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

Tobila Systems Inc.

(Tokyo Stock Exchange Mothers 4441）

II TOBILA SYSTEMS

December 2019

Contents

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

**FY10/19
Sales composition**

Fraudulent and spam prevention services
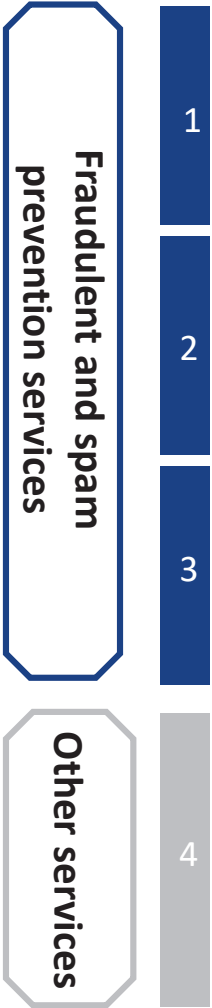
1
Filtering Service for Mobile Phones
Tobila Phone Mobile, Fraudulent Call Blocking and other services

75.7%

Core businesses

2
Filtering Service for Landline Phones
Home Gateway, Tobila Phone for filtering fraudulent calls

10.9%

Allocating substantial resources for growth

3
Filtering Service for Business Phones
Tobila Phone Biz for filtering fraudulent calls

1.6%

Other services

4
Other services
Sale of the HP4U website design and operation support system and the contracted development projects

11.9%

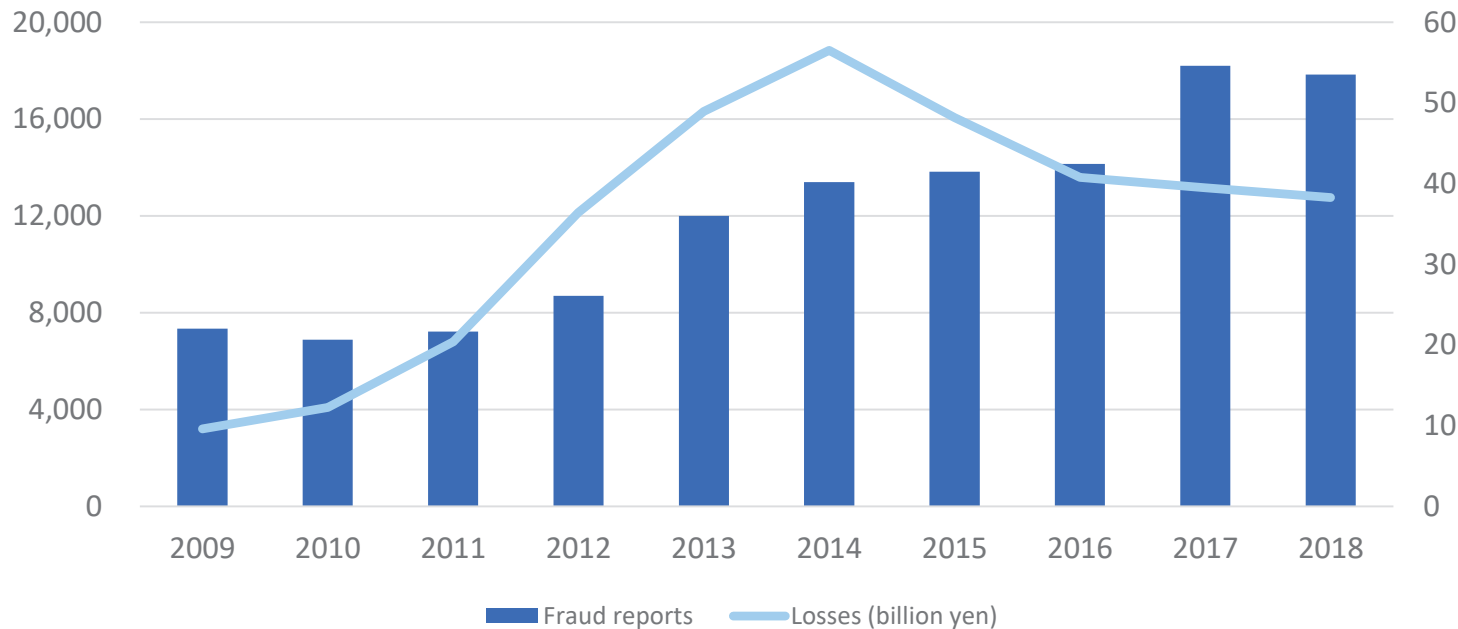**Not aiming for significant growth**

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.

Use technology to eliminate problems caused by fraudulent and spam activities

Year	Fraud reports	Losses (billion yen)
2009	~7,300	~9
2010	~6,900	~12
2011	~7,200	~21
2012	~8,700	~36
2013	~12,000	~49
2014	~13,400	~57
2015	~13,800	~48
2016	~14,100	~41
2017	~18,200	~39
2018	~17,844	~38

Legend: ■ Fraud reports — Losses (billion yen)

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

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Strengths of Tobila's Database Technology

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

Data from police

Large volume of clearly defined telephone use data

More users

Exclusive data analysis techniques

Rapid identification of blocked phone numbers
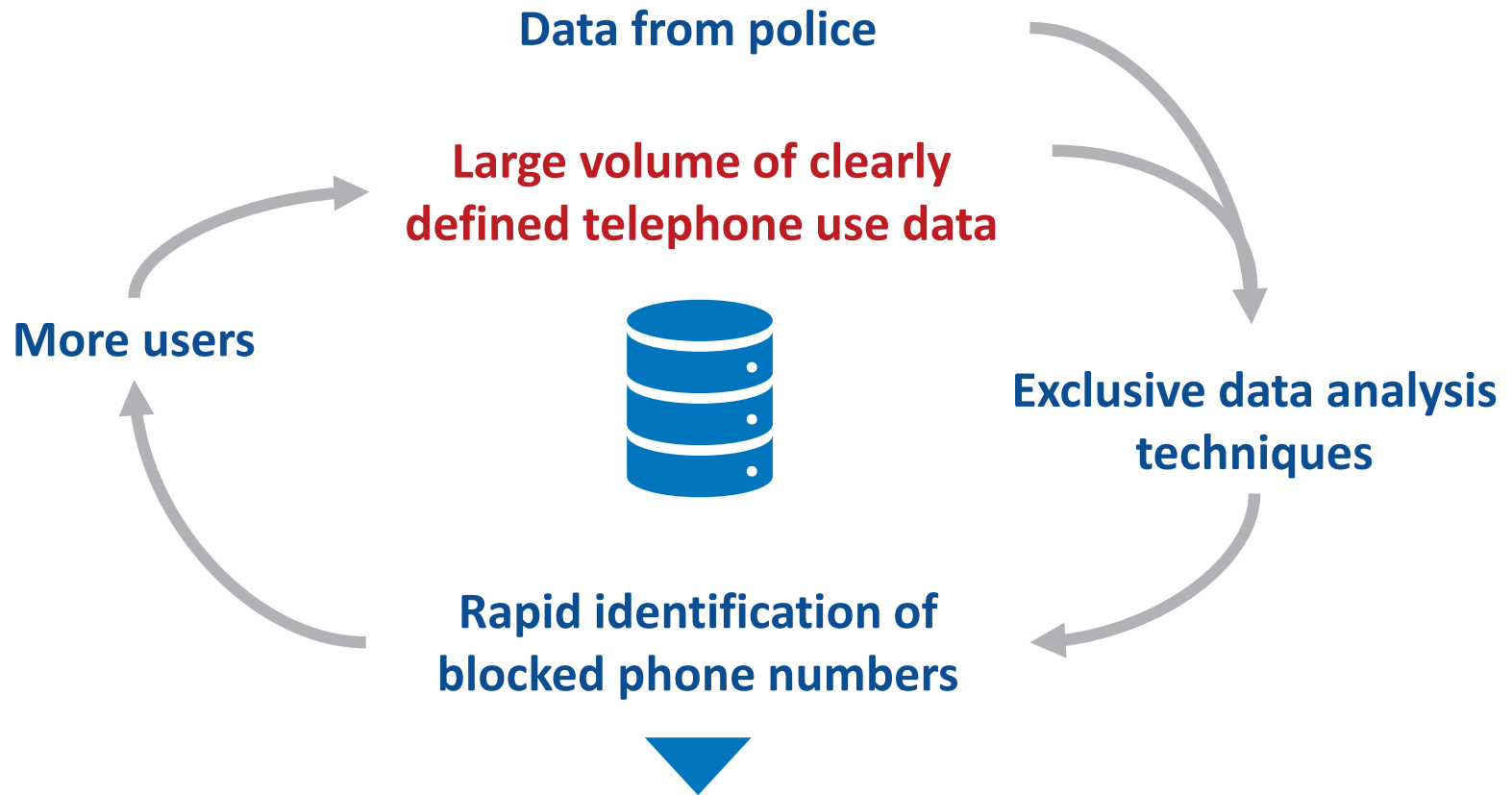
Our goal is the elimination of problems caused by fraudulent and spam activities (17,844 cases in 2018) in Japan!
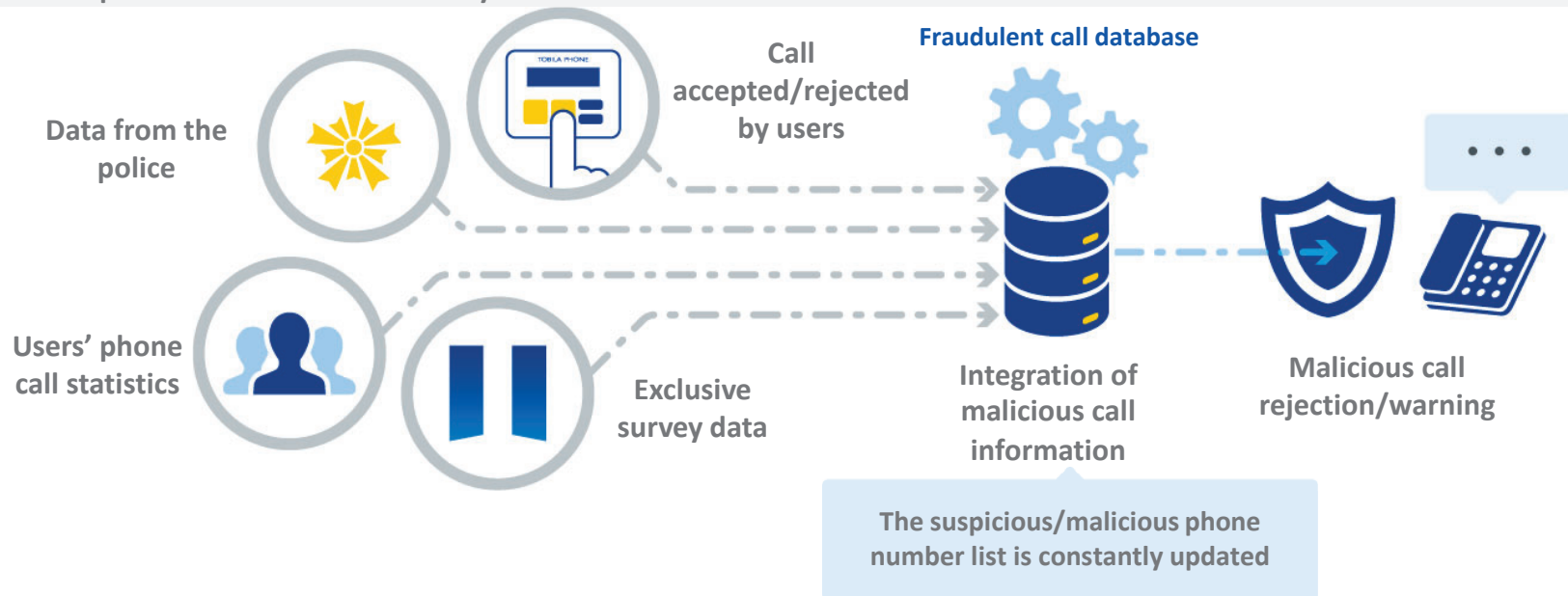
The High Barriers to Entry of the Fraudulent and Spam Prevention Services

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.

Data from the police

Users' phone call statistics

Exclusive survey data

Call accepted/rejected by users

Fraudulent call database

Integration of malicious call information

Malicious call rejection/warning

The suspicious/malicious phone number list is constantly updated

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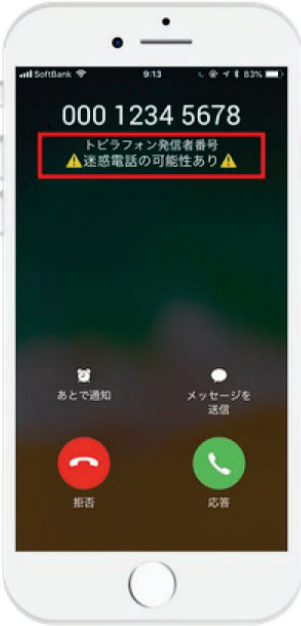
Our Services and Business Model

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

Carrier/App (Examples)	Incoming call screen (when suspicious/malicious number is detected)	A function for automatically displaying information about the caller

SoftBank

Fraudulent Call Block

KDDI (au)

Fraudulent Message/Call Block

docomo

Complete Confidence Security

iPhone version   Android version

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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.

Packaged with other optional apps

Explanation/sale when phones are purchased

Provision of app

Carrier shop

Carriers

Users

TOBILA
SYSTEMS

License fees

Optional app package fee is paid with the phone service fee
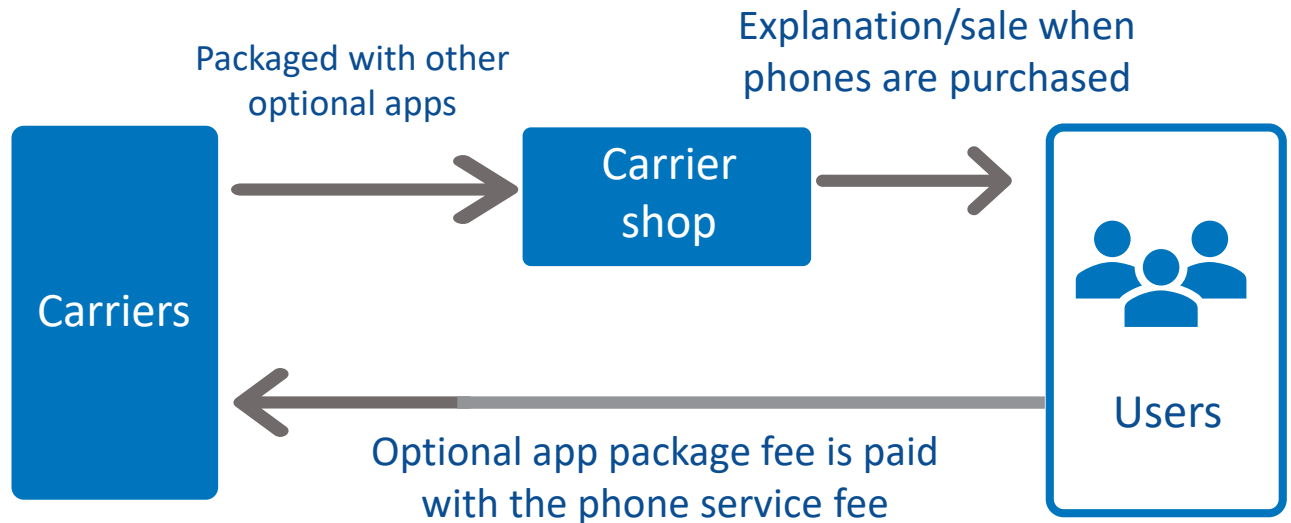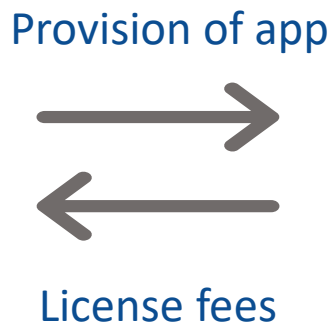
Tobila Systems receives license fees from the carriers

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

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

**The three main contract categories with cell phone carriers
The monthly active users ✕ unit price model will be the primary source of growth**

Fixed payment

No. of contractors ✕ Unit price

Monthly active users ✕ Unit price

Tobila Systems' sales remain the same regardless of changes in the number of the carrier's user contracts and monthly active users
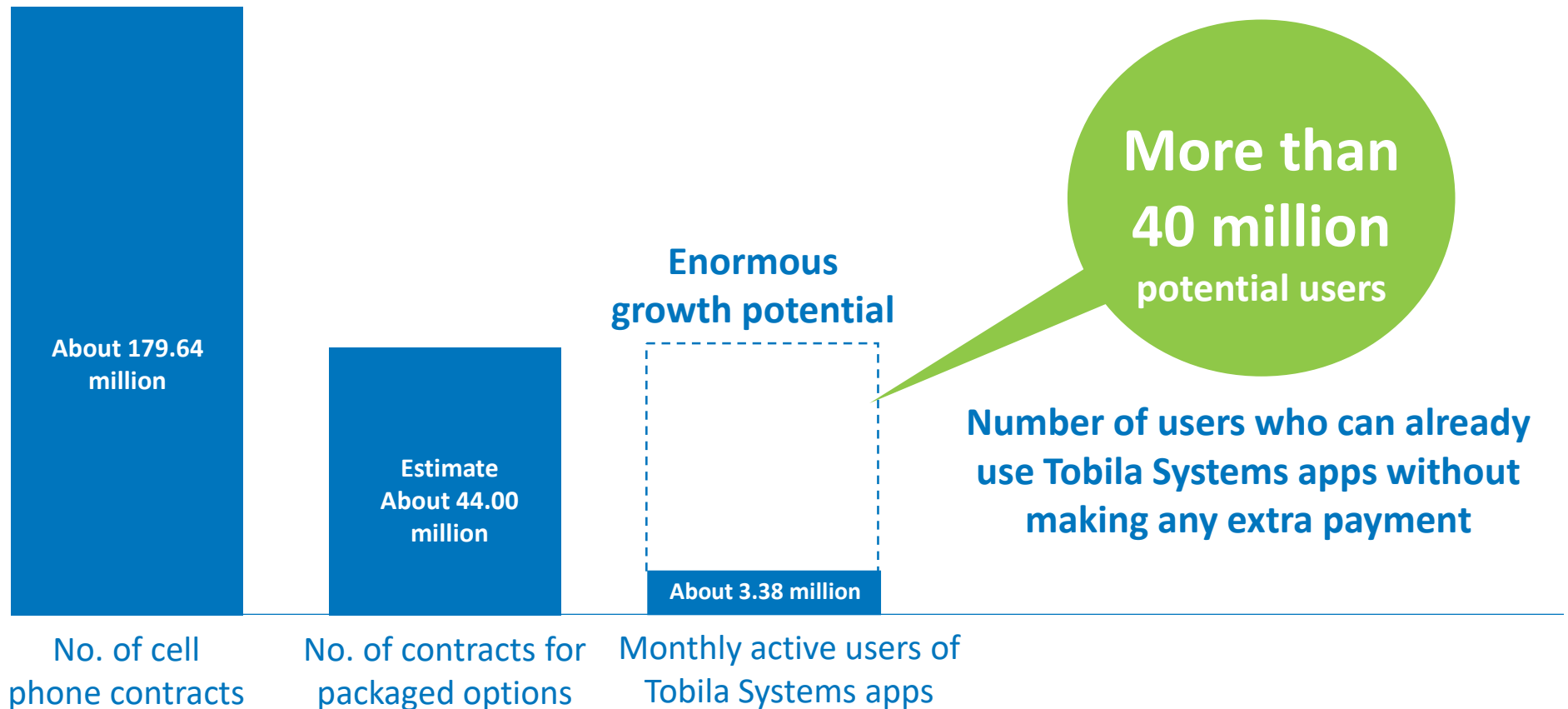
Tobila Systems' sales change along with the number of users who have signed up for the package of options

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

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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

About 179.64 million

Estimate About 44.00 million

Enormous growth potential

About 3.38 million

More than 40 million potential users

Number of users who can already use Tobila Systems apps without making any extra payment

No. of cell phone contracts

No. of contracts for packaged options

Monthly active users of Tobila Systems apps

* 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)
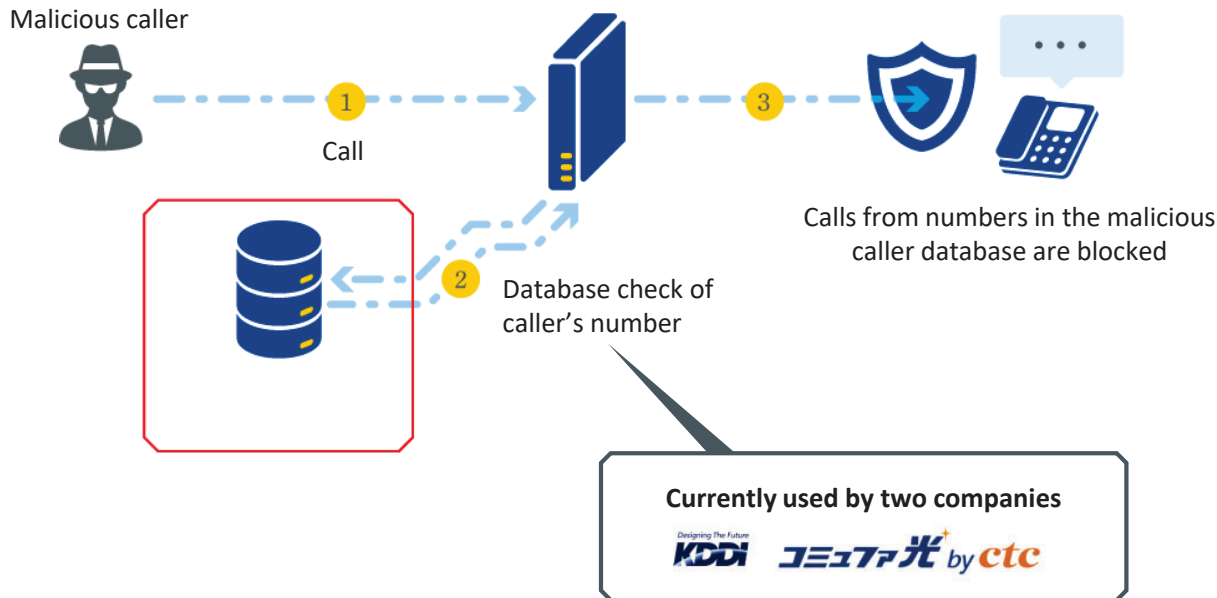
Filtering Service for Landline Phones

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	**With Attachment for Landline Phones**
Provided to the Home Gateway systems of two KDDI Group companies	Incoming calls trigger one of three colors depending on the level of safety LED

Malicious caller

Call

① ③

② Database check of caller's number

Calls from numbers in the malicious caller database are blocked

Currently used by two companies

Designing The Future
KDDI コミュファ光 by ctc

LED light emitting unit

For incoming calls

Safe
Green
A phone number that the user has registered for receipt

Neutral
安全度
Yellow
A call from public phones or a phone number that is not registered in the blocking list

Dangerous
安全度
Red
A phone number that the user has registered for rejection or that is in the blocking list, etc.

*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

Option package (incoming call display, etc.) for fiber-optic phone services

Sale of an option package

Provision of services →

Telecommunication companies

Shop

Users

License fees ←

Option package fee is paid with the phone service fee
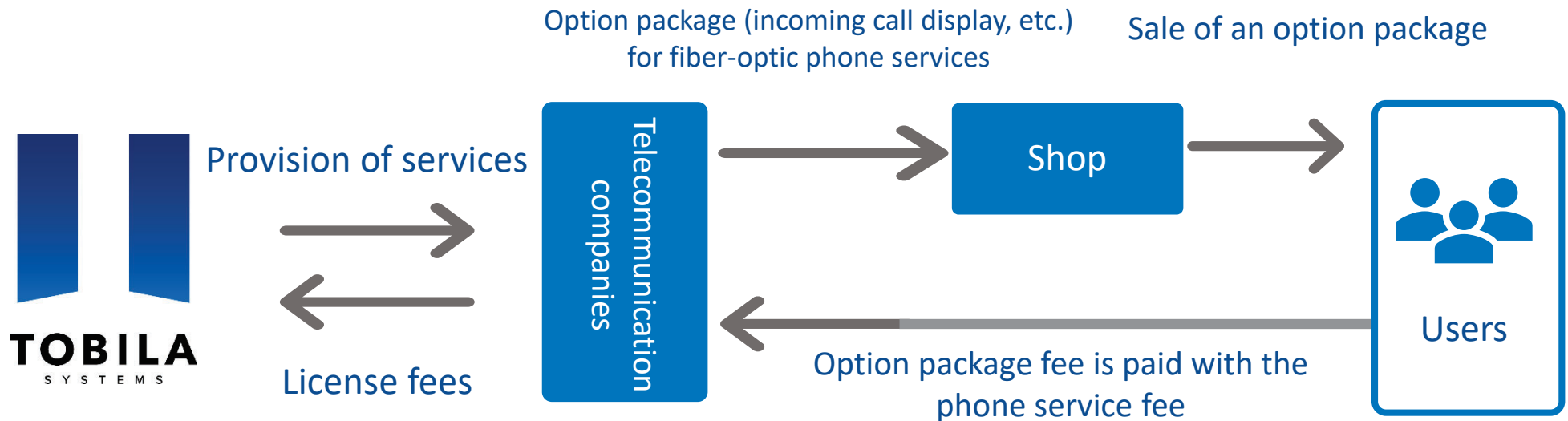
Tobila Systems receives license fees from the telecommunication companies

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

● **Licensing fee scheme ・・・ Number of optional package contracts ✕ Unit price**

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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**
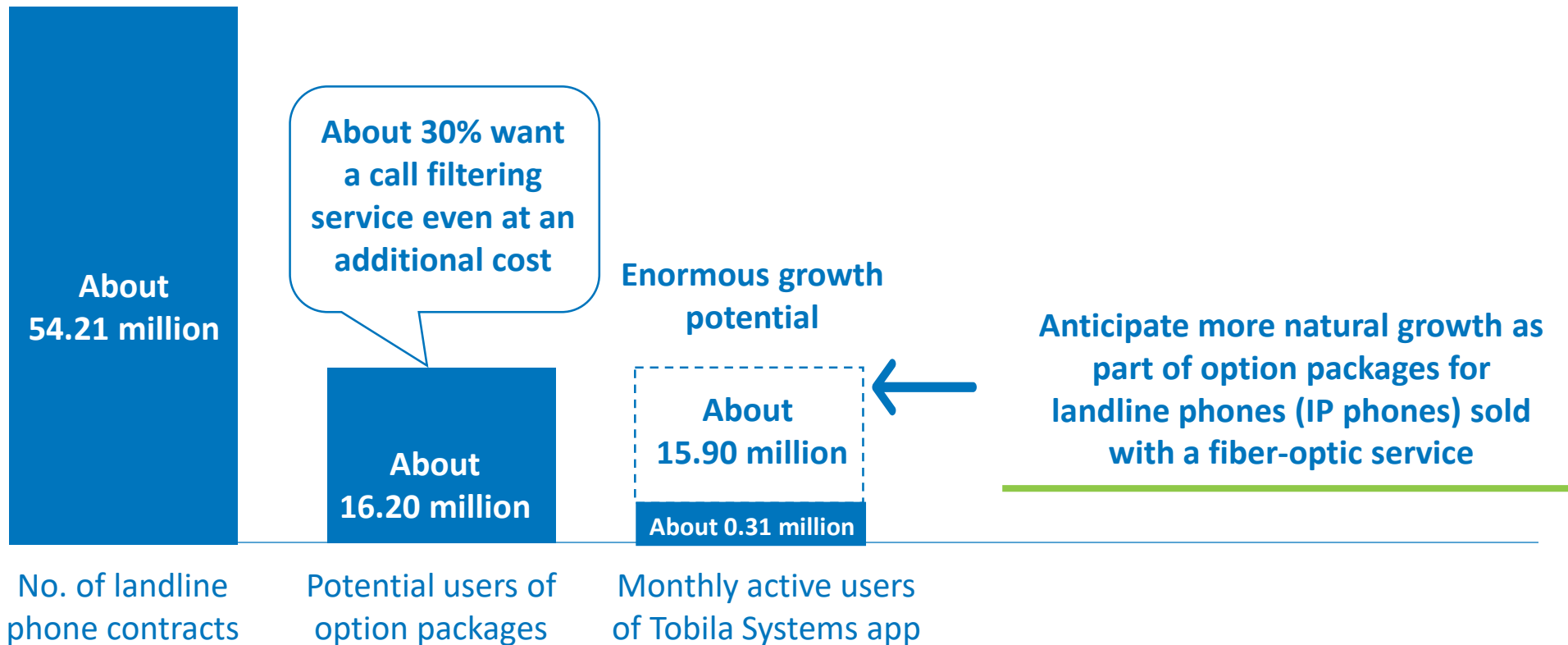
**About
54.21 million**

About 30% want a call filtering service even at an additional cost

**About
16.20 million**

Enormous growth potential

**About
15.90 million**

About 0.31 million

Anticipate more natural growth as part of option packages for landline phones (IP phones) sold with a fiber-optic service

No. of landline
phone contracts

Potential users of
option packages

Monthly active users
of Tobila Systems app

*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 strengths corporate compliance and reduces the risk of errors when receiving/placing orders

Tobila Phone for Business for fiber-optic links

Tobila Systems investigations

Tobila Phone

Tobila Phone for Business for fiber-optic links

Fraudulent call database

Attachment exclusively for Tobila Phone for Business

Automatic accumulation of malicious phone number data and updating of list of blocked numbers

Simple display for operations

Users can reject calls from unknown numbers	Registration of up to 10,000 numbers for rejection or acceptance	Searches of phone call recordings	Use a browser to listen to recordings

Calls from unknown numbers can also be input for rejection.

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.

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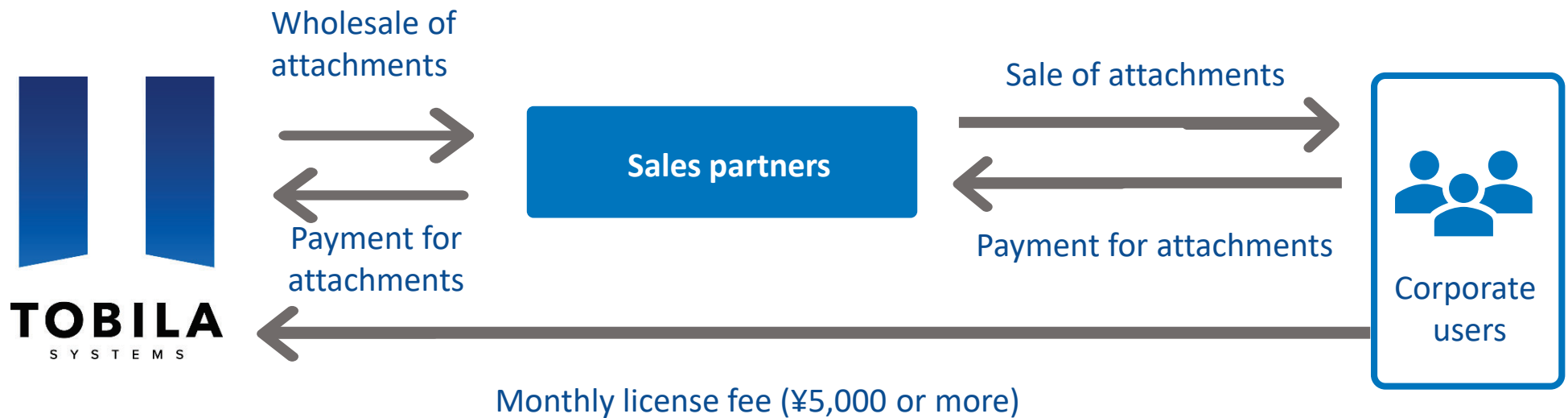
No need to buy playback software because recordings can be heard using a browser. Simply use a PC browser for a recording search on the management screen by inputting a name, telephone number or date and time.

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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

Wholesale of attachments

Sale of attachments

Sales partners

Payment for attachments

Payment for attachments

Corporate users

Monthly license fee (¥5,000 or more)
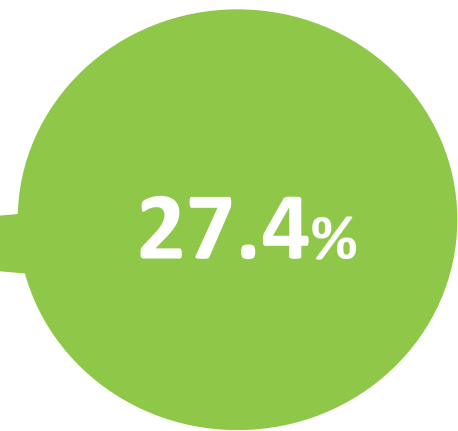
FY10/19 Financial Results

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**	**27.4%**	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%

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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%

77.4%
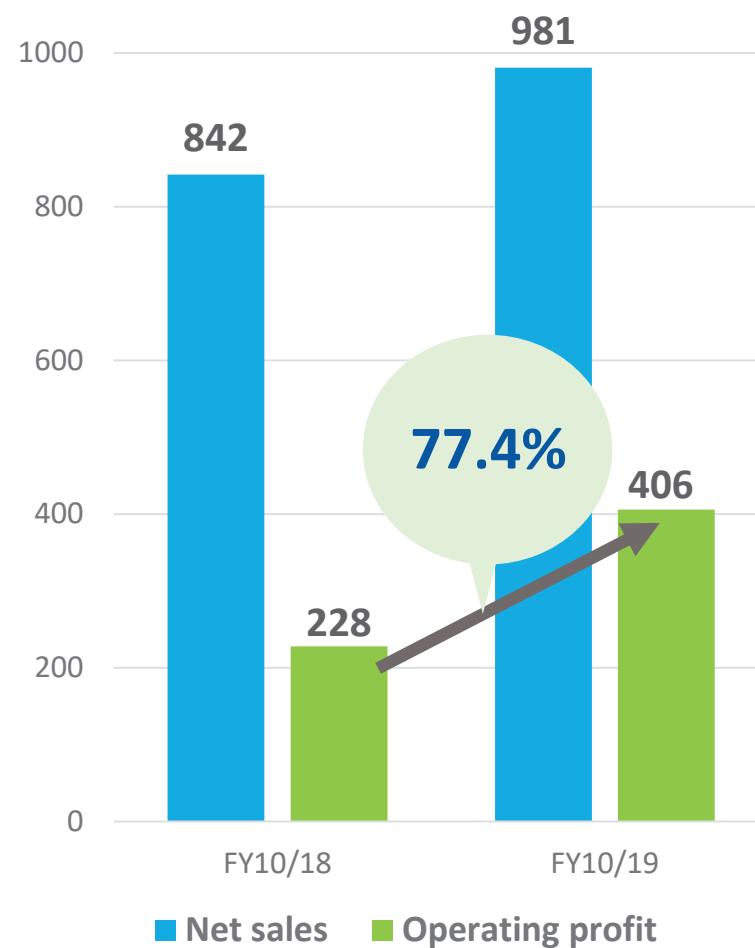
Net sales   Operating profit

YoY Changes in Operating Profit

High-margin steady-revenue sales increased and expenses decreased

Unit: Millions of yen

FY10/18 Operating profit	228	
Higher sales of fraudulent and spam prevention services	103	
Higher sales of other services	37	
Higher costs	-5	
Lower SG&A expenses	43	
FY10/19 Operating profit	406	

Changes in sales | Changes in costs

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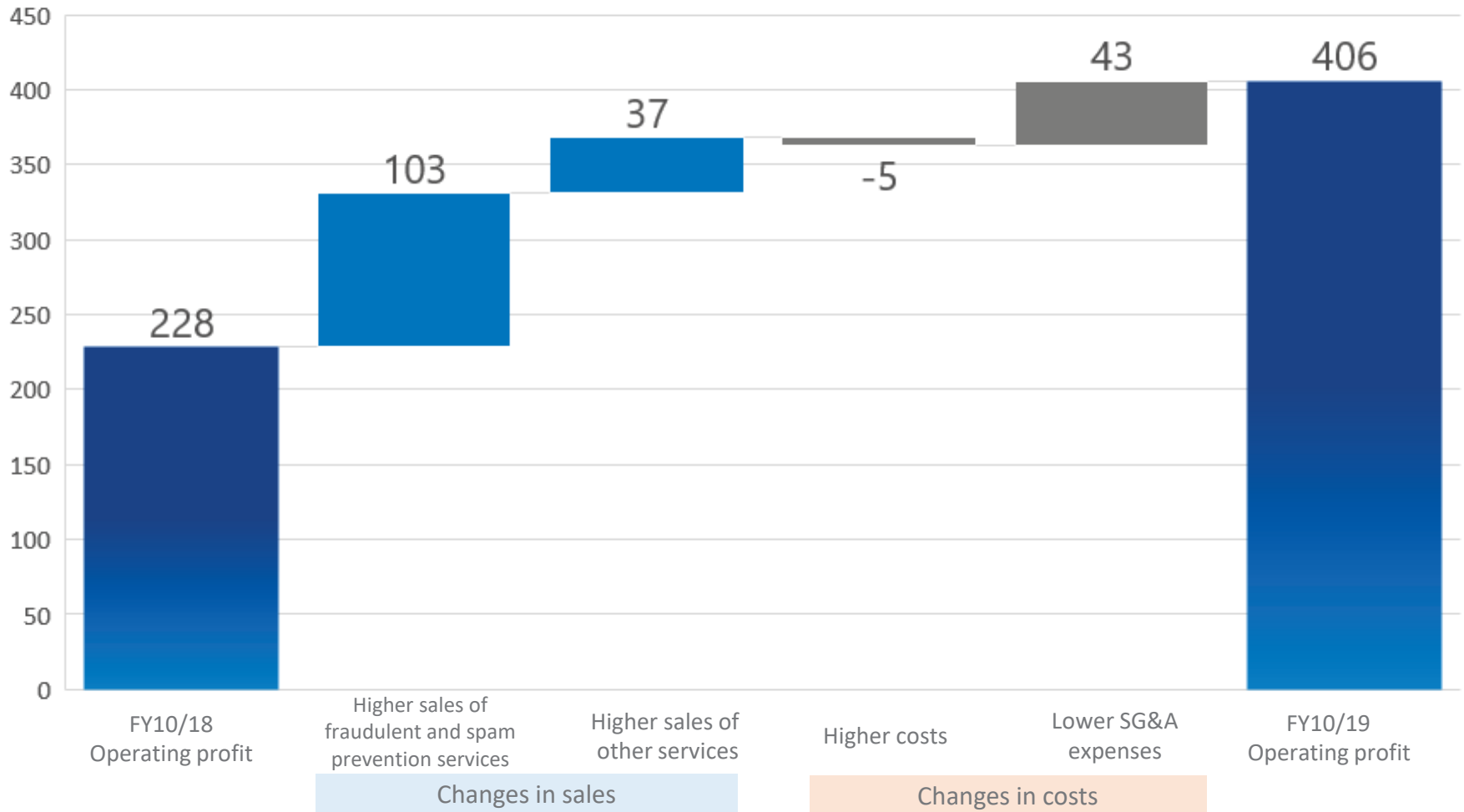
Steady-revenue sales are increasing in the fraudulent and spam prevention services

Unit: Millions of yen

	FY10/19				
	1Q	**2Q**	**3Q**	**4Q**	**QoQ change**
Fraudulent and spam prevention services	193	223	210	237	113.1%
Other services	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

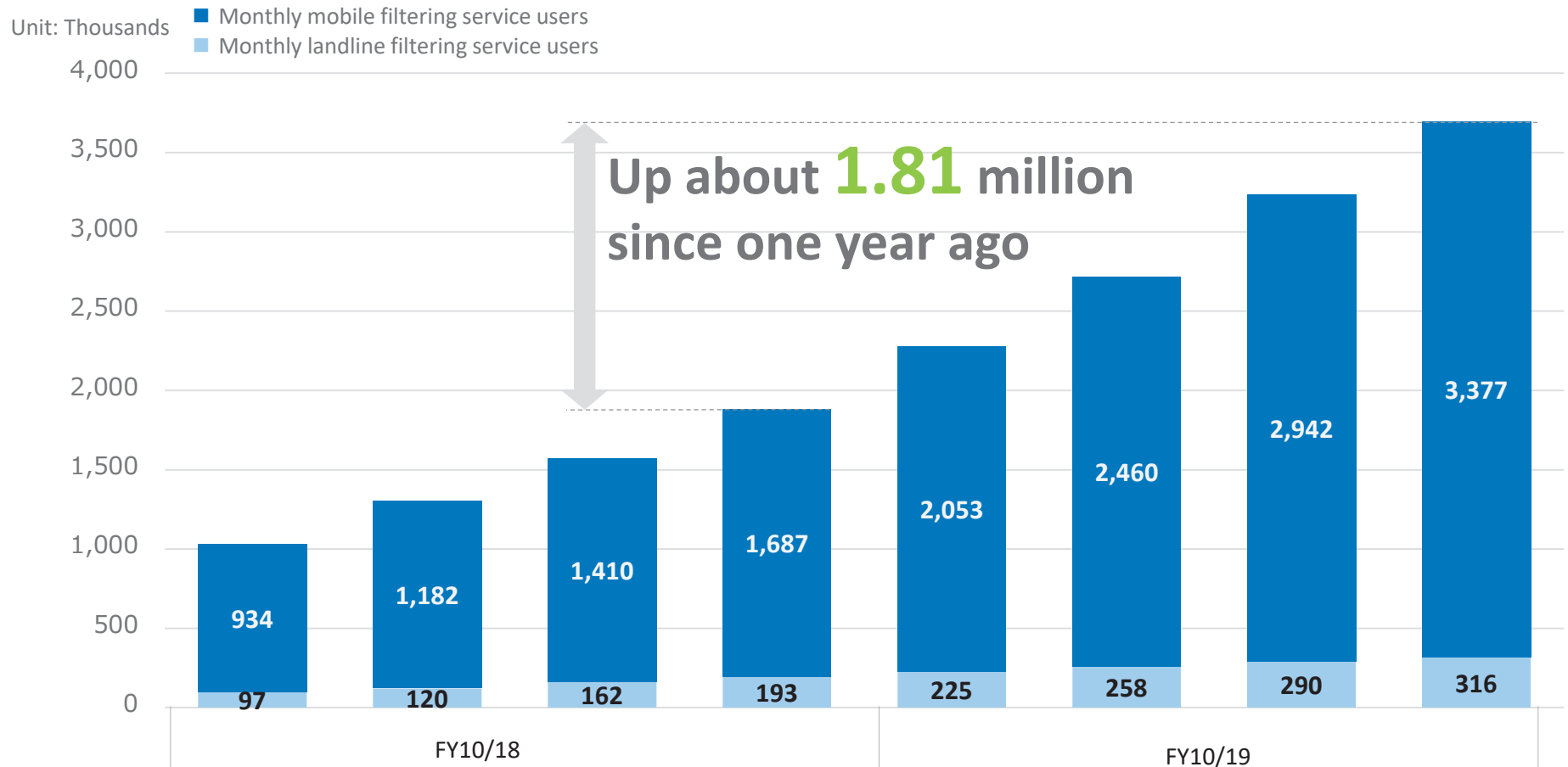|	1H	2H
Cost	124	132
SG&A expenses	134	182

■ SG&A expenses ■ Cost
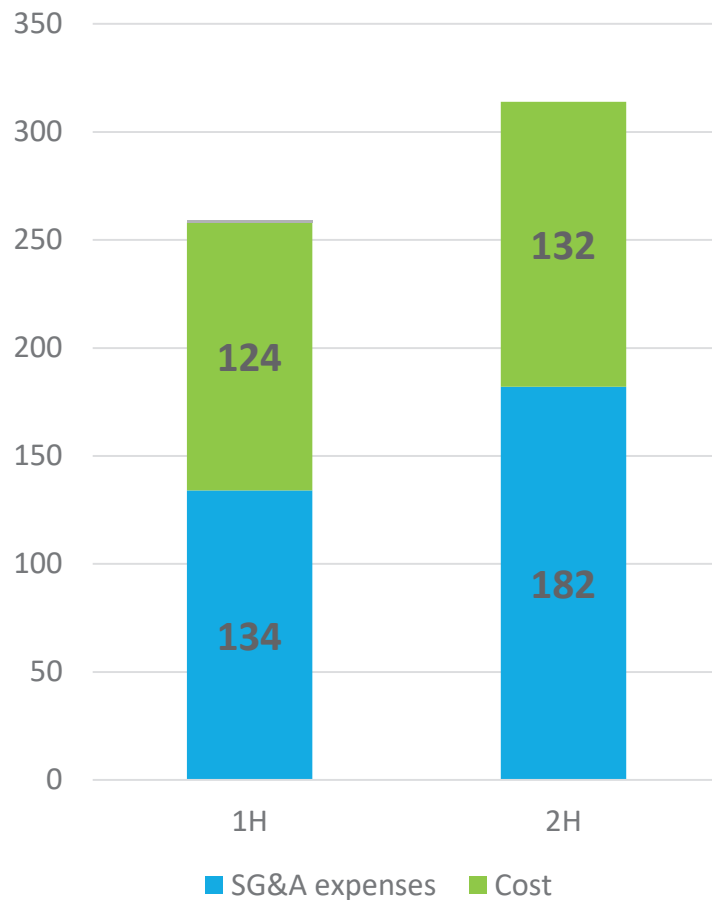
Major second half increases in expenses

● **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)

Unit: Thousands

■ Monthly mobile filtering service users
■ Monthly landline filtering service users

Up about **1.81** million since one year ago

Period	Mobile	Landline
FY10/18	934	97
FY10/18	1,182	120
FY10/18	1,410	162
FY10/18	1,687	193
FY10/19	2,053	225
FY10/19	2,460	258
FY10/19	2,942	290
FY10/19	3,377	316

* 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

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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

Fixed payment
No. of contractors x unit price
Monthly users x unit price

FY10/18 | FY10/19 1Q | 2Q | 3Q | 4Q
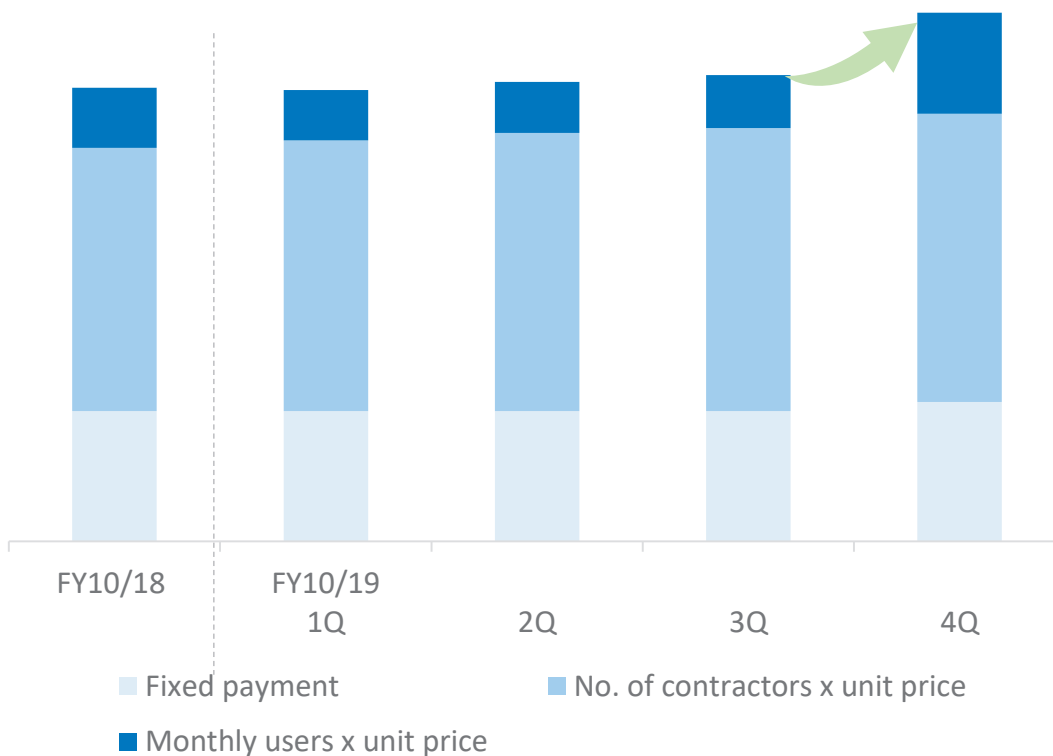
YoY growth*

● **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%

*Difference between the fourth quarters of FY10/18 and FY10/19
*See page 13 for information about the contract categories.

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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

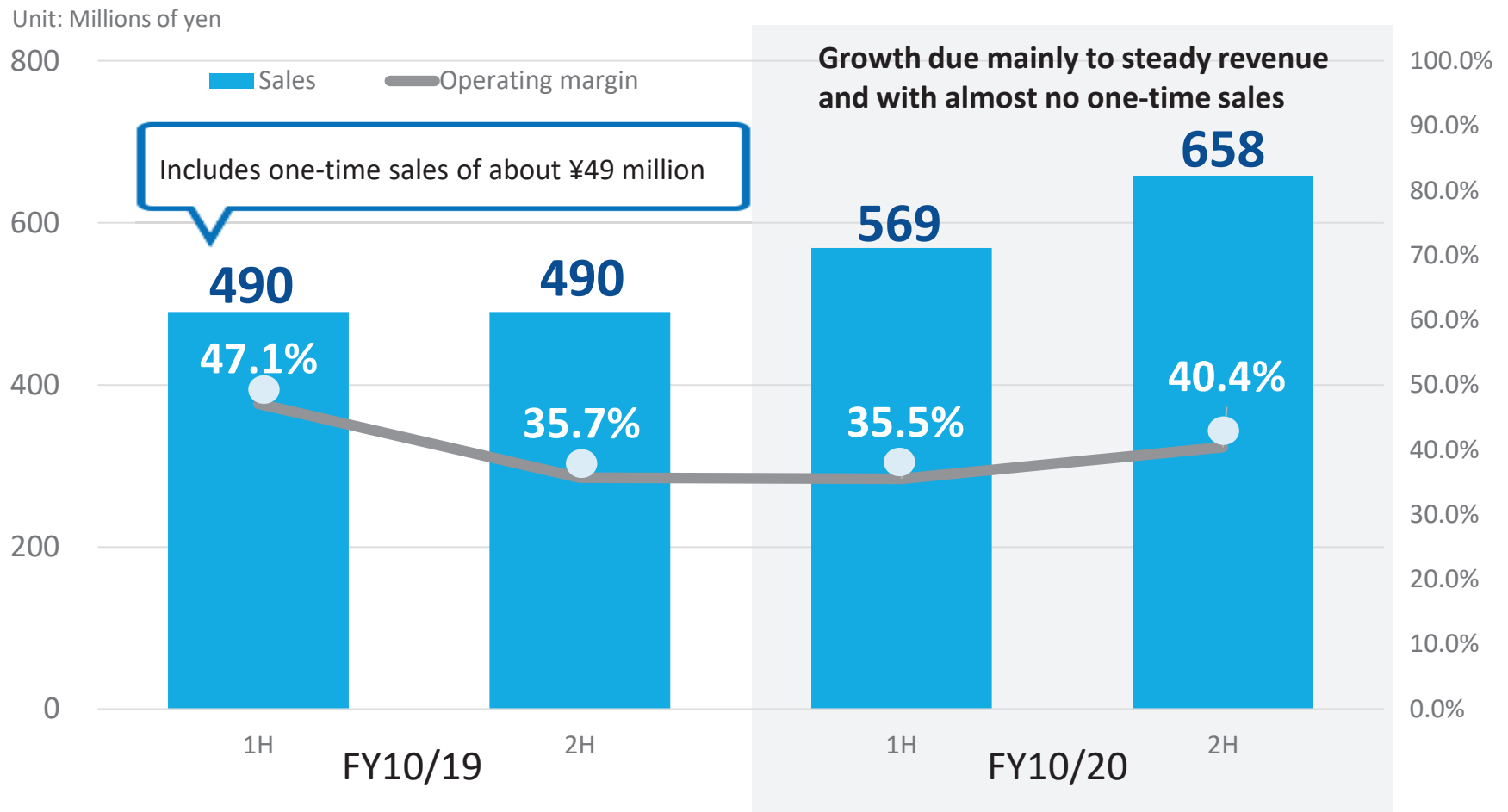| Unit: Millions of yen		FY10/18	FY10/19	FY10/20	YoY change
Financial indicators	**Net sales**	842	981	**1,227**	**125.0%**
	Operating profit	228	406	**468**	**115.2%**
	Ordinary profit	222	392	**449**	**114.4%**
	Profit	147	248	**307**	**123.5%**
Profitability indicators	**Operating margin**	27.2%	41.4%	**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

Unit: Millions of yen

Growth due mainly to steady revenue and with almost no one-time sales

Sales ▬▬ Operating margin

Includes one-time sales of about ¥49 million

490   490   569   658

47.1%   35.7%   35.5%   40.4%

1H   2H   1H   2H
FY10/19   FY10/20

32
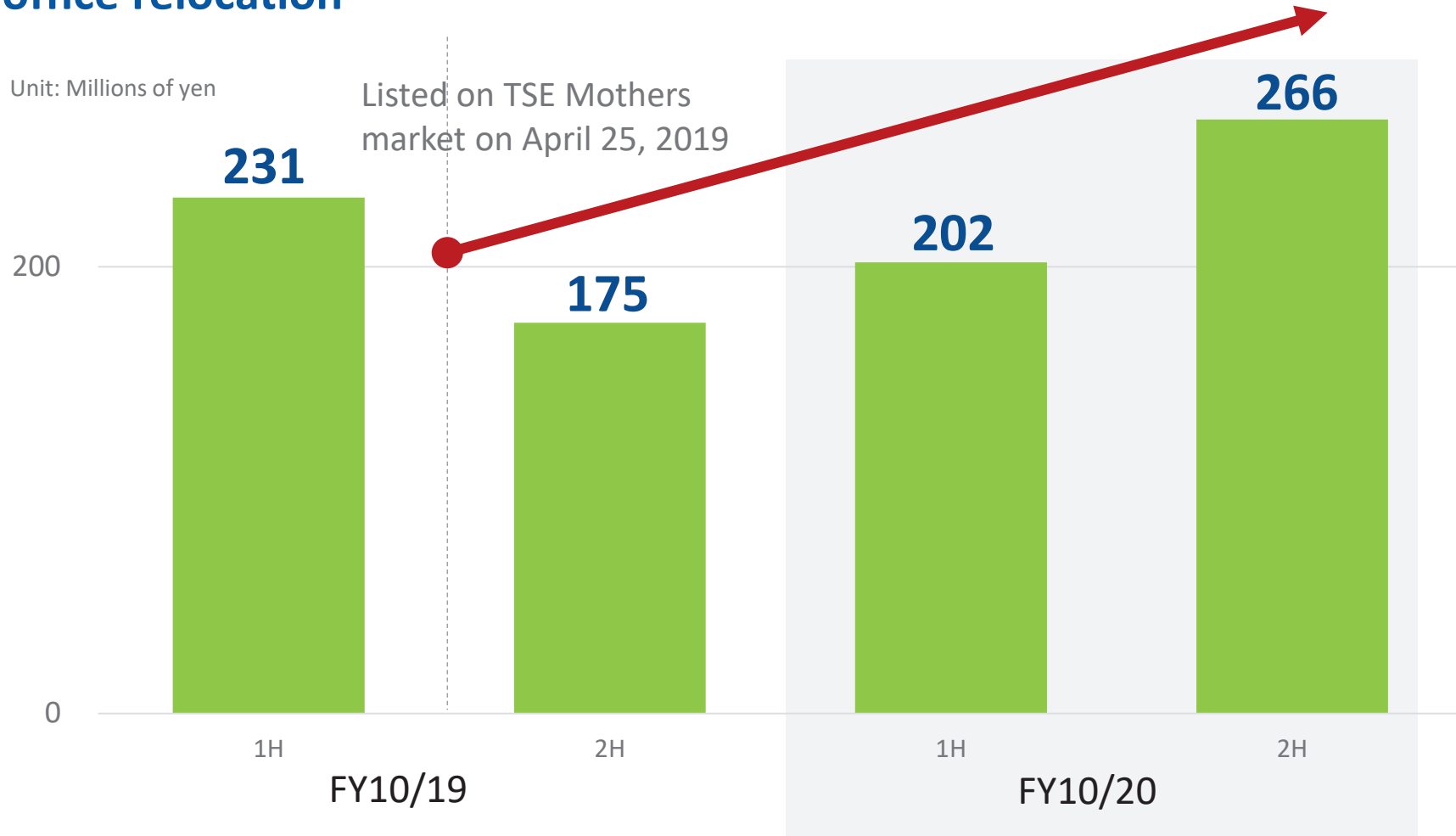
Operating Profit   First and Second Half Forecast

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

Unit: Millions of yen

Listed on TSE Mothers market on April 25, 2019

231

175

202

266

200

0

1H	2H	1H	2H
FY10/19		FY10/20	

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

257 (FY10/19)

353 (FY10/20)

About ¥**96** million

FY10/19　　FY10/20
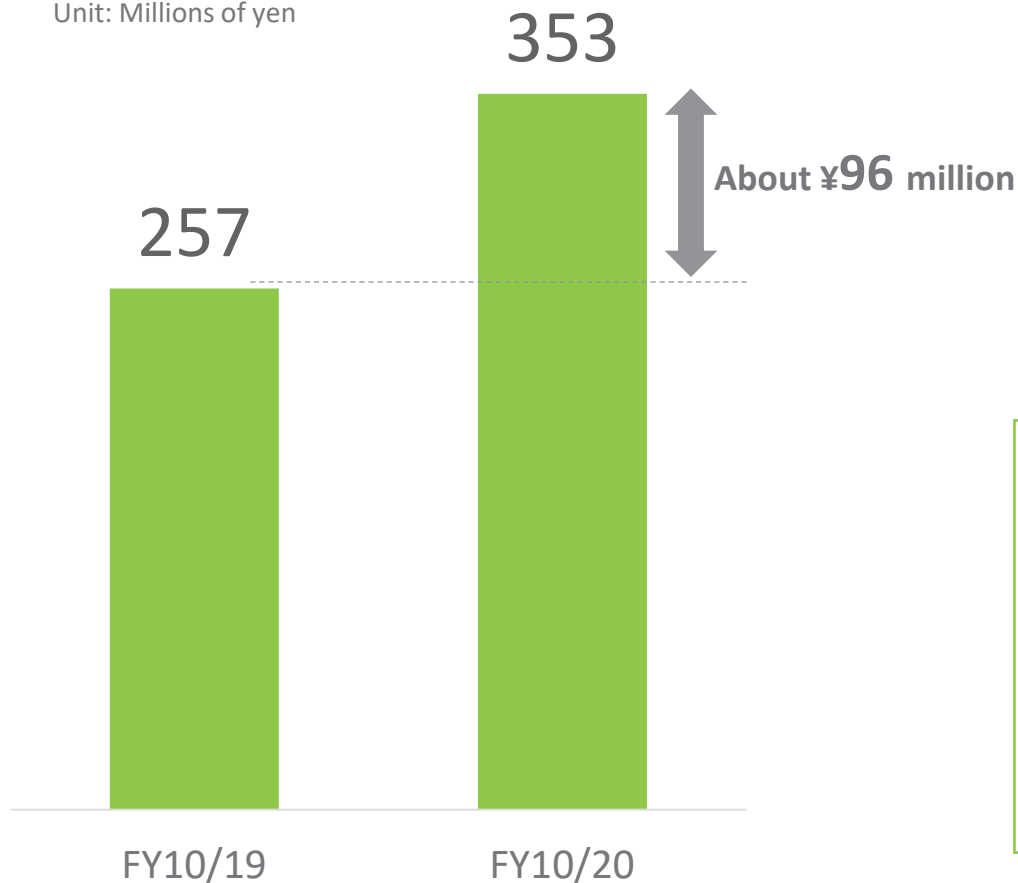
Recruiting plan for full-time engineers

Increase from 29 to 34

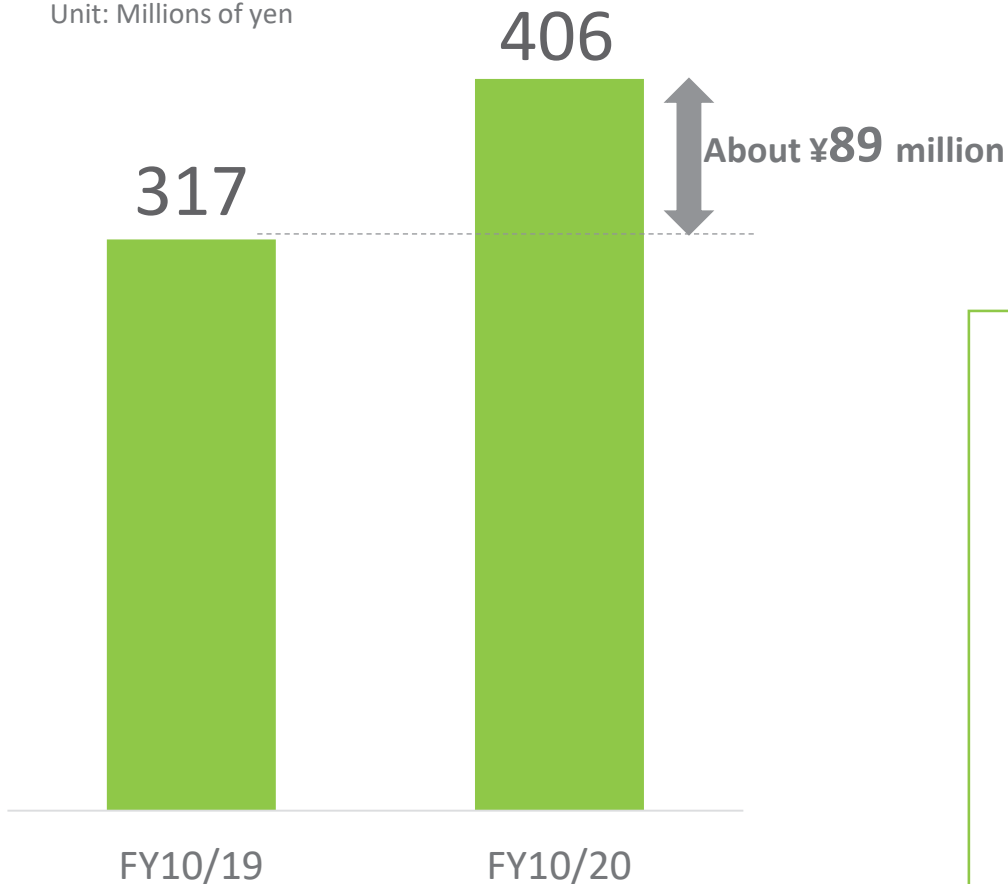*__No negative effect on FY10/20 sales even if this recruiting goal is not accomplished__
Plan to add more skilled engineers to speed up growth starting in FY10/21

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

406

317

About ¥89 million

FY10/19　　　　FY10/20

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

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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
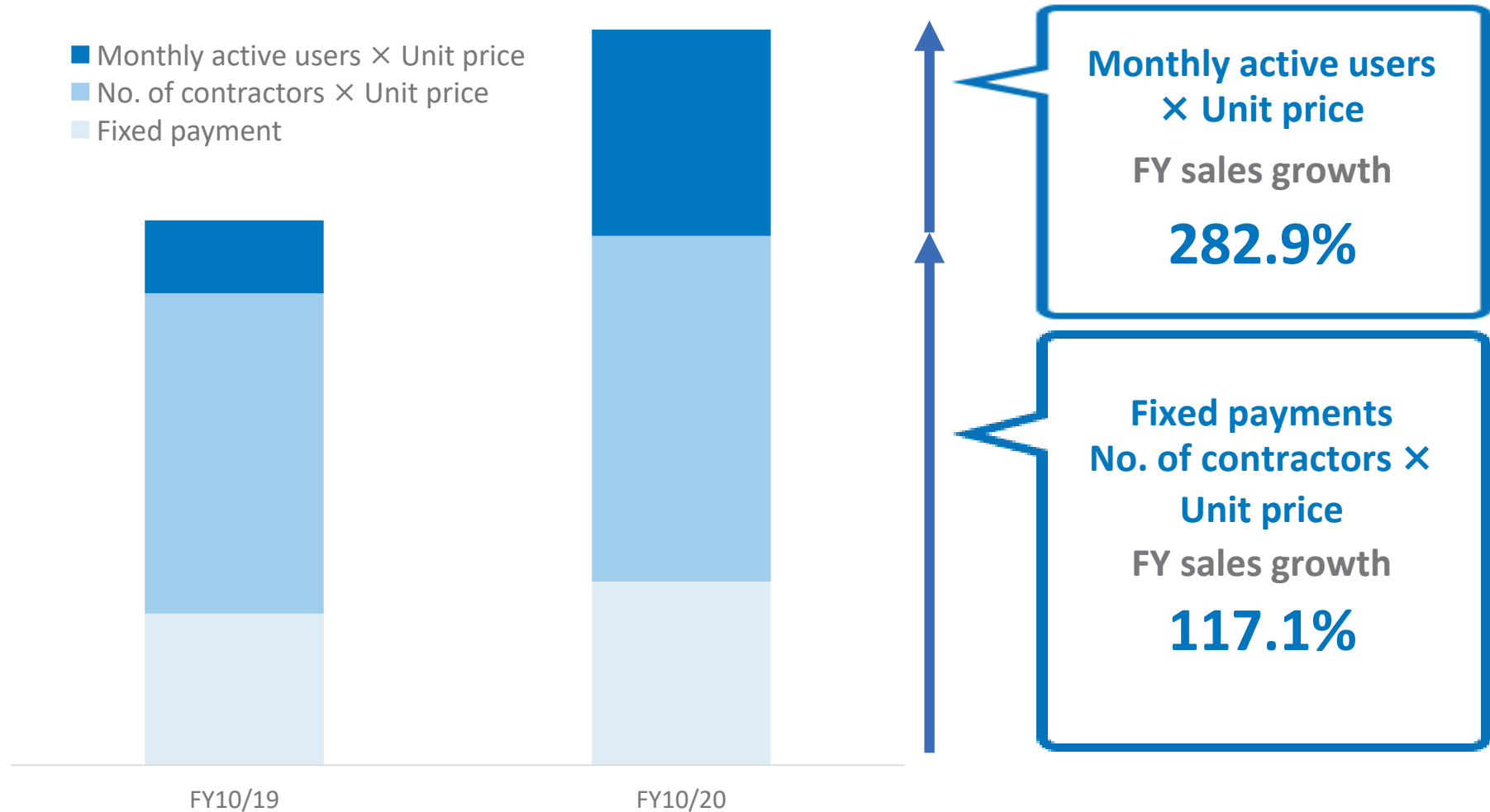
A more powerful internal infrastructure

● 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

- ■ Monthly active users × Unit price
- ■ No. of contractors × Unit price
- □ Fixed payment

FY10/19

FY10/20

Monthly active users × Unit price

FY sales growth

282.9%

Fixed payments No. of contractors × Unit price

FY sales growth

117.1%

*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

Tobila Phone
Cloud

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

Sales scheduled to begin in March 2020

Dividend Policy

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

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Medium-term Growth Projection

● **Mobile phone services**

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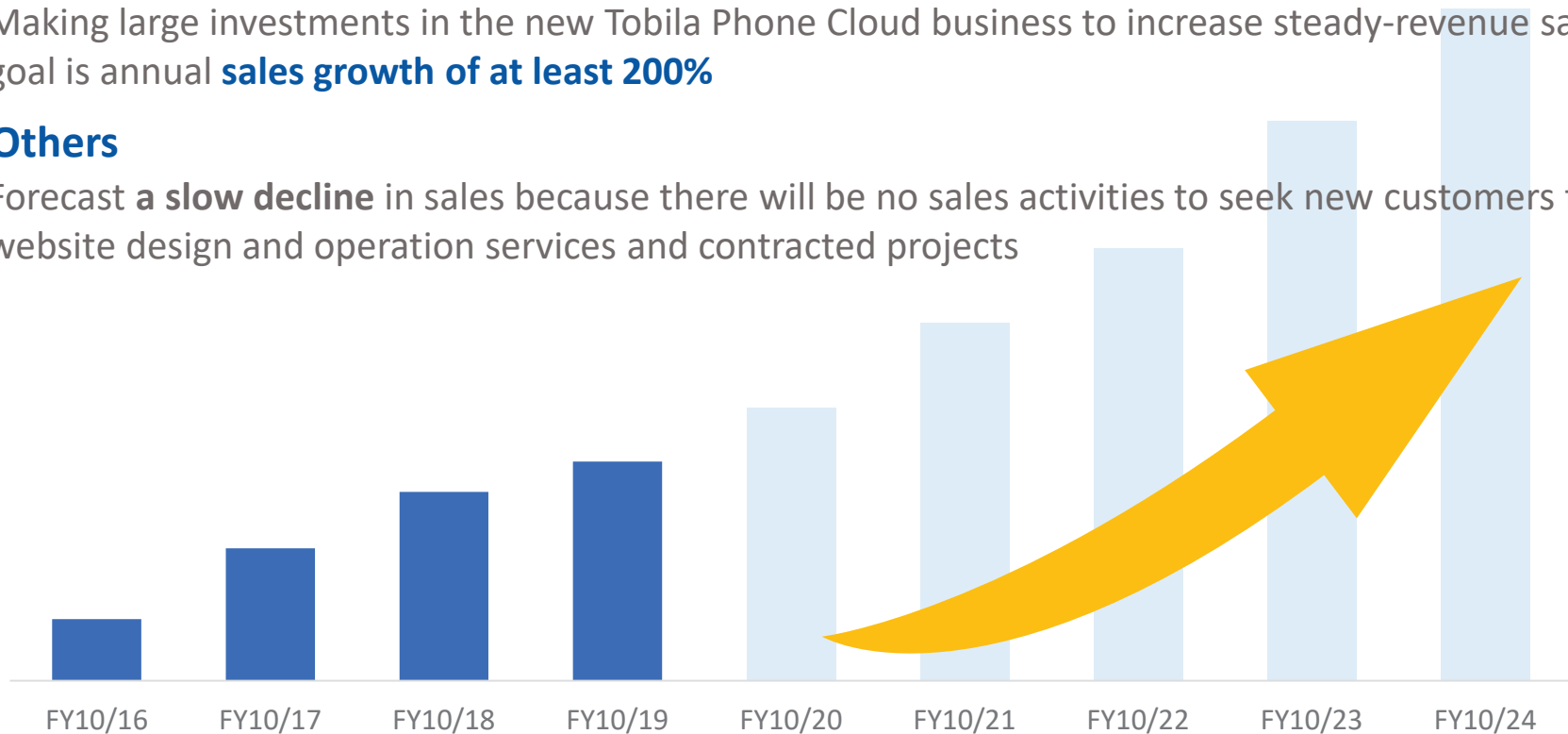
● **Landline phone services**

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

FY10/16	FY10/17	FY10/18	FY10/19	FY10/20	FY10/21	FY10/22	FY10/23	FY10/24

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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 Tomoki Matsushita Toshihito Goto Takuya Yuki Akemitsu Nakahama 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.