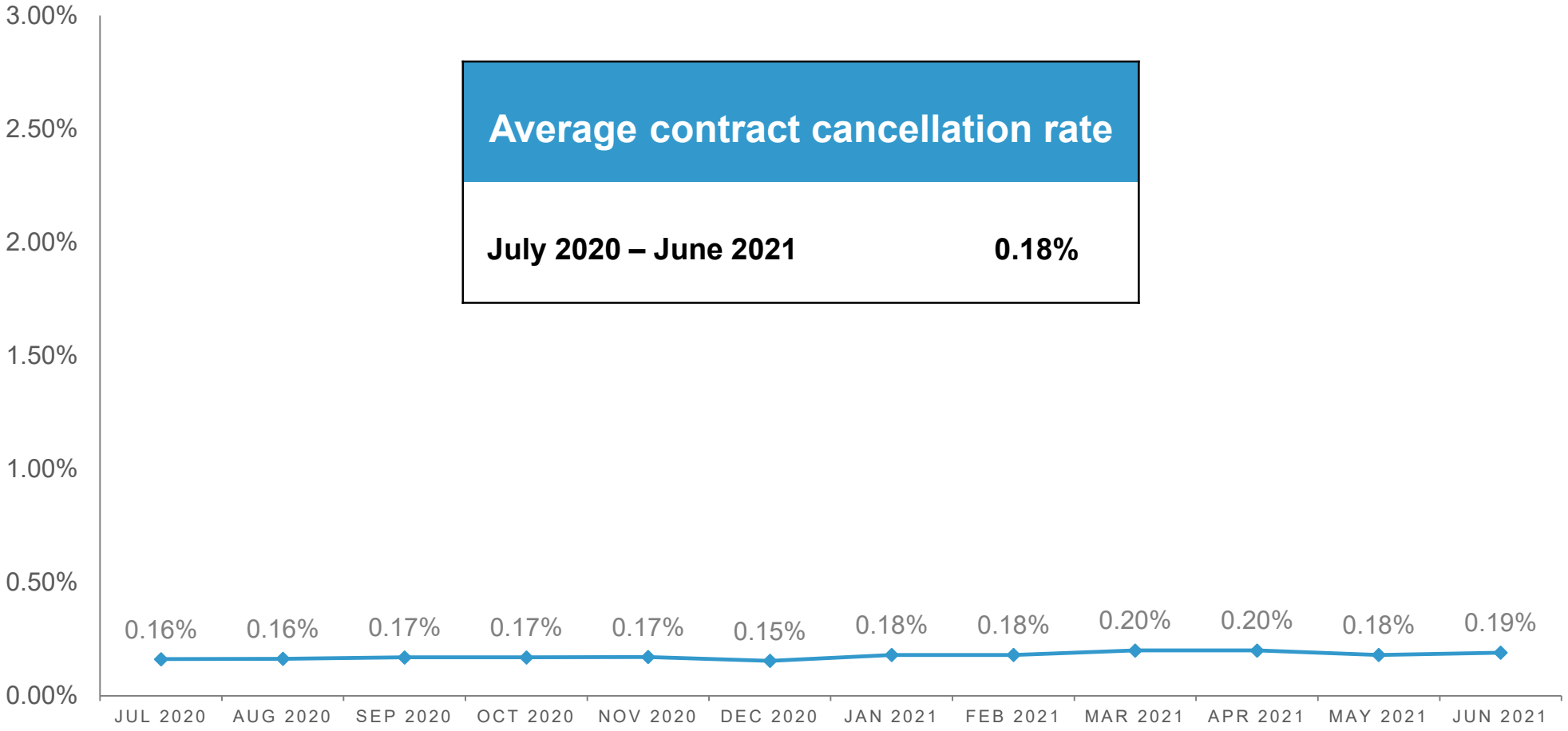
*1. The number of licenses for each employee at a corporate client is counted as one, even where the employee uses multiple services (Recruitment, HR, Salary, *Health × Life*).

Cloud-based Contract Cancellation Rate

- The average number of cloud-based contracts cancelled per month remains stable at a low rate of 0.18%.

Cloud-based contract cancellation rate*1

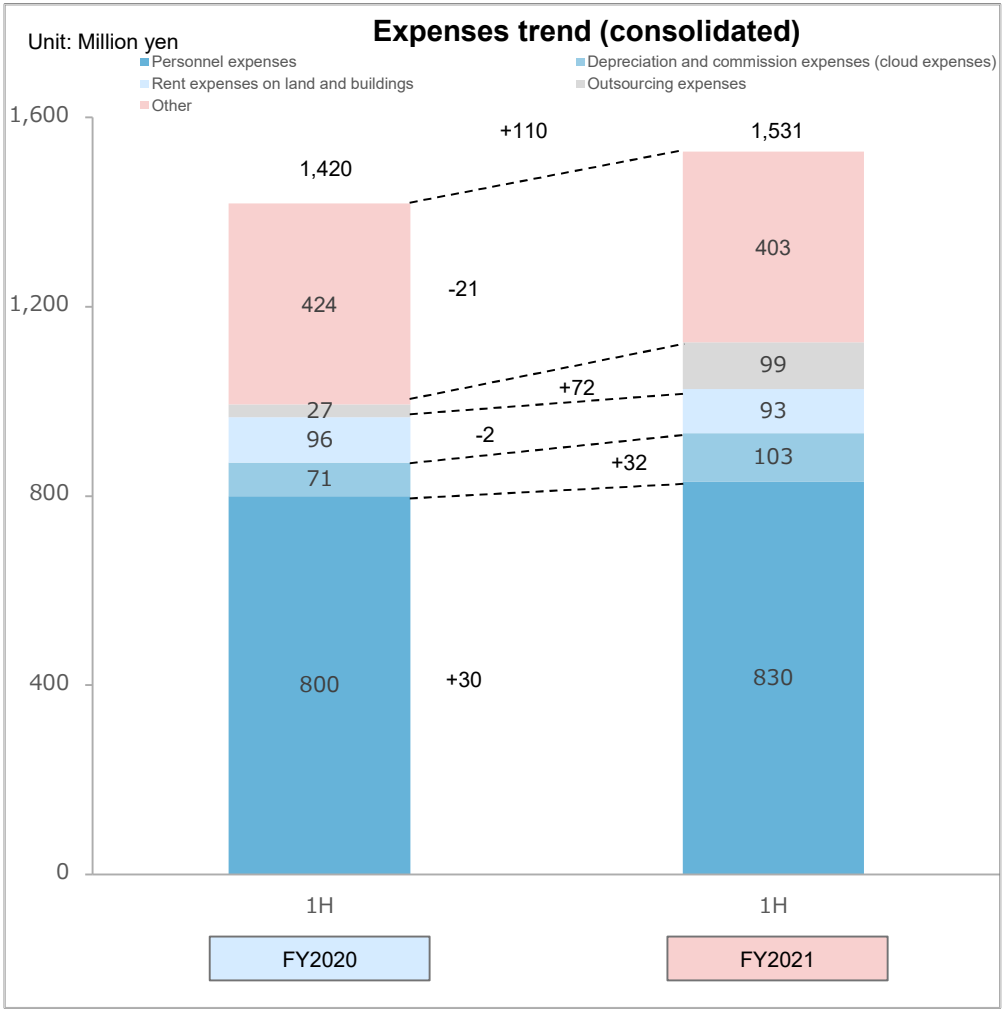
Average contract cancellation rate	
July 2020 – June 2021	**0.18%**



*1. Monthly average cancellation rates. Calculated by dividing revenue from customers who cancelled their contracts in that month, by revenue as of the previous month end.

Cost Structure

- The cost structure for the first half of the fiscal year ending December 31, 2021 were as follows.



- Total expenses increased by 110 million yen compared to the costs in 1H FY2020.
- The largest increase in expenses was in outsourcing expenses, with an increase of 72 million yen. This was due to an increase in expenses to promote the development of *Next-generation Kinjiro*.
- The next largest increase in expenses was in depreciation and commission expenses (cloud expenses), with an increase of 32 million yen. This was due to an increase in the sales of cloud-based licenses and increase in expenses for server equipment for the *Next-generation Kinjiro* test environment.

2. Management Policy and Other Matters

Corporate Philosophy: *CSR & Innovation*

We aim to be a company that offers cloud and platform services to support the DX initiatives of our corporate clients. In order to publicly express this image, on March 27, 2021, we changed our company name from NittsuSystem Co., Ltd. to

Kinjiro Co., Ltd.
勤次郎株式会社

Corporate Philosophy *CSR & Innovation*

We will pursue better relationships between people, time and technology through our cloud business and *HRM & HL Platform*, and engage in CSR, contributing to society by supporting *work style reforms* and *health & productivity management* and *better health* for the entire population.

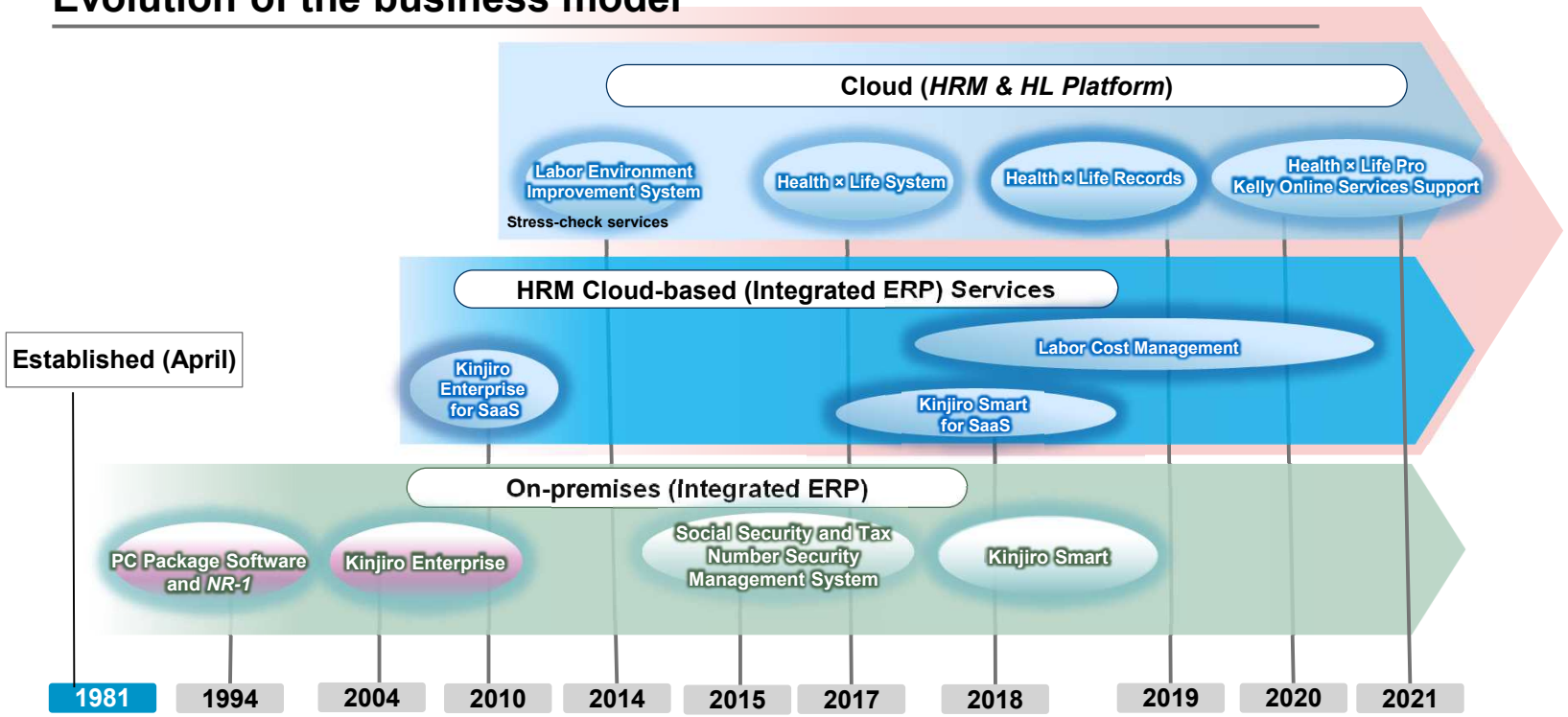
Business models: *B-to-B*, *B-to-B-to-E*, and *B-to-C*

HRM: Human Resource Management (refers to strategic engagement in personnel procurement, assignment and development, and personnel management systems, etc. from a medium- to long-term perspective, with the aim of achieving corporate management strategies and business strategies)
HL: Health Life
B-to-E: Transactions between businesses (B) and employees (E)

Evolution of our Business Model

From the on-premises business*1 to the cloud business*2

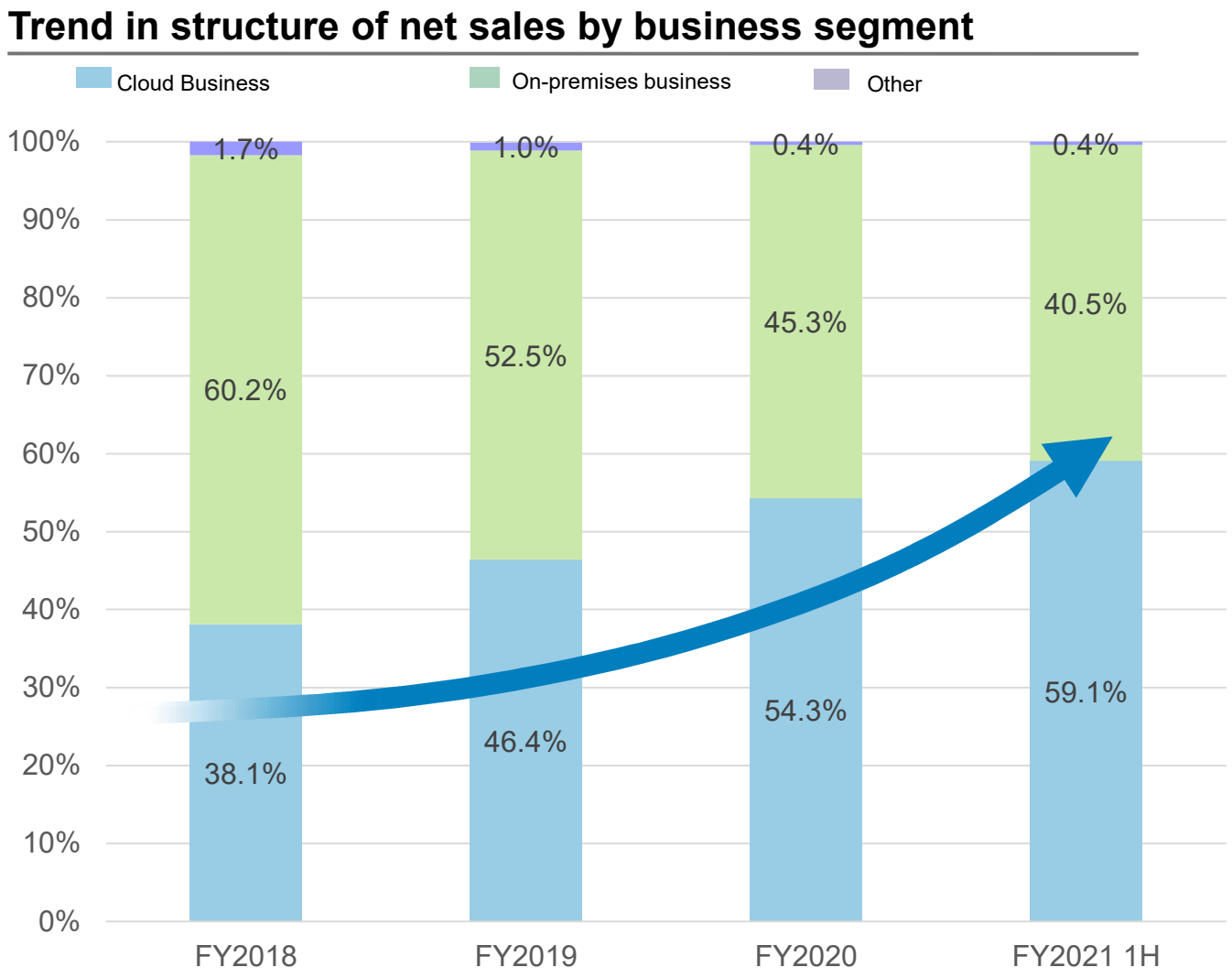
Evolution of the business model



*1. “On-premises” refers to cases when software operations are carried out at the location of the user's premises.
*2. “Cloud” refers to providing services to users through the Internet and other networks.

Trend in Structure of Net Sales by Business Segment

- **The proportion of net sales from the cloud business is continuing to increase.**



HRM & HL Platform Services

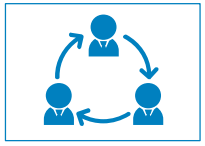
- Integrated platform services that realize *work style reforms* and *health & productivity management*

B-to-B, B-to-B-to-E ⇒ B-to-C (after graduation from a company)

Work style reform data



Working hours data



HR data



Salary data



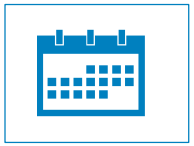
Workload management



Cost analysis data and simulation



Social Security and Tax Number data



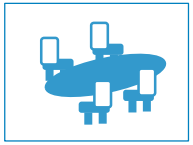
Journal management



Reimbursements



Approval procedure management

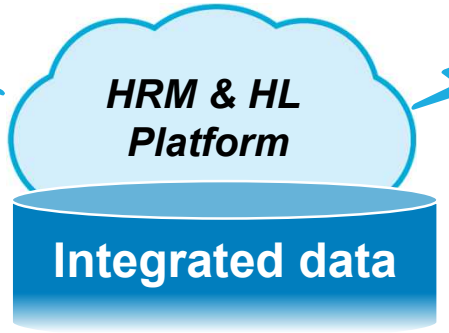


Facilities booking management



Entry management

Cloud-based services



Labor management data, health screening data, health improvement data, stress check data, eating habits data, medical examination data, childcare and developmental data

- Health x Life Pro & Online Services
- Integrated Data Analysis Services
- Labor Cost Management Services
- Analysis and AI predictive forecasts

Health management data

Utilization of employee data by consumers themselves

Mental and physical health care



Health screening results management



Support from industrial physicians and public health nurses



Health screening results diagnosis



Stress checks



Organization analysis



Health improvement lifestyle log



Electronic medical records (For remote medical treatment)

Integrated Data Services Utilizing the *HRM & HL Platform* (B-to-B)

Enterprise
B-to-B

Cloud-based services

HRM & HL Platform

Integrated data

Labor management data, health screening data, stress check data,
Health improvement data, eating habits data,
medical examination data, childcare and developmental data

Consumers
B-to-B-to-E, B-to-C

Consumers themselves can utilize their health data to improve their health

Health x Life Pro & Online Services

Labor cost management services

- Labor cost analysis
- Labor cost simulation
  Personnel expenses simulation
  Retirement payments simulation

Integrated data analysis services

- Analysis of costs from labor productivity losses due to absenteeism and presenteeism
- Labor, health screening and stress check data analysis
- Visualization of work style reforms and health & productivity management

Consultations with industrial physicians and public health nurses

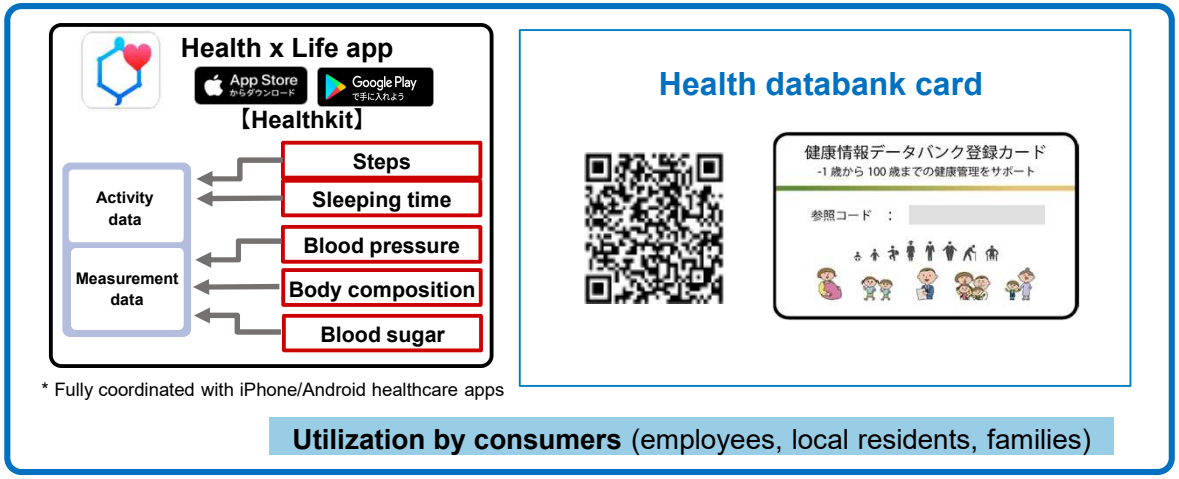
Support that utilizes integrated data analysis services
* Online consultations are also possible

AI predictive forecasts, prevention and improvement

Utilization of integrated data for labor, health screening and stress check

HRM & HL Platform (B-to-B-to-E, B-to-C)

Consumer registrations: Utilizing data for 218,000 consumers



Supervision and establishment of evidence with universities and medical institutions

Employee data for business enterprises
Local resident data for local governments

Health screening institution data

Cloud-based services

HRM & HL Platform

Clinical physicians, industrial physicians and public health nurses
Health x Life Pro & Online Services

Fertility, the MCH Handbook and childcare support (Mama Kelly)

Electronic medical records system (Remote medical systems)

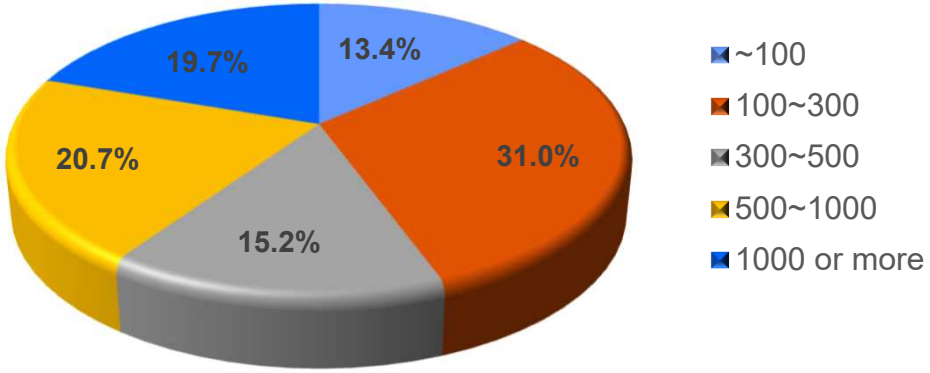
Health improvement content
Collaboration with third parties

Proprietary content service

Kinjiro Enterprise Implementation Results
Breakdown by Scale and Industry

- **Breakdown of implementation by number of employees (On-premises) *1.17 million users**

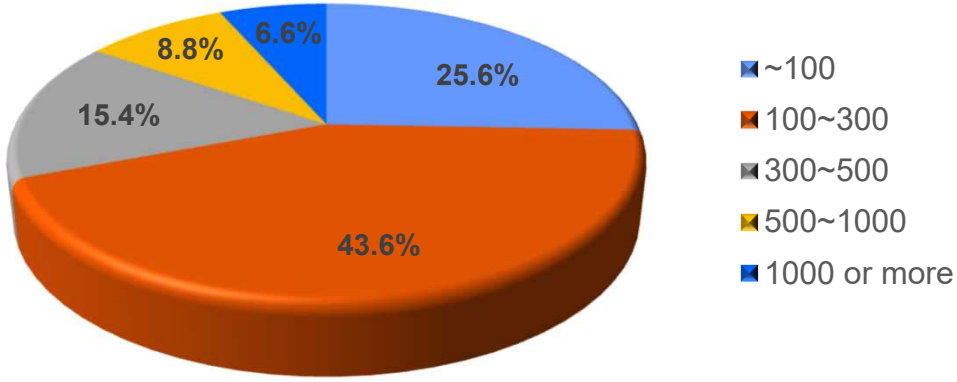
* As of June 30, 2021



Mainly mid-size and large enterprises

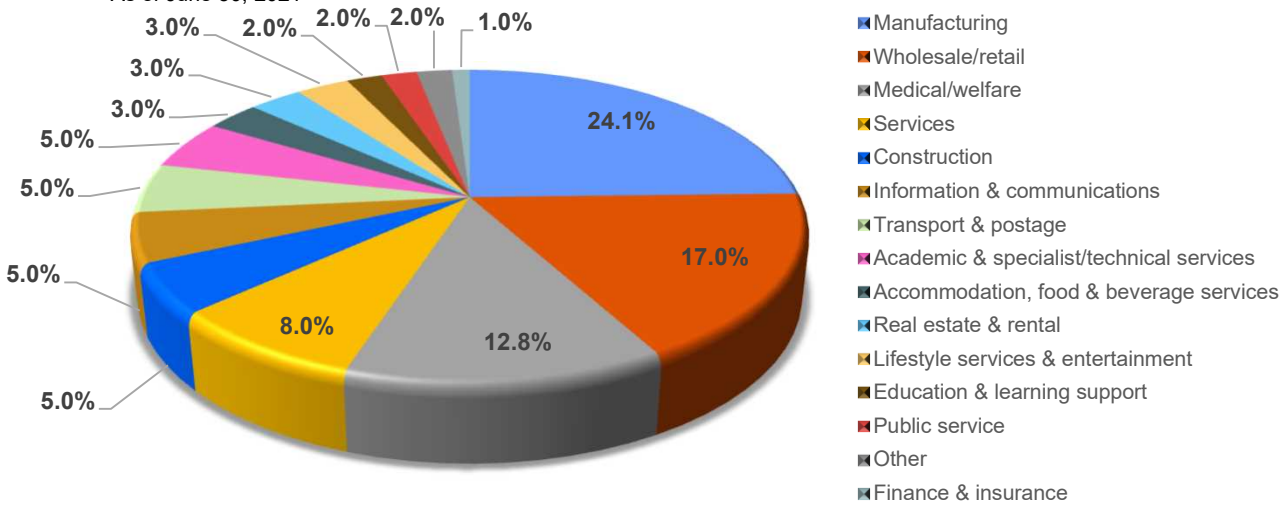
- **Breakdown of implementation by number of employees (Cloud) *0.34 million users**

* As of June 30, 2021



- **Breakdown of client numbers by industry**
  ***Implemented at a diverse range of different enterprises**

* As of June 30, 2021



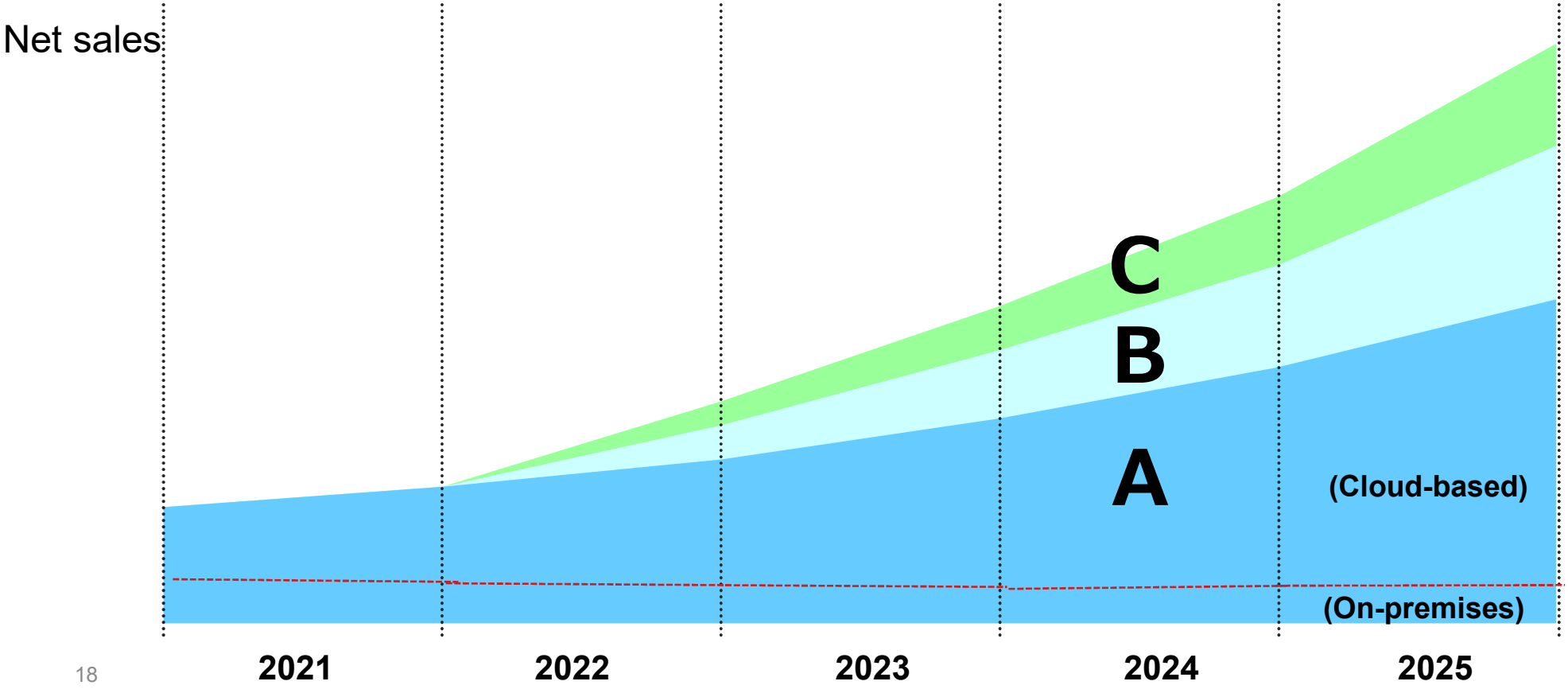
Sales Growth Strategy

Realize further growth through *HRM & Health x Life*

A ⇒ **Further accelerate ongoing growth with work style reforms and health & productivity management**

B ⇒ **Shift 1.17 million on-premises user licenses to cloud-based services with *Next-generation Kinjiro***

C ⇒ **Expand sales in platform businesses with revenues from monetization of B-to-E and B-to-C services, as well as AI, electronic medical records, third-party services, etc.**



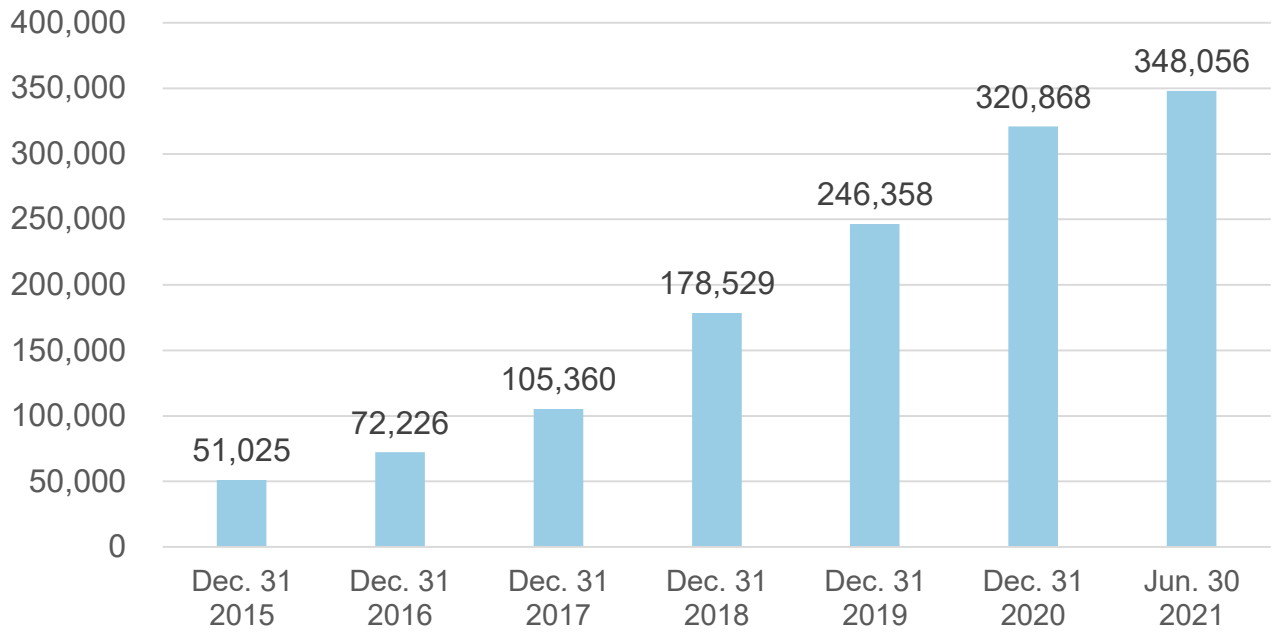
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Sales Growth Strategy

A: Expand sales to new customers (Work style reform and health & productivity management)

- The number of cloud-based licenses is set as a management indicator due to the ability to record stable revenues from cloud license sales, which is recurring revenue and the high user demand for cloud-based services

Number of cloud-based licenses



42.1%
Average annual growth rate
(June 2017 - June 2021)

Maintain this level

- Regarding on-premises, in response to legacy issues, we anticipate that scratch users will switch to packages. However, we believe that sales will slightly decrease as a result of a shift to cloud.

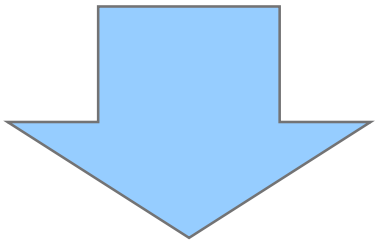
Sales Growth Strategy
B: Shift on-premises users to cloud

- Shift 1.17 million Kinjiro Enterprise on-premises user licenses to *Next-generation Kinjiro* (the provisional name for Universal-K (code name)), which is currently under development

*Next-generation Kinjiro: (Version 1) scheduled for release in July, (Version 2) scheduled for release in December

On-premises: Approximately 1.17 million user licenses ⇒ Move around 80% to cloud-based services *1

Result as of June 30, 2021



*1. Estimated based on current customer needs

After gradually moving licenses over a period of five years

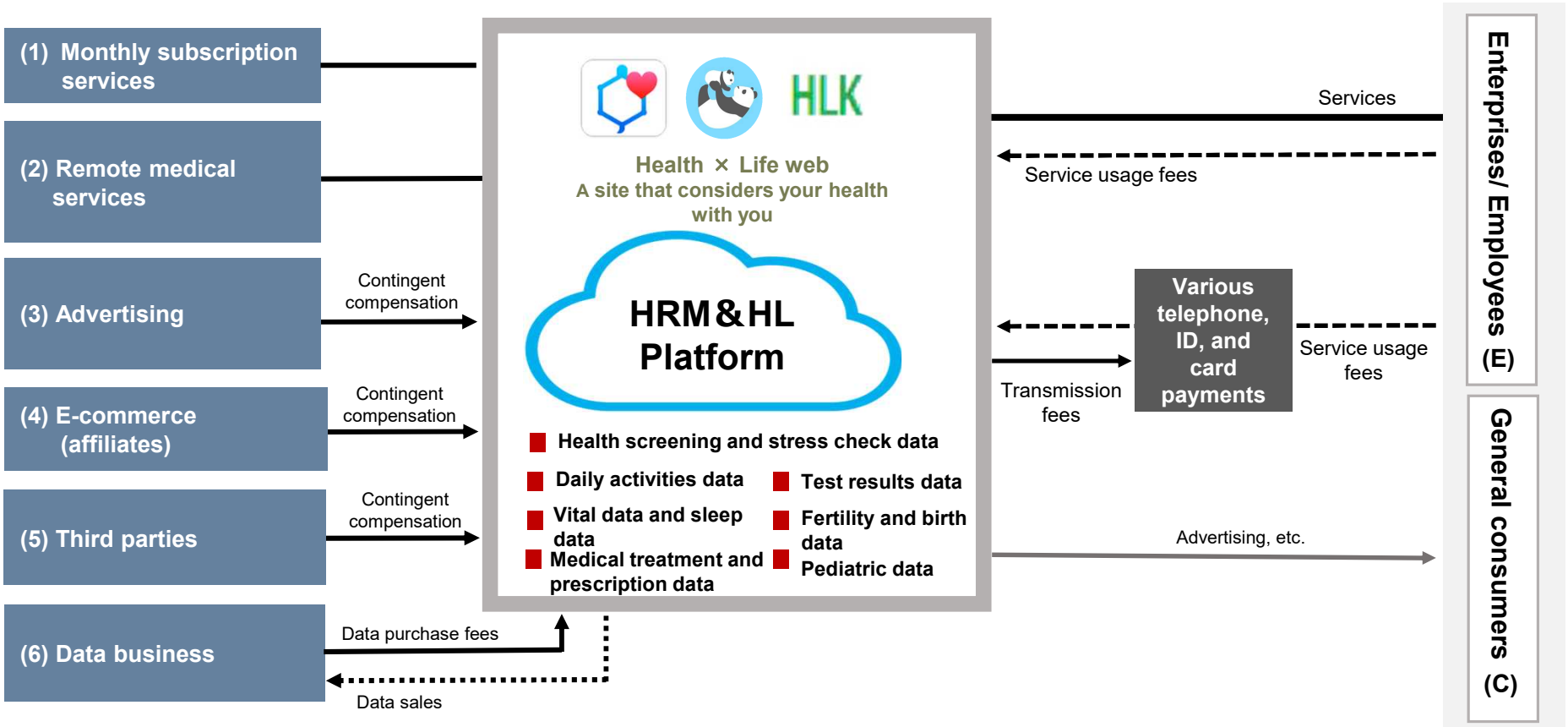
500 yen per license*2 / month x Approx. 900,000 licenses x 12 months
= Approx. 5.4 billion yen

*2. The average revenue per license (ARPU) will be increased from the current level of Approx. 350 yen to at least 500 yen through promotion of the use of *Health × Life*, *Health × Life Pro*, and subsystems such as Labor Cost Management and AI.

Sales Growth Strategy
C: Consumer business utilizing platforms

HRM & HL (system diagram of B-to-B-to-E / B-to-C monetization)

Consumer registration: Monetization from the utilization by 218,000 consumers



* Monetization: A term that has been used in the Internet world since about 2007 as a method to generate revenue from free online services. For example, in the case of banner advertising, revenue is generated from advertisers as advertising fees without charging users.

Sales Growth Strategy

C: Support services for industrial physicians and public health nurses

- As a means of achieving health & productivity management and extending healthy lifespans through the integrated management of data related to work styles, health examinations, stress checks, lifestyle logs, etc., online examinations are beginning to increase in popularity, against a backdrop of online consultations by clinical physicians, industrial physicians, and public health nurses, and the COVID-19 pandemic

Health × Life Pro & Kelly Online Services

Health x Life app

App Store からダウンロード | Google Play で手に入れよう

【Healthkit】

Activity data	Steps
	Sleeping time
Measurement data	Blood pressure
	Body composition
	Blood sugar

* Fully coordinated with iPhone/Android healthcare apps

E and C

Employees | Families

Linked with data on steps, heart rate, etc.



Cloud-based services

HRM & HL Platform

Industrial physician support function (Industrial medicine diagnosis function)

Online clinical physician consultation service

Online industrial physician consultation service
Online public health nurse service
Corporate losses cost analysis services

* Online consultations are also possible

Enterprises, local governments, and health screening institutions

Using the health databank registration card

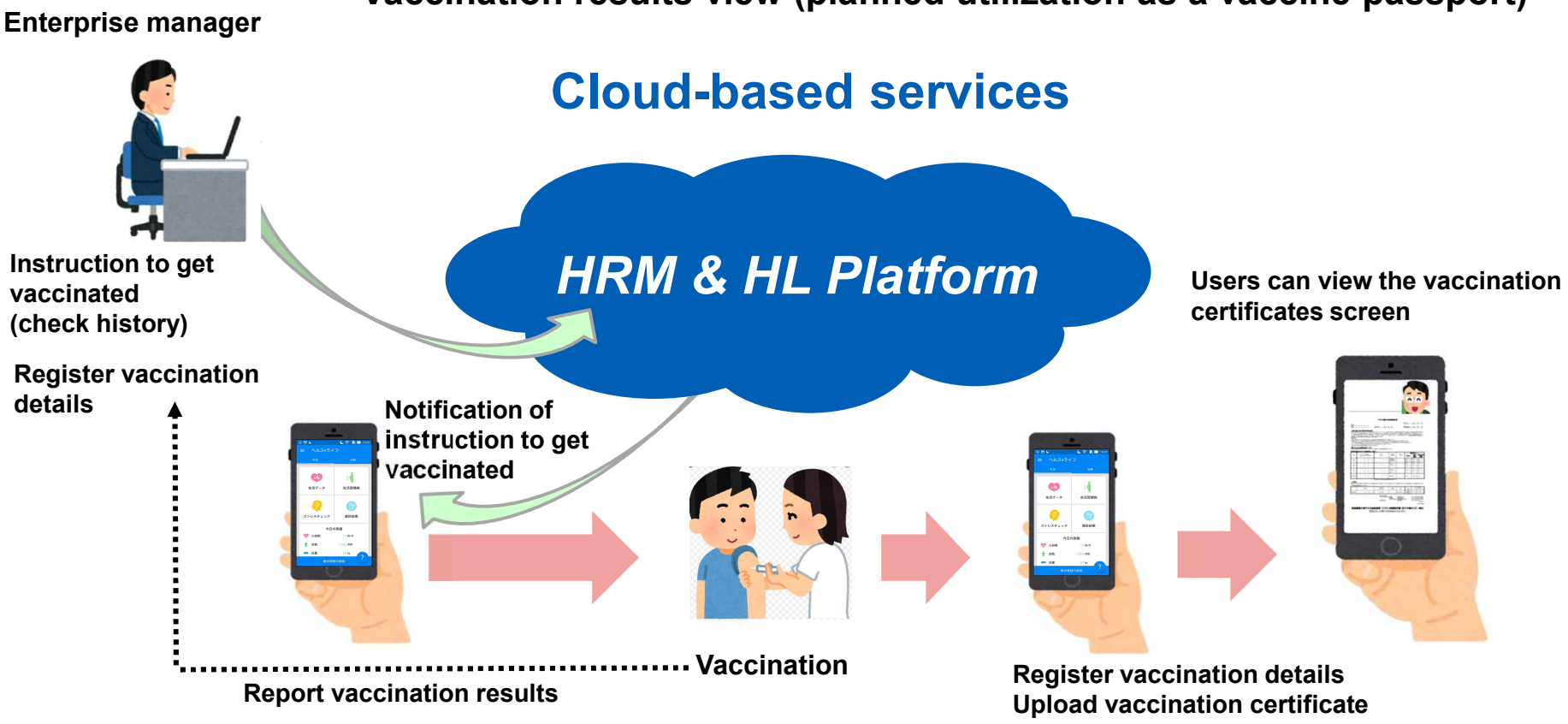
Support service for health & productivity management initiatives

Health point system operation service

Sales Growth Strategy
C: Vaccination and PCR test results history management

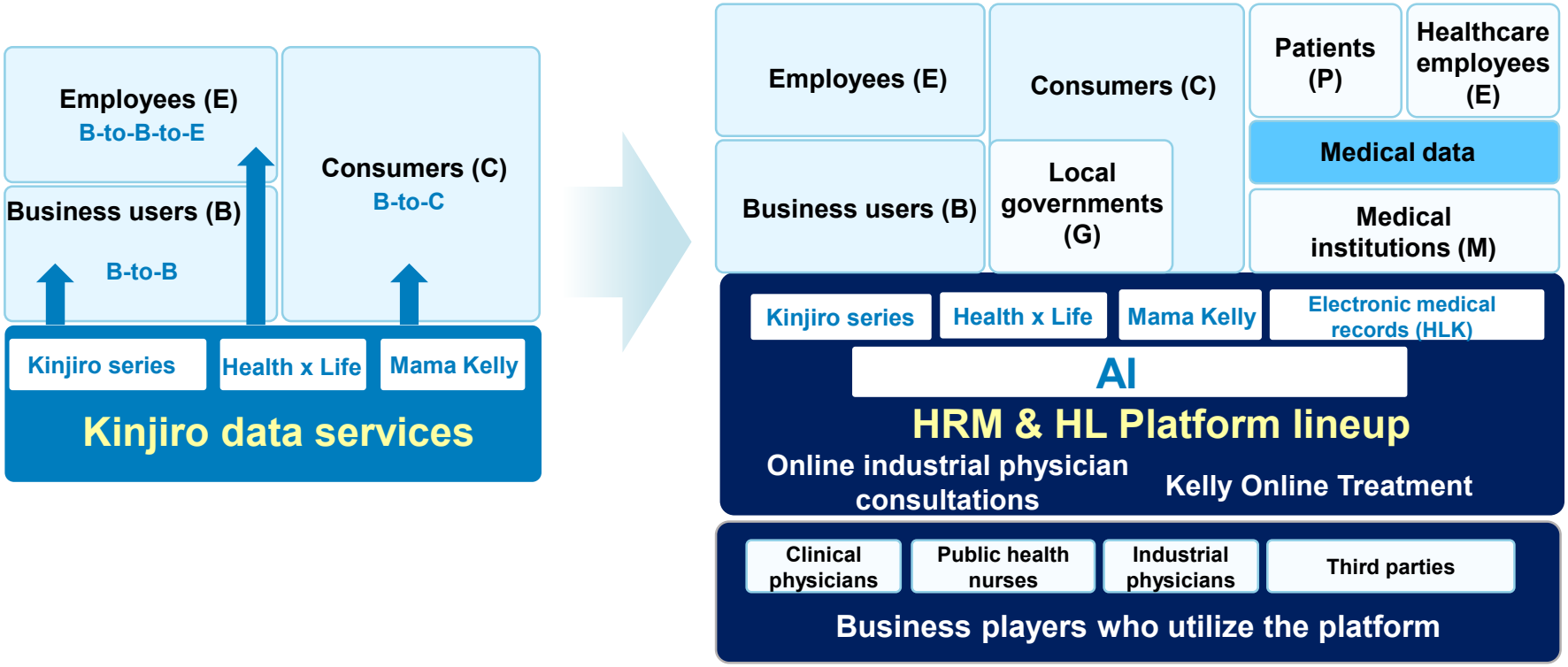
Function summary

- Companies can manage vaccination status (vaccination registration and history management)
- Can instruct and encourage employees to get vaccinated (e-mails and push notifications to the *Health × Life* app)
  *Data can be transferred from B-to-C services
- Vaccination upload (vaccination certificate)
- Vaccination results view (planned utilization as a vaccine passport)



Sales Growth Strategy
C: Evolution of platform business model

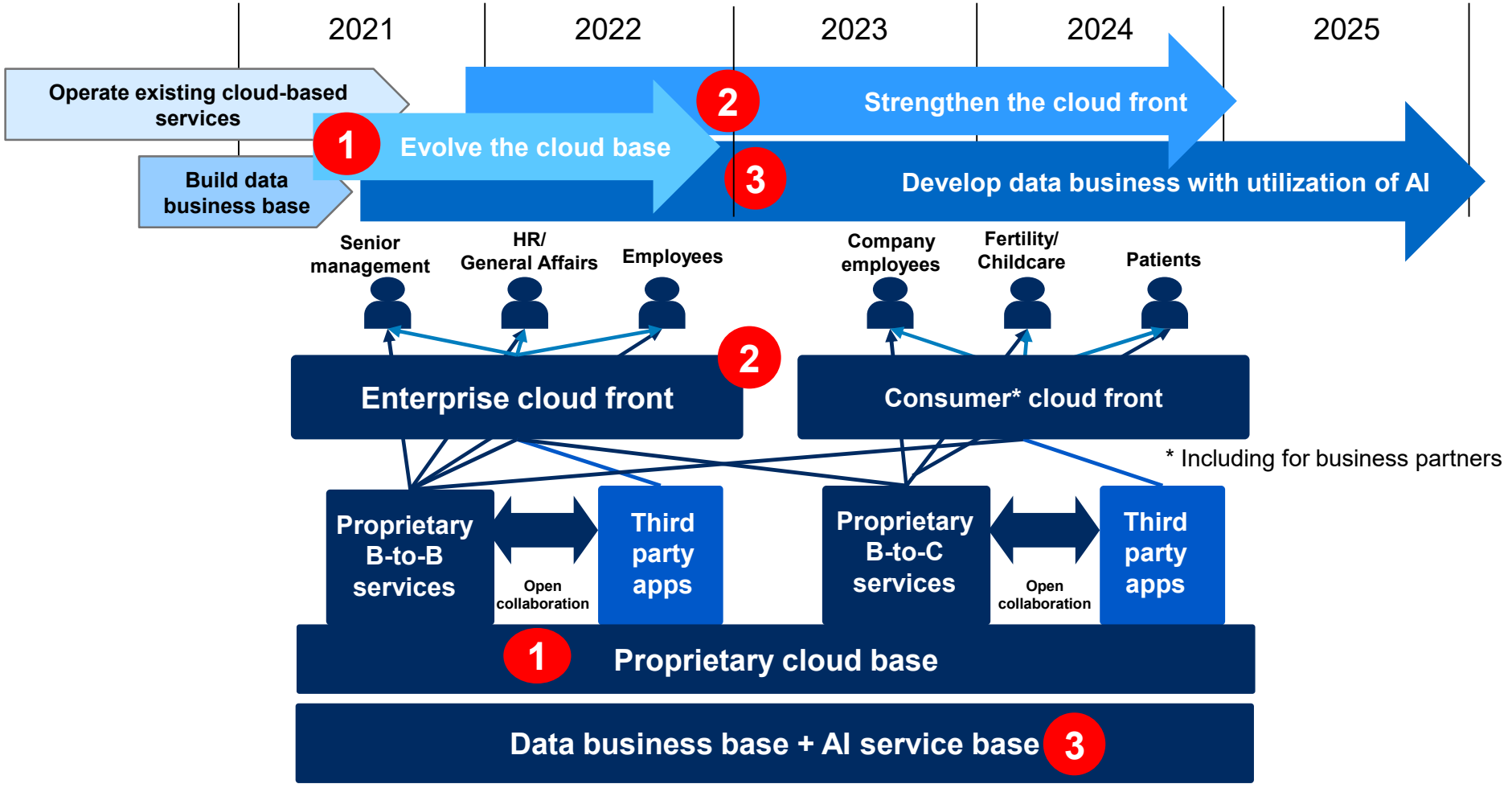
- Enhance services for employees (B-to-B-to-E) through *HRM & HL platform* and expand services for consumers (B-to-C)
- Strengthen our function as a health & productivity management platform used by clinical physicians, industrial physicians and public health nurses through the inclusion of electronic medical records and remote treatment services
- Continue and expand AI services that were developed utilizing work styles, health screenings, stress checks, and lifestyle information (2Q: Health screening / stress check prediction already released)



Sales Growth Strategy

C: Utilization of our cloud base by clients and partners who utilize our client base (release planned in FY2021)

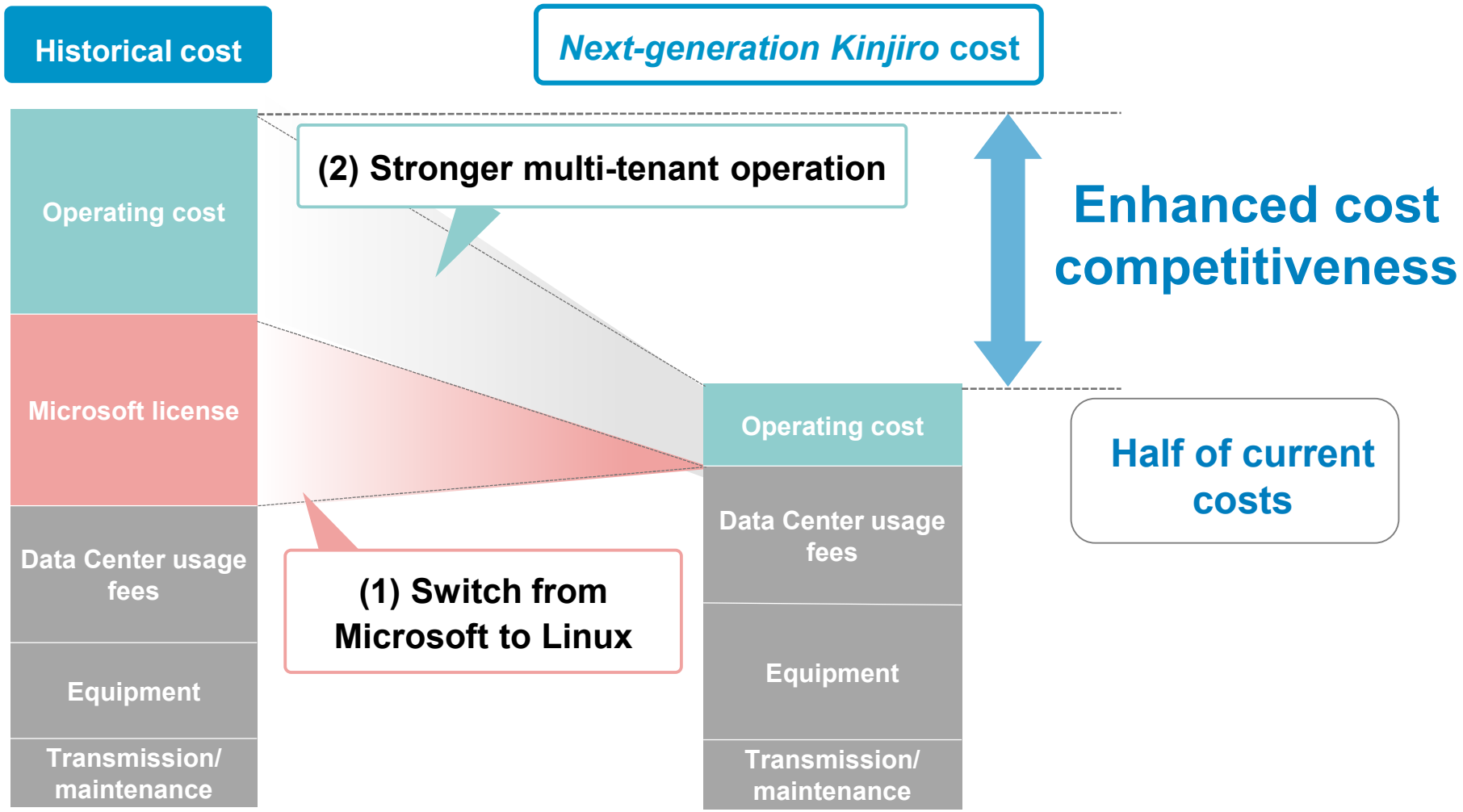
1. Evolve the cloud base ・・・ Flexible utilization of cloud assets (2Q) release private cloud (for individual clients) (4Q)
2. Strengthen the cloud front ・・・ Provide integrated authentication for our company's app and other apps (4Q)
   * Integrated authentication: integrate user authentication
3. Develop data business and AI service business ・・・ diverse development of AI services with utilization of work styles, health screenings, stress checks, and lifestyle information (2Q)



Profit Growth Strategy
Enhance cost competitiveness

- **Enhance cost competitiveness of cloud-based services through *Next-generation Kinjiro* (the provisional name for *Universal-K* (code name)), currently under development, and aim to expand revenues and market share**

******Next-generation Kinjiro*: (Version 1) scheduled for release in July, (Version 2) scheduled for release in December**



3. Topics

ESG Initiatives *Environment, Social, and Governance

■ Achieved ESG-focused management by utilizing our products (*Kinjiro* and *Health × Life Pro*)

By utilizing our products and services, we achieved…
(1) Increase in labor productivity
(2) Health support for employees
(3) Created comfortable workplaces.

With *Kinjiro Enterprise*…
- Labor and employment management in line with "work style reforms“ (complying with Labor Standards Act and the Industrial Safety and Health Act)
- Encouraging heads of departments with various types of alert (overwork, taking PTO, etc.)
- Strengthened trust between labor and Management

With *Health x Life Pro*…
- Supported health & productivity management processes
- Analysis of results of health examinations and stress checks
- Online consultations by clinical physicians,industrial physicians, and public health nurses
- Support for improvement and prevention of lifestyle-related diseases

Environment

(1) Limit overtime hours by enhancing labor productivity

↓

Decline in total hours worked from limits on overtime

↓

Limit electricity fees by reducing total hours worked

↓

Limit greenhouse gas emissions

Social

(2) Support employees’ health

↓

Limit spending on medical fees through better health

Governance

(3) Create comfortable workplaces

↓

Working environments where fraud and illegal activity are unlikely to occur

Certified Health & Productivity Management Organization

- In FY2021, we were selected as a Certified Health & Productivity Management Organization.

~We achieved Certified Health & Productivity Management Organization status because we support the establishment of independent health action and broadly share information both within and outside our company through our utilization of the *HRM & HL Platform* to support *work style reforms* and *health & productivity management*~

Our company was selected as a Certified Health & Productivity Management Organization, as part of a joint initiative by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE).

Certified Health & Productivity Management Organizations are selected from among companies listed on the TSE as those that think about the management of employees' health and productivity from a managerial perspective and implement strategic initiatives in these areas. In principle, one company is selected per industry.

In addition, we were also designated as a Certified Health & Productivity Management Outstanding Organization in 2021 for the fourth consecutive year under the Health & Productivity Management Outstanding Organization Certification System held jointly by METI and Nippon Kenko Kaigi.

We would like to express our sincere gratitude for the support of all our stakeholders in these endeavors.





Work Style Reforms and Health & Productivity Management Initiatives (*HRM & HL Platform* Utilization)

Initiative	Content
Improve health & productivity	• Health examinations and stress checks [Examination rate] 100% • Consultations with industrial physicians and public health nurses [Industrial physician consultations] Online consultations: 20 [Public health nurse consultations] Online consultations: 11, Face-to-face: 13 [Consultations recommending examinations] Online consultations: 10, Face-to-face: 1 • Supported employees' improvement of lifestyle-related diseases based on results of health examinations, stress checks, and overtime work • Enhanced employees' motivation to improve their own health with health point management [Annual points-based return system] • Distributed wearable devices • COVID-19 PCR tests (general vaccine management) • Support for optional expenses related to influenza and health examinations • Continuous implementation of morning radio calisthenics
Improve work styles	• Revised working environments as a result of COVID-19 pandemic (utilization of teleworking and staggered shifts) • Promoted use of paid time-off (PTO) during birthday month • Childcare support plans (utilization of childrearing leave for male employees, teleworking for employees with children, and shortened working hours)
Training and education	• Training for different levels of seniority and departments / promoted women's health maintenance / conducted training on work style reforms [Once every three months] • Internal newsletter from public health nurse / dissemination of health-related information [Delivered once every two months]
Internal communication	• Paid subsidies to support club activities by internal sports clubs [Once per year] • Paid expenses related to communication within each department [Once every six months]

<Results of Initiatives>

(1) Improvement in total employee medical expenses

Improved 21% in three years

(2) Increase in number of applicants to join our company

New graduates 2x
Mid-career applicants 3x
in three years

(3) Increase in labor productivity

+44% in three years

Disclaimer

To the extent that statements in this presentation do not relate to historical or current facts, they constitute forward-looking statements. These statements represent the judgement of our senior management, based on the information currently available, and involve risks and uncertainties.

Actual results may differ significantly from the outlook for performance and other matters presented here, due to various factors including economic conditions, the status of competition within the industry, and the success or failure of new services.