COMPANY RESEARCH AND ANALYSIS REPORT

eGuarantee,Inc.

8771

Tokyo Stock Exchange Prime Market

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FISCO Ltd. Analyst

Yuzuru Sato

FISCO

FISCO Ltd.

https://www.fisco.co.jp

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Summary

Captured sales credit guarantee needs with a strengthened sales system and continued to achieve double-digit profit growth

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 guarantee obligations 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 obligations, with a high repeat customer rate of over 90%.

1. FY3/23 results

In its FY3/23 consolidated results, the Company reported higher profits and higher sales for the 21st consecutive period. Net sales increased 7.6% year on year (YoY) to ¥8,494mn, and ordinary profit grew 12.5% YoY to ¥4,231mn. Amid the increasing needs for sales credit guarantees, including an increase in the number of corporate bankruptcies for the first time in three years, the Company bolstered its sales system by opening new offices, thereby capturing this demand. The Company also improved the productivity of its indirect division by advancing DX initiatives. These efforts led to the increase in both net sales and profits. With the acquisition of new customers, guarantee liabilities at the end of the fiscal year grew 17.0% versus the end of the previous fiscal year to ¥681.3bn.*

* 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 29.4% versus the end of the previous fiscal year to ¥1.076tn, 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. Therefore, in this report, the guarantee liabilities amount will be noted as guarantee obligations.

2. FY3/24 outlook

The consolidated forecast for FY3/24 is for the increase in both net sales and profits to continue, with net sales increasing 11.8% YoY to ¥9,500mn and ordinary profit increasing 15.8% YoY to ¥4,900mn. Amid the continued uncertain economic situation, the Company will continue to strengthen its sales platform and increase guarantee obligations. The guarantee fee ratio is expected to increase modestly amid expectations for an increase in the number of bankruptcies. As its sales policy, amid the increasing uncertainty, the Company will stringently examine large guarantee deals, and take on a large number of guarantees with small guarantee amounts to diversify risk, and thereby steadily grow earnings. For companies with low risk, the Company expects the cost of sales ratio to decline as a result of expanding securitization through funds. Also, despite an increase in personnel costs, the Company will look to increase ordinary profit by at least 15% by suppressing SG&A expenses to the previous year's level by reducing operating expenses and other costs.

3. Key policies and medium-term outlook

The Company's key policies for FY3/24 are to increase sales resources by promoting efficiency through increasing the number of sales personnel and sales offices, and thereby expand the customer base and increase the number of contracts, with the aim of also acquiring smaller, more diversified risks. Also, over the past year or two the sales methods utilizing IT have become further established and young employees are now able to be brought up to speed and produce more quickly than before, and the Company will cultivate undeveloped markets by further bolstering the sales platform. The Company also plans to put in place an efficient back-office structure to ensure that costs do not increase as the number of contracts increases, improve risk screening accuracy by bolstering data collection for business transactions between companies, and quicken the speed of screening decisions, which are all continuations of past key policies. The Company's numerical management target is consolidated ordinary profit of ¥5.0bn, and this will finally come into reach in FY3/24. There are currently hardly any competitors that are threats to the Company, so over the near term, continuous growth in earnings is expected to continue from only the domestic business, but the Company is doing some up-front research with an eye towards entering overseas markets, centered on Asia, in a few years' time.

4. Shareholder return policy

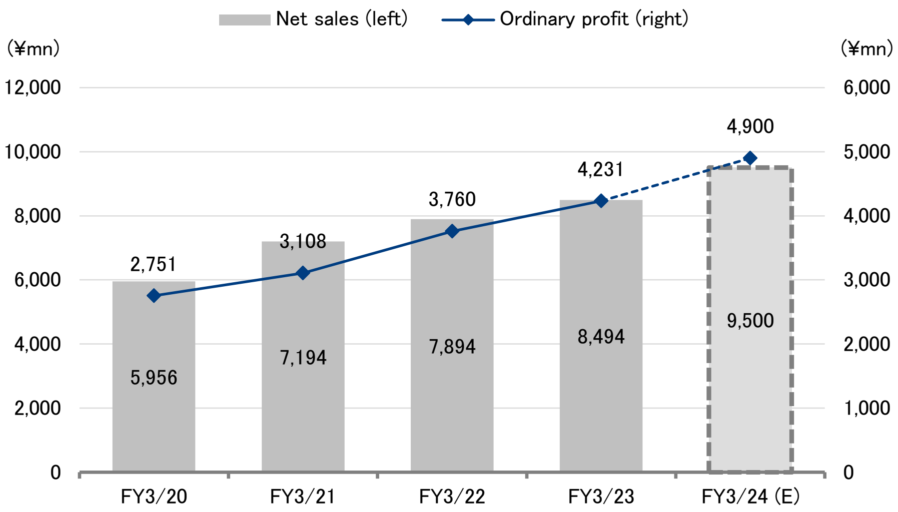
The Company's basic policy concerning shareholder returns is to pay dividends depending on earnings while considering enhancing internal reserves needed to strengthen its financial position and aggressively develop and expand business. In FY3/23, the Company paid a dividend of ¥34.0 per share (including a ¥4.0 commemorative dividend*), and it plans to pay a dividend of ¥35.0 (regular dividend only) in FY3/24 (dividend payout ratio of 51.9%), as it plans to continue to increase its dividend ever since the listing of its shares.

* A dividend to commemorate guarantee obligations surpassing the ¥1tn mark.

Key Points

- Achieved an increase in net sales and profit for the 21st consecutive fiscal period in FY3/23 as well, with the strengthening of the sales platform and office expansion
- Aiming for double-digit increases in both sales and profits in FY3/24 based on increasing guarantee obligations while reducing risk
- There are large latent needs for credit risk guarantee services, and the outlook is for annual profit growth to continue to be in the 10%–20% range going forward

Results trends



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

Company overview

eGuarantee guarantees companies' risk of irrecoverable accounts receivable 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 it shifted to the Prime Market 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. As of May 2023, the fund association consisted of seven 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, 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. Over the past few years, the Company has not been active in this space due to the impact of the COVID-19 pandemic, but in the future the Company is considering providing services to local subsidiaries of Japanese companies overseas.

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
March 2020	Arranged the Credit Guarantee 5 fund
March 2022	Arranged the Credit Guarantee 6 fund
May 2023	Arranged the Credit Guarantee 7 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 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

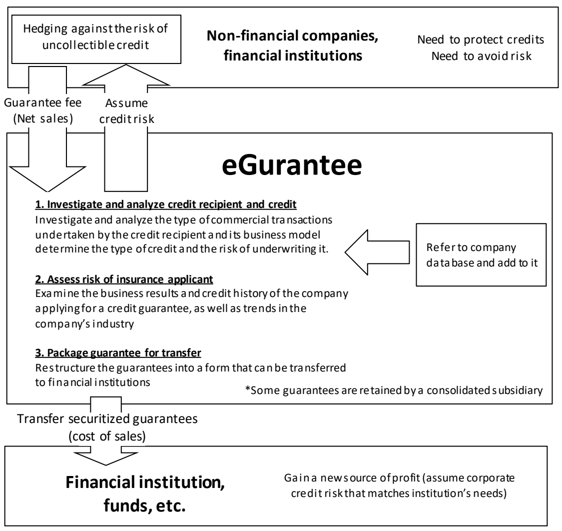
Built a recurring revenue business model that accumulates net sales from "guarantee obligations x the guarantee fee ratio"

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



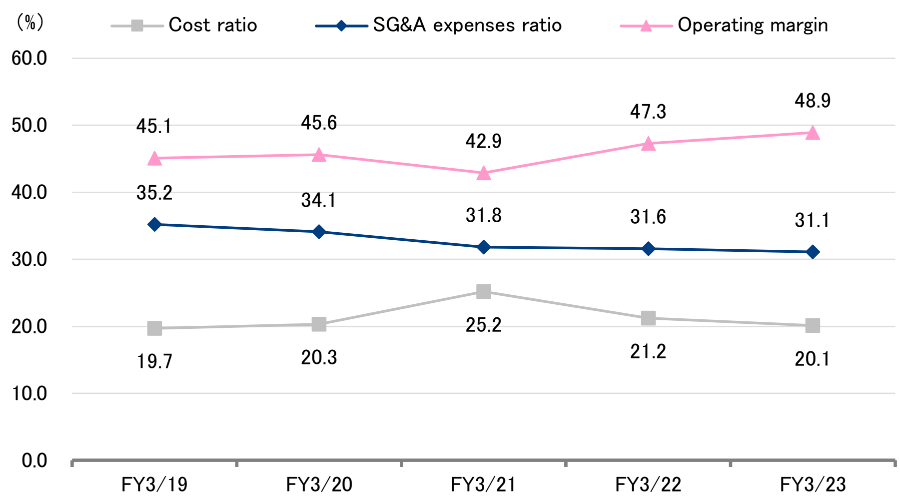
Source: Prepared by FISCO from the Company's securities report

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 obligations multiplied by the guarantee fee ratio, the key to driving growth in net sales lies in increasing guarantee obligations. 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 year or two, 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. Conversely, in FY3/23, the number of corporate bankruptcies rose for the first time in three years, but the average guarantee fee ratio declined due to the increase in large-value, low-risk guarantees as well as the fact that the re-guarantee fee ratios paid by the Company fell more than that, so the cost of sales ratio fell 1.1 percentage points. 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, 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. Most recently, in May 2023, the Company launched a new fund and has strengthened its ability to undertake risk.

Ratio to net sales



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 companies, primarily regional banks, trading companies, leasing firms and other business partners. In particular, eGuarantee had entered into business alliances with 51 regional banks as of the end of March 2023, 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 12 shinkin banks and credit unions at the end of March 2023. The Company also partners with 4 securities firms, 21 non-financial companies 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 judging a company's risk level, it is often the case that judgments are made by looking only at 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, and this has become one of the Company's strengths.

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 obligations by region generally align with the GDP ratio of each prefecture in Japan.

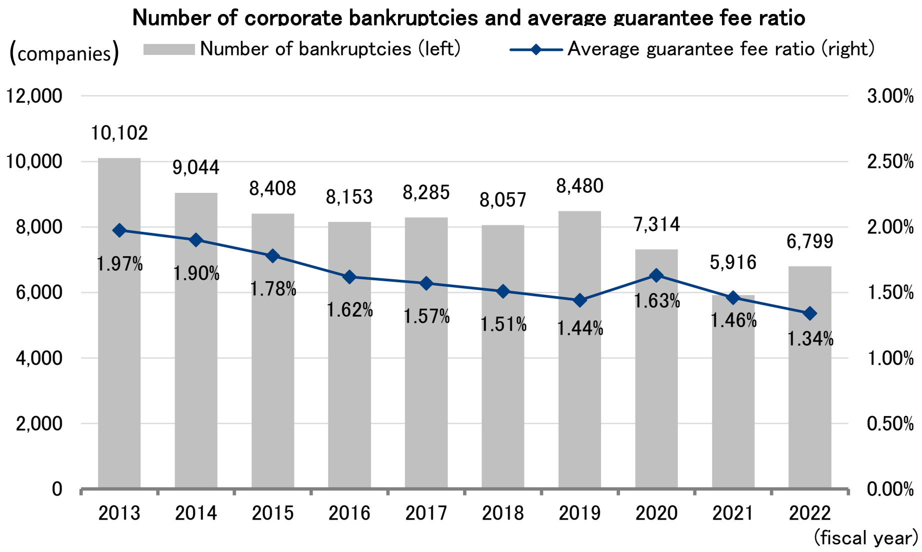
The size of the sales credit market exceeds ¥200tn with robust growth potential

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.

> * According to the Ministry of Finance's "Financial Statements Statistics of Corporations by Industry" the market size is ¥246tn as of March 31, 2023.

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. Meanwhile, the Company's average guarantee fee ratio in fiscal 2020 was 1.63%, the first rise in 11 years, 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. This was due to the increase in large-value, low-risk sales credit guarantees. The Company's average guarantee fee ratio and the number of corporate bankruptcies do not always track one another, rather it changes depending on what kinds of companies the Company provides sales credit guarantee services to.



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. 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 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 obligations 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

Both net sales and profits increased for the 21st consecutive fiscal year in FY3/23 due to the efforts to bolster the sales platform and offices

1. Summary of FY3/23 results

In its FY3/23 consolidated results, the Company reported higher profits on higher sales for the 21st consecutive period,* as net sales increased 7.6% YoY to ¥8,494mn, operating profit rose 11.2% to ¥4,150mn, ordinary profit grew 12.5% YoY to ¥4,231mn, and profit attributable to owners of parent increased 16.3% to ¥2,864mn. Guarantee liabilities grew steadily by 17.0% YoY to ¥681.3bn, due to the Company's initiatives to increase the number of sales personnel and open new offices as well as relocate offices, in order to respond to the increase in demand from companies to protect their sales credits in response to both the future uncertainty caused by the prolongation of the Ukraine war and the increase in the amount of receivables as a result of inflation. This increase was a key factor behind the increase in both net sales and profits.

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

Consolidated financial results for FY3/23

(¥mn)

	FY3/22		FY3/23				
	Results	Ratio to net sales	Forecasts	Results	Ratio to net sales	YoY change	vs. forecast
Net sales	7,894	-	8,800	8,494	-	7.6%	-3.5%
Cost of sales	1,670	21.2%	-	1,704	20.1%	2.1%	-
Gross profit	6,224	78.8%	-	6,790	79.9%	9.1%	-
SG&A expenses	2,492	31.6%	-	2,639	31.1%	5.9%	-
Operating profit	3,732	47.3%	4,150	4,150	48.9%	11.2%	0.0%
Ordinary profit	3,760	47.6%	4,200	4,231	49.8%	12.5%	0.7%
Profit attributable to owners of parent	2,463	31.2%	2,750	2,864	33.7%	16.3%	4.2%

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

Compared to the Company's initial forecasts, net sales fell a bit short of the forecast, as despite the steady increase in the number of contracts and guarantee obligations, there was not much of an increase in the number of corporate bankruptcies and the average guarantee fee ratio was lower than expected. The average guarantee fee ratio continued to decline, falling from 1.53% and 1.46% in FY3/22 1H and 2H, respectively, to 1.38% and 1.34% in FY3/23 1H and 2H, respectively. This was partially due to the increase in low-risk (= low guarantee fee ratio) contracts in the comprehensive guarantee service in which the Company takes on the credit risk of multiple customers all at once. Meanwhile, the cost of sales ratio declined 1.1 percentage points YoY due to factors including the decline in re-guarantee fee ratios, while the gross profit margin increased 9.1%.

SG&A expenses increased 5.9% YoY, mainly due to the increase in personnel costs accompanying the bolstering of the sales platform, as well as a rise in office-opening expenses and rents. At the end of FY3/23 there were a total of 192 employees on a consolidated basis, an increase of 22 versus the end of the previous fiscal year. In addition to increasing the number of sales personnel that account for approximately 60% of overall personnel, as new sales offices the Company opened the Tohoku Branch (Sendai City) in April 2022, the Hokuriku Branch (Kanazawa City) in May 2022, and the Chushikoku Branch (Takamatsu City) in March 2023, while in February 2023 the Company relocated and expanded the Hokkaido Branch. The Company assigned sales personnel to each of these branches. The Company used to send employees to these areas on business trips, but by opening new offices in these areas, the Company is able to reduce travel time as well as travel expenses, which contributed to improved sales productivity as well as an increase in the number of contracts.

The Company’s financial situation is good, with over ¥17.0bn in cash on hand

2. Financial condition and indicators

Looking at the financial condition at the end of FY3/23, total assets were up ¥2,741mn from the end of the previous fiscal year to ¥27,997mn. The main changes in current assets were an increase of ¥232mn in cash and deposits and a decrease of ¥1,200mn in securities. In non-current assets, tangible fixed assets increased by ¥396mn due to the acquisition of land, while investment securities increased by ¥2,985mn due to the purchase of bonds.

Total liabilities increased ¥460mn from the end of the previous fiscal year to ¥5,883mn mainly due to the ¥424mn increase in advances received. Net assets rose ¥2,281mn from the end of the previous fiscal year to ¥21,998mn. Retained earnings increased ¥1,646mn due to the posting of ¥2,864mn in profit attributable to owners of parent and the payment of ¥1,216mn in dividends, while both share capital and capital surplus each increased by ¥271mn due to the renewal of stock options.

Looking at financial indicators, the equity ratio, which is an indicator of financial stability, was 72.7%, which was 0.8 percentage points higher than the previous fiscal year. The Company’s financial base is solid, including debt-free management and cash and deposits exceeding ¥17.5bn, a record high level. Looking at the indicators of profitability, with an operating margin of 48.9%, ROE of 14.9%, and ROA of 15.9%, the Company has maintained a high level of each indicator. 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, has been able to build an efficient sales platform based on cooperation with partners, and has maintained a big competitive advantage with virtually no competitors.

Consolidated balance sheet

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	Change amount
Current assets	13,645	17,085	19,695	19,037	-658
(Cash and deposits)	9,232	16,056	17,295	17,527	232
Non-current assets	2,799	5,484	5,560	8,960	3,400
Total assets	16,444	22,570	25,256	27,997	2,741
Current liabilities	3,531	5,269	5,423	5,883	460
(Advances received)	3,059	3,664	3,877	4,301	424
Non-current liabilities	115	115	115	115	-
Total liabilities	3,646	5,384	5,539	5,999	460
(Interest-bearing debt)	-	-	-	-	-
Net assets	12,798	17,186	19,716	21,998	2,281
(Stability)					
Equity ratio	70.3%	70.3%	71.9%	72.7%	0.8pt
Interest-bearing debt ratio	-	-	-	-	-
(Profitability)					
ROA	16.7%	15.9%	15.7%	15.9%	0.2pt
ROE	21.5%	14.6%	14.5%	14.9%	0.4pt
Operating margin	45.6%	42.9%	47.3%	48.9%	1.6pt

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

Business outlook

Aiming for double-digit growth in sales and profits in FY3/24 by increasing guarantee obligations while reducing risk

1. FY3/24 outlook

In FY3/24, the Company is aiming for net sales and profits to increase for the 22nd consecutive fiscal period. Specifically, the Company is aiming for net sales to increase 11.8% YoY to ¥9,500mn, operating profit to rise 15.6% to ¥4,800mn, ordinary profit to grow 15.8% to ¥4,900mn, and profit attributable to owners of parent to increase 11.7% to ¥3,200mn.

Consolidated results outlook for FY3/24

(¥mn)

	FY3/23		FY3/24		
	Full-year results	Ratio to net sales	Forecasts	Ratio to net sales	YoY
Net sales	8,494	-	9,500	-	11.8%
Operating profit	4,150	48.9%	4,800	50.5%	15.6%
Ordinary profit	4,231	49.8%	4,900	51.6%	15.8%
Profit attributable to owners of parent	2,864	33.7%	3,200	33.7%	11.7%
Profit per share (¥)	60.68		67.41		

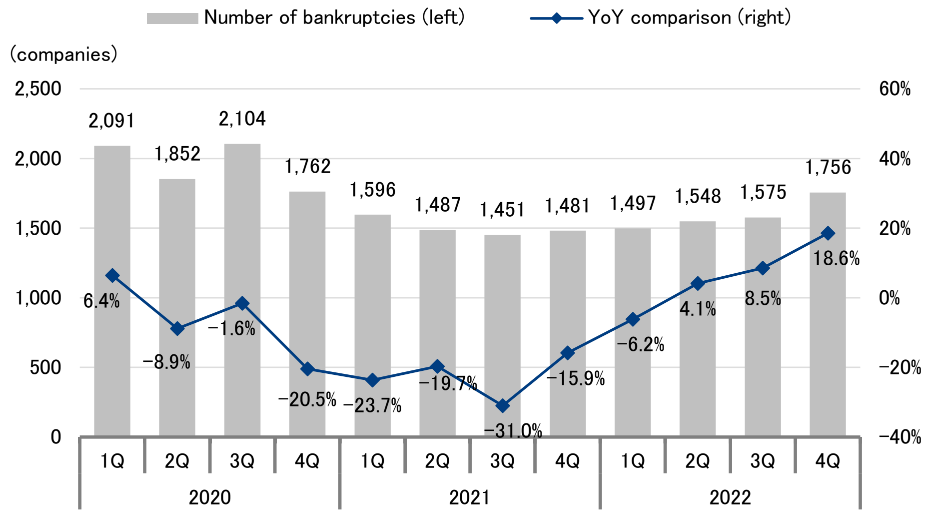
Source: Prepared by FISCO from the Company's financial results

Against a backdrop of growing demand for guarantees under uncertain economic conditions, the Company will work to increase guarantee obligations by increasing the number of sales personnel and increasing sales resources as a result of improving efficiency by strengthening sales offices. In particular, this fiscal year, the strategy is to increase guarantee obligations while diversifying risks by rigorously screening large-value contracts with large guarantee amounts and accumulating many small and medium-sized projects. As the number of corporate bankruptcies continues to increase, the Company expects the average guarantee fee ratio to turn higher, albeit moderately.

The Company plans to reduce the cost of sales ratio by increasing securitization through funds for low-risk companies in comprehensive guarantee contracts. In addition, the Company is expecting the SG&A expense ratio to remain flat YoY as a result of efforts to reduce expenses by improving work efficiency, despite a continued rise in personnel costs due to an increase in the number of employees. As a result, the Company is forecasting the operating profit ratio to increase 1.6 percentage points YoY to 50.5%, and expects both operating profit and ordinary profit to both increase at least 15% YoY. As of April 2023, the Company had hired 31 recent graduates, with 26 of these new employees assigned to work in the sales department. The Company is also planning to hire approximately 50 new graduates in fiscal 2024.

Looking at the quarterly trend in the number of corporate bankruptcies, the number of bankruptcies turned higher on a YoY basis from 1Q of fiscal 2022, and the upward trend has continued since then. In addition to the increase in bankruptcies due to sluggish performance caused by high prices and labor shortages, there is expected to be an increase in cases of non-financial companies that were surviving the crisis by utilizing the government's support policy of virtually no-interest, unsecured loans instituted during the COVID-19 pandemic not being able to repay their debt and going bankrupt. For this reason, the demand for sales credit guarantee services is expected to further increase, and the Company will work to capture such demand while reducing the ratio of guarantees fulfilled by improving the accuracy of risk screening.

Number of company bankruptcies



Source: Prepared by FISCO using Teikoku Databank

Expanding business scale and improving profitability by bolstering the sales platform and improving back-office efficiency

2. Key policies

As key policies for FY3/24, in continuation from the previous year, the Company plans to focus on bolstering the sales platform and increasing back-office efficiency.

(1) Strengthening the sales platform

a) Increase efficiency of sales activities through the utilization of sales offices

In order to improve its market competitiveness, the Company will increase its sales personnel, strengthen its sales offices and improve the efficiency of its sales activities, thereby maximizing its sales resources. By increasing the efficiency of its sales activities, the Company's sales staff will be able to spend more time visiting customers and on business meetings. Furthermore, it will also allow for closer communication with partnering sales channels, including regional banks, leading to activities for obtaining more customer referrals. The Company already had sales offices in most key cities throughout Japan last year, but in April 2023 the Company relocated and expanded the Osaka Branch, and going forward it will open new offices when it determines doing so to be necessary based on future increases in customers and other factors.

Roughly 20 years have passed since the Company's founding, but of the roughly 1,400,000 companies listed in a research company's database, the Company has only had contact with about 5.2% of these companies, and in some prefectures this ratio is as low as 1.5%. Also, the Company estimates that the amount of accounts receivable covered by a guarantee or insurance for some reason is just approximately 1.2% of total accounts receivable in Japan. Based on the above, there is plenty of room for growing guarantee obligations by maximizing sales resources, and it can be said that there is sufficient possibility for earnings growth to continue.

b) Organizing and empowering the sales personnel that have been added

Getting young employees quickly up to speed and having them quickly become producing employees as well as bolstering the sales support systems are measures for the Company to maximize its sales resources. In terms of getting young employees to quickly develop and contribute, the Company will train them on patterned sales methods and provide systematic training for sales activities utilizing IT. In particular, the patterned sales methods are condensed from the know-how the Company has accumulated over many years and constantly updated in response to the external environment, and these have actually produced results from young employees. As a specific example of sales activities utilizing IT, sales employees are now able to give explanations about estimates such as for the guarantee fee ratio while showing quick and objective data using the Company's system. The Company is also allowing veteran employees to join meetings online to help meetings about challenging topics go smoothly. With these kinds of initiatives, the period until young employees produce used to be three to four years, but this has been reduced by roughly one year to a period of two to three years. As of April 2023, the number of sales personnel (excluding employees who have been with the company for less than one year) is 103, an increase of 26 compared to the previous year, and the Company plans to increase the number of employees at the same pace in the future. As for the personnel mix, because it is not necessary to supplement back-office personnel due to the promotion of DX, sales personnel will be increased to about 70% (currently 60%) of all employees.

In addition, the Company will work to improve sales efficiency by strengthening the sales support system. The Company will allocate roughly one sales support staff member to each regional office to establish a system in which sales staff can concentrate on sales activities, and enhance training programs by strengthening management. Moreover, the Company will implement sales promotion measures while collaborating with business partners to acquire new contracts. Elsewhere, the Company redesigned its corporate website in March 2023 to bolster the acquisition of leads (potential customers) from the website.

c) Maximizing sales resources

In order to widen the customer base with increased sales resources, the Company will expand a new partnering sales network, including regional banks and shinkin banks. The Company will also deepen partnerships based on close communication with financial institutions with which the Company already has partnerships, in order to receive even more customer referrals. Currently, about half of the Company's partnering financial institutions are not actively generating referrals, so it is expected that revitalizing these relationships will lead to an increase in contracts.

Benefits for partner companies include referral commissions as well as the ability to solve customers' business problems using an approach other than their traditional service lineup, leading to increased customer satisfaction. Also, due to the high contract renewal rate of the Company's services, this contributes to building long-term relationships between partner companies and customers, and the partner companies' sales staff can use this as a reason to visit customers to make new proposals to customers they have not visited in a while. By utilizing the sales credit guarantee service as a part of its own sales strategy, the partner company can enjoy various benefits, but the current situation is that the level of effort in doing so depends on senior management, and thus a challenge going forward will be how to promote these benefits and revitalize the efforts of partnering financial institutions that have not been actively engaged in this area.

(2) Increasing back-office efficiency

Based on the increase in sales resources, the Company will work to expand the customer base and increase the number of contracts, with the aim of acquiring smaller, more diversified risks in FY3/24, based on the assumption that the number of bankruptcies will increase in the future. The Company will establish an efficient back-office structure to ensure that costs do not increase as the number of contracts increases in line with this policy. Specifically, the Company will utilize IT tools to promote the automation of tasks that had previously been handled by people, and reassign those staff members whose work has been made more efficient to other areas such as sales support. Additionally, the Company will work to reduce costs by digitizing documents submitted to customers, while it will also further promote a mechanism for completing various contractual procedures online, thereby increasing the efficiency of related operations.

There is significant latent demand for credit risk guarantee services, and the outlook is for annual profit growth in the 10%–20% range to continue going forward

3.Medium-term outlook

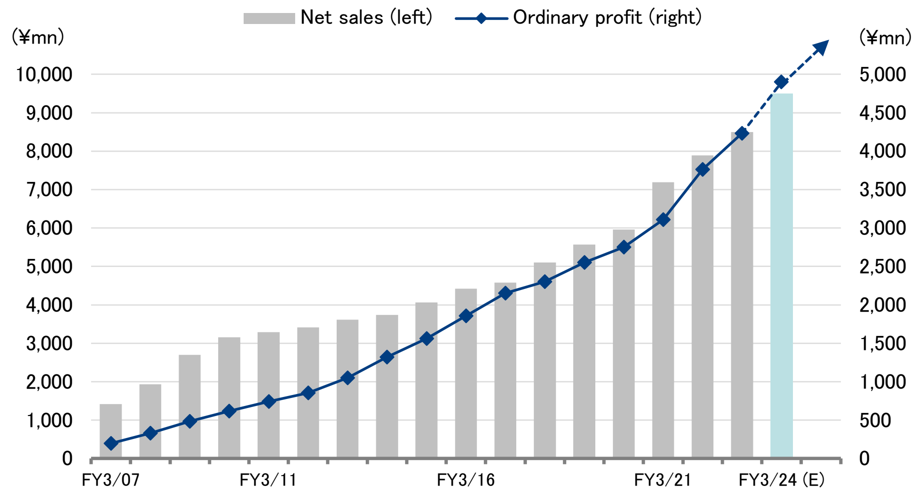
As its medium-term management target, the Company has been aiming for consolidated ordinary profit of ¥5.0bn. In order to achieve this target, guarantee obligations will need to increase to around ¥730.0bn, or 1.1 times the amount as of the end of FY3/23 (assuming the average guarantee fee ratio and ordinary profit margin is fixed), and this target is expected to come into range in FY3/24.

The credit risk guarantee service provided by the Company sees an increase in demand during times when the domestic economy is deteriorating, so people sometimes think that the Company will struggle during times when the economy is strong, but one distinctive feature of the Company's business model is that its earnings grow even when the economy is good. When the economy is good, companies see an increase in accounts receivable along with the growth in sales, and more companies start new businesses, so guarantee needs for these businesses increase. As discussed above, we at FISCO think that going forward there is a possibility for profit growth in the 10%–20% range to continue based on a number of factors. These include the fact that the domestic market size for sales credits is immense at over ¥200tn, and there is significant room for cultivating new clients, the fact that the Company is not threatened by any competitors at the current point in time as competitors offering similar services have low accuracy in their risk assessments, and the fact that guarantee obligations have grown due to the increase in operating assets.

Furthermore, the Company is eyeing overseas business development which it had stopped due to the COVID-19 pandemic, and it has already started preparing for that, including by acquiring human resources for that effort. Following the success model in Japan, it is likely that the Company will also collaborate with local financial institutions overseas to develop services for local subsidiaries of Japanese companies. In the near term, the Company will concentrate resources in capturing domestic demand, so overseas business development is seen as being two to three years away at the earliest, but from a long-term perspective the Company's growth potential will expand even further.

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 and analyze information to properly and quickly 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 we feel that it will be possible for the Company to maintain its competitive advantage going forward.

Trends in long-term results



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

Shareholder return policy and SDGs initiatives

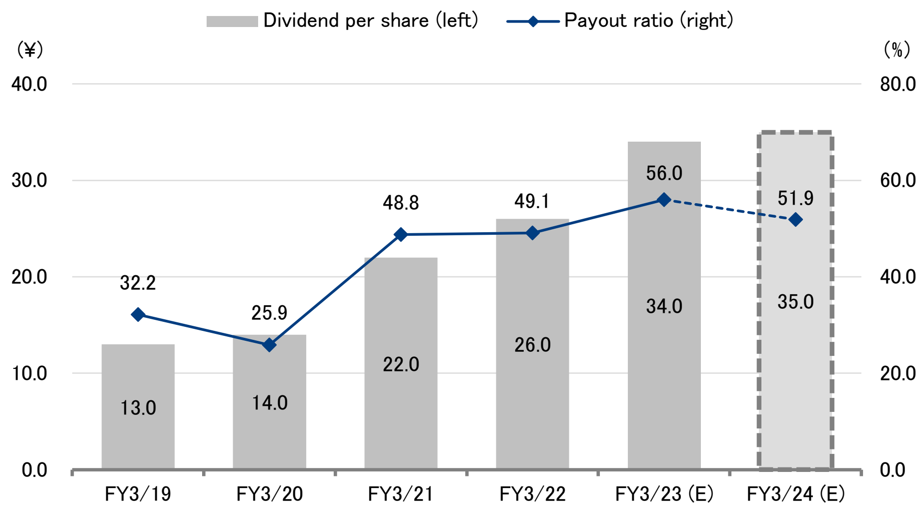
Aiming to continuously increase the dividend targeting a payout ratio level of 50%

1. Shareholder return policy

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. Due to progress made on enhancing its internal reserves based on the expansion of earnings, from FY3/21 the Company has increased its shareholder return rate to near 50%. Going forward, the Company is aiming to maintain the level of its dividend payout ratio and continue raising its dividend due to earnings growth as it has since its shares were listed.

In FY3/23, the Company paid a dividend of ¥34.0 per share, including a ¥4.0 commemorative dividend to commemorate guarantee obligations reaching the ¥1tn mark (dividend payout ratio = 56.0%), as it has continued to increase its dividend ever since the listing of its shares. For FY3/24, despite the non-recurrence of this commemorative dividend, the Company plans to increase its regular dividend by ¥1.0 to ¥35.0 per share (dividend payout ratio = 51.9%). Going forward, the Company is aiming to continue raising its dividend depending on profit growth.

Dividend per share and payout ratio



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 2023, the Company had a total of ¥369.7bn in such guarantees.

Indicators for sustainability initiatives

(As of March 31, 2023)

Categories	Guarantee liabilities (¥100mn)
Guarantees related to resolving environmental issues (E)	172
Guarantees related to resolving social issues (S)	186
Guarantees related to regional revitalization (S)	2,601
Guarantees related to startups, etc. (S)	738

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

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