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On May 12, 2021, SOURCENEXT Corporation announced earnings results for full-year FY03/21.

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	3,336		
YoY	54.3%	41.3%	59.9%	61.9%	90.5%	22.3%	-2.0%	-6.2%	-45.2%	-19.7%	-15.4%	-20.4%		
Gross profit	1,355	2,126	2,896	2,725	2,815	2,535	2,691	2,338	1,478	1,983	2,129	1,782		
YoY	37.0%	34.7%	49.8%	53.1%	107.7%	19.2%	-7.1%	-14.2%	-47.5%	-21.8%	-20.9%	-23.8%		
GPM	55.6%	64.3%	64.4%	61.0%	60.7%	62.7%	61.1%	55.8%	58.2%	61.1%	57.1%	53.4%		
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	1,737		
YoY	20.1%	4.6%	135.8%	117.9%	99.5%	33.0%	23.9%	-40.6%	-40.9%	-23.1%	-35.3%	3.6%		
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%	52.0%		
Operating profit	85	422	338	14	92	270	102	10	74	210	162	94		
YoY	35.8%	12.4%	-15.1%	-96.5%	7.8%	-36.0%	-69.9%	-26.9%	-19.3%	-22.3%	58.7%	805.4%		
OPM	3.5%	12.8%	7.5%	0.3%	2.0%	6.7%	2.3%	0.2%	2.9%	6.5%	4.3%	2.8%		
Recurring profit	85	431	352	37	85	269	154	30	53	190	127	83		
YoY	30.6%	13.6%	-12.0%	-91.1%	0.1%	-37.7%	-56.2%	-19.7%	-37.7%	-29.4%	-17.8%	180.1%		
RPM	3.5%	13.0%	7.8%	0.8%	1.8%	6.6%	3.5%	0.7%	2.1%	5.8%	3.4%	2.5%		
Net income	49	350	226	-9	56	141	67	-40	7	118	72	-5		
YoY	-42.8%	44.7%	-12.8%	-	13.1%	-59.6%	-70.1%	361.9%	-88.0%	-16.3%	6.4%	-86.1%		
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	12,851	98.9%	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%	-25.6%		-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	7,372		
YoY	37.0%	35.6%	41.7%	44.9%	107.7%	53.7%	26.1%	14.0%	-47.5%	-35.3%	-30.5%	-29.0%		
GPM	55.6%	60.6%	62.3%	61.9%	60.7%	61.6%	61.4%	60.1%	58.2%	59.8%	58.7%	57.4%		
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	7,054		
YoY	20.1%	31.6%	44.0%	62.7%	99.5%	63.0%	37.6%	16.7%	-40.9%	-32.9%	-29.8%	-27.4%		
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%	54.9%		
Operating profit	85	508	846	860	92	362	464	475	74	284	446	540	90.0%	600
YoY	35.8%	15.8%	1.1%	-30.5%	7.8%	-28.6%	-45.1%	-44.8%	-19.3%	-21.5%	-3.9%	13.8%		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%	4.2%		4.6%
Recurring profit	85	516	869	906	85	354	508	538	53	243	370	453	75.5%	600
YoY	30.6%	16.1%	2.8%	-28.1%	0.1%	-31.5%	-41.5%	-40.6%	-37.7%	-31.4%	-27.2%	-15.8%		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%	3.5%		4.6%
Net income	49	399	624	616	56	197	264	225	7	125	197	191	45.9%	416
YoY	-42.8%	21.7%	6.5%	-51.2%	13.1%	-50.6%	-57.6%	-63.5%	-88.0%	-36.6%	-25.7%	-15.0%		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%	1.5%		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	1,305
YoY	-	-	-	-	-	-	-	-	6.4%	-	-	-
Electronic mass retailers	-	-	-	-	-	-	-	-	555	1,214	1,316	1,138
YoY	-	-	-	-	-	-	-	-	-79.3%	-	-	-
Corporate sales	-	-	-	-	-	-	-	-	630	618	750	834
YoY	-	-	-	-	-	-	-	-	-7.1%	-	-	-
Other	-	-	-	-	-	-	-	-	38	67	72	60
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	5,558
YoY	-	-	-	-	-	-	-	-	6.4%	4.4%	2.5%	0
Electronic mass retailers	-	-	-	-	-	-	-	-	555	1,769	3,085	4,223
YoY	-	-	-	-	-	-	-	-	-79.3%	-62.2%	-53.4%	-1
Corporate sales	-	-	-	-	-	-	-	-	630	1,248	1,998	2,832
YoY	-	-	-	-	-	-	-	-	-7.1%	-6.9%	-5.5%	-0
Other	-	-	-	-	-	-	-	-	38	105	177	237
YoY	-	-	-	-	-	-	-	-	-11.0%	-3.1%	-15.5%	-0
[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.

Full-year FY03/21 results (out May 12, 2021)

Summary

- ▷ In FY03/21, the company reported consolidated sales of JPY12.9bn (-25.6% YoY), operating profit of JPY540mn (+13.8% YoY), recurring profit of JPY453mn (-15.8% YoY), and net income attributable to owners of the parent of JPY191mn (-15.0% YoY).
- ▷ Progress versus the full-year FY03/21 company forecast (as revised on February 10, 2021) put sales at 98.9%, operating profit 90.0%, recurring profit 75.5%, and net income 45.9%. Sales and operating profit fell just short of the company's projections. However, recurring profit came in well below plan due to weak sales of IoT products at an equity-method affiliate in China in the face of the prolonged impact of the COVID-19 pandemic, resulting in an equity-method investment loss of JPY87mn. Net income attributable to owners of the parent was even further below plan, affected by JPY35mn in expenses for structural reform at a subsidiary.
- ▷ Sales down 25.6% YoY: Demand for the company's POCKETALK® AI translation device declined sharply on lower in-store sales and lower sales to travelers overseas amid the pandemic. Meanwhile, sales of software and hardware used in teleworking were firm. The company also boosted its sales base by expanding its lineup of PC software for teleworkers, increasing the number of locations products are sold, and enhancing promotional efforts. The decline in sales of POCKETALK® was offset to some extent by product launches and expansion of existing product lines.
- ▷ Operating profit up 13.8% YoY: The gross profit margin declined 2.7pp YoY to 57.4%. Adjusted for product return provisions/reversals, GPM was up 0.2pp YoY to 59.1%. The SG&A expense ratio fell 1.3pp YoY to 54.9% as the company took effective measures to reduce SG&A expenses based on the scope and impact of its sales activities and significantly curtailed advertising and sales promotion expenses for POCKETALK®. As a result, OPM increased 1.5pp YoY to 4.2%.
- ▷ Annual dividend: Since net income attributable to owners of the parent came in below plan, the company lowered the annual dividend from the initially planned JPY0.46 per share to JPY0.21 per share (versus JPY0.25 in FY03/20).

External environment

- ▷ The April 2021 report from the Japan Electronics and Information Technology Industries Association showed PC shipments up 127.5% YoY in the April 2020–March 2021 period.
- ▷ Due in part to ongoing restrictions on international travel for tourism, there were just 12,300 foreign visitors to Japan in March 2021 (-93.6% YoY; data from April 2021 research by Japan National Tourism Organization).

Results by sales channel

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. Results by sales channel were as follows.

E-commerce (SOURCENEXT online store)

Sales were JPY5.6bn (+0.7% YoY). The company operates the SOURCENEXT eSHOP as part of its own website. The eSHOP sells POCKETALK®, software, and IoT hardware.

The tablet mimi AI audio transcription device was unveiled in November 2020, when the company started taking pre-orders. Together with its sister product, POCKETALK® mimi, the company is developing a mimi series. It worked to improve product recognition through a special loyalty point plan and the creation of a dedicated page at the SOURCENEXT online store.

The company updated the Molekule brand website and worked to make it easier to understand the functions of each product, including new additions to the product lineup. Meeting Owl and AutoMemo™ also performed well, and the addition of functions

such as online conference recording boosted earnings. To compensate for the decline in demand for POCKETALK®, the company implemented various measures for the product lineup, even starting a service to help customers move from the original POCKETALK® to the W, S, and S Plus models.

Sales of PC software grew on increased demand related to teleworking and people spending more time at home due to the pandemic, underpinned both by existing products and new products such as XSplit VCam, which allows users to change their on-camera background image.

As a result of these efforts, the company managed to keep e-commerce sales overall at about the same level YoY, even though the other sales channels all experienced declines in sales.

Electronics mass retailers

Sales were JPY4.2bn (-50.6% YoY). This sales channel consists primarily of major nationwide electronics retailer chains that sell IoT products, PC software, and other products to individual users.

While demand for POCKETALK® declined YoY, the company began using “Learn English with POCKETALK®” displays to promote the device’s appeal as a language learning tool.

The newly launched tablet mimi was sold at electronics mass retailers nationwide, and at Aigan, an eyewear retailer, as the company develops new sales channels.

The company expanded its display of demonstration models of AutoMemo™ at mass retailers. For Meeting Owl, the company enhanced in-store sales efforts by installing products on a trial basis and promoting the results of such installation, leading to increased 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-store sales faced a somewhat tough environment as extraordinary demand associated with the switchover to the Reiwa imperial period in FY03/20 dropped out of the equation, but the company worked to secure adequate sales space during the New Year season and get the products displayed in more stores.

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

Sales were JPY2.8bn (-3.9% YoY). 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.

Although there was less demand for new or rental POCKETALK® devices from companies, demand from non-Japanese residents was robust. The company worked to develop new customers for tablet mimi and POCKETALK® mimi, which were adopted by more than 20 nursing care facilities and companies with special accommodations for persons with disabilities.

Sales of Meeting Owl for use in teleworking grew owed to an increase in orders from major companies.

The company provides content which it sells for use in major telecommunications carriers’ fixed-rate, all-you-can-use app subscription services. Increases in member counts at some carriers helped sales grow. In existing products, usage of Smart Rusuden app, a readable voicemail service, and APPLI CHOU HOUDAI, 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 FY03/21 with the falloff of the PC-related demand seen a year earlier in connection with the planned end of Microsoft's Windows 7 support.

Other channels

Sales were JPY237mn (-7.1% YoY). Sales through other channels include POCKETALK® sales overseas.

Sales of POCKETALK® have been growing overseas, primarily via Amazon in the US and Europe. The global spread of COVID-19 caused sales to decline, but 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 Q4, consumer spending on Amazon remained robust even after the holiday season ended. Sales via Amazon grew rapidly to post a 2.6x increase YoY in the quarter and a whopping 9.3x increase YoY in March alone. 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)	FY03/20			FY03/21			FY03/22		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.
Sales	8,683	8,599	17,282	5,788	7,063	12,851	6,850	9,967	16,817
YoY	51.2%	-4.1%	17.5%	-33.3%	-17.9%	-25.6%	18.3%	41.1%	30.9%
Cost of sales	3,333	3,570	6,903	2,327	3,152	5,479			
Gross profit	5,350	5,029	10,379	3,461	3,911	7,372			
YoY	53.6%	-11.8%	13.0%	-35.3%	-22.2%	-29.0%			
GPM	61.6%	58.5%	60.1%	59.8%	55.4%	57.4%			
SG&A expenses	5,088	4,623	9,711	3,412	3,642	7,054			
SG&A ratio	58.6%	53.8%	56.2%	59.0%	51.6%	54.9%			
Operating profit	362	112	475	284	256	540	46	532	578
YoY	-28.7%	-68.1%	-44.8%	-21.5%	127.9%	13.8%	-83.8%	107.8%	7.0%
OPM	4.2%	1.3%	2.7%	4.9%	3.6%	4.2%	0.7%	5.3%	3.4%
Recurring profit	354	184	538	243	210	453	0	550	550
YoY	-31.5%	-52.8%	-40.6%	-31.4%	14.2%	-15.8%	-100.0%	161.8%	21.5%
RPM	4.1%	2.1%	3.1%	4.2%	3.0%	3.5%	0.0%	5.5%	3.3%
Net income	197	28	225	125	66	191	0	376	376
YoY	-50.6%	-87.2%	-63.5%	-36.6%	137.8%	-15.0%	-100.0%	468.2%	96.8%
Net margin	2.3%	0.3%	1.3%	2.2%	0.9%	1.5%	0.0%	3.8%	2.2%

Source: Shared Research based on company data

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

FY03/22 company forecast

Summary

For FY03/22, the company forecast calls for consolidated sales of JPY16.8bn (+30.9% YoY), operating profit of JPY578mn (+7.0% YoY), recurring profit of JPY550mn (+21.5% YoY), and net income of JPY376mn (+96.8% YoY). The company expects to pay an annual dividend of JPY0.41 per share versus JPY0.21 in FY03/21.

Initiatives

The decline in POCKETALK® sales continues due to the drop in inbound demand triggered by the pandemic. However, in addition to new products in the IoT lineup, including the mimi series and AutoMemo™, the company will strengthen its proposals of high-value-added PC software and, in light of the Japanese government's recommendation that companies use teleworking wherever possible, will continue to introduce telework-related products such as Meeting Owl. It will also endeavor to expand its sales channels, especially the e-commerce (SOURCENEXT online store) and B2B channels.

In the software business, in anticipation that teleworking demand will continue for some time, the company plans to expand sales by searching out new products to supplement its lineup of existing mainstay products.

SOURCENEXT aims to continue effectively reducing SG&A expenses by looking carefully at the scope and impact of its sales activities.

The company is pushing for product diversification by providing telework-related software and hardware services in a timely manner, making telework-related products an earnings pillar alongside software and POCKETALK®. This will allow the company to build a solid management base that can withstand drastic changes in the operating environment.

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

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