

Trend Micro FY2023 Q3 Results

Mahendra Negi CFO, Representative Director

November 9, 2023



Shareholder Returns

The policy on Dividends for the fiscal year ended December 31, 2023 and Share buybacks implemented during the fiscal year ended December 31, 2024

(Background of Policy Decision)

We have been considering on reducing our cash holding to more appropriate levels. We have now concluded that the maximum amount we can currently return to shareholders is approximately 140 billion yen in consideration of legal restrictions and other factors, and have now decided on a policy of returning 140 billion yen to shareholders.

(Method and Timing of return)

We intend to return through a combination of Regular and One-time special dividend for FY 2023 as well as through Share buybacks implemented during FY2024.

However, these amounts are dependent on the full year results of fiscal year ended December 2023, as well as various restrictions and limitations by the Japanese Corporate Law, etc.

Total Dividend Target (Year-end dividend for the fiscal year ended Dec. 31, 2023)	100 billion Yen Regular dividend(payout ratio 70%) + One-time special dividend
Share Buyback Target (implemented during the fiscal year ended Dec. 31, 2024)	40 billion Yen
Total Return Target to be paid in 2024	Total 140 billion Yen

The basic policy on shareholder returns for the fiscal year ended December 2024 and onward.

(The basic policy on shareholder returns for the fiscal year ended December 2024 and onward)

As a result of the dividend policy and the buyback policy mentioned on the previous slide, a significant improvement in the efficiency of shareholder equity would be expected. Therefore we set the basic policy for shareholder returns from the fiscal year ended December 2024 (payment in 2025) and onward, as follows.

As a rule of thumb, we will return all net income generated after making the necessary investments for business growth without retaining any earnings. Even after the significant capital return in 2024, we will have cash in excess of our minimum cash needs and will prioritize achieving capital efficiency through capital return and/or M&A.

Although our group business operates globally and it is sometimes difficult to make the net income of consolidated subsidiaries immediately the parent company's amount available for distribution, we will promptly collect the entire net income of our subsidiaries for each fiscal year as dividends from basically all consolidated subsidiaries to the parent company every year, and increase the parent company's net income to increase the amount available for distribution.

And we return in the following year the entire amount available for distribution through a year-end dividend for that year and share buybacks in the following year.

While as the shareholders return for each fiscal year we will continue to target to maintain the existing dividend payout ratio of 70%, there is a possibility that we will not reach it in some fiscal years due to the reasons mentioned above.

Notice of “IR Day”

- **Date: December 1st, 2023 (Tokyo local time)**
- **Time: 10 AM ~ 12 PM (120 minutes)**
- **Event Format: Hybrid style** *Simultaneous Japanese / English interpretation available
 1. **Online webinar by Zoom**
 2. **In-person at Imperial Hotel in Hibiya, Tokyo** *In-person seating is limited
- **Participation: Pre-registration on the website**
- **Participated Speakers: Group management and global senior management**

If you would like to participate, please contact us at “ir@trendmicro.com”.
We will send the invitation mail.

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.

FY2023.Q3 Financial Highlight

(Third quarter ended Sep 30, 2023)

Q3 Consolidated Results

(unaudited)
(in million Yen)

Three months ended Sep 30,	3Q2022	3Q2023	YoY growth
Net sales	56,798	64,189	+ 13%
Total Operating expenses	49,595	52,764	+ 6%
Operating income <i>(Margin)</i>	7,213 <i>(13%)</i>	11,424 <i>(18%)</i>	+ 58%
Ordinary income	9,798	13,486	+ 38%
Net income attributable to owners of the parent	13,530	950	- 93%
<i>If currency exchange rates used for 3Q2022 were used for 3Q2023</i>			
Net sales	56,798	61,387	+ 8% (Non-GAAP)
<i>“For reference”</i>			
Pre-GAAP	56,625	64,236	+ 13% <i>(excluding foreign exchange impact)</i> + 9%
Pre-GAAP based Operating Income	7,039	11,471	+ 63% (Non-GAAP)

Net income attributable to owners of the parent after elimination of one-time “income tax”

We intend to initiate procedures to receive retained earnings of each of our subsidiaries as dividends to parent company, which will result in a tax charge of 8.1 Bn JPY.

If we eliminate this impact of tax charge, net income would be as below :

(in million Yen)

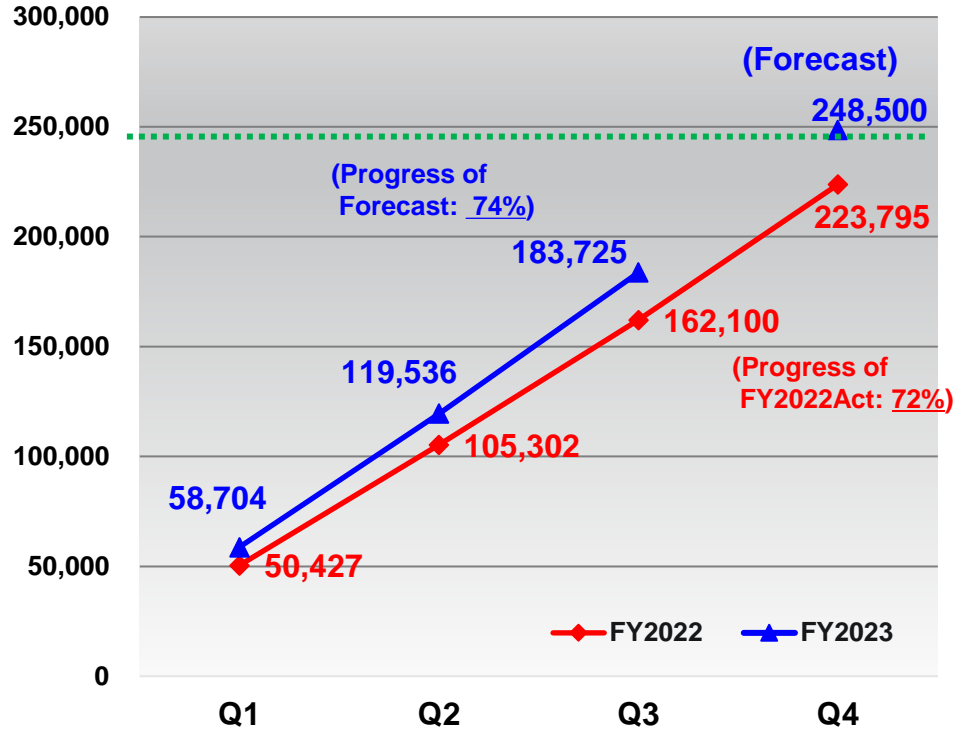
	3Q2023	Impact	3Q2023 after elimination of the impact (YoY)	
Net income attributable to owners of the parent	950	- 8,147	9,097	(-33%)

※ "Net income attributable to owners of the parent" in the FY2023 forecast has been revised downward to reflect this one-time additional tax allowance.

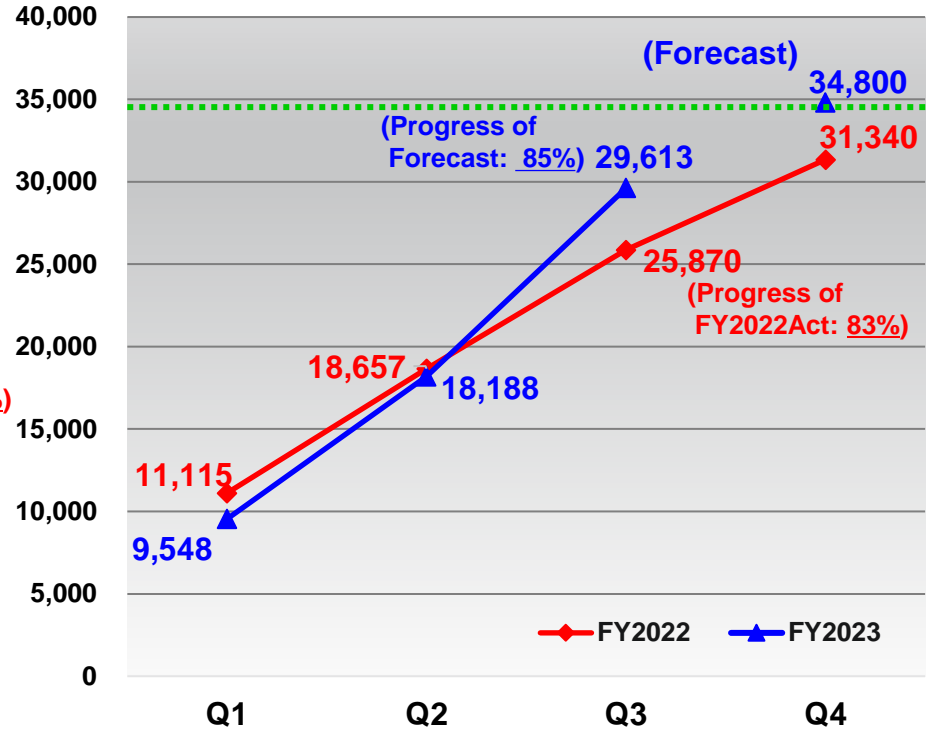
Progress (9 months)

(in million Yen)

Revenue



Operating Income



Q3 USD based Results (Non-GAAP)

(unaudited)

<i>Three months ended Sep 30,</i>	<i>3Q2022</i>	<i>3Q2023</i>	<i>(in thousand USD) YoY change</i>
Net sales	410,393	443,297	+ 8%
Cost of sales	102,231	110,026	+ 8%
Operating expenses	256,044	254,368	- 1%
Operating income	52,117	78,901	+ 51%
Ordinary income	70,801	93,140	+ 32%
Net Income	97,766	6,561	- 93%
<small>attributable to owners of the parent</small>			(Non-GAAP)

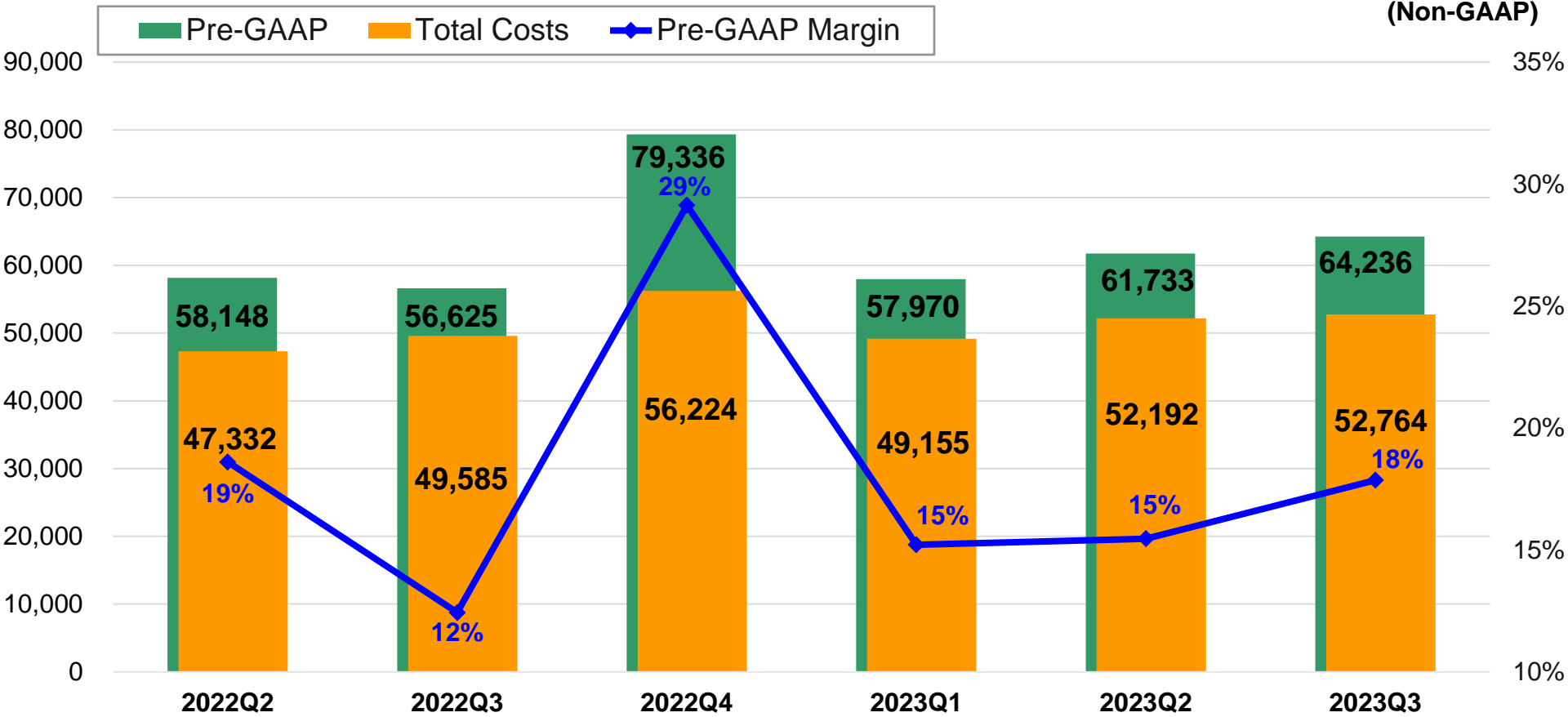
For each of the quarters shown in the table above, JPY Japan GAAP amounts have been converted to USD amounts using the exchange rates of USD=138.40 JPY for 3Q2022 and 1 USD =144.80 JPY for 3Q2023, respectively, which are the respective weighted average exchange rates used to convert USD net sales to JPY for these quarters.

Pre-GAAP v s Total Costs

(in million Yen)

(unaudited)

(Non-GAAP)

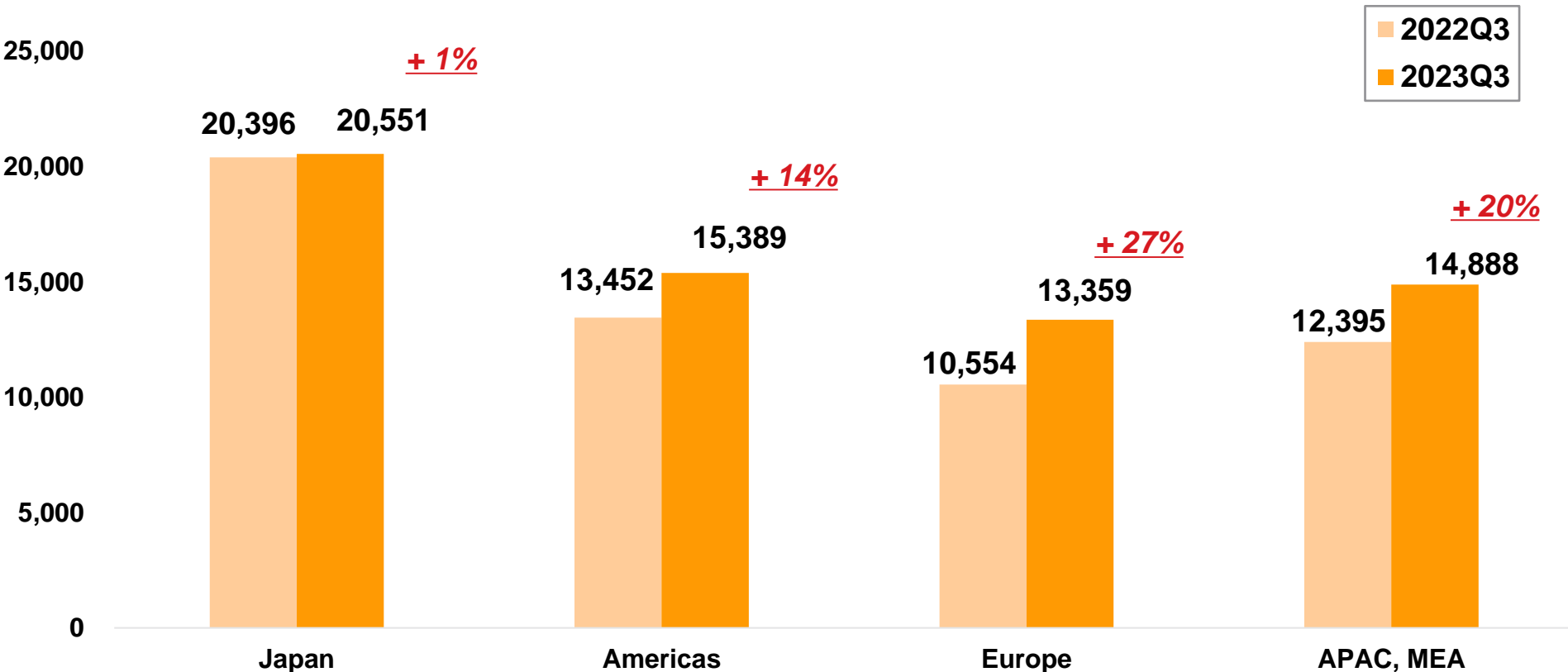


* "Total costs" means COGS + SGA.

(in million Yen)

Net Sales Growth by Region

(unaudited)

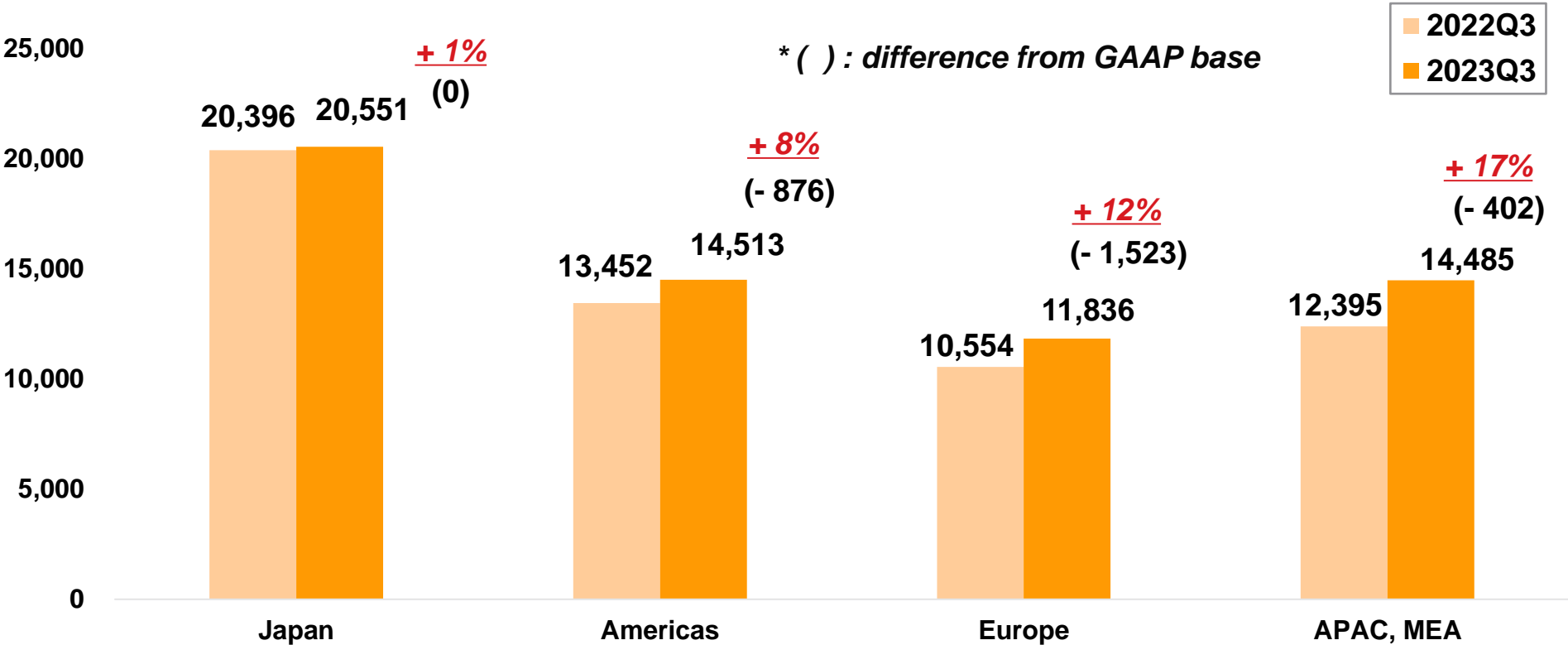


Net Sales Growth by Region

(in million Yen)

If currency exchange rates used for 3Q2022 were used for 3Q2023:

(unaudited)



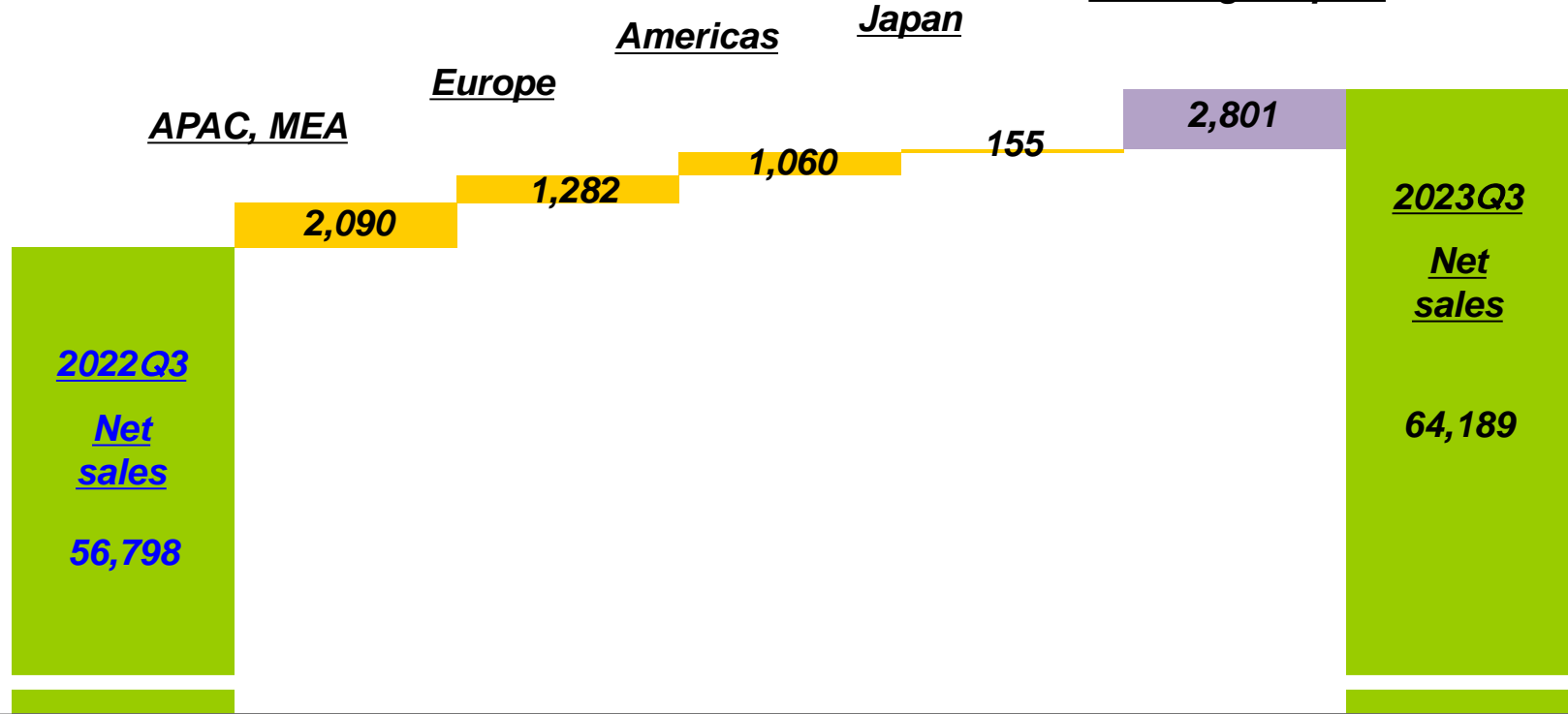
(Non-GAAP)

Decomposition of Revenue (vs. last year)

(in million Yen)

(unaudited)

Exchange impact

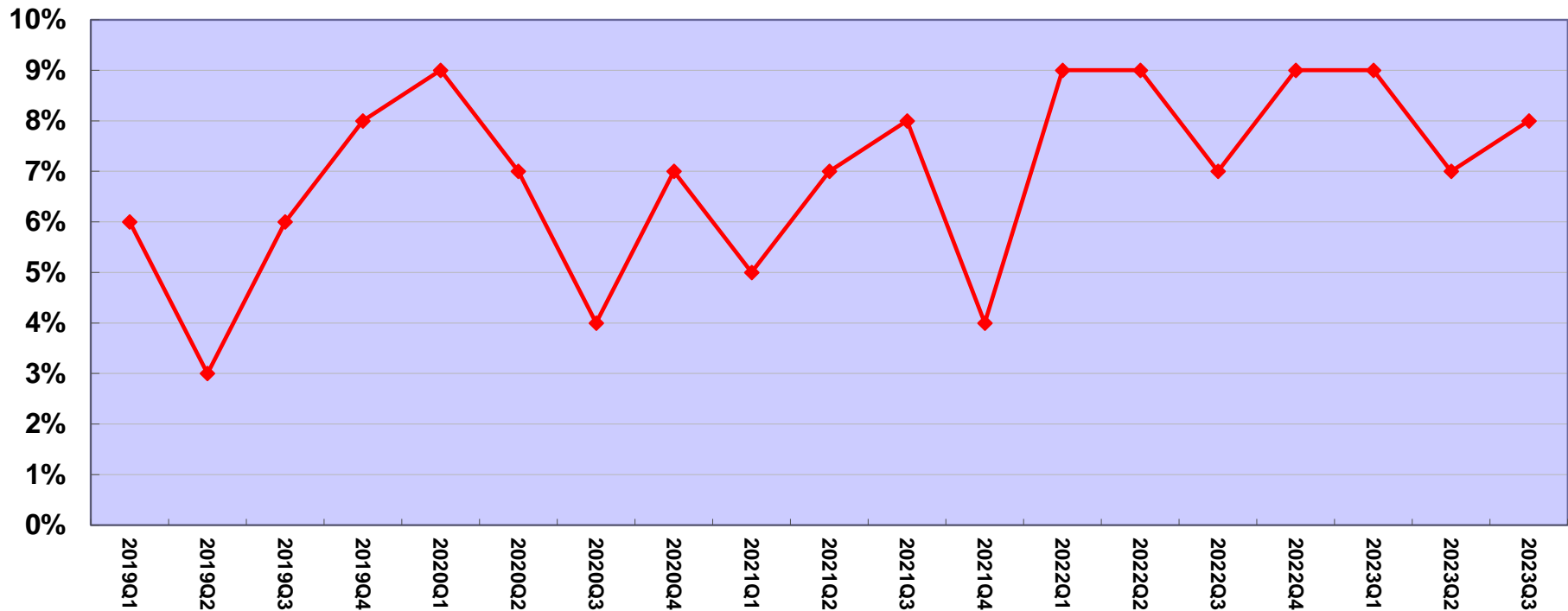


(Non-GAAP)

Constant currency Revenue growth

(YoY)

(unaudited)



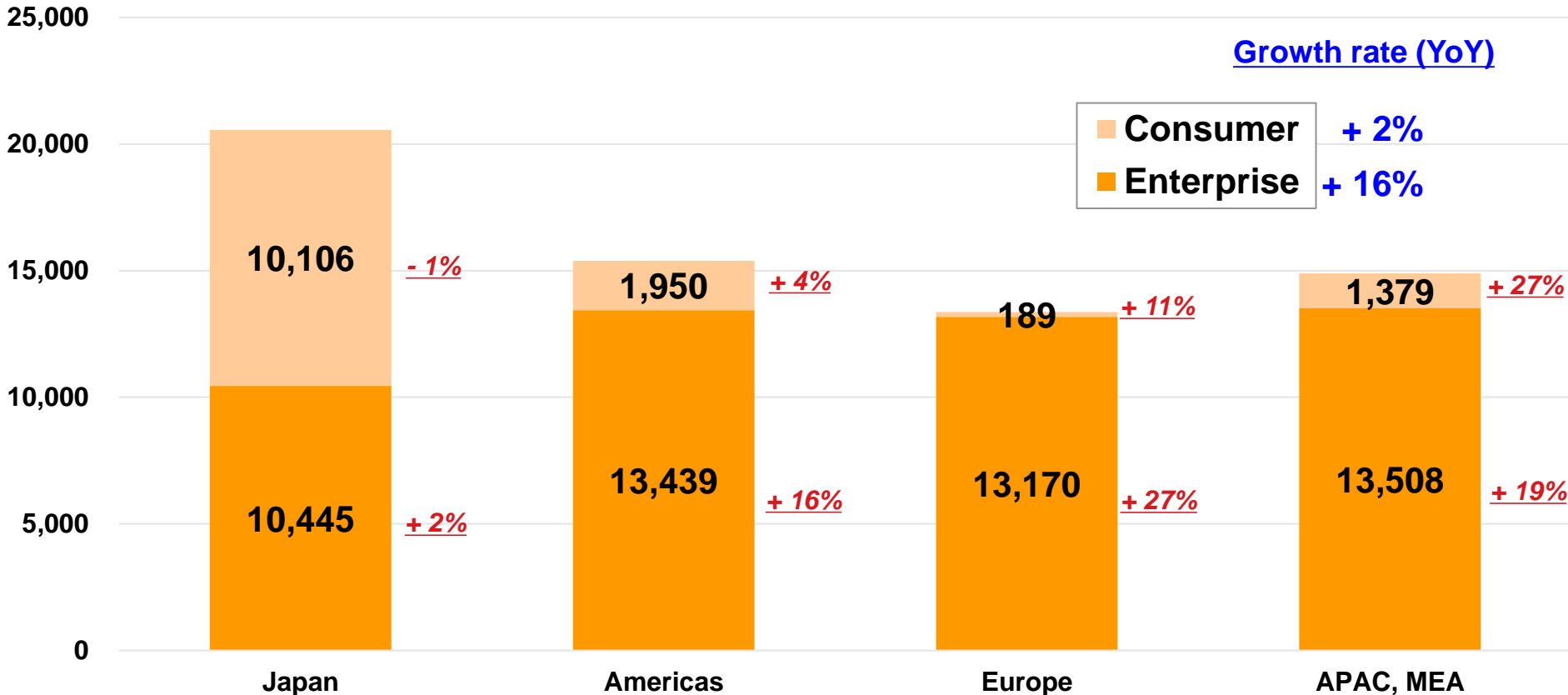
(Non-GAAP)

• 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)



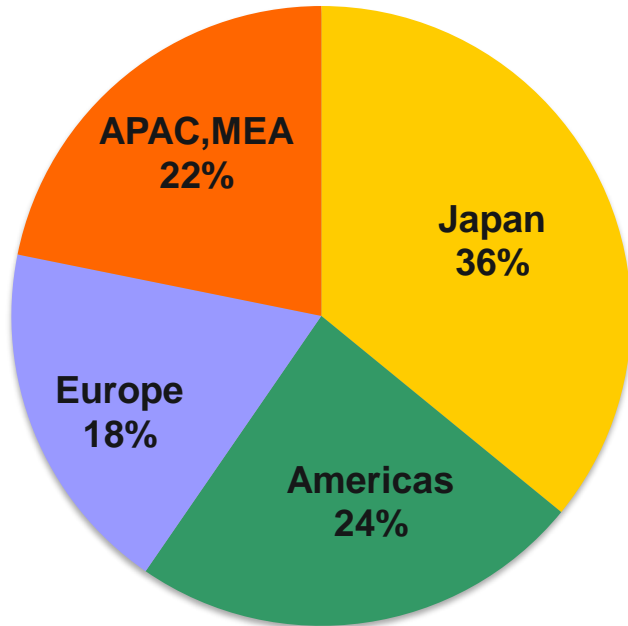
“Notice” As Sales by Segment numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

% share by region

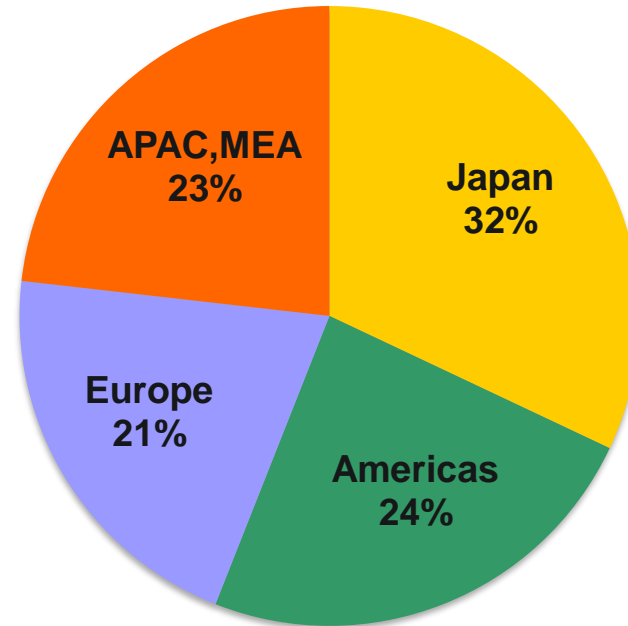
3Q2022

56,798 million Yen



3Q2023

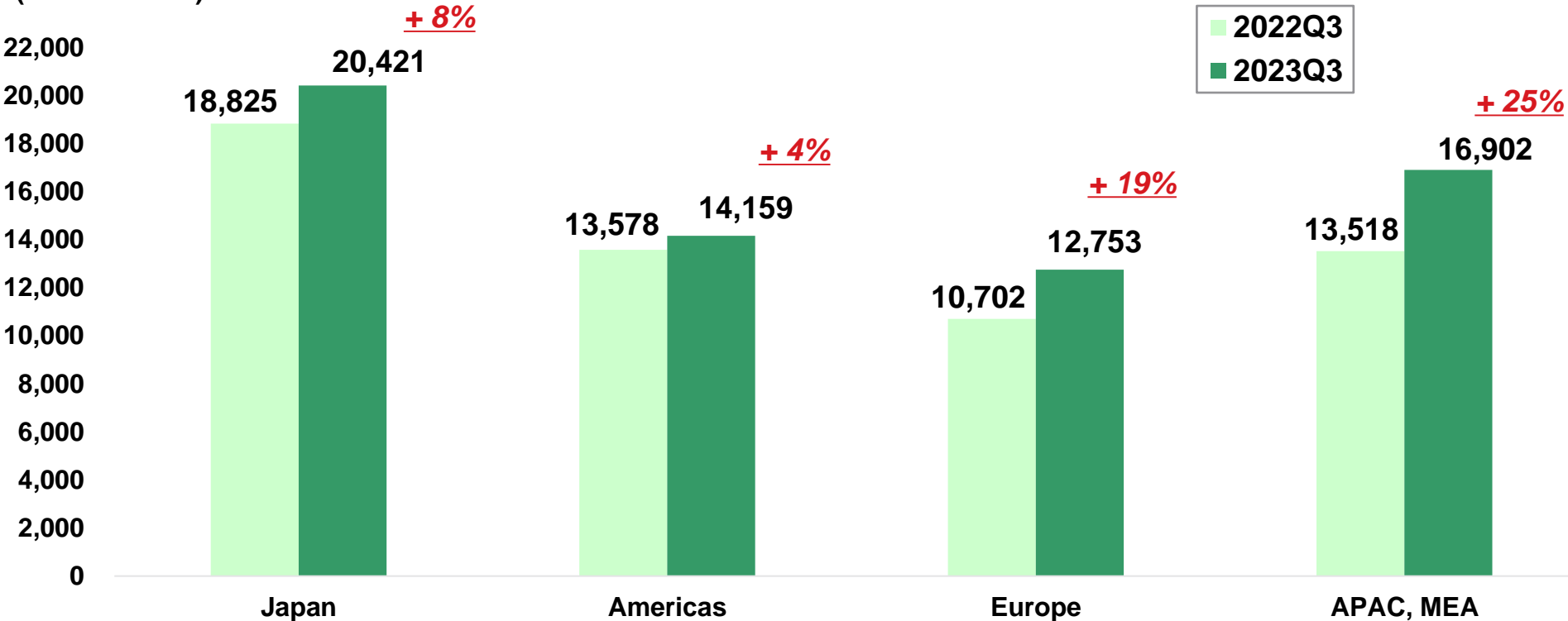
64,189 million Yen



“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(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.

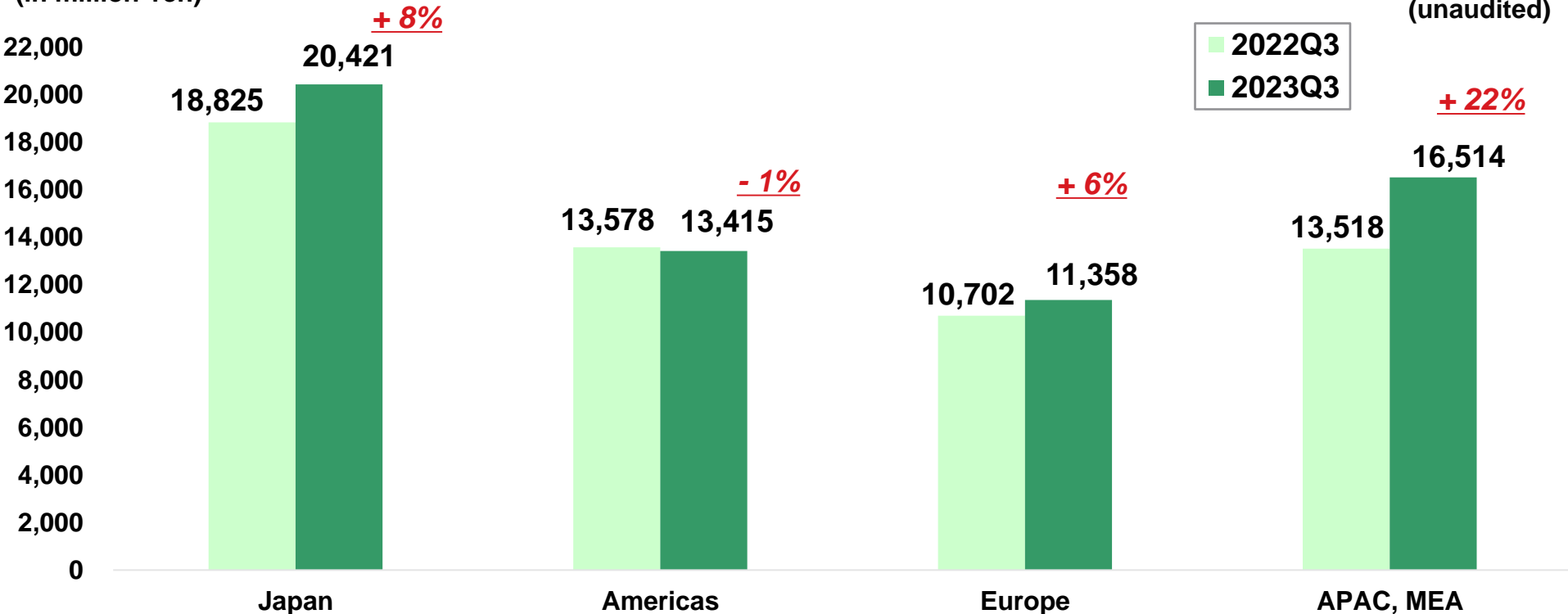
(Non-GAAP)

“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

If currency exchange rates used for 3Q2022 were used for 3Q2023:

(in million Yen)



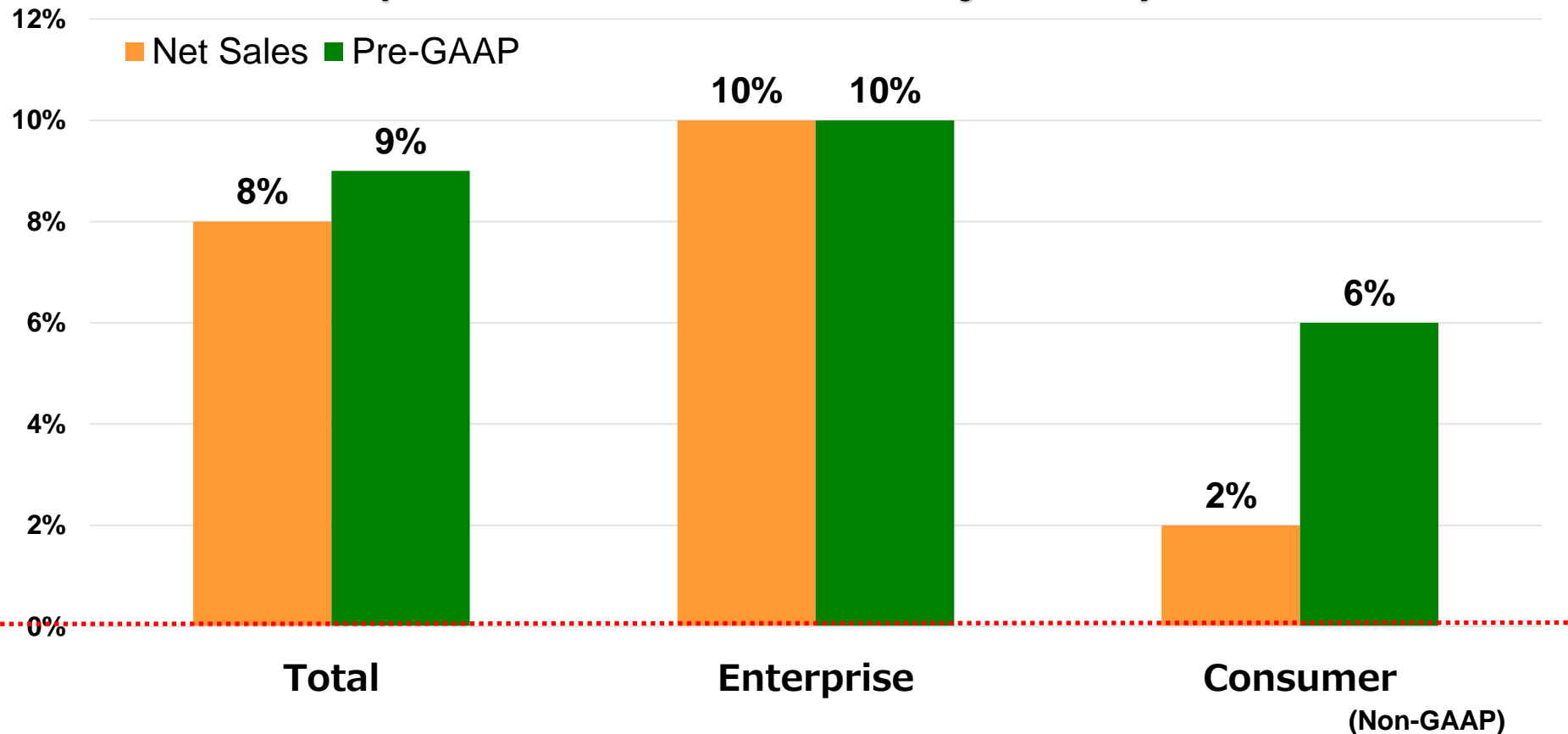
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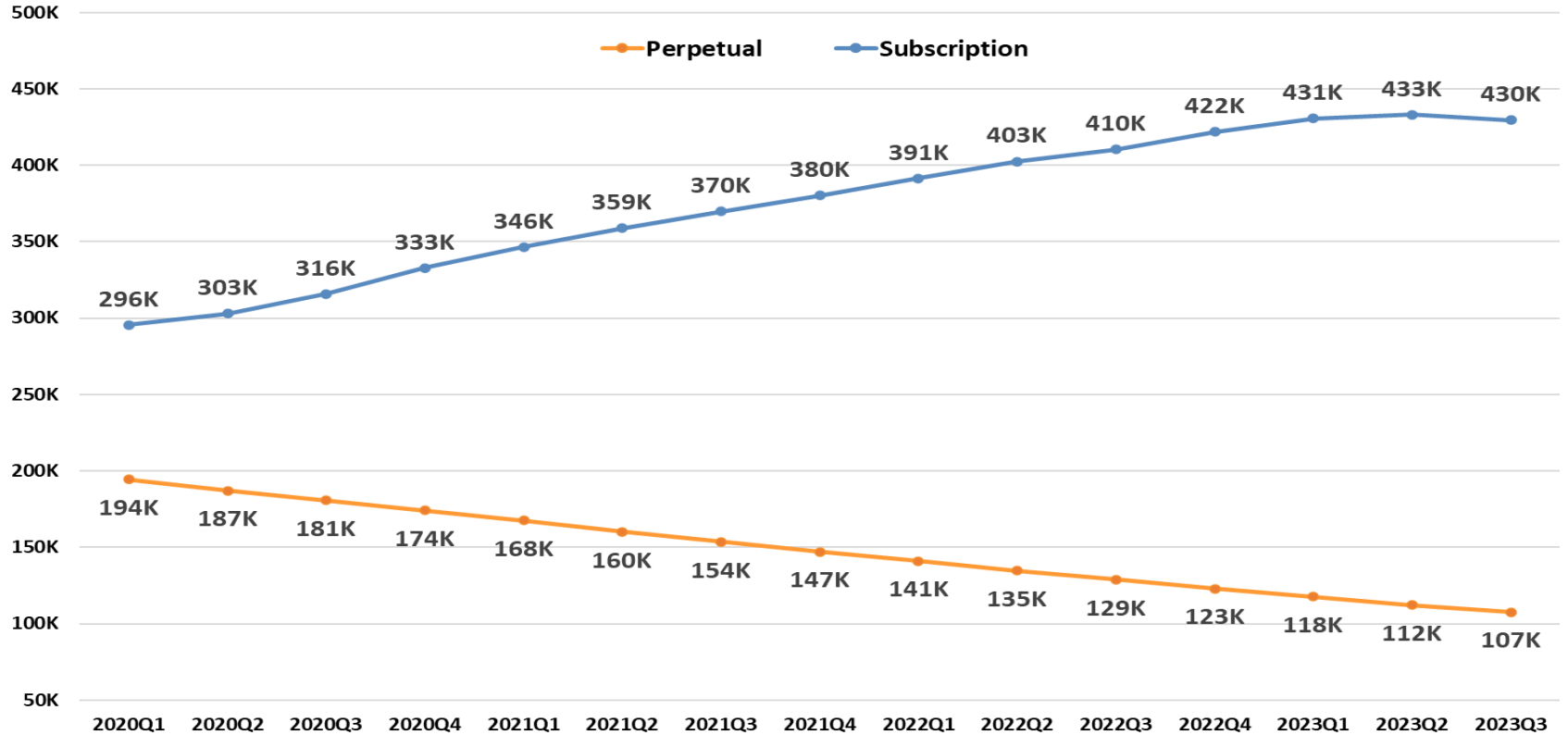
(Non-GAAP)

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

(unaudited)



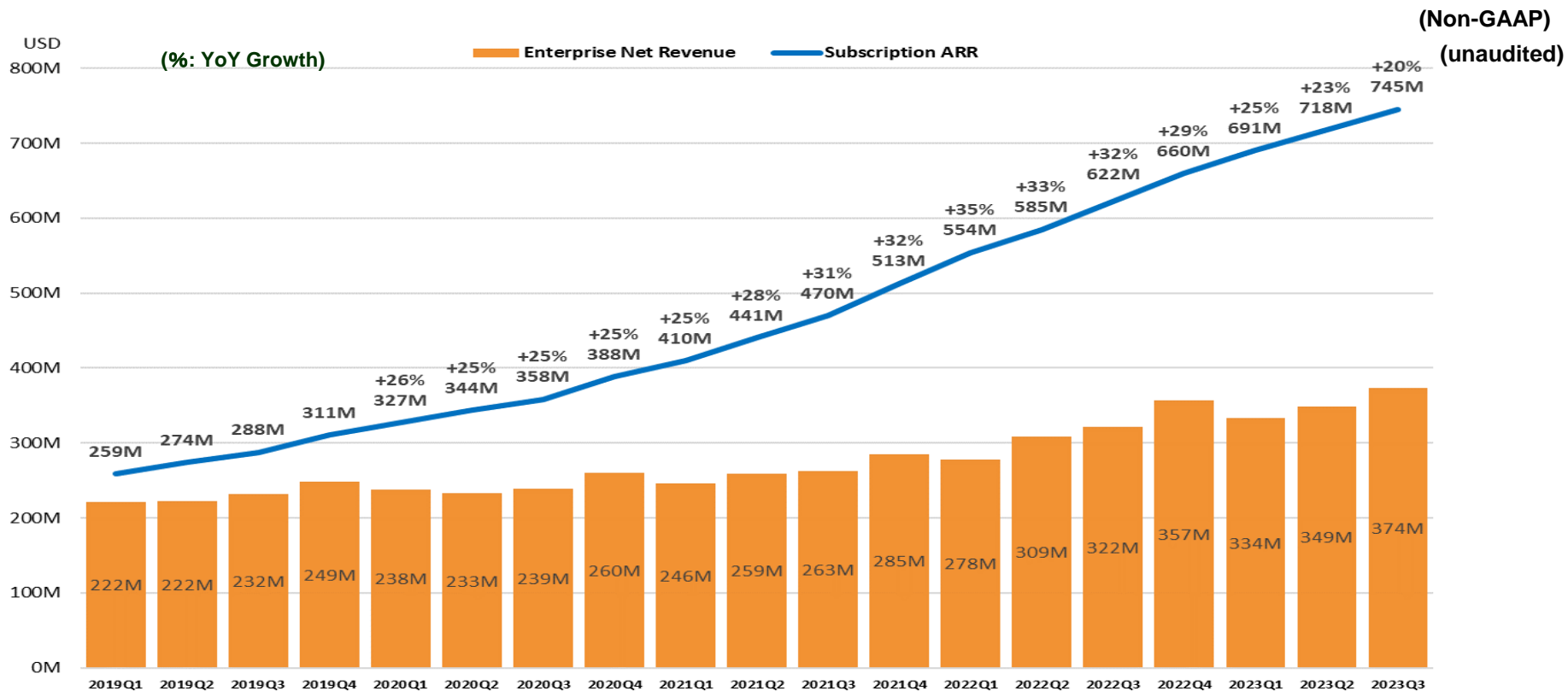
Active Customer Count



****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



*Subscription ARR is an annual figure and converted to USD using the FY2023 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 FY2023 Company budget exchange rate (1 USD = 135.23 yen).

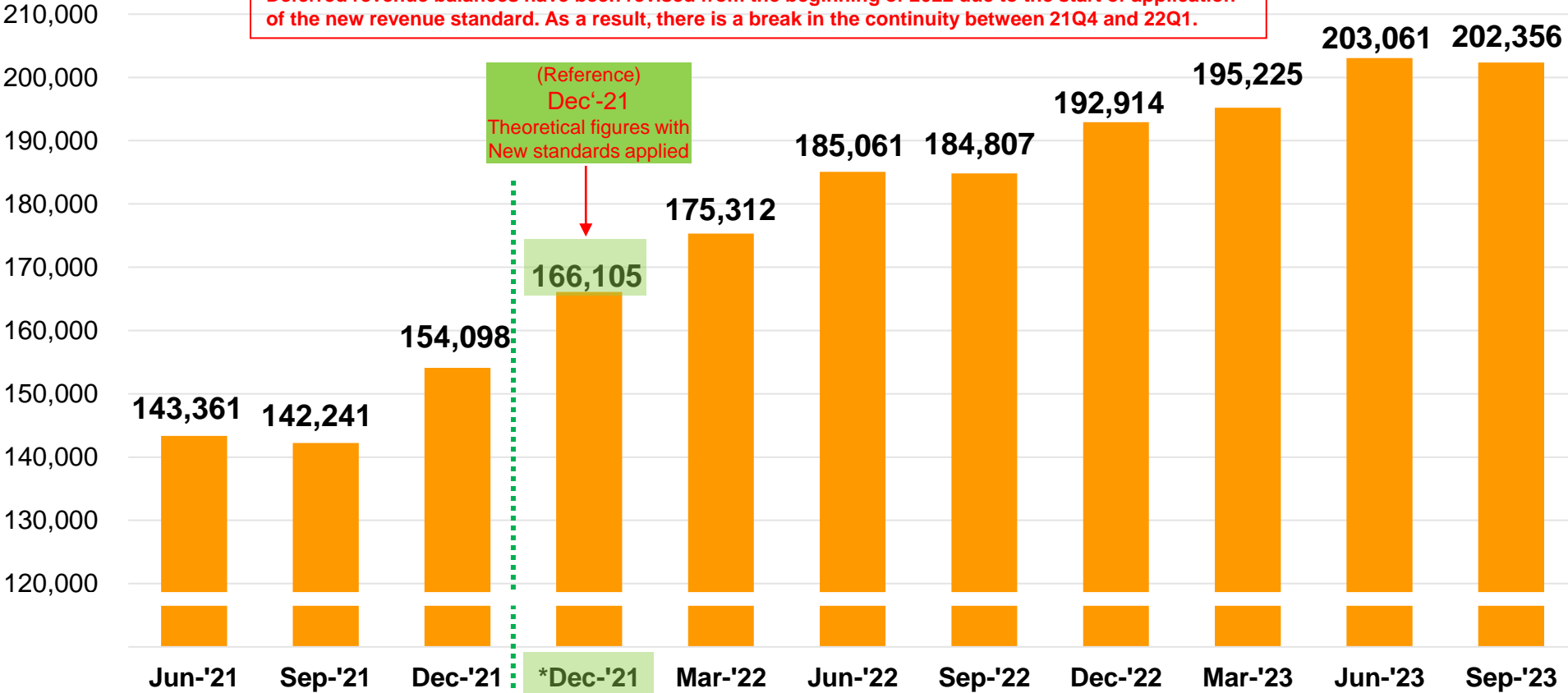
*As these numbers are just for internal use, they may be subject to some changes hereafter

Deferred Revenue

(unaudited)

(in million Yen)

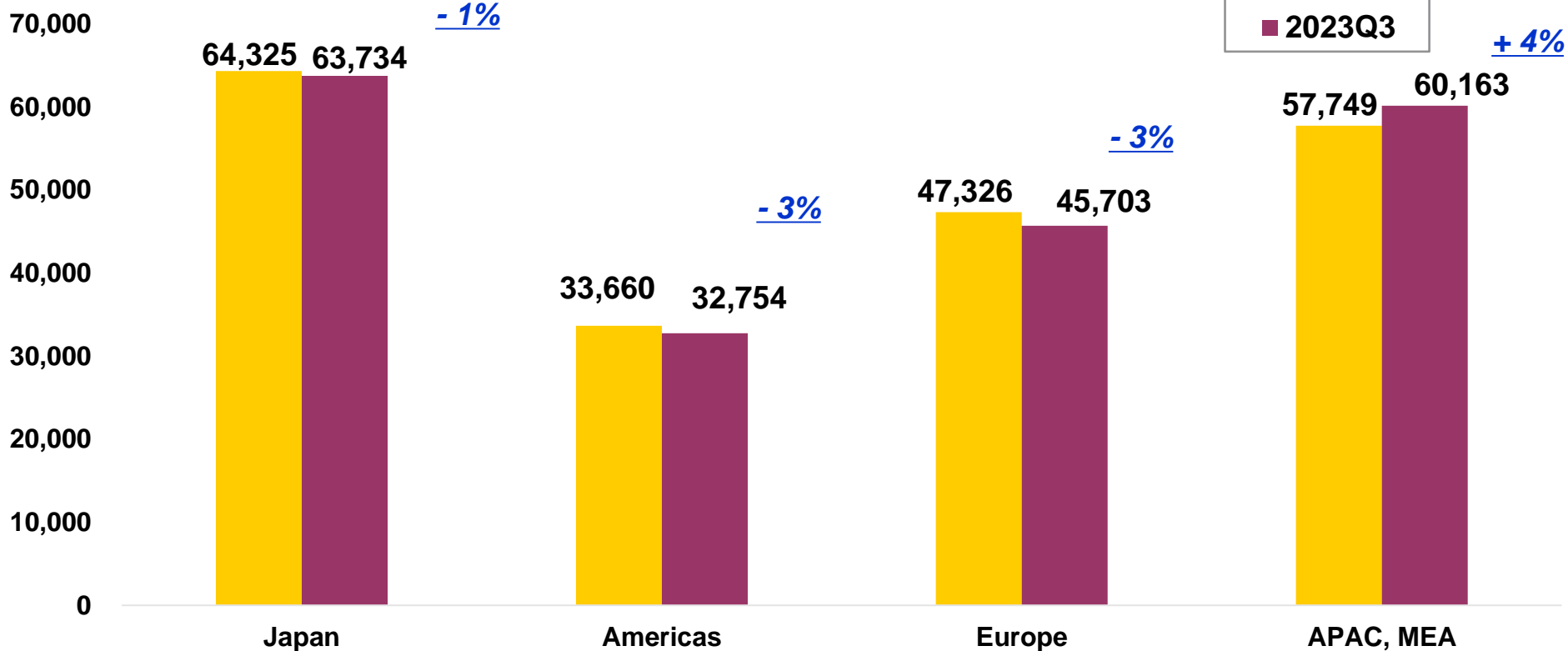
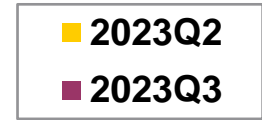
Deferred revenue balances have been revised from the beginning of 2022 due to the start of application of the new revenue standard. As a result, there is a break in the continuity between 21Q4 and 22Q1.



Deferred Revenue by Region

(in million Yen)

(unaudited)



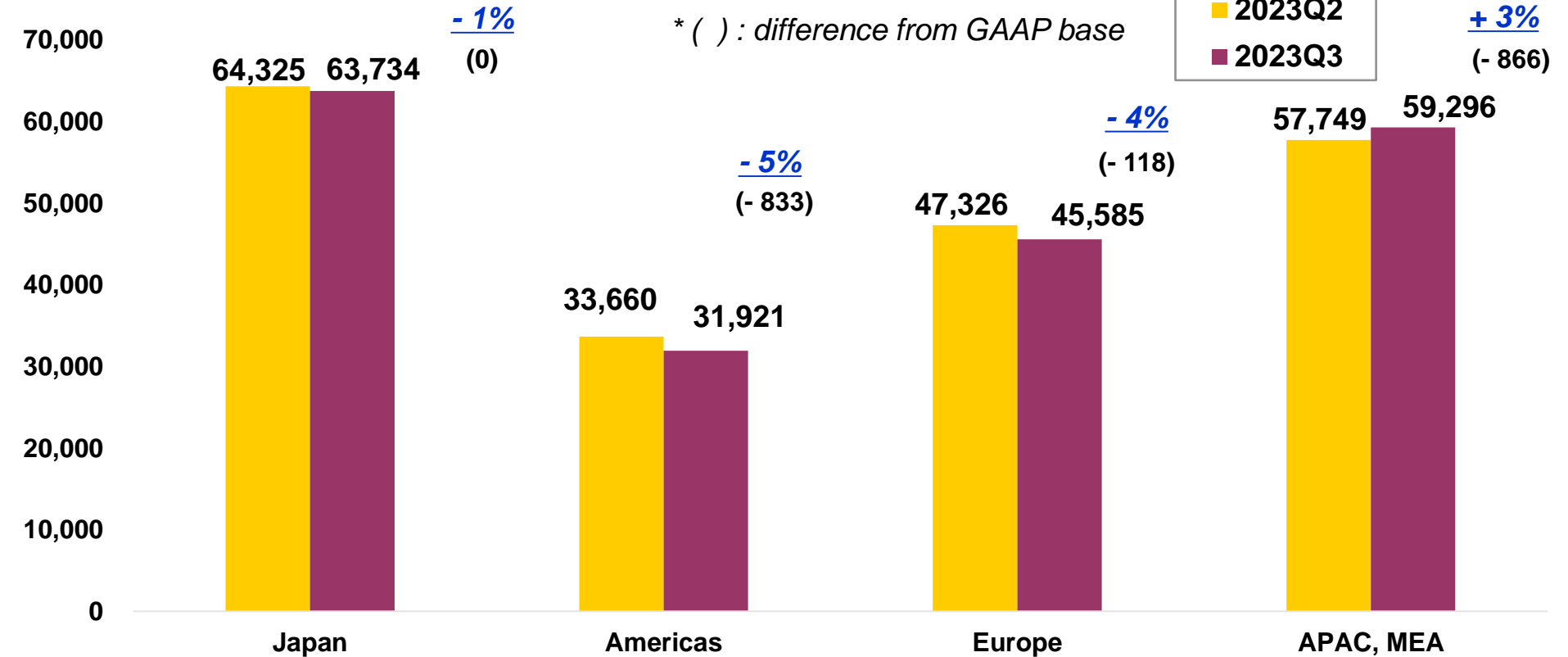
(Non-GAAP)

Deferred Revenue by Region

(unaudited)

If currency exchange rates used as of the end of 2Q2023 were used as of the end of 3Q2023:

(in millio Yen)



(Non-GAAP)

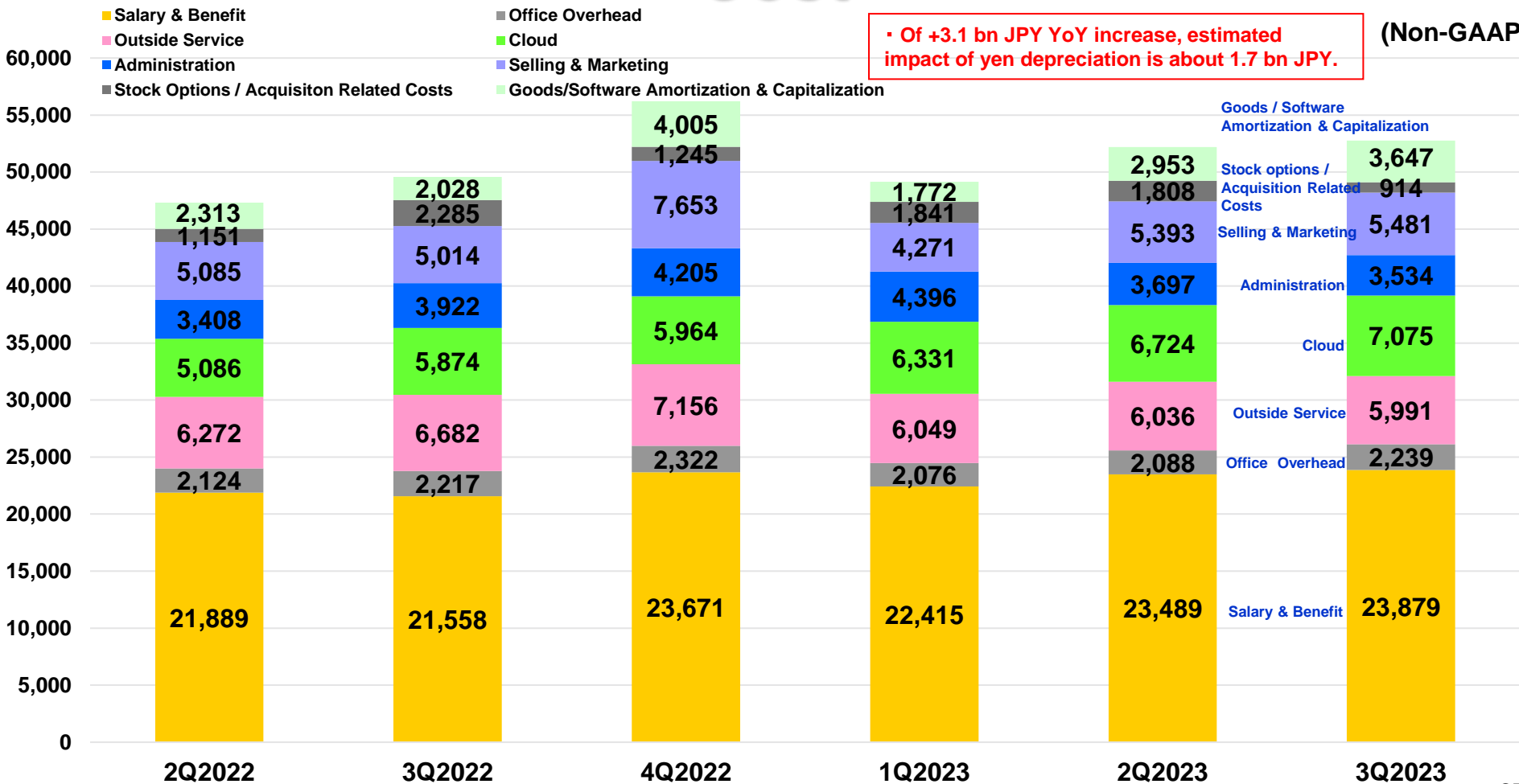
(in million Yen)

Cost

(unaudited)

(Non-GAAP)

• Of +3.1 bn JPY YoY increase, estimated impact of yen depreciation is about 1.7 bn JPY.



Cash flows

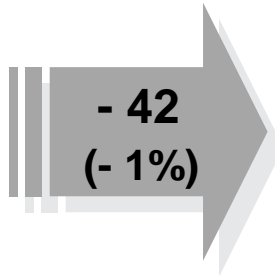
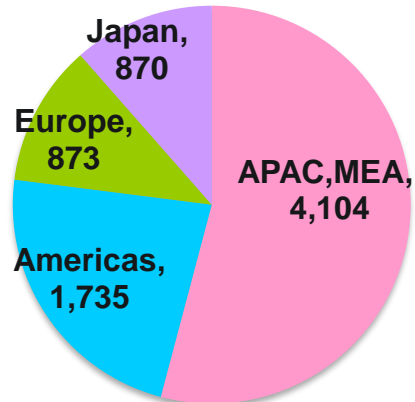
(unaudited)
(in million Yen)

	3Q2022	3Q2023	YoY growth
Cash flows from operating activities	10,032	13,026	+ 30%
Cash flows from investing activities	- 924	- 3,818	—
Cash flows from financing activities	769	- 2,340	—
Effect of exchange rate changes on cash and cash equivalents	6,421	2,285	- 64%
Net increase (decrease) in cash and cash equivalents	16,299	9,152	- 44%
Cash and cash equivalents at beginning of this quarter period	197,906	209,224	+ 6%
Increase in cash due to merger of consolidated subsidiary	—	—	—
Cash and cash equivalents at end of this quarter period	214,206	218,377	+ 2%

Headcount

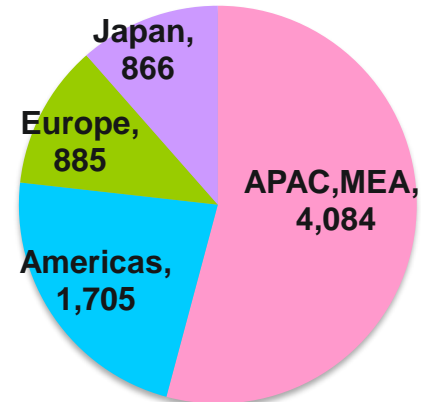
Jun - 2023

7,582



Sep - 2023

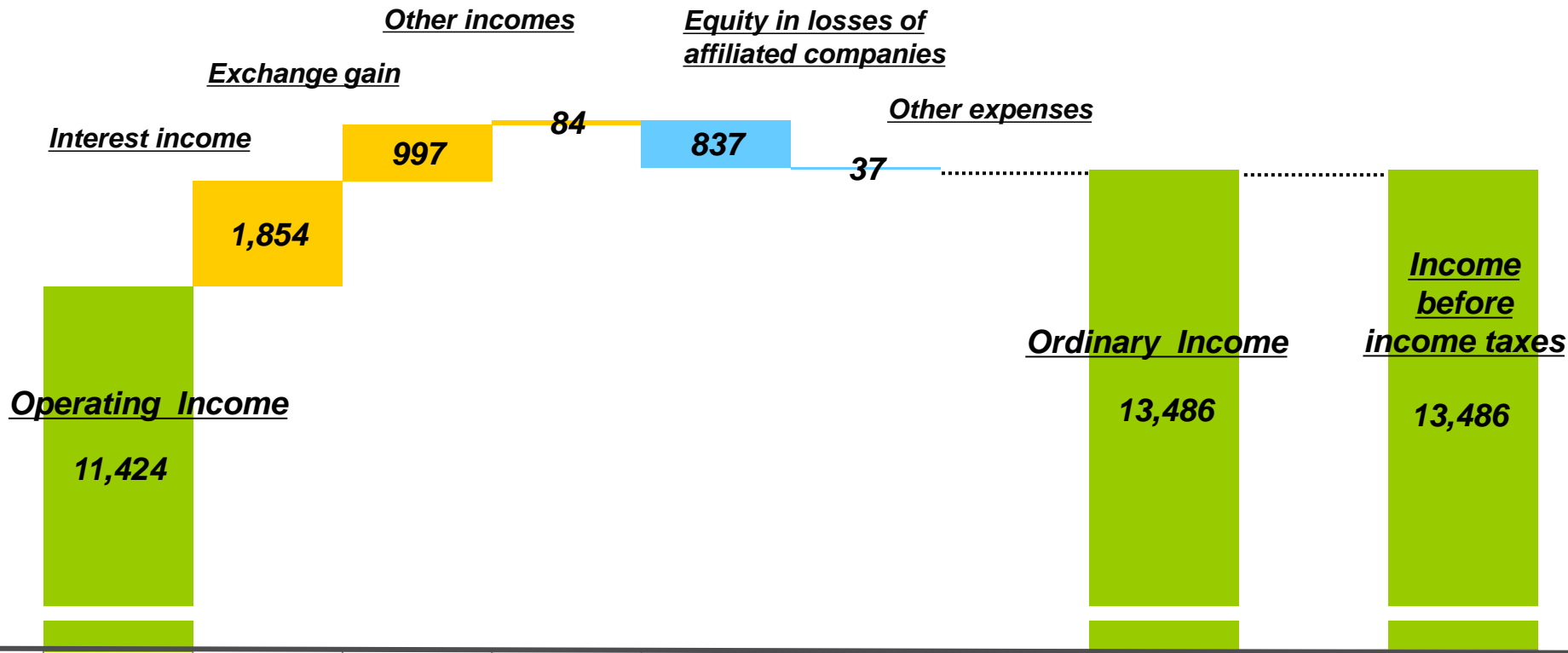
7,540



Non-operating & Extra-ordinary Items

(in million Yen)

(unaudited)



Balance Sheet

(unaudited)
(in million Yen)

	<i>Jun-2023</i>	<i>change</i>	<i>Sep-2023</i>
<u>Assets</u>			
<i>Cash & cash equivalents</i>	187,740	+ 1,157	188,897
<i>Account receivable</i> <i>(less allowance for doubtful accounts)</i>	54,081	+ 2,647	56,728
<i>Marketable securities &</i> <i>Securities investments</i>	119,170	+ 7,527	126,697
<i>Software</i>	13,974	+ 1,100	15,074
<u>Liabilities</u>			
<i>Deferred revenue</i>	203,061	- 705	202,356
<u>Shareholders' Equity</u>			
<i>Common Stock &</i> <i>Additional paid in capital</i>	47,580	+ 56	47,636
<i>Treasury Stock</i>	- 32,663	- 2,387	- 35,050

Q3 Highlights

- ***Highest ever quarterly revenues and ordinary income***
- ***Double digit growth of Enterprise business***
- ***Operating margins improve with tighter cost control***

FY2023 9months Financial Highlight

(January ~ Sep, 2023)

Consolidated Results (9 months)

(in million Yen)

9 months ended Jun 30,	2022 (1-3Q)	(Progress vs. last year's annual result)	2023 (1-3Q)	YoY growth	(Progress vs. current year's annual forecast)
Net sales	162,100	(72%)	183,725	+ 13%	(74%)
Total Operating expenses	136,230		154,112	+ 13%	
Operating income (Margin)	25,870 (16%)	(83%)	29,613 (16%)	+ 14%	(85%)
Ordinary income	30,408	(89%)	31,935	+ 5%	(92%)
Net income attributable to owners of the parent	28,492	(95%)	12,806	- 55%	(51%)

“For reference”

Pre-GAAP 164,753 183,940 + 12%

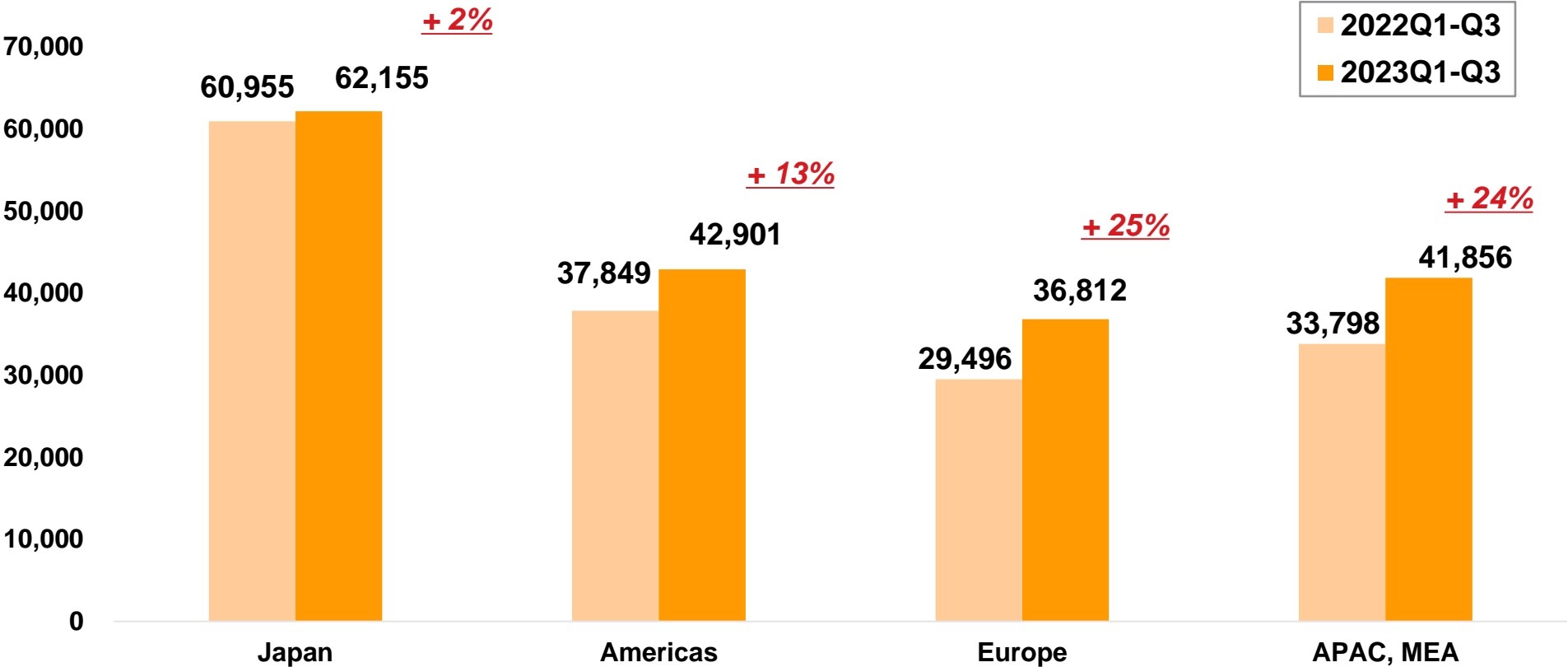
Pre-GAAP based
Operating Income 28,523 29,828 + 5%

(Non-GAAP)

Net Sales Growth by Region

(unaudited)

(in million Yen)



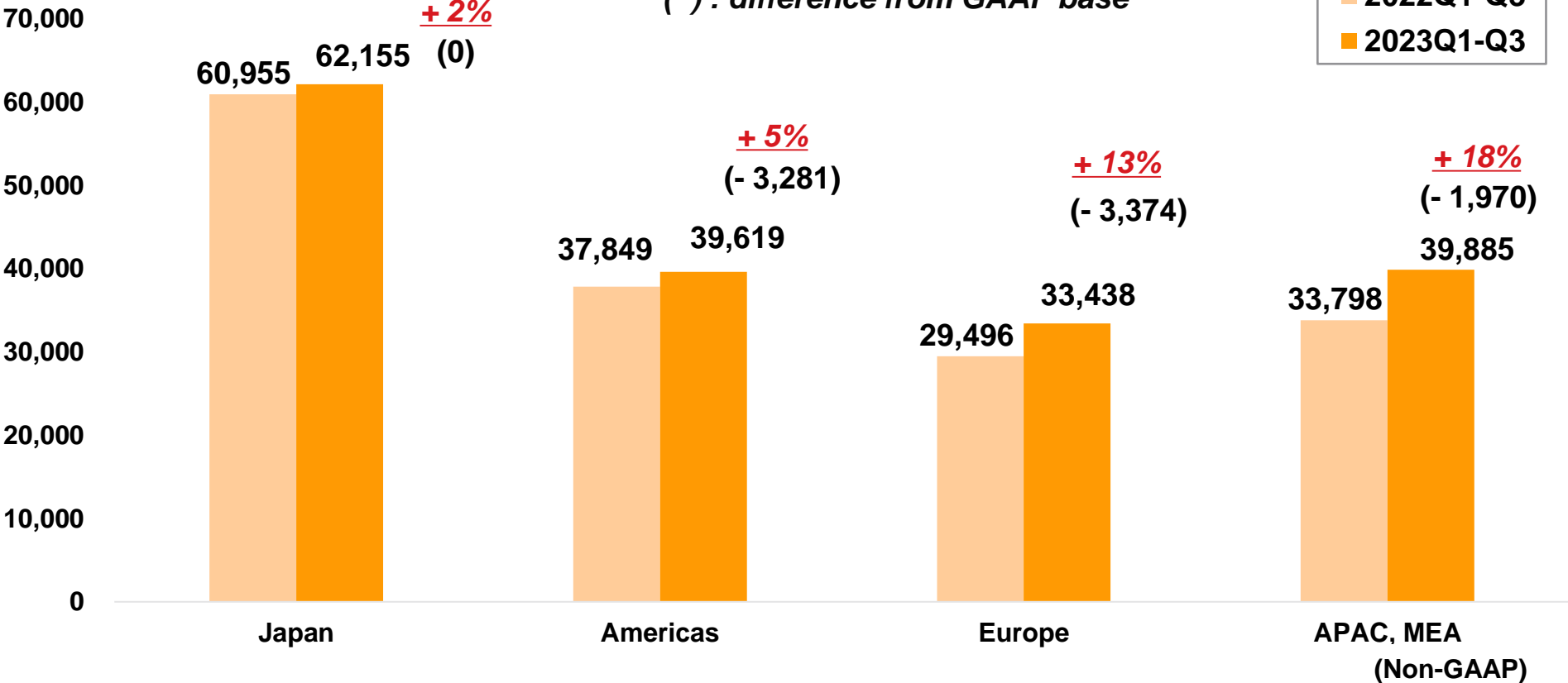
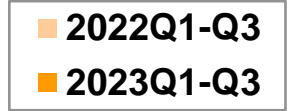
Net Sales Growth by Region

(in million Yen)

If currency exchange rates used for 2022 (Q1-Q3) were used for 2023 (Q1-Q3):

(unaudited)

* () : difference from GAAP base

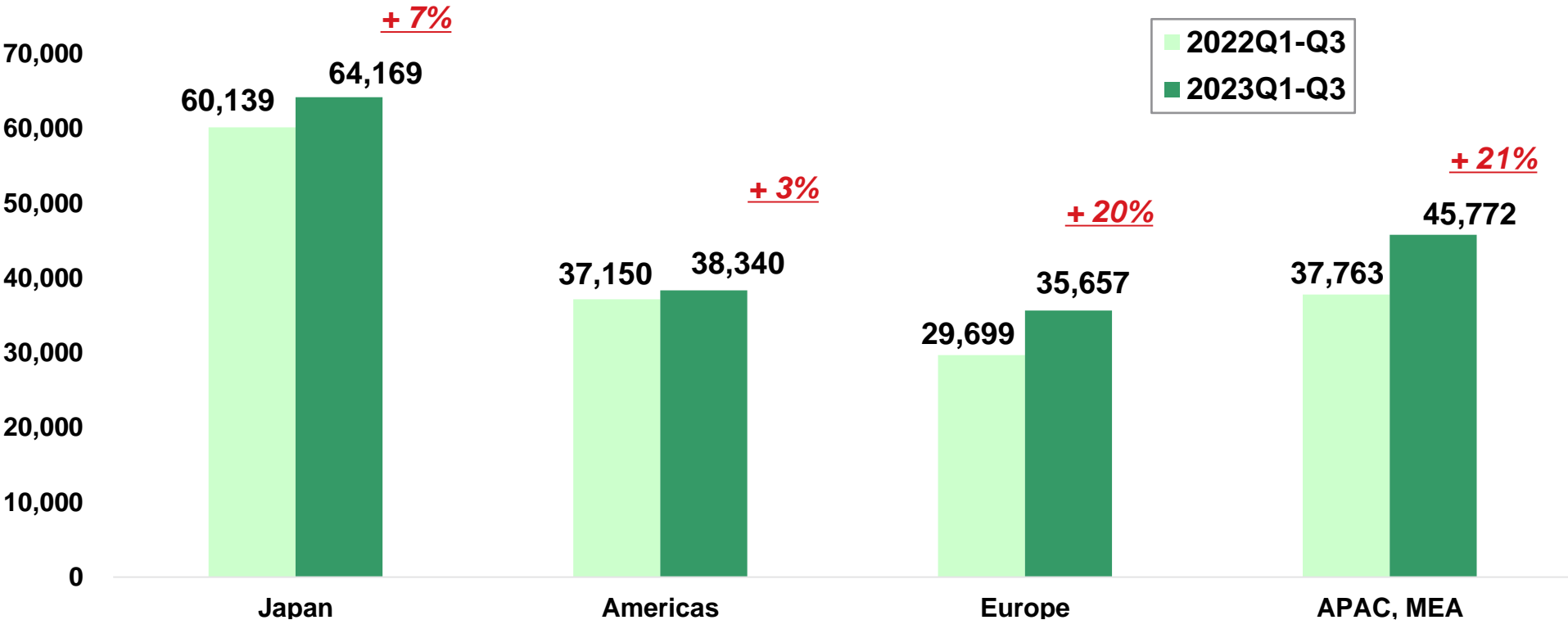


“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(unaudited)

(in million Yen)



“Notice”

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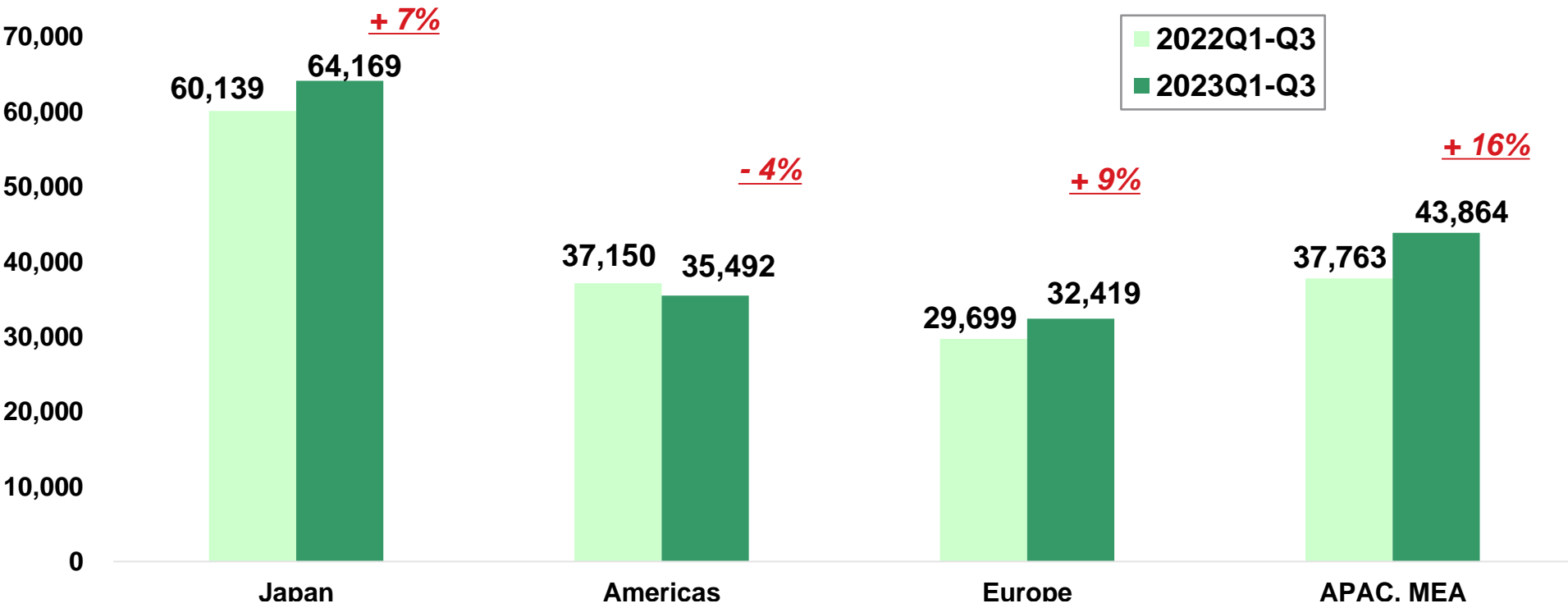
(Non-GAAP)

“For reference”

Pre-GAAP (Revenue before adjusting Deferred revenue)

(unaudited)

If currency exchange rates used for 2022(Q1-Q3) were used for 2023(Q1-Q3):



“Notice”

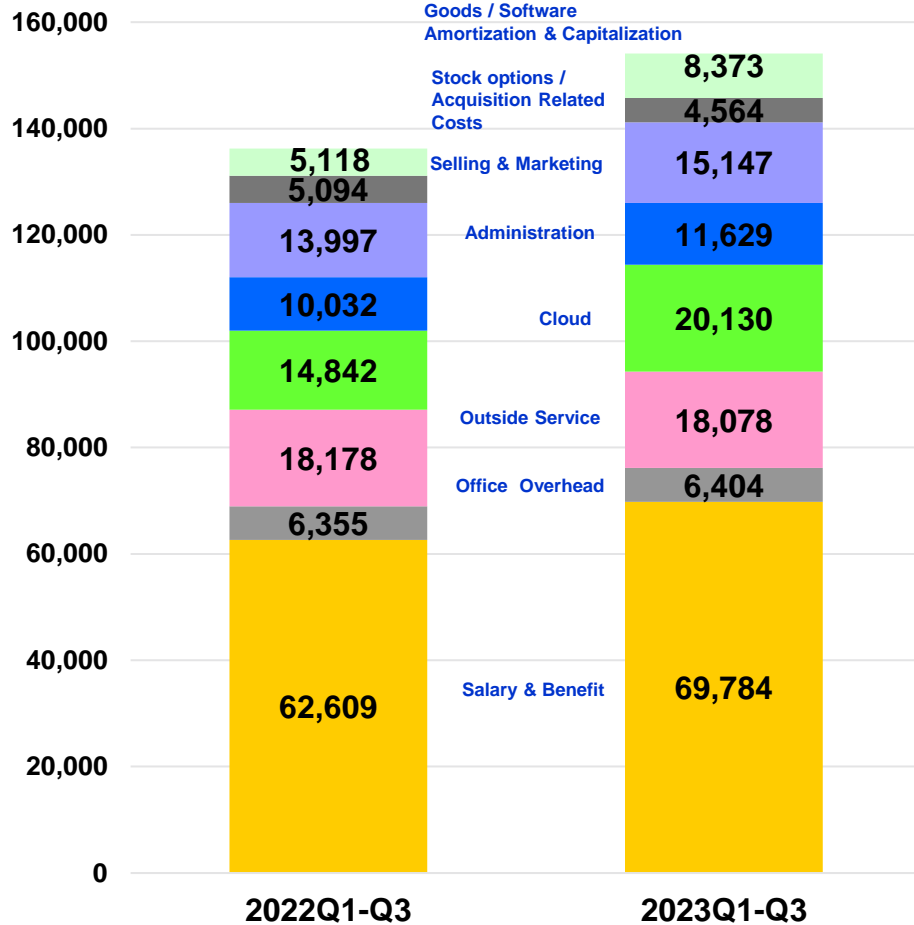
Pre-GAAP means Revenue before adjusting deferred revenue and sales return allowance.
As these numbers are just for internal use, they may be subject to some changes hereafter.

(Non-GAAP)

FY2023 Cost (9 months)

YoY Growth (unaudited)

(in million Yen)



Salary & Benefit	+ 11%
Office Overhead	+ 1%
Outside Service	- 1%
Cloud	+ 36%
Administration	+ 16%
Selling & Marketing	+ 8%
Stock Options / Acquisition Related Costs	- 10%
Goods/Software Amortization & Capitalization	+ 64%

Total + 13%

Headcount

+33 (+0%)

(Non-GAAP)
39

FY2023 Guidance

Projection for FY2023 Annual *(Revised on Nov. 9th)*

(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	17,000 (before: 25,100, -8,100)	<u>- 43%</u> (before: -16%)

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

“Reference” actual exchange rate up to Q3: 1USD=138 yen, 1EUR=150 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)

	FY2022				FY2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net sales	50,427	54,874	56,798	61,694	58,704	60,831	64,189	
Cost of sales	12,367	13,135	14,148	14,649	14,395	15,107	15,931	
Operating expenses	26,945	34,197	35,436	41,575	34,759	37,084	36,832	
Operating income	11,115	7,542	7,213	5,470	9,548	8,639	11,424	
Ordinary income	11,265	9,344	9,798	3,753	8,979	9,470	13,486	
Net income attributable to owners of the parent	8,531	6,430	13,530	1,350	6,374	5,482	950	
(Costs)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Goods / Software Amortization & Capitalization	776	2,313	2,028	4,005	1,772	2,953	3,647	
Stock option cost	962	378	1,478	441	1,136	775	-127	
Acquisition related costs	694	772	806	804	704	1,033	1,041	
Selling & Marketing	3,898	5,085	5,014	7,653	4,271	5,393	5,481	
Administration	2,700	3,408	3,922	4,205	4,396	3,697	3,534	
Cloud	3,882	5,086	5,874	5,964	6,331	6,724	7,075	
Outside service	5,223	6,272	6,682	7,156	6,049	6,036	5,991	
Office overhead	2,013	2,124	2,217	2,322	2,076	2,088	2,239	
Salary & Benefit	19,161	21,889	21,558	23,671	22,415	23,489	23,879	
Total	39,312	47,332	49,585	56,224	49,155	52,192	52,764	
The number of employees	7,033	7,199	7,507	7,669	7,624	7,582	7,540	
Applied rate to yen (US\$)	116.35	129.67	138.40	141.19	132.40	137.61	144.80	
Applied rate to yen (Euro)	130.38	138.19	139.28	144.27	142.06	149.56	157.30	

Appendix

Quarterly Chart (2)

(unaudited)

(in million Yen)

(Sales by region)	FY2022				FY2023			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	20,258	20,301	20,396	21,131	20,914	20,689	20,551	
Americas	11,358	13,038	13,452	15,103	13,446	14,065	15,389	
Europe	8,841	10,100	10,554	11,964	11,012	12,440	13,359	
APAC, Middle East and Africa	9,970	11,433	12,395	13,494	13,330	13,637	14,888	
Total	50,427	54,874	56,798	61,694	58,704	60,831	64,189	
(Sales by segment)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
All Enterprise	37,584	41,728	43,489	48,226	45,120	47,218	50,563	
Consumer	12,842	13,146	13,309	13,467	13,583	13,613	13,625	
Total	50,427	54,874	56,798	61,694	58,704	60,831	64,189	
(Pre-GAAP by region)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	20,872	20,441	18,825	21,019	23,584	20,163	20,421	
Americas	10,642	12,929	13,578	19,593	10,893	13,288	14,159	
Europe	7,471	11,525	10,702	20,888	9,858	13,044	12,753	
APAC, Middle East and Africa	10,993	13,251	13,518	17,834	13,633	15,236	16,902	
Total	49,980	58,148	56,625	79,336	57,970	61,733	64,236	

“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.**