Taking the stage

Moderator: Hello everyone. Now that it's on time, we'll hold   IR meeting for E-Guardian Co., Ltd.

First of all, I would like to introduce you to one   who are welcoming from the company. President and Representative Director, Mr. Yasuhisa Takatani. Today, President Takatani will give a talk, and after the explanation, we will have a question and answer session. In addition, questionnaires are distributed to your hands. Please fill out this form and leave it on your desk when you leave.

I look forward to working with you, Mr. Takatani.

Takatani: I am Takatani, the representative director of E. Guardian, who made an introduction. Thank you very much for your cooperation. I would like to start by explaining the financial results for the fiscal year ending September 2024.

This is a summary of our overall business results for fiscal 2024. Unfortunately, the revised targets for both sales and operating income were not achieved. This is a reflection of the fact that we have not been able to provide the services we have been able to offer and expand as we expected.

However, as a whole, the factors behind the deterioration in business performance have improved considerably. I am confident that we are once again in a growth trend. 1 point is that the gross profit margin has improved, and the overall trend is that we have seen the figures later, but we have recovered the figures considerably in the latter half of the year.

In response to TOB by Change Holdings, we have joined a group. However, we will continue to build a foundation for the realization of mutual synergies. We intend to develop enterprise BPO and cybersecurity into new revenue streams.

As for the full-year results, the overall result was that as previously reported, sales and profits were a little short.

However, as a result of the quarterly trends, we have seen very little progress between 2022 years and 2023 years and 2024 years. In the fourth quarter of 2024, we have finally exceeded both sales and profits for the previous fiscal year.

This is based on the quarterly trends of each business, but we had been enthusiastic about supporting Japanese social games, such as game support, which has grown very strongly. On the other hand, we have been able to cover the downtrend of games through other businesses, such as the monitoring of posts, which are said to be social support, and the monitoring of CtoC, and the steadily expanding trend of cyber security. That's the situation.

Currently, we are making progress on measures to improve business performance. 1 of the most important things is to strengthen our sales structure. In our existing services, a variety of social game manufacturers have emerged and various projects have jumped into the market that we want to develop in Japan. However, we have adopted a solid sales system and a person responsible for strengthening our organization. Above all, Change Holdings itself is a consulting group from Accenture, and we are now in the process of enhancing our proposal capabilities by sharing the consulting know-how that lies within Change Groups.

In terms of improving profitability, there has been some talk that the gross profit margin has improved, but we are aiming to further streamline operations using AI, and we are aiming to strengthen sales and improve our earnings structure in the future.

In terms of initiatives with Change Group, there are various companies in Change Group, such as Trust Bank, which conducts "Furusato Choice". we are moving forward with the trend of transferring all other outsourced items to E-Guardian, and this is 1 of the business operations that occur within the Change Group.

Another is to provide change consulting services to our existing e-Guardian customers. This is what I am thinking about.

Regarding the second marketing initiative, we regret the fact that we had not devoted much effort to marketing, and at each Group company and E-Guardian, we will be responsible for the marketing specialist and will work to attract customers.

Third, in order to further expand our recruitment, we have to strengthen our recruitment, especially in the recruitment of security engineers. This means that we have to strengthen our recruitment to a great extent, and this has led to a recruitment team specializing in security engineers.

This is a full-year plan for 2025. The plan has been bullish, though we had achieved at least double-digit growth until 2023. However, we have not yet found any services that are rapidly growing, and we are working to rebuild the foundation. In terms of sales, compared to 2024, growth was positive at 8.5% and in terms of profits at 6.6%. We intend to return to a growth trajectory in 2025.

In terms of future initiatives, I think there are 3 axes. First of all, the current BPO business, TikTok that have already been announced by existing customers, and various EC fahams and Fintech are still areas of expansion. In gaming, the work of major gaming websites is also becoming a relationship in which people can work with us. We would like to increase these products in our established BPO areas.

And in terms of new initiatives, the digital BPO area for enterprise in the middle is 1 in which we have not worked so much or have not worked so far. Why can't this be done, we've been targeting customers in the Internet-based industries, such as gaming companies and companies that have created Web apps, and EC, but we've had very large customers, such as major financial institutions and very large manufacturers, among our customers.

Another Change Group has a customer platform that connects 97% of municipalities through "Hometown Choice". We are focusing on initiatives to create such enterprise BPO in conjunction with Change, which will be a major part of our future efforts.

Third, in the field of cyber security. EG Secure Solutions provides a variety of services. Together with Change Group, we intend to expand the cybersecurity business and expand it through M&A.

In terms of other future initiatives, I think that it is unlikely that we will be able to grow by removing AI at the moment. We are also creating things that will make our operations more efficient with AI, but there are also change companies that specialize in AI, and we will cooperate to improve AI of our systems. In other words, we are letting more and more AI do what people used to do, and people are supporting us to improve the quality of AI. Together, we will strengthen our human and AI systems as a differentiator for E-Guardian and build a highly profitable structure.

And that's our growth strategy. I think there are 3 things. The first is the expansion of businesses such as social support, the second is cyber security, and the third is the expansion of business domains through M&A.

In this market environment, Japan is overwhelmingly lacking labor and the number of workers is declining. The domestic market for BPO is growing steadily, although there are data from 2024 to 2027. Amid the labor shortage, the Company will improve efficiency by leaving such operations outside the Company. This trend cannot be stopped.

Within that BPO area, we have provided support for social support, the so-called Internet EC, Free market and Fintech services, all kinds of Internet services. Advertising reviews are the support for games, support for advertising, and advertising. We intend to continue to invest more aggressively in developing AI and to provide more competitive services. This will help us understand whether there are any illegal or illegal advertisements that are illegal or that are not in compliance with the law.

And another story about digital BPO for enterprise is that, as I mentioned earlier, we would like to develop our BPO services and plus security services in collaboration with large corporations and local governments that are connected to them, including e-Guardian's digital BPO know-how, the business DX where Change are being made, and know-how for various municipalities.

The Change Group is increasingly acquiring companies for services that can be used within local governments, and this includes the security of our E-Guardian, which is BPO of E-Guardian. In this way, we are now creating a trend where E-Guardian's customers are expanding rapidly, not only for Internet work, but also for large corporations and local governments.

And that's cyber security. In Japan, this is a comparison with the U.S. I think the most important issue is the shortage of security personnel, which is extremely noteworthy in Japan, and the problems are not even more serious than those in the U.S. and Europe.

Comparing Japan and the U.S., security personnel sufficiency is compared with the U.S. by country, but the shortage is 63% in Japan. In other words, there is a slight shortage of security personnel, which means that 90% of companies are lacking in security personnel.

In the case of the United States, only 8.5 percent are insufficient or somewhat insufficient. The reason for this difference is that in the U.S., there are a very large number of students who go into computer science and other fields. The university education system itself is different.

In the case of Japan, what about it? There are few students studying security in computer science. With the establishment of many new universities, we are now in an age where all kinds of diversified human resources go to universities, but we have not been able to keep up with the education in computer science.

And now, I think that the reason why Japan inevitably lags behind in dealing with these black-market jobs and various other problems is that the police and the defense sector have not been able to respond to cyber security, and I think that Japan is also in a very critical situation.

On the other hand, the number of cyber-attacks that are flooding Japan has been increasing dramatically every year, and we see a lot of information every day about various sites and services that have been shut down. In Japan, not only companies, but also the national and local governments are exposed to various security attacks.

Regarding the number of cybercrimes, the number of crimes that have been committed by cybercrimes has been increasing as the number of crimes that have been committed by such crimes has been increasing, regardless of national borders. Therefore, Japan has not been able to take measures to deal with such crimes.

On the other hand, where do we aim to expand our cybersecurity business? I am often asked this question. Large corporations can spend a lot of money on ta cybersecurity measures and well prepared, and they are also hiring people and doing it firmly. So for banks, so for major manufacturers. This is solid, but the problem is actually the small and medium-sized businesses, startups, and local governments down there. That's the weak point. In these areas, we have not been able to keep up with them at all.

Therefore, we will not target companies where large companies have plenty of money and various measures are already being taken. Rather, we will look at how mature security is for companies, companies, and local governments that have not yet established a system at all. We will develop optimal services and products in line with that. In Japan, we will create a company in Japan where Japanese companies protect security.

Regarding M&A, we have been developing various businesses in the digital BPO field, which I have explained. Within this digital BPO, we have created a service that has a certain level of proven track record and name, and we can calculate this by multiplying cybersecurity to provide a set of BPO and

cybersecurity. In response, we intend to increasingly supplement our companies with M&A activities that are still insufficient.

Looking at our growth strategy, we will continue to grow our existing businesses. In our BPO business, we will work on new enterprise BPO areas, and in cybersecurity, we will continue to build a foundation for accelerating growth. In our second initiative, we will work with the Change Group. Change Group has a large customer network of local governments base on "Furusato Choice". There are also transactions with various large corporations. We will develop these things together with E.-Guardian.

Third, through these types of M&A, we intend to further expand through M&A that seeks synergies.

In summary, while there has been a shortage of manpower, know-how, and various issues in cybersecurity, E-Guardian is working not only with E-Guardian, but also with Change Group to reorganize the cybersecurity industry. We are also developing AI to create synergies with Change Group's customers and drive them. We are thinking of developing to become a company that provides a broader range of comprehensive security for the Japanese Internet.

In this sense, I believe that the current fiscal year will be the first time that we can take advantage of our past reflections and take advantage of our synergies with Change Group. Therefore, we will work to achieve a further recovery and, from this point of view, E-Guardian will work to revive its business performance.

The explanation is as above. Thank you for your attention.

Q&A session

Moderator [M]: Thank you very much, Mr. Takatani. Now, we'll start a question-and-answer session. If you have any questions, please raise your hand. The attendant will bring you a microphone.

Questioner [Q]: Thank you very much for your explanation. Looking at trends by business segment on page 8, I think social support and cyber security are areas that are performing particularly well in the explanation, but I think that is the recovery trend, whether they have bottomed out or not.

Within this segment, I would like to see you tell us if there are any favorable services that are noteworthy.

Takatani [A]: First of all, in cyber security, the service that is growing the most is the service that is said to be the vulnerability diagnosis, and it is the service that diagnoses whether there is any vulnerability in the web application. Find various security holes in the form of a virtual attack.

As a precautionary measure, a wide range of companies are always doing this for large companies, and it is necessary for small and medium-sized companies to do it completely. The reason is that this type of vulnerability diagnosis is growing.

In terms of social support, we can see that there is an increase in the number of jobs around them, such as virtual transit, and that of the so-called CtoC free market. That's how it goes, and I think that's 1 of the most notable points.

Questioner [M]: Thank you very much. May I ask you 1 more question?

Takatani [M]: Of course.

Questioner [Q]: I think you mentioned on p. 14, that AI will continue to be used to streamline operations, but I think it has been used for a wide variety of texts, images, videos, and various types of monitoring. I'm sure you've been using AI for a wide variety of texts, images, videos, and various types of monitoring. Thank you very much.

Takatani [A]: AI is not perfect measure, so what we need for AI is to teach AI the answers we need, which in fact can encourage a very important AI to grow. It's hard to know if there are really illegal users in the video unless people teach them to AI.

Now, there is an increase in talks about video monitoring, video content, and real-time checks, so we are putting a lot of effort into developing AI that makes real-time decisions not only on texts but also on complex content, including videos and audio.

Nevertheless, because we cannot do things 100% automation by AI, we can grow our AI on both axes by having people judge things that cannot be judged on AI in real time and teaching them to AI about the good or bad.

I don't know what kind of services will come out in the future, but for example, black-market jobs are using various means to post things that can't be found, and they may also be asked by the police to do various investigations.

As I have just announced, the Consumer Affairs Agency has been working on research reports on various illegal/harmful advertising, so we would like to develop AI that can evolve not only human know-how but also AI, so that we can provide information from various countries, local governments, and companies in any way we can. We would like to develop a system that can evolve to provide information from various countries, local governments, and companies.

We do not think much of industry specialization or just here, and services are evolving more and more. Because bad people will evolve, we are working to make progress that will not be overwhelming.

Questioner [M]:Thank you very much.

Moderator [M]: So, if you have any other questions, what do you think?

Questioner [Q]: The top 2 companies account for 25%, so the top 2 companies are only in your company. Could you give us details about what services you evaluate and continue to be a customer?

Takatani [A]: We have been doing this business for 20 years, so we have a large database of risks that could arise from various illegal and harmful activities, criminal trends, and so on. Therefore, in the case of the people who are developing services, there is a request to work where a variety of know-how is gathered, rather than being managed by amateurs, so the first is the know-how that has been accumulated over 20 years and the depth of understanding of human resources' services. I wonder if you are evaluating these points and choosing them.

We have accumulated a lot of know-how that cannot be easily imitated overnight, so the reason why we have been receiving more and more requests from the government and other sources lately is that they expect us to hear about what kind of information you have accumulated, and I think that is what they appreciate.

Questioner [Q]: For example, if there is a person selling something like a super copy of Nike, can you expose it with your system?

Takatani [A]: It's about the content of the request with Mercari and various other things, and if we have something like that in the past, we can provide it to you, and of course we can share it with you, saying that this is a bad case, or that the same criminals are doing this kind of thing on other sites. Of course, we also share things like this.

We can't say that we are perfect, but of course we will do our best to find the level of super copy, which you can't understand unless you see it, because sometimes you can't understand it from pictures alone.

We are not an investigation organization, so we are unable to conduct a compulsory investigation so we cannot guarantee 100% because we have the ability to respond as much as possible. I think that's a difficult part, no matter who does it.

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

Questioner [Q]: Are there other major e-commerce companies that are likely to become customers? Or do you have any business negotiations at the moment?

Takatani [A]: I don't know. If you look only at free market site s , there are a variety of free market sites, and there are auction sites, so I think there are many. All of these areas are targets. We are not able to say that there is a transaction, so we are developing a variety of activities.

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

Questioner [Q]: Thank you very much for your explanation. There are 2 things I would like to ask about on page 28.

The first point was that we would like to strengthen cyber security in the future. If there are no talents in Japan, there are no personnel capable of carrying out the work. The first point was whether

we would strengthen the 2-pronged approach, i.e. to hire and train personnel, and to strengthen M&A.

The second point is that we will BPO propose cybersecurity to large corporations through our initiatives with Change Holdings. There were comments that we would like to strengthen our cybersecurity business to small and medium-sized corporations. However, for large corporations, please tell us whether or not we will develop them in all directions by dividing them into residences of your company.

Takatani [A]: In your first question, I think that it is necessary to hire a large number of new graduates and educate them, because there is no time to say how to solve the overwhelming labor shortage in cybersecurity by increasing the number of computer science at universities, so first thing we are going to do is to recruit a large number of new graduates and nurture them.

But that's not enough, so we decided to do M&A, so both, the answer is. It's both. Later, we will also hire mid-career employees. That's why we have to do everything in all directions, but in Japan we have few computer sciences, so this is a deal. There are only a limited number of people who want to work in security, so I'm thinking of going with education, M&A, and mid-career hiring.

Looking at the second question, I think that in the case of Change Group, digital BPO is a type of business like digital BPO that supports a variety of businesses, such as digital chat and e-mail, among banks, and that is among manufacturers. Among large companies, the points of contact with customers have changed considerably.

 We'd like to do this because we believe that it is more compatible to use AI or to use digital BPO as a part of the world that he has been doing so in LINE or needs digital support in a world where telephone know-how does not exist.

In the cyber security field, if small and medium-sized companies are weak after all, cyber security measures will not be possible. Therefore, we are working together with changes to create services for small and medium-sized enterprises, diagnostic services that we would like small and medium-sized enterprises to introduce, and services that support the security of various networks.

Questioner [M]: May ask one more additional point, is it all right?

Takatani [M]: Yes, of course.

Questioner [Q]: You will utilize M&A to increase the number of human resources who will be responsible for cyber security. In the first place, however, there are few human resources in Japan, so in the case of M&A, there are human resources capable of handling excellent cyber security overseas, such as those in the U.S., Singapore, and the UK, are you looking for the chance ofM&A with a view to such countries??

Takatani [A]: That's right. This service, including those overseas, is the same regardless of where it is done, so I think that cyber security must seek out human resources from all over the world.

Questioner [M]: Thank you very much.

Moderator [M]: So, if you have any other questions, what do you think?

Takeshita [Q]:Thank you very much for your kind explanation. My name is Takeshita from NEC Capital, and I will be participating for the first time. Thank you very much.

I would like to ask you three questions. I am afraid that this is the basic point, but as you may know, first of all, the deterioration in business performance on the fourth page is an improvement, but I would like to ask you to tell us what was the cause of this deterioration in business performance. This is historical story.

Takatani [A]: Performance deterioration is still a problem, and our commercial sales must expand the service provided by our customers. Since we are a BPO service provider, if customer's services don't grow, our business won't increase neither, so I think there have been a lot of cases where the services of our customers have been terminated or not grown, and I think this is one of the reasons why our business performance has deteriorated so much.

The fact that our games support service does not grow means that our customers' games industry does not grow. In short, our performance depends on customer's business situation. Takeshita [M]: That has been improved.

Takatani [A]: In this sense, such a situation has been sorted out to a certain extent and the game has fallen to the point where it falls, so it is clear that there will be a trend of new growth.

Takeshita [Q]:Thank you very much, I understand. Next, you have written the transition of sales by business on page 8. Could you disclose the operating income by business?

Takatani [A]: This is not disclosed.

I understand that, Takeshita [Q]: I think it would have been easier to understand what kind of business will be increased in the future if I know the profit margin.

In your explanation, you will work together with Change Group to expand your cyber security operations. At the moment, the sales figures are still small, but can I understand that you proceed cyber security business on the premise that there is large demand for the cyber security services.

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

Takeshita [Q]: In terms of earnings, it is not a business with a profit that is not that bad as it should be? Rather, is it better or more profitably, so would it be right?

Takatani [A]: It's not bad in terms of profits.

I understand Takeshita [Q]: It seems likely that the company will expand cyber security in these areas. There will also be demand, in the first place.

Takatani [A]: That's right, there is plenty of demand.

Takeshita [Q]: Ok, thank you. It may be overlapping with the questions mentioned earlier. This is the last question due to M&A, but it's 28 pages. M&A, I believe that it is not only cyber security, but also a wide range of personnel and other factors that will be considered in all directions as a business alliance.

Takatani [A]: Yes, we intend to cover our cyber security services widely. Beyond cybersecurity, it's very simple to say that we have a call center, a SES of web security, and a temporary staffing service.

Takeshita [M]: Thanks. That's all.

Moderator [M]: Do you have any other questions? Are you sure?

We have no questions, so we will finish IR meeting for E-Guardian Co., Ltd. Thank you very much, Mr. Takatani.

Takatani [M]:Thank you very much.

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

[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.*