PLAID, Inc.

Q3 FY 9/23 Financial Results Briefing

August 8, 2023

Presentation

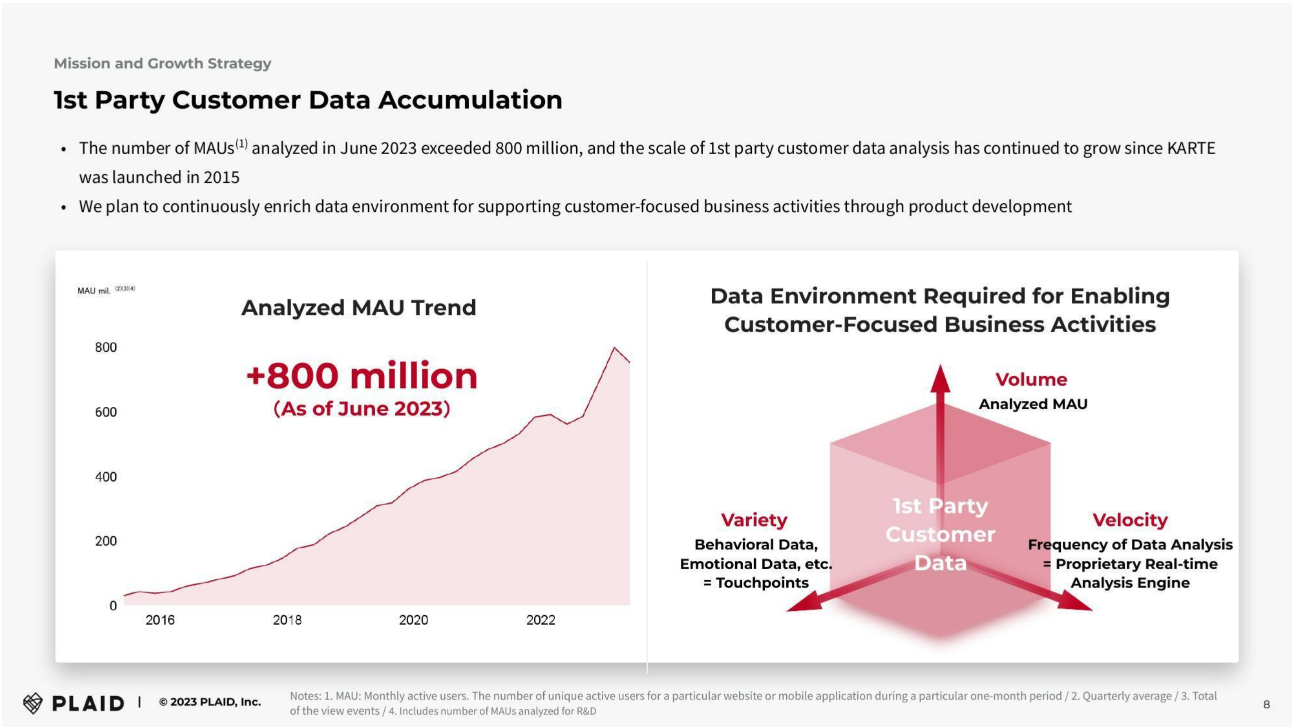
Moderator: Thank you very much for coming. We will now begin the financial results briefing of PLAID, Inc. for Q3 of the fiscal year ending September 30, 2023.

Today's presentation contains forward-looking statements. These statements are not guarantees of future results and involve risks and uncertainties. Please kindly understand that actual results may differ materially from these forward-looking statements due to changes in the environment and other factors. In addition, please read this note carefully.

There will be a question-and-answer session after the explanation. Today's explanation will be given by Muto, Director and CFO. We will now start.

Mr. Muto, please start.

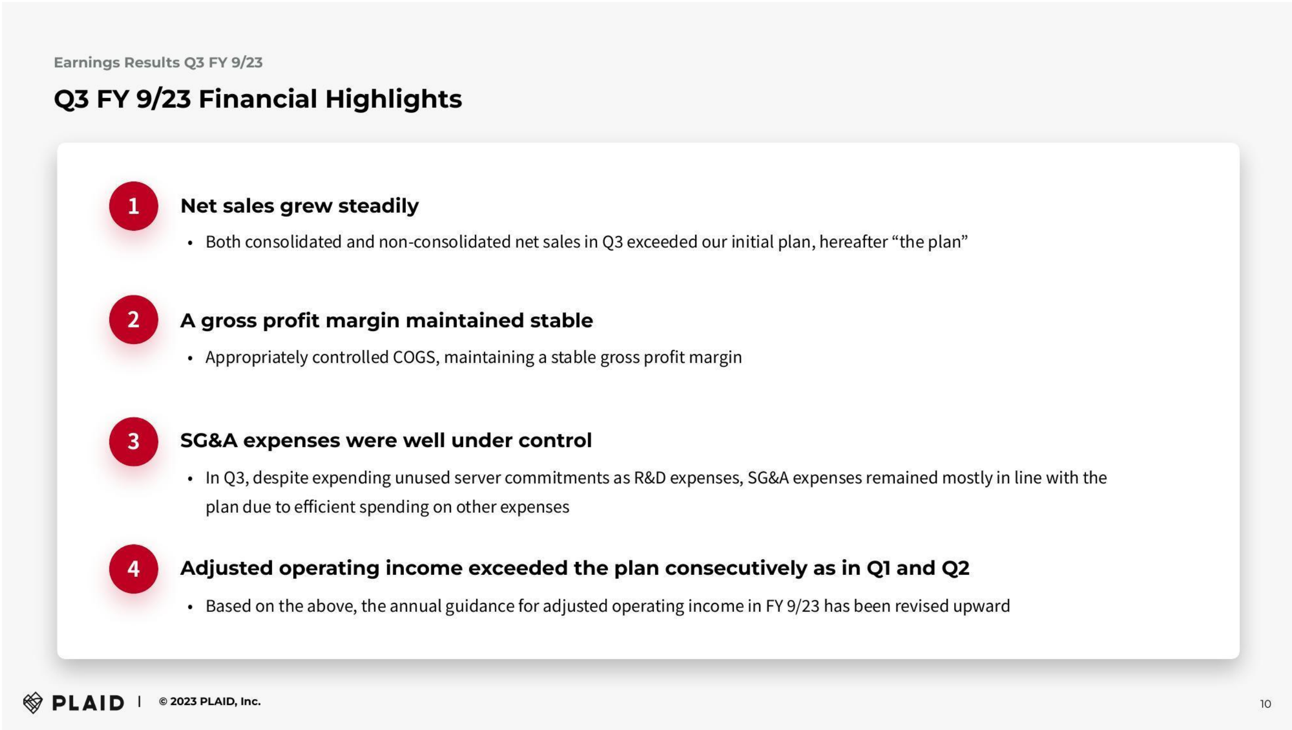
Muto: Yes, thank you. Thank you all for coming. Now I would like to begin the briefing of the Q3 financial results.



Please skip to page eight. The first part of the material, describing mission and growth strategy, has not changed, so I will skip the explanation.

First, please take a look at the analyzed MAU trend. The Company maintains a level of about 800 million MAUs. You may perhaps be concerned about the recent slight decline. This was due to the impact of a large cancellation. Since the cancellation was large in MAUs compared to the amount, that one cancellation case had a large impact on the overall MAU trend.

As I will explain in more detail in a later section, the churn or down-selling was below the plan in terms of the amount, and the contract retention rate was better than planned, so in general, the downside was well controlled and MRR has been growing steadily. However, this MAU section may be the one that appears to be slightly lower due to such effects.



I will now talk about the numerical side of Q3, starting on page 10.

First, I would like to share with you four highlights of the current financial results.

Net sales continued to grow steadily. Both consolidated and non-consolidated net sales exceeded the plan.

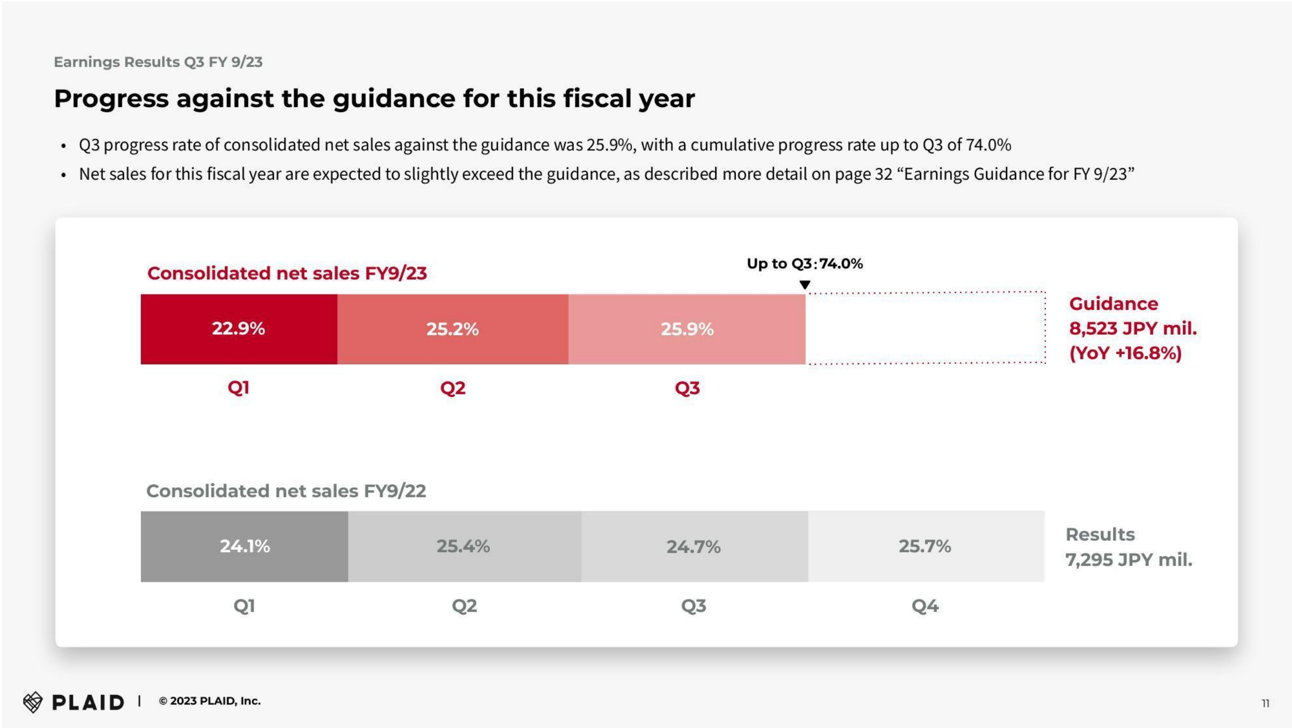
Second, gross profit margin has remained stable. While the impact of the exchange rate is significant here, the exchange rate has been stable and there has been no major change in the situation.

Third, SG&A expenses were generally in line with the plan released at the beginning of the year. This is actually a very positive aspect. At the beginning of this fiscal year, I mentioned that there would be JPY290 million of the server commitment unable to consume. This is due to the introduction of the new analysis engine, and this cause itself is also positive, but I told you that as a result of this situation, the commitment was unable to consume.

We planned to consume that regularly in Q1, Q2, and Q3 accordingly, but we could not consume in Q1 and Q2, so in Q1 and Q2, SG&A expenses were smaller than expected and operating income was also above the estimation. In contrast, we had to spend a large amount of money in Q3, but in reality, we did not spend too much here.

One factor was that the commitment unable to consume itself was reduced because the various existing server-related costs were allocated to it. The remaining portion has not been wasted but used for R&D. Therefore, in Q3 itself, we were in a positive situation, in that SG&A expenses were contained greater than originally expected in spite of the period lag from Q1 and Q2.

Next is conclusion, or rather, the fourth item. As for adjusted operating income, as you can see here, the Q3 results also exceeded our forecast, so we have revised our full year forecast upward as described later.



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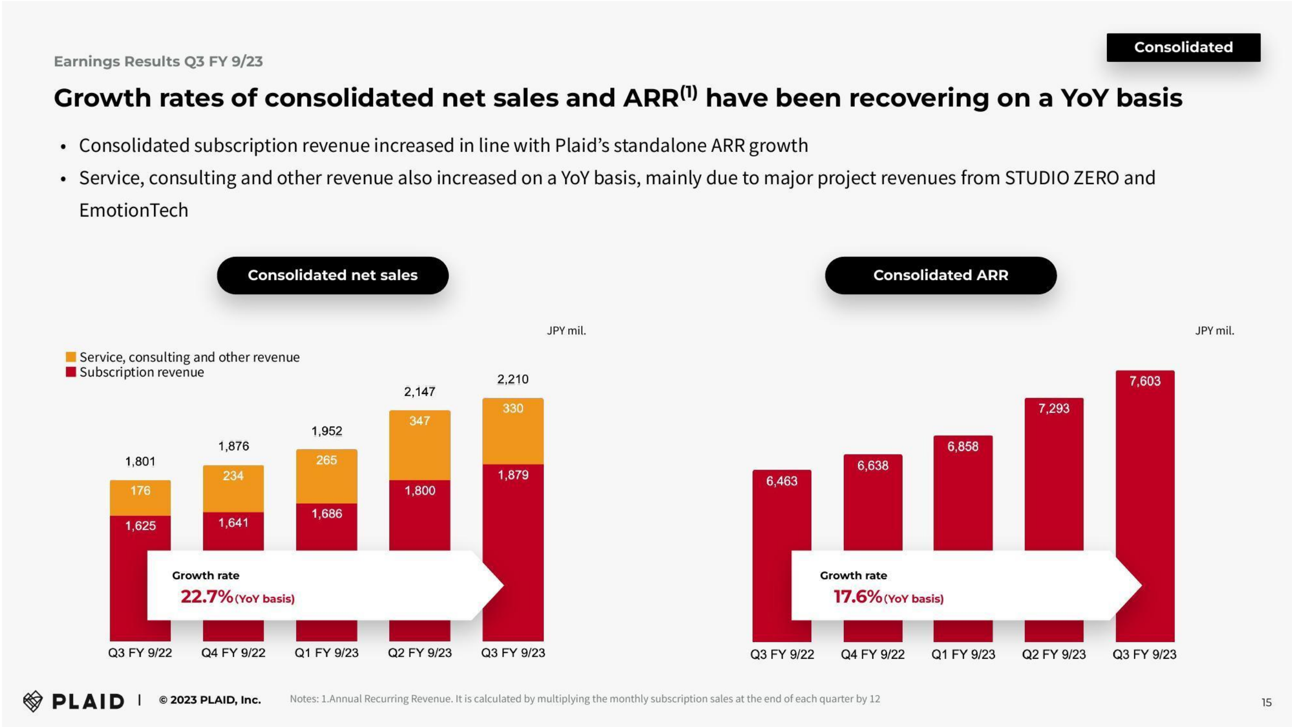
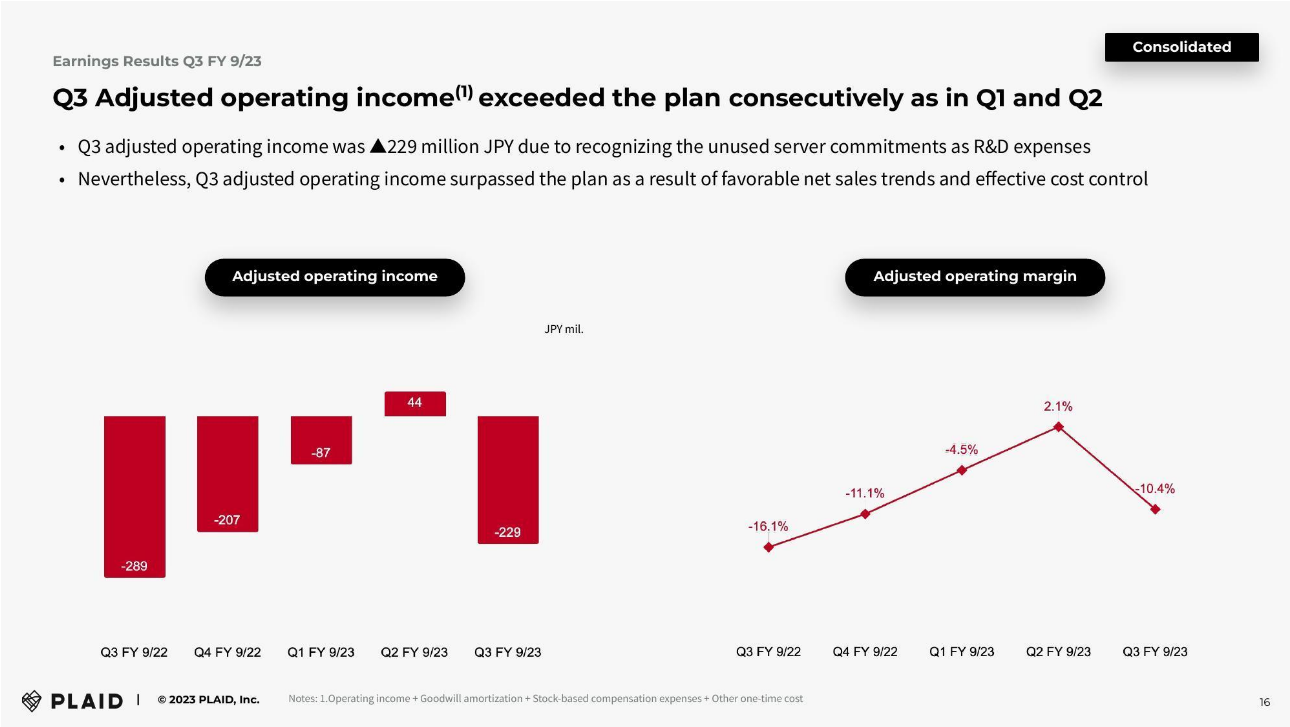
Q3 progress rate of net sales against the guidance was 25.9%. Since the cumulative progress rate is 74%, we believe the likelihood of achieving the guidance is quite high.



Please skip to page 15. From here, I will explain the consolidated results, the non-consolidated results, and finally, the situation by business domain.

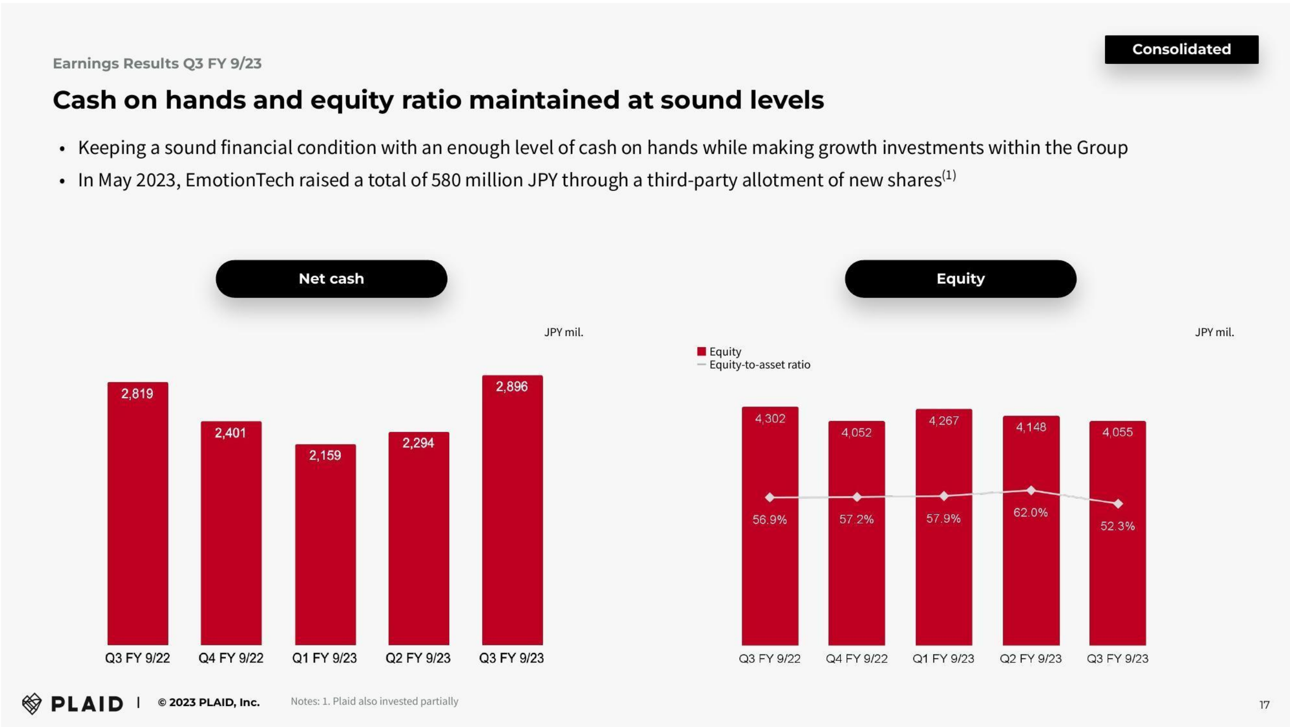
First of all, consolidated net sales grew 22.7% YoY. In Q2, this was 15.7%, so the growth rate was significant, and the YoY growth rate increased significantly from Q2 to Q3.

This is partly due to the fact that in Q3, the results naturally grew appropriately, but there was also a technical factor. This time, the Q3 result is the base on which the growth rate is calculated. As you know, there were many large cancellations in Q3 of last fiscal year, which caused a dip in ARR, and that is where the bottom is. This time, the launchpad for YoY calculation was shifted from Q2 to Q3 of the previous fiscal year, and as a result, we are now able to show you the growth rate driven by our current capabilities. That is 22.7%, and ARR is 17.6%. Since the growth rate was 9.9% in Q2, the YoY growth rate has increased significantly.



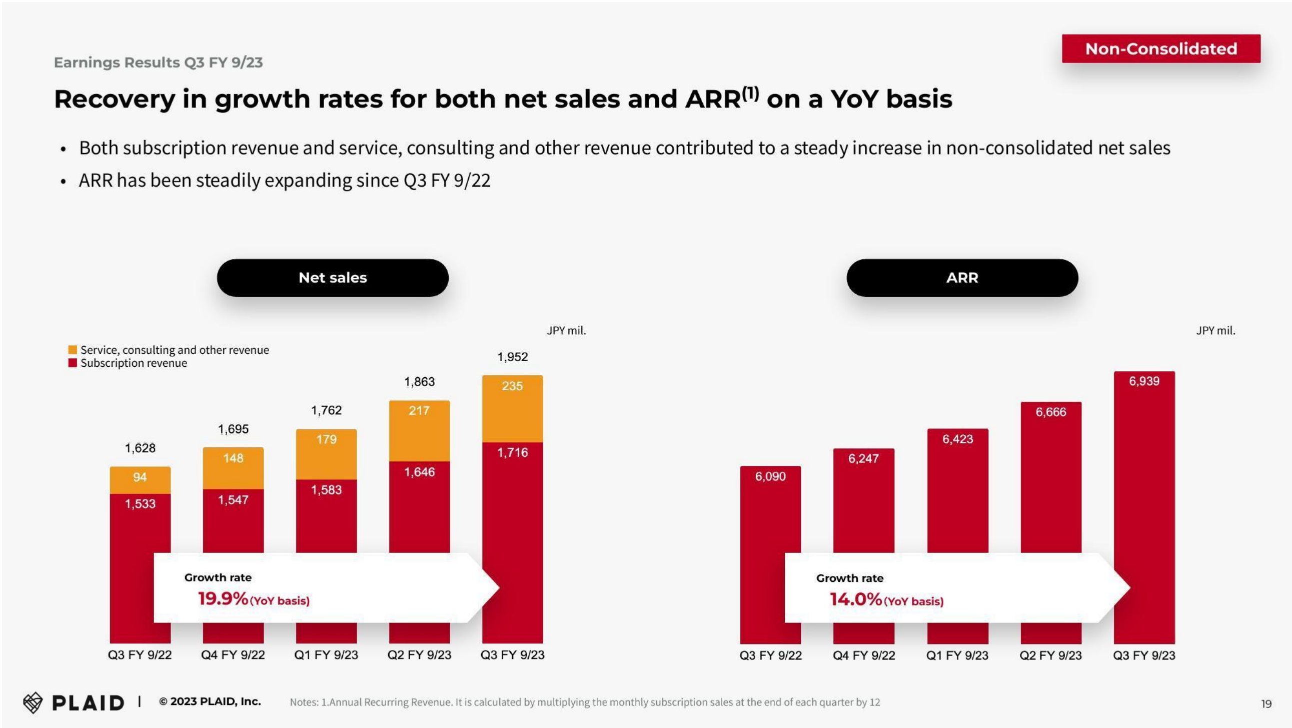
Consolidated operating income, or rather, operating loss was below expectations.

Since Q2 itself was profitable and the deficit in Q1 was smaller than expected, we have revised upward the level of consolidated adjusted operating income or operating loss as indicated in the latter part of the report, based on the results of this Q1, Q2, and up to Q3.



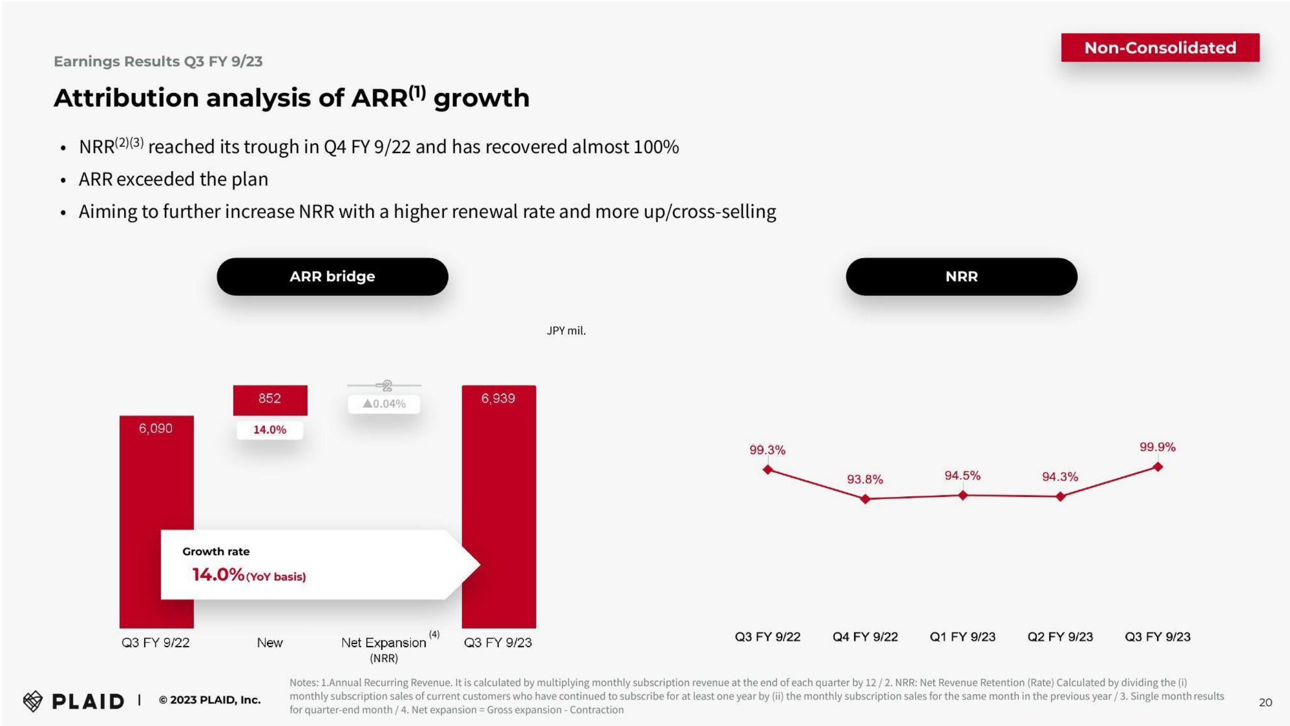
Here is the last page of the consolidation. You can see that net cash has increased significantly. This is because our subsidiary, EmotionTech Inc., raised JPY580 million through a third-party allotment of new shares.

PLAID also has a partial investment in the company, so the financing has not been entirely reflected in the increase in net cash. However, since there was some external financing, that has been reflected in the increase in net cash on a consolidated basis. The equity-to-asset ratio has maintained above 50%. In general, the Company maintains a sound balance sheet.



I would like you to look at it on a non-consolidated basis from here.

YoY growth in PLAID's non-consolidated net sales was 19.9%. In the previous quarter, Q2, this was 13.6%, so the growth rate has increased quite significantly here as well. ARR has a growth rate of 14%. The previous quarter was 5.2%, so there was a fairly large increase here as well.



On the next page, this 14% YoY growth rate of ARR has been broken down by new and existing.

As you can see in the ARR bridge, the 14% YoY growth is entirely attributable to new customers. As for existing customers, there were upsides and downsides, and in terms of net value, this was almost breakeven.

If you look at the right side, you can see that NRR was almost 100%, which exactly showed the breakeven situation. This is a positive situation, as this has been recovered to 100% from the level that had been below 100% for the past four quarters.

However, in the past, we had NRR in excess of 130%, and even though the current situation itself is quite positive, we do not believe that 100% is a satisfactory level at all. At least, NRR still has to go up, as I believe that if this is at about 110%, it can be considered to be returning to a healthy level.

Next is the movement in the number of customers and ARPC.

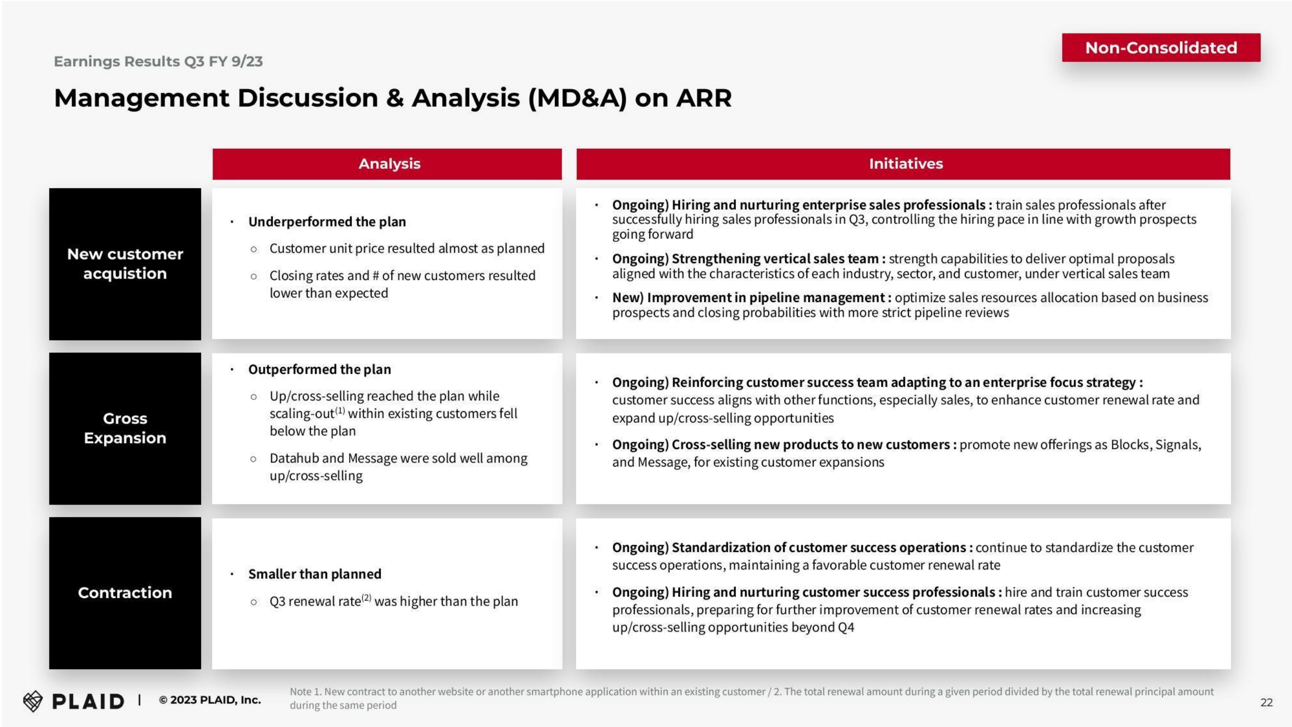
The number of customers showed a net increase of four. This, of course, does not mean that the number of new customers was four. In fact, we have acquired more than 50 new customers in Q3. In reality, there was a certain amount of churn, and the net increase was four.

In terms of the amount, churn occurred in relatively low revenue-range customers. As you can see in the chart on the right, the average revenue for all of our customers was approximately JPY932,000. In contrast, the average revenue of churned customers was under JPY500,000, which was below the average customer revenue.

In conclusion, I believe this is the result of our strategic focus. Of course, we do not mean to imply that it is okay for low-price customers to cancel their contracts. It is a pity that those customers do not feel the value of KARTE.

At the same time, however, we are allocating our limited customer success resources to enterprise-focused companies. As a result of our thorough focus on increasing customer satisfaction and the sense of value, we have seen a relatively large number of enterprise customers continue to use the service and a large number of smaller customers cancel their contracts. Looking at the figure, I believe that these results are acceptable and consistent with our direction at this point.

In fact, as you can see, ARPC has been increasing for the past two consecutive quarters. This is partly because upselling and cross-selling have been going well. After all, the number of enterprise customers are increasing as a whole. I believe that our strategic direction has been reflected in ARPC.



Next is a factor analysis of the incremental ARR for Q3.

This shows new and existing upside, transaction expansion, and churn or down-selling as three categories here. First of all, with regard to new customers, we have fallen slightly short of our plan. We are in the process of building industry-specific teams and acquiring sales personnel for the enterprise market, so we expect it will take more time.

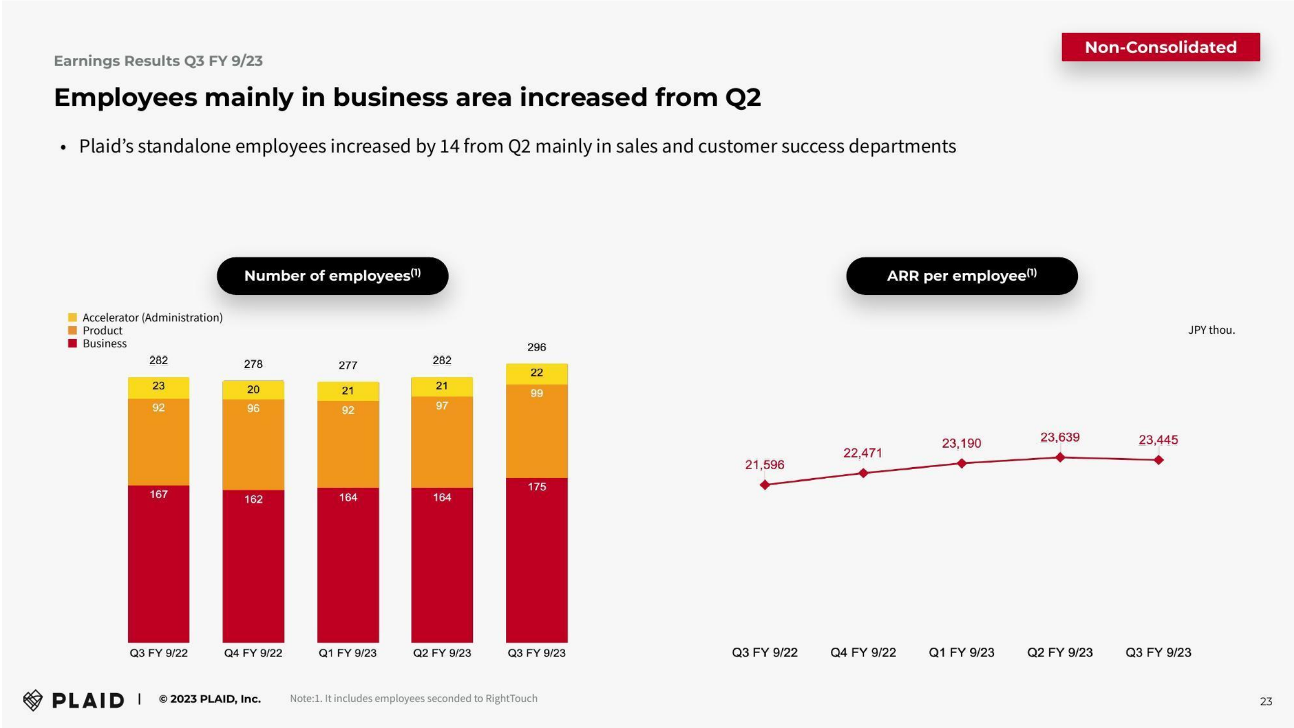
On the other hand, in terms of acquiring sales personnel, we made progress in Q3, so from this Q4 onward, we will promote the training of sales personnel while continuing to acquire and hire them.

We would like this industry team to actually work more, and we have been strengthening pipeline management as a new initiative. We believe that this will allow us to allocate personnel based on business prospects and closing probabilities with more strict pipeline reviews. We expect that this will help the number of new customers to grow even more in the future.

In the meantime, as for the transaction expansion of existing customers, we have made upselling and cross-selling that exceeded the plan. The upselling means an increase in ARPC, and from the cross-selling point of view, Datahub and Message have been sold well, as shown here. KARTE has a strong image of web-based customer service. There is a strong image of having it put into real-time websites, but the other aspects, such as customer data management and messages that utilize that data, which are more of a data management tool, are starting to be communicated to customers. Those tools are being cross-sold to these customers, contributing to the expansion of transactions with existing customers.

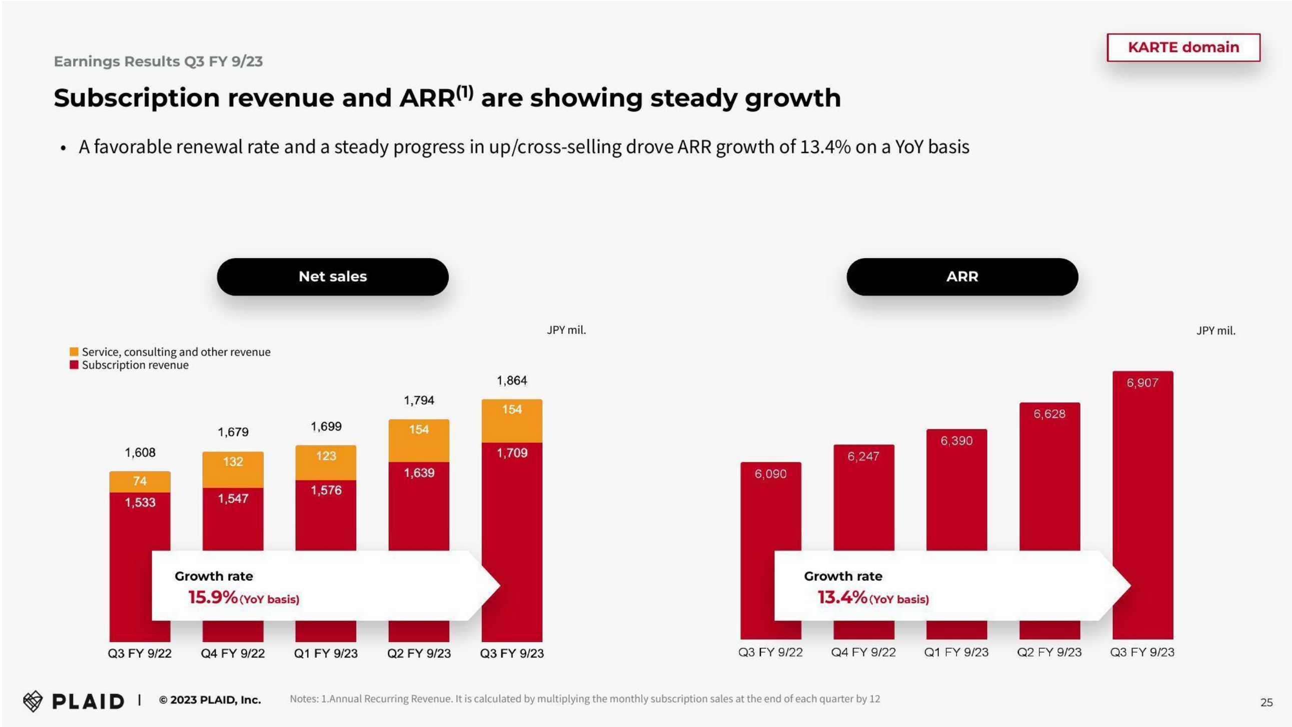
Churn or down-selling, which I mentioned briefly in the MAU section, has been better controlled than planned. This result was a completely different situation from that at the end of March last year, when there was a series of large cancellations. We are very pleased with the result and are extremely grateful to the business team, especially customer success professionals, for making this happen.

The policy of the initiative is to continue to further standardize customer success operations and further increase productivity. At the same time, we would like to focus on acquiring human resources and further investing in the team and operations here to thoroughly enhance the customer's sense of value before churn or down-selling.



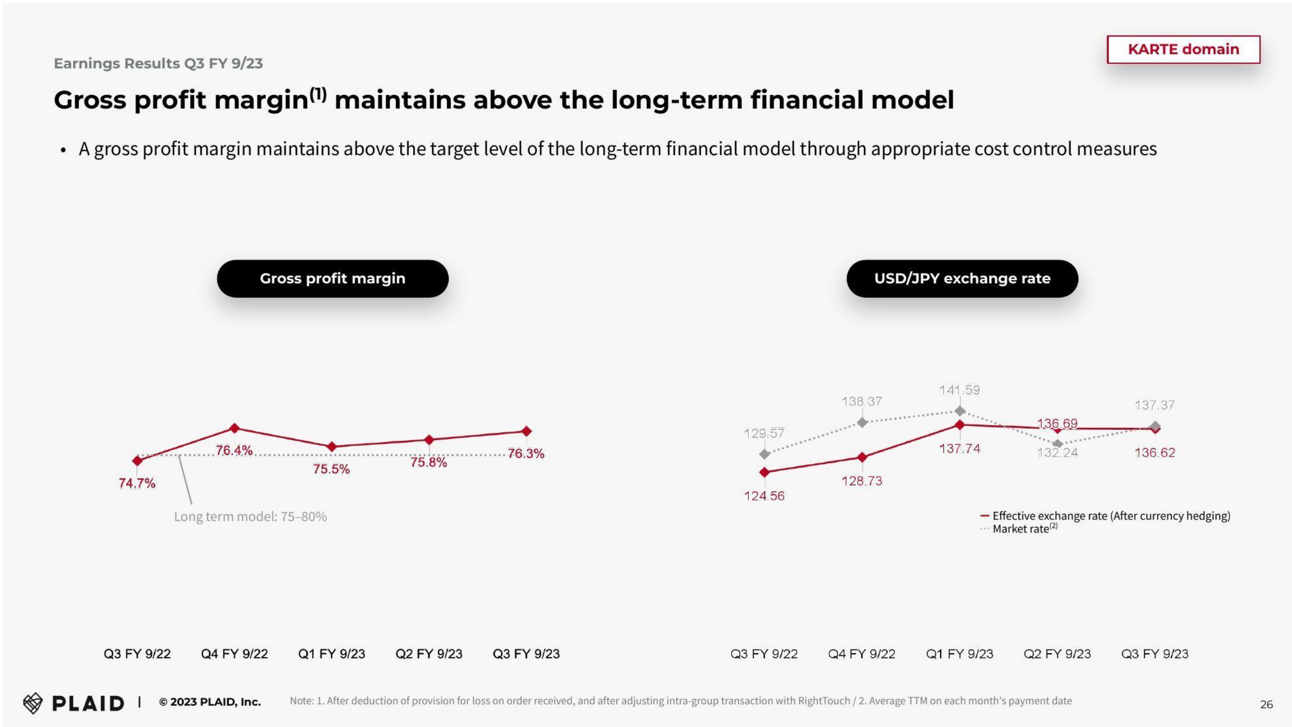
This is the last page of the non-consolidation.

In terms of the number of employees, Q3 saw an increase in the business side, particularly in customer support and sales.

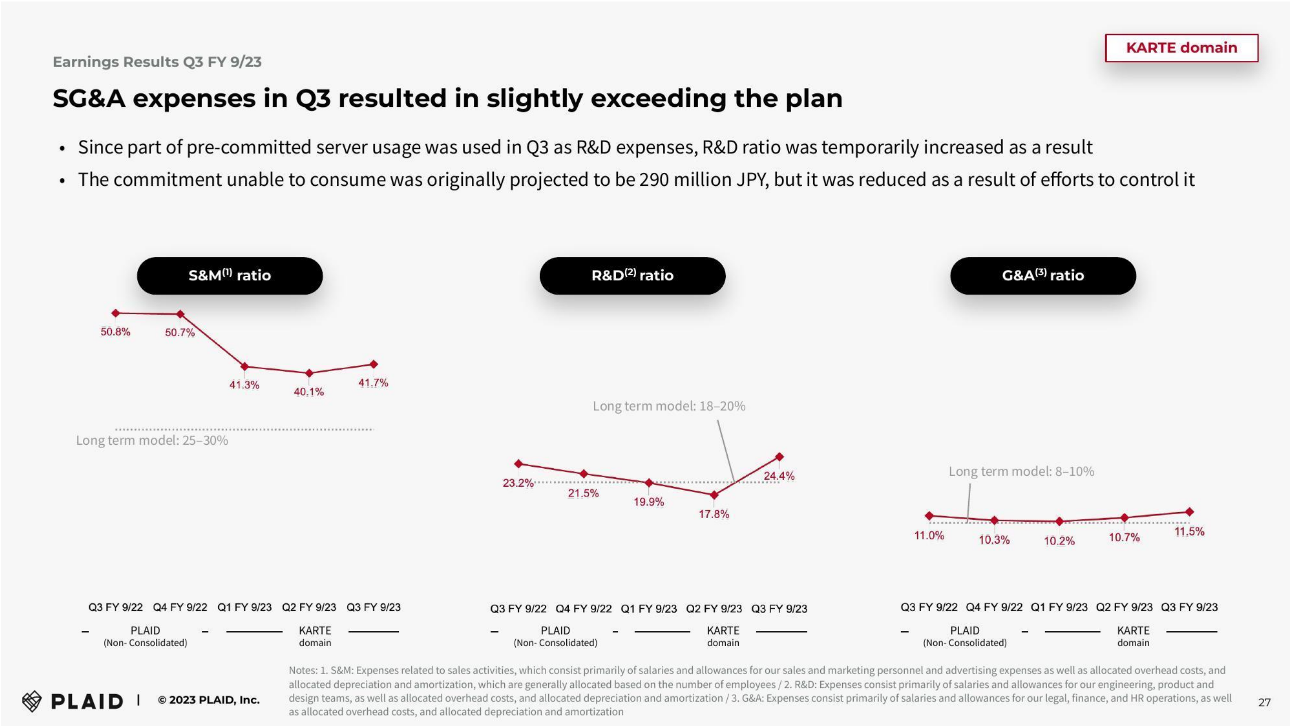


Finally from here, I would like to explain the figures by business domain.

Net sales growth in the KARTE domain was 15.9%. ARR growth was 13.4%. The same figures for the previous quarter or Q2 were 9.8% and 4.6%, respectively, so the growth rate in the KARTE domain as well as the consolidated and PLAID-alone results have improved.

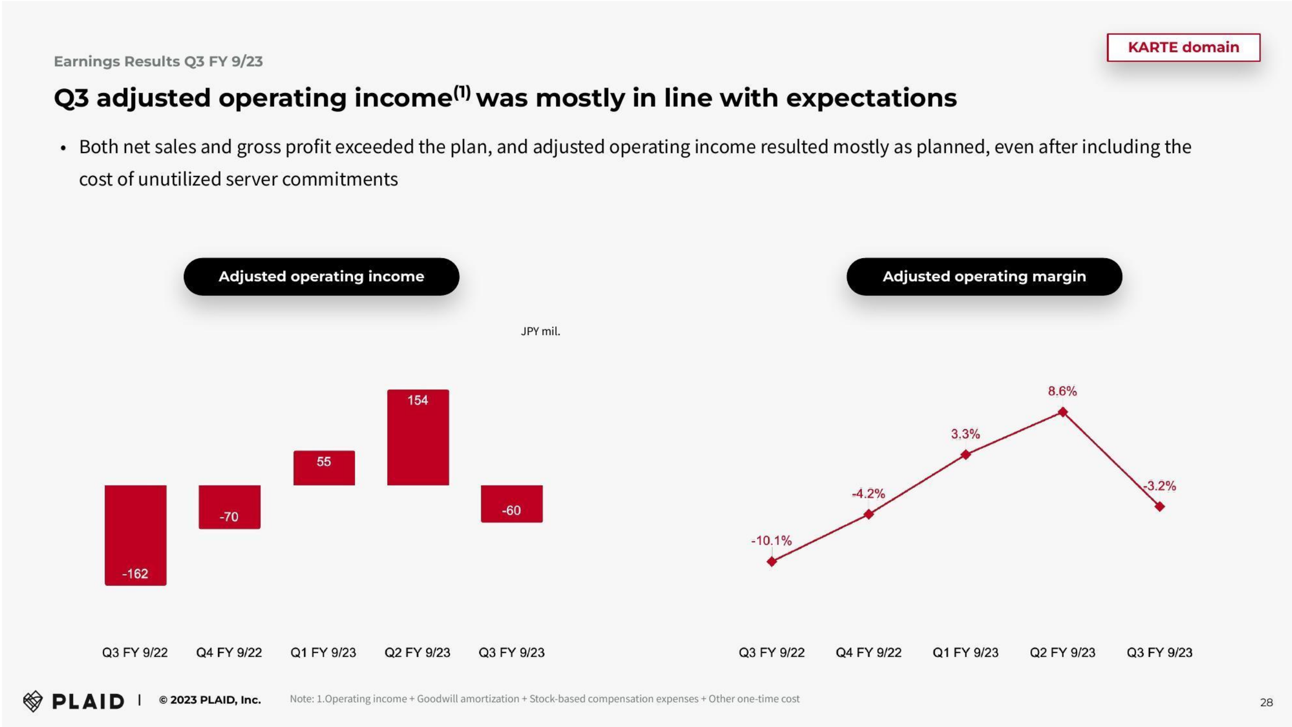


Gross profit margin has maintained above the levels of the long-term financial model, as indicated in the title of the report, which states that gross profit margin remains favorable. The exchange rate is also stable.



You can see that the ratio of sales and marketing and the ratio of R&D have increased in SG&A expenses. As I mentioned earlier, we have been increasing our sales and marketing staff, so there was a rise in that area, as well as some marketing expenses.

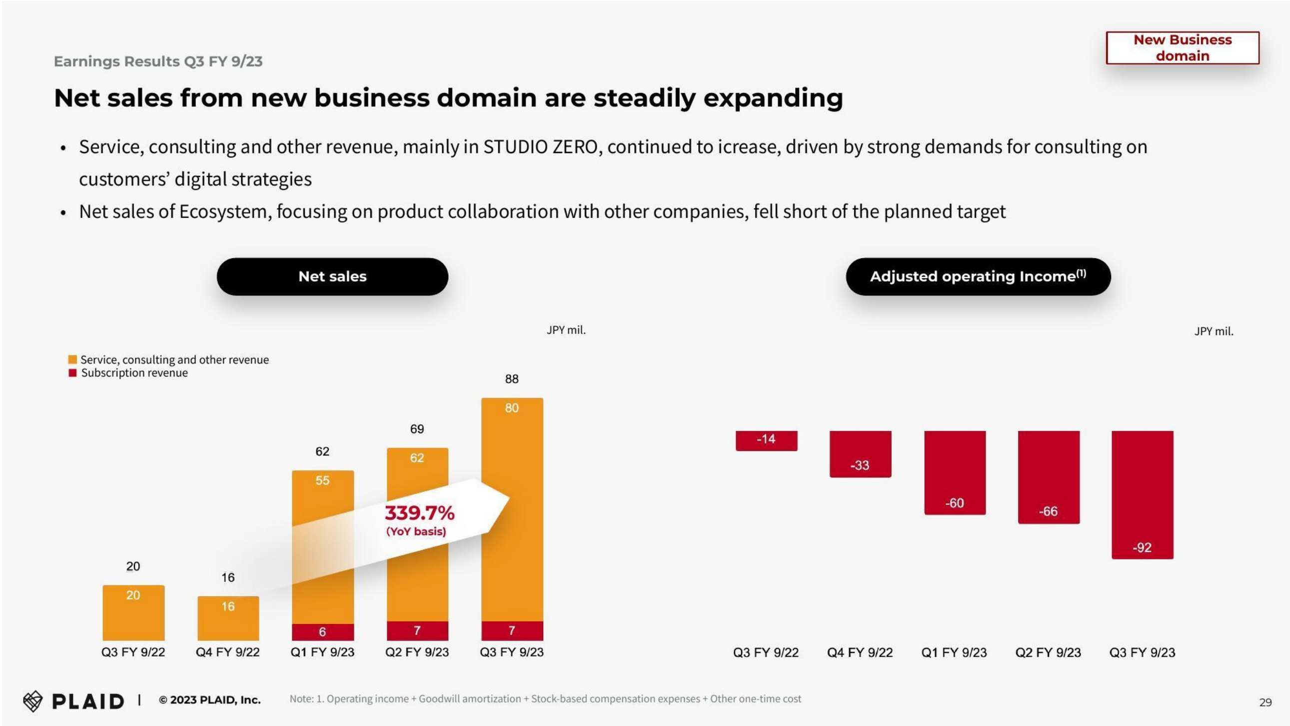
As far as R&D is concerned, this has temporarily gone up since part of pre-committed server usage was used in Q3 as R&D expenses, but I believe that this will be a temporary effect. This level will become more settled rather than being maintained in the future.



Operating income in Q3, although in the red, was generally in line with our expectations in the KARTE domain. If we had not used the pre-committed server usage for R&D, we would have been in the black in Q3 given this figure. Also, if we add the figures of Q2 and Q1 to this current loss in Q3, when combined, we are now cumulatively in the black for up to this quarter.

As declared at the end of the last fiscal year, with regard to the core KARTE domain, we have pursued not only growth but also profitability. We have declared that profitability growth and quality growth would be realized in this core domain. I think that is becoming true. The core KARTE domain is becoming a profitable business while maintaining its growth rate.

In the meantime, the new domain or group businesses, I will explain later, are experiencing significant growth. Therefore, I feel that we are building a well-balanced business and product portfolio as a group. I personally believe that this very profitable growth in the core domain and the fact that the growth domains are actually growing are the most important highlights of the Q3 results.

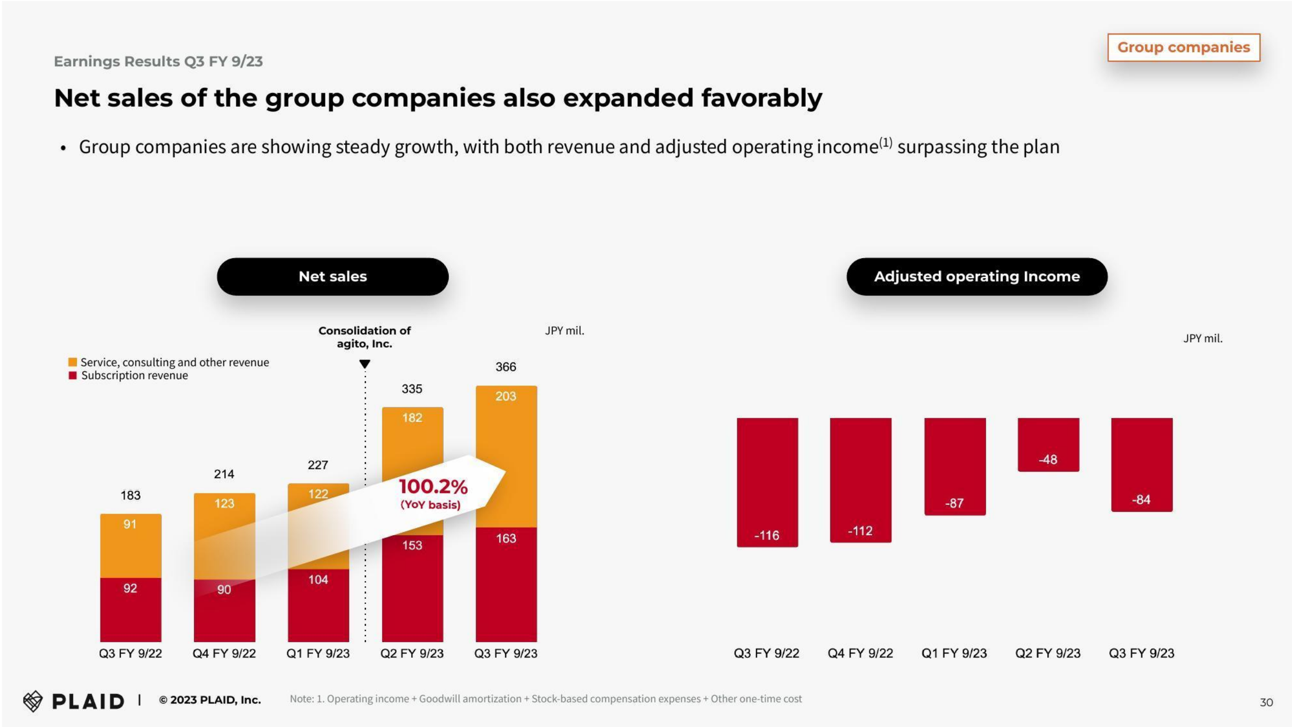


I will talk about the peripheral domains. We will show you how the peripheral or new domain and group businesses will perform in the following few pages.

First is new domain. This one includes two businesses. One is called STUDIO ZERO, which provides digital consulting and support, and the other is called Ecosystem, which is a business that promotes the use of KARTE for a wider range of fields. Compared to the same period of the previous fiscal year, the growth was quite significant, at 339%.

In particular, STUDIO ZERO's growth in the consulting service has been remarkable. After all, it has been confirmed that the need for support for digital strategies is very high. In addition, we not only provide consulting services, but also have our own products and human resources who can use them, so the consulting and digital strategies we propose can be implemented using KARTE, although it does not have to be limited to KARTE. The ability to use tools, such as KARTE, to make changes in the business is one of PLAID's strengths, and this is exactly what we are doing as we grow this business. In addition, I believe that the presence of this STUDIO ZERO has created a synergistic effect that promotes the use of KARTE.

The Ecosystem business is behind the plan, but since it is a new area, I believe that such a situation may occur. We believe that KARTE Craft, the new product we announced earlier, will be a game changer in the Ecosystem business, and we would like to explain its appeal to you when the time is right.



This is the last part. As a result, the Group companies have been growing steadily. Naturally, it is still in the red because it is still in the investment stage, but we believe it is a well-controlled deficit.

The three group companies, agito, Inc., which provides a monitoring system for the advertising domain, RightTouch, Inc., which provides products, or rather, a derivative of KARTE or a product with KARTE at its core in the customer support domain, and EmotionTech Inc., which provides an NPS platform, have all experienced high growth rates. Consequently, the Group business has doubled YoY in terms of net sales.

In this way, the growth as the Group, and of course, KARTE as well, has been accelerated.

Earnings Guidance for FY 9/23

Earnings Guidance for FY 9/23

- While net sales are expected to slightly exceed the previous guidance, the level remains unchanged.
- Adjusted operating income has been revised upward from the previous guidance due to effective foreign exchange rates trending more towards a stronger yen than assumed at the beginning of the fiscal year, and due to the expectation of a smaller deficit due to appropriate cost controls throughout the Group.

	FY9/22	FY9/23			
(JPY mil.)	Results	Previous guidance	Updated guidance	Difference	Change (%)
Net sales	7,295	8,523	8,523	0	0.0%
Year-on-Year	-	16.8%	16.8%	-	-
Adjusted Operating Income	▲718	▲979	▲630	348	-

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Finally, here is the earnings guidance for the full year.

As I mentioned it several times, we have revised it. Since consolidated adjusted deficit has been much smaller than expected, we have reduced adjusted operating loss from JPY979 million in the previous announcement to JPY630 million, accordingly. As for the top line, we believe it will exceed our forecast, but we have left it unchanged at this time.

That's all, and I would like to conclude with three summaries of the current financial results, although there is no material for them.

One is that the Group's growth rate has exceeded 20%. As I said at the beginning, there was a technical factor, which was the fact that the launchpad for the growth rate was Q3. Essentially, I still think the difference is that we have achieved fairly good customer retention from the state of significant churn in the last fiscal year during the period when the various renewals occurred at the end of this March. I recognize that this growth rate has been recovering because of that.

This is not just about results, but about our customers, our strategy of enterprise focus, and our customers' sense of value. I believe that our policy shift from simply providing products to emphasizing such aspects has been successful. This is the first point.

Second, the KARTE domain shows a profitable growth. You may think there is still a deficit though. Now, we have been incurring server costs and various other onetime costs. I believe that we are beginning to see a natural turnaround from here, which is expected to continue to grow. I am not satisfied with the growth rate of the KARTE domain, 15.9%, which I think should not be the sustainable rate for the future. I don't think the profitable growth of 15% to 16% is enough. I think we have to increase this growth rate further.

As I mentioned earlier on the non-consolidated results, the retention is good, upselling and cross-selling are fair to good, but new business is not enough there. I believe that the new business here is a margin to further accelerate our growth rate. Naturally, we would like to further increase retention, upselling, and cross-selling as well. If new customers grow in terms of the amount, I believe that the current growth rate of 15.9% in the KARTE domain can be turned into a growth rate exceeding 20%.

I think we will be able to discuss detailed figures in the next fiscal year's business plan or in guidance. We would like to pursue profitable growth while raising the growth rate here.

Finally, I will talk about the third point. After all, this core business is also a very well-balanced business, but the peripheral area also has considerable growth potential. It may not be a good idea to call it peripheral, but we have new areas and group companies' businesses with considerable growth opportunities and expectations. I believe that it is not merely an expectation, but the actual traction that is emerging is significant.

STUDIO ZERO, combined with KARTE, will be able to create a new enterprise software model in Japan, or rather, a model that integrates enterprise services and software. Ecosystem also now has a product in place, so there is an opportunity to reboot. While the three group companies have been really growing beyond expectations, we expect that the growth rate of the Group as a whole will be even higher than that of KARTE alone.

These are three points. With growth rates exceeding 20%, the KARTE domain has entered into a stage of profitable growth. I believe that we were able to show in the current financial results that attractive growth businesses in the peripheral area are starting up while gaining traction. That is all from me.

Moderator: Thank you for your attention. This concludes our presentation session of PLAID's financial results briefing for Q3 of the fiscal year ending September 30, 2023.

Question & Answer

Moderator: We will now begin the Q&A session. Now we will take your questions.

Q1-1: This is about the future outlook for NRR on a non-consolidated basis. In Q4, the level will be already about to return to 100%. However, I believe that this was originally intended for the fiscal year ending September 2024, and I would like to ask again how you evaluate the level that is approaching 100%. Also, I think you mentioned earlier that you would like to get back to 110%. Can you tell me when you are likely to get back to this point? This is about a recognition of the current situation and an outlook for the future. This is the first question, please.

Muto: Thank you for your question.

From the time when we were at 130% NRR, I thought we couldn't keep this up. I think I have told investors that the 130% level was too high.

This is a bit textbook case, but NRR is easy to raise with a fairly low-entry SaaS. For example, if you can offer five accounts for JPY10,000 in the beginning and then 100 accounts are created, it will increase to JPY1 million or JPY2 million before you know it. In such a sales strategy, NRR is easy to raise.

For KARTE, it costs JPY2 million to JPY3 million per month from the beginning. In the end, it depends on the MAUs of the customer's website. Sometimes, they introduce it for a part or a portion of their business, or for just a new business. Since this is a SaaS that has a fairly high entrance fee, it is not a product that can be upsold or cross-sold a lot and increase ARPC.

If you think about this premise here, we will not be able to set a high NRR from the start, but on the other hand, as I mentioned earlier, we have a great many cross-selling products. This time, Datahub, or a CDP tool for data, an email called Message, and an offline customer communication tool, have been selling well. Other than that, there are KARTE Blocks, Web/App, and various other options. Through cross-selling, we can build up NRR.

Naturally, if the model is to build up retention by cross-selling and partially upselling from [inaudible], we would like to and can exceed 100%. We have been talking about using 110% as a guideline for some time now.

From the current footing, churn rate is stable, so it depends on upselling and cross-selling. It's hard to say what the timing is, but my guideline is that above 110% is a healthy level for NRR in the KARTE domain.

Q1-2: Thank you very much. Other peripheral tools are starting to sell, and you would like to increase cross-selling gradually, but do you think that suddenly increasing to 110% in the next fiscal year is a bit aggressive?

Muto: No, I don't think that is extremely aggressive at all. I think there is a good chance that it will go up further. I believe that 110% could be in view.

Q1-3: Another question as it relates to NRR. You said that there is still a certain number of cancellations from customers who are small in average revenue. I wonder if you have any analysis of how many more potential churners with small in average revenue are in your company's volume.

Muto: It depends on where you cut it, while I think we have an analysis. However, it depends on where to cut. When you cut off at a certain point, there is inevitably a sense of level, as if there are 2/3 as the number of companies, but only 1/3 as NRR.

From the customer's point of view, we don't think at all that we don't need small customers to use our products. We want to provide our value to smaller customers and have them feel the value of our services. However, if we focus on large customers first, we will inevitably focus on the top 1/3 of them, or 2/3 of them in terms of value, at the beginning.

We have been making considerable progress in structuring this area as well. If we can take the form of success with large customers and apply it to medium-sized or relatively small customers, I believe we can increase the sense of value there as well. We have the experience of the previous fiscal year. Therefore, as for priorities, we believe that enterprise is the most suitable customer for KARTE, so our strategy is to focus on that area thoroughly.

In the medium to long term, we are not trying to keep this as it is, because I think there is a treasure trove of things to be found in smaller customers. I believe that we can do this through business, our own success, and the evolution of the product itself to cover the retention of such mid-tier and smaller customers.

Q2: You mentioned earlier that the ARPU or ARPC for churned customers in Q3 was JPY500,000, I believe. On the other hand, the ARPC of customers who churned in Q2, according to the previous presentation material, was about JPY350,000. It seems that the average revenue of churned customers is rising, but is there any particular concern here?

Muto: Precisely, it was less than JPY500,000. But you are right. It has been up a bit compared to the last quarter. This is related to the MAUs mentioned earlier, but we have had one rather large cancellation that has affected the MAUs dropping. We are in line with the plan, including this point, so in general, we have done a good job. This is a difficult topic to discuss here because this is about the client's individual business structure. I don't think we are facing some great structural problem.

Q3-1: With this revision to the full year forecast, the deficit will narrow by JPY348 million. I would like to know the impact of the strong yen on this and how much the appropriate cost control has contributed to this. I would appreciate your comments on what measures have worked well to control costs appropriately, please.

Muto: Thank you. First of all, as for the strong yen, the fact is that it has not worked that well. Can we go back to the exchange rate page for a moment? In fact, since we have hedged, we have not enjoyed the effect of the strong yen despite the yen's appreciation this time. After hedging is in the red line, I don't think we enjoy that much against the real rate.

Rather than currency effects, a major part of this is that the use of commitments has been very successful. Also, we are not making a big effort internally to reduce some costs, and we think it's still necessary to invest in growth. I am the only one who talks about wise spending, but we have a certain awareness that we should all think about whether it should be used properly or not.

For example, in terms of recruiting, whether to recruit directly or through an agent, for the latter, the agent would take, say, 30% or more of the annual salary, but by increasing direct recruiting, recruiting costs are reduced and recruiting costs become more appropriate.

Naturally, advertisements are used to obtain leads, but it is not enough to just spend money on them. We allocate our resources appropriately. The effect of these many things has worked for this upward revision.

We have also made plans that should be absolutely achieved. There is a certain amount of leeway, or rather, a conservative approach, and it is only natural that we are now getting confirmation that this is achievable.

Q3-2: On the other hand, I don't see any upward revision in sales, but since the progress rate is now 6.3 billion up to Q3, I feel that it would be a good idea to revise upward here. Am I correct in understanding that sales are likely to be roughly along the expected line? I would like to know the nuance. "10%" is one of the criteria for an upward revision, and is this something like that, it will probably be above your estimate but it will not reach the line of an upward revision regarding sales?

Muto: The latter is correct. It means that it is in the upper range, but not more than 10%. One more thing, but to be a bit more precise, we have revised upward in the last fiscal year, even though it did not reach 10%.

I think it is up to us to decide at what point we should revise upward. It will not be 10%, but when we see a certain level of improvement, we will use our own criteria to determine whether we will revise upward or not.

Our judgment is that the current timing is not sufficient to make any arbitrary upward revision.

Moderator: Since it appears that all the questions have been answered, I would now like to close the financial results briefing of PLAID, Inc. for Q3 of the fiscal year ending September 30, 2023. Thank you all for taking time out of your busy schedules to join us.

[END]

Disclaimer

This transcript includes forward-looking statements. These forward-looking statements do not guarantee our future financial results, but involve risks and uncertainties that could cause actual results to differ materially from those discussed in the forward-looking statements.

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