

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

Tobila Systems Inc.

(Tokyo Stock Exchange First Section 4441)



September 2020



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Business Overview

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

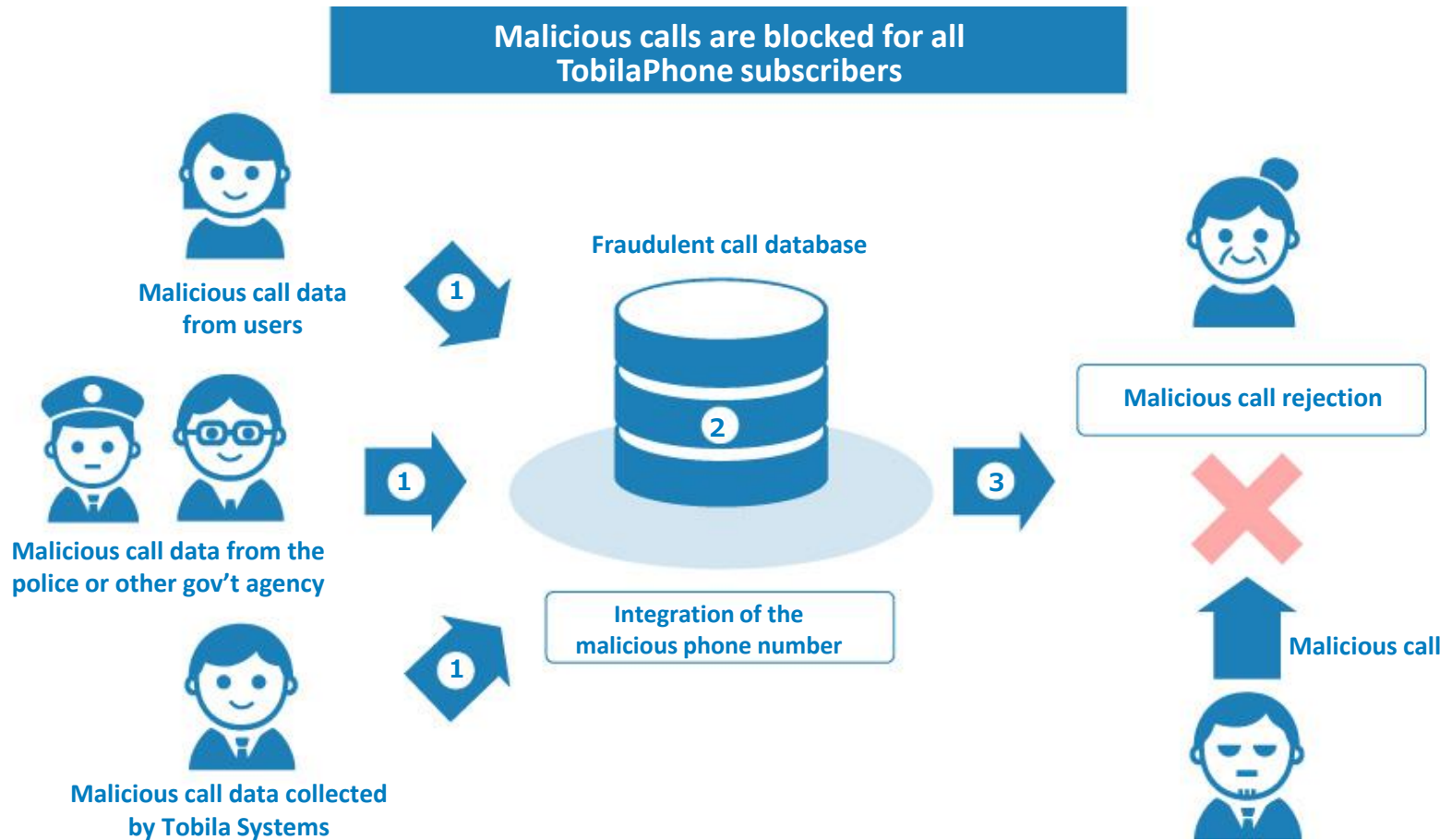
Using technologies for the challenge of solving social issues

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.

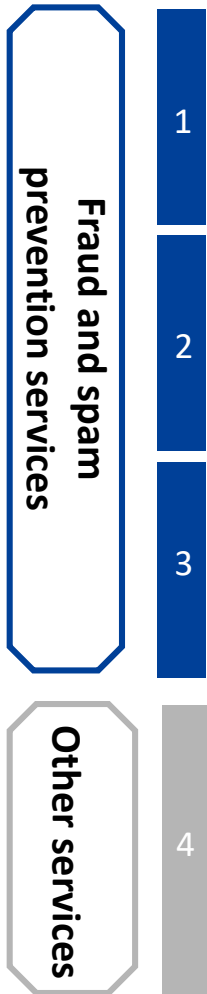
We will strive to solve social issues using security for people in order to create a society with peace of mind.

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





3Q FY10/20 Highlights

Highlights

Small decreases from one year earlier in third quarter sales and operating profit because of COVID-19, but performance is consistent with the fiscal year plan

Results of 3Q FY10/20

Net sales: **¥312** million (down 2.1% QoQ)

Operating profit: **¥134** million (down 5.5% QoQ)

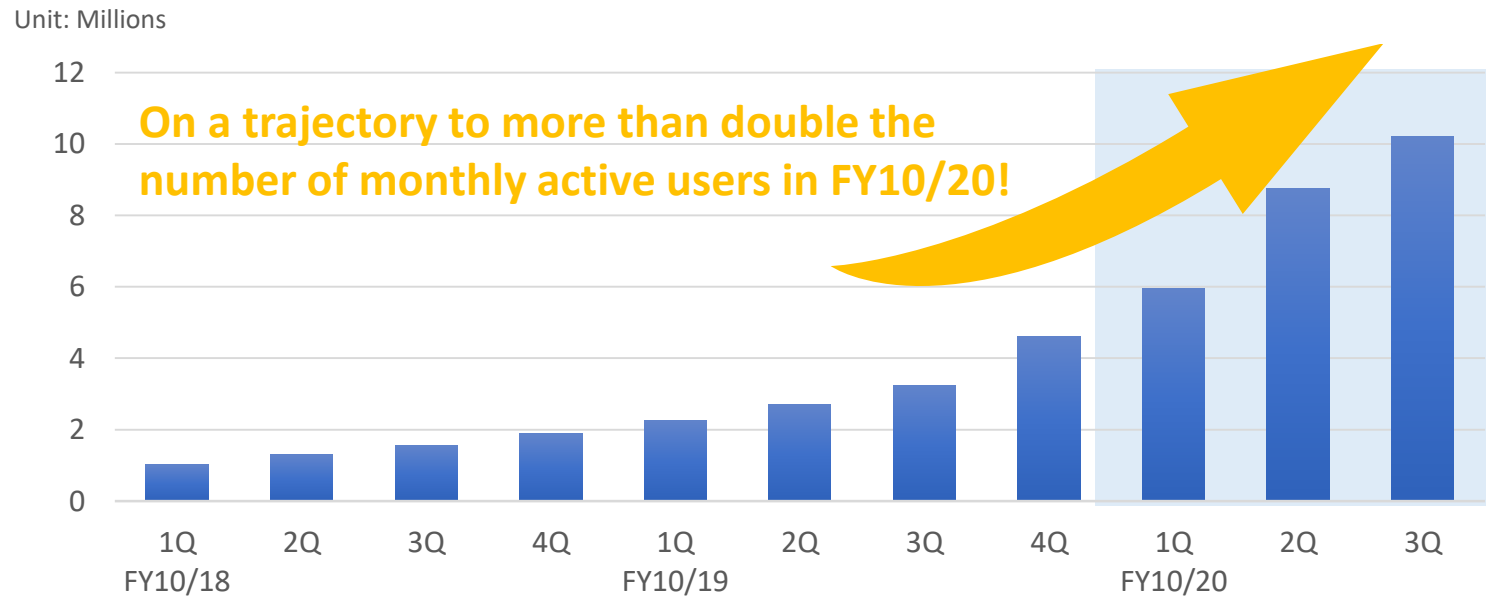
■ Topics

- One-time sales were recorded in the 2Q but not in the 3Q
- Effective joint promotions contributed to 2Q growth, no promotions in the 3Q
- Slower core business growth as COVID-19 reduced operating hours of carrier shops, but performance started recovering in July
- Performance in the first three quarters is consistent with the FY plan because the first half was ahead of the plan

Highlights

More than 10 million monthly active users!

A big increase in the pace of growth in FY10/20 raised the number of monthly active users to more than 10 million!



* 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.



3Q FY10/20 Financial Results

Financial Summary (1/2) QoQ and YoY Comparisons

Sales increased 34% and earnings more than 50% from one year earlier and the operating margin remains high

A small decrease in sales and operating profit from the previous quarter because of COVID-19

Unit: Millions of yen	3Q FY10/20	2Q FY10/20		3Q FY10/19	
		Results	QoQ	Results	YoY
Net sales	312	319	97.9%	231	<u>134.8%</u>
Operating profit (Operating margin)	134 <u>(42.9%)</u>	141	94.5%	87	<u>152.9%</u>
Ordinary profit (Ordinary profit margin)	133 (42.8%)	115	116.0%	85	155.8%
Profit (Profit margin)	92 (29.7%)	79	116.7%	57	160.5%

Sales are in line with the FY plan

Earnings at all levels are ahead of the plan

Unit: Millions of yen

	FY Plan	2H Plan	1Q-3Q FY10/20 Results	1Q-3Q vs. FY Plan	3Q vs. 2H Plan
Net sales	1,227	658	902	73.5%	47.4%
Operating profit	468	266	376	<u>80.4%</u>	50.4%
Ordinary profit	449	266	349	<u>77.9%</u>	50.4%
Profit	307	182	241	<u>78.7%</u>	51.0%

Sales Composition

Mobile phone services sales were unchanged from the 2Q but are on pace to achieve the FY plan

Landline phone services sales were down from the 2Q due to one-time 2Q sales but are also in line with the FY plan

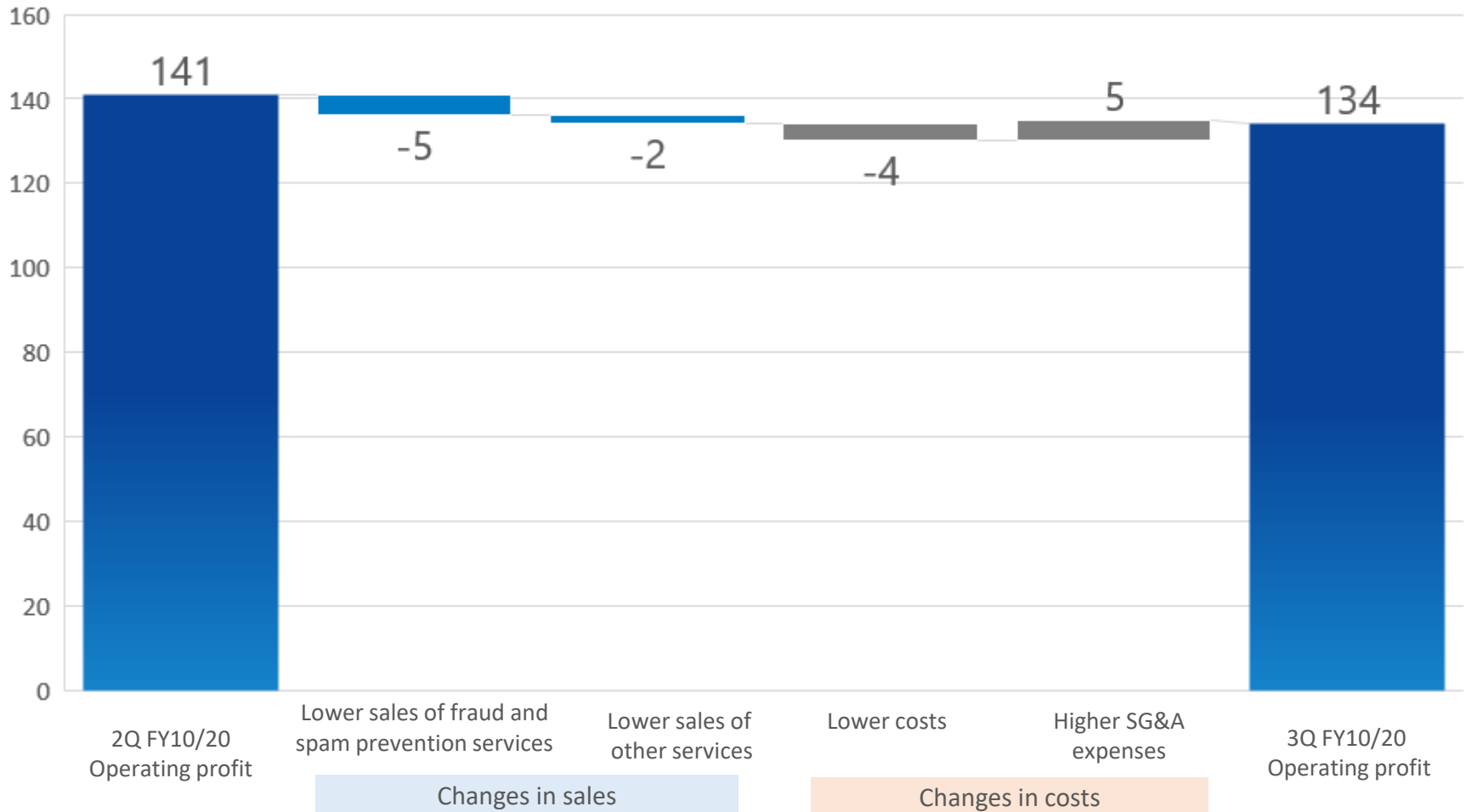
Unit: Millions of yen

	FY10/20 Plan		FY10/20			
	1H	2H	3Q	QoQ	3Q vs. 2H Plan	1Q-3Q vs. FY Plan
Fraud and spam prevention services	521	623	290	98.2%	46.6%	72.5%
Mobile phone services	450	527	248	100.7%	47.3%	72.5%
Landline phone services	60	76	33	79.5%	44.8%	76.5%
Business phone services	11	20	7	131.6%	37.3%	57.2%
Other services	48	35	22	93.7%	60.9%	87.4%

QoQ Changes in Operating Profit

A small decline in earnings because 3Q sales were slightly lower

Unit: Millions of yen



FY10/20 Quarterly Expenses

No significant change in the composition of expenses from the 2Q

Unit: Millions of yen

	3Q FY10/20	2Q FY10/20		3Q FY10/19	
		Results	QoQ	Results	YoY
Cost of sales	<u>78</u>	82	95.2%	60	130.8%
Labor cost	54	52	104.1%	47	114.5%
Depreciation	10	10	101.4%	9	124.6%
Others	36	43	84.2%	22	165.9%
Pct. of cost of sales classified as R&D expenses and assets*	22.6%	22.5%	100.6%	22.7%	98.1%
SG&A expenses	<u>99</u>	94	105.4%	84	118.7%
Personnel expenses	44	42	103.7%	38	116.7%
Advertising expenses	14	11	119.3%	4	350.1%
R&D expenses	10	7	133.2%	9	107.8%
Others	31	32	95.8%	32	95.4%

*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

Balance sheet remains sound with an equity ratio of 82.8%

A committed credit facility further strengthens financial soundness

(Unit: Millions of yen)	FY10/19	3Q FY10/20	Change
Current assets	1,139	1,303	+164
Cash and deposits	998	1,122	+124
Notes and accounts receivable- trade	109	144	+35
Other	31	35	+4
Non-current assets	170	224	+53
Property, plant and equipment	43	65	+21
Intangible assets	85	108	+22
Investments and other assets	41	51	+9
Total assets	1,310	1,527	+217
Liabilities	309	263	-46
Current liabilities	284	247	-36
Non-current liabilities	24	15	-9
Net assets	1,000	1,264	+263
Equity ratio	76.4%	82.8%	+6.4%

*Figures are rounded down to the nearest million yen



FY10/20 Earnings Forecast

FY10/20 Forecast

Earnings at all level are ahead of the fiscal year plan and earnings that exceed the plan are expected to be used to fund investments for future growth. There is no change in the FY10/20 plan.

Unit: Millions of yen

	FY10/20 Plan	1Q-3Q FY10/20	1Q-3Q vs. FY10/20 Plan
Net sales	1,227	902	73.5%
Operating profit	468	376	<u>80.4%</u>
Ordinary profit	449	349	<u>77.9%</u>
Profit	307	241	<u>78.7%</u>

All three profit figures are ahead of the pace needed to achieve the fiscal year plan.



3Q 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

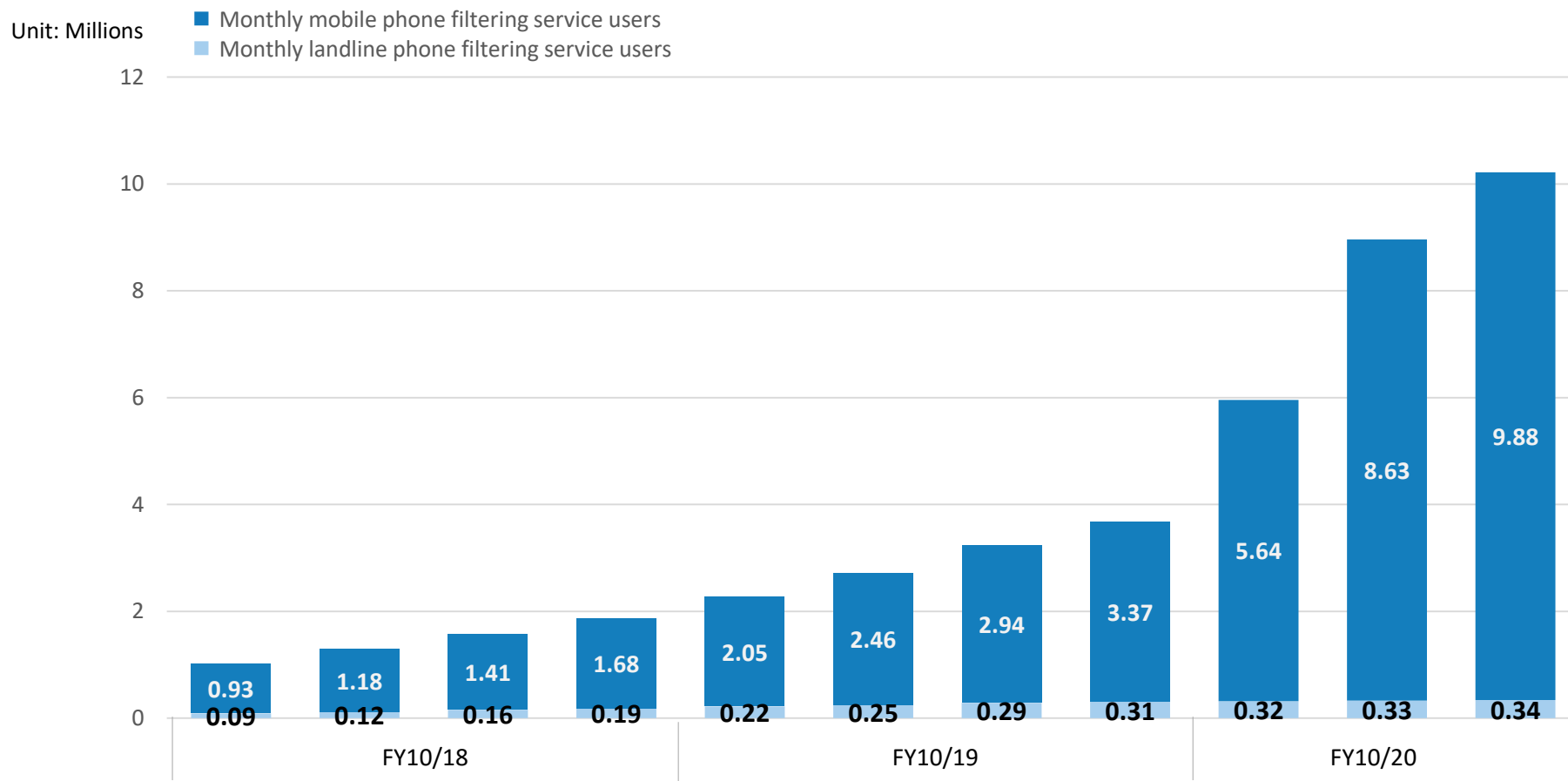


A more powerful internal infrastructure

- 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 **10.22** million monthly active users* (as of July 31, 2020)



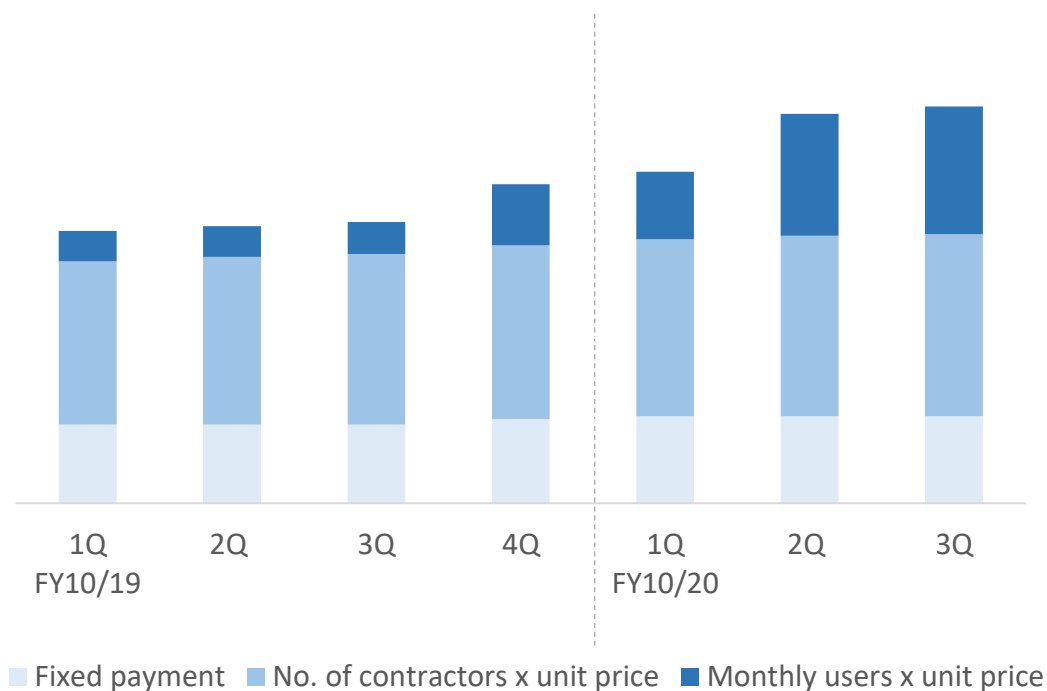
* Monthly active users (MAU) are the number of users of our products and services who access our server at least once a month to update a blocked phone number list automatically or to activate our app or other services. If a person uses multiple devices and each device has a separate agreement, the person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

* 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

Slowing growth of “monthly active users x unit price” sales due to COVID-19

Quarterly sales of major contract categories of filtering services for mobile phones



Performance vs. Prior Quarter*

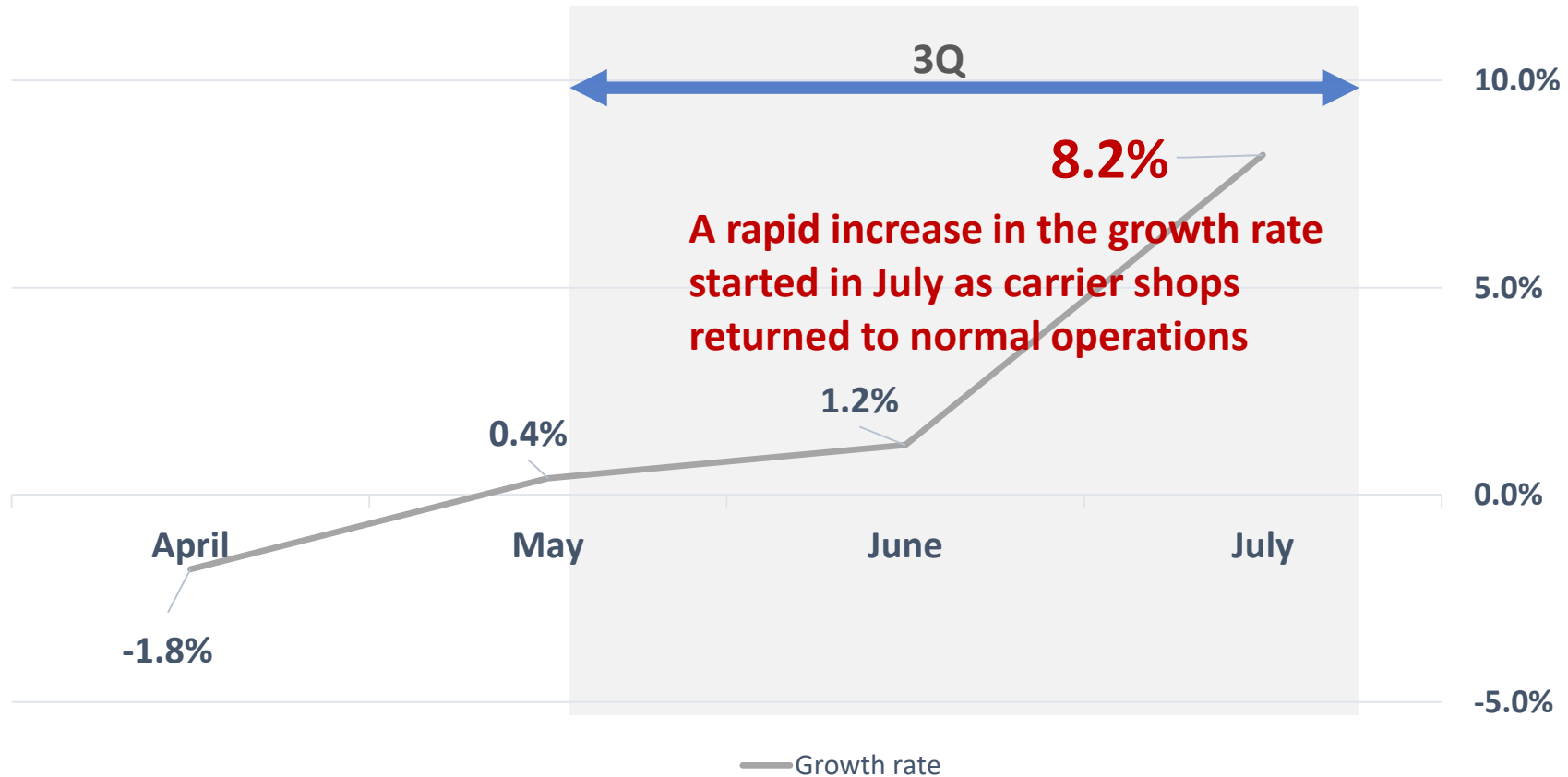
● Monthly active users × Unit price	
Sales	<u>104.7%</u>
Monthly active users	112.9%
● No. of contractors × Unit price	
Sales	100.8%
Monthly active users	116.4%
● Fixed payment	
Sales	100.0%
Monthly active users	119.0%

*Difference between 2Q FY10/20 and 3Q FY10/20

*See page 38 for information about the contract categories.

Recovery of the Monthly Active Users Growth Rate

Reduced carrier shop operations have lowered the monthly active user growth rate in the “monthly active users x unit price” model, which is the primary source of sales growth. Signs of a recovery in the growth rate started appearing in July.



Investments for Future Growth

Many media, online and other activities for growth of TobiliPhone Cloud sales



Media exposure

- Articles about the TobiliPhone Cloud
 - Newspapers: Nikkei, Nikkei Sangyo, Nikkan Kogyo, others
 - Internet: NewsPicks



Web seminars

- Online seminar for TobiliPhone Cloud
 - Seminar was shown at the Telework EXPO
 - Seminar video posted on SeminarShelf

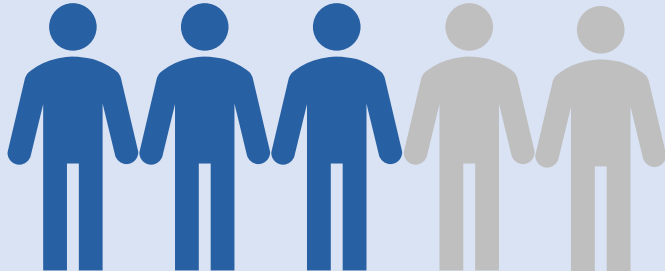
Planning on more sales growth backed by a large volume of advertisements in the 4Q

A More Powerful Internal Infrastructure

Hired one fulltime engineer during the third quarter

Business Operations

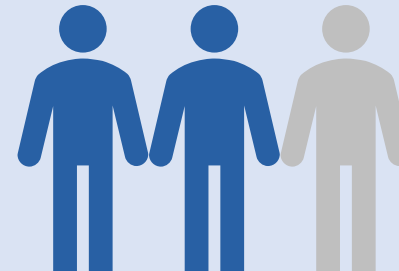
FY10/20 Recruiting Plan: 5



During the 1Q-3Q, hired 3 of the 5 engineers to be added

Sales/Administration

FY10/20 Recruiting Plan: 3



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

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

(<https://contents.xj-storage.jp/xcontents/AS05546/e80241b1/755f/4a3b/bf3a/d0e8c043791e/20200312160628928s.pdf>)



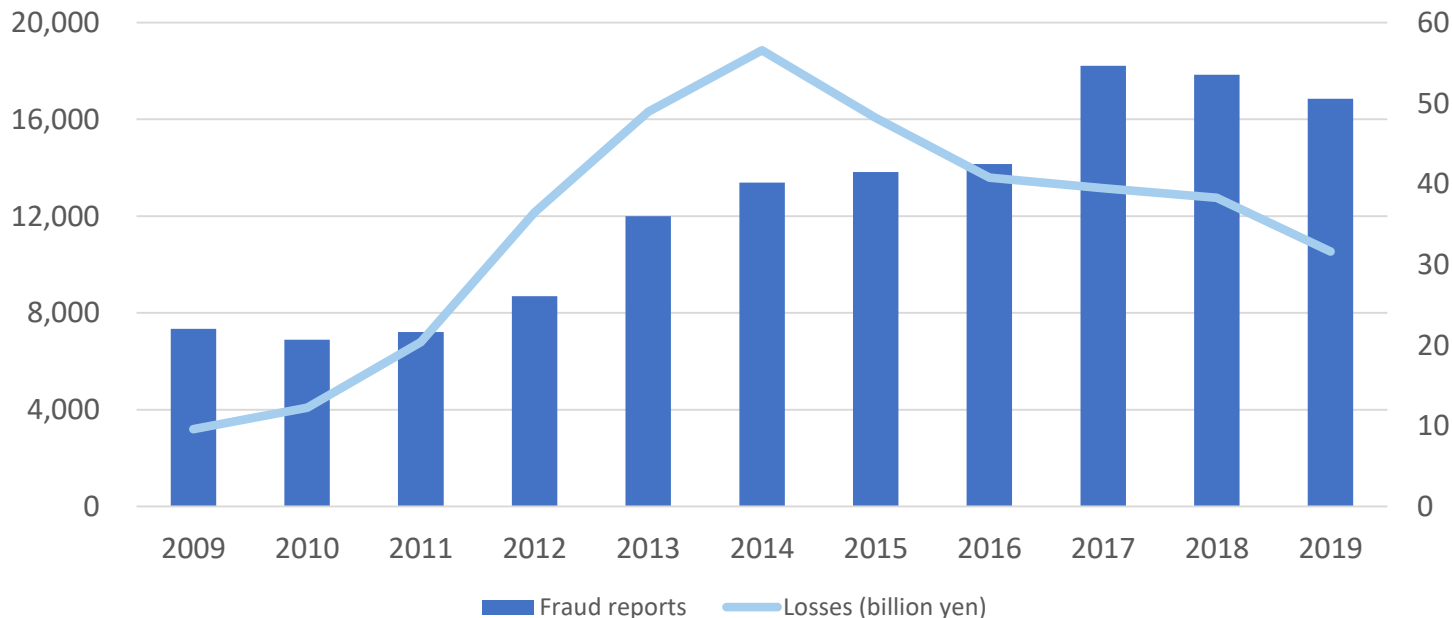
Competitive Strengths

The Social Issue of Fraud and Spam Activities

The Significant Need for Filtering Services to Block Fraudulent Calls

Our goal

- In 2019, there were 16,851 recorded cases in Japan of fraud and spam activities.
- **Financial losses** caused by this category of fraud remained high, **a total of ¥31.6 billion** in 2019, showing serious concerns.
- **Seniors accounted for 83.7% 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.

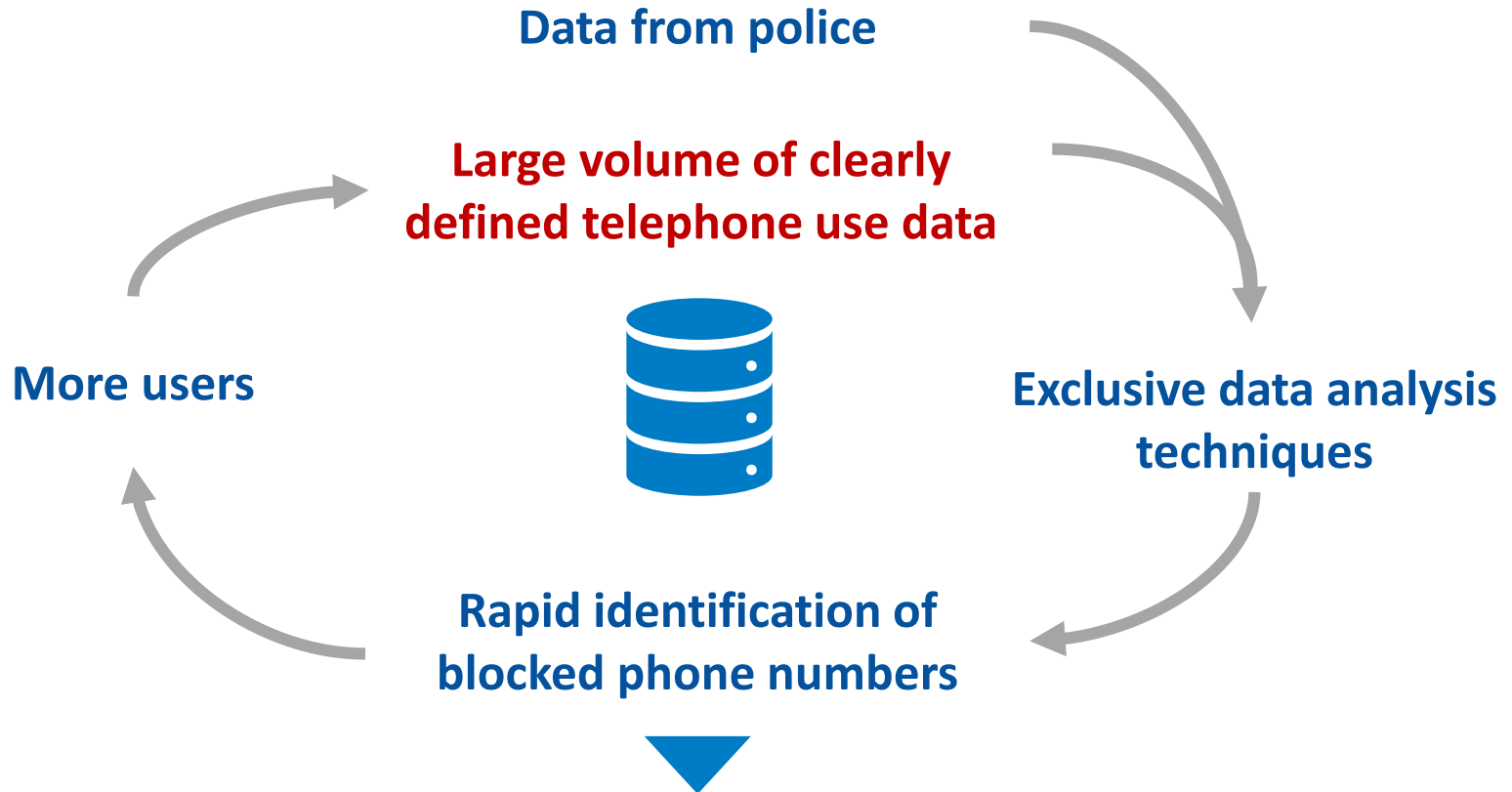


Source: Identification and Control of Special Fraud in 2019, National Police Agency

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

Strengths of Tobila's Database Technology

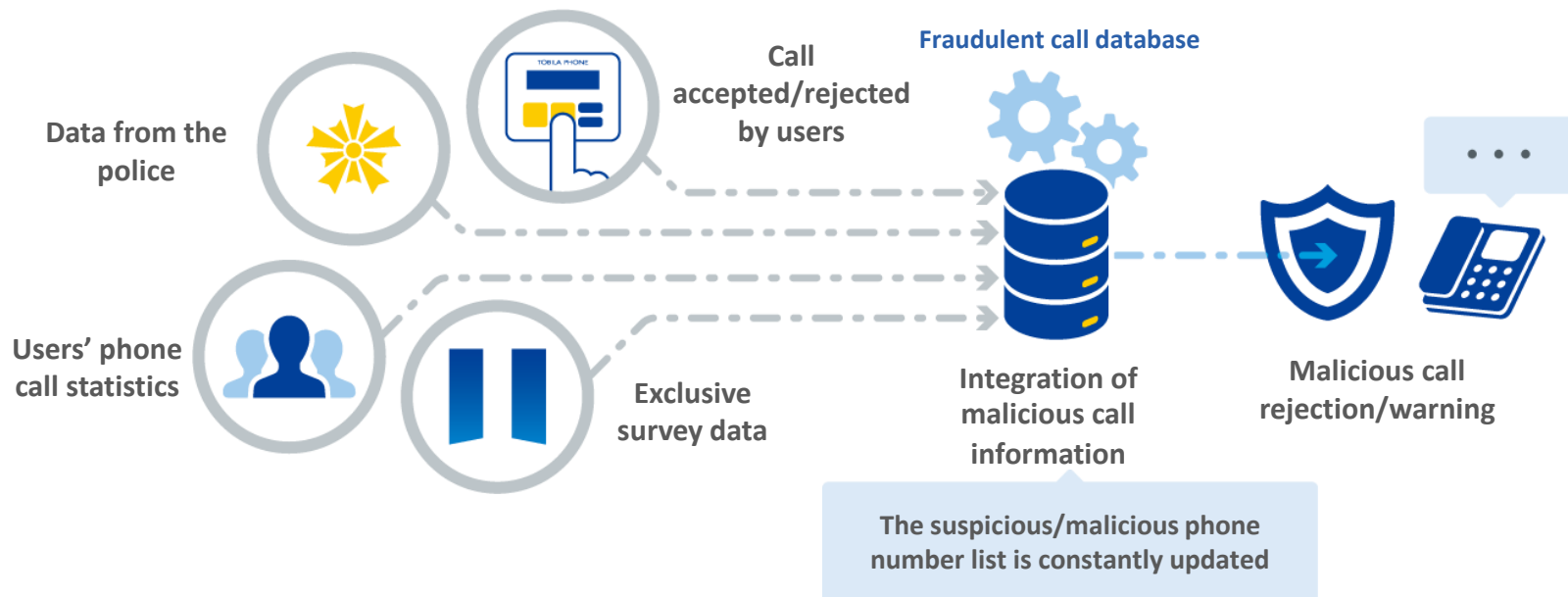
Constant improvement in accuracy because accumulated data increases along with the number of users



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 1.1 billion 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



Meiwaku Denwa Block

KDDI(au)



au

Meiwaku Message & Denwa Block

docomo



docomo

Anshin Security

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

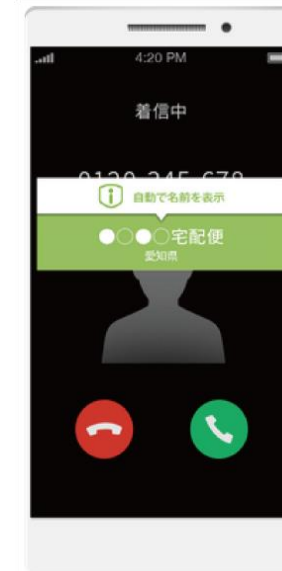


iPhone version



Android version

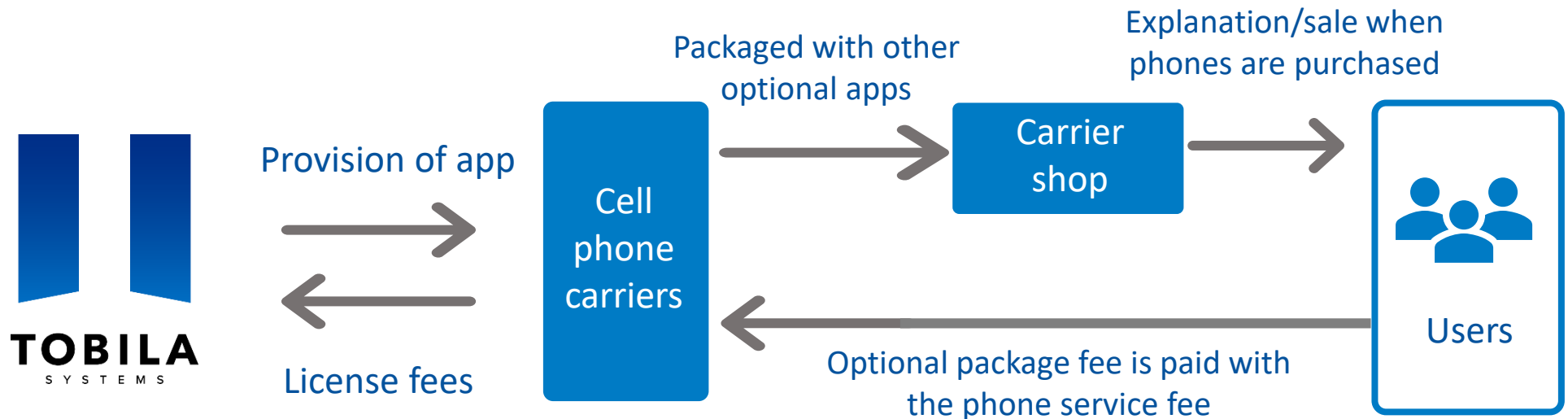
A function for automatically displaying information about the caller



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

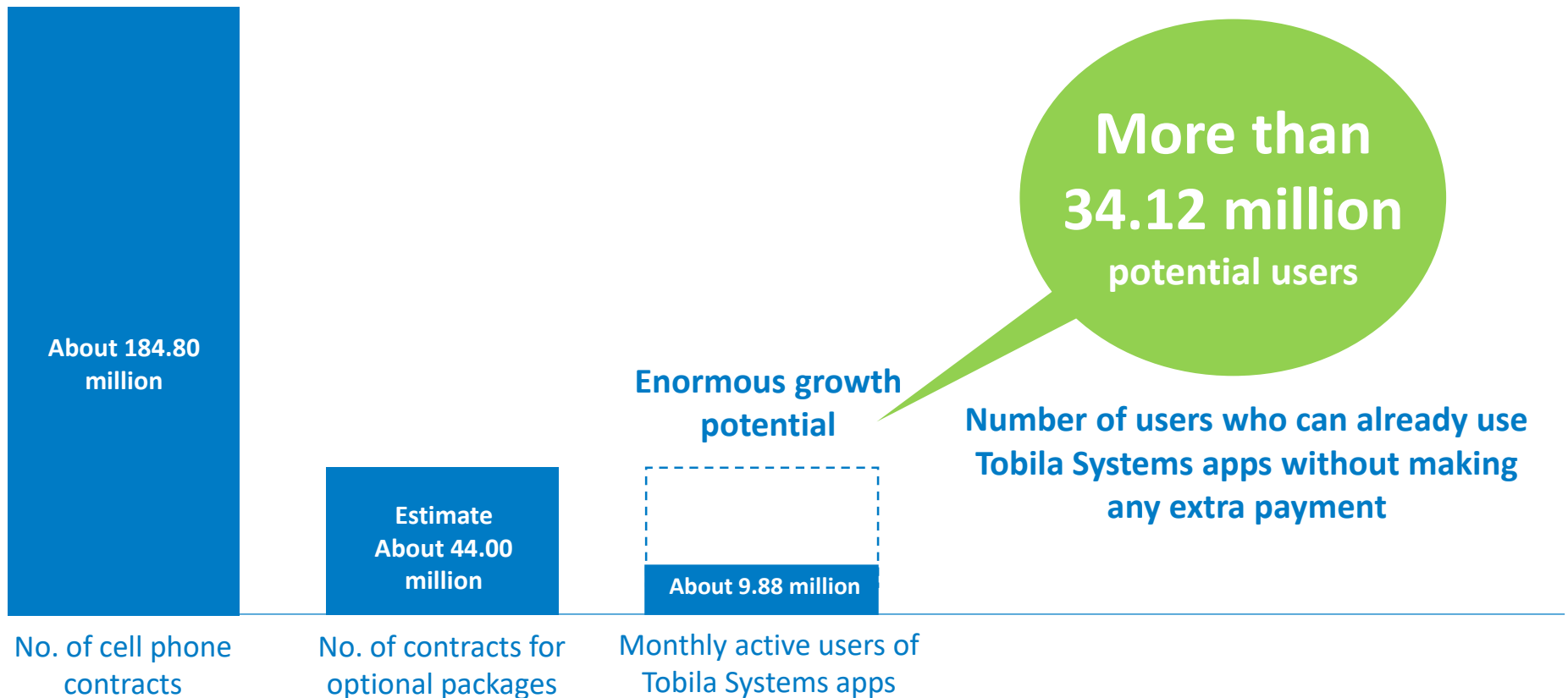


**Monthly
active users
 \times
Unit price**

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 44 million potential users of Tobile Systems apps at no extra charge
Monthly active users are now only about 9.88 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 (June 29, 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.

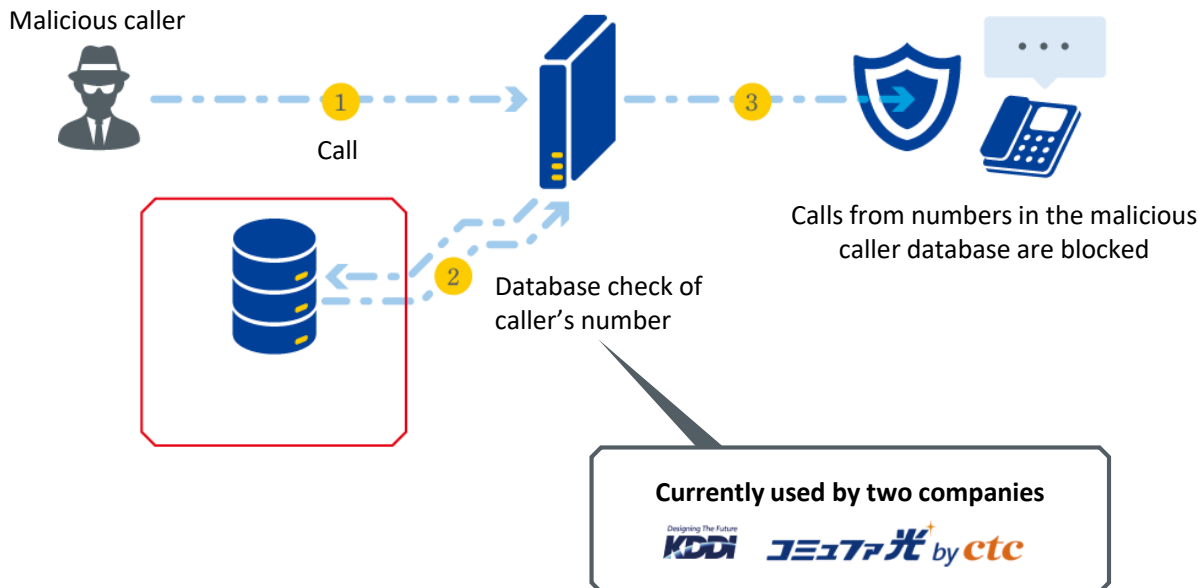
Filtering Service for Landline Phones

Offered mainly as a service that is embedded in Home Gateway and sold as an optional package to users of 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

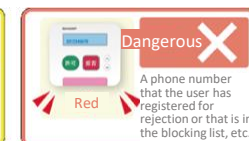
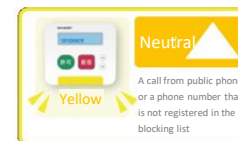


With Attachment for Landline Phones

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



For incoming calls

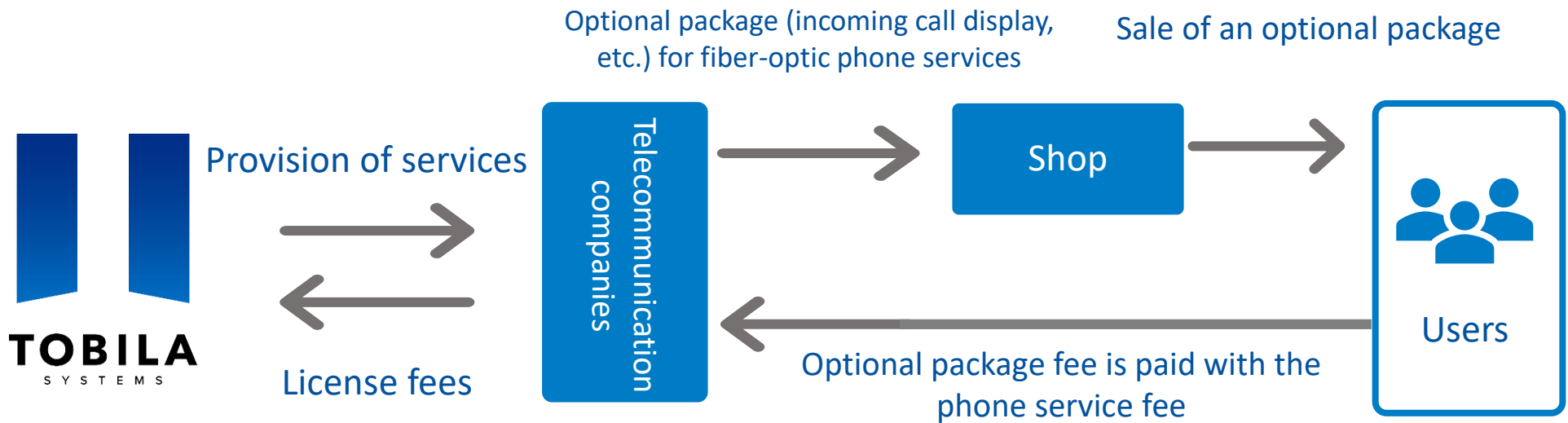


*Users of landline phones (IP phones) must use a Home Gateway with a link between the Internet and telephone.

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

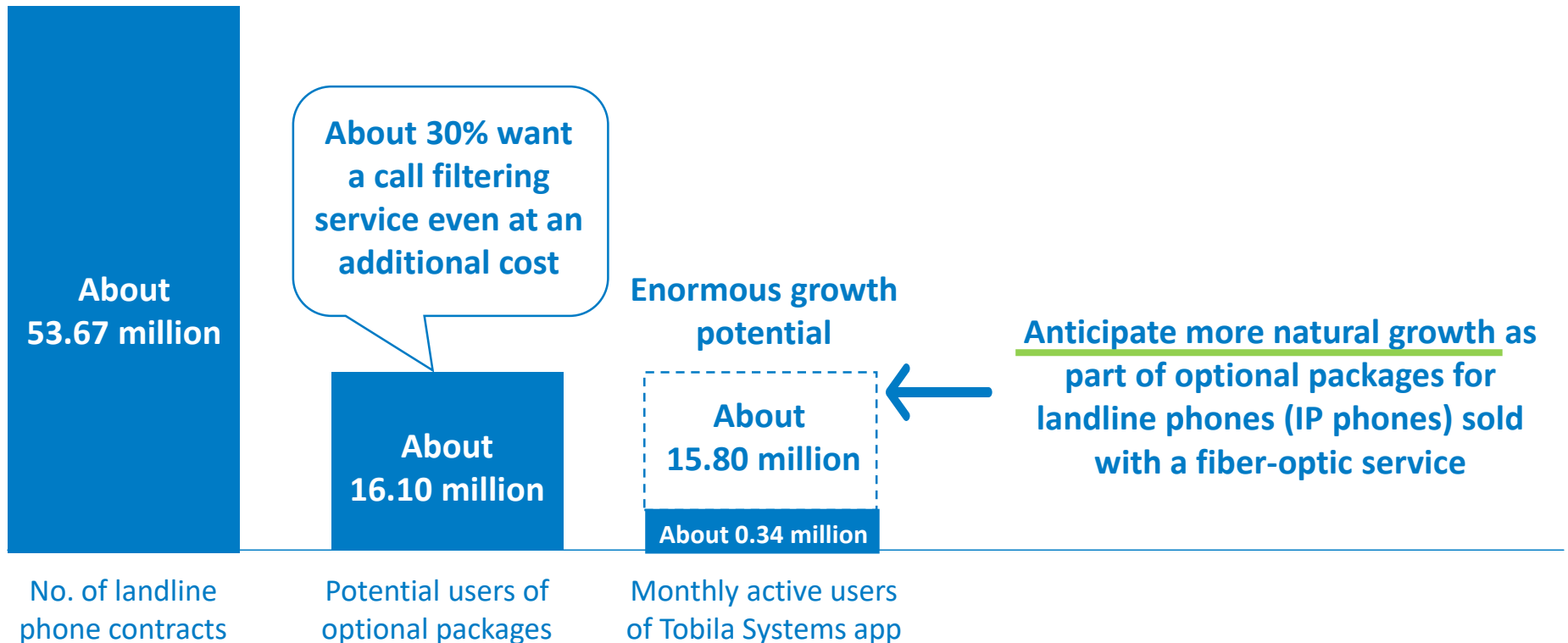
Telecommunication companies conduct marketing activities, sell services to users, and collect fees

● 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



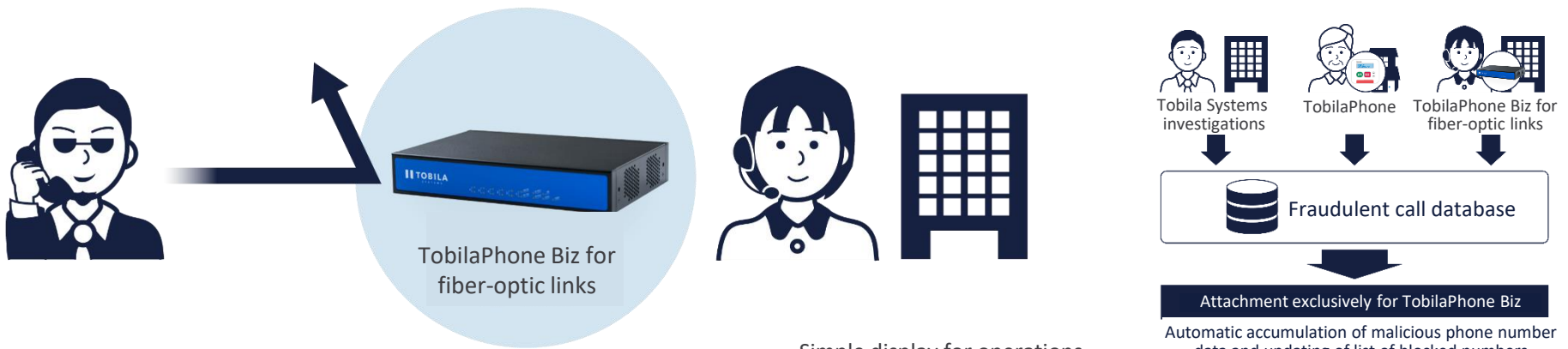
*Number of landline phone contracts: Quarterly Data on Telecommunications Service Contract Numbers and Market Share, Ministry of Internal Affairs and Communications (June 29, 2020)

*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



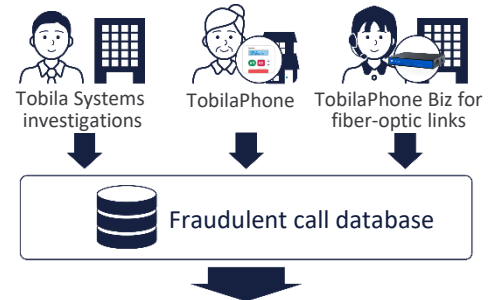
10,000 rejection and acceptance numbers can be registered. No need to worry about the deletion, or time needed for deletion, of numbers registered in the past for rejection.

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.



Attachment exclusively for TobilaPhone Biz

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

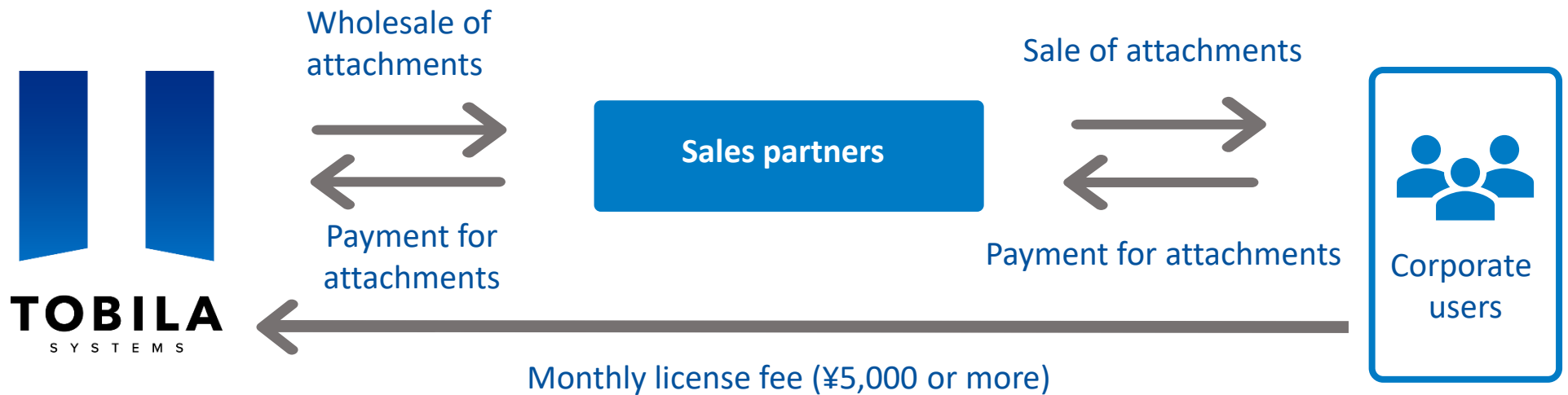
Use a browser to listen to recordings



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



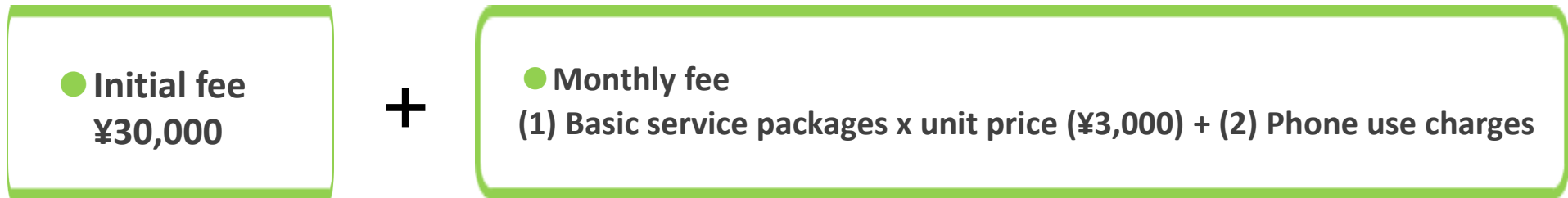
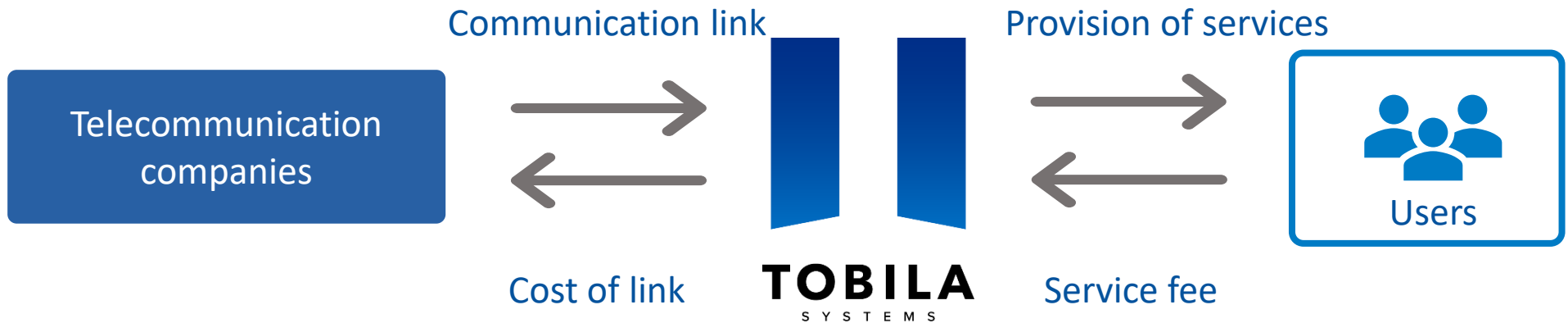
Capital expenditures ¥0



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



*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**

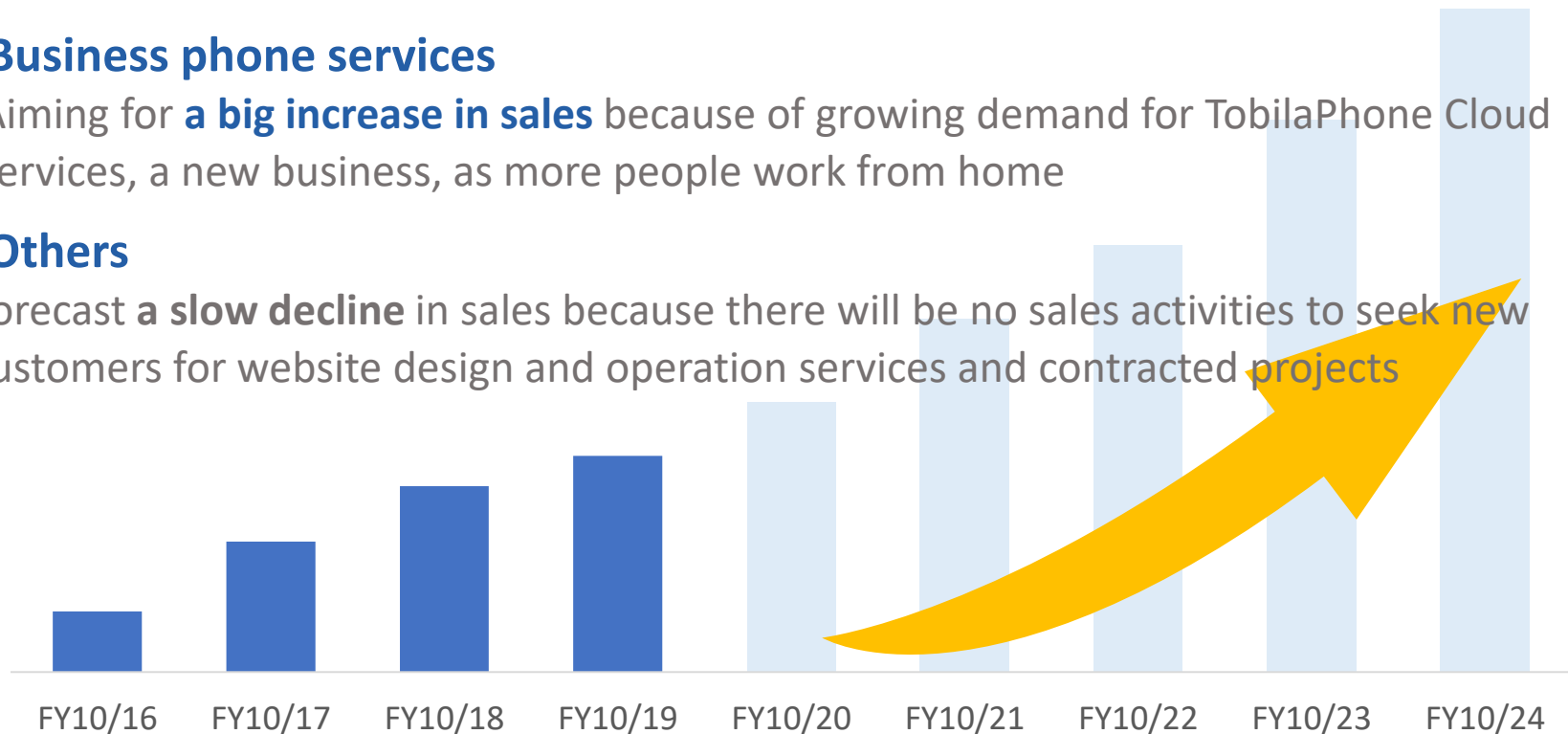
The goal is **steady sales growth** because of the large potential market for landline services and high level of interest in these services

- **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	Tomoki Matsushita	Toshihito Goto	
	Takuya Yuki	Akemitsu Nakahama	Tomoyuki Matsui	Hisashi Tanaami
No. of employees	64 (Includes 12 temporary employees; as of July 31, 2020)			
Location	Nagoya, Tokyo, Osaka			
Major memberships	Council of Anti-Phishing Japan Aichi Prefecture Crime Prevention Association Gifu Prefecture Crime Prevention Society Mie Prefecture 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	3Q
Net sales	214	276	231	258	270	319	312
Fraud and spam prevention services	193	223	210	237	244	295	290
Other services	20	52	21	21	26	23	22
Cost of sales	49	75	60	72	77	82	78
Labor cost	44	45	47	52	54	52	54
Depreciation	6	6	8	12	11	10	10
Others	15	40	22	29	31	43	36
Pct. of cost of sales classified as R&D expenses and assets*	23.7%	21.5%	23.1%	22.4%	20.1%	22.5%	22.6%
SG&A expenses	62	72	84	98	93	94	99
Personnel expenses	36	36	37	40	41	42	44
Advertising expenses	5	5	4	2	0	11	14
R&D expenses	3	5	9	11	8	7	10
Others	17	25	32	44	42	32	31

*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.