



E-Guardian Inc.

Financial Results Briefing for the Fiscal Year Ending September 2023

November 24, 2023

Presentation

Moderator: Now that the time has arrived, we will now begin the presentation of the financial results of E-Guardian for the fiscal year ending September 30, 2023.

First, I would like to introduce our two guests from the company.

Yasuhisa Takatani, President and CEO.

Takatani: Yes, thank you very much.

Moderator: Yutaka Mizobe, Senior Managing Director.

Mizobe: Yes, thank you very much.

Moderator: Today, Takatani, President and CEO, will give an explanation.

After the explanation, we will take time for questions and answers.

Then, president Takatani, please go ahead.

Takatani: Good morning, everyone.

I am Takatani from E-Guardian.

I would now like to explain the financial results for the fiscal year ending September 30, 2023.

First of all, as an executive summary, the overall results for 2023 were very disappointing.

Both sales and operating income fell short of the plan, and we regret that we were not able to keep up with changes in the market and our business.

On the other hand, in 2024, we are already fully focused on the reasons for this underachievement, and as we have already announced, we hope to achieve further growth through synergies from the capital and business alliance with Change Holdings, or by shifting our focus to new businesses.

As you can see at the bottom of this page, we will lead the restructuring of the cyber security industry. Until now, we have been monitoring what is written on the Internet regarding social risks, with an emphasis on transactional issues. However, from now on, E-Guardian intends to provide all solutions in the area of cybersecurity as well.

As for the full-year results, we managed to exceed the previous year's sales, but operating income and other profits fell short of the previous year's results, as I mentioned earlier.

Looking at sales by business segment, sales of game support services, or social games and online games, which had originally supported our growth, are no longer growing. As can be seen in the financial results of Japanese game companies, there are no longer any games that are really growing.

Unfortunately, we were not able to get such a hit among the customers we support, and unfortunately, this is the result.

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Social Support growth rate was 2.1%. In the last fiscal year, there was some temporary growth due to various COVID-19 related jobs, but I think these have run their course.

The ad process, or ad screening, for example, is still gaining momentum.

The cybersecurity field is expanding rapidly, and we have managed to keep up with such trends.

Unfortunately, however, it did not go as far as the plan. In total, this means that we were only able to achieve 1.3% growth compared to the previous year.

Looking at the quarterly sales trends, the area in orange at the top is growing, while the area of games is decreasing rapidly. Thus, we are now in a slight downtrend from the overall trend of growth, and we are trying to somehow turn things around from here.

As for the reasons for the decline in earnings, some medium-sized projects related to the COVID Vaccine were terminated, and some existing projects were requested by customers who wanted to bring their operations in-house because the game have seen a decline in popularity

The reason for the decrease in profit was, of course, that we had built a new center in Fukuoka with the intention of expanding our business, but despite the establishment of center, we were unable to increase the utilization rate of the center at all. We had some very low-profit projects, and we were not able to improve them. This is the reason for the deterioration of performance in both sales and profits.

We are writing a measure on how to do this in the future.

Change Holdings is one of the few companies that have connections with many local governments through Furusato Choice and Trust Bank's Furusato Tax Payment.

Since the members of Change Holdings are originally from Accenture, their proposal and sales skills are top-notch.

In this sense, we are considering strengthening our sales structure and mutually utilizing our client base with Change Holdings. As you can see from Accenture's business results, BPO-related business is growing in Japan.

Accenture and others are taking on digital BPO for corporations and regional banks for local governments. We believe that our digital BPO centers can be used by clients that Change Holdings has not been able to propose to so far, and we believe that this will lead to growth.

Next is enterprise digital BPO. Up until now, we have been involved in industries that are necessarily related to the Internet, such as monitoring word-of-mouth on the Internet for companies and screening advertisements for Internet companies. In this way, our performance has been linked to the performance of our clients. In the future, I would like to take on more and more digital BPO and DX-related work for large companies of a certain scale.

In the area of low-profit projects, we will increase our utilization ratio, including by strengthening our BPO centers. Above all, we believe that the inevitable condition for our next growth is to increase sales, acquire new projects, and take on a new customer base.

As for our plan for the full year of 2024, we are talking about double-digit sales growth, or JPY13.3 billion.

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We are aiming for an operating income of JPY1.94 billion, an increase of 9.1%, and ordinary income of JPY1.95 billion, an increase of 7.9%, for the next fiscal year, and we believe it is our responsibility to somehow switch to an upward trend in 2024.

Now, as for our initiatives for this fiscal year and beyond, the first one is social support.

As I mentioned earlier, we are planning to leverage synergies with Change Holdings by utilizing our existing customer base, cooperating in various ways such as proposals to local governments, and offering more and more digital BPO services to our existing enterprise customers. We are also trying to offer more and more proposals in the area of digital BPO to our existing enterprise customers.

In the game industry, the situation is still very difficult, but we are receiving an increasing number of support requests from overseas companies that want to come to Japan, and we are seeing a very strong growth in this area.

Unfortunately, there are only a few Japanese companies that are growing rapidly, so that part of our business is still declining, but we would like to take the opportunity of localization to strengthen our customer base, customer support, and other cross-sales activities.

In the ad process, or ad screening, various regulations have recently been tightened for online advertising, and stealth marketing has recently been regulated as well.

As laws and regulations are tightened, our business will increase. Therefore, we would like to change this trend and achieve double-digit revenue growth.

And this is where cyber security becomes very important. Although we have a very well-known cybersecurity expert, Hiroshi Tokumaru, we have not been able to take full advantage of his talent.

As you can see at the bottom of this page, the digital deficit is now a major problem, and we are dealing with foreign products in all areas. This is especially true for digital products. If you look at other companies, they are dealing with more and more foreign products.

The same situation applies to security. In consideration of national defense, there is a debate in Japan as to whether or not security should at least be domestically produced.

We would like to create such domestic security services.

I don't think I need to explain it again right now, but this Change Holdings has a management philosophy called Change Japan, which was created to solve problems in Japan.

Therefore, we are thinking of expanding to services that will change Japan and improve Japan, including the Furusato tax system, and I believe that President Fukudome's next theme will be cyber security.

They then considered which company would be in the best position to take the de facto position in cyber security in Japan, and as a result, E-Guardian was selected as the best choice.

E-Guardian, which has taken on the challenge of cybersecurity, has the right technology and human resources.

And Change Holdings has a very large customer base in the private sector, including local governments and cybersecurity issues.

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We believe that by partnering together, we have the potential to spread our cybersecurity-related human resources and technology to a wider audience.

There is a lot of talk in Japan about the shortage of security personnel. Other company has conducted a survey in Japan and overseas, and found that 90% of the respondents in Japan answered that their company lacks security personnel.

In the case of the U.S., the answer is that they are satisfied to some extent. The companies in the United States have been very exposed to cyber security attacks in the past, and many things have been compromised, and in that sense, security measures are advanced, and so security education is also advanced. So there is a large amount of trained personnel.

This is a similar situation in China and other countries. Russia, for example.

Japan, after all, has not paid much attention to such cyber risks in the past. A major company, is doing it perfectly, but still, if you look at the entire supply chain, the information is being infiltrated through the factories of the subcontractors that make the screws and wheels.

Therefore, the problem in Japan is that although large companies have managed to take countermeasures, their entire supply chains are completely untouched and are the target of attacks from overseas.

It is said that the digital deficit is increasing, which is currently said to be JPY4.7 trillion or JPY5 trillion. It is predicted that this kind of information will continue to increase, and that by 2035 it will exceed the amount of the oil import deficit.

In other words, the current situation in Japan is that the entire digital market, which should really have a market of about JPY5 trillion, has been taken over by overseas competitors.

Unless we ourselves somehow industrialize security, we will not be able to nurture digital human resources, and we will not be able to nurture the market either. It will be nothing more than a market for American/overseas products, and it is starting to be like that.

The problems ahead are, first, the shortage of security personnel, second, the increasing digital deficit, and third, cyber risks in the supply chain. This is what I mentioned earlier.

Recently, hospitals have also been hit by cyber-terrorism, with all customer information being encrypted via x-rays and held for ransom, and hospital operations shut down. While these are some of the more publicized aspects of the situation, it is said that there are actually many more problems going on under the surface.

We are planning to hire and train a large number of security personnel. I mentioned earlier about Hiroshi Tokumaru, a person who represents this industry, who has written his own book, and we are also developing e-learning programs based on that book, so we would like to acquire such personnel.

And the next step is to strengthen domestic services. In terms of strengthening domestically produced cybersecurity services, we would like to promote M&A and collaboration.

In terms of strengthening the support system, we would like to establish a system to support companies and local governments that are short of security personnel.

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As for the state of security services in Japan, there are indeed various companies in Japan that offer security services. However, it is difficult to find a single company that offers a variety of services.

Company A can do this much, but not this much, or Company B is good at SOC, but they can only do a certain part of it.

In other words, E-Guardian's aim is to provide a comprehensive lineup of domestically produced services that can be used by local governments and corporations.

In order to enhance this, we will naturally be actively engaged in mergers and acquisitions.

As for the industry restructuring in the future, many Japanese cyber security companies have strong technical capabilities, but are very poor in sales and marketing.

There are many companies that have very good products, but are not well known to the public. E-Guardian and Change Holdings would like to work together to reorganize the cyber security industry by sharing the same sales force, marketing, and customer base, and we would like to be the center of this reorganization.

As for strengthening existing services, of course we have our own original services that we are developing, and we are considering hiring and training a large number of engineers. However, we are planning to expand on a much larger scale than we have to date, although we cannot give specific figures for this plan.

As for the promotion of M&A, our entry into cyber security actually started when we acquired Hiroshi Tokumaru's company, and everything we have done has been through acquisitions.

The same is true for WAF companies. There are two types of WAFs, cloud WAFs and software WAFs, and we acquired both of them through M&A.

After all, starting from scratch and developing from scratch in-house is extremely time consuming. There are many companies in Japan that specialize in different areas, and we would like to gather partners who are willing to join us and cooperate with us in this area of homegrown security in Japan.

Our goal is to increase our services in this way. While hiring a large number of human resources, E-Guardian intends to reinforce any shortcomings through M&A, increase the number of associates, and become involved in a company that can offer comprehensive domestic security.

We have included some details in the document, but we would like to develop new next steps in this way.

This restructuring of the cybersecurity industry will transform E-Guardian into a comprehensive security provider. This is the theme for 2024.

This has been brief, but that is all. Thank you very much.

Moderator: Thank you very much.

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Question & Answer

Moderator [M]: Okay, we will now move on to the question-and-answer session. Please raise your hand if you have any questions.

The IR meeting, including the Q&A portion, will be transcribed and made available in its entirety.

Therefore, if you give your company name and name when you ask a question, it will be published as it is. If you wish to remain anonymous, you may omit your name.

Please raise your hand if you have any questions.

Any? Since this is a good opportunity, does anyone have any questions?

Yes, the person at the very front, please wait a moment.

Sekiguchi [Q]: Thank you very much, President Takatani. My name is Sekiguchi from UBS. Thank you for the opportunity.

Am I correct in understanding that the source of funds for the M&A will be the approximately JPY3.2 billion invested by Change on October 11, the most recent third-party allocation of new shares? **Takaya [A].** Yes, that's right.

Sekiguchi [Q]: I would appreciate it if you could talk a little bit about that as well as the future.

Takatani [A]: Yes.

We plan to use the cash we originally had and the amount we have raised this time together to fund the M&A. Of course, if we are unable to meet the requirements with only that amount, there is a possibility that we will procure funds in a variety of ways.

Sekiguchi [Q]: I was wondering if you would increase the amount as you are going forward in various areas.

Takatani [A]: Yes, I think so.

Sekiguchi [Q]: Will you be acquiring mainly small and medium-sized companies, etc.? Could you tell us as much as you can about this?

Takatani [A]: As we have already announced, we will establish an intermediate holding company on top of ours, so there will be two lines of investment, one by the intermediate holding company and one by E-Guardian.

We will produce industry restructuring by dividing the roles of the companies, with us investing in those with short-term synergies and acquiring those with long-term synergies or those with no short-term synergies that may take some time to develop through the intermediary holding company.

Moderator [M]: Yes. Thank you very much. If you have any questions, please raise your hand. We believe that we do not have any further questions.

If the company has any additional information, please go ahead.

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Takatani [M]: Nothing in particular.

Moderator [M]: Yes, I understand.

With that, we will conclude today's briefing. Thank you all very much.

Takatani [M]: Thank you very much.

[END]

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