Net Protections Holdings, Inc.

Q&A of Financial Results Presentation for the Six Months Ended September 30, 2024

November 14, 2024

※This is a transcript of the Q&A. The main part was disclosed on the day of the results briefing.

Question & Answer

Participant [Q]: If you break down the upward swing in H1 operating profit into the administrative fees for late payments and the improvement of the delinquency rate, how much would each be?

Shibata [A]: I compared the initial full-year plan with the upward revision this time, and I see that the administrative fees for late payments improved by over JPY200 million compared to the original forecast. Also, in terms of the delinquency rate, the improvement here was about JPY700 million.

The billing-related costs were originally conservatively estimated to be around JPY400 million.

Watanabe [A]: Yes, that's right. I think it is just as he said.

Participant [Q]: What was different from your expectations that caused the impact of the administrative fees for late payments to be better than expected?

Shibata [A]: I think the difference was due to the fact that we were conservative in our estimates.

Watanabe [A]: Yes, I think we were a little conservative in our forecast because it is a new implementation.

Participant [Q]: Is the improvement in the delinquency rate due to macro-environmental factors or were your controls more successful than expected?

Shibata [A]: This may sound like a bit of self-promotion, but I think it is mostly due to internal factors, or rather, the fact that each business unit worked very hard.

I don't really get the sense that the macro-environment has improved a lot. I believe that the reason why NP Atobarai, or NP Kakebarai, which have been revived, are now improving is not because we are just riding the wave, but because we are analyzing the situation thoroughly and taking the appropriate measures.

Therefore, I am confident that this is exactly where the strength of our team members and the strength of our corporate culture are reflected, which lead to the competitive factor.

Participant [Q]: Digital salary payment has started in Japan. Do you think that the diversification of salary receipt methods may affect the collection rate of your BtoC BNPL business in any way?

Shibata [A]: We are conducting various surveys and looking into the situation here, but at this point I don't think this will have much impact on the collection rate in any way. However, we would like to continue our research here.

Participant [Q]: What have been factored into the JPY300 million revision to H2 gross profit in the revised plan and to what extent?

Shibata [A]: First of all, the collection of administrative fees for late payments is running slightly above what we originally anticipated, so we have factored that in.

Watanabe [A]: Also, the cost ratio is getting better.

Shibata [A]: Yes, this figure takes into account what is certainly expected at present.

Participant [Q]: I believe that GMV slightly exceeded the plan in H1 as well, but am I correct in understanding that the reason you left GMV unchanged is because the increase was not that large? Also, what sales pipelines do you currently expect in H2 and next fiscal year?

Shibata [A]: GMV is affected by macroeconomic factors to some extent, and in that respect, I think it is appropriate to be conservative to a certain extent even if the current situation is somewhat favorable. We consider our situation to be not bad at all.

Regarding the sales pipelines, of course, it is difficult to name the companies, but we have a certain number of major pipelines lined up in each business, and I am personally looking forward to seeing how many of them will be realized in H2 or next fiscal year.

Watanabe [A]: I hope you understand that the GMV is going well.

Participant [Q]: What kind of merchants are currently driving growth?

Shibata [A]: Well, I don't think the top merchants have changed much in each business segment, but each company has been growing their existing stores, and I think they are having an impact or contributing to our growth.

In the summer, MUJI introduced atone, and we are grateful that atone is being used very well there.

Participant [Q]: I believe that marketing expenses have been optimized for some time now, but would you please explain the background behind the increase? Has the marketing approach changed between now and H2?

Shibata [A]: Originally, we were aiming to make a solid profit this period, so we significantly minimized our marketing expenses, which can be said to be at an appropriate amount. However, we also feel that we may have missed out on some opportunities.

Therefore, we have made the decision to make this additional investment of approximately JPY300 million in the belief that it will be possible to realize and implement such an investment with a high ROI, while we are able to generate a solid profit in this way.

Participant [Q]: If gross profit were to exceed the previous forecast in H2, what would be your view of strategic investment? Will the extra amount be used for investment, or maintain the strategic investment limit of JPY300 million?

Shibata [A]: We are still considering this, but we need to make certain preparations for marketing investment and other activities to achieve a high ROI. So, in reality, it may be a little difficult to immediately invest when there is a slight upswing. Therefore, we will probably maintain the JPY300 million amount, and if there is an upturn, it will come out as profit as it is.

Participant [Q]: What is your thinking for the next fiscal year? Is there any change in the assumption in the current medium-term management plan that operating profit will increase by JPY500 million in the next fiscal year compared to the fiscal year ending March 31, 2025?

Also, if we assume that JPY300 million will be used for strategic investments this fiscal year, and that strategic investment expenses will float next fiscal year, can we consider JPY800 million to be a factor in

the increase in profit next fiscal year that we can see at this time? I have a feeling that this will be a factor in the increase in profit for the next fiscal year that we can currently see, but what do you think?

Shibata [A]: Although we have not yet had a full discussion about the next fiscal year and beyond, I think that we will be able to achieve the growth in GMV that we have announced in the current medium-term management plan, and I think that we can expect a solid gross profit there. Therefore, I think this will be a major factor in the increase in profit.

Then there are the SG&A expenses, in contrast. Although the increase in GMV does not require significant SG&A expenses, we would like to discuss how much we should invest in order to accelerate future growth.

Watanabe [A]: Yes, that's right. We will consider additional investments while monitoring profits, so we would like to maintain the increase in revenue and profit.

Participant [Q]: GMO-PS are planning to accelerate the rate of revenue growth in the next fiscal year through BNPL and Kakebarai. How is the competitive environment?

Shibata [A]: I don't know what to expect from other companies, I don't feel like it's always a competition everywhere at the moment, so I don't know what the strategy is yet, as far as I can see on the ground.

Participant [Q]: If other companies in your industry compete with you to expand their market share, will you be willing to tolerate some bad debts and go for volume?

Shibata [A]: I don't see many players who are likely to initiate this competition at this point, and I think that most companies, including us, are currently aiming to make solid profits. If we have a conflict with another company that is willing to tolerate bad debts and take on volume, then we will make a strategic decision again. But right in front of us, we are in a situation where we don't really feel that this is necessary.

However, if necessary, we will naturally consider how far we can go in terms of profit and how we can respond to the competition.

Participant [Q]: If future regulations based on the Installment Sales Act impose obligations to manage merchants and use credit information agencies, will this have any impact on your business? Also, will your relative strength be lost?

Shibata [A]: Well, let me see. I think we are far away from the Money Lending Business Act, but I think the Installment Sales Act is close to a certain extent.

On the other hand, we are doing a good job of merchant management, either through the Japan BNPL Association and ourselves. So, if a lot of issues about this start to appear in the media, there may be stronger demands for this obligation, but I think we are still far away at the moment.

I think that the obligation to use credit information agencies is to prevent excessive credit, but I think that we are quite far away from that. Especially for NP Atobarai, which has the largest volume, the upper limit is JPY50,000 and the average unit price is JPY6,000 ~ 7,000. Therefore, we believe that we are considerably far away before it would lead to excessive credit requiring us to use credit information.

Participant [Q]: In light of the rapid improvement in profit this fiscal year, could you update us again on the outlook for shareholder returns?

Watanabe [A]: Management and I are aware that shareholder returns are very important.

We would like to actually provide returns while keeping an eye on profit and investments, so I cannot tell you how much it will be at this point, but I can promise you that this is an important theme that we will give careful consideration to in our management.

Participant [Q]: What would be the indicators you would focus on when considering shareholder returns? Is it ROE or equity capital?

Watanabe [A]: Since we will be profitable for the remainder of the current fiscal year, I do not think we are in a position to set firm indicators yet.

As I mentioned earlier, we will consider the portion of profit to be invested and the portion to be returned, depending on the situation at the time.

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