

Non-consolidated Financial Results for the Third Quarter of the Fiscal Year Ending October 31, 2023 (Nine Months Ended July 31, 2023)

[Japanese GAAP]

September 8, 2023

Company name: Tobila Systems Inc. Listing: Tokyo Stock Exchange
Securities code: 4441 URL: <https://tobila.com>
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Scheduled date of filing of Quarterly Report: September 8, 2023

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of financial results meeting: Yes

(All amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Third Quarter (November 1, 2022 - July 31, 2023) of the Fiscal Year Ending October 31, 2023

(1) Results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended Jul. 31, 2023	1,529	22.3	521	25.3	519	27.6	342	40.0
Nine months ended Jul. 31, 2022	1,250	18.2	416	(7.6)	407	(9.4)	244	(21.1)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Jul. 31, 2023	32.49	32.26
Nine months ended Jul. 31, 2022	23.32	23.09

(2) Financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of Jul. 31, 2023	3,297	1,958	59.4
As of Oct. 31, 2022	2,667	1,710	64.1

Reference: Shareholders' equity (million yen) As of Jul. 31, 2023: 1,958 As of Oct. 31, 2022: 1,710

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Oct. 31, 2022	-	0.00	-	10.60	10.60
Fiscal year ending Oct. 31, 2023	-	0.00	-		
Fiscal year ending Oct. 31, 2023 (forecasts)				14.50	14.50

Note: Revision to the most recently announced dividend forecast: Yes

Please refer to the "Notice Concerning Revision of Dividend Forecast for the Fiscal Year Ending October 31, 2023 (Dividend Increase)" released today (September 8, 2023) regarding the revision of the dividend forecast.

3. Earnings Forecast for the Fiscal Year Ending October 31, 2023 (November 1, 2022 - October 31, 2023)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	2,000	18.9	600	10.9	599	12.5	394	22.3	37.35

Note: Revision to the most recently announced earnings forecast: None

*** Notes**

(1) Application of special accounting methods for presenting quarterly non-consolidated financial statements: None

(2) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(3) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Jul. 31, 2023:	10,629,600 shares	As of Oct. 31, 2022:	10,623,600 shares
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2) Number of treasury shares at the end of the period

As of Jul. 31, 2023:	69,050 shares	As of Oct. 31, 2022:	98,150 shares
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3) Average number of shares outstanding during the period

Nine months ended Jul. 31, 2023:	10,543,233 shares	Nine months ended Jul. 31, 2022:	10,489,271 shares
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* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Tobila Systems' management at the time these materials were prepared, but are not promises by Tobila Systems regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons.

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1. Qualitative Information on Quarterly Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the fiscal year ending October 31, 2023, Japan's economy moved closer to resuming normal economic activity following the reclassification of the COVID-19 pandemic as a Class 5 infectious disease. Although the economy is recovering, the outlook remained uncertain. Increasing cost of raw materials due to the prolonged Russia-Ukraine crisis and high level of inflation worldwide are having a negative impact on consumer spending in Japan.

In Japan, in addition to the usual scams involving fund remittances, there is a lot of fraudulent activities involving global events. Examples are fraudulent requests for donations to help Ukraine and “support fraud,” a scheme designed to induce anxiety about malware infection and hacking, coercing individuals into reaching out to fraudulent support channels for the purpose of financial theft. According to the National Police Agency, in 2022, the financial losses resulting from fraud saw their first year-on-year increase in eight years. There are also significant problems in Japan involving malicious telephone calls to obtain information about an individual's assets in order to steal valuables from the individual's home afterward and calls seeking people to perform fraudulent activities using SNS. Furthermore, there are large fraud groups based overseas, and there has been a notable surge in nuisance calls from overseas to Japan since the start of the discharge of ALPS treated water into the sea. Other types of fraud are also becoming an increasingly serious social problem. The incidence of victims falling prey to phishing scams, commonly referred to as “smishing,” where criminals exploit the SMS service on smartphones and cell phones to steal credit card and financial institution account information, is increasing. As a result, financial institutions in Japan have been steadily reducing transaction limits for ATMs and online banking services. Overall, the schemes used by scam artists, such as the impersonation of people at cell phone companies and the National Tax Agency, are becoming increasingly sophisticated. We have initiated efforts to proactively mitigate harm by spreading awareness about protective measures against special fraud and phishing scams through various media outlets and training sessions.

Due to these problems, there is a growing need for measures for personal protection as well as for the protection of family members and friends from telephone fraud, phishing and other types of scams that are causing enormous financial losses. We have been focusing on our spam filter service to deter these criminal activities. In the mobile phone filtering services, which is our core business, KDDI CORPORATION and Okinawa Cellular Telephone Company began offering the optional Anshin Security Set service of UQ mobile in February 2023. We are providing our fraudulent call database for this service. This has further increased the breadth of users that use these services. In the landline filtering services category, our primary activity is the sale of Fraudulent Call Automatic Block, a service for KDDI landline phone customers using a cable TV connection. This malicious call automatic blocking service does not require an add-on unit and includes JCOM's fraudulent call automatic blocking service. The company encourages cooperation with local police departments through the service and contributes to public safety and security.

Orders for TobilaPhone Biz, an upgraded version of TobilaPhone for corporate users, have increased steadily because it was registered as a “Select Item” by NTT East and NTT West. In addition, work is under way for the development of new functions for more improvements in the efficiency and quality of customers' tasks involving telephone use. To provide more services that useful for businesses, we added interactive voice response (IVR) and voice-to-text conversion functions.

TobilaPhone Cloud, which is a cloud business phone service, has been our priority business. This service is extremely easy to use because there is no need for a special connection or equipment in order to use this service for internal and external calls, transferring calls, group calling, IVR and other activities. In current fiscal year, we made it possible to link TobilaPhone Cloud with the HubSpot customer relationship management service and the Sansan sales digital transformation (DX) service for supporting sales activities. These actions and the quality of the service are highly evaluated by users. We received the “Leader” award at the “ITreview Grid Award 2023 Summer” in three segments, PBX, IVR and IP telephone. The award is given to products with high customer satisfaction based on user reviews. We have received the “Leader” award for six consecutive years. To further increase the quality of TobilaPhone Cloud, we became a member in March 2023 of the Japan Unified Communications Service Provider Association (JUSA), which consists of companies in the cloud PBX and other unified communication sectors. Furthermore, we participated in the “Number Suspension Scheme,” a collaborative

initiative with JUSA, the Ministry of Internal Affairs and Communications and the National Police Agency. This initiative, launched in August 2023, aims to suspend the utilization of telephone numbers associated with special fraud activities. By participating in the number suspension scheme, we are committed to intensifying our efforts in eliminating special fraud.

There were many activities for raising awareness of 280blocker, an app that blocks annoying advertisements. Also, we provide an Android version of 280blocker, which is currently available only in an iOS version. In March 2023, OPTAGE Inc. added the 280blocker database in its new Ad-Free advertisement blocking function for its mineo cell phone service.

We also provide Talk Book, an AI sales support tool for the visualization of sales discussions and data-driven sales.

In addition, we are using various measures to increase the number of monthly active users (see note) for our services. As a result, more than 15 million users now use our services.

In March 2023, we received certification of Health & Productivity Management Outstanding Organizations 2023 (SME category) under the Certified Health & Productivity Management Outstanding Organizations Recognition Program by the Ministry of Economy, Trade and Industry. In May 2023, we earned distinction as a "DX Certified Business Operator," an award bestowed by the Ministry of Economy, Trade, and Industry in recognition of its efforts to enhance operational efficiency and deliver comprehensive DX assistance to its clientele. We will remain firmly committed to health and productivity management in order to provide workplace environments that support the physical and mental wellbeing of our employees. Furthermore, we will promote Digital Transformation (DX) initiatives.

In the first nine months, net sales increased 22.3% year on year to 1,529,738 thousand yen, operating profit increased 25.3% to 521,523 thousand yen, ordinary profit increased 27.6% to 519,957 thousand yen and profit was up 40.0% to 342,512 thousand yen.

Note: MAU is an important KPI for determining the contribution of our products and services to eliminating problems caused by fraud and spam. Our revenue is, however, not always directly affected by an increase or decrease in MAU because contracts with customers such as telecommunications companies have different terms.

Business segment performance was as follows:

Fraud and spam prevention services

There are three service categories in this segment. A filtering service that blocks fraudulent and other malicious calls on mobile phones is the core business. The other categories are a filtering service for landline phones and TobilaPhone Cloud, a filtering service for phones used by businesses. We continued to focus on building an even larger and more powerful foundation for the provision of filtering services.

As a result, sales were 1,491,060 thousand yen, up 23.7% from one year earlier, and segment profit increased 25.9% to 877,111 thousand yen.

Others

Other services include a website design and operation support service, development projects outsourced by other companies and other activities. We do not intend to increase the scale of operations in this segment. Sales decreased 14.7% from one year earlier to 38,678 thousand yen, and the segment profit was 25,172 thousand yen, down 17.2%.

Total operating profit is the sum of the profit of the two segments minus corporate expenses, which are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment. Corporate expenses increased 22.6% from one year earlier to 380,759 thousand yen mainly because of higher administrative expenses due to a larger number of administrative personnel and the larger scale of operations.

(2) Explanation of Financial Position**Total assets**

Total assets increased 630,714 thousand yen from the end of the previous fiscal year to 3,297,892 thousand yen at the end of the third quarter of the current fiscal year. This was attributable mainly to increases of 622,942 thousand yen in cash and deposits, 38,595 thousand yen in property, plant and equipment and 25,487 thousand yen in investments and other assets, and decreases of 15,691 thousand yen in notes and accounts receivable-trade, and contract assets and 49,428 thousand yen in goodwill.

Liabilities

Total liabilities increased 382,652 thousand yen from the end of the previous fiscal year to 1,339,037 thousand yen. The main factors include decreases of 18,445 thousand yen in accounts payable-trade, 9,631 thousand yen in income taxes payable and 37,530 thousand yen in long-term borrowings, and an increase of 417,831 thousand yen in contract liabilities

Net assets

Total net assets increased 248,062 thousand yen from the end of the previous fiscal year to 1,958,855 thousand yen. The main factors include the booking of profit of 342,512 thousand yen, disposal of treasury shares of 43,920 thousand yen, a decrease of 111,569 thousand yen in retained earnings due to dividends paid and a decrease of 27,682 thousand yen in the sale of treasury stock and distribution of restricted stock.

(3) Explanation of Earnings Forecast and Other Forward-looking Statements

We currently maintain the earnings forecast for the fiscal year ending October 31, 2023 that was announced on December 9, 2022.

2. Quarterly Non-consolidated Financial Statements and Notes**(1) Quarterly Non-consolidated Balance Sheet**

	(Thousands of yen)	
	FY10/22 (As of Oct. 31, 2022)	Third quarter of FY10/23 (As of Jul. 31, 2023)
Assets		
Current assets		
Cash and deposits	1,435,764	2,058,706
Notes and accounts receivable-trade, and contract assets	248,282	232,591
Electronically recorded monetary claims-operating	3,348	2,854
Merchandise and finished goods	89,204	102,550
Work in process	-	29
Raw materials and supplies	1,378	2,639
Other	58,578	61,248
Allowance for doubtful accounts	(182)	(254)
Total current assets	1,836,374	2,460,366
Non-current assets		
Property, plant and equipment	58,005	96,600
Intangible assets		
Goodwill	258,127	208,698
Software	194,425	193,638
Other	24,191	17,047
Total intangible assets	476,744	419,384
Investments and other assets	296,053	321,540
Total non-current assets	830,803	837,526
Total assets	2,667,177	3,297,892
Liabilities		
Current liabilities		
Accounts payable-trade	18,565	120
Income taxes payable	106,138	96,506
Contract liabilities	419,774	837,606
Provision for bonuses	-	18,351
Other	166,156	178,232
Total current liabilities	710,635	1,130,817
Non-current liabilities		
Long-term borrowings	245,750	208,220
Total non-current liabilities	245,750	208,220
Total liabilities	956,385	1,339,037
Net assets		
Shareholders' equity		
Share capital	331,917	332,358
Capital surplus		
Legal capital surplus	296,217	296,658
Total capital surpluses	296,217	296,658
Retained earnings		
Other retained earnings		
Retained earnings brought forward	1,226,351	1,429,611
Total retained earnings	1,226,351	1,429,611
Treasury shares	(143,693)	(99,772)
Total shareholders' equity	1,710,792	1,958,855
Total net assets	1,710,792	1,958,855
Total liabilities and net assets	2,667,177	3,297,892

(2) Quarterly Non-consolidated Statement of Income**For the Nine-month Period**

(Thousands of yen)

	First nine months of FY10/22 (Nov. 1, 2021 – Jul. 31, 2022)	First nine months of FY10/23 (Nov. 1, 2022 – Jul. 31, 2023)
Net sales	1,250,792	1,529,738
Cost of sales	372,586	466,080
Gross profit	878,206	1,063,657
Selling, general and administrative expenses	461,888	542,133
Operating profit	416,317	521,523
Non-operating income		
Interest income	5	7
Cancellation income for services	31	21
Subsidy income	50	17
Insurance claim income	33	-
Other	25	5
Total non-operating income	146	51
Non-operating expenses		
Interest expenses	880	720
Loss on extinguishment of share-based payment expenses	7,858	783
Other	261	114
Total non-operating expenses	9,000	1,618
Ordinary profit	407,463	519,957
Extraordinary income		
Gain on donation of non-current assets	5,900	-
Total extraordinary income	5,900	-
Extraordinary losses		
Loss on valuation of investment securities	29,944	-
Other	2,022	-
Total extraordinary losses	31,967	-
Profit before income taxes	381,396	519,957
Income taxes-current	150,351	183,962
Income taxes-deferred	(13,528)	(6,518)
Total income taxes	136,823	177,444
Profit	244,572	342,512

(3) Notes to Quarterly Non-consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

In accordance with a resolution approved on January 26, 2023 by the Tobila Systems Board of Directors, treasury stock was disposed of (sold) for use as restricted stock remuneration for directors and for the distribution of restricted stock to executive officers and employees. The receipt of payments for this stock was completed on February 24, 2023. These activities resulted in the sale of 30,000 shares of Tobila Systems common stock at a price of 837 yen per share and total proceeds of 25,110 thousand yen.

Due to the sale of treasury stock and distribution of restricted stock, retained earnings decreased 27,682 thousand yen and treasury stock decreased 43,920 thousand yen during the first nine months of the current fiscal year.

Segment and Other Information

Segment Information

I. First nine months of FY10/22 (Nov. 1, 2021 – Jul. 31, 2022)

Information related to net sales and profit or loss for the reportable segment and breakdown of revenue

(Thousands of yen)

	Reportable segment		Others (Note 3)	Total	Adjustment (Note 4)	Amounts shown on quarterly non- consolidated statement of income (Note 5)
	Fraud and spam prevention services	Subtotal				
Net sales						
Recurring revenue (Note 1)	1,044,596	1,044,596	43,092	1,087,689	-	1,087,689
Non-recurring revenue (Note 2)	160,846	160,846	2,256	163,103	-	163,103
Revenue from contracts with customers	1,205,443	1,205,443	45,349	1,250,792	-	1,250,792
External sales	1,205,443	1,205,443	45,349	1,250,792	-	1,250,792
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,205,443	1,205,443	45,349	1,250,792	-	1,250,792
Segment profit	696,462	696,462	30,399	726,862	(310,544)	416,317

- Notes: 1. Recurring revenue is revenue recorded as sales for the provision of a service over a certain period.
2. Non-recurring revenue is revenue recorded as sales upon the delivery of a product and its acceptance by a customer.
3. Others is businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.
4. The adjustment to segment profit includes corporate expenses that are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment.
5. Segment profit is adjusted to be consistent with operating profit in the quarterly non-consolidated statement of income.

II. First nine months of FY10/23 (Nov. 1, 2022 – Jul. 31, 2023)

Information related to net sales and profit or loss for the reportable segment and breakdown of revenue

(Thousands of yen)

	Reportable segment		Others (Note 3)	Total	Adjustment (Note 4)	Amounts shown on quarterly non- consolidated statement of income (Note 5)
	Fraud and spam prevention services	Subtotal				
Net sales						
Recurring revenue (Note 1)	1,282,331	1,282,331	34,126	1,316,457	-	1,316,457
Non-recurring revenue (Note 2)	208,729	208,729	4,551	213,280	-	213,280
Revenue from contracts with customers	1,491,060	1,491,060	38,678	1,529,738	-	1,529,738
External sales	1,491,060	1,491,060	38,678	1,529,738	-	1,529,738
Inter-segment sales and transfers	-	-	-	-	-	-
Total	1,491,060	1,491,060	38,678	1,529,738	-	1,529,738
Segment profit	877,111	877,111	25,172	902,283	(380,759)	521,523

- Notes: 1. Recurring revenue is revenue recorded as sales for the provision of a service over a certain period.
2. Non-recurring revenue is revenue recorded as sales upon the delivery of a product and its acceptance by a customer.
3. Others is businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.
4. The adjustment to segment profit includes corporate expenses that are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment.
5. Segment profit is adjusted to be consistent with operating profit in the quarterly non-consolidated statement of income.

Subsequent Events

Transfer of Business

On September 8, 2023, the Tobila Systems Board of Directors approved a resolution to transfer the website design and operation support business to IDEA+ CO., LTD. A contract for this sale was signed on the same day.

1. Reason for business transfer

The decision to transfer the business was taken with the goal of directing management resources toward the expansion of the core business.

2. Summary of business transfer

(1) Name of the company to which the business is transferred

IDEA+ CO., LTD.

(2) Description and scale of business to be transferred

Description

Website design and operation support

Scale

Sales: 34,275 thousand yen (Fiscal year ended October 2022)

(3) Assets and liabilities to be transferred

Assets

Software (Book value is 0 yen as it has been amortized)

Liabilities

Not applicable.

(4) Schedule

September 30, 2023 (tentative)

(5) Acquisition price and payment method

Acquisition price: 70,000 thousand yen

Payment method: In cash

(6) Outlook

We expect that our existing business will be able to compensate for the loss of sales and profit resulting from the business transfer. An extraordinary gain of 70,000 thousand yen is expected to be recorded in the fiscal year ending October 2023 as a result of the business transfer. The amount and the impact on the earnings forecast for the fiscal year ending October 2023 are currently being reviewed. An announcement will be made promptly if this review results in any information that requires disclosure.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.