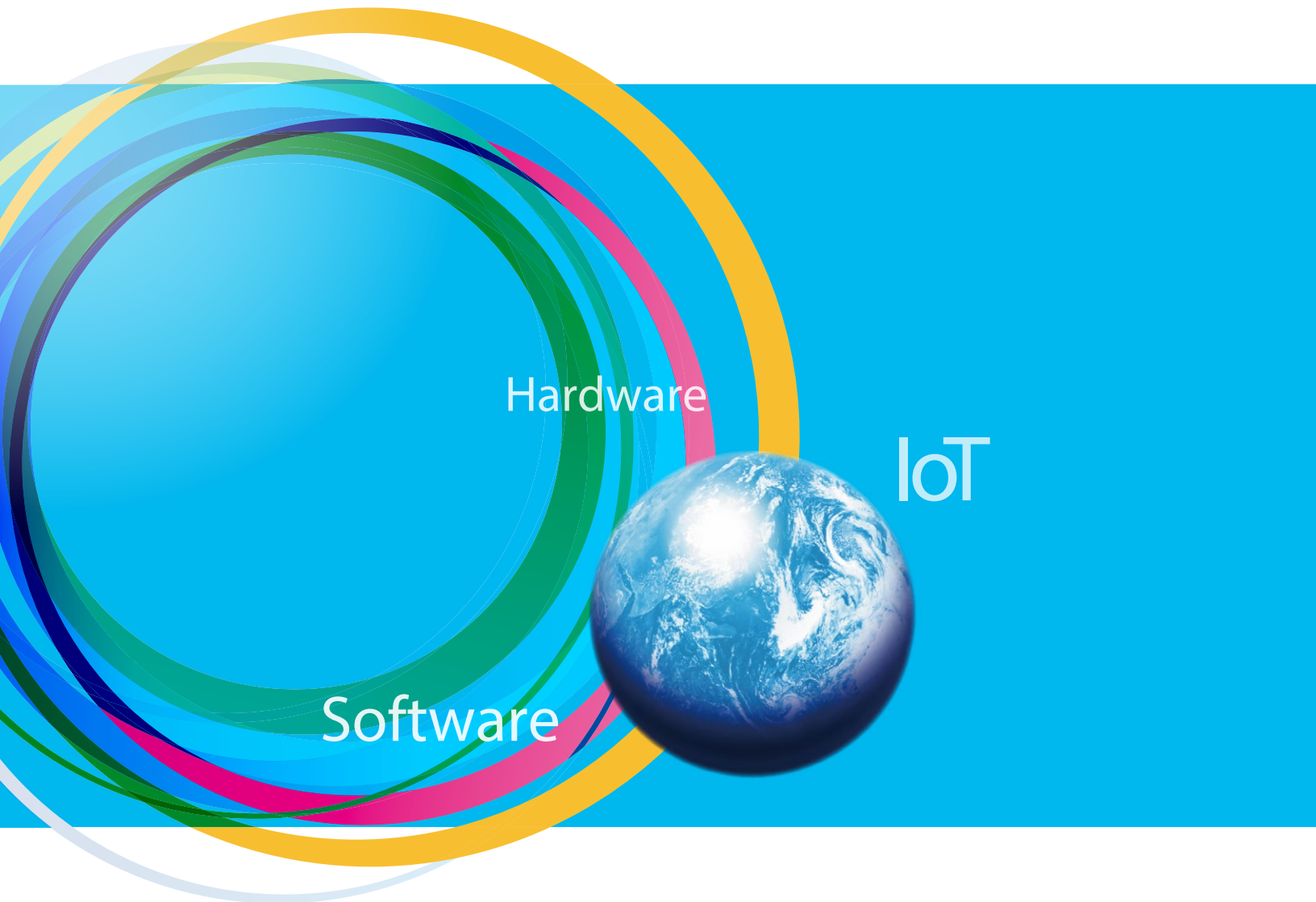


To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2022
April 1, 2021 - September 30, 2021



Greetings

To all our valued shareholders and investors, we would like to express our 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.” Our areas of business have changed from conventional PC software and smartphone apps to IoT products based on the needs of our customers and times.

During the first half of this fiscal year, the AI-powered translation device “POCKETALK®,” which is the Group’s main product, was introduced at financial institutions, nursery schools, kindergartens, and other locations where there is increasing need to help foreign residents in Japan. Our continuous efforts toward expansion have yielded good results. For example, it was adopted as a hospitality tool for the Japan Pavilion at Expo 2020 Dubai. Additionally, sales in the United States grew year on year, and total shipments of POCKETALK exceeded 900,000 units. However, demand in Japan for overseas travelers and inbound businesses did not rebound. The state of emergency was extended and consumers were reluctant to purchase the “Meeting Owl” 360 ° webcam mainly in reaction to the product’s special demand for use in telework in the previous period. Sales during the first half of this fiscal year were 4.996 billion yen (13.7% decline from the previous fiscal year).

We will continue making effort to increase sales by appealing to the demand for hybrid work where telework and office work coexist, which is expected to increase after the state of emergency is lifted.

In August of this year, we celebrated our 25th anniversary, and we would like to express our deepest gratitude to every one of you for your continued support over the years. Now, more than ever before, we are committed to creating products that bring joy to our customers and aim to expand even further into the global market. We thank you all again, from the bottom of our hearts, for your kind understanding and encouragement, and look forward to your continued support in the coming future.

December 2021



Founder and CEO
Noriyuki Matsuda

President and COO
Tomoaki Kojima

Products and Services

Newly Released Innovative Devices in Response to the Rapidly Changing Market Impacted by COVID-19

IoT Products

We are continuing to expand the market with the further increase of functionality of the AI-powered translation device POCKETALK, and with new products that utilize POCKETALK's technology.



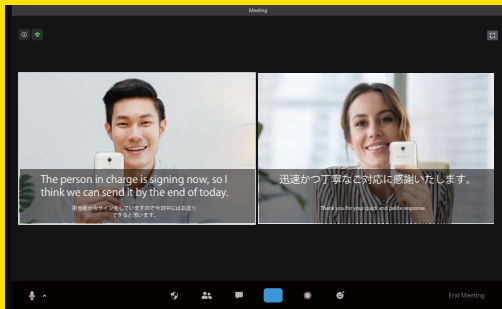
AI-Powered Translation Device POCKETALK

POCKETALK

Thanks to our customers, we have sold over **900,000** units

From December 2017 to September 14, 2021 / Series total including "POCKETALK," (first generation) "POCKETALK W," "POCKETALK S" and "POCKETALK S Plus," but excluding sample units

Two innovative new features have been added to the POCKETALK series through a free update. Our mission of "breaking down language barriers" has evolved further with "POCKETALK Subtitles," which is not only for face-to-face communication, but web conferencing as well, and "Group Translation," which allows communication between multiple people speaking different languages at the same time.



POCKETALK Subtitles

"POCKETALK Subtitles" is a dedicated software program that takes the translations carried out by POCKETALK and displays the translated texts in a subtitle-like manner on the screens of web conferencing systems. (compatible with Windows 10/8.1)



Group Translation

"Group Translation" can send messages to a maximum of 100 people at the same time in their respective languages.

POCKETALK's Overseas Expansion

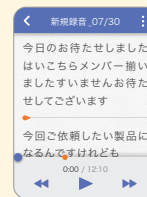
Sales of POCKETALK started from March 2021 in China and from April in the United Arab Emirates. In the United States, where POCKETALK is already being sold, sales have continued to expand, with sales volume (April 2021 to June 2021) increasing 204.9% year on year.

Voice-to-text recorder AutoMemo

AutoMemo 



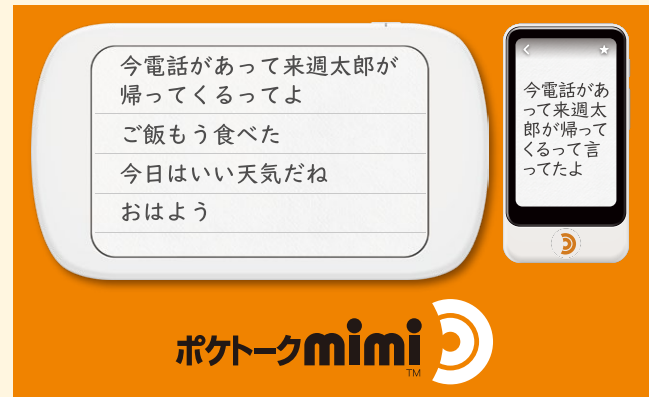
AutoMemo can convert recorded voice memos into text with AI, and automatically send it together with the audio file to a computer or smartphone. This improves efficiency with the creation of memos and drafts.



Latest model: AutoMemo S

We plan to launch AutoMemo S in January 2022 as the second generation device in the AutoMemo series. The device has further evolved to allow playback and text searching.

POCKETALK mimi series of AI voice-to-text devices



Through the feedback received from customers, we found that a number of our customers were using POCKETALK to communicate with people who suffer from hearing impairments and elderly people with difficulties in hearing. As a solution for these customers, we released two types of devices dedicated to transcribing and displaying the spoken content into large text, and as a result, have helped to facilitate a smoother, stress-free way to communicate.

Products and Services

Products for Web Conferencing

These are products for remote conferencing, which has become common for helping prevent the spread of COVID-19, that have been enabling us to gain more corporate customers.



In June 2021, we introduced an all-new brand titled "KAIGIO," which would act as our all-in-one brand for providing the best meeting / conferencing experience via both software and hardware products.



Meeting OWL

An integrated web conferencing tool with a 360° camera, microphones, and speakers. It can automatically focus on whoever is speaking, providing a more immersive meeting experience than ever before. We have sold a total of over 15,000 units, and it is being used in many companies.



KAIGIO MeePet

Simple and secure dedicated web conference equipment that can be installed in each meeting room in place of computers. Meetings can be held just by connecting to the network.



Zenroku KAIGIO

"Zenroku KAIGIO" is a software program that can easily save web conference recordings and also automatically generate screenshots of the meeting so that materials shared via screensharing can be utilized immediately.



Manmen KAIGIO

Software for meeting room web cameras that automatically creates multiple screens to match the number of people attending and zooms in on each person to allow for an enhanced meeting experience where attendees can actually see each other's expressions.

User Services

Over 18 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 18 million, making them our major asset.

PC Software

Demand for security and business software, as well as learning and educational software, has been on the rise due to the rapid adoption of telework throughout the country.

Three postcard creation software brands



The Company sells the top-selling postcard creation software "FUDEMAME," its own copyrighted product "FUDEOH," and "ATENA SHOKUNIN" for Mac. Connections with people important to you can be deepened through the use of the three software brands.

"ZERO" antivirus software with no renewal fee



The ZERO series offers users with a "fixed device and no expiration date" policy. Product that continues to protect the device it's installed on until the device can no longer be used. As security measures are completed by installing one line to one device one time, the antivirus burden significantly decreases.

No. 1 in the Number of Units Sold in 7 Categories of PC Software

Number of units of "PC Software" sold by each manufacturer in 2020 according to GfK Japan's research on sales data of major domestic electronics retailers. "OCR/Translation/PDF" extracted from "Business" category, "PC Software Training" extracted from "Educational," Postcard/Mobile/Typing" extracted from "Practical Use," and "Video Editing/DVD-Related" extracted from "Graphics."

Smartphone Apps

Providing Apps to All 3 Major Mobile Carriers

SOURCENEXT provides apps to the all-you-can-use app services of all 3 major carriers in Japan.

Providing Apps Since	Carrier	Service Name	Number of Apps Provided
March 2012	KDDI	"au SmartPass"	2
June 2013	NTT DoCoMo	"SugoToku Contents"	15
August 2014	Softbank Mobile	"App Pass"	35

(As of March 2021)

Example of apps provided



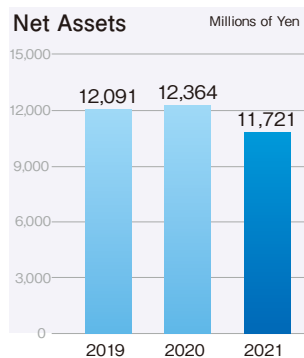
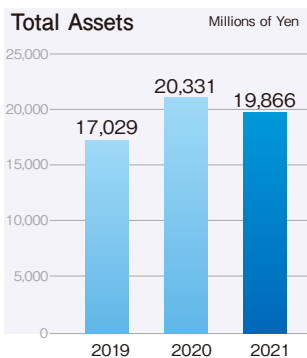
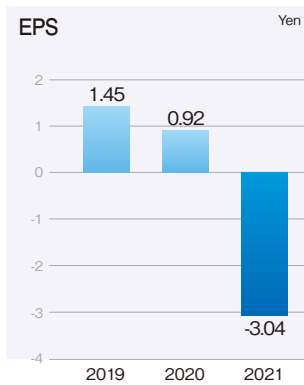
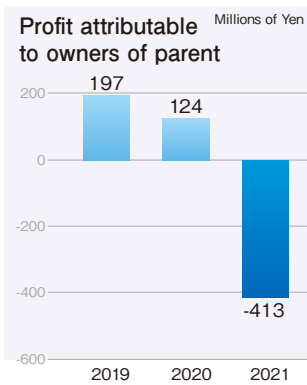
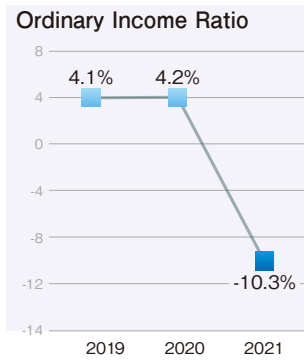
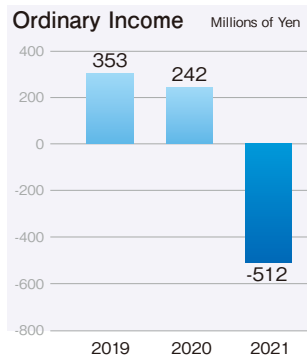
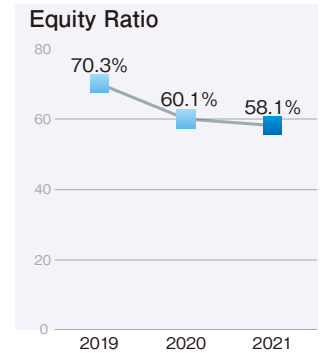
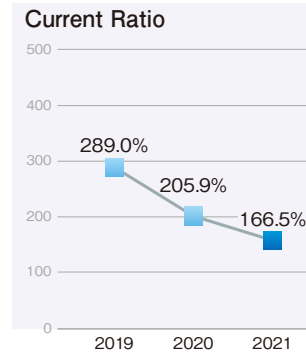
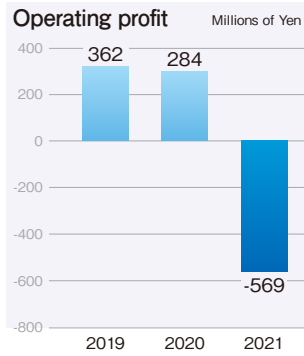
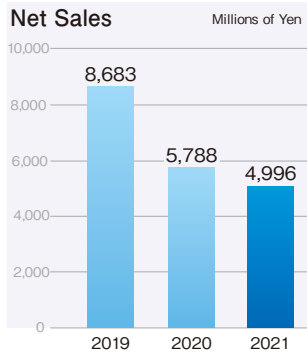
スマート留守電®

World's First Voice Messaging Service Linked with LINE Smart RUSUDEN

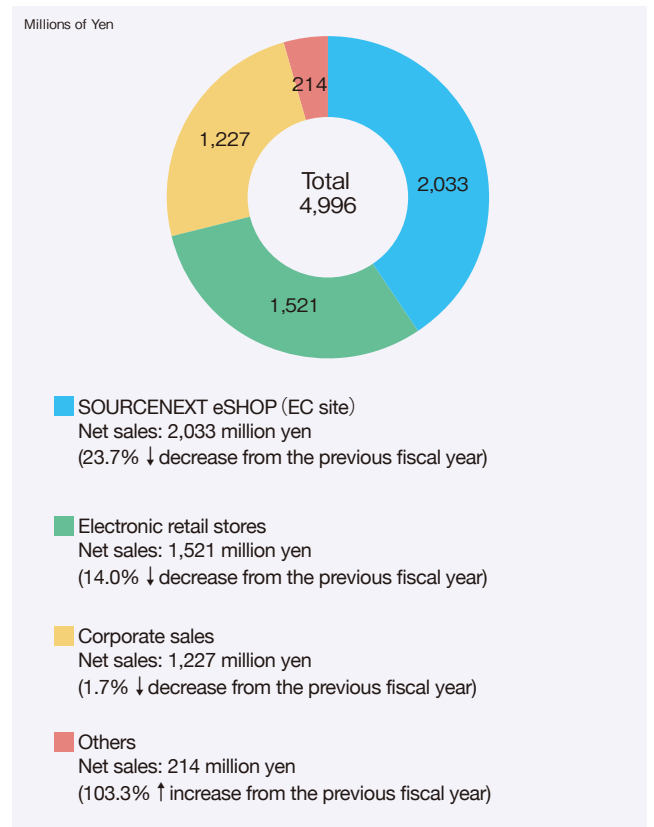
The "Smart RUSUDEN" voice message to text service that enables users to read their voice messages either on the spot, or through Email or LINE (messaging service) has been popular.

Financial Highlights

Quarterly Consolidated Business Performances



Net Sales by Channel



Quarterly Consolidated Financial Statements (Summary)

Consolidated Balance Sheets (As of September 30, 2021)

Assets		Liabilities		Thousands of Yen
Current assets	11,707,147	Current liabilities		7,029,571
Non-current assets	8,159,614	Non-current liabilities		1,116,038
Property, plant and equipment	91,426	Total liabilities		8,145,610
Intangible assets	2,964,933	Net assets		
Investments and other assets	5,103,254	Shareholders' equity		11,467,919
		Accumulated other comprehensive income		80,402
		Share acquisition rights		172,829
		Total net assets		11,721,151
Total assets	19,866,762	Total liabilities and net assets		19,866,762

Consolidated Statements of Income (From April 1, 2021 to September 30, 2021)

	Thousands of Yen
Net sales	4,996,643
Cost of sales	2,288,403
Gross profit	2,708,239
Selling, general and administrative expenses	3,277,726
Operating loss	△569,486
Ordinary loss	△512,723
Loss before income taxes	△511,717
Total income taxes	△98,034
Loss attributable to owners of parent	△413,683

Consolidated Statements of Cash Flows (From April 1, 2021 to September 30, 2021)

	Thousands of Yen
Cash flows from operating activities	△821,326
Cash flows from investing activities	△1,765,307
Cash flows from financing activities	712,959
Cash and cash equivalents at end of period	2,939,374

Earnings Forecasts for the Fiscal Year Ending March 2022

Net sales	15,050 million yen	17.1% ↑increase
Operating profit	104 million yen	80.7% ↓decrease
Ordinary income	100 million yen	77.7% ↓decrease
Profit attributable to owners of parent	36 million yen	80.8% ↓decrease
Earnings per share	0.27 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 AI-powered translation device “POCKETALK” and telework-related products, such as “Meeting Owl,” are popular.

We have sold a total of over 900,000 “POCKETALK” units since its release in December 2017 (as of September 2020). Despite the decreased demand for overseas travel, “POCKETALK” has become available for remote meetings, recognition in the United States has increased, and adoption at medical institutions, schools, and public institutions has accelerated for improving services in Japan. More than 15,000 units of the 360-degree AI camera “Meeting OWL” have been shipped, and our telework-related products have expanded including the addition of the dedicated device for remote meetings “MeePet,” which has been received favorably by corporate customers.

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, 2021, we paid out dividends on the basis of a 15% dividend payout ratio. For the fiscal year ending March 31, 2022, we also plan to pay dividends on the basis of a 15% dividend payout ratio upon taking business conditions into account. Going forward, we are committed to firmly maintaining a policy of paying stable dividends while taking business conditions into account. As part of our shareholder return policy starting this fiscal year, we have introduced a shareholder benefit program for providing SOURCENEXT ePoint (privilege points) that can be used when making purchases on our site based on the number of shares held.

Q. What are your future business strategies?

A. With an eye on the “post-COVID-19 era” and the “COVID-19 era,” we will expand sales of “POCKETALK” further and expand our lineup of products for remote meetings and telework.

Looking to the future after COVID-19 is under control, we will expand POCKETALK functionality and widen our overseas sales channels. We are also planning to release “POCKETALK Subtitles,” a translation software that can be used without the main hardware, in order to accelerate efforts to gain global brand awareness and make it more popular. We will continue expanding our IoT products and software targeting corporate customers for improving the office telework environment while introducing new products that meet the changing needs of the times.

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, 2020)

Company Name

SOURCENEXT Corporation

Founded

August 2, 1996

Headquarter

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

Capital

3,690 million yen

Number of Employees

Nonconsolidated: 144
(including 5 temporary staff / employees)
Consolidated: 148
(including 5 temporary staff / employees; excluding
1 seconded employee)

Description of Business

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

Members of the Board

(as of September 30, 2021)

Founder and CEO
Noriyuki Matsuda
President and COO
Tomoaki Kojima
Senior Managing Director
Kousuke Fujimoto
Managing Director and CFO
Fumihiko Aoyama
Outside Director
Hideaki Kubori
Outside Director
Kunitake Ando
Outside Director
Nobuhide Nakaido
Standing Auditor
Masaaki Hirose
Outside Auditor
Tetsuya Kobayashi
Outside Auditor
Kakuji Takano

Present Shares (as of September 30, 2021)

Total Number of Authorized Shares
361,120,000 shares
Total Number of Issued Shares
136,272,000 shares
Number of Shareholders
52,188

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

Product Principles

Amazing

Simple × Affordable

Useful

Our Core Values

Customer-Centric Mindset
Creating New Markets
Embrace Challenge

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

1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited

Shareholder Registry Administrator Office

1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Dept.

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

Sumitomo Mitsui Trust Bank, Limited, Stock Transfer Agency Business Planning Dept.

(Telephone Number) 0120-782-031(Available only in Japan)

(Internet Homepage URL) <https://www.smtb.jp/personal/procedure/agency/>

(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 Sumitomo Mitsui Trust Bank, Limited. For address changes and referrals regarding these special accounts, please contact the above telephone number.

Method of Notification

Notification will be made public electronically(<https://www.sourcenext.com>), 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 Higashi-Shimbashi, Minato-ku, Tokyo 105-7133

TEL: 81-3-6254-5231

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