

Cacco Inc.

4166

Tokyo Stock Exchange Growth Market

25-Jul.-2023

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FISCO Ltd.

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

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■ Summary

Aggressive investment of expenses in initiatives aimed at earning future income

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 1Q FY12/23

The Company's results for 1Q FY12/23 (January to March) were ¥263mn in net sales, (up 7.0% YoY), ¥29mn in operating income (down 38.4%), ¥29mn in ordinary income (down 40.0%), and ¥19mn in net income (down 41.7%). Regarding the fraud detection services that are the Company's core services, there was sales growth for O-PLUX Premium Plus (Shipping decision agent service), which covers credit card fraud damages detected by O-PLUX without an upper limit, and Fraud Checker, a fraudulent order detection service with pricing that begins at ¥4,000 per month. In addition to this, the Company was able to attract new customers and expand business with existing customers through efforts to pursue alliances, including with EC package and online shopping cart operators, as well as the conclusion of partner contracts with credit card firms. As a result, progress on the annual target for net sales was 28.2%. On the other hand, there was a decrease in each type of profit due to depreciation resulting from the O-PLUX architecture renewal, as well as aggressive investment aimed at securing future income, mainly by increasing the number of personnel for sales marketing and customer success areas, and business research and test marketing for Southeast Asia business development.

Summary

2. FY12/23 forecast

For FY12/23, the Company is forecasting ¥933mn in net sales, (down 13.3% YoY), an operating loss of ¥187mn (compared to ¥176mn in operating income in FY12/22), an ordinary loss of ¥190mn (¥154mn in ordinary income), and a net loss of ¥190mn (¥100mn in net income). The impact of the termination of the provision of O-MOTION, which detects unauthorized access to web sites, and payment consulting services to important customers, as announced in the press release titled Notice of the Termination of Business with Major Partners issued on November 9, 2022, is expected to greatly decrease net sales. On the other hand, the continuing growth of the EC market and a steep rise in fraud damages related to online settlement is increasing society's demand for fraud countermeasures, including regulatory measures. Within this environment, the need for the Company's fraud detection services is also expected to rise, so the Company plans to continue aggressive investment aimed at securing future income by enhancing functions and expanding its business domain. In addition to launching a SaaS-type BNPL System that minimizes initial investment and operating costs for EC operators in February, the Company also expanded its business domain by entering into a capital and business alliance with the marketing DX enterprise Value Creation Inc. to capitalize on the continuing growth of the online advertising market. Furthermore, in June it launched Fraud Detection Credit Master Plan, the industry's lowest cost service for preventing credit master attacks* using the O-PLUX screening engine's high precision detection abilities. We at FISCO think that the development of new services like these will contribute to business performance.

* An attack that takes advantage of the sequential nature of credit card numbers with the aim of identifying other peoples' credit card numbers.

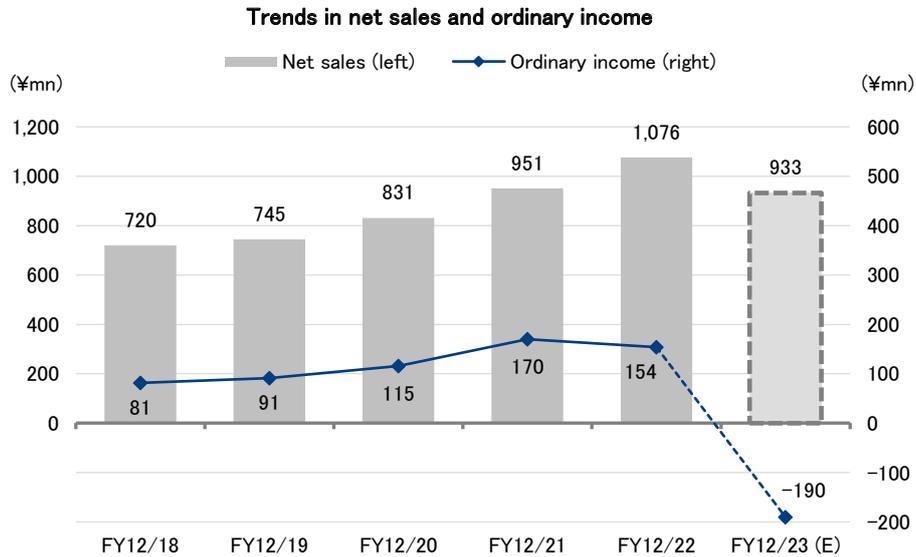
3. Market scale

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 43.1% over four years from approximately ¥304.0bn in 2023 to approximately ¥434.9bn in 2027 and expansion in the BNPL market, where the Company's customers operate, at a rate of roughly 33.3% from ¥1.5tn in 2023 (estimated) to ¥2tn in 2026.

Key Points

- The Company contributes to building safe and secure EC infrastructure as Japan's No. 1 provider of fraud detection services
- The fraud detection service market is expanding in size
- The Company is creating a new BNPL market through its SaaS-type BNPL System
- It provides the industry's lowest cost service for preventing the growing number of credit master attacks with Fraud Detection Credit Master Plan

Summary



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

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.” Its O-PLUX fraudulent order detection service was released in June 2012.

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

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Company profile

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. Furthermore, 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>
December 2021	Released the compliance check tool Uwasa Hakken
April 2022	Listed on the Tokyo Stock Exchange's Growth Market following change in sector classification
November 2022	Won the Overall Grand Prize in the Social Industry-Specific ASP/SaaS category at the 16th ASPIC IOT/AI/Cloud Awards 2022
February 2023	Released SaaS-type BNPL System, a package service that enables BNPL settlement Concluded a capital and business alliance with Value Creation Inc. in the marketing DX domain
June 2023	Launched Fraud Detection Credit Master Plan, the industry's lowest cost service for preventing the growing number of credit master attacks Used O-PLUX and Fraud Checker to strengthen multi-shop detection between member stores, which is effective against product reselling Launched Steel Wall PACK for Phishing, a one-stop countermeasure against phishing emails, phishing sites, and login spoofing

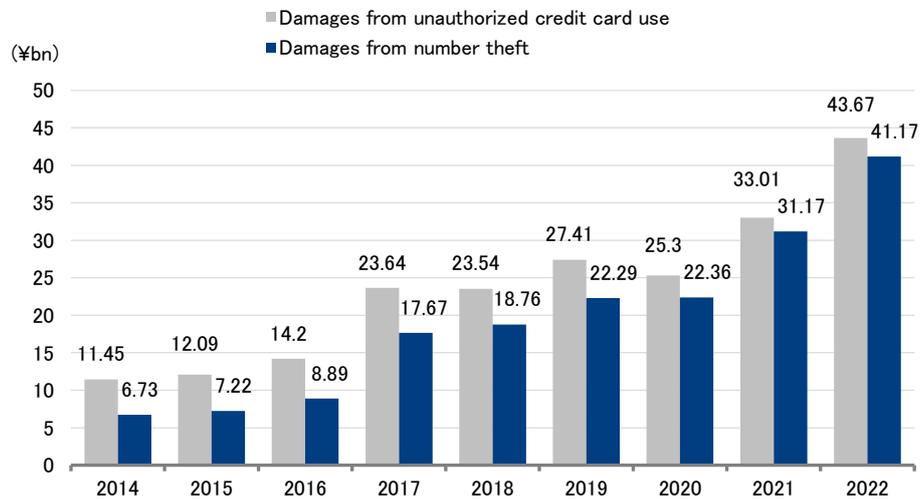
Source: Prepared by FISCO from the Company's securities reports and web page

2. Company's business environment

A report by the Japan Consumer Credit Association showed that the amount of damages caused by unauthorized credit card use reached a record high of ¥43.67bn in 2022 (compared to ¥33.01bn in 2021). Within this, ¥41.17bn (¥31.17bn in 2021) of the damages were caused by number theft, which is when unauthorized settlements are made using only information, such as a credit card number, without the actual physical card being stolen, forged, or counterfeited. This represents 94.3% of the total damages. As stolen credit card numbers are usually used in places that enable face-to-face interaction to be avoided by allowing settlements to be made by inputting the number, EC sites are a popular target. This results in many cases of unauthorized transactions being made through EC sites without the cardholder's knowledge.

Company profile

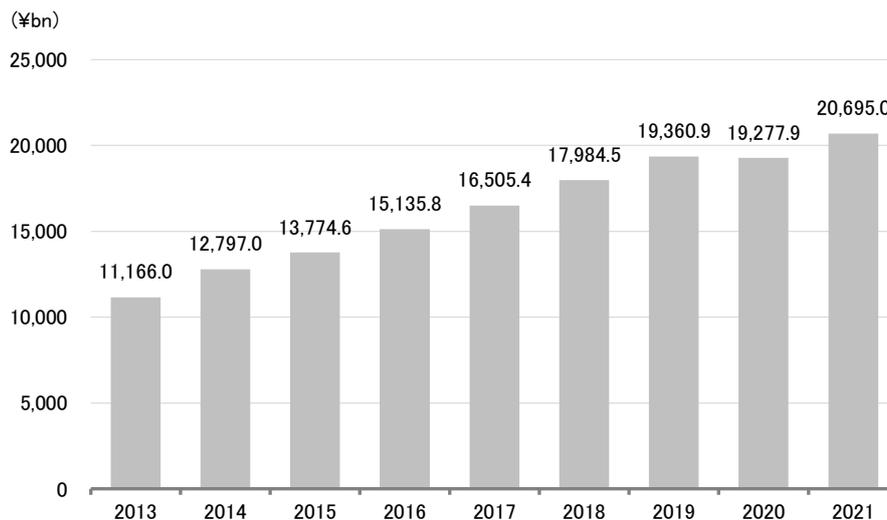
Damages incurred by unauthorized credit card use



Source: Prepared by FISCO from materials by the Japan Consumer Credit Association

Furthermore, according to a report on the current state of the Japanese e-commerce market by the Ministry of Economy, Trade, and Industry (FY2021 E-Commerce Market Survey), the scale of the domestic B-to-C EC market in 2021 was ¥20.7tn (up 7.35% from ¥19.3tn in 2020, and ¥19.4tn in 2019). This is greater in size than it was in 2019, before the COVID-19 pandemic escalated, and it suggests that new lifestyles and EC usage are becoming more common. As the market continues to grow, unauthorized credit card use is also increasing and becoming more complex, so we at FISCO think that the market for EC fraud detection services, such as the Company's mainstay service O-PLUX, will expand.

B-to-C EC market scale



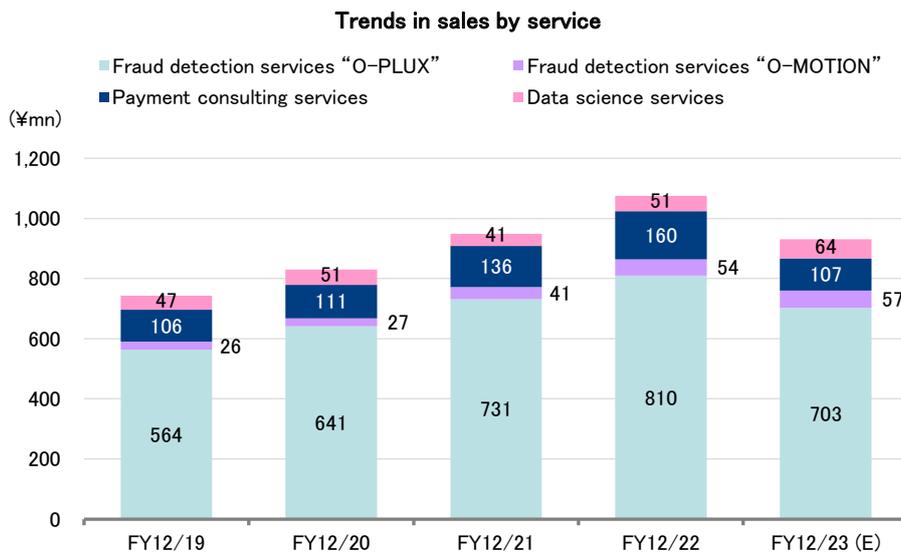
Source: Prepared by FISCO from a report on the current state of the Japanese e-commerce market (FY2021 E-Commerce Market Survey) by the Ministry of Economy, Trade, and Industry

Company profile

As the increase in credit card settlement leads to the diversification of methods of carrying out transactions, Buy Now Pay Later (BNPL) services are becoming more widespread globally, and in Japan, the market for BNPL settlement services is growing at an annual rate of about 30%. It is expected to grow by roughly 36.8% from an estimated ¥1.5tn in 2023 to approximately ¥2tn in 2026. Previously, businesses wanting to introduce BNPL systems had to overcome high hurdles, including hundreds of millions of yen in costs, such as for system development, and the need to accumulate operational expertise covering areas like handling arrears. However, the SaaS-type BNPL System launched by the Company in February 2023 is a package containing the framework required to carry out BNPL transactions, which reduces initial system deployment costs by ¥2mn. It allows the Company to contribute to the maximization of earnings for BNPL system operators, as it enables them to secure an earnings ratio that exceeds system fees, and use of the service is expected to grow alongside market growth.

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.



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

(1) Fraud detection services

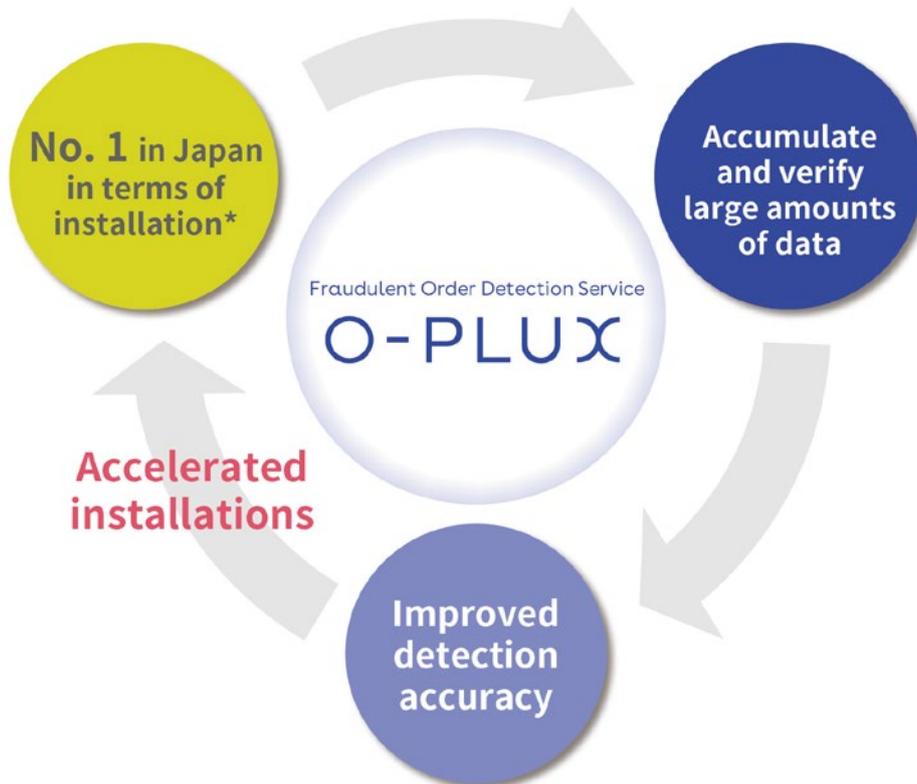
The Company's fraud detection services consist of O-PLUX, which provides fraudulent order detection service to EC operators and BNPL operators and O-MOTION, which delivers unauthorized access detection service to financial institutions, ticket sales companies, and others.

Company profile

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.

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



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 thinks 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-PLUX for Tickets, and O-PLUX for Web Services, and is working to further broaden the customer base.

Partner alliance companies



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

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Company profile

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 the review and ramp-up of BNPL business to the provision of payment system development and operational support to EC operators and payment operators considering provision of BNPL service, and in February 2023, it launched a SaaS-type BNPL System for EC business operators. The key features of these services include being the first in the industry to remove some of the hurdles that EC business operators introducing BNPL systems have faced to date, including hundreds of millions of yen in costs, such as for system development, and the need to accumulate operational expertise covering areas like handling arrears. They also enable these operators to maximize earnings and grasp the situation of customers. Other important features are the integrated assistance from business review to operational support provided by the Company, which has an extensive track record of BNPL business ramp-up and system development, and the provision of a secure payment system through inclusion of O-PLUX, which has strong results in fraudulent order detection. As the BNPL market is forecast to grow at an annual rate of around 30% going forward, we at FISCO think that these services will perform strongly.

(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-PLUX 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-PLUX and O-MOTION detection precision.

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

As the Company is a provider of fraud detection services centered on data science, FISCO sees its strengths as “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.” We also see strengths in “synergy effect among services” and “ability to develop systems and algorithms from the outset on its own.”

Company profile

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

The Company is internally accumulating knowledge related to data science. 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 1Q FY12/23, O-PLUX's monthly churn rate averaged 0.10% for the three months of the first quarter and recurring income provided 74.8% of sales. Since roughly 1% is generally considered to be a low churn rate in SaaS business, it can be seen that 0.10% 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.

(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

1Q FY12/23 net sales increased 7%, rate of progress on the annual target reached 28.2%

1. Outline of result for 1Q FY12/23

The Company's results for 1Q FY12/23 (January to March) were ¥263mn in net sales, (up 7.0% YoY), ¥29mn in operating income (down 38.4%), ¥29mn in ordinary income (down 40.0%), and ¥19mn in net income (down 41.7%). Net sales of the fraud detection services that are the Company's core services were ¥222mn (up 7.8%). There was sales growth for O-PLUX Premium Plus (Shipping decision agent service), which covers credit card fraud damages detected by O-PLUX without an upper limit, and Fraud Checker, a fraudulent order detection service with pricing that begins at ¥4,000 per month. In addition to this, the Company was able to attract new customers and expand business with existing customers through efforts to pursue alliances, including with EC package and online shopping cart operators, as well as the conclusion of partner contracts with credit card firms. As a result, progress on the annual target for net sales was 28.2%. On the other hand, there was a decrease in each type of profit due to depreciation resulting from the O-PLUX architecture renewal, as well as aggressive investment aimed at securing future income, mainly by increasing the number of personnel for sales marketing and customer success areas, and business research and test marketing for Southeast Asia business development.

Results for 1Q FY12/23

	1Q FY12/22 Results	1Q FY12/23		FY12/23	
		Results	YoY	Forecast	Progress rate
Net sales	245	263	7.0%	933	28.2%
(Net sales of fraud detection services)	206	222	7.8%	761	29.2%
Operating income	48	29	-38.4%	-187	-
(Operating income rate)	19.8%	11.4%	-8.4	-20.0%	-
Ordinary income	49	29	-40.0%	-190	-
(Ordinary income rate)	20.1%	11.3%	-8.8	-20.4%	-
Net income	33	19	-41.7%	-190	-

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

2. Financial condition and business indicators

Looking at the balance sheet at the end of 1Q FY12/23, current assets were ¥1,046mn, a decrease of ¥48mn compared to the end of the FY12/22. This was mainly due to a decrease in cash and deposits of ¥52mn. Non-current assets were ¥440mn, an increase of ¥0.6mn compared to the end of FY12/22, mainly due to an increase in investments and other assets. As a result, total assets were ¥1,486mn, a decrease of ¥47mn compared to the end of the FY12/22.

Current liabilities were ¥93mn, a decrease of ¥67mn compared to the end of the FY12/22. This was mainly due to a decrease in accounts payable – trade of ¥9mn, as well as to a decrease in income taxes payable of ¥13mn. The Company has no non-current liabilities. Therefore, total liabilities were ¥93mn, a decrease of ¥67mn compared to the end of the FY12/22.

Results trends

Total net assets were ¥1,393mn, an increase of ¥20mn compared to the end of FY12/22. This was due to an increase in retained earnings of ¥19mn, mainly from net income. The capital ratio was 93.7% (compared to 89.5% at the end of the FY12/22).

Consolidated balance sheet and main business indicators

	(¥thousand yen)		
	FY12/22	1Q FY12/23	Change amount
Current assets	1,094,476	1,046,148	-48,328
Cash and deposits	962,072	909,172	-52,900
Non-current assets	439,884	440,847	963
Intangible assets	356,068	335,481	-20,587
Total assets	1,534,360	1,486,996	-47,364
Total liabilities	161,133	93,204	-67,929
Net assets	1,373,227	1,393,791	20,564
Retained earnings	465,188	484,788	19,600
[Management indicators]			
Capital ratio	89.5%	93.7%	

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

Forecast

Decrease in sales and profit forecast for FY12/23, no plans to slow down on aggressive investment aimed at securing future income by expanding in the EC fraud detection area

● FY12/23 forecast

For FY12/23, the Company is forecasting ¥933mn in net sales, (down 13.3% YoY), an operating loss of ¥187mn (compared to ¥176mn in operating income in FY12/22), an ordinary loss of ¥190mn (¥154mn in ordinary income), and a net loss of ¥190mn (¥100mn in net income). This is due to the impact of the termination of the provision of O-MOTION, which detects unauthorized access to web sites, and payment consulting services to important customers, as announced in the press release titled Notice of the Termination of Business with Major Partners issued on November 9, 2022. On the other hand, the continuing growth of the EC market and a steep rise in fraud damages related to online settlement is increasing society's demand for fraud countermeasures, including regulatory measures. Within this environment, the need for the Company's fraud detection services is also expected to rise, so the Company plans to continue aggressive investment aimed at securing future income by enhancing functions and expanding its business domain.

As mentioned previously, in addition to launching a SaaS-type BNPL System that minimizes initial investment and operating costs for EC operators in February, the Company also expanded its business domain by entering into a capital and business alliance with the marketing DX enterprise Value Creation Inc. to capitalize on the continuing growth of the online advertising market. Furthermore, in June it launched Fraud Detection Credit Master Plan, the industry's lowest cost service for preventing credit master attacks using the O-PLUX screening engine's high precision detection abilities. We at FISCO think that the development of new services like these will contribute to business performance.

Forecast

FY12/23 forecast

	FY12/22 Result	FY12/23	
		Forecast	Change rate
Net sales	1,076	933	-13.3%
(Net sales of fraud detection services)	865	761	-12.0%
Operating income	176	-187	-
(Operating income rate)	16.4%	-20.0%	-
Ordinary income	154	-190	-
(Ordinary income rate)	14.3%	-20.4%	-
Net income	100	-190	-
EPS (yen)	38.16	-	-

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

Medium- to long-term growth strategy

Making its own markets through four growth strategies. Expanding global business centered on fraud detection services. Using a SaaS-type BNPL System to create new BNPL markets

In its medium- to long-term management plan, the Company plans to accelerate business expansion using the fundamental strategies of “Expansion of EC Fraud Detection Domain,” “Expansion into the Cybersecurity Domain,” “Overseas Expansion,” and “Building SaaS in New Domain” centered on fraud detection services, payment consulting services, and data science services. It aims to grow profits 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.

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 aims 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.

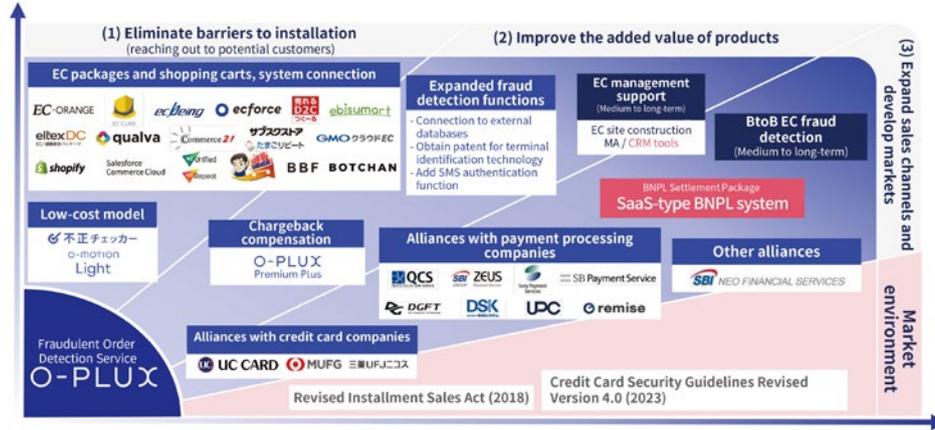
The Company also intends to expand alliances with credit card firms and payment agent companies aimed at recruitment of companies using the services of these companies as customers. Additionally, in the medium- to long-term, it aims to leverage its data to accelerate the expansion of business activities in areas such as EC operational support (EC site building, marketing automation (MA), etc.) and B-to-B EC fraud detection.

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Medium- to long-term growth strategy

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).

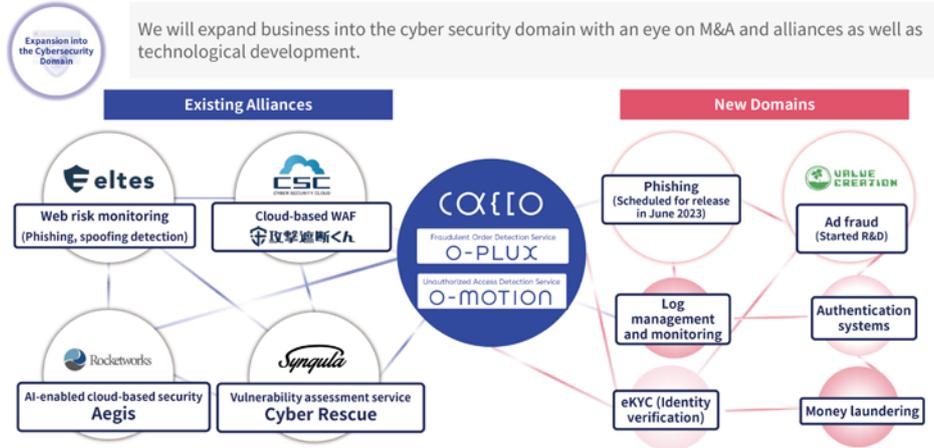
The Company has accumulated a variety of knowhow in the fraud detection field and built proprietary screening logic. FISCO thinks the Company is capable of offering these assets in the cybersecurity field and providing useful and unique value that it possesses to customers. Furthermore, as it moves toward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

Additionally, amid a steep rise in phishing attacks, in June 2023 it released Steel Wall PACK for Phishing, an anti-phishing package which provides a one-stop countermeasure against phishing emails and websites that steal information, as well as login spoofing using stolen personal information. In 2022, over 960,000 phishing attacks were reported in Japan, a huge increase of approximately 100-fold over the five years since 2017, so great demand is expected for this service.

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Medium- to long-term growth strategy

Expansion into cybersecurity domain



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

In February 2023, the Company released a SaaS-type BNPL System that leverages its extensive BNPL credit experience and settlement consulting expertise. The system comes as a package containing the framework required to carry out BNPL transactions, minimizing initial deployment and operation costs. Through this service, the Company plans to create a new market by lowering the barriers to BNPL for businesses other than payment operators, who were previously unable to deploy BNPL systems, thereby enabling them to enter the BNPL transaction marketplace.

We encourage readers to review our complete legal statement on "Disclaimer" page.

■ 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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