

Trend Micro FY2022 Q4 Results

Mahendra Negi CFO, Representative Director

February 16, 2023



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.

FY2022.Q4 Financial Highlight

(Fourth quarter ended December 31, 2022)

Q4 Consolidated Results

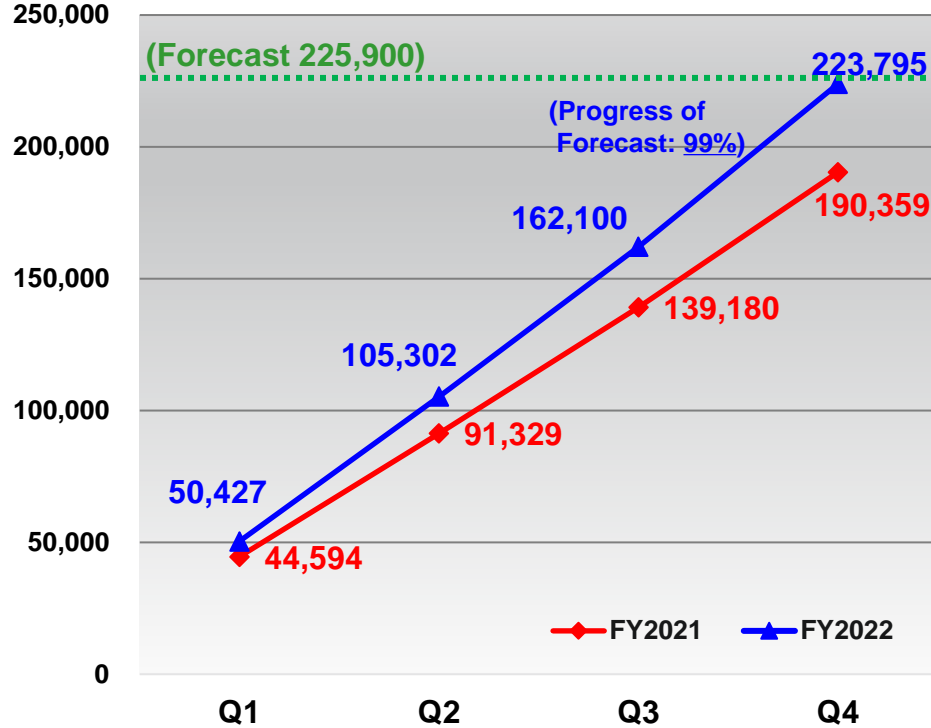
(unaudited)
(in million Yen)

Three months ended Dec 31,	4Q2021	4Q2022	YoY growth
Net sales	51,178	61,694	+ 21%
Total Operating expenses	42,159	56,224	+ 33%
Operating income <i>(Margin)</i>	9,018 <i>(18%)</i>	5,470 <i>(9%)</i>	- 39%
Ordinary income	9,078	3,753	- 59%
Net income attributable to owners of the parent	12,696	1,350	- 89%
<i>If currency exchange rates used for 4Q2021 were used for 4Q2022</i>			
Net sales	51,178	55,566	+ 9%
			(Non-GAAP)
<i>“For reference”</i>			
Pre-GAAP	65,344	79,336	+ 21%
		<i>(excluding foreign exchange impact)</i>	+ 9%
Pre-GAAP based Operating Income	23,184	23,111	- 0%
			(Non-GAAP)

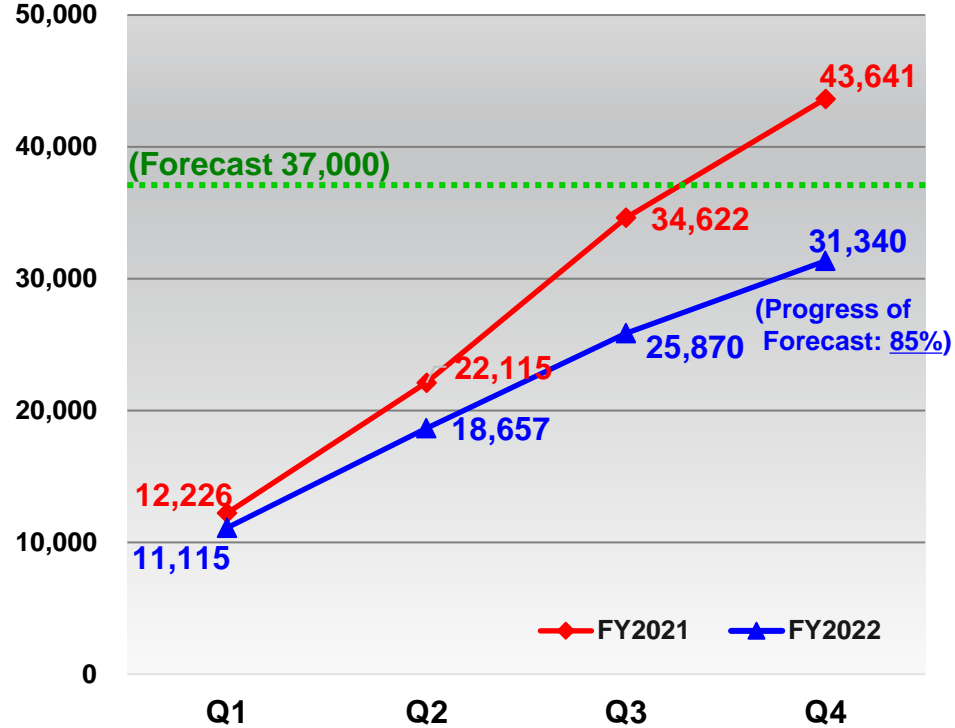
Progress (12 months)

(in million Yen)

Revenue



Operating Income



Q4 USD based Results (Non-GAAP)

(unaudited)

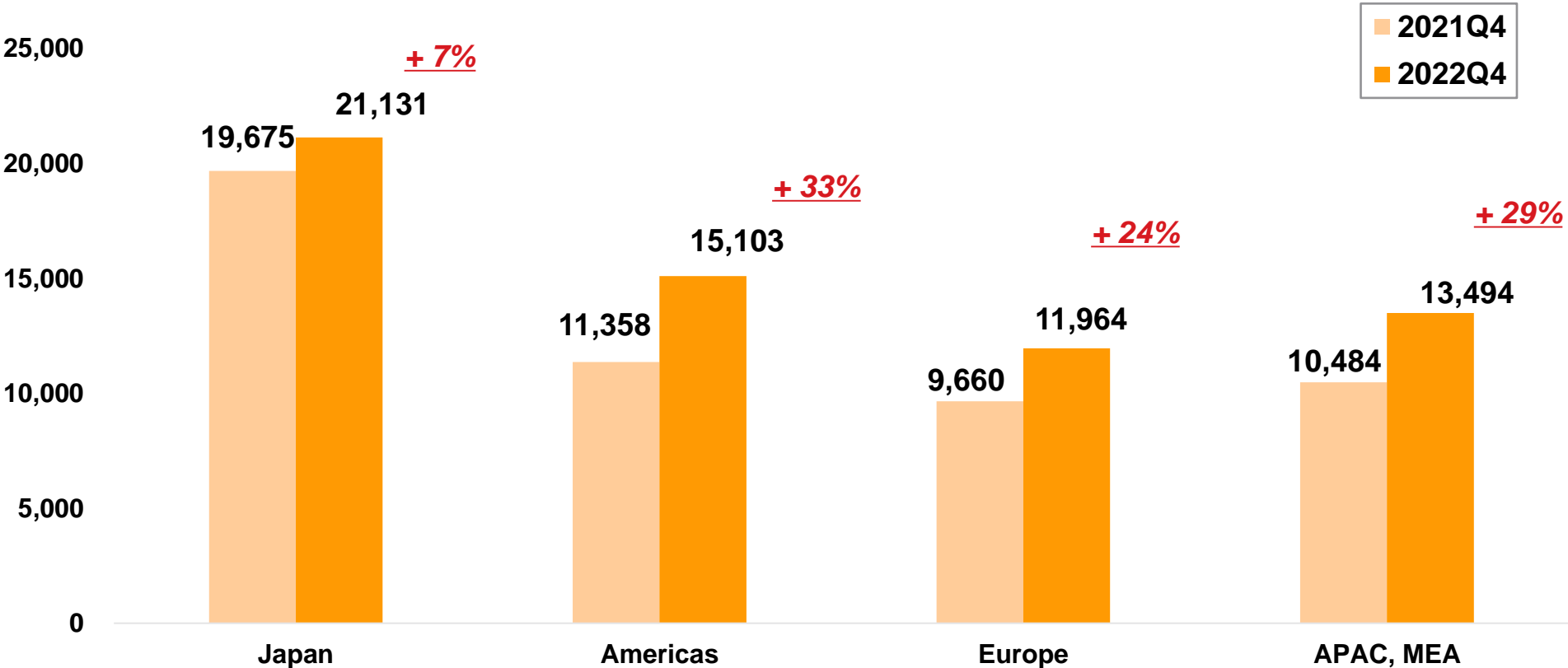
<i>Three months ended Dec 31,</i>	<i>4Q2021</i>	<i>4Q2022</i>	<i>(in thousand USD) YoY change</i>
Net sales	450,038	436,961	- 3%
Cost of sales	99,598	103,756	+ 4%
Operating expenses	271,136	294,462	+ 9%
Operating income	79,303	38,742	- 51%
Ordinary income	79,833	26,585	- 67%
Net Income	111,648	9,568	- 91%
<small>attributable to owners of the parent</small>			(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=113.72 JPY for 4Q2021 and 1 USD =141.19 JPY for 4Q2022, 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

(unaudited)

(in million Yen)

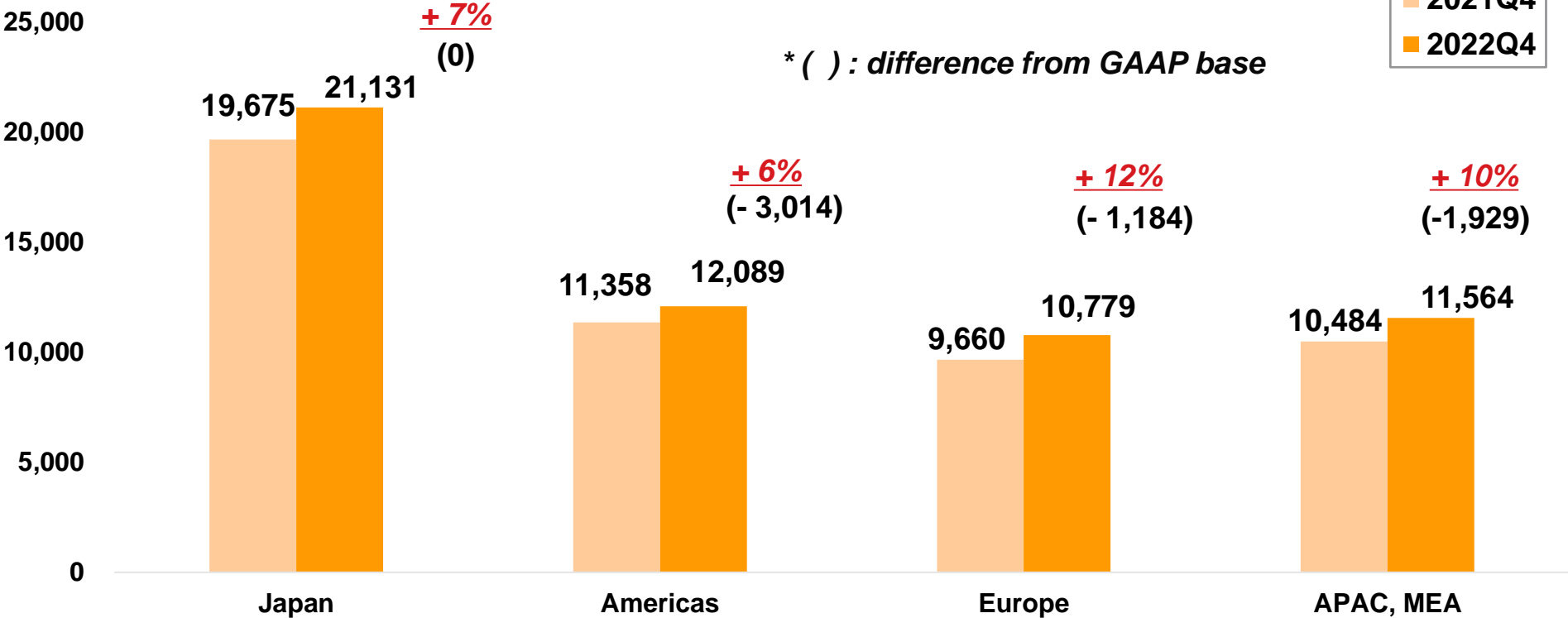


Net Sales Growth by Region

If currency exchange rates used for 4Q2021 were used for 4Q2022:

(unaudited)

(in million Yen)

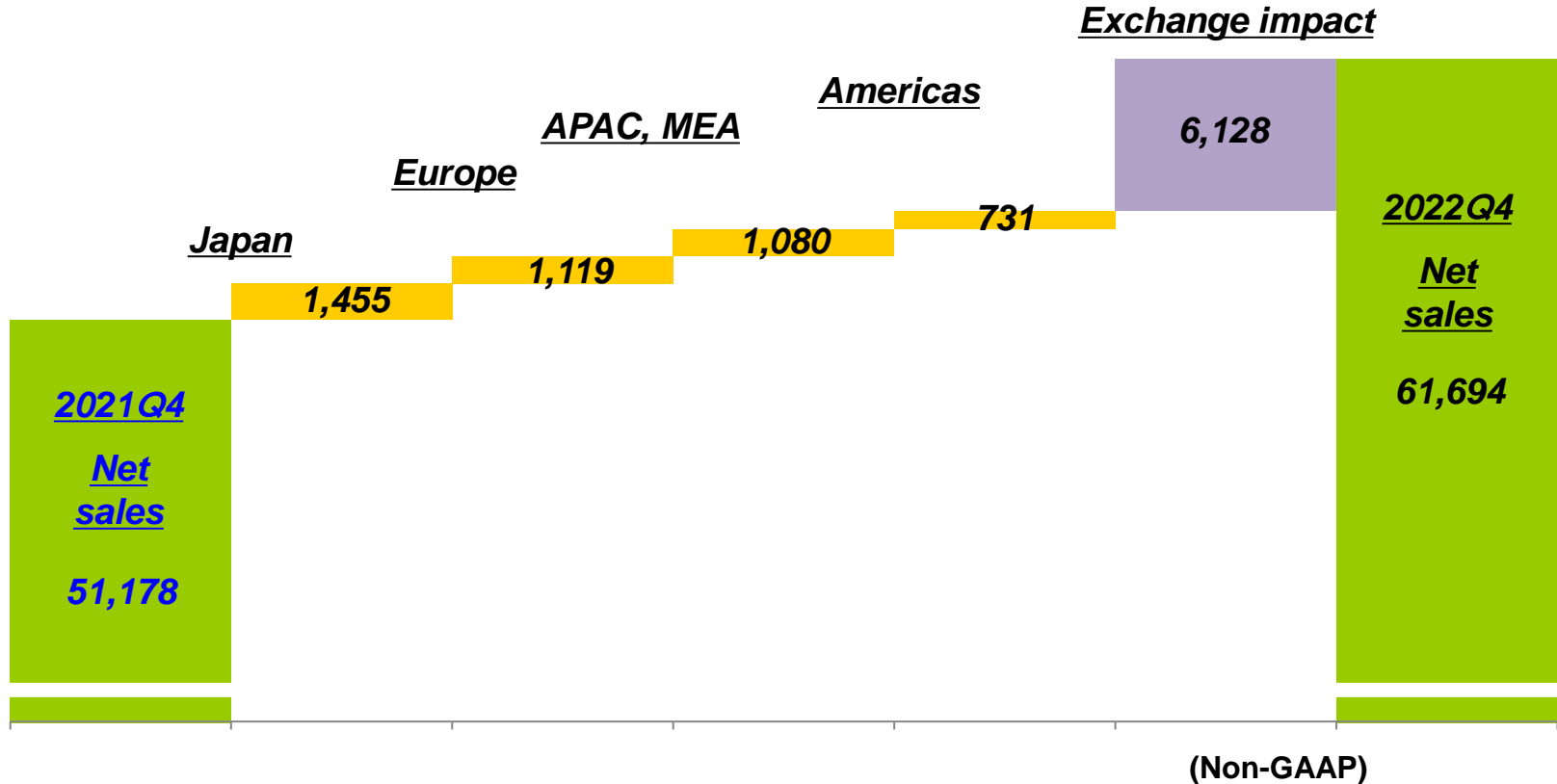


(Non-GAAP)

Decomposition of Revenue (vs. last year)

(in million Yen)

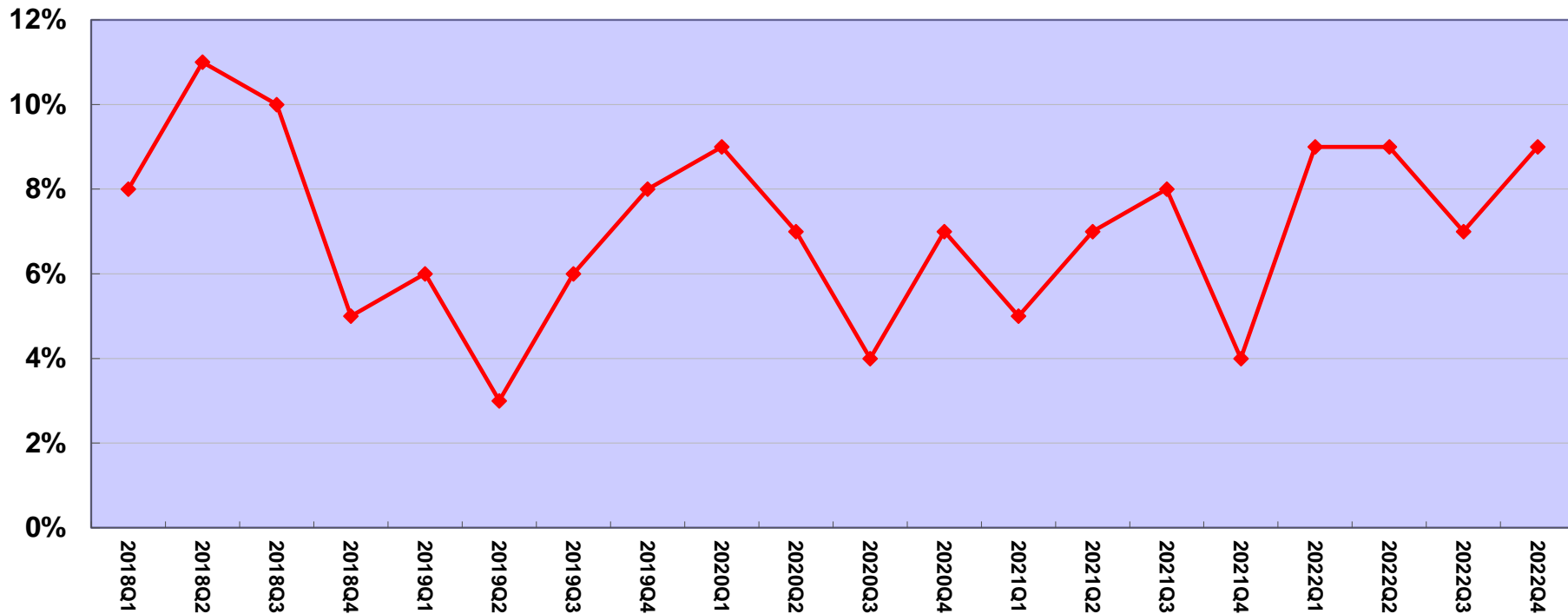
(unaudited)



Constant currency Revenue growth

(YoY)

(unaudited)



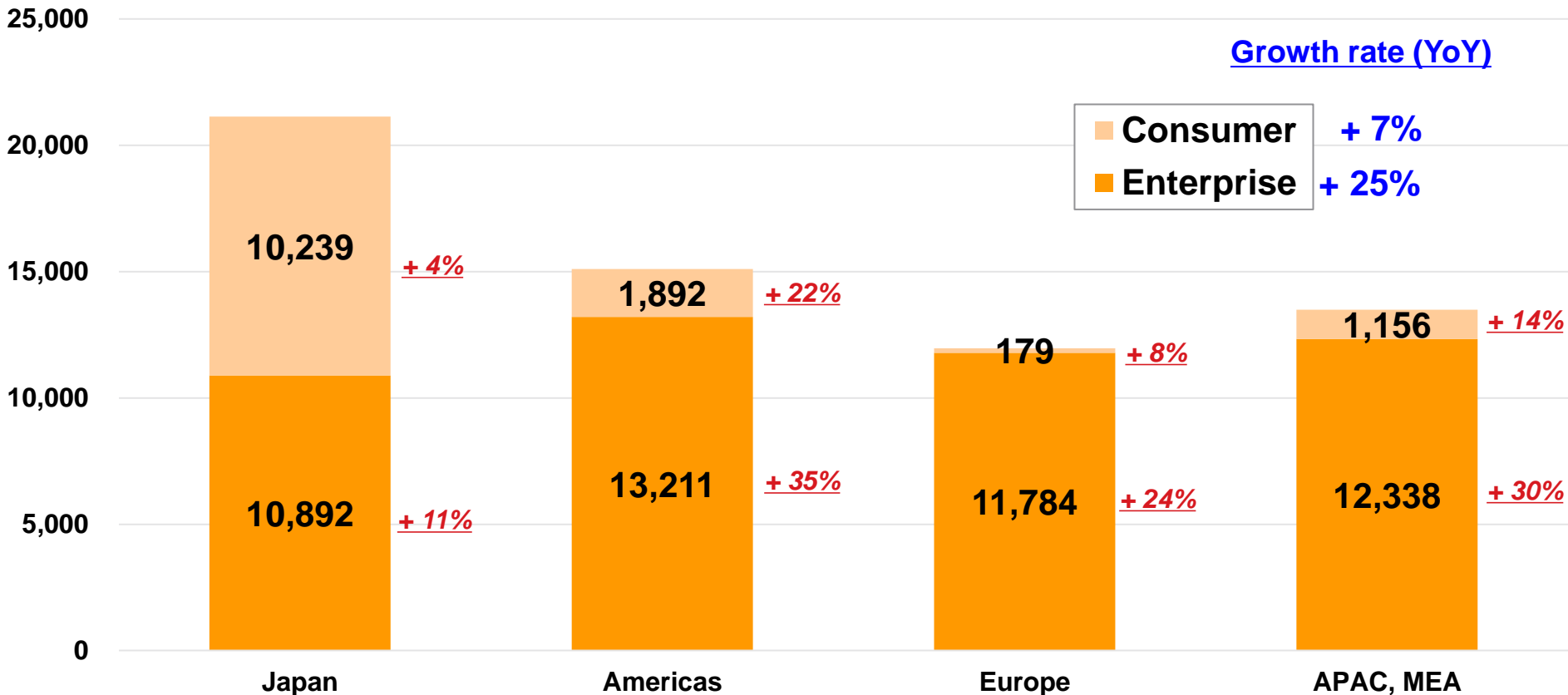
(Non-GAAP)

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

(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.

(Non-GAAP)

Regarding the impact of new accounting standards for revenue recognition (1)

Theoretical revenues and operating income for FY2022Q4 figures as if the old standards were applied.

(unaudited)
(in million Yen)

	4Q2022	Impact	<i>Theoretical 4Q2022 with old standards applied</i>	<i>(real YoY)</i>
Revenue	61,694	- 1,971	63,665	(+24%)
Total Costs	56,224	+ 422	55,802	(+32%)
Operating Income	5,470	- 2,393	7,863	(- 13%)

Regarding the impact of new accounting standards for revenue recognition (2)

(unaudited)
(in million Yen)

Impact by region

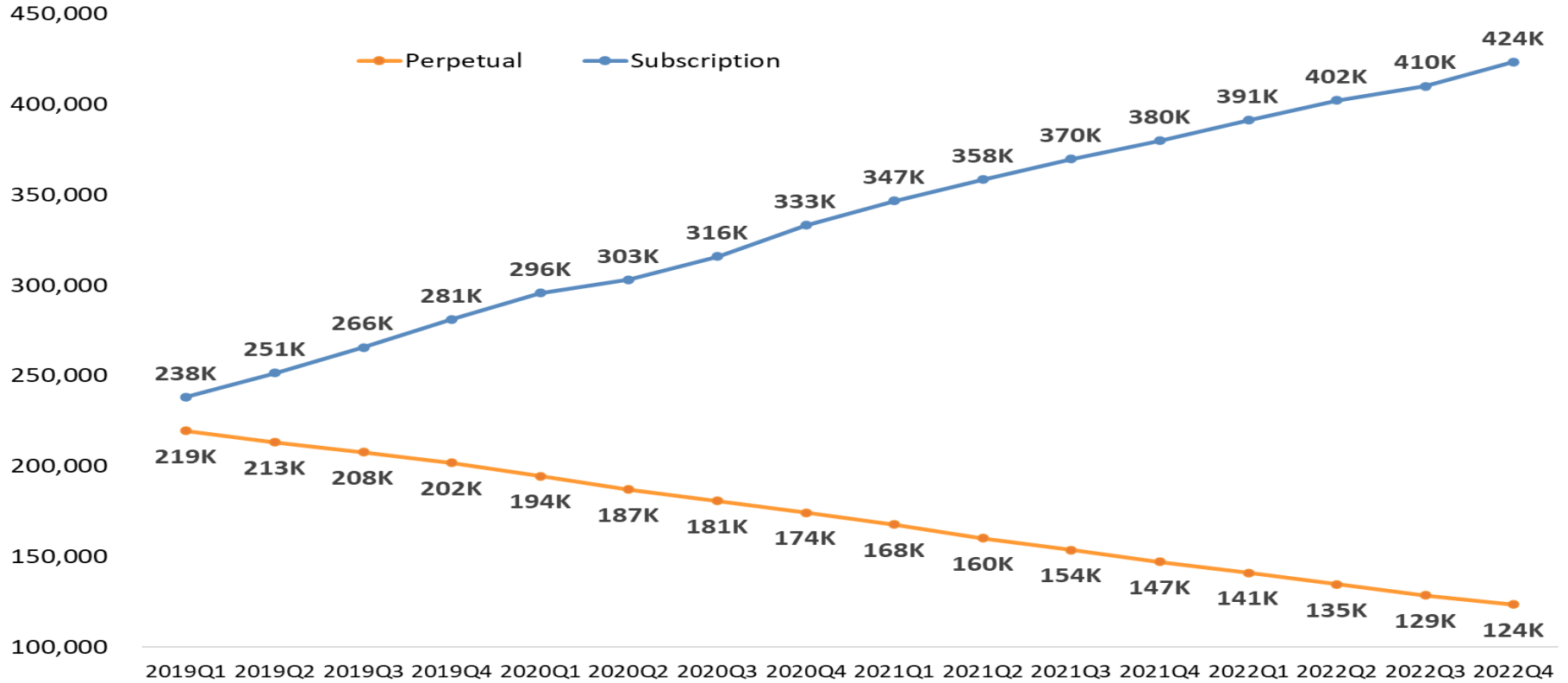
	4Q2022	Impact	<i>Theoretical 4Q2022 with old standards applied</i>	<i>(real YoY)</i>
Japan	21,131	+ 84	21,047	(+ 7%)
Americas	15,103	+ 78	15,024	(+ 32%)
Europe	11,964	- 102	12,067	(+ 25%)
AMEA	13,494	- 2,031	15,525	(+ 48%)
Total	61,694	- 1,971	63,665	(+ 24%)

“For reference”

Operating income excluding the impact of both Forex and New accounting standards for revenue recognition

	4Q2022	YoY	(unaudited) (in million Yen)
Operating income (reported)	5,470	- 39%	
1) Foreign exchange impact	- 154		
2) New accounting standards impact	+ 2,393		
Operating income excluding above impacts	7,709	- 15%	

Active Customer Count

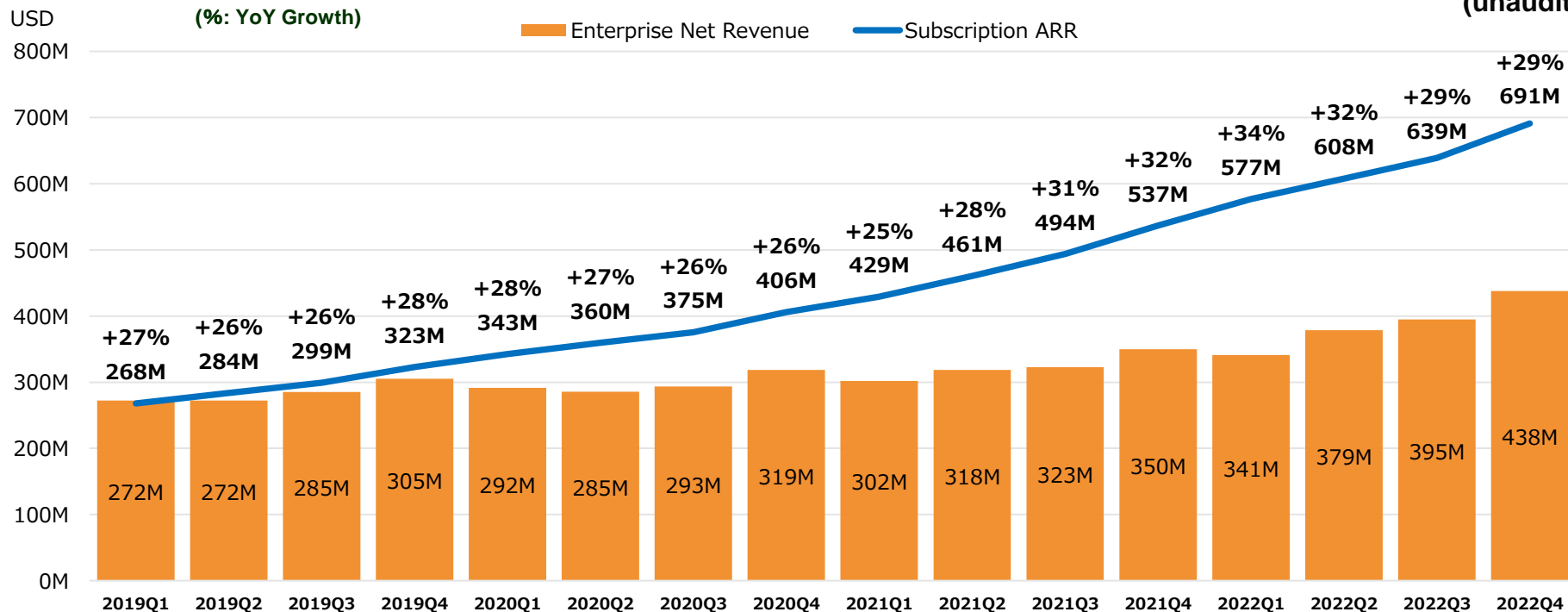


****Active customers using both perpetual and subscriptions products will be counted in both customer counts***

****As these numbers are just for internal use, they may be subject to some changes hereafter.***

Enterprise Net Revenue & Subscription ARR

(Non-GAAP)
(unaudited)



*Subscription ARR is an annual figure and converted to USD using the FY2022 Company budget exchange rate applied for the entire period.

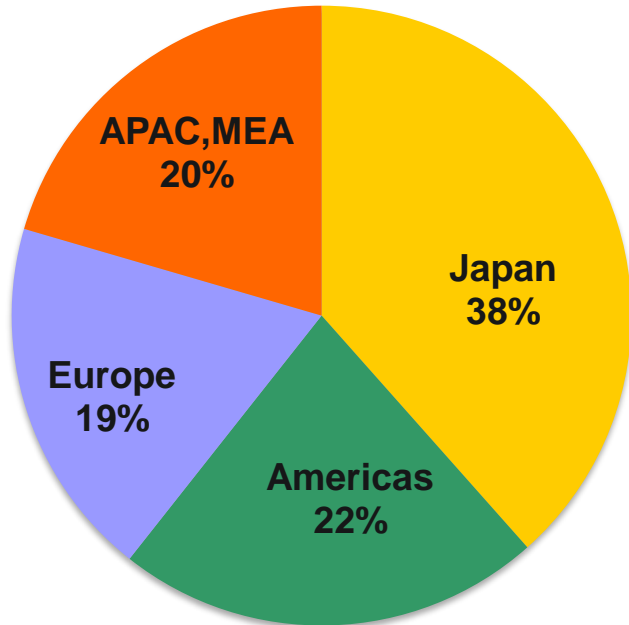
*Enterprise Net Revenue is a quarterly figure based on actual yen reported each quarter simply converted to USD at FY2022 Company budget exchange rate (1 USD = 110.18 yen).

*As these numbers are just for internal use, they may be subject to some changes hereafter

% share by region

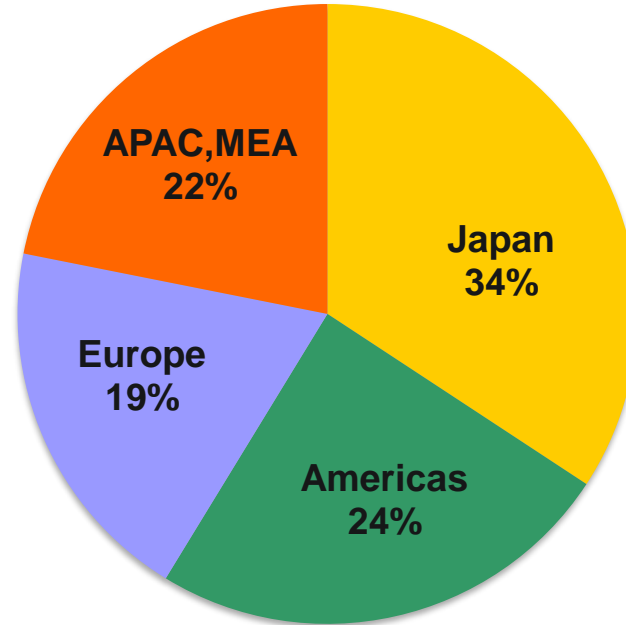
4Q2021

51,178 million Yen



4Q2022

61,694 million Yen

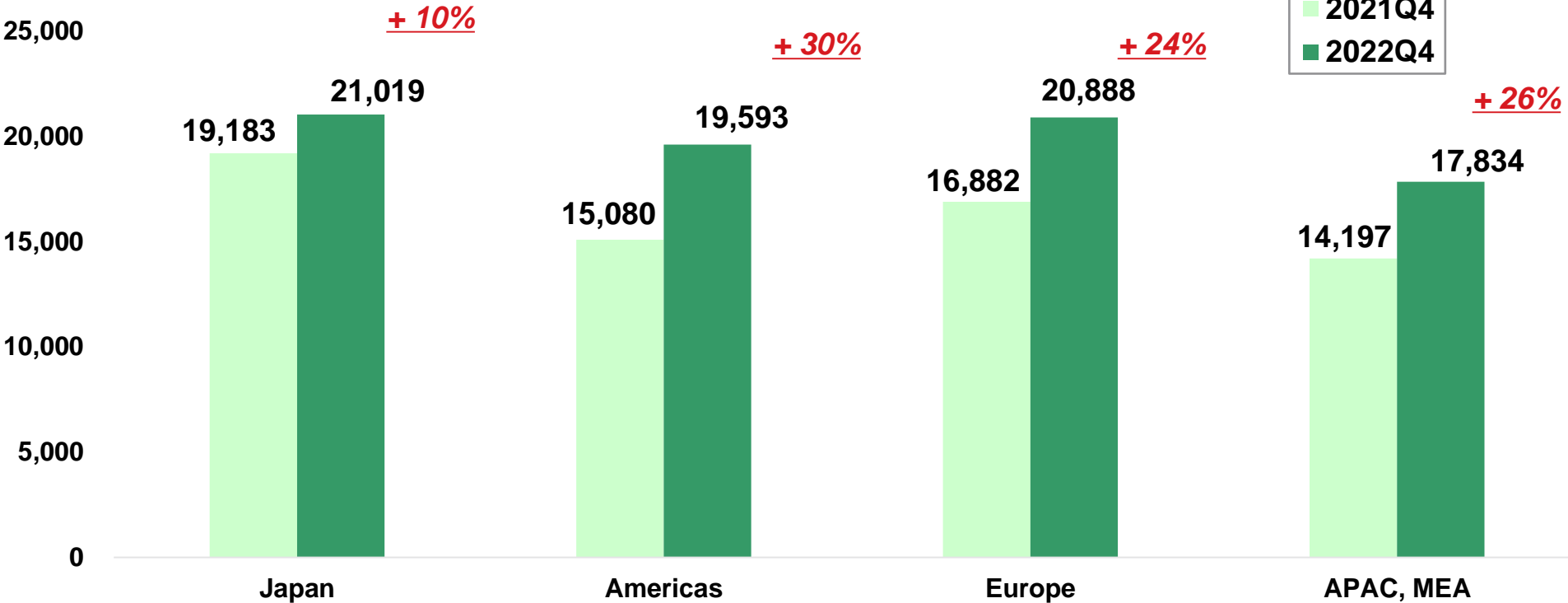


“For reference”

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)

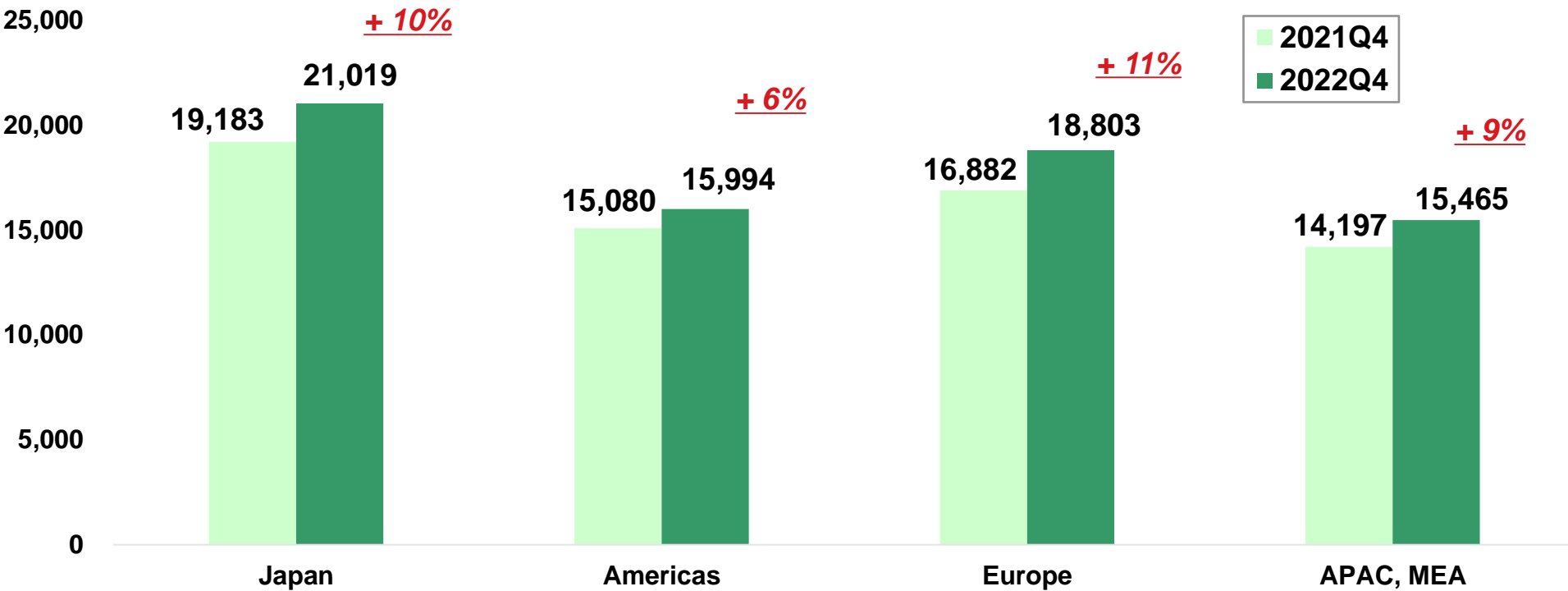
“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

If currency exchange rates used for 4Q2021 were used for 4Q2022:

(unaudited)



“Notice”

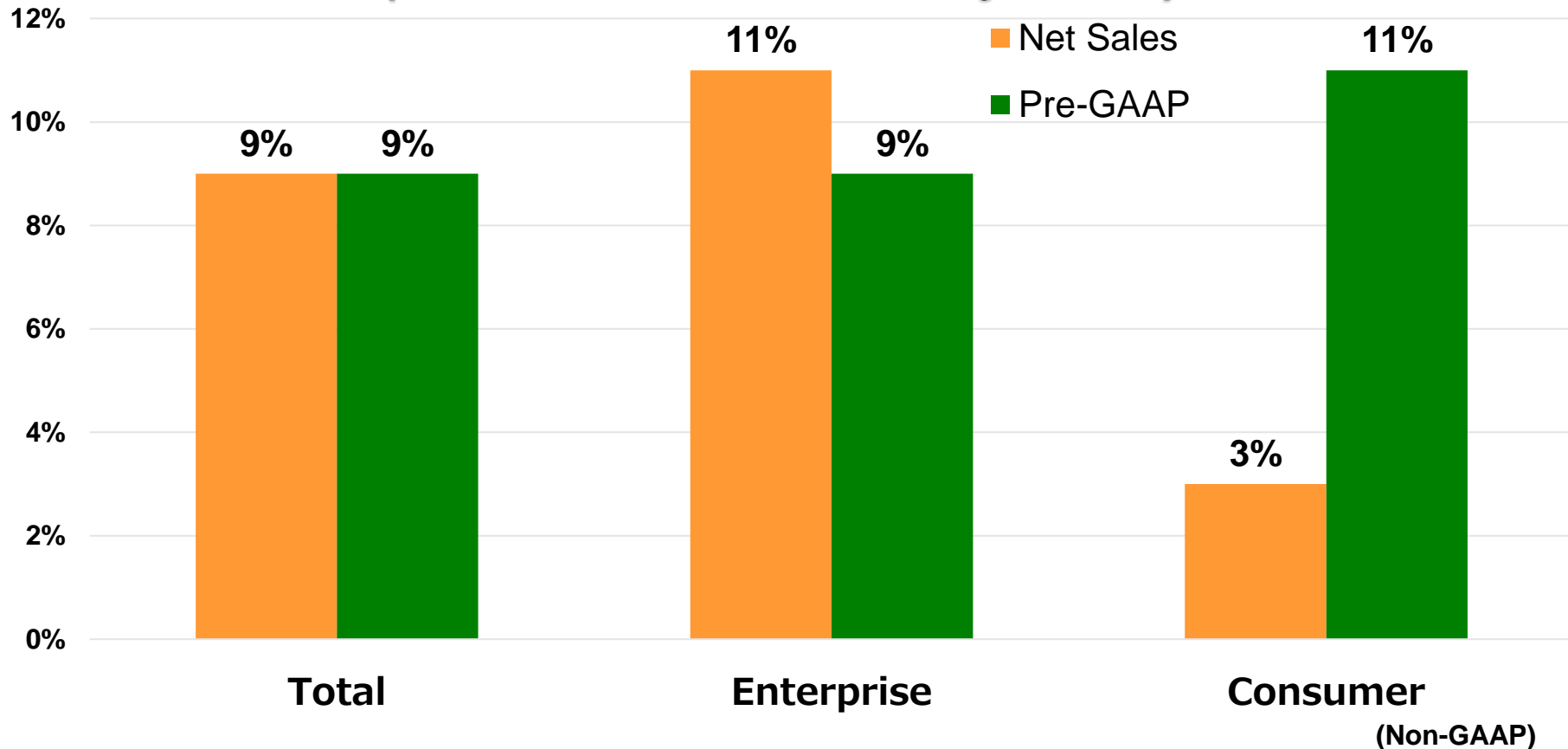
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance. As these numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

Net sales & Pre-GAAP growth trend

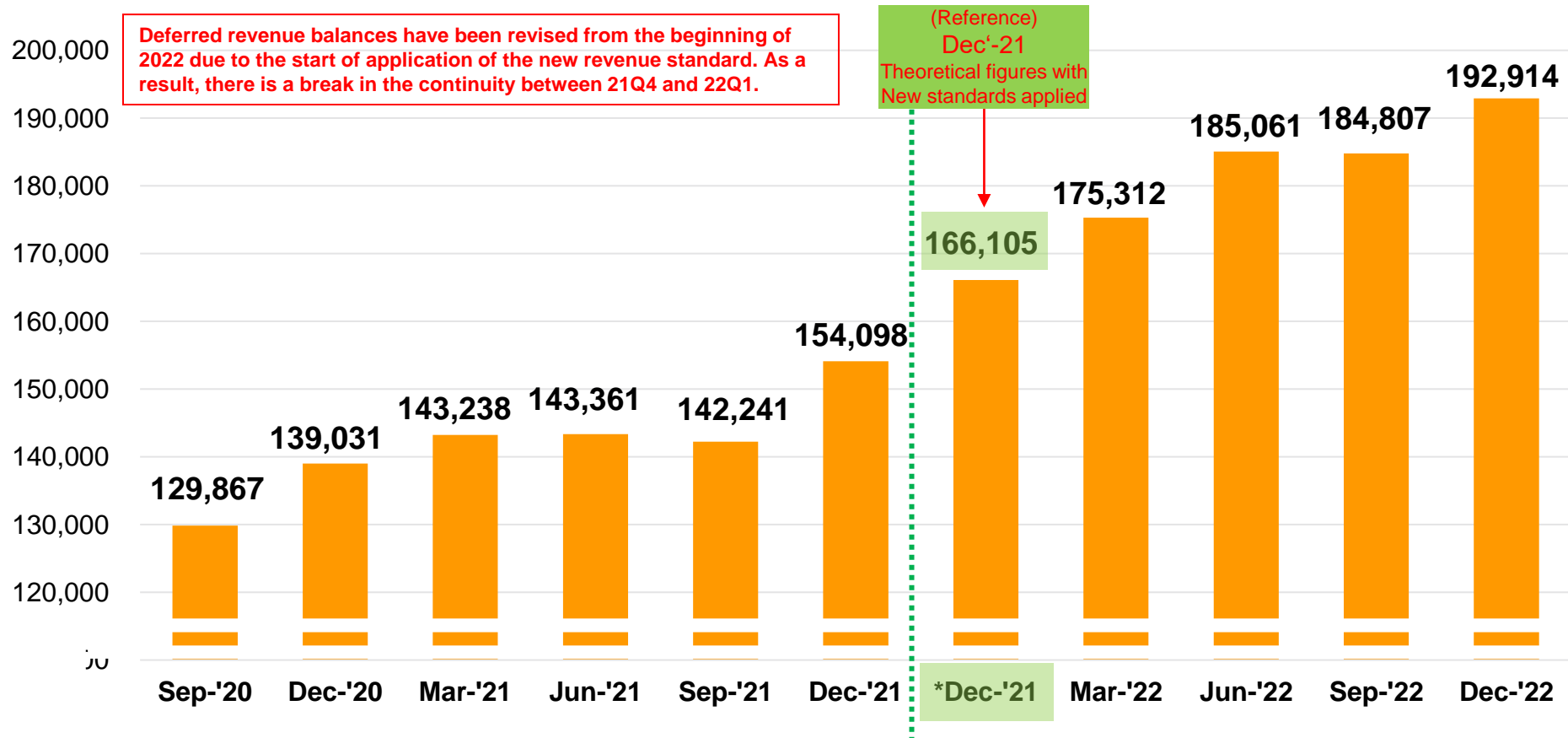
(on a constant currency basis)

(unaudited)



Deferred Revenue

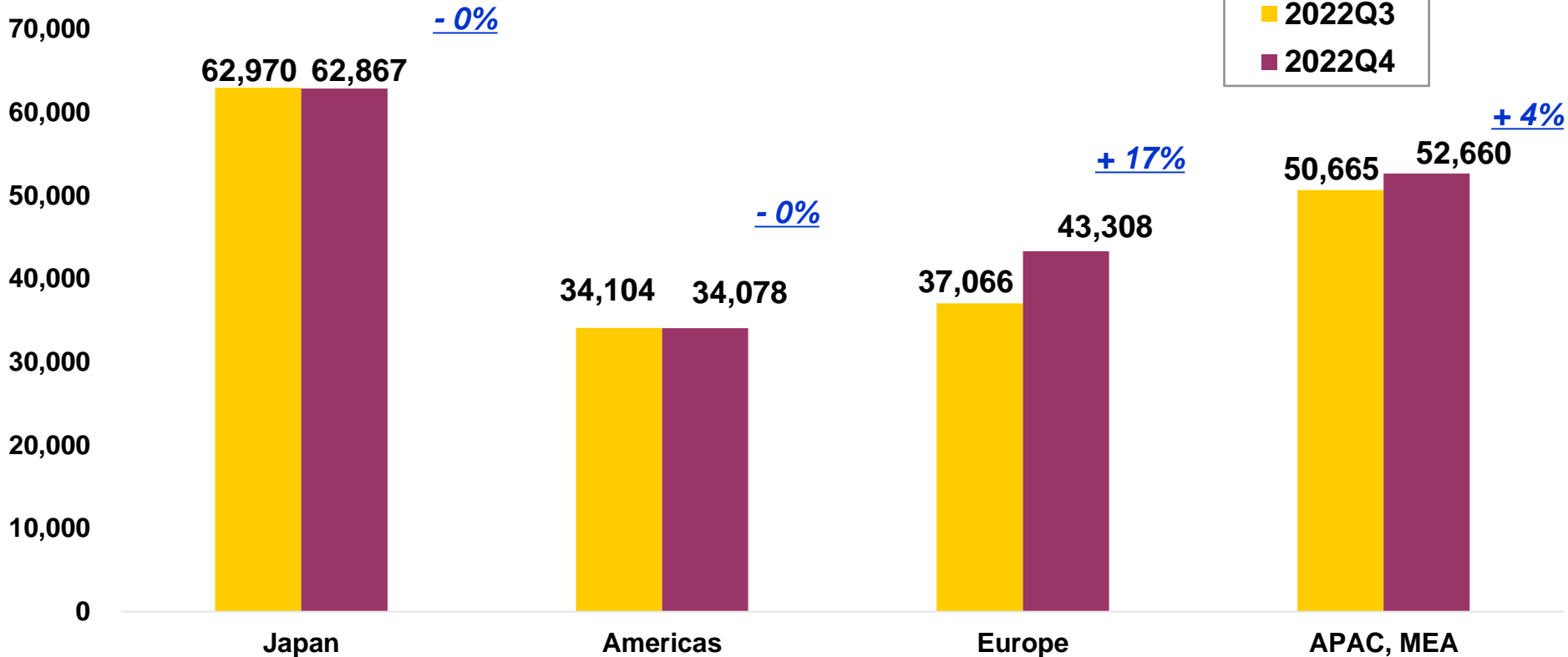
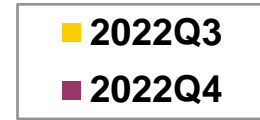
(in million Yen)



Deferred Revenue by Region

(in million Yen)

(unaudited)



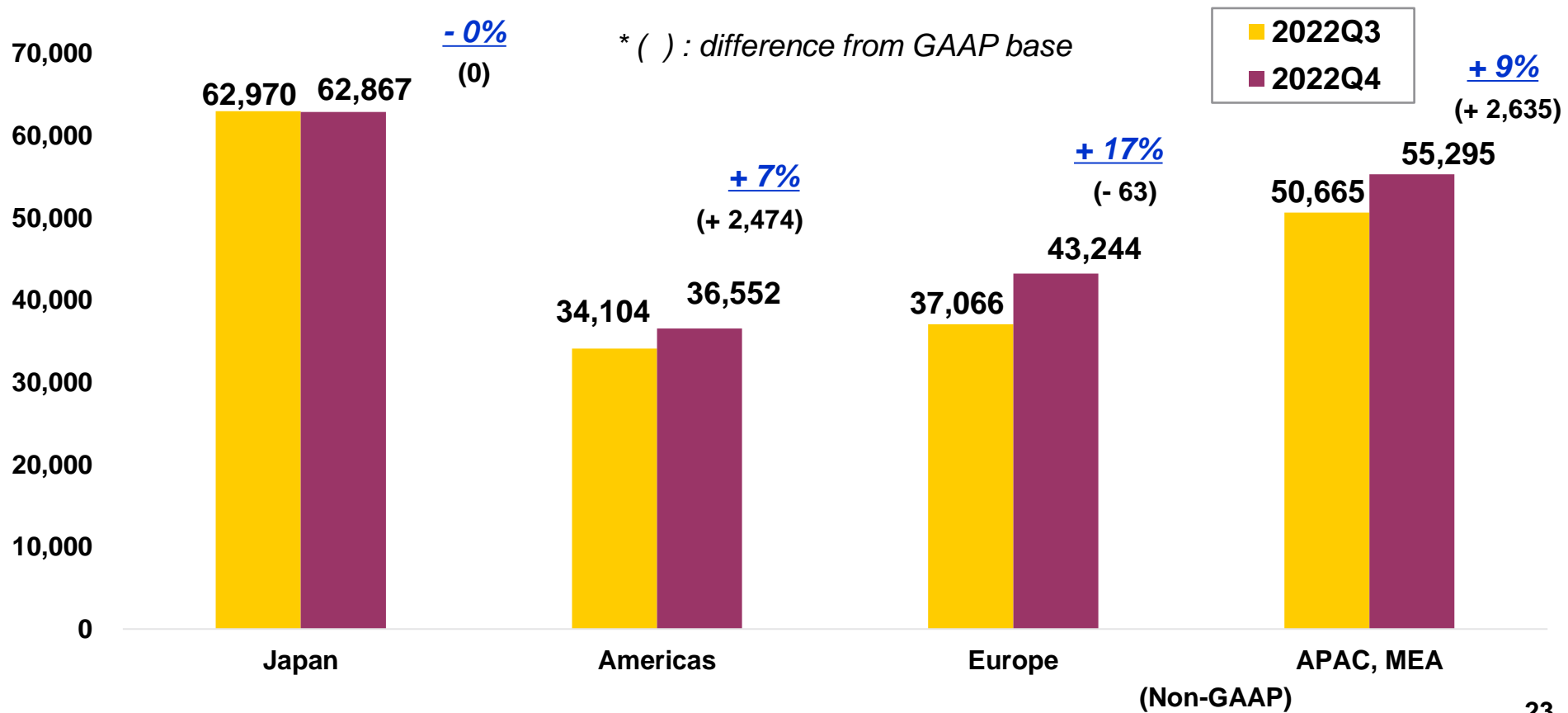
(Non-GAAP)

Deferred Revenue by Region

(unaudited)

If currency exchange rates used as of the end of 3Q2022 were used as of the end of 4Q2022:

(in million Yen)



(in million Yen)

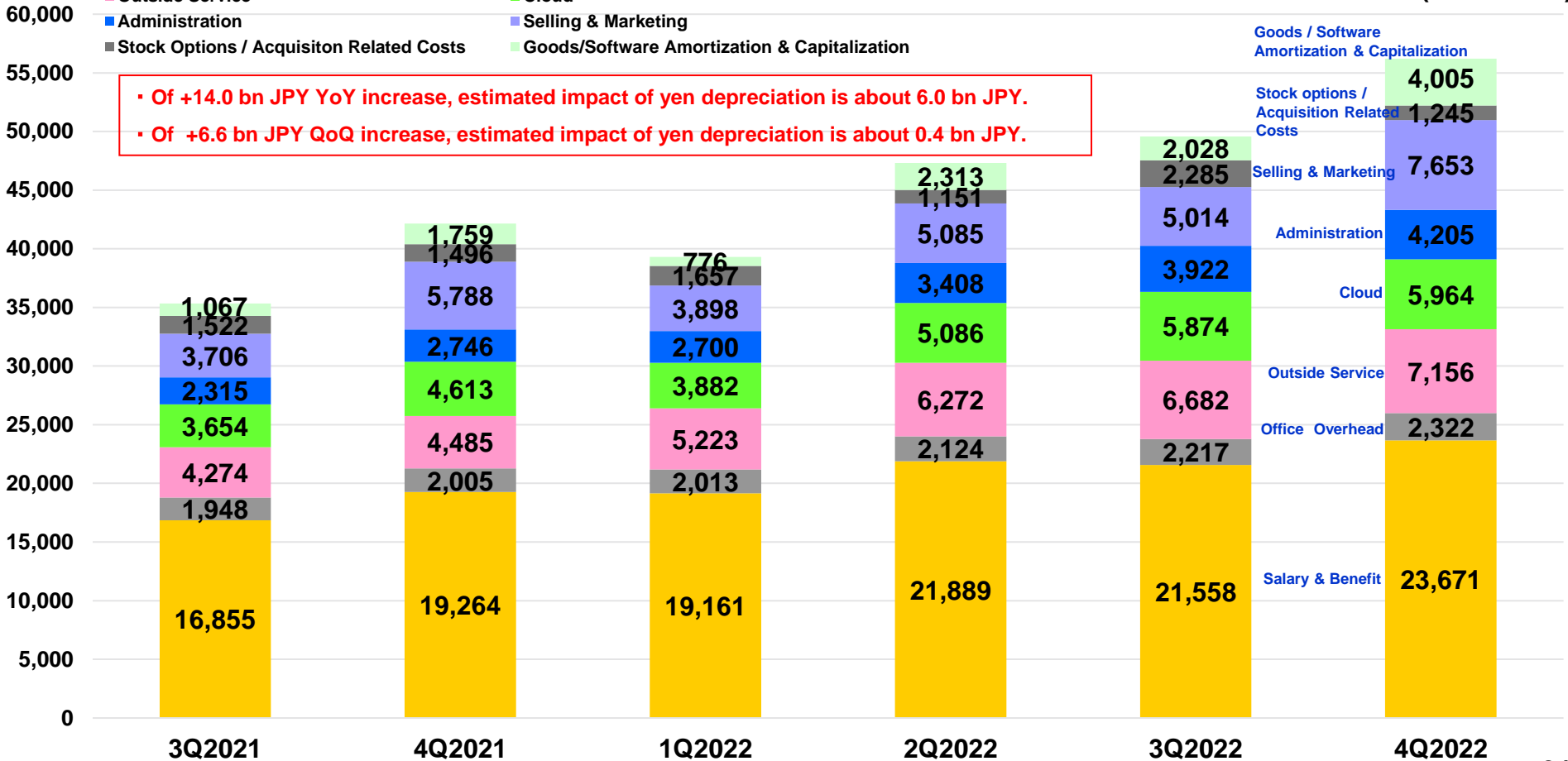
Cost

(unaudited)

(Non-GAAP)

- Salary & Benefit
- Office Overhead
- Outside Service
- Cloud
- Administration
- Selling & Marketing
- Stock Options / Acquisition Related Costs
- Goods/Software Amortization & Capitalization

- Of +14.0 bn JPY YoY increase, estimated impact of yen depreciation is about 6.0 bn JPY.
- Of +6.6 bn JPY QoQ increase, estimated impact of yen depreciation is about 0.4 bn JPY.

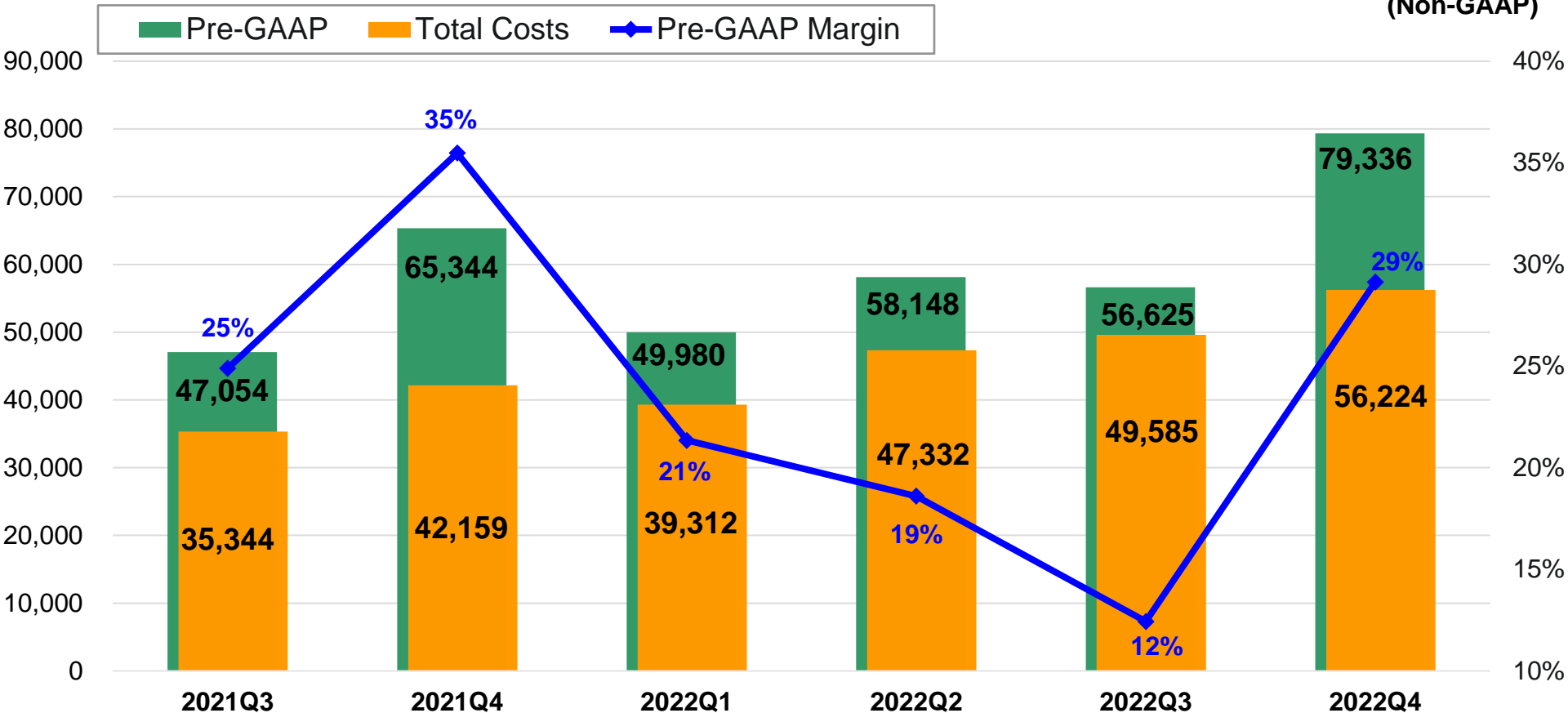


Pre-GAAP v s Total Costs

(in million Yen)

(unaudited)

(Non-GAAP)



* "Total costs" means COGS + SGA.

Cash flows

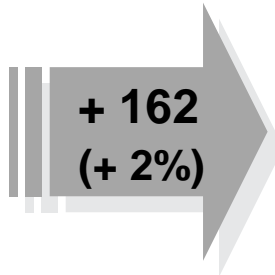
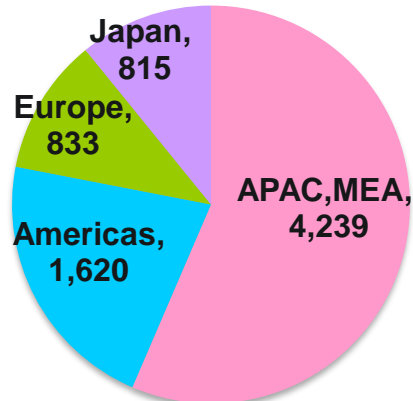
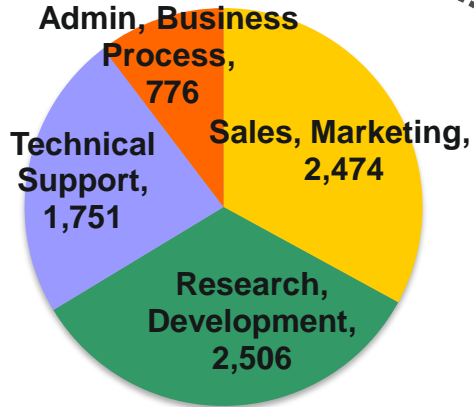
(unaudited)
(in million Yen)

	4Q2021	4Q2022	YoY growth
Cash flows from operating activities	13,131	10,340	- 21%
Cash flows from investing activities	3,231	- 2,311	—
Cash flows from financing activities	1,326	- 5,660	—
Effect of exchange rate changes on cash and cash equivalents	3,260	- 8,236	—
Net increase (decrease) in cash and cash equivalents	20,949	- 5,867	—
Cash and cash equivalents at beginning of this quarter period	204,732	214,206	+ 5%
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	- 695	—
Cash and cash equivalents at end of this quarter period	225,681	207,643	- 8%

Headcount

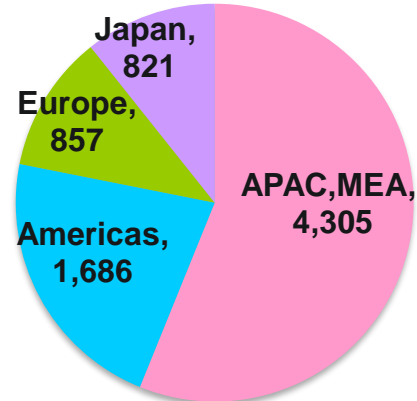
Sep - 2022

7,507



Dec - 2022

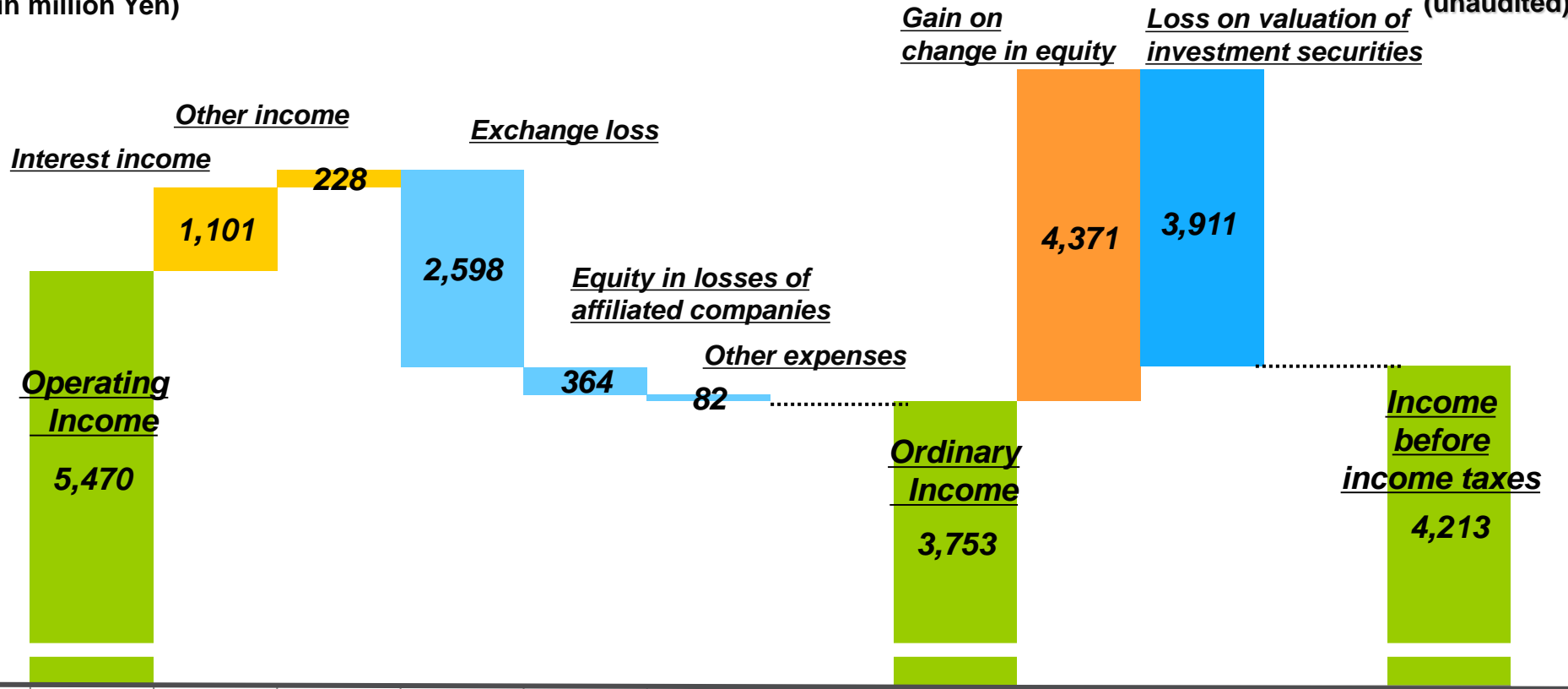
7,669



Non-operating & Extra-ordinary Items

(in million Yen)

(unaudited)



(Non-GAAP)

Balance Sheet

(unaudited)
(in million Yen)

	Sep-2022	change	Dec-2022
<u>Assets</u>			
<i>Cash & cash equivalents</i>	167,061	+ 24,481	191,542
<i>Account receivable</i> <i>(less allowance for doubtful accounts)</i>	46,112	+ 17,184	63,296
<i>Marketable securities &</i> <i>Securities investments</i>	160,830	- 39,225	121,605
<i>Software</i>	13,170	- 403	12,767
<u>Liabilities</u>			
<i>Deferred revenue</i>	184,807	+ 8,107	192,914
<u>Shareholders' Equity</u>			
<i>Common Stock &</i> <i>Additional paid in capital</i>	47,278	+ 117	47,395
<i>Treasury Stock</i>	- 4,572	- 5,719	- 10,291

Q4 Highlights

- ***Highest ever quarterly revenues***
- ***Recovery in Pre-GAAP based operating income margin***
- ***Subscription business continues to grow across all regions***

Q4 Lowlights

- ***Negative impact of 2,400 million JPY on Operating income due to the New accounting standards***
- ***Loss on valuation of investment securities***

FY2022.12 months Financial Highlight

(January ~ December, 2022)

Consolidated Results (12 months) (in million Yen)

12 months
ended Dec 31,

2021 (1-4Q)

2022 (1-4Q)

YoY growth (Progress vs. current year's new annual forecast)

Net sales	190,359	223,795	+ 18%	(99%)
Total Operating expenses	146,718	192,454	+ 31%	
Operating income <i>(Margin)</i>	43,641 <i>(23%)</i>	31,340 <i>(14%)</i>	- 28%	(85%)
Ordinary income	44,501	34,162	- 23%	(92%)
Net income <small>attributable to owners of the parent</small>	38,367	29,843	- 22%	(94%)
Earnings per share (Yen)	275.20	213.59	- 22%	
Dividend per share (Yen)	195.00	151.00	- 23%	

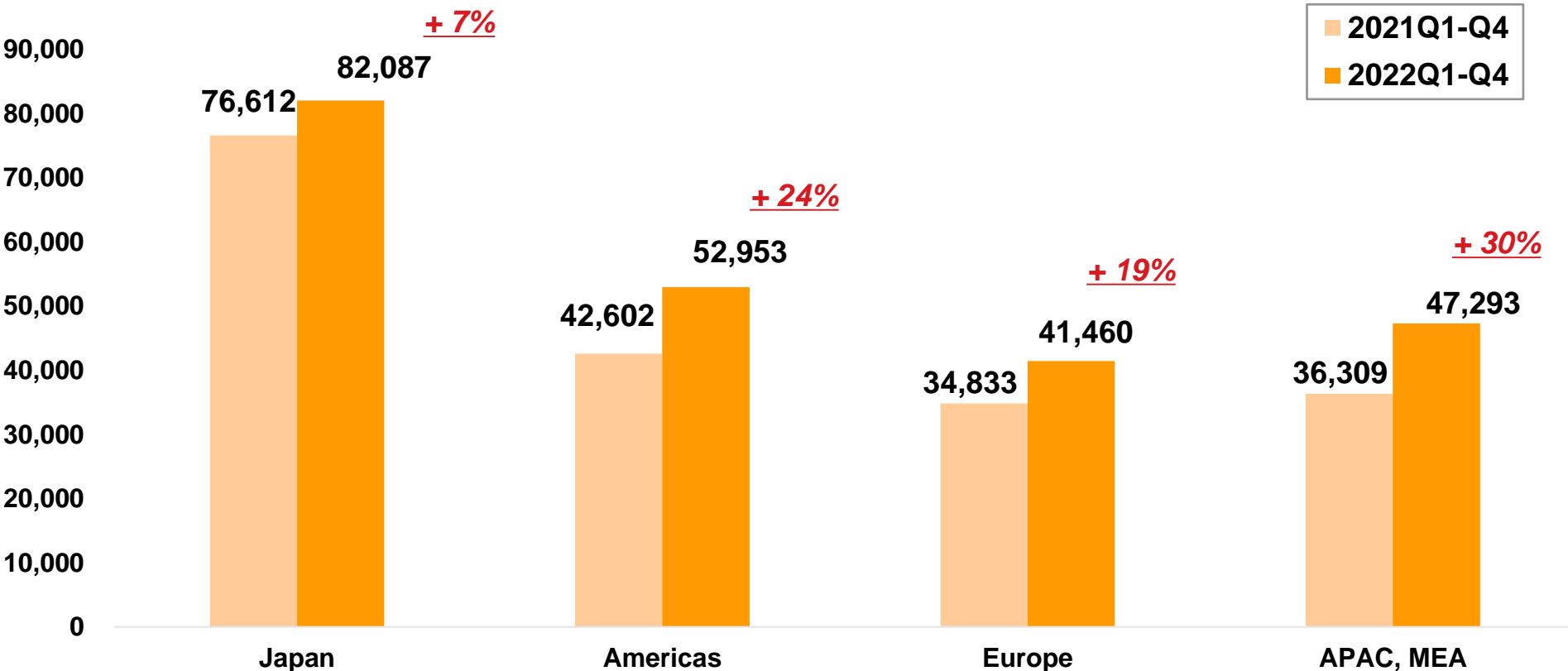
"For reference"

Pre-GAAP	204,508	244,090	+ 19%	
Pre-GAAP based Operating Income	57,790	51,635	- 11%	(Non-GAAP)

Net Sales Growth by Region

(unaudited)

(in million Yen)

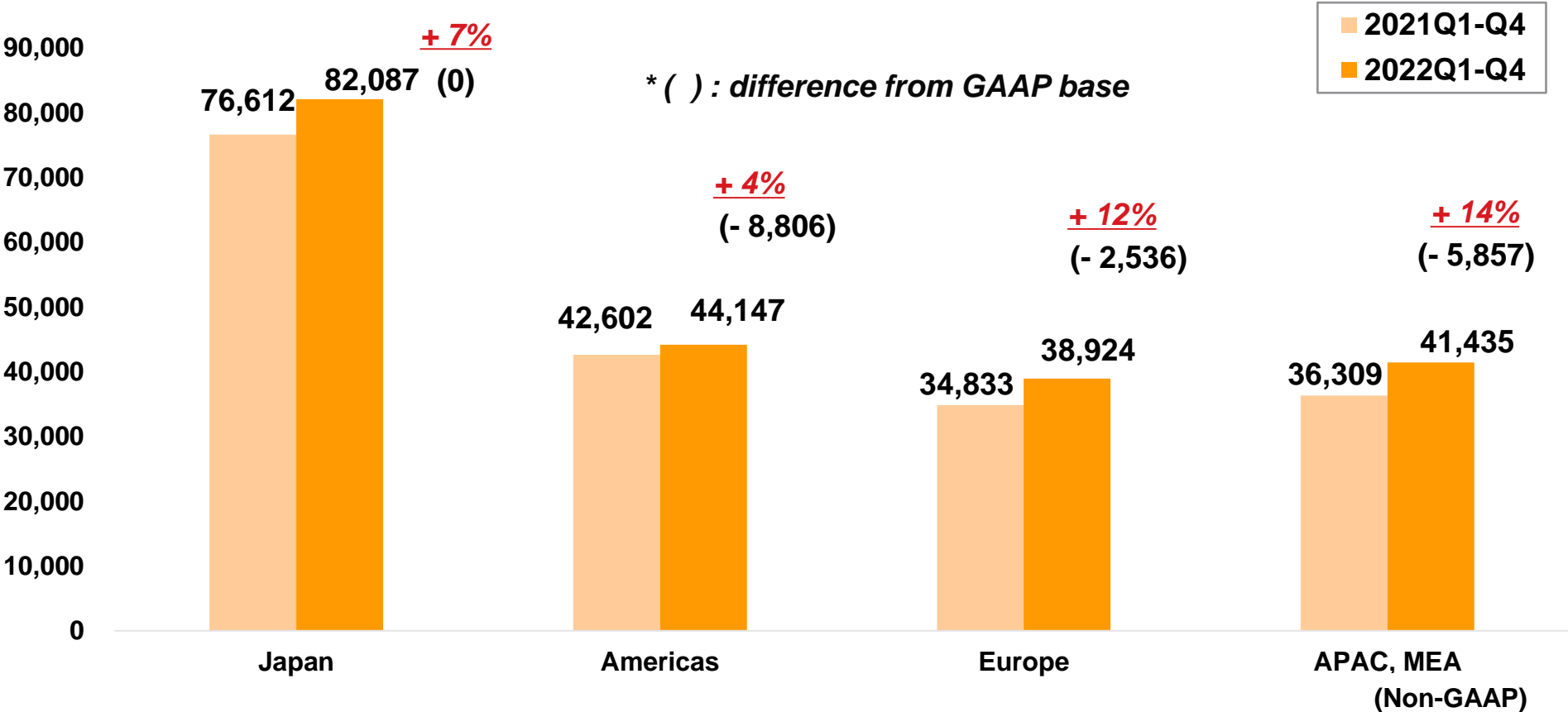


Net Sales Growth by Region

(in million Yen)

If currency exchange rates used for 2021 (Q1-Q4) were used for 2022 (Q1-Q4):

(unaudited)

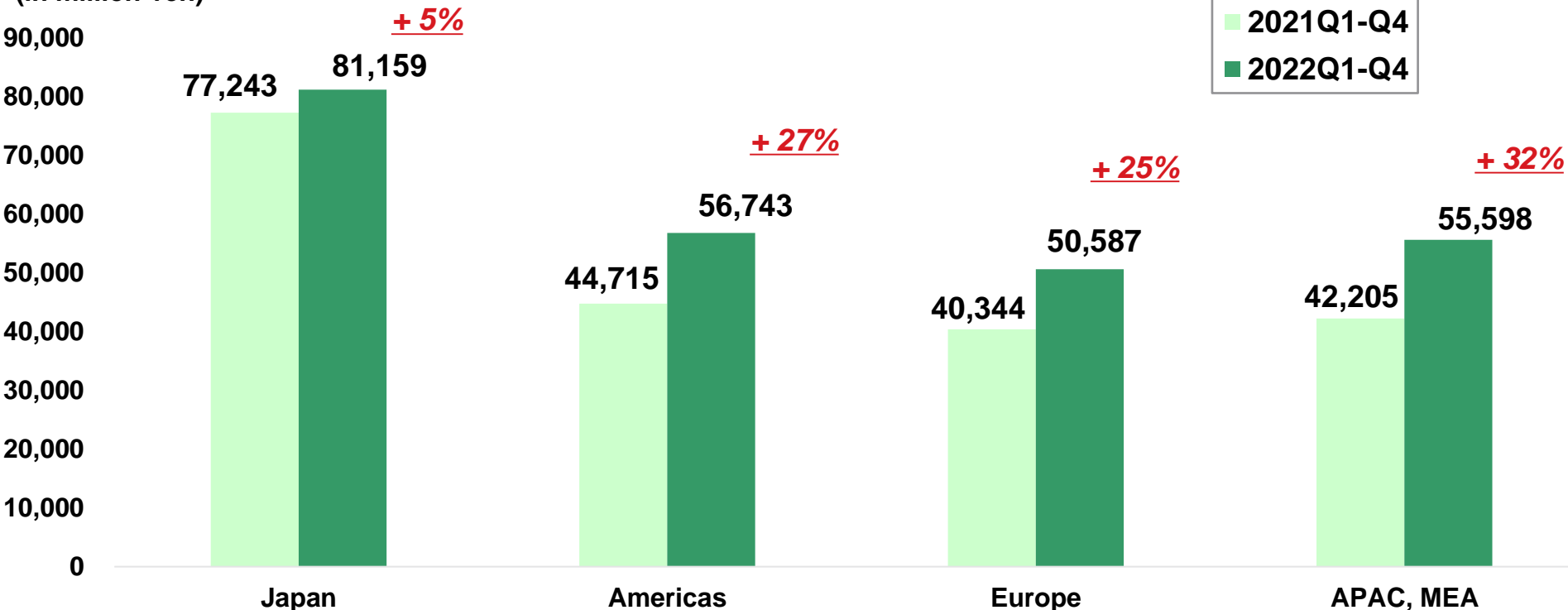


“For reference”

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)

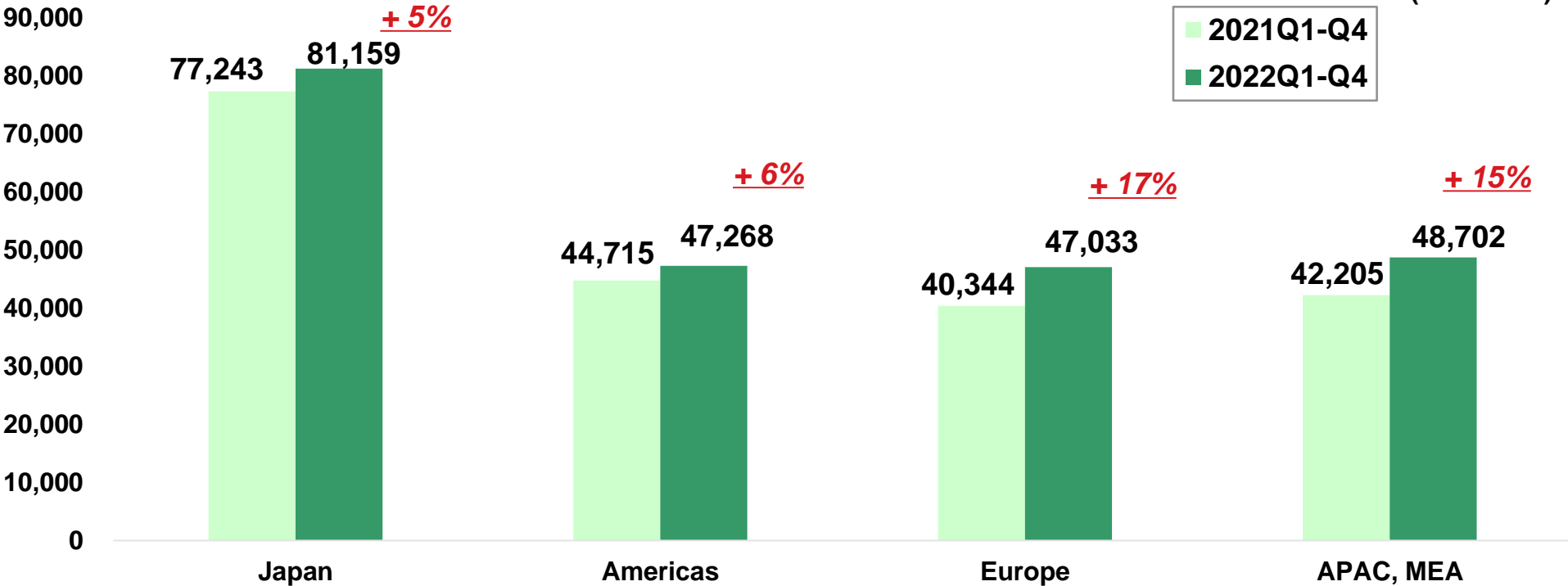
“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(in million Yen)

If currency exchange rates used for 2021(Q1-Q4) were used for 2022(Q1-Q4):

(unaudited)



“Notice”

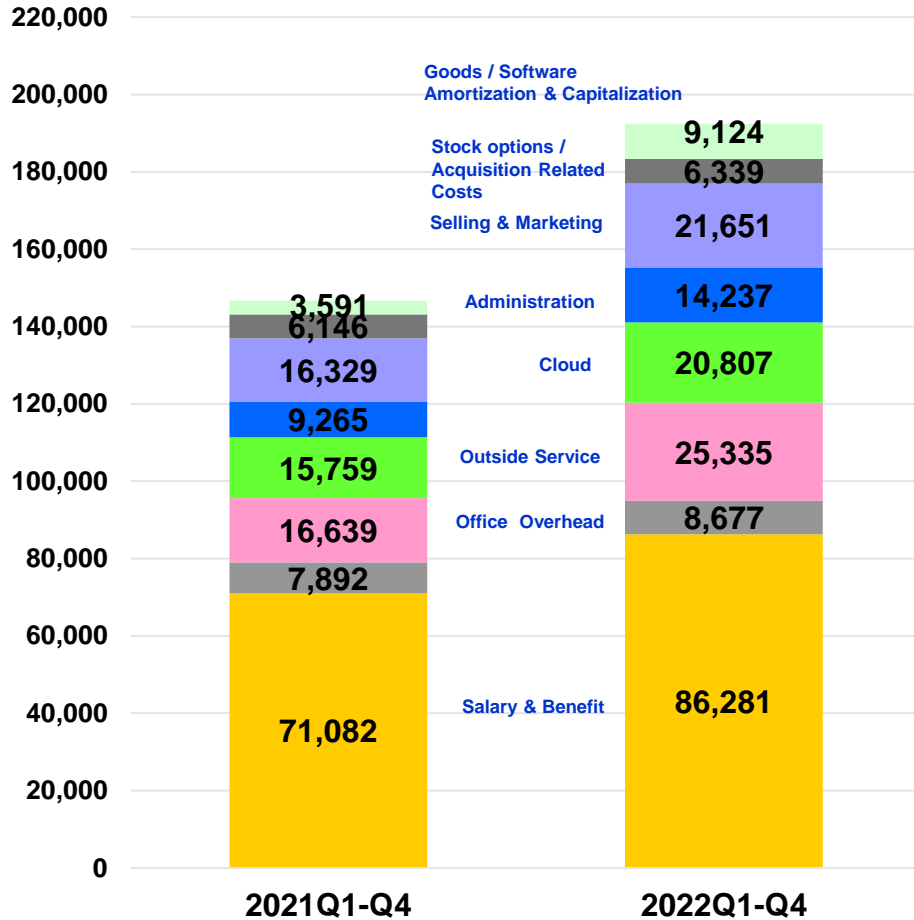
*Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.
As these numbers are just for internal use, they may be subject to some changes hereafter.*

(Non-GAAP)

FY2022 Cost (12 months)

(unaudited)

(in million Yen)



Salary & Benefit

+ 21%

Office Overhead

+ 10%

Outside Service

+ 52%

Cloud

+ 32%

Administration

+ 54%

Selling & Marketing

+ 33%

Stock Options / Acquisition Related Costs

+ 3%

Goods/Software Amortization & Capitalization

+ 154%

Total

+ 31%

Headcount

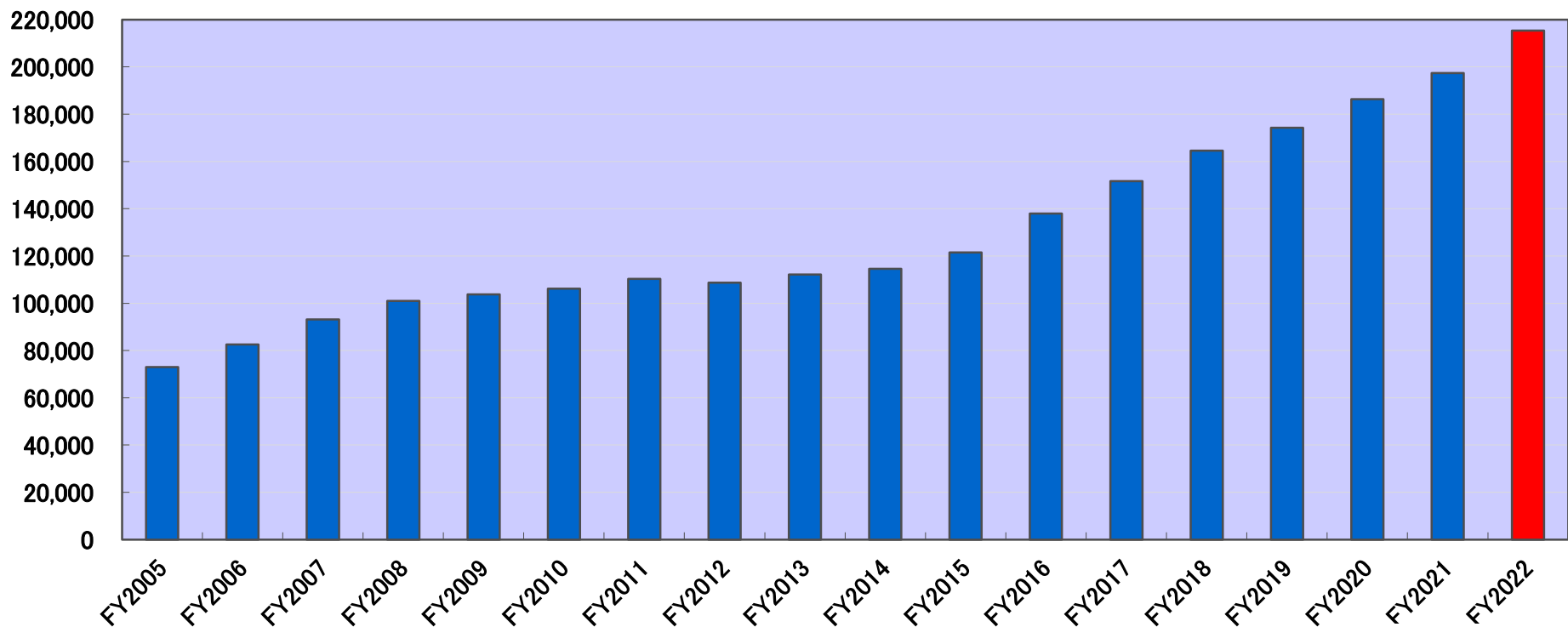
+645 (+9%)

(Non-GAAP)

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

Shareholder Returns

Basic policy on Shareholder Returns over the next few years (1)

(Based on the following assumptions)

- The minimum cash levels we should have are
 - 1) *Working capital & liquidity need (including future costs related to “Deferred Revenue”, where cash has been paid to us but future services costs have not yet been incurred.)*
 - 2) *An additional reserve to provide flexibility in downside scenarios.*

We believe that **the decision should be primarily based on these 2 factors.**

- We are currently working on the calculation of an appropriate holding cash level, but **we have not yet completed the same at this time.** (the calculation to be completed by the end of 2023, and such cash level amount will be announced)
- On the other hand, we believe that the current holding cash level is **already in excess of the appropriate level to be calculated as above.**

Basic policy on Shareholder Returns over the next few years (2)

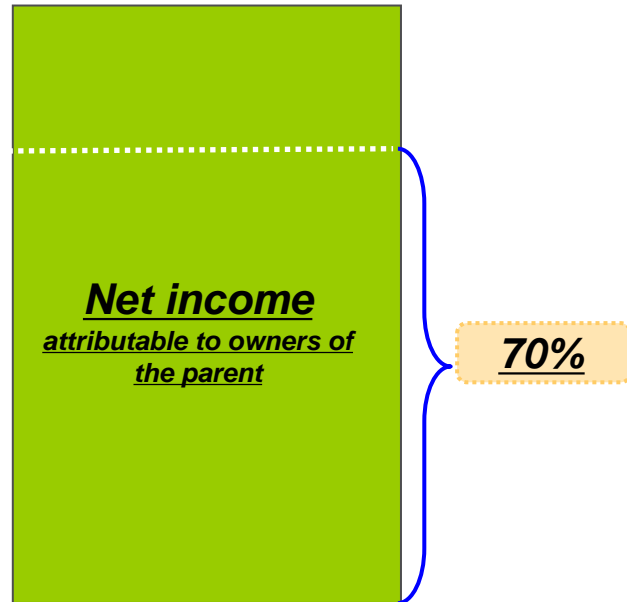
(Basic policy on future Shareholder Returns)

Based on these assumptions,

- In order to further improve the efficiency of shareholders' equity through the appropriate level of cash holdings,
We intend to return a minimum amount of 100% or more of “Net income attributable to owners of the parent” (Consolidated net income) of the previous fiscal year to shareholders over the next several years.
- This will be done **by increasing share buybacks**, while keeping the current annual dividend pay out ratio (70%).
- If we use a large amount of cash for acquisitions, etc. in any year, the amount used will be subtracted from the total amount of annual share buybacks (**this will not affect the dividend payout ratio, which is set at 70%**).
- We expect to return upto 50Bn JPY through share buy backs in the **near future**, and the 25Bn JPY buyback **in 2023** is a part of this plan.

Cash Dividends for FY2022

Dividend Policy: Year-end dividends on the basis of a dividend payout ratio of 70%
 $70\% \times \text{Net income}$ attributable to owners of the parent



Dividends for FY2022

Total: 21,012 million Yen

**Per share: 151 Yen
(- 23% YoY)**

***FY2021:195 Yen per share**

** Subject to the approval at the Ordinary General Meeting of Shareholders scheduled in late March, 2023*

Compensation for Shareholders

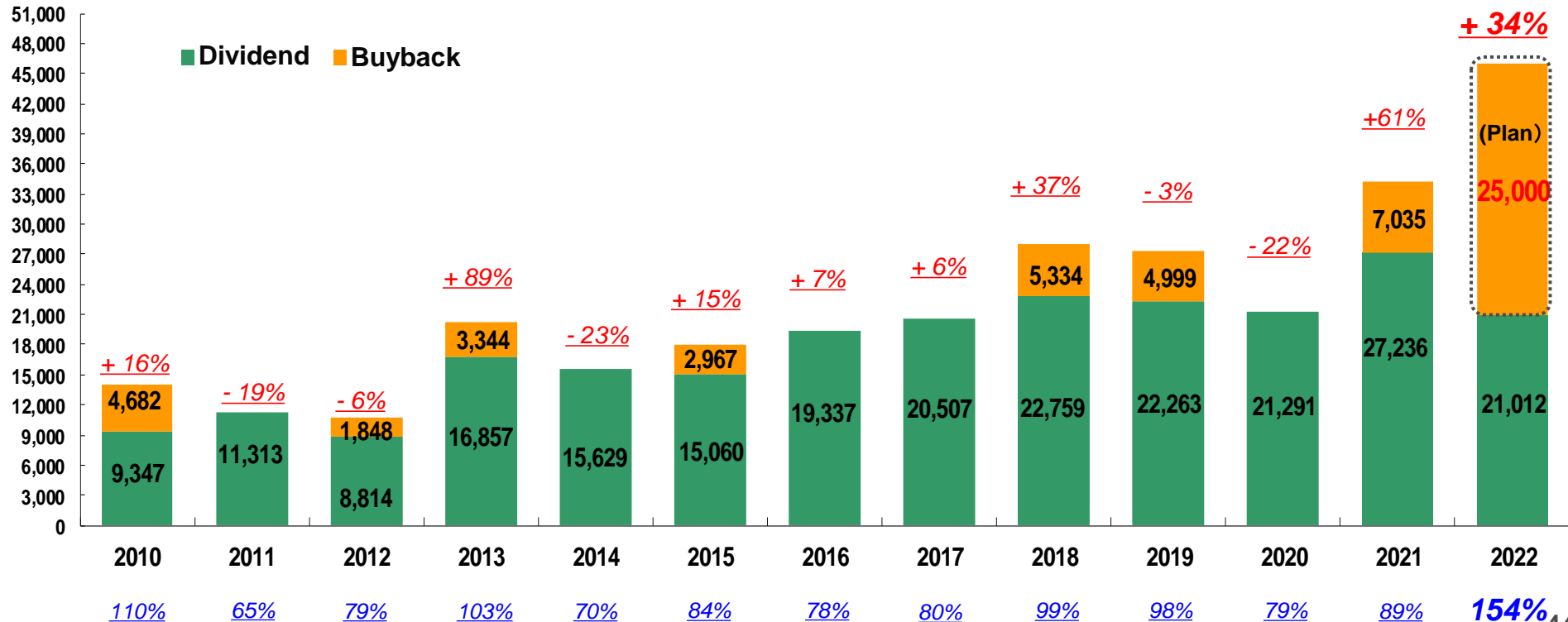
(unaudited)

The ratio of 10 years' cumulative total compensation to Net income from 2013 to 2022: 95%

(in million Yen)

Red: Growth rate of Total compensation for shareholders

Blue: Ratio of Total compensation to Net income



FY2023 Guidance

FY2023 annual forecast assumptions

- ***Japan increases by a quite low single digit YoY, Americas increases by around 10% YoY, Europe and AMEA increase by around 20% YoY respectively.***
- ***People costs are expected to increase due to continuing new hiring, and Cloud costs increases due to strengthening SaaS business.***
- ***The decrease in net income due to the absence of the extraordinary income (a gain on sales of affiliate company shares, etc.) in 2022***
- ***Estimated exchange rate:***
1USD = 135 yen (last year: 132 yen) , 1EUR = 143 yen (last year: 138 yen)

Projection for FY2023 Annual

(unaudited)
(in million Yen)

	<u>For FY2023</u> <u>Jan - Dec, 2023</u>	<u>Expected</u> <u>YoY growth</u>
Net Sales	248,500	<u>+ 11%</u>
Operating Income	34,800	<u>+ 11%</u>
Ordinary Income	34,900	<u>+ 2%</u>
Net Income attributable to owners of the parent	25,100	<u>- 16%</u>

(Estimated annual exchange rate 1USD=135 yen, 1EUR=143 yen)

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

Net Sales

+ 9%

(Non-GAAP)



Thank You

Appendix

Quarterly Chart (1)

(unaudited)

(in million Yen)

	FY2021				FY2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	44,594	46,734	47,851	51,178	50,427	54,874	56,798	61,694
Cost of sales	9,875	10,209	10,606	11,326	12,367	13,135	14,148	14,649
Operating expenses	22,492	26,635	24,738	30,833	26,945	34,197	35,436	41,575
Operating income	12,226	9,888	12,507	9,018	11,115	7,542	7,213	5,470
Ordinary income	12,126	10,615	12,680	9,078	11,265	9,344	9,798	3,753
Net income attributable to owners of the parent	8,804	7,699	9,166	12,696	8,531	6,430	13,530	1,350
(Costs)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Goods / Software Amortization & Capitalization	-170	935	1,067	1,759	776	2,313	2,028	4,005
Stock option cost	349	771	863	817	962	378	1,478	441
Acquisition related costs	1,349	657	658	679	694	772	806	804
Selling & Marketing	3,048	3,785	3,706	5,788	3,898	5,085	5,014	7,653
Administration	2,074	2,128	2,315	2,746	2,700	3,408	3,922	4,205
Cloud	3,595	3,906	3,654	4,613	3,882	5,086	5,874	5,964
Outside service	3,665	4,214	4,274	4,485	5,223	6,272	6,682	7,156
Office overhead	1,946	1,992	1,948	2,005	2,013	2,124	2,217	2,322
Salary & Benefit	16,508	18,453	16,855	19,264	19,161	21,889	21,558	23,671
Total	32,367	36,845	35,344	42,159	39,312	47,332	49,585	56,224
The number of employees	6,922	6,972	6,995	7,024	7,033	7,199	7,507	7,669
Applied rate to yen (US\$)	105.95	109.51	110.11	113.72	116.35	129.67	138.40	141.19
Applied rate to yen (Euro)	127.76	131.99	129.84	129.97	130.38	138.19	139.28	144.27

Appendix

Quarterly Chart (2)

(unaudited)

(in million Yen)

(Sales by region)	FY2021				FY2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	18,731	18,803	19,402	19,675	20,258	20,301	20,396	21,131
Americas	9,616	10,653	10,975	11,358	11,358	13,038	13,452	15,103
Europe	8,034	8,525	8,612	9,660	8,841	10,100	10,554	11,964
APAC, Middle East and Africa	8,212	8,752	8,861	10,484	9,970	11,433	12,395	13,494
Total	44,594	46,734	47,851	51,178	50,427	54,874	56,798	61,694
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	33,247	35,081	35,557	38,552	37,584	41,728	43,489	48,226
Consumer	11,347	11,652	12,293	12,626	12,842	13,146	13,309	13,467
Total	44,594	46,734	47,851	51,178	50,427	54,874	56,798	61,694
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	20,542	18,852	18,664	19,183	20,872	20,441	18,825	21,019
Americas	8,845	10,446	10,342	15,080	10,642	12,929	13,578	19,593
Europe	7,025	8,690	7,746	16,882	7,471	11,525	10,702	20,888
APAC, Middle East and Africa	7,803	9,903	10,301	14,197	10,993	13,251	13,518	17,834
Total	44,218	47,891	47,054	65,344	49,980	58,148	56,625	79,336

“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.**