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

(TSE Mothers: 4013)

STRICTLY PRIVATE AND CONFIDENTIAL

November 10, 2021

Contents

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

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

3. Management Policy and Other Matters

4. Topics

5. Sales Forecasts for the Fiscal Year Ending December 31, 2022 (FY2022)

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

Revision of Financial Results Forecasts for the Fiscal Year Ending December 31, 2021 (FY2021)

- Net sales in the on-premises business were affected by COVID-19 in the first half. In the second half, as orders for package software and consultation support have been further postponed, and the official release of U-K (*Next-generation Kinjiro*), which has already been delivered to pilot users, has been scheduled at the end of December due to the fifth wave of infections, sales of package software and consultation support are expected to be lower than previously forecast. Therefore, we decided to revise the financial results forecasts.
- Profit in the on-premises business is expected to be lower than previously forecast, and expenses, although having been estimated conservatively considering the risks of COVID-19, are not expected to fully cover the decrease in sales. Therefore, we decided to revise the financial results forecasts.

Revision of consolidated financial results forecasts (Unit: Million yen)

	FY2021 previous full-year forecast	FY2021 new full-year forecast	Change	Change ratio
Net sales	3,800	3,550	-250	-7%
Operating profit	606	489	-117	-19%
Ordinary profit	600	470	-130	-22%
Profit	420	328	-92	-22%

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

Summary of Financial Results for the Third Quarter of FY2021

- Net sales in the on-premises business were 70% of the full-year forecast but we believe the full-year forecast can be achieved as sales of large orders which have been postponed so far are expected in the fourth quarter.
- Profit was 39% of the full-year forecast but we believe the full-year forecast can be achieved if the net sales forecast is achieved.

Consolidated statement of income (Unit: Million yen)

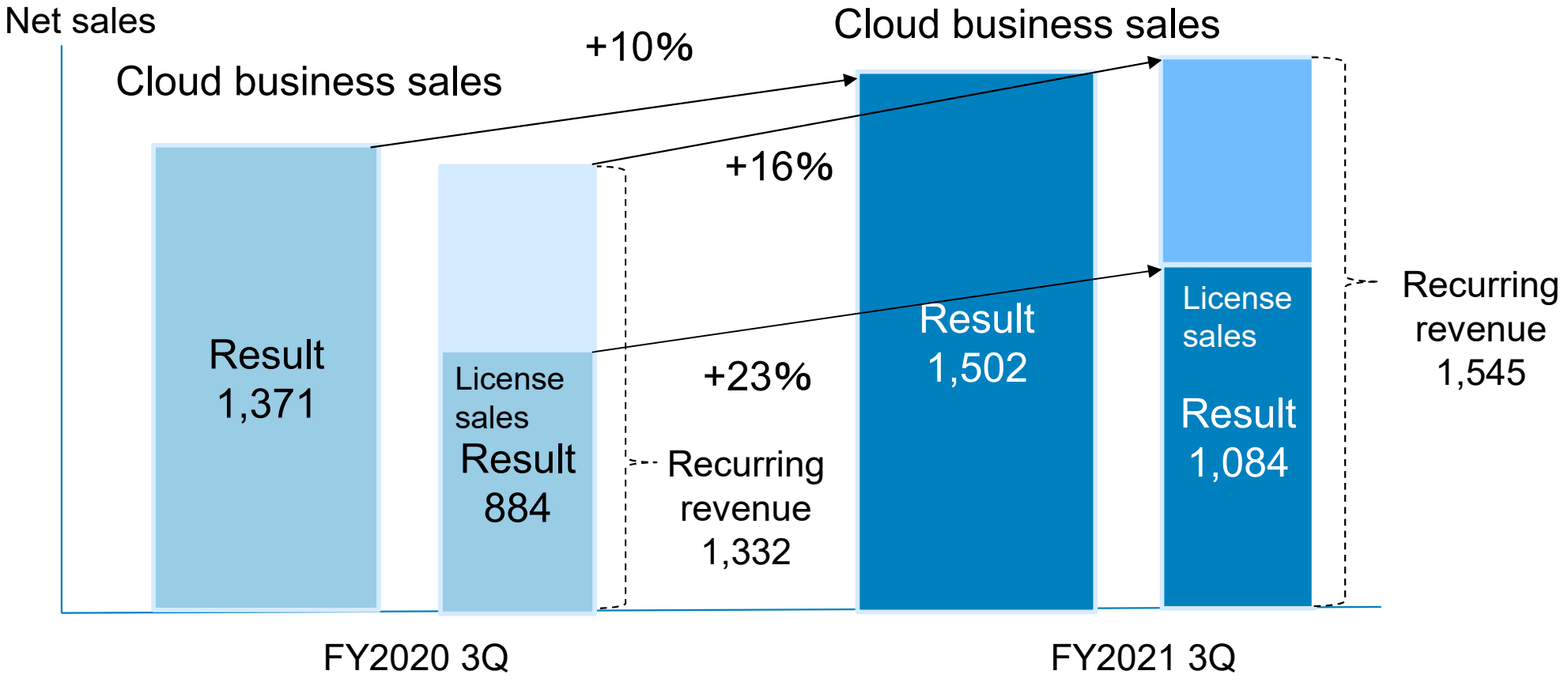
	FY2021 full-year forecast	FY2021 full-year results	Rate of progress	YoY change
Net sales	3,550	**2,475** Cloud business 1,502 On-premises business 964 (*1 Recurring revenue 1,545)	70%	-4% 10% -20% (16%)
Operating profit	489	**199**	41%	-52%
Ordinary profit	470	**194**	41%	-52%
Profit	328	**129**	39%	-51%

*1 Composed of cloud license sales, premium support sales, etc.

Sales in Cloud Business and Recurring Revenue

- Net sales were 1,502 million yen, up 10% year-on-year, even though the business was impacted by the COVID-19 pandemic. (Cloud license sales alone grew 23% year-on-year to 1,084 million yen.)

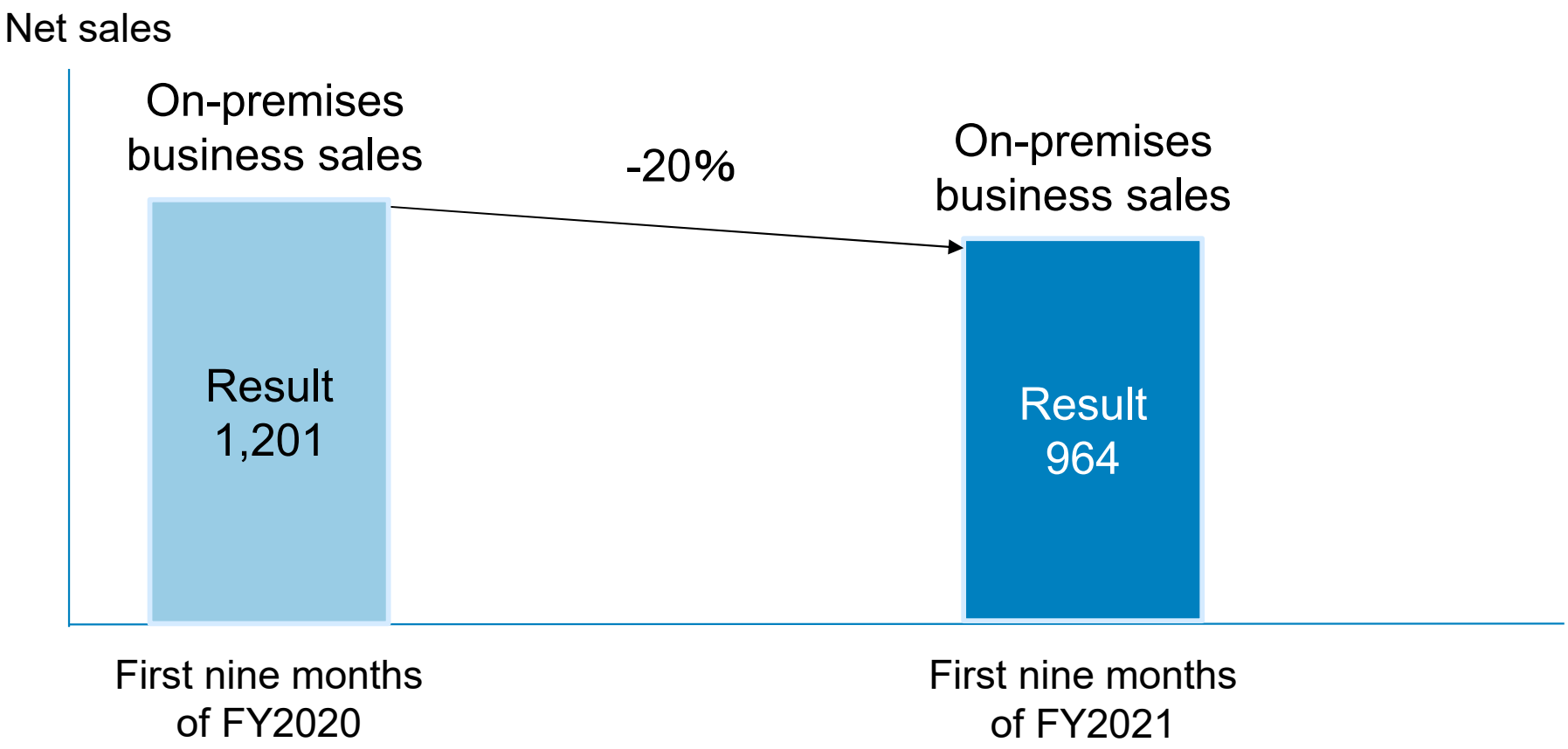
Comparison with the result for the same period of the previous year (Unit: Million yen)



Sales in On-premises Business

- Net sales were 964 million yen, down 20% year-on-year, due to factors including the continued postponement of orders and a shift to cloud based contracts by corporate clients affected by the impact of the fifth and largest wave of the COVID-19.

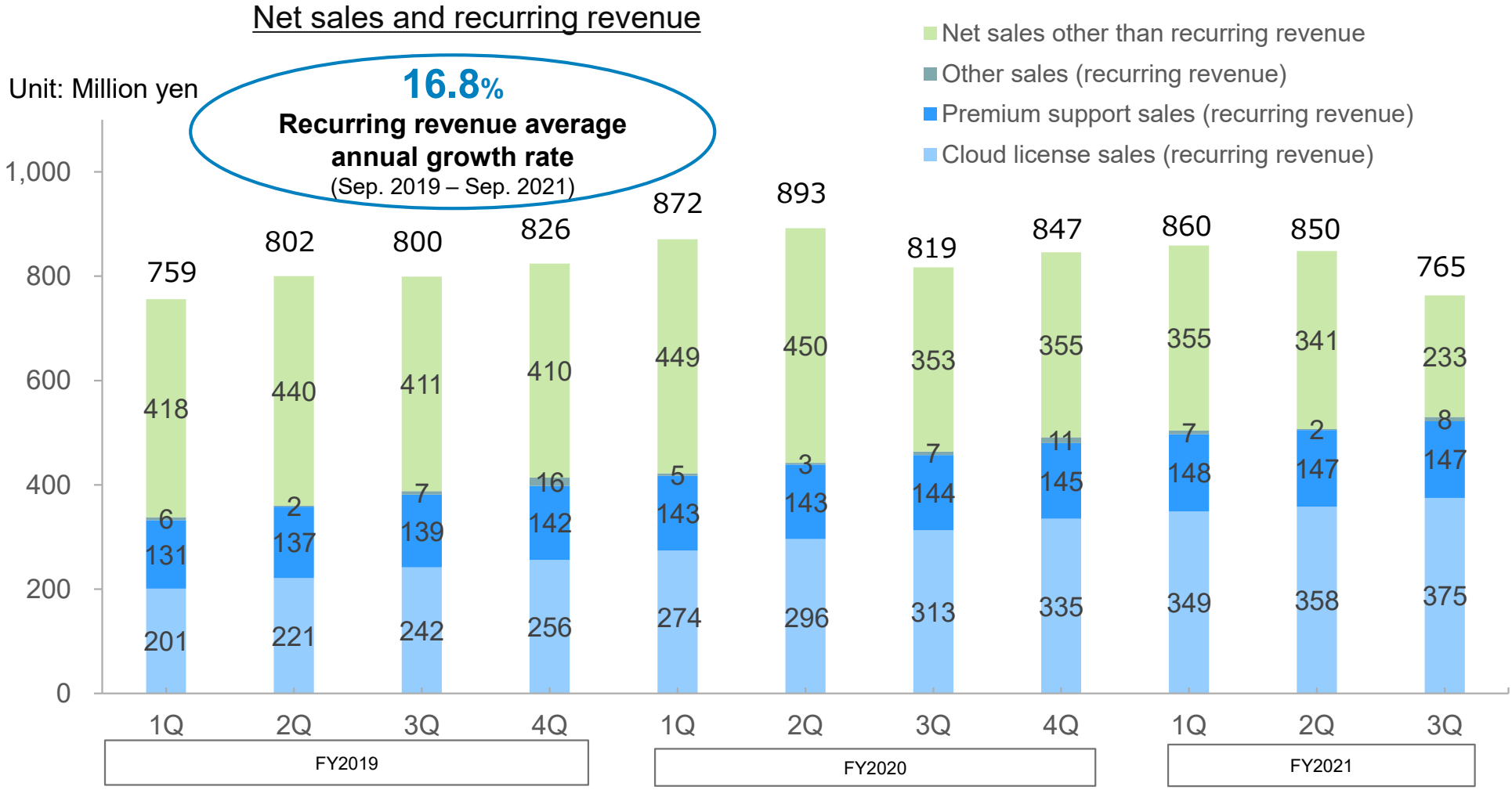
Comparison with the result for the same period of the previous year (Unit: Million yen)



Quarterly Trend in Net Sales and Recurring Revenue

- Recurring revenue, composed of cloud license sales and premium support sales, is also growing on a quarter-by-quarter basis; however, net sales other than recurring revenue are decreasing due to the impact of COVID-19 on package software and employment information devices.

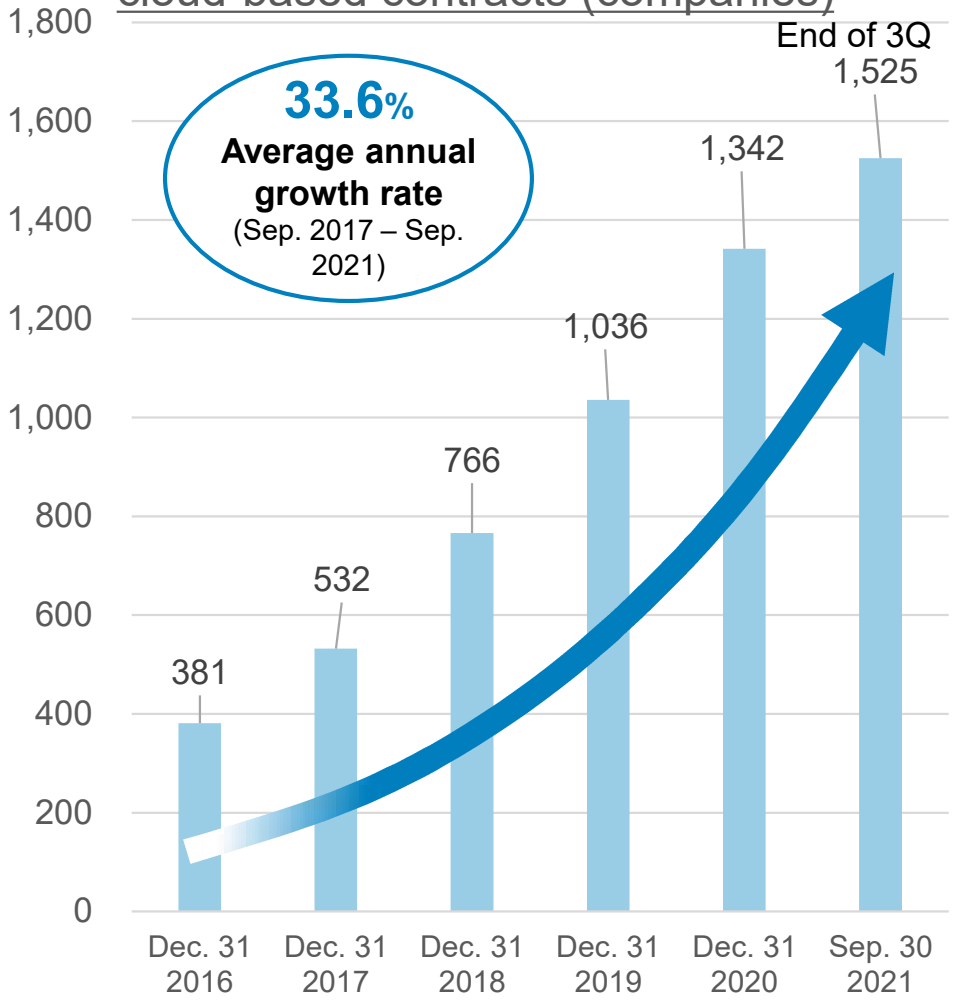
Net sales and recurring revenue



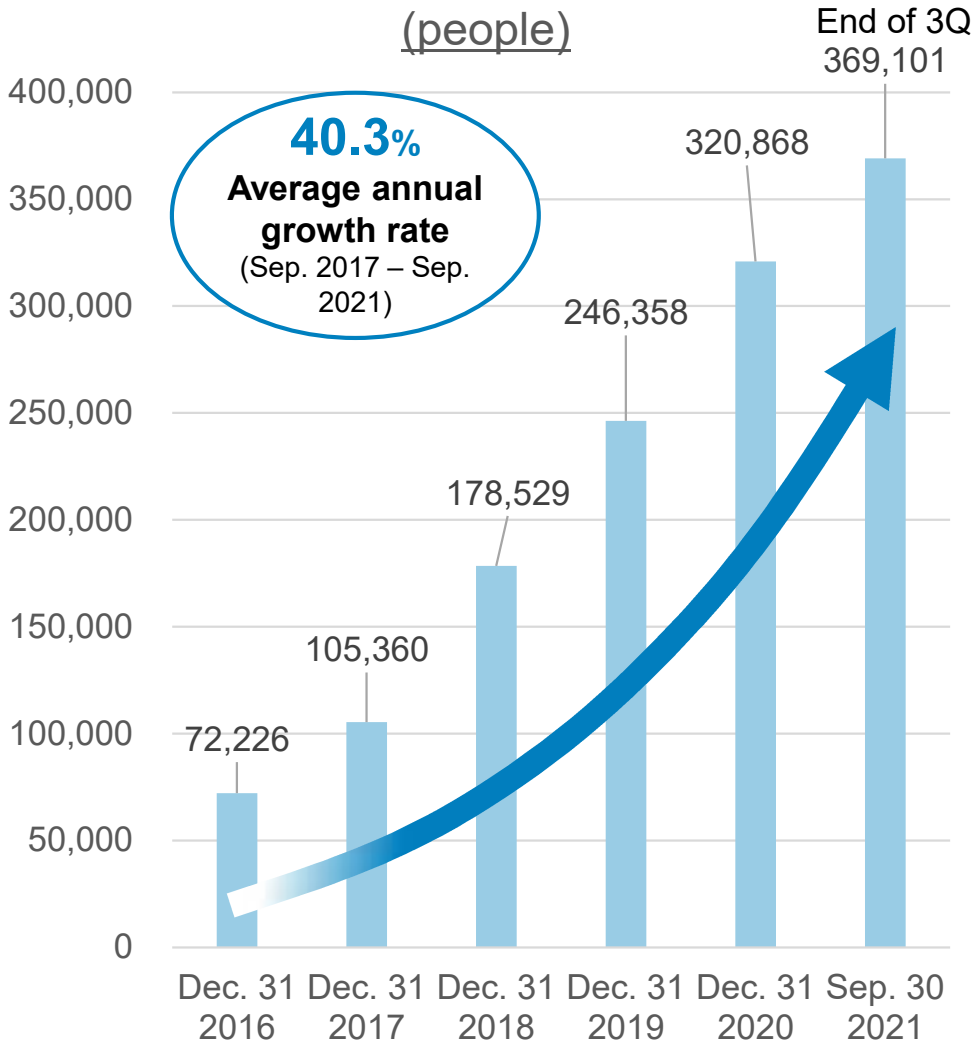
Number of Corporate Clients on Contract and Number of Licenses*1

- High growth continues in the number of licenses, with an average annual growth rate of 40.3%.

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



Number of cloud-based licenses (people)



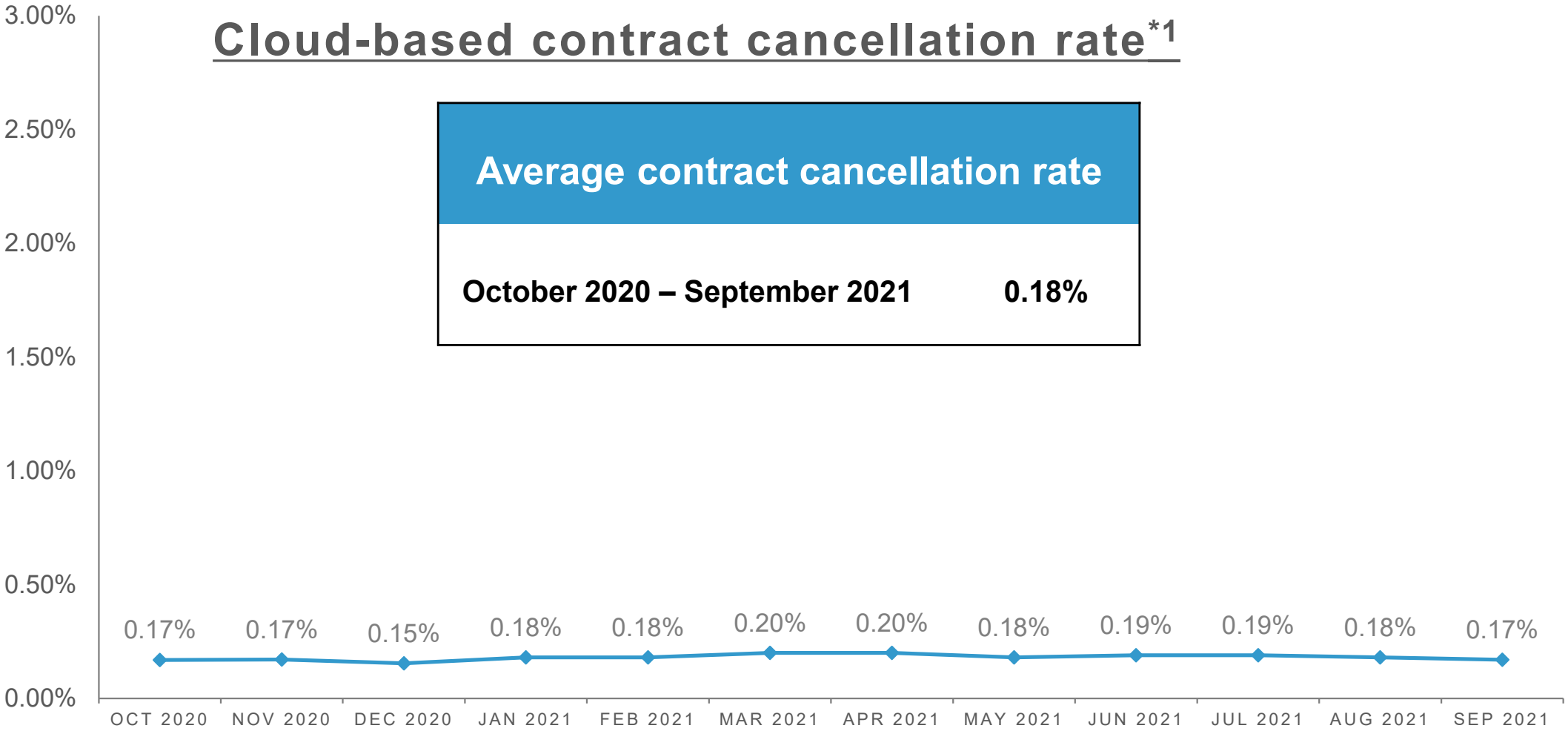
*1. The number of licenses for each employee at a corporate client is counted as one, even where the employee uses multiple services (Recruitment, HR, Salary, *Health × Life*).

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

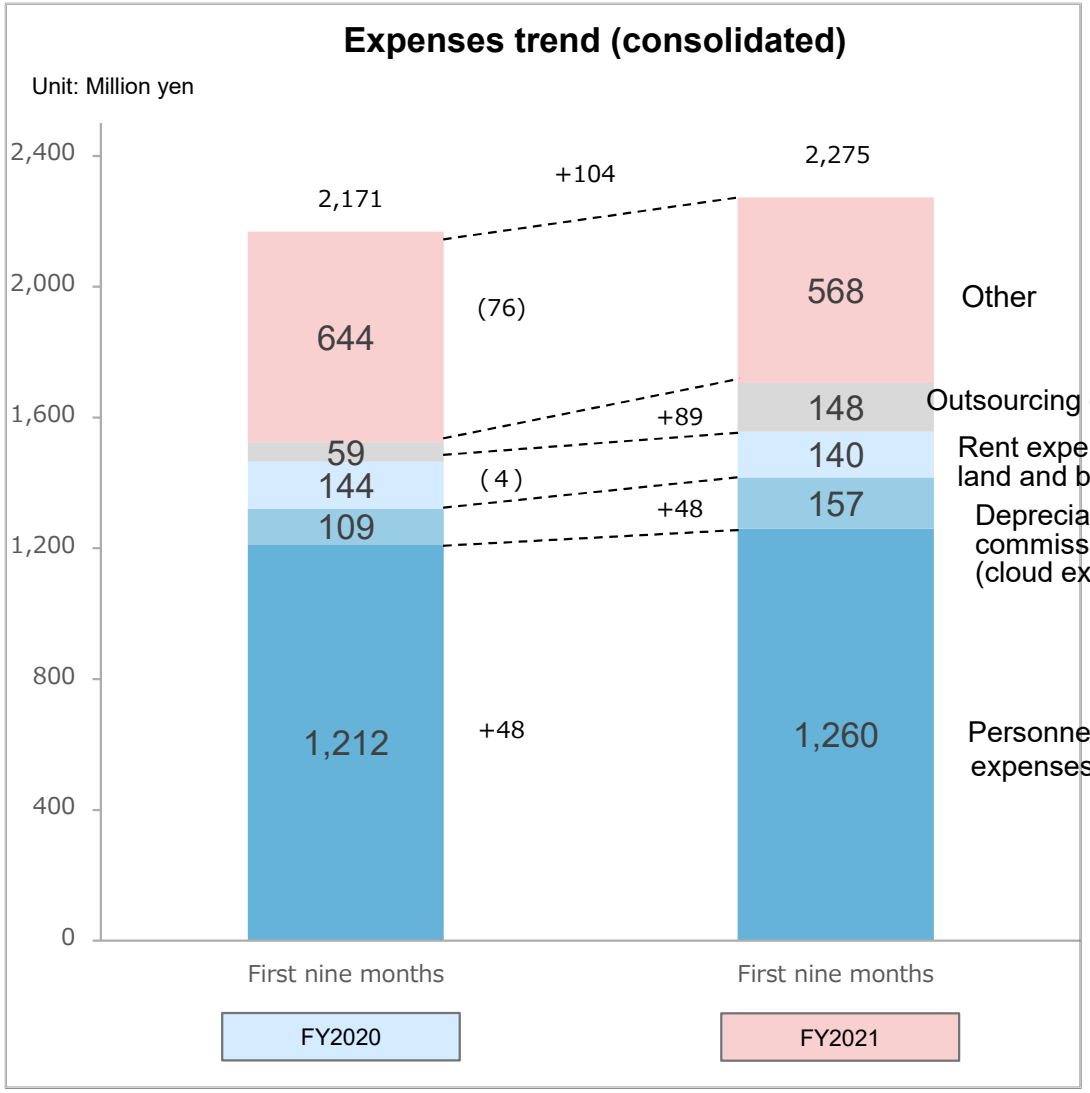
Average contract cancellation rate	
October 2020 – September 2021	0.18%



*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 nine months of the fiscal year ending December 31, 2021 was as follows.



- Total expenses increased by 104 million yen compared to the costs in nine months ended September 30, 2020.
- The largest increase in expenses was in outsourcing expenses, with an increase of 89 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 48 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.

3. 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*.

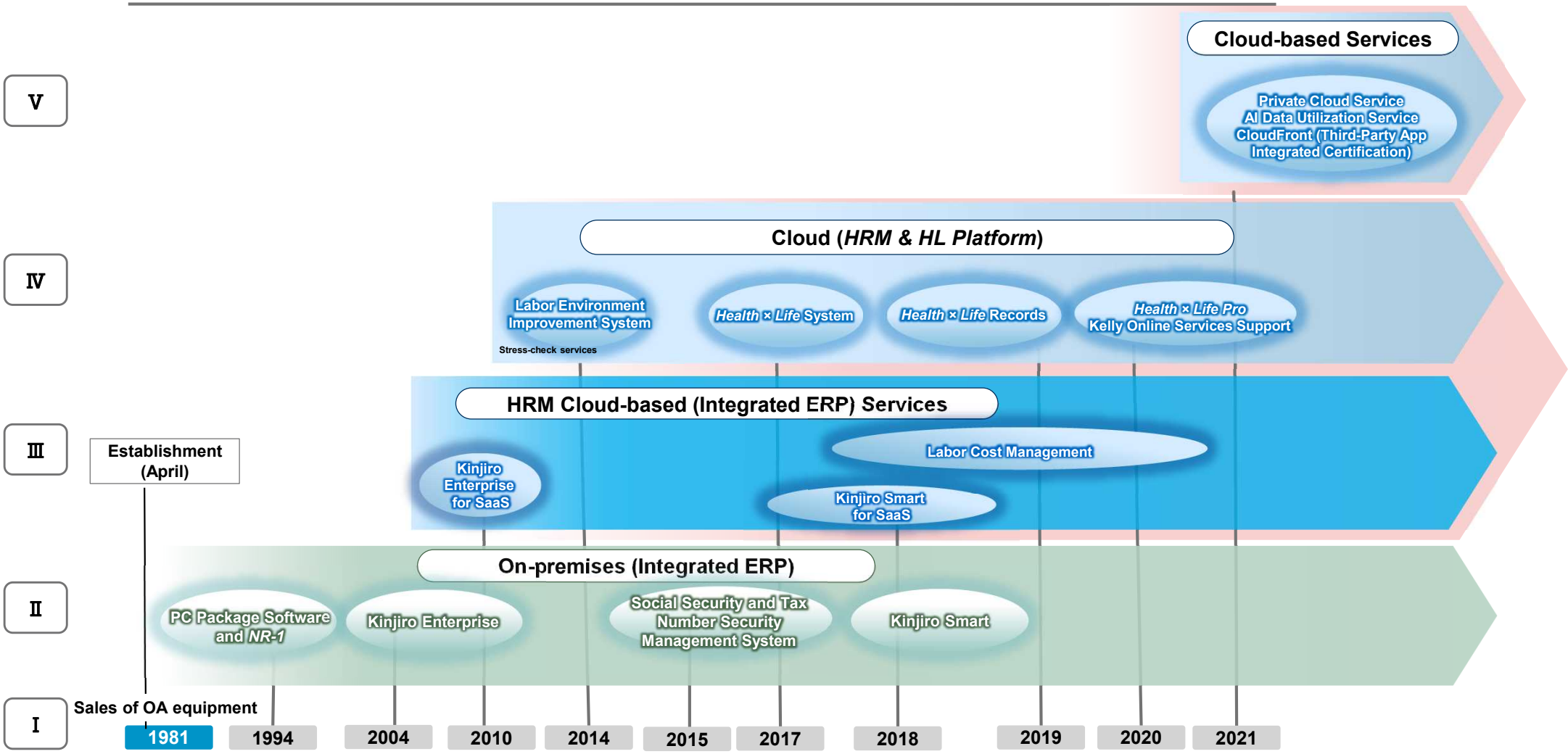
Business models: *B-to-B*, *B-to-B-to-E*, and *B-to-C*

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

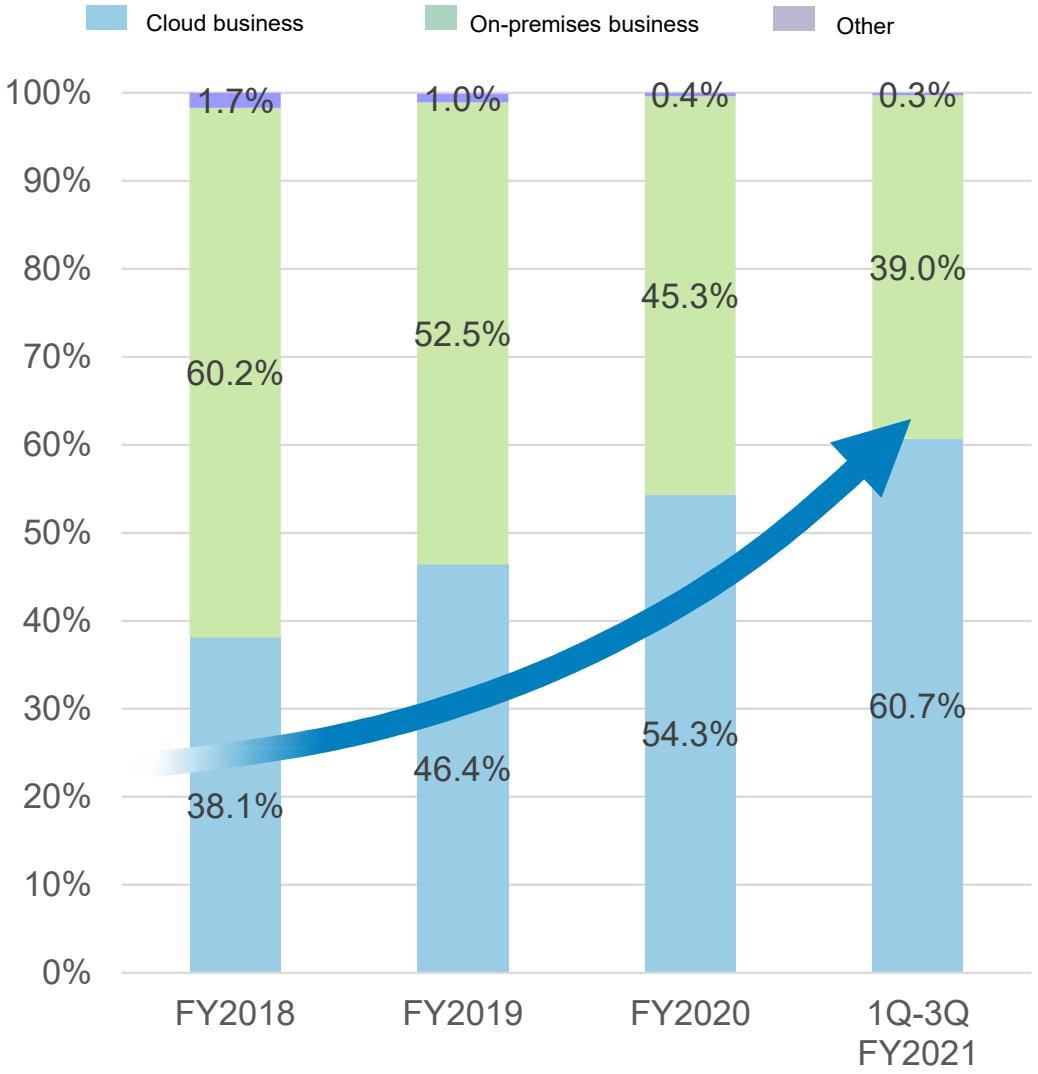


*1. “On-premises” refers to cases when software operations are carried out at the location of the user's premises.
*2. “Cloud” refers to providing services to users through the Internet and other networks.

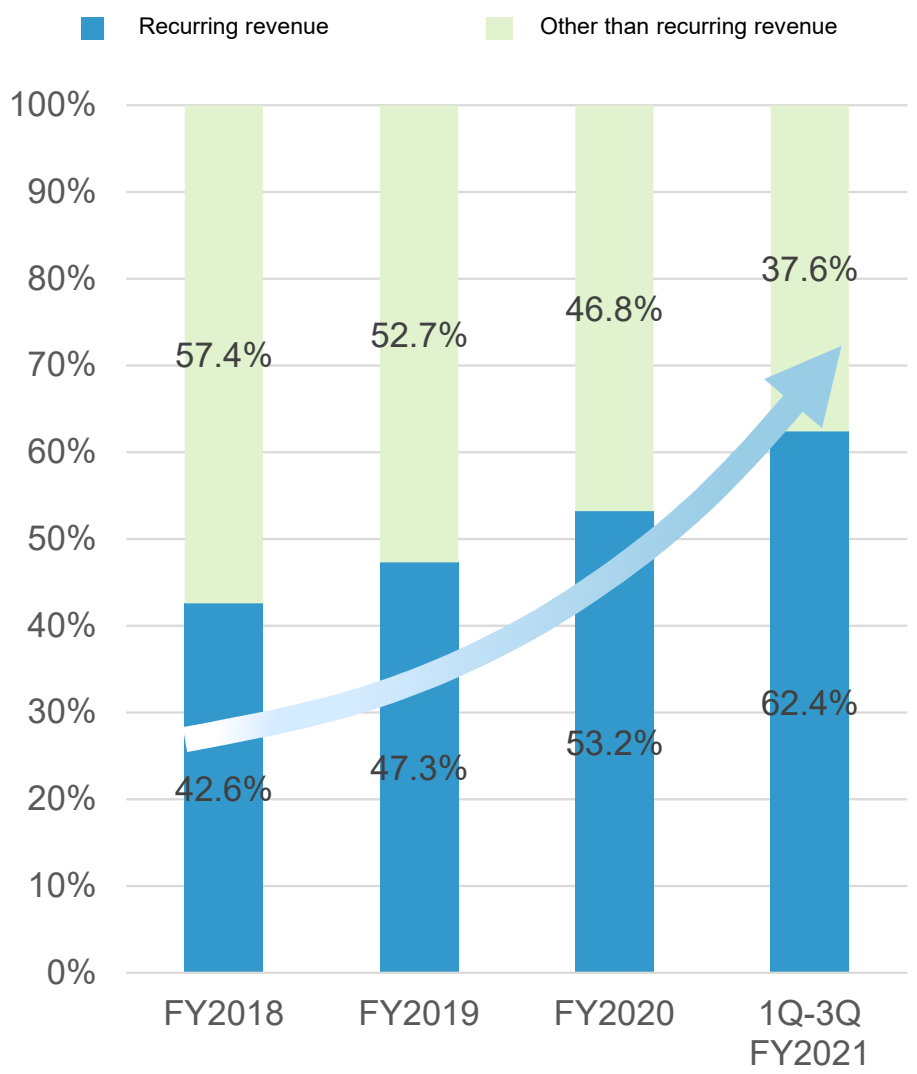
Trend in Structure of Net Sales by Business Segment and Proportion of Recurring Revenue

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

Trend in structure of net sales by business segment



Trend in proportion of recurring revenue



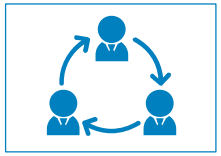
HRM & HL Platform Services

- 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

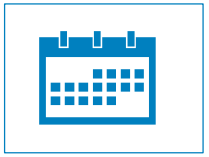

HR data


Salary data


Workload management

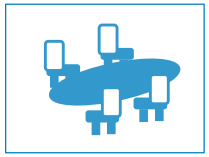

Cost analysis data and simulation


Social Security and Tax Number data


Journal management

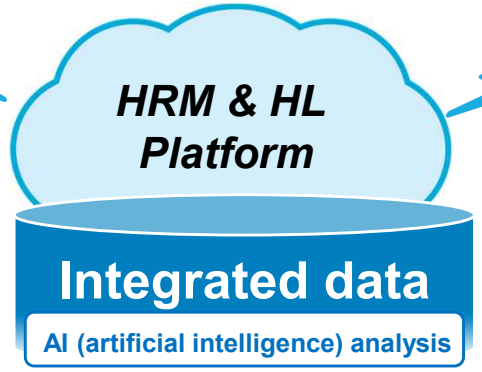

Reimbursements


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

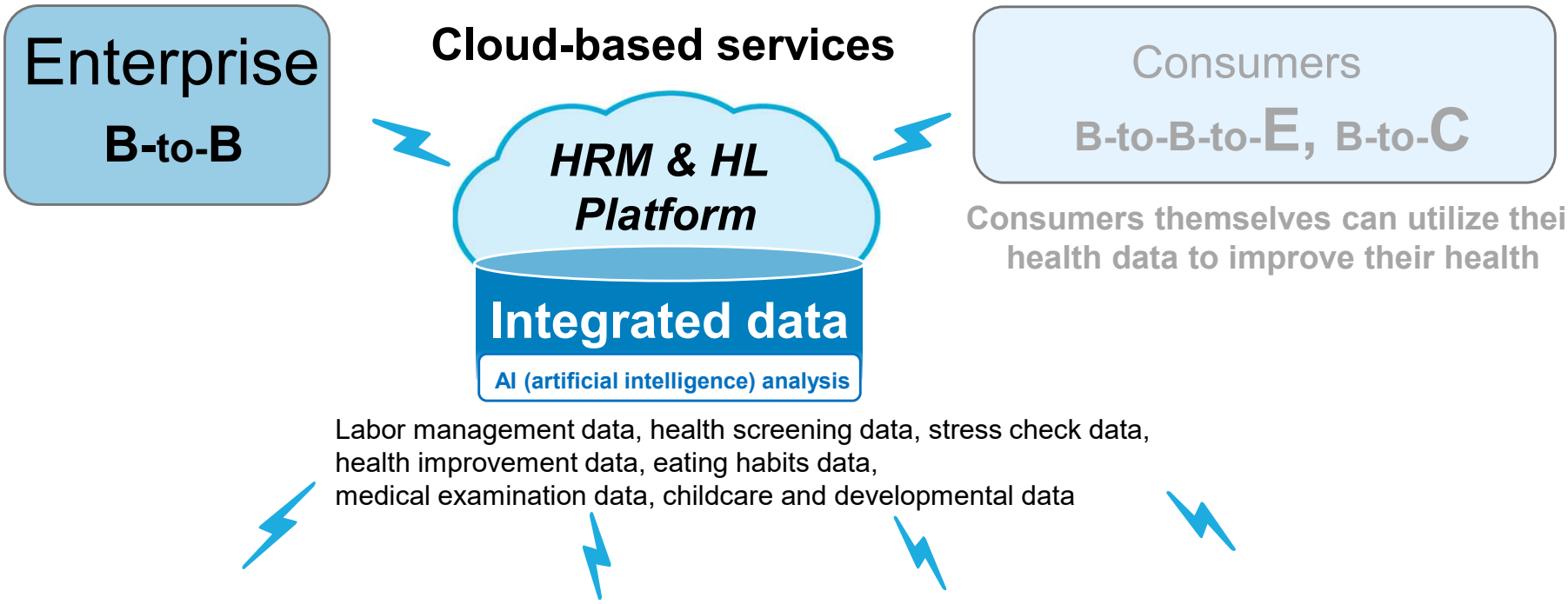

Stress checks


Organization analysis


Health improvement lifestyle log


Electronic medical records (For remote medical treatment)

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



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

***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

Health databank card



Utilization by consumers (employees, local residents, families)

Supervision and establishment of evidence with universities and medical institutions

Cloud-based services

HRM & HL Platform

AI (artificial intelligence) analysis

Employee data for business enterprises
Local resident data for local governments

Health screening institution data

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)

Utilization of AI data
Predictive prevention utilizing work style data, health screening data, stress check data, and lifestyle data

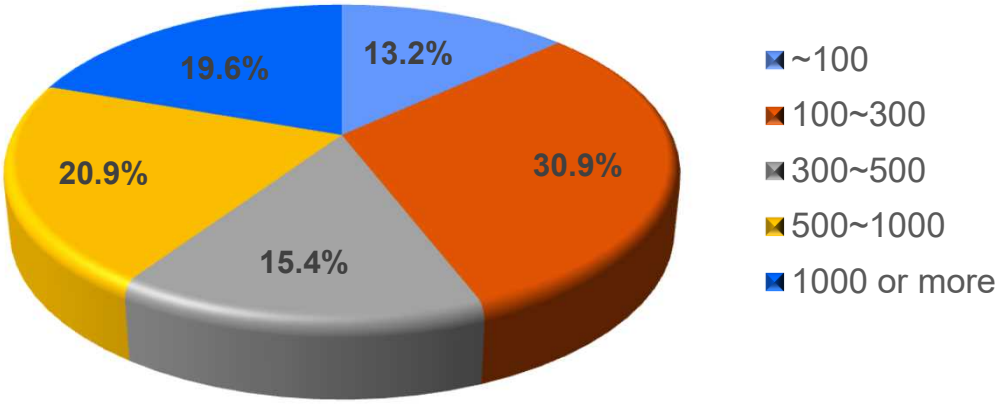
Health improvement content Collaboration with third parties

Proprietary content service

Kinjiro Enterprise Implementation Results
Breakdown by Scale and Industry

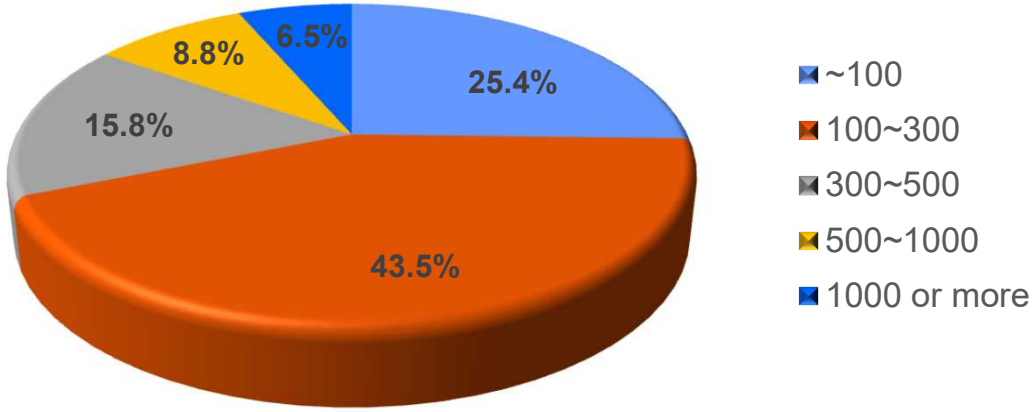
- **Breakdown of implementation by number of employees (On-premises) *1.18 million users**

*As of September 30, 2021



- **Breakdown of implementation by number of employees (Cloud) *0.36 million users**

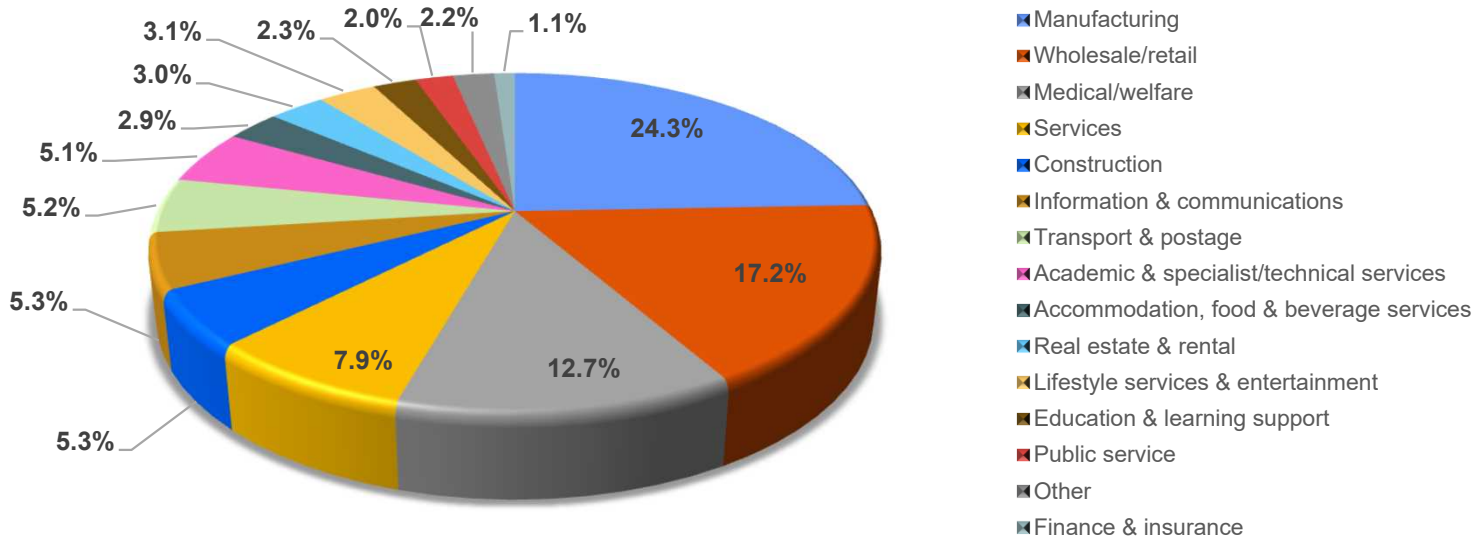
*As of September 30, 2021



Mainly mid-size and large enterprises

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

*As of September 30, 2021



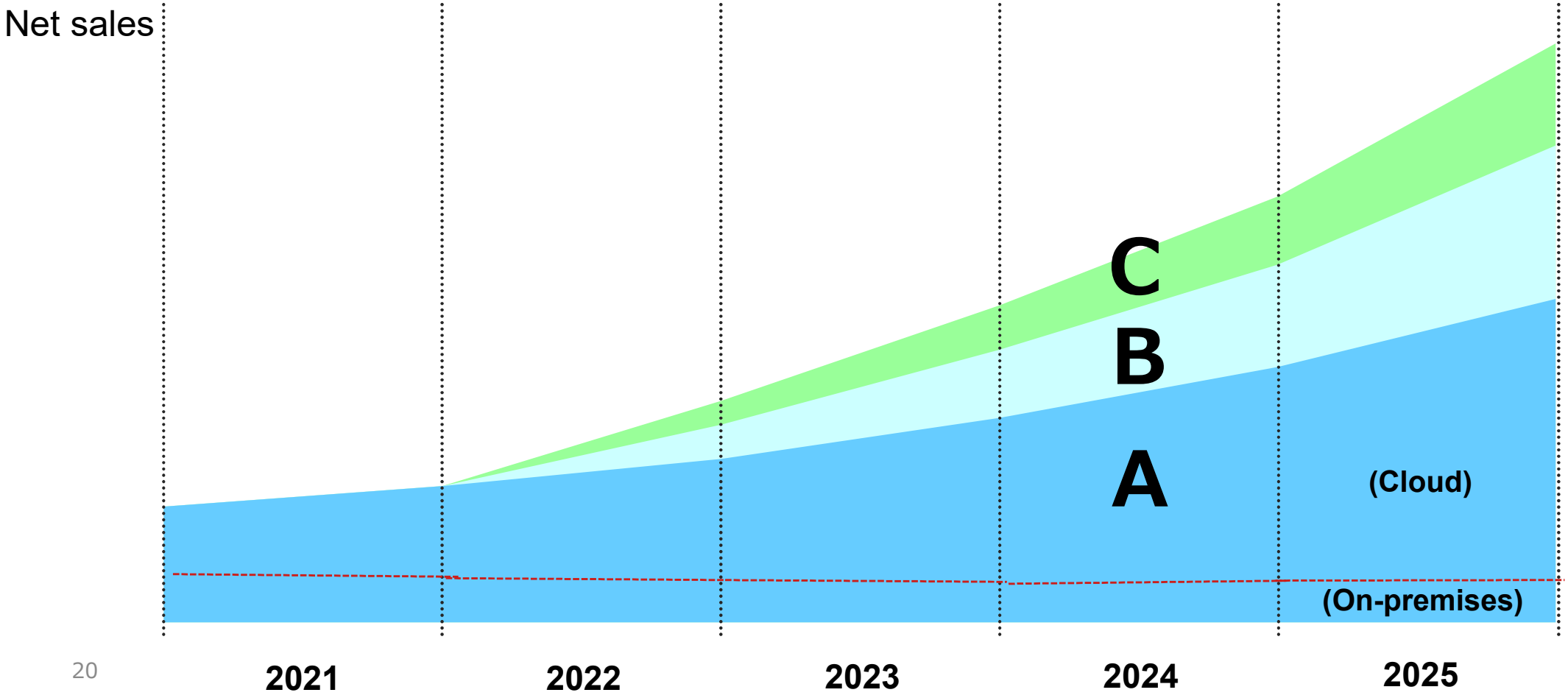
Sales Growth Strategy

Realize further growth through *HRM & Health x Life*

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

B ⇒ **Shift 1.18 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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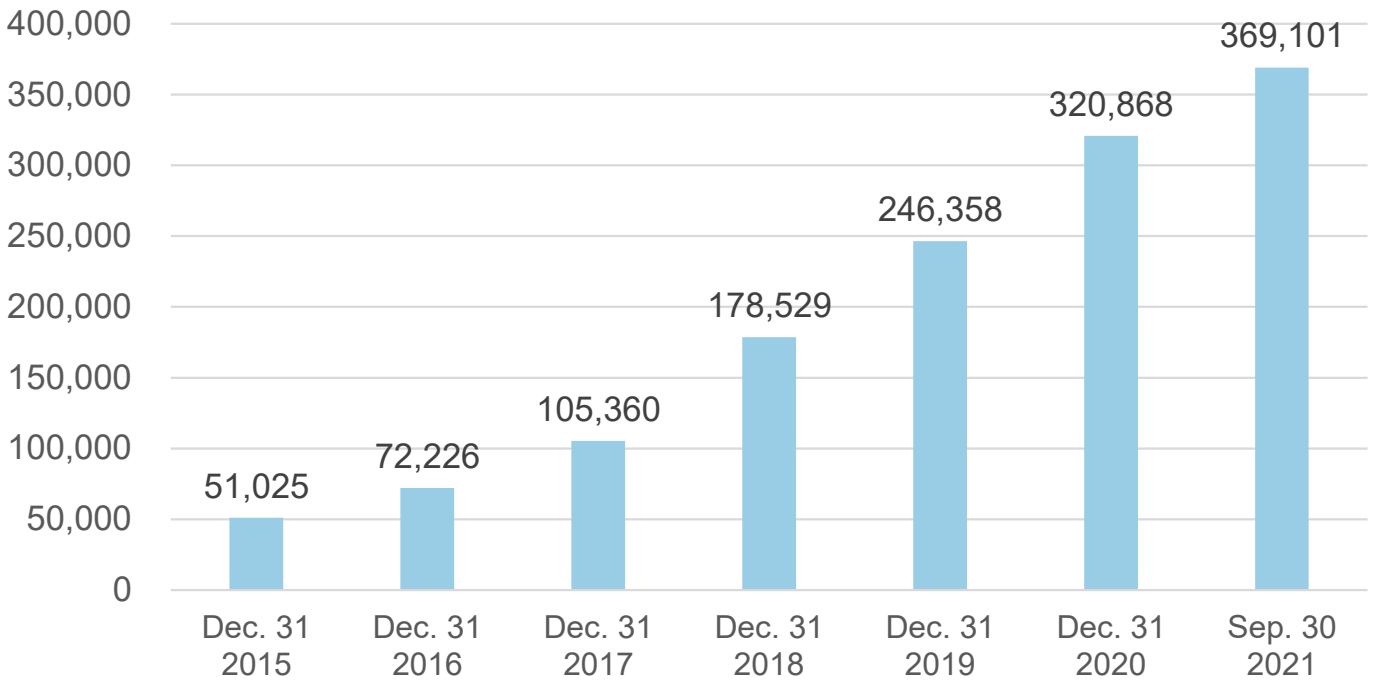
Sales Growth Strategy

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



40.3%
Average annual growth rate
(Sep. 2017 – Sep. 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.

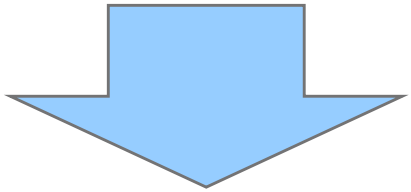
Sales Growth Strategy
B: Shift on-premises users to cloud

- Shift 1.18 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) released in July, (Version 2) scheduled for release in December

On-premises: Approximately 1.18 million user licenses ⇒ Move around 80% to cloud-based services[*1]

Result as of September 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.

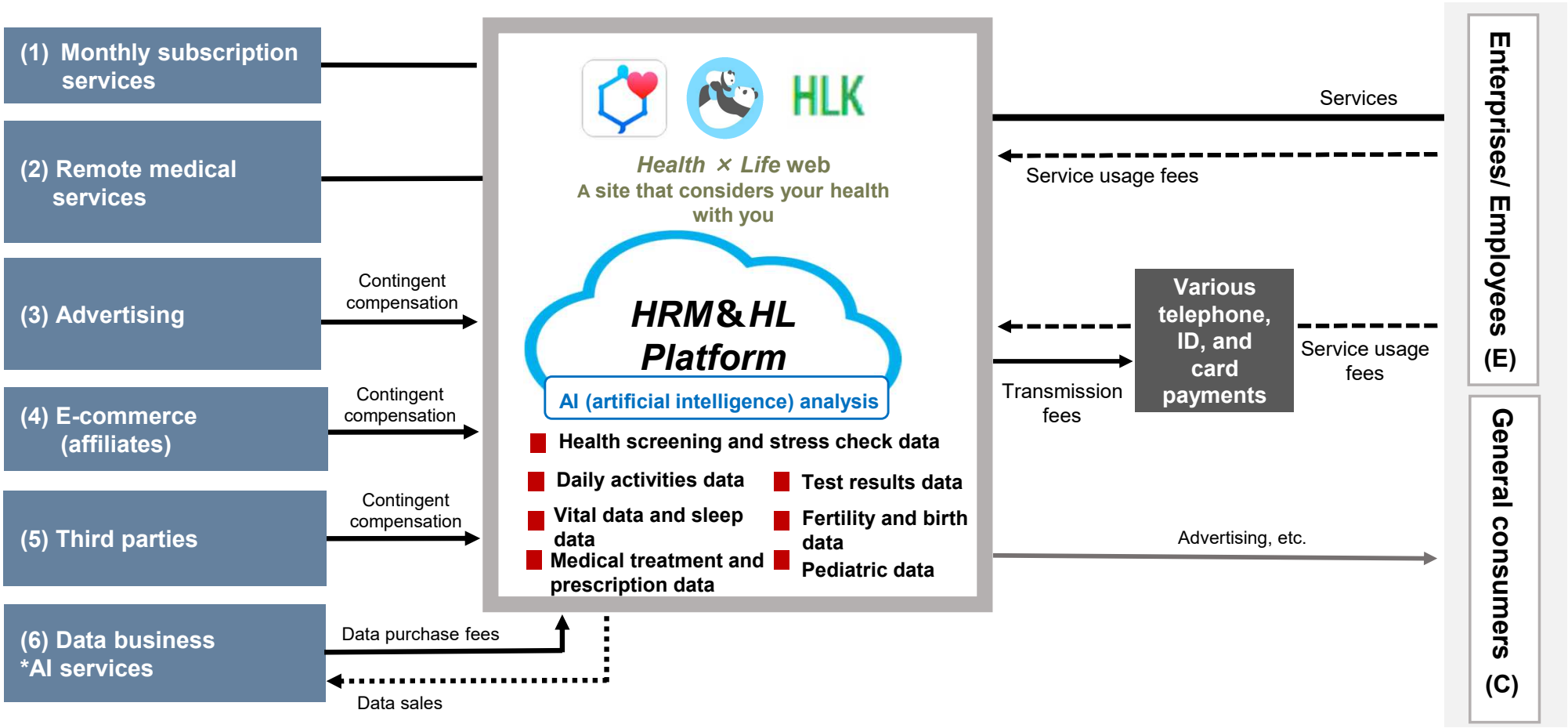
【APRU trend】

ARPU	September 2020	December 2020	March 2021	June 2021	September 2021
Enterprise	353 yen	354 yen	351 yen	350 yen	349 yen
Smart	163 yen	161 yen	156 yen	153 yen	153 yen

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 screenings, stress checks, lifestyle logs, etc. fully leveraging AI, 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

AI (artificial intelligence) analysis

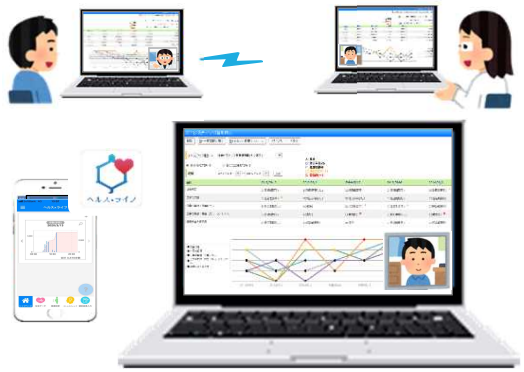
Enterprises, local governments, and health screening institutions

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



Using the health databank registration card

Support service for health & productivity management initiatives

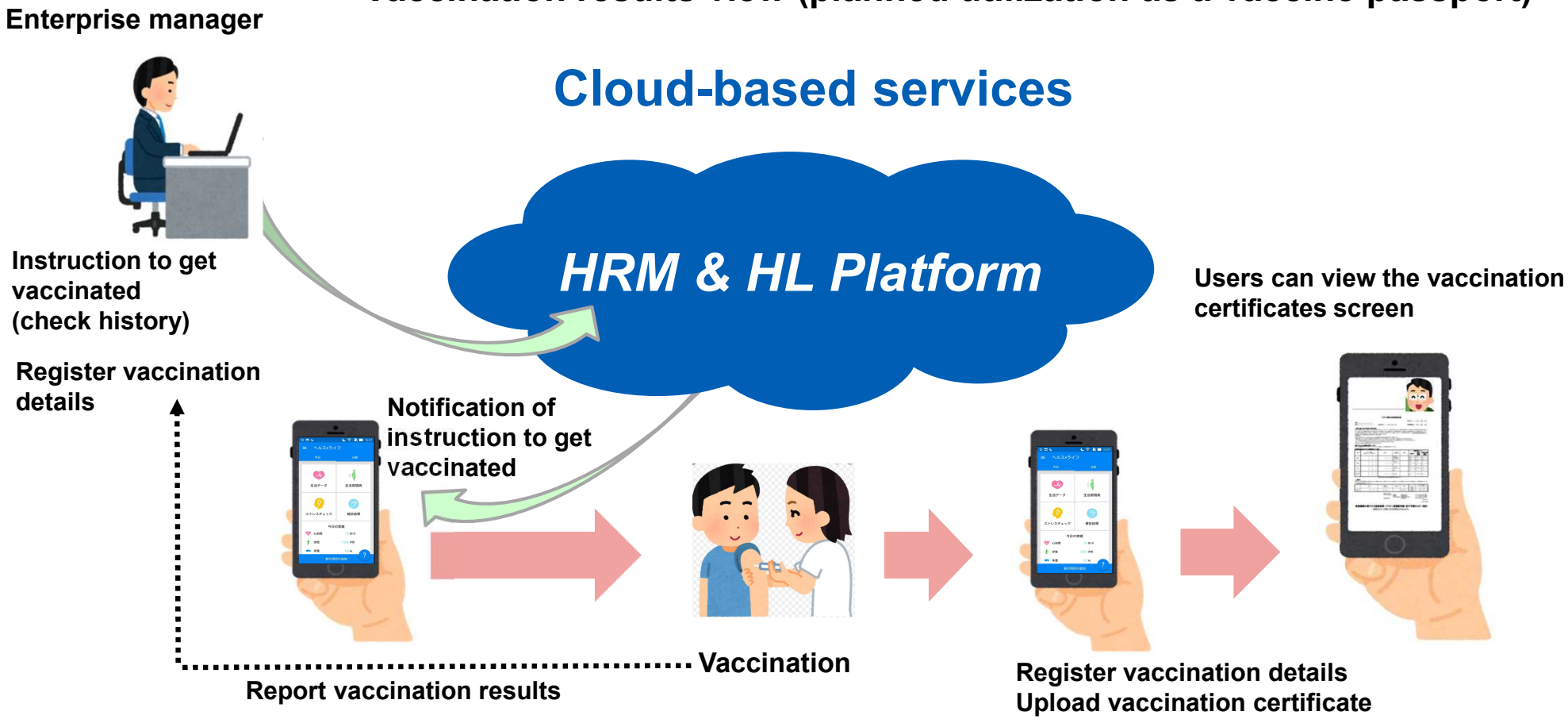
Health point system operation service

Use of AI data
Predictive prevention utilizing work style data, health screening data, stress check data, and lifestyle data

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

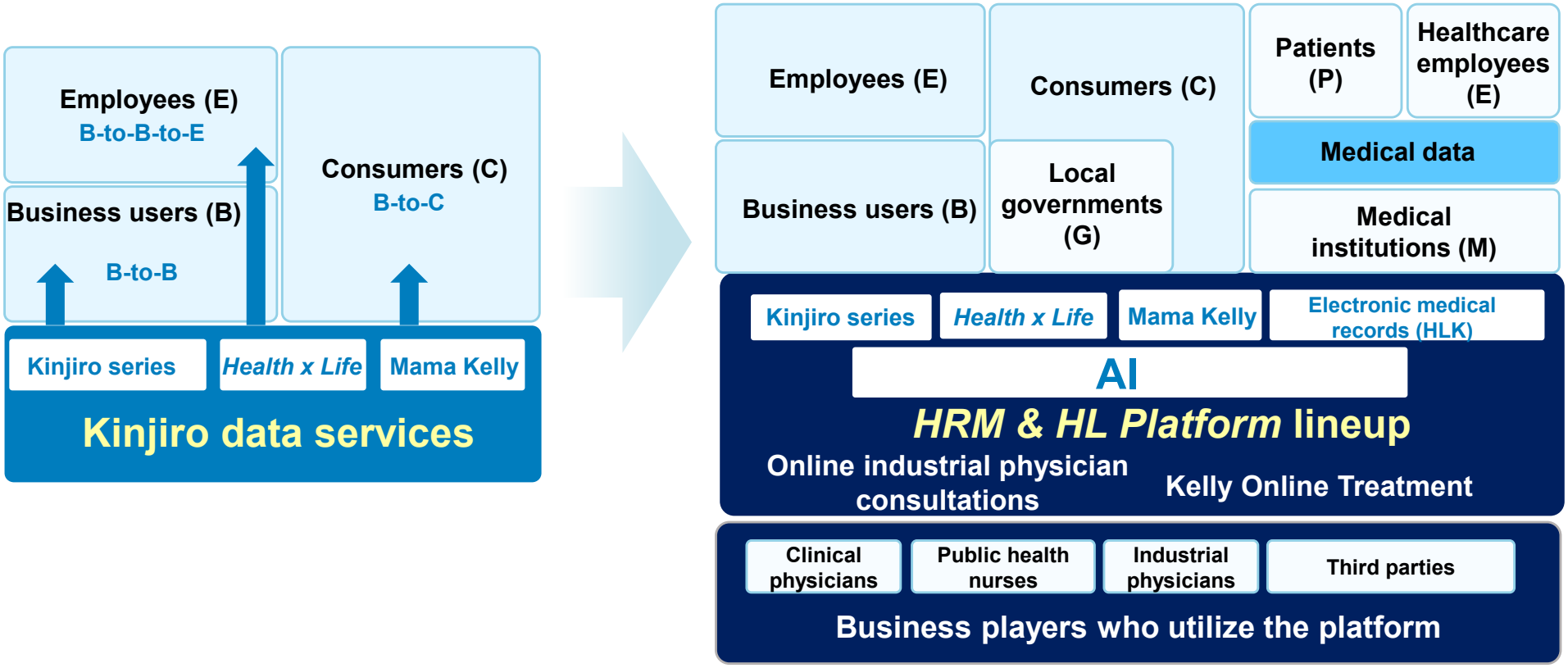
Function summary

- 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

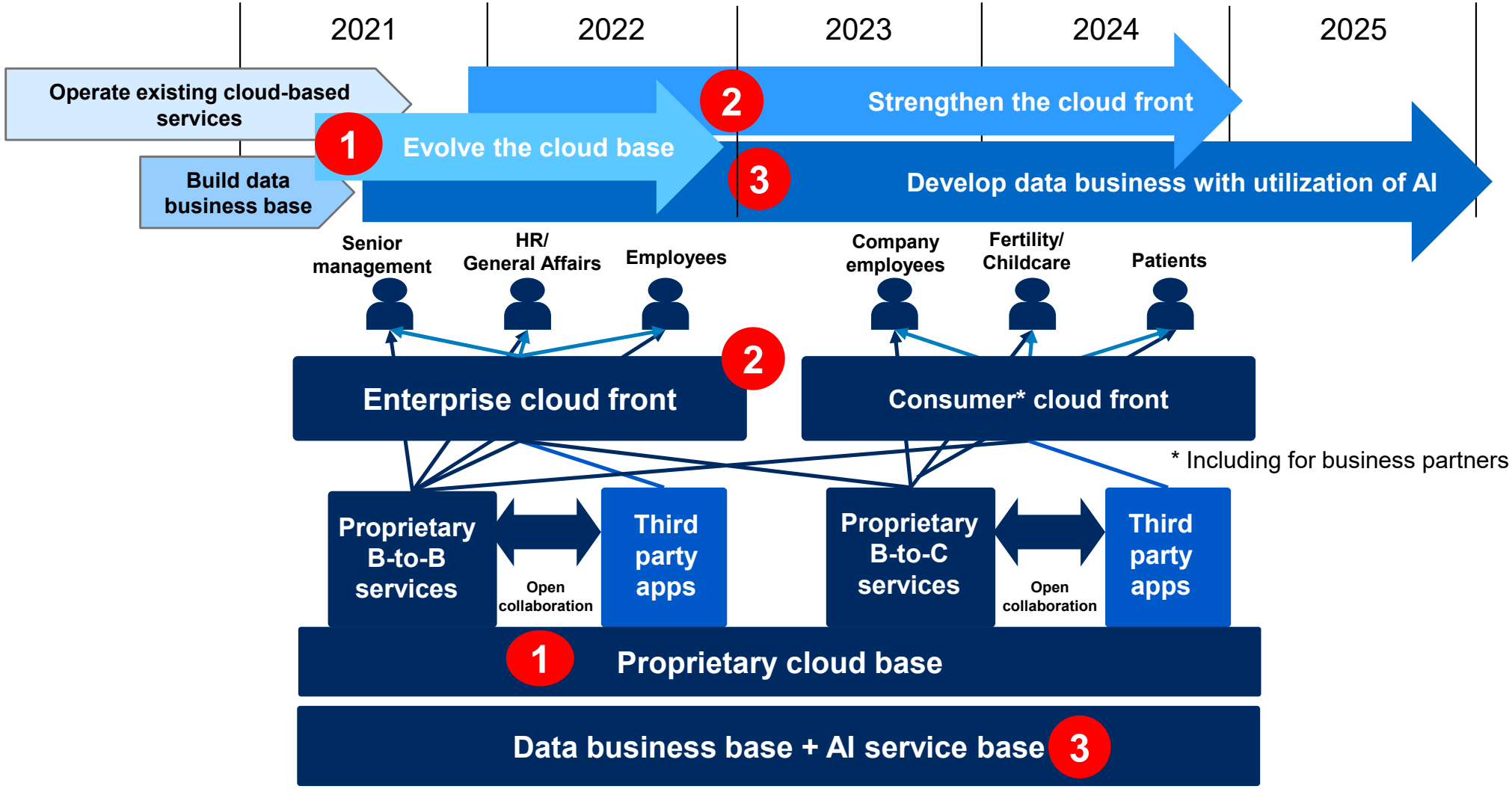
- Enhance services for employees (B-to-B-to-E) through *HRM & HL platform* and expand services for consumers (B-to-C)
- Strengthen our function as a health & productivity management platform used by clinical physicians, industrial physicians and public health nurses through the inclusion of electronic 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)

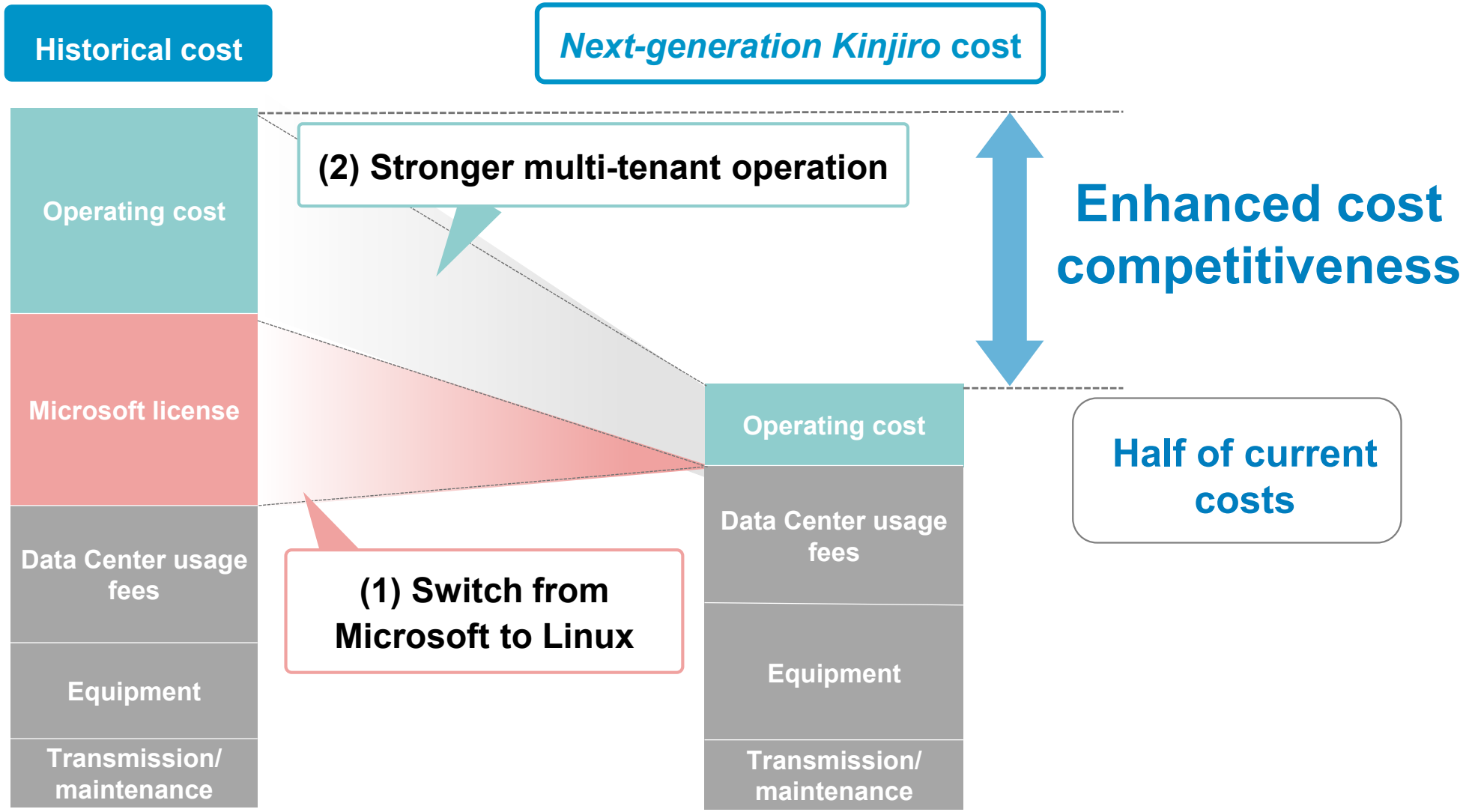
1. Evolve the cloud base ・・・ Flexible utilization of cloud assets (2Q) release private cloud (for individual clients) (4Q)
2. Strengthen the cloud front ・・・ Provide integrated authentication for our company's app and other apps (4Q)
   * Integrated authentication: integrate user authentication
3. Develop 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) released in July, (Version 2) scheduled for release in December**



4. 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, you can:
(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.)
- Strengthen trust between labor and the 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 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

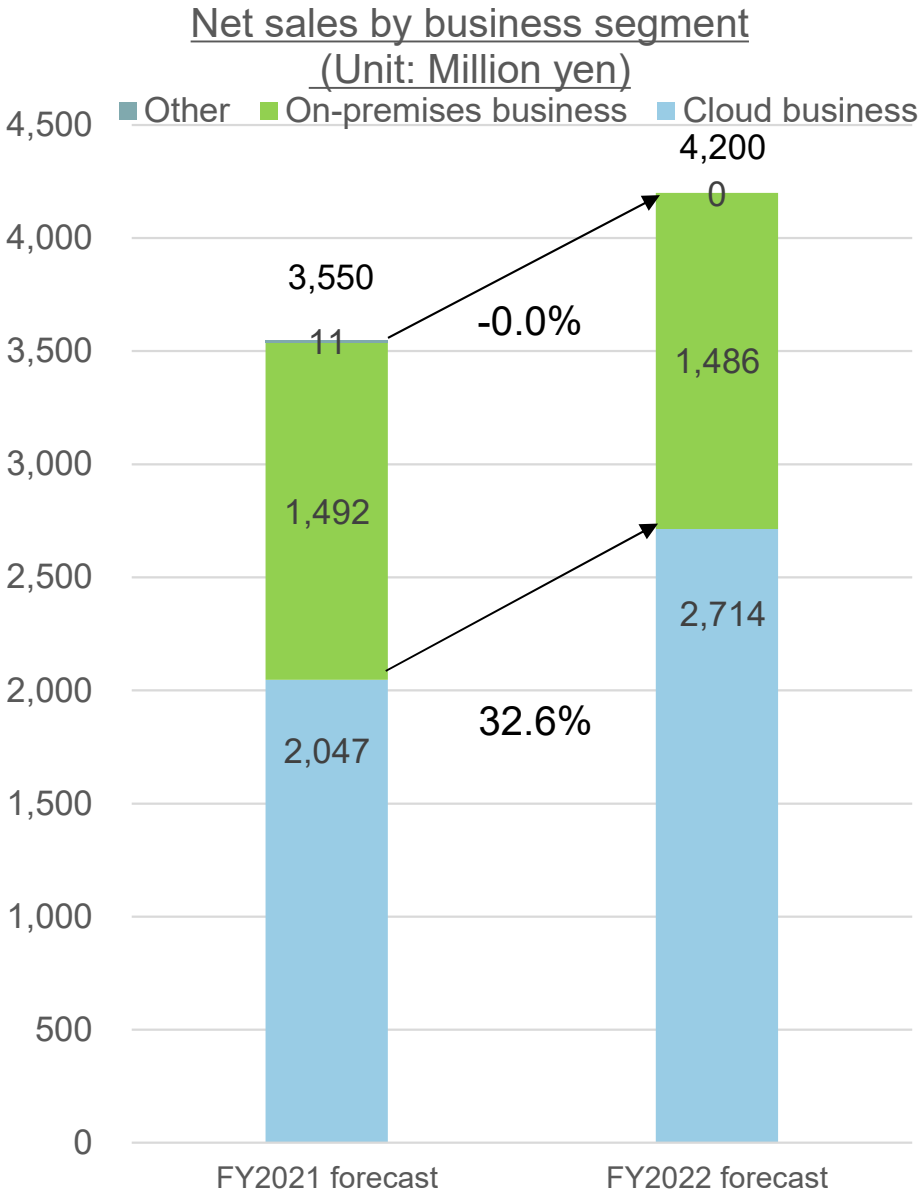
5. Sales Forecasts for the Fiscal Year Ending December 31, 2022 (FY2022)

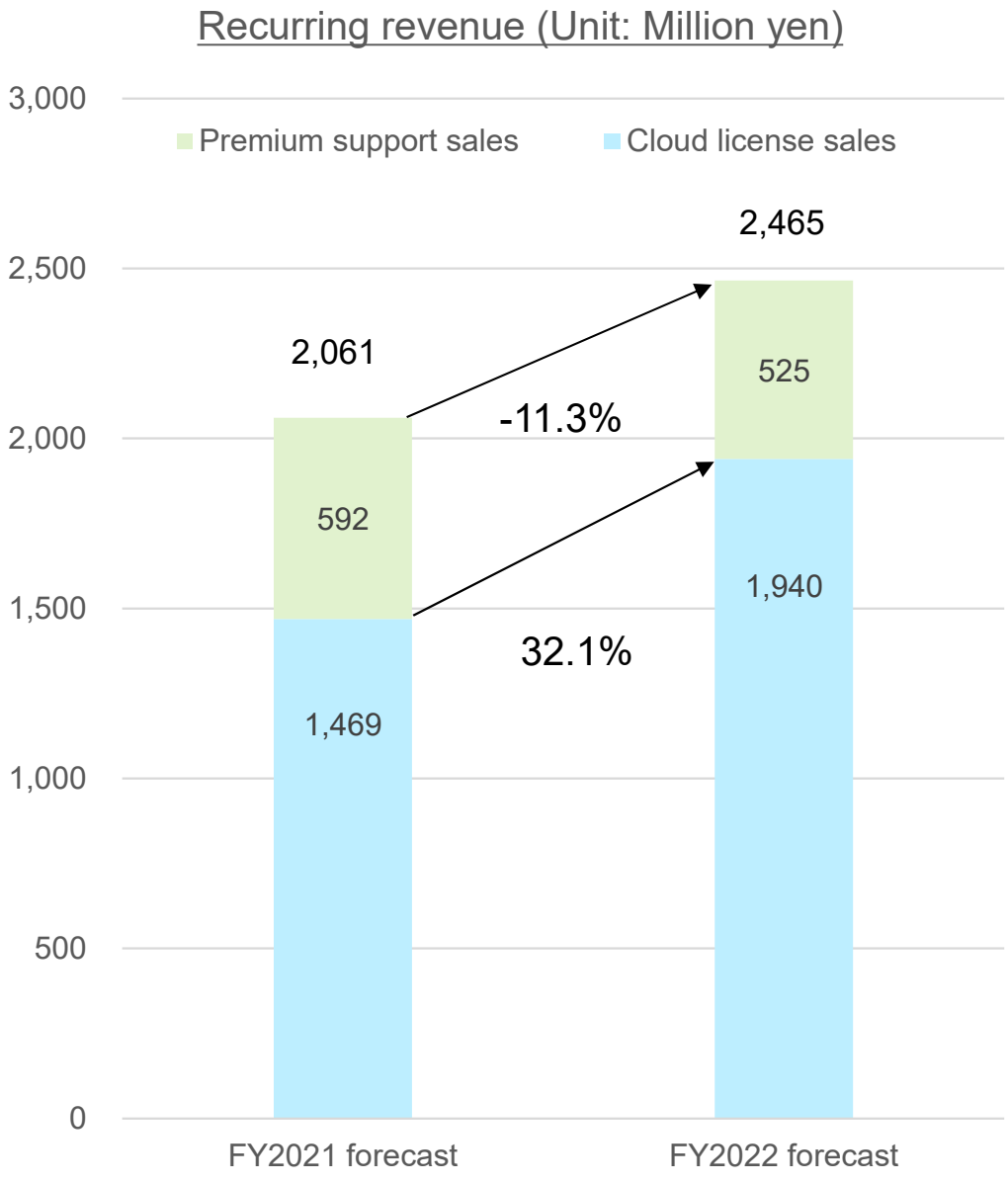
Sales Forecast for the Fiscal Year Ending December 31, 2022 (FY2022) (1)

- In the fiscal year ending December 31, 2021 (FY2021), the on-premises business was largely affected by the COVID-19 pandemic. In particular, large orders from hospitals and companies that belong to the field of medical care, construction, and transportation, which are subject to an extended period to apply the work style reform laws, have been postponed and are expected to be recorded in sales for FY2022.
- On the other hand, despite the impact of COVID-19, the cloud business is increasing the number of licenses in a relatively stable manner, and we assume that the number of licenses will reach 500,000 by December 2022, including on-premises users shifting to the cloud. ARPU as of December 2022 is assumed to be 360–370 yen.

In FY2022, based on the current COVID-19 situation, we assume that many of the postponed orders will contribute to sales, resulting in sales of 1,486 million yen in the on-premises business and 2,714 million yen in the cloud business. In total, sales of 4,200 million yen are expected.

Sales Forecast for the Fiscal Year Ending December 31, 2022 (FY2022) (2)





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.