

# Trend Micro FY2015.4Q Results



Mahendra Negi CFO, Representative Director

February 18, 2016



# ***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.**

# ***FY2015. 4Q Financial Highlight***

**(Forth quarter ended December 31, 2015)**

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# Q4 Consolidated Results

(in million Yen)

Three months ended Dec 31,	4Q2014	4Q2015	YoY growth
Net sales	31,264	32,718	+ 5%
Cost of sales	5,853	5,552	- 5%
Operating expenses	16,390	20,310	+ 24%
Operating income <i>(Margin)</i>	9,021 <i>(29%)</i>	6,855 <i>(21%)</i>	- 24%
Ordinary income	9,487	6,983	- 26%
Net income	5,812	4,290	- 26%
<i>“For reference” Revenue before adjusting deferred revenue</i>			
Pre-GAAP	32,656	36,046	+ 10%
		<i>(excluding foreign exchange impact)</i>	+ 15%

(Non-GAAP)

*If currency exchange rates used for 4Q2014 were used for 4Q2015*

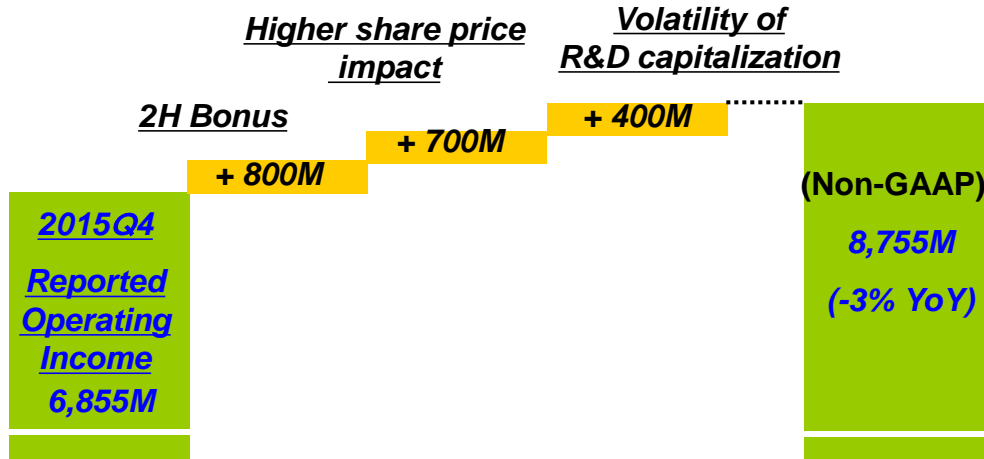
Net sales	31,264	33,386	+ 7%
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\* The JPY amount for 4Q2015 shown above has been calculated by applying to each foreign currency net sales amount for 4Q2015 the weighted average exchange rate between such foreign currency and JPY that was used to convert the net sales amount denominated in such foreign currency for 4Q2014 into a JPY net sales amount for Japan GAAP reporting purposes.

(Non-GAAP)

# Q4 Special cost items

- **Bonus due to YoY growth of Pre-GAAP based operating income for 2H (no bonus in 2014Q4): Approx. 0.8 billion yen**
- **Allowance for virtual share bonus plan corresponding with higher share price (from 4,215 yen as of 2015Q3 to 4,930 yen as of 2015Q4): Approx. 0.7 billion yen**
- **Volatility of the timing of R&D capitalization (from P/L to B/S): Approx. 0.4 billion yen**

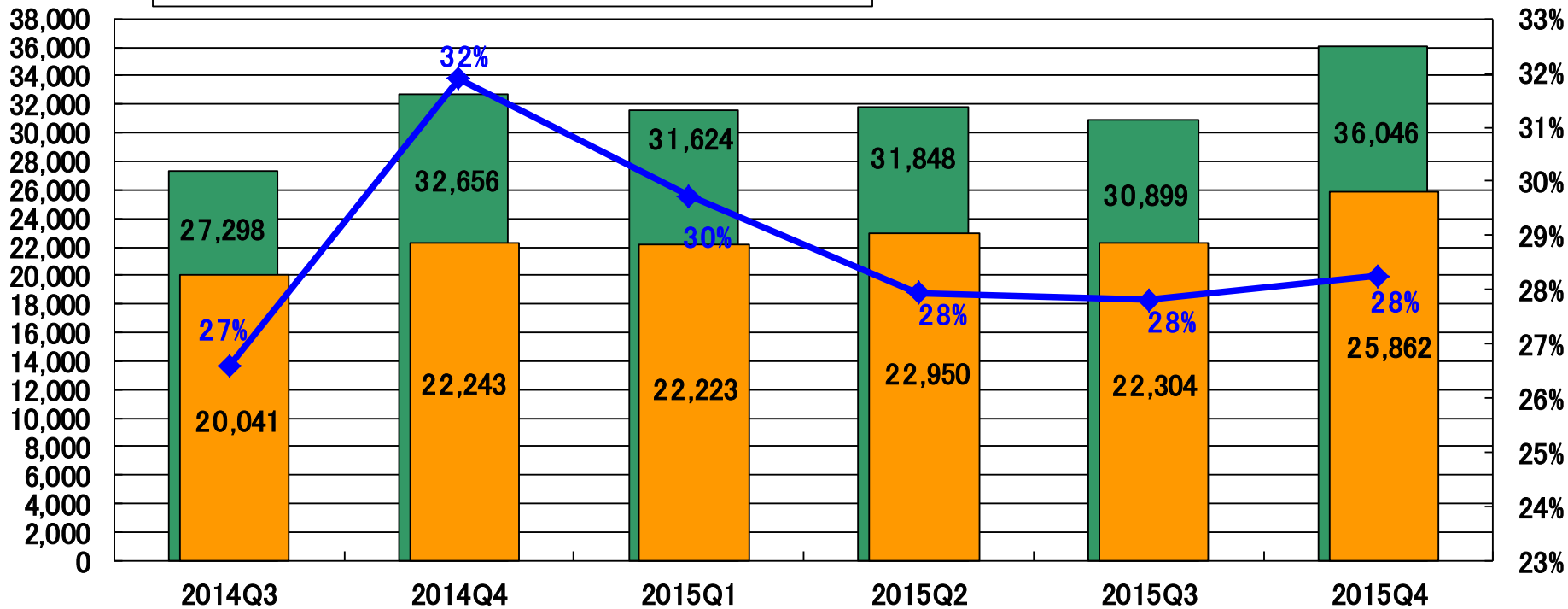


# Pre-GAAP v s Total Costs

(in million Yen)

(unaudited)

Pre-GAAP Total Costs Pre-GAAP Margin



\* "Total costs" means COGS + SGA.

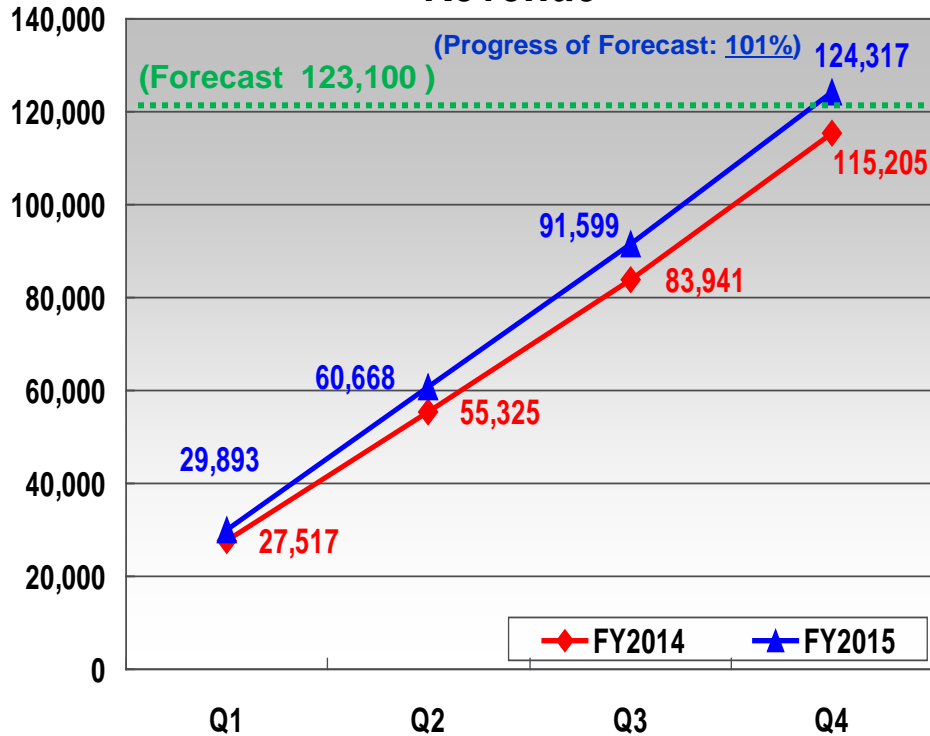
(Non-GAAP)



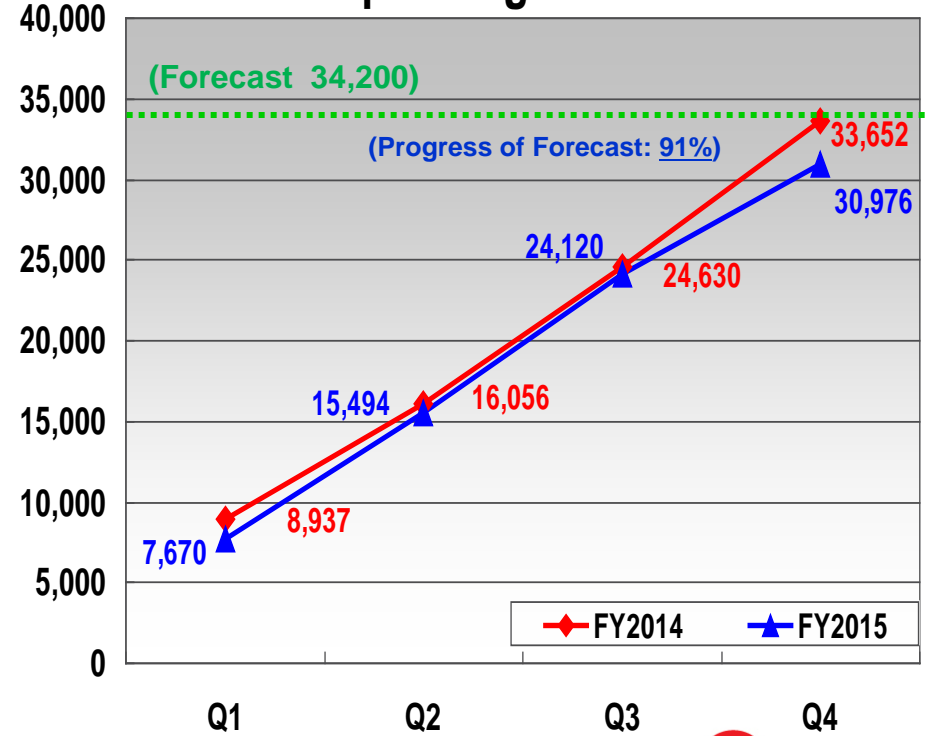
# Progress (12 months)

(in million Yen)

## Revenue



## Operating Income



# Q4 USD based Results (Non-GAAP)

(unaudited)

<i>Three months ended Dec 31,</i>	<i>4Q2014</i>	<i>4Q2015</i>	<i>(in thousand USD) YoY change</i>
Net sales	272,339	269,221	- 1%
Cost of sales	50,984	45,687	- 10%
Operating expenses	142,770	167,122	17%
Operating income	78,584	56,411	- 28%
Ordinary income	82,645	56,897	- 31%
Net Income	55,630	35,306	- 30%

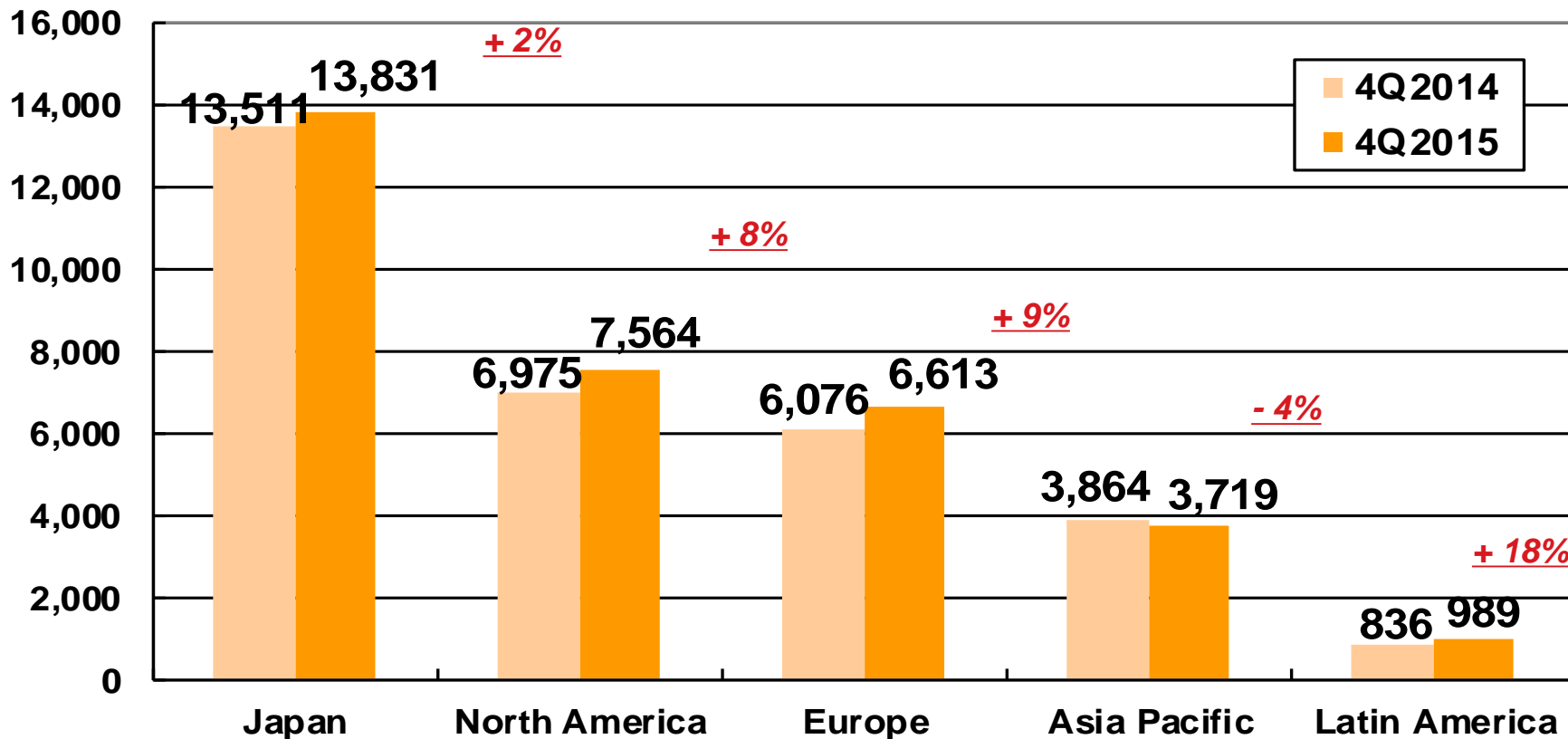
(Non-GAAP)

*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=114.80 JPY for 4Q2014 and 1 USD =121.53 JPY for 4Q2015, 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)

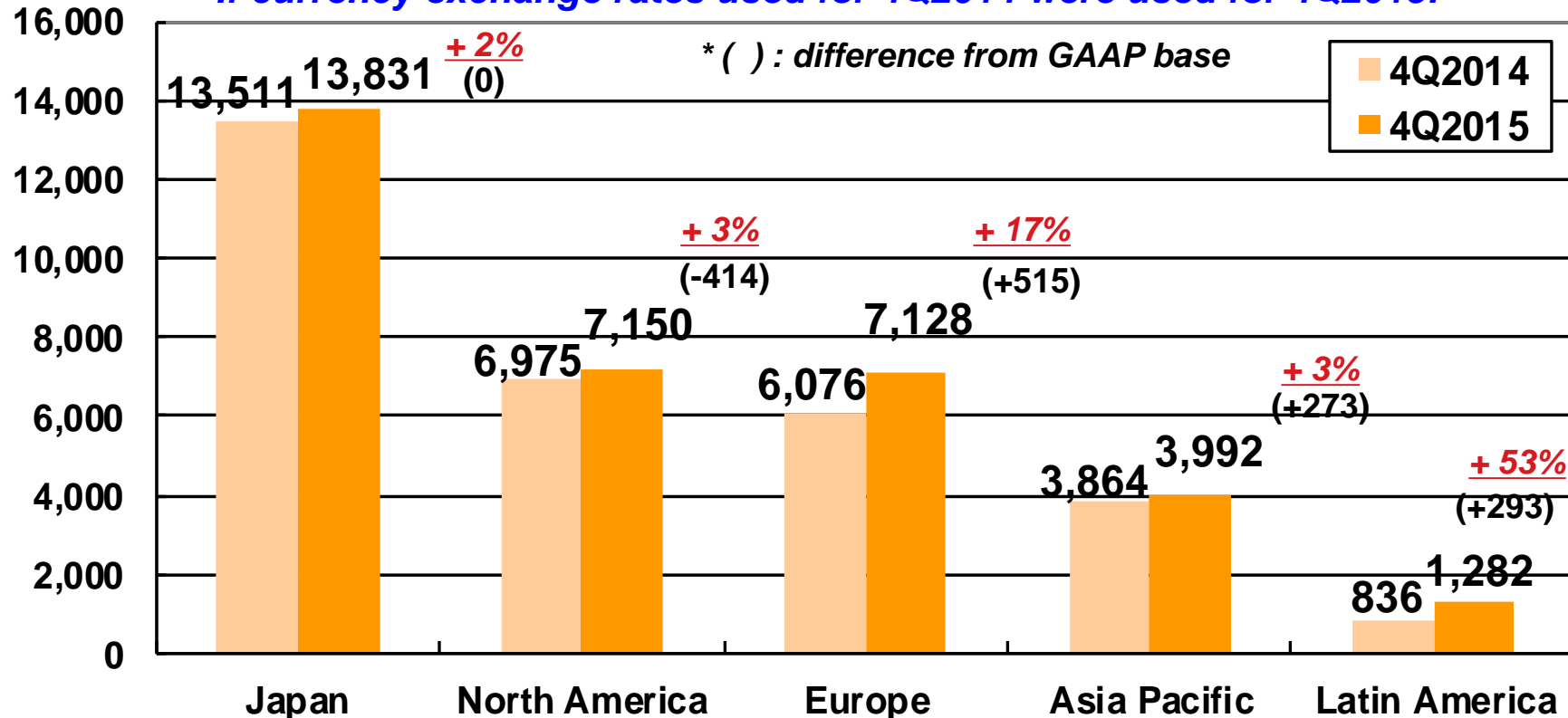


# Net Sales Growth by Region

(in million Yen)

*If currency exchange rates used for 4Q2014 were used for 4Q2015:*

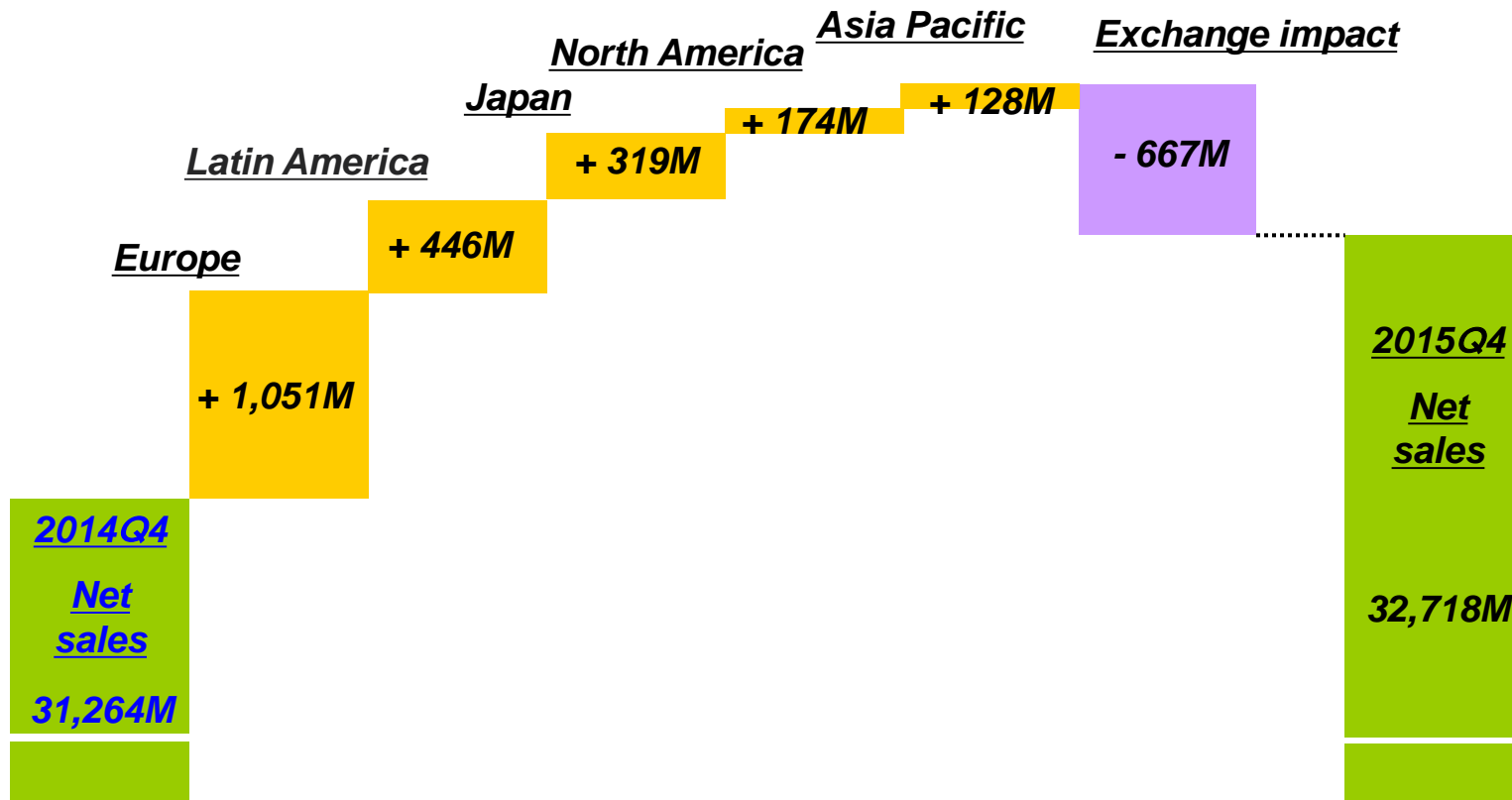
(unaudited)



\* Each JPY amount for 4Q2015 shown above has been calculated by applying to the relevant foreign currency net sales amount for 4Q2015 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 4Q2014 into a JPY net sales amount for Japan GAAP reporting purposes. (Non-GAAP)

# Decomposition of Revenue (vs. last year)

(unaudited)



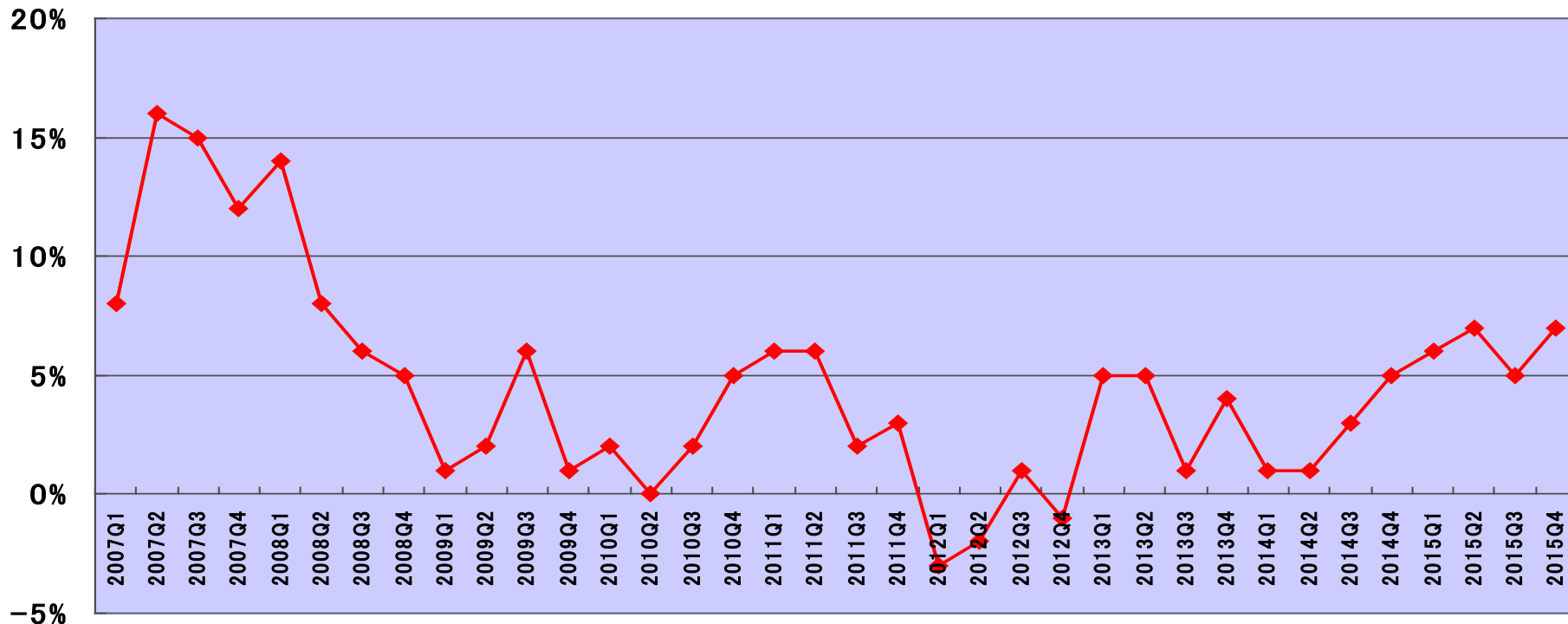
(Non-GAAP)



# Constant currency Revenue growth

(YoY)

(unaudited)



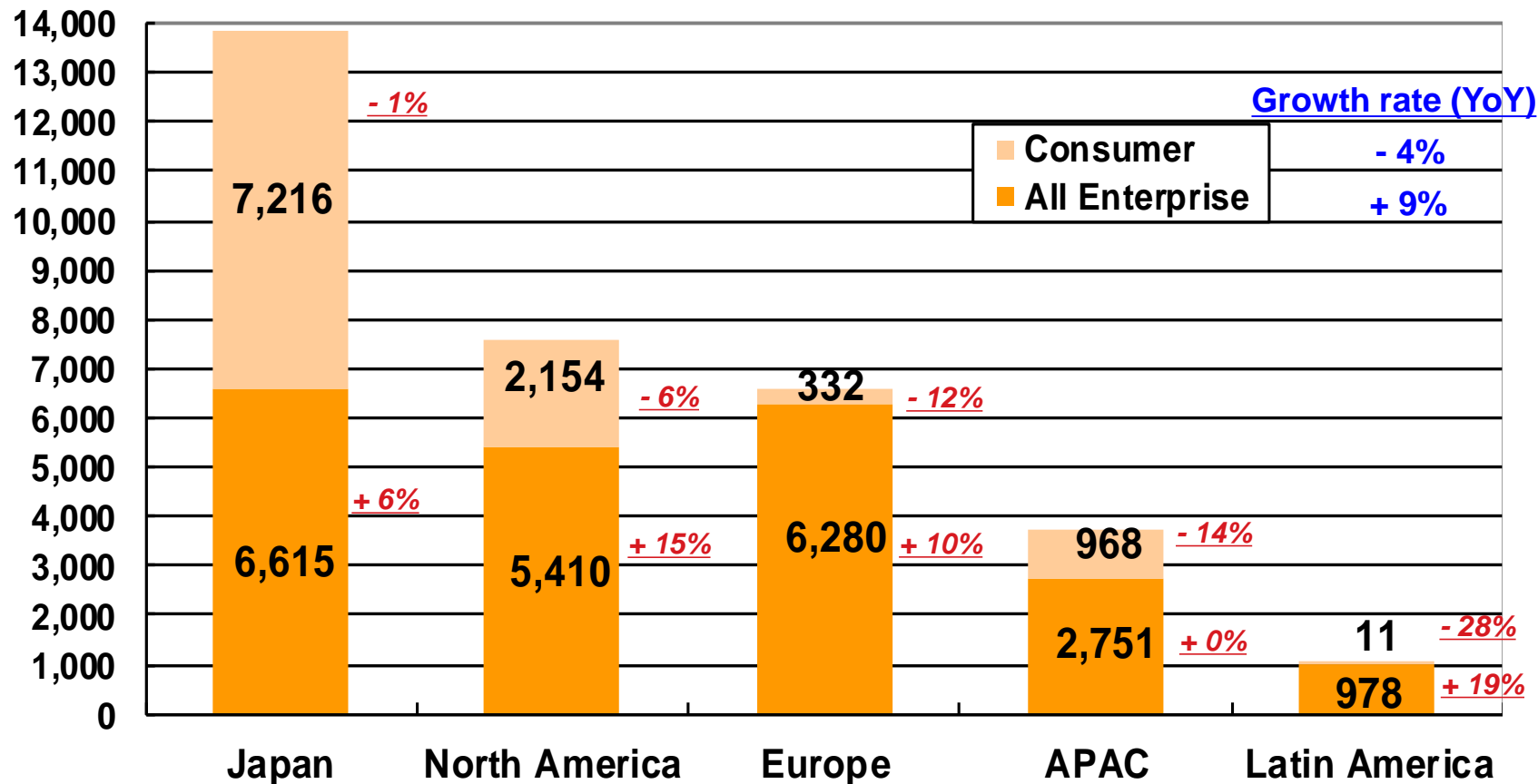
(Non-GAAP)

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

(in million Yen)

# Sales by Segment

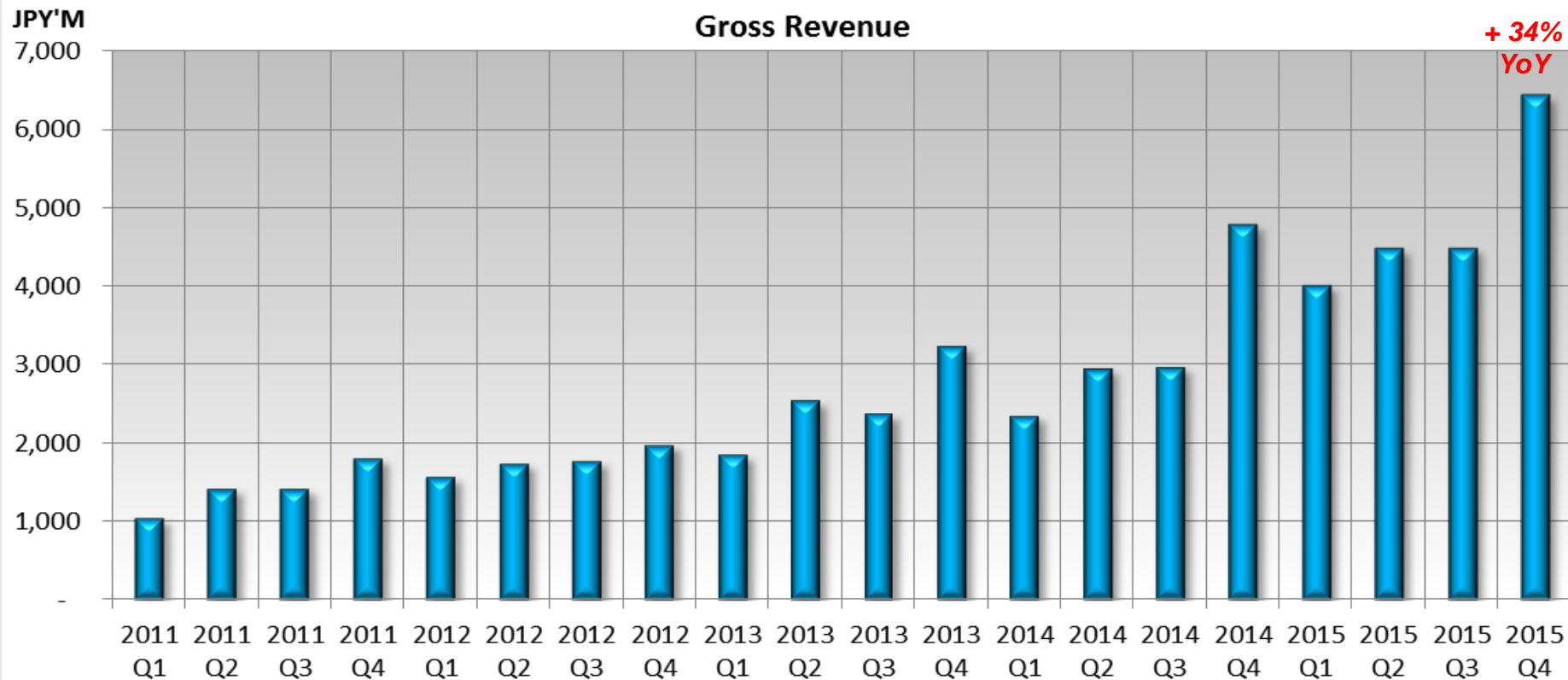
(unaudited)



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

RFND  
(Non-GAAP) RO

# “Cloud related” Gross sales



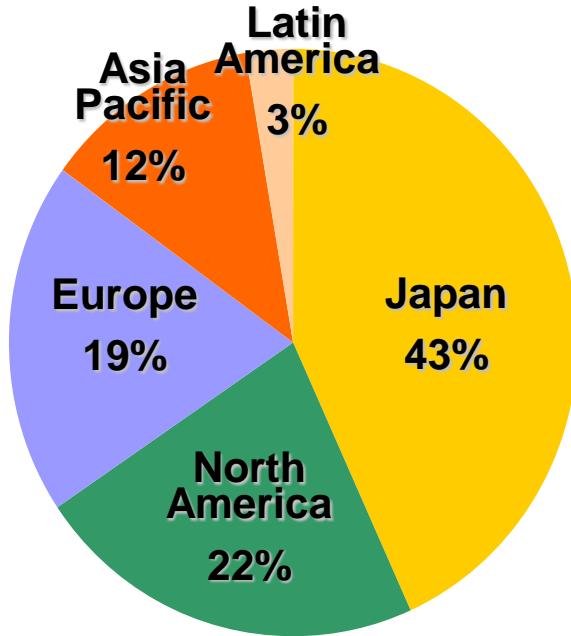
**“Notice” As above numbers are just for internal use, they may be subject to some changes hereafter.**

(Non-GAAP)

# *% share by region*

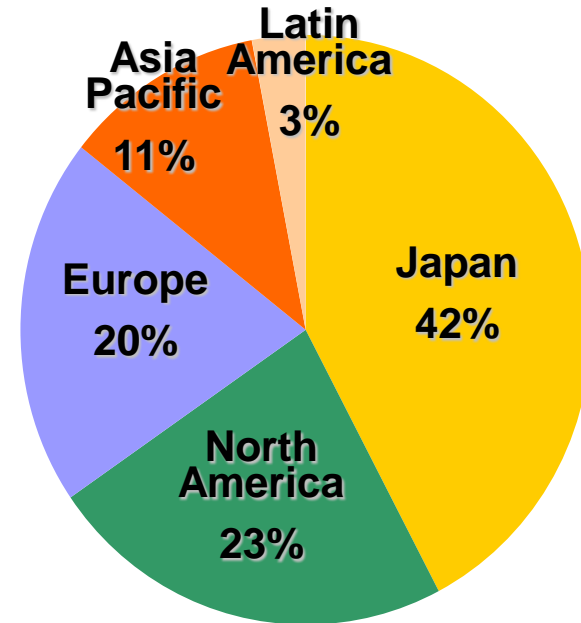
**4Q2014**

**31,264 million Yen**



**4Q2015**

**32,718 million Yen**

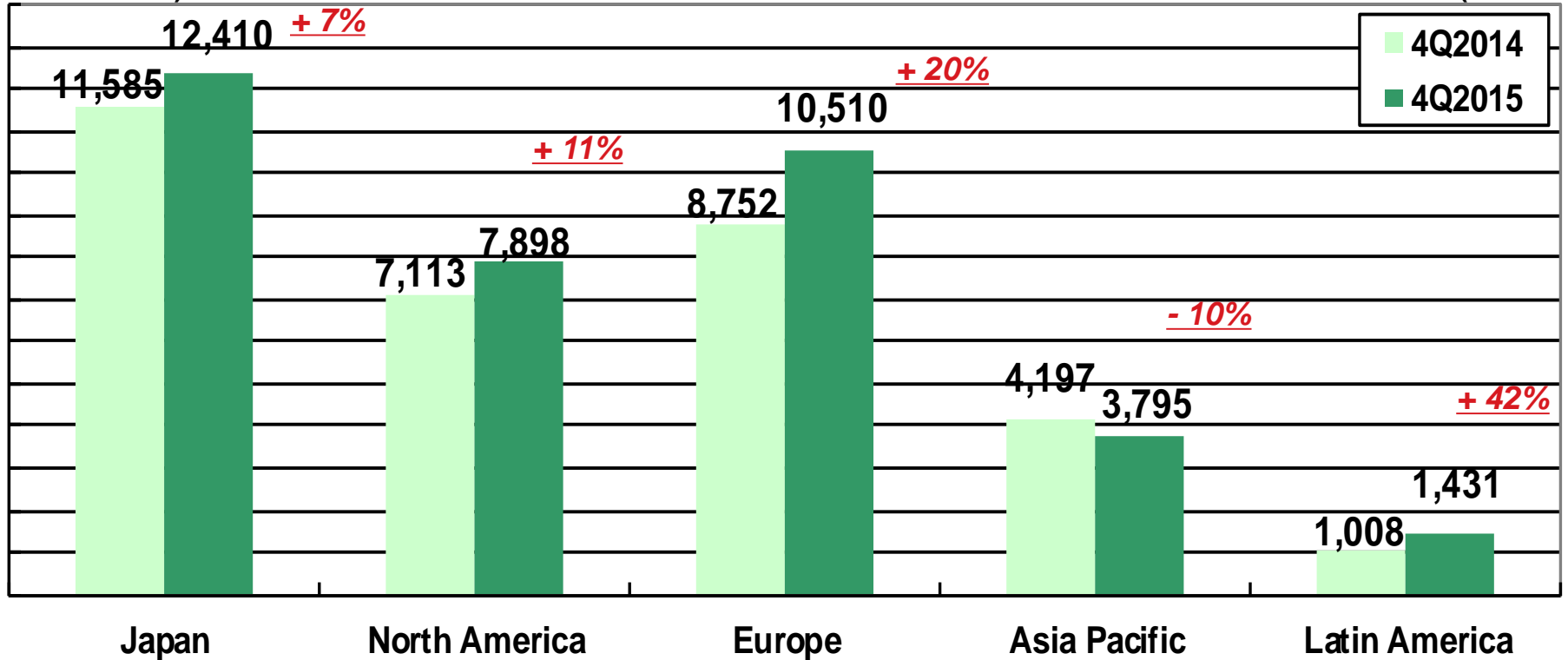


**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(unaudited)



**“Notice”**

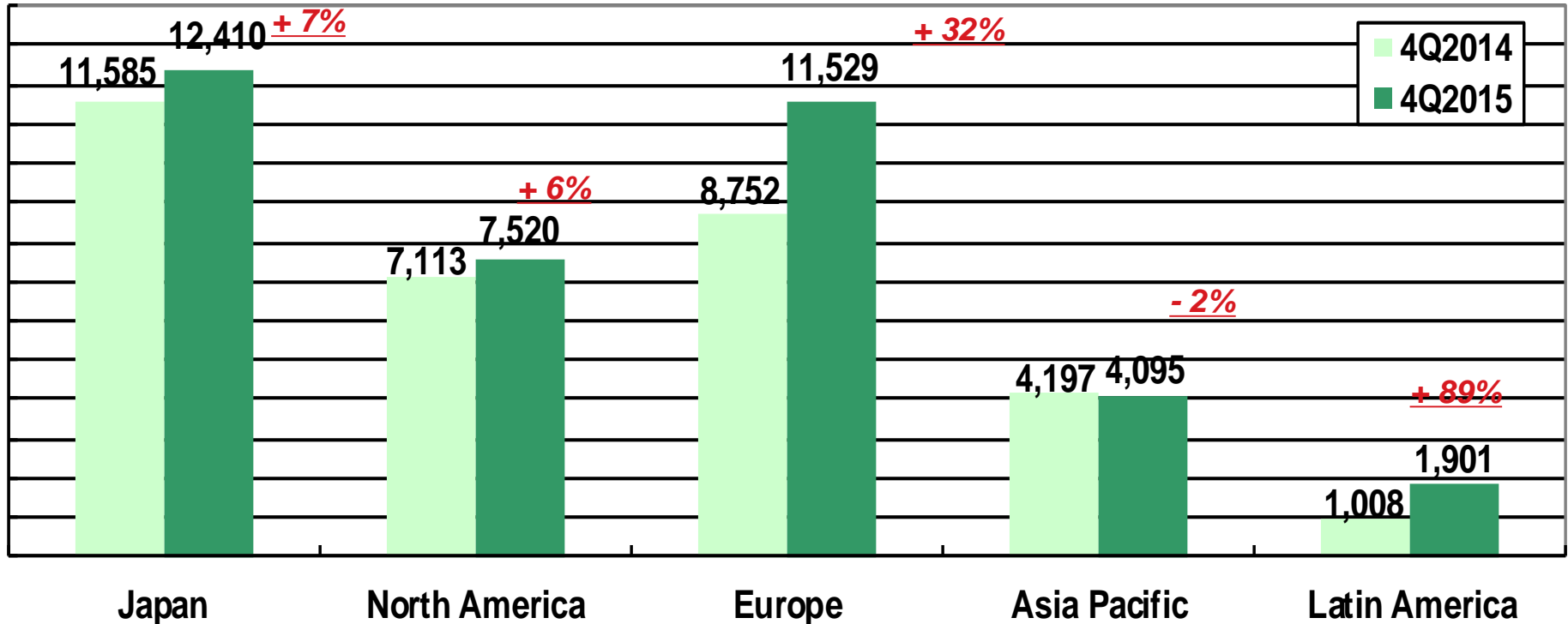
**Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.  
As these numbers are just for internal use, they may be subject to some changes hereafter.**

(Non-GAAP)

**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen) *If currency exchange rates used for 4Q2014 were used for 4Q2015:* (unaudited)



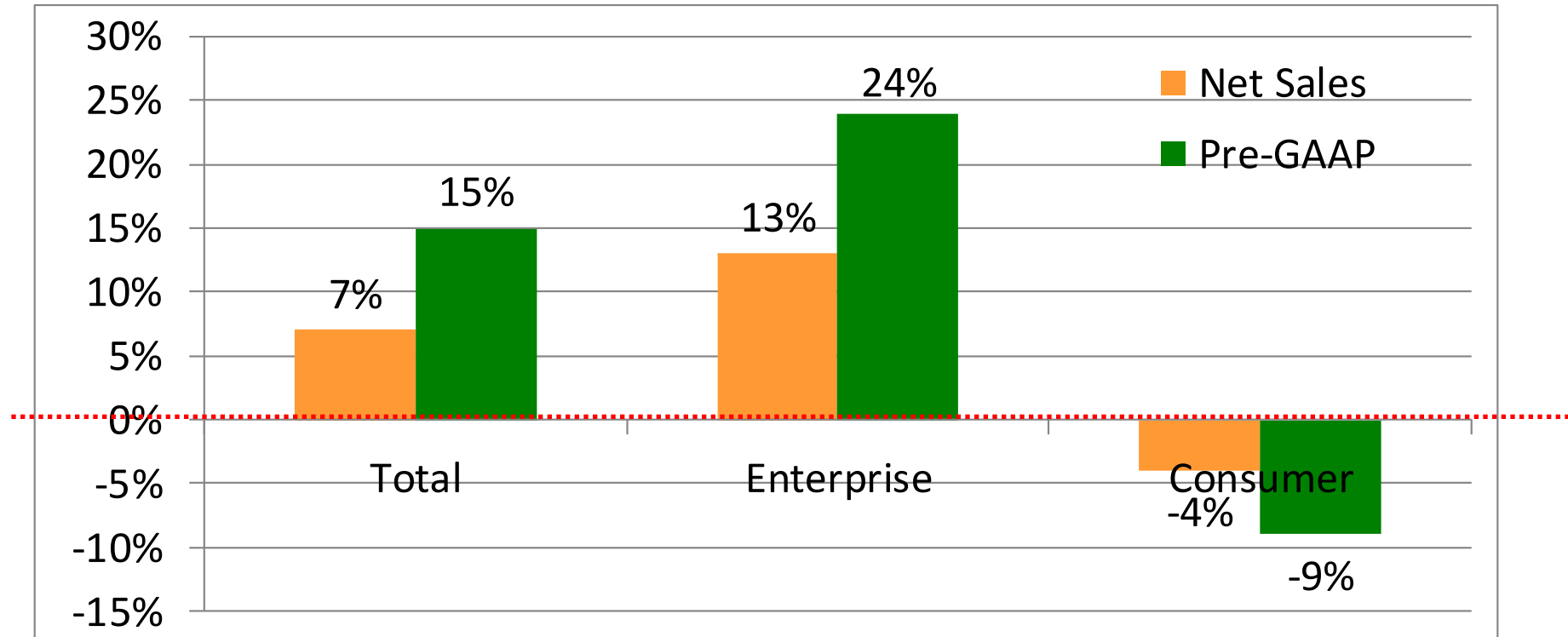
**“Notice”**

*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)

# Net sales & Pre-GAAP growth trend (on a constant currency basis)

(Non-GAAP)



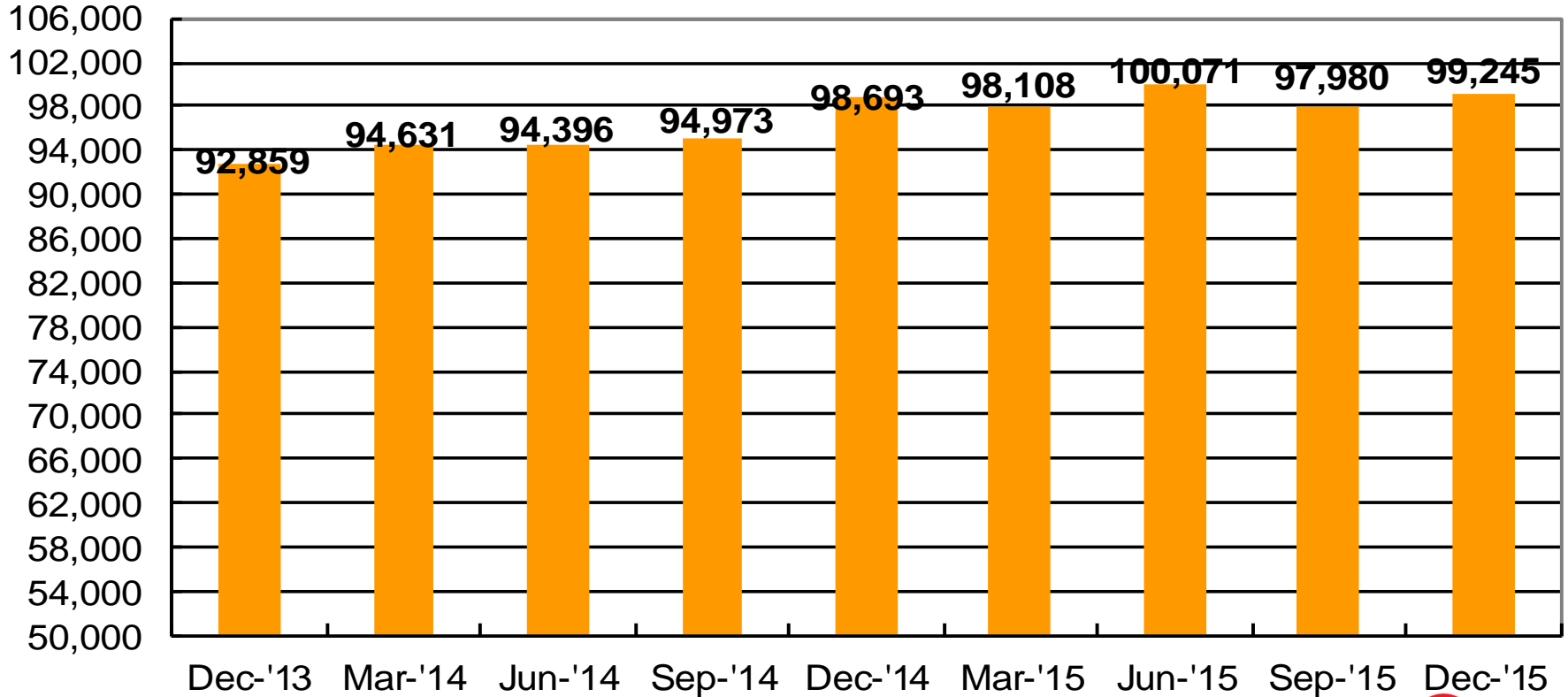
• Each growth rate shown above is based on applying to each quarter the same currency rate as the previous year for the same period

# Deferred Revenue

(in million Yen)

\* Total of current and long term

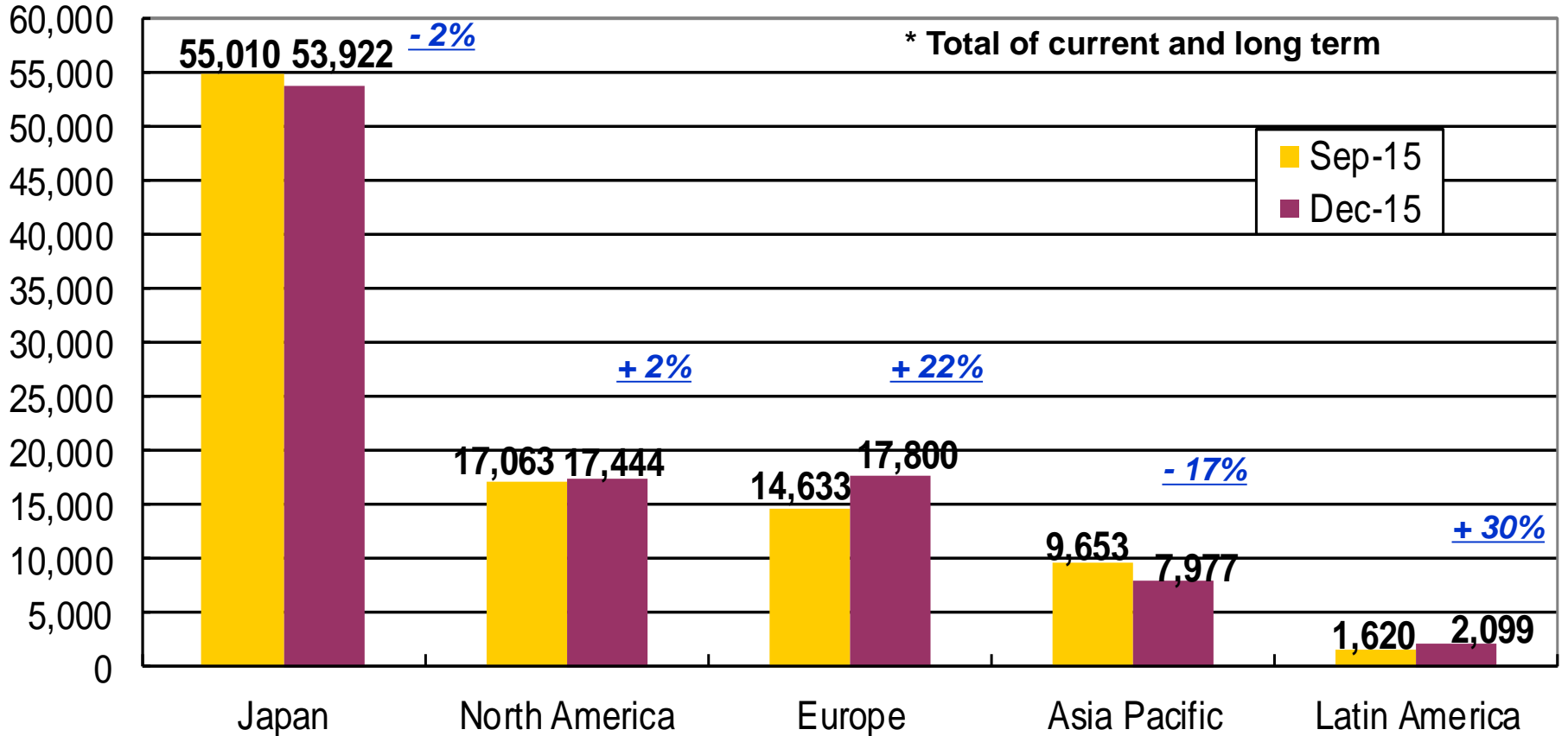
(unaudited)



# Deferred Revenue by Region

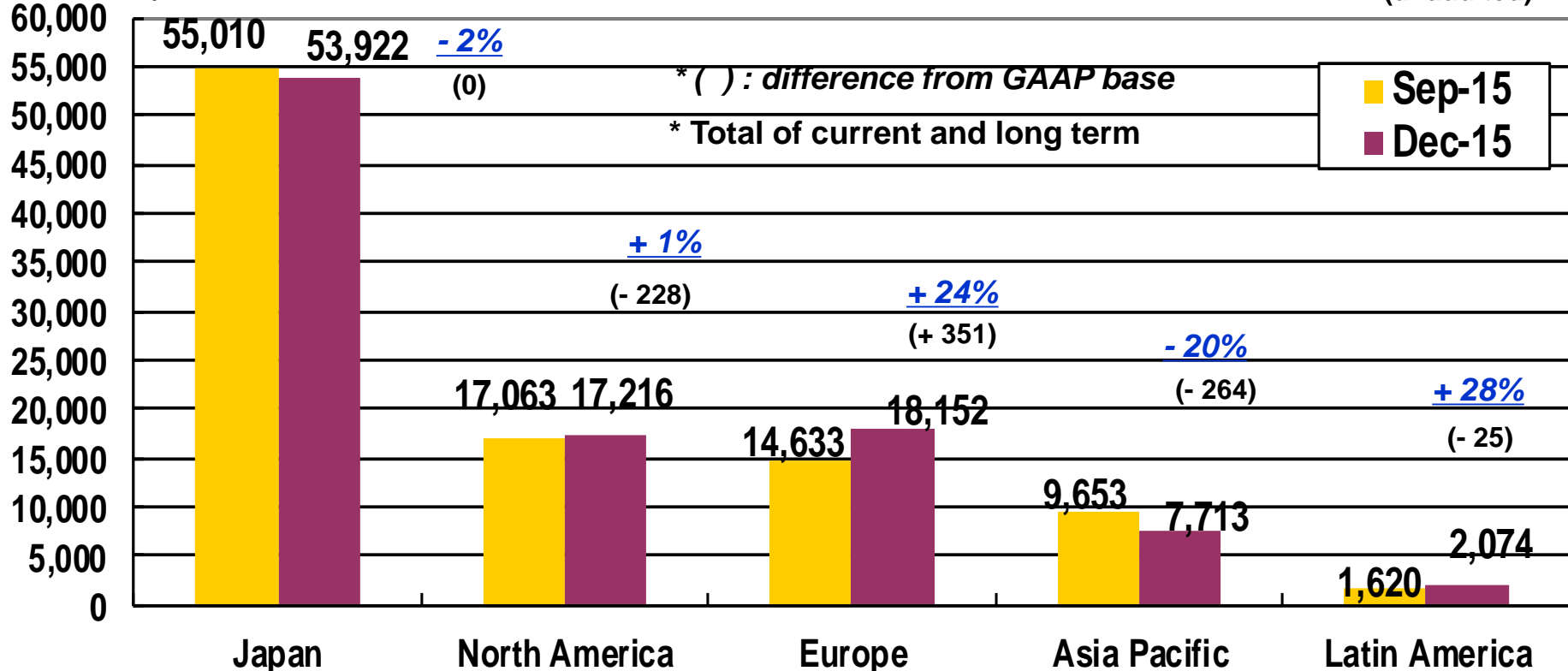
(in million Yen)

(unaudited)



# Deferred Revenue by Region

If currency exchange rates used as of the end of 3Q2015 were used as of the end of 4Q2015: (in million Yen) (unaudited)

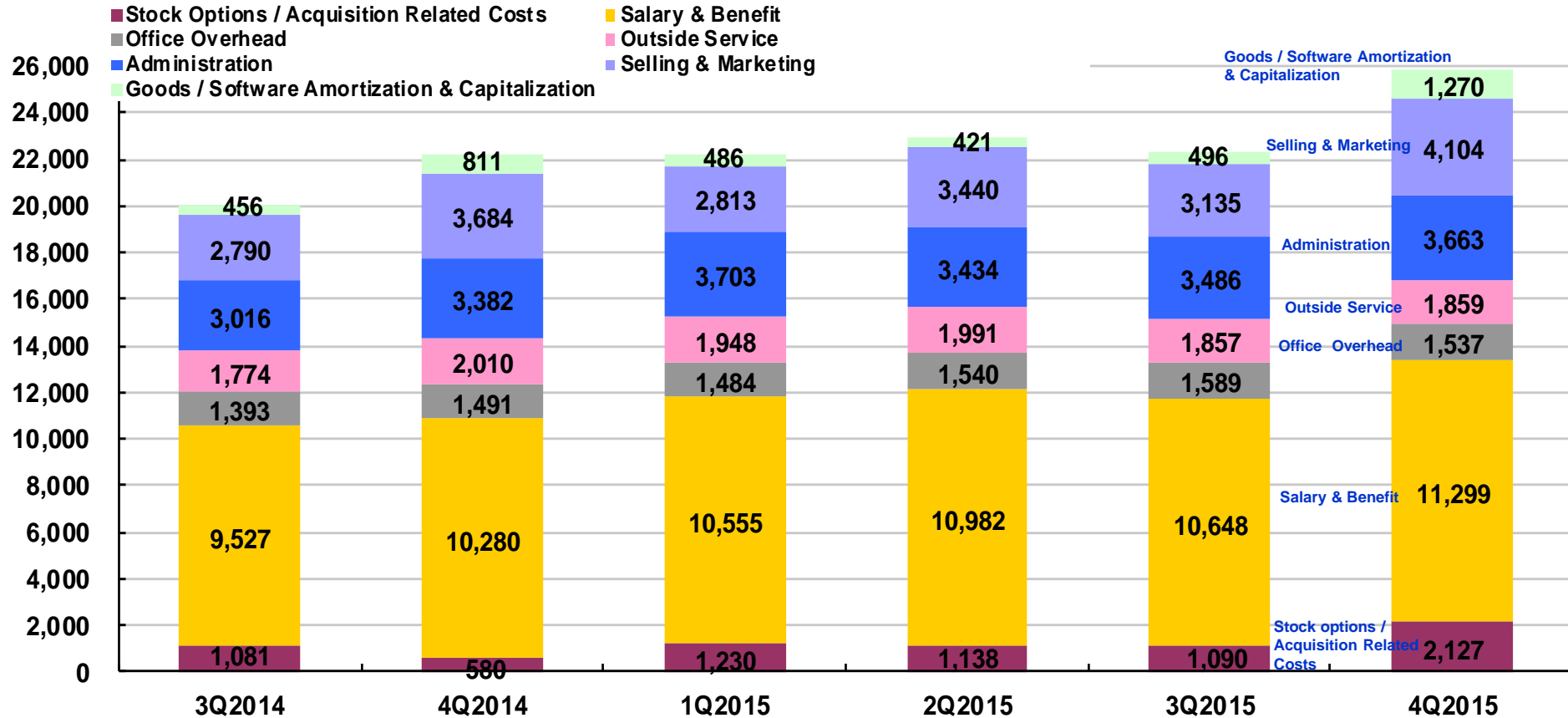


Each JPY amount as of the end of 4Q2015 shown above has been calculated by applying to the relevant foreign currency deferred revenue amount as of the end of 4Q2015 the exchange rate between such foreign currency and JPY that was used to convert the deferred revenue amount denominated in such foreign currency as of the end of 3Q2015 into a JPY deferred revenue amount for Japan GAAP reporting purposes. (Non-GAAP)

# Cost

(in million Yen)

(unaudited)



# Cash flows

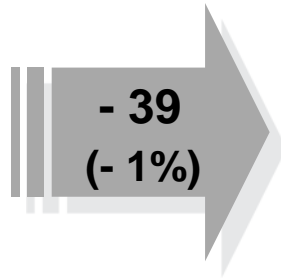
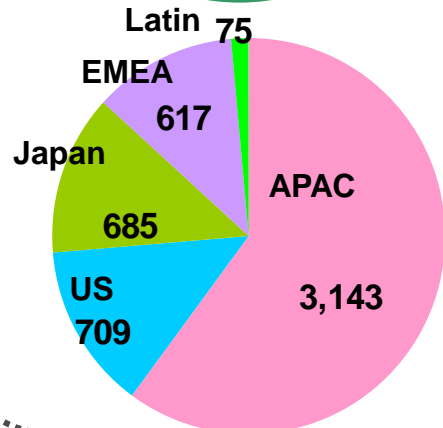
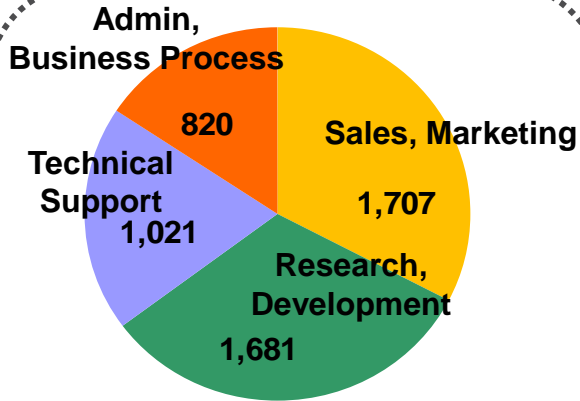
(unaudited)  
(in million Yen)

	4Q2014	4Q2015	YoY growth
Cash flows from operating activities	8,358	7,611	- 9%
Cash flows from investing activities	- 2,192	15,015	—
Cash flows from financing activities	1,024	1,048	+ 2%
Effect of exchange rate changes on cash and cash equivalents	2,530	147	- 94%
Net increase (decrease) in cash and cash equivalents	9,720	23,823	+ 145%
Cash and cash equivalents at beginning of this quarter period	48,942	46,855	- 4%
Increase in cash due to merger of consolidated subsidiary	—	—	—
Cash and cash equivalents at end of this quarter period	58,662	70,678	+ 20%

# Headcount

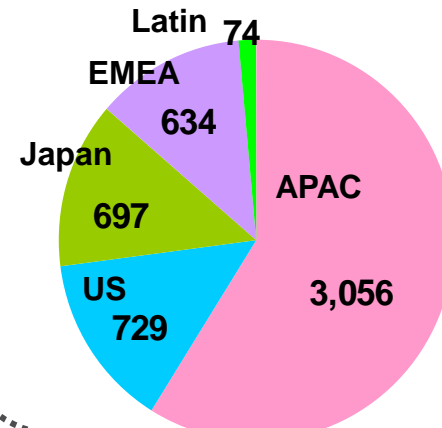
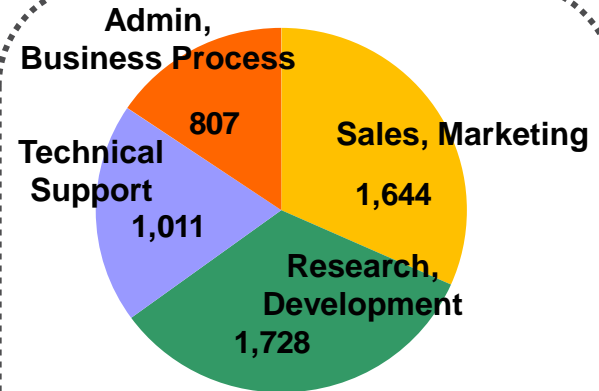
Sep - 2015

**5,229**



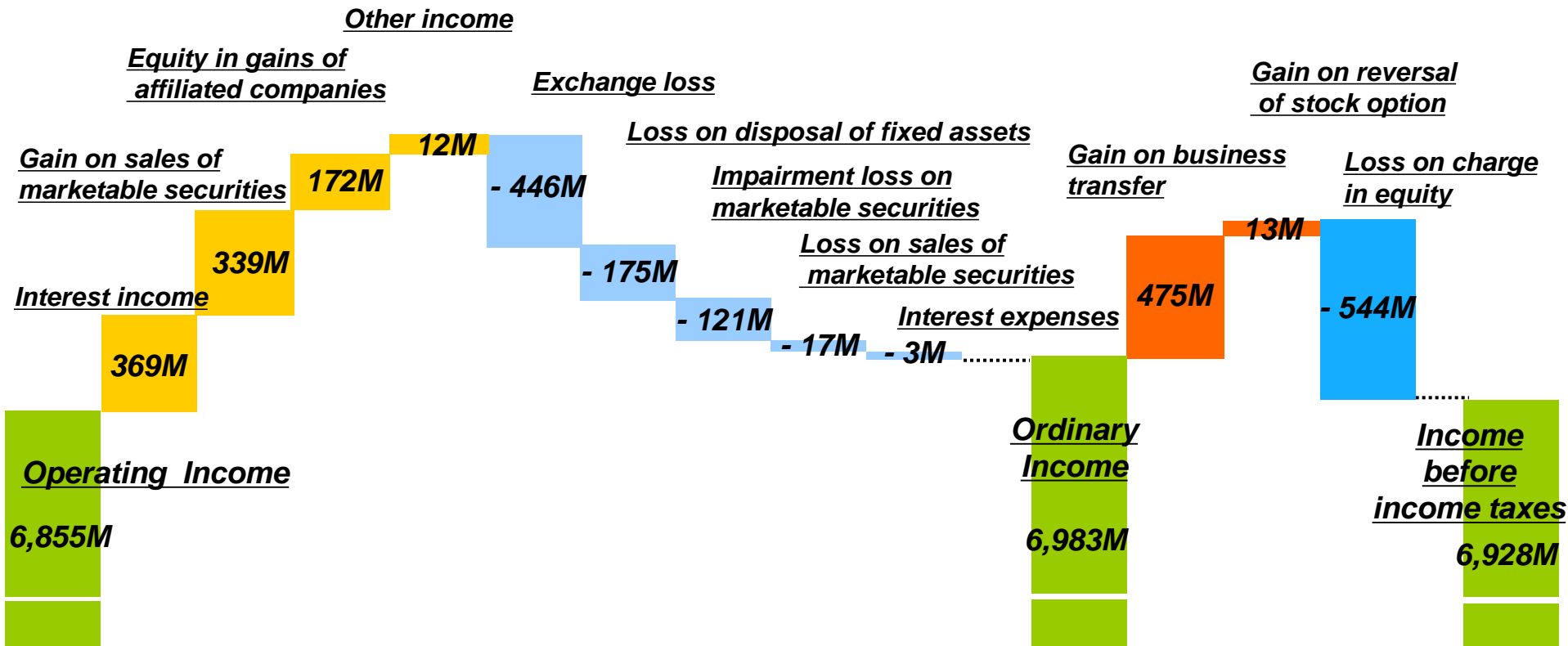
Dec - 2015

**5,190**



# Non-operating & Extra-ordinary Items

(unaudited)



(Non-GAAP)



# Balance Sheet

(unaudited)  
(in million Yen)

	Sep-2015	change	Dec-2015
<b><u>Assets</u></b>			
<i>Cash &amp; cash equivalents</i>	51,159	+ 22,679	73,838
<i>Account receivable</i> <i>(less allowance for doubtful accounts)</i>	24,833	+ 5,136	29,969
<i>Marketable securities &amp;</i> <i>Securities investments</i>	151,974	- 19,049	132,925
<b><u>Liabilities</u></b>			
<i>Deferred revenue</i> <i>(total of current and long-term)</i>	97,980	+ 1,265	99,245
<b><u>Shareholders' Equity</u></b>			
<i>Common Stock &amp;</i> <i>Additional paid in capital</i>	40,731	+ 86	40,817
<i>Treasury Stock</i>	- 11,593	+ 1,267	- 10,326

# ***Q4 Highlights***

- ***Strongest Enterprise pre GAAP revenue growth in at least 10 years***
- ***Strong performance by Europe***
- ***Cloud / network security products continue to do well***

# **Q4 Lowlights**

- ***Decline in consumer revenues***
- ***Higher variable costs reduce margins***

# ***FY2015 12 months Financial Highlight***

**(January ~ December, 2015)**

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# Consolidated Results (12 months)

(in million Yen)

12 months ended Dec 31,	2014(Q1-Q4)	2015(Q1-Q4)	YoY growth	(Progress vs. current year's annual forecast)
Net sales	115,205	124,317	+ 8%	(101%)
Cost of sales	20,430	21,272	+ 4%	
Operating expenses	61,122	72,069	+ 18%	
Operating income (Margin)	33,652 ( 29%)	30,976 ( 25%)	- 8%	(91%)
Ordinary income	35,992	34,071	- 5%	(93%)
Net income	22,303	21,435	- 4%	(95%)
Earnings per share (Yen)	165.68	157.71	- 5%	
Dividend per share (Yen)	116.00	110.00	- 5%	

*“For reference” Revenue before adjusting deferred revenue*

Pre-GAAP	117,818	130,419	+ 11%
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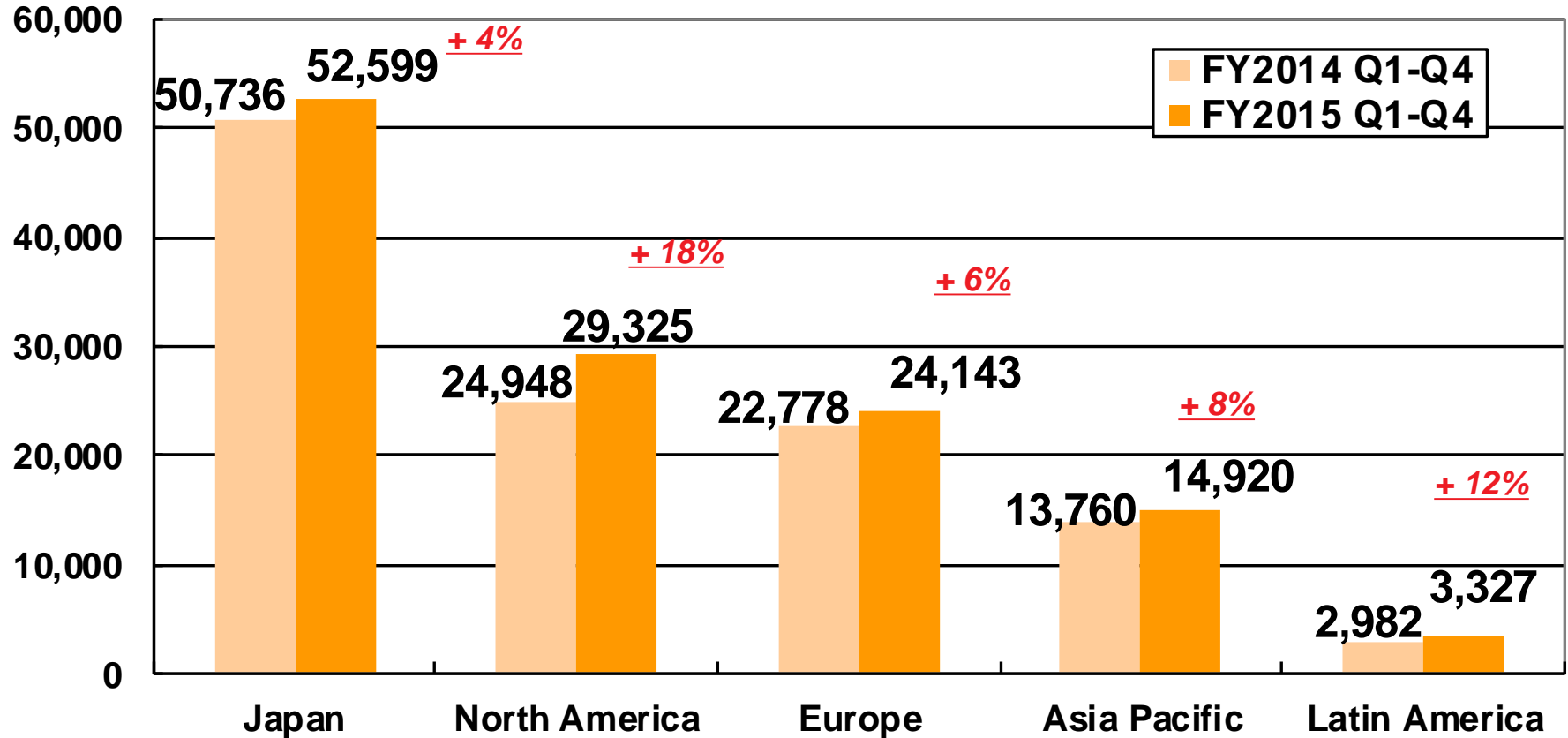
(Non-GAAP)



# Net Sales Growth by Region

(in million Yen)

(unaudited)

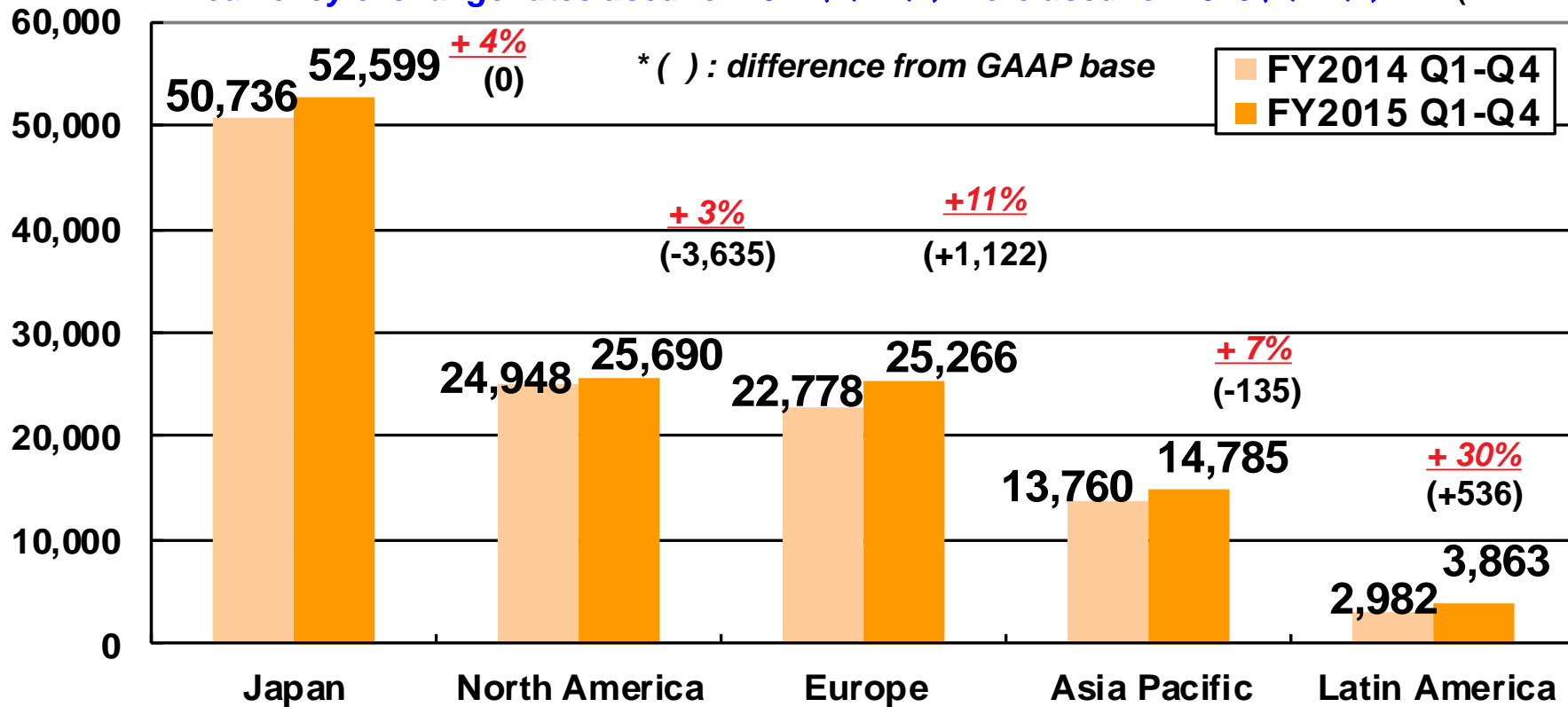


# Net Sales Growth by Region

(in million Yen)

*If currency exchange rates used for 2014 (Q1-Q4) were used for 2015 (Q1-Q4):*

(unaudited)



\* Each JPY amount for 2015(Q1-Q4) shown above has been calculated by applying to the relevant foreign currency net sales amount for 2015(Q1-Q4) 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 2014(Q1-Q4) into a JPY net sales amount for Japan GAAP reporting purposes.

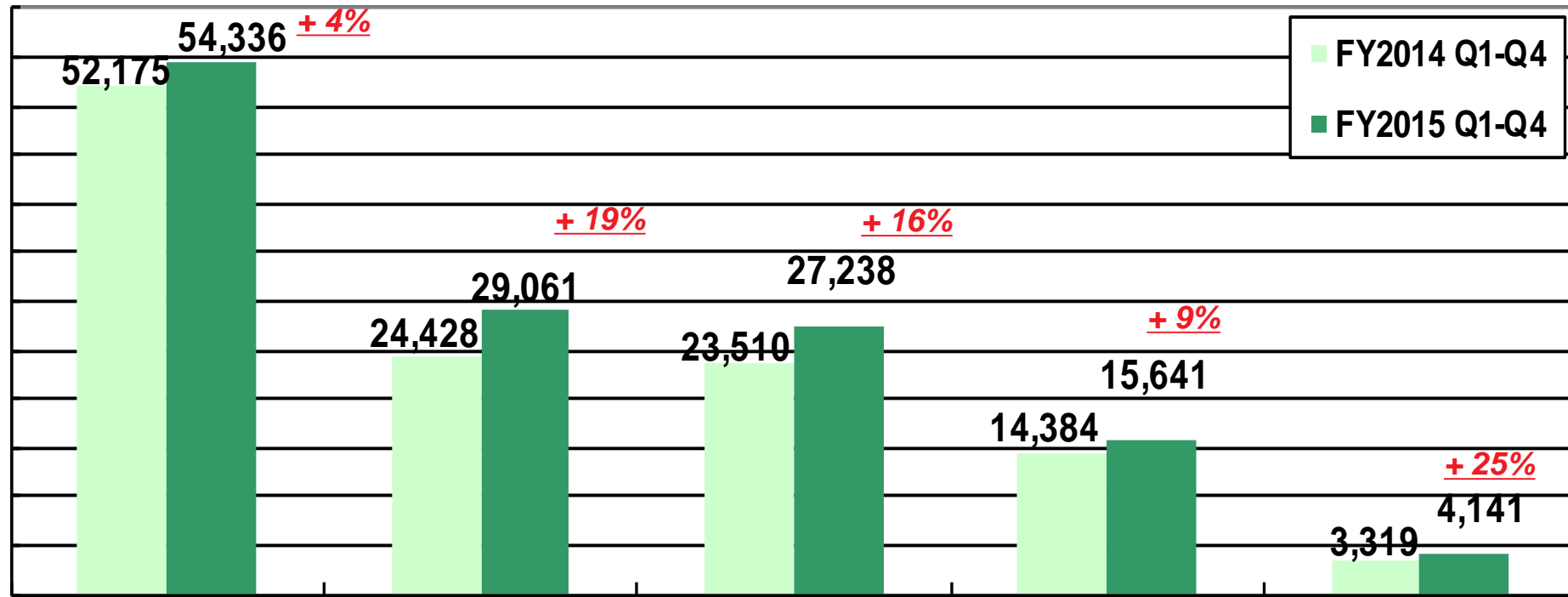
(Non-GAAP)

**“For reference”**

# Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

(未監査)



**“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.**

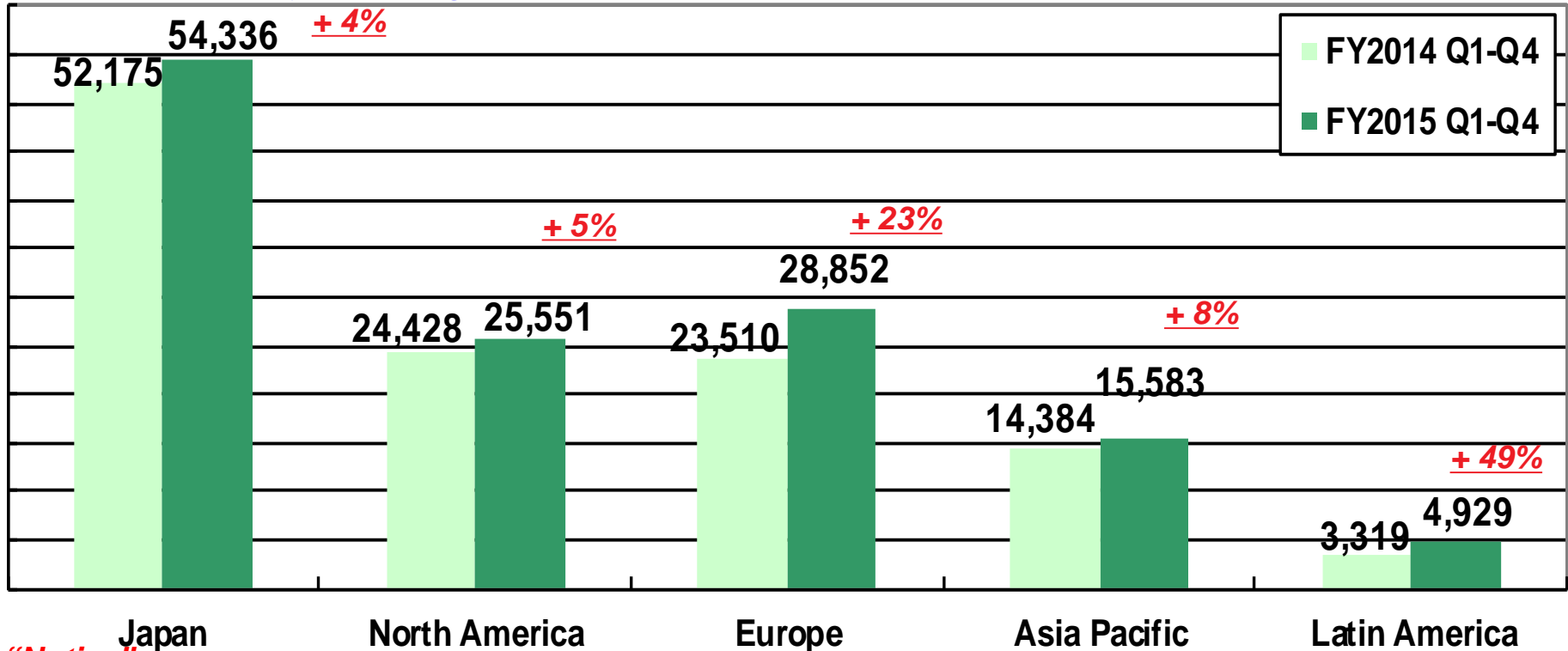
(Non-GAAP)

ICRO

# “For reference”

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

If currency exchange rates used for 2014(Q1-Q4) were used for 2015(Q1-Q4):



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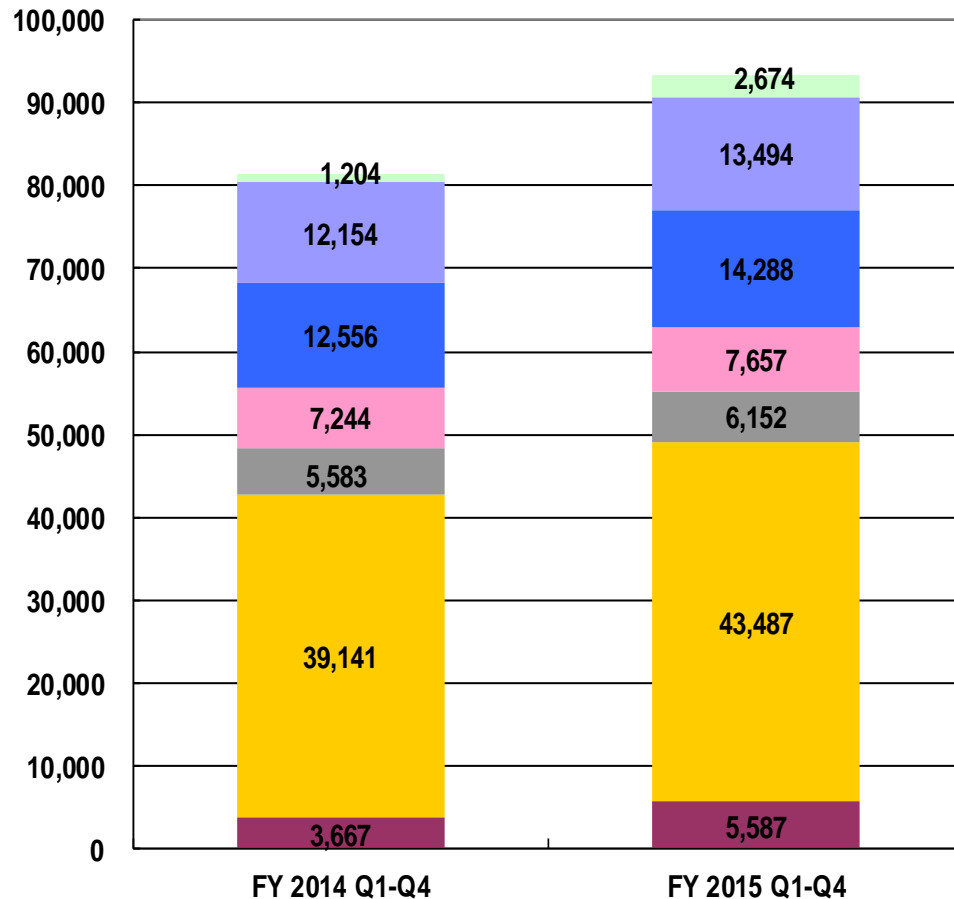
(Non-GAAP)

M I C R O

# FY2015 Cost (12 months)

(unaudited)

(in million Yen)



	YoY Growth
Goods / Software & Capitalization	+ 122%
Selling & Marketing	+ 11%
Administration	+ 14%
Outside service	+ 6%
Office overhead	+ 10%
Salary & Benefit	+ 11%
Stock option & Acquisition related costs	+ 52%
<b>Total</b>	<b>+ 14%</b>

**Headcount**

(Non-GAAP)

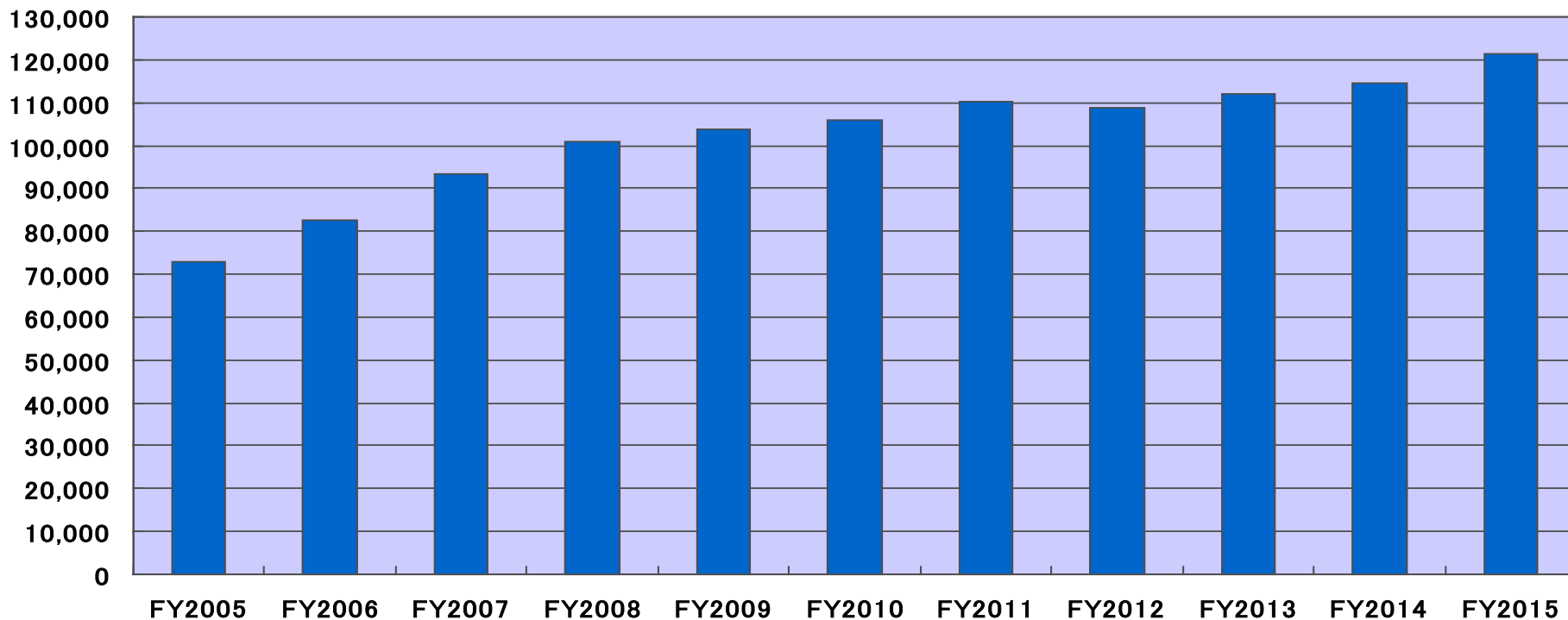
- 1%



# Constant currency Revenue transition (based on FY2005)

(in million Yen)

(unaudited)



(Non-GAAP)

• JPY net revenue amount for each fiscal year shown above is calculated using each foreign currency exchange rate applied in FY2005

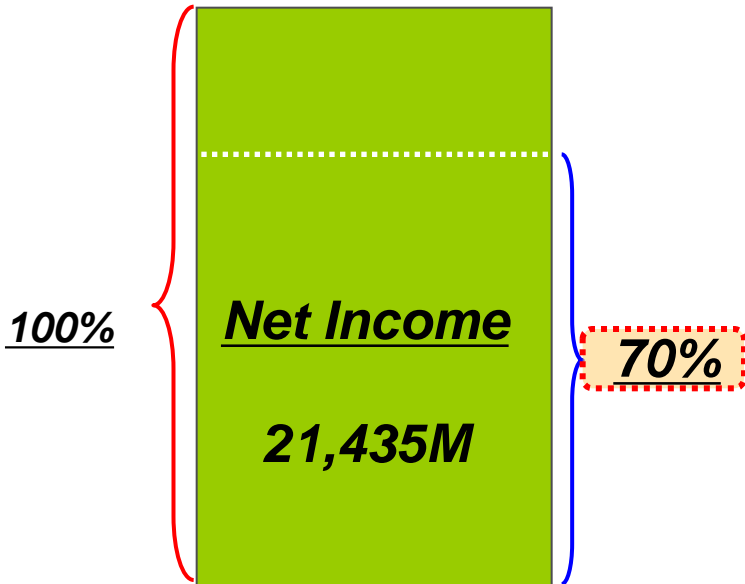
# Cash Dividends for FY2015

Policy for Ordinary dividend payout ratio : 70%

Dividends for FY2015  
**Total: 15,060 million Yen**

**Per share: 110 Yen**  
**(Ordinary dividends: -5% YoY)**

\*FY2014:116 Yen per share  
(Ordinary:116 Yen)

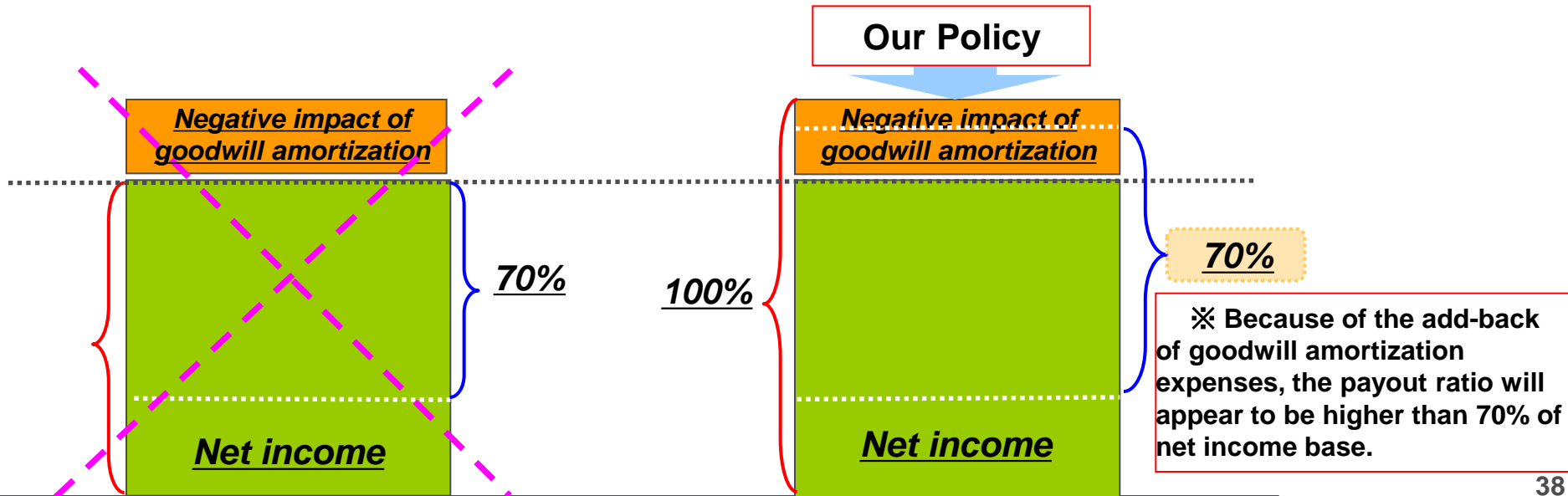


\* Subject to the approval at the Ordinary General Meeting of Shareholders scheduled in late March, 2016

# Dividend policy from FY2016

Year-end dividends on the basis of a dividend payout ratio of 70%,  
calculated after excluding the effect of TippingPoint related amortization of  
goodwill, net of tax

$$70\% \times (\text{Net income} + \text{After-tax impact of amortization of goodwill})$$



# Compensation for Shareholders

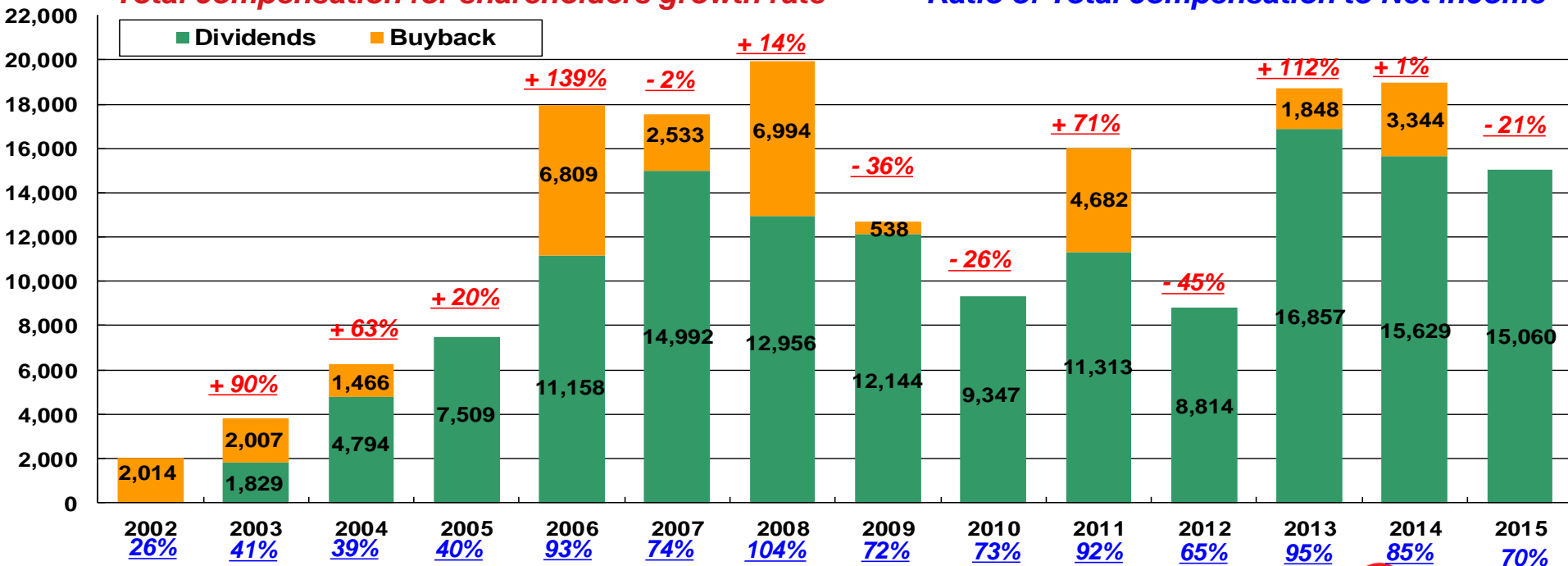
(unaudited)

The ratio of 10 years' cumulative total compensation to Net income from 2006 to 2015: 83%

(in million Yen)

Total compensation for shareholders growth rate

Ratio of Total compensation to Net income



(Between FY2002 and FY2005 in accordance with US GAAP)

# ***FY2016 annual forecast assumptions***

- ***Japan increases by low single digit YoY, US (including TippingPoint) increases by around 40% YoY and Europe increases by around 5% YoY, respectively.***
- ***Non operating income will be around 1.5Bn yen and there will be no Extra-ordinary items***
- ***Estimated exchange rate:***
  - 1USD = 119 yen ( last year: 121 yen)***
  - 1EUR = 130 yen ( last year: 134 yen)***

# Projection for FY2016 Annual

(unaudited)  
(in million Yen)

	<u>For FY2016</u> <u>Jan - Dec, 2016</u>	<u>Expected</u> <u>YoY growth</u>
Net Sales	138,800	<u>+ 12%</u>
Operating Income	27,300	<u>- 12%</u>
Ordinary Income	28,900	<u>- 15%</u>
Net Income	18,700	<u>- 13%</u>

(Operating income excluding “Acquisition related amortization and depreciation”)

+ 5%

(Non-GAAP)

*(Estimated annual exchange rate 1USD=119 yen, 1EUR=130 yen)*

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

**Net Sales**

+ 13%

(Non-GAAP)



# Thank You

# Appendix

(unaudited)

## Quarterly Chart (1)

(in million Yen)

	FY2014				FY2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Net sales</b>	27,517	27,807	28,615	31,264	29,893	30,774	30,930	32,718
<b>Cost of sales</b>	4,622	4,682	5,272	5,853	5,250	5,205	5,263	5,552
<b>Operating expenses</b>	13,958	16,005	14,768	16,390	16,972	17,745	17,041	20,310
<b>Operating income</b>	8,937	7,119	8,574	9,021	7,670	7,824	8,625	6,855
<b>Ordinary income</b>	9,686	7,748	9,069	9,487	8,494	8,076	10,517	6,983
<b>Net income</b>	6,038	4,726	5,726	5,812	5,505	4,939	6,699	4,290
<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>	-369	305	456	811	486	421	496	1,270
<b>Selling &amp; Marketing</b>	2,820	2,858	2,790	3,684	2,813	3,440	3,135	4,104
<b>Administration</b>	3,249	2,908	3,016	3,382	3,703	3,434	3,486	3,663
<b>Outside service</b>	1,653	1,805	1,774	2,010	1,948	1,991	1,857	1,859
<b>Office overhead</b>	1,357	1,341	1,393	1,491	1,484	1,540	1,589	1,537
<b>Salary &amp; Benefit</b>	9,308	10,024	9,527	10,280	10,555	10,982	10,648	11,299
<b>Stock option cost</b>	287	1,116	853	337	993	898	850	1,888
<b>Acquisition related costs</b>	272	329	228	242	236	240	240	239
<b>Total</b>	18,580	20,688	20,041	22,243	22,223	22,950	22,304	25,862
<b>The number of employees</b>	5,201	5,219	5,241	5,258	5,226	5,225	5,229	5,190
<b>Applied rate to yen (US\$)</b>	102.77	102.16	104.00	114.80	119.17	121.50	122.20	121.53
<b>Applied rate to yen (Euro)</b>	140.87	140.02	137.78	143.26	134.21	134.26	135.94	132.91

# Appendix

(unaudited)

## Quarterly Chart (2)

(in million Yen)

(Sales by region)	FY2014				FY2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	11,934	12,232	13,058	13,511	12,920	12,931	12,916	13,831
US	5,998	5,939	6,034	6,975	6,894	7,431	7,435	7,564
Europe	5,632	5,594	5,474	6,076	5,740	5,848	5,942	6,613
Asia Pacific	3,288	3,302	3,303	3,864	3,621	3,785	3,794	3,719
Latin America	662	739	745	836	716	779	842	989
<b>Total</b>	<b>27,517</b>	<b>27,807</b>	<b>28,615</b>	<b>31,264</b>	<b>29,893</b>	<b>30,774</b>	<b>30,930</b>	<b>32,718</b>
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	18,132	18,185	18,432	20,169	19,887	20,360	20,958	22,036
Consumer	9,384	9,622	10,183	11,094	10,006	10,414	9,972	10,682
<b>Total</b>	<b>27,517</b>	<b>27,807</b>	<b>28,615</b>	<b>31,264</b>	<b>29,893</b>	<b>30,774</b>	<b>30,930</b>	<b>32,718</b>
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	14,865	12,866	12,857	11,585	14,391	13,832	13,702	12,410
US	5,877	5,760	5,678	7,113	7,335	6,936	6,890	7,898
Europe	4,875	5,159	4,723	8,752	5,631	5,849	5,247	10,510
Asia Pacific	3,273	3,687	3,225	4,197	3,568	4,302	3,975	3,795
Latin America	675	821	813	1,008	698	928	1,083	1,431
<b>Total</b>	<b>29,567</b>	<b>28,295</b>	<b>27,298</b>	<b>32,656</b>	<b>31,624</b>	<b>31,848</b>	<b>30,899</b>	<b>36,046</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.**