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On February 10, 2021, SOURCENEXT Corporation announced earnings results for Q3 FY03/21 and a revised earnings forecast.

Quarterly performance (JPYmm)	FY03/19				FY03/20				FY03/21				FY03/21	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,436	3,308	4,497	4,470	4,639	4,044	4,406	4,193	2,540	3,248	3,726			
YoY	54.3%	41.3%	59.9%	61.9%	90.5%	22.3%	-2.0%	-6.2%	-45.2%	-19.7%	-15.4%			
Gross profit	1,355	2,126	2,896	2,725	2,815	2,535	2,691	2,338	1,478	1,983	2,129			
YoY	37.0%	34.7%	49.8%	53.1%	107.7%	19.2%	-7.1%	-14.2%	-47.5%	-21.8%	-20.9%			
GPM	55.6%	64.3%	64.4%	61.0%	60.7%	62.7%	61.1%	55.8%	58.2%	61.1%	57.1%			
SG&A expenses	1,408	1,713	2,379	2,822	2,809	2,279	2,947	1,676	1,660	1,753	1,905			
YoY	20.1%	4.6%	135.8%	117.9%	99.5%	33.0%	23.9%	-40.6%	-40.9%	-23.1%	-35.3%			
SG&A ratio	57.8%	51.8%	52.9%	63.1%	60.6%	56.3%	66.9%	40.0%	65.3%	54.0%	51.1%			
Operating profit	85	422	338	14	92	270	102	10	74	210	162			
YoY	35.8%	12.4%	-15.1%	-96.5%	7.8%	-36.0%	-69.9%	-26.9%	-19.3%	-22.3%	58.7%			
OPM	3.5%	12.8%	7.5%	0.3%	2.0%	6.7%	2.3%	0.2%	2.9%	6.5%	4.3%			
Recurring profit	85	431	352	37	85	269	154	30	53	190	127			
YoY	30.6%	13.6%	-12.0%	-91.1%	0.1%	-37.7%	-56.2%	-19.7%	-37.7%	-29.4%	-17.8%			
RPM	3.5%	13.0%	7.8%	0.8%	1.8%	6.6%	3.5%	0.7%	2.1%	5.8%	3.4%			
Net income	49	350	226	-9	56	141	67	-40	7	118	72			
YoY	-42.8%	44.7%	-12.8%	-	13.1%	-59.6%	-70.1%	361.9%	-88.0%	-16.3%	6.4%			
Net margin	2.0%	10.6%	5.0%	-	1.2%	3.5%	1.5%	-	0.3%	3.6%	1.9%			
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	2,436	5,743	10,241	14,711	4,639	8,683	13,089	17,282	2,540	5,788	9,515		73.2%	13,000
YoY	54.3%	46.5%	52.1%	54.9%	90.5%	51.2%	27.8%	17.5%	-45.2%	-33.3%	-27.3%			-24.8%
Gross profit	1,355	3,482	6,377	9,102	2,815	5,350	8,041	10,379	1,478	3,461	5,590			
YoY	37.0%	35.6%	41.7%	44.9%	107.7%	53.7%	26.1%	14.0%	-47.5%	-35.3%	-30.5%			
GPM	55.6%	60.6%	62.3%	61.9%	60.7%	61.6%	61.4%	60.1%	58.2%	59.8%	58.7%			
SG&A expenses	1,408	3,121	5,500	8,322	2,809	5,088	7,571	9,711	1,660	3,412	5,318			
YoY	20.1%	31.6%	44.0%	62.7%	99.5%	63.0%	37.6%	16.7%	-40.9%	-32.9%	-29.8%			
SG&A ratio	57.8%	54.3%	53.7%	56.6%	60.6%	58.6%	57.8%	56.2%	65.3%	59.0%	55.9%			
Operating profit	85	508	846	860	92	362	464	475	74	284	446		74.3%	600
YoY	35.8%	15.8%	1.1%	-30.5%	7.8%	-28.6%	-45.1%	-44.8%	-19.3%	-21.5%	-3.9%			26.4%
OPM	3.5%	8.8%	8.3%	5.8%	2.0%	4.2%	3.5%	2.7%	2.9%	4.9%	4.7%			4.6%
Recurring profit	85	516	869	906	85	354	508	538	53	243	370		61.6%	600
YoY	30.6%	16.1%	2.8%	-28.1%	0.1%	-31.5%	-41.5%	-40.6%	-37.7%	-31.4%	-27.2%			11.6%
RPM	3.5%	9.0%	8.5%	6.2%	1.8%	4.1%	3.9%	3.1%	2.1%	4.2%	3.9%			4.6%
Net income	49	399	624	616	56	197	264	225	7	125	197		47.3%	416
YoY	-42.8%	21.7%	6.5%	-51.2%	13.1%	-50.6%	-57.6%	-63.5%	-88.0%	-36.6%	-25.7%			84.9%
Net margin	2.0%	6.9%	6.1%	4.2%	1.2%	2.3%	2.0%	1.3%	0.3%	2.2%	2.1%			3.2%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Sales by channel (quarterly) (JPYmm)	FY03/19				FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SOURCENEXT online store	-	-	-	-	-	-	-	-	1,314	1,350	1,589	
YoY	-	-	-	-	-	-	-	-	6.4%	-	-	
Electronic mass retailers	-	-	-	-	-	-	-	-	555	1,214	1,316	
YoY	-	-	-	-	-	-	-	-	-79.3%	-	-	
Corporate sales	-	-	-	-	-	-	-	-	630	618	750	
YoY	-	-	-	-	-	-	-	-	-7.1%	-	-	
Other	-	-	-	-	-	-	-	-	38	67	72	
YoY	-	-	-	-	-	-	-	-	-11.0%	-	-	
[Previous categories]												
Smartphones and telecom carriers	238	222	185	183	158	150	152	145	-	-	-	-
YoY	-34.6%	-23.4%	-34.4%	-32.2%	-33.6%	-32.4%	-17.8%	-20.8%	-	-	-	-
SOURCENEXT online store	1,046	1,269	1,648	2,336	1,997	1,630	1,826	1,602	-	-	-	-
YoY	16.4%	31.1%	16.5%	110.6%	90.9%	28.4%	10.8%	-31.4%	-	-	-	-
Elec. mass retailers, third-party websites	817	1,573	2,344	1,369	1,918	1,687	1,707	1,711	-	-	-	-
YoY	341.6%	70.8%	152.6%	16.8%	134.8%	7.2%	-27.2%	25.0%	-	-	-	-
Other	333	243	321	582	564	578	721	735	-	-	-	-
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SOURCENEXT online store	-	-	-	-	-	-	-	-	1,314	2,664	4,253	
YoY	-	-	-	-	-	-	-	-	6.4%	4.4%	2.5%	
Electronic mass retailers	-	-	-	-	-	-	-	-	555	1,769	3,085	
YoY	-	-	-	-	-	-	-	-	-79.3%	-62.2%	-53.4%	
Corporate sales	-	-	-	-	-	-	-	-	630	1,248	1,998	
YoY	-	-	-	-	-	-	-	-	-7.1%	-6.9%	-5.5%	
Other	-	-	-	-	-	-	-	-	38	105	177	
YoY	-	-	-	-	-	-	-	-	-11.0%	-3.1%	-15.5%	
[Previous categories]												
Smartphones and telecom carriers	238	460	645	828	158	308	460	605	-	-	-	-
YoY	-34.6%	-29.7%	-31.1%	-31.3%	-33.6%	-33.0%	-28.7%	-26.9%	-	-	-	-
SOURCENEXT online store	1,046	2,315	3,963	6,299	1,997	3,627	5,453	7,055	-	-	-	-
YoY	16.4%	24.0%	20.8%	43.5%	90.9%	56.7%	37.6%	12.0%	-	-	-	-
Elec. mass retailers, third-party websites	817	2,390	4,734	6,103	1,918	3,605	5,312	7,023	-	-	-	-
YoY	341.6%	116.1%	132.7%	90.4%	134.8%	50.8%	12.2%	15.1%	-	-	-	-
Other	333	576	897	1,479	564	1,142	1,863	2,598	-	-	-	-

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cumulative Q3 FY03/21 results (out February 10, 2021)

- ▷ In cumulative Q3 FY03/21, the company reported consolidated sales of JPY9.5bn (-27.3% YoY), operating profit of JPY446mn (-3.9% YoY), recurring profit of JPY370mn (-27.2% YoY), and net income attributable to owners of the parent of JPY197mn (-25.7% YoY).
- ▷ On February 10, 2021, the company revised down its FY03/21 sales forecast from JPY16.0bn to JPY13.0bn, and maintained its profit forecasts. Sales of the company's mainstay POCKETALK® AI translation device declined, leading to variance from initial company forecasts. Amid the extended COVID-19 pandemic, the fall in demand from travelers overseas and tourist facilities and stores that cater to inbound tourists has carried on longer than the company initially expected. In Q4, the company plans to minimize the impact on FY03/21 sales and gross profit by rolling out teleworking products as well as Meeting Owl and other new IoT products. It is streamlining SG&A expenses while keeping an eye on the scope and results of sales activities, and aims to meet its initial profit targets.
- ▷ Progress versus full-year FY03/21 company forecast (as revised on February 10, 2021) put sales at 73.2% (cumulative Q3 FY03/20 sales were at 75.7% of full-year FY03/20 results), operating profit 74.3% (97.8%), recurring profit 61.6% (94.5%), and net income 47.3% (117.6%).
- ▷ Sales down 27.3% YoY: The decrease in sales reflected a 2.5% increase in sales through the company's own e-commerce site (SOURCENEXT online store), a 53.4% decrease in sales through electronics mass retailers, a 5.5% decline in corporate sales, and 15.5% decline in other. Demand for the company's POCKETALK® AI translation device declined on lower in-store sales and lower sales to travelers overseas amid the COVID-19 pandemic. Meanwhile, sales of software and hardware used in teleworking were firm.
- ▷ Operating profit down 3.9% YoY: The gross profit margin declined 2.7pp YoY to 58.7%. The company increased provisions for losses due to product returns. Adjusted for product return provisions/reversals, the GPM was down 0.8pp YoY to 60.6%. In light of the slump in sales, the company constrained SG&A expenses to mitigate the impact on profits, and cut them by JPY2.3bn (-29.8%) YoY. The company curtailed advertising expenses by not airing TV commercials for POCKETALK® after running them in 2019 and not featuring it in TV shopping promotions. Furthermore, it was able to cut call center outsourcing fees incurred in running TV shopping campaigns and other promotion expenses associated with rolling out the product in stores. The SG&A expense ratio fell 1.9pp YoY to 55.9%. The OPM increased 1.2pp YoY to 4.7%.

External environment

The January 2021 report from the Japan Electronics and Information Technology Industries Association showed PC shipments up 13.0% YoY in the April–December 2020 period.

Cumulative Q3 FY03/21 initiatives

The SOURCENEXT group worked to acquire new users for IoT products, smartphone apps, and PC software, and to enlarge its market.

POCKETALK®

- ▷ Demand for the company's POCKETALK® AI translation device declined on lower in-store sales and lower sales to overseas travelers amid the pandemic.
- ▷ The company thus touted POCKETALK® as a language learning tool by adding Chinese to the language lesson feature in addition to the existing feature which enables English conversation practice with an AI partner.

- ▷ In light of this, the company worked to grow sales of POCKETALK® by developing B2B sales channels with medical institutions and factories, manufacturing facilities, and public institutions that employ non-Japanese workers, in addition to the company's online store.
- ▷ In July 2020, it added the POCKETALK® S Plus to its POCKETALK® S series, having developed the new model in response to user feedback asking for a larger screen that can display more characters at a larger font size. The translation function and other functionality are the same as in the existing models in the series, but the screen is bigger and the battery has more capacity.
- ▷ The company launched the POCKETALK® mimi in August 2020. This product uses AI-based voice recognition to instantly transcribe spoken language to text at the touch of a button, allowing smooth communication with people with age-related hearing loss or other hearing impairment. The company developed it after learning that people with hearing impairments were setting their POCKETALK® to "translate" from Japanese to Japanese. It sells the device through electronics mass retailers nationwide, and also at eyeglasses stores that stock hearing aids.

Telework-related and other products

- ▷ Following the Japanese government's recommendation that companies use teleworking wherever possible, SOURCENEXT put together plans to quickly roll out a range of related software products, services, and hardware products. In March 2020, the company's website added a new page dubbed Telework Collection that details its various product offerings related to teleworking, including the Krisp Pro noise-cancelling app from V-Cube Inc. In July, the company began selling the Meeting Owl webcam for use in meetings. In December 2020, the company launched two new products developed in-house: the tablet mimi and AutoMemo™.
- ▷ The tablet mimi is an AI audio transcription device that converts speech to text speedily.
- ▷ AutoMemo™ is a voice recorder that automatically converts voice recordings to text.
- ▷ Meeting Owl unit sales topped 9,000 as of February 9, 2021.

Results by sales channel

- ▷ Results by sales channel are as shown following.
- ▷ From Q1, the company changed its sales channel classifications. Corporate sales, which were previously classified as Other, have been reallocated to the Smartphones and telecommunications carriers business, which has been renamed Corporate sales. YoY comparisons use figures for the new classifications.

E-commerce (SOURCENEXT online store)

The company operates the SOURCENEXT eSHOP as part of its own website. The eSHOP sells POCKETALK®, software, and IoT hardware.

- ▷ Sales: JPY4.3bn (+2.5% YoY)
- ▷ The tablet mimi AI audio transcription device was unveiled in November 2020, when the company started taking pre-orders. The company also launched a service for additional purchases with its sister product, POCKETALK® mimi, as a mimi series. For customers who like to try before they buy, it also started a rental service so that more people could get to have first-hand knowledge of the product.
- ▷ Also in November 2020, the company unveiled the AutoMemo™ (voice recorder that automatically converts voice recordings to text) and started taking pre-orders. The product was featured in email newsletters targeting online shop customers, driving sales growth.

- ▷ In existing products, the company sold three brands of software for creating New Year greeting cards: FUEMAME, FUDEOH, and Atena Shokunin. Sales of upgrade versions have also been solid.

Electronics mass retailers

This sales channel consists primarily of major nationwide electronics retailer chains that sell IoT products, PC software, and other products to individual users.

- ▷ Sales: JPY3.1bn (-53.4% YoY)
- ▷ While demand for POCKETALK® declined YoY, the newly launched tablet mimi was sold at electronics mass retailers nationwide, and Aigan, an eyewear retailer, as the company develops new sales channels.
- ▷ The company sent demonstration models of the AutoMemo™ to mass retailers and prepared smartphone setup manuals.
- ▷ Accompanying strengthened promotion for Meeting Owl, the company stepped up marketing of teleworking products. In addition to in-store sales, it expanded sales channels to university co-ops, helping drive sales.
- ▷ In PC software, sales grew for the company's three brands of New Year greeting card creation software, FUEMAME, FUDEOH, and Atena Shokunin. In addition to moves to curb the spread of COVID-19, in-store sales faced a somewhat tough environment as special demand associated with the switchover to the Reiwa imperial period in FY03/20 dropped out of the equation.
- ▷ Among existing products, sales of security software such as Virus Security ZERO and Super Security ZERO grew on increased demand from teleworkers and students learning online, and the TOKU-UCHI touch typing learning software also grew sales.
- ▷ Despite gains on multiple fronts, the company was still unable to surpass the level of sales achieved in 1H FY03/20, when there was extraordinary last-minute demand for POCKETALK® and PC software ahead of the consumption tax hike in October 2019.

Corporate sales

In this channel, the company provides sales and rental of POCKETALK® for companies as well as all-you-can-use computer software and smartphone app services.

- ▷ Sales: JPY2.0bn (-5.5% YoY)
- ▷ New sales orders of POCKETALK® for companies were solid despite lower demand from tourist facilities and shops that cater to inbound tourists. Local governments, nursery schools, and factories used the device to communicate with non-Japanese residents. There was also renewal demand accompanying the expiry of two-year SIM card contracts, and sales of POCKETALK® mimi, primarily to nursing care facilities and companies with special accommodations for persons with disabilities, increased.
- ▷ Meeting Owl for use in teleworking grew sales. PR activities such as TV commercials, online seminars, and corporate case studies saw enquiries from the likes of manufacturers, financial institutions, universities, and a variety of organizations, and orders grew. As the product's profile grows, multiple devices are being used for conferences between cities in an increasing number of cases, and shipment volume was solid.
- ▷ The company provides content which it sells for use in major telecommunications carriers' fixed-rate, all-you-can-use app subscription services. Products such as CHOU Blue Light SAKUGEN helped sales grow. In existing products, usage of Smart Rusuden app, a readable voicemail service, and APPLI CHOU HOUDEI, which users pay for on a monthly basis, remained solid. These services are sold by vendors of inexpensive smartphones and SIM cards.
- ▷ In other products, computer software licensed to companies saw demand for security software increase YoY due to teleworking. However, sales overall were down YoY in cumulative Q3 with the disappearance of the PC-related demand seen a year earlier in connection with the planned end of Microsoft's Windows 7 support.

Other channels

Sales through other channels include POCKETALK® sales overseas.

- ▷ Sales: JPY177mn (-15.5% YoY)
- ▷ Sales of POCKETALK® have been growing overseas, primarily via Amazon in the US and Europe. The global spread of COVID-19 during Q1 saw sales decline, but the level of sales nearly recovered to pre-pandemic levels by end-Q2. With the Thanksgiving and Christmas holiday season in Q3, individuals' online purchases on Amazon recovered gradually. The donation of 850 POCKETALK® units to medical institutions via Sourcenext Inc. was well received and the company was selected as one of "50 US Businesses That Stood Out During the Pandemic" by Newsweek magazine.
- ▷ In other regions, the company focused its promotional activities on Asia, and on Thailand in particular. It also opened a pop-up store in Malaysia, which generated strong sales especially to Japanese people stationed there.

Full-year company forecast

(JPYmn)	FY03 / 19			FY03 / 20			FY03 / 21		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.
Sales	5,743	8,968	14,711	8,683	8,599	17,282	5,788	7,212	13,000
YoY	46.5%	60.9%	54.9%	51.2%	-4.1%	17.5%	-33.3%	-16.1%	-24.8%
Cost of sales	2,262	3,267	5,529	3,333	3,570	6,903	2,327		
Gross profit	3,482	5,700	9,182	5,350	5,029	10,379	3,461		
YoY	35.6%	50.7%	44.6%	53.6%	-11.8%	13.0%	-35.3%		
GPM	60.6%	63.6%	62.4%	61.6%	58.5%	60.1%	59.8%		
SG&A expenses	3,121	5,201	8,322	5,088	4,623	9,711	3,412		
SG&A ratio	54.3%	58.0%	56.6%	58.6%	53.8%	56.2%	59.0%		
Operating profit	508	352	860	362	112	475	284	316	600
YoY	15.9%	-56.0%	-30.5%	-28.7%	-68.1%	-44.8%	-21.5%	181.1%	26.4%
OPM	8.8%	3.9%	5.8%	4.2%	1.3%	2.7%	4.9%	4.4%	4.6%
Recurring profit	516	390	906	354	184	538	243	357	600
YoY	16.0%	-52.1%	-28.1%	-31.5%	-52.8%	-40.6%	-31.4%	94.3%	11.6%
RPM	9.0%	4.3%	6.2%	4.1%	2.1%	3.1%	4.2%	5.0%	4.6%
Net income	399	217	616	197	28	225	125	291	416
YoY	21.8%	-76.8%	-51.2%	-50.6%	-87.2%	-63.5%	-36.6%	945.8%	84.9%
Net margin	6.9%	2.4%	4.2%	2.3%	0.3%	1.3%	2.2%	4.0%	3.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

This note is the most recent addition to the [full report](#).

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