COMPANY RESEARCH AND ANALYSIS REPORT

eGuarantee, Inc

8771

Tokyo Stock Exchange First Section

27-Jul.-2021

FISCO Ltd. Analyst
Yuzuru Sato

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

Outlook is for sales and profits to continue to grow by double digits alongside the increase in use of sales credit guarantee services

The core business of eGuarantee, Inc., <8771> (hereafter, also “the Company”) is to provide credit risk guarantee services targeting the sales credits issued by companies to their customers. The Company hedges the credit risk it assumes by transferring the guarantees to financial institutions via reassurance contracts. It has a recurring revenue business model in which its net sales are calculated as the balance of outstanding guarantees multiplied by the guarantee fee ratio. A strength is being able to set an optimal guarantee fee ratio due to its capabilities of gathering corporate information from more than 25,000 companies per month and advanced screening capabilities. It mainly acquires new customers through partner financial institutions and the like and has maintained growth by continuing to increase its balance of credit guarantees outstanding.

1. FY3/21 results

In its FY3/21 consolidated results, the Company reported higher profits on higher sales for the 19th consecutive period. Net sales increased 20.8% year on year (YoY) to ¥7,194mn, and ordinary profit grew 13.0% YoY to ¥3,108mn. The main reasons for the increase in sales were the increase in companies using sales credit guarantee services and the hike in the guarantee fee ratio due to the COVID-19 pandemic. The balance of credit guarantees grew 9.8% versus the end of the previous fiscal year to ¥482.2bn. Meanwhile, as a result of the significant increase in re-guarantee fee ratios paid by the Company based on expectations for an increase in the number of bankruptcies, the gross margin declined, and the ordinary profit margin declined from 46.2% in the previous fiscal year to 43.2%. The Company had forecasted net sales of ¥7,700mn and ordinary profit of ¥3,000mn, and net sales fell short of this forecast due to the fact that the guarantee fee ratio was lower than expected, but ordinary profit exceeded the forecast.

2. FY3/22 outlook

The consolidated forecast for FY3/22 is for the increase in both net sales and profits to continue, with net sales increasing 18.1% YoY to ¥8,500mn and ordinary profit increasing 20.6% YoY to ¥3,750mn. As the economic environment remains uncertain, the Company expects the balance of guarantees to increase 15% YoY and for the guarantee fee ratio to rise slightly against a backdrop of heightened needs for guarantees. In order to expand the business, the Company plans to increase the size of its salesforce from 60 people at the end of FY3/21 to 90-100 people, but still expects the ordinary profit margin to increase slightly due to the effect of higher sales and improved operational efficiency due to digital transformation. Also, given the fact that the guarantee fee ratio paid to the Company and the re-guarantee fee ratio that the Company pays will fluctuate, the Company expects that there will be limited fluctuation in profits and for ordinary profit to be generally in line with its forecast, even if bankruptcies increase or decrease more than expected.

3. Medium-term outlook and key policies

For the time being, the Company's numerical management target is consolidated ordinary profit of ¥5.0bn. The balance of credit guarantees necessary to achieve this level will be in the range of ¥700 to ¥800bn, which is 1.4x to 1.7x the amount at the end of the previous fiscal year. If growth of at least 15% continues going forward, this target is expected to be in reach by FY3/24. As key policies targeting growth, in FY3/22 the Company will work on the three policies of strengthening the sales platform in order to expand the breadth of customers, developing businesses in peripheral areas, and utilizing big data centered on transaction data. In terms of developing businesses in peripheral areas, the Company will start offering a small-ticket sales credit guarantee service called "minimal" for SMEs and sole proprietors which can be applied for and managed completely online, thereby expanding the scope of new customers, while the Company also plans to build a platform for developing new services utilizing various types of transaction data.

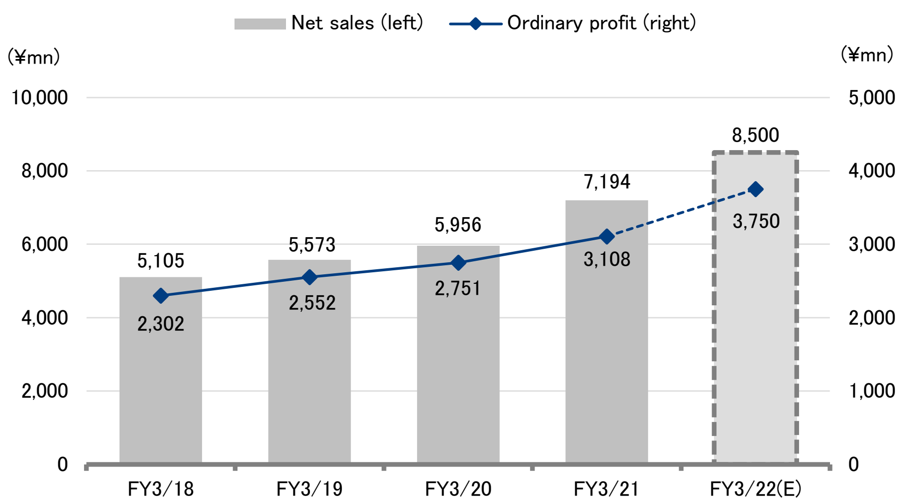
4. Shareholder return policy

The Company's basic policy concerning shareholder returns is to pay dividends depending on earnings while considering enhancing internal reserves needed to strengthen its financial position and aggressively develop and expand business. In FY3/22, eGuarantee plans to issue an annual dividend of ¥22.0 per share, the same as in FY3/21, representing a dividend payout ratio of 41.9%. As for the Company's shareholder gift program, eGuarantee awards a QUO card worth ¥1,500 to each shareholder at the end of March every year.

Key Points

- Net sales and profits increased for the 19th consecutive year due to increased demand for sales credit guarantee services
- The Company is starting initiatives aimed at strengthening its sales framework to expand the scope of customers as well as developing businesses in peripheral areas.
- The medium-term target of consolidated ordinary profit of ¥5.0bn will be within reach in two years, and the potential for long-term growth is big

Results trends



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

Company overview

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

1. Company history

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

In March 2007, the Company was listed on the JASDAQ Securities Exchange (listing changed to the Tokyo Stock Exchange 1st Section in December 2012), and using the funds it raised from the listing, in 2008 it formed its first fund investing in corporate credit risk and started operations through a subsidiary. Previously, it had packaged its guarantees according to the degree of risk and sold these packages to all financial institutions for them to hedge risks. But by forming new funds, it is aiming to diversify its opportunities for profits and to strengthen its ability to undertake risk, thereby accelerating growth. As of March 2021, the fund association consisted of six consolidated subsidiaries and one equity-method affiliate.

In January 2012, eGuarantee acquired the factoring business of Coface Japan Finance Co., Ltd., the Japanese arm of Coface Group, which is a leading French credit guarantee group. 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.

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

Company history

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

Source: Prepared by FISCO from the Company's materials

Consolidated subsidiaries (investment stakes, business content)

Company name	Investment stake (%)	Main business
eGuarantee Solution, Inc.	100.0	Systems development
RG Guarantee, Inc.	80.1	Small-ticket sales credit guarantee service
eGuarantee Shared Services, Inc.	100.0	Administrative outsourcing services
eGuarantee Investment, Inc.	100.0	Corporate venture capital operations

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

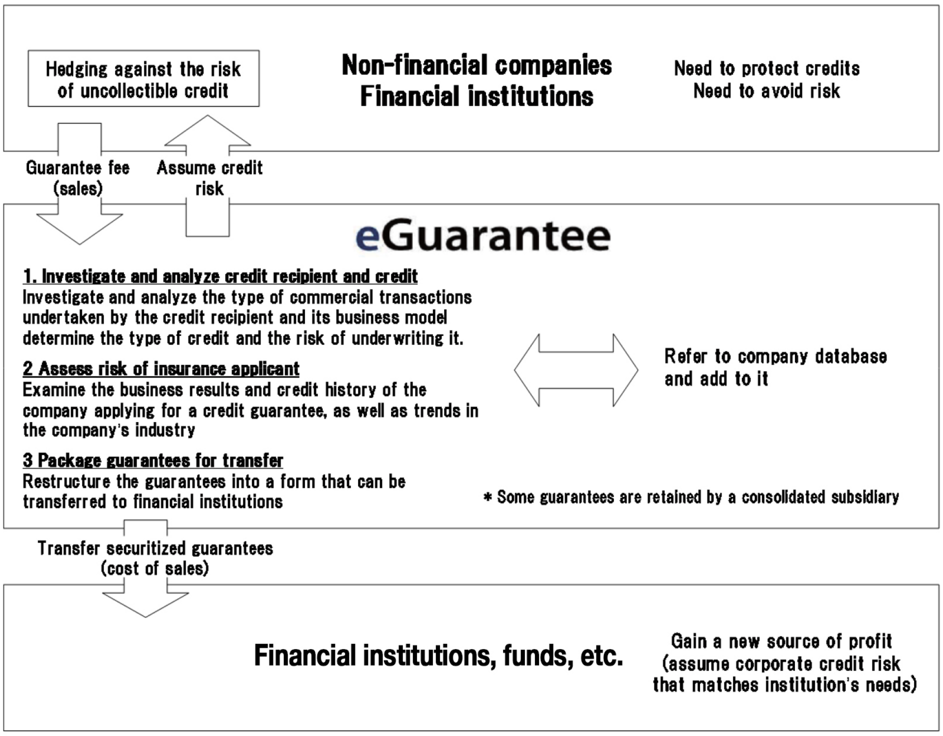
Built a recurring revenue business model that accumulates net sales from "the balance of outstanding guarantees x the guarantee fee ratio"

2. Business overview

(1) Description of businesses

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

Business flow



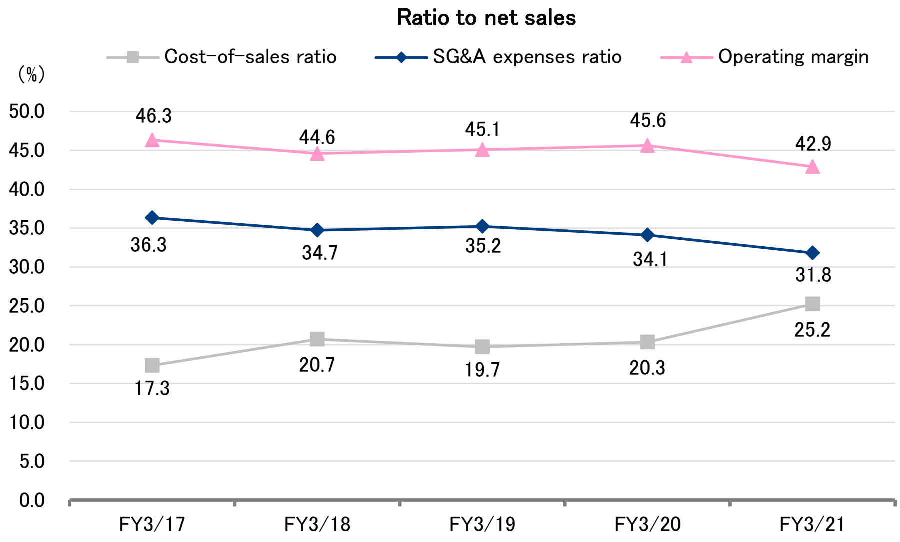
Source: Prepared by FISCO from the Company's securities report

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. In other words, the client company is able to pay a certain guarantee fee in exchange for minimizing its risk of loss from an irrecoverable sales credit. Most contracts are effective for one year, and the client company pays the entire guarantee fee on the business day before the guarantee start date, in principle. eGuarantee divides the sales proceeds into 12 equal monthly installments and records the sales every month, so month-to-month sales fluctuations are relatively small and this functions as a recurring revenue business model.

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

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

Therefore, eGuarantee's cost-of-sales ratio depends mainly on the spread between the guarantee fee ratio agreed upon by the Company and its clients and the re-guarantee fee ratio that applies to fees and commissions paid by the Company to the entities that accept the transfer of credit risk. eGuarantee has been reducing the re-guarantee fee ratios by diversifying and upgrading its methods of transferring credit risk, along with strengthening its ability to undertake risk by forming funds at a subsidiary and cutting costs by shrinking the amount of guarantee fees paid to third parties. Each fund can accept risk to the scale of ¥20bn-¥100bn and is funded by the likes of financial institutions. Over the past few years maintenance and improvement of operating performance have become difficult as interest rates have continued to be ultra-low, but there is strong demand for the funds and the Company has been able to procure funding under favorable terms. The cost-of-sales ratio in FY3/21 was 25.2%, which was the highest level among the past few years. The main reason for this was that although the Company raised the guarantee fee ratio due to the higher credit risk amid the COVID-19 pandemic, the re-guarantee fee ratio that the Company pays increased even more.



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

(2) 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 50 regional banks as of the end of April 2021, 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 around 70% of the total. 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 9 shinkin banks at the end of April 2021.

The Company has a total of more than 3,500 customers, ranging from SMEs to major companies, over a wide range of industries, including wholesale, retail, and manufacturing, so its results are not affected by economic fluctuations in specific industries. From these customers, the Company collects information on the companies it will target to screen in its services, and it creates a database of this information. The number of screened companies exceeds 25,000 every month, and it creates a database not only of management information, but also of information such as manager-attributes data and peripheral information, and analyzes the degree of risk and sets the optimum guarantee fee ratio. The database also contains other information, including on the managers' gender, age group, and the evaluation status of external word-of-mouth sites, and finally, it sets the optimal credit guarantee rate taking into consideration factors like the screener's experience. There is no other company that conducts such as thorough analysis to this extent, and it has become one of the Company's strengths.

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

3. Market size

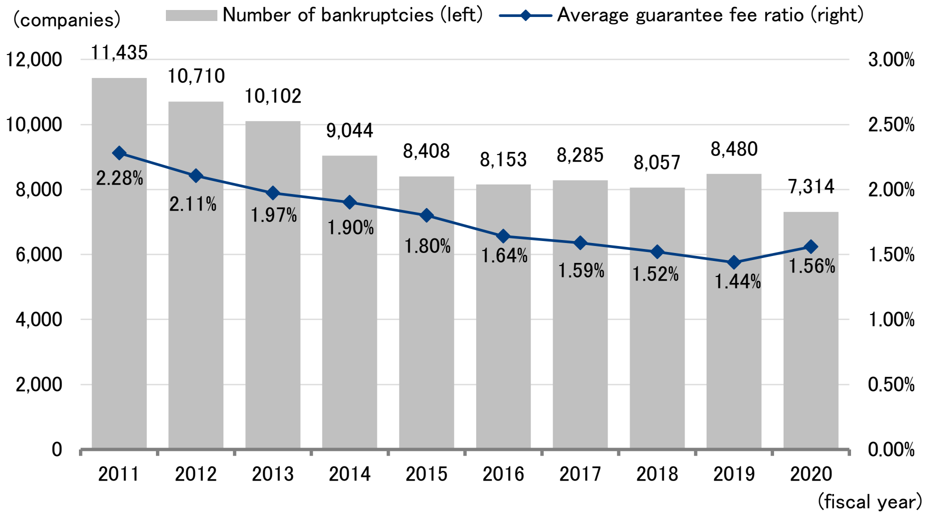
The size of the market for trade receivables (trade notes and accounts receivable) targeted by the eGuarantee's mainstay service is estimated to be more than ¥200tn. While not all of these trade receivables will require credit risk guarantee services, trade receivables guarantee services are used extensively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

In addition, the number of corporate bankruptcies, which has an impact on the guarantee fee ratio, had been in continuous decline since peaking at 13,234 in fiscal 2008. In fiscal 2019, the number of corporate bankruptcies temporarily increased, but in fiscal 2020 the number dropped 13.8% YoY to a low level of 7,314, falling under 8,000 for the first time in 20 years. The total amount of obligations declined 0.1% YoY to ¥1.2174tn, declining for the third consecutive year, and dropping to the lowest level since fiscal 2000. The implementation of various types of financing assistance, including the introduction since March 2020 of the effectively no-interest, no-collateral financing policy aimed at supporting fundraising, has led to the decline in the number of corporate bankruptcies.

Meanwhile, looking at the average guarantee fee ratio found by dividing the Company's net sales by the period-start/period-end average balance of guarantees outstanding during the fiscal year, we see that the average guarantee fee ratio in fiscal 2019 was 1.44%, but then it increased to 1.56% in fiscal 2020, the first rise in 11 years. The main reason for this was the fact that the Company raised its guarantee fee ratio in conjunction with the increase in credit risk due to COVID-19. This is a rare case in which the actual number of bankruptcies and the movement of the guarantee fee ratio were not linked with one another. However, reflecting the recent declining trend in bankruptcies, the guarantee fee ratio has been declining after peaking in November 2020. *

* The guarantee fee ratio on new guarantees increased from 1.62% in December 2019 to 2.77% in November 2020, but the ratio was in the 2.10% range in June 2021.

Number of corporate bankruptcies and average guarantee fee ratio



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

4. Risks

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

(1) Profit-structure risk

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

(2) Competition risk

There are hardly any other companies like the Company that specialize in providing sales credit guarantee services, but there are factoring companies affiliated to major financial institutions that provide guarantee factoring as a similar service, and also property insurance companies that provide transaction credit insurance and other such services. However, in terms of the scope of the companies that are targets of the guarantees, the guarantee-limit amount, and the credits targeted, the Company's strengths include that it is able to respond flexibly to diverse customer needs, so at the present time it is considered to have almost no competition risk. However, if in the future, financial institutions or other companies develop the same services as the Company and launch businesses, thereby causing competition to intensify, its profitability may decline. The Company does face some competition from a small-scale provider of a small-ticket sales credit guarantee service, of RACCOON FINANCIAL, Inc., which is a subsidiary of RACCOON HOLDINGS, Inc. <3031>. But small-ticket sales credit guarantees constitute only a small percentage of the Company's total business, so this competition has hardly any effect on it.

(3) Legal-regulations risk

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

Financial results

Both net sales and profits increased for the 19th consecutive fiscal year due to heightened demand for sales credit guarantee services

1. Summary of FY3/21 results

In its FY3/21 consolidated results, net sales increased 20.8% year on year (YoY) to ¥7,194mn, operating profit rose 13.6% YoY to ¥3,088mn, ordinary profit grew 13.0% YoY to ¥3,108mn, and profit attributable to owners of parent declined 12.9% to ¥2,004mn. Excluding profit attributable to owners of parent, net sales and profits increased for the 19th consecutive period. The main reason for the increase in both sales and profits was the increase in companies using the Company's credit guarantee service, and a 9.8% increase in the balance of credit guarantees to ¥482.2bn, as companies were concerned about the risk of not being able to recover sales credits as uncertainty grew about the market going forward due to COVID-19. The decline in profit attributable to owners of parent was due to the fact that the effective tax rate returned to a normal level. In the previous fiscal year, the effective tax rate on income tax temporarily declined to 7.0% in conjunction with the application of tax effect accounting due to the tax-deductibility of Employee Stock Ownership Plan (ESOP) trust distributions.

Consolidated financial results for FY3/21

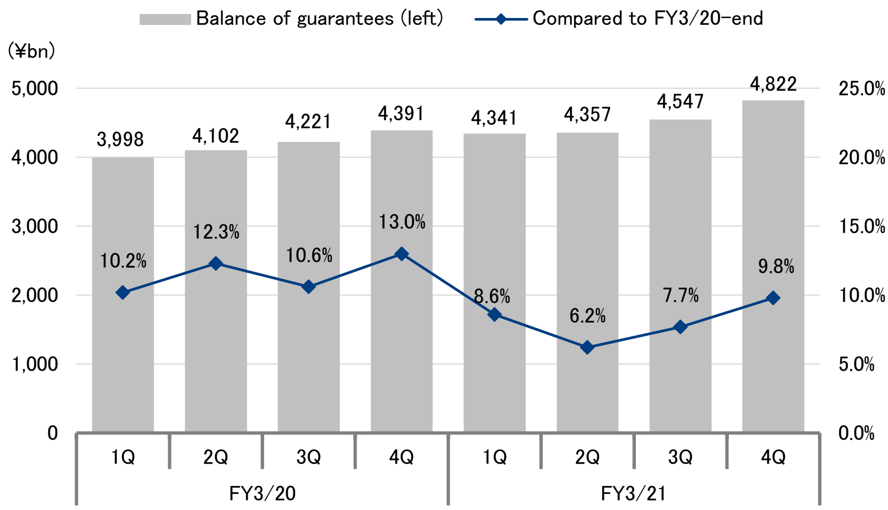
(¥mn)

	FY3/20		FY3/21				
	Results	Ratio to net sales	Forecasts	Results	Ratio to net sales	YoY change	vs. forecast
Net sales	5,956	-	7,700	7,194	-	20.8%	-6.6%
Cost of sales	1,208	20.3%	-	1,816	25.2%	50.3%	-
Gross profit	4,748	79.7%	-	5,378	74.8%	13.3%	-
SG&A expenses	2,029	34.1%	-	2,289	31.8%	12.8%	-
Operating profit	2,718	45.6%	2,980	3,088	42.9%	13.6%	3.6%
Ordinary profit	2,751	46.2%	3,000	3,108	43.2%	13.0%	3.6%
Profit attributable to owners of parent	2,301	38.6%	1,950	2,004	27.9%	-12.9%	2.8%

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

Looking at the trend in the balance of guarantees, in 1H the Company reviewed contract details for existing contracts in preparation for a future increase in the number of corporate bankruptcies due to COVID-19, and the Company limited new underwriting for large-amount risks among other efforts to diversify risk and reconstruct the portfolio. Also, although there was a sharp increase in inquiries about the Company's service, the rate of increase in the balance of guarantees fell to the high single digits from the usual low double digits, partly due to the Company recommending that customers utilize various support services from financial institutions, including government-affiliated financial institutions. In 2H, as a result of a little more understanding about the impacts of the COVID-19 pandemic, the Company returned its underwriting criteria to normal and also worked to develop and provide new products matching customer needs, and the rate of increase in the balance of guarantees once again turned higher.

Balance of guarantees



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

In conjunction with the increase in credit risk, the Company raised its guarantee fee ratio, and the average guarantee fee ratio increased modestly from 1.44% in March 2020, to 1.58% in September 2020, and then to 1.63% in March 2021. The guarantee fee ratio on new contracts is declining after peaking in the 2.7% range in November 2020. Meanwhile, the cost-of-sales ratio increased significantly from 20.3% in the previous fiscal year to 25.2% in FY3/21 as a result of a large hike in the re-guarantee fee ratio paid by the Company based on an expectation for an increase in corporate bankruptcies in 1H. As a result, the gross profit increased 13.3% YoY to ¥5,378mn.

Although SG&A expenses increased 12.8% YoY to ¥2,289mn, the SG&A expenses ratio declined from 34.1% in the previous fiscal year to 31.8% due to the effect of the increase in sales. The main factors for the increase were an ¥86mn increase in personnel expenses (salaries and allowances, bonus reserves) accompanying the effort to bolster the number of employees, and a ¥65mn increase in taxes and dues. At the end of FY3/21 there was a total of 161 employees on a consolidated basis, an increase of 19 versus the end of the previous fiscal year.

Net sales fell 6.6% below the Company's forecasts, due to the fact that the guarantee fee ratio was lower than expected. The Company had expected a further increase in net sales through 2H, but partially due to the effects of the government's assistance measures as discussed above, the number of corporate bankruptcies did not increase and the rate of increase was held in check more than initially expected. Still, each profit line exceeded the initial forecast.

Moreover, in December 2019, the Company announced a business alliance with Daiwa House Industry Co., Ltd. and its group company acca international Co., Ltd. (acca). Under this alliance, the Company has started a new loan guarantee service using the inventory data of logistics facility tenants. Specifically, the Company screens companies that are using the logistics facilities of Daiwa House Industry and the ALIS (integrated e-commerce data management system) of acca. In the event of a default in sales credits due to bankruptcy or other reasons, eGuarantee is contracted by each company to pay guarantee money to financial institutions up to a payment limit set by each company. The system is designed to allow the Company to determine the degree of risk based on factors such as the daily inventory data of logistics facility tenants, and to provide guarantees for irrecoverable sales credits. By taking a different approach than conventional financial systems, the Company provides credit to logistics facility tenants. This initiative thus paves the way for the Company to fulfill new needs for loans and expand its customer base. While the impact on business performance is negligible, this is one example that shows how the Company is working to expand its sales channels to acquire customers.

Significant increase in cash and deposits due to the increase in earnings and from exercising stock options

2. Financial condition and indicators

Looking at the financial condition at the end of FY3/21, total assets were up ¥6,125mn from the end of the previous fiscal year to ¥22,570mn. The main changes in current assets were an increase of ¥6,823mn in cash and deposits, and decreases of ¥2,602mn in securities and ¥358mn in prepaid expenses. In non-current assets, investment securities increased by ¥2,571mn. This was due to the replacement of maturing credits. The Company purchases credit with a rating of A and above.

Total liabilities increased ¥1,737mn from the end of the previous fiscal year to ¥5,384mn. Income taxes payable increased ¥932mn, while advances received, which represent the source of future net sales, increased ¥605mn. Net assets rose ¥4,387mn from the end of the previous fiscal year to ¥17,186mn. By exercising stock options, both share capital and capital surplus increased by ¥1,454mn, while retained earnings increased ¥1,409mn.

Looking at financial indicators, the equity ratio, which is an indicator of financial stability, was 70.3%, which was on par with the level of the previous fiscal year, as the Company made further progress in strengthening its financial base, including debt-free management and cash and deposits exceeding ¥16bn. Looking at the indicators of profitability, with an operating margin of 42.9%, ROE of 14.6%, and ROA of 15.9%, the Company has maintained a high level of each indicator, despite a decline in each from the previous fiscal year. The main reasons for this performance are that the Company has a recurring revenue business model that records guarantee fees as net sales in even monthly amounts, provides a service for which there is steady demand regardless of strong or weak economic conditions, and has a solid competitive advantage with virtually no competitors.

Consolidated balance sheet

(¥mn)

	FY3/18	FY3/19	FY3/20	FY3/21	YoY
Current assets	10,828	12,036	13,645	17,085	3,440
(Cash and deposits)	8,453	9,471	9,232	16,056	6,823
Non-current assets	3,540	4,390	2,799	5,484	2,685
Total assets	14,368	16,427	16,444	22,570	6,125
Current liabilities	4,812	5,350	3,531	5,269	1,737
(Advances received)	2,549	2,647	3,059	3,664	605
Non-current liabilities	115	115	115	115	-
Total liabilities	4,928	5,466	3,646	5,384	1,737
(Interest-bearing debt)	-	-	-	-	-
Net assets	9,440	10,960	12,798	17,186	4,387
(Stability)					
Equity ratio	58.0%	59.7%	70.3%	70.3%	0.1pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	17.6%	16.6%	16.7%	15.9%	-0.8pt
ROE	19.0%	18.2%	21.5%	14.6%	-6.9pt
Operating margin	44.6%	45.1%	45.6%	42.9%	-2.7pt

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

Business outlook

Aiming to grow the balance of guarantees by 15% in FY3/22 and achieve higher sales and profits for the 20th straight fiscal period

1. FY3/22 outlook

In FY3/22, the Company expects net sales and profits to increase for the 20th consecutive fiscal period. Specifically, the Company is forecasting net sales to increase 18.1% YoY to ¥8,500mn, operating profit to rise 20.4% to ¥3,720mn, ordinary profit to grow 20.6% to ¥3,750mn, and profit attributable to owners of parent to increase 19.8% to ¥2,400mn. As the economic environment remains uncertain, the Company expects the balance of guarantees to continue to grow steadily against a backdrop of heightened needs for guarantees and for the guarantee fee ratio to increase due to the rise in the number of corporate bankruptcies. The Company is expecting the fiscal year-end balance of credit guarantees to increase 15% YoY.

Consolidated results outlook for FY3/22

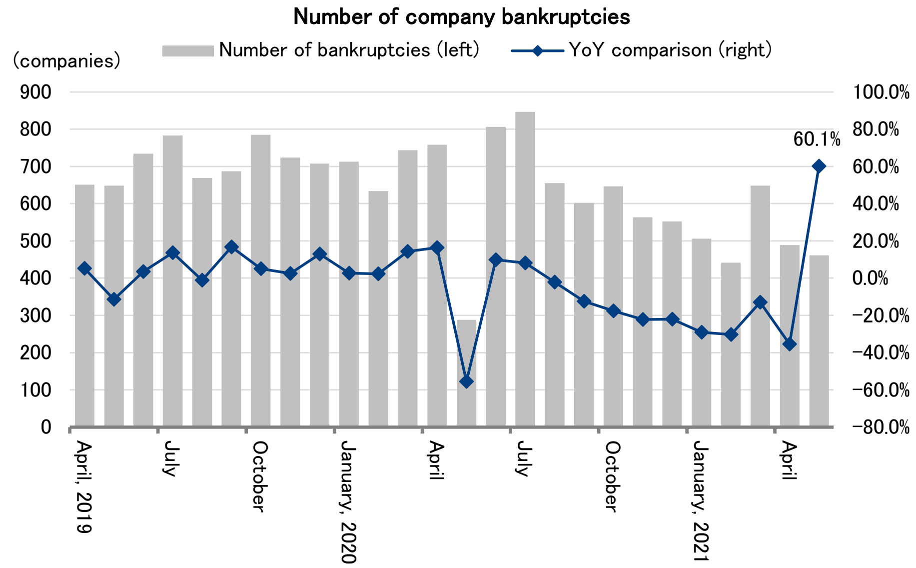
(¥mn)

	FY3/21		FY3/22		
	Results	Ratio to net sales	Forecasts	Ratio to net sales	YoY change
Net sales	7,194	-	8,500	-	18.1%
Operating profit	3,088	42.9%	3,720	43.8%	20.4%
Ordinary profit	3,108	43.2%	3,750	44.1%	20.6%
Profit attributable to owners of parent	2,004	27.9%	2,400	28.2%	19.8%
Earnings per share (¥)	45.12		52.48		

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

In expenses, the Company is expecting an increase in the re-guarantee fee ratio and a rise in the guarantee execution amount due to an increase in bankruptcies. In 1H, the Company projects the guarantee fee ratio will be on par with FY3/21 2H, but it expects the guarantee fee ratio to increase in 2H due to an increase in the number of corporate bankruptcies. Regarding SG&A expenses, the Company is expecting an increase in personnel expenses and other expenses due to the strengthening of the sales platform, but expects the ordinary profit margin to increase from 43.2% to 44.1% based on the effect of higher sales, improved operational efficiency due to digital transformation, and other factors. Also, given the fact that the guarantee fee ratio paid to the Company and the re-guarantee fee ratio that the Company pays will fluctuate depending on the number of bankruptcies, the Company expects there will be limited fluctuation in profits and for profit expectations to not stray too far from its forecasts even if bankruptcies increase or decrease more than expected.

According to Teikoku Databank research, the number of corporate bankruptcies in May 2021 increased 60.1% versus May 2020, to 461 bankruptcies. This was the first time in 10 months that the number of bankruptcies was higher than in the same month of the previous year. However, this was due to the fact that in the same month of the previous year, legal liquidation proceedings stagnated due to the impacts of the state of emergency declarations, resulting in an extremely low number of bankruptcies, and the actual number of corporate bankruptcies is actually still at a low level. Going forward, with the administration of the COVID-19 vaccine, there are expectations that the number of people who become infected will be suppressed and the economy will normalize, but there are concerns that there will be another surge in infections caused by holding the Tokyo 2020 Olympic and Paralympic Games, so the future outlook is unpredictable. Also, with respect to the no-interest, no-collateral financing that has helped companies raise funds, the peak lending amount was in June 2020, and companies have started to repay their loans that they took on with a one-year repayment grace period. Therefore, it is certainly possible that the number of corporate bankruptcies will increase heading towards the end of 2021. In fact, not only in the restaurant industry, but most recently market prices have spiked due to the reopening of the economy, especially in the US and Europe, and this has led to an increase in companies seeing their purchasing costs rise and pressure on business. However, although the change in the number of corporate bankruptcies impacts the Company's net sales, the impact on profits is minimal, and by steadily accumulating the balance of outstanding credit guarantees, the Company will aim for double-digit growth in both sales and profits.



Source: Prepared by FISCO using Teikoku Databank

Started to strengthen the sales platform in order to expand the scope of customers and launched initiatives aimed at developing businesses in peripheral areas

2. Key policies

The Company is working on three key policies for FY3/22 as outlined below.

(1) Strengthening the sales platform in order to expand the scope of customers

The Company will strengthen the sales platform by increasing the number of sales employees. Along with this, the Company will enhance its education system and aims to quickly establish a system in which it can turn these employees into management resources. The Company plans to increase the number of sales employees by 1.5x, from around 60 people at the end of the previous fiscal year to 90-100 people. Of the 30 new graduates that joined the Company in April 2021, approximately 80% were placed in the sales department, while the Company also expects to hire approximately 15 mid-career professionals.

In addition, the Company will advance tie-ups in new customer referral channels, such as in major cities, and work to offer the service to customers who the Company has been unable to approach thus far. In particular, the Company plans to widen the scope of its tie-ups, centered on securities companies, and shinkin banks. In metropolitan areas, the Company is already making progress on initiatives with major securities firms, and the number of referrals has already started to increase. For shinkin banks in metropolitan areas, the Company announced that it concluded a business tie-up with The Sugamo Shinkin Bank in April 2021. Up until recently, regional banks accounted for roughly 80% of customer referrals, but it appears that this ratio has recently declined to roughly 70% as a result of an increase in referrals from securities companies and other financial institutions. Going forward, the Company will aim to expand the scope of customers by developing these types of new customer referral channels.

(2) Developing businesses in peripheral areas

The Company will start new initiatives in order to develop businesses in peripheral areas. Regarding "minimal," the small-ticket, online-only sales credit guarantee service that the Company introduced on a test basis from February 2021, the Company will officially launch the service and widen the sales network to increase the number of users, as well as aim to build a new service development platform utilizing the enormous amount of credit data collected through this service.

Target customers are SMEs and sole proprietors, and the Company will work to acquire customers by informing target customers about the service through online marketing and partnering financial institutions. In terms of the service details, for a guarantee fee of ¥8,800 per month, the Company will guarantee up to a maximum of ¥10mn (maximum of ¥1mn per company). The distinctive features of the service are that the Company will guarantee not only bad debt on sales credits due to counterparty bankruptcies, but it also guarantees non-payments in the event that payments are not made by set deadlines. SMEs have limited abilities to recover unpaid claims so payments being late is a common occurrence, but with this service the Company will step in the middle and resolve this type of problem. By fulfilling a large number of guarantee execution obligations, the Company will collect information on counterparties, including data on individual products, etc., and perform big data analysis. By doing so, the Company hopes to develop new services in the future, such as marketing support services that boost the efficiency of purchasing and sales in the e-commerce field. The "minimal" service will expand the scope of customers, and is also positioned as a "hook" in order to build a foundation for such new services. Subsidiary RG Guarantee, Inc. operates the small-ticket sales credit guarantee service, but this is not a service completed completely online, and the track record is quite limited.

Details of the "minimal" service

	minimal	Standard
Monthly cost	¥8,800/month	¥28,800/month
Maximum guarantee limit	¥10mn/month	¥30mn/month
Guarantee amount per company	Up to ¥1mn	Up to ¥5mn

Source: Prepared by FISCO using Company's website

The Company is also advancing tie-ups with fintech companies in peripheral areas. The Company is providing a guarantee service for internet-based factoring service providers, as well as offering a sales credit guarantee service in the OEM field. The Company has a lot of contacts with these kinds of fintech companies, and so if the fintech services market expands, it is expected that this will contribute in some way to the Company's earnings as well.

(3) Utilization of big data centered on transaction data

By widening the scope of customers, the Company will aim to quickly increase the volume of various data from transactions between companies, including company screenings, transaction data, and payment data. Additionally, the Company will aim to create systems (launching the "minimal" service, etc.) to collect even more data, as it works to strengthen its data collection platform.

Currently, the Company registers about 500,000 items per day of various data such as company surveys, transaction data and payment data for 25,000 to 30,000 companies per month, but with the increase in the number of customers, it will increase this to more than 2.6 million items of data per day. In addition to utilizing the collected data as statistical data used in corporate screening, the Company's strategy is to use the data in new services in peripheral fields as described above.

The Company has significant long-term growth potential, and its medium-term target of ¥5.0bn in consolidated ordinary profit should come within reach two years from now

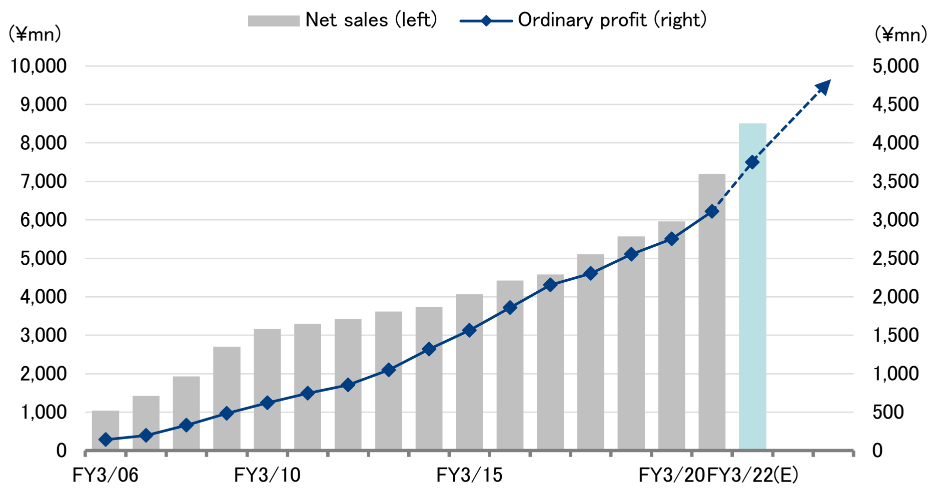
3.Medium-term outlook

As its medium-term management target, the Company is aiming for consolidated ordinary profit of ¥5.0bn. In order to achieve this target, the balance of guarantees outstanding will need to increase to around ¥700 to ¥800bn, or 1.4x to 1.7x the current amount. For FY3/22, the Company expects the amount to increase 20.6% YoY to ¥3.75bn, and if the amount continues to grow by at least 15% per year from FY3/22 onward, the amount will reach ¥5.0bn in FY3/24.

In growing the guarantee balance, as discussed above, in FY3/22 the Company will aim to increase the balance by 15% YoY through efforts to strengthen the sales platform and by launching new services to expand the scope of customers. At FISCO, we think that demand for the sales credit guarantee service will increase amid the uncertain economic outlook, and we are forecasting growth in the 10% range to continue from FY3/23 onward. There is a possibility that net sales will swing up or down due to changes in the guarantee fee ratio, but by increasing productivity through digital transformation, the level of net sales will likely be at a level allowing the Company to achieve growth of at least 15% on an ordinary profit basis.

One of the risk factors is intensifying competition due to the increase in the number of competitors entering the business, but as mentioned above, the ability to collect information to properly evaluate the risks of companies is the source of competitiveness in this industry. At FISCO, we believe that the Company has a large first-mover advantage because it has established systems to accumulate and evaluate immense amounts of credit information before others, and the risk from other companies entering the field is extremely low so far. From a long-term perspective, growth can be expected by the Company expanding its earnings portfolio, such as collaboration with fintech service providers and fostering new services in peripheral businesses, and this is a company that attention will be paid to as a company expected to grow consistently going forward.

Trends in long-term results



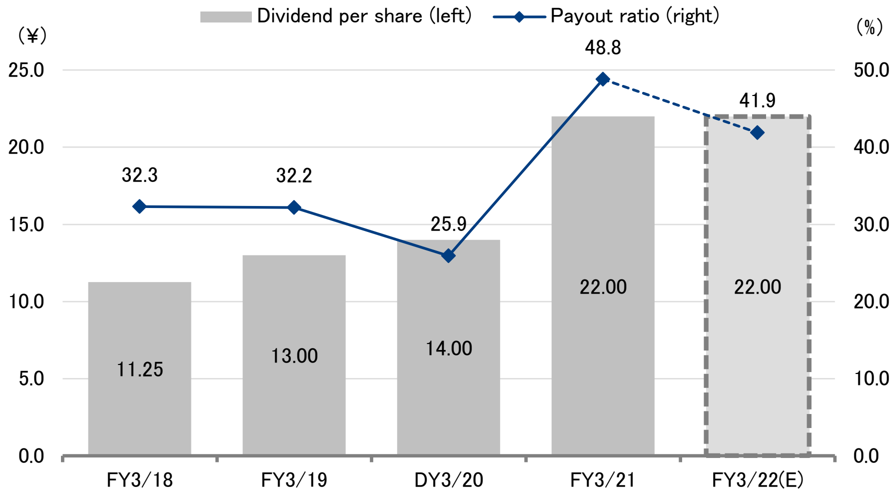
Source: Prepared by FISCO from the Company's financial results

Shareholder return policy

Due to the enhancement of retained earnings, the payout ratio target was increased from the initial 30%.

The Company's basic dividend policy is to pay dividends in line with earnings while also considering supplementing the internal reserves it needs to strengthen its financial structure and to actively develop its business. The target for the dividend payout ratio is around 30%. In FY3/21, the Company paid a dividend of ¥22.0, an increase of ¥8.0 from the previous fiscal year with a dividend payout ratio of 48.8%, which far exceeded initial targets. The reason for this is that a significant increase in dividends was decided after the Company determined that it would be possible to raise the shareholder return as internal reserves had been enhanced by the expansion of results and also took into consideration the decrease in dividend yield due to increased share prices. In FY3/22, the Company plans to pay a dividend of ¥22.0, the same as in FY3/21, for a dividend payout ratio of 41.9%. Because the Company has continually increased dividends since it began paying them out in FY3/09, we at FISCO see a possibility that it will increase dividend if results turn out well. 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.

Dividend per share and payout ratio



Note: The Company implemented 2-for-1 stock splits in March and August, 2018. The dividend was adjusted retroactively.
Source: Prepared by FISCO from the Company's financial results

Information security

As the Company handles information on its customer companies and others through its guarantee service business, it is aware that information security measures are an important management issue. Therefore, it is taking various steps to ensure information security, including updating to the latest security software, restricting access to the information management system according to the person in charge and the managerial position, and providing education and training on information management.

FISCO

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp