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May 7, 2024

Consolidated Financial Results for the Six Months Ended March 31, 2024 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 6050
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 Scheduled date to file quarterly securities report: May 10, 2024
 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors and analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the six months ended March 31, 2024 (from October 1, 2023 to March 31, 2024)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

Six months ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2024	5,718	(7.0)	878	(6.6)	872	(9.2)	536	(18.0)
March 31, 2023	6,148	7.1	940	(20.5)	961	(22.2)	653	(32.3)

Note: Comprehensive income For the six months ended March 31, 2024: ¥544 million [(16.4)%]
 For the six months ended March 31, 2023: ¥650 million [(33.0)%]

Six months ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
March 31, 2024	46.87	-
March 31, 2023	65.18	-

Note: For the calculation of “Basic earnings per share” and “Diluted earnings per share,” the Company’s shares held by the Company’s Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
March 31, 2024	12,731	10,888	85.5
September 30, 2023	9,112	7,386	81.0

Reference: Equity
 As of March 31, 2024: ¥10,888 million
 As of September 30, 2023: ¥7,386 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2023	-	0.00	-	26.00	26.00
Fiscal year ending September 30, 2024	-	0.00			
Fiscal year ending September 30, 2024 (forecast)			-	31.00	31.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes

For the revisions to the forecast of cash dividends, please refer to the “Notice Concerning Changes to the Dividend Policy, Revisions to the Forecast of Cash Dividends, and the Establishment of Shareholder Benefit System” announced today (May 7, 2024).

3. Forecasts of consolidated financial results for the fiscal year ending September 30, 2024 (from October 1, 2023 to September 30, 2024)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	11,503	(3.4)	1,758	(1.2)	1,751	(3.1)	1,176	(4.4)	102.38

Note: Revisions to the forecast of consolidated financial results most recently announced: Yes

For the revisions of the forecast of consolidated financial results, please refer to the “Notice Concerning the Differences between Consolidated Earnings Forecasts of Financial Results and the Actual Results for the Six Months Ended March 31, 2024, and Revisions to Consolidated Earnings Forecasts of Full-Year Financial Results” announced today (May 7, 2024).

For the calculation of “Basic earnings per share,” the Company’s shares held by the Company’s Board Benefit Trust (BBT) are included in treasury shares, which are deducted from the average number of shares outstanding during the period.

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2024	11,933,516 shares
As of September 30, 2023	10,405,800 shares

- (ii) Number of treasury shares at the end of the period

As of March 31, 2024	399,412 shares
As of September 30, 2023	412,854 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended March 31, 2024	11,440,235 shares
Six months ended March 31, 2023	10,033,192 shares

Note 1: Total number of treasury shares at the end of the period includes the number of the Company's shares held by the Company's Board Benefit Trust (BBT). The number of treasury shares deducted in the calculation of Average number of shares outstanding during the period includes the number of the Company's shares held by Board Benefit Trust (BBT).

- * Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.

- * Explanation regarding proper use of earnings forecasts, and other special matters

The results forecast and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions deemed to be reasonable. Actual business results may differ materially from the forecast due to variety of factors. Please refer to "Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on page 7 of the Consolidated Financial Results for the Six Months Ended March 31, 2024, (Attachments) for the assumptions for earnings forecasts and notes on using earnings forecasts.

(How to obtain supplementary materials for quarterly financial results and information on the quarterly financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and analysts on Friday, May 17, 2024.

Materials for the financial results briefing to be used on the day will be posted on TDnet and the Company's website, and also a video of the financial results briefing and information on the explanation provided will be posted on the Company's website promptly after the briefing.

○ Table of Contents of Attachments

1. Qualitative Information on Quarterly Financial Results5

 (1) Explanation of Operating Results5

 (2) Explanation of Financial Position7

 (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information7

2. Quarterly Consolidated Financial Statements and Key Notes9

 (1) Quarterly Consolidated Balance Sheet9

 (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income10

 (Quarterly Consolidated Statements of Income)10

 (Consolidated six-month period)10

 (Quarterly Consolidated Statements of Comprehensive Income)11

 (Consolidated six-month period)11

 (3) Quarterly Consolidated Statements of Cash Flows12

 (4) Notes to Quarterly Consolidated Financial Statements13

 (Notes on Going Concern Assumptions)13

 (Notes on Significant Changes in the Amount of Shareholders' Equity)13

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the six months ended March 31, 2024, the Japanese economy recovered moderately, driven by the ongoing normalization of economic activity and other factors, alongside positive developments in employment and income conditions. On the other hand, the outlook remains uncertain due to price increases in response to the protracted instability in world affairs and the effects of global monetary tightening.

In the domestic Internet-related market surrounding the Group, video-watching, e-commerce (online shopping) services, and fintech-related services are expanding, continuing on a growth trend. In addition, while various related services are expected to develop in the future with further advancement in the technological innovation of the Internet, cyber security issues are becoming more serious every year, such as growing security concerns associated with the establishment and expansion of remote work and the cyber risks to supply chains. The demand for security continues to rise to ensure that everyone can use the Internet with a sense of security.

Under this environment, the Group, as a comprehensive Internet security company with the management philosophy “We Guard All,” has been providing high-quality and highly efficient one-stop security services based on the strength of its “AI-human hybrid” systems. Furthermore, the Company has been promoting initiatives to establish itself as a top cyber security vendor in Japan, with its parent CHANGE Holdings, Inc. (hereinafter referred to as “CHANGE HD”).

SNS-related support services, which are the Group’s core services, and cyber security, which is positioned as a growth area, are essential for making the Internet safe and secure, and we will continue to work to strengthen service quality, as well as to improve and enhance our products.

During the six months ended March 31, 2024, customer support services for e-commerce and flea market sites remained strong, while a slowdown in demand for some projects of fintech-related services resulted in a decline in sales. In addition, the cyber security business grew significantly due to the expansion of sales of vulnerability diagnosis and WAF*.

Simultaneously, the Company has continued its efforts to strengthen its internal structure, centering on hiring and training, along with sales activities aimed at expanding the enterprise digital BPO domain.

Also, as part of our collaborative initiatives with CHANGE HD, we worked on preparations for the transfer of CHANGE HD’s existing outsourcing operations to us within our core business, including SNS-related support services, and the cyber security business. In addition, we started developing new services in collaboration with CHANGE HD.

In the respective domestic centers, some low-profit projects that had negatively impacted profitability were improved by the end of the previous fiscal year. Consequently, during the period under review, we worked to continuously strengthen the structure of our centers, enhance profitability management, and revise pricing.

Definition of term

- * Abbreviation for Web Application Firewall. A security product designed to protect websites by detecting and preventing attacks that exploit vulnerabilities in web applications.

As a result, for the six months ended March 31, 2024, net sales were ¥5,718.786 million (down 7.0% year-on-year), operating profit was ¥878.301 million (down 6.6% year-on-year), ordinary profit was ¥872.437 million (down 9.2% year-on-year), and profit attributable to owners of parent was ¥536.189 million (down 18.0% year-on-year).

Segment information is not provided as the Group has a single segment. Business results by type of business are as follows:

(i) SNS-related support

SNS-related support provides post monitoring, customer support, and reputation research for various Internet services such as social web services.

During the six months ended March 31, 2024, despite a decline in sales of fintech-related services due to a slowdown in demand for customer support services, we focused on acquiring identification and monitoring projects in those services. Also, customer support services for e-commerce and flea market sites remained strong.

In addition, we continued to work on carrying out thorough engagement with existing customers and acquiring new projects, aiming to expand the enterprise digital BPO domain. Concurrently, we worked on preparation for transferring the existing outsourcing operations from the CHANGE HD Group to our organization. Further, we started developing services jointly with the CHANGE HD Group and launched multiple services, including the “Hometown Tax Donation Program Portal Operation BPO Service.”

As a result, net sales decreased 6.2% year on year to ¥3,317.654 million.

(ii) Game-related support

Game-related support is mainly engaged in customer support and debugging services for social games.

During the six months ended March 31, 2024, we continued to focus on developing cross-selling opportunities arising from localization projects (support for language translation, adaptation, etc.) for overseas game companies.

As the domestic game market was once again not blessed with major hit titles, game-related support experienced a decline in sales.

As a result, net sales decreased 10.9% year on year to ¥840.135 million.

(iii) Advertisement-related support

Advertisement-related support provides Internet advertising screening and outsourced administration services.

During the six months ended March 31, 2024, we continued to focus on developing new customers to respond to the increased demand due to stricter regulations in the digital advertising market as well as to capture the demand related to influencer marketing; however, this was not enough to offset lower sales for existing customers, resulting in a decline in sales.

As a result, net sales decreased 10.6% year on year to ¥706.349 million.

(iv) Cyber security

The cyber security business mainly provides vulnerability diagnosis, WAF, and consulting services to solve security management issues.

During the six months ended March 31, 2024, the cyber security business grew significantly due to the expansion of sales of vulnerability diagnosis and WAF.

In addition, we continued to strengthen our hiring and training efforts while implementing marketing measures to achieve extended growth. Simultaneously, we focused on joint proposals and other initiatives with CHANGE HD.

Further, we redesigned our cloud-type WAF “SiteGuard Cloud Edition,” revamped the pricing plan and the management console UI, and established an emergency call desk that is available 24 hours a day, 365 days a year.

As a result, net sales increased 16.8% year on year to ¥472.458 million.

(v) Other

For other, we mainly provide debugging services for hardware. EG Testing Services Inc., a wholly-owned subsidiary, promoted high-quality services backed by more than 30 years of experience and expertise, and engaged in in-depth marketing and new development.

As a result, net sales decreased 19.4% year on year to ¥382.188 million.

(2) Explanation of Financial Position

(i) Assets, Liabilities and Net Assets

(Assets)

The balance of current assets as of March 31, 2024 was ¥11,131.942 million, an increase of ¥3,727.919 million (or up 50.3%) from ¥7,404.023 million as of September 30, 2023.

This was mainly due to increases of ¥3,627.502 million in cash and deposits resulting from the third-party allotment, and ¥120.993 million in accounts receivable - trade, despite a decrease in other of ¥19.399 million.

The balance of non-current assets as of March 31, 2024 was ¥1,599.622 million, a decrease of ¥109.309 million (or down 6.4%) from ¥1,708.932 million as of September 30, 2023.

This was mainly due to a decrease of ¥48.126 million in goodwill.

As a result, total assets as of March 31, 2024 were ¥12,731.565 million, up 39.7% from September 30, 2023.

(Liabilities)

The balance of liabilities as of March 31, 2024 was ¥1,842.977 million, an increase of ¥116.186 million (or up 6.7%) from ¥1,726.791 million as of September 30, 2023.

This was mainly due to an increase of ¥233.617 million in income taxes payable, despite a decrease of ¥103.445 million in accrued consumption taxes.

(Net assets)

The balance of net assets as of March 31, 2024 was ¥10,888.587 million, an increase of ¥3,502.423 million (or up 47.4%) from ¥7,386.163 million as of September 30, 2023.

This was mainly due to increases of ¥1,603.337 million in share capital and capital surplus, respectively, resulting from the issuance of new shares through the third-party allotment, and the recording of ¥536.189 million in profit attributable to owners of parent, while making a payment of ¥264,802 million in dividends of surplus.

(ii) Cash Flows

Cash and cash equivalents (hereinafter referred to as “cash”) as of March 31, 2024 amounted to ¥9,377.262 million, an increase of ¥3,627.502 million from ¥5,749.760 million as of September 30, 2023. Respective cash flows and factors thereof for the six months ended March 31, 2024 are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to ¥693.927 million, compared with ¥381.496 million provided in the same period of the previous fiscal year.

This was mainly due to an increase in trade receivables of ¥120.137 million and a drop in accrued consumption taxes of ¥103.407 million, despite the recording of profit before income taxes of ¥807.357 million.

(Cash flows from investing activities)

Net cash used by investing activities amounted to ¥30.143 million, compared with ¥60.246 million used in the same period of the previous fiscal year.

This was mainly due to cash outflow of ¥11.531 million for the acquisition of property, plant and equipment and ¥22.840 million for the acquisition of intangible assets.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to ¥2,957.681 million, compared with ¥238.862 million used in the same period of the previous fiscal year.

This was mainly due to the recording of ¥3,206.675 million in proceeds from the issuance of shares through third-party allotment and ¥253.426 million in dividends paid.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

The figures in the forecast of full-year consolidated financial results announced on November 6, 2023 have been revised. For details, please refer to the “Notice Concerning the Differences between Consolidated Earnings Forecasts of Financial Results

and the Actual Results for the Six Months Ended March 31, 2024, and Revisions to Consolidated Earnings Forecasts of Full-Year Financial Results” announced today (May 7, 2024).

2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of September 30, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	5,749,760	9,377,262
Accounts receivable - trade	1,430,711	1,551,705
Work in process	9,827	8,310
Other	214,474	195,075
Allowance for doubtful accounts	(751)	(410)
Total current assets	7,404,023	11,131,942
Non-current assets		
Property, plant and equipment	639,528	606,249
Intangible assets		
Goodwill	385,015	336,888
Software	32,762	48,849
Other	126,137	105,166
Total intangible assets	543,916	490,905
Investments and other assets		
Leasehold and guarantee deposits	411,433	408,160
Other	114,054	94,307
Total investments and other assets	525,487	502,468
Total non-current assets	1,708,932	1,599,622
Total assets	9,112,955	12,731,565
Liabilities		
Current liabilities		
Accounts payable - trade	4,832	4,447
Accounts payable - other	811,761	771,855
Accrued expenses	8,192	14,205
Income taxes payable	78,605	312,222
Accrued consumption taxes	241,508	138,062
Provision for bonuses	48,974	89,969
Other	221,998	218,117
Total current liabilities	1,415,872	1,548,881
Non-current liabilities		
Provision for share awards for directors (and other officers)	149,958	170,035
Long-term guarantee deposits	61,675	51,429
Other	99,285	72,630
Total non-current liabilities	310,918	294,095
Total liabilities	1,726,791	1,842,977
Net assets		
Shareholders' equity		
Share capital	364,280	1,967,618
Capital surplus	384,454	1,989,253
Retained earnings	7,332,787	7,604,174
Treasury shares	(729,300)	(714,230)
Total shareholders' equity	7,352,222	10,846,817
Accumulated other comprehensive income		
Foreign currency translation adjustment	33,941	41,770
Total accumulated other comprehensive income	33,941	41,770
Total net assets	7,386,163	10,888,587
Total liabilities and net assets	9,112,955	12,731,565

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Consolidated six-month period)

(Thousands of yen)

	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)	Six months ended March 31, 2024 (From October 1, 2023 to March 31, 2024)
Net sales	6,148,126	5,718,786
Cost of sales	4,439,451	4,037,073
Gross profit	1,708,675	1,681,713
Selling, general and administrative expenses	768,473	803,411
Operating profit	940,202	878,301
Non-operating income		
Fees received	280	288
Subsidy income	20,548	10,553
Subsidy income	158	1,431
Other	866	2,816
Total non-operating income	21,853	15,089
Non-operating expenses		
Fees paid	-	14,109
Foreign exchange losses	506	6,631
Other	251	212
Total non-operating expenses	758	20,953
Ordinary profit	961,296	872,437
Extraordinary gains		
Reversal of allowance for doubtful accounts	188	-
Total extraordinary gains	188	-
Extraordinary losses		
Loss on retirement of non-current assets	17	7,118
Expenses related to capital and business alliance and capital increase	-	57,960
Total extraordinary losses	17	65,079
Profit before income taxes	961,467	807,357
Income taxes - current	248,108	279,118
Income taxes - deferred	59,403	(7,950)
Total income taxes	307,512	271,167
Profit	653,955	536,189
Profit attributable to owners of parent	653,955	536,189

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated six-month period)

(Thousands of yen)

	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)	Six months ended March 31, 2024 (From October 1, 2023 to March 31, 2024)
Profit	653,955	536,189
Other comprehensive income		
Foreign currency translation adjustment	(3,316)	7,829
Total other comprehensive income	(3,316)	7,829
Comprehensive income	650,638	544,018
Comprehensive income attributable to:		
Owners of parent	650,638	544,018

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Six months ended March 31, 2023 (From October 1, 2022 to March 31, 2023)	Six months ended March 31, 2024 (From October 1, 2023 to March 31, 2024)
Cash flows from operating activities		
Profit before income taxes	961,467	807,357
Depreciation and amortization	47,067	47,260
Amortization of goodwill	48,126	48,126
Other amortization	20,971	20,971
Interest and dividends income	(27)	(41)
Increase (decrease) in allowance for doubtful accounts	(188)	(340)
Loss on retirement of non-current assets	17	7,118
Expenses related to capital and business alliance and capital increase	-	57,960
Decrease (increase) in trade receivables	(242,399)	(120,137)
Decrease (increase) in inventories	(2,493)	1,180
Increase (decrease) in trades payable	(1,334)	(384)
Increase (decrease) in provision for bonuses	(39,527)	40,874
Increase (decrease) in accounts payable - other	36,413	(30,504)
Increase (decrease) in accrued consumption taxes	57,751	(103,407)
Increase (decrease) in provision for share awards for directors (and other officers)	14,709	20,077
Other	(120,517)	(32,647)
Subtotal	780,037	763,464
Interest and dividends received	27	41
Payment of expenses related to capital and business alliance and capital increase	-	(57,960)
Income taxes paid	(398,568)	(11,617)
Net cash provided by (used in) operating activities	381,496	693,927
Cash flows from investing activities		
Purchase of property, plant and equipment	(54,118)	(11,531)
Purchase of intangible assets	(10,894)	(22,840)
Payments of guarantee deposits	(34,235)	(5,574)
Proceeds from refund of guarantee deposits	39,002	9,803
Net cash provided by (used in) investing activities	(60,246)	(30,143)
Cash flows from financing activities		
Proceeds from the issuance of shares	-	3,206,675
Dividends paid	(238,862)	(253,426)
Proceeds from disposal of treasury shares	-	4,431
Net cash provided by (used in) financing activities	(238,862)	2,957,681
Effect of exchange rate changes on cash and cash equivalents	(2,186)	6,035
Net increase (decrease) in cash and cash equivalents	80,201	3,627,502
Cash and cash equivalents at beginning of the period	4,951,106	5,749,760
Cash and cash equivalents at end of the quarter	5,031,307	9,377,262

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in the Amount of Shareholders' Equity)

In accordance with a resolution passed during the Board of Directors meeting on August 2, 2023, the Company received payment for the capital increase through the third-party allotment from CHANGE Holdings, Inc. on October 11, 2023, resulting in increases of ¥1,603.337 million in share capital and of ¥1,603.337 million in capital reserve. As a result, share capital and capital surplus as of March 31, 2024 amounted to ¥1,967.618 million and ¥1,989.253 million, respectively.