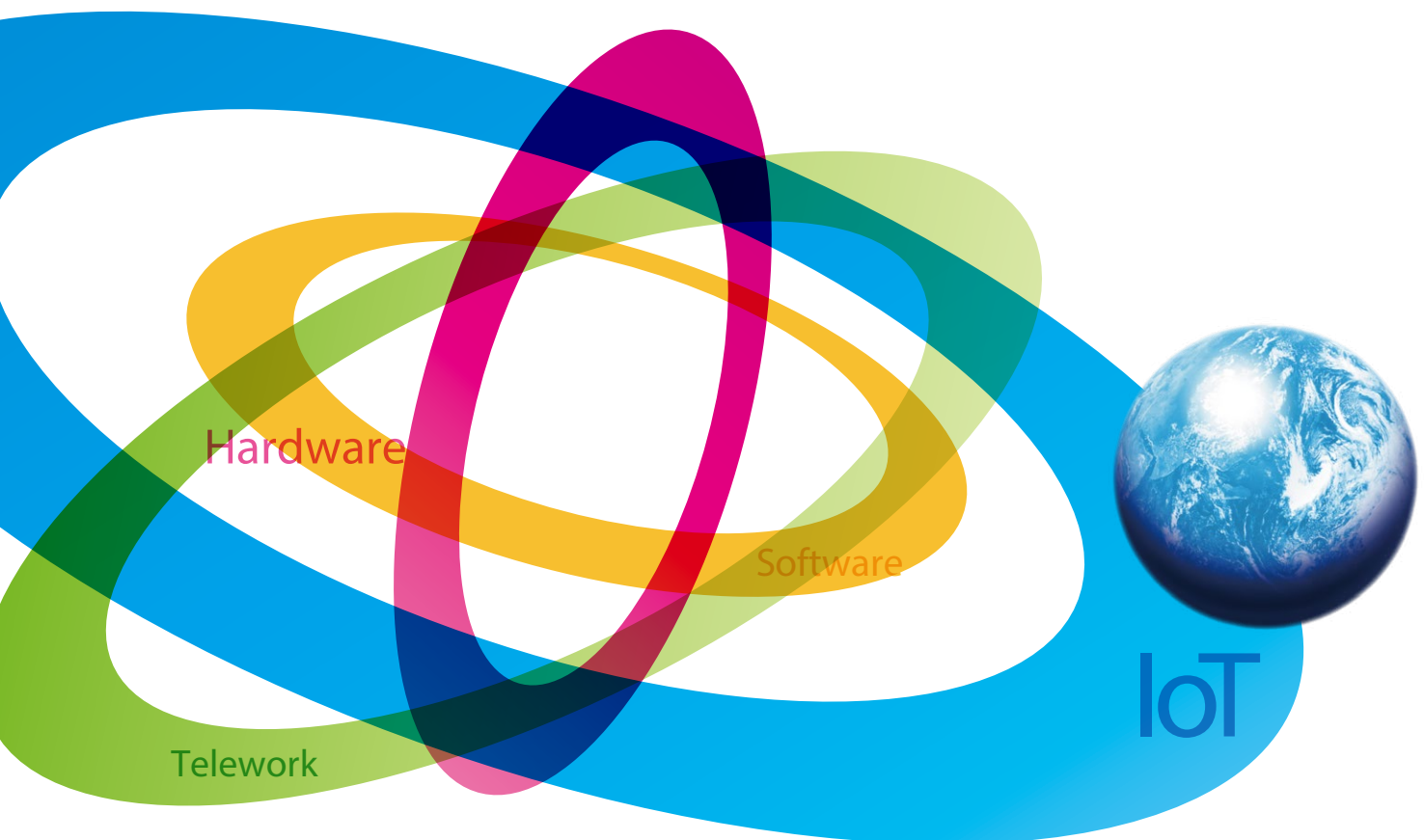


To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2021
April 1, 2020 - September 30, 2020



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 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 released “POCKETALK S Plus” that has a larger screen and longer battery life than “POCKETALK S.” We also released the AI voice-to-text device “POCKETALK mimi” that facilitates communication with people who are hearing impaired including the elderly. As for telework-related software, services, and hardware, we released the meeting webcam “Meeting OWL,” and a total of 3,000 units were shipped within three months of it being released. In addition, we made effort to expand sales of our main postcard software “FUDEOH,” “FUDEMAME,” and “ATENA SHOKUNIN,” resulting in net sales for the current half of 5.788 billion yen and ordinary profit of 242 million yen.

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.

December 2020

SOURCENEXT Corporation
President and CEO
Noriyuki Matsuda



Products and Services

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

Products for remote conferencing

These products are for remote conferencing, which prevent the spread of COVID-19, and we are expanding our corporate customers through these products.

The Meeting OWL

A web conferencing tool equipped 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 been able to ship 3,000 units within the first three months, and it is being used by various companies across the industry.

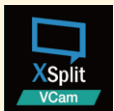


Advertisement featuring the comedian Akihiro Kakuta of "Tokyo 03"



The Meeting Owl makes it easier to communicate at meetings, giving a stronger sense of unity among participants.

XSplit Vcam for background freedom



This software allows you to blur your webcam background or change them into a video or image in order to prevent others from seeing your room and keeping your privacy.

Krisp, surprisingly silent



This software uses AI technology to reduce unwanted environmental sounds and noise during web conferences. It not only reduces the noise but also improves the sound quality, making it possible to hear the other person's voice more clearly.

Freedom of Expression エヲダス (Ewodas)



We developed this software that allows you to add emojis and images or to display entered text onto your screen that is displayed during web conferences.

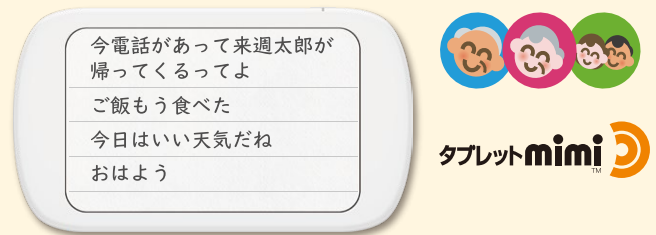


IoT Products

We are launching new innovative products that utilize our Pocketalk AI translation technology and expect to acquire new customer base through expanding the market.

AI voice-to-text device

We realized that some customers were using POCKETALK to communicate with people who are hearing impaired. Therefore, we released two types of specialized devices for displaying the contents of what is spoken into large text. These facilitate communication with people who have impaired hearing including the elderly.



With the tablet-size "TABLET mimi," simple operation by just talking is realized.

AI translation device



"POCKETALK mimi" won the Good Design Award along with "POCKETALK S."

POCKETALK S Plus

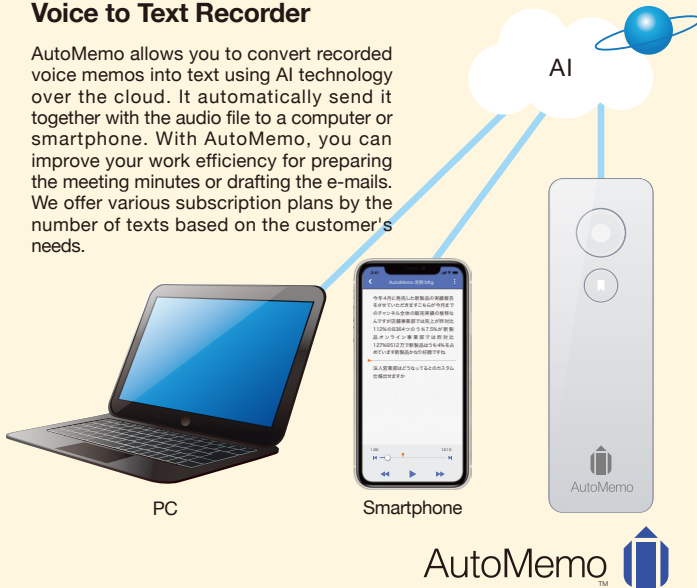


For the "POCKETALK" AI translation device lineup, we introduced an all new "POCKETALK S Plus" in July, which featured the same camera translations as "POCKETALK S" but with an even larger screen size. It has quickly gained popularity due to its easy-to-operate and easy-to-view screen size.

Products and Services

Voice to Text Recorder

AutoMemo allows you to convert recorded voice memos into text using AI technology over the cloud. It automatically send it together with the audio file to a computer or smartphone. With AutoMemo, you can improve your work efficiency for preparing the meeting minutes or drafting the e-mails. We offer various subscription plans by the number of texts based on the customer's needs.



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. SOURCENEXT support the creation of connections with postcards through these three brands.

"ZERO" antivirus software with no renewal fee



The ZERO series offers users with a "fixed device and no expiration date" policy. It is affordable and easy to use with no expiration date, so it remains effective for the lifetime of the single device installed on. Security is ensured by simply installing it once on one device.

No. 1 in the number of units sold in 7 categories of PC Software

According to GfK Japan research on sales data of major domestic electronics retailers, regarding shares of "PC Software" makers for 2019, "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"

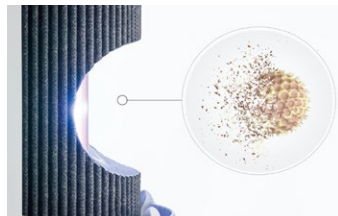
Air Purifier



MOLEKULE

Molekule - An air purifier that breaks down pollutants using light

"Molekule" is an innovative air purifier developed in the U.S. with a name taken from the English word "molecule." It can remove various molecules from the air including pollen, house dust, and bacteria using a photoactive nanofilter and special catalyst. We launched the molekule.jp website in October.



Smartphone Apps

Providing Apps to All 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"	2
June 2013	NTT DoCoMo	"SugoToku Contents"	15
August 2014	Softbank Mobile	"App Pass"	36

(As of December 2020)

Example of apps provided



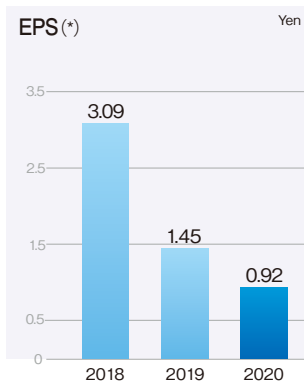
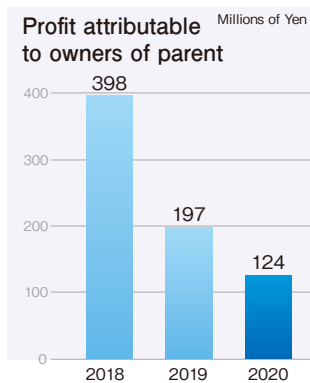
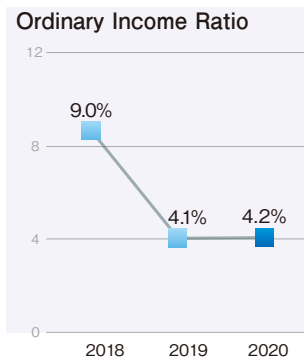
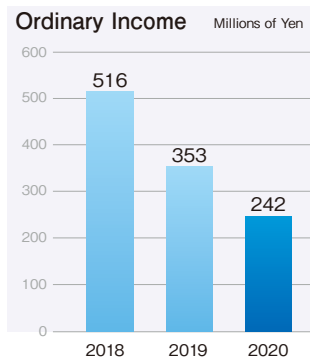
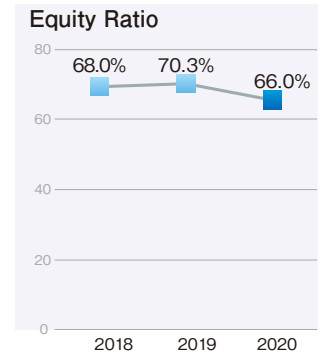
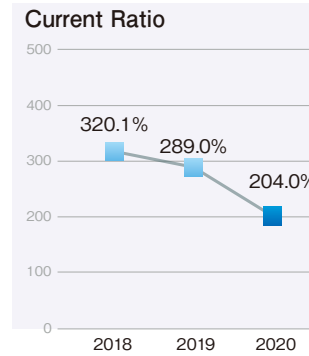
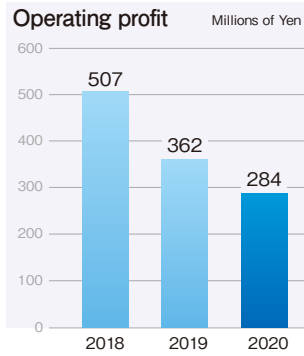
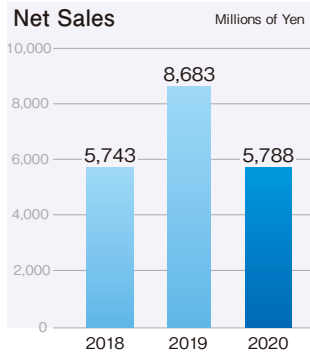
User Services

Over 17 Million Registered Users

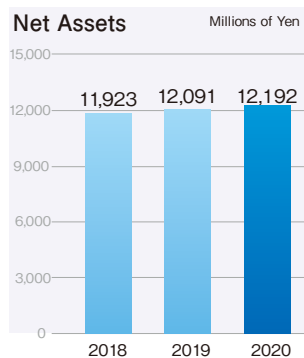
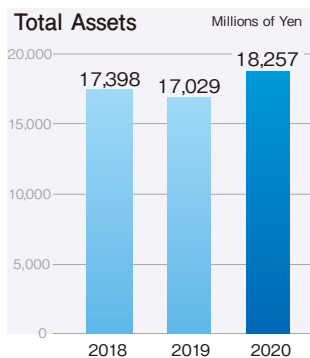
We operate our own EC site, mostly focused on sales via downloads. Customers who purchase a product and get registered as users are encouraged to purchase again through after-sale upgrades, discounts, etc. The total number of registered users now exceeds 17 million, making the service a major asset.

Financial Highlights

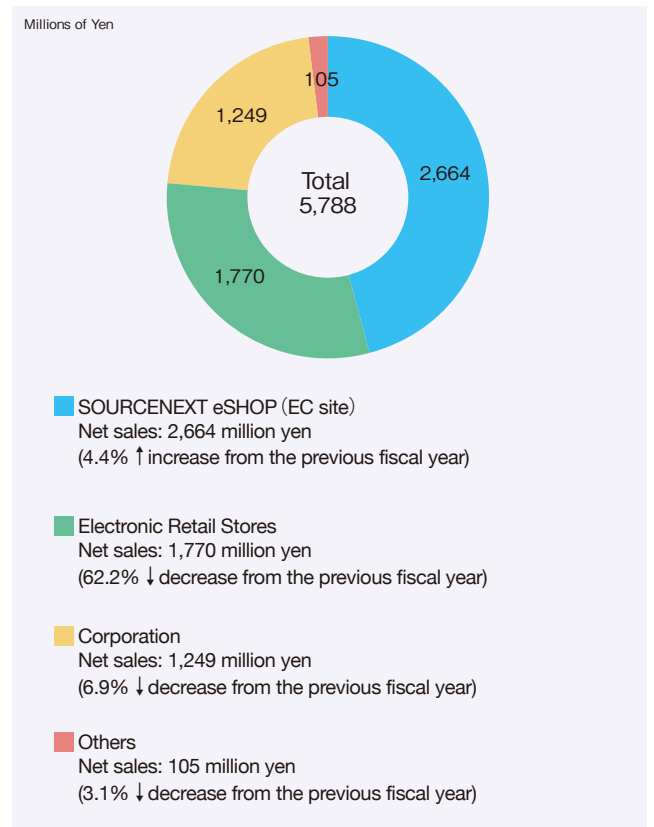
Consolidated Business Performances



(*) In December 2018, we executed a stock split at a ratio of two shares per common stock. Because of this, EPS was calculated assuming that the stock split was executed at the beginning of the fiscal year ended March 31, 2019.



Net Sales by Channel



Quarterly Consolidated Financial Statements (Summary)

Consolidated Balance Sheets (As of September 30, 2020)

Assets		Liabilities		Thousands of Yen
Current assets	11,293,568	Current liabilities		5,536,416
Non-current assets	6,963,717	Non-current liabilities		528,086
Property, plant and equipment	132,392	Total liabilities		6,064,502
Intangible assets	2,906,302	Net assets		
Investments and other assets	3,925,021	Shareholders' equity		12,083,750
		Accumulated other comprehensive income		△27,060
		Share acquisition rights		136,093
		Total net assets		12,192,783
Total assets	18,257,285	Total liabilities and net assets		18,257,285

Consolidated Statements of Income (From April 1, 2020 to September 30, 2020)

	Thousands of Yen
Net sales	5,788,263
Cost of sales	2,091,607
Gross profit	3,696,656
Selling, general and administrative expenses	3,412,354
Operating profit	284,301
Ordinary profit	242,747
Profit before income taxes	243,145
Total income taxes	118,218
Profit attributable to owners of parent	124,927

Consolidated Statements of Cash Flows (From April 1, 2020 to September 30, 2020)

	Thousands of Yen
Cash flows from operating activities	△377,887
Cash flows from investing activities	△2,219,827
Cash flows from financing activities	2,255,431
Cash and cash equivalents at end of period	3,549,134

Earnings Forecasts for the Fiscal Year Ending March 2021

Net sales	16,000 million yen	7.4% ↓ decrease
Operating income	600 million yen	26.4% ↑ increase
Ordinary income	600 million yen	11.6% ↑ increase
Profit attributable to owners of parent	416 million yen	85.1% ↑ increase
Earnings per share	3.06 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. In addition to the AI translation device POCKETALK, products for telework are also very popular.

We have sold a total of over 800,000 “POCKETALK” units since its release in December 2017 (as of November 2020) and we broadened our lineup by adding products such as “POCKETALK S Plus” equipped with a larger screen that makes it easier to view, and also a special collaborative version POCKETALK with the popular anime series, “Gundam”. In addition, our products for telework such as the 360° AI camera “Meeting OWL” are popular.

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

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

Our 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, 2020, the Company has paid out dividends on the basis of a 15% dividend payout ratio. For the fiscal year ending March 31, 2021, 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. In addition to the “POCKETALK,” we will expand our IoT products with an eye on “After Coronavirus” and “With Coronavirus.”

“POCKETALK,” with its enhanced learning capabilities, has maintained steady sales despite the COVID-19 pandemic. In addition, we will continue to introduce new products that keep an eye on the changing times, such as the “360 ° AI camera Meeting OWL” and “Molekule,” which was granted a patent in the US.

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-Shim bashi,
Minato-ku, Tokyo 105-7133

Capital

3,688 million yen

Number of Employees

Nonconsolidated: 127
(including 2 temporary staff / employees)
Consolidated: 143
(including 2 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, 2020)

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

Present Shares (as of September 30, 2020)

Total Number of Authorized Shares
361,120,000 shares
Total Number of Issued Shares
136,244,800 shares
Number of Shareholders
49,232

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

1-4-1 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) <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 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(<http://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-Shim bashi, Minato-ku, Tokyo 105-7133

TEL: 81-3-6254-5231

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