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Cacco Inc. | Stock Code: 4166

May 14, 2024



Financial Results for the First Quarter of Fiscal Year Ending December 31, 2024

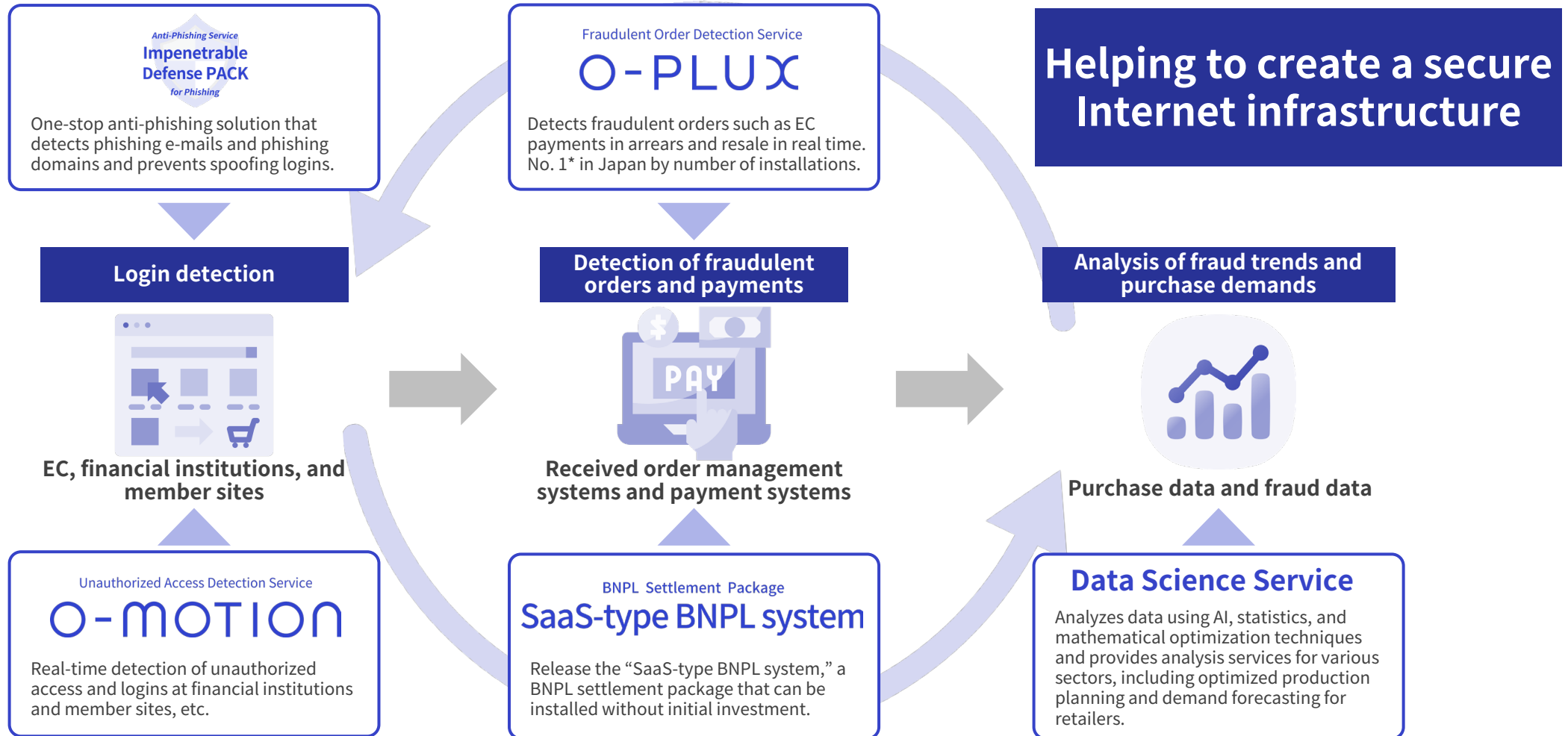
Note: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

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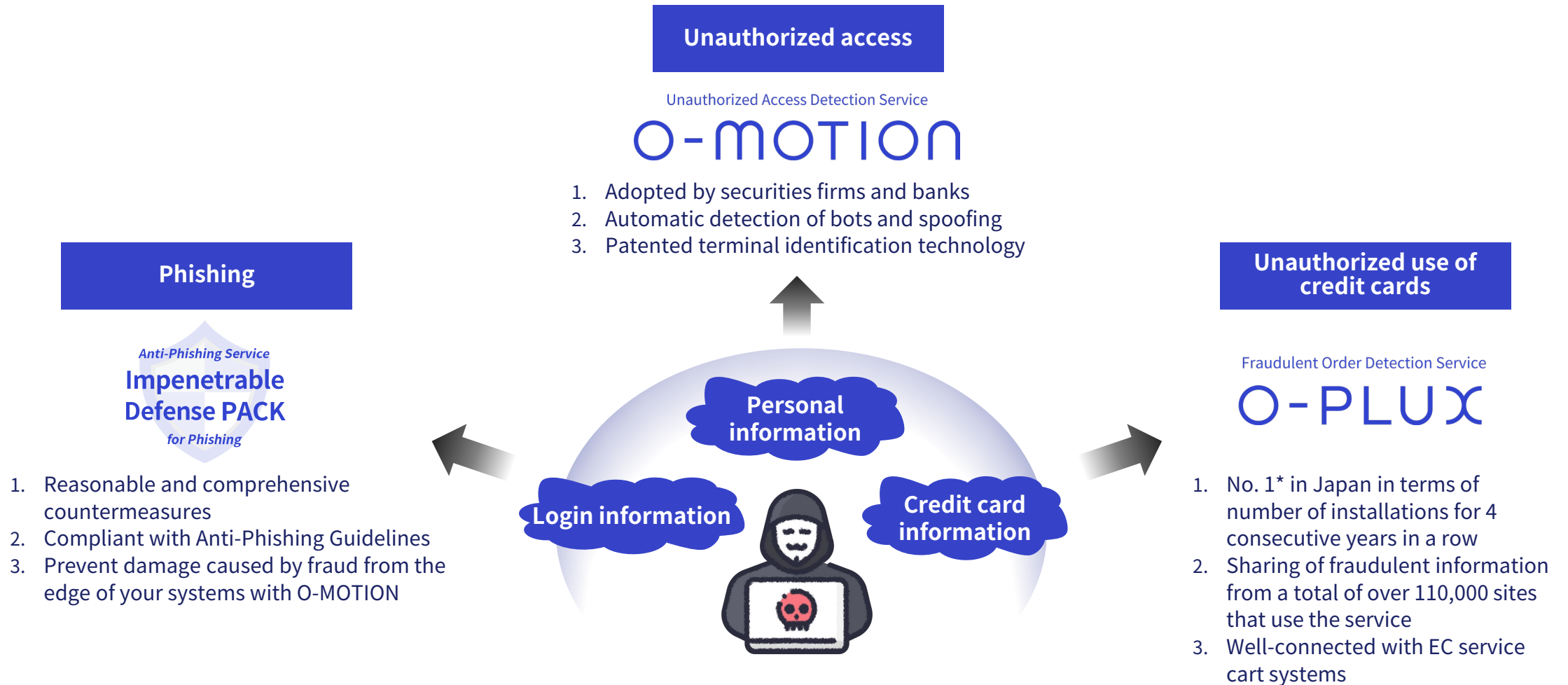
Business Information

We help to create a secure Internet infrastructure from entrance to exit by providing our core fraud detection services, payment consulting services, and data science service.



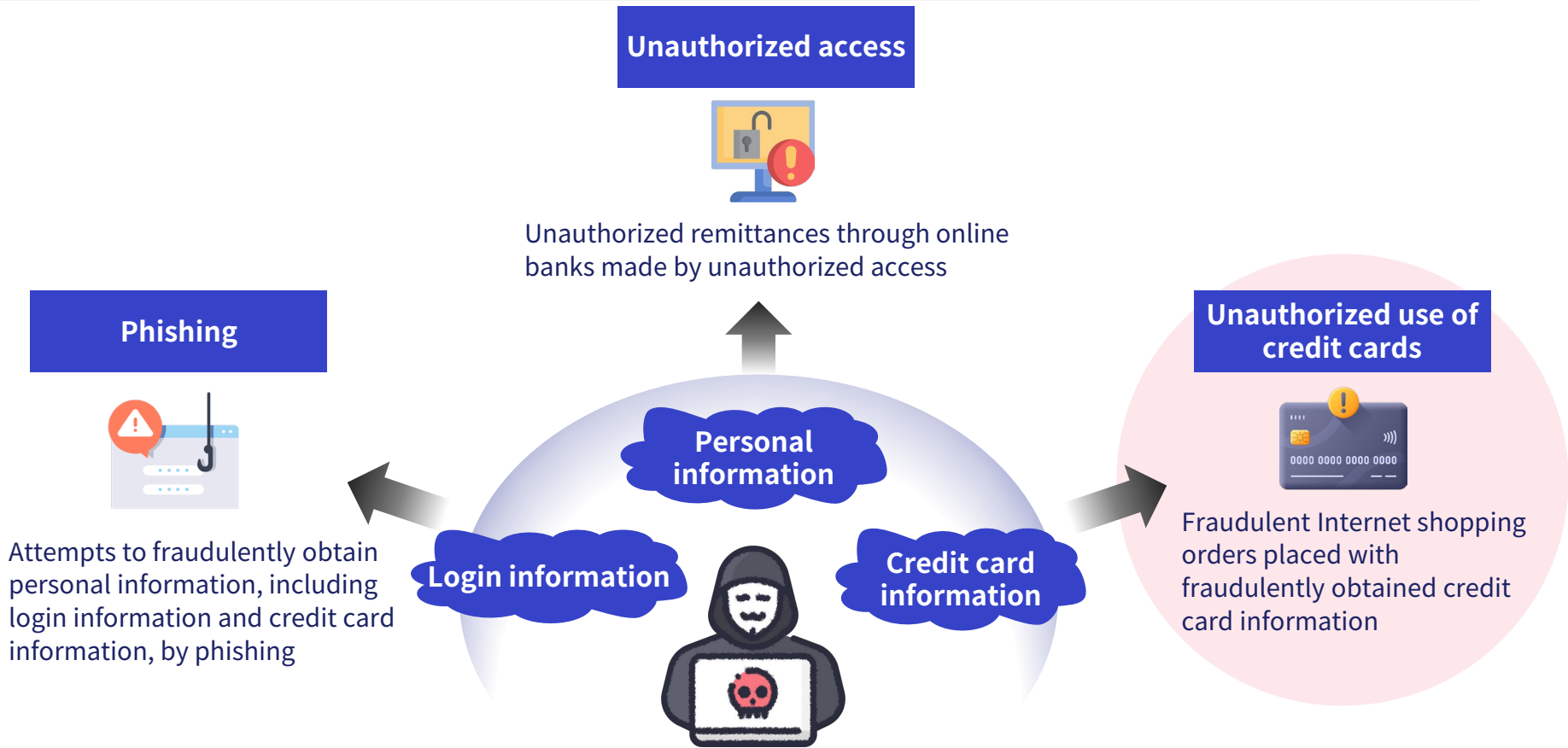
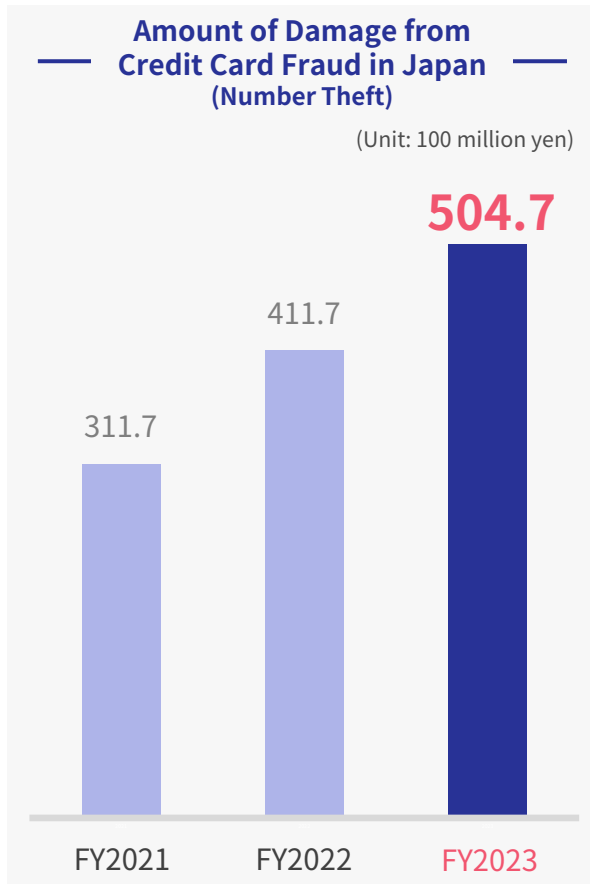
* TOKYO SHOKO RESEARCH, LTD., “Survey on the number of EC sites in Japan introducing paid fraud detection service,” (as of the end of March 2024)

Cacco's main services are our fraud detection services. They protect a wide range of businesses from phishing, unauthorized access, unauthorized use of credit cards and other fraudulent activities.



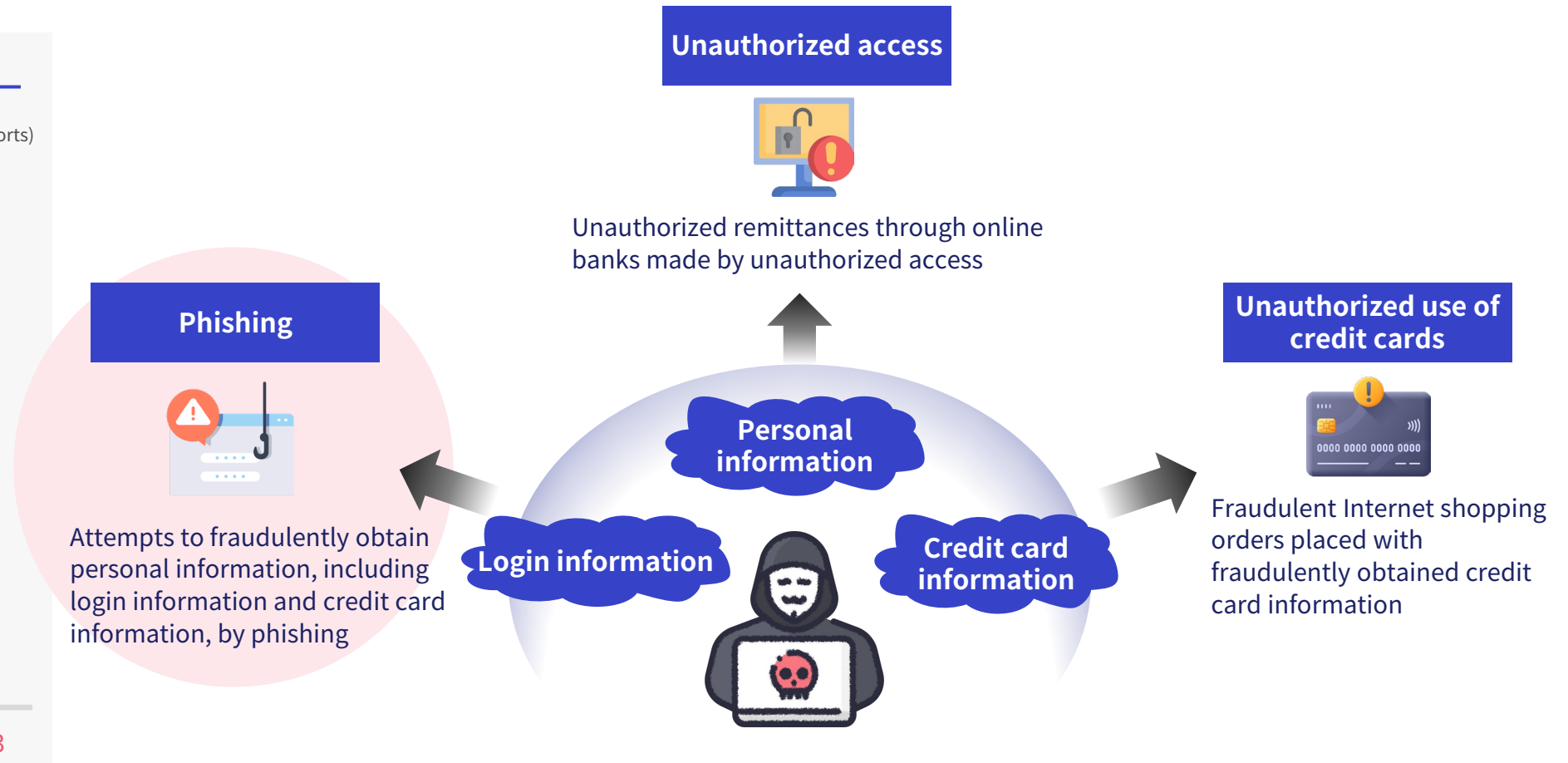
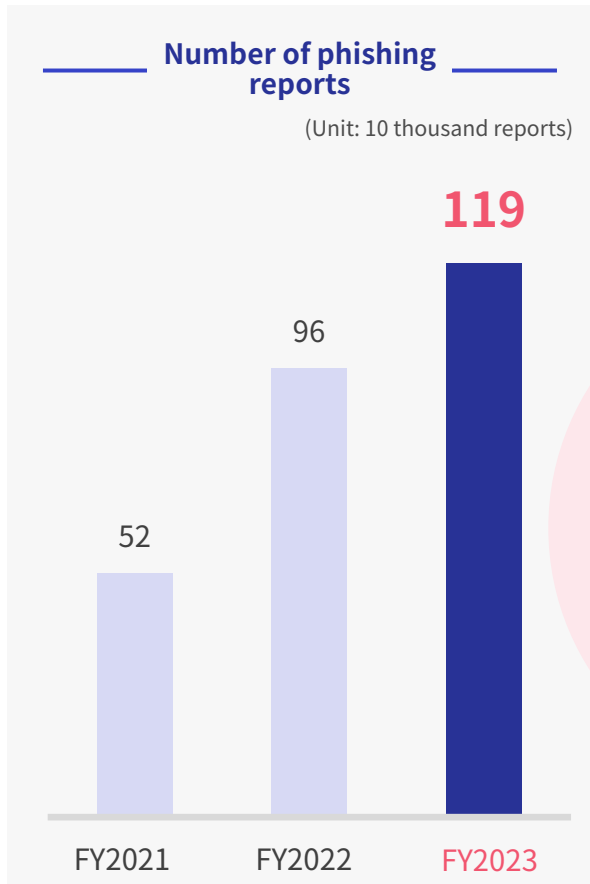
* TOKYO SHOKO RESEARCH, LTD., "Survey on the number of EC sites in Japan introducing paid fraud detection service," (as of the end of March 2024)

Crimes of fraudulently obtaining and misusing credit card information are rapidly increasing, and the damage from unauthorized use of credit cards (number theft) reached the record high of 50.4 billion yen in 2023. The needs of EC business operators to take countermeasures against fraud are rapidly expanding.



* Japan Consumer Credit Association, "Status of Damage from Unauthorized Use of Credit Cards," March 2024

The number of phishing reports also increased from 960,000 in 2022 to 1,190,000 in 2023 (YoY +23.5%). The number of fraud crimes involving the misuse of information obtained fraudulently through phishing is skyrocketing, so the need for countermeasures is rising accordingly.



* Source: Council of Anti-Phishing Japan, "Number of Phishing Reports"

Security

Fraud Detection Service

Fraudulent Order Detection Service

O-PLUX

Detect fraudulent orders such as payments in arrears in EC payments and resale in real time. No. 1*¹ in Japan in terms of number of installations.

Unauthorized Access Detection Service

O-MOTION

Real-time detection of unauthorized access and logins at financial institutions and member sites, etc.

Anti-Phishing Service

**Impenetrable
Defense PACK**

for Phishing

One-stop anti-phishing solution that detects phishing e-mails and phishing domains used to fraudulently obtain information, preventing spoofing logins using such fraudulently obtained personal information.

Recurring revenue type

Payment

Payment Consulting Service

Provide payment systems and offer consulting services for the BNPL*² business to payment service providers and to business operators, considering the possible introduction of BNPL settlement. Use **O-PLUX** as the screening engine.

Non-recurring revenue type

BNPL Packaged Service

BNPL Settlement Package

SaaS-type BNPL system

Release the “SaaS-type BNPL system,” a BNPL settlement package that can be installed without initial investment.

This is provided not only to payment service providers, but also to EC shopping carts and major EC business operators, etc.

Recurring revenue type

Data Science

Data Science Service

Develop and provide data analysis and algorithms using AI, statistics, and mathematical optimization techniques.

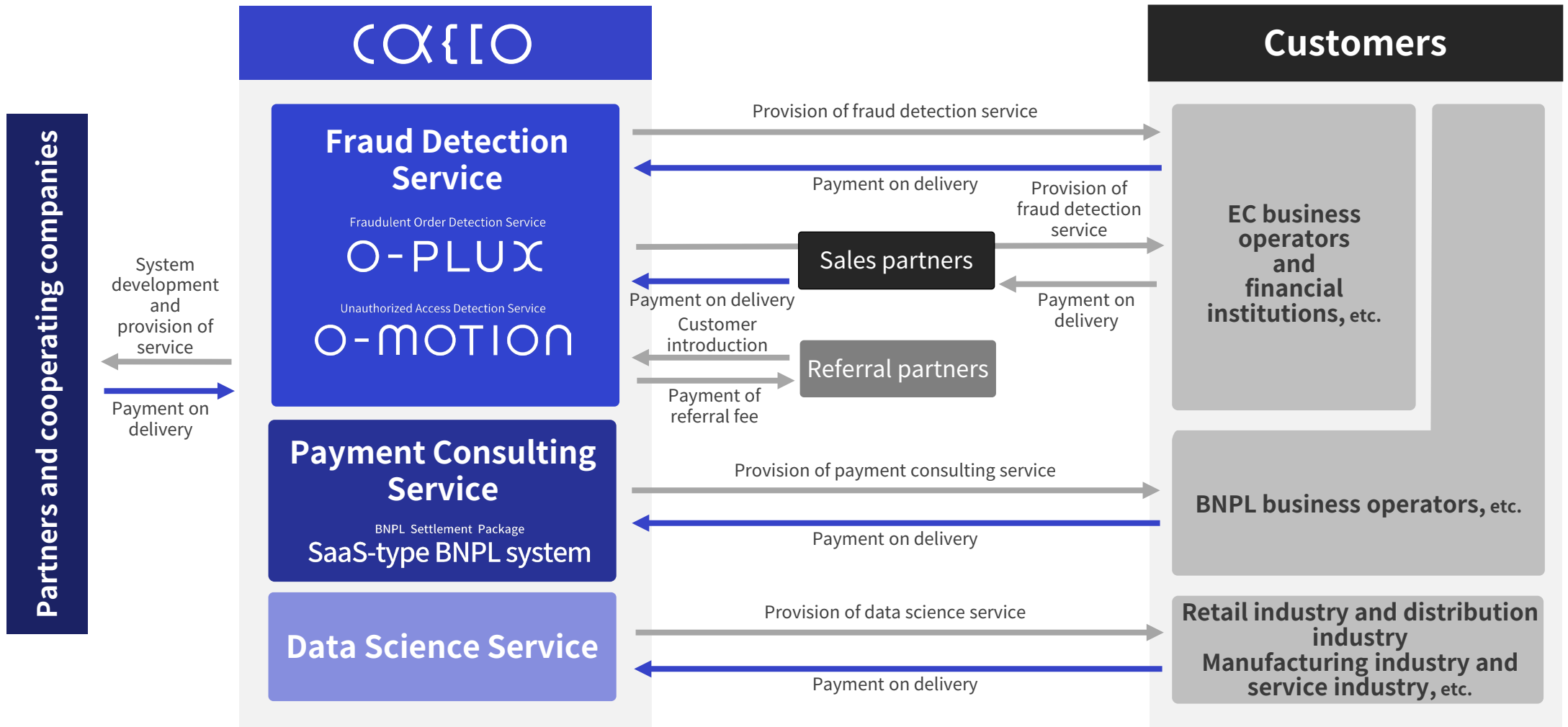
Provide services for various sectors, including optimized production planning for manufacturers, demand forecasting for retailers, and preparation of optimized shift rosters for call centers.

Non-recurring revenue type

Recurring revenue type

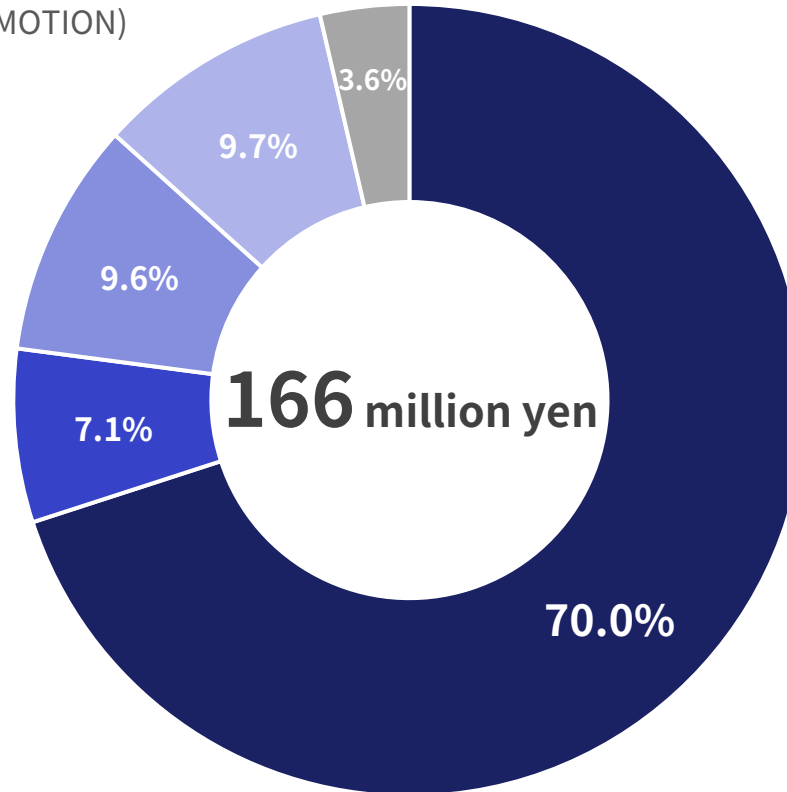
*1 TOKYO SHOKO RESEARCH, LTD., “Survey on the number of EC sites in Japan introducing paid fraud detection service,” (as of the end of March 2024)

*2 BNPL: Abbreviation for Buy Now Pay Later, post-payment settlement



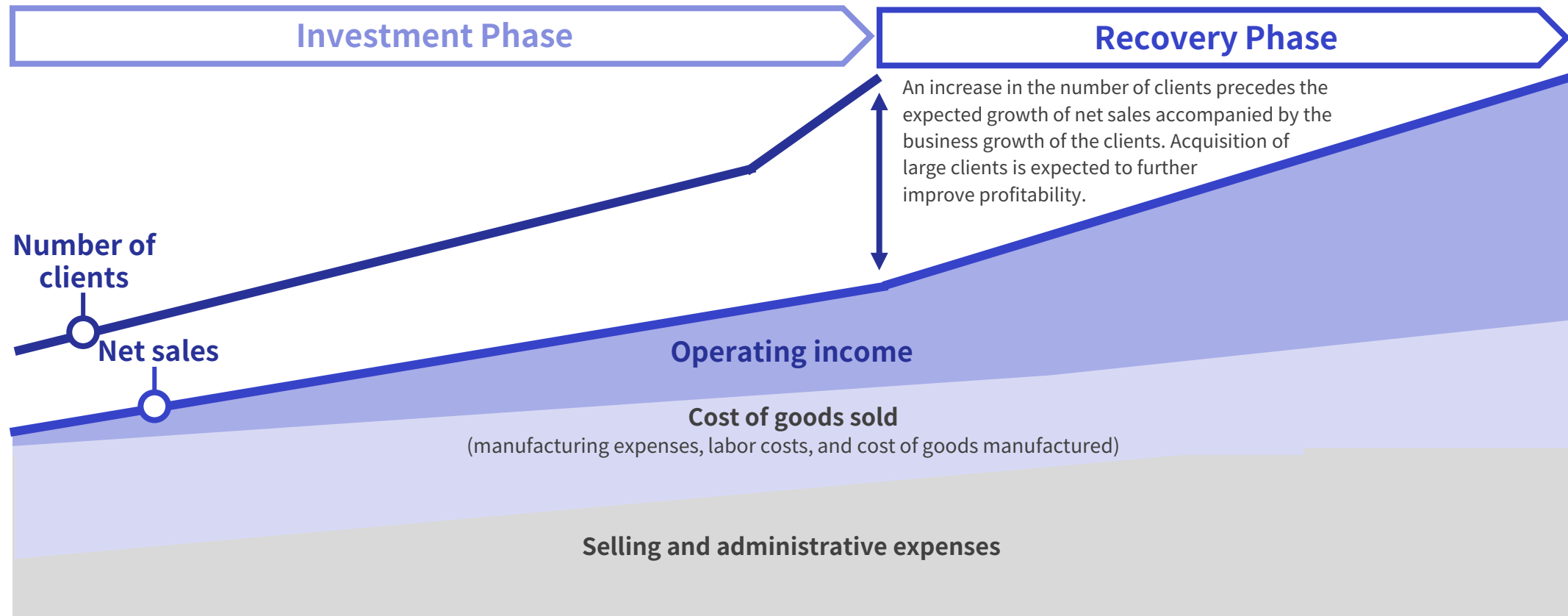
Our current growth driver is O-PLUX, our fraudulent order detection service. It accounts for 70% of our sales.

- Fraud Detection Services (O-PLUX)
- Fraud Detection Services (O-MOTION)
- Data Science Service
- Payment Consulting Service
- Others



* Others: other sales including sales of SaaS-type BNPL systems.

- O-PLUX, our fraudulent order detection service, is our core source of revenue and accounts for 70%* of our sales. It is a recurring-revenue type business, whose source of revenue is a combination of monthly fixed fees and screening fees. Its growth angle changes as the number of clients increases and their businesses grow.
- We are currently in **the Investment Phase, where we are focusing on efforts to increase the number of clients for future profit growth**, and concentrating on upgrading the service to a new version to reduce the cost of goods sold. We are also endeavoring to increase the number of clients. The smooth progress of these efforts will lead to higher net sales and profitability, and we will move into the Recovery Phase.



*Ratio of net sales of O-PLUX, our fraudulent order detection service, in our net sales for FY2024 1Q

Cacco Evolutionary Purpose

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

The Cacco Evolutionary Purpose embodies our desire to contribute to the development of the Japanese economy by supporting people and companies that are taking on the challenge of making the world a better place.

When the company was founded, there was little fraud in Internet transactions, and there were no fully functional fraud detection services in the world. But we believed that in the near future, there would be a wide variety and high volume of fraudulent activities in all Internet transactions, including e-commerce.

Almost a decade later, as we predicted, fraudulent activity is occurring in all kinds Internet transactions, and the methods are becoming more complex, evolving and expanding. Since the release of O-PLUX in 2012, we have continued to develop it so that it can adequately respond to evolving threats, and as a result, it is currently the No. 1* installed security solution in Japan.

As a company that creates new value through security, payment, and data science technologies, Cacco will continue to strive to realize the Cacco Evolutionary Purpose and sustainably increase its corporate value.



* TOKYO SHOKO RESEARCH, LTD., “Survey on the number of EC sites in Japan introducing paid fraud detection service,” (as of the end of March 2024)

Company Profile

Company name	<u>Cacco Inc.</u>
Representative	Hiroyuki Iwai, Representative Director, President and CEO
Business description	Provision of SaaS-type Algorithms (Fraud detection services, payment consulting services, and data science services)
Capital	377,645,735 yen
Listed on	Tokyo Stock Exchange, Growth Market (Stock Code 4166)
Founded on	January 28, 2011
Address/TEL	1-5-31, Motoakasaka, Minato-ku, Tokyo, JAPAN TEL: 03-6447-4534
Patents	Patent #6534255, #6534256, and #6860156
Certifications	ISMS (Information Security Management System) ISO/IEC 27001:2013 JIS Q 27001:2014 Registration number: IA120255 Privacy Mark® #10824248 (05)

History

2011	January	Establishment of business (Fraud prevention consulting)
	November	Start of payment consulting service (Payment system development and consulting for BNPL* business operators)
2012	June	Release of O-PLUX, a fraudulent order detection service
	January	Start of data science service (Data analysis and algorithm development for industries including retail and manufacturing)
2015	January	Start of data science service (Data analysis and algorithm development for industries including retail and manufacturing)
2016	July	Release of O-MOTION, unauthorized access detection service
2020	December	Listing on the TSE Growth Market
2021	October	Entry into a capital and business alliance with Eltes Co., Ltd.
2022	December	Release of the SaaS-type BNPL system, a BNPL settlement package
2023	February	Entry into a capital and business alliance with Value Creation Inc.
	June	Release of Impenetrable Defense Pack for Phishing, an anti-phishing package

* BNPL: Abbreviation for Buy Now Pay Later, post-payment settlement

Financial Results for FY2024 1Q

Financial Results for FY2024 1Q / Highlights in Results Figures

Net sales
(FY24 1Q)

166 million yen

YoY **-36.6%**
Plan progress **23.4%**

Operating income
(FY24 1Q)

-77 million yen

YoY **- %**
Plan progress **- %**

Ordinary income
(FY24 1Q)

-77 million yen

YoY **- %**
Plan progress **- %**

* YoY changes and plan progress ratios of operating income and ordinary income are described as “-” in accordance with the description standards for earnings releases established by Tokyo Stock Exchange, Inc.

O-PLUX recurring revenue*
(FY24 1Q)

108 million yen

YoY **-44.9%**

* Monthly fee charged as a fixed amount + Screening fee charged on a pay-per-use basis based on the number of screenings

Ratio of O-PLUX recurring
revenue in net sales
(FY24 1Q)

65.1%

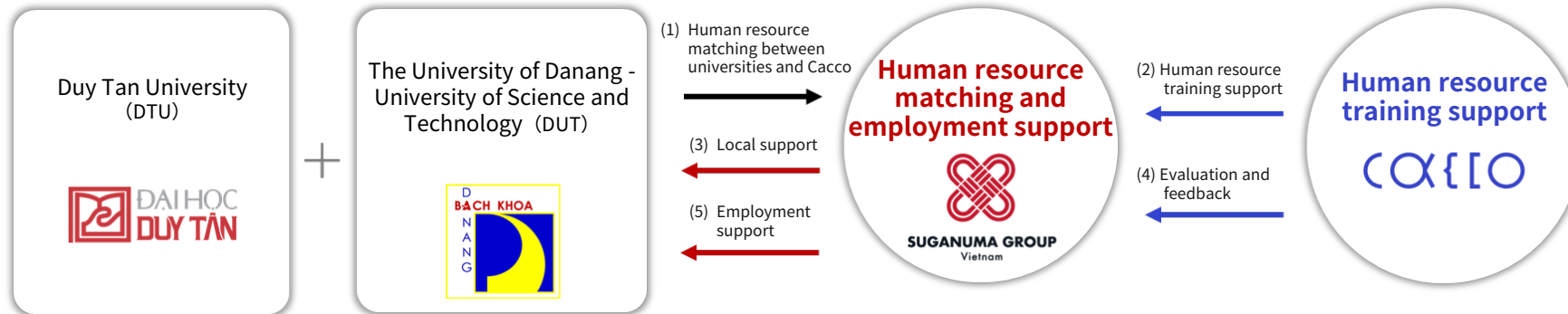
YoY **-9.8 pt**

O-PLUX churn rate
(FY24 1Q)

0.58%

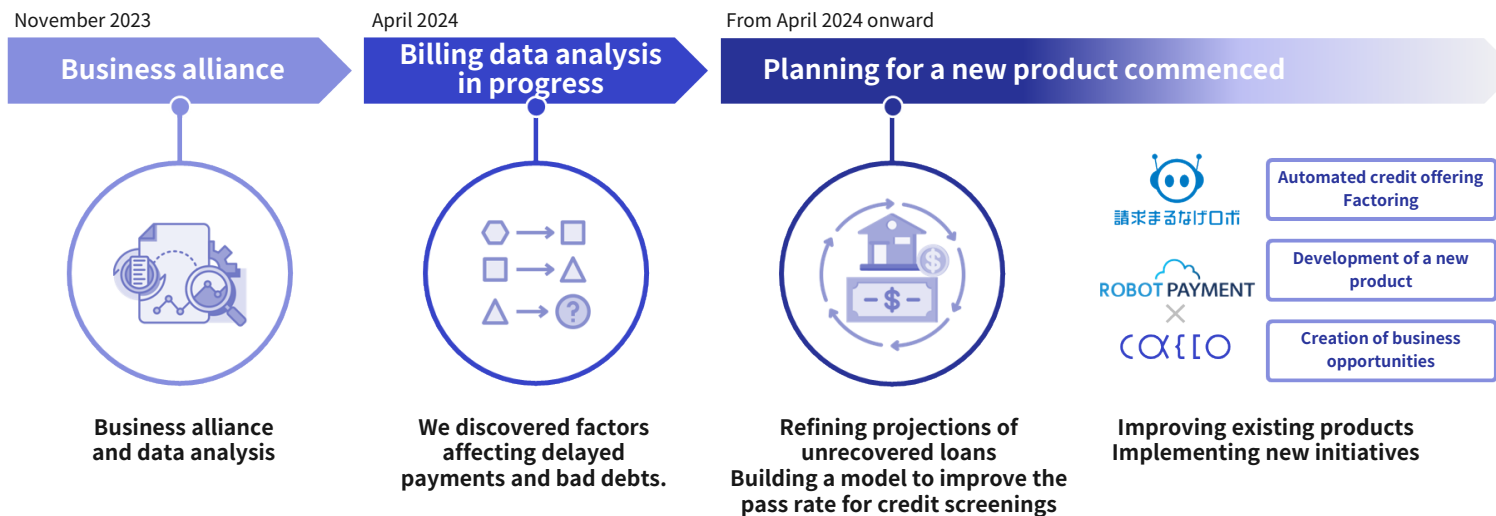
YoY **+0.48 pt**

Business Alliance with Suganuma Group.Inc



In our business alliance with Suganuma Group.Inc, we plan to collaborate with two universities in Vietnam, namely Duy Tan University and The University of Danang – University of Science and Technology, and are promoting a human resource support project in the data science domain.

Business Alliance with ROBOT PAYMENT INC.



In our business alliance with ROBOT PAYMENT INC., which commenced in November 2023, we are conducting a joint analysis project. As a result of analyzing Robot Payment’s billing data, we discovered a correlation between the content of billing and bad debts and their risk factors. We have since started planning a new product.

Net sales were 166 million yen (down 36.6% year on year), operating income was -77 million yen, and ordinary income was -77 million yen.

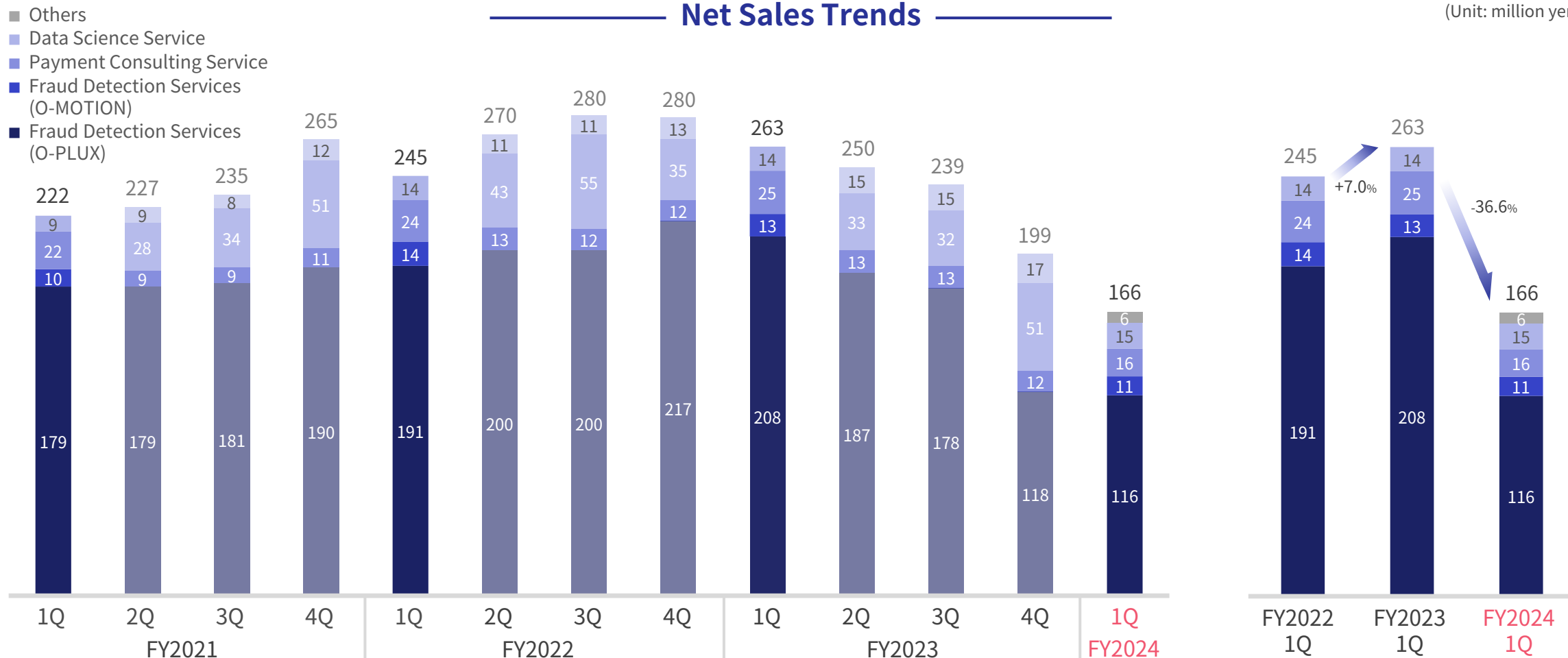
(Unit: million yen)

	FY2021 1Q	FY2022 1Q	FY2023 1Q	FY2024 1Q	YoY change	FY2024 Forecast	Plan progress
Net sales	222	245	263	166	-36.6%	713	23.4%
(Net sales of fraud detection services)	190	206	222	128	-42.3%	570	22.5%
Operating income	50	48	29	-77	-	-304	-
(Operating income margin)	22.4%	19.8%	11.4%	-46.3%	-57.7 pt	-42.7%	-
Ordinary income	47	49	29	-77	-	-307	-
(Ordinary income margin)	21.2%	20.1%	11.3%	-46.4%	-57.7 pt	-43.0%	-
Net income	32	33	19	-77	-	-307	-

In O-PLUX, our fraudulent order detection service, despite a rise in the number of new customers that are EC business operators, the impact of a fall in sales due to the termination of transactions with two of our major business partners in the previous fiscal year remained strong. As a result, net sales were 166 million yen (down 36.6% YoY), and progress is 23.4% according to the plan.

Net Sales Trends

(Unit: million yen)

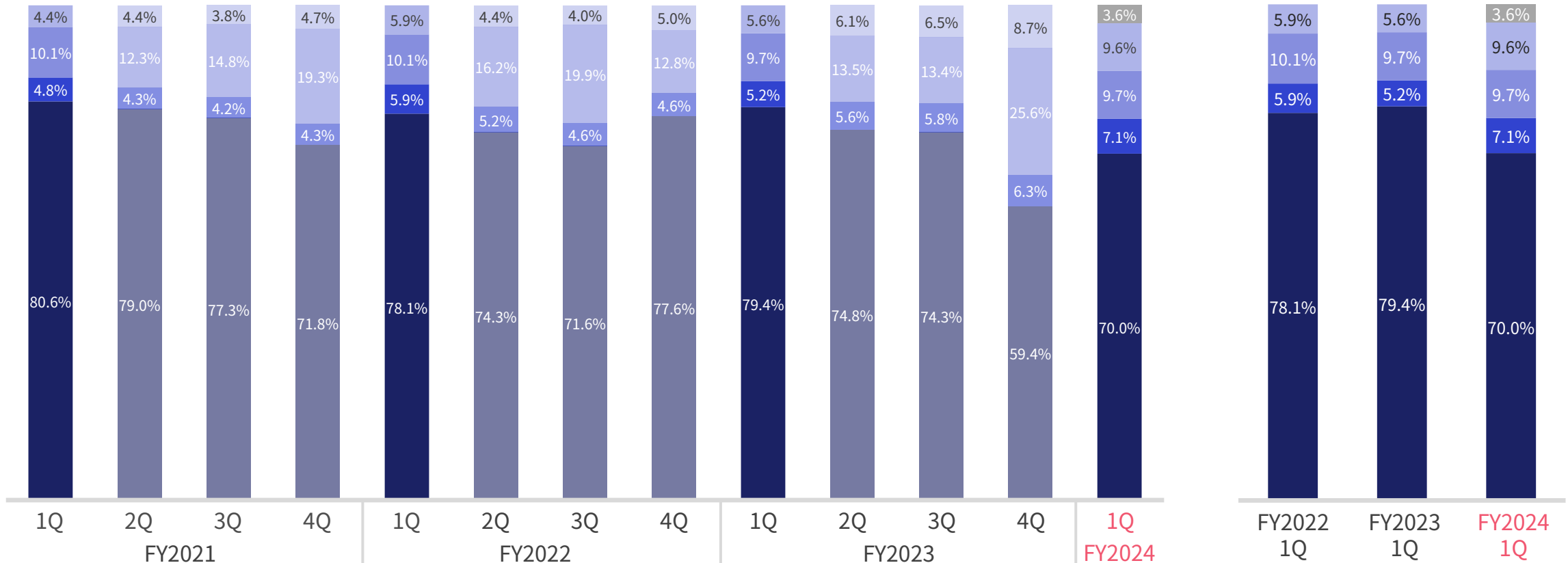


* Others: other sales including sales of SaaS-type BNPL systems.

The sales composition of O-PLUX, our core fraud detection service, reached 70.0% (down 9.4 pt YoY).

Sales Composition Trends by Service

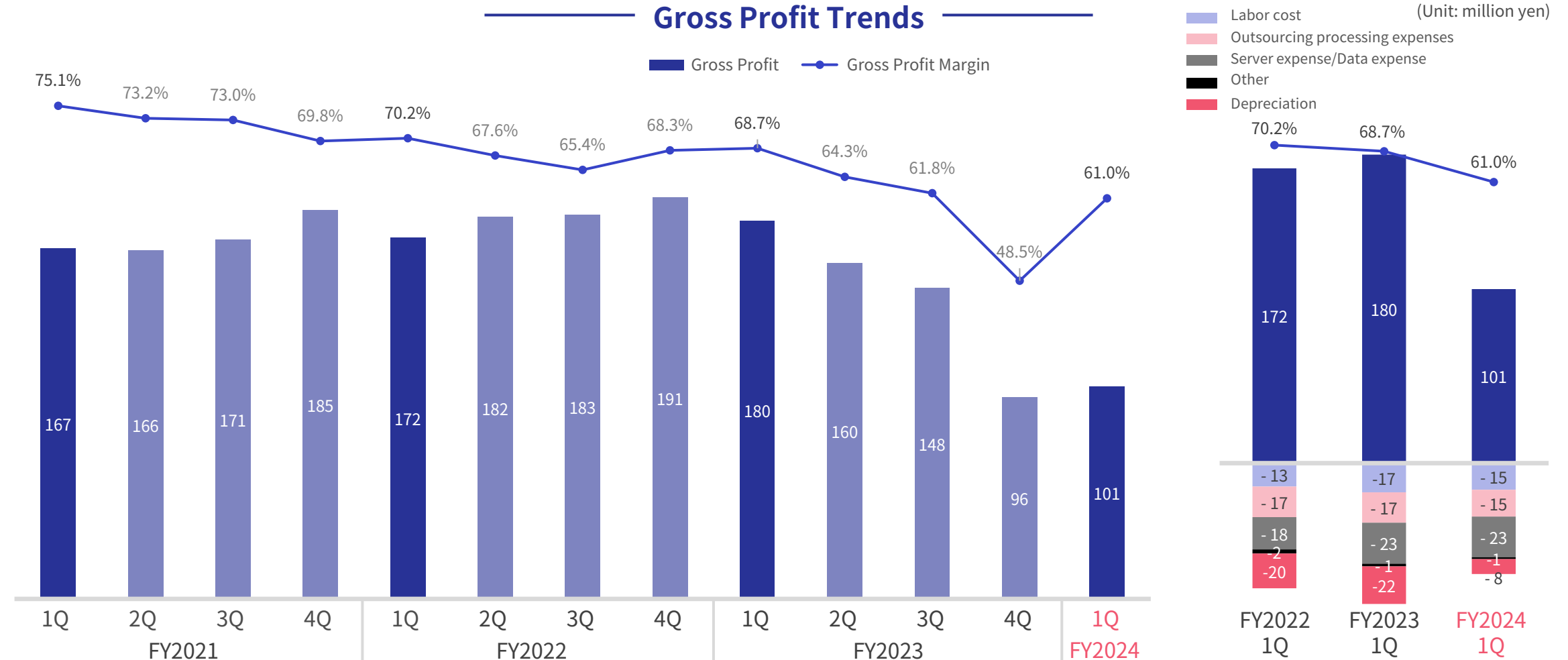
■ Fraud Detection Services (O-PLUX)
 ■ Fraud Detection Services (O-MOTION)
 ■ Payment Consulting Service
 ■ Data Science Service
 ■ Others



* Others: other sales including sales of SaaS-type BNPL systems.

Gross profit margin was 61.0% (down 7.6 pt YoY) and gross profit was 101 million yen (down 43.6% YoY). They showed an improving trend due to a decrease in depreciation.

Gross Profit Trends



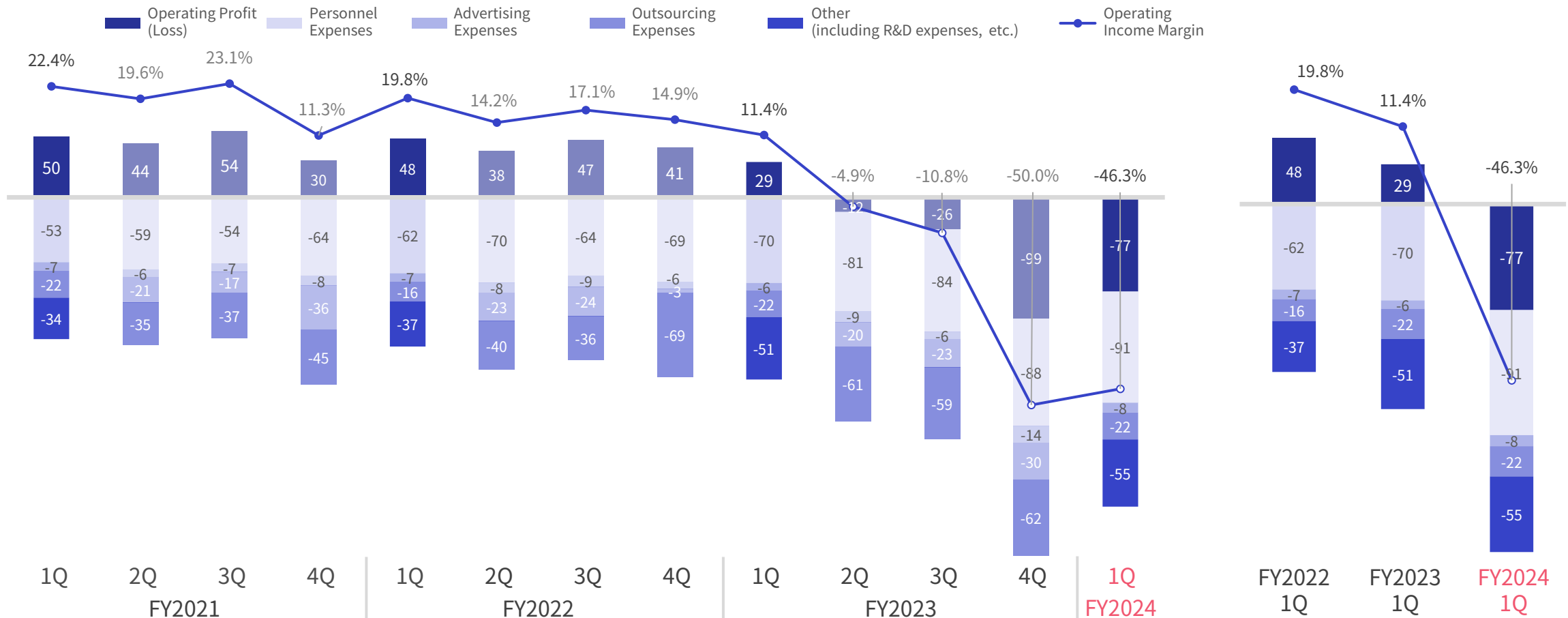
Financial Results for FY2024 1Q / Trends in Operating Income and Selling, General, and Administrative Expenses



Operating income was -77 million yen, and operating income margin was -46.3% (down 57.7 pt YoY). Personnel expenses increased due to workforce expansion aimed at earning future revenues.

Trends in Operating Income/Selling, General, and Administrative Expenses

(Unit: million yen)

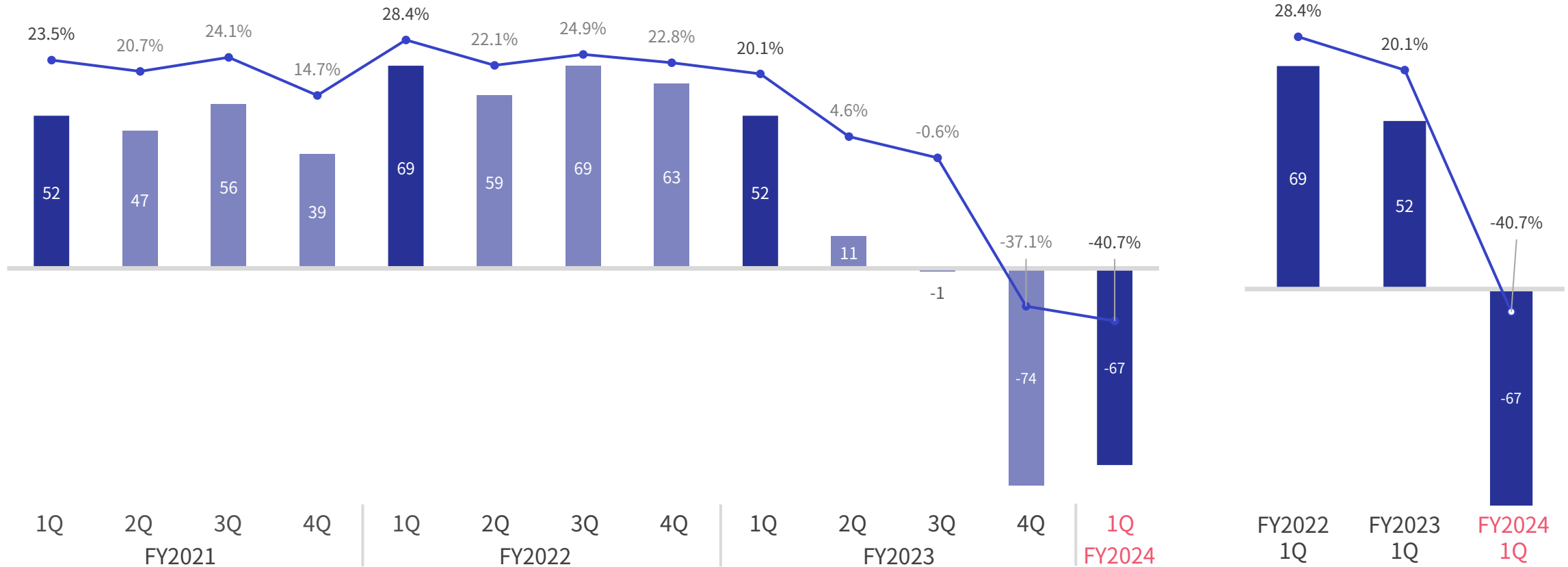


EBITDA was -67 million yen (down 228.7% YoY), and EBITDA margin was -40.7% (down 60.8 pt YoY).

EBITDA Trends

■ EBITDA ● EBITDA Margin

(Unit: million yen)

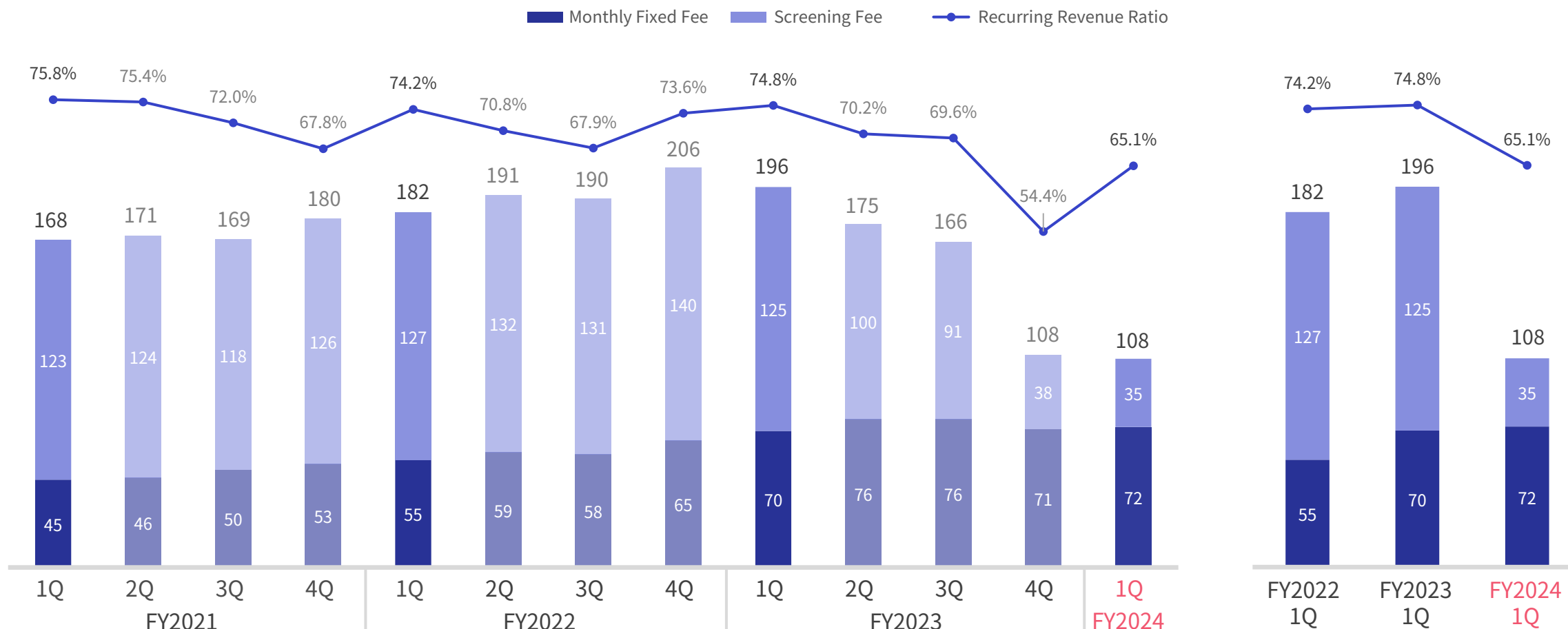


The recurring revenue of O-PLUX, our core fraudulent order detection service, was 108 million yen (down 44.9% YoY), and the recurring revenue ratio was 65.1% (down 9.8 pt YoY).

- The amount of monthly fixed fees in 1Q reached the record high due to the progress in new customer acquisition of EC business operators.

Trends in O-PLUX Recurring Revenue

(Unit: million yen)



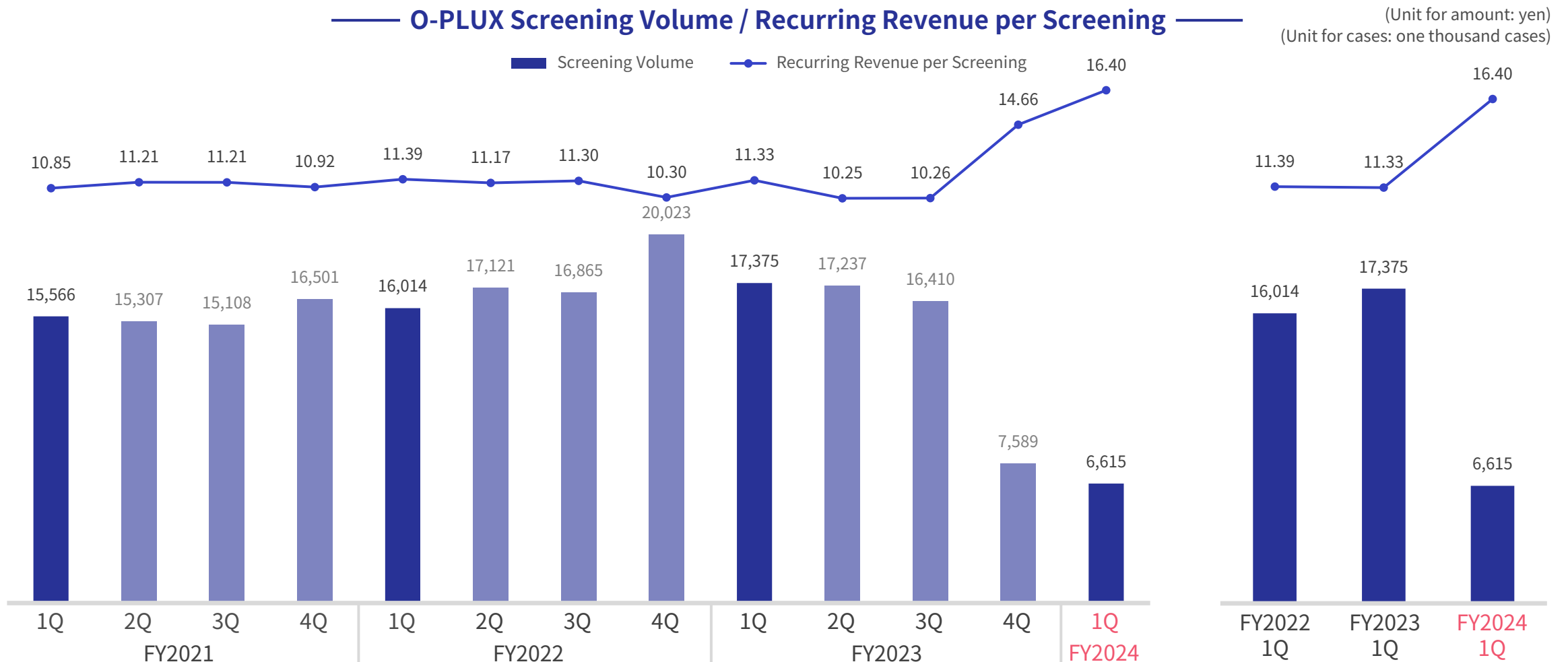
* Recurring revenue = Monthly fee charged as a fixed amount + Screening fee charged on a pay-per-use basis based on the number of examinations (including不正チェック), excluding sales of SaaS-type BNPL systems

* Recurring revenue ratio = Recurring revenue/Net sales (total of all services)

The screening volume of O-PLUX, our core fraudulent order detection service, was 6,615 thousand (down 61.9% YoY).

- Recurring revenue per screening increased due to the impact of the termination of transactions with two of our major business partners, in which screening fees charged on a pay-per-use basis accounted for a large portion.

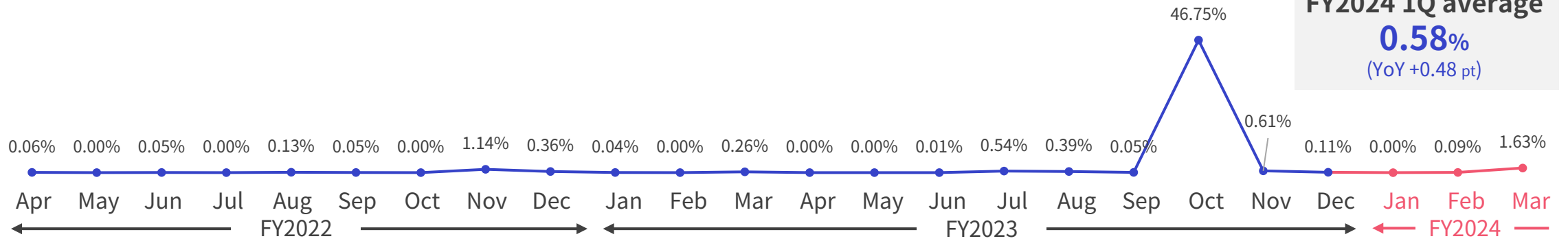
O-PLUX Screening Volume / Recurring Revenue per Screening



* Recurring revenue = Monthly fee charged as a fixed amount + Screening fee charged on a pay-per-use basis based on the number of examinations (including不正チェックカー), excluding the screening volume of SaaS-type BNPL systems © Cacco Inc.

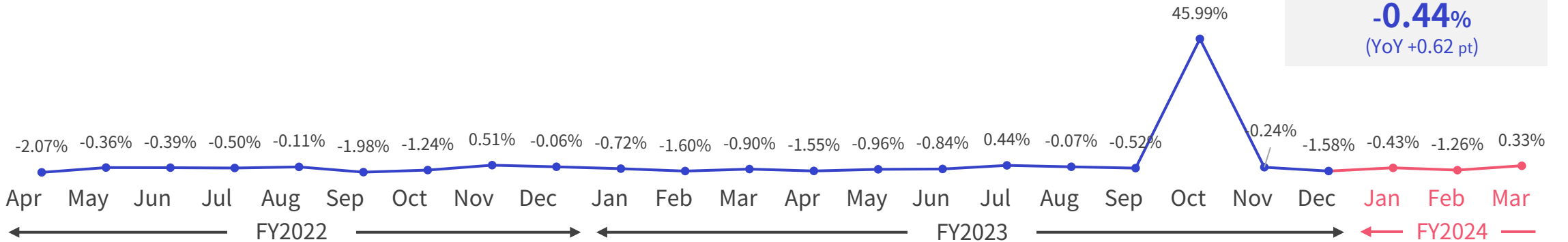
The average churn rate for O-PLUX in FY24 1Q remained low at 0.58% (up 0.48 pt YoY).

Gross Churn Rate



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

Net Churn Rate



* Net churn rate = (annual average of MRR from the clients who churned in the current month - MRR from new contracts for current month) / MRR at the beginning of the current month (excluding SaaS-type BNPL systems)

(Unit: million yen)

	FY2023 4Q	FY2024 1Q	Change	Items warranting special mention
Current assets	1,077	995	-7.6%	Decrease in cash and deposits
(Cash and deposits)	941	875	-7.0%	
Non-current assets	208	203	-2.3%	Decrease in software
Total assets	1,286	1,199	-6.7%	
Current liabilities	131	115	-11.6%	Decrease in accounts payable – trade
Non-current liabilities	82	78	-5.2%	Decrease in long-term borrowings
Net assets	1,072	1,005	-6.3%	Decrease in retained earnings due to recording of a quarterly net loss
Capital ratio	83.4%	83.8%	+0.4 pt	

Forecast Financial Results of FY2024

(Unit: million yen)

	FY2023 Actual	FY2024 Forecast	YoY Change
Net sales	952	713	-25.1%
(Net sales of fraud detection services)	747	570	-23.7%
Operating income	-108	-304	-
(Operating income margin)	-11.3%	-42.7%	-
Ordinary income	-117	-307	-
(Ordinary income margin)	-12.4%	-43.0%	-
Net income	-320	-307	-
EPS (yen)	-121.13	-115.29	-

Net sales -25.1% YoY

We anticipate that sales of O-PLUX, our fraud detection service, will decrease by 316 million yen due to the impact of the termination of transactions with two of our major business partners in the fiscal year ended December 2023. As a result of this impact, we expect net sales for the fiscal year ending December 2024 to be 713 million yen (down 25.1% YoY).

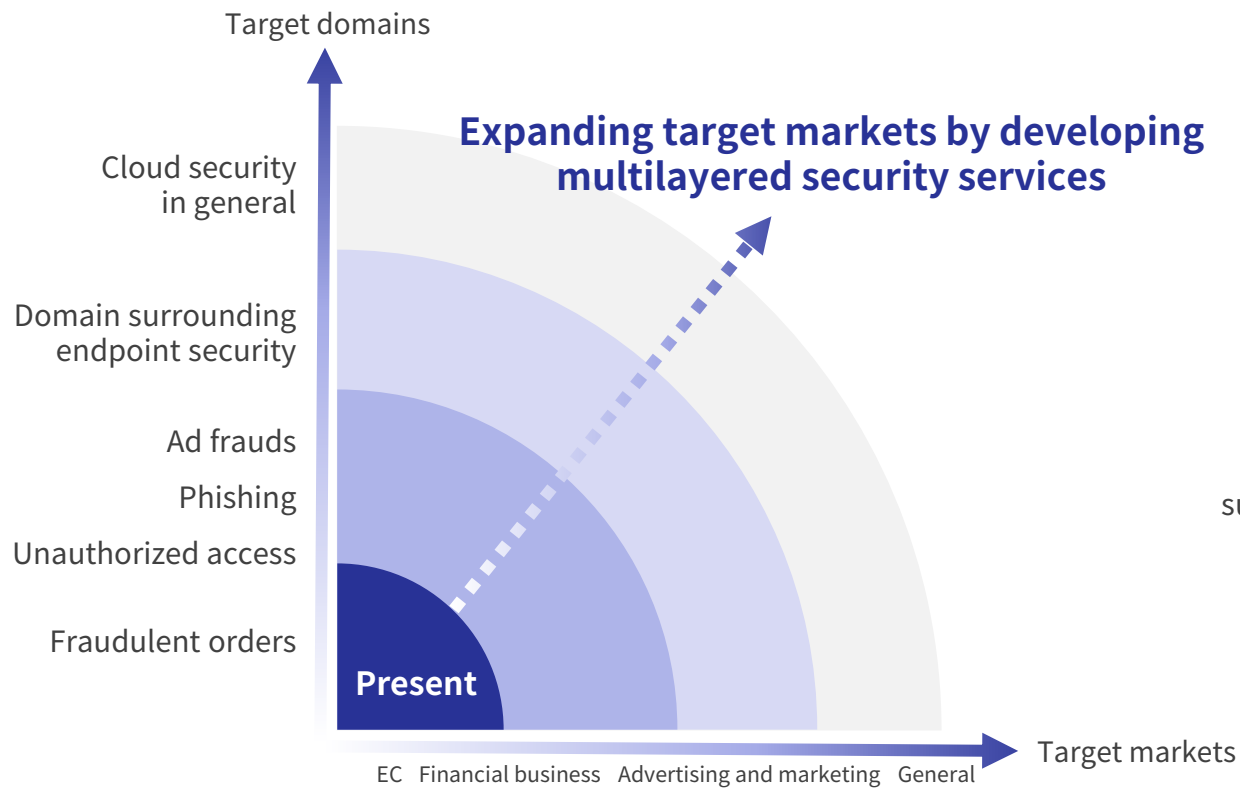
Operating income -304 million yen

Although depreciation of software, etc. will decrease by 60 million yen year on year as a result of recording extraordinary losses (impairment losses) in the fiscal year ended December 2023, we expect operating income to be -304 million yen due to higher personnel costs associated with sales, marketing, and R&D, as well as other factors.

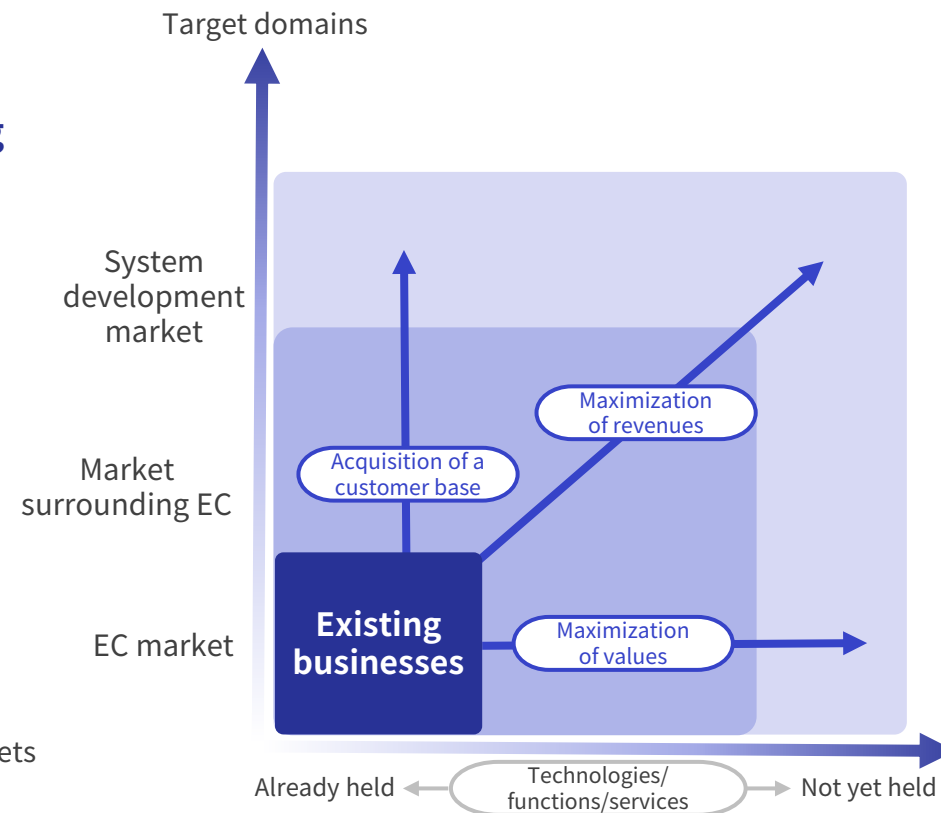
Growth Strategy

In addition to the fraudulent order detection service, which is currently our core service, Cacco aims to build its unique business domains by venturing into new security domains to expand target markets and extending its business domains through business alliances and M&As.

Developing new security domains



Developing business domains through business alliances and M&As





We will expand business domains by working to bring forward the contribution to revenues by products other than O-PLUX.

* PMF: "Product Market Fit," the state in which a product (service or commodity) is fit into a particular market.

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



Expansion of Fraud Detection Domain

- Transformation of our profit structure, which has relied on major customers
- Acquisition of new customers by implementing the strategy to expand the EC fraud detection domain
- Growing market need due to a rapid increase in fraud damage



Expansion into the Cybersecurity Domain

- Growing service needs due to an increase in unauthorized access and other damage
- Development of products to respond to market needs
- Enhancing our organization for sales and marketing



Overseas Expansion

- Provision of fraud detection and data science services in Southeast Asia
- Human resource training support in the data science domain provided to university students in Vietnam



Building New Business Domains

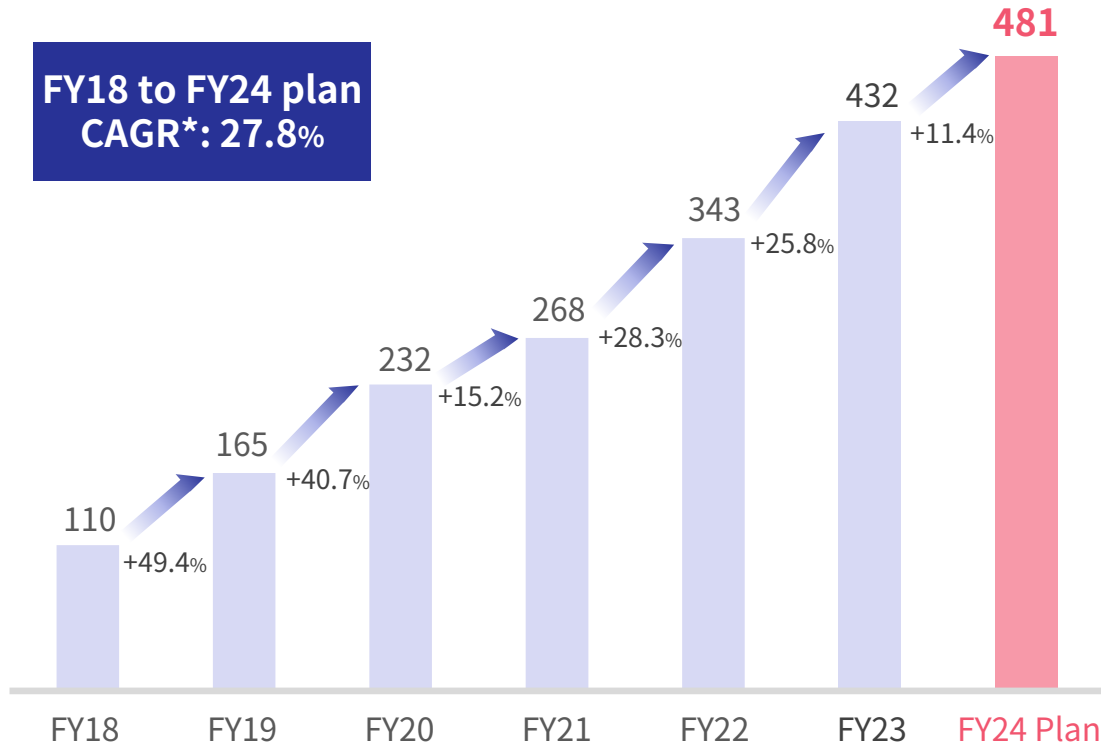
- Building new business domains and increasing revenue points through M&As
- Building new business domains and increasing revenue points through business alliances

We aim to transform our profit structure, which has relied on major business partners for O-PLUX, our fraudulent order detection service, by implementing the expansion strategy in the EC fraud detection domain, which is one of our growth strategies.

Changes in sales to EC business operators (direct sales) in the O-PLUX fraud detection service

(Unit: million yen)

FY18 to FY24 plan
CAGR*: 27.8%



Expansion strategy in the EC fraud detection domain

1

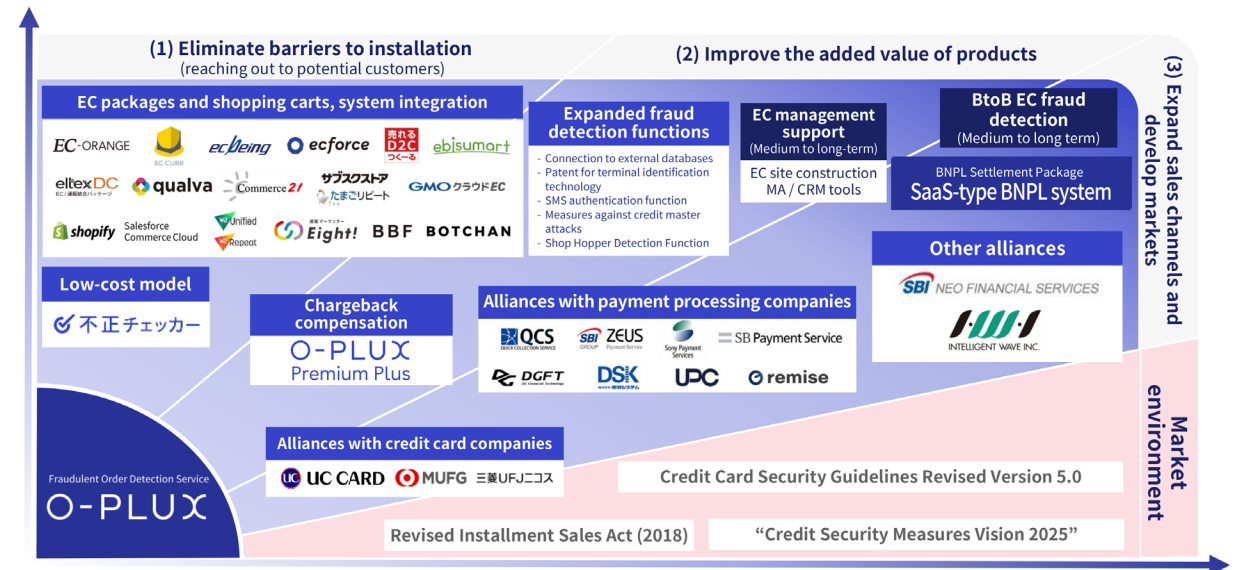
Eliminate barriers to installation (reaching out to potential customers)

2

Improve the added value of products

3

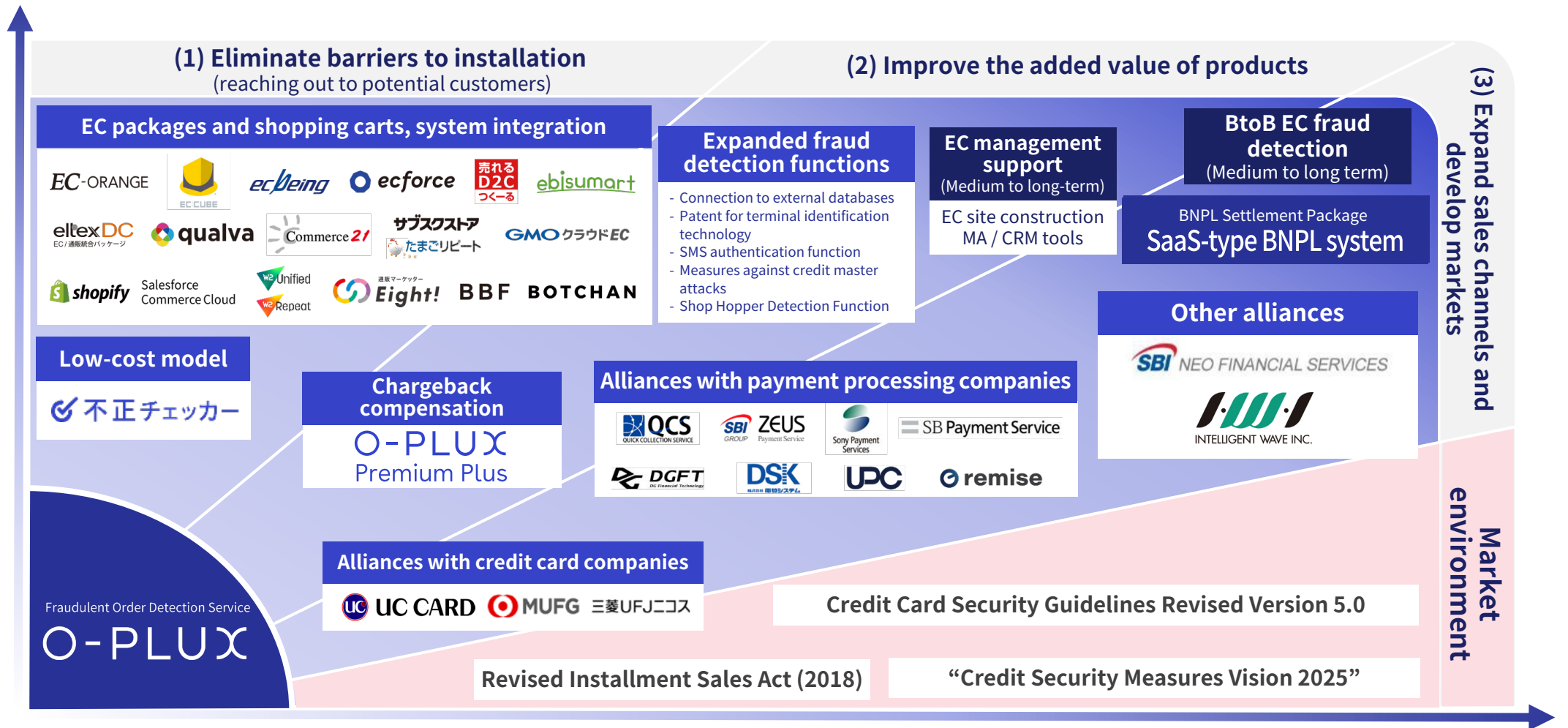
Expand sales channels and develop markets



* CAGR stands for "Compound Annual Growth Rate" and is obtained by calculating the geometric mean (indicating an annual rate) of the growth rate over multiple years.

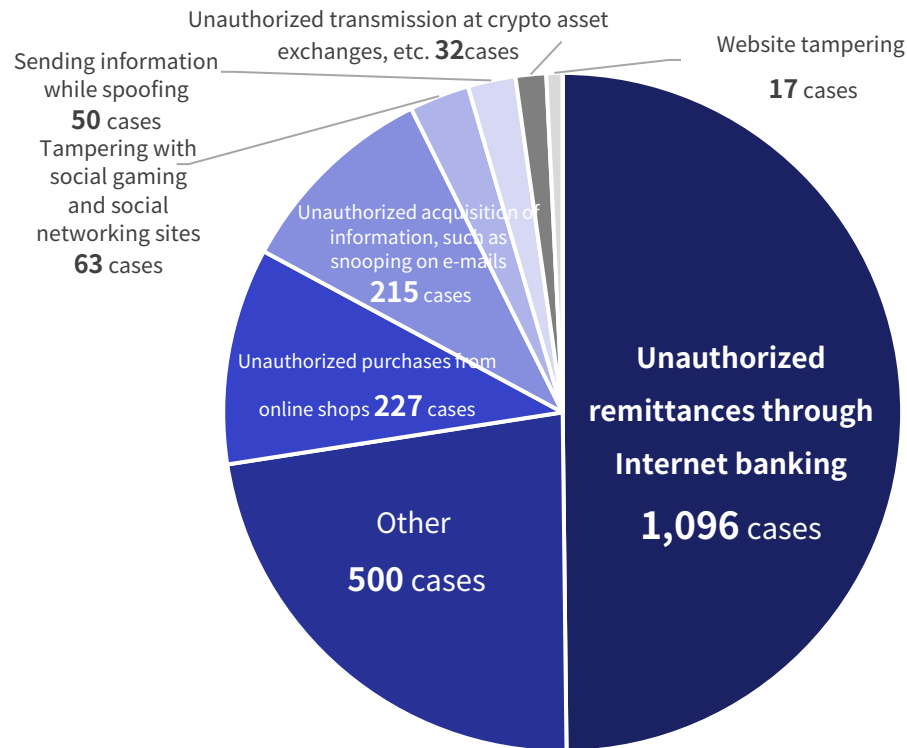
Demand for fraud detection services will be on the increase due to the social problem of fraudulent damage, stricter regulations, etc.

Three strategies will be implemented to achieve further growth of O-PLUX, our fraudulent order detection service.



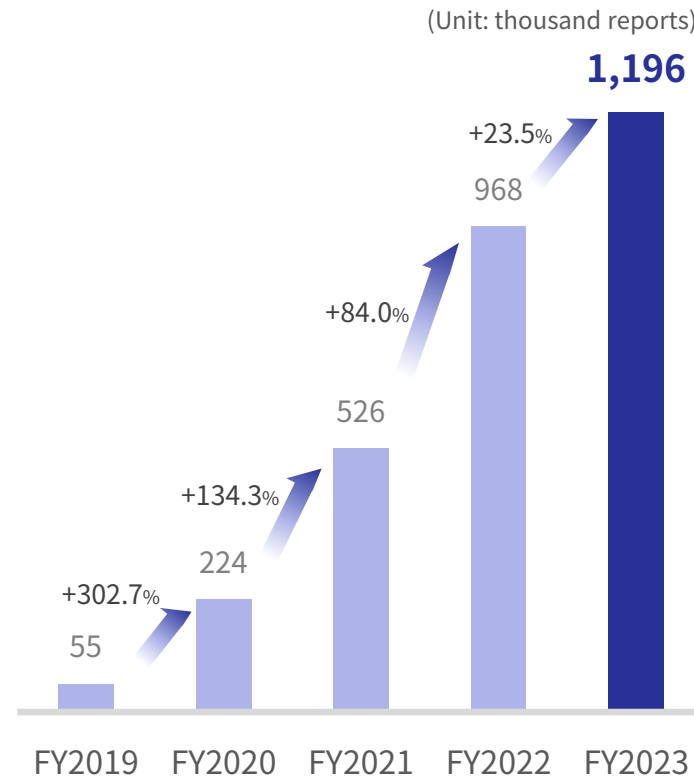
In Japan, there is no end in sight for damage caused by information leaks, such as the divulgence of personal information caused by phishing and unauthorized access, and the need for measures against damage from unauthorized access is expected to keep growing.

Number of recognized cases of unauthorized access activities in Japan



Source: National Police Agency, Ministry of Internal Affairs and Communications, and Ministry of Economy, Trade and Industry, 2022
 “Status of Research and Development of Technologies for Unauthorized Access and Access Control Functions (FY2022)”

Number of phishing reports



* Source: Council of Anti-Phishing Japan, “Number of Phishing Reports”

Growing need for our services

Unauthorized Access Detection Service
O-MOTION

Real-time detection of unauthorized access and login at financial institutions and member sites, etc.

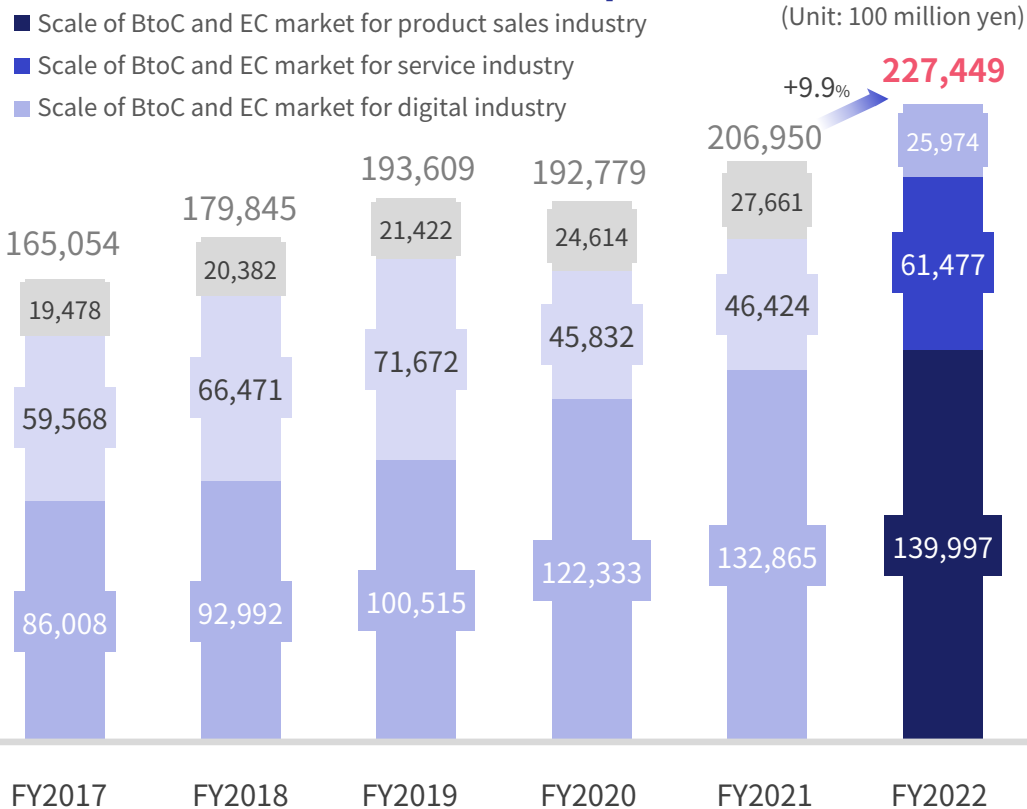
Anti-Phishing Service
Impenetrable Defense PACK
 for Phishing

One-stop anti-phishing solution that detects phishing e-mails and phishing domains used to fraudulently obtain information. This prevents spoofing logins using such fraudulently obtained personal information.

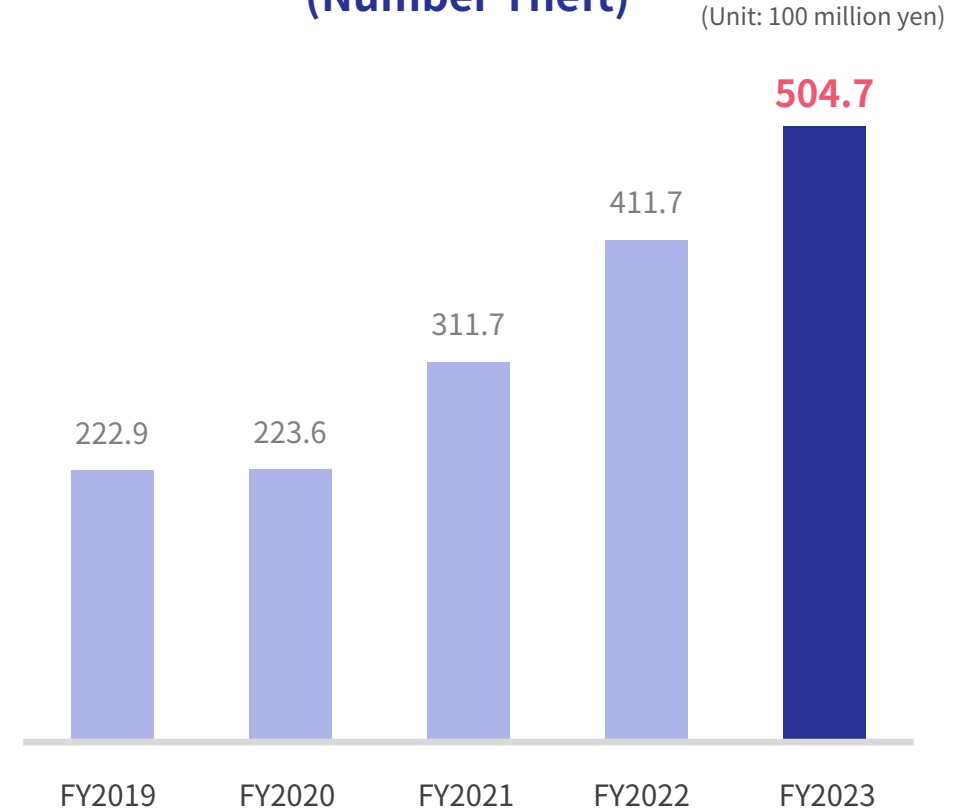
Credit card fraud (number theft) is increasing proportionally with the growth of the EC market.

- Social demand for anti-fraud measures, such as the revision of the Installment Sales Act and publication of the “Credit Security Measures Vision 2025,” is increasing

Scale of BtoC and EC Market in Japan



The Amount of Credit Card Fraudulent Damage in Japan (Number Theft)



Source: Ministry of Economy, Trade and Industry, Commerce and Information Policy Bureau, Information Economy Division, “FY2022 Report on Commissioned Industrial and Economic Research (Market Research on Electronic Commerce).”
 Japan Consumer Credit Association, “Status of Damage from Unauthorized Use of Credit Cards,” March 2024

Credit Card Security Guidelines Version 5.0^{*1} requires, as with Version 4.0, all EC merchants to introduce EMV 3-D Secure^{*2} by the end of March 2025, in principle. In addition, it now requires EC merchants to take measures to protect credit card information and countermeasures against unauthorized use. The need for anti-fraud countermeasures are expected to keep growing.

Introduction of EMV 3-D Secure



By the end of March 2025

Review of which anti-fraud countermeasures should be implemented for each situation involving payments (before, at the time of, and after making payments)

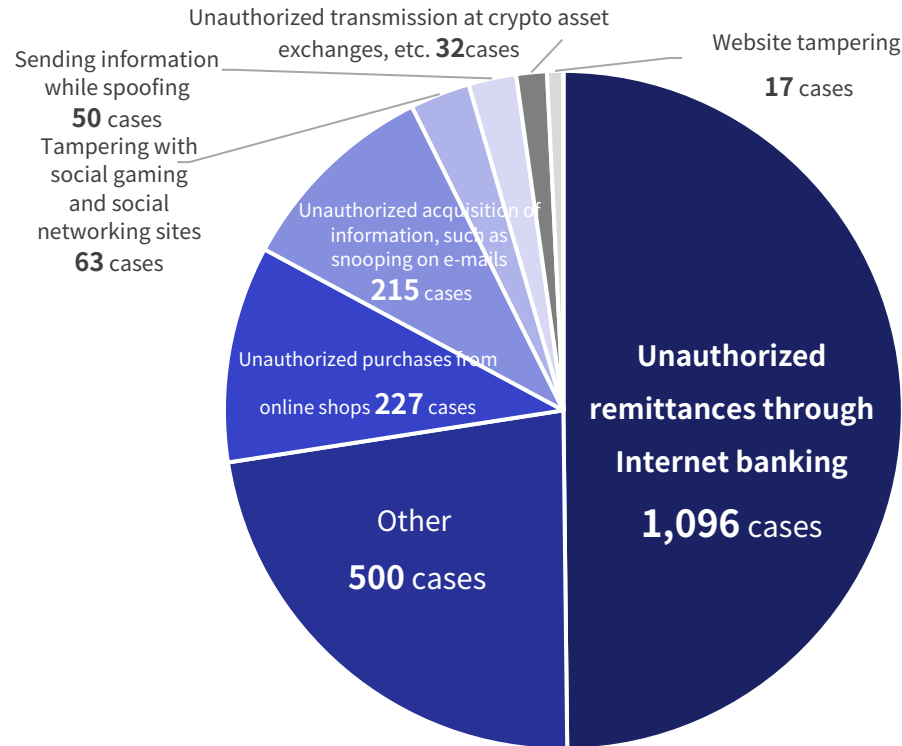
		Before credit card payment			At the time of credit card payment	After credit card payment
Payment flow	Member registration	Member login	Attribute change	Select products to be ordered	Enter the credit card information and make a payment	Verification of customer information, etc. after completion of the payment
	Countermeasures against credit master attacks/validity verification					
Countermeasures	Countermeasures against unauthorized logins		EMV 3-D Secure		Review of the details of the order and information on the delivery destination, etc.	
			Security code verification		Stop or suspend the delivery (including the suspension of the service or account)	
			Verification assist			
	Analysis of attributes and behavior					

*1 Issued by the Credit Card Transaction Security Countermeasures Council.

*2 Identity authentication services recommended by international credit card brands to ensure that credit card payments on the Internet are made more securely. Those services are collectively referred to as "EMV 3-D Secure," although each brand uses a different name for those services.

In Japan, there is no end in sight for damage caused by information leaks, such as the divulgence of personal information caused by phishing and unauthorized access, and the need for measures against damage from unauthorized access is expected to keep growing.

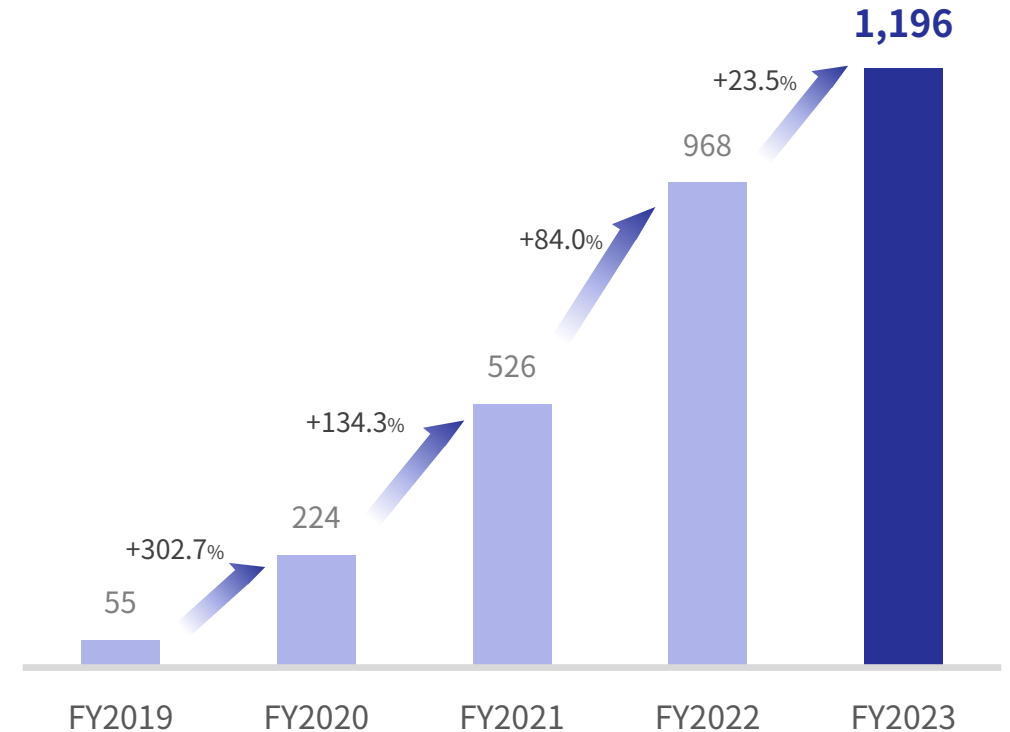
Number of recognized cases of unauthorized access activities in Japan



Source: National Police Agency, Ministry of Internal Affairs and Communications, and Ministry of Economy, Trade and Industry, 2022
 “Status of Research and Development of Technologies for Unauthorized Access and Access Control Functions (FY2022)”

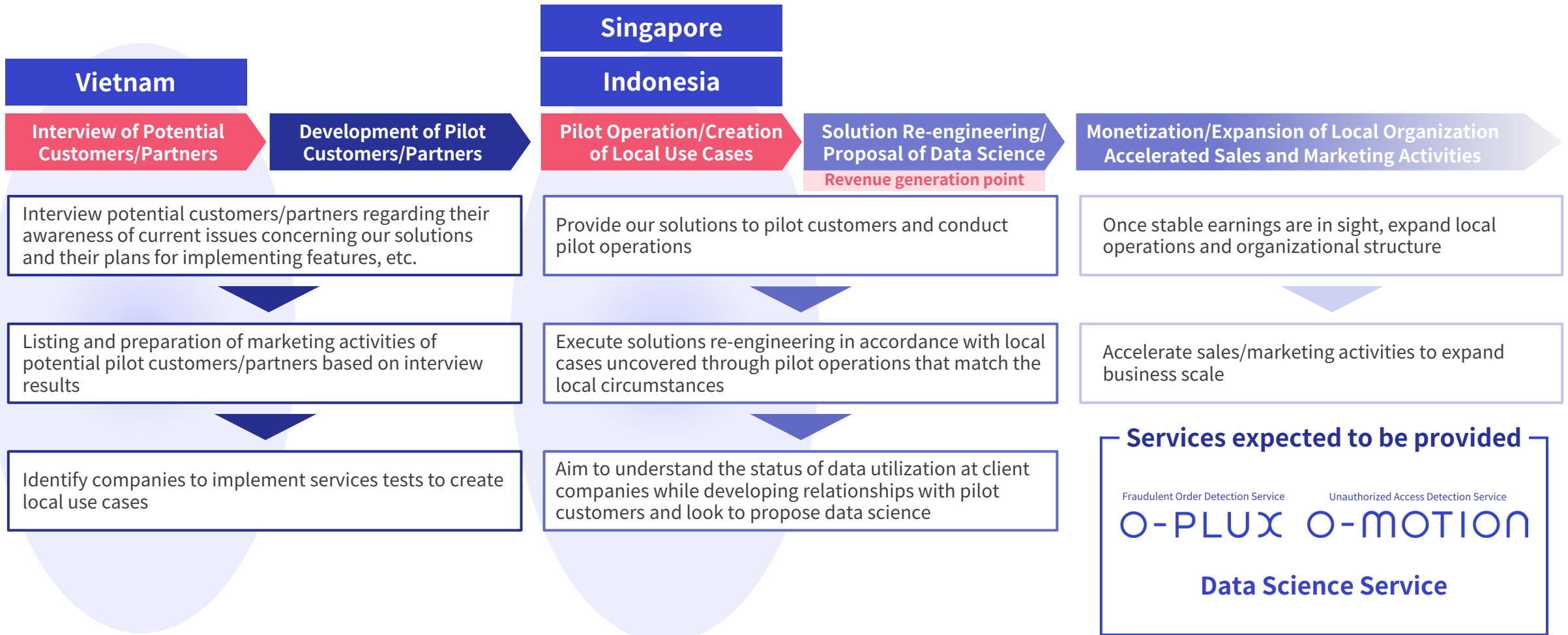
Number of phishing reports

(Unit: thousand reports)



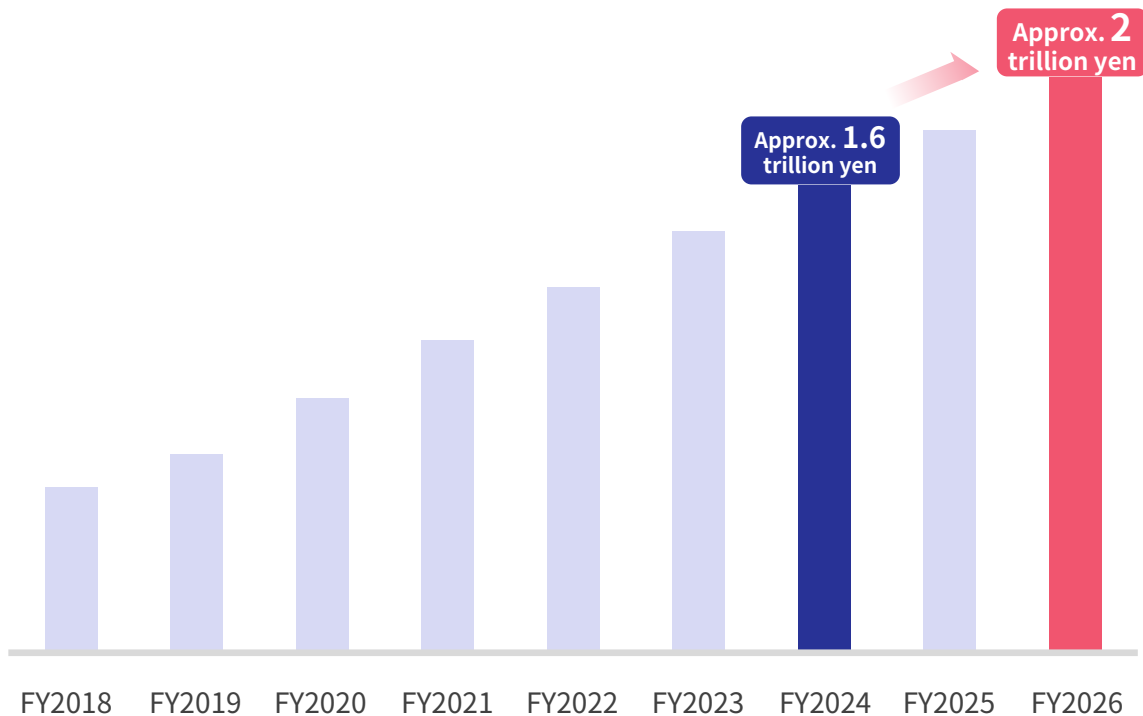
* Source: Council of Anti-Phishing Japan, “Number of Phishing Reports”

Our local distributor is working on developing new customers in parallel with negotiations with local companies considering service test introduction to create use cases in Indonesia and Singapore. Requirement definitions for the pilot customers and verification method are being arranged. **Potential customers are increasing and multiple trials are under way.** In addition, a new project has been launched in Vietnam.



With our SaaS-type BNPL system, which enables the adoption of BNPL as a settlement method by minimizing initial investment and operating costs, the barriers to entry into BNPL will be lowered. A new BNPL market will be created by expanding BNPL to non-payment providers that have been unable to enter or adopt BNPL to date.

Domestic BNPL Market Trends



Source: Yano Research Institute, "Current Status and Future Forecast of Online Payment Service Providers, 2023 Edition"

What the SaaS-type BNPL system should be



BNPL expansion into overseas markets with a focus on Southeast Asia.



BNPL expansion not only for payment service provider but also for EC shopping carts, major EC business operators, etc.

Market Scale of BNPL settlement in Japan*

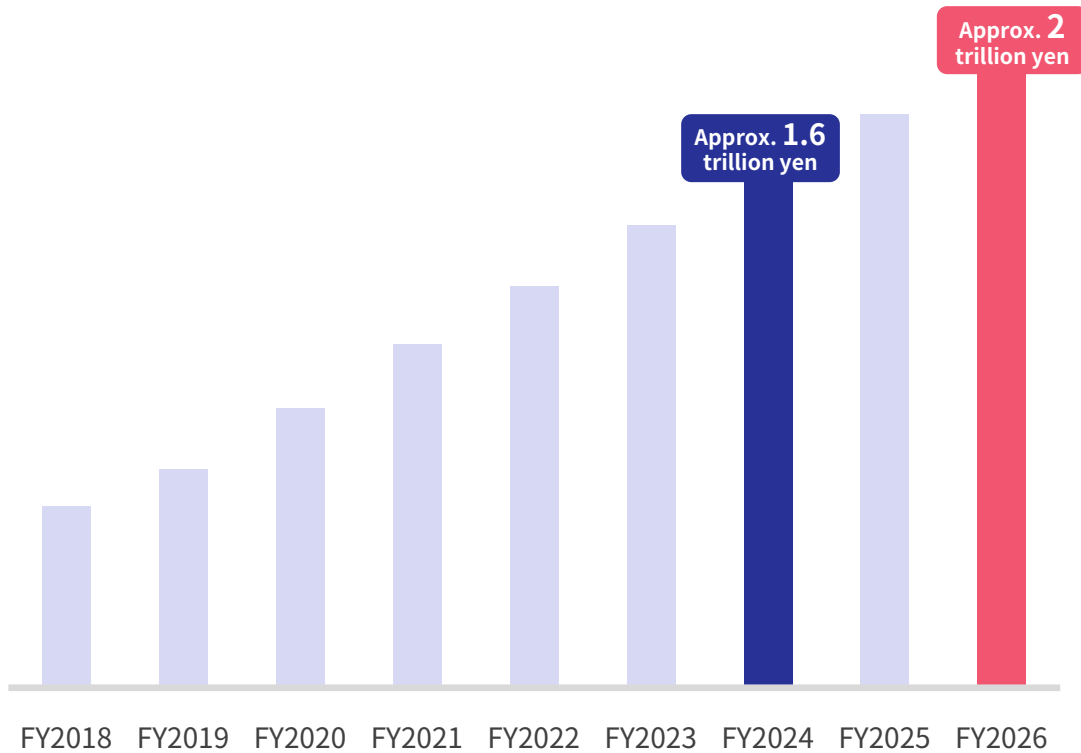
2026: **Approx. 2.0 trillion yen**

2024: **Approx. 1.6 trillion yen**

* Source: Yano Research Institute, "Current Status and Future Forecast of Online Payment Service Providers, 2023 Edition"

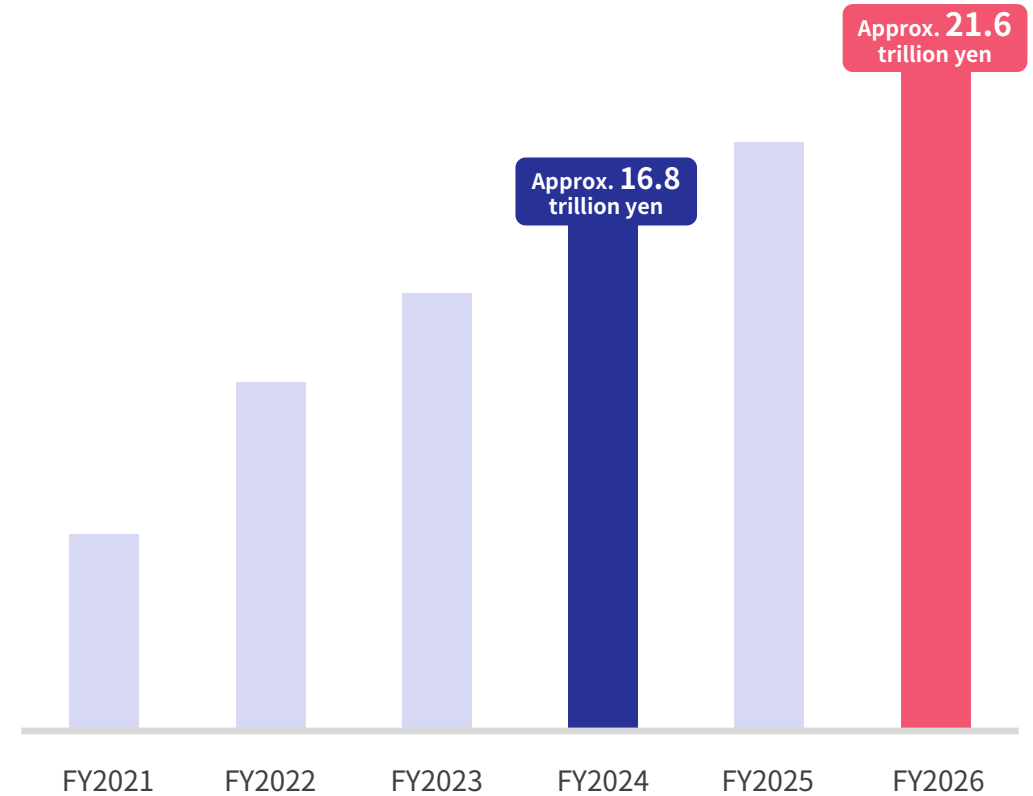
The BNPL market is also projected to continue growing as its domestic market is expected to be approximately 2 trillion yen and the total amount of BNPL payments in the US is expected to be approximately 21.6 trillion yen in 2026.

Domestic BNPL Market Trends



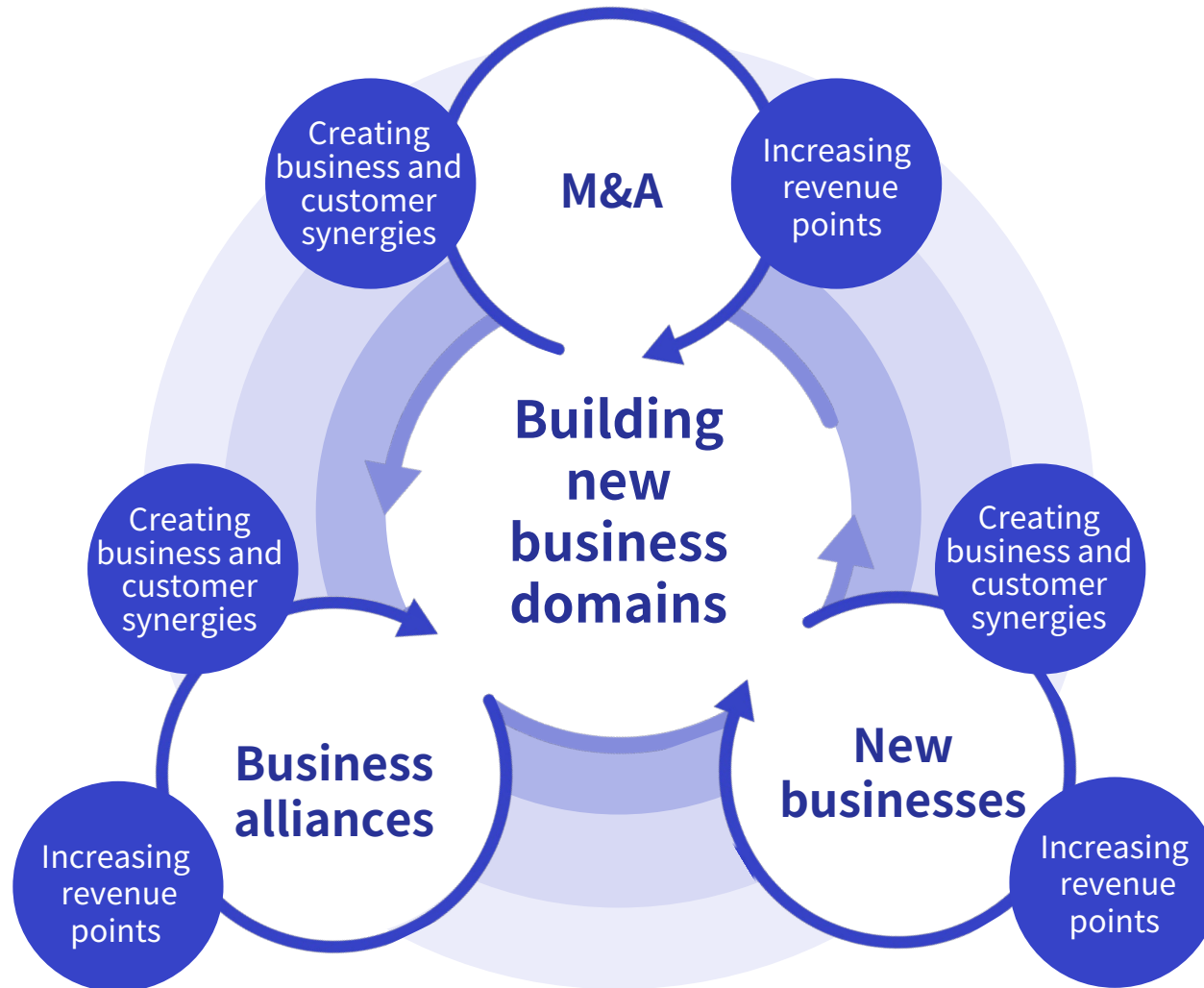
Source: Yano Research Institute, "Current Status and Future Forecast of Online Payment Service Providers, 2023 Edition"

Trends of Total Amounts of BNPL Payments in the US



Source: Inside Intelligence, "US Buy Now, Pay Later Forecast 2022." Converted into Japanese yen at the rate of 1 US\$ = 150.63 JPY.

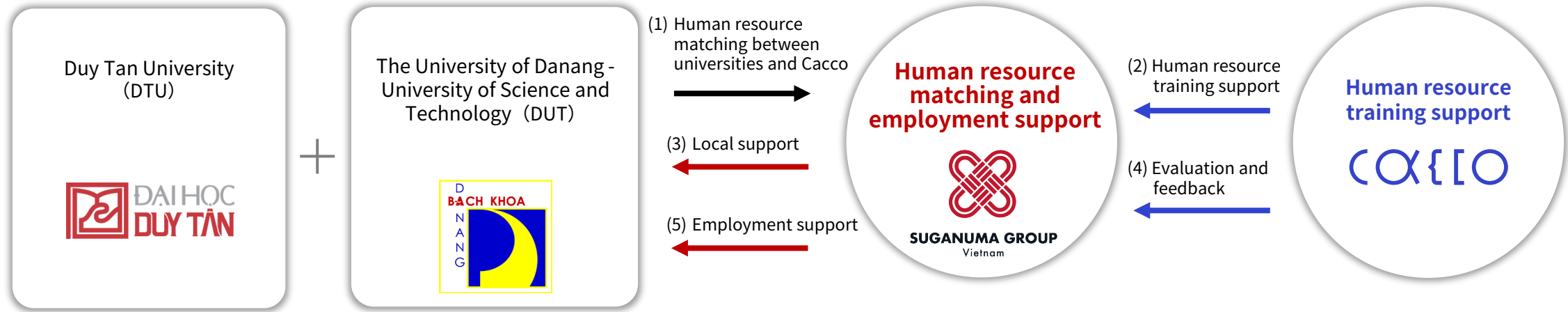
We will actively utilize business alliances and M&A, etc. not only in the existing business domains, but also to acquire new business domains and markets.



By actively utilizing business alliances and M&A and building new business domains, we intend to create synergies between businesses and between customers, increase new revenue points, and expand our company-wide profits. In addition, we will utilize profits so obtained to make investments to further acquire new business domains and drive our cycle of building new business domains.

In our business alliance with Suganuma Group.Inc, which provides support for human resource training and corporate overseas expansion, etc., we plan to collaborate with two universities in Vietnam, namely Duy Tan University and The University of Danang – University of Science and Technology, and are pushing forward a human resource support project in the data science domain.

■ Suganuma Group.Inc
Based on the expertise in textiles and human resource training held by Suganuma Housei Group, which has been in business in Japan for over 70 years, it engages in the business of planning and manufacturing clothing and accessories and supporting companies in overseas recruitment and human resource training. Acting as a bridge between numerous universities and companies in Vietnam for recruitment and human resource development, it strives to develop human resources and create employment opportunities in a wide range of fields, including nursing and medical care, restaurants, hotels and other accommodations, design, and AI cybersecurity.

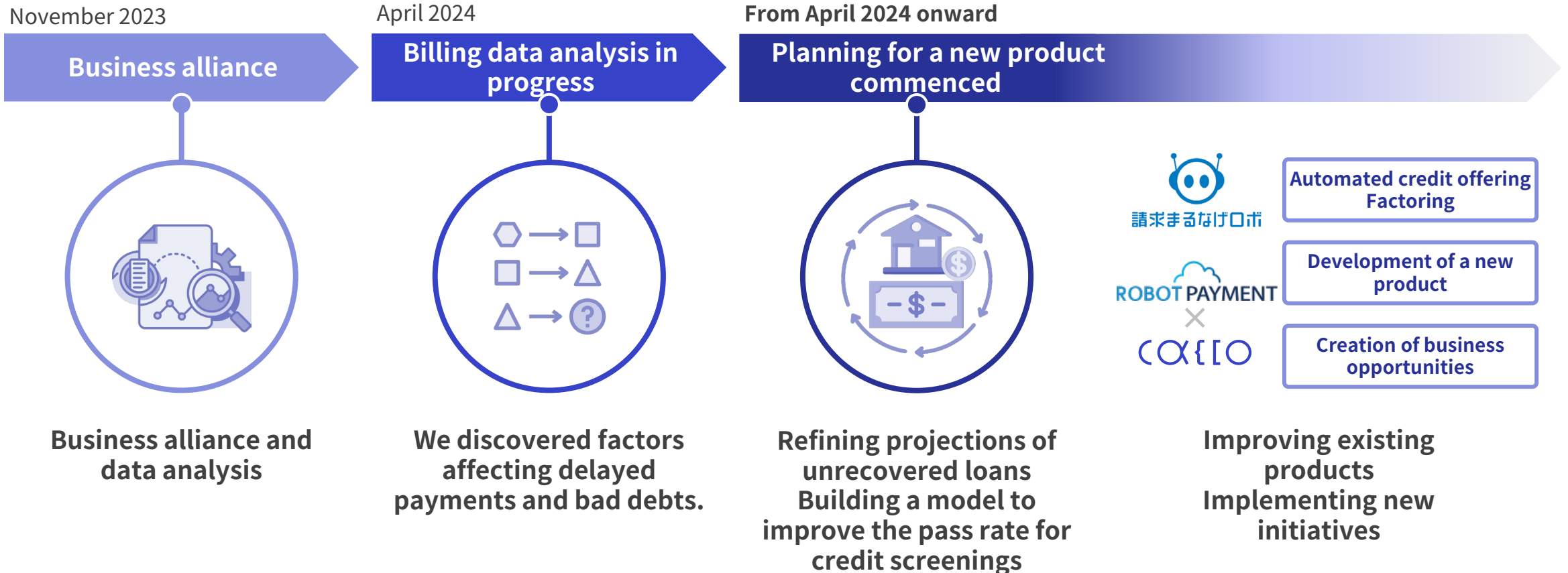


■ Duy Tan University (DTU)
Established in 1994 in Da Nang City in central Vietnam and transformed into a private university in 2015, it is the first and largest private university in Vietnam and practices diversified and interdisciplinary education. It has received the American-based ABET accreditation in the fields of information technology and electrical and electronic engineering. It is Vietnam's first university to receive UNWTO's TedQual accreditation in the field of tourism. In the Times Higher Education (THE) ranking, it was ranked among the world's top 500 universities in 2023 and Asia's top 100 universities in 2022. In addition, it was ranked among the world's top 300 in Quacquarelli Symonds (QS) World University Rankings in 2023.

■ The University of Danang – University of Science and Technology (DUT)
Established in 1975 as Danang Institute of Higher Education and approved as Danang Polytechnic University in 1976, it was incorporated into the member system of the University of Danang in 1994 and became the University of Danang – University of Science and Technology (DUT) as one of its member universities. Under the umbrella of the national University of Danang system, which is located at Vietnam's third largest city Da Nang, it is the largest university in central Vietnam and one of the best engineering universities in Vietnam. It is referred to as one of the top three engineering universities together with Hanoi University of Science and Technology and Ho Chi Minh City University of Technology.

In our business alliance with ROBOT PAYMENT INC. which commenced in November 2023, we are conducting a joint analysis project. As a result of analyzing ROBOT PAYMENT's billing data, we discovered a correlation between the content of billing and bad debts and their risk factors. We have since started planning a new product.

Progress of this Project



Appendix

1

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

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

2

Top*-selling services in the EC and payment domains in Japan

(* Based on “Survey on the number of EC sites in Japan introducing paid fraud detection service” (as of the end of March 2024) performed by TOKYO SHOKO RESEARCH, LTD.)

3

Steady growth in recurring revenue due to increased use of O-PLUX, our core service

(Recurring revenue accounted for 65.1% of our total sales in FY24 1Q)

Differentiating Factors in Products

1

High fraud detection accuracy through possession of a large volume of domestic fraudulent order data

* No. 1 in Japan in terms of number of installations

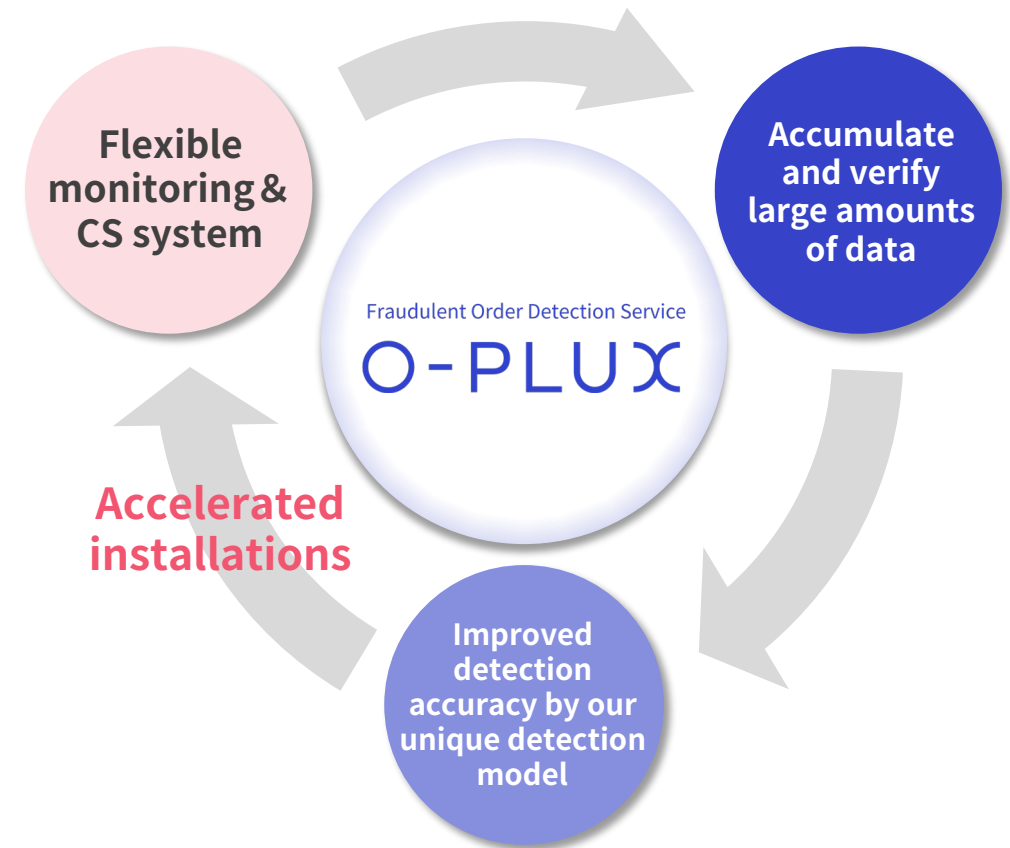
2

Building a unique detection model with data science, security technology, and expertise

3

Speedy and flexible monitoring and support system that only domestic and in-house products can provide

Positive Growth Cycle in which Competitive Advantages are Maintained

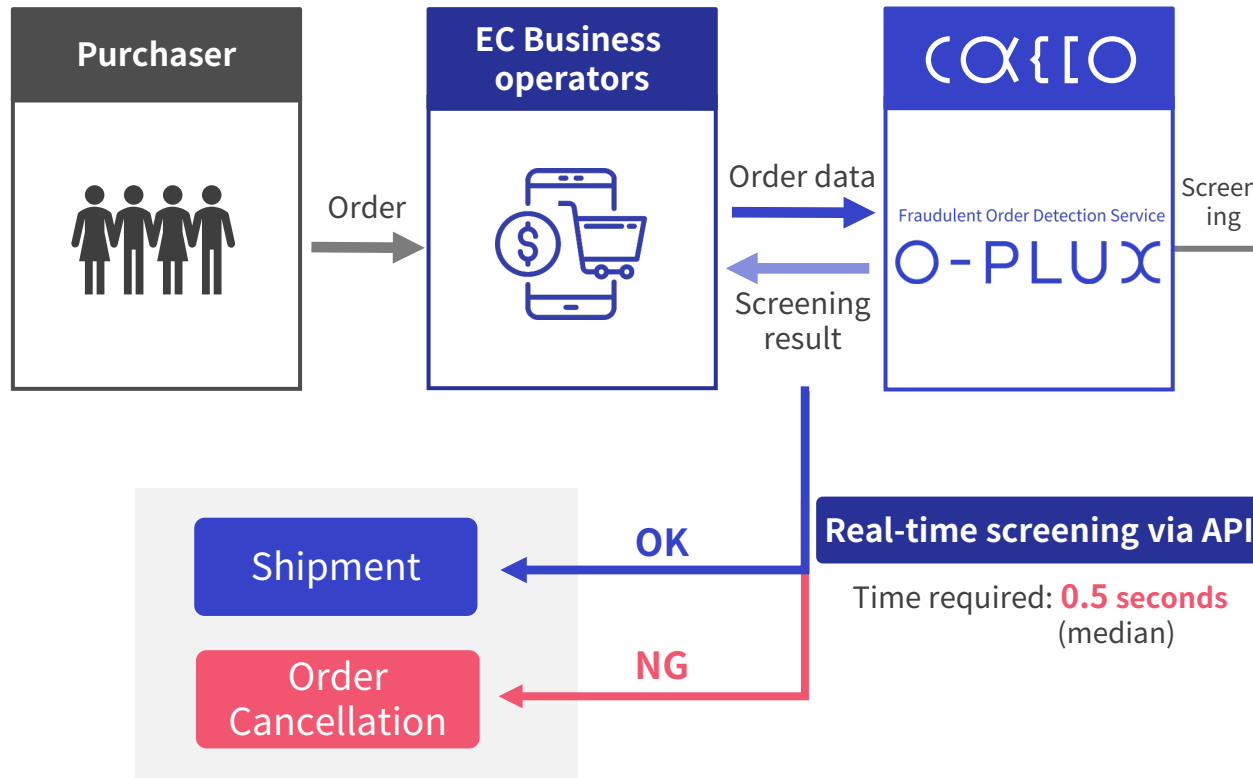


* TOKYO SHOKO RESEARCH, LTD., "Survey on the number of EC sites in Japan introducing paid fraud detection service," (as of the end of March 2024)



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

Screening Process



Main Screening Functions

Normalization of name and address notation



- Utilize the same address and last name with different notation after normalization process.
ex: 3-2, Akasaka 4-chome
4-3-2 Akasaka
- Detection of mismatch between *kanji* and *furigana* in name

Device Information



- Address confirmation service (detection of fictitious addresses)
- Identification by IP and cookies
- Detection of access from overseas
- Detection of impersonation by a non-Japanese person based on language setting, time zone, etc...

External DB Linkage



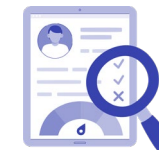
- Vacancies detection (weekly apartments or hotels)
- Detection of overseas forwarding services
- Validation of phone numbers, etc...

Behavioral Analysis



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

Shared Negative Data



- Finding matches with the negative database shared among user companies (cumulative total: 110,000 sites)
- Service to detect shop shoppers purchasing products with benefits that are available only to first-time buyers

Appendix / Functional Advantages of O-PLUX, Our Core Fraudulent Order Detection Service, Compared with Competing Services



O-PLUX, our fraudulent order detection service, can address any type of fraud and protect EC business operators from fraud damage.

		O-PLUX	Competing Service A	Competing Service B	Competing Service C	Competing Service D	Competing Service E	Competing Service F	Competing Service G	Competing Service H
Fraud Type	Chargeback	○	○	×	○	○	○	△	○	○
	Fraudulent resale*	○	×	○	×	×	×	×	×	×
	Credit master attacks	○	○	×	○	○	○	○	×	×
	Frauds involving affiliate programs	○	×	○	×	×	×	×	×	×

* Fraudulent orders with which fraudsters obtain products fraudulently in large quantities at a price available only to first-time buyers for the purpose of reselling them.

O-PLUX, our fraudulent order detection service, has been installed in various industries and is the No. 1 solution by number of installations in Japan*1. It promotes the development of a safe and secure infrastructure for every genre of e-commerce by preemptively preventing losses from fraudulent orders.

Hobby	Food and health food		Home appliances
Cosmetics and hair care	Apparel and sports		Housing and interiors
Online shopping malls, MVNO, and others		Video and audio equipment	Hosting

*1 TOKYO SHOKO RESEARCH, LTD., “Survey on the number of EC sites in Japan introducing paid fraud detection service,” (as of the end of March 2024)

*2 Only selected companies with permission to be listed are included. As of end of April 2024.

We will continue to promote partnerships and alliances, eliminate barriers to installation, and expand our sales channels to increase our market share.

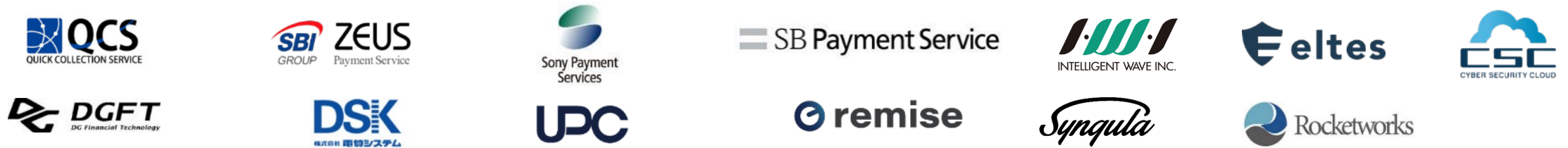
EC package, shopping cart and chatbot

Credit card companies



Payment Service Providers (PSPs)

Security service vendors



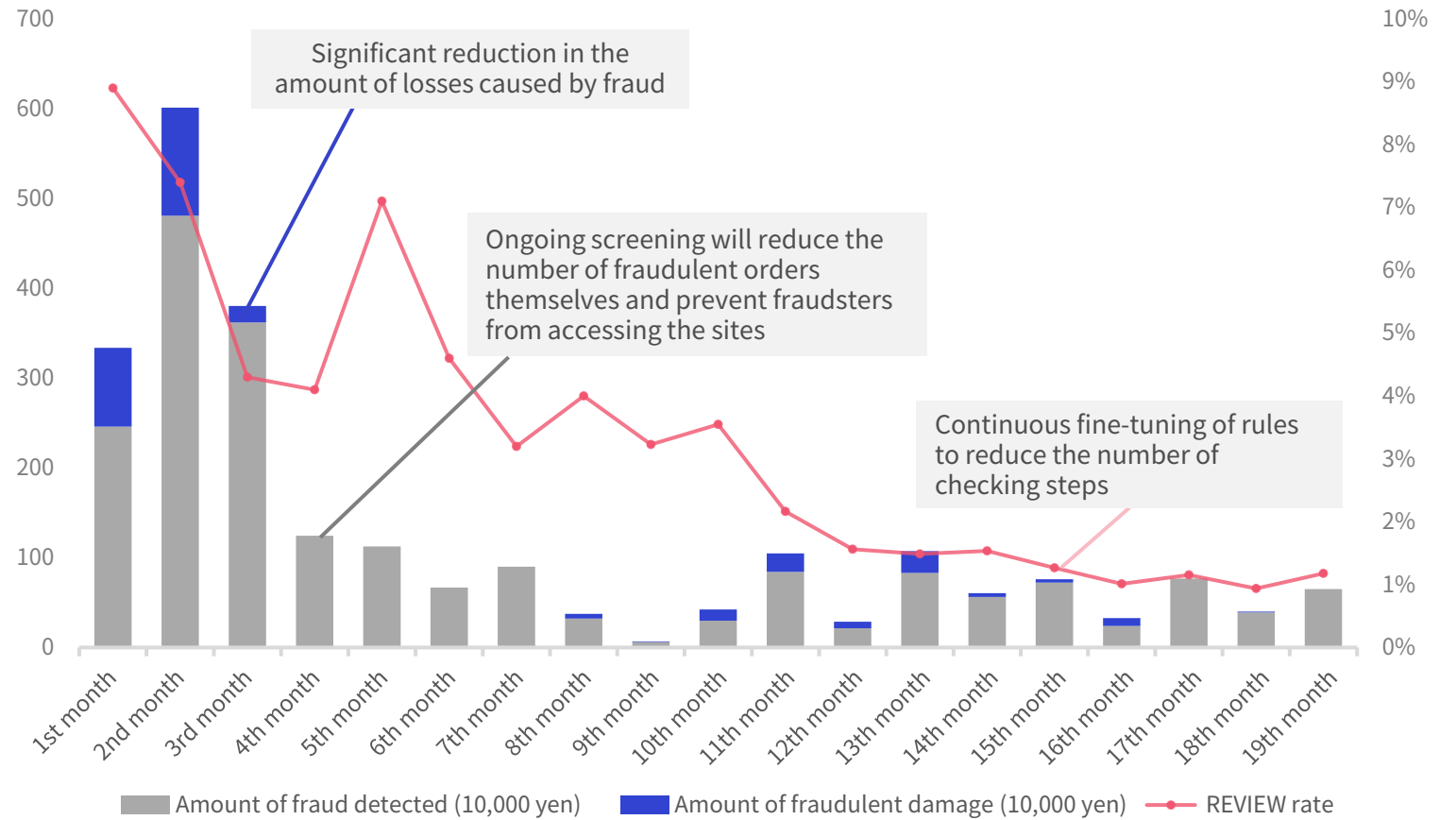
*1 EC-CUBE is a trademark of EC-CUBE Co., Ltd.

*2 As of the end of April 2024.



O-PLUX has detected approximately 250 million yen in fraudulent credit card use in EC over a five-year cumulative period.

General Retailing	
Annual distribution amount	7 billion yen per year
Challenges faced by customers	Fraudulent use of credit cards in EC (Maximum 10 million yen per month)
Achievement	Detected fraudulent uses worth 100 million yen in the first year of installation Cumulative total of approximately 250 million yen was detected over a period of approximately five years.

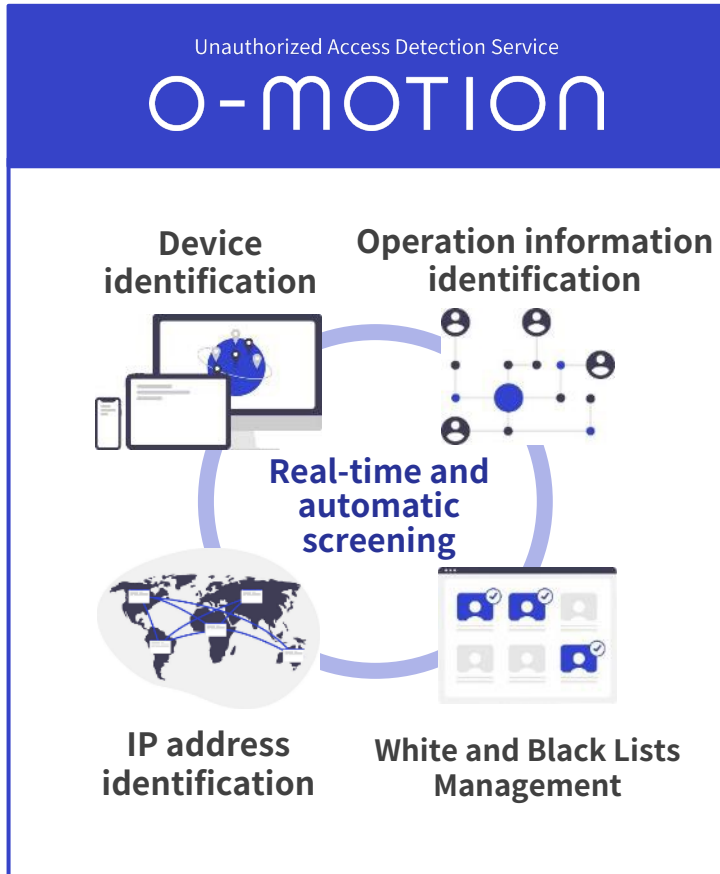


* The amount of fraud detected is the total amount of transactions that are confirmed as fraudulent (negative registration) before chargeback due to failed screening results, card attribute discrepancies in "REVIEW" screening results, and failed identity verification before shipment.

* The REVIEW rate is the ratio of the number of REVIEWS to the total number of screening results.



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



Banks and securities firms Fraudulent Access Monitoring

Various member sites
Countermeasures against divulgence of personal information

Countermeasures against cornering of online tickets

Internet banking
Countermeasures against unauthorized remittances

Credit card/Electricity/Gas points site
Countermeasures against fraudulent points exchange

Countermeasures against fraudulent member registration for affiliate compensation

Real-time and automatic screening

Visual dashboard

Notification function through alert mails

Highly precise and efficient screening and monitoring system



Financial institutions, ticket sites, and various point and membership sites have introduced O-MOTION.

Ticket sites



NFT games



EC site



EC cart/EC package



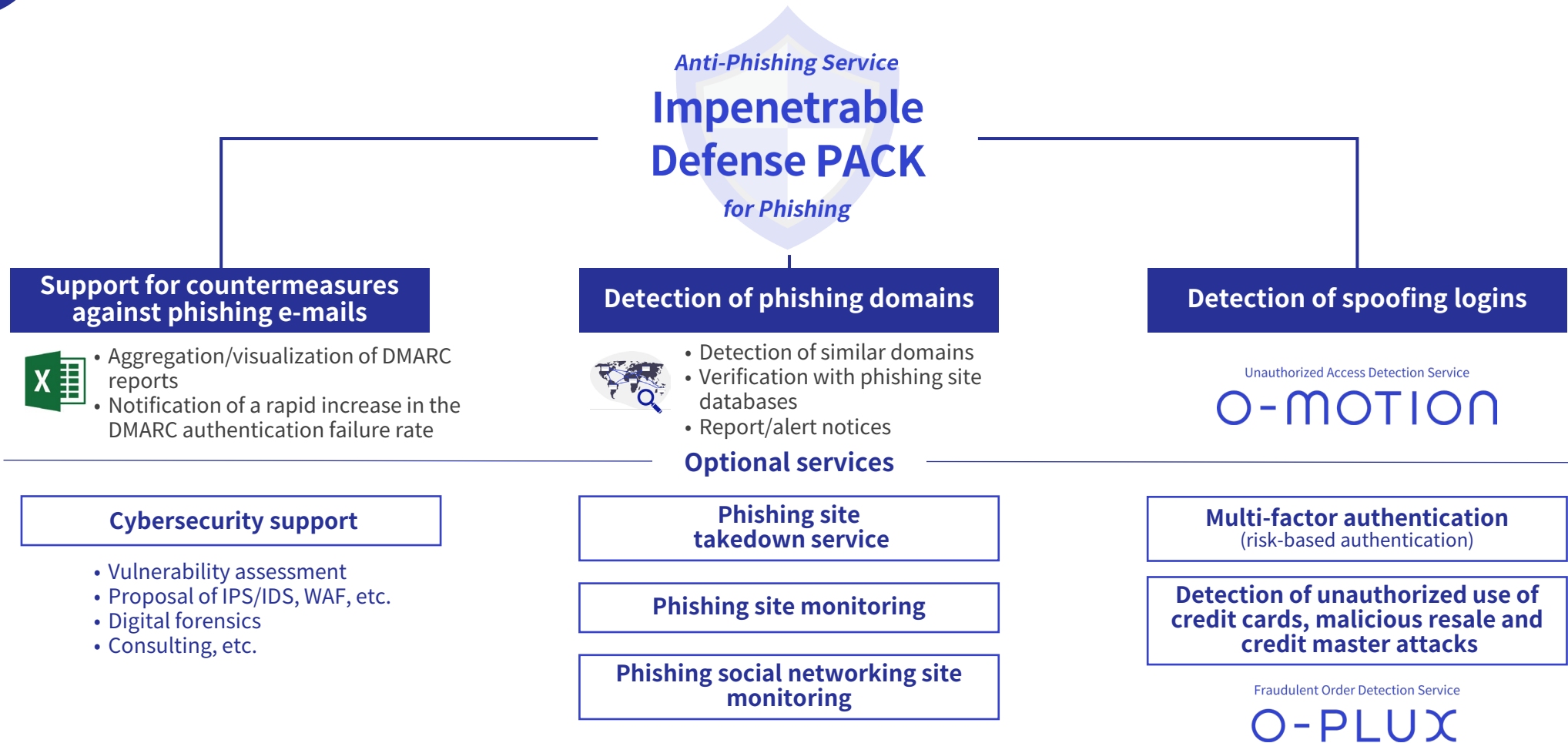
Other (Company name not disclosed)

Major bank
Online brokerage firm
Credit card company, etc.

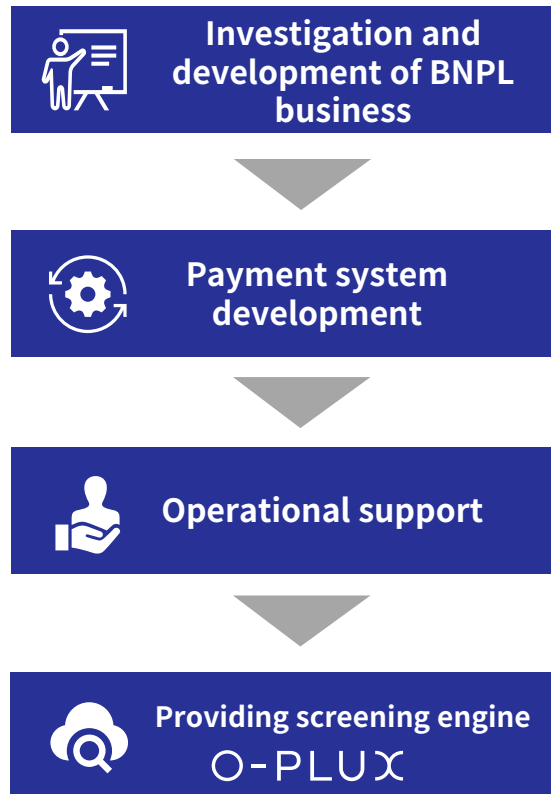
*1 Only selected companies with permission to be listed are included. As of the end of April 2024.



A packaged service focusing on countermeasures against phishing with the O-MOTION unauthorized access detection service at its core.



We provide one-stop support for the establishment and launch of BNPL, including service construction, payment system development, and operational support.
We offer the O-PLUX fraudulent order detection service as the screening engine.



Point 1

Experience in setting up and developing systems for multiple BNPL businesses

- Experience in constructing payment systems that handle several million transactions per month
- Experience in supporting the launch of BNPL businesses (business planning, preparation of various requirement definitions, etc.)
- Experience in post-launch support (credit lines, operation process development, etc.)

Point 2

Support from consultants with experience in BNPL operations

Consultants with extensive experience in BNPL operations provide optimal proposals from the customer's perspective.

Point 3

Fraudulent order detection using O-PLUX, the No. 1 solution in terms of the number of installations in Japan*

We have achieved a great deal of success in fraud detection in the financial and settlement fields, where strict accuracy is required. O-PLUX, our fraudulent order detection service, is the No. 1 solution in terms of installation numbers in Japan.*

* Based on "Survey on the number of EC sites in Japan introducing paid fraud detection service" (as of the end of March 2024) performed by TOKYO SHOKO RESEARCH, LTD.

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 automation by applying machine learning.

Our approach

SAKIGAKE KPI



Our service includes data aggregation and visualization, factor analysis, KPI calculation, analysis reporting, and subsequent proposals. A data analysis service that provides up to 100 million records in 30 business days at a cost 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 company division. 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 by processing business operations, including optimization beyond the employees’ own experience, productivity improvement through automated processing, and forecasting of demand and risk.

Case studies

Optimization

Wall material manufacturer with annual sales of 119 billion yen

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



Annual cost reductions of up to 130 million yen

Statistics/AI

Stationery manufacturer with annual sales of 5.5 billion yen

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



70% reduction in sales opportunity losses

Optimization

Call center

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



Annual cost reductions of 60 million yen

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

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

For inquiries and requests for individual interviews, please contact the following IR department.

E-mail: ir@cacco.co.jp

IR website: <https://cacco.co.jp/ir/>

Sustainability Report 2023

COXIO

We set Cacco Evolutionary Purpose (EP) “Shaping the ‘Let’s Do It’ to be the next game changer” as our management vision and have been helping companies solve problems and take on new challenges. EP embodies our hope to contribute to the development of the Japanese economy by supporting people and companies that are taking on the challenge of making the world a better place.

Developed countries have been facing many social issues, including widening economic disparities, the issues of unemployment and non-regular employment, gender inequality, exploitation of immigrant workers, and poor mental health. In particular, Japan has problems of men's lower participation in childcare, lagging utilization of digital technologies, stagnant labor productivity, absence of a rising average salary, and others. In addition, developing countries have also been confronting problems regarding the labor environment, such as the lack of adequate attention to occupational health and safety as well as inadequate guarantees of workers' human rights.

We believe that in order to realize a sustainable society, it is inevitable that we must engage in social and corporate activities that ensure a comfortable and motivating work environment, including the protection of workers' human rights and fair pay for labor.

We hope to help create a workplace where everyone can work on tasks that they truly want to tackle and work with a

sense of satisfaction by attaining a work style that is free from time and place, spreading a flat and open organizational culture through invigorated communications and offering wide-ranging solutions to support business.

We will continue to enhance to a higher level of the human capital of our employees, which are directly related to strengthening and expanding our business foundation and establishing our human resource base.

Specifically, we will strive to pursue a comfortable and motivating work environment that supports unique way of working and autonomous actions for employees to take on new challenges and grow as a company and as individuals, and to foster an organizational culture that respects each and every employee with diverse backgrounds in terms of age, origin, nationality, and other characteristics.

We are committed to such value creation to enrich the lives of workers and enhance corporate competitiveness. We will continue to pursue not only economic benefits but also the meaning of our existence and our corporate value, and do business in ways that spur corporate growth and lead to realizing a more sustainable society.

March 29, 2024
Cacco Inc.

Hiroyuki Iwai, Representative Director, President



We have established a Sustainability Promotion Office.

It consists of Hiroyuki Iwai, Representative Director, President as the Director General, and the Directors and Executive Officers as the main members of the promotion team.

The Sustainability Promotion Office establishes policies related to other practices based on our management vision “Shaping the ‘Let’s Do It’ for a next game changer” and acts as the core organization to ensure continuity in the promotion of sustainability activities throughout the company.



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

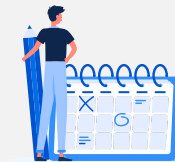
By supporting DX with our data science services, we are promoting the optimization and efficiency of production, sales, and distribution, and contributing to breaking away from the resource-intensive industrial model.

Sales forecast for an apparel brand with annual sales of 70 billion yen



- ◆ Provided a service that calculates projected future number of sales by product based on actual sales.
- ◆ Calculated the decision-making factors for product planning, production quantity, and order quantity decisions.

Optimized production planning for a wall material manufacturer with annual sales of 119 billion yen



- ◆ Created production plans for 1,700 products and 12 production lanes.
 - No overtime operation for each lane
 - No production below the minimum lot size for each product
 - Only certain lanes can produce each product
- Under the above constraints, we maximized production volume and planned a production sequence that minimized losses, contributing to an annual cost reduction of 130 million yen.

Optimized call center staffing



- ◆ Established automatic prediction of demand on a daily and hourly basis for the following month and generated a staffing plan to satisfy multiple constraints such as management indicators, employee work preferences, and working conditions, contributing to reduce annual costs of 60 million yen in a call center.

Optimized production planning for a stationery manufacturer with annual sales of 5.5 billion yen



- ◆ Prepared production plans for organizers and calendars that must be produced in sufficient quantities at certain times of the year and sold out during the sales season, based on demand forecasts.
- ◆ Developed an inventory planning algorithm to minimize opportunity loss due to shortages in standard products sold throughout the year. The above activities contributed to a 70% reduction in sales opportunity loss.



Efforts to Reduce CO₂ Emissions

We strive to reduce CO₂ emissions by using a cloud service platform “Amazon Web Services (AWS)” as the IT infrastructure for our business activities. Compared with an on-premises environment where we would manage and operate data on our own, the use of the AWS server can reduce CO₂ emissions by 77%*¹ and can also indicate the amount of reduced emissions.

	2021	2022	2023
(1) Reduction achieved by purchasing renewable energies	4.9 MTCO ₂ e* ²	5.6 MTCO ₂ e	10.3 MTCO ₂ e
(2) Reduction achieved by improving the efficiency of infrastructures	3.9 MTCO ₂ e	2.8 MTCO ₂ e	0.0 MTCO ₂ e
Total amount of CO ₂ emissions reduced by (1) and (2)	8.8 MTCO ₂ e	8.4 MTCO ₂ e	10.3 MTCO ₂ e



In 2023, **we reduced** CO₂ emissions by the amount equivalent to the one absorbed by **approximately 730** Japanese cedar trees in a year.*³



*¹ Amazon Japan G.K.'s press release “[Identified Effects of Japanese Companies' Transition to the Cloud on the Reduction of CO₂ Emissions](#)” in August 2021
 *² MTCO₂e: We use the unit of metric tons of carbon dioxide equivalent (MTCO₂e), the industry's standard measurement. It is a unit indicating the amount of greenhouse gas emissions and calculated by converting the amount of emissions into carbon dioxide equivalents in light of the type of the greenhouse gas. One MTCO₂e equals one ton of carbon dioxide (CO₂) emissions that will lead to global warming.
 *³ Conversions are based on the assumption that one 50-year old Japanese cedar tree absorbs approximately 14 kg of CO₂ emissions a year (Forest Research Institute of Okayama Prefecture)

Build a secure infrastructure for EC and online transactions

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

Credit card fraud prevention



- ◆ According to the “Amount of Damage Caused by Unauthorized Credit Card Use (December 2023)” released by Japan Consumer Credit Association, the “damage caused by theft of numbers” where credit card numbers or other information are stolen for unauthorized use reached the record high amount of 43.6 billion yen in FY2022. On the other hand, our fraudulent order detection service O-PLUX detects in advance credit card fraud and other fraudulent orders worth 68.0 billion yen,* including malicious resale and refusal of cash on delivery.

* Calculated from the total value of the orders that were judged NG by O-PLUX in FY2023.

Anti-fraud awareness-raising activities



- ◆ Conducted awareness-raising activities by communicating fraudulent damage schemes and trends through broad collaboration with related ministries and industry organizations.

Our member organizations:

- Public Interest Incorporated Association, Japan Direct Marketing Association (JADMA)
- General Incorporated Association, Japan Consumer Credit Association
- General Incorporated Association, Safer Internet Association
- General Incorporated Association, Digital Risk Association
- General Incorporated Association, Fintech Association of Japan
- General Incorporated Association, Cyber Security Alliance
- Council of Anti-Phishing Japan

Build a secure infrastructure for EC and online transactions

O-MOTION, our unauthorized access detection service, has received an Advanced Technology Award at the 17th ASPIC Cloud Award 2023.

At the 17th ASPIC Cloud Award 2023 held in November 2023, O-MOTION, our unauthorized access detection service, received an Advanced Technology Award in the category of ASPs/SaaS specialized in a particular society/industry. This was in recognition of its unique and high-level technology supported by patents and its contribution to the resolution of recent social issues, such as information leakage, unauthorized access, and phishing.

Hosted by the Japan Cloud Industry Association (ASPIC)

URL: <https://www.aspicjapan.org/index.html>



<Japan Cloud Industry Association (ASPIC)>

Since its foundation in 1999 at the dawn of cloud services, it has been engaged in activities to establish cloud services as a social infrastructure and improve Japan's industrial competitiveness as the only association in the industry for over 20 years. "Japan Cloud Industry Association" is short for the General Incorporated Association for ASP, SaaS, AI, IoT Cloud Industry.



Support for Corporate Initiatives and Sustainable Economic Activities

Hosting seminars/giving lectures at seminars and in the media

Monthly Consumer Credit, a specialist journal for the credit card industry

In a Monthly Consumer Credit journal, which looks at consumer credit markets including credit cards and consumer loans from a comprehensive perspective, we discussed the subject “Outlook and Future Challenges of the BNPL Market: Discussions from the Perspective of the Sophistication of Credit Models” and discussed the BNPL (Buy Now, Pay Later) market, such as the differences between overseas and Japan, changes experienced by the industry, and challenges in offering credit.

Joint seminar with the legal industry

In connection with the revision of the Act against Unjustifiable Premiums and Misleading Representations, which came into effect in October 2023 and adds stealth marketing as a misleading representation prohibited by the Act (regulations on stealth marketing), a lawyer from Authense Law Firm, a specialist in the issue, explained its impacts on business operators, illegal acts, and troubles involving fraudulent orders. Cacco held a seminar on trends of fraud methods and effective countermeasures.

Lecture at a seminar held by the Cyber Security Alliance

Mr. Keiichi Yamashita from the Information-technology Promotion Agency, Japan explained security measures to be ensured by EC operators based on the “Security Guidelines for Building and Operating EC Sites,” and experts gave a comprehensive review of basic countermeasures for business operators to take.

Lecture at a study meeting hosted by the Japan Consumer Credit Association

We gave a lecture on various issues facing systems related to credit transactions as well as an explanation on and current challenges of and the need for DMARC, a sender domain authentication technology, as a countermeasure against those issues.

Lecture at Kyoto Startup Challenge, a program to help people establish businesses

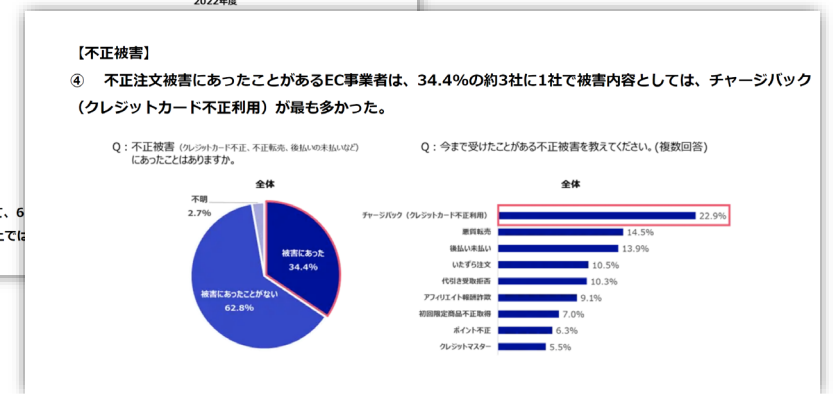
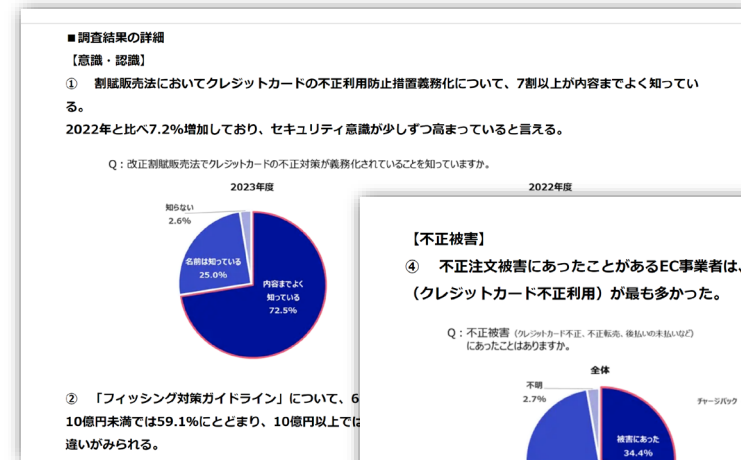
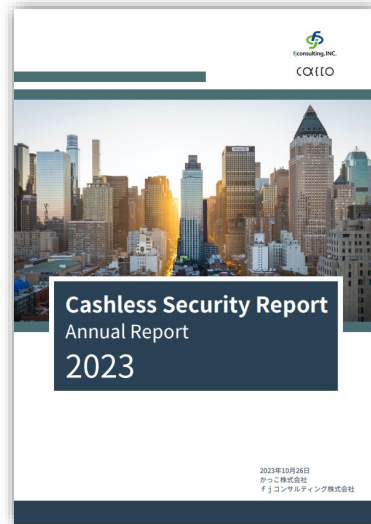
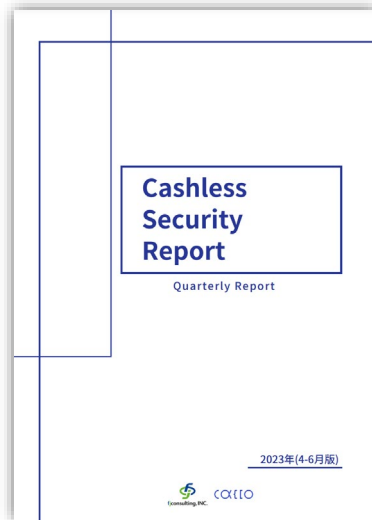
Mr. Iwai, our representative, gave a lecture at Kyoto Startup Challenge, a program to support people in starting a business. The program offers opportunities to learn knowledge and receive support necessary for starting up a business and for business growth during the period immediately after establishment.



Build a secure infrastructure for EC and online transactions

Anti-fraud awareness-raising through the issuance of Cashless Security Reports and fact-finding surveys on EC business operators

We help to prevent business operators from suffering fraud damage by informing merchants of trends in frauds and the latest fraud methods as topics.



<Cashless Security Reports>

2023 edition: <https://frauddetection.cacco.co.jp/media/data/11204/>

<Fact-finding surveys on EC business operators>

2023 edition: <https://prtmes.jp/main/html/rd/p/000000120.000009799.html>

2022 edition: <https://prtmes.jp/main/html/rd/p/000000084.000009799.html>

2021 edition: <https://prtmes.jp/main/html/rd/p/000000071.000009799.html>

8 DECENT WORK AND
ECONOMIC GROWTH



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



Human capital

With a view to realizing flexible workstyles and improving operational efficiency in a fully remote work environment, we have launched endeavors to streamline operations based on our valued “Let’s Do It” philosophy. We have promoted initiatives to revitalize both on-the job and off-the job communication, which is often lacking due to the online work style. These initiatives have led to the following results.

Average overtime hours
(FY2023 actual)

4.3 hours

* Full-time and contract employees, excluding directors and managers.

Percentage of employees receiving paid leave
(FY2023 actual)

70.7%

* Full-time and contract employees, excluding directors.

Percentage of employees returning to work after childcare leave
(to FY2023 actual)

100.0%

* Full-time and contract employees, excluding directors and managers.

Percentage of child-rearing generation
(to FY2023 actual)

37.5%

* Percentage of full-time and contract employees, excluding directors, with dependent children (up to compulsory education generation) and nondependent children.



* Ranked in the 2023 edition of “Best Workplaces in Japan” by the Great Place to Work® Institute Japan.

Percentage of males and females
(FY2023 actual)

Male: **62.8%**

Female: **37.2%**

* Employees in all employment categories excluding directors.

Percentage of workers outside the Kanto region
(FY2023 actual)

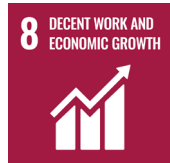
17.4%

* Employees in all employment categories excluding directors.

Percentage of female managers
(FY2023 actual)

22.2%

* Full-time and contract employees, excluding directors.



Human capital —Shift to flexible work styles—

Revision of work system

In March 2020, we transitioned into a fully flexible work hours system, and the number of telework sessions was also made unlimited. As a result, our employees telework in principle.

Promote recruitment and education based on telework

As a result of the full teleworking availability, we are now able to accept students from all over Japan as well as student interns living abroad, and training and joining programs are now online.

Promote office DX

Although the transition to full telework has been made, work that involves commuting to the office has not been reduced to zero. We are continuing our initiatives to streamline our office with DX, utilizing call receptionist services and electronic contracting services to reduce the amount of work that requires commuting to the office as much as possible.

Support to develop the telework environment

For all employees (including contract employees, interns, and part-time workers), we began providing a telework allowance from September 2020 to partially cover the cost of telecommunications, utilities, and other equipment necessary for telework. Furthermore, under the system that allows our employees to live anywhere in Japan while working remotely from home, our employees can work regardless of work locations.

Activate online communication

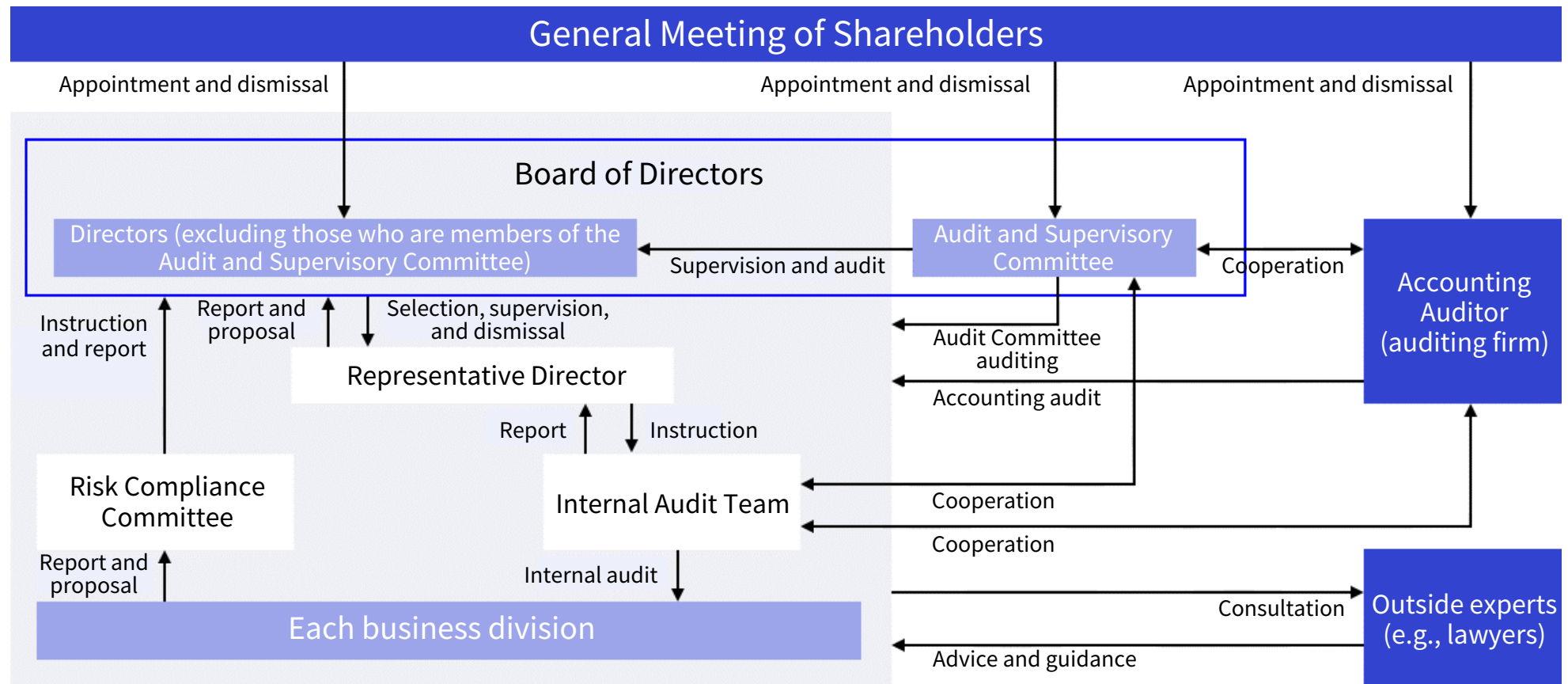
In principle, regular meetings of each department and monthly all-employee meetings are now online. Amid concerns about the lack of communication due to the shift to online working, we regularly provide opportunities for cross-departmental interaction, including club activities and lunch meetings among our representative and employees, in which they can participate both online and in-person.

Support for women and the child-rearing generation

With female managers accounting for 28.5% of the entire managers, we have an environment in which employees can play an active role regardless of gender and age, and depending on the agenda, managers other than executive officers also participate in the Board of Directors meetings. In addition, 30% of all employees are of the child-rearing generation, and the entire company has been striving to create an environment where they are able to work while balancing urgent family matters and school events by teleworking and dividing duties appropriately.

Strengthen corporate governance and compliance systems

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



Strengthen corporate governance and compliance systems

We recognize that the appropriate protection of all information assets handled in the planning, development, operation, maintenance, and sales of IT systems is one of the most important management issues for building lasting relationships of trust with our customers, and therefore we will act in consideration of information security based on the following information security policy.

Thorough information security system

ISO 27001 (Information Security Management System) certification

We have acquired both ISO/IEC 27001:2013 certification, an international standard for ISMS (Information Security Management System), and JIS Q 27001:2014 certification, a domestic standard. We recognize that the appropriate protection of all information assets handled in the planning, development, operation, maintenance, and sales of IT systems is one of the most important management issues in building lasting relationships of trust with our customers, and therefore we will act in consideration of information security.

ISMS (Information Security Management System)
ISO/IEC 27001:2013 JIS Q 27001:2014 Registration number: IA120255



Acquired Privacy Mark certification

We have obtained Privacy Mark certification from General Incorporated Foundation Japan Information Processing and Development Center (JIPDEC) as of January 6, 2015.

Privacy Mark certifies that its holder has a system in place to take appropriate protection measures for personal information and is compliant with JIS standards (JIS Q 15001) regarding personal information.

Privacy Mark® 10824248 (05)





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