

Non-consolidated Financial Results for the Fiscal Year Ended October 31, 2022

[Japanese GAAP]

December 9, 2022

Company name: Tobila Systems Inc. Listing: Tokyo Stock Exchange
 Securities code: 4441 URL: <https://tobila.com>
 Representative: Atsushi Akita, Representative Director and President
 Contact: Takuya Yuki, Director and CFO
 Tel: +81-(0)50-3612-2677

Scheduled date of Annual General Meeting of Shareholders: January 26 2023
 Scheduled date of payment of dividend: January 12, 2023
 Scheduled date of filing of Annual Securities Report: January 26, 2023
 Preparation of supplementary materials for financial results: Yes
 Holding of financial results meeting: Yes

(All amounts are rounded down to the nearest million yen)

1. Non-consolidated Financial Results for the Fiscal Year Ended October 31, 2022

(November 1, 2021 - October 31, 2022)

(1) Results of operations

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | |
|---------------------------------|-------------|------|------------------|-------|-----------------|-------|-------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended Oct. 31, 2022 | 1,681 | 18.0 | 540 | (6.7) | 532 | (7.9) | 322 | (16.6) |
| Fiscal year ended Oct. 31, 2021 | 1,424 | 15.4 | 579 | 16.3 | 577 | 22.7 | 386 | 19.8 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary profit on total assets | Operating profit to net sales |
|---------------------------------|----------------------|------------------------------|------------------|---------------------------------|-------------------------------|
| | Yen | Yen | % | % | % |
| Fiscal year ended Oct. 31, 2022 | 30.68 | 30.40 | 20.1 | 22.0 | 32.2 |
| Fiscal year ended Oct. 31, 2021 | 37.25 | 36.47 | 27.2 | 30.3 | 40.7 |

Reference: Equity in earnings of affiliates (million yen) Fiscal year ended Oct. 31, 2022: - Fiscal year ended Oct. 31, 2021: -

(2) Financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of Oct. 31, 2022 | 2,667 | 1,710 | 64.1 | 162.54 |
| As of Oct. 31, 2021 | 2,170 | 1,489 | 68.6 | 143.30 |

Reference: Shareholders' equity (million yen) As of Oct. 31, 2022: 1,710 As of Oct. 31, 2021: 1,489

(3) Cash flows

| | Cash flows from operating activities | Cash flows from investing activities | Cash flows from financing activities | Cash and cash equivalents at end of period |
|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal year ended Oct. 31, 2022 | 641 | (188) | (162) | 1,435 |
| Fiscal year ended Oct. 31, 2021 | 491 | (652) | 45 | 1,145 |

2. Dividends

| | Dividend per share | | | | | Total dividends | Payout ratio | Dividend on equity |
|--|--------------------|--------|--------|----------|-------|-----------------|--------------|--------------------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| Fiscal year ended Oct. 31, 2021 | - | 0.00 | - | 12.90 | 12.90 | 134 | 34.6 | 9.5 |
| Fiscal year ended Oct. 31, 2022 | - | 0.00 | - | 10.60 | 10.60 | 111 | 34.6 | 6.9 |
| Fiscal year ending Oct. 31, 2023 (forecasts) | - | 0.00 | - | 12.90 | 12.90 | | 34.5 | |

3. Earnings Forecast for the Fiscal Year Ending October 31, 2023 (November 1, 2022 - October 31, 2023)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | | Net income per share |
|------------|-------------|------|------------------|------|-----------------|------|-------------|------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 994 | 18.6 | 315 | 12.4 | 314 | 15.7 | 207 | 32.1 | 19.72 |
| Full year | 2,000 | 18.9 | 600 | 10.9 | 599 | 12.5 | 394 | 22.3 | 37.35 |

*** Notes**

(1) Changes in accounting policies and accounting-based estimates, and restatements

- 1) Changes in accounting policies due to revisions in accounting standards, others: Yes
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting-based estimates: None
- 4) Restatements: None

(2) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

| | | | |
|----------------------|-------------------|----------------------|-------------------|
| As of Oct. 31, 2022: | 10,623,600 shares | As of Oct. 31, 2021: | 10,479,900 shares |
|----------------------|-------------------|----------------------|-------------------|

2) Number of treasury shares at the end of the period

| | | | |
|----------------------|---------------|----------------------|---------------|
| As of Oct. 31, 2022: | 98,150 shares | As of Oct. 31, 2021: | 89,150 shares |
|----------------------|---------------|----------------------|---------------|

3) Average number of shares outstanding during the period

| | | | |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Fiscal year ended Oct. 31, 2022: | 10,497,251 shares | Fiscal year ended Oct. 31, 2021: | 10,364,669 shares |
|----------------------------------|-------------------|----------------------------------|-------------------|

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecasts, and other special items

Cautionary statement with respect to forward-looking statements

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Tobila Systems' management at the time these materials were prepared and are not promises by Tobila Systems regarding future performance. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to "1. Overview of Results of Operations, (4) Outlook" on page 4 for forecast assumptions and notes of caution for usage.

Contents of Attachments

| | |
|--|----------|
| 1. Overview of Results of Operations | 2 |
| (1) Results of Operations | 2 |
| (2) Financial Position | 3 |
| (3) Cash Flows | 4 |
| (4) Outlook | 4 |
| 2. Basic Approach for the Selection of Accounting Standards | 5 |
| 3. Non-consolidated Financial Statements and Notes | 6 |
| (1) Non-consolidated Balance Sheet | 6 |
| (2) Non-consolidated Statement of Income | 8 |
| (3) Non-consolidated Statement of Changes in Equity | 9 |
| (4) Non-consolidated Statement of Cash Flows | 11 |
| (5) Notes to Non-consolidated Financial Statements | 12 |
| Going Concern Assumption | 12 |
| Changes in Accounting Policies | 12 |
| Equity in Earnings of Affiliates | 13 |
| Segment and Other Information | 13 |
| Per-share Information | 17 |
| Subsequent Events | 17 |

1. Overview of Results of Operations

(1) Results of Operations

In the fiscal year ended October 31, 2022, Japan's economy recovered gradually as the situation that restricted economic activity eased due to progress with COVID-19 vaccinations. Economic activity also showed signs of recovery as the Government of Japan started allowing foreign tourists into the country and took other measures. Although the economy is recovering, the outlook is becoming increasingly uncertain. Major sources of uncertainty are the rising cost of raw materials caused by the Russia-Ukraine crisis, the high level of inflation worldwide and rapid changes in foreign exchange rates and the rising consumer price index because of U.S. interest rate hikes.

Many new types of scams are emerging in Japan in addition to the usual scams involving fund remittances. Fraudulent activity reflects current events in the world, such as scams involving COVID-19 pandemic refunds and subsidies and alleged charitable programs to help people in Ukraine. We are also seeing many instances of SMS phishing scams to steal credit card data and other personal information, a type of fraud known as "smishing." Overall, the schemes used by scam artists are becoming increasingly sophisticated.

Due to these trends, there is a growing need for measures for personal protection as well as for the protection of family members and friends from telephone fraud, phishing and other types of scams that are causing enormous financial losses. We have been focusing on our spam filter service to deter these criminal activities. In the landline filtering services category, we started offering with KDDI CORPORATION a service called the Fraudulent Call Automatic Block. This is Japan's first malicious call automatic blocking service for landline phones that does not require an add-on unit. Users do not require a special device because automatic blocking equipment for malicious calls is placed in KDDI's network. Examples include the offering of JCOM's fraudulent call automatic blocking service. JCOM Co., Ltd. is a KDDI group firm. The company encourages cooperation with local police departments through the service and contributes to the realization of safe and secure communities. In October 2022, the Anshin Security service of NTT DOCOMO, INC. added to its service menu the fraudulent message protection service of Tobila Systems. As a result, all three of Japan's major telecommunication service carriers are now providing to their customers Tobila Systems' fraudulent telephone call protection services and fraudulent message protection service.

The TobilaPhone Mobile fraud and spam filtering service became the first app to be certified as an Outstanding Fraudulent Call Prevention Device recommended by the Japan National Crime Prevention Association. This certification further increases the recognition of the effectiveness of this app. In addition, there were many activities for raising awareness of 280blocker, an app that blocks malicious advertisements. Also, studies were performed for the release of an Android version of 280blocker, which is currently available only in an iOS version.

TobilaPhone Cloud, which is a cloud business phone service, has been our priority business. This service is extremely easy to use because there is no need for a special connection or equipment in order to use this service for internal and external calls, transferring calls, group calling, interactive voice response (IVR) and other activities. These actions and the quality of the service are highly evaluated by users. We received the "Leader" award at the "IT review Grid Award 2022 Fall" in three segments, PBX, IVR and IP telephone. The award is given to products with high customer satisfaction based on user reviews. We won the "Leader" award for the third consecutive term.

Orders for TobilaPhone Biz, an upgraded version of TobilaPhone for corporate users, have increased significantly compared to the previous fiscal year as it was registered as a "Select Item" by NTT East and NTT West. We also provide Talk Book, an AI sales support tool that realize the visualization of sales discussions and data-driven sales.

In addition, we are using various measures to increase the number of monthly active users (see note) for our services. As a result, more than 15 million users now use our services as of October 31, 2022.

On September 30, 2022, we acquired additional shares of ageet Corporation to make the company an affiliate as a part of our measures to strengthen technical capabilities. The company develops products based on SIP/VoIP technology.

The businesses and business models of Tobila Systems have received recognition in many ways. One example is the December 2021 selection of Tobila Systems by The Small and Medium Enterprise Agency of the Ministry of Economy, Trade and Industry for inclusion in the "300 Most Promising SMEs and Small Businesses." In June 2022, Tobila Systems received the Tokai Information Communication Conference Chairman's Award at an event to celebrate Wireless Telecommunication Day and Info-Communications Promotion Month. The award recognizes

Tobila Systems' contributions to the use of wireless telecommunications and progress in the field of information communications.

Fiscal year net sales increased 18.0% year on year to 1,681,715 thousand yen, operating profit decreased 6.7% to 540,839 thousand yen, ordinary profit decreased 7.9% to 532,225 thousand yen and profit was down 16.6% to 322,027 thousand yen.

Note: 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. Our revenue is, however, not always directly affected by an increase or decrease in MAU because contracts with customers such as telecommunications companies have different terms.

Business segment performance was as follows:

Fraud and spam prevention services

There are three service categories in this segment. A filtering service that blocks fraudulent and other malicious calls on mobile phones is the core business. The other categories are a filtering service for landline phones and TobilaPhone Cloud, a filtering service for phones used by businesses. We continued to focus on building an even larger and more powerful foundation for the provision of filtering services.

As a result, sales were 1,621,094 thousand yen, up 20.4% from one year earlier, and segment profit increased 3.2% to 926,287 thousand yen.

Others

Other services include a website design and operation support service (HP4U), development projects outsourced by other companies and other activities. We do not intend to increase the scale of operations in this segment. Sales decreased 22.5% from one year earlier to 60,621 thousand yen, and the segment profit was 40,295 thousand yen, down 14.3%.

Total operating profit is the sum of the profit of the two segments minus corporate expenses, which are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment. Corporate expenses increased 16.8% from one year earlier to 425,743 thousand yen mainly because of higher administrative expenses due to a larger number of administrative personnel and the larger scale of operations.

(2) Financial Position

Assets

Total assets increased 497,161 thousand yen from the end of the previous fiscal year to 2,667,177 thousand yen at the end of the current fiscal year. This was attributable mainly to increases of 290,032 thousand yen in cash and deposits, 30,567 thousand yen in accounts receivable-trade, 62,212 thousand yen in merchandise and finished goods, 25,728 thousand yen in prepaid expenses, 14,716 thousand yen in tools, furniture and fixtures, 25,175 thousand yen in software, 61,899 thousand yen in long-term prepaid expenses and 16,084 thousand yen in deferred tax assets, and a decrease of 67,093 thousand yen in goodwill.

Liabilities

Total liabilities increased 275,377 thousand yen from the end of the previous fiscal year to 956,385 thousand yen. The main factors include an increase of 367,329 thousand yen in contract liabilities ("advances received" in the previous fiscal year), and decreases of 19,161 thousand yen in accounts payable-other, 12,917 thousand yen in accrued consumption taxes and 61,924 thousand yen in long-term borrowings (including current portion of long-term borrowings).

Net assets

Total net assets increased 221,783 thousand yen from the end of the previous fiscal year to 1,710,792 thousand yen. The main factors include a decrease of 134,040 thousand yen in retained earnings due to dividends paid, an increase in share capital and capital surplus of 16,525 thousand yen each due to the exercise of share acquisition rights and the booking of profit of 322,027 thousand yen.

The equity ratio decreased from 68.6% at the end of the previous fiscal year to 64.1%.

(3) Cash Flows

Cash and cash equivalents (hereinafter, “net cash”) at the end of the current fiscal year increased 290,032 thousand yen from the end of the previous fiscal year to 1,435,764 thousand yen. Cash flows by category are as described below.

Cash flows from operating activities

Net cash provided by operating activities amounted to 641,680 thousand yen compared with 491,922 thousand yen provided in the previous fiscal year. This was mainly due to profit before income taxes of 491,635 thousand yen, depreciation of 86,867 thousand yen, amortization of goodwill of 65,884 thousand yen, loss on valuation of investment securities of 44,467 thousand yen and an increase of 367,536 thousand yen in contract liabilities, while there were income taxes paid of 192,950 thousand yen and increases of 68,749 thousand yen in trade receivables and contract assets, 62,084 thousand yen in inventories, 66,811 thousand yen in long-term prepaid expenses and 13,025 thousand yen in accrued consumption taxes.

Cash flows from investing activities

Net cash used in investing activities amounted to 188,738 thousand yen compared with 652,300 thousand yen used in the previous fiscal year. The main factors include payments for the purchase of property, plant and equipment of 32,409 thousand yen, purchase of intangible assets of 111,106 thousand yen and purchase of shares of subsidiaries and associates of 42,750 thousand yen.

Cash flows from financing activities

Net cash used in financing activities amounted to 162,910 thousand yen compared with 45,801 thousand yen provided in the previous fiscal year. This was mainly due to repayments of long-term borrowings of 61,924 thousand yen and dividends paid of 133,715 thousand yen, while there were proceeds from the exercise of share acquisition rights of 32,729 thousand yen.

(4) Outlook

The core business of Tobila Systems is fraud and spam prevention services for the prevention of telephone and messaging fraud and spam, which is a serious social problem in Japan. We use our exclusive know-how about these activities to collect information about malicious phone numbers, URLs and other sources of fraud and scams. Our filters automatically block incoming phone calls and SMS, even from phone numbers and other sources unknown to a user. We also provide an app that blocks malicious advertisements.

In the fraud and spam prevention services segment, the primary source of sales and earnings is service fees received from telecommunications service providers that offer their customers our fraud prevention services as an option. The core part of our business is the steady revenue type of service in which revenue increases along with growth in the number of users of our services. We will expand operations to include mobile virtual network operators (MVNO) in order to continue increasing the number of users of Tobila Systems services. Furthermore, we earn service fees from activities through alliance partners. Examples of these activities include the sale of terminals connected to landline phones and other devices and the provision of a network-based automatic blocking service for incoming fraudulent calls as an option for cable-plus phone service users. The handling of “TobilaPhone Biz” that is our filter service for phones used by businesses has started in the distributors and dealers of the NTT East and the NTT West. We expect sales to increase along with the increase in the number of terminal units sold. Our plans include R&D activities for strengthening the fraud and spam prevention services, upgrading and expanding

the functions of the “TobilaPhone Cloud”, and further increasing our sales capabilities.

Furthermore, we plan to make investments for the medium to long-term growth of corporate value. The investments will be for working with alliance partners to upgrade technological skills and conduct joint sales activities, identifying the needs of users, development programs to update our products, and many other activities.

Tobila Systems forecasts net sales of 2,000 million yen (up 18.9% year on year), operating profit of 600 million yen (up 10.9%), ordinary profit of 599 million yen (up 12.5%), and profit of 394 million yen (up 22.3%) for the fiscal year ending October 31, 2023.

These forecasts are based on information available at the time this report was prepared, and actual results may differ from these forecasts for a number of reasons.

2. Basic Approach for the Selection of Accounting Standards

Tobila Systems will continue to prepare financial statements based on generally accepted accounting principles in Japan for the time being to permit comparisons with prior years and with the financial data of other companies. We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.

3. Non-consolidated Financial Statements and Notes**(1) Non-consolidated Balance Sheet**

(Thousands of yen)

| | FY10/21 (As of Oct. 31, 2021) | FY10/22 (As of Oct. 31, 2022) |
|---|----------------------------------|----------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,145,732 | 1,435,764 |
| Electronically recorded monetary claims-operating | 562 | 3,348 |
| Notes receivable-trade | - | 351 |
| Accounts receivable-trade | 181,343 | 211,910 |
| Contract assets | - | 36,020 |
| Merchandise and finished goods | 26,991 | 89,204 |
| Work in process | 527 | - |
| Raw materials and supplies | 978 | 1,378 |
| Prepaid expenses | 32,515 | 58,244 |
| Other | 525 | 333 |
| Allowance for doubtful accounts | (83) | (182) |
| Total current assets | 1,389,094 | 1,836,374 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings, net | 18,156 | 12,516 |
| Structures, net | 3,193 | 2,272 |
| Vehicles, net | 0 | 0 |
| Tools, furniture and fixtures, net | 28,499 | 43,216 |
| Total property, plant and equipment | 49,849 | 58,005 |
| Intangible assets | | |
| Goodwill | 325,221 | 258,127 |
| Patent right | 3,917 | 2,930 |
| Trademark right | 1,278 | 1,139 |
| Software | 169,250 | 194,425 |
| Other | 9,630 | 20,121 |
| Total intangible assets | 509,297 | 476,744 |
| Investments and other assets | | |
| Investment securities | 141,371 | 0 |
| Shares of subsidiaries and associates | - | 139,654 |
| Long-term prepaid expenses | 18,704 | 80,603 |
| Deferred tax assets | 39,240 | 55,324 |
| Other | 22,459 | 20,470 |
| Total investments and other assets | 221,774 | 296,053 |
| Total non-current assets | 780,921 | 830,803 |
| Total assets | 2,170,016 | 2,667,177 |

| | (Thousands of yen) | |
|---|-----------------------|-----------------------|
| | FY10/21 | FY10/22 |
| | (As of Oct. 31, 2021) | (As of Oct. 31, 2022) |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 7,194 | 18,565 |
| Current portion of long-term borrowings | 61,924 | 50,040 |
| Accounts payable-other | 91,650 | 72,488 |
| Accrued expenses | 16,571 | 14,924 |
| Income taxes payable | 111,310 | 106,138 |
| Accrued consumption taxes | 33,737 | 20,819 |
| Advances received | 52,445 | - |
| Contract liabilities | - | 419,774 |
| Deposits received | 10,384 | 7,883 |
| Total current liabilities | 385,217 | 710,635 |
| Non-current liabilities | | |
| Long-term borrowings | 295,790 | 245,750 |
| Total non-current liabilities | 295,790 | 245,750 |
| Total liabilities | 681,007 | 956,385 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 315,391 | 331,917 |
| Capital surplus | | |
| Legal capital surplus | 279,691 | 296,217 |
| Total capital surpluses | 279,691 | 296,217 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | 1,037,619 | 1,226,351 |
| Total retained earnings | 1,037,619 | 1,226,351 |
| Treasury shares | (143,693) | (143,693) |
| Total shareholders' equity | 1,489,008 | 1,710,792 |
| Total net assets | 1,489,008 | 1,710,792 |
| Total liabilities and net assets | 2,170,016 | 2,667,177 |

(2) Non-consolidated Statement of Income

| | (Thousands of yen) | |
|--|--------------------------------|--------------------------------|
| | FY10/21 | FY10/22 |
| | (Nov. 1, 2020 - Oct. 31, 2021) | (Nov. 1, 2021 - Oct. 31, 2022) |
| Net sales | 1,424,656 | 1,681,715 |
| Cost of sales | | |
| Beginning inventory of merchandise and finished goods | 18,036 | 26,991 |
| Cost of products manufactured | 348,433 | 425,829 |
| Cost of purchased goods | 33,245 | 142,302 |
| Total | 399,714 | 595,123 |
| Ending inventory of merchandise and finished goods | 26,991 | 89,204 |
| Total cost of sales | 372,722 | 505,919 |
| Gross profit | 1,051,933 | 1,175,796 |
| Selling, general and administrative expenses | 472,022 | 634,956 |
| Operating profit | 579,911 | 540,839 |
| Non-operating income | | |
| Interest income | 10 | 12 |
| Cancellation income for services | 187 | 31 |
| Subsidy income | 570 | 530 |
| Refund income | 554 | - |
| Other | 37 | 88 |
| Total non-operating income | 1,359 | 661 |
| Non-operating expenses | | |
| Interest expenses | 371 | 1,153 |
| Share issuance cost | 538 | 263 |
| Loss on extinguishment of share-based payment expenses | 2,208 | 7,858 |
| Other | 171 | 0 |
| Total non-operating expenses | 3,290 | 9,276 |
| Ordinary profit | 577,980 | 532,225 |
| Extraordinary income | | |
| Gain on donation of non-current assets | - | 5,900 |
| Total extraordinary income | - | 5,900 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | 1,098 | - |
| Loss on valuation of investment securities | 25,561 | 44,467 |
| Extra retirement payments | 4,321 | - |
| Other | - | 2,022 |
| Total extraordinary losses | 30,982 | 46,489 |
| Profit before income taxes | 546,998 | 491,635 |
| Income taxes-current | 171,619 | 186,021 |
| Income taxes-deferred | (10,668) | (16,413) |
| Total income taxes | 160,950 | 169,608 |
| Profit | 386,047 | 322,027 |

(3) Non-consolidated Statement of Changes in Equity

FY10/21 (Nov. 1, 2020 - Oct. 31, 2021)

(Thousands of yen)

| | Shareholders' equity | | | | | | | Total net assets |
|---|----------------------|-----------------------|-----------------------|-----------------------------------|-------------------------|-----------------|----------------------------|------------------|
| | Share capital | Capital surplus | | Retained earnings | | Treasury shares | Total shareholders' equity | |
| | | Legal capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | | |
| | | | | Retained earnings brought forward | | | | |
| Balance at beginning of period | 304,961 | 269,261 | 269,261 | 772,977 | 772,977 | (90) | 1,347,109 | 1,347,109 |
| Cumulative effects of changes in accounting policies | | | | | | | - | - |
| Restated balance | 304,961 | 269,261 | 269,261 | 772,977 | 772,977 | (90) | 1,347,109 | 1,347,109 |
| Changes during period | | | | | | | | |
| Issuance of new shares-exercise of share acquisition rights | 10,430 | 10,430 | 10,430 | | | | 20,860 | 20,860 |
| Dividends of surplus | | | | (112,161) | (112,161) | | (112,161) | (112,161) |
| Profit | | | | 386,047 | 386,047 | | 386,047 | 386,047 |
| Purchase of treasury shares | | | | | | (195,240) | (195,240) | (195,240) |
| Restricted stock income | | | | (9,243) | (9,243) | 51,637 | 42,393 | 42,393 |
| Total changes during period | 10,430 | 10,430 | 10,430 | 264,642 | 264,642 | (143,602) | 141,899 | 141,899 |
| Balance at end of period | 315,391 | 279,691 | 279,691 | 1,037,619 | 1,037,619 | (143,693) | 1,489,008 | 1,489,008 |

FY10/22 (Nov. 1, 2021 - Oct. 31, 2022)

(Thousands of yen)

| | Shareholders' equity | | | | | | | Total net assets |
|---|----------------------|-----------------------|-----------------------|-----------------------------------|-------------------------|-----------------|----------------------------|------------------|
| | Share capital | Capital surplus | | Retained earnings | | Treasury shares | Total shareholders' equity | |
| | | Legal capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | | |
| | | | | Retained earnings brought forward | | | | |
| Balance at beginning of period | 315,391 | 279,691 | 279,691 | 1,037,619 | 1,037,619 | (143,693) | 1,489,008 | 1,489,008 |
| Cumulative effects of changes in accounting policies | | | | 745 | 745 | | 745 | 745 |
| Restated balance | 315,391 | 279,691 | 279,691 | 1,038,364 | 1,038,364 | (143,693) | 1,489,754 | 1,489,754 |
| Changes during period | | | | | | | | |
| Issuance of new shares-exercise of share acquisition rights | 16,525 | 16,525 | 16,525 | | | | 33,051 | 33,051 |
| Dividends of surplus | | | | (134,040) | (134,040) | | (134,040) | (134,040) |
| Profit | | | | 322,027 | 322,027 | | 322,027 | 322,027 |
| Purchase of treasury shares | | | | | | | - | - |
| Restricted stock income | | | | | | | - | - |
| Total changes during period | 16,525 | 16,525 | 16,525 | 187,986 | 187,986 | - | 221,038 | 221,038 |
| Balance at end of period | 331,917 | 296,217 | 296,217 | 1,226,351 | 1,226,351 | (143,693) | 1,710,792 | 1,710,792 |

(4) Non-consolidated Statement of Cash Flows

(Thousands of yen)

| | FY10/21 (Nov. 1, 2020 - Oct. 31, 2021) | FY10/22 (Nov. 1, 2021 - Oct. 31, 2022) |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 546,998 | 491,635 |
| Depreciation | 60,157 | 86,867 |
| Amortization of goodwill | 5,512 | 65,884 |
| Increase (decrease) in allowance for doubtful accounts | 17 | 98 |
| Interest and dividend income | (10) | (12) |
| Interest expenses | 371 | 1,153 |
| Share issuance cost | 538 | 263 |
| Loss on extinguishment of share-based payment expenses | 2,208 | 7,858 |
| Loss (gain) on valuation of investment securities | 25,561 | 44,467 |
| Gain on donation of non-current assets | - | (5,900) |
| Loss on retirement of non-current assets | 1,098 | - |
| Extra retirement payments | 4,321 | - |
| Decrease (increase) in trade receivables | (20,758) | - |
| Decrease (increase) in trade receivables and contract assets | - | (68,749) |
| Decrease (increase) in inventories | (8,897) | (62,084) |
| Decrease (increase) in long-term prepaid expenses | 9,057 | (66,811) |
| Increase (decrease) in trade payables | 7,079 | 11,371 |
| Increase (decrease) in accounts payable-other | (6,719) | (92) |
| Increase (decrease) in advances received | 13,284 | - |
| Increase (decrease) in contract liabilities | - | 367,536 |
| Increase (decrease) in accrued consumption taxes | (811) | (13,025) |
| Other, net | 16,187 | (24,689) |
| Subtotal | <u>655,197</u> | <u>835,771</u> |
| Interest and dividend income received | 10 | 12 |
| Interest expenses paid | (374) | (1,152) |
| Income taxes paid | (162,911) | (192,950) |
| Net cash provided by (used in) operating activities | <u>491,922</u> | <u>641,680</u> |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (13,892) | (32,409) |
| Purchase of intangible assets | (93,714) | (111,106) |
| Purchase of shares of subsidiaries and associates | (376,209) | (42,750) |
| Purchase of investment securities | (166,933) | - |
| Payments of leasehold and guarantee deposits | (3,243) | - |
| Proceeds from refund of leasehold and guarantee deposits | 1,692 | 300 |
| Other, net | - | (2,772) |
| Net cash provided by (used in) investing activities | <u>(652,300)</u> | <u>(188,738)</u> |
| Cash flows from financing activities | | |
| Repayments of long-term borrowings | (17,178) | (61,924) |
| Proceeds from issuance of shares | 20,382 | 32,729 |
| Proceeds from long-term borrowings | 350,000 | - |
| Purchase of treasury shares | (195,411) | - |
| Dividends paid | (111,991) | (133,715) |
| Net cash provided by (used in) financing activities | <u>45,801</u> | <u>(162,910)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 0 | 0 |
| Net increase (decrease) in cash and cash equivalents | <u>(114,575)</u> | <u>290,032</u> |
| Cash and cash equivalents at beginning of period | <u>1,218,358</u> | <u>1,145,732</u> |
| Increase in cash and cash equivalents resulting from merger | 41,949 | - |
| Cash and cash equivalents at end of period | <u>1,145,732</u> | <u>1,435,764</u> |

(5) Notes to Non-consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Accounting Policies

Application of the Accounting Standard for Revenue Recognition

Tobila Systems has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) at the beginning of the fiscal year that ended in October 2022. Based on this standard, revenue expected to be received in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

As a result, for transactions where revenue was previously recognized at once upon the completion of a contract, revenue is recognized over a period based on a length of time with respect to a reasonable period involving the fulfillment of an obligation.

In addition, in prior years, revenue for the subcontracted development of software was recognized by using the percentage of completion method for contracts where there will be definite benefits of the portion where progress was made. For all other contracts, the completed contract method is used for the recognition of revenue. However, excluding contracts that are completed within a very short time, revenue was recognized over an applicable period as the obligation was fulfilled. For the estimation of the percentage of completion of the fulfillment of an obligation, the percentage is estimated by dividing the all costs recorded to date by the total estimated amount of costs that will be incurred for that obligation (input method) in cases where the benefits of the fulfillment of the obligation can be reliably measured. For contracts that are completed within a very short time, revenue is recognized when the obligation has been completely fulfilled.

For the application of the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment prescribed in Paragraph 84 of this standard, the cumulative effect of the retrospective application of the new accounting standard, if it is applied prior to the fiscal year that ended in October 2022, is added to or subtracted from retained earnings at the beginning of the fiscal year. The new standard is then applied beginning with this amount of retained earnings.

As a result, net sales for the fiscal year that ended in October 2022 increased by 16,471 thousand yen; cost of sales decreased by 1,187 thousand yen; and operating profit, ordinary profit and profit before income taxes increased by 17,658 thousand yen each. In addition, the balance of retained earnings brought forward at the beginning of the current fiscal year increased 745 thousand yen. The impact on per share information is immaterial.

Due to the application of the Accounting Standard for Revenue Recognition, accounts receivable-trade that was presented under the current assets in the non-consolidated balance sheet in the previous fiscal year is, from the fiscal year that ended in October 2022, reclassified and divided into accounts receivable-trade and contract assets, and “advances received” that was presented under the current liabilities included in contract liabilities. In addition, decrease (increase) in trade receivables that was presented under cash flows from operating activities in the non-consolidated statement of cash flows in the previous fiscal year is, from the fiscal year that ended in October 2022, included in decrease (increase) in trade receivables and contract assets, and “increase (decrease) in advances received” included in increase (decrease) in contract liabilities. In accordance with the transitional treatment prescribed in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year.

Application of the Accounting Standard for Fair Value Measurement

Tobila Systems has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the fiscal year that ended in October 2022, and has applied the new accounting standard set forth by the Accounting Standard for Fair Value Measurement, etc. prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019).

The effect of this change on the non-consolidated financial statements is insignificant.

Equity in Earnings of Affiliates

(Thousands of yen)

| | FY10/21 (Nov. 1, 2020 – Oct. 31, 2021) | FY10/22 (Nov. 1, 2021 – Oct. 31, 2022) |
|---|---|---|
| Investments in affiliates | - | 139,654 |
| Investments when applying the equity method | - | 139,654 |
| Gain on investments when applying the equity method | - | - |

Segment and Other Information

Segment Information

1. Overview of reportable segment

(1) Method of determining the reportable segments

Segments used for financial reporting are Tobila Systems' constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The core fraud and spam prevention services business accounts for more than 90% of total sales and earnings.

As a result, there is only one reportable segment: Fraud and Spam Prevention Services.

(2) Products and services for the reportable segment

The fraud and spam prevention services segment uses analytic algorithms to identify suspicious or malicious calls for the provision of filtering apps and services for mobile and landline phones, more robust fraud filtering services for companies, and the development and provision of new fraud filtering products and services.

Other services which are not included in the reportable segment, include systems that support the design and operation of websites, outsourced development projects, and other activities.

2. Calculation method for net sales, profit or loss, assets, liabilities, and other items for the reportable segment

The accounting methods used for the reportable segment are generally the same as those used for the preparation of the financial statements. Segment profit is operating profit.

As described in Changes in Accounting Policies, Application of the Accounting Standard for Revenue Recognition, Tobila Systems has applied the Accounting Standard for Revenue Recognition at the beginning of the current fiscal year and changed the accounting method for revenue recognition. Therefore, the measurement method of segment profit or loss has also been changed.

As a result of this change, net sales and segment profit of the fraud and spam prevention services increased by 11,929 thousand yen and 15,854 thousand yen, respectively, and net sales and segment profit of other businesses increased by 4,541 thousand yen and 1,804 thousand yen, respectively.

3. Information related to net sales, profit or loss, assets, liabilities, and other items for the reportable segment and breakdown of revenue

FY10/21 (Nov. 1, 2020 – Oct. 31, 2021)

(Thousands of yen)

| | Reportable segment | | Others (Note 1) | Total | Adjustment (Note 2) | Amounts shown on non-consolidated financial statements (Note 3) |
|--|--|-----------|--------------------|-----------|------------------------|--|
| | Fraud and spam prevention services | Subtotal | | | | |
| Net sales | | | | | | |
| External sales | 1,346,431 | 1,346,431 | 78,225 | 1,424,656 | - | 1,424,656 |
| Inter-segment sales and transfers | - | - | - | - | - | - |
| Total | 1,346,431 | 1,346,431 | 78,225 | 1,424,656 | - | 1,424,656 |
| Segment profit | 897,281 | 897,281 | 47,016 | 944,298 | (364,387) | 579,911 |
| Segment assets | 725,200 | 725,200 | 12,284 | 737,485 | 1,432,531 | 2,170,016 |
| Other items | | | | | | |
| Depreciation | 52,925 | 52,925 | 1,066 | 53,991 | 6,166 | 60,157 |
| Increase in property, plant and equipment and intangible assets | 436,536 | 436,536 | 175 | 436,711 | 10,105 | 446,817 |

Notes: 1. Others represent the businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.

2. Contents of adjustments are as follows.

- (1) The adjustment to segment profit includes corporate expenses that are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment.
- (2) The adjustment to segment assets includes corporate assets that are not allocated to the reportable segment. Corporate assets mainly consist of surplus funds (cash and deposits), and assets which belong to the administration department.
- (3) The adjustment to depreciation includes depreciation of corporate assets that are not allocated to the reportable segment.
- (4) The adjustment to increase in property, plant and equipment and intangible assets includes capital expenditures associated with corporate assets that are not attributable to the reportable segment.

3. Segment profit is adjusted to be consistent with operating profit in the non-consolidated statement of income.

FY10/22 (Nov. 1, 2021 – Oct. 31, 2022)

(Thousands of yen)

| | Reportable segment | | Others (Note 3) | Total | Adjustment (Note 4) | Amounts shown on non-consolidated financial statements (Note 5) |
|--|--|-----------|--------------------|-----------|------------------------|--|
| | Fraud and spam prevention services | Subtotal | | | | |
| Net sales | | | | | | |
| Recurring revenue (Note 1) | 1,412,762 | 1,412,762 | 54,698 | 1,467,460 | - | 1,467,460 |
| Non-recurring revenue (Note 2) | 208,331 | 208,331 | 5,923 | 214,255 | - | 214,255 |
| Revenue from contracts with customers | 1,621,094 | 1,621,094 | 60,621 | 1,681,715 | - | 1,681,715 |
| External sales | 1,621,094 | 1,621,094 | 60,621 | 1,681,715 | - | 1,681,715 |
| Inter-segment sales and transfers | - | - | - | - | - | - |
| Total | 1,621,094 | 1,621,094 | 60,621 | 1,681,715 | - | 1,681,715 |
| Segment profit | 926,287 | 926,287 | 40,295 | 966,583 | (425,743) | 540,839 |
| Segment assets | 944,630 | 944,630 | 14,669 | 959,300 | 1,707,877 | 2,667,177 |
| Other items | | | | | | |
| Depreciation | 77,046 | 77,046 | 854 | 77,901 | 8,966 | 86,867 |
| Increase in property, plant and equipment and intangible assets | 127,769 | 127,769 | 1,323 | 129,092 | 1,708 | 130,801 |

Notes: 1. Recurring revenue is revenue recorded as sales for the provision of a service over a certain period.

2. Non-recurring revenue is revenue recorded as sales upon the delivery of a product and its acceptance by a customer.

3. Others represent the businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.

4. Contents of adjustments are as follows.

- (1) The adjustment to segment profit includes corporate expenses that are not allocated to the reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses that are not attributable to the reportable segment.
 - (2) The adjustment to segment assets includes corporate assets that are not allocated to the reportable segment. Corporate assets mainly consist of surplus funds (cash and deposits), and assets which belong to the administration department.
 - (3) The adjustment to depreciation includes depreciation of corporate assets that are not allocated to the reportable segment.
 - (4) The adjustment to increase in property, plant and equipment and intangible assets includes capital expenditures associated with corporate assets that are not attributable to the reportable segment.
5. Segment profit is adjusted to be consistent with operating profit in the non-consolidated statement of income.

Related Information

FY10/21 (Nov. 1, 2020 – Oct. 31, 2021)

1. Information by product and service

Omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Omitted since sales to external customers in Japan accounted for more than 90% of net sales shown on the non-consolidated statement of income.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major customer

(Thousands of yen)

| Customer name | Net sales | Relevant segment |
|------------------|-----------|------------------------------------|
| SoftBank Corp. | 461,557 | Fraud and spam prevention services |
| KDDI CORPORATION | 448,972 | Fraud and spam prevention services |
| NTT DOCOMO, INC. | 248,366 | Fraud and spam prevention services |

FY10/22 (Nov. 1, 2021 – Oct. 31, 2022)

1. Information by product and service

Omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

Omitted since sales to external customers in Japan accounted for more than 90% of net sales shown on the non-consolidated statement of income.

(2) Property, plant and equipment

Not applicable because there are no property, plant and equipment outside Japan.

3. Information by major customer

(Thousands of yen)

| Customer name | Net sales | Relevant segment |
|------------------|-----------|------------------------------------|
| KDDI CORPORATION | 550,813 | Fraud and spam prevention services |
| SoftBank Corp. | 428,668 | Fraud and spam prevention services |
| NTT DOCOMO, INC. | 278,069 | Fraud and spam prevention services |

Information Related to Impairment Loss of Non-current Assets for the Reportable Segment

FY10/21 (Nov. 1, 2020 – Oct. 31, 2021)

Not applicable.

FY10/22 (Nov. 1, 2021 – Oct. 31, 2022)

Not applicable.

Information Related to Amortization of Goodwill and Unamortized Balance for the Reportable Segment

FY10/21 (Nov. 1, 2020 – Oct. 31, 2021)

(Thousands of yen)

| | Reportable segment | | Others (Note) | Elimination or corporate | Total |
|----------------|---------------------------------------|----------|------------------|-----------------------------|---------|
| | Fraud and spam prevention services | Subtotal | | | |
| Amortization | 5,512 | 5,512 | - | - | 5,512 |
| Ending balance | 325,221 | 325,221 | - | - | 325,221 |

Note: Others represent the businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.

FY10/22 (Nov. 1, 2021 – Oct. 31, 2022)

(Thousands of yen)

| | Reportable segment | | Others (Note) | Elimination or corporate | Total |
|----------------|---------------------------------------|----------|------------------|-----------------------------|---------|
| | Fraud and spam prevention services | Subtotal | | | |
| Amortization | 65,884 | 65,884 | - | - | 65,884 |
| Ending balance | 258,127 | 258,127 | - | - | 258,127 |

Note: Others represent the businesses which are not included in the reportable segment and includes a website design and operation support service and development projects outsourced by other companies.

Information Related to Gain on Bargain Purchase for the Reportable Segment

Not applicable.

Per-share Information

(Yen)

| | FY10/21 (Nov. 1, 2020 – Oct. 31, 2021) | FY10/22 (Nov. 1, 2021 – Oct. 31, 2022) |
|------------------------------|---|---|
| Net assets per share | 143.30 | 162.54 |
| Net income per share | 37.25 | 30.68 |
| Diluted net income per share | 36.47 | 30.40 |

Notes: 1. The basis of calculating net income per share is as follows:

(Thousands of yen)

| | FY10/21 (Nov. 1, 2020 – Oct. 31, 2021) | FY10/22 (Nov. 1, 2021 – Oct. 31, 2022) |
|---|---|---|
| Net income per share | | |
| Profit | 386,047 | 322,027 |
| Amount not attributable to common shareholders | - | - |
| Profit applicable to common shares | 386,047 | 322,027 |
| Average number of common shares outstanding during the period (shares) | 10,364,669 | 10,497,251 |
| Diluted net income per share | | |
| Adjustment to profit | - | - |
| Increase in the number of common shares (shares) | 221,868 | 95,632 |
| Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect | - | - |

2. The basis of calculating net assets per share is as follows.

(Thousands of yen)

| | FY10/21 (As of Oct. 31, 2021) | FY10/22 (As of Oct. 31, 2022) |
|---|----------------------------------|----------------------------------|
| Total net assets | 1,489,008 | 1,710,792 |
| Deduction on total net assets | - | - |
| Net assets applicable to common shares at end of period | 1,489,008 | 1,710,792 |
| Number of common shares at end of period used in calculation of net assets per share (shares) | 10,390,750 | 10,525,450 |

Subsequent Events

Not applicable.

This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.