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Cacco Inc. | Stock Code: 4166

August 13, 2021



Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2021

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Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2021



Financial Results for FY2021 2Q / Highlights of Business Results



Fraud detection services, the core of our business, steadily grew by 19.6% YoY.

Total net sales grew by 7.7% YoY.

The EC market remained firm due to the steady shift of consumers to EC, although the effect of the special demand that people stay at home due to the emergency declaration in 1Q has subsided. Sales of fraud detection services for the cumulative period through FY2021 2Q steadily grew 19.6% YoY. Total net sales amounted to 450 million yen, up 7.7% YoY.

Progress toward the FY2021 full-year forecasts reached 60% at each stage of profit

An increase in selling, general and administrative expenses, mainly due to higher HR expenses associated with increased hiring, was outweighed by the increase in gross profit caused by the increase in sales. As a result, the progress at each stage of profit toward the FY2021 full-year forecasts is 61.3% for operating income, 60.5% for ordinary income, and 60.3% for net income.

(Unit: million yen)

	FY2020 2Q cumulative	FY2021 2Q cumulative	YoY	FY2021 forecast	Progress %
Net sales	418	450	+7.7%	909	49.5%
(Net sales of fraud detection services)	317	380	+19.6%	755	50.3%
Operating income	91	94	+3.7%	154	61.3%
(Operating profit margin)	21.8%	21.0%	-0.8 pt	17.0%	-
Ordinary income	88	90	+2.6%	149	60.5%
(Ordinary profit margin)	21.0%	20.0%	-1.0 pt	16.4%	-
Net income	97	61	-36.8%	102	60.3%

Financial Results for FY2021 2Q / Net Sales Trends

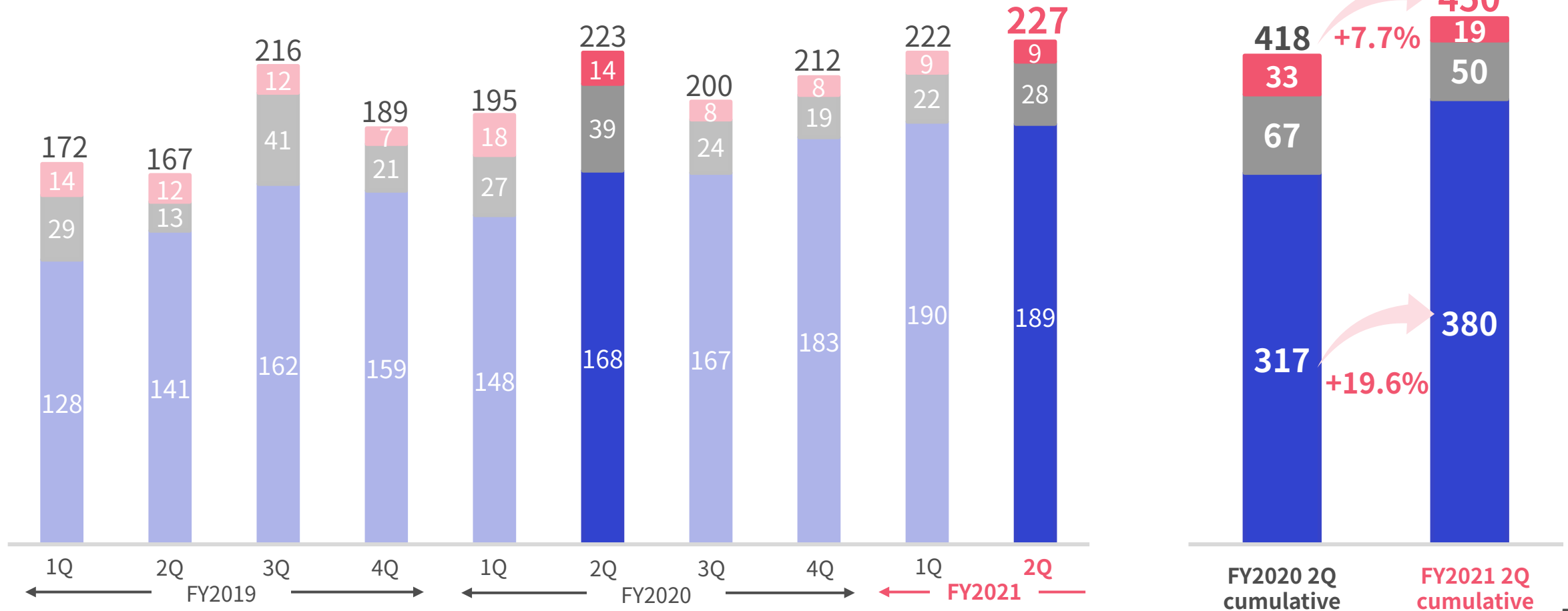


Our core fraud detection services **increased by 19.6% YoY**, showing solid growth.
Total net sales **increased by 7.7% YoY**.

Net Sales Trends

(Unit: million yen)

■ Fraud Detection Services ■ Payment Consulting Services ■ Data Science Services



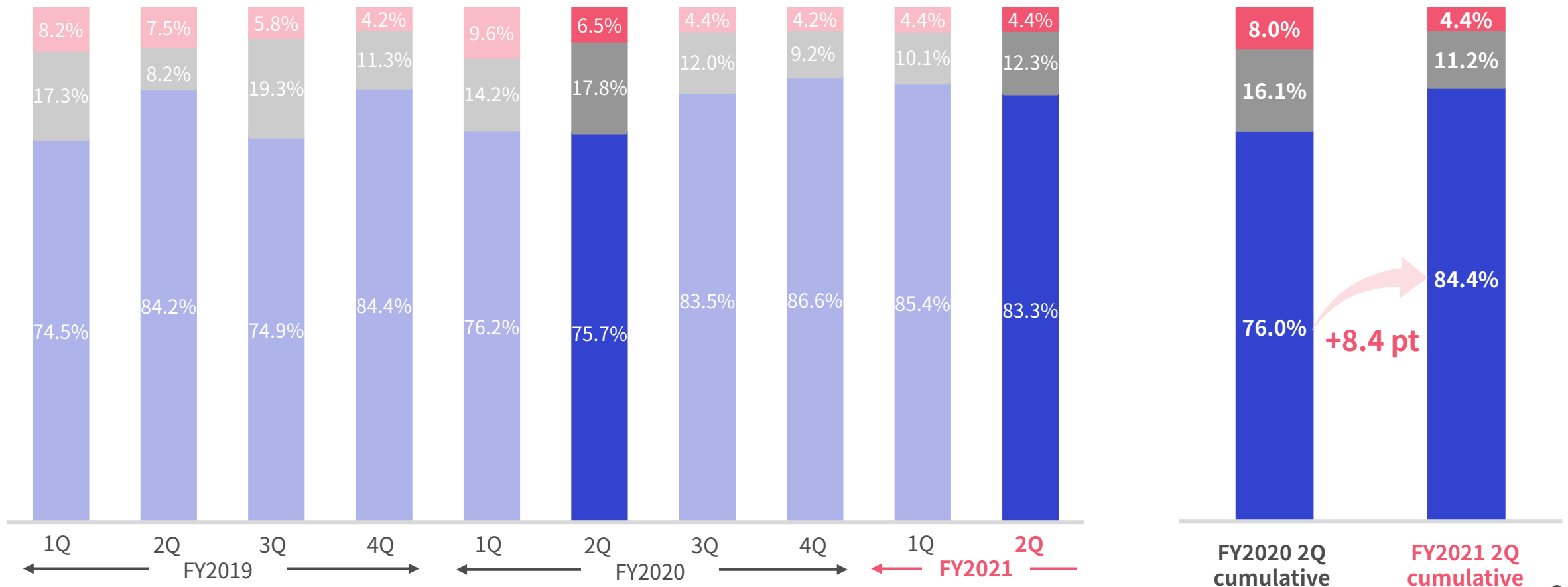
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Financial Results for FY2021 2Q / Sales Composition Trends by Service

The sales composition of our core fraud detection services expanded to **84.4%** (+8.4 pt YoY).

Sales Composition Trends by Service

■ Fraud Detection Services ■ Payment Consulting Services ■ Data Science Services

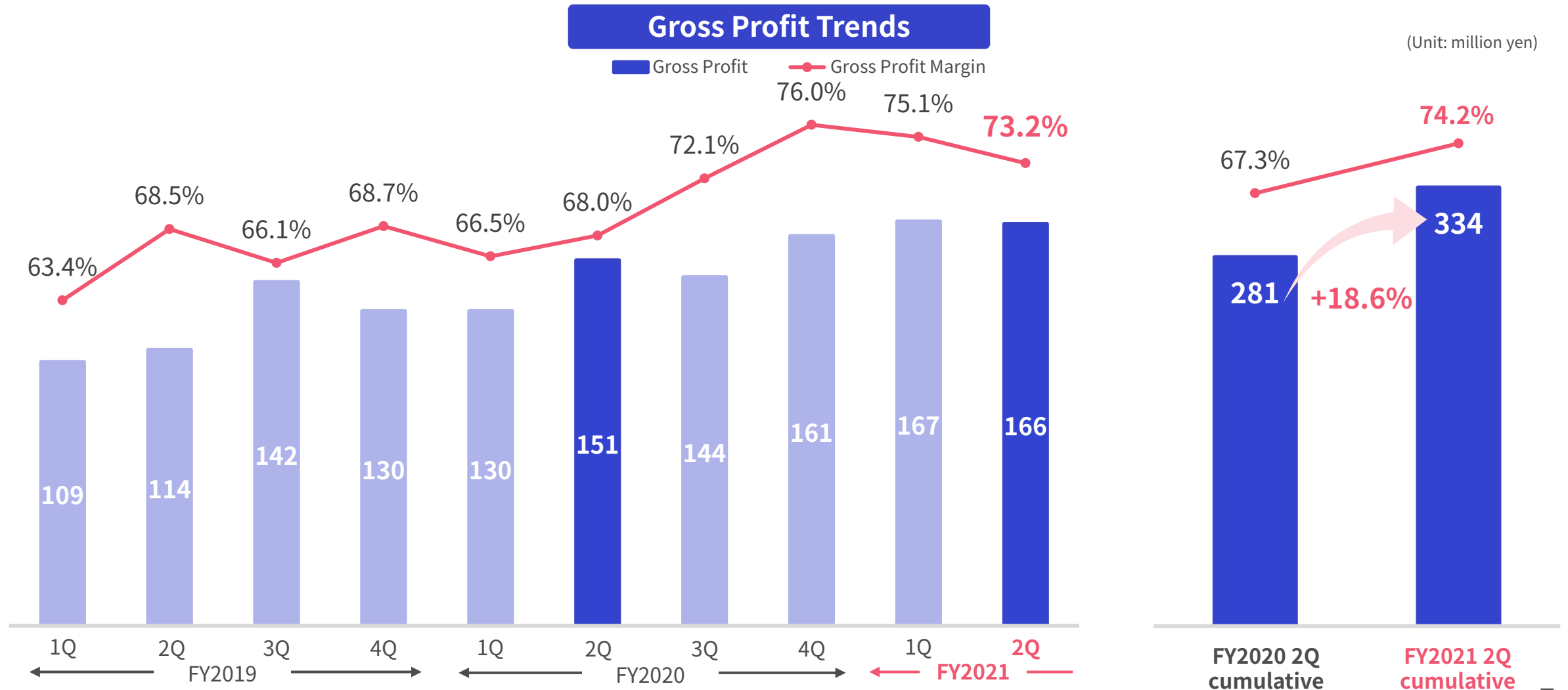


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Financial Results for FY2021 2Q / Gross Profit Trends



Gross profit **increased 18.6% YoY**. Gross profit margin expanded to **74.2%** (+6.8 pt YoY).



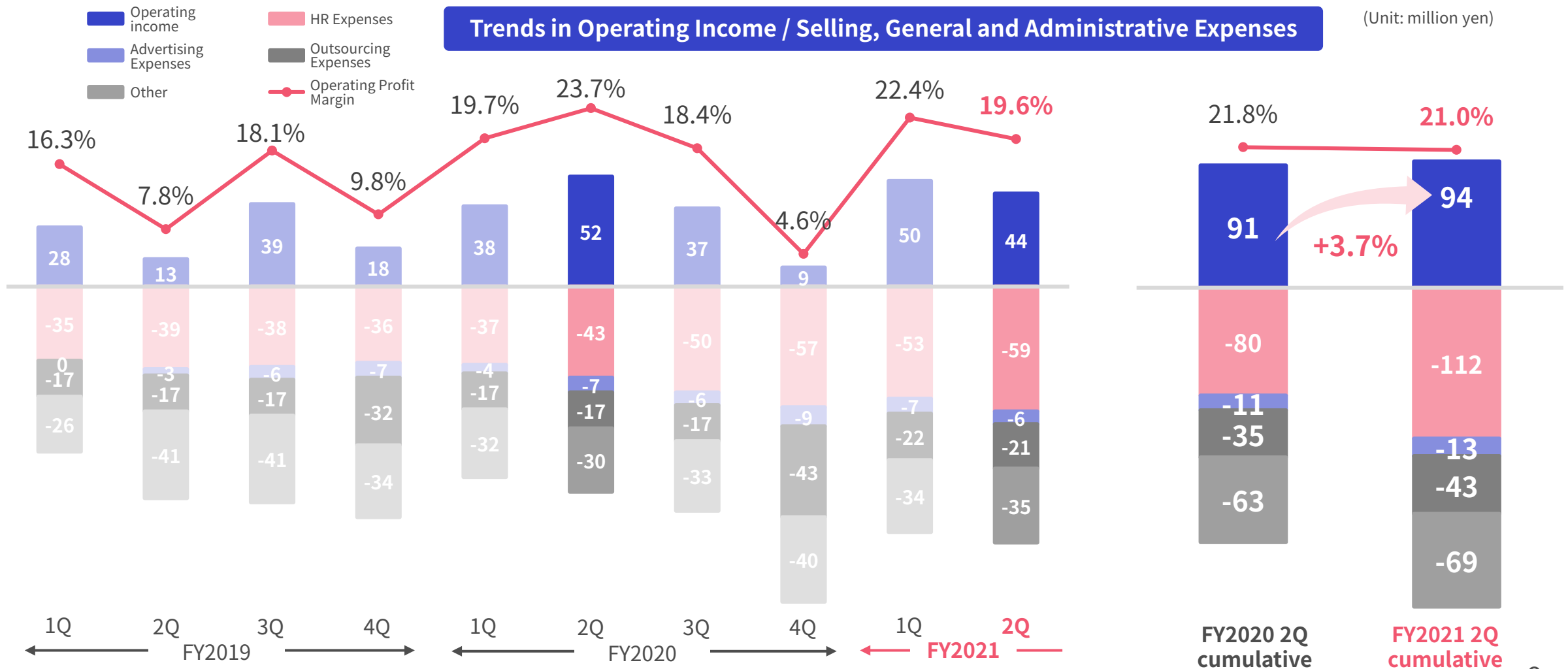
Financial Results for FY2021 2Q / Trends in Operating Income and Selling, General and Administrative Expenses



An increase in selling, general and administrative expenses, mainly due to higher HR expenses associated with increased hiring was outweighed by the increase in gross profit caused by the increase in sales, resulting in operating income increasing **3.7% YoY**.

Trends in Operating Income / Selling, General and Administrative Expenses

(Unit: million yen)



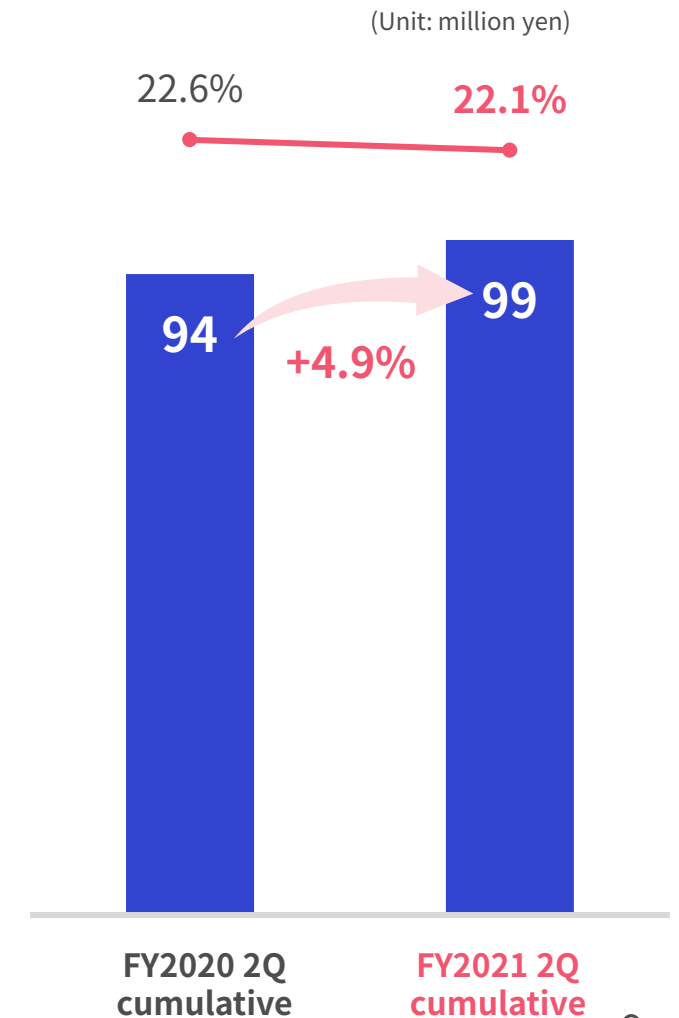
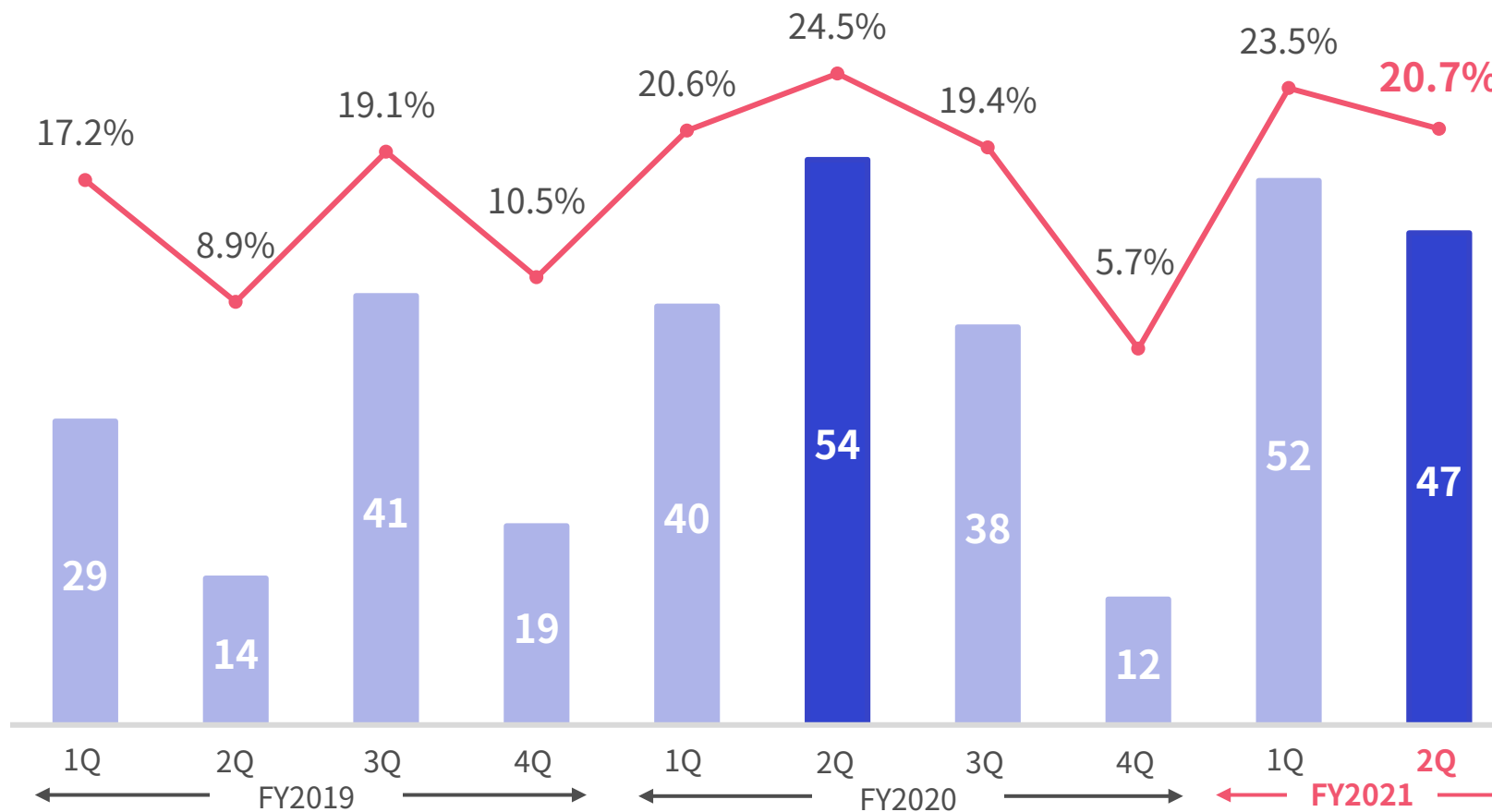
Financial Results for FY2021 2Q / EBITDA Trends



EBITDA **increased 4.9% YoY.**

EBITDA Trends

■ EBITDA ● EBITDA Margin



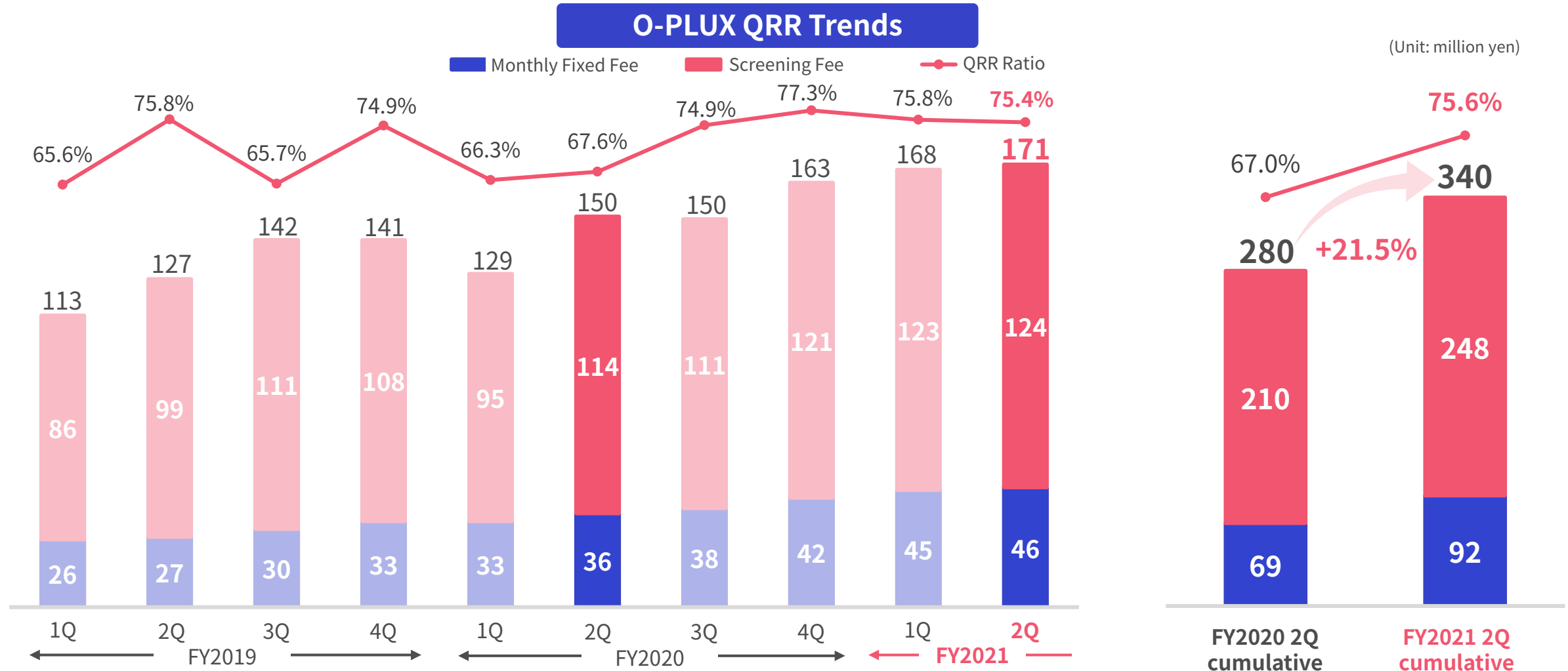
* EBITDA = Operating income + Depreciation and amortization

* EBITDA Margin = EBITDA / Net sales

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Financial Results for FY2021 2Q / Recurring Revenue Trend of O-PLUX

QRR (Quarterly Recurring Revenue) for O-PLUX **increased 21.5% YoY**. QRR Ratio grew to **75.6%** (+8.6 pt YoY), and O-PLUX maintained steady growth.



* QRR = fixed monthly fee + screening fee based on the number of screenings (does not include spot revenue such as initial installation fee)

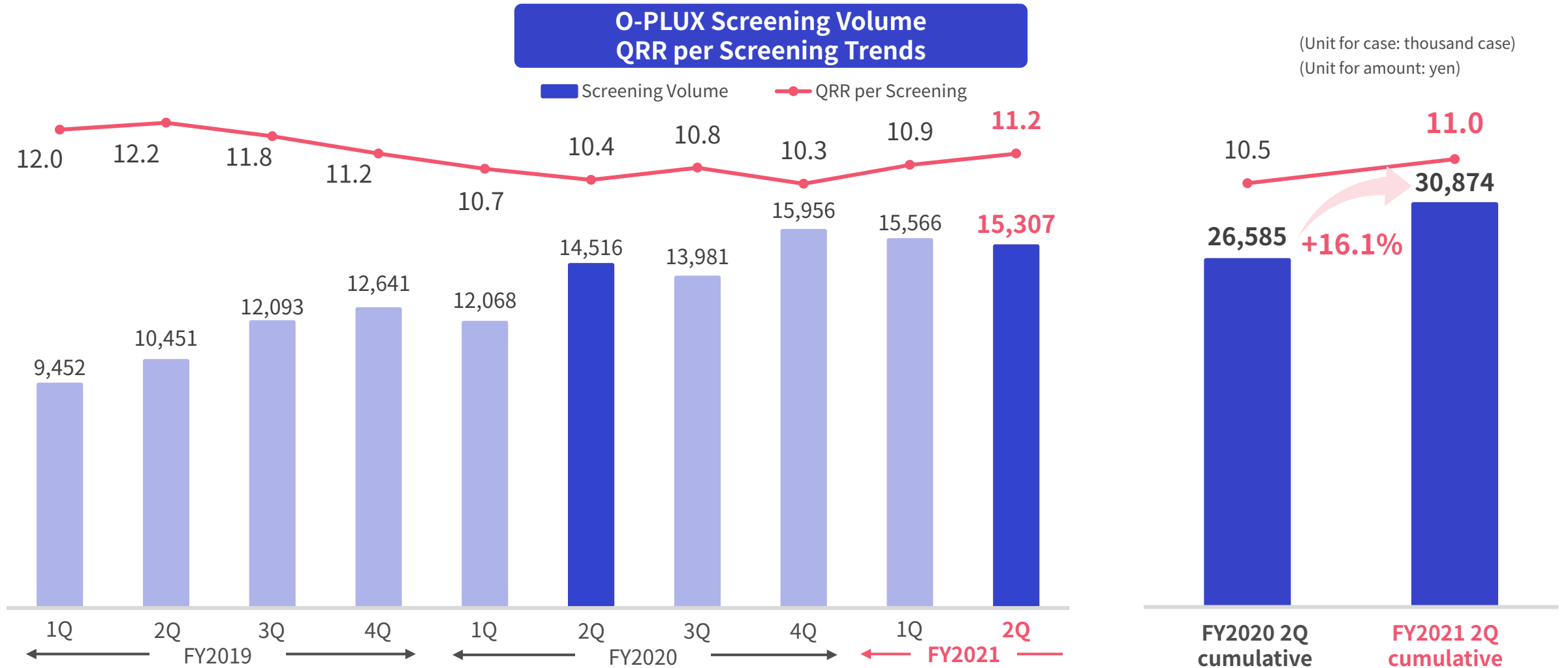
* QRR Ratio = QRR / Net sales (total of all services)

* Spot revenue = Revenue other than QRR

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Financial Results for FY2021 2Q / Screening Volume Trends of O-PLUX

Screening volume of O-PLUX **increased 16.1% YoY**.



* QRR = fixed monthly fee + screening fee based on the number of screenings (does not include spot revenue such as initial installation fee)

* QRR Ratio = QRR / Net sales (total of all services)

* Spot revenue = Revenue other than QRR

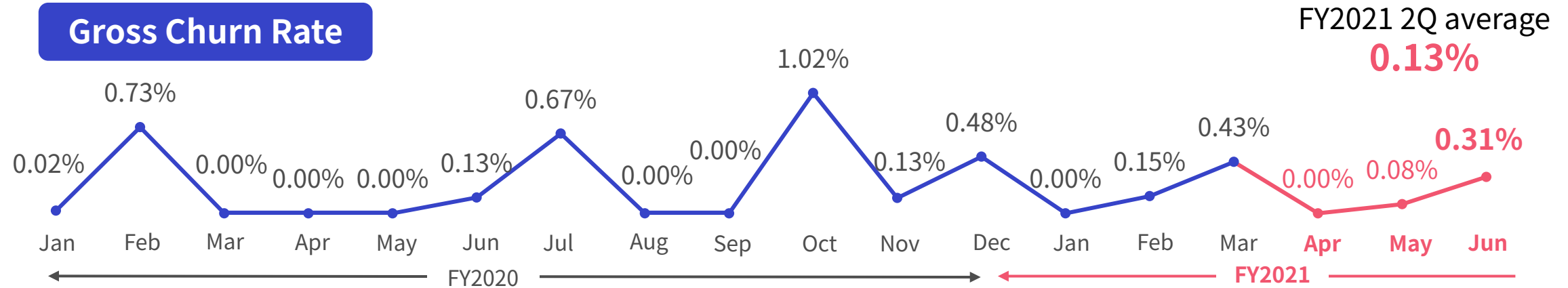
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Financial Results for FY2021 2Q / Monthly Churn Rate for O-PLUX



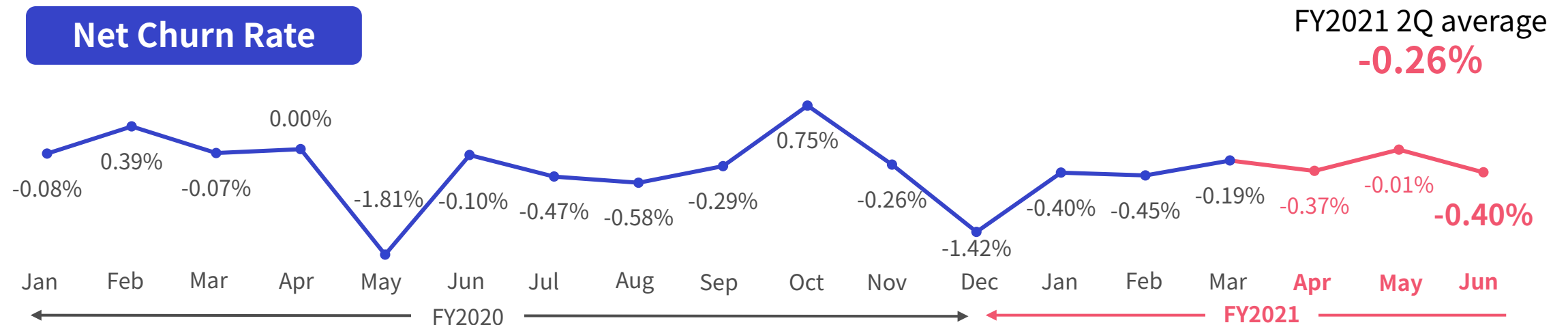
The monthly churn rate of O-PLUX has remained low, generating **constant negative churn**.

Gross Churn Rate



* Gross churn rate = annual average of MRR from the clients who churned the current month / MRR at the beginning of the current month

Net Churn Rate



* Net churn rate = (annual average of MRR from the clients who churned the current month – MRR from new contracts for current month) / MRR at the beginning of the current month

Financial Results for FY2021 2Q / Balance Sheet



(Unit: million yen)

	FY2021 (1Q)	FY2021 (2Q)	Change	Main Drivers
Current assets	1,229	848	-31.0%	Decrease in cash and deposits
(Cash and deposits)	1,107	740	-33.1%	Repayment of borrowings
Non-current assets	440	469	+6.6%	Increase in software in progress
Total assets	1,669	1,317	-21.1%	
Current liabilities	289	101	-65.0%	Decrease in borrowings and decrease in accounts payable – other
Non-current liabilities	198	3	-98.0%	Decrease in borrowings
Net assets	1,182	1,212	+2.6%	Recording of quarterly net income
Capital ratio	70.6%	91.8%	+21.2 pt	

Forecast Financial Results of the Fiscal Year Ending December 31, 2021



Forecast of Financial Results for FY2021 / Summary



(Unit: million yen)

Net sales +9.4% YoY

- Fraud detection services are expected to grow by 12.9% YoY due to the expanding sales of O-PLUX and O-MOTION.
- Sales of payment consulting services are expected to decrease by 7.1% YoY due to a decrease in system development projects, and sales of data science services are expected to be at the same level as the previous year.

Ordinary profit +29.3% YoY

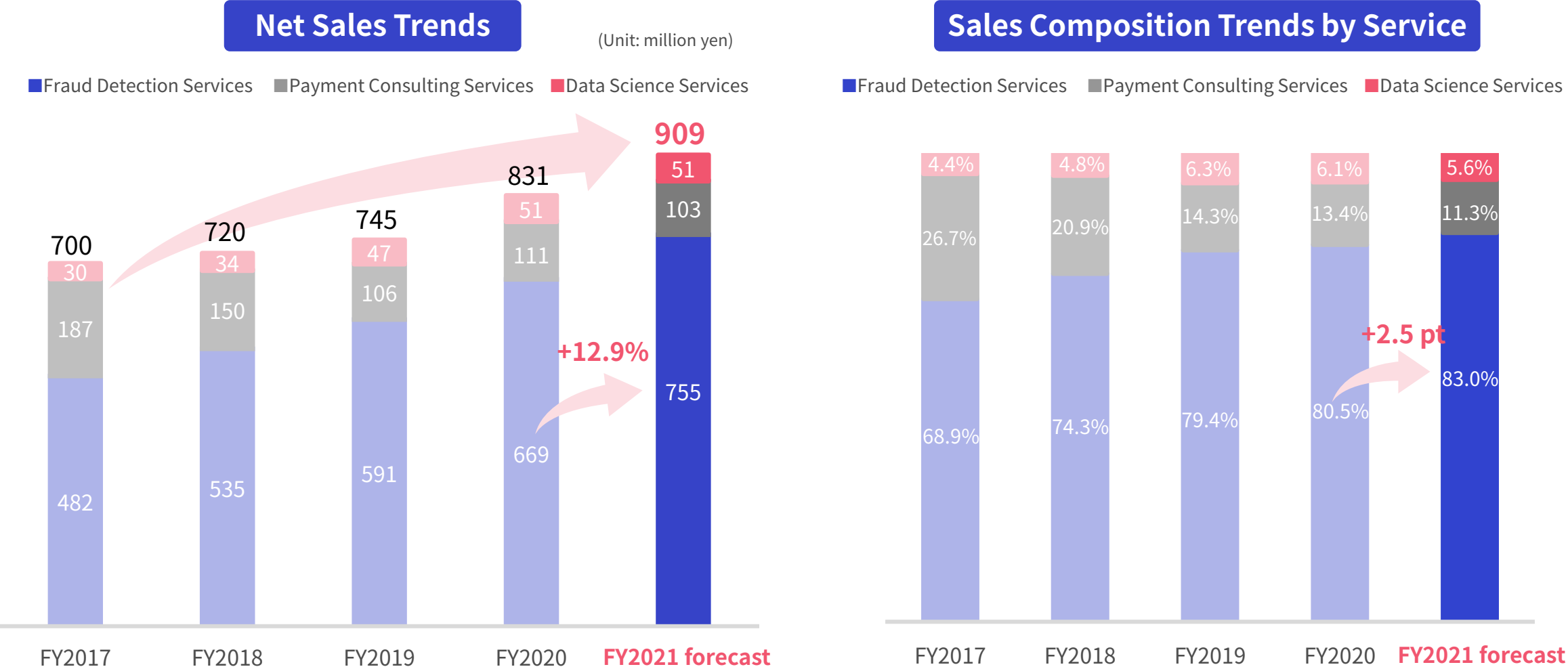
- Operating income is expected to grow by 11.8% YoY, and ordinary profit is expected to grow by 29.3% YoY, as listing-related expenses recorded in FY2020 will not be incurred in FY2021.
- Net income is expected to decrease due to an increase in income taxes – deferred (tax expenses) resulting from a decrease in deferred tax assets.

	FY2020 (Actual)	FY2021 (Forecast)	YoY
Net sales	831	909	+9.4%
(Net sales of fraud detection services)	669	755	+12.9%
Operating income	138	154	+11.8%
(Operating profit margin)	16.6%	17.0%	+3.4 pt
Ordinary income	115	149	+29.3%
(Ordinary profit margin)	13.9%	16.4%	+2.5 pt
Net income	130	102	-21.3%
EPS (yen)	55.37	39.05	-

Forecast of Financial Results for FY2021 / Trends in Net Sales and Sales Composition by Service

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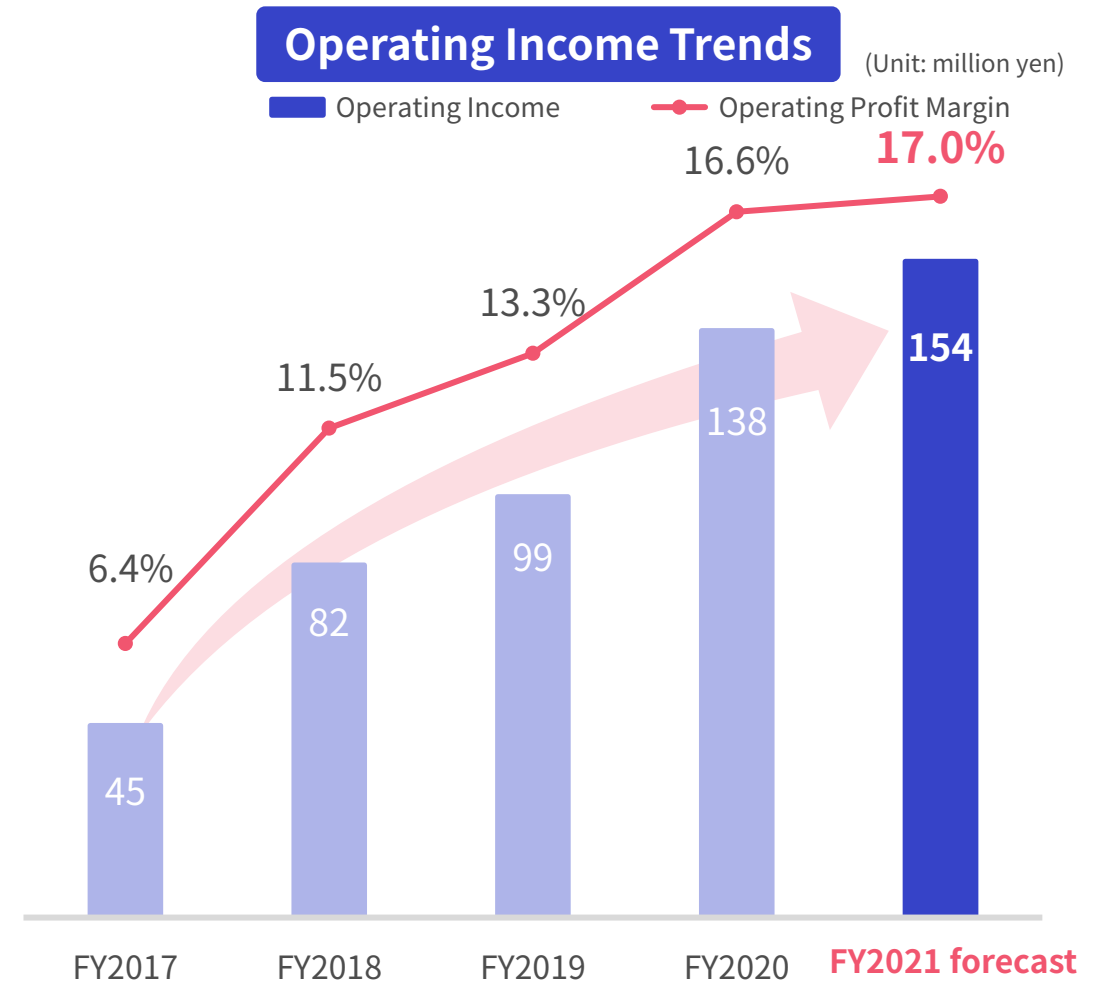
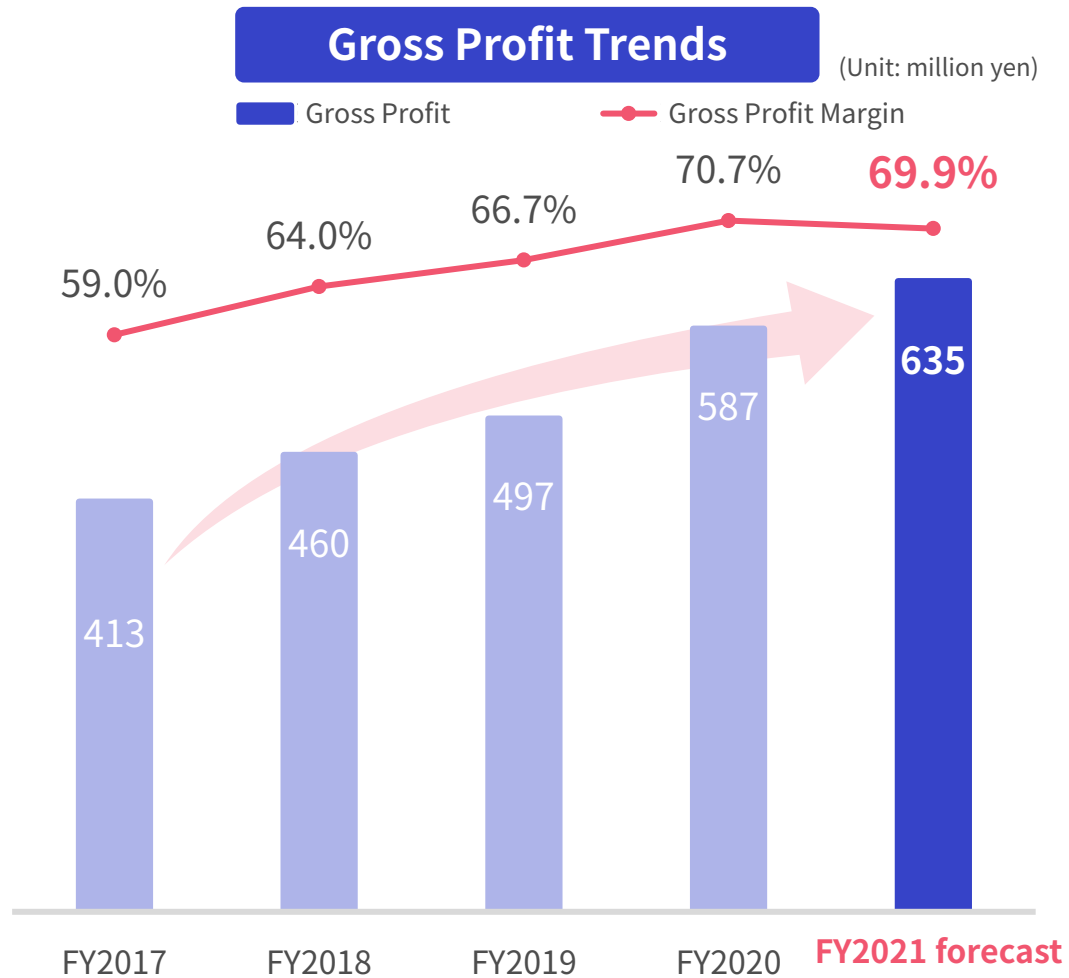
Our core fraud detection services are expected to increase by **12.9%** YoY and to account for **83.0%** of total sales.



Forecast of Financial Results for FY2021 / Trends in Gross Profit and Operating Income



Although the gross profit margin is expected to decline slightly due to an increase in depreciation expenses related to software (O-PLUX architecture renewal and SaaS-type BNPL settlement system), the operating profit margin is expected to increase steadily.



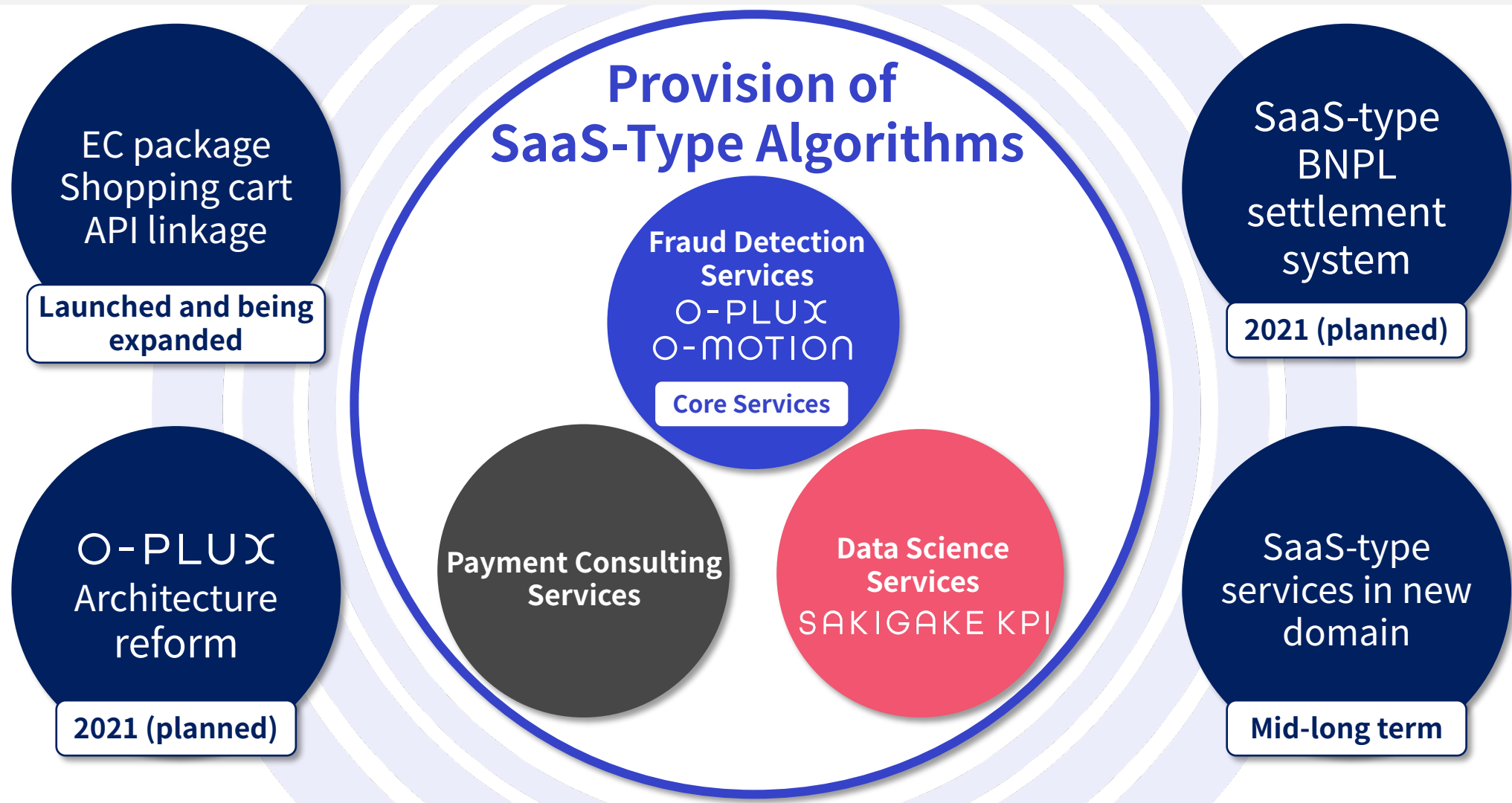
Growth Strategies



Growth Strategies / Four Strategies for Business Expansion



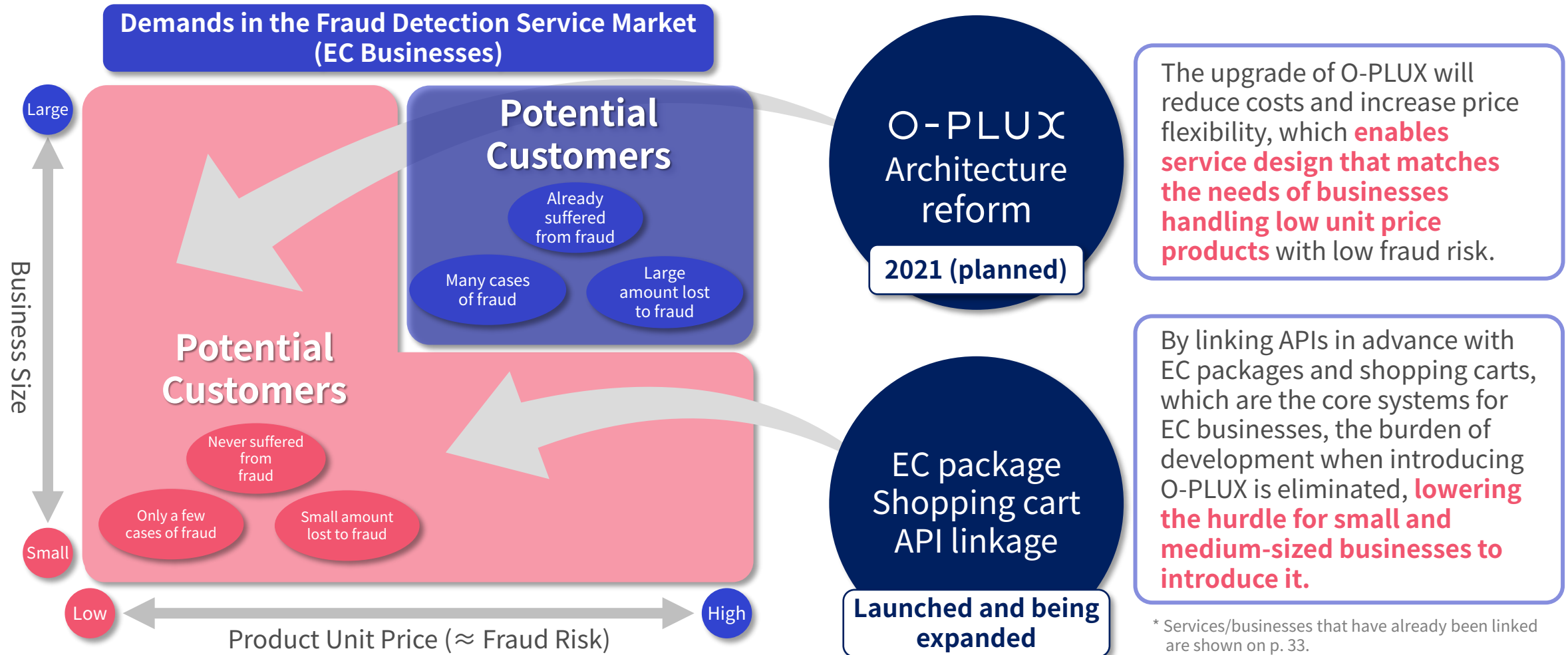
Through the four growth strategies, we will accelerate business expansion with a focus on fraud detection services and **create our own market**.



Growth Strategies / Approaching Potential Customers for O-PLUX



We expect to see the emergence of potential customers due to the growing social problem of damage caused by fraud and the further strengthening of laws and regulations. Therefore, we will work to acquire such customers by promoting the architecture reform and API integration of O-PLUX.



Growth Strategies / Expanding the Use of O-PLUX through a SaaS-Type BNPL Settlement System

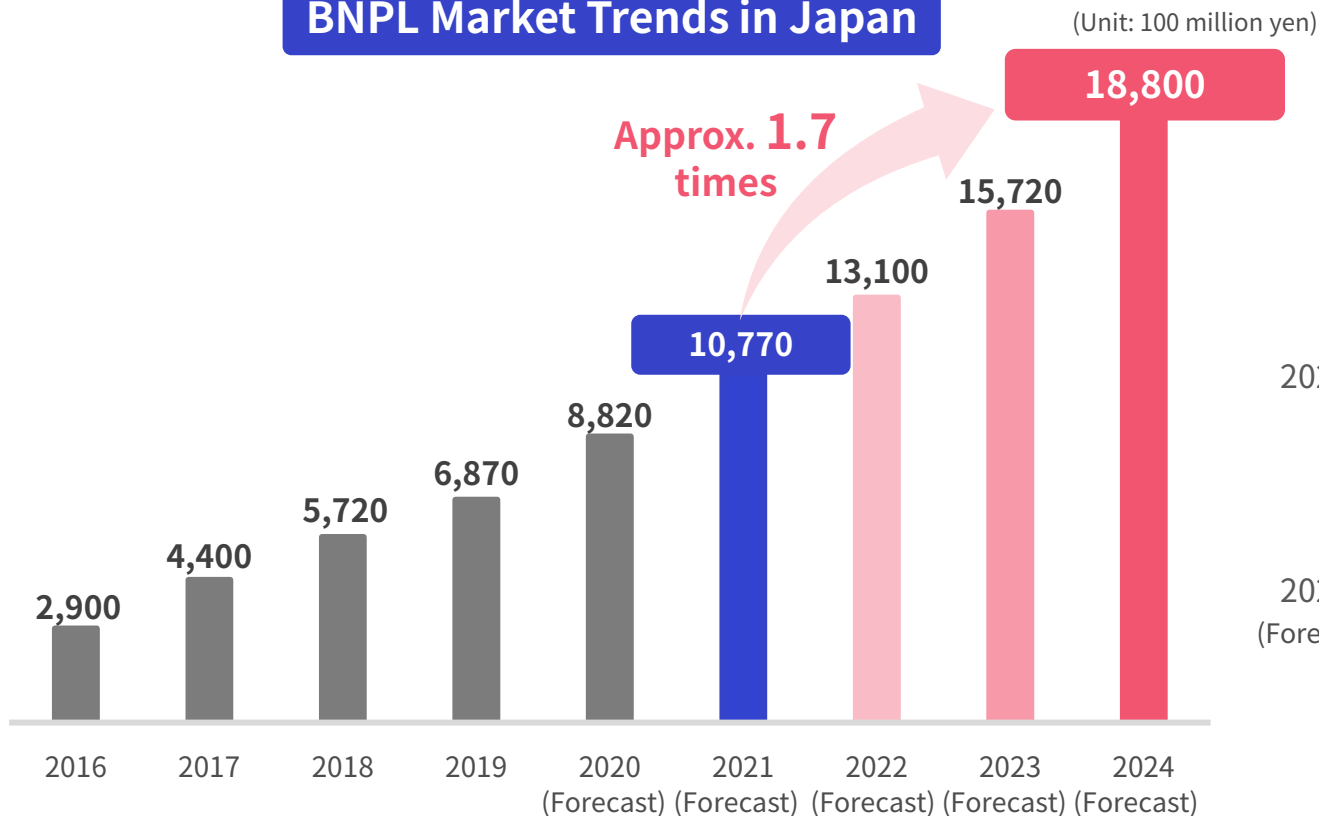


SaaS-Type BNPL Settlement System

FY2021 (Planned)

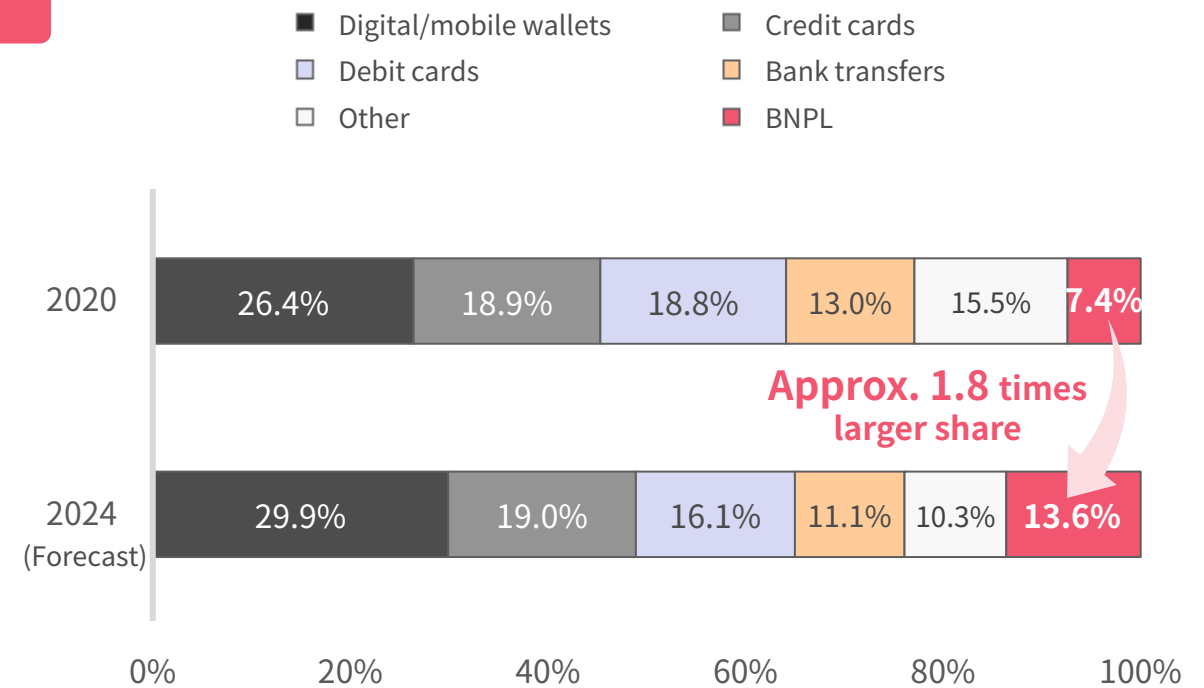
By providing a SaaS-type settlement system that can be implemented without a largescale development, we will support the growth of the BNPL (Buy Now, Pay Later) market seen both in Japan and overseas and expand the use of O-PLUX.

BNPL Market Trends in Japan



Source: Yano Research Institute, "Current Status and Future Forecast of Online Payment Service Providers, 2020 Edition"

Forecast of BNPL Usage Rate in North America



Source: Worldpay, "Global Payment Report 2021"

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Growth Strategies / Building SaaS-type Services in New Domains



SaaS-type services in new domain

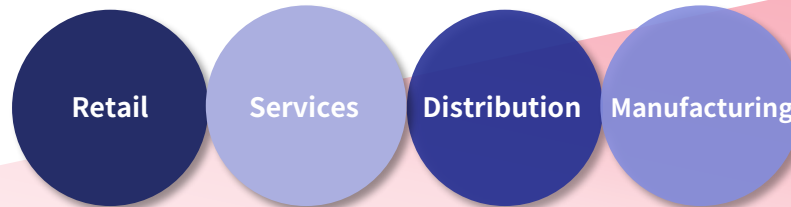
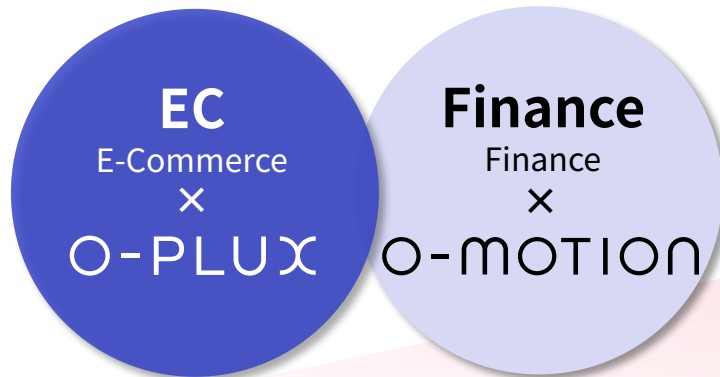
Mid-long term

Build SaaS-type services in new domains based on our data science services and by expanding existing domains while accumulating knowledge.

Current Core Domains

Domains Being Cultivated

New Domains for the Future



Fraud Detection Services

SaaS-Type Services for Existing Domains

Payment Consulting Services

SaaS-Type Services for New Domains

Data Science Services

Growth Strategies / Global Expansion Starting with Southeast Asia



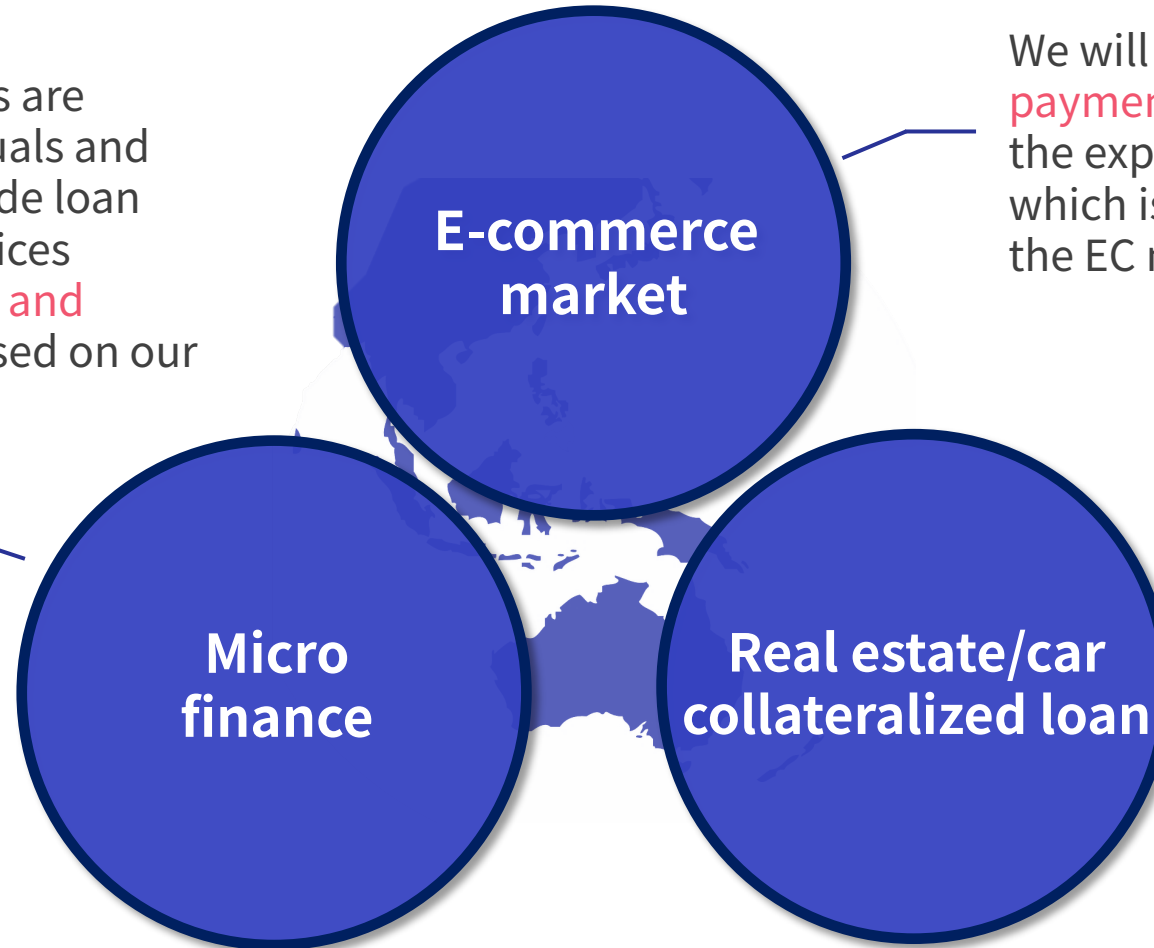
SaaS-type
services in new
domain

Mid-long term

Overseas

Considering entering the following three markets in Southeast Asia.

As the demands for funds are growing for both individuals and companies, we will provide loan screening and other services utilizing our **data science and security technologies** based on our fraud detection services.



We will bring in our **fraud detection and payment consulting services** to help with the expansion of credit transactions, which is essential for the development of the EC market in Southeast Asia.

Using our **data science technology**, we will develop and provide algorithms for value assessment and risk calculation for various types of **collateralized loans**.

Appendix



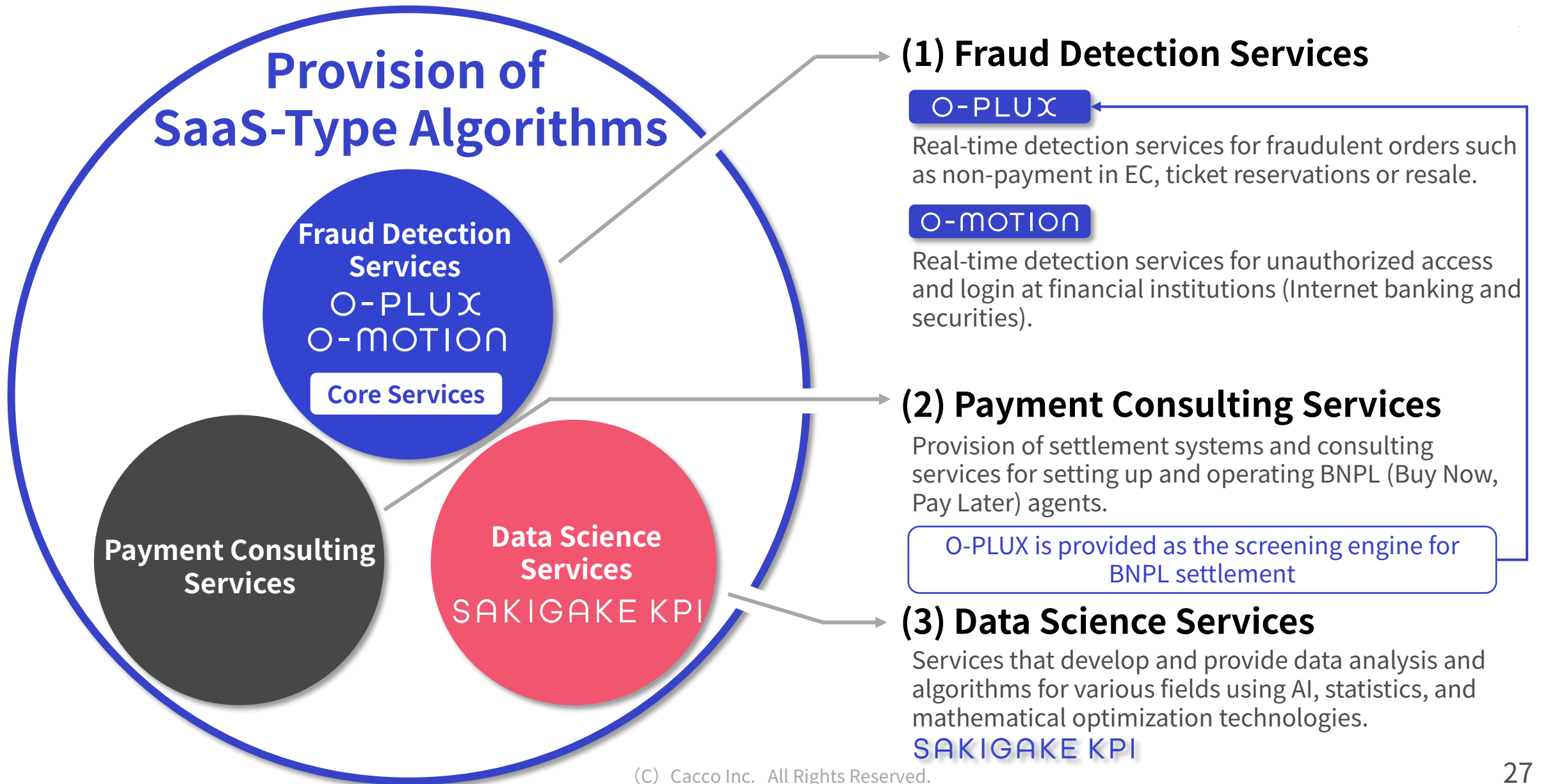
Cacco Evolutionary Purpose

Shaping the “Let’s Do It” for a next game changer

Since its foundation, the “**Cacco Evolutionary Purpose**” has been the driving force for everything we do. In this changing world with the spread of the Internet and smart phones, businesses will not survive if they just remain as they are. If we don’t push for a change, we will not be able to create new industries; we want to break through the growth slowdown that has been persisting since 2000. It is a strong faith that moves Cacco to support the innovation of people and companies who will become game changers of the future.



Company Name:	Cacco Inc.
Representative:	Hiroyuki Iwai, Representative Director, President and CEO
Business Description:	Provision of SaaS-Type Algorithms (Fraud detection services, payment consulting services, and data science services)
Share Capital:	363,178,556 yen * As of June 30, 2021
Listed on:	Tokyo Stock Exchange, Mothers Market (Stock Code: 4166)
Founded on:	January 28, 2011
Address/TEL:	1-5-31, Motoakasaka, Minato-ku, Tokyo, JAPAN TEL: 03-6447-4534
Patents:	Patent #6534255, #6534256 and #6860156
Certifications:	ISMS (Information Security Management System) ISO/IEC 27001:2013 JIS Q 27001:2014 Registration number: IA120255 Privacy Mark® #10824248 (04)



1

Expertise in data science and advanced technical capabilities in the security domain

(Three patents obtained: Patent #6534255, Patent #6534256 and Patent #6860156)

2

Top selling services in the EC and payment domains in Japan

(Based on “Survey on the number of EC sites in Japan introducing paid fraud detection services” (as of the end of May 2021) performed by TOKYO SHOKO RESEARCH, LTD.)

3

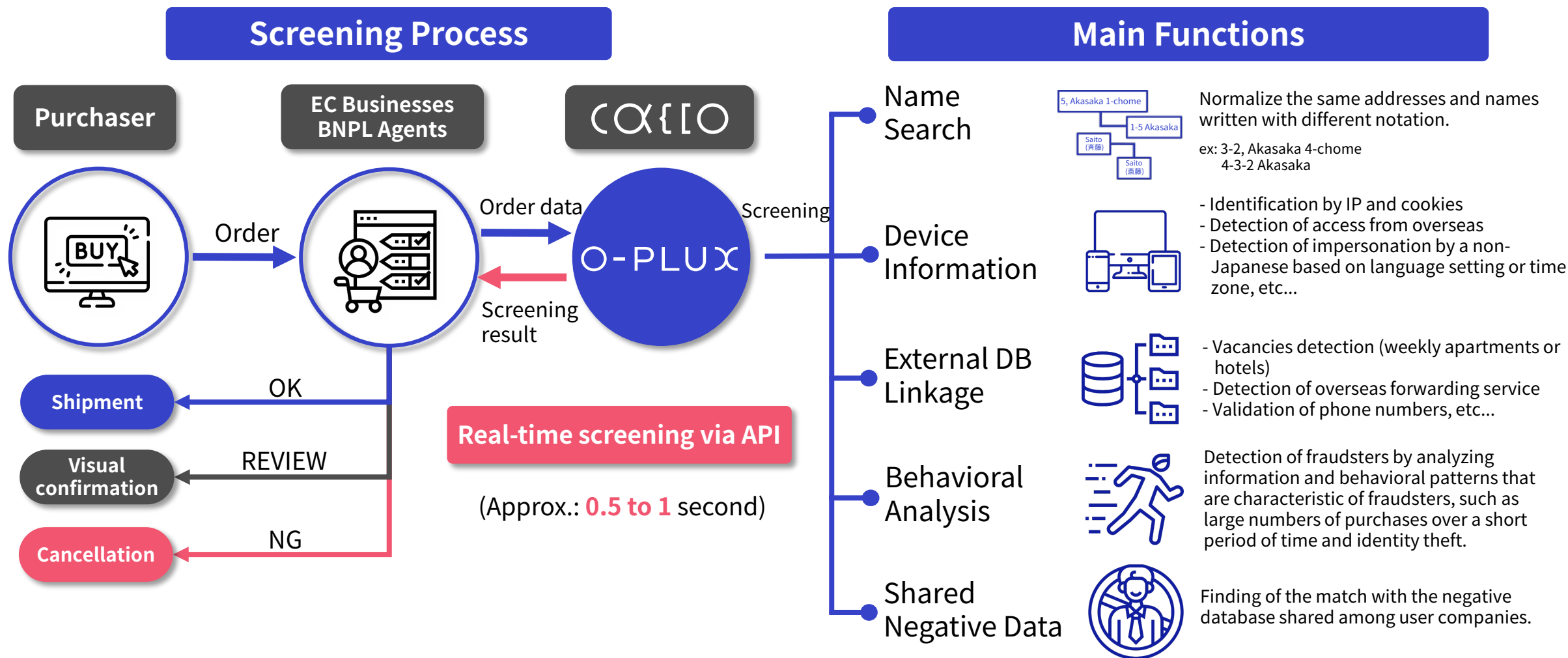
Steady growth in Recurring Revenue driven by increasing users for our mainstay product O-PLUX

(**Recurring Revenue from this product accounted for 75.6% (+8.6 pt YoY)** of total net sales in FY2021 2Q cumulative)

Appendix / O-PLUX Fraudulent Order Detection Services | Overview



SaaS-type services that use a unique screening model to detect fraudulent orders in real time such as nonpayments in EC.



Appendix / O-PLUX Fraudulent Order Detection Services | Corporate Clients



O-PLUX has been installed in various industries and is the No. 1 solution in terms of installation numbers in Japan(*1). It promotes the development of safe infrastructure for e-commerce by preventing losses from fraudulent orders.

Hobby



Hosting



PC/Tablet



Audio/Visual equipment



Food/Health food



Home improvement store



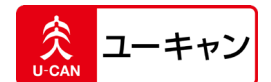
Cosmetics/ Hair care



Apparel



Online shopping mall
MVNO/Other



*1 TOKYO SHOKO RESEARCH, LTD., "Survey on the number of EC sites in Japan introducing paid fraud detection services," (as of the end of May 2021)

*2 Shown above are selected companies that have permitted their names to be shown here. As of the end of July 2021.

Appendix / O-PLUX Fraudulent Order Detection Services | Partner Companies/Services



The number of partner companies/services is increasing. We will continue to promote such partnerships, including system integration, to expand O-PLUX.

EC package/Shopping cart vendors



Payment Service Providers (PSPs)



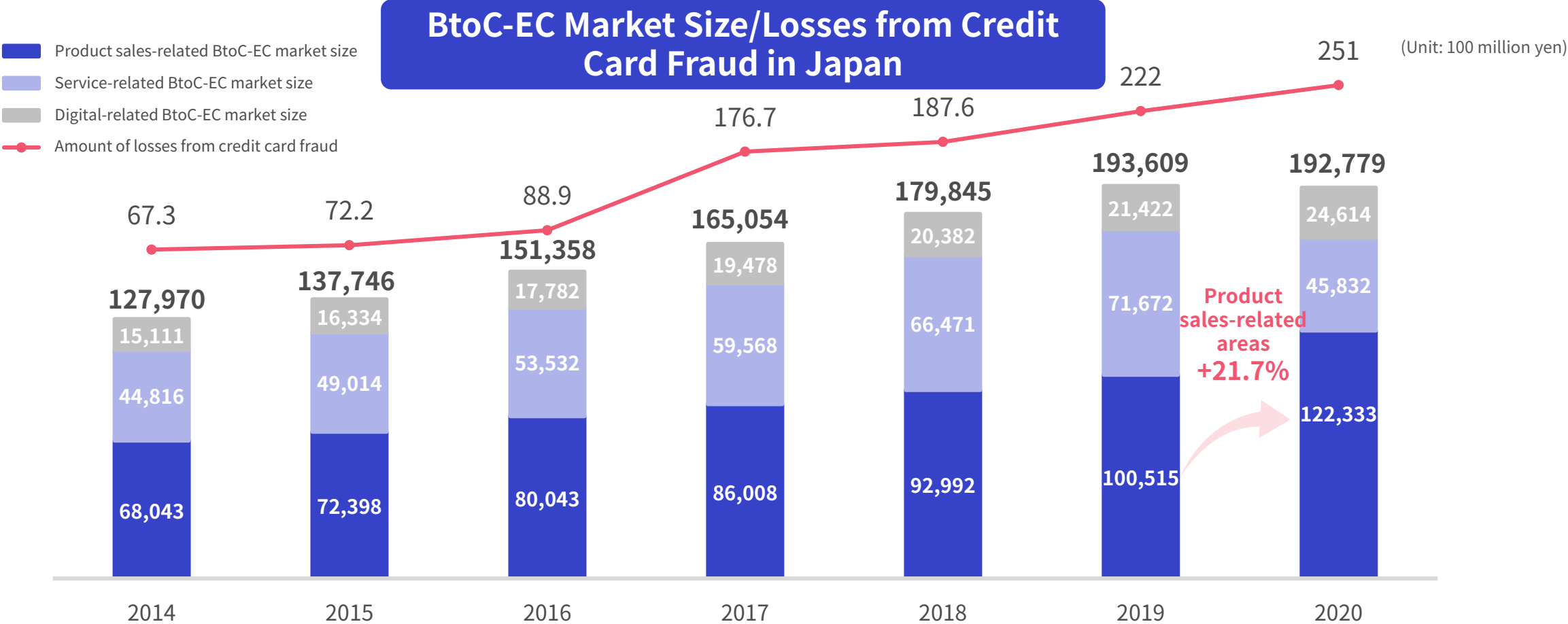
*1 EC-CUBE is a trademark of EC-CUBE Co., Ltd.

*2 As of the end of July 2021.

Appendix / Growth of the Japanese EC Market and the Expansion of Fraud Damage

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In proportion to the growth of the EC market, credit card fraud (theft of card numbers) has been increasing. With the revision of the Installment Sales Act and the update of the Credit Card Security Guidelines, there is growing social demand for anti-fraud measures.

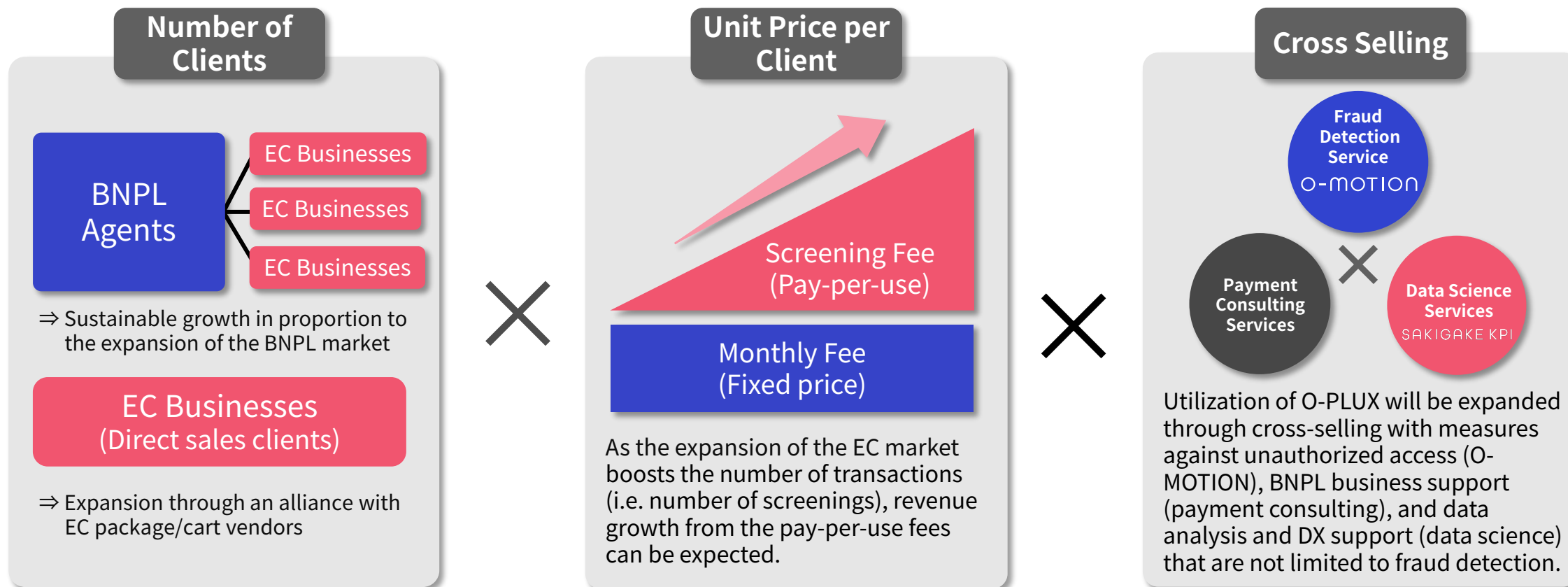


Source: Ministry of Economy, Trade and Industry, Commerce and Information Policy Bureau, Information Economy Division, "FY2020 Report on Commissioned Industrial and Economic Research (Market Research on Electronic Commerce)."
Japan Consumer Credit Association, "Status of Damage from Unauthorized Use of Credit Cards," June 2021
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Appendix / O-PLUX Fraudulent Order Detection Services | Revenue Structure



Three Reasons why ARR for O-PLUX Is Growing

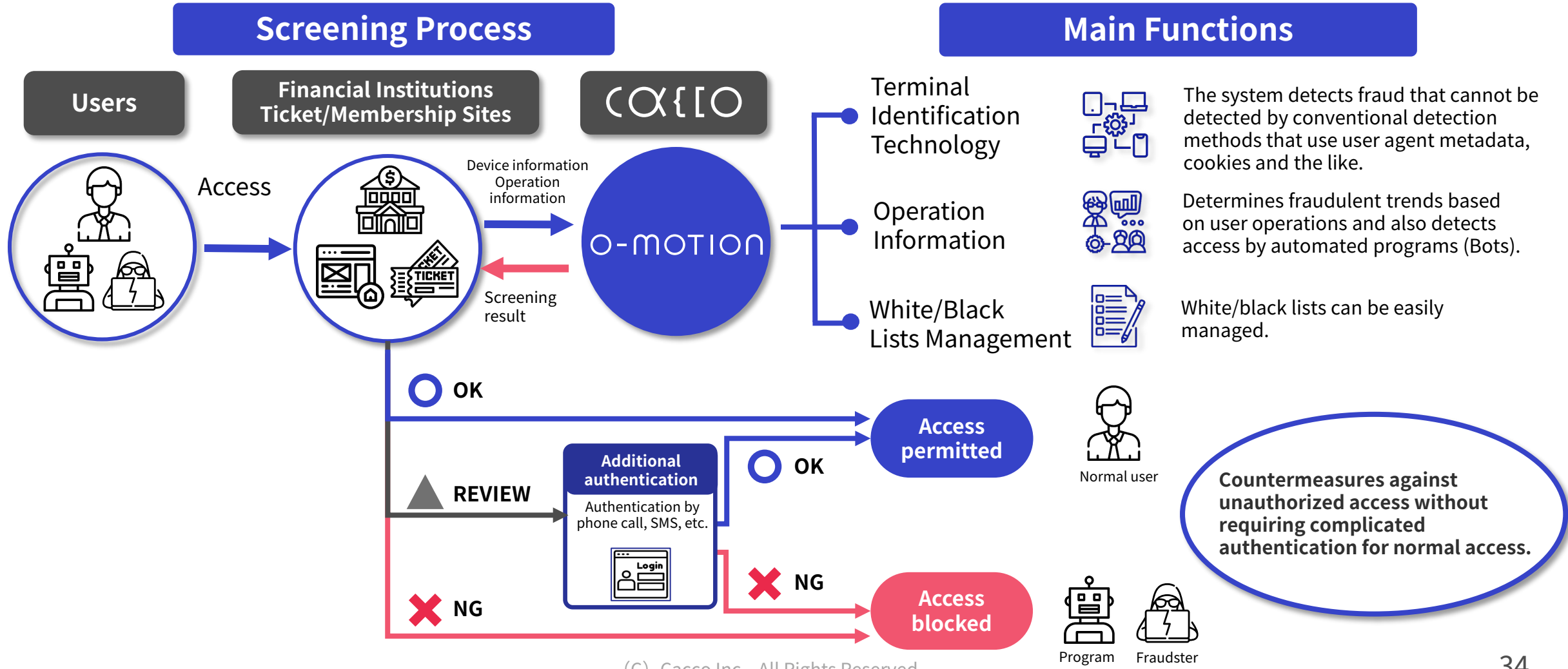


A stable revenue structure in which **about 70% of** total sales comes from **ARR**, which is the sum of pay-per-use and fixed fees. In addition, pay-per-use billing system enables us to capture the upside potential associated with the **expansion of the EC market and BNPL market**.

Appendix / O-MOTION Fraudulent Access Detection Services | Overview



Real-time analysis of the operation information and device information of users who access websites.
The system identifies identity theft and prevents fraudulent activities (divulgence of personal information, unauthorized purchases, etc.) resulting from unauthorized access.

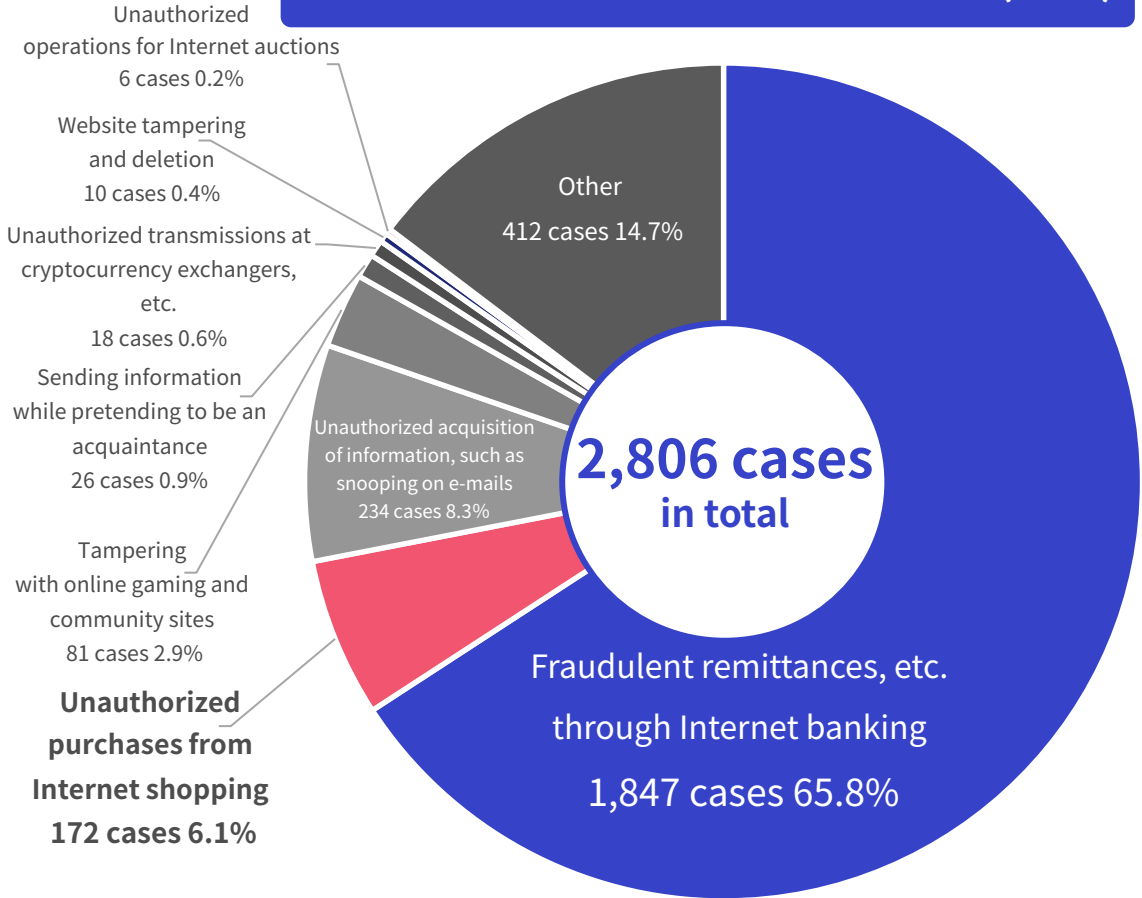


Appendix / Status of Damage Due to Fraudulent Access in Japan



Of the 2,806 cases of fraudulent access in 2020, more than 70% of the damage was caused by EC and online transactions, such as unauthorized remittances in Internet banking and unauthorized purchases in Internet shopping. In addition, there is no end to damage such as the divulgence of personal information caused by unauthorized access.

Actions Taken after Fraudulent Access (2020)



Examples of Damage Caused by Unauthorized Access

When	Business affected	Description
July 2021	Drugstore's EC site	More than 25,000 sets of credit card information may have been divulged due to unauthorized access.
July 2021	Major logistics company	More than eight million items of personal information may have been divulged due to unauthorized access.
June 2021	Major newspaper company	More than 143,000 items of personal information may have been divulged due to unauthorized access of a campaign site.
June 2021	Major communications equipment company's member site	405,576 items of information have been divulged due to unauthorized access.
March 2021	Major Apparel EC site	More than 300,000 items of personal information may have been divulged due to unauthorized access.
December 2020	Cashless payment business	Unauthorized access by a third party may have resulted in the divulgence of business information of approx. 2.6 million stores, including merchants. There is also a possibility that up to 20 million or more items of information on employees and partner companies may have been divulged.
September 2020	Mobile communications	Fraudulent withdrawals were made from accounts at several local banks due to the opening of fraudulent accounts by people who misused the mobile wallet service to impersonate bank account depositors. Total damage was over 20 million yen.
June 2020	Major EC site for cameras	Unauthorized access using a password list may have resulted in the divulgence of up to 400,000 pieces of customer information.

Source: National Police Agency, Ministry of Internal Affairs and Communications, and Ministry of Economy, Trade and Industry
"Status of Research and Development of Technologies for Unauthorized Access and Access Control Functions"

We provide one-stop support for businesses that are considering building or using BNPL settlement systems, including service building, payment system development, and operational support. We offer O-PLUX as the screening engine.



Consideration/
building of a solution
service



Development of
BNPL systems



Operational support



Providing screening engine
O-PLUX



POINT 01

Extensive experience in supporting BNPL businesses

- Experience in building payment systems for millions of transactions/month
- Experience in supporting start-ups (creating business plans, various requirement definitions, etc.)
- Post-launch support (credit lines, operation process flow development, etc.)



POINT 02

Support from consultants with real-world experience

Consultants with extensive experience in BNPL operations make a proposal that best suits the customer.



POINT 03

Data science technology cultivated for financial institutions and EC businesses

We have a proven track record in fraud detection in the financial and payment fields, where strict judgment is required, utilizing O-MOTION to detect unauthorized access and logins targeting financial institutions and O-PLUX to detect unauthorized orders targeting e-commerce businesses.

O-PLUX is the No. 1 solution in terms of installation numbers in Japan^(*).

(*) As of the end of May 2021 (TOKYO SHOKO RESEARCH, LTD., "Survey on the number of EC sites in Japan introducing paid fraud detection services")

Based on AI, statistics, and mathematical optimization technologies, we develop and provide algorithms that contribute to the core of corporate activities, such as modeling predictions and automating the application of machine learning.

Our approach

SAKIGAKE KPI



From packaged analysis support including data aggregation and visualization to factor analysis, KPI calculation, analysis reporting, and subsequent proposals, that generates value from up to 100 million data items within 30 business days with an investment of two million yen.

Data Science Branch Office



Data science resources that can be utilized on a monthly contract basis as if it were a division of your company. It realizes the concept of a “data science branch office” to meet all kinds of analysis needs at various stages.

Algorithm Development



Development of algorithms that seek to increase profits in the processing of business operations, including optimization beyond the employees’ own experience, productivity improvement through automated processing, and forecasting of demand and risk.

Case studies

Optimization

Wall material manufacturer with annual sales of 119 billion yen

Created production plans for 1,700 products and 12 production lanes. Made a production order plan to maximize production volume and minimize losses while observing complex conditions.

Annual cost reductions of up to 130 million yen

Statistics

AI

Stationery manufacturer with annual sales of 5.5 billion yen

Developed algorithms for demand forecasting and production instructions that can maximize profits on calendars, organizers, and stationery. Minimized opportunity losses due to shortages.

70% reduction in sales opportunity losses

Optimization

Call center

Established automatic prediction of demand on a daily and hourly basis for the following month and generation of a staffing plan that satisfies multiple constraints such as management indicators, employee work preferences, and working conditions.

Annual cost reductions of 60 million yen

Appendix / Cacco's Social Value Creation Process



Support in breaking away from the resource-intensive industrial model by promoting DX

By supporting DX with data science services, we promote the optimization and efficiency of production, sales, and distribution, and contribute to breaking away from the resource-intensive industrial model.



Strengthen the corporate governance and compliance system

We believe that it is essential for sustainable growth to improve management efficiency and at the same time, to enhance the soundness, transparency and compliance of management to fulfil the trust of society. We are committed to strengthening corporate governance on a daily basis based on the recognition that the results of such efforts will enhance corporate value and lead to the return of profits to various stakeholders, including shareholders, creditors, and employees.



Building a secure infrastructure for EC and online transactions

Our fraud detection services detect fraudulent activities such as spoofing and unauthorized access for credit cards, and contributes to the creation of a secure infrastructure for EC, online transactions, and cashless payments.



Support the activities of diverse human resources and create a rewarding work environment

We were selected as a "Best Workplace"* for our efforts to support the activities of diverse human resources, including foreign nationals, women raising children, and intern students, as well as for our efforts to improve our telecommuting environment and online communication.



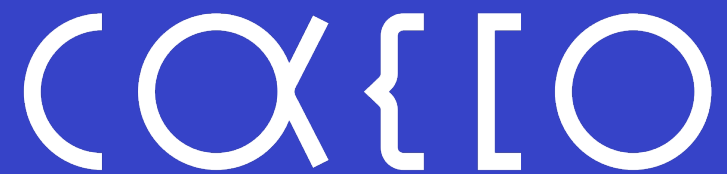
* Ranked 23rd in the small-scale category in the 2021 edition of "Best Workplaces in Japan" by the Great Place to Work® Institute Japan.

Disclaimer and Cautionary Statement Regarding Forward-Looking Statements



This document may contain projections based on assumptions, forecasts and plans related to the future as of the announcement date. These forward-looking statements are based on information currently available to us and certain assumptions that we consider reasonable, and we do not promise that they will be achieved.

Actual results may differ materially from these forecasts due to various factors in the future, including changes in economic conditions, changes in customer needs and user preferences, competition with other companies, and changes in laws and regulations.



Shaping the “Let’s Do It”
for a next game changer