eGuarantee
8771 Tokyo Stock Exchange First Section

1-Nov.-16

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Delivered All-Time High Earnings for Nine Straight Years Since Going Public, Headed for New Highs Again in FY3/17

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.

In Q1 FY3/17 (Apr-Jun 2016) consolidated results, net sales slowed to a 2.0% year-on-year (yoy) increase at ¥1,112mn, owing to a decline in the guarantee fee ratio because of fewer corporate bankruptcies, but operating profit climbed 11.5% yoy to ¥465mn, roughly on track with the Company's forecast, thanks to a decline in the cost-of-sales ratio. Balance of guarantees outstanding, a key business indicator, increased by a healthy 11.7% yoy to ¥269.6bn as of the end of June. Customer referrals from financial institution partners are growing, and small-ticket credit guarantee service and other areas where eGuarantee is bolstering activities expanded.

The FY3/17 outlook guides for ¥5,000mn in net sales, a 13.1% yoy increase, and ¥2,050mn in operating profit, a 12.1% gain, aiming to set new all-time highs again. We think net sales might slightly undershoot due to decline in the guarantee fee ratio, but expect eGuarantee to reach its earnings targets. We believe the negative interest rate policy adopted by Japan is providing a tailwind for eGuarantee's business. This is because regional financial entities are putting more effort into fee businesses amid worsening income conditions and are likely to focus more on selling eGuarantee's sales credit guarantee services as part of this activity.

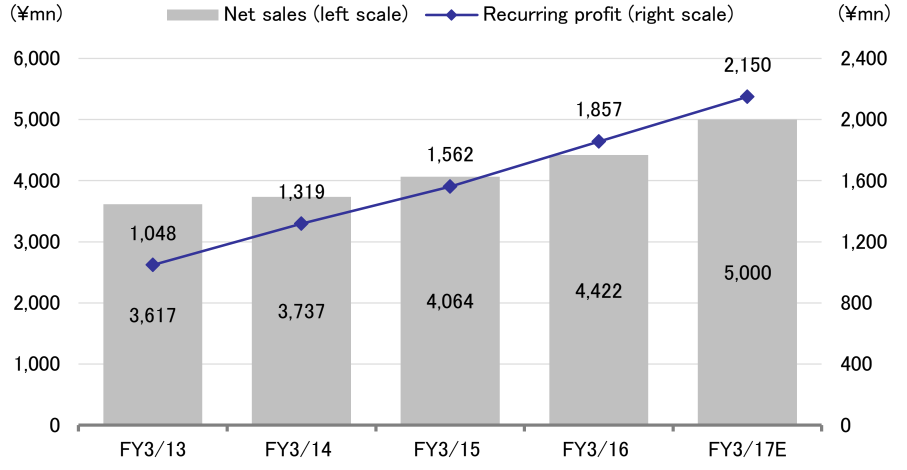
The Company is targeting for ¥5,000mn in consolidated recurring profit as a business goal for the time being. This level should be attainable if the balance of guarantees outstanding increases further to the ¥700-800bn range. eGuarantee hopes to realize it in 5-6 years through steady growth in existing business at a 10-15% annual pace and acceleration of growth in new areas such as business site rent guarantee, lease credit guarantee, and factoring guarantee services.

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 FY3/17, eGuarantee plans to issue an annual dividend of ¥34.0 per share, representing a dividend payout ratio of 27.5%. If the Company achieves its target, it 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

- Insures against the sales credit risk arising through transactions among companies
- Nationwide coverage achieved by forming alliances with 51 regional banks
- Headed for all-time highs again in FY3/17 with tailwind from negative interest rate policy

Net Sales and Recurring Profit Trends



Company Overview

Started as a sales credit business for B2B transactions over the Internet

(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 export credit guarantee service 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.

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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, the company's first fund for investment in corporate credit risk
November 2009	Arranged Credit Investment 1, the company's second fund for investment in corporate credit risk
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 This joint venture purchases electronically registered credits at a discount and engages in factoring and securitization
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 RJG Guarantee Co., Ltd. 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 1 fund

Consolidated Subsidiaries (Investment Stakes, Business Content)

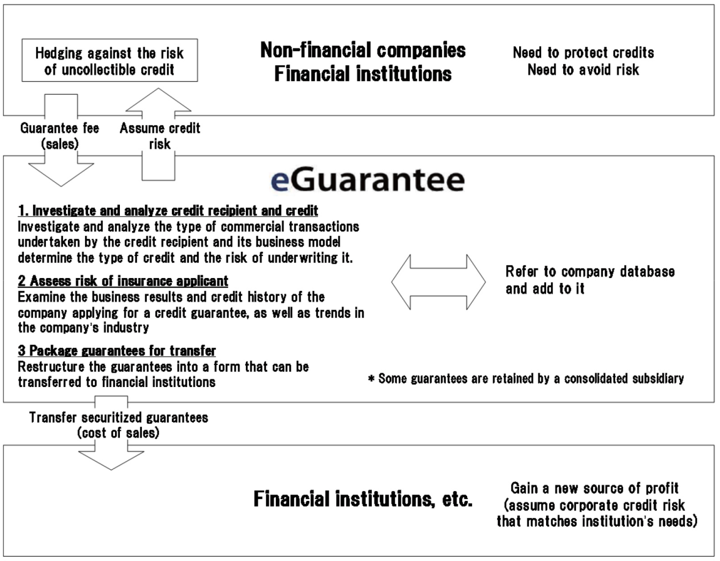
Company name	Investment stake (%)	Main business
Credit Link Fund 1	50.0	Undertaking credit risk investment and operation
Credit Investment 1	65.3	Undertaking credit risk investment and operation
Credit Guarantee 1	51.0	Undertaking credit risk investment and operation
Credit Guarantee 2	55.0	Undertaking credit risk investment and operation
eGuarantee Solution, Inc.	100.0	Undertaking various administration and duties
RJG Guarantee Co., Ltd.	80.1	Small-ticket sales credit guarantee service

Insures against the sales credit risk arising through transactions among companies

(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.

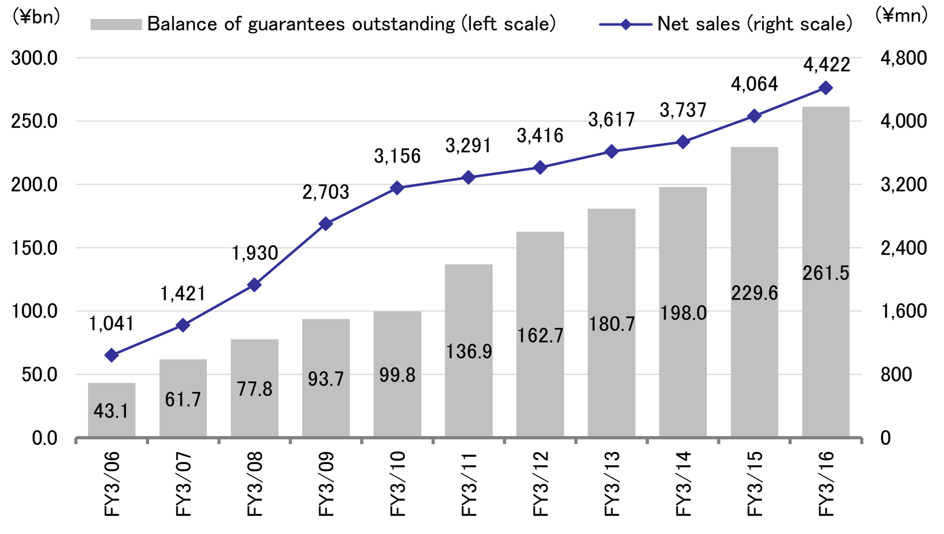
Business Flow



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 from transactions with other companies 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 and this functions as a recurring revenue business model.

Balance of Credit Guarantees Outstanding and Net Sales



As eGuarantee's net sales are the product of its balance of guarantees outstanding times its 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 decreasing, the credit risk is lower. This means that the guarantee fee ratio will also be set lower. 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, 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 reinsurance 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 to lower the reinsurance fee ratios and by arranging investment funds at a subsidiary that shrinks the amount of guarantee fees paid to third parties. It has also benefited from a lower deflation ratio than anticipated. The trend in recent years of a reducing cost-of-sales ratio has been a key factor behind the increase in eGuarantee's operating margin.

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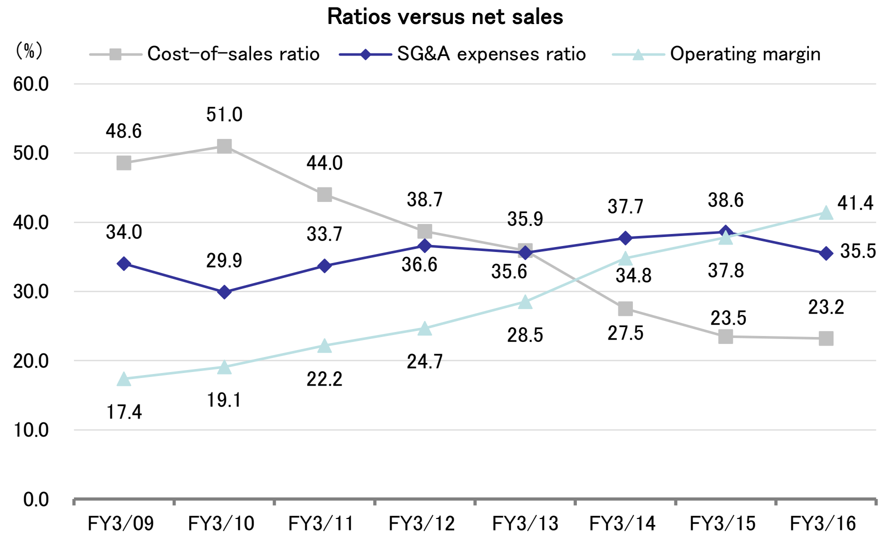


Mainly generates income from comprehensive guarantee service for non-financial companies

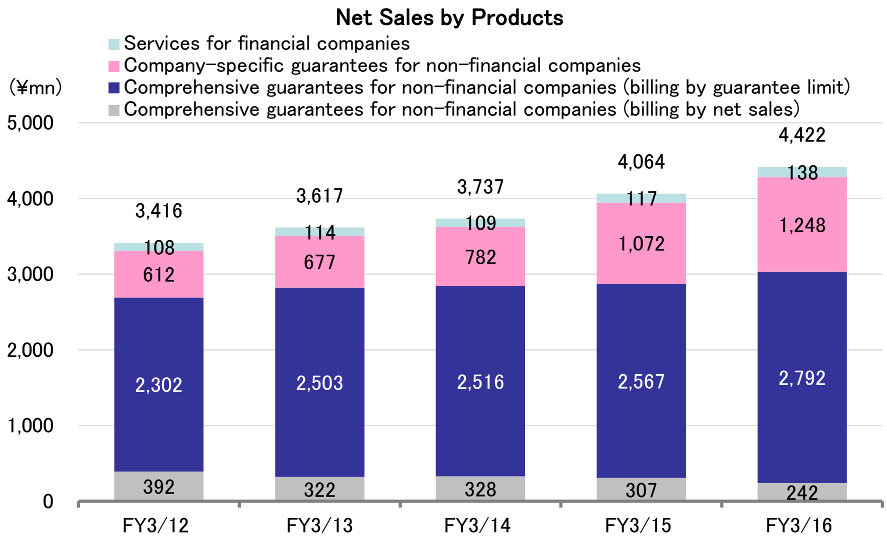
(3) Net sales by Product

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), and it 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.

The billing-by-sales method for credit guarantees 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. 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

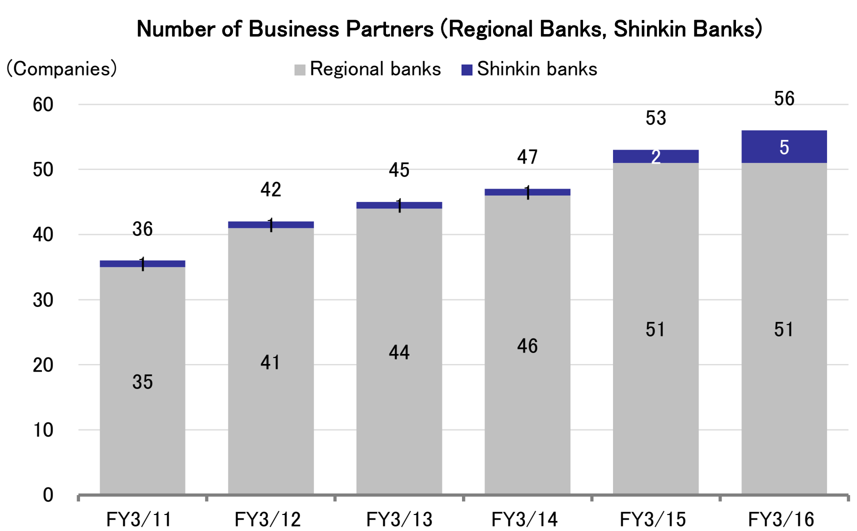


Nationwide coverage achieved by forming alliances with 51 regional banks

(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 for the time being. Meanwhile eGuarantee has efficiently developed customers by forming business alliances with financial companies, primarily regional banks, trading companies, leasing firms and other partners. In particular, eGuarantee had entered into business alliances with 51 regional banks as of the end of June 2016, establishing an alliance network spanning nearly all of Japan. Looking at the breakdown of the number of customer referrals, referrals from regional banks now account for just over 60% of the total, followed by referrals via trading companies and those from other channels. Additionally, eGuarantee has been ramping up business alliances with shinkin banks, which have many local small and medium-sized companies among their customers, since FY3/16 and had alliances with five shinkin banks at the end of June 2016.

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, and this means that its business performance is not susceptible to business volatility in any particular sector.



Sales credit market exceeds ¥200tn

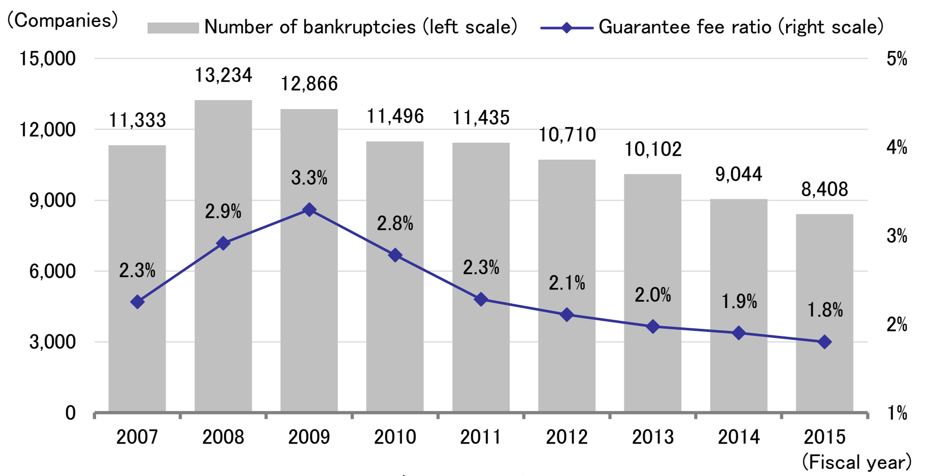
(5) Market Size and Competition

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 have robust latent 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 fiscal 2008. In fiscal 2015, the number of corporate bankruptcies decreased 7.0% yoy to 8,408, a seventh straight year of contraction. The ongoing recovery of the Japanese economy, albeit at a gradual pace, accommodative loans terms from banks in an ultra-low interest rate environment, and other positive factors form 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, and the guarantee fee ratio currently stands at just under 2%. A decline in the guarantee fee ratio is a negative factor that pushes down net sales. Meanwhile, considering that a lower guarantee fee ratio also 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. 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 recovery times.

Number of Corporate Bankruptcies in Japan



Note: Guarantee fee ratio = Net sales ÷ (period-start/period-end average balance of guarantees outstanding)

Financial Results

Posting double-digit operating profit growth on decline in corporate bankruptcies

(1) Q1 FY3/17

In Q1 FY3/17 (Apr-Jun 2016) consolidated results, net sales rose 2.0% yoy to ¥1,112mn, operating profit climbed 11.5% to ¥465mn, recurring profit was up 12.5% to ¥474mn, and net profit attributed to owners of parent was up 0.4% to ¥262mn. While net sales modestly missed the target because of a decline in the guarantee fee ratio accompanying lower corporate bankruptcies, balance of guarantees outstanding increased by 11.7% yoy to ¥269.6bn, a double-digit advance. Operating profit also grew by double digits thanks to a lower cost-of-sales ratio because of a drop in corporate bankruptcies. While quarterly net profit only rose slightly, this reflects an increase in net profit attributable to noncontrolling interests accompanying stronger income at the fund subsidiary.

For 1H, we think sales modestly missed the target level, but expect profits on track with company forecast amid healthy expansion of balance of guarantees outstanding.

Consolidated Financial Results for Q1 FY3/17

(Unit: ¥mn)

	Q1 FY3/16		Q1 FY3/17			H1 FY3/17		
	Results	Ratio to net sales	Results	Ratio to net sales	Year-on-year change	Forecasts	Ratio to net sales	Year-on-year change
Net sales	1,090	-	1,112	-	2.0%	2,300	-	5.5%
Cost of sales	275	25.3%	209	18.8%	-24.2%	-	-	-
SG&A expenses	396	36.4%	437	39.4%	10.3%	-	-	-
Operating profit	417	38.3%	465	41.9%	11.5%	1,000	43.5%	14.1%
Recurring profit	422	38.7%	474	42.7%	12.5%	1,020	44.3%	14.9%
Net profit attributed to owners of parent	261	24.0%	262	23.6%	0.4%	610	26.5%	10.3%

Headed for all-time highs again in FY3/17 with tailwind from negative interest rate policy

(2) FY3/17 Outlook

For FY3/17, the Company is forecasting ¥5,000mn in net sales (up 13.1% yoy), ¥2,050mn in operating profit (up 12.1%), ¥2150mn in recurring profit (up 15.8%), and ¥1,280mn in net profit attributed to owners of parent (up 15.1%), aiming to set new all-time highs again.

We think net sales might slightly undershoot due to steady decline in the guarantee fee ratio, but expect eGuarantee to reach its earnings targets thanks to accumulation of balance of credit guarantees outstanding and a drop in the cost-of-sales ratio. SG&A expenses are likely to increase by just over ¥200mn yoy, mainly due to higher personnel expenses and system development costs and an increase in rent payments due to revisions to the headquarters rent and other factors (adding ¥40-50mn).

eGuarantee had 130 employees as of the end of June following the entry of 21 new university graduates in April 2016, and it plans to hire another 20-25 new graduates from universities in spring 2017. While the Company currently has a ratio of about 6:4 in sales and administrative staff, it aims to gradually bolster sales personnel toward reaching a 7:3 level. It also plans to arrange a new fund to absorb underwriting risk in FY3/17.

The Company expects a modestly positive impact on earnings from Japan’s adoption of a negative interest rate. It projects lower net sales because of a decline in corporate bankruptcies, amid continuation of accommodative lending terms from financial institutions, and a resulting drop in the guarantee fee ratio, as a negative implication. However, it sees support from improved sales activities as regional banks strengthen fee business to obtain income and a likely decline in risk hedging costs for cost of sales.

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Consolidated Results Outlook for FY3/17

(Unit: ¥mn)

	FY3/16		FY3/17		
	Results	Ratio to net sales	Forecasts	Ratio to net sales	Year-on-year change
Net sales	4,422	-	5,000	-	13.1%
Cost of sales	1,023	23.2%	1,160	23.2%	13.3%
SG&A expenses	1,569	35.5%	1,790	35.8%	14.1%
Operating profit	1,829	41.4%	2,050	41.0%	12.1%
Recurring profit	1,857	42.0%	2,150	43.0%	15.8%
Net profit attributed to owners of parent	1,111	25.1%	1,280	25.6%	15.1%

Medium- to Long-Term Goals and Growth Strategies

Aiming for ¥1tn in balance of guarantees outstanding over the long term

eGuarantee is targeting ¥5bn in consolidated recurring profit as a medium-term goal. It needs around ¥700-800bn in balance of guarantees outstanding, which is 2.5x to 3x the current level, to reach ¥5bn. The Company's strategy calls for sustaining an annual growth rate of 10-15% for existing services and boosting the growth rate by another 5 percentage points through development of new services to assume risk and fostering this market. We think eGuarantee could reach the goal in 5-6 years if it makes smooth progress with these strategies. Additionally, eGuarantee is looking at broadening business scope through M&As and hopes to attain ¥1tn in outstanding guarantees value over the long term. Growth strategies are described below.

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

eGuarantee intends to strengthen efforts to raise the utilization rate for its mainstay sales credit guarantee services at regional banks, which account for just over 60% of new customer acquisitions. It already has business alliances with 51 regional banks and covers the entire country, but referrals volume varies considerably by alliance partners, and regional banks with low utilization rates (about 0-2 referrals per month) are still at 60-70% of the network.

eGuarantee believes that the main reason for this low service utilization rate is that sales representatives at financial institution partners are not receiving incentives to sell eGuarantee's services. It is engaging in top-level sales to raise awareness of service value with the executives at partners and getting them to incorporate the services in personnel assessments. eGuarantee promotes a finely-tuned follow-up structure by assigning one dedicated staff member to each partner. These efforts conducted since last fiscal year are beginning to produce results such as a boost in the utilization ratio from 2014's 20% to the 30-40% range last year. eGuarantee plans to make steady additions to customer volume and balance of guarantees outstanding through continued promotion of these initiatives.

(2) Bolstering small-ticket sales credit guarantee services

As part of efforts to expand its line of 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 companies. Customers for these services are being developed mainly over the Internet, though also through agency channels.

eGuarantee has not set clear standards regarding the definition of small-ticket sales credit. Looking at the average guarantee amount per client company for credit guarantee services, however, the average amount for eGuarantee as a whole is between ¥600mn and ¥700mn. In contrast, RJG Guarantee assumes guarantee amounts in the ¥100mn and 200mn range. Sales scale is still small, but has been steadily rising. The guarantee fee ratio averages 9-10%, a significantly higher level than the just under 2% for the entire company, because of high risk, and profitability is improving. We hence expect larger contributions to earnings if this business expands.

eGuarantee has been ramping up recruitment of shinkin banks as a sales channel since FY3/16 in order to bolster small-ticket sales credit guarantee service because they have micro, small, and medium-sized companies as customers. It is already partnering with five shinkin banks and intends to add new partners at a pace of 1-2 banks per quarter. This segment offers large room for development with 265 shinkin banks nationwide at the end of March 2016. eGuarantee also plans to increase sales agents from the current level of just one company.

Rival Trust & Growth has about ¥9bn in balance of guarantees outstanding at this stage and is sustaining robust growth at a double-digit annual rate. We see significant room for expansion as awareness rises and expect strong growth.

(3) Strengthening export credit guarantee service

In terms of the export credit guarantee service, 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 commenced full service provision. Additionally, in June 2014, eGuarantee entered into a business alliance with the Japanese branch of China-based Bank of Communications and launched credit guarantee services for exports to the Chinese market. Current conditions appear somewhat sluggish. Issues include not having sufficient grasp of market needs in South Korea and difficulty obtaining unsecured guarantee provision at local partner financial entities in China. These factors are holding the balance of guarantees outstanding for export credits at roughly the same level as last year.

We thus expect export credit guarantee services to stay at the existing level for the time being. However, eGuarantee forecasts expansion of export value to Asia in upcoming years and aims to expand business, including possible M&As targeting guarantee business operators in Southeast Asia.

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 companies. However, the guarantee fee ratio is high for these services, at 10-20%, which is more than twice eGuarantee's ratio of roughly 5%. Therefore, we believe that eGuarantee has considerable scope to enter this market.

(4) Expanding new services

eGuarantee is developing services that hedge against a variety of risks that occur in corporate transactions, besides its existing services, and plans to move forward with market development. Specific examples are business site rent guarantee service, lease credit guarantee service, and factoring guarantee service.

a) Business site rent guarantee service
Business site rent guarantee service provides a hedge for property owners against uncollected rent risk in a case of the tenant company falling behind on rent payments. Trust & Growth launched a similar service in Tokyo since 2014 in an alliance with Takken Brains* and has accumulated just under ¥2bn in balance of guarantees outstanding thus far. eGuarantee is currently looking for a partner and intends to begin service during FY3/17. While the guarantee fee ratio is low, the default ratio is close to 0% and it should be possible to cultivate high-earning products if customer volume expands. The main point for achieving growth is the extent to which it can recruit a potent alliance partner with a strong customer base.

* Wholly owned by the Real Estate Agents' Cooperative of Tokyo with approximately 13,000 members in Tokyo.

b) Lease credit guarantee service
eGuarantee is currently at the stage of developing a lease credit guarantee service, but it intends to form an alliance with a leasing firm and start service during FY3/17. It aims to guarantee the portion of risk exceeding the maximum risk value allowed by the leasing firm. This is a clear growth opportunity considering the large size of lease credits that total in billions of yen even for mid-sized companies.

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c) Factoring guarantee service
Factoring guarantee service covers trust banks in the factoring business. Companies are currently moving in the direction of shrinking balance sheets as a financial strategy, and needs are growing in this context to promptly sell and monetize sales credits. Trust banks face mounting risk from uncollectable cases as they acquire more credits, and eGuarantee's service provides guarantees for the portion exceeding the allowable level.

(5) M&A strategy

In its M&A strategy, eGuarantee is looking for candidates, including business purchases, among companies with credit guarantee services in Japanese and Asian markets. It is also considering mid-sized factoring companies with small- and medium-size businesses as customers. This initiative aims to expand customer volume by enhancing peripheral services besides credit guarantee services and thereby accommodating a wide range of customer requirements.

Credit guarantee services for corporate transactions are used extensively in the US and Europe, and three specialty firms in Europe have sales in the ¥200bn range. In the US market, AIG is expanding its business as a major player. eGuarantee, the top specialty firm in Japan, meanwhile, still only has about ¥5bn in sales, and this indicates significant room for growth.

■ Financial Conditions and Indicators

Possesses extremely robust financial standing with effective debt-free operations

As of the end of June 2016, total assets were ¥10,069mn, down ¥576mn from the previous fiscal year-end. The main factors were a decline of ¥612mn in cash and deposits and an increase of ¥299mn in securities under current assets and a ¥300mn decline in investment securities under fixed assets.

Total liabilities were ¥3,087mn, a decrease of ¥448mn from the previous fiscal year-end. Primary changes were declines of ¥217mn in advances received and ¥195mn in income taxes payable and other items. Net assets were at ¥6,981mn, a drop of ¥128mn from the previous fiscal year-end, with changes mainly from a decline of ¥89mn in retained earnings accompanying dividend payments and a drop of ¥44mn in equity attributable to noncontrolling interests because of cash allocations to noncontrolling shareholders.

Looking at financial indicators, eGuarantee has maintained an extremely strong financial position. The Company is virtually debt free with interest-bearing debt of only ¥70mn and its equity ratio, an indicator of financial stability, was 59.0%.

Consolidated Balance Sheet

(Unit: ¥mn)

	End-FY3/15	End-FY3/16	End-Q1 FY3/17	Change
Current assets	6,801	7,443	7,149	-293
(Cash and deposits)	4,561	5,403	4,791	-612
Fixed assets	2,801	3,202	2,919	-283
Total assets	9,602	10,645	10,069	-576
Current liabilities	3,218	3,389	2,954	-435
Fixed liabilities	210	146	133	-12
(Interest-bearing debt)	126	70	70	0
Total liabilities	3,429	3,536	3,087	-448
Shareholders' equity	5,162	6,031	5,943	-87
Equity attributable to noncontrolling interests	983	1,050	1,006	-44
Net assets	6,173	7,109	6,981	-128
(Stability)				
Equity ratio	53.8%	56.7%	59.0%	
Interest-bearing debt ratio	2.4%	1.2%	1.2%	

Shareholder Return Policy and Risks

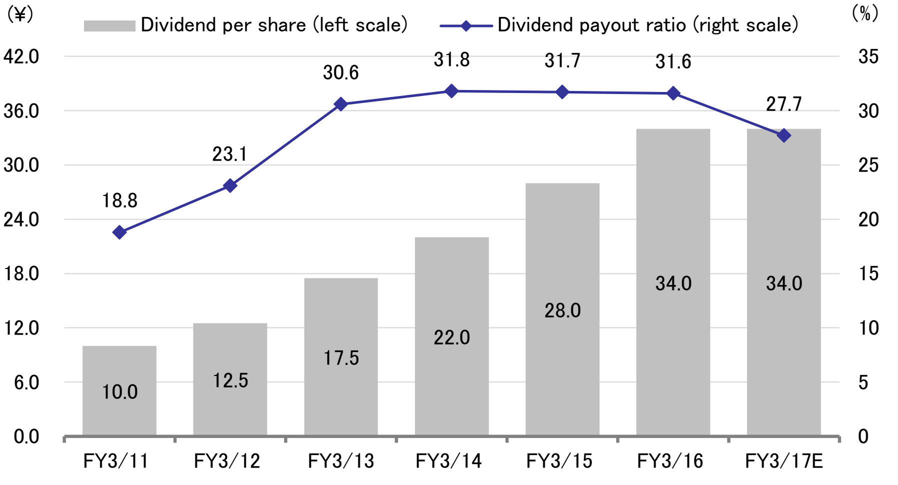
Paying dividends tied to earnings while also retaining profits

(1) Shareholder Return Policy

In terms of its dividend policy, eGuarantee's basic approach 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 it started paying dividends in FY3/09 through FY3/16. In FY3/17, eGuarantee is projecting an annual dividend per share of ¥34.0, on par with the previous fiscal year. We expect a dividend hike if earnings improve as planned because eGuarantee targets a dividend payout ratio of around 30%.

In addition, the Company 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. Based on the share price (¥2,737) as of September 9, 2016, the total return on investment for each shareholder holding one unit of shares was 1.8%.

Dividend Trends



Note: Figures for historical dividends are adjusted for stock splits

(2) Risks

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 major concerns at this time.

a) 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 higher costs in transferring risk to acceptors of securitized guarantees, thereby reducing profitability.

b) 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.

c) Competition could intensify as a result of new corporate entrants into the credit guarantee business. This could lower eGuarantee's market share.

d) 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.

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