

# Datasection Inc.

**3905**

Tokyo Stock Exchange Growth Market

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

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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 artificial intelligence (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 has been focusing on medical businesses and original product development as New Business. From FY3/24 2Q, the Company reorganized its business segments from Retail Marketing Business and Data Analysis Solution Business to Domestic Business (comprising the three business areas centered on data and AI, i.e., Data Science, Marketing Solution, and System Integration) and Overseas Business, whose mainstay is overseas sales of core in-store analytics service FollowUP. Going forward, the Company seeks greater sophistication of its management and earnings control structure and well-balanced investment allocation between domestic and overseas businesses.

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

In the FY3/24 1H results, net sales increased 13.8% year on year (YoY) to ¥978mn, operating loss was ¥162mn (loss of ¥104mn in the same period during the previous fiscal year), ordinary loss was ¥123mn (loss of ¥8mn in the same period during the previous fiscal year) and loss attributable to owners of parent of 99mn (¥75mn in the same period during the previous fiscal year). Net sales increased due to the strong performance of overseas subsidiaries and making non-consolidated subsidiaries in Spain and Panama consolidated subsidiaries. In the Domestic Business, net sales were little changed YoY, but segment profit fell sharply. In contrast, the Overseas Business performed strongly, recording sharp increases in net sales and profit.

#### 2. Outlook for FY3/24

For FY3/24 consolidated results, the Company forecasts announced in May 2023 remain unchanged, for net sales of ¥2,000mn, an increase of 3.9% YoY, operating profit of ¥60mn (operating loss of ¥56mn 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 ¥534mn in the previous fiscal year). The Company will continue on unchanged 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. In 2H, the Company expects a gradual YoY increase, while the pattern of earnings being higher in 3Q and 4Q remains the same.

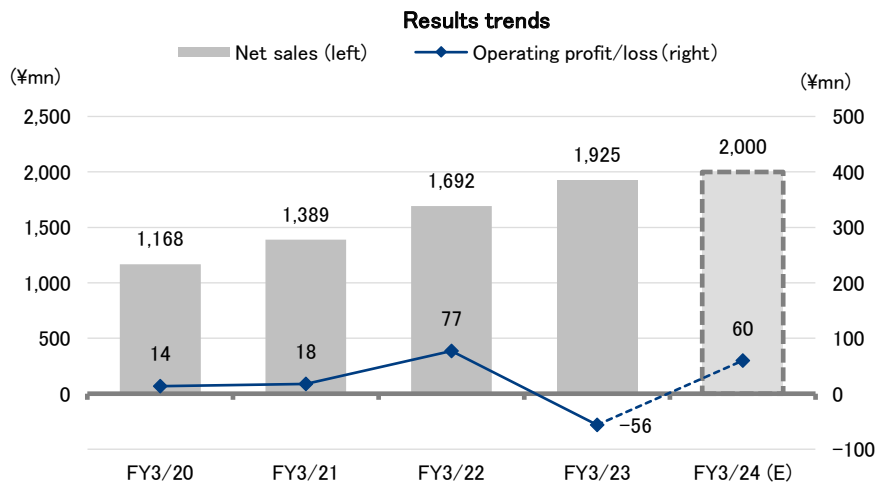
Summary

**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. Initiatives are progressing well regarding growth drivers—strengthening original products, expanding target markets, and moving into new countries. In June 2023, the Company released a supermarket shelf analysis solution product. The Company has expanded its target market, including retail (apparel), commercial facilities, supermarkets, and healthcare, and exploring entry into diverse industries ranging from manufacturing to drugstores, department stores, real estate development, and real estate. In FY3/24 2Q, the Company added two overseas consolidated subsidiaries (one in Spain and one in Panama) to the four in Chile, Colombia, and Peru for a total of six.

**Key Points**

- Reorganized business segments into Domestic Business and Overseas Business in FY3/24 2Q
- In FY3/24 2Q, net sales were flat and profit declined in the Domestic Business
- In the Overseas Business, sales and profit increased sharply in FY3/24 2Q
- Initial full-year FY3/24 Company forecast unchanged at net sales of ¥2,000mn and operating profit of ¥60mn



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 eight consolidated subsidiaries, which had been six companies until two further consolidated subsidiaries, one in Spain and one in Panama, were added in FY3/24 2Q.

Consolidated subsidiary solid intelligence Inc., conducts the multilingual social media analysis and consulting business, and d-ss.inc, another subsidiary, performs commissioned maintenance and operation of financial systems and develops applications. Overseas subsidiaries promoting sales of FollowUP, the core product of the Retail Marketing Business, are Jach Technology SpA and Inteligenxia S.A. in Chile, Alianza FollowUP S.A.S. in Colombia, and FollowUP Peru S.A.C. in Peru, with FollowUP Customer Experience S.L. in Spain and Alianza FollowUP Panamá S.A. in Panama added in FY3/24 2Q. Going forward, it plans to create innovation through various business models by continuing to further utilize AI technology and data analysis.

**Structure of Datasection Group**

Company name	Year of consolidation	Share of voting rights held	Business description
<a href="#">Datasection Inc.</a>	2000	-	Harnessing data analysis technologies to progress social reforms (such as improving companies' business processes and consumers' daily lives)
<a href="#">Solid Intelligence Inc.</a>	2013	86.9%	Multilingual social media analysis and consulting business
<a href="#">d-ss Inc.</a>	2018	100.0%	Financial system operation and maintenance, and application development
<a href="#">Jach Technology SpA</a>	2019	100.0%	Retail marketing business in Chile
<a href="#">Alianza FollowUP S.A.S.</a>	2019	100.0%	Retail marketing business in Colombia
<a href="#">Inteligenxia S.A.</a>	2021	100.0%	Retail marketing business in Chile
<a href="#">Follow UP Peru S.A.C.</a>	2022	55.0%	Retail marketing business in Peru
<a href="#">FollowUP Customer Experience S.I</a>	2023	95.0%	Retail marketing business in Spain
<a href="#">Alianza FollowUP Panamá S.A</a>	2023	100.0%	Retail marketing business in Panama

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

## Company profile

## 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 contract system development business from The ROOM4D, Inc. and the Company's subsidiary d-ss Inc. 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.

Company profile

History

Date	History
July 2000	Company founded in Jingumae, Shibuya-ku, Tokyo
June 2008	Released a web crawling service
February 2009	Released an online risk surveillance and crisis response service
June 2009	Company's online reputation surveillance and crisis response service won Japan Institute of Design Promotion's FY2009 Good Design Award
October 2009	Released blog data-gathering ASP
January 2010	Released SaaS-type CGM dashboard service Insight Intelligence for Marketing (now Insight Intelligence)
August 2011	Released Insight Intelligence for Asia, a SaaS service that analyzes social media in Asia
May 2012	Relocated headquarters to Shibuya, Shibuya-ku, Tokyo
July 2012	Formed business and capital alliance with Hakuho Inc. to build a joint development structure for marketing solutions that harness social media information
April 2013	Founded subsidiary, solid intelligence Inc.
July 2013	Received permission for commercial use of Twitter data from NTT Data Japan Corporation, a company that supplies social media data
March 2014	Established Data Exchange Consortium Limited Liability Business Partnership
March 2014	Third-party allotment of shares underwritten by TBS Innovation Partners, LLC (a subsidiary of Tokyo Broadcasting System Holdings, now TBS Holdings, Inc.) to form a business and capital alliance with TBS Group
April 2014	Formed a business and capital alliance with D.A Consortium Inc. to build joint R&D structure for advertising and marketing platforms that harness big data analysis
December 2014	Listed on Tokyo Stock Exchange Mothers market
February 2016	Established Japan Data Exchange Inc.
September 2016	Concluded business and capital alliance with Kyodo News Images Inc. to build a joint R&D structure utilizing AI image analysis technologies
January 2018	Made KAG Network Solutions Co., Ltd. (now d-ss Inc.) a consolidated subsidiary
May 2018	Formed business and capital alliance with Allm Inc. to build a joint R&D structure utilizing AI-based data analysis technology
July 2018	Commissioned by Allm to take over the development and sales in Japan of FollowUP, a retail store support tool using an in-store camera device
July 2018	Formed business and capital alliance with KDDI Corporation (alliance dissolved in June 2021) to build a joint R&D structure utilizing image analysis and social media analysis
August 2018	Relocated headquarters to Nishigotanda, Shinagawa-ku, Tokyo
July 2019	Released social listening tool Insight Intelligence Q
December 2019	Acquired common stock of Jach Technology SpA, which develops and sells FollowUP overseas. Jach Technology and its subsidiaries became subsidiaries of the Company.
April 2022	Listing change from Mothers Market to TSE Growth Market following Tokyo Stock Exchange market classification review
September 2023	Acquired data analysis-related consulting and contract system development business of The ROOM4D, Inc. At the same time, the Company's subsidiary d-ss acquired the system engineering service business (SES business; system engineering, data analysis, data utilization support, etc.) of The ROOM Door K.K.

Source: Prepared by FISCO from the Company's Securities Report

**3. Business strengths and aspirations**

The Company's strength is the ability to develop original products and services based on its core big data analysis technology, gathering and analyzing the required data from the rapidly increasing volume of data available and converting it to information using superior analysis technology.

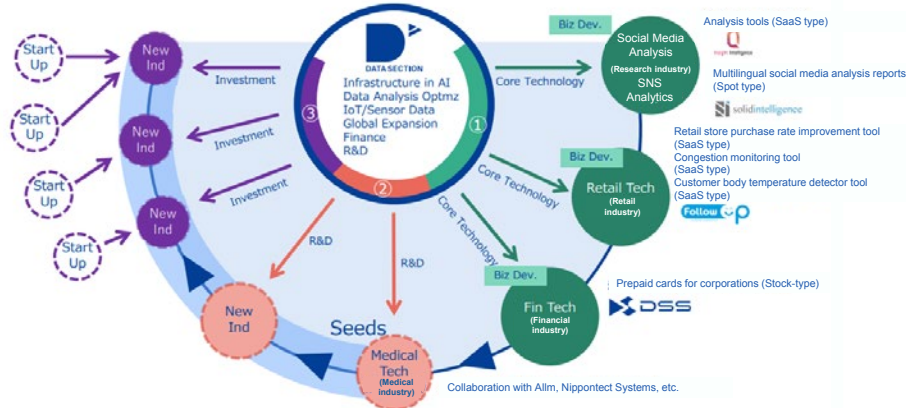
The Company is aiming to become "a federation of Datasection startups" comprising tech startups with aspirations to expand their businesses globally. Datasection as the parent company with its core data analysis technology and its subsidiaries that perform DX to improve business processes in each industry (satellite companies) form a federation of companies. The process of forming the federation is as follows. Group companies responsible for delivering Datasection's core technologies detect market needs, form a new team to search for potential needs, and devise new solutions. Next, they make improvements so that the solutions fit market needs (PMF), and once the business has stabilized, it is spun off. The spun-off company invests as an early-stage startup company via Datasection's fund. Finally, the spun-off company contributes toward Group synergies by harnessing the global expansion flow already established by the Datasection Group.

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

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Company profile

Datasection's federation of startups



Source: Periodic disclosure of matters related to business plans and growth potential required by Tokyo Stock Exchange Growth Market

## Business description

### Reorganized business segments into Domestic Business and Overseas Business in FY3/24 2Q

The Company previously operated in four business areas – the Retail Marketing Business whose core product was FollowUP, Social Media Analysis Business, AI System Development Business, and New Business. From FY3/24 2Q, the Company reorganized its business segments into the Domestic Business and Overseas Business. The Company made the change from a management approach perspective to review and upgrade its management and operational management structures, as well as making the segment classification easier for investors and stakeholders to understand, and to reflect its plans to make investment distributed appropriately between domestic and overseas businesses to accelerate growth.

Comparison of composition of new and previous segments

Entity	DS	DSS	SI	Jach	INX	Alianza	Peru	Spain	Panama	
Before change	Retail	Data Analysis Solution		Retail Marketing Business						
After change	Domestic			Overseas						

Source: The Company's results briefing materials



Business description

**1. Domestic Business**

From FY3/24 2Q, the Company reorganized its business segments, one of which is the Domestic Business. Centered on its core technology of data and AI, the segment operates in the three business areas of Data Science, Marketing Solution, and System Integration. Data Science\*1 provides specialist support and consulting services from design, construction, and operation of the data integration base, including adapting to cloud environments such as AWS, Azure, and GCP, as well as education to foster an organization with a thorough knowledge of data. Marketing Solution supports offline stores to gather and utilize data using IoT devices as well as provide marketing solutions such as social big data analysis and analytic engines. The two services provided by Marketing Solution are Instore Analytics\*2, which installs an IoT device in the store to create data on what interests customers and catches their attention and analyzes it, and Social Listening\*3, which discovers consumer insights and high-risk social media posts from voluminous big data. FollowUP is the mainstay product of Instore Analytics, and Insight Intelligence Q is the core product of Social Listening. In System Integration\*4, the Company provides integrated support for each customer project from consulting through to operation and maintenance by AI-based contract system development and contract system development.

\*1 A newly added business area that was originally a part of the Company's core technology

\*2 Previously the Retail Marketing Business

\*3 Previously the Social Media Analysis Business

\*4 Previously the AI System Development Business

**(1) Instore Analytics (FollowUP business in Japan)**

Instore Analytics refers to marketing activities performed by retailers when they sell products and services to consumers. It is an important technique to attract customers and ensure products sell by implementing effective marketing strategies including store design and displays, price strategies, and promotions, thereby helping retailers fulfill their role of delivering products to consumers. The Company's Instore Analytics business mainly focuses on promoting DX of retail stores to optimize operations. It analyzes behavior data of customers visiting stores gathered using instore AI cameras, visualizes data such as the percentage of customers who buy something (purchase rate), and provides information to customers. The Company also provides a SaaS-type analysis system as a service, helping customers to streamline their operations by using it.

FollowUP, a service that helps increase retail stores' sales centered on the purchase rate, installs a 3D camera that measures the number of customers entering a store to make an accurate count of customer traffic, and can calculate purchase rates by linking with the store's POS system. Based on the purchase rate, FollowUP provides support services such as identifying the potential and problems of the store, establishing a store improvement cycle, facilitating communication with headquarters in the form of reports made by the store, and optimizing store operations. FollowUP has been adopted by retailers in diverse businesses such as apparel, reuse, cosmetics, general stores, fishing gear, jewelry, and stationery.

**(2) Social Listening**

Social Listening is the process of gathering and analyzing data generated by social media platforms. The analysis is essential for companies and organizations to understand the effectiveness of their social media activities and campaigns, and use the information to make decisions and improve strategies. 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, a SaaS-type analysis system that analyzes the measurement of sales promotion effectiveness on X (formerly Twitter).

#### Business description

Insight Intelligence Q is the Company's mainstay social listening 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 on ordinary companies after submitting copy, and can also be used for purposes such as marketing strategies and risk detection. Examples of using this service include product word-of-mouth surveys, comparison surveys with competitors using the social media marketing funnel framework, campaign feedback surveys, and measuring the effectiveness of promotions.

### (3) System integration

AI-based contract system development is the process of utilizing artificial intelligence to enable machines to perform intellectual tasks. AI systems can learn data and perform complex tasks such as recognition, judgment, prediction, and problem-solving. The Company is mainly engaged in consulting that makes use of its technologies for gathering and analyzing big data. 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, it carries out operational maintenance on systems after development. Contract system development is an integrated service that covers operational maintenance of upstream and downstream processes, including search engine development, large-scale data processing technologies, Web application development, AWS on-premises cloud development, and smartphone app development.

Examples of AI-based contract system development projects the Company has undertaken include analysis of biological information (brain waves and electrocardiogram waves), development of a voice analysis engine, development of an engine that filters inappropriate images, and development of a fault detection system for solar panels. Examples of contract system development projects include development of an audit data analysis dashboard, development of a social media and ad placement data analysis dashboard, and development of a search engine for the manufacturing industry.

## 2. Overseas Business

From FY3/24 2Q, the Company reorganized its Other business segment into the Overseas Business, which sells its core Instore Analytics product FollowUP overseas. It is currently selling FollowUP mainly in Spanish-speaking countries in Latin America. Two overseas subsidiaries (in Spain and Panama) were added to the four existing subsidiaries in 2Q FY3/24 for a total of six, expanding support for customers.

### ● Instore analytics (FollowUP business overseas)

As well as the mainstay FollowUP, the Overseas Business provides services such as Store Capacity Control (SCC), HealthyUP, COVID-19 Tasking, and FollowUP Shelf Analytics. 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 notification 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.

FollowUP has been adopted at 47 department stores run by Falabella S.A., a major retail group in Latin America, as well as 58 roadside stores of 12 brands such as Clarks, ALDO, and MANGO in Chile, for which Falabella has obtained a license.

## Results trends

### Group as a whole has increased revenue. Cost of sales have increased, but full-year profits and losses are within the Company's expectations

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

In the FY3/24 1H results, net sales increased 13.8% year on year (YoY) to ¥978mn, operating loss was ¥162mn (loss of ¥104mn in the same period during the previous fiscal year), ordinary loss was ¥123mn (loss of ¥8mn in the same period during the previous fiscal year) and loss attributable to owners of parent of 99mn (profit of ¥75mn in the same period during the previous fiscal year). Net sales increased due to the strong performance of overseas subsidiaries and making non-consolidated subsidiaries FollowUP Customer Experience in Spain and Alianza FollowUP Panamá in Panama consolidated subsidiaries (overseas net sales were up 41.4% YoY). Cost of sales increased 22.6% YoY to weigh on profits due to a ¥59mn increase in personnel expenses to strengthen the structure of Datasection (parent company) and Jach Technology, a consolidated subsidiary in Chile, as well as a ¥51mn increase in outsourcing expenses accompanying increased orders received by subsidiaries. However, profit was within the expected range of the full-year Company forecast.

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

	FY3/24 1H Results	FY3/23 1H Results	YoY	
			% change	Change
Net sales	859	978	13.8%	118
Cost of sales	544	668	22.6%	123
Gross profit	315	310	-1.5%	-4
SG&A expenses	419	472	12.5%	52
Operating loss	-104	-162	-	-57
Ordinary loss	-8	-123	-	-114
Loss attributable to owners of parent	75	-99	-	-174

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

### Lower profit on flat net sales in Domestic Business, but sharp sales and profit growth in Overseas Business

#### 2. Trends by business segment

From FY3/24 2Q, the Company reorganized its business segments from the two segments of Retail Marketing Business centered on core product FollowUP and Data Analysis Solution (comprising Social Media Analysis Business, AI System Development Business, and New Business) to Domestic and Overseas.

## Results trends

**(1) Domestic Business**

Net sales were ¥536mn (up 2.0% YoY) and segment loss was ¥69mn (compared to segment profit of ¥10mn in 1H FY3/23). The domestic FollowUP business continued to expand its customer base, continuing on from the previous fiscal year, and the number of stores adopting FollowUP and the number of cameras installed increased, because the Company made progress with installations across customers' chain stores and franchise businesses. Net sales increased YoY in the Social Media Analysis Business, because the Company began building an efficient operational structure in FY3/23 and the number of spot projects grew. Net sales went up for consolidated subsidiary solid intelligence Inc., which accurately captured the needs of central and local governments and foreign tourists. Net sales turned down in the AI System Development Business due to a decline in existing transaction stock revenue and a drop in the number of new projects at Datasection (parent). Earnings were on track at consolidated subsidiary d-ss inc., because acceptance of a delayed project was completed in October 2023.

**Overview of Domestic Business segment results**

(Domestic Business)	FY3/23 1H	FY3/24 1H	YoY	
			Change	% change
Net sales	547	536	-2.0%	-10
Segment profit/loss	10	-69	-	-

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

**(2) Overseas Business**

Net sales were ¥441mn (up 41.4% YoY) and segment profit was ¥85mn (up 223.0% YoY), with sales and profit increasing sharply. The Company started working on larger projects in FY3/23 and installed FollowUP at all stores of a retailer with stores in shopping malls. Installation in malls by a consolidated subsidiary in Chile made a particularly strong contribution.

**Overview of Overseas Business segment results**

(Overseas Business)	FY3/23 1H	FY3/24 1H	YoY	
			Change	% change
Net sales	312	441	41.4%	129
Segment profit/loss	26	85	223.0%	59

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

As of FY3/24 2Q, net sales were more or less flat and segment profit was down sharply in the Domestic Business, but the Overseas Business was robust, recording sharp net sales and profit growth. The purpose of reorganizing business segments into the Domestic Business and Overseas Business lies in identifying all issues of the Domestic Business and revamping it to build a solid business base. It will be essential to allocate investment appropriately to the Domestic Business and Overseas Business going forward in progressing the Company's business strategies.

## Results trends

### 3. Financial condition and management indicators

Looking at the financial condition of the Company as of the end of FY3/24 1H it is as follows. Total assets decreased ¥98mn from the end of the previous period to ¥4,287mn. The main factors behind the change were an increase of ¥190mn in property, plant and equipment, ¥78mn in goodwill, and ¥80mn in software, while there were decreases in long-term loans of ¥151mn and ¥445mn in cash and deposits. Total liabilities decreased ¥67mn from the end of the previous fiscal year to ¥1,809mn. This was due to increases of ¥23mn in short-term debt, ¥36mn in accounts payable and ¥44mn in other non-current liabilities despite a decrease of ¥189mn in long-term borrowings (including those planned for repayment within 1 year). Net assets decreased ¥30mn from the end of the previous fiscal year to ¥2,478mn. The main factors were an increase of ¥58mn in the currency translation adjustment account associated with the currency translation of overseas subsidiaries' financial statements offset against recording a ¥99mn loss attributable to owners of parent. 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, increased by 0.3 percentage points compared to the end of the previous fiscal year to 56.5%.

#### Consolidated balance sheet

	(¥mn)		
	FY3/23	FY3/24 1H	Change
<b>Current assets</b>	2,288	1,803	-484
Cash and deposits	1,446	1,000	-445
<b>Non-current assets</b>	2,097	2,484	386
Property, plant and equipment	244	434	190
Intangible assets	769	929	159
Investments and other assets	1,083	1,120	36
<b>Total assets</b>	4,386	4,287	-98
<b>Current liabilities</b>	1,170	1,210	39
Short-term borrowings	513	537	23
<b>Non-current liabilities</b>	706	598	-107
Long-term borrowings (including current portion of long-term borrowings)	996	806	-189
<b>Total liabilities</b>	1,877	1,809	-67
<b>Net assets</b>	2,508	2,478	-30
(Stability)			
Equity ratio	56.2%	56.5%	0.3Pt

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

### 4. Cash flow statement

Looking at the Company's cash flow statement for FY3/24 1H, cash used in operating activities totaled ¥159mn (cash provided totaled ¥27mn in FY3/23 1H). This was mainly due to a loss before income taxes of ¥113mn, depreciation of ¥69mn, goodwill amortization expenses of ¥24mn, and a ¥32mn decrease in trade receivables. Cash used in investing activities came to ¥92mn (¥86mn used in FY3/23 1H), mainly due to an inflow of ¥16mn from the sale of property, plant and equipment offset against outflows of ¥81mn for the acquisition of intangible assets and ¥20mn for the purchase of insurance funds. Cash used in financing activities came to ¥217mn (¥392mn used in 1H FY3/23), mainly due to a ¥200mn outflow for the repayment of long-term borrowings. As a result of these activities, cash and cash equivalents at the end of FY3/24 1H decreased by ¥445mn to ¥969mn.

## Results trends

## Statement of cash flows

	23/3 2Q	24/3 2Q
Cash flows from operating activities	27	-159
Cash flows from investing activities	-86	-92
Cash flows from financing activities	-392	-217
Cash and cash equivalents at end of period	987	969

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

## Outlook

### Initial full-year Company forecast unchanged for FY3/24 at net sales of ¥2,000mn and operating profit of ¥60mn

#### 1. Outlook for FY3/24

For FY3/24 full-year consolidated results, the Company forecasts remain unchanged from those announced in May 2023, for 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 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 profit, 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

Results through FY3/24 1H reflect an increase in structural reform expenses and impact of unprofitable projects in the Domestic Business, which weighed on profit. However, in 2H the Company expects a gradual YoY increase, while the pattern of earnings being higher in 3Q and 4Q remains the same.

#### Outlook for FY3/24

	FY3/23 Results	FY3/24 Forecast	YoY	
			% change	Change
Net sales	1,925	2,000	3.9%	75
Operating profit/loss	-56	60	-	117
Adjusted EBITDA	689	295	-57.2%	-394
Ordinary profit	41	42	1.5%	1
Profit/loss attributable to owners of parent	-534	5	-	540

\* 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

## Basic policies are invest in human resources/strengthen HR functions, corporate branding, and governance

### 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.

As of the end of FY3/24 1H, for business portfolio, the Company reorganized its business segments into the Domestic Business and Overseas Business, and added two overseas subsidiaries (one in Spain and one in Panama) to its group of consolidated subsidiaries. To strengthen global structure, the Company aims to strengthen its organizational structure, global expansion, and competitive edge by taking over businesses from The ROOM4D, Inc. in September 2023. The acquisition of these businesses could make a big contribution to the outlook for the AI-based contract system development business. To enhance value provided to customers, the Company released FollowUP Shelf Analytics, a supermarket shelf analysis solution product in June 2023.

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, Vision and Value |

For Invest in human resources/Strengthen HR functions in September 2023, the Company completed the process of acquiring The ROOM Door K.K., a subsidiary of The ROOM4D, Inc., to increase the number of engineers in its areas of strength (data analysis and AI solutions, including SES). For corporate branding, the Company held a presentation for individual investors in September 2023 and began distribution of company research reports by FISCO Ltd. <3807> in October 2023. It plans to distribute two reports a year (with 1H and full-year results) in Japanese and English. For governance, in October 2023, the Company's efforts to date were recognized in the SMB\* category of SalesNow Growth Award 2023 Autumn presented by SalesNow Co., Ltd. to select companies demonstrating strong growth based on dynamic data on 5.3mn companies in Japan. SalesNow uses data and technologies to create new work styles.

| \* Small companies with around 30–99 employees. |

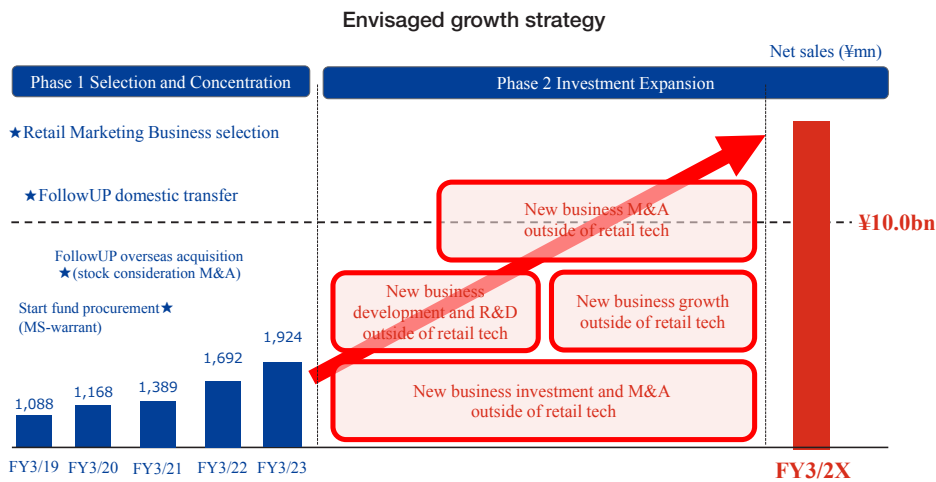
## Medium- to long-term growth strategy

**For net sales, KPIs are number of stores adopting FollowUP (up 28.5% YoY) and number of cameras installed (up 30.0%)**

### 1. Growth strategy

The Company transitioned from its selection and concentration phase (from FY3/19 to FY3/23) to the investment expansion phase in FY3/24. In the selection and concentration phase, the Company focused on specific areas and businesses to make the most of limited resources, enhancing its specialist knowledge and skills and improving efficiency by concentrating on key areas of the business, thereby honing its competitive edge and progressing structural reforms. Responding to customer needs, it focused on specific products, services, and markets centered on its strengths in data and AI, acquiring in-depth, specialist knowledge and making optimal use of resources. Accordingly, 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 targets CAGR of 35% in the next three years, targeting net sales of ¥10.0bn or more by the late 2020s (in 7–8 years from now) 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. It is scheduled to announce a medium-term management plan in or after FY3/24 3Q.



Source: The Company's results briefing materials



Medium- to long-term growth strategy

## 2. Progress status

Looking at the progress status of each growth driver, for strengthening original products, the Company has been promoting improvement of the purchase rate, prediction function, and detection of out-of-stock items since September 2020. Going forward, it will focus on customer transfer\*<sup>1</sup> support and OMO\*<sup>2</sup>. The Company released FollowUP Shelf Analytics (a supermarket shelf analysis solution product) in June 2023. This has made it possible to provide an AI-based service that detects out-of-stock items, items displayed in the wrong location, items marked with the wrong price, and incorrect number of items in a facing, helping its customers to reduce opportunity loss. For expanding target markets, the Company is promoting expansion into a wide range of industries, including retail (apparel), commercial facilities, supermarkets, and healthcare industries, as well as exploring expansion into manufacturing, drugstores, department stores, and real estate/real estate development businesses. In December 2023, the Company was commissioned by business and capital alliance partner Allm Inc. (a medical ICT company) to begin proof of concept (PoC), part of which it had developed. For moving into new countries, the Company is now doing business in 20 countries (mainly in Latin 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. In FY3/24 2Q, the Company added two consolidated subsidiaries (one in Spain, one in Panama) to its four existing overseas consolidated subsidiaries (four companies in Chile, Colombia, and Peru) for a total of six. It is focusing on Mexico, Ecuador, and Argentina (all Spanish-speaking countries), where business expansion had been delayed by the COVID-19 pandemic. As an extension of this, it plans to approach Japanese-owned public centers and local shopping malls in Spain.

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

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

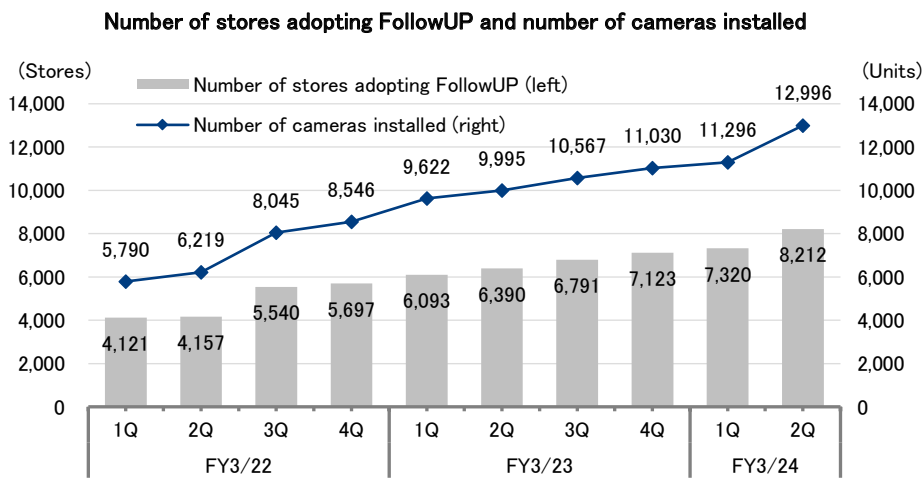
Acquiring businesses from The ROOM4D, Inc. (including deployment of AI engineers) in September 2023 will not only strengthen the Company's structure, but also enhance its competitive edge. In the longer term, it can foresee synergies that make use of its existing business base, such as development of new, original products and global expansion, and building an integrated structure from data science through to operation and maintenance. The ROOM4D, Inc. has a customer base consisting of major corporations and a development track record with these companies. The Company believes that by continuing to build an effective relationship with these customers, it can strengthen its AI-based contract system development business.

## 3. KPI progress status

In the medium term, the Company prioritizes as KPIs the number of stores adopting FollowUP and the number of cameras installed. In FY3/24 2Q, the number of stores adopting FollowUP increased 28.5% YoY to 8,212 and the number of cameras was up 30.0% to 12,996 units. Uptake by all stores in a large shopping mall in Chile contributed to the growth. The number of cameras installed (linked to the number of stores adopting FollowUP) is also increasing. The number of cameras installed has been increasing faster than the number of stores adopting FollowUP in recent years due to uptake by large stores in Latin America and elsewhere.

Medium- to long-term growth strategy

Looking at YoY growth rates a year earlier, the number of stores adopting FollowUP increased 53.7% and the number of cameras installed was up 60.7%. Although it may appear that the growth rate slowed in FY3/24 2Q, this is primarily due to M&A growth (the Company acquiring overseas subsidiaries) in the year ending in FY3/23 2Q. In contrast, the increase from FY3/23 2Q to FY3/24 2Q is due to organic growth, which the Company sees as leading to medium- to long-term growth. It looks for YoY growth rates of 30% or more in the Overseas Business going forward, because projects are becoming larger and many of its customers are listed companies, etc. If this proves to contribute toward cash flows of the Domestic Business and raising funds from investors, the Company could expand into other countries in Latin America as well.



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

**4. Sustainability policy**

The Company unveiled its sustainability policy in FY3/24 2Q. As a technology pioneer that has helped to upgrade human lifestyles around the world, Datasection's Sustainability Vision seeks to contribute to people's lives worldwide in 100 years' time. The Company announced four policies based on this vision. They are innovation based on global partnerships, foster and produce diverse personnel for the global stage of the future, promote diversity and inclusion on a global basis, and rigorously implement compliance and strengthen corporate governance.

**(1) Innovation based on global partnerships**

The Company is working on creating innovation by introducing its services based on ongoing partnerships, mainly by supporting stable management of consolidated subsidiaries in Latin America to create new development technologies and expand new businesses in developing countries.

**(2) Foster and produce diverse personnel for the global stage of the future**

The Company will prepare for the near future, when data science becomes essential to business, by providing an education program for training personnel capable of communicating ways to utilize data and analysis results clearly. Its goal is to help produce data scientists who can excel in all industries.

Medium- to long-term growth strategy

### **(3) Promote diversity and inclusion on a global basis**

The Company is promoting diversity while protecting the working environment in partnerships with companies in Southeast Asia. It plans to build a flexible organizational structure open to all genders, nationalities, cultures, and family backgrounds, etc. It introduced parental leave for men in 2022, is increasing the number of women employees, and aggressively hiring engineers of diverse nationalities.

In February 2023, the Company concluded an SDGs Friends Loan Next\* loan agreement with The Bank of Yokohama, Ltd. It was approved by the bank for the loan after establishing goals and measures of its sustainability strategy such as encouraging men to take parental leave. Specific goals and measures are: 1) encourage men to take parental leave to help employees achieve a work-life balance and 2) help customers with DX to optimize inventory volume, which will prevent excessive production and pollution.

\* A loan product for which the borrower establishes measures and KPIs consistent with their business and SDGs targets, and receives advice on finance and various management issues to solve the issues and improve sustainability management

### **(4) Rigorously implement compliance and strengthen corporate governance**

With the goal of becoming a transparent company with good internal communication, Datasection will promote regular one-on-one meetings between the management team and all employees, and a system for employees attending management meetings. The Company will also try expert advice regarding its business, and for health management, it will work with industrial physicians to support employees.

## **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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