eGuarantee
8771 Tokyo Stock Exchange
First Section

12-May-15

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at the end of this document.

FISCO Ltd. Analyst
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Sustained earnings growth atop steady increases in the balance of credit guarantees outstanding

eGuarantee, Inc.'s (8771) core business is to provide credit risk guarantee services targeting 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 follows a recurring revenue business model in which net sales equates to the product of the balance of outstanding guarantee times the guarantee fee ratio. As the number of client companies has increased, the Company's balance of credit guarantees outstanding has risen. As a result, eGuarantee has delivered sustained growth.

Looking at the Company's financial results, net sales and earnings have both remained on a growth trajectory owing to steady increases in the balance of credit guarantees outstanding. As of December 31, 2014, the balance of credit guarantees outstanding stood at ¥227,734mn, an increase of 16.8% year on year (yoy), reaching an all-time high. As of March 31, 2015, the balance of credit guarantees outstanding appears to have surpassed more than ¥230,000mn. The balance has increased because the Company's credit guarantee services are becoming better known and its sales channels are expanding via alliances with regional financial institutions. In the fiscal year ended March 31, 2015 (FY3/15), net sales were slightly sluggish due to a decline in the average guarantee fee ratio as a result of fewer corporate bankruptcies. However, the Company is expected to achieve its operating profit forecast for the full fiscal year (¥1,530mn, up 17.7% yoy) based on an increase in profitability mainly underpinned by lower securitization costs.

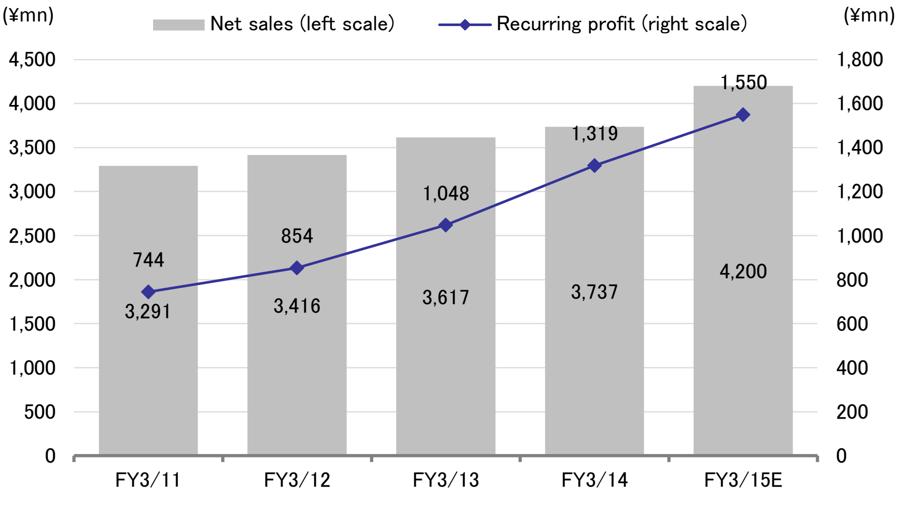
In FY3/16, the Company is expected to deliver annual profit growth of around 20%, mainly based on an anticipated increase in the balance of credit guarantees outstanding. eGuarantee is implementing growth strategies to drive further business expansion. These strategies include upgrading and expanding the Company's line of credit guarantee products, along with developing new customers by strengthening alliances with regional financial institutions. Besides launching a small-ticket credit guarantee service via its subsidiary in 2014, eGuarantee is strengthening sales of its export credit guarantee service in China, South Korea and elsewhere in Asia. Although each of these services still represents only a several percent of the overall balance of credit guarantees outstanding, the small-ticket credit guarantee service has a high degree of profitability and the export guarantee service has significant growth potential. Accordingly, these two services serve as the core drivers of the Company's financial results over the medium and long terms.

Looking at the Shareholder Return Policy, eGuarantee's basic policy is to pay dividends in line with earnings while retaining the internal reserves needed to aggressively expand business and ensure a strong financial position. In FY3/15, eGuarantee plans to issue an annual dividend of ¥28.00 per share, representing a dividend payout ratio of 32%. If earnings growth continues in FY3/16, the Company is likely to continue increasing its dividend. 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.

Check Point

- Record-high financial results delivered for Q1-Q3 FY3/15 owing to cost cutting and increases in the number of contracts
- Targeting growth in the number of contracts by establishing a follow-up support structure for financial institution partners
- Strong prospects for maintaining the dividend payout ratio at the 30% level and increasing dividends in line with improved earnings

Net sales and recurring profit



Company Profile

Expanding business by partnering with overseas financial institutions and setting up subsidiaries

(1) Company History

eGuarantee can trace its origins to its establishment as a subsidiary of ITOCHU Corp. (8001) by Mr. Masanori Eto, the current president and CEO of eGuarantee, during his third year as an ITOCHU employee. 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 2008, eGuarantee arranged its first fund to invest in corporate credit and invested in the fund itself. Until this fund was arranged, eGuarantee had packaged its guarantees according to the degree of risk and sold these packages to financial institutions for hedging the risks. Arranging a new fund to invest in corporate credit has enabled the Company to diversify its opportunities for profit and increase the amount of credit it underwrites, adding further impetus to growth.

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. The purpose of the acquisition was to upgrade and expand the Company's business foundations and bolster its product development capabilities by obtaining expertise related to export credit guarantees. By 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 business in those countries.

In step with expansion in its business volume, in 2013 eGuarantee established eGuarantee Solution, Inc. as a wholly owned subsidiary to specialize mainly in contract-related administrative work and data registration services. In 2014, eGuarantee set up wholly owned subsidiary RJG Guarantee Co., Ltd. as a specialized provider of small-ticket credit guarantee services.

Company History

Month / year	Main events
Sep-00	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.
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.
Mar-07	Listed shares on the JASDAQ Securities Exchange.
Aug-08	Arranged Credit Creation 1, the company's first fund for investment in corporate credit risk.
Nov-09	Arranged Credit Investment 1, the company's second fund for investment in corporate credit risk.
Dec-11	Listed shares on the Second Section of the Tokyo Stock Exchange.
Jan-12	Purchased part of the business of Coface Japan Finance Co., Ltd., a member 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.
Nov-13	Established eGuarantee Solution, Inc. as a subsidiary to conduct contract-related administration work, data registration services and other related activities.
Dec-13	Entered into a business alliance with a leading local financial institution in South Korea and launched export credit guarantee services for exports to South Korea.
Mar-14	Established RJG Guarantee Co., Ltd. as a subsidiary to provide small-ticket credit guarantee services.
Jun-14	Entered into a business alliance with the Tokyo Branch of China-based Bank of Communications and commenced export credit guarantee services for exports to China.

Generating profits by diversifying and upgrading methods of transferring credit risk

(2) 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.

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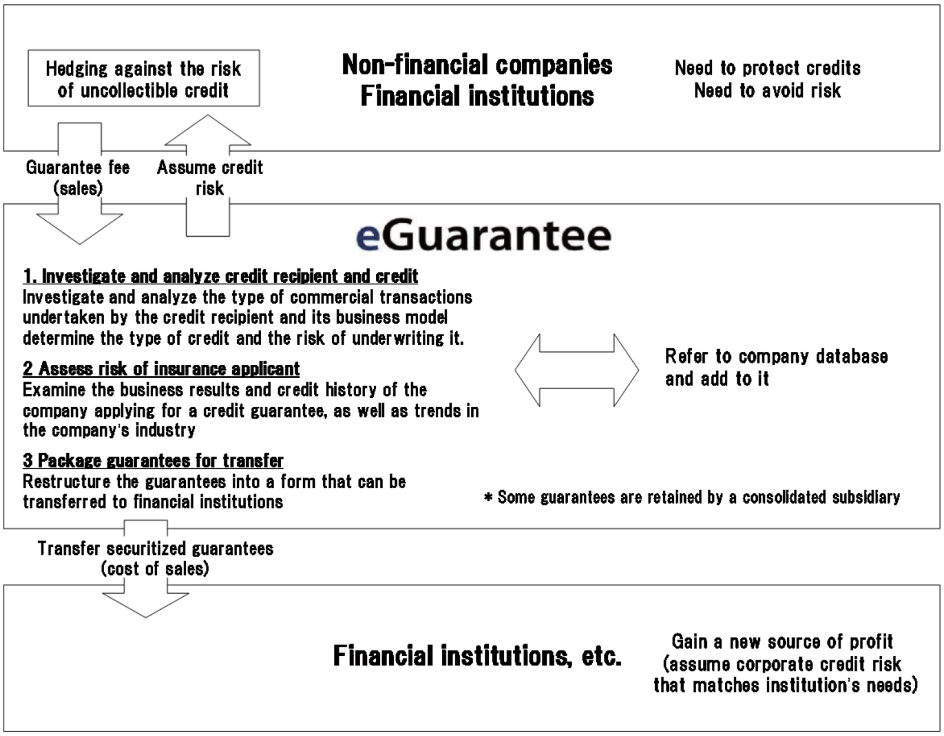
Business Flow

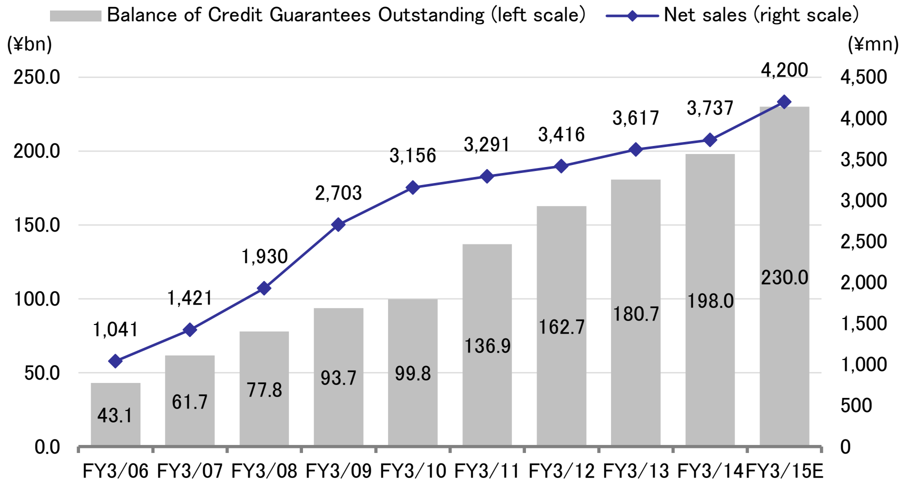


Source: compiled by FISCO Ltd. from financial statements of eGuarantee

First, 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 if it should become irrecoverable. By paying a guarantee fee to eGuarantee, the client company minimizes its risk of loss from an irrecoverable sales credit. 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 upfront, 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.

As eGuarantee's net sales are the product of its balance of guarantees outstanding times its guarantee fee ratio, the Company follows a recurring revenue business model. Therefore, the key to driving growth in net sales lies in increasing the balance of credit guarantees outstanding.

Balance of Credit Guarantees Outstanding and Net Sales

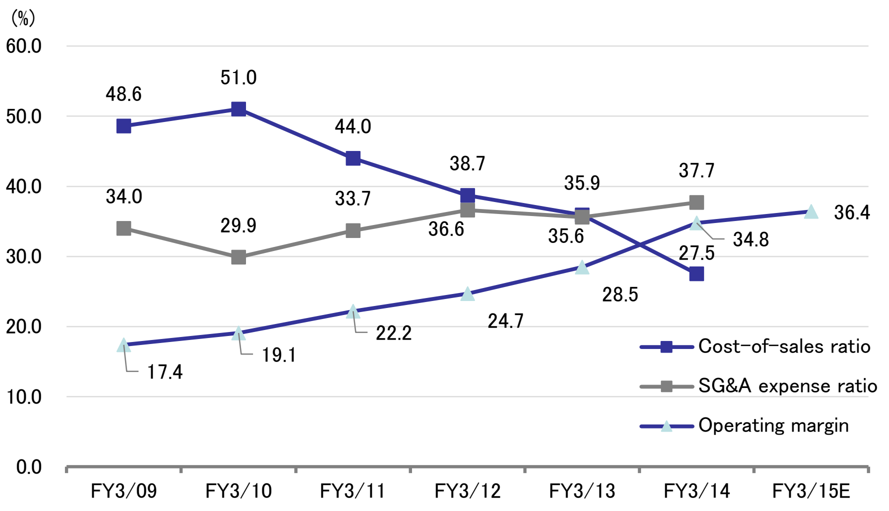


The guarantee fee ratio differs depending on each individual contract. This is because the risk of recoverability and the amount of the guarantee are different for each case. In practice, the guarantee fee ratio is set based on the result of eGuarantee's investigations and analyses of the credit that will be guaranteed by the contract and investigations of risk associated with the companies subject to the guarantee. Furthermore, 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 decreasing, the credit risk is lower. This means that the guarantee fee ratio will also be set lower. However, eGuarantee is not bound by industry practice in setting its guarantee fee, but must set a fee that justifies the cost of hedging the risk for the client, if it wants to successfully conclude a contract. For this reason, eGuarantee sets the guarantee fee in line with the needs of the user.

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), according to their needs. 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 gross margin depends mainly on the spread between the guarantee fee ratio agreed upon by the Company and its clients and the reassurance 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 cost-of-sales ratio by diversifying and upgrading its methods of transferring credit risk. In addition, by arranging investment funds at a subsidiary, eGuarantee has reaped benefits such as reducing the amount of guarantee fees paid to third parties, as well as increasing the amount of guarantees undertaken. These benefits have been a key factor behind the increase in eGuarantee's operating margin in recent years.

Cost-of-sales ratio, SG&A expense ratio and operating margin

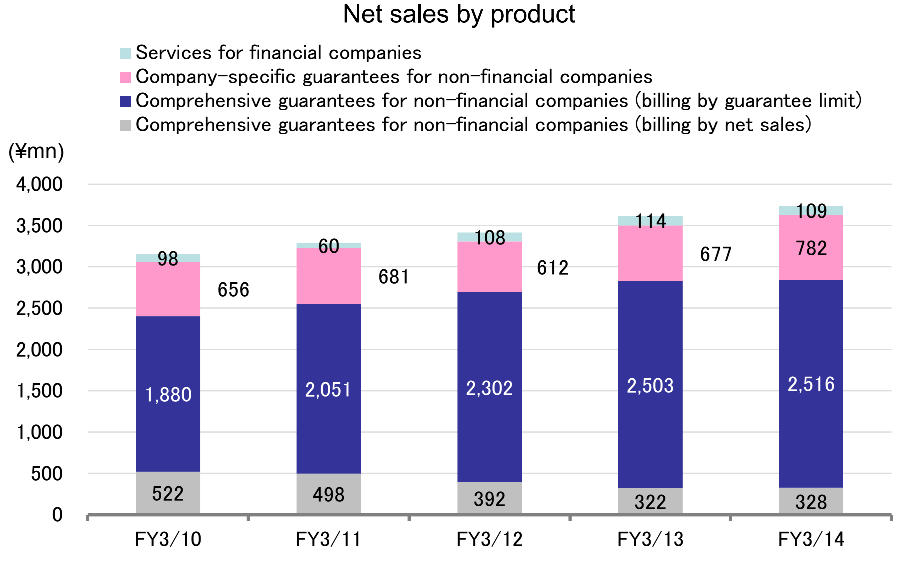


Winning new customers across a broad range of businesses centered on the comprehensive guarantee service for non-financial companies

(3) Net Sales by Product

eGuarantee provides disclosure of its businesses in four product categories based on the contract counterparty and the type of contract. The product category that generates the largest net sales is comprehensive guarantees for non-financial companies (billing by guarantee limit). This product category accounts for 70% of overall net sales.

The comprehensive guarantee service provides a guarantee contract that comprehensively assumes the credit risk of 10 or more companies that are transaction counterparties of the client company. The transaction counterparties whose credit risk is covered may be grouped in a number of ways, including by net sales ranking or transaction terms. This guarantee service achieves risk dispersion by comprehensively transferring the credit risk of multiple transaction counterparties. For this reason, the client company is able to benefit from a lower guarantee fee than if it entered into separate guarantee contracts for each transaction counterparty. Another benefit is that comprehensive guarantees allow the client company to mitigate its cost of managing the credit of its transaction counterparties.



Looking at the different types of billing methods for comprehensive guarantees, the billing-by-sales method involves charging the client company a fee that is calculated by applying a guarantee fee ratio set for each transaction counterparty to the client company's actual monthly net sales to each transaction counterparty. This billing method is optimal for providing guarantees to client companies that experience well-defined busy and quiet seasons in their businesses. On the other hand, the billing-by-guarantee-limit method involves charging the client company a guarantee fee based on a guarantee limit set in advance, regardless of the actual amount of transactions between the client company and its transaction counterparties. The comprehensive guarantee service based on the latter billing method has become eGuarantee's mainstay product category.

Company-specific guarantee contracts are contracts in which eGuarantee assumes the credit risk of a transaction counterparty chosen by the client company on a single-company basis. The only billing method available is the billing-by-guarantee-limit method. For financial companies, eGuarantee provides a service that assumes the credit risk of various types of receivables held by financial institutions and other entities.

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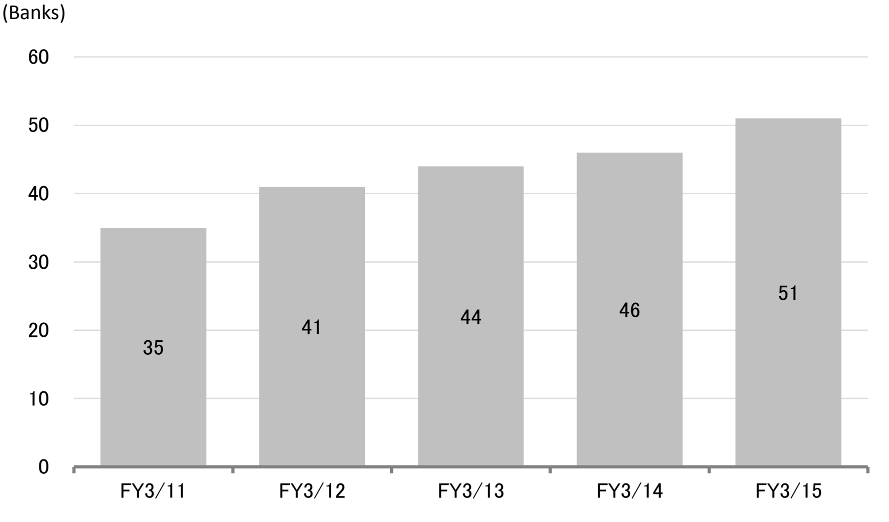
As of March 2015, eGuarantee had approximately 1,500 client companies, ranging from small and medium-sized enterprises to major corporations. Furthermore, the Company guarantees the credit of approximately 40,000 companies. eGuarantee's customers are spread out evenly across a multitude of industries, including the wholesaling, retailing, and manufacturing sectors. Accordingly, eGuarantee's business performance is not susceptible to business volatility in any particular sector.

Nationwide expansion achieved by setting up branches in core cities and forming alliances with 51 regional banks

(4) Operational Structure

In addition to its head office in Tokyo, eGuarantee has opened branches in Osaka, Fukuoka, Aichi, and Hokkaido in the course of expanding its network across Japan. The Company plans to maintain its current operational structure in terms of its business locations. Meanwhile, eGuarantee has efficiently developed customers by forming business alliances with financial companies, trading companies, leasing firms and other partners. Notably, eGuarantee has strengthened its business alliances with regional banks, which have many local small and medium-sized enterprises among their customers. As of March 31, 2015, eGuarantee had entered into business alliances with 51 regional banks, establishing an alliance network spanning nearly all of Japan. Looking at the breakdown of the number of customer referrals, referrals from regional banks account for around half of the total, followed by referrals via trading companies and those from other channels.

Number of regional banks with business alliances with eGuarantee



Reaping first-mover profits on the back of domestic economic recovery and market growth potential

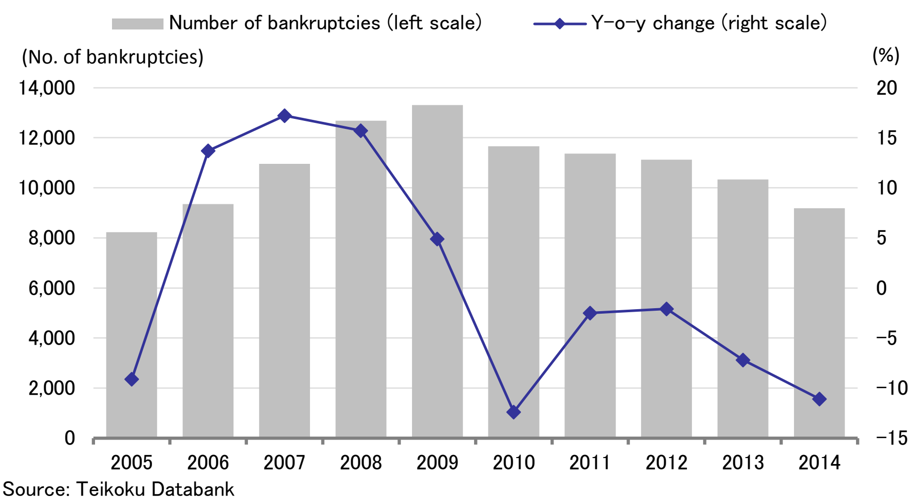
(5) Market Size and Competition

The size of the market for sales credits (trade notes and accounts receivable) targeted by the eGuarantee's mainstay service is estimated to be more than ¥200tn. Certainly, not all of these sales credits will require credit risk guarantee services. However, the size of the sales credit market shows that sales credit guarantee services harbor considerable growth potential.

Furthermore, there are almost no other companies in Japan like eGuarantee that specialize in providing sales credit guarantees for non-financial companies and that could compete with the Company. Competition has been limited to certain subsidiaries of major trading companies that have provided these services in the past. In the field of small-ticket sales credit guarantee services, eGuarantee faces some competition from Trust&Growth Co., Ltd., which is a subsidiary of Raccoon Co., Ltd. (3031). Looking ahead, the market for credit risk guarantee services for sales credits is projected to continue expanding. Based on this outlook, new entrants are forecast to increase in number. However, it should take some time before these companies are able to catch up with eGuarantee because they must first build up management expertise in fields such as credit risk management and portfolio structuring. In the near term, it is highly likely that eGuarantee will be able to reap first-mover profits as the market continues to grow.

In addition, the number of corporate bankruptcies, which has an impact on the guarantee fee ratio, has continued to decline since peaking out in 2009. In 2014, the number of corporate bankruptcies decreased 11.1% yoy to 9,180, falling below the 10,000 mark for the first time in eight years. The ongoing recovery of the Japanese economy, albeit at a gradual pace, forms the backdrop to the declining number of corporate bankruptcies. The fewer number of corporate bankruptcies has been accompanied by a decline in the guarantee fee ratio. Currently, the guarantee fee ratio stands at about 2% (compared with about 3% around 2009). A decline in the guarantee fee ratio is a negative factor that pushes down net sales. Meanwhile, considering that a lower guarantee fee ratio reduces the fees paid to acceptors of securitized guarantees, a decrease in the guarantee fee ratio is a neutral factor that has no impact on the gross margin. Moreover, during an economic recovery, companies tend to see an increase in the number of their new transaction counterparties in step with sales growth, and tend to generate surplus cash that can be used to hedge the credit risk of sales credits. For these reasons, the balance of credit guarantees outstanding tends to increase in times of economic recovery.

Number of corporate bankruptcies in Japan



Source: Teikoku Databank

Financial results

Record-high financial results delivered for Q1-Q3 FY3/15 owing to cost cutting and increases in the number of contracts

(1) Financial results for Q1-Q3 FY3/15

On January 30, 2015, eGuarantee announced its financial results for the first three quarters of FY3/15 (Q1-Q3 FY3/15). eGuarantee continued to deliver record-high financial results for the nine-month period. Net sales were ¥3,003mn, up 7.4% yoy and operating profit was ¥1,159mn, up 18.3% yoy.

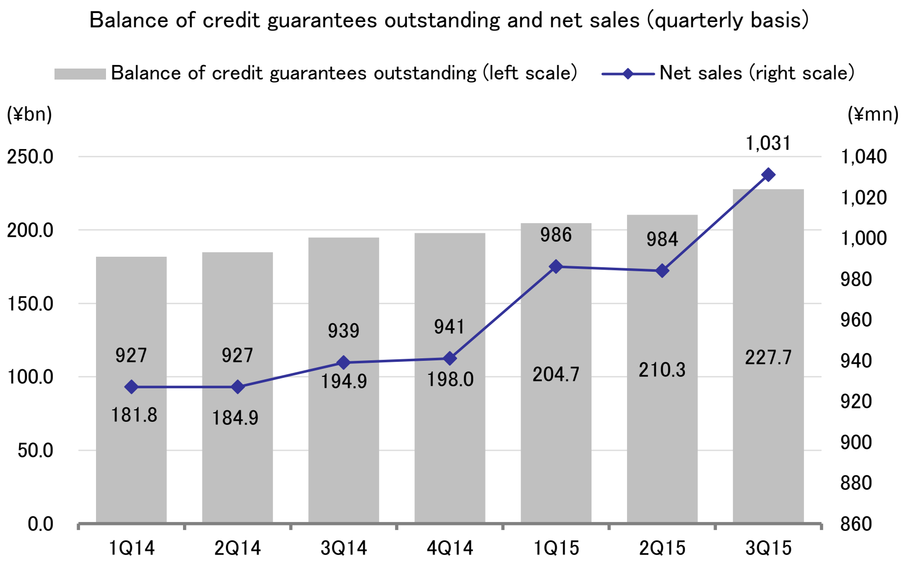
Consolidated financial results for Q1-Q3 FY3/15

(Unit: ¥mn)

	Q1-3 FY3/14		Q1-3 FY3/15		
	Actual	Ratio to net sales	Actual	Ratio to net sales	Y-o-y change
Net sales	2,795	-	3,003	-	7.4%
Cost of sales	798	28.6%	740	24.7%	-7.3%
SG&A expenses	1,017	36.4%	1,103	36.7%	8.5%
Operating profit	979	35.0%	1,159	38.6%	18.3%
Recurring profit	994	35.6%	1,176	39.2%	18.3%
Net profit	557	19.9%	693	23.1%	24.4%

Net sales were slightly lower than forecast, mainly reflecting a decline in the guarantee fee ratio due to a fewer number of corporate bankruptcies in step with Japan's economic recovery. However, the balance of credit guarantees outstanding stood at ¥227,734mn as of December 31, 2014, an increase of 16.8% from December 31, 2013, largely in line with the Company's forecast. The main factor was steady growth in the number of contracts, primarily driven by an increase in the number of financial institution partners, stronger small-ticket credit guarantee services, and enhanced sales productivity. With regard to the enhanced sales productivity, in April 2014, eGuarantee started fully operating a sales support system that increases the transparency of the sales flow. This led to an improvement in the contract completion ratio.

Moreover, the cost-of-sales ratio decreased dramatically. This reflected several factors, including a decrease in fees paid to acceptors of securitized guarantees in line with a fewer number of corporate bankruptcies. Another factor was that the Company was able to structure funds at a lower cost, against the backdrop of a lower expected rate of return from investors primarily due to the Bank of Japan's qualitative and quantitative monetary easing (QQE). The much lower cost-of-sales ratio was a positive factor that pushed up profit margins. Looking at the quarterly operating margin trend, the operating margin increased to 40.9% in the third quarter (Q3) of FY3/15 (October to December 2014), surpassing the 40% mark for the first time.



Achieved almost all forecasts, for both the balance of credit guarantees outstanding and profits

(2) Forecasts for FY3/15

For FY3/15, the Company is forecasting net sales of ¥4,200mn, up 12.4% yoy, and operating profit of ¥1,530mn, up 17.7% yoy. Recurring profit is projected at ¥1,550mn, up 17.5% yoy. The Company is forecasting net income of ¥900mn, up 27.5% yoy.

The achievement rates for the Company's financial results for Q1-Q3 FY3/15 against its full-year forecasts were 71.5% for net sales and 75.8% for operating profit. Accordingly, although net sales fell slightly behind schedule relative to the full-year net sales forecast, operating profit finished the Q1-Q3 FY3/15 period largely as planned. Moreover, the balance of credit guarantees outstanding is projected to surpass ¥230,000mn as of March 31. Therefore, the Company appears to have achieved its initial forecast.

Strong financial position owing to high profitability and a well-balanced capital structure

(3) Financial condition and indicators

As of December 31, 2014, total assets were ¥9,055mn, up ¥572mn from the previous fiscal year-end. The main factors were an increase of ¥395mn in cash and deposits tracking higher profits and an increase of ¥173mn in prepaid expenses to acceptors of securitized guarantees in line with an increase in the balance of credit guarantees outstanding.

Total liabilities were ¥3,173mn, a decrease of ¥58mn from the previous fiscal year-end. Here, interest-bearing debt decreased ¥37mn over the same time period. In addition, net assets were ¥5,881mn, an increase of ¥630mn from the previous fiscal year-end. The main factors were increases of ¥468mn in retained earnings and ¥131mn in equity attributable to noncontrolling interests. The higher equity attributable to noncontrolling interests reflected the decision to establish a silent partnership (Credit Guarantee 1 Silent Partnership) at the end of September 2014 in order to invest in a new fund, and the conversion of this partnership into a subsidiary. (investment in silent partnership: ¥300mn, eGuarantee's investment ratio: 51%, investment period: 5 years).

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Looking at financial indicators, eGuarantee has maintained an extremely strong financial position. The Company is virtually debt free with interest-bearing debt of only ¥144mn. In terms of indicators of financial stability, eGuarantee's current ratio stood at more than 200% and its equity ratio was more than 50%. Furthermore, in terms of profitability, ROA and ROE have both been steadily maintained above 10%. Additionally, the operating margin has been increasing continuously. All in all, eGuarantee is to be commended as a highly profitable enterprise.

Consolidated balance sheets

(Unit: ¥mn)

	FY3/12	FY3/13	FY3/14	FY12/14	Change
Current assets	5,874	6,732	6,655	7,233	578
Cash and deposits	4,617	5,429	4,827	5,223	395
Fixed assets	757	1,296	1,827	1,821	-6
Total assets	6,631	8,029	8,483	9,055	572
Current liabilities	2,282	2,793	2,971	2,943	-28
Fixed liabilities	65	291	259	230	-29
Interest-bearing debt	0	268	181	144	-37
Total liabilities	2,348	3,084	3,231	3,173	-58
Shareholders' equity	3,667	3,877	4,451	4,949	498
Equity attributable to noncontrolling interests	572	1,028	776	907	131
Net assets	4,283	4,944	5,251	5,881	630
(Stability)					
Current ratio	257.3%	241.0%	223.9%	245.8%	
Equity ratio	55.3%	48.3%	52.5%	54.7%	
Interest-bearing debt ratio	-	6.9%	4.1%	2.9%	
(Profitability)					
ROA (recurring profit ÷ total assets)	14.0%	14.3%	16.0%		
ROE (net profit ÷ equity)	15.1%	15.3%	17.0%		
Operating margin	24.7%	28.5%	34.8%		

Growth strategy

Targeting growth in the number of contracts by establishing a follow-up support structure for financial institution partners

eGuarantee's strategy is to develop its businesses with a view to achieving the following medium-term growth trajectories: increase net sales and the balance of credit guarantees outstanding by 10-20% per year, and increase profits by 20-30% per year. The Company is pursuing growth strategies such as improving the service utilization rate at the financial institutions that are its sales partners, along with strengthening small-ticket sales credit guarantee services in Japan and the export credit guarantee service for exports to Asia.

(1) Improving the service utilization rate at financial institution partners

eGuarantee has delivered growth by efficiently developing customers through the formation of business alliances primarily with regional banks, shinkin banks, and other partners who have many customers among local small and medium-sized enterprises. As of March 31, eGuarantee had a network spanning almost all of Japan with 51 financial institution partners. Accordingly, the Company plans to enhance measures designed to improve the service utilization rate at its financial institution partners going forward.

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Currently, eGuarantee is able to constantly conclude new contracts on a monthly basis at only around 30-40% of all of its financial institution partners. The challenge for eGuarantee is that the service utilization rate at the remaining 60-70% of its partners is low. eGuarantee believes that the main reason for this low service utilization rate is that certain financial institution partners have not provided sales representatives with the incentive to sell eGuarantee's services. Going forward, eGuarantee will encourage these financial institutions to introduce such incentives. The most effective incentive is to incorporate the number of contracts sold into the performance reviews of the sales representatives. In fact, sales of guarantee contracts are far higher at financial institutions that have actually introduced these incentives. Furthermore, eGuarantee will establish a finely-tuned follow-up structure by taking steps such as assigning one dedicated staff member to each regional bank. In doing so, the Company's strategy is to increase the number of contracts by steadily improving the service utilization rate.

Develop services for the Asian market, while incorporating small-ticket credit guarantees

(2) Strengthening small-ticket credit guarantees and the export credit guarantee service

As part of efforts to upgrade and expand its line of guarantee products, eGuarantee set up subsidiary RJG Guarantee Co., Ltd. in March 2014. This subsidiary specializes in small-ticket sales credit guarantee services for micro, small and medium-sized enterprises. Customers for these services are being developed through agency channels, in addition to the Internet via acceptance of online service applications.

eGuarantee has not set clear standards regarding the definition of small-ticket sales credit. Looking at the average guarantee amount per client company for the credit guarantee service, the average amount for eGuarantee as a whole is between ¥600mn and ¥700mn. In contrast, RJR Guarantee assumes guarantee amounts that can be as small as between ¥100mn and ¥200mn. As of March 31, 2015, the balance of credit guarantees outstanding for RJG Guarantee was ¥1,000mn, and the number of its client companies was less than 100. RJG Guarantee's performance appears to have largely tracked the Company's forecasts. Because of the high degree of risk, RJG Guarantee has an average guarantee fee ratio of around 6-10%, which is higher than the Company-wide average of 2%. RJG Guarantee also appears to have higher profit margins.

Meanwhile, in terms of the export credit guarantee service for exports to Asia, eGuarantee formed alliances with leading local financial institutions in South Korea, such as an alliance with a major non-life insurance company, in December 2013 and began providing these services in earnest. Additionally, in June 2014, eGuarantee entered into a business alliance with the Japanese branch of China-based Bank of Communications and launched export credit guarantee services for exports to the Chinese market.

Nippon Export and Investment Insurance (NEXI) provides export credit guarantee services, but it primarily focuses on services with large guarantee amounts. Trading companies often carry out export transactions, including credit guarantees, for small and medium-sized enterprises. However, the guarantee fee ratio is high for these services, at 10-20%. Therefore, we believe that eGuarantee has considerable scope to enter this market.

eGuarantee has set a guarantee fee ratio of around 5% for the export credit guarantee service, which is higher than its ordinary guarantee fee ratio. The balance of guarantees outstanding for the export credit guarantee service appears to have increased to around ¥10,000mn as of March 31, 2015. The profit margin is lower than eGuarantee's ordinary guarantee service for Japanese companies.

eGuarantee is conducting negotiations aimed at increasing the number of financial institution partners, with a view to bolstering its ability to assume the risk of export credit going forward. At the same time, the Company is developing business in Southeast Asian regions where the amount of exports from Japan is increasing, such as Thailand, Malaysia and Singapore.

eGuarantee positions the next one or two years as a period for solidifying its business foundations for services targeting the Asian market. However, the yen's depreciation in recent years has shaped a favorable environment that offers prospects for export growth for not only major corporations but also small and medium-sized enterprises. Future developments will be watched closely as this business has the potential to become a core growth driver for eGuarantee over the medium and long terms.

Increase sales division personnel and continuously seek out M&A candidates

(3) Personnel strategy and M&As

eGuarantee plans to increase its personnel by 10-20 employees every year. (There were 110 employees as of March 31, 2014.) Personnel expenses are projected to continue increasing by just over ¥100-150mn a year, but the Company should be able to absorb these cost increases through higher net sales. Looking at eGuarantee's personnel mix, the ratio of sales division personnel to administrative division personnel currently stands at 6:5. Going forward, eGuarantee plans to focus on increasing its sales division personnel.

In addition, in regard to M&A strategy, eGuarantee plans to continue seeking out M&A candidates worldwide, targeting businesses related to credit guarantee services and peripheral businesses.

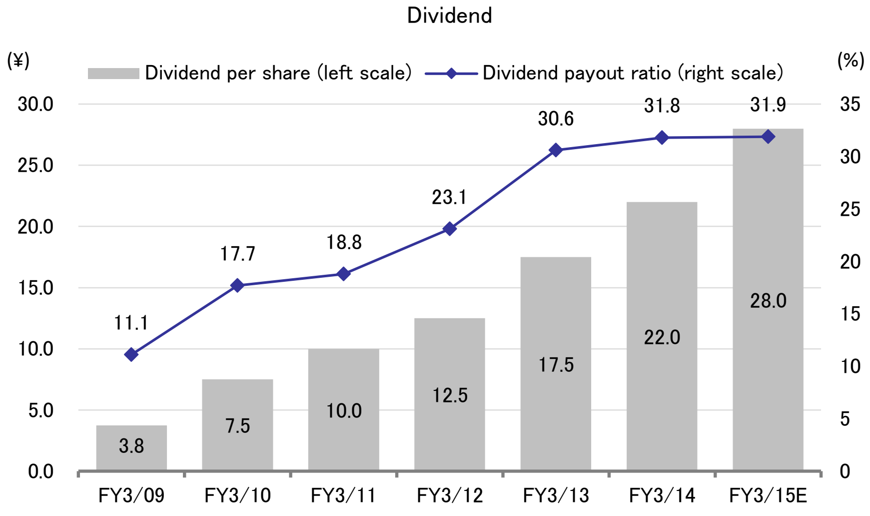
■ Shareholder Return Policy and Risks to Business

Strong prospects for maintaining the dividend payout ratio at the 30% level and increasing dividends in line with improved earnings

(1) Shareholder Return Policy

In terms of its dividend policy, eGuarantee's basic policy is to pay dividends in line with earnings while retaining the internal reserves needed to aggressively expand business and ensure a strong financial position. Looking at the historical dividend trend, eGuarantee has consistently increased dividends since paying out dividends from FY3/09 to FY3/14. In FY3/15, eGuarantee plans to continue increasing dividends. The Company is projecting an annual dividend per share of ¥28.00 per share for FY3/15, up ¥6 per share from the previous fiscal year. eGuarantee appears to be targeting a dividend payout ratio of around 30%. In FY3/16 and beyond, barring any major funding requirements, we believe that eGuarantee is highly likely to continue increasing its dividends in line with earnings growth.

In addition, the Company has introduced 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. Based on the share price (¥1,919) as of April 3, 2015, the total return on investment for each shareholder holding one unit of shares was 2.2%.



Note: Figures for historical dividends are adjusted for stock splits.

Negligible impacts from sharp economic downturns, new corporate entrants and enactment of new statutory regulations

(2) Risks to Business

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

- In the event of a sharp downturn in the Japanese economy, the number of corporate bankruptcies could increase. This could lead to a larger-than-anticipated increase in the execution of guarantees by eGuarantee and increase the cost of transferring risk to acceptors of securitized guarantees. This, in turn, could reduce profitability.
- During periods of weak economic growth in Japan, eGuarantee may raise the guarantee fee ratio it charges. This could reduce the number of new contracts, the Company's contract renewal rate, and its balance of guarantees outstanding.
- Competition could intensify as a result of new corporate entrants into the credit guarantee business. This could lower eGuarantee's market share.
- Currently, credit risk guarantee services are not subject to statutory regulations such as the Insurance Business Act and the Financial Instruments and Exchange Act. In the event of the enforcement of new statutory regulations, the Company may have to change its business model.

Income Statements

(Unit: ¥mn)

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Net sales	3,291	3,416	3,617	3,737	4,200
y-o-y	4.3	3.8	5.9	3.3	12.4
Cost of sales	1,448	1,321	1,297	1,027	
Cost-of-sales ratio	44.0	38.7	35.9	27.5	
SG&A expenses	1,110	1,251	1,287	1,409	
SG&A expense ratio	33.7	36.6	35.6	37.7	
Operating profit	732	842	1,031	1,300	1,530
y-o-y	21.2	15.1	22.3	26.1	17.7
Margin	22.2	24.7	28.5	34.8	36.4
Recurring profit	744	854	1,048	1,319	1,550
y-o-y	20.2	14.8	22.7	25.8	17.5
Margin	22.6	25.0	29.0	35.3	36.9
Pretax profit	743	885	1,016	1,309	
y-o-y	20.0	19.2	14.8	28.9	
Margin	22.6	25.9	28.1	35.0	
Income taxes	303	358	391	450	
Effective tax rate	40.9	40.5	38.6	34.4	
Net income attributable to noncontrolling interests	10	58	45	153	
Net profit	429	468	578	706	900
y-o-y	25.3	9.2	23.5	22.0	27.5
Margin	13.0	13.7	16.0	18.9	21.4
Key performance indicators					
Number of shares issued (thousand)	8,080	8,659	10,112	10,211	10,236
Earnings per share (¥)	53.1	54.1	57.2	69.2	87.9
Dividend per share (¥)	10.0	12.5	17.5	22.0	28.0
Book value per share (¥)	314.4	363.3	381.4	434.9	–
Number of employees	88	98	98	110	–

Note: The Company conducted a 2-for-1 stock split on March 1, 2013. All per-share figures for fiscal years before FY3/13 have been retrospectively restated to reflect this stock split.

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