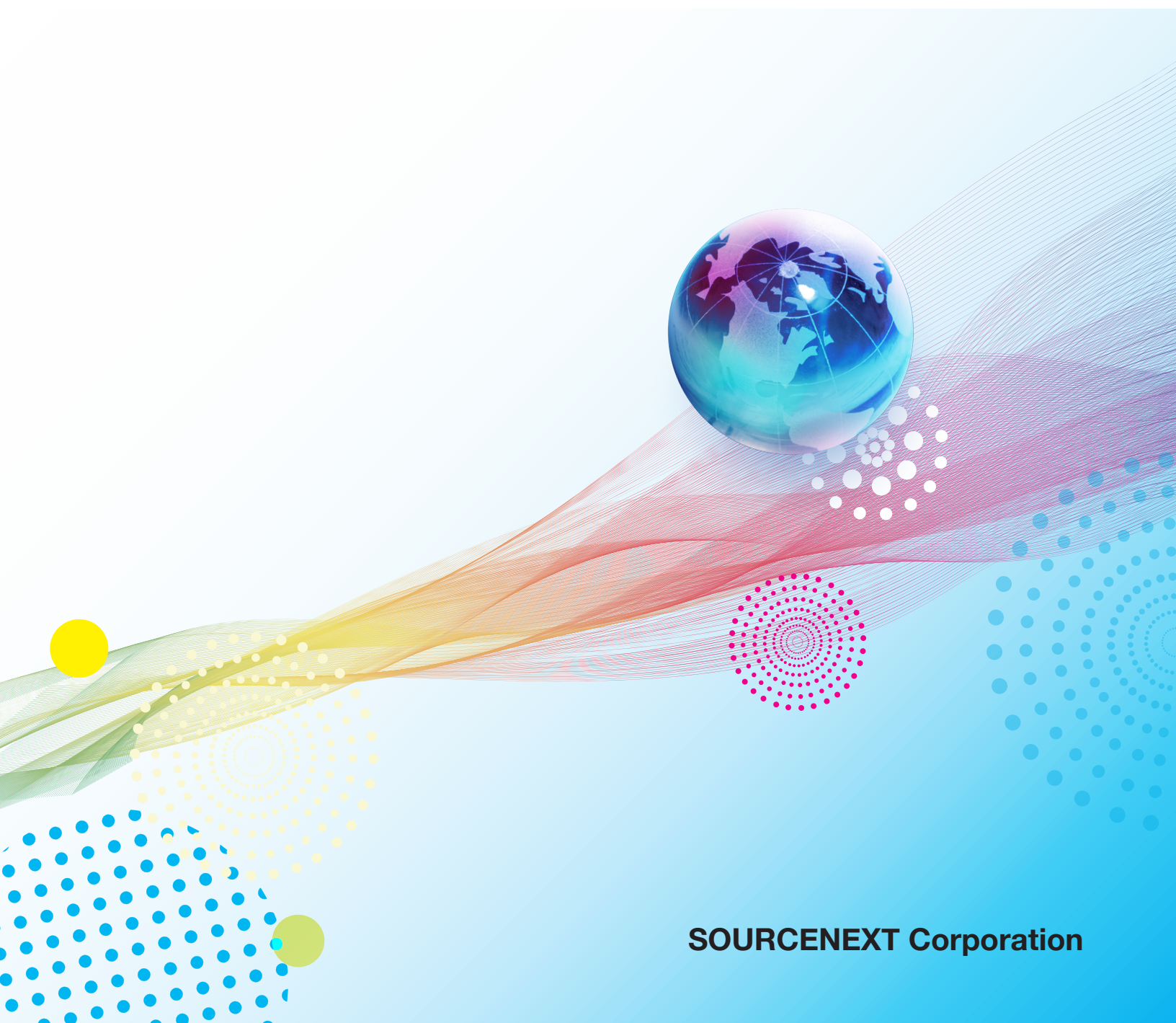


# To Our Shareholders and Investors

Business Report for First Half of Fiscal Year ending March 2024  
April 1, 2023 - September 30, 2023



## Greetings

First, please accept our sincere thanks for your support of SOURCENEXT. We will now provide a report on results for the first half of the fiscal year ending March 31, 2024.

Our mainstay product, the AI-powered translation device “POCKETALK®,” saw an increase in net sales over the previous fiscal year, primarily in the electronics retailer channel, in anticipation of a recovery in inbound traveler demand and of further recovery of demand going forward. In overseas markets, particularly in the United States, demand for dealing with the linguistic needs of non-native speakers has led to its adoption at educational institutions, medical institutions, public institutions, and other companies, resulting in year-on-year growth in net sales of 18.3% in the United States for the first half of this fiscal year.

As for other IoT Products, the total number of registered accounts (the combined total of paying and non-paying users of the service) for the AI-powered voice-to-text recorder “AutoMemo” exceeded 100,000 as of September 30, 2023. The number of subscribers to text conversion services also increased, and we are forging ahead with efforts to build a stable earnings base. Our series of 360-degree web cameras performed strongly as a result of capturing demand from corporate customers.

As a result of these factors, net sales for the six months ended September 30, 2023 were 5.226 billion yen (13.4% increase from the previous fiscal year). On the other hand, the impact of increases in personnel expenses and advertising costs for the expansion of the business going forward, and an increase in temporary outsourcing expenses associated with the transition to a new system for our direct sales website resulted in a loss attributable to owners of parent of 1.150 billion yen (compared to a loss attributable to owners of parent of 1.063 billion yen for the same period of the previous fiscal year). Following on from the previous fiscal year, this was another set of very disappointing results, for which we offer our sincere apologies.

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 PC software to IoT products based on the needs of our customers and times. The Company will continue to create products that bring joy to its customers, focusing on new planning and development in order to provide new products rapidly, and making every effort to improve profitability. We thank all of you again, from the bottom of our hearts, for 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 development of our AI-powered translation device POCKETALK and through new products applying POCKETALK's technology.

### The Spread and Expansion of POCKETALK



Thanks to our customers, we have sold over **1,000,000** units


From December 2017 to December 13, 2022 / Series total including "POCKETALK," (first generation) "POCKETALK W," "POCKETALK S" and "POCKETALK S Plus," but excluding sample units

#### AI-Powered Translation Device "POCKETALK"

POCKETALK, our AI-powered translation device, translates to voice and text for 74 languages and to text for 11 additional languages. Shipments have exceeded one million units, due to an increase in inbound tourism following the easing of COVID-19 countermeasures.

#### Smartphone app "POCKETALK" (iOS/Android)

This app allows the AI-powered translation device POCKETALK to be used with the convenience of a smartphone. Awarded the "Best in Category" Award in Google Play's "Best Apps of 2022".




#### POCKETALK for Business "Simultaneous Interpretation"

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 like simultaneous interpretation as both voice and text subtitles.



#### POCKETALK for Business "Conference"

This product is a simultaneous interpretation system for use at conferences and other events. Listeners do not need to install any software. Instead, they can simply use their smartphones to read a QR code and have translations displayed directly on their devices.



#### POCKETALK for Business "Movie translation"

This product is a service that allows users to add translated subtitles and audio to video files. POCKETALK for Business "Movie translation" is useful for translating already existing videos and making manuals multilingual.

### AI-powered voice-to-text recorder AutoMemo





#### AutoMemo

#### AI-powered voice-to-text recorder AutoMemo

AutoMemo is an AI-powered voice-to-text recorder that allows the user to convert recorded audio into text, edit, and share the transcribed text. Users can record with a dedicated voice recorder or smartphone app and the text will be automatically transcribed. The app separates the text of the speakers. As at September 2023, the total number of AutoMemo accounts exceeds 100,000.

Dedicated voice recorder Auto Memo S (left) and Auto Memo R (right)



Dedicated smartphone app AutoMemo App

Text editing screen of AI-powered voice-to-text recorder AutoMemo

### HealthTech

#### Devices for Monitoring the Elderly "POM"

"POM" is a device that monitors the health of the elderly using high-precision millimeter wave radar. Simply attach the device in a room to acquire health data such as heart rate and sleep, without touching the subject being monitored. It then analyzes and report on the data using our own proprietary AI technology.



お母さんの健康

2月17日(日)

お母さんは健康です。日常生活を続けています。

7:02 AM

項目	値	アラート
睡眠	10 時間	-2
心拍数の変動	3.5 回/分	-2
平均心拍数	66 回/分	+10
呼吸数	16 回/分	-10

ホームマイページ



## 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 participants’ faces**

“KAIGIO CAM360” uses AI to automatically divide a screen according to the number of meeting participants and project the participants. The product enables you to create meetings with a sense of unity where you can see the expressions on the participants’ faces.



#### **“Meeting OWL” brings the speaker into focus**

The “Meeting OWL” automatically focuses on the speaker and brings him or her into close-up. Suitable for conference rooms hosting a large number of people.

### 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. 11” meets the needs of the transition to paperless operations.**



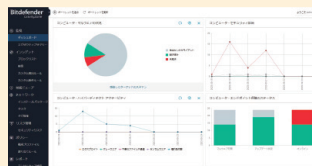
No. 1 in sales for 20 years in a row since its launch in 2003 (according to BCN Inc.) A long-selling, high-performance, low-cost product that has changed common practice in PDF creation. It has been deployed at over 10,000 companies. It contributes to more efficient document management.

#### **“ZERO” antivirus software with no expiration date**



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.

#### **Corporate product “Super Security for Business”**



From September 2023, we began offering a corporate product called “Super Security” that completes the setup and management of all PCs on a single screen. We are taking on new markets with world-class performance and lowest price class in Japan.

#### **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 steady.

### Smartphone Apps

#### **A voicemail service that can be read by text “Smart RUSUDEN”**



スマート  
留守電®

The service allows you to not only listen to a voice message but also to read transcribed text messages. You will never miss an important call because it can be forwarded to your email or LINE. Recently, voicemail has been attracting attention as an effective countermeasure against phone fraud, and this service is also gaining popularity.

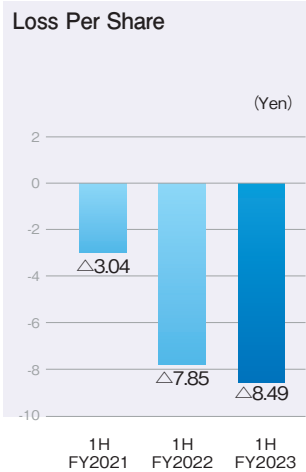
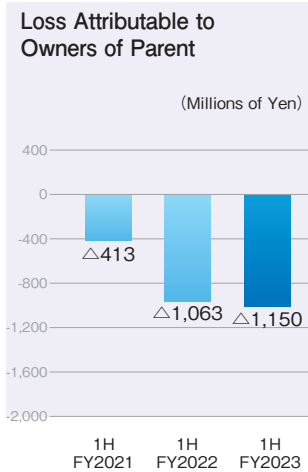
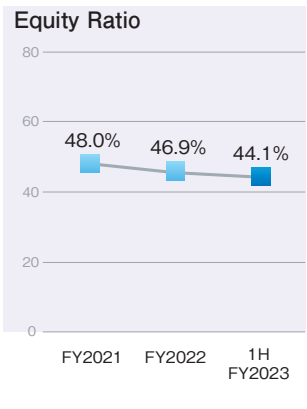
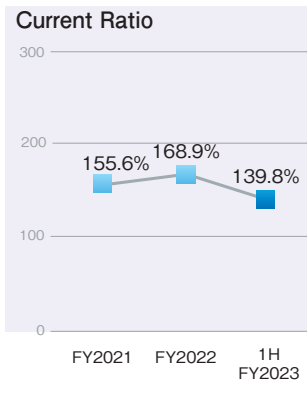
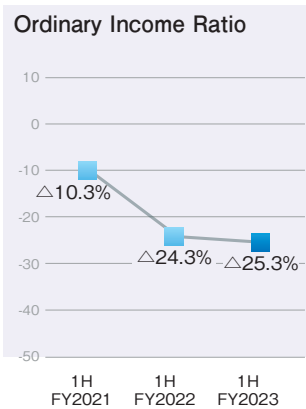
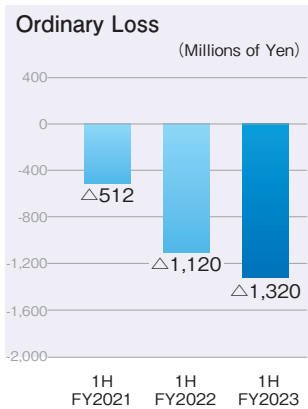
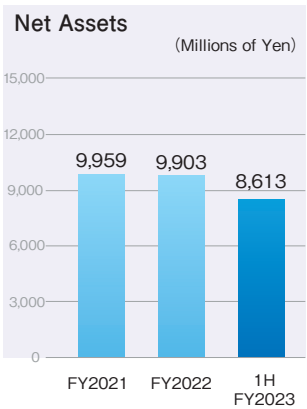
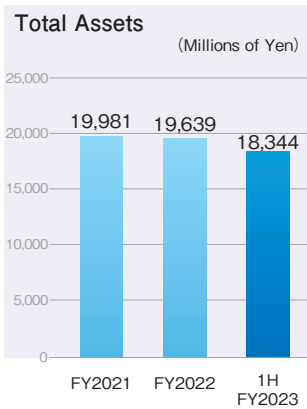
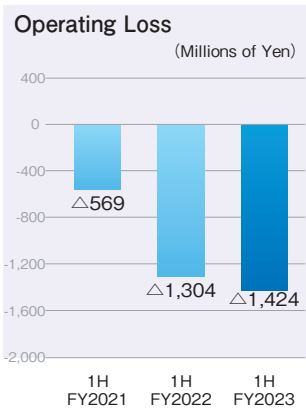
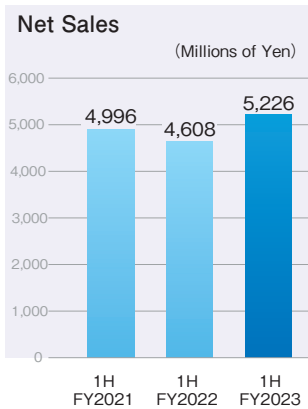
### User Services

#### **Over 18 Million Registered Users**

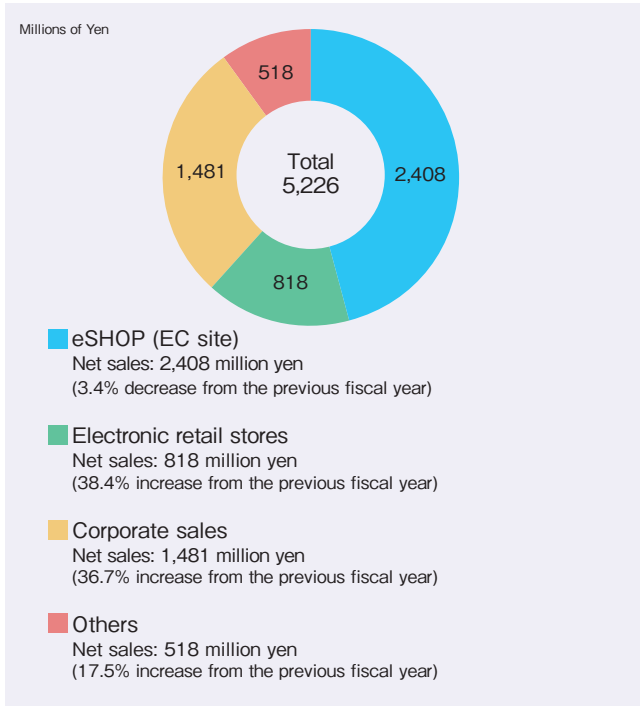
The Group operates our own EC site, mostly focused on sales via downloads. We strive to ensure long-lasting relationships with customers who have purchased our products and registered as users, with our after-sales service, including version upgrades and user discounts. The total number of registered users now exceeds 18 million, making them the Group’s major asset.

# Financial Highlights

## Quarterly Consolidated Business Performances



## Net Sales by Channel



# Quarterly Consolidated Financial Statements (Summary)

## Consolidated Balance Sheets (As of September 30, 2023)

Assets		Liabilities	Thousands of Yen
Current assets	10,765,951	Current liabilities	7,699,075
Non-current assets	7,578,138	Non-current liabilities	2,031,296
Property, plant and equipment	69,462	Total liabilities	9,730,371
Intangible assets	3,609,657	<b>Net assets</b>	
Investments and other assets	3,899,017	Shareholders' equity	7,833,931
		Accumulated other comprehensive income	250,711
		Share acquisition rights	272,299
		Minority interest	256,776
Total assets	18,344,090	Total net assets	8,613,719
		Total liabilities and net assets	18,344,090

## Consolidated Statements of Income (From April 1, 2023 to September 30, 2023)

	Thousands of Yen
Net sales	5,226,709
Cost of sales	2,498,846
Gross profit	2,727,863
Selling, general and administrative expenses	4,152,843
Operating loss	△ 1,424,979
Ordinary loss	△ 1,320,934
Loss before income taxes	△ 1,275,000
Total income taxes	54,257
Loss	△ 1,329,257
Loss attributable to non-controlling interests	△ 179,069
Loss attributable to owners of parent	△ 1,150,188

## Consolidated Statements of Cash Flows (From April 1, 2023 to September 30, 2023)

	Thousands of Yen
Cash flows from operating activities	△ 1,118,227
Cash flows from investing activities	△ 550,897
Cash flows from financing activities	△ 257,974
Cash and cash equivalents at end of period	4,627,739

## Earnings Forecasts for the Fiscal Year Ending March 2024

Net sales	13,846 million yen	33.8% ↑ increase
Operating profit	21 million yen	
Ordinary income	65 million yen	
Profit attributable to owners of parent	29 million yen	
Earnings per share	0.22 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-to-text recorder AutoMemo are popular.**

We have sold a total of over 1,000,000 “POCKETALK” units since its release in December 2017 (as of December 2022). Since “POCKETALK” has become available for web conferencing, recognition in the United States has increased, and adoption at medical institutions, schools, and public institutions has accelerated for the purpose of dealing with the linguistic needs of non-native speakers 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 improvements, such as to voice recognition sensitivity, and with over 100,000 service use accounts, it has been very well received.

**Q. What are your thoughts on measures for returns 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 business performance, the dividend payout ratio and the amount of investment required for medium- and long-term corporate growth. So far, we have paid dividends on the basis of a dividend payout ratio of 10% to 15%. However, we recorded a net loss of 2.303 billion yen during the previous fiscal year. Regrettably, 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 a shareholder returns measure. 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. We will promote sales of “POCKETALK” to meet the recovery of demand from inbound and outbound travelers and enhance our product lineup for business and web conferencing.**

Because demand from inbound and outbound travelers is on a recovery trend, with an eye on a significant rebound in people flows we are extending “POCKETALK” functionality, while moving forward with plans to expand sales channels both in Japan and overseas. In the “POCKETALK” business, we plan to expand sales channels not only for dedicated terminals, but also in parallel for “POCKETALK for Business Simultaneous Interpretation,” which enables simultaneous interpretation using software. We will continue to expand our IoT product lineups such as 360-degree camera “KAIGIO CAM360” and AI voice-to-text recorder “AutoMemo” as well as business software, and launch new products that address the changes of the times.

**Q. Has SOURCENEXT established a 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 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

## Traded

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, 2023)

### Company Name

SOURCENEXT Corporation

### Founded

August 2, 1996

### Headquarter

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

### Capital

3,701 million yen

### Number of Employees

Non-consolidated: 132  
(including 5 temporary staff / employees)  
Consolidated: 167  
(including 5 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, 2023)

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, 2023)

Total Number of Authorized Shares  
361,120,000 shares  
Total Number of Issued Shares  
136,358,300 shares  
Number of Shareholders  
53,646

## 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.**