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## **Taking the stage**

Moderator: Hello everyone. Now that it is on time, we will hold an IR meeting for E-Guardian Co., Ltd.

First of all, I would like to introduce you to those who are welcoming from the company. Mr. Shin Sato, Director.

Today, we will have a talk from Mr. Sato, and after his explanation, we will have a question-and-answer session.

In addition, questionnaires are distributed to your hands. Please fill out this form and submit it on your desk when you leave.

Thank you very much, Mr. Sato.

Sato: My name is Sato, a director of E. Guardian. I look forward to working with you. Today, Representative Director Takatani is not feeling well, so I will be explaining on his behalf.

First, there are 3 executive summaries. First, in the first half of 2025, net sales were ¥5.868 billion, compared with the first half forecast of 97.1%, operating income was ¥929 million, and the first half forecast of 119%. As a result, net sales fell short of the target and operating income exceeded the target.

Second, gross profit margin continued to improve. In terms of the content, the profitability of sales improved in response to the fact that we continue to develop systems for AI at the center's operations and that the sophistication of the operation of the developed systems is progressing.

As a third topic, we received an order for the Consumer Affairs Agency's online sales optimization business.

This order is received from a central government agency, and is a result of a move to add enterprise sales of central government agencies and large corporations, in addition to the consolidation of

entertainment-related services such as SNS and gaming companies, which have been our main customers until now.

Second, we received large-scale orders for home video game customer support. Until now, we have mainly received orders for customer support for social games using smartphones and other devices. The fact that we were able to receive orders for customer support for home video games is 1 major topic.

We also invested in SMBC Cyberfront, Inc. for cybersecurity. Sumitomo Mitsui Financial Group, Mitsui Sumitomo Insurance, and CyLeague Holdings have invested 100% in the company to establish a company called SMBC Cyberfront.

Results for the first half of 2025. Net sales were ¥5.868 billion, representing 97.1% of the forecast, and 102.6% compared with the previous fiscal year. Operating income was ¥929 million, representing 119% of the forecast and 105% compared with the previous fiscal year. Ordinary income was ¥933 million, representing 119.3% of the forecast, 107% compared with the previous fiscal year, net income was ¥607 million, and 116.4% compared with the forecast and 113.4% compared with the previous fiscal year. As a result, both sales and profits increased from the previous fiscal year.

In terms of profit levels, we believe that sales have exceeded our forecasts, but we believe that the fact that sales have been negative compared with our forecasts is a major issue.

Looking at this quarterly level of sales and profits, we see that for the past 3 consecutive quarters, sales and profits have increased. Over the past 3 quarters, sales have been steady at over ¥2.9 billion, and in terms of profit levels, we have achieved the highest level in the last 3 fiscal years. Operating income has exceeded ¥500 million for the first time in 10 quarters.

Unfortunately, the previous fiscal year saw a decline in sales and profits. Looking at the results of the last 3 quarters, we recognize that we have once again gotten on a track for full-fledged growth. We recognize that this was the result of strengthening the sales structure and improving the cost of sales ratio, which we have explained since the previous fiscal year.

Next, I outline the first half of the fiscal year. The top 3 will be BPO movements, but in social support, EC and free market business fields and the FinTech field continued to expand. In the first

half of the fiscal year as well, the growth rate has been quite strong, and this is enough to drive overall sales growth.

In addition, we saw an increase in the number of deals for supplier surveys and compliance surveys, although sales were not as large as in the past.

As a background to this, I think that we have been talking about strengthening communication and relationships with existing customers for some time now, and as a result of continuing our activities to uncover new needs in this context, this has become a project that has emerged, and this project has grown considerably in the first half of this fiscal year.

In game support, as I mentioned earlier, we received orders for home video game consoles and PC game-related customer support.

Until now, we have talked about a tendency for our sales to decline in social games, because of the lack of hit titles. However, in response to this, we have been focusing on the sales of console-based games, and it is true that we have been focusing on them for a long time since the previous fiscal year.

In response to this order, in the current fiscal year the extent of the decline in sales will be lower than the previous trend, and we intend to move in a way that will increase from the next fiscal year onwards.

In the ad process, we focused on creating projects through services tailored to the times of the black job market. Another reason is that the Consumer Affairs Agency has received orders for the Internet sales optimization business, which I mentioned earlier.

In cyber security, cloud-based WAF and consulting services grew.

We are talking about a 11.3% increase in social support, which is a strong growth. However, game support and ad process sales are continuing to trend downward from the previous fiscal year. Cyber security has grown by more than 15% in the past, but it has grown by around 1% in the first half of the year.

Again, the overall sales increase was 2.6%, driven by strong sales growth of 11.3% in social support.

This is a factor behind the shortfall in sales and a countermeasure. The biggest factor behind this was that while we were able to win large-scale projects, it was quite difficult to secure human resources

to manage them. It is very difficult to recruit in Japan as a whole, and in some projects, the start of the project was delayed because the necessary personnel were unavailable, or the number of responses that the customer had expected and that we had envisaged had decreased. As a result, sales fell short of the target.

In Kumamoto, where we have our center, as you all know, a TSMC plant was built, and there is a center called Osaka GAMELABO in Osaka, but it was also affected by the Osaka Expo, and it was difficult to procure human resources.

Normally, in such cases, we would ask a temp staffing agency to help us, but it was quite difficult to procure them there.

In response to this difficulty in securing human resources, we are working with Timee to see if spot workers can be used for our operations, and we are currently starting trial operations.

In cooperation with Timee, Inc we would like to ensure that the number of spot workers we need is introduced by Timee, Inc and that we will secure human resources and start up a project promptly. In the second half of the fiscal year, we will not be able to record sales because we cannot secure human resources.

This is followed by a year-on-year comparison of operating income. The expenses that were not incurred in the first half of the previous fiscal year were largely attributable to shareholder benefits, which amounted to approximately ¥118 million in the first half of the fiscal year, which was a negative factor. Operating income increased by 5.8% year-on-year because the improvement in the gross profit margin was approximately ¥100 million, which absorbed the increase in shareholder benefit expenses and resulted in an increase of ¥51 million.

This improvement in the gross profit margin can be said to be the result of our long-standing efforts to improve gross profit. In the last 3 quarters, the gross profit margin increased in the same way as the operating profit. In the last 3 quarters, the gross profit margin improved continuously on a quarterly basis. Partly as a result, as I explained earlier, this first half alone is a factor behind the increase in profits of approximately ¥100 million.

There are 2 major improvements in the gross profit: specifically, what has been achieved.

The first is the cost control. Let's raise the occupancy rate at the center. While about half of our cost is personnel expenses, we will also incur fixed costs such as rent and depreciation expenses, so if the occupancy rate goes up, the profit margin will also rise. The next step is to convert the accepted temporary staff into full-time employees.

In the case of temporary staff, there is a good part that it takes a short period of time to acquire them or that they have high liquidity. However, there is also a problem that unit prices are high. Therefore, we will promote the conversion of permanent employees to lower costs while monitoring the status of contracts and occupancy.

The next step is to improve the efficiency of our work and to redevelop the rules on cost accounting and make them more rigorous.

When the contract is decided and sales are determined, you can read how much sales can be recorded. However, when the cost accounting for the operation is poor, the profit that was originally anticipated cannot be earned, and in some cases, there will be a loss-making project. Therefore, when sales come to talk beforehand, we have a firm meeting with the center to determine whether the cost is appropriate. In addition, we reviewed the profitability of existing projects, and if they were not able to do so, we negotiated a price increase firmly with our customers.

In addition, by developing and operating more sophisticated AI, we have been steadily developing AI that will make on-site operations more efficient at our centers.

I'm sure there are many translation tools out there, but if you put them on the translation tool as they are, there will be unintended translations and you will have to fix them. If you put them on the translation tool as they are, unintended translations will be made and you will have to fix them.

By using the tools of AI to learn, we can eliminate the operation effort, or develop a tool that allows us to respond to customer-specific emails. By doing so, we can create answers from scratch. This means that we have accumulated what we want to create in AI automatically.

Controlling costs and upgrading AI operations have greatly improved the gross margin.

Dividends. At the beginning of the fiscal year, we are talking about a dividend of ¥35, and we are targeting a consolidated dividend payout ratio of around 30%. Currently, we are thinking about a dividend of ¥35.

Next, in response to the first half results and developments, we discuss what to do in the second half of the year.

In terms of initiatives in the second half of the fiscal year, I would first of all like to focus on expanding game-support, as I mentioned earlier, in the area of BPO.

This was a large-scale customer support project for home video game consoles, but this was not a project from a new customer, but a project from an existing customer.

The reason why we were able to do so is that, in the sales section, as I have talked to you earlier, we communicated firmly with our existing customers, and there was a need for customers other than the projects that we are currently receiving. This means that we were able to discover the projects when we explored them.

In addition, since we are an existing customer, we received a high reputation for the services we provide, which led to the receipt of orders. In terms of the trend, we will reorganize our existing customers to see if there are any needs that we are currently unable to grasp. In addition, we will expand our business to other game manufacturers.

We intend to generate sales from social game plus home video game consoles by horizontally developing customer support projects for customers who have previously done business with us, other game makers, and game makers who have not received orders for customer support for their games. We intend to halt the decline in game support sales and return to a growth trajectory.

The other is focusing on acquiring government projects. As I have explained, to date, there have been a large amount of entertainment-related sales, such as SNS and game-support, and the sales of those products are in industries where there is a gap between them. Therefore, we will add stable sales to those industries. I think that you are focusing on the acquisition of enterprise-related sales, which has been the case since the previous fiscal year. In the first half of this fiscal year, we were able to win orders for projects from the Consumer Affairs Agency, and in the second half of the fiscal year we will work with Change Holdings to bid on projects from government agencies. In fact, in the first half of the fiscal year, we were unable to win the bid, but the bidding itself. We intend to continue to stimulate these developments in the future.

In the area of cyber security, we have seen annual growth of more than 15%, but this increase in the first half of the fiscal year has been limited to around 1%.

1 of the factors behind this is that changes in the market are occurring. In terms of what changes have occurred, many companies that had previously received cybersecurity services were able to pay for cybersecurity. The market is gradually shifting away from the high-price, high-quality vulnerability diagnosis services we have provided to date, from the high-price, high-quality, vulnerability diagnosis services that we have been offering. This is partly due to the fact that, in the context of the need for companies to take measures, whether they are large or small, to address cyber security risks in recent years.

We have also been steering to detect this market change, but the market change was faster than that, and sales growth was limited to 1%.

In response to these market developments, I think that what we are going to do is to provide a highly cost-effective diagnostic service. Specifically, we would like to consider a simplified diagnostic using a tool, and a simplified diagnostic using human. Even so, this is not an excellent simple audit that we are currently offering, but we would like to make it available to the world not only through tools but also through simple audits that use people.

The second issue is that this is an issue for some time, but we have not been able to take the lead with the aim of acquiring new customers. As a solution, we are trying to get the lead from the perspective of easy-to-enter security, and we are thinking of acquiring the lead by providing security training and e-learning content.

Beyond that, what we are thinking about is that it would be inadequate to provide a high-cost-performance diagnostic service or a low-cost service, so we are aiming for up-selling.

Another issue is that there are no security personnel in the company. Therefore, I would like to actively develop cross-selling, such as providing information on relatively inexpensive security training or e-learning content, creating connections there, and then leading to vulnerability diagnostics and sales of WAF.

In terms of cybersecurity, we are thinking about our customers for small and medium-sized companies. As I mentioned earlier, we have established a company called SMBC Cyberfront with Sumitomo Mitsui Financial Group, Mitsui Sumitomo Insurance and Cyleage Holding to support the cybersecurity of small and medium-sized companies.

Within this framework, SMBC Cyberfront and Mitsui Sumitomo Insurance each of which is approximately 3 million companies, are providing support for cyber security measures. In this context, we are considering providing our expertise, cyber security and BPO know-how.

In the first half of the fiscal year, the figures have not yet appeared, and we are wondering if they will come out a little in the second half. I think it will be in the next fiscal year and beyond, but I would also like to think about acquiring sales here.

This is a summary of the first half. In the first half of the fiscal year, sales and profits increased year on year. However, we believe that sales have not been achieved in relation to the performance forecast is an important issue. As I explained earlier, BPO we intend to halt the downward trend in sales of games to increase sales, and we will further deepen our relationships with existing customers to pick up the needs that we have not yet reached. We will also deepen our collaboration with the Change Group and take on enterprise-related sales, and we will acquire sales based on the moves described earlier in cyber security, and we will achieve the performance forecast in the second half of the fiscal year.

This will be our future growth strategy. First of all, it is about the domestic BPO marketplace. In BPO market, the market will continue to expand against the backdrop of corporate cost cutting, recruitment difficulties, and labor shortages.

In this environment, we will differentiate ourselves from our competitors. The first thing we need to do is AI. We intend to not only develop AI, but also strengthen our focus on AI and human resources, including their operation.

Until then, we had established a system in which development teams in the Information Systems Department were placed within the operations teams of the Centers, and development teams were able to proceed with development while confirming what was required in the field on a daily basis. In addition, there are companies within the Change Holdings Group that are engaged in the development of an AI called Governance Technologies. By strengthening their collaboration, we intend to advance the development of AI systems.

In developing this AI, I think that we have been able to realize synergies from forming a change group with regard to strengthening collaboration with Governance Technologies.



In other words, there is a difference in speed between talking to developers of AI outside the Group and discussing development with Governance Technologies within the Group.

The biggest thing is how well we understand the operations of our centers, so I think that we can develop a system that can be used in the workplace with considerable speed of development by holding regular meetings.

We will move into the field of enterprise-related digital BPO, and this is what we have been talking about for some time. By combining our expertise in digital BPO with the expertise in business DX that change has, we intend to develop BPO for large companies and public institutions.

By doing so, we hope to eliminate the labor shortage and the lack of know-how.

DX here is what we are saying. By providing efficient operations, we propose that where the customer had previously done with 10 people, we could do with 6 people and 5 people, and where we had spent ¥1 million, we could do with ¥0.5 million and ¥0.4 million, and we would like to take the work.

In the field of BPO, I would like to talk about new social issues, black work, and the next 1 or 2 months, but I would like to proceed with the creation of new services, proposals to customers, and solutions to deal with phishing fraud and the subsequent strengthening of compliance.

In the field of cyber security, the shortage of security personnel is conspicuous in Japan. Compared with those overseas, the U.S. says that 90% of them are insufficient, while in Japan, 90% are insufficient.

In response, we would like to resolve this shortage of security personnel through the kind of training and the provision of human resources that we mentioned earlier.

As for cyber-attacks in Japan, there are news reports about major personal information leaks almost every week, about once or twice a week, so I'm sure you all know that the number of attacks is increasing every year, and the number of arrests for cyber-crimes is also increasing. In this environment, the number of arrests for cyber-crimes is increasing. However, small and medium-sized companies and startups that cannot do anything about it on their own may not be able to spend money on this cybersecurity field, so we would like to focus on this area and provide security services to protect Japan's infrastructure and products developed in-house. I would like to focus on

this area and provide security services to protect Japan's infrastructure and products developed in-house.

In terms of the cyber security measures and environment of this small and medium-sized enterprise, this month's active cyber defense bill goes through the Diet, and even if a small or medium-sized enterprise is a small or medium-sized enterprise, it is within the supply chain of large corporations, and there is a possibility that their own systems will become the basis for a cyber-attack, so the government may be asking for measures at that time.

We are in a situation where we have to do something more, so I think there may be an extremely large business opportunity here. Targeting this point, we would like to provide consulting services, vulnerability diagnosis, and other services.

Regarding our future growth strategy. While organic growth will of course grow, we also intend to grow through M&A. For BPO, it's about developing SES, debugging, and AI.

In cybersecurity, we intend to provide services through M&A in areas that we have not been able to cover, such as vulnerability diagnostics, WAF, and consulting.

In terms of M&A, as I explained earlier, we are working to improve on-site operations using AI, so after M&A, we can incorporate our know-how into the company, and even for back-office BPO and sales support that are not fully covered by BPO and ,we can build a system that enables us to provide low-cost, high-quality services. I think that is, we can use this AI to improve on our operations.

This is a summary. In the area of cybersecurity, I would like to move with a view to consolidating industries so that we can provide comprehensive services that leverage our sophisticated analysis and response capabilities that combine AI and human knowledge.

To date, we have been conducting Internet monitoring, content checking, and risk management support. I hope that we can provide a wide range of services, from prevention of cyber-attacks to detection, subsequent response, and recovery, by taking advantage of this perspective.

In terms of synergy with change, DX know-how that change has, and since they are extremely good at M&A, we would like to leverage this know-how to deepen collaboration more than ever before to generate synergy.

In terms of developing AI, we intend to strengthen our efforts to automate and upgrade AI detection, monitoring, and the operation of hybrids between AI and human beings. We intend to utilize AI to make our internal operations more efficient. By doing so, we intend to improve our AI human resources and IT human resources.

Going forward, we intend to continue to grow while solving cyber security, labor shortages, and social issues. We will continue to promote our business to meet your expectations, and we would like to receive your continued support.

My explanation is the above. Thank you for your attention.

## **Q&A session**

Moderator [M]: Thank you very much for your explanation. Now we are entering the question-and-answer session. IR meeting, including the question-and-answer section, will be published in full.

Accordingly, please understand that if you use the company name and name when asking questions, it will be released as is. Now, if you have any questions, please raise your hands. The attendant will bring you a microphone. How is it?

Questioner [Q]: Thank you very much. I would like to hear about 2 points, 1 of which is to tell us the factors that caused sales to be a little lower than initially.

Second, what is the difference between social support and game support in different ways? In addition, I would appreciate it if you could tell me how the contribution to profits will change.

Sato [A]: Thank you very much. There are several factors behind the shortfall in sales. First, the biggest factor is that, as I mentioned earlier, we were unable to secure the human resources to manage the projects.

In addition, in order to respond to the need to operate at a relatively low cost, we are asking for a project in Vietnam. However, it also took a considerable amount of time to meet the security requirements that our customers wanted.

We had planned to start from the beginning of the fiscal year, but the fact that it started almost at the end of the first half of the fiscal year was the case, so I think that this was a major factor behind the shortfall in sales.

As for the difference between game support and social support, game support is the 1 that is included in BPO category and our support is for games.

Others are social support, which we envision. In terms of game support and social support, the profit margin does not differ so much, so the profit does not seem to increase due to the growth of either of them.

Moderator [M]: Do you have any other questions? Is that okay?

It seems that there are no questions. Therefore, we will conclude IR meeting for E-Guardian Co., Ltd. Thank you very much, Mr. Sato.

Sato [M]: Thank you very much.

Moderator [M]: Thank you very much for your participation. We ask for your cooperation in answering the questionnaire.

[End]

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*Footnote*

1. Described as [Voice Unclear] where the voice is obscure.
2. Conversation shows when [Q] is the question, [A] is the answer, and [M] is neither.