

## Datasection Inc.

3905

Tokyo Stock Exchange Growth Market

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## Summary

### Promote three growth drivers and aim for net sales of over ¥10.0bn in latter 2020s

Datasection, Inc.<3905> (hereinafter, also “the Company”) provides analysis services for information obtained from big data based on text analysis and AI development technologies. Since its foundation, it has engaged in the Retail Marketing Business centered on stock-type services, with its base in the Social Media Analysis Business and AI System Development Business, which focus on SaaS-type services such as social media analysis and mainly system operations and maintenance. In addition, it is focusing on medical businesses and original product development as New Business. From FY3/24 onward, the Company plans to aggressively invest in M&A and new business development on a global basis, aiming to achieve net sales of ¥10.0bn or more in the latter half of the 2020s, while balancing the three elements it promotes as growth drivers, which are strengthening original products, expanding target markets and moving into new countries.

#### 1. Overview of FY3/24 1Q results

In FY3/24 1Q results, net sales increased 11.1% year on year (YoY) to ¥450mn, operating loss of ¥71mn (loss of ¥59mn in the same period during the previous fiscal year), ordinary loss of ¥64mn (loss of ¥4mn in the same period during the previous fiscal year) and loss attributable to owners of parent of ¥81mn (¥5mn in the same period during the previous fiscal year). While consolidated subsidiaries within the Group increased revenue, strengthening the Company's non-consolidated system increased personnel and outsourcing expenses, resulting in negative operating profit, but remaining within an expected range.

#### 2. Outlook for FY3/24

For FY3/24 full-year consolidated results, the Company forecasts net sales of ¥2,000mn, an increase of 3.9% YoY, operating profit of ¥60mn (operating loss of ¥55mn in FY3/23), ordinary profit of ¥42mn, a decrease of 10.6% YoY, and profit attributable to owners of parent of ¥5mn (compared to a loss of ¥530mn in the previous fiscal year). The Company will continue on from FY3/23 to aim for steady increases in revenue, both domestically and overseas (particularly in South America), and to increase profit or return to profitability.

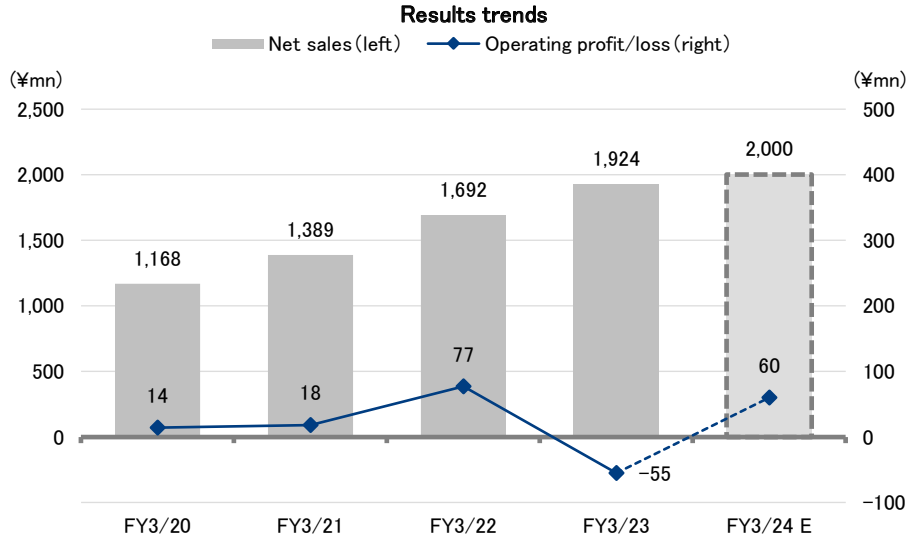
#### 3. Medium- to long-term growth strategy

In FY3/24, the Company transitioned into a globally based investment expansion phase from a phase centered on the Retail Marketing Business from FY3/19 to FY3/23. In addition to achieving well-balanced growth both domestically and overseas in the Retail Marketing Business until now, going forward the Company plans to proactively invest globally for M&A and new business development. The Company plans to announce a medium- to long-term growth strategy some time from FY3/24 1H onward.

#### Key Points

- Group as a whole has increased revenue. Profits and losses are within the Company's expectations
- In FY3/24, plans for increased revenue domestically and overseas while striving for profitability in operating profit
- Plans to announce a medium- to long-term growth strategy some time from FY3/24 1H onward
- Will proactively invest globally for M&A and new business development, aiming for net sales of ¥10.0bn or more in the latter 2020s

Summary



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

## Company profile

### Develops original products and services through its core technology of big data analysis technology

#### 1. Company profile

The Datasection Group engages in the Retail Marketing Business using AI image analysis technology and Fintech and social media businesses where it leverages its development strengths. Since its foundation, it has had its base in the Social Media Analysis Business and AI System Development Business, which focus on SaaS-type services such as social media analysis and mainly system operations and maintenance, and from around 2018, engaged in the Retail Marketing Business centered on stock-type services, boosting store DX overseas. In addition, it is focusing on medical businesses and original product development as New Business. The Group is comprised of Datasection and six consolidated subsidiaries. Consolidated subsidiary solid intelligence Inc., conducts the multilingual social media analysis and consulting business, and d-ss.inc, another subsidiary that performs commissioned maintenance and operation of financial systems and develops application, are joined by Jach Technology SpA of Chile, Alianza FollowUP S.A.S. from Colombia, INTELIGENXIA S.A. from Chile and Follow UP Peru S.A.C. of Peru, which all engage in business overseas in the Retail Marketing Business mainstay FollowUP web tool. Going forward, it plans to create innovation through various business models by continuing to further utilize AI technology and data analysis.

## 2. History

Datasection was established in Jingumae, Shibuya-ku, Tokyo, in July 2000 and was a pioneer in the big data boom. In February 2009, the Company released an Internet risk monitoring and crisis response service (which won a 2009 Good Design Award from the Japan Institute of Design Promotion in June 2009), and in March 2014, it issued new shares through a third-party allotment underwritten by TBS Innovation Partners, a subsidiary of Tokyo Broadcasting System Holdings, Inc. (currently TBS Holdings, Inc. <9401>). In May 2018, the Company formed a business and capital alliance with Allm Inc. and they built a joint R&D structure utilizing AI-based data analysis technology. In July 2018, the Company was commissioned by Allm to take over the development and sales in Japan of FollowUP, a retail store support tool using an instore camera device. It also concluded a business and capital alliance with KDDI CORPORATION <9433> (the business and capital alliance was dissolved in June 2021) and built a joint R&D structure utilizing image analysis and social media analysis. In December 2019, the Company acquired common shares in Jach Technology, which conducts overseas development and sales of the store DX tool FollowUP, and made it a subsidiary. Then, in September 2023, the Company acquired the data analysis-related consulting and system development commission business from The ROOM4D, Inc. and the Company's subsidiary d-ss acquired the System Engineering Service (SES) business of The ROOM Door K.K.

Furthermore, the Company listed on the Tokyo Stock Exchange (hereinafter, "TSE") Mothers Market in December 2014 and relocated to the TSE Growth Market under the April 2022 TSE market classification review.

## Business description

### Retail Marketing Business, the mainstay providing the store DX promotion tool FollowUP

The Company uses natural language processing, image and video analysis, voice analysis, etc., of big data collected using its core big data analysis technology to develop original products and services that use the information obtained. This is engaged in the business domains of the Retail Marketing Business, Social Media Analysis Business, AI System Development Business and New Business, etc.

#### 1. Retail Marketing Business

Mainly promotes DX to retail stores and optimizes business operations. Analyzes customer behavior data from store AI camera images, visualizes customer purchase rates, etc., and provides information to clients. It also provides SaaS-type analysis systems as a service to support clients in using the system for more efficient operations.

#### Business description

FollowUP is the mainstay of the SaaS-type analysis systems, which also include Store Capacity Control (SCC), HealthyUP and COVID-19 Tasking. FollowUP is an analysis tool that derives sales performance improvements and enhancements from the in-store behavior of customers who visit stores. It ascertains the store conditions and provides support that leads to improved store operations, promoting enhanced sales. Store Capacity Control is a crowd information transmission service that automatically limits store entry. It ascertains the number of people in a store and can provide notify through a display whether visitors can enter a store. HealthyUP is a body temperature detection and alert service. It detects whether store visitors have a fever or are wearing a mask, and if an infected person was in a store, can tell when and in what store it happened. COVID-19 Tasking provides staff education (e-learning) on infection control operations such as disinfection carried out in stores, and also provides services to support daily infection control operations. FollowUP Shelf Analytics, a product analysis solution for supermarkets, uses an image processing AI-based real-time monitoring and alert system to detect missing products and help with proper product placement. Store Capacity Control, COVID-19 Tasking and FollowUP Shelf Analytics services are all offered overseas.

#### 2. Social Media Analysis Business

Mainly conducts marketing support from word-of-mouth analysis. The Company analyzes word-of-mouth information gained from social media and the Internet domestically and overseas to carry out marketing research for companies and detect reputational risks. The Company uses this information to provide consulting services on tourism measures for national government ministries and agencies and local governments. It also provides, as a service, an SaaS-type analysis system that analyzes the measurement of sales promotion effectiveness on X (formerly Twitter).

Insight Intelligence Q is the Company's mainstay SaaS-type service. Insight Intelligence Q uses the real-time social media data analysis tool Insight Intelligence on desired topics, and is for marketers to measure the effectiveness of advertisements have on ordinary companies, and can also be used for purposes such as marketing strategies and risk detection.

#### 3. AI System Development Business

Mainly conducts consulting for the collection of big data and the use of analytical technologies in business operations. Specifically, it provides semi-customized-type system development analyzing big data owned by major companies, and consulting on using big data analysis to improve business operations. In addition, carries out operational maintenance on systems after development.

#### 4. New Business

Mainly develops new business using data analysis technology. The business uses the Company's data analysis know-how to solve new market problems. The Company not only verifies the feasibility of new technologies and ideas, but also achieves their commercialization through services and promotes the creation of a stock-type, highly scalable business model. It enables new technologies created through efforts to make new business from R&D, and to reflect these in existing technology business. In specific, the Company is engaged in new product development for the medical business and retailers.

## Results trends

### Group as a whole has increased revenue. Profits and losses are within the Company's expectations

#### 1. Overview of FY3/24 1Q results

In FY3/24 1Q results, net sales increased 11.1% year on year (YoY) to ¥450mn, operating loss of ¥71mn (loss of ¥59mn in the same period during the previous fiscal year), ordinary loss of ¥64mn (loss of ¥4mn in the same period during the previous fiscal year) and loss attributable to owners of parent of ¥81mn (¥5mn in the same period during the previous fiscal year). Revenue increased on a consolidated basis, with the driving force being all of the Company's consolidated subsidiaries increasing sales. Overseas net sales, in particular, increased significantly by 41% YoY, centered on Chile, Peru and Colombia. Increases in personnel expenses and outsourcing expenses, which were costs involved in strengthening the Company's non-consolidated structure, meant negative operating profit, but this was within the Company's expected range. Ordinary profit decreased due to an increase in non-operating expenses caused by foreign exchange gains through the continued weakening of the yen.

#### Overview of FY3/24 1Q results

	FY3/23 1Q Results	FY3/24 1Q Results	YoY	
			% change	Change
Net sales	405	450	11.1%	45
Cost of sales	269	322	19.6%	53
Gross profit	135	127	-5.9%	-7
SG&A expenses	194	199	2.3%	4
Operating loss	-59	-71	-	-12
Ordinary loss	-4	-64	-	-60
Loss attributable to owners of parent	-5	-81	-	-75

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

### FollowUP in retail consulting increased revenue both domestically and overseas

#### 2. Trends by business segment

The Company has two business segments, comprised of Retail Marketing, with FollowUP as its mainstay, and Data Analysis Solution, which includes the AI System Development Business, Social Media Analysis Business and New Business.

##### (1) Retail Marketing

Net sales were ¥253mn (an increase of 50.6% YoY) and segment income was ¥19mn (compared to segment loss of ¥6mn in the previous fiscal year). FollowUP's domestic developments were a YoY increase in net sales as there were increased installations in the number of stores and number of cameras. FollowUP's overseas developments were a YOY increase in net sales due in particular to the contribution from increased overseas net sales from the Chilean consolidated subsidiary, Jach Technology, which installed the tool in all stores in a large-scale shopping mall.

Results trends

**Overview of Retail Marketing segment results**

	FY3/23 1Q	FY3/24 1Q	YoY	
			% change	Change
Net sales	168	253	50.6%	85
Segment income/loss	-6	19	-	25

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

**(2) Data Analysis Solution segment**

Net sales were ¥197mn (a decrease of 16.9% YoY) and segment loss was ¥91mn (compared to segment income of ¥3mn in the previous fiscal year). From a net sales aspect, revenue decreased due to a decrease in net sales in the AI System Development Business, and from a profit aspect, the increase in personnel expenses and outsourcing expenses to strengthen the Company's structure swelled the loss.

In the AI System Development Business, sales decreased YoY due to the decrease in existing transaction stock revenue, but subsidiary d-ss increased stock net sales for maintenance, etc. In the Social Media Analysis Business, net sales increased YoY as a result of constructing a business operation structure more efficient than it had been in FY3/23 and accumulating stock projects. Subsidiary Solid Intelligence increased net sales by accurately ascertaining needs in the public sector and for inbound tourism. In New Business, the Company focused on new product development for retailers and medical-related businesses.

**Overview of Data Analysis Solution segment results**

	FY3/23 1Q	FY3/24 1Q	YoY	
			% change	Change
Net sales	237	197	-16.9%	-40
Segment income/loss	3	-91	-	-94

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

**3. Financial condition and management indicators**

The financial condition of the Company as of the end of FY3/24 1Q is as follows. Total assets decreased ¥40mn from the end of the previous period to ¥4,345mn. Looking at the main factors behind the change, while there was an increase of ¥429mn in investments in capital of subsidiaries and associates, there were decreases in long-term loans of ¥407mn and ¥91mn in cash and deposits. Net liabilities increased ¥30mn from the end of the previous fiscal year to ¥1,908mn. This was due to increases of ¥113mn in short-term debt and ¥27mn in deferred tax liabilities, despite a decrease of ¥115mn in long-term borrowings (including those planned for repayment within 1 year). Net assets decreased ¥71mn from the end of the previous fiscal year to ¥2,437mn. The main factor was a decrease of ¥81mn in retained earnings. Although there was a slight decrease in the size of total assets due to changes in profit and loss, it remained almost on a par. The equity ratio, an indicator of stability, decreased by 1.2 percentage points compared to the end of the previous fiscal year, but remained at 55.0%.



## Results trends

## Consolidated balance sheet

	(¥mn)		
	FY3/23	FY3/24 1Q	Change
Current assets	2,288	2,113	-174
Cash and deposits	1,446	1,355	-91
Non-current assets	2,097	2,232	134
Property, plant and equipment	244	299	54
Intangible assets	769	791	21
Investments and other assets	1,083	1,141	57
<b>Total assets</b>	<b>4,386</b>	<b>4,345</b>	<b>-40</b>
Current liabilities	1,170	1,262	92
Short-term debt (including current portion of long-term borrowings)	841	914	72
Non-current liabilities	706	645	-61
Long-term borrowings	668	593	-75
<b>Total liabilities</b>	<b>1,877</b>	<b>1,908</b>	<b>30</b>
<b>Net assets</b>	<b>2,508</b>	<b>2,437</b>	<b>-71</b>
Stability			
Equity ratio	56.2%	55.0%	-1.2Pt

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

## ■ Outlook

### Steady revenue growth in Japan and South America to ensure operating income returns to profitability

#### 1. Outlook for FY3/24

For FY3/24 full-year consolidated results, the Company forecasts net sales of ¥2,000mn, an increase of 3.9% YoY, operating profit of ¥60mn (operating loss of ¥55mn in FY3/23), ordinary profit of ¥42mn, a decrease of 10.6% YoY, and profit attributable to owners of parent of ¥5mn (compared to a loss of ¥530mn in the previous fiscal year). The Company will aim for steady increases in revenue, both domestically and overseas (particularly in South America), taking into account the attributes of each market, and to increase profit or return to profitability. For operating profit in particular, the Company aims to increase revenue domestically and overseas, and to return to profitability in operating income, in particular, by carrying out investments needed for business growth while managing profitability and costs. Adjusted EBITDA\* grew significantly in FY3/23 due to one-off extraordinary losses incurred, such as impairment of goodwill, but will return to a normal year level in FY3/24. However, the Company plans to increase profits on an actual basis, excluding the one-off growth of FY3/23, as amortization costs accompanying product development are planned to be reasonable.

\* Adjusted EBITDA = operating profit + depreciation + amortization of intangible assets + share-based payment expenses + M&A-related expenses

Outlook

Outlook for FY3/24

	FY3/23 Results	FY3/24 Forecast	YoY	
			% change	Change
Net sales	1,924	2,000	3.9%	75
Operating profit/loss	-55	60	-	115
Adjusted EBITDA	689	295	-57.2%	-394
Ordinary profit	46	42	-10.6%	-4
Profit/loss attributable to owners of parent	-530	5	-	535

(¥mn)

\* Adjusted EBITDA = operating profit + depreciation + amortization of intangible assets + share-based payment expenses + M&A-related expenses  
 Source: Prepared by FISCO from the Company's financial results

## Themes are: Business portfolio, strengthen global structure and Enhance value provided to customers

### 2. Themes and basic policies for FY3/24

The Company has three themes for FY3/24: Business portfolio, strengthen global structure and enhance value provided to customers. Business portfolio is a measure to continue growth with a view to new consolidation and M&A overseas while considering the balance of investment of resources, and at the same time rebuilding the domestic business to take advantage of strengths in elemental technologies and making strategic moves to develop ChatGPT-related businesses and other businesses in the future. Strengthen global structure is to review business segments on a global basis, bolster organization design from a management perspective and augment executive management while aiming to reinforce Group collaboration based on the value chain and establish horizontal functions. Enhance value provided to customers has such aims as new launches of already developed original products, cross-selling or account sales, and adding consulting functions to SaaS-type linear businesses to provide higher added value.

The Company has three basic policies for FY3/24: Invest in human resources/Strengthen HR functions; Corporate branding; and Governance. Invest in human resources/Strengthen HR functions is a policy to secure outstanding executive management and engineers, and strengthen and maintain the structure on a global basis and raise awareness of MVV\*. Corporate branding is to raise recognition through strengthening and expanding IR and PR while moving forward with enhancing corporate value through ESG and SDGs, etc. Governance is a policy to create a firm foundation as a globally listed company and further rigorously raise awareness of compliance.

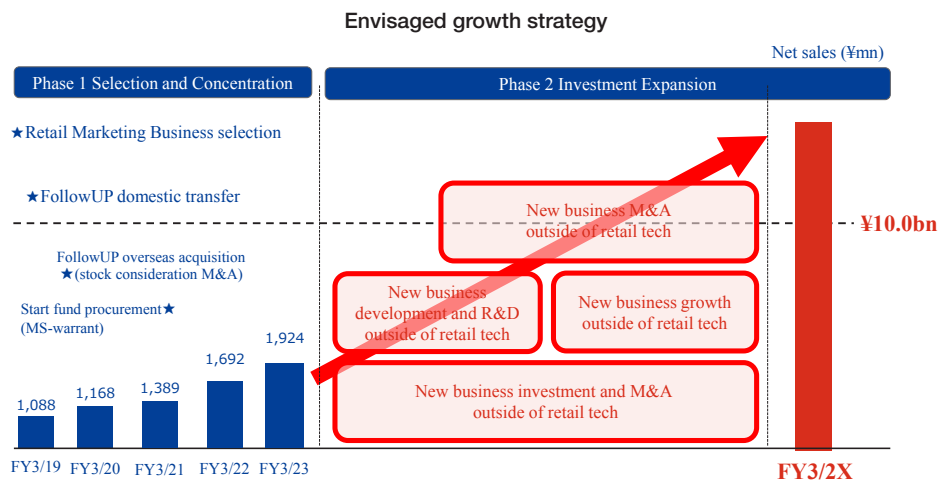
| \* Stands for Mission, Value and Value |

## Medium- to long-term growth strategy

**Strengthen competitiveness by increasing client industries and number of countries of operation, and aim for net sales of ¥10.0bn or more**

### 1. Growth strategy

The Company has transitioned from its selection and concentration phase (from FY3/19 to FY3/23) to the investment expansion phase from FY3/24. In FY3/19, the Company selected its Retail Marketing Business and focused on its mainstay SaaS-type service FollowUP for well-balanced growth both domestically and overseas. From FY3/24, the Company plans to target sales of ¥10.0bn or more by the late 2020s as it aims for proactive investment in M&A and new business development on a global basis, and a good balance between the three elements of strengthening original products, expanding target markets and moving into new countries, which are its growth drivers. From FY3/24 1H, the Company plans to review the entire Group structure and business segments and is scheduled to announce a medium- to long-term management plan.



Source: The Company's results briefing materials

### 2. Progress status

Looking at the status of progress in each growth driver, strengthening original products has since September 2020 made progress in the steps of improving the purchase rate, forecasting functions and detection of defects, while it will now focus on support for sending customers\*1 and OMO\*2. Expanding target markets made progress in spreading to retail (apparel), commercial facilities, supermarkets and other places, and is now considering further moves into a wide variety of industries including manufacturers, drugstores, department stores, developers and real estate. Moving into new countries has so far seen entries into 20 countries, strongly centered on South America, including Japan, India, Australia, New Zealand, Chile, Colombia, Peru, Argentina, Ecuador, Bolivia, Brazil, Uruguay, Panama, Guatemala, Honduras, El Salvador, Costa Rica, Spain, Mexico and the U.S. Going forward, the Company plans entry into Europe and ASEAN.

\*1 Refers to sending attracted customers to actual stores and other places to lead to sales.

\*2 Stands for online merged with offline, and is the thought to advance a marketing strategy binding the online and offline without differentiating between them.

## ■ Shareholder return policy

### **At this point in time, the Company has not determined matters such as the possibility of paying dividends, or the timing**

The Company recognizes that returning profits to shareholders is an important management issue, but it is prioritizing its prime management issue of restructuring its organization for further growth and is not currently paying a dividend. In future, the Company is poised to pay dividends, taking into account its financial condition and management results, but at this point in time, it is undetermined regarding matters such as the possibility of paying dividends or the timing of such.



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