

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2021 [J-GAAP]

July 30, 2020

Company name: eGuarantee, Inc.

Listing: Tokyo Stock Exchange

Securities code: 8771 URL: <https://www.eguarantee.co.jp/english/index.html>

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Availability of supplementary briefing materials for quarterly financial results: No

Schedule of quarterly financial results briefing: No

(Amounts of less than one million yen are rounded down.)

1. Consolidated performance for the first quarter of FY2020 (April 1, 2020 to June 30, 2020)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended June 30, 2020	1,688	17.6	731	18.7	737	18.1	411	(24.3)
Three months ended June 30, 2019	1,435	7.0	616	9.2	624	8.8	544	59.2

Note: Comprehensive income: 1Q FY2020: 438 million yen (-21.7 %) 1Q FY2019: 559 million yen (36.4%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2020	9.69	8.92
Three months ended June 30, 2019	12.81	12.17

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of: June 30, 2020	16,514	12,583	68.9	267.62
March 31, 2020	16,444	12,798	70.3	271.94

Reference: Equity As of June 30, 2020: 11,375 million yen As of March 31, 2020: 11,558 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Total
Fiscal year ended March 31, 2020	— Yen	0.00 Yen	— Yen	14.00 Yen	14.00 Yen
Fiscal year ending March 31, 2021	— —				
Fiscal year ending March 31, 2021 (forecast)		0.00	—	14.00	14.00

Note: Revisions from recently announced dividend forecast: None

3. Consolidated performance forecast for FY2020 (April 1, 2020 to March 31, 2021)

(Percentages indicate year-on-year change)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	3,500	20.4	1,440	11.4	1,450	11.1	950	(18.6)	22.35
Full year	7,700	29.3	2,980	9.6	3,000	9.1	1,950	(15.3)	45.88

Note: Revisions from recently announced financial results forecast: None

* Notes:

(1) Changes in significant subsidiaries during the period under review (Change in specified subsidiaries resulting in change in scope of consolidation): None

(2) Application of special accounting treatment to the preparation of quarterly consolidated financial statements: Yes

*For details, please refer to "Application of Special Accounting Methods in the Preparation of Quarterly Consolidated Financial Statements" on page 7 of the Appendix.

(3) Changes in accounting policies, accounting estimates or retrospective restatement

- 1) Changes in accounting policies pursuant to changes in accounting standards, etc.: None
- 2) Changes in accounting policies other than 1) above: None
- 3) Changes in accounting estimates: None
- 4) Retrospective restatement: None

(4) Number of shares issued and outstanding (common shares)

1) Number of shares issued at the end of the period (including treasury shares)	As of June 30, 2020	42,506,400	As of March 31, 2020	42,506,400
2) Number of treasury shares at the end of the period	As of June 30, 2020	1,414	As of March 31, 2020	1,385
3) Average number of shares during the period(cumulative)	As of June 30, 2020	42,504,989	As of June 30, 2019	42,505,067

*These quarterly financial results are outside the scope of audits by certified public accountants or audit firms.

*Guidance on the appropriate use of performance forecasts and other special notes

Notes on forward-looking statements

Performance forecasts and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions deemed reasonable, and the Company does not guarantee their achievement. Actual performance and other results may be significantly different from the forecasts due to various factors. For details on the assumptions for performance forecasts and notes on the use of performance forecasts, etc., refer to "Explanation of Consolidated Earnings Forecasts and Other Future Projections" on page 3 of the attachment.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

During the first quarter consolidated cumulative period under review, there were the spread of COVID-19 and the following requests to stay inside and requests for closures since March, and the declaration of a state of emergency in April. And that caused restrictions on consumer spending and corporate activities and consequent Japan's economy deteriorated rapidly.

The outlook for the economy is expected to remain severe for the time being due to the impact of infectious diseases. The risk of a further downturn in the domestic and foreign economies and the effects of fluctuations in the financial and capital markets have to be closely monitored and the situation remains uncertain.

As for the environment surrounding eGuarantee, Inc. (the "Company") and its subsidiaries (collectively, the "Group"), corporate bankruptcies decreased by 8.9% year on year to 1,852 cases in the first quarter consolidated cumulative period under review (source: TEIKOKU DATABANK, Ltd.), due to the impact of the stalled legal liquidation process in May as a temporary special factor, as a result of the declaration of a state of emergency due to COVID-19. However, with the recent significant increase in payment delays, the number of bankruptcies is expected to increase in the future.

In this environment, the Group reviewed the risk assessments of each of its guaranteed counterparties to take into account the future impact of COVID-19 on the economy, and raised guarantee rates for new clients, resulting in an increase in guarantee fees for new contracts. For existing customers, the Group has set a guarantee fee rate that reflects the review of the risk assessment, and the Group has also reviewed the guarantee amount and reset the amount to reflect the risk assessment.

As a result, at the end of the first quarter under review, guarantee obligations amounted to 434.1 billion yen (up 8.6 % year on year), and net sales were 1,688,072 thousand yen (up 17.6%) while operating profit was 731,938 thousand yen (up 18.7%), ordinary profit was 737,743 thousand yen (up 18.1%), and profit attributable to owners of parent was 411,892 thousand yen (down 24.3%).

Of this, profit attributable to owners of parent was significantly increased in the first quarter of the previous year as a result of a temporary special factor, which was a significant reduction in the rate of income taxes after the application of tax effect accounting due to the tax-deductibility of ESOP trust distributions.

In the first quarter consolidated cumulative period under review, it has decreased compared to the same period of the previous year due to the absence of such temporary special factors.

In addition, the progress of ordinary profit and profit attributable to owners of parent for the first quarter consolidated cumulative period under review against the consolidated earnings forecast for the fiscal year ending March 31, 2021, was 24.6% and 21.1%, respectively.

(2) Explanation of Financial Position

Assets

Total assets at the end of the first quarter under review increased by 0.4% from the end of the previous fiscal year to 16,514,814 thousand yen.

Current assets increased by 0.8% from the end of the previous fiscal year to 13,747,943 thousand yen. This is mainly due to an increase in cash and deposits of 337,478 thousand yen.

Non-current assets decreased by 1.2% from the end of the previous fiscal year to 2,766,871 thousand yen. This is mainly due to a decrease in investment securities of 49,999 thousand yen.

Liabilities

Total liabilities increased by 7.8% from the end of the previous fiscal year to 3,931,580 thousand yen.

Current liabilities increased by 8.1 % from the end of the previous fiscal year to 3,816,297 thousand yen. This is mainly due to an increase in advances received of 130,278 thousand yen.

Non-current liabilities remained at the same amount as at the end of the previous fiscal year.

Net assets

Total net assets decreased by 1.7% from the end of the previous fiscal year to 12,583,234 thousand yen. This is mainly due to a decrease in retained earnings of 183,177 thousand yen.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Projections

No revision has been made to the full-year consolidated financial results forecast released on May 14, 2020: net sales of 7,700 million yen, operating profit of 2,980 million yen, ordinary profit of 3,000 million yen, and profit attributable to owners of parent of 1,950 million yen. In the future, if economic conditions and business performance require a review of the full-year forecast, the Group will promptly disclose it.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

	As of March 31, 2020	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	9,232,731	9,570,209
Accounts receivable - trade	58,440	66,504
Securities	2,602,474	2,401,030
Prepaid expenses	1,152,221	1,395,244
Accounts receivable - other	358,833	215,572
Income taxes receivable	139,527	592
Other	100,895	98,788
Total current assets	<u>13,645,123</u>	<u>13,747,943</u>
Non-current assets		
Property, plant and equipment	1,392,105	1,393,016
Intangible assets	77,068	93,000
Investments and other assets		
Investment securities	855,250	805,250
Deferred tax assets	151,287	151,287
Other	323,907	324,316
Total investments and other assets	<u>1,330,445</u>	<u>1,280,853</u>
Total non-current assets	<u>2,799,619</u>	<u>2,766,871</u>
Total assets	<u>16,444,743</u>	<u>16,514,814</u>
Liabilities		
Current liabilities		
Accounts payable - trade	7,889	9,094
Income taxes payable	2,693	92,141
Advances received	3,059,366	3,189,645
Provision for settlement	216,981	221,144
Provision for bonuses	124,148	77,262
Deposits received	24,541	83,240
Other	95,682	143,768
Total current liabilities	<u>3,531,305</u>	<u>3,816,297</u>
Non-current liabilities		
Long-term accounts payable - other	115,282	115,282
Total non-current liabilities	<u>115,282</u>	<u>115,282</u>
Total liabilities	<u>3,646,588</u>	<u>3,931,580</u>
Net assets		
Shareholders' equity		
Share capital	1,643,135	1,643,135
Capital surplus	1,053,135	1,053,135
Retained earnings	8,863,119	8,679,941
Treasury shares	(774)	(824)
Total shareholders' equity	<u>11,558,616</u>	<u>11,375,388</u>
Share acquisition rights	135,065	139,231
Non-controlling interests	1,104,472	1,068,614
Total net assets	<u>12,798,155</u>	<u>12,583,234</u>
Total liabilities and net assets	<u>16,444,743</u>	<u>16,514,814</u>

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

First three months of the fiscal year

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Net sales	1,435,167	1,688,072
Cost of sales	308,075	386,919
Gross profit	1,127,092	1,301,153
Selling, general and administrative expenses	510,461	569,215
Operating profit	616,630	731,938
Non-operating income		
Interest income	5,514	5,027
Share of profit of entities accounted for using equity method	2,138	276
Other	525	500
Total non-operating income	8,178	5,805
Ordinary profit	624,809	737,743
Extraordinary losses		
Loss on retirement of non-current assets	32,256	—
Loss on valuation of investment securities	—	49,999
Total extraordinary losses	32,256	49,999
Profit before income taxes	592,553	687,743
Income taxes	32,662	249,500
Profit	559,850	438,243
Profit attributable to non-controlling interests	15,500	26,350
Profit attributable to owners of parent	544,390	411,892

Quarterly Consolidated Statements of Comprehensive Income

First three months of the fiscal year

(Thousand yen)

	For the three months ended June 30, 2019	For the three months ended June 30, 2020
Profit	559,890	438,243
Comprehensive income	559,890	438,243
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	544,390	411,892
Comprehensive income attributable to non-controlling interests	15,500	26,350

(3) Notes to quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements)

(Calculation of tax expense)

Income taxes are calculated by applying a reasonably estimated effective tax rate for the full fiscal year to income before income taxes for the end of the first quarter under review. The effective tax rate is determined by estimating the effective tax rate for the full fiscal year, which includes the end of the first quarter under review, after taking into account the effect of deferred tax accounting.

NOTICE: For the convenience of capital market participants, the Company makes efforts to provide English translations of the information disclosed in Japanese, provided that the Japanese original prevails over its English translation in the case of any discrepancy found between documentation.