



E-Guardian Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending September 2023

May 24, 2023

Event Summary

[Company Name]	E-Guardian Inc.		
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[Event Type]	Earnings Announcement		
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending September 2023		
[Fiscal Period]	FY2023 Q2		
[Date]	May 24, 2023		
[Number of Pages]	31		
[Time]	11:00 – 11:49 (Total: 49 minutes, Presentation: 20 minutes, Q&A: 29 minutes)		
[Venue]	Kabutocho Heiwa Building 2F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)		
[Venue Size]	145 m ²		
[Participants]	18		
[Number of Speakers]	2		
	Yasuhisa Takatani	President and CEO	
	Yutaka Mizobe	Senior Managing Director	

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Presentation

Moderator: Thank you for your patience. The time has arrived, and we will now begin the financial results briefing for E-Guardian Inc. I would like to introduce two people from the Company.

First, we have Mr. Yasuhisa Takatani, President and CEO.

Takatani: Thank you very much.

Moderator: Thank you. Next is Mr. Yutaka Mizobe, Senior Managing Director.

Mizobe: Thank you.

Moderator: President Takatani will be giving a presentation today, and after the presentation we will have time for a question-and-answer session. Please fill out the questionnaire when you are free and leave it on your desk when you go.

Mr. Takatani, please begin.

目次



1. トピックス
2. グループ概要
3. 2023年上期業績
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Takatani: I am Takatani, the representative of E-Guardian.

Thank you for taking time out of your busy schedule to join us today. I will now begin to explain the financial results for Q2 of the fiscal year ending September 30, 2023. We have six items on the table of contents.

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- 上期売上は6,148百万円、前年比+7.1%と増収
営業利益は940百万円、前年比△20.5%と減益
- 上期実績に鑑みて通期業績予想を修正
- ChatGPTを搭載した社内ツールを開発
生成系AIとサービスサポートツールの連携検討開始

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First, in terms of topics, sales was JPY6.1 billion, up 7.1% from the previous year, and operating income was JPY940 million, down 20.5% from the previous year. The result was an increase in sales and a decrease in income. Based on these results, we have revised our full-year forecasts.

The next topic is the current era, or ChatGPT. We are making efforts to utilize it in various ways.

会社概要

インターネットセキュリティの安心・安全を守る 総合ネットセキュリティ企業

会社名	イー・ガーディアン株式会社
上場証券取引所	東証プライム(6050)
本店所在地	東京都港区虎ノ門1-21-8琴平タワー8F
設立	1998年5月
役員	代表取締役社長 高谷 康久
資本金	364百万円※
従業員数(連結)	2,547名(うち臨時従業員数2,146名)※
子会社	国内 3社 海外 2社

※2023年3月末時点 5

As the name E-Guardian suggests, we are a company that aims to be a guardian of the internet and a comprehensive Internet security company that protects the safety and security of the Internet. Our

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headquarters is in Toranomon and we have a total of 2,547 employees. We have operations in the Philippines and Vietnam overseas.

サービス内容



既存事業は主にSNSの投稿監視やカスタマーサポートを提供
サイバーセキュリティは主に脆弱性診断やWAFの開発販売を行う



※1 WAF: Web Application Firewall
※2 SOC: Security Operation Center 6

We provide security services to anyone doing business on the Internet, including debugging of software services, vulnerability assessments to check for security vulnerabilities, and monitoring services to protect the entire security of the company by installing Web Application Firewall, or WAF, to secure the site.

We also provide a monitoring service called SOC, which protects the company's overall security; as well as cybersecurity consulting.

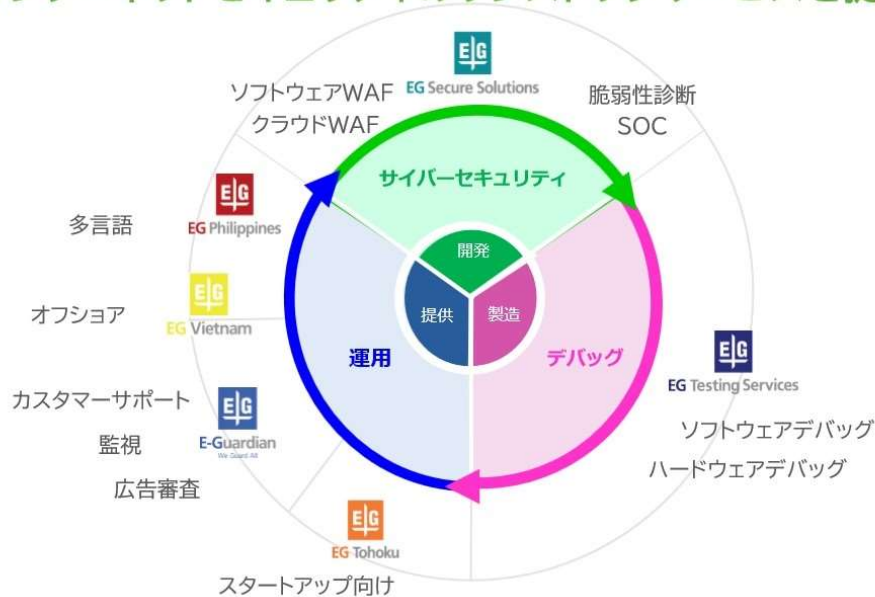
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インターネットセキュリティのワンストップサービスを提供



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After the site is up and running, we monitor SNS videos, TikTok videos -- which we have already announced as one of our top clients -- customer support, online rumor investigations, and ad process -- which is an online advertising screening process.

We are assessing various online ads, things like whether the content of the ads is illegal or not. The Company provides those services 24 hours a day, 365 days a year, in Japan, Vietnam, and in the Philippines.

I summarized this in the cycle of services with our [subsidiaries]: cybersecurity, debugging, and operations. Broadly speaking, the Company offers these three genres of services.

It is very rare for a company in Japan to offer all three in a well-balanced manner.

We aim to become a brand that can provide a full range of services and security from cybersecurity to operations, even though our services in the cybersecurity field are still limited.

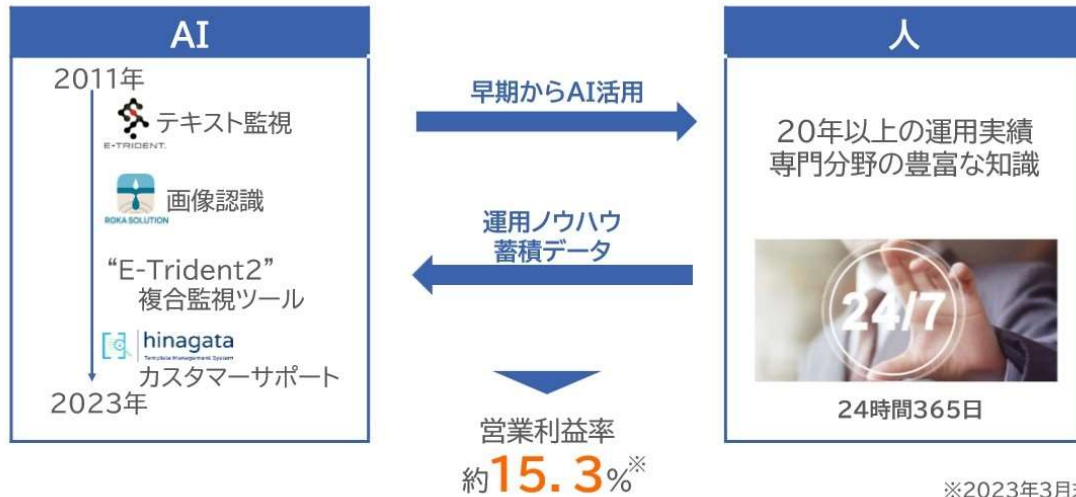
We still have a long way to go, but this is what we are aiming for.

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早期に導入したAIと人の融合で高品質・高効率なサービスを提供



Our strength is our early adoption of AI.

After listing on Mothers in 2010, we developed a system called E-Trident that monitors text. Since then we have invested in a variety of AI-based systems that automate system monitoring in place of image recognition.

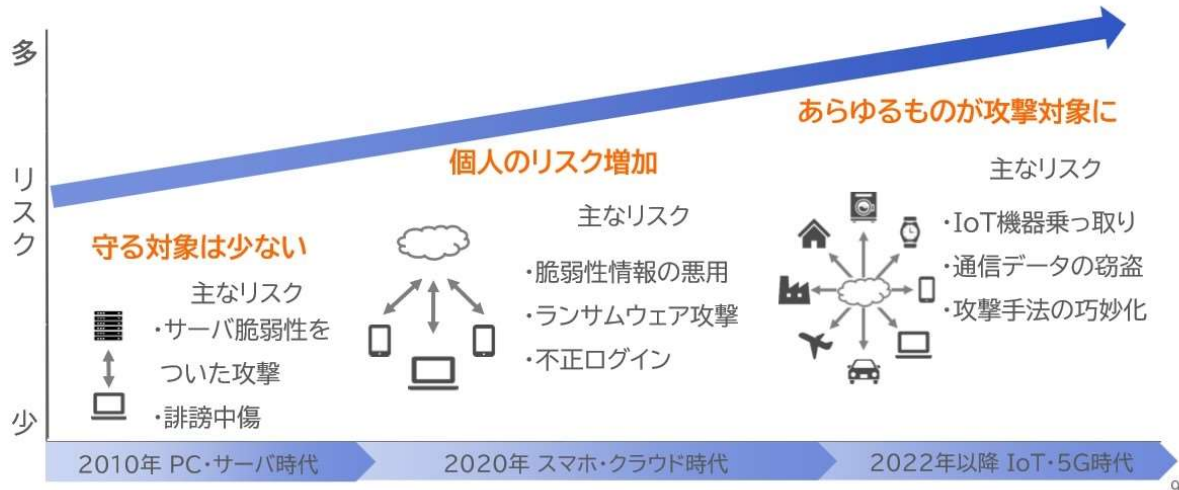
What only humans can do, humans do; what AI can do, AI does. With this, we are able to maintain an operating profit margin of 15.3%, which is extremely high in the outsourcing industry and this is our strength.

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インターネットリスクは増大かつ多様化し
セキュリティニーズは高まっている



I don't think it is necessary to explain too much about the increasing need for our services, but since the birth of the iPhone, the Internet has permeated our lives in various ways. Now cyberattacks have become an extremely important means of attack in warfare, and the expansion of cyber forces is also a problem because Japan has not been able to expand it at all. I think that major risks such as hijacking of various websites and ransomware are increasing rapidly.

We Guard All

すべてのインターネット利用者に、安心・安全を提供します

Our management philosophy is “We Guard All,” meaning we protect all. When we created these key words in 2007 or 2006, we were only engaged in post monitoring. In the future, we would like to provide a comprehensive internet service that is safe and secure, and with the E-Guardian logo, people will be able to

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use the service with peace of mind. I would like to make the E-Guardian logo a mark like SECOM. Our philosophy is “We Guard All” and we are developing various businesses.

2023年上期業績サマリー



売上は順調に増加 利益は一部低収益案件の影響で減益

(百万円)	上期実績	前年同期実績	前年同期比
売上高	6,148	5,739	+7.1%
営業利益	940	1,182	△20.5%
経常利益	961	1,234	△22.2%
親会社株主に帰属する 当期純利益	653	965	△32.3%

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This is the business results for H1.

As I mentioned earlier, sales were up 7.1% from the previous year, but profits were affected by increased costs for various investments made last year, such as the expansion of the center.

There were also some low-profit projects, which unfortunately resulted in a decrease in profit.

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売上は過去最高を記録
第2四半期営業利益は前四半期と同水準



Quarterly trends in operating income and sales show that sales are growing steadily. Profits appear to be down a bit, but we are continuing to invest as planned in the sense that we are making upfront investments and expanding our centers in various ways.

アド・プロセスとサイバーセキュリティが好調
ソーシャルサポートは堅調に推移



This is a quarterly trend of sales by operation. If you look at this, the negative figure is for the game support business. Social games have been growing rapidly for a while, and many Japanese companies have gone public with social games, and their business performance has increased. These things are competing for time, so if a free video goes viral, people will use time for that. Then fewer people will use the game.

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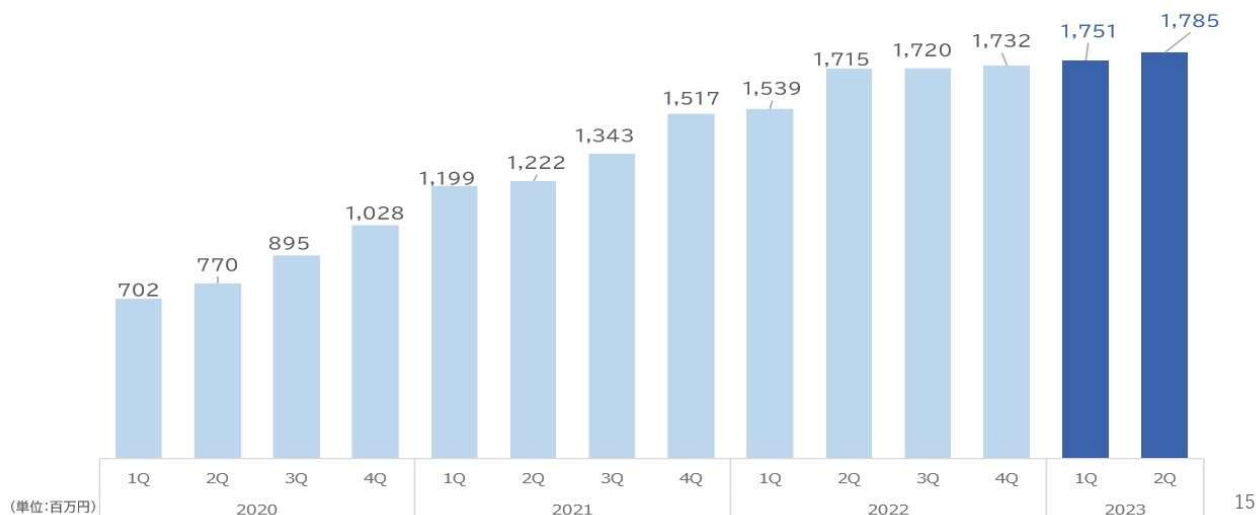
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In this context, I wonder if we are affected by the fact that Japanese game companies and game companies around the world are struggling a bit. However, we believe that the overall trend is a steady increase.

ソーシャルサポート



EC・フリマの顧客サポート FintechのeKYC(電子本人認証)案件が好調

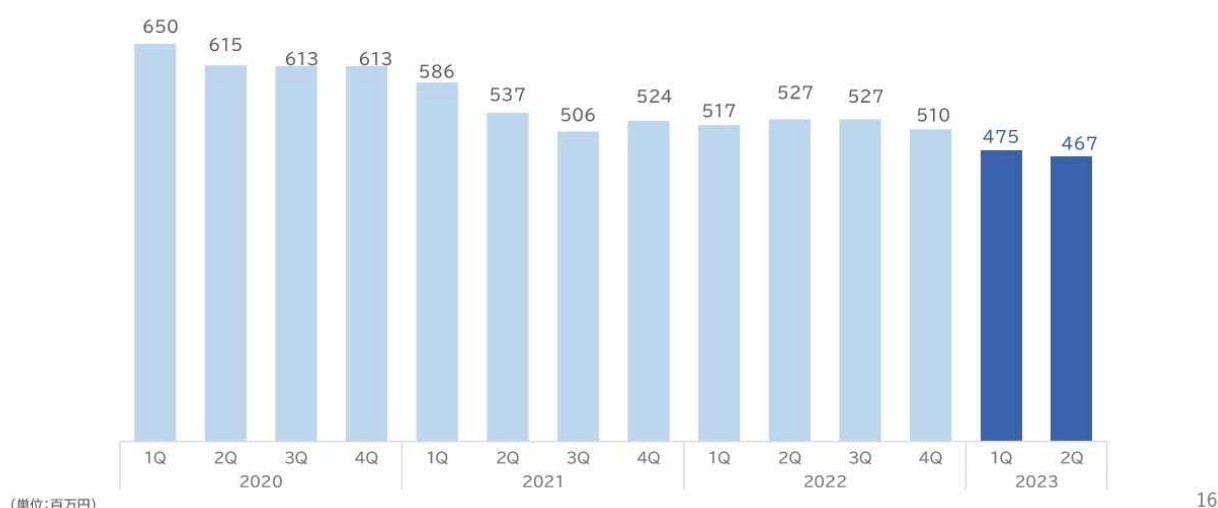


In the area of social support, we are seeing strong growth in customer support for e-commerce and flea markets, as well as in projects such as eKYC -- electric identity authentication -- in the fintech sector.

ゲームサポート



国内のゲーム市場はヒットタイトルに恵まれず減収 海外案件獲得に注力 カスタマーサポートに加えローカライズも同時提案



Unfortunately, in the game support business, we have not been blessed with any hit titles in the game market, which is where our customers [inaudible], and unfortunately, our sales have decreased.

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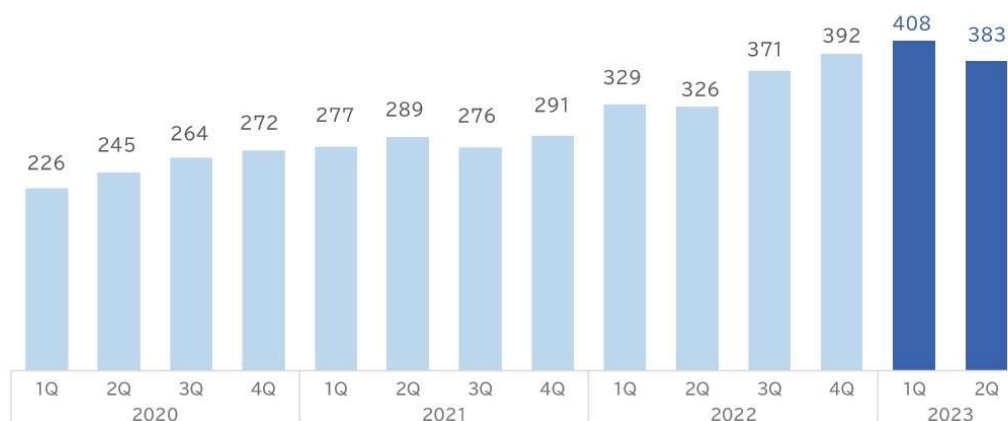
When a Chinese company wants to go to Japan or a Japanese company wants to go overseas, we offer localization service that support games and contents in foreign languages and Japanese.

We are continuing to make proposals to support Japanese and Chinese game companies who enter the market, so that they can acquire support for the next hit title when it comes out.

アド・プロセス



前四半期比では売上減少も前年同期比では伸長
広告審査案件が順調に推移



(単位:百万円)

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Next, in the ad process, ad screening has been growing steadily.

However, despite recent calls for restructuring at Google and various other places, we believe that internet advertising will continue to grow, and overall, the trend is for steady growth.

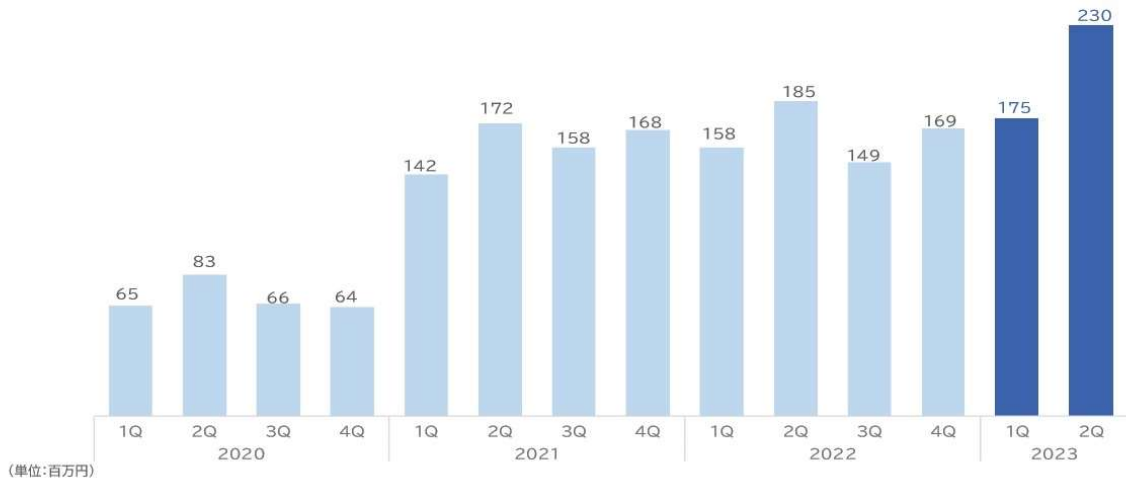
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脆弱性診断の季節性需要が増加 WAFも堅調に推移
 上期前年同期比+17.5%の増収



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Then there is cybersecurity. Growth in this area has also been increasing rapidly.

Some markets or places were attacked by ransomware and the market for money paid to such attackers is said to be JPY2 trillion based on last year. It is said that the damage caused by this kind of ransomware will increase to JPY20 trillion by 2030.

We need to do something about vulnerabilities, including dealing with ransomware, and investments in security are expected to grow rapidly in the future.

I think you can see the growth from Q2 in our new axis, cybersecurity.

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上期実績に鑑みて通期業績予想を修正

(百万円)	修正前	修正後	増減率
売上	12,870	12,850	△0.2%
営業利益	2,460	2,195	△10.8%
経常利益	2,510	2,220	△11.6%
親会社株主に帰属する 当期純利益	1,710	1,500	△12.3%

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This is our full-year plan for 2023. In light of H1 results, we have revised our full-year forecasts. The figures before and after the revision are shown. The losses incurred in H1 were not left as is, but were revised once and restarted as the minimum figures.

生成系AI

ChatGPTを搭載した社内ツールを開発
生成系AIとソーシャルサポートツールの連携検討を開始



生成系AI

×



hinagata
Template Management System

⋮

ChatGPT搭載の社内向け
ツールを段階的に展開。

生成系AIでサービス改良。
高品質で高効率なサポートを
提供。

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In terms of the future of our company, we will continue to work on opening our own non-human services by adding the various AI tools of ChatGPT, and in-house tools that we have created so far.

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成長するインターネット市場へ
強みを活かしたサービスを提供



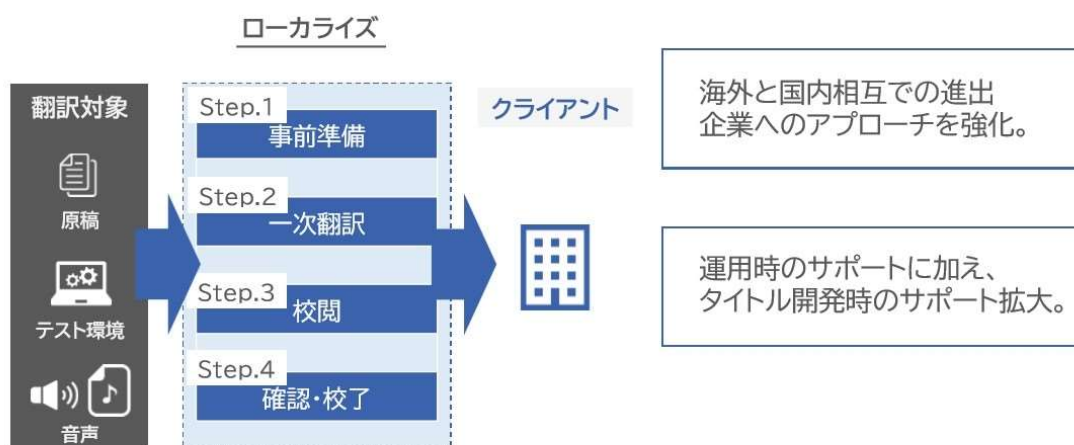
ノウハウを活かした高品質なサービス
を成長市場へ提供。

3月の経産省の通達により
本人認証の強化が必須。
eKYC案件の営業を強化。

22

In the social support business, there are many keywords, such as NFT and Metaverse, and I believe there is still room for growth in areas where e-Guardian is needed, including fintech. We would like to develop this kind of social support by leveraging our existing strengths.

海外案件獲得への注力を継続
ユーザエンゲージメントの向上を幅広くサポートし案件増を狙う



23

And game support. In this regard, we are developing domestic and overseas sales activities and will focus on activities to ensure that we do not miss the timing of orders when next game comes out, and we would like to boost and revitalize what is in a downsize, or downtrend, a little.

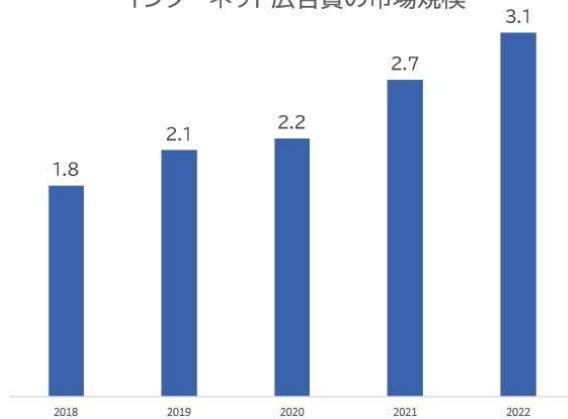
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インターネット広告市場の持続的成長と 法改正・規制強化を追い風に案件増加を見込む

インターネット広告費の市場規模



(単位:兆円) 出典:電通「2022年日本の広告費 インターネット広告媒体費 詳細分析」より当社作成

コロナ後の経済回復で
インターネット広告市場は
復調傾向。

市場拡大と規制強化等により
広告審査・広告関連BPO業務
ともに需要増加を見込む。

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In the ad process, there was a point where I wondered about the market size of internet advertising during the pandemic, but the market is still expanding. On the other hand, various regulations are about to be tightened. As regulations are being tightened, demand for our advertising screening and advertising related BPO services is expected to grow considerably.

サイバーセキュリティ

好調な脆弱性診断を軸に、WAFの販売を強化



ECサイトセキュリティ対策
強化に対応するため
パッケージプランを提供。

WAFは追加機能を搭載。
販売パートナーと連携を強化。

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As for cybersecurity, even now, it is said that Japanese cybersecurity and cyber military personnel are not well recruited, and even when they are recruited, the quality is not good enough. From human resource development for cybersecurity to sales activity of this service in Japan, we are seeing a very favorable tailwind, and we would like to focus our efforts on various ways to develop these services.

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株主還元充実、資本効率向上、機動的資本政策遂行を目的として
500百万円を上限とする自己株式の取得を決定

取得株式の種類	普通株式
取得株式数	200,000株(上限) (発行済株式総数(自己株式を除く)に対する割合1.99%)
取得総額	500百万円(上限)
取得期間	2023年5月10日～2023年6月30日
取得方法	取引一任契約に基づく市場買付

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As a recent initiative, the Company decided to repurchase its own shares, albeit concurrently with revision of financial results. The Company decided to repurchase up to JPY500 million of its own shares, and is doing so.



Our mid-term strategy. We recognize that the need for this type of internet security is only going to increase. The security business is becoming a very large for us, in addition to the traditional businesses of game, social, and advertising. We believe that E-Guardian will be able to grow steadily if we can create synergies among these four businesses and offer security to each customer.

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成長市場をとらえ安定成長を継続



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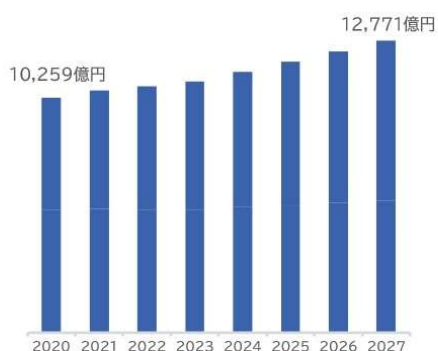
We have continued to achieve stable growth by capturing market growth, but I am convinced that E-Guardian's growth will be driven not only by keywords, but also by what is truly needed, which is cybersecurity, and it will support our growth.

サイバーセキュリティ市場規模

リモートワークやクラウドサービスの普及に伴い
セキュリティ強化のニーズが高まる

セキュリティ市場は拡大

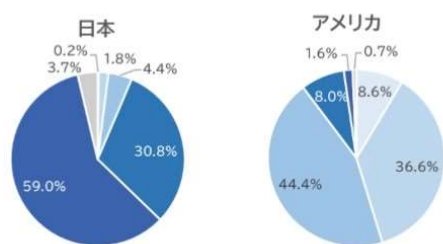
日本における法人向けセキュリティ市場規模予測



出典: NRI 野村総合研究所「2027年度までにICTメディア市場の規模とトレンドを展望」より当社作成

国内のセキュリティ人材不足は深刻

セキュリティ人材の充足状況(国別)



- ①人材が過剰な状態
- ②最適な状態
- ③どちらかといえば充足している
- ④どちらかといえば不足している
- ⑤不足している
- ⑥わからない

出典: NRIセキュアテクノロジーズ「企業における情報セキュリティ実態調査2022」より当社作成

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In terms of the size of our cybersecurity market, the security market for the corporate market in Japan is expected to continue to grow and expand. On the other hand, I think the graph on the right side is interesting.

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A survey of security personnel availability by country shows that the US has a relatively stable supply of security personnel. Or rather, fulfilling, or optimal. However, in the case of Japan, it is not enough at all. This is the difference in security between Japan and the US.

The reason for this difference is that Japan has very few people who have studied computer science in the first place. So, very few people who are studying that computer science are going into cybersecurity.

Everyone wants to go to glamorous places such as various development, making apps, going to EC, and so on, so there are very few people who want to go to the backside, security. Therefore, there are not enough people who have studied computer science, and such people tend to go to glamorous industries, resulting in overwhelming lack of security personnel.

That's why all kinds of ransomware attacks are happening.

In order to break away from this structure, I believe that we need to take a more active role.

サイバーセキュリティ分野における取組み



サイバーセキュリティの第一人者が蓄積したノウハウを活かし セキュリティ教育サービスを展開

セキュリティ第一人者“徳丸浩”

- ・EGセキュアソリューションズ取締役CTO
- ・イー・ガーディアンCISO
- ・独立業績法人情報処理推進機構(IPA)
非常勤研究員技術士(情報工学部門)



徳丸 浩
(とくまる ひろし)

【略歴】

1985年
京セラに入社。

2008年
Webアプリケーション
セキュリティ専門会社の
HASHコンサルティング
(現EGセキュアソリュー
ションズ)設立。

Eラーニングサービスを展開

これまでの講演等で培ったセキュリティ啓蒙
活動を活かし、徳丸浩の知見や技術が詰まった
Eラーニングサービスを提供予定。

「やられ」サイトBadToDo

脆弱性診断実習用アプリ「BadToDo」を
徳丸浩自らが開発。
学生や個人のエンジニア向けに無償公開を開始。
「BadToDo」を教材とした講習会も検討中。

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Hiroshi Tokumaru is the core of our company. He was originally a colleague of mine at Kyocera when we worked together. He is now an independent security expert and has written a book on the subject.

He has established a position in this industry that is well known to everyone.

We would like to gather various security personnel around him and further focus on the security business.

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コンサルティングからSOCまで豊富なラインナップを提供 日本でNo.1のセキュリティブランドを目指す



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Our cybersecurity services include consulting for those who are concerned about security, and training for those who want to study security, including various banks and major companies.

We also provide services such as firewalls that protect applications, which are called WAF. Or diagnosing for security holes.

We also have SOC that monitors the network 24 hours a day.

We are developing to become the number one security brand in Japan by offering a rich lineup of products, from consulting to SOC.

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サブスクリプション型のサイバーセキュリティビジネスで
さらなる利益向上を目指す



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We are focusing so much on cybersecurity because it has a very high rate of return.

The reason for this is that existing BPO businesses are labor-intensive, and the profit margin is extremely limited due to the need to recruit people.

However, the security business is a subscribe type of business. Once a service has been developed, it can be ordered and provided on an ongoing basis, whether it is WAF or SOC.

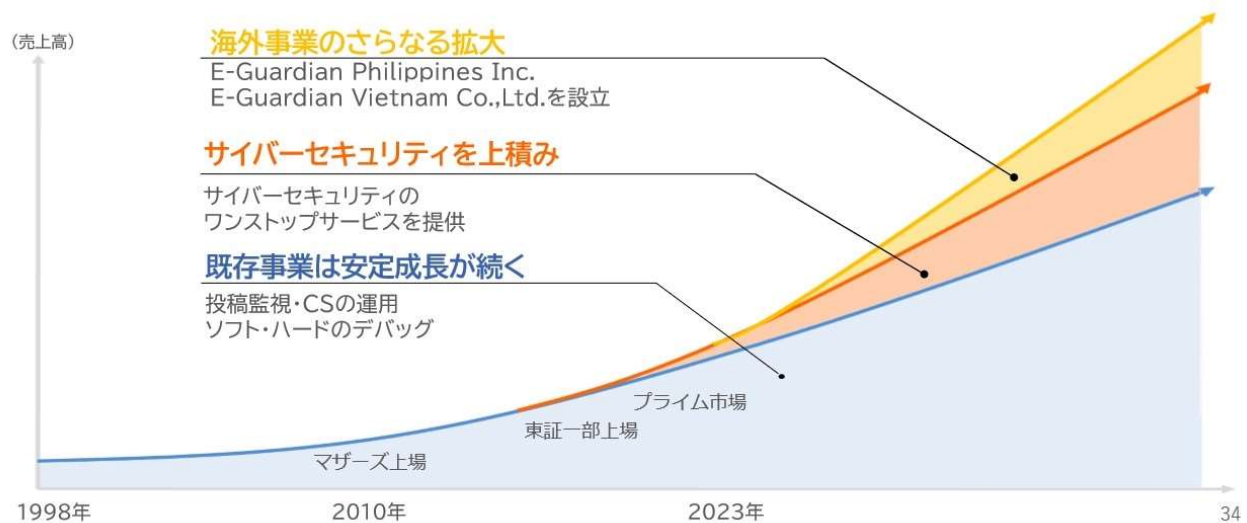
With those, we want to improve our profits in the cybersecurity business. We would like to achieve not only sales expansion, but also this kind of goal.

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As for our mid-term outlook, we have gained some assurance that we will be able to achieve this kind of cybersecurity, and we would like to steadily increase our cybersecurity business along with the stable growth of our existing businesses and expand this momentum to our overseas businesses in Vietnam and the Philippines.



As for our initiatives in ESG area, we have a large number of female employees, and the ratio of female managers is more than 30%. In terms of the environment, we reduced paper consumption by 52% from 2020.

In governance, the ratio of so-called outside directors is around 50%.

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The first thing to be said is that with the establishment of the Compensation Committee, governance with such proper judgment is in effect. It is a pretty general story so far, but this is what we are doing.

This is all from me. This is brief, but I would like to finish the presentation.

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Question & Answer

Moderator [M]: Thank you very much for your explanation. We will now move on to the question-and-answer session. If you have any questions, please raise your hand and a staff member will bring a microphone to you. A full transcript of this presentation, including the question-and-answer portion, will be made available to the public. Therefore, if you wish to remain anonymous, please do not give your name when asking a question.

Does anyone have any questions? Yes, thank you. I will bring a microphone now.

Kozuma [Q]: My name is Kozuma from SMBC Nikko Securities. Thank you for the presentation today. I have several questions, and I would like to ask them one by one.

First of all, I would like to ask you about some of the expenses for the new Hakata Center which were explained in the interim financial statements and the low profitability of some large projects. If possible, I would like to know what was the cost of the new installation for and how much was it? When I look at the flash report, the interim period has already been accounted for. So, I would like to ask you about that part particularly.

Also, even though some of the projects are large, in the case of your company, 10% of sales is the most [inaudible] comes from the customers that we see, so unless it's something very serious, we can't assume that the gross profit margin would drop that significantly. Given your company's business model, it would be difficult to do so. Could you tell us reasons why that large project has this low profitability? Also, it says it is now improving its profitability, so please tell us about the current situation regarding that.

Takatani [A]: To begin with the latter question, I can't tell the name of company, I failed quite a bit in terms of business design. I think the customer's perception is different from ours. We had a client who's a way of thinking about delivery was a bit unique, a type of client we had never dealt with before, and that was not a typical company. We had no experience working with such a steady professional client.

We started our business based on our assumption, but when it came time to deliver the goods, we gradually realized that the language and the content of communication were completely different. The fact that we made a very big mistake in dealing with a customer in a different field that we had never dealt with before, and it was a major drag on our business, because we got a poor profit margin, and we could no longer make that profit. This is the background story. This is one thing.

Kozuma [Q]: You mean it was a loss-making project?

Takatani [A]: Yes, it was. This is [unwrapped], but we did quite a bit of that kind of thing. We didn't have that until now. I had no experience. To be clear. I have learned that there is a possible outcome from a customer in a different field that I had never dealt with before which would not have been possible in an ordinary company. We maintain good relationships with them so that we can expand and connect them to the next transaction, so we do not say or disclose too much.

As for Hakata, the Center had to spend a lot of money to rent a place, do the interior design, construction, buy various chairs, and so on.

Recently, there have been many requests from customers, so we have had to pay for the installation of computers and such all at once, and the amount of investment varies depending on the scale of the business. We made a medium-sized investment and decided to invest in Hakata without having filled the existing space and locations, since we had relocated or built five new locations in the last year.

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The reason for this was that there was still room for expansion, so we decided to invest ahead of time, and also, we did not expect any loss-making projects, so we made a strong investment. This has backfired.

Kozuma [Q]: I see in the flash report that it is about [inaudible] JPY50 million related to the acquisition of tangible fixed assets, so in essence, I see that the cost is tens of millions of yen, is my understanding correct?

Company Representative [A]: Yes, it is.

Kozuma [Q]: Tens of millions of yen.

Company Representative [A]: Roughly one base, yes, in the mid-tens of millions. The initial cost does not belong to tangible assets. For example, buying a large number of computers, desks, chairs, and so on. It would cost about tens of millions of yen, initially. If the floor is not filled, fixed cost of rent, which is still a high percentage against sales, this will be eliminated if the projects are filled gradually, so I think it will eventually return to normal.

Kozuma [Q]: Thank you very much. Secondly, if there were no loss-making projects and the Hakata Center, would it be correct to say that the gross profit margin would not have changed so much?

Takatani [A]: Yes, that's right.

Kozuma [Q]: Thank you very much. My last question is, if you are going to do a share buyback this time, are you looking at about JPY500 million? In that case, I estimate that your company's shareholder returns from my analyst perspective, including dividends, would be about 50%, and that you would be able to maintain your ROE. What is the background to this share buyback and how do you think about shareholder returns in the future? In the case of your company in particular, I see that you have a lot of cash, unless you have M&A or something. I would like to know your thoughts on shareholder returns in the future.

Takatani [A]: Yes, that's right. We often discuss how to do with cash in shareholder meeting, but we are always looking for opportunities, and I cannot say when this will happen. Along with the chances that such investment will return to shareholders in the long term, we are aiming for an average figure, which is what we would have to return to shareholders in the average prime market.

At the same time, we will use cash that can be used flexibly and for investment to increase corporate value. Of course, I believe that both must be established.

I am often told that there is no M&A recently, but in many ways we are moving forward with the study. That's how we want to give back. However, this time, in the form of a share buyback, we have decided that now is the right time to buy our shares when seeing the market.

Kozuma [Q]: Just to confirm, I think that if there is no M&A, it would be better to give it back in the form of dividends or share buybacks.

Takatani [A]: Yes, it is. You never know when it will happen. Since there is always something running on hand, there is no time of being empty. To prevent this from happening, the corporate value itself must be increased, otherwise only paying dividends will not make much sense. Therefore, I think it is important to raise the corporate value of the company in the first place. We regret that we have not been very efficient in the past. We are changing our stance there and we hope that it will be reflected in the future.

Kozuma [Q]: I'm sorry to be persistent, but are you aware of ROE and such things now?

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Takatani [A]: We are [conscious]. We want to [achieve] great results, including those that are required to have such figures.

Kozuma [M]: Thank you.

Moderator [M]: Thank you very much. Do you have any other questions?

Participant [Q]: Thank you for your detailed explanation. It has been a long time since I have visited you physically. I would like to ask you a few questions. This may overlap with the previous question, but compared to about 10 years ago, I think you have grown a lot. In terms of profit margin, I had the impression at the time that the profit margin would be extremely high if you grew that much, but it has not increased that much.

I would like to ask you about the small increase in the profit margin. This means that the profit margin for the core, social support division is increasing, but as a result of new business, the overall profit margin has not increased that much. Can you tell us a little bit about what the profits are by segment?

If you haven't disclosed it, then nuance is fine.

Takatani [A]: To explain this in a very simple way, when we start or expand our business, we always have to establish a base center. The fuller the center is, the higher the utilization rate and the higher the profit margin. However, as more and more centers are opened, the timing of when they become full is shifted, resulting in a lower utilization rate and a lower profit margin.

To take it to the extreme, if we are trying to maintain only the profit margin without much growth, we should not build so many centers and hold out until the very last minute. If I think about the profit margin only, it should increase. However, there is a point where it is hard to go for growth. We are working hard to improve to not lose sales and profit margins as much as possible by investing in the centers and up them running. That has been our intention up to now, but as I mentioned earlier, there have been a few loss-making projects, and unless all of the centers' utilization rates are close to 90% or 100%, there will be some decline in profit margins.

The profit margin in each of our business domains has not changed much. Since profit margins are determined by whether or not centers are filled, we do not think that our 15% profit margin is that high, putting aside how it compares to other companies. We are trying to raise it further in the cybersecurity business. In this area, profit margins can be taken to a much higher level. While expanding sales, we expect to be able to generate a much higher profit margin than we have in the past.

That's because we can provide services as a form of subscription, as I mentioned earlier. No matter how many services are sold, there is no need to increase the number of staff, support, or build new bases, and this is the best way to increase profitability.

Therefore, we are planning to keep the current profit margin in the BPO business, while further increasing it in the cybersecurity business to raise the overall profit margin.

Participant [Q]: I would like to ask a second question. I think the number of staff has increased compared to the past, however, it is still 200 people or so. I think it is a bit difficult for them to compete with major companies in cybersecurity and other fields, in terms of resources. Where is your company's strength when it comes to fighting and challenging the current large field?

Takatani [A]: As I mentioned earlier, Hiroshi Tokumaru, a former colleague of mine at Kyocera, is a genius programmer and a super engineer who is well known to everyone in the field of security. This is our strength.

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We have managed to grow to a reasonable size as more and more people have come to want to work with us. We believe that natural organic growth alone is not enough, so we are planning to grow even larger through M&A and other such activities in the future.

Participant [Q]: Third point. I was listening and understand how you expand the business domain, but looking at your company, it seems to me that strengthening sales and marketing is an issue to address. How are you going to tackle these areas?

Takatani [A]: In terms of sales, selling BPO and selling security require two different fields of knowledge, so in that sense, there is a need to strengthen sales force as you pointed out. We are really focusing on strengthening in there and it requires a bit of specialized knowledge and know-how, so that's what our sales staff specializes in.

We have a subsidiary that handles sales, but essentially, we are in the process of developing all of E-Guardian's sales staff to a level where they can handle such security products.

We are also trying to educate our staff to improve their combat skills. I was originally a salesperson at Kyocera, and I have been working as a system salesperson for 10 years, so you are right that the key is to nurture this kind of personnel.

Participant [Q]: Is there an option for M&A in there?

Takatani [A]: Of course, there is a possibility. Yes. I would like to know if there are any good places.

Moderator [M]: Thank you. Do you have any other questions? Yes, thank you. I will bring a microphone now.

Kakuta [Q]: Thank you for your explanation. My name is Kakuta from FISCO Ltd. You explained about security on page 32, and I was under the impression that the tide of the cybersecurity field has suddenly turned on since Q2, and it has blossomed. In this consulting or cloud computing environment, I would like to know if you have any feedback that any products can become a hit in the future or has already become a hit.

Takatani [A]: Nowadays, in the security field, ransomware is causing a lot of damage, even if it is not publicized. Topics are like hospitals being attacked by ransomware and losing all data. It took three months to reopen at a hospital in Osaka. There have been stories of data lost, even X-rays, which can never be reproduced until you give the attacker money or bitcoin to get the encryption key.

There are many similar incidents and accidents that occur in places that you are unaware of. We have been consulting on such incidents and damage on the affiliated companies, subsidiaries, and outsourcing factories of major companies. I heard that data was extracted. Many banks want to prevent such problems, so they ask us to perform vulnerability assessments, to check various items in their company for vulnerabilities, or to train their engineers in the first place. Or the financial sector wants us to teach their security engineers. Even banks and securities companies are all outsourcing. [Inaudible] make it. We are getting a crazy number of inquiries asking us to define when to outsource that, or to do a vulnerability assessment when they are receiving it.

As to your question earlier about whether we can beat the big companies are not able to handle its current work at all. There is a situation where we are already receiving too many requests for security work, and we are completely short of people, so in that sense, oddly enough, this field is probably doing well everywhere. You probably won't hear they are not doing well. Yes.

Kakuta [M]: Thank you.

Takatani [M]: You are welcome.

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Moderator [M]: Thank you very much. Does anyone have questions? Thank you. Please wait a moment.

Matsuura [Q]: My name is Matsuura from Toyo Keizai. I came in late, so I might have missed some parts and I'm sorry if you have explained already, but you mentioned that you are developing an in-house tool using ChatGPT, which is a generative AI. I have the impression that the use of generative AI may be an opportunity for your company, but I also have the impression that it may invade your business domain in the future.

Takatani [A]: We have verified that the generated AI is very useful and can be used like a very smart secretary, so I have no doubt that it will make things more efficient. However, the number of people who abuse it is increasing, and ChatGPT can even create ransomware in cybersecurity, for example.

Depending on how the instructions are given. I think the risk of crime by using such things will increase at the same time, including attacks.

Society is demanding a system that can combat this. Yesterday, I watched on TV how voice-synthesized AI would imitate the voice of the Prime Minister Kishida. It can imitate anything with a little bit of voice, and the voice AI can break in all the foreign banks and current systems. If something useful emerges, it will create a new tool and a new risk. We are wondering if there is a business opportunity for us there.

We are using AI for image recognition and text recognition to automate tasks and improve efficiency of our work that could only be done by humans until now. We would like to improve our business by incorporating automated tools when they become available. At present, we do not envision complete elimination of our work.

Matsuura [Q]: Is that because you have the know-how to incorporate such AI into your company when it emerges?

Takatani [A]: Yes. There aren't many areas that are completely dependent on humans. We have maintained a high rate of return by leaving what AI can do to AI, so I would like to incorporate more and more useful tools as they become available and use our unique know-how to further develop AI and make it evolve in a business-specific way.

For example, in the case of games including customer support, AI will become smarter as it combines with people who are familiar with games. Therefore, AI will be trained with human support after all and there are roles for each. I think there are two types of companies: those that can make good use of AI and those that cannot. In our case, we do not have a lot of people working on it.

I think there is a great possibility that GPT will be involved in this, but in our case, we want to take what GPT can do and make it more convenient.

We have not changed our stance. In the hiring of new graduates, we have recently started to receive some new graduates who are using GPT. The quality of the human resources is changing, such as those who use GPT in universities, so I would like to make it more efficient by borrowing the wisdom of these young people.

Matsuura [Q]: Excuse me, there is one more thing about SOC security. I think it was the last year. After the launch, could you tell us about the inquiries you have received and the client characteristics?

Takatani [A]: Regarding this SOC, we have implemented it throughout the Company. The 2,500 terminals are monitored 24 hours a day, 365 days a year by our in-house employees. For example, this is a service that looks at each device 24 hours a day to see if ransomware is attacking the device.

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First, we use the system ourselves to familiarize ourselves with it and accumulate know-how on how incidents and accidents occur. This is becoming quite standard overseas. This is an endpoint monitoring service that is gradually being adopted by all companies, but only a few companies in Japan have yet to adopt it.

Our characteristics is that we are also making proposals for the introduction of SOC to our existing clients who are doing the same kind of work as we do. SOC is for any company. Whether you are a securities company, a bank or a media company, the risk is the same. Therefore, we do not limit ourselves to any particular industry, but we are starting by introducing SOC to our existing clients, so we are holding seminars for them and conducting other activities to educate them.

Since the SOC adoption rate is still low, we believe there is a very large market with room for future expansion.

Matsuura [Q]: Is it your understanding that you have few or no customers yet at present?

Takatani [A]: Right now, we have several companies. However, we are still in the testing phase, not on the scale of thousands of units.

Moderator [M]: Thank you very much. Do you have any questions? I will bring a microphone now. Please wait a moment.

Koshimori [Q]: My name is Koshimori from Frontier Management Inc. Thank you for your interesting presentation. This may be related to your earlier question about strengthening your sales force, but you mentioned that TikTok has been your company's number one customer so far this fiscal year.

You also explained that in the financial results for the fiscal year ended September 2022, sales of [inaudible] to TikTok accounted for 16.3% of total sales, which could be a risk on business. How much of your sales have come from TikTok so far this fiscal year?

Also, recently, there has been a tightening, or rather a stricter view of TikTok in the US. I don't mean to say that there is an immediate concern in Japan, but could you tell us how you see the balance in terms of sales and marketing in relation to the risks ahead?

Takatani [A]: Regardless of who it is, dependence on one customer is a complete risk, so if the dependence on a single customer increases and exceeds 10% or more, that is a risk. We would like to lower the risk, not increase it. But it means we need to increase the percentage of other sales in a way that is not dependent on a few customers. We would like to increase those ratios. I think this trend is working because sales are growing.

On the other hand, I cannot really predict political risks and such things. For example, I was doing a lot of bitcoin work at one time. Now, I wonder about bitcoin. When the temporary boom in cryptocurrency ended, many other things happened, like everyone was no longer interested in it, there were no more vendors, and trading partners leaked coin out.

You never know what will happen in the world of the Internet. We don't know who the star will be tomorrow. We are in a world that we don't know who is going to be a main character two years from now, or one year from now, because it's a world that new things come out of sudden from nowhere.

In order to diversify risks so that we do not fall prey to such risks, we need to reduce the risk of dependence on a single company while increasing the number of entities like cybersecurity and other services that do not depend on a few clients.

There has been a lot of news in the US [about TikTok], but I am not sure if all of them will be really in effect all or even affect Japan. I have a feeling it has not come to the point yet as I read the current [news] flow.

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There was news a couple times. There is one when Trump was the President. However, I wonder what will happen if the political system is forced to take up something that everyone uses just for fun, such as the penetration rate among young people. It already has a platform, so I am not sure if politics should pick up on it and we would like to expand sales and develop our business without relying solely on a single company.

We have never imagined that the TikTok platform would spread to such an extent, and that it would expand so rapidly, although we are not receiving all of TikTok jobs. TikTok is diversifying their risk in many ways, too. Therefore, we will continue to make such management efforts.

Moderator [M]: Thank you very much. Any more questions?

There being no further questions, we will now conclude the financial results presentation of E-Guardian Inc. Thank you very much, President Takatani and Senior Managing Director Mizobe, for today.

Company Representative [A]: Thank you very much.

Moderator [M]: Thank you very much for your participation. Please leave the questionnaire on your desk.

[END]

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