

# Trend Micro FY2014.1Q Results



**Mahendra Negi CFO, Representative Director**

**May 13, 2014**

# ***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.**

# ***FY2014. 1Q Financial Highlight***

**(First quarter ended March 31, 2014)**

# Q1 Consolidated Results

(in million Yen)

<i>Three months ended Mar 31,</i>	<b>1Q2013</b>	<b>1Q2014</b>	<b>YoY growth</b>
<b>Net sales</b>	<b>25,783</b>	<b>27,517</b>	<b>+ 7%</b>
<b>Cost of sales</b>	<b>5,048</b>	<b>4,622</b>	<b>- 8%</b>
<b>Operating expenses</b>	<b>13,396</b>	<b>13,958</b>	<b>+ 4%</b>
<b>Operating income (Margin)</b>	<b>7,338 (28%)</b>	<b>8,937 (32%)</b>	<b>+ 22%</b>
<b>Ordinary income</b>	<b>7,646</b>	<b>9,686</b>	<b>+ 27%</b>
<b>Net income</b>	<b>4,820</b>	<b>6,038</b>	<b>+ 25%</b>

*“For reference” Revenue before adjusting deferred revenue*

<b>Pre-GAAP</b>	<b>26,774</b>	<b>29,567</b>	<b>+ 10%</b>
	<i>( In case of excluding a foreign exchange impact )</i>		<b>+ 6%</b>
			<b>(Non-GAAP)</b>

*If currency exchange rates used for 1Q2013 were used for 1Q2014*

<b>Net sales</b>	<b>25,783</b>	<b>26,109</b>	<b>+ 1%</b>
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*\* The JPY amount for 1Q2014 shown above has been calculated by applying to each foreign currency net sales amount for 1Q2014 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 1Q2013 into a JPY net sales amount for Japan GAAP reporting purposes.*

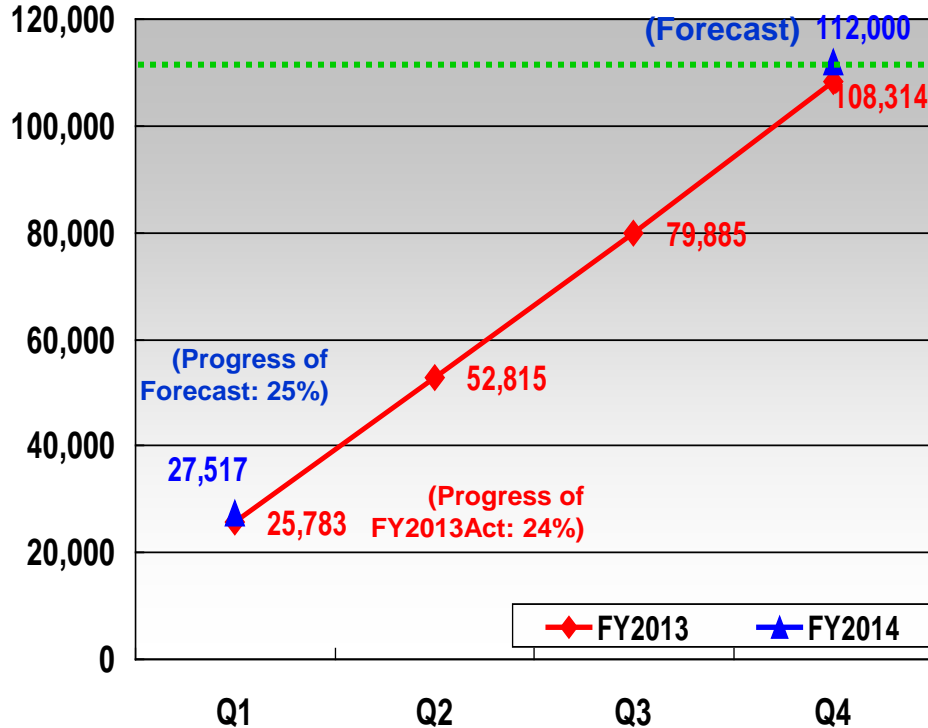
**(Non-GAAP)**

ND  
30

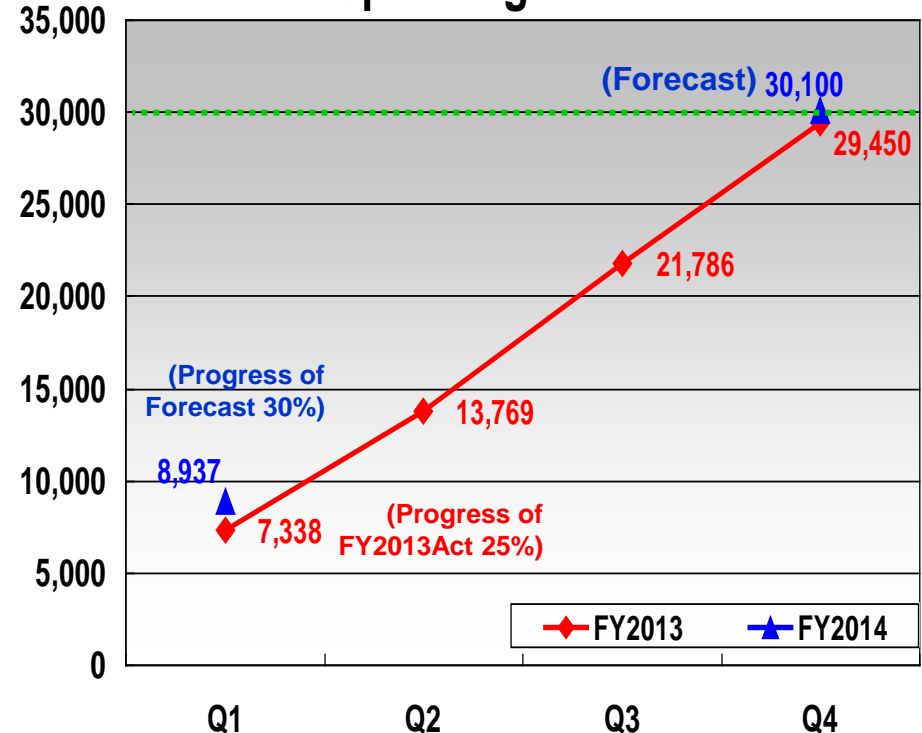
# Progress (3 months)

(in million Yen)

## Revenue



## Operating Income



# Q1 USD based Results (Non-GAAP)

(unaudited)

<i>Three months ended Mar 31,</i>	<i>1Q2013</i>	<i>1Q2014</i>	<i>(in thousand USD) YoY change</i>
Net sales	278,829	267,755	- 4%
Cost of sales	54,594	44,975	- 18%
Operating expenses	144,872	135,818	- 6%
Operating income	79,362	86,961	+ 10%
Ordinary income	82,694	94,250	+ 14%
Net Income	52,130	58,753	+ 13%

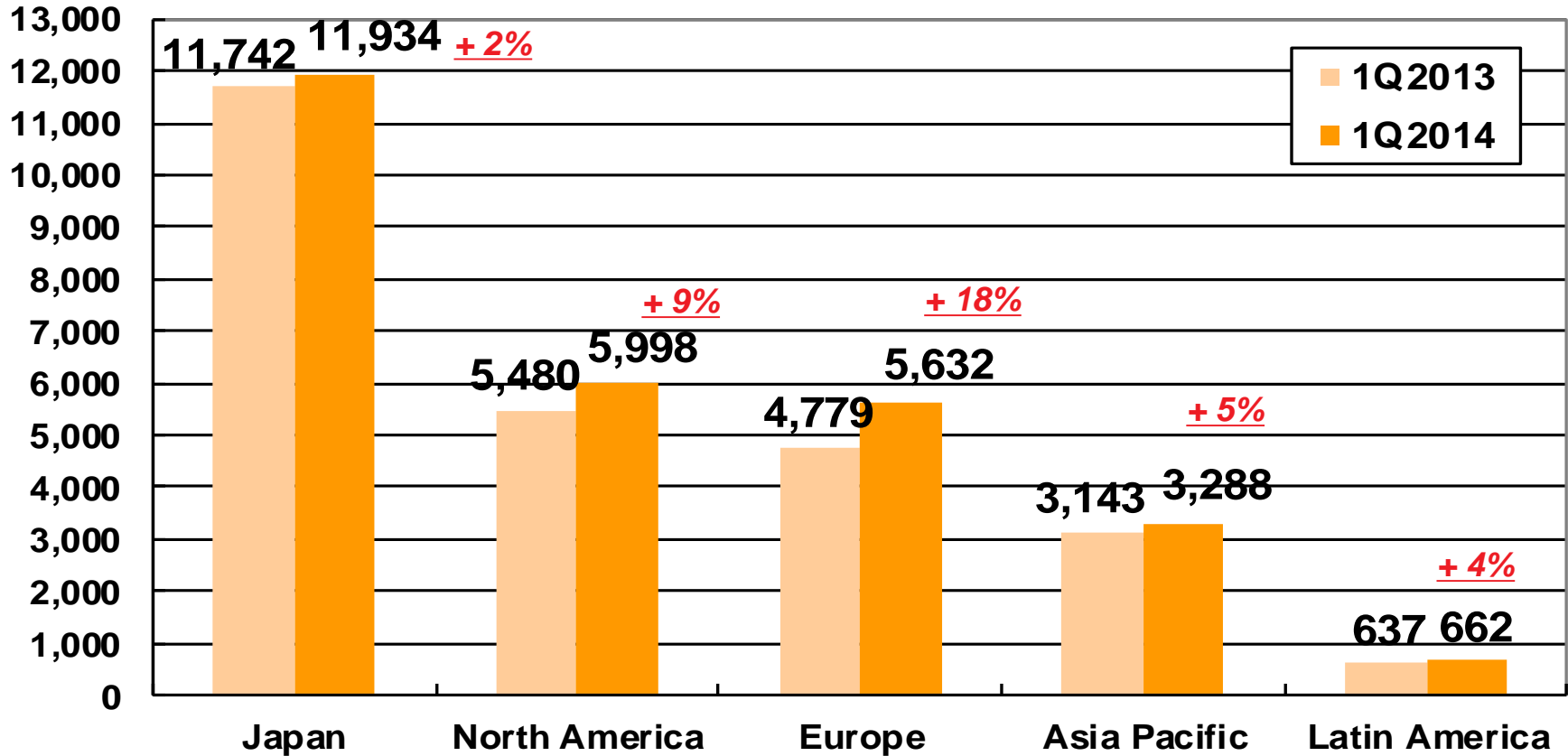
(Non-GAAP)

*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=92.47 JPY for 1Q2013 and 1 USD =102.77 JPY for 1Q2014, 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)

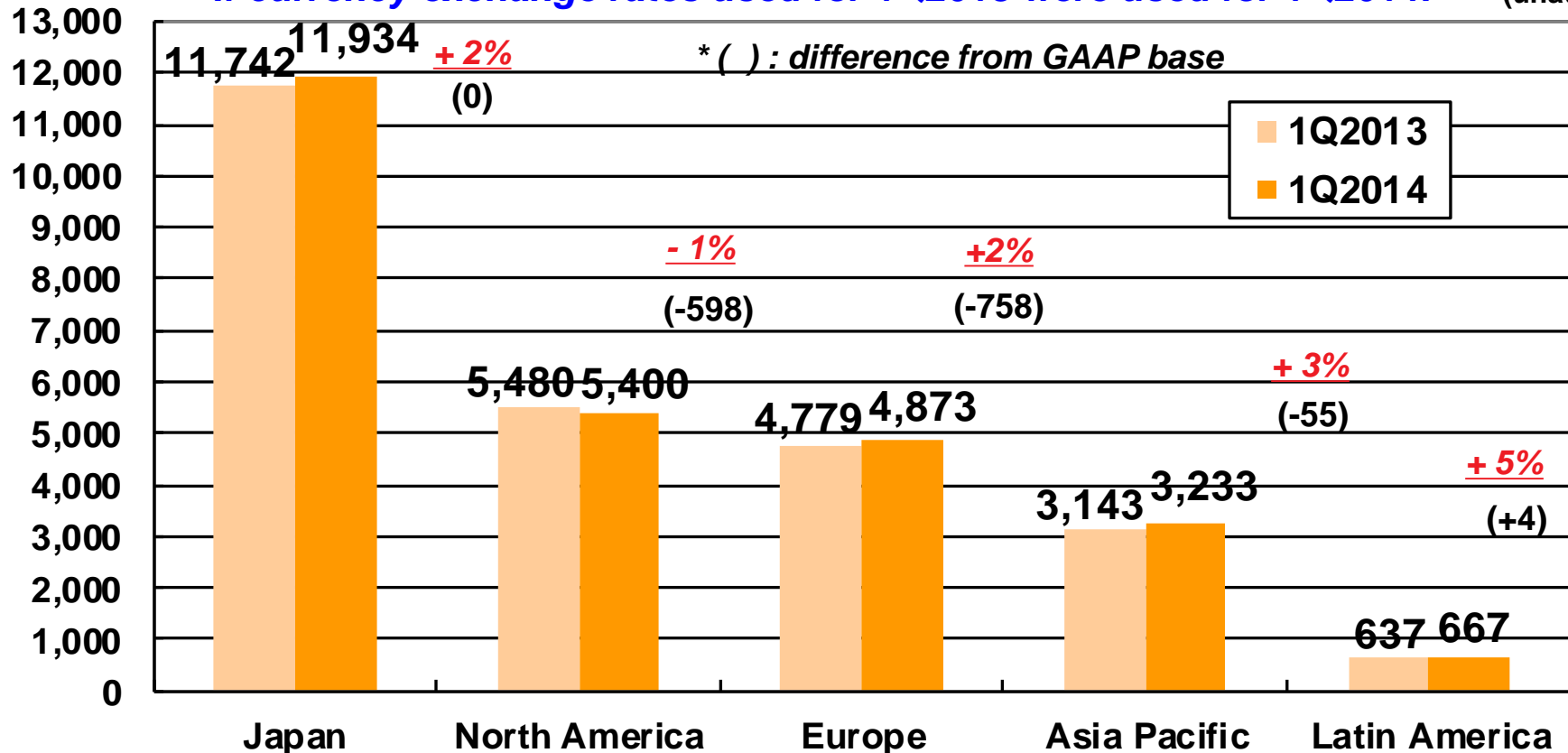


# Net Sales Growth by Region

(in million Yen)

*If currency exchange rates used for 1Q2013 were used for 1Q2014:*

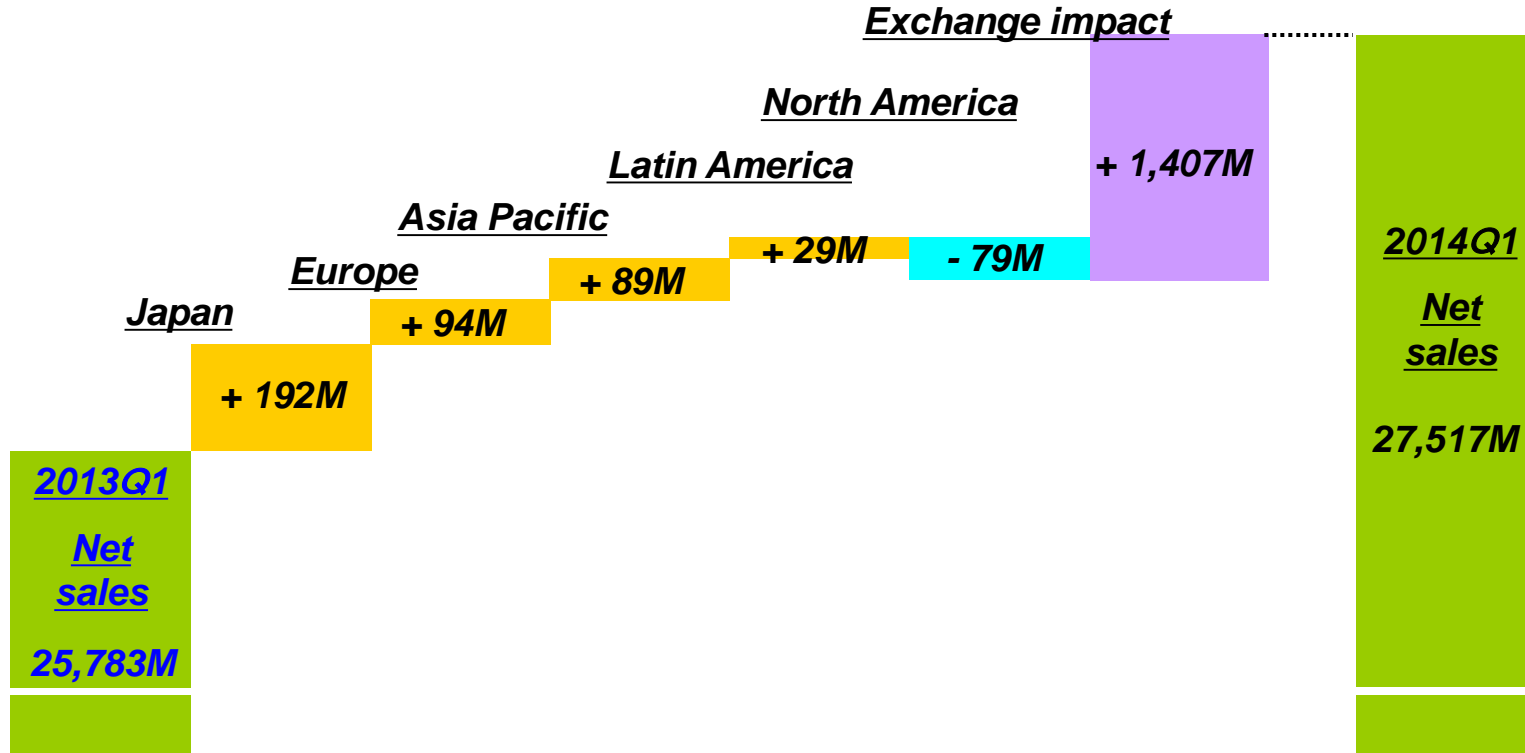
(unaudited)



\* Each JPY amount for 1Q2014 shown above has been calculated by applying to the relevant foreign currency net sales amount for 1Q2014 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 1Q2013 into a JPY net sales amount for Japan GAAP reporting purposes. (Non-GAAP)

# Decomposition of Revenue (vs. last year)

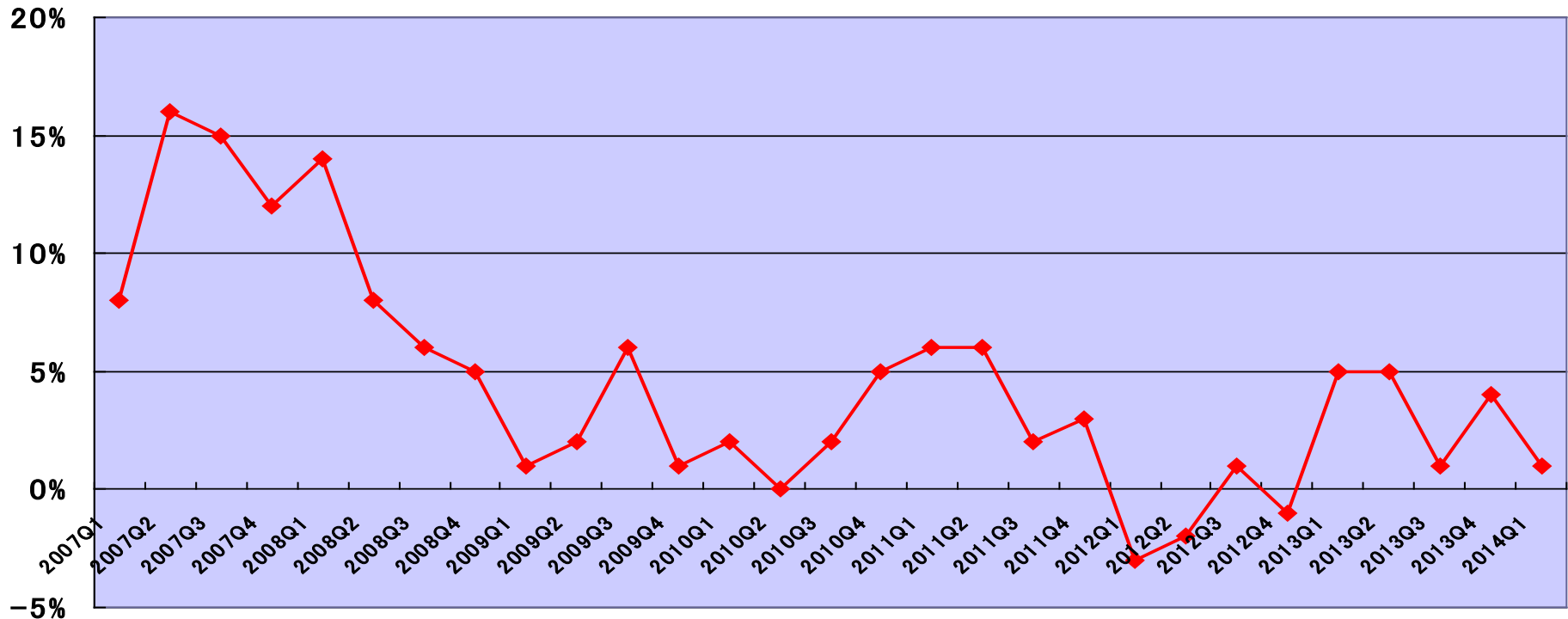
(unaudited)



# Constant currency Revenue growth

(YoY)

(unaudited)

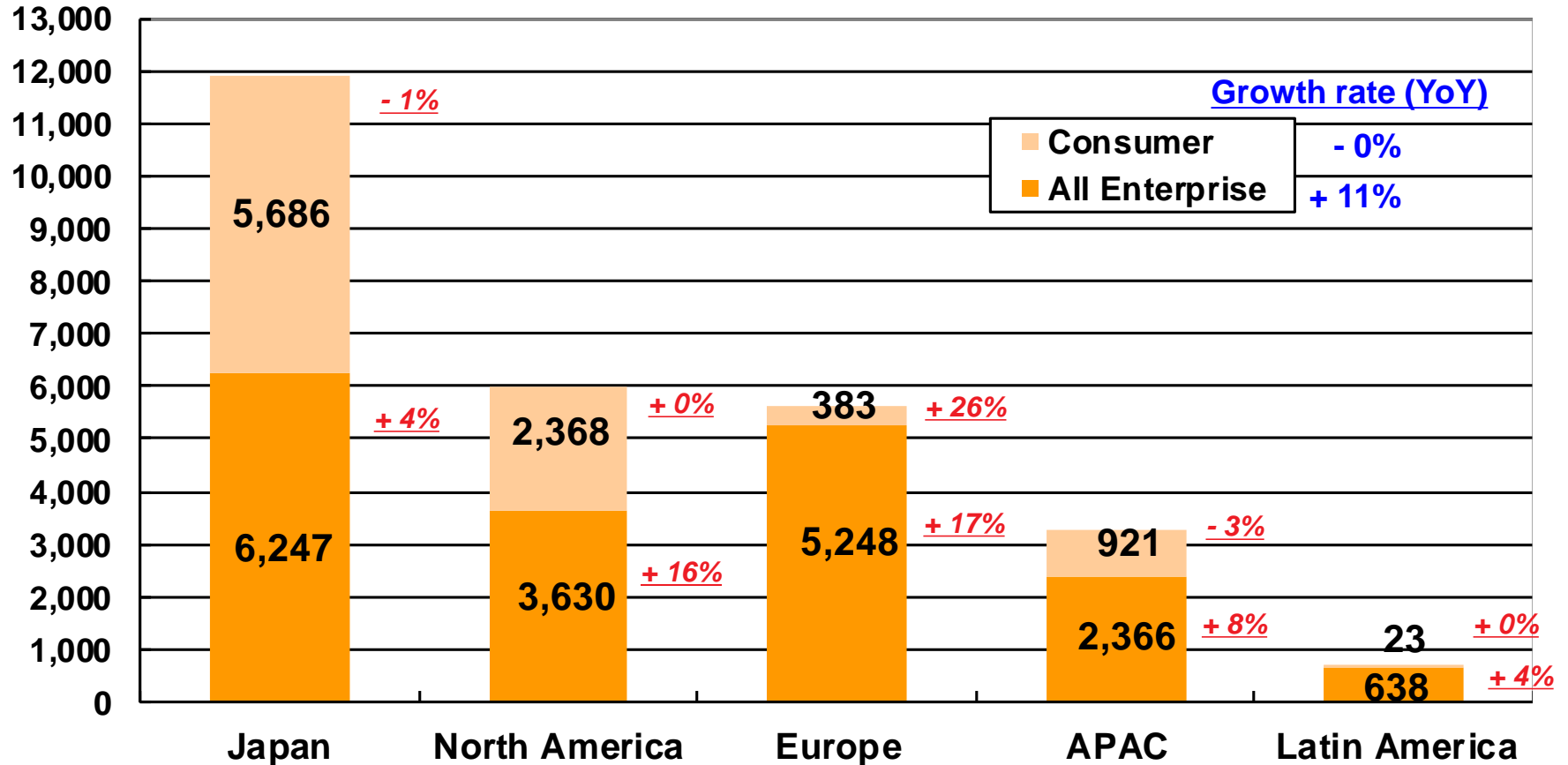


(Non-GAAP)

• 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

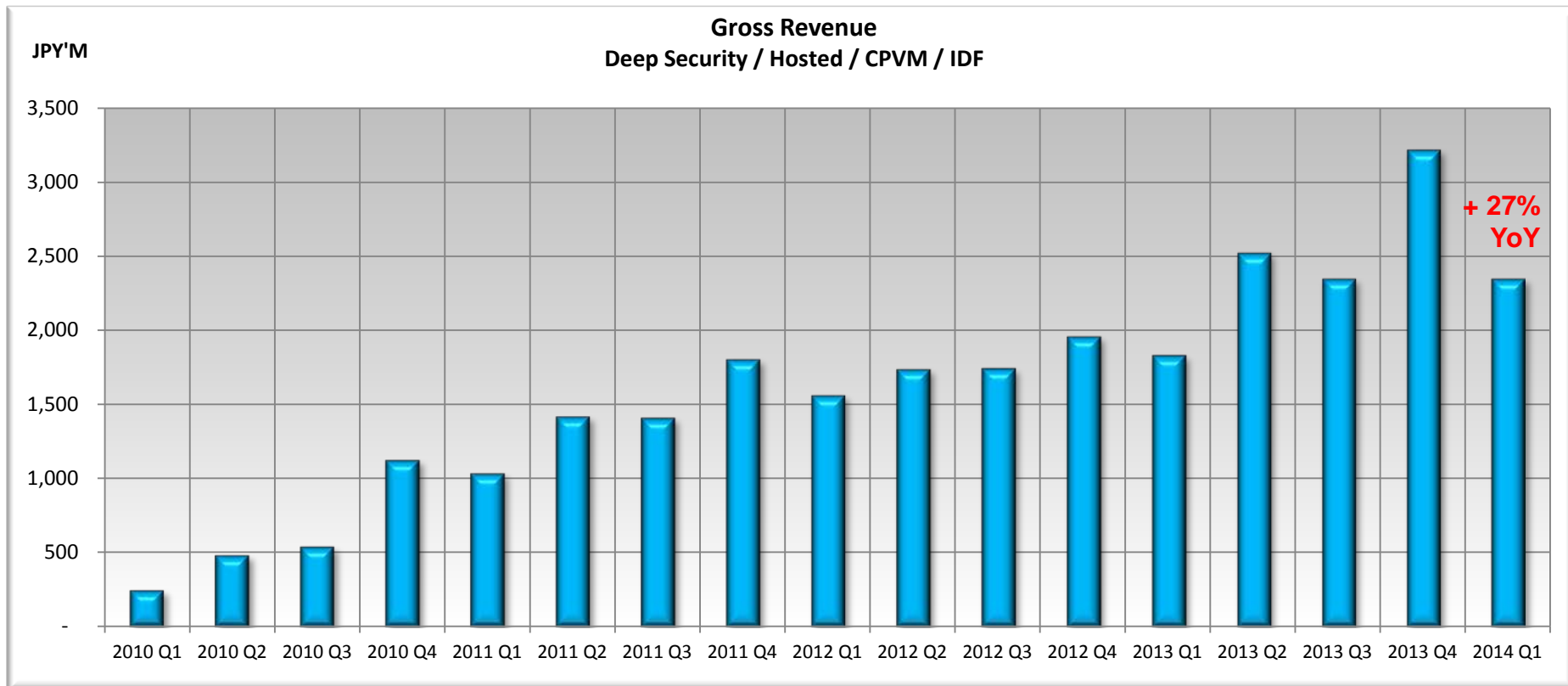
(in million Yen)



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

(Non-GAAP)

# “Cloud related” Gross sales



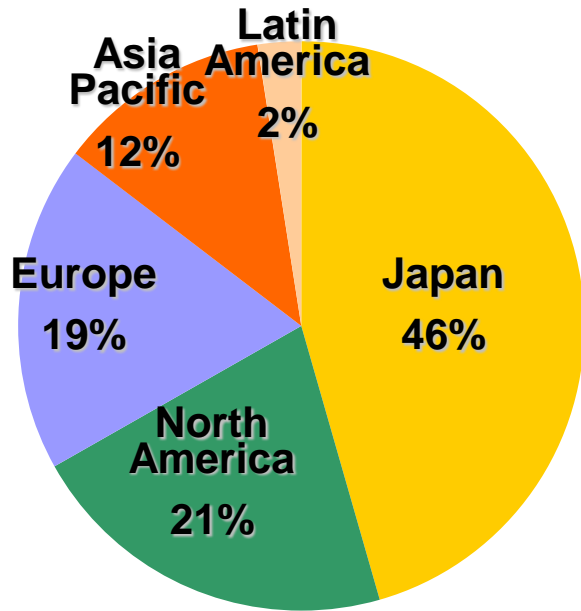
**“Notice” As above numbers are just for internal use, they may be subject to some changes hereafter.**

(Non-GAAP) **TREND**  
MICRO™

# *% share by region*

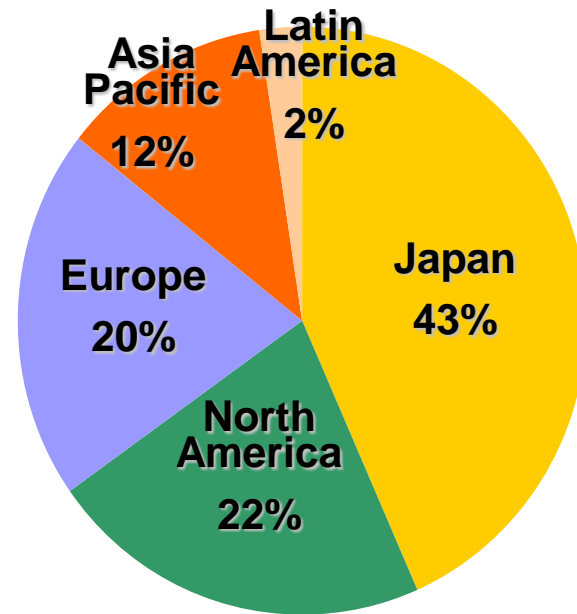
**1Q2013**

**25,783 million Yen**



**1Q2014**

**27,517 million Yen**

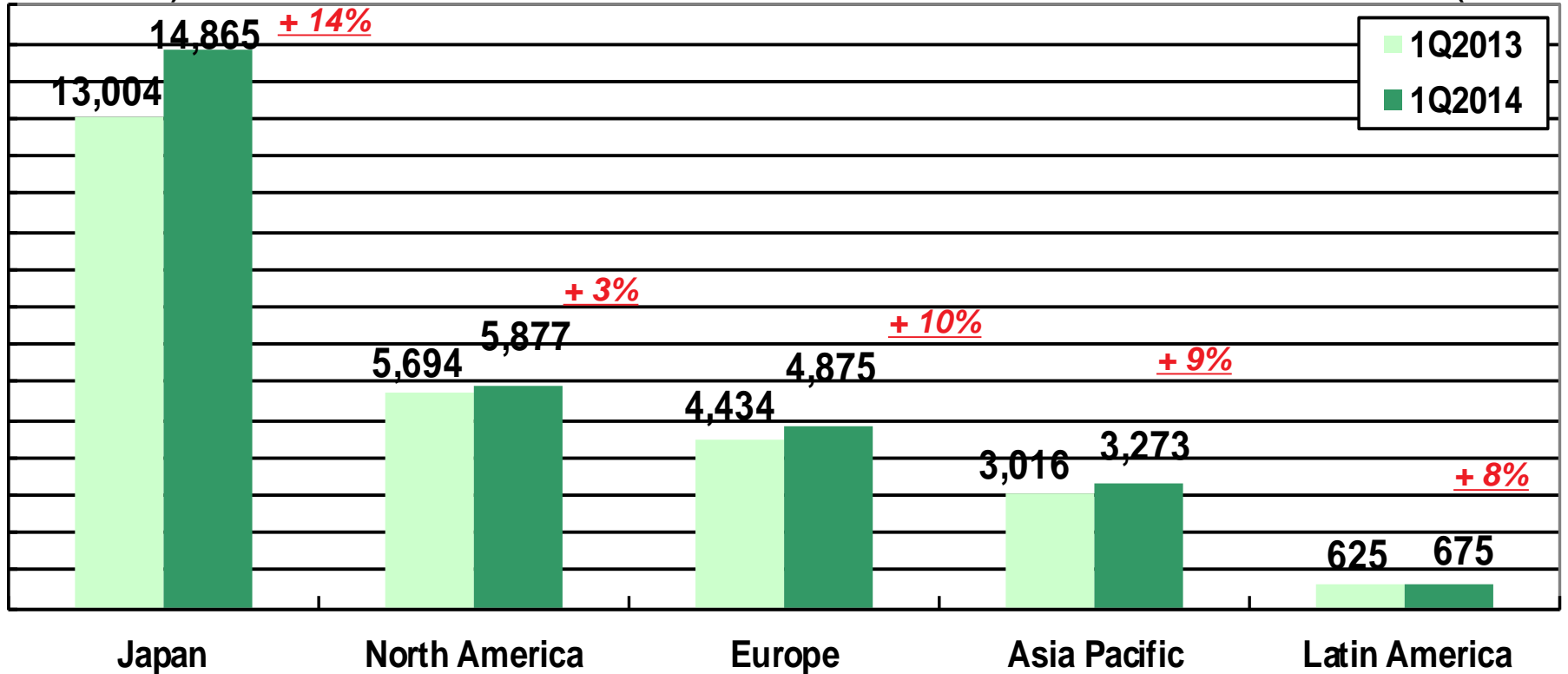


**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



**“Notice”**

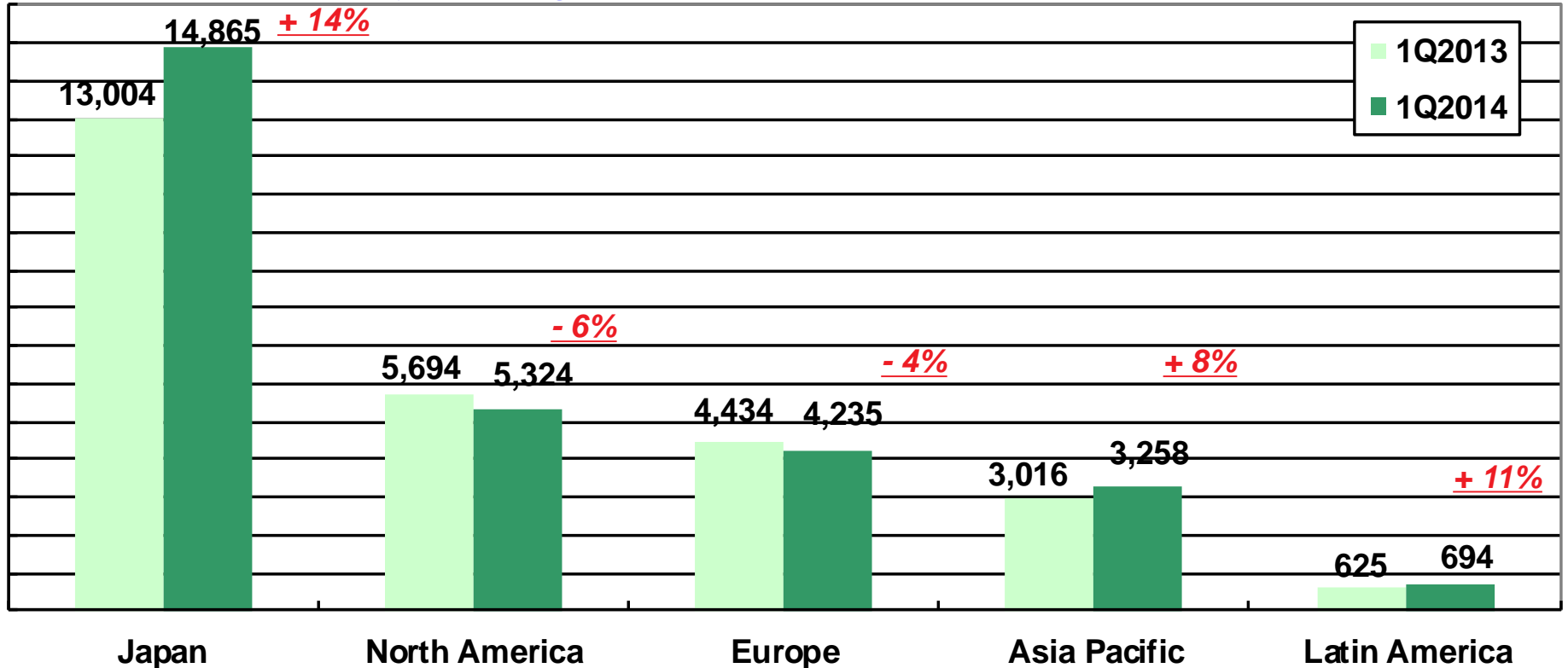
**Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
As these numbers are just for internal use, they may be subject to some changes hereafter.**

(Non-GAAP)

**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen) *If currency exchange rates used for 1Q2013 were used for 1Q2014:* (unaudited)



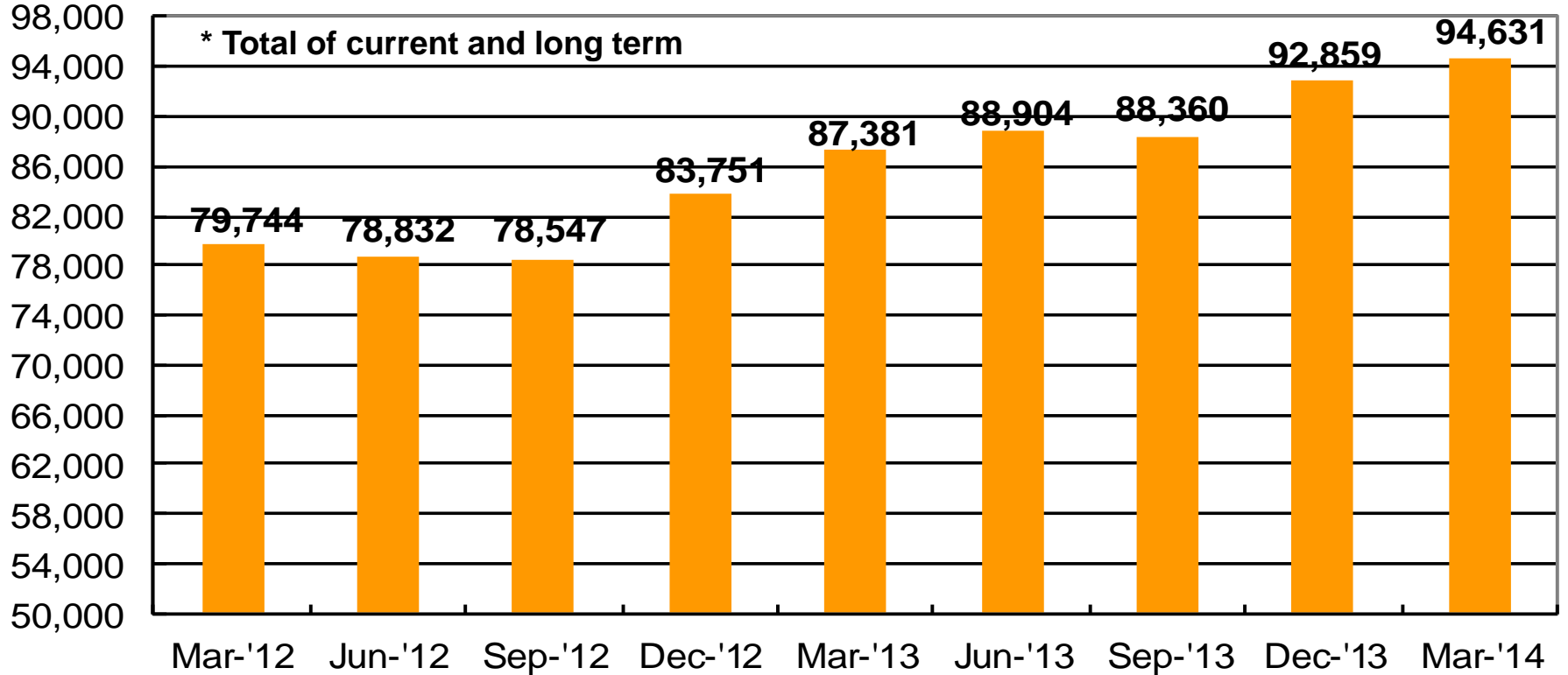
**“Notice”**

*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.*

(Non-GAAP)

# Deferred Revenue

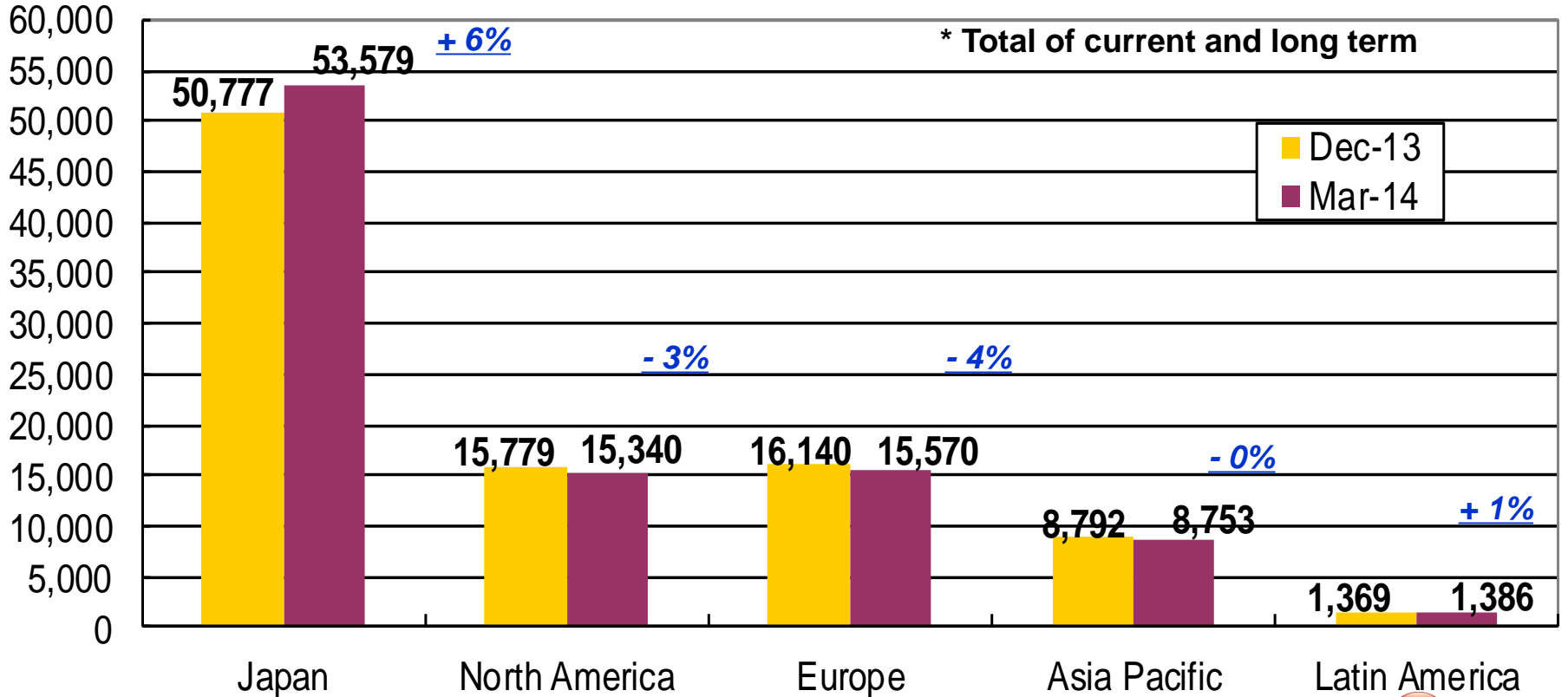
(in million Yen)



# Deferred Revenue by Region

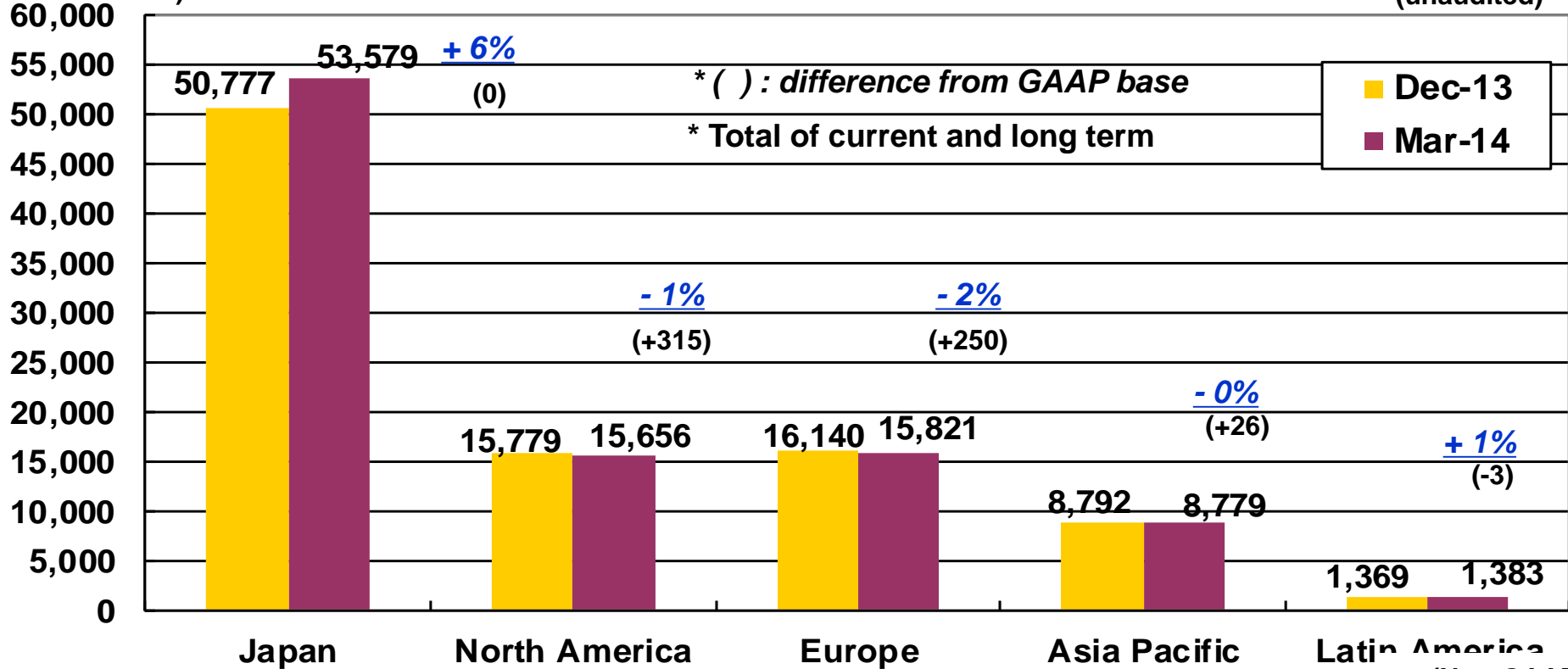
(in million Yen)

(unaudited)



# Deferred Revenue by Region

If currency exchange rates used as of the end of 4Q2013 were used as of the end of 1Q2014:  
 (in million Yen) (unaudited)



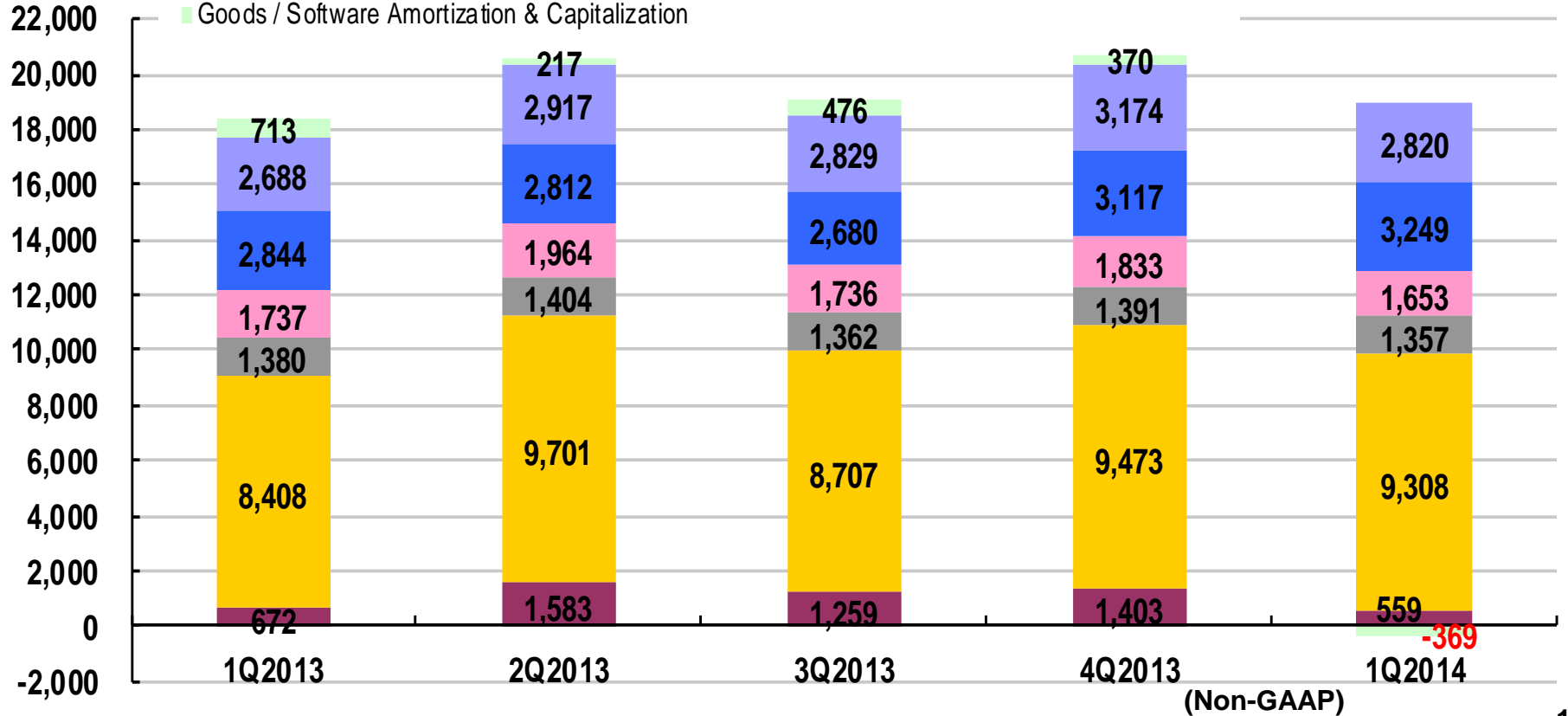
Each JPY amount as of the end of 1Q2014 shown above has been calculated by applying to the relevant foreign currency deferred revenue amount as of the end of 1Q2014 the exchange rate between such foreign currency and JPY that was used to convert the deferred revenue amount denominated in such foreign currency as of the end of 4Q2013 into a JPY deferred revenue amount for Japan GAAP reporting purposes.

# Cost

(unaudited)

(in million Yen)

- Stock options / Acquisition related costs
- Office overhead
- Administration
- Goods / Software Amortization & Capitalization
- Salary & Benefit
- Outside service
- Selling & Marketing

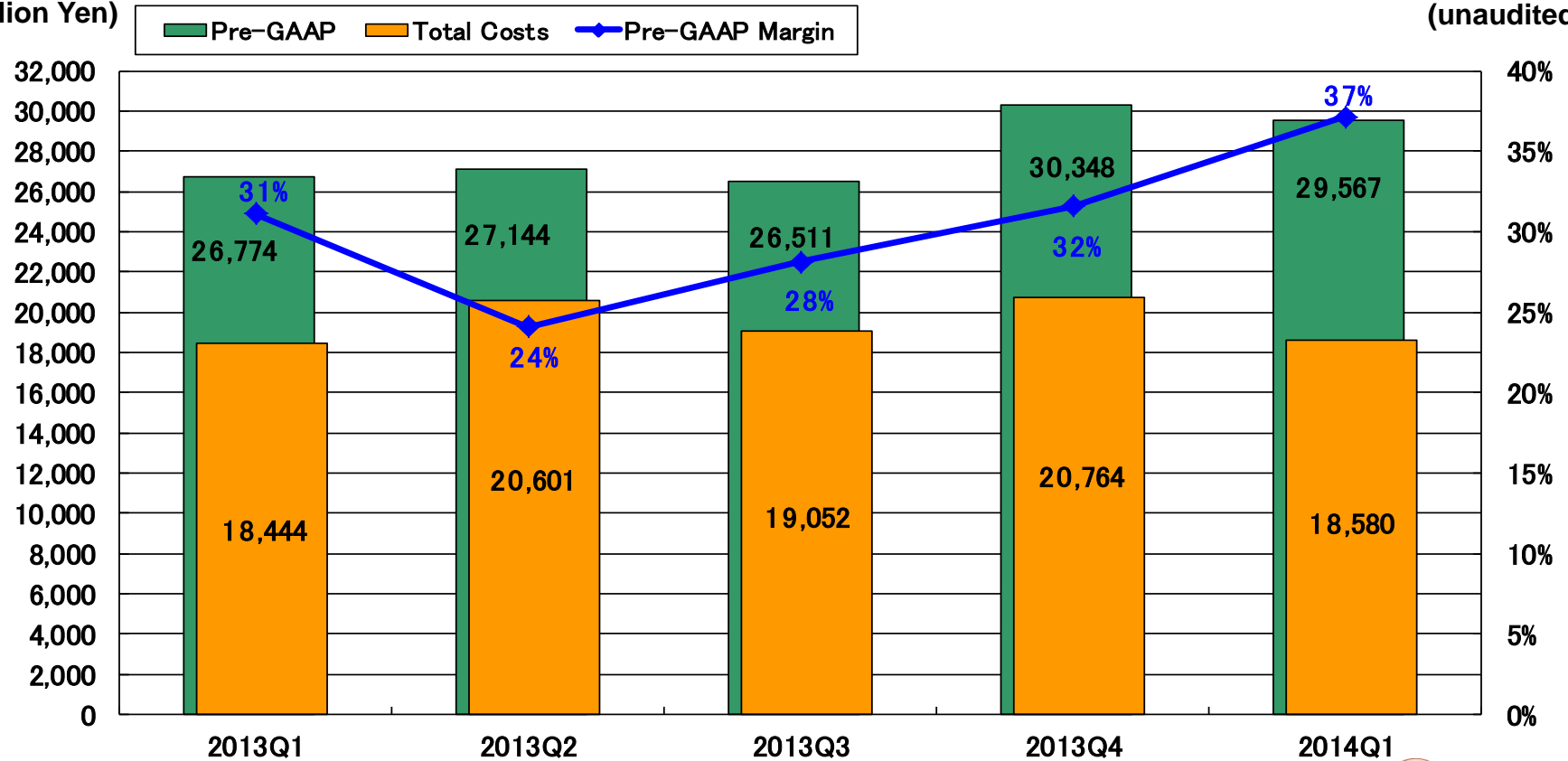


(Non-GAAP)

# Pre-GAAP v s Total Costs

(in million Yen)

(unaudited)



\* "Total costs" means COGS + SGA.

(Non-GAAP)

# Cash flows

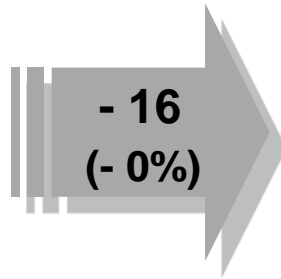
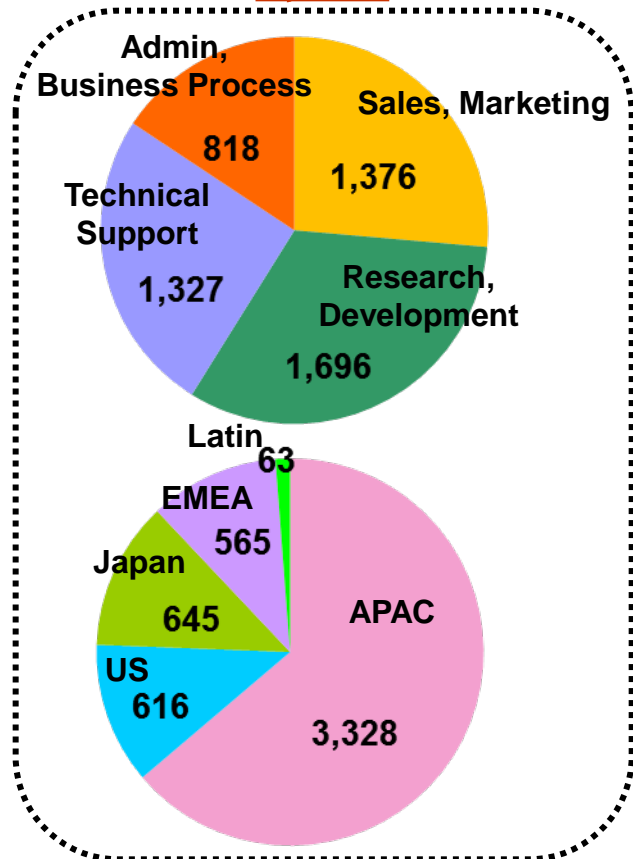
(unaudited)  
(in million Yen)

	1Q2013	1Q2014	YoY growth
Cash flows from operating activities	4,269	6,411	+ 50%
Cash flows from investing activities	8,353	- 12,304	—
Cash flows from financing activities	- 8,969	- 15,336	—
Effect of exchange rate changes on cash and cash equivalents	3,238	- 900	—
Net increase (decrease) in cash and cash equivalents	6,891	- 22,129	—
Cash and cash equivalents at beginning of this quarter period	50,446	73,949	+ 47%
Increase in cash due to merger of consolidated subsidiary	—	—	—
Cash and cash equivalents at end of this quarter period	57,337	51,819	- 10%

# Headcount

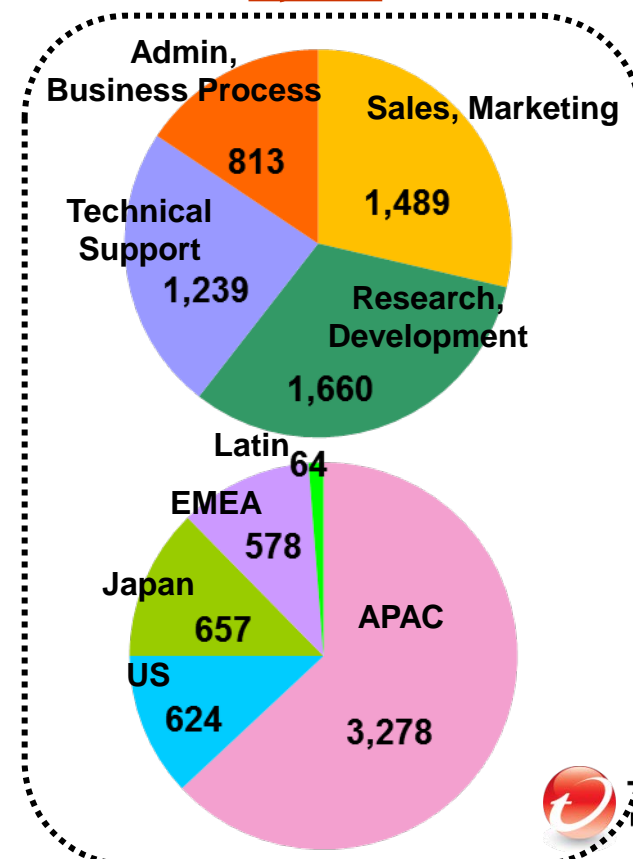
Dec - 2013

**5,217**



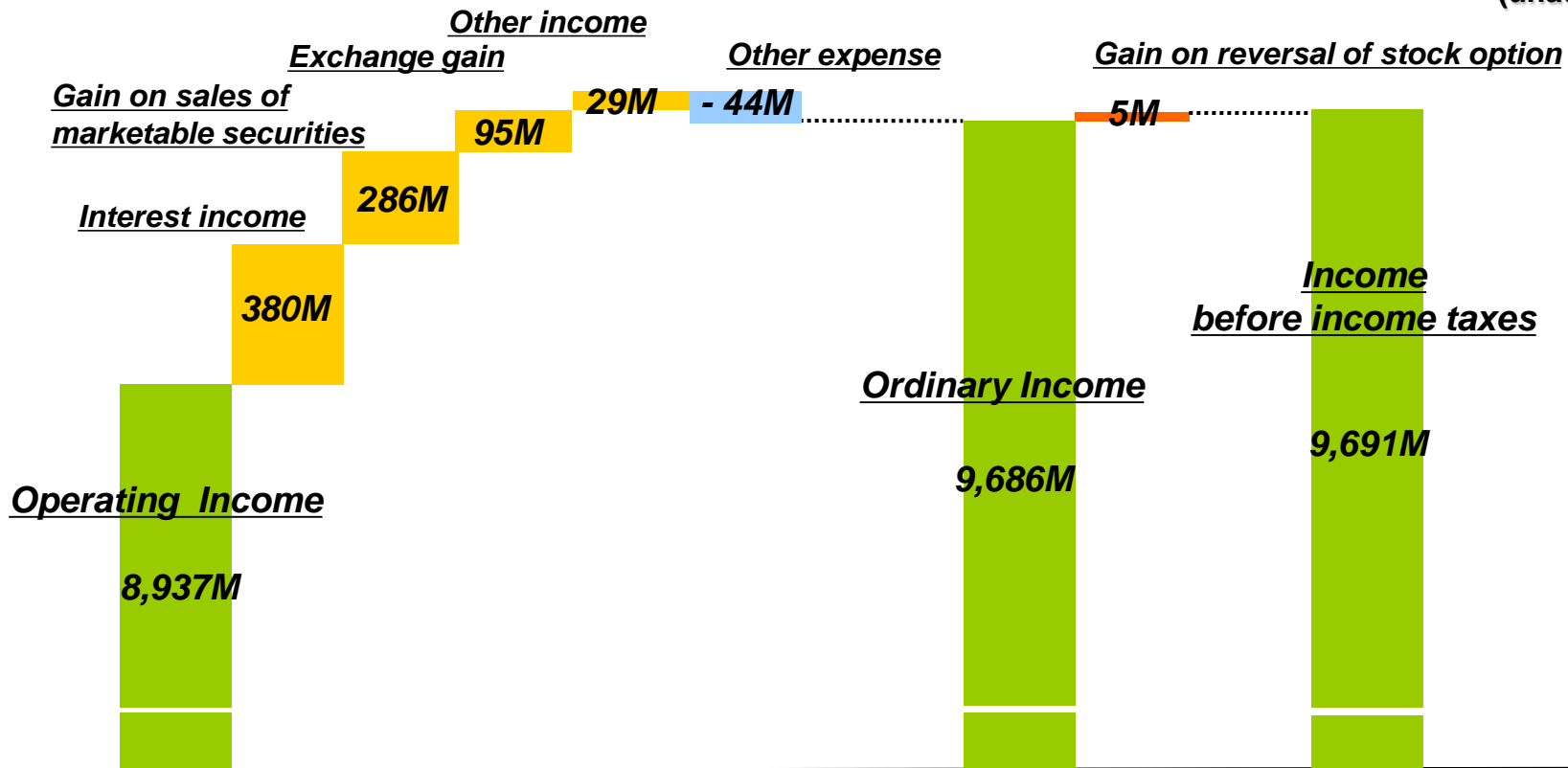
Mar - 2014

**5,201**



# Non-operating & Extra-ordinary Items

(unaudited)



(Non-GAAP)



# Balance Sheet

(unaudited)  
(in million Yen)

	<i>Dec-2013</i>	<i>change</i>	<i>Mar-2014</i>
<b><u>Assets</u></b>			
<i>Cash &amp; cash equivalents</i>	79,632	- 22,479	57,153
<i>Account receivable</i> <i>(less allowance for doubtful accounts)</i>	24,329	- 289	24,040
<i>Marketable securities &amp; Securities investments</i>	112,053	+ 9,855	121,908
<b><u>Liabilities</u></b>			
<i>Deferred revenue</i> <i>(total of current and long-term)</i>	92,859	+ 1,772	94,631
<b><u>Shareholders' Equity</u></b>			
<i>Common Stock &amp; Additional paid in capital</i>	40,183	+ 14	40,197
<i>Treasury Stock</i>	- 16,303	+ 247	- 16,056

# ***Q1 Highlights***

- ***Strong growth of consumer business in Japan***
- ***Good cost control resulting in 32% OP margin***

# **Q1 Lowlights**

- ***US consumer business continues to decline***
- ***Weak performance in Europe***
- ***Pricing pressure on traditional malware products continues***

# Projection for FY2014 Annual **(Unchanged)**

(unaudited)  
(in million Yen)

	<u>For FY2014</u> <u>Jan - Dec, 2014</u>	<u>Expected</u> <u>YoY growth</u>
Net Sales	112,000	<u>+ 3%</u>
Operating Income	30,100	<u>+ 2%</u>
Ordinary Income	32,000	<u>- 1%</u>
Net Income	19,100	<u>- 3%</u>

*(Estimated exchange rate 1USD=100 yen, 1EUR=138 yen)*

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

**Net Sales** + 2%

(Non-GAAP)



Thank You

# Appendix

(unaudited)

## Quarterly Chart (1)

(in million Yen)

	FY2013				FY2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net sales</b>	25,783	27,032	27,069	28,428	27,517			
<b>Cost of sales</b>	5,048	4,796	4,890	4,642	4,622			
<b>Operating expenses</b>	13,396	15,804	14,161	16,122	13,958			
<b>Operating income</b>	7,338	6,430	8,017	7,663	8,937			
<b>Ordinary income</b>	7,646	8,031	8,064	8,713	9,686			
<b>Net income</b>	4,820	4,754	5,363	4,656	6,038			
<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>	713	217	476	370	-369			
<b>Selling &amp; Marketing</b>	2,688	2,917	2,829	3,174	2,820			
<b>Administration</b>	2,844	2,812	2,680	3,117	3,249			
<b>Outside service</b>	1,737	1,964	1,736	1,833	1,653			
<b>Office overhead</b>	1,380	1,404	1,362	1,391	1,357			
<b>Salary &amp; Benefit</b>	8,408	9,701	8,707	9,473	9,308			
<b>Stock option cost</b>	429	1,330	1,008	1,131	287			
<b>Acquisition related costs</b>	242	252	250	272	272			
<b>Total</b>	18,444	20,601	19,052	20,764	18,580			
<b>The number of employees</b>	5,094	5,110	5,137	5,217	5,201			
<b>Applied rate to yen (US\$)</b>	92.47	98.75	98.96	100.61	102.77			
<b>Applied rate to yen (Euro)</b>	121.89	128.91	131.09	136.97	140.87			

# Appendix

(unaudited)

## Quarterly Chart (2)

(in million Yen)

(Sales by region)	FY2013				FY2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	11,742	11,966	12,196	12,645	11,934			
US	5,480	6,085	6,001	6,047	5,998			
Europe	4,779	5,022	5,138	5,631	5,632			
Asia Pacific	3,143	3,282	3,083	3,416	3,288			
Latin America	637	675	649	687	662			
<b>Total</b>	<b>25,783</b>	<b>27,032</b>	<b>27,069</b>	<b>28,428</b>	<b>27,517</b>			
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	16,383	17,040	17,362	18,118	18,132			
Consumer	9,400	9,991	9,706	10,310	9,384			
<b>Total</b>	<b>25,783</b>	<b>27,032</b>	<b>27,069</b>	<b>28,428</b>	<b>27,517</b>			
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	13,004	12,811	12,923	11,834	14,865			
US	5,694	5,632	5,535	5,906	5,877			
Europe	4,434	4,857	4,274	8,172	4,875			
Asia Pacific	3,016	3,157	3,152	3,669	3,273			
Latin America	625	685	625	766	675			
<b>Total</b>	<b>26,774</b>	<b>27,144</b>	<b>26,511</b>	<b>30,348</b>	<b>29,567</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.**