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Cacco Inc. | Stock Code: 4166
February 10, 2021

Financial Results for the Fiscal Year Ending December 31, 2020

Note: This document is an excerpt translation of the original japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original japanese document, the latter shall prevail.

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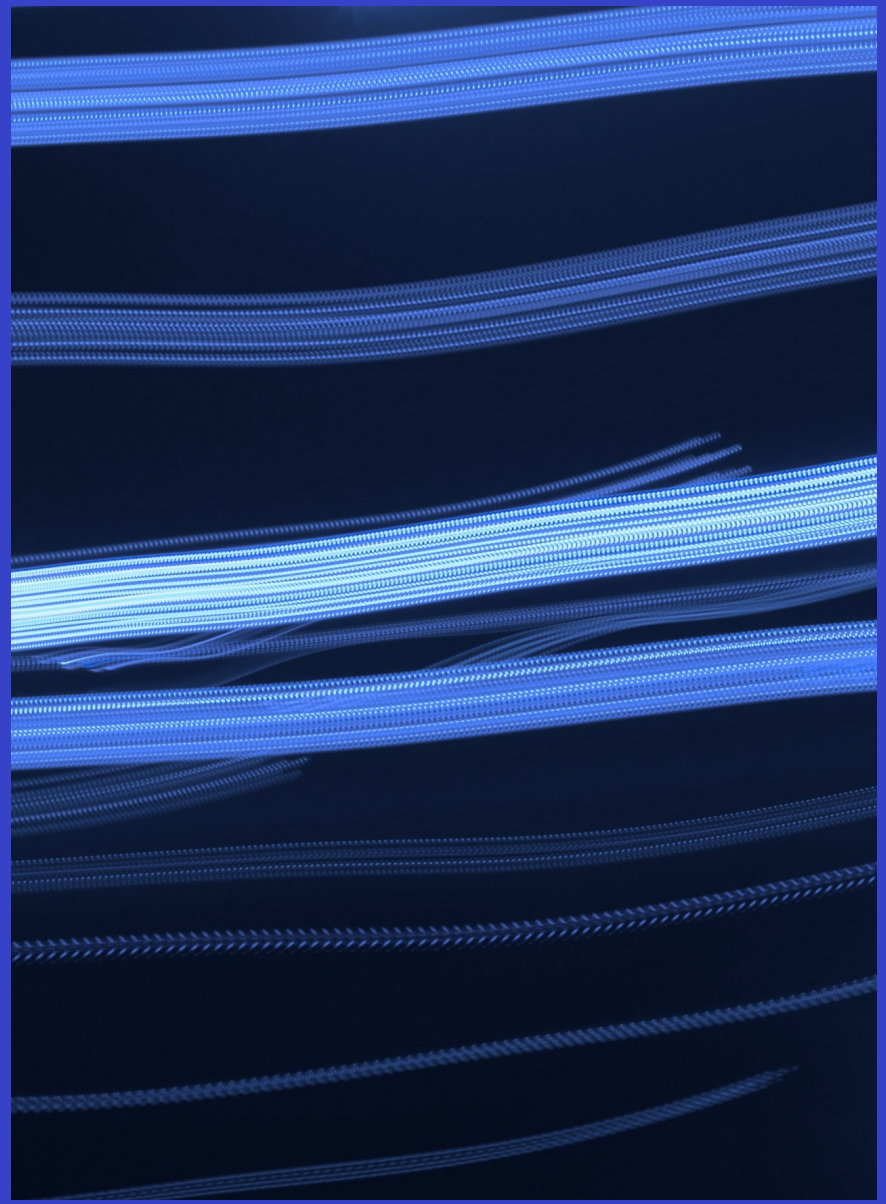

Business Description

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Business Description / Company Profile

Company name	Cacco Inc.
Foundation	January 28, 2011
Capital stock	362,499,000 yen
Officers	**Hiroyuki Iwai**, Representative Director, President and CEO **Kentaro Sekine**, Senior Managing Director, CFO in charge of administration unit **Takeo Narita**, Director, COO in charge of business unit **Tomotsugu Okada**, Director, CPO in charge of system development unit **Sadahiro Suzuki**, Director (Audit and Supervisory Committee Member) **Toshihide Nakayama**, Director (Audit and Supervisory Committee Member) **Genichiro Ogawa**, Director (Audit and Supervisory Committee Member) **Yuta Nakazawa**, Executive Officer **Yasutaka Aoki**, Executive Officer
Head office location	Arai Building 4F, 1-5-31, Motoakasaka, Minato-ku, Tokyo JAPAN
Business Description	Provision of SaaS-type algorithm solutions (Fraud detection service, payment consulting service, and data science service)

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Cacco Evolutionary Purpose

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

Since its foundation, “Cacco Evolutionary Purpose” has been the driving force for everything we do.
In the 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 slowdown of growth persisting since the year 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.



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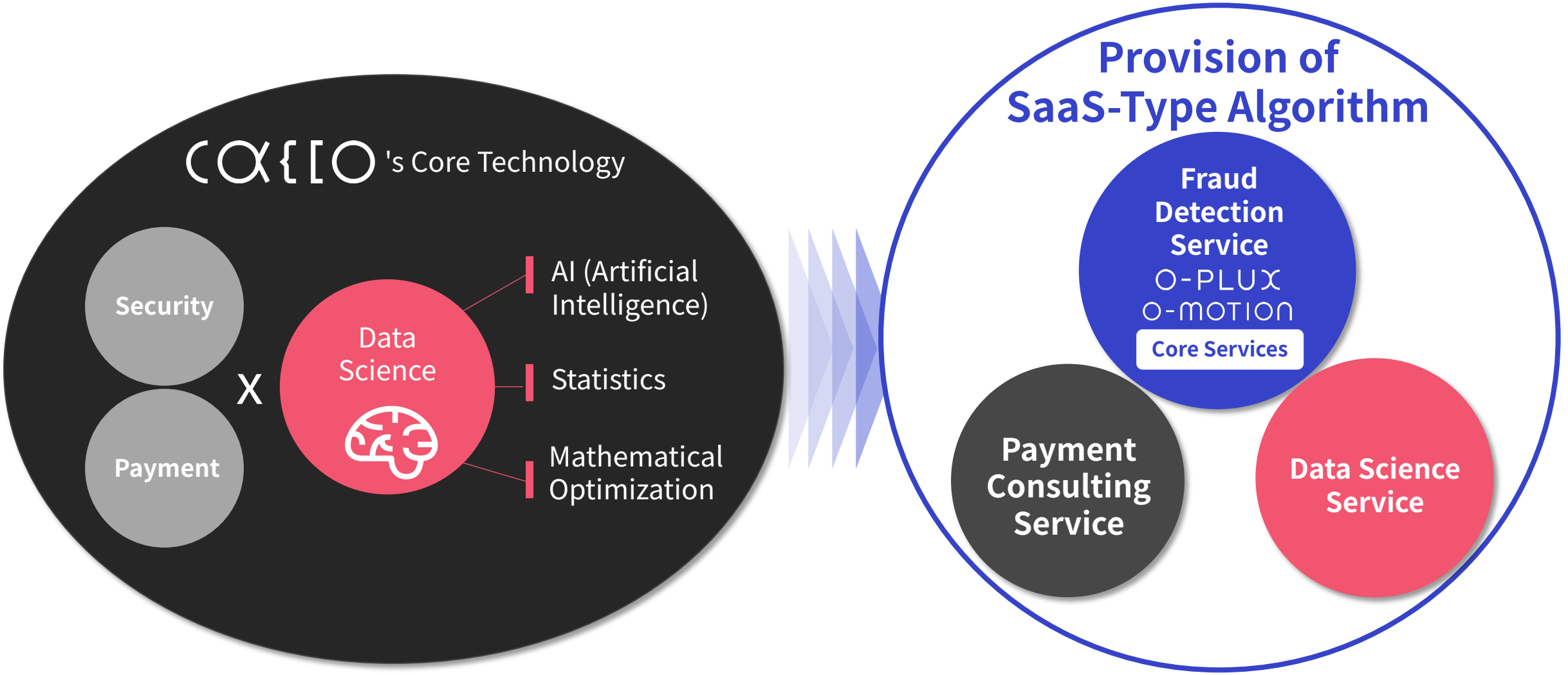

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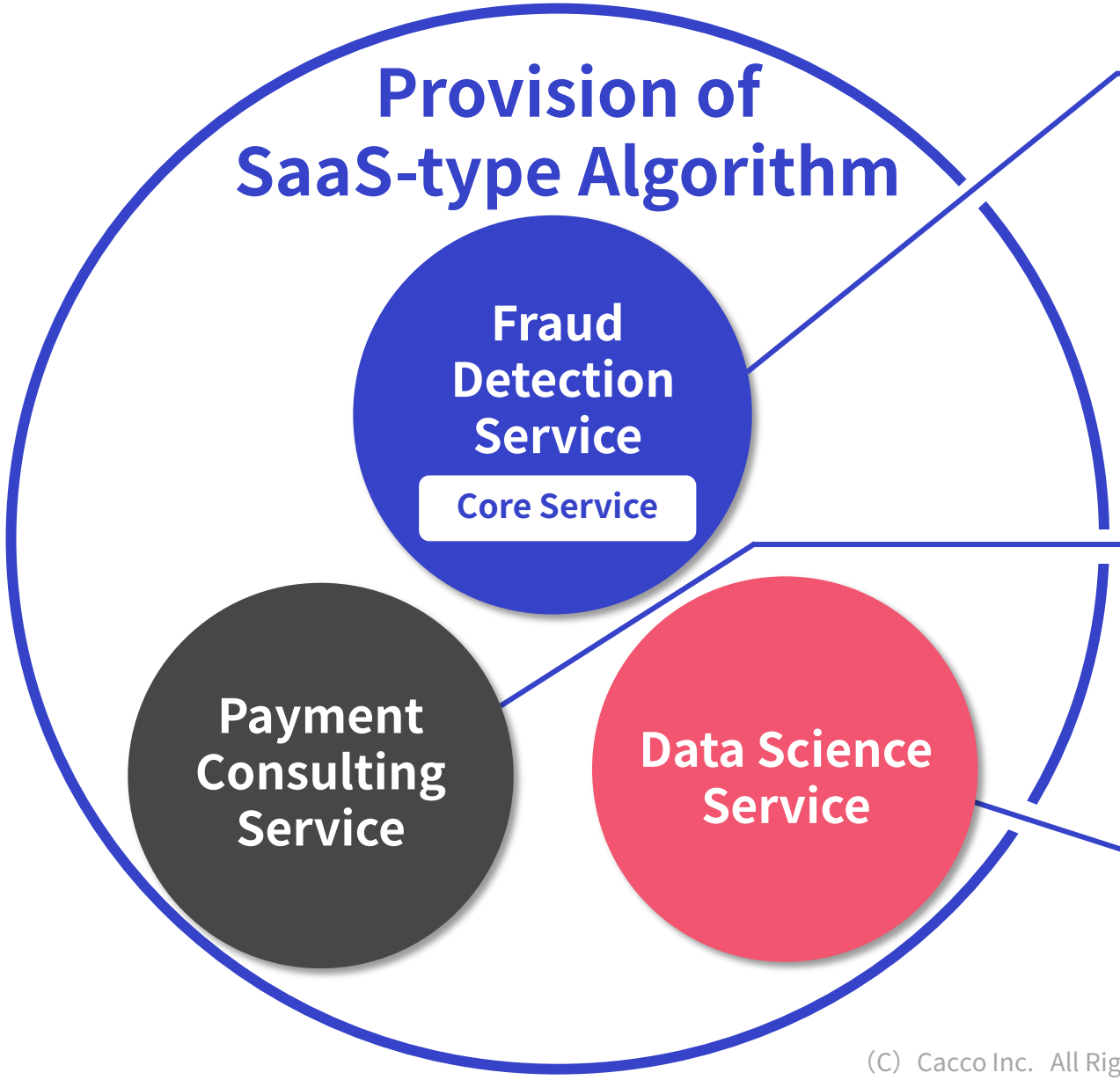

(1) Fraud Detection Service

O-PLUX

Real-time detection service for fraudulent orders such as non-payment in EC payment, ticket reservations or resale.

O-MOTION

Real-time detection service for unauthorized access and login at financial institutions.(Internet banking or securities)

(2) Payment Consulting Service

Provision of settlement systems and consulting services for setting up and operating BNPL (Buy Now, Pay Later) agents.

"O-PLUX" is provided as the screening engine for BNPL settlement

(3)Data Science Service

Service that develops and provides data analysis and algorithms for various fields using AI, statistics, and mathematical optimization technologies.

SAKIGAKE KPI

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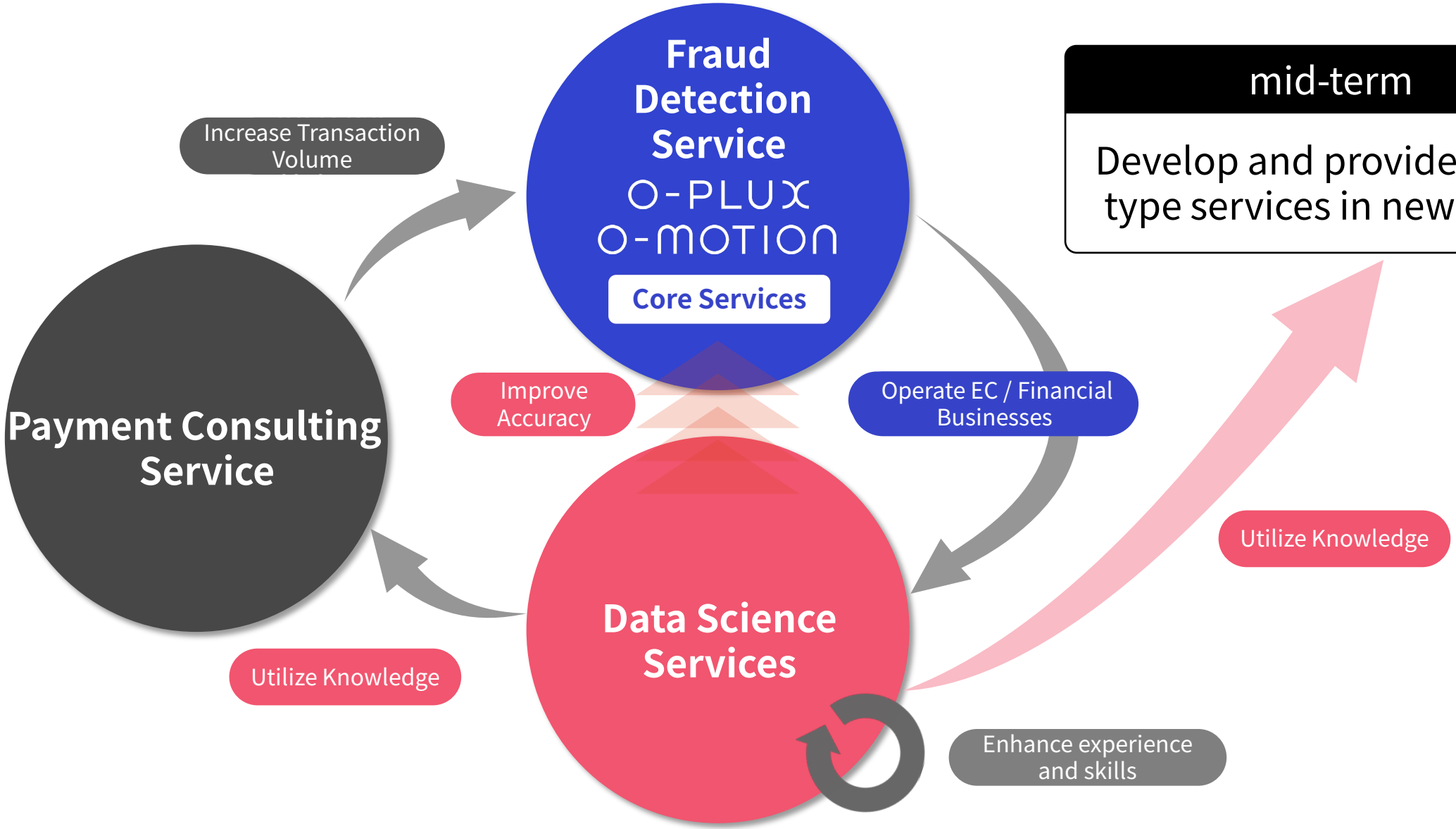
Business Description / Circular Growth Model Business Structure



mid-term
Develop and provide SaaS-type services in new areas

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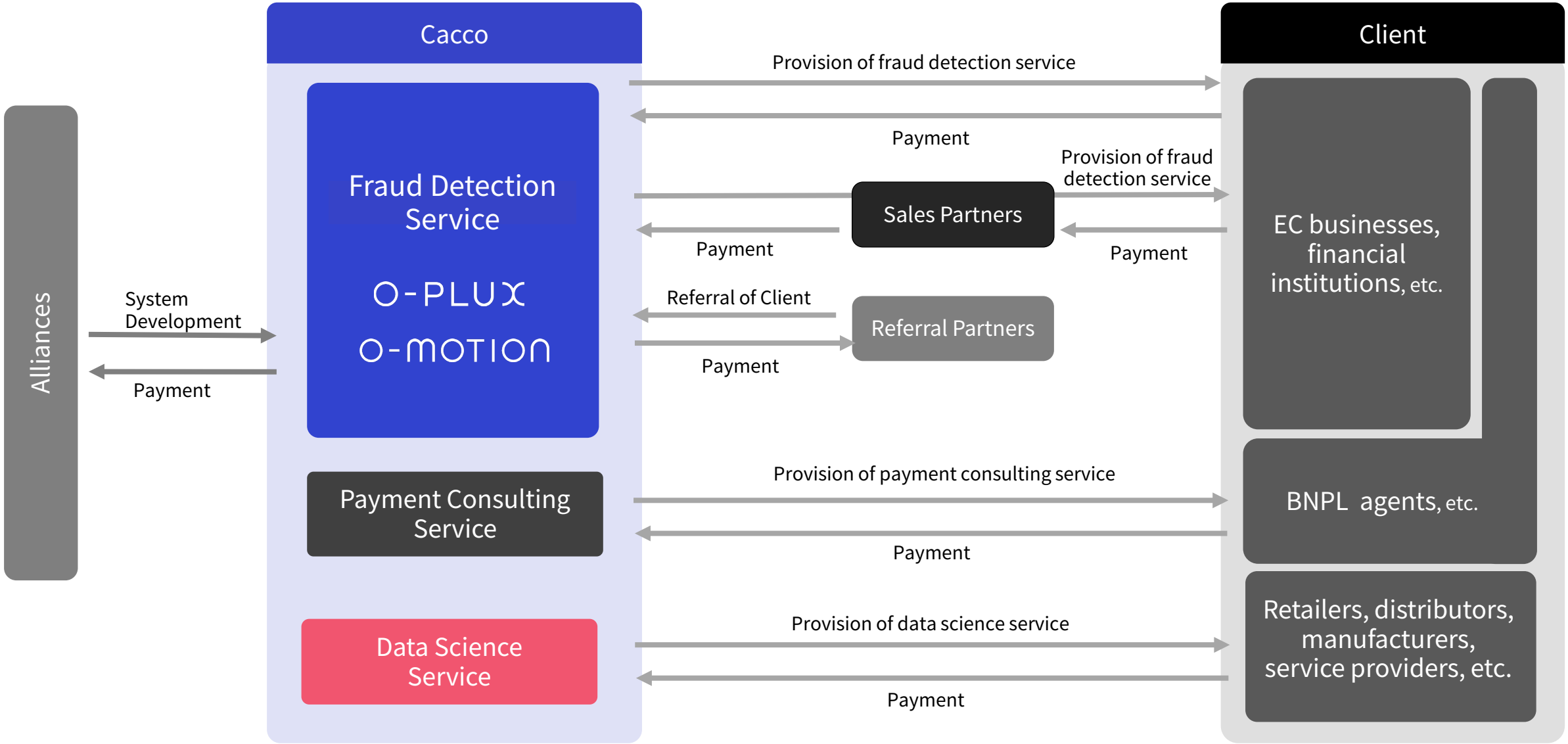
Business Description / Commercial Flow of Cacco



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1

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

(High technological level supported by patented technologies "Patent #6534255" and "Patent #6534256")

2

Top selling service in the EC and payment domains in Japan

(Based on "Survey on EC site fraud detection services (as of the end of May 2020)" performed by Tokyo Shoko Research)

3

Steady growth in ARR (Annual Recurring Revenue) driven by increased users for mainstay product O-PLUX

(ARR out of this product accounted for **71.5%** of total sales in FY2020)

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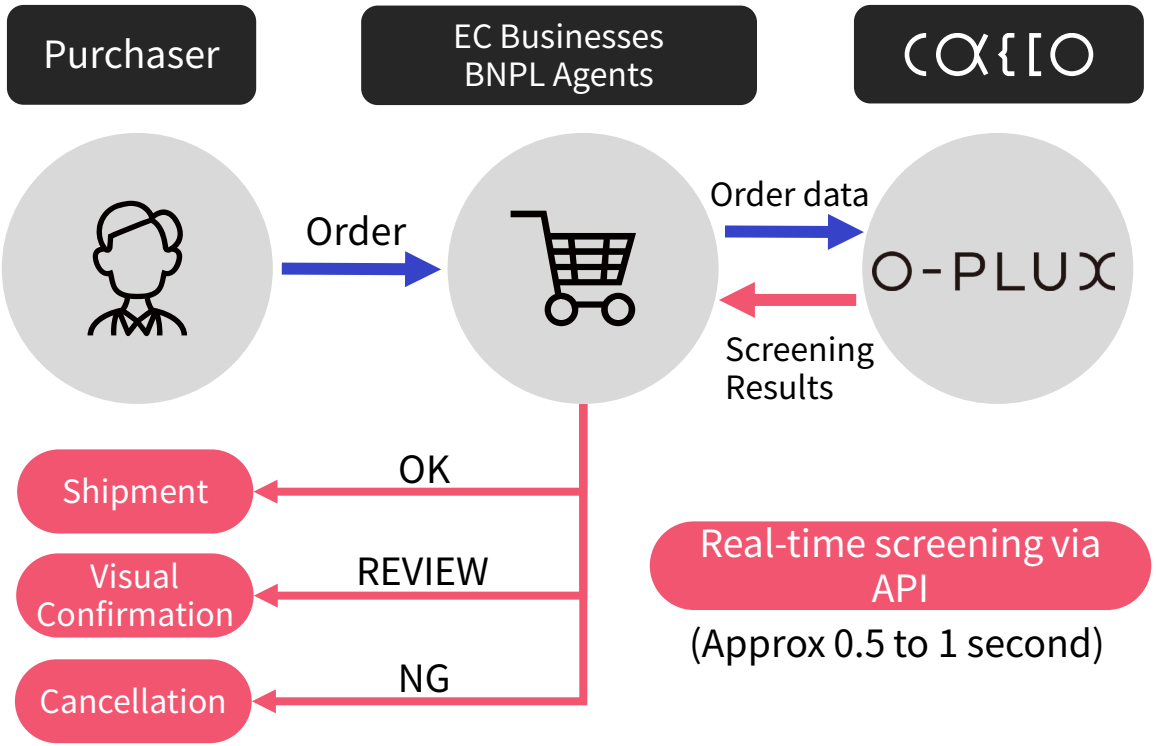
Business Description / Fraudulent Order Detection Service "O-PLUX"

Overview

Screening Process



Real-time screening via API

(Approx 0.5 to 1 second)

SaaS-type service that uses a unique screening model to detect fraudulent orders such as non-payment in EC in real time.

Main Functions

Name Search



Normalize and utilize the same addresses and names with different notation.

eg: 3-2, Akasaka 4-chome
4-3-2 Akasaka

Device Information



Identification by IP and cookie
Detection of access from overseas
Detection of impersonation by a non-Japanese based on language setting or time zone, etc...

External DB linkage



Vacancies detection (weekly apartments or hotels)
Detection of overseas forwarding service
Validation of phone numbers, etc...

Behavioral Analysis



Detection of fraudsters by analyzing information and behavioral patterns that are characteristic of fraudsters, such as large purchases over a short period of time and identity theft.

Shared Negative Data



Finding of the match with the negative database shared among user companies.

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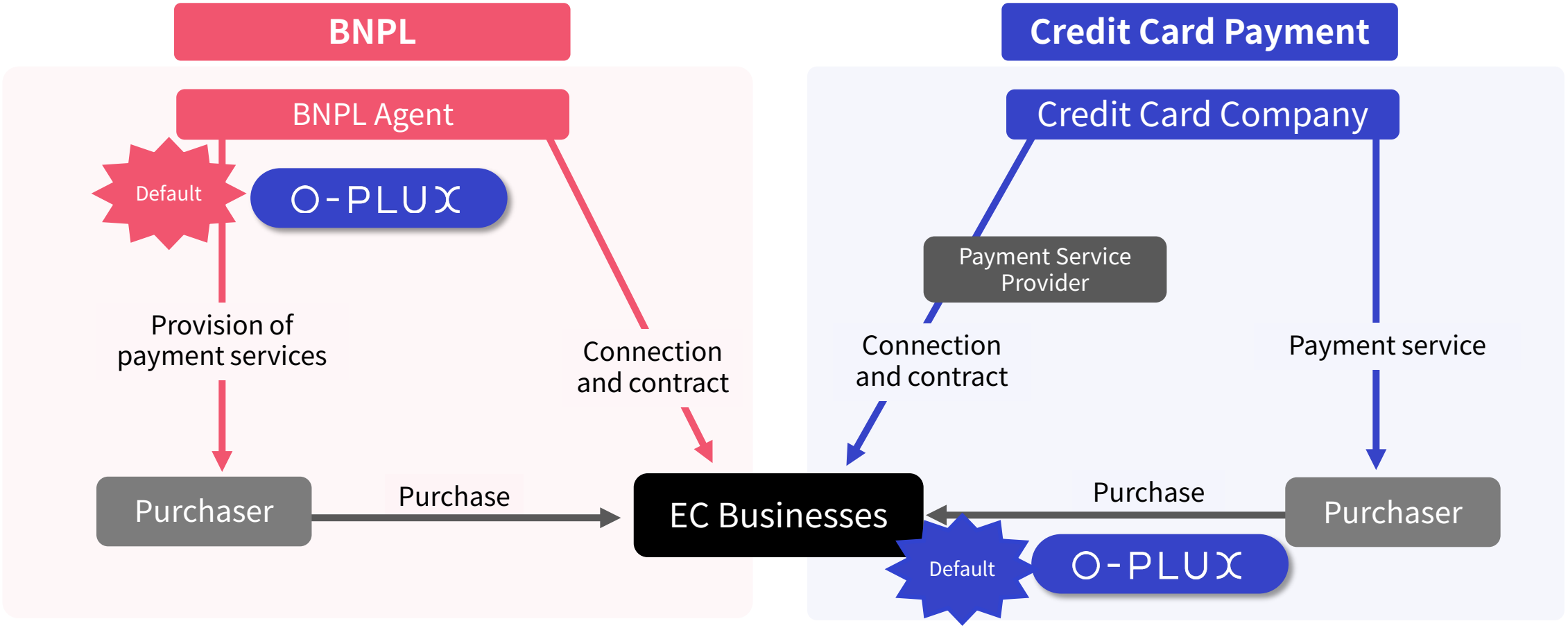
Example of Application

O-PLUX is offered mainly to BNPL settlement agents and e-commerce businesses.



In the event of non-payment, etc. in the BNPL system, the BNPL agents will bear the loss.

In the event of fraudulent use of a card in a non-face-to-face transaction (EC), EC business will bear the loss.

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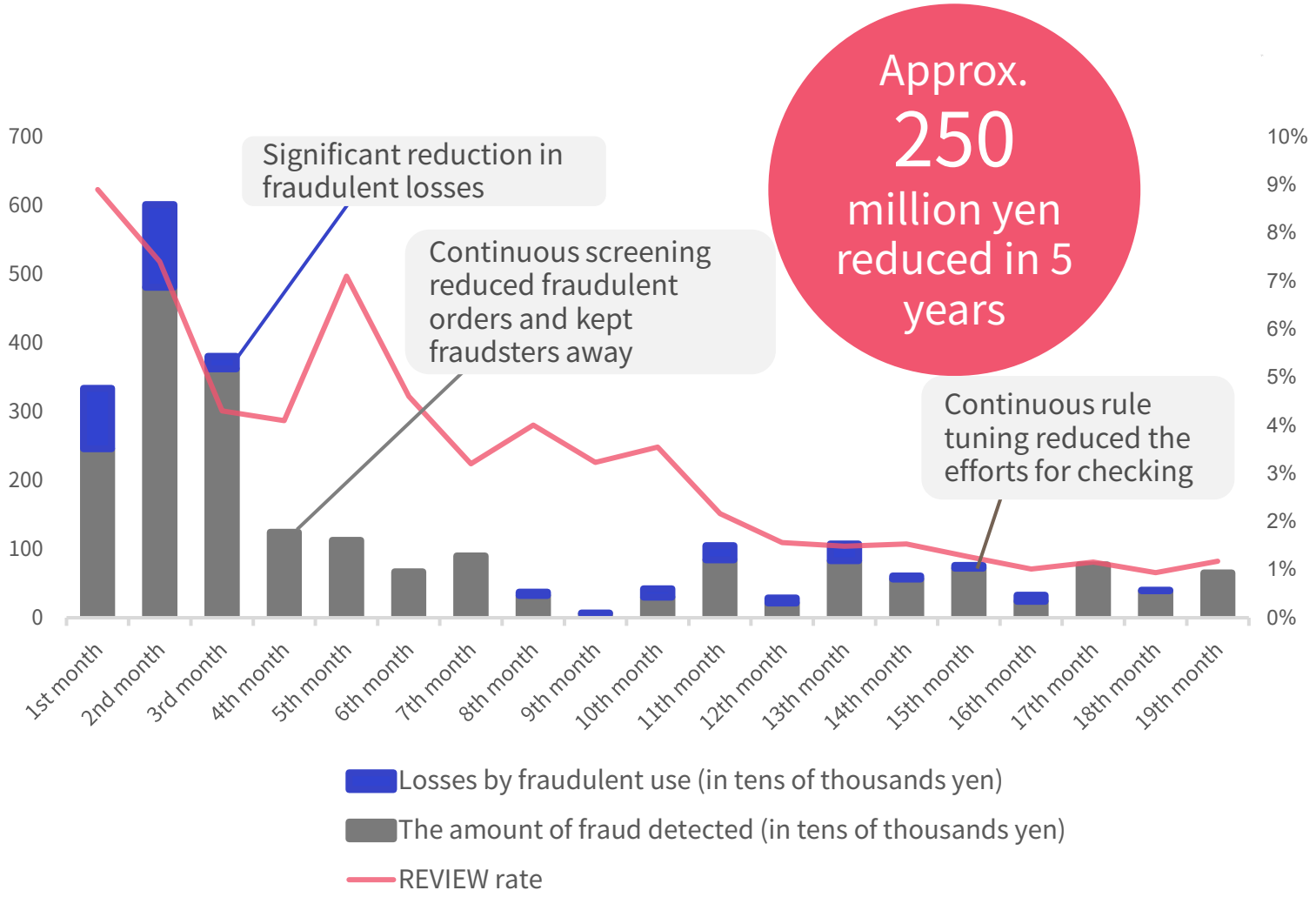
Business Description / Fraudulent Order Detection Service "O-PLUX“

Case Study

Client	General retail business
Annual Distribution	7 billion yen per year
Customer's Issue	Fraudulent use of credit cards in e-commerce (Up to 10 million yen/month)
Outcome	100 million yen of fraudulent use was detected in the 1st year 250 million yen in total reduced over approx. 5 years of use



The amount of fraud detected is the total amount of transactions that are confirmed as fraudulent (negative registration) before chargeback due to mismatch of card attributes, identity verification before shipment, etc., with screening result of "NG" or "REVIEW".
The REVIEW rate is the ratio of "REVIEW" returned as a result of screening to the total number of screeings.

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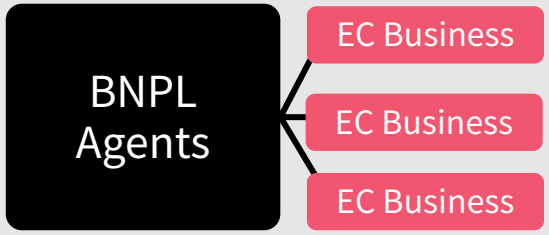
Business Description / Fraudulent Order Detection Service "O-PLUX"| Revenue Structure

3 reasons why ARR grow

① Number of Clients



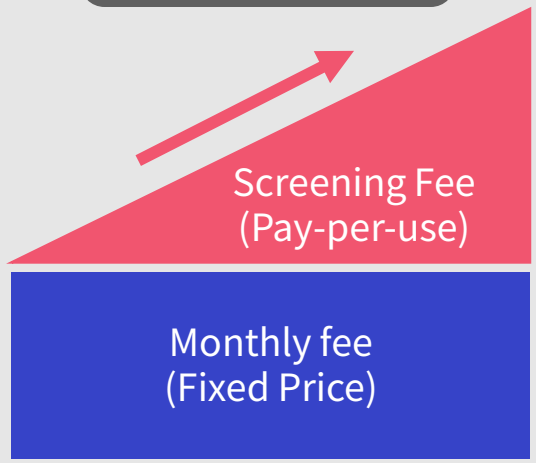
⇒Sustainable growth in proportion to the expansion of the BNPL market

EC Businesses (Direct sales clients)

⇒Expansion through an alliance with EC package / cart vendors

X

② Unit Price per Client



As the expansion of the EC market boosts the number of transactions (i.e. screening cases), revenue growth from the pay-per-use fees can be expected

X

③ Cross Sell

Cross-selling with other products and services

- O-MOTION
- Payment consulting
- Data Science

A stable revenue structure in which about 70% of total sales comes from ARR, 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.

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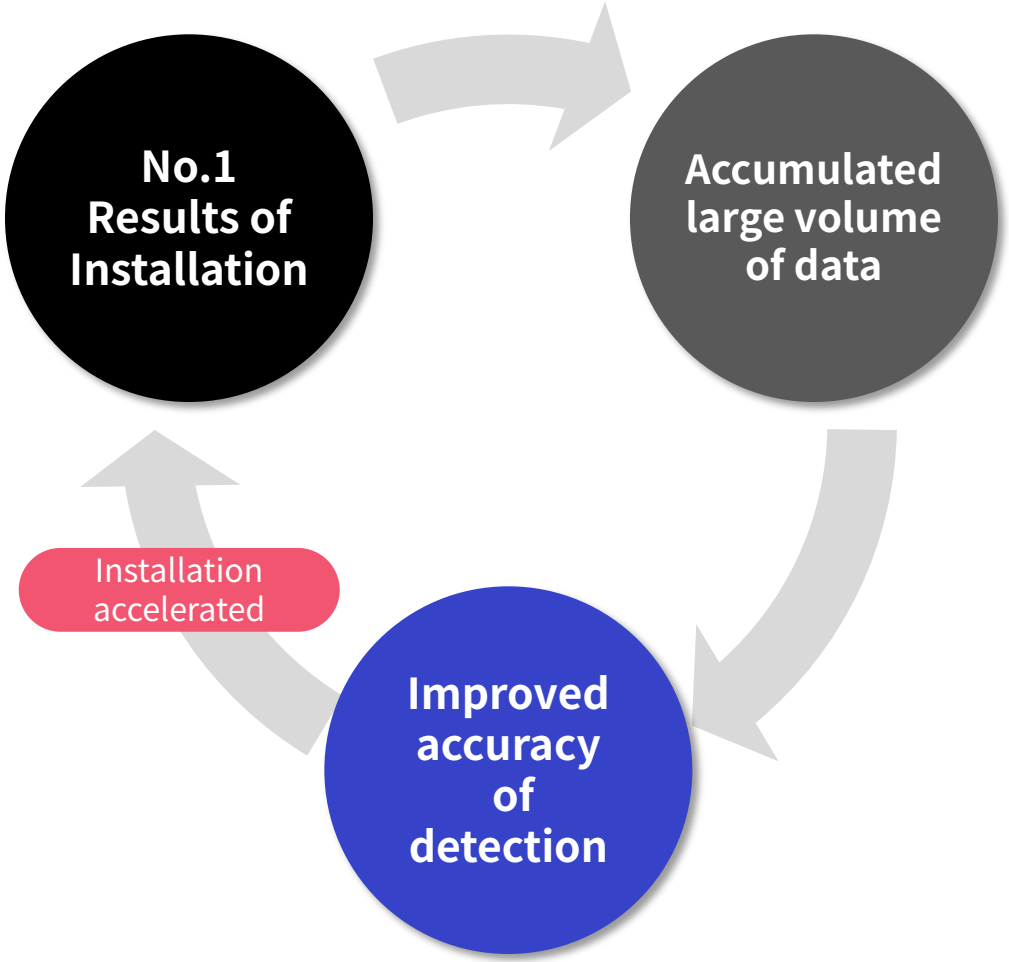
Business Description / Fraudulent Order Detection Service "O-PLUX"| Differentiating Factors

What differentiates O-PLUX from competitors

1. Large volume of data on domestic fraudulent orders (No. 1 in Japan for the number of installations)
2. Unique fraud detection model with data science security technology and know-how
3. Monitoring and support system tailored for domestic and in-house products

Virtuous cycle for our speriority



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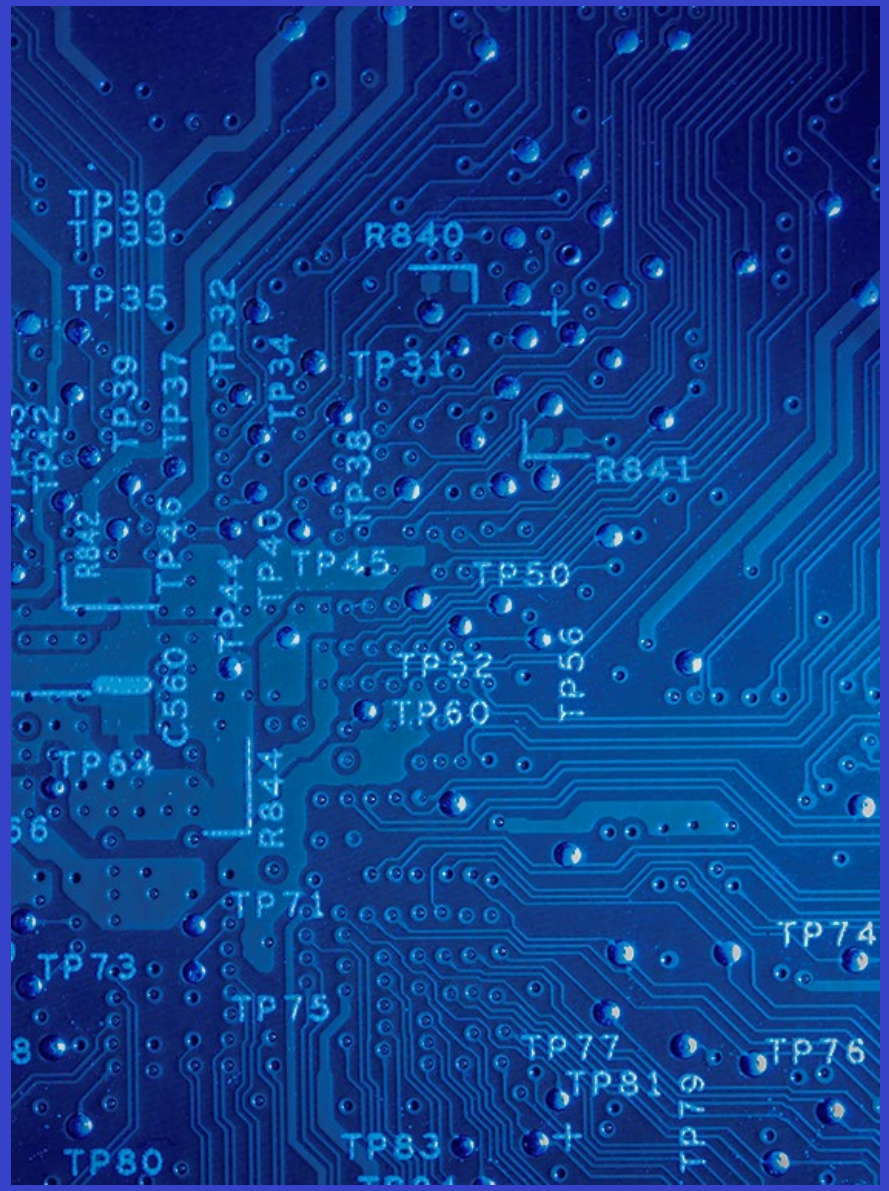

Financial Results for FY2020

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Financial Results for FY2020 / Summary for FY2020

Achieved sales and profit growth for five consecutive years

Sales of the O-PLUX fraudulent order detection service and payment consulting service for BNPL providers grew steadily, supported by an expansion in the use of EC services as remoteworking and staying at home due to the COVID-19 pandemic boosted demands for them. Sales and profits increased for the fifth consecutive year.

All profit margins growing steadily

Despite aggressive investments in advertising and corporate identity (logo, corporate website, etc.) renewal, profit margins at all levels increased due to higher revenue and cost reductions, including the control of server costs.

(Unit: Millions of yen)

	FY2019 (Actual)	FY2020 (Actual)	YoY	FY2020 (Jan. 27, Forecast)	Compared with expectation
Net sales	745	**831**	+11.5%	831	±0
Operating income	99	**138**	+39.5	138	±0
(Profit margin)	13.3	**16.6**	+3.3pt	16.6	±0
Ordinary income	91	**115**	+26.2	115	±0
(Profit margin)	12.3	**13.9**	+1.6pt	13.9	±0
Net income (loss)	114	**130**	+13.6%	130	±0
EPS (yen)	48.99	**55.37**	+13.0%	55.37	±0

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Financial Results for FY2020 / Summary on Business Progress & TOPICS

Summary of Business Progress

1 Strengthened alliances
O-PLUX: Alliance with 2 EC packages
O-MOTION: Alliances with 2 security services

2 Expansion of service areas
- Industry-specific fraud detection service for travel, ticketing, and web services
- Release of "D2Cart", a cart system specialized for D2C
- Research for enhancement of O-MOTION's device identification technology

3 Expansion of BNPL system
Preparation for the development of a SaaS-type BNPL settlement system

4 Promotion of data science services
Release of new data analysis service "SAKIGAKE KPI"

5 Other Initiatives
Expansion of owned media for brand awareness
Active implementation of online seminars
System development for O-PLUX architecture renewal, etc.
Free offer of O-PLUX's RPA option without development charges

TOPICS

Jan	Started offering RPA option to companies using O-PLUX with no development fee.
	O-MOTION started providing a function that automatically asks for additional authentication only for unauthorized access, in cooperation with the incoming authentication service of OSTEARIES, Inc.
May	Started providing fraud detection services specialized for travel, ticketing, and web service industries.
Jul	Started providing "Fraudulent / Mischievous Order Prevention" function in cooperation with "Tsukuru" by Net advertising company "Tsukuru -Best Selling Net Advertisement”..
Aug	O-MOTION started tying up with “Ice Wall MSA,” multi-factor authentication platform of Hewlett-Packard Japan, Ltd. for additional authentication only for unauthorized access.
Oct	O-PLUX began tie-up with Salesforce.com's e-commerce platform, “Salesforce Commerce Cloud”.
	Launched "SAKIGAKE KPI," a new data analysis service that aggregates, analyzes, and reports up to 100 million records in 30 business days for 2 million yen.
Dec	Launched "D2Cart," a D2C-specific cart system equipped with functionality for proactive and preventive actions.

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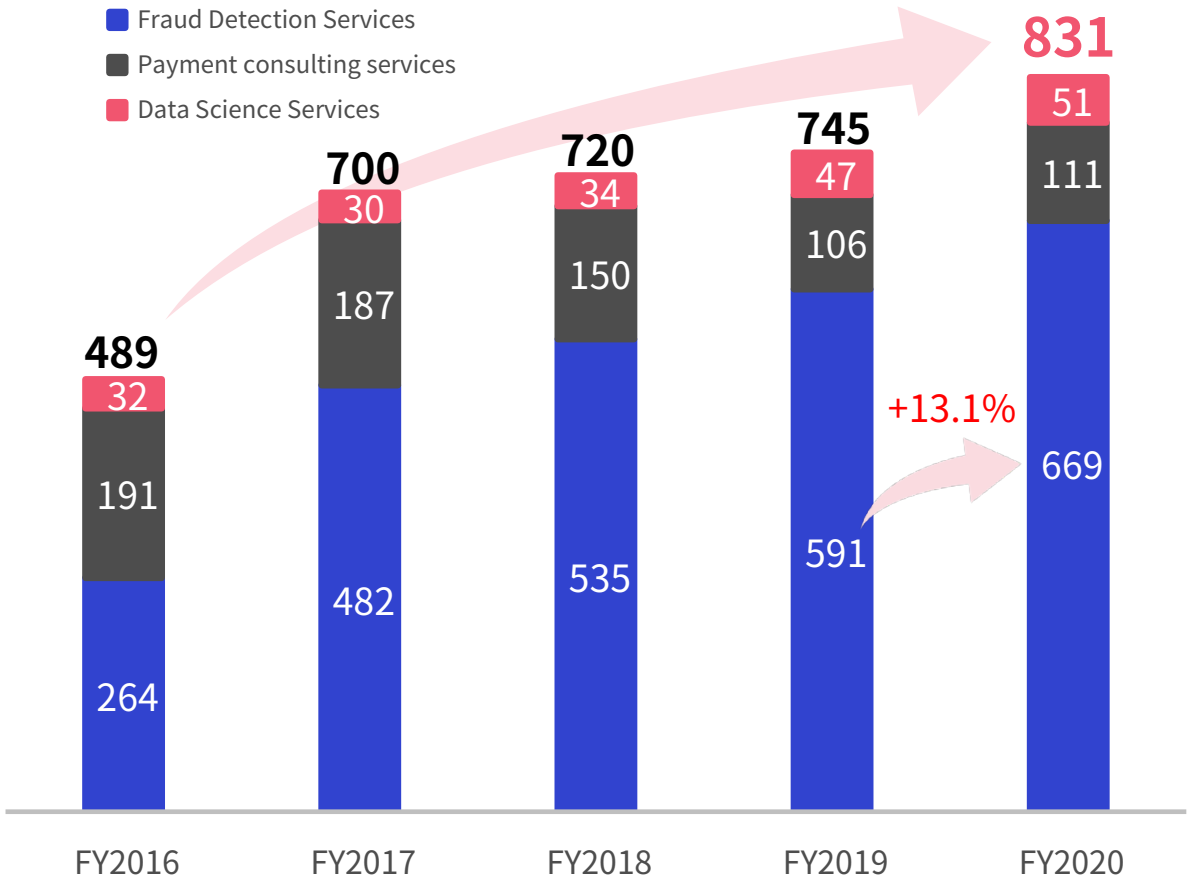
Financial Results for FY2020 / Net Sales, and Sales Composition by Service

Fraud detection, the core service, increased by YOY13.1%, and its sales composition expanded to 80.5%.

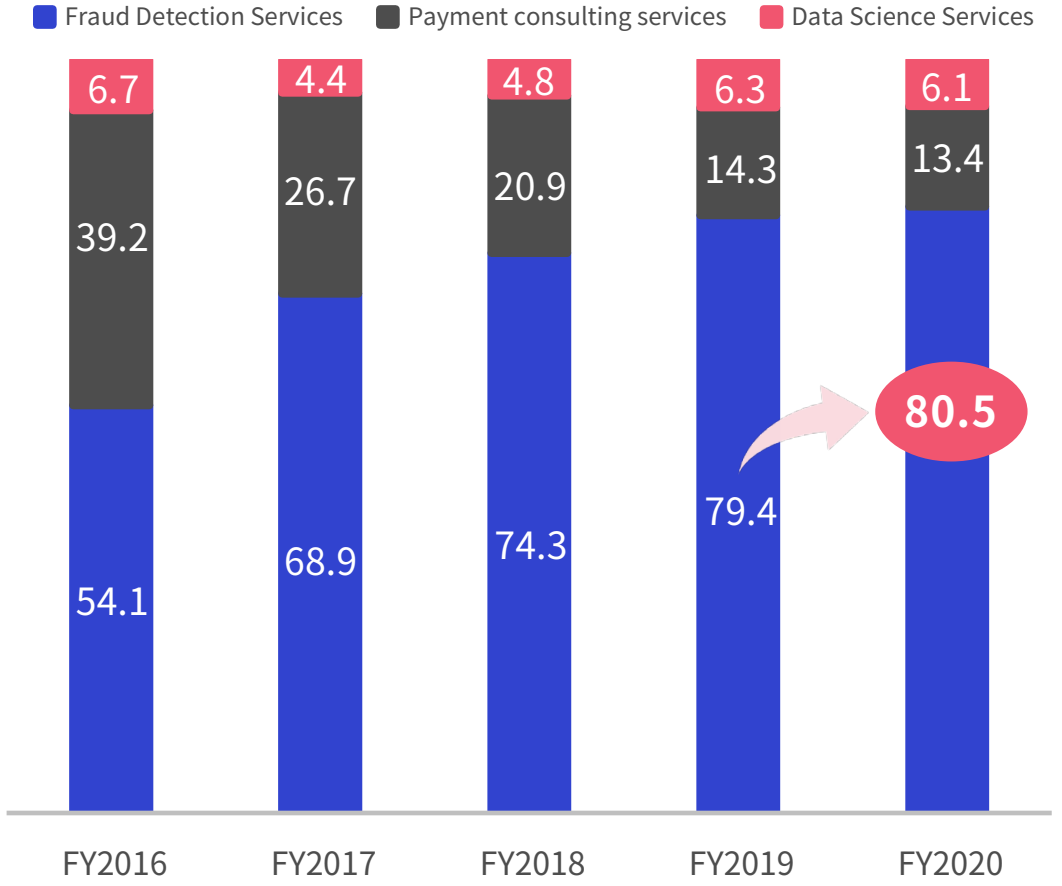
Net Sales

(Unit: Millions of yen)



Sales composition ratio by service

(Unit: %)



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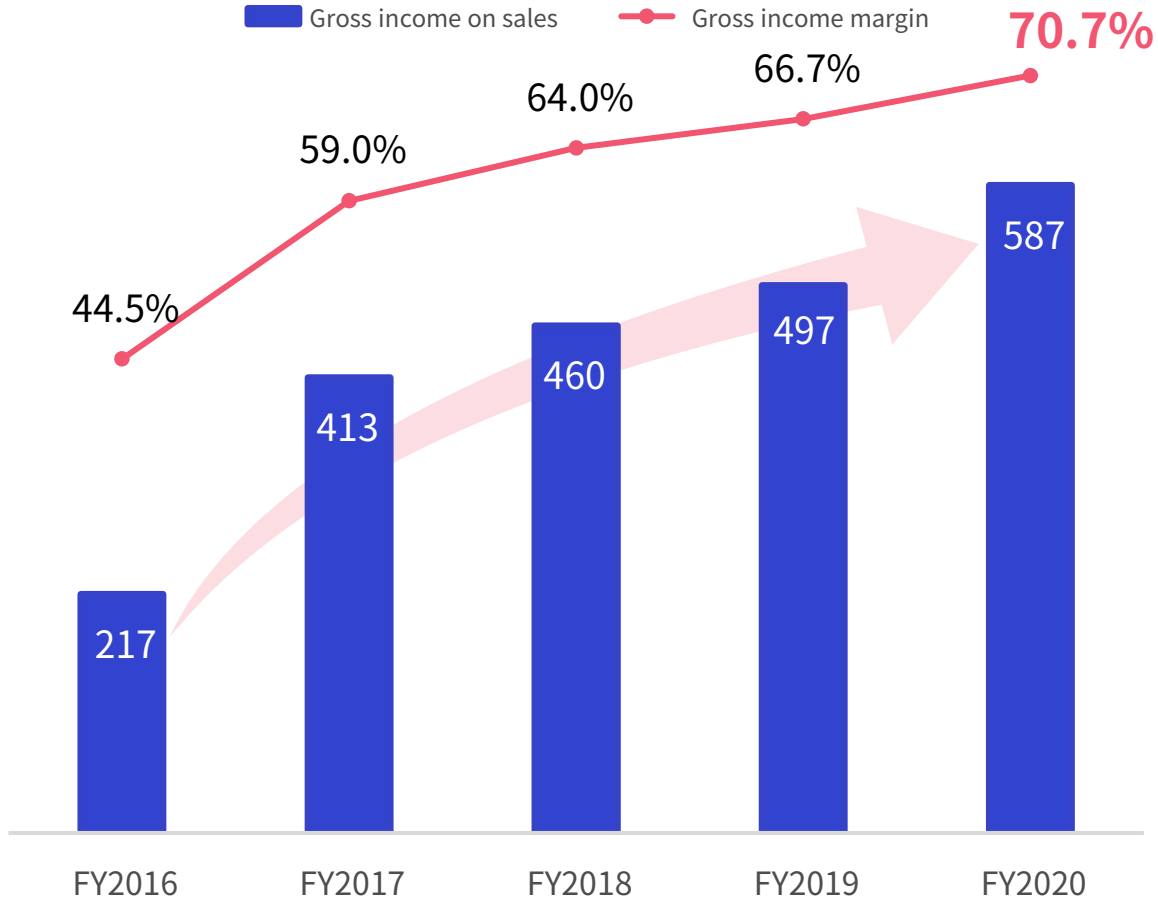
Financial Results for FY2020 / Gross Income and Operating Income

Both gross income and operating income are expanding steadily with income margins growing.

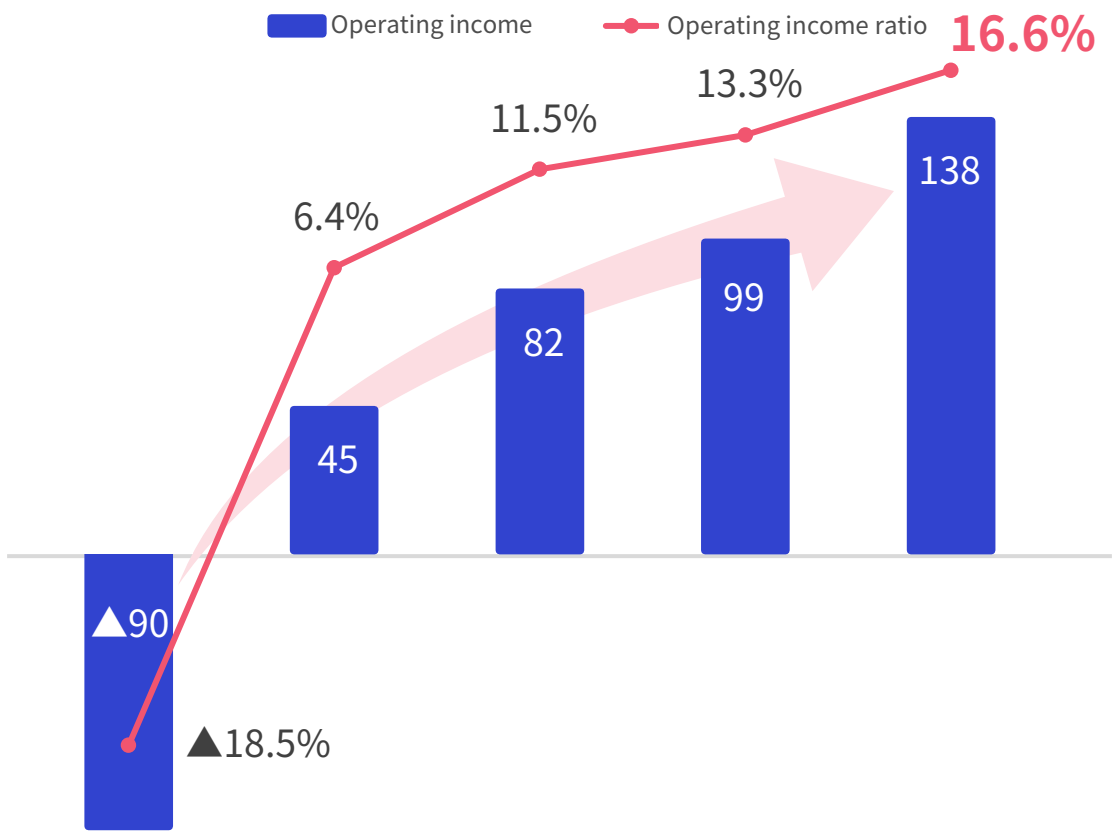
Gross Income

(Unit: Millions of yen)



Operating Income

(Unit: Millions of yen)



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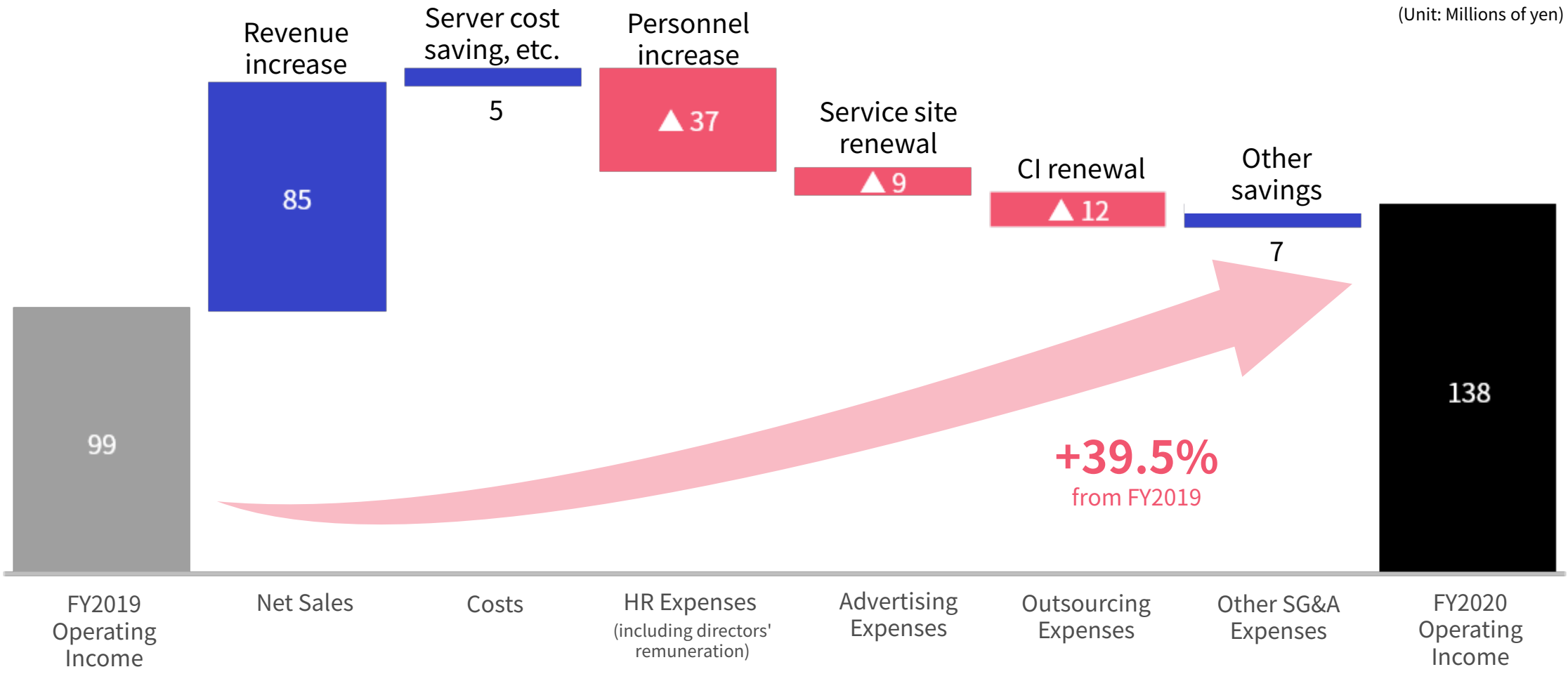
Financial Results for FY2020 / Factors Affecting Operating Results and Operating Income

Operating income increased YOY39.5% due to higher sales and lower costs (e.g., server costs), despite aggressive investments to increase headcount and renew corporate identity (CI) as well as service websites.

(Unit: Millions of yen)



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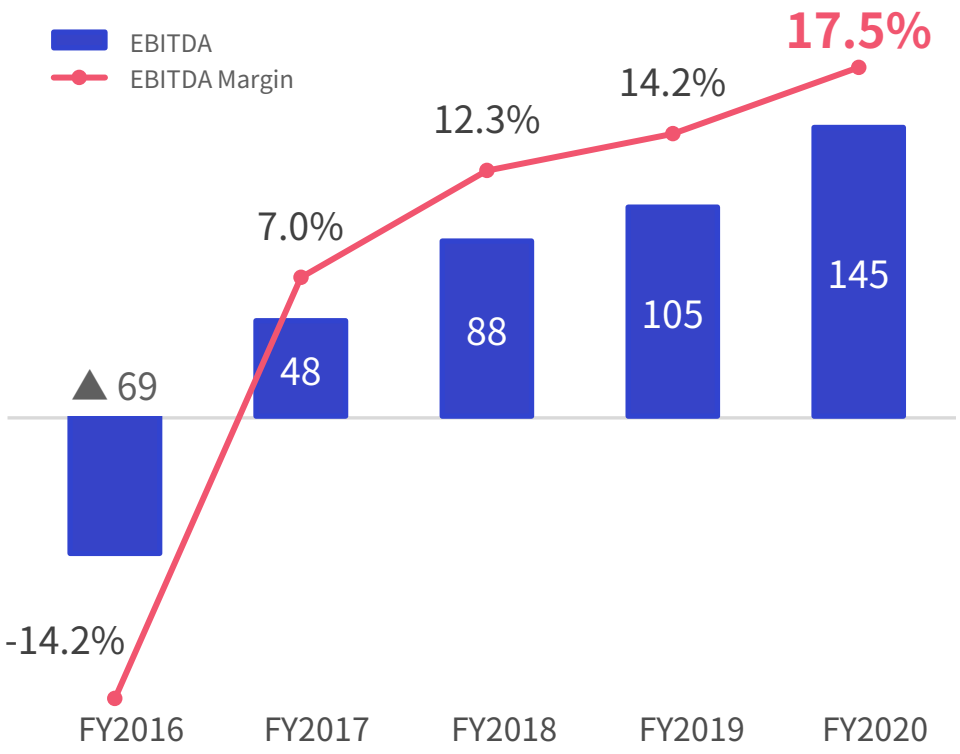
Financial Results for FY2020 / EBITDA and Cash Flows

EBITDA increased steadily in line with profit growth, and EBITDA margin expanded to 17.5%. Although free cash flow was temporarily negative due to aggressive investment in software development, it is expected to increase in the future.
Operating cash flow margin increased to 20.1%.

EBITDA

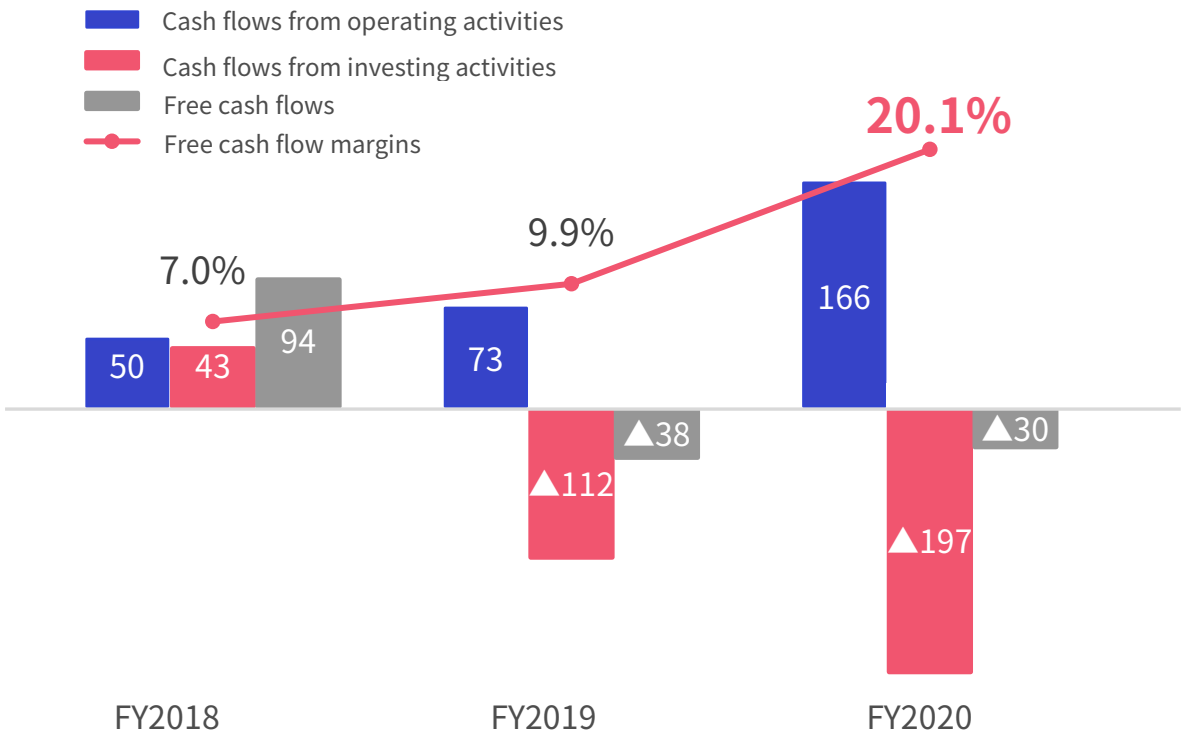
(Unit: Millions of yen)



EBITDA = Operating income + Depreciation and amortization
EBITDA margin = EBITDA / Net sales

Cash flows from operating activities

(Unit: Millions of yen)



Free cash flow = cash flows from operating activities + cash flows investing activities
Free cash flow margins = cash flows from operating activities / net sales
Cash flow statements for FY2016 and FY2017 are not available.

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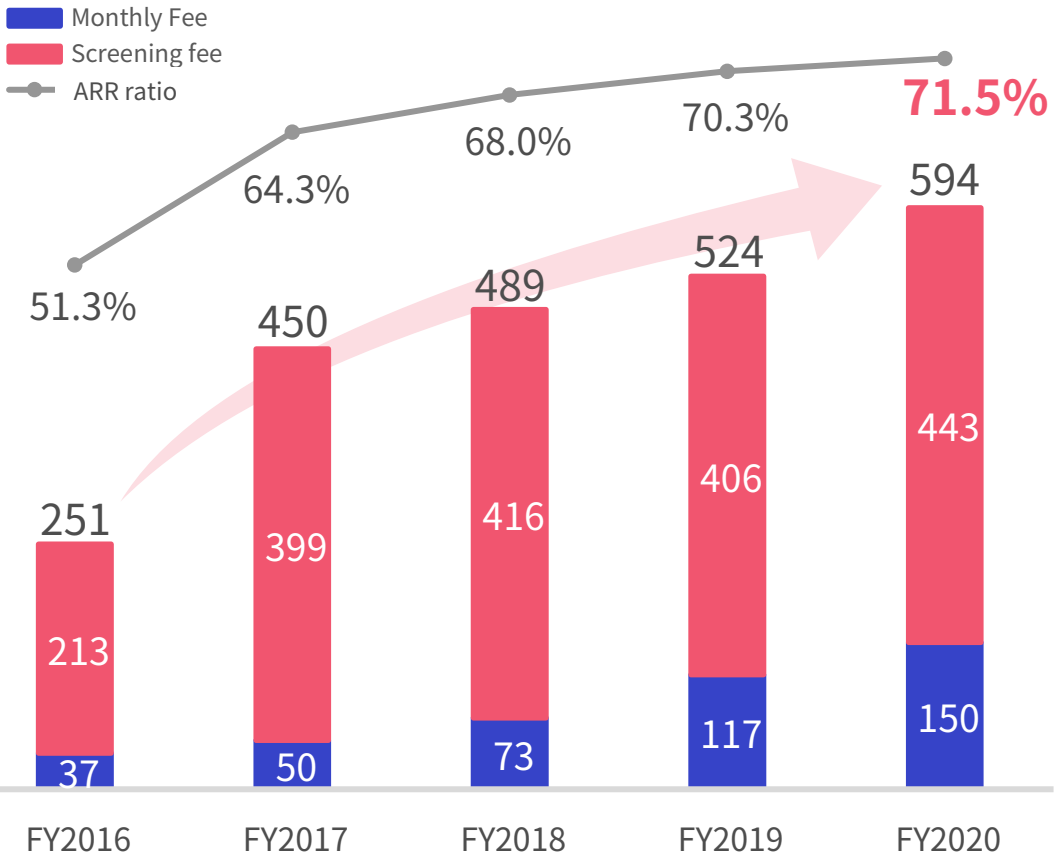
Financial Results for FY2020 / ARR / Screening Volume of O-PLUX

Both ARR from and the volume of screening with O-PLUX are steadily increasing, with the ARR ratio expanding to 71.5%.

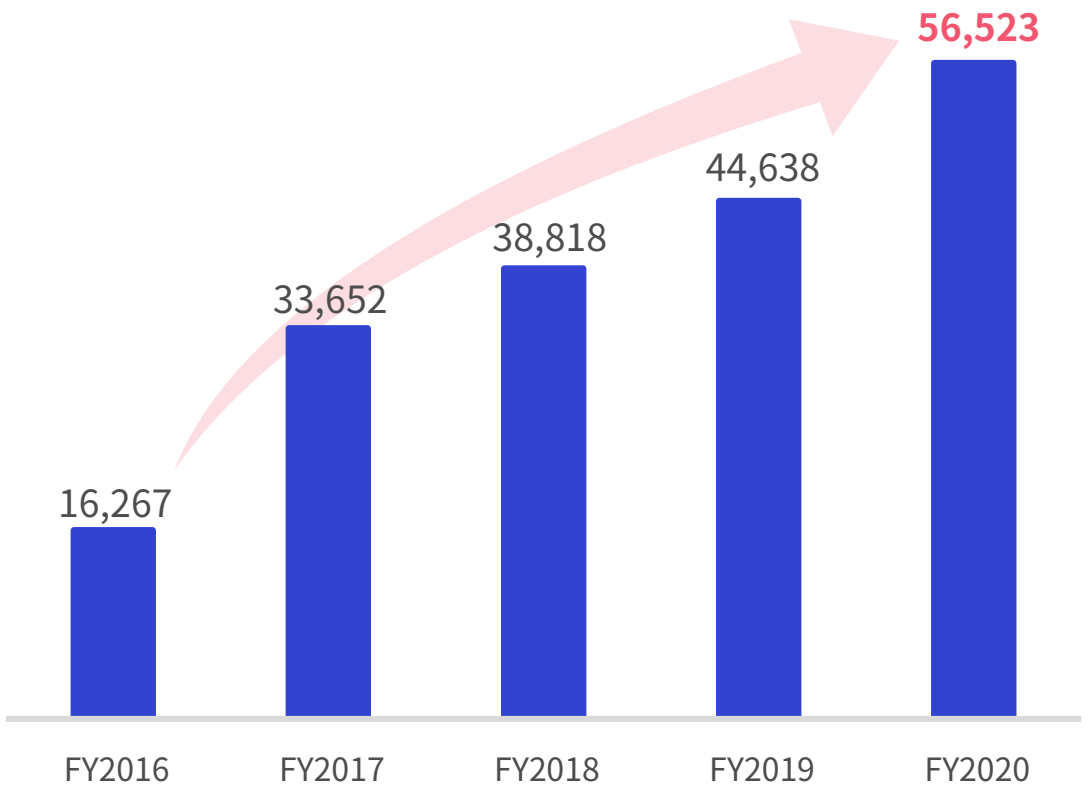
O-PLUX" ARR

(Unit: Millions of yen)



Screening Volume with O-PLUX

(Unit: Thousands)



ARR = Fixed monthly fee + screening fee based on the number of screenings (spot revenue such as initial installation fee is not included)
ARR ratio = ARR / net sales (total of all services)

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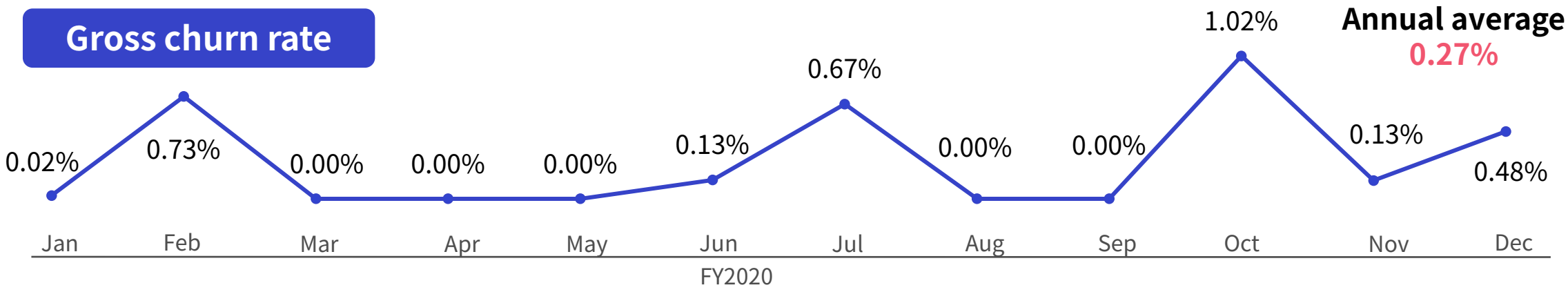
Financial Results for FY2020 / Monthly Churn Rate for O-PLUX

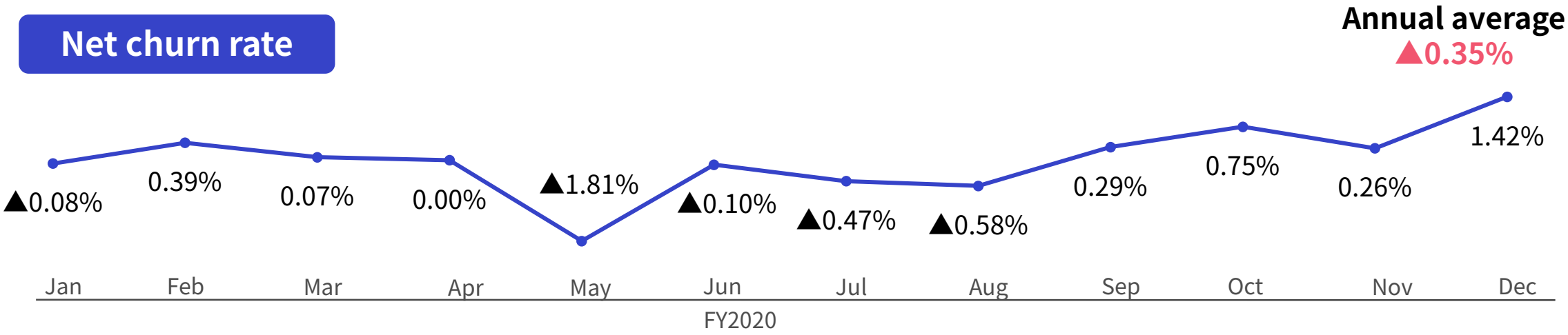
The monthly churn rate of O-PLUX has remained low, and negative churn has been realized.

Gross churn rate



Gross churn rate = annual average of current month's churned ARR / (current month's ARR - current month's new ARR)

Net churn rate



Net churn rate = (annual average of current month's churned ARR - current month's new ARR) / (current month's ARR - current month's new ARR)

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Financial Results for FY2020 / Balance Sheet for FY2020

(Unit: Millions of yen)

	FY2019 (Actual)	FY2020 (Actual)	YoY	Main drivers
Current assets	695	**1,402**	+101.8%	Increase in cash and cash equivalents
(Cash and deposits)	590	**1,293**	+119.2%	Improvement in operating CF, increase in borrowings, capital increase through IPO
Fixed assets	199	**420**	+110.6%	Increase in software in progress
Total assets	894	**1,822**	+103.8%	
Current liabilities	157	**383**	+143.9%	Increase in borrowings
Fixed liabilities	243	**291**	+19.6%	Increase in borrowings
Net assets	494	**1,148**	+132.4%	Profit recognition, capital increase through IPO
Capital ratio	54.9	**62.8**	+7.9pt	

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Growth Strategies

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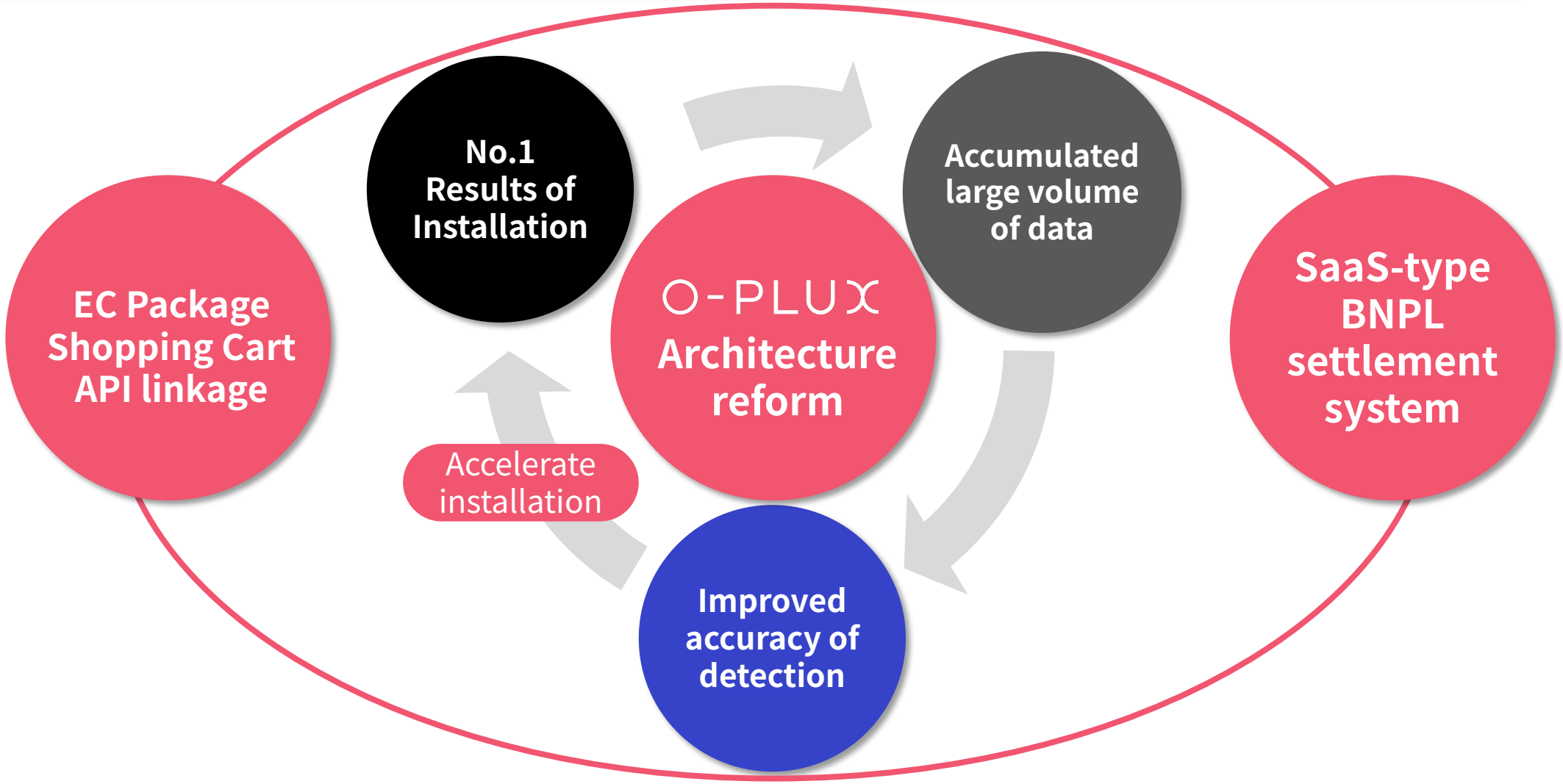
Create our own market by further accelerating and expanding the virtuous cycle that drives **the superiority of O-PLUX**



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The funds raised through IPO will be actively invested in software development to further grow O-PLUX.

EC Package Shopping Cart API linkage

Already started, WIP

By establishing API with EC packages and shopping carts, the core systems for EC businesses, the application can be introduced immediately without development efforts.

O-PLUX Architecture Reform

2021 (planned)

O-PLUX reform will improve service quality, maintainability, and reduce costs, and will enable us to offer our services to fields that we have not been able to offer before.

SaaS-type BNPL Settlement System

2021 (planned)

Rather than conventional way of development upon contract, development of SaaS-type BNPL settlement system will accelerate its use and lead to the expansion of O-PLUX.

Planning to invest the funds raised by IPO

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Growth Strategies / Existing Areas | Expansion of client base through O-PLUX and API collaboration

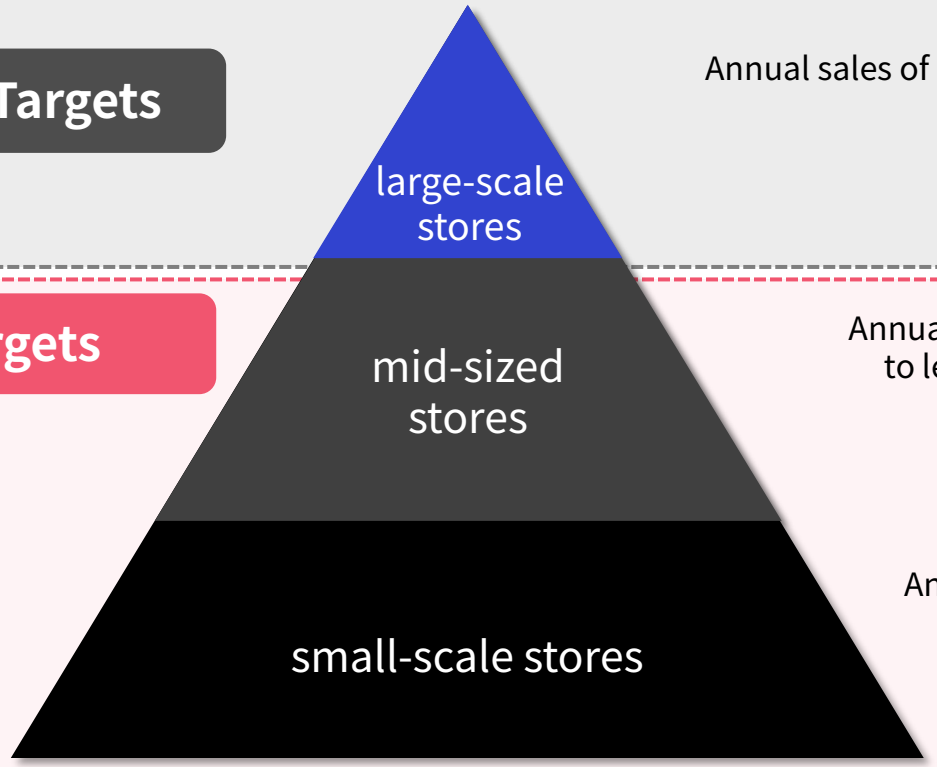
EC Package
Shopping Cart
API linkage

API with EC packages and shopping carts will accelerate installation of this application to EC businesses of all sizes.

Sales scale of EC businesses

Previous Targets

Annual sales of 100 million yen or more
8.3%



New Targets

Annual sales of 10 million yen to less than 100 million yen
27.3%

Annual sales of less than 10 million yen
64.4%

Further accelerate installation

API enables us to approach any business scales

Newly introduced

Source: "2009 Survey on Electronic Commerce for Consumers," Research and Statistics Department, Economic and Industrial Policy Bureau, Ministry of Economy, Trade and Industry

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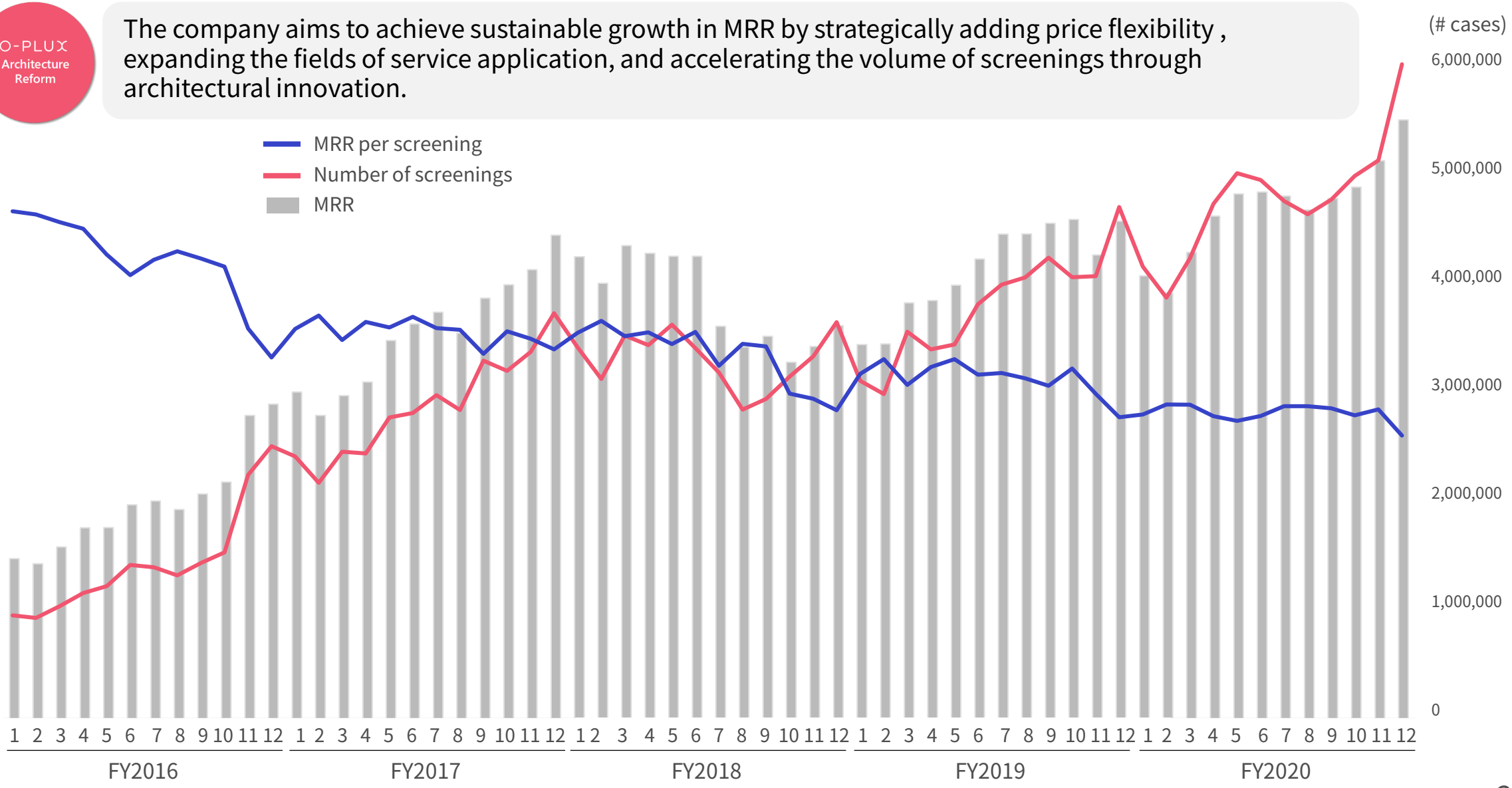
Growth Strategies / Existing Areas | O-PLUX / Increase in Screening Volume

O-PLUX Architecture Reform

The company aims to achieve sustainable growth in MRR by strategically adding price flexibility , expanding the fields of service application, and accelerating the volume of screenings through architectural innovation.



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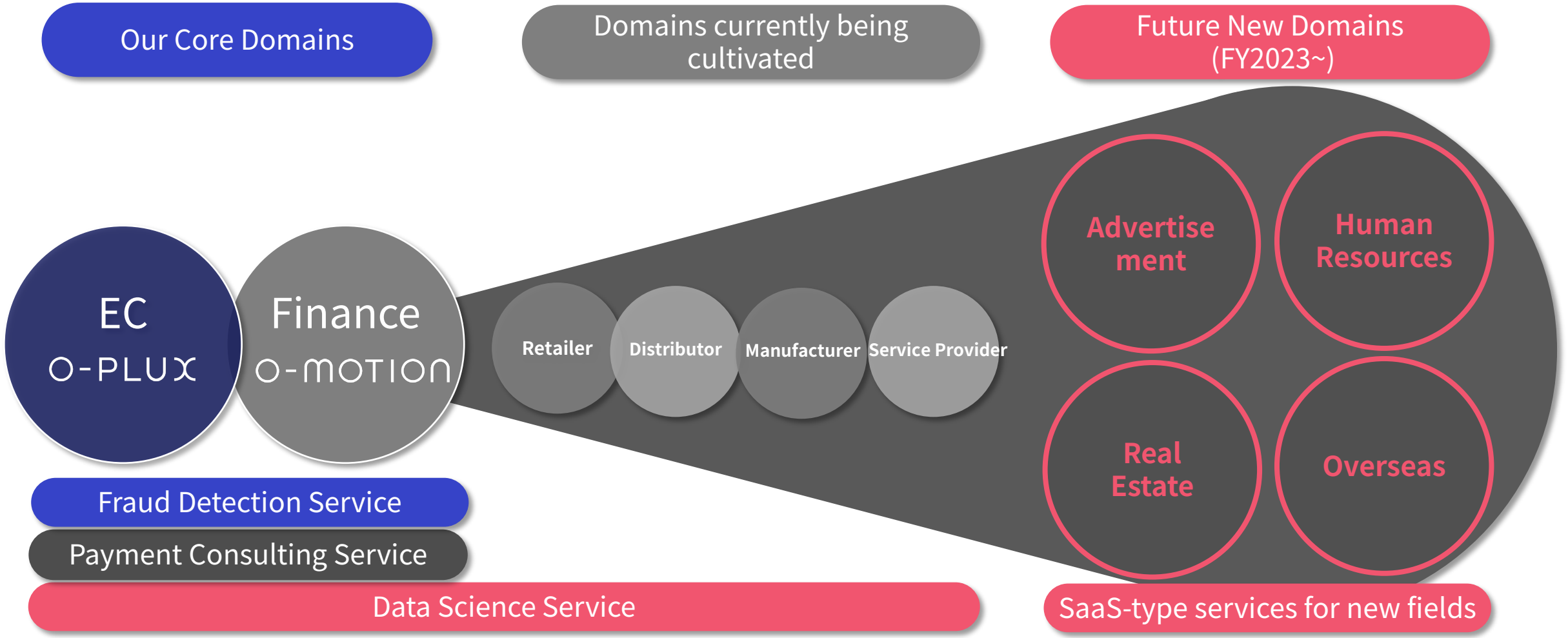
Growth Strategies / Mid/Long-Term | Building SaaS-type Services in New Fields

Build SaaS-type services in new fields by accumulating new knowledge in data science services.



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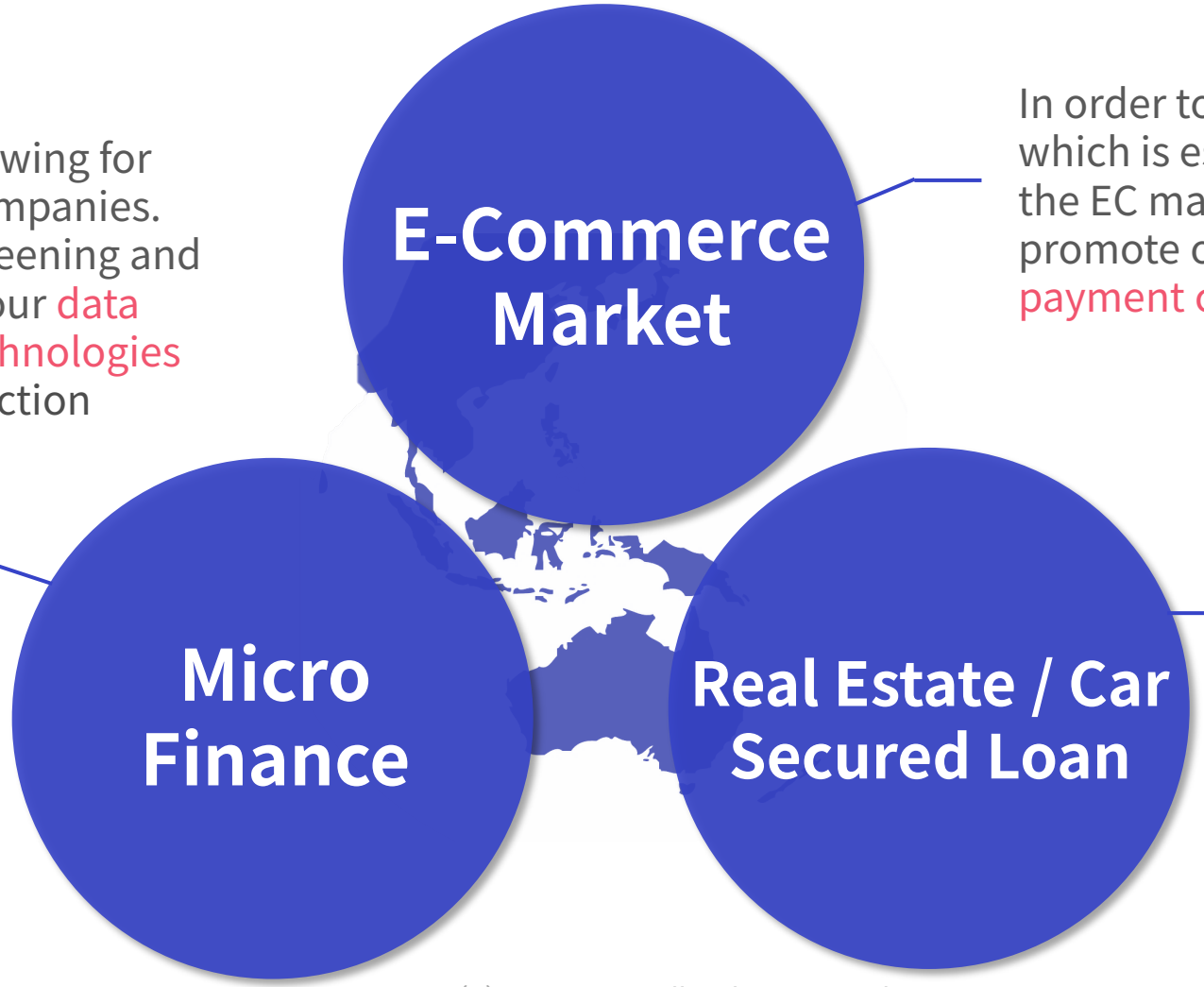
Growth Strategies / Mid/Long-Term | Global Expansion Starting with Southeast Asia

Considering entering the following 3 markets in Southeast Asia (Market research is currently underway.)

Demand for funds is growing for both individuals and companies. We will provide loan screening and other services utilizing our data science and security technologies based on the fraud detection services.



In order to expand credit transactions, which is essential for the development of the EC market in Southeast Asia, we will promote our fraud detection and payment consulting services.

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

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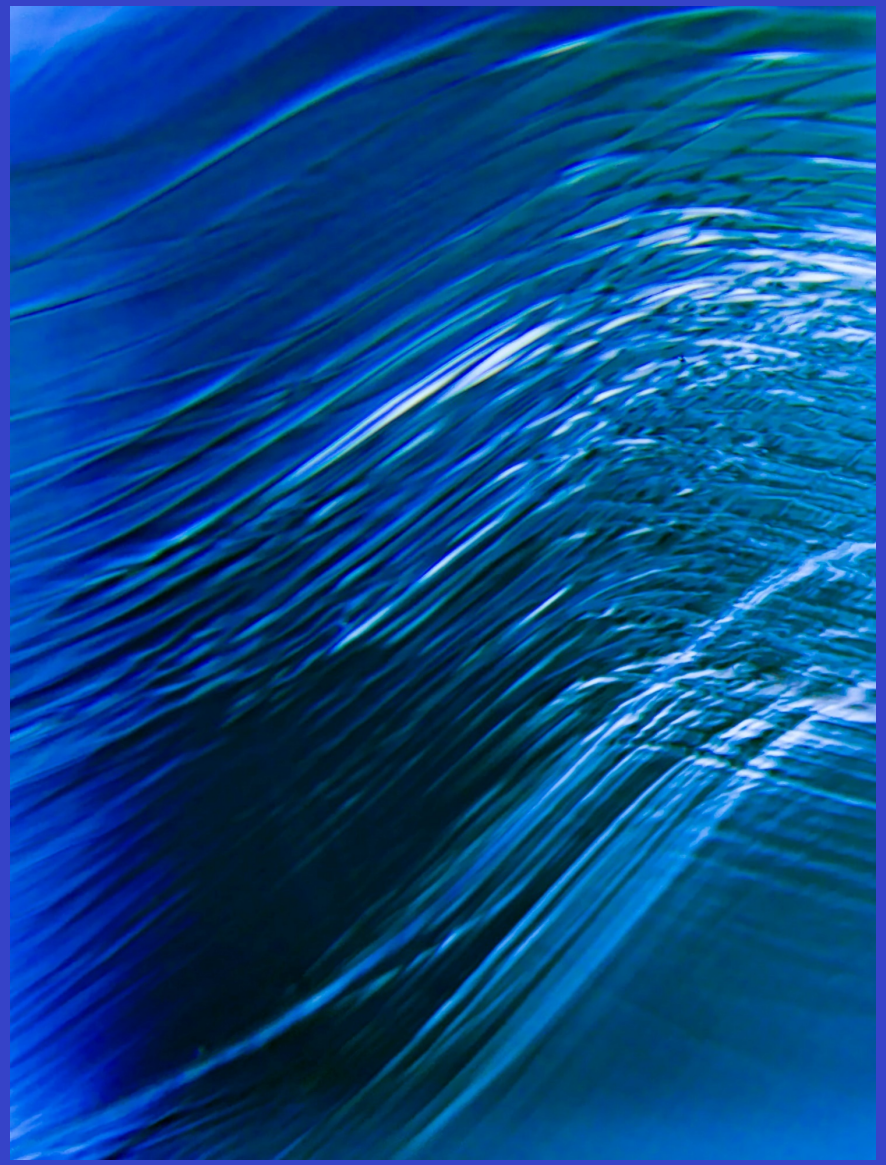

Forecast of Financial Results for FY2021

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Net sales +9.4% from FY2020

Fraud detection services are expected to grow YOY12.9% by expanding sales of "O-PLUX" and "O-MOTION".

Sales of payment consulting services are expected to decrease by YOY7.1% due to a decrease in system development projects, and sales of data science services are expected to be the same as FY2020.

Ordinary income +29.3% from FY2020

Operating income is expected to increase by YOY11.8%, and ordinary income by YOY29.3%, as the expenses for listing will not be incurred in FY2021.

Net income is expected to decrease due to an increase in adjustments for corporate tax, etc. (tax expenses) resulting from a decrease in deferred tax assets.

(Unit: Millions of yen)

	FY2020 (Actual)	FY2021 (Forecast)	YoY
Net sales	831	**909**	+9.4%
Operating income	138	**154**	+11.8%
(Profit margin)	16.6	**17.0**	+3.4pt
Ordinary income	115	**149**	29.3
(Profit margin)	13.9	**16.4**	+2.5pt
Net income	130	**102**	▲21.3%
EPS (yen)	55.37	**39.05**	-

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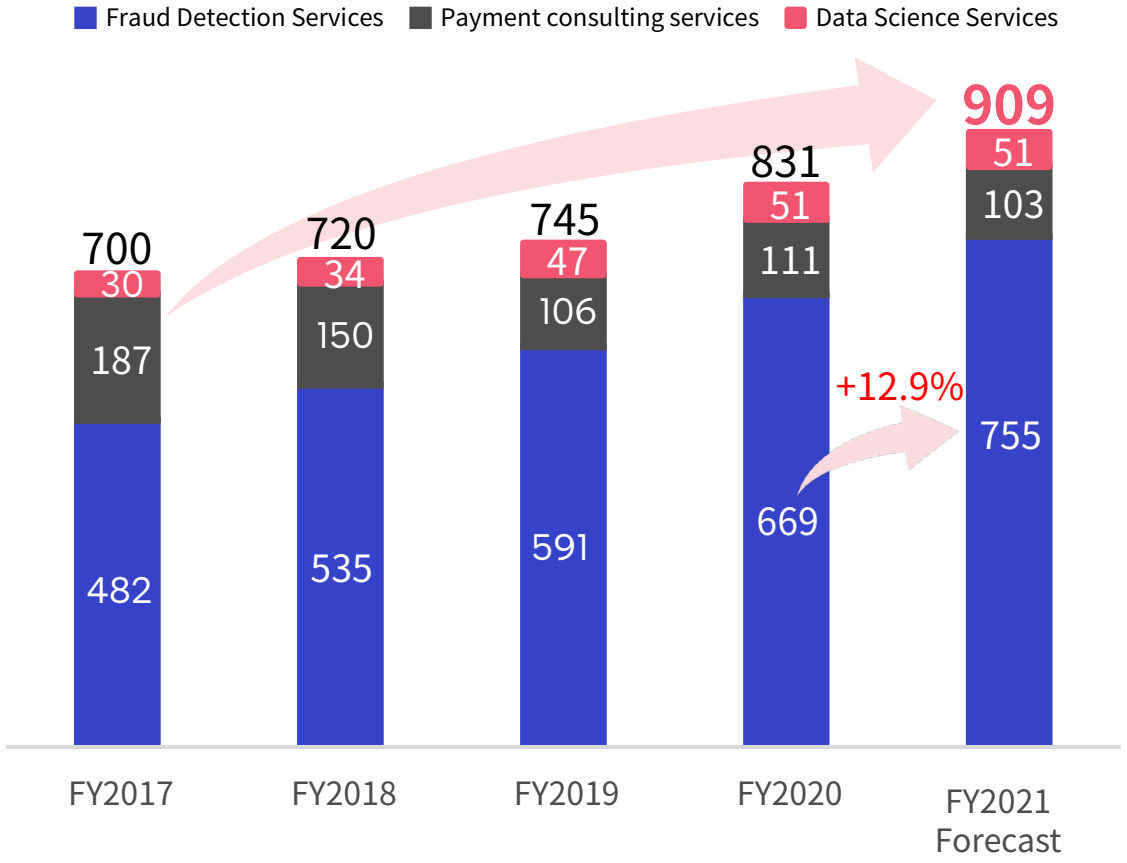
FY2021 Forecast / Net Sales and Sales Composition by Service

Fraud detection service, Cacco's core service, is expected to increase by **12.9%** y-o-y, with its sales composition expected to expand to **83.0%.**

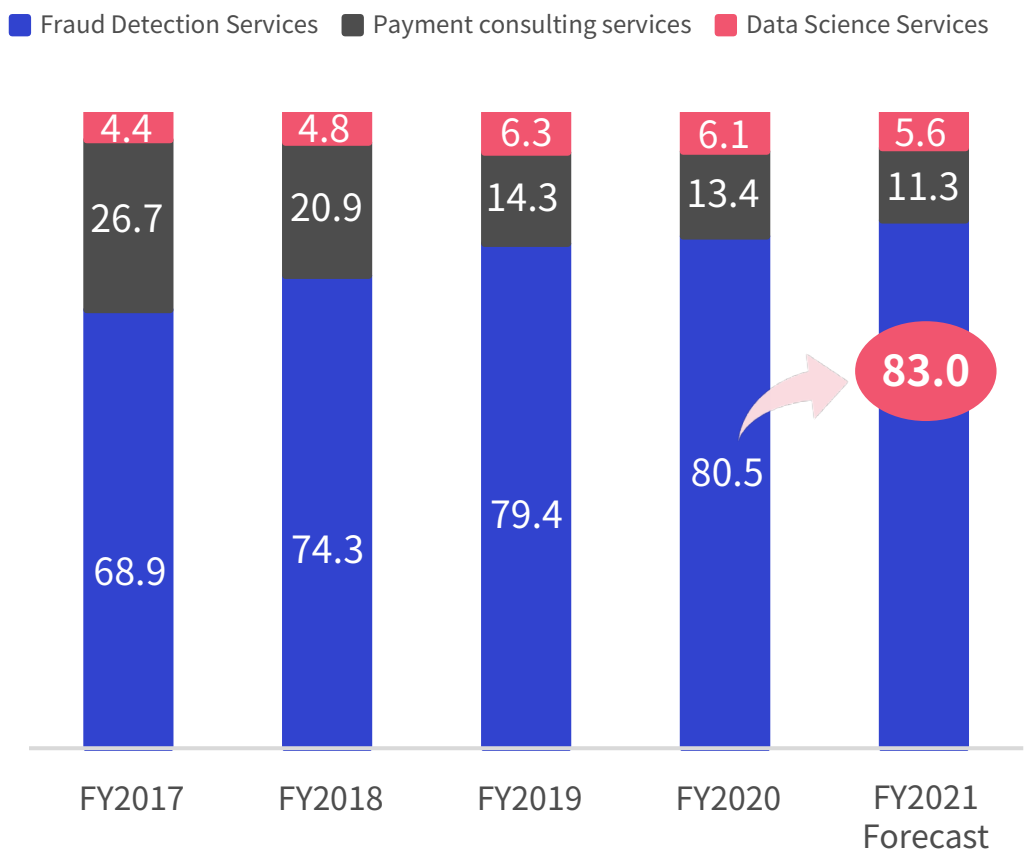
Net sales

(Unit: Millions of yen)



Sales composition ratio by service

(Unit: %)



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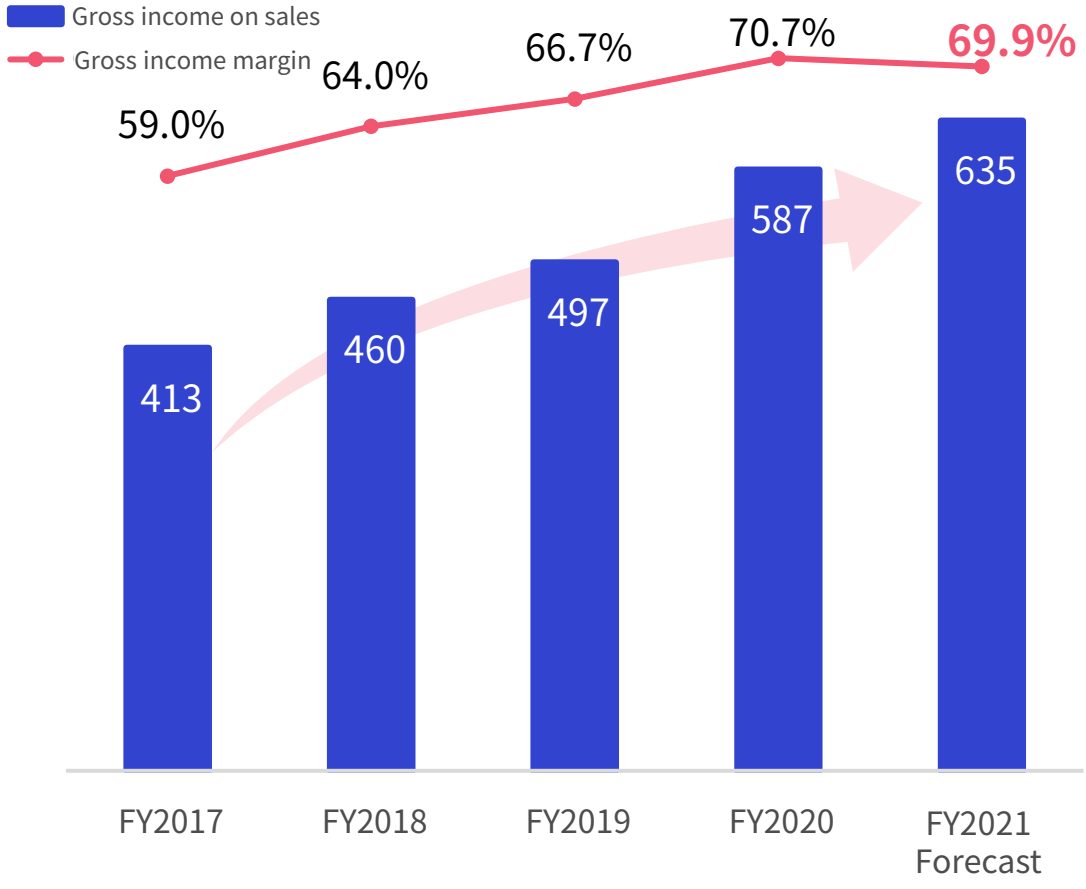
FY2021 Forecast / Gross Income and Operating Income

Although the gross income 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 income margin is expected to increase steadily.

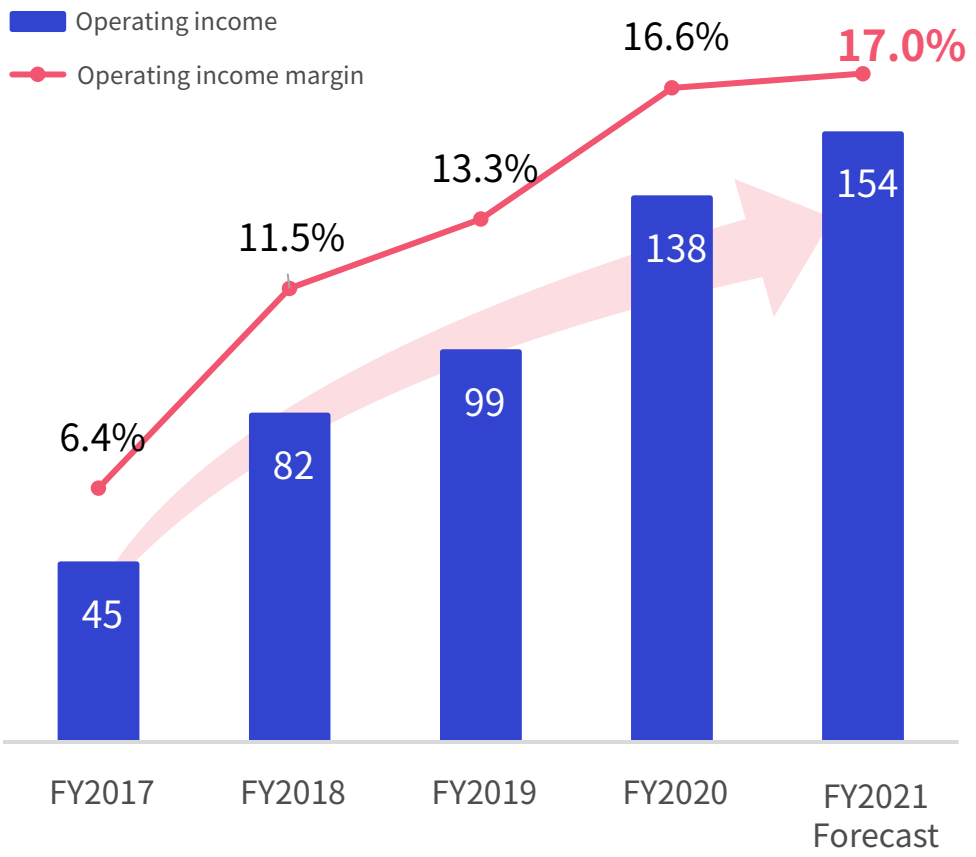
Gross Income

(Unit: Millions of yen)



Operating Income

(Unit: Millions of yen)



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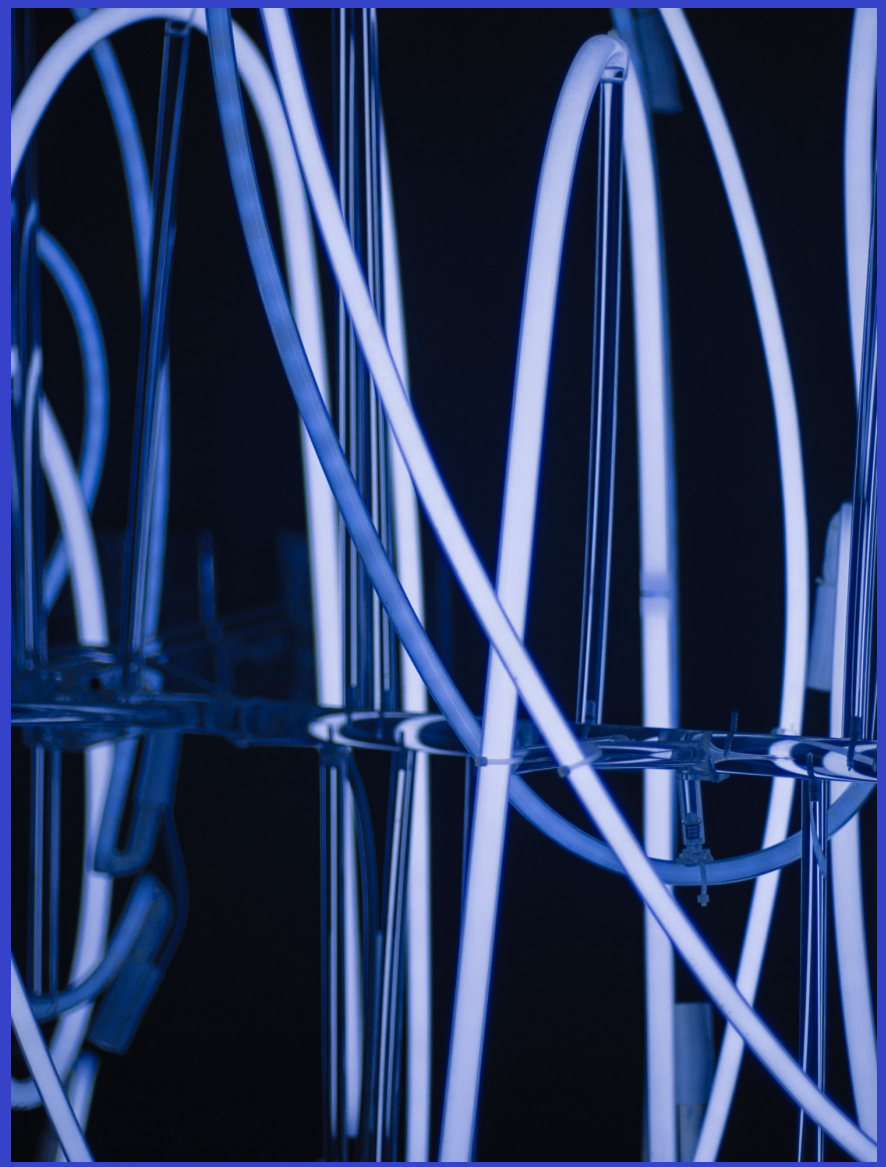

Appendix

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Introduction of Our Services

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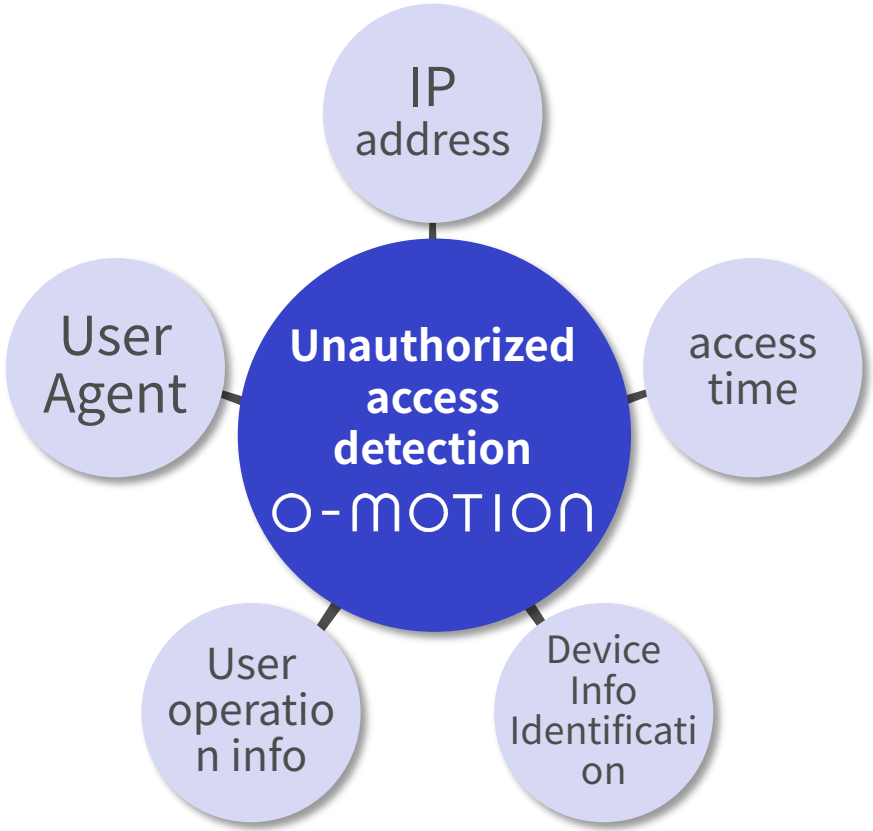
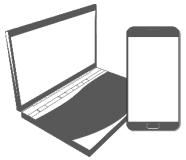
Service Introduction / Unauthorized Access Detection Service "O-MOTION"

Real-time analysis of the operation information, device information, etc. of users accessing the website. Identifies identity theft and prevents fraudulent activities (personal information leakage, unauthorized purchases, etc.) resulting from unauthorized access.





POINT 01

Fraud detection using unique device and operation information

It can determine and detect fraud that cannot be detected by conventional detection methods using User Agent or Cookie.



POINT 02

No additional authentication is required for users to access the site.

It is possible to take measures against unauthorized access without additional authentication, which would otherwise become a burden for site users, improving both usability and security.



POINT 03

Easy installation with only embedded JS tags

It can be used by simply embedding JavaScript tags in the target page, reducing development time and cost.

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Service Introduction / Payment Consulting Services

We provide one-stop support for businesses that are considering building or using BNPL settlement system, 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 system

Operational Support

Providing screening engine
O-PLUX



POINT 01
Extensive experience in supporting BNPL business

- Experience in building payment systems for millions of transactions/month
- Experience in supporting start-ups (creating business plans and 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 will make the best proposal from the customer's perspective.



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 severe 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 volume of installation in Japan (*).

(*)As of the end of May 2020 (Tokyo Shoko Research, Inc. "Survey on the number of sites introducing paid fraud detection services on EC sites in Japan")

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Service Introduction / Data Science Services

Based on the technologies of AI, statistics, and mathematical optimization, 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



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 pieces of data within 30 business days with an investment of 2 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 human 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 1700 products and 12 production lanes. Made a plan for the production order to maximize the production volume and minimize the loss while observing the complex conditions.

Annual cost reduction of 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 loss due to shortages.

70% reduction in sales opportunity loss

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 reduction of 0.6 billion yen

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Relevant Market Information

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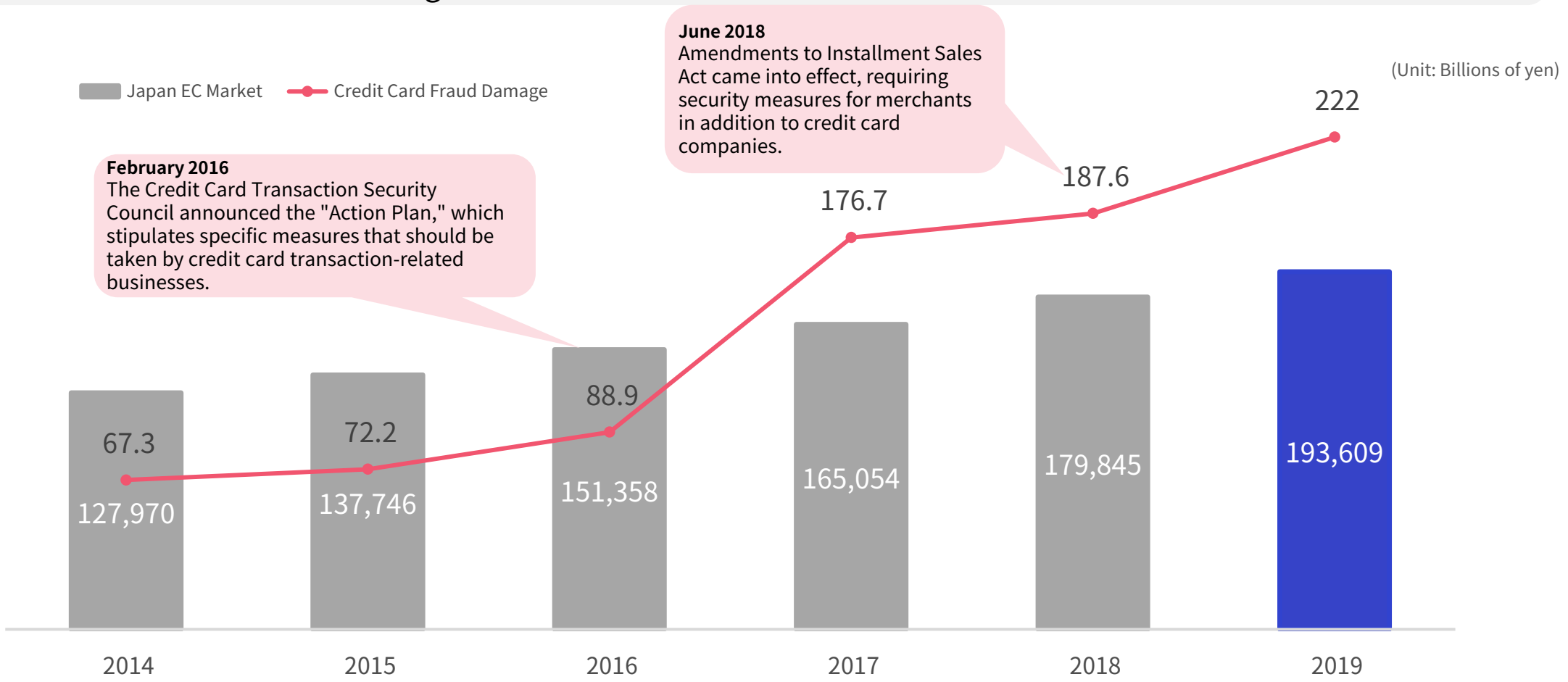
Relevant Market Information / Growth of the Japanese EC Market and Expansion of Fraudulent Damages

In proportion to the growth of the EC market, credit card fraud (number theft) has been increasing.
With the announcement of the "Action Plan" and the revision of the Installment Sales Act, social demand for anti-fraud measures is increasing.



Source: "FY2036 Report on the International Economic Research Project for the Establishment of an Integrated Economic Growth Strategy for Japan and the World (Market Research on Electronic Commerce)," Information Economy Division, Commerce and Information Policy Bureau, Ministry of Economy, Trade and Industry.
"Credit Statistics in Japan 2019" (Japan Credit Association)

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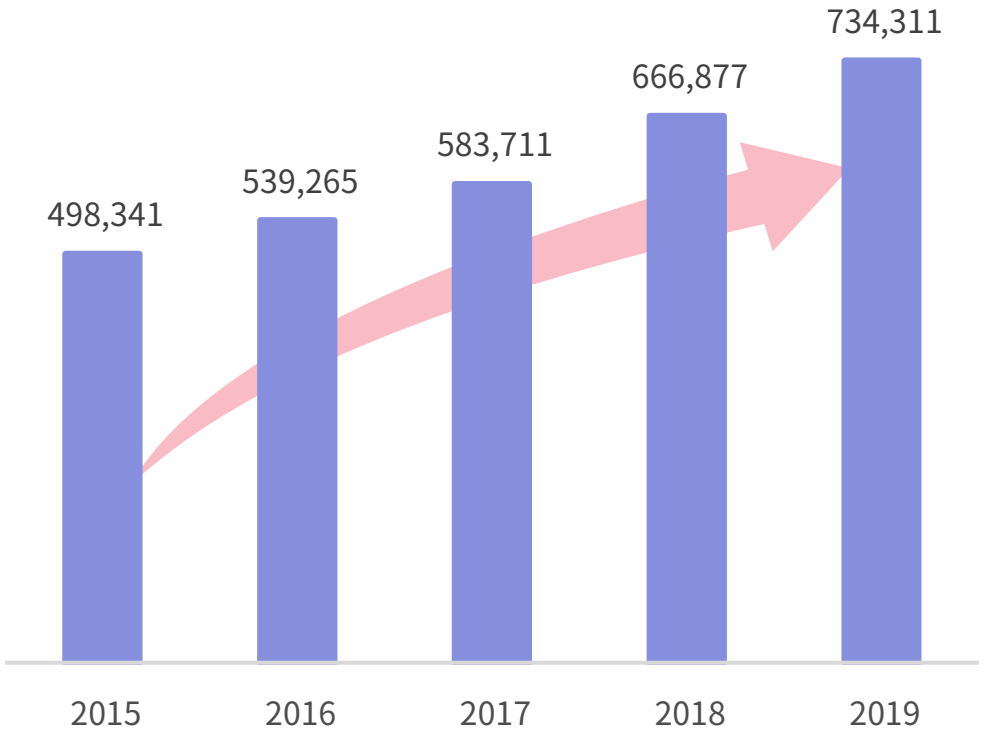
Relevant Market Information / Expansion of Use of Credit Cards and BNPL Settlement System

The use of both credit cards and BNPL settlement system is expanding, with BNPL in particular growing rapidly at 30% per year.

Trend in Credit Amount for Credit Card Shopping

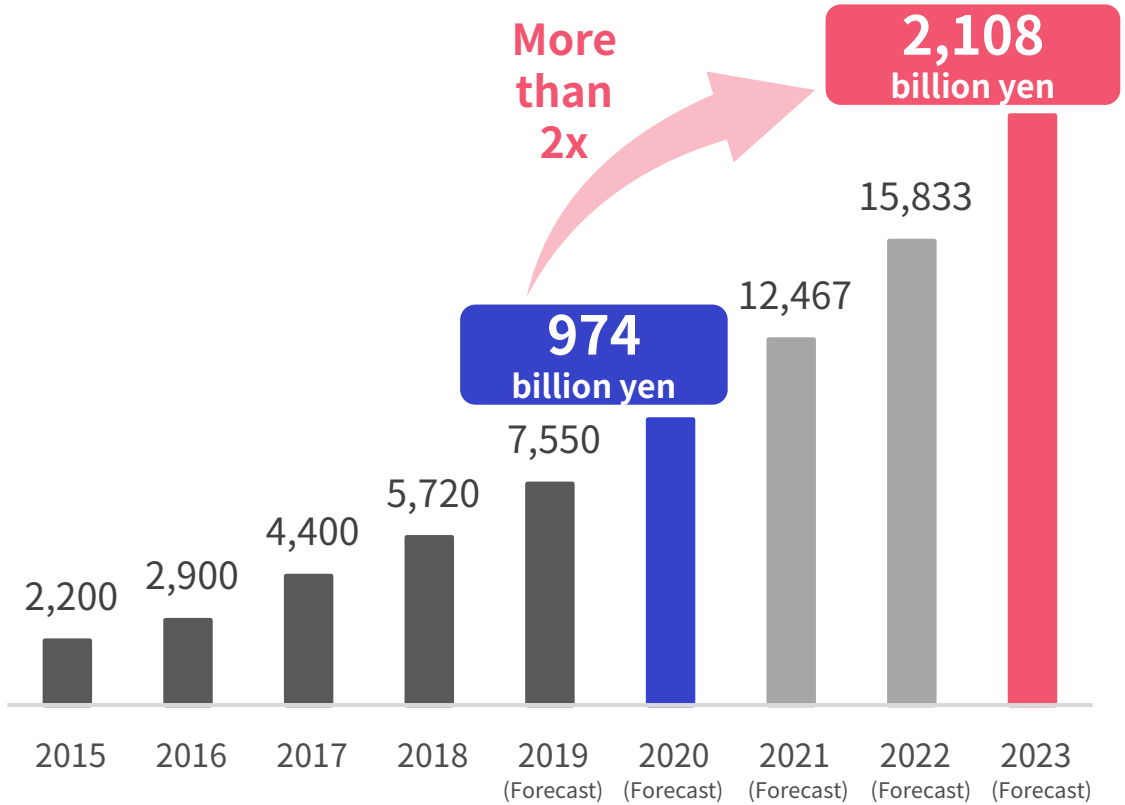
(Unit: Billions of yen)



Source: Japan Credit Association, "Credit Statistics in Japan 2019".

Trend in BNPL Market

(Unit: Billions of yen)



Source: Yano Research Institute, "Trends in the size of the BNPL market.

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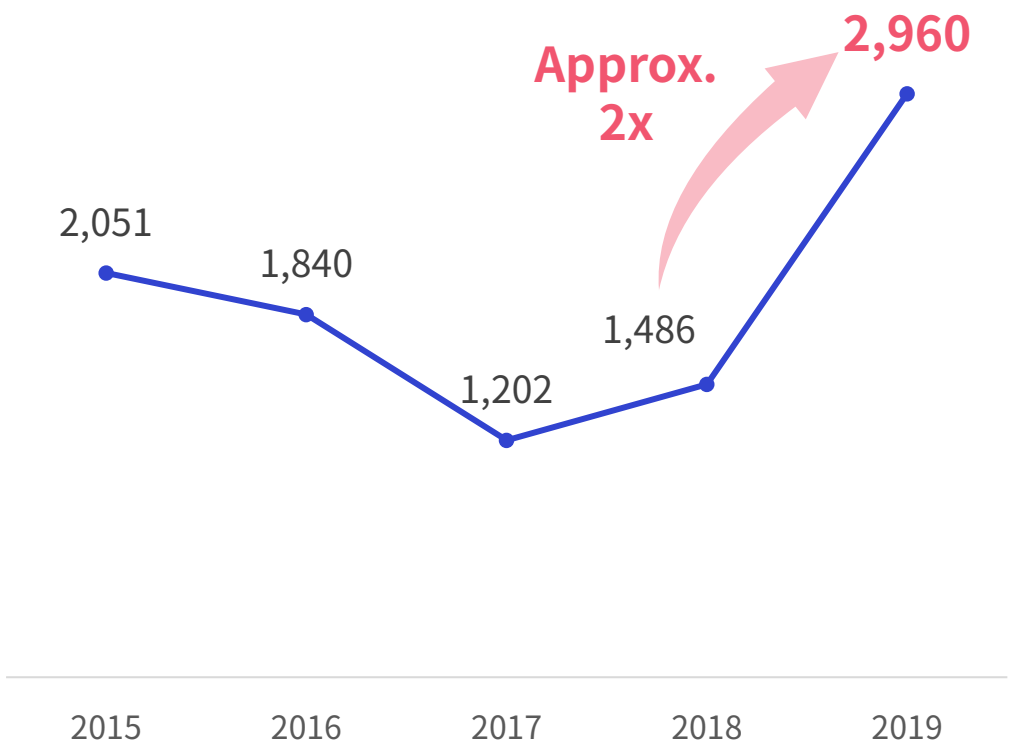
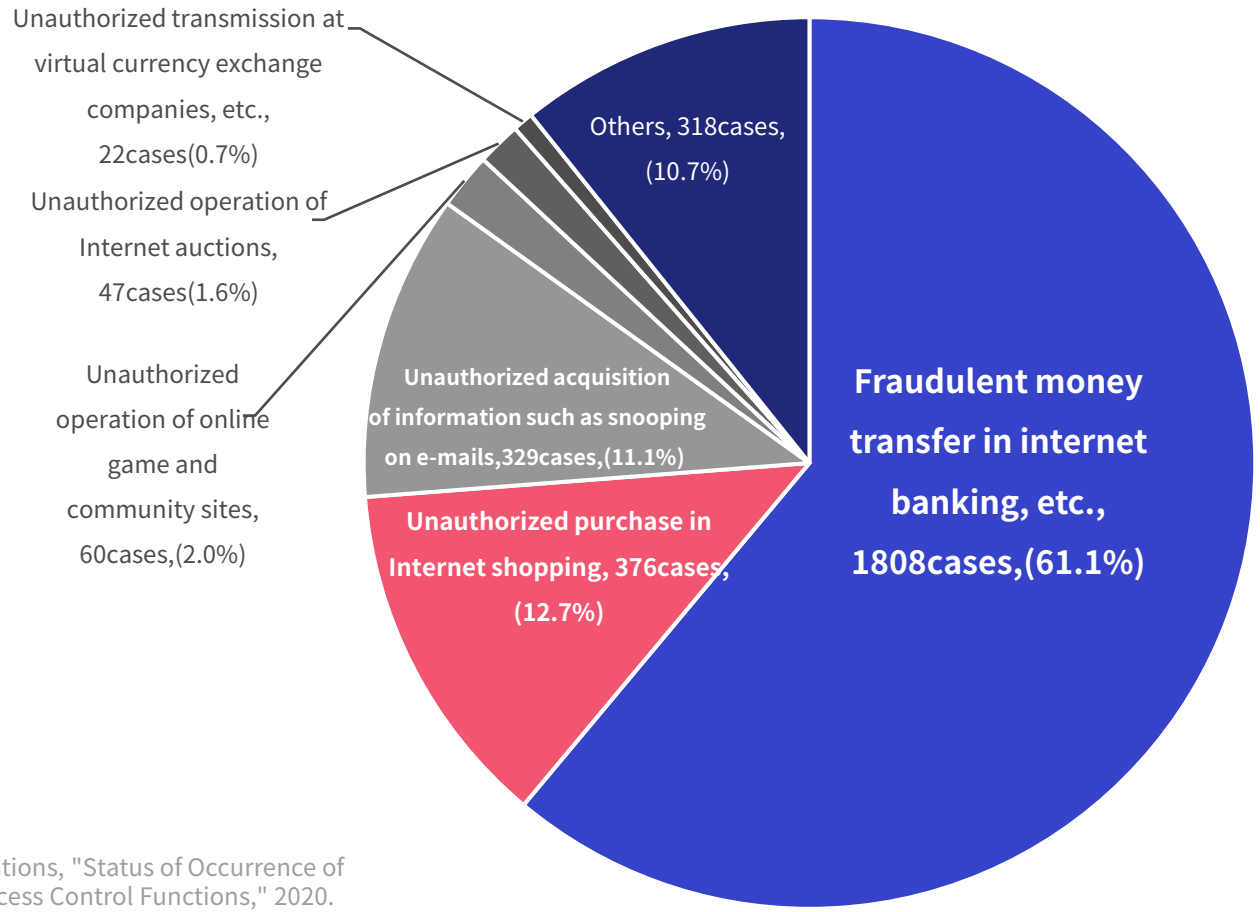
Relevant Market Information / Damage from Unauthorized Access in Japan

There has been a sharp increase in the number of fraudulent access victims, with fraudulent money transfers in online banking and fraudulent purchases in e-commerce accounting for over 70% of the total.

Number of recognized cases of unauthorized access



Actions taken after unauthorized access (2019)



Source: Metropolitan Police Department and Ministry of Internal Affairs and Communications, "Status of Occurrence of Unauthorized Access Acts and Research and Development of Technologies for Access Control Functions," 2020.

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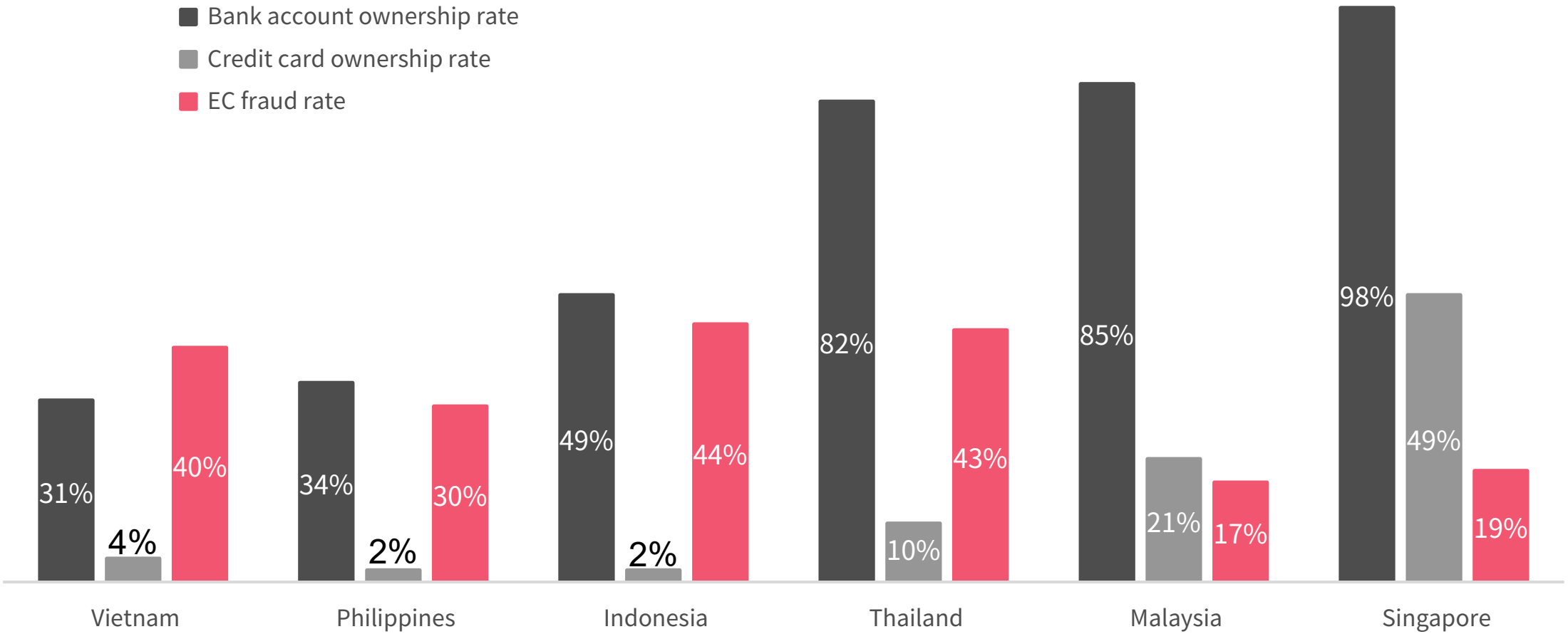
Relevant Market Information / Financial Service Penetration Rate and EC Fraud Rate in Southeast Asia

The market for financial services and e-commerce fraud prevention is expected to grow in Southeast Asia.



Source: WORLD BANK GLOBAL FINANCIAL INCLUSION DATA [ACCESEDED JANUARY 2019], THE ASEAN POST, AppsFlyer2019

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Shaping the “Let's Do It”

for a next game changer