

SpiderPlus & Co.

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SpiderPlus & Co.

Kenji Ito, President and Representative Director

(TSE Growth: 4192)

Transcript of interview with coverage analyst

Date and Time	: Monday, August 19, 2024, 3:00 p.m. - 4:00 p.m.
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【Notes】

This document has been translated from the original Japanese version*1 for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

*1 : Click here for the original Japanese version. : <https://spiderplus.co.jp/ir/results/>

【Notes on Transcription】

This transcription contains forward-looking statements. These forward-looking statements are based on information available as of the date of the financial results meeting. These forward-looking statements are not guarantees of future results or performance. Such forward-looking statements involve known and unknown risks and uncertainties that could cause actual future results and financial condition to differ materially from any future results and financial condition expressed or implied by such forward-looking statements.

Factors that could cause results to differ materially from those described in these statements include, but are not limited to, changes in national and international economic conditions and trends in the industries in which we operate.

Information regarding matters and organizations other than the Company is based on publicly available information, and the Company has not verified and does not guarantee the accuracy or appropriateness of such publicly available information.

This transcription is prepared for informational purposes only. It is not intended as an offer to sell or a solicitation of an offer to buy any securities in Japan, the U.S. or elsewhere.

The content of this transcription differs in part from the actual questions and answers at the briefing due to considerations of personal information, readability, control of duplicate questions, and selection of questions related to financial results and business.

1. Question from SpiderPlus to Analyst Nakagawa

Questioner : Yutaka Fujiwara, Director, Corporate Officer and CFO, SpiderPlus & Co.

Respondent : Yoshihiro Nakagawa, Equity Research Department, Mizuho Securities Co., Ltd.

Question 1 from SpiderPlus&Co.

(Regarding to assessment of FY2024.Q2 Financial Results)

Please tell us about FY2024.Q2 performance and KPI assessment.

We recognize that the financial results were not a surprise. This is because we understood that financial results are biased toward the second half of the year and that the seeding period would continue into the second quarter. On the other hand, we are also under the impression that it is necessary to be able to confirm sales growth in the third and fourth quarters of the second half of the year.

We have the same evaluation of the disclosed KPIs as the company evaluation. However, I believe that the market and investors have expectations for more growth in the number of IDs. Please allow me to confirm this point in the individual questions below.

Question 2 from SpiderPlus&Co.

(Regarding to the financial results of a listed construction company)

In the August earnings announcements of construction companies, we saw some companies with favorable earnings.

To the extent possible, please share your views on whether there are any trends or characteristics of high-performing companies.

In the first quarter financial results of the listed construction companies this time, many of them are perceived to have improved their business performance, which had been sluggish over the past two years due to the significant impact of price hikes.

Specifically, compared to the previous year, major general contractors and semi-major general contractors have seen a decrease in the impact of price hikes, and profit

margins in the construction business have improved significantly, which we recognize as a positive stock price reaction.

Question 3 from SpiderPlus&Co.

(Regarding to the mid-term strategy of a listed construction company)

We have many listed construction companies using SPIDERPLUS, and we see higher profit margins for clients who have been using SPIDERPLUS for a long time or who are aware of DX investment from early on.

For companies with fiscal years ending in March, the first quarter results disclosed this past August show no signs of DX investments being related to their business performance. However, some construction companies mentioned that they may begin to be aware of the risk of the 2024 problem (overtime cap) toward the second half of the year, which gives us the impression that this could be a business opportunity for SpiderPlus.

Question 4 from SpiderPlus&Co. (Regarding to trends in construction DX)

Recently, some major construction companies have updated their mid-term management strategies and integrated reports. Looking at the contents, I feel that they are going further into DX than ever before, such as “data integration” and “DX human resource development. Please let us know if you are aware of any changes in construction DX trends.

Basically, I am aware that the direction of promoting DX will not change, but I am not sure if there will be much change from the past. However, I have the impression that any company will promote DX in order to improve the productivity of construction.

2. Transcribed questions and answers by sell-side analysts

Questioner: Yoshihiro Nakagawa, Equity Research Department, Mizuho Securities Co.

Respondent: Yutaka Fujiwara, Director, Corporate Officer and CFO, SpiderPlus & Co.

Question 1 (Regarding to factors contributing to the growth in the number of IDs and the outlook)

The number of IDs was up 14% from the previous quarter. Please break down the growth factors and give us an outlook for the second half of the year.

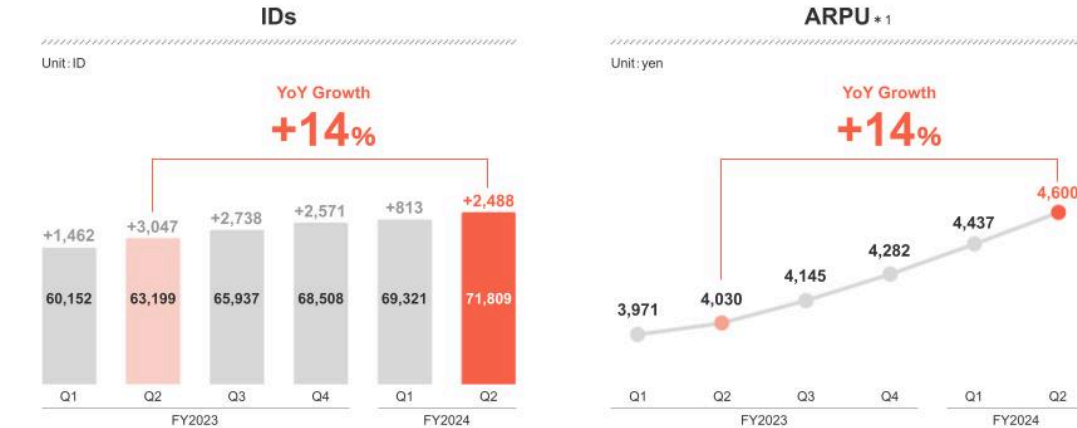
The main breakdown of the net increase in IDs in Q2 is the increase in the number of major customer IDs. The development of major customers is a result of the implementation of sales strategies based on account plan measures for each individual company, and the introduction of additional IDs to existing customers, including the introduction of SPIDERPLUS to sites where it has not yet been installed.

For existing major customers, the increase in the number of IDs was also strong due to the emphasis on deep utilization of SPIDERPLUS, but more importantly, the ARPU improvement was particularly strong due to the introduction of optional functions necessary for deep utilization of SPIDERPLUS.

As for small- and medium-scale customers, although the number of IDs from newly introduced companies and companies that have just introduced SPIDERPLUS is growing, we expect demand to increase in the second half of 2024, especially from Q4 to 2025, due to the 2024 problem and labor shortage, and we took measures such as lead generation during the quarter.

For the second half of 2024, we expect the strong trend of ARPU growth to continue, and we expect the number of IDs to show up in financial figures by the end of the year, or as early as the third quarter, as business negotiations with major corporate clients and development with sales partners for SMBs in rural areas are progressing steadily.

Focus on penetration of Enterprise customers to achieve ARR of 5 billion yen by the end of FY2024.
 ARPU growth exceeds target due to cross-selling of optional functions and switching to new plans.



*1: Represents the contract unit price for ID units and is calculated based on "MRR + ID numbers" at the end of each quarter.
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Question 2 (Regarding to the development of major clients)

Please tell me if my understanding is correct that Enterprise customers are mostly long-term introductory customers, and that the sales method is to explore introduction sites only for existing customers.

There are still some major customers with many uninstalled sites, so this is the way to proceed for customers with a large potential to introduce the number of IDs.

On the other hand, as mentioned earlier, even for customers with a large potential number of IDs, we may prioritize deep use of SPIDERPLUS by existing users for account planning purposes, so we are not promoting uninstalled sites to all customers.

The more users who deeply use SPIDERPLUS, the more networking effect can be expected as the number of users who deeply use SPIDERPLUS increases, and the more such users can be expected to introduce their colleagues and other users and customers who have not yet used SPIDERPLUS, etc. Therefore, account planning is conducted with networking effects in mind, Therefore, we are building our account planning and sales strategies with network effects in mind.

Question 3 (Regarding to the approach to KPIs in the second half of FY2024)

Please tell me if it is correct to understand that the trend of IDs and ARPU will remain the same in Q3 and Q4, and that the number of IDs will grow, but ARPU will also increase more than that.

Yes, based on the progress of the current account plan, we expect the trend of strong ARPU growth to continue in the second half of FY2024 when comparing IDs to ARPU. We also expect to see an increase in the number of IDs from uninstalled sites of large companies and the return of dormant IDs in the second half and beyond, as well as the inclusion of IDs related to new and additional introductions by small and medium-sized companies.

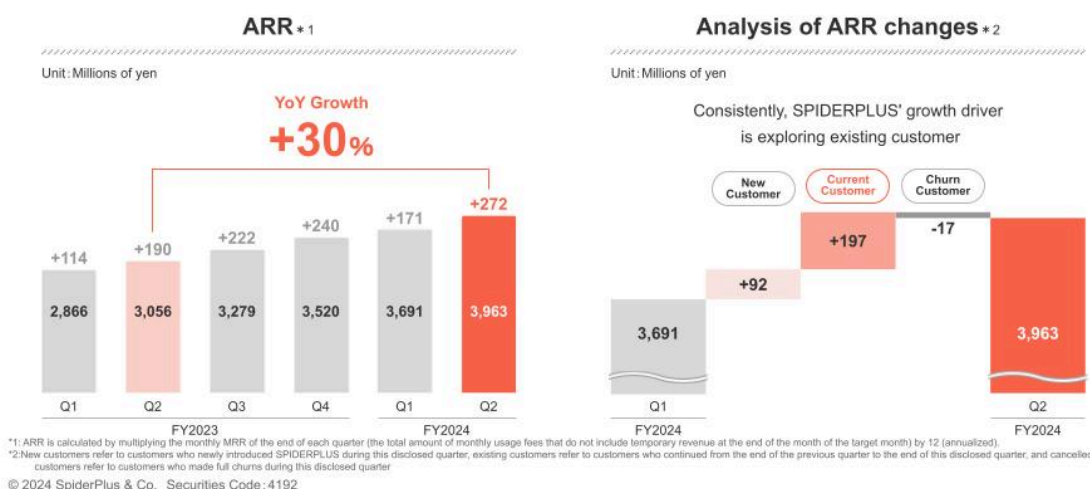
Question 4 (Regarding to contribution of ARR growth by segment)

From the analysis of the increase/decrease in ARR, I see that the contribution from existing customers is significant.

Yes, there is no change in the trend of existing customers driving ARR growth.

ARR

ARR expanded mainly due to optional function penetration measures to existing customers.

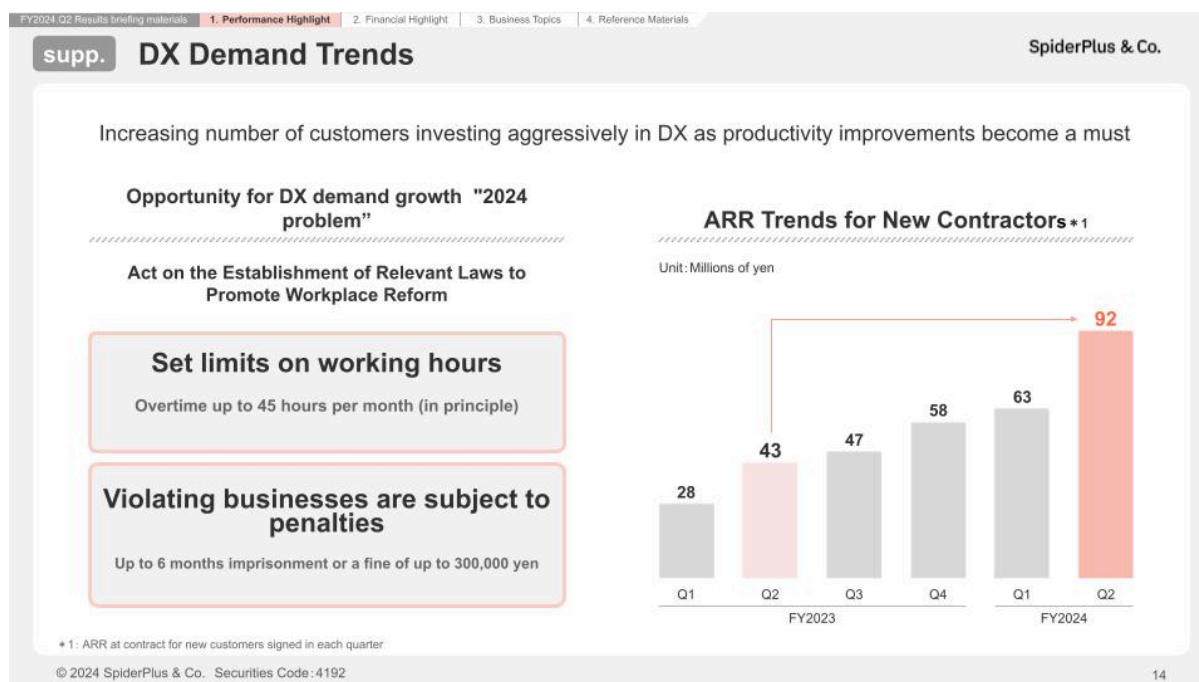


Question 5 (Regarding to trends in DX demand)

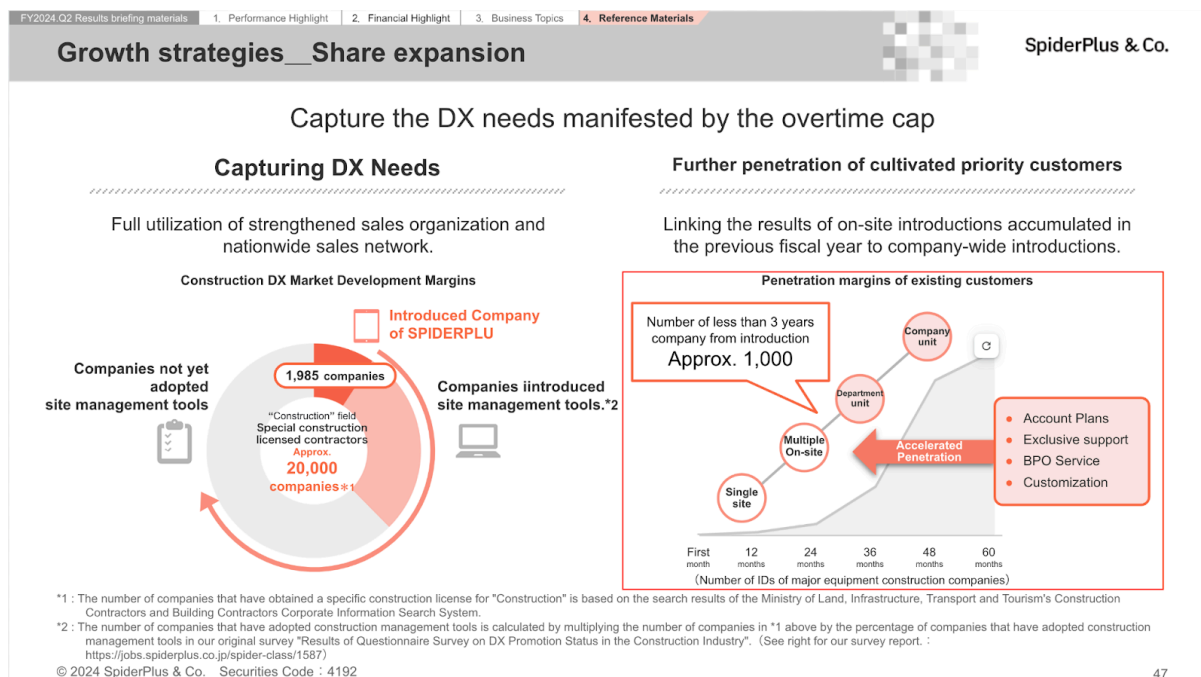
Regarding the data on the growth in ARR for new contractors, please tell me if this indicates that 2024 issue demand is beginning to emerge.

We are seeing an increase in the number of new customers who are introducing new plans in preparation for the 2024 problem, which will allow them to enjoy the benefits of the new plan on their productivity earlier.

For existing customers, the number of introduced IDs and ARR tended to increase rapidly from 3 to 5 years after the initial introduction of the service. We believe that many of the customers who have introduced the system within the past 1 to 2 years are those who have a clear understanding of the 2024 problem and the issue of improving productivity.



Reference: SPIDERPLUS customer penetration model (image in red frame, p. 47 of the financial results presentation))



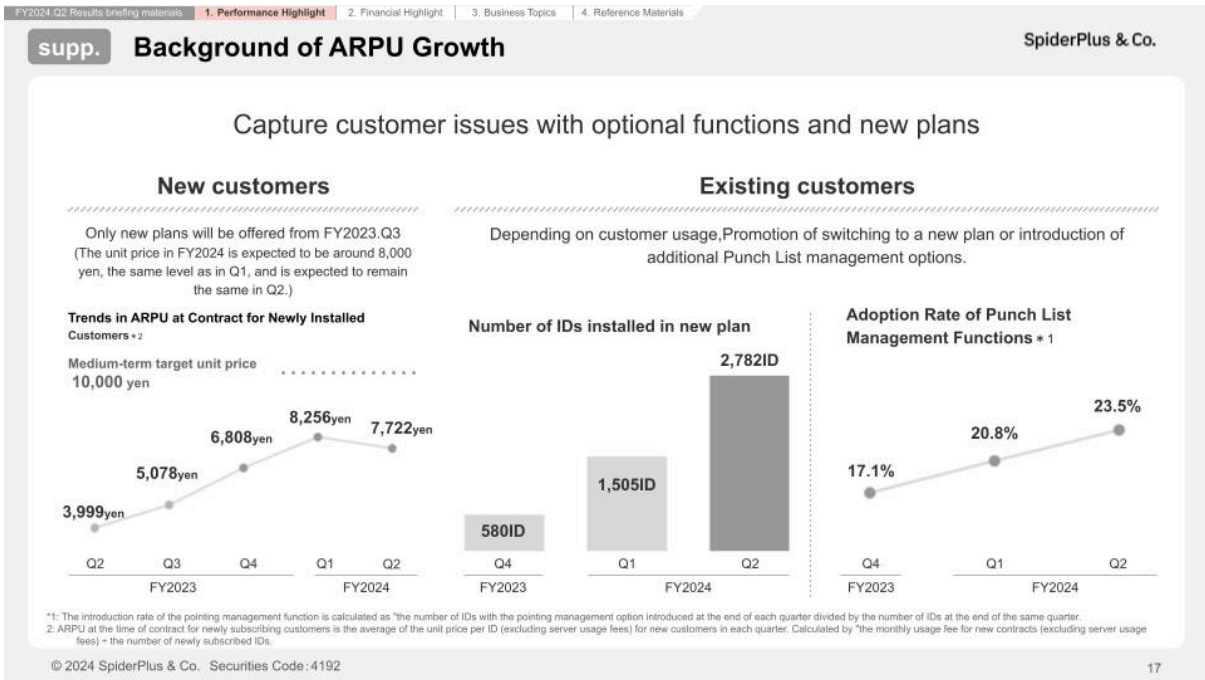
Question 6 (Regarding to breakdown of ARPU growth)

What factors contributed to the decrease in ARPU for new customers from the previous quarter?

Since some sales partners (agents and distributors) have not yet been able to offer the new plans, if the ratio of sales via direct sales drops, the unit price will be higher for the new plans, resulting in a lower ARPU at sign-up for new customers.

In FY2024, taking these circumstances into account, we expect new customer ARPU to remain around 8,000 yen. Therefore, the drop to 7,700 yen for new customers in Q2 is not a negative figure, and is within our expectations since it is around 8,000 yen.

In addition, the handling of new plans by sales partners is progressing in tandem with measures to strengthen relationships.



Question 7 (Regarding to growth factors for contracting firms)

It is my understanding that most of the new contractors are small business customers. We also believe that ARPA goes down when new clients are increasing, but can you give us some background on why it is going up?

Overall ARPA is also increasing due to the introduction of options for existing major customers, time, switching to new plans, and the introduction of IDs at sites where they have not yet been installed.

Question 8 (Regarding to churn rate)

Please tell me if it is correct to understand that the churn rate trend remains the same, but that this is due to fewer users "quitting because they don't know how to use the system" as in the past.

There has been no change in the cancellation trend. We are proceeding with various measures, although we refrain from giving detailed answers.

Question 9 (Regarding to the number of employees)

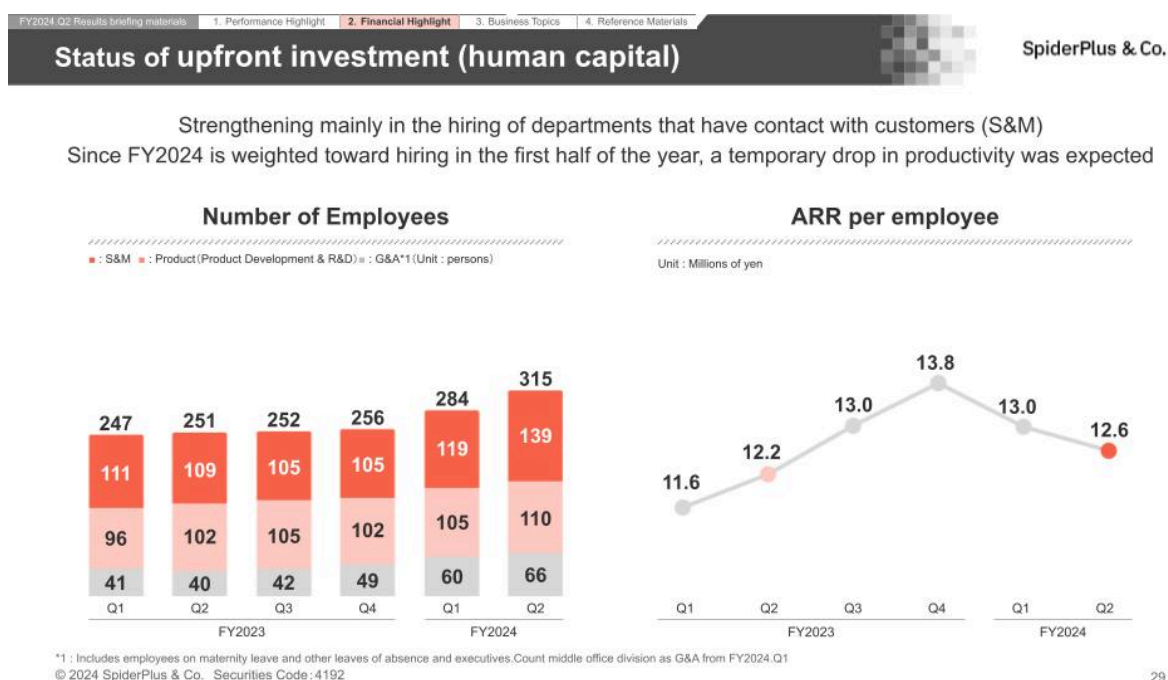
Please tell me about your hiring policy for FY 2024.Q3 onward and the projected number of employees at the end of this fiscal year.

Also, to the extent possible, please tell me the type of people you would like to hire.

We will continue to invest in human resources, but the pace of hiring will be slower than in the first half. We are hiring mainly management-level personnel and potential personnel who can drive our future growth.

We are emphasizing scalability in organizational development, and we are actively hiring for divisions where business growth can be accelerated by increasing the number of employees as the structure progresses, based on an investment discipline that also incorporates medium- and long-term perspectives.

The number of employees at the end of the fiscal year is expected to increase from 315 at the end of the second quarter, but we do not expect it to reach the level of 350 to 400. However, our recruiting ability is one of our strengths, and since we have created an environment in which we can hire good people, we intend to actively hire good people while maintaining discipline based on the medium- to long-term growth potential of the company.



Question 10 (Regarding to SG&A expenses)

Is it correct to understand that the increase in SG&A expenses is due to the increase in the number of recruits? Also, what is the outlook for advertising for this fiscal year?

We are investing in marketing-related activities, mainly exhibitions, and the increase in SG&A expenses is mainly due to higher fixed costs from hiring. We hope to see a flat gross profit margin for the current fiscal year. In addition, we envision advertising expenses in the first half of tens of millions.

Question 11 (Regarding to marginal profit margin and gross profit margin outlook)

Given that the gross profit margin will remain stable at 65%, please tell me if the marginal profit will be similar to trends.

Marginal profit margin is expected to remain at around 83% to 85% due to the weak yen and other factors. Gross profit margin is also expected to remain above 65%.

In addition, we are reviewing and allocating development personnel to projects, and it is possible that the proportion of projects and operations that should be included in cost of sales may be smaller than in the past. In that case, since fixed costs will not increase, we expect the gross profit margin to be at a slightly higher level.

In addition, as we are reviewing projects and promoting selection and concentration, we are also reviewing our policy on the use of SES and outsourcing. As a result, if the number of SES and outsourcers decreases, development personnel expenses (fixed costs) in cost of sales and SG&A expenses (operating expenses) will not increase, so we expect a positive impact on an operating income basis. As a result, the Company is reviewing its policy for utilizing SESs and outsourcing.

Question 12 (Regarding to the competitive environment)

What do you think about the competitive environment?

Regarding the competitive environment, we are hearing more and more about the release of new services for construction DX and construction management.

However, many of these services are specialized for specific tasks, and there are few services like SPIDERPLUS that are comprehensive and can be utilized at a deep level.

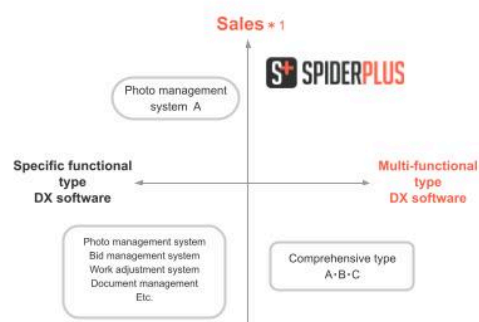
While there is competition when focusing on individual functions and operations, SPIDERPLUS is in a unique position in the construction DX industry in terms of the value it provides and its customer base.

SPIDERPLUS is category leaders in construction DX market.

Customer base mainly with major companies in the industry



Positioning in the Construction DX Industry



* 1: Sales figures for each service are compiled by referring to "Market Trends of Construction Management Solutions," "Market Trends of Photography and Drawing Management Solutions" in the "Market Outlook for Con-Tech (Construction Tech) Solutions 2022 Edition (published in Jan. 2023)" by Deloitte Tohmatsu Economic Research Institute, and a research company report on individual competitors.
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Question 13 (Regarding to SMB development measures)

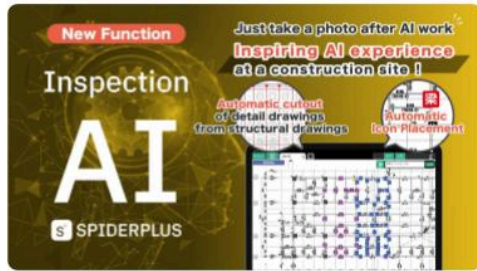
Please tell me about your SMB development measures.

Our development measures for SMEs have focused on cultivating and strengthening our sales network, and we have been building a system to ensure that we can capture demand. In August 2024, we are also releasing a muscle distribution AI function that also meets the needs of our SME customers.

Currently, we are also receiving comments from customers who say, "I want to work on DX but I don't know what to do. We also feel that "automation through the use of AI" is attracting attention. In this environment, we have decided to market the "reinforcement AI function" as an important update. This is a function that we are receiving strong inquiries about, regardless of the size of the company.

Released Reinforcement AI Function

Launched sales of AI functions to "automate" and "reduce manpower" in inspection operations
Accelerate the expansion of general contractors' market share with unique patent-enhanced functions



AI automates 80% of the advance preparation for reinforcement inspection
User only needs to confirm and complete pre-inspection work

Expected Effects

New function that meet customer needs

ARPU improvement for existing customers

Expand introduction of new customers

- Promoted standardization of SPIDERPLUS's "reinforcement inspection" optional function incorporating AI functions as a standard accessory.
- Expansion to approx. 20,000*1 general contractors nationwide, both large and small
- SPIDERPLUS' unique added value is enhanced through the use of patented technology

*1: The number of licensed construction companies is based on the search results of the Ministry of Land, Infrastructure, Transport and Tourism's Corporate Information Search System for Construction Companies, Building Contractors, etc. (see our own survey on the right: 95). (For our own survey, see right: <https://jobs.spiderplus.co.jp/spider-class/1587>)

Question 14 (Regarding to mid-term ARPU targets)

In the financial results presentation, the medium-term target ARPU for new customers is stated as 10,000 yen.

Please tell me if this is the same for existing customers.

New customer ARPU will approach the target ARPU as we continue to introduce new plans for our sales partners. We cannot give specific timing for existing customers, but we are working to roll out the new SPIDERPLUS plans to all customers as a management goal.

Question 15 (Regarding to collaboration with Sigma)

Please tell me if Sigma, the company you are in alliance with, has any strong regions in Vietnam. I understand that Sigma is a subsidiary of a major Japanese construction company, but since it is also a company that Yurtec has acquired, please tell us how this will affect your business.

Regionally, the company is strong in Hanoi, where its headquarters is located, but has also expanded into other areas, such as Da Nang. They are involved in large properties where our services are strong, such as hotels, condominiums, and resort facilities. Although Yurtec has acquired Sigma and it is a wholly owned subsidiary of

Yourtec, please understand that it is separate from YourTech Vietnam and operates as a local company.

Important Collaboration in overseas expansion

Collaboration with a major Vietnamese facility construction company as an important step to quickly gain market share in Vietnam

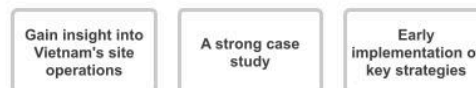


About SIGMA ENGINEERING JSC

- A leading company in the country's construction industry, selected as one of the "Top 5 Facility Construction Companies in Vietnam" for seven consecutive years*1
- Since its establishment in 2005, the company has participated in many important projects in Vietnam's development, including commercial facilities, large-scale plants, and airports.

*1: Vietnam Report JSC Presentation
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Key Points of Collaboration



Overseas Expansion Roadmap



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Question 16 (Regarding to expansion into Thailand)

Please tell me if the process of expanding into Thailand will be the same as in Vietnam, or will it be different?

We do not believe that we will proceed in exactly the same way, as markets and countries differ in their level of maturity, and we will take this into account as we develop the project.

Question 17 (Regarding to when dormant IDs from the previous quarter will be re-signed)

Please tell me if it is correct to assume that the number of IDs that were suspended due to the completion of large sites in the previous quarter will return in the second half of the year.

Yes, it is expected to return in the second half of the year.

Question 18 (Regarding to spot sales)

Please tell me how much spot sales will increase this fiscal year and whether you intend to continue to increase spot sales.

In the medium term, we believe that spot development projects, such as individual development, will increase as the number of companies grows. We also intend to intentionally increase this number. For example, we often receive inquiries about connecting construction data accumulated in SPIDERPLUS with data in our clients' core systems.

Until now, we have not been able to respond to all such requests due to our limited resources, but we are now strengthening our internal system as well as promoting a business alliance with DAT Japan. Since individual development projects are a reasonable and important strategy to further deepen the use of SPIDERPLUS, we are offering spot projects as “professional services.

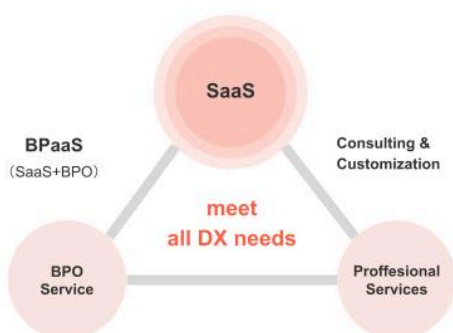
Reference: SPIDERPLUS penetration model within customers (image in red frame, p48 of the financial results presentation)

Growth strategies__Expanding the value

Products and services that address customer issues will drive business growth

SpiderPlus view of the construction DX

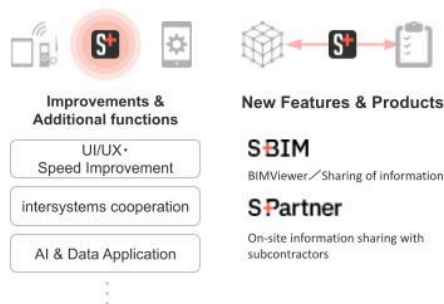
Developing services for deeper use of SaaS



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SaaS enhancements

Functional development through the use of customer feedback and accumulated data.
IP is also used to strengthen competitive advantage.



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Question 19 (Regarding to the outlook for SG&A expenses in FY2024)

Please tell me how much we should expect SG&A expenses to increase in the next fiscal year and beyond.

However, it should be noted that during the profitability phase, the increase is expected to be modest compared to the pace of increase in subscription revenues.

Question 20 (Regarding to the target share for the medium term)

Please tell me if there is any change in your mid- to long-term target, which is to “quickly capture a 20% share of the field supervisor market, which is estimated to be about 700,000 people.

Our mid- to long-term market share goals have not changed. Our goal is to become the industry standard service in construction management.

Based on future construction demand and comparisons with other industries, we believe that “the productivity of construction workers must increase by about double within the next five years.

To achieve this, it is important to have IT and AI close at hand. Since smartphones and tablets are already close at hand, the key will be how to utilize them and link them to efficiency in the future.

We aim to create a world where SPIDERPLUS is a natural part of construction management, just as GitHub is a natural part of systems engineering.

and above