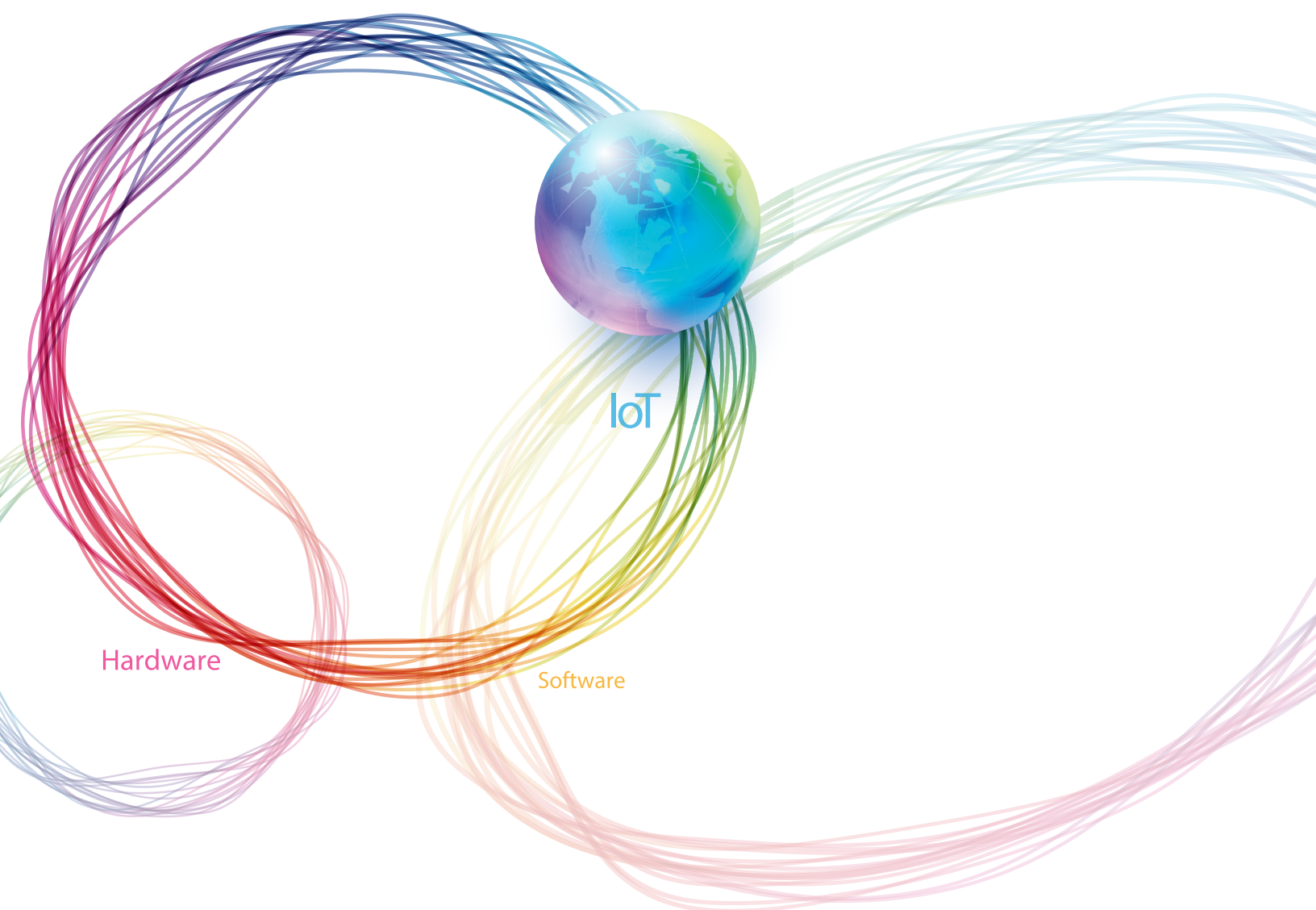


To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2023
April 1, 2022 - September 30, 2022



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, the Group has upheld its 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, for the AI-powered translation device “POCKETALK®,” which is the Group’s mainstay product, growth in the POCKETALK business continued to be driven by domestic led demand in the United States such as responding to non-native speakers in education, healthcare, and public organizations as well as companies. As a result, net sales in the United States increased 124.4% compared to the previous fiscal year. The new POCKETALK brand product “POCKETALK Apps” (iOS/Android) was announced in April 2022, and in September 2022 sales commenced in 26 countries and territories worldwide. In addition, the new product “POCKETALK Pair” was announced in October 2022, and we are working toward commencing provision of this software this winter. On October 11, the restrictions on entering Japan were completely lifted, and we expect that inbound demand will rapidly expand, therefore global brand awareness and widespread adoption will continue to accelerate.

As for other IoT products, our 360 ° webcam “KAIGIO CAM360” and voice-to-text recorder “AutoMemo S,” which utilizes AI to automatically convert voice to text, are performing well, and sales for both products increased compared to the previous fiscal year.

On the other hand, due to the impact of factors such as the scaling back of all-you-can-use app subscription services with a fixed fee of major mobile carriers and an overall decrease in net sales of software at consumer electronics retailers, net sales for the first half of this fiscal year decreased to 4.608 billion yen (7.8% decline from the previous fiscal year).

The Group will continue to create products that bring joy to its customers and aim to expand even further into the global market and improve income and expenditure balance. We truly appreciate your kind understanding and encouragement, and look forward to your continued support in the coming future.



Founder and CEO
Noriyuki Matsuda

President and COO
Tomoaki Kojima

Products and Services

Both in Japan and overseas, we are continuously evolving our products to meet corporate demand.

IoT Products

We are working to grow our market by further expanding development of our AI-powered translation device POCKETALK and through new products applying POCKETALK's technology

Spread of 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



AI-Powered Translation Device "POCKETALK"

Our POCKETALK, AI-powered translation device, translates to voice and text for 70 languages and to text for 13 additional languages. Against the backdrop of increased inbound demand with the easing of entry restrictions due to COVID-19, we are approaching one million units shipment milestone.

We plan to launch sales of the AI-powered translation software "POCKETALK Pair" this winter.

ポケットーク同時通訳



This product is software that allows you to understand the words spoken by another person by translating them word for word into your own language as both voice and text subtitles. It can also display the words you speak on the other person's screen. POCKETALK Pair can be used both for online meetings and face to face, contributing to reduced interpretation costs for companies.



AI-powered translation app "POCKETALK"

AI-powered translation app "POCKETALK" (iOS/Android) became available in May 2022.

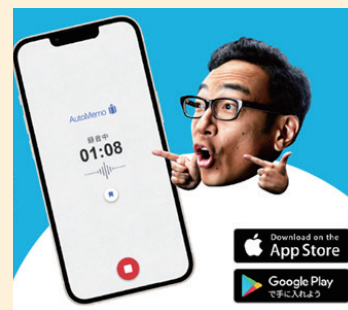
This app allows the AI-powered translation device POCKETALK to be used with the convenience of a smartphone. We have launched our global rollout through various app stores. The POCKETALK app has been nominated for the Google Play Best of 2022 User's Choice.

Voice-to-text recorder AutoMemo

AutoMemo 



Recording is also possible using a dedicated app



In August 2022, we added voice recording capability to our smartphone app. This made the app more convenient by providing voice-to-text service without the need for an AutoMemo device.

Expanding our advertising promotions

In October 2022, we launched a promotional video featuring the comedian Akihiro Kakuta of Tokyo 03. We are strengthening our promotions through online and taxi advertisements.



Advertisement video featuring the comedian Akihiro Kakuta of "Tokyo 03"

Products and Services

Products for Web Conferencing

We sell two types of 360-degree web cameras for conferences that integrate a camera, microphones, and speakers in a single unit.



“KAIGIO CAM360” lets you see everyone’s faces

“KAIGIO CAM360” uses its unique AI to detect people, enlarging and showing the faces of all attendees at once. We are continuously evolving KAIGIO CAM360, including adding the ability to produce larger projections of people.



“Meeting OWL” automatically focuses on the speaker

“Meeting OWL” can automatically focus on whoever is speaking, enabling a more immersive meeting experience than ever before. We have sold a total of over 20,000 units, and it is being used in many companies.

PC Software

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

“IKINARI PDF Ver. 10” meets the needs of the transition to paperless operations.



A long-selling, high-performance, low-cost product that has changed common practice in PDF creation. It has been introduced to over 10,000 companies. It helps to increase efficiency of document management, reduce costs and promote telework.

“ZERO” antivirus software with no renewal fee



The ZERO series offers users with a “fixed device and no expiration date” policy. A product that continues to protect the device it is 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 burden of taking antivirus measures significantly decreases.

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. The annual automatic renewal version has been popular on our website, and sales are steadily growing.

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

Number of units of “PC Software” sold by each manufacturer in 2021. “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.” According to GfK Japan research on sales data of major domestic electronics retailers

Smartphone Apps

Voice Messaging Service Linked with LINE



スマート
留守電®

“Smart RUSUDEN” is a service that not only allows the playback of voice messages, but also provides text transcriptions. We have launched sales of Smart RUSUDEN at locations including consumer electronics retailers and mobile phone stores.

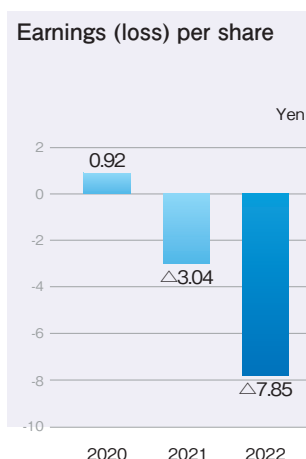
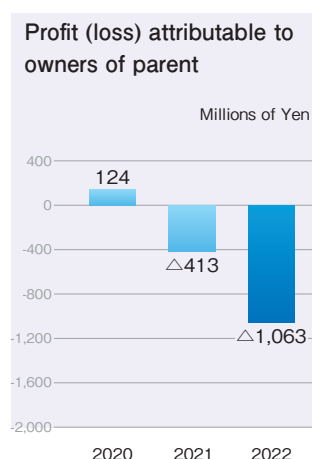
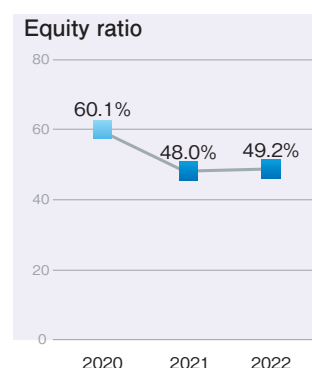
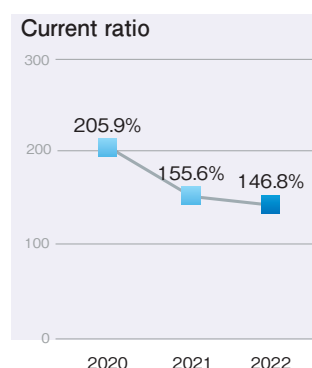
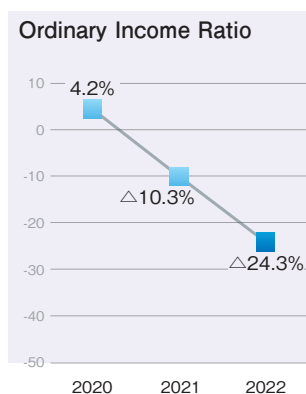
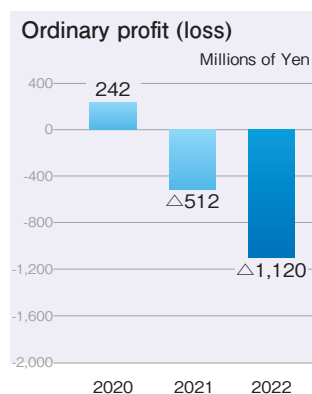
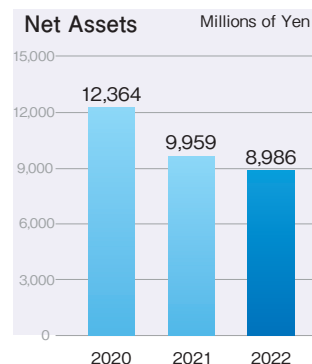
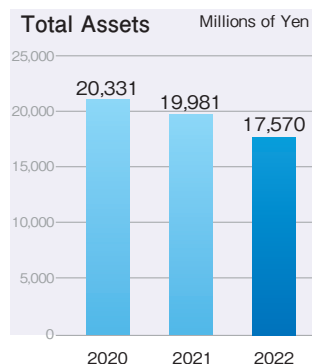
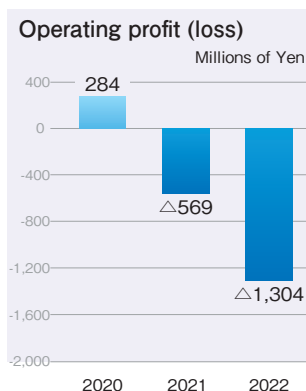
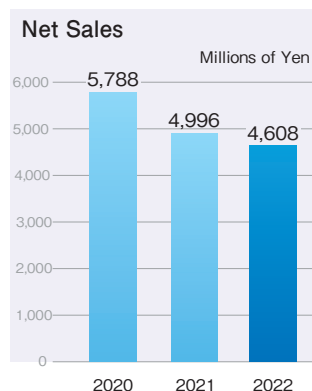
User Services

Over 18 Million Registered Users

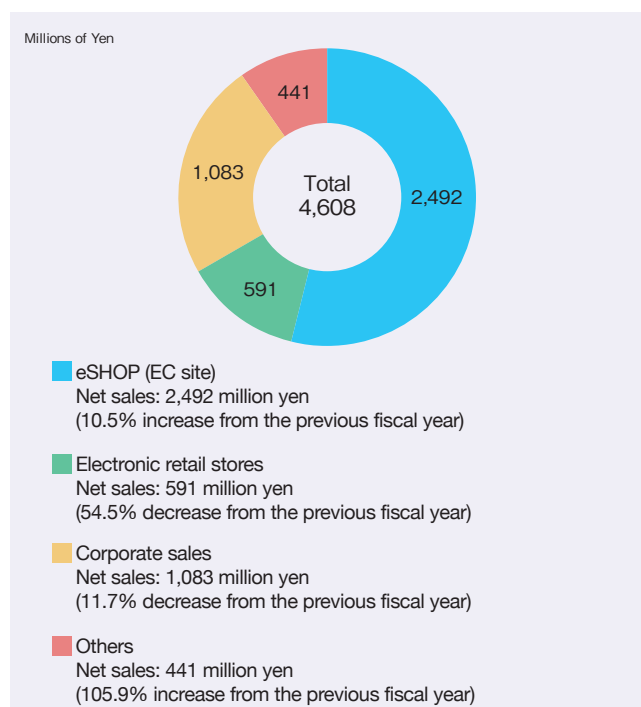
The Group operate our own EC site, mostly focused on sales via downloads. Customers who purchase a product and register as users are encouraged to purchase again through after-sale upgrades, discounts, etc. The total number of registered users now exceeds 18 million, making them our major asset.

Financial Highlights

Quarterly Consolidated Business Performances



Net Sales by Channel



Quarterly Consolidated Financial Statements (Summary)

Consolidated Balance Sheets (As of September 30, 2022)

Assets		Liabilities	Thousands of Yen
Current assets	10,326,375	Current liabilities	7,036,189
Non-current assets	7,243,897	Non-current liabilities	1,547,129
Property, plant and equipment	86,955	Total liabilities	8,583,318
Intangible assets	3,128,513	Net assets	
Investments and other assets	4,028,428	Shareholders' equity	8,398,700
		Accumulated other comprehensive income	243,123
		Share acquisition rights	226,647
		Minority interest	118,481
Total assets	17,570,272	Total net assets	8,986,953
		Total liabilities and net assets	17,570,272

Consolidated Statements of Income (From April 1, 2022 to September 30, 2022)

	Thousands of Yen
Net sales	4,608,697
Cost of sales	2,482,212
Gross profit	2,126,485
Selling, general and administrative expenses	3,431,091
Operating loss	△1,304,606
Ordinary loss	△1,120,916
Loss before income taxes	△1,117,143
Total income taxes	4,905
Loss	△1,122,049
Loss attributable to non-controlling interests	△58,941
Loss attributable to owners of parent	△1,063,107

Consolidated Statements of Cash Flows (From April 1, 2022 to September 30, 2022)

	Thousands of Yen
Cash flows from operating activities	△275,924
Cash flows from investing activities	△407,903
Cash flows from financing activities	△1,426,773
Cash and cash equivalents at end of period	3,564,113

Earnings Forecasts for the Fiscal Year Ending March 2023

Net sales	12,795 million yen	24.1% ↑ increase
Operating profit	△850 million yen	
Ordinary income	△945 million yen	
Profit attributable to owners of parent	△995 million yen	
Earnings per share	△7.34 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. IoT products such as the AI-powered translation device “POCKETALK” and the AI-powered voice recorder AutoMemo are popular.

We have sold a total of over 900,000 “POCKETALK” units since its release in December 2017 (as of September 2022). Despite the decreasing 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 the country. In addition, for the voice-to-text recorder AutoMemo, which leverages the technologies such as voice recognition cultivated with “POCKETALK,” we are continually making steady improvements, such as to the voice recognition sensitivity, and with over 40,000 service use accounts, it has been very well received.

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. However, we recorded a net loss of 3.502 billion yen during the previous fiscal year. Regretfully, we are not planning to distribute dividends for the current fiscal year in order to restructure the base for medium- to long-term growth and fully recover business performance. We will continue to implement the shareholder special benefit plan that was introduced as premium redemptions to shareholders in the previous fiscal year. Depending on the number of shares owned, you will receive SOURCENEXT ePoint (privilege points) that can be used for purchases on our site.

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. For “POCKETALK,” in addition to the dedicated device business, we will continue to further increase its brand awareness and accelerate its widespread adoption by launching “POCKETALK Pair” as software which enables simultaneous translation (scheduled for release this winter), etc.

In addition, the 360 ° camera “KAIGIO CAM360” launched in April has also been well received, and going forward we will continue to expand our products that make working in a remote environment easier, IoT products such as AutoMemo, and business software, and launch new products that address the changes 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 Group 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 a report desk 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.

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

Stock Exchange Listing

Tokyo Stock Exchange (Prime Market)

SOURCENEXT Corporation

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

Corporate Profile

Overview of Corporation (as of September 30, 2022)

Company Name

SOURCENEXT Corporation

Founded

August 2, 1996

Headquarter

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

Capital

3,698 million yen

Number of Employees

Nonconsolidated: 146
(including 7 temporary staff / employees)
Consolidated: 166
(including 7 temporary staff / employees)

Description of Business

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

Members of the Board

(as of September 30, 2022)

Founder and CEO
Noriyuki Matsuda
President and COO
Tomoaki Kojima
Director and CSO
Kousuke Fujimoto
Director and CFO
Fumihiko Aoyama
Outside Director
Hideaki Kubori
Outside Director
Kunitake Ando
Outside Director
Nobuhide Nakaido
Outside Director
Aiko Oue
Standing Auditor
Masaaki Hirose
Outside Auditor
Tetsuya Kobayashi
Outside Auditor
Maho Kinami

Present Shares (as of September 30, 2022)

Total Number of Authorized Shares
361,120,000 shares
Total Number of Issued Shares
136,322,400 shares
Number of Shareholders
49,201

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 Value

**Customer-Centric Mindset.
Creating Innovative New Markets.
Embrace Challenge.**