UZABASE

Uzabase, Inc.

Q2 FY2022 Financial Results Briefing

August 4, 2022

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Event Summary

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[Participants]	
[Number of Speakers]	4

Yusuke Inagaki	Co-CEO/CTO
Taira Sakuma	Co-CEO
Daisuke Chiba	CFO
Yoichi Aso	CEO, AlphaDrive

Presentation

Moderator: Hello to everyone. We appreciate everybody's attendance despite your busy schedules. We will soon commence Uzabase, Inc.'s financial results briefing for Q2 2022. We'll be starting at 4:00 PM JST.

Thank you very much for joining us, once again. We will soon commence Uzabase, Inc.'s financial results briefing for Q2 2022.

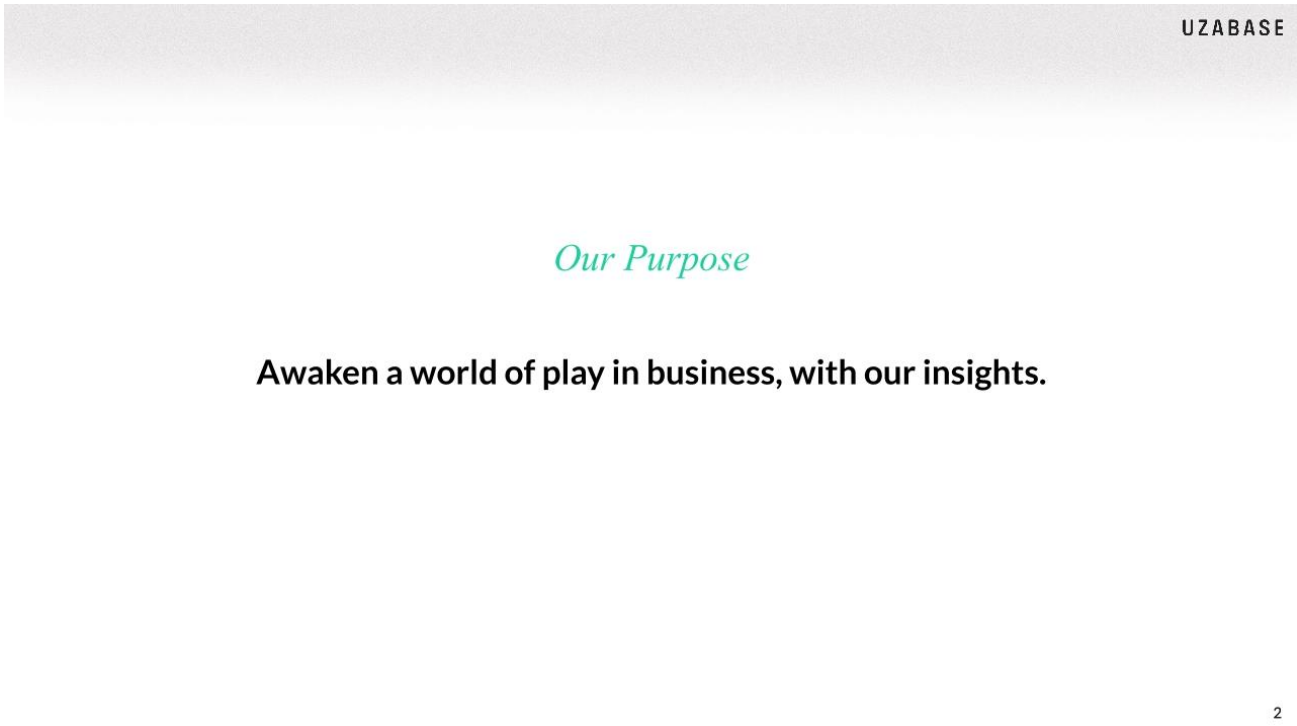
Now. it is time for us to commence Uzabase, Inc.'s financial results briefing for Q2 2022.

Now, without further delay, let me introduce the members of management who are here with us today. Uzabase, Inc.'s Co-Chief Executive Officer and CTO, Yusuke Inagaki; Co-Chief Executive Officer, Taira Sakuma; and Chief Financial Officer, Daisuke Chiba. We also have Group Officer and CEO of AlphaDrive Inc., Yoichi Aso.

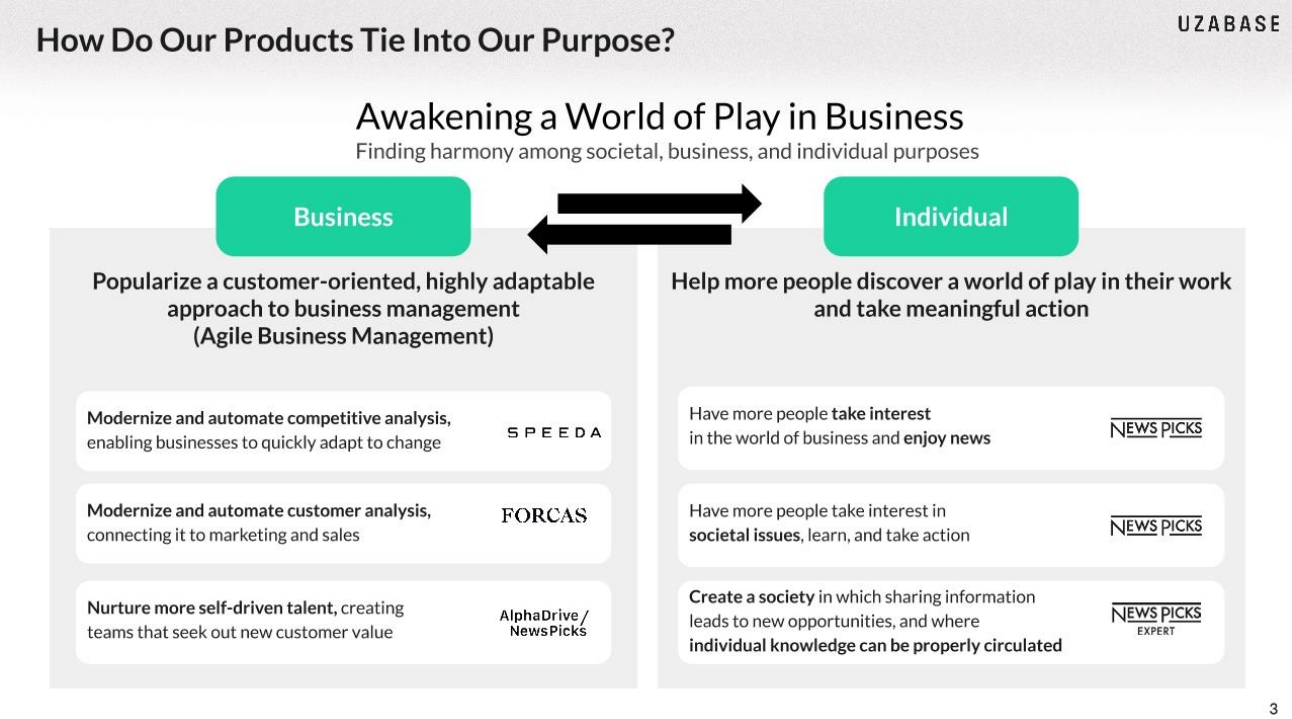
Hello to everybody from all four members of the management. Regarding Aso, we would like to ask for you to excuse him at around 4:50 JST.

Without further delay, Mr. Sakuma, please.

Sakuma: In July we opened our new Tokyo office, and we are delivering this presentation from the new Tokyo office.



Our purpose is to awaken a world of play in business with our insights. We decided on this purpose last year, and this is the rationale for Uzabase.

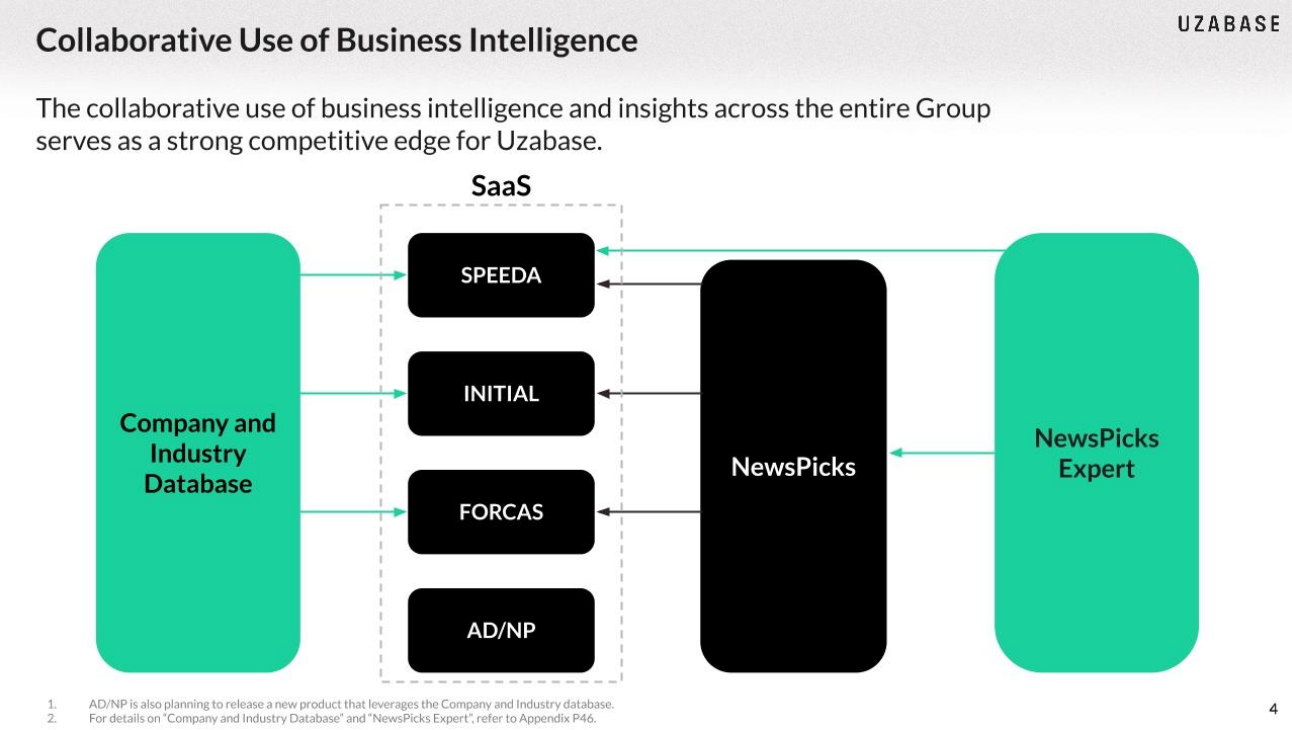


More specifically speaking, in order to achieve this purpose, we have two directions, 2B and 2C. For businesses, we automate competitive analysis using SPEEDA, and for automating customer analysis and leading this to marketing activities, we provide FORCAS.

To nurture more self-driven talent, creating teams that seek out new customer value, we have the AlphaDrive business. In the last financial briefing, we provided a presentation from FORCAS CEO Taguchi to explain in detail about the FORCAS business. This time, for the same intention, we have invited the CEO of AlphaDrive to talk about the AlphaDrive business.

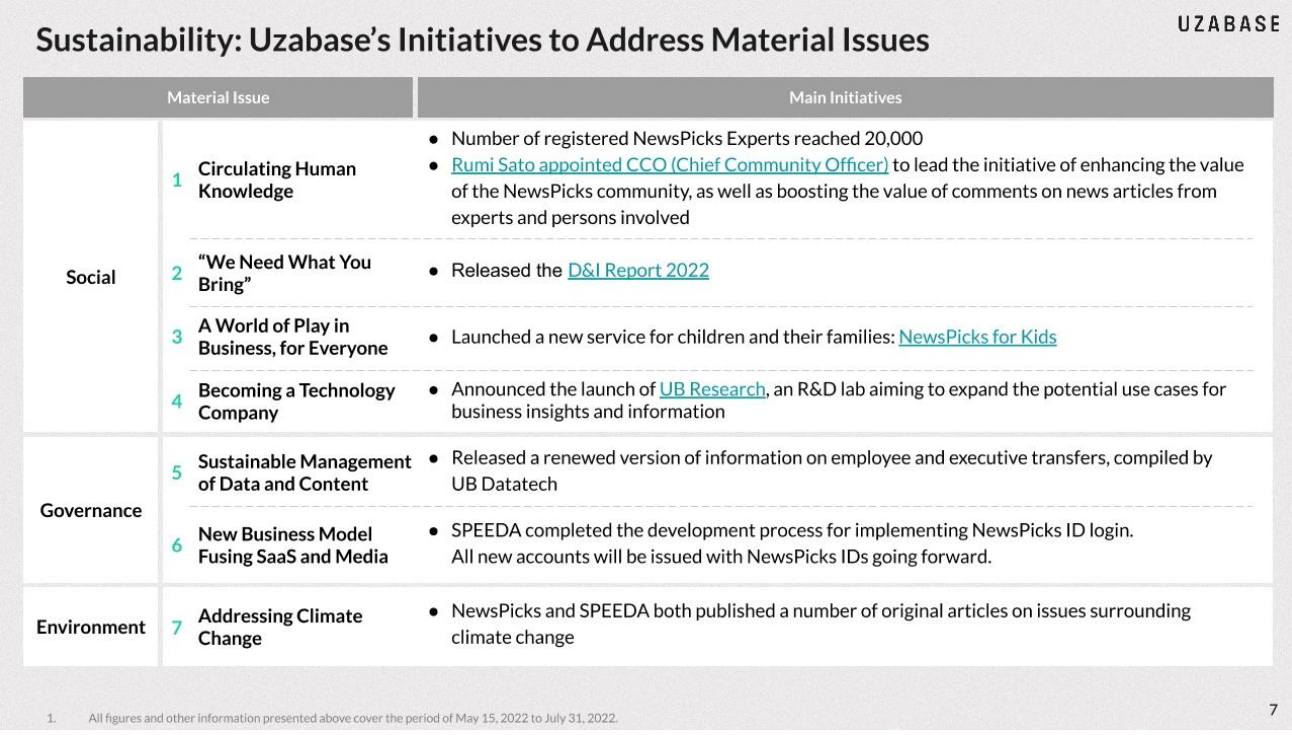
On the B2C side, in order to have more people take interest in the world of business and enjoy news and take social action, we provide the business news media NewsPicks. To create a society where our knowledge is circulated, we operate the knowledge platform called NewsPicks Expert.

In our purpose, we mention our insights, and business insight is our strength. This includes the quantity and quality of business information. Our uniqueness is in that we have a shared database across all of our businesses. As you can see on this slide, we have a shared company and industry database. We deliver this in the optimized ways for each of our users through SPEEDA, INITIAL, and FORCAS.



The news provided by NewsPicks is also utilized in our SaaS businesses. Also, human knowledge and expertise is utilized in NewsPicks Expert and SPEEDA Expert Research. We have the strength of utilizing our business intelligence, and we use the same set of data across different businesses. That enables us to make efficient investments in our database.

Next, in order to achieve our purpose, we have set some materiality issues, which I'd like to report on.



First of all, this page shows the progress of each of the materiality issues. The first one is circulating human knowledge. We have reached 20,000 in terms of the number of registered experts on NewsPicks Experts.

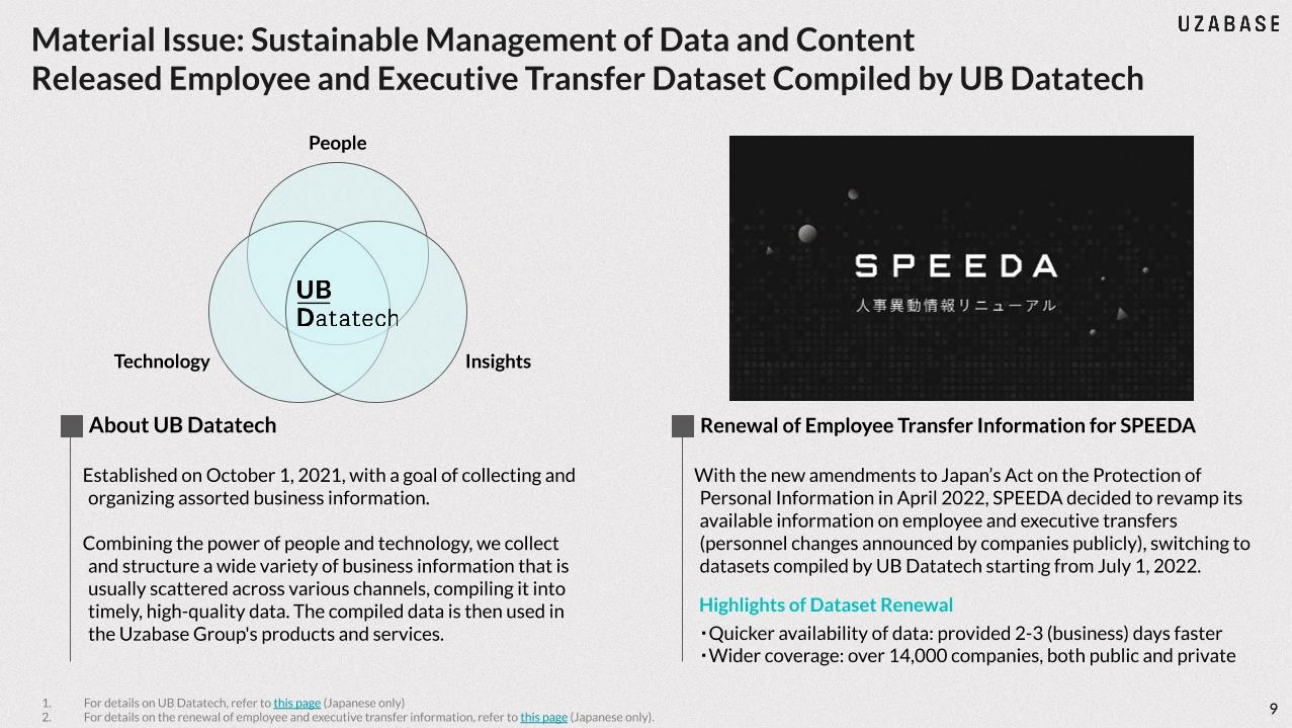
Rumi Sato, who has been a long time Chief Editor of NewsPicks, has become a dedicated Chief Community Officer in order to develop the community of circulating knowledge. For number two, we need what you bring, we released the D&I report 2022. Number three, a word of play in business for everyone. We launched a new service targeting children and their families called NewsPicks for Kids. Number four, becoming a technology company, we are creating a structure to keep creating business intelligence in-house. We established UB Datatech last year, and we are also doing research to explore new ways of utilizing business intelligence under the name UB Research. Number five, sustainable management of data and content. Through UB Datatech, we have released a renewed version of information of employee and executive transfers.

For the new business model, fusing Saas and media, we are creating a single ecosystem connecting the SaaS services and NewsPicks. We have developed the NewsPicks ID in order for the NewsPicks users to use the same ID across all of our Saas services. To address climate change, NewsPicks and SPEEDA both published a number of original articles on issues surrounding climate change.



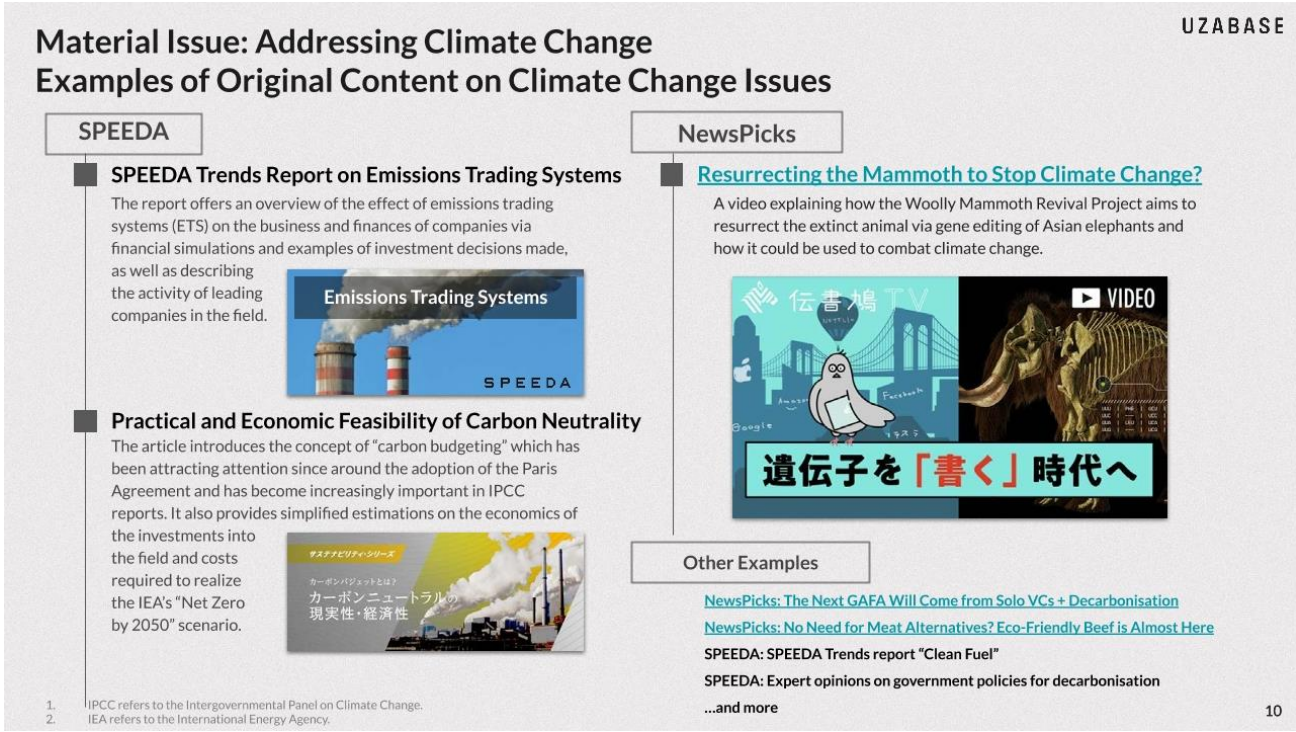
I would like to pick up three particular activities. First of all, in order to bring a world of play in business for everyone, we have launched NewsPicks for Kids. I am very excited about this. My children are also reading children's newspaper available in the market, but there is a shortage of global perspective and range of thoughts. I was going to find something that is suitable for my children. We decided to create something by ourselves. We have partnered with The New York Times in order to create our original newspaper targeting children. You can see on the left-hand side that it contains a lot of graphics, and it is very exciting and enjoyable. The NewsPicks leading designer, Sakurada has been taking charge and has been fully committed to the launch of NewsPicks for Kids. From the design aspect, we are creating excitement into learning about the economy and business.

This is not just based on our own passion, but we are trying to create economic value in the service. For existing premium users, we are providing this service to raise the LTV of our users as well.



Secondly, for sustainable content data management, UB Datatec has been releasing personnel information

I have been working in the data industry, and I know that handling human resources and personal data is very tricky. It has to be handled in a timely manner, but it is not in a consistent format. UB Datatech is using its operational excellence and technological strength to handle this type of data. This is fully in line with the latest privacy laws, and we are holding us accountable to handle this kind of data in a responsible way. This data is already available for use on SPEEDA.



Thirdly, about addressing climate change. These are some examples of our original content. We operate a media platform, and we have been focusing on climate change to encourage behavioral change of companies and individuals.

On the right-hand side, on NewsPicks, we are providing content on a relatable format. On SPEEDA we are providing information on emissions trading systems and carbon-neutral initiatives.



Next, apart from the materiality issues, these are the progress on our major policies for 2022. There are five points which I would like to touch upon.

First, about the high-growth SaaS businesses, SPEEDA Expert Research, FORCAS, and AD/NP. We are committed to continuously invest in these high-growing businesses, and the progress is going well. In order to keep growing these three businesses, we believe that investing in personnel is the most important, especially in sales and customer success.

Number two, investment in data shared across SaaS. At UB Datatech, it is compiling employee and executive transfer information and making good progress as well.

Number three, continued investment in NewsPicks marketing to accelerate growth. In April and mid-June to July, we had two rounds of running commercials. I would like to elaborate on that on the next slide.

Number four, synergy between Saas and NewsPicks, finalizing the integration of IDs. This is also progressing well, as I already mentioned. The remaining part is for FORCAS. We'll also be starting the login to FORCAS using the NewsPicks ID as well.

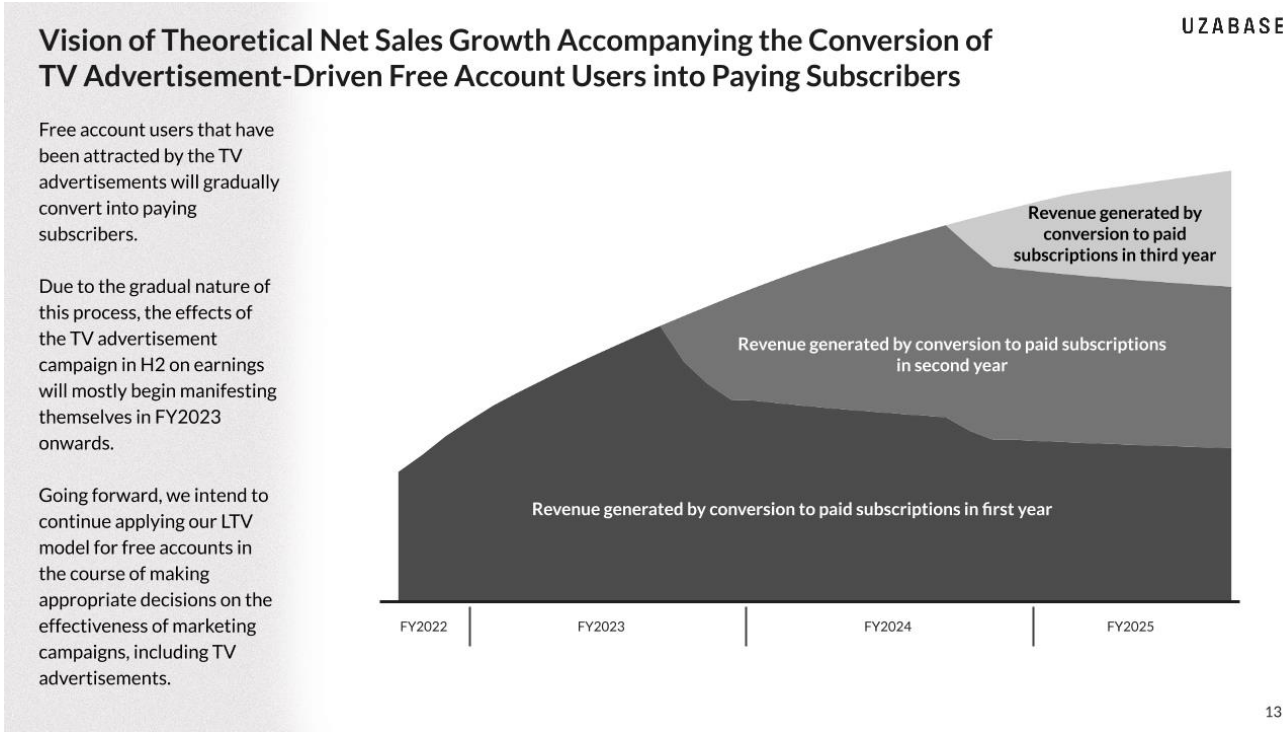
Number five, synergy between Saas and NewsPicks. We have a service called NewsPicks Stage, which is an online distribution platform. This is also becoming an entrance for gaining leads for our SaaS businesses. This is also leading to increasing advertising revenue for NewsPicks, and we are looking to invest more in this service.

About NewsPicks' TV commercial, I would like to report on the outcome. Very simply speaking, we have identified some successful patterns as a result of trial and error. Before this financial briefing, we have been playing some commercials on the screen. We actually had nine versions of creative content, and we also made some adjustments of the text and headlines and different time frames and TV programs. We find that there is drastically different outcome in the tens of times. We have been identifying more how we can most effectively and efficiently reach our users, and that has become possible in Q3.



We will be continuing the commercials in Q3, but we have already identified an efficient pattern. We will be limiting our trials, so it would be much more efficient than before.

In terms of the investment amount, it would be smaller than that in H1. From next year, whether we are going to run commercials is not decided yet. But we are committed from next year to keep NewsPicks solidly profitable on a stand-alone basis. That has not changed from the policy that we explained last time.

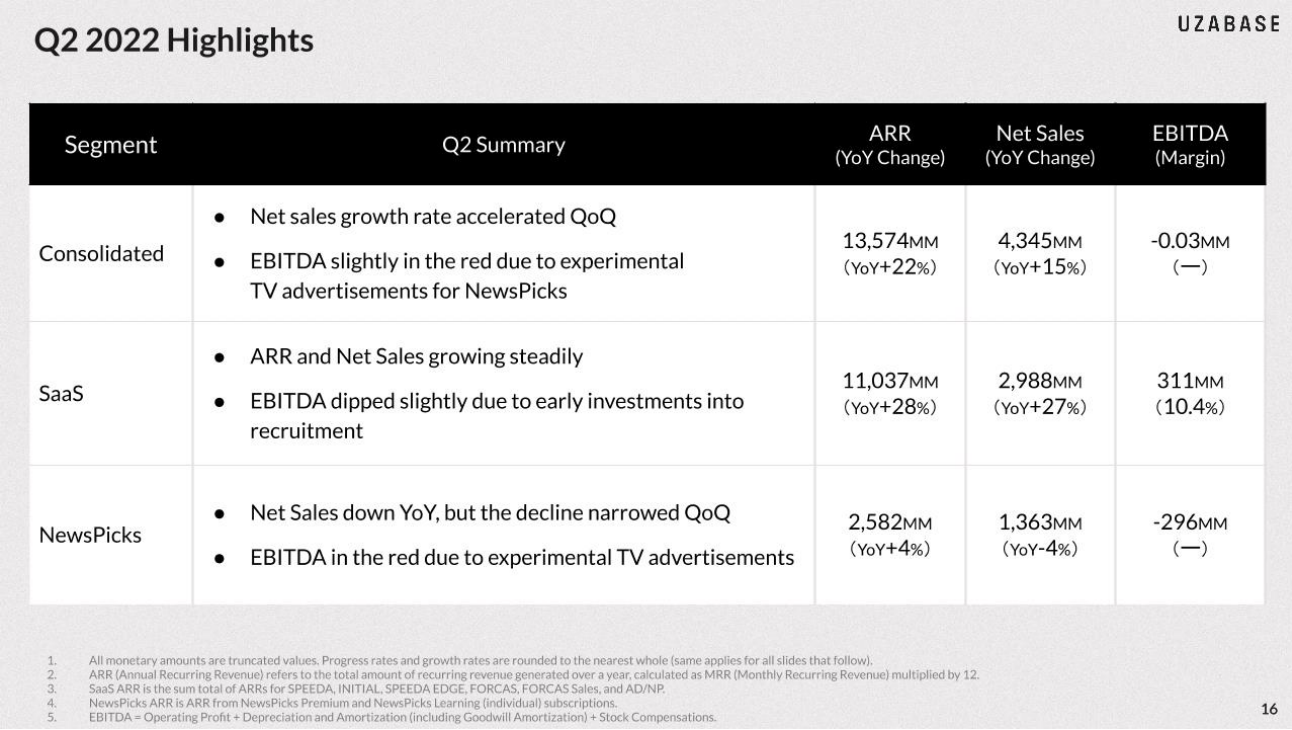


The effect of the TV commercial is pretty hard to understand. We prepared one slide to explain. As written here, we are not aiming to gain paying users in the short term, but we will start with free users that can be converted to paying users and also boost advertising revenue.

In H2, even if we are to launch some commercials, as you can see, there will be no immediate effect within H2. But the impact would be accumulating from next year onwards. This is our assumption. But from an earlier stage, we will be seeing the users that came to us through the commercials, and we will be watching their consistent use and whether there is a sufficient level of conversion. We will be very careful of monitoring the behavior of our new users.

Next, CFO Chiba will talk about the financial results of Q2 financial 2022.

Chiba: Thank you very much. This is Chiba, CFO. I will talk about the Q2 results.



Q2 2022 Highlights

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Segment	Q2 Summary	ARR (YoY Change)	Net Sales (YoY Change)	EBITDA (Margin)
Consolidated	• Net sales growth rate accelerated QoQ • EBITDA slightly in the red due to experimental TV advertisements for NewsPicks	13,574MM (YoY+22%)	4,345MM (YoY+15%)	-0.03MM (—)
SaaS	• ARR and Net Sales growing steadily • EBITDA dipped slightly due to early investments into recruitment	11,037MM (YoY+28%)	2,988MM (YoY+27%)	311MM (10.4%)
NewsPicks	• Net Sales down YoY, but the decline narrowed QoQ • EBITDA in the red due to experimental TV advertisements	2,582MM (YoY+4%)	1,363MM (YoY-4%)	-296MM (—)

1. All monetary amounts are truncated values. Progress rates and growth rates are rounded to the nearest whole (same applies for all slides that follow).
2. ARR (Annual Recurring Revenue) refers to the total amount of recurring revenue generated over a year, calculated as MRR (Monthly Recurring Revenue) multiplied by 12.
3. SaaS ARR is the sum total of ARRs for SPEEDA, INITIAL, SPEEDA EDGE, FORCAS, FORCAS Sales, and AD/NP.
4. NewsPicks ARR is ARR from NewsPicks Premium and NewsPicks Learning (individual) subscriptions.
5. EBITDA = Operating Profit + Depreciation and Amortization (including Goodwill Amortization) + Stock Compensations.

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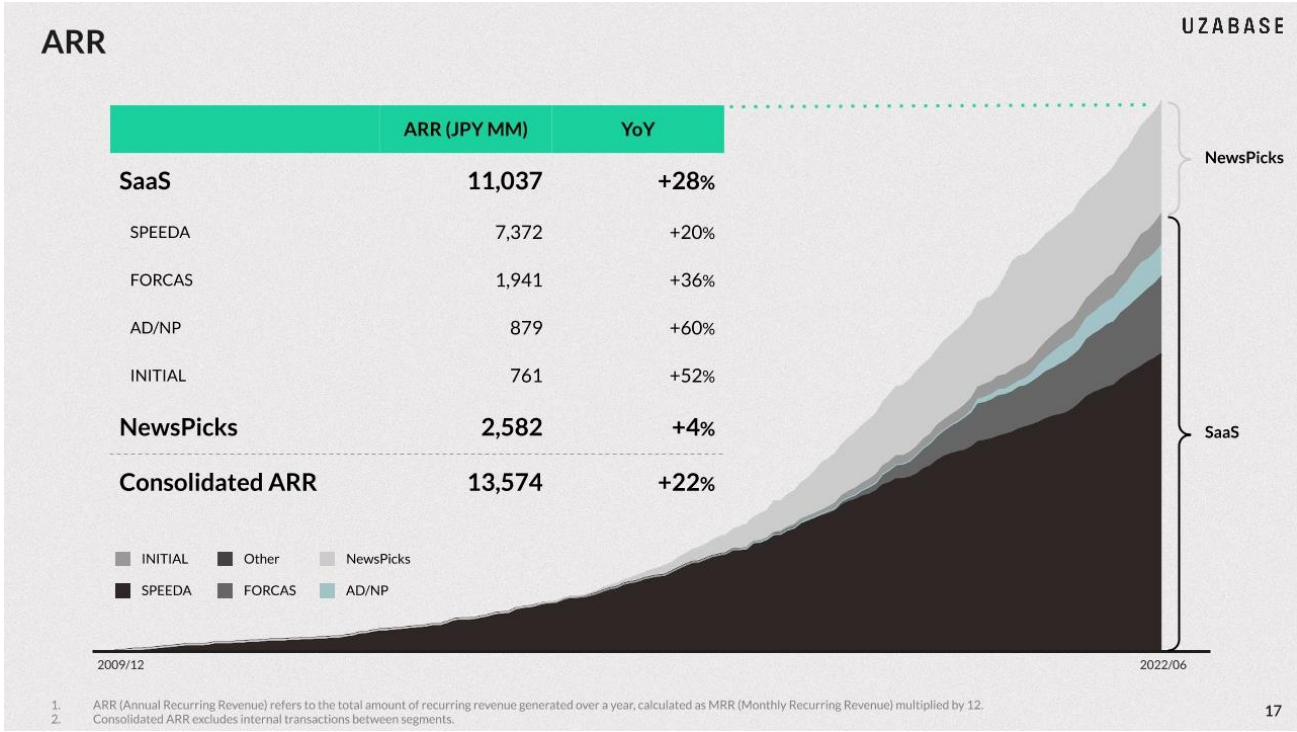
Now, I would like to cover the consolidated results highlights. ARR grew 22% YoY to JPY13 billion. Net sales was JPY4.3 billion, up 15%. EBITDA this time was negative JPY3 million. Topline growth has exceeded that in Q1, and while EBITDA was negative, the amount was smaller than expected.

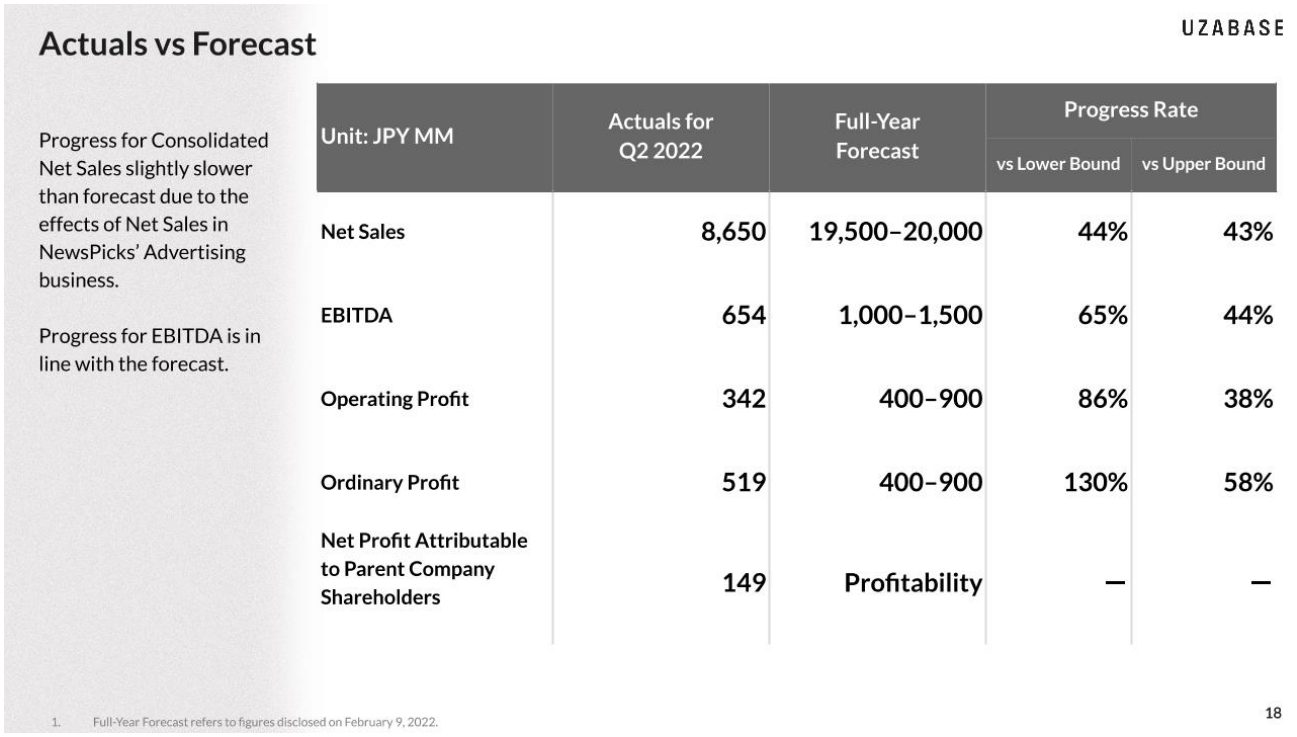
I would like to talk about SaaS next. As you see on the slide, everything is going steadily. ARR grew by 28%, at the same rate as in Q1. Net sales was up 27% to JPY2.98 billion. EBITDA was JPY311 million for an EBITDA margin of 10.4%. In the SaaS business, , we continue to invest in the areas of high growth while maintaining solid profits, in line with our policy.

Speaking of the NewsPicks business, ARR from paying subscribers grew by 4%. Net sales declined by 4% to JPY1.36 billion. EBITDA was negative JPY296 million as a result of investing in the TV commercial, as explained earlier.

Net sales decreased YoY as in the Q1, but this gap is narrowing down. We would like to make sure that we come back strongly and continue to improve our numbers in H2.

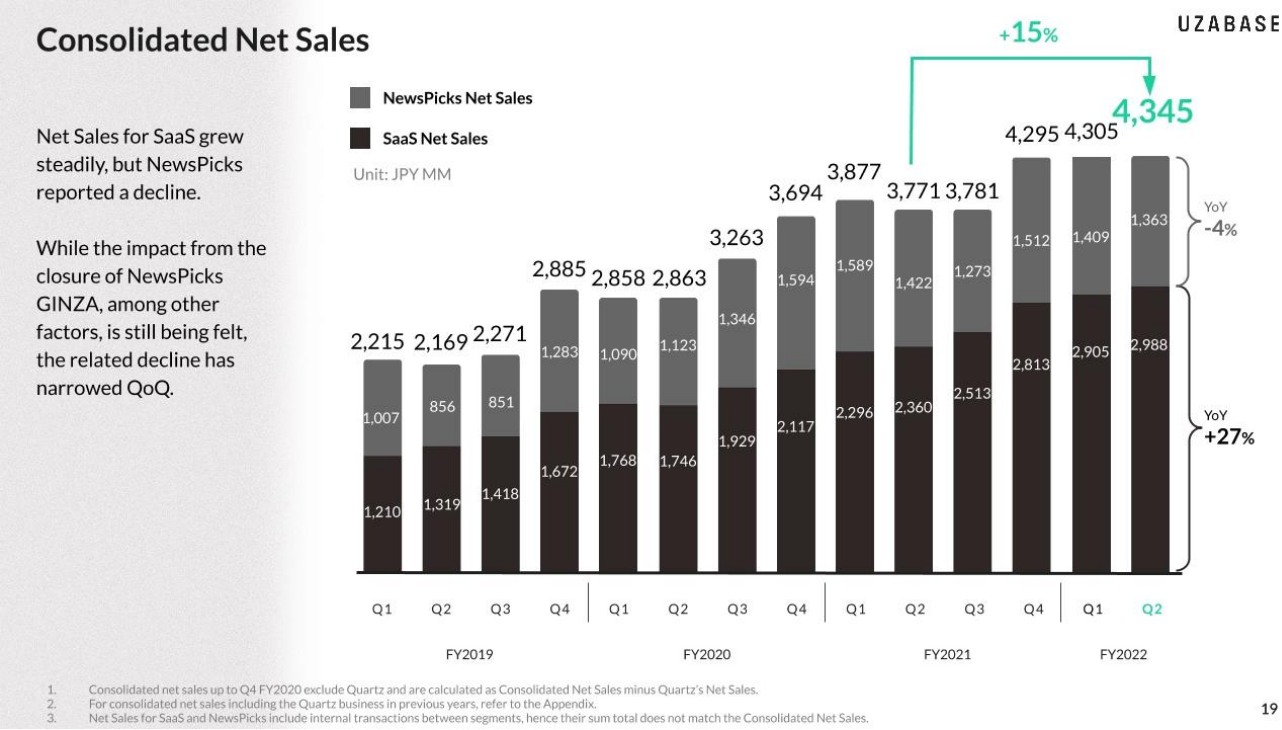


Now, let me talk about more in detail regarding ARR, which is our important indicator. AD/NP and INITIAL continued high growth over 40%. Then in terms of consolidated ARR, it's exceeded JPY13.5 billion.



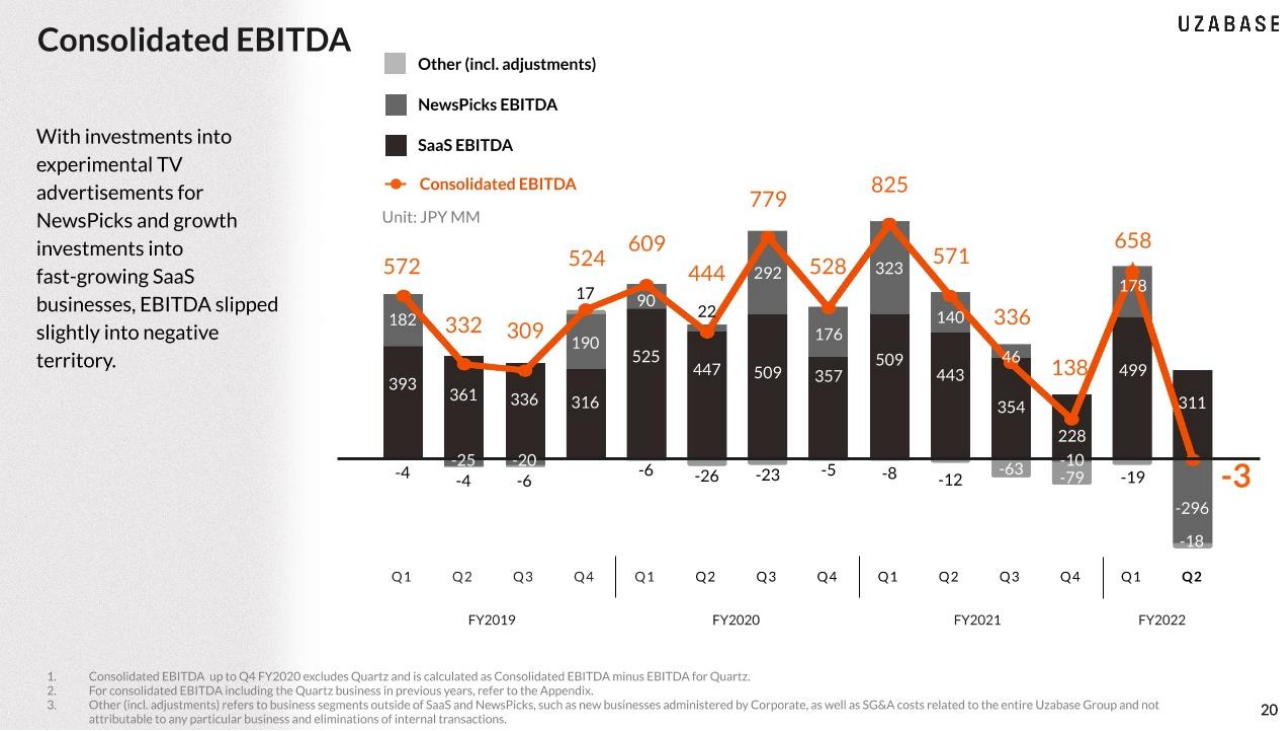
Now, let me talk about actual versus forecast. Based on our business model, earnings accumulate over time. In H2 we see bigger numbers than in H1. However, we are somewhat behind compared to our regular years, as you see written on the very left side.

In addition, progress of profits look stronger than that of revenue. As we will be continuing our advertisement investment in stages from Q3, we think all the profit numbers will basically fall within our guidelines.



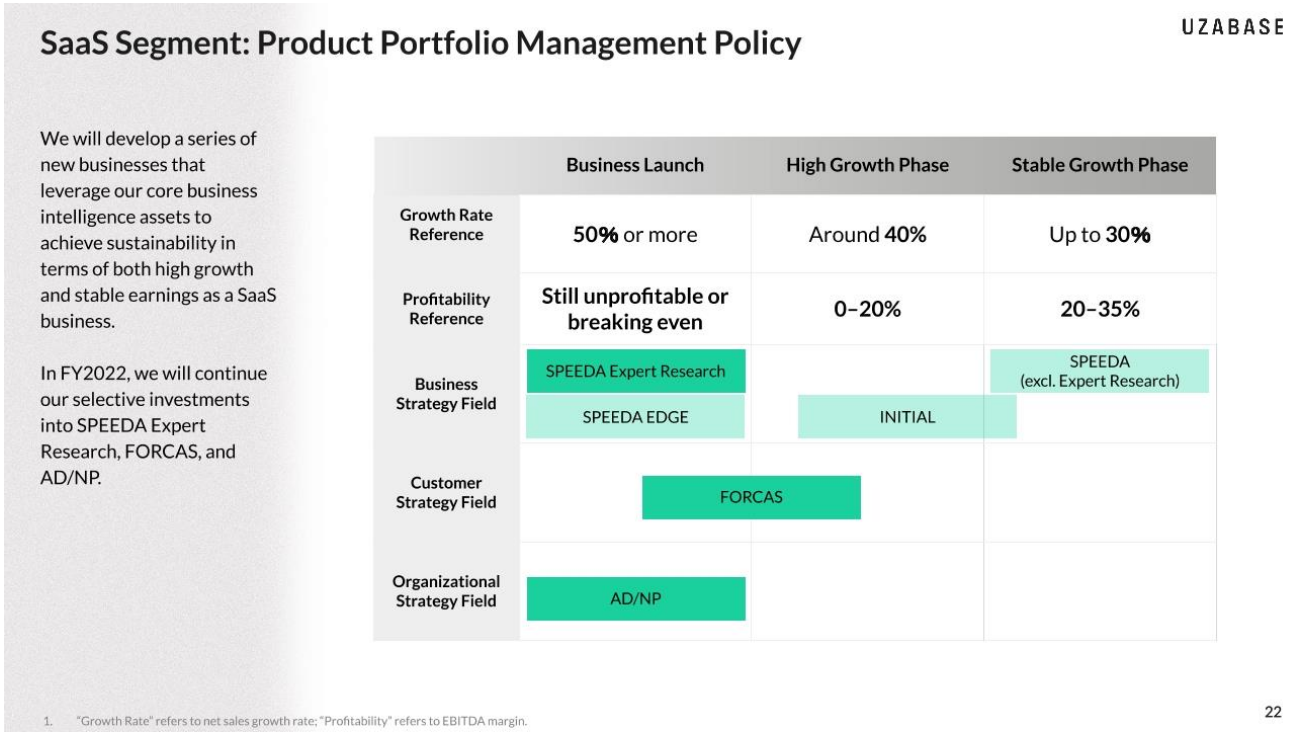
In terms of quarterly consolidated net sales, the SaaS business is showing very good performance. Meanwhile, NewsPicks has been slightly down from the previous quarter as a result of seasonality in advertising revenue and a business withdrawal that took place last year.

On the other hand, please note that consolidated net sales was up 15% YoY, accelerating growth from Q1.

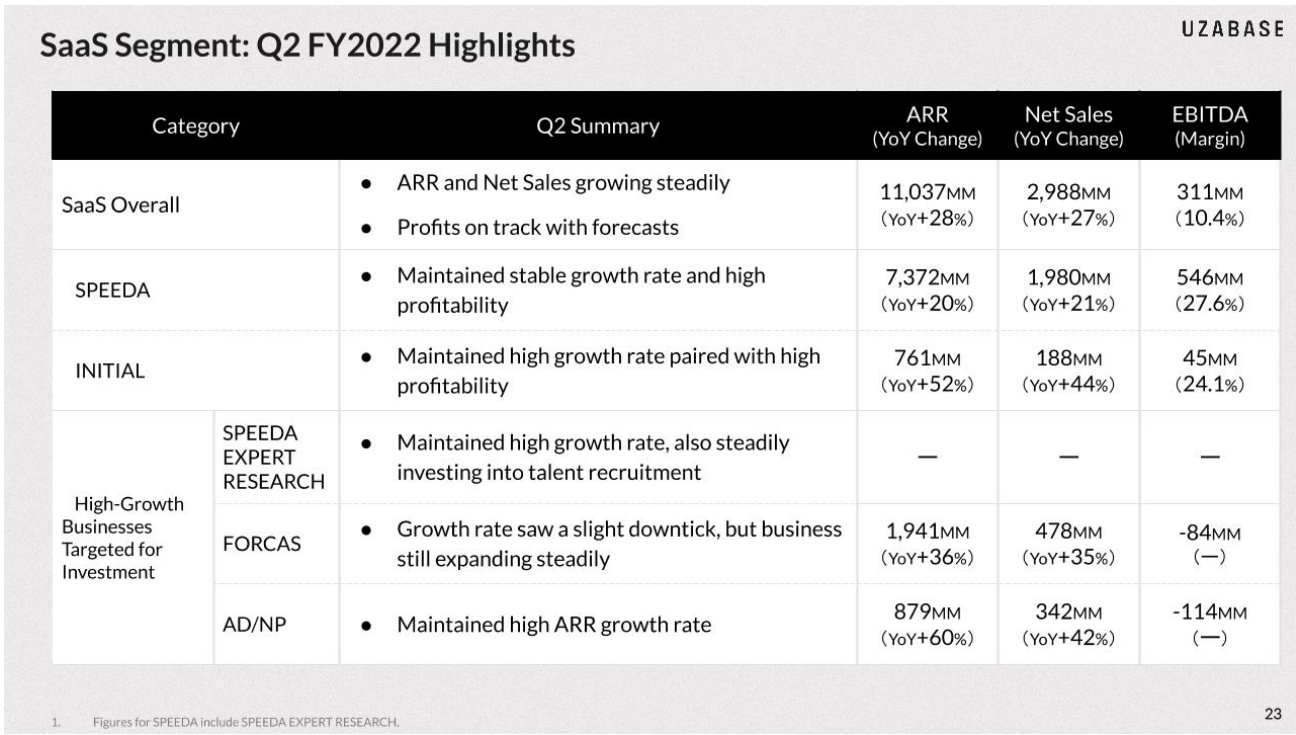


Next is quarterly consolidated EBITDA. According to our major policy, we continue to inject both investments into areas where we see strength. We also continued the TV advertisement during Q2. As a result, EBITDA was negative JPY3 million.

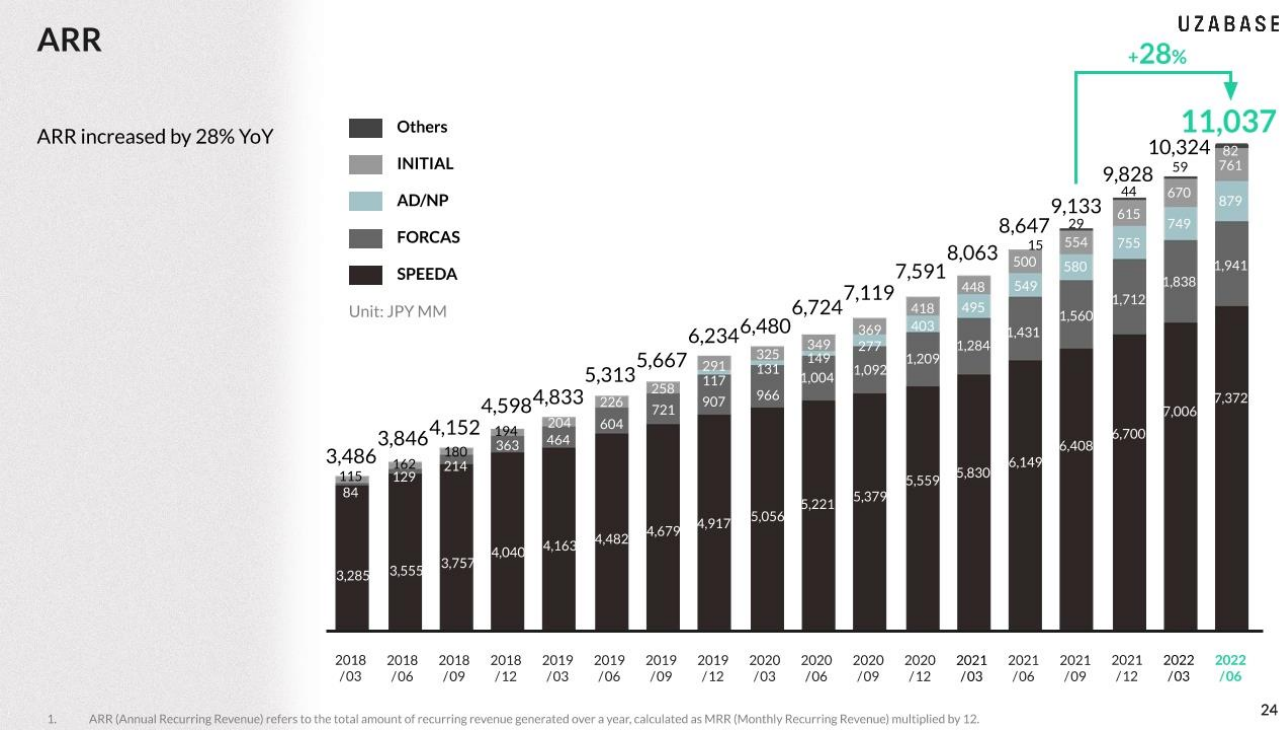
While investing in growth, we are also engaging in cost reduction measures in response to market conditions and to prepare for a possible recession. There is no change in our major strategy to keep growing revenue while maintaining positive consolidated EBITDA. But due to changes in the business environment and situation of each business, please be aware that losses may happen on a quarterly basis during the year.



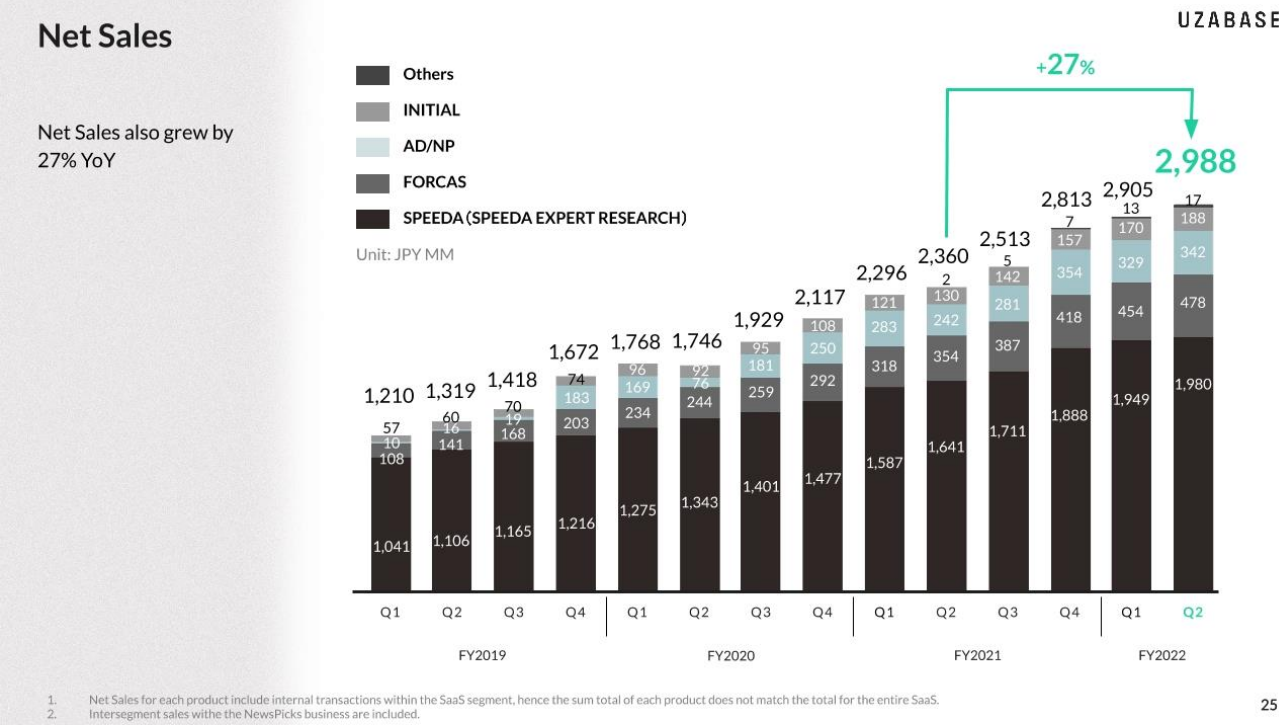
Now, let me talk about the highlights for Saas business. This is the portfolio management strategy that we show every time. We stay put with this policy. We manage areas where we see high growth versus where we want to secure the steady ground for revenue.



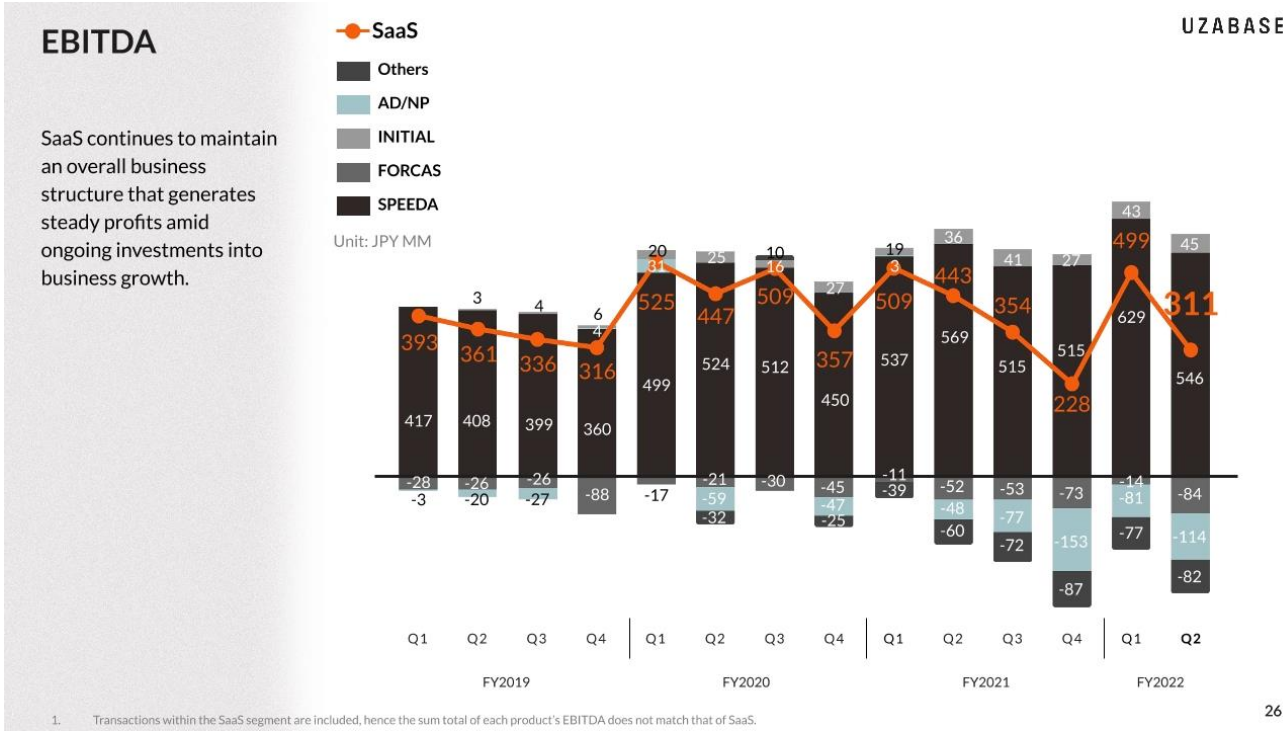
Looking at this next page, we can say confidently that we are progressing smoothly.



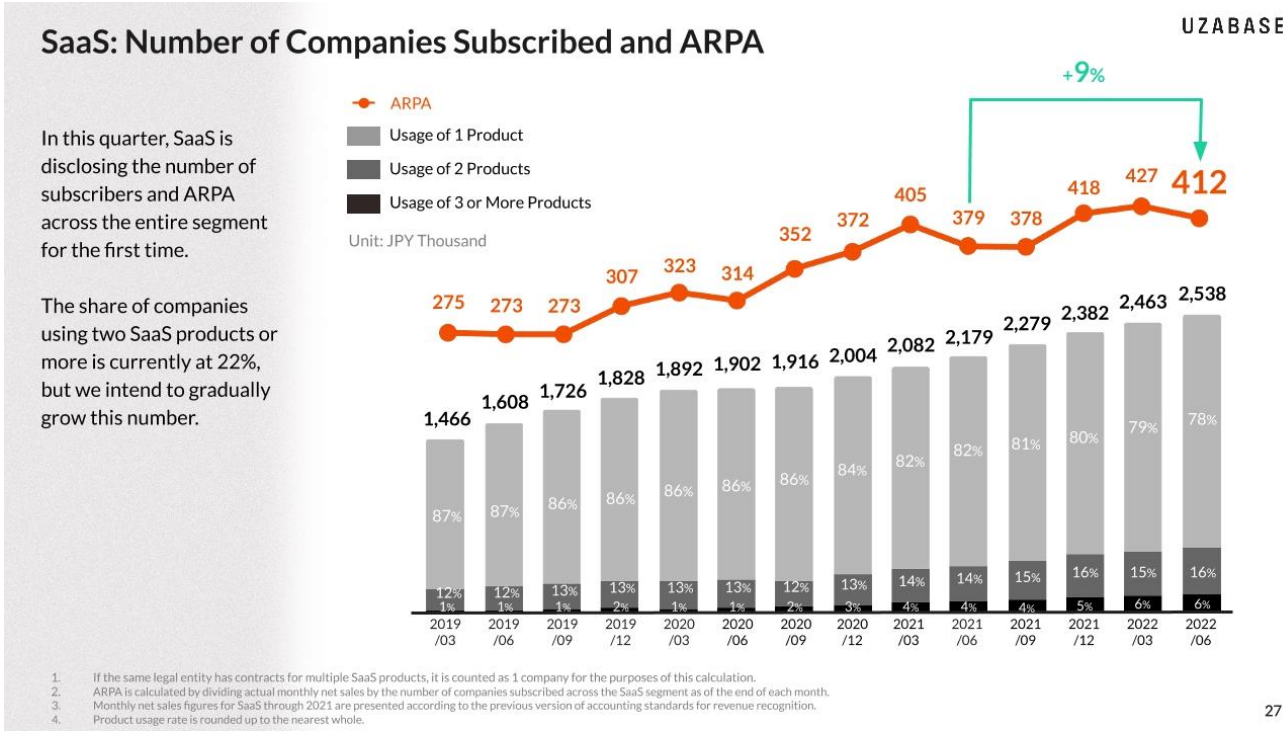
The next slide is ARR trend. As you see here, the SaaS business has grown 28% to over JPY11 billion. In addition to AD/NP, INITIAL is achieving high growth as seen from the bar graph.



Next, I would like to talk about net sales of the SaaS business. For those of you who are new to our company, the difference with ARR is that non-recurring revenue, such as initial payments and consulting revenue, are included here, but not in ARR. As positive news, you can see that our growth rate has improved from Q1.



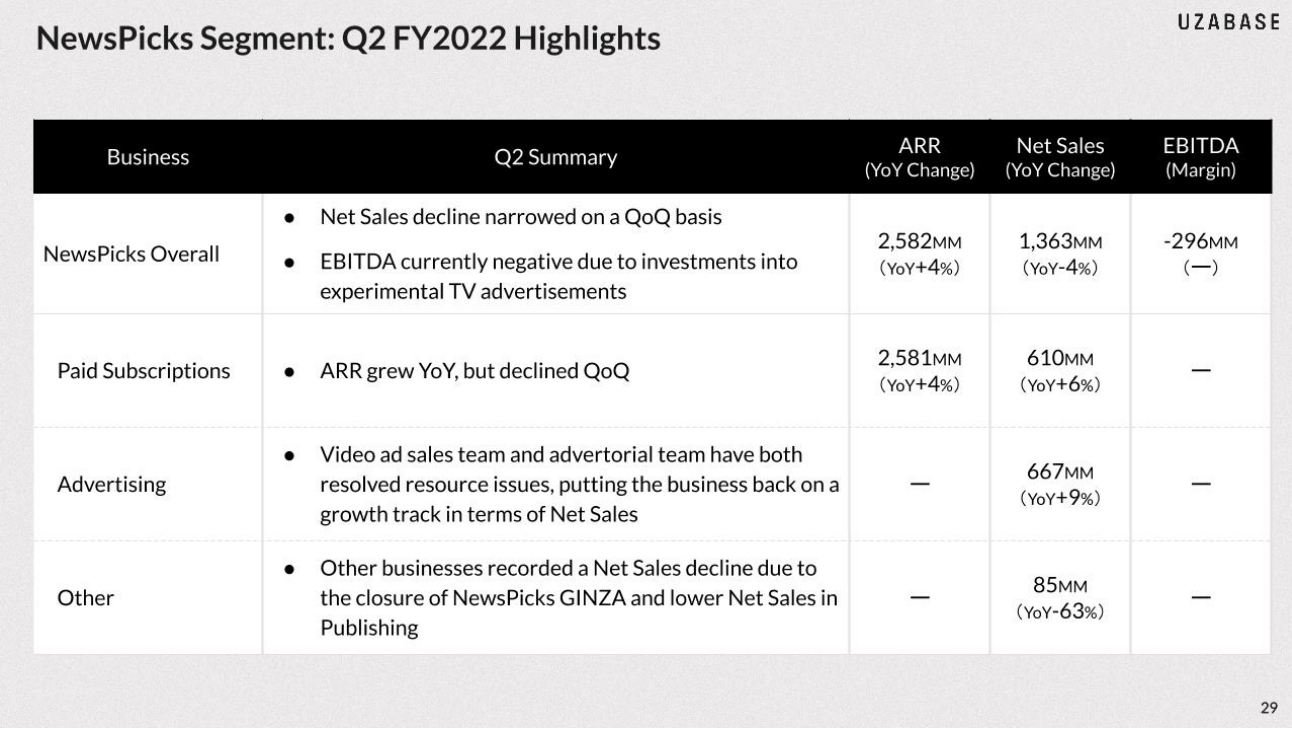
Next is quarterly EBITDA. The part below the horizontal line shows investment in high-growing businesses, and the part above the line captures profitability of profit-making businesses. We are investing in three areas of high growth while delivering robust profit from SPEEDA and INITIAL.



This is a slide we are disclosing for the first time. It represents the number of companies subscribed to our SaaS businesses and ARPA, as opposed to number of clients and ARPA of SPEEDA, which we previously disclosed and is included in the Appendix this time.

The number of client companies of the entire SaaS segment was 2,537 as of end of June. Clients that use three or more of our products account for just 6%. We will continue to enhance our cross-sell activities so that such ratio will increase over time. There is still much potential in this area.

Meanwhile, companies that use more than two products have been increasing to 16%. As this number becomes higher, we can further leverage our business intelligence on the asset base that we have being utilized in different products that we offer. We will remain committed to the cross-selling rate and disclosing the results.



NewsPicks Segment: Q2 FY2022 Highlights

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Business	Q2 Summary	ARR (YoY Change)	Net Sales (YoY Change)	EBITDA (Margin)
NewsPicks Overall	• Net Sales decline narrowed on a QoQ basis • EBITDA currently negative due to investments into experimental TV advertisements	2,582MM (YoY+4%)	1,363MM (YoY-4%)	-296MM (—)
Paid Subscriptions	• ARR grew YoY, but declined QoQ	2,581MM (YoY+4%)	610MM (YoY+6%)	—
Advertising	• Video ad sales team and advertorial team have both resolved resource issues, putting the business back on a growth track in terms of Net Sales	—	667MM (YoY+9%)	—
Other	• Other businesses recorded a Net Sales decline due to the closure of NewsPicks GINZA and lower Net Sales in Publishing	—	85MM (YoY-63%)	—

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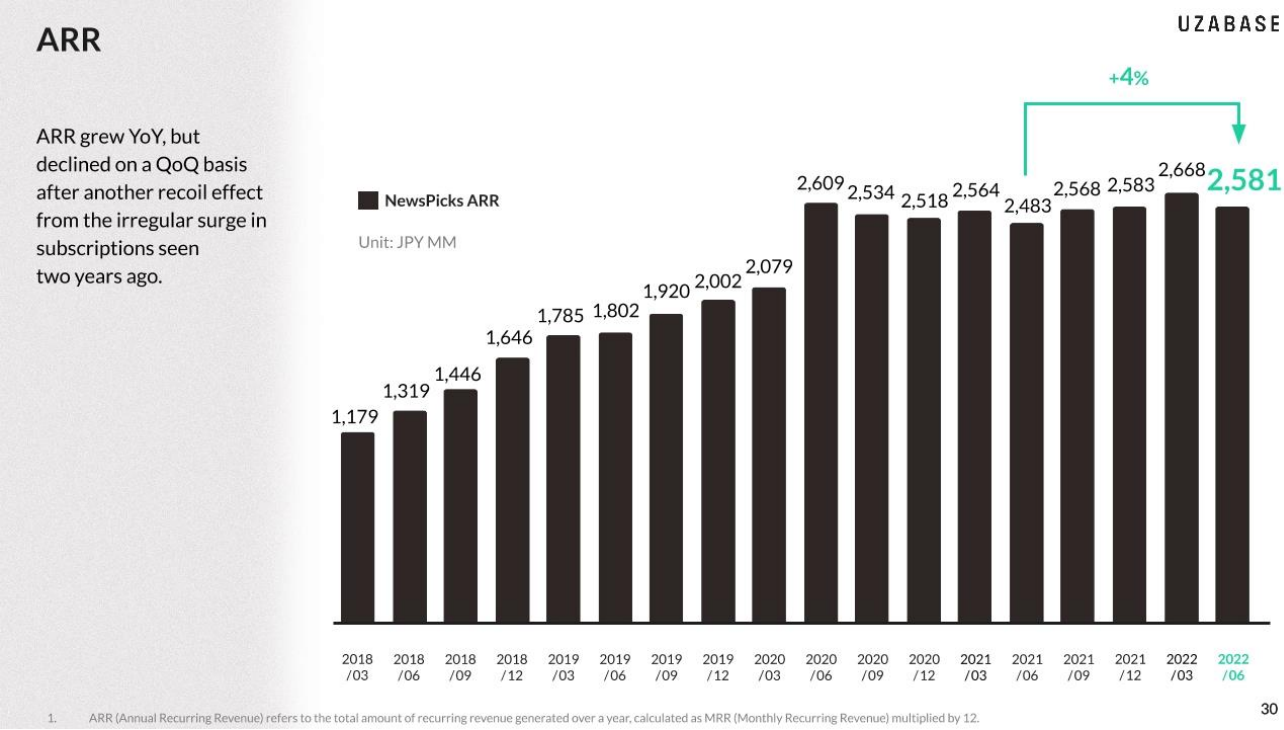
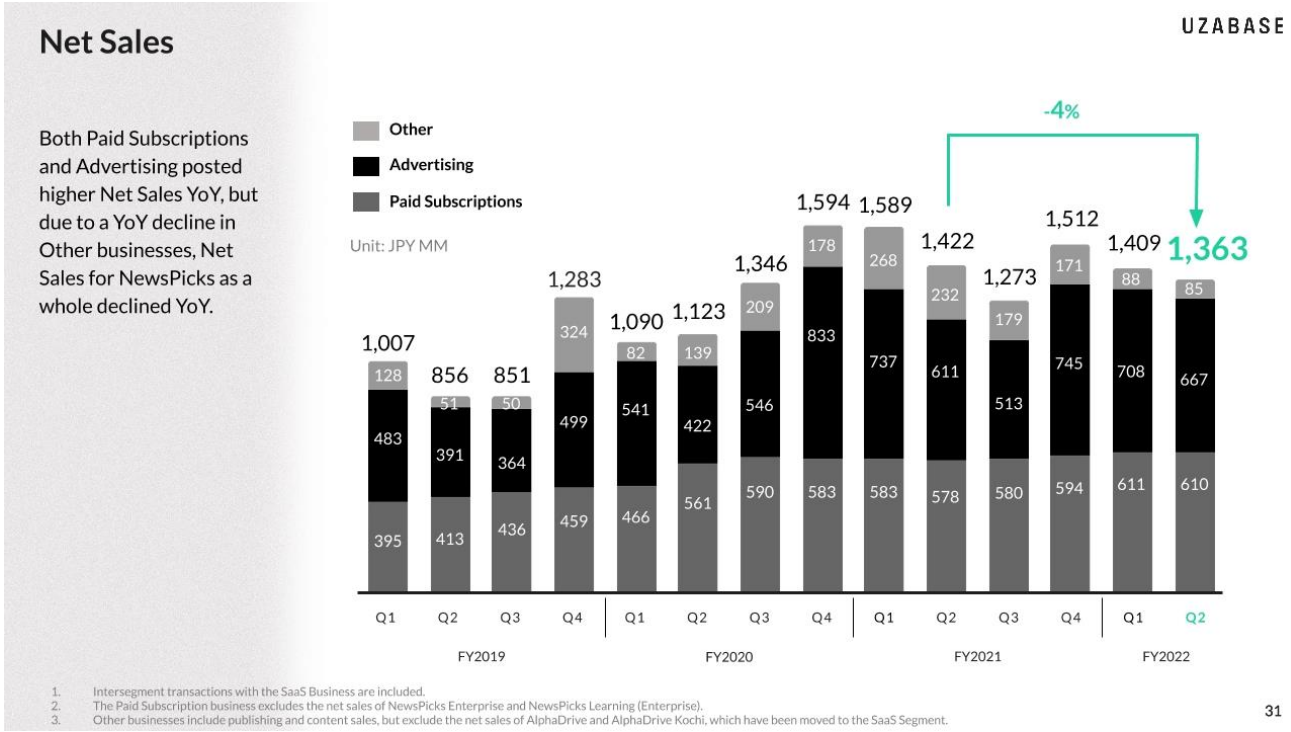
Now, highlights for the NewsPicks segment. We pulled out from new NewsPicks GINZA, and also publication business had a YoY downturn have not been able to offset by paying subscribers and advertising revenue. Unfortunately, revenue saw a YoY decline in Q2 as well.



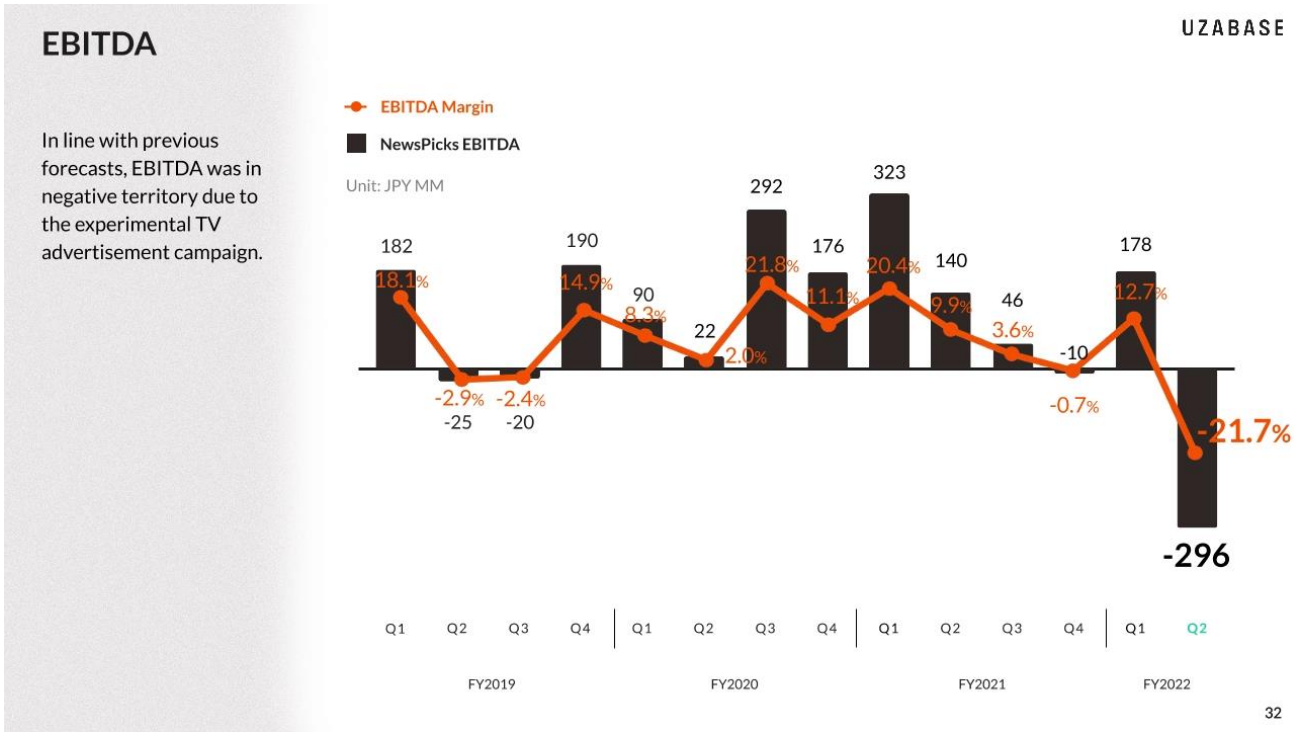
This is the ARR graph representing subscription revenue. It grew 4% YoY to JPY2.58 billion.

You might be concerned that we are down from Q1. The main reasons are the churn of annual subscribers that signed up in Q2 2020 and the reactionary decline from the campaign that ran last year.

As Sakuma explained with the graph showing the impact of the TV commercial on subscriber growth, we will first capture free subscribers. Then, there will be a gradual contribution to ARR as the user convert to paying subscribers. So unfortunately at the time of this quarter, there was a decline in ARR.



Next is the quarterly change in net sales. Again, we've not been able to recover the gap caused by business withdrawal with our existing businesses, resulting in a 4% decline.



In EBITDA, we landed negative with a large impact of the TV commercial expenses. We conducted two rounds of TV commercials, in April and June. We have been able to learn what the winning patterns are, so we'll utilize this learning as we continue in Q3 onwards.



Next, Inagaki will explain about the upcoming event in Marunouchi.

Inagaki: This is a project I've been leading in partnership with Mitsubishi Estate. This is the same project that I presented when receiving investment from Mitsubishi Estate.

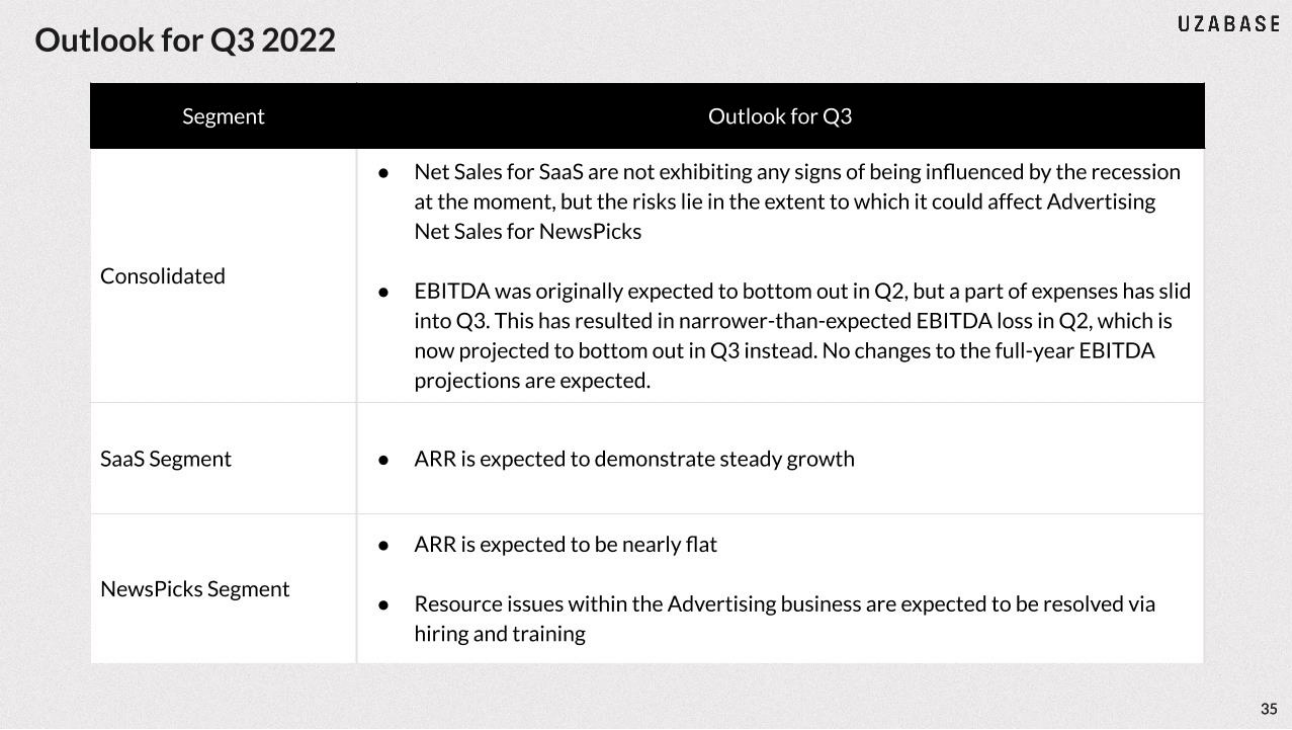
We are preparing for an even which we can call a large-scale business festival in Marunouchi, the center of Japanese economy, to drive positive momentum in Japan.

We will use the open space including Nakadori street to invite many business people to co-create passion while ensuring safe operation.

We are planning for October 24 and 25. Mitsubishi Estate is the main sponsor, and we are coordinating with METI and the Financial Services Agency for support. We are hoping to involve a wide range of people to hold a large-scale business festival with a public aspect.

It's entitled CHANGE To HOPE. I hope that this project will help people overcome heartbreaking and painful news to discuss and spread what bright future we can envision for Japan. As keynote speaker, we have invited Harvard professor Steven Pinker. We have many other notable speakers joining us for this event, so please look forward to it.

We center our activities around our purpose, and we will establish social significance of our purpose. It is also expected to bring in significant advertisement revenue. I also believe there is much potential in collaborating with our SaaS products. This could be just one of many in series that would come in the future.

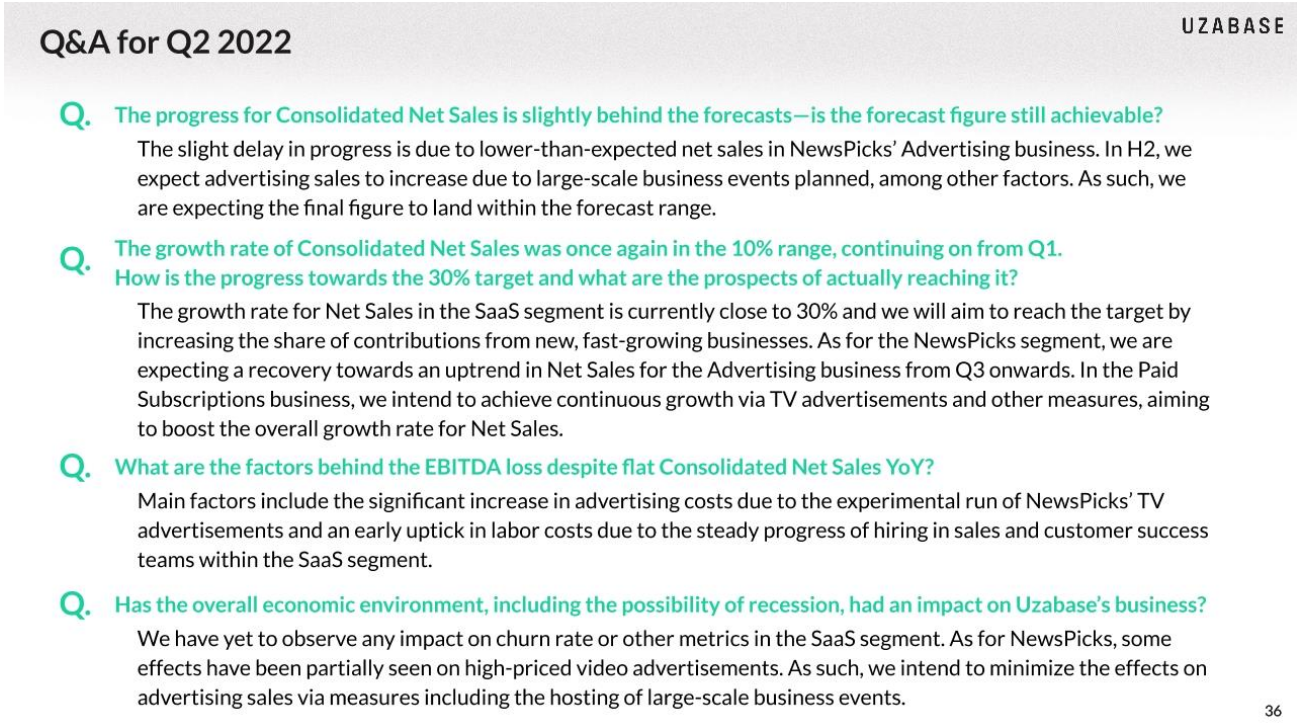


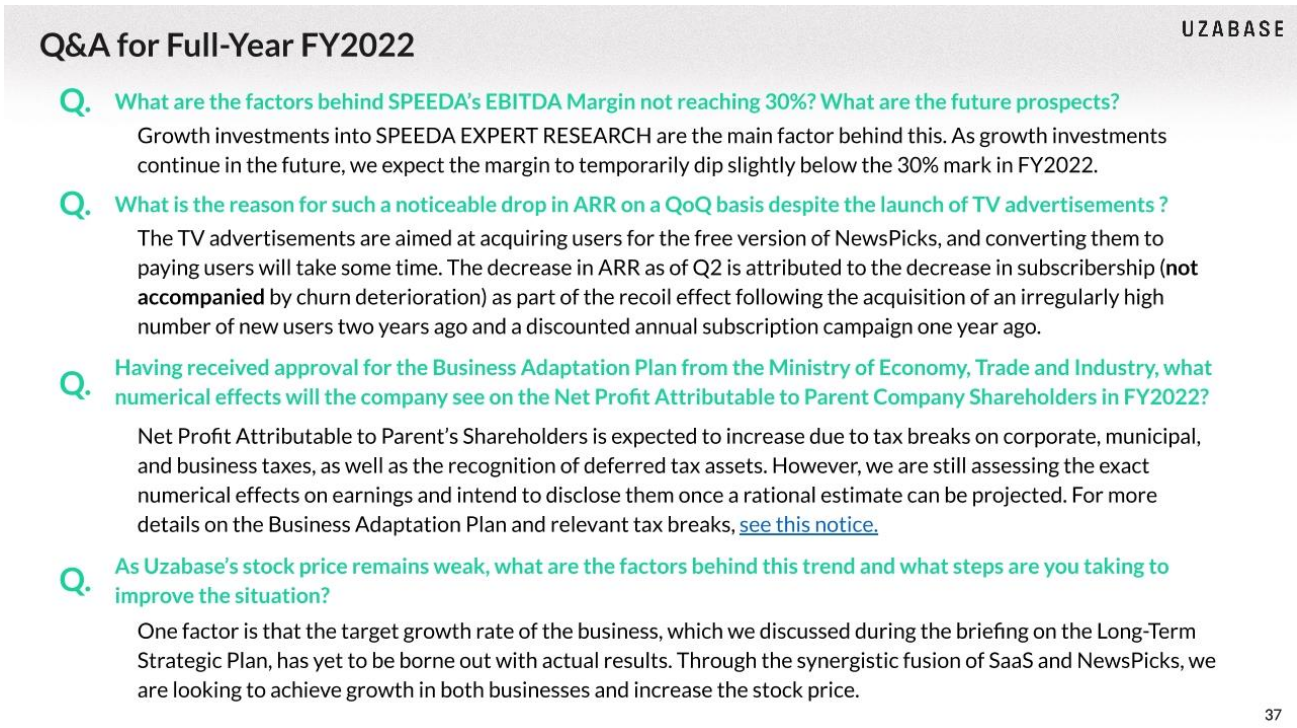
Chiba: I will now talk about the outlook for Q3 and briefly touch upon FAQs. Then I'll pass on to Aso.

Now first, outlook for Q3. We believe the most unpredictable risk is how a recession would affect NewsPicks' advertising revenue.

Regarding SaaS, we don't assume any negative risks emerging at the same scale as COVID for the moment. Regarding EBITDA, we said in the Q1 briefing that Q2 is likely to be the bottom. But some of the cost expenditures have been pushed to Q3, resulting in a smaller-than-expected loss in Q2.

The impact may be carried forward to Q3, and it's possible that Q3 will be the bottom. But in terms of EBITDA guideline and plan, there are no changes, and we are committed to fully manage profit on a full-year basis.





These are what we assume as common questions you have. I have already touched upon the recession.

I'd like to add some context to the July 28 announcement that we have been given the approval for our business adaptation plan. This means that we have qualified to a special tax treatment to support post-COVID business reform. Once approved, the maximum deductible amount of loss carried forward is raised from the current 50% to 100%, which will have a positive impact on net profit. We are currently calculating the impact, and we will make a timely disclosure once a rational estimate is made.

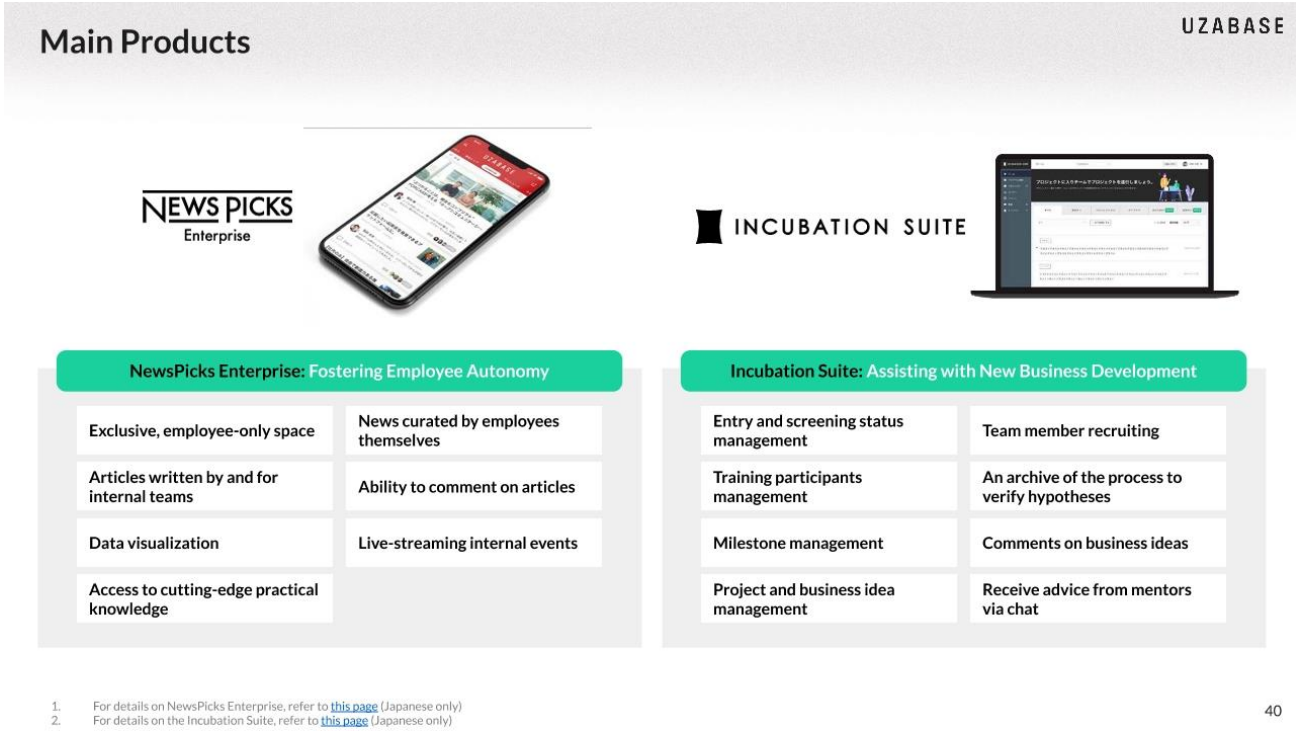
Now, I would like to pass on the microphone to Aso, who leads AD/NP.

Aso: Hello, everyone. This is Aso, company CEO of AlphaDrive and Group Executive Officer. Nice to meet you.



I would like to talk about the AlphaDrive/NewsPicks business in the Uzabase group.

AlphaDrive/NewsPicks, AD/NP for short, is a business to support the development of innovative businesses. We have two corporations that work as one company. There's AlphaDrive that supports new business development, and a segment of NewsPicks that provides B2B corporate solutions. This is an integrated operation that is positioned across two companies. We work to strengthen client companies' ability to develop new businesses. Rather than the top management deciding how the company would go forward, we work on the individual employees' internal motivation as a starting point to develop to boost and develop capabilities on an organizational level.



We have four main areas of operation. I would like to explain from the left-hand side. The first one is NewsPicks Enterprise, designed to foster employee autonomy. It uses news content to spark debate in internal communities that are formed within companies. With the increasingly motivated employees, we equip them with the skills for new business development. This is in the area of talent development. We especially focus on the capabilities of zero-to-one new business development. We provide methods and approaches to enable this. We utilize the e-learning platform, NewsPicks Learning, and the SaaS service called Incubation Suite, which specializes in new business development. Once these employees are equipped with the right skills, we assist them in the process of actually creating new businesses.

In this area, for each client company, we design programs for new business development and also do outsourcing work to judge and evaluate the ideas and projects. We also support prototyping, setting business plans, and other practical aspects. The product that we use here is the SaaS service Incubation Suite.

Recently, in these three areas, through our support, we have been finding the client companies now operating new businesses and innovation projects. Some of them are actually being launched and commercialized. In this phase, we support nurturing the fledgling business. Essentially, this is an acceleration scheme. We have a virtual scheme to nurture these early businesses before handing it back to the main company.

We use a number of SaaS and products, and we also provide human capabilities, including consulting and mentoring. We have these two approaches towards these areas.

Out of the products, our main products are these two. On the left is NewsPicks Enterprise. This is a part of NewsPicks, the social business app. Within the app, each client company has a closed space that only their employees can access. The employees can talk among themselves or view certain articles. This is a safe space where the employees can engage based on the context of their company or exchange opinions. It is also possible to handle confidential information and internal newsletters of the Company. This is one tool to help build motivation of employees.

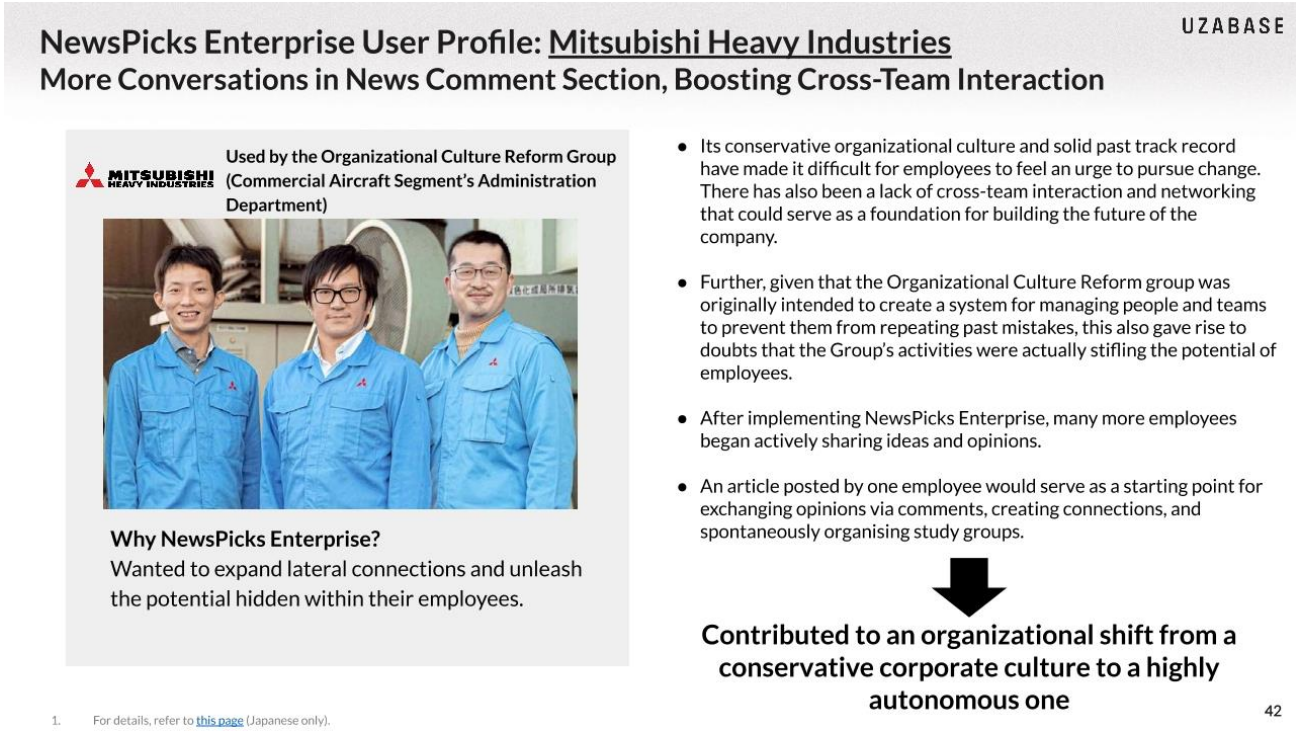
Incubation Suite is a SaaS service that is specialized in new business development. This can be used to accept entries for new business ideas, and it facilities the process of brushing up the business. Also, you can recruit

members, manage milestones, and manage participants in certain programs. Through these features, while new business development is often a very messy process, companies can operate in a more efficient and streamlined way.

I would like to talk about some of the values that have been coming out of our client companies.



We have been supporting Kirin Holdings through Incubation Suite and new business development programs. They have had a long-standing new business development program. But since AlphaDrive has been involved, the number of applicants has increased by 170%, or by 2.7 times. They are seeing clear growth of the employees, and they are seeing very promising projects. They are very satisfied about the outcome.



On the next page is Mitsubishi Heavy Industries, a user of NewsPicks Enterprise to facilitate employee motivation and engagement. They are seeing their employees increasingly engaging in discussion towards the future and mutual learning. They say that the organization has been a bit conservative and reserved, but they have been seeing some changes that show there are moving towards a more open and innovative organization through our contribution.

We are seeing such cases with AlphaDrive products and services. By spreading our assistance to all companies in Japan, we want to activate individuals working at companies to help drive innovation in the companies and Japanese economy.

That was my presentation of AlphaDrive/NewsPicks. Thank you very much.

Question & Answer

Moderator [M]: We would like to move on to the Q&A session. Now I would like to hand over to Chiba-san for the facilitation.

Chiba [A]: I will be moderating the Q&A session. We have 16 questions from the audience. I might bundle some questions in order to answer as many as possible. The first two questions relate to Umeda selling his holding of shares. Let me read them first.

“While we see a risk of failing to achieve 30% growth, I am extremely offended as a regular shareholder that Mr. Umeda, who has access to insider information, has sold off his shares before the financial disclosure. How do Mr. Sakuma and Mr. Inagaki feel about his fleeing in the face of danger? Do you share the feeling of distrust in the same way as regular shareholders?”

“Mr. Umeda was found to have sold shares according to the large shareholding report issued in July. I would argue that the fact that he remains on the Board as Director, despite eroding shareholder value through the failure of US expansion and continuing to sell his stake in the Company, represents lack of governance. As he knows the internal affairs of your Company, his sell-off would in effect be seen as an announcement that the stock price is unlikely to rise.”

I would like to correct the misunderstanding and state the facts before asking Sakuma and Inagaki for a comment.

First, the large shareholding report was issued on July 27 regarding Umeda. The main reason why it was issued is because he changed his address. He had been residing in the US, but he came back to Japan, which required a submission of this report. So the first point is that it wasn't issued to report that he has sold his shares.

Secondly, rather than selling at this timing, his shares were recounted after he sold some shares in the summer of 2021. Meanwhile, with stock options being exercised, the total number of issued shares have increased. His holdings ratio has changed as a result of block trading, not this year but in 2021, and the base number of issued shares increasing.

Therefore, the view that Umeda sold shares in July this year before the financial announcement is completely unfounded. I would like to first correct that.

That being cleared, I would like Sakuma and Inagaki to comment on the timing of the withdrawal from the US, in November 2020, and Umeda selling his shares.

Sakuma [A]: I would like to speak first. Without a doubt, Umeda is a needed person at Uzabase. He is the best partner, both for me as an individual and in the Board meetings, for consulting and engaging in discussions.

Uzabase’s purpose is “Awaken a world of play, with our insights.” We are aiming to reach a world audience, and I believe Umeda’s engagement with his experience of trying and failing in the global market is indispensable for our efforts towards achieving our purpose.

Therefore, he has not in any way fled in the face of danger. He remains committed to and confident in our growth.

Inagaki: I don't have much more to add to what Sakuma said. The block trading that took place was in response to some shareholders' request. I also received the request, but of course, I am not in a position to respond.

In that situation, Umeda offered to help in any way he could. He didn't have a need to sell at that timing. Allow me to say on his behalf that Umeda has the confidence and will to commit to Uzabase's growth.

Chiba [Q]: I'd like to move on to the next question.

"NewsPicks revenue is declining despite a significant investment. I'd like to question the continuous investment in commercials. It seems better to gain more cash and spend it in the other SaaS businesses. What do you think?"

Sakuma [A]: Thank you for your question. As a premise for the SaaS business, as we explained, we have set a portfolio policy and are making active investments in highly growing companies.

Based on that, for NewsPicks, we are confident in its growth potential. As we said in the long-term management strategy, it is key for NewsPicks to play a role in boosting growth of the SaaS businesses over the mid-term. We do not position NewsPicks as way to only gain cash.

Q4: "You said the SaaS business is growing strongly, but is it really so? When you look at the number of companies using SPEEDA, you have increased only 38 QoQ, which seems weak compared to your quarterly target of 50. FORCAS net sales grew in the quarter only by JPY 25 million. Last year, you were actually growing at 30 million per quarter."

Sakuma: It's true that FORCAS was a bit weak. But there are varieties in the SaaS business. INITIAL and AlphaDrive/NewsPicks were especially strong.

We can say the SaaS business was overall performing well. Regarding FORCAS, while there are fluctuations by quarter, I believe in its ability to recover 40% growth.

Q5: "It seems like PIVOT, led by Sasaki-san, is taking away talent and customers. I'd like to know about their impact. "

Chiba: Let me answer this question before handing over to Inagaki and Sakuma if necessary. Sasaki-san has established PIVOT, and several of our employees have left to follow him. They have a similar mission as ours, and we are in a healthy competition to expand the market.

We are not aware of any negative impact on our business performance as a result of PIVOT taking our users. As we each grow, I am hoping that we can expand the market together.

Sakuma [A]: I also don't see any impact. It's true that we lost some members, but this industry is where professionals constantly keep shifting to different companies. We don't think there's a significant impact from PIVOT in particular.

Inagaki: I have heard that there's one contractor and one former member who has set up their own business have been helping him. But apart from that, I haven't heard of anything in particular. It is a fact that our products compete against each other, but I think we can work alongside each other to activate the industry that we are in, and we are in a relationship of discussing such matters in a healthy way. As Sakuma said, we don't see a significant impact.

Q6: “You talked about ID consolidation between SaaS and NP, but I don’t have a clear idea of how users would benefit. Are you saying that, for example, an employee of a company that signed up on SPEEDA has to get an ID for NP (even if he’s not interested in NewsPicks)? How is the UX supposed to work? What is the effect that you're expecting out of this consolidation?”

Chiba: Sakuma will answer this question, as it is a core part of our long-term management strategy.

Sakuma: I agree that this part is a bit difficult to understand, so I’d like to add some details. First, the question says that SPEEDA users may not be interested in NewsPicks. I actually talk with many SPEEDA users, and I see that NewsPicks content has become one of the core values of SPEEDA. I believe there is great value in delivering it in an accessible format via mobile app.

But we envision an impact beyond that. Aso mentioned earlier that NewsPicks Enterprise is a closed space that only the company employees can join in, and I believe the same thing can be done by connecting SPEEDA and NewsPicks.

For example, competitive analysis done on SPEEDA or updates on market information can be notified on your mobile device with a push notification. I think this can create significant value for users.

In addition, past results have clearly shown that the more users access SPEEDA, the lower the churn rate becomes. Gaining daily touchpoints with users via NewsPicks is expected to have a positive impact on churn and increasing users and ARPA.

Chiba: Next, we are receiving three questions related to the recession. I'd like to answer them at once.

Q7: “There's a reference to the recession on page 37, but I don't think a recession is happening in Japan. Does this mean that your business foundation is so vulnerable that it might be impacted at this point?”

Q8: “You mentioned in the past that the NewsPicks ad business is pretty strong against recessions, but is that no longer the case?”

Q9: “Looking at the materials, it seems that you are confident that the SaaS business would not be impacted by a recession. It seems that companies are facing more difficulty in fundraising, including startups, and it seems natural that companies engage in cost reduction measures, starting with marketing expenses. Please elaborate on the context of your confidence.”

Chiba: I'd like to talk about SaaS, NewsPicks, and the overall performance. First of all, regarding page 37, of course we do not recognize a recession happening in Japan at this moment.

But there are some early indicators, including the situation in the US. We are analyzing the risks and we believe that it would be appropriate to touch upon that as a potential risk. That is why we placed that in this Q&A.

For the advertising business of NewsPicks, we had done a comparison with the Quartz business in the past. Actually, the structure of the ad business has been changing since then. We have a higher portion of video advertising. There is more correlation between market trends compared to our former structure.

We haven't said that we assume that there will be an impact, but we believe that there is a probability of something happening and we wanted to share that awareness with our investors.

Regarding the SaaS business, when the pandemic happened, there was a worsening of the churn rate. As mentioned here, start-up financing is becoming more challenging, and I agree that there might be some reduction of marketing spending.

But lately, we haven't been seeing any significant impact, and we have been able to lower the churn rate and keep it low while gaining users. There might be some impact, but at this moment, we don't see anything significant in the SaaS business, which is generally performing well.

Sakuma [A]: Especially in the SaaS business, with the pandemic, there was a rise in the churn rate. We have been closely watching this and taking measures since then. And so far, we haven't been seeing any negative impact.

As for our confidence in SaaS, through our communication with companies, we find that they are keenly aware of the need of changing their organizations to be adaptable to change. The term DX is often used, but many companies have the strong recognition that they have to digitalize their operations and transform themselves in or der to keep adapting to a changing competitive landscape.

We are providing SPEEDA as a way to digitalize competitive analysis, and FORCAS to digitalize sales and marketing. We have a very strong demand here.

Q10: “Regarding potential profitability, has your assumption changed from 30% as the appropriate OP margin?”

Chiba [A]: First of all, allow me to correct that our target is for EBITDA margin instead of OP margin. I’d like Sakuma to answer this question, including reference to the 15% target that we have talked about in the long-term strategy.

Sakuma: As I explained in the long-term management strategy briefing, our current target is 15% EBITDA margin by 2025.

Chiba [Q]: Next, we have three questions related to the TV commercials.

Q11: “When the commercial was running, I saw that NP’s rank was rising in the Apple ranking, but it went down as soon as you stopped. Is this really effective in the mid to long term? I would like to see data to prove its effect, but it seems doubtful.”

Q12: “Looking at the results of NewsPicks, it seems like the cost performance of TV commercials is not good. I'd like to know whether this is better or worse than other advertising methods.”

Chiba: First about these two, Sakuma will address the questions.

Sakuma [A]: It’s true that the most impact is seen when we are running the commercial, but we are seeing some remaining effect in the following months. We have been able to confirm that through actual figures.

For the TV commercials, it's a large investment, and we think it requires a stronger governance. We are watching the conversion rate and retention rate of the users that came through some commercials, and we are reporting the data to the Board of Directors, and the Board has made the decision to continue with the TV commercials.

Compared to other advertising methods on the cost performance side, simply put, there are patterns that do better, and we will be focusing our investments in the better performing areas. Commercials can be also combined with online ads to reduce the unit cost and reach a wider audience at the same cost. That's also considered when we invest in the TV commercial.

Q13: “Please tell us more about NewsPicks. If this is a freemium model, where users start free of charge and convert to paid subscription, doesn’t that mean you don’t have to do advertisements? If the contents are attractive enough and free, you should be able to gain users naturally.”

Chiba: I will answer this question. It is true that it's a freemium model, but at the same time, we think that some measure, including advertising, is necessary for us to acquire free users.

Of course, there is an organic inflow of users thanks to Pro-pickers sharing contents on social media. But there is some volatility as to how steadily we can secure those new users due to changes in social media algorithm and other external factors.

From before the TV commercial, we have been placing online ads and taking efforts to acquire users. The TV commercial has been added as a third measure in addition to online and organic user acquisition. We are exploring the best way as we go with this combination.

Sakuma: In terms of NewsPicks’ issues, I think the recognition of NewsPicks is key. We have done some research and have found that some of the smaller-sized media companies are, better known. We wanted to basically make sure that our name is well known through the commercials to improve efficiency of user acquisition.

Q14: “The editor in chief of NewsPicks has been changed. Should we recognize this as a way of restructuring the business? I think the growth is slowing down for sure.”

Chiba: Sakuma will answer this question.

Sakuma [A]: This is not a restructuring measure. Before changing the editor in chief, I discussed in length with Ikeda, the former editor in chief. We have been discussing what the best formation is, and we have made this announcement after the discussion. This is a healthy kind of transition to the next leader.

By contrast, as I explained, we have assigned Rumi Sato as the Chief Community Officer. This is a clearly intended move for us to boost the value of our community and value of people spreading insights through NewsPicks.

Chiba [A]: We have two more questions. We’ll continue on.

Q15: “Do you have any quantitative results of the TV commercial? Do we have to wait till next term to confirm growth of paying subscribers? If you are to include the investment in next year’s guidance, I think it’s better if you present some numbers.”

Chiba: We had a discussion as to how we can share quantitative results at this point. As we have stated, we now see the winning pattern, so as we continue the investment through Q3, in the coming quarters we hope to be able to gradually disclose the results.

We haven’t decided whether to keep investing in the next year, so we will make an announcement once it is decided.

Sakuma [A]: Based on your input, we will consider what kind of numbers to disclose.

Chiba [Q]: The next question will be the last.

Q16: “About the NP advertising business, you mentioned that you have been securing resources in line with your plan. But considering the risk of the worsening market, what do you think is the cruising speed of your growth rate?”

Chiba: We are currently discussing this issue, and Sakuma will answer this question.

Sakuma [A]: We haven't been seeing a clear negative impact of the economy. Basically, we continue to uphold what we presented as our long-term growth strategy late last year. If there is any more change in our view going forward, we will make sure to disclose it and explain it to you.

Moderator [M]: With this, we would like to close Uzabase, Inc.'s financial results briefing for Q2 2022. Thank you very much for your participation

[END]

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