

# Results of Operations for the Fiscal Year Ended October 31, 2019

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Tobila Systems Inc.

(Tokyo Stock Exchange Mothers 4441)



December 2019



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# Highlights

**FY10/19**

**Both sales and earnings at all levels rose to new record highs**

Operating profit to net sales: 41.4%

ROE: 39.1%

**FY10/20**

**Forecast record-high sales and earnings at all levels and plan to pay the first dividend since the IPO**

Dividend payout ratio target: 35%

**New  
products**

A smartphone app-type fraud filtering product for standard use with business phones with sales to begin in March 2020



# **Business Overview and Competitive Strengths**



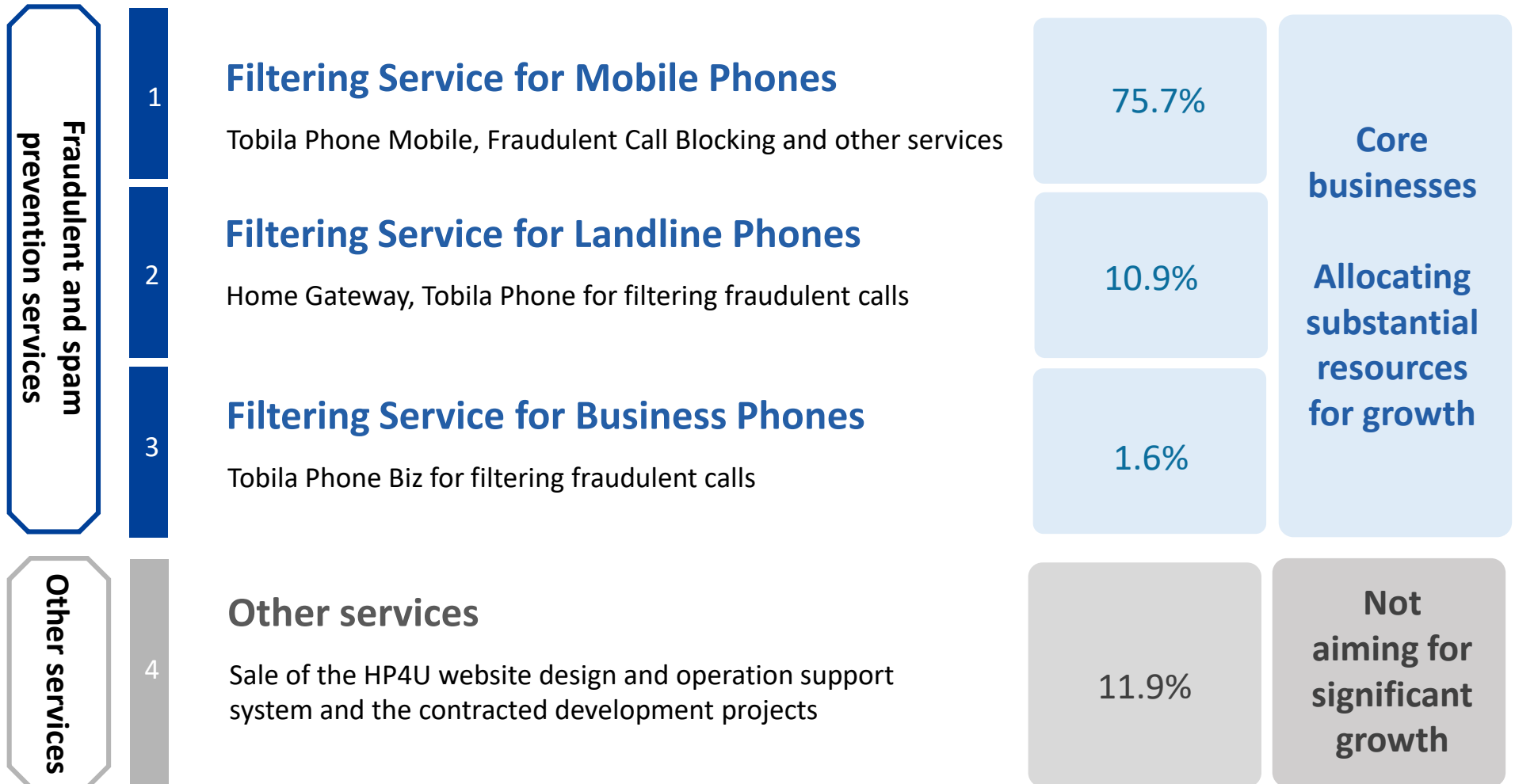
# Corporate Philosophy

Become a company that can  
create a better future  
for our lives and the world

We are constantly changing without any fear of failure and challenging conventional thinking that should not be readily accepted in order to create a better future. We will be a source of products that help solve social issues and have benefits for people. We will also pursue earnings for steady growth as we expand and upgrade our operations. We believe that maintaining an environment where people can live with confidence and happiness will lead directly to our growth and a better live for people worldwide.

We will strive to solve social issues using security for people in order to create a society with peace of mind.

## Business Fields

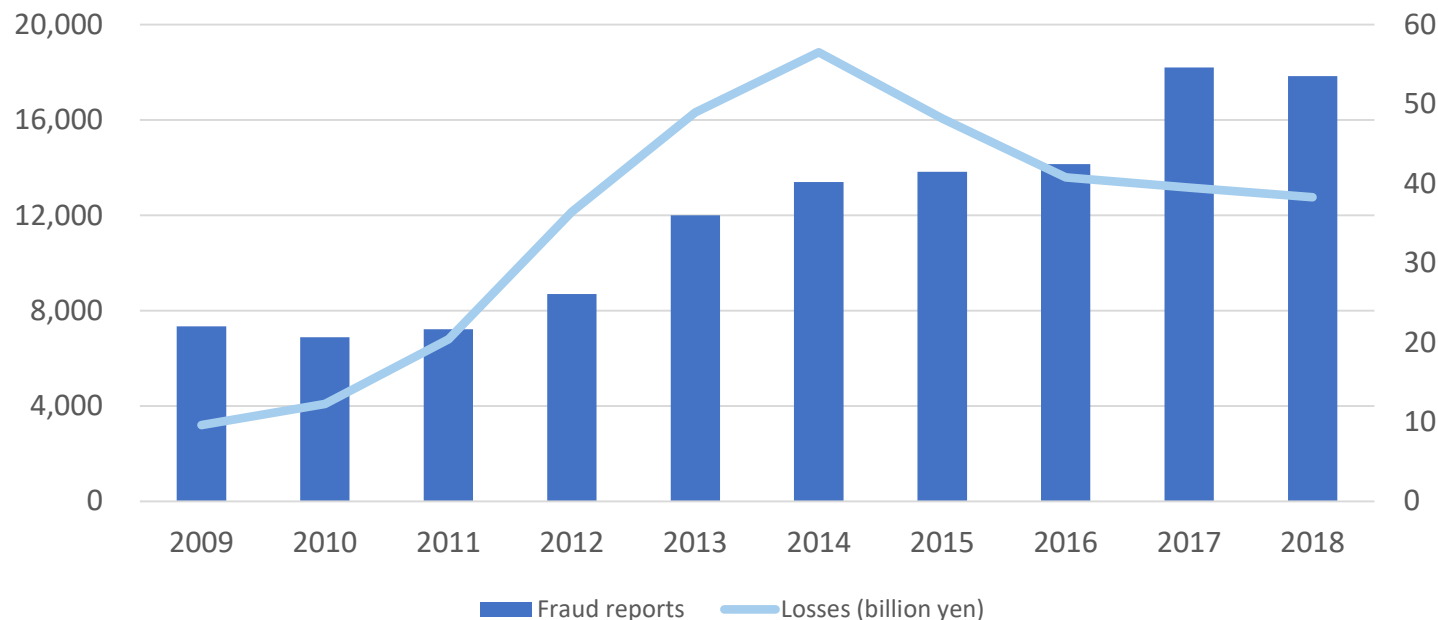


## The Social Issue of Fraudulent and Spam activities

### The Significant Need for Filtering Services to Block Fraudulent Calls

Our goal

- In 2018, there were 17,844 recorded cases in Japan of fraud associated with phone calls and other public communication channels.
- **Financial losses** caused by this category of fraud remained high, **a total of ¥38.2 billion** in 2018, showing serious concerns.
- **Seniors accounted for 82.2% of all individuals who suffered losses due to this type of fraud**, creating an urgent need for measures to create a safe and secured society.

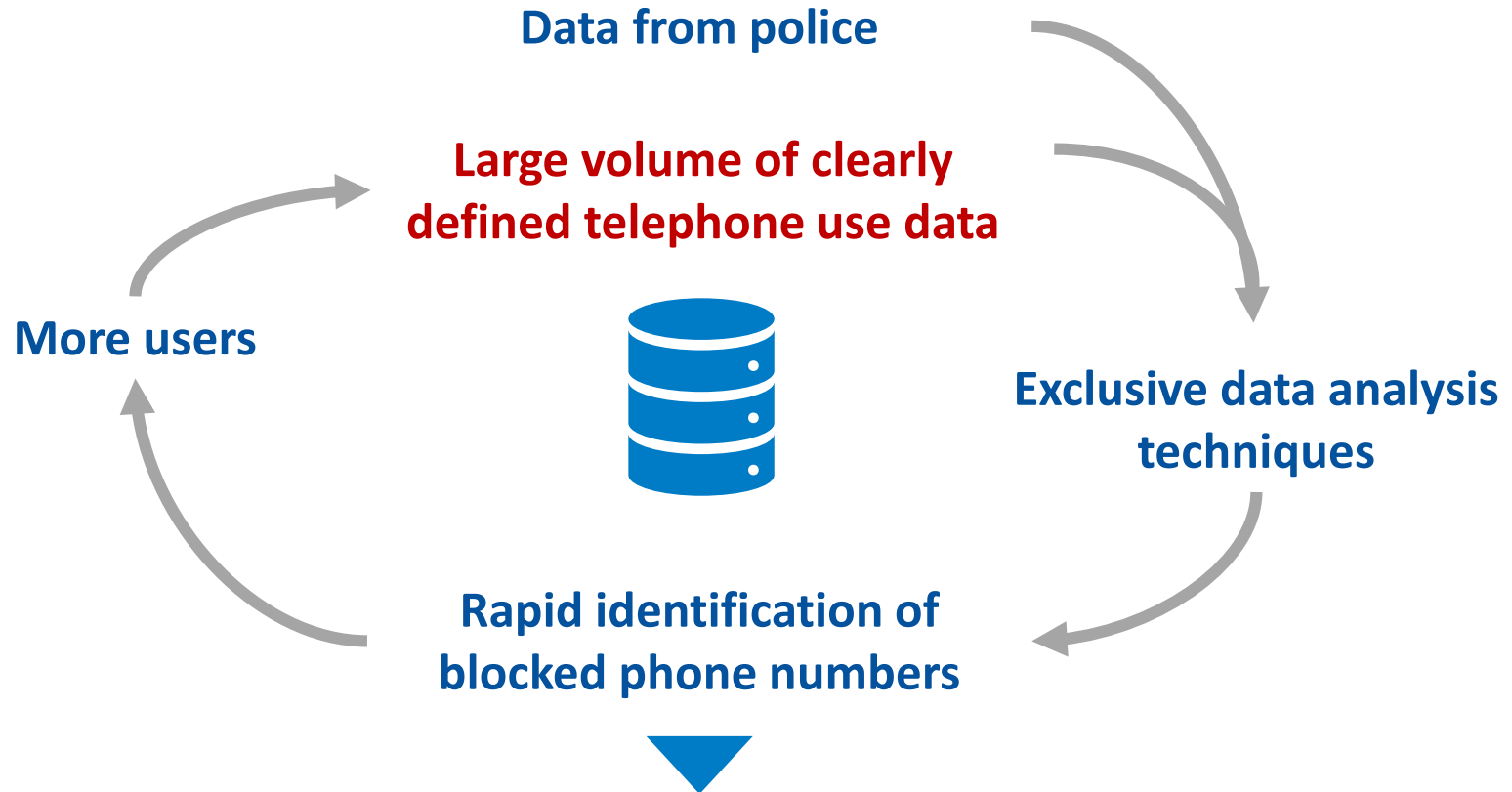


Source: Identification and Control of Special Fraud in the First Half of 2019, National Police Agency

Use technology  
to **eliminate**  
**problems caused**  
**by fraudulent**  
**and spam**  
**activities**

## Strengths of Tobila's Database Technology

**Constant improvement in accuracy because accumulated data increases along with the number of users**



**Our goal is the elimination of problems caused by fraudulent and spam activities (17,844 cases in 2018) in Japan!**

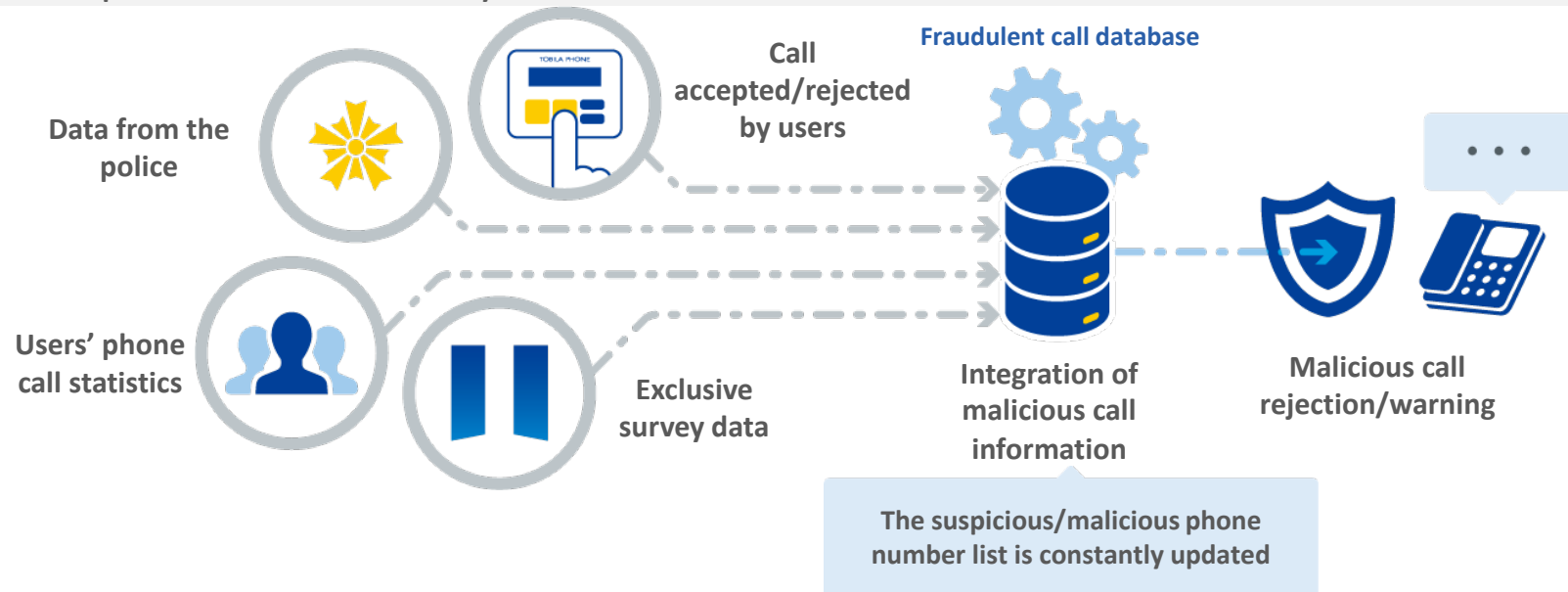


## The High Barriers to Entry of the Fraudulent and Spam Prevention Services

### Tobila Systems is effectively the only source of this service in Japan

#### – No competitors

- **Analysis using more than 800 million units of data.** There is no company or service in Japan that can match this level of data analysis.
- The 13 patents for our unique algorithms make it very difficult for a new competitor to emerge.
- **A cyclical system in which data accuracy improves as the number of users increases.** The database must be constantly checked and updated because criminals are always changing the phone numbers they use.



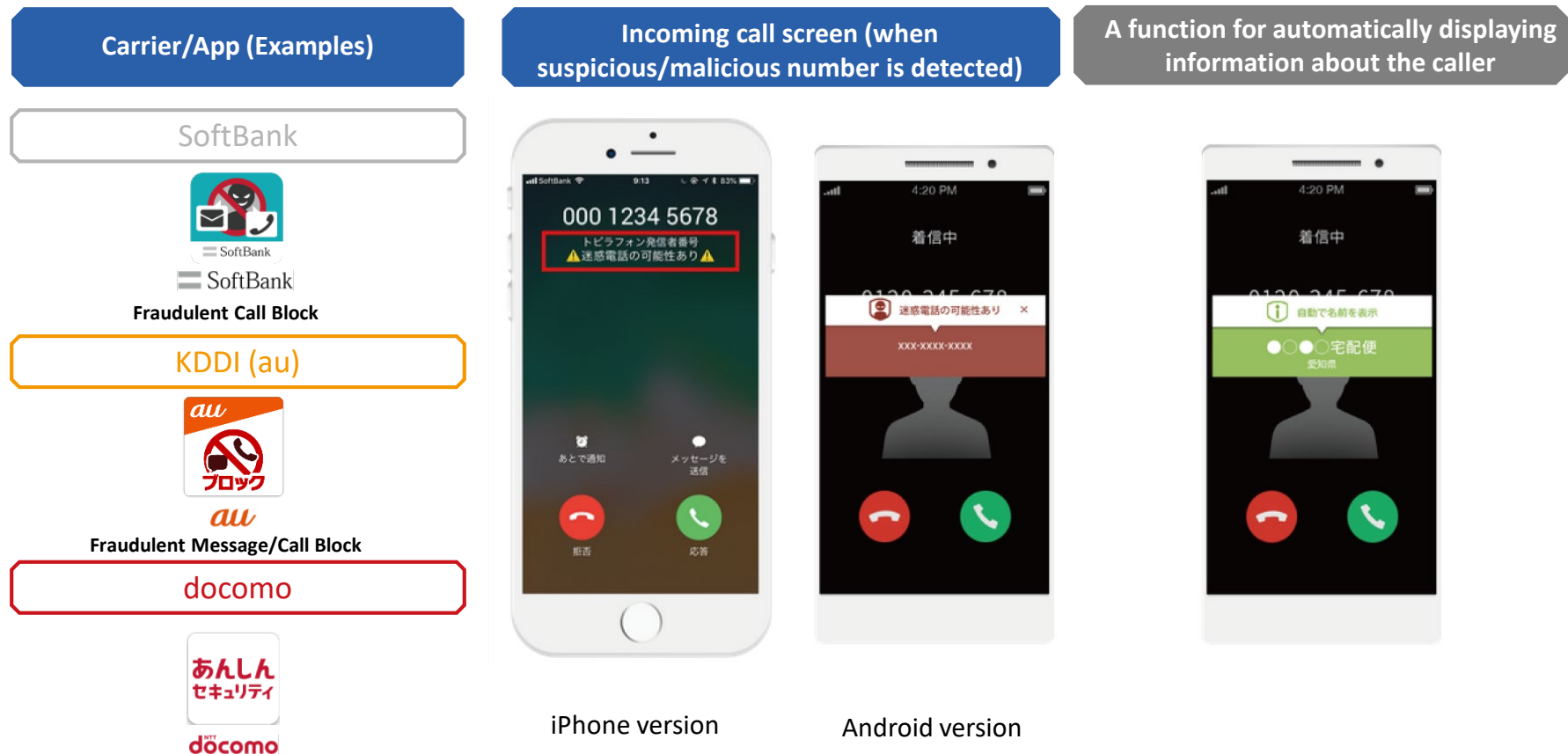


## **Our Services and Business Model**

## Filtering Service for Mobile Phones

Included in the optional service packages of NTT docomo, KDDI (au), SoftBank and other cell phone carriers

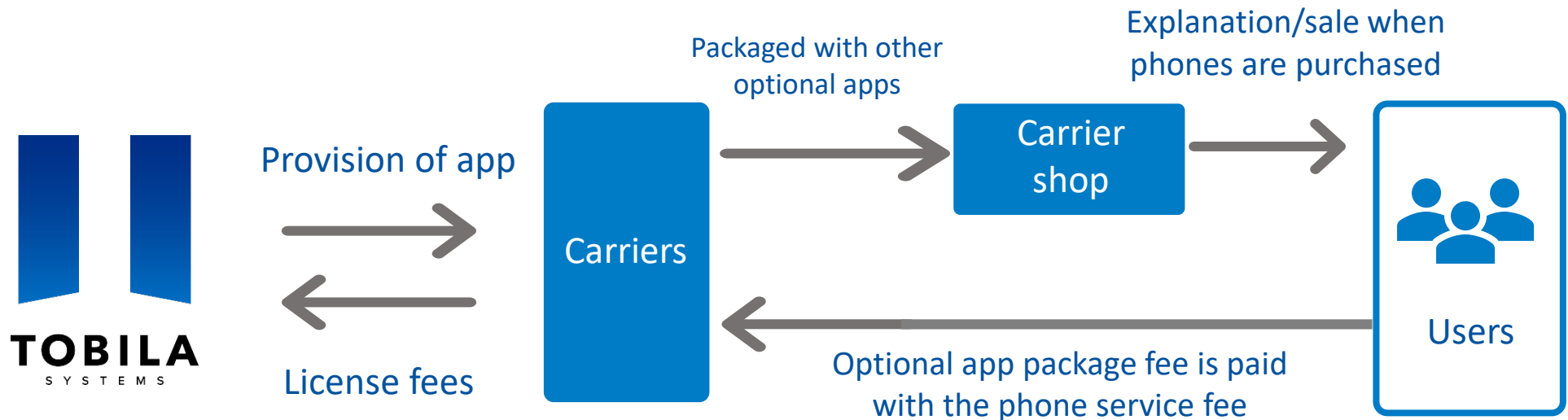
Offered as an app for filtering fraudulent calls



Complete Confidence Security

## Business Model for Filtering Service for Mobile Phones (1/2)

Cell phone carriers offer packages of options containing several apps. Carrier shops explain these apps to customers when they purchase a phone service subscription.



**Tobila Systems receives license fees from the carriers**

**Carriers conduct marketing activities, sell phones and services to users, and collect fees**

## Business Model for Filtering Service for Mobile Phones (2/2)

The three main contract categories with cell phone carriers

The monthly active users  $\times$  unit price model will be the primary source of growth

**Fixed payment**

Tobila Systems' sales remain the same regardless of changes in the number of the carrier's user contracts and monthly active users

**No. of  
contractors  
 $\times$   
Unit price**

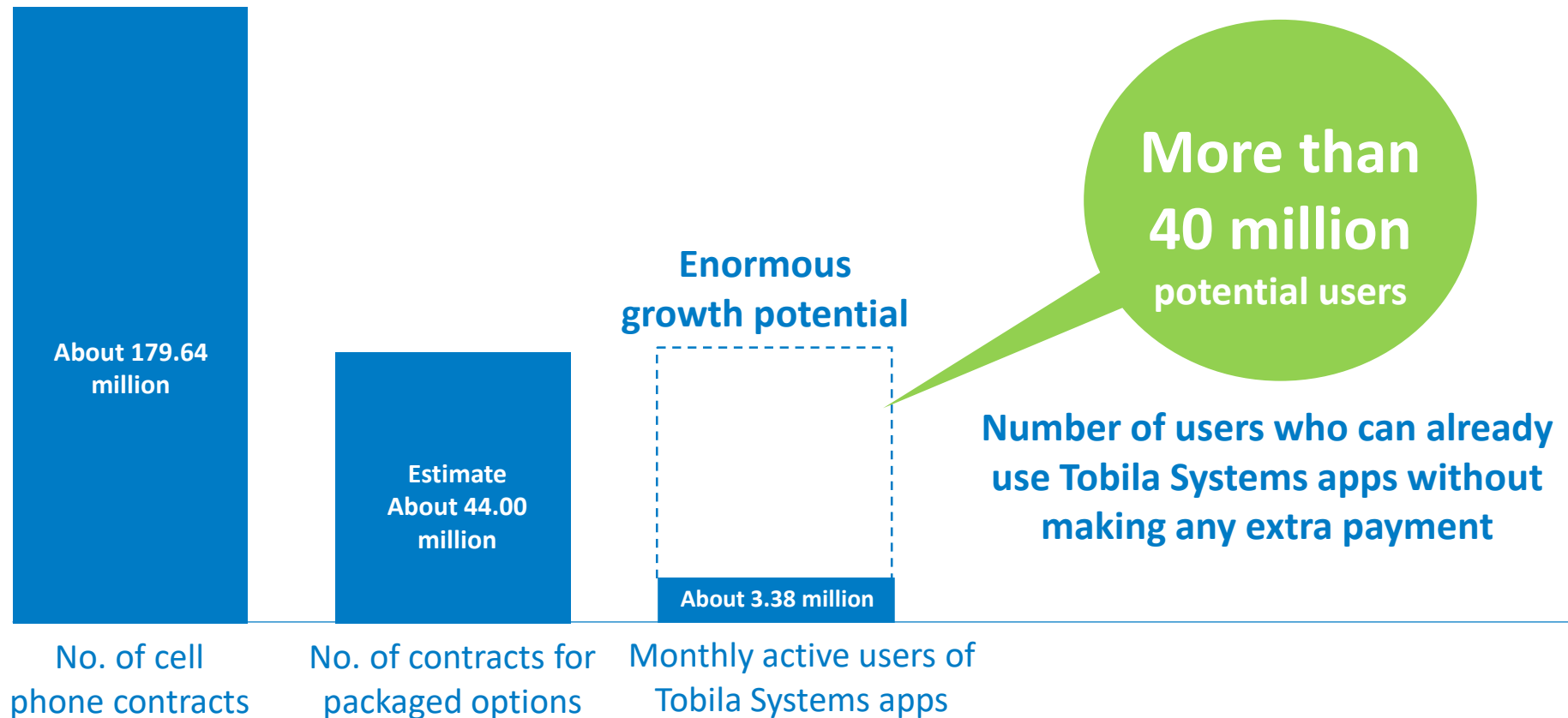
Tobila Systems' sales change along with the number of users who have signed up for the package of options

**Monthly  
active users  
 $\times$   
Unit price**

Tobila Systems' sales change along with the number of monthly active users

## The Market in Japan for Packaged Options for Filtering Service for Mobile Phones

**More than 40 million potential users of Tobila Systems apps at no extra charge**  
**Monthly active users are now only 3.38 million\* – Enormous growth potential**



\* Number of cell phone contracts: Quarterly Data on Telecommunications Service Contract Numbers and Market Share, Ministry of Internal Affairs and Communications (October 8, 2019)

\* Number of contracts for options: Data collected by Tobila Systems for SoftBank, Smart Pass and Smart Pass Premium contracts as announced by KDDI for au (<https://www.kddi.com/corporate/ir/finance/report-segment/>), Tobila Systems estimate based on number of contracts for options announced on December 19, 2018 for NTT Docomo

\* Monthly active users of Tobila Systems apps: Based on information announced by Tobila Systems on November 29, 2019 (Oct. 2019 monthly active users for landline and mobile phones were about 3.69 million)

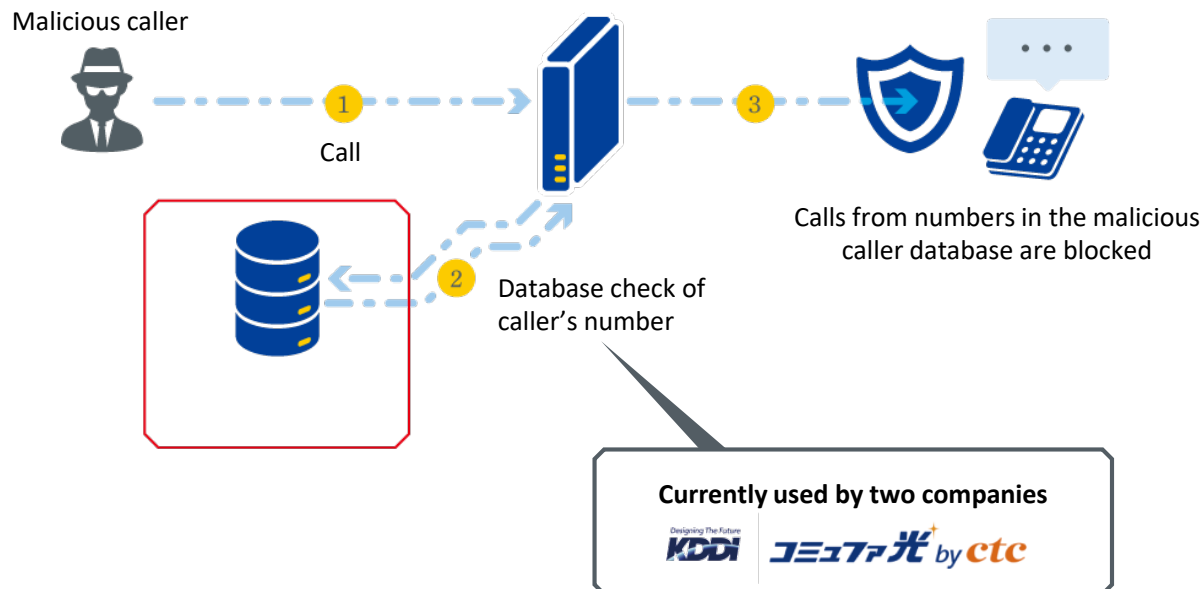
## Filtering Service for Landline Phones

**Offered mainly as a service that is embedded in Home Gateway and sold as an optional package to users of mobile and landline phones**

- The fraudulent call filtering system is embedded in the Home Gateway service that telecommunication companies provide to their customers.
- The fraudulent call filtering system can be used with a landline phone (IP phone) by selecting the basic options package.

### Home Gateway Fraudulent Call Filtering Flowchart

Provided to the Home Gateway systems of two KDDI Group companies

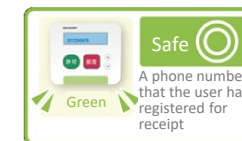


### With Attachment for Landline Phones

Incoming calls trigger one of three colors depending on the level of safety LED



For incoming calls

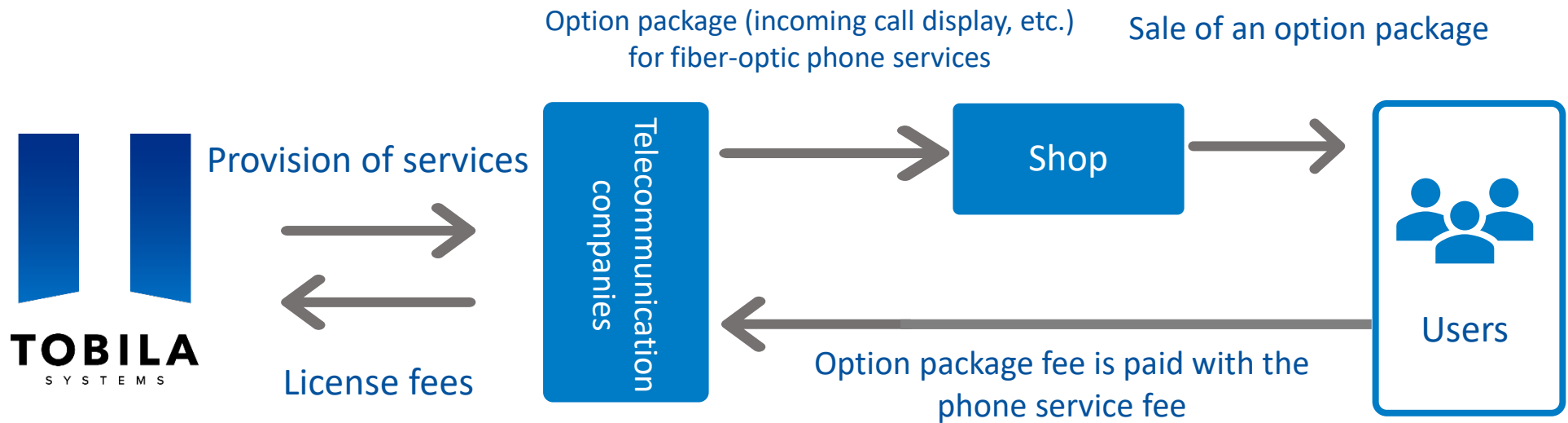


\*Users of landline phones (IP phones) must use a Home Gateway with a link between the Internet and telephone.

## Business Model for Filtering Service for Landline Phones

Sold as part of the package of options for IP phones

Sold by KDDI and other carriers along with landline phone services



Tobila Systems receives license fees from the telecommunication companies

Telecommunication companies conduct marketing activities, sell services to users, and collect fees

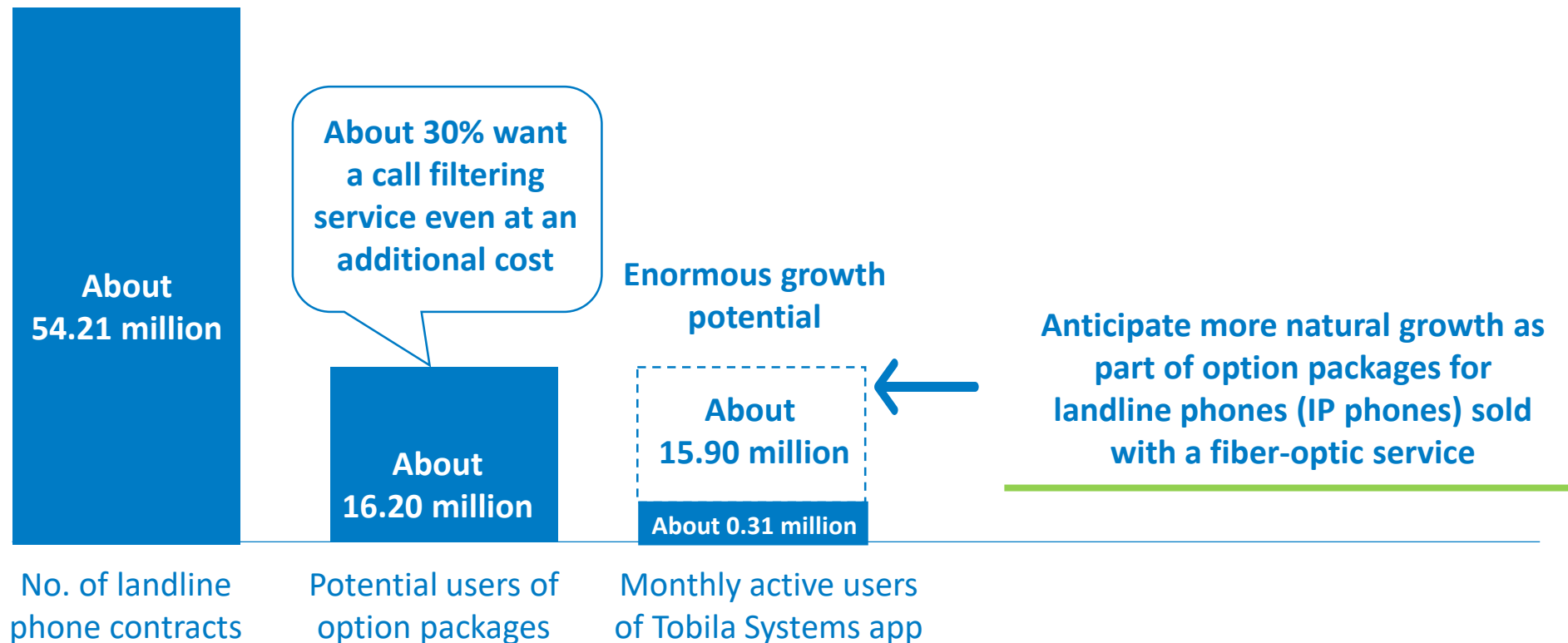
● Licensing fee scheme ••• Number of optional package contracts × Unit price



## The Market in Japan for Packaged Options for Filtering Service for Landline Phones

Two telecommunications companies include the Tobila Systems fraudulent call filtering service in their packages of optional services

There is much potential for growth by forming alliances with more companies



\*Number of landline phone contracts: Quarterly Data on Telecommunications Service Contract Numbers and Market Share, Ministry of Internal Affairs and Communications (October 8, 2019)

\*29.8% of all users want a fraudulent call filtering service at an additional cost irrespective of whether or not they have ever received a malicious call according to the Smartphone Malicious and Fraudulent Call Survey by Mobile Marketing Data Laboratory (November 5, 2015).

## Filtering Service for Business Phones

### Using partners for the sale of the Tobila Phone Biz fraudulent call filtering service

- Automatic call rejection; no need for time-consuming preparation of lists of phone numbers to be blocked
- Improves operating efficiency by reducing unwanted phone calls by salespeople
- Includes a recording capability that strengthens corporate compliance and reduces the risk of errors when receiving/placing orders



Users can reject calls from unknown numbers

No.	状態	相手先	自局
1	有効	非通知	すべて
2	有効	迷惑電話番号	すべて

Calls from unknown numbers can also be input for rejection.

Registration of up to 10,000 numbers for rejection or acceptance

<input type="checkbox"/>	電話番号
<input checked="" type="checkbox"/>	迷惑電話
<input type="checkbox"/>	電話番号
<input checked="" type="checkbox"/>	迷惑電話
<input type="checkbox"/>	電話番号
<input checked="" type="checkbox"/>	迷惑電話
<input type="checkbox"/>	電話番号

10,000 rejection and acceptance numbers can be registered. No need to worry about the deletion, or time needed for deletion, of numbers registered in the past for rejection.

Simple display for operations

Searches of phone call recordings

検索条件	
種別	アクション
—	—
相手先電話番号	着信電話番号

Users can locate a specific recording on a browser by using the attachment's web management screen. All recordings are organized according to the date and time and caller.

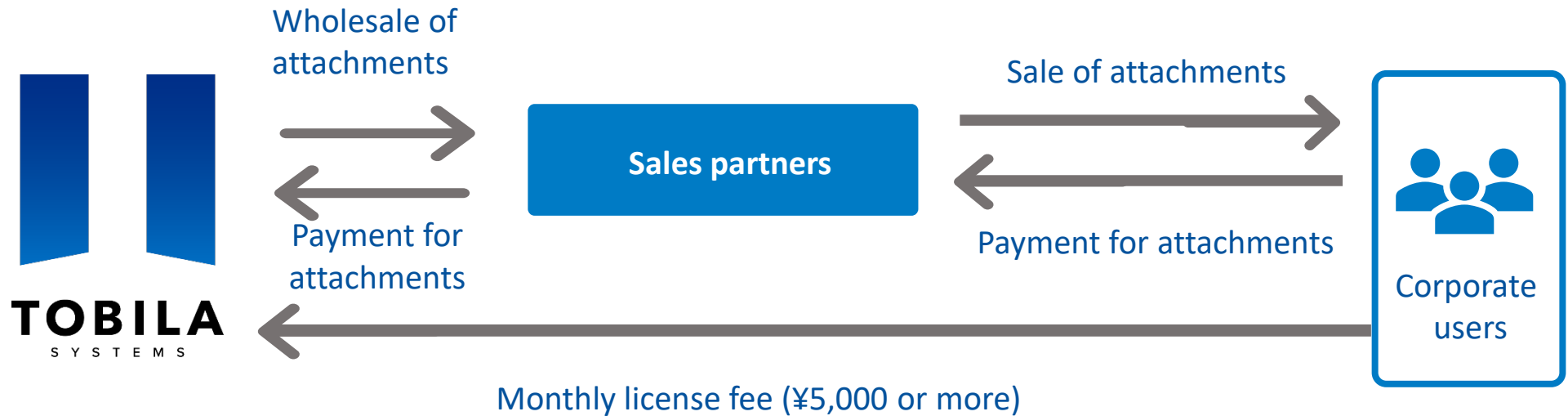
Use a browser to listen to recordings

The screenshot shows a web player interface with a play button, a progress bar at 00:14, and a title '録音ファイル再生'.

No need to buy playback software because recordings can be heard using a browser. Simply use a PC browser for a recording search on the management screen by inputting a name, telephone number or date and time.

## Business Model for Filtering Service for Business Phones

A steady revenue stream model in which monthly licensing fees increase along with the number of companies using this service





## **FY10/19 Financial Results**

## Financial Summary (1/2) Vs. Plan

Sales were 8.7% higher and operating profit 27.4% higher than the initial plan

Unit: Millions of yen

	Initial plan	Revised plan (June 2019)	FY10/19	Vs. Initial plan	Vs. Revised plan
Net sales	902	950	981	8.7%	3.3%
Operating profit	318	380	406	<u>27.4%</u>	6.9%
Ordinary profit	318	367	392	23.2%	7.0%
Profit	209	232	248	18.8%	7.2%

Operating profit surpassed the initial plan by more than 27%

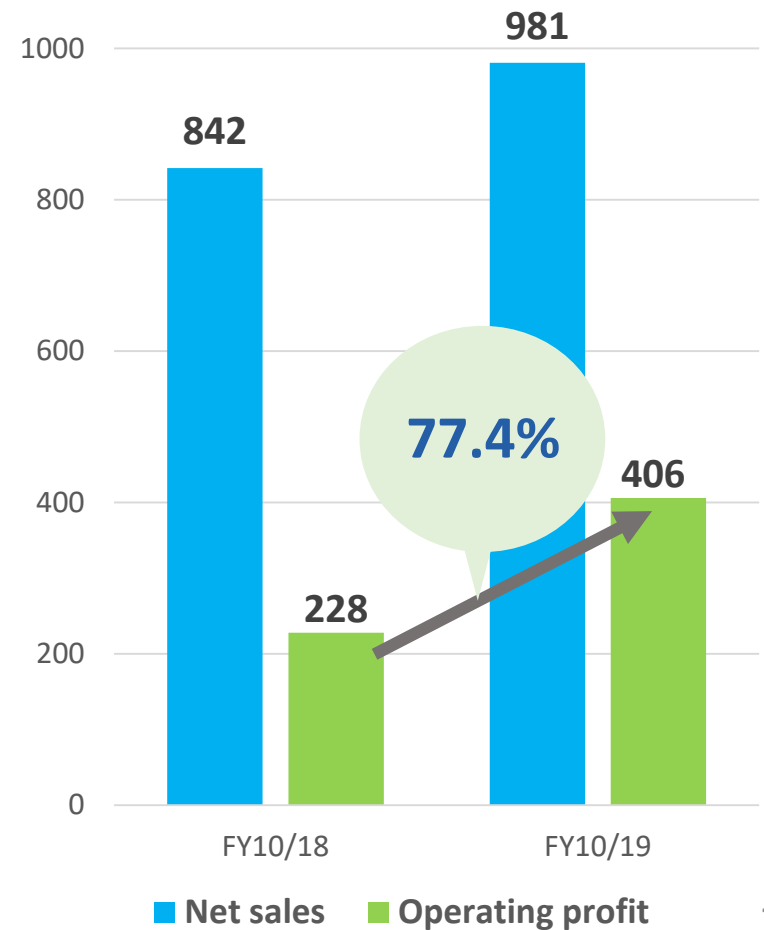
27.4%

## Financial Summary (2/2) Vs. FY10/18

## 77.4% increase in operating profit

Unit: Millions of yen

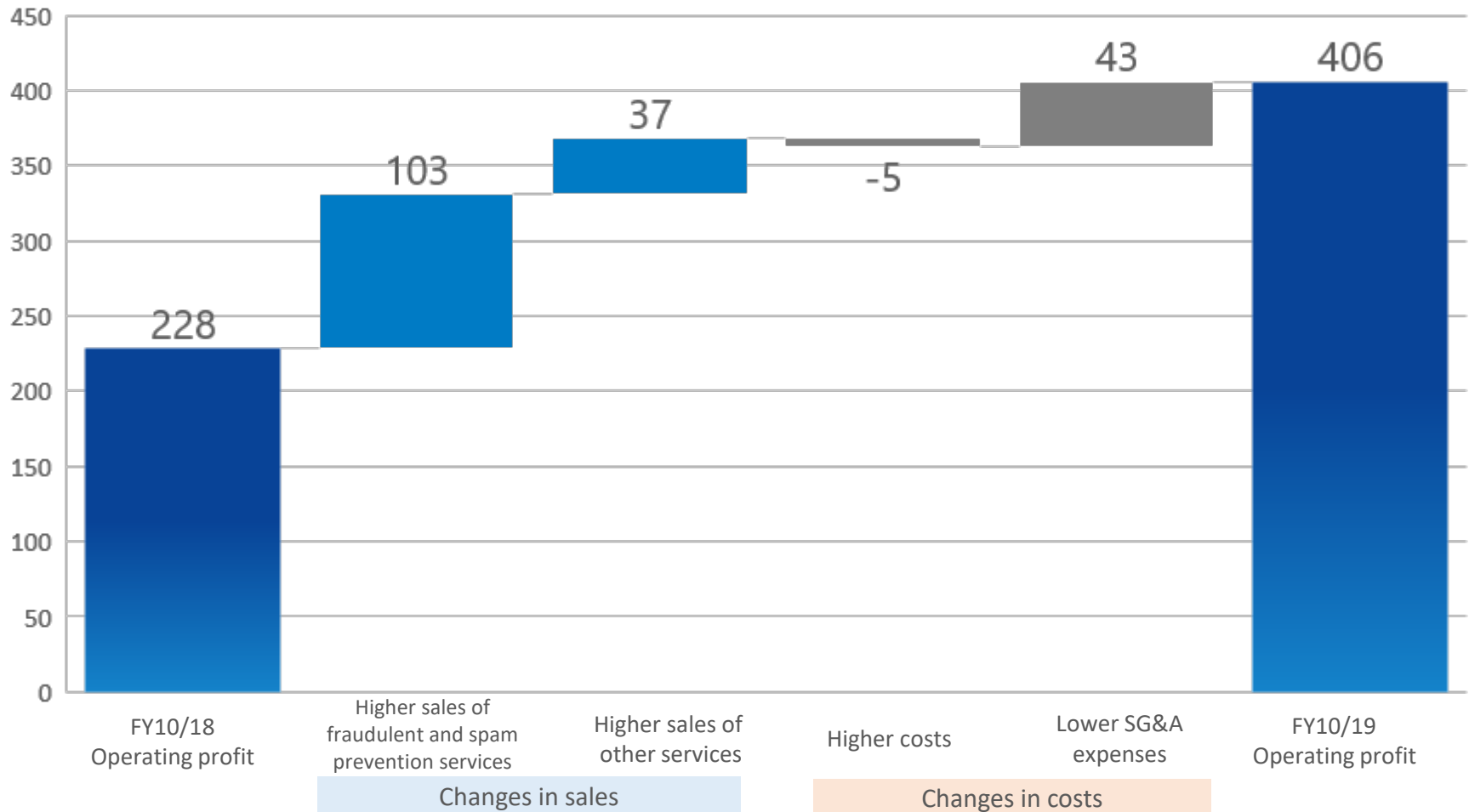
	FY10/18	FY10/19	YoY change
Net sales	842	981	16.5%
Operating profit	228	406	77.4%
Ordinary profit	222	392	76.3%
Profit	147	248	68.1%



## YoY Changes in Operating Profit

### High-margin steady-revenue sales increased and expenses decreased

Unit: Millions of yen



## Quarterly Sales

## Steady-revenue sales are increasing in the fraudulent and spam prevention services

Unit: Millions of yen	FY10/19				
	1Q	2Q	3Q	4Q	QoQ change
<b>Fraudulent and spam prevention services</b>	193	223	210	237	113.1%
<b>Other services</b>	20	52	21	21	97.8%

**The highest growth rate of steady-revenue sales in the fraudulent and spam prevention services was from the third to the fourth quarter of FY10/19.**

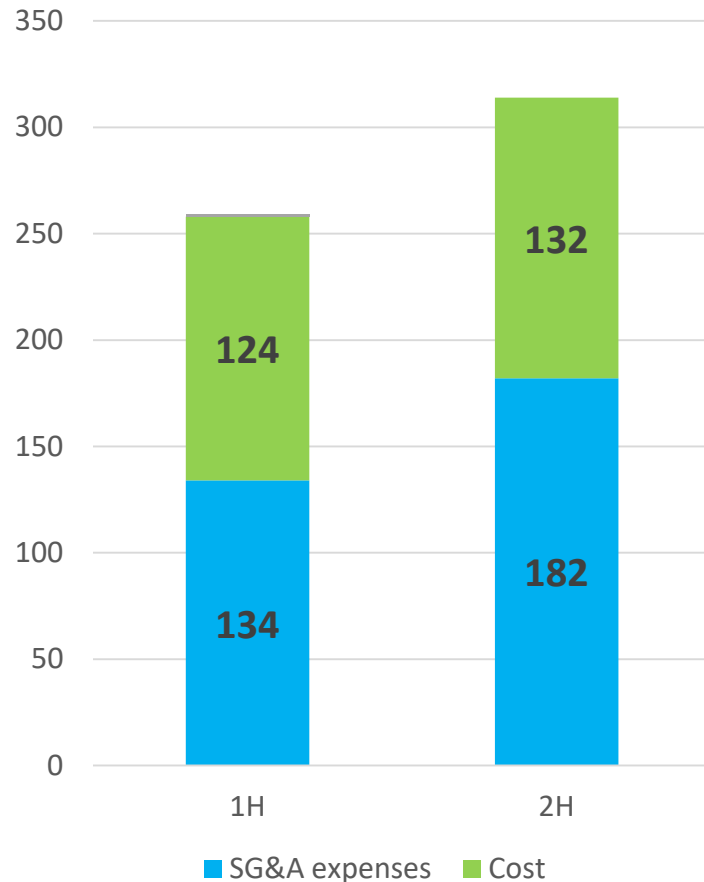
Second quarter sales of the fraudulent and spam prevention services include sales of about ¥20 million due to a one-time event. In terms of only steady-revenue sales in this business, the highest growth rate was from the third to fourth quarter.



## Cost Analysis

SG&A expenses were about ¥48 million higher in the second half than in the first half, which was before the IPO

Unit: Millions of yen

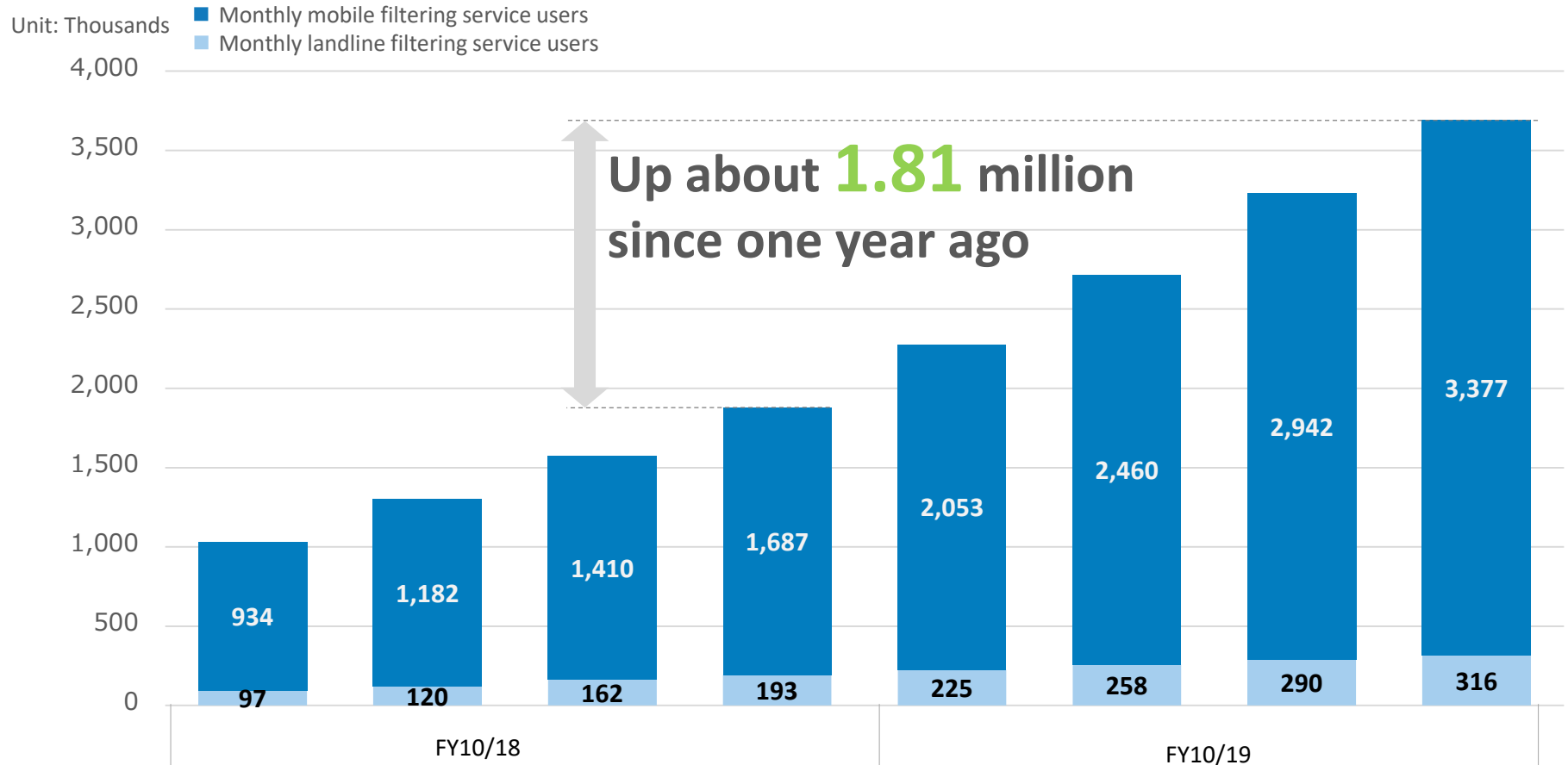


### Major second half increases in expenses

- Research and development
- Marketing
- Recruiting
- Stock listing and others

## Growth in Monthly Active Users of Fraud Filtering Service\*

About **3.69** million monthly active users\* (as of October 31, 2019)



\* Monthly active users (MAU) are the number of users of our products and services who access our server at least once a month to update a blocked phone number list automatically or to activate our app or other services. If a person uses multiple devices and each device has a separate agreement, the person is counted as different users. MAU is an important KPI for determining the contribution of our products and services to eliminating problems caused by fraudulent and spam activities. Our revenue is, however, not always directly affected by an increase or decrease in MAU because contracts with business clients such as telecommunications service providers have different terms.

## Topics concerning Monthly Fraud Filtering Service Users

**Joint activities with cell phone carriers are setting the stage for more growth in the number of monthly active users**

### Topics

- **au**

Started pre-installation of the filtering service in Android phones.

- **docomo**

Offered as an app combined with others in an optional package of apps.

Previously, apps had to be downloaded individually. Now downloading a single app also includes a fraudulent call filtering service, virus protection and other functions. This makes it easier to increase the number of filtering service users.

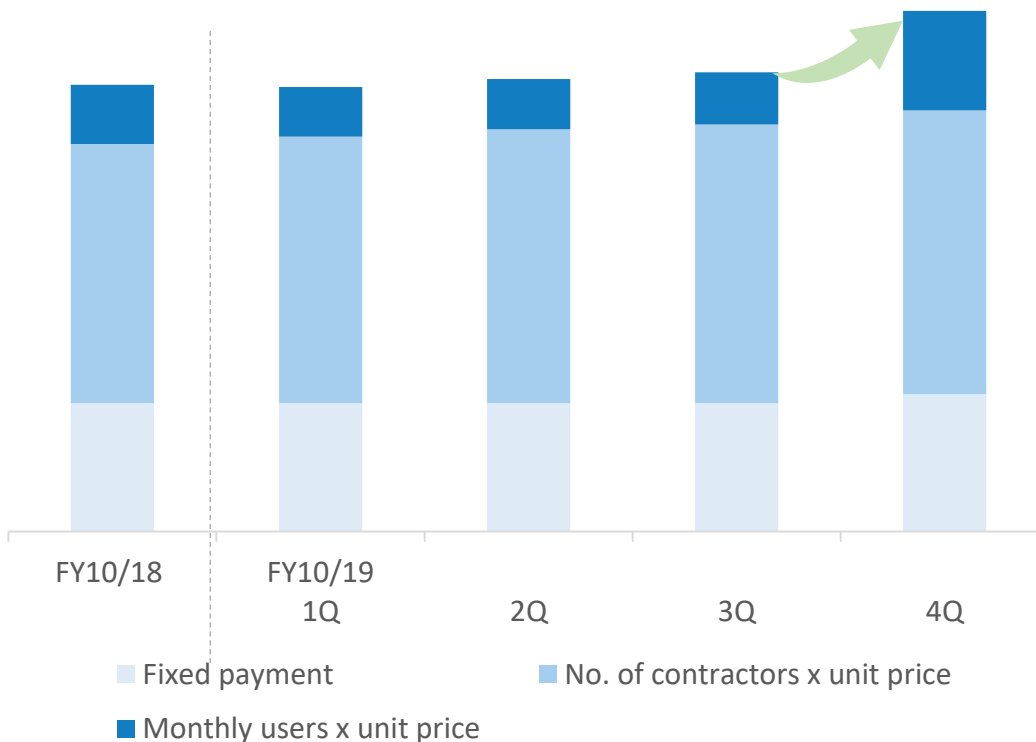
- **Y!mobile**

The filtering service is included as a standard app for Kantan Smartphone.

## Mobile Business Category Growth

Growth rate of the monthly active users × unit price model increased in the second half

Quarterly sales of major contract categories of mobile phone filtering services



\*Difference between the fourth quarters of FY10/18 and FY10/19

\*See page 13 for information about the contract categories.

### YoY growth\*

#### ● Monthly active users × Unit price

Sales	<u>167.8%</u>
Monthly active users	163.9%

#### ● No. of contractors × Unit price

Sales	109.5%
Monthly active users	129.0%

#### ● Fixed payment

Sales	107.0%
Monthly active users	244.0%

## Balance Sheet

\*Figures are rounded down to the nearest million yen

(Unit: Millions of yen)	FY10/18	FY10/19	Change
Current assets	348	1,139	+790
Cash and deposits	226	998	+772
Notes and accounts receivable-trade	76	109	+32
Other	45	31	-14
Non-current assets	120	170	+50
Property, plant and equipment	39	43	+3
Intangible assets	60	85	+25
Investments and other assets	20	41	+21
Total assets	469	1,310	+840
Liabilities	198	309	+110
Current liabilities	160	284	+123
Non-current liabilities	37	24	-13
Net assets	270	1,000	+730



## **FY10/20 Earnings Forecast**

## FY10/20 Forecast

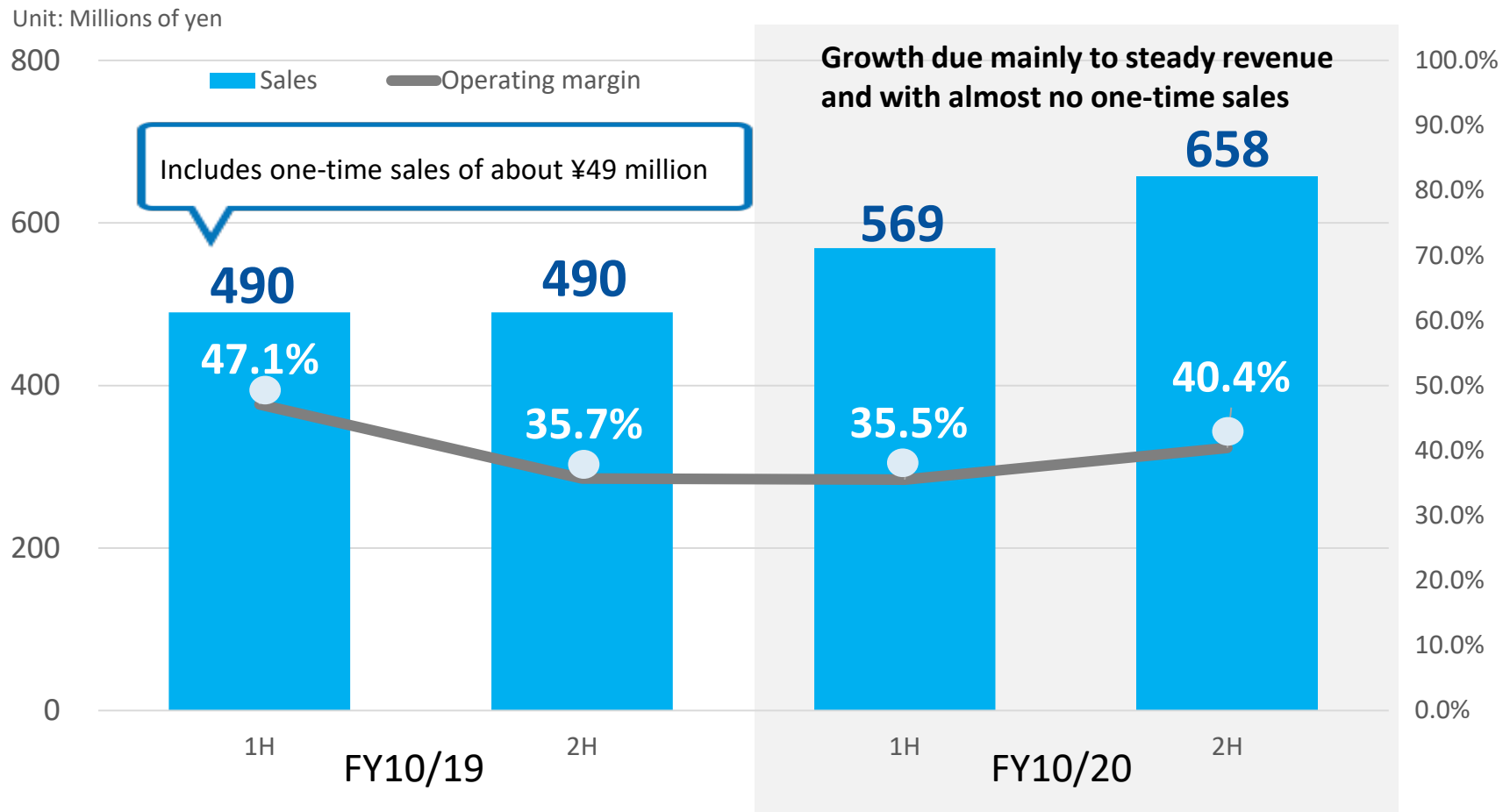
## Forecast record-high sales and earnings at all levels

Unit: Millions of yen		FY10/18	FY10/19	FY10/20	YoY change
Financial indicators	Net sales	842	981	1,227	125.0%
	Operating profit	228	406	468	115.2%
	Ordinary profit	222	392	449	114.4%
	Profit	147	248	307	123.5%
Profitability indicators	Operating margin	27.2%	41.4%	38.1%	
	ROE*	75.8%	39.1%	26.2%	
Financial soundness	Equity ratio	57.7%	76.4%	83.2%	

\*ROE is calculated by using average shareholders' equity in each fiscal year.

## Sales First and Second Half Forecast

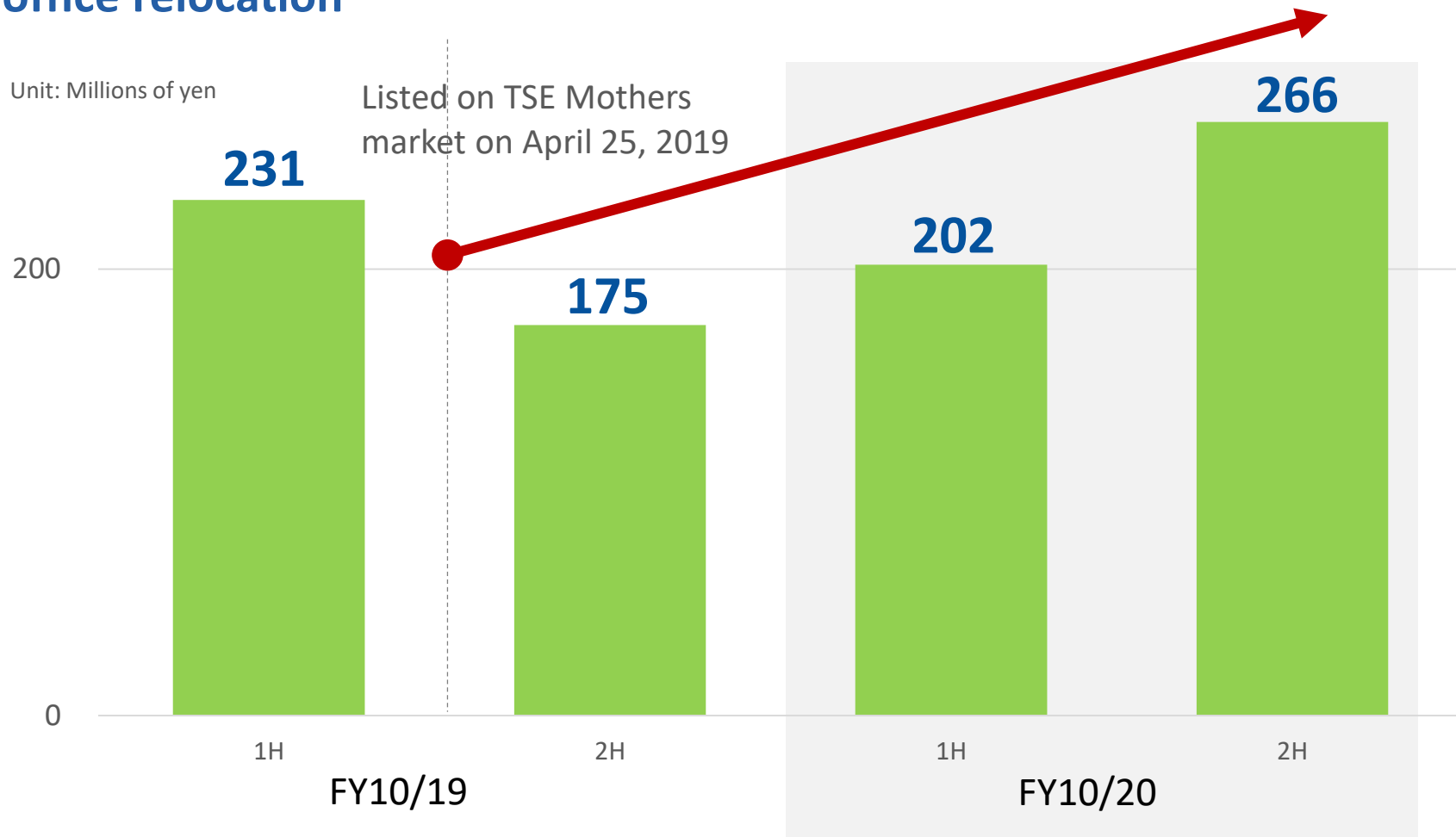
Forecast sales growth of more than 20%, surpassing FY10/19 sales growth  
First and second half sales growth even without one-time sales





## Operating Profit First and Second Half Forecast

**Forecast steady post-IPO earnings growth, with first and second half earnings higher despite one-time expenses in the first half (about ¥10 million) for the head office relocation**



## Sales Composition

Forecast even faster growth of the core mobile phone category of fraudulent and spam prevention services

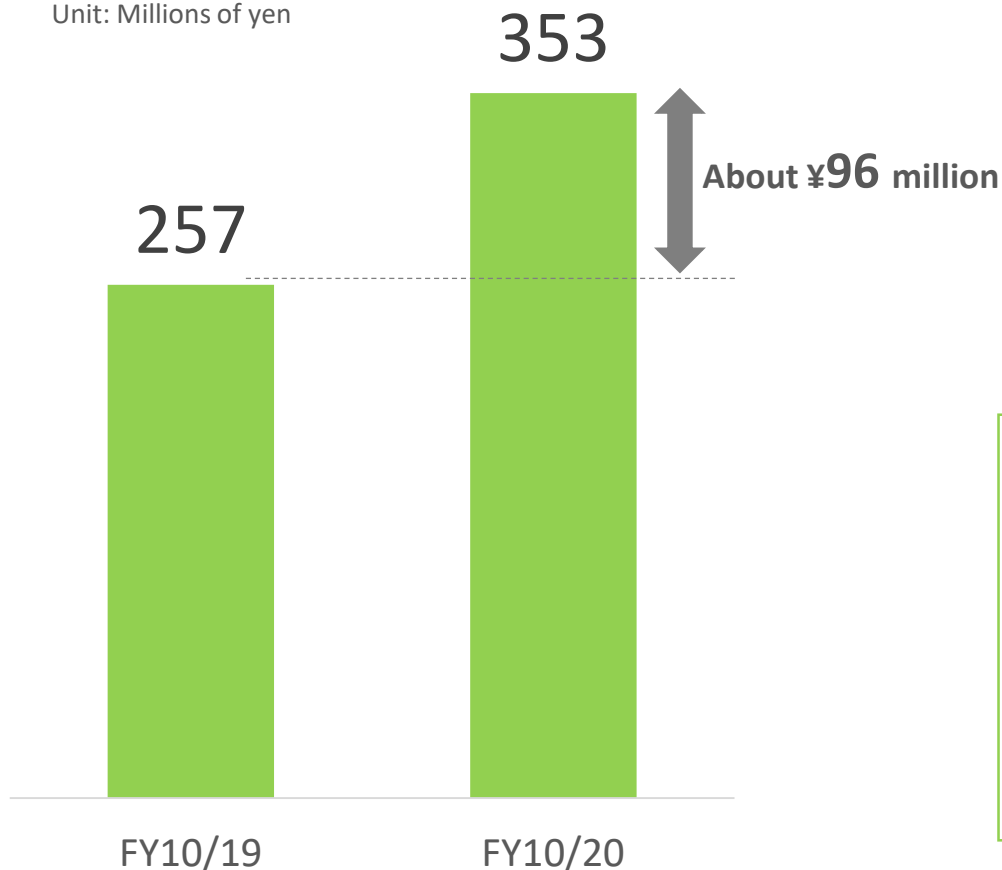
Unit: Millions of yen

	FY10/19		FY10/20			
	1H	2H	1H	YoY change	2H	YoY change
Fraudulent and spam prevention services	417	448	521	125.1%	621	119.1%
Mobile phone services	360	382	450	125.1%	526	116.9%
Landline phone services	50	55	60	118.5%	75	124.6%
Business phone services	6	9	11	182.2%	20	180.7%
Other services	73	42	46	63.5%	36	78.6%

## Cost Analysis (1/2) Forecast for Expenses

**Forecast increase of about ¥96 million in expenses mainly because of the outlook for higher labor cost associated with recruiting activities and other expenses**

Unit: Millions of yen



### Recruiting plan for full-time engineers

**Increase from 29 to 34**

**\*No negative effect on FY10/20 sales even if this recruiting goal is not accomplished**

Plan to add more skilled engineers to speed up growth starting in FY10/21

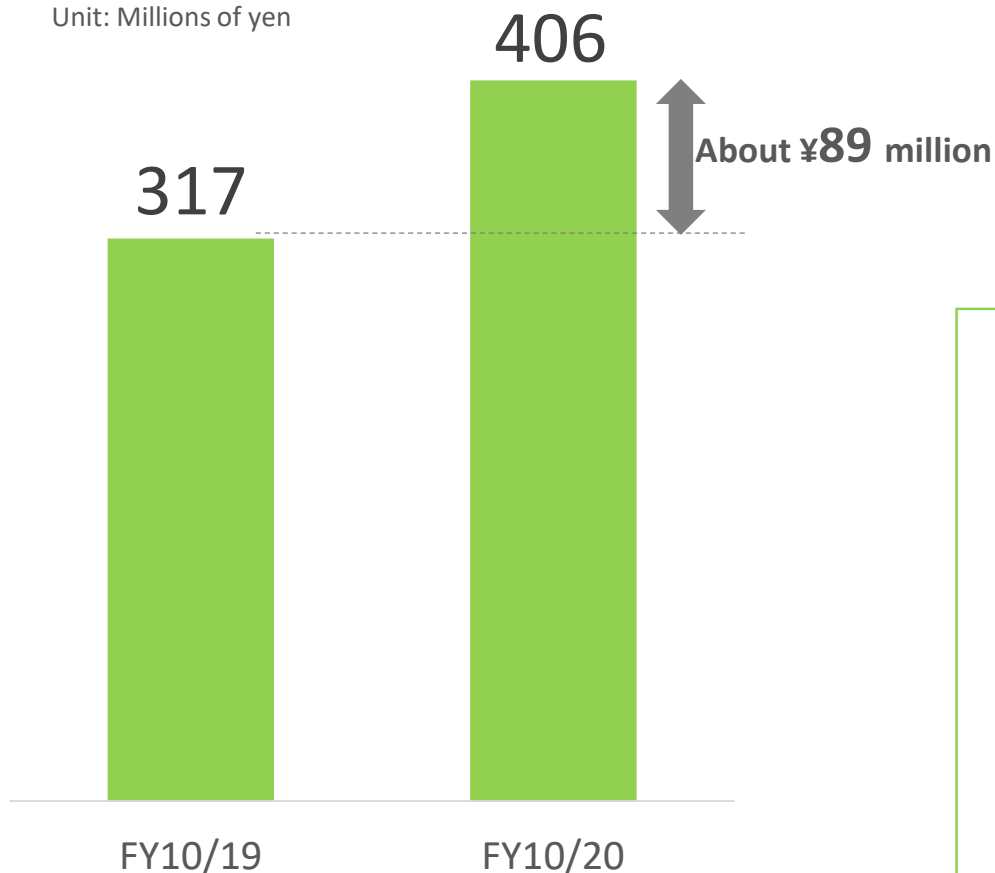
### Other major reasons for higher expenses

- Various expenses associated with workforce growth
- Higher pct. of shared expenses allocated to Tobila Systems
- Increase in depreciation expenses arising from capital expenditure

## Cost Analysis (2/2) Forecast for SG&A Expenses

**Forecast increase of about ¥89 million in SG&A expenses mainly because of the outlook for higher personnel expenses associated with recruiting activities and other expenses**

Unit: Millions of yen



**Recruiting plan for full-time sales/administrative personnel**

**Increase from 20 to 23**

**\*No negative effect on FY10/20 sales even if this recruiting goal is not accomplished**

### Other major reasons for higher expenses

- Various expenses associated with workforce growth
- More marketing activities for new products
- Higher rent expenses following head office relocation
- Expect first half one-time expense of about ¥10 million for the head office relocation

## FY10/20 Action Plan

### Enlarge the current sources of earnings

- More monthly active users
- More alliance partners

### Investments for future growth

- Investment in new products
- Continuous investments in existing products

A financial strategy for the proper balance between short and medium to long-term growth

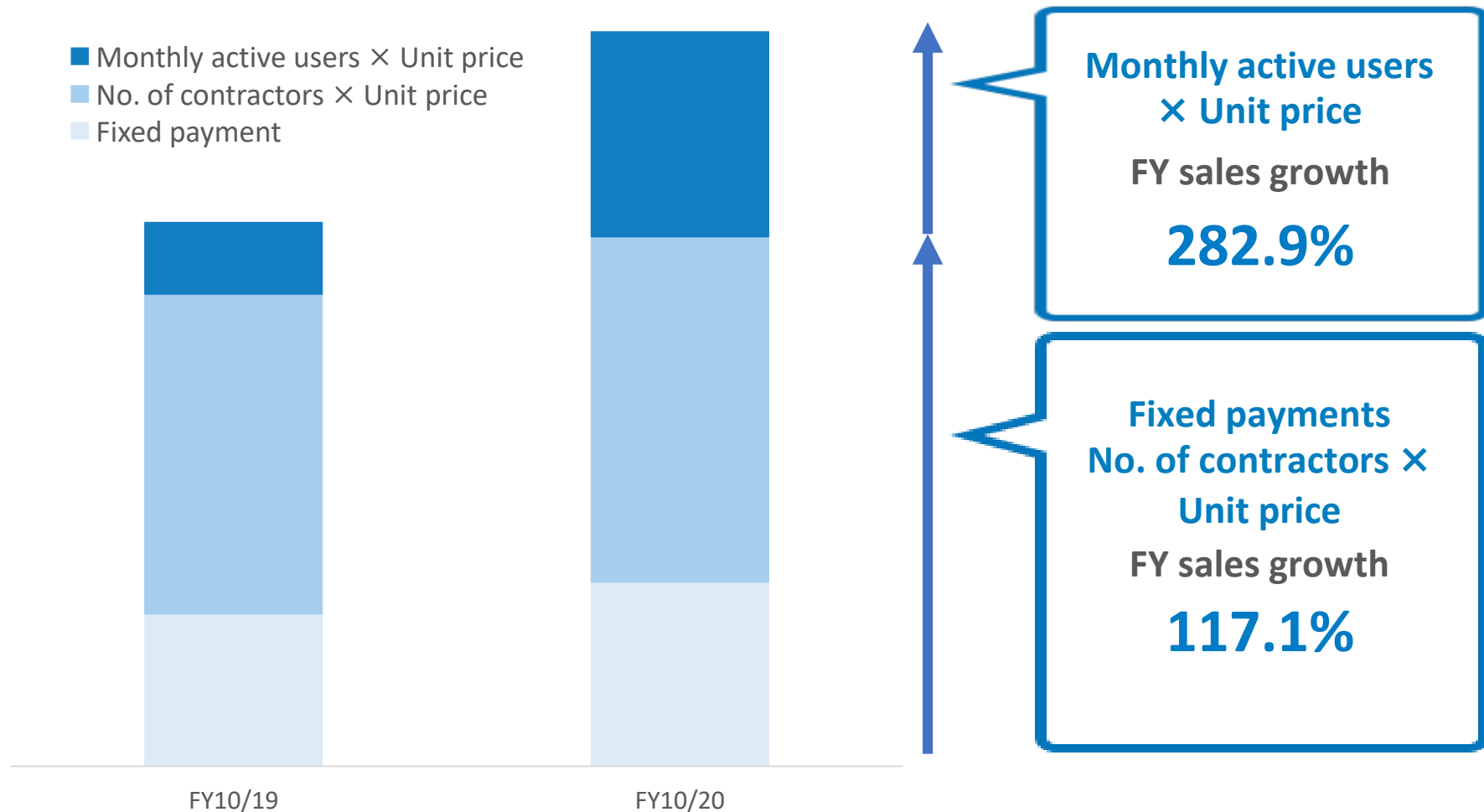


### A more powerful internal infrastructure

- Recruit skilled people
- Establish an environment and programs that attract skilled people
- Establish efficient management systems based on data analysis

## Growth of Existing Businesses –Mobile Business Category Growth

The monthly active users × unit price model is the main source of growth



\*See page 13 for information about the contract categories.

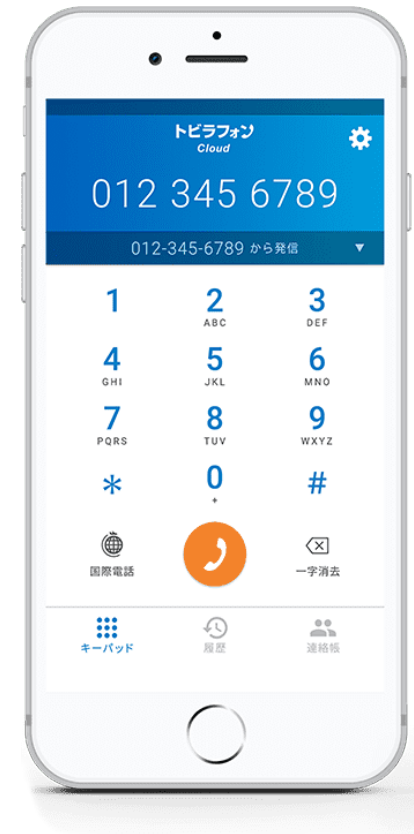
## Investments for Future Growth

Starting significant investments in FY10/20 with a medium to long-term perspective to cultivate a new business that can drive growth in the future



Simply install the app for this service to  
use a smartphone for internal and  
external communications

Sales scheduled to begin in March 2020



**Tobila Systems plans to pay a dividend beginning in FY10/20 with a payout ratio target of 35%** for the medium to long-term growth of corporate value, while maintaining financial soundness and making investments for growth

## Annual dividend

FY10/19 Results		FY10/20 Plan
¥0	▶	¥10.6

\*The plan is to pay only a year-end dividend and pay no interim dividend



## Medium-term Growth Projection

- **Mobile phone services**

Expect annual **sales growth of at least 30%** during the three-year period ending with FY10/22

- **Landline phone services**

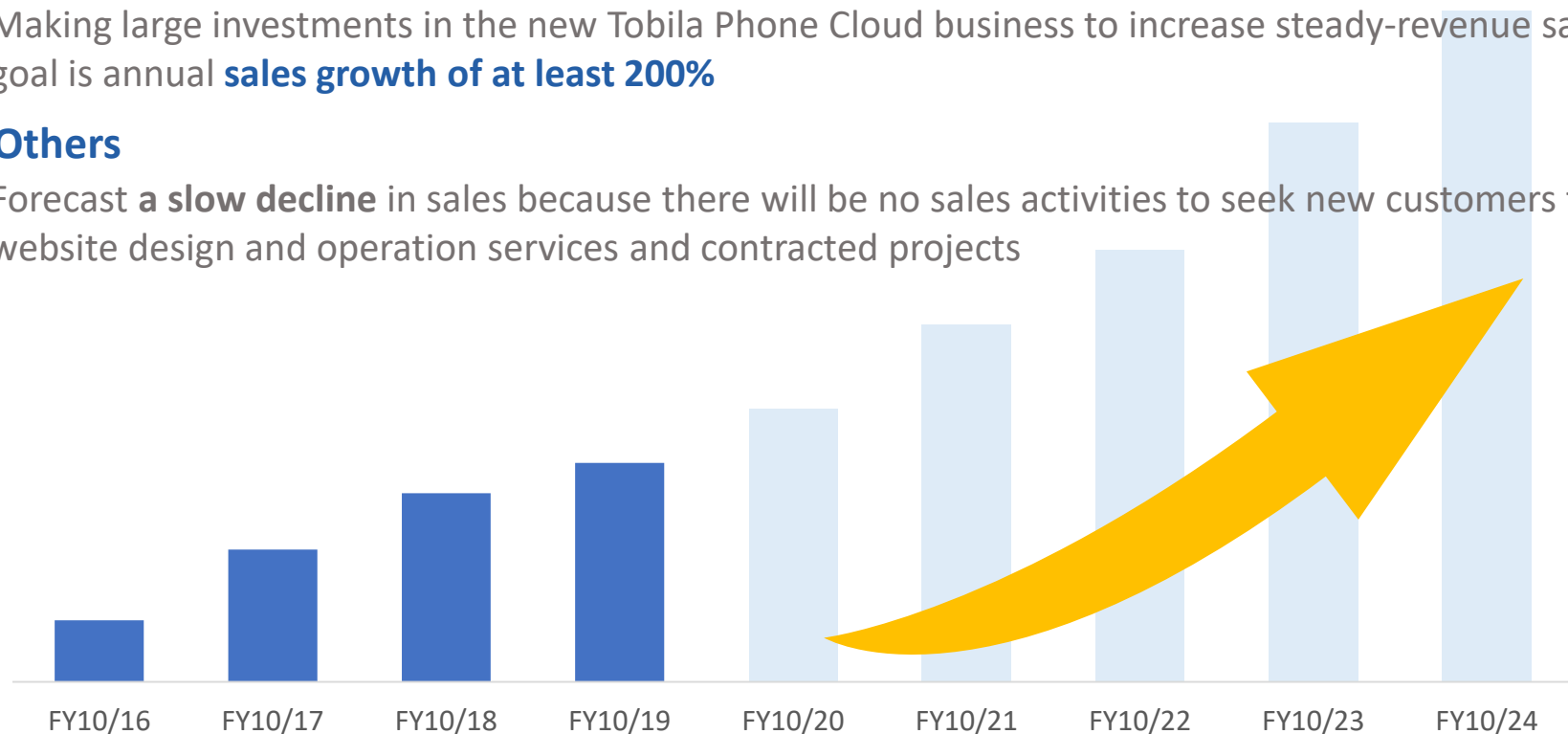
Large potential market for these services; goal is annual **sales growth of at least 25%** during the three-year period ending with FY10/22

- **Business phone services**

Making large investments in the new Tobila Phone Cloud business to increase steady-revenue sales; goal is annual **sales growth of at least 200%**

- **Others**

Forecast a **slow decline** in sales because there will be no sales activities to seek new customers for website design and operation services and contracted projects





## References

## Company Overview

Company name	Tobila Systems Inc.		
Securities code	4441		
Established	December 1, 2006 (Founded on April 1, 2004)		
Head office address	Pacific Square Nagoya Nishiki 3F 2-5-12, Nishiki, Naka-ku, Nagoya, Aichi		
Business	Development and provision of fraud filtering systems		
Management	Atsushi Akita Takuya Yuki	Tomoki Matsushita Akemitsu Nakahama	Toshihito Goto Tomoyuki Matsui
No. of employees	66 Includes 40 engineering personnel (about 60% of total) (As of October 31, 2019)		
Location	Nagoya, Tokyo, Osaka		
Major memberships	Council of Anti-Phishing Japan Aichi Prefecture Crime Prevention Association Gifu Prefecture Crime Prevention Society Mie Crime Prevention Association Shizuoka Prefecture Crime Prevention Association		

## Directors and Executives



**Atsushi Akita**

Representative Director and President

Born in 1980; 39 years old

December 2006 Established A&A tecnologia Co., Ltd. (currently Tobila Systems Inc.)



Executive Vice President,  
General Manager of Sales  
Planning Dept.

Tomoki Matsushita



Director,  
General Manager of  
Administration Dept.

Toshihito Goto



Director, Full-time member  
of the Audit and Supervisory  
Committee

Takuya Yuki



Outside Director, Part-time  
member of the Audit and  
Supervisory Committee

Akemitsu Nakahama



Outside Director, Part-time  
member of the Audit and  
Supervisory Committee

Tomoyuki Matsui

## FY10/19 Quarterly Results

(Unit: Millions of yen)

	1Q	2Q	3Q	4Q
Net sales	214	276	231	258
Fraudulent and spam prevention services	193	223	210	237
Other services	20	52	21	21
Cost of sales	49	75	109	148
Labor cost	44	45	47	52
Depreciation	6	6	8	12
Others	15	40	53	84
Pct. of cost of sales classified as R&D expenses and assets*	23.7%	21.5%	14.2%	12.4%
SG&A expenses	62	72	84	98
Personnel expenses	36	36	37	40
Advertising expenses	5	5	4	2
R&D expenses	3	5	9	11
Others	17	25	32	44

\*The percentage of the cost of sales included in R&D expenses and assets due mainly to the characteristics of work performed by employees



## Disclaimer

- This presentation includes forward-looking statements that incorporate the current outlook, forecasts and risk factors. There are many uncertainties that may cause actual performance to differ from these statements.
- Risk factors and uncertainties include the economic environment in Japan and other countries, such as the industry and markets where Tobila Systems operates and changes in interest rates and foreign exchange rates.
- Tobila Systems has no obligation to update or revise the forward-looking statements in this presentation even if there is new information, a future event or any other reason for an update or revision.