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October 15, 2019

Financial Results for FY2019 Q1

Company name: Sansan, Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 4443
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 Scheduled date to file quarterly securities report: October 15, 2019
 Scheduled date to commence dividend payment: –
 Preparation of supplementary materials on financial results: Yes
 Holding of financial results meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts rounded down, unless otherwise noted)

1. Consolidated financial results for the first three months of the fiscal year ending May 31, 2020 (from June 1, 2019 to August 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended August 31, 2019	3,100	–	248	–	192	–	106	–
August 31, 2018	–	–	–	–	–	–	–	–

Note: Comprehensive income Three months ended August 31, 2019: ¥100 million [–%]
 Three months ended August 31, 2018: ¥– million [–%]

	Basic earnings per share	Diluted earnings per share
Three months ended August 31, 2019	Yen 3.50	Yen 3.45
August 31, 2018	–	–

Note: As the Company has not prepared consolidated financial statements for the three months ended August 31, 2018, the financial figures and the percentage indicating year-on-year changes are not shown for the three months ended August 31, 2018 and the percentage indicating year-on-year changes is not shown for the three months ended August 31, 2019.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
August 31, 2019	16,578	10,316	62.2
May 31, 2019	9,079	3,372	37.0

Reference: Equity

As of August 31, 2019: ¥10,305 million

As of May 31, 2019: ¥3,362 million

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 31, 2019	–	0.00	–	0.00	0.00
Fiscal year ending May 31, 2020	–				
Fiscal year ending May 31, 2020 (Forecast)		–	–	–	–

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending May 31, 2020 (from June 1, 2019 to May 31, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending May 31, 2020	13,816	35.4	724	–	670	–	–	–	–

Notes: 1. Revisions to the earnings forecasts most recently announced: None

2. Although the Company is expecting to return to the black and post a profit attributable to owners of parent, it is difficult to make a precise forecast. Accordingly, the Company will refrain from disclosing a concrete forecast at this point in time.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of specific accounting for preparing the quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - a. Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - b. Changes in accounting policies due to other reasons: None
 - c. Changes in accounting estimates: None
 - d. Restatement: None
- (4) Number of issued shares (Common shares)

- a. Total number of issued shares at the end of the period (including treasury shares)

As of August 31, 2019	31,058,853 shares
As of May 31, 2019	29,432,353 shares

- b. Number of treasury shares at the end of the period

As of August 31, 2019	–
As of May 31, 2019	–

- c. Average number of outstanding shares during the period

For the three months ended August 31, 2019	30,397,777 shares
For the three months ended August 31, 2018	–

Note: As the Company has not prepared consolidated financial statements for the three months ended August 31, 2018, the average number of outstanding shares during the period for the three months ended August 31, 2018 is not shown.

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors.

Attached Material

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1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

Under the mission of “Turning encounters into innovation,” the Group is developing services tied to solving various issues that companies and business people face, such as business card management, by using new approaches that combine “technology and data-input-based business card digitization systems” with “cloud software.” Specifically, the Group operates the Sansan Business, which provides “Sansan,” a B2B cloud-based business card management service that enables users to digitize business cards in order to visualize and share the networks between individuals, and the Eight Business, which operates “Eight”: Your Business Card Management App that incorporates a system of social networking services and changes business cards into a business network. In addition, the DSOC (Data Strategy & Operation Center), which serves as Data Integration Division, takes on the job of digitizing business cards as both business’s shared infrastructure. The DSOC continues to pursue improvement in new technology development and data-input operations. The “Sansan” and “Eight” Businesses that the Group provides are services used by many companies and business people, and business card management, which is a basic business need, and the data and information collected form the backbone of those services. Therefore, we believe that there is high potential for syncing with other services and databases and that all the requirements are there for a business platform. Accordingly, by increasing the value of these two businesses as a business platform, we believe they have the special characteristic of providing easy access to various business opportunities.

In the first three months of the fiscal year ending May 31, 2020, the Company engaged in initiatives such as strengthening the sales structure, including human resources, in order to realize continuous growth of net sales.

As a result, the Sansan Business and the Eight Business have performed steadily, and net sales totaled ¥3,100,589 thousand, gross profit totaled ¥2,636,446 thousand, and gross profit margin was 85.0% in the period under review. In addition, for multi-step profit or loss under operating profit or loss, the continuation of net sales growth led the Company to record operating profit of ¥248,926 thousand, ordinary profit of ¥192,705 thousand and profit attributable to owners of parent of ¥106,356 thousand.

Furthermore, as a result of the Company issuing a public offering of shares by original placement and a secondary offering of shares by an over-allotment to a third party through newly listing on the Tokyo Stock Exchange Mothers on June 19, 2019, the Company has increased its capital through an allotment of new shares. The Company plans to use the ¥6,843,498 thousand in proceeds as working capital by making marketing investments such as advertising expenses and sales promotion expenses, personnel expenses, and recruiting expenses.

Results by segment are as follows.

(i) Sansan Business

In the Sansan Business, the Company develops “Sansan,” the B2B cloud-based business card management service, based on the concept of “Sansan, Where Business Starts.” By using “Sansan” to solve various issues faced by companies, such as “information on the exchange of business cards is not shared within the company” and “we don’t think about the value held by business card information,” and change the business cards with dormant potential in the company into an asset that can be used through business activities, we believe we are able to maximize the value of business “encounters.” Simply by having the user companies scan their business cards, it becomes possible to accurately digitize the business card information using data input operators, etc. of the Group and of external information processing partners and use “AI Contact Management” through the cloud-based applications. With these features, not only can individual employees manage their business cards, it also becomes possible to share Contact Data throughout the organization. Furthermore, Sansan provides a broad range of customer management tools, such as the distribution of news on personnel changes to inform people of the latest personnel information and the ability to send batch emails.

Furthermore, in addition to these basic functions, we also provide “Collaboration with Colleagues” with a feature that provides access to in-house address books, thereby facilitating the smooth sharing of information among co-workers, and a feature that enables visualization of in-house strengths and knowledge, and “Customer Data Hub,” which enables syncing with in-house databases and advanced aggregation of complex customer data. Through the ability to quickly access the cloud-based Contact Data from PCs or smartphones and the ability to utilize the functions to search such data and use call/messaging functions, etc., business people are able to realize improvements in productivity, general office operations, and cost cutting benefits. Moreover, we believe that the ability to share Contact Data inside the organization, aggregate the customer data existing inside the company and other such benefits will give shape to advanced marketing activities, customer management, and the like that will lead to the creation of business opportunities for the user company.

As a business model, the Company is pursuing a monthly fee for licenses on the premise of all staff members in the user company using the service (company-wide use). The monthly usage fee is calculated by the usage fees of the optional functions, scanner rental fees, etc. being added to the license cost, which is calculated based on the number of business cards that are digitized in the user company. In addition, at the time the service is being introduced, additional paid services are provided relating to the digitization of the existing large volumes of paper-format business cards retained by the user company, activities to support introduction, etc.

For the period under review, the Company continued to engage in initiatives such as strengthening the sales structure, including hiring of salespeople, in order to further increase the number of subscriptions and increase monthly sales per subscription for “Sansan,” a B2B cloud-based business card management service. As a result, in addition to progress in the use of our services by large corporate clients, including financial institutions, the Company has also steadily acquired new customers among medium to small enterprises. At the end of the period under review, the number of “Sansan” subscriptions totaled 6,032, up 12.5% year on year. Furthermore, as a result of carrying out ongoing initiatives to expand use among existing customers to achieve a stronger customer foundation, the last 12 months average of monthly churn rate (Note 1.) was 0.63%, an improvement of 0.13 points year on year.

As a result, net sales totaled ¥2,848,779 thousand and segment profit totaled ¥1,264,121 thousand in the period under review.

Note 1. Ratio of decrease in monthly fees associated with subscription cancellations to total monthly fees for existing subscriptions for “Sansan.”

(ii) Eight Business

In the Eight Business, the Company operates the business card application “Eight” as the new business network service that goes beyond pure business card management to incorporate a system of social networking services based on the concept of “Business-Focused SNS Connected with Business Cards.”

We believe that through using “Eight,” it will be possible to resolve issues that business people struggle with such as “I’m not making use of my business encounters” and “I cannot easily access my business card information.”

“Eight,” like “Sansan,” is a service whereby the business card information of the user and their contacts are accurately digitized simply through scanning the business cards. In the case of “Eight,” first, by registering their own business card, the user creates their own page, which they can use throughout their business life, and on that page, they are able to manage their profile. Next, by registering the business cards of their contacts, the user is able to make use of the business card management functions, and all the Contact Data that has been converted to cloud-based data can be accessed at any time from either a smartphone or a PC. Furthermore, when the information of a contact who is connected through the networking service changes, the most recent information will be automatically updated in the registered Contact Data, and the user will be notified of this change. Users are also able to use a messaging function for business chats, and they are able to

more smoothly utilize their own personal business networks. Users can also use the service for collecting corporate information that interests them and performing job searching activities.

As a business model, the Company bases the business on the application that enables users to use the profile management and business card management features at no cost. On top of this, the Company provides the B2C services, “Eight Premium,” for individuals who want access to extra user functions and the B2B services such as “Eight Company Premium,” a service that allows the sharing of business cards registered on “Eight” within a company, “Eight Ads,” a service that enables advertisements to be disseminated to “Eight” users, and “Eight Career Design,” a recruitment related service that enables hiring companies (corporate client users) to approach job seekers (individual users) on the job search platform.

In the period under review, the Company worked on strengthening monetization through “Eight Company Premium,” the B2B service, and other methods in “Eight,” the B2C Business Card Management App. As a result, the number of “Eight Company Premium” subscriptions under review totaled 991, an increase of 222.8% year on year and the number of “Eight” users (Note 2.) totaled 2.51 million, an increase of 0.29 million year on year at the end of the period under review.

As a result, net sales for the period under review totaled ¥251,810 thousand, of which net sales from B2C services totaled ¥72,131 thousand and net sales from B2B services totaled ¥179,679 thousand. Although segment loss was recorded at ¥239,146 thousand due to being in the phase in which upfront investments were being made to increase future profitability, losses decreased based on ongoing growth of net sales and the strengthening of monetization.

Note 2. Number of confirmed users that downloaded the application and registered their own business cards.

(2) Explanation of financial position

Assets

Total assets at the end of the period under review were ¥16,578,424 thousand, up ¥7,499,307 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥7,407,152 thousand in cash and deposits.

Liabilities

Total liabilities at the end of the period under review were ¥6,261,878 thousand, up ¥555,727 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥623,546 thousand in advances received from receiving a lump-sum payment of contract term fees from customers.

Net assets

Net assets at the end of the period under review were ¥10,316,545 thousand, up ¥6,943,580 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥3,421,749 thousand in each of share capital and capital surplus from issuing new shares in association with the listing of the Company’s common shares on the Tokyo Stock Exchange Mothers, and an increase of ¥106,356 thousand in retained earnings due to recording of profit attributable to owners of parent. In addition, the Company reduced capital surplus by ¥947,106 thousand and transferred them to retained earnings in order to achieve future flexible and dynamic capital policy by eliminating cumulative loss early based on the resolution at the meeting of the Board of Directors that took place on July 30, 2019.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

The forecasts of consolidated financial results for the fiscal year ending May 31, 2020 have not changed from the forecast announced on July 12, 2019. Note that because there were no large advertising activities carried out for the Sansan Business in the period under review, the progress rate for achieving the targeted operating profit has become high, but the results are in line with the initial targets. In the second and later quarters, the Company plans to aggressively undertake advertising activities.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of May 31, 2019	As of August 31, 2019
Assets		
Current assets		
Cash and deposits	5,627,035	13,034,187
Accounts receivable - trade	318,354	264,547
Prepaid expenses	322,660	381,292
Consumption taxes receivable	266	393
Other	32,996	33,102
Allowance for doubtful accounts	(2,704)	(2,768)
Total current assets	6,298,608	13,710,755
Non-current assets		
Property, plant and equipment	406,924	460,495
Intangible assets		
Software	834,737	857,290
Other	390	357
Total intangible assets	835,127	857,648
Investments and other assets		
Investment securities	1,093,800	1,119,562
Leasehold deposits	439,537	425,410
Other	5,118	4,551
Total investments and other assets	1,538,455	1,549,524
Total non-current assets	2,780,508	2,867,668
Total assets	9,079,116	16,578,424
Liabilities		
Current liabilities		
Accounts payable - trade	96,169	73,742
Short-term borrowings	18,000	84,666
Current portion of long-term borrowings	133,134	155,448
Accounts payable - other	770,424	738,984
Income taxes payable	41,283	73,911
Accrued consumption taxes	184,745	110,609
Advances received	3,923,177	4,546,723
Provision for bonuses	199,010	123,796
Provision for loss on closure of business locations	6,960	3,669
Other	55,868	129,485
Total current liabilities	5,428,772	6,041,037
Non-current liabilities		
Long-term borrowings	233,714	182,360
Other	43,664	38,481
Total non-current liabilities	277,378	220,841
Total liabilities	5,706,151	6,261,878

(Thousands of yen)

	As of May 31, 2019	As of August 31, 2019
Net assets		
Shareholders' equity		
Share capital	2,812,501	6,234,250
Capital surplus	1,500,000	3,974,643
Retained earnings	(942,592)	110,870
Total shareholders' equity	3,369,909	10,319,764
Accumulated other comprehensive income		
Foreign currency translation adjustment	(7,607)	(13,882)
Total accumulated other comprehensive income	(7,607)	(13,882)
Share acquisition rights	10,663	10,663
Total net assets	3,372,965	10,316,545
Total liabilities and net assets	9,079,116	16,578,424

(2) Quarterly consolidated statements of income and comprehensive income
Quarterly consolidated statement of income

(Thousands of yen)

	Three months ended August 31, 2019
Net sales	3,100,589
Cost of sales	464,143
Gross profit	2,636,446
Selling, general and administrative expenses	2,387,520
Operating profit	248,926
Non-operating income	
Interest and dividend income	592
Foreign exchange gains	568
Cancellation penalty income	476
Other	455
Total non-operating income	2,093
Non-operating expenses	
Interest expenses	1,161
Share issuance cost	28,102
Stock market listing expenses	13,877
Share of loss of entities accounted for using equity method	13,592
Other	1,579
Total non-operating expenses	58,313
Ordinary profit	192,705
Extraordinary losses	
Loss on retirement of non-current assets	4,293
Impairment loss	37,854
Total extraordinary losses	42,147
Profit before income taxes	150,558
Income taxes - current	44,201
Profit	106,356
Profit attributable to owners of parent	106,356

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Three months ended August 31, 2019
Profit	106,356
Other comprehensive income	
Foreign currency translation adjustment	(6,274)
Total other comprehensive income	(6,274)
Comprehensive income	100,082
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	100,082

(3) Notes to the quarterly consolidated financial statements

(Notes on premise of going concern)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

The share capital and the capital surplus both received an addition of ¥3,421,749 thousand due to the new issuance of shares in association with the listing of the Company's common shares on the Tokyo Stock Exchange Mothers. On the other hand, as a result of deducting the amount of ¥947,106 thousand of capital surplus and transferring it to retained earnings in order to eliminate cumulative loss, the share capital, capital surplus and retained earnings were ¥6,234,250 thousand, ¥3,974,643 thousand, and ¥110,870 thousand, respectively.

(Segment information, etc.)

[Segment information]

First three months of the fiscal year ending May 31, 2020 (from June 1, 2019 to August 31, 2019)

1. Information on the amount of sales and profit (loss) for each reportable segment

	Reportable segment			Adjustments (Note) 1	Amount in the quarterly consolidated financial statement (Note) 2
	Sansan Business	Eight Business	Total		
Net sales					
Sales to external customers	2,848,779	251,810	3,100,589	—	3,100,589
Inter-segment sales and transfers	—	—	—	—	—
Total	2,848,779	251,810	3,100,589	—	3,100,589
Segment profit (loss)	1,264,121	(239,146)	1,024,975	(776,049)	248,926

Notes: 1. The adjustments stated for segment profit (loss) of negative ¥776,049 thousand comprises the amounts of corporate expenses not attributable to any reportable segment and mostly consists of general and administrative expenses.

2. Segment profit (loss) is adjusted with operating profit in the quarterly consolidated statement of income.

2. Information on impairment loss of non-current assets or goodwill, etc. for each reportable segment

(Significant impairment loss on non-current assets)

As corporate expenses not belonging to the Sansan Business, Eight Business and any reportable segment, the Company reduced the carrying amounts for software to their recoverable amounts and recorded the amounts of reduction in impairment loss.

The relevant amounts recorded in impairment loss for the three months ended August 31, 2019 were ¥6,387 thousand for the Sansan Business, ¥9,648 thousand for the Eight Business and ¥21,818 thousand for corporate expenses not belonging to any reportable segment.