

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

Tobila Systems Inc.

(Tokyo Stock Exchange First Section 4441)



June 2020



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Business Overview

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

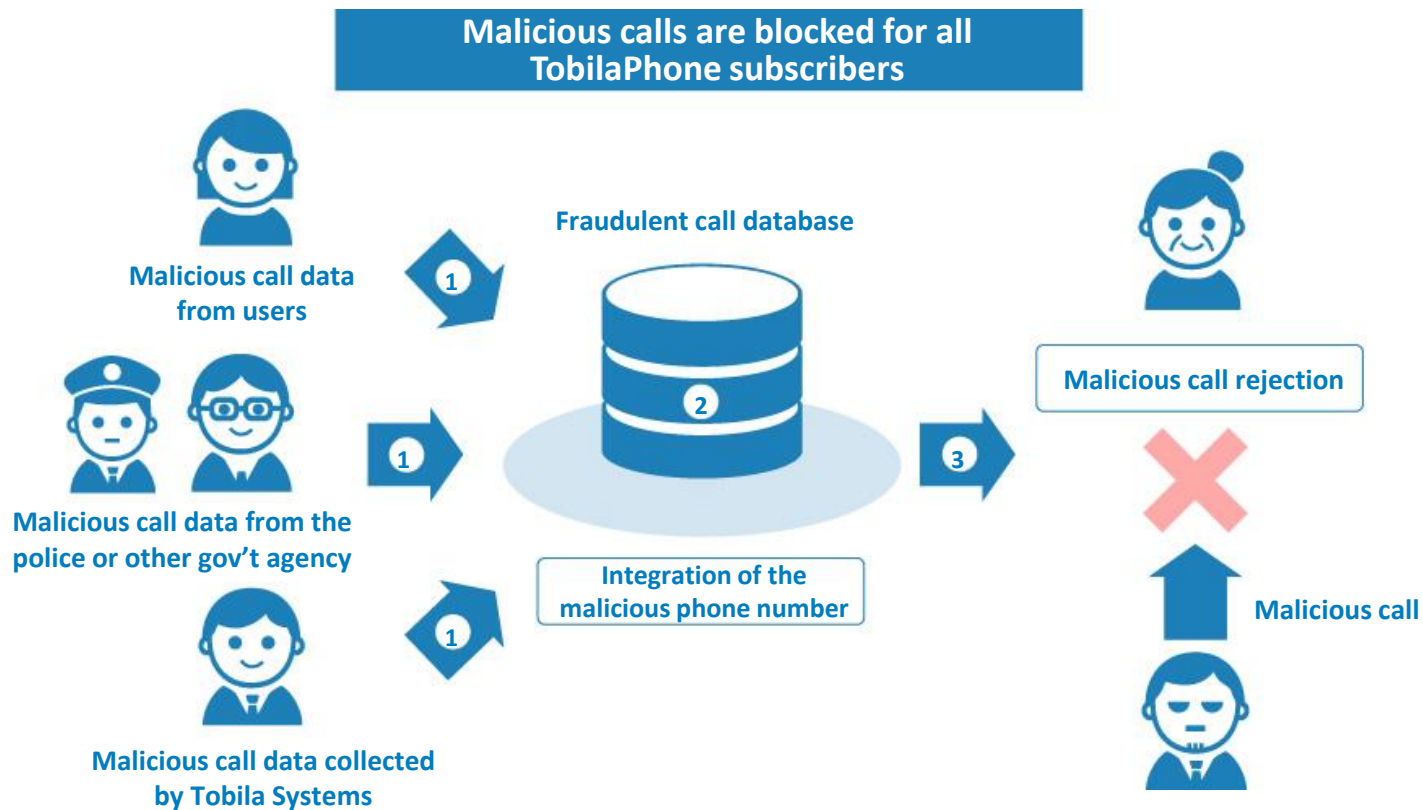
Using technologies for the challenge of solving social issues

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.

The Fraud and Spam Prevention Services of Tobila Systems

The only business in Japan that uses a fraudulent call database for the prevention of malicious calls and other fraud and spam activities



Business Fields



Filtering Service for Mobile Phones

TobilaPhone Mobile, Meiwaku Denwa Block and other services

Filtering Service for Landline Phones

Home Gateway, TobilaPhone for filtering fraudulent calls

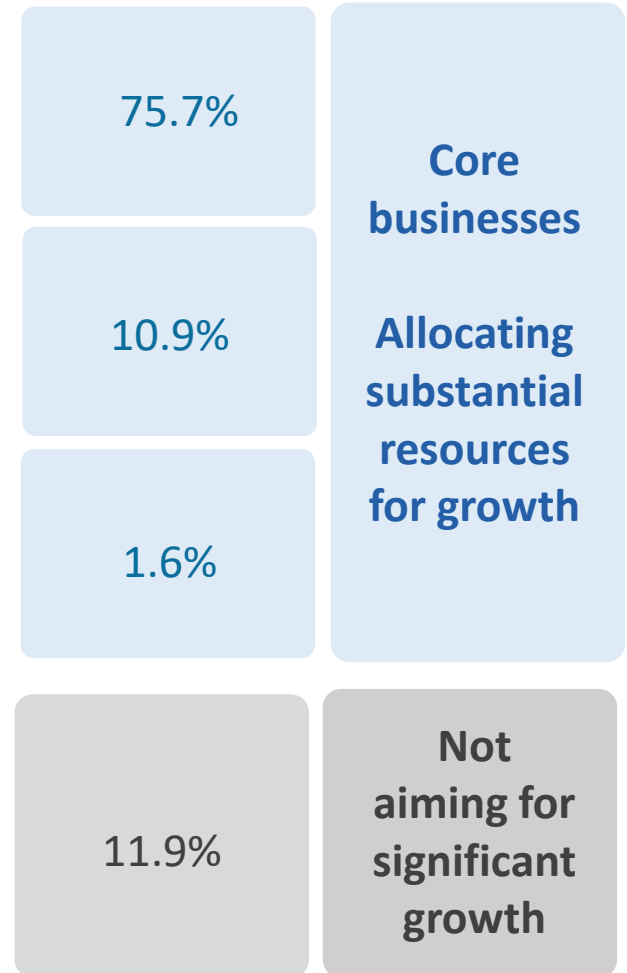
Filtering Service for Business Phones

TobilaPhone Biz for filtering fraudulent calls

Other services

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

FY10/19 Sales composition





1H FY10/20 Highlights

Highlights

First half sales were 3.8% higher than the first half plan

Operating profit was 20.0% higher than the first half plan

Results of 1H FY10/20

Net sales: **¥590** million (up 3.8% vs. plan)

Operating profit: **¥242** million (up 20.0% vs. plan)

TSE First Section listing

Stock listing was moved to the TSE First Section

COVID-19

No significant effect on first half performance

New services

Launched TobilaPhone Cloud services

Monthly active users

Increased to 8.96 million due to joint promotions

* Number of the monthly active users includes some provisional figures. The data may vary somewhat when the finalized figures are released and reflected in the data.

TSE First Section Listing

Stock listing was moved from TSE Mothers to the TSE First Section

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

Using technology for the challenge of solving social issues to enable people to enjoy their lives with greater security and peace of mind



No COVID-19 cases in the Tobila Systems workforce as of June due to a quick response when the coronavirus crisis started

Better engagement

- Work starting and ending times shifted to avoid peak commuting periods
- Payments for remote work expenses

Higher productivity

- Remote work
- Use of TobilaPhone Cloud

Extensive use of working style reforms to create pleasant and productive workplaces for everyone

Release of TobilaPhone Cloud

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



More teleworking because of COVID-19

Interest in TobilaPhone Cloud for remote work

- Voice communication with no need to give people company phones
- Company internal extension links and transfers
- A single telephone directory for everyone

「#取引先にもリモートワークを」

More than 8.96 million monthly active users and growth is gaining momentum

Positive factors

For the “monthly active users x unit price” model, in which Tobila Systems’ sales increase with the number of monthly active users, there were joint promotional activities with carriers from January to March.
→ The result was a big increase in the number of active users.

Risk factors

Since April, carrier shops have reduced operating hours because of the coronavirus crisis. This held down the pace of growth in the number of monthly active users in April, the last month of the second quarter.

There is a risk of slow growth in the number of monthly active users in the third quarter and afterward because of the coronavirus crisis.



1H FY10/20 Financial Results

Financial Summary (1/2) QoQ and YoY Comparisons

Sales continue to climb due to the growth of core services and the operating margin remains high

Unit: Millions of yen	2Q FY10/20	1Q FY10/20		2Q FY10/19	
		Results	QoQ	Results	YoY
Net sales	319	270	117.8%	276	115.6%
Operating profit (Operating margin)	141 <u>(44.4%)</u>	100	<u>141.2%</u>	128	110.8%
Ordinary profit (Ordinary profit margin)	115 (36.1%)	100	114.9%	116	99.1%
Profit (Profit margin)	79 (24.9%)	69	114.2%	83	95.2%

The ordinary profit and profit declined year on year because of one-time expense (about 25.6 million yen) for the TSE First Section listing

First half sales and earnings are higher than the first half plan

Operating profit is far ahead of the plan as earnings remain strong

Unit: Millions of yen

	FY Plan	1H Plan	1H FY10/20 Results	1H vs. FY Plan	1H vs. 1H Plan
Net sales	1,227	569	590	48.1%	103.8%
Operating profit	468	202	242	51.8%	<u>120.0%</u>
Ordinary profit	449	183	215	48.1%	117.7%
Profit	307	125	149	48.6%	119.0%

Monthly active users of the core filtering services for mobile phones are increasing

One-time sales increase due to orders for attachments for landline phones

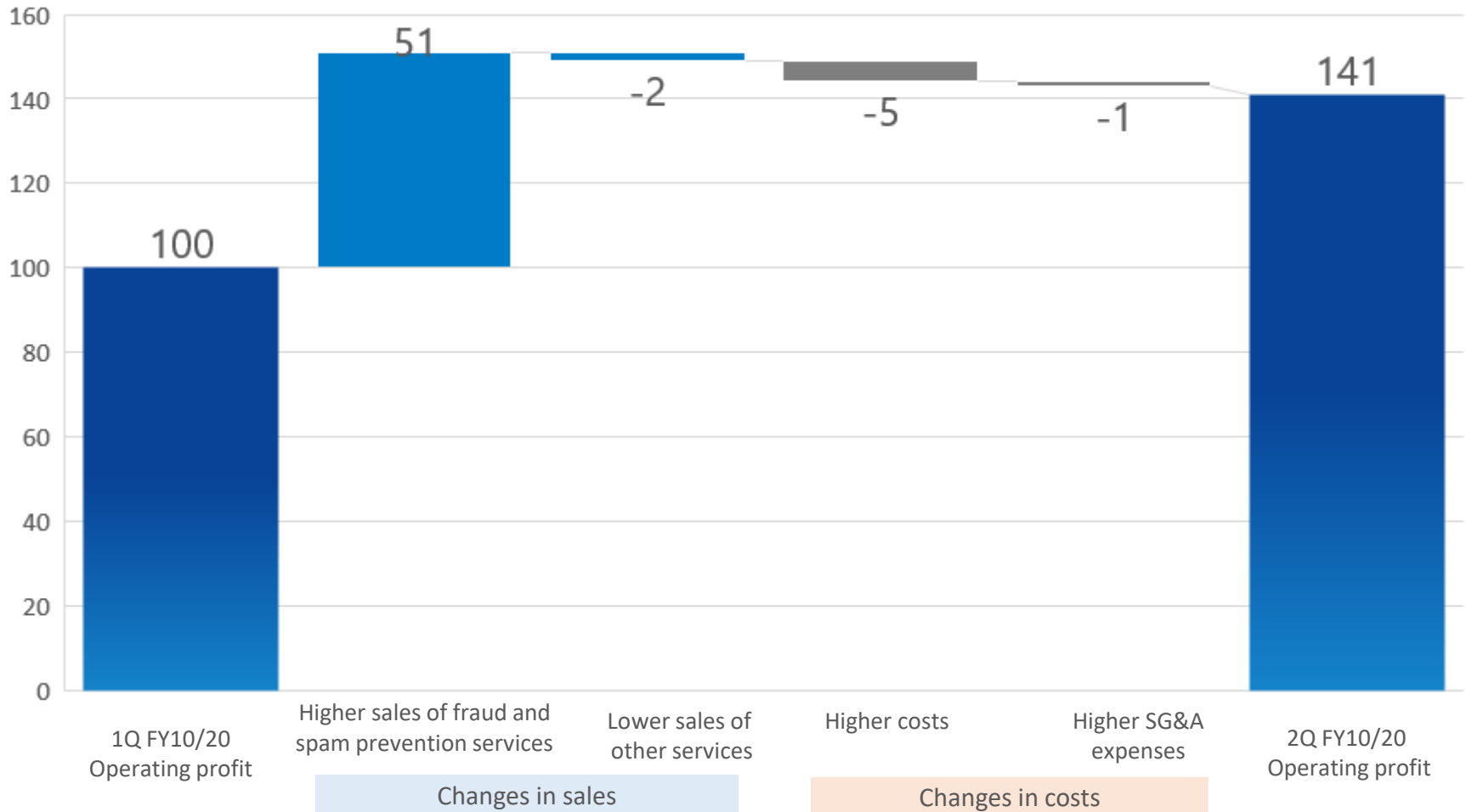
Unit: Millions of yen

	FY10/20 Plan		FY10/20			
	1H	2H	2Q	QoQ	1H vs. 1H Plan	1H vs. FY Plan
Fraud and spam prevention services	521	623	295	<u>120.9%</u>	103.4%	47.2%
Mobile phone services	450	527	246	<u>116.6%</u>	101.9%	47.0%
Landline phone services	60	76	42	153.6%	116.0%	51.6%
Business phone services	11	20	5	121.7%	93.3%	33.2%
Other services	48	35	23	89.8%	108.2%	61.1%

QoQ Changes in Operating Profit

Operating profit growth was about the same as sales growth because of higher sales from high-margin activities

Unit: Millions of yen



FY10/20 Quarterly Expenses

2Q cost of sales and SG&A expenses were about the same as in the 1Q as there was no significant change in the cost structure

Unit: Millions of yen

	2Q FY10/20	1Q FY10/20		2Q FY10/19	
		Results	QoQ	Results	YoY
Cost of sales	82	77	106.3%	75	109.3%
Labor cost	52	54	96.2%	45	115.3%
Depreciation	10	11	92.4%	6	157.7%
Others	43	31	140.0%	40	107.4%
Pct. of cost of sales classified as R&D expenses and assets*	22.5%	20.1%	111.7%	21.5%	104.6%
SG&A expenses	94	93	101.7%	72	130.8%
Personnel expenses	42	41	102.9%	36	116.4%
Advertising expenses	11	0	1385.3%	5	224.5%
R&D expenses	7	8	96.0%	5	152.7%
Others	32	42	75.8%	25	127.7%

*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

Balance sheet remains sound with an equity ratio exceeding 70%
No liquidity concerns; sufficient cash for about 13 months of payments

(Unit: Millions of yen)	FY10/19	2Q FY10/20	Change
Current assets	1,139	1,420	+281
Cash and deposits	998	1,253	+254
Notes and accounts receivable-trade	109	142	+33
Other	31	24	-6
Non-current assets	170	223	+52
Property, plant and equipment	43	68	+24
Intangible assets	85	101	+16
Investments and other assets	41	52	+11
Total assets	1,310	1,643	+333
Liabilities	309	484	+175
Current liabilities	284	465	+181
Non-current liabilities	24	18	-6
Net assets	1,000	1,159	+158
Equity ratio	76.4%	70.5%	-5.9%

*Figures are rounded down to the nearest million yen

High structural financial stability because of a business model that is safe and steady

 **Liquidity ratio**

304.9% – Consistently positive operating cash flows

 **Impairment risk for non-current assets**

No goodwill, no holdings of securities, no risk of a significant impairment loss

 **Risk of writing off receivables**

Virtually no risk of writing off a receivable because most sales are from Japan's big three carriers



FY10/20 Earnings Forecast

First half sales and earnings achieved the plan

No change in the fiscal year forecast and dividends at this time as COVID-19 makes the outlook for the second half (May-October) uncertain

Unit: Millions of yen

	FY10/20 Plan	1H FY10/20	1H vs. FY10/20 Plan
Net sales	1,227	590	48.1%
Operating profit	468	242	51.8%
Ordinary profit	449	215	48.1%
Profit	307	149	48.6%

Profit plan is on target as operating profit is particularly strong, running about 20% ahead of the plan.

Impact of the COVID-19 Crisis in the Second Half

COVID-19 had only a small effect on first half performance

In the second half, there are risks concerning a resurgence of the pandemic and the pace of restoring economic activities

The Japanese economy

- Effective GDP contraction for two consecutive quarters as personal consumption dropped because of COVID-19

Positive factors

- Anticipate an increase in the number of companies using TobilaPhone Cloud because of more demand due to telework, but this will be only a small and short-term positive factor

Risk factors

- Users may decide not to use services because of the downturn in consumption
- Increase in the number of users may slow down as carrier shops cut back their operations
- Lower sales outside online channels as business activities are limited



1H 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

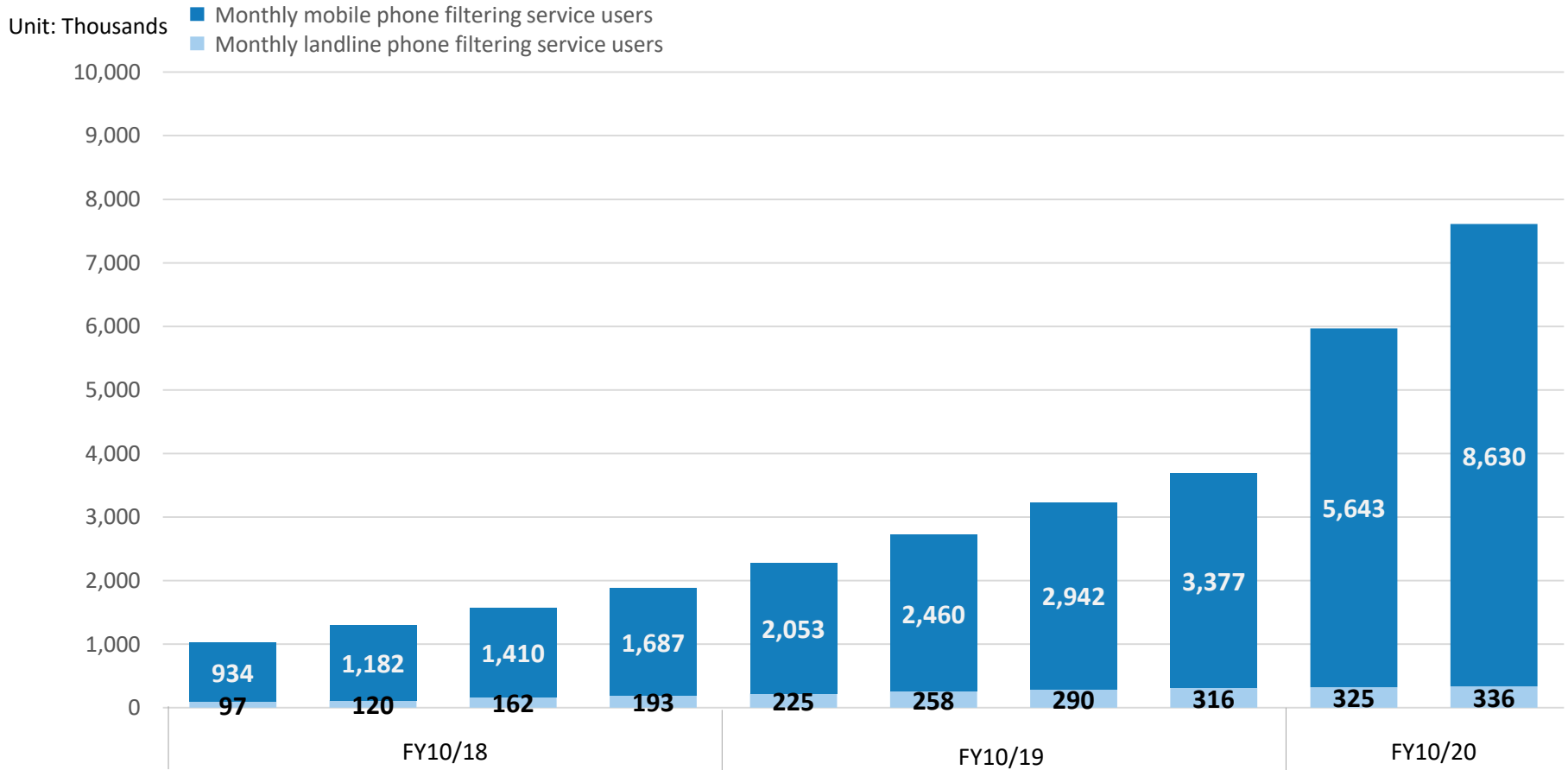


A more powerful internal infrastructure

- 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 8.96 million monthly active users* (as of April 30, 2020)



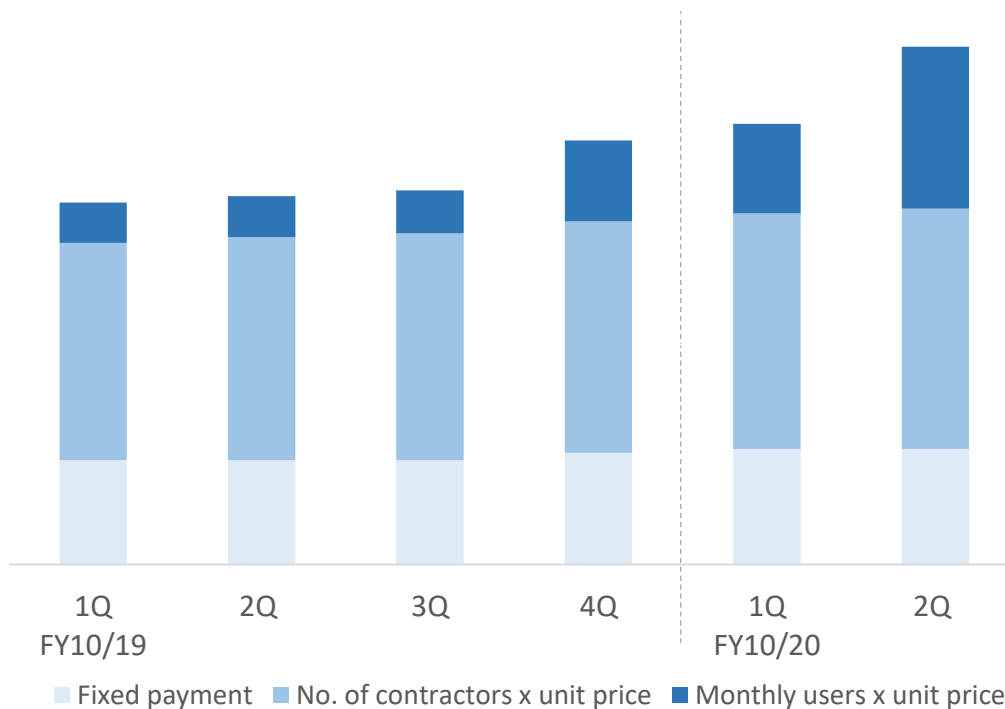
* Monthly active users (MAU) are the number of users of our products and services who access our server at least once a month to update a blocked phone number list automatically or to activate our app or other services. If a person uses multiple devices and each device has a separate agreement, the person 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.

* Number of the monthly active users includes some provisional figures. The data may vary somewhat when the finalized figures are released and reflected in the data.

Mobile Business Category Growth

Faster than planned sales growth for the “monthly active users x unit price” model, which is the primary source of growth

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



Performance vs. Prior Quarter*

●	Monthly active users × Unit price	
	Sales	<u>181.9%</u>
	Monthly active users	154.6%
●	No. of contractors × Unit price	
	Sales	102.0%
	Monthly active users	102.8%
●	Fixed payment	
	Sales	100.0%
	Monthly active users	163.8%

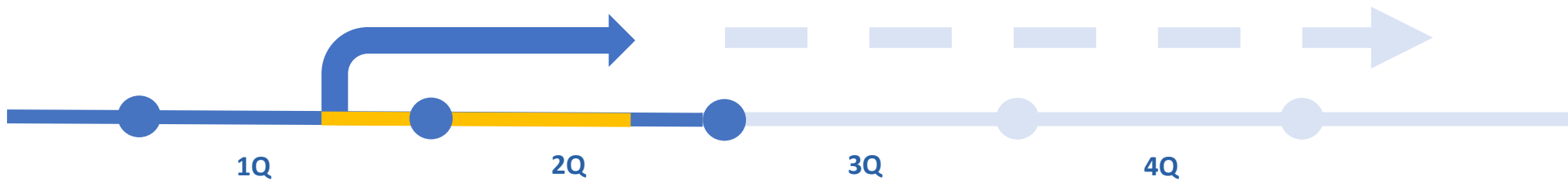
*Difference between 1Q FY10/20 and 2Q FY10/20

*See page 38 for information about the contract categories.

Investing in Current Sources of Earnings

Reasons for the strong 2Q growth of the “monthly active users x unit price” model that is expected to continue to drive growth

→ Three months of joint promotional activities with carriers

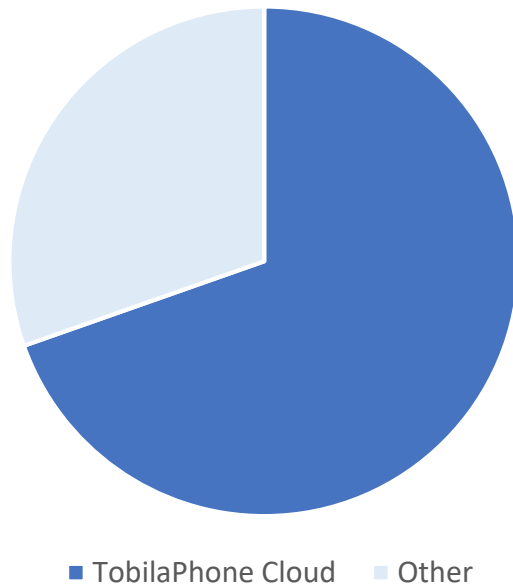


- Promotions in the first three months of 2020 generated second quarter (Feb-April) growth in the number of monthly active users that was 365% higher than planned.
- Promotions contributed to second quarter performance in February and March.
- The larger than planned first half increase in steady-revenue may offset weakness in the second half.
- No decisions about more promotions, but collaborations with carriers to attract more users will continue because of the success of these recent joint activities.

Investments for Future Growth

More investments in TobilaPhone Cloud, an app that promotes telework, to create the next business that is a core driver of growth

1H R&D expenses ratio



TobilaPhone Cloud was about **70%** of first half R&D expenditures

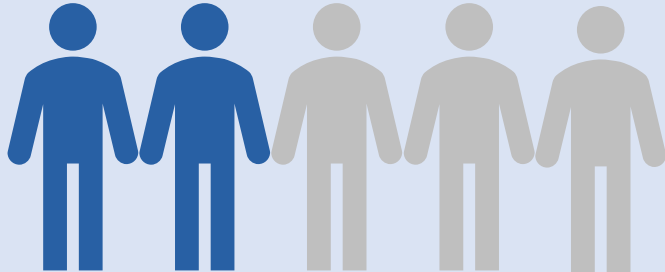
R&D expenses in the first half: About ¥15.8 million

A More Powerful Internal Infrastructure

Hired three fulltime employees during the second quarter, including one manager

Business Operations

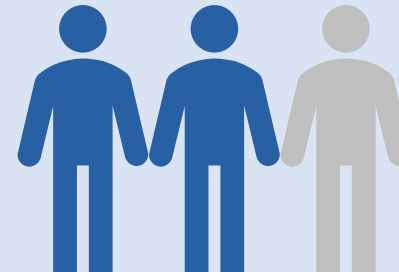
FY10/20 Recruiting Plan: 5



During the 1H, hired 2 of the 5 engineers to be added

Sales/Administration

FY10/20 Recruiting Plan: 3



During the 1H, hired 2 of the 3 sales/administration members to be added

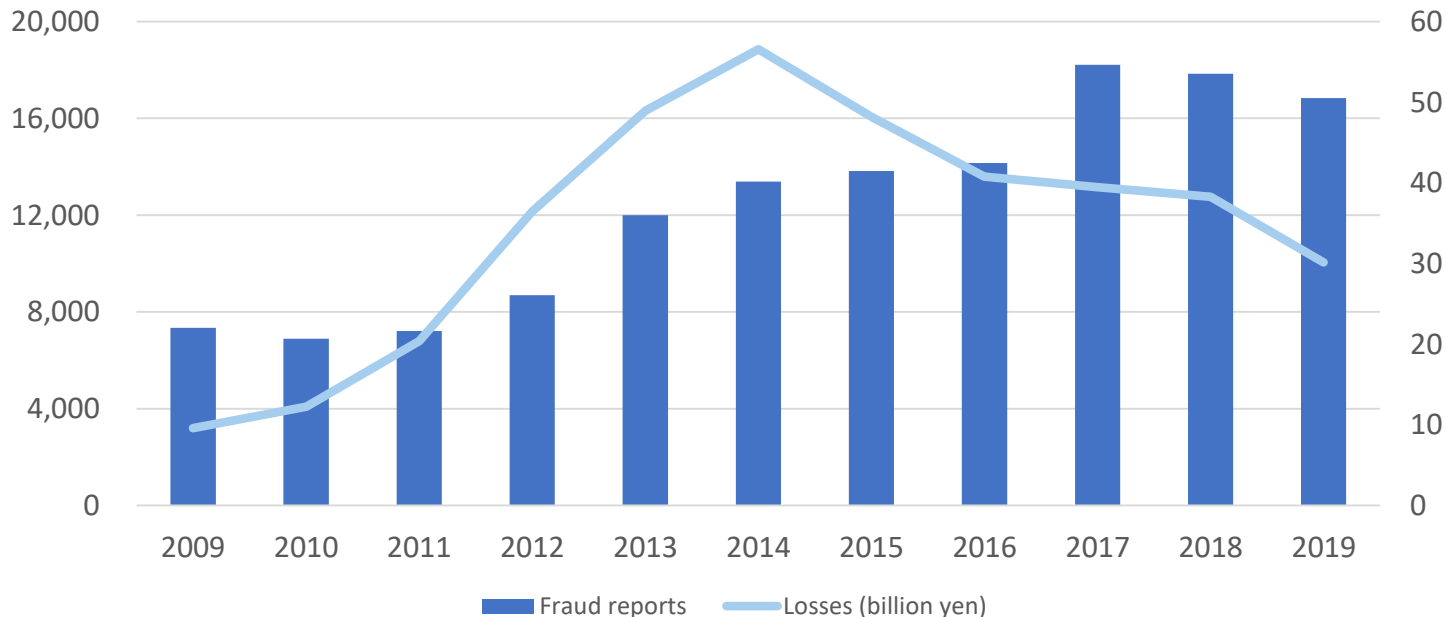


Competitive Strengths

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.



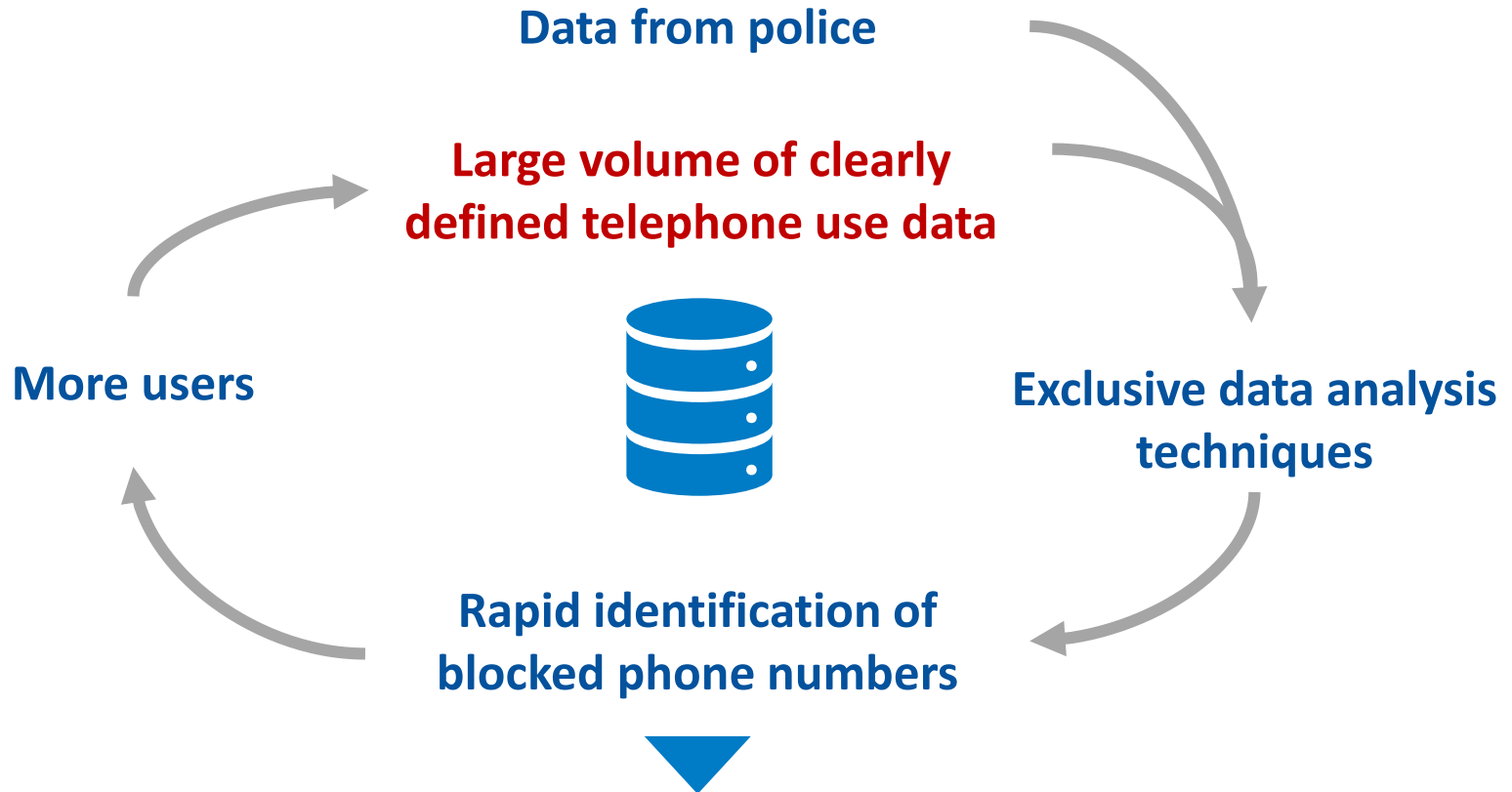
Source: Identification and Control of Special Fraud in 2019, National Police Agency

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



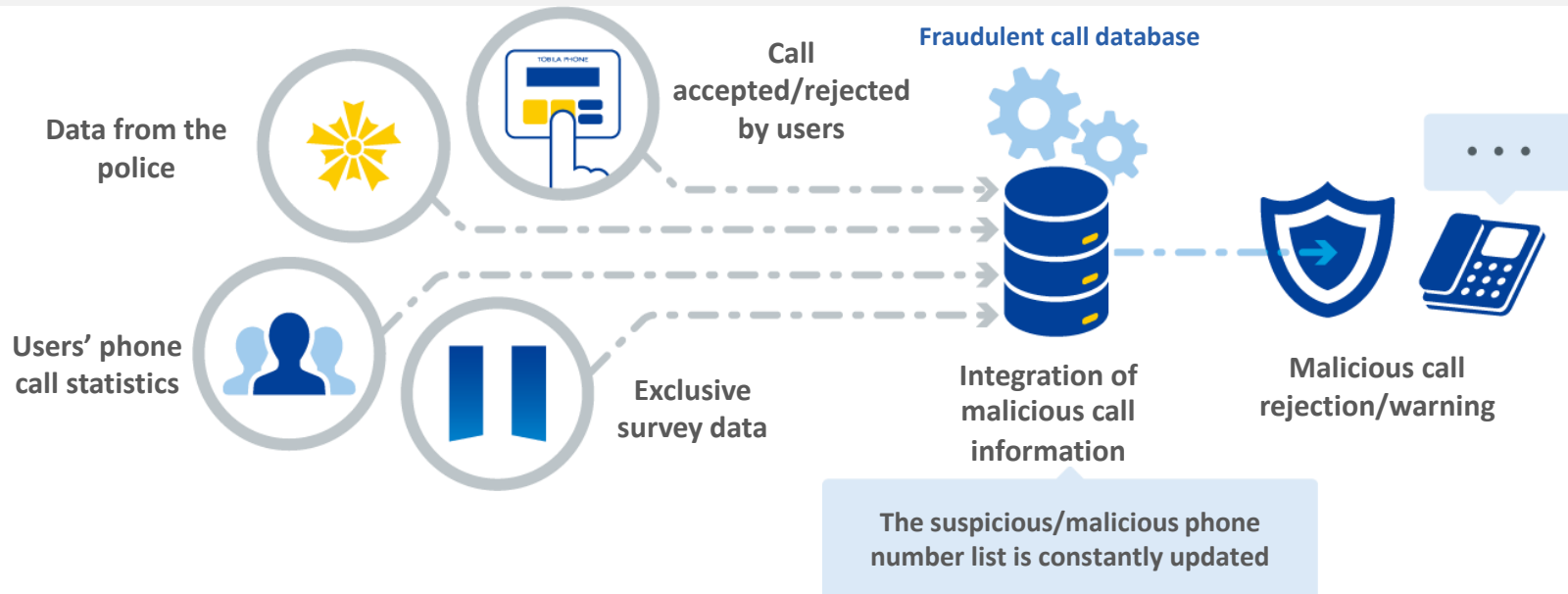
Our goal is the elimination of problems caused by fraud and spam activities in Japan!

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.








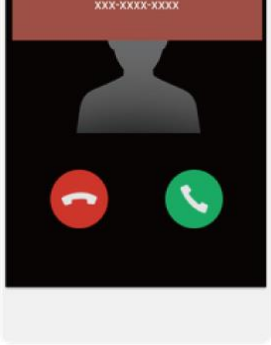





Our Services and Business Model

Filtering Service for Mobile Phones

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

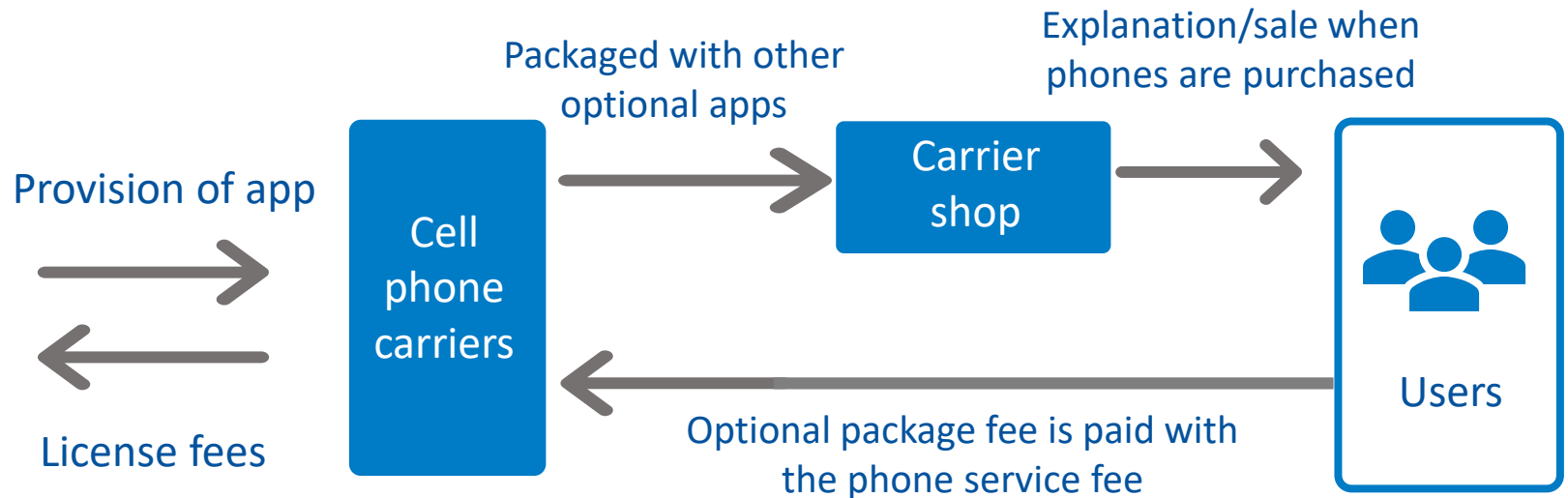
Offered as an app for filtering fraudulent calls

Carrier/App (Examples)	Incoming call screen (when suspicious/malicious number is detected)	A function for automatically displaying information about the caller
<p>SoftBank</p>  <p>SoftBank</p> <p>Meiwaku Denwa Block</p>		
<p>KDDI (au)</p>  <p>Meiwaku Message & Denwa Block</p>		
<p>docomo</p>  <p>Anshin Security</p>		

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

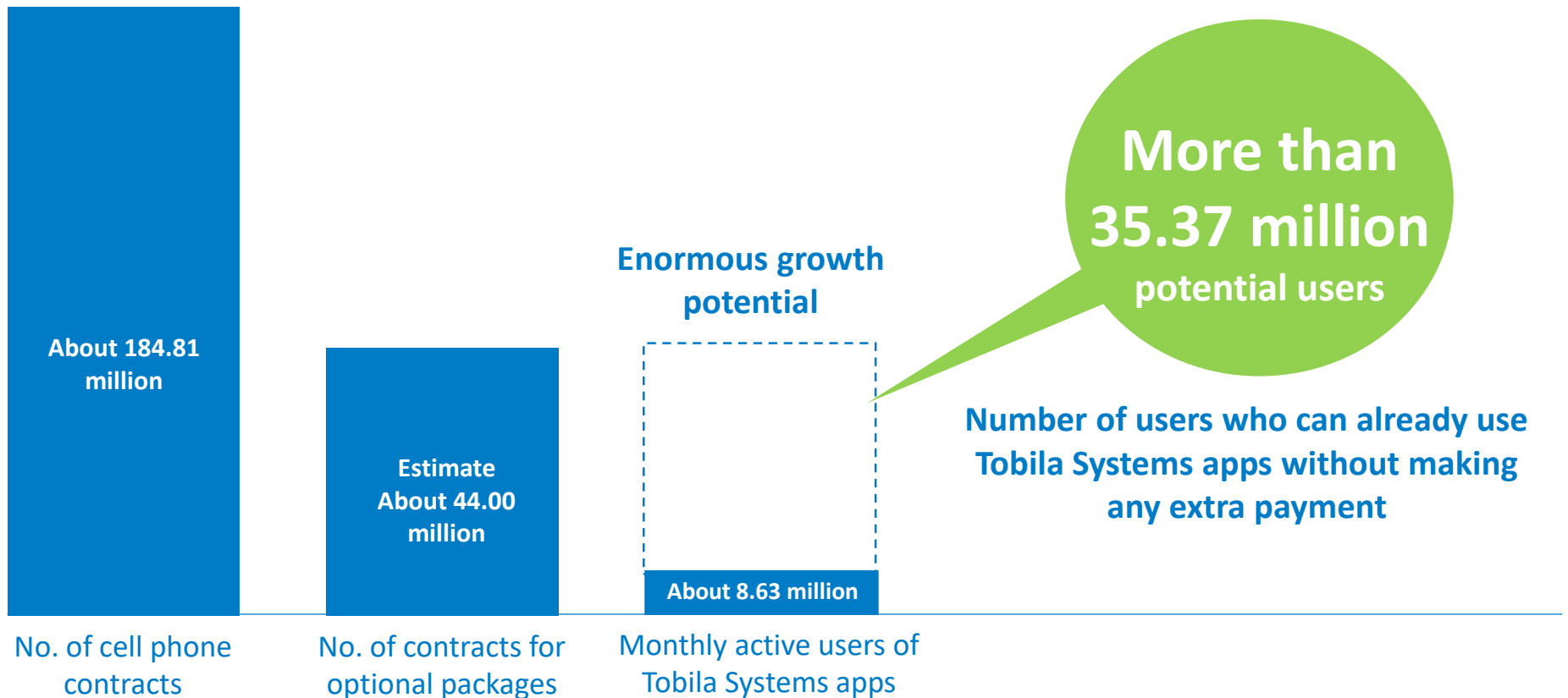


**Monthly
active users
 \times
Unit price**

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 35.37 million potential users of Tobile Systems apps at no extra charge
Monthly active users are now only about 8.63 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 (March 24, 2020)

* 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

* Number of the monthly active users includes some provisional figures. The data may vary somewhat when the finalized figures are released and reflected in the data.

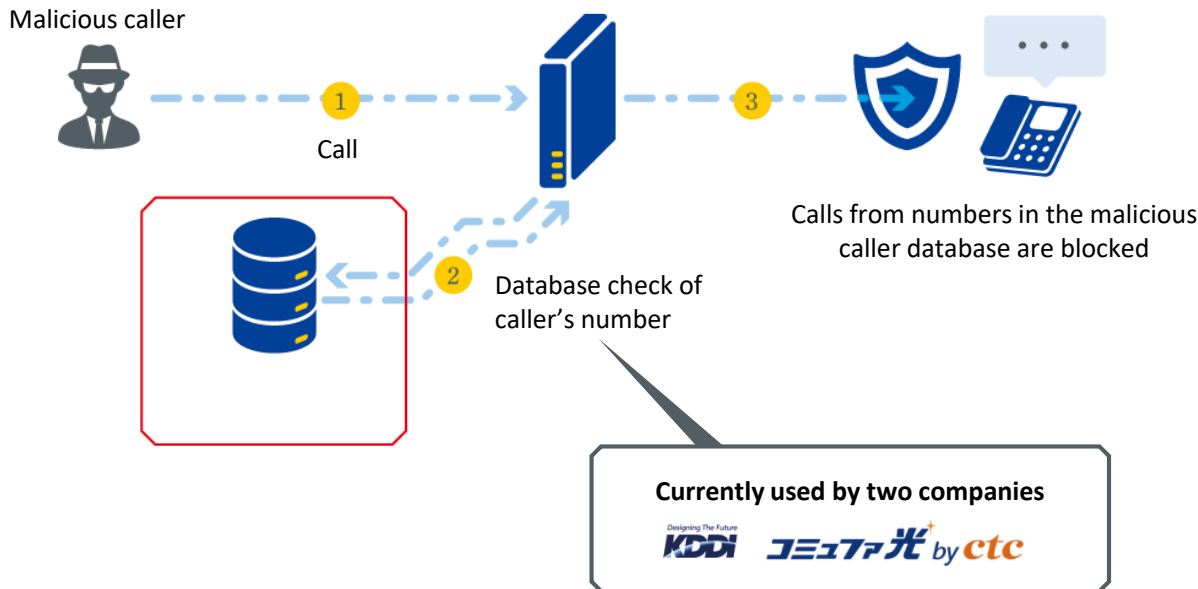
Filtering Service for Landline Phones

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

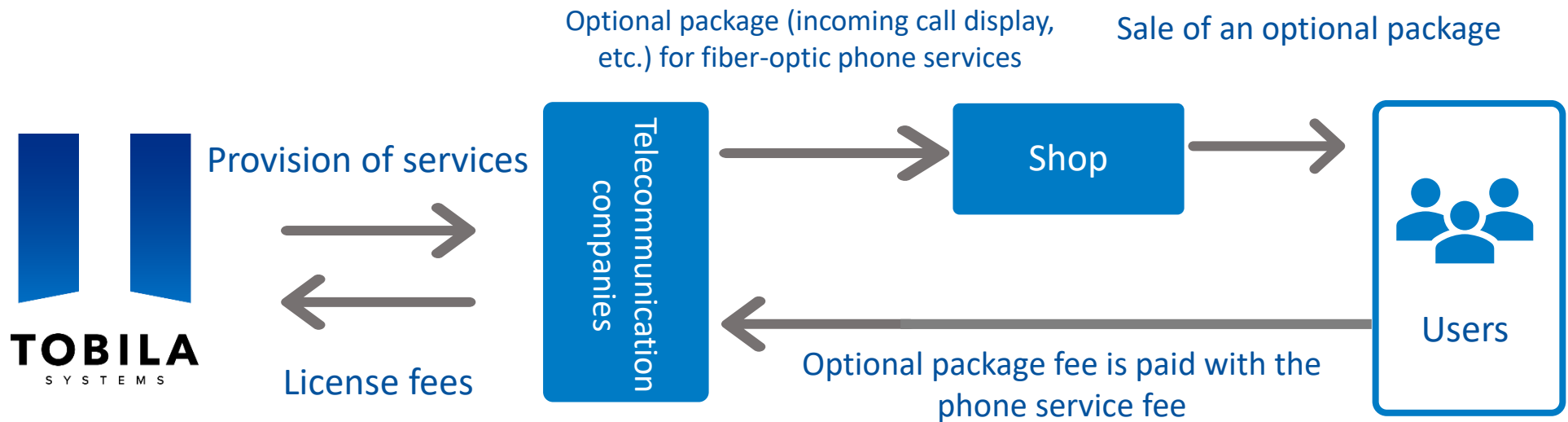


*Users of landline phones (IP phones) must use a Home Gateway with a link between the Internet and telephone.

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

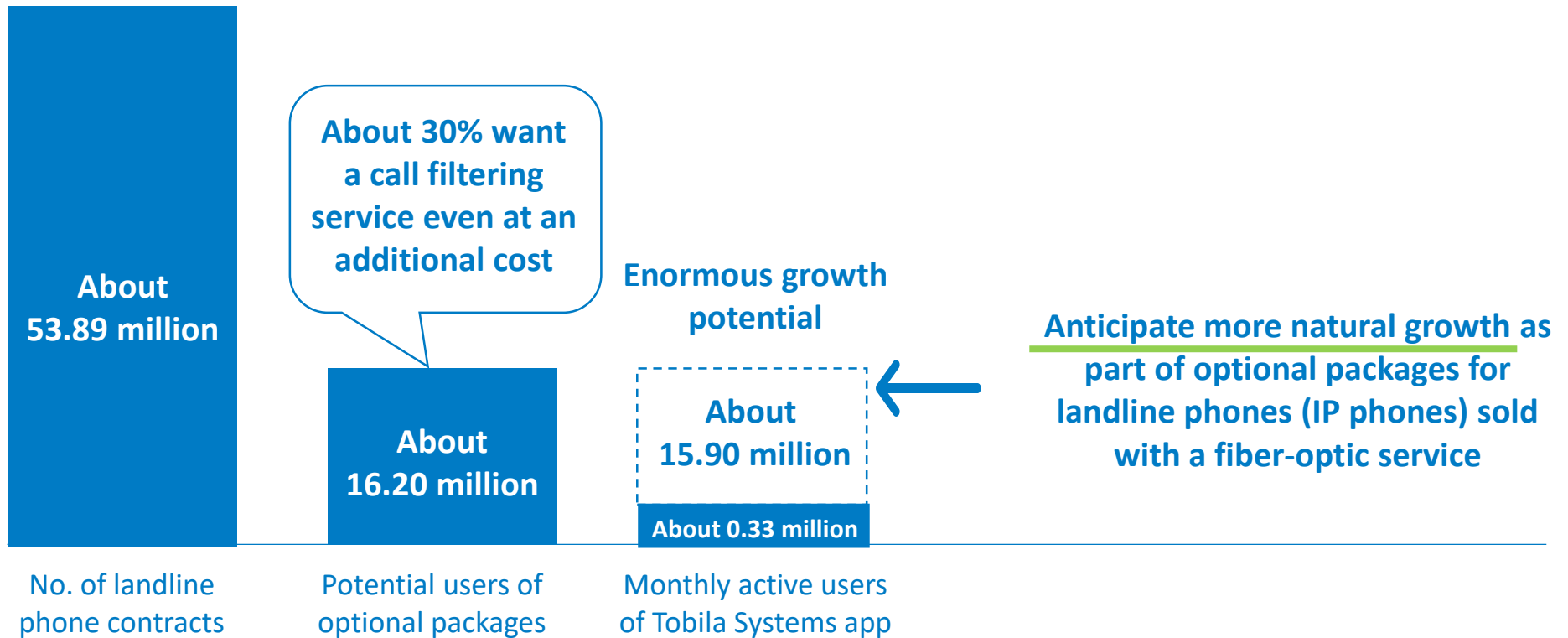
Telecommunication companies conduct marketing activities, sell services to users, and collect fees

● 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 (March 24, 2020)

*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).

TobilaPhone Biz Business Model (1/2)

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.

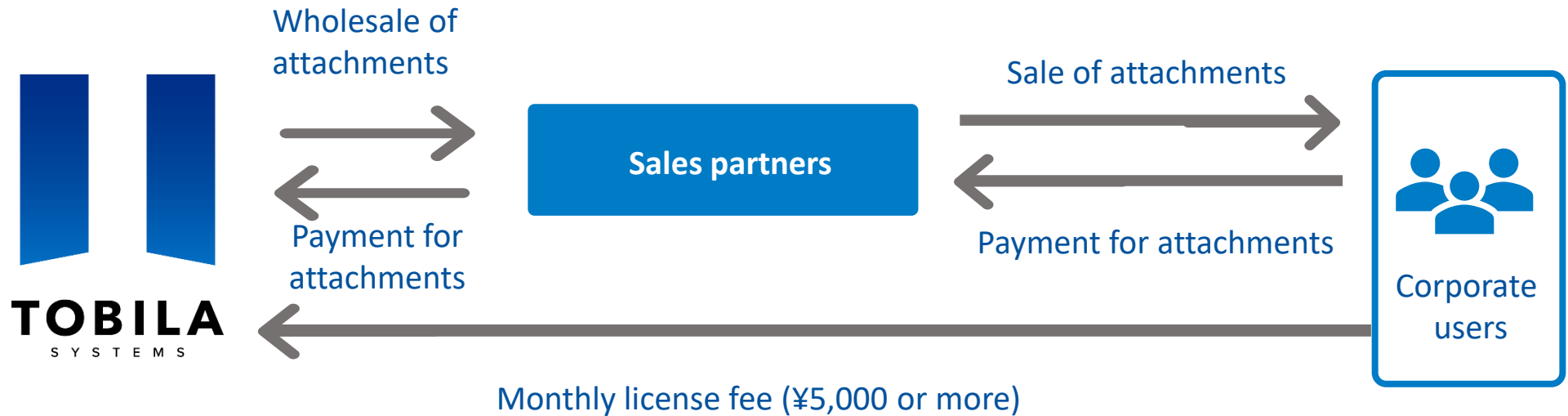
Use a browser to listen to recordings



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.

TobilaPhone Biz Business Model (2/2)

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



What is TobilePhone Cloud?

A cloud-based business phone service that allows people to use their personal smartphones for business activities



Simply install the app
on a smartphone



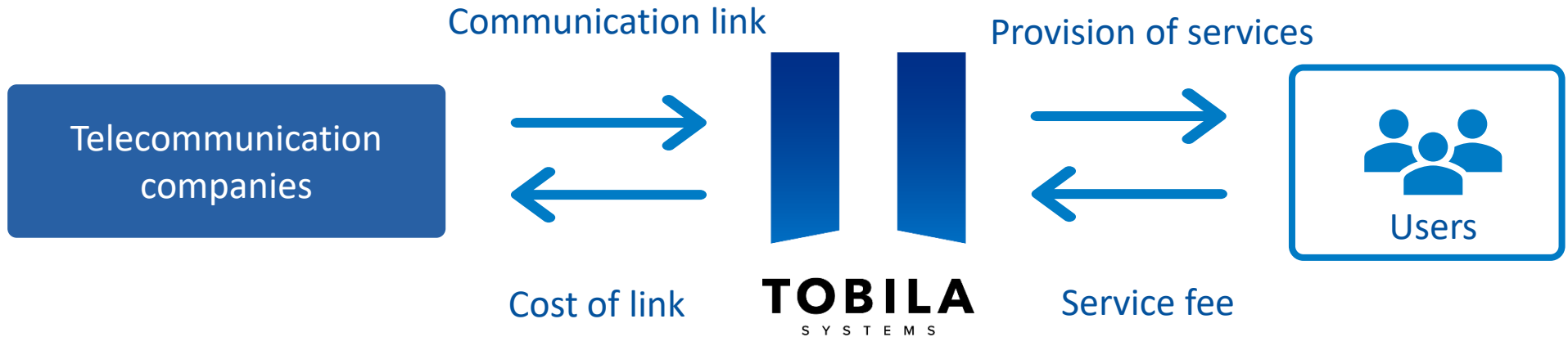
Capital expenditures ¥0



Use a single screen for all
operations

TobilaPhone Cloud Business Model

A steady-revenue model in which monthly licensing fees increase along with the number of basic service packages



● Initial fee
¥30,000

+

● Monthly fee
(1) Basic service packages x unit price (¥3,000) + (2) Phone use charges

*Depending on the number of users, one company may have more than one basic service package.

*For more information about the basic service package: (<https://tobilaphone.com/biz/cloud/price/>)

Medium-term Growth Projection

- **Mobile phone services**

Expect **rapid sales growth** to continue because there is still substantial growth potential

- **Landline phone services**

The goal is **steady sales growth** because of the large potential market for landline services and high level of interest in these services

- **Business phone services**

Aiming for **a big increase in sales** because of growing demand for TobilaPhone Cloud services, a new business, as more people work from home

- **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	64 (Includes 12 temporary employees; as of April 30, 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

Tomoki Matsushita



Director and CFO,
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	2Q
Net sales	214	276	231	258	270	319
Fraud and spam prevention services	193	223	210	237	244	295
Other services	20	52	21	21	26	23
Cost of sales	49	75	60	72	77	82
Labor cost	44	45	47	52	54	52
Depreciation	6	6	8	12	11	10
Others	15	40	22	29	31	43
Pct. of cost of sales classified as R&D expenses and assets*	23.7%	21.5%	23.1%	22.4%	20.1%	22.5%
SG&A expenses	62	72	84	98	93	94
Personnel expenses	36	36	37	40	41	42
Advertising expenses	5	5	4	2	0	11
R&D expenses	3	5	9	11	8	7
Others	17	25	32	44	42	32

*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.