

# Financial Results for FY2020 Q2

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**Segue Group Co.,Ltd.**

**[Stock Code:3968]**

**August 20, 2020**

Opinions and forecasts contained in this material are based on our judgments at the time the materials were prepared, and we do not guarantee the accuracy of the information.

Actual results may differ materially from the forward-looking statement due to changes in various factors.



- 1. FY2020 Q2 Highlights**
- 2. Business Environment**
- 3. 2H Measures and Business Forecasts**
- 4. Reference Material**



# 1. FY2020 Q2 Highlights



## Achieved record-high gross profit, operating income, and ordinary income!

Figures in parentheses are YoY changes

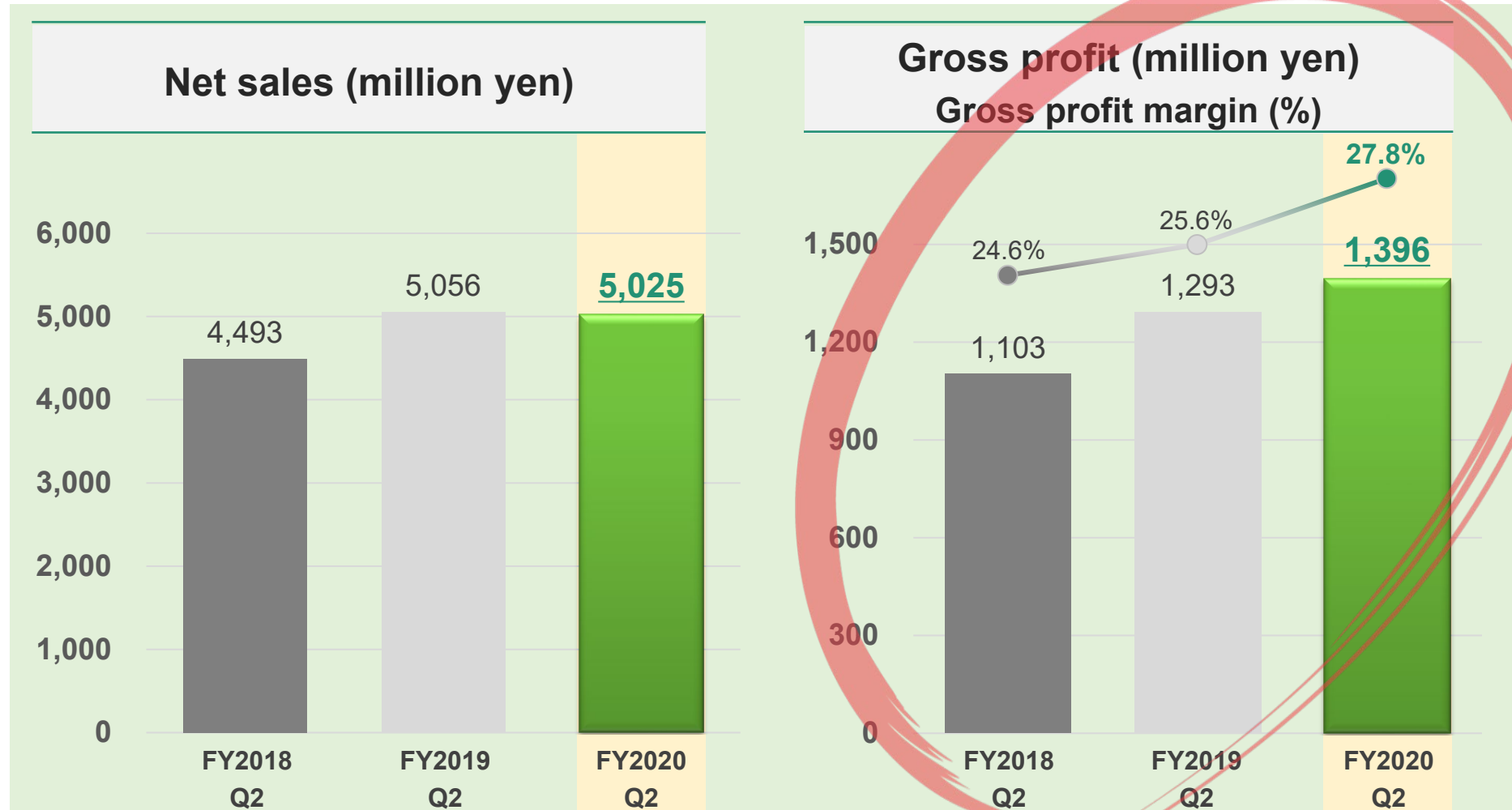
Net sales	Gross profit	Operating income	Ordinary income
5,025 million yen (Down 0.6%)	1,396 million yen (UP 8.0%)	317million yen (UP 2.8%)	334 million yen (UP 9.6%)

### Performance summary

- ✓ Steady sales of overseas products supported the stable gross profit
- ✓ Sales of telework-related products grew
- ✓ Sales of support services and other services showed stable growth
- ✓ Launched RevoWorks Desktop in March
- ✓ Started providing SCVX to NEC Corporation on OEM in May
- ✓ Acquisition of projects under GIGA School Program progressed.
- ✓ Continued to increase profits by absorbing aggressive investment in human resources, the internal environment, systems, etc. for medium-to long-term growth

# Highlights: Trends in Sales and Gross Profit

Gross profit and its margin both showed record highs due to the efficient development of the VAD business and the growing sales of telework-related products



## VAD

- ▶ Strong sales of core products  
Stable sales mainly by Juniper and Ruckus
- ▶ Promoted sales of telework-related security products  
Significant growth in PulseSecure
- ▶ March 2020: Started to handle the new AI cloud-managed Wi-Fi solution "Mist"

## In-house development

- ▶ March 2020: Started sales of a secure telework solution "RevoWorks Desktop"
- ▶ May 2020: Started providing SCVX to NEC Corporation on OEM

## System Integration

- ▶ Delay in large-scale IT infrastructure system project
- ▶ Acquired GIGA School project  
Adopted by Wi-Fi products handled

## Organizational restructuring

### Strengthened collaboration and accelerated and streamlined management

- ▶ January 2020: Shifted J's Communication into a business unit management system
- ▶ March 2020: Transitioned to a company with an audit and supervisory committee

## Growth investment

### Human resource investment

- ▶ Active recruitment of employees  
End of Dec. 2019: 409 employees → End of Jun. 2020: 435 employees

### Working environment

- ▶ March 2020: Expansion of Tokyo office floor space

## Positive and negative mix of the impact of COVID-19

### Positive

- ▶ Increase in inquiries for and sales of telework-related products such as PulseSecure
- ▶ Opportunities to promote sales of RevoWorks, WisePoint and other products developed in-house
- ▶ Increase in inquiries for other telework-related products

### Negative

- ▶ Lengthening of projects mainly SI projects
- ▶ Supply chain issues for overseas products

**The current impact is minor, but further impact is expected in the future.**



# Highlights: Consolidated Statements of Income

Each income has progressed more than planned.

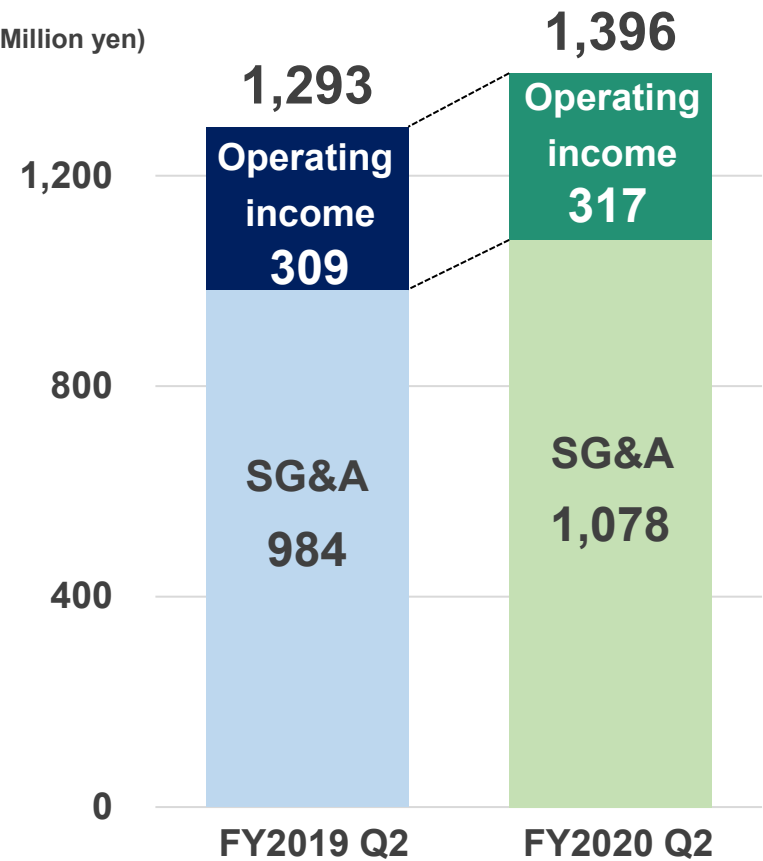
Gain on sales of securities (22 million yen) recorded as extraordinary income

Million yen

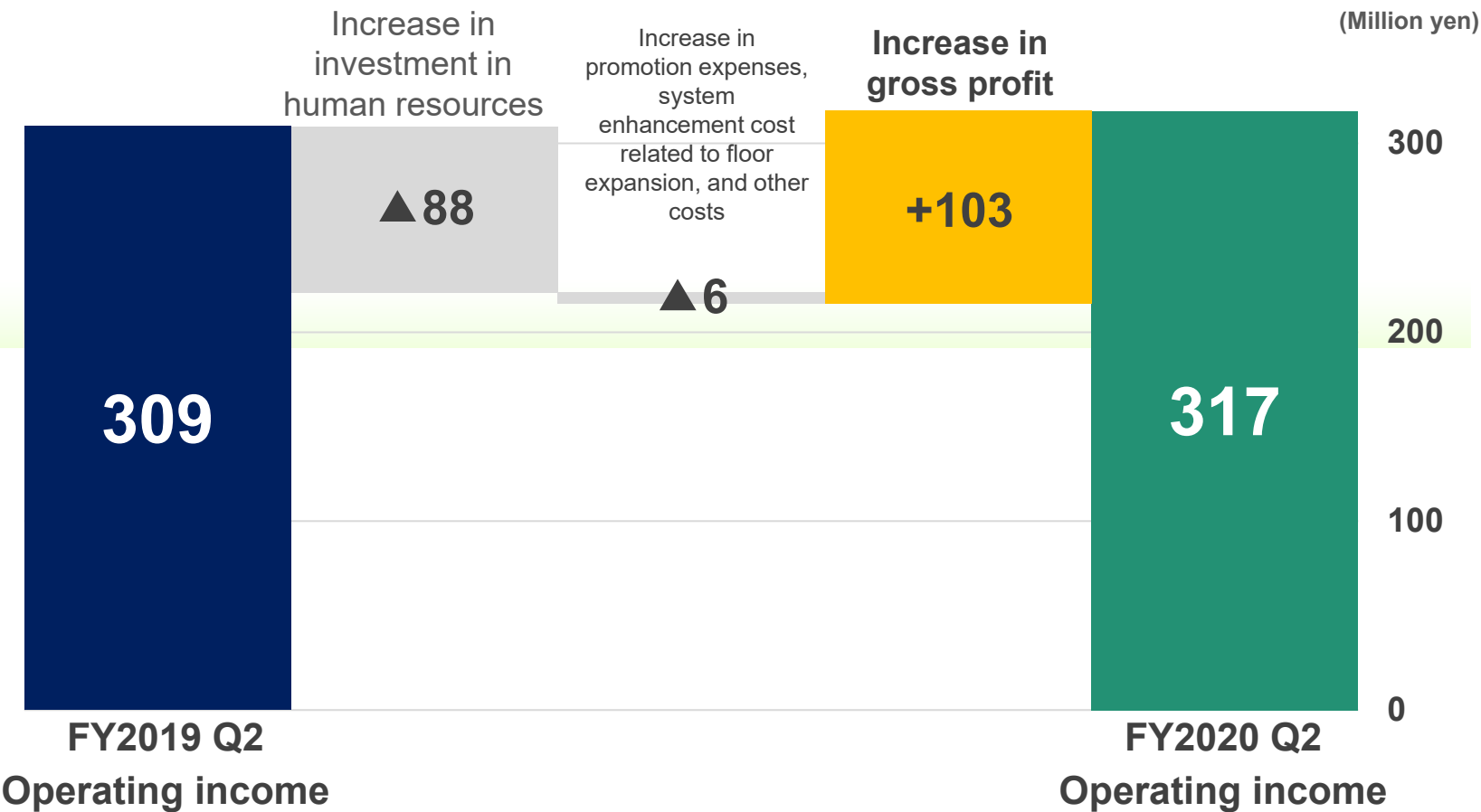
	FY 2019 Q2 total	FY 2020 Q2 total	YoY		Full-year plan	Progress rate
			Change	Change ratio		
Net sales	5,056	5,025	- 30	- 0.6%	11,012	45.6%
Gross profit	1,293	1,396	103	+ 8.0%		
(Profit margin)	25.6%	27.8%	+ 2.2pt			
Selling, general and administrative expenses	984	1,078	94	+ 9.6%		
Operating income	309	317	8	+ 2.8%	581	54.7%
(Profit margin)	6.1%	6.3%	+ 0.2pt		5.3%	
Ordinary income	305	334	29	+ 9.6%	594	56.3%
(Profit margin)	6.0%	6.7%	+ 0.7pt		5.4%	
Net income	200	235	35	+ 17.8%	436	54.0%

# Highlights: Breakdown of Changes in Operating Income

## Gross profit

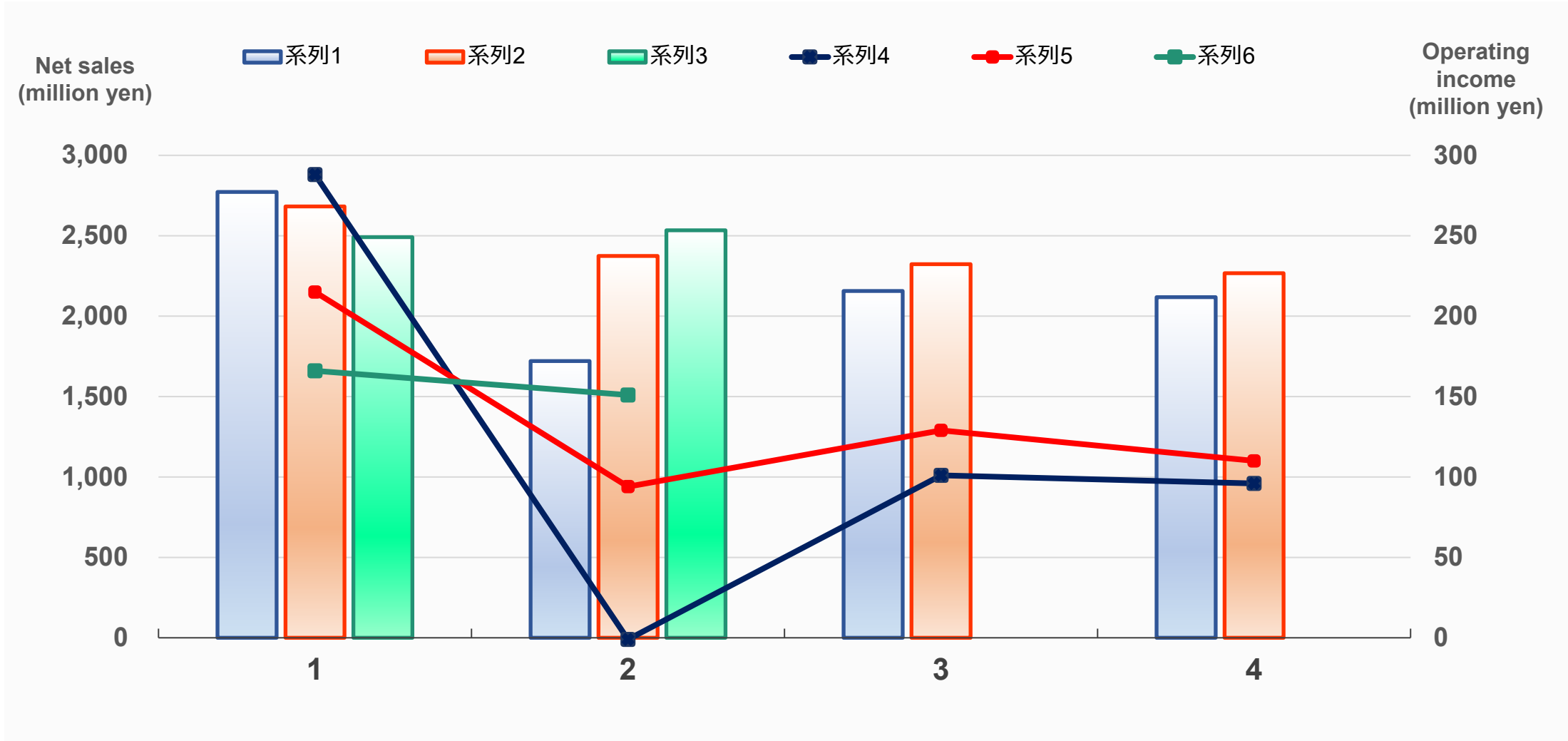


Profit increased, absorbing an increase in SG&A expenses for growth investments



Sales and profits grew in Q2 thanks to telework-related products

Quarterly Net sales and Operating Income



## Steady increase in advances received

	FY2019 Q2	FY2019 Q4	FY2020 Q2
<b>Current assets</b>	<b>4,958</b>	<b>5,044</b>	<b>5,276</b>
Cash and deposits	2,020	2,180	2,400
Allowance for doubtful accounts and Electronically Recorded Monetary Claims	1,420	1,235	1,262
Inventory assets	471	640	659
Other	1,045	987	953
<b>Non-current assets</b>	<b>1,228</b>	<b>1,102</b>	<b>1,426</b>
Property, plant and equipment	180	190	192
Intangible assets	309	301	269
Investments and other assets	738	609	964
<b>Total assets</b>	<b>6,187</b>	<b>6,146</b>	<b>6,703</b>

Million yen

	FY2019 Q2	FY2019 Q4	FY2020 Q2
<b>Current liabilities</b>	<b>3,297</b>	<b>3,106</b>	<b>3,635</b>
Accounts payable-trade	648	508	820
Short-term debt	11	8	8
Advances received	2,018	2,079	2,190
Other	620	511	616
<b>Non-current liabilities</b>	<b>247</b>	<b>252</b>	<b>271</b>
<b>Total liabilities</b>	<b>3,545</b>	<b>3,359</b>	<b>3,906</b>
<b>Total net assets</b>	<b>2,641</b>	<b>2,786</b>	<b>2,796</b>
<b>Total liabilities and net assets</b>	<b>6,187</b>	<b>6,146</b>	<b>6,703</b>

### Advances received

Index to measure future sales of recurring sales business such as support services and subscriptions among the Solution services.

## 2. Business Environment



## Further expansion of security demand in the advanced information society

- Some risks will arise such as not only stealing information but also hacking automobiles, etc. that affect human lives.

- Stolen information and hacking tools are traded in underground community

- Ransomware (Ransom Demand Malware)
- Phishing scam

**AI/Robotics**

**IoT, IIoT**

**DarkWeb**

- Diffusion and stealing of factory automation network
- Spread and stealing of data in IoT home appliances

**Big data**

- Outflow of virtual currency

**My Number system**

- Strengthening of local government information systems
- Enhancement of security measures

**Cyber-attacks**

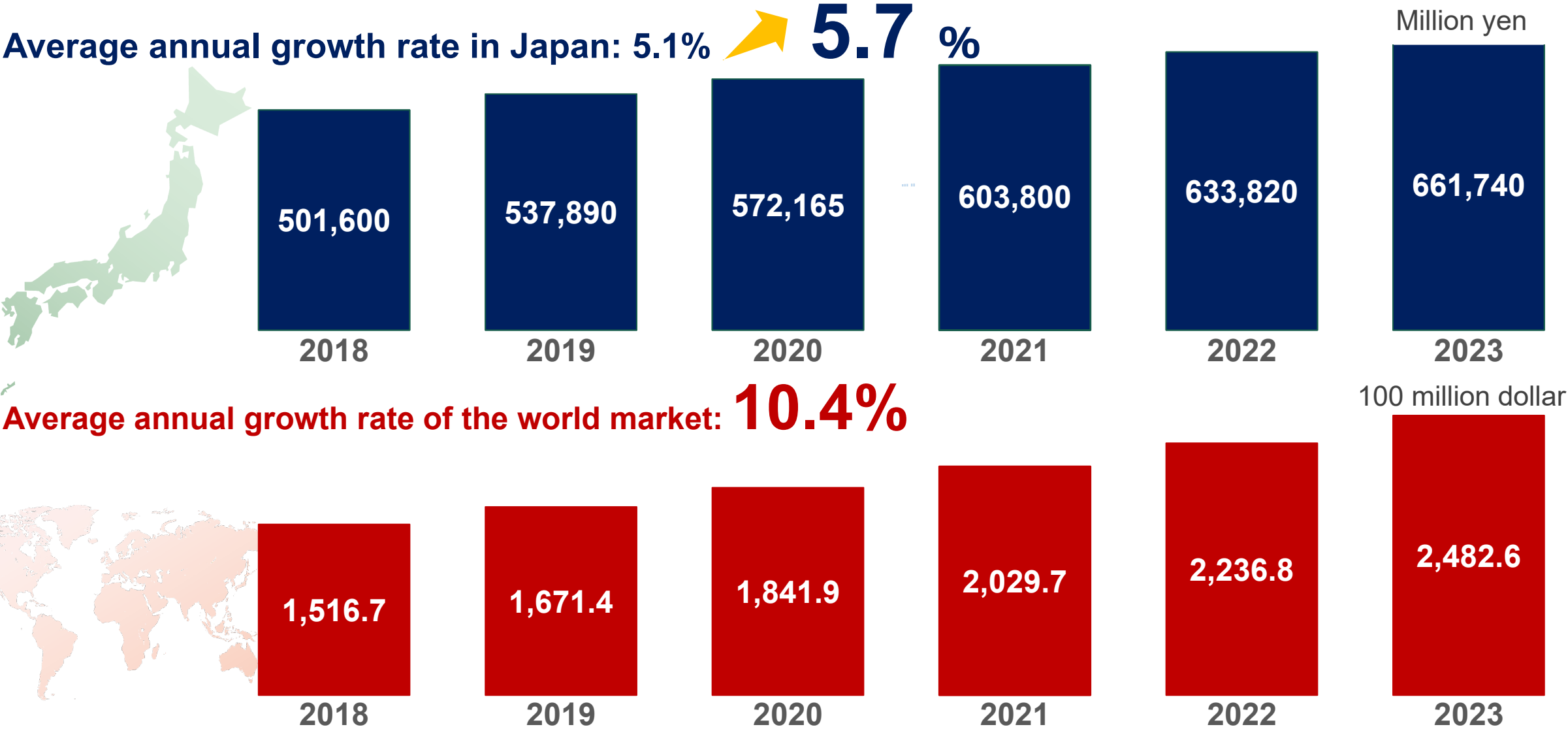
- Discontinuation and falsification of Web services

**Virus, etc. Malware**

- In the early days of viruses, many hackers attack for enjoyment and the appeal of their technological strengths

☆ Computers around the world are connected to the internet ☆



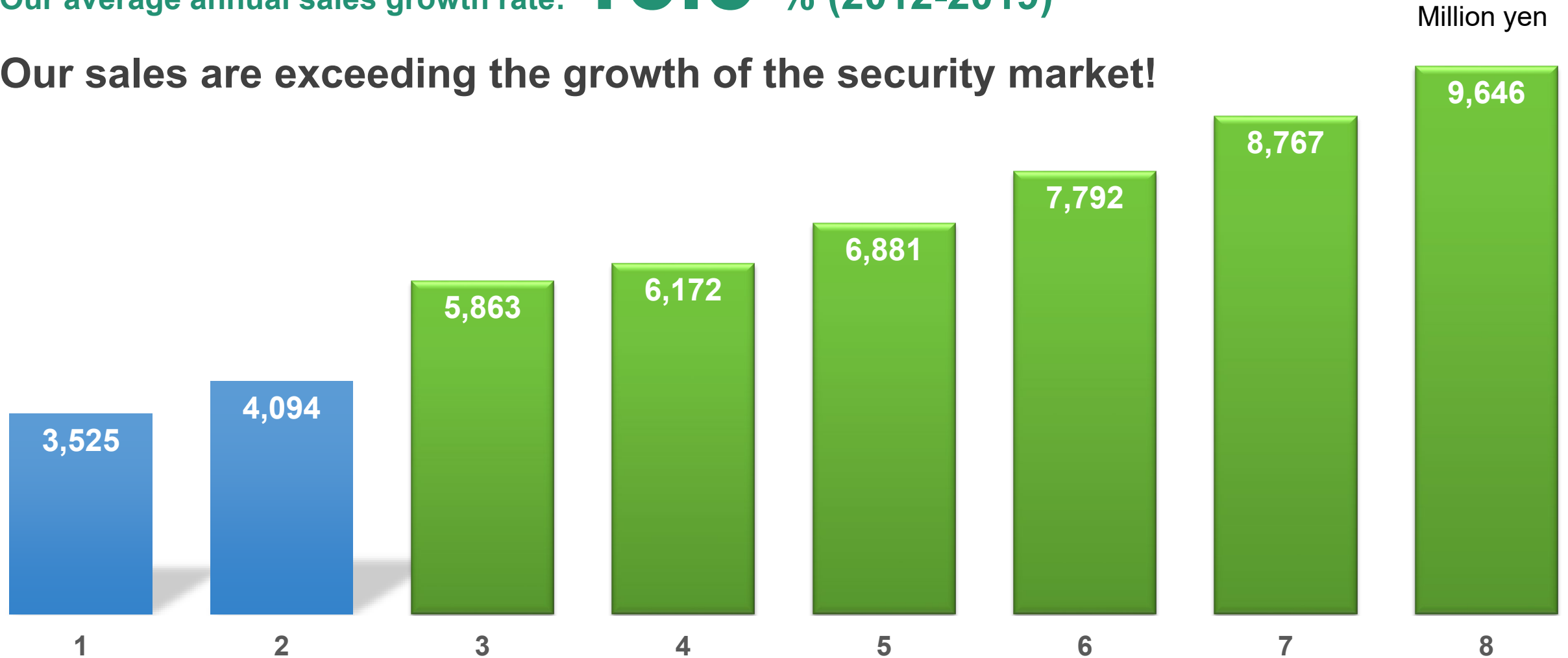


Source: Fuji Chimera Research Institute, "2018 Network Security Business Survey"  
"2019 Network Security Business Survey"

Statista "Cybersecurity market revenues worldwide 2017-2023"

Our average annual sales growth rate: **15.5** % (2012-2019)

**Our sales are exceeding the growth of the security market!**



\* Figures for 2012 and 2013 are based on results of J's Communication Co., Ltd.

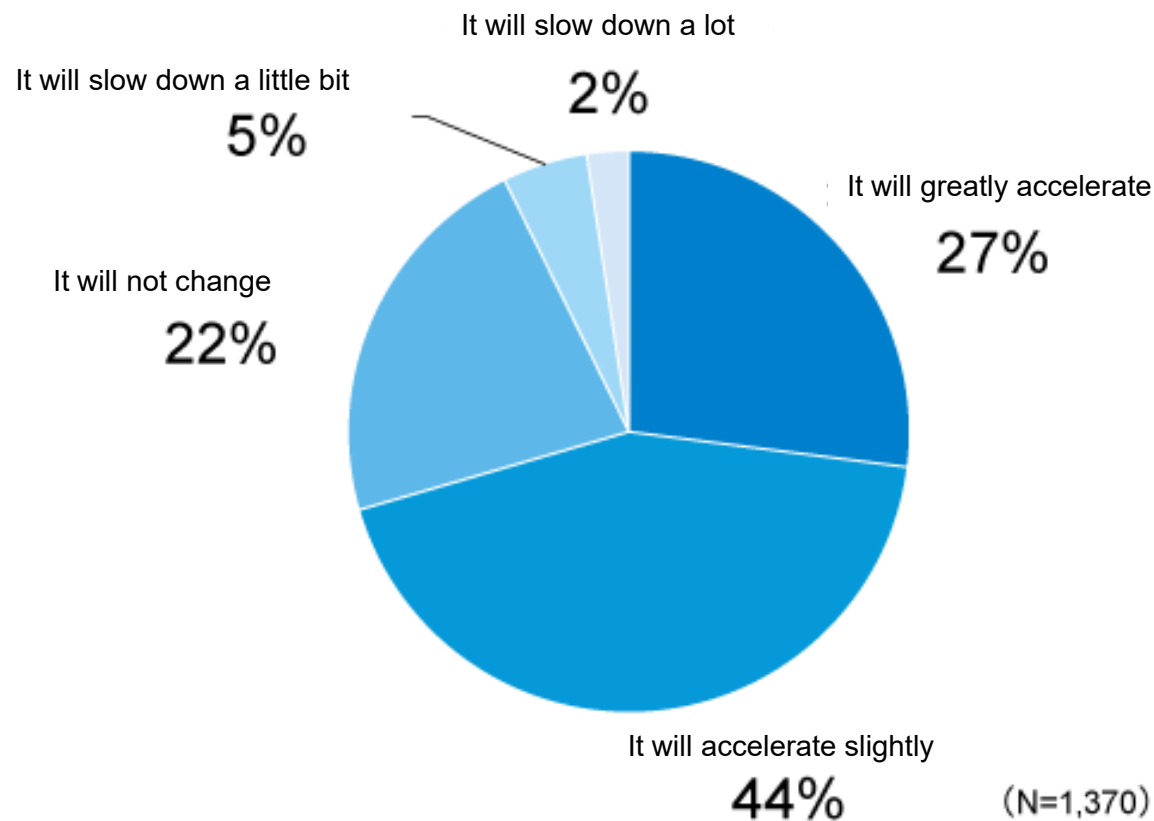


## The digitization is accelerating due to COVID-19.

**In particular, corporations have rapidly improved telework environments**

**Afterward, they are expected to promote improvement of IT infrastructure to sustain the telework environment, and building of efficient business structure suitable for that environment.**

Impact of self-restraint on activities associated with COVID-19 on the execution of our own IT strategy



Source: "Survey on the impact of COVID-19 on corporate IT trends" by ITR (April 2020)

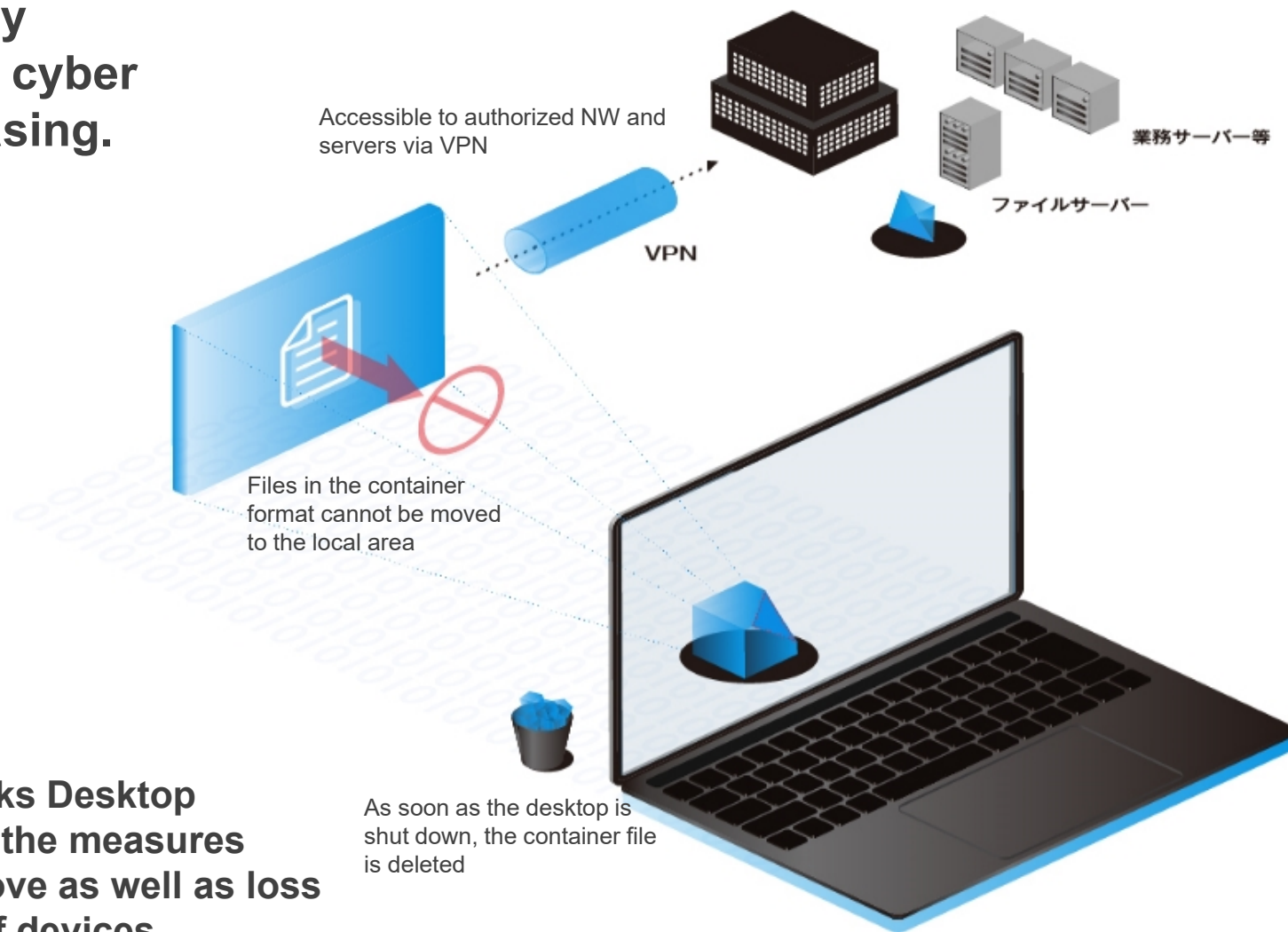
For the telework environment hastily established due to COVID-19, security measures tend to be postponed. The cyber attacks targeting this case are increasing.

Telework brings a new security risk.



Measures against malware, unauthorized access, encryption of information, etc. need to be taken as soon as possible.


RevoWorks Desktop supports the measures listed above as well as loss or theft of devices



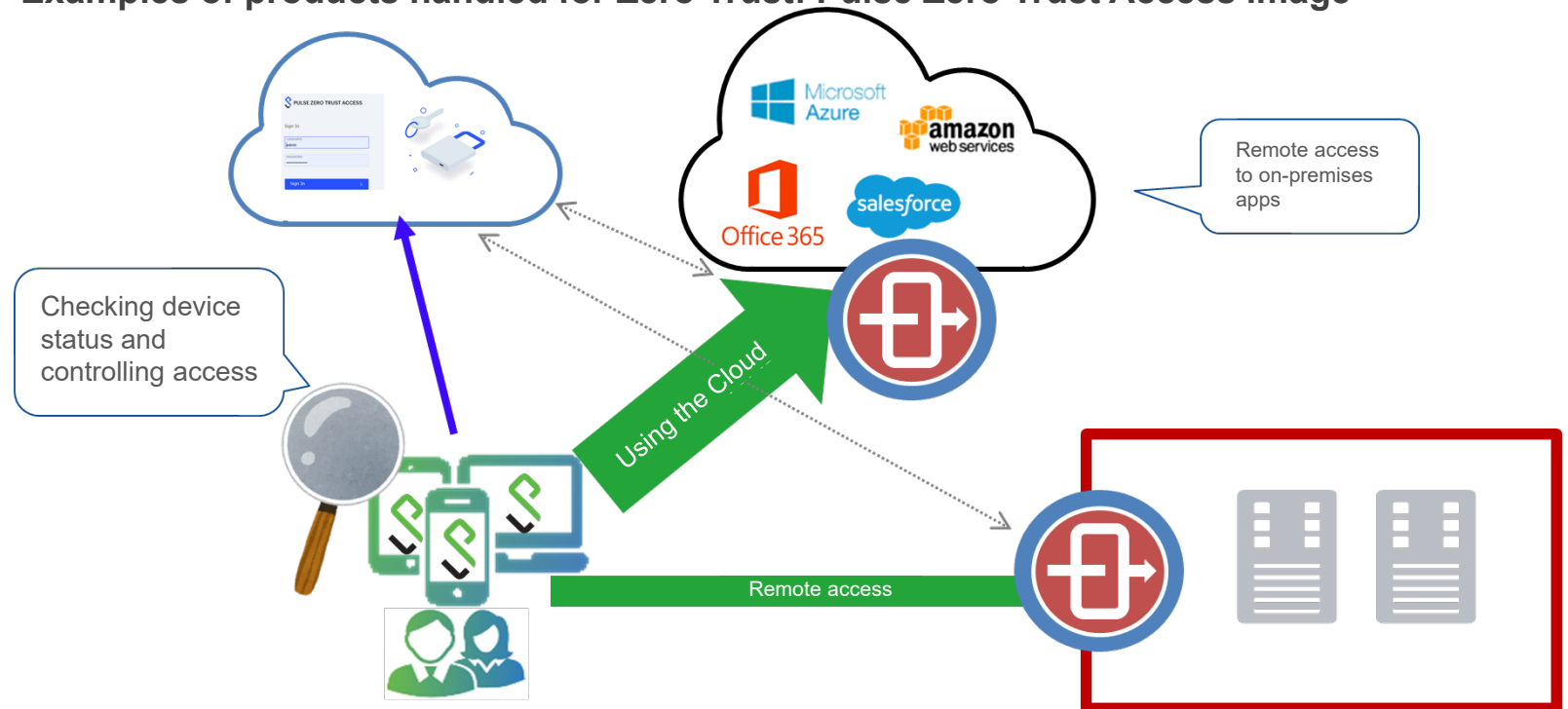
In the traditional perimeter defense in which “internal is safe and external is dangerous,” difficulties are becoming apparent due to factors such as

- ✓ Sophistication of cyber-attacks
- ✓ Shifting to the cloud allows critical systems to be moved to the outside
- ✓ Users and terminals are outside due to the rapid spread of telework

<Examples of products handled for Zero Trust: Pulse Zero Trust Access image>



**New zero-trust measures are needed based on the premise that "everything can't be trusted."**



## June 2020

**Amendments to Personal Information Protection Law promulgated, including the requirement to notify individuals of information leakage damage that meets certain requirements.**

## July 2020

**Personal Information Protection Commission announces mandatory notification of all victims of cyber-attack data breaches**

Notifying everyone would require a detailed analysis (forensics), which will require some expenses.



**Further security measures are required by the enforcement in 2022**

Affected by COVID-19, IT infrastructure development for the GIGA School Concept\* has been accelerated ahead of schedule

The government has budgeted 230 billion yen for fiscal 2020 to accelerate the realization of "1 device for 1 student" and the development of a communication environment that will allow students to connect to from their homes.

Security measures in accordance with the "Guidelines for Education Information Security Policy" are required to ensure that ICT can be used safely.

\*Global Information and Governance Academic concept: the program to supply an educational device to every student and to establish high-speed, high-capacity communication networks, proposed by the Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT).

## GIGAスクール構想の実現パッケージ ～令和の時代のスタンダードな学校へ～

令和元年12月19日

### 1. 環境整備の標準仕様例示と調達改革

- 「新時代の学びを支える先端技術活用推進方策」の考え方に基づく、**学習者用端末の標準仕様**を例示
- 「GIGAスクール構想」に基づく、高速回線に向けた**校内LAN整備の標準仕様**を例示
- 容易に大規模な調達が行えるよう、標準仕様書を基に**都道府県レベルでの共同調達**を推進

➤ **学校ICT環境の整備調達をより容易に**

### 2. クラウド活用前提のセキュリティガイドライン公表

各教育委員会・学校が情報セキュリティポリシーの作成や見直しを行う際の参考とする、『**教育情報セキュリティポリシーに関するガイドライン**』（平成29年策定）を、**クラウド・バイ・デフォルト**の原則を踏まえて改訂

- 整備の硬直化を避けるための位置づけや構成の見直し
- クラウド・バイ・デフォルトの原則追記
- クラウドサービス事業者が留意すべき事項の追加

➤ **クラウド活用により使いやすい環境へ**

### 3. 学校ICT利活用ノウハウ集公表

教師や学校、教育委員会等が、情報教育やICTを活用した指導、ICT環境整備等を行う際に参考となる様々な情報をまとめた**「教育の情報化に関する手引」**を公表。特に「第4章 教科等の指導におけるICTの活用」においては、ICTを効果的に活用した学習場面の10の分類例を示すとともに、

- 小学校、中学校、高等学校については各学校段階における各教科等ごとに
- 特別支援教育については学習上の困難・障害種別ごとに**ICTを活用した効果的な学習活動の例を提示**。

➤ **全ての教職員がすぐに使えるように**

### 4. 関係省庁の施策との連携

- 総務省：教育現場の課題解決に向けた**ローカル5Gの活用モデル構築**
  - 経済産業省：**EdTech導入実証事業**、**学びと社会の連携促進事業**
- **ローカル5Gや教育コンテンツも活用して未来の学びを実現**

### 5. 民間企業等からの支援協力募集

将来のICT社会を創造し、生きていく子供達に向けた社会貢献として、**民間企業等から学校ICT導入・利活用に対するあらゆる協力を募る**。

- 校内LANなど通信環境の無償提供
  - 新品、中古問わず十分なスペックの端末の学習者への提供
  - ICT支援員として学校の利活用の人的サポート 等
- 公表し、文部科学省から教育委員会へ随時繋いでいく

➤ **民間等の外部支援により導入・利活用加速**

Source: "Package for Realizing GIGA School Concept" (Ministry of Education, Culture, Sports, Science and Technology, December 2019)

### 3. 2H Measures and Business Forecasts



### Human Resource Investment

**Continue aggressive recruitment**

### Promotion of in-house development



Integration of the SCVX and RevoWorks brands, site renewal and version upgrades are planned.

**Initiatives for new development utilizing AI and the cloud**

### Creating a comfortable working environment

Expansion and maintenance of offices



Continuing to improve each base

Promoting Work Style Reforms



Reinforcement of in-house systems, review of in-house structure, etc.



**August 2020**

**SCVX is selected by Allied Telesis for its "Net.CyberSecurity Secure Web Service".**

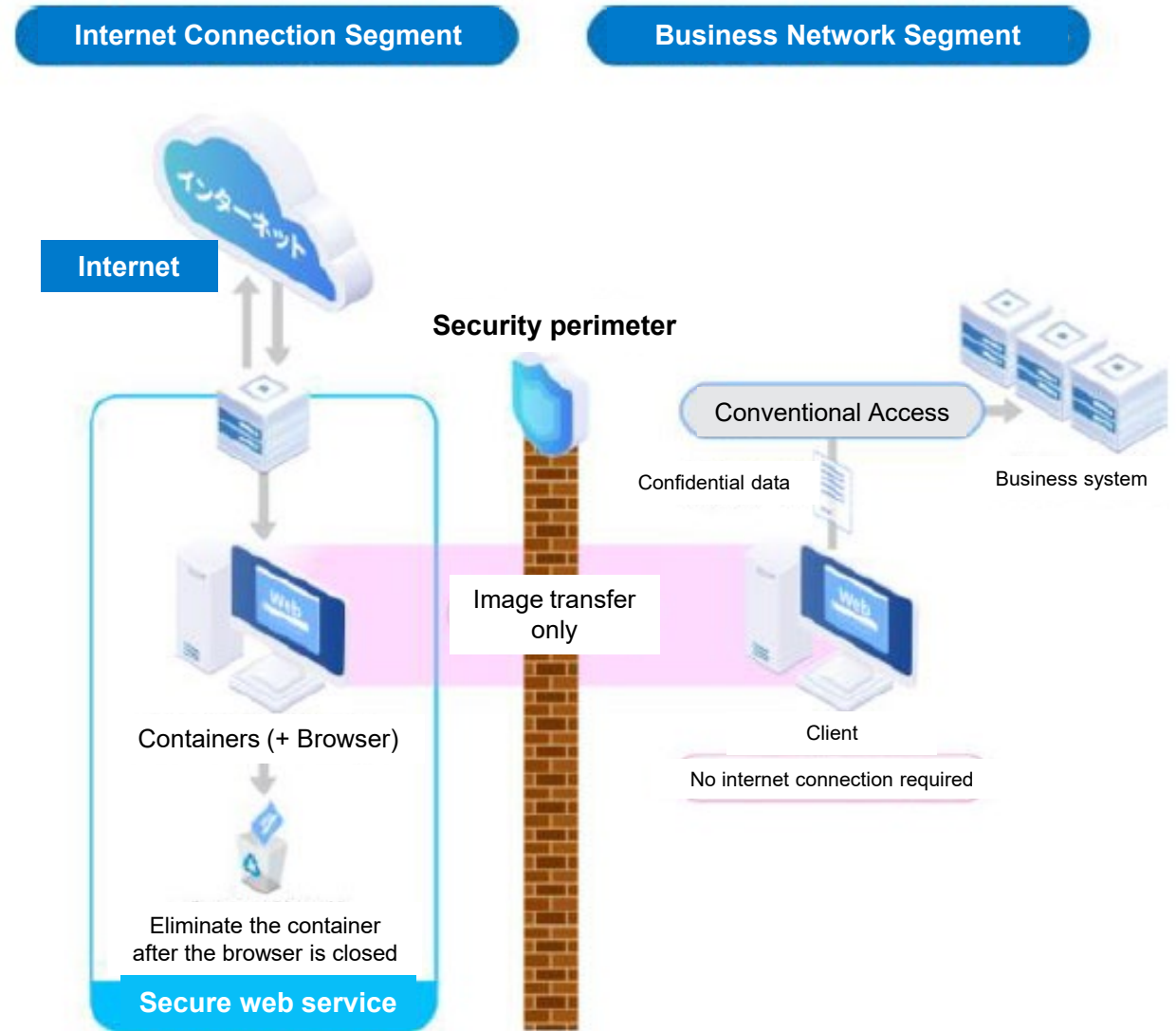
The third company to be selected, following NTT Smart Connect and Intec in 2019.

**August 2020**

**RevoWorks and SCVX brand were integrated into Revoworks brand.**

Further promote development and sales as a telework solution for preventing information leakage and reforming work styles in the post-COVID-19 era.

## <Net. CyberSecurity Secure Web Service Image>





## A new brand website opened in August 2020. Strengthen marketing as a RevoWorks brand



RevoWorksは、市場のニーズを先取りしつつ、お客様の声を聞きながら成長してきた、自社開発の製品です。

総務省は、2015年5月に起きた日本年金機構の100万人を越す個人情報の漏えい事故を契機として、各自治体に対し「自治体情報システム強靱化向上モデル」のガイドラインを作成し、2017年7月までに実施することを求めました。この事故は、インターネットから送られてきたメール（標的型攻撃メール）の添付ファイルの開封により業務PCがマルウェアに感染してしまったことがそもそもの原因でした。

これをきっかけとし、ガイドラインでは、インターネットに接続するネットワーク（インターネット接続系）と自治体の業務を行うネットワーク（LGWAN接続系）を物理的に分け、インターネットから取得したファイルはファイル内のマクロやスクリプトを取り除く無害化処理を施すことが提示されました。

ジェイズ・コミュニケーションでは、2014年からLinuxサーバー上のDockerコンテナに仮想ブラウザを立ち上げ、これを画面転送技術でインターネット閲覧するSCVXを開発していました。そして、2016年、インターネット分離に特化したSCVX 1.0をリリースし、総務省のガイドラインの「自治体情報システム強靱化向上モデル」を検討する自治体への提案を始めました。

パートナー企業と共に  
最先端の取り組みを行なっています

Orchestrating a brighter world  
**NEC**

**Densan**

## Ota City

- Issues have emerged in Web convenience in exchange for enhanced security
- Selected SCVX that allows users to browse websites and detoxify files on ordinary terminals.

## Chibagin Computer Service

- Considering the introduction of Internet-separated products to prevent information leaks
- Selected SCVX as the forwarding method for browsers that do not feel uncomfortable.

## Sumitomo Hospital

- Planning to separate medical systems such as electronic health records from the Internet
- Selected SCVX that allows secure Internet isolation with a single PC

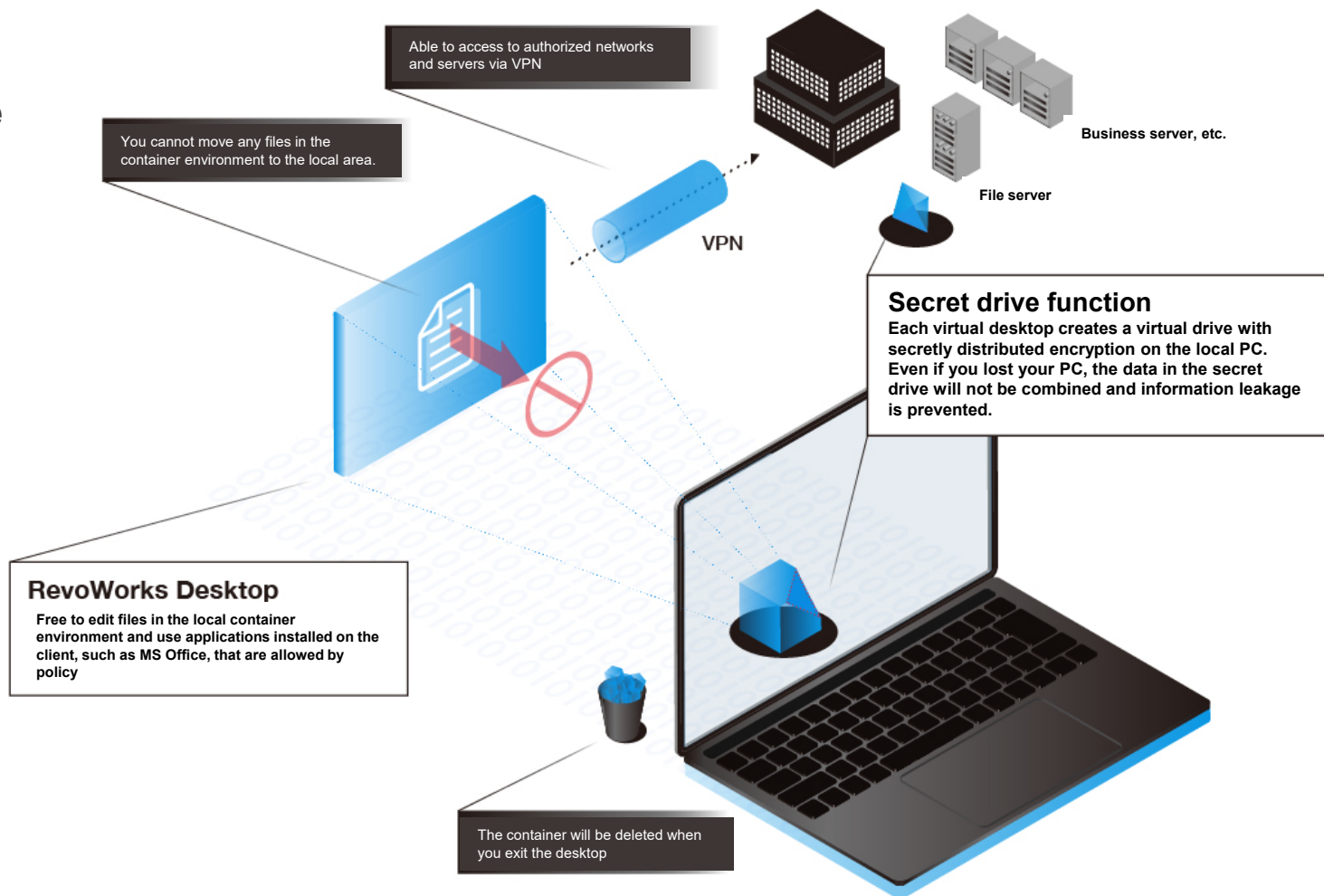
## Virtual Desktop Supporting Work Style Reforms

RevoWorks Desktop is an in-house developed local virtual desktop that supports secure and easy-to-use telework environment with an original container technology.

By operating software such as MS Office used in daily work in a dedicated container on the client PC, it prevents information leakage during work.

Furthermore, by using secret distributed encryption technology to render the data in the dedicated environment nullified(\*1), a double-layered security measure is in place to prevent information from being leaked even if the PC is lost or stolen.

\*1 Nullification is realized by ZENMU, which uses ZenmuTech's secret distributed encryption technology.

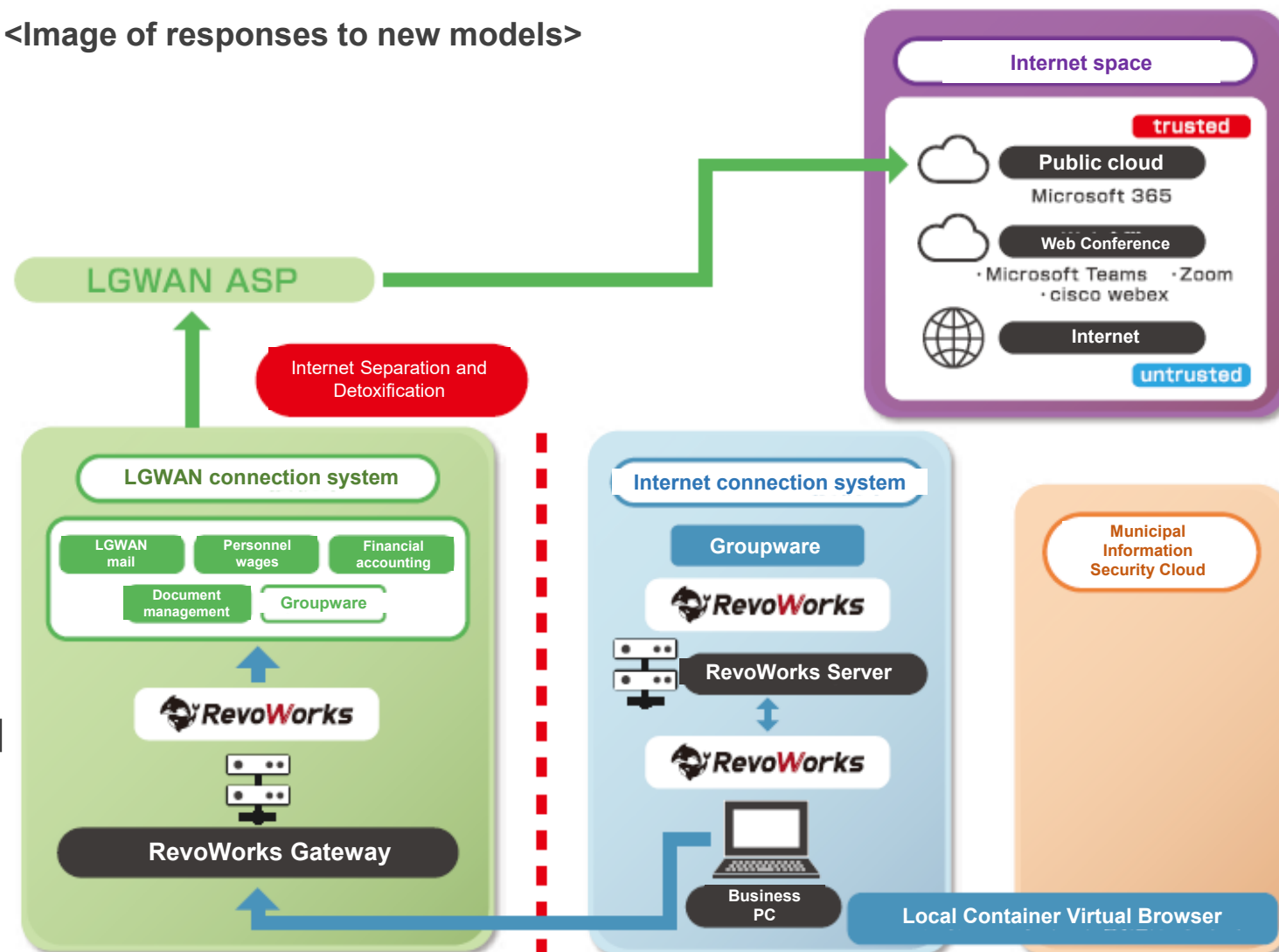


The Ministry of Internal Affairs and Communications announced "Review of Municipal Information Security Measures" in May 2020.

New measures are needed to improve efficiency and convenience

RevoWorks supports both existing and new models and can be reviewed to meet the needs of each municipality.

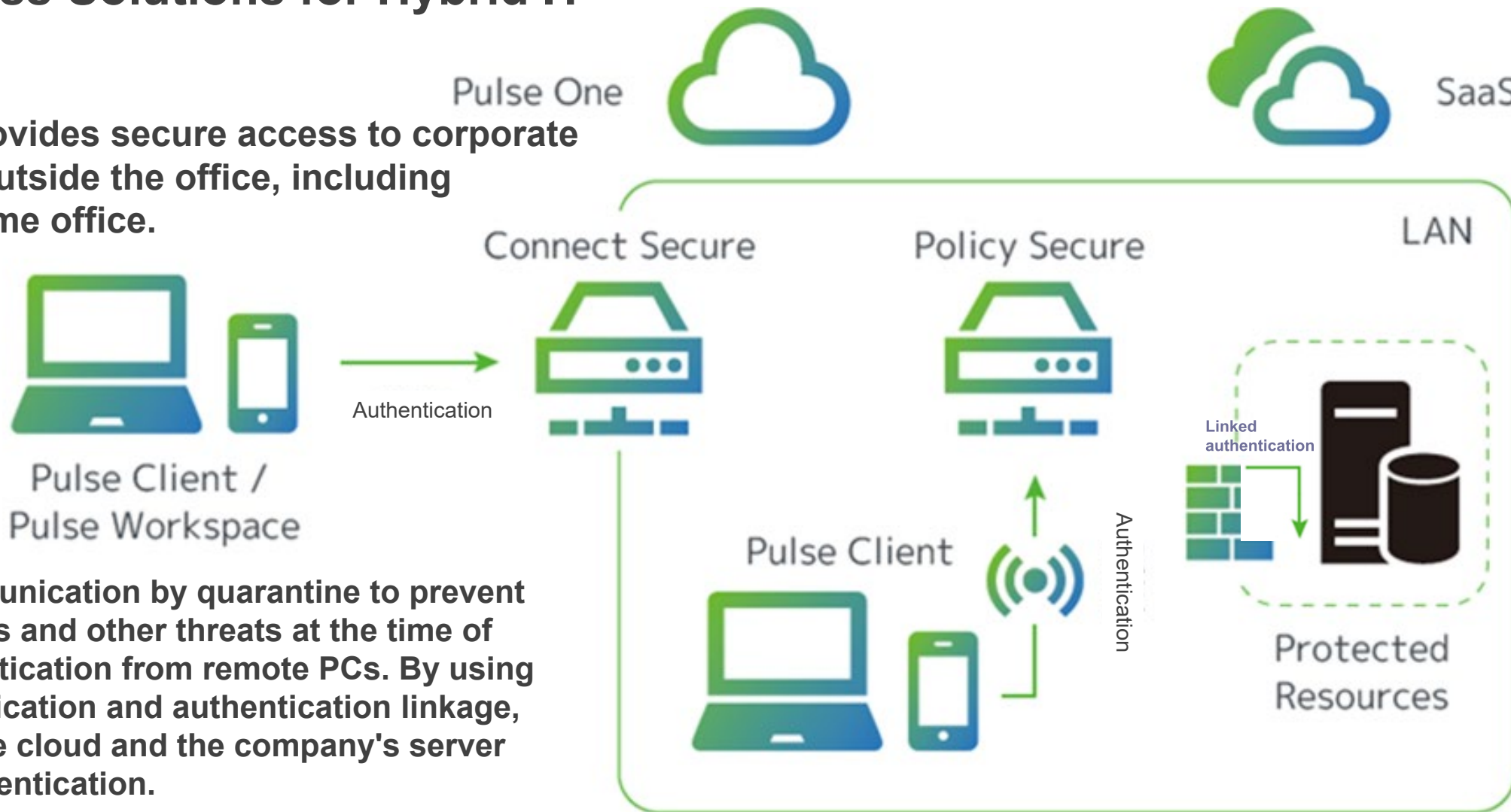
<Image of responses to new models>



## Secure Access Solutions for Hybrid IT

Pulse Secure provides secure access to corporate networks from outside the office, including telework and home office.

Secure VPN communication by quarantine to prevent intrusion of viruses and other threats at the time of connection authentication from remote PCs. By using two-factor authentication and authentication linkage, you can access the cloud and the company's server with only one authentication.






The initial forecasts remain unchanged.

We aim to continue increasing sales and profits since listing while continuing to invest in medium-to long-term growth.

Million yen				
	FY12/19	FY12/20 (Forecast)	YoY	
			Change	Change ratio
Net sales	9,646	11,012	1,365	14.2%
Operating income	548	581	32	6.0%
(Profit margin)	5.7%	5.3%		
Ordinary income	554	594	39	7.2%
(Profit margin)	5.7%	5.4%		
Net income	411	436	25	6.1%

NW infrastructure	Cybersecurity protective software	Mobility and certification
GW Security	 <b>RevoWorks</b>  <b>RAPID7</b>  <b>DARKTRACE</b>  <b>STELLAR</b> <b>CYBER</b>  <b>CYBERX</b> <small>BATTLE-TESTED INDUSTRIAL CYBERSECURITY</small>	Wi-Fi
 <b>SOPHOS</b> 	 <p>Providing safe and comfortable solutions by compensating for a shortage of security technicians with AI and automation software</p>	COMMScope® <b>RUCKUS</b> ®
Router		 <b>Mist</b> <small>AI is in the AIR™</small>
 MXシリーズ		Remote work
Switch		 <b>Pulse Secure</b> ®
 EX/QFXシリーズ		 <b>splashtop</b> ®
SDN		Certification
 Contrail		 <b>Soliton</b>  <b>WisePoint</b>
Total Proposal for Integration		

We will continue to grow together with our customers by leveraging IT to create value. We contribute to the realization of a prosperous society.

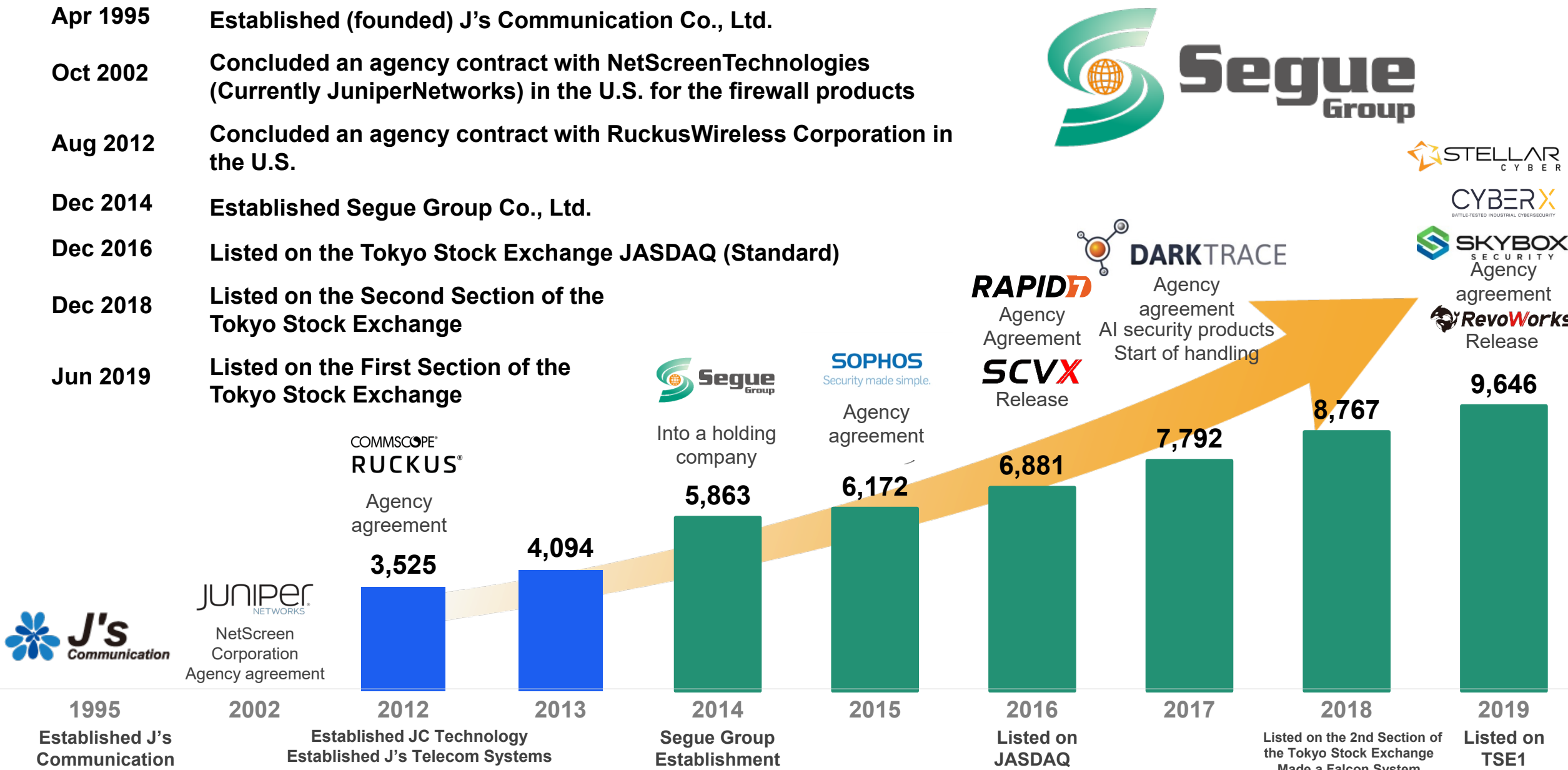


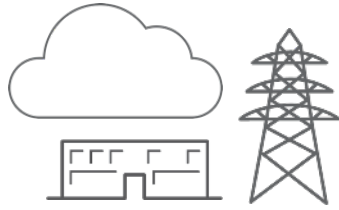


## 4. Reference Material



# Reference: History of Segue Group

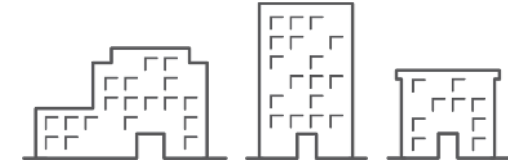




**Service provider**  
**Carrier data center**



**Government agencies and  
local governments**  
**Academic institutions**  
**Medical institution**



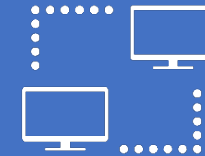
**Enterprise**  
**Manufacturing industry**  
**Financial institution etc..**

**Supporting customers' business foundations  
by providing total solutions for security and IT infrastructure**



**Security**

**Target attack countermeasures, information  
leakage countermeasures, vulnerability  
countermeasures, telework security**




**IT infrastructure**


**Network, Virtualization, Cloud, Wireless**



### Solution products




**Network Security product**  
(In-house development Security software)




**IT infrastructure Products**

**Providing Solutions Combining Security and IT Infrastructure Products System integration**


### Solutions service




**Design and construction Service**



**Maintenance Service**



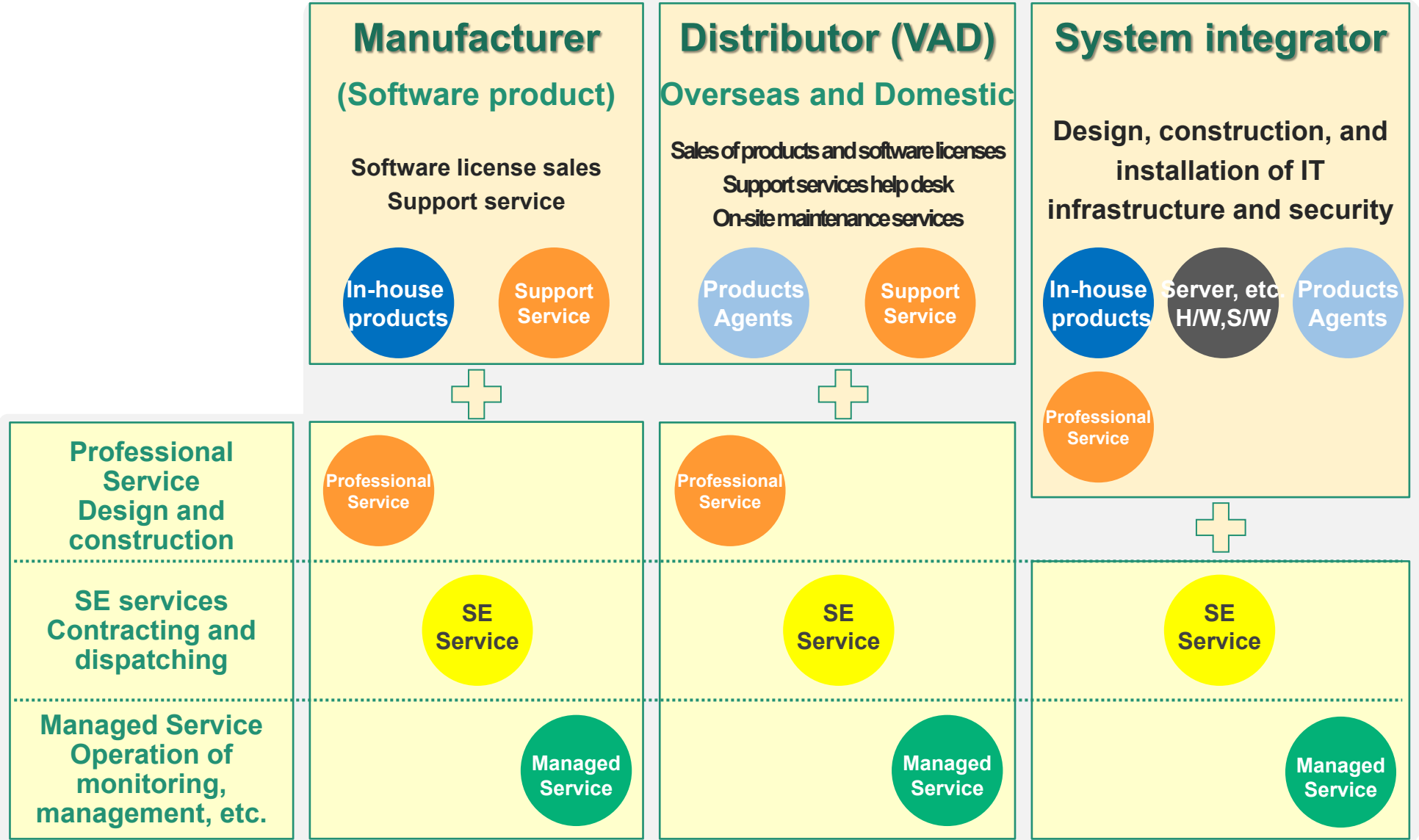
**Help desk Service**



**Others (Monitoring, dispatch, etc.)**

**IT engineer SE service**

# Company Profile: Nature of the Business



Providing a variety of added value in response to the needs of partners, system integrators, and customers



Internet isolation solution

Server-based Virtual Browser "RevoWorks SCVX"

Internet isolation solution

Local Virtual Browser "RevoWorks Browser"

Secure Telework Solutions

Local Virtual Desktop "RevoWorks Desktop"

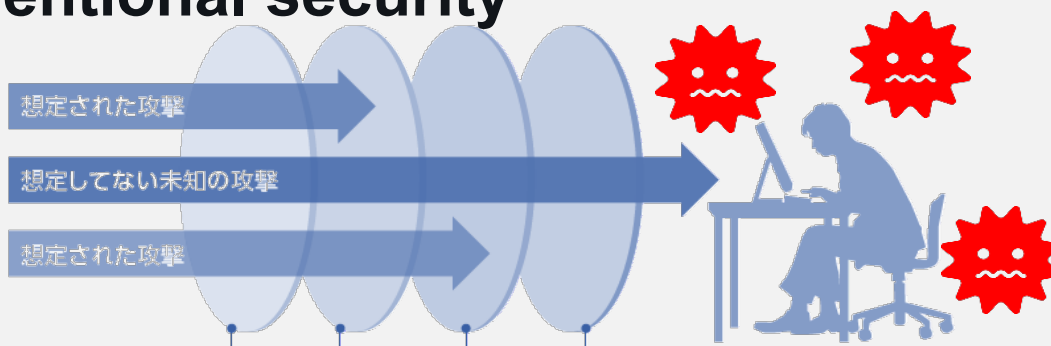


Authentication & Telework Solutions "WisePoint Authenticator"

Authentication & Single Sign-On Solution "WisePoint Shibboleth"

WisePoint

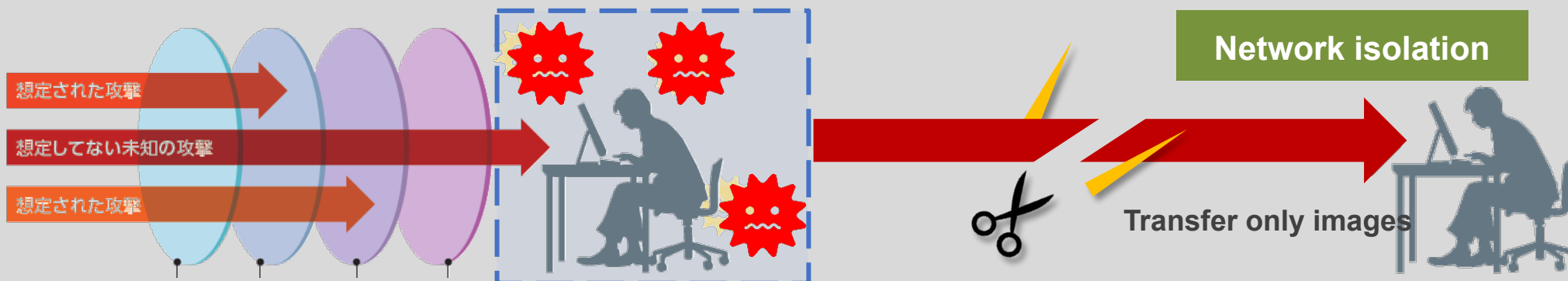
## Conventional security



Corporate information security measures especially internet security is like a cat-and-mouse-game

## RevoWorks Security by SCVX

Defense based on penetration



- ① Even if attacks occur, their impact will be limited to virtual containers, and their PCs will remain intact.
- ② If your PC is dropped, the virtual container will disappear for each malware.

Import products with cutting-edge technologies, global technologies, niche technologies, etc. from the United States and other developed security countries

Provide optimal products that meet the needs of end users



## Line-up of Security products

- Firewall/ VPN
- Next-generation Firewall
- UTM
- Malware protective
- WAF
- Security vulnerability diagnosis and management
- IP address management
- Network management

## Major manufacturers of import agent contracts





## Threats that Japanese corporations (organizations) specifically face

## Solutions that can be proposed

No.1 **Theft of confidential information by targeted attacks**



No.2 **Leakage of information due to internal improprieties**



No.3 **Financial Damage from business email fraud**



No.4 **Attacks that exploit weaknesses in the supply chain**



No.5 **Damage from ransomware**



Source: Information Security 10 Major Threats 2020 (Organization), Japan Information Processing Advancement Agency (IPA) January 2020

## Long-term direction of the Segue Group



### Becoming a new leading company in the network security

We aim to be a TOP company in the industry that is trusted and proud by our customers and partners **with a Security Solutions Provider Business by bringing together new technologies such as AI and IoT, and members with unique ideas.**

#### Changes in the Market Environment

- ▶ Technological Innovation, AI, Digital Transformation
- ▶ Society5.0
- ▶ Cyber attacks and terrorism becoming increasingly diverse and complex
- ▶ Geopolitical risk
- ▶ Declining birthrate, aging population, severe shortage of engineers

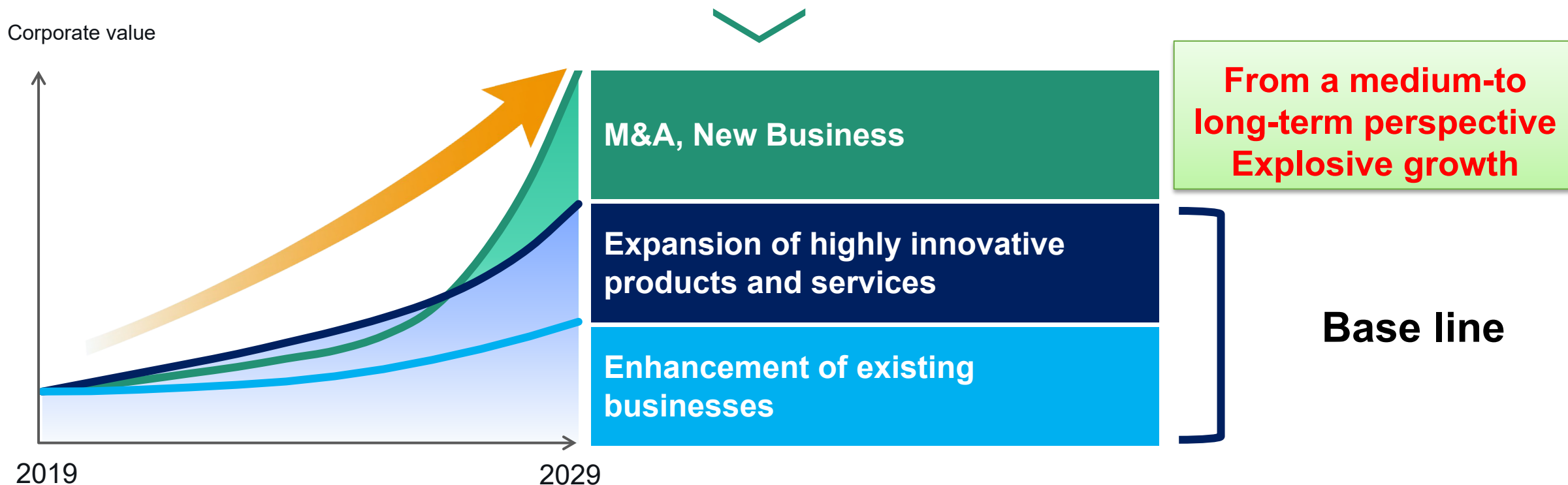
#### "Opportunities" and "threats"

- 
- ▶ New growth potential due to change
  - ▶ Shift from Conventional IT to Advanced IT
  - ▶ Shift from product to service
- 
- ▶ Transforming threats into opportunities for continuous development

## Basic Management Strategy Policy

### Further enhancing our corporate value

- Sustainable growth in existing businesses
- Concentrate investment and expansion in new products, services, proprietary products, and proprietary services
- Explosive growth through M & A strategies and the creation of new business models



# Medium-term Numerical Targets

## FY12/19 Results

Net sales

**9.6 billion yen**

Operating income

**550 million yen**

Operating profit  
margin

**5.7%**



## FY12/22 Target

Net sales

**15 billion yen**

Operating income

**1 billion yen**

Operating profit  
margin

**6.7%**

## Point of growth

### Strengthen System integration and SE service businesses

- ▶ Rapidly increase sales and technical personnel
- ▶ Increase the size of projects
- ▶ Develop Western Japan Area   ▶ Expand scope of cloud and AI, etc.

### Growth in VAD Business

- ▶ Continuous handling of new security products
- ▶ Strengthening of efficient sales system
- ▶ Accumulate steady support services (stock revenue)

### Promote sales of products developed in-house

- ▶ Target annual growth of 40% or more
- ▶ Expand sales partners   ▶ Development in anticipation of future demand

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