

FAQ on FY2023/9 Full-Year Results

We have prepared a list of questions that shareholders and investors are likely to ask about our full-year results for FY2023/9. Please refer to our answers below, in conjunction with our Financial Statements and Financial Results Briefing Materials.

Review of Financial Results

Q1: Your gross amount of “support” pre-orders and net sales fell short of the plan for FY2023/9, while the losses at the operating level and below significantly decreased. I believe you were on track with the plan through Q3. Given this, can I have your analysis as to where your expectations for post-Q3 performance diverged from the plan?

The gross amount of "support" pre-orders for Q4 fell short of the plan as the increase in real-world consumption, especially in travel, lodging, event participation, dining, and similar categories in August, exceeded our initial expectations. For the full year, the gross amount of “support” pre-orders missed the plan by 2.2%.

With regard to net sales, they fell below the plan for Q4 due to the decrease in the gross amount of “support” pre-orders. Nevertheless, the strong performance of MIS and other related Makuake services, carried on from Q3, resulted in net sales, which were down 0.8% compared to the full-year plan, outperforming GMV’s year-over-year performance vs. the plan.

On the other hand, operating loss, as was the case in Q3, decreased thanks to rigorous cost control as we successfully trimmed SG&A expenses, primarily personnel costs, further. As a result, operating loss shrank by JPY 390 million compared to the full-year plan, coming in at JPY 489 million.

Q2: I believe you had the option to increase your advertising and promotion expenses in Q4 to further boost the gross amount of “support” pre-orders, but did you choose to prioritize cost control instead?

We invest in advertising and promotion according to our in-house ROI standards, aiming for operational efficiency. We believe that allocating advertising and promotion expenses without considering operational efficiency, in an attempt to increase the gross amount of "support" pre-orders, may result in temporary growth in business results. However, it is not a sound business management practice and is unlikely to lead to business growth in the medium- to long-term.

Q3: Your personnel expenses are declining due to a lower headcount. The decrease in personnel expenses can be interpreted as a positive when viewed as a reduction in fixed costs. However, you have been explaining that securing employees to provide support for existing project owners is crucial for growth. Won't the decline in headcount impact your business performance?

As of the end of Q4, the total number of employees was 191, which was 8 fewer than the previous quarter, while the number of curators and screening/monitoring personnel directly involved in project creation increased by 1, totaling 87. We believe that the decrease in headcount had no direct impact on business performance. In the development department, where significant personnel changes occurred from the previous quarter, realignment of development priorities and successful task execution in Q4 resulted in optimal personnel placement and increased productivity, despite the reduced headcount. We believe that we have implemented a sounder business management structure.

Review of KPIs

Q1: It appears that the growth in the number of published projects, including those published by repeat project managers, was sluggish in Q4. What was the reason for this?

The sluggish growth in the number of published projects can be partially attributed to a decrease in working days in August, as both consumers (project supporters) and businesses (project owners) took time off for the Bon Festival and summer vacations. Nevertheless, in order to mitigate such impacts from the external environment as much as possible and to increase our own potential, we are focusing on raising the project unit value by implementing various support initiatives targeting repeat project owners.

Focusing on repeat project owners and increasing the number of their published projects contributes to boosting the unit value per project. This is because repeat project owners, already well-versed in project publications, set higher targets for their new projects than for previous ones, and their projects are of high quality. Furthermore, from the second half of the year, in an effort to further raise the project unit value, we implemented various support initiatives to increase the unit value of projects on their first day of publication, and these efforts have yielded positive results: the average monthly project unit value has consistently grown from Q2 onwards. Given that the increase in the project unit value can also be viewed as an improvement in project quality, our focus moving forward will be to prioritize increasing the project unit value over increasing the number of projects.

Q2: It appeared that the decline in access UUs (unique users) had leveled off in Q3, but in Q4, access UUs declined further. Have you implemented any initiatives to increase access UUs?

In Q4, access UUs decreased due to factors such as people spending more time going out in August. However, our membership count continues to grow steadily, and the gross amount of "support" pre-orders is on the rise, despite the decrease in UUs. For this reason, as a company, we have not implemented specific initiatives solely to increase access UUs. Instead, we are focusing on enhancing project supporter retention through the creation of high-quality projects and the strengthening of various CRM initiatives, while aiming for natural growth in new customer inflow.

Q3: The average monthly project unit value—a KPI in the medium-term management plan—has continued to perform well since Q3. In your analysis, what strategies have been successful?

As briefly mentioned in our answer to Q1 in the "Review of KPIs" section, we believe that increasing the number of projects published by outstanding repeat project owners has contributed to the growth of high-quality projects. Furthermore, various support initiatives aimed at enhancing the unit value of projects on their first day of publication have yielded positive results, leading to a strong performance in the average monthly project unit value for the quarter. In particular, we have implemented initiatives such as strengthening existing support content, including pre-launch advertising budget planning, email newsletters, and PR, to prepare projects for media exposure.

Additionally, we have boosted projects' first-day impact through the new “Coming Soon” functionality, while also enhancing curator consulting capabilities through knowledge sharing by veteran curators.

On FY2024/9 Financial Forecasts

Q1: I understand that for FY2024/9, you are planning to achieve the gross amount of “support” pre-orders of JPY 18,845 million, net sales of JPY 3,925 million, and operating profit of JPY 16 million. Please share your underlying assumptions for this plan.

Regarding the gross amount of "support" pre-orders and net sales for FY2024/9, we expect seasonal factors such as increased travel demand during consecutive holiday periods in January, May, and August to continue. We have also considered the uncertainty in the external environment due to the international situation and have based our plan on the Q4 FY2023/9 GMV as the baseline of our own potential. On the other hand, we anticipate an upside from better-than-expected growth resulting from the retention of repeat customer business.

As for operating profit, we believe our target is achievable with the current cost control framework.

Q2: Will you be increasing advertising and promotion expenses in FY2024/9 vs. FY2023/9?

There are no changes to our operational approach for advertising and promotion expenses in FY2024/9 vs. FY2023/9.

On Medium-Term Management Plan

Q1: Please explain the background of the revisions to your medium-term management plan.

The external environment and the impact it had on the level of the gross amount of “support” pre-orders in Q4 FY2023/9 were a significant reference point in shaping the FY2024/9 plan. Currently, the scale of our gross amount of “support” pre-orders has not yet reached 1.8% of the total pre-primary distribution market. This means that we are in

a phase where we are gradually gaining recognition from businesses (project owners) and consumers (project supporters) and, as a result, are still strongly influenced by the external environment.

In this context, the appropriate plan assumption to communicate to the stock market is that we used the gross amount of “support” pre-orders in Q4 FY2023/9 as the baseline of our own potential. With the plan for FY2024/9 formulated, we are revising our medium-term KPI targets based on the scenario of organic growth coupled with accelerated project supporter retention as we begin to prepare communication functionalities and loyalty programs in the second half of FY2024/9 and launch them in FY2025/9.

Q2: What are the “communication functionalities” and “loyalty programs” in the medium-term management plan, specifically?

At this point, we cannot discuss specific details, but we are planning a “communication functionality” that will serve as the foundation for project owners to increase the number of their fan project supporters and a “loyalty program” that will make using Makuake more enjoyable and rewarding with increased usage.

Q3: I believe that there have been recent collaborations with major IPs and partnerships with other companies that have offline stores. How much impact do you expect external partnerships to have on your business performance under the medium-term management plan?

At this stage, collaborations with major IPs and partnerships with offline stores primarily support project owners, and their impact on financial results is not incorporated into the medium-term management plan. They serve as incentives for project owners to repeatedly utilize Makuake. Using Makuake comes with benefits such as the ability to plan collaborative products with major IPs and the potential for offline store expansion after the end of project publications on Makuake. We believe that such collaborations will contribute, to some extent, to the improvement in one of our medium-term KPIs: the number of active projects during the month and the gross amount of “support” pre-orders. If the scale of these collaborations and partnerships expands in the future, we will incorporate them into our medium-term management plan at an appropriate time.

Q4: What are your plans for advertising and promotion, as well as personnel expenses, through FY2025/9?

Our operational approach to advertising and promotion, as well as personnel expenses, through FY2025/9 will remain unchanged from FY2023/9. We will proceed as follows:

- Advertising expenses: We will allocate them in line with in-house ROI standards while improving operational efficiency.
- Personnel expenses: We will prioritize optimal personnel placement and conduct a thorough review of staffing levels before making new hires.

Q5: Do you have any plans to expand your business beyond the Makuake service in the?

While this pertains to the period beyond FY2025/9, we are considering the development of new businesses as part of our future business plans, leveraging the customer assets of project managers accumulated through our strategy of retaining repeat customers. We intend to explore a range of possibilities, including in-house startups and M&A, without limiting our options.

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Disclaimer and Cautions Regarding Future Outlook

While the content of this document has been prepared based on generally recognized economic and social conditions as of October 24, 2023, and certain assumptions deemed reasonable by Makuake, Inc., it may change due to shifts in the business environment and other factors.

When investing, please be sure to read our financial reports and other documents released by us before making any decision, at your own judgment, as an investor.

Risk and uncertainty include general domestic and international economic conditions, such as general industry and market conditions, and fluctuations in interest and currency exchange rates.

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