



President &amp; CEO Toshihiro Koike

## Cyber Security Cloud, Inc. (4493)



## Company Information

Market	TSE Growth
Industry	Information and Communications
President & CEO	Toshihiro Koike
HQ Address	JR Tokyu Meguro Building 13F, 3-1-1 Osaki, Shinagawa-ku, Tokyo
Year-end	December
Homepage	<a href="https://www.cscloud.co.jp">https://www.cscloud.co.jp</a>

## Stock Information

Share Price	Shares Outstanding (End of the Term)	Total Market Cap	ROE Act.	Trading Unit	
¥1,764	9,416,244 shares	16,610million	27.5%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
0.00	-	¥36.84	47.9 x	¥137.62	12.8 x

\*The share price is the closing price on February 21. Each figure is from the financial results for the Fiscal Year ended December 2022 and the company release.

## Change of Business Results

Fiscal Year	Sales	Operating Profit	Ordinary Profit	Net Profit	EPS	DPS
December 2018 Act.	488	-29	-27	-27	-	0.00
December 2019 Act.	816	143	141	153	17.20	0.00
December 2020 Act.	1,194	188	172	134	14.60	0.00
December 2021 Act.	1,817	297	297	169	18.17	0.00
December 2022 Act.	2,275	385	395	306	32.61	0.00
December 2023 Est.	3,000	500	500	346	36.84	0.00

\*The estimates were provided by the company. Units: million yen and yen. Consolidated financial results from the Fiscal Year ended December 2020 to the Fiscal Year ended December 2021. Non-consolidated financial results for the Fiscal Year ended December 2022. Consolidated financial results from the Fiscal Year ending December 2023.

\*The company carried out a 10-for-1 stock split in March 2018, a 100-for-1 stock split in September 2019, and a 4-for-1 stock split in July 2020. (EPS was revised retroactively.)

This Bridge Report presents Cyber Security Cloud, Inc.'s earnings results for the Fiscal Year ended December 2022, etc.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Fiscal Year Ended December 2022 Earnings Results](#)

#### [3. Fiscal Year Ending December 2023 Earnings Forecasts](#)

#### [4. Growth Strategies for 2025](#)

#### [5. Conclusions](#)

#### [<Reference: Regarding Corporate Governance>](#)

## Key Points

- The non-consolidated sales and operating profit in the term ended December 2022 were 2,275 million yen and 385 million yen, respectively, exceeding the company's forecast (sales of 2,233 million yen and an operating profit of 362 million yen). Real year-on-year growth rates were 28.9% for sales and 39.2% for operating profit. The upgrade of the server security type of Shadankun, a cloud-based WAF, and the launch of WafCharm, a public cloud WAF automated operation service, on the AWS Marketplace were successful, and both the number of users and ARPU (average revenue per user) for each product increased. In terms of profit, despite investments in skill enhancement of sales personnel, aggressive advertising, etc. to realize the growth strategy toward 2025, operating profit margin increased 1.3 points in real terms year on year due to the effect of increased sales.
- For the term ending December 2023, the company forecasts a 28.1% year-on-year increase in sales to 3 billion yen and a 20.9% year-on-year increase in operating profit to 500 million yen. The U.S. subsidiary will be included in the scope of consolidation from this fiscal year. The company will continue to steadily implement priority measures to achieve its growth strategy. Although upfront investments for increasing development resources and global expansion will put pressure on profit to a certain extent, the company expects steady growth toward achieving the financial targets set in its growth strategy for 2025 (sales of 5 billion yen and an operating profit of 1 billion yen). At the financial results meeting, President Koike expressed his view that "having established a global foothold in 2022, our prospects are quite promising, and we have a clear view of what we need to do."
- The trend of shift to online operations and DX triggered by the outbreak of Covid-19 is expected to continue to grow at a high level, although its momentum has slowed down. In conjunction with this trend, the number of cyber-attacks is increasing. In addition, attack methods are becoming more sophisticated day by day, making it imperative to take cyber security measures. In fact, according to the National Police, the number of attacks detected per IP address per day has increased 2.7 times in the last three years, and in 2021, the number was 7,334.9. However, the WAF (Web Application Firewall) adoption rate in Japan remains at 15.7% (according to the "2021 Telecommunications Usage Trend Survey" by the Ministry of Internal Affairs and Communications) due to the low awareness ratio, and further growth is expected in the future. In addition, the company has been establishing a foothold in overseas markets, which are more than 40 times the size of the Japanese market, so we will pay close attention to the potential for discontinuous growth in the future.
- The company is focusing its efforts on achieving the financial targets set forth in its growth strategy for 2025 (sales of 5 billion yen and an operating profit of 1 billion yen) starting in 2022. The company's FY 12/2023 plan also sets numerical targets in line with this strategy, but further growth will be possible if the company can maximize the value provided by SIDfm based on the organic growth of existing products by leveraging its business development capabilities, and if it can continue to introduce new services, including those that are global in nature. In addition to the KPI trends of the company's main products, we would like to pay attention to the roadmap of its business development.

## 1. Company Overview

With a management ethos to create a secure cyberspace that people around the world can use safely, Cyber Security Cloud provides web security services, including “Shadankun,” a cloud-based web application firewall (WAF) that visualizes and blocks cyber-attacks on websites, “WafCharm,” a service for the automatic management of rules (signatures) of platforms like AWS WAF etc., and “AWS WAF Managed Rules,” a set of rules for AWS WAF. These services utilize world-leading cyber threat intelligence and AI (Artificial Intelligence) technology and are offered on a subscription basis.

In September 2018, the company formed a group with the subsidiary Cyber Security Cloud, Inc. in Seattle, Washington, the U.S., which was established with the aim of selling Managed Rules, which are a set of rules for AWS WAF, and is expanding its business overseas. The company will be included in the scope of consolidation from the term ending December 2023 based on the judgment that its importance will increase in the future as its global expansion goes into full swing.

### 1-1 Environment Surrounding the Company

#### ◎ Increasing cyber attacks

As the Internet is increasingly used, the number of cyber-attacks is growing. According to the reference material of the company, the communication volume of cyber-attacks in 2020 was 500.1 billion packets, up 64.4% from the previous year.

With the acceleration of DX, cyber-attacks are expected to further increase.

#### ◎ WAF adoption rate is low among SMEs and second-tier companies

The adoption rate of antivirus software, which protects PCs from virus infection, has been in the 80% range for the past 10 years and is saturated, while the adoption rate of WAF (Web Application Firewall, see below for details), which protects websites from hacker attacks, has doubled from 8.8% in 2012 to 15.7% in 2022. The WAF adoption rate is steadily growing, and further market growth can be expected.

#### ◎ Cyber security measures demanded in parallel with DX

“The Cyber Security Strategy for the Next Term,” which was determined by the Cabinet Office in September 2021, is to take measures for securing cyber security while carrying out DX.

The concrete activities in this strategy include “the change in the way of thinking of the management,” “promotion of DX and cyber security in local SMEs,” “development of a foundation for securing reliability, such as the supply chain,” and “improvement and popularization of digital/security literacy leaving nobody behind.”

#### ◎ Trend of the Japanese government

The government actively implements measures for cyber security, such as the establishment of Digital Agency in September 2021 and the full enforcement of the amended Act on the Protection of Personal Information in April 2022.

The most recent major developments are the tightening of security standards for the defense industry and the enhancement of credit card security.

All Japanese enterprises will be required to take stronger security measures.

	Points
Development of Security Standards for the Defense Industry	-The government demands measures to be taken even after an attack.
Full enforcement of the amended Act on the Protection of Personal Information	-Emergence of the obligation to report to the Personal Information Protection Commission and the obligation to notify individuals -Toughening of penalties against corporations (up to 100 million yen, effective in December 2020)

### 1-2 Security measures and the company’s business operations

Increased use of the Internet has facilitated the spread of a wide range of online services, which make daily life and running businesses

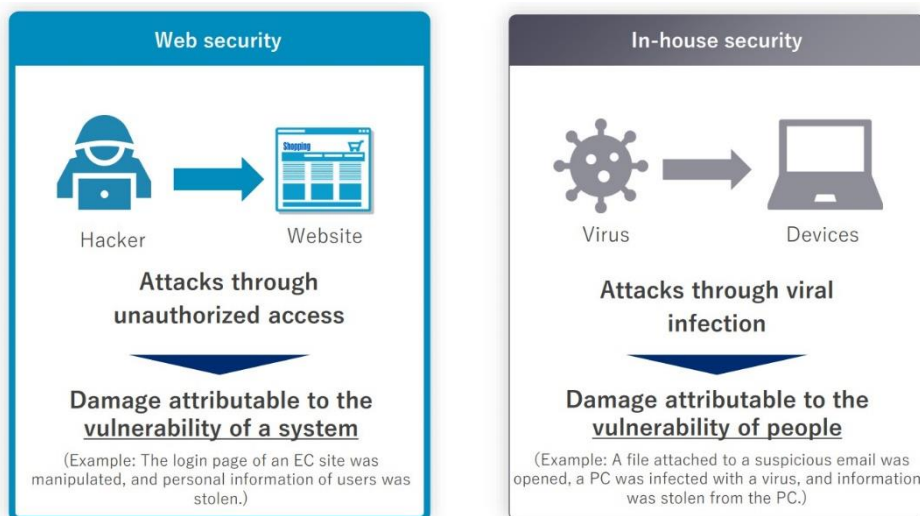
much more convenient. Against this backdrop, cyber-attacks are increasing.

Corporate security measures against cyber-attacks can be divided into two major categories: web security, which protects against the exploitation of personal information through unauthorized access to websites, and in-house security, which prevents terminals (PCs, smartphones, tablets, etc.) used in the company from being infected by viruses.

For an e-commerce site like Amazon, where many users register their credit card information, it is web security that protects such sensitive data.

WAFs are predominantly appliance based, software based, or cloud based. Cyber Security Cloud offers “Shadankun,” cloud-based WAF services for corporations and other entities that provide web services.

Web security business to prevent attacks from hackers.



(From the reference material of the company)

WAF is a firewall that prevents intrusions such as SQL Injection and Cross Site Scripting, which can cause information leakage and the falsification of websites. It can also handle attacks that conventional firewalls or IDS/IPS were unable to prevent.

Cloud-based WAF “Shadankun” was launched in 2013, and boasts the No.1 position in the Japanese cloud-based WAF market in terms of the total number of companies/websites using the service. Shadankun’s success owes to the ease of installation, the reliability of it being developed and operated in-house by Cyber Security Cloud itself, and the firm’s extensive track record of providing services to major corporations. However, with many of the data leak incidents that have occurred in recent years being caused by unauthorized access to website, website security measures remain insufficient. There also appears to be a significant number of website operators that are under the false impression that security measures are already in place, according to an awareness survey on security software by Marketing & Associates.

### 1-3 Services

In its web security business, Cyber Security Cloud provides Shadankun, a cloud-based WAF, WafCharm, a service for the automatic management of rules for AWS WAF provided by Amazon Web Services (AWS) that is based on technologies built up from the operation of Shadankun, and Managed Rules, a set of security rules for AWS WAF, and the company offers SIDfm, which collects and manages vulnerability information.

### ©Cloud-based WAF “Shadankun”

Shadankun is a cloud-based security service that detects, blocks, and visualizes cyber-attacks on web applications. From development to operation, sales, and support, Cyber Security Cloud handles all aspects of the service. This enables the company to accumulate a wealth of data on cyber-attacks on websites, as well as build up operational know-how (over 2.3 trillion rows of data from over 20,000 websites). By reflecting the accumulated data when developing/customizing Shadankun or when updating its signatures (patterns associated with malicious attacks), the service helps keep websites secure. Shadankun also visualizes cyber-attacks in real time,

identifying the type of attack and the IP address (i.e., countries and attack types) the attack is coming from. Such data can be viewed on the management screen. The visualization of these invisible cyber-attacks enables companies to gain a better grasp of their security situation and share information more effectively.

### Utilization of AI

AI is also increasingly utilized for Shadankun. In particular, using AI enables Shadankun to detect attacks that conventional signatures could not detect, and also identify false positives that negatively impact customers' services. Through Cyber Security Cloud's neural network (technology/network used for machine learning), the AI engine learns not only normal attacks, but also legitimate user access and requests that have falsely been labeled as malicious. It evaluates daily access data and detection data, improving signature accuracy day by day.

### ©“WafCharm”, a service for the automatic management of rules of platforms like AWS WAF etc.

WafCharm, launched in December 2017, is equipped with an AI engine that learns attack patterns on web applications accumulated by Shadankun. It enables the automatic management of rules for AWS WAF, provided by Amazon Web Services (AWS), which holds the largest share of the global cloud market. WafCharm has gained high marks for its ease of installation and operation, as well as for the swift development of new features supporting new AWS WAF functionalities, backed by its partnership with AWS.

While AWS WAF increases the security of web applications, the site operator must create and enforce rules to filter web traffic themselves. Making full use of it requires considerable time and knowledge. However, WafCharm is equipped with an AI engine that automatically applies the most appropriate rule among many AWS WAF rules for the target web application, automating all necessary security options. It is automatically updated to deal with new vulnerabilities, keeping the website secure at all times. It is also equipped with a reporting function, which compiles the number of detected attacks, the type of attack, the source country, and the attacker's IP address for each rule, as well as a notification function, which sends an e-mail containing details of detected attacks in real time.

Support for Microsoft's Azure platform began in November 2020. Also, from November 2021, support for Google's platform "Google Cloud" began, making it compatible with the world's three major platforms. Furthermore, "WafCharm for AWS Marketplace" was released in November 2022 and is now available in more than 200 countries worldwide.

### ©AWS WAF Managed Rules

AWS WAF selects and provides security rules called “Managed Rules” that have been written by expert security vendors. AWS WAF Managed Rules are a comprehensive package of security rules needed to mitigate specific threats. Security is limited to specific threats, but installation and operation are simple. Managed Rules is a package service that draws on AWS WAF rule-setting expertise built up through the operation of WafCharm. AWS WAF users can easily use Managed Rules from the AWS Marketplace.

Cyber Security Cloud's U.S. subsidiary, which has been certified as the seventh AWS WAF Managed Rules seller in the world, began selling the group's own rule set on AWS Marketplace at the end of February 2019.

### © SIDfm™, a service of providing vulnerability information, and web security diagnosis

It is a service offered by SofTek Systems, Inc. (merged in April 2022).

Since SIDfm™ was launched, it has been utilized by many customers as the information base for vulnerability management for over 20 years. SofTek's analysts specializing in vulnerability research the details of vulnerability, which appear on a daily basis, produce content, and deliver information to customers by various means.

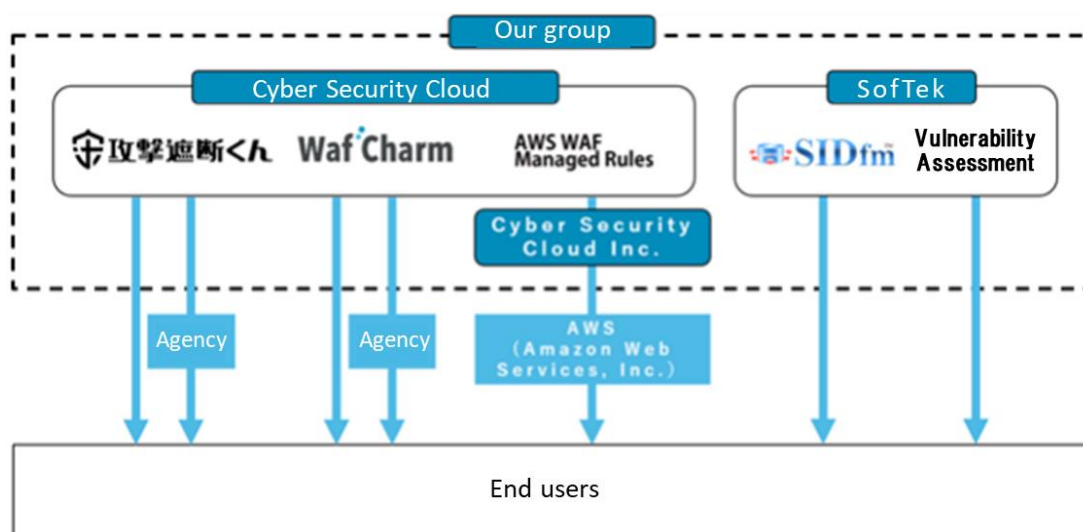
It is difficult for customers to make a judgment in the survey on the effects of vulnerability, but by seeing the content of SIDfm™, it is possible to make an appropriate judgment, and the information on vulnerability is also used for matching for managing the vulnerability status of individual IT assets.

SofTek offers comprehensive solutions, from the production of vulnerability-related content to the provision of vulnerability management tools.

The web security business, which has been operated by Cyber Security Cloud, visualizes and blocks cyber-attacks to websites and servers while utilizing vulnerability information. The addition of Softek, which specializes in vulnerability management with SIDfm, will not only strengthen the technical capabilities of the two companies by sharing their respective know-how, but will also enable the utilization of big data of Cyber Security Cloud and expansion of sales channels.

## 1-4 Business model

Shadankun, Cyber Security Cloud’s core service, is offered on a subscription basis (monthly billing) over a period of time, in which customers are charged fees for access under the premise of continuous service. Revenue streams consist of monthly recurring revenue (MRR), initial installation fees, etc. Over 90% of revenue generated from Shadankun is recurring revenue. It also boasts a high service continuation rate, backed by the successful improvement of customer value through the accumulation of data on web application vulnerabilities, its swift response to these vulnerabilities, signature setting, and rule customization. The churn rate for the term ended December 2021 remained low, ranging about 1%. The company uses its strengths to provide comprehensive services from development to operation and support and increase customer satisfaction.



(Source: Reference material of the company)

### 1-5 The Enterprises that Adopted the Company’s Product and Sales Routes

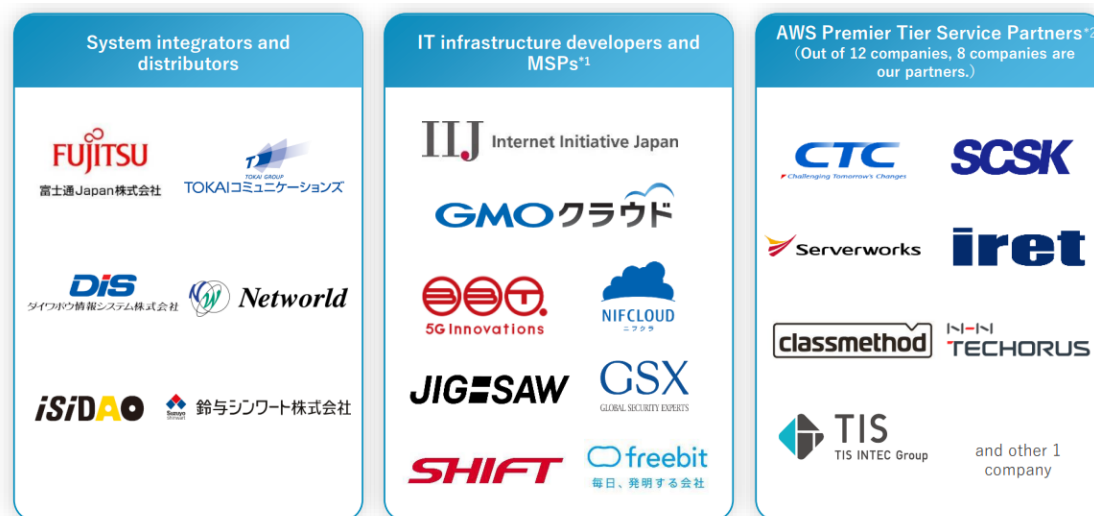
In each field, renowned companies representing Japan have adopted the products of Cyber Security Cloud. The products have been adopted in the financial and public sectors, where security requirements are tight, earning high trust.

<p>Finance, public offices, public corporations, groups</p> <p>SBI証券</p> <p>SOMPOリスクマネジメント</p> <p>浜銀総合研究所</p> <p>東京財団政策研究所 THE TOKYO FOUNDATION FOR POLICY RESEARCH</p> <p>筑邦銀行</p> <p>つくば科学万博記念財団</p> <p>全国信用金庫厚生年金基金</p>	<p>IT and services</p> <p>note</p> <p>freee</p> <p>Inter Factory</p> <p>coconala</p> <p>TECHORUS</p> <p>Classi</p> <p>FANCOM</p> <p>aucfan UNITED</p>	<p>Media and entertainment</p> <p>毎日</p> <p>istyle</p> <p>CAM</p>	<p>Transportation and construction</p> <p>ANA</p> <p>清水建設</p>
		<p>Makers</p> <p>Pioneer</p> <p>キョコロ</p> <p>日本新薬</p>	<p>Human resources</p> <p>マイナビ</p> <p>PASONA JOB HUB</p> <p>SB Human Capital</p>

(Source: Reference material of the company)

In addition, the number of major sales partners, which possess a strong customer base, has increased steadily, leading to the increase of enterprises that have adopted the products of the company.

To promote WafCharm, the company has cemented the cooperation with partners that have many AWS users.



(Source: Reference material of the company)

## 2. Fiscal Year December 2022 Earnings Results

### 2-1 Consolidated Financial Summary

	FY12/21	Ratio to sales	FY12/22 Non-consolidated	Ratio to sales	Compared to Company Forecasts	FY12/22 Consolidated	YoY
Sales	1,817	100.0%	2,275	100.0%	+1.9%	2,342	+28.9%
Gross profit	1,281	70.5%	1,611	70.8%	-	1,654	+29.1%
SG&A expenses	984	54.2%	1,225	53.9%	-	1,240	+26.0%
Operating income	297	16.4%	385	17.0%	+6.6%	413	+39.2%
Ordinary income	297	16.4%	395	17.4%	+9.3%	420	+41.1%
Net Income	169	9.3%	306	13.5%	+13.1%	304	+79.5%

\*Unit: million yen.

\*Fiscal year 12/22 was non-consolidated, so the figures are presented as consolidated for the fiscal year 12/22, assuming that consolidated financial results had been maintained.

### Achieving Growth in Line with Growth Strategy Toward 2025

After the absorption-type merger (simple and short-form merger) of its wholly-owned subsidiary Softek Corporation on April 1, 2022, the company shifted to non-consolidated accounting in Q2 (the performance of Softek in Q1 is not included). Therefore, a comparative analysis with the term ended December 2021 is not possible. However, in order to enable comparative analysis, the company has disclosed figures for the term ended December 2022 assuming it continues to report consolidated results. This report will use those figures for comparative analysis.

Sales were 2,275 million yen and operating profit was 385 million yen (both non-consolidated), exceeding the company's forecasts (sales of 2,233 million yen and an operating profit of 362 million yen). Compared to the previous fiscal year, when the company's consolidated results were used, sales grew 28.9% and operating profit rose 39.2%.

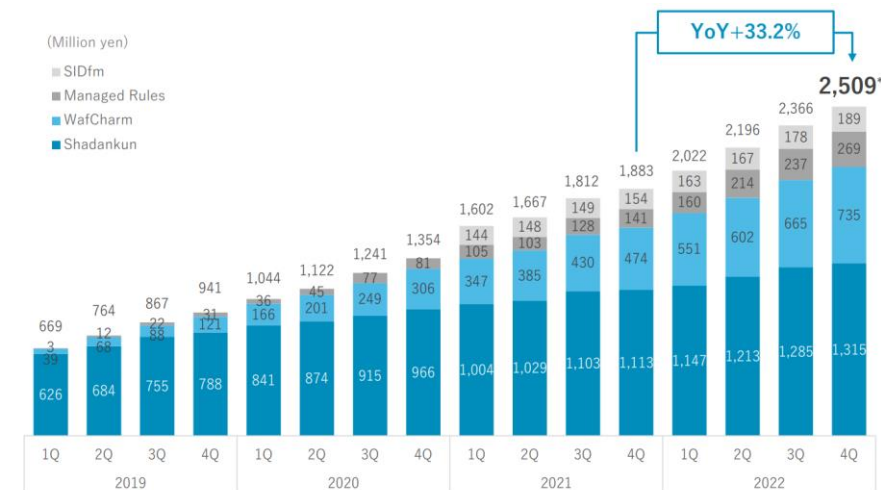
In the term ended December 2022, the company upgraded the server security type of Shadankun, a cloud-based WAF, and launched WafCharm, a public cloud WAF automated operation service, on the AWS Marketplace. As a result, both the number of users and ARPU (average revenue per user) for each product grew.

In terms of profit, despite investments in skill enhancement of sales personnel, aggressive advertising, etc. to realize the growth strategy toward 2025, operating profit margin increased 1.3 points in real terms year on year due to the effect of increased sales.

## 2-2 Trends in Key Indicators

### (1)ARR

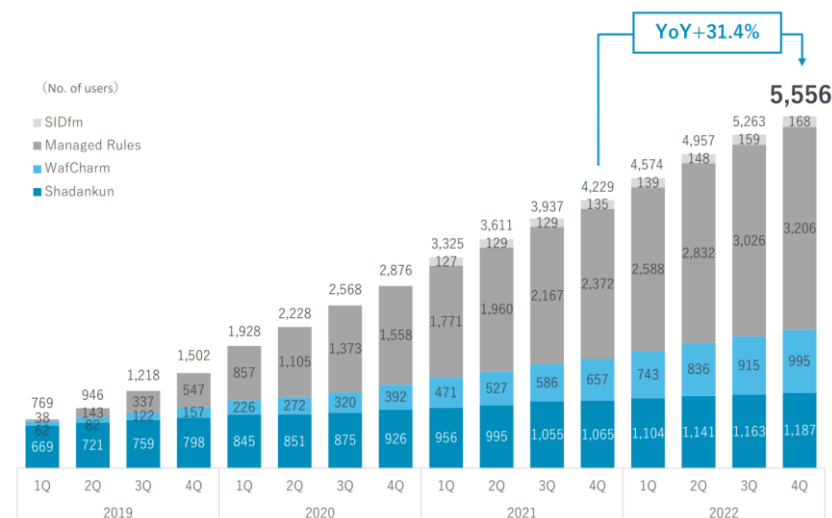
In Q4 (Oct.-Dec.), total ARR remained healthy, increasing 33.2% YoY and 6.0% QoQ to 2,509 million yen.



\* ARR: Annual Recurring Revenue. It is calculated by multiplying the MRR at the end of the applicable month by 12 to convert it to an annual amount. MRR stands for Monthly Recurring Revenue in a subscription-based model and is the sum of the monthly recurring revenues from existing customers.

### (2) Number of users

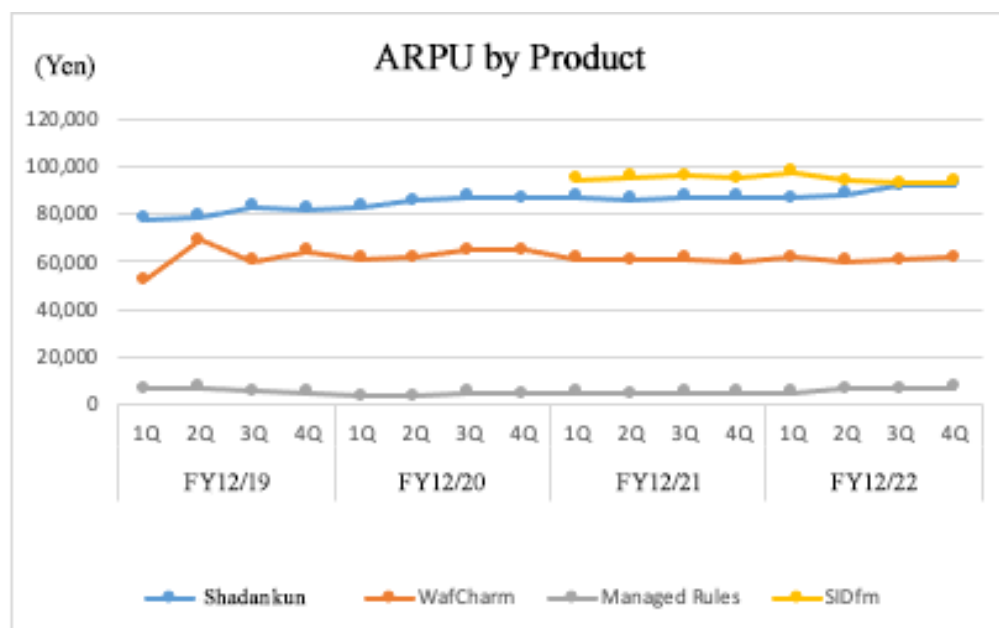
The total number of users increased 31.4% YoY to 5,556. The number of users increased steadily for all products, but the growth of Managed Rules was particularly notable.



### (3)ARPU

Managed Rules saw not only an increase in the number of users, but also a solid rise in ARPU. SIDfm, which had been on a downtrend after peaking in Q1 of the term ended December 2022, bottomed out in Q3 and saw a 0.5% QoQ increase in Q4.

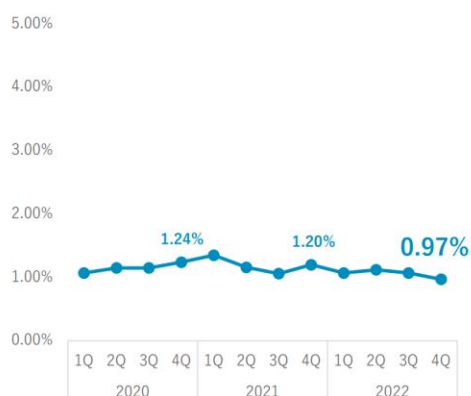




#### (4) Churn rate

The churn rate for Shadankun was 0.97%, falling below the 1% level for the first time since its listing. The churn rate for WafCharm also continued to remain low.

Churn rate of Shadankun<sup>\*1</sup>



WafCharm churn rate<sup>\*2</sup>



<sup>\*1</sup> Produced based on the average MRR churn rate of each product in the last 12 months.

MRR churn rate is calculated by dividing the MRR lost in the month concerned by the MRR as of the end of the previous month.

<sup>\*2</sup> Average churn rate in the past 12 months. Churn rate was calculated by dividing the cancellation number of users in the latest year in the n-th term by the number of users in the (n-1)th term.

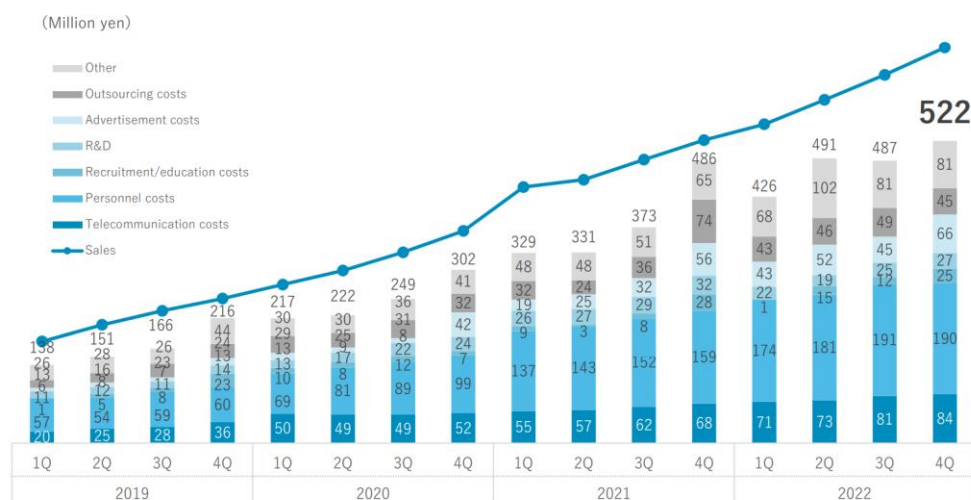
#### (5) Recurring revenues

Recurring revenues, calculated from the total MRR of the four products (Shadankun, WafCharm, Managed Rules, and SIDfm), account for 95.5% of total sales (Q4 of the term ended December 2022). The amount of new orders in Q4 of the term ended December 2022 reached a record high, and the company expects continued high growth in Q1 of the term ending December 2023 and beyond.

#### (6) Operating expenses and the number of employees

In Q4 (Oct.-Dec.), total operating expenses increased 7.4% year on year to 522 million yen. Personnel expenses are constantly increasing due to aggressive investment in human resources, but other costs are being optimized.

The number of employees at the end of December 2022 was 93, up 10 from the end of the previous year. The company intends to engage in more aggressive recruitment in 2023.



## 2-3 Topics

### (1) Awarded AWS "Marketplace Partner of the year - APJ"

In November 2022, AWS honored the company with the "Marketplace Partner of the year - APJ" award at the "2022 Regional Global AWS Partner Awards" in recognition of its performance on the "AWS Marketplace" over the past year. The company is the only one in Japan to receive this award in this category, and it can be said that the award recognizes the company's solid and expanding recognition within the "AWS Marketplace" community. This is expected to serve as a foothold for accelerating global expansion from 2023 onward.

### (2) Global release of "WafCharm for AWS Marketplace"

WafCharm has been upgraded and updated to a global version, and full-scale global deployment has begun. The product already enjoys an overwhelming market share and satisfaction level in Japan, and the company believes it has great potential globally as well. In addition, the company has been selling AWS WAF Managed Rules on the AWS Marketplace for more than three years, and has sold to more than 3,200 users in more than 90 countries worldwide. This track record will serve as a tailwind to sales.

### (3) Strengthening the sales force increased the amount of new orders per employee by 1.5 times from the previous year.

The year 2022 was a year in which the company focused on "developing core human resources to support future growth." In particular, efforts to strengthen sales capabilities resulted in a 1.5-fold increase in the amount of new orders per employee over the previous year. As the company's core sales personnel have been steadily developed through these efforts, the company will build its organization by systematizing its know-how.

### (4) SIDfm continues to grow after joining the group

The ARR of SIDfm, which is provided by Softek, acquired in December 2020, grew from 144 million yen in December 2020 to 189 million yen in December 2022. This was due to in-group synergies such as holding joint seminars with Shadankun. Since the merger in April 2022, the number of inquiries seems to have increased as the company handles SIDfm as its own product. The market itself has moved from its early days into the penetration phase, and is expected to continue to grow at a high rate in 2023 and beyond.

### 3. Fiscal Year December 2023 Earnings Forecasts

#### 3-1 Consolidated Earnings

	FY 12/22 (Act.)	Ratio to Sales	FY 12/23 (Est.)	Ratio to Sales	YoY
Sales	2,342	100.0%	3,000	100.0%	+28.1%
Operating Income	413	17.7%	500	16.7%	+20.9%
Ordinary Income	420	17.9%	500	16.7%	+19.0%
Net Income	304	13.0%	346	11.5%	+13.9%

\*Unit: million yen.

\*Fiscal year 12/22 was non-consolidated, so the figures are presented as consolidated for the fiscal year 12/22, assuming that consolidated financial results had been maintained.

#### The organic growth for its growth strategy is assumed in the company's forecast.

For the term ending December 2023, the company forecasts a 28.1% year-on-year increase in sales to 3 billion yen and a 20.9% year-on-year increase in operating profit to 500 million yen. The U.S. subsidiary will be included in the scope of consolidation from this fiscal year.

The company will continue to steadily implement priority measures to achieve its growth strategy. Although upfront investments for the increase of development resources and global expansion will put pressure on profit to a certain extent, the company expects steady growth toward achieving the financial targets set in its growth strategy for 2025 (sales of 5 billion yen and an operating profit of 1 billion yen). At the financial results meeting, President Koike expressed his view that "having established a global foothold in 2022, our prospects are quite promising, and we have a clear view of what we need to do."

### 4. Growth Strategies for 2025

It is expected that the cybersecurity field will grow rapidly as the expansion and deployment of cloud computing, DX, 5G, and IoT accelerate. With such a tailwind, the company aims to provide services that are trusted around the world as a global security manufacturer originating from Japan. Specifically, the company aims to achieve the following three goals by 2025.

\* To make its product adopted by 10,000 companies and become Japan's top security company in the "Web Security" field.

\* Financial targets: Net sales of 5 billion yen and an operating profit of 1 billion yen.

\* To accelerate global expansion and increase overseas sales ratio to 10%.

#### 4-1 Financial Objectives

##### (1) To achieve sales of 5 billion yen

The company aims to achieve a total of 10,000 companies installing Shadankun or WafCharm, and to become Japan's top security company in the "Web security" field, with sales of 5 billion yen in 2025.

It will raise the ratio of overseas sales to 10% and establish a foothold for subsequent business expansion.

\*Net Sales

	2021	2022	2025 Target	CAGR (21-25)
Shadankun	10.8	12.5	20	+16.1%
WafCharm	3.9	6.1	20	+49.5%
Japan	3.9	6.1	15	+39.2%
Overseas	-	-	5	-
Others	3.3	4.6	10	+35.1%
Overall	18.1	23.4	50	+29.1%

\*CAGR was calculated by Investment Bridge based on the company's data.

The following three measures are key to achieving this goal (see below for details).

- \* Strengthening Partner Support for Shadankun
- \* Global expansion of WafCharm
- \* Enhancement of the service lineup for new solutions.

## **(2) To increase operating profit over 3 times to 1 billion yen by 2025**

To execute each of the priority measures, recruitment will be strengthened, particularly for development and sales personnel.

While assuming that profit will be posted from 2022 to 2024, the company aims to achieve an operating profit of 1 billion yen in 2025 by expanding recognition through aggressive marketing activities and other upfront investments.

The company makes flexible investment decisions in response to changes in the domestic security market and investment opportunities in the global market.

### **4-2 Priority Measures**

#### **(1) To strengthen partner support**

In order to accelerate the increase of users, the company is working to strengthen its sales network through its partners by leveraging the know-how accumulated in its direct sales organization and focusing on partner success (\*). To acquire new partners, the company will expand its target to major cities nationwide and secure a wide range of partners, including cloud vendors and system integrators.

In March 2022, the company signed an agency agreement for "Shadankun" and a distributor agreement for "WafCharm" with KOUS CO., LTD. (Osaka City, Osaka Prefecture), a web marketing company that works with one of the largest corporate information database vendors in Japan.

For existing partners, the company is working to increase the number of CSC products handled by supporting bundled sales with partners' own services. As a result, sales through partners increased 36.2% year on year in term ended December 2022. In addition to strengthening support for domestic partners, the company plans to expand its partner program overseas from 2023.

\*Partner Success

A generic term for support activities to maximize the value delivered to end-users through partners by providing information to and supporting sales activities of partners to promote understanding of the company's products.

#### **(2) Global expansion of WafCharm**

The company's first priority is to strengthen its relationship with AWS. In 2023, the company will further cooperate with AWS and focus on global sales through the AWS Marketplace.

#### **(3) Enhancement of the service lineup**

The company is committed to launching new features and new products every year as much as possible. In 2022, WafCharm for AWS Marketplace was released with the function to detect website tampering. The company expects to continue developing new services and enhancing its service lineup in 2023 and beyond.

## 5. Conclusions

The trend of shift to online operations and DX triggered by the outbreak of Covid-19 is expected to continue to grow at a high level, although its momentum has slowed down. In conjunction with this trend, the number of cyber-attacks is increasing. In addition, attack methods are becoming more sophisticated day by day, making it imperative to take cyber security measures. In fact, according to the National Police, the number of attacks detected per IP address per day has increased 2.7 times in the last three years, and in 2021, the number was 7,334.9. However, the WAF (Web Application Firewall) adoption rate in Japan remains at 15.7% (according to the "2021 Telecommunications Usage Trend Survey" by the Ministry of Internal Affairs and Communications) due to the low awareness ratio, and further growth is expected in the future. In addition, the company has been establishing a foothold in overseas markets, which are more than 40 times the size of the Japanese market, so we will pay close attention to the potential for discontinuous growth in the future.

The company is focusing its efforts on achieving the financial targets set forth in its growth strategy for 2025 (sales of 5 billion yen and an operating profit of 1 billion yen) starting in 2022. The company's FY 12/2023 plan also sets numerical targets in line with this strategy, but further growth will be possible if the company can maximize the value provided by SIDfm based on the organic growth of existing products by leveraging its business development capabilities, and if it can continue to introduce new services, including those that are global in nature. In addition to the KPI trends of the company's main products, we would like to pay attention to the roadmap of its business development.

### <Reference: Regarding Corporate Governance>

#### ◎ Organization type and the composition of directors and auditors

Organization type	Company with an audit and supervisory
Directors	5 directors, including 2 outside ones
Auditors	3 auditors, including 3 outside ones

#### ◎ Corporate Governance Report (Update date: March 31, 2022)

##### Basic policy

Under the management ethos: "to create a secure cyberspace that people around the world can use safely," our corporate group aims to achieve the sustainable growth of the group and improve mid/long-term corporate value, and establish a governance system for actualizing them effectively and efficiently. In addition, we strive to enhance corporate governance while considering that it is important to put importance on shareholders' rights, live up to the expectations of society, and achieve sustainable growth and development as the basic policy for corporate governance emphasizing compliance.

#### <Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Our company implements all the basic principles stipulated in the Corporate Governance Code.

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