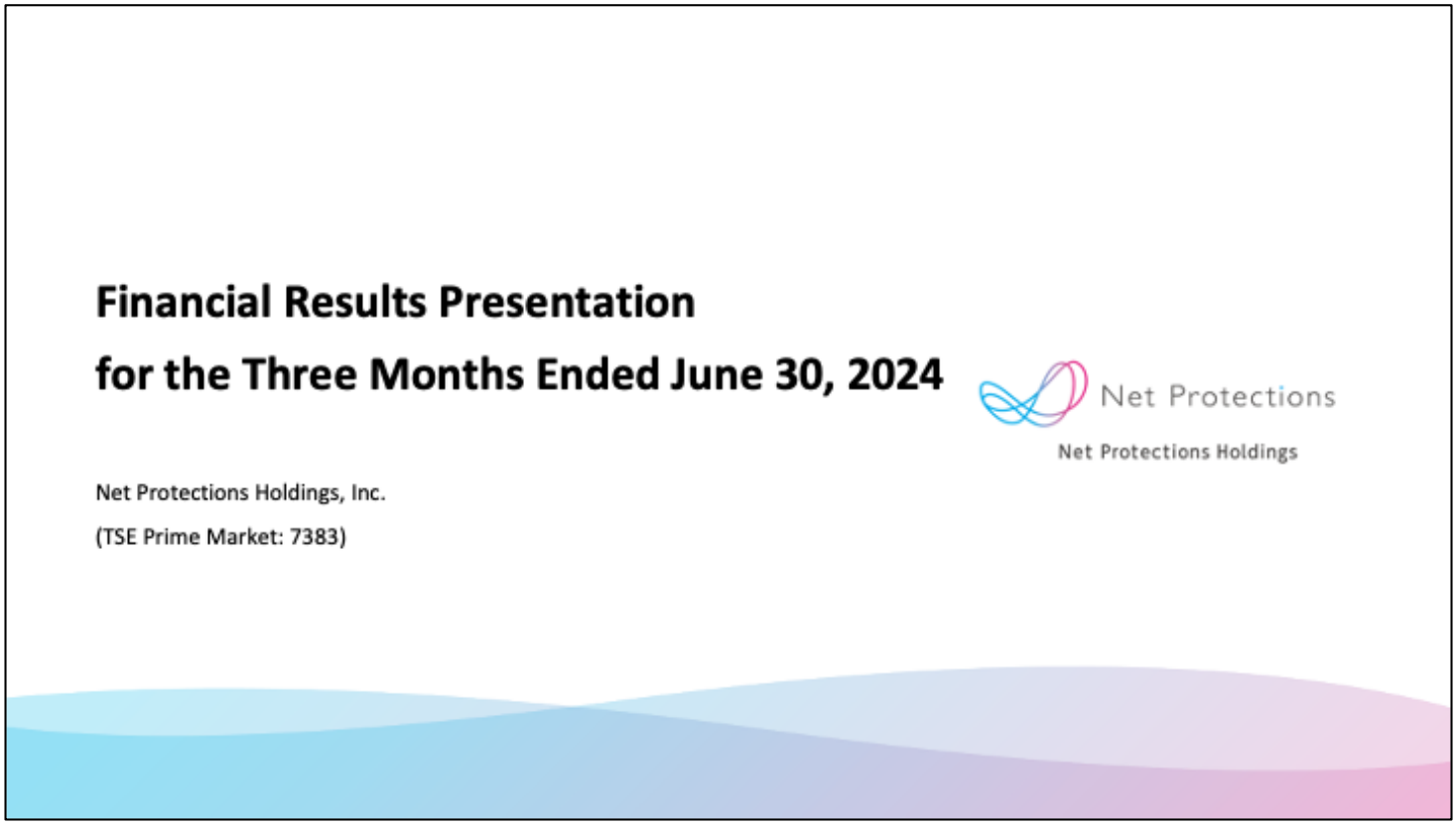
Net Protections

Net Protections Holdings, Inc.

Financial Results Presentation for the Three Months Ended June 30, 2024

June 30, 2024

※Q&A will be uploaded at a later date.



Good afternoon, everyone. I am Shin Shibata, CEO of Net Protections Holdings.
I would like to begin the financial results presentation for the three months ended June 30, 2024.

| Upward Revision to FY3/25 Earnings Forecast 3
| Highlights of Group Financial Results 8
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These are the agendas for today.
Our presentation starts with the upward revision to the earnings forecast owing to solid business performance and then I will explain the details of the business performance.

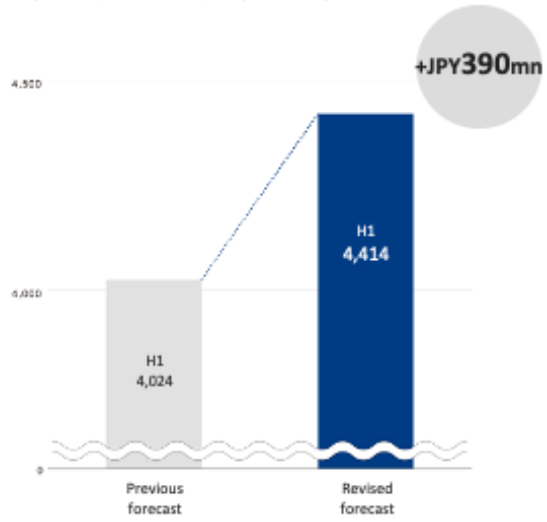


Upward Revision to FY3/25 Earnings Forecast

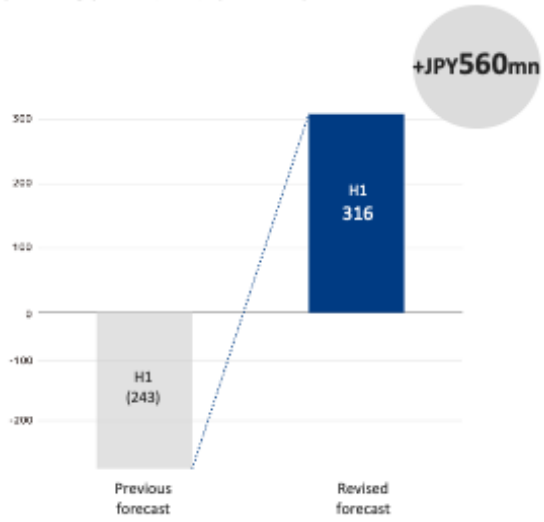
Upward Revision to FY3/25 Earnings Forecast

We expect gross profit and operating profit for H1 to improve JPY390mn and JPY560mn respectively, compared with the previous forecast. Upward revision has been made to the previous forecast as we are confident that the actual results will substantially outperform our plan.

Gross profit (non-GAAP) (JPY in millions)



Operating profit (loss) (JPY in millions)



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The previous earnings forecast was designed to be conservative to a certain extent, and we expected to be in the red in the first half of the year.
However, we have achieved profitability for the first quarter due to credit screening improvement and stringent cost control, and substantially outperformed our plan.

We will revise the forecast upward as operating profit for the first half is expected to exceed JPY 300 million and full-year earnings are sure to outperform the forecast.

Upward Revision to FY3/25 Earnings Forecast

We have revised the full-year forecast upwards, adding the increase above the forecast for the first quarter. Operating profit will be twice the previously announced forecast (from JPY520mn to JPY1,080mn).

(JPY in millions)	Previous full-year forecast (A)		Revised full-year forecast (B)		(B) − (A) Amount change	(B) ÷ (A) Percentage change
	Full year		Full year		Full year	Full year
	H1	H2	H1	H2		
GMV (non-GAAP)*1	630,500		630,500		-	-
	300,000	330,500	300,000	330,500		
Total operating revenue	23,000		23,000		-	-
	10,740	12,260	10,740	12,260		
Gross profit (non-GAAP)*2	9,062		9,452		390	+4.3%
	4,024	5,038	4,414	5,038		
Operating profit (loss)	520		1,080		560	+107.6%
	(243)	763	316	763		
Profit (loss) before income taxes	433		983		550	+127.0%
	(283)	716	266	716		
Profit (loss) attributable to owners of parent	268		658		390	+145.5%
	(167)	435	223	435		
EBITDA	2,273		2,803		530	+23.3%
	628	1,644	1,158	1,644		

*1 GMV: Gross merchandise value for the Group's payment services
*2 Gross profit: Revenue - (Collection expense + Invoicing expense + Allowance for doubtful accounts (addition) + Bad debt expense + Loss on sale of trade receivables + Credit screening expense + NP point expense + Other payment related expenses)

This slide shows the revision to the forecast we have made.

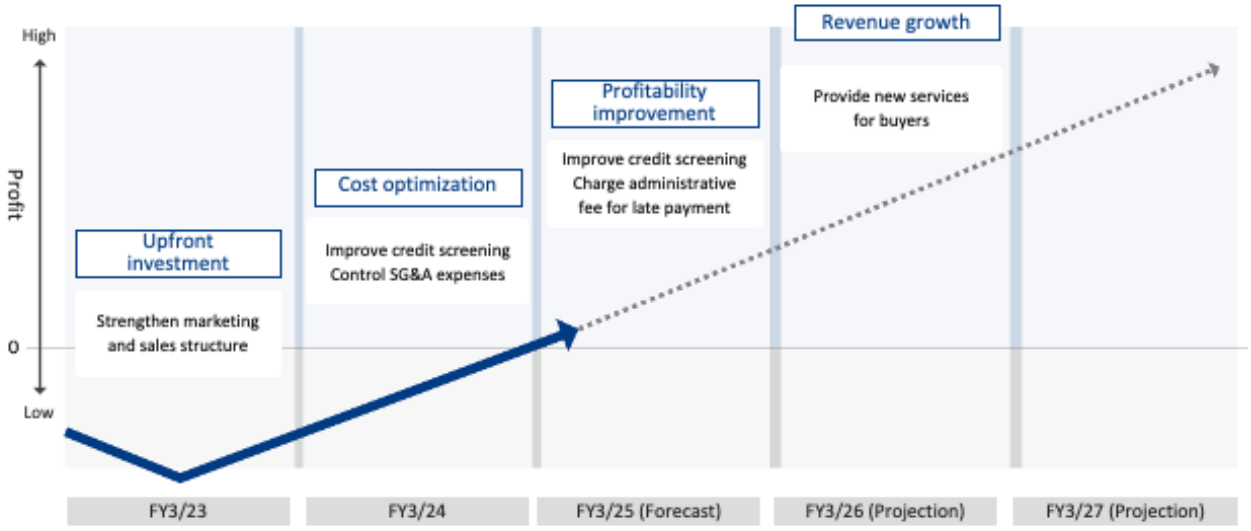
GMV and total operating revenue are as planned and left unchanged while the line-item profits are revised upward.

The increase above the forecast for the first quarter was simply added to the revised forecast.

While we are reasonably confident that we will achieve the profit target even in and after the second quarter,
additional updates will be made as necessary after we verify the effect of our new initiative of charging administrative fee for late payment.

Initiatives to Generate Profit and Future Outlook

After the phase of upfront investment, we have successfully built a profit-generating structure by curbing costs and improving profitability. Going forward, we aim for further sales expansion while being mindful of profitability.



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This turnaround to profitability is led in a planned way and further scalable progress is expected.

We have made upfront investment immediately after the listing of our shares mainly for the sales and marketing functions, knowing every service we offer has a potential to grow further.
Balancing revenue against SG&A expenses was difficult for some time but we are keeping an optimal balance over the last year.

More specifically, we strengthened the sales structure to promote in-house processing of previously outsourced operations, and ROI improved by building up marketing expertise.
We also continued to improve our strengths of credit screening while curbing costs.
As a result, we turned positive right from the first quarter of this fiscal year.

We successfully launched administrative fee for late payment on July 1, which is expected to significantly increase operating profit for NP *Atobarai*.
It is implemented as planned and we expect to see some effect in the second quarter and beyond.

Our focus is placed once again on expanding services for revenue growth, while being fully mindful of profitability.

We will continue to enhance our corporate value by ensuring to implement our strategies.

Achieve a Low Delinquency Rate

Continue achieving a low delinquency rate by honing our unique credit screening system.

Measures for improving credit screening system

		FY3/24 H2	FY3/25 H1	FY3/25 H2
NP *Atobarai*	Measures	Improve fraud detection logic	Fine-tune credit limits	
	Expected effect	Improved detection of fraud transactions	Higher screening approval rate / lower delinquency rate	
atone	Measures	Renew the credit scoring model	Renew the fraud detection logic	Improve the credit scoring model
	Expected effect	Improved accuracy of credit limit settings	Utilization of other business' successful model	Optimize a model based on accumulated data
NP *Kakebarai*	Measures	Tighten credit limit control		Fine-tune credit limits
	Expected effect	Stricter screening of large-value transactions		Higher screening approval rate / lower delinquency rate

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We focus on credit control, as it is key to stabilizing and improving profitability.

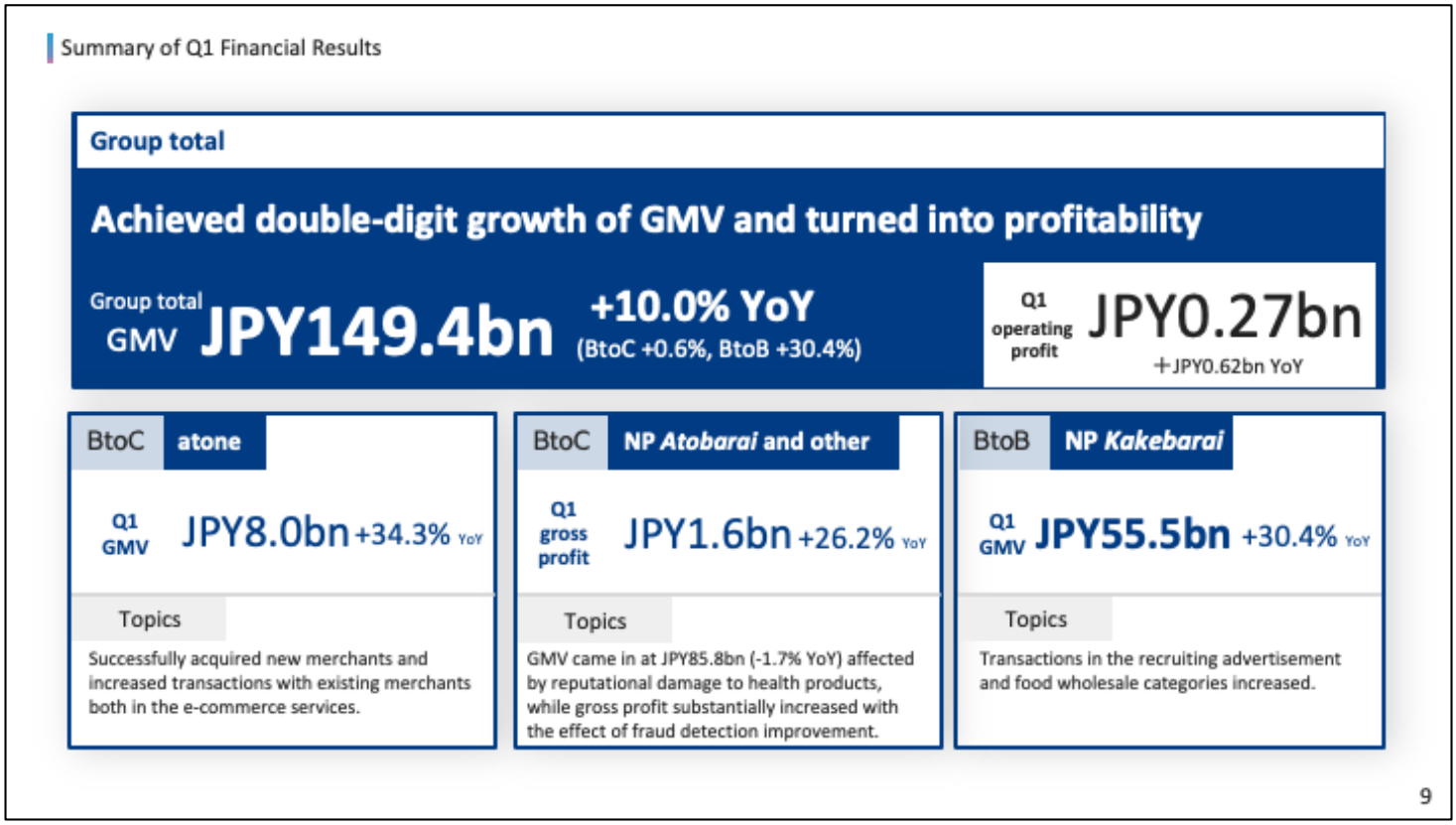
Measures are implemented on a service-by-service basis because the nature of our service offerings varies depending on merchants and users of each service.
A measure adopted by a certain service, once proved effective, will then be applied to other services to drive credit screening improvement efficiently.

As too strict credit screening will lower the credit approval rate and ultimately affect GMV, we strive to fine-tune credit limits regularly.

As such, we promote improvement of credit screening and fine-tuning of credit limits that are optimized for each service and believe we can increase GMV while keeping a low delinquency rate going forward.



CFO Watanabe will explain the highlights of the Group financial results.



As CEO Shibata already explained earlier, operating profit significant improved by JPY 600 million year on year and turned into black at JPY 270 million.

Now I will look into details by service.

First, for atone, GMV firmly increased 34% year on year, achieving a solid growth.
The growth has been driven by the acquisition of new merchants and increased transactions with existing merchants both in the e-commerce services.
This demonstrates that we have entered into a virtuous cycle of operations.

Second, for NP *Atobarai*, gross profit is a key performance indicator because it's a "cash cow" business for us.
During the first quarter, gross profit increased 26% year on year due to consistently successful credit control operations.

And last, NP *Kakebarai* continued to perform steadily.
GMV for NP *Kakebarai* grew 30% driven by transactions for recruiting advertisement, which has remained strong since last year, and by increased transactions in the food wholesale category.

Consolidated Financial Results: Earnings Summary for FY3/25 Q1

Operating profit turned into black (at JPY 273mn) earlier than planned.
Gross profit improved by keeping the delinquency rate under control.

(JPY in millions)	FY3/25 Q1 Results	FY3/25 Q1 YoY percentage change	Full-year earnings forecast*4 Amount	Full-year earnings forecast*4 Progress rate
GMV (non-GAAP)	149,481	+10.0%	630,500	23.7%
Total operating revenue	5,254	+1.6%	23,000	22.8%
Revenue	5,091	+0.9%	-	-
Gross profit (non-GAAP)*1	2,257	+24.9%	9,062	24.9%
SG&A expenses	2,137	-6.2%	8,954	23.9%
Other operating expenses	8		-	-
Of SG&A expenses, marketing expenses*3	116	-27.7%	539	21.5%
Operating profit	273	Turned into black	520	52.6%
EBITDA (non-GAAP)*2	681	+4084.7%	2,273	30.0%

*1 Gross profit: Revenue - (Collection expense + Invoicing expense + Allowance for doubtful accounts (addition) + Bad debt expense + Loss on sale of trade receivables + Credit screening expense + NP point expense + Other payment related expenses)
*2 EBITDA: Operating profit + (Depreciation and amortization + Share based payment expenses + Loss on disposal of property, plant and equipment + Impairment loss – Gain from reversal of impairment losses)
*3 Marketing expenses: Sales promotion expenses (excluding agency commissions) + Advertising expenses
*4 Consistent with Consolidated Financial Results for the Fiscal Year Ended March 31, 2024 dated May 15, 2024

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This is a summary of financial results for the three months ended June 30, 2024.

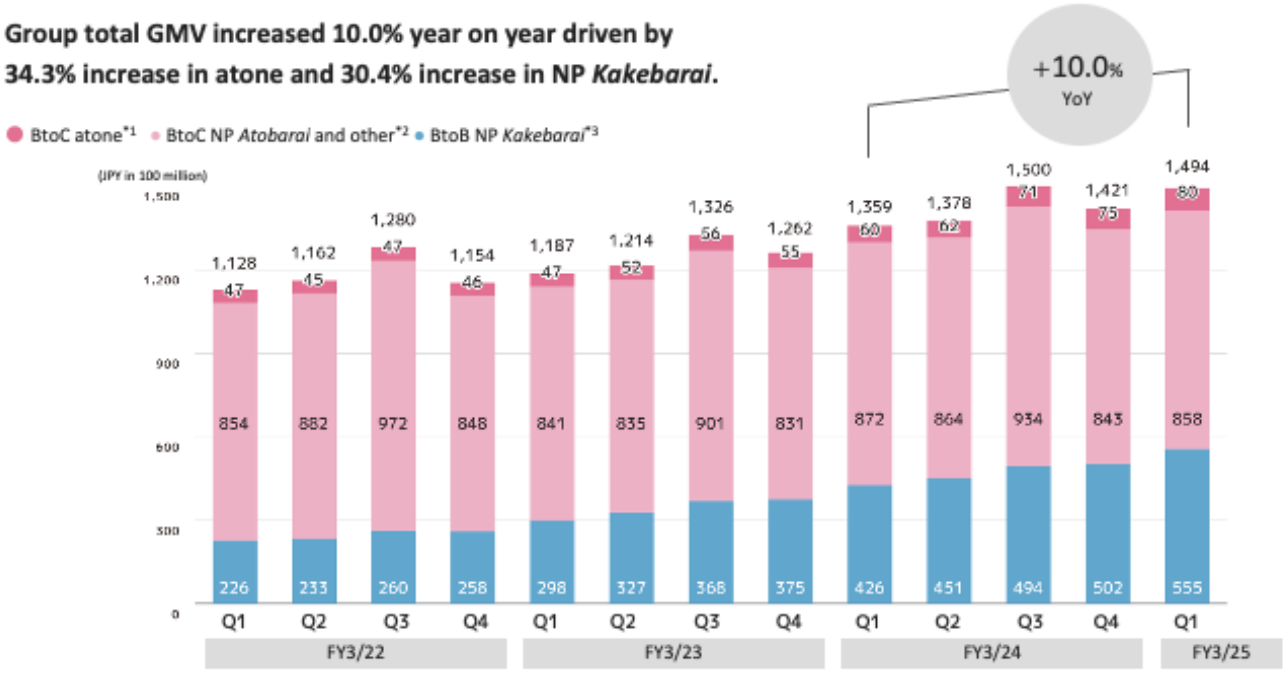
GMV and total operating revenue of the Group have progressed as planned and the line-item profits have substantially exceeded the plan.

Gross profit increased 25% year on year resulting from successfully curbing costs with improved credit screening mainly in BtoC services.
In addition, SG&A expenses were spent efficiently and this led to operating profit significantly exceeding the plan.

As the progress rate of operating profit as of the end of the first quarter has already been over 50%, we have upward revised the earnings forecast as Shibata mentioned earlier.

Quarterly Changes in GMV

Group total GMV increased 10.0% year on year driven by 34.3% increase in atone and 30.4% increase in NP *Kakebarai*.



*1 Total amount of payments (including consumption tax) made through atone provided by the Group
*2 Total amount of payments (including consumption tax) made through NP *Atobarai*, AFTEE, and NP Card provided by the Group
*3 Total amount of payments (including consumption tax) made through NP *Kakebarai* provided by the Group

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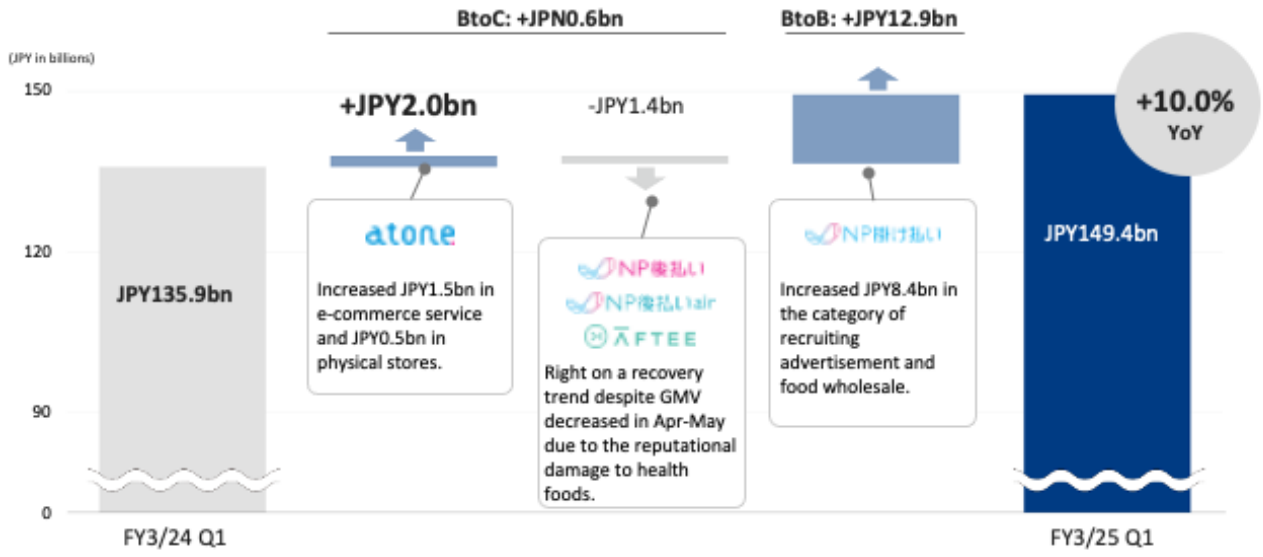
This is the trend of each service's share in GMV.

GMV for BtoC atone remains strong from the previous fourth quarter, achieving over 30% growth rate.
We will promote two services of atone and NP *Kakebarai* as our growth drivers.

GMV (Increase from Q1 YoY)

The Group total GMV increased JPY13.5bn, or 10.0%, year on year due to year-on-year increases of JPY0.6bn in BtoC and JPY12.9bn in BtoB.



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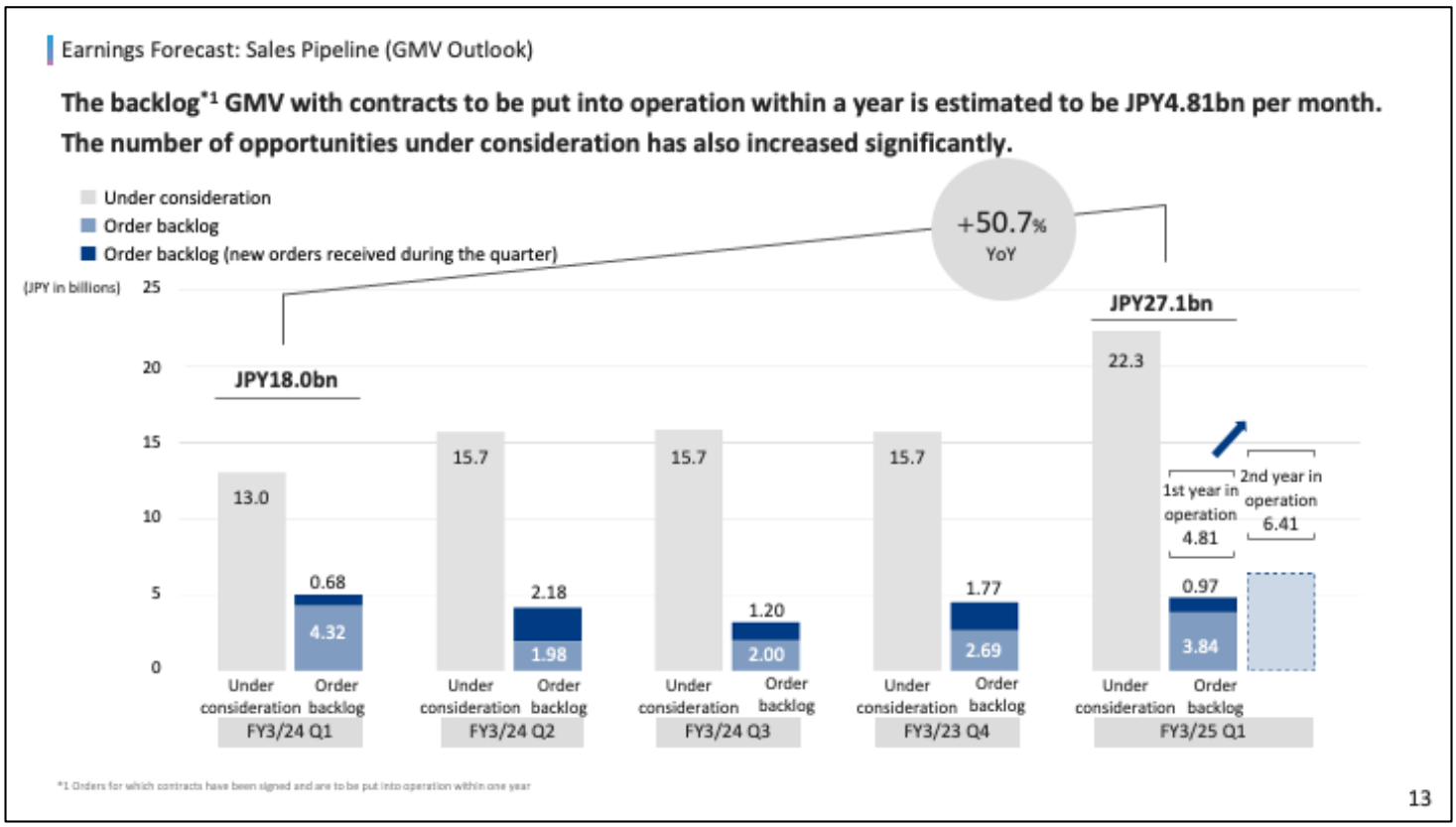
This slide shows how our GMV increased year on year.

atone has expanded its market steadily by increasing transactions with physical stores in addition to e-commerce service areas.
GMV for NP *Atobarai* has declined in April and May due to the reputational damage to health foods, but right now back on a recovery trend.
BtoB NP *Kakebarai* has expanded transactions linked with restaurant operations such as advertising for recruitment and food wholesale.



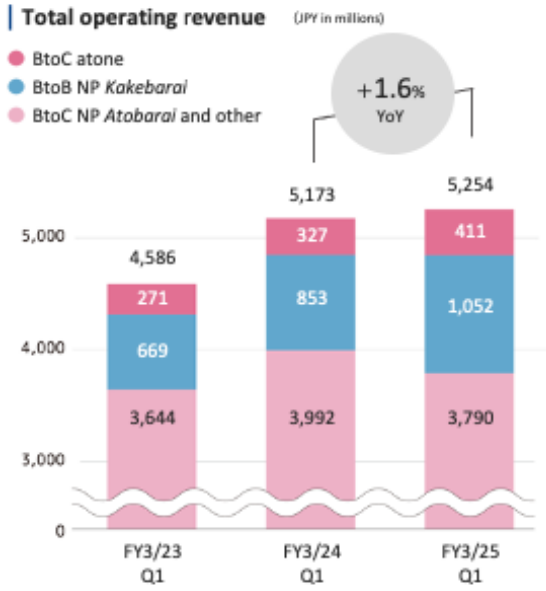
This is the backlog of orders that will be put into operation within one year.

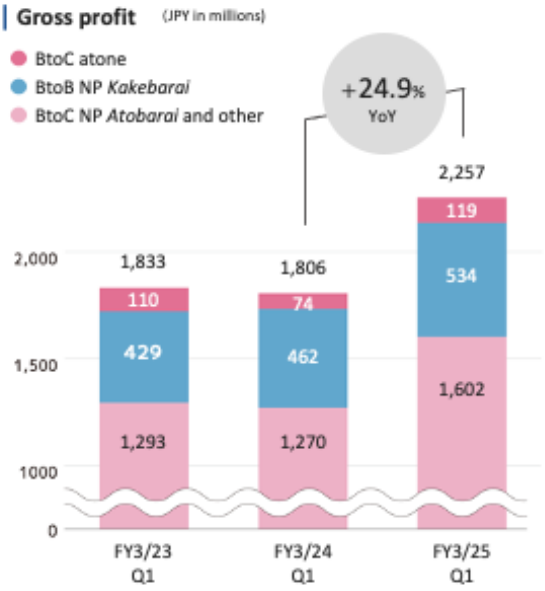
Order backlog remains steady at a high level.

Opportunities under consideration are increasing and there is a high expectation of orders from such pipelines.

Total Operating Revenue and Gross Profit (Group Total)

Continued improvement in credit screening mainly in BtoC services has led to a year-on-year increase in gross profit 24.9% YoY.





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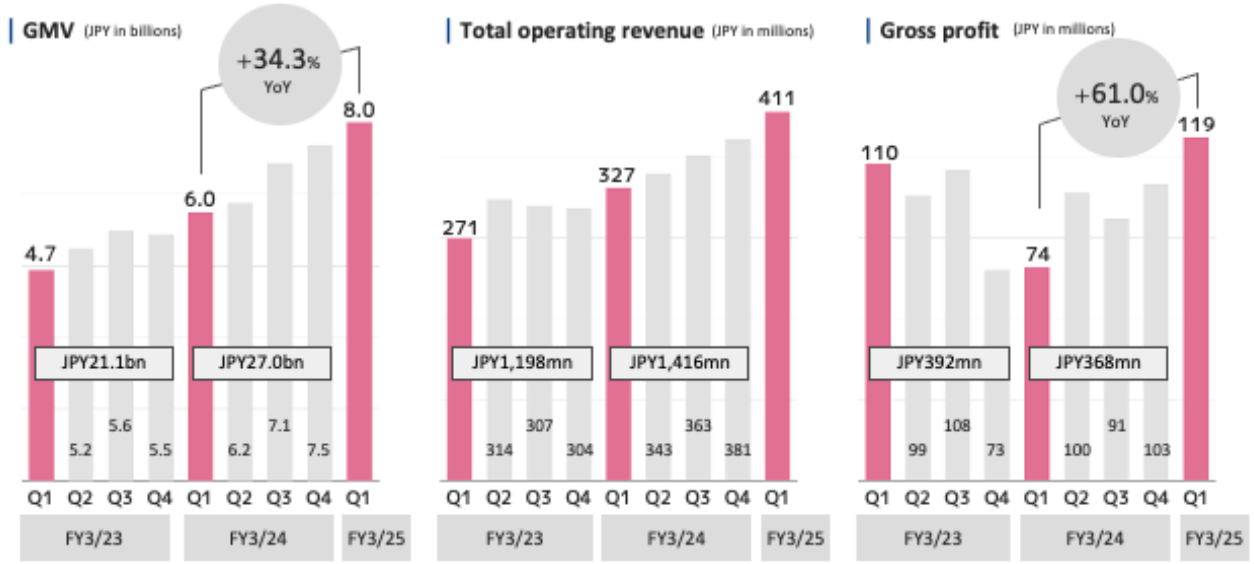
This slide shows the trends of Group total operating revenue and gross profit.

Total operating revenue is growing just as planned, but gross profit has increased significantly thanks to improved credit screening system.
As compared with the past two years, you can see that we have successfully built a business fundamental that can generate profit.

On the following pages, let me explain the key performance indicators by service.

Financial Results by Service: atone

GMV increased 34.3% YoY due to its wider market penetration across e-commerce and physical stores.
Gross profit increased 61.0% YoY as the delinquency rate is kept under control.



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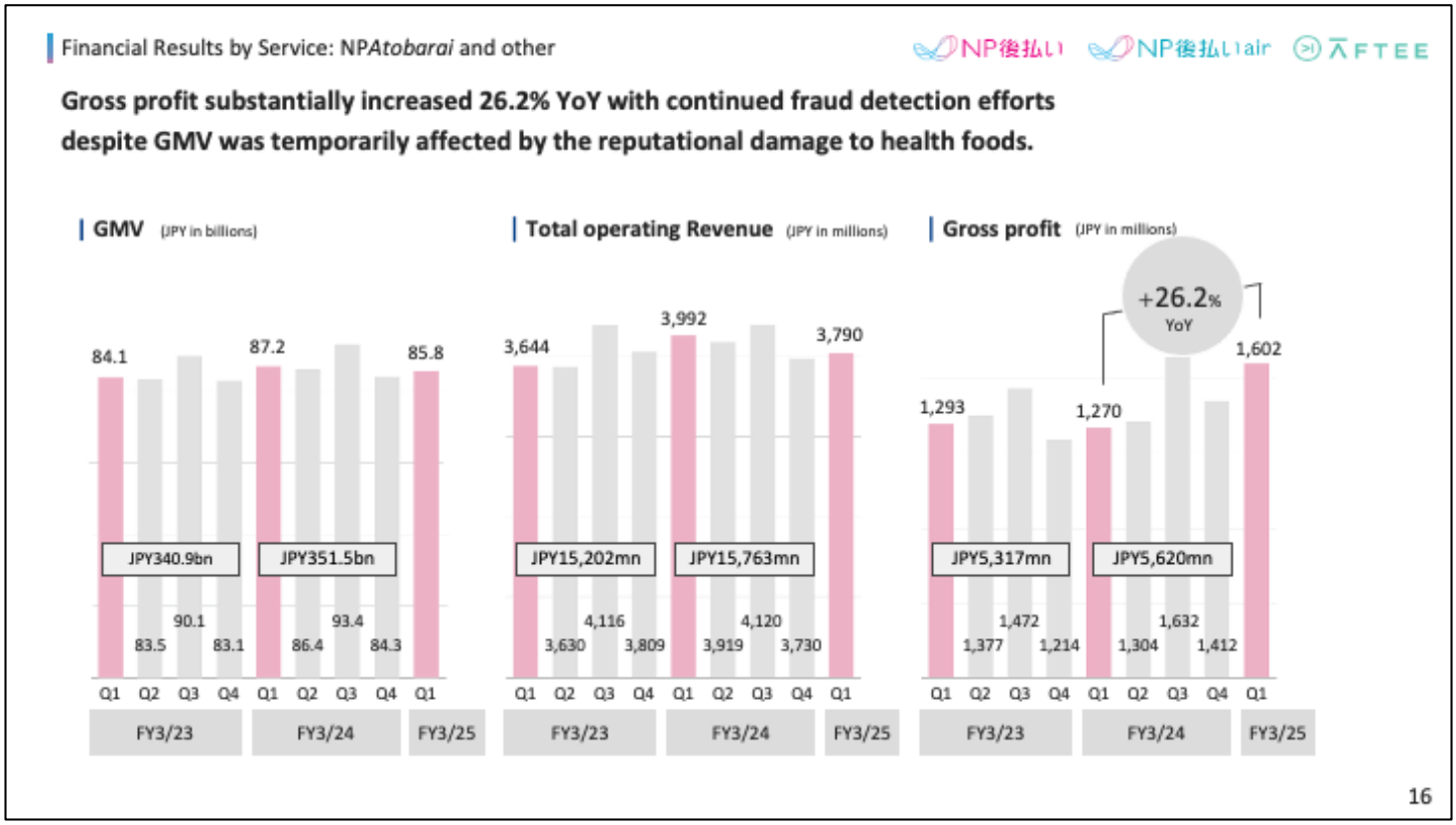
GMV for atone increased 34% year on year for the first quarter, achieving a robust growth. Our main strategy is to penetrate into new markets such as e-commerce non-merchandise market and physical stores, and the strategy is progressing well.

With the ongoing credit screening improvement, we have established a structure that can build up gross profit in line with the GMV growth.



GMV for NP *Atobarai* remained almost unchanged, but gross profit increased 26.0% year on year.

Our fraud detection efforts which started last year have contributed to reducing the estimated delinquent rate to the level lowest ever over the past 20 years.

Total operating revenue appears to have decreased more than GMV, but this is due to the impact of electronic barcode invoices.
Although sales have decreased, invoicing costs have also been curbed, which is positive for gross profit.

Financial Results by Service: NP *Kakebarai*

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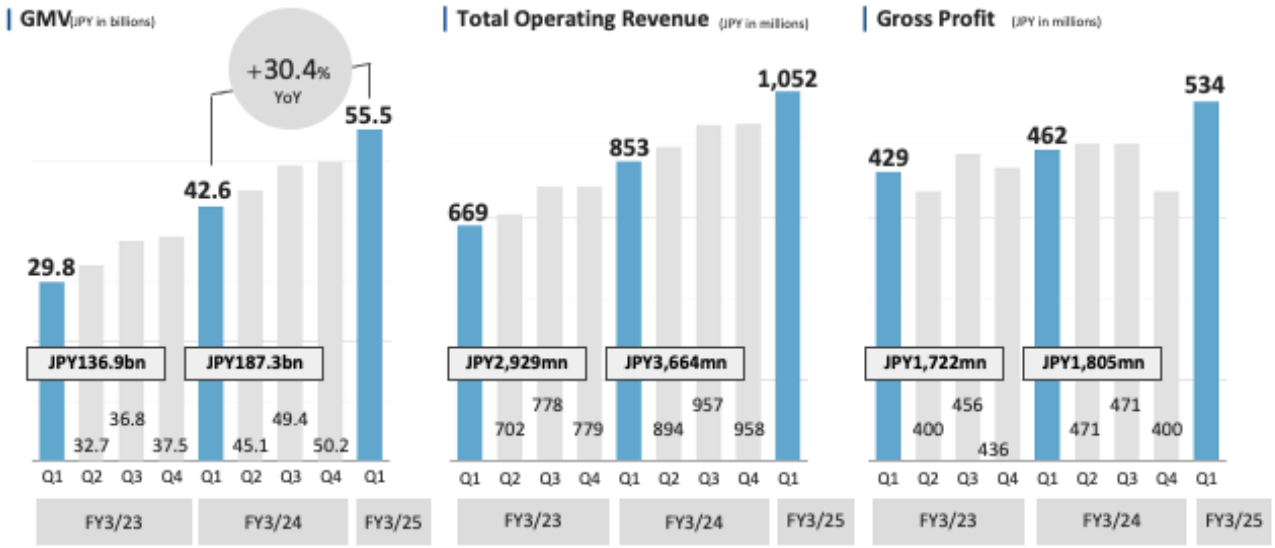
GMV continued to increase more than 30.0% YoY with total operating revenue exceeding JPY1.0bn for the first time on a quarterly basis.



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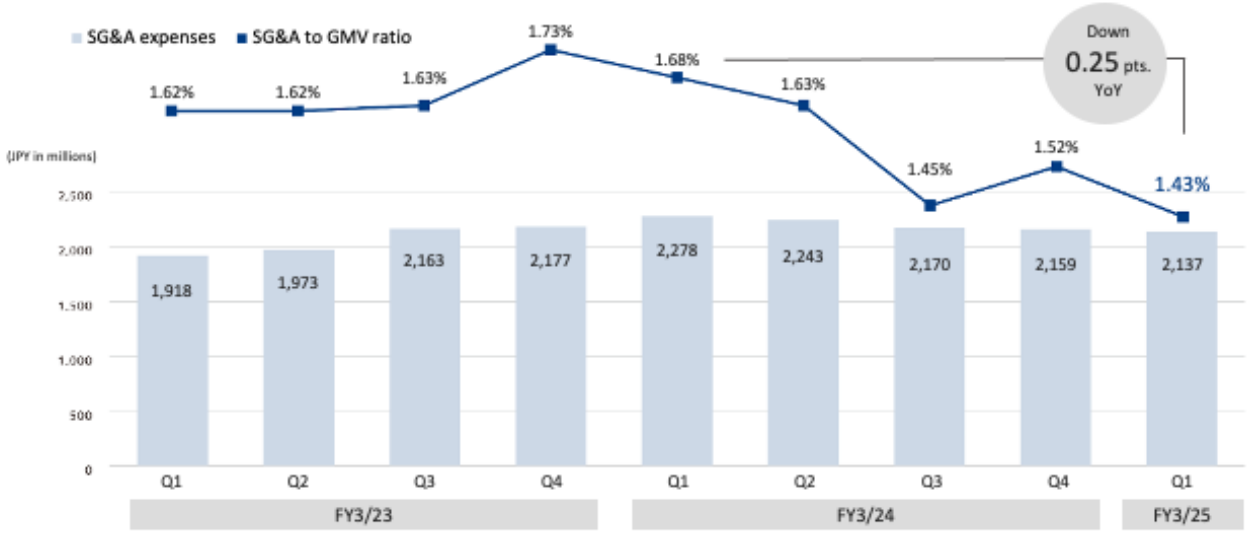
GMV for BtoB NP *Kakebarai* remains solid, achieving a 30% growth.
Quarterly operating revenue is expanding to the level above the JPY 1.0bn.

While some clients had difficulty in managing their cash flows with the termination of a “zero-zero” loan* last year, the deterioration in the delinquency rate has peaked out with the stricter credit screening procedures currently implemented.

*A “zero-zero” loan refers to a virtually interest-free, unsecured loan extended to sole proprietors and small and medium-sized businesses whose sales declined as a result of the COVID-19 pandemic.

SG&A Expenses: Quarterly Trend

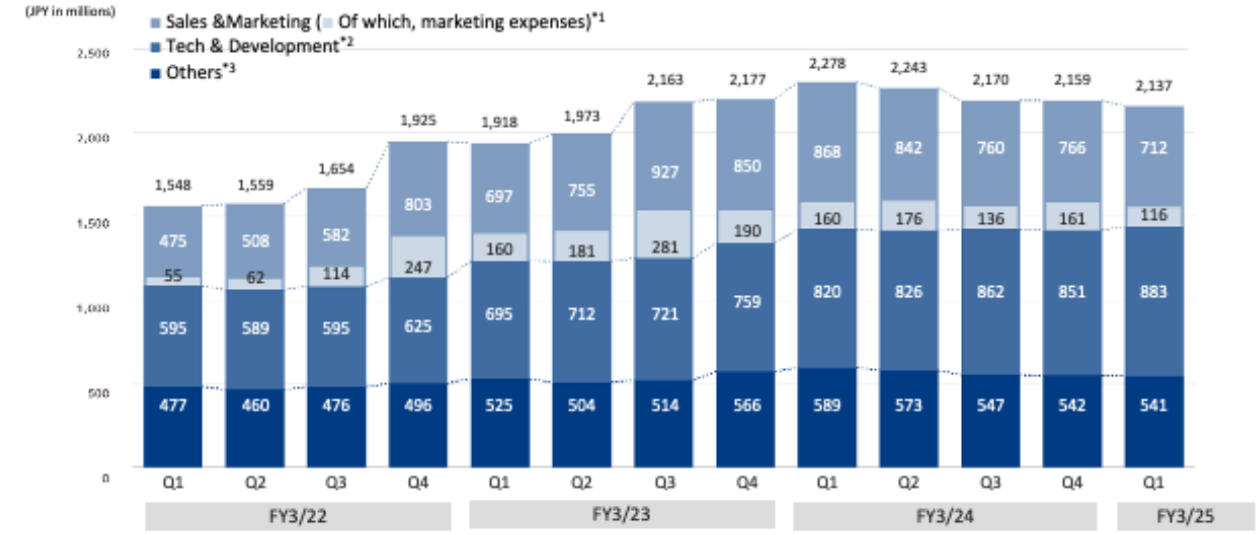
The SG&A ratio improved 0.25 points year on year to 1.43% through our continued effort to thoroughly control costs.



This slide shows the trend of SG&A expenses and the ratio of SG&A expenses to GMV.
SG&A ratio was at 1.6% range in the previous fiscal year compared to 1.4% range in Q1 of the current fiscal year. In this way, we have steadily improved operational efficiency.

SG&A Expenses: Quarterly Changes by Function

We curbed SG&A expenses in Sales & Marketing by encouraging full-time employees to internalize outsourced operations and improving operational efficiency of marketing.



*1 Sales & Marketing: Personnel, outsourcing, operations related, marketing, and other expenses related to sales and marketing
*2 Tech & Development: Personnel, outsourcing, operations related, and other expenses related to system development, credit related operations, and other operations.
*3 Others: SG&A expenses other than *1 and *2 (personnel and outsourcing expenses related to back-office operations, outsourcing expenses of help desk for services, etc.)

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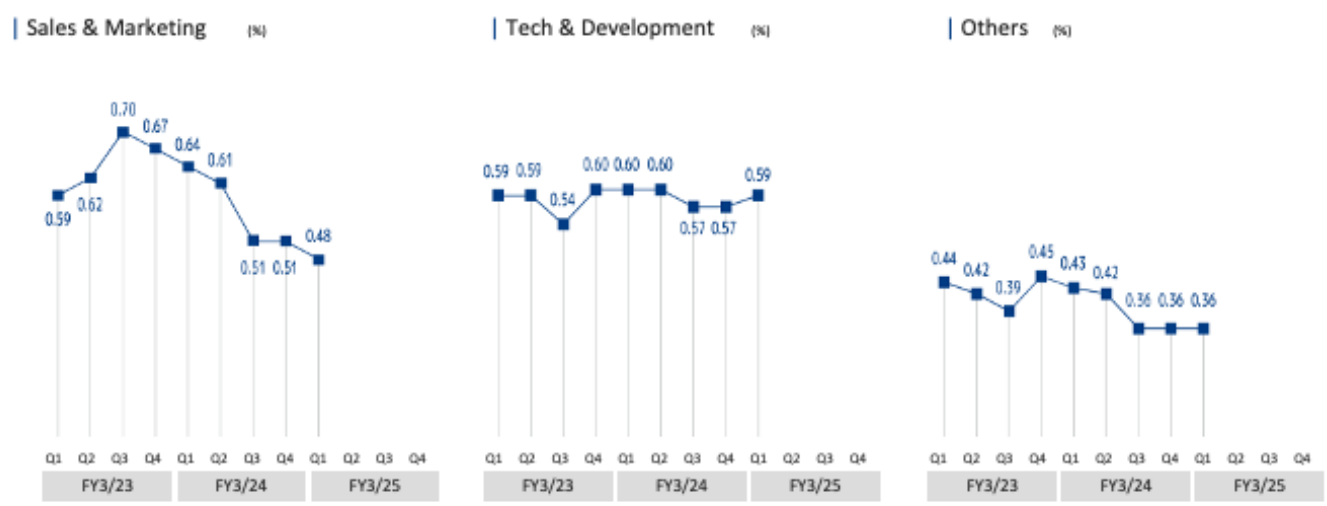
When we look at SG&A expenses by function, operations are being streamlined in the Sales & Marketing function.

Having said that, Marketing is key to our growth, therefore, we consider not containing expenses too much but striking a balance in allocating resources to promising initiatives, in particular, those for advertising and promotion efforts aimed at developing new merchants.

Reference: Changes in Ratio of SG&A Expenses to GMV

We have built a structure that can take advantage of operating leverage due primarily to the improved operational efficiency of Sales & Marketing.



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*3 Others: SG&A expenses other than *1 and *2 (personnel and outsourcing expenses related to back-office operations, outsourcing expenses of help desk for services, etc.)

This slide shows the SG&A to GMV ratio by function.

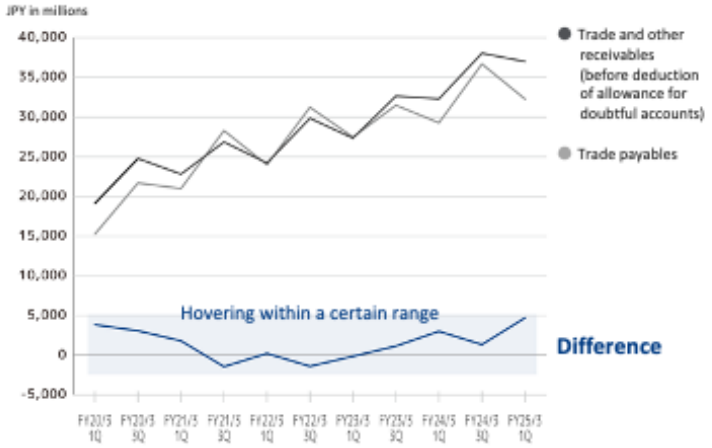
Tech & Development recorded a slight increase, but Sales & Marketing improved efficiency enough to offset the increase. In this way, the operating leverage is in effect.

Impact of Interest Rate and Exchange Rate

The risk to the balance sheet and profit and loss statement due to factors such as rising interest rates and exchange rate fluctuations is limited.

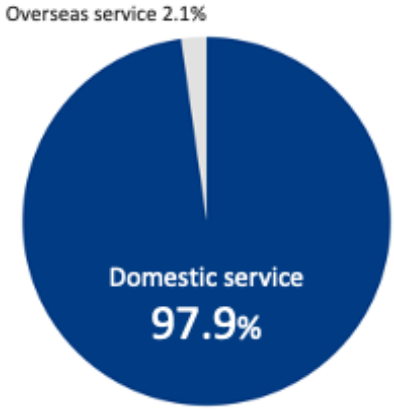
Receivables and payables are well-balanced in the short term, thus there is no need for working capital even if GMV increases.

Changes in trade receivables & payables



As 98% of our sales are from domestic services, there is almost no impact on the P&L due to exchange rate fluctuations.

Sales composition ratio by service (FY3/24)



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Lastly, I will explain the impact of interest rate and exchange rate fluctuations on our business.

It is expected that interest rates will rise in Japan and the yen will strengthen in the future, but the risk to our company is very limited.

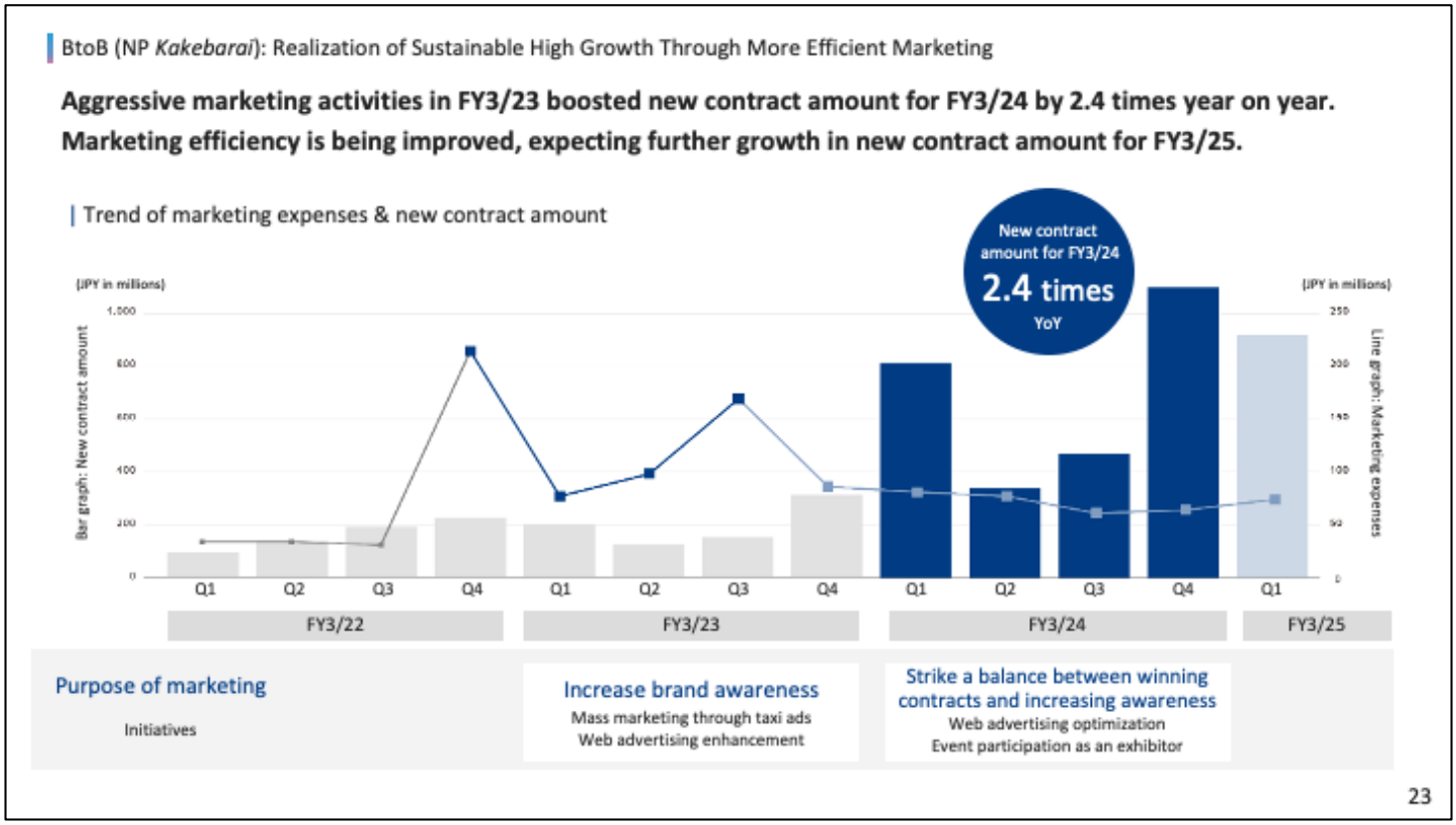
As most of our services collect payment from users first and then pay the merchants, receivables and payables are well-balanced in the short term.
Thus, we do not need large working capital to operate our business, hence we are not greatly affected by interest rates.

In addition, we have businesses overseas, but the business scales are still small. Also, we are not affected by exchange rate fluctuations, because most of our sales are from domestic services.

There is basically no impact on our business from the recent rise in interest rates and the appreciation of the yen.



Management topics.
I, CEO Shibata, will explain this part.



Let me start with BtoB NP *Kakebarai* as this service is enjoying an unprecedentedly favorable business environment.
BtoB business is now in a position to achieve sustainable high growth thanks to improved marketing efficiency.

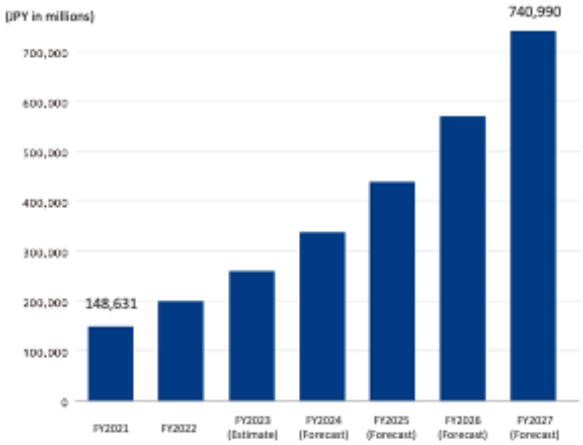
About two years ago, we launched a mass marketing campaign centered around taxi ads to strengthen marketing function. The leads we acquired through the campaign were converted into paying clients about a year later.
GMV derived from new contracts in the fiscal year ended March 31, 2024 increased 2.4 times year on year. I believe that these new merchants are going to drive growth of BtoB business.

We don't rely on expensive mass marketing. Rather, we have struck a good balance between increasing brand awareness and winning contracts by optimizing web advertising and participating in events as an exhibitor more frequently.
For now, we have won more contracts over the same period in the previous year.

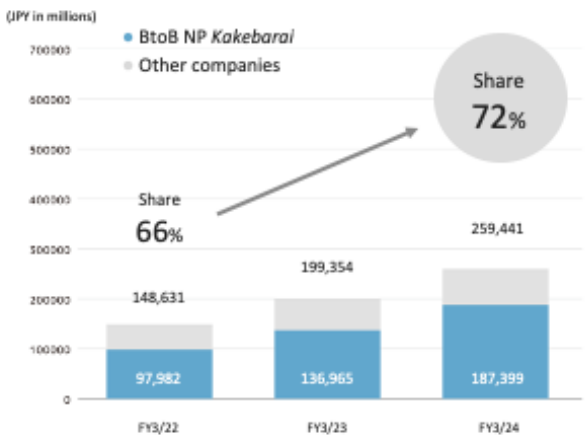
Potential of the BtoB Market

The BtoB payments service market is growing and is expected to continue to expand.
The share of NP *Kakebarai* exceeds 70%, making us the No.1 player*1 in the market.

B2B Payments Service Market Size Transition and Forecast*



Our share in the BtoB payments service market (Our estimate*1)



*Source: Yano Research Institute "B2B Payments Service Market in Japan: Key Research Findings 2024, " (published July 1, 2024)
Note 1: Based on transaction volume of service providers
Note 2: Figures are based on estimate for FY2023 and forecast for FY2024.
*1 Our estimate based on BtoB payment service market size data.

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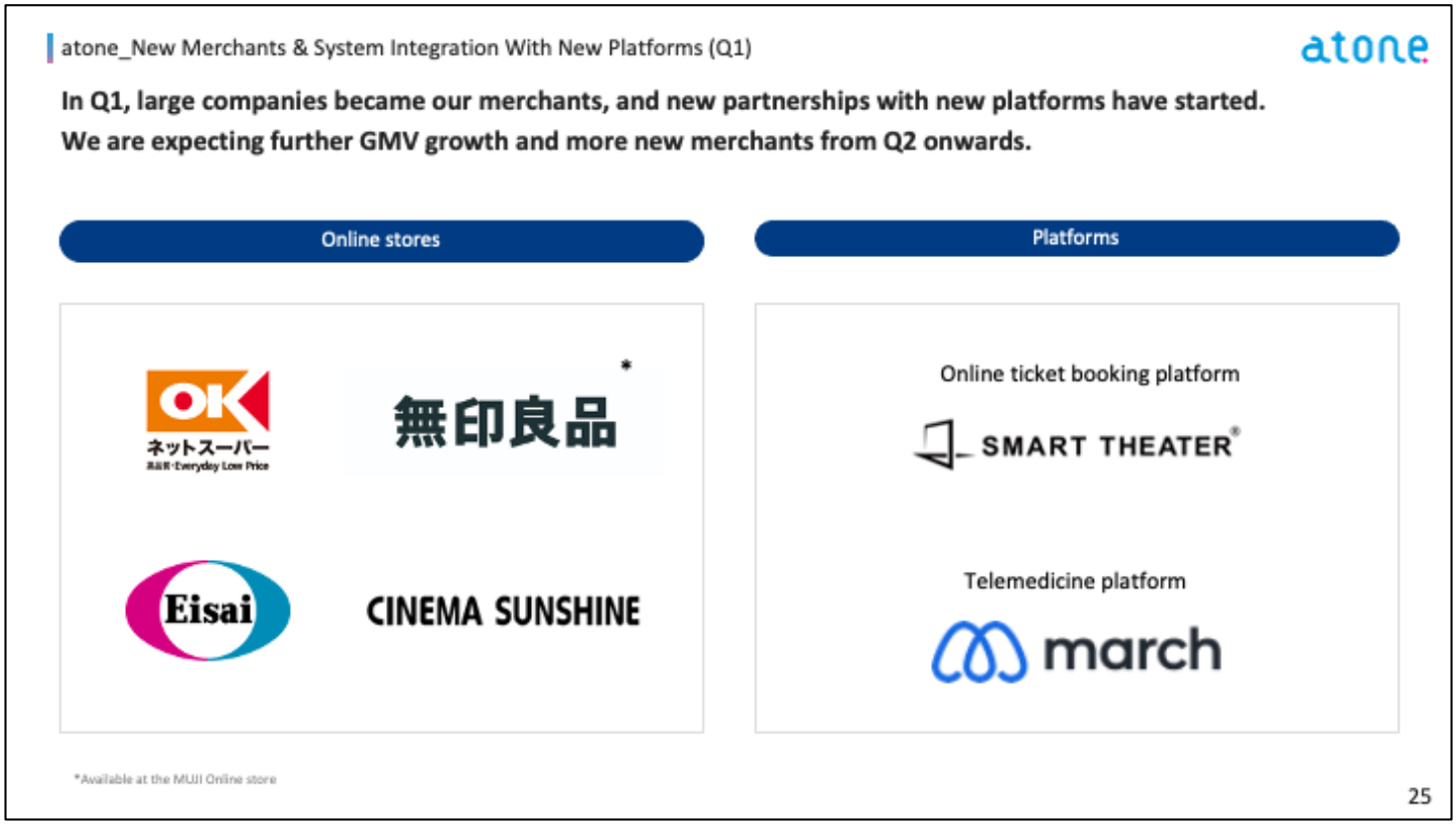
The BtoB payments service market has a great potential and is a growing market that is expected to replace traditional payment methods such as checks, bills, and cash.

We have been already the No. 1 market player, and what is more, the market share has been on the rise for the past several years and our estimate indicates the current share to be over 70%.

Additionally, inquiries are increasing. Therefore, we are confident that we are in a good position to outperform our targets for the current fiscal year and even our in the medium-term plan.



This slide is about BtoC atone. We have strengthened our sales structure, and our efforts have started to bear fruit.

In Q1, large companies in the categories of supermarket, lifestyle, and entertainment became our merchants.
MUJI is our most recent merchant and has just launched a user acquisition campaign, which will help us enhance atone user base.

Furthermore, the ongoing system integration with platforms from last year has been is expected to further accelerate the acquisition of new merchants.

This is the end of our results briefing for the three months ended June 30, 2024.
Thank you for your attention.

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