

SpiderPlus & Co.

May 14, 2024

SpiderPlus & Co.

Kenji Ito, President and Representative Director

(TSE Growth: 4192)

Transcript of Q&A Session and Archived Video of Financial Results Briefing

Date & Time : Monday, May 13, 2024, 8:00 p.m. - 10:00 p.m.

For inquiries regarding this matter, contact : Investor Relations, Corporate Planning
Department, SpiderPlus & Co.

Email Inquiries : ir@spiderplus.co.jp

Phone Inquiries : 03-6709-2834

Transcription of Q&A session at financial results meeting : See next page

Archived Videos of Financial Results Briefings : <https://youtu.be/f8sNAGHsENI>

【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.

【Q&A transcription】

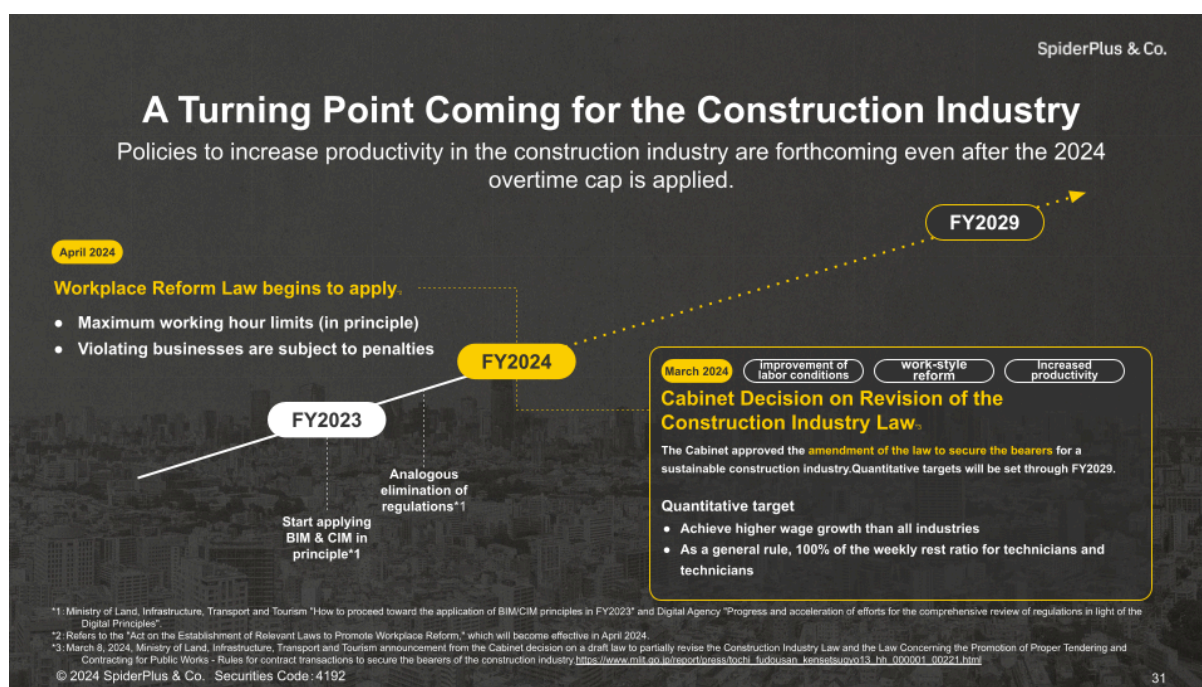
Reference : FY2024.Q1 Financial Results (Disclosed on May 13, 2024)

<https://contents.xj-storage.jp/xcontents/AS81382/16a79f89/7749/4fae/874c/0dc2dc594a30/140120240513591494.pdf>

Market Environment and Competition

Question 1 (regarding related laws and regulations)

Please tell us how the Cabinet's decision to revise laws related to the construction industry will affect your company.



We believe that the expansion of DX needs associated with the application of the overtime cap in 2024 will continue for a certain period of time from the second half of 2024 to the transition to 2025.

Even if long working hours are corrected, manpower shortages in the field are expected to become more serious, so further improvement of productivity is essential. The Cabinet has approved a revision of the law to promote this further improvement in productivity, which also specifies quantitative targets. This is expected to lead to a

continuous increase in demand for productivity improvement, which we believe will be a tailwind for our company.

Question 2 (regarding the expected increase in demand due to the Construction 2024 issue)

Why do you think that the increase in demand due to the "2024 problem" will start in the second half of FY2024?

Many of our clients have told us that the sense of urgency at construction sites is not as great as they thought, and we feel the same way.

We believe that this is due to the fact that many companies are not likely to move until the overtime ceiling regulations actually begin, and that it is difficult to make major changes in operations due to the long working hours that have become the norm and the various restrictions that are in place.

With the application of the overtime ceiling regulations, we believe that issues associated with compliance with said regulations will become more apparent in the future. In fact, we have been receiving an increasing number of inquiries since April. Based on lead times, we expect demand to increase in the second half of the year and beyond.

Question 3 (Status of the construction industry's efforts to address the "Construction 2024 Problem")

Please tell us how the construction industry's approach to the "Construction 2024 Problem" differs from area to area at each of your sales offices.

We have sales offices in Sapporo, Sendai, Nagoya, Osaka (Kansai Branch), and Fukuoka, and each region has construction companies of a certain size, but the status of their response to the "2024 problem" varies from company to company.

Some companies have been working on the 2024 problem for several years and have already implemented DX, while others have not yet started reforming their work styles.

(Example of a local construction company using our services)

【Interview】 Regional Construction Industry Must Grow to Survive! Why did a general contractor in Muroran turn around from a pinch and grow to become one of the best in the region? / Uchiike Construction Co.

<https://spider-plus.com/case/uchiike-k/>

【Interview】 Our goal is to maintain the status quo, so we will try first. Why can a Sapporo subcontractor promote digitalization "as a matter of course"? / Dantec Corporation

<https://spider-plus.com/case/dantech2/>

【Interview】 Companies that cannot improve operational efficiency will be eliminated. Tomakomai general contractor talks about why young people who can play an active role on their own are being nurtured. Tomakomai General Contracting Company

<https://spider-plus.com/case/seikoh/>

Question 4 (Regarding the strengths of SPIDERPLUS compared to software developed in-house by construction companies)

I know that some major construction companies develop their own software, but what are your strengths compared to in-house developed software?

SPIDERPLUS is differentiated from software developed in-house that specializes in a single function or a small number of functions.

Few construction management operations can be completed by a single company, and developing software that can be used on a site-by-site basis by general contractors and subcontractors of any type of industry requires a considerable amount of effort. Furthermore, if the software is developed in-house, not only maintenance costs, but also customization according to business changes and evolutions will be required in-house.

In addition, even if only the company itself promotes operational efficiency, the operations of a construction site involving many construction companies will not become more efficient, and there are still many tasks that are common to all construction companies, so we believe that SaaS (SPIDERPLUS) is more rational in standardizing and IT-izing such tasks.

Of course, customization and inter-system integration tailored to each company's operations are also necessary, so we also offer a combination of professional services and BPO services on an individual basis.

Performance Results

Question 5.(Regarding ID progress in FY2024.Q1)

Regarding the number of IDs in FY2024.Q1 seems to be sluggish, has the demand growth due to the 2024 problem not started? What is your view on the net increase in the number of IDs?

As we continue to penetrate existing / regular customers and key customers, the ARPU increase is leading to results rather than an increase in IDs, due to steady progress in value-added proposals such as introduction / implementation of optional functions to further utilize SPIDERPLUS, rather than bulk ID implementation projects. In FY2024.Q1, there were also more dormant IDs than expected in connection with the completion of a large site.

We expect the dormant IDs to be users who will be able to use the service again when the next site starts, and their return is expected to be in the second half of FY2024. We assume that ARPU growth will continue to trend stronger than IDs in the second quarter.

In addition, our key customers for the current fiscal year are “expanding market share,” and it is important not only to capture the growing demand from SMEs, but also to penetrate into the large existing customer / regular customer base, especially by strengthening our account planning for Enterprise customers.

Since the number of users within our customers tends to increase significantly in the third to fourth year after implementation, we are also working to link the site introduction / implementation results for each customer that we have worked on up to last year to company-wide introductions.

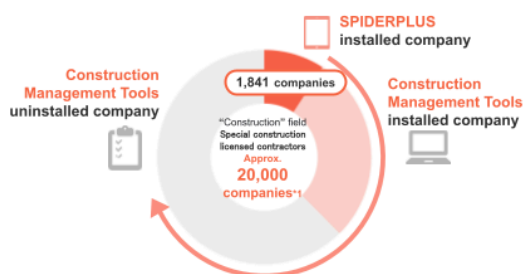
In accordance with the progress of such account planning for each customer, some customers increase the number of IDs, while others precede the introduction / implementation of options, and as a result, if only the first quarter is taken out, we assess that the impact of the introduction of options has been significant.

Capture the DX needs manifested by the overtime cap

Capturing DX Needs

Full utilization of strengthened sales organization and nationwide sales network.

Construction DX Market Development Margins

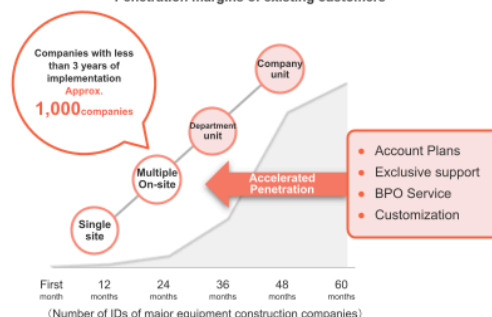


*1: The number of licensed construction companies is the result of a search using the Ministry of Land, Infrastructure, Transport and Tourism's Corporate Information Retrieval System for Construction Companies and Building Contractors. The number of companies using construction management tools is calculated by multiplying the number of such companies by the percentage of companies using construction management tools in our own survey. (For our own survey, see right: <https://jobs.spiderplus.co.jp/spider-class/1587>)

Further penetration of cultivated priority customers

Linking the results of on-site introductions accumulated in the previous fiscal year to company-wide introductions.

Penetration margins of existing customers



Question 6.(Outlook for achieving FY2024 results 1)

The sales progress in FY2024.Q1 was 22%, in line with the forecast, partly due to the site completion season. However, FY2022.Q1 and FY2023.Q1 progress was 23%, each of which fell short of the full-year forecast.

Can you expect to achieve the plan for this fiscal year even with a progress rate equivalent to that of the fiscal year in which the plan was not achieved?

To achieve the plan, we are steadily executing the growth strategies described in the financial results presentation. In addition, we are making forward-looking investments in anticipation of increased demand triggered by the "Construction 2024 problem" from 2021 onward, and we are making every effort to ensure that we can capture the growing demand and achieve our plans toward our major goals. We believe that we were able to plant the seeds firmly in FY2024.Q1 by conducting account planning to develop sales plans for each of our major existing customers.

The progress rate for FY2022.Q1 and FY2023.Q1 in the financial results presentation material is the progress rate based on actual results (progress rate of actual quarterly sales against actual annual sales), not the progress rate against the earnings forecast for each period. I would also like to add that the rate of progress based on actual results is the same as the rate of progress toward the FY2024.Q1 forecast.

Question 7.(FY2024 financial results achievement outlook 2)

In anticipation of the overtime regulations starting in FY2024, and in light of the president's enthusiasm and the projected financial results for FY2024, it appears that sales growth is low and insufficient. Will the company be able to achieve its goals for this fiscal year? Is there enough basis for achieving them, rather than motivation?

As you pointed out, we believe that the acquisition of new IDs was sluggish in FY2024.Q1. External factors include the rise in demand from small and medium-sized enterprises (SMEs), but we have also been certified as an approved business for IT introduction subsidies and are strengthening our efforts with sales partners. Although it is difficult to predict when the increase in IDs will be realized, not only from SMEs but also from penetration by priority customers, we believe that it will be seen in the second half of the year.

Question 8.(Regarding FY2024 earnings forecast)

I think we need to accelerate growth from here in order to achieve 5 billion ARR this fiscal year. First, please explain why growth will accelerate in the second half of FY2024.

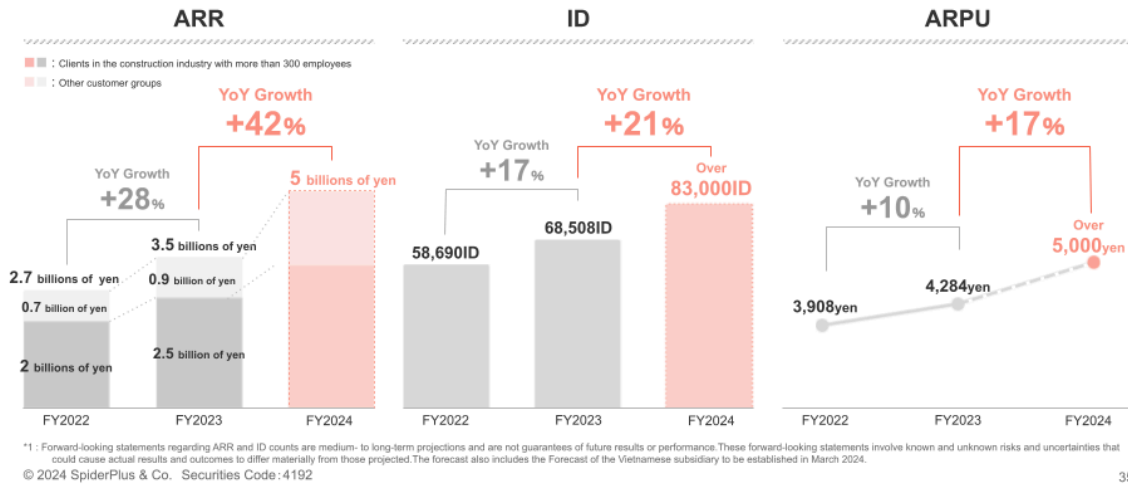
We believe that the most growth will occur in FY2024.Q1, which is the period immediately before the start of the maximum working hour regulations. Second, how do you plan to grow the number of IDs and ARPU to achieve the 5 billion ARR target for FY2024, respectively, and if you don't mind me asking, what is your existing focus, new focus, ID target, ARPU target, etc.?

We are looking to lead the way in an industry that has not moved clearly against overtime caps, amidst a complex of factors such as the normalization of long working hours, labor shortages, and the like.

Increasing the existing number of IDs and market share gains will be an important driver. Please see the following document regarding our goals.

(Reference: Excerpts from the full-year financial results presentation for the fiscal year ending December 31, 2023)

Maintain 2-year plan target of 5 billion yen ARR at the end of FY2024
Advance measures to increase market share based on the sales force built up during the upfront investment period.



Question 9.(Regarding changes in profitability due to increased human investment)

We are concerned that the increased recruitment will increase SG&A expenses and worsen profitability.

We have set a high standard for recruitment, and we have members of high ability and ambition join our company. We will need an organizational strategy that attracts a diverse range of people who are passionate about solving social issues, maximizes the autonomous growth and potential of all employees, including existing employees, and links individual challenges and growth to sustained and discontinuous growth.

We are strengthening recruitment while implementing a recruitment and organizational strategy (HR strategy) that combines these enablement and onboarding measures, and we are not hiring blindly.

We are also making upfront investments with investment discipline, taking into account the growth of hired personnel, the growth of existing employees and other personnel, and organizational conditions.

We are currently in the expansion phase, and since the pace will slow down from the second half of the fiscal year, please understand that we will move into the productivity improvement phase when all hiring has been completed.

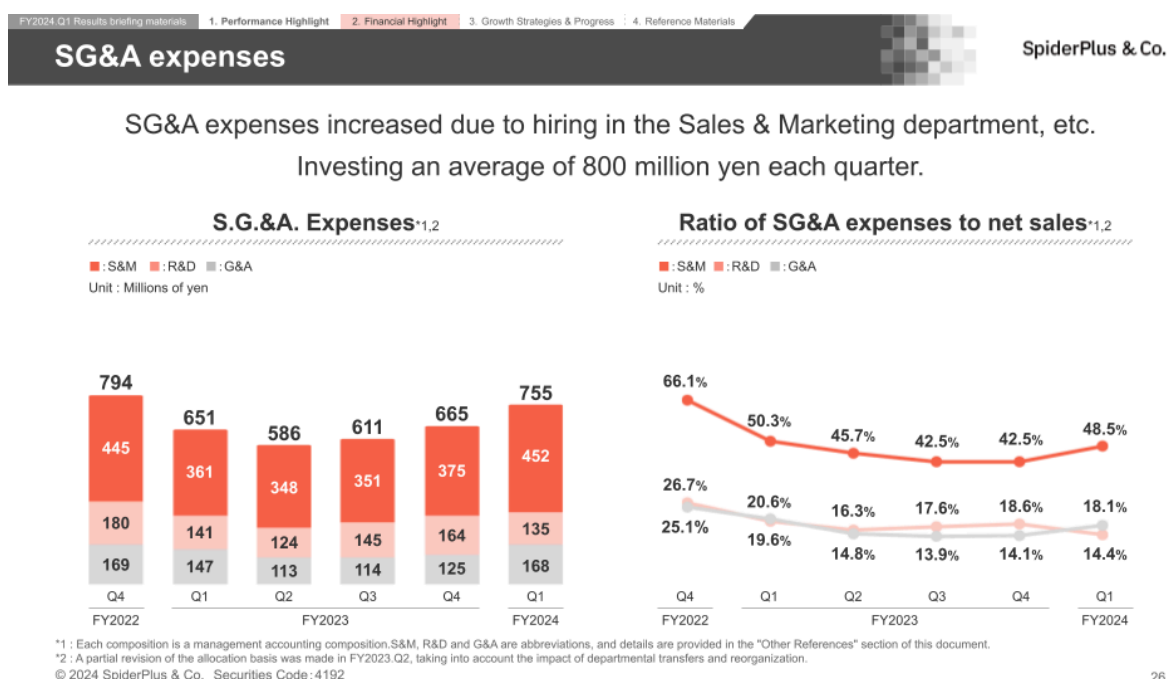
(Reference: We releases “Human Capital Report,” published April 1, 2024)

<https://spiderplus.co.jp/news/news-release/8596/>

Question 10.(Regarding the outlook for SG&A expenses in FY2024.Q2 and beyond)

What is the outlook for SG&A expenses in FY2024.Q2 and beyond, and what measures, if any, are being taken to reduce SG&A expenses?

SG&A expenses will be invested at an average of 800 million yen per quarter. This does not mean that we will limit our SG&A expenses to 800 million yen each quarter, but rather that it will be the average for the entire year. We will make systematic investments with investment discipline, including hiring, and we will not make any investments that do not have a positive return on investment.



Question 11.(Regarding timing of return to profitability and prior investment policy)

Please tell us if it will be possible to become profitable on a quarterly basis around the third quarter under your assumption of future earnings trends. Also, please tell us if it is correct to assume that the switch to the productivity improvement phase will take place in the second half of 2024, or if it is correct to assume that the investment for the 2024 problem will be completed in the first half of FY2024 and that earnings will improve significantly from the second half of the year.

We expect to return to profitability for the full year, FY2025, as planned.

The timing of returning to profitability depends on the progress of recruitment and sales growth. If sales growth accelerates to the extent that we can achieve quarterly profitability in the current fiscal year, it means that the business is growing faster than expected and the market is larger than expected, in which case we may invest more in advance than in profitability. The transition to the productivity improvement phase is a good example of this.

Please understand that we expect to move into the productivity improvement phase by the end of this year, and that profitability will improve as we enter the productivity improvement phase and ARR builds up.

We would like to add that although we consider 2024 to be the end of the upfront investment period, we will continue to make investments for future growth.

About the Business

Question 12.(Regarding the details of the new plan)

Please tell us about the "New Plan" and its goals as described in the financial results presentation.

The new plan will be a package of functions required for each type of business, instead of the conventional method of adding optional functions that customers want to use to the basic functions.

Currently, new customers who sign up for the new plan are signing up for the new plan, so the more customers sign up for the new plan, the more it is one of the factors that will improve ARPU.

We have not disclosed specific targets for the new plan, since it is important for existing customers to switch to the new plan, but we believe that the new plan will encourage existing customers to switch in the long run by combining functions that improve customer productivity with a support system that is tailored to each industry. We believe that, together with our support system, we will be able to encourage existing customers to switch over in the long term.

FY2024.Q1 Results briefing materials 1. Performance Highlight 2. Financial Highlight 3. Growth Strategies & Progress 4. Reference Materials

supp. **About New Plan** SpiderPlus & Co.

Package-type offering plan combining necessary functions for each type of business.
To be offered from FY2023.Q3

Optional function

For Construction work

For Electrical Equipment work

For HVAC and Sanitary Equipment Work

Punch List management function

Basic function

Drawing management

Construction photo

Electronic blackboard

Report generation

Browsing Materials

New Plan

For each specialized industry Packages

For Construction work

For Electrical Equipment work

For HVAC and Sanitary Equipment Work

*1: In addition to packages for specialized industries, optional functions such as BIM integration are also provided.

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Question 13.(Regarding the development of an Android version)

I assume that it is currently only available for iOS and not for Android, but what are your thoughts on risk management from the perspective of relying only on iOS? Also, please let us know if there are any requests from customers to expand to Android.

Many customers use iOS as their standard device for security and other reasons, and there are few requests from Japan. On the other hand, we consider it essential to expand into Southeast Asia, such as Vietnam, and are already developing an Android version for overseas deployment.

Question 14.(Regarding business methods related to the 2024 issue)

In introducing SPIDERPLUS in response to the 2024 problem, I believe that even if it is introduced in the second half of the year, the effect of reducing total overtime hours for that year will be limited; is this understanding correct?

If you don't mind my asking, are you already doing simulations and sales talks such as "if we introduce SPIDERPLUS by when, we can expect this amount of reduction in the current fiscal year" or is such sales talk difficult due to legal issues?

We provide concrete simulations at the time of sales, such as the amount of reduction that can be achieved in the current fiscal year, but since the timing of introduction and the effect will vary from case to case, we recommend that our customers introduce the system as early as possible. However, it is also true that there are some barriers to introducing the system, so we strive to make careful proposals and conduct sales activities.

Question 15.(Overseas Business / Share of Overseas Business in Vietnam)

Do you already have some market share in Vietnam? Or is it the case that construction DX itself, including other companies, has not penetrated the Vietnamese market at all at this point, and you are just getting started?

The reason for establishing a subsidiary in Vietnam is to expand SPIDERPLUS to local companies in Southeast Asia. Until now, our focus has been on developing Japanese construction companies operating in Southeast Asia, but with the establishment of the Vietnam subsidiary, we will use the opportunity to strengthen the development of not only Japanese construction companies, but also local corporations.

When we hear directly from customers in Vietnam, we get the impression that many companies are still operating their businesses in an analog manner, and that few companies are using construction management tools such as SPIDERPLUS.

Since we are still in the market development phase, customer reactions are varied, but among them, there are many customers who have given us a "good response.

Question 16.(Regarding overseas business/potential for overseas business)

After returning to profitability, we believe the key to growth will be how to expand overseas. You mentioned that overseas expansion will generate 5% of ARR in the medium term, but is that the extent of overseas growth?

Our medium-term goal is to generate 5% of our total ARR from overseas expansion. First, we believe it is important to expand our business in Vietnam, and we believe that the results of this expansion will lead to further growth. In our domestic business, the construction DX market has reached a turning point and there are many business opportunities, so our policy is to develop our overseas business from the current stage while giving priority to increasing the growth rate of our domestic business.

Question 17.(Regarding the BPaaS case study)

You mentioned that you are now offering BPaaS in earnest. Can you give us some specific examples?

BPaaS has been proposed and used mainly by customers who have used BPO services in the past.

Question 18.(Regarding intellectual property strategy)

What is the purpose of promoting the acquisition of new patents? Do you intend to generate revenue from patent royalties by allowing other companies to use your patents?

We have acquired intellectual property rights such as patents to enhance the competitive advantage of our products and services, and have not acquired patents in order to obtain patent income. It will be an option when construction DX spreads and becomes commonplace.

(Reference: Spider Plus's policy on intellectual property strategy)

<https://spiderplus.co.jp/about-us/ip/>

Question 19.(Regarding the demonstration project with Toyama Prefecture)

What are the benefits of SPIDERPLUS that are unique to the facility management operations of public infrastructure after the demonstration in Toyama Prefecture?

As in the construction industry, our clients use our services to manage the maintenance and upkeep of infrastructure facilities.

Many companies in the municipal sector are still working on a paper-based system, so they are using our system to make their operations paperless.

Reference: Spider Plus adopted as a demonstration experiment project for "Digi-PoC TOYAMA" in Toyama Prefecture (2023.9.15)

<https://spiderplus.co.jp/news/news-release/8217/>

Question 20.(About other companies' services)

An Enterprise client of yours, an Enterprise HVAC Equipment work / Mep Work company, has launched a joint business efficiency system with a development company engaged in the Construction DX business. We anticipate a cancellation of the joint venture due to the overlap with Spider-Plus's business area.

We would like to avoid mentioning other companies' services in detail, but we believe that there is no direct overlap and there is no risk of cancellation at this time.

Question 21.(Regarding the difference between professional services and BPO services)

What is the difference between professional services and BPO services? Are there specific things that are working for each versus customers?

Professional services are a wide range of services. For example, we can connect to a customer's mission-critical systems. For enterprise customers in particular, we can accelerate company-wide implementation.

For those customers whose penetration rate is not good, we can provide advice on how to make the system usable by all employees and support individual company-specific development.

BPO serves as a substitute for advance preparation for on-site inspection work, and there are several companies that are actually talking about it.

Question 22.(Regarding users other than site supervisors)

I see that ARPU improvement is going well, but I think the number of IDs has declined noticeably.

Do you have any plans to expand your services not only to field workers but also to other back-office people?

The number of IDs did not decline, but growth was not as strong as the result.

Although not a back-office service, the S+Partner feature, which allows field workers to share with field supervisors, has seen growth.

Question 23.(Regarding handling of dormant IDs)

Does this mean that the company with the dormant ID will not be able to touch SpiderPlus itself during that time? Is there anything we can do to make them more familiar with SpiderPlus during that period?

I understand that the number of dormant IDs has increased.

The IDs that have been deactivated cannot be touched. Although it is necessary to consider measures to help users learn during that period, many users are forced to suspend their IDs because many contracts are based on on-site budgets, but in the future, we are considering making this a service that can be used all the time while at the same time promoting its use on a company-wide budget rather than an on-site budget. We are considering making the service usable for a long time at the same time. We are not currently considering the disclosure of dormant IDs.

Question 24.(Regarding your long term goals)

What kind of company will you be in five or ten years?

Five years from now, we expect to be a company with a market capitalization of over 100 billion yen.

Ten years from now, we will be thinking carefully about how much we can create new services and how much we can expand globally, as these will make a big difference.

Question 25.(Regarding the difference between cancellation and suspension, and the results of the IT implementation subsidy)

Please tell us the difference between cancellation and suspension, the impact of IT subsidies on sales, and the number of cases in which IT subsidies have been used.

Regarding the difference between cancellation and suspension, cancellation is when a customer completely stops or terminates a contract related to SPIDERPLUS, while suspension is when a customer temporarily stops using the system due to completion of construction at a site where the system is in operation.

Regarding IT subsidies, more companies are utilizing IT subsidies this fiscal year than in the previous fiscal year, but the business impact is not as large as it could be, since the majority of companies are small and medium-sized enterprises.

The number of companies utilizing the subsidies is not disclosed, but please understand that it is less than 10% of the total number of newly contracted companies.

The requirements for IT subsidies have been easing, but there are still certain requirements, so not all companies interested in the IT subsidies will be able to implement them. Nevertheless, it does have a certain effect on obtaining leads and raising awareness. In addition, since it is necessary to calculate the plan and effects of using the IT subsidy, it can be a case of using SPIDERPLUS more deeply, and from there it can be expanded horizontally, so although it is not a big case, we believe it has a certain effect from the perspective of lead acquisition.

Question 26.(For consulting services)

You mentioned that you are now offering consulting services.

We already have a track record of receiving orders for consulting services. We are also working with business alliances and collaborators to secure resources. In addition to consulting projects, the number of projects related to professional services, such as consultations on inter-system integration, has been increasing recently, and the start-up is going smoothly.

Stock related and others

Question 27.(Regarding the timing of the commencement of dividends)

Please let me know when the dividend will be paid.

Our policy is to consider paying dividends at a stage when the company becomes profitable and further secures sufficient retained earnings. At this time, we will give priority to business growth through investment because we believe that business opportunities are large and we are in a phase where investment in growth, including

M&A, should be prioritized and that this would be in the best interest of all shareholders.

Question 28.(Regarding the prospect of listing on the prime market)

What is your vision for listing on the prime market, including the scale of your business?

We would like to move to the prime market as soon as possible when we have achieved the formal requirements and substantive screening criteria for moving to the prime market.

In particular, it will take a little more time to meet the performance requirements, but in the meantime, we can start further strengthening our management and administrative structure now, so we are already making changes to our management structure and strengthening our administrative divisions.

By March 2024, we are strengthening not only our business progress but also our management structure by increasing the number of outside directors and enhancing governance.

Reference Materials : 【Notice】 Spider-Plus launches new management structure (Mar. 26, 2024)

<https://contents.xj-storage.jp/xcontents/AS81382/cf76a94e/d255/4940/900b/ae5307e6d88e/140120240326559897.pdf>

Question 29.(Regarding business alliances and M&A policies)

What are your plans for business alliances and M&A in the future?

We consider this an important growth strategy and will continue to consider it in light of our business strategy and portfolio. We are also firmly advancing our previously released professional services with Dat Japan and others, and will continue to shape our pipeline.

We are also considering collaboration with various companies and services as candidates.

Question 30.(Regarding the status of employment)

Regarding the number of employees, it seems that G&A is increasing and has been counting the middle office division since FY2024.Q1, what is the role of the middle office division in terms of importance? Also, what is the rate of childcare leave taken?

We believe that SPIDERPLUS is a single business and that the middle office is a phase of the business that will gravitate toward the back office. In our company, we call the middle office the billing-related activities, support for holding exhibitions, branding, and so on.

The maternity leave take-up rate is 100% for women and over 60% for men, and has been close to 100% recently.

We believe that it is the company's mission to witness life events and send them off.

Question 31.(Regarding the status of IR activities)

Now that 2024 is in the books, are there more appointments, etc. from institutional and foreign investors than before? Also, I would like to know what the reactions are like.

The number of appointments following the announcement of the February 2024 financial results was the highest in the past year.

Many of them were positive, such as expectations for future growth potential and how the Company will seize business opportunities such as the Construction 2024 issue.

Question 32.(Regarding the use of SPIDERPLUS by railroads)

Kinki Nippon Railway is in the corporate logo on the website, but how is it used? Will it be extended to other railroad companies?

It is used in maintenance and servicing. It is quite possible that it will spread to other railroads.

Greetings from CEO

Thank you again for your time today.

It has been three full years since we went public, and this is our fourth year.

We have taken on a variety of challenges in order to capture the growing 2024 issue demand.

This fiscal year, we must achieve our greatest growth to date. And we will do our best to continue high growth in subsequent years.

We look forward to your continued support of Spider-Plus Corporation.

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