

COMPANY RESEARCH AND ANALYSIS REPORT

Cacco Inc.

4166

Tokyo Stock Exchange Growth Market

22-Jun.-2022

FISCO Ltd. Analyst

Yoichiro Shimizu



FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Posted higher sales and profits for the sixth consecutive fiscal year and set a new all-time high in sales Expecting accelerated growth driven by market expansion

Cacco Inc. <4166> (hereinafter, the Company) delivers services in an SaaS format to customers that detect various types of fraud in e-commerce (electronic commerce; hereinafter, EC) environments mainly in the market for EC fraud detection services by leveraging its knowledge and knowhow related to data science. The Company offers mainstay O-PLUX, which detects fraudulent orders in EC activity, and O-MOTION, which detects unauthorized access to financial institutions, member sites and other sites, as products and provides payment consulting services to BNPL (Buy Now Pay Later) businesses and others and data science services to customers in retail, distribution, manufacturing, and other industries with the EC market as the main target. It enjoys a virtuous cycle in which accumulation of data from increases in the number of companies using its services enhances the detection precision of its services which in turn leads to the acquisition of more customers.

1. Outline of results for FY12/21

In FY12/21, the Company realized rapid growth in FY12/21 with net sales increasing 14.4% YoY to ¥951mn, operating income increasing 29.5% to ¥178mn, and ordinary income rising 47.9% to ¥170mn. Although net income dropped 7.5% to ¥120mn due to non-recurrence of a positive contribution from income taxes – deferred in the previous fiscal year, net sales, operating income, and ordinary income realized increases for the sixth consecutive fiscal year since FY12/16 and net sales reached a new all-time high. The main drivers were improvement in the added value of O-PLUX and other existing products, an increase in companies deploying the Company's service through expansion of alliances with credit card firms, payment agent firms, EC package companies, and other external companies, and a pick-up in EC transactions due to lifestyle changes fueled by the COVID-19 pandemic (O-PLUX charges a monthly fee and a volume fee based on the number of screenings).

2. FY12/22 forecast

For FY12/22, the Company is forecasting higher sales and profits with ¥1,102mn in net sales, (up 15.9% YoY), ¥191mn in operating income (up 7.1%), ¥195mn in ordinary income (up 14.5%), and ¥137mn in net income (up 14.3%). The Company intends to achieve these results through acquisition of new customers by broadening its product line-up, including the low-priced Fraud Checker offered in the O-PLUX Series, acquisition of new customers via expansion of alliances with credit card firms, payment agent firms, EC package companies, and other external companies, recruitment of new customers and deeper involvement with existing customers in payment consulting services and data science services besides fraud detection services, and expanded EC usage associated with lifestyle changes triggered by the COVID-19 pandemic. FISCO thinks the Company is capable of attaining its forecast considering the prospect of a healthy trend in EC usage even after the pandemic settles down, sustained high levels of unauthorized access, anticipated increases in customer volume via expanded alliances, likely broadening of customer scope through the addition of low-priced products to the line-up, and the prospect of growing income results in payment consulting services and other areas thanks to expansion of the BNPL market.

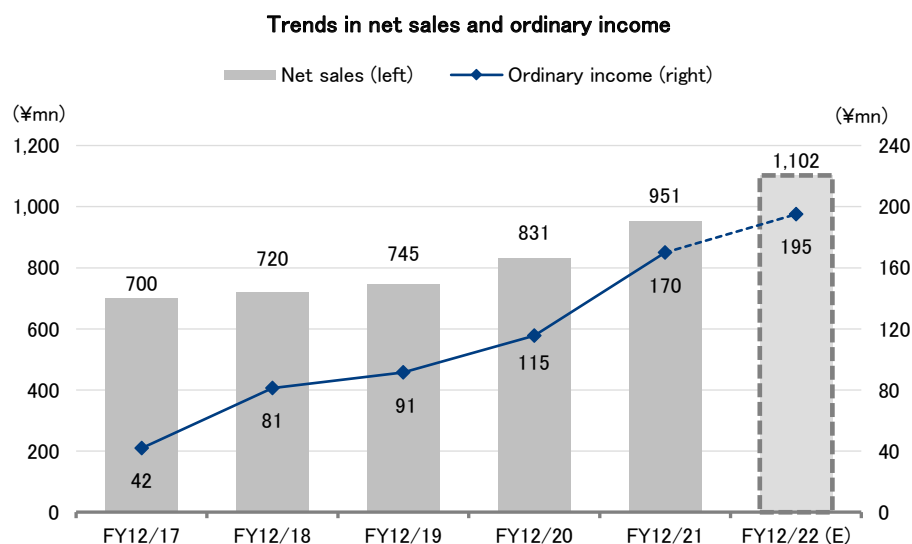
Summary

3. Market scale

Industry outlooks indicate that markets covered by the Company's businesses will steadily expand going forward. Market scale forecasts project expansion of the EC fraud detection service market by roughly 48.3% over five years from approximately ¥184.9bn in 2022 to approximately ¥274.2bn in 2026 and rapid growth in the BNPL market, where the Company's customers operate, by roughly 1.7-fold from ¥1,077bn in 2021 (estimated) to ¥1,880bn in 2024.

Key Points

- Net sales climbed 14% YoY in FY12/21 and net sales, operating income, and ordinary income rose for the sixth consecutive fiscal year; net sales set a new all-time high
- Forecasts higher sales and profits in FY12/22 as well
- Possesses sufficient potential to accelerate growth amid anticipated market expansion



Source: Prepared by FISCO from the Company's securities reports and financial results

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Company profile

**Provides fraud detection services centered on data science
Likely to accelerate growth with the tailwinds from the external environment**

1. Company profile

The Company was founded in 2011 with a mission statement of “Companies are destined to fade away if they stick to the status quo amid daily changes accompanying inroads by the Internet and smartphones. New industries will not emerge without promotion of change. We want to break through the situation of sustained low growth since the 2000s” and a corporate vision of “Always being involved from start to finish in addressing issues that face society while also changing ourselves and moving forward with the power of data science.”

Source of the company name



The name “Cacco” comes from the “kagicacco” (bracket) symbol.

The “Cacco” symbol is paired as a beginning and an end, and takes on a variety of formats depending on the situation and language. The Company started with a vision of “Always being involved from start to finish in addressing issues that face society while also changing ourselves and moving forward with the power of data science.”

Source: The Company's website

The Company's business activities mainly take place in the EC fraud detection service market. By leveraging knowledge related to data science cultivated since its founding, the Company provides a variety of services that detect fraud in EC activity to customers via an SaaS format. Specifically, it offers mainstay O-PLUX, which detects fraudulent orders in EC activity, and O-MOTION, which detects unauthorized access to financial institutions, member sites, and other sites, as products and provides payment consulting services to BNPL (Buy Now Pay Later) businesses and others and data science services to customers in retail, distribution, manufacturing, and other industries with the EC market as the main target. It helps solve the business issues of customers through utilization of data science. The Company intends to harness growth in markets where it operates (EC fraud detection service market, BNPL market, and EC market) and accelerate its own growth.

History

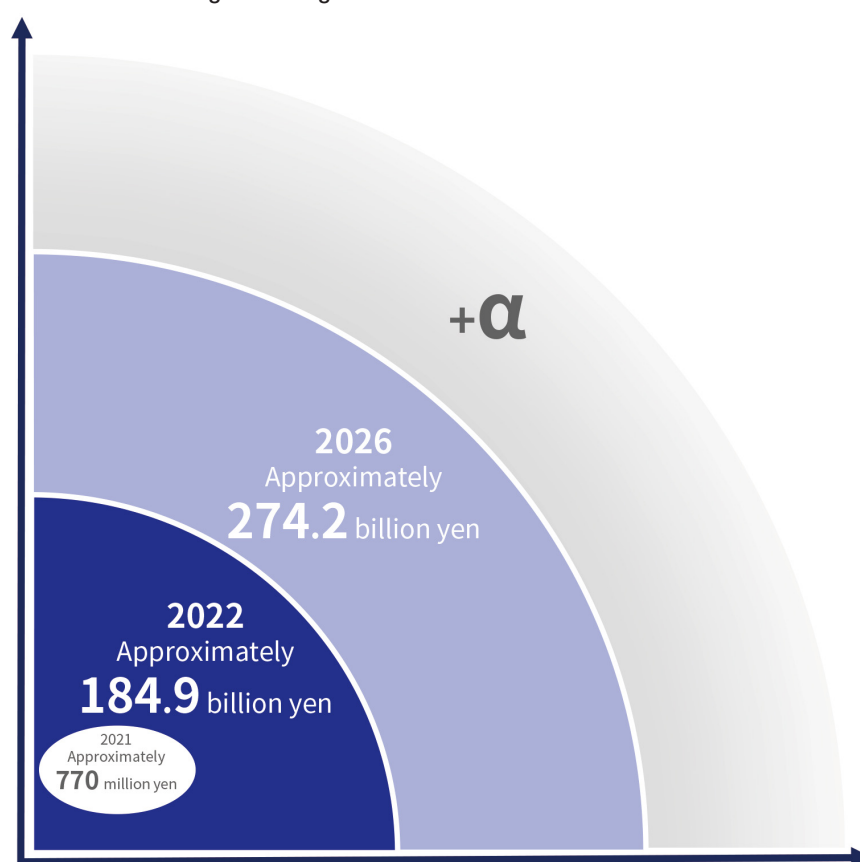
January 2011	Founded Cacco Inc. with ¥2.4mn in capital
November 2011	Started payment consulting service
June 2012	Released O-PLUX fraudulent order detection service
August 2012	Obtained Information Security Management System (ISO27001) certification
January 2015	Started data science service
July 2016	Released O-MOTION unauthorized access detection service
November 2019	Received the “14th Nippon New Business Innovation Award, Minister of Economy, Trade and Industry Award”
June 2020	Released three industry-specific O-PLUX services including O-PLUX for Travel
December 2020	Listed on the Tokyo Stock Exchange Mothers Market
September 2021	Released O-MOTION Light as a low-priced plan for O-MOTION unauthorized access detection service
October 2021	Released O-PLUX Premium Plus service that covers credit card fraud damages without an upper limit Released the Fraud Checker fraudulent order detection service with pricing that begins at ¥4,000 per month Formed a capital and business alliance in the security field for online transaction with Eltes <3967>

Source: Prepared by FISCO from the Company's securities reports and web page

2. Company's business environment

FISCO expects continued growth in markets where the Company and its customers operate and thinks the external environment is very healthy. Since the EC fraud detection service market in which the Company offers mainstay service O-PLUX is still in the dawn phase, industry forecasts project market expansion from approximately ¥184.9bn in 2022 to ¥274.2bn in 2026. It is projected that this market will transition from the dawn phase to a growth phase going forward. The Company generates about ¥770mn in fraud detection service sales and hence has sufficient room to expand income. The background to this is the spread of SaaS-type services. Using SaaS curtails initial investments and lowers the hurdle to corporate deployment. These benefits are projected to support market growth.

Market growth image for the EC fraud detection service market



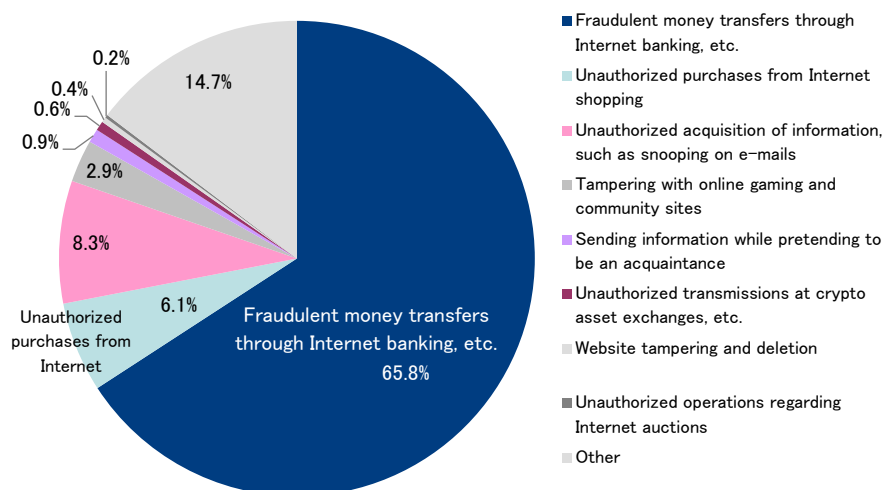
Source: The Company's business plan and items related to growth potential

Additionally, FISCO thinks EC service usage, which increased during the COVID-19 pandemic, is likely to continue. This view relies on the presence of an environment supporting EC usage in Japan as evidenced by findings in the Ministry of Internal Affairs & Communications' "White Paper: Information and Communications in Japan 2021" which state that demand exists for Internet shopping and EC services as the top choices of "services that people want to use after the COVID-19 pandemic settles down," the fact that the smartphone ownership rate has risen from 9.7% in 2010 to 86.8% in 2020, and that internet usage rate was high at 83.4% in 2020. FISCO thinks unauthorized access detection cases and the breakdown deserve attention as well. Although the number of unauthorized access detection cases has dropped from the roughly 3,500 cases in 2014, it remained at a high level of about 2,800 cases in 2020, and 71.9% of the 2020 cases were related to EC services.

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Company profile

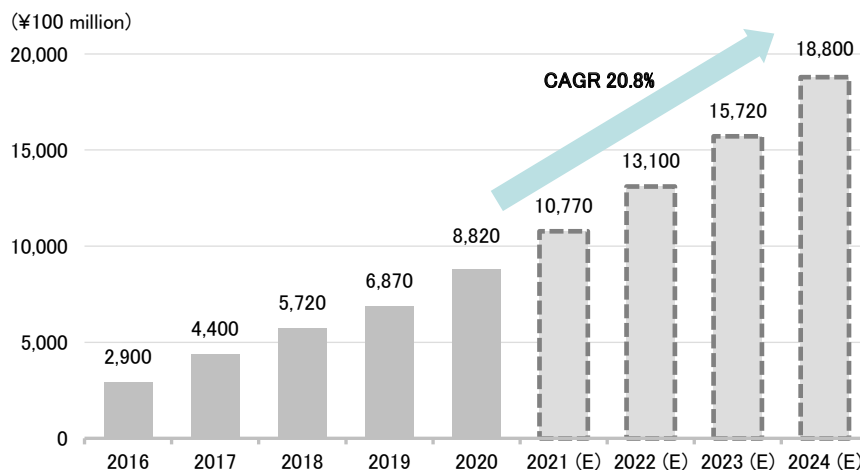
Actions taken after unauthorized access (2020)



Source: Prepared by FISCO from the Company's business plan and items related to growth potential

Finally, let us look at the market where BNPL businesses, the Company's customers, operate. Industry forecasts envision rapid growth from ¥882bn in 2020 to ¥1,880bn in 2024 (CAGR, 20.8%). This market is also projected to steadily expand going forward. The main driver of anticipated rapid business gains is collaboration of Japanese start-ups with global companies aimed at increasing market share.

BNPL market trends and outlook



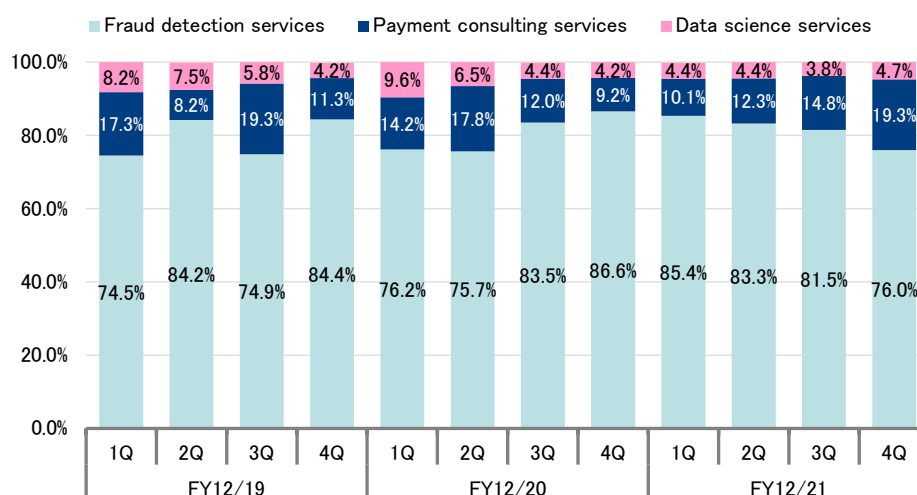
Source: Prepared by FISCO from the Company's web page

FISCO thinks the Company's growth is likely to accelerate with tailwinds from the vibrant external environment considering the prospect of steady expansion by all of the related markets, including the fraud detection service market, EC market, and BNPL market.

3. Business description

The Company delivers fraud detection services, payment consulting services, and data science services that leverage its knowledge related to data science cultivated since its founding to a wide range of customers, including EC operators, financial institutions, BNPL operators, manufacturers, and retailers.

Trends in sales composition by services



Source: Prepared by FISCO from the Company's results briefing materials

(1) Fraud detection services

The Company's fraud detection services consist of O-PLUX, which provides fraudulent order detection service to EC operators and BNPL operators and O-MOTION, which delivers unauthorized access detection service to financial institutions, ticket sales companies, and others.

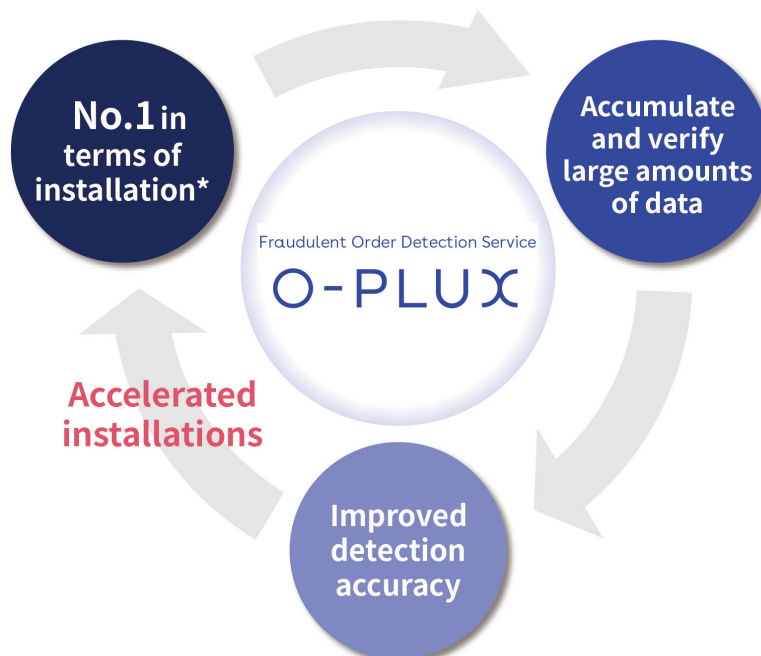
O-PLUX implements real-time detection of fraudulent orders in EC activity via a proprietary screening model that uses identity resolution (technology that applies normalization of the same address and name with different labels), device information, external databases (vacancy information and other third-party information), behavior analysis (analyzing information and behavior patterns often observed from fraudsters), and shared negatives (negative information shared by companies). It resolves problems faced by customers, such as loss of sales opportunities due to chargebacks* by credit card companies, increases in process steps allocated to monitoring fraudulent orders, product reselling, and the use of multiple accounts by the same person for spoofing and other activities.

* Chargeback refers to the seller having to return the sale proceeds to the credit card company if the cardholder does not consent to the payment because of fraudulent use of the credit card or other reason. The seller incurs a loss because the product is not returned.

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Company profile

Positive growth cycle maintaining the Company's competitive advantages



Source: The Company's business plan and items related to growth potential

Fraud detection based on data science improves precision through analysis of larger amounts of data. O-PLUX business enjoys a virtuous cycle of “accumulation and inspection of massive amounts of data → enhanced detection precision → expansion of customers using the service → further increase in accumulated and inspected data → enhanced detection precision.” In other words, increases in customers contributes to improved detection precision, which in turn attracts more customers. The Company has built this virtuous cycle as a first mover in the market's dawn phase, and FISCO believes it should become a powerful competitive advantage over other companies as the market transitions to a growth phase.

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Company profile

Transaction results for O-PLUX fraudulent order detection service

Hobby	Food and health food			PC and tablet		
      						
       						
Cosmetics and hair care	Apparel	Hosting	DIY	Travel		
      						
  						
Video and audio equipment	Online shopping malls, MVNO, and others					
       						

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

*2 Only selected companies with permission to be listed are included. As of January 31, 2022.

Source: The Company's business plan and items related to growth potential

Another notable point is that this business does not have the format of functioning as a sales distributor of an overseas service and instead is a service that the Company built on its own from the outset. Therefore, the Company can act promptly in making decisions about changes to the fraud detection logic, deployment of external databases, and other matters and thereby quickly enhance service quality in accordance with advances in fraudulent methods. Quick response with internal development is attractive to customers considering daily advances in fraudulent methods. FISCO thinks this one of the Company's strengths.

The method of fee collection from customers is also notable. O-PLUX generates income with a two-stage format consisting of a monthly fee and a volume-based charge that collects fees by the number of screened items. This framework provides stable income from the monthly fee and obtains higher income through volume charges to the extent of pick-up in EC transactions. FISCO expects increases in monthly fees as the Company expands its customer base and rapid growth in screening fees driven by rising EC transaction activity. The Company is aggressively expanding partners and alliance firms as well and is trying to remove customer barriers to service deployment. Through alliances with EC package and online shopping cart operators, such as GMO Makeshop Co., Ltd.'s GMO Cloud EC and EC-CUBE Co., Ltd.'s EC-CUBE, it has arranged a format that enables business operators with EC sites utilizing these services to easily use its EC fraud detection service. Thanks to these features and management efforts, the Company has successfully deployed its services to many customers, including animate Ltd., NEC Personal Computers, Ltd., Lacoste Japan Co., Ltd., and DMM.com LLC. Recently, it has released products tailored to specific industries, such as O-PLUS for Travel, O-PLUS for Tickets, and O-PLUS for Web Services, and is working to further broaden the customer base.

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Company profile

Partner alliance companies



*1 EC-CUBE is a trademark of EC-CUBE Co., Ltd.
*2 As of February 10, 2022

Source: The Company's business plan and items related to growth potential

O-MOTION, an unauthorized access detection service, detects unauthorized access via spoofing through a unique screening model that utilizes functions such as terminal identification technology, operational information (determining a fraudulent pattern based on user operations), whitelist and blacklist management, and other functions. It contributes to solving problems faced by customers, such as information leak risk, acquisition of affiliate income, and member registration with fraudulent aims. The Company has deployed this service at PIA Corporation<4337>, ORBIS Inc, and other customers including major financial institutions.

(2) Payment consulting services

The Company offers a full spectrum of services from review and ramp-up of BNPL business and development and operation support of payment systems to EC operators and payment operators considering provision of BNPL service. It plans to release these services in an SaaS format as the post-payment package in 2H FY12/22. The key features of this service are integrated assistance from business review to operational support by the Company that has an extensive track record of BNPL business ramp-up and system development, provision of a secure payment system through inclusion of O-PLUS, which has strong results in fraudulent order detection, and reduction of initial deployment costs via provision of the post-payment package in an SaaS format. As explained previously, FISCO anticipates steady growth in income from this service because of the prospect of rapid expansion of the BNPL market.

(3) Data science services

The Company provides data science services utilizing AI, statistics, and other techniques to a wide range of customers in retail, distribution, manufacturing, services, and other industries. With a slogan of “seeking a society in which all people benefit from data science knowledge,” it analyzes data from customers on behalf of companies that do not have data science knowhow. It offers value through decision-making based on statistical analysis, data-based improvements in work efficiency, and discovery and definition of genuinely important KPIs.

This service is notable for having a complementary relationship with O-PLUS and O-MOTION. By discovering data that enhances the precision of fraud detection service through analysis of data in diverse industries and arranging database collaboration, the Company generates a virtuous cycle of realizing enhancement of O-PLUS and O-MOTION detection precision.

Company profile

FISCO expects continued increases in customer needs in this area as companies are becoming aware of the importance of data-based decision-making. The report “Japan’s IT Personnel Trends” for 2021 prepared by METI cites the relatively low level of IT human resources at user companies. Considering these points, FISCO envisions a healthy trend in inquiries about data science services.

4. Company strengths

Regarding the Company’s strengths as a provider of fraud detection services centered on data science, the management cites “knowledge related to data science that is continuously accumulating,” “domestic No.1 results in deployment of fraud detection service,” and “stable income structure with a low churn rate,” and FISCO also sees strengths in “synergy effect among services” and “ability to develop systems and algorithms from the outset on its own.”

(1) Knowledge related to data science that is continuously accumulating

Accumulation of data science knowledge within the Company is an important strength. Key aspects include President & CEO Hiroyuki Iwai’s experience as a data science project leader in his previous work, existence of data science knowledge and knowhow from jointly handling business from a project management perspective with a data science-related consulting firm from the launch of the Company, and daily discovery of new knowledge through work by data scientists working at the Company.

(2) Domestic No.1 results in deployment of fraud detection services

In addition to having knowledge related to data science, another strength is accumulation of substantial amounts of data at the Company. This is because accumulating and analyzing a larger volume of data facilitates discovery of meaningful trends and observations that other companies cannot find. With this knowledge, the Company enhances the detection precision of O-PLUX and O-MOTION and it can be said that it is effectively acquiring more customers.

(3) Stable income structure with a low churn rate

As of FY12/21, O-PLUX’s monthly churn rate averaged 0.24% annually and recurring income provided 72.5% of sales. Since roughly 1% is generally considered to be a low churn rate in SaaS business, it can be seen that 0.24% is an excellent figure. Reasons for a low churn rate include the nature of fraud-related measures of not being finished once action is taken and requiring continuous efforts by the customer side as well (some companies have contracts as customers for just under seven years) and the ability to obtain customer understanding with issuance of periodic reports that show the effect of deploying the fraud detection services and also the reality that the deployment does not reduce fraud cases to zero.

Furthermore, the high percentage of recurring income with the prospect of generating stable income is a feature of SaaS business. FISCO believes that the ability to anticipate future stable cash flow provides a basis for making aggressive investments aimed at business expansion and boosting the pace of growth.

Through mutual interaction of these strengths, FISCO thinks the Company posted sales and profit gains for the sixth consecutive fiscal year and achieved high profitability with an 18.8% operating margin in FY12/21.

(4) Synergy effect among services

This strength mainly refers to the synergy effect of data science services and fraud detection services. The Company realizes a positive cycle by feeding back knowledge and data obtained by providing consultation to a variety of industries in data science services to fraud detection services, thereby enhancing the precision of fraud detection services. Data science services also has the roles of finding attractive markets and serving as the starting point in consideration of new services for future business expansion. FISCO thinks this is an important service segment in this respect as well.

(5) Ability to develop systems and algorithms from the outset on its own

Thanks to its proprietary development of systems and algorithms from the ground up, the Company is capable of reaching quick decisions on collaboration with external databases, changes to the algorithm, and other matters as opposed to simply selling an overseas system. Another benefit is the ability to conduct system development that addresses the needs of Japanese customers. The presence of operations capable of promptly responding to changes that occur in fraudulent methods is a valuable appeal point to customers as well.

Results trends

FY12/21 net sales increased 14.4% YoY to over ¥900mn Realizing a stable earnings foundation with the high recurring income ratio

1. Outline of result for FY12/21

In FY12/21, the Company realized rapid growth in FY12/21 with net sales increasing 14.4% YoY to ¥951mn, operating income increasing 29.5% to ¥178mn, and operating income rising 47.9% to ¥170mn. Although net income dropped 7.5% to ¥120mn due to non-recurrence of a positive contribution from income taxes – deferred in the previous fiscal year, net sales, operating income, and ordinary income realized increases for the sixth consecutive fiscal year since FY12/16 and net sales reached a new all-time high. The main drivers were improvement in the added value of O-PLUX through alliances with external databases, rollout of low-priced Fraud Checker and O-MOTION Light offerings to remove the deployment barrier, increases in companies deploying the Company's service through expansion of alliances with credit card firms, payment agent firms, EC package companies, and other external companies, and pick-up in EC transactions due to lifestyle changes fueled by the COVID-19 pandemic (O-PLUX charges a monthly fee and a volume fee based on the number of screenings).

The Company's high profitability stands out as well. In FY12/21, profitability results were very strong with gross margin at 72.6%, operating margin at 18.8%, ordinary margin at 18.0%, and net margin at 12.6%, indicating establishment of operations that efficiently generate profits. They also offer an excellent demonstration of SaaS business characteristics of relatively low fixed costs and steady rise in margins as sales expand.

Results trends

The strong recurring income ratio in sales is a key point as well. Recurring income from O-PLUX, the Company's mainstay product, increased 16.0% YoY to ¥690mn and raised the recurring income ratio in overall sales by 1.0ppt to 72.5%. O-PLUX's monthly churn rate at a 0.24% annual average is further evidence that the Company has successfully developed a business model that securely generates income. FISCO thinks the Company has established operations that support aggressive investments in future opportunities by creating stable cash flow and thereby boost the pace of growth.

Results for FY12/21

	FY12/20		FY12/21		YoY	
	Results	% of net sales	Results	% of net sales	Change amount	Change rate
Net sales	831	-	951	-	119	14.4%
Operating income	138	16.6%	178	18.8%	40	29.5%
EBITDA	145	17.5%	195	20.5%	50	34.5%
Ordinary income	115	13.9%	170	18.0%	55	47.9%
Net income	130	15.6%	120	12.6%	-9	-7.5%

Source: Prepared by FISCO from the Company's results briefing materials

Very sound financial standing Possesses healthy long-term and near-term surplus liquidity with a current ratio of 664.3% and fixed ratio of 37.2%

2. Financial condition and business indicators

Looking at the balance sheet at the end of FY12/21, retained profits climbed by ¥120mn to ¥364mn due to the ¥120mn in net income. Retained earnings have been steadily rising from ¥114mn in FY12/19, which is a sign that the Company has been securely generating profits. Cash and deposits in current assets, meanwhile, dropped by ¥492mn YoY. Despite the ¥149mn in surplus cash flow from operating activities as a result of business, the decline occurred due to ¥105mn in redemption of bonds and ¥399mn repayment of long-term borrowings. However, this is not a major issue, in FISCO's view, because of the healthy surplus in cash flow from operating activities and the indication of management's desire to improve financial standing through repayment of borrowings.

The Company's robust ROE is attractive as well. While it has declined from 26.4% in FY12/19, it remained at 10.0% in FY12/21, which shows that the Company is effectively utilizing capital from investors to generate profits. Furthermore, the ROE decline stems from capital build-up. This is evident in the increase of the capital ratio from 54.9% in FY12/19 to 89.6% in FY12/21. ROA has been trending lower in recent years, but this is the result of increases in software under intangible assets amid investments toward future income expansion. FISCO expects the ROA value to move upward as these investments lead to future profits.

FISCO believes that the Company's financial standing is sound considering the upward trend in the capital ratio from FY12/19 to a strong 89.6% in FY12/21 and healthy long-term and near-term surplus liquidity with a 664.3% current ratio and 37.2% fixed ratio.

Results trends

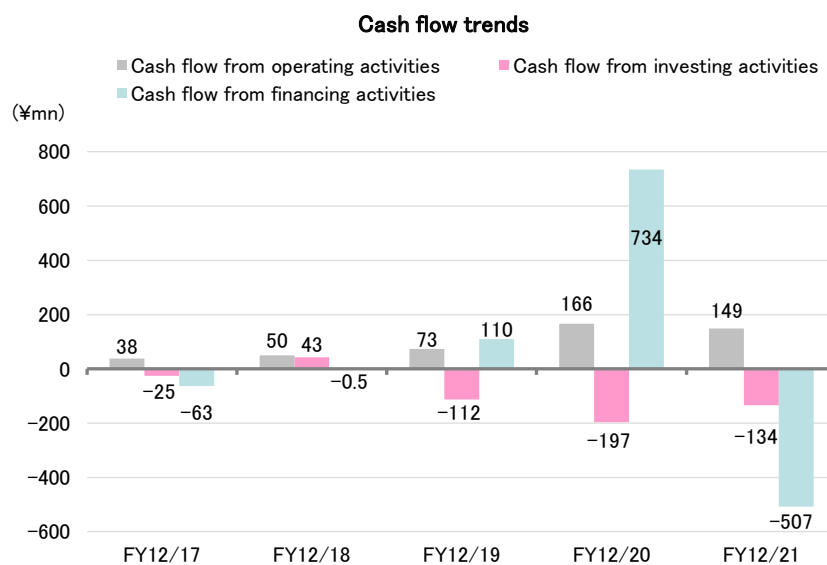
Consolidated balance sheet and main business indicators

	FY12/19	FY12/20	FY12/21	(¥mn) Change amount
Current assets	695	1,402	944	-458
Cash and deposits	590	1,293	800	-492
Non-current assets	199	420	472	52
Intangible assets	149	313	389	75
Total assets	894	1,822	1,417	-405
Total liabilities	400	674	143	-530
Non-current liabilities	243	291	1	-289
Net assets	494	1,148	1,273	125
Retained earnings	114	244	364	120
[Management indicators]				
Capital ratio	54.9%	62.8%	89.6%	
[Profitability]				
ROA (Return On Assets)	15.0%	9.6%	7.4%	
ROE (Return On Equity)	26.4%	15.9%	10.0%	

Source: Prepared by FISCO from the Company's securities reports and company materials

3. Cash flow trends

In cash flow trends, the Company's cash flow from operating activities has consistently stayed at a surplus since FY12/17, when it was ¥40mn, demonstrating steady cash generation. Deficits in cash flow from investment activities since FY12/19, meanwhile, indicate aggressive investments toward future business expansion. Cash flow from financing activities is normally positive due to borrowing funds, but FY12/21 had a ¥507mn deficit. This was the result of using funds mainly to repay borrowings and is evidence of the Company's pursuit of sound management.



Source: Prepared by FISCO from the Company's securities reports and company materials

Forecast

Expecting sales and profit increases for the seventh consecutive year in FY12/22 with external environment trends as tailwind

● FY12/22 forecast

For FY12/22, the Company is forecasting higher sales and profits with ¥1,102mn in net sales (up 15.9% YoY), ¥191mn in operating income (up 7.1%), ¥195mn in ordinary income (up 14.5%), and ¥137mn in net income (up 14.3%). The Company intends to achieve these results through acquisition of new customers by broadening the product line-up, including the low-priced Fraud Checker offering in the O-PLUX Series, acquisition of new customers via expansion of alliances with credit card firms, payment agent firms, EC package companies, and other external companies, recruitment of new customers and deeper involvement with existing customers in payment consulting services and data science services besides fraud detection services, and a tailwind from the external environment, such as expanded EC usage associated with lifestyle changes triggered by the COVID-19 pandemic. FISCO thinks the Company is capable of attaining its forecast considering the prospect of a healthy trend in EC usage even after the pandemic settles down, sustained high levels of unauthorized access, anticipated increases in customer volume via expanded alliances, likely broadening of customer scope through the addition of low-priced products to the line-up, and the prospect of growing income results in payment consulting services and other areas thanks to expansion of the BNPL market.

FY12/22 forecast

	FY12/21		FY12/22		YoY	
	Result	% of net sales	Forecast	% of net sales	Change amount	Change rate
Net sales	951	-	1,102	-	151	15.9%
Operating income	178	18.8%	191	17.3%	13	7.1%
Ordinary income	170	18.0%	195	17.7%	25	14.5%
Net income	120	12.6%	137	12.4%	17	14.3%

Source: Prepared by FISCO from the Company's financial results

Medium- to long-term growth strategy

Aims to surpass ¥10bn in net sales in 2031 Prospect of accelerating growth by harnessing growth opportunities in domestic markets and overseas markets

In its medium- to long-term management plan, the Company aims to reach net sales of ¥5bn in 2026 and ¥10bn in 2031 with fundamental strategies of "Expansion of EC Fraud Detection Domain," "Expansion into the Cybersecurity Domain," "Overseas Expansion," and "Building SaaS in New Domain" centered on existing fraud detection services, payment consulting services, and data science services. It intends to attain these goals by leveraging its existing knowhow in expansion and deepening of existing businesses, development of new areas, and entry into overseas markets in addition to a tailwind from the fast-growing external environment.

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Medium- to long-term growth strategy

1. Expansion of EC Fraud Detection Domain

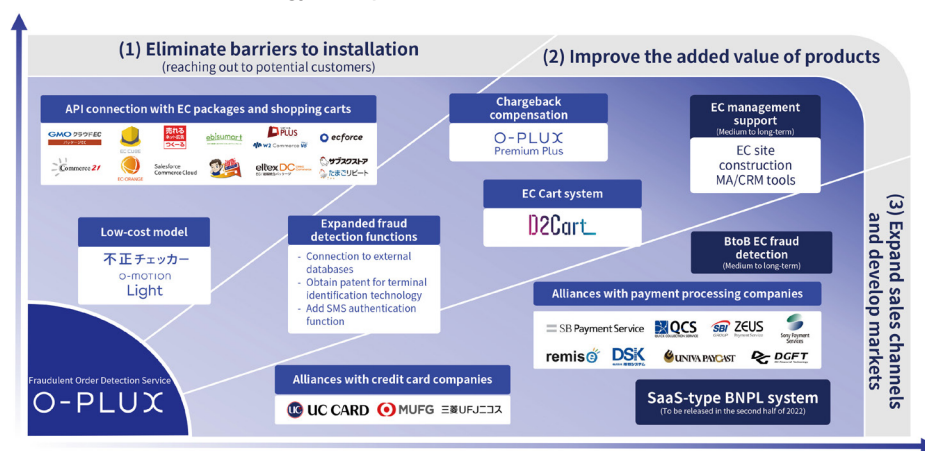
The Company plans to broaden EC fraud detection scope through removal of deployment hurdles, enhancement of products' added-value, and expansion of sales channels and market development. It is arranging environments to enable the usage of its service more easily by customers through accelerated API collaboration with EC package and shopping cart operators (inclusion of O-PLUX in EC package and shopping cart services, which deliver EC site building service, from the outset eliminates the efforts needed to define requirements and design systems developed from the ground up for service deployment) and has released Fraud Checker and other low-priced models that facilitate use by smaller EC operators. The Company aims to recruit latent customers whom it previously was unable to approach.

Furthermore, it plans to acquire even more customers by enhancing the appeal of O-PLUX as a service with improvement of the fraud detection function via aggressive utilization of external databases and deployment of O-PLUX Premium Plus, which guarantees against chargebacks with no limit, and other new services.

The Company also intends to expand alliances with credit card firms and payment agent companies aimed at recruitment of companies using the services of these companies as customers.

Over the medium- to long-term, the Company intends to utilize the data it possesses to expand business activities to EC operation assistance (EC site building, marketing automation (MA), etc.), and fraud detection in B-to-B EC.

Strategy for expansion EC order detection domain



Source: The Company's results briefing materials

2. Expansion into the Cybersecurity Domain

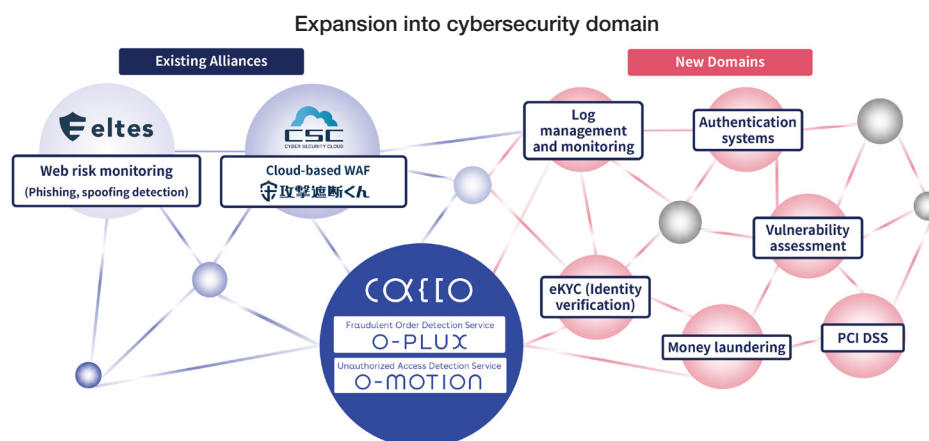
The Company wants to build operations capable of addressing the needs of EC operators in cybersecurity through utilization of its own knowhow, alliances with other companies, and potential acquisitions. Specifically, it intends to offer services in log management and monitoring, authentication systems, eKYC (online personal authentication), vulnerability diagnosis, money laundering, and PCI DSS (security standard in the credit card industry formulated for the purpose of safely handling credit card member data).

The Company has accumulated a variety of knowhow in the fraud detection field and built proprietary screening logic. FISCO thinks the Company is capable of offering these assets in the cybersecurity field and providing useful and unique value that it possesses to customers.

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Medium- to long-term growth strategy

Furthermore, as it moves toward broadening business to the cybersecurity field, the Company formed business alliances for business initiatives in the cybersecurity field with Cyber Security Cloud Inc. <4493> and Eltes <3967> in FY12/21.



Source: The Company's results briefing materials

3. Overseas Expansion

The Company intends to accelerate income expansion by harnessing growth in overseas markets. Specifically, it plans to offer services in EC and financing areas that target Southeast Asia.

According to the U.S. Department of Commerce's International Trade Administration, countries in the Asia-Pacific region are driving the global EC market, with China, Indonesia, Vietnam, and the Philippines cited as particularly important markets. From this perspective, the choice of narrowing the market entry target to Southeast Asia is reasonable. The Company might also initially enter through Southeast Asian countries and then ultimately move into the Chinese market. FISCO sees a possibility that the Company will harness growth in an even more massive market over the long term. It also anticipates acceleration of the Company's pace of growth by obtaining growth opportunities in the EC market and fraud detection service market.

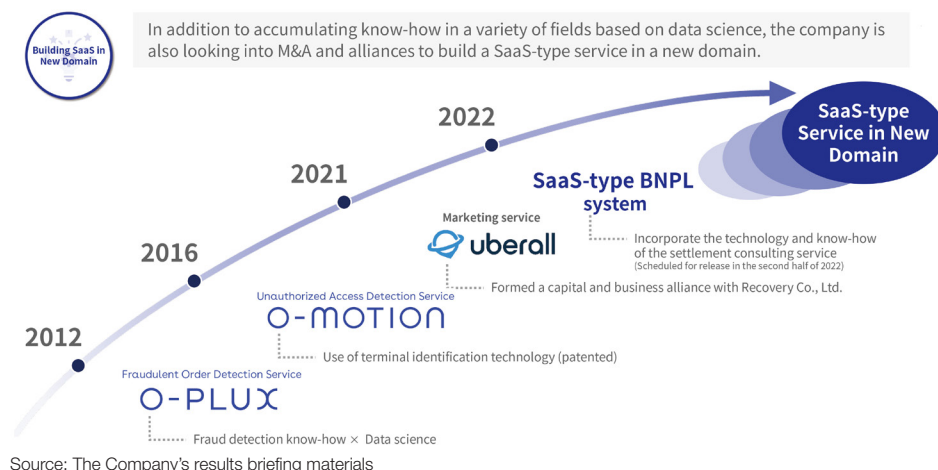
4. Building SaaS in New Domain

The Company intends to identify attractive fields in which it can leverage its existing knowhow and assets through consulting services for companies in a variety of industries in data science services and cultivate new income pillars.

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Medium- to long-term growth strategy

Image of SaaS service building in new areas



Against a backdrop of expansion in the fraud detection service market, EC market, and BNPL market, FISCO believes the ambitious goal of ¥10bn in net sales is not out of reach if the Company accelerates growth through recruitment of new customers, building services in new areas, and obtaining growth in overseas markets.

Shareholders return policy

Currently in a growth stage and putting priority on investments to expand business

Possibility of implementing shareholder return measures in the future

Regarding shareholder return policy, the Company views return of profits to shareholders as an important management issue. Although the Company is not paying dividends at this point due to currently being in a growth stage and adhering to a policy of dynamically using funds to drive further income expansion, it intends to consider returning profits to shareholders while closely monitoring business results and financial conditions in the future.

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp