

# Trend Micro FY2013.3Q Results



**Mahendra Negi COO/CFO, Representative  
Director**

**November 12, 2013**



# ***Forward Looking Statements***

**Certain Statements that we make in this presentation are forward-looking statements. These forward-looking statements are based upon management's current assumptions and beliefs in light of the information currently available to it, but involve known and unknown risks and uncertainties.**

**Many important factors could cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include:**

- **difficulties in addressing new virus and other computer security problems;**
- **timing of new product introductions and lack of market acceptance for our new products;**
- **the level of continuing demand for , and timing of sales of , our existing products;**
- **rapid technological change within the anti-virus software industry;**
- **changes in customer needs for anti-virus software;**
- **existing products and new product introductions by our competitors and the pricing of those products;**
- **declining prices for our products and services;**
- **the effect of future acquisitions on our financial condition and results of operations;**
- **the effect of adverse economic trends on our principal markets;**
- **the effect of foreign exchange fluctuations on our results of operations;**
- **an increase in the incidence of product returns;**
- **the potential lack of attractive investment targets; and**
- **difficulties in successfully executing our investment strategy.**

**We assume no obligation to update any forward-looking statements.**

# ***FY2013. 3Q Financial Highlight***

**(Third quarter ended September 30, 2013)**

# Q3 Consolidated Results

(in million Yen)

<i>Three months ended Sep 30,</i>	<b>3Q2012</b>	<b>3Q2013</b>	<i>YoY growth</i>
<b>Net sales</b>	<b>23,836</b>	<b>27,069</b>	<b>+ 14%</b>
<b>Cost of sales</b>	<b>4,390</b>	<b>4,890</b>	<b>+ 11%</b>
<b>Operating expenses</b>	<b>13,337</b>	<b>14,161</b>	<b>+ 6%</b>
<b>Operating income</b>	<b>6,108</b>	<b>8,017</b>	<b>+ 31%</b>
<i>(Margin)</i>	<i>( 26%)</i>	<i>( 30%)</i>	
<b>Ordinary income</b>	<b>6,233</b>	<b>8,064</b>	<b>+ 29%</b>
<b>Net income</b>	<b>4,196</b>	<b>5,363</b>	<b>+ 28%</b>

(In accordance with Japan GAAP)

**“For reference” Revenue before adjusting deferred revenue**

<b>Pre-GAAP</b>	<b>23,304</b>	<b>26,511</b>	<b>+ 14%</b>
			<b>+ 2%</b>

*( In case of excluding a foreign exchange impact )*

(Non-GAAP)

**If currency exchange rates used for 3Q2012 were used for 3Q2013**

<b>Net sales</b>	<b>23,836</b>	<b>23,966</b>	<b>+ 1%</b>
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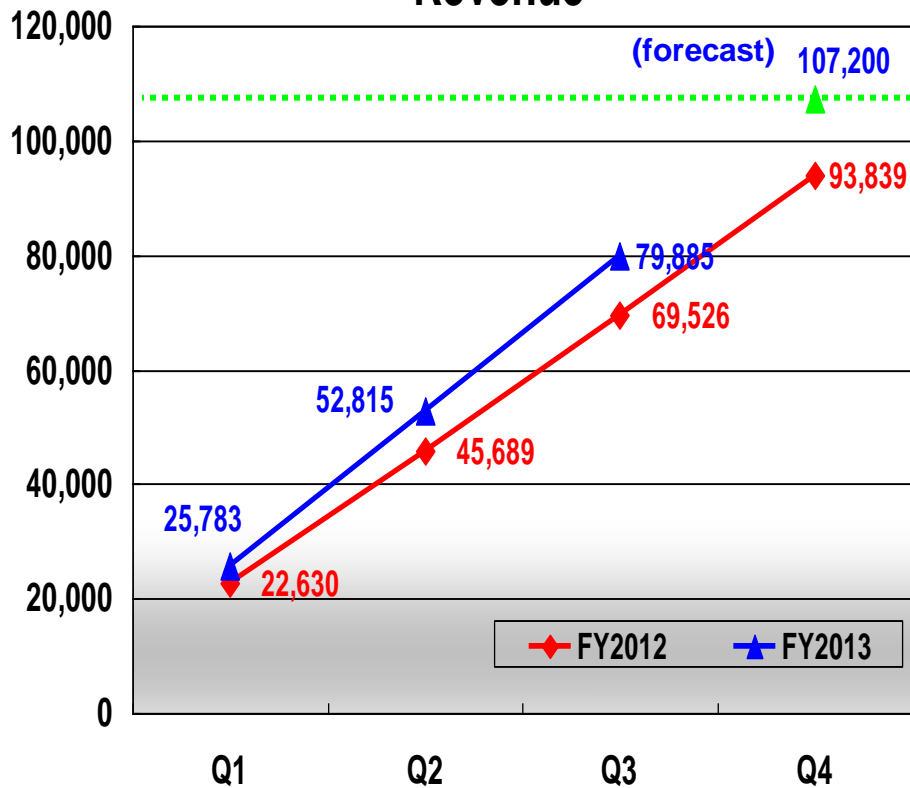
*\* The JPY amount for 3Q2013 shown above has been calculated by applying to each foreign currency net sales amount for 3Q2013 the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 3Q2012 into a JPY net sales amount for Japan GAAP reporting purposes.*

**END**  
(Non-GAAP)

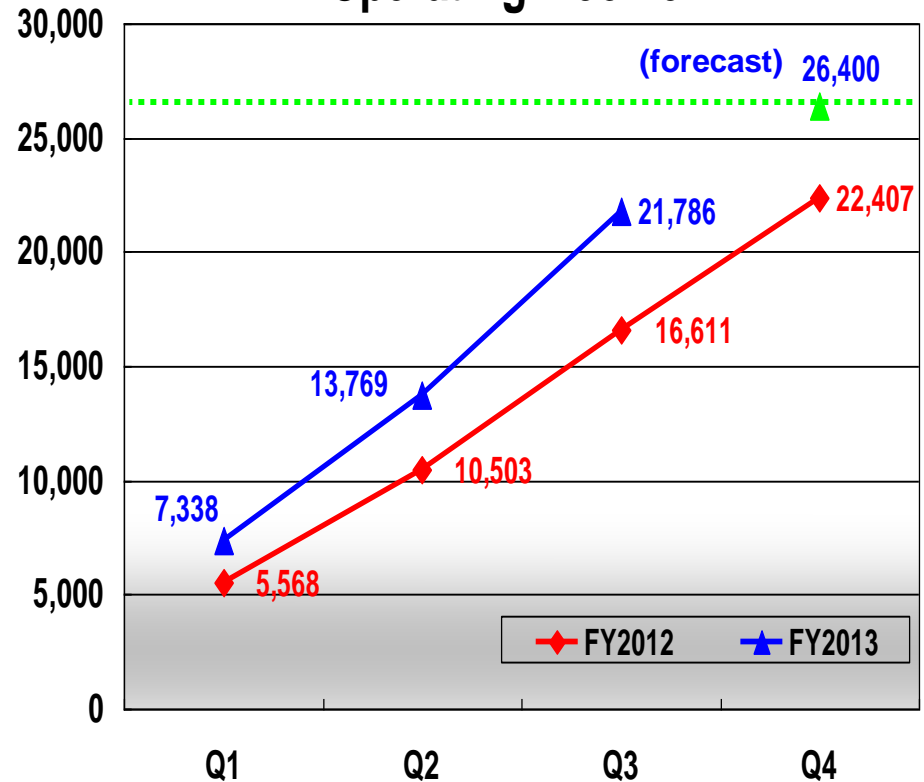
# Progress (6months)

(in million Yen)

## Revenue



## Operating Income



# Q3 USD based Results (Non-GAAP)

<i>Three months ended Sep 30,</i>	<i>3Q2012</i>	<i>3Q2013</i>	<i>(unaudited) (in thousand USD) YoY change</i>
<b>Net sales</b>	<b>303,188</b>	<b>273,540</b>	<b>- 10%</b>
<b>Cost of sales</b>	<b>55,846</b>	<b>49,421</b>	<b>- 12%</b>
<b>Operating expenses</b>	<b>169,643</b>	<b>143,106</b>	<b>- 16%</b>
<b>Operating income</b>	<b>77,698</b>	<b>81,012</b>	<b>+ 4%</b>
<b>Ordinary income</b>	<b>79,284</b>	<b>81,492</b>	<b>+ 3%</b>
<b>Net Income</b>	<b>53,381</b>	<b>54,198</b>	<b>+ 2%</b>

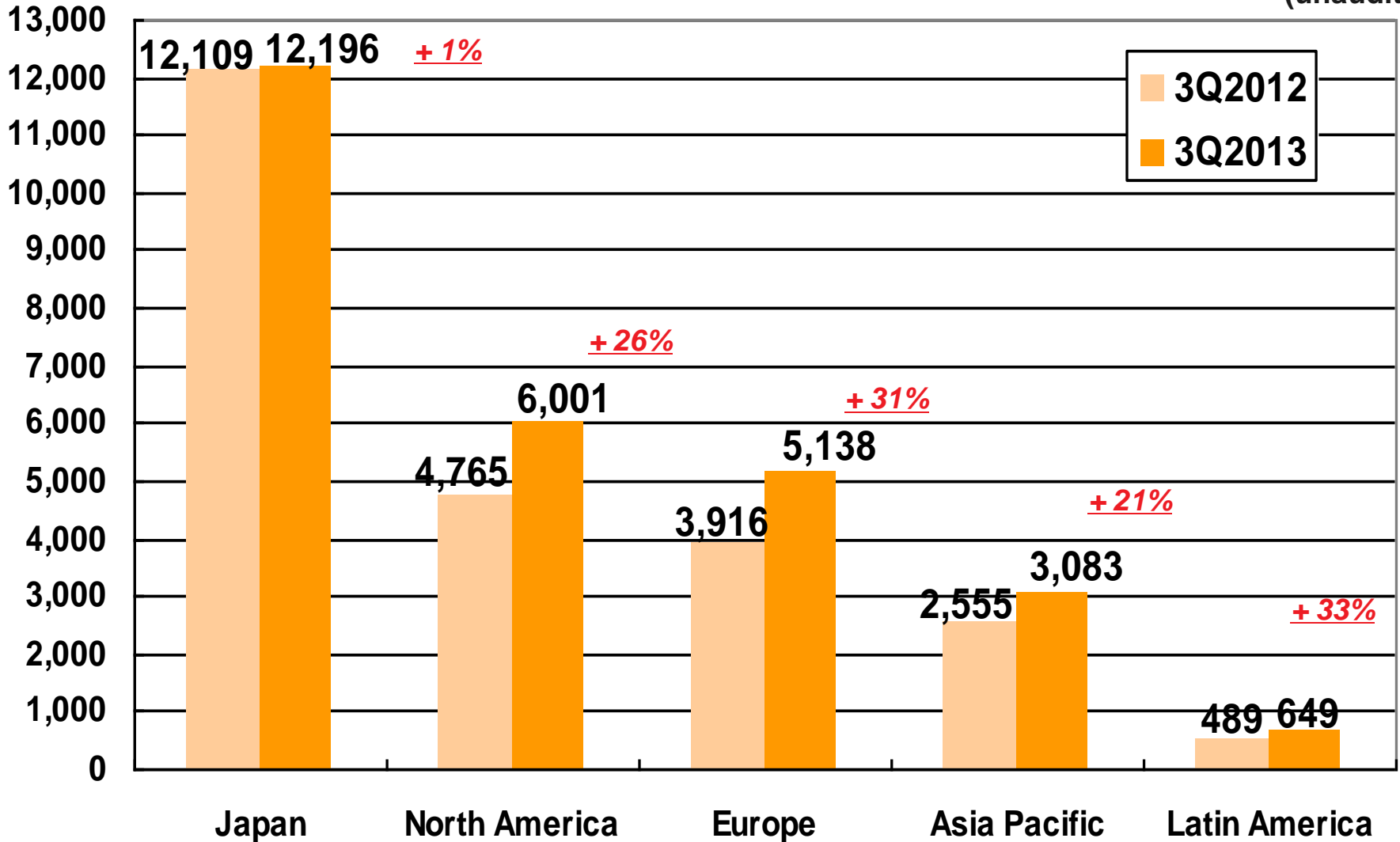
**(Non-GAAP)**

*For each of the quarters shown in the table above, JPY Japan GAAP amounts have been converted to USD amounts using the exchange rates of USD=78.62 JPY for 3Q2012 and 1 USD =98.96 JPY for 3Q2013, respectively, which are the respective weighted average exchange rates used to convert USD net sales to JPY for these quarters.*

# Net Sales Growth by Region

(in million Yen)

(unaudited)



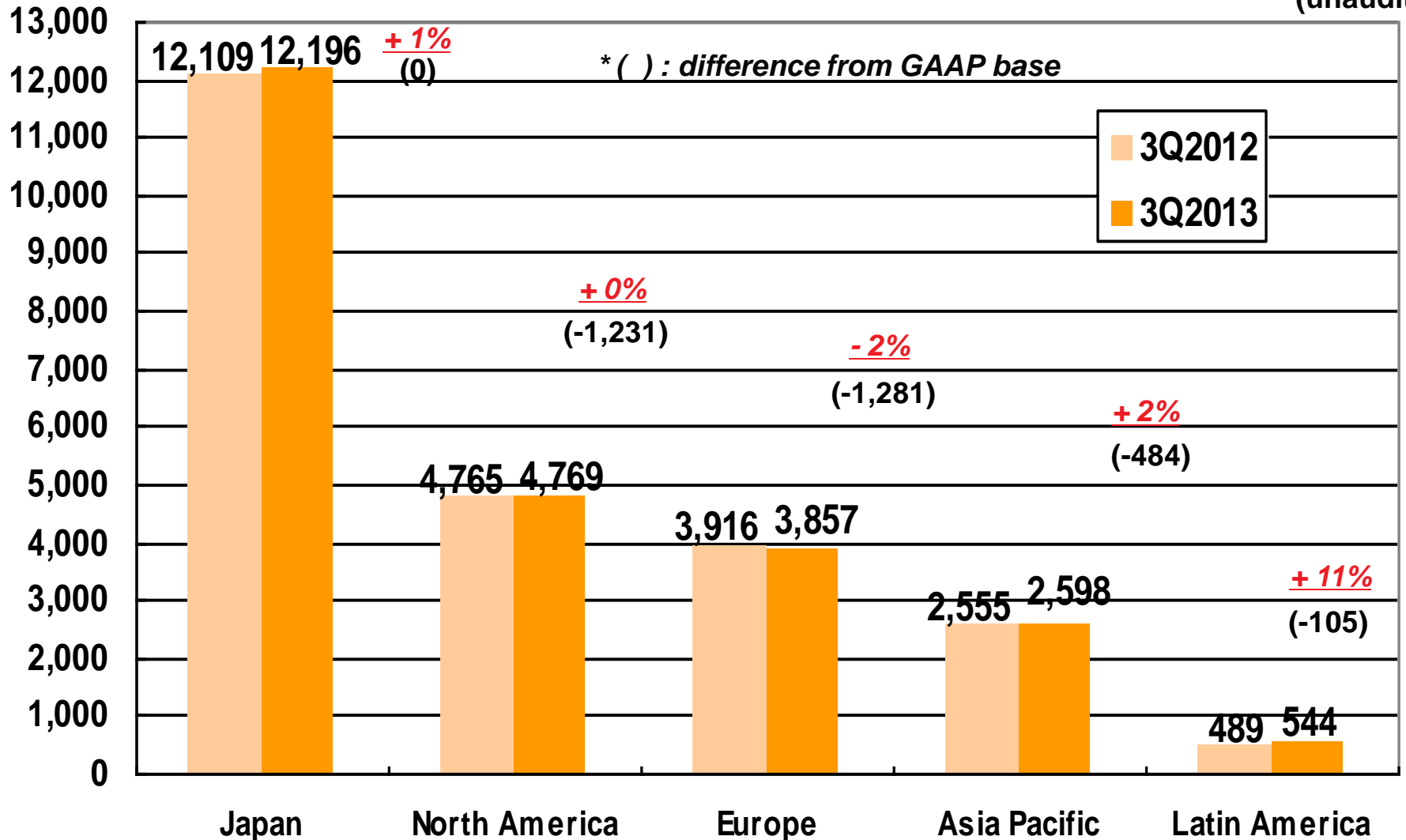
(In accordance with Japan GAAP)

# Net Sales Growth by Region

*If currency exchange rates used for 3Q2012 were used for 3Q2013:*

(in million Yen)

(unaudited)



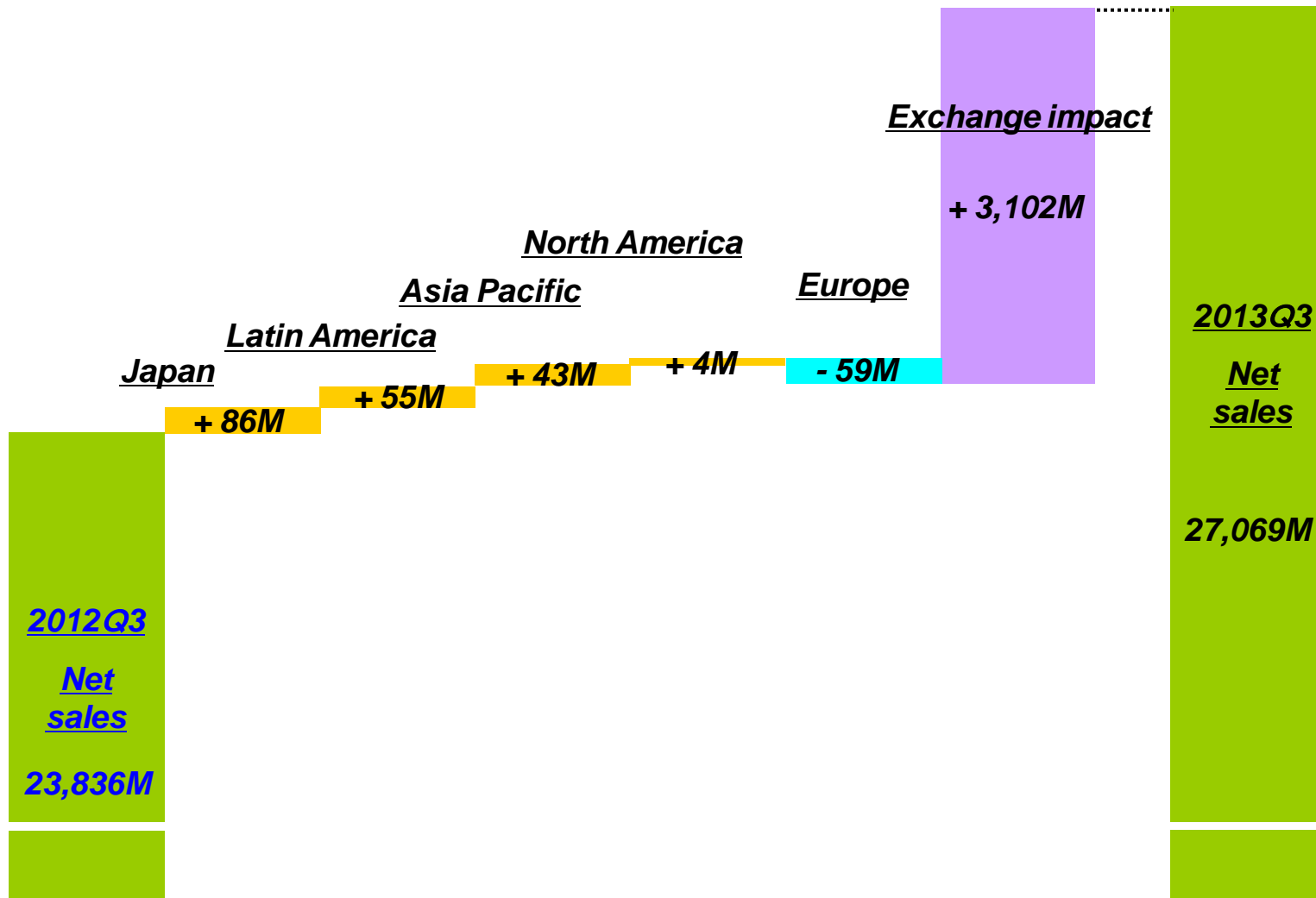
\* Each JPY amount for 3Q2013 shown above has been calculated by applying to the relevant foreign currency net sales amount for 3Q2013 the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 3Q2012 into a JPY net sales amount for Japan GAAP reporting purposes.

(Non-GAAP)

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# Decomposition of Revenue (vs. last year)

(unaudited)



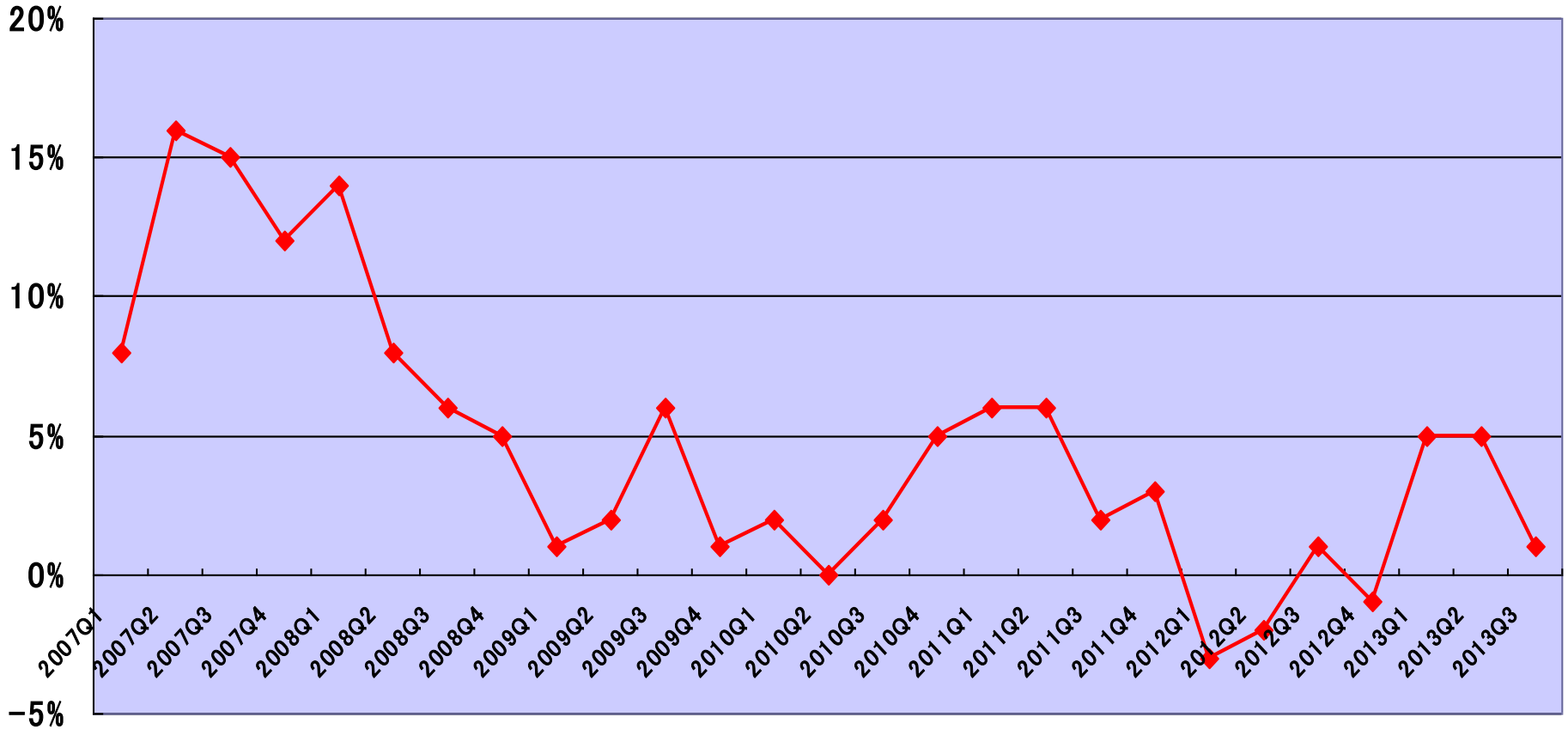
(Non-GAAP)



# Constant currency Revenue growth

(unaudited)

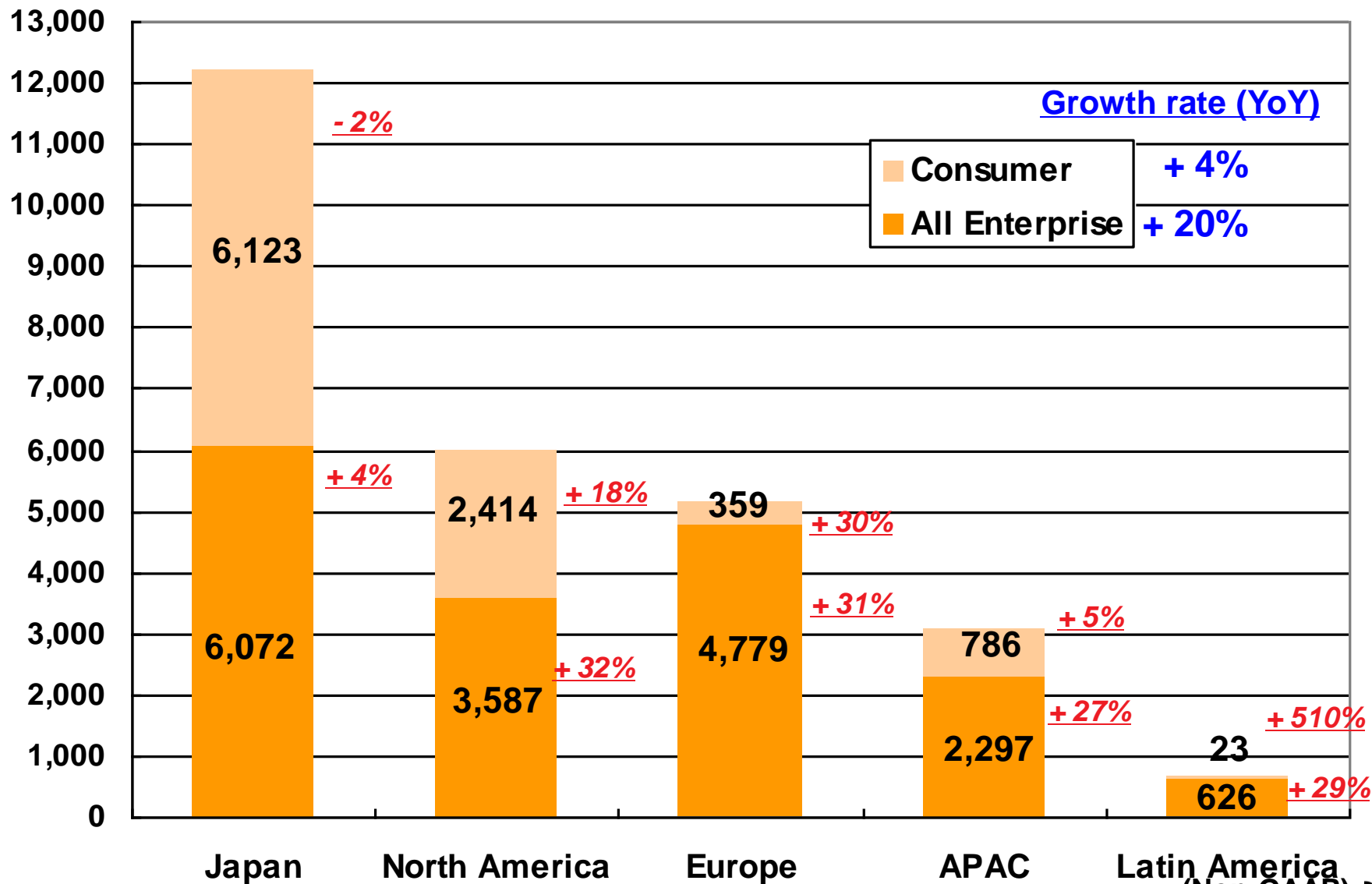
(YoY)



*• Each growth rate shown above is based on applying to each quarter the same currency rate as the previous year for the same period*

# Sales by Segment

(in million Yen)



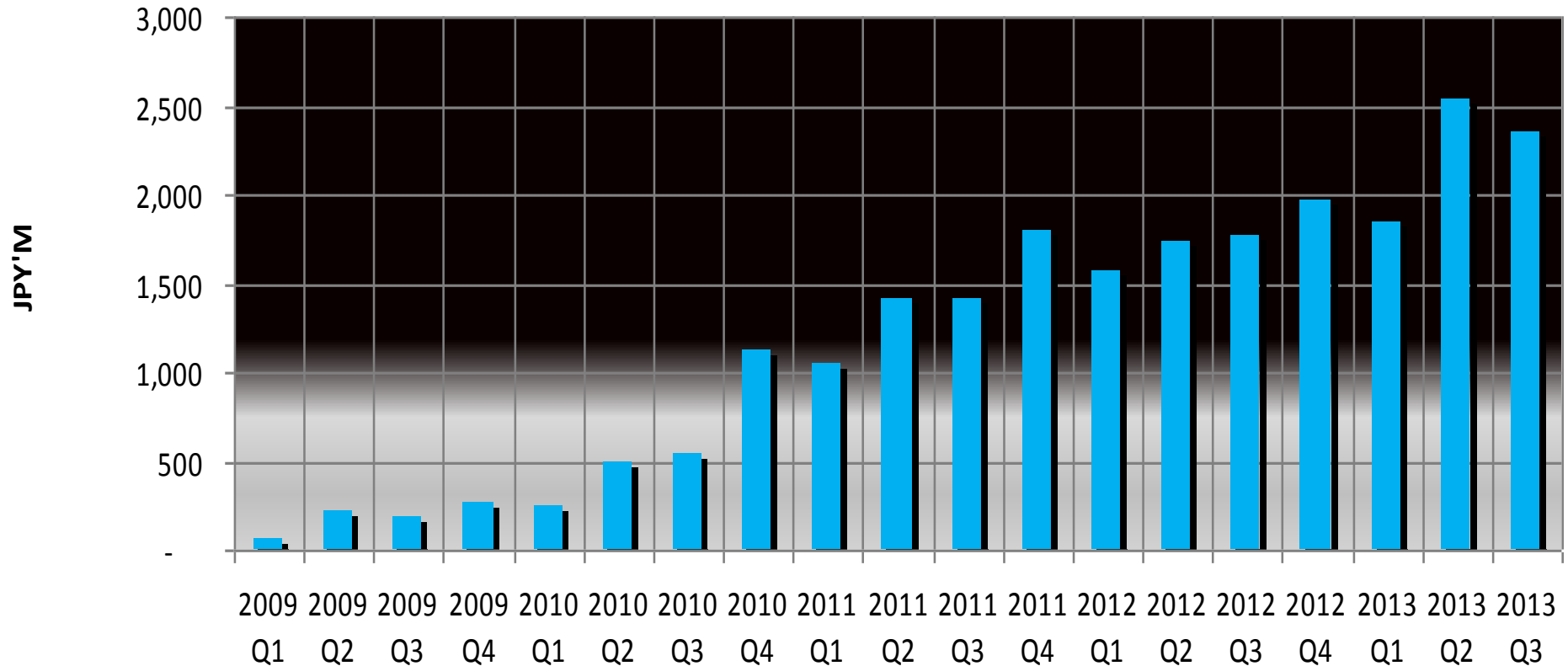
**“Notice”** As Sales by Segment numbers are just for internal use, they may be subject to some changes hereafter.



# “Cloud related” Gross sales

## Revenue

Deep Security / Hosted / CPVM / IDF



(Non-GAAP)

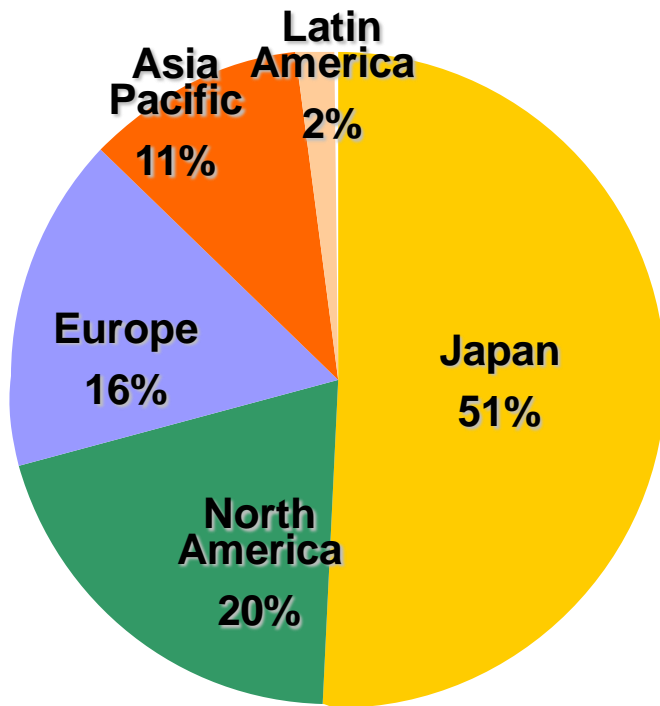
**“Notice” As above numbers are just for internal use, they may be subject to some changes hereafter.**



# % share by region

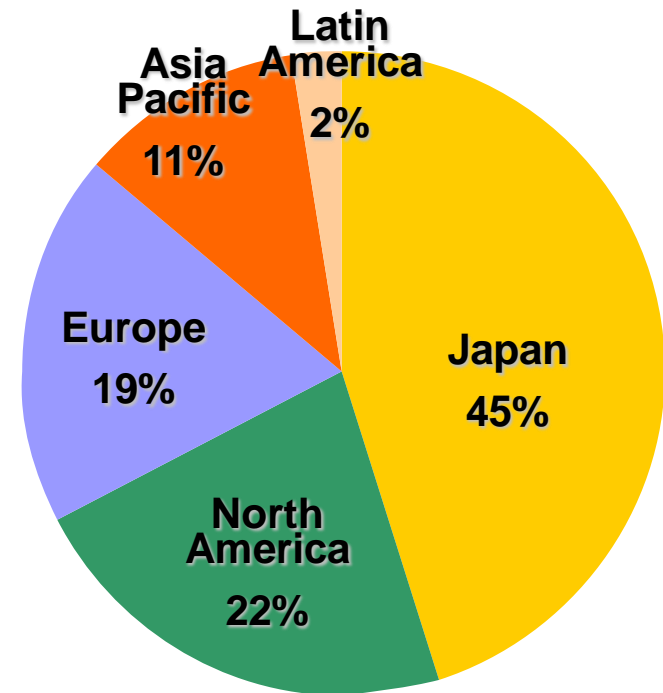
**3Q2012**

**23,836 million Yen**



**3Q2013**

**27,069 million Yen**



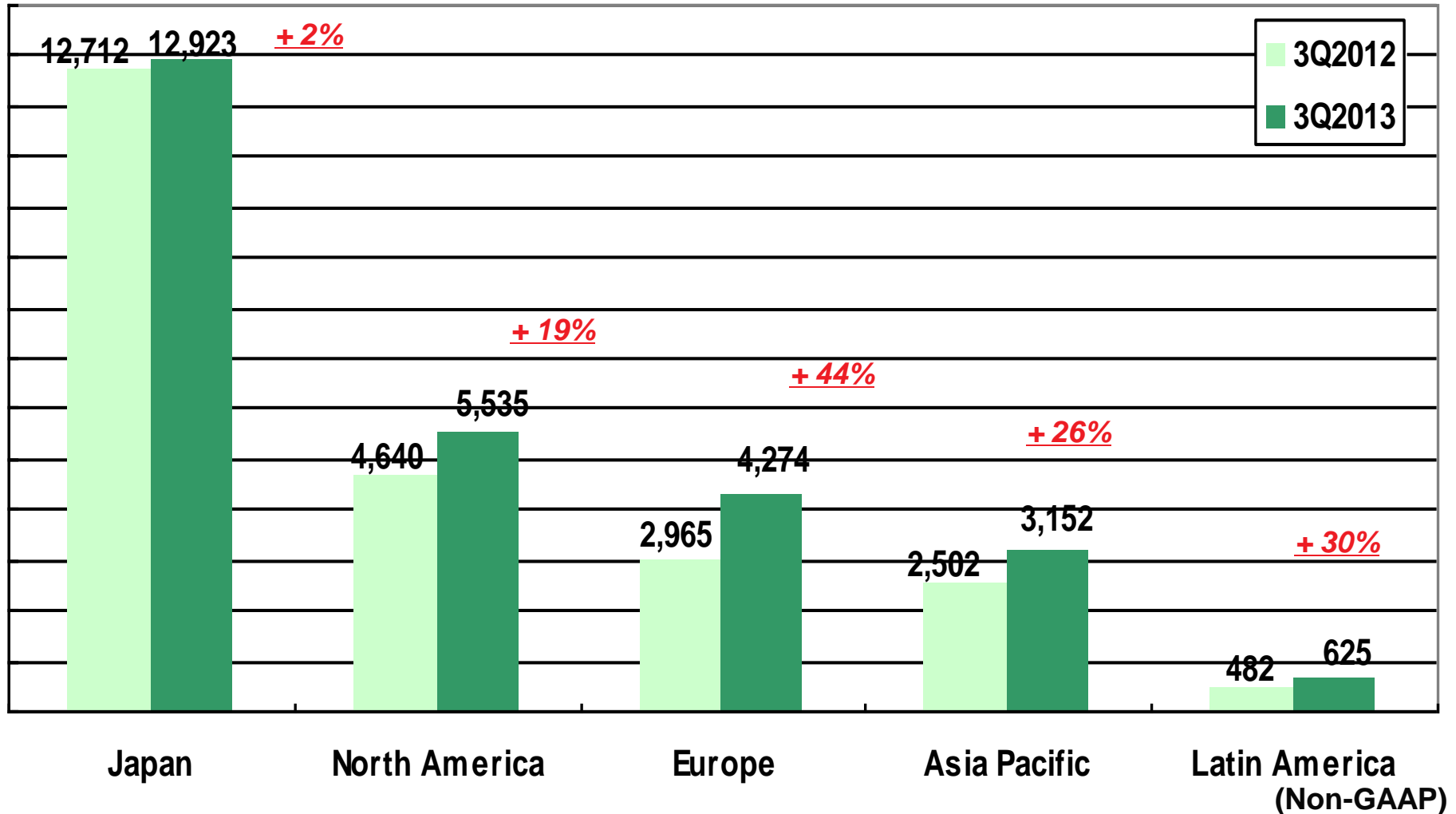
(In accordance with Japan GAAP)

# “For reference”

## Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



### “Notice”

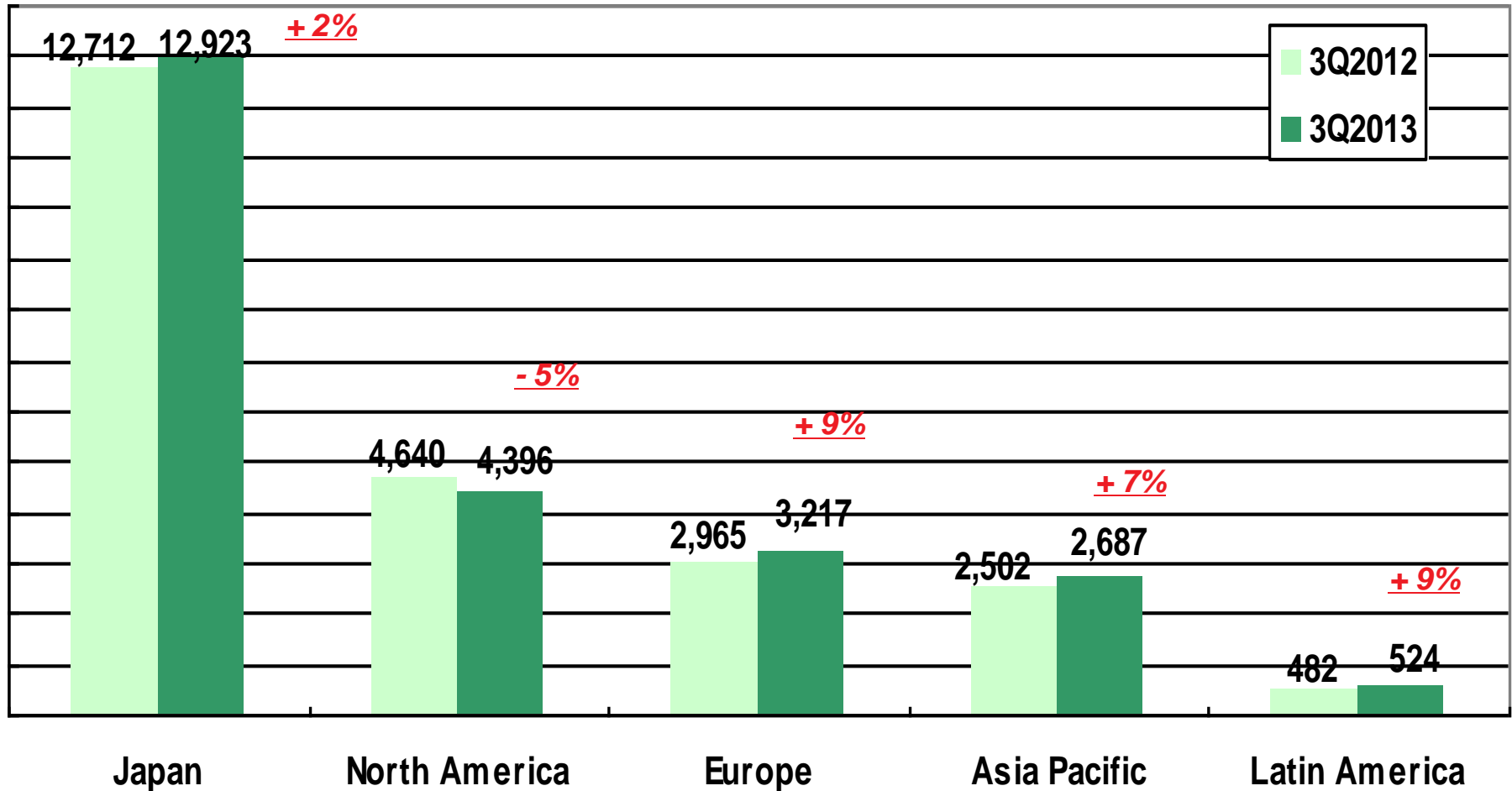
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
As these numbers are just for internal use, they may be subject to some changes hereafter.

# “For reference”

## Pre-GAAP (Revenue before adjusting Deferred revenue)

If currency exchange rates used for 3Q2012 were used for 3Q2013: (unaudited)

(in million Yen)



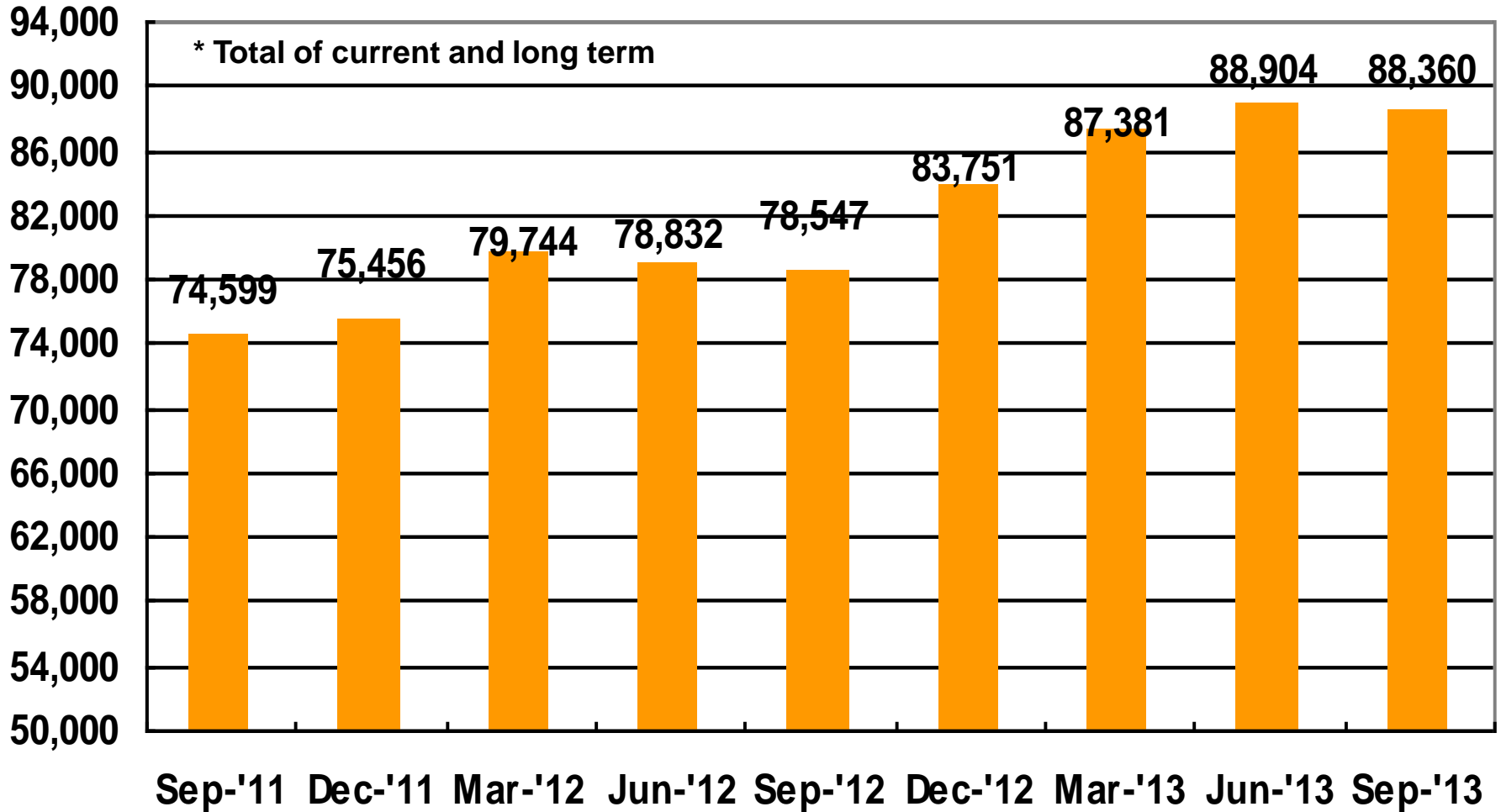
### “Notice”

Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
As these numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

# Deferred Revenue

(in million Yen)

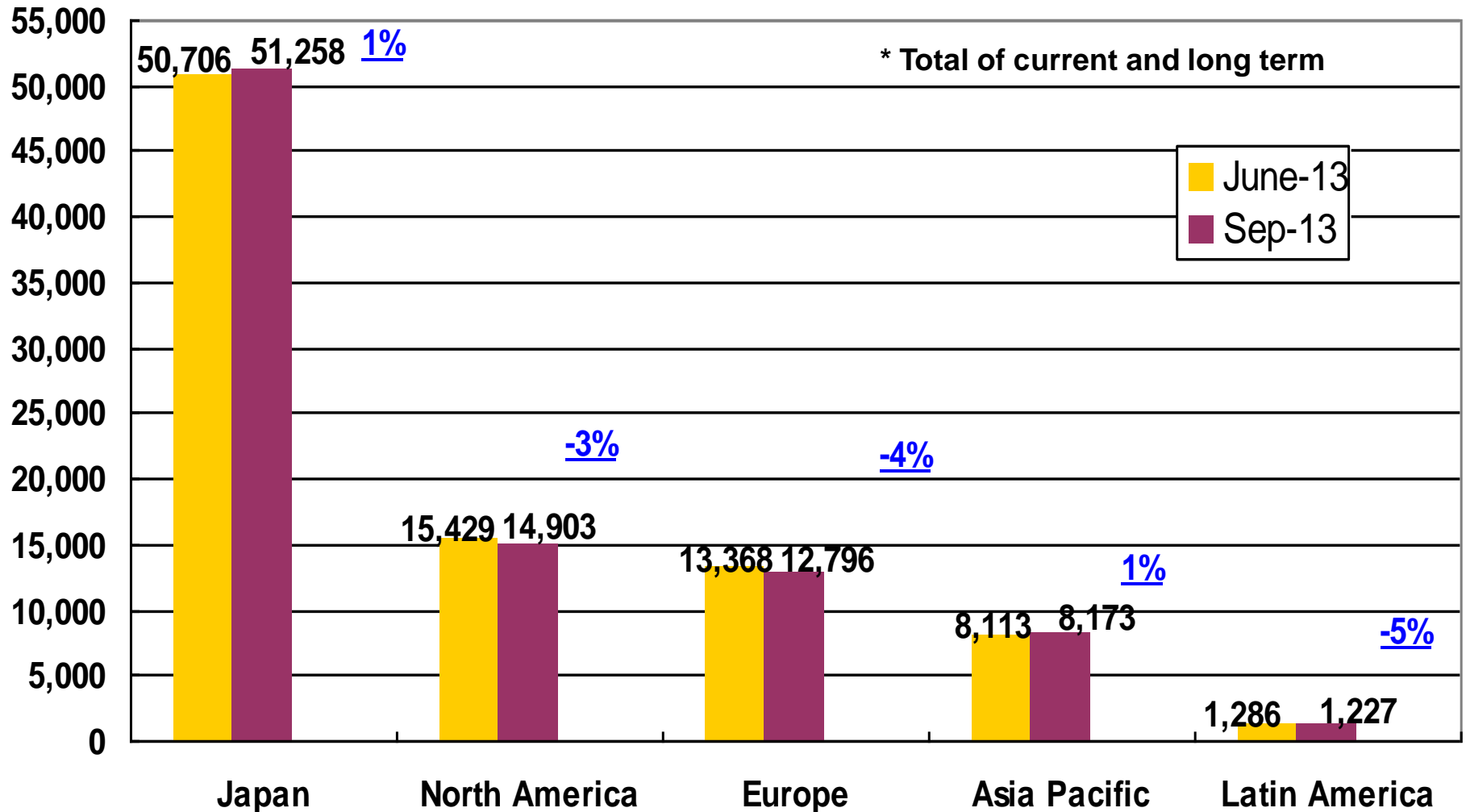


(In accordance with Japan GAAP)

# Deferred Revenue by Region

(in million Yen)

(unaudited)



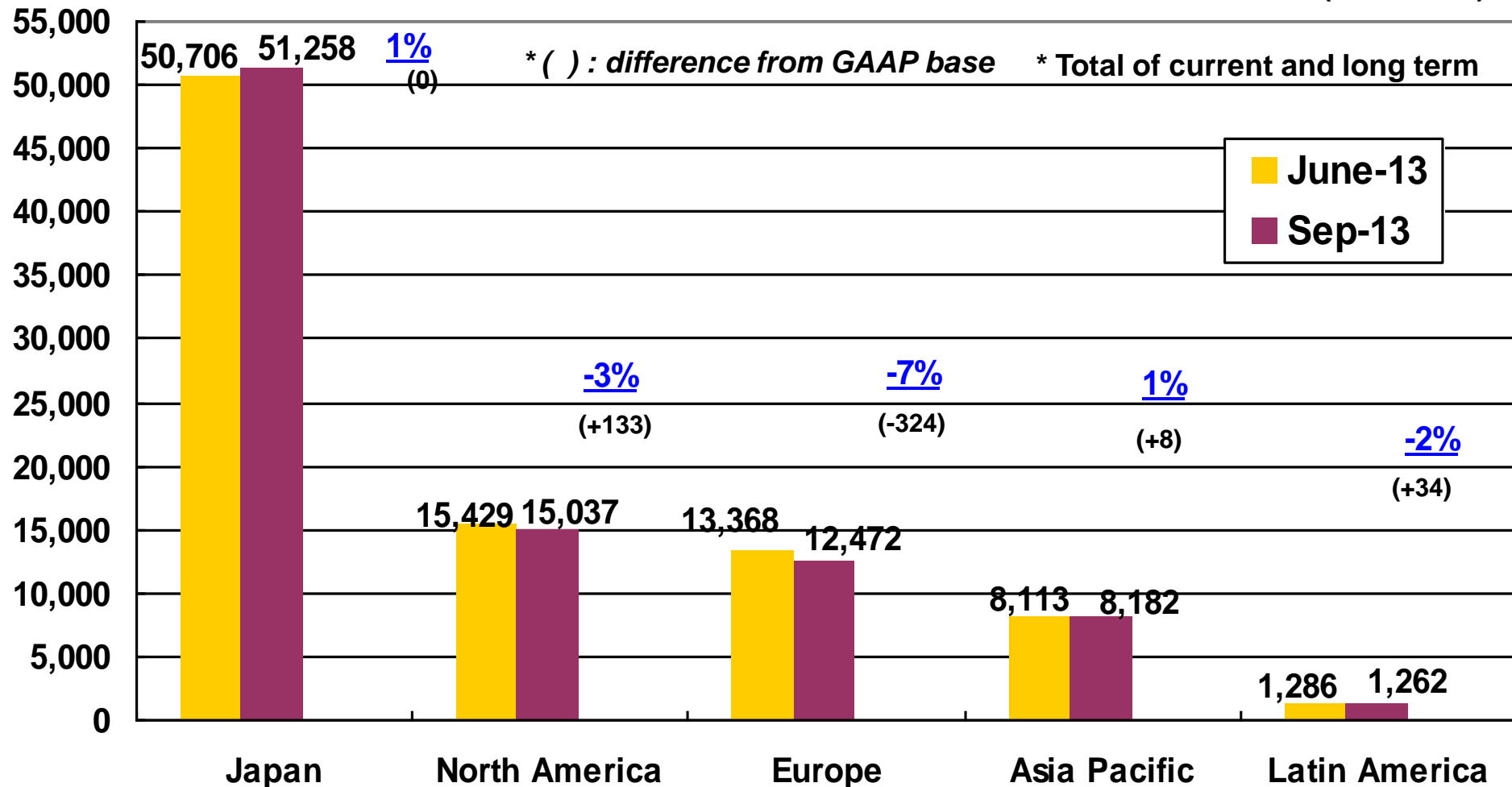
(In accordance with Japan GAAP)

# Deferred Revenue by Region

*If currency exchange rates used as of the end of 2Q2013 were used as of the end of 3Q2013:*

(in million Yen)

(unaudited)



(Non-GAAP)

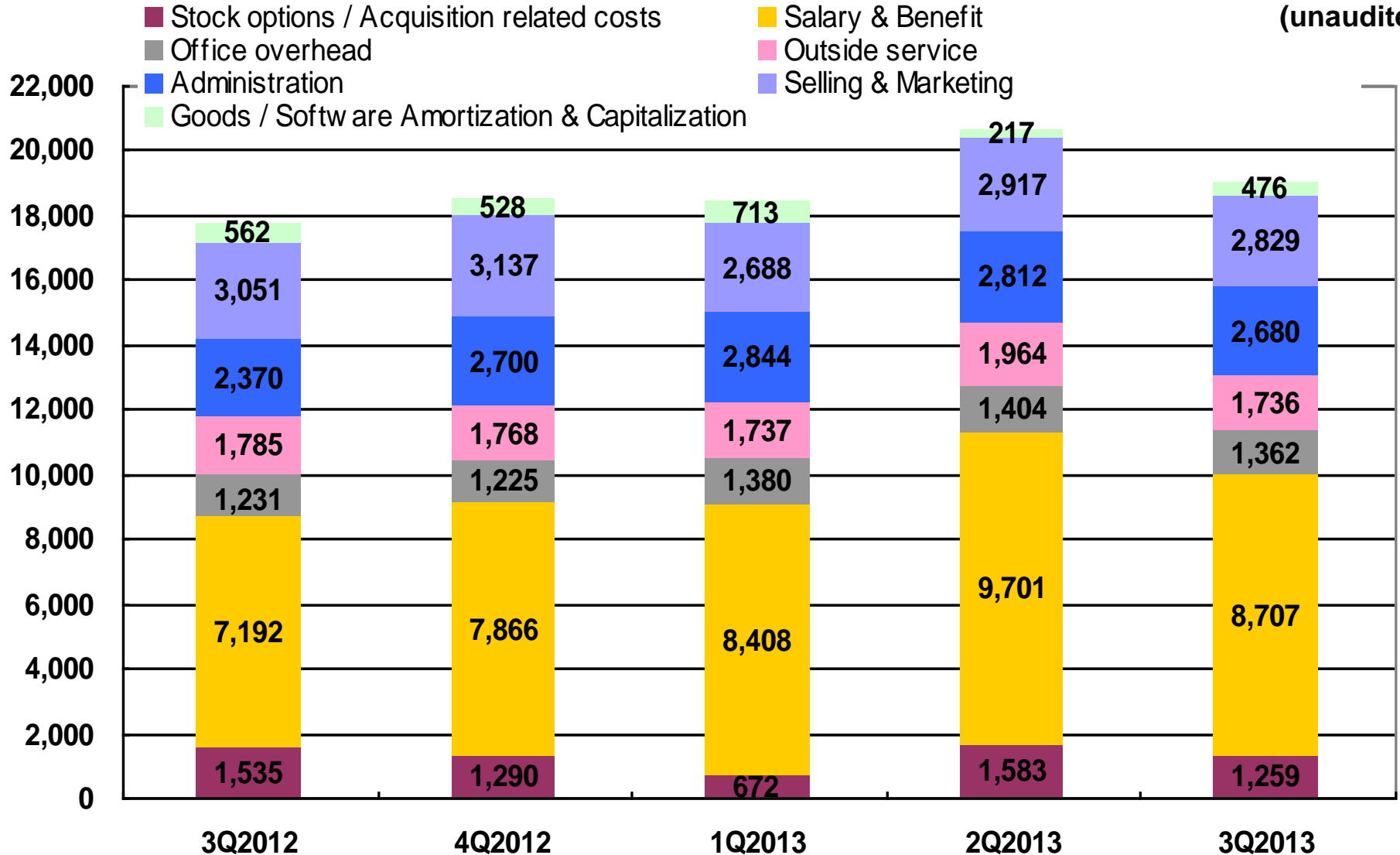
\* Each JPY amount as of the end of 3Q2013 shown above has been calculated by applying to the relevant foreign currency deferred revenue amount as of the end of 3Q2013 the exchange rate between such foreign currency and JPY that was used to convert the deferred revenue amount denominated in such foreign currency as of the end of 2Q2013 into a JPY deferred revenue amount for Japan GAAP reporting purposes.

END  
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# Cost

(unaudited)

(in million Yen)



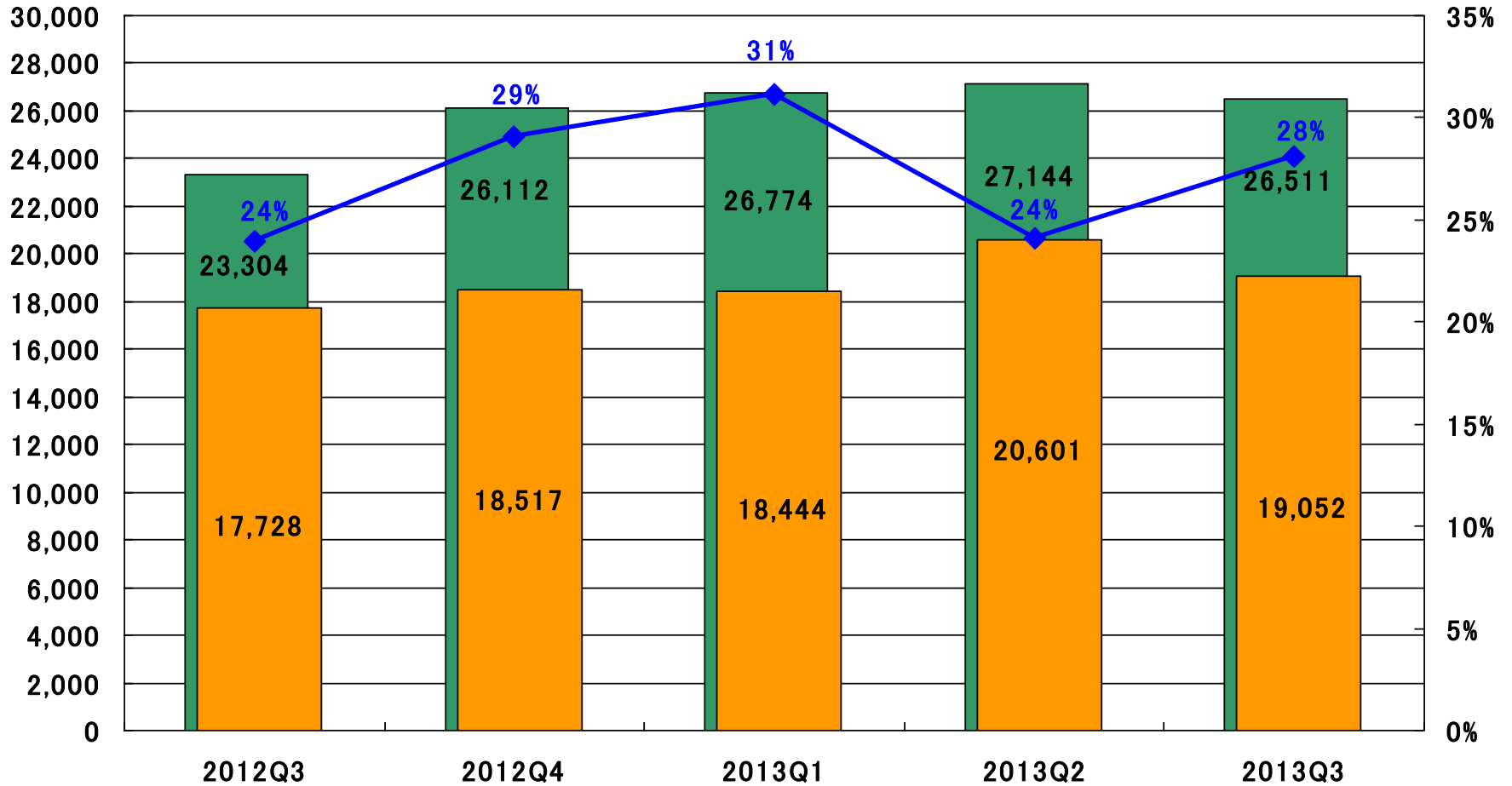
(Non-GAAP)



# Pre-GAAP v s Total Costs

(unaudited)

(in million Yen)



(Non-GAAP)

\* "Total costs" means COGS + SGA.



# Cash flows

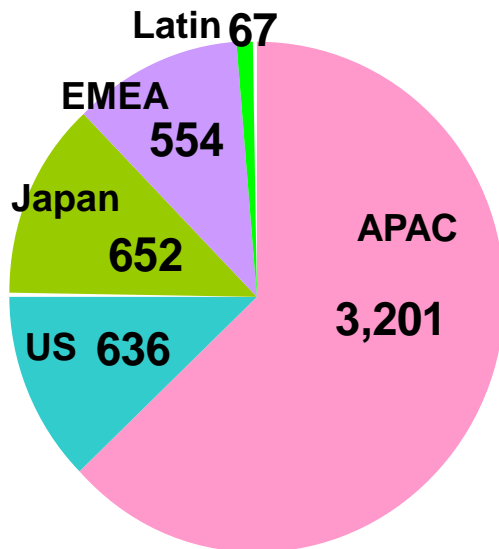
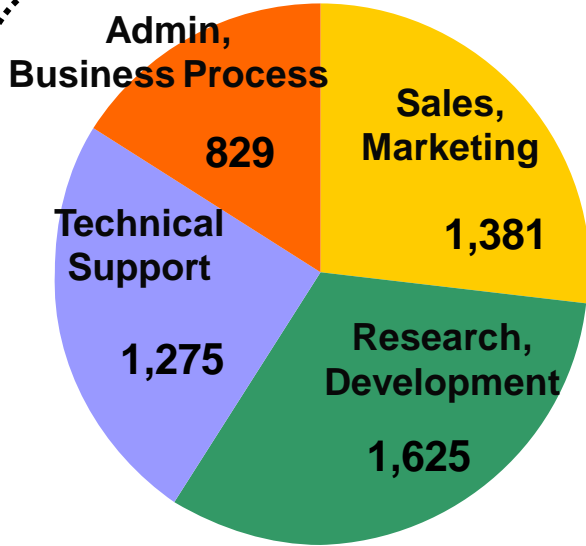
(unaudited)  
(in million Yen)

項目	3Q2012	3Q2013	YoY growth
Cash flows from operating activities	4,398	4,627	+ 5%
Cash flows from investing activities	- 15,744	- 4,650	—
Cash flows from financing activities	- 168	3,662	—
Effect of exchange rate changes on cash and cash equivalents	58	99	+ 70%
Net increase (decrease) in cash and cash equivalents	- 11,455	3,739	—
Cash and cash equivalents at beginning of this quarter period	67,061	61,109	- 9%
Cash and cash equivalents at end of this quarter period	55,606	64,848	+ 17%

# Headcount

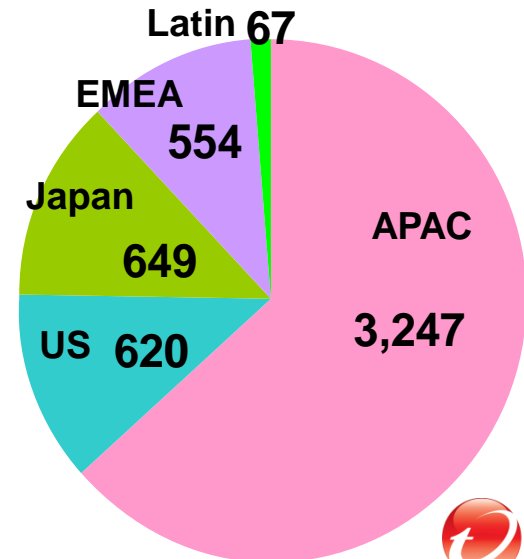
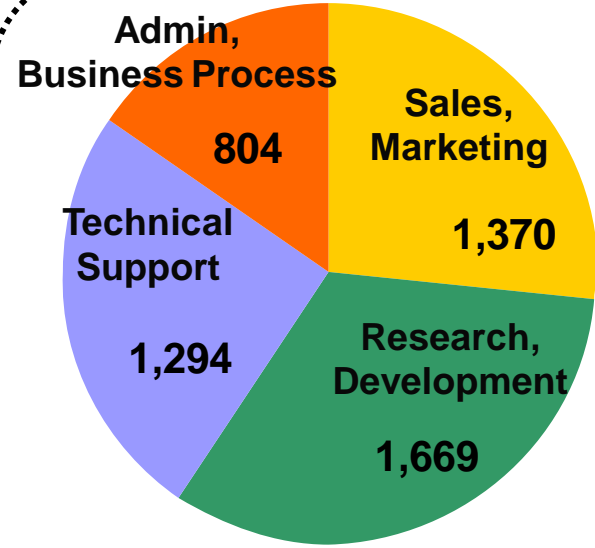
Jun - 2013

5,110



Sep - 2013

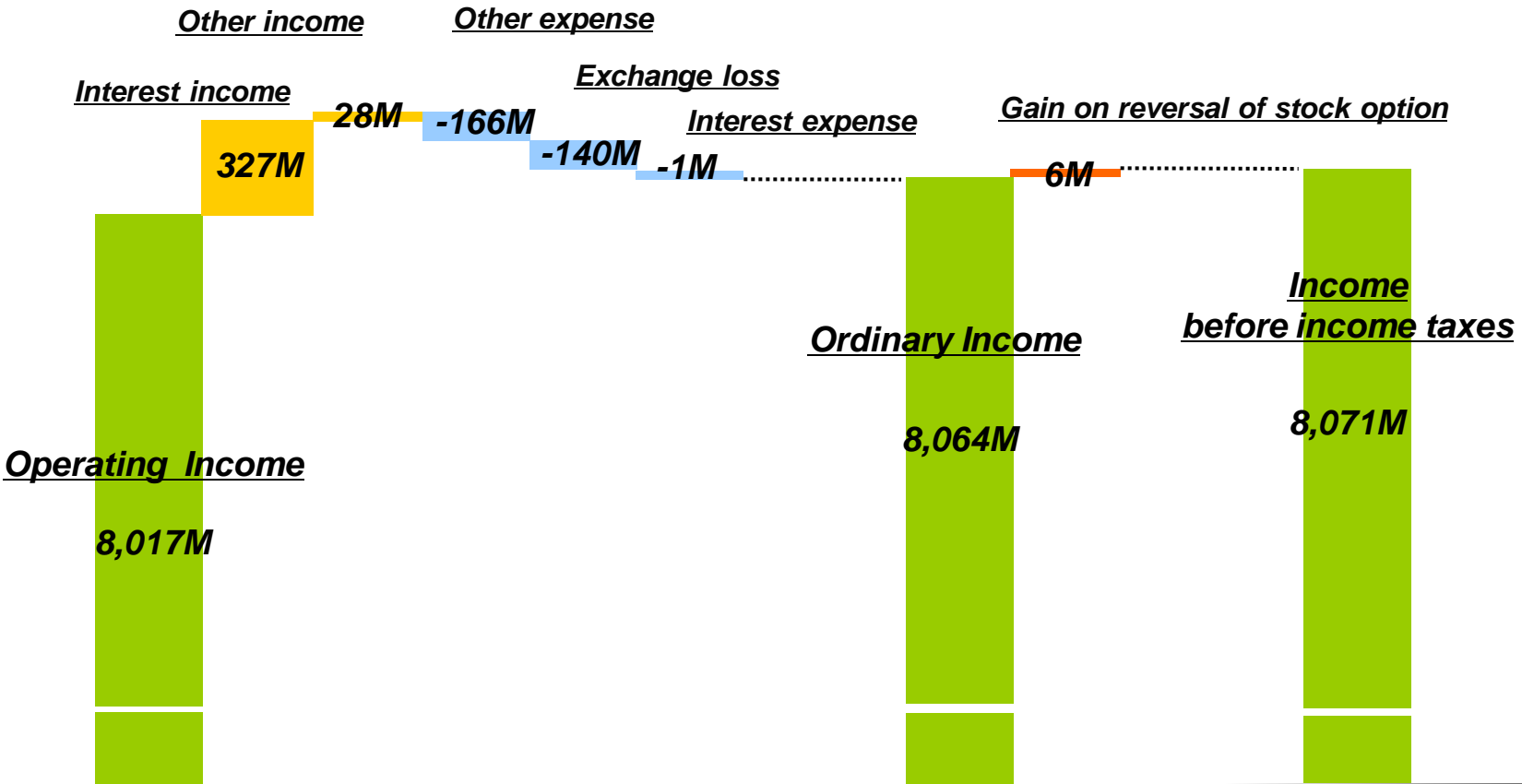
5,137



+ 27  
(+ 1%)

# Non-operating & Extra-ordinary Items

(unaudited)



(Non-GAAP)



# Balance Sheet

(unaudited)

(in million Yen)

	<i>Jun-2013</i>	<i>change</i>	<i>Sep-2013</i>
<b><u>Assets</u></b>			
<i>Cash &amp; cash equivalents</i>	65,793	+ 4,210	70,003
<i>Account receivable (less allowance for doubtful accounts)</i>	21,110	- 320	20,790
<i>Marketable securities &amp; Securities investments</i>	104,963	+ 2,701	107,664
<b><u>Liabilities</u></b>			
<i>Deferred revenue (total of current and long-term)</i>	88,904	- 544	88,360
<b><u>Shareholders' Equity</u></b>			
<i>Common Stock &amp; Additional paid in capital</i>	39,812	+ 254	40,066
<i>Treasury Stock</i>	- 22,429	+ 4,380	- 18,049

(In accordance with Japan GAAP)



# ***Q3Highlights***

- ***Recovery in European Enterprise business***
- ***Improvement in operating margin***

# **Q3 Lowlights**

- ***Consumer business remains weak, especially in the US***
- ***Pricing pressure on traditional products continues***
- ***Sales cycle for strategic products remains long***

# ***FY2013 9months Financial Highlight***

**(January ~ September, 2013)**

# Consolidated Results (9 months)

Nine months ended Sep 30,					(in million Yen)
	2012(Q1-Q3)	(Progress vs. last year's annual result)	2013(Q1-Q3)	YoY growth	(Progress vs. current year's annual forecast)
Net sales	69,526	(74%)	79,885	+ 15%	(75%)
Cost of sales	12,936		14,736	+ 14%	
Operating expenses	39,977		43,362	+ 8%	
Operating income (Margin)	16,611 (24%)	(74%)	21,786 (27%)	+ 31%	(83%)
Ordinary income	17,081	(75%)	23,742	+ 39%	(84%)
Net income	10,766	(80%)	14,938	+ 39%	(87%)

(In accordance with Japan GAAP)

**“For reference” Revenue before adjusting deferred revenue**

Pre-GAAP	72,465	80,430	+ 11%
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( In case of excluding a foreign exchange impact )

+ 1%

(Non-GAAP)

**If currency exchange rates used for 2012(Q1-Q3) were used for 2013(Q1-Q3)**

Net sales	69,526	71,921	+ 3%
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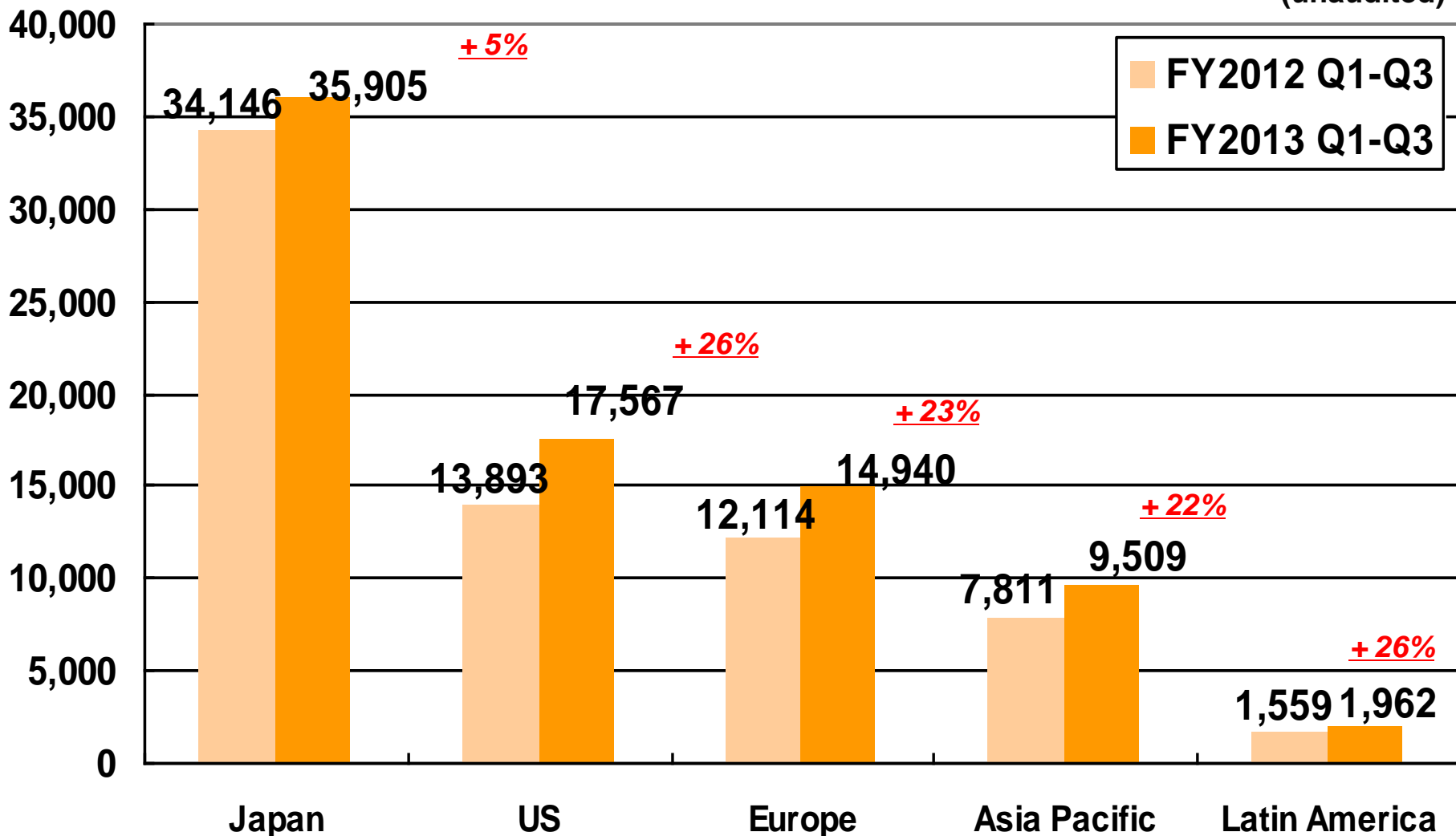
\* The JPY amount for 2013(Q1-Q3) shown above has been calculated by applying to each foreign currency net sales amount for 2013(Q1-Q3) the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 2012(Q1-Q3) into a JPY net sales amount for Japan GAAP reporting purposes.

END  
(Non-GAAP)

# Net Sales Growth by Region

(in million Yen)

(unaudited)



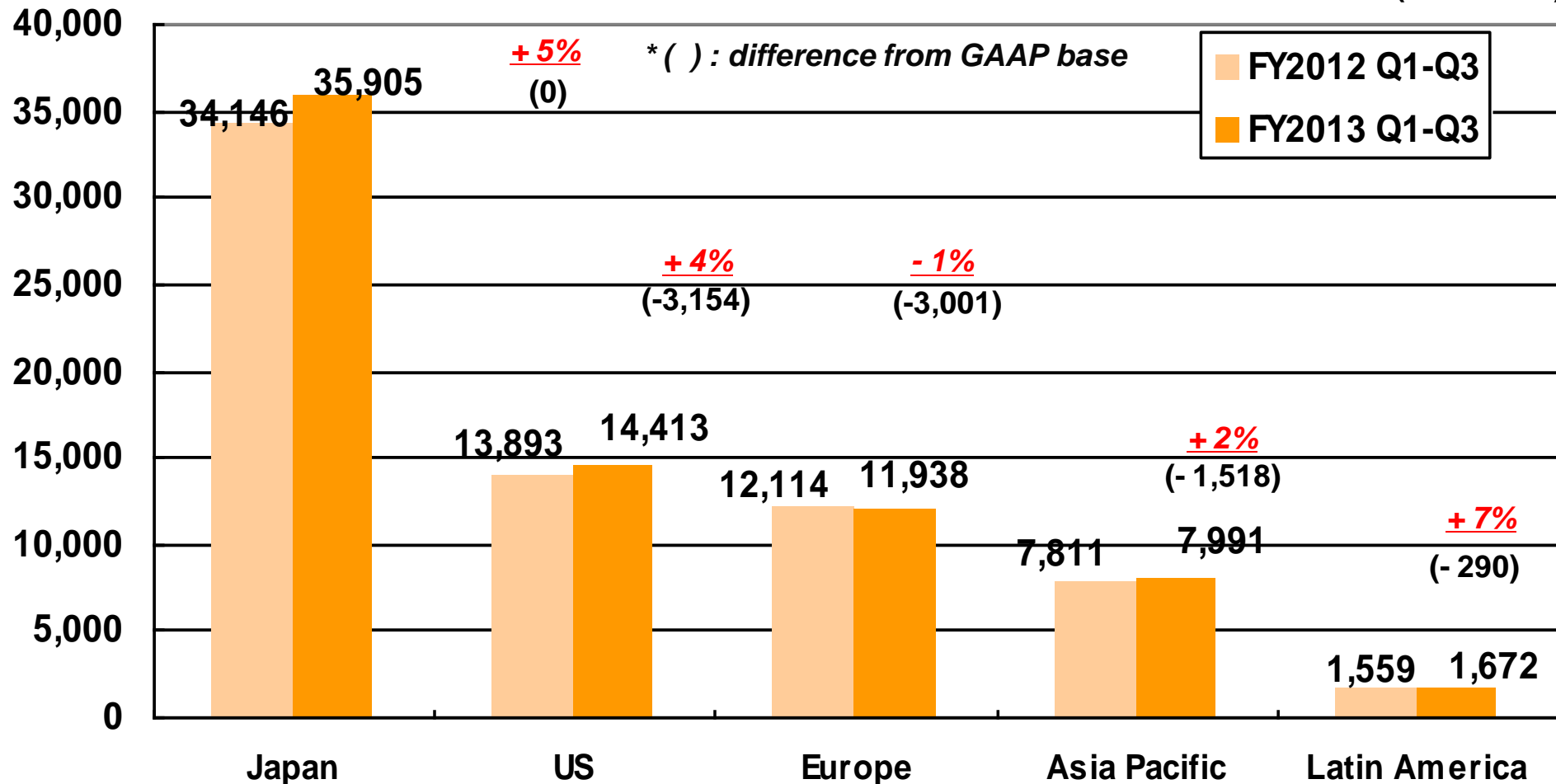
(In accordance with Japan GAAP)

# Net Sales Growth by Region

If currency exchange rates used for 2012 (Q1-Q3) were used for 2013 (Q1-Q3):

(in million Yen)

(unaudited)



(Non-GAAP)

\* Each JPY amount for 2013(Q1-Q3) shown above has been calculated by applying to the relevant foreign currency net sales amount for 2013(Q1-Q3) the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 2012(Q1-Q3) into a JPY net sales amount for Japan GAAP reporting purposes.

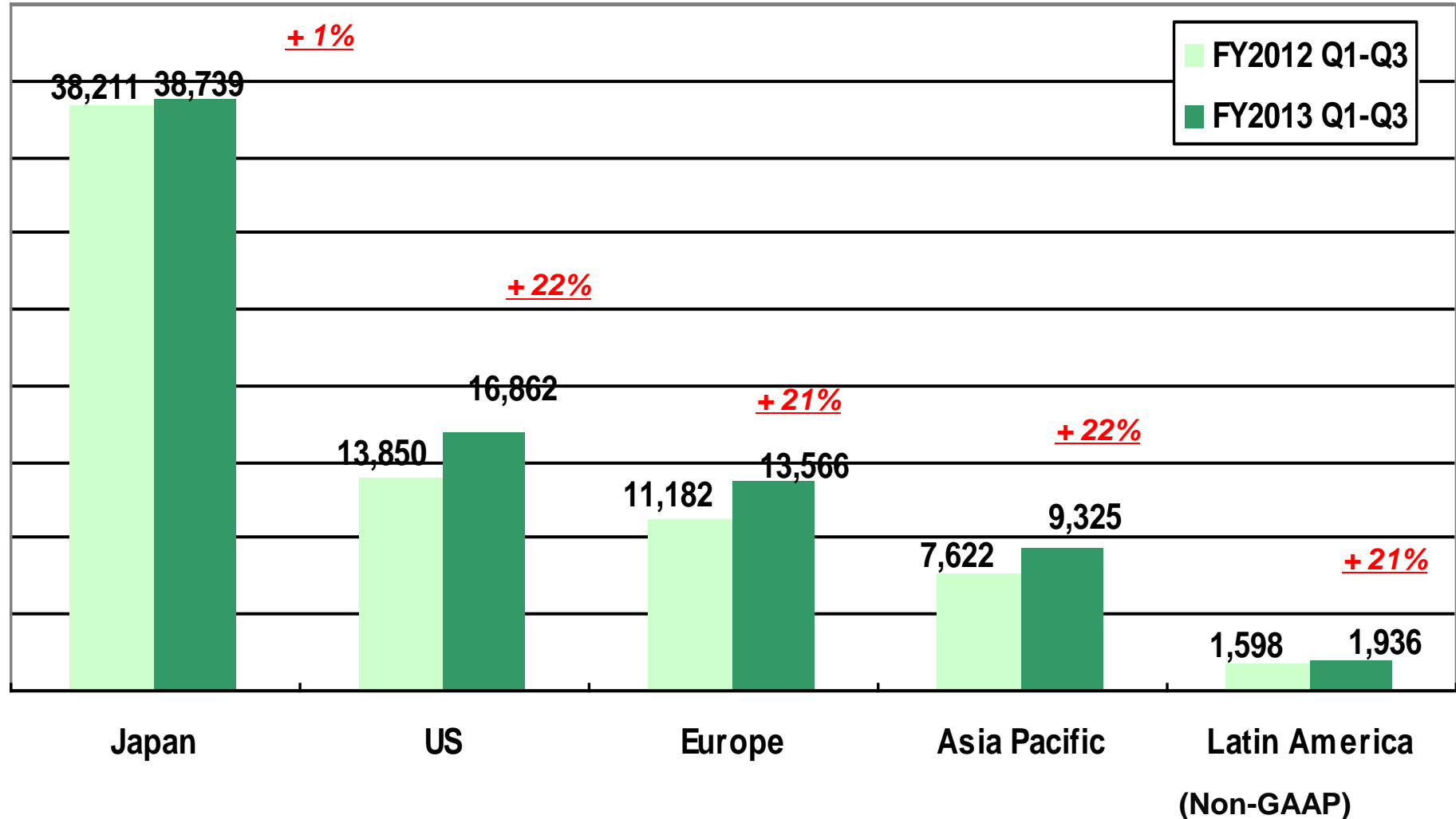
END  
CRO™

**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



**“Notice”**

**Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance. As these numbers are just for internal use, they may be subject to some changes hereafter.**

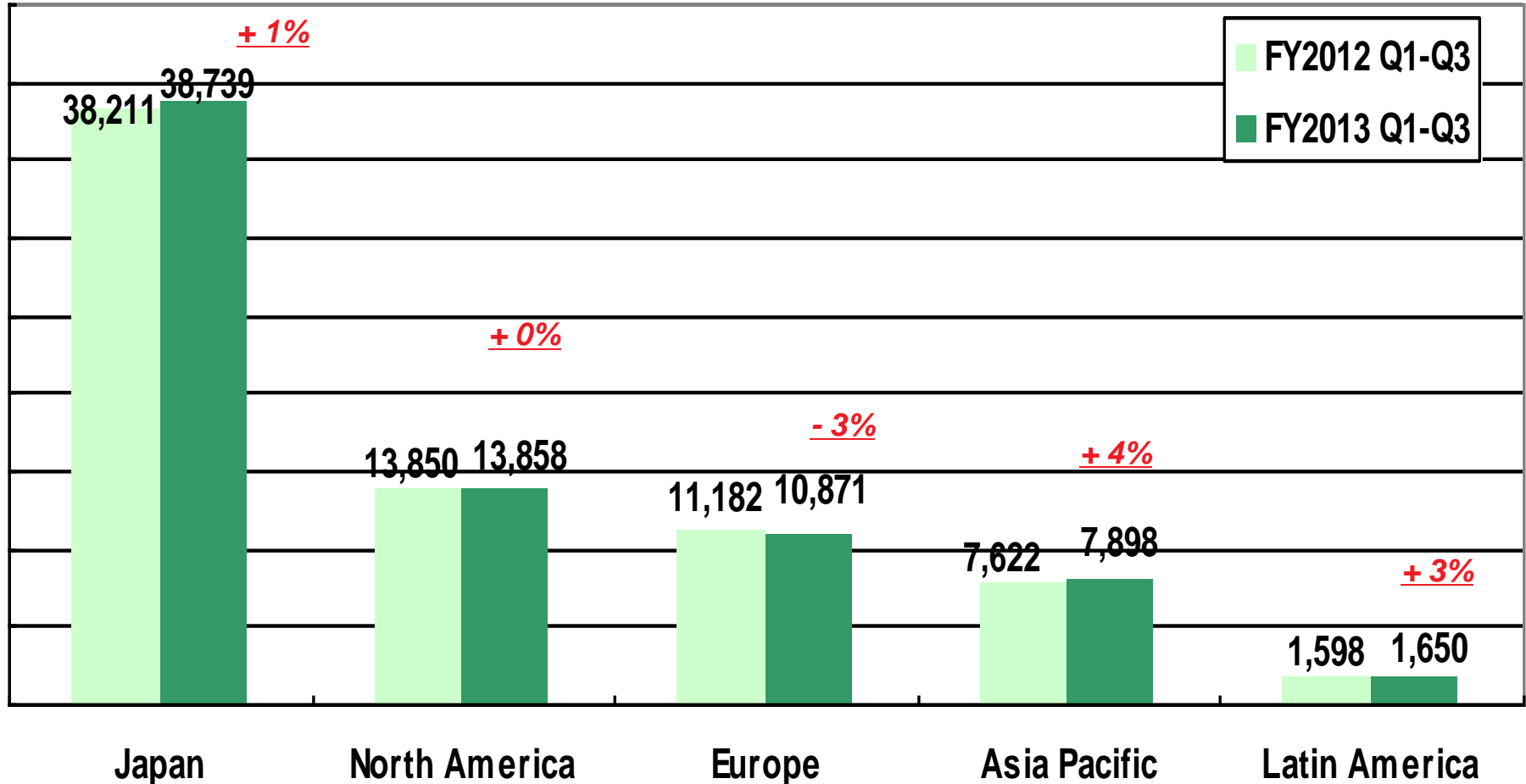
# “For reference”

## Pre-GAAP (Revenue before adjusting Deferred revenue)

If currency exchange rates used for 2012(Q1-Q3) were used for 2013(Q1-Q3):

(in million Yen)

(unaudited)



### “Notice”

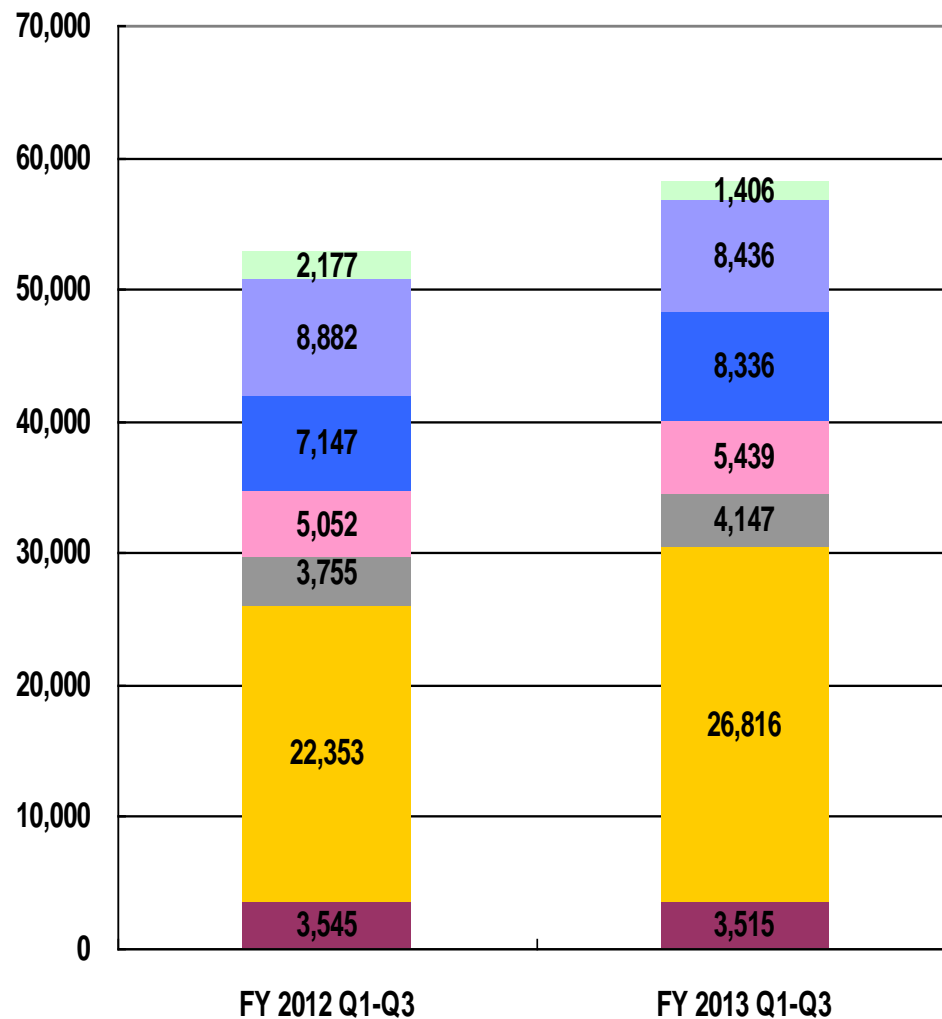
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
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(Non-GAAP)

REN  
TICRO

# FY2013 Cost (9 months)

(in million Yen)



Goods / Software & Capitalization

YoY Growth

- 35%

Selling & Marketing

- 5%

Administration

+ 17%

Outside service

+ 8%

Office overhead

+ 10%

Salary & Benefit

+ 20%

Stock option & Acquisition related costs

- 1%

**Total**

**+ 10%**

**Headcount**

**+ 1%**

(unaudited)

(Non-GAAP)



# Projection for FY2013 Annual **(Unchanged)**

(unaudited)

	<u>For FY2013</u> <u>Jan - Dec, 2013</u>	<u>Expected</u> <u>YoY growth</u>	(in million Yen)
Net Sales	107,200	<u>+ 14%</u>	
Operating Income	26,400	<u>+ 18%</u>	
Ordinary Income	28,100	<u>+ 24%</u>	
Net Income	17,100	<u>+ 27%</u>	

(In accordance with Japan GAAP)

*In case of excluding a foreign exchange impact (a rule of thumb)*

Net Sales	<u>+ 3%</u>	(Non-GAAP)
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**Thank You**

# Appendix

(unaudited)

## Quarterly Chart (1)

(in million Yen)

	FY2012				FY2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net sales</b>	22,630	23,058	23,836	24,313	25,783	27,032	27,069	
<b>Cost of sales</b>	4,058	4,488	4,390	4,574	5,048	4,796	4,890	
<b>Operating expenses</b>	13,003	13,636	13,337	13,943	13,396	15,804	14,161	
<b>Operating income</b>	5,568	4,934	6,108	5,795	7,338	6,430	8,017	
<b>Ordinary income</b>	5,804	5,043	6,233	5,579	7,646	8,031	8,064	
<b>Net income</b>	3,283	3,285	4,196	2,680	4,820	4,754	5,363	
<b>(Costs)</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>Goods / Software Amortization &amp; Capitalization</b>	610	1,004	562	528	713	217	476	
<b>Selling &amp; Marketing</b>	2,779	3,051	3,051	3,137	2,688	2,917	2,829	
<b>Administration</b>	2,428	2,348	2,370	2,700	2,844	2,812	2,680	
<b>Outside service</b>	1,559	1,708	1,785	1,768	1,737	1,964	1,736	
<b>Office overhead</b>	1,237	1,285	1,231	1,225	1,380	1,404	1,362	
<b>Salary &amp; Benefit</b>	7,464	7,697	7,192	7,866	8,408	9,701	8,707	
<b>Stock option cost</b>	625	688	1,191	952	429	1,330	1,008	
<b>Acquisition related costs</b>	356	340	344	337	242	252	250	
<b>Total</b>	17,061	18,124	17,728	18,517	18,444	20,601	19,052	
<b>The number of employees</b>	4,913	5,017	5,080	5,137	5,094	5,110	5,137	
<b>Applied rate to yen (US\$)</b>	79.43	80.10	78.62	81.33	92.47	98.75	98.96	
<b>Applied rate to yen (Euro)</b>	103.96	102.79	98.40	105.60	121.89	128.91	131.09	

# Appendix

## Quarterly Chart (2)

(unaudited)

(in million Yen)

	FY2012				FY2012			
(Sales by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	10,874	11,162	12,109	11,656	11,742	11,966	12,196	
US	4,369	4,758	4,765	4,975	5,480	6,085	6,001	
Europe	4,193	4,003	3,916	4,282	4,779	5,022	5,138	
Asia Pacific	2,615	2,640	2,555	2,864	3,143	3,282	3,083	
Latin America	577	493	489	534	637	675	649	
<b>Total</b>	<b>22,630</b>	<b>23,058</b>	<b>23,836</b>	<b>24,313</b>	<b>25,783</b>	<b>27,032</b>	<b>27,069</b>	
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	15,025	14,280	14,483	15,135	16,383	17,040	17,362	
Consumer	7,605	8,777	9,353	9,177	9,400	9,991	9,706	
<b>Total</b>	<b>22,630</b>	<b>23,058</b>	<b>23,836</b>	<b>24,313</b>	<b>25,783</b>	<b>27,032</b>	<b>27,069</b>	
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	12,628	12,870	12,712	11,893	13,004	12,811	12,923	
US	4,981	4,228	4,640	5,045	5,694	5,632	5,535	
Europe	4,013	4,203	2,965	5,591	4,434	4,857	4,274	
Asia Pacific	2,488	2,630	2,502	2,994	3,016	3,157	3,152	
Latin America	618	497	482	587	625	685	625	
<b>Total</b>	<b>24,730</b>	<b>24,430</b>	<b>23,304</b>	<b>26,112</b>	<b>26,774</b>	<b>27,144</b>	<b>26,511</b>	

### **“Notice”**

**Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
As these numbers are just for internal use, they may be subject to some changes hereafter.**