

1Q FY12/2023 Business Results Briefing

Q&A [Summary]

1. Why did the average monthly license sales for 1Q FY2023 became flat, while the quarterly trend in FY2022 rose constantly?

The number of cloud-based software users is steadily increasing from the previous fiscal year. However, this includes users with relatively low unit prices, and since the total number of cloud-based software users is small in the early stage of the mid-term management plan, the average monthly sales may decline slightly depending on the sales mix. However, monthly sales from cloud-based software users acquired in FY2022 did not decline.

The Company believes that average monthly license sales will continue to rise toward the FY2024 target of 23,000 yen per month when looking at the longer time span.

2. According to the Company's plan, the transition to cloud-based software is expected to accelerate in the latter half of the plan. However, are the transition barriers same for clients who switch in the early stage and those who switch in the latter half of the plan?

The Company conducts client-oriented sales activities, so sales teams keep in touch with their clients often. Therefore, they already finished explaining cloud-based software in advance to clients who switched to the packaged software under monthly contracts. Since they do not start sales activities after the enhancement and addition of functions for cloud-based software are finished, the Company believes that there is a low risk for the delay in the transition of existing clients. Also, the Company does not think price will become a major obstacle for the transition, since clients are already adopting contracts with higher unit price when switching to monthly contracts for packaged software.

3. In which service category are the sales of monthly contracts for packaged software included? Is there any room for the unit price to rise further when clients switch to cloud-based software?

Sales for packaged software under monthly contracts are included in the service category of "Cloud service."

Packaged software and cloud-based software are totally different products, so there is room for further increase in unit price.

The main functions of packaged software are client management, sales management, and the preparation of estimates, which are mainly used by mechanics and management. On the other hand, cloud-based software can be used like an Enterprise Resources Planning (ERP) system by linking it to other systems, so it can be used throughout the company, including accountants and front desk, for example. Therefore, the licensing system is redesigned for the usage by multiple people.

Majority of clients who use the packaged software intend to keep using only the conventional functions in the cloud-based software. Therefore, the Company is consulting with major companies (*shops with ten or more mechanics are classified as major companies) in order to increase the users who are fully utilizing the software as a

total management system. The larger the companies' business scales are, the more benefit the clients can get from using the software and improving their business operational efficiency. Due to this characteristic, the Company expects major companies who are strongly willing to invest in improving their earnings to pay higher unit prices.

4. What functions are users of packaged software under monthly contracts waiting for?

Also, is it possible to accelerate the enhancement and addition of those functions?

Auto maintenance shops use a combination of devices of various manufacturers for their jobs. The Company's cloud-based software has a common platform that can handle any manufacturer's interface. However, since adjustments are required for each manufacturer, linkage functions for each device are implemented in cloud-based software from the high demanded manufacturers' devices in order.

In addition, as regulations change, each manufacturer needs to replace the model of devices to correspond to the new regulations. It is anticipated that the model change of each manufacturer will take time until the end of the transitional period. For this reason, the Company and our users are waiting for the replacement of the models. Although we can accelerate switching of some users to cloud-based software by accelerating the enhancement and addition of demanded functions, the Company anticipates the turning point will be next year, after the transitional period ends.

5. Misconducts by auto maintenance shops and manufacturer-affiliated car dealers are recently picked up on the news. Since they are caused by poor working environment, efforts to improve the environment have begun. Is this trend favorable for the Company?

Also, are car dealers your clients before cloud-based software were launched?

The Company recognizes that the risk of misconducts becomes higher when companies whose main business is automobile sales impose excessive quotas for automobile sales and insurance on employees. Also, some companies who conduct auto maintenance and auto body repair services as second businesses use separate systems for each business, and force employees to work in less efficient environment. Since the Company's software covers all of these businesses, we recognize it is an attractive service for companies who want to improve their system efficiency.

Manufacturer-affiliated car dealers often have their own core system, but by linking them with the Company's cloud-based software via API, it can be used as a single system. In addition, the Company also has a third-party program, which allows other companies to customize our software for individual clients while we focus on our core business. Due to these changes, even though car dealers used not to be the Company's main target, we now plan to introduce our cloud-based software to them in the future. Although the Company does not set a target for this measure, we plan to disclose the figures once we acquire certain number of car dealers in the future.

6. Regarding sales of packaged software, "Packaged system" exceeded the Company's expectation in FY2023 as in FY2022. Is not the forecast too conservative? Will the sales of "Packaged system" really decline like figures disclosed in the mid-term management plan?

The initial forecast was not too conservative. The reason the results exceeded the Company's expectation was that we acquired clients scheduled in the second half of FY2023 ahead of schedule. This will be a positive factor since the Company can use extra resources to acquire new users in the second half of FY2023, but we did not underestimate the number of contracts to be acquired in FY2023. The reason sales of "Packaged system" exceeded the Company's expectation throughout the year in FY2022 was due to sales activities in unplanned areas, which was conducted by sales team in charge of the non-mobility sector who strived to compensate for the Company's loss as much as possible. It is difficult to incorporate these extra sales activities into the Company's forecast beforehand.

The Company's main clients belong to the mobility sector, and the variety of cloud-based software for mobility sector will increase in the future. As a result, "Operation and support service" sales are expected to decline more than the fluctuation of "Software sales" sales, so there is no doubt that "Packaged system" sales will enter a downtrend. However, since sales of packaged software for non-mobility sector will continue, "Packaged system" sales will not disappear completely.

7. Regarding industries where cloud-based software is not currently provided, does the Company sell packaged software even for mobility sector? Would not that delay the transition to cloud-based software in a long-term perspective?

Yes, the Company continues sales of the packaged software to auto parts dealers, auto recycle shops, car dealers, auto glass shops, radiator shops, and auto electrical equipment shops. However, regarding the contract period and sales method, the Company adjusts them after explaining clients that the transition to cloud-based software will be conducted in the future, so that the transition to cloud-based software will be completed by FY2028. Therefore, the Company recognizes that the increase in the number of packaged software users is a positive indicator because it means that the number of clients who will switch to cloud-based software in the future is increasing.

8. If the sales team in charge of non-mobility sector were to sell cloud-based software for the mobility sector, would it be possible to advance the cloud transition ahead of schedule?

Same sales methods are used for both the packaged software and the cloud-based software, and we have professionals in each sales team, regardless of the industry.

Also, the pace of progress in cloud transition depends largely on the number of users whose lease contracts for the packaged software expire among the industries in which cloud-based software was released. This is because clients will switch to cloud-based software AFTER the expiration of the lease contracts for the packaged software. Therefore, even if the Company increases the number of sales team in charge of cloud-based software, we will not be able to advance the cloud transition, so we already have enough sales resources for selling cloud-based software.