



E-Guardian Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending September 2024

May 17, 2024

Presentation

Moderator: As the scheduled time has arrived, we will now hold E-Guardian Inc.'s financial results briefing for the first half of the fiscal year ending September 2024. First, I would like to introduce two people from the Company. First, Mr. Yasuhisa Takatani, President and CEO.

Takatani: Hello.

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

Mizobe: Hello.

Moderator: Thank you. Mr. Takatani will give an explanation today, and we will have time for a question-and-answer session at the end. Please go ahead.

Takatani: I am Takatani from E-Guardian. Now, I would like to begin the financial results briefing. This is the flow that I would like to explain.

First, as an overall summary, the results for the first half of 2024 ended up falling short of the plan in terms of both operating profit and sales. Sales were 88% and operating profit was 92% of the plan.

Our business performance deteriorated, and we have not been able to make up for that much as the special demand work that we received during the coronavirus pandemic has ended. However, we have significantly strengthened our sales structure, and new orders are increasing, and profitability is improving due to cost control. We are beginning to see that our business performance has bottomed out and is heading toward a growth trend.

As for our growth strategy, we joined the group after receiving a TOB from CHANGE Holdings, and we are planning new developments, including BPO, cybersecurity, and security for local governments.

As for the results for the first half of the year, as I mentioned earlier, we have not achieved our goal. Overall, we have achieved about 90% of the plan.

On the other hand, if we look at the numbers by quarter, we see that after peaking in the second quarter of FY2023, there has been a slight downtrend, but sales and profits have been gradually improving in the first two quarters of this fiscal, and we can see that it is bottoming out, so I think this is a very positive trend.

Looking at the overall quarterly trends, what is noteworthy here is that the cybersecurity business has grown significantly. We have been focusing on support for Game support, Social support, Ad process, and online entertainment, but now cybersecurity has finally begun to grow in earnest.

As for the factors for the poor numbers, we were not able to cover the closing of various existing projects, and our profitability deteriorated somewhat in various ways, but as I explained earlier, the overall trend has been changing considerably.

Since the first-half results fell short of the plan, we have revised our full-year forecasts in light of this situation. Although it is very distressing that we have fallen short of our original plan, we are determined to achieve our goal by setting this as a minimum.

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Another major change is our dividend policy, which has been revised to JPY31 from the previous forecast of JPY27, based on a consolidated payout ratio of 30%.

And one more thing, the shareholder benefit program. We have established a new shareholder benefit program for the purpose of mid- to long-term shareholding. We have created a new shareholder benefit program under which QUO cards will be presented according to the number of years of shareholding, and those who have held the shares for less than one year receiving 5,000 yen and those who have held them for more than one year receiving 8,000 yen. As for our initiatives in the second half of the fiscal year, we have three major domains: Social support, Game support, and Ad process, and I believe that once again strengthening sales will be very important in all of them.

Regarding cybersecurity, we continue to develop security centered around our cybersecurity guru, Hiroshi Tokumaru. Also, as our collaboration with CHANGE Holdings progresses, we would like to further expand SiteGuard, which currently has the No.1 market share in WAF.

This is growth strategies. This explains what kind of development will be carried out in each of these projects. In the current market environment, the domestic BPO market is actually expanding steadily, and given the labor shortage in Japan, we expect this BPO market to continue to grow.

The service of Furusato Choice, which is provided by TRUSTBANK, Inc., a company operated by the CHANGE Holdings Group, which is our target, is also growing very rapidly, and the number of hometown tax (Furusato nozei) payments is growing steadily. If you look at the market, you can see that the target of our services, that is, the target of local governments, will definitely grow.

In the three domains of Game support, Social support, and Ad process, it is not only the entertainment market. I think that expanding our scope to enterprise BPO for companies will be a huge key.

Enterprise digital BPO is difficult for us to do on our own, so we are working together with CHANGE Holdings to develop this area. We would like to promote our business by combining the know-how we have cultivated in BPO with CHANGE Holdings's network for local governments. We believe that these are the kinds of synergies that will emerge.

CHANGE Holdings is connected to 96% of municipalities. Up until now entertainment was our only customer. However, including security services and business DX, we have created a trend whereby E-Guardian's BPO services and security services are increasingly being introduced to municipalities.

In the cybersecurity market, a very big problem nowadays is the increase in digital deficit. The digital deficit means that we are using foreign products and exporting digital products to foreign countries, and when we look at the number of imports and exports of these products, we see that they are being pushed more and more by foreign products, and the same is true of services. As a result, we have a very large deficit of JPY4.7 trillion.

If this situation continues, we are in a critical situation in which the digital industry will not be able to grow in Japan. I believe that what we can do in Japan is to create a market in Japan and firmly expand our business in Japan. I believe that this trend is absolutely necessary.

In the market environment, we are now seeing news of information security threats, such as ransomware and other attacks that exploit weaknesses in the supply chain, causing security incidents in various companies and resulting in a variety of losses.

It will be very necessary to respond to these supply chain risks, various security attack risks, and so on. I think this is the same environment worldwide.

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However, the shortage of security personnel is now a major problem in Japan. In the United States, education in computer science is actually more advanced, and many survey results indicate that there are enough security personnel.

If you look at Japan, you can see that there is an overwhelming shortage of IT security personnel in Japan, with 90% of the companies surveyed saying that there is a shortage or rather a shortage.

And now, his data on how many bad attacks are coming, there is a shortage of people and more attacks. This means that we are in the worst situation.

As for E-Guardian, regarding security, we will start by consulting with our clients, looking at their sites, diagnosing vulnerabilities, addressing weak areas, and providing solutions to fill in those weak areas.

We have a variety of training materials, including training for employees, and we aim to be able to do everything from security personnel training to service provision in a consistent manner.

And if it is done not only in the private sector but also with CHANGE Holdings, this kind of security can be provided not only for corporations but also for local governments. This means that E-Guardian will work together with CHANGE Holdings to provide a variety of services in areas where there are weak points in the supply chain, not just the security of a few top companies.

CHANGE Holdings has invested about 50% in us, and we have also established a company called CyLeague Holdings as an intermediate holding company.

This company aims to bring together members in the cybersecurity field. As security risks continue to expand in the future, CyLeague Holdings will acquire various companies to address security risks that will not be able to be dealt with by E-Guardian alone, and E-Guardian will do the same. We established this kind of company to provide comprehensive security and to lead the restructuring of the security industry.

I serve as the representative of E-Guardian and CyLeague Holdings, and we have already acquired called IdealRoute Consulting Inc. and we are currently studying various synergies.

Regarding our growth strategy, there are various layers of services, but at this stage we can only cover these five.

Since there is currently no player who can provide a one-stop service to fill these gaps, we would like to proactively carry out M&A on our own as E-Guardian and CyLeague Holdings.

Our goal is to become a company that can provide comprehensive Japanese-made security services by increasing our services, including acquisitions, in addition to our existing services.

Until now, we have been developing BPO and security for entertainment, which E-Guardian has cultivated over the years.

We would like to work together with CHANGE Holdings to create a company that can provide comprehensive cyber security services that can solve various social problems by combining CHANGE Holdings's various customer bases for local governments and financial institutions, and the diverse security professional we are acquiring in the future at CyLeague Holdings.

There are no companies in Japan that are doing this yet, and we would very much like to take such a position. That is all. Thank you very much for your attention.

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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, but since today's briefing is subject to full transcription, please do not identify yourself if you wish to remain anonymous. Also, there is a survey form available, so we would appreciate it so much if you would fill it out.

Now it is time for a Q&A. If you have any questions, please raise your hand and I will bring the microphone to you. Anyone?

Kakuta [Q]: Thank you for your explanation. My name is Kakuta from Fisco. I would like to ask a few questions about the enterprise BPO on page 22. Is this kind of enterprise work something your company has never done before, or is it something you have done on a small-scale, project-based basis?

Also, I don't have a clear picture of how it will essentially change as a business, like whether it is Social support segment or a Cyber security segment or something completely different, so please elaborate.

Takatani [A]: I understand. The founding members of CHANGE Holdings Group are actually a group of Accenture Japan Ltd graduates, all of whom were originally consultants. Looking at Accenture's current development, along with DX proposals for various companies, they are also proposing a set of BPO for cost reduction, and their BPO division is expanding very rapidly.

Since we had been focusing exclusively on entertainment companies, we had never considered this type of BPO for enterprises, so we had never done it at all.

As for the CHANGE Holdings Group, of course, even if they wanted to propose BPO, they don't have a unit that can do BPO, so they end up just consulting. They used to be limited to consulting proposals and needed to tell clients that they should find companies to handle BPO. However, since E-Guardian has a background in digital BPO, they are now able to expand the scope of their proposal as a CHANGE Holdings.

They can now propose DX for enterprise, or large companies, along with BPO. This is what CHANGE Holdings originally wanted to do, and we are now able to enter an area that we have not been able to enter at all.

However, the operations are actually very similar, and we are still using AI and people to make the work more labor-saving and accurate. Or we wake up and do things for 24 hours that we originally wanted to do 24 hours a day but couldn't. We will provide high quality service at an overwhelmingly lower cost than if they were to do it by themselves. This is the same as what we have been doing up until now, in the sense that it involves both people and systems.

As for which area is actually larger, the market for enterprise BPO is by far the largest. And the stability is different.

In the case of entertainment, the volume of BPO required depends on whether the content is popular or not. When it comes to enterprises, the DX-related work that large companies handle is stable as the business expands, so the numbers are accumulating very steadily. This is what we are aiming for with enterprise.

This may include call centers, various chat counters, inquiries, labor-saving in-house systems, payroll calculations, and many other things. We are thinking of a flow like this, in which we undertake the BPO operations of such general companies through CHANGE Holdings Group's consulting services.

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Kakuta [M]: Thank you.

Moderator [M]: Are there any other questions? Anyone? That concludes today's briefing. Thank you all very much. Thank you very much, everyone from the Company.

Takatani [M]: Thank you.

[END]

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