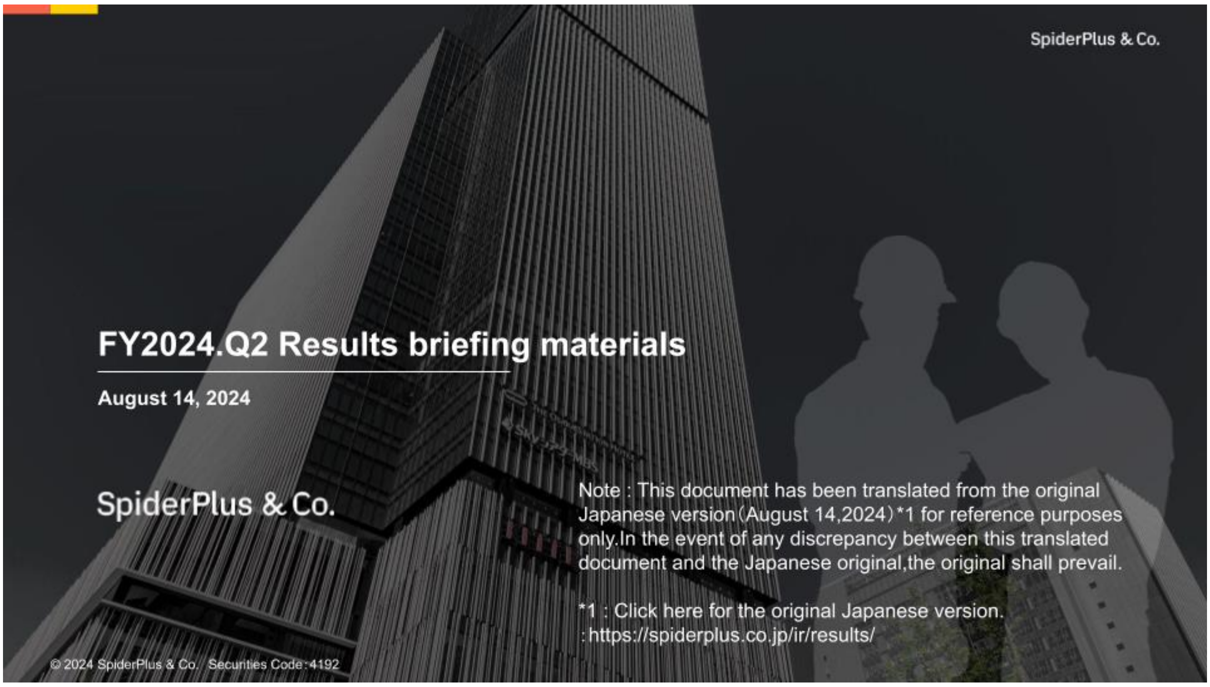
SpiderPlus & Co.

Aug 15, 2024
SpiderPlus&Co.
Kenji Ito, President and Representative Director
(TSE Growth: 4192)

Script FY2024.Q2 Results briefing materials



【Financial Results】
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【Notes1】
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***1 : Click here for the original Japanese version. :** https://contents.xj-storage.jp/xcontents/AS81382/48de4c93/bee2/4a32/97a7/e0a34cbdcde3/140120240814572550.pdf

【Notes2】
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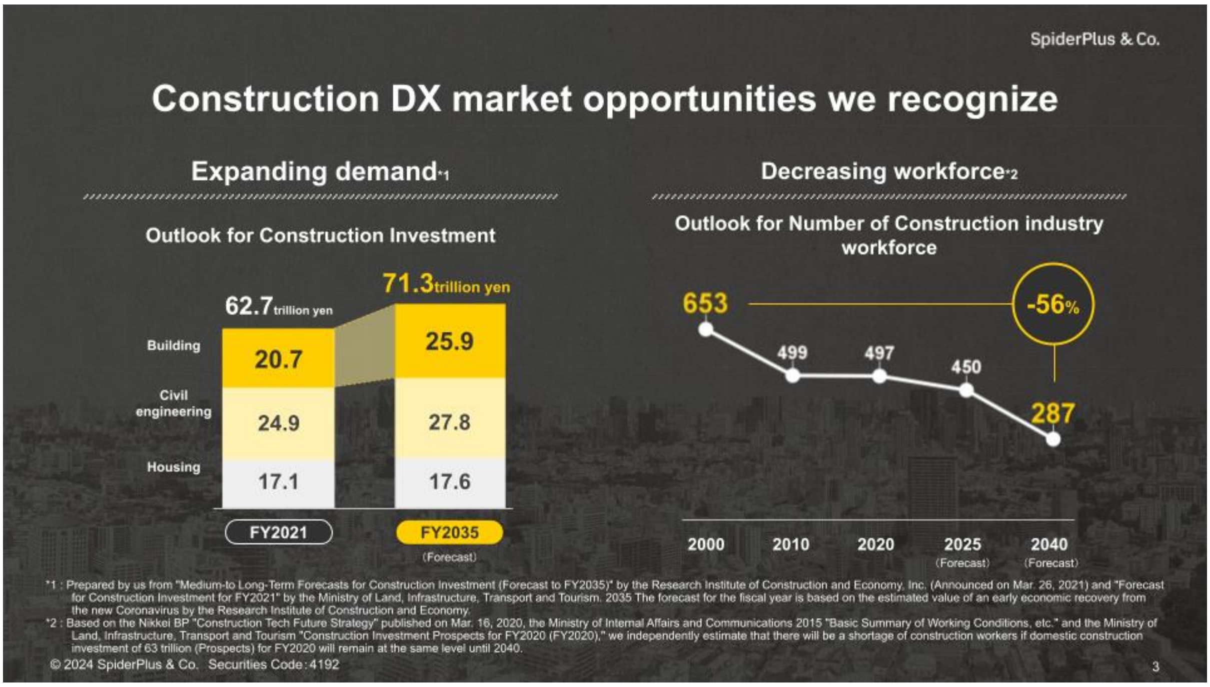
Executive Summary

We are a company that solves problems in the construction industry with technology.

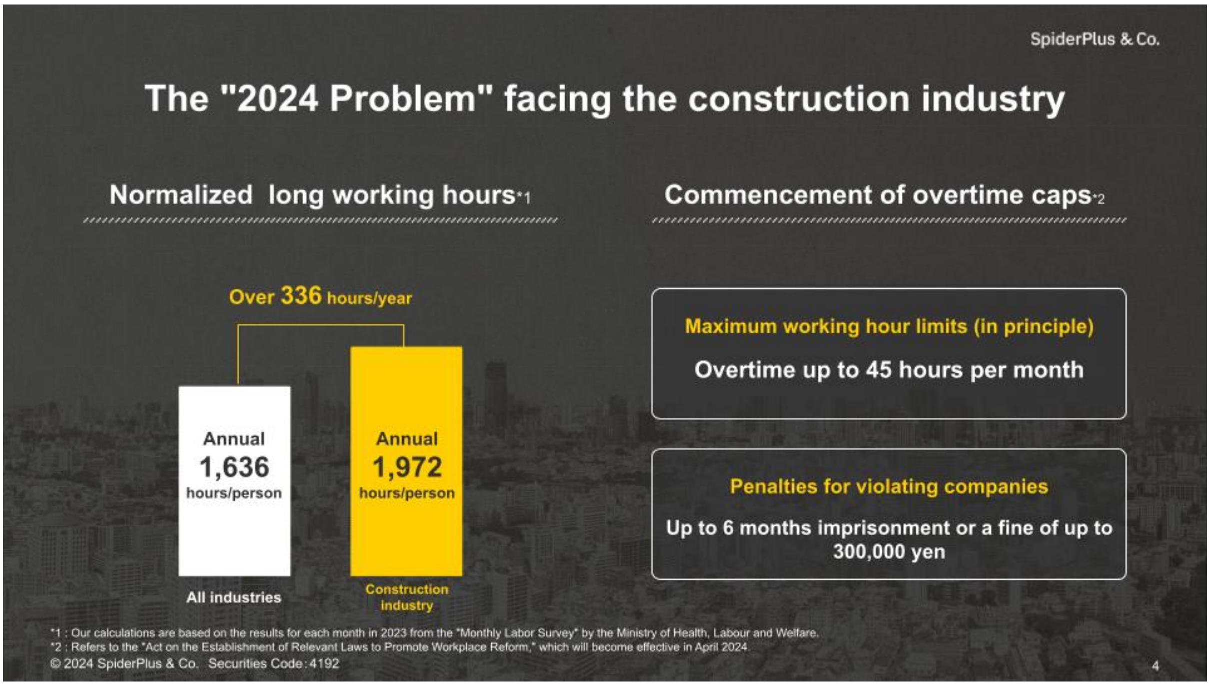


It is about the market opportunity for construction DX that we capture.

The construction industry is expected to expand over the long term, mainly due to urban redevelopment and demand for the repair of aging infrastructure.

While demand is expected to grow, the number of workers is expected to decrease due to the aging of the population and other factors.

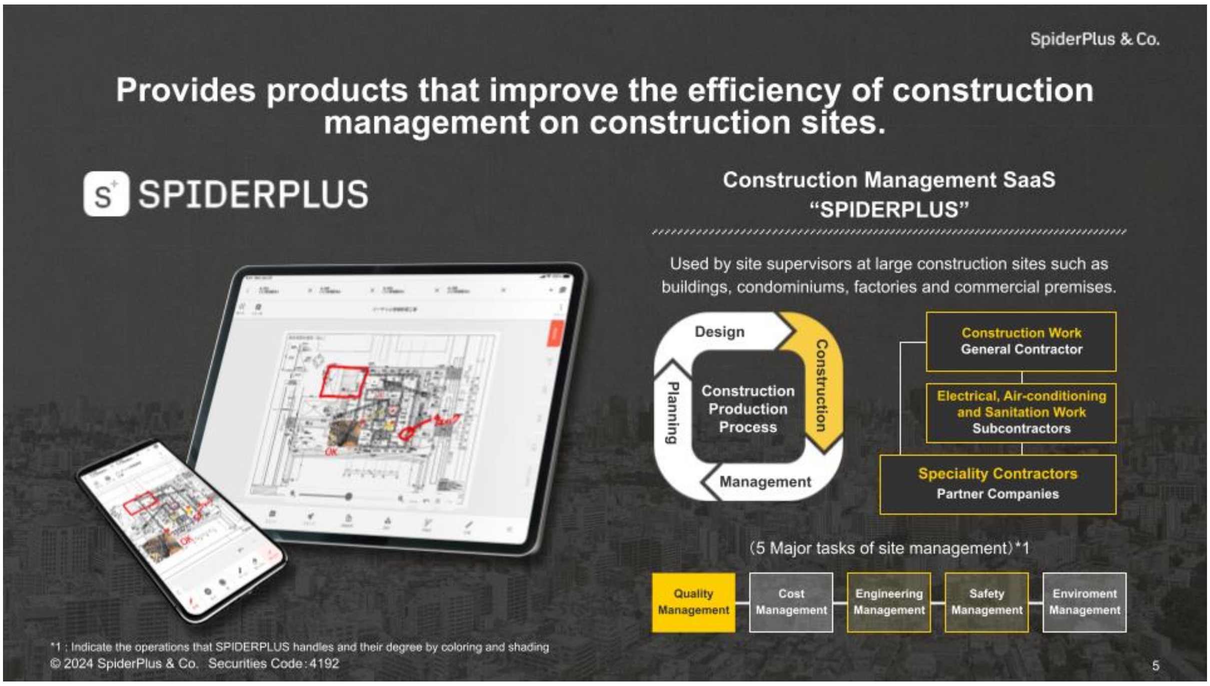
This is increasing the need to improve productivity through the use of technology in the construction industry.



The construction industry faces what is known as the "2024 problem".

In addition to labor shortages and high costs, the construction industry will be subject to the Act on the Establishment of Relevant Laws to Promote Workplace Reform (hereinafter referred to as the "Overtime Work Limit Law") starting in April 2024, after a five-year grace period.

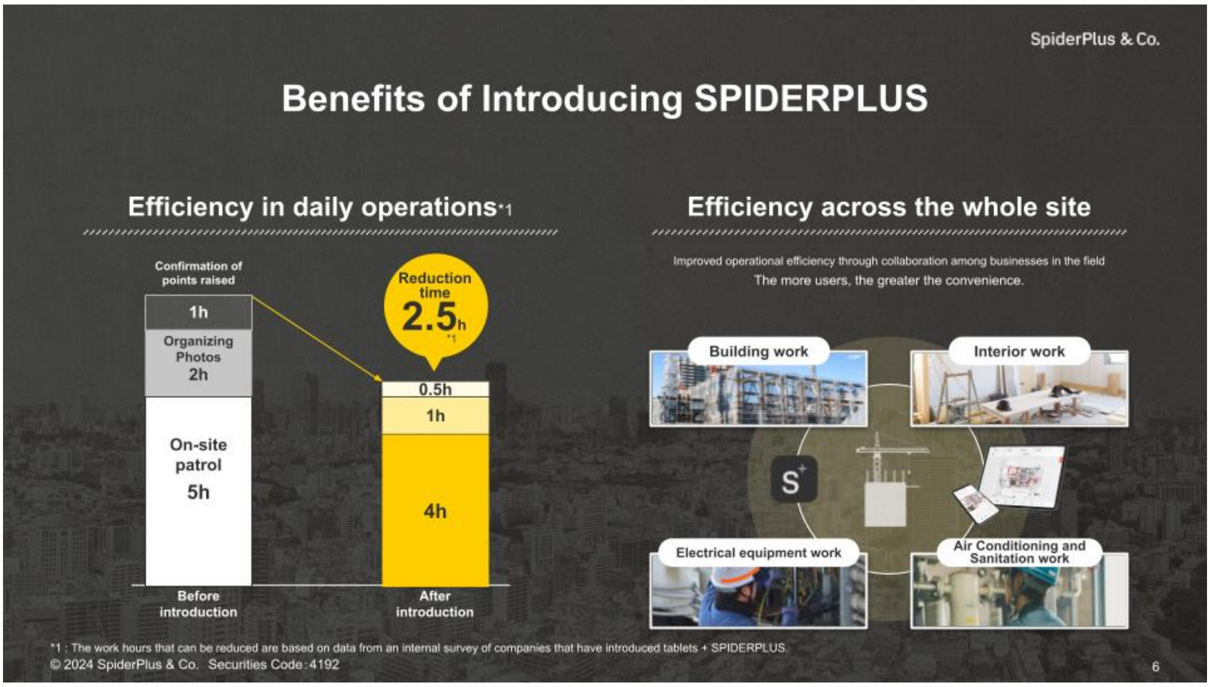
The construction industry, where long working hours have become the norm, will also be subject to a cap on overtime hours, and businesses that violate this cap will be subject to penalties. We believe that the application of the Workplace Reform Law in April 2024 will lead to an expansion of the construction DX market, and we have been making preparations to firmly capture the growing demand.



For construction sites where operational efficiency is an issue, we offer SPIDERPLUS, a construction DX service that streamlines construction management for site supervisors.

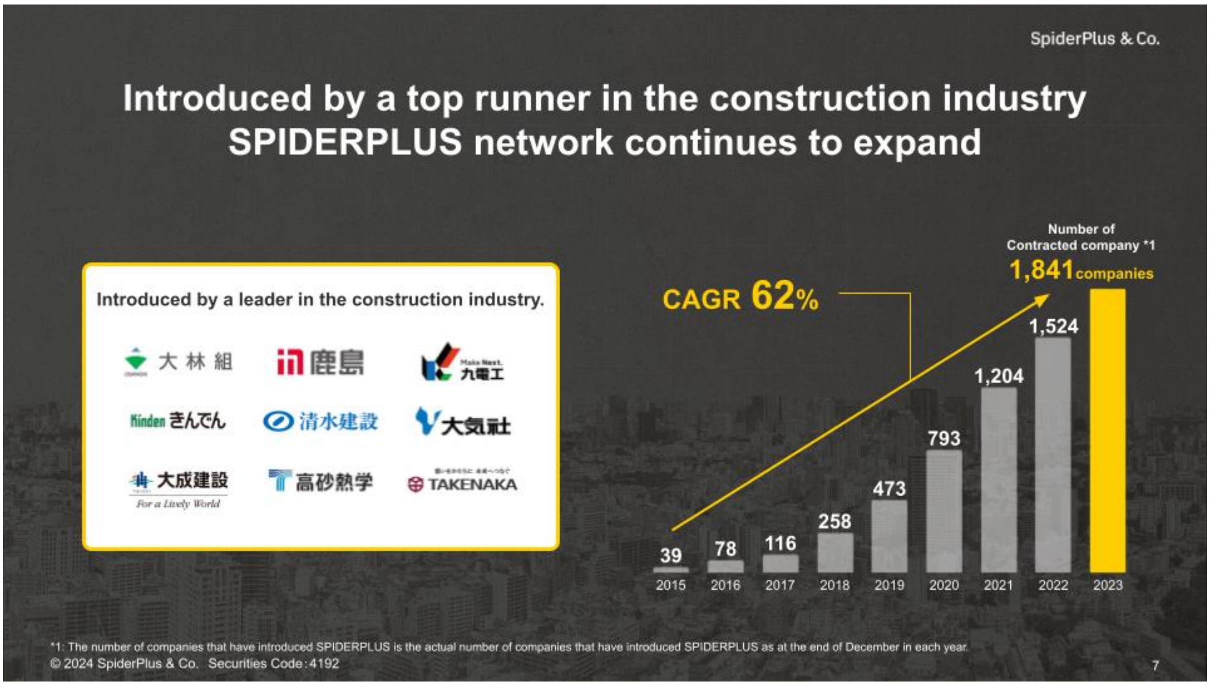
SPIDERPLUS is a SaaS that site supervisors of general construction companies and facility construction companies (subcontractors) use to perform their own construction management at large-scale construction sites such as buildings and condominiums.

By utilizing SPIDERPLUS, it is possible to digitize analog tools used on site, such as paper drawings and construction photos, as well as inspection work for quality control, while establishing digitized construction management processes and business processes, which will greatly contribute to productivity improvement.



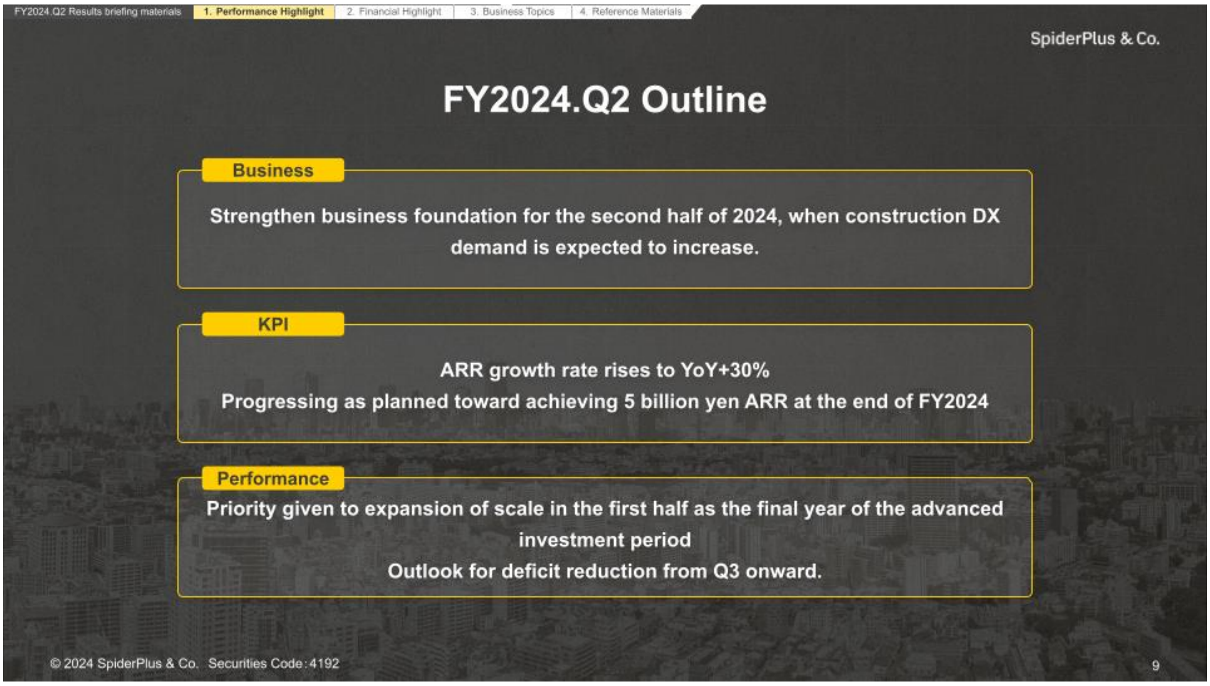
According to the results of our survey, the introduction of SPIDERPLUS will save approximately 2.5 hours per day of daily work at the site.

In addition, if all the businesses involved on site utilize SPIDERPLUS, information on construction progress and other information among businesses will be linked on SPIDERPLUS, which will also make the entire site operation more efficient. There is also the network effect of increased efficiency as the number of users increases.



Our products are used by many companies, especially major companies in the construction industry, to meet the growing need for increased productivity in the construction industry and to improve operational efficiency. The number of companies that have adopted our products continues to increase.

FY2024.Q2 Performance Highlights

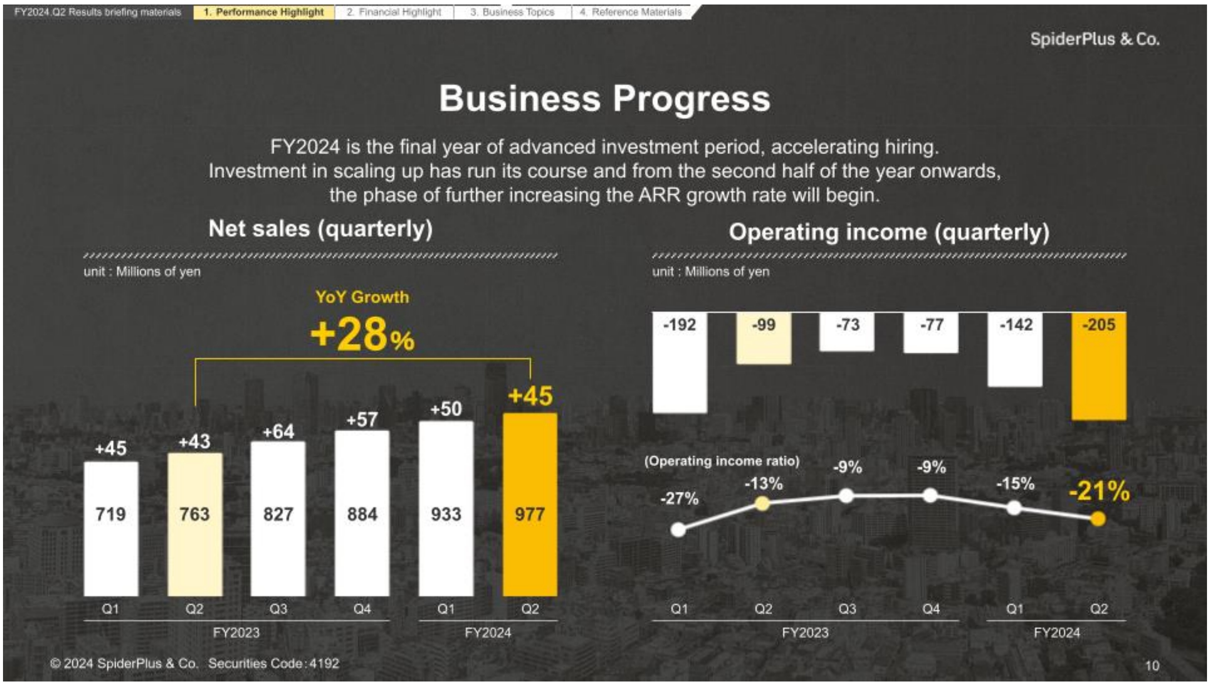


This is an overview of the second quarter of FY2024.

We believe that DX demand will increase and expand in the second half of FY2024, especially from the fourth quarter, against the backdrop of the application of overtime caps to the construction industry starting in April 2024 and rising labor and material prices. To ensure that we can capture this growing demand, we have designated 2024 as the final year of our upfront investment period, and are expanding and strengthening the scale of our operations based on the productivity we have increased during the productivity improvement phase up to the previous fiscal year (FY2023).

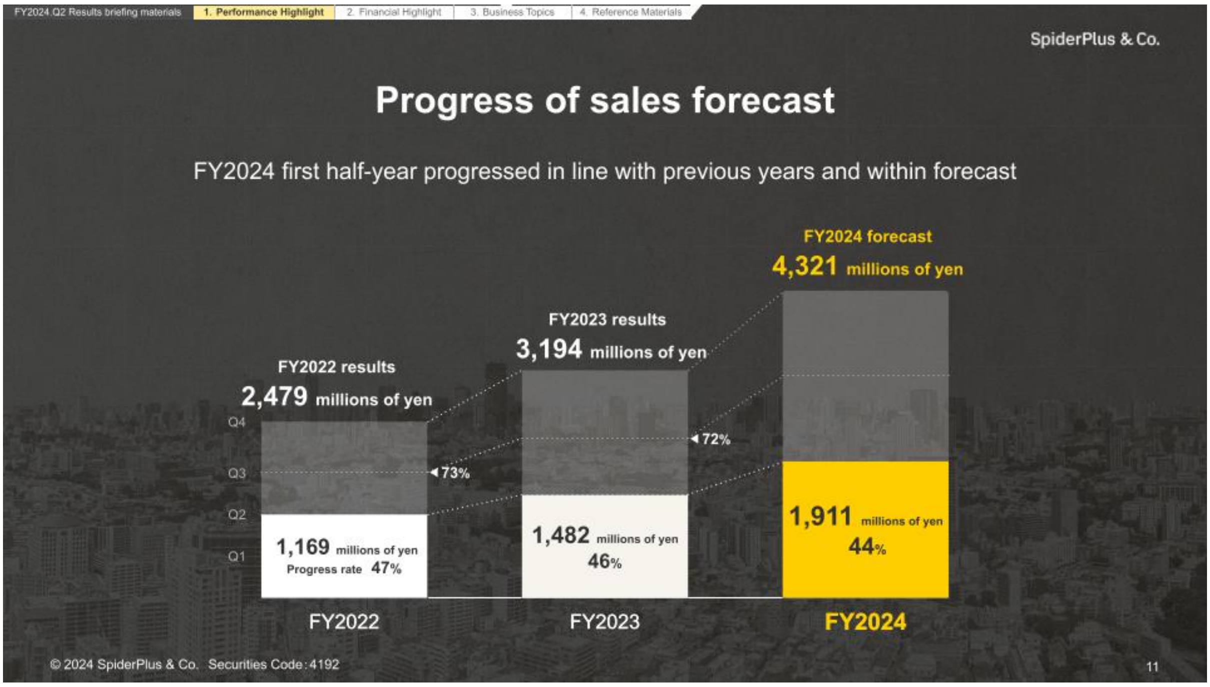
While we believe that full-scale DX demand will not yet be fully developed, utilization within our customers is progressing steadily, and the ARR growth rate has increased to +30% YoY.

In the first half of 2024, the final year of the pre-investment period, we prioritized investments for scale expansion, including strengthening recruitment. The investment for scale expansion has run its course, and the deficit is expected to narrow from the third quarter onward.



Regarding the performance progress, FY2024 is the final year of the upfront investment period, and we accelerated hiring in the first half of the year. As a result, the operating margin deteriorated in the first half of FY2024, but this is only strategic.

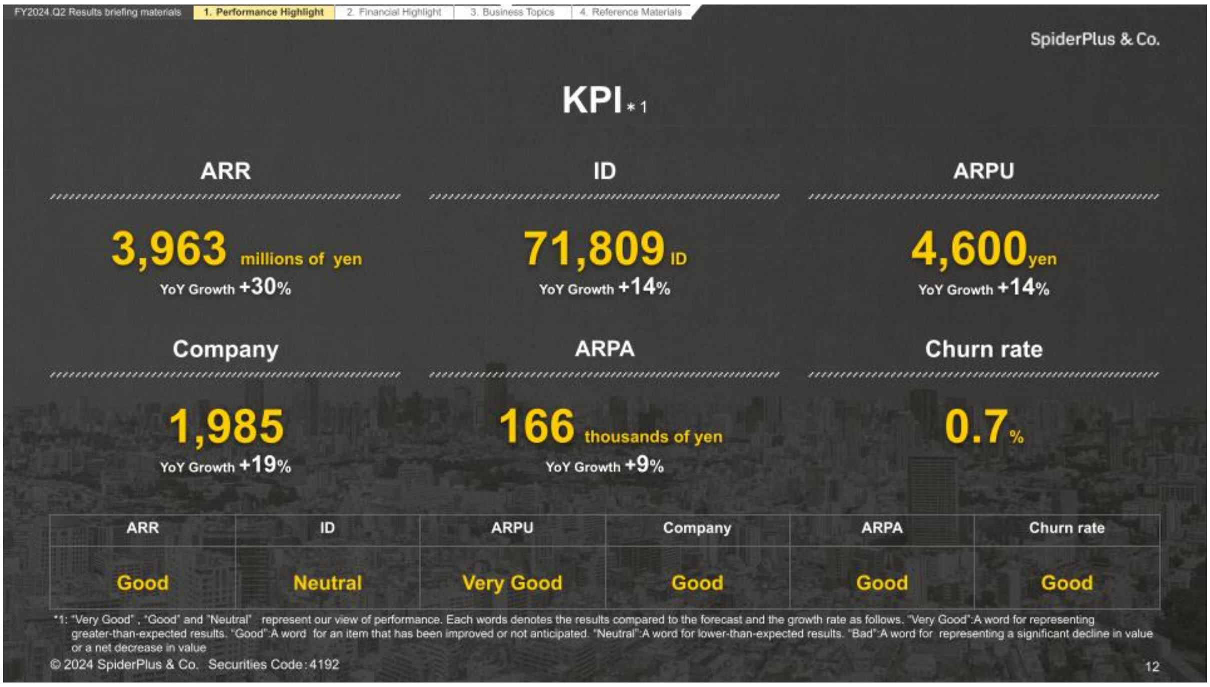
Since the investment for expansion of scale has run its course, we will link the results of upfront investment to the acceleration of ARR growth rate. As a result, the operating margin is expected to improve toward full-year profitability in the next fiscal year (FY2025).



Sales progress is on par with that of previous years and well within the forecasted range.

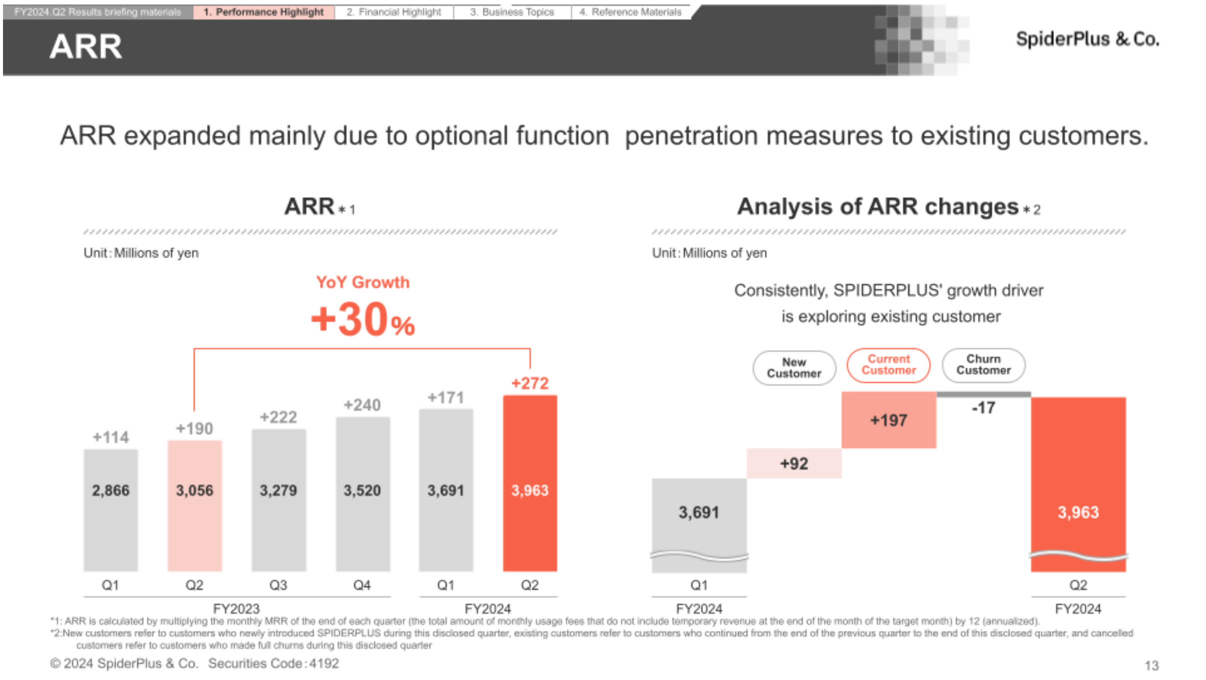
As mentioned earlier, we expect demand for construction DX to increase and expand in the second half of the year and beyond. At the same time, business progress is also favorable due to the progress made in the first half in strengthening and expanding the business base. Based on these comprehensive factors, we assess the progress of the sales plan against the earnings forecast to be favorable.

*Percentage progress for FY2022 and FY2023 is based on actual results.



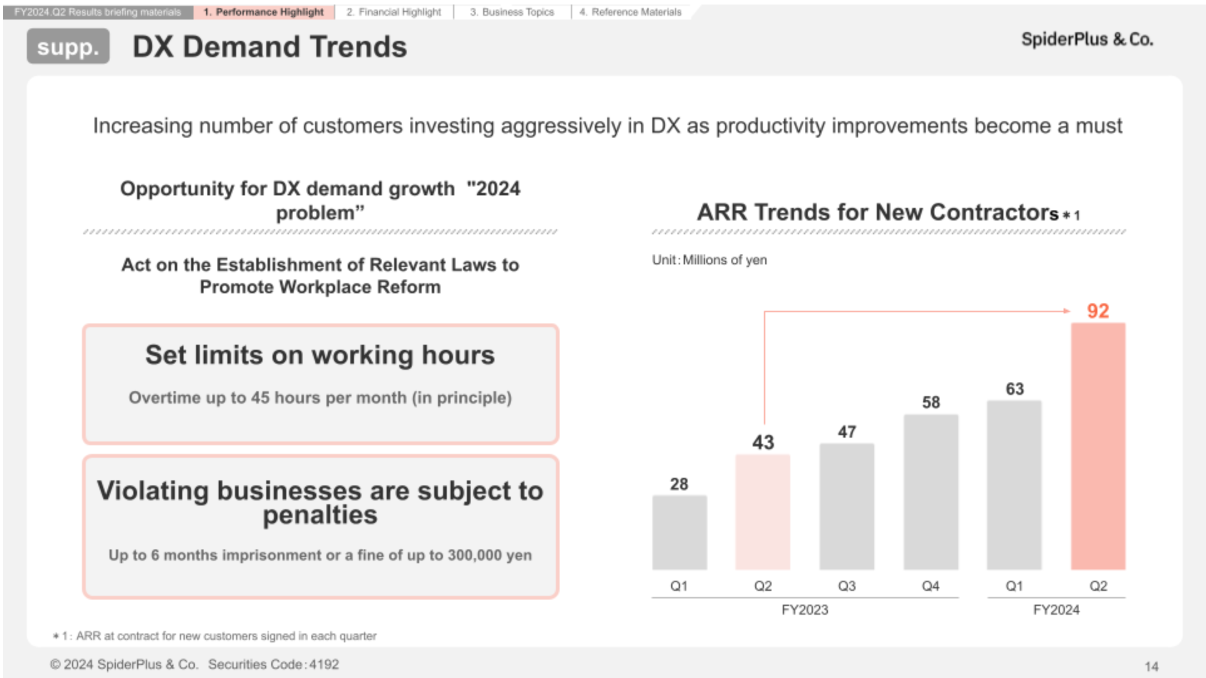
This is KPIs summary.

IDs fell short of expectations, but ARPU results were much better than expected.Other KPIs are progressing as expected.



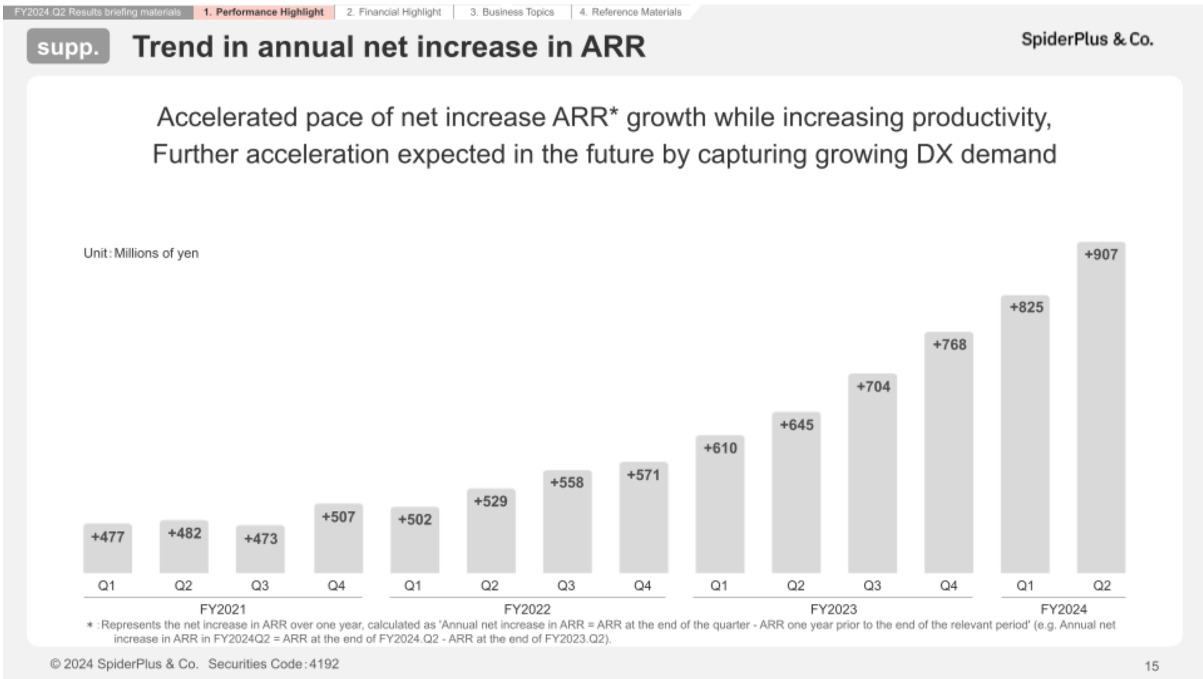
ARR is expanding mainly due to existing customer penetration measures and remains on track to reach 5 billion yen ARR by the end of FY2024. We see ARR growth increasing to +30% YoY and entering an acceleration trend.

As in the previous year, the ARR growth driver continues to be the development and penetration of existing customers. In addition, the net increase in ARR compared to the same period in the past fiscal year has reached a record high.



Supplementary information on DX demand trends. With the beginning of the overtime cap, there has been an increase in the number of cases, both large and small, of aggressive investment in "solid introduction effects".

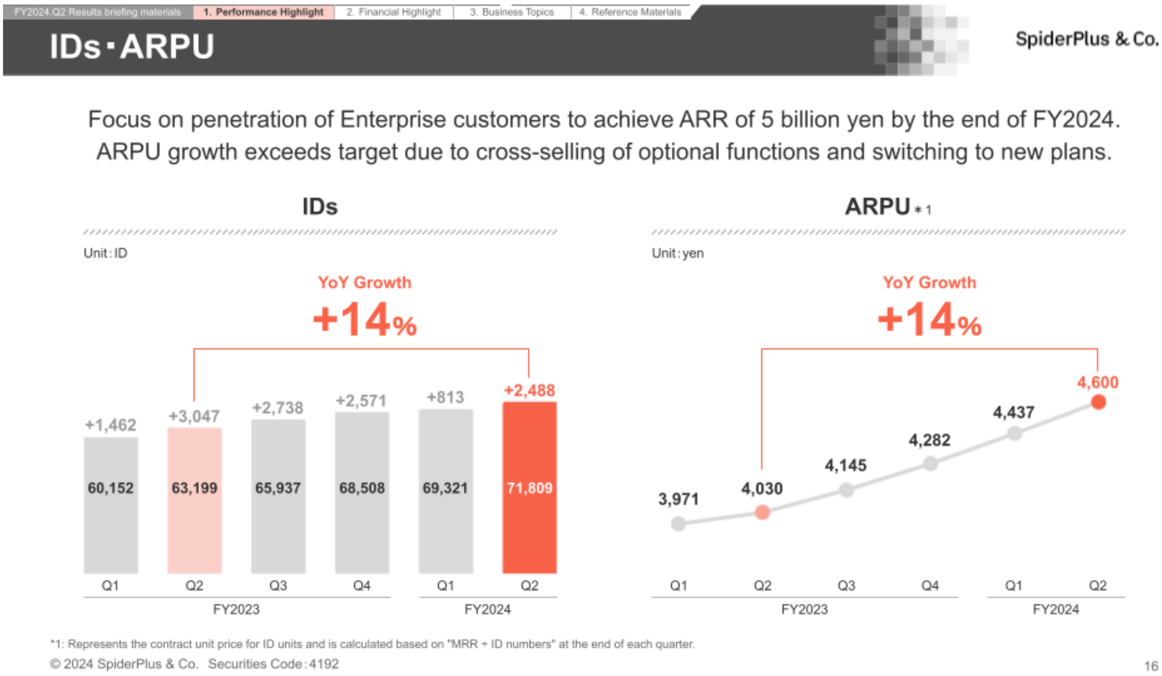
In particular, ARR at the time of contracting for new contracting companies has increased significantly, leading to the introduction of companies that are preparing for overtime caps and productivity improvements, which can be seen in the figures.



As a supplement to ARR, the following explains the trend of annual net increase in ARR*1.

*1: Annual net increase in ARR is calculated as follows: Annual net increase in ARR = ARR at the end of the quarter - ARR one year prior to the end of the quarter (e.g., annual net increase in ARR in FY2024Q2 = ARR at the end of FY 2024.Q2 - ARR at the end of FY2023.Q2).

Annual net ARR growth has been accelerating since 2023 after a period of upfront investment in 2021-2022, and further acceleration is expected in the second half of the current fiscal year and beyond, when DX demand is expected to grow and increase.



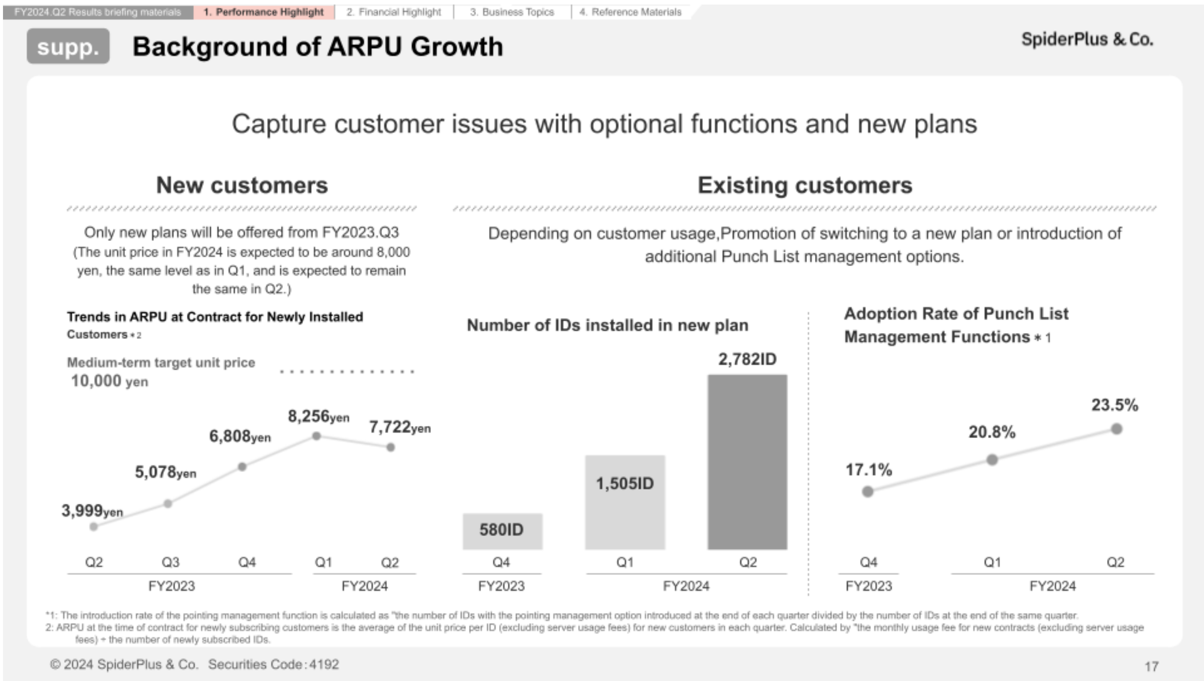
This is about the number of IDs and ARPU.

The three key measures for FY2024 are to increase the number of users (IDs) at sites where SPIDERPLUS has not yet been introduced through internal penetration measures for enterprise customers, to accelerate the introduction (cross-selling) of options that enable deeper use of SPIDERPLUS, and to offer customers who are already deeply using SPIDERPLUS to switch to economically rationalized new plans. For SMB customers, we will propose a switch to a new plan that is more economically rational.

For SMB customers, we are focusing on developing and strengthening relationships with sales partners nationwide in the first half of the year, and will link the leads generated from these efforts to an increase in ARR in the second half of the year.
As a result of these measures, penetration among major customers has progressed steadily, resulting in stronger growth in ARPU than in the number of IDs.

As a factor behind the strong growth in ARPU, please understand that “while various projects are progressing simultaneously based on account plans for each customer, in FY2024.Q2, cross-selling of options and switching to new plans led to results ahead of other projects. In addition, we expect the increase in the number of IDs of SMB customers to grow from the second half of the year onward, as per the above-mentioned measures.

With regard to the occurrence of dormant billing IDs due to the completion of large-scale construction sites for some projects, which was explained at the 1Q results meeting, we expect the return of such dormant IDs (resumption of billing for IDs associated with the start of construction on site) to occur in the second half of FY2024. There is no change in this forecast from the first quarter of FY2024.

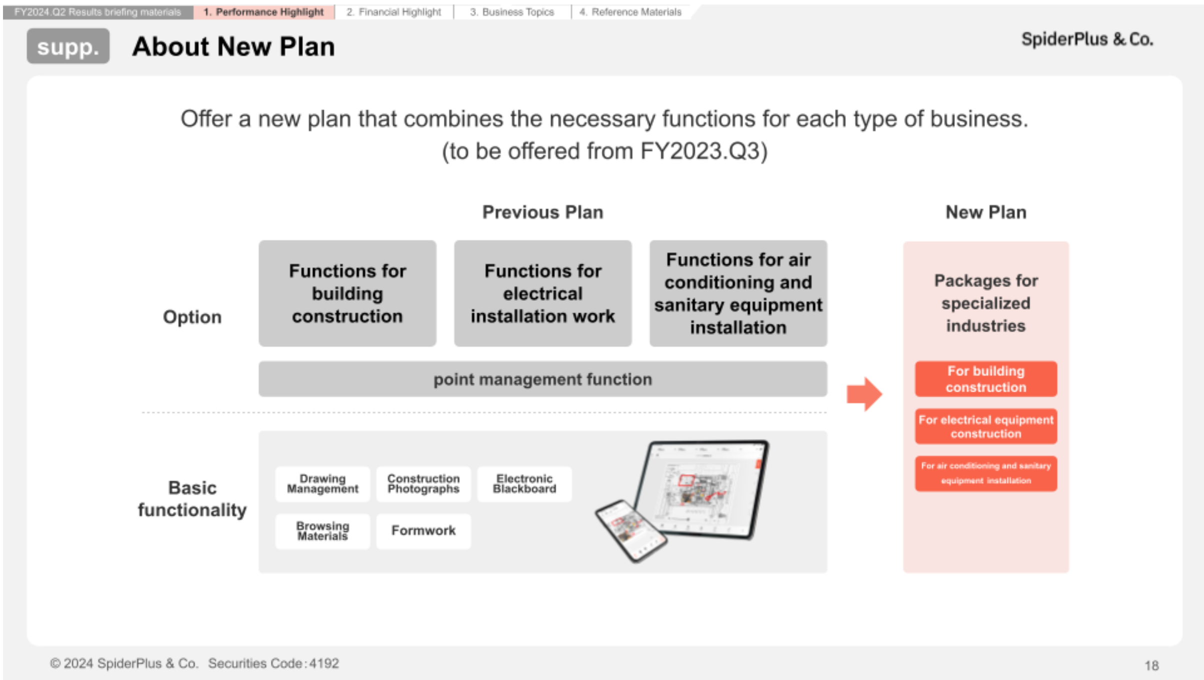


This section provides background on ARPU growth.

ARPU growth was boosted by the introduction of new plans for new customers and the cross-selling of optional features and switching to new plans for existing customers.

ARPU per contract for new customers remained at the same level as in the first quarter, around 8,000 yen, as the introduction of new plans with optional functions expanded.The unit price is expected to remain around 8,000 yen in FY2024 for newly subscribing customers.

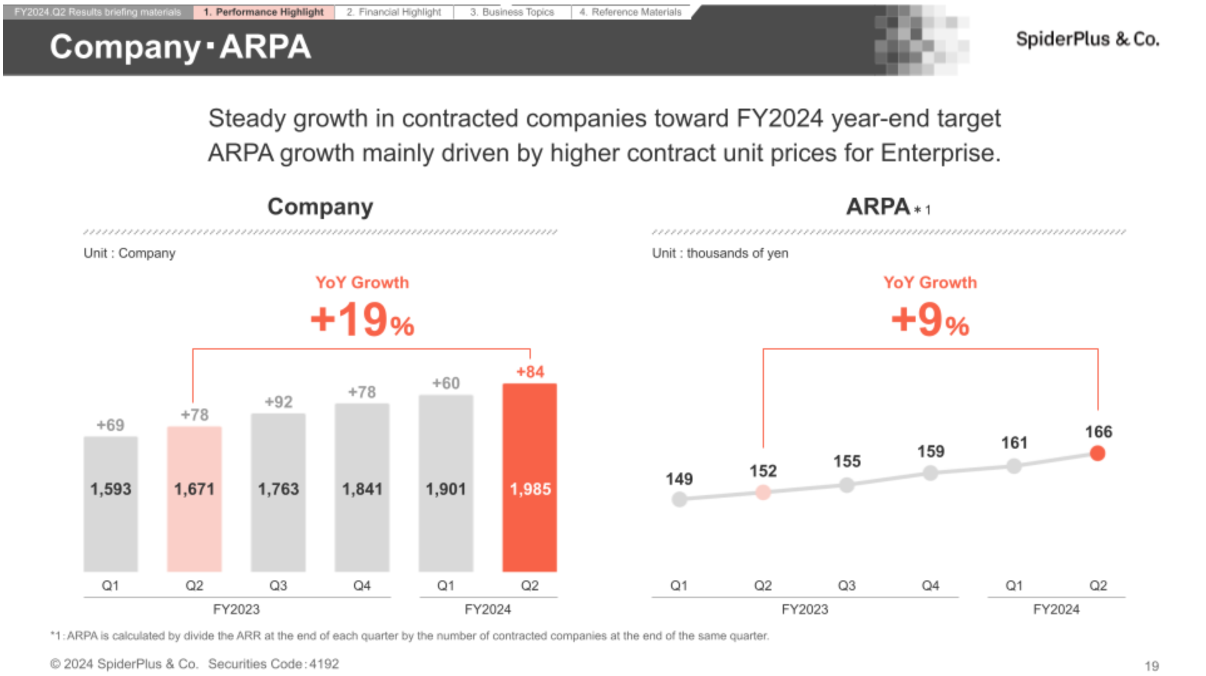
For existing customers, we are promoting switching to new plans and introducing additional point-of-sale management options, depending on customer usage. In particular, with regard to the “focus on sales of specific options,” which we have been working on since the beginning of the year 2024, the introduction rate of the focused pointing management function is increasing.



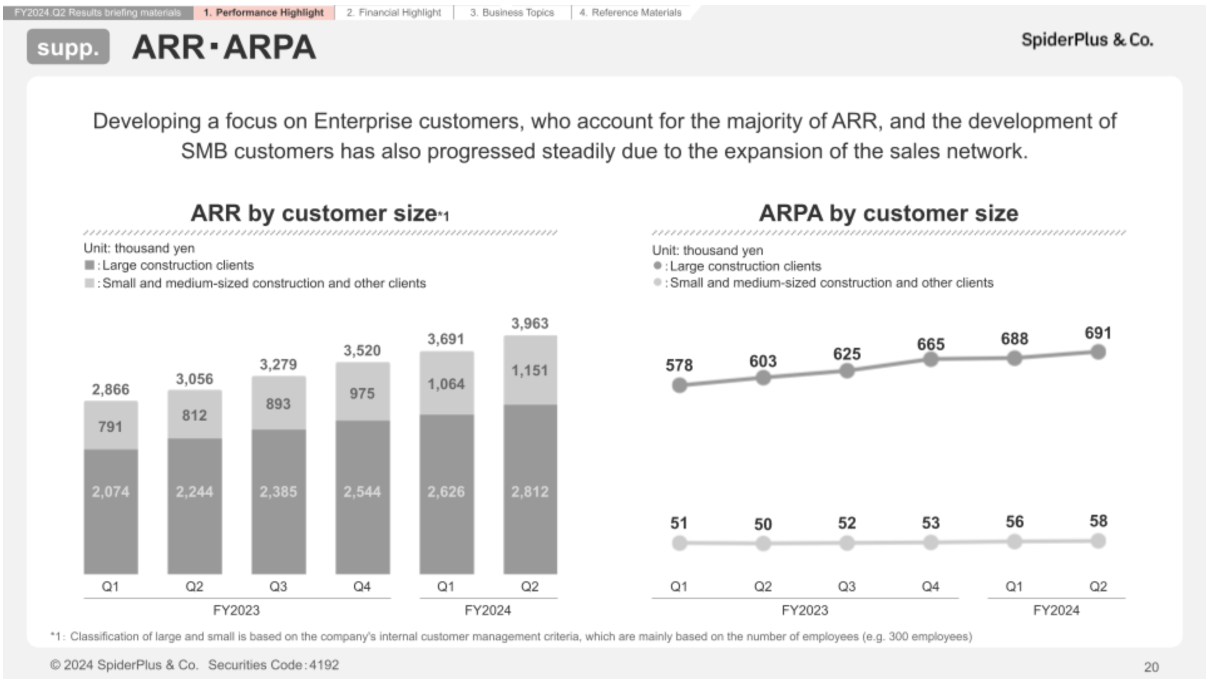
Supplementary information on the new plan.

The new plan is a package-type offering plan that combines the necessary functions for each type of business, and was launched in the third quarter of the previous fiscal year (FY2023.Q3). The packaged plan is a standard supplement to options that were previously sold individually as separate options.

Another feature of the new plan is a more generous support and onboarding system for customers who sign up for the new plan. Currently, the new plan is offered mainly to new customers, but we are also proposing to existing customers to switch to the new plan based on their SPIDERPLUS utilization status and the economic rationale of their customers.

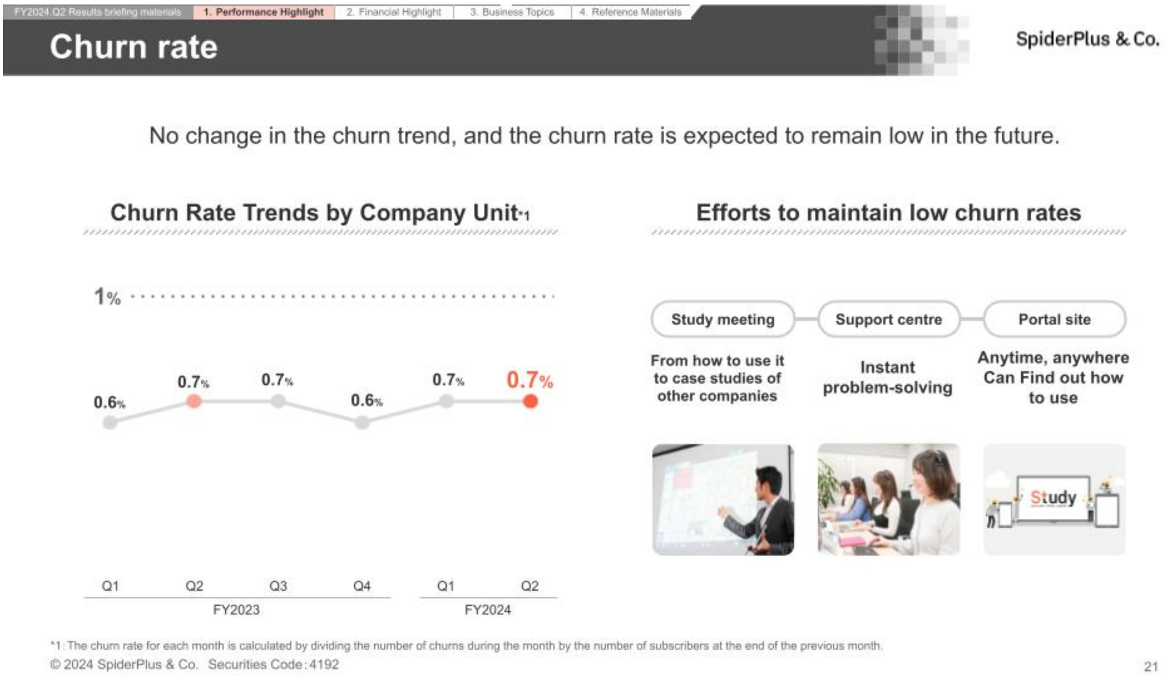


The number of subscribing companies is progressing as expected. ARPA rose 9% from the same period last year to 166 thousand yen, supported by the one-time introduction of optional functions by a major client.



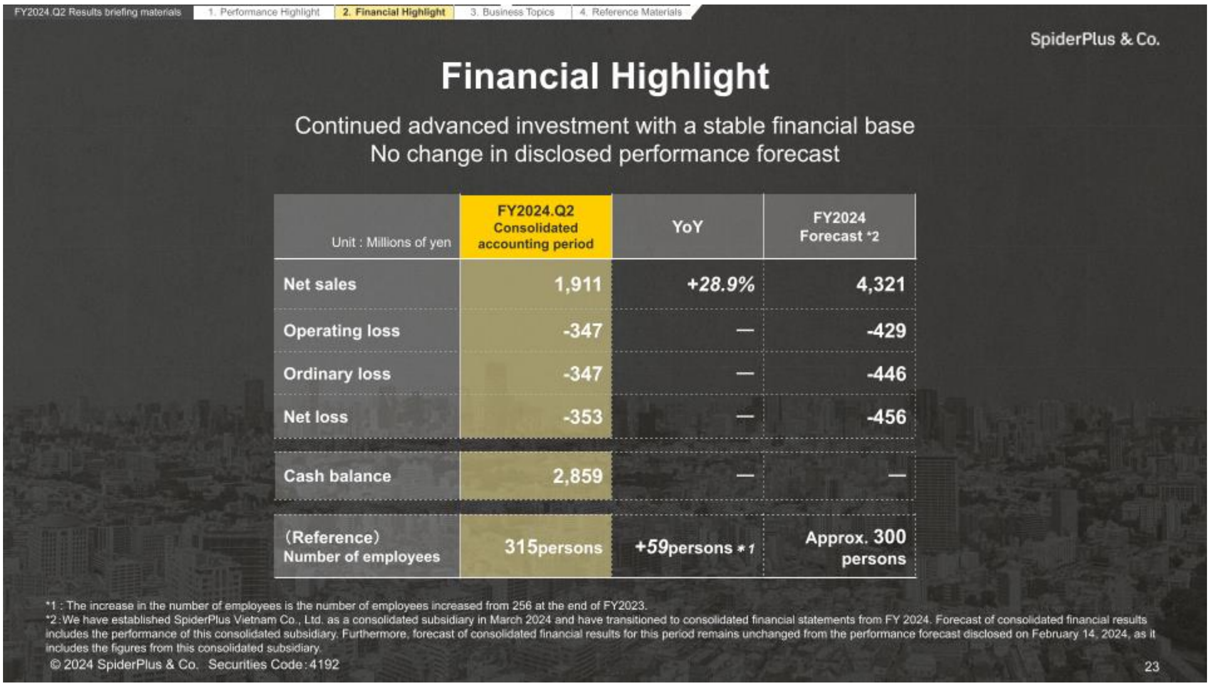
This supplement breaks down ARR and ARPA by customer size.

ARR growth is primarily driven by increased penetration within large customers. This was mainly driven by the aforementioned ARPU improvement initiatives such as option sales expansion. We also assess that we had a solid quarter in acquiring major construction customers.



There have been no material changes in the churn rate or churn trend, and the churn rate is expected to remain low at less than 1%.

FY2024.Q2 Financial Highlights



Unit : Millions of yen	FY2024.Q2 Consolidated accounting period	YoY	FY2024 Forecast *2
Net sales	1,911	+28.9%	4,321
Operating loss	-347	—	-429
Ordinary loss	-347	—	-446
Net loss	-353	—	-456
Cash balance	2,859	—	—
(Reference) Number of employees	315persons	+59persons *1	Approx. 300 persons

Here are the financial highlights.

Due to the establishment of the Vietnamese subsidiary as a consolidated subsidiary at the end of March 2024, the Company has shifted to consolidated financial results from the first quarter of FY2024, and the figures for this second quarter are also on a consolidated basis. Since the Vietnamese sales subsidiary has just started its operation, the impact on the Company's consolidated financial results is negligible.

Since the earnings forecast for FY2024 includes the performance of the Vietnamese subsidiary, there is no change in the forecast. We have secured a cash and cash equivalents balance of approximately 2.8 billion yen and are making forward-looking investments based on a stable financial base. As a result, hiring has been particularly successful, with headcount exceeding 300.

Consolidated Statements of profit and loss*1

SpiderPlus & Co.

Unit : Millions of yen (rounding down to the nearest unit)	FY2024.Q1 Accounting period (consolidation)	FY2024.Q2 Accounting period (consolidation)	From the previous quarter	FY2023.Q2 Cumulative period (non-consolidated period)	FY2024.Q2 Cumulative period (consolidation)	Year on year
Net sales	933	977	+4.8%	1,482	1,911	+28.9%
Of which, stock income	902	960	+6.4%	1,442	1,863	+29.1%
Stock income ratio	96.9%	98.1%	+1.2pt	97.3%	97.5%	+0.2pt
Gross profit	613	643	+4.9%	945	1,256	+32.9%
Gross profit margin	65.7%	65.8%	+0.0pt	63.8%	65.7%	+1.9pt
SGA cost	755	848	+12.3%	1,237	1,604	+29.6%
SGA cost ratio	81.0%	86.7%	+5.8pt	83.4%	83.9%	+0.4pt
Operating loss	-142	-205	—	-291	-347	—
Operating profit margin	-15.3%	-20.9%	-5.7pt	-19.7%	-18.1%	+1.4pt
Ordinary loss	-139	-207	—	-295	-347	—
Loss before income taxes	-139	-207	—	-295	-347	—
Net sales	-142	-210	—	-299	-353	—

Overview

- Net Sales and Gross Profit increased both YoY and in the immediately preceding quarter (Gross Profit : +32.9% YoY)
- SG&A expenses increased due to increased advanced investment in both the same period and the immediately preceding quarter.

Net sales

- Steady growth in stock income (+29.1% YoY)
- Net Sales (Customized Development) were not recorded in the quarter, so the ratio of Net Sales to Stock Revenue increased YoY.

Gross Profit Margin

- Gross profit margin has remained stable in the 65% range.

SGA cost

- SG&A expenses increased from the previous quarter due to an increase in recruitment-related expenses resulting from accelerated personnel hiring.

*1 : We have established SpiderPlus Vietnam Co., Ltd. as a consolidated subsidiary in March 2024 and have transitioned to consolidated financial statements from the fiscal year ending December 2024.

This section discusses the consolidated income statement.
Both sales and gross profit increased both versus the same period last year and the immediately preceding quarter.

Gross profit margin remained at a level of over 65%, and gross profit growth was +32.9% YoY compared to the same period last year. SG&A expenses for the period under review were approximately 850 million yen, the result of a planned expansion of investment scale while maintaining investment discipline.

Consolidated Balance Sheet*1

SpiderPlus & Co.

Unit : Millions of yen (rounding down to the nearest unit)	FY2021 (non-consolidated period)	FY2022 (non-consolidated period)	FY2023 (non-consolidated period)	FY2024.Q2 (consolidation)
Cash and deposits	4,196	3,044	2,846	2,859
Other current assets	512	497	575	620
Current assets	4,708	3,542	3,421	3,479
Software	2	558	463	399
Software in progress	381	183	220	248
Other fixed assets	334	510	490	480
Fixed assets	717	1,252	1,174	1,128
Total assets	5,426	4,794	4,596	4,608
Borrowings	178	443	499	856
Other liabilities	626	666	711	693
Total liabilities	804	1,109	1,211	1,549
Total net assets	4,622	3,684	3,385	3,058
Equity ratio	85.2%	76.8%	73.6%	66.3%

Overview

- The equity ratio has fallen to 66.3% as a result of borrowing to expand cash reserves, but the company continues to make forward investment based on a stable financial base.

Cash and deposits

- Although operating cash flow was negative due to advanced investments, cash and deposits totaled 2,859 million yen as a result of debt financing.

Software / Software in progress

- Investments mainly related to the renewal and development of SPIDERPLUS

Debt

- 350 million borrowed in the quarter under review to expand cash reserves (repayment period: 4 years, fixed interest rate)
- 1,200 million yen in overdraft and other lines of credit available (as of August 2024)

*1 : We have established SpiderPlus Vietnam Co., Ltd. as a consolidated subsidiary in March 2024 and have transitioned to consolidated financial statements from the fiscal year ending December 2024.

Cash and cash equivalents totaled 2.8 billion yen, and the equity ratio stood at 66%, ensuring a stable financial base. In the second quarter of the current fiscal year, the Company took out a long-term loan of 350 million yen (repayment period: 4 years, fixed interest rate) to increase cash on hand.

Consolidated Statements of Cash Flows*1

SpiderPlus & Co.

Unit : Millions of yen (rounding down to the nearest unit)	FY2021 (non-consolidated period)	FY2022 (non-consolidated period)	FY2023 (non-consolidated period)	FY2024.Q2 Cumulative period (consolidation)
Cash Flows from operating activities	-493	-1,000	-331	-322
Investment Cash Flow	-610	-508	-85	-45
Free Cash Flow	**-1,103**	**-1,509**	**-416**	**-368**
Financial Cash Flow	4,830	363	217	383
Effect of exchange rate changes on cash and cash equivalents	–	–	–	**-1**
Net increase (decrease) in cash and cash equivalents	**3,726**	**-1,146**	**-198**	**+13**
Cash and cash equivalents at beginning of year	464	4,191	3,044	2,846
Cash and cash equivalents at end of year	**4,191**	**3,044**	**2,846**	**2,859**

Overview

Operating Cash Flow

- Decrease in cash due to operating loss from advanced investment

Cash flows from investing activities

- Decrease in cash mainly due to the expansion of the Kansai office and software development subject to capitalization

Cash flows from financing activities

- Increase due to borrowings and stock acquisition rights exercised

Cash and cash equivalents at end of year

- Shown from the current period due to the establishment of a subsidiary in Vietnam.

*1 : SpiderPlus Vietnam Co., Ltd. was established as a consolidated subsidiary in March 2024, and the company's accounts will be consolidated from the fiscal year ending December 31, 2024.

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As for cash flow, as mentioned above, free cash flow was negative due to continued prior investment based on a stable financial base, but cash and deposits at the end of the period remained at a level of approximately 2.8 billion yen.

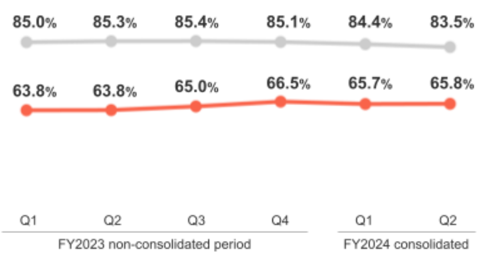
Cost of Sales

SpiderPlus & Co.

Gross profit margin is stable at 65% level.
FY2024 is expected to remain at the same level.

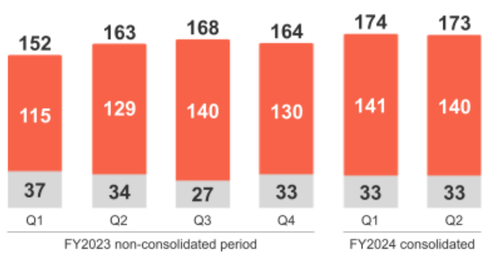
Marginal profit ratio*1 and Gross profit margin

● : Gross profit margin ratio ● : Marginal profit ratio



Breakdown of Fixed Costs*2

■ : Development labor costs *3 ■ : Other fixed costs (mainly depreciation related to products) Unit : Millions of yen



*1 : Marginal profit is calculated by "net sales - communication costs (cost of sales) - commissions paid (cost of sales)., Marginal profit margin is calculated as "marginal profit divided by net sales".
*2 : Only fixed costs in cost of sales, not fixed costs in SG&A expenses.
*3 : Includes expenses related to outsourcing (including SES) and temporary staffing, in addition to regular employee personnel expenses.Other fixed costs are based on the Company's management accounting aggregate classification.

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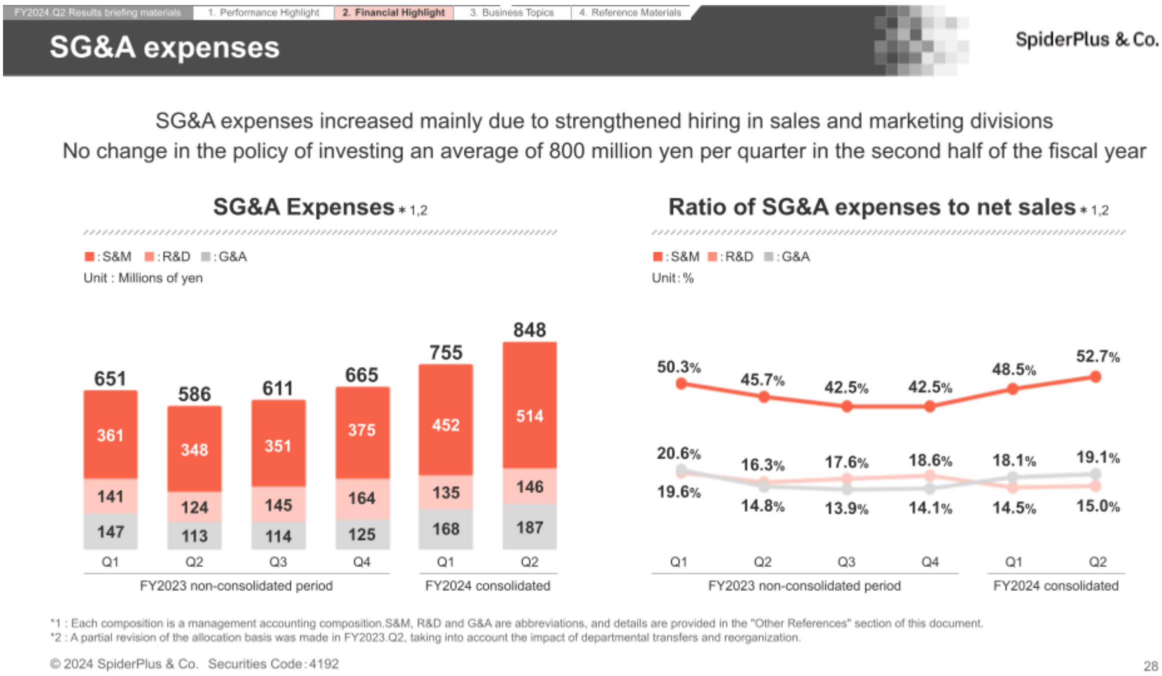
The gross profit margin increased to 65.8% from 63.8% in the same period of the previous year. The marginal profit margin declined slightly to 83.5% of net sales in the second quarter, mainly due to an increase in the ratio of server costs to net sales in the weak yen environment and an increase in royalties paid to joint development partners as a result of progress in sales of optional functions developed jointly with customers.

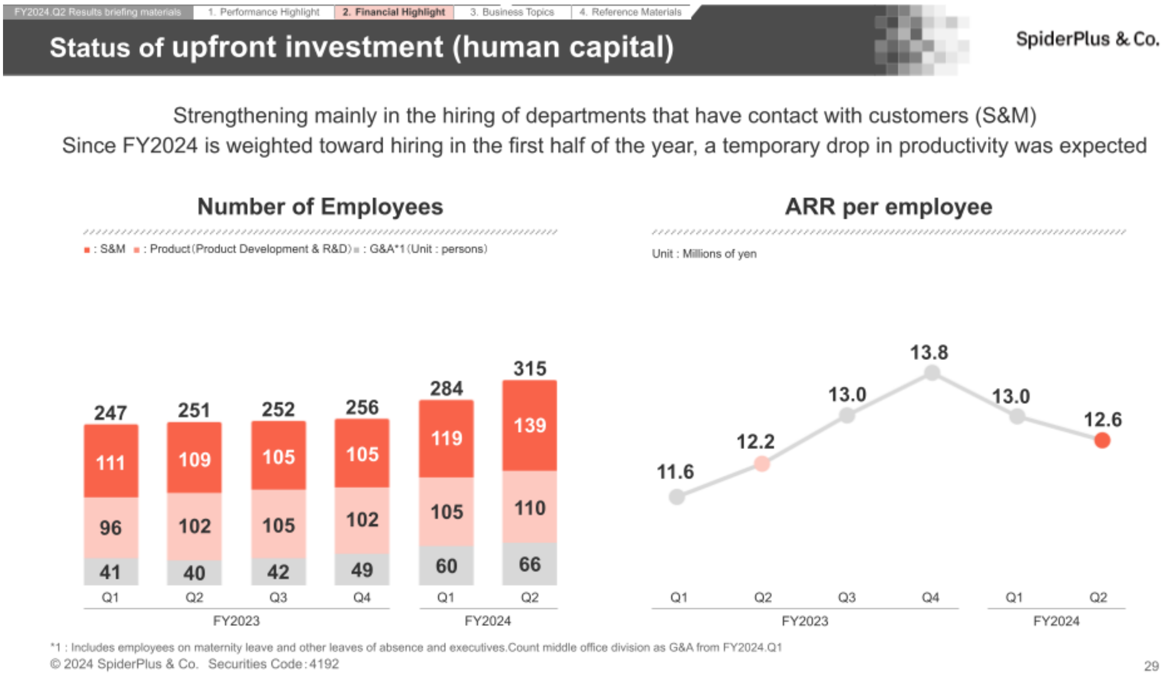
This is mainly due to an increase in the ratio of server fees to net sales under the yen depreciation environment. These factors are within the scope of the plan.

In accounting for development personnel expenses, we charge such expenses to either cost of sales or SG&A expenses, depending on the division to which the development personnel belong and the project in which they are engaged. For example, man-hours spent on projects related to the development of new functions are charged to SG&A expenses. Cost of sales may increase or decrease depending on the allocation of development personnel.

In the second quarter of the current fiscal year, as a result of an increase in the proportion of resources related to the development of new functions, development personnel expenses recorded in cost of sales remained at the same level as in the previous quarter, resulting in a favorable turnaround in the gross profit margin. The Company's goal is to maintain a gross profit margin of 65% or higher through FY2024.

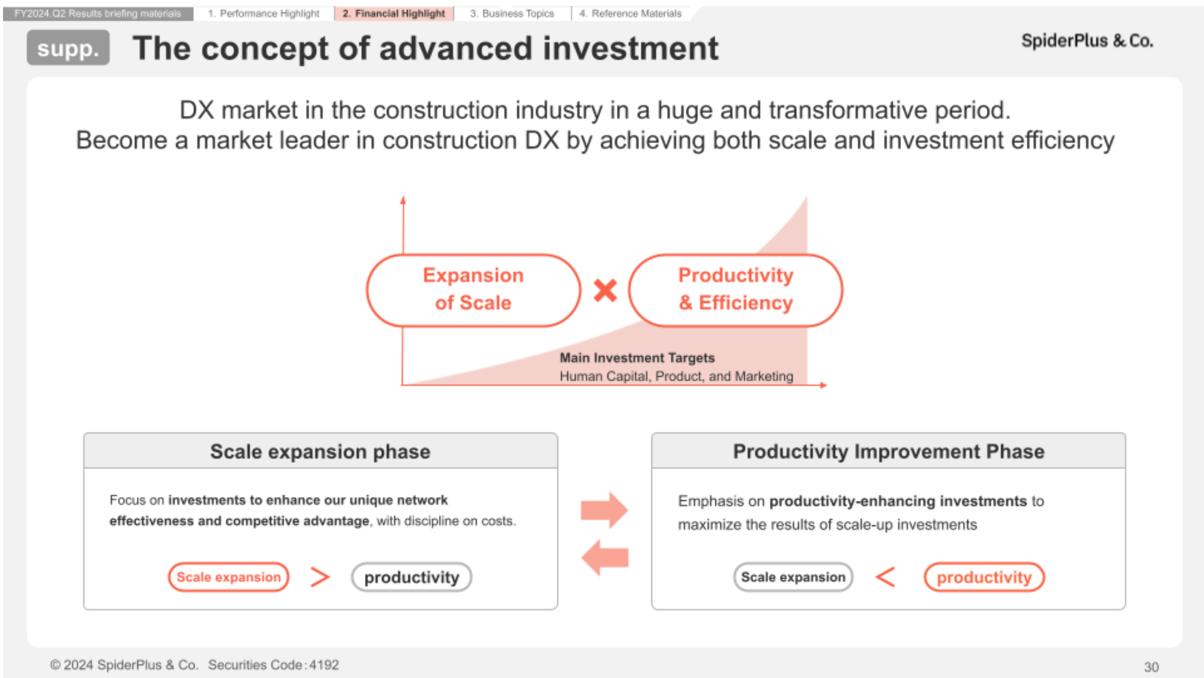


Regarding SG&A expenses, they landed at about 850 million yen for the quarter. In FY2024, we will maintain the increased productivity while aggressively and disciplined investment for scale expansion.



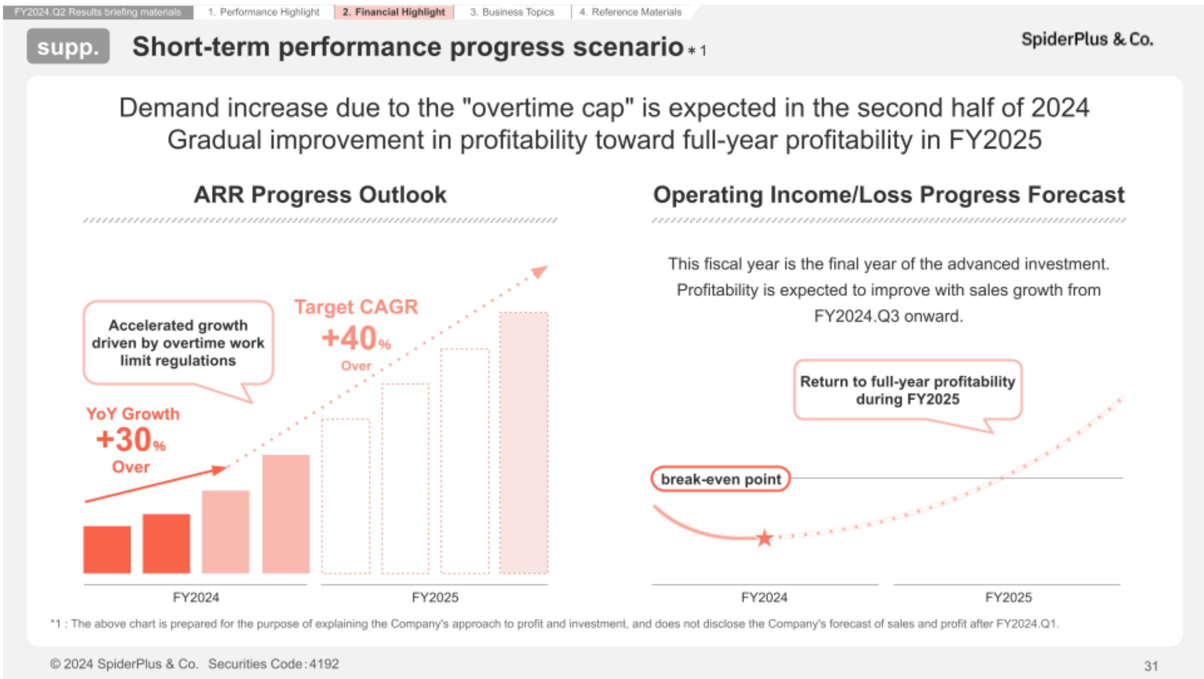
This section discusses human resource investment, which accounts for a significant portion of our forward-looking investment. In anticipation of a period of increased demand, we are flexibly transferring personnel and reorganizing departments to enhance organizational productivity.

With regard to hiring, we are particularly strengthening personnel in the sales department, which serves as the point of contact with customers. In the second quarter of the current fiscal year, the planned strengthening of hiring led to an expected decline in ARR per employee, but we expect this figure to gradually improve in the future.



This is about our approach to upfront investment.

To become a market leader in the DX market of the construction industry, which is huge and undergoing a period of change, we are pursuing strategic upfront investment. We will focus on investments where we can improve productivity and investment efficiency, and efficiently increase the ARR growth rate.

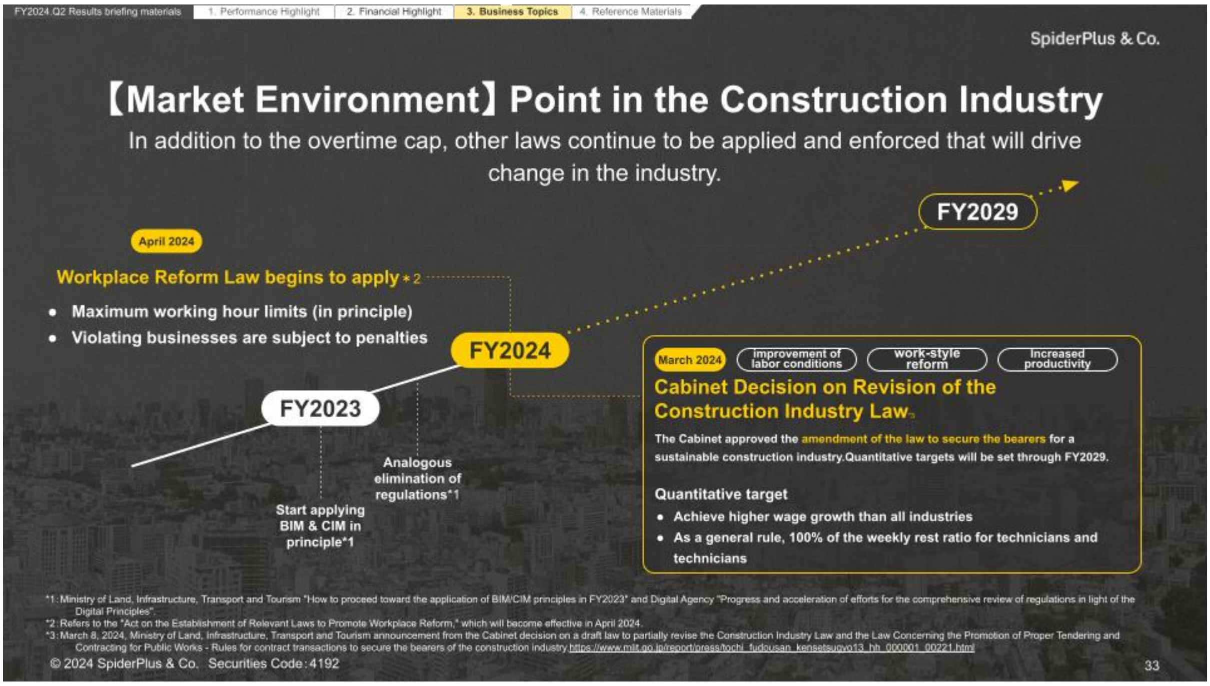


The following is an explanation of the outlook for ARR and operating income/loss from FY2024 to FY2025.

The overtime cap will become effective in April 2024, but we expect DX demand to increase in the second half of 2024, starting in the latter half of the third quarter. Therefore, for FY2024, we are planning to increase sales and ARR growth rates toward the end of the fiscal year, with a bias toward the second half of the fiscal year.

The company plans to return to profitability in FY2025, partly because it has positioned the upfront investment period as extending through 2024.

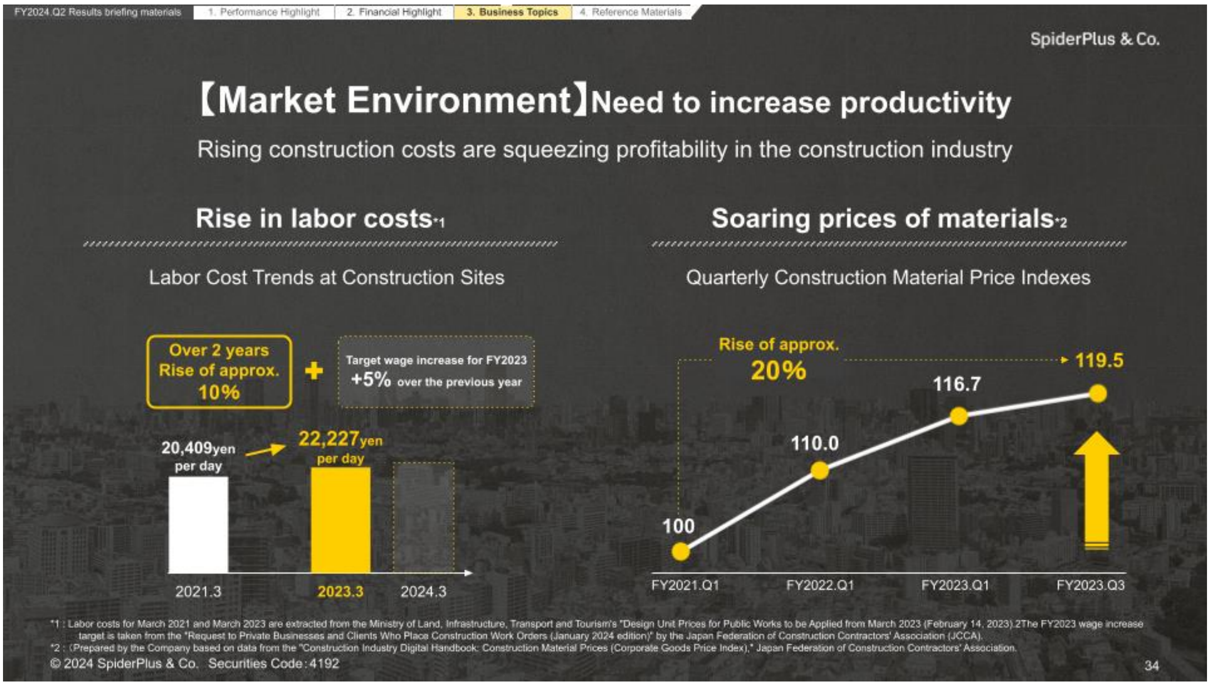
Business Topics



This section describes our growth strategy and its progress.

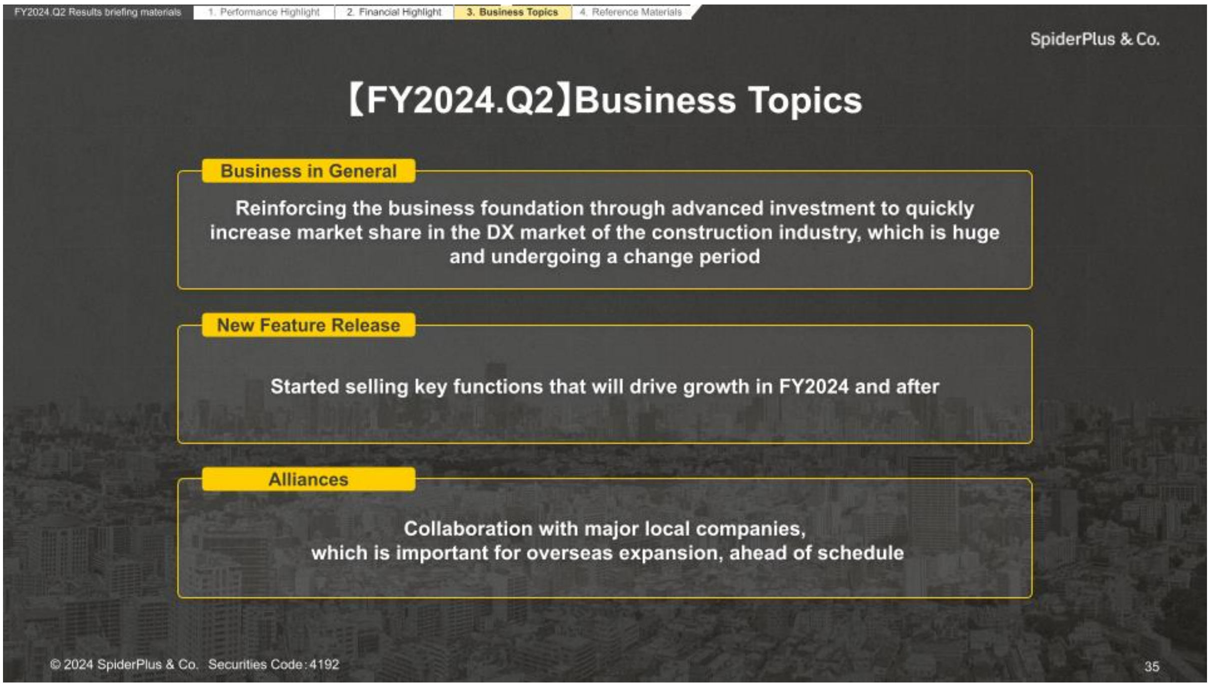
First, regarding the market environment, the construction DX market is preparing for a period of expansion, triggered by the application of the overtime ceiling regulations starting in April 2024.

Furthermore, in March 2024, the Cabinet will approve a new legal revision to improve productivity at construction sites, and the application and enforcement of the law will continue to drive change in the industry.

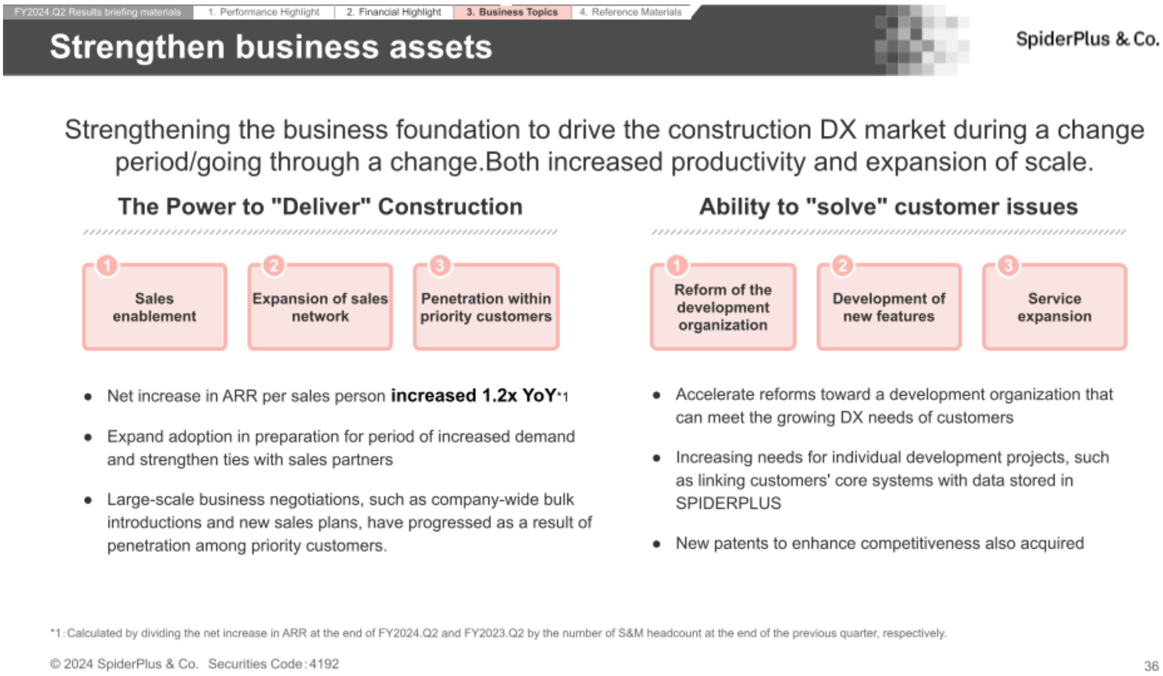


In other external conditions, labor costs in the construction industry have risen 10% over the past two years, and material prices have skyrocketed.

These rising costs are putting pressure on the profitability of the construction industry. Even without overtime caps, improving productivity has become a necessity.



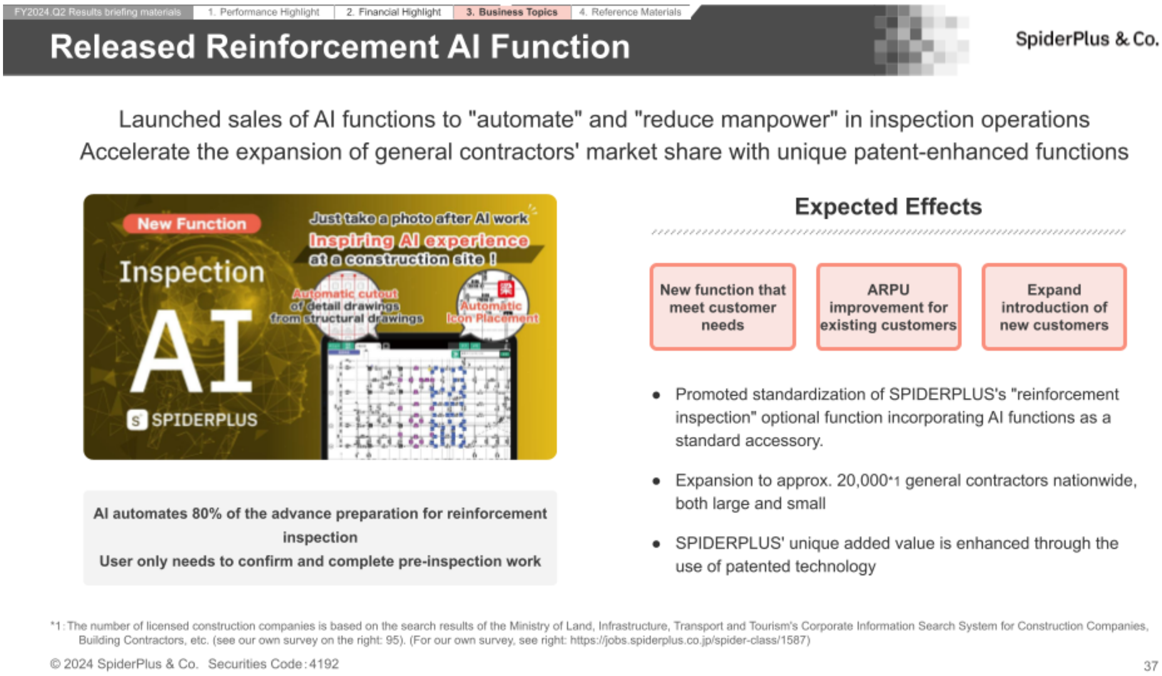
We would like to introduce three business topics that we worked on in this business environment during the quarter.



We positioned the period from FY2021 to FY2024 as a period of upfront investment to strengthen and expand our assets (“the ability to deliver Construction DX” and “the ability to solve customer issues”) in order to capture growing demand.

With respect to the “power to deliver” Construction DX, we increased productivity per sales person by 1.2 times year-on-year through sales enablement, while expanding our workforce. We are also expanding and strengthening our sales network. In addition, as mentioned above, SPIDERPLUS has been penetrating among our priority customers.

With respect to the ability to “solve” customer issues, we are systematically strengthening our professional services and BPO services, and are also working to further strengthen our development organization itself. We are evolving into a development organization that uses technology to meet increasingly sophisticated and diverse needs. In addition, we will combine the power to “solve” not only with our own resources, but also through alliance strategies.



In August 2024, we will start selling a key function that will contribute to growth in FY2024 and beyond: the “Reinforcement AI Function.

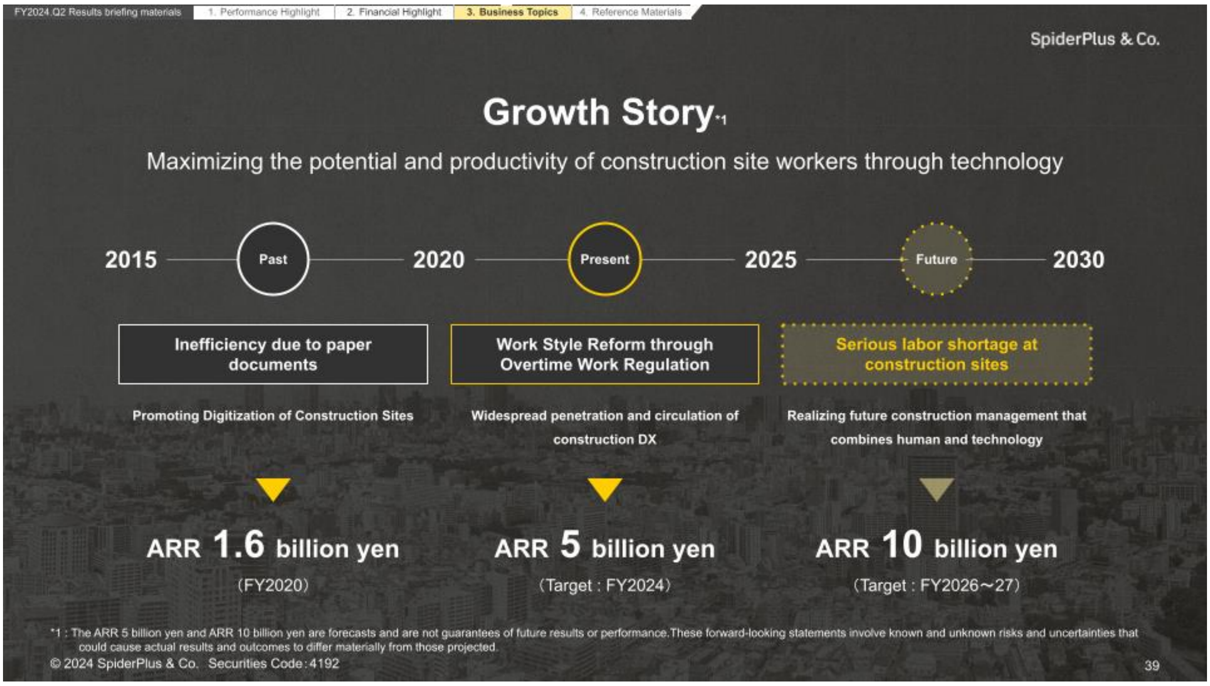
This AI function, which was previously used to improve the operational efficiency of our BPO service, will be incorporated into the optional “Muscle Distribution Inspection Function” of SPIDERPLUS and will be available to users. This function is also a proprietary function based on our patented technology.

This function automates 80% of the preparation process for muscle arrangement inspection, which used to require a lot of manpower and man-hours. Users can now complete pre-inspection preparation work by simply checking and fine-tuning the work performed by the AI, thereby realizing automation and labor savings when using SPIDERPLUS.

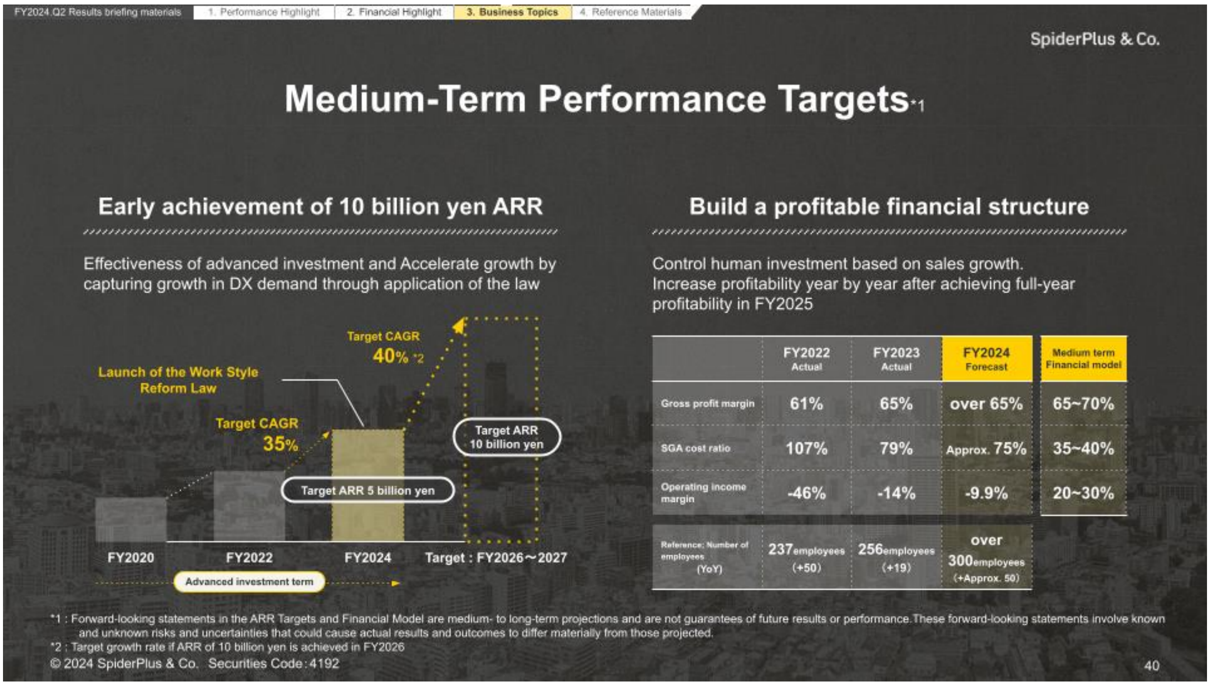
We expect this service to contribute to an increase in ARPU through cross-selling to existing customers, especially general contractors, and to an increase in the number of contractors and contract IDs through the development of new customers.

As an important step to accelerate our overseas expansion, we have started a collaboration with Sigma, a major local facility construction company in Vietnam. This collaboration is an important step in our efforts to quickly acquire a share of the Vietnamese market. While we have been gradually developing our business from Japanese companies, this collaboration will enable us to effectively and efficiently localize our services for Vietnamese customers, in addition to acquiring a network that will allow us to expand our introduction to local companies.

In its business development in Japan, TYO has worked with top-runner companies in the construction industry to develop functions and improve services, and has continued to expand its business as a market leader in the construction DX industry. In our overseas expansion, we aim to become the market leader in the construction DX industry in Vietnam by working with top-runner companies in the countries where we operate to develop products and expand the number of cases in which our products are used.



The measures we have discussed so far are important measures for this quarter to “create the construction sites of the future together with our customers”. Because we are able to solve social issues in the construction industry with technology, we are obligated to grow as quickly as possible, and we will continue to commit to business growth.



There is no change in our mid-term plan policy. The business progress in Q4 FY2023 is an important step toward achieving an ARR of 10 billion yen as early as possible, and we will move into the expansion phase with high productivity in time for the application of the overtime cap in FY2024, further increasing our growth rate.

SPIDERPLUS will become an indispensable company by working with customers to create the “construction sites of the future” in 2030, when labor shortages will become more serious.

For inquiries regarding this matter, please contact
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