

Results of Operations for the First Quarter of the Fiscal Year Ending October 31, 2020

Tobila Systems Inc.

(Tokyo Stock Exchange Mothers 4441)



March 2020



Contents

- 1 Highlights**
- 2 1Q FY10/20 Financial Results**
- 3 1Q FY10/20 Action Plan Progress**
- 4 FY10/20 Earnings Forecast**
- 5 Business Overview and Competitive Strengths**
- 6 Our Services and Business Model**
- 7 References**

We open the door to a better future for our lives and the world

Using technologies for the challenge of solving social issues

We are constantly changing without any fear of failure and challenging conventional thinking to realize a better future which we dream of. We will be a source of products that help solve social issues and have benefits for people. We will also pursue appropriate earnings for steady growth as we expand and upgrade our operations. We believe that maintaining an environment where we can live in peace with our loved ones will lead directly to our growth and a better life for people worldwide.

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

Highlights

First quarter sales matched the plan

Operating profit was higher than planned

1Q FY10/20

Net sales: **¥270** million (up 4.6% QoQ)

Operating profit: **¥100** million (up 14.9% QoQ)

Enlarge the current sources of earnings

<Business growth>

The number of monthly active users surpassed 5 million

Investments for future growth

<New businesses>

Plan to start selling TobilaPhone Cloud, a service for companies, in late March 2020

A more powerful internal infrastructure

<Stronger governance>

To upgrade governance, Hisashi Tanaami, former vice chairman of Monex, Inc., was invited to become an outside director



1Q FY10/20 Financial Results

Financial Summary (1/2) QoQ and YoY Comparisons

Sales increased as planned, backed by the growth of core services

Earnings increased even faster despite expenses for the head office relocation

Unit: Millions of yen	1Q FY10/20	4Q FY10/19		1Q FY10/19	
		Results	QoQ	Results	YoY
Net sales	270	258	104.6%	214	126.1%
Operating profit (Operating margin)	100 <u>(37.1%)</u>	87	<u>114.9%</u>	103	97.5%
Ordinary profit (Ordinary profit margin)	100 (37.1%)	87	114.9%	102	97.5%
Profit (Profit margin)	69 (25.7%)	40	172.9%	67	103.8%

Financial Summary (2/2) Progress vs. Plan

First quarter sales are in line with the first half and fiscal year plans

Due to strict management of expenses, operating profit is ahead of the plans

Unit: Millions of yen

	FY Plan	1H Plan	1Q FY10/20	1Q vs. FY Plan	1Q vs. 1H Plan
Net sales	1,227	569	270	22.1%	47.6%
Operating profit	468	202	100	21.5%	<u>49.4%</u>
Ordinary profit	449	183	100	22.4%	54.4%
Profit	307	125	69	22.7%	55.5%

Sales Composition

Monthly active users of the core filtering services for mobile phones are increasing as planned, resulting in higher sales

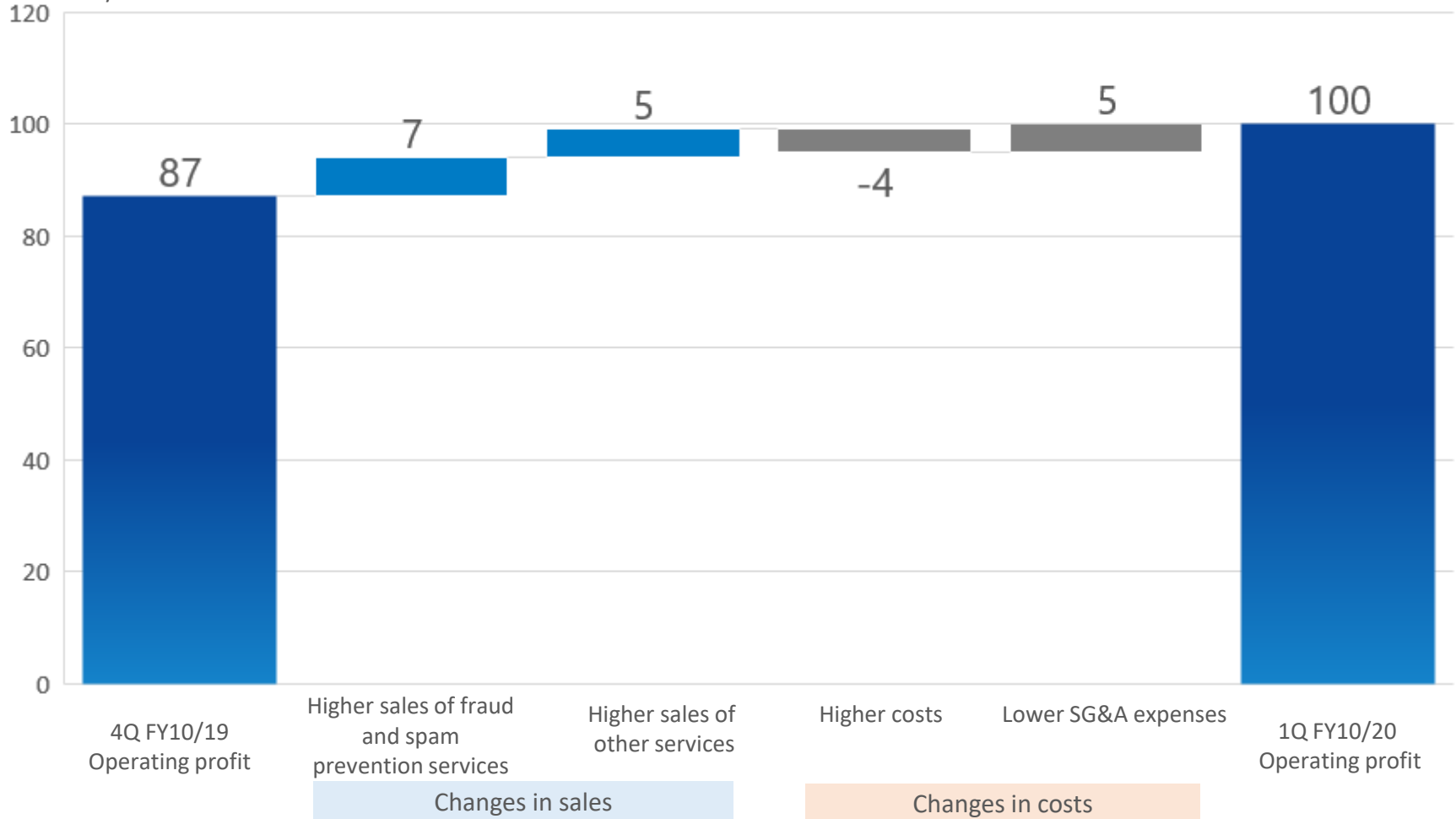
Unit: Millions of yen

	FY10/20 Plan		FY10/20			
	1H	2H	1Q	YoY	1Q vs. 1H Plan	1Q vs. FY Plan
Fraud and spam prevention services	521	623	244	<u>102.7%</u>	46.8%	21.4%
Mobile phone services	450	527	211	<u>104.3%</u>	47.1%	21.7%
Landline phone services	60	76	27	91.6%	45.7%	20.4%
Business phone services	11	20	4	106.4%	42.1%	15.0%
Other services	48	35	26	126.7%	57.0%	32.0%

QoQ Changes in Operating Profit

High-margin steady-revenue sales increased and expenses decreased

Unit: Millions of yen



FY10/20 Quarterly Expenses

Software investments decreased and the cost of sales increased

SG&A expenses decreased despite head office relocation expenses

Unit: Millions of yen

	1Q FY10/20	4Q FY10/19		1Q FY10/19	
		Results	QoQ	Results	YoY
Cost of sales	77	72	106.3%	49	157.0%
Labor cost	54	52	104.1%	44	122.0%
Depreciation	11	12	96.8%	6	183.0%
Others	23	29	77.9%	15	148.6%
Pct. of cost of sales classified as R&D expenses and assets*	11.9%	22.4%	53.2%	23.7%	50.1%
SG&A expenses	93	98	94.4%	62	149.0%
Personnel expenses	41	40	102.4%	36	113.8%
Advertising expenses	0	2	32.6%	5	16.7%
R&D expenses	8	11	69.6%	3	249.6%
Others	42	44	97.3%	17	240.4%

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

Balance Sheet

Strong financial soundness with equity ratio exceeding 80%

*Figures are rounded down to the nearest million yen

(Unit: Millions of yen)	FY10/19	1Q FY10/20	Change
Current assets	1,139	1,083	-56
Cash and deposits	998	916	-82
Notes and accounts receivable-trade	109	128	+18
Other	31	38	+7
Non-current assets	170	210	+40
Property, plant and equipment	43	72	+29
Intangible assets	85	91	+5
Investments and other assets	41	46	+5
Total assets	1,310	1,293	-15
Liabilities	309	223	-85
Current liabilities	284	201	-82
Non-current liabilities	24	21	-3
Net assets	1,000	1,070	+70
Equity ratio	76.4%	82.7%	+6.3%



1Q FY10/20 Action Plan Progress

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

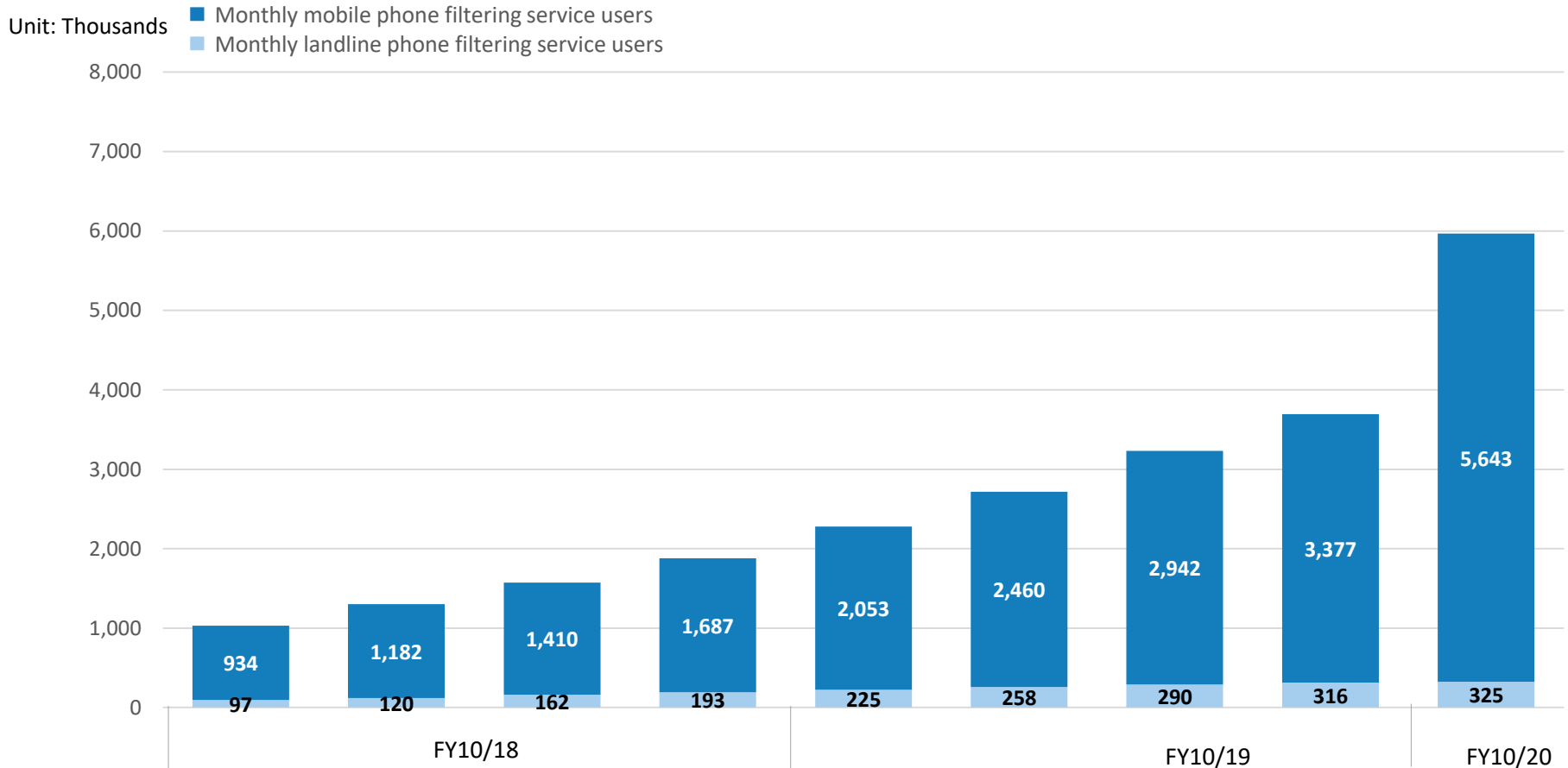


A more powerful internal infrastructure

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

Growth in Monthly Active Users of Fraud and Spam Prevention Service*

About 5.96 million monthly active users* (as of January 31, 2020)

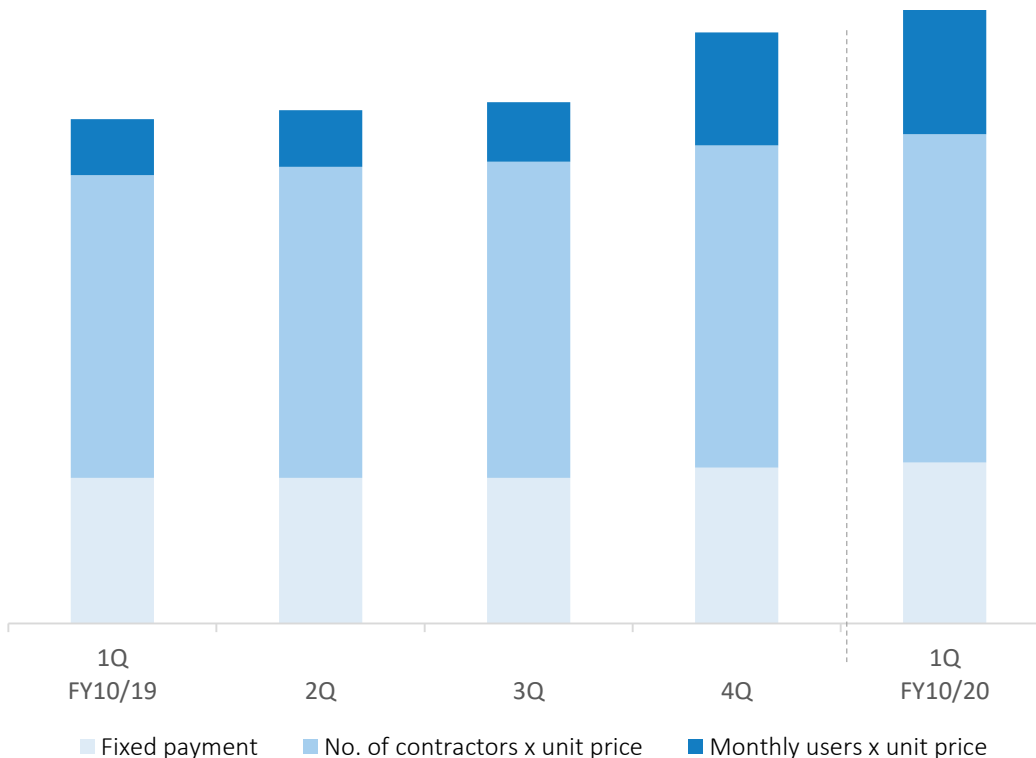


* Monthly active users (MAU) are the number of users of our products and services who access our server at least once a month to update a blocked phone number list automatically or to activate our app or other services. If a person uses multiple devices and each device has a separate agreement, the person is counted as different users. MAU is an important KPI for determining the contribution of our products and services to eliminating problems caused by fraud 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 companies have different terms.

Mobile Business Category Growth

Growth of the monthly active users × unit price model continued as planned

Quarterly sales of major contract categories of filtering service for mobile phone



Performance vs. Prior Quarter*

● Monthly active users × Unit price	
Sales	<u>113.2%</u>
Monthly active users	283.0%
● No. of contractors × Unit price	
Sales	101.9%
Monthly active users	111.1%
● Fixed payment	
Sales	103.3%
Monthly active users	176.3%

*Difference between 4Q FY10/19 and 1Q FY10/20

*See page 31 for information about the contract categories.

Topics concerning Monthly Fraud and Spam Prevention Service Users

More than 5 million monthly active users and growth is gaining momentum

Topics

- The number of monthly active users surpassed 5 million
- Started providing a filtering service for the “+ message” service
- Automatic caller information display rate increased to a record-high 92%

Investments for Future Growth



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

Sales scheduled to begin in March 2020



A More Powerful Internal Infrastructure

Hisashi Tanaami, former vice chairman of Monex, Inc., was invited to become an outside director to help strengthen governance in order to build a sound base for medium to long-term growth



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

Hisashi Tanaami

Career

April 2008	Part-time lecturer, Faculty of Science and Engineering, Hosei University (current position)
February 2011	Vice President and Representative Director of Monex, Inc.
June 2013	Executive Officer of Monex Group, Inc.
April 2017	Vice Chairman and Director of Monex, Inc.
January 2020	Outside Director (member of the Audit and Supervisory Committee) of Tobila Systems Inc. (current position)

*Only the most recent five positions are shown.



FY10/20 Earnings Forecast

FY10/20 Forecast

No change in the fiscal year forecast as first quarter sales and operating profit were generally as planned

Unit: Millions of yen

	FY10/20 Plan	1Q FY10/20	1Q vs. FY10/20 Plan
Net sales	1,227	270	22.1%
Operating profit	468	100	21.5%
Ordinary profit	449	100	22.4%
Profit	307	69	22.7%

The COVID-19 Pandemic and Impact on Results of Operations

The coronavirus disease (COVID-19) outbreak is having no effect on sales and earnings at this time

The Japanese economy

- After the Oct. '19 consumption tax hike, Japan's GDP contracted for the first time in five quarters.
- Restrictions for stopping new infections have dramatically reduced economic activity.

Sales Operating profit

No signs of a slowdown of fraud and spam prevention services; growth is expected to continue as planned

All business activities are in Japan. Our business model is stable and highly profitable based primarily on relationships with large Japanese telecommunications companies.

Business continuity

Telework for employees and different shifts for managers. Full salaries are guaranteed for employees with reduced hours. A high level of employee engagement.

Continuity is underpinned by financial soundness due to a high equity ratio and by a speedy and flexible administrative structure.

The COVID-19 Pandemic and Impact on Results of Operations

Business continuity fully utilizing the group's resources while adapting with flexibility to school closings and other events involving the COVID-19 crisis

Shifts

- Department managers work in different shifts to prevent the simultaneous infection of all senior management personnel

Telework

- As a general rule, employees work from home as much as possible
- At least 80% of head office personnel, mainly engineering staffs, now work from home

Staggered commuting

- Employees unable to work from home go to the office at times that are one to two hours different than normal in order to avoid the morning and evening rush hour

Business suspension benefits

- 100% guarantee of payments for all employees, whether full-time or any other employment format, during temporary work suspensions/reductions due to current events
- 100% guarantee of payments for time off required for child care because schools have been closed



Business Overview and Competitive Strengths

Business Fields



1 Filtering Service for Mobile Phones

TobilaPhone Mobile, Meiwaku Denwa Block and other services

2 Filtering Service for Landline Phones

Home Gateway, TobilaPhone for filtering fraudulent calls

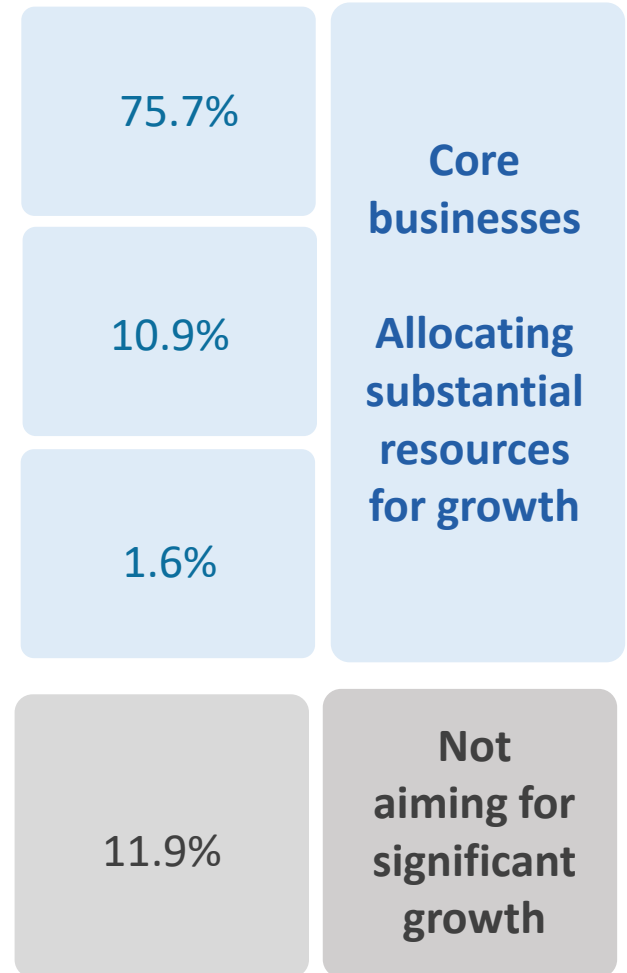
3 Filtering Service for Business Phones

TobilaPhone Biz for filtering fraudulent calls

4 Other services

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

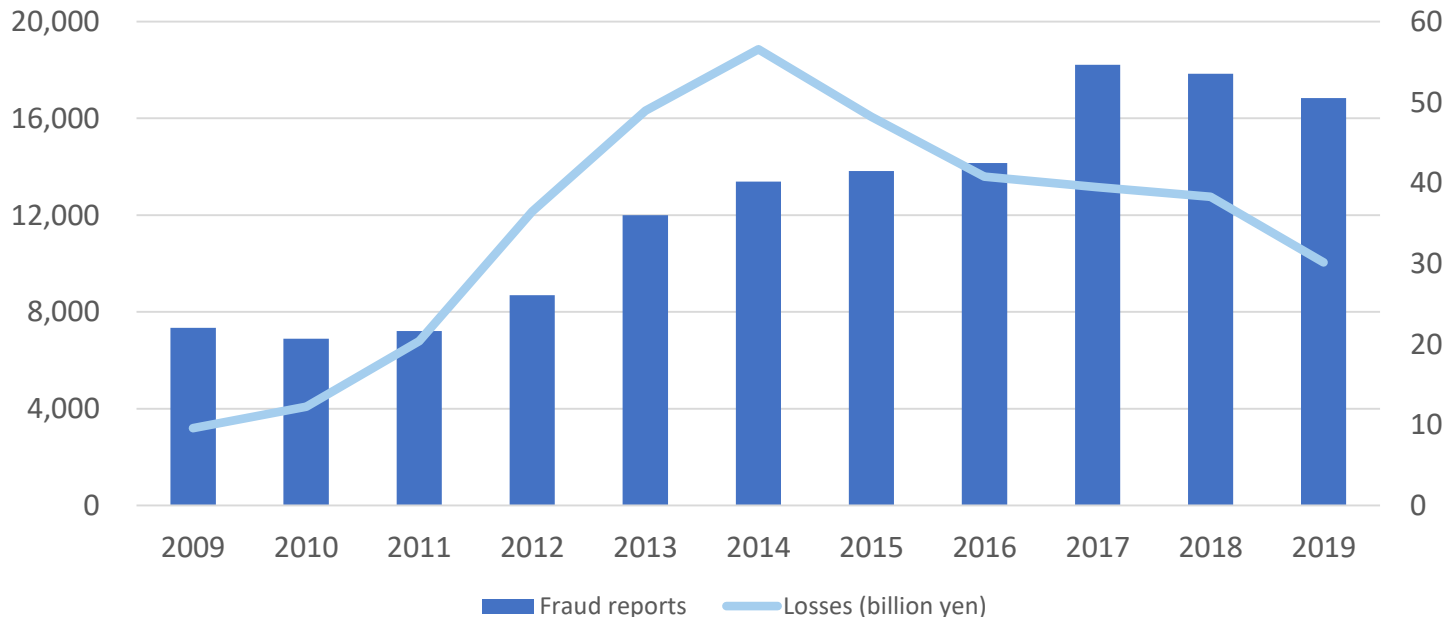
FY10/19 Sales composition



The Social Issue of Fraud and Spam Activities

The Significant Need for Filtering Services to Block Fraudulent Calls

- In 2019, there were 16,836 recorded cases in Japan of fraud and spam activities.
- **Financial losses** caused by this category of fraud remained high, **a total of ¥30.1 billion** in 2019, showing serious concerns.
- **Seniors accounted for 83.4% of all individuals who suffered losses due to this type of fraud**, creating an urgent need for measures to create a safe and secured society.



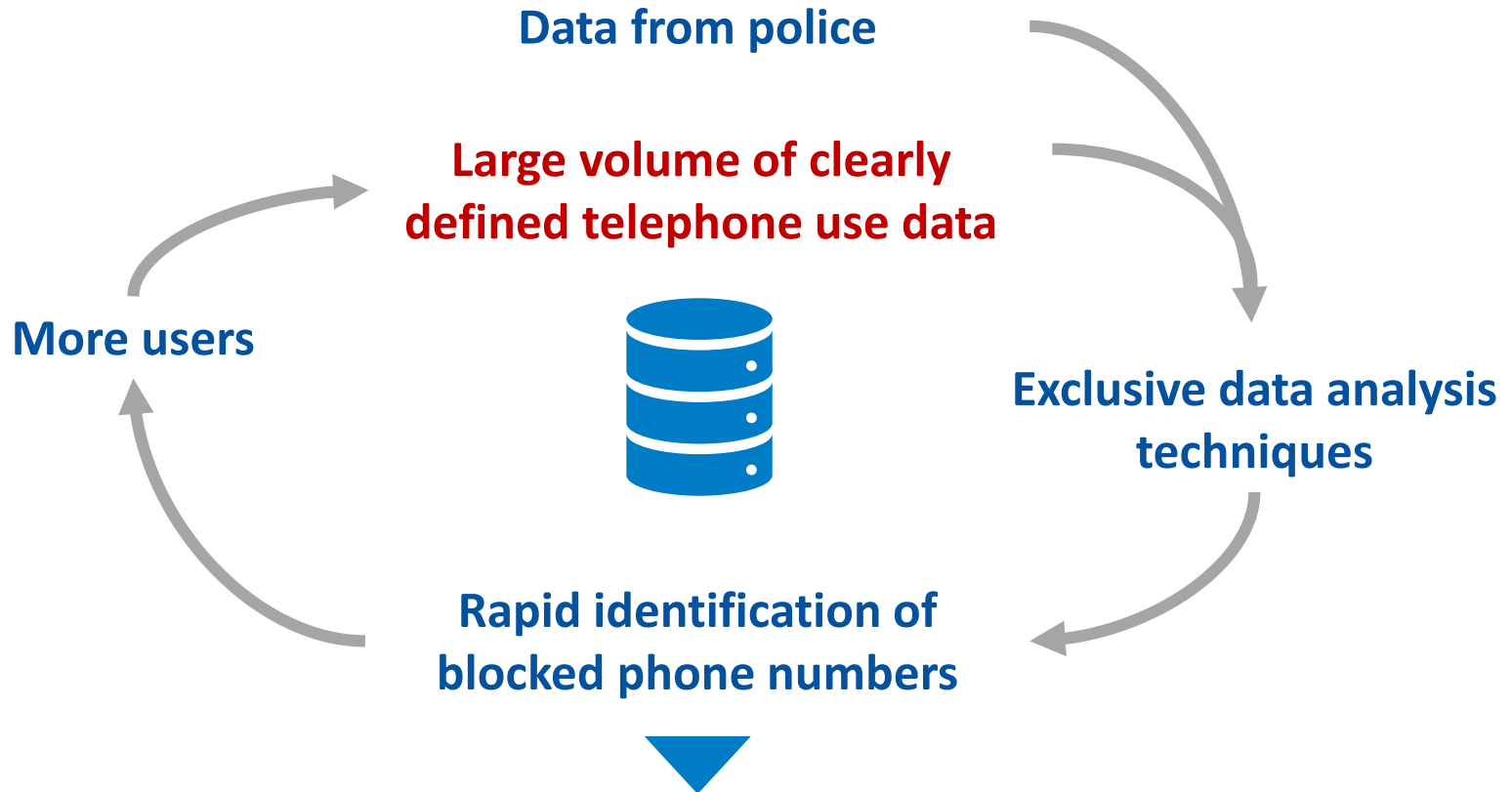
Source: Identification and Control of Special Fraud in 2019, National Police Agency

Our goal

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

Strengths of Tobila's Database Technology

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

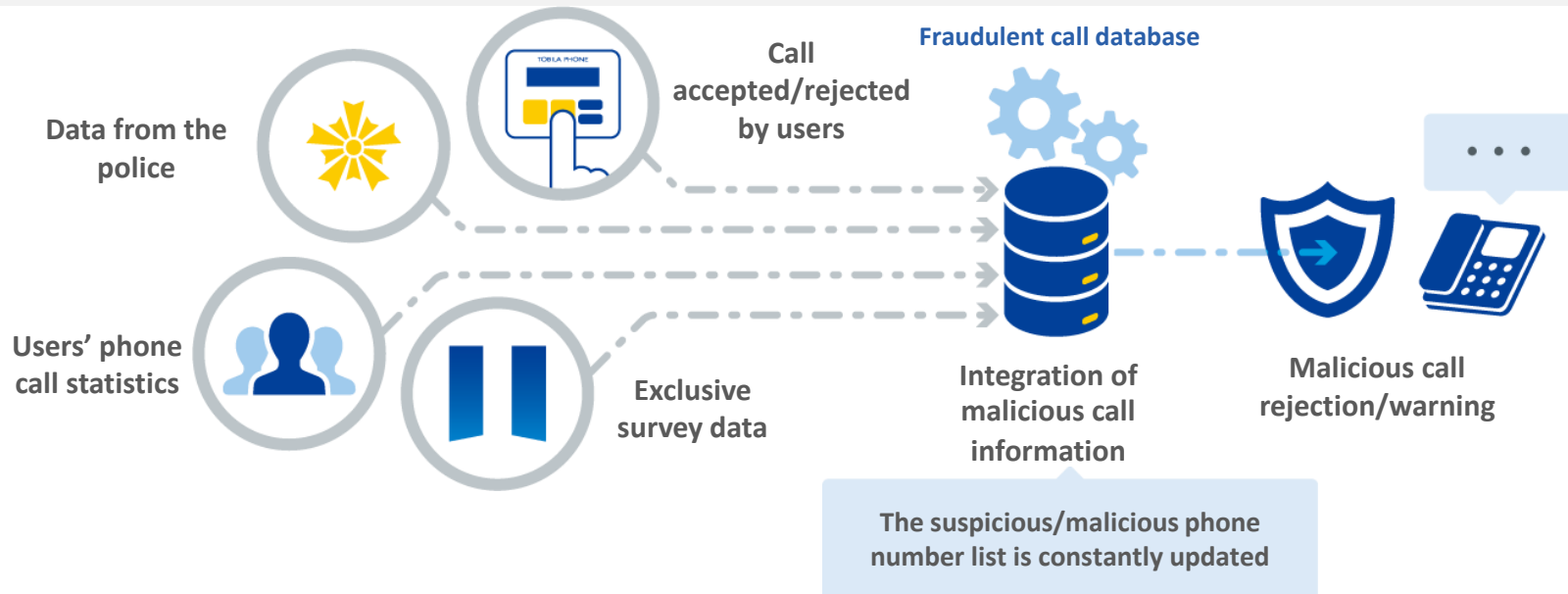


Our goal is the elimination of problems caused by fraud and spam activities (17,844 cases in 2018) in Japan!

The High Barriers to Entry of the Fraud and Spam Prevention Services

Tobila Systems is effectively the only source of this service in Japan – No competitors

- **Analysis using more than 900 million units of data.** There is no company or service in Japan that can match this level of data analysis.
- The 13 patents for our unique algorithms make it very difficult for a new competitor to emerge.
- **A cyclical system in which data accuracy improves as the number of users increases.** The database must be constantly checked and updated because criminals are always changing the phone numbers they use.





Our Services and Business Model

Filtering Service for Mobile Phones

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

Offered as an app for filtering fraudulent calls

Carrier/App (Examples)

SoftBank



SoftBank
SoftBank

Meiwaku Denwa Block

KDDI (au)



au

Meiwaku Message & Denwa Block

docomo



docomo

Anshin Security

Incoming call screen (when suspicious/malicious number is detected)

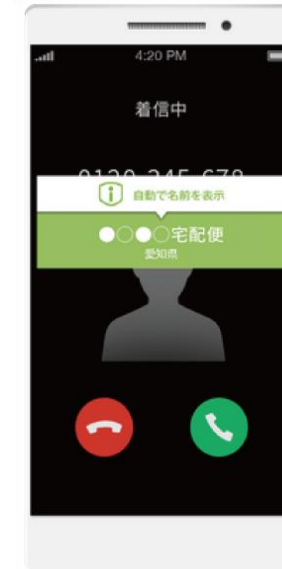


iPhone version



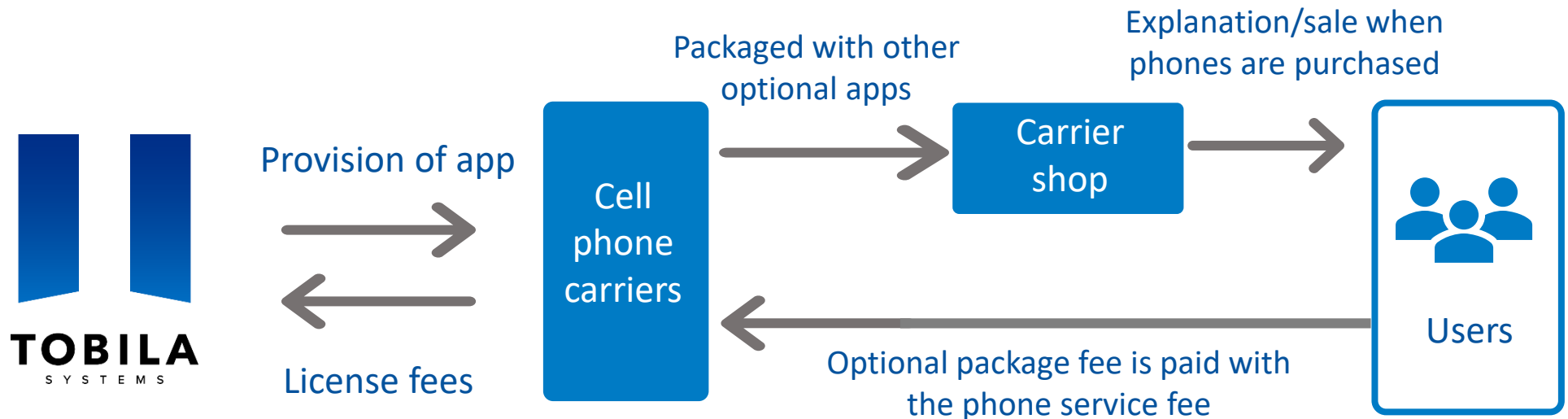
Android version

A function for automatically displaying information about the caller



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

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



Tobila Systems receives license fees from the carriers

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

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

The three main contract categories with cell phone carriers

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



Fixed payment

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



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

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

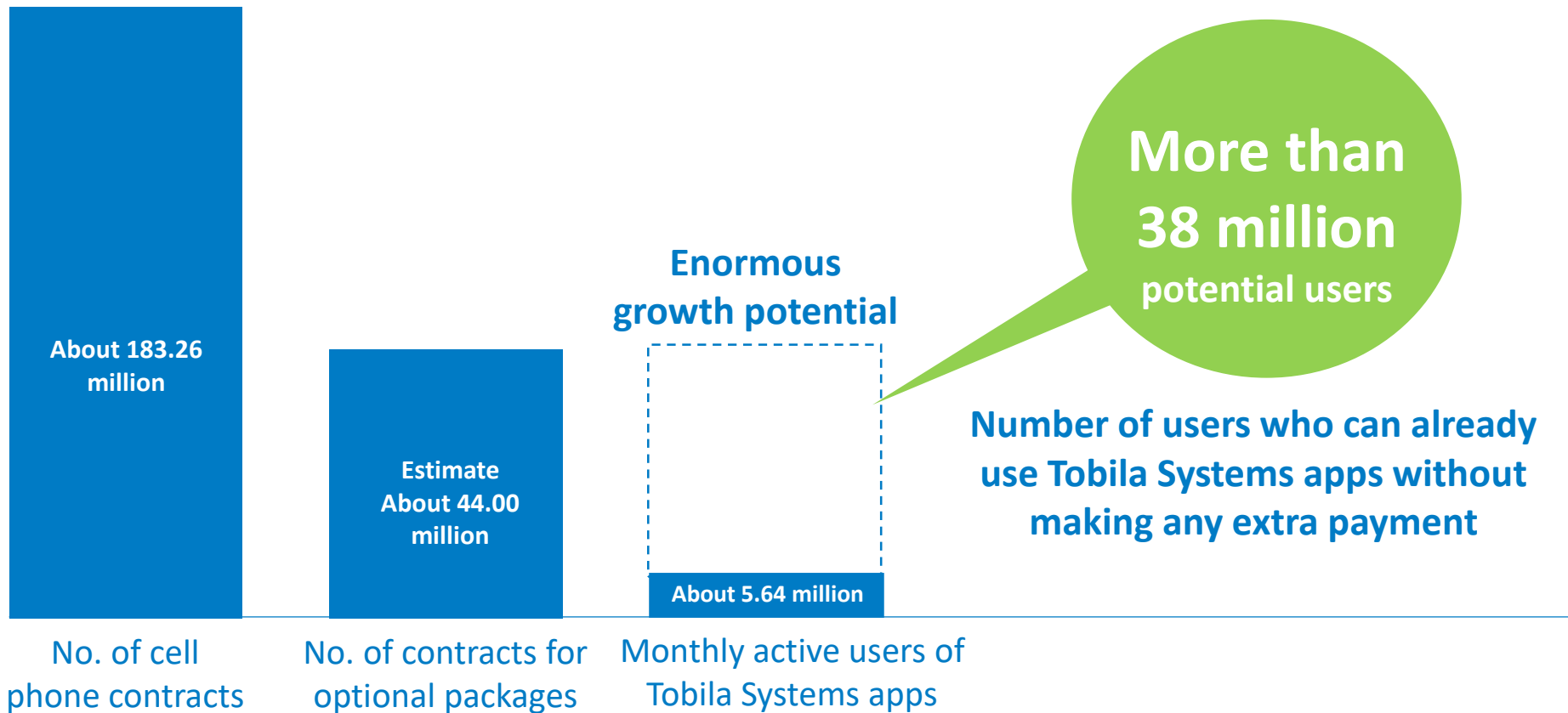


**Monthly
active users
 \times
Unit price**

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

The Market in Japan for Optional Packages for Filtering Service for Mobile Phones

More than 38 million potential users of Tobile Systems apps at no extra charge
Monthly active users are now only 5.64 million – Enormous growth potential



* Number of cell phone contracts: Quarterly Data on Telecommunications Service Contract Numbers and Market Share, Ministry of Internal Affairs and Communications (December 20, 2019)

* Number of contracts for options: Tobile Systems estimate based on data collected by Tobile 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/>), and the number of contracts for options announced on December 19, 2018 for NTT Docomo

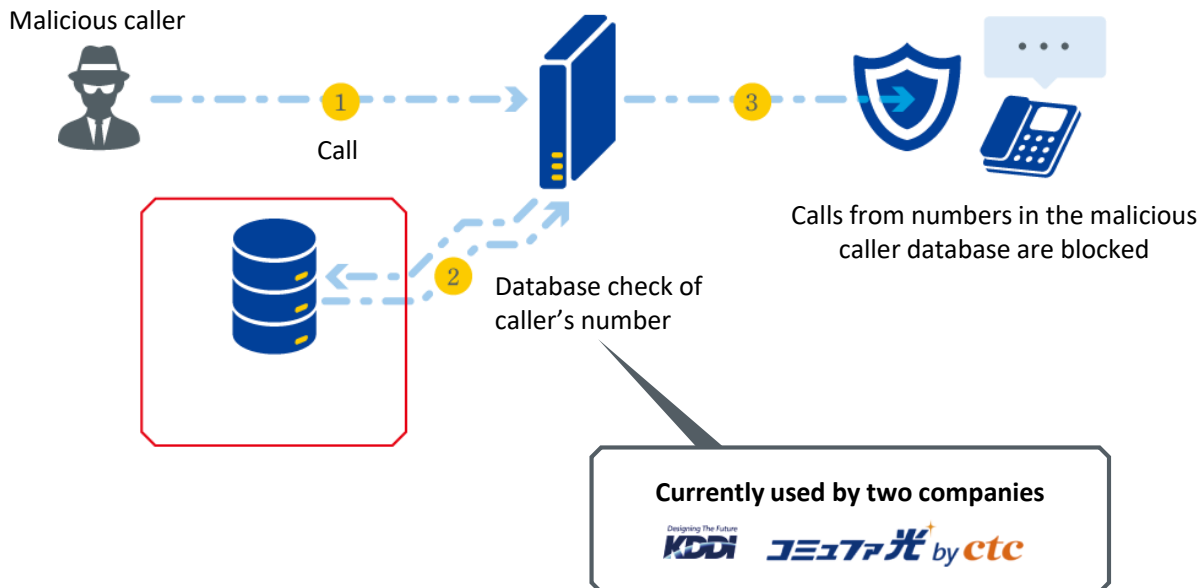
Filtering Service for Landline Phones

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 optional package.

Home Gateway Fraudulent Call Filtering Flowchart

Provided to the Home Gateway systems of two KDDI Group companies



With Attachment for Landline Phones

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



For incoming calls

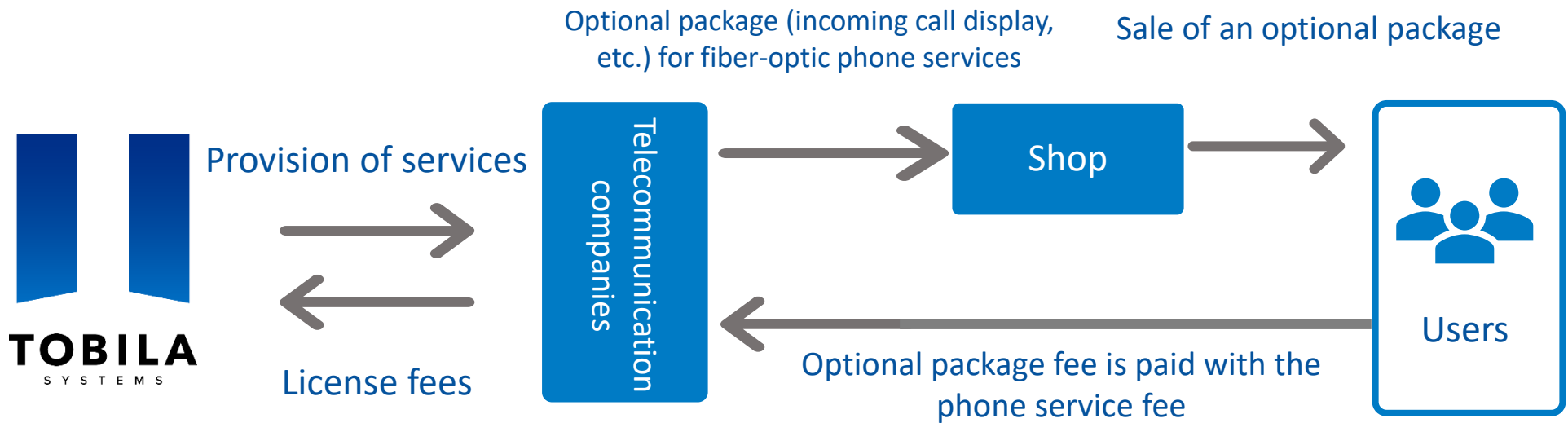


*Users of landline phones (IP phones) must use a Home Gateway with a link between the Internet and telephone.

Business Model for Filtering Service for Landline Phones

Sold as part of the optional package for IP phones

Sold by KDDI and other carriers along with landline phone services



Tobila Systems receives license fees from the telecommunication companies

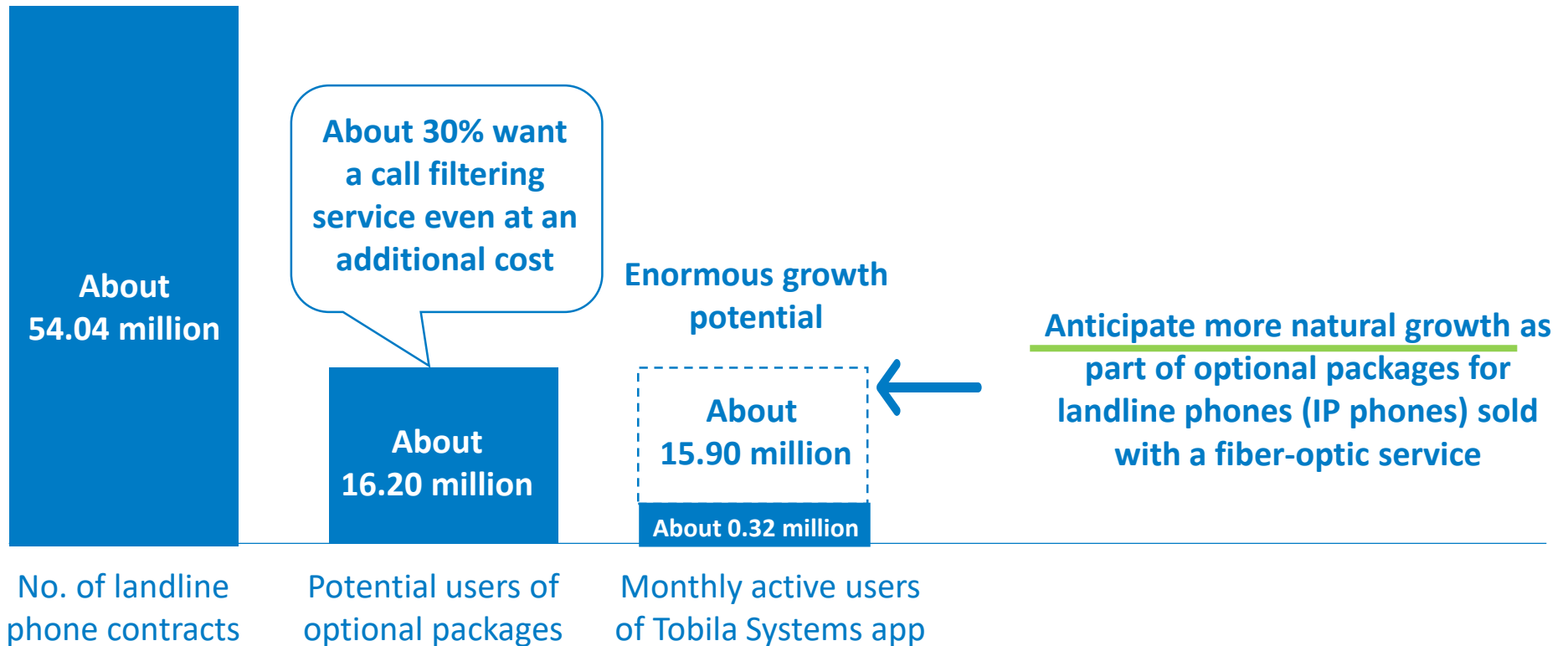
Telecommunication companies conduct marketing activities, sell services to users, and collect fees

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

The Market in Japan for Optional Packages for Filtering Service for Landline Phones

Two telecommunications companies include the Tobile Systems fraudulent call filtering service in their optional packages

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



*Number of landline phone contracts: Quarterly Data on Telecommunications Service Contract Numbers and Market Share, Ministry of Internal Affairs and Communications (December 20, 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 TobilaPhone Biz fraudulent call filtering service

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



Users can reject calls from unknown numbers



Calls from unknown numbers can also be input for rejection.

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



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

Simple display for operations

Searches of phone call recordings



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

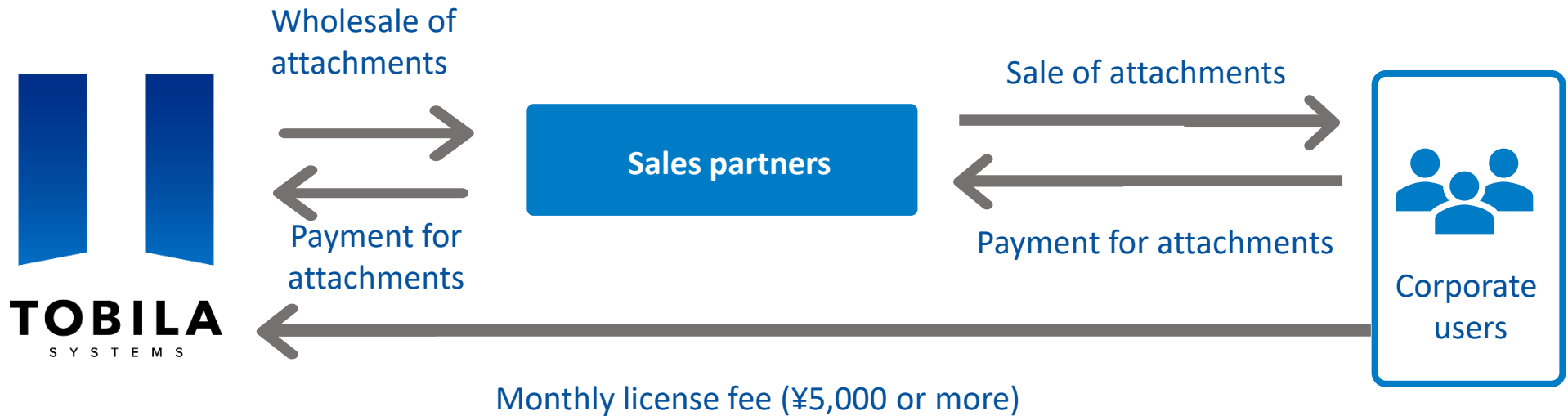
Use a browser to listen to recordings



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

Business Model for Filtering Service for Business Phones

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



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**

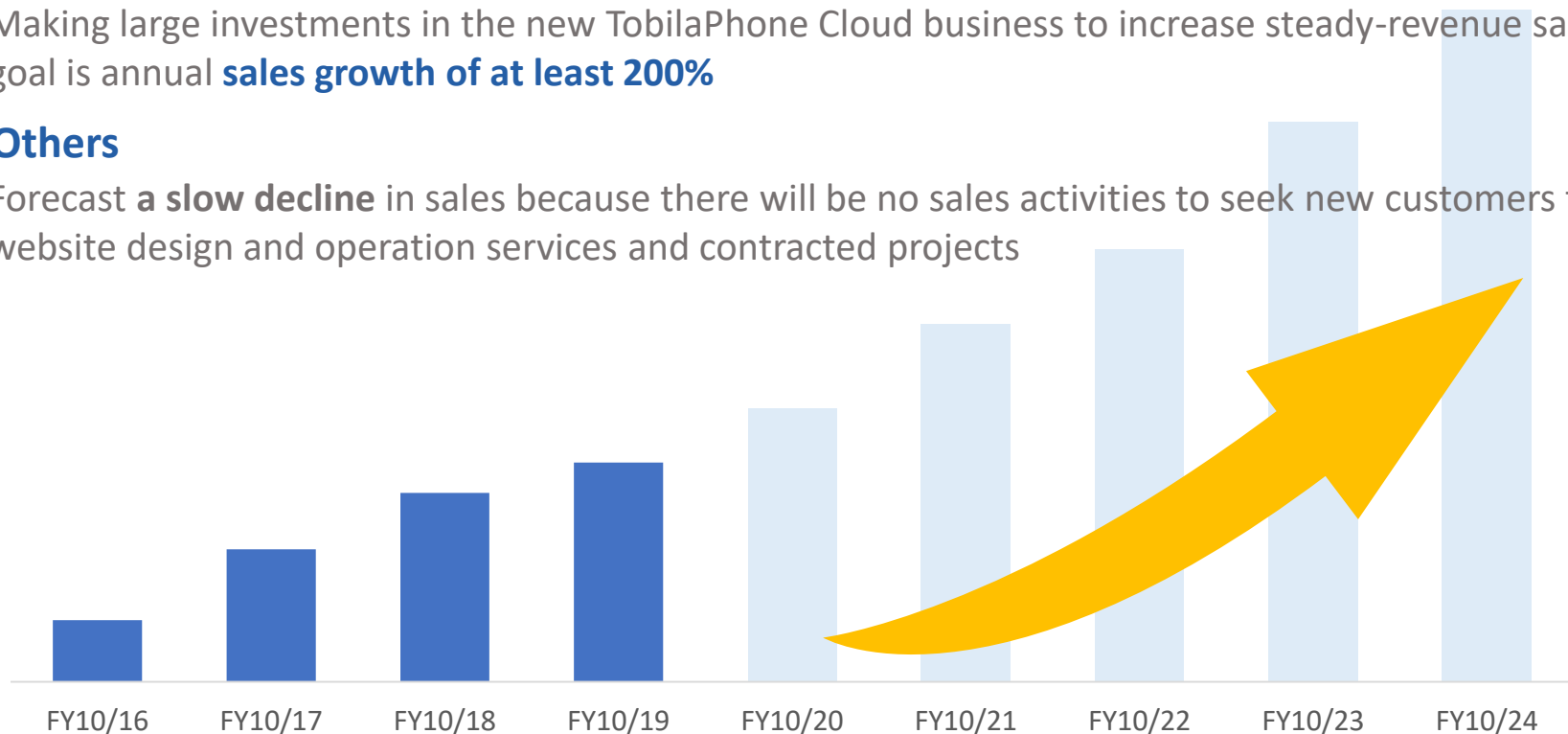
Large potential market for these services; goal is annual **sales growth of at least 25%** during the three-year period ending with FY10/22

- **Business phone services**

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

- **Others**

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





References

Company Overview

Company name	Tobila Systems Inc.			
Securities code	4441			
Established	December 1, 2006 (Founded on April 1, 2004)			
Head office address	Pacific Square Nagoya Nishiki 7F 2-5-12, Nishiki, Naka-ku, Nagoya, Aichi			
Business	Development and provision of fraud and spam prevention systems			
Management	Atsushi Akita Takuya Yuki	Tomoki Matsushita Akemitsu Nakahama	Toshihito Goto Tomoyuki Matsui	Hisashi Tanaami
No. of employees	61 (Includes 10 temporary employees; as of January 31, 2020)			
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



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



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

Hisashi Tanaami

FY10/20 Quarterly Results

Unit: Millions of yen

	FY10/19				FY10/20
	1Q	2Q	3Q	4Q	1Q
Net sales	214	276	231	258	270
Fraud and spam prevention services	193	223	210	237	244
Other services	20	52	21	21	26
Cost of sales	49	75	60	72	77
Labor cost	44	45	47	52	54
Depreciation	6	6	8	12	11
Others	15	40	22	29	23
Pct. of cost of sales classified as R&D expenses and assets*	23.7%	21.5%	23.1%	22.4%	11.9%
SG&A expenses	62	72	84	98	93
Personnel expenses	36	36	37	40	41
Advertising expenses	5	5	4	2	0
R&D expenses	3	5	9	11	8
Others	17	25	32	44	42

*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 Tobil Systems operates and changes in interest rates and foreign exchange rates.
- Tobil 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.