

Financial Materials for FY 2021 1Q



Cyber Security Cloud, Inc.

TSE Mothers: 4493

May 14, 2021

Executive Summary ① Summary of Results for FY 2021 1Q



- Sales and operating income grew significantly year on year, thanks to the growth of the core products: Shadankun and WafCharm and the contribution of Softec.

Net Sales
(1Q) ※1 P6

Operating Income
(1Q) ※1 P6

ARR ※1 P7
(Annual Recurring Revenue)

420 million yen

Up 61.4% year on year

90 million yen

Up 109.8% year on year

1.6 billion yen

Up 53.6% year on year

Total No. of users ※2 P8

Churn rate P9,10

No. of data of our company P19

3,325

◆ 攻撃遮断くん
WafCharm 1.35%
0.92%

about 2.1 trillion

※1 Consolidated sales of Cyber Security Cloud

※2 Total number of users of Shadankun, WafCharm, Managed Rules, and SIDfm

Executive Summary ② Measures Implemented in FY 2021 1Q



Cemented the cooperation with leading companies in sale

P16,17

Signed new distributorship contracts, and Acquired the users of the WafCharm Azure version.

Concluded new distributorship contracts with **SCSK Corporation**, etc. We will continue sales promotion via distributors. **Hyper Soft Co., Ltd.** adopted the WafCharm Azure version for the first time.

Proceeded with R&D

P19

Accelerated R&D through the alliances with other sectors and the appointment of an advisor.

Formed a business alliance with Glome Management, Inc., to develop cyber security services for **the medical care industry**. In addition, **Mr. Takamichi Saito**, who is **the head of Information Security Lab of Meiji University** and the representative director of Rangeforce, Inc., was appointed as advisor for security technology strategies, to accelerate R&D.

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I. Overview of the financial results for FY 2021 1Q

Overview of Results

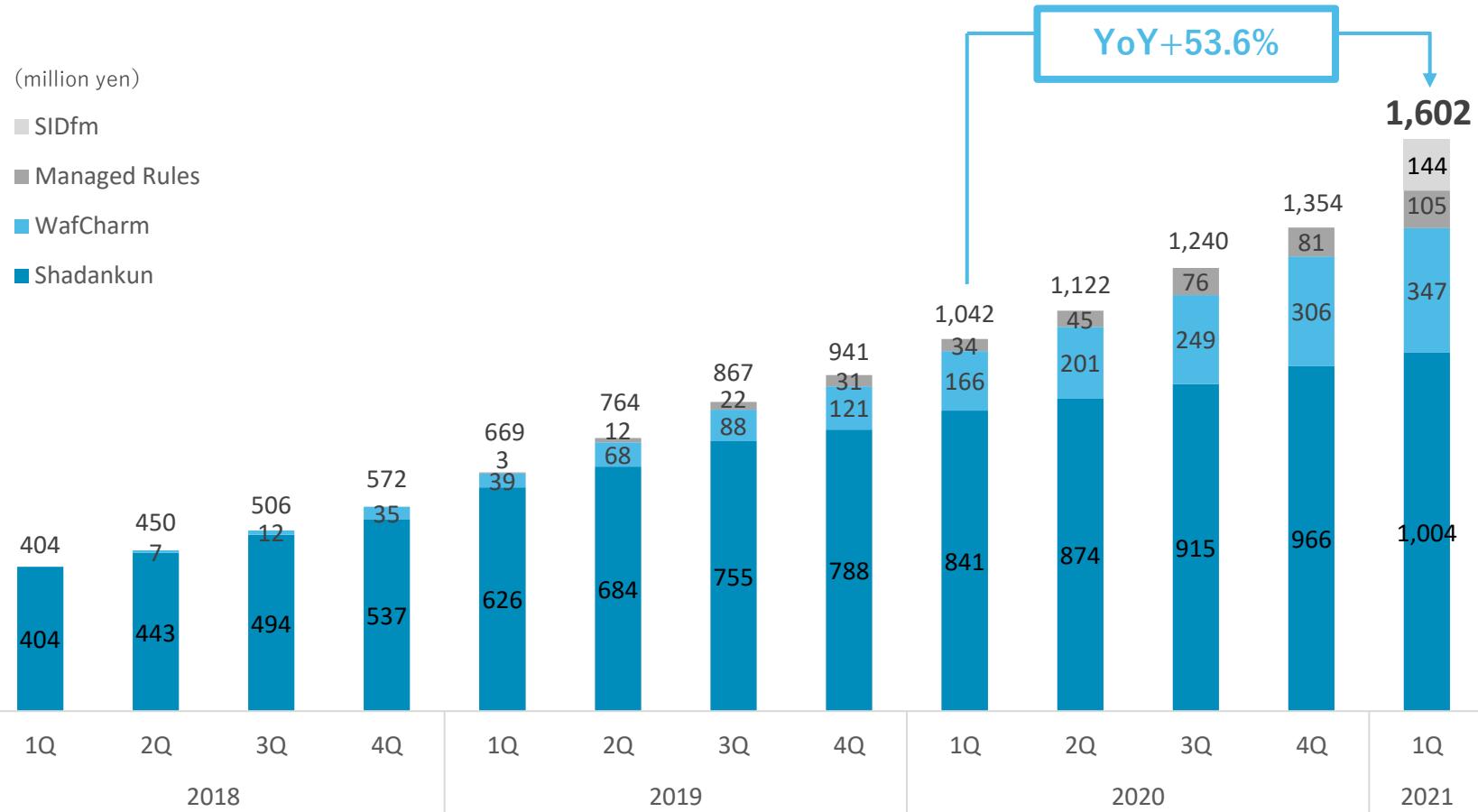
- Sales and incomes increased considerably, thanks to the continuous growth of CSC and the inclusion of Softec in the corporate group
- Progress rates are almost in line with the plan.

(million yen)	1Q of FY 2020 (non-consolidated)	1Q of FY 2021 (consolidated)※	Year-on-year	Full-year forecast for FY 2021	Progress rate
Net sales	260	420	+61.4%	1,790	23.5%
CSC	260	360	+38.5%	1,587	22.7%
Softec	-	59	-	202	29.3%
Gross profit	170	294	+73.0%	-	-
Operating income	43	90	+109.8%	250	36.2%
Operating income margin	16.6%	21.6%	+5.0pt	14.0%	-
Ordinary income	32	92	+185.2%	247	37.5%
Net income	27	59	+117.0%	179	33.1%

※ From 1Q of 2021, P/L of Softec is included.

Variation in ARR

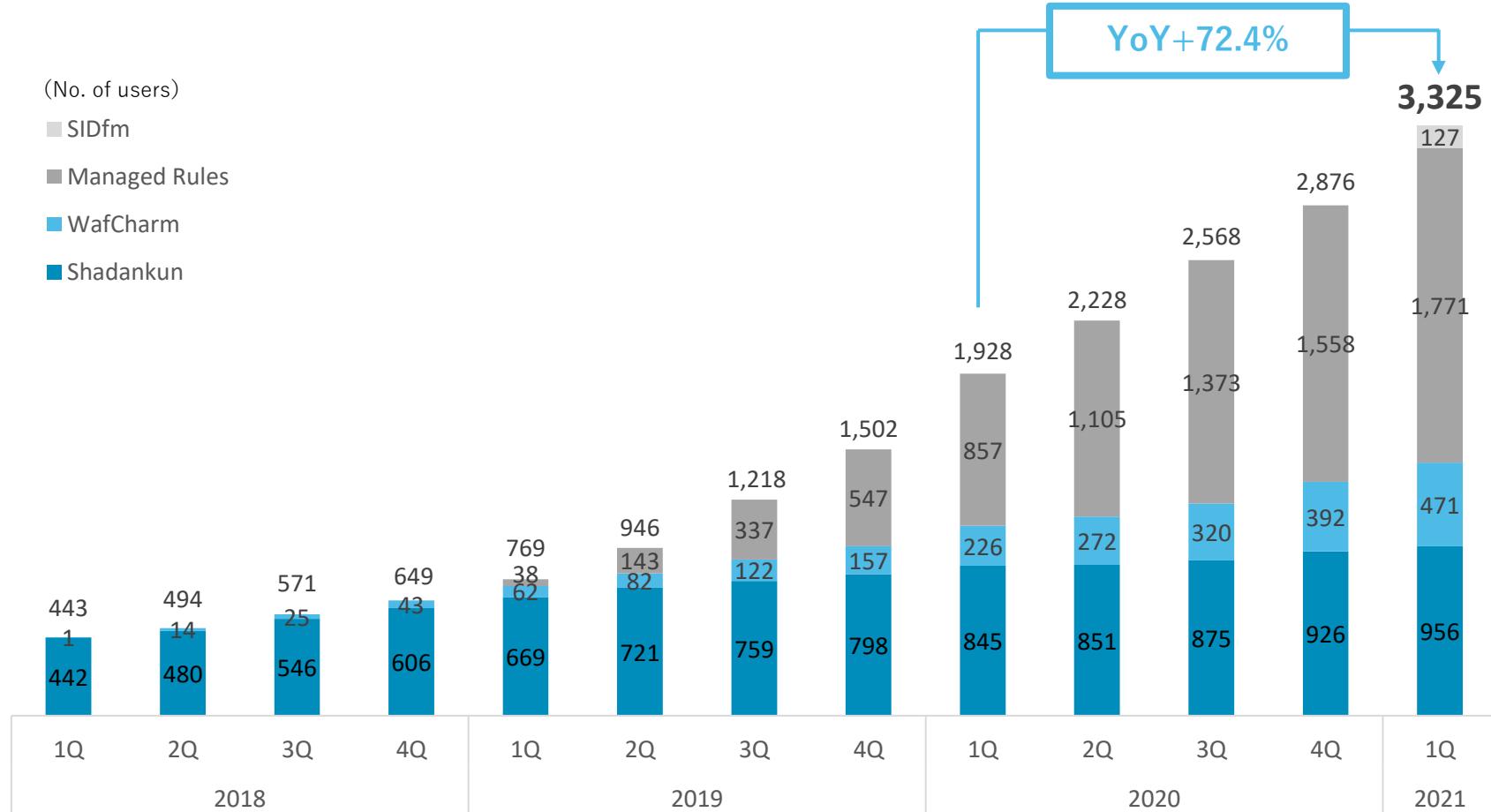
- ARR of Shadankun, which is the mainstay, exceeded 1 billion yen.
- As SIDfm provided by Softec was added, overall ARR exceeded 1.6 billion yen.



ARR: Annual Recurring Revenue. It is calculated by multiplying the MRR at the end of the month concerned 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.

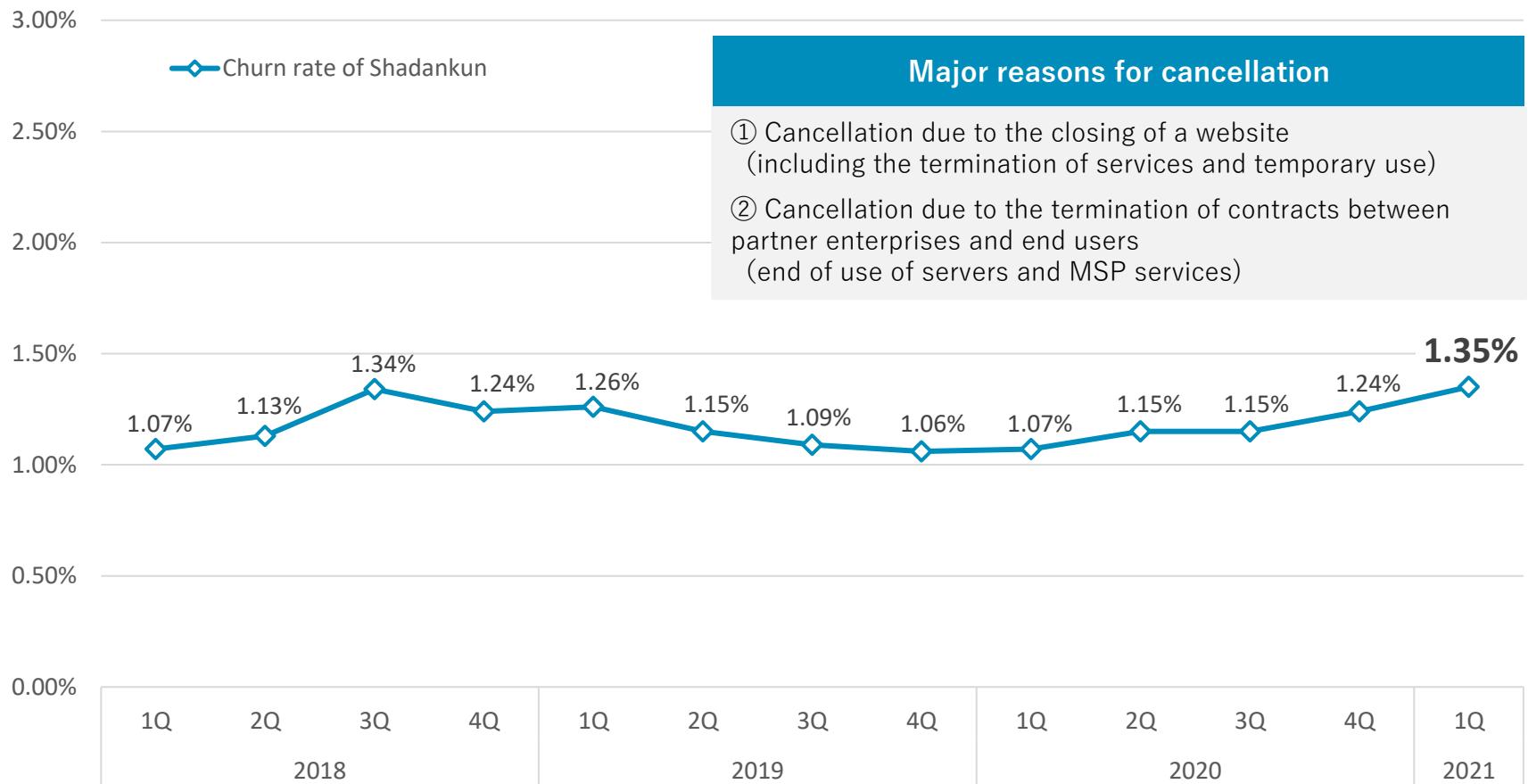
Variation in the number of users

- The number of users of each product has grown steadily.
- We aim to increase the number of users by cross-selling with Softec, which was included in the corporate group.



Low churn rate of Shadankun

- The complaint about this service is not a major reason for cancellation, and churn rate has been on the order of 1%.
- Some users have shifted to WafCharm, but we will keep providing products flexibly according to the environment of users.

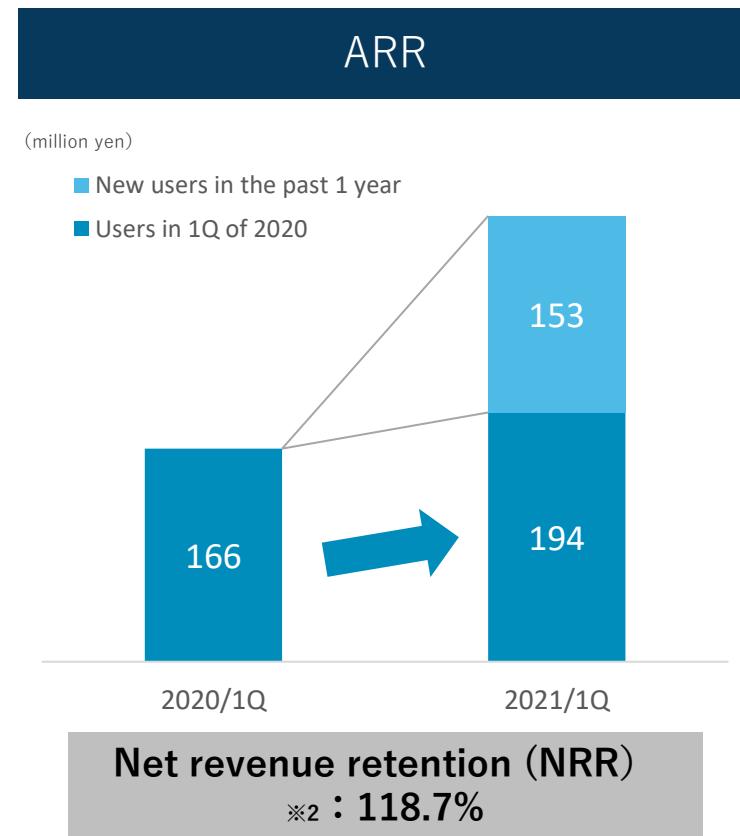
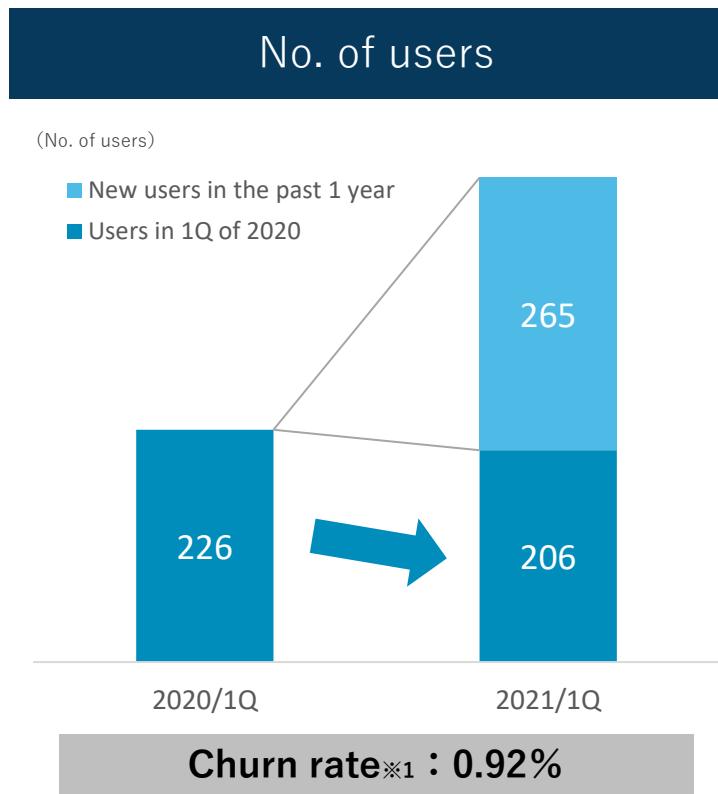


※ Produced based on the average MRR churn rate of Shadankun in the past 12 months.

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.

WafCharm: An increasing number of users and ARR

- The revenue growth due to the up-selling and increased use by existing users exceeded the cancellation amount, and NRR exceeded 100%.
- In the past 1 year, the company increased new users, and this contributed to the growth of ARR.

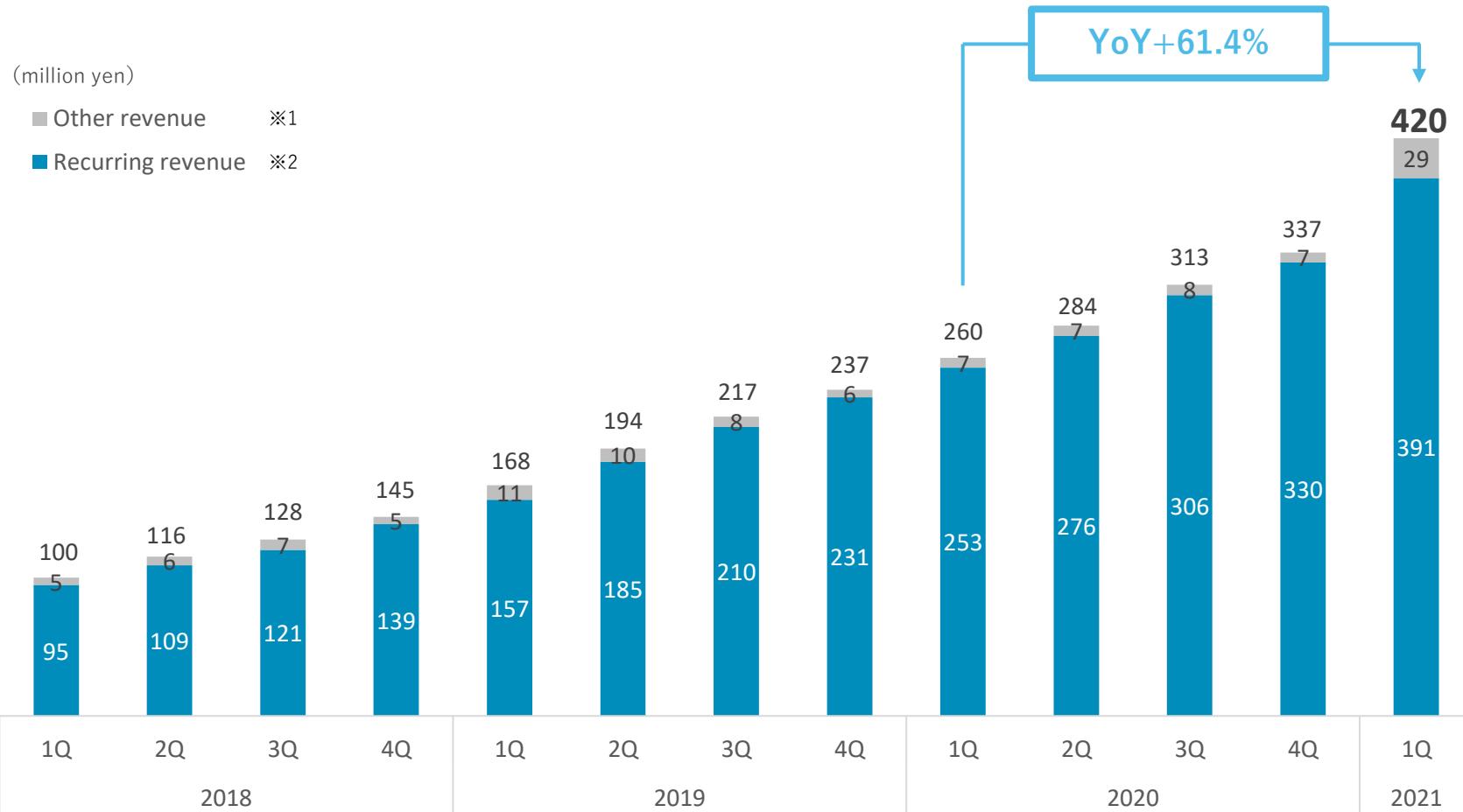


※1 Average churn rate in the past 12 months. Churn rate was calculated by dividing the number of continuous users from the (n-1)th term in the n-th term by the number of users in the (n-1)th term.

※2 NRR stands for Net Revenue Retention (Rate), and is the average in the past 12 months. NRR was calculated by dividing the ARR of continuous users from the (n-1)th term in the n-th term by the ARR of users in the (n-1)th term. When NRR is over 100%, the increase in ARR due to the rise in average spending of continuous users exceeds the decrease in ARR due to cancellation and down-selling.

Variations in quarterly sales and recurring revenue

- Recurring revenue grew considerably, thanks to the net increase of new users of Shadankun and WafCharm and the inclusion of SIDfm of Softec.
- Other revenues from vulnerability diagnosis, etc. contributed, and sales rose 61.4% year on year.



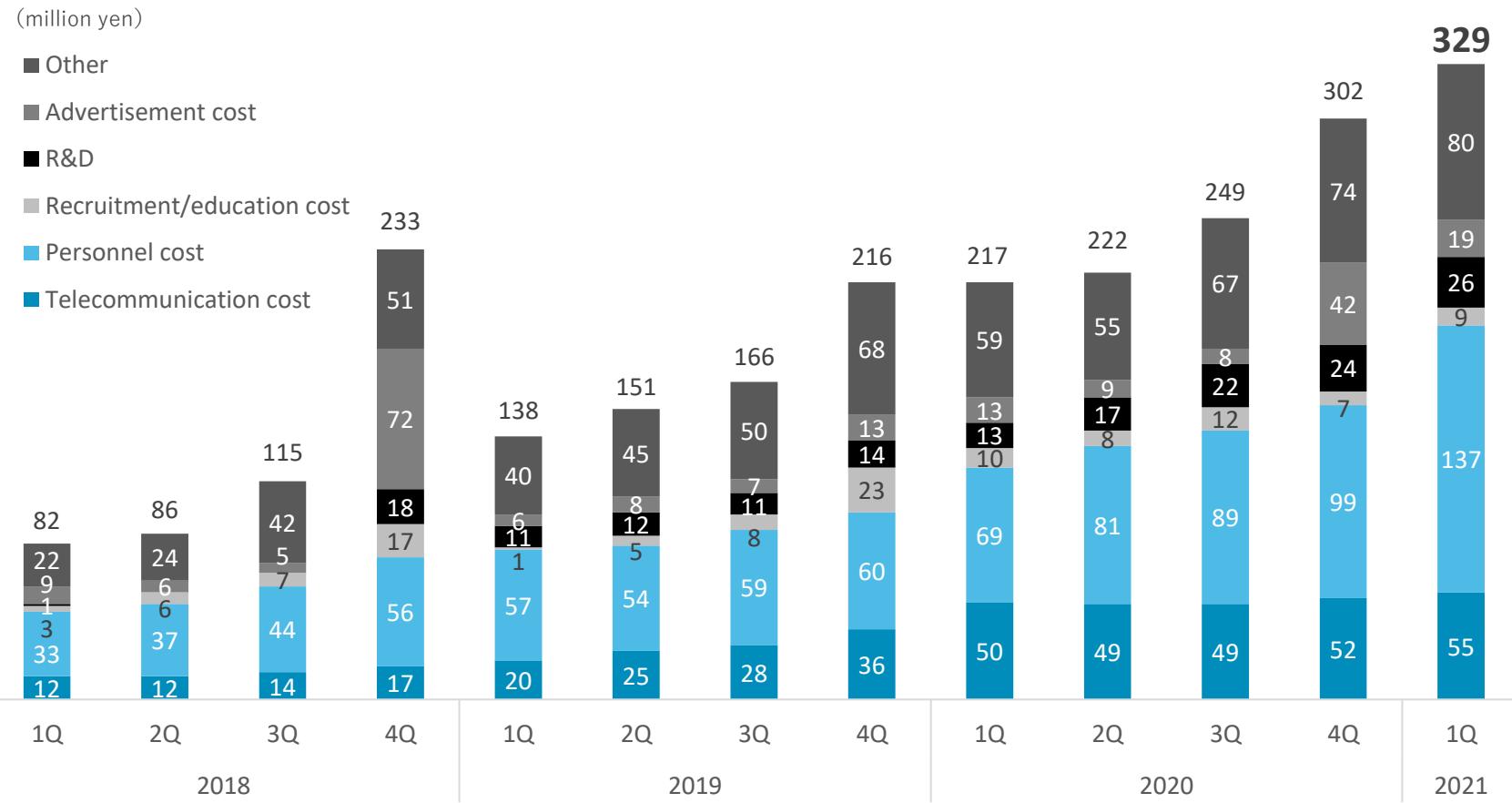
※1 Total sales, including the initial installation costs for Shadankun and spot contracts for vulnerability diagnosis, etc.

※2 Sum of MRR values for Shadankun, WafCharm, Managed Rules, and SIDfm

※3 From 1Q of 2021, the sales of Softec are included.

Variation in operating costs (cost of sales and SGA)

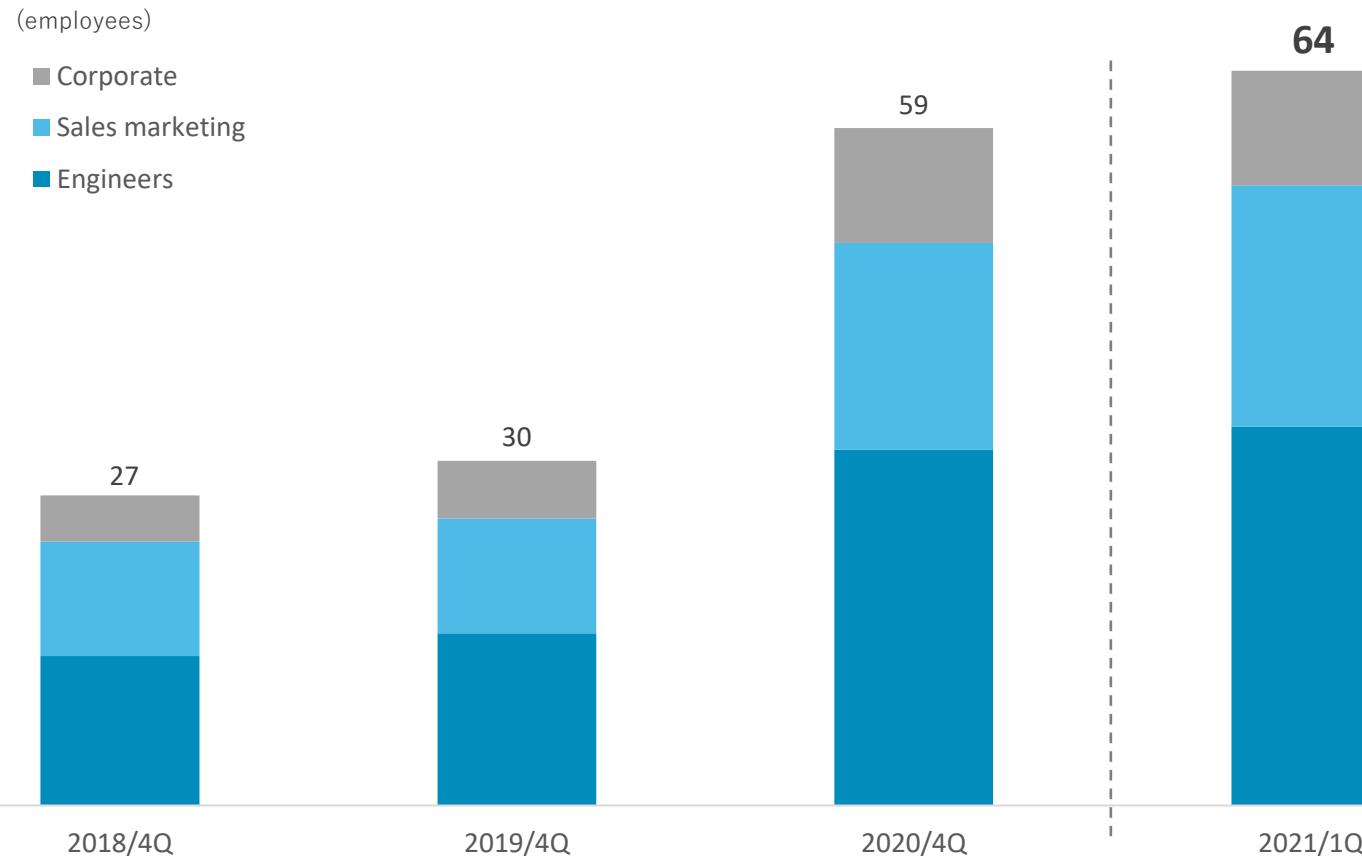
- Personnel expenses augmented due to the recruitment of new employees and the inclusion of Softec in the corporate group.
- Goodwill amortization, etc. due to the acquisition of a subsidiary (Other) increased.



Employees who support the growth of Cyber Security Cloud



- The number of employees rose steeply in one year, due to the steady recruitment and the inclusion of Softec in the corporate group.
- We will mainly recruit more engineers, while expecting mid/long-term growth.



(For reference) Major KPIs of each product

- The performance of Shadankun, which is the mainstay, grew healthily, and ARR of the second pillar WafCharm rose considerably.
- The number of client enterprises and the number of users kept growing considerably.

		FY 2020				FY 2021	Y/y
		1Q	2Q	3Q	4Q	1Q	
 攻撃遮断くん	ARR (million yen) <small>※1</small>	841	874	915	966	1,004	19.4%
	No. of client enterprises	845	854	875	926	956	13.1%
	Churn rate (%) <small>※2</small>	1.07	1.15	1.15	1.24	1.35	+0.28pt
 WafCharm	ARR (million yen)	166	201	249	306	347	109.1%
	No. of users	226	272	320	392	471	108.4%
	Churn rate (%) <small>※3</small>	1.59	1.20	1.12	1.00	0.92	-0.67pt
	NRR (%) <small>※4</small>	109.9	113.0	115.1	119.5	118.7	+8.8pt
AWS WAF Managed Rules	ARR (million yen)	34	45	76	81	105	201.7%
	No. of users	857	1,105	1,373	1,558	1,771	106.7%
 SIDfm™	ARR (million yen)	-	-	-	-	144	-
	No. of users	-	-	-	-	127	-
Total	ARR (million yen)	1,042	1,122	1,240	1,354	1,602	53.6%

※ 1 Calculated by multiplying the MRR at the end of the month concerned by 12 to convert it to an annual amount.

MRR stands for Monthly Recurring Revenue in the subscription model, and means the total monthly recurring revenue from existing customers.

※ 2 Calculated from the average of MRR churn rate in the past 12 months. MRR churn rate means the virtual churn rate obtained by dividing the MRR lost in each month by the MRR at the end of the previous month.

※ 3 The average churn rate in the past 12 months. Churn rate was calculated by dividing the number of continuous users from the (n-1)th term in the n-th term by the number of users in the (n-1)th term.

※ 4 The average NRR in the past 12 months. NRR was calculated by dividing the ARR of continuous users from the (n-1)th term in the n-th term by the ARR of users in the (n-1)th term.

When NRR is over 100%, the increase in ARR due to the rise in average spending of continuous users exceeds the decrease in ARR due to cancellation and down-selling.

II. Business highlights in FY 2021 1Q

Some of client companies

- Security needs grew regardless of industry, scale, and business, and various enterprises have adopted our services.
- Hyper Soft Co., Ltd. subscribed to WafCharm Azure version for the first time.

Finance/public offices,
corporations, and groups

SBI証券

 SOMPOリスクマネジメント

 浜銀総合研究所

 東京財団政策研究所
THE TOKYO FOUNDATION FOR POLICY RESEARCH

 あなたのまちの
筑邦銀行

 公益財団法人
つくば科学万博記念財団
TSUKUBA EXPO'S MEMORIAL FOUNDATION

 全国信用金庫厚生年金基金

IT and services

Inter Factory

 coconala

 hachidori

 Classi

 FANCOM

 aucfan  UNITED

WafCharm Azure版 初契約
HyperSoft
株式会社 ハイパーソフト

Media and
entertainment

 ほぼ日

 istyle

 CAM

Manufacturers

 Pioneer

 キョクヨー

 SIGMA

Transportation and
construction

 ANA

子どもたちに磨れるしごとを。
SHIMIZU CORPORATION
 清水建設

Human resources

 マイナビ

 PASONA
JOB HUB

 SB Human Capital

Some of sales partners

- To offer products to a broad range of users via many sales partners
- We aim to increase sales partners, to expand the sales network.

Leading sales partners



富士通Japan株式会社



APN Premium-tier consulting partners※1



New partners



※1 Consulting partners that produced outstanding results in “AWS Partner Network (APN),” for example, by contributing significantly to many customers and having a lot of certified engineers.

※2 New partners from April 2021

Invitation of an advisor for security technology strategies



- Mr. Takamichi Saito, who is the head of Information Security Lab of Meiji University, was appointed as advisor for security technology strategies, to accelerate R&D.



Mr. Takamichi Saito
Head of Information Security Lab of
Meiji University and the representative
director of Rangeforce, Inc.

Reason for appointment

- As it is indispensable to take measures against security incidents and develop solutions to expected attacks, we appointed him for promoting R&D.

Activities

- To improve the quality of services, including Shadankun, a cloud-based WAF, and WafCharm, a service for automatically enforcing the rules of AWS WAF/ Azure WAF
- To develop new services
- To give education about cyber security measures

Business alliance with Glome Management, Inc.



- To start collaborative development of new cyber security services for medical care in order to protect the medical sector, which handles an enormous volume of personal information.

Provision of original services, mainly WAF



Knowledge nurtured as a leading cyber security company in Japan

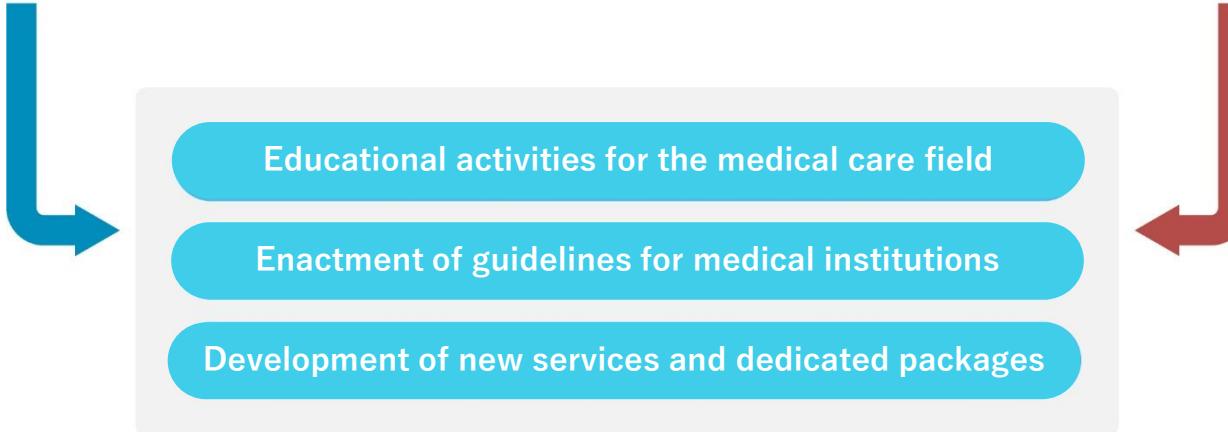
Holding an enormous volume of data amounting to about 2.1 trillion pieces

Management consulting for medical institutions, welfare facilities, etc.



Alliances around Japan

Plenty of know-how to manage medical institutions



III. Reference Material (Corporate Profile)

Company Summary

Company Name: Cyber Security Cloud, Inc

Established August 11th 2010

Listing Date March 26th 2020

Representative Representative CEO Toshihiro Koike
Representative CTO Yoji Watanabe

Senior Management Director CFO Masafumi Kurata (CPA)
Outside Director Yoshinori Ikura (Lawyer)
Outside Director Yoshio Ishizaka

Full-Time Auditor
Outside Auditor
Outside Auditor

Daichi Seki (CPA)
Ikuo Murata
Kenta Izumi

Head Office VORT Ebisu maxim 3F, 3-9-19 Higashi, Shibuya-ku, Tokyo 150-0011, Japan

Business Development of cyber security services using Artificial Intelligence.

Subsidiary SofTek Systems, Inc.
Cyber Security Cloud Inc. (USA)



* as of the end of March 2021

Global

Based in two regions: Japan and USA

Japan

USA

Corporate Philosophy

To create a secure cyberspace
that people around the world can
use safely



Cyber Security



AI (Artificial Intelligence)

AI-based tool for
automatically
managing
AWS/Azure WAF

攻击遮断<h>

WafCharm

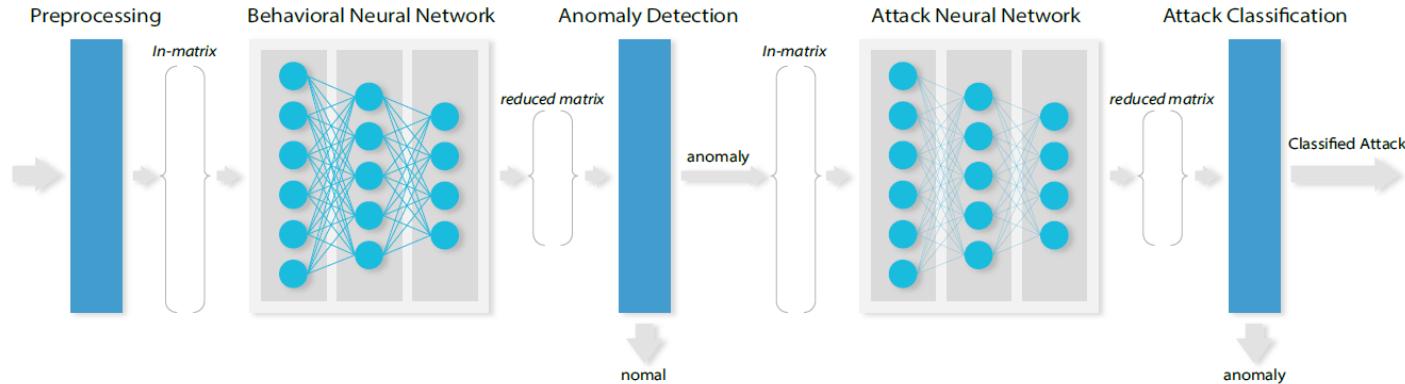
AWS WAF
Managed Rules

Set of rules for
AWS WAF

Utilization of AI to solve social issues

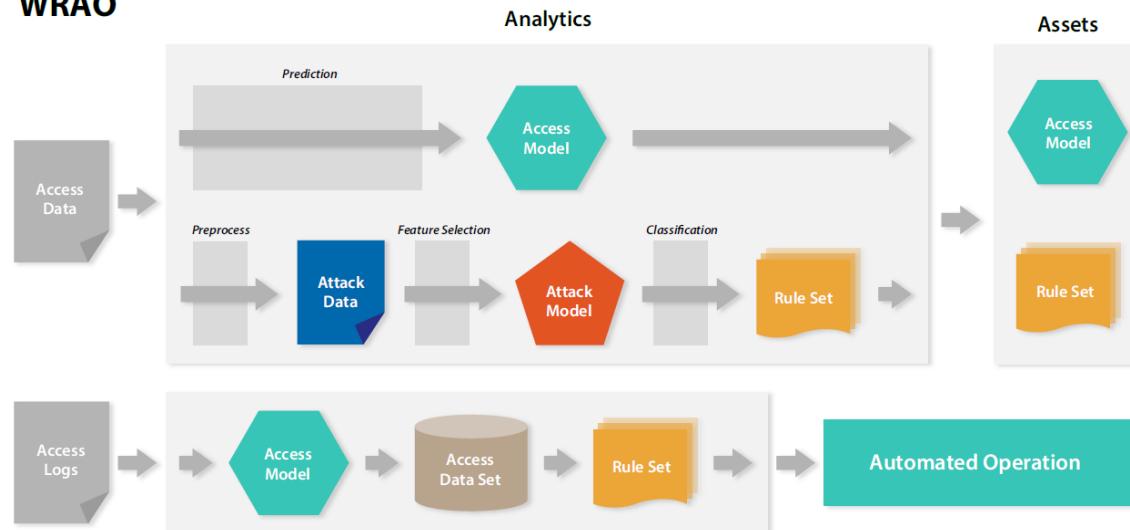
① Sophistication and diversification of attacks – finding unknown attacks and false-positive cases

Cyneural



② Shortage of security personnel – AI to increase efficiency and reduce operational man-hours

WRAO



Corporate security can be classified into two types.



Corporate security



Security of PCs and
in-company networks



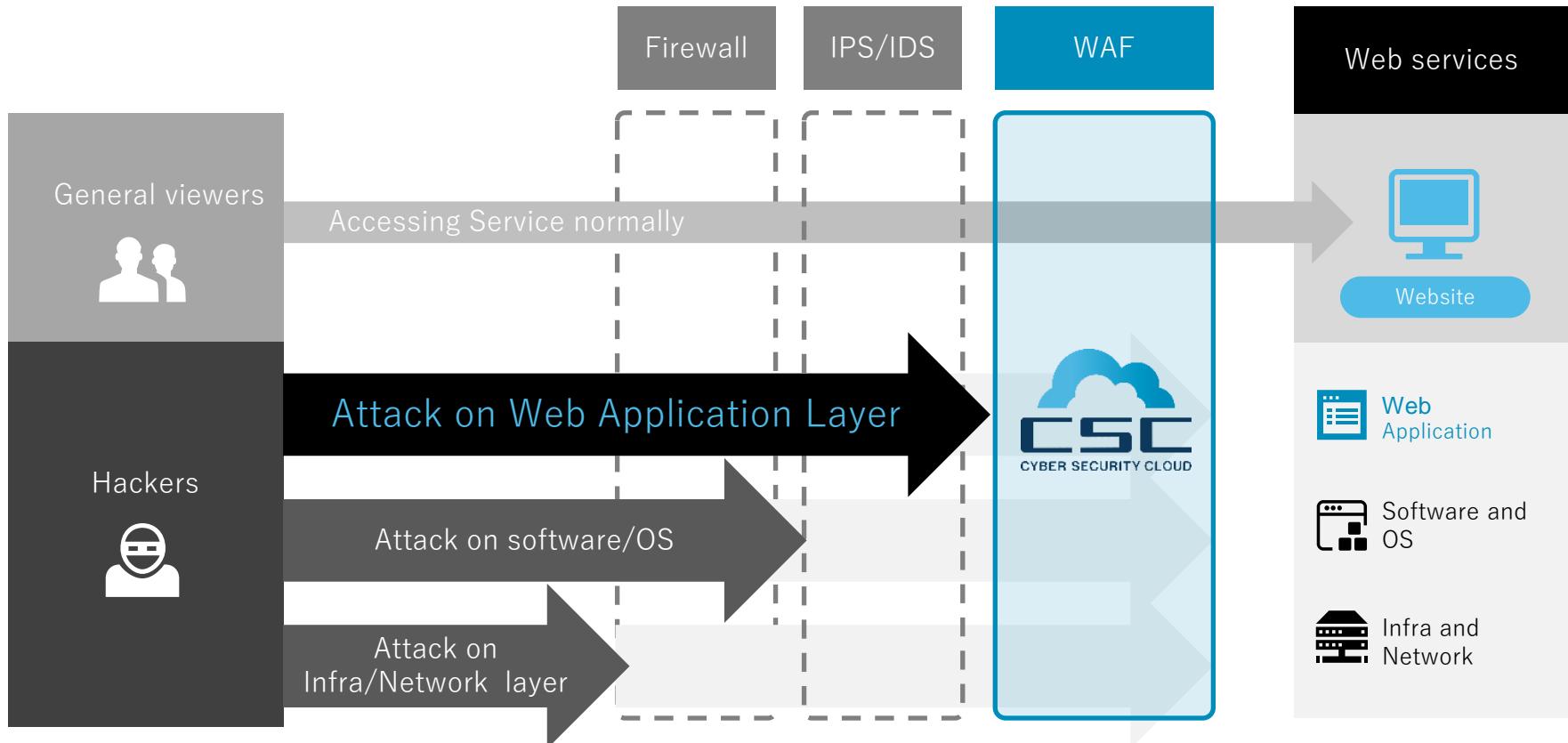
Web security



Security of websites accessed
by everyone, etc.

Areas we protect

What is WAF (Web Application Firewall) in the web security field?

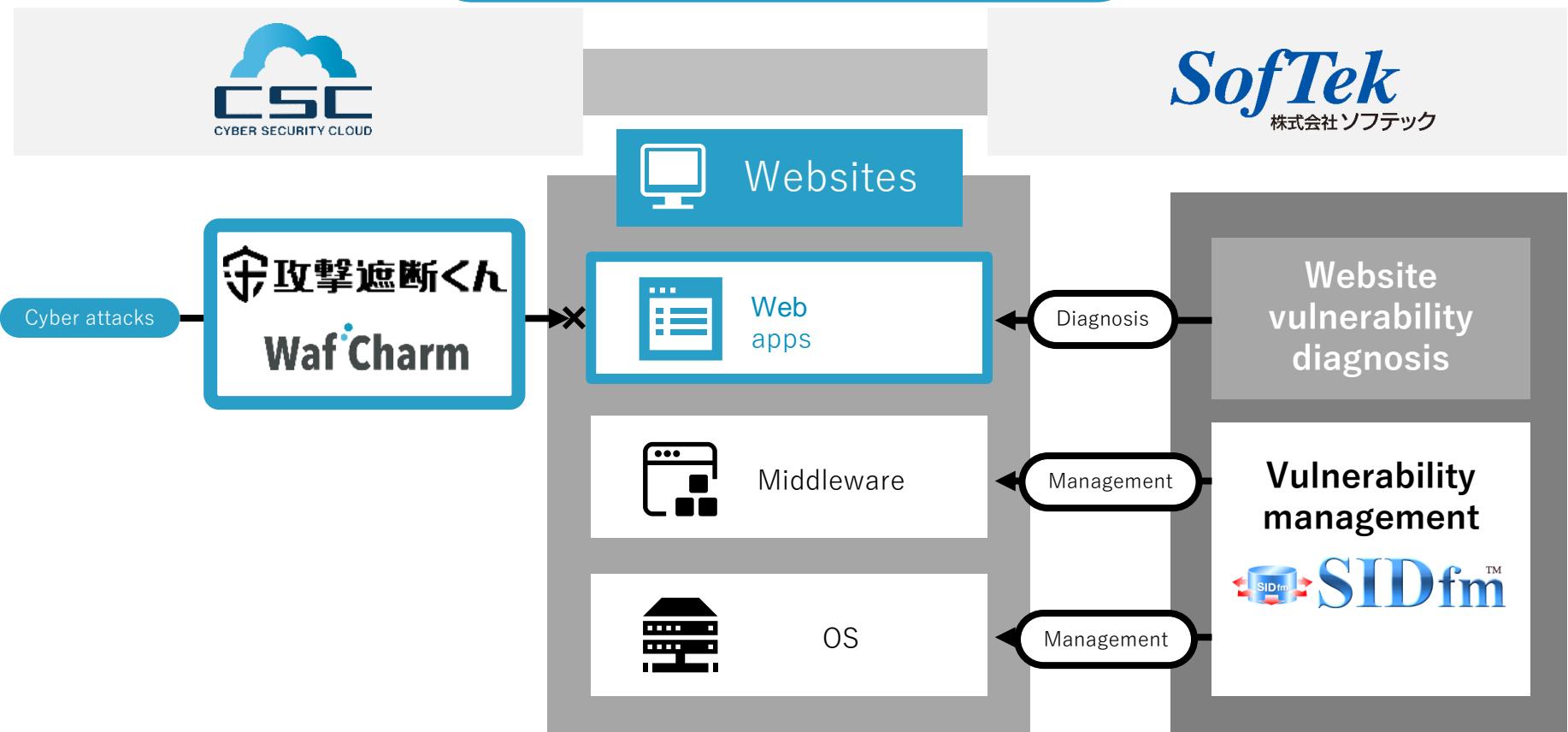


WAF is a firewall protecting intrusions such as “SQL Injection” and “XSS” which cause information leakage and falsification of websites. WAF can also handle attacks which were not protectable with conventional Firewalls or IDS/IPS.

Areas Softek protects

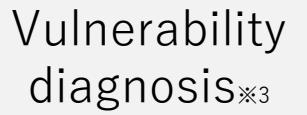
- We obtained all shares of SofTek Systems Inc., and expanded our security domain.
- In the WAF field, we will maximize the synergy between vulnerability management and website diagnosis businesses.

Schematic diagram of the domains of the two companies



Descriptions of products and services provided by our corporate group



Company	Product name	Outline	ARR	No. of installations ^{※1}	Charging method
		Cloud-based web security service for protecting websites from the leak of personal information, falsification, service outage, etc. by blocking external cyber attacks	1,004 million yen	956 companies	Monthly charge
		Service of automatically managing WAF based on AI learning offered to the users of AWS WAF provided by Amazon Web Services (AWS) and AzureWAF provided by Microsoft	347 million yen	471 users	Monthly charge + Pay-as-you-go
		Sale of the security rule set of AWS WAF provided by security vendors via AWS Marketplace. It is possible to conduct sales promotion without active marketing.	105 million yen ^{※2}	1,771 users	Monthly charge + Pay-as-you-go
		Comprehensive solution service including the vulnerability evaluation, operation, and support for software and OS	144 million yen	127 users	Annual contract
		Service of checking safety by gauging the possibilities of information leak, shutdown of web systems, etc. for dealing with the problems and vulnerability of web systems and apps	-	-	Spot contracts

※1 Calculated from the number of companies and the number of users as of the end of March 2021 (Surveyed by our company)

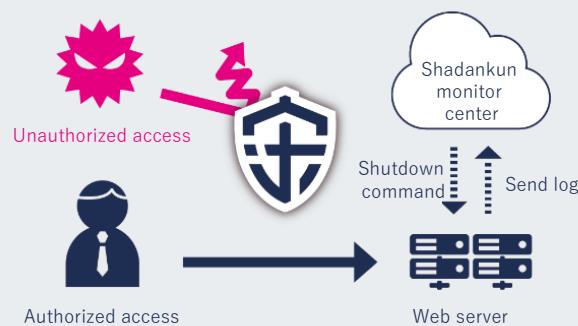
※2 Managed Rules is sold by the U.S. subsidiary, so it is calculated from the posted amount at the headquarters in Japan.

※3 This is a service based on spot contracts and the number of users varies on a quarterly basis, so neither its ARR or number of users is disclosed.

2 architectures provided by Shadankun

Agent Linked Server Security Type

Server Security Type



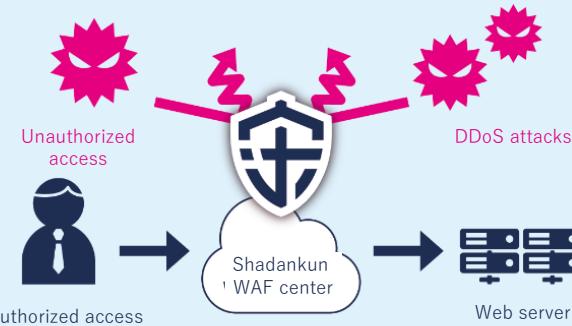
- Can correspond various servers include Cloud (IaaS)
- Easy to identify obstacles

Shared

- No need for a full time security engineer
- Update automatic signature
- Can handle latest attacks

DNS Switching Type

WEB / DDoS Security Type

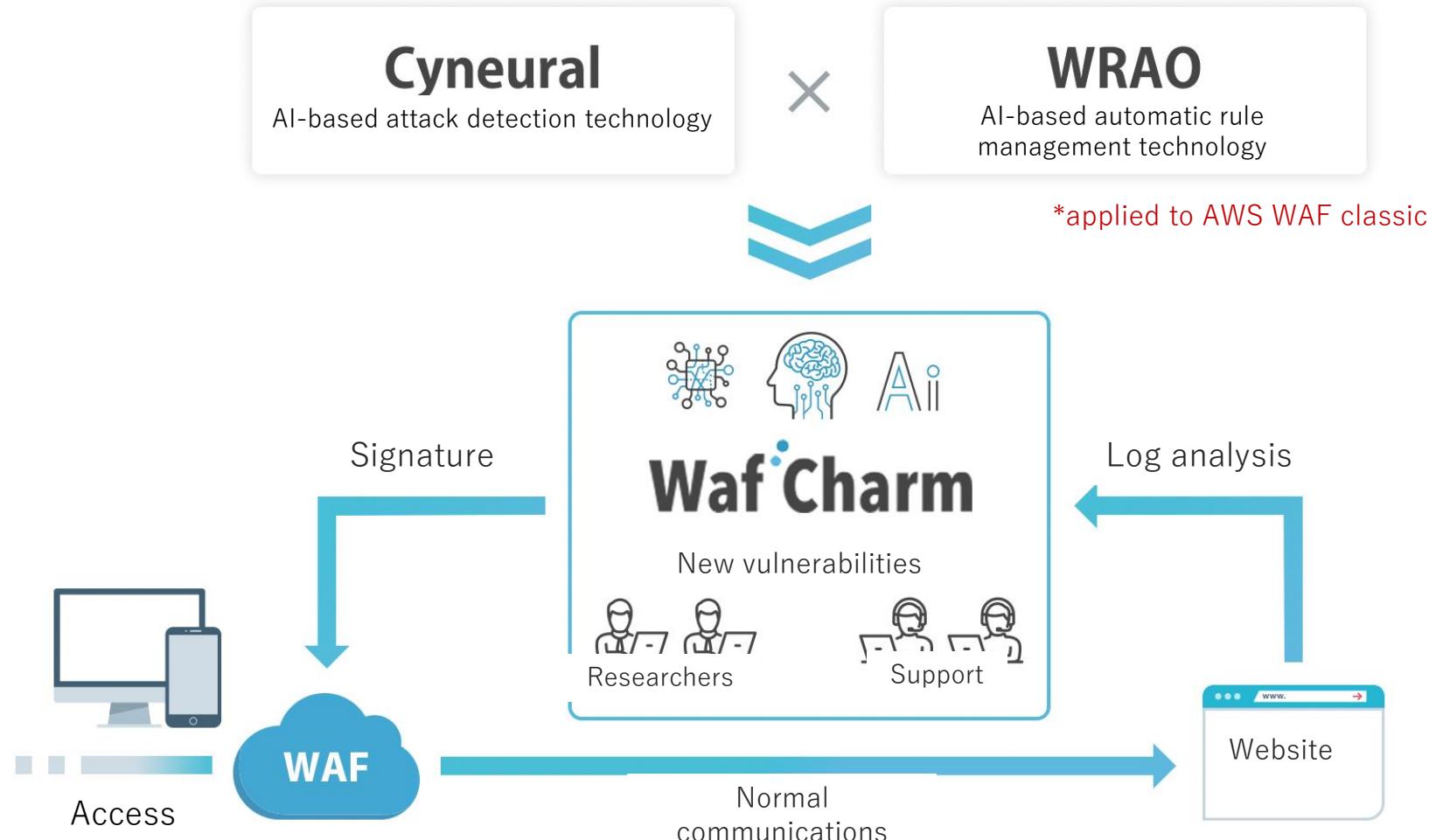


- Switching to DNS only
- Does not burden the resource load of the website
- Can correspond to DDoS attacks

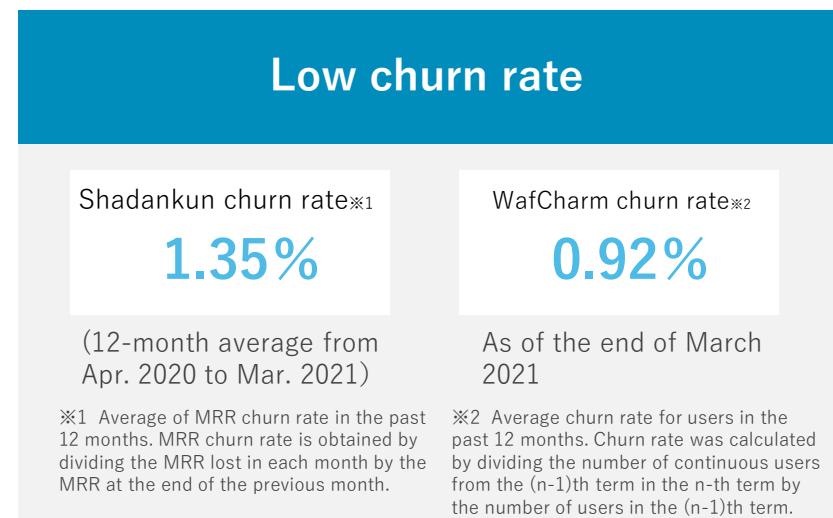
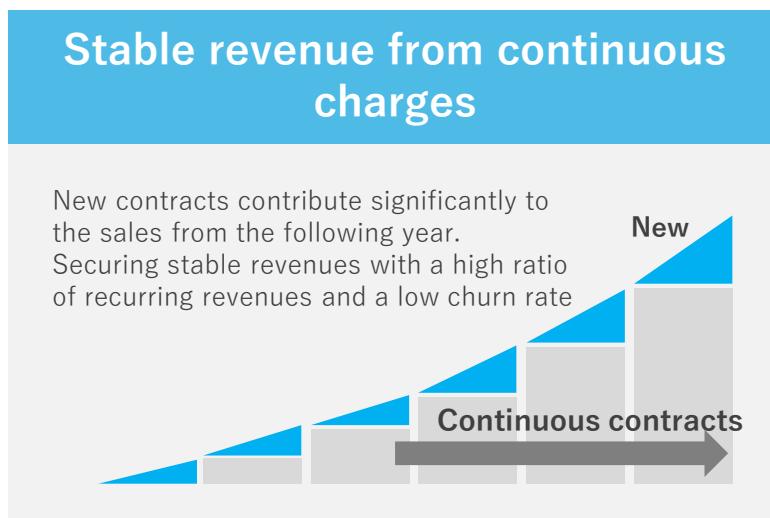
Automating the WAF with AI × big data = WafCharm



To create and set rules best suited for our customers' environment
WAF can be operated with no manpower, from installation to response
to new vulnerabilities



“SaaS type business model” based on recurring revenues



~Situation of global users~

- By utilizing the platform called AWS, we operate business in a total of 70 countries and regions.
- The number of users outside Japan amounts to over 900.



※ Calculated from the number of users of our services outside Japan as of the end of March 2021.

Voices of users

Interfactory, Inc.

Development and operation of the cloud commerce platform “ebisumart”

The largest share in the
cloud EC market ≪1



The largest number of client companies
and sites in the cloud WAF market
※2



As customers are highly aware of cyber security, I thought that WAF, which builds a wall outside a system to block cyber attacks, is an effective option and reassures customers.

We chose Shadankun, because **it can be applied flexibly to extraordinary, complex systems** like ebisumart, which is operated by multiple stores with multiple servers while WAF rules need to be adjustable at each store.

After installation, **it requires few man-hours for management and operation**, so the workload is light. **Interfactory is now able to notify customers that it has implemented security measures to a sufficient degree.**



CTO Ken Mizuno

※1 Source: Fuji Chimera Research Institute “New software business market in 2020 – In-depth survey on major packages and SaaS in Japan” <EC site development tool/SaaS (cart-less type)>

※2 Source: Market survey on “cloud WAF services” (as of June 16, 2019) <Surveyed by ESP Research Institute>
Survey from May to June 2019

Coconala Inc.

Development and operation of “coconala,” a flea market for skills

The largest skill
market in Japan



coconala

The largest number of users who adopted the service
of automatically managing AWS WAF in Japan ≪3



Some frameworks were old versions, and I considered that any problem during the shift to new frameworks would produce significant trouble. However, it was difficult to offer security patches from our resources, so we decided to adopt WAF for security measures.

With WafCharm, **it became much easier to operate AWS WAF**. By leaving the operation of AWS WAF to WafCharm, **it became unnecessary to allocate resources to security measures anymore**. Their support is perfect, and **they deal with our worries and questions smoothly in a satisfactory way**.



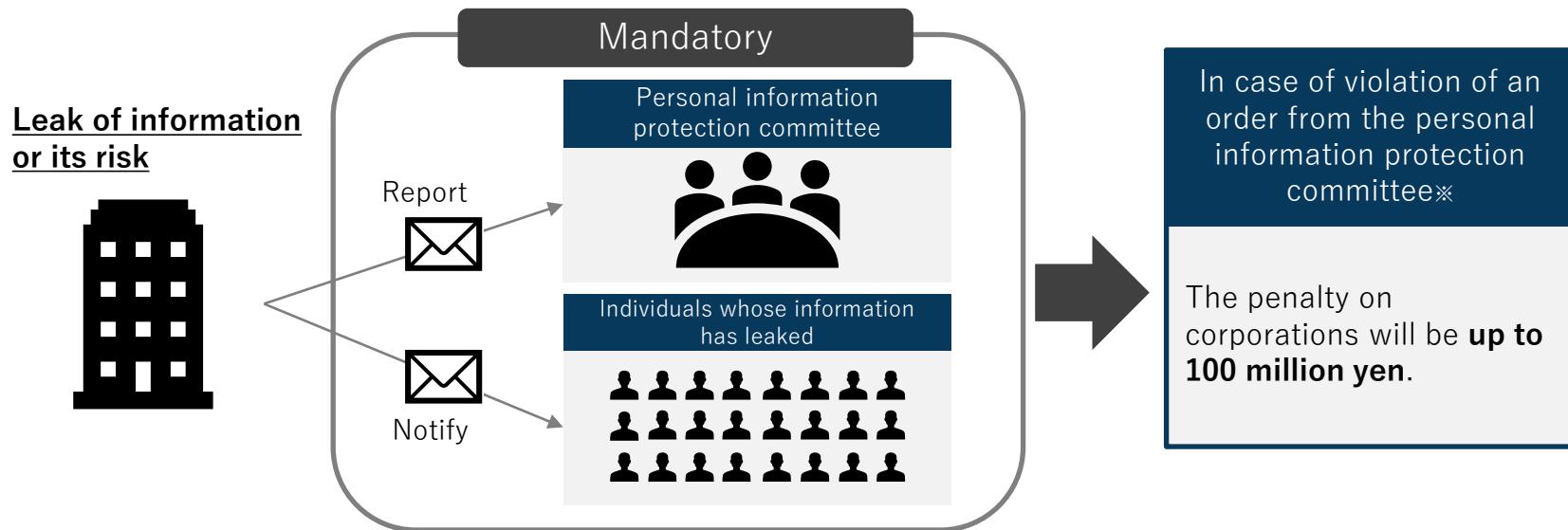
Development Dept. Head Kunihiro Okamoto

※3 Source: Survey by JMRO (Survey in the term ended July 2020)

IV. Reference Material (Market Environment)

Regarding the amended Act on the Protection of Personal Information

- In Dec. 2020, the statutory penalty was raised, and the penalty on corporation became severe.
- Full enforcement is scheduled in Apr. 2022. If information leaks, it will be necessary to report it to the personal information protection committee and notify those whose information has leaked.



Items that need to be reported to the committee and individuals whose information has leaked set forth in the regulations of the personal information committee because there is a greater risk of harming the rights and interests of individuals

- ① Leak of personal information that needs to be handled carefully (such as data on health checkups and medical histories)
- ② Leak of personal information that may cause damage to assets when used improperly (such as credit card information)
- ③ Leak that may have been caused for a nefarious purpose (such as unauthorized access and hacking)
- ④ Leak of personal information on over 1,000 individuals

※ Violation of an order from the personal information protection committee, unauthorized provision of a personal information database, etc.

Concrete examples of information leak

- A lot of information leaked in various fields. Before the full enforcement of the amended Act on the Protection of Personal Information, all enterprises need to fortify cyber security.

Field	Description	No. of pieces of information
Information/telecommunication	Due to the unauthorized access by a third party, the business information of affiliates and the information on employees leaked.	About 20 million
Air transportation	A database on customer information was accessed improperly, and then the data on names, member numbers, and statuses leaked.	About 1 million
Education	System servers suffered cyber attacks, and information on the use of the servers leaked.	About 43,000
Finance	Smartphone apps for members suffered cyber attacks, and customer ID information was accessed improperly.	About 16,000
Electric power/gas	Provided apps suffered unauthorized access, and email addresses leaked.	About 10,000
Electric devices	Cloud servers suffered cyber attacks, and some information on business partners leaked.	About 8,000
Food products	EC sites suffered unauthorized access, and membership information leaked.	About 5,000
Land transportation	EC sites suffered unauthorized access, and card information leaked.	About 3,000
Media	EC sites suffered cyber attacks, and personal information leaked.	About 1,000

Cases of damage done to websites through cyber attacks

- Cyber attacks could affect corporate business activities in various ways, leading to the leakage of personal information, the decline in stock prices, and shareholder derivative suits.



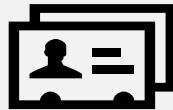
Loss of Sales Opportunity



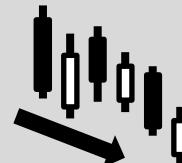
Damaging Brand Image



Compensation for damages
(about 630 million yen/case※1)



Leakage of Personal Information



Decline in Stock Prices
(10% on average※2)



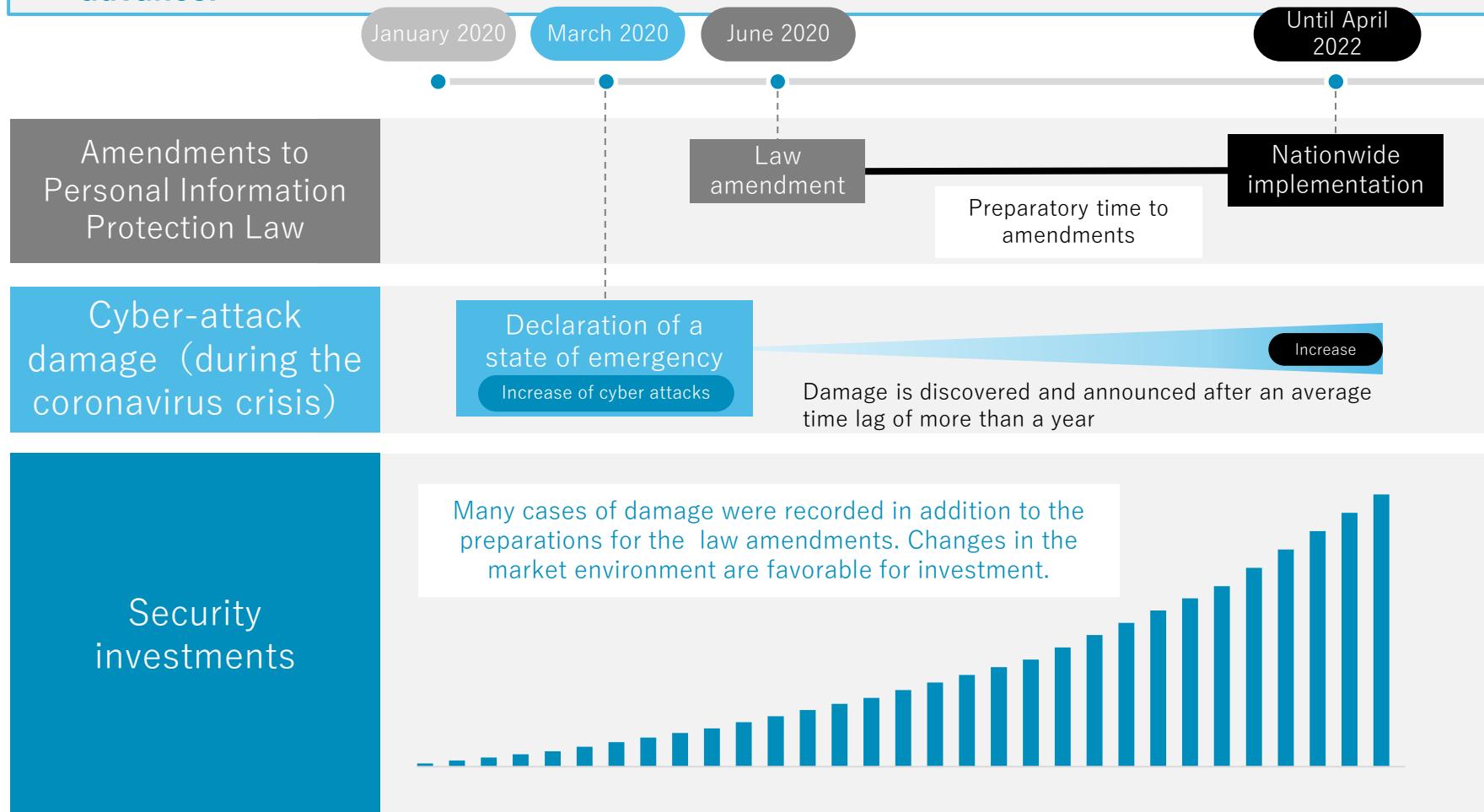
Shareholder Derivative Suits

※1 Source : JNSA 2018 " Survey Report regarding Information Security Incident"

※2 Source : JICI "Quantifying Cyber Risk Survey which can be used in discussions at Board of Director meetings"

Changes in the market environment in the medium to long term

- In addition to amendments to Personal Information Protection Law, the number of cyber attacks rose.
- Security investments are expected to increase as preparations for law amendments advance.



Disclaimer



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