# COMPANY RESEARCH AND ANALYSIS REPORT

# eGuarantee,Inc.

## 8771

Tokyo Stock Exchange Prime Market

12-Nov.-2024

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# Contents

# Summary

## Viewing changes in market conditions as an opportunity and aiming for ordinary profit of ¥10.0bn in FY3/28

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. It has a recurring revenue business model in which its net sales are calculated as guarantee liabilities multiplied by a guarantee fee ratio. A strength is being able to set an optimal guarantee fee ratio due to its capabilities of gathering corporate information from more than 30,000 companies per month and advanced screening capabilities. It mainly acquires new customers through partner financial institutions and the like and has maintained growth by continuing to increase its guarantee liabilities, with a high repeat customer rate of over 90%.

**1. Summary of FY3/24 results**

In its FY3/24 consolidated results, the Company reported higher profits and higher sales for the 22nd consecutive period. Net sales increased 7.9% year on year (YoY) to ¥9,165mn, and ordinary profit grew 15.9% to ¥4,902mn. Due to an increase in customer demand against the backdrop of rising corporate bankruptcies, along with the effects of expanding sales resources, the balance of guarantee liabilities at the end of the period grew by 10.4% YoY to ¥751.8bn*. Due to a review of the risk portfolio for high-risk industries, the average guarantee fee ratio declined slightly from the previous period, resulting in the revenue growth rate falling below 10%. However, thanks to an improved cost ratio and the effects of cost reductions from the improved efficiency of sales activities, the ordinary profit ratio rose from 49.8% in the previous period to 53.5%, surpassing 50% for the first time.

* The actual total of guarantee obligations (the guarantee blocks set for each company covered by a guarantee, or the guarantee block established for each client company if the companies covered by guarantees cannot be identified) was up 31.3% versus the end of the previous period to ¥1.4132tn, but there are an increasing number of cases in which a guarantee service is provided by covering multiple companies all together, so the gap between this and the guarantee liabilities amount, which impacts net sales, has been growing year by year.

**2. FY3/25 outlook**

In FY3/25, the Company is forecasting net sales to increase 10.2% YoY to ¥10,100mn and ordinary profit to rise 6.1% to ¥5,200mn. This increase in sales and profit is expected to continue as the accumulation of guarantee liabilities accelerates. Meanwhile, due to a strengthened sales structure, personnel costs are expected to increase by about ¥300mn, which will be a factor in the decline in profit margins. Performance in 1Q progressed as planned, with net sales rising 7.4% YoY to ¥2,406mn, ordinary profit up 1.5% to ¥1,187mn and guarantee liabilities rising 11.6% to ¥7,802mn. The revenue growth rate is expected to grow in 2H onward as the guarantee fee ratio begins to rise.

### 3. Medium-term Business Plan

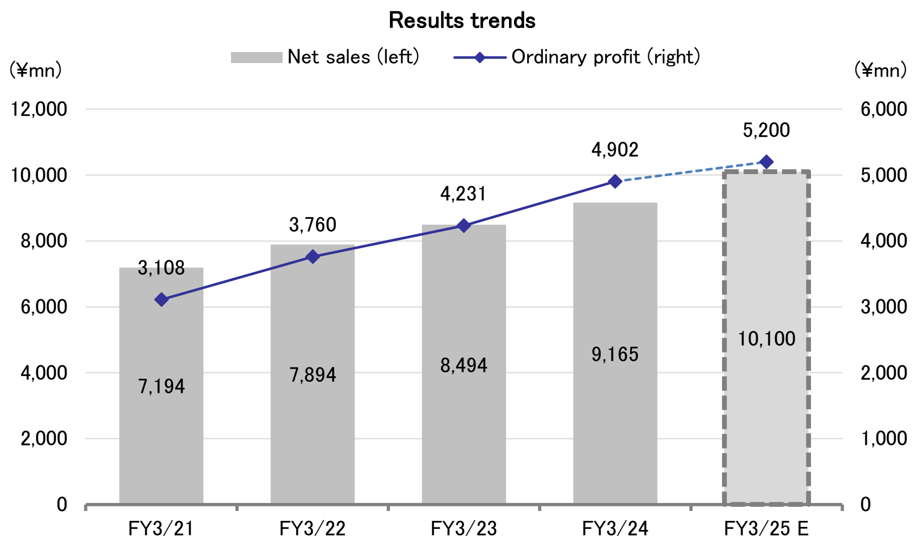
In June 2024, the Company announced “Accelerate 2028,” its medium-term business plan through FY3/28. Amid changes in the external environment, such as an increase in corporate bankruptcies, rising interest rates, and a decline in the labor force, the Company foresees a further rise in corporate demand for guarantees and views this as an opportunity for significant growth. It has thus announced a policy of pursuing aggressive business expansion. Primarily, the Company aims to efficiently expand sales through proactive risk underwriting backed by an extensive corporate database, aggressive investment of sales resources, expansion of its product lineup, and promotion of digital transformation (DX), targeting sales of ¥20,000mn and ordinary profit of ¥10,000mn in FY 3/28. Ordinary profit average annual growth rate is projected to reach 19.5%, exceeding the performance of the most recent four-year period (15.5%). However, since upfront investments will be made in strengthening the foundation for growth in the first half, profit growth is expected to accelerate in the second half.

### 4. Shareholder return policy

The Company’s shareholder return policy is based on a comprehensive consideration of its financial condition and future business developments, etc., and aims for a consolidated payout ratio of 50% or more, with a basic policy of continuously increasing the total dividend amount. Based on that policy, the per-share dividend for FY3/25 is expected to increase ¥2.0 YoY to ¥37.0 (a payout ratio of 51.1%), continuing the trend of dividend increases since the listing of the Company’s stock.

### Key Points

- Amid an increase in corporate bankruptcies, demand for sales credit guarantee services is growing, and in FY3/24, the Company achieved growth in revenue and profit for the 22nd consecutive period
- Viewing changes in market conditions as an opportunity, the Company aims to achieve ¥10.0bn in ordinary profit in FY3/28, more than double that of FY3/24, through aggressive business expansion
- While profit growth rate will temporarily slow in FY3/25 due to increased personnel costs, double-digit profit growth is expected to return in FY3/26 onward




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

# Company overview

## The Company provides sales credit guarantee services for transactions between companies, and continues to grow as a high-earning enterprise

### 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 (TSE) First Section in December 2012 and it shifted to the TSE Prime Market following the market classification of the TSE in April 2022), and using the funds it raised from the listing, in 2008 it formed its first fund investing in corporate credit risk and started operations through a subsidiary. Previously, it had packaged its guarantees according to the degree of risk and sold these packages to all financial institutions for them to hedge risks. But by forming new funds, it is aiming to diversify its opportunities for profits and to strengthen its ability to undertake risk, thereby accelerating growth. Currently, about 15% of the overall credit risk is underwritten by Group companies. (As of the end of August 2024, the fund association consisted of 10 consolidated subsidiaries, 1 equity-method affiliate, and 1 affiliate not accounted for by the equity method).

In January 2012, eGuarantee acquired the factoring business of Coface Japan Finance Co., Ltd., the Japanese arm of Coface Group, which is a leading French credit guarantee group, in order to absorb expertise related to export credit guarantees as well as to expand the Company's business foundation and bolster its product development capabilities. Leveraging the expertise obtained through this acquisition, eGuarantee entered into business alliances with local financial institutions in South Korea in December 2013 and China in June 2014, and has commenced the export credit guarantee service business in those countries. However, for overseas transactions (exports, investments, and loans), many companies use trade insurance or international factoring services, so the proportion of such transactions to total sales is minimal.

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

**Company history**

| Month/year | Main events |
|---|---|
| September 2000 | Established in Minato-ku, Tokyo as a subsidiary of ITOCHU Corp.'s financial, real estate, insurance and distribution company to guarantee financial credit held by factoring companies mainly as a result of the settlement of electronic commercial transactions |
| November 2001 | Started offering a comprehensive guarantee service to non-financial companies through which it guaranteed the sales credit accumulated by companies in their normal course of business |
| February 2004 | Started offering an individual guarantee service through which it guaranteed the sales credit accumulated by a single company |
| August 2004 | Started a full-scale guarantee service for financial companies other than factoring companies |
| March 2007 | Listed shares on the JASDAQ Securities Exchange |
| August 2008 | Arranged Credit Creation 1 (currently, Credit Link Fund I), the Company's first fund for investment in corporate credit risk |
| November 2009 | Arranged Credit Investment 1 |
| December 2011 | Listed shares on the Second Section of the Tokyo Stock Exchange |
| January 2012 | Purchased part of the business of Coface Japan Finance Co., Ltd., a member of a leading French credit guarantee group |
| April 2012 | Established Denshi Saiken Acceptance Ltd., a joint venture with NEC Capital Solutions <8793>. This joint venture purchases electronically registered credits at a discount and engages in factoring and securitization (it was dissolved in 2015) |
| December 2012 | Listed shares on the First Section of the Tokyo Stock Exchange |
| November 2013 | Established eGuarantee Solution, Inc. as a subsidiary to conduct contract-related administration work, data registration services and other related activities |
| December 2013 | Entered into a business alliance with a leading local financial institution in South Korea and launched export credit guarantee services in the South Korean market |
| March 2014 | Established RG Guarantee, Inc. as a subsidiary to provide small-ticket credit guarantee services |
| June 2014 | Entered into a business alliance with the Tokyo Branch of China-based Bank of Communications and commenced export credit guarantee services in China |
| September 2014 | Arranged the Credit Guarantee 1 fund |
| April 2015 | Arranged the Credit Guarantee 2 fund |
| December 2017 | Established the subsidiary eGuarantee Shared Services, Inc. to carry out various administrative work |
| March 2018 | Arranged the Credit Guarantee 3 fund |
| May 2019 | Arranged the Credit Guarantee 4 fund |
| June 2019 | Capital and business alliance with H.I.S. Impact Finance Co., Ltd., a financial subsidiary of H.I.S. <9603> |
| October 2019 | Established the subsidiary eGuarantee Investment, Inc. to conduct corporate venture capital operations |
| March 2020 | Began a sales credit purchasing service<br>Arranged the Credit Guarantee 5 fund |
| March 2022 | Arranged the Credit Guarantee 6 fund |
| May 2023 | Arranged the Credit Guarantee 7 fund |
| September 2023 | Arranged the Credit Guarantee 8 fund |

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

**Consolidated subsidiaries (investment stakes, main business)**

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

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

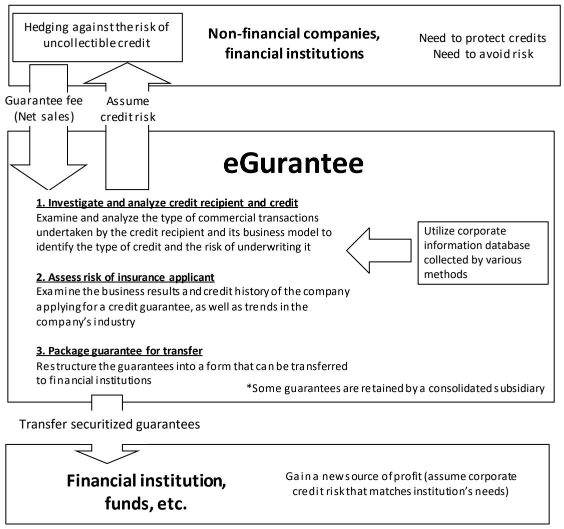
## Built a recurring revenue business model that accumulates earnings from “guarantee liabilities × the guarantee fee ratio”

### 2. Business overview

#### (1) Description of businesses

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

Business flow

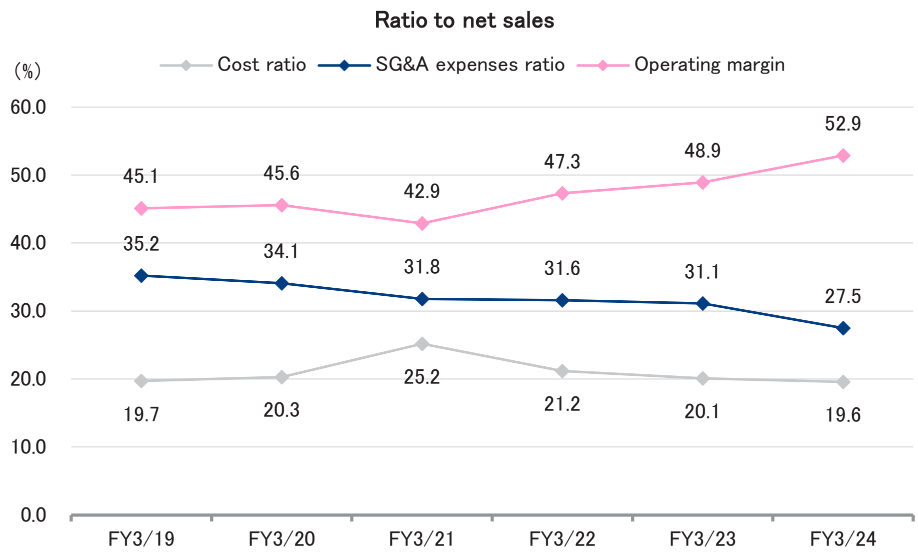



Source: Prepared by FISCO from the Company’s securities report

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

As eGuarantee's net sales are determined by its guarantee liabilities multiplied by the guarantee fee ratio, the key to driving growth in net sales lies in increasing guarantee liabilities. eGuarantee refers to various data, including economic indicators published daily, trends in the number of corporate bankruptcies and the probability of credit default based on past experience, and revises guarantee fees every month based on this data. When the number of corporate bankruptcies is increasing, the credit risk is higher. This means that the guarantee fee ratio will also be set higher. The actual guarantee fee ratio is set for individual contracts and based on the result of eGuarantee's investigations of risk associated with the companies subject to the guarantee. eGuarantee is not bound by industry practice in setting its guarantee fee ratio, but sets a fee that justifies the cost of hedging the risk for the client. In regard to the credit risk assumed by the Company, eGuarantee packages its guarantees into a portfolio of financial risk products according to risk. It then transfers the guarantees to financial institutions, investment funds and other entities (securitization). Upon the transfer of credit risk, eGuarantee pays guarantee fees and commissions to the entities that accept its guarantee packages. These guarantee fees and commissions constitute the bulk of eGuarantee's cost of sales.

Therefore, eGuarantee's cost of sales ratio depends mainly on the spread between the guarantee fee ratio agreed upon by the Company and its clients and the re-guarantee fee ratio that applies to fees and commissions paid by the Company to the entities that accept the transfer of credit risk. eGuarantee has been reducing the re-guarantee fee ratios by diversifying and upgrading its methods of transferring credit risk, along with strengthening its ability to undertake risk by forming funds at a subsidiary and cutting costs by contracting the amount of guarantee fees paid to third parties. Looking at the cost of sales ratio over the past few years, amid rising credit risk due to the COVID-19 pandemic, in FY3/21 the Company raised its guarantee fee ratios, but re-guarantee fee ratios that the Company paid rose even higher than that, resulting in the cost of sales ratio rising 4.9 percentage points YoY. In FY3/23, credit risk also increased due to a rise in corporate bankruptcies for the first time in three years. However, by strategically focusing on acquiring large, low-risk guarantee contracts, the average guarantee fee ratio declined. Additionally, the Company was able to reduce the re-guarantee fee ratios it paid beyond that decline, resulting in a 1.1 percentage point drop in its cost of sales ratio. Over the span of 10 years, the cost ratio has hovered around the 20% level. Each fund can accept risk to the scale of ¥20.0bn–¥100.0bn and is funded by the likes of financial institutions. Over the past few years, maintaining and improving investment performance have become difficult as interest rates have been ultra-low, so there has been strong demand for these funds, and the Company has been able to procure funding under favorable terms. On the other hand, the SG&A expense ratio has continued to decrease in recent years due to business expansion and cost controls in indirect departments with advances in DX, contributing to an increase in the operating margin.




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

**(2) Operational structure**

Including its head office in Tokyo, the Company has a total of nine sales offices. These are the Hokkaido branch (Sapporo), Tohoku branch (Sendai), Nagoya branch, Hokuriku branch (Kanazawa), Osaka branch, Hiroshima branch, Chushikoku branch (Takamatsu), and the Kyushu branch (Fukuoka). In terms of cultivating customers, the Company has been efficiently acquiring customers by forming business alliances with financial institutions, primarily regional banks, trading companies, leasing firms and other business partners. In particular, eGuarantee had entered into business alliances with 53 regional banks as of the end of August 2024, establishing an alliance network spanning nearly all of Japan, with this being an important customer cultivation route accounting for roughly 80% of all customer referrals. Additionally, since FY3/16, eGuarantee has been ramping up business alliances with shinkin banks in order to cultivate small- and medium-sized companies in cities as customers, and has alliances with 15 shinkin banks and credit unions at the end of August 2024. The Company also partners with 4 securities firms, 21 non-financial companies (lease companies and insurances agencies, etc.) and 2 other banks, and mainly accepts customer referrals in urban areas from these partners.

The Company has a total of more than 5,000 customers, ranging from SMEs to major companies, over a wide range of industries, including wholesale, retail, and manufacturing, so its results are not affected by economic fluctuations in a specific industry. From these customers, the Company collects information on the companies it will target to screen in its services, and it creates a database of this information. The number of screened companies exceeds 30,000 every month, and the Company creates a database not only of data on transactions between companies, but also of information such as peripheral information. Including this, the Company collects and stores in a database more than 2.6 million data items per day. The database also contains various types of information, including managers' attributes and assessments on word-of-mouth websites. Using this data, the Company analyzes the degree of risk and ultimately sets the optimal credit guarantee rate for each company taking into consideration factors like the screener's experience. Generally, when financial institutions judge a company's risk level, they often make judgments by looking only at past financial results and assets. But in the case of SMEs, the management situation can change very rapidly, and analyzing a company with a close watch on real-time data is something that the Company recognizes as being critical to increasing the accuracy of judging bankruptcy risk. There is no other company that collects such a wide scope of data and conducts such a thorough analysis; this has become one of the Company's strengths, and a factor in its ability to maintain high profitability.

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

## The size of the sales credit market exceeds ¥200tn, with robust growth potential for credit risk guarantee services

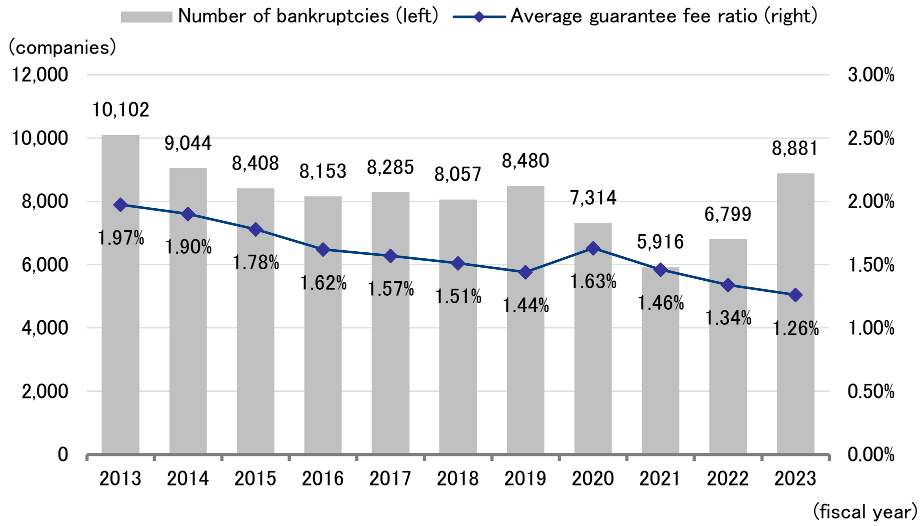
### 3. Market size

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*1. 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*2.

*1 According to the Ministry of Finance's "Financial Statements Statistics of Corporations by Industry," the market size is ¥240tn as of March 31, 2024 (excluding financial and insurance industries).
*2 For example, the penetration rate of credit risk guarantee services in Japan remains at about the 1% level, while in the UK it is 12-14%, in France 30-35%, and in Germany more than 40%.

In addition, the number of corporate bankruptcies, which has an impact on the guarantee fee ratios, had been in continuous decline since peaking at 13,234 in fiscal 2008. In fiscal 2019, the number of corporate bankruptcies temporarily increased, but from fiscal 2020, the introduction of virtually no-interest, unsecured loans by government-affiliated financial institutions aimed at supporting fundraising amid the COVID-19 pandemic led to the number of corporate bankruptcies declining again. However, with these policies coming to an end, as well as the impact of inflation due to the impact of soaring energy prices and personnel shortages, in fiscal 2022, the number of corporate bankruptcies rose 14.9% YoY to 6,799 bankruptcies, which was the first increase in three years. Fiscal 2023 also saw a significant increase, rising by 30.6% YoY to 8,881 bankruptcies. Meanwhile, the Company's average guarantee fee ratio rose for the first time in 11 years to 1.63% in fiscal 2020 due to the increase in credit risk caused by the COVID-19 pandemic. However, in fiscal 2022, the average guarantee ratio declined from 1.46% in fiscal 2021 to 1.34%, despite the increase in the number of bankruptcies, and to 1.26% in fiscal 2023. This was influenced by the strategic focus amid rising credit risk on acquiring large, low-risk sales credit guarantee services while conversely holding back on high-risk deals. In other words, the Company has been advancing a defensive management approach by reducing the risk of guarantee executions arising.

Number of corporate bankruptcies and average guarantee fee ratio




Note: Average guarantee fee ratio = Average guarantee fee ratio in 2H (October – March)
Number of bankruptcies examined by Teikoku Databank
Source: Prepared by FISCO from the Company's results briefing materials

### 4. Risk factors

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 at FISCO believe that these risks do not present major concerns at this time.

#### (1) Profit-structure risk

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

**(2) Competition risk**

There are hardly any other companies like the Company that specialize in providing sales credit guarantee services, but there are factoring companies affiliated with major financial institutions that provide guarantee factoring as a similar service, and also property insurance companies that provide transaction credit insurance and other such services. However, in terms of the scope of the companies covered by guarantees, the amount of guarantee limits, and the credits covered, the Company's strengths include its ability to respond flexibly to diverse customer needs, so at the present time it is considered to have almost no competition risk. It appears that some non-financial companies have started to offer similar sales credit guarantee services as the Company, but as mentioned above, these companies have inferior risk evaluation accuracy and they are struggling to become profitable, and are therefore not a threat to the Company. The Company does face some competition from a small-scale provider of a small-ticket sales credit guarantee service, RACCOON FINANCIAL, Inc., which is a subsidiary of RACCOON HOLDINGS, Inc. <3031>, but small-ticket sales credit guarantees constitute only a small percentage of the Company's total business, so this competition has hardly any effect on the Company.

**(3) Legal-regulations risk**

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

# Financial results

## Demand for sales credit guarantee services has grown amid an increase in corporate bankruptcies. In FY3/24, the Company achieved its 22nd consecutive period of revenue and profit growth

**1. Summary of FY3/24 results**

In FY3/24 consolidated results, the Company reported higher profits on higher sales for the 22nd consecutive period*, as net sales increased 7.9% YoY to ¥9,165mn, operating profit rose 16.8% to ¥4,850mn, ordinary profit grew 15.9% to ¥4,902mn, and profit attributable to owners of parent increased 13.9% to ¥3,262mn. As the number of corporate bankruptcies increased for the second consecutive year in FY3/23, elevating credit risk, demand for the Company's sales credit guarantee service grew, with period-end guarantee liabilities increasing 10.4% YoY to ¥751.8bn. Meanwhile, the average guarantee fee ratio declined from 1.34% in the previous period to 1.26% due to a reduction in high-risk guarantee limits implemented in contract renewals, resulting in net sales falling short of plan. That said, with a 0.5-percentage point improvement in the cost ratio due to the reduction in guarantee payments and fees, and a reduction in personnel and travel expenses resulting from increased efficiency in sales activities (fewer business trips and an increase in customer appointments per salesperson) following the establishment of local offices and advancements in DX, the SG&A expense ratio fell by 3.6 percentage points. As a result, the operating margin reached 52.9%, surpassing the 50% mark for the first time, and all profit targets were achieved. There were 190 consolidated employees at the end of the period, a YoY decrease of two. While the number of sales personnel, who make up about 60% of the workforce, increased, the number of employees in indirect departments decreased.

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

Consolidated financial results for FY3/24

(¥mn)

| | FY3/23 | | FY3/24 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | Ratio to net sales | Forecasts | Results | Ratio to net sales | YoY change | vs. forecast |
| Net sales | 8,494 | - | 9,500 | 9,165 | - | 7.9% | -3.5% |
| Cost of sales | 1,704 | 20.1% | - | 1,796 | 19.6% | 5.4% | - |
| Gross profit | 6,790 | 79.9% | - | 7,368 | 80.4% | 8.5% | - |
| SG&A expenses | 2,639 | 31.1% | - | 2,518 | 27.5% | -4.6% | - |
| Operating profit | 4,150 | 48.9% | 4,800 | 4,850 | 52.9% | 16.8% | 1.0% |
| Ordinary profit | 4,231 | 49.8% | 4,900 | 4,902 | 53.5% | 15.9% | 0.1% |
| Profit attributable to owners of parent | 2,864 | 33.7% | 3,200 | 3,262 | 35.6% | 13.9% | 2.0% |
| Guarantee liabilities (¥bn) | 681.3 | - | - | 751.8 | - | 10.4% | - |

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

## The Company's financial condition is good, with over ¥15.0bn in cash on hand and no debt

### 2. Financial condition and indicators

Looking at the financial condition at the end of FY3/24, total assets were up ¥2,111mn from the end of the previous period to ¥30,109mn. The main change in current assets was a ¥2,483mn decline in cash and deposits, though securities, prepaid expenses, and accounts receivable all rose, by ¥800mn, ¥265mn, and ¥171mn respectively. In non-current assets, investment securities increased by ¥3,198mn due to bond purchases, etc.

In total liabilities, advances received increased ¥180mn, but reserves for bonuses declined ¥163mn while reserves for guarantee execution fell ¥92mn. Net assets rose ¥2,128mn from the end of the previous period to ¥24,126mn. Retained earnings increased ¥1,648mn due to the posting of ¥3,262 in profit attributable to owners of parent and the payment of ¥1,612mn in dividends. In addition, due to an increase in consolidated subsidiaries, etc., non-controlling interests increased by ¥299mn, and the exercise of stock options resulted in an increase of ¥91mn in both share capital and capital surplus.

Looking at financial indicators, the equity ratio, which is an indicator of financial stability, was 73.7%, which was 1.0 percentage points higher than the previous period. The Company's financial base is solid, including debt-free management and ample cash and deposits exceeding ¥15.0bn. Looking at the indicators of profitability, with an operating margin of 52.9%, ROE of 15.3%, and ROA of 16.9%, the Company has maintained a high level of each indicator. This is due to the Company's business model, a recurring revenue-based model in which guarantee fees are recorded as sales on a monthly prorated basis, as well as an efficient sales structure built on collaboration with partners. In addition, it maintains a strong competitive advantage through highly precise risk analysis and guarantee risk ratio setting, supported by a proprietary database of over 300,000 companies.

Consolidated balance sheet

(¥mn)

| | FY3/20 | FY3/21 | FY3/22 | FY3/23 | FY3/24 | Change amount |
|---|---|---|---|---|---|---|
| Current assets | 13,645 | 17,085 | 19,695 | 19,037 | 17,871 | -1,165 |
| Cash and deposits | 9,232 | 16,056 | 17,295 | 17,527 | 15,043 | -2,483 |
| Non-current assets | 2,799 | 5,484 | 5,560 | 8,960 | 12,237 | 3,276 |
| Total assets | 16,444 | 22,570 | 25,256 | 27,997 | 30,109 | 2,111 |
| Current liabilities | 3,531 | 5,269 | 5,423 | 5,883 | 5,866 | -17 |
| Advances received | 3,059 | 3,664 | 3,877 | 4,301 | 4,481 | 180 |
| Non-current liabilities | 115 | 115 | 115 | 115 | 115 | 0 |
| Total liabilities | 3,646 | 5,384 | 5,539 | 5,999 | 5,982 | -17 |
| Interest-bearing debt | - | - | - | - | - | - |
| Net assets | 12,798 | 17,186 | 19,716 | 21,998 | 24,126 | 2,128 |
| Stability | | | | | | |
| Equity ratio | 70.3% | 70.3% | 71.9% | 72.7% | 73.7% | 1.0pp |
| Interest-bearing debt ratio | - | - | - | - | - | - |
| Profitability | | | | | | |
| ROA | 16.7% | 15.9% | 15.7% | 15.9% | 16.9% | 1.0pp |
| ROE | 21.5% | 14.6% | 14.5% | 14.9% | 15.3% | 0.4pp |
| Operating margin | 45.6% | 42.9% | 47.3% | 48.9% | 52.9% | 4.0pp |

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

# Business outlook

## While profit growth rate will temporarily slow in FY3/25 due to increased personnel costs, double-digit profit growth is expected to return in FY3/26 onward

### 1. FY3/25 outlook

In FY3/25 consolidated results, the Company is aiming for net sales to increase 10.2% YoY to ¥10,100mn, operating profit to rise 5.2% to ¥5,100mn, ordinary profit to grow 6.1% to ¥5,200mn and profit attributable to owners of parent to increase 5.7% to ¥3,450mn, with both sales and profits increasing for the 23rd consecutive fiscal period. While the profit growth rate will slow to the single digits, this is mainly due to an expected YoY increase in personnel costs of approximately ¥300mn. In April 2024, the Company hired a record high of 47 new graduates and has instituted wage increases for existing employees. Its cost of sales ratio is expected to stay about flat YoY.

Consolidated results outlook for FY3/25

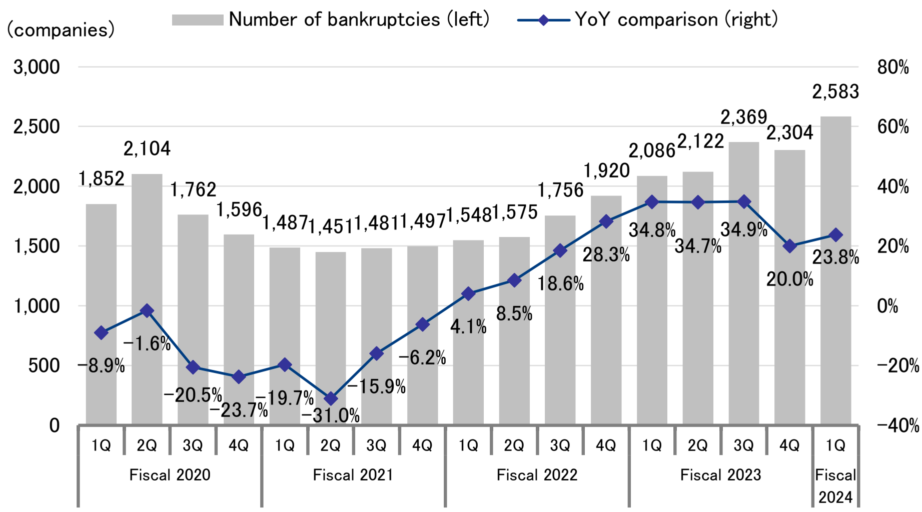
(¥mn)

| | FY3/24 | | FY3/25 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Results | Ratio to net sales | 1Q results | YoY | 1H plan | YoY | Forecasts | Ratio to net sales | YoY |
| Net sales | 9,165 | - | 2,406 | 7.4% | 4,800 | 6.6% | 10,100 | - | 10.2% |
| Operating profit | 4,850 | 52.9% | 1,168 | 1.5% | 2,380 | 1.3% | 5,100 | 50.5% | 5.2% |
| Ordinary profit | 4,902 | 53.5% | 1,187 | 1.5% | 2,400 | 1.7% | 5,200 | 51.5% | 6.1% |
| Profit attributable to owners of parent | 3,262 | 35.6% | 779 | 1.0% | 1,600 | 2.9% | 3,450 | 34.2% | 5.7% |
| Profit per share (¥) | 68.60 | | 16.34 | | 33.55 | | 72.34 | | |

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

Announced in August 2024, performance in 1Q progressed as planned, as the Company secured increases in both sales and profit with net sales rising 7.4% YoY to ¥2,406mn and ordinary profit up 1.5% to ¥1,168mn. Due to factors including depreciation of the yen, rising prices, labor shortages, and worsening cash flow as the repayment of zero-interest, zero-collateral loans begins, the number of bankruptcies, especially among small and medium-sized enterprises in industries such as services, retail, and construction, continued to trend upward, rising by 23.8% to 2,583 cases. Amidst rising demand for sales credit protection, guarantee liabilities at the end of 1Q rose 11.6% YoY to ¥7,802mn as double-digit growth continued. Meanwhile, as the average guarantee fee ratio was slightly below the level of the same period the previous period, at around 1.3%, the revenue growth rate remained in the single digits. Although the guarantee fee ratio for new contracts is higher than the level of the same period of the previous period, contracts made in previous periods still represent a majority of net sales, resulting in a lower average fee ratio. That said, the most recent average guarantee fee ratios have remained about flat, but are expected to rise above levels seen in the previous period as the proportion of new contracts increases in the second half and beyond. In addition, further growth in guarantee liabilities is anticipated, and the revenue growth rate is projected to return to double-digit levels.

Number of company bankruptcies




Note: Number of bankruptcies examined by Teikoku Databank
Source: Prepared by FISCO from the Company's results briefing materials

Operating margin dropped 2.9 percentage points YoY to 48.5%. This was caused by a 6.0 percentage point YoY rise in the cost of sales ratio, a result of an increase in the number of guarantees executed* due to bankruptcy of companies subject to guarantee and a rise in the re-guarantee fee ratio, among other factors. That said, the number of executions of guarantees is expected to decrease from 2Q onward, after peaking in 1Q, due to the effects of the portfolio restructuring carried out in the previous period. Meanwhile, the SG&A expense ratio declined by 3.2 percentage points YoY, falling by ¥23mn. This was due to the timing of bonus payments, which were recorded in 2Q (while they were recorded in 1Q in the previous period), with an impact of approximately ¥70mn. Even excluding that impact, there was an improvement of 0.3 percentage points, indicating that the effects of improved operational efficiency from advances in DX are continuing.

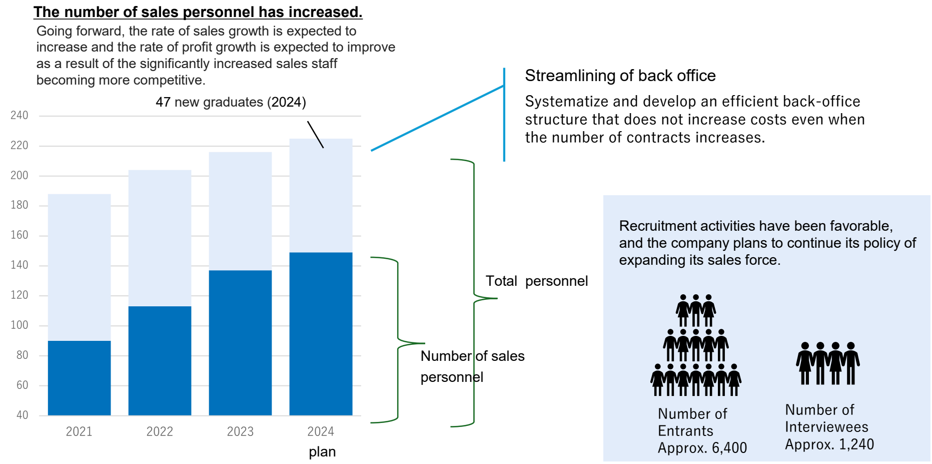
* The increase in guarantee executions also worsened the earnings of equity-method affiliates, which are risk transfer targets. As a result, investment gains and losses under the equity method, recorded as non-operating income, deteriorated by ¥2mn compared to the same period in the previous fiscal period.

In market conditions from 2Q onward, with interest rate increases expected due to the Bank of Japan's shift in monetary policy, it is anticipated that buyer companies will opt to request deferred payments from sellers or negotiate extended payment terms, rather than borrowing funds to manage cash flow. As a result, this is expected to increase demand for sales credit protection, and bring a further increase in inquiries regarding the Company's services. It has been estimated that a mere 0.5% rise in interest rates on borrowing would cause an additional 3.8% of companies to fall into the red, and the number of bankruptcies, especially among financially weaker small and medium-sized enterprise, is expected to continue rising.

In addition, amid labor shortages, there is a growing trend for companies to outsource their credit management tasks. The Company plans to capture this demand by offering its comprehensive guarantee service. There has been strong interest in the Company's comprehensive guarantee service, in which the Company takes on the credit risk of multiple customers all together, and as a result, the total of guarantee obligations, including these services, has continued to grow significantly, reaching ¥1.5120tn at the end of 1Q, an increase of 30.3% YoY.

The Company recognizes that it currently lacks sufficient sales resources to respond to this growing demand. It thus plans to actively recruit talent, utilize IT to shorten the time required for new hires to get fully up to speed, improve contract closing rates and otherwise work to enhance sales efficiency in an effort to further increase guarantee liabilities. As of April 2024, 47 new graduates (compared to 31 in the previous year) have joined the Company, with 40 of them (compared to 26 in the previous year) assigned to the sales department. The Company plans to hire about 50 new graduates in FY3/25, and the number of job offers has nearly reached that level.

Growth in market share due to increase in sales personnel




Source: The Company's results briefing materials

Until a several years ago, it would take young employees three to four years to get fully up to speed and be effective, but by instituting structured training that includes standardized sales methods and IT-driven sales activities, this period has recently been shortened to between 1.5 and 2 years. Regarding training, a new department has been established that acts as an intermediary between the sales and administrative departments. It supports less experienced employees by providing product knowledge training, role-playing guidance, as tests to measure proficiency, all aimed at accelerating employee development to quickly make them effective contributors.

The Company is also working to deepen and expand customer acquisition channels. The number of partner financial institutions increased by only 5.8%, from 87 companies in 2021 to 92 in 2024, but the number of sales personnel increased by 65% in the same period, leading to an approximately 1.6-fold increase in customer inquiries. The Company believes that due to a shortage of sales personnel, it has been unable to make adequate approaches to the customers of its partner financial institutions. Going forward, by expanding its sales resources, the Company aims to strengthen collaboration with existing partners to increase customer acquisition, and to explore new partnerships as it works toward further growth. Currently, about half of those partnered financial institutions have been slow to act, and this is believed to be due in part to a shortage of sales resources. The Company hopes to revitalize those partnerships by resolving these issues. Regional banks, shinkin banks and others are also working to expand new revenue sources amid challenging business conditions, and there may be significant benefit to introducing the Company's services to their client companies.

## Viewing changes in market conditions as an opportunity and aiming for ordinary profit of ¥10.0bn in FY3/28

### 2. Medium-term Business Plan

#### (1) Background to the plan's formation

In June 2024, the Company announced "Accelerate 2028," its four-year medium-term business plan. As external conditions change, including an increase in corporate bankruptcies, rising interest rates, and the decline in the working population, companies' needs for sales credit protection and for outsourcing credit management operations have increased. The Company views these changes as an opportunity to accelerate revenue growth by expanding sales resources, strengthening its sales base, and leveraging its proprietary corporate database.

### (2) Numerical management targets

Management's numerical targets include achieving net sales of ¥20.0bn, ordinary profit of ¥10.0bn, ROE of 20% or more, and ROIC of 20% or more by FY3/28. Its shareholder return policy aims for a dividend payout ratio of 50% or more and ongoing improvement in DOE. Traditionally, ordinary profit has roughly doubled over a period of five to six years, but the current plan aims to more than double growth in four years. This represents an average annual growth rate of 19.5%, above actual growth (15.5%) over the most recent four-year period. However, with the medium-term business plan calling for upfront investments in its first half, including expanding sales resources, the Company plans to accelerate profit growth in the second half.

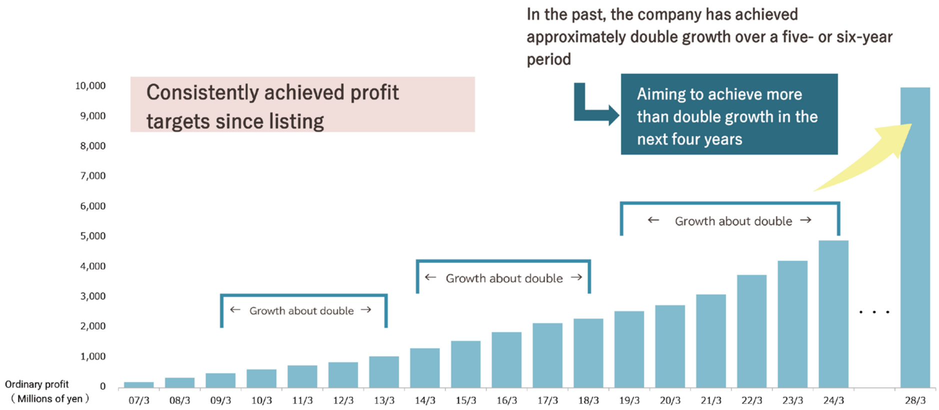
**Numerical management targets**

(¥mn)

| | FY3/23 results | FY3/24 results | FY3/25 forecast | FY3/28 targets | CAGR |
|---|---|---|---|---|---|
| Net sales | 8,494 | 9,165 | 10,100 | 20,000 | 21.5% |
| Ordinary profit | 4,231 | 4,902 | 5,200 | 10,000 | 19.5% |
| ROE | 14.9% | 15.3% | - | 20% or more | |
| ROIC | 14.0% | 15.1% | - | 20% or more | |
| Dividend payout ratio | 56.0% | 51.0% | 51.1% | 50% or more | |
| DOE | 8.3% | 7.8% | - | Ongoing improvement | |

Source: Prepared by FISCO from the Company's financial results and medium-term business plan materials

**Change in target and actual values**



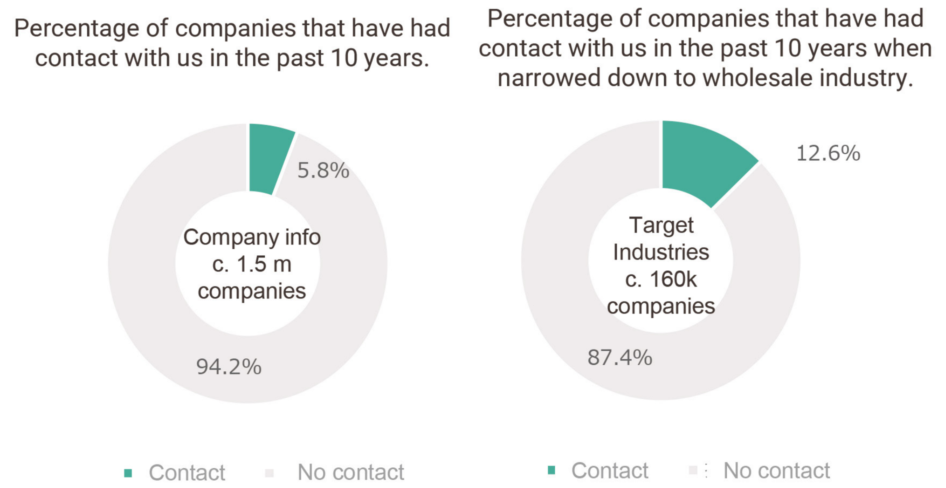

| | 07/3 | 08/3 | 09/3 | 10/3 | 11/3 | 12/3 | 13/3 | 14/3 | 15/3 | 16/3 | 17/3 | 18/3 | 19/3 | 20/3 | 21/3 | 22/3 | 23/3 | 24/3 | 28/3 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ordinary profit Target | 172 | 300 | 440 | 610 | 710 | 840 | 1,000 | 1,300 | 1,550 | 1,850 | 2,150 | 2,300 | 2,550 | 2,750 | 3,000 | 3,750 | 4,200 | 4,900 | 10,000 |
| Ordinary profit Result | 196 | 331 | 482 | 619 | 744 | 854 | 1,048 | 1,319 | 1,562 | 1,857 | 2,152 | 2,302 | 2,552 | 2,751 | 3,108 | 3,760 | 4,231 | 4,902 | - |
| Target Achievement Rate | 114.0% | 110.3% | 109.5% | 101.5% | 104.8% | 101.7% | 104.8% | 101.5% | 100.8% | 100.4% | 100.1% | 100.1% | 100.1% | 100.0% | 103.6% | 100.3% | 100.7% | 100.0% | - |

Source: The medium-term business plan materials

FISCO believes that given the latent growth potential of the Company's sales credit guarantee service, management's numerical targets under the current plan are fully achievable. In fact, although the total value of corporate accounts receivable exceeds ¥200tn in Japan, only roughly 1.3% of that amount is covered by some form of guarantee or insurance. Overseas, coverage levels range from 12-14% in the UK, to 30-35% in France and 40% or more in Germany, where these services are used for risk hedging. There is enormous potential for growth in Japan through the increased use of these sales credit guarantee services.

Further, the number of firms the Company has engaged with over the past 10 years amounts to only 5.8% of the approximately 1.5 million companies in the Teikoku Databank corporate information database, and in the wholesale industry, where sales credit is likely to occur, they have reached only 12.6% of the approximately 160,000 companies. This is due primarily to a lack of sales resources and customer acquisition channels, and it is possible that going forward, expanding those resources could make it possible to develop new customers and grow the scale of the business.

Growth potential of the domestic market




Source: The medium-term business plan materials

Regarding capital efficiency, the Company aims to increase ROE and ROIC from the 15% range in FY3/24 to 20% or more by FY3/28. To achieve this goal, the Company plans to make effective use of capital while prioritizing shareholder returns and capital efficiency, and will also consider options including improving profit margins and conducting share buybacks.

While not incorporated in the current medium-term business plan, going forward the Company plans to develop credit guarantee services not only in the business-to-business credit field, but also in the indirect financing field (financial institution lending operations), and is also planning for a full-scale entry into overseas markets. In overseas operations, preparations are underway to launch business by FY3/28. The plan is to first establish a representative office in Southeast Asia, then develop a credit guarantee service through joint ventures with local companies. Target companies will include both Japanese-owned firms and local companies, with plans to partner with local financial institutions to which it can transfer risk.

**(3) Basic policies**

By focusing on the following six basic policies, the Company aims to shift gears from stable growth driven by database development, to accelerating revenue growth through improved risk underwriting and resource investments.

a) Expand “guarantee” into new financial business fields that differ from conventional finance by utilizing big data and securitization
b) Active risk underwriting based on Company’s extensive proprietary corporate database and securitization
c) Efficient sales growth through increased investment in sales resources and the promotion of digitalization
d) Expand customer base through the introduction of new channels and new products, and by strengthening marketing
e) Further increase the retention rate and the rate of guarantee increase by enhancing services, etc. for existing customers
f) Increase the value of products for customers by strengthening cooperation with companies conducting peripheral businesses

Amid the growing demand for sales credit protection, the Company plans to actively undertake risks based on its proprietary corporate database and expertise in securitization, and aims to improve sales efficiency by expanding its sales resources and utilizing IT. The Company also plans to increase the number of sales personnel from 149 as of April 2024, to more than 190 within two years, a 1.3-fold increase. By expanding resources, it aims to accelerate new customer acquisition even further, strengthen follow-up with existing customers and strengthen new service proposals, thereby improving customer retention rate and the rate of guarantee increase.

The Company has also efficiently acquired new potential customers by entering into business alliance agreements, primarily with regional banks and shinkin banks to serve as customer acquisition channels. Going forward, it plans not only to expand its network of partnerships with financial institutions* it has yet to collaborate with, but also to build a network of tax accounting firms that provide direct access to owners of small and medium-sized enterprises, thereby further broadening its customer base. In new products, the Company plans to offer peripheral services such as guaranteed receivables purchasing services and invoice issuing services, aiming to increase sales per customer.

* As of the end of August 2024, the Company has partnered with 53 of 62 regional banks and 15 of 254 shinkin banks.

# Shareholder return policy and SDGs initiatives

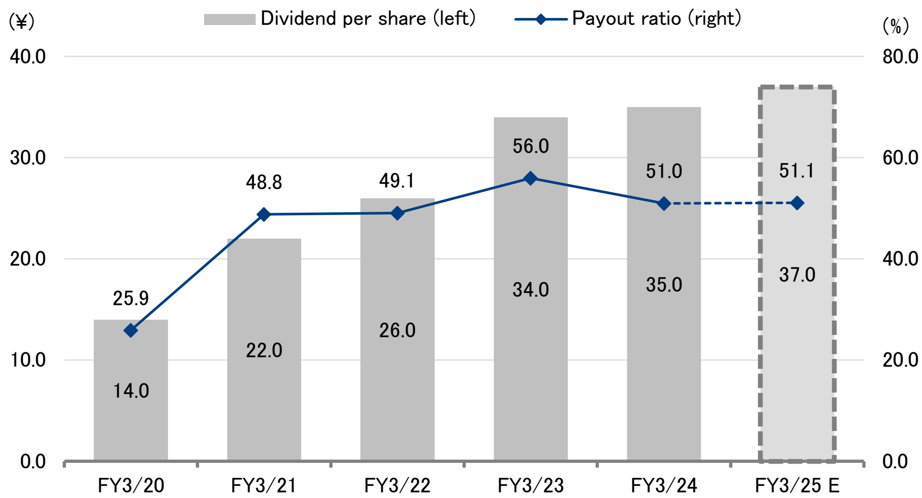
## Aiming for consecutive dividend increases by working toward a dividend payout ratio of 50% or more and continuous improvement in DOE

### 1. Shareholder return policy

The Company’s basic dividend policy is to pay dividends in line with earnings while also considering enhancing the internal reserves it needs to strengthen its financial structure and to actively develop its business. The Company aims to maintain a dividend payout ratio of 50% or more and work toward continuous improvement in DOE (dividend on equity ratio). It also seeks to continue the dividend increases it has maintained since its stock listing.

In FY3/24, the Company paid a dividend of ¥35.0 per share, a YoY increase of ¥1.0 (dividend payout ratio 51.0%). It also plans for a ¥2.0 dividend increase in FY3/25, to ¥37.0 (dividend payout ratio 51.1%). If the Company achieves its FY3/28 performance targets under its medium-term business plan, the dividend is expected to increase to around the ¥70.0 level (assuming the number of shares remains unchanged). The Company has set a target for ROE of 20% or more, and if necessary, will consider share buybacks to achieve that level.

**Dividend per share and payout ratio**




Note: For FY3/23, includes a ¥4.0 commemorative dividend to commemorate guarantee obligations reaching the ¥1tn mark.
Source: Prepared by FISCO from the Company's financial results

### 2. SDGs initiatives

The Company's basic policy on sustainability is to continue its business activities of undertaking and transferring companies' credit risk, and thereby contribute to creating a society of vitality and abundance, by realizing the provision of credit to each industry and the appropriate allocation of social resources. As a specific initiative, on the environmental front, the Company provides guarantees for business transactions related to solar PV, wind power and other renewable energy, thereby indirectly promoting the resolution of environmental issues. For example, a company that engages in the business of installing solar panels may be unable to take on the manufacturer's credit risk themselves when purchasing the panels from the manufacturer, thereby causing such a company to hold off on making the purchase. In this case, eGuarantee will take on the manufacturer's credit risk, making it easier for the installation company to purchase the solar panels, in turn helping to promote the solar power business.

In addition, on the social front, from the perspective of health and social welfare, the Company contributes to solving social issues, including nursing care and elderly welfare issues, by guaranteeing commercial transactions with hospitals and social welfare corporations. Many local small- and medium-sized companies are engaged in the social welfare business. Many small- and medium-sized companies engaged in the nursing care business are seeing pressure on their finances due to increases in capital investment and personnel costs. By taking on the credit risk of these kinds of companies, eGuarantee is indirectly supporting the finances of these companies. In addition, the Company is contributing to regional revitalization by taking on credit risk. Specifically, in the past few years, with the growth of the E-commerce market, companies in regional areas are doing more direct business transactions with companies in urban areas and other prefectures. Meanwhile, regional companies are unable to research the credit risk of counterparties in other prefectures, and the cost of collecting outstanding debts has become a major burden. The Company undertakes those credit risks in the form of guarantees, which reduces such collection costs and gives the regional companies more options for business transactions. In this way, the Company is contributing to the growth and development of regional communities. In addition, the Company supports the growth of startups by taking on credit risk.

The Company discloses its sustainability-related guarantee liabilities as indicators. At the end of March 2024, the Company had a total of ¥389.0bn in such guarantees.

**Indicators for sustainability initiatives**
**(As of March 31, 2024)**

| Categories | Guarantee liabilities (¥bn) | |
|---|---|---|
| | End of FY3/23 | End of FY3/24 |
| Guarantees related to resolving environmental issues (E) | 17.2 | 19.1 |
| Guarantees related to resolving social issues (S) | 18.6 | 23.2 |
| Guarantees related to regional revitalization (S) | 260.1 | 281.5 |
| Guarantees related to startups, etc. (S) | 73.8 | 65.2 |
| Total | 369.7 | 389.0 |

Note: The above figures are the aggregation of guarantee contracts in which the name of the guaranteed product/service or the company subject to the guarantee contains specific wording
Source: Prepared by FISCO from the Company's results briefing materials

## Disclaimer



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