

To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2020
April 1, 2019 - September 30, 2019



Greetings

To all our valued shareholders and investors, I would like to express my warmest gratitude for your continued loyal patronage and hope that this letter finds you well.

Since our founding in 1996, we have upheld our corporate mission of “Creating products that inspire joy and move the world” and have striven to plan and develop new products that would exceed customer expectations. Currently we are expanding our business in the IoT products field while also continuing to keep our place in the smartphone app and PC software markets in order to create new businesses which meet the changing times and fulfil the ever-changing needs of our customers.

In the first half of this fiscal year, we focused our efforts on sales of our main product, the “POCKETALK® W” AI-powered translation device, in domestic and foreign markets with a view to expand the size of the translation device market and raise product awareness even further. In the domestic market, our active promotion activities in electronics retail stores around Japan and through SOURCENEXT eSHOP, direct response TV, exhibitions, etc. contributed to a steady increase in sales. In foreign markets, online store (Amazon) sales in the United States were strong, leading to a further enhancement of product awareness overseas. In Asia, the product is now sold in Macau as well as in South Korea and Hong Kong; our global distribution channel is steadily expanding. As a result, net sales for the current half were 8.683 billion yen (51.2% increase from the previous fiscal year).

I would like to express my deepest gratitude to all our shareholders and investors for their continued support and would like to assure you that we will continue to strive to meet our shareholders’ expectations and to stay true to our slogan - “Creating products that inspire joy and move the world.”

I thank all of you again, from the bottom of my heart, for your kind understanding and encouragement, and look forward to your continued support in the coming future.

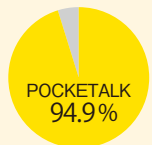


SOURCENEXT Corporation
President and CEO
Noriyuki Matsuda

“From Apps to Hardware, We Continue to ‘Source What’s Next’”

The New Model “POCKETALK S,” an AI-Powered Translation Device that Delivers ‘Wow’ Moments

Hot on the heels of “POCKETALK W,” which went on sale in September 2018, we launched the new model “POCKETALK S” AI-powered translation device in December 2019. Even between people who don’t understand each other’s language, you can have conversations as if an interpreter is there with you. The device breaks down language barriers, handling 74 different languages: spoken and written translations are available in 55 languages and written translations are available in 19 languages. “POCKETALK S” is multi-functionalized; it can translate writing in pictures taken with its built-in camera and can even offer conversation lessons. The device is in the size of a business card and now has a larger screen than the previous model. We will carry on making improvements toward promoting the product even further.



January 2019 - October 2019 cumulative Audio-based translation device market share First Place
Source: BCN Inc.



Won Grand Prize at the “2018 Nikkei Superior Products and Services Awards - Nikkei Awards for Excellence.”



Awarded the “Good Design Award 2019”

Features of the Series

Highly accurate translations

Provides highly accurate translations using the latest, optimal engines on the cloud.

Usable in more than 100 different countries

With a built-in mobile data plan that works in various countries, you can use it right away, no settings necessary.

No sign ups or communication fees necessary.

Unlike a smartphone, you do not need to sign up with a communication carrier. Unlimited use for two years.

Actively developing a wide range of IoT products

In September 2019, we released the location monitoring device “FamilyDot,” our next IoT product following “POCKETALK.” Leveraging our know-how in software, we intend to actively promote product development as an IoT device manufacturer.



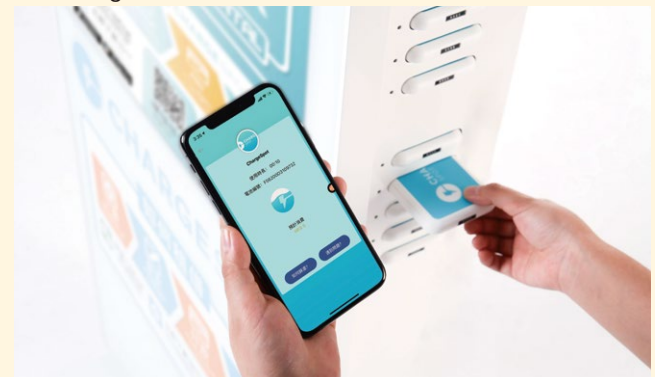
FamilyDot is a location monitoring device that tells you where family members are at all times.

- Be notified when your kids have left school.
- Enables family members to share location information.
- No sign ups or monthly fees needed.

Sharing Services

Collaboration with Inforich Inc., provider of the portable battery charger sharing service “ChargeSPOT”

When your battery runs out and you need to recharge on the go, this service allows you to easily locate and rent a portable battery charger using an app, at one of the many battery stands operated by Inforich Inc. Unlike services provided at conventional charging spots, this service enables you to charge while on the move, a convenient feature that is gaining increasing attention.



Products and Services

Smartphone Apps

Providing Apps to the 3 Major Mobile Carriers

SOURCENEXT provides apps to the monthly subscription services of all 3 major carriers in Japan, and have 100 titles accepted to these services.

Providing Apps Since	Carrier	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	38
June 2013	NTT DoCoMo	"SugoToku Contents"	26
August 2014	Softbank Mobile	"App Pass"	36

(As of November 2019)

Example of apps provided



World's First Voice Messaging Service with LINE Integration



スマート
留守電®

The number of service contracts has been increasing with respect to the "Smart RUSUDEN" voice message to text service that enables users to read their voice messages either on the spot, or through Email or LINE (messaging service).



All-You-Can-Use Services

New Way of Apps

SOURCENEXT is leveraging our unique ability to handle a large number of apps from a wide range of fields to focus on providing flat-rate, "all-you-can-use" services. In addition to selling this as our own product, our sales channels have been expanding to wide-ranging business sectors as a result of actively providing apps on an OEM basis.

Service Name	Platform	Provided To
Apps CHOU HODAI	For Smartphone Users	Internet service providers, Cable TV service providers, mobile virtual network operators (MVNOs), PC schools, smartphone/PC shops, etc.
CHOU HODAI	For PC Users	



アプリ超ホーダイ®



超ホーダイ®

PC Software

Increased Shares in the Postcard Creation Software Category



As a group we gained more than 70% share in the postcard creation software market, with the top-selling postcard software "FUDEMAME," our own copyrighted product "FUDEOH," and "ATENA SHOKUNIN" for Mac which became No. 1 in that category.

"ZERO" became the most recommended antivirus software.



In 2016 and 2017 the "ZERO" series antivirus software with no renewal fee was ranked No. 1 in a survey of security software users by BCN as the product customers would like to continue using, and in 2018 was ranked as the No. 1 software that customers would like to recommend to others.

The World Famous, Language Learning Software "Rosetta Stone"



We obtained the rights to sell the world renowned language learning software "Rosetta Stone," available for 24 languages. Under our mission of "breaking down language barriers," we have been actively promoting development of new products as well as making them accessible online to allow use on smartphones and tablets.

User Services

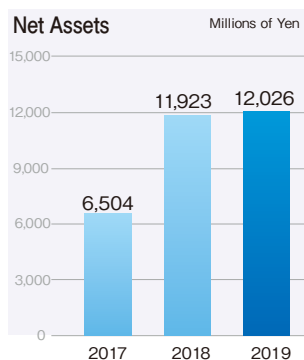
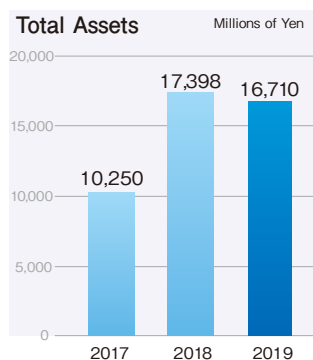
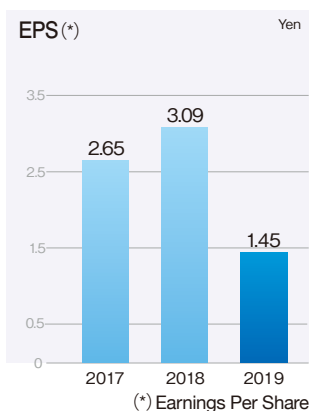
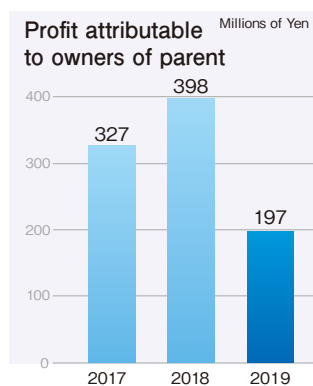
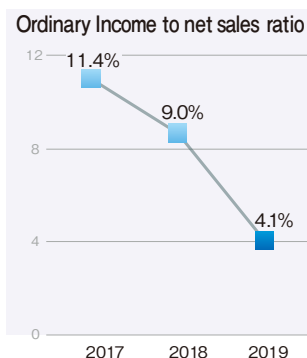
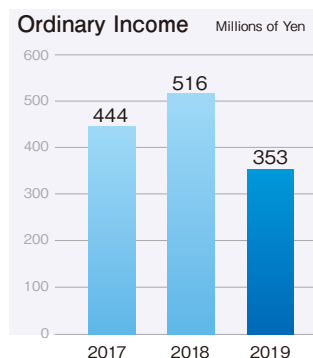
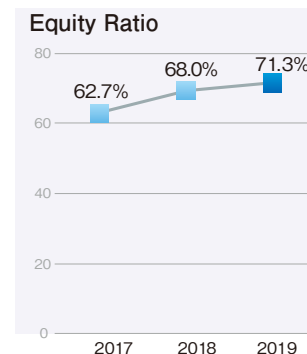
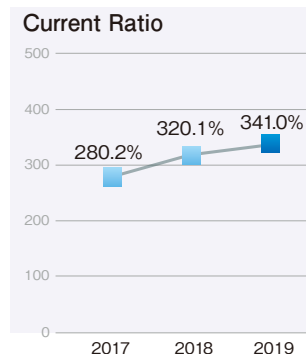
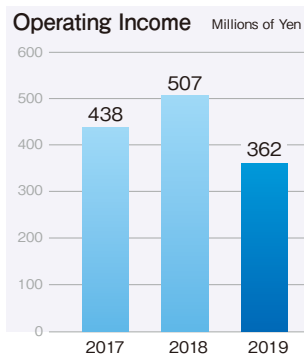
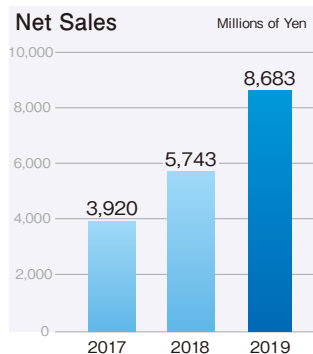
Over 17 Million Registered Users

We operate our own EC site, mostly focused on sales via downloads. Customers who purchase a product and get registered as users are encouraged to purchase again through after-sale upgrades, discounts, etc. The total number of registered users now exceeds 17 million, making the service a major asset.

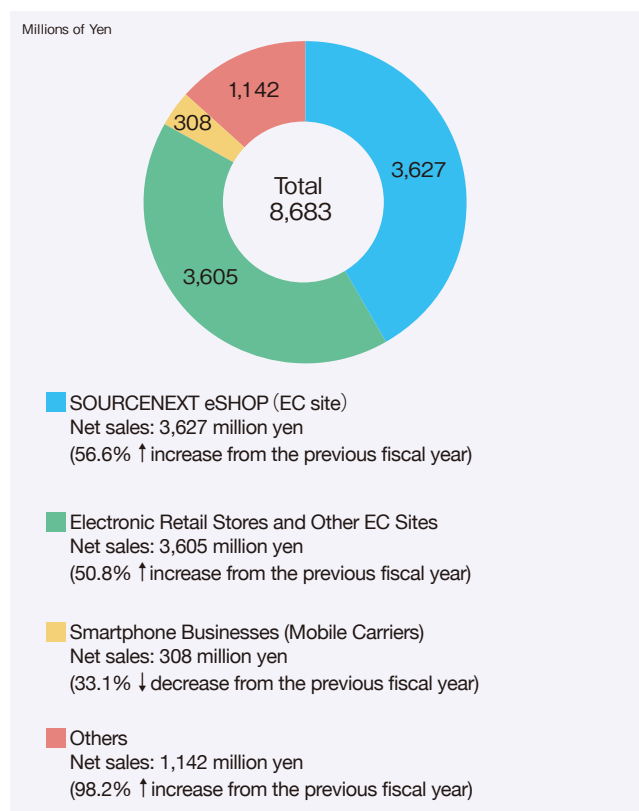


Financial Highlights

Consolidated Business Performances



Net Sales by Channel



Quarterly Consolidated Financial Statements (Summary)

Consolidated Balance Sheets (As of September 30, 2019)

Assets		Liabilities	Thousands of Yen
Current assets	11,985,092	Current liabilities	3,515,192
Non-current assets	4,725,761	Non-current liabilities	1,168,703
Property, plant and equipment	185,899	Total liabilities	4,683,896
Intangible assets	2,849,125	Net Assets	
Investments and other assets	1,690,736	Shareholders' equity	11,947,037
		Accumulated other comprehensive income	△26,339
		Share acquisition rights	106,260
		Total net assets	12,026,958
Total assets	16,710,854	Total liabilities and net assets	16,710,854

Consolidated Statements of Income (From April 1, 2019 to September 30, 2019)

	Thousands of Yen
Net sales	8,683,016
Cost of sales	3,232,758
Gross profit	5,450,258
Selling, general and administrative expenses	5,087,961
Operating profit	362,297
Ordinary profit	353,705
Profit before income taxes	381,978
Total income taxes	184,871
Profit attributable to owners of parent	197,107

Consolidated Statements of Cash Flows (From April 1, 2019 to September 30, 2019)

	Thousands of Yen
Cash flows from operating activities	△923,727
Cash flows from investing activities	△727,306
Cash flows from financing activities	△402,672
Cash and cash equivalents at end of period	5,479,707

Earnings Forecasts for the Fiscal Year Ending March 2020

Net sales	20,021 million yen	36.1% ↑increase
Operating income	1,605 million yen	86.7% ↑increase
Ordinary income	1,601 million yen	76.8% ↑increase
Profit attributable to owners of parent	1,120 million yen	82.0% ↑increase
Earnings per share	8.23 yen	

Please visit our investor relations website for more detailed information.
<https://sourcnext.co.jp/ir/>

Frequently Asked Questions

Q. What is your most popular product / service?

A. The “POCKETALK” AI-powered translation device and the “ZERO” security software series are our most popular products / services.

We have sold a total of over 500,000 “POCKETALK” units since its release in December 2017 (as of July 2019). “POCKETALK” has received a high evaluation, winning Grand Prize at the 2018 Nikkei Superior Products and Services Awards - Nikkei Awards for Excellence. Furthermore, in December 2019, we launched the “POCKETALK S” series installed with new functions including a camera translation function and English conversation learning function. Moreover, “ZERO Virus Security” has a cumulative total of 10 million users*.

(*) as of November 2019

Q. What are your thoughts on premium redemptions to shareholders?

A. We are committed to firmly maintaining a policy of paying stable dividends.

The basic dividend policy is to implement the distribution of profits with comprehensive consideration of performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. For the fiscal year ended March 31, 2019, the Company has paid out dividends on the basis of a 15% dividend payout ratio. For the fiscal year ending March 31, 2020, the Company also plans to pay dividends on the basis of a 15% dividend payout ratio upon considering business conditions. Going forward, we are committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account.

Q. What are your future business strategies?

A. We will rapidly expand our “POCKETALK” business.

Moving toward the turning-point year of 2020, we will tap into the growing inbound tourism market and the demand related to overseas travel, business trips, and learning to expand our sales. At the same time, we intend to rapidly expand our overseas distribution network to various regions. We will also actively expand our lineup of IoT products.

Q. Does SOURCENEXT have an established regulatory compliance program?

A. Yes, we have established a culture of treating compliance with utmost importance.

In our corporate philosophy of “becoming the most exciting company in the world,” we define “exciting” to mean “being genuinely good,” “creating happiness,” and “having fun,” and we are fostering a culture that expects our people to do the right thing. Moreover, in addition to requiring our employees to undergo training and do a test at the time of entering the company and once a year thereafter, regardless of the form of their employment with the company, we also teach via other methods such as through the activities of committees composed of employees. Furthermore, as a response for actions that arouse suspicions as to whether they are within laws and regulations, we have established the “Corporate Ethics Hotline” that provides the means for all employees to make an anonymous report to the company via an independent organization with no relationship of interest with our company.

Corporate Profile

Overview of Corporation (as of September 30, 2019)

Company Name

SOURCENEXT Corporation

Founded

August 2, 1996

Headquarter

Shiodome City Center 33F, 1-5-2
Shimbashi Minato-ku, Tokyo 105-7133

Capital

3,679 million yen

Number of Employees

Nonconsolidated: 120
(including 2 temporary staff / employees)
Consolidated: 146
(including 5 temporary staff / employees; excluding
2 seconded employee)

Description of Business

Planning, development and distribution of
PC / smartphone software and hardware products

Members of the Board

(as of September 30, 2019)

President and CEO
Noriyuki Matsuda
Managing Director
Satomi Matsuda
Managing Director
Tomoaki Kojima
Managing Director
Kousuke Fujimoto
Managing Director
Fumihiko Aoyama
Outside Director
Masaharu Ikuta
Outside Director
Hideaki Kubori
Outside Auditor
Kunitake Ando
Standing Auditor
Shozaburo Takano
Standing Auditor
Masaaki Hirose
Outside Auditor
Tetsuya Kobayashi
Outside Auditor
Kakuji Takano

Present Shares (as of September 30, 2019)

Total Number of Authorized Shares
361,120,000 shares
Total Number of Issued Shares
136,164,800 shares
Number of Shareholders
41,662

Corporate Philosophy

Origin of company name:

"We Source What's Next"

SOURCENEXT's Ultimate Strategy

Corporate Mission

Creating products that inspire joy and move the world

Corporate Vision

To become the most exciting company in the world

The three conditions of "Exciting"
Being genuinely good
Creating happiness
Having fun

Corporate Principles

Work diligently.

Think positively.

Keep your senses sharp.

Shareholders' Notes

Fiscal Year

From April 1 to March 31 of the following year

Annual Meeting of Shareholders

June of every year

Record Date

For Annual Shareholders' Meeting: March 31, every year

For Year-end Dividend: March 31, every year

If others are deemed necessary, the dates will be as notified in advance

Shareholder Registry Administrator and Transfer Account Management Institution for Special Accounts

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group

Shareholder Registry Administrator Office

1-4-4 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Mailing Address) 2-8-4, Izumi, Suginami-ku, Tokyo 168-0063

Sumitomo Mitsui Trust Group Transfer Agent Dept.

(Telephone Number) 0120-782-031

(Internet Homepage URL) <http://www.smtb.jp/personal/agency/index.html>

(Regarding changes in registered address and referencing information regarding shares)

Shareholders who have an account opened with a securities company, who need to make changes to their registered address or need to reference any records, please contact the securities companies for which the account is opened for. For shareholders who do not have an account at any securities company, please make inquiries to the telephone number noted above.

(Regarding Special Accounts)

For shareholders who are not using Japan Securities Depository Center for their electronic stock certificates, we have prepared an account (special account) at the above Tokyo Sumitomo Mitsui Trust Group. For address changes and referrals regarding these special accounts, please contact the above telephone number.

Method of Notification

Notification will be made public electronically (<http://sourcenext.co.jp/>), but in any cases where notification via electronic publication is not possible, the information will be made public through the Nihon Keizai (Nikkei) Shimbun.

Securities Code

4344

Traded

Tokyo Stock Exchange (First Section)

SOURCENEXT CORPORATION

Shiodome City Center 33F, 1-5-2 Shimbashi Minato-ku, Tokyo 105-7133

TEL: 81-3-6254-5231

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