



## **Net Protections Holdings, Inc.**

Q&A of Financial Results Presentation for the Three Months Ended June 30, 2023

August 14, 2023

※This is a transcript of the Q&A only. The full transcript was already disclosed on the day of the results briefing. Please see [here](#).

## Question & Answer

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**Moderator [Q]: BNPL services are becoming a difficult business to make money, with competitors entering the market one after another. How do you think about this perspective?**

**Shibata [A]:** Especially one or two years ago, there was a succession of entrants, and at times I felt that competition was very fierce, but on the contrary, some have already withdrawn. I have the impression that there are more businesses that are moving toward credit cards or installment payments than toward safe BNPL that is easy for anyone to use, and I don't feel that it is very difficult to compete, whether it is atone or NP Atobarai.

In addition, for example, looking at the gross profit margin for the last four fiscal years, the gross profit margin for NP Atobarai has not declined that much, and there has not been an increase in the number of personnel in the back office, such as in the call center, so profitability has been secured, especially for NP Atobarai.

On the other hand, atone is currently in the red in terms of operating income, but we have just increased the number of staff and expanded investment, so we believe that the balance can be properly reversed when GMV expands in the future.

**Watanabe [A]:** I would like to add a supplementary explanation. I would like to talk again about our business in the portfolio picture on page 14. We often receive questions from investors and others who are concerned that NP Atobarai on the lower left of this picture will not return because the growth rate is already low, especially since the negative growth was affected by the Pharmaceutical and Medical Devices Law.

As I explained earlier, the Pharmaceutical and Medical Devices Law has already run its course and our business is developing positively. Also, if you look at the picture of this portfolio, you will see that the NP Atobarai has a high profit margin, and although the growth rate is moderate, the area will surely generate profits, which is often referred to in the portfolio as the money tree.

The funds obtained from this process will be invested in atone and AFTEE, so-called problem children or growing areas, in an effort to turn them around. NP Kakebarai, which is in the middle, is currently growing at a very high rate, and profits are expected to grow rapidly. This will become the second pillar next to NP Atobarai. I hope you will understand that our strength lies in the fact that these four businesses are included in our portfolio.

**Moderator [Q]: atone's payment share is increasing with the launch of BNPL per purchase and there will be major operations in H2, so it seems promising, but what concerns, if any, do you have?**

**Shibata [A]:** As for atone, we were originally concerned about how much of the BNPL per purchase share we would be able to obtain. The results of 20% plus settlement share are very encouraging data, as we had expected.

Here, too, in the very sales office, these numbers are already starting to show as data, the temperature of business is raising. In addition, it is said that at the alliance partners for example, it is becoming easier to talk about connecting atone as well, and things are moving forward. In addition, we have been able to strengthen

our sales personnel, and we are maintaining a high gross profit margin on e-commerce. So, I don't feel any major concerns.

Also, several very large merchants are in the process of putting in operation now. So I expect that if they can make a strong launch and further increase their presence in society, they will really accelerate. Therefore, if there is a concern, it is that, although we have high expectations, we are not sure when we will be able to really show the figures properly, and we would like to achieve this speed as soon as possible.

**Moderator [Q]: What specific factors contributed to the one-time allowance? You mention that the impact will be offset by cost containment, but what costs will be contained?**

**Watanabe [A]:** First, regarding the factor of the one-time allowance, there was a slight problem with the selling method of the merchants who sell on a regular basis. Users have also complained to the Consumer Center, and we have been trying to get them to correct the situation, but the correction has been ineffective.

Actually, there were several cases, but there was one case where that did not work, so we have cancelled the credit to the user and switched to receiving it from the merchant. We have confirmed with the merchant and found that it is difficult for us to collect the credit, so we have decided to draw down credit on a case-by-case basis. As I mentioned earlier, there have been no other similar cases, so in that sense, we consider this one to be transitory.

As for the cost containment, we are now moving a company-wide initiative to cut the expenditure at all costs. We are moving forward strongly to reduce fixed costs and leverage operations to bring the Company into the black in the next fiscal year.

**Moderator [Q]: What is the timeline for the confirmed JPY 5 billion order backlogs to be operational?**

**Shibata [A]:** We assume that it will be from the end of Q2, but it could be around Q3. I think that's where it will be generally operational. In addition, we expect that in Q3 and Q4, some of the JPY 13 billion that we are considering in the bottom row of the p.15 will start to contribute, so we expect that it will start to show improvement, especially in GMV, more clearly around winter in timeline.

**Moderator [Q]: How does the economics of card payment compare to previous businesses? There are already many similar services out there, what differentiators, if any, do you have compared to other companies?**

**Shibata [A]:** We have just started testing, but in our case, we are the business of taking all the risks of BtoB buyers, so we have selected those who have used NP Kakebarai many times and are suggesting to use card payment to them. I think the risk management is also very easy to do, and even now, we are already seeing a certain amount of use, so I think that if that is expanded, it will be a factor that can be added to the gross profit area.

Therefore, we have a network that already has potential users, and we have already taken the accrual risk for the entire company. These are in fact our major differences from other companies.

**Moderator [Q]: On page 16, regarding the pipeline that was disclosed before, can you tell us how was it in Q4?**

**Shibata [A]:** About half of the JPY 6 billion in this list was in operation. After that, I think the timing was such that the new accumulation mentioned earlier was gradually building up.

**Moderator [Q]:** As for NP Atobarai, would it be correct to take the GMV growth rate of 3.8% as the actual value in this quarter where the impact of the Pharmaceutical and Medical Devices Law has run its course? Please let us know if there are any upside or downside factors.

**Shibata [A]:** I think it will continue to be moderate growth, but it is not weak even in the current market, or rather, e-commerce itself is strengthening a little, so I see NP Atobarai goes out a little higher as the actual value.

**Watanabe [A]:** The e-commerce market as a whole is weak, and according to the reports we have received from outside sources, the growth rate of e-commerce market in Q1 was less than 3%. However, in the long term, the e-commerce market is still expected to grow in Japan, and according to the report, growth of 7% or 8% is expected, and we would like to grow to surpass that growth.

**Moderator [Q]:** What is the expected impact on your company's P&L when the atone member transfer website is fully deployed?

**Shibata [A]:** At the stage of release, we are not thinking much about generating revenue here, but rather we are concentrating on how to activate the site and transfer customers to other stores. So, there will be no impact on P&L.

However, the more customers we can transfer there, of course, the more our GMV will grow, and the biggest thing is the total number of customers we can show, which will increase our success rate in new sales. I think that it will take six months or a year for this site by itself to generate revenue, but I expect it will have a very large indirect impact.

**Moderator [Q]:** Is it likely that the timing of operation of major merchants in BtoC, which has been the focus of attention since last year, will proceed as planned?

**Shibata [A]:** We have made progress on the system development, and I think that the project will proceed as planned, but there may be some delays due to the circumstances at the other end.

**Moderator [Q]:** What is the change in the delinquency rate in Q1? Please explain BtoB and BtoC, respectively.

**Shibata [A]:** Now, as you can see here, the timing was actually not constant good as an delinquency rate for both BtoB and BtoC. In both cases, we have seen a slight up in delinquency rate. However, we are able to control it to a certain degree by strengthening credit screening and collections, and we believe that we are already in a position to do so. I believe that the timing of the rise was transitory or temporary.

**Moderator [Q]:** With the increase in the number of corporate bankruptcies, will this have any impact on credit management for BtoB businesses?

**Shibata [A]:** This is exactly the effect on credit management, including that the Q1's delinquency rate has slightly increased in the BtoB. We have heard from the field that there have been some cases where a stable payer has gone bankrupt and has not paid. However, now, credit management, including this situation, is getting better again, so we assume that the delinquency rate will not be rising steadily and rapidly in the future.

**Moderator [Q]:** I heard that Japan Net Takata introduced NP Atobarai. What is the current positive impact, and what is its positive impact this fiscal year?

**Shibata [A]:** Japan Net Takata is already in operation. We are still discussing the possibility of introducing NP Atobarai in other fields, although now it is only used for TV shopping. Depending on the result of the negotiation, we expect to see a larger impact as well.

**Moderator [Q]: What is the impact of the alliance with Sony Payments on your business performance?**

**Shibata [A]:** There is a certain impact that we receive a certain number of referrals through this kind of partnership, and we also believe that it would be really great if we could connect with payment service players, or PSP operators, in terms of the system, so we are continuing such discussions with various players.

If we can connect them well with atone in particular, the impact will be very large, so this is the first step, and we have high expectations for the second step.

**Moderator [Q]: Looking at the figures for this quarter alone, the growth rate of GMV, etc. is not high for an increase in the number of employees, but could you please explain how labor productivity has improved?**

**Shibata [A]:** The number of personnel has been increasing, and the number of projects or business meetings has been increasing along with it, so in that sense, as for the improvement of productivity, I think the results will be seen, only after the GMV is actually increased. Therefore, we increase the number of people first, and get the operation up and running. It will come out low in terms of productivity at first, but I believe we can make improvements from there.

Also, with the increase in the number of full-time employees, we will be able to cut costs, such as those for sales, which we used to ask outside companies to handle. We are very conscious of this aspect of labor productivity, and we will make sure to invest in areas that can directly contribute to growth, while reducing those areas that cannot contribute to growth.

**Moderator [Q]: Regarding BtoB, I understand that you will control the delinquency rate to a low level in the future, but I wonder if there will be any slowdown in GMV growth as a result of this.**

**Shibata [A]:** This is also not at all drastic, such as reducing the credit approval rate from 97% to 80%, so we are not planning to hit the brakes so hard that it will have a GMV impact. If we go too strict, we lose business. In the end, the credit control and management is one of our strengths, and I think it is sufficient to stop transactions where there is a high probability of delinquency payment.

**Moderator [Q]: What were the Q1 results in terms of sales, operating income, and EBITDA compared to the Company's plan? Also, at this point, is it possible to achieve the plan for H1 by only the cost reductions?**

**Watanabe [A]:** I will answer this one. The sales figures are such that they exceed the internal figures. Operating income has been reduced slightly due to the individual provision mentioned earlier. EBITDA, likewise, has been cut off for that, but we judge that apart from these factors, the Company overall is on an upward trend in profit growth.

**Moderator [Q]: In the BtoB market, there are competitors in the accounting software field. Would it be meaningful for your company to form a business and capital alliance with a major accounting software company so that you can obtain financial information on your creditors?**

**Shibata [A]:** I think it has a certain significance, of course, but the structure of BtoB is such that the sellers are of a certain size and many of the buyers are very small companies, so I wonder how accurate the financial information is for these companies. I am not sure if I should believe that so much. However, I believe that the network is very broad and significant, and of course there are certain points of contact, so we will continue to talk with them and see when the time is right.

**Moderator [Q]: What is the sales profit structure and take rate for your service of financing buyer companies?**

**Shibata [A]:** Our BtoB, NP Kakebarai, is the business of receiving commissions from the seller companies. On the other hand, as for what we are planning to do in the future, we are thinking of a business where we receive an additional commission from the buyer company, such as the credit card payment mentioned earlier, which is the same as this one. We will be looking at the scale of the project, as well as the risk involved, and how much take rate and margin we can actually receive. However, we believe that the potential is very high.

**Watanabe [A]:** In BtoB, there is a tendency for merchants to have very strict requirements for service fee rates. We do not want to see this decline doing nothing, but rather to create cash points from the buyer's side to increase the rate of cash flow as a whole business.

**Moderator [Q]: Please let us know if there are any changes in competitive activity.**

**Shibata [A]:** I don't think there has been any noticeable change in any of our businesses, or rather, even if we compete, we have hardly lost anything. In atone, except for the cases where there is a strong need for installment payments, I think we can compete with most of the competitors based on the high utilization rate and other factors. In the BtoB market, BtoB is a little less likely to compete in the first place, but I think it is almost always possible to win.

At least, we are beginning to realize that there are no players in the BtoC and BtoB markets who are seriously pursuing our aspiration, or at least NP's aspiration, that anyone can easily and safely use BNPL.

**Moderator [Q]: I believe that interchange fees will be monetized through virtual card at atone, but how do you see this contributing to business performance?**

**Shibata [A]:** We will continue to conduct tests and also look at the figures for delinquency rate, but I think that our strength is that we can offer atone, which originally took the risk, to loyal customers, so I think we can keep the risk to a certain level. The virtual card can also be used at large stores that we are not currently providing our services, so we are aware that this type of card will be used to a certain extent in the near future.

Also, in the near future, we are still only offering it to a very small number of people, but the numbers there are not bad, so we are talking about offering it a little more widely. However, I don't think it will go that far in the short term, that it will be a huge hit to performance.

**Moderator [Q]: Some businesses are withdrawing from BNPL, how will this affect your company?**

**Shibata [A]:** Actually, one company withdrew from BNPL a few months ago, but we received a lot of requests from stores that wanted to continue BNPL, so we believe we were quite successful in sales there. In addition, after the withdrawal of the finance companies, the needs from e-commerce shops that still want to continue with BNPL will come to us, and we will also provide our service to them, which is a positive for us.

**Watanabe [A]:** I still think the most common reason for withdrawals is that it is difficult to control delinquency rate. In the case of our company, we have been able to control this situation so well that we have reached a point where we can generate gross profit on a unit basis and by transaction, and we recognize that this is our greatest strength.

**Moderator [Q]: Delivery companies are facing the 2024 problem. Is there any sign that NP Atobarai will be able to take over the market share from cash on delivery?**

**Shibata [A]:** Recently, we have been hearing more and more from e-commerce businesses that they want to discontinue cash on delivery, since they are unable to exchange money and goods properly and have to bear the cost of doing so.

In certain cases, transport companies see this as a challenge. We believe that BNPL is a very good fit for users to migrate from cash on delivery. We believe that if we have merchants introduce the system and talk with us, it is quite possible that the market share will shift from the cash on delivery portion.

**Moderator [M]:** Finally, if you have any additional explanations, please have it.

**Shibata [M]:** We believe that there is a large room for growth, especially in atone. Investment went high and P&L doesn't look good, however, atone has finally succeeded in the BNPL per purchase, and I think we have almost completed the expansion of the system, so I personally have very high expectations for the future.

In addition, there are several major projects that are about to go into operation in near future, and we have been making an increase in the number of contacts recently, and we are also re-applying for projects that we had contacted in the past but did not close, so we expect our pipeline to continue to grow.

We do not see any major risk in atone, so we are going to step on the accelerator and it will contribute significantly in H2 or next year. As part of our original plan, we had hoped to generate a solid profit from atone, and we believe that we are getting closer to that very picture.

I would like to do my best even more. Thank you.

**Moderator [M]:** Thank you very much. This concludes the financial results presentation of Net Protections Holdings. Thank you very much for watching until the end.

**Shibata [M]:** Thank you very much.

**Watanabe [M]:** Thank you.

[END]

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### **Document Notes**

1. Portions of the document where the audio is unclear are marked with [Inaudible].
2. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.

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