eGuarantee

8771 Tokyo Stock Exchange First Section

Company Research and Analysis Report
FISCO Ltd.
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■Sales and profits growing steadily under a recurring revenue business model

eGuarantee guarantees against the risk involved in sales credits. The company follows a recurring revenue business model in which sales are the product of the balance of guarantees outstanding times the guarantee fee. As the number of company customers has increased, the company' s balance of credit guarantees outstanding has risen.

eGuarantee' s credit risk guarantee business continues to expand. By the end of December 2013, the number of the company' s customers increased by about 10% year-to-year (y-o-y), and the balance of the company' s credit guarantees outstanding rose by 7.5% y-o-y to ¥194.9bn. The company is becoming increasingly well-known, it is expanding its line of credit guarantee products, and it is operating more efficiently after having improved its operating system.

In FY3/14, the company' s sales are likely to slightly undershoot the company' s forecast, reflecting a decline in the average guarantee fee. However, the company will probably report record-high profits again, as it has lowered its reinsurance cost as planned by optimizing its securitization of guarantees. Reflecting profit growth, the company has announced that it will raise its dividend per share for FY3/14 by ¥4.5 or by 25.7% y-o-y to ¥22.

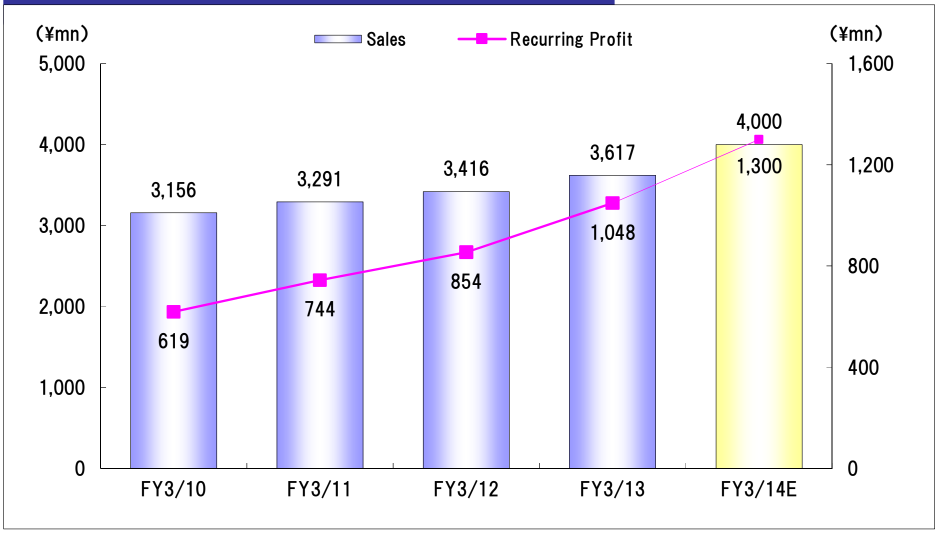
The company' s growth strategy in Japan calls for developing a small-denomination guarantee service, thereby expanding the scope of its customer base. The company has formed a business alliance with a Korean credit guarantee company and begun to guarantee the credit of exports to Korea by Japanese companies. Hereafter, eGuarantee plans to offer a similar service for exports to other Asian countries.

The Japanese market for guaranteeing against sales credit risk is still in its infancy, and eGuarantee has few competitors. Thus, it is likely to dominate the market for some time. As the company increases the number of its customers, its balance of credit guarantees outstanding should continue to grow, enabling annual profit growth of 20 – 30%.

■Check Points

- Given the growth potential of Japan' s credit guarantee market and the superiority of eGuarantee' s guarantee products, the company also has great growth potential
- In Q1-3 FY3/14, the company reported record-high sales and profits for the first three quarters of a fiscal year
- The company plans to strengthen its export credit guarantee service and other newer services to expand

Sales and Recurring Profit, FY3/10 – FY3/14E



■Company Profile

Original credit risk guarantee service has led growth

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. In 2001, the company began to offer its service of guaranteeing sales credits generated through real transactions among businesses.

In 2001, no other company in Japan guaranteed credit risk arising from transactions among private companies. 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 2008, it set up its first fund to invest in corporate credit and invested 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. A consolidated subsidiary of eGuarantee now invests in two funds with dispersed credit risk.

■Company Profile

In April 2012, eGuarantee set up Denshi Saiken Acceptance Ltd., a joint venture with NEC Capital Solutions (8793), 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. eGuarantee gurantees the electronically recorded credits purchased by Denshi Saiken Acceptance Ltd.

*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 History

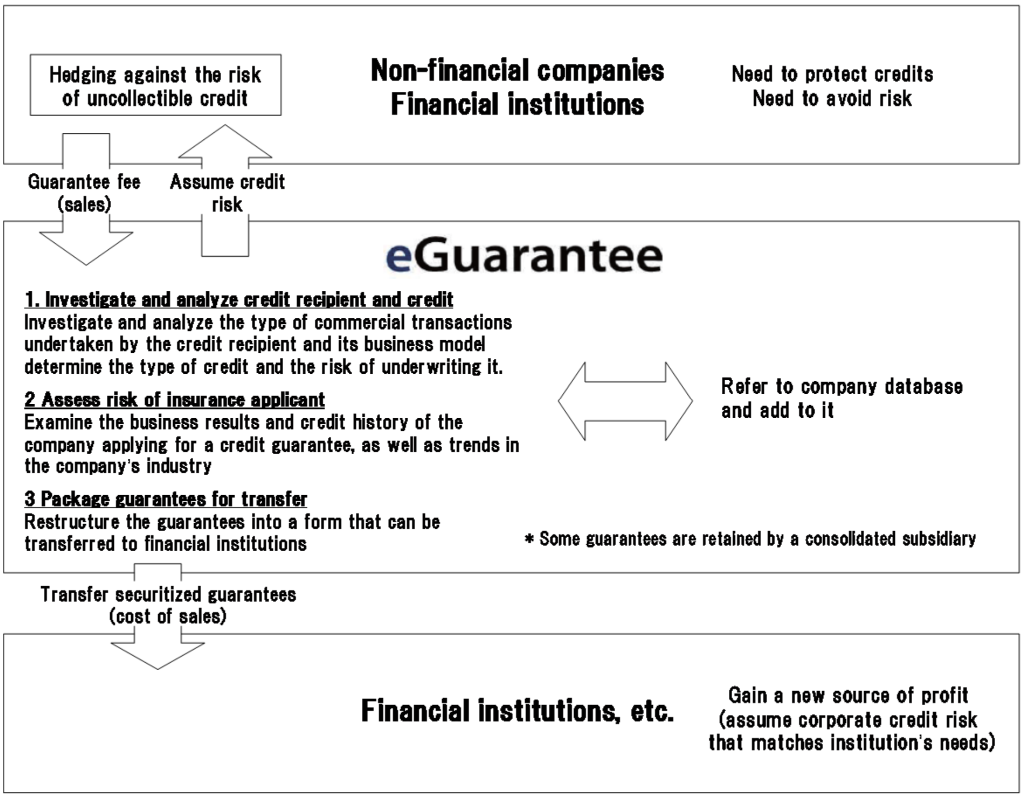
Sep-00	Established as a subsidiary of Itochu Corp.' s financial, real estate, insurance and distribution company to guarantee financial credit held by factoring companies, mainly as a result of the settlement of electronic commercial transactions.
Nov-01	Started offering a comprehensive guarantee service 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 EYebisu 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 Denshi Saiken Acceptance Ltd.., 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
Jul-13	Moved the main office in Tokyo to the Akasaka Biz Tower.

The balance of guarantees outstanding, a key determinant of sales, is growing steadily

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.

■Company Profile



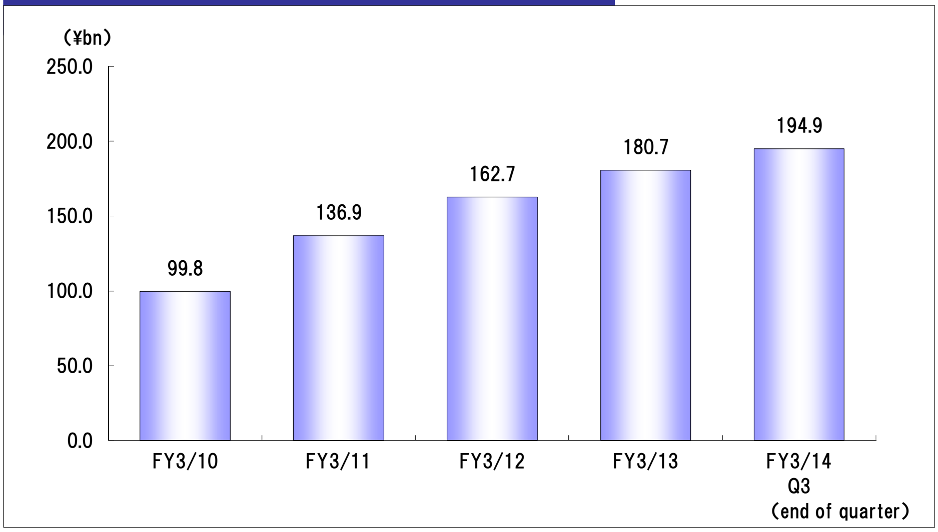
Source: compiled by FISCO Ltd. from financial statements of eGuarantee

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. Most contracts are 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 recurring revenue business model. Its guarantee fee can be affected by such factors as the state of the economy and the number of corporate bankruptcies, 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 ¥194.9bn at the end of December 2013 and supporting sales and profit growth.

■Company Profile

Balance of Guarantees Outstanding



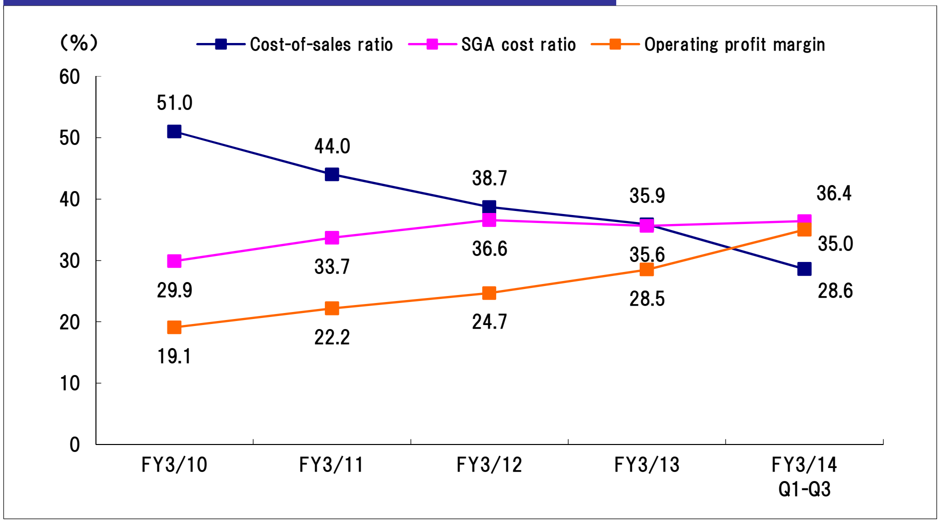
eGuarantee's guarantee fee changes somewhat by contract, depending on the risk of recoverability. This fee is set based on the results of eGuarantee's investigations and analyses of the company receiving the credit, the company seeking a guarantee, and the credit itself. eGuarantee is not bound by industry practice in setting its guarantee fee but must set a fee commensurate with the risk posed 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 non-bank financial companies, investment funds, 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, contributing to an increase in its operating profit margin.

■Company Profile

Cost-of-Sales Ratio, SGA Cost Ratio and Operating Profit Margin



Fixed-fee comprehensive guarantees with dispersible risk for non-financial companies provide most revenue

Sales by Product

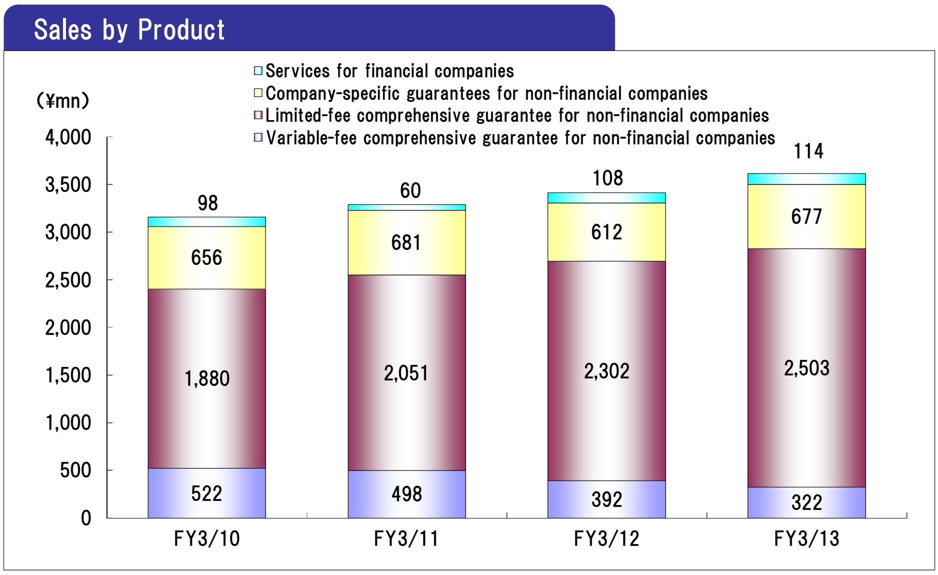
eGuarantee reports its sales according to four product categories that depend on the type of customer and the type of contract. For non-financial companies, eGuarantee offers two types of comprehensive guarantee and a company-specific guarantee. The comprehensive guarantees cover the credit risk of 10 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.

In one type of comprehensive guarantee, 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 69% of total sales in FY3/13.

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 risk of third-party credits arising in the course of providing such financial services as debt securitization.

■Company Profile



Itochu Corp. remains the top shareholder in eGuarantee, with a 25.0% stake. However, eGuarantee does not depend heavily on Itochu Corp. for sales. In the five fiscal years through FY3/13, eGuarantee obtained 6 – 9% of its sales from Itochu Corp. The fourth-largest shareholder in eGuarantee is Teikoku Databank, with a 7.0% stake. When eGuarantee was established, Teikoku Databank was an initial investor, and eGuarantee currently transacts some business with Teikoku Databank.

Through business ties with regional banks, eGuarantee extends its services to all leading cities in Japan

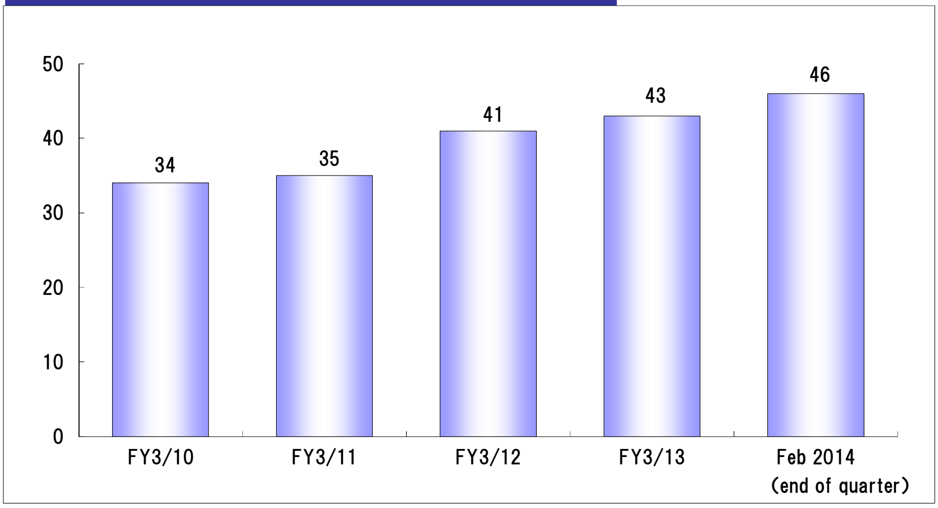
Operational Structure

In addition to its head office in Tokyo, eGuarantee has branch offices in Osaka, Fukuoka, Nagoya, and Hokkaido and a regular office in 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 regional banks, leasing companies, and insurance agencies affiliated with leading companies.

Many of the small and medium-sized companies targeted as customers by eGuarantee are customers of regional banks, and about half of eGuarantee's new customers are introduced to the company by regional banks. The regional banks benefit from business ties with eGuarantee because they can expand their customer services without assuming credit risk. eGuarantee independently attracts only 10-20% of its new customers, demonstrating the importance of business partners to its sales effort. At the end of February 2014, eGuarantee had established business agreements with 46 regional banks, allowing it to extend credit guarantees in all of Japan's important cities. eGuarantee currently has several thousand customers, for whom it guarantees the credit risk of several tens of thousands of business partners.

■Company Profile

Number of Regional Banks with Business Alliances with eGuarantee



Given the growth potential of Japan's credit guarantee market and the superiority of eGuarantee's guarantee products, the company also has great growth potential

Market Size and Competition

The Japanese market for corporate sales credit is approximately ¥200 trillion per year. 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.

Among services that resemble eGuarantee's credit guarantee service are guarantee factoring, extended by factoring companies affiliated with leading financial institutions, and transaction credit insurance, extended by property and casualty insurance companies. However, eGuarantee's services are superior to these services in several respects. They cover a broader range of companies and have the flexibility to charge fixed fees. Furthermore, they guarantee financial credits and contract credits, as well as sales credits. Thus, eGuarantee's services appear to have greater growth potential than similar services provided by other companies.

eGuarantee is the only listed company in Japan that specializes in credit guarantees. Trust&Growth Co., Ltd., an unlisted subsidiary of Raccoon Co., Ltd. (3031), offers credit guarantees, but its balance of outstanding guarantees is small, at somewhat more than ¥4bn. 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.

■Business Trends

Sales and profits hit record highs for the first three quarters of a fiscal year

Q1-3 FY3/14 Results

On January 30, 2014, eGuarantee announced its results in the first three quarters of FY3/14, i.e., in Q1-3 FY3/14. Sales grew 3.4% y-o-y to ¥2,795mn, operating profit rose 20.5% to ¥979mn, recurring profit increased 20.5% to ¥994mn, and net profit advanced 23.0% to ¥557mn. Sales and profits reached record highs, continuing the company's growth trend. The company's balance of guarantees outstanding stood at ¥194.9bn at the end of Q3 FY3/14, up 7.5% y-o-y.

Income Statement, Q1-3 FY3/13 and Q1-3 FY3/14

(Unit: ¥mn)

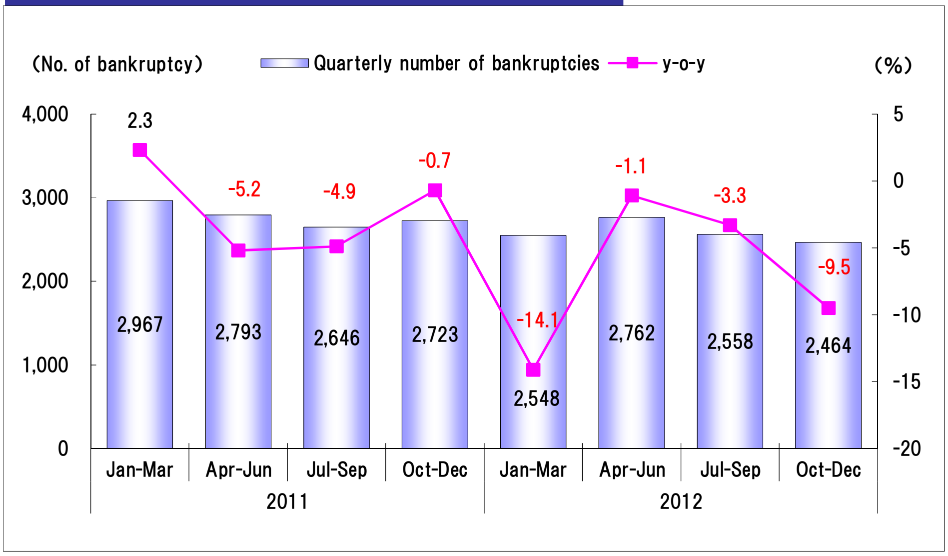
	Q1-3 FY3/13		Q1-3 FY3/14		
		Ratio to sales		Ratio to sales	y-o-y
Sales	2,703	-	2,795	-	3.4%
Cost of sales	946	35.0%	798	28.6%	-15.7%
SGA cost	943	34.9%	1,017	36.4%	7.9%
Operating profit	813	30.1%	979	35.0%	20.5%
Recurring profit	825	30.5%	994	35.6%	20.5%
Net extraordinary gain/loss	-31	-1.2%	18	0.7%	-
Net profit	453	16.8%	557	19.9%	23.0%

Sales generated in Q1-3 FY3/14 were 69.9% of the company's sales forecast for the full fiscal year, while operating profit earned in Q1-3 FY3/14 was 76.5% of the company's operating profit forecast for the full fiscal year. Thus, sales in the first three quarters lagged slightly behind company expectations. This is because there were fewer corporate bankruptcies in Q1-3 FY3/14 than the company had foreseen, reflecting a recovery of Japan's economy. Consequently, eGuarantee's average guarantee fee declined in Q1-3 FY3/14, adversely affecting sales. Following the expiration of the SME Finance Facilitation Act at the end of March 2013, there was a slight increase in the number of bankruptcies of small and medium-sized companies, but in the final nine months of 2013, the number of total bankruptcies fell.

Although sales in Q1-3 FY3/14 were slightly lower than the company had projected, the company's cost-of-goods-sold ratio fell to 28.6% in Q1-3 FY3/14 from 35.0% in Q1-3 FY3/13 because its reinsurance cost declined with the downturn in the number of bankruptcies, the company's effective use of investment funds, and the optimal securitization of guarantees. Personnel costs increased, raising the company's ratio of SGA costs to sales to 36.4% in Q1-3 FY3/14 from 34.9% in Q1-3 FY3/13, but the large drop in the cost-of-goods-sold ratio led to an increase in the operating profit margin to 35.0% in Q1-3 FY3/14 from 30.1% in Q1-3 FY3/13.

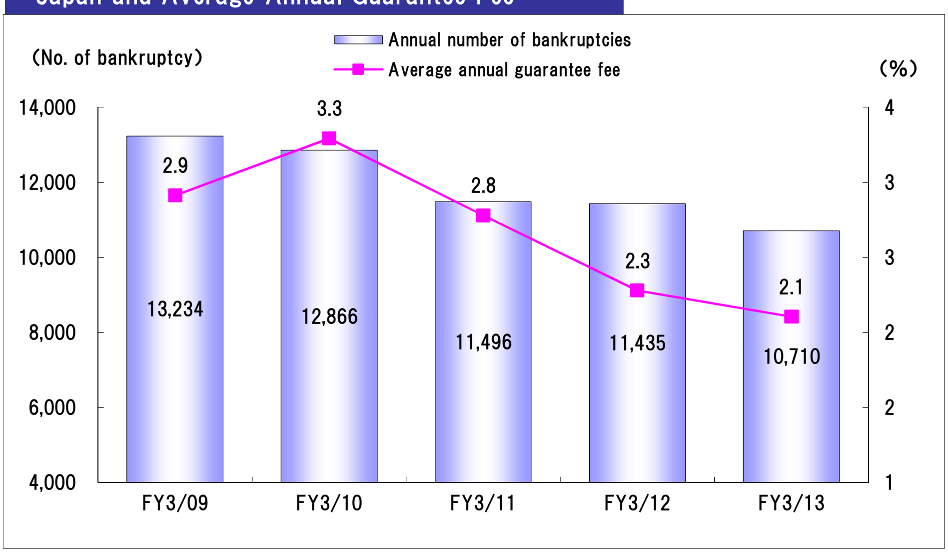
■Business Trends

Number of Significant Bankruptcies in Japan and Y-o-y Rate of Change



Source: Teikoku Databank

Annual Number of Significant Bankruptcies in Japan and Average Annual Guarantee Fee



Sources: Teikoku Databank for number of bankruptcies; average guarantee fee was calculated by dividing the company's annual sales by its average balance of guarantees outstanding

■Business Trends

Financial Condition

Total assets at the end of Q3 FY3/14 were ¥7,945mn, which was ¥83mn less than the balance at the end of FY3/13. Cash and cash equivalents decreased by ¥1,034mn between the end of FY3/13 and the end of Q3 FY3/14, reflecting an increase in purchases of investment securities and an increase in prepaid expenses accompanying the conclusion of long-term contracts with some acceptors of securitized guarantees. The company finalized these long-term contracts because it started offering multi-year credit guarantees and because it wanted to reduce its risk if its reinsurance cost should rise in the future. Minority shareholder interest decreased by ¥317mn because eGuarantee’ s investment subsidiary returned some of its fund capital to investors to improve the efficiency of its fund management. eGuarantee plans to increase its fund investment if its reinsurance cost trends upward again and to prepare for an upturn in corporate bankruptcies.

With almost no interest-bearing debt and ample net cash, eGuarantee’ s current ratio was more than 200% at the end of Q3 FY3/14, attesting to its strong financial position. The company is also highly profitable. Its operating profit margin has been rising each year, and its ROE remains above 10%.

Balance Sheet

(Unit: ¥mn)

	FY3/13	FY3/14 Q3	Change	Contributing factor
Current assets	6,732	6,094	-637	
Cash and deposits	5,429	4,394	-1,034	Purchase of investment securities, increase in prepaid expenses
Prepaid expenses	1,052	1,447	394	Concluded long-term contracts with some acceptors of risk guarantees
Fixed assets	1,296	1,850	553	Investment securities rose by¥693mn
Total assets	8,029	7,945	-83	
Current liabilities	2,793	2,685	-108	
Fixed liabilities	291	230	-61	
Interest-bearing debt	268	220	-47	
Total liabilities	3,084	2,915	-169	
Shareholders’ equity	3,877	4,299	422	Retained earnings were added to equity
Equity warrants	38	19	-18	
Minority interest	1,028	710	-317	Investment funds reduced investment in the company
Total equity	4,944	5,030	86	
Total liabilities and equity	8,029	7,945	-83	

■Business Prospects

Likely to attain profit forecasts, reflecting support operating environment

For FY3/14, the company projects consolidated sales of ¥4.0bn, up 10.6% y-o-y, operating profit of ¥1.28bn, up 24.1%, recurring profit of ¥1.3bn, up 24.0%, and net profit of ¥700mn, up 21%. Based on its results in Q1-3, FY3/14, it appears that full-year sales may fall somewhat short of the company’ s forecast, but profits should reach the forecasts, and both sales and profits are likely to hit record highs again.

The number of corporate bankruptcies in Japan continued to decline in early 2014, and the company’ s market environment has not changed significantly. Thus, eGuarantee’ s balance of outstanding guarantees is likely to reach about ¥200bn by the end of FY3/14.

From FY3/14, eGuarantee is taking the following measures to support the continued increase in its balance of outstanding guarantees.

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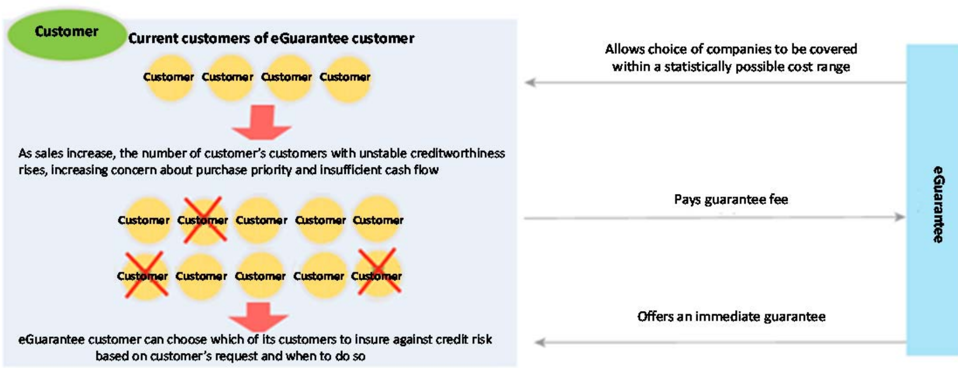
■Business Prospects

Expanding its line of credit guarantee services

To enable the company to meet customer needs flexibly, in FY3/14 eGuarantee introduced a new guarantee service in which customers can freely select their own customers for credit guarantee and started promoting multi-year contracts. Previously, eGuarantee had decided which companies to guarantee against credit risk based on its own investigation. The new service allows customers to decide which of their customers to insure within a fixed guarantee amount. Previously, all guarantee contracts had been renewed annually. Now, customers can conclude contracts for two or three years. The guarantee fee remains fixed for the duration of a contract, so customers can limit their guarantee cost during periods of rising guarantee fees by entering long-term contracts.

The profitability of these new types of services is about the same as the profitability of older services, but the flexibility allowed by the new services should attract more new customers. Customers are showing interest in the long-term contract service. They have not yet shown much interest in the service offering a free selection of insured companies, probably because the risk of bankruptcy is declining. However, when the Japanese economy enters a recession and the risk of bankruptcy increases, the demand for this service is likely to rise.

Diagram of eGuarantee's New Free-framework Guarantee Service



Source: Company

Introducing a business management system and shortening the cost estimate period

In FY3/14, the company introduced a new business management system with the aim of increasing productivity by enabling management to view the daily flow of customer inquiries, requests for investigations, and applications for contracts. Since this system was introduced, the ratio of contracts to inquiries has increased by about 50%.

eGuarantee is also upgrading its research database to improve productivity. Account executives can enter information obtained from customers directly into this database during hearings with the customers, allowing the company to quickly prepare a cost estimate reflecting current market conditions. Before the database was upgraded, about two weeks were required to present a cost estimate after receiving an application for one. Now, an increasing number of cost estimates are being presented within a week of application, which should raise eGuarantee's productivity.

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■Business Prospects

Strengthening ties with business partners and promoting Internet system use

To strengthen its ties with regional banks, eGuarantee has assigned each of its account executives responsibility for only one regional bank, whereas each executive used to be responsible for two or three banks. This change enabled the account executives to respond to the requests of customers and potential customers faster and in greater detail than previously and has already resulted in a large increase in the number of customer inquiries.

eGuarantee is also building an Internet system to allow customers to complete all the steps from application for a service to the conclusion of a contract via the web. The company has started test marketing of this system and will probably implement it on a full scale from the summer of 2014. Initially, this system will be used mainly to make it more convenient for existing customers to renew their contracts. In the future, however, the system may be used to start services for smaller customers.

eGuarantee employees are also making seminar presentations to increase the recognition among financial institutions of the company's service for such institutions. Japan's Financial Services Agency plans to set collateral values for sales credits as part of a drive to improve the finances of small and medium-sized companies. The Bank of Japan and private financial institutions are convening seminars to explain this plan, and representatives of eGuarantee attend these seminars and explain the use of sales credit guarantees as a financial tool.

Business Ties Became 46 Regional Banks

Awa Bank	Iyo Bank	Bank of Iwate
Oita Bank	Ogaki Kyoritsu Bank	Kinki Osaka Bank
San-in Godo Bank	Shiga Bank	Shikoku Bank
Shizuoka Bank	Eighteenth Bank	Shonai Bank
Joyo Bank	Daishi Bank	Chiba Bank
Tottori Bank	Tomato Bank	Nagoya Bank
Nishi Nippon City Bank	Hachijuni Bank	Higo Bank
Hyakujushi Bank	Hiroshima Bank	Fukui Bank
Hokkaido Bank	Miyazaki Bank	Musashino Bank
Yamaguchi Bank	Yamanashi Chuo Bank	Kyoto Bank
Hyakugo Bank	Toho Bank	Saga Bank
Nanto Bank	Yamagata Bank	Aomori Bank
Hokuto Bank	Sendai Bank	Ashikaga Bank
Tokyo Tomin Bank	Tokyo Star Bank	Gunma Bank
77 Bank		

Source: Company, as of February 2014

■Long-term Strategy

Strengthening its export credit guarantee service and other newer services to expand

eGuarantee is developing its businesses with the goal of increasing its recurring profit by at least 20-30% per year in the medium term. In Japan, the company plans to expand its sales credit guarantee service for small companies, while overseas, it plans to develop its export credit guarantee service.

Expanding sales credit guarantee service for small companies

Until recently, eGuarantee has served mainly companies with annual sales of several billion yen or more and has concluded service contracts for only ¥1mn or more. However, it has recently started offering a service for small companies that involves contracts of only several hundred thousand yen each. This smaller scale service can also be used as a trial service for customers.

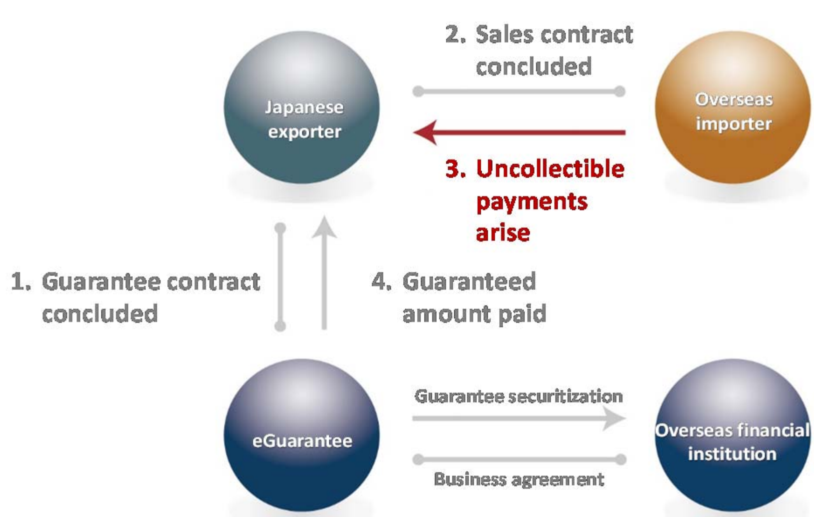
The main sales channels for this small-lot service will be credit associations and credit unions. The company may also sell the service through the Internet. However, it does not intend to employ many personnel for direct sales of this service. Therefore, we believe that this new service could be more profitable than the company’s services for larger companies. To develop the small-lot service, eGuarantee set up subsidiary RJG Guarantee Co., Ltd. in February 2014.

Developing export credit guarantee service

In December 2013, eGuarantee announced that it had concluded a business agreement with Hyundai Marine & Casualty Fire Insurance Co. and several other leading Korean financial institutions. Through this agreement, eGuarantee began guaranteeing against the credit risk of exports to Korea by Japanese companies. eGuarantee’s Korean business partners re-underwrite the risk.

Many smaller Japanese companies which export do so through Japanese trading companies, but they pay a fee of 10-20% for this service. eGuarantee charges a fee of only 3-5% to guarantee against the risk of export credit. Many Japanese companies still chose to export through trading companies because the trading companies can also develop a customer base in the export market and otherwise support sales in the market. Therefore, small Japanese exporters are unlikely to suddenly shift to eGuarantee’s export credit guarantee service.

Diagram of eGuarantee’s Export Credit Guarantee Service



Source: Company

■Long-term Strategy

So far, eGuarantee has concluded few contracts for guaranteeing export credits. Furthermore, the company has not yet transferred the credit risk of Korean importers to Korean financial institutions, and these institutions virtually set guarantee fees. If the number of export credit guarantee contracts increases and eGuarantee accumulates experience in transferring the credit risk of Korean importers to Korean financial institutions, eGuarantee may be able to negotiate lower guarantee fees with the financial institutions. However, we estimate that it will take at least two years before the export credit guarantee service turns profitable.

The export credit guarantee service is common in the U.S. and Europe, so it is likely to spread in Japan. Japanese exports to other Asian countries will probably continue to grow. Therefore, eGuarantee is now negotiating with financial institutions in China, Thailand and Taiwan with the aim of establishing business ties with one or two financial institutions in each country this year and starting to offer its export credit guarantee service this year. In the long term, overseas business may account for about half of eGuarantee’ s total sales.

■Shareholder Return Policy and Risks to Business

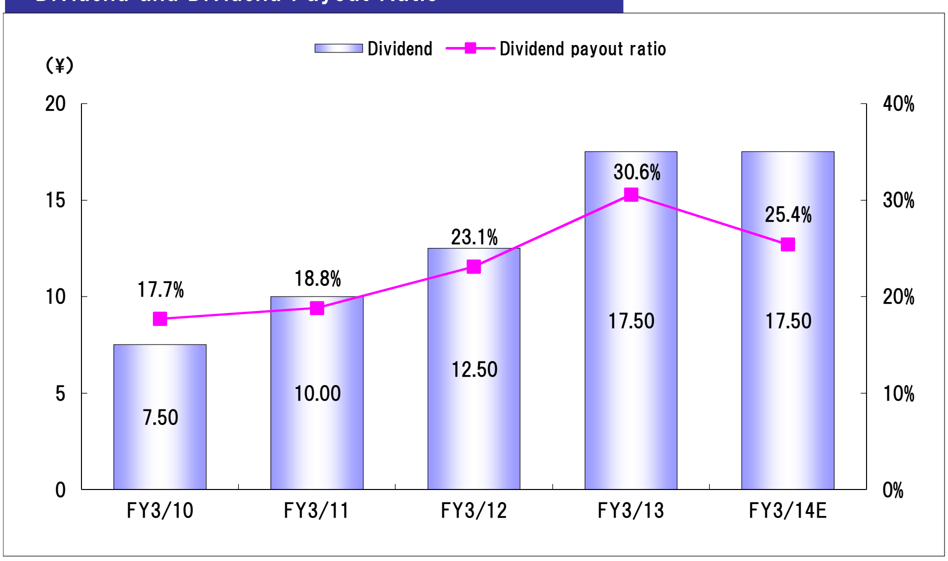
Dividend raised continuously to reflect profit growth

Shareholder Return Policy

Guarantee’ 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. The company targets a dividend payout ratio of 30%, and it has announced a dividend increase for FY3/14.

To increase the number of its shareholders and to induce them to hold the shares over the long term, eGuarantee began a shareholder gift program in FY3/13, awarding each shareholder a Quo card worth ¥1,500.

Dividend and Dividend Payout Ratio



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

■Shareholder Return Policy and Risks to Business

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.

Income Statement

(Unit: ¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14E
Sales	3,156	3,291	3,416	3,617	4,000
y-o-y	16.8	4.3	3.8	5.9	10.6
Cost of sales	1,609	1,448	1,321	1,297	-
Cost-of-sales ratio	51.0	44.0	38.7	35.9	-
SGA cost	943	1,110	1,251	1,287	-
SGA cost ratio	29.9	33.7	36.6	35.6	-
Operating profit	603	732	842	1,031	1,280
y-o-y	28.2	21.2	15.1	22.3	24.1
Margin	19.1	22.2	24.7	28.5	35.0
Recurring profit	619	744	854	1,048	1,300
y-o-y	28.2	20.2	14.8	22.7	24.0
Margin	19.6	22.6	25.0	29.0	32.5
Pretax profit	619	743	885	1,016	-
y-o-y	29.0	20.0	19.2	14.8	-
Margin	19.6	22.6	25.9	28.1	-
Income taxes	272	303	358	391	-
Effective tax rate	44.1	40.9	40.5	38.6	-
Minority interest	4	10	58	45	-
Net profit	342	429	468	578	700
y-o-y	25.8	25.3	9.2	23.5	21.0
Margin	10.8	13.0	13.7	16.0	17.5
Average number of shares outstanding (thous.)	8,080	8,080	8,659	10,112	-
Earnings per share (¥)	42.37	53.09	54.12	57.23	68.86
Dividend per share (¥)	7.50	10.00	12.50	17.50	17.50
Book value per share (¥)	268.84	314.43	363.31	381.38	-
Dividend payout ratio (%)	17.7	18.8	23.1	30.6	25.4

Note: The company made a 2 – for – 1 share split on March 1, 2013. All per-share figures for years before FY3/13 have been adjusted for this split.