

## Datasection Inc.

3905

Tokyo Stock Exchange Growth Market

28-Oct.-2024

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

## ■ Contents

<b>■ Summary</b>	<b>01</b>
1. Overview of FY3/24 results	01
2. Outlook for FY3/25	01
3. Medium- to long-term growth strategy	02
<b>■ Company profile</b>	<b>03</b>
1. Company profile	03
2. History	04
3. Business strengths and aspirations	05
<b>■ Business description</b>	<b>06</b>
1. Domestic Business	07
2. Overseas Business	08
<b>■ Results trends</b>	<b>09</b>
1. Overview of FY3/24 results	09
2. Trends by business segment	10
3. Financial condition and management indicators	11
4. Cash flow statement	12
<b>■ Outlook</b>	<b>13</b>
1. Outlook for FY3/25	13
2. Themes and basic policies for FY3/25	14
<b>■ Medium- to long-term growth strategy</b>	<b>15</b>
1. Growth strategy	15
2. Progress status	16
3. KPI progress status	17
4. Sustainability policy	18
<b>■ Shareholder return policy</b>	<b>19</b>

## Summary

### Aiming for further top-line growth and return to consolidated profitability in FY3/25

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. The Company reviewed and upgraded its management and operational management structures, and operates its business in two segments—the Domestic Business and the Overseas Business—while emphasizing clarity for investors and stakeholders. In FY3/25, the Company continues to pursue top-line growth and a return to consolidated profitability. It will focus on organic growth of profitable businesses, while working to improve profitability through the restructuring of the Domestic Business. Specifically, the Company plans to redefine its business domains and implement business structure reforms to return the Domestic Business to profitability and return to operating profitability. It is aiming for a year-on-year (YoY) increase of ¥377mn in adjusted EBITDA, with expectation that this will drive a significant improvement in earnings. The Company plans to achieve its highest ever net sales through growth in both the Domestic and Overseas Businesses, and is making well-balanced investments for future business expansion.

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

In the FY3/24 results, net sales increased 15.9% YoY to ¥2,229mn, operating loss was ¥216mn (loss of ¥55mn in the previous fiscal year), ordinary loss was ¥235mn (profit of ¥46mn in the previous fiscal year) and loss attributable to owners of parent of 1,261mn (loss of ¥530mn in the previous fiscal year). Although net sales for FY3/24 reached new record highs, operating loss and ordinary loss expanded. In Japan, an increase in orders for system development projects at subsidiary d-ss Inc. (“DSS”) contributed, along with a project for the public sector at solid intelligence Inc. (“SI”), while overseas service orders increased at a newly consolidated subsidiary. On the other hand, the cost of sales and SG&A expenses rose sharply, driven by increases in personnel expenses and outsourcing expenses, which resulted in a loss attributable to owners of parent of ¥1,261mn. Although the final loss increased in the end due to the impact of extraordinary losses, adjusted EBITDA exceeded the revised forecast.

#### 2. Outlook for FY3/25

For FY3/25 consolidated results, the Company forecasts net sales of ¥2,650mn, an increase of 18.9% YoY, operating profit of ¥80mn (operating loss of ¥216mn in FY3/24), ordinary profit of ¥55mn (ordinary loss of ¥235mn in FY3/24), and profit attributable to owners of parent of ¥17mn (compared to a loss of ¥1,261mn in FY3/24). In the Domestic Business, the Company aims to win orders for large-scale projects by strengthening its consulting functions and recruiting engineers, and to expand sales and profits by achieving organic growth through the provision of Data Science and FollowUP and through cross-selling of its own products. In the Overseas Business, the Company will focus on the South American market, leveraging its relationships with listed developers and retail business owners to capture large-scale projects. It will use strategic acquisitions to control reseller channels and expand the product lineup. The Company is also looking at alliances in the supercomputer and datacenter fields, with plans to enhance its competitive advantages in the South American market.

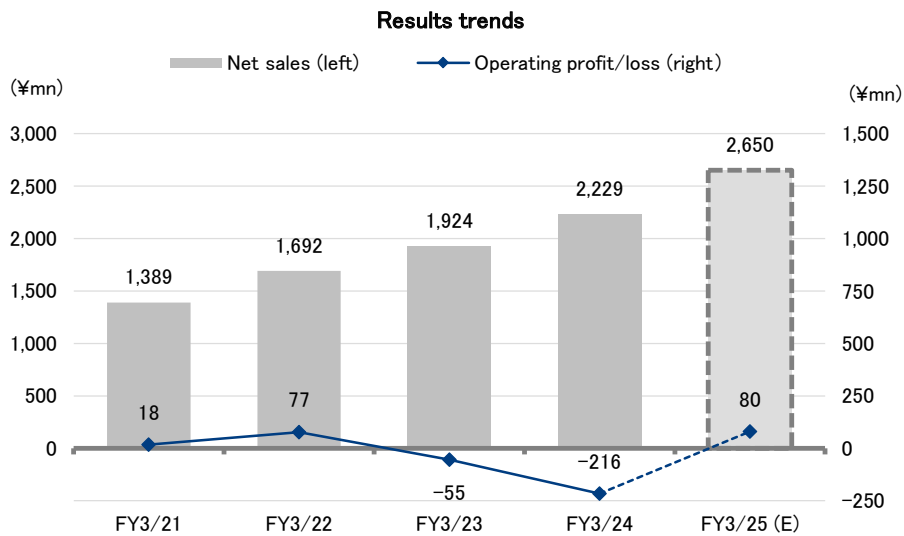
Summary

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

The Company will concentrate on highly profitable fields and strengthen profitability management in each business through the redefinition of its business domains. For the Domestic Business in particular, the Company's priority is to achieve profitability and improve earning capability, and it will implement restructuring of unprofitable businesses. In the Overseas Business, the Company is aiming for organic growth by utilizing its existing foundation, and in New Business, it will continue discussions on R&D and the operation of AI datacenters centered on a business alliance with Super Micro Computer <SMC> ("Supermicro"). Companywide strategies include strengthening governance, revising the personnel system, and strengthening the Company's corporate branding. Moreover, the Company aims to increase its corporate value by enhancing sustainability. In FY3/25, the Company aims to achieve Companywide growth by returning to business domains that emphasize its strengths in data and AI. In this way, it will realize growth in Japan and overseas, return to profitability on a consolidated basis, and continuously increase its corporate value.

**Key Points**

- Despite achieving new record high net sales in FY3/24, the Company's operating loss and ordinary loss widened
- In the Domestic Business, priority issues are achieving profitability of the parent company and improving earning capability. In the Overseas Business, the Company will aim for organic growth using its existing foundation
- In FY3/25, the Company will return to business domains that emphasize its strengths in data and AI, and aim for Companywide growth



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

## Company profile

### Aiming to become “a federation of Datasection startups” expanding their businesses globally

#### 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, it has engaged in the Retail Marketing Business centered on subscription-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.

Consolidated subsidiary SI conducts the multilingual social media analysis and consulting business, and DSS, another subsidiary, performs commissioned maintenance and operation of financial systems and develops applications. The six 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, FollowUP Peru S.A.C. in Peru, FollowUP Customer Experience S.L. in Spain, and Alianza FollowUP Panamá S.A. in Panama. Going forward, the Company plans to create innovation through various business models by continuing to further utilize AI technology and data analysis.

In February 2024, Representative Director and President Kento Hayashi resigned. Accordingly, the Board of Directors appointed Shinichi Iwata, Vice President and Representative Director and CFO of the Company, as President and Representative Director, CEO and CFO of the Company. Also in February, the Company resolved to enter a basic agreement regarding a comprehensive business alliance with VLC Holdings Co., Ltd. <2467>. This alliance is expected to generate substantial synergies between VLC Holdings’ subsidiary, MSS Inc., which is mainly engaged in marketing research and sales promotion, and the Datasection Group, which has strengths in data analysis and AI. Accordingly, in July 2024, the Company made MSS a wholly owned subsidiary.

**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.L.</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
<a href="#">MSS Inc.</a>	2024	100.0%	Marketing research and sales promotion business

Source: Prepared by FISCO from the Company’s results briefing materials, securities report, and website

## 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 (the “Internet Reputation Risk Monitoring and Crisis Response Service” 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 concluded 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 the common shares of Jach Technology, which conducts overseas development and sales of the retail store support 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 DSS 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. The Company concluded a basic agreement for a comprehensive business alliance with VLC Holdings in February 2024 and a basic agreement for a business alliance with Supermicro in April 2024.

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 the common shares 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 DSS acquired the system engineering service business (SES business; system engineering, data analysis, data utilization support, etc.) of The ROOM Door K.K.
February 2024	Decided to enter a basic agreement on a comprehensive business alliance with VLC Holdings
April 2024	Concluded a basic agreement for a business alliance with Supermicro
July 2024	Made MSS a consolidated subsidiary

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

### 3. Business strengths and aspirations

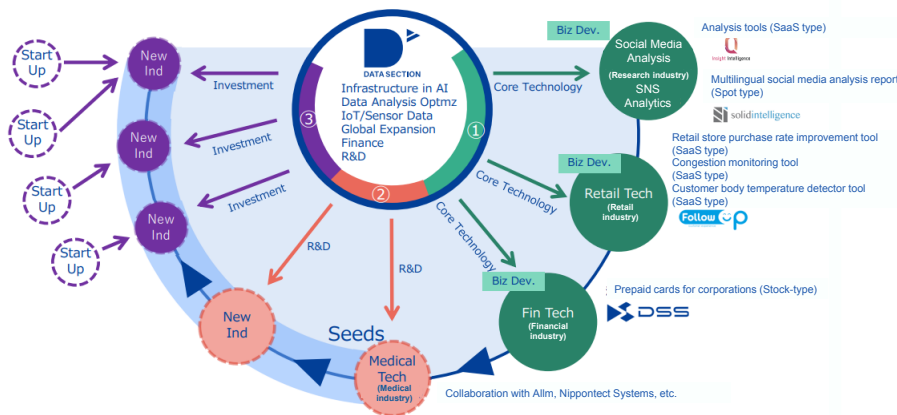
The Company's strength is the ability to develop original products and services based on its core big data analysis technology, gathering and analyzing the required data from the rapidly increasing volume of data available and converting it to information using superior analysis technology.

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Company profile

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.

**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

### Operations in the three business areas of Data Science, Marketing Solution, and System Integration, with a central focus on data and AI

Since its establishment, the Company has increased its corporate value with a central focus on data and AI. It has found new opportunities in an era of DX advancement by companies globally and the current era of change with advancement in the use of AI in corporate activities. The Company is pursuing sustainable growth for the overall Group and working to achieve its mission of realizing social transformation through the concept of “Change the Frame” and to create new ways of living.

The Company has divided its business segments into the Domestic Business and Overseas Business. It 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 distribute investment appropriately between domestic and overseas businesses to accelerate growth.

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



## Business description

## 1. Domestic Business

One of the Company's business segments 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\*<sup>1</sup> 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\*<sup>2</sup>, which installs an IoT device in the store to create data on what interests customers and catches their attention and analyzes that data, and Social Listening\*<sup>3</sup>, 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\*<sup>4</sup>, the Company provides integrated support for each customer project from consulting through to operation and maintenance with 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 the store's customers who buy something (purchase rate), and provides information to the Company's 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. The Company mainly conducts marketing support from word-of-mouth analysis. It 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 realtime social media data analysis tool Insight Intelligence on desired topics, enabling marketers to measure the effectiveness of advertisements on ordinary companies after submitting copy. It 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

The Company's other business segment is 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, supported by six overseas subsidiaries.

### • 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 to indicate 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 has been 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

### Net sales reached a new record high. The final loss expanded, but adjusted EBITDA was higher than forecast

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

In the FY3/24 results, net sales increased 15.9% YoY to ¥2,229mn, operating loss was ¥216mn (loss of ¥55mn in the previous fiscal year), ordinary loss was ¥235mn (profit of ¥46mn in the previous fiscal year) and loss attributable to owners of parent of 1,261mn (loss of ¥530mn in the previous fiscal year).

Net sales increased sharply in FY3/24, reaching a record high. In Japan, the main drivers were an increase in orders received for system development projects at consolidated subsidiary DSS and an increase in projects addressing public sector and inbound tourism needs by SI. Overseas, service orders increased, including at FollowUP Customer Experience S.L. and Alianza FollowUP Panamá S.A., which became consolidated subsidiaries from FY3/24 2Q. However, operating loss widened due to increases in the cost of sales and SG&A expenses, mainly because of an increase in personnel expenses and outsourcing expenses. Adjusted EBITDA was ¥47mn (down 93.1% YoY), and ordinary loss widened due to an increase in non-operating expenses. The Company recorded extraordinary income for gain on reversal of share acquisition rights of ¥9mn, gain on bargain purchase of ¥6mn, and gain on sale of non-current assets of ¥3mn. On the other hand, the Company recorded bad debts expenses of ¥505mn and impairment losses of ¥378mn. In the end, net loss attributable to owners of parent was ¥1,261mn, widening from a net loss of ¥530mn in the previous fiscal year. Overall, the Company continued to grow domestically and overseas, notably maintaining high growth of approximately 40% overseas. However, domestically, the parent company encountered issues in its revenue structure, and recorded a significant loss as it was unable to absorb structural reform costs. Furthermore, final loss expanded due to one-time extraordinary losses recognized in order to resolve financial issues. However, adjusted EBITDA, which shows real earnings generation capability, ultimately exceeded the revised forecast.

#### Overview of FY3/24 results

	FY3/23 Results	FY3/24 Results	YoY	
			Change	% change
Net sales	1,924	2,229	305	15.9%
Cost of sales	1,138	1,527	389	34.2%
Gross profit	785	701	-84	-10.7%
SG&A expenses	841	917	76	9.1%
Operating loss	-55	-216	-160	-
Ordinary profit/loss	46	-235	-281	-
Loss attributable to owners of parent	-530	-1,261	-731	-

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

## In the Overseas Business, further growth is expected going forward due to the high growth potential of the South American market and PMI

### 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.

#### (1) Domestic Business

Net sales were ¥1,383mn (up 9.8% YoY) and segment loss was ¥18mn (compared to segment profit of ¥76mn in FY3/23). In FY3/24, net sales increased year on year. The main factors were a contribution from the Data Science Business of The ROOM4D, which was transferred to the Company in September 2023, and progress on multiple major development projects at the consolidated subsidiary DSS. Looking ahead, the Company will strengthen the data science field through post-merger integration (PMI) of The ROOM4D. Furthermore, it will expand consulting and IT education that leverage data utilization and AI development results. In addition, the Company will deepen its collaboration with DSS and strive to expand orders in the Fintech field. In the Social Media Analysis Business, the Company increased net sales by increasing projects addressing needs in the public sector and inbound tourism by providing consulting services on multi-lingual social media analysis through its own Insight Intelligence series and consolidated subsidiary SI. In the Retail Marketing Business, the Company made progress on introductions of FollowUP, which combines AI cameras and POS data, with a notable increase in orders from retailers conducting multiple store development. In New Business, the Company is focusing on development of medical data analysis services using AI, and saw progress on monitoring AI and a project for the New Energy and Industrial Technology Development Organization (NEDO). While all domestic companies across the board saw an increase in orders received due to the development of new products for retail businesses and progress in the medical business, the Company also recorded an increase in upfront expenses for restructuring the business portfolio, strengthening of its engineering personnel and an increase in BPO expanses, and an increase in personnel expenses and outsourcing expenses. These factors resulted in a segment loss of ¥18mn.

#### Overview of Domestic Business segment results

	FY3/23 Results	FY3/24 Results	YoY	
			Change	% change
Net sales	1,260	1,383	123	9.8%
Segment profit/loss	76	-18	-94	-

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

## Results trends

**(2) Overseas Business**

Net sales for FY3/24 were ¥865mn (up 12.6% YoY) and segment profit was ¥176mn (compared to segment loss of ¥118mn in FY3/23). The Company's Overseas business made progress in global development, with notable growth in the South American markets in particular. FollowUP has expanded to over 20 countries, and Chilean consolidated subsidiary Jach Technology SpA has received an increase in orders from major customers including local listed development companies. The Company consolidated non-consolidated subsidiaries in Spain and Panama, and expanded its commercial area to strengthen its global business foundation. Furthermore, INTELIGENXIA S.A., which became a subsidiary in September 2021, and FollowUP Peru S.A.C., which became a consolidated subsidiary in FY3/23, also grew steadily, with PMI activities also proceeding smoothly. High growth potential in the South American markets and progress on PMI is expected to strengthen the foundation of the Company's global business and lead to growth going forward.

**Overview of Overseas Business segment results**

	FY3/23 Results	FY3/24 Results	YoY	
			Change	% change
Net sales	768	865	96	12.6%
Segment profit/loss	-118	176	294	-

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

In FY3/24, in the Domestic Business, despite positive signs with the increase in net sales, there was also the concerning factor of a segment loss. While proactive investment in new businesses such as the Data Science business and the Fintech domain is necessary for long-term growth, in the short term, cost management and business efficiency improvements are needed. In particular, the Company needs to pay attention to the increases in personnel expenses and outsourcing expenses. Ongoing monitoring will be needed to see whether these investments will lead directly to improved earnings. The Overseas Business has delivered YoY increases in both net sales and profits, with a particularly strong performance observed in the South American market. Active investments in emerging markets are bearing fruit; however, it seems likely that success going forward will be determined by progress on PMIs and the evaluation of penetration of brands and products in new markets. We at FISCO consider that the Company's product development and marketing strategy in accordance with regional characteristics will continue to be important.

**3. Financial condition and management indicators**

The Company's total assets at the end of FY3/24 stood at ¥3,786mn, down 13.7%, or ¥599mn, from the end of the previous fiscal year. The main factors behind the change were increases of ¥244mn in cash and deposits, ¥139mn in property, plant and equipment, and ¥86mn in notes and accounts receivable – trade, and contract assets; which were outweighed by decreases of ¥862mn in investments and other assets and ¥124mn in intangible assets. Total liabilities stood at ¥1,803mn, down 3.9%, or ¥73mn from the end of the previous fiscal year. The main factors behind the change were increases of ¥86mn in short-term borrowings, ¥148mn in current liabilities, and ¥64mn in other non-current liabilities; which were outweighed by a decrease of ¥358mn in long-term borrowings (including current portion of long-term borrowings). Net assets stood at ¥1,982mn, down 21.0%, or ¥526mn, from the end of the previous fiscal year. The decrease in net assets resulted mainly from a ¥1,253mn decrease in retained earnings due to the net loss attributable to owners of parent, despite an increase of the Company's share capital and capital surplus by ¥352mn, respectively, and an increase in share acquisition rights by ¥22mn, with the issuance of new shares with share acquisition rights by third-party allotment on January 26, 2024.

## Results trends

Looking at consolidated financial indicators for FY3/24, the equity ratio was 50.6%, maintaining a healthy level despite a decline from 56.2% in the previous fiscal year. On the other hand, on a fair-value basis, the equity ratio increased sharply to 329.7% in a substantial improvement from 88.0% in the previous fiscal year. This appears to be due to the effect of an increase in stock prices and market valuation. The ratio of cash flow to interest-bearing debt improved dramatically from 623.7 years in the previous fiscal year to 3.7 years. The main factors in the change were an increase in cash flows and a decrease in interest-bearing debt. The interest coverage ratio also improved substantially from 0.2 times in the previous fiscal year to 28.6 times, and interest payment capability increased markedly. These indicators show that the Company has succeeded in improving its financial health and market valuation, and that the management foundation has been strengthened. In particular, it is excellent to see that the Company's interest-bearing debt management and cash flow enhancement are helping to improve its financial condition.

## Consolidated balance sheet

	(¥mn)		
	FY3/23	FY3/24	Change
<b>Current assets</b>	2,288	2,536	248
Cash and deposits	1,446	1,690	244
<b>Non-current assets</b>	2,097	1,249	-848
Property, plant and equipment	244	383	139
Intangible assets	769	644	-124
Investments and other assets	1,083	221	-862
<b>Total assets</b>	4,386	3,786	-599
<b>Current liabilities</b>	1,170	1,319	148
Short-term borrowings	513	600	86
<b>Non-current liabilities</b>	706	484	-221
Long-term borrowings (including current portion of long-term borrowings)	996	638	-358
<b>Total liabilities</b>	1,877	1,803	-73
<b>Net assets</b>	2,508	1,982	-526
<b>(Stability)</b>			
Equity ratio	56.2%	50.6%	-5.6pt
Fair value-based equity ratio	88.0%	329.7%	241.7pt
Ratio of cash flow to interest-bearing debt (years)	623.7	3.7	-620.0
Interest coverage ratio (times)	0.2	28.6	28.4

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

#### 4. Cash flow statement

Cash and cash equivalents at the end of FY3/24 had increased ¥244mn from the end of the previous fiscal year to ¥1,659mn. Cash provided by operating activities was ¥333mn, a substantial improvement from ¥2mn in the previous fiscal year. This mainly reflected the contribution of recording non-cash expenses, such as bad debt expenses, impairment losses, and depreciation, despite recording a loss before income taxes of ¥1,099mn. Cash used in investing activities amounted to ¥569mn, an increase from ¥255mn used in the previous fiscal year. This mainly reflected purchase of property, plant and equipment reaching ¥536mn. These purchases are expected to strengthen the Company's foundation for future growth. Cash provided by financing activities was ¥382mn, an increase of ¥242mn from the end of the previous fiscal year. This mainly reflected proceeds from issuance of shares of ¥704mn, proceeds from long-term borrowings of ¥135mn, and an increase in short-term borrowings of ¥86mn, despite an outflow of ¥504mn for the repayment of long-term borrowings. As a result of these activities, the Company made progress on procuring funds and stabilized its financial foundation. Overall, in FY3/24 the Company's cash and cash equivalents increased in and its financial health improved due to the improvement of its cash flows from operating activities and its success in the procurement of funds.

Results trends

Statement of cash flows

	(¥mn)	
	FY3/23	FY3/24
Cash flows from operating activities	2	333
Cash flows from investing activities	-255	-569
Cash flows from financing activities	242	382
Cash and cash equivalents at end of period	1,415	1,659

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

## ■ Outlook

### As South American market growth accelerates towards becoming a formal market, the Company is expected to capture large-scale projects

#### 1. Outlook for FY3/25

For FY3/25 consolidated results, the Company forecasts net sales of ¥2,650mn, an increase of 18.9% YoY, operating profit of ¥80mn (operating loss of ¥216mn in FY3/24), ordinary profit of ¥55mn (ordinary loss of ¥235mn in FY3/24), and profit attributable to owners of parent of ¥17mn (compared to a loss of ¥1,261mn in the previous fiscal year). In FY3/25, the Company will conduct specific measures aimed at expanding sales and profits.

#### (1) Domestic Business

In the Domestic Business, the Company will aim to win large-scale projects by strengthening its consulting functions based on customer needs and refining its targeting. It will also work to increase the profitability of orders received by hiring engineers and preparing an operational structure. Furthermore, the Company will aim to achieve organic growth by strengthening the data science domain and providing FollowUP, and to expand sales and profits through cross-selling with its own products and services. For the Insight Intelligence series, the Company will ensure growth by working to acquire leads and expand channels. At SI, the Company is working to increase recognition in the sightseeing domain and expand orders received from central government, as well as to develop new services. At DSS, it is utilizing relationships with financial institutions and promoting development of digital settlements and in-house product development to expand its medium-term earnings base. It is also promoting flexible recruitment of human resources and use of outsourcing, as well as promoting development of management personnel in order to strengthen its structure.

Outlook

**(2) Overseas Business**

In the Overseas Business, the Company is focusing particularly on growth in the South American market. In South America, market growth from an informal to a formal market is accelerating, and the Company expects to acquire large-scale projects such as shopping malls. The Company’s strategy is to leverage its strong relationships with local listed developers and retail business owners to capture this growth. Moreover, the Company will use strategic acquisitions to control reseller channels in order to strengthen its product lineup and expand the value it provides. Specifically, the Company will strengthen cooperation with local developers and retailers to aggressively capture projects for shopping malls and large-scale commercial facilities in order to strengthen its earnings base. Furthermore, the Company is also looking at alliances in the supercomputer and datacenter fields, with plans to increase its technological capabilities and diversify its products and services. In this way, the Company aims for further increase its competitive advantages in the South American market. In particular, as progress is made on upgrading local infrastructure and IT environments, demand is expected to increase for solutions that utilize the Company’s data science and AI technologies.

**Outlook for FY3/25**

	FY3/24 Results	FY3/25 Forecast	YoY	
			% change	Change
Net sales	2,229	2,650	420	18.9%
Operating profit/loss	-216	80	296	-
Adjusted EBITDA	47	425	377	797.0%
Ordinary profit/loss	-235	55	290	-
Profit/loss attributable to owners of parent	-1,261	17	1,278	-

(¥mn)

Note: 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 and results briefing materials

**In FY3/25, the Company has redefined its business domains and executed business structure reforms and profitability improvements**

**2. Themes and basic policies for FY3/25**

In FY3/25, the Company’s basic policy is to increase its corporate value by organizing its existing businesses and promoting new businesses. It is forecasting continued top-line growth above that of FY3/24, and a return to consolidated profitability. It will focus on organic growth in profitable businesses and on improving profitability in the Domestic Business by restructuring, including review of business structures. The Company is forecasting new record high net sales through growth in both the Domestic and Overseas Businesses. To realize a return to profitability in the Domestic Business, the Company has redefined its business domains and will conduct business structure reforms and profitability improvements. In this way, the Company aims to achieve a return to operating profitability and YoY growth of ¥377mn in adjusted EBITDA, with a significant increase in profits.



#### Outlook

##### (1) Business strategy

Through the redefinition of its business domains, the Company will strengthen profitability management of its businesses. In this way, the Company aims to concentrate on areas of high profitability and streamline its businesses. It will also continue with a strategic initiative to promote growth in the data science domain. As part of this initiative, the Company will draw out the full potential of data utilization by establishing a new research institution and firming up the details of its alliance with VLC Holdings. In the Domestic Business, the highest priorities are to return to profit as the parent Company and improve profitability. The Company therefore intends to carry out restructuring of its unprofitable businesses in Japan and make improvements to its business structure. In the Overseas Business, the Company aims to achieve organic profit growth by promoting growth strategies that leverage its existing solid foundation. In New Business, the Company will continue to discuss R&D in the AI server field and operation of AI data centers, centered on its business alliance with Supermicro. Through this alliance, the Company will capture new market opportunities and work to diversify its businesses and strengthen its revenue base. In addition, for other new investment projects, the Company will also make timely investments to promote commercialization.

##### (2) Companywide strategy

As a Companywide strategy, the Company intends to strengthen its holding company functions and governance as the parent company. Considering its Group characteristics of having a large number of consolidated subsidiaries globally, the Company aims to strengthen retention and revise its personnel systems to strengthen its foundation as a Companywide strategy. It will also promote efforts to strengthen corporate branding and increase brand recognition. In particular, the Company aims to increase corporate value by enhancing its performance in non-financial areas such as sustainability. To strengthen corporate governance, the Company aims to further enhance its solid governance system to uphold its responsibilities as a global listed company. In addition, the Company will grow its data science domain through PMI, and enhance its overall competitive advantage. It will also realize improvements in business efficiency and profitability by promoting operational excellence.

##### (3) Redefinition of business domains

In FY3/25, the Company has returned to its strengths in the business domain of “data and AI,” and has redefined its three business domains. In this way, the Company aims to utilize the strengths of each business to the maximum extent and create synergies, while aiming for Companywide growth.

## ■ Medium- to long-term growth strategy

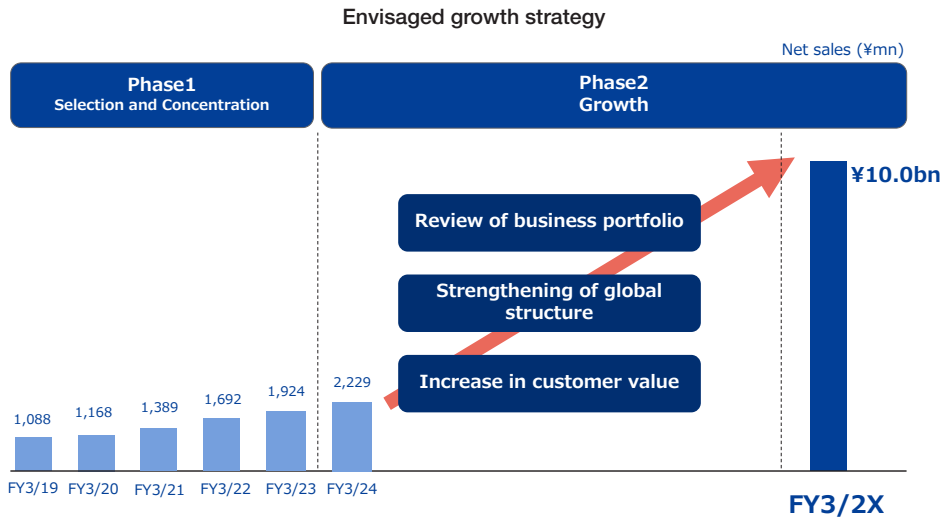
### Aiming to strengthen competitive capabilities by establishing the Advanced AI Data Innovation Institute

#### 1. Growth strategy

The Company transitioned from its selection and concentration phase (from FY3/19 to FY3/23) to the growth 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.

Medium- to long-term growth strategy

In the growth phase from FY3/24, the Company is focusing on three tasks: review the business portfolio, strengthen the global structure, and improve customer value. Through well-balanced investment of resources, the Company aims to continuously grow both domestically and overseas. In addition, by restructuring its business to leverage its strengths, the Company plans to achieve net sales of ¥10.0bn or higher by the late 2020s, in four to five years from now.



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

**2. Progress status**

In FY3/25, in the Domestic Business the Company is urgently proceeding with its own business revitalization as the parent company. Up until now, the Company had not implemented governance and role allocation that ensured the right resources were assigned to the right places, and allocation of personnel with insufficient expertise and reliance on outsourcing had caused cost increases. Going forward, the Company will promote management of labor hours and appropriate product investment in its system integration and market solutions, as well as stabilizing profit and loss for the period and reviewing investment profitability with the aim of reducing costs by ¥60.0mn. In the Overseas Business, the Company has completed its acquisition of a consolidated subsidiary in South America, which has produced a certain level of results. Going forward, by focusing on resources and investments, the Company is expected to increase segment profit.

In FY3/24, the Company decided to enter a basic agreement on a comprehensive business alliance with VLC Holdings, which is designed to strengthen both companies' business foundations and increase their corporate value. This alliance will promote mutual customer traffic, personnel exchanges, and cooperation in the technology field in businesses such as marketing, AI-related, system integration, and security. In addition, the two companies will also examine joint investment in new businesses to strengthen their strategic alliance. The Company plans to carefully examine the impact of progress in the alliance on its business results and provide timely disclosure as necessary. The Company is also eyeing a capital alliance and aims to build further frameworks for collaboration and synergies.

Medium- to long-term growth strategy

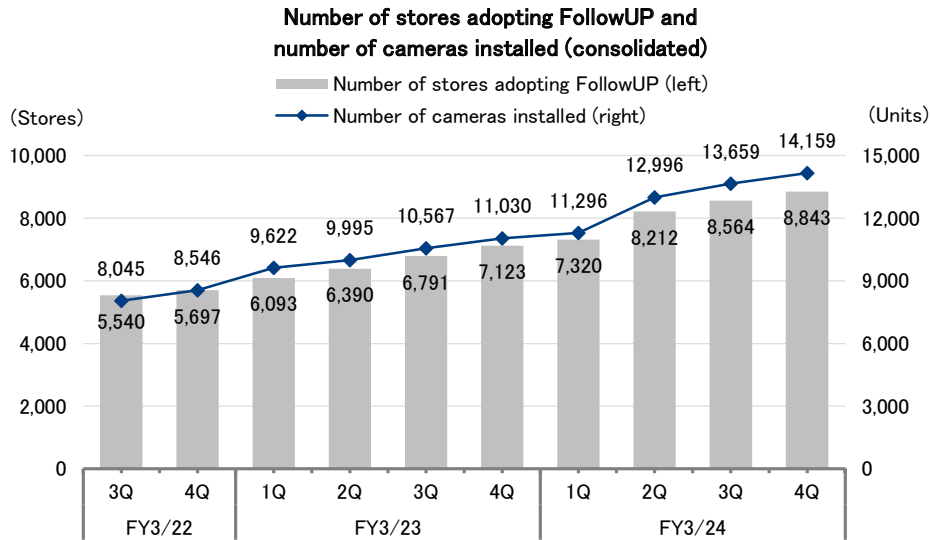
On April 9, 2024, the Company established the Advanced AI Data Innovation Institute (AIDI). The institute aims to conduct advanced technology research in the fields of AI and data, and rapidly return the results to the Group. On April 12, the Company concluded a basic agreement for a business alliance with Supermicro. The purpose of the alliance is to collaborate mainly in the areas of R&D and AI data center operations in the field of AI servers. Specific policies and details will be disclosed as they are decided through discussions going forward. This alliance is expected to have a negligible impact on the Company's consolidated financial results for FY3/25, but it is expected to contribute to increasing the Company's financial results and corporate value over the medium to long term. The two companies aim to leverage their technologies, products, resources, and networks to strengthen their competitive capabilities in the AI server field, which is expected to see expansion in demand. Through these strategic initiatives, the Company aims to achieve further growth and increase its corporate value.

On June 2, 2024, the Company agreed to start discussions with Supermicro, Sharp Corporation <6753> and KDDI Corporation toward building an AI data center. The companies aim to build an AI data center equipped with the latest GB200 NVL72 AI computing platform by NVIDIA <NVDA> on the former site of Sharp's Sakai Plant, and rapidly commence operations.

### 3. KPI progress status

Looking at the Company's progress status in FY3/25, it is achieving a steady YoY increase in net sales. The leading indicators for net sales are the number of stores adopting and the number of cameras installed, and the Company has seen progress in organic growth for both of these, particularly with a contribution from installation at all stores in large shopping malls in the Chilean market. The result of this is that net sales have achieved growth of approximately 30% YoY. Furthermore, with new consolidations in Panama and Spain, the Company has achieved almost full consolidation. The number of stores adopting (total including non-consolidated subsidiaries) was 8,986, while the number of cameras installed (total including non-consolidated subsidiaries) was 14,360. (Based on data as of March 31, 2024 for Japan, and data as of December 31, 2023 for overseas). On a consolidated basis, the number of stores adopting increased 24.1% YoY and the number of cameras installed rose 28.4% YoY. This growth has been realized through the joint effect of expanding the customer base in existing markets and aggressively developing customers in new markets. The Company has achieved marked success in the market of Chile in particular, and similar growth is expected in other South American markets as well. Overall, the Company has captured growth in the formal markets of South America, and sustainably increased its net sales. Increases in the number of stores adopting and the number of cameras installed have supported medium-term sales growth, and are contributing to further market expansion and strengthening of the revenue base. This status of progress shows that the Company is building a solid foundation for realizing its growth strategies going forward.

Medium- to long-term growth strategy



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

#### 4. Sustainability policy

Since its founding, the Company has aimed to achieve sustainable growth and corporate advancement through social implementation of advanced technologies such as big data analysis, AI, and deep learning, based on a foundation of “the fusion of technology with the real world.” This philosophy is founded on a strong awareness of corporate responsibility for global scale issues and a long-term vision for contributing to the lives of people living in the world 100 years from now. Under its Vision that seeks to contribute to people’s lives worldwide in 100 years’ time, the Company aims to realize a sustainable society. Its mission, “Change the Frame,” incorporates a strong determination to continue evolving people’s lives worldwide. The Group is promoting activities in global business fields with the aim of creating a prosperous future in which people coexist with the earth.

Furthermore, the Company is supporting the creation of developmental technologies and the expansion of new businesses in developing countries centered on its South American subsidiaries. In addition, it is promoting cross-border innovation by making operational improvements at public institutions in Chile through cooperation with the Ministry of Internal Affairs and Communications. In these ways, the Company aims to generate sustainable innovation based on global partnerships. It is also striving to prepare working environments that promote diversity through partnerships with Southeast Asian companies. It introduced parental leave for men in 2022, is increasing the number of women employees and aggressively hiring engineers of diverse nationalities, and provides a working environment that is comfortable for people of all ethnicities and cultures.

The Company provides education programs to promote understanding of data science toward a future in which data science forms the core of business. Accordingly, the Company contributes to education of data scientists who are able to participate in any industry, and is investing effort in the development of human resources who can clearly communicate the methods of data utilization and analysis results. With the goal of achieving transparent corporate management, the Company has instituted regular one-on-one meetings and a system for employees attending management meetings. It has also incorporated advice from external experts and is trying to scale its business, while supporting employees’ physical and mental health in coordination with industrial physicians. Through these initiatives, the Company is striving to strengthen its corporate governance.

Medium- to long-term growth strategy

The Company aims to achieve sustainable growth and increase its corporate value by balancing technological innovation with social responsibility. Through global partnerships, diversity promotion, human resource development, and compliance enforcement, the Company is striving to contribute to the future 100 years from now. With this long-term strategy, the Company's future growth is expected.

## ■ Shareholder return policy

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

The Company recognizes that returning profits to shareholders is an important management issue, but it is prioritizing its most important 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 or timing of paying dividends.

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