Cybozu, Inc.

Business Overview and Financial Results Briefing for the Fiscal Year Ended December 2021

February 24, 2022

Event Summary

Company Name	Cybozu, Inc.
Company ID	4776-QCODE
Event Type	Earnings Announcement
Event Name	Business Overview and Financial Results Briefing for the Fiscal Year Ended December 2021
Fiscal Period	FY2021 Annual
Date	February 24, 2022
Time	13:00 – 14:25 (Total: 85 minutes, Presentation: 51 minutes, Q&A: 34 minutes)
Venue	Webcast

Number of Speakers 6

Yoshihisa Aono	Representative Director & President
Yumika Nakane	Executive Officer, General Manager of Human Resources Division, General Manager of Legal & Compliance Division, Candidate for Director
Tamotsu Hayashida	Executive Officer, General Manager of Business Marketing Division
Keita Kuriyama	Executive Officer, General Manager of Sales Division, General Manager of Business Strategy Office, Candidate for Director
Tadamasa Hayashi	Executive Officer, General Manager of Corporate Affairs Division, Candidate for Director
Teppei Sato	Executive Officer, General Manager of Development Division/Representative Director, and President of Cybozu Labs, Inc.

Presentation

MC: It's time to start, so let's begin. Thank you very much for taking the time out of your busy schedule today to attend the business overview and financial results briefing of Cybozu, Inc. for the fiscal year ending December 31, 2021. My name is Yamami, from Public Relations at Cybozu, and I am the MC for this session. Thank you for joining us.

Today's financial results and business briefing is being broadcast simultaneously via Zoom webinar and YouTube Live.

In a moment, Aono, our Representative Director and President, will give a presentation. You may take pictures of the slides during the presentation and post them on social media. However, some slides will have a no-photography permitted mark in the top-right corner. Please refrain from taking photos of those slides.

After the presentation, Aono or one of the Cybozu management team will answer questions from the audience. Due to time constraints, we may not be able to answer all of your questions. Thank you for your understanding.

Yoshihisa Aono, Representative Director and President of Cybozu, will now report on our financial results and business activities for the fiscal year ending December 31, 2021. Mr. Aono, please.

About Cybozu

Cybozu, Inc.

Business	Develop, sell and operate groupware/Methodology consulting business
Representative Director and President	Yoshihisa Aono
Established	August 1997
Head Office	Tokyo Nihombashi Tower, 2-7-1 Nihombashi, Chuo-ku, Tokyo
Locations	Tokyo, Osaka, Matsuyama, Nagoya, Fukuoka, Hiroshima, Sendai, Sapporo, Yokohama, Omiya, Shanghai, Shenzhen, Taipei, Ho Chi Minh, San Francisco, Sydney, Bangkok, Kuala Lumpur, etc.
Capital Stock	613 million JPY
Listed Exchange	Tokyo Stock Exchange, First Section (Stock code: 4776) * Plan to move to the new Prime section in April 2022
Employee Headcount	Consolidated: 969 employees, Non-consolidated: 737 employees * As at end of December 2021 * Open-ended contract (permanent) employees only (executives and auditors not included)

Aono: Hello, everyone. I'm Aono from Cybozu. Thank you very much for watching the business overview and financial results briefing today.

I will now give a presentation on Cybozu's financial results and business activities, which will last approximately 45 minutes.

First of all, to give you an overview of the company, the number of locations we operate in has increased considerably. As we announced today, we are setting up a base in Kuala Lumpur, Malaysia.

As a result, our headcount has been increasing, and the number of permanent employees is approaching 1,000, more specifically 969 permanent employees on a consolidated basis. However, most of the employees working in Tokyo are currently working from home, so although we have a number of operational locations, employees are working from home, which means if you include all of those individual work locations, we really have a lot of operational locations.


Our corporate philosophy is shown here. Since 2020, we have been creating a corporate philosophy, which we call our company vision. It is divided into two parts: Purpose and Culture.

Recently, people have been talking about purpose management, and Cybozu has also been talking about purpose, or the purpose for which the Company exists, which is *to create a society brimming with teamwork*. We define Cybozu as a company that exists to fulfill this purpose.

What would a society brimming with teamwork be like? These are the four cultural aspects. Share a common vision - We should all share a common vision, embrace individuality, be transparent, and each of us should be ourselves and take responsibility. Our company vision is based on these aspects of our culture designed to create a society brimming with teamwork.

Most companies have a corporate philosophy of some kind, but at Cybozu we are unusually obsessive about our company vision. Cybozu is really a free company, but we all share this company vision, which we have defined and all work towards.

Information sharing and teamwork
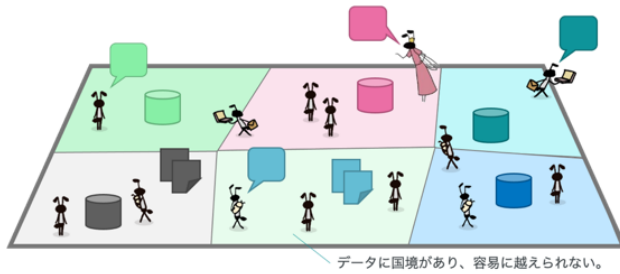
Data, information, and communication is separated by team, making it impossible to share information outside one's team

Information is siloed, cutting the workplace off from the data **it needs to innovate**
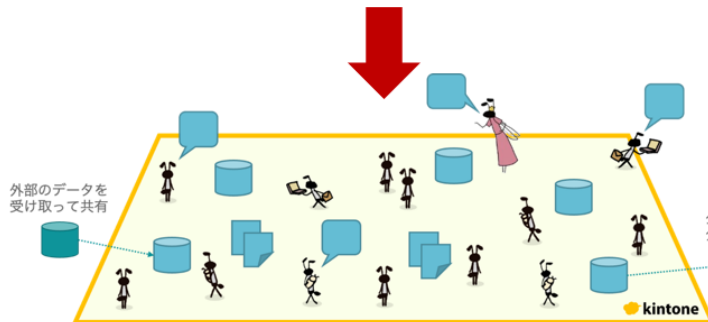
Information shared openly on one platform. Workplace-driven business improvement.

Information sharing boosts teamwork and helps the entire organization to evolve

In order to create a society that is brimming with teamwork, we are currently working on a project to develop information sharing tools. When everyone works together to create good teamwork, they still need to work in concert with each other while sharing and exchanging information with each other. So, we need a platform for that, right?
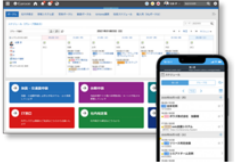
We think though that, unfortunately, despite the fact that IT is so sophisticated these days, we still don't share information all that much. Take for example, email. I'm sure everyone uses email at work, but email, when you think about it, is a secret conversation.

That means that even if good discussions are taking place via email, they are not being shared. They are not being seen by other people. This is not very conducive to teamwork. As you can see in the bottom picture, everyone can share information including what kind of conversation they are having with whoever they are talking to, and different people can come into the conversation. You can also see the work status of other departments. You can give your opinion right then and there.

I think it is important to expand the adoption of this type of open and flat information sharing space, and we are working hard to create and provide tools for this purpose.

Cybozu's cloud services

At this point of time, we provide four tools.

In brief, Cybozu Office is an information sharing tool for small- and medium-sized enterprises (SMEs), and if you install Cybozu Office, you'll have the whole gamut of information sharing applications, such as schedules, bulletin boards, and workflows.

Our product for large corporations is called Garoon. These are our two groupware products that we have been working on for a while, relatively speaking.

What we are currently focusing on is Kintone. You might have all kinds of information that you want to share within the Company. You can also create your own business apps to match the types of information you want to share. We thought it would be great if there was a cloud service where people could easily create business apps themselves and work as a team, without having to do a whole bunch of programming. That is why we created Kintone, which is known as a *low code* solution. This is the product that we are focusing on now.

In the bottom right-hand corner is Mailwise. As already mentioned, email prevents information sharing in the way I explained. So, I thought, why don't we just share the emails we receive with everyone? We believe that email can be used as a form of information sharing by everyone reading from and writing to them together. That's why we are working on Mailwise as an information sharing system dedicated to email. This is really a product that is the first step in information sharing.

With these four products, we are now working to expand the adoption of information sharing.

The Cybozu ecosystem strategy

Extend product functionality with third-party service integrations and plug-ins
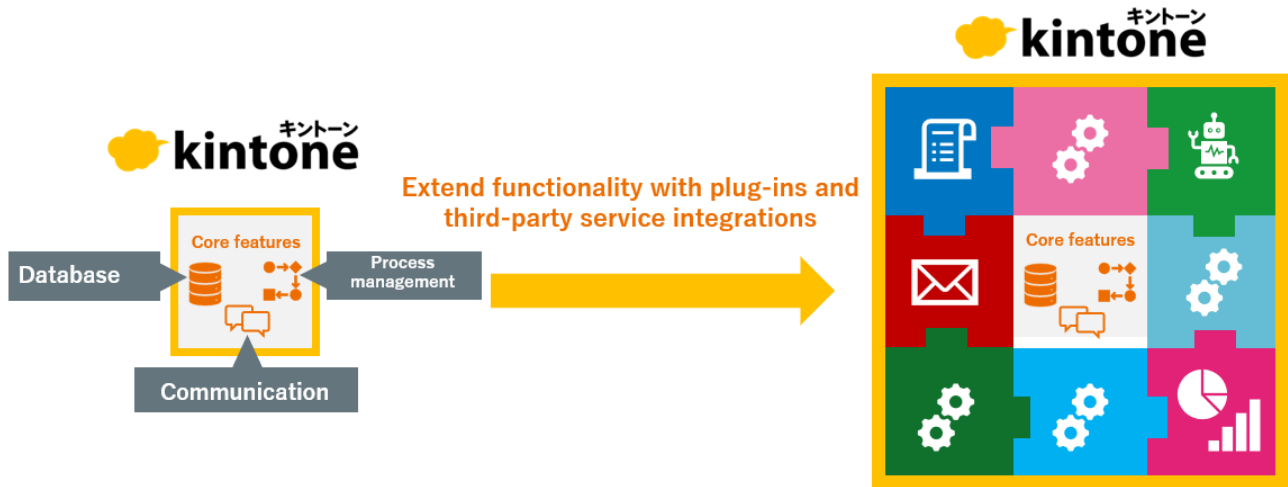
More on extending functionality with plug-ins and integration services: https://kintone-sol.cybozu.co.jp/integrate/search/

One of the features of our tools is that we have adopted a strategy of specializing in only providing basic functions. So, for example, in the case of Kintone, there is a database feature for sharing information with everyone, and a feature for communicating while viewing that data. Then we turn it into a business process with a defined workflow and use it for business operations.

Kintone only provides these three core features, and our partners are responsible for adapting each company's Kintone solution to the various needs of the company. By expanding the ecosystem to include external services and customization by partners, we can meet a wide variety of customer needs. This is what the Cybozu ecosystem strategy is all about. I think this has become a major feature of Cybozu.

The Cybozu ecosystem strategy
Surround ourselves with partners and users that can grow with us

The way we expand the adoption of our software is that we work hard to create it, and then we sell it. Of course, we do that, but more than that, our partners add value, and users connect with each other. So, adoption and use spreads, just like an ecosystem expands and develops.

By doing so, we will be able to expand this information sharing platform to a wide range of customers, from large corporations to SMEs, in all kinds of industries and business categories, and not only in Japan but also globally. This is the strategy that we have in mind. This is a key characteristic of how we operate.

Let's go over this one more time because it's important. Cybozu is committed to creating a society brimming with teamwork. Our company vision is to expand the four aspects of our culture, and we provide a platform for information sharing for that end.

We have four products now, and we will expand adoption of them in this ecosystem. It's not just about us, it's about expanding with our partners, and with our customers. This is our approach to business.
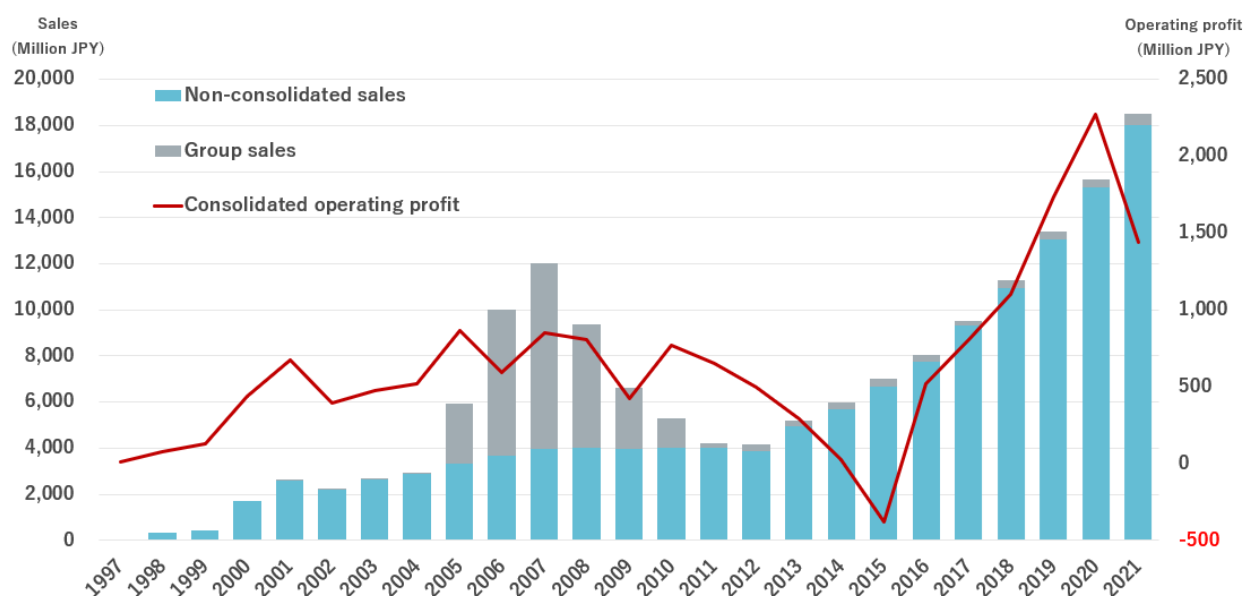
I will now start presenting the numbers. This is what our sales and profits have looked like over the years.

Net sales. As you can see, sales were initially flying at low altitude, but have steadily increased since our shift to cloud services started in around 2011 to 2012.

Profit shown in this line graph is not in lockstep with sales though. We have invested actively in various areas of the business including cloud services, even dipping into the red once in 2015, with our profits making a V-shaped recovery after that.

However, in terms of the last fiscal year, we decided to again invest solidly, and profits were down in 2021. That is how to interpret this graph.

Consolidated financial results

Consolidated Financials (Unit: million JPY)	FY2020 (Actuals)	FY2021 (Actuals)	FY2022 (Forecast)
Sales	15,674	18,489	21,730
Operating profit	2,270	1,441	345
Ordinary profit	2,272	1,468	401
Current net profit	1,435	551	- 429
Net profit per share	31.30 JPY	12.03 JPY	- 9.35 JPY
Dividend per share	11.00 JPY	12.00 JPY	13.00 JPY

Looking at the specific figures, the figures in the middle column are for the last fiscal year ending December 2021, and compared to fiscal 2020, sales increased by JPY 2.8 billion and profits decreased by JPY 800 million. This is a rough reading of the numbers. In the 2022 fiscal year, sales are expected to increase by over JPY 3 billion, while profits are expected to decrease by over JPY 1 billion.

Detailed results FY2021

Consolidated PL (Unit: million JPY)	FY2020 Actuals	FY2021 Actuals	
Sales	15,674	18,489	**Consolidated sales** +2,815 million JPY YoY (+18.0%)
Cost of sales	1,086	1,339	
Labor costs	5,502	6,315	
Advertising expenses	2,673	4,907	**Aggressively invested in advertising and promotion**
Others	4,143	4,487	
Operating profit	2,270	1,441	**Operating profit** - 829 million JPY YoY (-36.5%)

Let's take a closer look at the numbers for the last fiscal year.

Sales have increased by more than JPY 2.8 billion, but profits have decreased by more than JPY 800 million. What did we spend on? As highlighted in the middle of the table, on advertising. We wanted more people to

know about Cybozu products. This is why we have been investing aggressively in advertising and promotion in the last fiscal year.

The amounts were JPY 4.9 billion minus JPY 2.67 billion, which means that we have increased our advertising spend by between JPY 2.2 and JPY 2.3 billion.

Ramped up advertising and promotion

Leveraged cloud business growth and aggressively invested in advertising to increase product awareness

Expected to pay off in the long run

Aired TV commercials to promote product awareness. We expect these campaigns to take several years to yield substantial business returns, due to the nature of our product

Positive impact on existing users and partners

Motivated existing customers into taking full advantage of Kintone, nurturing Kintone's brand image, making our sales partner ecosystem more dynamic

Positive impact on recruiting

Increased awareness among students and their families, higher number of applicants after watching our TV ads and other campaigns

In terms of what kind of advertising we ran, specifically, TV commercials for Kintone were the biggest investment. Some of you may have seen the Kintone ads on TV. We've done a bunch of TV commercials saying, "Dou Cloud" (Super Cloud).

The reason why we have chosen these kinds of ads is because I believe that products like Kintone are now finally entering the popularization phase, spreading like social infrastructure over the next 20 to 30 years. At this time, we need to let more people know about it. We thought it was necessary to let the masses know about the platform, as Kintone is not a product just for a few people in the know. That is why we ran these TV commercials as an upfront investment.

There will be an uptick in the number of customers who will buy our products right away because of the TV commercials. And, additionally, there are customers who are just starting to think about information systems and are not very familiar with them. There are also younger people who see our ads and become aware that there is a company called Cybozu and might want to join the company. We wanted to make TV commercials targeting a wide range of people to gain broad recognition and let people know about our activities in various places. So that is what we are doing.

On a supplementary note, we don't advertise it as much as the Kintone, but we do also advertise Cybozu Office. We've also run TV commercials for this groupware service for SMEs. Cybozu Office is a 25-year-old product. We have been working for 25 years to help SMEs share information, but even so there are many Japanese companies that are still analog.

For example, as written here, there are still many companies, where the employees handwrite their work schedule into a personal planner or notebook and the information is not shared with anyone else. It's time to do something about that. We wanted to let SMEs that have not been able to go digital know about how

solutions can help them. We are using TV commercials to advertise Cybozu Office, which is completely different from what we have done in the past.

We did a lot of this kind of advertising, which meant a decline in profit.
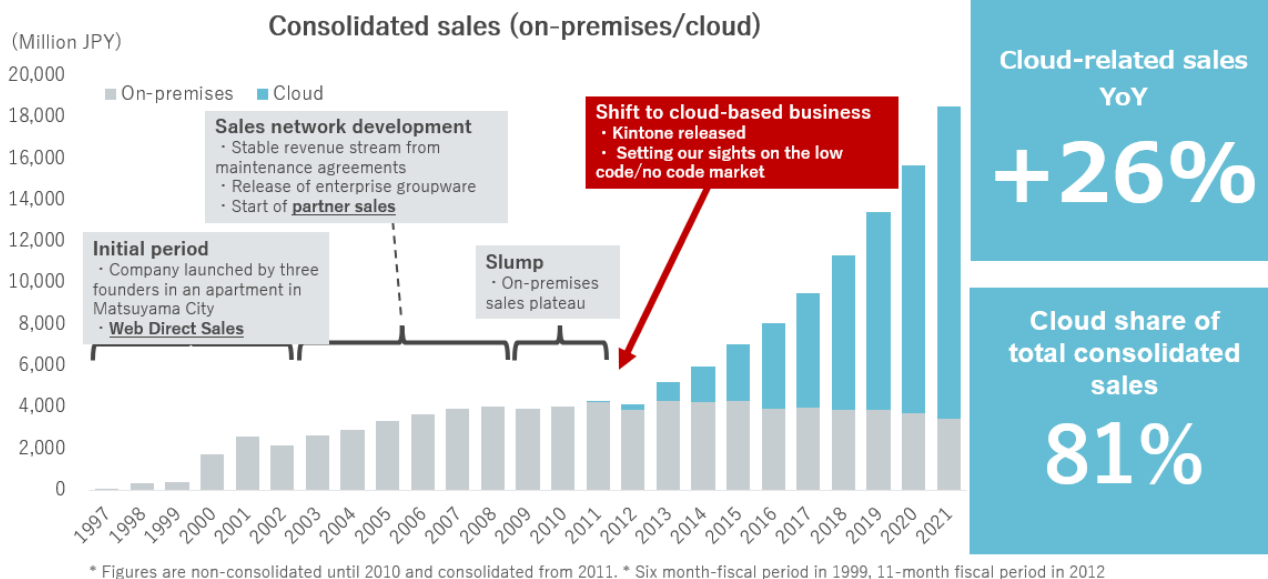
Financials

Consolidated BS (Unit: million JPY)	FY2020	FY2021	YoY
A s s e t s	12,235	14,037	+ 1,802
-Cash & deposits	3,956	4,805	+ 849
L i a b i l i t i e s	5,829	7,665	+ 1,836
-Short-term debt	–	2,200	+ 2,200
N e t a s s e t s	6,405	6,371	− 34
-Treasury stock	-1,800	-1,800	− 0
Shareholder equity ratio	52.4%	45.4%	− 7.0%
Net assets per share	139.63 JPY	138.88 JPY	-0.75 JPY

Extra funds for active investment

These are the financials. As a result of this active investment, our short-term debt has increased. The other figures remain largely unchanged.

Cloud business still growing 10 years after our shift to the cloud

Consolidated sales (on-premises/cloud)

(Million JPY)

■ On-premises ■ Cloud

Sales network development
· Stable revenue stream from maintenance agreements
· Release of enterprise groupware
· Start of partner sales

Initial period
· Company launched by three founders in an apartment in Matsuyama City
· Web Direct Sales

Slump
· On-premises sales plateau

Shift to cloud-based business
· Kintone released
· Setting our sights on the low code/no code market

Cloud-related sales YoY
+26%

Cloud share of total consolidated sales
81%

* Figures are non-consolidated until 2010 and consolidated from 2011. * Six month-fiscal period in 1999, 11-month fiscal period in 2012
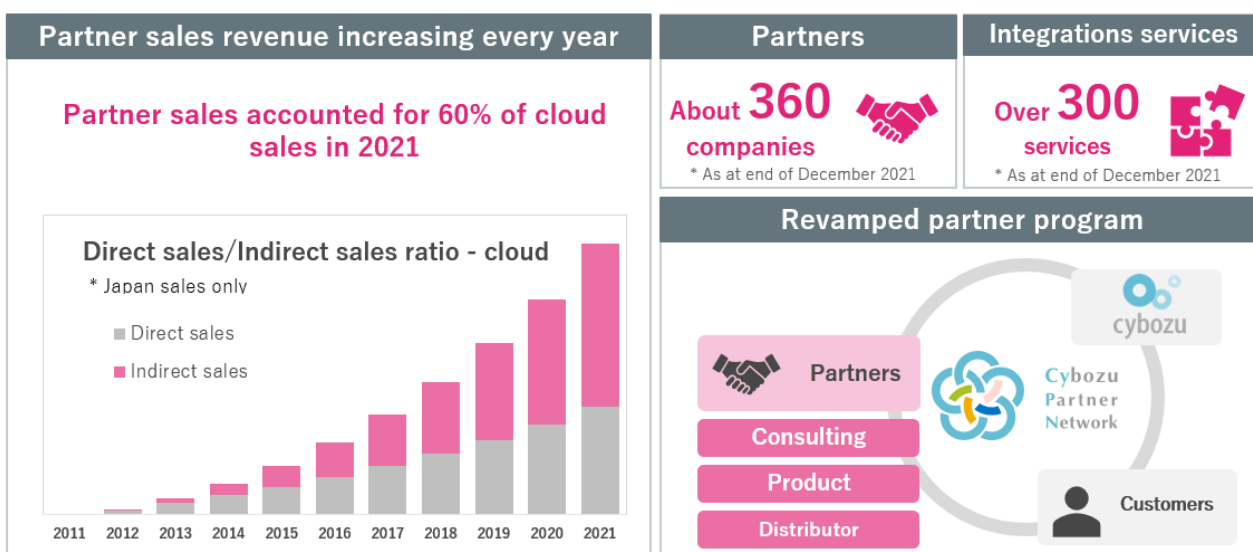
If we look at the business in more specific terms, the cloud business is growing. This bar graph shows the sales, and the gray area at the bottom is sales of on-premises products. The light blue area on the top is the cloud

sales. As you can see, cloud sales have been growing continuously since 2012. This has become a growth engine, with a YoY increase of 26%.

Cloud sales have grown to a level where they now account for 81% of our total sales. This means that just over four-fifths of our sales are from cloud services. So, I think we can say that we have become a cloud services company.

It's a little hard to see, but sales of on-premises products have been flat for a long time and are starting to decline slightly. I think this will put downward pressure on our sales in the short term, but with the COVID-19 pandemic, we are aware that customers need to move to cloud-based systems, and that the demand for on-premises products is declining as they switch to the cloud.

To explain business expansion through the ecosystem that I mentioned earlier in more detail, the graph on the left shows the ratio of direct sales to indirect sales within our cloud sales.

The pink area is indirect sales, which have been growing rapidly. Direct sales are growing, but partner sales are growing even more. This is a characteristic of Cybozu. Currently, 60% of our cloud sales come from our partners. We are shifting to a model where we don't have to work hard to directly expand our business, because our partners are expanding the business for us.

We have over 300 partners and more than 300 integrated services, and we have had a partner program for some time, which we have revamped to better support our partners.

To explain how we revamped the partner program. Previously, the program was based on the premise that partners handled on-premises products, but now that our cloud sales have grown to account for 80% of our sales, we decided to completely revamp the partner program to specialize in the cloud. We have changed the program to being a partner program designed to grow the cloud.

The new program provides an exciting range of features, so I hope you will consider becoming a partner.

Sales by product
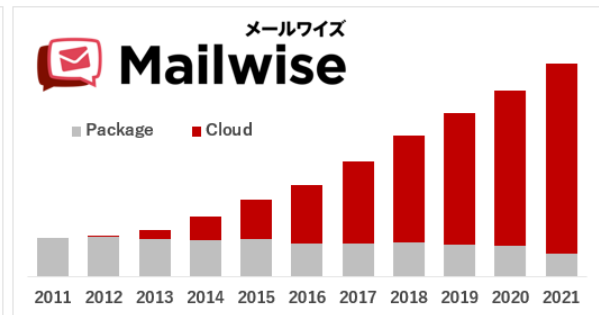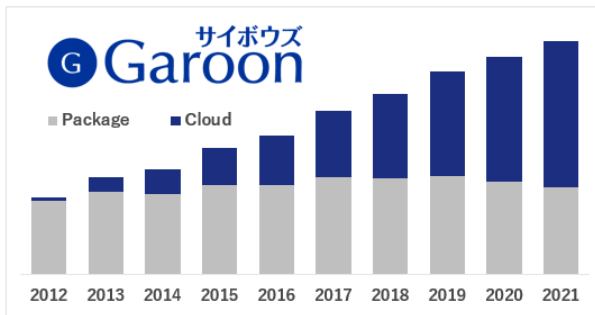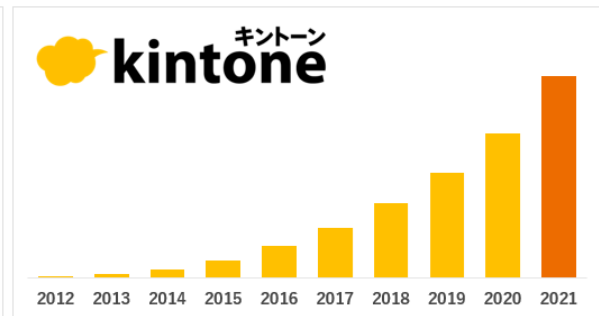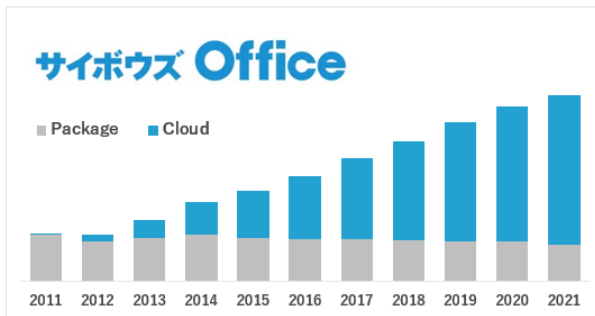
Next, let's look at sales by product in more detail. Cybozu Office, which has been the product since the startup phase of the company, has been growing steadily. However, the on-premises numbers are starting to fall, so there is downward pressure in this area, but overall sales have been rising continuously. Cloud sales now account for the majority of sales of this product.

Then there is Garoon, which is groupware for large corporations. The pace of the shift to cloud computing is finally accelerating at large enterprises, and the makeup of sales is such that on-premises sales are decreasing, and cloud is increasing. We welcome this structural shift.

Also, since Kintone has never been available as an on-premises product, having been a cloud-based product from its inception, it has been growing in the cloud for a long time now.

Mailwise, email sharing software, is also very compatible with the cloud, and now the majority of Mailwise sales are from the cloud-based version of the product. I think you can see that, as described here, sales have switched to being predominantly generated by the cloud-based versions of our products.

Number of customers who have deployed our products (as of December 2021)

kintone 23,000 companies

サイボウズ Office 72,000 companies

Garoon 6,400 companies

Mailwise 11,800 companies

* Kintone: Domestic companies signed up to Kintone (Kintone is cloud only)
* Other products: Total number of domestic companies who have deployed product on-premises or in the cloud

The number of companies deploying Kintone has also been steadily increasing, with the number of customers who have signed up for Kintone now exceeding 23,000 companies and that number is steadily climbing.

Even so, Cybozu Office has even more customers at 72,000 companies. However, this figure includes all past on-premises versions, so if you look just at current cloud customers, Kintone still has the largest number.

kintone キントーン Updating Kintone's functionality and UI/UX

Around **70** updates performed in 2021

Example
Enhanced control of apps and spaces

New feature — New Kintone admin setting
Block users from creating apps not associated with a specific Kintone space

OFF (blocked)

Setting is OFF

Kintone platform
All users with permission are allowed to create apps
(Good for spaces where users need to easily test different apps)

OK OK OK OK

A testing ground for users to practice building apps

Users blocked from creating apps not belonging to a space

✕

Not in a space

New feature — New Space setting
Only allow space administrators to create apps

Only the space administrators can create apps
(Good for spaces that require strict regulation of app building)

Setting is ON

OK ✕ | OK OK ✕ | OK ✕ ✕

Space 1 | Space 2 | Space 3

Space administrator   Other users

Support IT admin governance for enterprise users to drive organization-wide uptake of Kintone

On the subject of Kintone, we have been developing and updating the product a lot over the past year.

One of the features that we updated last year is support for IT management governance for large enterprises. What's great about Kintone is that it allows the people in the front line to create as many apps as they need for themselves by themselves. Another great aspect of Kintone is that it is appreciated by people in the front line as a low-code, or no-code development platform. However, if you look at it from a different perspective, from the IT department's point of view, sometimes they don't want other employees building all kinds of software without permission.

So, we wanted people to make use of the features of Kintone, which allows apps to be easily created, but at the same time, IT departments would not want users to use it in a crazy way. So, in order to meet this requirement, we have enhanced the admin control functions for apps and spaces.

Specifically, what can be done is for the IT department to tell everyone that they can create apps, but not to create apps in a particular area without permission. They will be able to set restrictions such as, we only want to put official apps here, so don't create apps here without permission.

In this way, we can take advantage of the best feature of Kintone, which is that people in the field can create as many apps as they want, and at the same time, there will be no chaos or confusion even when deployed on a large scale. This is the kind of system management functionality we've been working on.

Garoon has been getting a lot of functional enhancements lately too. What specifically has been enhanced is integration. I think most people think of Garoon as a complete application for schedule sharing and workflow, but Garoon is highly expandable.

The version of Garoon used internally within Cybozu, is highly customized, and we are now able to integrate it with all kinds of products. As a result, since Garoon is now scalable, the rate of customers using Garoon together with Kintone has increased to 47%. Half of the customers who bought Garoon have also installed Kintone and are using them well together.

This is the kind of thing we are seeing happening. Also, now that it can be linked to Microsoft 365, a product that many companies have adopted, they can be used together.

Although Microsoft 365 also contains all kinds of software, for things like schedule sharing, workflow, and portals Garoon is better, so some customers decide to use Garoon, or want to link them. More and more customers are doing this kind of thing. I think this is a very good way to lead to adoption of our solutions.

Accelerate the provision of reliable and secure cloud services to government agencies

Moving on, security is also an important consideration for all kinds of organizations in deploying our products. Especially for local governments, who are concerned about security levels. The central government in Japan created a system called ISMAP, which is something akin to a security evaluation standard for government information systems. Passing ISMAP makes it easier for local governments across Japan to decide to adopt an IT solution.

The ISMAP evaluation standards are quite strict, and we have been working hard to meet them, and finally last year we were able to register as an ISMAP compliant vendor. Kintone, Garoon, and our infrastructure are now recognized as services that can be used with confidence by the government.

I believe that governments and local governments will probably deploy our solutions increasingly in future, and, meeting these security standards we will be confidently pitching our solutions to those entities.

Third-party commendations

顧客満足度調査 2021-2022
日経コンピュータ
クラウド基盤サービス（IaaS／PaaS）部門

Nikkei Computer, Sept. 2, 2021 edition
Customer Satisfaction Survey 2021-22
Cloud Infrastructure Services
IaaS/PaaS category – No. 1 for 3
consecutive years

自治体ITシステム 満足度調査 2021-2022
日経BPガバメントテクノロジー

Nikkei BP Government Technology
Fall 2021 edition
Municipal Government IT System
Satisfaction Survey 2021-2022
Groupware/Business Chat category – No. 1

パートナー 満足度調査 2022
日経コンピュータ
クラウド情報系サービス

Nikkei Computer, Feb. 17, 2022
edition
Partner Satisfaction Survey 2022
Cloud Information System
Services category -
No. 1 for 2 consecutive years

The next thing I would like to highlight is how we are evaluated by external organizations.

From left to right, is firstly a customer satisfaction survey. This is an annual survey conducted by Nikkei Computer. In the IaaS/PaaS category, we ranked number one for customer satisfaction again this year, and it means we have been ranked number one for three years in a row.

We also ranked first in the municipal government IT system satisfaction survey. In addition, we have also ranked number one in the partner satisfaction survey for two years in a row. This means that our customers and clients are satisfied, local governments who have implemented the system are satisfied, and the partners who support the system implementation are also satisfied. So, I feel that our systems are being implemented in a very well-balanced way with everyone having a high level of satisfaction without any one group being sacrificed.

The next one is a global evaluation. This is a table put out by Gartner, it's the Magic Quadrant for Enterprise Low-Code Application Platforms, and Kintone has been listed here for five consecutive years.

Growing Kintone as a tool for workplace-driven business improvements

Total Kintone customer volume

23,000 companies

(As of December 2021)

Average number of companies installing Kintone

550 companies/month

(2021 average)

Share among companies listed on the first section of the TSE/TYO

Installed at **1** in every **4** companies

(As of June 2021)

Customer breakdown by sector

- 卸売業、小売業
- 情報通信業
- 製造業
- サービス業
- 建設業
- 学術研究、専門・技術サービス業
- 不動産業、物品賃貸業
- 医療、福祉
- 運輸業、郵便業
- 生活関連サービス業、娯楽業
- 金融業、保険業
- その他（未回答含む）

(As of December 2021)

93% of stakeholders deploying Kintone in their organizations are **not in the IT department**

Department of customer stakeholders driving Kintone deployment
(Subject: Customers active as <u>at</u> December 31, 2021)

93% 非IT部門   **7%** IT部門

What the most important feature of Kintone is that it allows people in the front line to take the initiative to improve business operations. This is the most significant feature – the fact that users can create their own system for themselves by themselves. Previously what tended to happen was, if you wanted to implement a system, you had to put in a request with the IT department, and it was really hard to get them to build the system for you. But, with Kintone, you can install it and start improving your business processes yourself straight away. This is the most significant feature. Because of this feature of the product, surprisingly 93% of the people in charge of implementation of Kintone are people from departments other than IT.

That's interesting, right. 93% of our business application development platforms are bought by people who are not in the IT department. So that makes it product with a particularly interesting aspect to it. And Kintone is also unique in that it's being adopted in many different industry verticals. Another aspect of Kintone is that it is being used by people in all kinds of industries and in all kinds of workplaces.

Since Kintone has been operating this way for a long time, the installed base is a cumulative total of 23,000 companies, and Kintone is currently being installed at about 550 new companies per month. As a result, one out of every four companies listed on the First Section of the Tokyo Stock Exchange now has some departments that have implemented Kintone. The seeds have been planted, and we have reached the point where even large enterprises can use our products in any of their departments.
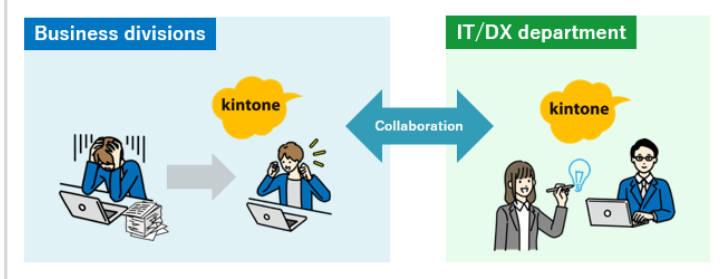
Kintone perfect for corporate digital transformations (DX)

## Rapid business improvement done in-house, thanks to Kintone

Collaboration between IT/DX department and business divisions
Business improvement powered by workplace-driven app development and rapid solution building by the IT/DX department based on workplace feedback

Responding to business changes
Kintone is a no-code/low-code tool where users can build flexible and efficient solutions that can respond to business changes
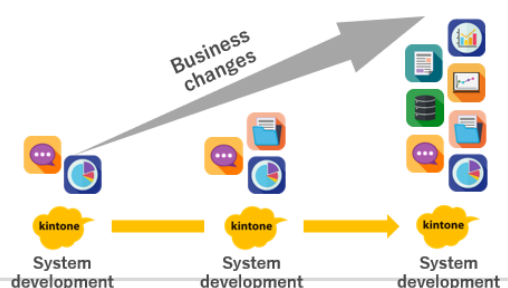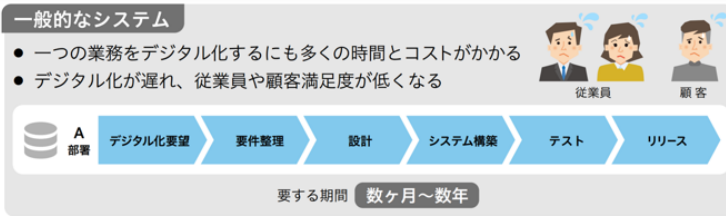
The seeds have been planted and there are many companies where they have been nurtured. There is also a growing trend among large enterprises where they are wanting to use Kintone on a larger scale. That has also led to the strengthening of the governance functions that I mentioned earlier in relation to functional enhancements. Recently, we've seen an increasing number of large-scale implementations by companies much larger than Cybozu, such as the NISSIN FOODS Group, Mitsubishi Heavy Industries, Ltd., the Keio Group, Hoshino Resorts, and JATCO Ltd.

What makes them so happy is that until now, people in the business divisions and people in the IT division didn't actually get along very well. The business divisions put in a lot of requests, but the IT division is too busy to respond to all the requests, which makes the business divisions feel like, why aren't you listening to us? So, there was a bit of tension there.

What they have told us though, is that, however, with Kintone, they have been able to collaborate with each other in the cloud and develop the system together with the involvement of the people on the ground in the business divisions. They have been able to build the system as if they were the one team, which has made the people on the frontline happy and sped up the process of business improvement.

This means that they can keep changing the system when their business changes. These are some of the benefits that our customers have seen.

Today, I'd like to the share the example of Mitsubishi Heavy Industries with you.

In the past, as you can see in the chart above, once you decided to create a system, you would spend several months to several years communicating with the people on the ground, and the discussion would go back-and-forth, designing the system, building it, testing it, and before it was finally usable. But what happened was over the course of those several months or years, the needs of the people had changed considerably.

If you use Kintone, as shown on the lower half of the slide, you can get it done in a few days or weeks. You can communicate with the people on the frontline and work together to create a system, so everyone is happy. This is what is happening.

Reading the speech balloon on the right, you can see that existing business processes can be digitized by the DX department and used in the field immediately. You can build and scrap and build again, in other words build and fix and build again, very quickly.

Previously, when people in the business divisions asked the IT department to make or change something for them their requests tended to fall on deaf ears, but with Kintone, they can reflect the changes immediately. As soon as they say it, it gets improved and gets fixed. Then, that makes people feel glad that they spoke up and said what they thought. The person who builds and improves the system also feels happy that the requester is happy with how they have responded, and so that means good teamwork is happening.

I would like to see this happen in companies all over Japan and right around the world. This is the vision that Kintone is aiming to achieve.

Expanding the use of Kintone in local governments

cybozu

Tokyo

Kintone used throughout the Tokyo Metropolitan Government (TMG), including for managing inoculation of healthcare workers against COVID. Tokyo's public roadmap for streamlining its operations explicitly mentions Kintone as a tool to be utilized.

Kanagawa Prefecture

Managing transport of COVID-positive patients

Hiroshima City

Coordinating the distribution of COVID vaccines to medical institutions

Kitakyushu City

Cooperation Agreement on promoting DX across entire agency

Number of municipalities using Kintone

in 2021: About **140**

Year	Value
2019	~33
2020	~73
2021	~135

TMG
Managing vaccination of healthcare workers against COVID

(2) Input required data in Kintone to consolidate healthcare worker information

Tokyo

kintone

Healthcare workers

(3) Medical vouchers required for vaccination can be printed out from Kintone

Medical institutions

(1) Collect data from medical institutions and issue Kintone licenses

Recently, Kintone has been increasingly adopted by local governments. This is quite a breakthrough for Cybozu. To be honest, we hadn't installed many systems for local governments much before. Each municipality had their own vendors who they had existing relationships with, and it was rather difficult for us to get our foot in the door with some of them.

However, the COVID-19 pandemic has changed local governments' priorities. COVID-19 made it imperative to build systems for medical professionals and patients far more rapidly, and to be able to improve them increasingly quickly. We knew that Kintone was the best way to do that. We hadn't been approached by local governments much in the past, but suddenly they were approaching us, and we did our utmost to respond and assist them.

Expanding the use of Kintone in local governments

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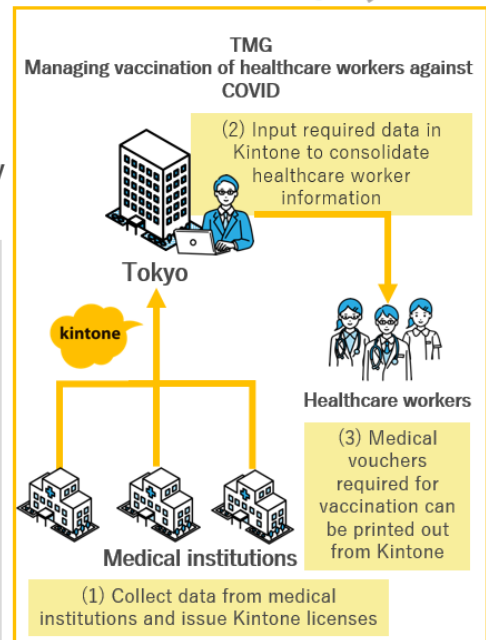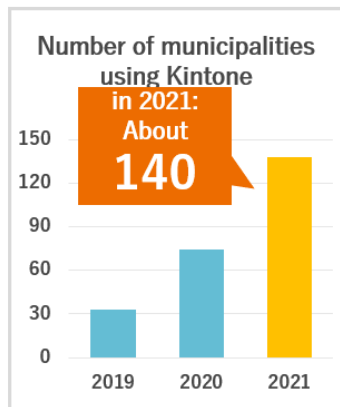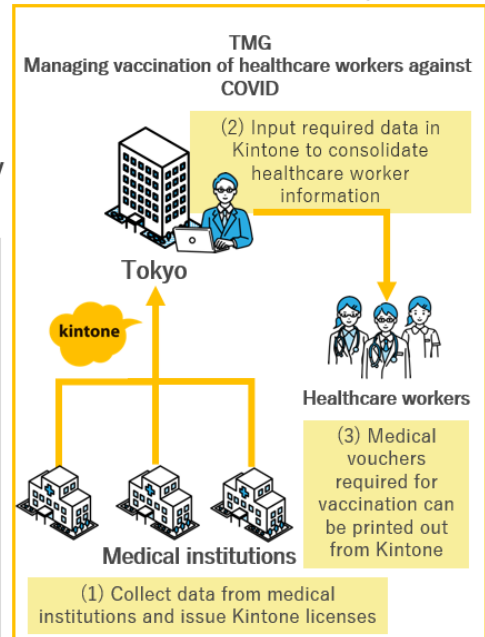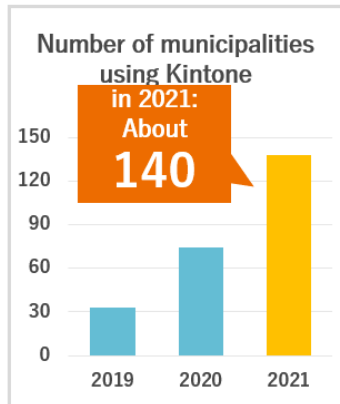
Kanagawa Prefecture

Managing transport of COVID-positive patients

Hiroshima City

Coordinating the distribution of COVID vaccines to medical institutions

Kitakyushu City

Cooperation Agreement on promoting DX across entire agency

Number of municipalities using Kintone

in 2021: About **140**

Year	Value
2019	~32
2020	~75
2021	~138

TMG
Managing vaccination of healthcare workers against COVID

(2) Input required data in Kintone to consolidate healthcare worker information

Tokyo

kintone

Healthcare workers

(3) Medical vouchers required for vaccination can be printed out from Kintone

Medical institutions

(1) Collect data from medical institutions and issue Kintone licenses

As you can see listed here, our local government customers now include the Tokyo Metropolitan Government, Kanagawa Prefecture, Hiroshima City, Kitakyushu City, and many others. In fact, 140 local governments across Japan have now deployed Kintone, and are mainly using it for COVID-19 related systems.

What's good about this is that this has made local governments realize the potential of an app development platform like Kintone. They have come to realize that given it was so easy to create a system, Kintone can also be used for other areas of their work, not just for COVID-19. It can be used for tasks such as creating a help and information contact point for citizens, and Kintone is now being used as a platform on which to horizontally roll out various applications.

For example, Kitakyushu City signed a collaboration agreement with us to use this function not only for COVID-19 but for digital transformation of their entire office. This is what is happening. It's been a very exciting and favorable development for us.

"Share DX" for local governments, made possible by Kintone — cybozu

Mutual sharing of know-how and best practices between local governments

Local government A
Kintone used by entire agency

Local government B
Break from paper-based culture

Local government C
Transitioning to databases

Local governments turn their solutions into app templates that can be duplicated by other local governments on their Kintone platform.
Existing apps can be replicated by other local governments to build solutions with minimal use of resources

Govtech Kintone Community
Connecting local governments

Main features of the community

Customer stories from local governments

Best-practice templates

Seminars, documentation, and videos for local governments

Open forum for sending questions to other local governments and Cybozu
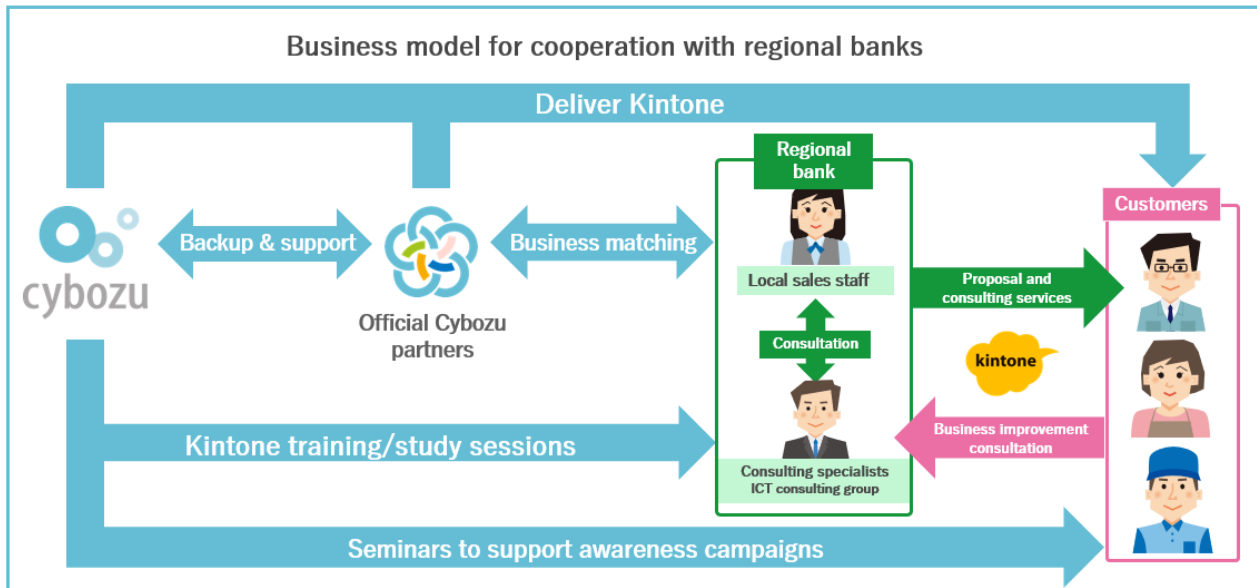
Online/offline events

All local government employees can participate.
More than 500 officials
from 200 local governments are currently participating.

While it would be great if each municipality did this on their own, the speed of DX would accelerate if the know-how of the local government that does the best is then shared with other local governments. So, we created a community to see if we could support this.

It's the Govtech Kintone Community, which we call "GovKin." We've created a Kintone community, or user community, for the government. It allows local governments to share know-how with each other such as a local government in one part of the country took on the challenge of doing such-and-such using Kintone, and these are the parts that were difficult, and these were the key points in overcoming them. As they have similarities in their operations, they can use each other's know how as reference as they work together as a team to efficiently carry out digital transformation by linking up local governments. Thereby connecting up local governments all over Japan and working as a team. That is the kind of expansion that we are now trying to achieve.

There are many other municipalities that are doing similar things with the apps they have created. If it works by a local government saying we have created templates of the apps we have built, and if anyone else wants to use the templates they can, then the know-how that someone else has developed in building apps can actually be transferred to others. This is why we would like to promote the horizontal rollout of Digital Transformations (DX) using Kintone as a platform.

Partnership scheme with regional banks to grow new partner channels

Business model for cooperation with regional banks

Deliver Kintone

Backup & support — Official Cybozu partners — Business matching

Regional bank — Local sales staff — Consultation — Consulting specialists ICT consulting group

Proposal and consulting services — **Customers** — Business improvement consultation — kintone

Kintone training/study sessions

Seminars to support awareness campaigns

Next, I'd like to talk from a different angle about something interesting.

It's to do with regional banks. There are many regional banks all over Japan, and it has been said that business will be quite difficult for them in the future. The reason is that interest rates have been falling for a long time, and with the declining birthrate and aging population, that means that they will face the problem of not having enough borrowers. They are banks, but in terms of their role in society it is envisaged that without enough borrowers they might not make much money as financial institutions.

The question is how can they transform their business? So, what we are proposing to regional banks is that while of course maintaining their strengths in the financial industry, they also provide IT consulting services.

To explain what this scheme involves, as you can see here, the employees of the regional bank offer IT consulting services using Kintone to local SMEs.

When you go to provincial areas, there are many companies that have not yet adopted IT, and they want the bank to listen to their business problems. Previously the bank who would not talk with them about much other than finance, can now give their customers advice on IT, such as how to create a particular kind of app using Kintone. By providing IT consultation, they can gain the trust of their customers, and also develop the financial business that goes with it.

However, as regional banks are not IT professionals, if their customers ask something difficult, the official Cybozu partners that we have cultivated up to now will provide logistical support, and if there are any difficult technical issues our partners will provide backup. By creating a scheme like this, we would like to help drive a jump in digital transformations by SMEs, which, throughout Japan, have been slow to adopt IT.

Banks

Engaging local businesses regional banks have close community ties with to build dynamic regional economies

Regional bank partnerships

Partnership with **10** regional banks nationwide

Another 13 banks are affiliated with Cybozu via our partners.

Consulting by regional banks - Track record

After approx. 4 years, around **300** companies have adopted our software

Initiatives to improve Kintone consulting skills

KTC kintone Training CAMP

Cybozu manages a community for banks to improve and share their consulting and pitching skills

Propose IT solutions to boost the productivity of local SMEs and transform them into companies that are great places to work

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This initiative is gradually getting real results and we have partnered with ten regional banks to collaborate with them. It has been four years since we launched this initiative, and our software has already been sold to more than 300 companies through IT consultation services provided by regional banks.

Also, as this trend is accelerating, we need the banks to acquire more and more IT skills. So, we created a Kintone training program, with which, we are able to train bank employees to quickly learn IT, learn pitching methods, and be able to immediately consult with customers in the field. We also provide this kind of logistical support.

By doing this, I think we can revitalize provincial areas even more. When you visit provincial areas of Japan, you will see that people are reluctant to change their old-fashioned ways of working, making it hard to make efficiency gains. Young people are leaving, and I think this is a major factor in the decline of provincial areas.

By partnering with regional banks, we will be able to promote more and more DX in the provincial areas, increase efficiency, and make the towns a place where young people can enjoy living. I hope we can help with this.

Expanding the Cybozu way

Seminars: 149
Training and consulting
assignments: 87

Disaster recovery support with Kintone
"Disaster DX"

Utilize Kintone at disaster sites because it can improve operations from the bottom-up

- A flexible solution that can be updated according to the situation on the ground to rapidly share information about the extent of the damage, relief supplies, volunteer recruitment and other vital data.
- Cloud computing allows information to be shared regardless of location or device, enabling remote support to disaster areas.

Expanding Disaster Prevention Agreements nationwide

- Chofu City
- Nagano Prefectural Council of Social Welfare
- Shizuoka Prefectural Council of Social Welfare
- Hiroshima Prefectural Council of Social Welfare
- Yokohama City CSW
- Ibaraki Prefectural Council of Social Welfare, etc.

Another thing I would also like to tell you about, as I mentioned today, Cybozu mainly provides tools for information sharing. In addition to the tools, we also have expertise in the areas of how to change the organization and culture of the Company, how to change systems and structures.

This is what we call the methodology consulting business conducted by our Teamwork Research Institute (TRI). It is about what people need to learn and how they need to change in order to improve teamwork. We have set up a business to provide this know-how.

Previously we mainly did this through giving lectures, but as you know, that is difficult to do now due to the pandemic. When we give lectures these days, we can only hold them online, so the number of lectures has been flat since COVID-19, but the number of requests for training and consulting has been increasing. Training and consulting are growing now, and the methodology consulting business is now entering an expansionary phase.

While of course we need to digitize, we also need to change ourselves. How can we change people? How should we change our organization in order to create this kind of information sharing society? If you have any questions, please feel free to contact Cybozu, and the TRI will respond to your inquiry and assist you.

On the right-hand side, we have disaster recovery support. As I'm sure you are all aware, Japan is a country frequently struck by natural disasters, and these disasters are getting bigger. Earthquakes, heavy rains, and various other disasters are increasingly occurring.

When a disaster strikes, of course, we need to share information about who is in trouble, where they are, and what they need, so that we can respond quickly, but it is too late to start sharing information once the disaster has struck.

We need to prepare in advance, so we are now working with local governments on how to digitize in preparation for disasters and how to digitize disaster recovery support.

We would like everyone to familiarize themselves with the tools in advance and find out where the evacuation centers are and what supplies are available where. By sharing such information and getting used to using the
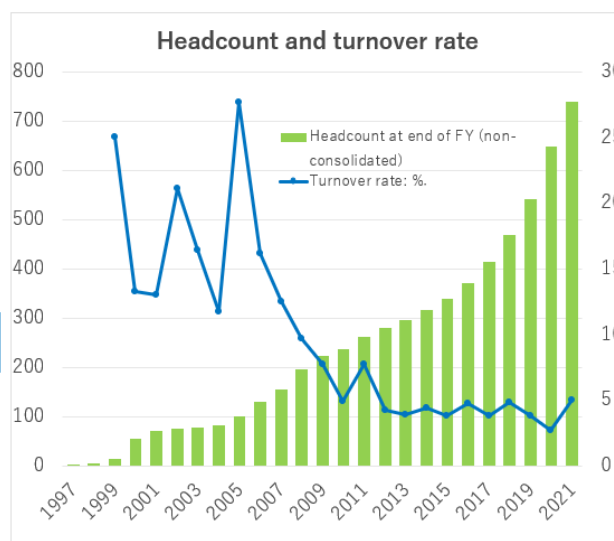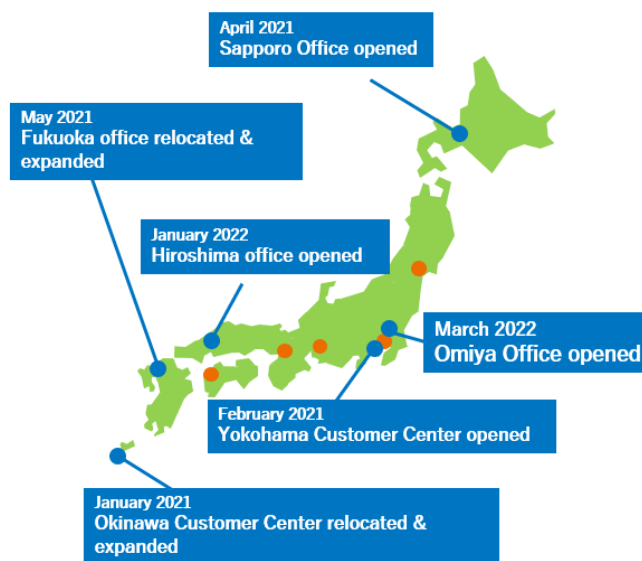
system on a regular basis, everyone can start sharing information in the event of a disaster. Government organizations need to recruit volunteers, they need to set up websites and send out information and they need to do it digitally so that they can provide disaster relief smoothly.

This is now largely taking shape. We have disaster prevention and response agreements in place, and we are working with many local governments and social welfare councils to roll these out nationwide. Although it is not a very lucrative business for us, we would like to accelerate these activities in order to protect Japan and make it more resilient to disasters. If you are interested, please let us know.

More offices and increased hiring

Bolstered our product, sales, and marketing support organizations

April 2021 Sapporo Office opened

May 2021 Fukuoka office relocated & expanded

January 2022 Hiroshima office opened

March 2022 Omiya Office opened

February 2021 Yokohama Customer Center opened

January 2021 Okinawa Customer Center relocated & expanded

Headcount and turnover rate

Headcount at end of FY (non-consolidated)
Turnover rate: %.

Now, let's move on to our organization. In addition to the increase in the number of people, we have also increased the number of our offices. In the past year alone, we opened several new offices as well as relocating and expanded existing offices.

This is also very important in terms of BCP. If a major disaster were to strike one location, we would like to be able to cover its operations from other areas so that we too can work in a decentralized way, setting up offices across the country as much as possible.

The graph on the right shows the number of employees and the staff turnover rate. Thankfully, we have been able to keep the staff turnover rate at about 5% and the number of employees has been increasing. It's been increasing at a particularly accelerated rate lately. This is the situation in Japan.

Global expansion

YoY + 7.2%

Shift targeting local companies into high gear Half of new deals are local companies.

YoY + 30.8%

Greater China
1,190 companies

US
680 SDs

With the opening of our representative office in Bangkok in Oct. 2020, our strategy focusing on local Thai companies is going well.

Improve sales and support to increase customer satisfaction. Marketing initiatives also being stepped up.

YoY + 25.3%

ASIA
940 companies

Received Honorable Mention in the US business magazine Fast Company's "2021 Next Big Things in Tech"

cybozu

* As of December 2021 (Total number of companies in Greater China and ASIA; number of subdomains under contract in the U.S.)

Then we move on to the global picture. Fortunately, we have been steadily expanding our business globally, although it is not quite at major breakthrough level yet.

For example, the Greater China region saw a YoY increase of 7.2%, which may not seem like much, but in fact, in the Greater China region we have been focusing on the challenge of winning new customers not from just amongst Japanese companies, but also local Chinese companies. We are now winning orders from local Chinese companies. This is what is happening, and our installed base is approaching 1,000 companies in Asia.

Also in the USA, the number of customers is increasing by about 30% YoY. Fast Company, a famous business magazine in the USA, has selected Kintone as one of the Next Big Things in Tech. This is another example of what is happening with our global business.

Enhanced user approach with hands-on support

Kintone enables people on the frontline in workplaces to improve business operations from the bottom-up

US Market Trends

Booming aPaaS market
Initially considered mere shadow IT, aPaaS is becoming mainstream due to growing awareness and utilization in IT departments

Lots of new competitors emerging
As the market expands, so does funding for aPaaS companies

Companies are exploring new business models
While our customer base is growing, differentiation from existing IT system building models and customer support in line with subscription-based billing will be key to achieving success

Kintone Corp.

Hands-on proactive support ("companion runner service")
Provide continuous customer-focused support centered on their issues from the pre-sales stage, with a market-in mindset rather than relying on product out.

High customer ratings
Improved business operations thanks to Kintone's product flexibility and proactive, hands-on support.

Volvo Trucks North America

Dedicated in-house training staff can use Kintone to manage training programs and learning progress.

Growing number of positive reviews on G2, a review and comparison site for business software

★★★★☆ Nov 30, 2021 "Great Database Software"

★★★★★ Oct 15, 2021 "Big Fan of Kintone"

★★★★☆ Mar 12, 2021 "Great management application"

https://www.g2.com/products/kintone/reviews

Globally, we are particularly focusing on the United States. This is because, the US market attracts IT companies from all over the world. It's really the market where the best-of-the best engage in competition akin to the Olympics being held year-in and year-out.

We need to test our skills in such arenas. We can't be complacent just because our products are selling well in Japan and be content to be a big fish in a small pond, because when the big guns arrive, like Commodore Perry's black ships did (in 1853 forcing the country to open up and trade with the West), it will be too late. That's what the Japanese IT company industry has done repeatedly.

We're making the bold move of taking on the US market and competing there with the best in the world. We are focusing on the USA market because we want to challenge ourselves. In fact, what's happening in the USA market right now is that the market for business application development platforms such as Kintone, which is called aPaaS, is growing.

There's a huge number of competitors out there, and some really strong ventures are emerging. It's just that none of them are making that much money yet. Everyone seems to be engaged in healthy competition similar to rivalry between warlords right now.

For example, there is a company called monday.com that ran a TV commercial during in the Super Bowl, which is the culmination of the American football season. So now we are seeing a company from our aPaaS industry advertising during the Super Bowl. That's how many people and how much money is now coming to the aPaas space.
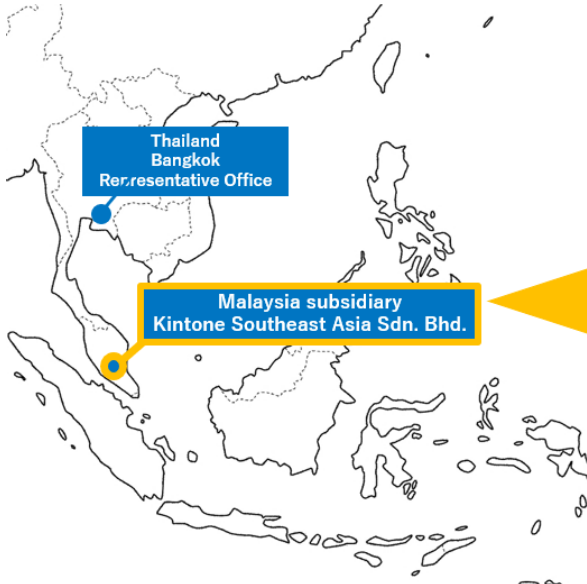
So, unfortunately, we are not in a position to say that we will win in the USA soon, but as I mentioned earlier, our customer numbers are steadily increasing, and we intend to continue investing in the US market.

Our customers say that Kintone is a great product, but they are also happy that the people at Kintone Corp., are there for them when they have problems. The product is good, and Kintone is also there to support you. We are good listeners for customers when they need someone to talk to about their business challenges. We are very highly evaluated for this, and we are also highly rated on this on business software review sites.

Volvo is another well-known company that I'd like to mention. Volvo Trucks has also deployed our system, so although Cybozu is still in the red in the USA market, we are not without prospects. We have been rated highly, and we've been gradually gaining more and more customers.

We would like to continue to challenge ourselves, and I believe that by taking on challenges like this, our business in Japanese too will only improve. We will set the bar high and improve catching up with and overtaking the global level. We also intend to continue with this kind of mindset.

Boosting sales base in Southeast Asian markets cybozu

Press release on Feb. 24, 11:00 a.m. (Japan time)

March 2022 Cybozu establishes first Southeast Asian sales office in Kuala Lumpur, the capital of Malaysia

Thailand
Bangkok
Representative Office

Malaysia subsidiary
Kintone Southeast Asia Sdn. Bhd.

Kintone Southeast Asia Sdn. Bhd.
Office building

Ramping up initiatives in English-speaking countries to complement our operations in Thailand, where we have a representative office

It's almost the end of my presentation but I would like to continue with the topic of Asia. As we announced in our press release at 11 o'clock today, we are opening a new office in Kuala Lumpur, the capital of Malaysia.

But this office isn't just for focusing on sales in Malaysia. We are opening this office in Kuala Lumpur as a sales base rather than as a representative office in order to provide broader support to countries in Southeast Asia. We decided to shift to a system where we will cover Southeast Asia and follow up on sales from this location, with it acting as the SEA headquarters.

Our Asian customer numbers are also increasing in this geography, so we decided to expand these sales offices in order to conduct sales activities more effectively and in more areas.

Aggressively investing in future cloud growth
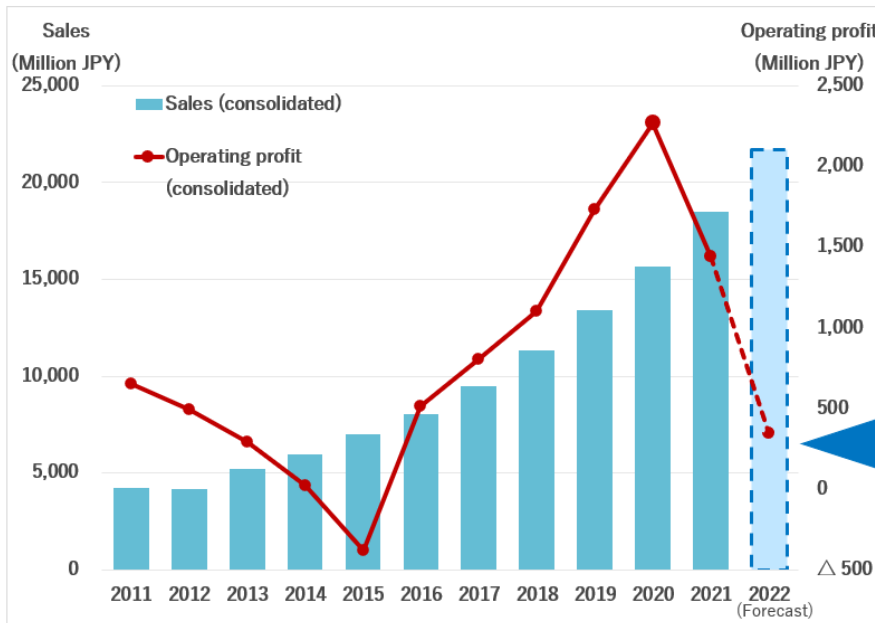
I would like to talk about the current fiscal year. Sales are expected to rise even more this fiscal year, but as I mentioned earlier, profits are expected to fall by just over JPY 1 billion.

What we are going to use the money for is, first, TV commercials for Kintone. We would like to run even more promotional activities than this year, and also would like to accelerate investment in infrastructure a bit. Specifically, we would like to accelerate our investment in cloud infrastructure.

Next-gen cloud infrastructure to support future cloud business growth

Ten years after releasing cybozu.com in 2011, we are revamping our cloud infrastructure to prepare for future growth
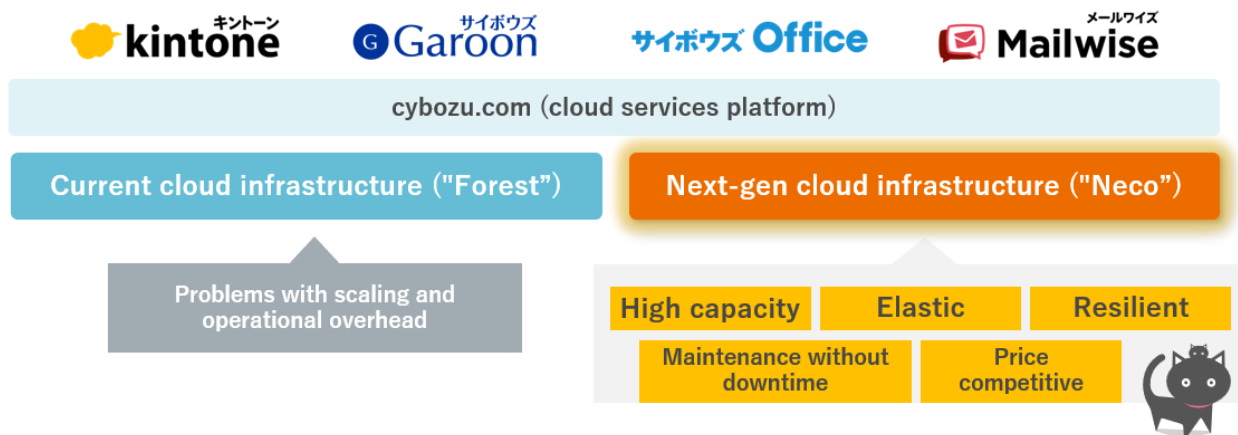
This is the last topic I would like to present to you today. When you think of Cybozu, it might be the flashy advertising that makes us stand out, but there are actually a lot of core engineers behind this, and we are a technology company.

One of the characteristics of what we do is that we build and operate the cloud infrastructure ourselves. When it comes to cloud computing infrastructure, IaaS is what is being used today. This may be a common practice, but at Cybozu, we think that in order to provide high quality products at a low price, we need to take care of the infrastructure ourselves, so we are building and operating the cloud infrastructure ourselves.

We have been autonomously running this Forest platform, but it is over a decade now and has become quite old, and we are starting to see various problems. Specifically, as the number of customers and users continues to grow, it is difficult to keep up with the pace of expansion, and operation becomes more difficult. So, we have embarked on building a new cloud infrastructure with the most recent technology. We have revamped the infrastructure into what we are internally referring to as the Neco infrastructure.

We are going to make that investment and shift to the Neco infrastructure. The good thing about investing in this is that it simply makes our infrastructure operations a lot easier. In the past, we would have had to handle this by scaling up and beefing up the hardware, but now we can employ a distributed configuration approach called scaling-out, which will allow us to respond smoothly to large-scale customers. The system will be able to scale out without us having to work as hard. We are going to revamp our cloud infrastructure and equip it with these features.

So please allow us to invest a lot of money in that. For a while, we'll be running both Forest and Neco, so we'll have double the running costs. That's what's going to happen in the next few years, and I hope you understand the investment we are making here. Once the transition is completed successfully, we will be able to provide a higher quality cloud infrastructure at a lower cost than before, so we appreciate your understanding.

Let's look at the last page. Cybozu has been involved in a variety of activities, but one thing I can say is that this company is committed to DX. Japanese companies have finally woken up to digitalization and need to undergo a digital transformation. We are a company that supports DX, we have been doing that for 25 years, and we continue to put DX at the center of what we are doing.

However, in order to really make a digital transformation, it is not just about the technology but also the organizations that use it. Organizations also need to transform themselves and their people, they need to make progress on the people and organizational side as well. This is what we think. Even if you have a great information sharing platform, if your organization has a culture of hiding information, you won't be able to

fully utilize that platform. Unfortunately, you won't be able to leverage it. So, organizations themselves need to be improved as well as tooled up.

That is why, at Cybozu we really want to support Corporate Transformations (CXs) as well. And we have to do it ourselves first before we can pitch it to our customers. What kind of organizations are needed in the 21st century? We are conducting various experiments within the Company to find out what kind of organization is capable of using these tools.

One of our challenges around CX is to recruit board members from within the Company, which was talked about last year. Last year, we laid the groundwork for seeking input from all employees on all decisions made through an advisory process, and that is exactly the kind of organizational cultural reform we are working on.

A Corporate Transformation (CX) is what is going to help a DX succeed. I believe that Cybozu is the only company that can make both of these wheels turn. CX can be done alongside DX. With these two wheels turning, we hope to propel the creation of a society brimming with teamwork.

That's it for my presentation.

I guess I should advertise the event listed at the bottom too. On the 5th of March, we will be holding a meeting with our shareholders, the Cybozu Shareholders Meeting, so if you are interested in attending, please sign up.

This concludes my presentation. Thank you very much for your attention.

Question & Answer Session

MC [Q]: We will now take questions from Zoom webinar viewers, so if you have any questions, please click the Raise Hand button, or register your question in the Q&A box.

I will read out the questions for you. This one is two questions.

First, how effective do you think the investments you have made in advertising, such as the Kintone TV commercials, have been? Also, based on that effectiveness, what are your future plans for advertising?

Let's answer the first question first.

Aono [M]: Hayashida from the Business Marketing Division, which is in charge of this promotion, will answer.

Hayashida [A]: Good afternoon. My name is Hayashida, and I'm in charge of marketing at Cybozu.

As for the effects of the TV commercials, I think they will basically contribute to the number of projects we win and to future sales.

For example, in relation to our product named Kintone. As we found out from questionnaire surveys, more than half of the customers took more than a year from the time they first considered the system to the time they installed it. As it is a B2B product, it takes a certain amount of time from when potential customers see it and consider it and go through their internal approval process. We assume that it will take a fair amount of time before customers watching the commercials we are running now actually deploy the product.

Incidentally, the number of visitors to our website steadily increase after the commercials are aired, so we are expecting to see results as planned, although it will take some time. Thank you.

Aono [Q]: How about whether we are going to run commercials in future too?

Hayashida [A]: In the future, yes. I'm hoping that we can run ads for a few years so that a whole lot of customers will come to know about our products.

MC [Q]: We have received another question, so I will read it out.

It is also a question about advertising. You have forecast a decrease in earnings for the second consecutive year this fiscal year. I understand that you are going to aggressively invest in advertising and promotional expenses this fiscal year as well, but please tell us about your thoughts on why you decided to accelerate your investment at this time.

Aono [M]: I'd like Hayashida to answer that too.

Hayashida [A]: I will continue to answer then.

About the timing, many companies, including Cybozu are running a lot of ads at the moment.

Also, as Aono mentioned, many people, including our partners, are involved in sales pitches to many potential customers. In terms of the process of running ads, making sales pitches to potential customers, and having customers consider them, we now have everything in place to forge ahead at full steam with our partners and make sales pitches. We would like to take this opportunity to significantly boost the number of customers adopting our system.

In that sense, I think this is a good time to invest heavily. Thank you.

Aono [A]: If I may add, it has been 25 years since I started Cybozu. For the past 25 years, I have been advocating to Japanese companies and local governments to promote adoption of IT, information sharing, and work efficiency, and now I feel they are finally listening to me.

Finally, the whole of Japan has realized that DX is something that needs to be addressed. For the past several decades, Japan has been called a digitally defeated country, and we need to take this seriously. And I think now is the time for that.

But even during that era we were able to launch a strong service like Kintone, and we have built a partner network to expand it nationwide. And we have decided that now is the time to go all out and compete. My sense is that if we don't step on the gas pedal now, when will there be another chance like this? It could be 25 years from now.

So, I would like to engage in promotional activities to encourage people to do this while the groundswell of momentum is strong.

MC [M]: Thank you. We are also taking some questions using the Raise Hand button. If you see a pop-up, please unmute and ask your question.

Journalist [Q]: I have two questions for Mr. Aono. The first is regarding the last topic about infrastructure. I believe you previously made the move to use AWS for infrastructure in the USA, but ultimately, you are now going to build your own infrastructure. Have you decided not to use so-called public cloud services such as AWS or Microsoft Azure anymore?

My second question is about Kintone. In the first half of the presentation, you made an iconic statement that Kintone will become social infrastructure, could you briefly share a little more of your thoughts on that?

Aono [A]: Thank you very much. The first question is a little more technical, but we will continue to do both the parts that run on AWS and the parts that run on our own cloud. I think that conversely, it is our strength to be able to do both, so I would like to do both. Of course, if we want to set up our own cloud, that will constitute a major investment, and if we don't acquire the customer numbers needed to pay for that investment, we will end up making a negative investment.

So, for the overseas locations that we will be expanding into, we will be using public clouds such as AWS. If the number of customers increases sufficiently, and we feel that it will be more cost effective to set up our own cloud service, then we will set up our own cloud service. So, I want to go with both.

Doing so will allow us to expand our business globally in a speedy manner, and when the scale of our business grows, we can take advantage of economies of scale to generate cost benefits. As we have set our sights on both, I would like to continue to invest in both of these areas.

Does that answer your first question?

Journalist A [Q]: Yes, thank you. Now the second question, please.

Aono [A]: As for social infrastructure, until COVID-19 came along, I think it was difficult for us to say that groupware like Kintone will become social infrastructure. What happened with COVID-19, however, was it highlighted the need for people living in this county to share information. Not only for when natural disasters inevitably strike in future, but I also think the same thing is happening in the education sector as well. Education also suffers from a lack of information sharing, which means that in many instances it is not possible to help children in distress.

So, in order for us to truly create a better society, we need to enable more people to use information sharing tools as a matter of course and solve local problems through teamwork. I feel that we need to make this kind of society a reality. And I know we can use Cybozu tools to do that.

We haven't been able to pitch a lot of those kinds of solutions before. We have mostly been talking about making companies stronger internally. From now on, our cloud will be used not only for that, but also as social infrastructure for local governments, NPOs, and others. I'd like to accelerate pitching those kinds of solutions as well.

If we do this, there will be a broader spread of the kind of society brimming with teamwork that we envision. When I used the term "social infrastructure" those were the sorts of expectations I had.

I also think that it takes a home-grown, domestic company to be able provide the social infrastructure in Japan. I hope that we at Cybozu can be permitted to declare our interest in this and do our best to meet expectations.

Journalist A [M]: Thank you very much.

MC [Q]: Thank you very much. Does anyone watching the Zoom webinar right now, have any other questions? If not, let's move on to the questions from YouTube viewers. I will now read out the questions.

You are going to open a new subsidiary in Malaysia on the first of March. How much of an impact will this have on your business performance? Also, since this is your first sales office in Southeast Asia, I was wondering if you have any plans to open more offices in other countries in Southeast Asia. Thank you.

Aono [M]: Since this is about the global sales structure, I would like Mr. Kuriyama of the Sales Division to answer.

Kuriyama [A]: I'm Kuriyama, General Manager of the Sales Division. I will answer both of your questions.

The first, as mentioned in today's press release, is that we are aiming to have 5,000 companies as paid subscribers by the end of 2025. Since we currently have more than 940 companies, that will mean acquiring 4,000 new companies over the next four years, and I believe that the impact on our business performance will be substantial.

To answer your second question, we are establishing our Southeast Asian headquarters in Malaysia from which to commence our activities. And, as part of those activities, we would like, if necessary, to expand into other countries and establish branches there.

It's easy to get to all of Southeast Asia from Malaysia, so if we can cover the entire Southeast Asian region from Malaysia, I think we will leave it as it is, but if it is better to do so we will establish other locations. We want to take a flexible approach to suit the situation.

MC [Q]: Thank you very much. Now, let us move on to the next question.

The stock price is down compared to last year, are you planning to take any measures to deal with this?

Aono [M]: Hayashi from the Corporate Planning Department will answer this one.

Hayashi [A]: My name is Hayashi from the Corporate Affairs Division. I am in charge of finance and accounting.

About the stock price. While it is true it is currently down, I believe that it is largely due to macroeconomic factors, such as geopolitical risks and various countries' interest rate policies, and not due to our specific

business activities. I make that judgement based on the fact that the stock prices of IT companies on the whole are also currently down, including large overseas SaaS stocks.

Therefore, we do not plan to take any specific measures to deal with this at present. Also, the investments we are proceeding with that were mentioned earlier are based on the profits from our core business. We are not currently making investments with an eye to raising funds through stocks. In that sense, we are not considering any special measures at this time. That's all.

MC [Q]: Thank you. Now, let me move on to the next question.

The next question is whether you are thinking of a stock split or reverse stock split?

Aono [M]: Mr. Hayashi, please continue with this as well.

Hayashi [A]: Allow me to answer this question as well. We do not have any current plans for this either. If the stock price becomes such that proper distribution is hindered, we will reconsider. However, currently, we are not considering any special measures because we do not believe this is the case. That's all.

MC [Q]: Thank you. We will move on to the next question.

This one is also about stock prices. You once said on Twitter that when the stock price went up, it was bubbling, but do you have any comments about the fact that the stock price is currently dropping strongly?

Aono [A]: That was about three years ago, I think. When the stock price was rising sharply, I tweeted about how it was starting to bubble up. I am very sorry to hear that it was objectionable to many people. I would prefer to avoid talking about it again here, in case the remarks are regarded as objectionable again.

We are in business, and we are just doing our daily work. I have experienced stock prices going up and down in ways that are not linked to that. Cybozu has been listed on the stock exchange for more than 20 years now, and as I have been managing the company, I have watched the stock price rise and fall.

The way I take the fact that it is going down is, oh, it is going down right now. That's about all I can do.

It is as Mr. Hayashi explained earlier. There are international developments, or maybe there are people who are not satisfied with our activities, or maybe some people want to sell. I really think the stock price is down due to many factors.

The only thing we can do about it is to work hard every day to create a society brimming with teamwork, and that is what we will continue to do. I will be happy if many people can take a long-term perspective and appreciate that. That's the kind of comment I'll make. I think I've grown up a bit, and that's all I'd like to say on the matter.

MC [Q]: Now we move on to the next question. The question is, when will the overseas business become profitable?

Aono [M]: Thank you for your question. It depends on how we take the word, profitable. As mentioned earlier, sales have been increasing, however, are you asking when will profits be generated? Is that what we should take it as?

I am going to ask Mr. Kuriyama from our Sales Division to answer this one.

Kuriyama [A]: To answer the question, our overseas business is already generating sales in the order of hundreds of millions of yen, so if we want to turn a profit, we can achieve that at any time by cutting back on

expenses. Our goal is to expand our business a little more, and we want to grow our business to the point where we have a global market share. For the time being, we aren't particularly planning to balance out sales and expenses, our priority is customer acquisition.

Hayashi, who spoke earlier, is looking at the overall financial situation and other factors, so if there is any danger, I am sure he will stop it. Until then, I would like to prioritize acquiring customers. That's all from me.

MC [Q]: Thank you. Let's move on to the next question.

It's about promotion. The question is, other than TV commercials, are there any other advertising media or methods that you are thinking of focusing on?

Aono [M]: Mr. Hayashida, can you answer this, too?

Hayashida [A]: This is Hayashida. I'd say that we'd like to put more effort into online advertising and events, but basically, we'd like to advertise broadly. For example, advertise broadly including outdoor ads, newspaper ads, etc.

The reason for this is that we want to increase the number of times our customers see Cybozu advertisements in their daily lives, so that they will seeing our ads again and again and remember. That's what we're aiming for, so if I had to say, I'd say we've narrowed it down a bit, but we'd like to make it as broad as possible. Thank you.

MC [Q]: Thank you. Now, let's move on to the next question.

I understand that you are now in an investment phase. Will the investment phase continue until the company dips into the red? And I'm asking you to give me a sense of what you think the long-term profit margin will be.

Aono [A]: Two things: whether the company will continue investing until we go into the red, and what long-term profit margin we envisage.

I don't know if it will continue until we go into the red or not. We are stepping on the gas pedal even more this year, and if we get a good response, we might decide to accelerate even more. It's possible we might take that approach to investment. However, it's also possible that if we feel that this level is appropriate, we may keep it at this level.

On the other hand, if I think if we've stepped too hard on the gas, we might want to ease it back. So, in that sense, I think that might again change the profit margin for the next fiscal year.

If you are asking about what I envisage the long-term profit margin will be, I actually don't have a clear sense of that yet either. I honestly don't know how much would be good. What I look at when raising or lowering the profit margin and changing how hard we are stepping on the investment gas pedal is our company vision. We have an ambitious vision of creating a society brimming with teamwork, and we are nowhere near there yet. Where we are up to is we are still at the stage where information-sharing tools are starting to sell well in Japan.

With this company vision in mind, I have been considering what we should be doing now to create a society brimming with teamwork all around the world. So, if I think this is the right time to step on the gas, I will step on it, and if I think this is a little too much for us, I'll stop. And honestly at this stage I can't imagine what that will look like in the long term.

One thing I can say is that although we have an ambitious vision, very little of it has been achieved yet. So basically, we have to step on the gas pedal as much as possible. We have to keep in mind all of the people

around the world who are having trouble because of a lack of teamwork and make it possible for them to enjoy good teamwork as soon as possible.

I would like to conduct our business from that perspective. So, in that sense, if you are expecting a huge profit margin in the short term, you may be disappointed.

Is that explanation sufficient?

MC [Q]: Now, let's move on to the next question.

The question is about the results of the internal recruitment of directors to sit on the Board of Directors last year, which resulted in the appointment of a number of new directors.

Aono [M]: Could Mr. Hayashi, who is in charge of Corporate Affairs, please respond to this question?

Hayashi [A]: This is Hayashi from the Corporate Affairs Division. As I am also in charge of the secretariat for the Board of Directors, I would like to answer.

We are talking about our open recruitment of directors, but rather than focusing on this alone, it is one part of Cybozu's efforts in taking on the challenge of creating a new governance system. What we are trying to do is to create a system in which management and business decisions are made through discussions amongst all of the employees, by systematic sharing of information and everyone throughout the company, including the management team, fulfilling their responsibility to ask and answer questions based on that information. So open recruitment of directors is one part of such governance efforts.

Last year, we adopted an open recruitment process and received applications from 17 candidates from within the company. Those team members have been asked to take on the role of Directors, which includes fulfilling a legal role.

Here's what the results were. We also set up a platform within the company for everyone to give us their opinions. The results were that in some cases after receiving a lot of active opinions from employees about what we discussed at management meetings, we decided to change a decision or the direction of the discussions at the management meeting based on the opinions of the employees. So, the platform for discussion has taken shape in that there is a lot of active discussion going on within the company.

In that sense, I feel that we are making progress toward the type of governance we are aiming for, one step at a time. That's all from me.

MC [Q]: Now, let's move on to the next question.

You said that a lot of your employees are working from home (WFH), but despite that it seems that you are setting up new offices, which is increasing your fixed costs. The question is could you provide additional information on WFH and increasing the number of offices.

Aono [M]: I'd like Ms. Nakane, who is in charge of the Human Resources and General Affairs Division, to respond.

Nakane [A]: My name is Nakane, and I am in charge of Human Resources and General Affairs.

As you mentioned, remote work has become very common in our company, and each of us works from one of our various locations or from home using our groupware.

On the other hand, our employee numbers are increasing by 12% to 13% every year. Considering this, the fact that we no longer need to increase our offices in proportion to the increase in our employee numbers has led to a reduction in future costs.

As mentioned in Aono's presentation earlier, we are opening many new offices, many of which are sales offices. Some of our sales offices have been operating on a remote work basis for the past two years, however, there are advantages and disadvantages to remote work.

In terms of sales, we are increasing the number of remote sales, but we still need to make sure that our sales effort is rooted in the local community, as is the message we send to our partners and customers. We have a sales force in the Omiya area conveying the message that we want to increase our sales in that local area. In terms of communication with partners and members working in the area, there are some things that cannot be done totally remotely.

Therefore, we would like to continue to successfully combine remote and face-to-face activities in a hybrid work style, incorporating the good points of both. That's all from me.

MC [Q]: Now, moving on to the next question.

The question is what is the difference between the sales office in Malaysia and the representative office in Thailand? Mr. Kuriyama will answer this question as well.

Kuriyama [A]: I'm Kuriyama, General Manager of the Sales Division. A representative office is limited in what it can do, in some cases it may not be able to embark on sales activities unless it becomes a branch or a corporation.

We initially set up in Thailand to see how things would go. We established a representative office and recruited people. The timing is now right for us to shift expansion of our business in Southeast Asia into high gear, so we are establishing a corporation. That's all.

MC [Q]: Thank you. Now I will move on to the next question.

This is also a question about Southeast Asia. Why didn't the representative office in Thailand develop into a sales office?

Kuriyama [A]: As this is also an overseas-related question, I will continue answering.

When we were establishing a corporation in Southeast Asia, we looked at where to establish it from various perspectives. Thailand was of course a candidate, and we also did a lot of research on Singapore, Malaysia, and other countries.

There are several aspects to consider, such as whether or not it is possible to set up as a 100% subsidiary, and also the ease of hiring. In the end, Malaysia was chosen as it is a country that has English as its official or semi-official language. Thailand, of course, was also considered.

MC [Q]: Thank you. Now I will move on to the next question.

The question is what is the ratio of sales to Japanese companies compared to sales to non-Japanese companies in Malaysia?

Kuriyama [A]: Whether you just look at Malaysia, or the whole of Southeast Asia, the trend is similar for both, at the moment, most of our sales are to Japanese companies.

From around 2020-2021, we began stepping up our activities focused on local companies, and the percentage is gradually increasing. We do not disclose the exact percentage, but it is gradually increasing.

As for the 5,000 companies mentioned earlier, our goal is to win mainly local companies, so we are working to increase the percentage of local companies.

MC [Q]: Thank you. Now I will move on to the next question. It is similar again.

The question is how many personnel do you have working for you in Malaysia and Thailand, and how many would you like to have in three-year's time?

Kuriyama [A]: The person who is going to be posted to Malaysia, Nakazawa, was mentioned in the press release, and in his business plan it states 30 employees in three-year's time. So, I'd like to say that my sense is 30 people.

MC [Q]: Thank you. Now I will move on to the next question.

I am an individual shareholder. I think it will take some time before they are commercialized, but if the use of quantum computers and communication via quantum cryptography spread, I think it will have a big impact on Cybozu. I am not a technical professional, but my question is are you prepared to deal with them moving forward?

Aono [M]: I would like Mr. Sato of the Development Division to answer this question.

Sato [A]: My name is Sato, General Manager of the Development Division. At the moment, we are not doing any specific work on quantum computers or quantum cryptography technology, but in terms of development work done by Cybozu, we have a research and development organization called Cybozu Labs.

We are conducting research on such advanced technologies in various fields there, so if there are any areas that are relevant to Cybozu's business in the future, we would like to work on them.

Aono [A]: Thank you. I would like to add that this kind of major technological change is both a threat and an opportunity for us, and we will continue to monitor and respond to it.

Cybozu Labs is a really important organization for us, and we were able to smoothly shift our business from on-premises software to the cloud thanks to the many members of Cybozu Labs who are experts in infrastructure computer science.

Although I don't know about quantum computing, the term "the metaverse" has been popular recently. If it becomes commonplace to communicate in a virtual space, this could be a major change for groupware, and we will continue to monitor it closely and consider whether we work on incorporating it into our products.

Thank you for your question.

MC [M]: That's all the questions we have received, so this concludes the question-and-answer session.

Lastly, some additional information. Today's presentation materials and video will be available in the IR section of our official website at a later date. Also, there is a link in the lower right corner to the Contact Us list view page. We have addressed all of the questions today, so we will not be taking any more questions to be answered later. However, we do have a list of questions that are sent to IR on a daily basis, along with the answers (in Japanese), on the IR Contact Us list view page. So please take a look.

https://cybozuir.viewer.kintoneapp.com/public/8ce581698e1531df59d1fc7349abb2f4fbf8feaab14001ff49e09d244e65066d#/

This concludes the Cybozu business overview and financial results briefing for the fiscal year ending December 31, 2021. Thank you very much for watching.

[END]

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Document Notes

1.   Speaker speech is classified based on whether it [Q] asks a question to Cybozu, [A] provides an answer from Cybozu, or [M] neither asks nor answers a question.