Company Research and Analysis Report
FISCO Ltd.
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■Under stock business model sales and profits have grown continuously

eGuarantee guarantees against the risk involved in sales credits. The company follows a stock business model in which sales are the product of the balance of guarantees outstanding times the guarantee fee. eGuarantee has increased its sales and profits every year since its establishment. The credit risk guarantee business continues to expand, as does the balance of the company's guarantees outstanding, an important measure of growth. At the end of December 2012, the balance stood at ¥181.3bn, which was 15% more than the balance a year earlier. This growth in the balance of guarantees outstanding reflected two factors; 1) an increase in credit risk guarantees in the low-risk market, i.e., for large companies with strong credit, a market eGuarantee has been pursuing aggressively the past couple of years, and 2) an increase in the company's sales channels.

In the first three quarters of the fiscal year through March 2013, i.e., in Q1-Q3 FY3/13, the company earned 83% of the operating profit it projected for all of FY3/13, whereas in the previous three fiscal years, it averaged 75% of projected full-year profit in the first three quarters. In Q4 FY3/13, its market environment has not changed significantly, nor has it incurred unexpected costs. Thus, we expect the company's operating profit to grow by more than 20% year-on-year (y-o-y) in FY3/13.

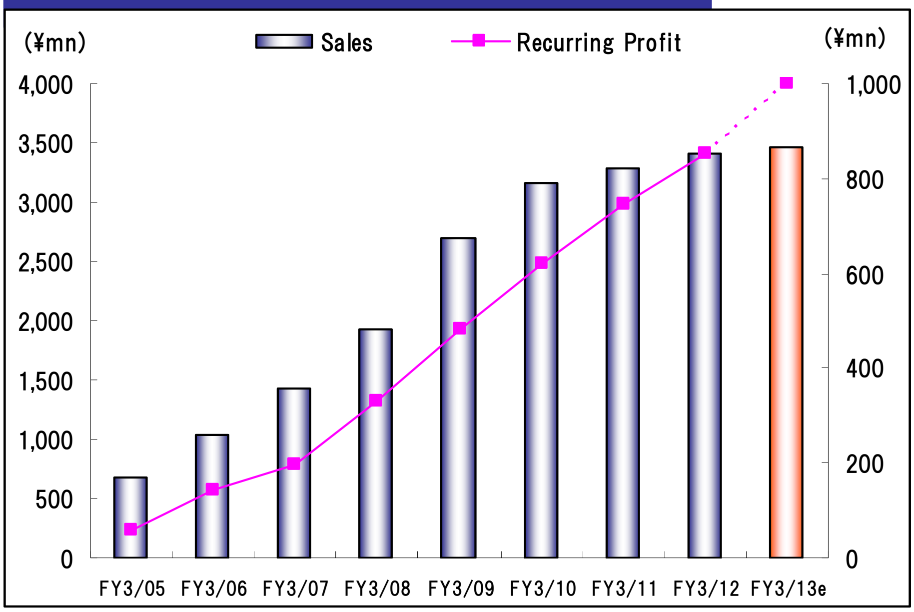
We expect eGuarantee to continue to increase its sales and profits in coming fiscal years. The SME Finance Facilitation Act expires at the end of March 2013, so the number of corporate bankruptcies may increase. However, the awareness of Japanese companies about credit risk guarantee services remains low, and eGuarantee should be able to acquire new customers through introductions by financial institutions with which it has business ties. Therefore, we foresee an increase in demand for its services. As the company diversifies its methods of transferring guarantees, it plans to strengthen its ability to underwrite them with the aim of selling more securitized products to investment funds, even high-risk products. To stabilize profitability, the company intends to strengthen its peripheral services, such as the re-insurance of credits held by affiliated financial institutions and guaranteeing export sales credit. The company intends to expand its profits, with the goal of achieving an operating profit margin of more than 20%. It would also consider strategic equity ties with other companies, mergers and acquisitions, if it considered such actions necessary to expand its business of underwriting and transferring credit guarantees.

On March 1, 2013, the company executed a 2 – for – 1 stock split, and it has announced that it will increase its dividend per share to ¥17.5 for FY3/13, from ¥12.5 for FY3/12 after adjusting for the stock split, for the fourth year in a row of dividend increases. It has also announced that it will begin a shareholder gift program in FY3/13, awarding each shareholder a Quo card worth ¥1,500.

■Check Points

- As the only listed company in Japan guaranteeing credit risk, eGuarantee is expanding its business
- Japan's market for corporate credit is about ¥200trn per year
- Having achieved 83% of the operating profit projected for FY3/13 in H1, the company is likely to exceed its forecast

eGuarantee's Consolidated Sales and Recurring Profit (¥mn), FY3/05-FY3/13E



Notes: Results through FY3/08 are non-consolidated, forecasts for FY3/13 are by eGuarantee

■Company Profile

As the only listed company in Japan guaranteeing credit risk, eGuarantee is expanding its business

Company History

In September 2000, during his third year as an employee of Itochu Corp. (8001), Mr. Masanori Eto, the president and CEO of eGuarantee, established the company as a subsidiary of Itochu Corp. Originally, eGuarantee intended to provide hedges against uncollectible sales credits (promissory notes, receivables, etc.) generated through business-to-business transactions over the Internet. However, the demand for this service proved weaker than had been expected. Therefore, the company reoriented its service toward guaranteeing sales credits generated through real transactions among businesses.

■Company Profile

In 2000, no other company in Japan guaranteed credit risk arising from transactions among private companies. Even in the US, only credit risk arising from the issuance of government debt and public corporate bonds was guaranteed. However, eGuarantee was certain that demand existed among Japanese companies for hedging against the risk of credit default, particularly among small and medium-sized companies. Therefore, the company targeted small and medium-sized companies to expand its business.

As eGuarantee was the pioneer in this service, its business grew rapidly, and its sales and profits have increased each year it has been in business. In March 2007, the company listed its shares on the JASDAQ exchange, and in December 2012, it listed its shares on the First Section of the Tokyo Stock Exchange. In 2008, it set up its first fund to invest in corporate credit and, through a subsidiary, sought investors in the fund. Until this fund was established, eGuarantee had packaged its guarantees according to the degree of risk and sold these packages to financial institutions and investment funds. By establishing its own fund to invest in corporate credit, the company diversified its opportunity for profit and increased the amount of credit it underwrote. eGuarantee now manages two such low-risk funds.

eGuarantee gradually established offices outside Tokyo and cemented sales agreements with regional banks and leasing companies through which these partner companies introduced their customers to eGuarantee to use its services. Regional banks do not assume credit risk, but they improve their customer service by introducing customers to eGuarantee.

In January 2012, eGuarantee bought the Japanese factoring business of the Coface Group, a large French credit guarantee organization. This business possessed expertise in guaranteeing credit arising from export sales, and its purchase expanded the management base of eGuarantee and improved its ability to develop new products.

In April 2012, eGuarantee set up DS Acceptance Co., a joint venture with NEC Capital Solutions, in which eGuarantee took a 34% stake. DS Acceptance underwrites, buys and securitizes electronically recorded credits. Since Japan’s Electronically Recorded Monetary Claims Act took effect in 2008, individual banks have gradually adopted the electronic recording of their credits. In February 2013, Densai.net., Ltd. started operations, enabling all financial institutions in Japan to electronically record their credits, and they are expected to do so rapidly.

Note: Densai.net., Ltd. is a wholly-owned subsidiary of the Japanese Bankers Association, established in June 2010 to electronically record and distribute bank credit. This company is an infrastructure organization for electronically recorded credits, which are a new type of monetary credit that overcomes problems affiliated with sales credits (promissory notes, receivables, etc.). By using Densai.net., Ltd., banks eliminate the risk of losses on promissory notes and problems arising from a duplication of credit. The network simply facilitates the sending and receiving of information and is unimpaired by costs such as bank transfer fees and stamp revenue fees.

■Company Profile

Company History	
Sep-00	Established as a subsidiary of Itochu Corp.' s financial, real estate, insurance and distribution company to guarantee financial credit held by factoring companies, mainly as a result of the settlement of electronic commercial transactions.
Nov-01	Started offering a comprehensive guarantee service to non-financial companies through which it guaranteed the sales credit accumulated by companies in their normal course of business.
Feb-04	Started offering an individual guarantee service through which it guaranteed the sales credit accumulated by a single company.
Aug-04	Started a full-scale guarantee service for financial companies other than factoring companies.
Apr-05	Opened a branch office in Osaka.
May-06	Moved the main office in Tokyo to Ebisu Garden Place Tower.
Mar-07	Listed shares on the JASDAQ Securities Exchange.
May-07	Opened a branch office in Kyushu.
Dec-07	Opened a branch office in Nagoya.
Aug-08	Established Credit Creation 1, the company' s first fund for investment in corporate credit risk.
Sep-09	Started the service of purchasing corporate promissory notes to assist companies to obtain funds.
Nov-09	Established Credit Investment 1, the company' s second fund for investment in corporate credit risk.
Jul-11	Opened a branch office in Hokkaido.
Aug-11	Opened an office in Okayama.
Dec-11	Listed shares on the Second Section of the Tokyo Stock Exchange.
Jan-12	Purchased part of the Japanese business of a leading French credit guarantee group.
Apr-12	Established DS Acceptance Co., a joint venture with NEC Capital Solutions. This joint venture purchases electronically registered credits at a discount and engages in factoring and securitization.
Dec-12	Listed shares on the First Section of the Tokyo Stock Exchange.

Increasing the balance of guarantees outstanding is the key to stable growth

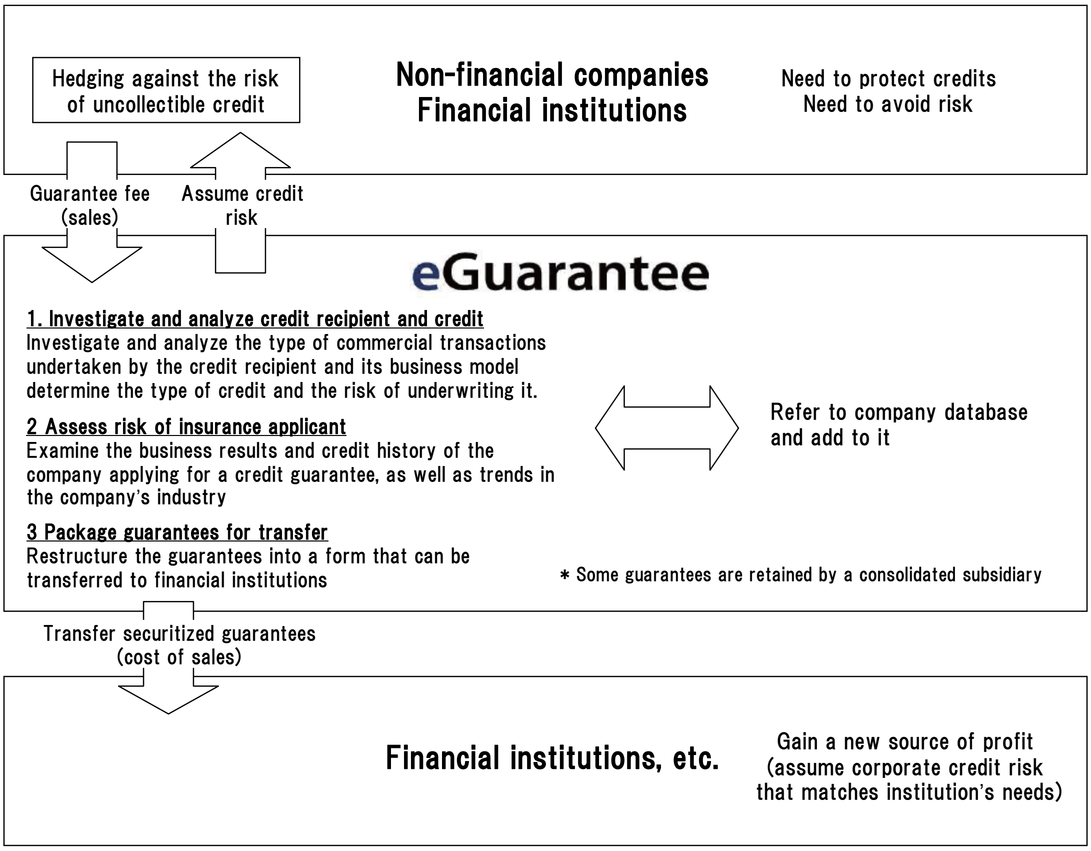
Description of Businesses

eGuarantee' s main business is insuring against the sales credit risk arising through transactions among companies. This business is illustrated graphically below.

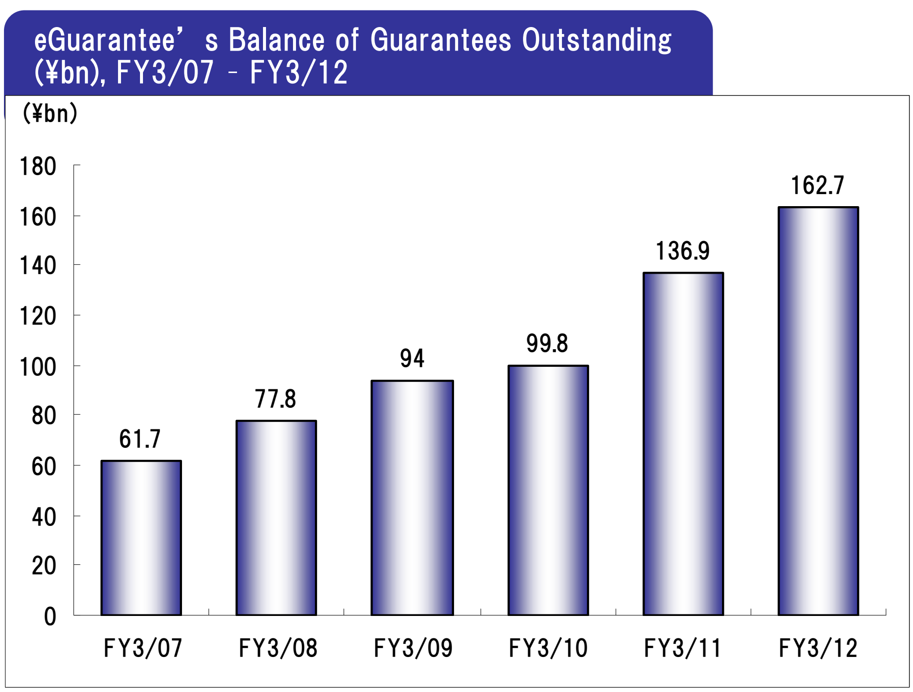
First, eGuarantee and its customer company sign a contract by which eGuarantee promises to pay to the customer a fixed amount to compensate for a sales credit if it should become irrecoverable. By paying an insurance fee to eGuarantee, the customer company minimizes its risk of loss from an irrecoverable sales credit. In other words, the contract is a risk hedge for the customer company. A contract is effective for one year, and the customer company pays the insurance fee to eGuarantee in equal monthly installments, so eGuarantee' s sales are not subject to seasonal fluctuation.

As eGuarantee ' s sales are the product of its balance of guarantees outstanding times its guarantee fee, the company follows a stock business model. Its guarantee fee does not change much, so the main determinant of sales is the balance of guarantees outstanding. As shown in the bar chart below, this balance has risen steadily, reaching ¥162.7bn at the end of March 2012 and supporting sales and profit growth.

■Company Profile



Source: compiled by Fisco from financial statements of eGuarantee



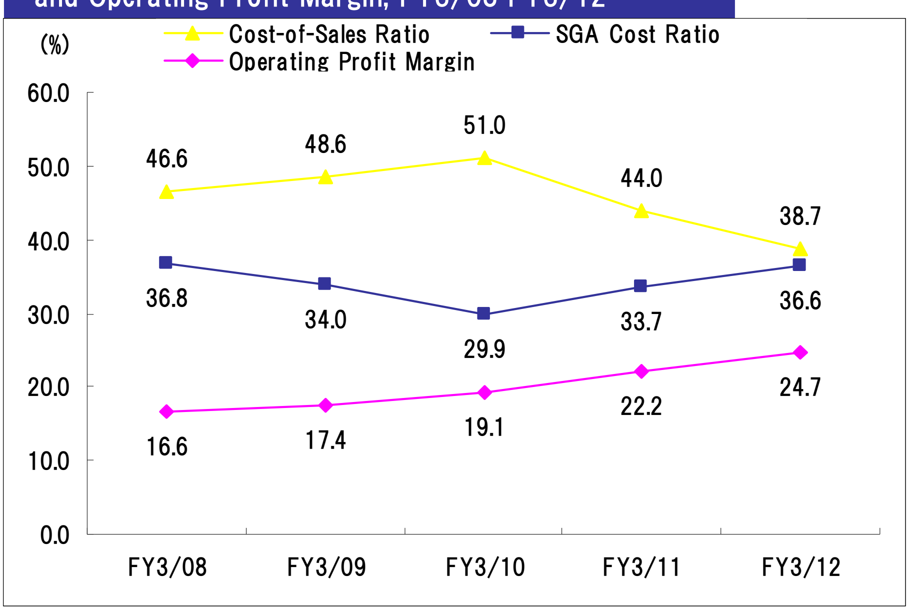
■Company Profile

eGuarantee's guarantee fee changes somewhat by contract, depending on the risk of recoverability and the guarantee amount. This fee is set based on the results of eGuarantee's investigations and analyses of the company receiving the credit, the company seeking a guarantee, and the credit itself. Furthermore, the guarantee fee is revised monthly to reflect recent changes in economic conditions, including the number of bankruptcies, and the impact of such changes on the rate of recoverability in the past. When the number of corporate bankruptcies trends upward, credit risk rises, and the company's guarantee fee tends to rise. eGuarantee is not bound by industry practice in setting its guarantee fee, but must set a fee commensurate with the risk hedge sought by a potential customer if it wants to conclude a contract.

eGuarantee packages its guarantees according to risk so it can transfer them to other companies, depending on their appetite for risk. Low-risk products are generally transferred to insurance companies and other more conservative investors. High-risk products are generally transferred to fund management companies and similar investors seeking high returns. eGuarantee pays guarantee fees and commissions to the companies that accept its guarantee packages. These fees and commissions constitute the bulk of eGuarantee's cost of sales.

Therefore, eGuarantee's cost-of-sales ratio depends mainly on the gap between the guarantee fee it receives and the guarantee fee it pays to companies to accept its guarantee packages. Since 2008, eGuarantee's investment subsidiary has been managing a fund that invests in the company's products, while eGuarantee has been diversifying and upgrading its methods of guarantee transfer. Therefore, its cost-of-sales ratio has been declining since FY3/10. At the end of FY3/12, eGuarantee's investment subsidiary managed about 9% of eGuarantee's credit guarantees outstanding, all of them low-risk. By transferring guarantees to this subsidiary, eGuarantee limits its payments to investors outside its group.

eGuarantee's Cost-of-Sales Ratio, SGA Cost Ratio and Operating Profit Margin, FY3/08-FY3/12



■Company Profile

Thousands of customers, for whom it guarantees the credit risk of several tens of thousands of business partners

Sales by Product

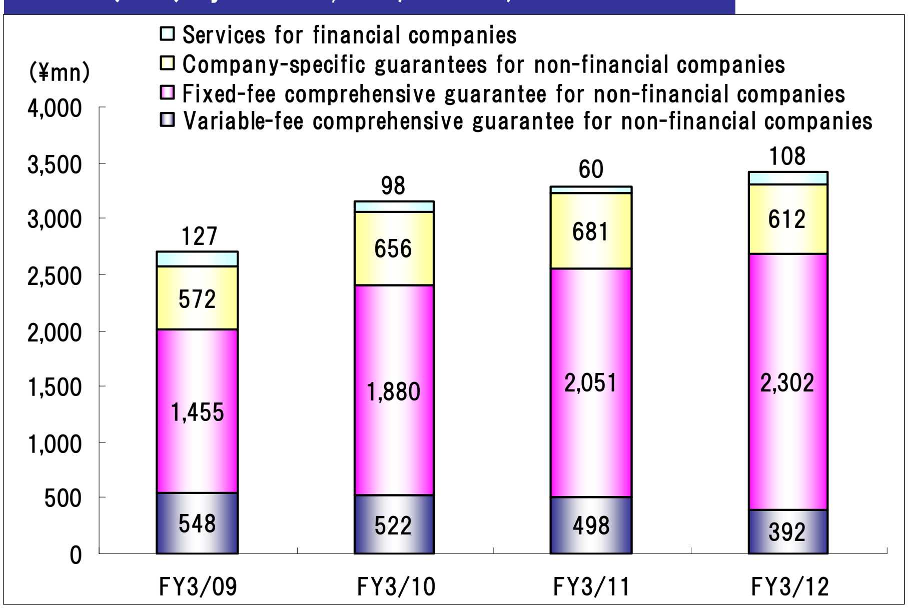
eGuarantee reports its sales according to four product categories that depend on the type of customer and the type of contract. For non-financial companies, eGuarantee offers a comprehensive guarantee and a company-specific guarantee. The comprehensive guarantee covers the credit risk of 10 or more companies with whom the customer company does business. The companies whose credit risk is covered may be ranked in a number of ways, including by sales and by transaction terms. Thus, comprehensive guarantees allow a customer company to disperse the credit risk of many of its business partners at a much lower cost than guaranteeing the credit risk of each partner separately. Comprehensive guarantees also allow the customer company to curtail its cost of managing the creditworthiness of its business partners.

eGuarantee offers two types of comprehensive guarantees. In one type, eGuarantee's fee is the sum of separate guarantee fees for each business partner of the customer company, which varies with the monthly sales of the business partner. This type of guarantee is attractive for customer companies whose business partners' sales vary significantly by season. The other type of comprehensive guarantee sets a fixed annual fee, regardless of the transaction amount between a customer and its business partners. This latter type has become the main product category, accounting for 67% of total sales in FY3/12.

The company-specific guarantee for non-financial companies, as the name implies, applies to a single business partner of a customer company and charges a fixed fee. eGuarantee also underwrites the credit risk of claims held by financial companies. For example, it re-insures credits for financial institutions. It also underwrites the credit risk of advance payment credit arising in the course of providing such financial services as claim securitization and of other financial claims.

eGuarantee currently has several thousand customers, for whom it guarantees the credit risk of several tens of thousands of business partners.

Sales (¥mn) by Product, FY3/08-FY3/12



■Company Profile

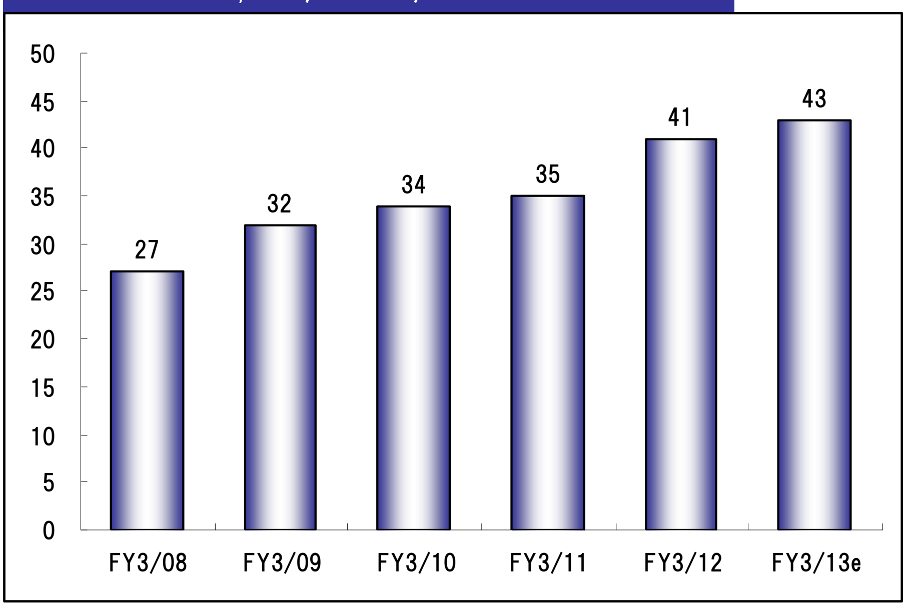
Itochu Corp. remains the top shareholder in eGuarantee, with a 25.3% stake. However, eGuarantee does not depend heavily on Itochu Corp. for sales. In FY3/12, eGuarantee derived 7.8% of its sales from Itochu Corp., and in the five fiscal years through FY3/12, eGuarantee obtained 6-8% of its sales from Itochu Corp. The third-largest shareholder in eGuarantee is Teikoku Databank, with a 7.1% stake. When eGuarantee was established, Teikoku Databank was an initial investor and provided eGuarantee with training in mining data from company information. This training enabled eGuarantee to develop expertise in risk analysis. However, Teikoku Databank does not exert any management influence on eGuarantee.

Business ties with 43 regional banks, which serve many smaller companies

Operational Structure

In addition to its head office in Tokyo, eGuarantee has branch offices and a regular office in Osaka, Fukuoka, Aichi, Hokkaido and Okayama. The company has no plan to expand this network in the near term. However, to gain customers from parts of Japan distant from its offices, eGuarantee has entered business alliances with 43 regional banks, leasing companies, other financial companies, and trading companies. These business partners introduce their clients to eGuarantee as potential customers. Thus, eGuarantee can effectively offer its services in all of the important business centers in Japan.

Number of Regional Banks with Business Alliances with eGuarantee, FY3/08-FY3/13E



FISCO

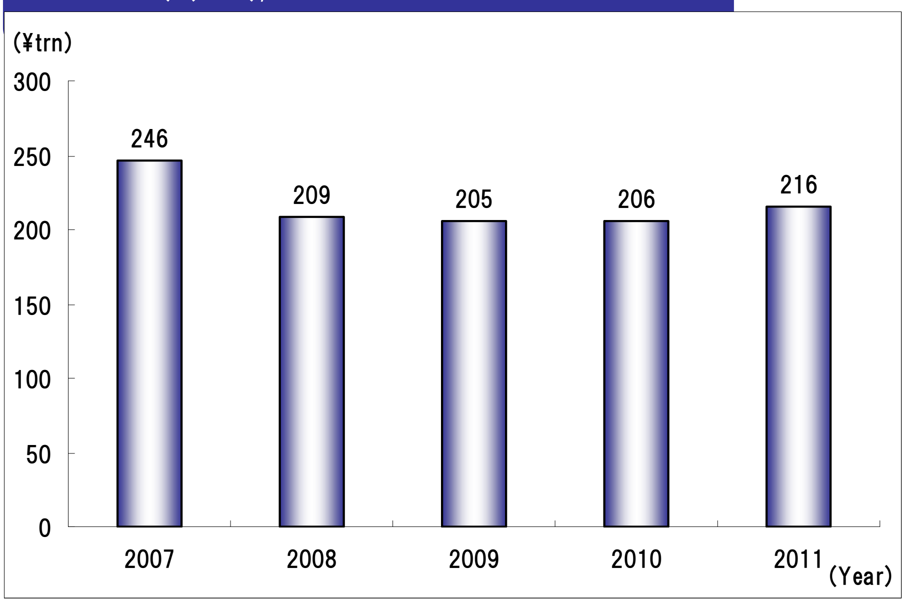
Japan's market for corporate sales credit has remained about ¥200 trillion, offering great growth potential for credit guarantee business

Market Size and Competition

The Japanese market for corporate sales credit is approximately ¥200 trillion. It has remained about this size for the past several years as deflation has eroded economic growth. Not all of this credit requires guarantees, but the credit guarantee business still has ample room to grow.

Some subsidiaries of large trading companies guarantee sales credit, but practically no company, other than eGuarantee, specializes in such guarantees. Potential competitors would have to master credit risk management and portfolio structuring to enter the business, which would take time. Thus, over the near term, eGuarantee is poised to reap the profits of a frontrunner in a growing market.

Corporate Sales Credit (Notes and Accounts Receivable) (¥trn), FY2007-2011

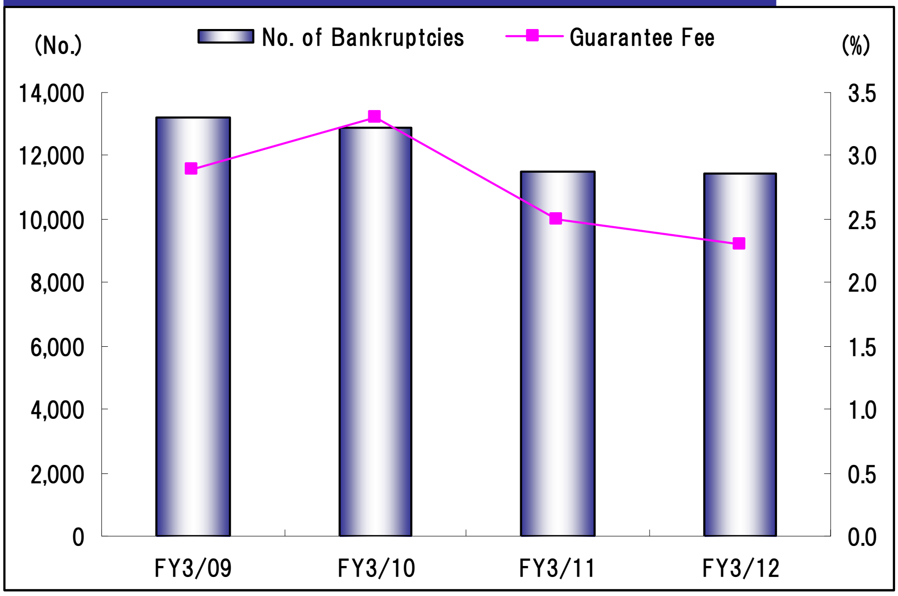


Source: Ministry of Finance, Financial Statements Statistics of Corporations by Industry

As noted earlier, the guarantee fee charged by eGuarantee depends partly on the trend of corporate bankruptcies. As shown in the chart below, the number of significant corporate bankruptcies has been declining since FY3/09. This decline is at least partially attributable to a number of legal measures taken to protect debtors, such as the SME Finance Facilitation Act, which took effect in December 2009. However, this act expired in March 2013. Therefore, the number of bankruptcies may rise in the future.

■Company Profile

Number of Significant Corporate Bankruptcies and Guarantee Fee Charged by eGuarantee, FY3/09-FY3/12



Sources: Teikoku Databank for bankruptcies
guarantee fee calculated by dividing sales by average balance of guarantees outstanding

If the guarantee fee charged by eGuarantee rises with an increase in the number of corporate bankruptcies, this would contribute to sales growth for eGuarantee. During a period of rising corporate bankruptcies, eGuarantee would probably also conclude more contracts for guarantees. However, it may also have to pay a larger guarantee fee to financial institutions and funds to accept packaged guarantees during such a period. It is difficult to determine which factor would have the greatest impact on eGuarantee's profits. As shown in the graph above, eGuarantee's average guarantee fee rose in FY3/09, the year of the Lehman shock, and in FY3/10, supporting sales growth of 40.0% y-o-y and 16.8% y-o-y, respectively, and operating profit growth of 46.9% y-o-y and 28.3% y-o-y.

■Business Trends

Balance of guarantees outstanding grew, supporting sales growth and large profit rises

Q1-Q3 FY3/13 Results

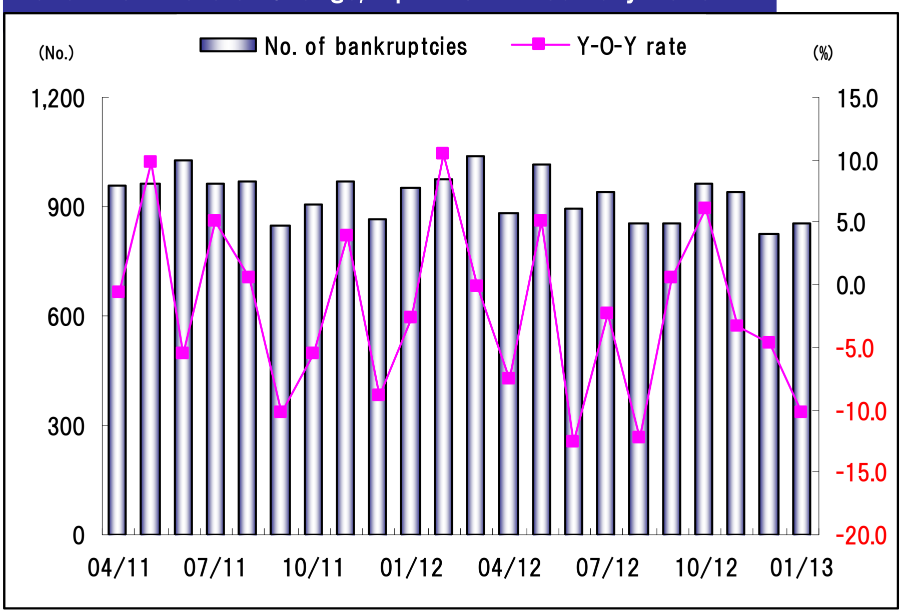
On January 30, 2013, eGuarantee announced its results in the first three quarters of FY3/13, i.e., in Q1-Q3 FY3/13. Sales grew 5.9% y-o-y to ¥2,703mn, operating profit rose 27.2% to ¥813mn, recurring profit increased 27.5% to ¥825mn, and net profit advanced 35.9% to ¥453mn.

■Business Trends

Although the number of corporate bankruptcies continued to decline in Q1-Q3 FY3/13, a prospective upturn in bankruptcies became more likely. Thus, the company concluded more low-risk guarantee contracts with large companies and attracted more customers outside Tokyo by expanding its sales routes in rural areas. These achievements led to a 15% y-o-y rise in the company' s balance of guarantees outstanding to ¥181.2bn at the end of Q3 FY3/13, and the increase in this balance supported sales and profit growth. Sales to non-financial companies grew 5.9% y-o-y to ¥2,615mn, and sales to financial companies increased 4.2% y-o-y to ¥87mn. By diversifying and advancing its methods of transferring guarantees to other companies, the company lowered its transfer cost, the main component of its cost of sales. Therefore, its operating profit margin rose by 5.1 percentage points y-o-y to 30.1%

Even though only two of the regional banks with which eGuarantee has concluded business alliances have presented new customers to eGuarantee, the company claims that these alliances have been more successful than expected in generating new customers. Hereafter, eGuarantee plans to exchange more of its personnel with personnel from its alliance partners, thereby increasing the number of new customers. However, eGuarantee does not aim to rapidly increase the number of its customers because it does not have enough personnel qualified to appraise risk accurately. Therefore, the company plans to expand his staff of about 100 employees now by hiring about 10 recent college graduates each year. To accommodate expansion, the company plans to move into a larger head office in July 2013.

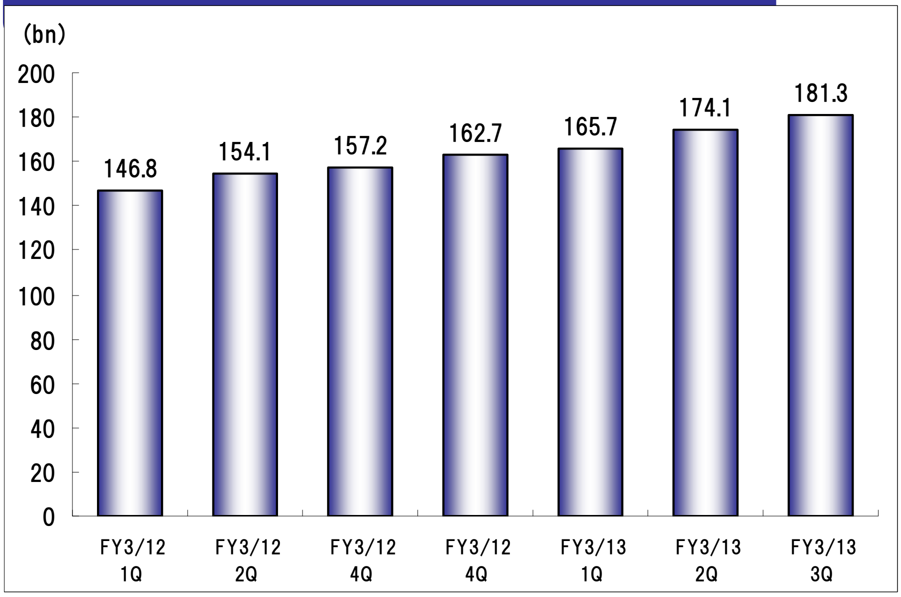
Chart title: Monthly Number of Significant Bankruptcies and Y-OY Rate of Change, April 2011- February 2013



Source: Teikoku Databank

■Business Trends

Balance (¥bn) of eGuarantee's Guarantees Outstanding, Q1 FY3/12 - Q3 FY3/13



Source: Financial statements for eGuarantee

Consolidated Income Statement (¥mn) for eGuarantee, Q1-Q3 FY3/12 and Q1-Q3 FY3/13

	Q1-Q3 FY3/12	Q1-Q3 FY3/13	y-o-y	Contributing factor
Sales	2,553	2,703	5.9	Rise in balance of guarantees outstanding
Cost of sales	987	946	-	Diversification and advance of guarantee transfer methods
Cost-of-sales ratio	38.7	35.0	-	
SGA cost	927	943	-	Sales grew faster than SGA cost
SGA cost ratio	36.3	34.9	-	
Operating profit	639	813	27.2	OP margin rose up around 30%
Margin	25.0	30.1	-	
Recurring profit	647	825	27.5	
Margin	25.4	30.5	-	
Net profit	333	453	35.9	Effective tax rate fell
Margin	13.1	16.8	-	

■Business Trends

Likely to exceed profit forecasts

Company Forecasts for FY3/13

For FY3/13, the company projects sales of ¥3,640mn, up 6.5& y-o-y, operating profit of ¥980mn, up 16.3%, recurring profit of ¥1,000mn, up 17.0%, and net profit of ¥530mn, up 13.1%. These were the company's original forecasts at the start of FY3/13, and the company has not raised its forecasts even though in Q1-Q3 FY3/13, it earned 83.0% of the operating profit it projects for FY3/13, whereas in the previous three fiscal years, it averaged 75.5% of projected full-year profit in the first three quarters.

As stated earlier, eGuarantee's business is not seasonal, and in Q4 FY3/13, its market environment has not changed significantly, while its balance of outstanding guarantees has continued to grow. Thus, we expect the company's sales in FY3/13 to be close to the company forecast, but we see operating profit exceeding the company forecast by about ¥100mn.

On March 1, 2013, the company executed a 2 – for – 1 stock split, and it has announced that it will increase its dividend per share to ¥17.5 for FY3/13, from ¥12.5 for FY3/12 after adjusting for the stock split, for a fourth straight year of dividend increases.

Quite profitable and financially stable

Financial Condition

As detailed in the consolidated balance sheet below, eGuarantee's business is quite profitable and financially stable. Total assets at the end of Q3 FY3/13 were ¥894mn larger than they had been at the end of FY3/12. Accompanying a steady increase in its balance of guarantees outstanding, the company increased its advance payments by ¥409mn, and as its profits grew, it increased its long-term investments by ¥330mn. These two factors accounted for the bulk of the increase in total assets.

Under liabilities, having previously been debt-free, the company took on ¥296mn of long-term debt to honor a commitment to its employee stock option plan. Even so, its debt-equity ratio was less than 10%. For the employee stock option plan, the company also bought ¥284mn of its own stock. At the end of October 2012, subsidiary Credit Link Fund #1 (formerly Credit Creation #1) increased its capital, raising minority interest in eGuarantee by ¥451mn.

■Business Trends

Consolidated Balance Sheet (¥mn)
FY3/11 - Q3 FY3/13

	FY3/11	FY3/12	FY3/13 3Q	Contributing factor
Current assets	4,778	5,874	6,506	Advance payments rose by ¥409mn accompanying increase in guarantee balance
Cash and deposits	4,293	4,617	4,742	
Fixed assets	782	757	1,018	Investment securities rose by¥330mn
Total assets	5,561	6,631	7,525	
Current liabilities	2,385	2,282	2,409	
Advances received	1,795	1,833	1,829	
Fixed liabilities	63	65	312	
Interest-bearing debt	0	0	296	Acquired to establish employee stock option plan
Total liabilities	2,449	2,348	2,721	
Shareholders’ Equity	2,540	3,667	3,738	
Common stock	1,048	1,418	1,432	
Additional paid-in capital	458	828	842	
Retained earnings	1,033	1,421	1,748	Net profit increased
Treasury stock	0	-0	-284	Acquired for employee stock option plan
Appraisal of securities				
Minority interest and equity warrants	571	615	1,065	Minority interest rose by ¥451mn with capital increase
Total equity	3,112	4,283	4,804	
Total liabilities and equity	5,561	6,631	7,525	
Financial Security Ratios				
Current ratio	200.3%	257.4%	270.1%	
Equity ratio	45.7%	55.3%	49.7%	
Debt-equity ratio	-	-	7.9%	
Profitability Ratios				
Return on assets	14.3%	14.0%	-	
Return on equity	18.2%	15.1%	-	
Operating profit margin	22.2%	24.7%	30.1%	

Notes: ROA and ROE for Q3 FY3/13 have been omitted

■Long-term Strategy

With monopoly in a growth market, business should continue to grow

As pointed out previously, the Japanese market for guaranteeing corporate credit is only about 10 years old and is in the rapid-growth stage of development. To take advantage of its practical monopoly in this market, eGuarantee is pursuing a long-term growth strategy with three main objectives: to expand its sales network, to diversify and expand the scale of its instruments guaranteed, and to elevate its expertise and improve its market function. Given the conditions of the market now, eGuarantee is likely to continue to grow over the near term. A more detailed explanation of the company’s long-term strategy follows.

■Long-term Strategy

Currently, the company has three main strategic objectives: to increase its underwriting capability, to expand its underwriting of export credits, and to strengthen services related to credit guarantee.

Long-term Strategy

Expand sales network

Promote alliances with regional financial institutions and influential companies that are mutually beneficial for sales with the goals of building a nationwide sales network and strengthening sales.

Strengthen business ties with large financial institutions and use their brand strength to increase business

Diversify and expand the scale of instruments guaranteed

Increase the type of credit guaranteed beyond sales credit. For example, for each customer, offer a range of prices for guarantees depending on the risk of a credit. Also, underwrite more high-risk credits, more long-term credits, and instruments other than claims and obligations.

For financial institutions, optimize exposure to credit risk while keeping a close eye on Basel Capital Accord and their response to IFRS. Also, underwrite claim securitizations and re-insure credits for financial institutions.

Engage in strategic equity ties, mergers and acquisitions if they are deemed necessary to expand business.

Elevate expertise and improve market function

Aim to become a specialist in underwriting and securitizing complex products that are difficult for financial institutions to underwrite. To do so, strengthen the ability to investigate and analyze risk and refine other components of the business practice, such as underwriting and securitization. Expand the underwriting of risk products by developing advanced risk-analysis capability and becoming able to control risk. This requires the development of highly specialized employees with ample experience.

Apply ability to analyze credit and experience in guaranteeing credit to repackage guarantees into new products according to risk that fit the needs of a wide range of financial institutions to improve market function.

Develop new products that respond to the risk in new business fields related to credit guarantee and market these products to a wider range of clients than currently served.

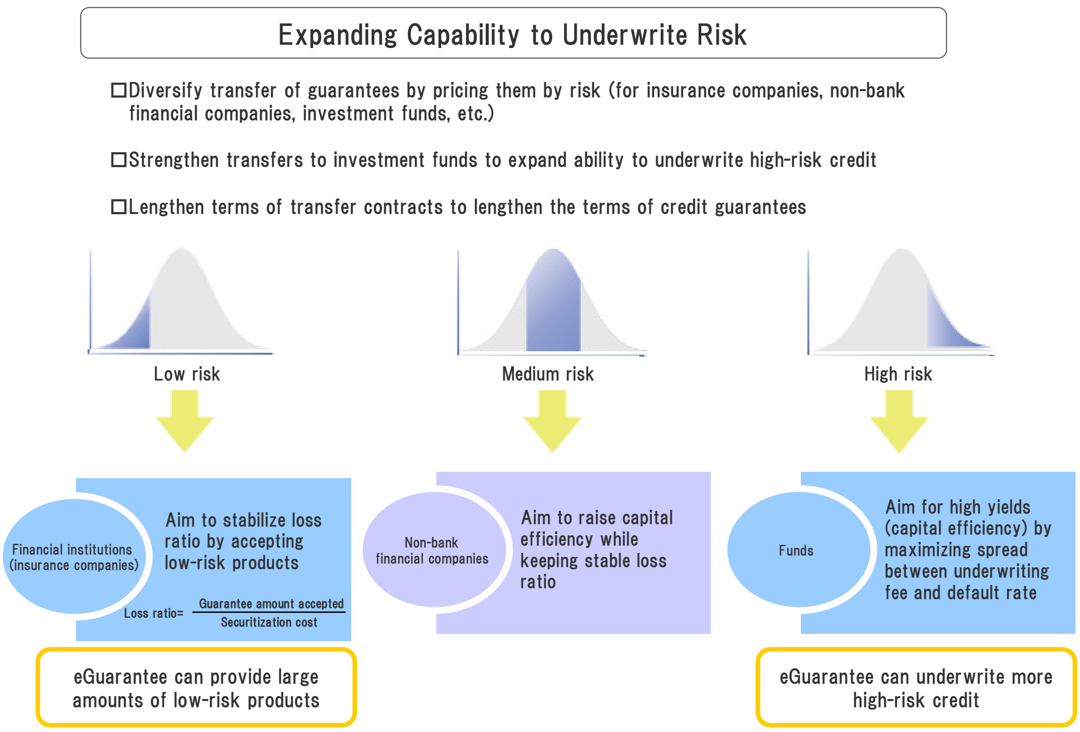
To aggressively underwrite credit overseas, form business ties with overseas financial institutions and build a global database to analyze the credit standing of companies transacting business in Asian countries other than Japan, where economic development is progressing rapidly.

■Long-term Strategy

By diversifying guarantee transfers, etc.

Increase risk underwriting capability

In order to increase the balance of its guarantees outstanding, the company plans to increase its risk underwriting capability. More specifically, it intends to diversify its transfer of guarantees, strengthen its transfers to investment funds, and lengthen the terms of transfer contracts. The company will package its guarantees according to risk to transfer them to an insurance company, a non-bank financial company, or an investment fund, depending on the recipient's appetite for risk. Low-risk guarantees command a guarantee fee paid to eGuarantee of about 1%, medium-risk guarantees generate a guarantee fee of about 2%, and high-risk guarantees require a fee of about 4-5%.



Source: Company

By packaging its guarantees according to risk and increasing the size of its guarantees, eGuarantee can lower its guarantee fee, enabling it to guarantee more credit and increase its balance of guarantees outstanding. This is a strategy for increasing profits from guarantees in all three risk zones.

At the end of October 2012, Credit Link Fund #1, one of two investment fund subsidiaries, increased by ¥1.2bn, half of which was provided by eGuarantee. As a result, this fund increased its underwriting quota from ¥400mn to ¥1.6bn. This fund manages low-risk financial products, but following the increase in its capital, it will buy insurance to hedge its risks, thereby insuring a fixed yield on its investments and limiting its potential maximum loss. By expanding its underwriting capability, eGuarantee aims to increase its balance of guarantees outstanding by more than 10% per year over the next few years.

■Long-term Strategy

Aiming for profitability in two-three years

Expand underwriting of export credits

To underwrite export credits, in January 2012, eGuarantee bought the Japanese factoring business of the Coface Group, a large French credit guarantee organization. This business possessed expertise in guaranteeing credit arising from export sales.

Nippon Export and Investment Insurance (NEXI), an incorporated administrative agency of the Japanese government, underwrites export credits, but most of its business is large scale. Trading companies usually mediate export credits for small and medium-sized companies. There is really no private company in Japan underwriting export credits for small and medium-sized companies.

Currently, eGuarantee is negotiating with financial institutions in Asian countries to which smaller Japanese companies export substantially, such as China, Taiwan and Korea, with the aim of setting the terms by which these institutions would buy packages of guarantees of export credits extended to importers in those countries. Because eGuarantee lacks experience in this business, it may have to initially pay large guarantee fees to overseas financial institutions to induce them to accept such packages. As eGuarantee gains experience in the business, it should be able to negotiate smaller guarantee fees for these institutions. eGuarantee plans to launch this business to smaller Japanese exporters, with the goal of earning a profit in two-three years.

Opportunity to expand purchases of promissory notes and other claims

Expand underwriting of export credits

Almost all of eGuarantee’s business is guaranteeing sales credit. To stabilize its profits, the company intends to expand other businesses related to credit guarantee through business agreements with financial institutions. Three such new businesses are the purchase of promissory notes (bills) and other claims, the re-insurance of credits held by financial institutions, and the purchase of electronically recorded credit.

When the SME Finance Facilitation Act expires at the end of March 2013, small and medium-sized companies may be pressured to sell their promissory notes and other obligations they have to financial institutions to obtain working capital. eGuarantee will offer to purchase these obligations from financial institutions with which it has business ties anytime at a fixed, discount rate.

■Long-term Strategy

In the re-insurance of credits held by financial institutions, eGuarantee signs a contract with a financial institution that allows factoring companies, lease companies, and other companies purchasing claims from the financial institution to guarantee those claims through eGuarantee. This service resembles an OEM guarantee service.

In April 2012, eGuarantee established DS Acceptance Co., a joint venture with NEC Capital Solutions accounted for by the equity-in-earnings method. This joint venture purchases electronically registered credits at a discount and engages in factoring and securitization. Since Japan's Electronically Recorded Monetary Claims Act took effect in 2008, individual banks have gradually adopted the electronic recording of their credits. In February 2013, Densai.net Co., Ltd., a wholly-owned subsidiary of the Japan Bankers Association, started operations, enabling all financial institutions in Japan to electronically record their credits, and they are expected to do so rapidly.

eGuarantee has not announced any medium-term plan, but when the company listed its shares in 2007, it set a target of earning a recurring profit of ¥5.0bn by 2017. To reach this target, the company would consider strategic equity ties with other companies, mergers and acquisitions, if it considered such actions necessary to expand its business of underwriting and transferring credit risk guarantees.

Note: A factoring company purchases sales claims at a discount and earns a profit by re-selling the claim back to the seller at the original cost. Many factoring companies in Japan are affiliated with banks and non-bank financial companies.

■Shareholder Return Policy and Risks to Business

Raising dividend in FY3/13 for fourth straight year of increases

Shareholder Return Policy

eGuarantee's policy is to pay dividends reflecting its profit growth after retaining sufficient funds to insure a strong financial condition and to expand business. Since paying its first dividend in FY3/09, the company has increased its dividend each fiscal year. As company profits continue to grow, we expect eGuarantee to increase its dividend in coming fiscal years, barring any large investment by the company. To increase the number of its shareholders and to induce them to hold the shares over the long term, eGuarantee will also begin a shareholder gift program in FY3/13, awarding each shareholder a Quo card worth ¥1,500. Thus, a holder of the minimum lot of 100 shares would reap a total return on his or her investment of 2.6%, based on the company's closing share price on March 19, 2013, of ¥1,239.

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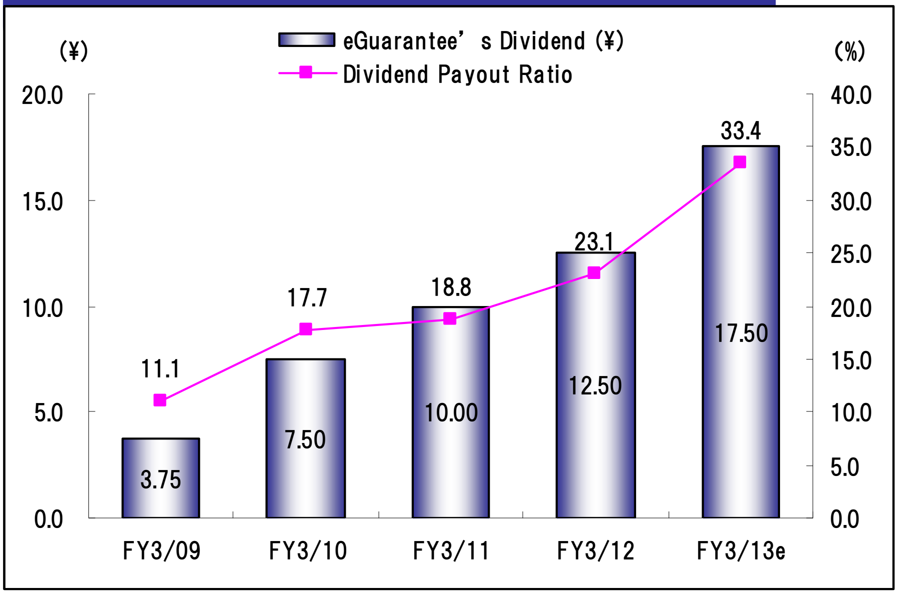
eGuarantee’ s Dividend (¥) and Dividend Payout Ratio, FY3/09 - FY3/13E



Note: Dividends paid before FY3/13 have been adjusted for the 2 - for - 1 stock split on March 1, 2013

Despite risks, business is likely to grow

Risks to Business

eGuarantee’ s profitability could deteriorate for any of the following reasons.

If Japan’ s economy were to weaken suddenly, causing an increase in the number of corporate bankruptcies and a larger rise in the number of eGuarantee’ s guarantees than the company had foreseen, recipients of the company’ s guarantee packages may demand higher guarantee fees from eGuarantee.

eGuarantee may raise the guarantee fee it charges during a period of weak economic growth in Japan, causing a downturn in the number of new contracts, the company’ s contract renewal rate, and its balance of guarantees outstanding.

New companies may enter eGuarantee’ s business, increasing competition and lowering eGuarantee’ s market share.

Currently, eGuarantee’ s business of guaranteeing credit is not subject to government regulations, such as those imposed by the Insurance Business Act and the Financial Instruments and Exchange Act. If this business were to be regulated, the company may have to change its business model.

Consolidated Income Statement (¥mn)
FY 3/09 – FY3/13E

	FY3/09	FY3/10	FY3/11	FY3/12	FY3/13e
Sales	2,703	3,156	3,291	3,416	3,640
y-o-y	40.0	16.8	4.3	3.8	6.5
Cost of sales	1,313	1,609	1,448	1,321	-
Cost-of-sales ratio	48.6	51.0	44.0	38.7	-
SGA cost	918	943	1,110	1,251	-
SGA cost ratio	34.0	29.9	33.7	36.6	-
Operating profit	470	603	732	842	980
y-o-y	46.8	28.2	21.2	15.1	16.3
Margin	17.4	19.1	22.2	24.7	26.9
Recurring profit	482	619	744	854	1,000
y-o-y	45.9	28.2	20.2	14.8	17.0
Margin	17.9	19.6	22.6	25.0	27.5
Extraordinary gains	0	0	0	31	0
Extraordinary losses	2	0	1	0	31
Pretax profit	479	619	743	885	969
y-o-y	45.0	29.0	20.0	19.2	9.4
Margin	17.8	19.6	22.6	25.9	26.6
Income taxes	214	272	303	358	386
Effective tax rate	44.7	43.9	40.8	40.5	39.8
Minority interest	-7	4	10	58	53
Net profit	272	342	429	468	530
y-o-y	47.0	25.8	25.3	9.2	13.1
Margin	10.1	10.8	13.0	13.7	14.6
Shares outstanding(thd)	8,080	8,080	8,080	10,096	10,153
Earnings per share (¥)	33.7	42.3	53.1	46.4	52.2
Dividend per share (¥)	3.75	7.50	10.00	12.50	17.50

Note: The company made a 2 – for – 1 share split on March 1, 2013. All historical per-share figures have been adjusted for this split.

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