Financial Results Briefing Materials for the Third Quarter of the Fiscal Year Ending December 31, 2022

Kinjiro Co., Ltd
November 10, 2022

1. Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 (FY2022)

2. Growth Strategy

Highlights for the Third Quarter of FY2022

Key performance indicators (KPIs)

Number of cloud licenses	Increased by 15,700 from the end of the last quarter (increased by 134.5% year on year) to 433,573
Recurring revenue	Continued to grow briskly (average annual growth: 13.1%)
ARPU	Edged up to 351 yen for Kinjiro Enterprise
Cloud-based contract cancellation rate	Remained low at 0.23%

Summary of Consolidated Financial Results for the Third Quarter of FY2022

	Rate of achievement against full-year forecast	YoY change
Net sales	70%	Up 2% to 2,530 million yen
Operating profit	73%	Up 48% to 295 million yen
Ordinary profit	73%	Up 50% to 290 million yen
Profit	73%	Up 53% to 197 million yen

Consolidated statement of income

(Unit: Million yen)

	FY2022 full-year forecast	FY2022 3Q results	Achievement rate	FY2021 3Q results	YoY change
Net sales	3,620	2,530	70%	2,475	+2%
Operating profit	402	295	73%	199	+48%
Ordinary profit	**400**	**290**	**73%**	**194**	**+50%**
Profit	270	197	73%	129	+53%

YoY Changes in Net Sales by Business Segment

Net sales

(Unit: Million yen)

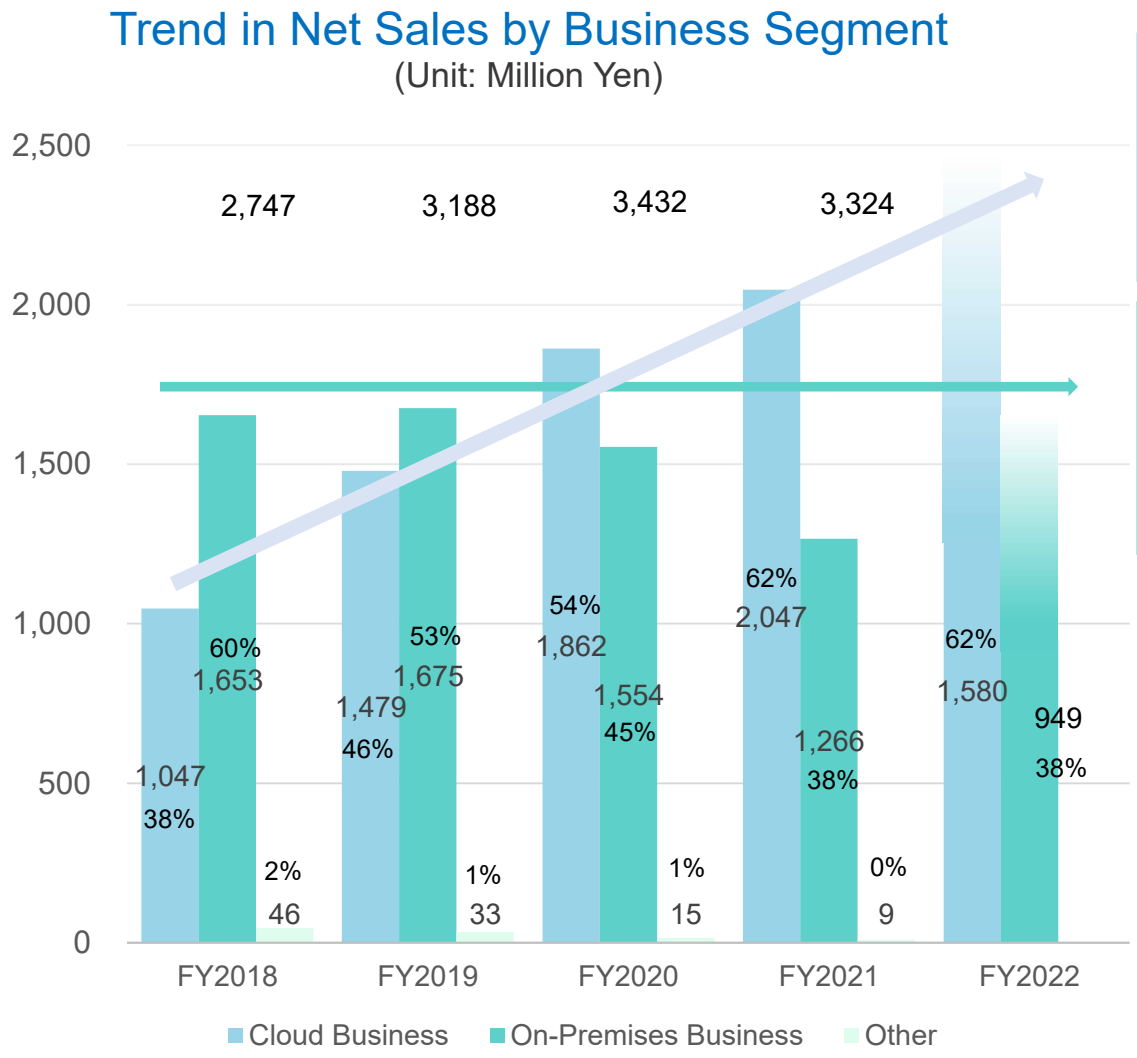
Business Segment	Sales segment	FY2021 3Q results	FY2022 3Q results	YoY change
Cloud Business	Cloud License	1,084	1,237	+14%
	Cloud Consultation Support	325	263	-19%
	Others	92	79	-15%
	Subtotal	1,502	1,580	+5%
On-Premises Business	Premium support	443	431	-3%
	Software Products	279	309	+11%
	Software Consultation Support	174	141	-19%
	Employment Information Devices	68	67	-1%
	Subtotal	964	949	-2%
Net sales		2,475	2,530	+2%

Recurring revenue*	1,545	1,684	+9%

*Includes revenue from cloud licensing, premium support, and other services.

Trend in Net Sales by Business Segment

- Sales in the cloud business are increasing year by year.

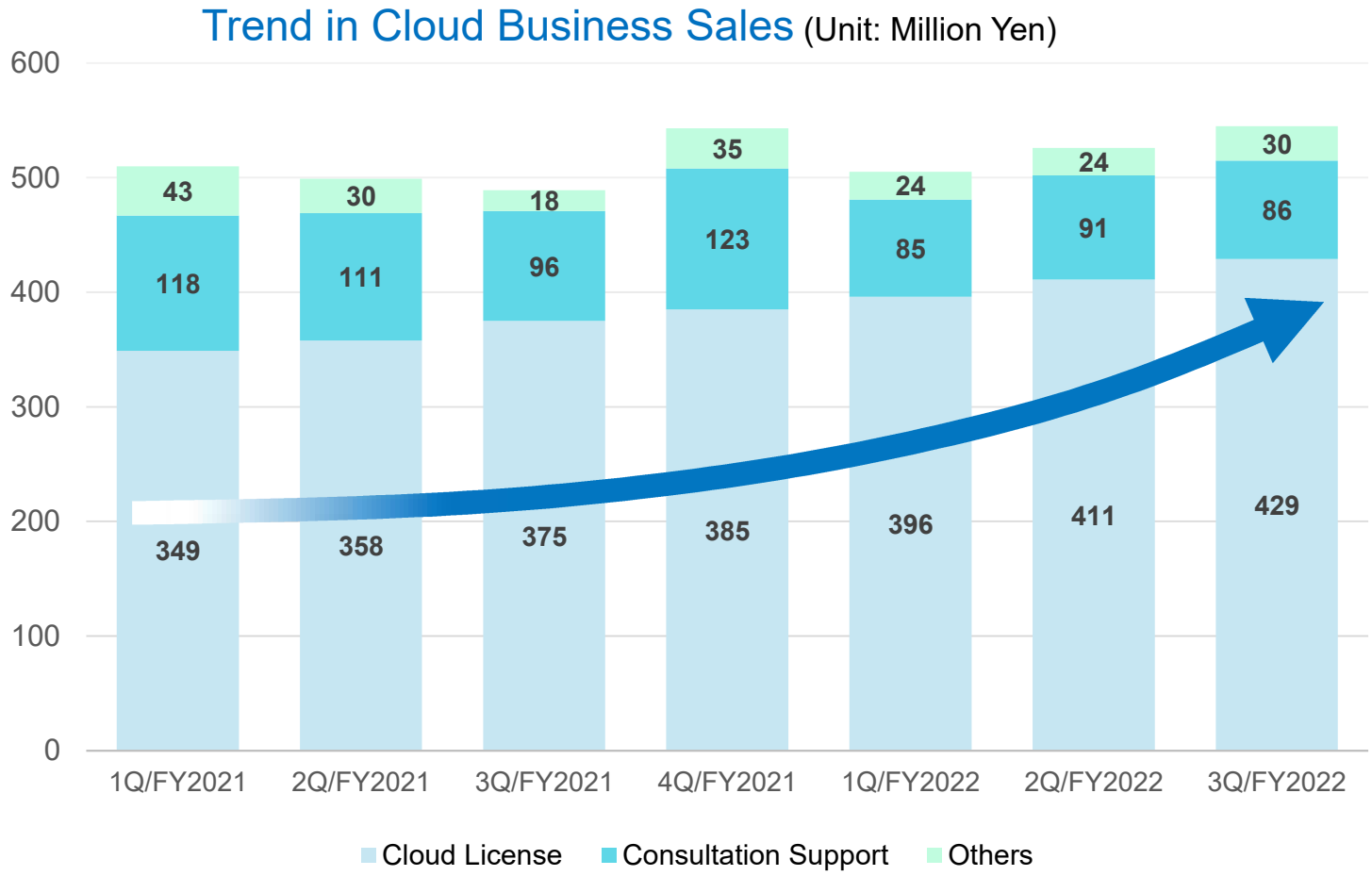


Cloud business growth rate
FY2018 – FY2021
+25%

On-premises business growth rate
FY2018 – FY2021
-9%

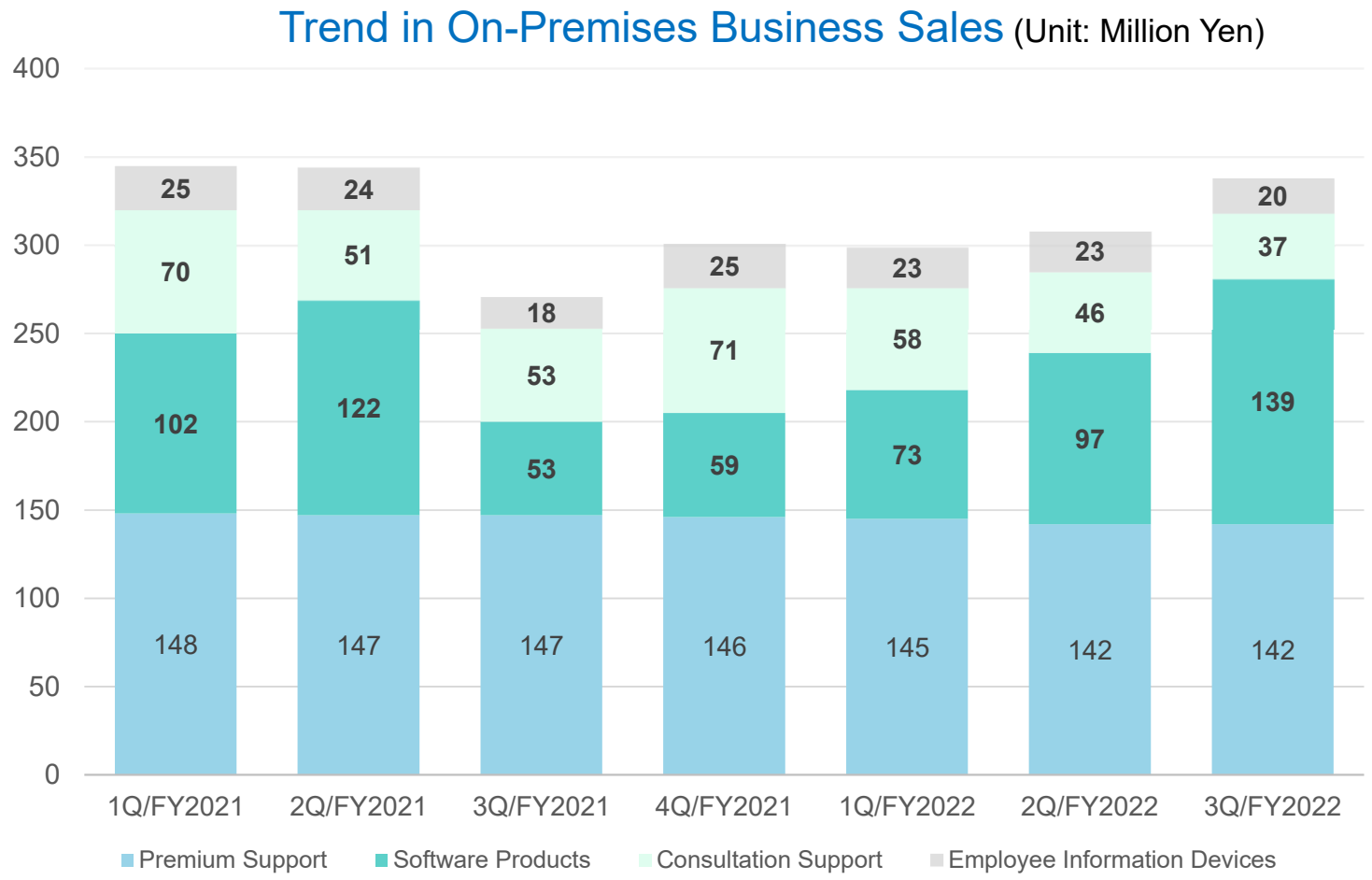
Sales in Cloud Business

- Cloud License sales grew by 14% year on year to 1,237 million yen.
- Cloud Consultation Support sales decreased by 19% year on year to 263 million yen, due to enhanced productivity in introduction support enabling prompt service launch, which resulted in declined average revenue per project.
- Meanwhile, sales in the Others category (employment information devices, etc.) decreased by 15% year on year to 79 million yen.



Sales in On-Premises Business

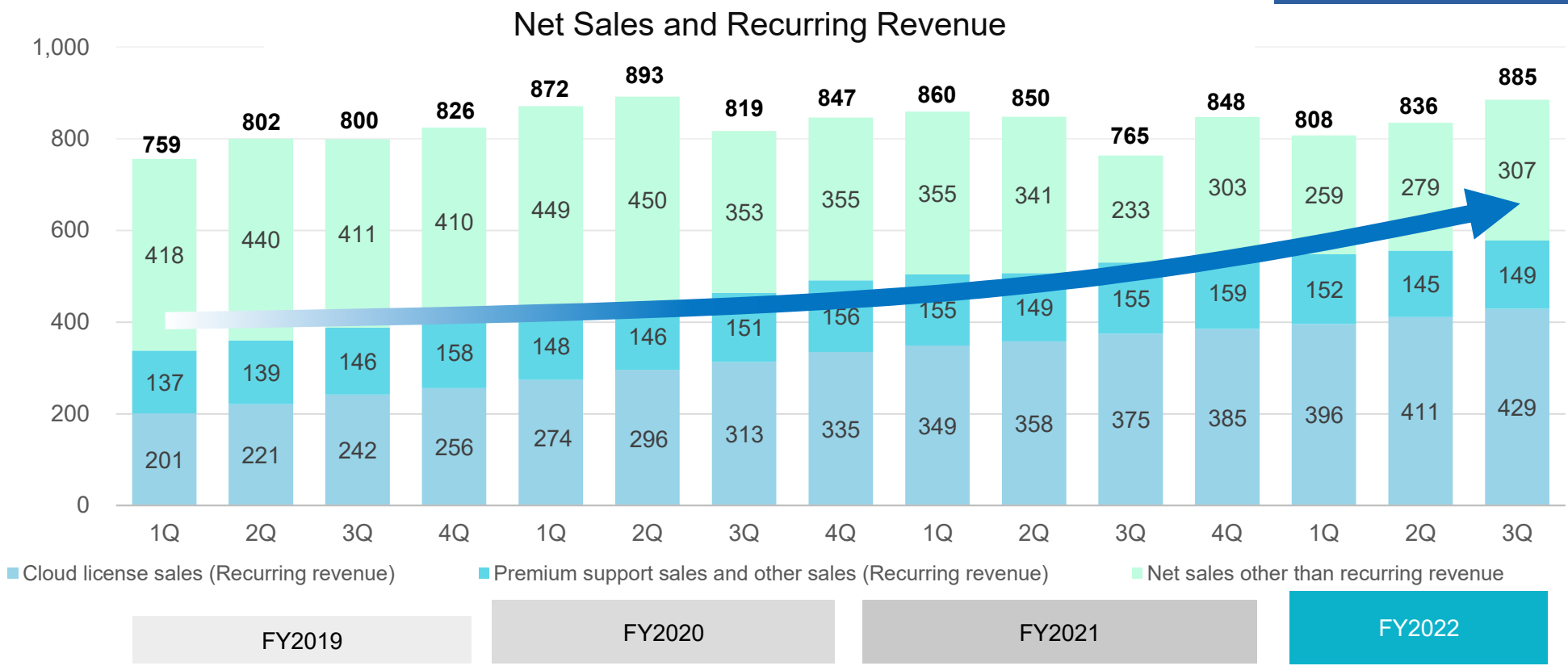
- Premium Support sales decreased by 3% year on year to 431 million yen.
- Software Products sales increased by 11% year on year to 309 million yen, while Software Consultation Support sales declined by 19% year on year to 141 million yen, primarily due to an increase in customer needs for cloud business.



Quarterly Trend in Net Sales and Recurring Revenue

- Recurring revenue, which comprises Cloud License sales and Premium Support sales, is showing solid growth on a quarter-by-quarter basis.

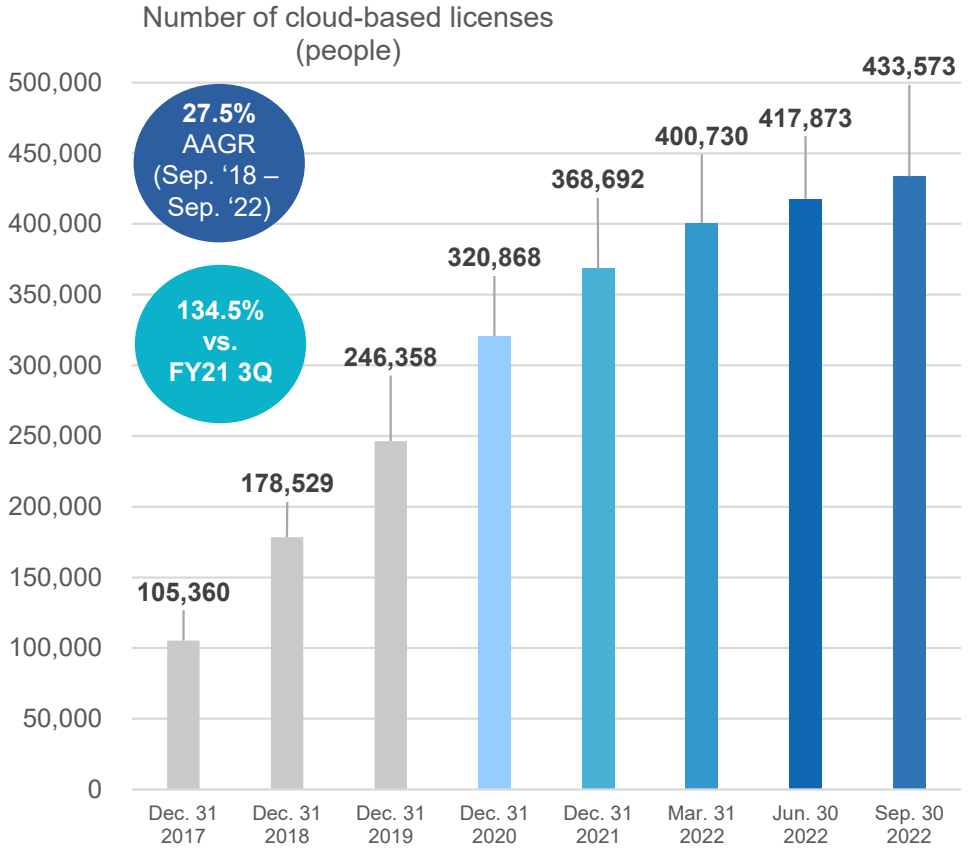
13.1%
Recurring revenue average annual growth rate
(Sep. '20 - Sep. '22)



Number of Corporate Clients on Contract and Number of Licenses

- High growth continues in the number of licenses, with an average annual growth rate (AAGR) of 27.5%.





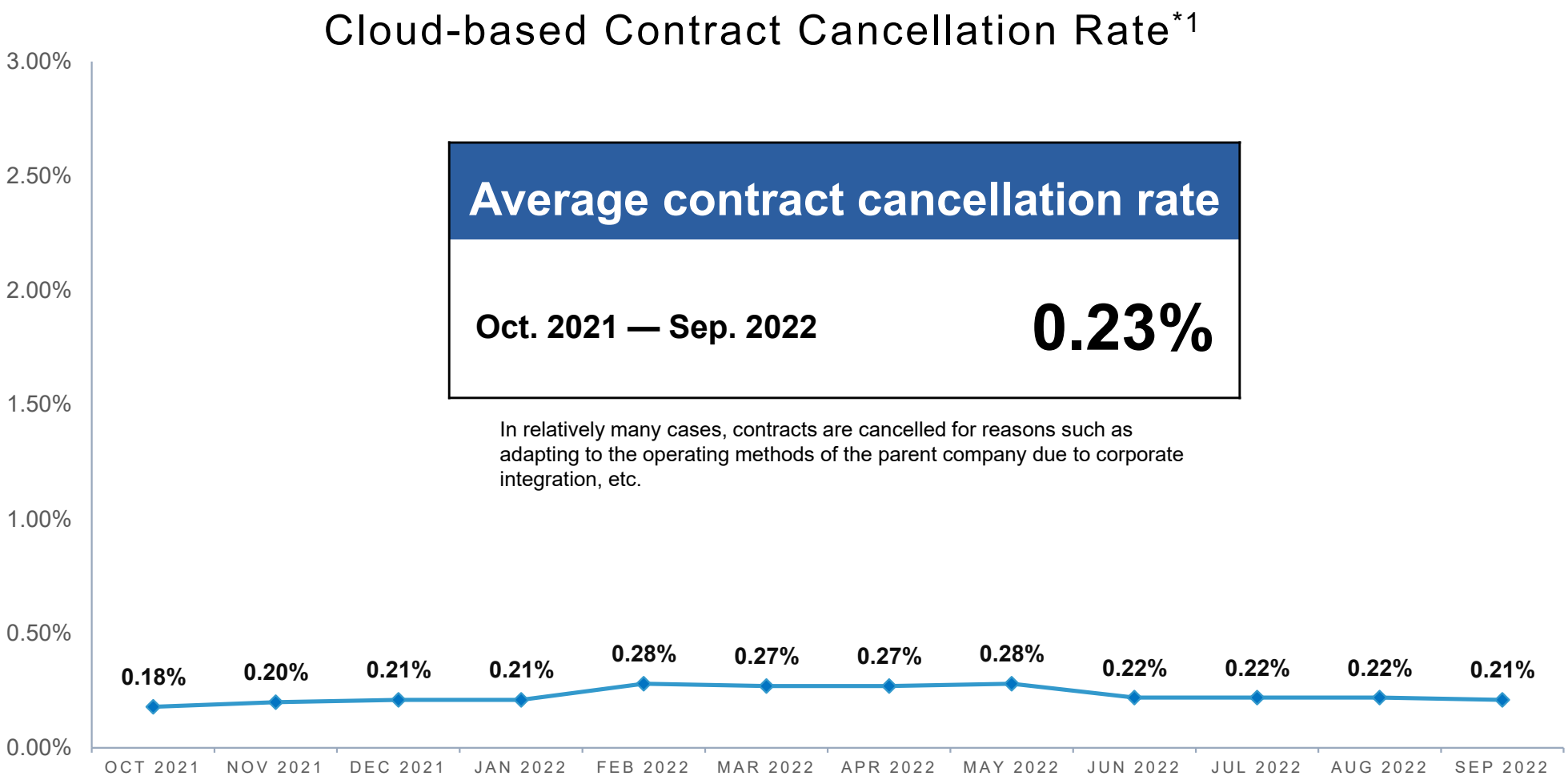
*1 The number of licenses for each employee at a corporate client is counted as one, even where the employee uses multiple services (Recruitment, HR, Salary, *Health x Life*).

ARPU trend

ARPU	March 2021	June 2021	September 2021	December 2021	March 2022	June 2022	September 2022
Enterprise	351 yen	350 yen	349 yen	351 yen	353 yen	353 yen	351 yen
Smart	156 yen	153 yen	153 yen	160 yen	117 yen	117 yen	115 yen

Cloud-based Contract Cancellation Rate

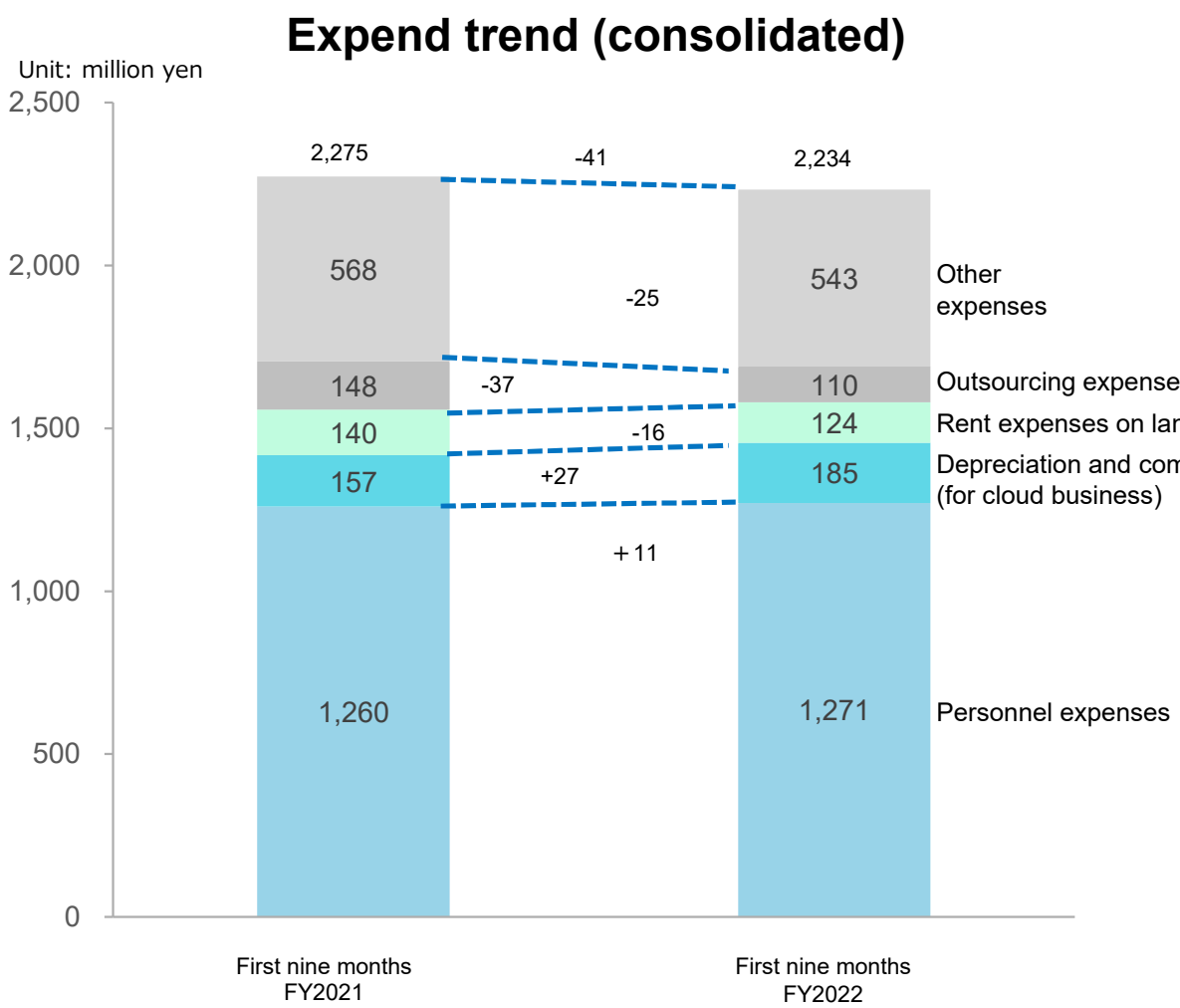
- The average rate of cloud-based contracts cancelled per month remains low at 0.23%.



*1 Monthly average cancellation rate. Calculated by dividing revenue from customers who cancelled their contracts in the current month by revenue from total customers in the previous month.

Cost Structure

- Cost structure for the first nine months of the fiscal year ending December 31, 2022



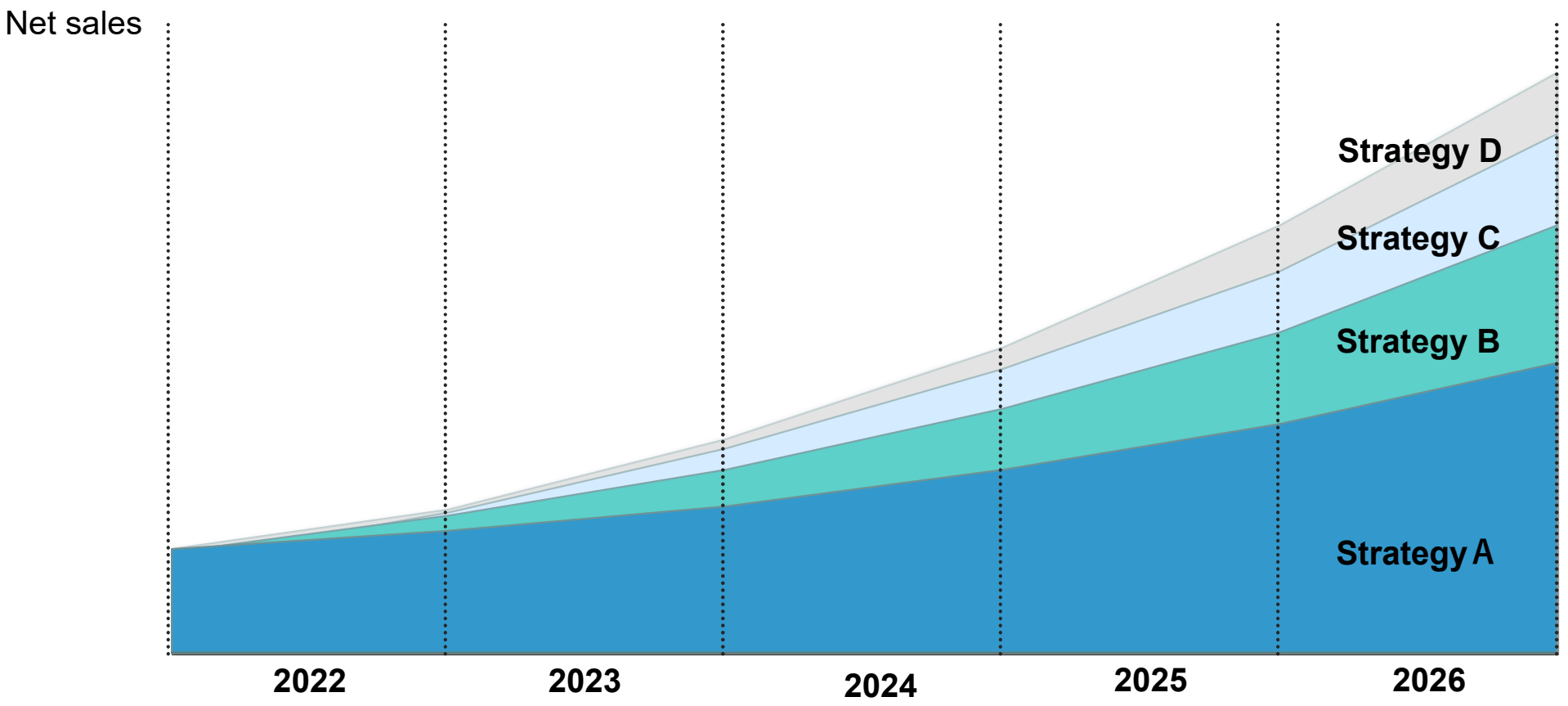
- Total expenses decreased by 41 million yen compared to the costs in nine months ended September 30, 2021.
- The decrease is attributable to the declines in outsourcing expenses (-37 million yen), rent expenses on land and buildings (-16 million yen), and other expenses (-25 million yen).

1. Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2022 (FY2022)

2. Growth Strategy

Sales Growth Strategy

Strategy A	B-to-B, Mainstay business: Accelerate acquisition of new customers for “work style reform and health & productivity management”
Strategy B	B-to-B, Mainstay business: Shift 900,000 on-premises user licenses to cloud-based services
Strategy C	B-to-B, New business: Cloud front / private cloud
Strategy D	B-to-E / B-to-C, New business: Expand sales in platform businesses with revenues from monetization of 350,000 users of B-to-E and B-to-C services, as well as AI, electronic medical records, third-party services, etc.



Growth Strategy A/B: HRM Business (Workstyle Reform & Health & Productivity Management)

HRM all-in-one solutions for realizing corporate client's work style reform and health & productivity management

Support business growth by enhancing employee labor productivity and work engagement



Growth Strategy A. How to Acquire New Customers

Maintain relationships of trust with existing customers and partners

Direct sales strategy

Reach new customers

Partner strategy

Certification system

Strengthen direct sales, and promote finely-tuned follow-ups and proposals for new products/services as well as product development

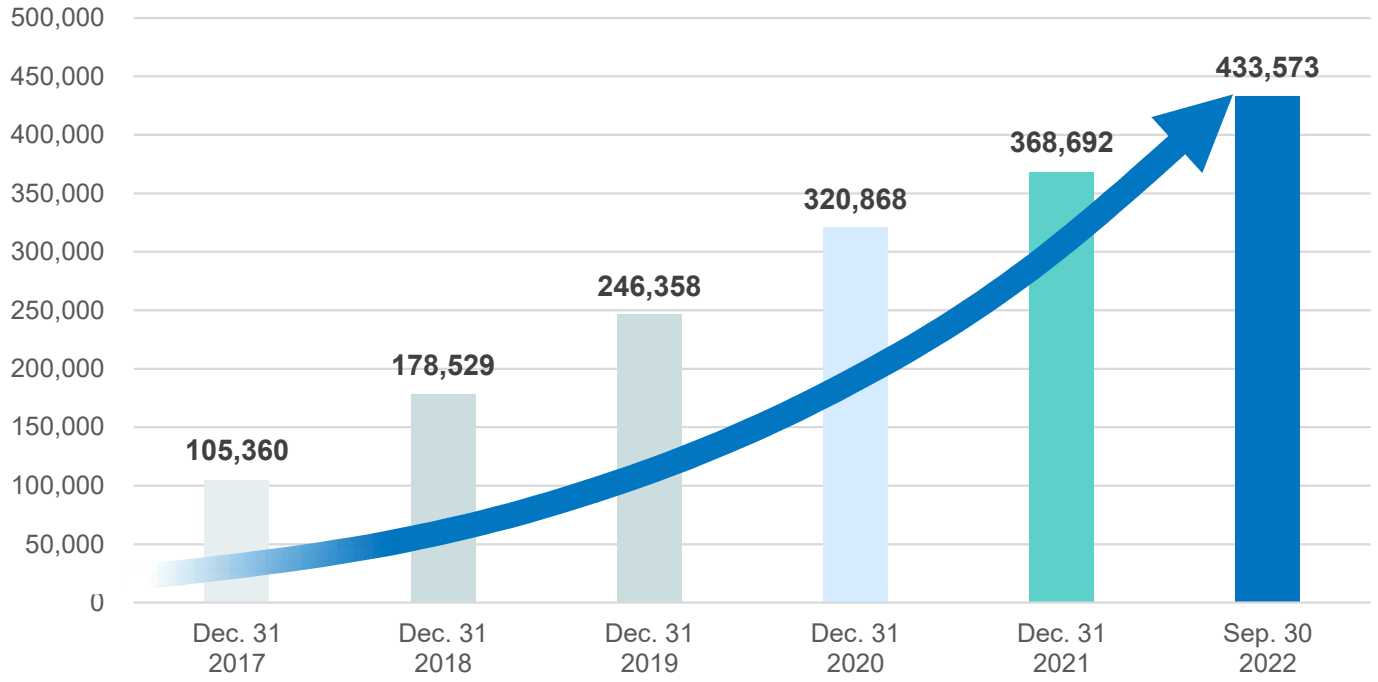


Promote a new partner strategy for organizing SIers in each of the 47 prefectures, on top of the existing partner strategy

Growth Strategy A: Expand Sales to New Customers (Workstyle Reform & Health & Productivity Management)

- Boost sales of the cloud business by acquiring new customers to keep expanding cloud license sales
- Meanwhile, the on-premises business will be continued.

Number of cloud-based licenses



27.5%
Average annual growth rate
(Sep. 2018 – Sep. 2022)

Growth Strategy B: Shift On-premises Users to Cloud

Shift 900,000 licenses, which account for approx. 80% of 1.18 million Kinjiro Enterprise on-premises user licenses, to cloud-based services, with *Universal Kinjiro*, which was released in December 2021, as a trigger service

On-premises User Licenses
1.18 million*

*Result as of September 30, 2022

Move approx. 80% to cloud-based services

*Estimated based on current customer needs

Growth Strategy B: Boosting ARPU

When migrating 900,000 licenses out of 1.18 million on-premises user licenses of *Kinjiro Enterprise* to cloud-based services, boost ARPU by cross-selling

Approx. 900,000 licenses

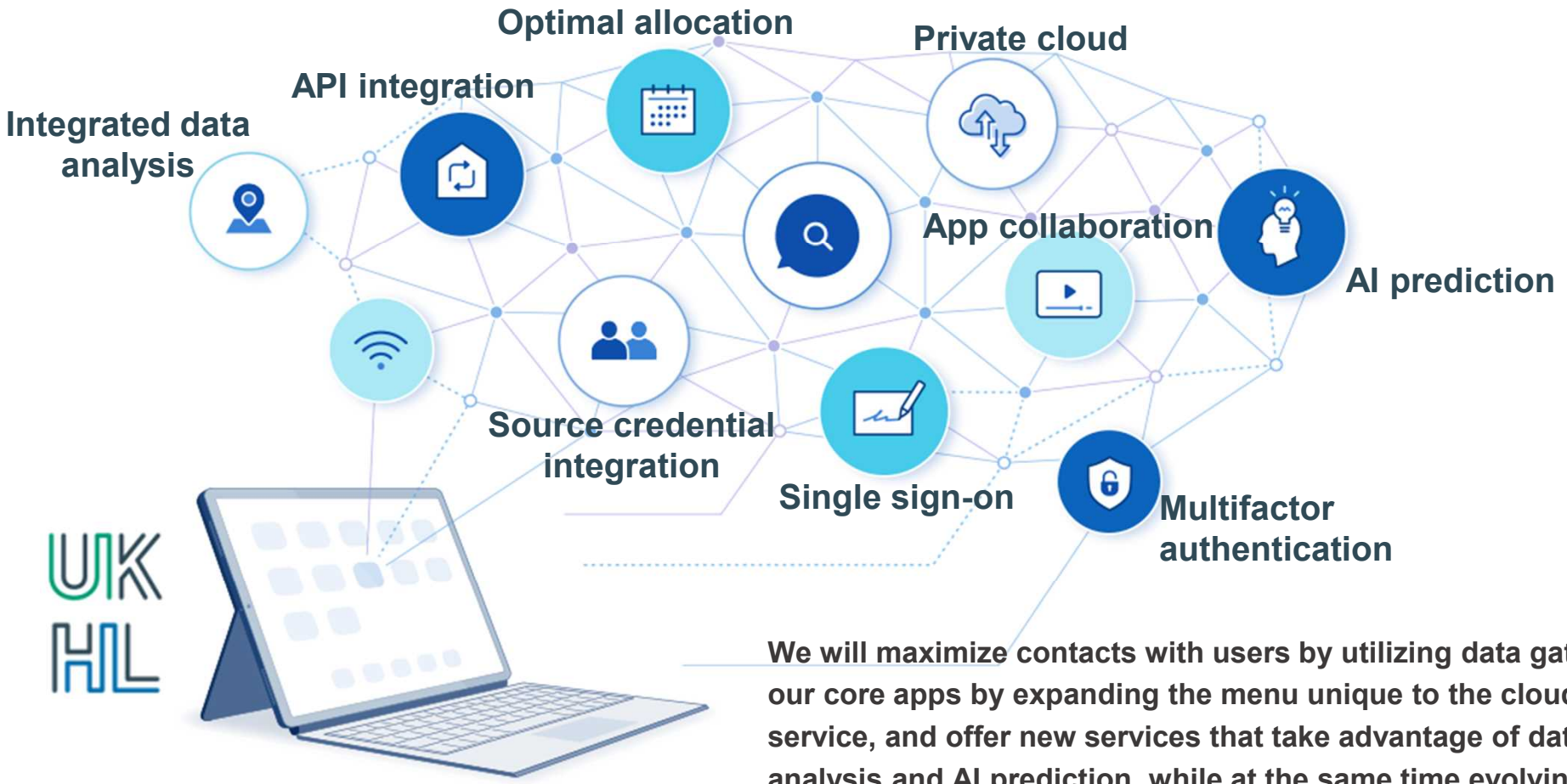
500 yen per license*

x 12 months =

Approx. 5.4B yen

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

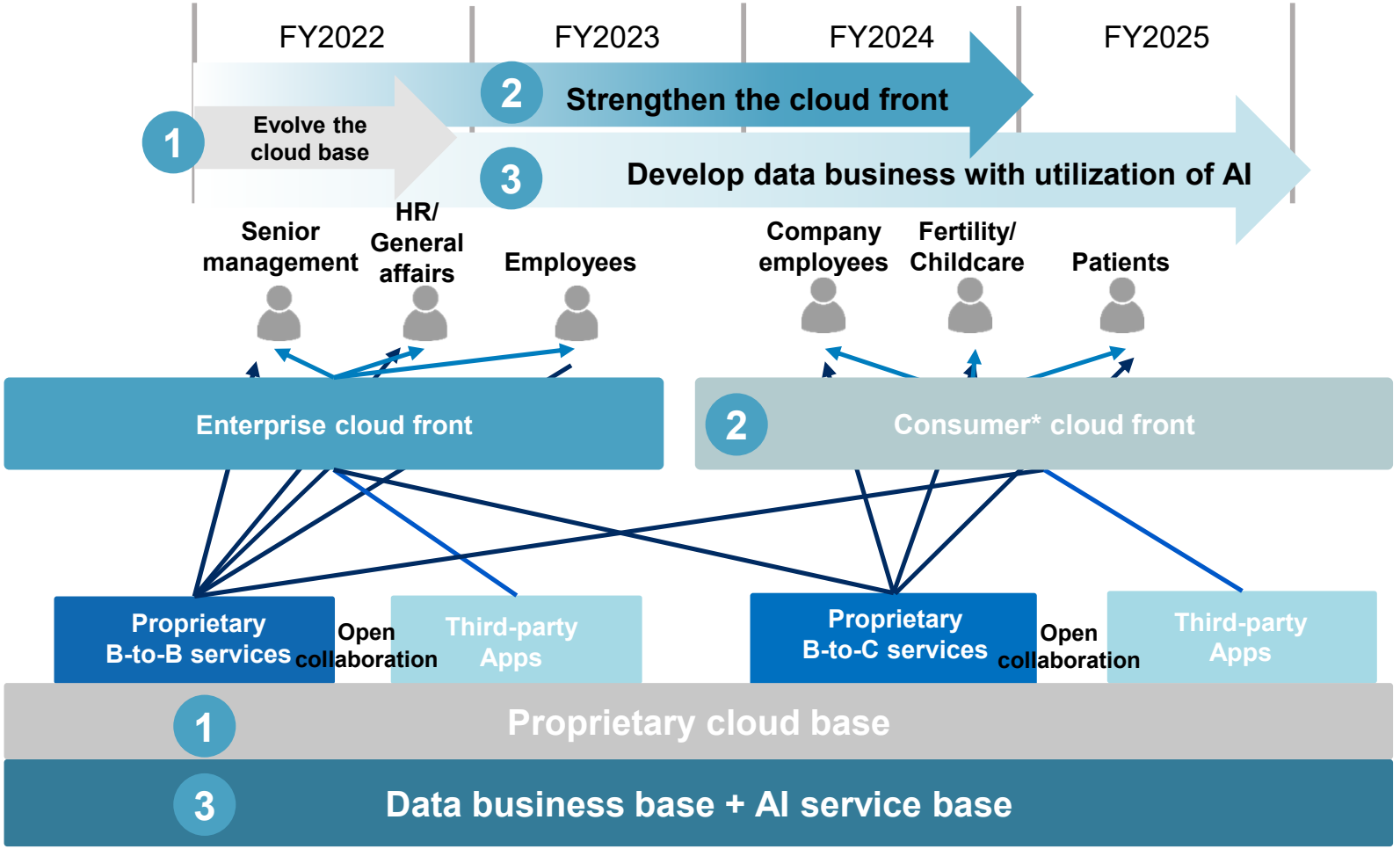
Growth Strategy C: New Business – Cloud Front Strategy



We will maximize contacts with users by utilizing data gathered by our core apps by expanding the menu unique to the cloud-based service, and offer new services that take advantage of data analysis and AI prediction, while at the same time evolving our platform in a way that appeals to business users by enhancing integration functions.

Growth Strategy C: New Business – Cloud Front Strategy

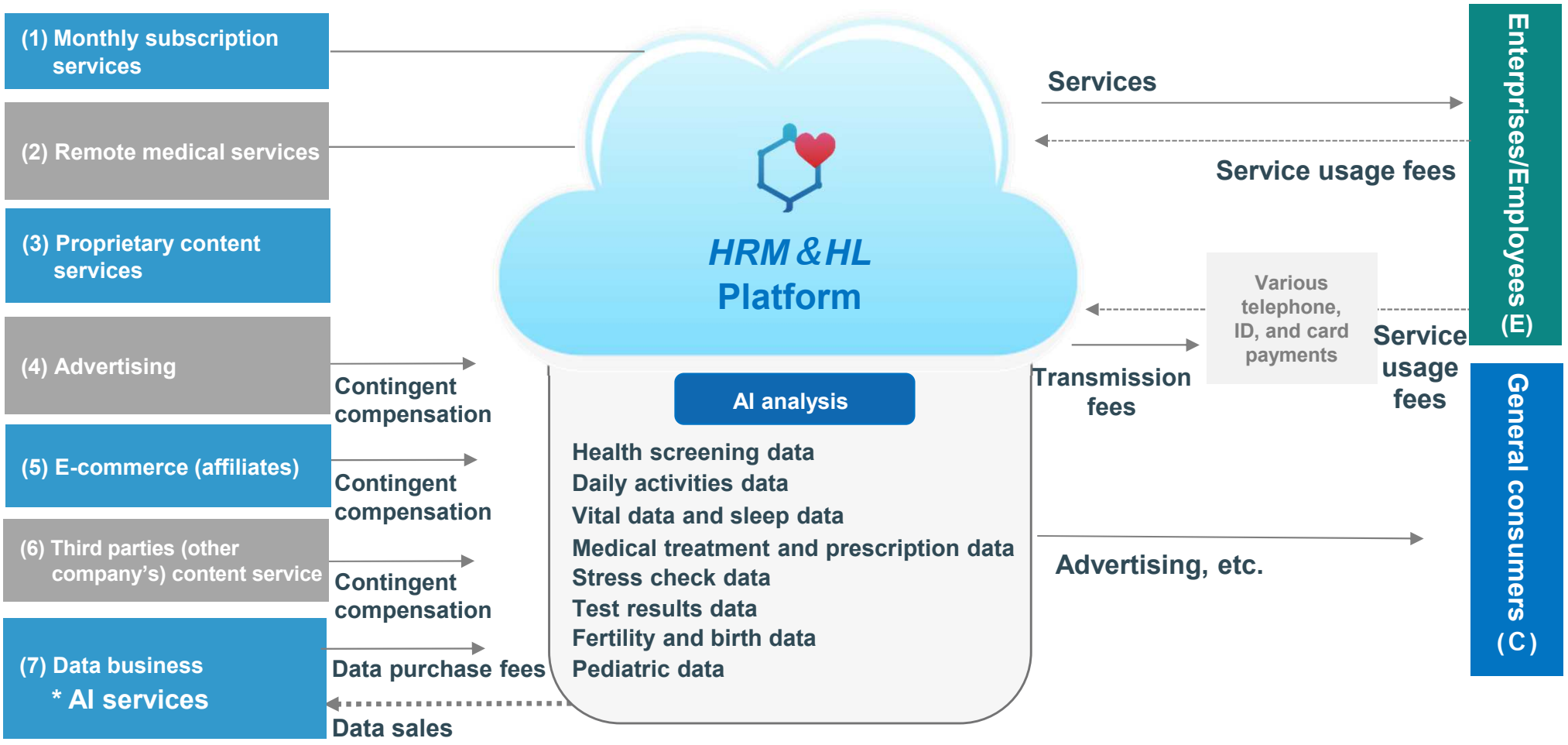
1. **Evolve the cloud base** — Flexibly utilize cloud assets, expand private cloud (for individual customers)
2. **Strengthen the cloud front** — Provide integrated authentication for our company's app and other apps
3. **Develop data and AI service business** — Strengthen AI services utilization of work styles, health screenings, stress checks, and lifestyle information



Growth Strategy D: Consumer Business Utilizing Platforms

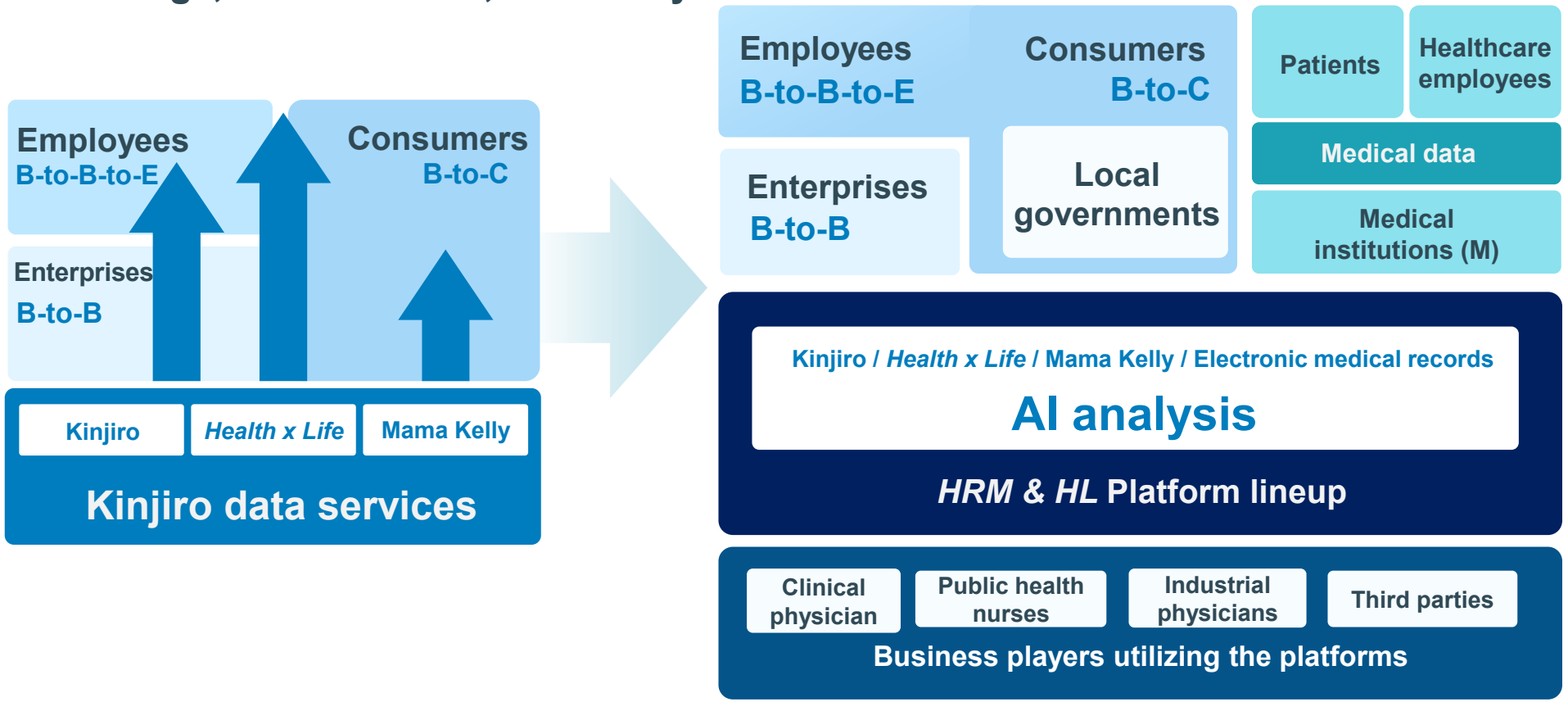
Consumer registration
Monetization from the utilization by 350,000 users

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



Growth Strategy D: Evolution of Platform Business

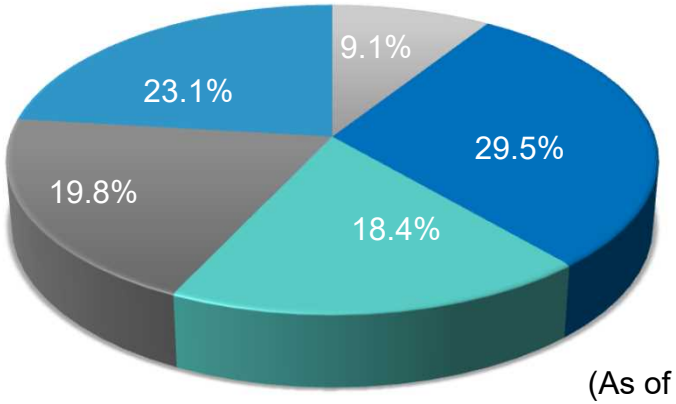
- Enhance services for employees (B-to-B-to-E) through *HRM & HL Platform* and expand services for consumers (B-to-C)
- Strengthen our function as a health & productivity management platform used by clinical physicians, industrial physicians, and public health nurses through the inclusion of electronic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



Kinjiro Enterprise Installations Breakdown by Scale and Industry

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

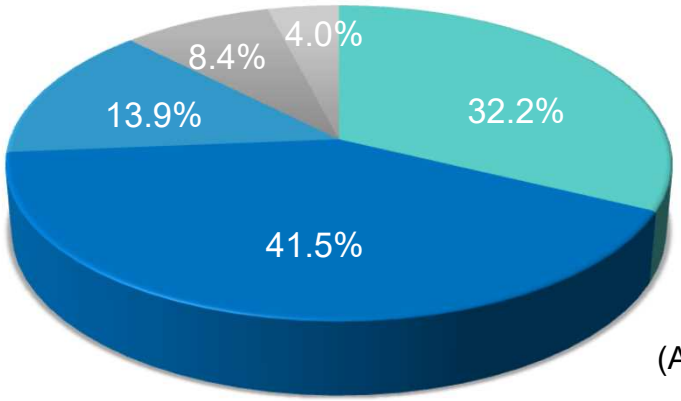
Mainly mid- and large-sized enterprises



(As of September 30, 2022)



- **Breakdown of implementation by number of employees (Cloud)* 0.43 million users**



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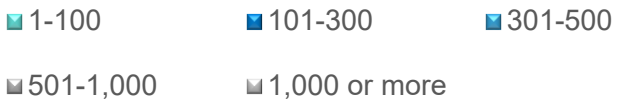
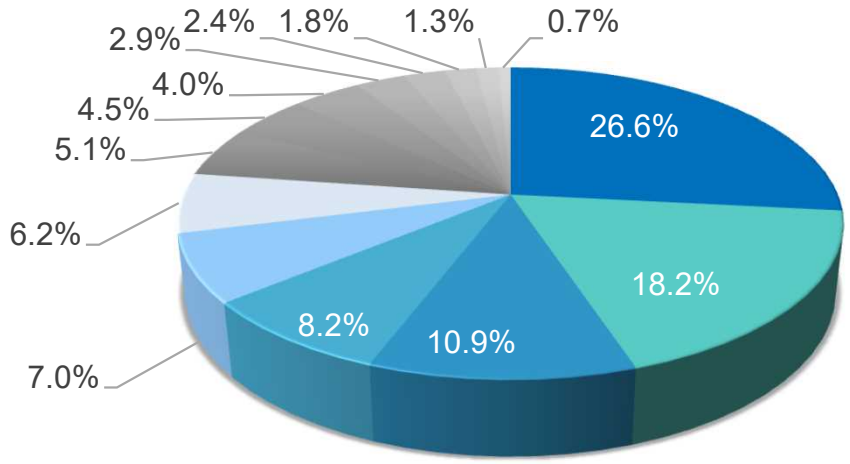


- **Breakdown of client numbers by industry**

***Implementation at a diverse range of different enterprises**



(As of September 30, 2022)



Work Style Reform and Health & Productivity Management Initiatives

Initiative	Content
Improving health & productivity	- Health examinations and stress checks [Examination rate] 100% - Consultations with industrial physicians and public health nurses [Industrial physician consultations] Online consultations: 10, Face-to-face: 2 [Public health nurse consultations] Online consultations: 4, Face-to-face: 11 - Improvement in the anomaly observation rate for diabetes: Improvement rate 27% (YoY Change) - Supported employees' improvement of lifestyle-related diseases based on results of health examinations, stress checks, and overtime work - Enhance employees' motivation to improve their own health with health point management [Annual point-based return system] - Distribute wearable devices (average steps increased 191%) - COVID-19 PCR tests (general vaccine management, body temperature management) - Support for optional expenses related to influenza and health examinations - Continuous implementation of morning radio calisthenics - Improve dietary habits and literacy (distributed drinks) - Implement smoking cessation support programs for smokers
Improving work styles	- Revise working environments as a result of COVID-19 pandemic (utilization of teleworking and staggered shifts) - Promote use of paid time-off (PTO) during birthday month - Childcare support plans (nursery school fee subsidy, 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 - Internal newsletter from public health nurse / dissemination of health-related information [Delivered once every month] - Educational seminars for external parties: conducted 26
Internal communication	- Paid subsidies to support club activities of internal sports clubs [once every six months] - Paid expenses related to communications within each department [once every six months]