SpiderPlus & Co.

November 15, 2024

SpiderPlus&Co.
Kenji Ito, President and Representative Director
(TSE Growth: 4192)

Transcript of Q&A Session and Archived Video of Financial Results Briefing

Date and Time	: Wednesday, November 13, 2024, 8:00pm-9:45pm
Speakers	: Kenji Ito, President and CEO
	Director, Coorporate officer, CFO Yu Fujiwara
For inquiries regarding this matter, please contact	
	: IR, Corporate Planning Department, Spider Plus, Inc.
Email inquiries to	: ir@spiderplus.co.jp
Telephone inquiries to	: +81-3-6709-2834

Archived Videos of Financial Results Briefings
https://youtube.com/live/4z01b7qwVfQ

■ FY2024.Q2 Financial Results (disclosed August 14, 2024)
https://contents.xj-storage.jp/xcontents/AS81382/35fd5c02/ffb6/4ea4/b0a0/9435f9fa276c/140120241113522025.pdf

【Notes】
This document has been translated from the original Japanese version*1 for reference purposes only.
In the event of any discrepancy between this translated document and the Japanese original,the original shall prevail.

*1 : Click here for the original Japanese version. : https://spiderplus.co.jp/ir/results/

【Notes on Transcription】
This transcription contains forward-looking statements. These forward-looking statements are based on information available as of the date of the financial results meeting. These forward-looking statements are not guarantees of future results or performance. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual future results and financial condition to differ materially from any future results and financial condition expressed or implied by such forward-looking statements.

Factors that could cause results to differ materially from those described in these statements include, but are not limited to, changes in national and international economic conditions and trends in the industries in which we operate.

Information regarding matters and organizations other than the Company is based on publicly available information, and the Company has not verified and does not guarantee the accuracy or appropriateness of such publicly available information.

This transcription is prepared for informational purposes only. It is not intended as an offer to sell or a solicitation of an offer to buy any securities in Japan, the U.S. or elsewhere.

The content of this transcription differs in part from the actual questions and answers at the briefing due to considerations of personal information, readability, control of duplicate questions, and selection of questions related to financial results and business.

List of Questions and Answers

Market Environment and Competitive Environment

1. About Trends in Construction DX Demand..... 4
2. About Competitive Environment in FY2024.Q3.....4

Performance

3. About Assessment of FY2024.Q3 financial results..... 5
4. About KPI assessment for FY2024.Q3..... 5
5. About Background of QoQ decrease in New contracted companies ARR in FY2024.Q3.....6
6. About Decrease in development staff and hiring situation and hiring plan for FY2024.3.....7
7. About Profitability from FY2024.Q3 onward..... 8
8. About Progress against FY2024 performance forecast..... 8
9. About Targeted SG&A expenses for FY2024 and beyond..... 8

Business

10. About Key Strategies for FY2024.....8
11. About Non-Subscription Sales..... 9
12. About On demand for events such as the EXPO 2025 OSAKA, KANSAI, JAPAN... 10
13. About Medium-to-Long-Term Business Outlook.....10
14. About Policy on the development of AI-related functions..... 11
15. About Business outlook after achieving profitability..... 11
16. About The Impact of Construction Companies' Strong Performance on SpiderPlus&Co.....12
17. About Timing of return to profitability of Operating profit.....13
18. About Business development outside of the construction industry..... 13
19. About Unique ways to use SPIDERPLUS.....14
20. About the Government's DX Support Measures for SMB and SPIDERPLUS.....14
21. About Progress of Overseas business..... 15
22. About Patent Strategy..... 16
23. About Progress of the Academic Plan.....16

Stock-related and other

24. About Shareholding Ratio of CEO.....17
25. About Consideration of Shareholder Benefits..... 17
26. About Regarding the award for excellence in disclosure and the reaction of the share price.....17
27. About Status of Recent Meetings with Institutional Investors.....17

Closing remarks from CEO..... 18

Market Environment and Competitive Environment

About Trends in Construction DX Demand

> You mentioned that "the expansion of demand is lagging behind," but I would like to know the specifics of the difference from your forecast. You explained that "the number of inquiries and consultations is increasing, so it will only slip backward." I would like to know the reasons for this and how you expect to recoup the gap between the demand forecast and the actual situation.

There is demand from SMBs, and the launch of Q4 projects is going smoothly, but one of the reasons for the delay from the initial target is that, in the case of SMBs, there is often a company-wide introduction from the initial contract, and in that case, dozens of iPads must be introduced at once, which takes two months to procure.

For that reason, we are working to shorten this lead time by proposing iPad leasing and other options handled by our sales partners.

About Competitive Environment in FY2024.Q3

> Is the temporary stagnation in growth in the number of subscribers due to increased competition? Also, do you think you are losing market share to competing services? What is your perception of the current competitive environment?

This was not due to increased competition, but rather to the aforementioned delay in demand expansion, as well as operational issues on the Company's side, which resulted in unstable leads and lead times.

Given the 2024 problem and the market environment in which issues related to operational efficiency in the construction industry persist, it is quite possible that partial competition will occur in specific functions or segments as new players enter the market and existing players expand their areas of operations, and that some areas may even be affected by the competition. In some cases, this is already happening. Nevertheless, the scope of construction DX is broad and there is still much to be done, so we expect partial competition to promote innovation and be a healthy form of competition.

Performance

About Assessment of FY2024.Q3 financial results

What is your assessment of the current financial results, and what is President Ito's response?

Regarding the score for this quarter's financial results, we cannot give a good score for the financial figures, but we do think that if we take into account the projects we are working on in Q4, the progress of our business, and the results we have achieved up to Q3, we can give a good score in our assessment.

About KPI assessment for FY2024.Q3

Following 2Q, the assessment of ID was -. Is there any indication that the small and medium-sized companies, as well as the Large enterprise, are reaching a plateau, or is the ARPU growth indicating that there is demand for the option but not an increase in the number of people using it, as if the companies have no idea of increasing the number of users? Also, can you tell us whether we can expect the growth to accelerate in the 4Q?

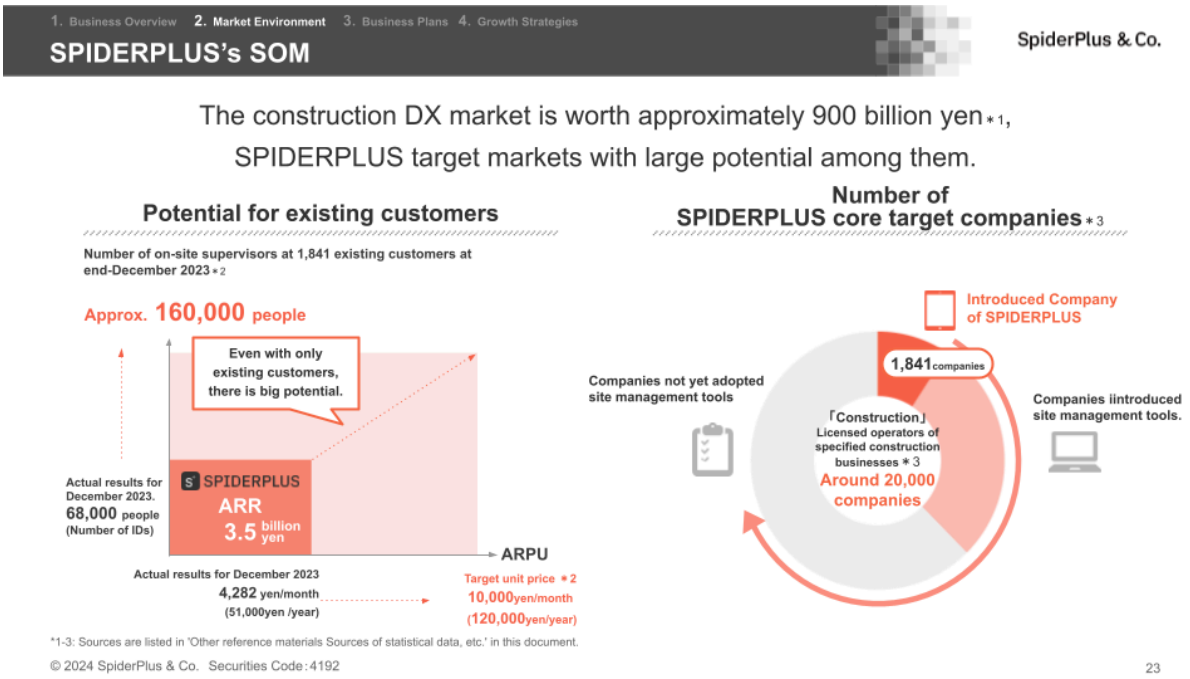
It is not the case that the number of users at large enterprises has reached a plateau. There are still many sites, departments and users within our customer base that have yet to introduce the service.

We are strengthening our investment in accelerating Company-wide introduction, including BPaaS and customer success. In FY2024, we prioritized productivity improvement measures for existing users in order to achieve efficient expansion, and this contributed to ARPU growth through the expansion of optional sales.

We expect that the introduction of options will be prioritized over the spread of IDs through internal penetration measures, and that SPIDERPLUS will spread quickly within customers as they realize the high results.

We expect that penetration within large enterprises will progress from Q4 onwards as a result of these measures.

(Reference: Excerpt from "Business Plan and Growth Potential" disclosed on March 8, 2024)

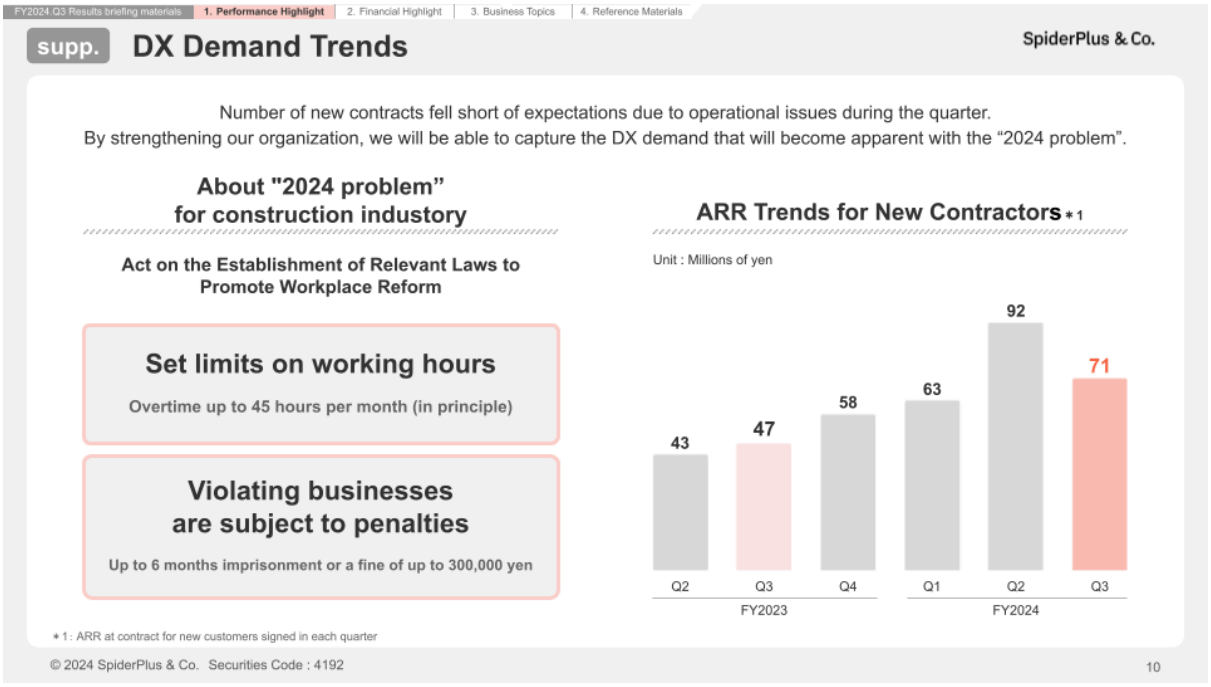


About Background of QoQ decrease in New contracted companies ARR in FY2024.Q3

Please explain why the ARR of New contracted companies has decreased from Q2.

The reason for the decline in Q3 new contracted ARR is that, as mentioned above, the lead generation was unstable. We think that this could have been resolved by our company quickly addressing the operational issues.

There was a period when the lead generation was temporarily unstable due to a combination of several factors, but we are dealing with the operational issues as a management issue, so we expect that the ARR for new contracted companies will grow in the future.



About Decrease in development staff and hiring situation and hiring plan for FY2024.Q3

From Q2 to Q3, development staff decreased by 22. In addition, in the breakdown of SG&A expenses, please explain the reason for the large decrease in the R&D figure only in Q3. Also, please tell us whether the number of employees is generally on schedule at this point and whether you have enough or whether you will have to continue to secure personnel in the future.

Originally, the Company had designated the previous quarter as a period of expansion of scale for its workforce.

This personnel includes not only permanent employees but also non-permanent employees and SES personnel.
Our policy for the utilization of these non-permanent personnel is to actively increase the number of employees when necessary, in accordance with the progress of the project.

On top of that, in Q3, the development staff decreased as a result of the completion of the period of expansion of scale in the organization and a review of the non-regular and SES staff with a view to the future development structure.

In terms of recruitment, our initial plan called for more than 300 employees, and as of the end of the quarter, we had more than 300 employees.

Please understand that the level is in line with our plan. In addition, we will continue to invest aggressively even after the company returns to profitability, and we will continue to secure human resources.

About Profitability from FY2024.Q3 onward

You say that you plan to improve profitability in line with Net Sales growth from FY2024.Q3 onward. What specific measures will you take to improve profitability?

Priority was given to investments for expansion of scale as an advanced investment period until FY2024. Since many of the results of such investments will bounce back in 2024 and beyond, the financial results for each fiscal year up to 2024 were in the red. The investment for expansion of scale has generally finished a cycle, and the company will enter the phase of productivity improvement. For example, the efficiency of investment will further increase as the results of the hired personnel are realized. As a result, the net increase in ARR will be greater than the amount of investment, and profitability will improve.

In addition to this, we will leverage the network effects of SPIDERPLUS to both accelerate growth and improve profitability through highly efficient expansion and growth.

About Progress against FY2024 performance forecast

I understand that you are 69% of the way to your forecast for this fiscal year's performance.What is your projection for FY2024.Q4?

Toward the end of the fiscal year, the ARR progress rate will increase, and the progress rate of Net Sales will also accelerate. Although we have already mentioned that the 5 billion yen ARR will be postponed to Q1 of next year, the ARR we expect to achieve now is 4.6 to 4.7 billion yen, which means that the growth rate will accelerate, with 4.6 billion yen representing a +31% QoQ growth rate and 4.7 billion yen a +34% QoQ growth rate.

About Targeted SG&A expenses for FY2024 and beyond

I understand that you are planning to spend about 3.2 billion yen in SG&A expenses during this fiscal year as an advanced investment period.

While we will refrain from providing specific figures at this time, we will actively invest in order to achieve full-year profitability and accelerate future growth, so please use the following as a reference: SG&A expenses will be actively invested within the scope of ensuring full-year profitability.

Business

About Key Strategies for FY2024

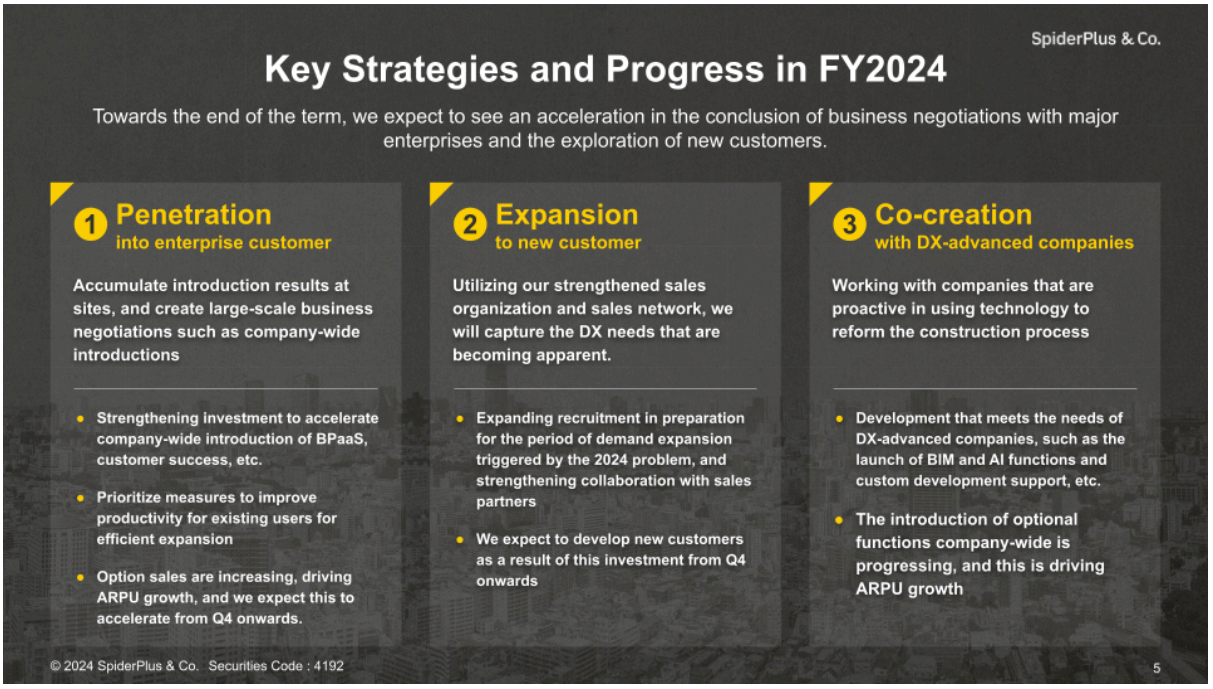
Please provide a supplemental explanation of the "Key Strategies and Progress for FY2024" as described in the financial results presentation.

First, with regard to "penetration of Large enterprises," we are promoting the company-wide introduction of customers among Large enterprises that have not yet adopted the system company-wide.

Expansion to unintroduced companies" promotes the expansion of unintroduced companies nationwide, especially small and medium-sized enterprises (SMEs).

In the first half of FY2024, we have strengthened our relationships with sales partners in order to expand the number of companies nationwide that have not yet adopted the system, and have enhanced our ability to deliver the system more quickly and more widely.

As for "penetration of Large enterprise," we hope you understand that the business negotiations themselves are also creating a pipeline, and that the progress of each project will lead to growth in Q4 and the next season.



About Non-Subscription Sales

What percentage of your total revenue comes from S+Partner and spot services? Please also tell us whether the percentage is increasing or leveling off.

Since stock revenues account for 97% of total revenues, spot services (flow revenues) account for about 3% of total revenues. This ratio has not changed significantly from previous years.

If spot sales of professional services increase as a result of future co-creation projects with DX-advanced companies, the ratio of stock revenue may decrease, but in this case Net Sales will increase only by the increase in spot revenue.

About On demand for events such as the EXPO 2025 OSAKA, KANSAI, JAPAN

Will there be demand as a result of the Osaka Expo? If so, will the demand from such an event be temporary?

We will refrain from answering whether SPIDERPLUS is used for specific Expo projects, but the demand for SPIDERPLUS itself is not very high because the Expo facilities themselves are assumed to be demolished after the event.

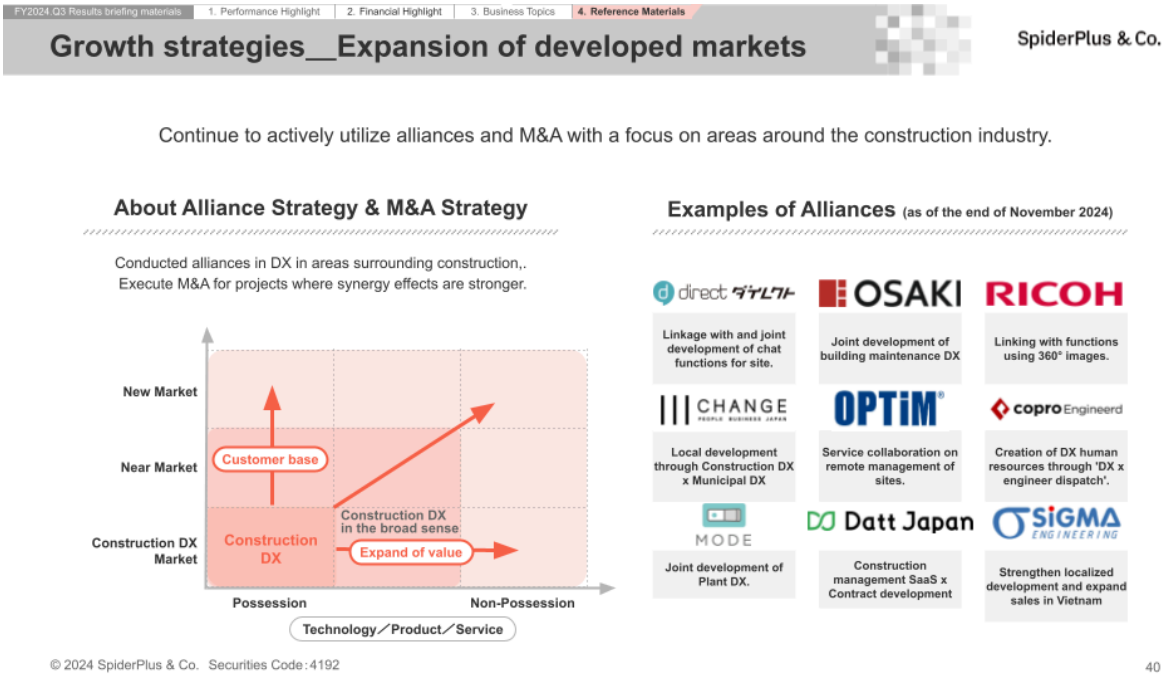
We are primarily used for redevelopment projects and other building projects, so even if there is demand for such an event, the impact will be limited.

About Medium-to-Long-Term Business Outlook

Do you have any goals or challenges that you envision as the next stage of your current plan? For example, "utilization of robots or M&A of companies dealing with robots" that are active due to the shortage of personnel, or "utilization of virtual space" to improve work efficiency and safety, etc. These may still be in the future, but if so, please let us know. Also, as for DX needs, I think there is a linkage between voice, drones, and robots other than site management.

We will work with companies that are active in the use of technology to transform their construction processes and expand opportunities for growth.

Companies that are actively engaged in DX are expanding their DX target areas, including robotics, etc. Not only are their DX needs expanding, but they are also becoming more sophisticated and diversified. We are in a position to respond to these various needs and will actively utilize alliances and M&A.



About Policy on the development of AI-related functions

As AI continues to evolve, please tell us how SpiderPlus&Co. plans to incorporate AI technology to further accelerate the DX of construction sites.

We are also focusing on the use of AI. For example, the "Muscle Distribution AI Function," which was released in August of this year as an IR release, is a function that can reduce the amount of work that previously required human labor by approximately 80% using AI. We have received many inquiries about this "muscle arrangement AI function," which will lead to automation and labor savings in the construction industry, where labor shortages are becoming more serious.

See below for the launch of the reinforcement AI function.

https://contents.xj-storage.jp/xcontents/AS81382/046aeef0/37aa/4131/a534/97cd59c38c04/140120240808567331.pdf

About Business outlook after achieving profitability

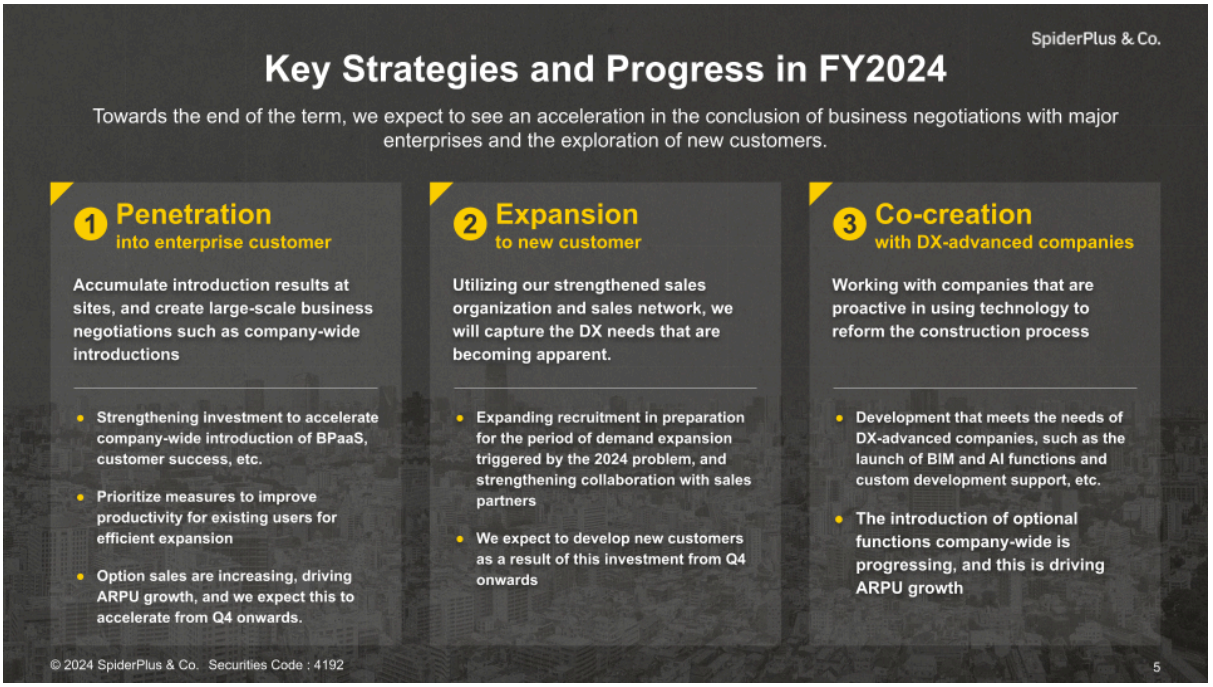
It seems like your business is expanding steadily. What do you expect to happen after the company becomes profitable? For example, for a mature company, each financial statement may be good or bad, but is it safe to assume that Spider Plus will continue to expand and grow for a few years?

We expect that our first priority is to deliver SPIDERPLUS as soon as possible, as there are still many users and sites among our contracted customers that have not yet introduced the product. We will continue to grow.

In addition, we have the opportunity to work with DX-advanced companies to DX various construction sites, which we see as an opportunity for growth. It is a growth opportunity for our customers, and a growth and profit opportunity for us as well, and as SPIDERPLUS continues to expand its capabilities, Net Sales will continue to grow strongly in the future.

Also, although you may think that we will be in the red again with increased investment, we will first show you that our business model is profitable by achieving full-year profitability in the next fiscal year. We expect to accelerate our growth through planned and disciplined investments, as there are many opportunities for growth at a faster and higher rate.

Therefore, Spider-Plus is not a company whose growth will level off after full-year profitability, but rather a market leader that will work with construction companies to digitize construction sites, and a company that is obligated to expand this market.

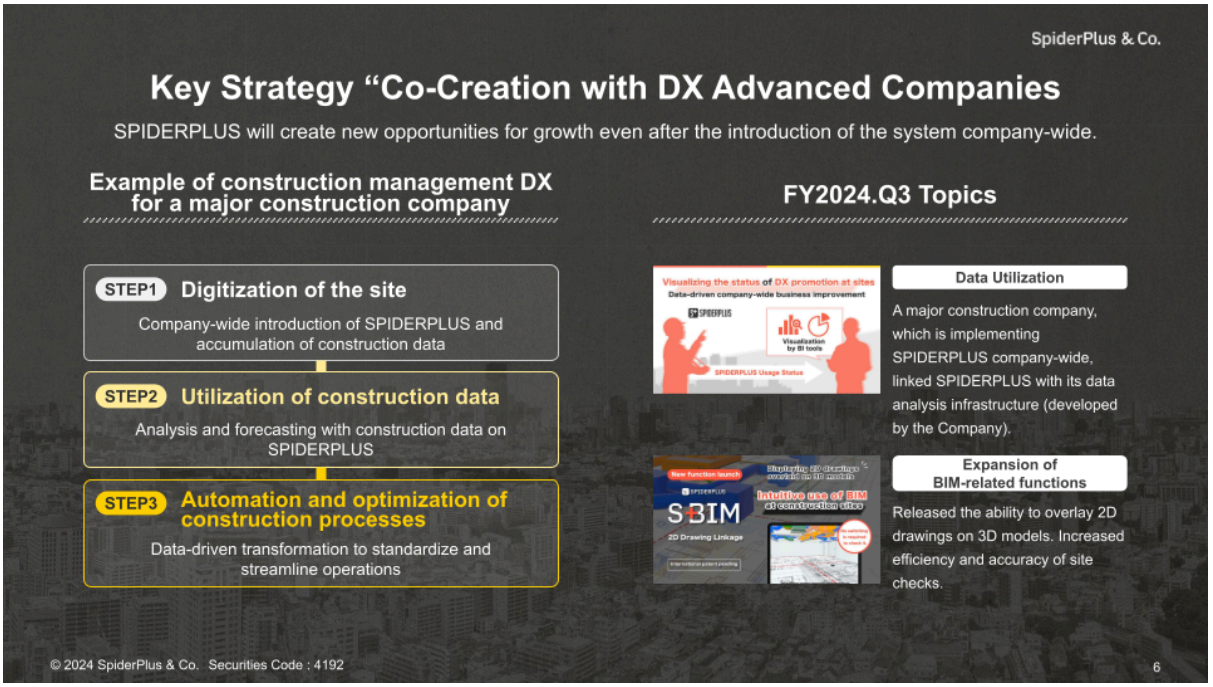


About The Impact of Construction Companies' Strong Performance on SpiderPlus&Co.

What is the impact on SPIDERPLUS' performance of the good results of listed construction companies, especially Equipment work companies?

We expect a positive impact not only on this quarter's numbers, but also on the next quarter and beyond.

This may lead to more contract IDs for SPIDERPLUS, and in addition to that, it will lead to opportunities for growth and revenue opportunities, such as more budget for DX investment, which will lead to more consultations for customized development.



About Timing of return to profitability of Operating profit

I understand that EBITDA became positive in October, but I was wondering if you could give me an outlook on the timing of a single month of positive operating profit and a single month of positive net income.

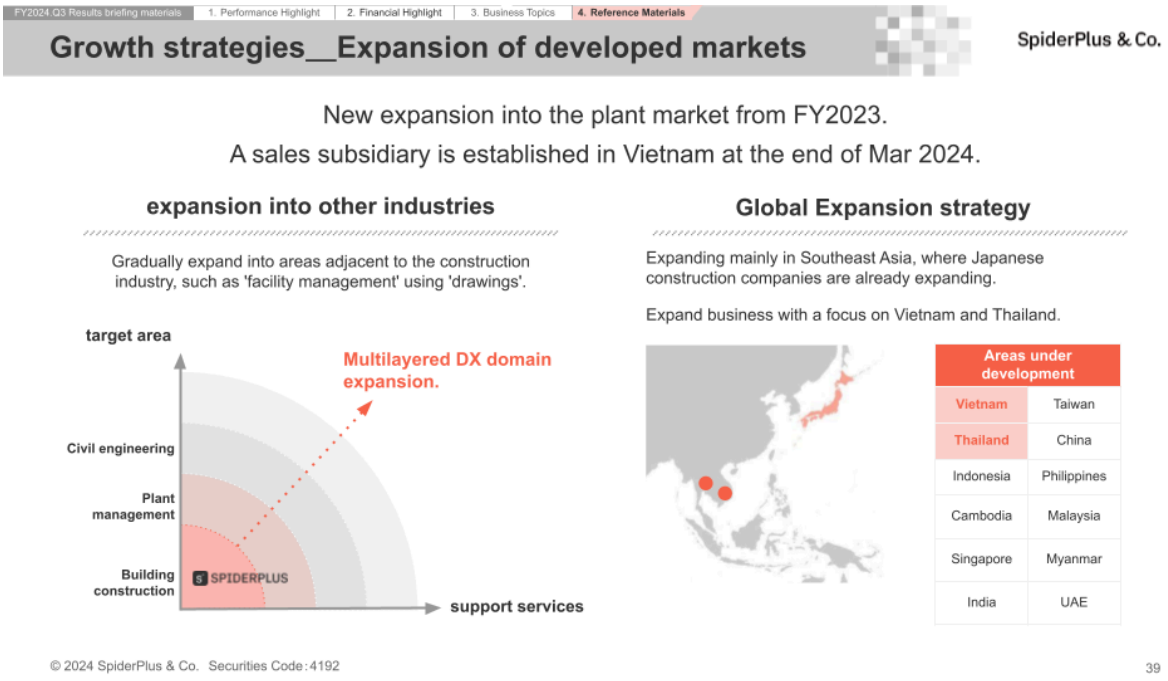
We are working to bring Operating income (profit) into the black on a month-to-month basis, but we are not disclosing the specific timing.

However, there are still opportunities for growth in the construction DX market, and we will create a turning point to generate high growth based on a strong profit structure that can generate a single month of positive EBITDA, as well as productivity enhanced by advanced investment.

About Business development outside of the construction industry

I think SPIDERPLUS has potential to be deployed in the marine, aviation and automotive industries. It would be good to get advice from experts in these fields, but please let us know if you are involved in such activities.

As we have long stated, we expect demand for SPIDERPLUS to exist wherever there are drawings, so we do business with companies outside the construction industry as well. We are gradually expanding our market outside of the construction industry, but our first priority is penetration and expansion within our immediate customers in the construction industry.



About Unique ways to use SPIDERPLUS

Please let us know if there are any unique ways to use SPIDERPLUS, or if you have had any success in using it in a way that was different from what the development team had in mind.
We would also like to hold a contest for new discoveries, unique cases, and outstanding examples of utilization, which we believe will help motivate our customers.

There are several examples of unique uses.

For example, SPIDERPLUS can be used for meetings regarding material delivery routes, or a site plan showing the location of restrooms and vending machines can be created for use in training new entrants.

What I personally find interesting is the example of managing flooring materials by color-coding them according to type, such as carpet and flooring. This kind of new utilization leads to new discoveries for us as well. I think it is a good idea to hold a contest on the theme of unique utilization methods. Thank you very much for your feedback.

About the Government's DX Support Measures for SMB and SPIDERPLUS

Currently, the government is promoting DX support measures for small and medium-sized enterprises as a measure to address labor shortage. What do you think should be done to address labor shortages at sites in the construction industry, and how should the government promote DX support? What specific measures, if any, do you have in mind to help solve the labor shortage, especially for small and medium-sized enterprises?

In relation to the government's DX support program, we expect the "IT introduction subsidy" to be applicable.

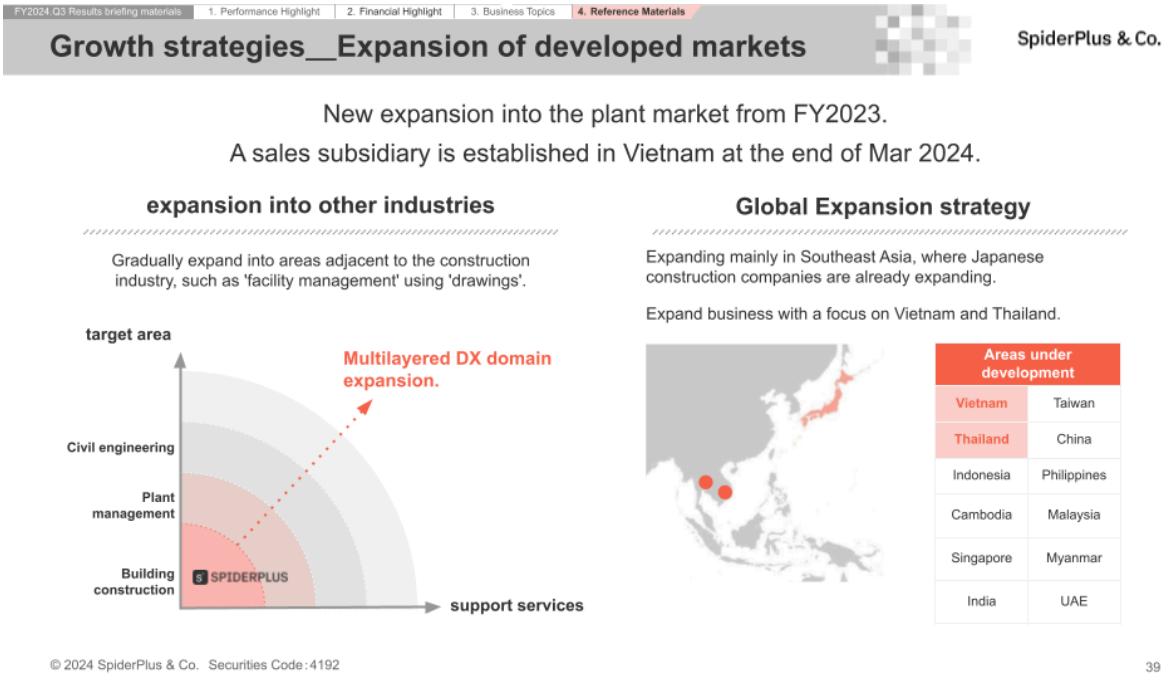
In terms of what kind of DX support the government should provide, for example, we expect that it would be effective to use IT tools to eliminate the language barrier in the recruitment of foreign workers, so we think it would be a good idea to provide assistance for the introduction and development costs of such tools.

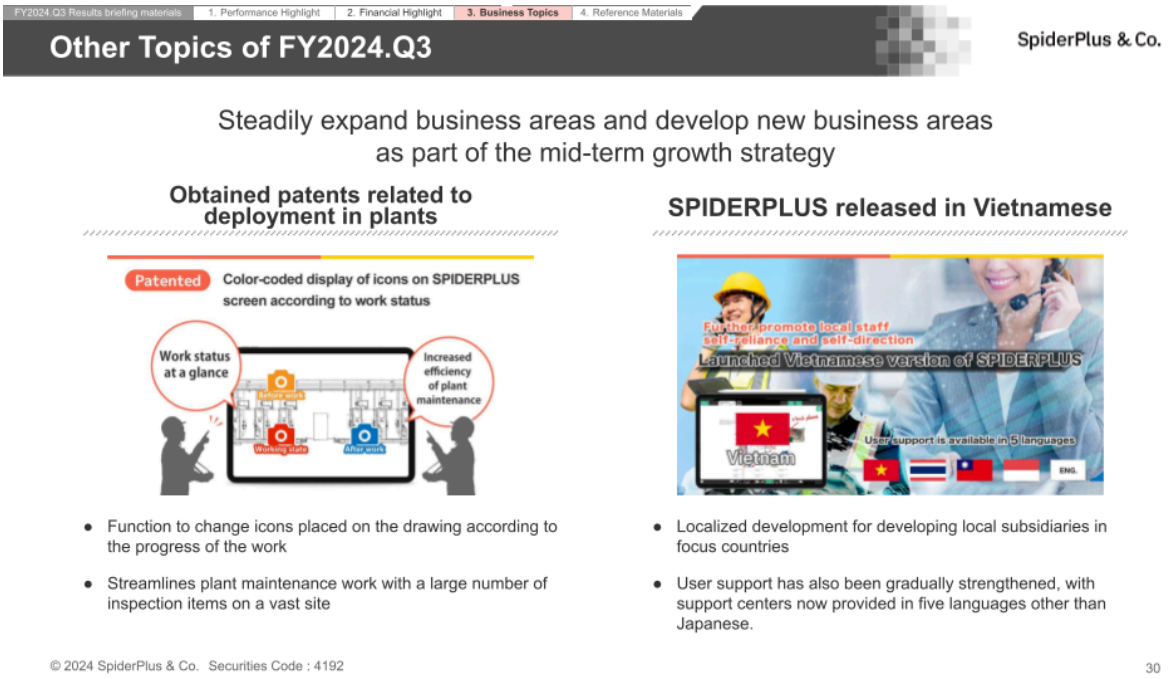
About Progress of Overseas business

Please tell us about the progress of your overseas business.

We have drawn up a plan to first establish a business model in Vietnam and then expand to neighboring countries. We expect that this arm will need to develop local Vietnamese companies. Note that we are currently operating in about 10 countries, mainly in Southeast Asia.

Basically, we will develop our business in line with the expansion of Japanese companies, and then expand to local companies as we determine which countries to focus on.





About Patent Strategy

We understand that you have applied for and obtained a number of patents, but have you applied for or obtained any international patents for the technology in question? If not, please tell us why not.

We are strategically addressing the filing of international patents, but will refrain from responding to specific details.

About Progress of the Academic Plan

I believe you offered Spider Plus to vocational schools, but have you received any inquiries from vocational schools, universities, colleges of technology, etc.?

Although there have been inquiries, we are not actively expanding or investing resources in the "Academic Plan," a free policy for schools, at this time as we continue to be selective and focused in the investment of resources.

Stock-related and other

About Shareholding Ratio of CEO

Please tell us if there are any plans to reduce President Ito's shareholding ratio in the future.

Since our goal is to list the company on the prime market in the future, we may sell a portion of the shares at that time, but we do not expect to sell the shares in a manner that would cause inconvenience to our shareholders.

About Consideration of Shareholder Benefits

We would like to ask you to expand the shareholder benefit program for shareholders who hold shares for a long time when you establish a new shareholder benefit program.

Management is continuously discussing measures to return profits to shareholders in the form of shareholder benefits and dividends. Currently, there are no matters that have been decided.

About Regarding the award for excellence in disclosure and the reaction of the share price

You have been ranked No. 1 in the Best Disclosure Companies, but on the other hand, your stock price is inferior to that of other companies. What is your view on this?

While it is a great honor to be ranked first in the selection of companies with excellent disclosure, we do not expect that this award is directly related to the share price,

Along with our performance, we will continue to correctly communicate the growth expectations of our business to investors and raise our stock price. We will make further efforts to quickly return the stock price to a level that satisfies everyone's expectations.

About Status of Recent Meetings with Institutional Investors

Are there any new inquiries from Institutional Investors, large or foreign investors, as we head into 2025?

The number of meetings with Institutional Investors has remained steady. In terms of recent changes, the number of meetings with new foreign investors has been increasing. An

increasing number of Institutional Investors have mentioned their expectations for a full-fledged market for Japanese construction DX, and we expect interest to remain strong.

Closing remarks from CEO

Thank you very much for watching for such a long time today and for the many questions you asked.

Some may view the third quarter figures as "not so good," but for our company, it was a quarter in which we had a very good feeling toward the end of the fiscal year.

In addition, as we have explained repeatedly, our medium-term goal is to achieve an ARR of 10 billion yen between 2026 and 2027, and to generate large profits thereafter.

We would like to assure our shareholders that we will achieve this mid-term goal, so we expect our shareholders and investors to join us in seeing our company achieve an ARR of 10 billion yen, and we hope you will continue to support Spider-Plus. We hope that you will continue to support Spider-Plus.

Thank you so much for your long time today. Thank you for your continued support of Spider Plus.

and above