

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

October 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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Date of submitting quarterly securities report: November 13, 2020

Availability of supplementary briefing materials for quarterly financial results: Yes

Schedule of quarterly financial results briefing: Yes

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

1. Consolidated performance for the second quarter of FY2020 (April 1, 2020 to September 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	%
Six months ended September 30, 2020	3,451	18.7	1,503	16.3	1,511	15.8	970	(16.8)
Six months ended September 30, 2019	2,907	6.7	1,292	9.4	1,305	8.4	1,167	56.9

Note: Comprehensive income: 2Q FY2020: 996 million yen / (16.2) % 2Q FY2019: 1189 million yen / 38.8%

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2020	22.37	20.77
Six months ended September 30, 2019	27.46	26.09

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of: September 30, 2020	20,120	15,738	72.2	319.85
March 31, 2020	16,444	12,798	70.3	271.94

Reference: Equity As of September 30, 2020: 14,530 million yen As of March 31, 2020: 11,558 million yen

2. Dividends

	Annual dividends				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	—	0.00	—	14.00	14.00
Fiscal year ending March 31, 2021	—	0.00	—	14.00	14.00
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
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 September 30, 2020	45,429,800	As of March 31, 2020	42,506,400
2) Number of treasury shares at the end of the period	As of September 30, 2020	1,414	As of March 31, 2020	1,385
3) Average number of shares during the period(cumulative)	As of September 30, 2020	43,390,567	As of September 30, 2019	42,505,056

*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.

Disclosure of supplementary financial results briefing materials

Supplementary financial results briefing materials will be posted on the Company's website. The Company also plans to hold a briefing for institutional investors and securities analysts on Wednesday, November 4, 2020.

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1. Qualitative Information related to the Consolidated Business Results

(1) Explanation of Operating Results

The Japanese economy in the second quarter consolidated cumulative period was in a tough situation due to the COVID-19 infection. Therefore, the cash flow support measures were widely implemented for small and medium-sized enterprises that fell into the business slump performance. The number of credit guarantees conditional on substantially interest-free and unsecured loans provided by Credit Guarantee Corporations was about 1.2 million in total from April to August. The total amount of credit guarantees in the same period reached about 22 trillion yen. It had already expanded more rapidly than the total amount in FY2008 when the financial crisis of Lehman Brothers occurred. (Survey by Japan Federation of Credit Guarantee Corporations)

As for the environment surrounding eGuarantee, Inc. (the "Company") and its subsidiaries (collectively, the "Group"), the number of corporate bankruptcies decreased by 5.2% year on year to 3,956 cases in the second quarter consolidated cumulative period (source: TEIKOKU DATABANK, Ltd.), and it is believed that various benefits and institutional loans that are substantially interest-free and unsecured were successful in curbing the number of corporate bankruptcies during the period. If the impact of the spread of the COVID-19 is prolonged, the number of companies going bankrupt is expected to increase due to a lack of prospects for business improvement, and the close monitoring of the trend of bankruptcies is needed to be continued accordingly.

Amid such an environment, credit risk guarantee services continued to show robust results. While sales activities were limited due to the emergency declaration's impact, new products were developed and offered promptly to meet customers' growing needs, increasing new contracts. Also, inquiries from customers who had not considered the use of the guarantee service increased. The customer base that uses the guarantee service was expanded by the Group's efforts to improve the service's recognition by advertising and actively responding to requests for interviews from the media.

The Group has reviewed the conditions of existing policies to prepare for an increase in the number of bankruptcies due to the impact of the COVID-19 and limited underwriting of large-scale risks to diversify risks and restructure the portfolio. On the other hand, the guarantee fee for the guaranteed counterparties that the Group continued to underwrite has increased due to reflecting the results of the risk review in the guarantee fee rates.

As a result, at the end of the second quarter under review, guarantee obligations amounted to 435.7 billion yen (up 6.2 % year on year), and net sales were 3,451,715 thousand yen (up 18.7%) while operating profit was 1,503,344 thousand yen (up 16.3%), ordinary profit was 1,511,964 thousand yen (up 15.8%), and profit attributable to owners of parent was 970,634 thousand yen (down 16.8%).

Of this, profit attributable to owners of parent was significantly increased in the second quarter consolidated cumulative period 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 second quarter consolidated cumulative period, it has decreased compared to the same period of the previous year due to the absence of such temporary special factors.

The progress of ordinary profit and profit attributable to owners of parent for the second quarter consolidated cumulative period against the consolidated earnings forecast for the fiscal year ending March 31, 2021, was 50.4% and 49.8%, respectively.

(2) Explanation of Financial Position

Assets

Total assets at the end of the second quarter under review increased by 22.4% from the end of the previous fiscal year to 20,120,352 thousand yen.

Current assets increased by 18.4% from the end of the previous fiscal year to 16,155,753 thousand yen. This is mainly due to an increase in cash and deposits of 2,815,613 thousand yen.

Non-current assets increased by 41.6 % from the end of the previous fiscal year to 3,964,598 thousand yen. This is mainly due to an increase in investment securities of 1,150,000 thousand yen.

Liabilities

Total liabilities increased by 20.2% from the end of the previous fiscal year to 4,382,064 thousand yen.

Current liabilities increased by 20.8 % from the end of the previous fiscal year to 4,266,782 thousand yen. This is mainly due to an increase in income taxes payable of 482,637 thousand yen.

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

Net assets

Total net assets increased by 23.0% from the end of the previous fiscal year to 15,738,287 thousand yen. This is mainly due to an increase in share capital and capital surplus of 1,298,142 thousand yen, respectively.

(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 September 30, 2020
Assets		
Current assets		
Cash and deposits	9,232,731	12,048,344
Accounts receivable - trade	58,440	63,470
Securities	2,602,474	2,400,494
Prepaid expenses	1,152,221	1,485,222
Accounts receivable - other	358,833	49,509
Income taxes receivable	139,527	—
Other	100,895	108,711
Total current assets	13,645,123	16,155,753
Non-current assets		
Property, plant and equipment	1,392,105	1,392,913
Intangible assets	77,068	93,414
Investments and other assets		
Investment securities	855,250	2,005,250
Deferred tax assets	151,287	151,287
Other	323,907	321,732
Total investments and other assets	1,330,445	2,478,270
Total non-current assets	2,799,619	3,964,598
Total assets	16,444,743	20,120,352
Liabilities		
Current liabilities		
Accounts payable - trade	7,889	12,327
Income taxes payable	2,693	485,331
Advances received	3,059,366	3,304,583
Provision for settlement	216,981	230,794
Provision for bonuses	124,148	99,509
Deposits received	24,541	29,735
Other	95,682	104,500
Total current liabilities	3,531,305	4,266,782
Non-current liabilities		
Long-term accounts payable - other	115,282	115,282
Total non-current liabilities	115,282	115,282
Total liabilities	3,646,588	4,382,064
Net assets		
Shareholders' equity		
Share capital	1,643,135	2,941,277
Capital surplus	1,053,135	2,351,277
Retained earnings	8,863,119	9,238,683
Treasury shares	(774)	(824)
Total shareholders' equity	11,558,616	14,530,415
Share acquisition rights	135,065	139,815
Non-controlling interests	1,104,472	1,068,056
Total net assets	12,798,155	15,738,287
Total liabilities and net assets	16,444,743	20,120,352

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six months of the fiscal year

(Thousand yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Net sales	2,907,110	3,451,715
Cost of sales	609,356	831,304
Gross profit	2,297,754	2,620,410
Selling, general and administrative expenses	1,005,277	1,117,066
Operating profit	1,292,476	1,503,344
Non-operating income		
Interest income	12,047	9,921
Other	1,546	2,466
Total non-operating income	13,594	12,388
Non-operating expenses		
Share of loss of entities accounted for using equity method	702	3,768
Total non-operating expenses	702	3,768
Ordinary profit	1,305,367	1,511,964
Extraordinary losses		
Loss on retirement of non-current assets	32,974	—
Loss on valuation of investment securities	—	49,999
Total extraordinary losses	32,974	49,999
Profit before income taxes	1,272,393	1,461,964
Income taxes	82,882	465,537
Profit	1,189,510	996,427
Profit attributable to non-controlling interests	22,480	25,793
Profit attributable to owners of parent	1,167,030	970,634

Quarterly Consolidated Statements of Comprehensive Income

Six months of the fiscal year

(Thousand yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Profit	1,189,510	996,427
Comprehensive income	1,189,510	996,427
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	1,167,030	970,634
Comprehensive income attributable to non-controlling interests	22,480	25,793

(3) Notes to quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

In the second quarter consolidated cumulative period, share capital and capital surplus increased by 1,298,142 thousand yen each due to the exercise of stock acquisition rights. As a result, share capital and capital surplus at the end of the second quarter under review were 2,941,227 thousand yen and 2,351,277 thousand yen, respectively.

(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 second 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 second 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.