COMPANY RESEARCH AND ANALYSIS REPORT

eGuarantee, Inc.

8771

Tokyo Stock Exchange Prime Market

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Index

Summary

Expecting continued double-digit growth in ordinary profit against a backdrop of increased demand for sales credit guarantees

The core business of eGuarantee, Inc., <8771> (hereafter, also "the Company") is to provide credit risk guarantee services targeting the sales credits issued by companies to their customers. The Company hedges the credit risk it assumes by transferring the guarantees to financial institutions via reassurance contracts. It has a recurring revenue business model in which its net sales are calculated as the balance of outstanding guarantees multiplied by the guarantee fee ratio. A strength is being able to set an optimal guarantee fee ratio due to its capabilities of gathering corporate information from more than 30,000 companies per month and advanced screening capabilities. It mainly acquires new customers through partner financial institutions and the like and has maintained growth by continuing to increase its balance of guarantees outstanding, with a high repeat customer rate of over 90%.

1. FY3/22 results

In its FY3/22 consolidated results, the Company reported higher profits on higher sales for the 20th consecutive period. Net sales increased 9.7% year on year (YoY) to ¥7,894mn, and ordinary profit grew 21.0% YoY to ¥3,760mn. Amid an increasingly uncertain economic outlook as the COVID-19 pandemic becomes prolonged, needs for sales credit guarantee services increased, and along with new customer acquisitions, the balance of credit guarantees grew 20.7% versus the end of the previous fiscal year to ¥582.2bn.* Due to the fact that guarantee fee ratios fell as a result of the decline in the number of corporate bankruptcies, net sales were a bit below the Company's forecast. Still, the cost of sales ratio improved to higher than anticipated, and ordinary profit surpassed the initial forecast (¥3,750mn).

* The actual total balance of credit guarantees (the guarantee blocks set for each company covered by a guarantee, or the guarantee block established for each client company if the companies covered by guarantees cannot be identified) was up 30.5% versus the end of the previous fiscal year to ¥831.5bn, but there are an increasing number of cases in which a guarantee service is provided by covering multiple companies all together, so the gap between this and the guarantee liabilities amount, which impacts net sales, has been growing. Therefore, in this report, the guarantee liabilities amount will be noted as the balance of guarantees.

2. FY3/23 outlook

The consolidated forecast for FY3/23 is for the increase in both net sales and profits to continue, with net sales increasing 11.5% YoY to ¥8,800mn and ordinary profit increasing 11.7% YoY to ¥4,200mn. As the economic situation remains uncertain, the Company expects the balance of guarantees to increase 12-13% versus the end of the previous fiscal year against the backdrop of robust demand for guarantees. The assumed cost of sales ratio is expected to continue its downward trend in 1H, but is then expected to turn higher in 2H due to an increase in bankruptcies, and for the entire fiscal year it is expected to be on par with the previous fiscal year. Regarding the cost of sales ratio, the Company is expecting an increase in personnel costs as a result of bolstering the sales platform, but the costs of sales ratio is expected to be on par with the previous year's level due to a reduction in other expenses, along with other factors. The Company announced its 1Q results on July 29, 2022. Net sales increased 6.6% YoY to ¥2,040mn, ordinary profit increased 17.9% to ¥1,019mn, the guarantee balance increased 22.7% to ¥597.8bn, as results got off to a strong start.

3. Key policies and medium-term outlook

The Company's key policies for FY3/23 are strengthening the sales platform and developing businesses in peripheral areas. In terms of strengthening the sales platform, in addition to increasing the number of sales staff by 1.3 times versus the end of FY3/22, the Company will work to quickly develop young employees into producers by introducing standard sales methods and through intensive training. Also, in order to address the strong guarantee needs outside of the major metropolitan areas, in 1Q the Company opened a Tohoku branch (Sendai) and a Hokuriku branch (Kanazawa),and plans to develop products limited to regional areas in line with the specific characteristics of each region. In terms of developing businesses in peripheral areas, the Company leveraged its strength of being able to quickly perform credit screening by utilizing data and other corporate information that it collects on a daily basis to start eG Collect, an outsourcing service for issuing invoices, managing payments received, and collecting payments for transactions between companies, and eG Pay, a receivables purchasing service, from November 2021. These services have mainly been introduced by e-commerce companies, and the scale of sales has been only about ¥20-30mn per year, but the Company expects receivables purchase needs to increase if the number of bankruptcies increases going forward, and these services are expected to grow. The Company's numerical management target is consolidated ordinary profit of ¥5.0bn, and it should hit this mark in FY3/25 if things go well. There are hardly any domestic competitors that are threats to the Company, so continuous growth in earnings is expected to continue.

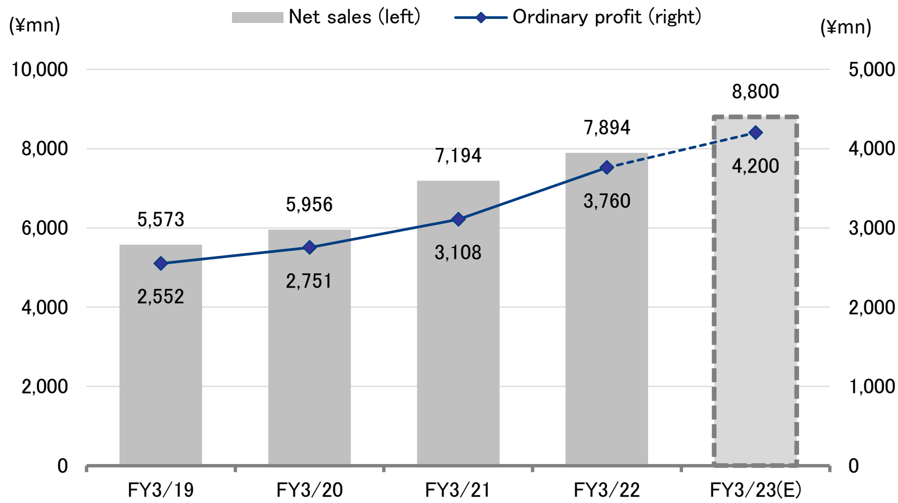
4. Shareholder return policy

The Company's basic policy concerning shareholder returns is to pay dividends depending on earnings while considering enhancing internal reserves needed to strengthen its financial position and aggressively develop and expand business. In FY3/23, eGuarantee plans to issue an annual dividend of ¥26.0 per share, the same as in FY3/22, representing a dividend payout ratio of 44.3%, but having continue to increase dividends ever since publicly listing, an increase in dividends is sufficiently conceivable if business performance progresses according to plan. As for the Company's shareholder gift program, eGuarantee awards a QUO card worth ¥1,500 to each shareholder at the end of March every year.

Key Points

- eGuarantee guarantees companies' risk of irrecoverable accounts receivable and other claims and provides a service that contributes to their business expansion
- Outlook is for continued increase in sales and profit in FY3/23 due to increase in the balance of guarantees
- There are large latent needs for credit risk guarantee services, and the Company is seen as a company for which medium- to long-term growth can be expected

Results trends



Source: Prepared by FISCO from the Company's financial results

Company overview

eGuarantee guarantees companies' risk of irrecoverable accounts receivable and other claims and provides a service that contributes to their business expansion

1. Company history

eGuarantee can trace its origins to its establishment as a subsidiary of ITOCHU Corporation <8001> by Mr. Masanori Eto, the current president and CEO of eGuarantee, during his third year as an ITOCHU employee in September 2000. Initially, eGuarantee set out to provide a service to hedge the risk of uncollectible sales credits, such as trade notes and accounts receivable, for B2B transactions over the Internet. However, demand for these services was lower than initially anticipated. Therefore, eGuarantee evolved into a provider of credit risk guarantee services for sales credits in real B2B business transactions that do not involve the Internet.

In March 2007, the Company was listed on the JASDAQ Securities Exchange (listing changed to the Tokyo Stock Exchange 1st Section in December 2012 and it shifted to the Prime Market in April 2022), and using the funds it raised from the listing, in 2008 it formed its first fund investing in corporate credit risk and started operations through a subsidiary. Previously, it had packaged its guarantees according to the degree of risk and sold these packages to all financial institutions for them to hedge risks. But by forming new funds, it is aiming to diversify its opportunities for profits and to strengthen its ability to undertake risk, thereby accelerating growth. As of March 2022, the fund association consisted of seven consolidated subsidiaries and one equity-method affiliate.

In January 2012, eGuarantee acquired the factoring business of Coface Japan Finance Co., Ltd., the Japanese arm of Coface Group, which is a leading French credit guarantee group, in order to absorb expertise related to export credit guarantees as well as to expand the Company's business foundation and bolster its product development capabilities. Leveraging the expertise obtained through this acquisition, eGuarantee entered into business alliances with local financial institutions in South Korea in December 2013 and China in June 2014, and has commenced the export credit guarantee service business in those countries. Although the Company is currently not proactively taking action partly due to the COVID-19 pandemic, in the future the Company is considering providing services to local subsidiaries of Japanese companies overseas.

Alongside the expansion of its business scope, in 2013 the Company established eGuarantee Solution, Inc., as a subsidiary to carry out in-house system development and sales-related administrative work (contract-related work and data registration services) and in 2014, it established RG Guarantee, Inc., as a subsidiary to be a specialized provider of small-ticket credit guarantee services. Then in 2017, it separated the sales-related administrative work from eGuarantee Solution, Inc. and newly established eGuarantee Shared Services, Inc. (now eG Payment, Inc.), as well as in October 2019 establishing eGuarantee Investment, Inc. to undertake investments in startup companies and acquire, hold and manage securities.

Company history

Month/year	Main events
September 2000	Established in Minato-ku, Tokyo 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
November 2001	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
February 2004	Started offering an individual guarantee service through which it guaranteed the sales credit accumulated by a single company
August 2004	Started a full-scale guarantee service for financial companies other than factoring companies
March 2007	Listed shares on the JASDAQ Securities Exchange
August 2008	Arranged Credit Creation 1 (currently, Credit Link Fund I), the company's first fund for investment in corporate credit risk
November 2009	Arranged Credit Investment 1
December 2011	Listed shares on the Second Section of the Tokyo Stock Exchange
January 2012	Purchased part of the business of Coface Japan Finance Co., Ltd., a member of a leading French credit guarantee group
April 2012	Established Denshi Saiken Acceptance Ltd., a joint venture with NEC Capital Solutions <8793>. This joint venture purchases electronically registered credits at a discount and engages in factoring and securitization (it was dissolved in 2015)
December 2012	Listed shares on the First Section of the Tokyo Stock Exchange
November 2013	Established eGuarantee Solution, Inc. as a subsidiary to conduct contract-related administration work, data registration services and other related activities
December 2013	Entered into a business alliance with a leading local financial institution in South Korea and launched export credit guarantee services in the South Korean market
March 2014	Established RG Guarantee, Inc. as a subsidiary to provide small-ticket credit guarantee services
June 2014	Entered into a business alliance with the Tokyo Branch of China-based Bank of Communications and commenced export credit guarantee services in China
September 2014	Arranged the Credit Guarantee 1 fund
April 2015	Arranged the Credit Guarantee 2 fund
December 2017	Established the subsidiary eGuarantee Shared Services, Inc. to carry out various administrative work
March 2018	Arranged the Credit Guarantee 3 fund
May 2019	Arranged the Credit Guarantee 4 fund
June 2019	Capital and business alliance with H.I.S. Impact Finance Co., Ltd., a financial subsidiary of H.I.S. <9603>
October 2019	Established the subsidiary eGuarantee Investment, Inc. to conduct corporate venture capital operations
March 2020	Began a sales credit purchasing service
March 2022	Arranged the Credit Guarantee 5 fund Arranged the Credit Guarantee 6 fund

Source: Prepared by FISCO from the Company's materials

Consolidated subsidiaries (investment stakes, business content)

Company name	Investment stake (%)	Main business
eGuarantee Solution, Inc.	100.0	Systems development and maintenance
RG Guarantee, Inc.	80.1	Small-ticket sales credit guarantee service
eG Payment	100.0	Purchase price payment service, etc.
eGuarantee Investment, Inc.	100.0	Corporate venture capital operations

Note: excluding silent partners
Source: Prepared by FISCO from the Company's securities report

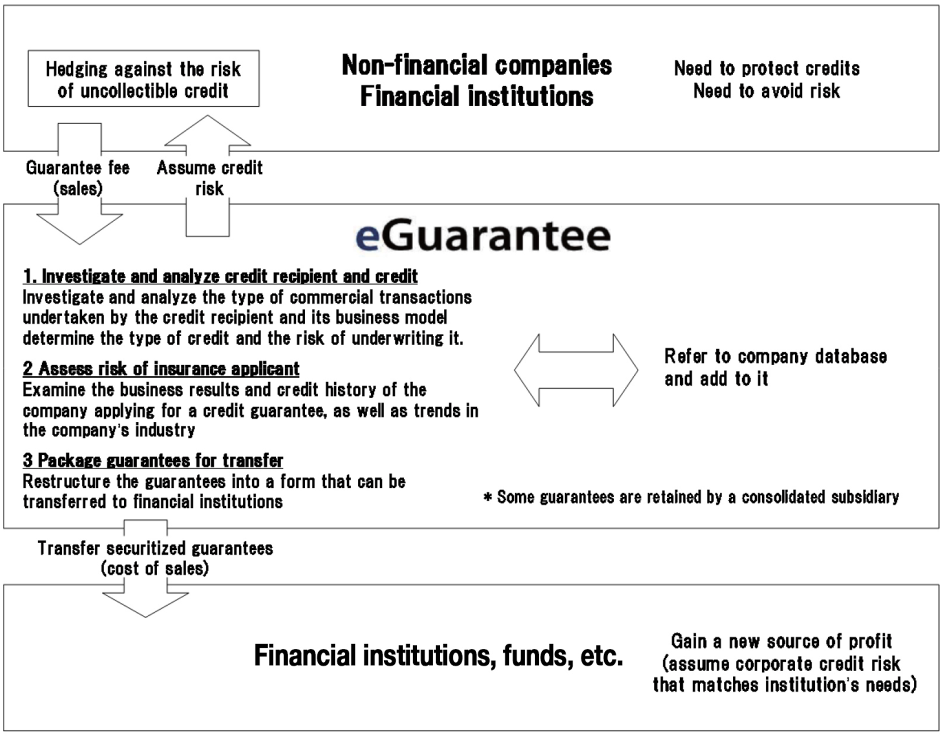
Built a recurring revenue business model that accumulates net sales from "the balance of outstanding guarantees x the guarantee fee ratio"

2. Business overview

(1) Description of businesses

eGuarantee's main business is to guarantee the credit risk associated with sales credit and other claims arising through transactions among companies. This business is illustrated graphically below.

Business flow

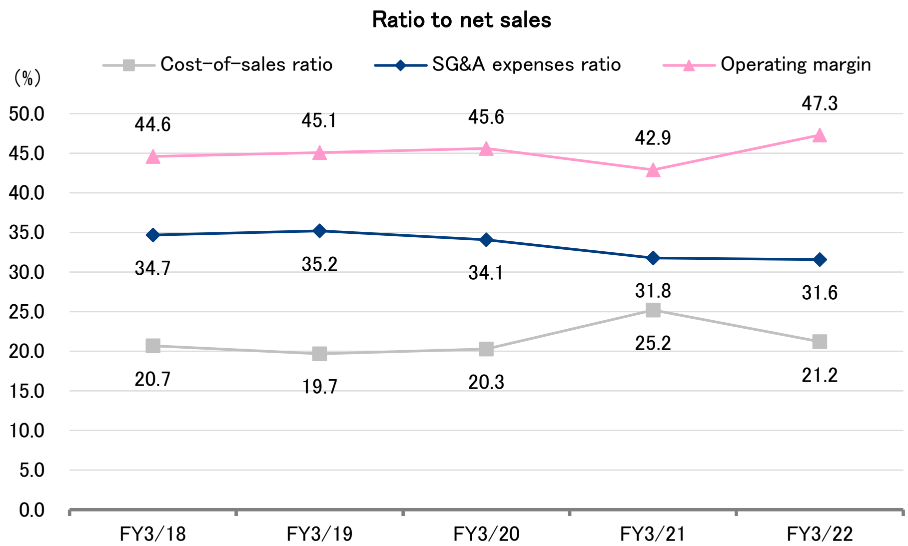


Source: Prepared by FISCO from the Company's securities report eGuarantee and its client company sign a contract by which eGuarantee promises to pay to the client a fixed amount to compensate for a sales credit from transactions with other companies if it should become irrecoverable. In other words, the client company is able to pay a certain guarantee fee in exchange for minimizing its risk of loss from an irrecoverable sales credit. Most contracts are effective for one year, and the client company pays the entire guarantee fee on the business day before the guarantee start date, in principle. eGuarantee divides the sales proceeds into 12 equal monthly installments and records the sales every month, so month-to-month sales fluctuations are relatively small and this functions as a recurring revenue business model.

As eGuarantee's net sales are determined by its balance of outstanding guarantees multiplied by the guarantee fee ratio, the key to driving growth in net sales lies in increasing the balance of credit guarantees. eGuarantee refers to various data, including economic indicators published daily, trends in the number of corporate bankruptcies and the probability of credit default based on past experience, and revises guarantee fees every month based on this data. When the number of corporate bankruptcies is increasing, the credit risk is higher. This means that the guarantee fee ratio will also be set higher. The actual guarantee fee ratio is set for individual contracts and based on the result of eGuarantee's investigations of risk associated with the companies subject to the guarantee. eGuarantee is not bound by industry practice in setting its guarantee fee ratio, but sets a fee that justifies the cost of hedging the risk for the client.

In regard to the credit risk assumed by the Company, eGuarantee packages its guarantees into a portfolio of financial risk products according to risk. It then transfers the guarantees to financial institutions, investment funds and other entities (securitization). Upon the transfer of credit risk, eGuarantee pays guarantee fees and commissions to the entities that accept its guarantee packages. These guarantee fees and commissions constitute the bulk of eGuarantee's cost of sales.

Therefore, eGuarantee's cost of sales ratio depends mainly on the spread between the guarantee fee ratio agreed upon by the Company and its clients and the re-guarantee fee ratio that applies to fees and commissions paid by the Company to the entities that accept the transfer of credit risk. eGuarantee has been reducing the re-guarantee fee ratios by diversifying and upgrading its methods of transferring credit risk, along with strengthening its ability to undertake risk by forming funds at a subsidiary and cutting costs by contracting the amount of guarantee fees paid to third parties. Looking at the cost of sales ratio over the past year or two, amid rising credit risk due to the COVID-19 pandemic, in FY3/21 the Company raised its guarantee fee ratios, but re-guarantee fee ratios that the Company paid rose even higher than that, resulting in the cost of sales ratio rising 4.9 percentage points YoY. Conversely, in FY3/22, the decline in the number of corporate bankruptcies and other factors resulted in a large decline the re-guarantee fee ratios paid by the Company, and the cost of sales ratio fell by 4.0 percentage points. Each fund can accept risk to the scale of ¥20bn-¥100bn and is funded by the likes of financial institutions. Over the past few years, maintaining and improving investment performance have become difficult as interest rates have been ultra-low, so there has been strong demand for these funds, and the Company has been able to procure funding under favorable terms.



Source: Prepared by FISCO from the Company's financial results

(2) Operational structure

Including its head office in Tokyo, the Company has a total of seven sales offices. These are the Osaka branch, Kyushu branch (Hakata), Nagoya branch, Hokkaido branch (Sapporo), Tohoku branch (Sendai), and the Hokuriku branch (Kanazawa). Of these, the Tohoku branch opened in May 2022, and the Hokuriku branch opened in June 2022. In the past, the Company was able to meet demand by sending employees on business trips to meet clients, but the Company has been expanding its office footprint in stages in order to respond to robust demand. The Company plans to open one more sales office.

In terms of cultivating customers, the Company has been efficiently acquiring customers by forming business alliances with financial companies, primarily regional banks, trading companies, leasing firms and other business partners. In particular, eGuarantee had entered into business alliances with 50 regional banks as of the end of April 2022, establishing an alliance network spanning nearly all of Japan, with this being an important customer cultivation route accounting for roughly 80% of all customer referrals. So, looking at customers by region, roughly 80% of all customers are local companies outside the Tokyo metropolitan area. Additionally, since FY3/16, eGuarantee has been ramping up business alliances with shinkin banks in order to cultivate small- and medium-sized companies in cities as customers, and has alliances with 11 shinkin banks at the end of July 2022. The Company also partners with four securities firms, and mainly accepts customer referrals in urban areas through these alliances.

The Company has a total of more than 5,000 customers, ranging from SMEs to major companies, over a wide range of industries, including wholesale, retail, and manufacturing, so its results are not affected by economic fluctuations in a specific industry. From these customers, the Company collects information on the companies it will target to screen in its services, and it creates a database of this information. The number of screened companies exceeds 30,000 every month, and the Company creates a database not only of data on transactions between companies, but also of information such as peripheral information. Including this, the Company collects and stores in a database more than 2.6 million data items per day. The database also contains various types of information, including managers' attributes and assessments on word-of-mouth websites. Using this data, the Company analyzes the degree of risk and ultimately sets the optimal credit guarantee rate for each company taking into consideration factors like the screener's experience. There is no other company that collects such a wide scope of data and conducts such a thorough analysis, and this has become one of the Company's strengths.

Additionally, the repeat rate among companies that use eGuarantee's service is stable at above 90%. Companies that use eGuarantee's service once realize the advantage of doing so, and almost always keep using the service. Companies have screening operations to check business partners' credit status, but for small companies with which a company has limited transaction value, doing so on its own is inefficient from a cost-benefit perspective, so in many cases customers hedge their risks by using eGuarantee's credit guarantee service for such transactions.

The size of the sales credit market exceeds ¥200tn with robust growth potential

3. Market size

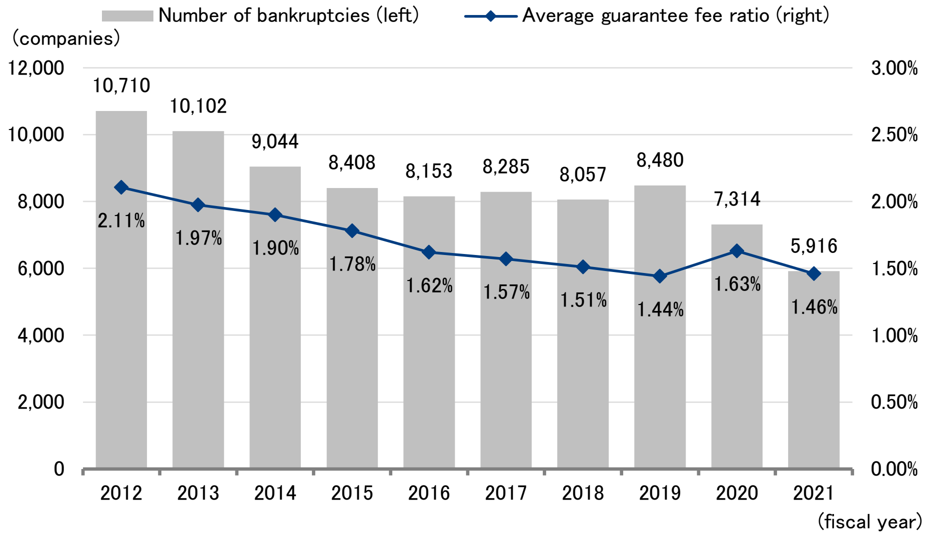
The size of the market for trade receivables (trade notes and accounts receivable) targeted by the eGuarantee's mainstay service is estimated to be more than ¥200tn*. While not all of these trade receivables will require credit risk guarantee services, trade receivables guarantee services are used extensively in the US and Europe and FISCO believes that these services have robust growth potential.

* According to the Ministry of Finance's "Financial Statements Statistics of Corporations by Industry" the market size is ¥234tn as of March 31, 2022.

In addition, the number of corporate bankruptcies, which has an impact on the guarantee fee ratios, had been in continuous decline since peaking at 13,234 in fiscal 2008. In fiscal 2019, the number of corporate bankruptcies temporarily increased. From fiscal 2020, the introduction of virtually no-interest, unsecured loans by government-affiliated financial institutions aimed at supporting fundraising amid the COVID-19 pandemic has led to a significant decline in the number of corporate bankruptcies. In fiscal 2021, the number of corporate bankruptcies declined 19.1% YoY to 5,916 bankruptcies, which was the second lowest level in history, with only 1965 having less (5,593). The total amount of obligations declined 2.8% YoY to ¥1.18tn, dropping to the lowest level since fiscal 2000.

Meanwhile, looking at the average guarantee fee ratio found by dividing the Company's net sales by the period-start/period-end average balance of guarantees during the fiscal year, we see that the average guarantee fee ratio in fiscal 2020 was 1.63%, the first rise in 11 years. The main reason for this was the fact that the Company raised its guarantee fee ratio in conjunction with the increase in credit risk due to the COVID-19 pandemic. However, in fiscal 2021, the average guarantee ratio declined to 1.46% due to the decline in the number of bankruptcies.

Number of corporate bankruptcies and average guarantee fee ratio



Notes: Average guarantee fee ratio = net sales / (period-start/period-end average balance of guarantees outstanding)
Number of bankruptcies examined by Teikoku Databank
Source: Prepared by FISCO from the Company's results briefing materials

4. Risks

We examine the risk factors that should be taken into consideration when looking at eGuarantee's business performance. The following are the three primary risks that could affect the Company's business results. However, we believe that these risks do not present major concerns at this time.

(1) Profit-structure risk

The Company's profit structure is that it records the guarantee fees it receives from customers as net sales, and it records the payments it makes to financial institutions and others to which the Company transfers risk as cost of sales, with the difference between these two amounts being the Company's profits. The payments to the counterparties to whom the Company transfers risk are determined by the track record in executing guarantees over several years, so even if it temporarily incurs large costs from the execution of guarantees, this will not become a factor causing costs to rise in the short term. However, during a period in which the execution of guarantees continues to occur frequently, such as during an economic recession, the risk-transference cost rises. If the Company cannot transfer this rise in the risk-transference cost to the prices of guarantee fees, it becomes a factor causing profitability to deteriorate. Moreover, while demand for the Company's services could increase due to a rise in bankruptcy risk during economic recessions, if the guarantee fee ratio increases excessively, on the flip side, the benefit of using the service will also be lowered, the balance of guarantees outstanding could decrease due to a decline in the number of contracts and a reduction in the contract renewal rate. There is also the risk that the Company will be unable to execute guarantees during an unprecedented economic recession in the event of the management collapse of the financial institutions and others to which the Company transfers risk.

(2) Competition risk

There are hardly any other companies like the Company that specialize in providing sales credit guarantee services, but there are factoring companies affiliated with major financial institutions that provide guarantee factoring as a similar service, and also property insurance companies that provide transaction credit insurance and other such services. However, in terms of the scope of the companies covered by guarantees, the amount of guarantee limits, and the credits covered, the Company's strengths include its ability to respond flexibly to diverse customer needs, so at the present time it is considered to have almost no competition risk. However, if in the future these types of financial institutions or other companies develop the same services as the Company and launch businesses, thereby causing competition to intensify, its profit margin may decline. Still, even if this happens, at FISCO we view the Company's refined risk screening capabilities based on its overwhelming data collection capabilities and its analytical capabilities as its strength. The Company does face some competition from a small-scale provider of a small-ticket sales credit guarantee service, RACCOON FINANCIAL, Inc., which is a subsidiary of RACCOON HOLDINGS, Inc. <3031>, but small-ticket sales credit guarantees constitute only a small percentage of the Company's total business, so this competition has hardly any effect on the Company.

(3) Legal-regulations risk

Credit risk guarantee services are not subject to legal regulations, such as the Insurance Business Act and the Financial Instruments and Exchange Act. However, if in the future legal regulations relating to these services are newly enacted, this may affect the Company's results, such as changing its business model or changing the competitive environment.

Financial results

Both net sales and profits increased for the 20th consecutive fiscal year in FY3/22 due to the steady cultivation of new customers

1. Summary of FY3/22 results

In its FY3/22 consolidated results, the Company reported higher profits on higher sales for the 20th consecutive period,* as net sales increased 9.7% YoY to ¥7,894mn, operating profit rose 20.8% to ¥3,732mn, ordinary profit grew 21.0% YoY to ¥3,760mn, and profit attributable to owners of parent increased 22.9% to ¥2,463mn. As corporate activities are partially restricted as the COVID-19 pandemic becomes prolonged, an increasing number of companies are using the Company's guarantee services based on concerns about the risk of not being able to recover their receivables, and the balance of credit guarantees grew 20.7% versus the end of the previous fiscal year to ¥582.2bn. This increase was the key factor behind the increase in both net sales and profits.

* Profit attributable to owners of parent declined in FY3/21 due to special factors.

Compared to the Company's initial forecasts, net sales fell short of the forecast by 7.1%, but each profit line was on par with the forecast. For net sales, the Company fell short of its forecast due to the decline in the average guarantee fee ratio, accompanying the significant decline in the number of corporate bankruptcies. Meanwhile, in terms of profits, the Company reached its forecasts due to the fact that the cost of sales ratio improved as a result of the decline in the re-guarantee fee ratio (25.2% in FY3/21 → 21.2% in FY3/22) due to the decline in the number of bankruptcies.

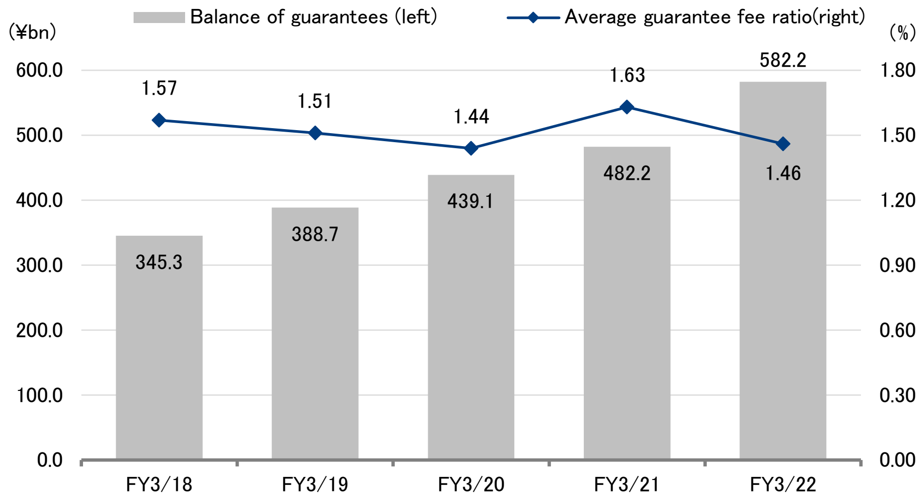
Consolidated financial results for FY3/22

(¥mn)

	FY3/21		FY3/22				
	Results	Ratio to net sales	Forecasts	Results	Ratio to net sales	YoY change	vs. forecast
Net sales	7,194	-	8,500	7,894	-	9.7%	-7.1%
Cost of sales	1,816	25.2%	-	1,670	21.2%	-8.0%	-
Gross profit	5,378	74.8%	-	6,224	78.8%	15.7%	-
SG&A expenses	2,289	31.8%	-	2,492	31.6%	8.8%	-
Operating profit	3,088	42.9%	3,720	3,732	47.3%	20.8%	0.3%
Ordinary profit	3,108	43.2%	3,750	3,760	47.6%	21.0%	0.3%
Profit attributable to owners of parent	2,004	27.9%	2,400	2,463	31.2%	22.9%	2.6%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Balance of guarantee



Note: Average guarantee fee ratio = net sales / (period-start/period-end average balance of guarantees outstanding)
Source: Prepared by FISCO from the Company's results briefing materials

The increase in the balance of guarantees was mainly due to the Company providing products meeting growing customer needs, in a timely manner, solid progress on acquiring new customers, and the increase in guarantees involving large balances and low risk. Regarding products matching the growing needs of customers, in the sales credit guarantee service the Company is aiming for products that completely disclose the mechanism and basis for the guarantee fee ratio. Specifically, the Company disclosed the guarantee fee ratios for individual companies covered by guarantees, which it had not done before, and started to disclose to client companies how much the guarantee fee ratio changes depending on the number of companies covered. In the past, it was difficult to determine whether the Company's service fees were high or low, but by being open about the way it determines its guarantee fee ratios, the Company has made it easier for companies to utilize its services. Meanwhile, with respect to low-risk, large-volume guarantees, there are some large companies for which the risk of a future bankruptcy has increased amid the drawn out COVID-19 pandemic, and there has been an increase in the use of credit guarantee services covering such companies.

Although SG&A expenses increased 8.8% YoY to ¥2,492mn, the SG&A expenses ratio declined slightly from 31.8% to 31.6% due to the effect of an increase in sales. The main factors for the increase were a ¥77mn increase in personnel expenses (salaries and allowances, bonus reserves) accompanying the effort to bolster the number of employees, and a ¥22mn increase in taxes and dues. At the end of FY3/22 there was a total of 170 employees on a consolidated basis, an increase of nine versus the end of the previous fiscal year.

The equity ratio is in the 70% range, and the Company's financial position is good

2. Financial condition and indicators

Looking at the financial condition at the end of FY3/22, total assets were up ¥2,685mn from the end of the previous fiscal year to ¥25,256mn. The main changes in current assets were an increase of ¥1,238mn in cash and deposits and recording ¥1,200mn in securities. In non-current assets, investments in other securities of subsidiaries and associates increased by ¥14mn.

Total liabilities increased ¥154mn from the end of the previous fiscal year to ¥5,539mn. Income taxes payable decreased ¥235mn, while advances received increased ¥212mn, provision for settlement increased ¥91mn, and provision for bonuses increased ¥50mn. Net assets rose ¥2,530mn from the end of the previous fiscal year to ¥19,716mn. By exercising stock options, both share capital and capital surplus increased by ¥412mn, while retained earnings increased ¥1,457mn.

Looking at financial indicators, the equity ratio, which is an indicator of financial stability, was 71.9%, which was 1.6 percentage points higher than the previous fiscal year. The Company's financial base is solid, including debt-free management and cash and deposits exceeding ¥17bn, a record high level. Looking at the indicators of profitability, with an operating margin of 47.3%, ROE of 14.5%, and ROA of 15.7%, the Company has maintained a high level of each indicator. The main reasons for this performance are that the Company has a recurring revenue business model that records guarantee fees as net sales in even monthly amounts, is able to conduct sales activities efficiently based on cooperation with partners, and has maintained a big competitive advantage with virtually no competitors.

Consolidated balance sheet

(¥mn)

	FY3/19	FY3/20	FY3/21	FY3/22	Change amount
Current assets	12,036	13,645	17,085	19,695	2,609
(Cash and deposits)	9,471	9,232	16,056	17,295	1,238
Non-current assets	4,390	2,799	5,484	5,560	75
Total assets	16,427	16,444	22,570	25,256	2,685
Current liabilities	5,350	3,531	5,269	5,423	154
(Advances received)	2,647	3,059	3,664	3,877	212
Non-current liabilities	115	115	115	115	0
Total liabilities	5,466	3,646	5,384	5,539	154
(Interest-bearing debt)	-	-	-	-	-
Net assets	10,960	12,798	17,186	19,716	2,530
(Stability)					
Equity ratio	59.7%	70.3%	70.3%	71.9%	1.6pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA (Ordinary profit /Total assets)	16.6%	16.7%	15.9%	15.7%	-0.2pt
ROE (Net income / Shareholders' equity)	18.2%	21.5%	14.6%	14.5%	-0.1pt
Operating margin	45.1%	45.6%	42.9%	47.3%	4.4pt

Source: Prepared by FISCO from the Company's financial results

Business outlook

Outlook is for continued growth in sales and profits in FY3/23 due to an increase in the balance of guarantees

1. FY3/23 outlook

In FY3/23, the Company expects net sales and profits to increase for the 21st consecutive fiscal period. Specifically, the Company is forecasting net sales to increase 11.5% YoY to ¥8,800mn, operating profit to rise 11.2% to ¥4,150mn, ordinary profit to grow 11.7% to ¥4,200mn, and profit attributable to owners of parent to increase 11.6% to ¥2,750mn. Amid concerns about the negative impact on the economy accompanying the ongoing COVID-19 pandemic and drawing out of the Ukraine crisis, based on the expectation for an increase in the number of bankruptcies, the Company aims to achieve its forecasts by working on the following four points as a basic policy.

1) Continue with prudent risk judgments for certain industries that are expected to see an increase in bankruptcy risk.
2) Bolster the sales platform, including adding sales staff, in order to respond to the increase in credit guarantee needs.
3) Strengthen data collection on transactions among companies, improve the accuracy of risk judgment, further speed up credit screening decisions.
4) Grow the number of clients by bolstering the sales platform, and promote the penetration of services related to credit risk in corporate activities.

The Company expects the balance of guarantees at the end of FY3/23 to increase 12-13% versus the end of the previous fiscal year against a backdrop of rising demand for guarantees on credit risk. Although the guarantee fee ratio is expected to continue on its declining trend due to the drop in the number of corporate bankruptcies, from 2H onward the guarantee fee ratio is expected to turn higher due to the increase in bankruptcies, so for the full fiscal year the guarantee fee ratio is expected be at about the same level as the previous fiscal year. As a result, the cost of sales ratio is also expected to exhibit similar movement. Regarding SG&A expenses, the Company is expecting an increase in personnel expenses as it plans to add approximately 20 employees to its headcount, especially in the sales department, but it is forecasting the SG&A expenses ratio to be on par with that of the previous fiscal year due to the decline in other expenses and business travel costs, among other factors.

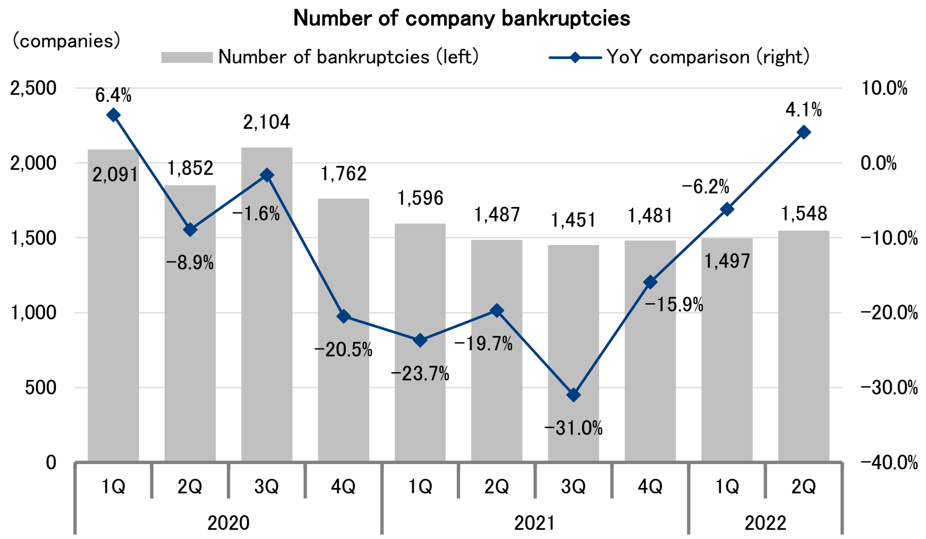
Consolidated results outlook for FY3/23

(¥mn)

	FY3/22			FY3/23				
	1Q results	Full-year results	Ratio to net sales	1Q results	YoY change	Forecasts	Ratio to net sales	YoY change
Net sales	1,913	7,894	-	2,040	6.6%	8,800	-	11.5%
Cost of sales	444	1,670	21.2%	373	-15.9%	-	-	-
Gross profit	1,469	6,224	78.8%	1,666	13.4%	-	-	-
SG&A expenses	602	2,492	31.6%	660	9.6%	-	-	-
Operating profit	866	3,732	47.3%	1,005	16.1%	4,150	47.2%	11.2%
Ordinary profit	864	3,760	47.6%	1,019	17.9%	4,200	47.7%	11.7%
Profit attributable to owners of parent	568	2,463	31.2%	705	24.0%	2,750	31.3%	11.6%
Earnings per share (¥)	12.33	52.92		15.01		58.70		

Source: Prepared by FISCO from the Company's financial results

The Company announced its 1Q results on July 29, 2022. Net sales increased 6.6% YoY to ¥2,040mn, operating income increased 16.1% to ¥1,005mn, ordinary profit increased 17.9% to ¥1,019mn, and profit attributable to owners of parent increased 24.0% to ¥705mn, as the Company got off to a solid start to the fiscal year. The balance of guarantees as of the end of 1Q increased 22.7% YoY to ¥597.8bn, as double-digit growth continued. It looks like the sales growth rate has slowed, but this is mainly due to the decline in the guarantee fee ratios. During this period, the number of corporate bankruptcies increased 4.1% YoY to 1,548 bankruptcies, the first increase in nine quarters, but the number continues to be at a low level. Also, the number of low-risk transactions are on the increase, which is believed to be one factor behind the decline in the guarantee fee ratio. Meanwhile, the cost of sales ratio also declined 15.9% due to the drop in the re-guarantee fee ratios, and the gross profit margin increased 13.4%, as double-digit growth continued. Although there is a possibility that from 2Q onward net sales will fluctuate due to changes in the guarantee fee ratios, the double-digit increase in profits is expected to continue.



Source: Prepared by FISCO using Teikoku Databank

Aiming for growth by strengthening the sales platform and developing businesses in peripheral areas

2. Key policies

The Company is working on the following two key policies for FY3/23.

(1) Strengthening the operating platform

In order to respond to the increasing needs for credit risk guarantee services aimed at reducing uncertainty in corporate activities amid growing uncertainty about the future of the economy, the Company is advancing measures to increase the number of sales personnel and quickly get them up to speed and producing. In addition, the Company is working to expand its sales offices in order to cultivate regional customers.

Regarding the number of sales employees, the Company increased the number year by year from roughly 50 at the end of FY3/21 to approximately 70 at the end of FY3/22, and during FY3/23 the Company plans to increase the number by 30% versus the end of FY3/22 to around 90 sales employees. The Company had just under 40 new graduate hires in April 2022, and the majority of these new hires were assigned to the sales department. Going forward, the Company plans to increase the number of sales employees to match the increase in needs.

Also, in order to get young employees quickly up to speed and to have them become producing employees, starting in FY3/23 the Company is introducing a uniform sales method and carrying out intensive training. In the past, the technique used for sales to acquire new contracts was left up to the discretion of individual sales staff, which led to wide discrepancies in performance, and it also took time for young employees to start producing. In order to solve this problem, the Company decided to standardize the sales technique. For example, with respect to the basic explanation about the service, the Company has created a video that has clients watch, and it has standardized the technique for estimating guarantee fee ratios and uses talk scripts, and is having this penetrate through sales staff by implementing intensive training. In terms of the effect after introducing these measures, the rate of acquiring new contracts among young employees has increased, and they are no longer inferior to veteran employees. The period until they produce used to be 2-3 years, but the Company has a target to shorten this to one year. Through these initiatives, the Company will strive to increase the productivity per sales employee and acquire new clients, as well as increase the balance of guarantees.

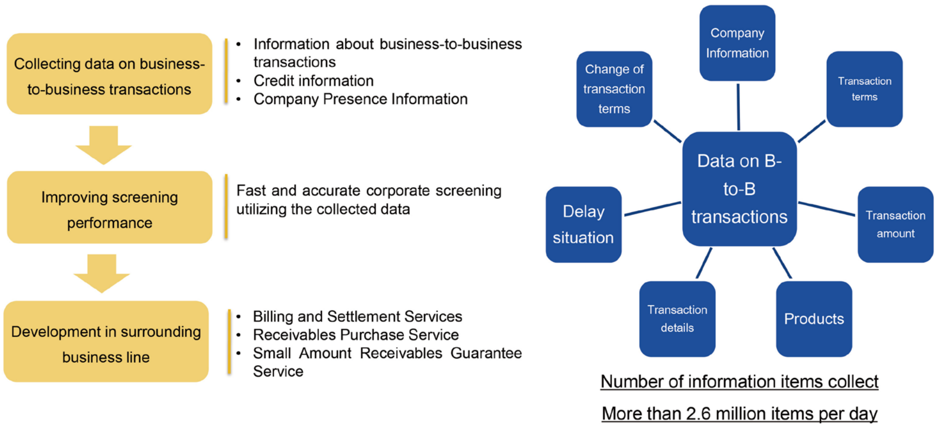
Meanwhile, with respect to opening sales offices, in May 2022 the Company opened the Tohoku branch, while in June 2022 the Company opened the Hokuriku branch, and the Company is working to cultivate new clients in these regions. It seems that the Company is considering opening one more regional office, and as a candidate it is believed that this will be an office that will cover the Chugoku and Shikoku regions, which are the only areas that are not currently covered. Fixed costs are expected to increase in conjunction with the opening of new offices, but considering the elimination of travel expenses and the improvement in productivity, they appear to be contributing positively to profits.

In addition, in regional offices, the Company plans to collaborate with partnering financial institutions to develop products that match the characteristics of each local industry. For example, in areas where the fishing and agricultural industries are concentrated, there are needs for guarantees that are different from those of most general companies, and the idea is to provide products that match these needs.

(2) Developing businesses in peripheral areas

In order to develop businesses in peripheral areas, the Company will continue to strengthen data collection on transactions among companies and develop services utilizing fast and highly-accurate corporate screening using the collected data.

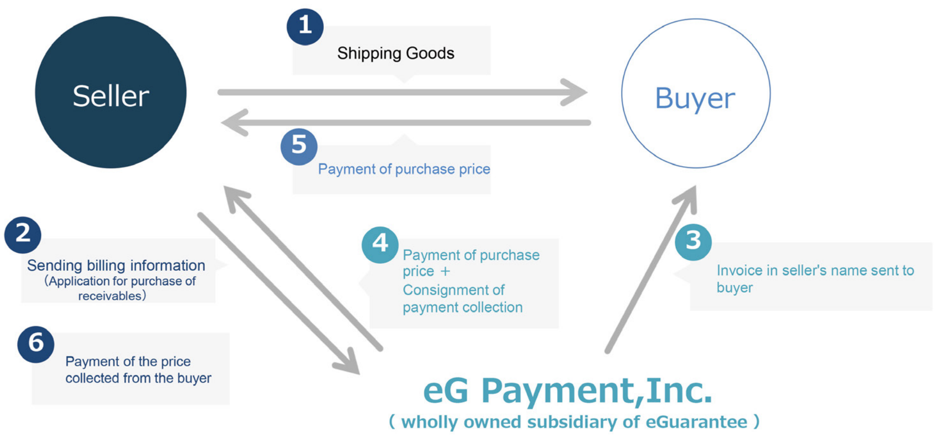
Peripheral business development utilizing data



Source: Company's results briefing materials

Currently, the number of screened companies exceeds 30,000 each month, and the Company keeps a database of transaction data for covered companies as well as credit information and other information, and each day the Company collects approximately 2.6 million pieces of data, which it keeps in the database. Utilizing this data, from November 2011 the Company started both eG Collect, an outsourcing service for administrative work such as issuing invoices, managing the receipt of payments, and recovery of sales proceeds, as well as eG Pay, a receivables purchase service which is an option of eG Collect. eG Collect is a service in which, if the payment from the counterparty of a client company is later than the payment deadline, eGuarantee will make the payment in place of the counterparty, so the client company can do business without assuming the risk of not being able to recover its receivables. eG Pay is a service in which, if a client company wants to quickly turn its receivables into cash, eGuarantee will purchase the client company's invoice and transfer the sales proceeds to the client company on the third business day after the application date. At a later date, the client company then transfers the sales proceeds it later recovers from the counterparty to the Company. The Company plans to bolster its sales of this service, anticipating an increase in demand for purchasing of receivables due to a future increase in the number of bankruptcies as a result of the expiration of loans provided by government-affiliated financial institutions.

Introduction of receivables purchasing service



Source: Company's results briefing materials

From the start the services until July 2022, the Company has concluded business matching agreements for eG Collect and eG Pay with 28 banks, just under half of the regional banks and shinkin banks that the Company partners with, and these services are sold at these financial institutions as one service for companies. Currently, it seems that sales are centered on e-commerce companies, with sales of around a few dozen million yen in FY3/22. Based on the fact that there is a strong need among companies to outsource tasks such as issuing invoices and collecting payments, and given the expectation for an increase in receivables purchasing needs if the number of bankruptcies increases in the future, there is believed to be a lot of room for growth in these services, and future developments will be closely watched.

There is significant latent demand for credit risk guarantee services, and the Company is receiving a lot of attention as a company for which growth can be expected over the medium to long term

3.Medium-term outlook

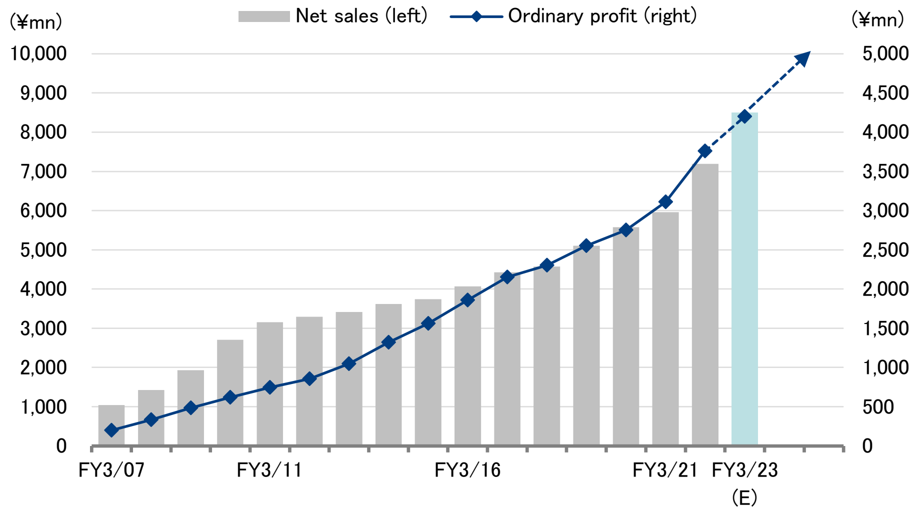
As its medium-term management target, the Company is aiming for consolidated ordinary profit of ¥5.0bn. In order to achieve this target, the balance of guarantees outstanding will need to increase to around ¥750 to ¥800bn, or 1.3x the amount as of the end of FY3/22 (assuming the average guarantee fee ratio and ordinary profit margin is fixed), and the expectation is that the Company can realize this in FY3/25 if things go smoothly.

The credit risk guarantee service provided by the Company sees an increase in demand during times when the domestic economy is deteriorating, so people sometimes think that the Company will struggle during times when the economy is strong, but one distinctive feature of the Company's business model is that its earnings grow even when the economy is good. When the economy is good, companies see an increase in accounts receivable along with the growth in sales, and more companies start new businesses, so guarantee needs for these businesses increase. As discussed above, the domestic market size for sales credits is immense at over ¥200tn, and there is significant room for cultivating new clients along with a lack of competitors providing similar services. If the Company strengthens its sales platform, the balance of guarantees will increase, so we at FISCO think that going forward there is a possibility for profit growth in the 10% range to continue.

Furthermore, the Company is eyeing overseas business development once the COVID-19 pandemic settles down, and it has already started preparing for that, including by acquiring human resources for that effort. Following the success model in Japan, it is likely that the Company will also collaborate with local financial institutions overseas to develop services for local subsidiaries of Japanese companies. Even from a long-term perspective, growth can be expected by the Company expanding its earnings portfolio, such as by developing new services in peripheral businesses, and the Company is attracting attention as a company that is expected to see sustained growth going forward.

One of the risk factors is intensifying competition due to the increase in the number of competitors entering the business, but as mentioned above, the ability to collect and analyze information to properly and quickly evaluate the risks of companies is the source of competitiveness in this industry. At FISCO, we believe that the Company has a large first-mover advantage because it has established systems to accumulate and evaluate immense amounts of credit information before others, and we feel that the risk from other companies entering the field is extremely low at this time.

Trends in long-term results



Source: Prepared by FISCO from the Company's financial results

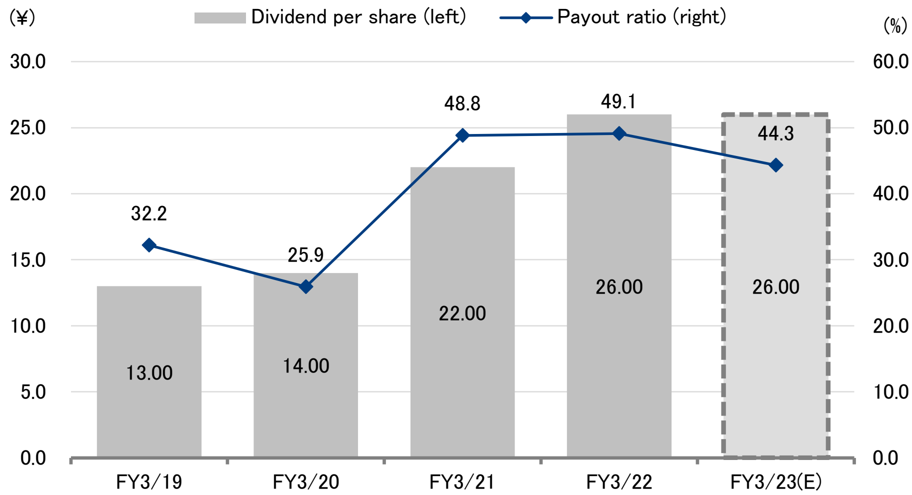
Shareholder return policy

Aiming to maintain and continuously increase the dividend payout ratio level

The Company's basic dividend policy is to pay dividends in line with earnings while also considering supplementing the internal reserves it needs to strengthen its financial structure and to actively develop its business. Due to progress made on enhancing its internal reserves based on the expansion of earnings, from FY3/21 the Company has increased its shareholder return rate to near 50%. Going forward, the Company is aiming to maintain the level of its dividend payout ratio and continue raising its dividend due to earnings growth as it has since its shares were listed.

In FY3/23, the Company plans to pay a dividend of ¥26.0 per share, the same as the previous year (for a dividend payout ratio of 44.3%), but if earnings progress well, we at FISCO think there is a strong possibility that the Company could increase its dividend. The Company also has a shareholder gift program. Specifically, eGuarantee uniformly awards a QUO card worth ¥1,500 to each shareholder who holds 100 or more shares at the end of March every year.

Dividend per share and payout ratio



Source: Prepared by FISCO from the Company's financial results

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