

Trend Micro FY2014.3Q Results



Mahendra Negi CFO, Representative Director

November 12, 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. 3Q Financial Highlight

(Third quarter ended September 30, 2014)

Q3 Consolidated Results

(in million Yen)

<i>Three months ended Sep 30,</i>	3Q2013	3Q2014	YoY growth
Net sales	27,069	28,615	+ 6%
Cost of sales	4,890	5,272	+ 8%
Operating expenses	14,161	14,768	+ 4%
Operating income <i>(Margin)</i>	8,017 <i>(30%)</i>	8,574 <i>(30%)</i>	+ 7%
Ordinary income	8,064	9,069	+ 12%
Net income	5,363	5,726	+ 7%

“For reference” Revenue before adjusting deferred revenue

Pre-GAAP	26,511	27,298	+ 3%
		<i>(excluding foreign exchange impact)</i>	+ 0%
			(Non-GAAP)

If currency exchange rates used for 3Q2013 were used for 3Q2014

Net sales	27,069	27,846	+ 3%
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** The JPY amount for 3Q2014 shown above has been calculated by applying to each foreign currency net sales amount for 3Q2014 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 3Q2013 into a JPY net sales amount for Japan GAAP reporting purposes.*

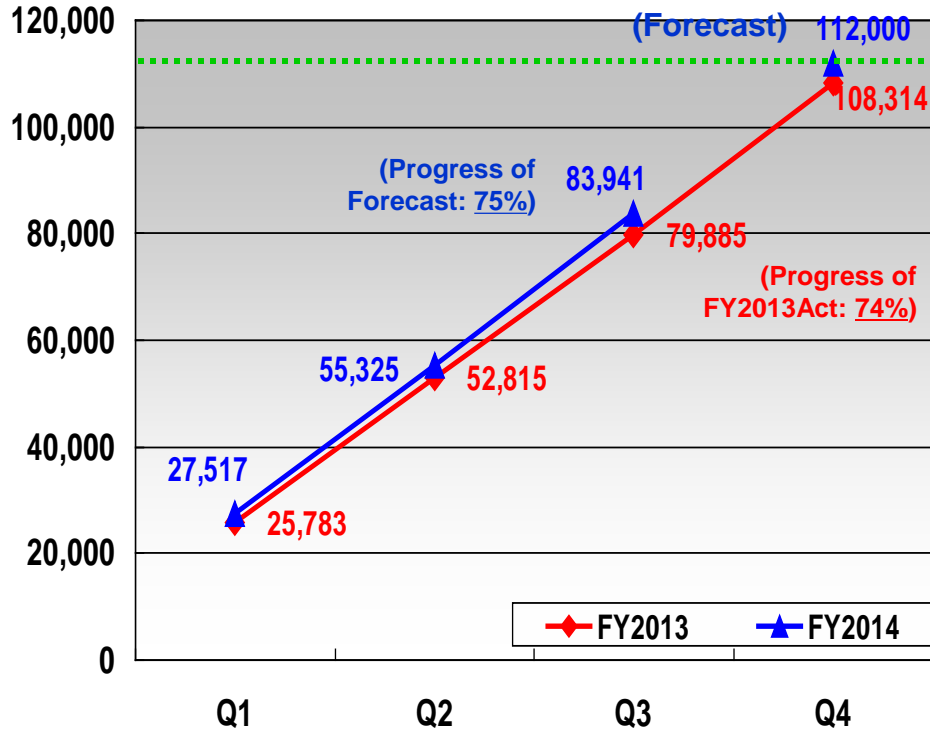
(Non-GAAP)

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30

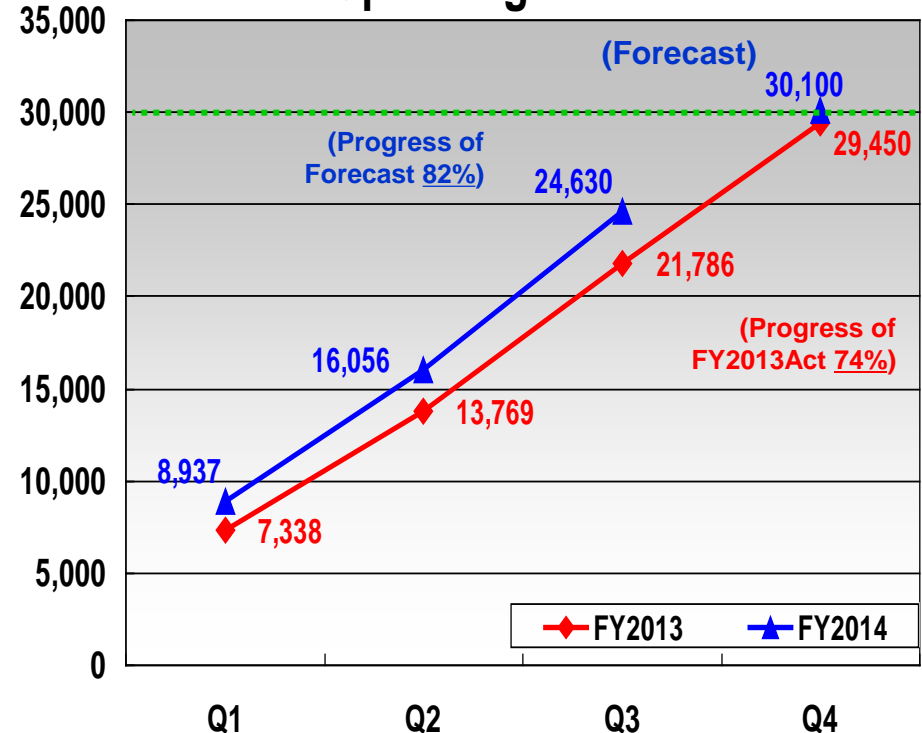
Progress (9 months)

(in million Yen)

Revenue



Operating Income



Q3 USD based Results (Non-GAAP)

(unaudited)

<i>Three months ended Sep 30,</i>	<i>3Q2013</i>	<i>3Q2014</i>	<i>(in thousand USD) YoY change</i>
Net sales	273,540	275,153	+ 1%
Cost of sales	49,421	50,698	+ 3%
Operating expenses	143,106	142,008	- 1%
Operating income	81,012	82,446	+ 2%
Ordinary income	81,492	87,207	+ 7%
Net Income	54,198	55,062	+ 2%

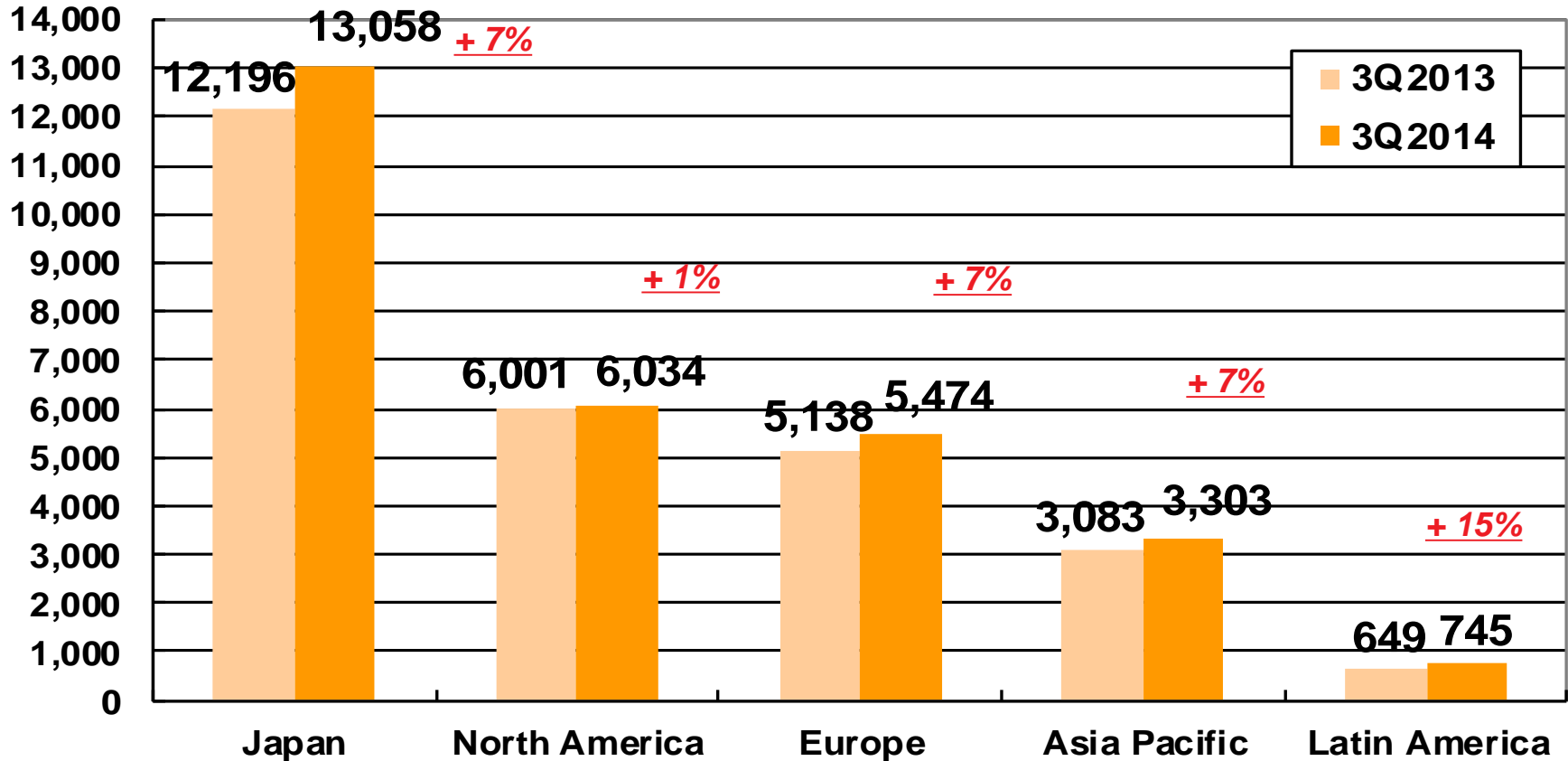
(Non-GAAP)

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=98.96 JPY for 3Q2013 and 1 USD =104.00 JPY for 3Q2014, 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)

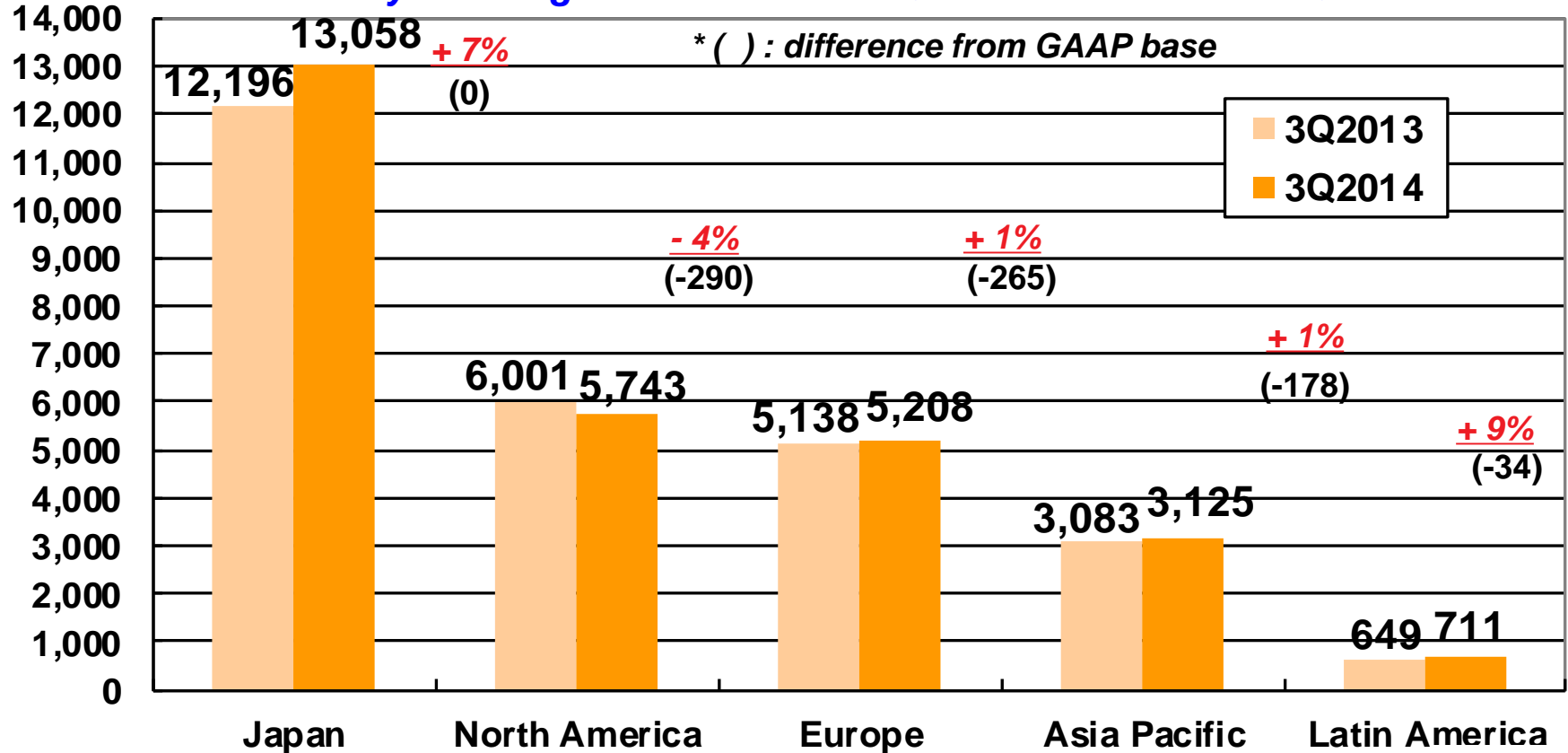


Net Sales Growth by Region

(in million Yen)

If currency exchange rates used for 3Q2013 were used for 3Q2014:

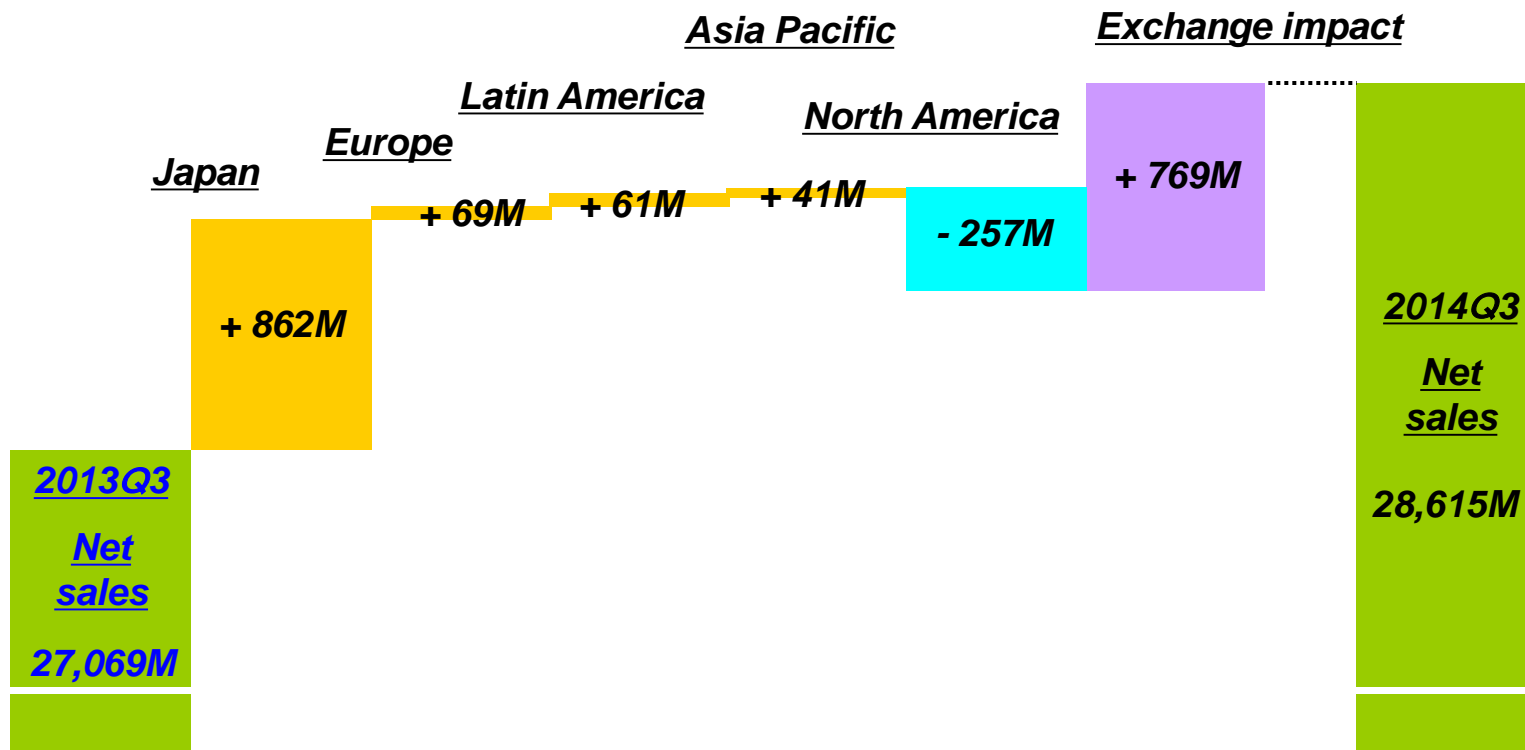
(unaudited)



* Each JPY amount for 3Q2014 shown above has been calculated by applying to the relevant foreign currency net sales amount for 3Q2014 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 3Q2013 into a JPY net sales amount for Japan GAAP reporting purposes. (Non-GAAP)

Decomposition of Revenue (vs. last year)

(unaudited)



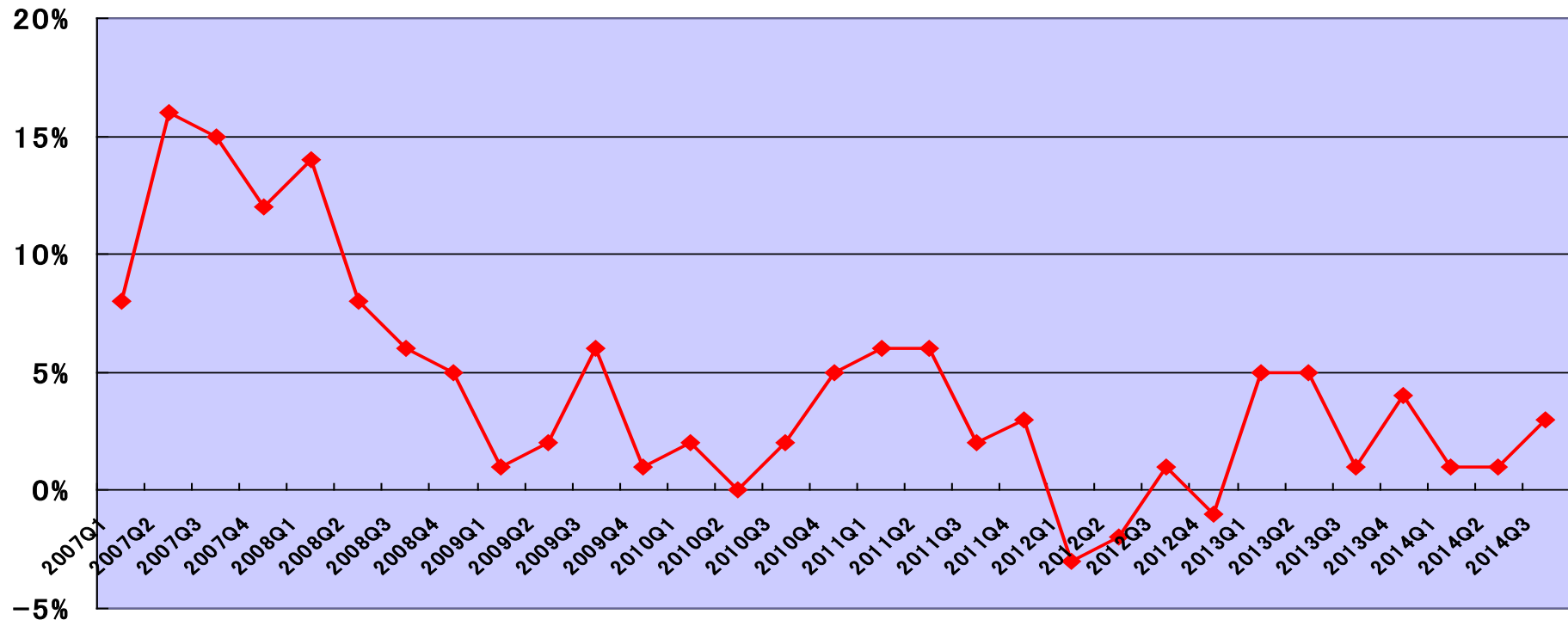
(Non-GAAP)



Constant currency Revenue growth

(YoY)

(unaudited)



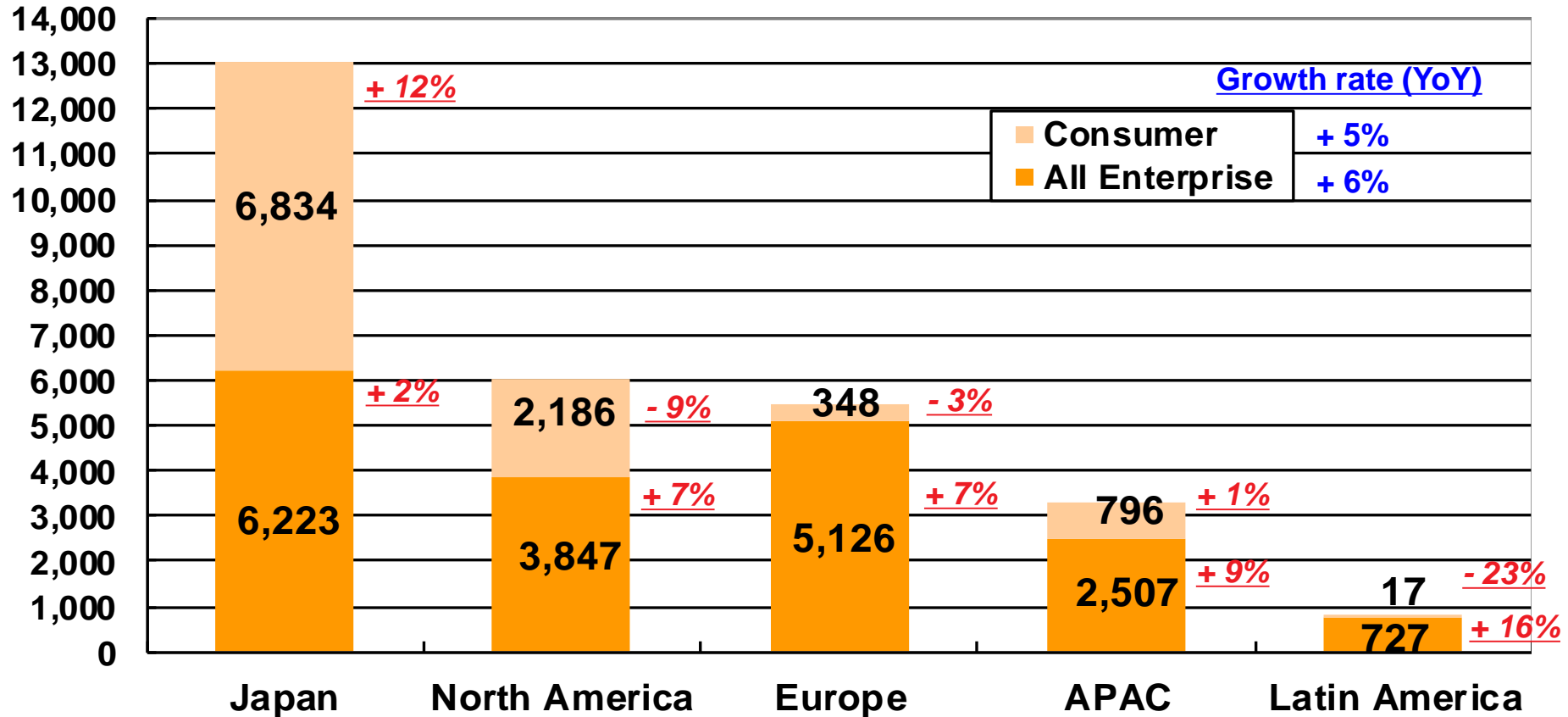
(Non-GAAP)

• 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)

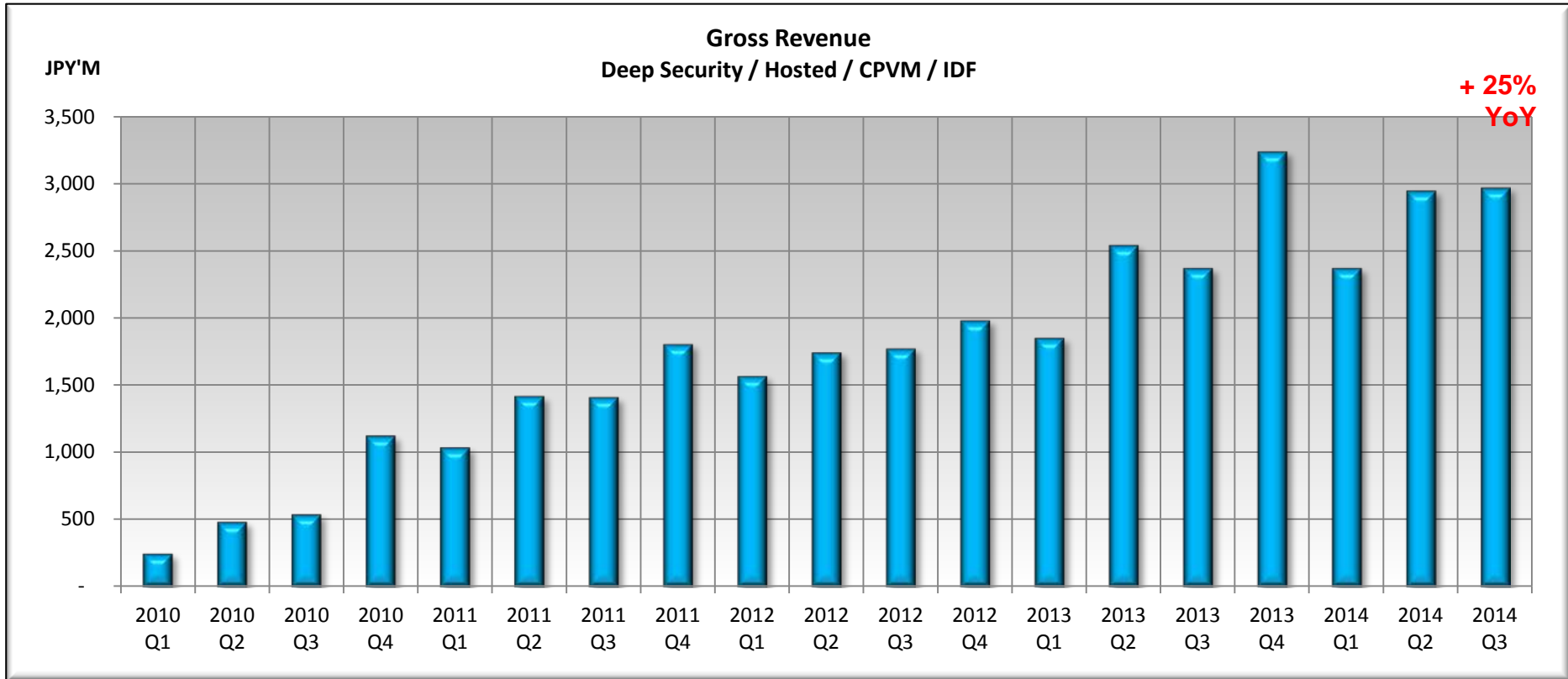
(unaudited)



“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.

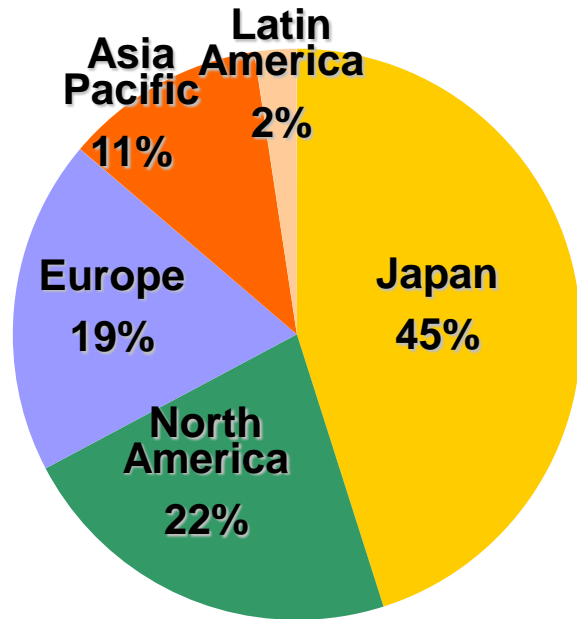
(Non-GAAP)



% share by region

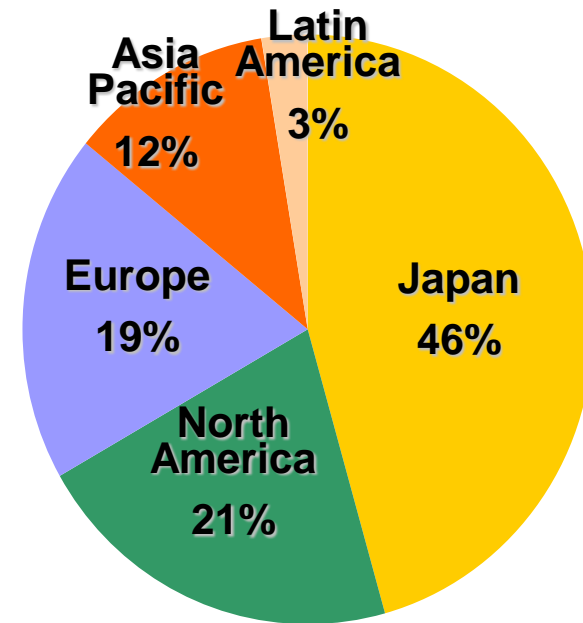
3Q2013

27,069 million Yen



3Q2014

28,615 million Yen

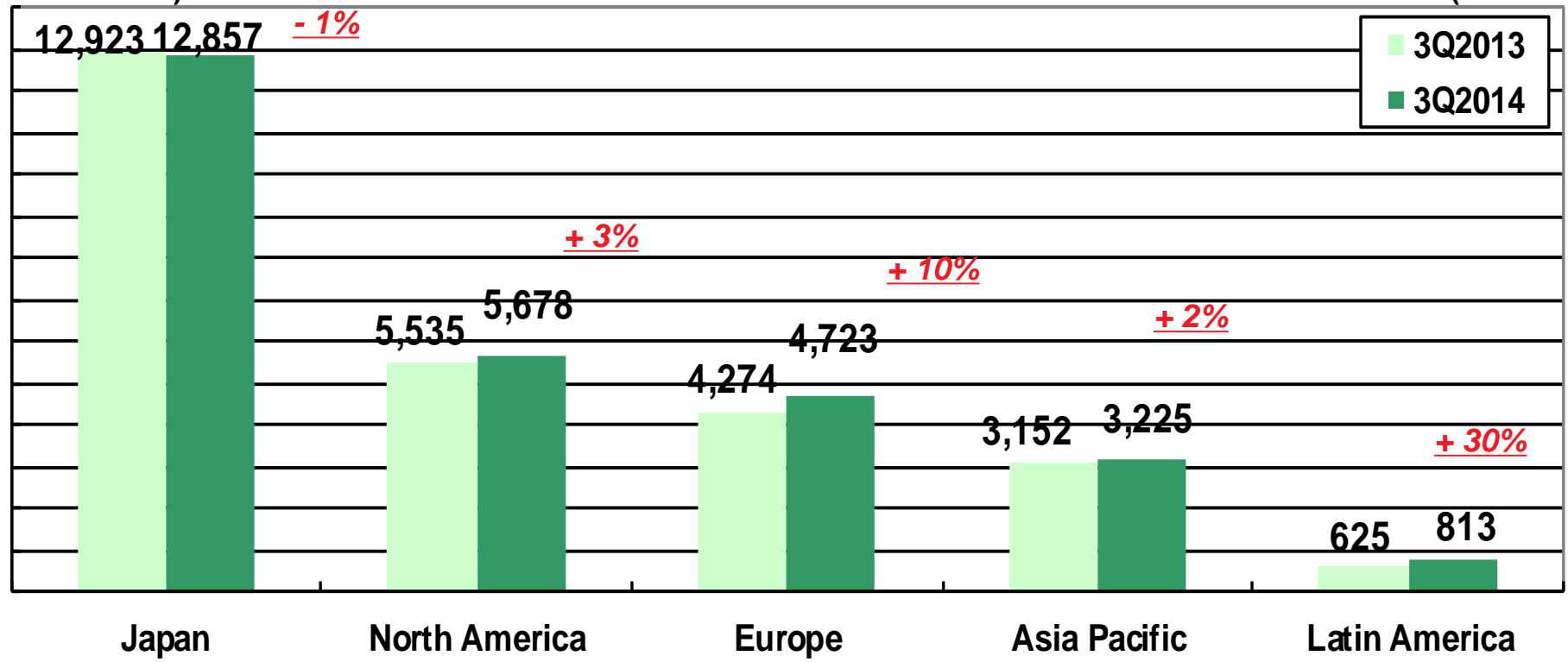


“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



“Notice”

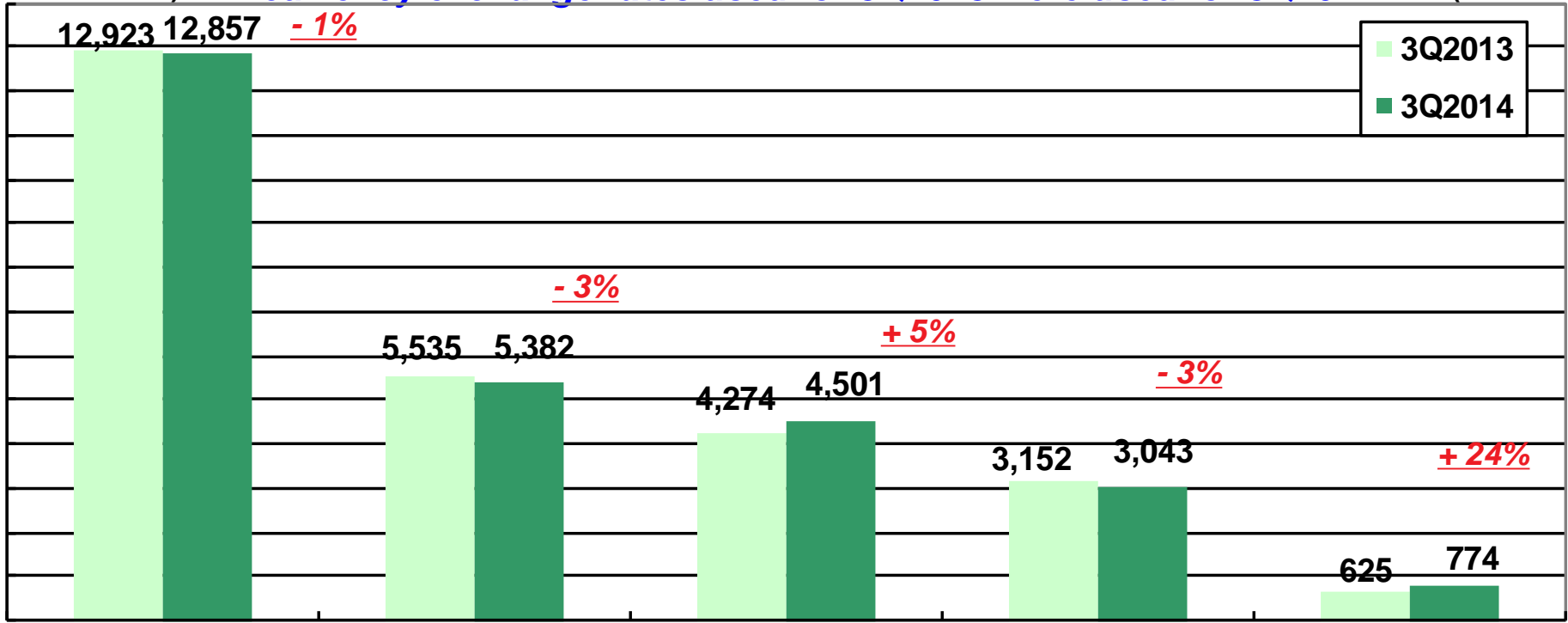
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.
As these numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen) *If currency exchange rates used for 3Q2013 were used for 3Q2014:* (unaudited)



“Notice”

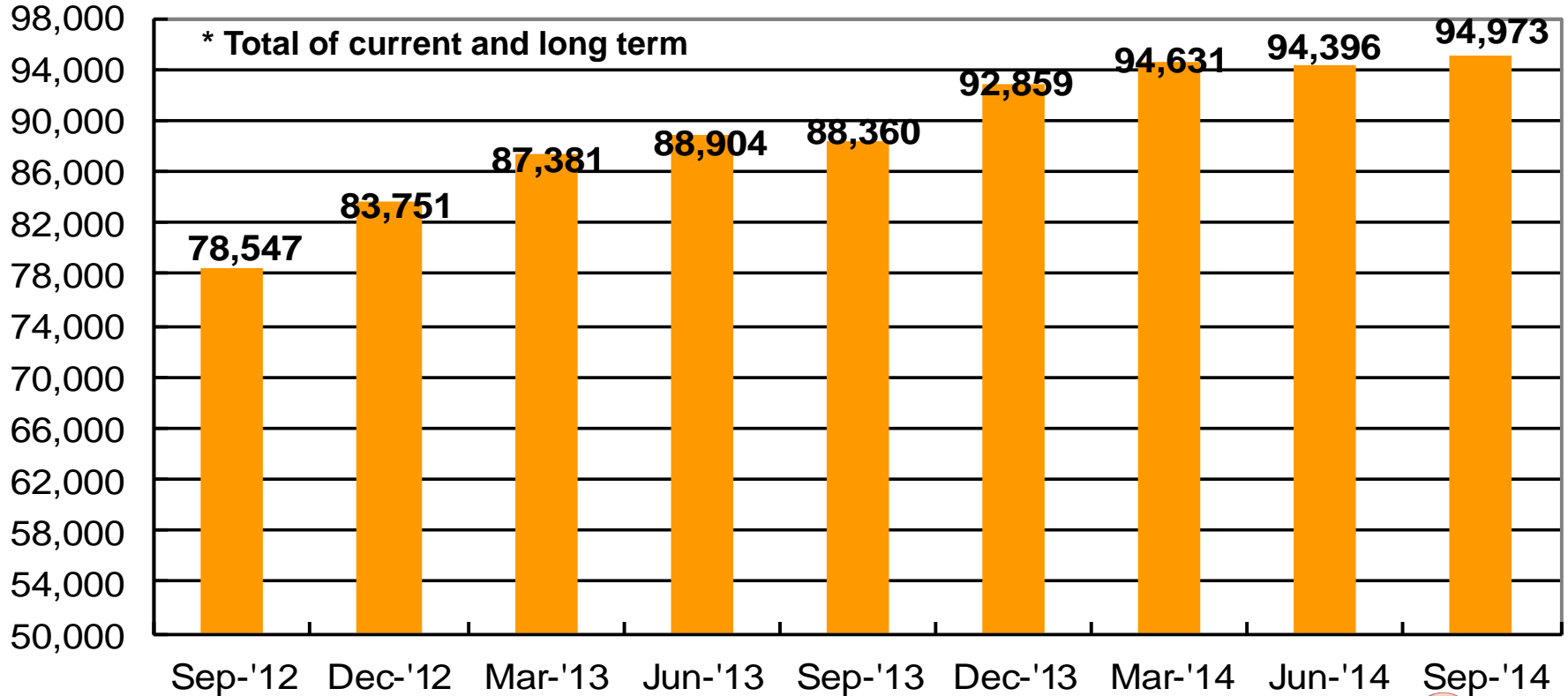
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance. As these numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

Deferred Revenue

(in million Yen)

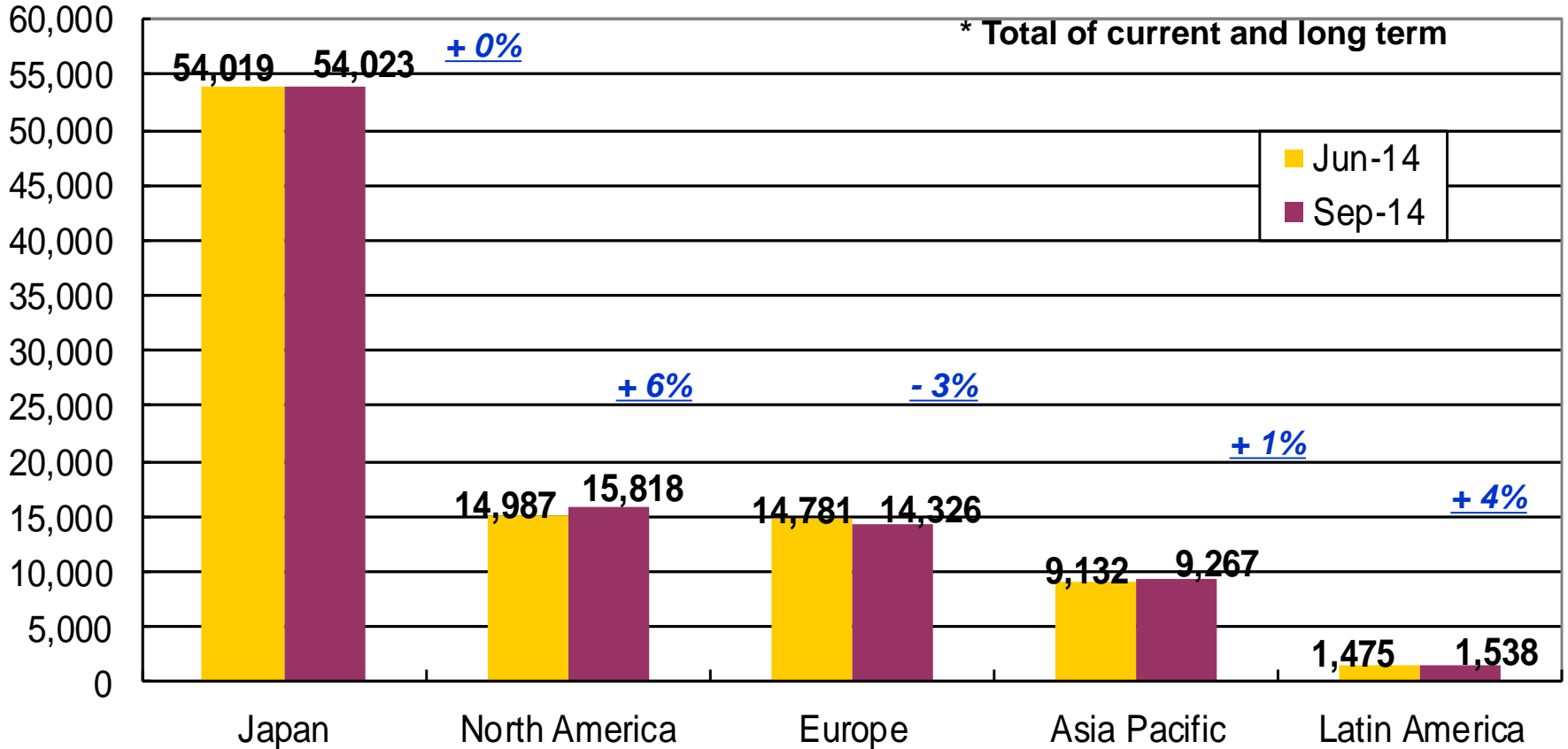
(unaudited)



Deferred Revenue by Region

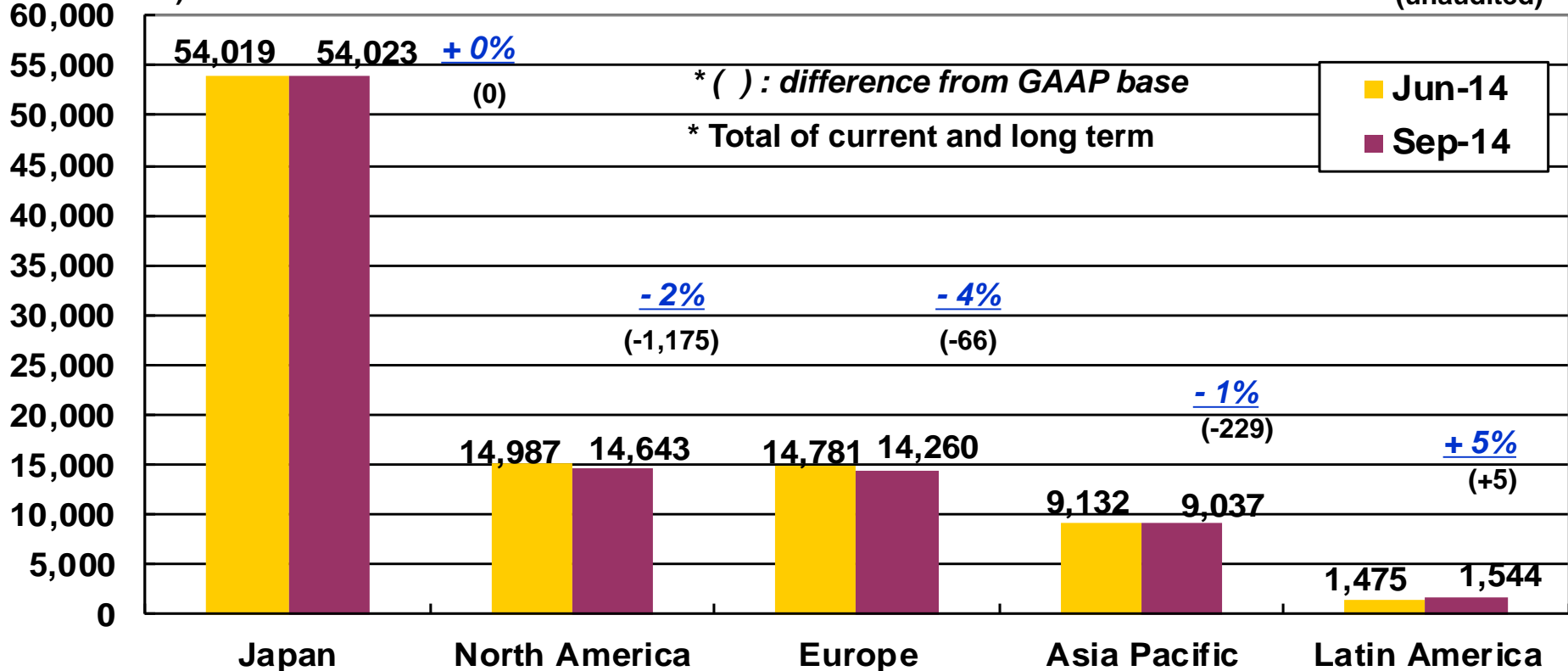
(in million Yen)

(unaudited)



Deferred Revenue by Region

If currency exchange rates used as of the end of 2Q2014 were used as of the end of 3Q2014: (in million Yen) (unaudited)



* () : difference from GAAP base

* Total of current and long term

■ Jun-14
■ Sep-14

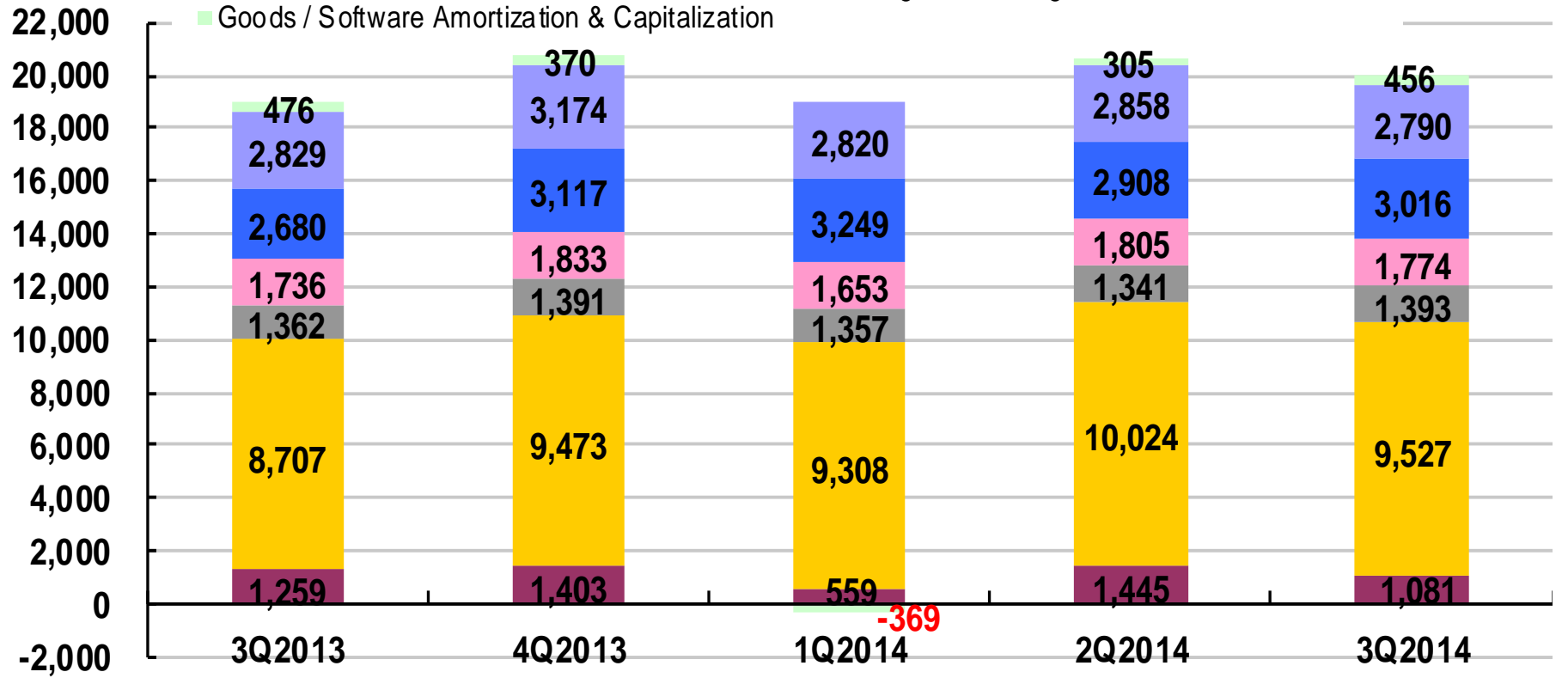
• Each JPY amount as of the end of 3Q2014 shown above has been calculated by applying to the relevant foreign currency deferred revenue amount as of the end of 3Q2014 the exchange rate between such foreign currency and JPY that was used to convert the deferred revenue amount denominated in such foreign currency as of the end of 2Q2014 into a JPY deferred revenue amount for Japan GAAP reporting purposes. (Non-GAAP)

Cost

(unaudited)

(i)

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

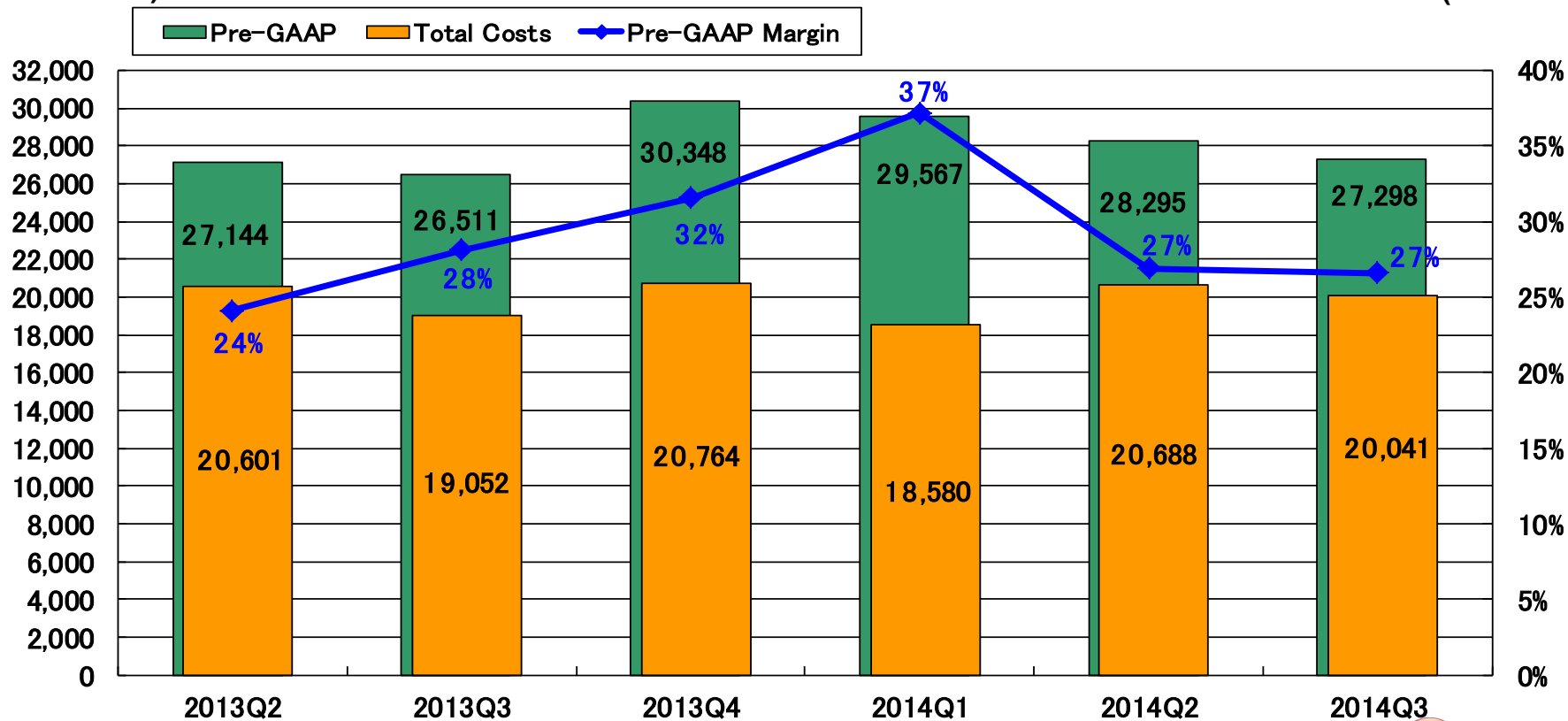


(Non-GAAP)

Pre-GAAP vs. Total Costs

(in million Yen)

(unaudited)



* "Total costs" means COGS + SGA.

(Non-GAAP)

Cash flows

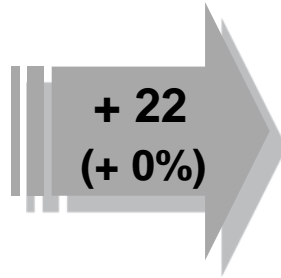
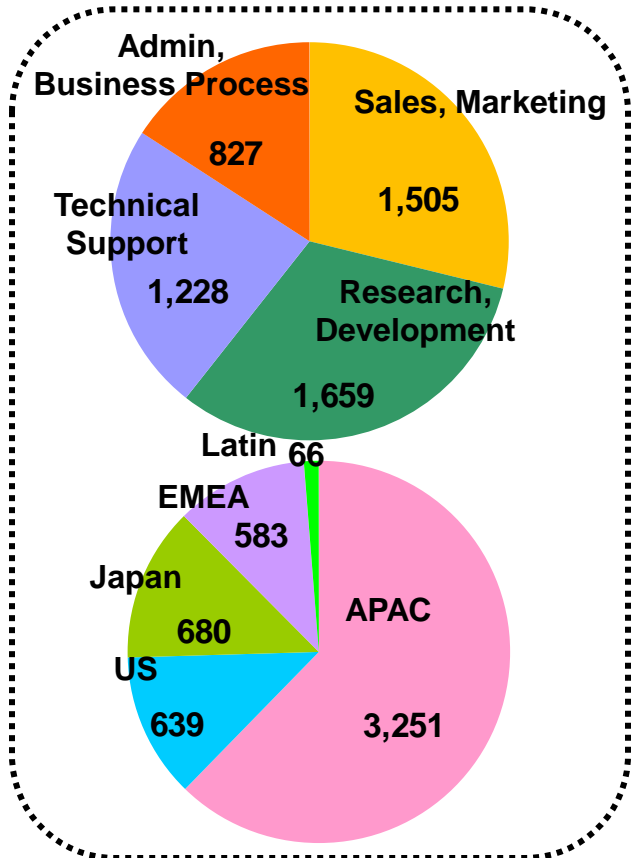
(unaudited)
(in million Yen)

	3Q2013	3Q2014	YoY growth
Cash flows from operating activities	4,627	6,412	+ 39%
Cash flows from investing activities	- 4,650	- 4,422	—
Cash flows from financing activities	3,662	684	- 81%
Effect of exchange rate changes on cash and cash equivalents	99	1,225	+ 1133%
Net increase (decrease) in cash and cash equivalents	3,739	3,899	+ 4%
Cash and cash equivalents at beginning of this quarter period	61,109	45,042	- 26%
Increase in cash due to merger of consolidated subsidiary	—	—	—
Cash and cash equivalents at end of this quarter period	64,848	48,942	- 25%

Headcount

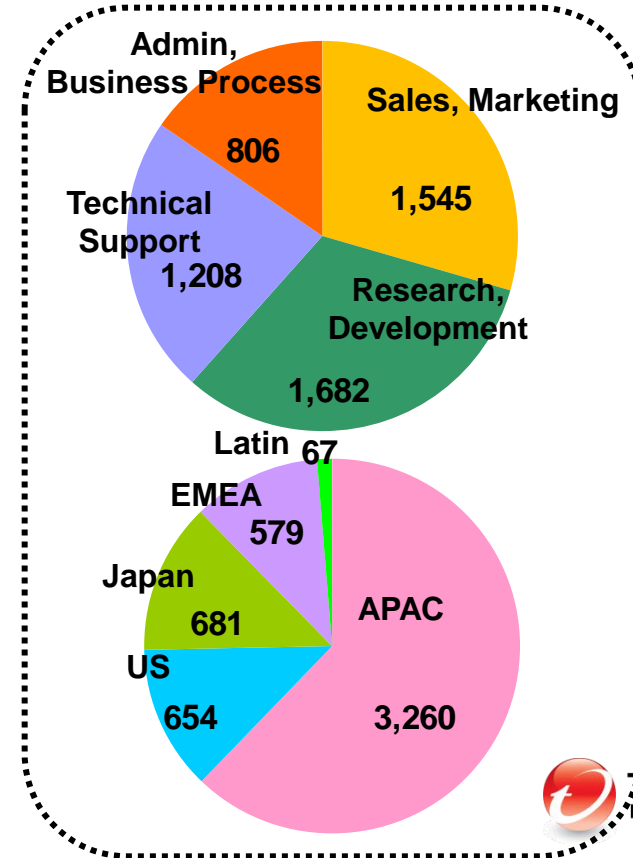
Jun - 2014

5,219



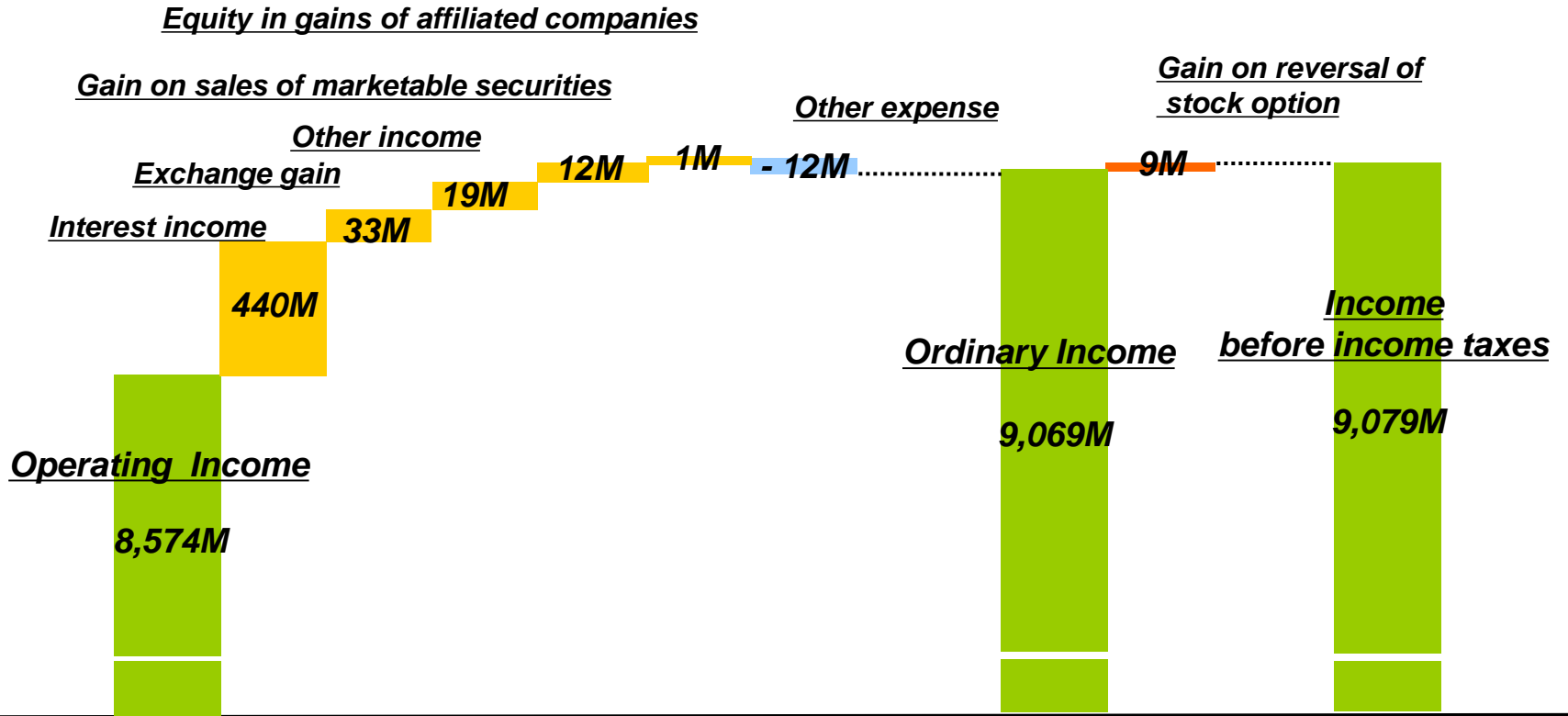
Sep - 2014

5,241



Non-operating & Extra-ordinary Items

(unaudited)



(Non-GAAP)



Balance Sheet

(unaudited)
(in million Yen)

	<i>Jun-2014</i>	<i>change</i>	<i>Sep-2014</i>
<u>Assets</u>			
<i>Cash & cash equivalents</i>	49,785	+ 4,301	54,086
<i>Account receivable</i> <i>(less allowance for doubtful accounts)</i>	21,903	+ 143	22,046
<i>Marketable securities & Securities investments</i>	134,054	+ 4,520	138,574
<u>Liabilities</u>			
<i>Deferred revenue</i> <i>(total of current and long-term)</i>	94,396	+ 577	94,973
<u>Shareholders' Equity</u>			
<i>Common Stock & Additional paid in capital</i>	40,236	+ 34	40,270
<i>Treasury Stock</i>	- 19,044	+ 852	- 18,192

Q3 Highlights

- ***Recovery of US Enterprise business***
- ***Growth of strategic product revenues continues***
- ***Operating margins maintained***

Q3 Lowlights

- ***US Consumer business still declining***
- ***Overall pricing pressure continues***

FY2014 9 months Financial Highlight

(January ~ September, 2014)

Consolidated Results (9 months)

(in million Yen)

9 months ended Sep 30,	2013(Q1-Q3)	(Progress vs. last year's annual result)	2014(Q1-Q3)	YoY growth	(Progress vs. current year's annual forecast)
Net sales	79,885	(74%)	83,941	+ 5%	(75%)
Cost of sales	14,736		14,577	- 1%	
Operating expenses	43,362		44,732	+ 3%	
Operating income (Margin)	21,786 (27%)	(74%)	24,630 (29%)	+ 13%	(82%)
Ordinary income	23,742	(73%)	26,504	+ 12%	(83%)
Net income	14,938	(76%)	16,490	+ 10%	(86%)

“For reference” Revenue before adjusting deferred revenue

Pre-GAAP	80,430		85,161	+ 6%
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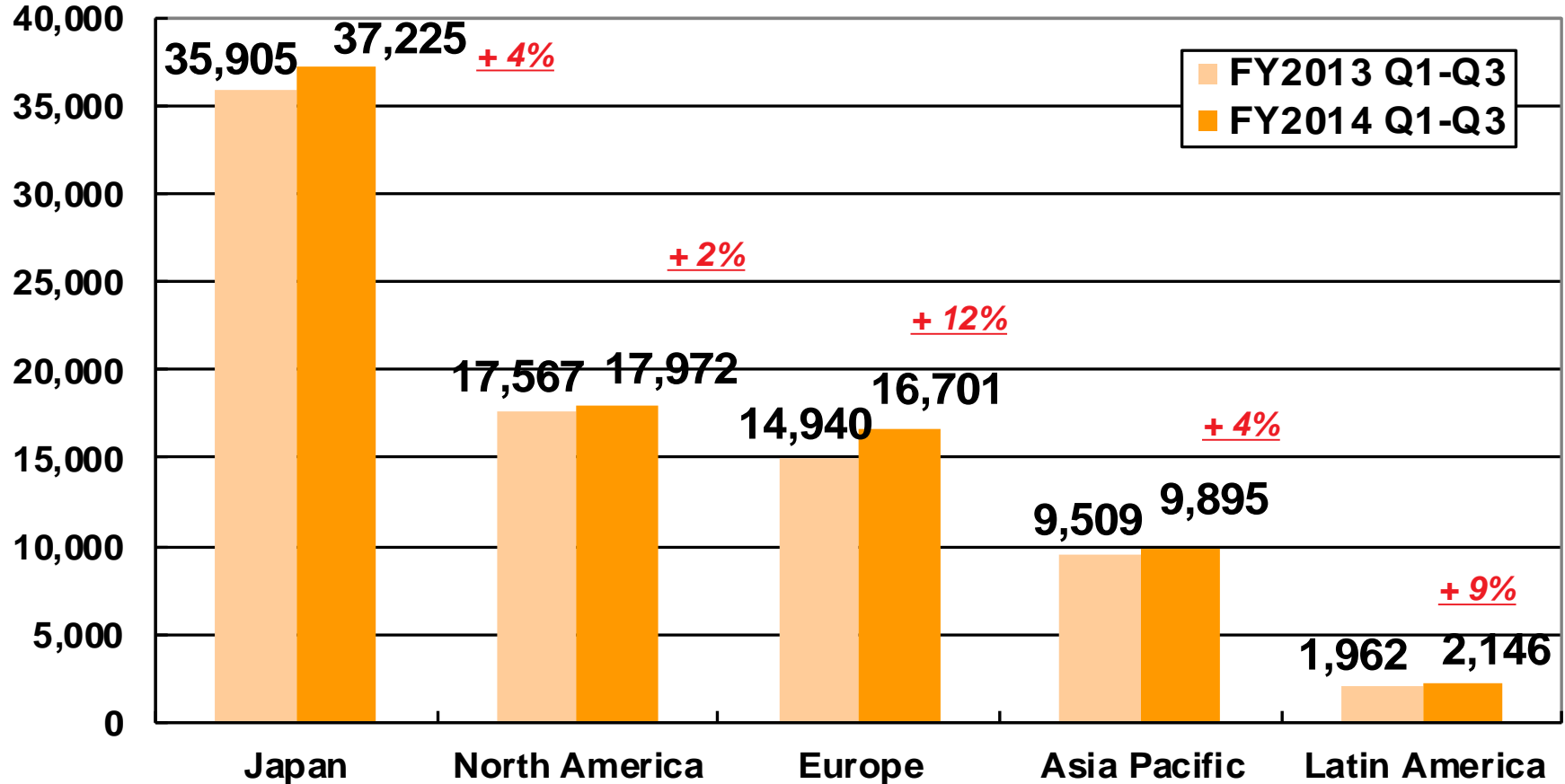
(Non-GAAP)



Net Sales Growth by Region

(in million Yen)

(unaudited)

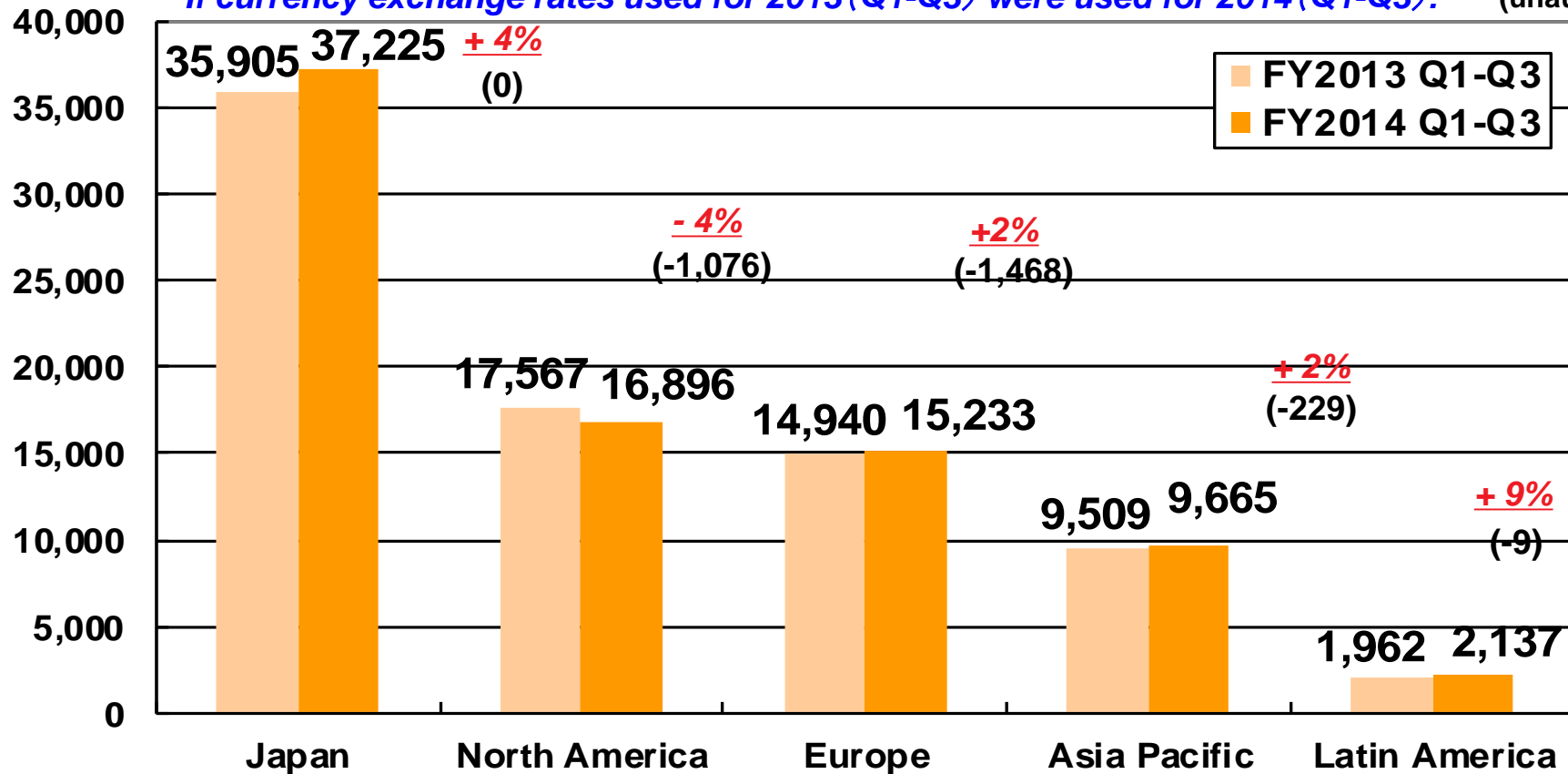


Net Sales Growth by Region

(in million Yen)

If currency exchange rates used for 2013(Q1-Q3) were used for 2014(Q1-Q3):

(unaudited)



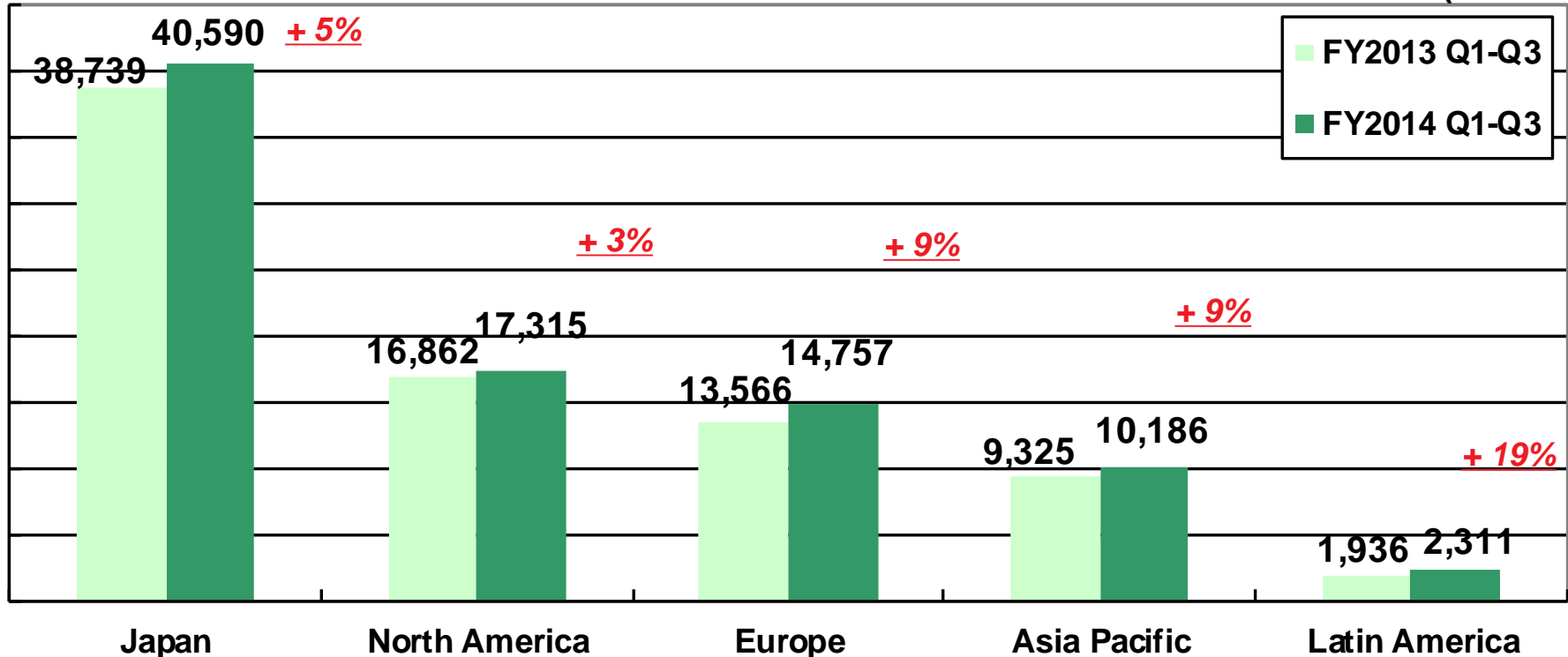
** Each JPY amount for 2014(Q1-Q3) shown above has been calculated by applying to the relevant foreign currency net sales amount for 2014(Q1-Q3) the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 2013(Q1-Q3) into a JPY net sales amount for Japan GAAP reporting purposes.*

“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



“Notice”

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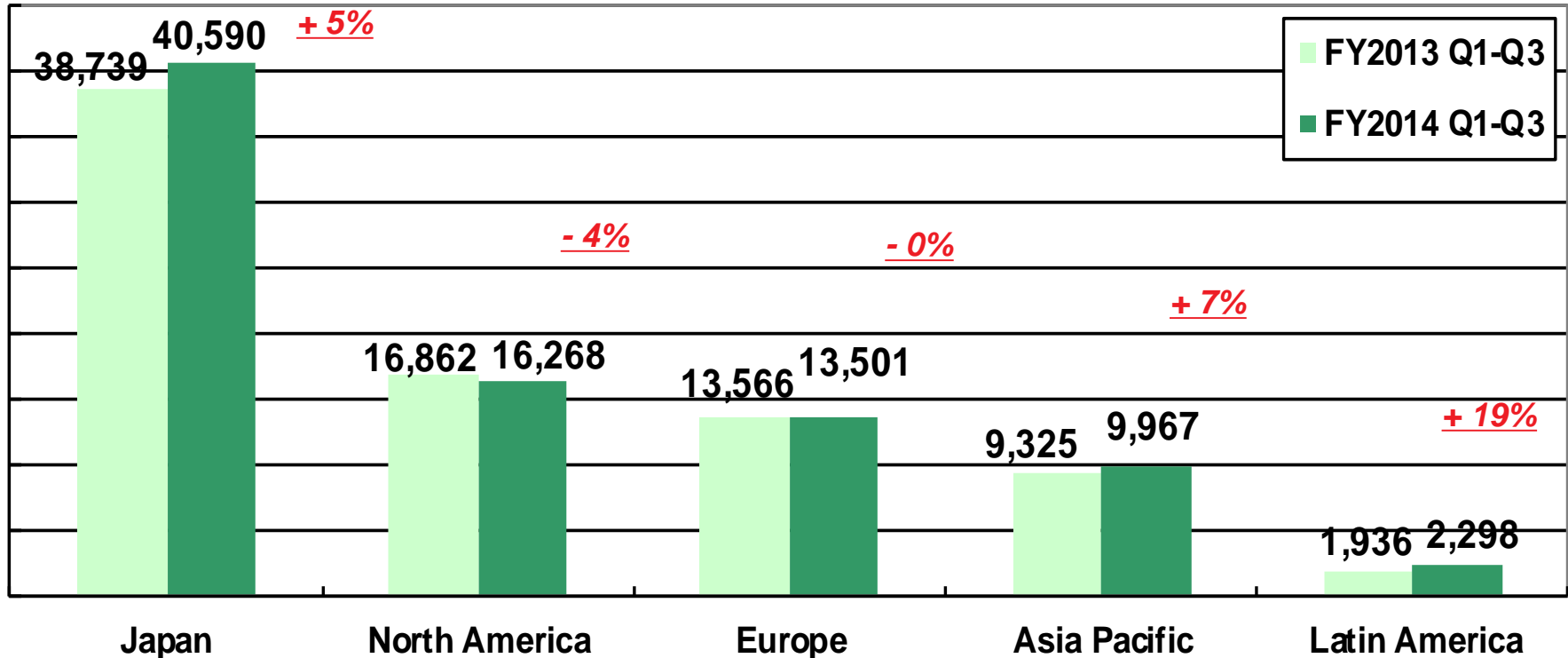
(Non-GAAP)

ICRO

“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

If currency exchange rates used for 2013(Q1-Q3) were used for 2014(Q1-Q3):



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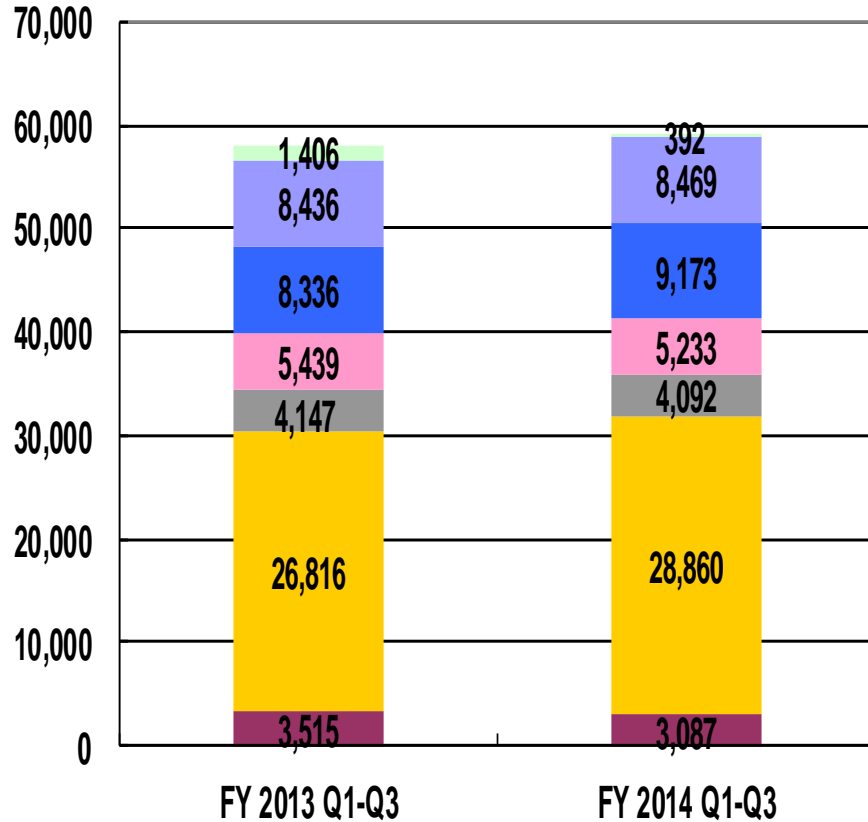
(Non-GAAP)

M I C R O

FY2014 Cost (9 months)

(unaudited)

(in million Yen)



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

YoY Growth

- 72%
- + 0%
- + 10%
- 4%
- 1%
- + 8%
- 12%

Total

+ 2%

Headcount

+ 2%



(Non-GAAP)

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>

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
Net sales	25,783	27,032	27,069	28,428	27,517	27,807	28,615	
Cost of sales	5,048	4,796	4,890	4,642	4,622	4,682	5,272	
Operating expenses	13,396	15,804	14,161	16,122	13,958	16,005	14,768	
Operating income	7,338	6,430	8,017	7,663	8,937	7,119	8,574	
Ordinary income	7,646	8,031	8,064	8,713	9,686	7,748	9,069	
Net income	4,820	4,754	5,363	4,656	6,038	4,726	5,726	
(Costs)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Goods / Software Amortization & Capitalization	713	217	476	370	-369	305	456	
Selling & Marketing	2,688	2,917	2,829	3,174	2,820	2,858	2,790	
Administration	2,844	2,812	2,680	3,117	3,249	2,908	3,016	
Outside service	1,737	1,964	1,736	1,833	1,653	1,805	1,774	
Office overhead	1,380	1,404	1,362	1,391	1,357	1,341	1,393	
Salary & Benefit	8,408	9,701	8,707	9,473	9,308	10,024	9,527	
Stock option cost	429	1,330	1,008	1,131	287	1,116	853	
Acquisition related costs	242	252	250	272	272	329	228	
Total	18,444	20,601	19,052	20,764	18,580	20,688	20,041	
The number of employees	5,094	5,110	5,137	5,217	5,201	5,219	5,241	
Applied rate to yen (US\$)	92.47	98.75	98.96	100.61	102.77	102.16	104.00	
Applied rate to yen (Euro)	121.89	128.91	131.09	136.97	140.87	140.02	137.78	

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	12,232	13,058	
US	5,480	6,085	6,001	6,047	5,998	5,939	6,034	
Europe	4,779	5,022	5,138	5,631	5,632	5,594	5,474	
Asia Pacific	3,143	3,282	3,083	3,416	3,288	3,302	3,303	
Latin America	637	675	649	687	662	739	745	
Total	25,783	27,032	27,069	28,428	27,517	27,807	28,615	
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	16,383	17,040	17,362	18,118	18,132	18,185	18,432	
Consumer	9,400	9,991	9,706	10,310	9,384	9,622	10,183	
Total	25,783	27,032	27,069	28,428	27,517	27,807	28,615	
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	13,004	12,811	12,923	11,834	14,865	12,866	12,857	
US	5,694	5,632	5,535	5,906	5,877	5,760	5,678	
Europe	4,434	4,857	4,274	8,172	4,875	5,159	4,723	
Asia Pacific	3,016	3,157	3,152	3,669	3,273	3,687	3,225	
Latin America	625	685	625	766	675	821	813	
Total	26,774	27,144	26,511	30,348	29,567	28,295	27,298	

“Notice”

**Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.
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