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October 13, 2020

Financial Results for FY2020 Q1

Company name: Sansan, Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 4443
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 Scheduled date to file quarterly securities report: October 13, 2020
 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, 2021 (from June 1, 2020 to August 31, 2020)

(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, 2020	3,667	18.3	193	(22.1)	101	(47.4)	85	(19.6)
August 31, 2019	3,100	–	248	–	192	–	106	–

Note: Comprehensive income Three months ended August 31, 2020: ¥89 million [(10.5)%]
 Three months ended August 31, 2019: ¥100 million [–%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
August 31, 2020	2.75	2.72
August 31, 2019	3.50	3.45

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
August 31, 2020	22,554	10,668	47.1
May 31, 2020	22,819	10,552	46.2

Reference: Equity

As of August 31, 2020: ¥10,631 million
 As of May 31, 2020: ¥10,541 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, 2020	–	0.00	–	0.00	0.00
Fiscal year ending May 31, 2021	–				
Fiscal year ending May 31, 2021 (Forecast)		0.00	–	0.00	0.00

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

3. Consolidated earnings forecasts for the fiscal year ending May 31, 2021 (from June 1, 2020 to May 31, 2021)

(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, 2021	15,767 to 16,302	18.0 to 22.0	757 to 1,010	0.0 to 33.4	–	–	–	–	–

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

2. Although the Company is expecting to record a surplus in both ordinary profit and 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: Yes
 - 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, 2020	31,138,853 shares
As of May 31, 2020	31,138,853 shares

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

As of August 31, 2020	–
As of May 31, 2020	–

- c. Average number of outstanding shares during the period

For the three months ended August 31, 2020	31,138,853 shares
For the three months ended August 31, 2019	30,397,777 shares

* 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 by using new approaches that combine “technology and data-input-based business card digitization systems” with “cloud software.”

In the first three months of the fiscal year ending May 31, 2021 (“the period under review”), an uncertain business environment has continued despite a relatively moderate recovery trend compared with April and May, when the state of emergency declaration was issued due to the effect of COVID-19. Under such circumstances, the Company engaged in initiatives such as strengthening the sales structure, including human resources, in order to realize continuous growth of net sales. In addition, the Company engaged in initiatives for expanding use of the “Virtual Cards” function usable within “Sansan,” a cloud-based business card management service and “Eight,” the business card application.

As a result, net sales totaled ¥3,667,253 thousand (up 18.3% year on year), gross profit totaled ¥3,229,644 thousand (up 22.5% year on year), and gross profit margin was 88.1% (up 3.1 points year on year) in the period under review. On the other hand, all profit items following operating profit were down year on year. This was primarily due to a year-on-year increase of ¥338,202 thousand in advertising expenses in line with the implementation of new TV commercial rollout that was started in period under review aimed at promoting the use of the new “Virtual Cards” function, along with an increase of ¥229,966 thousand in personnel expenses due to the boosted hiring of employees. Operating profit was ¥193,918 thousand (down 22.1% year on year), ordinary profit was ¥101,388 thousand (down 47.4% year on year), and profit attributable to owners of parent was ¥85,545 thousand (down 19.6% year on year).

In our development of new services, we worked on the launch of services including our “Bill One” service for digitizing and taking online receipt of invoices, for which we apply technologies for highly accurate digitization of business cards that we have accumulated through the “Sansan” and “Eight” businesses to fields other than business cards. Largely with the aim of preventing further spread of COVID-19, companies have been striving to diversify working arrangements by setting up remote work measures, while also calling for greater productivity. Amid that scenario, substantial challenges persist particularly in terms of the notion that many employees must maintain a physical presence in the workplace in order to receive and process paper documents with respect to invoicing and related works. Accordingly, as we consider these services as the services that contribute to solving challenges relating to the implementation of remote working and BCP (business continuity plans), we will first establish the business processes and otherwise engage in efforts geared to stable service provision.

In addition, the Company acquired the shares of logmi, Inc. (“logmi”) and made it a subsidiary on August 31, 2020. The Company aims to further expand the logmi’s operating results by utilizing the client and user bases that the Group has built up to date, by adopting sales and data utilization know-how and by implementing cross-selling. In addition, we will work on further improving the service value of both companies by developing collaborative products in the event-related and advertising-related businesses and by implementing various efforts such as an initiative to boost the value of logmi’s database of news content. The Company expects for logmi’s operating results to contribute to the consolidated financial results from the second quarter of the fiscal year ending May 31, 2021 (from September 1, 2020).

Results by segment are as follows.

Our services of each business and our business models are described on the following IR section of the Company’s website. Please refer to the URL below for details.

IR section (description of Business Information):

<https://ir.corp-sansan.com/en/ir/management/businessinformation.html>

(i) Sansan Business

The Company is developing services in the B2B business card management service market. As the Company has grown, this market has seen 18-fold expansion from 2010 to 2018. The Sansan Business, operated by the Company, holds an 82.8% share (Note 1.) in this market. Moreover, further expansion of the size of this market is continuing, which is mainly a result of recent changes to employee working styles like remote work due to the spread of COVID-19, new ways of thinking toward digital transformation, and greater attention being attracted to the SaaS (Software as a Service) products. As for the digital transformation market, its worth in 2021 is forecasted to be ¥1,435.7 billion (an increase of ¥870.4 billion since 2017) (Note 2.), while the SaaS market in Japan is forecasted to reach ¥817.4 billion by 2023 (an increase of ¥337.6 billion since 2018) (Note 3.).

For the period under review, the Company continued to engage in initiatives, such as strengthening the sales structure through strategic hiring and expanding use of “Virtual Cards” function, aimed at further increasing the number of subscriptions and the monthly sales per subscription for “Sansan.” Although the pace of acquiring new subscriptions has slowed down due to the impact of COVID-19, as a result of the expanded use of our services by government agencies and financial institutions and the steadily acquired new customers among medium to small enterprises, the number of “Sansan” subscriptions at the end of the period under review, totaled 6,969, up 15.5% year on year. In addition, monthly sales per subscription rose only slightly to ¥164 thousand, up 5.1% year on year due to sluggishness in some sales comprised of fees for the service of providing “Sansan” during the initial adoption period as a result of the effect of COVID-19. Furthermore, as a result of carrying out ongoing initiatives to expand use among existing customers to achieve a stronger customer foundation, the last 12 month average of monthly churn rate (Note 4.) was 0.60%, an improvement of 0.04 points year on year.

As a result, net sales totaled ¥3,356,228 thousand (up 17.8% year on year), of which recurring net sales (fixed revenue) in “Sansan” totaled ¥3,199,764 thousand (up 26.1% year on year) in the period under review. Segment profit totaled ¥1,272,216 thousand (up 0.6% year on year).

- Notes: 1. Based on “Contact Management Service Market and SFA/CRM Businesses 2020” by Seed Planning, Inc.
2. Based on “2018 Outlook of the Digital Transformation Market” by Fuji Chimera Research Institute
3. Based on “2019 New Software Business Markets” by Fuji Chimera Research Institute
4. 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 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, “Meets,” a business event that increases productivity by efficiently matching buyers and sellers, 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 of the B2B service through “Eight Company Premium” and other methods, while also integrating “Sansan” and the “Virtual Cards” function to develop new functions that make it possible for users to smoothly exchange “Virtual Cards” with each other online. As a result, the number of “Eight Company Premium” subscriptions at the end of the quarter under review totaled 1,757, an increase of 77.3%

year on year and the number of “Eight” users (Note 5.) totaled 2.76 million, an increase of 0.25 million year on year.

As a result, net sales for the period under review totaled ¥311,024 thousand (up 23.5% year on year), of which net sales from B2C services totaled ¥74,444 thousand (up 3.2% year on year), and net sales from B2B services totaled ¥236,580 thousand (up 31.7% year on year). Segment loss was recorded at ¥191,715 thousand (compared to ¥239,146 thousand in the previous fiscal year) due to being in the phase in which upfront investments were being made to increase future profitability.

Note 5. Number of confirmed users who registered their business card to their profile after downloading the application

(2) Explanation of financial position

Assets

Total assets at the end of the first quarter of the fiscal year ending May 31, 2021 were ¥22,554,217 thousand, down ¥265,550 thousand from the end of the previous fiscal year. This was primarily due to a decrease of ¥547,344 thousand in cash and deposits, a decrease of ¥132,803 thousand in accounts receivable - trade, and an increase of ¥200,715 thousand in goodwill recorded as a result of making logmi a subsidiary through the acquisition of its shares.

Liabilities

Total liabilities at the end of the quarter under review were ¥11,885,607 thousand, down ¥381,539 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥324,046 thousand in accounts payable - other, an increase of ¥135,903 thousand in short-term borrowings taken out to fund working capital and an increase of ¥441,022 thousand in advances received from receiving a lump-sum payment of contract term fees from customers, together with a decrease of ¥507,265 thousand in long-term borrowings and a decrease of ¥135,130 thousand in current portion of long-term borrowings as a result of the repayment of borrowings, and a decrease of ¥175,554 thousand in income taxes payable and a decrease of ¥259,970 thousand in accrued consumption taxes as a result of tax payments.

Net assets

Net assets at the end of the quarter under review were ¥10,668,610 thousand, up ¥115,989 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥85,545 thousand in retained earnings due to recording of profit attributable to owners of parent and an increase of ¥21,879 thousand in share acquisition rights.

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

The forecasts of consolidated financial results for the fiscal year ending May 31, 2021 have not changed from the forecast announced on July 14, 2020.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Thousands of yen)

	As of May 31, 2020	As of August 31, 2020
Assets		
Current assets		
Cash and deposits	12,815,225	12,267,881
Accounts receivable - trade	441,060	308,256
Prepaid expenses	410,582	465,994
Other	176,945	163,644
Allowance for doubtful accounts	(3,621)	(3,777)
Total current assets	13,840,192	13,201,998
Non-current assets		
Property, plant and equipment	414,467	529,659
Intangible assets		
Software	925,803	960,037
Goodwill	–	200,715
Other	261	229
Total intangible assets	926,064	1,160,982
Investments and other assets		
Investment securities	6,941,596	6,939,848
Leasehold deposits	549,412	545,096
Deferred tax assets	145,185	168,075
Other	2,850	8,556
Total investments and other assets	7,639,043	7,661,576
Total non-current assets	8,979,576	9,352,218
Total assets	22,819,768	22,554,217

(Thousands of yen)

	As of May 31, 2020	As of August 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	102,922	61,422
Short-term borrowings	20,000	155,903
Current portion of long-term borrowings	1,267,490	1,132,360
Accounts payable - other	596,265	920,311
Income taxes payable	225,471	49,917
Accrued consumption taxes	429,584	169,613
Advances received	5,289,822	5,730,844
Provision for bonuses	289,551	157,475
Other	114,449	79,943
Total current liabilities	8,335,558	8,457,792
Non-current liabilities		
Long-term borrowings	3,892,598	3,385,333
Other	38,990	42,481
Total non-current liabilities	3,931,588	3,427,814
Total liabilities	12,267,147	11,885,607
Net assets		
Shareholders' equity		
Share capital	6,236,650	6,236,650
Capital surplus	3,977,043	3,977,043
Retained earnings	344,184	429,730
Total shareholders' equity	10,557,879	10,643,424
Accumulated other comprehensive income		
Foreign currency translation adjustment	(15,921)	(11,906)
Total accumulated other comprehensive income	(15,921)	(11,906)
Share acquisition rights	10,663	32,542
Non-controlling interests	–	4,549
Total net assets	10,552,621	10,668,610
Total liabilities and net assets	22,819,768	22,554,217

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income

(Thousands of yen)

	Three months ended August 31, 2019	Three months ended August 31, 2020
Net sales	3,100,589	3,667,253
Cost of sales	464,143	437,609
Gross profit	2,636,446	3,229,644
Selling, general and administrative expenses	2,387,520	3,035,726
Operating profit	248,926	193,918
Non-operating income		
Interest and dividend income	592	350
Foreign exchange gains	568	185
Cancellation penalty income	476	1,914
Subsidy income		1,191
Other	455	157
Total non-operating income	2,093	3,799
Non-operating expenses		
Interest expenses	1,161	7,910
Share issuance costs	28,102	–
Stock market listing expenses	13,877	–
Commission expenses	–	2,646
Share of loss of entities accounted for using equity method	13,592	84,650
Other	1,579	1,121
Total non-operating expenses	58,313	96,328
Ordinary profit	192,705	101,388
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	101,388
Income taxes - current	44,201	38,733
Income taxes - deferred	–	(22,890)
Total income taxes	44,201	15,843
Profit	106,356	85,545
Profit attributable to owners of parent	106,356	85,545

Quarterly consolidated statement of comprehensive income

(Thousands of yen)

	Three months ended August 31, 2019	Three months ended August 31, 2020
Profit	106,356	85,545
Other comprehensive income		
Foreign currency translation adjustment	(6,274)	4,014
Total other comprehensive income	(6,274)	4,014
Comprehensive income	100,082	89,560
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	100,082	89,560

(3) Notes to the quarterly consolidated financial statements

(Notes on premise of going concern)

Not applicable.

(Changes in accounting estimates)

(Changes in the useful lives of property, plant and equipment)

From the first three months of the fiscal year ending May 31, 2021, the Company has revised its estimates of the useful lives of some property, plant and equipment from three years to five years. This change was made to change the useful lives of facilities attached to buildings and tools, furniture and fixtures primarily related to the head office to better reflect reality in light of actual utilization of the office and relevant assets.

As a result of this change, operating profit, ordinary profit and profit before income taxes for the first three months of the fiscal year ending May 31, 2021 are each ¥20,344 thousand higher than they would have been under the previous estimates of useful lives.

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

Not applicable.

(Segment information, etc.)

[Segment information]

I First three months of the fiscal year ended 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

(Thousands of yen)

	Reportable segments			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
Intersegment sales or 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.

II First three months of the fiscal year ending May 31, 2021 (from June 1, 2020 to August 31, 2020)

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

(Thousands of yen)

	Reportable segments			Adjustments (Note) 1	Amount in the quarterly consolidated financial statement (Note) 2
	Sansan Business	Eight Business	Total		
Net sales					
Sales to external customers	3,356,228	311,024	3,667,253	–	3,667,253
Intersegment sales or transfers	–	–	–	–	–
Total	3,356,228	311,024	3,667,253	–	3,667,253
Segment profit (loss)	1,272,216	(191,715)	1,080,501	(886,582)	193,918

Notes: 1. The adjustments stated for segment profit (loss) of negative ¥886,582 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 change in goodwill amount)

Goodwill was recorded in the “Eight Business” segment due to the inclusion of logmi, Inc. in the scope of consolidation as a consolidated subsidiary through the purchase of that company’s shares. In the three months ended August 31, 2020, the resulting increase in goodwill amounted to ¥200,715 thousand.