

Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025 [Japanese GAAP] (Consolidated)

August 14, 2024

Company Name	Datasection Inc.		Stock Exchange Listing:	Tokyo
Ticker Symbol	3905	URL:	https://www.datasection.co.jp	
Representative	(Title) President & CEO	(Name) Norihiko Ishihara		
Contact	(Title) Vice President, CFO & COO	(Name) Shinichi Iwata	TEL:	+81 50-3649-4858
Scheduled Date of Dividend Payment Commencement			-	
Availability of Supplementary Briefing Material on Financial Results			Yes	
Availability of Financial Results Briefing Session			No	

(Amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025 (April 1, 2024 - June 30, 2024)

(1) Consolidated Operating Results (Cumulative) (% represents the year-on-year change rate)

	Net Sales		Operating Profit		Adjusted EBITDA		Ordinary Profit		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q1 FY2025	539	19.7	(91)	-	(22)	-	(84)	-	(93)	-
Q1 FY2024	450	11.1	(71)	-	(13)	-	(64)	-	(81)	-

(Note) 1. Comprehensive Income

- Q1 FY2025: ¥(99) million (-%)
- Q1 FY2024: ¥(78) million (-%)

(Note) 2. We disclose Adjusted EBITDA as an indicator of our cash flow generation capacity in business activities.

Adjusted EBITDA = Operating Profit + Depreciation + Amortization of Intangible Fixed Assets
+ Stock-based Compensation Expenses + M&A-related Expenses

	Basic EPS (Quarterly)	Diluted EPS (Quarterly)
Q1 FY2025	yen (5.45)	yen -
Q1 FY2024	yen (5.53)	yen -

(Note) Diluted earnings per share for Q1 FY2024 and Q1 FY2025 are not presented because a net loss per share was recorded, despite the existence of potential dilutive shares.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
	Millions of yen	Millions of yen	%
Q1 FY2025	4,790	1,885	37.9
FY2024	3,786	1,982	50.6

(Reference) Equity attributable to owners of the parent

- Q1 FY2025: ¥1,813 million
- FY2024: ¥1,914 million

2. Dividend Status

	Annual Dividends				
	Q1 End	Q2 End	Q3 End	Year-End	Total Annual Dividend
	yen	yen	yen	yen	yen
FY2024	-	0.00	-	0.00	0.00
FY2025	-	-	-	-	-
FY2025(Forecast)	-	0.00	-	0.00	0.00

(Note) Presence of revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2025
(April 1, 2024 - March 31, 2025)

(Percentage changes indicate year-on-year increases/decreases)

	Net Sales		Operating Profit		Adjusted EBITDA		Ordinary Profit		Net Income Attributable to Owners of Parent		Basic EPS yen
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	
Full Year	3,312	48.6	342	-	725	1442.6	317	-	217	-	12.26

(Note) 1. Presence of revisions to the most recently announced financial forecast: Yes

(Note) 2. For the calculation of "Basic EPS," the average number of shares during the period is based on the number of issued shares (excluding treasury shares) as of March 31, 2024.

(Notes)

(1) Significant changes in the scope of consolidation during the period: Yes

- New: 1 company (MSS Inc.)
- Excluded: None

(2) Application of special accounting treatments in preparing quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates, and restatements:

- 1) Changes in accounting policies due to revisions to accounting standards: Yes
- 2) Changes in accounting policies other than those in 1): No
- 3) Changes in accounting estimates: No
- 4) Restatements: No

(4) Number of issued shares (common stock):

- 1) Total number of issued shares at the end of the period (including treasury shares):
 - 1Q of FY2025: 17,188,051 shares
 - FY2024: 17,188,051 shares
- 2) Number of treasury shares at the end of the period:
 - 1Q of FY2025: 49,205 shares
 - FY2024: 62,922 shares
- 3) Average number of shares during the period (cumulative quarterly):
 - 1Q of FY2025: 17,136,584 shares
 - 1Q of FY2024: 14,733,562 shares

(Note)1. The quarterly consolidated financial statements attached to this document are subject to review by a certified public accountant or an auditing firm (voluntary).

(Note)2. Explanation regarding the appropriate use of earnings forecasts and other special notes:

Descriptions regarding future projections, such as earnings forecasts, in this document are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly due to various factors. For conditions underlying the earnings forecasts and notes on their use, please refer to "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Forward-Looking Statements, Including Consolidated Earnings Forecasts" on page 7 of the attached documents.

Table of Contents of Attached Documents

1. Qualitative Information on Quarterly Financial Results.....	4
(1) Explanation of Operating Results.....	4
(2) Explanation of Financial Position.....	6
(3) Explanation of Forward-Looking Statements, Including Consolidated Earnings Forecasts.....	7
2. Quarterly Consolidated Financial Statements and Primary Notes.....	8
(1) Quarterly Consolidated Balance Sheet.....	8
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income.....	9
(Quarterly Consolidated Statements of Income).....	9
(For the First Quarter Consolidated Cumulative Period).....	9
(Quarterly Consolidated Statements of Comprehensive Income).....	9
(For the First Quarter Consolidated Cumulative Period).....	9
(3) Notes to Quarterly Consolidated Financial Statements.....	10
(Notes Regarding the Assumption of a Going Concern).....	10
(Notes Regarding Significant Changes in the Amount of Shareholders' Equity).....	10
(Notes Regarding Changes in Accounting Policies).....	10
(Notes on Quarterly Consolidated Statement of Cash Flows).....	10
(Segment Information, etc.).....	10
(Business Combinations, etc.).....	12
(Significant Subsequent Events).....	14

(Interim Review Report)

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The forward-looking statements included in this section are based on judgments as of the end of the first quarter of the current consolidated fiscal period.

During the cumulative first quarter of the current consolidated fiscal year, the Japanese economy experienced moderate recovery, supported by improvements in the employment and income environment. However, uncertainty about the future persists due to factors such as the prolonged conflicts in Ukraine and the Middle East, rising prices, and the sustained high interest rate levels in Western countries.

In the domestic AI business market, investments are expected to increase from FY2023 onward in enhancing application functionalities and developing systems specialized for specific tasks. As applications and systems become more complex to meet user demands, in-house development is anticipated to become more prevalent than outsourcing due to factors such as cost and development speed. Consequently, the market for items related to in-house development, particularly middleware, servers, storage, and IaaS, is expected to see significant growth, with forecasts predicting a market size of 1.9787 trillion yen by FY2027, a 1.7 times increase compared to FY2021 (Fuji Chimera Research Institute, Inc., "2022 Comprehensive Survey of Artificial Intelligence Business").

The South American smart retail device market is projected to grow from USD 1.8322 billion in 2019 to USD 2.6692 billion by 2027, with an estimated CAGR of 5.3% from 2020 to 2027. This market is segmented into Brazil, Argentina, and other regions of South America. Some of these regions face complex macroeconomic and political environments, leading to various growth scenarios. Developing countries such as Brazil, Argentina, Chile, and Peru are making significant investments in infrastructure and the retail sector. Moreover, many retailers in these regions are beginning digital transformations to enhance competitiveness and adapt to changing conditions. Colombia and Brazil are rapidly advancing in digital innovation, while Chile is ranked as the most outstanding country in terms of digitalization and innovation. This digital transformation is expected to create new opportunities in the smart retail device market across the region. The demand for smart retail devices is also anticipated to increase due to urbanization and the growth of various shopping complexes and recreation centers in the region (Business Market Insights, "South America Smart Retail Devices Market Research Report").

In Japan's retail technology market (including payment terminals, self-service terminals, next-generation facilities, and next-generation operations), investments in contactless solutions and systems enabling operations with minimal staff, such as fully self-service checkouts and remote customer service systems, increased to maintain business operations during the COVID-19 pandemic. There has been growth in items related to visualizing consumer attributes and in-store behavior, which were previously difficult to digitize, as well as in the utilization of such data. Going forward, next-generation solutions such as cashierless payment systems and smart entrances are expected to grow, along with items related to optimizing the entire supply chain, such as RFID solutions and demand forecasting systems. The market is projected to reach 555.3 billion yen by 2030, a 2.2 times increase compared to 2021 (FUJI KEIZAI CO., LTD., "2022 Edition: Current Status and Future Outlook of the Next-Generation Store & Retail Tech Market").

In the distribution and retail industry related to digital transformation, fully self-service checkouts are being introduced to address labor shortages in physical stores and enhance customer shopping experiences. Additionally, supermarkets and hypermarkets are increasingly adopting shopping carts equipped with tablet devices, and growth in unmanned store solutions is also anticipated. To enhance shopping experiences, retailers, systems integrators, and advertising companies are advancing the use of AR/VR technologies. In digital operations, the adoption of automatic ordering systems is expanding, particularly in food and general supermarkets, with expected adoption in supply chain management (SCM) by wholesale businesses. Demand forecasting systems are also being increasingly implemented by major national retailers, driven by needs such as reducing food waste and complying with SDGs. The market for these systems is projected to reach 185.2 billion yen by FY2030, a 3.6 times increase compared to FY2021 (Fuji Chimera Research Institute, Inc., "2023 Future Outlook of the Digital Transformation Market: Market Edition and Vendor Strategy Edition").

Under these circumstances, the operating results for the cumulative first quarter of the current consolidated fiscal year are as follows:

(Net Sales)

Net sales for the cumulative first quarter of the current consolidated fiscal year were ¥539 million, an increase of 19.7% compared to the same quarter of the previous fiscal year. This was primarily due to the contribution of the data science business in the Company and steady growth in orders from major overseas subsidiaries, resulting in increased net sales both domestically and internationally.

(Cost of Sales)

The cost of sales for the cumulative first quarter of the current consolidated fiscal year was ¥312 million, a decrease of 3.2% compared to the same quarter of the previous fiscal year. The main components of the cost of sales are personnel expenses of ¥139 million, outsourcing expenses of ¥102 million, depreciation expenses of ¥40 million, and server usage fees of ¥12 million.

(Selling, General and Administrative Expenses)

Selling, general and administrative expenses for the cumulative first quarter of the current consolidated fiscal year were ¥318 million, an increase of 59.9% compared to the same quarter of the previous fiscal year. The main components are personnel expenses of ¥187 million, outsourcing expenses of ¥39 million, payment of commissions of ¥16 million, rent expenses of ¥12 million, amortization of goodwill and customer-related assets of ¥9 million, taxes and public dues of ¥9 million, and audit fees of ¥6 million.

(Non-operating Profit and Loss)

We recorded ¥7 million in foreign exchange gains and ¥2 million in interest expenses.

(Extraordinary Profit)

We recorded ¥6 million in gain on debt settlement.

(Corporate Taxes, etc.)

Based on an estimate of future taxable income and a review of the recoverability of deferred tax assets, we recorded a tax adjustment amount of ¥7 million, resulting in a total corporate tax expense of ¥14 million.

As a result, net sales amounted to ¥539 million (an increase of 19.7% year-on-year). However, due to restructuring costs incurred by the company on a standalone basis and factors such as software development at overseas subsidiaries, an operating loss of ¥91 million was recorded (compared to an operating loss of ¥71 million in the same quarter of the previous fiscal year). Adjusted EBITDA stood at ¥(22) million (compared to ¥(13) million in the same quarter of the previous fiscal year).

Additionally, non-operating income included ¥7 million in foreign exchange gains, resulting in an ordinary loss of ¥84 million (compared to an ordinary loss of ¥64 million in the same quarter of the previous fiscal year). After recording an extraordinary income of ¥6 million as a gain on debt settlement and total corporate taxes of ¥14 million, the net loss attributable to owners of the parent was ¥93 million (compared to a net loss attributable to owners of the parent of ¥81 million in the same quarter of the previous fiscal year).

$$\begin{aligned} \text{Adjusted EBITDA} &= \text{Operating profit} + \text{Depreciation} + \text{Amortization of intangible assets} \\ &\quad + \text{Stock-based compensation expenses} + \text{M\&A-related expenses} \end{aligned}$$

The segment operating results for the cumulative first quarter of the current consolidated fiscal year are as follows:

i. Japan Segment

In the Japan segment, we operate in the Data Science domain, System Integration domain, and Marketing Solutions domain.

In the Data Science domain, leveraging our strengths in data utilization and AI development for major clients, we support corporate data-driven management and DX (Digital Transformation) promotion through consulting on data utilization, IT education, and other solutions.

In the System Integration domain, we independently develop custom solutions for clients by utilizing our expertise in big data analytics and AI technologies (text, image, and audio processing). Our consolidated subsidiary, d-ss.inc. (hereinafter referred to as "DSS"), provides services such as payment services (prepaid card services for

businesses, "Biz Prepaid Card" [<https://bizpreca.jp/>]), SES services (system engineering services for financial institutions including card companies, payment companies, and securities companies), financial system development focusing on card companies, MSP services (cloud system construction, operation, and maintenance services centered on AWS), and security services (consulting on PCI DSS and security diagnostics).

In the Marketing Solutions domain, we offer the stock-based service "FollowUP," which helps improve store performance by analyzing image and video data captured by AI cameras installed in retail stores in conjunction with POS data. Additionally, we provide stock-based services such as the social media analytics tools "Insight Intelligence" and "Insight Intelligence Q." Our consolidated subsidiary, solid intelligence Inc. (hereinafter referred to as "SI"), offers consulting services in multilingual social media analytics.

During the cumulative first quarter of the current consolidated fiscal year, net sales in the Data Science domain increased significantly, as this business consists of operations acquired in September 2023.

In the System Integration domain, net sales increased compared to the same quarter of the previous fiscal year, supported by steady orders at DSS, a consolidated subsidiary.

In the Marketing Solutions domain, net sales increased compared to the same quarter of the previous fiscal year, driven by growth in orders for our "FollowUP" service.

As a result, net sales to external customers in the Japan segment for the cumulative first quarter of the current consolidated fiscal year increased to ¥306 million (up 23.1% year-on-year), while the segment recorded a loss of ¥34 million (compared to a segment loss of ¥36 million in the same quarter of the previous fiscal year).

ii. Overseas Segment

In the Overseas segment, we focus on the global expansion of the "FollowUP" service within the Marketing Solutions domain.

During the cumulative first quarter of the current consolidated fiscal year, the Overseas segment achieved an increase in net sales compared to the same quarter of the previous fiscal year. This was driven by steady growth in orders from key locations such as Chile and Colombia, as well as the impact of an increase in consolidated subsidiaries during the previous fiscal year.

As a result, net sales to external customers in the Overseas segment for the cumulative first quarter of the current consolidated fiscal year were ¥233 million (an increase of 15.5% year-on-year), while the segment recorded a profit of ¥45 million (a decrease of 9.1% year-on-year).

(2) Explanation of Financial Position

(Assets)

Total assets at the end of the cumulative first quarter of the current consolidated fiscal year were ¥4,790 million, an increase of ¥1,004 million (26.5% increase compared to the end of the previous fiscal year). This increase was primarily due to an increase in goodwill by ¥1,230 million, offset by a decrease in cash and deposits by ¥258 million.

(Liabilities)

Total liabilities at the end of the cumulative first quarter of the current consolidated fiscal year were ¥2,904 million, an increase of ¥1,101 million (61.1% increase compared to the end of the previous fiscal year). This increase was primarily due to an increase in accounts payable by ¥1,295 million, offset by a decrease in short-term borrowings by ¥166 million.

(Net Assets)

Net assets at the end of the cumulative first quarter of the current consolidated fiscal year were ¥1,885 million, a decrease of ¥96 million (4.9% decrease compared to the end of the previous fiscal year). This decrease was primarily due to a ¥93 million decrease in retained earnings.

(3) Explanation of Forward-Looking Statements, Including Consolidated Earnings Forecasts

The earnings forecast for the fiscal year ending March 31, 2025, has been revised based on recent performance trends.

For further details, please refer to the "Notice Regarding Revision (Upward) of Full-Year Consolidated Earnings Forecast" disclosed today (August 14, 2024).

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: 1,000 yen)

	Previous Consolidated Fiscal Year (March 31, 2024)	Current Consolidated First Quarter (June 30, 2024)
Assets		
Current Assets		
Cash and Deposits	1,690,432	1,431,670
Notes Receivable, Accounts Receivable, and Contract Assets	646,601	611,583
Products	62,462	94,596
Income Taxes Receivable	70,958	84,609
Other	65,912	65,973
Total Current Assets	2,536,366	2,288,434
Non-Current Assets		
Property, Plant and Equipment	383,698	354,488
Intangible Assets		
Goodwill	174,048	1,404,565
Software	450,731	452,140
Other	20,095	18,920
Total Intangible Assets	644,875	1,875,626
Investments and Other Assets	221,307	272,161
Total Non-Current Assets	1,249,882	2,502,276
Total Assets	3,786,248	4,790,710
Liabilities		
Current Liabilities		
Short-Term Debt	600,000	433,364
Long-Term Debt Due Within One Year	258,276	246,886
Accounts Payable	205,421	1,501,105
Accrued Expenses	87,621	93,519
Corporate Taxes Payable	94,270	80,306
Consumption Tax Payable	22,688	12,704
Provision for Bonuses	19,159	6,100
Other	31,683	24,026
Total Current Liabilities	1,319,121	2,398,014
Non-Current Liabilities		
Long-Term Debt	379,830	365,079
Retirement Benefit Liabilities	-	33,540
Asset Retirement Obligations	11,807	11,807
Deferred Tax Liabilities	2,551	3,055
Other	90,313	93,379
Total Non-Current Liabilities	484,502	506,863
Total Liabilities	1,803,624	2,904,877
Net Assets		
Shareholders' Equity		
Capital	1,868,479	1,868,479
Capital Surplus	1,577,970	1,577,970
Retained Earnings	(1,541,545)	(1,634,941)
Treasury Stock	(3)	(3)
Total Shareholders' Equity	1,904,900	1,811,504
Accumulated Other Comprehensive Income		
Valuation Difference on Securities	5,876	7,018
Currency Translation Adjustment Account	3,404	(5,001)
Total Accumulated Other Comprehensive Income	9,281	2,017
Stock Acquisition Rights	39,237	44,398
Non-Controlling Interests	29,206	27,913
Total Net Assets	1,982,624	1,885,833
Total Liabilities and Net Assets	3,786,248	4,790,710

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the First Quarter Consolidated Cumulative Period)

(Unit: 1,000 yen)

	Previous First Quarter Consolidated Cumulative Period (April 1, 2023 - June 30, 2023)	Current First Quarter Consolidated Cumulative Period (April 1, 2024 - June 30, 2024)
Sales	450,437	539,125
Cost of Sales	322,756	312,479
Gross Profit	127,680	226,646
Selling, General and Administrative Expenses	199,149	318,347
Operating Loss	(71,468)	(91,701)
Non-Operating Revenue		
Interest Received	353	508
Foreign Exchange Gains	15,893	7,296
Other	605	1,489
Total Non-Operating Revenue	16,851	9,294
Non-Operating Expenses		
Interest Expense	9,821	2,457
Other	506	18
Total Non-Operating Expenses	10,327	2,476
Ordinary Loss	(64,944)	(84,882)
Extraordinary Income		
Debt Reconciliation Gain	-	6,024
Total Extraordinary Income	-	6,024
Net Loss Before Income Taxes	(64,944)	(78,858)
Income Taxes, Inhabitant Taxes, and Business Taxes	11,004	7,281
Adjustments for Income Taxes	5,805	7,534
Total Income Taxes	16,809	14,815
Quarterly Net Loss	(81,754)	(93,674)
Net Loss Attributable to Non-Controlling Interests	(239)	(277)
Net Loss Attributable to Owners of Parent	(81,515)	(93,396)

(Quarterly Consolidated Statements of Comprehensive Income)
(For the First Quarter Consolidated Cumulative Period)

(Unit: 1,000 yen)

	Previous First Quarter Consolidated Cumulative Period (April 1, 2023 - June 30, 2023)	Current First Quarter Consolidated Cumulative Period (April 1, 2024 - June 30, 2024)
Net Loss	(81,754)	(93,674)
Other Comprehensive Income		
Valuation Difference on Available-for-Sale Securities	1,354	1,142
Currency Translation Adjustment Account	1,963	(7,213)
Total Other Comprehensive Income	3,318	(6,071)
Quarterly Comprehensive Income	(78,436)	(99,745)
(Breakdown)		
Quarterly Comprehensive Income Attributable to Owners of Parent	(78,049)	(100,659)
Quarterly Comprehensive Income Attributable to Non-Controlling Interests	(386)	914

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding the Assumption of a Going Concern)

There are no applicable matters.

(Notes Regarding Significant Changes in the Amount of Shareholders' Equity)

There are no applicable matters.

(Notes Regarding Changes in Accounting Policies)

The "Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, issued on October 28, 2022, hereinafter referred to as the "2022 Revised Accounting Standard"), among other standards, has been applied from the beginning of the first quarter of the consolidated accounting period.

Regarding amendments to the classification of income taxes (taxation on other comprehensive income), transitional measures stipulated in Paragraph 20-3 proviso of the 2022 Revised Accounting Standard and Paragraph 65-2 (2) proviso of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, issued on October 28, 2022, hereinafter referred to as the "2022 Revised Implementation Guidance") have been followed.

There is no impact on the quarterly consolidated financial statements due to these changes in accounting policies. Furthermore, amendments related to the treatment in consolidated financial statements of gains or losses from the sale of shares of subsidiaries, etc., deferred for tax purposes within the group companies, have also been applied from the beginning of the first quarter of the consolidated accounting period, following the 2022 Revised Implementation Guidance.

These changes in accounting policies have been retrospectively applied, and the quarterly consolidated financial statements and consolidated financial statements for the previous quarter and the prior fiscal year have been retrospectively adjusted. However, there is no impact on the quarterly consolidated financial statements for the previous quarter or the consolidated financial statements for the prior fiscal year due to these changes in accounting policies.

(Notes on Quarterly Consolidated Statement of Cash Flows)

The quarterly consolidated statement of cash flows for the first quarter of the fiscal year has not been prepared. However, depreciation (including amortization of intangible fixed assets) and amortization of goodwill for the first quarter of the fiscal year are as follows:

	(Unit: 1,000 yen)	
	Previous First Quarter Consolidated Cumulative Period (April 1, 2023 - June 30, 2023)	Current First Quarter Consolidated Cumulative Period (April 1, 2024 - June 30, 2024)
Depreciation and amortization	31,963	43,027
Amortization of goodwill	12,403	8,596

(Segment Information, etc.)

[Segment Information]

(Matters Related to Changes in Reporting Segments)

Starting from the second quarter of the previous consolidated fiscal period, we have revised our reporting segments from the previous two classifications, "Retail Marketing" and "Data Analytics Solutions," to two new classifications: "Japan Segment" and "Overseas Segment." The segment information for the first quarter of the previous consolidated cumulative period has been disclosed based on the new reporting segment classifications.

Previously, our business operations were divided into the two segments of "Retail Marketing" and "Data Analytics Solutions." However, from a management approach perspective, we reviewed and enhanced our management and performance evaluation systems. Additionally, considering future business development, including balanced investments in both domestic and overseas markets to drive growth, we determined that it would be more rational to adopt a segmentation based on "Japan Segment," primarily targeting the domestic market, and "Overseas Segment," primarily targeting international markets.

We believe that this change will enable us to provide more accurate disclosure regarding our group's unique business model, which includes several consolidated subsidiaries in South America and operations in more than 20 countries globally, as well as progress in our business activities.

I. Previous First Quarter Consolidated Cumulative Period (From April 1, 2023, to June 30, 2023)

1) Information on Net Sales and Profit or Loss by Reporting Segment and Breakdown of Revenue

(Unit: 1,000 yen)

	Reporting Segment			Adjustments (Note 1)	Amounts Recorded in Consolidated Financial Statements (Note 2)
	Japan Segment	Overseas Segment	Total		
Net Sales					
Goods or Services Transferred at a Specific Point in Time	105,472	20,535	126,008	-	126,008
Goods or Services Transferred Continuously Over Time	143,209	181,219	324,429	-	324,429
Revenue Recognized from Contracts with Customers	248,682	201,755	450,437	-	450,437
Other Revenues	-	-	-	-	-
Sales to External Customers	248,682	201,755	450,437	-	450,437
Inter-Segment Sales or Internal Transfers	-	-	-	-	-
Total	248,682	201,755	450,437	-	450,437
Segment Profit or Loss	(36,602)	50,488	13,885	(85,354)	(71,468)

(Note 1) The adjustment amount of (85,354) thousand yen for segment profit or loss represents corporate expenses that are not allocated to each reporting segment.

(Note 2) Segment profit or loss is reconciled with operating loss in the quarterly consolidated statement of income.

II. Current First Quarter Consolidated Cumulative Period (From April 1, 2024, to June 30, 2024)

1) Information on Net Sales and Profit or Loss by Reporting Segment and Breakdown of Revenue

(Unit: 1,000 yen)

	Reporting Segment			Adjustments (Note 1)	Amounts Recorded in Consolidated Financial Statements (Note 2)
	Japan Segment	Overseas Segment	Total		
Net Sales					
Goods or Services Transferred at a Specific Point in Time	140,872	15,096	155,968	-	155,968
Goods or Services Transferred Continuously Over Time	165,204	217,952	383,157	-	383,157
Revenue Recognized from Contracts with Customers	306,076	233,049	539,125	-	539,125
Other Revenues	-	-	-	-	-
Sales to External Customers	306,076	233,049	539,125	-	539,125
Inter-Segment Sales or Internal Transfers	-	-	-	-	-
Total	306,076	233,049	539,125	-	539,125
Segment Profit or Loss	(34,151)	45,880	11,729	(103,430)	(91,701)

(Note 1) The adjustment amount of (103,430) thousand yen for segment profit or loss represents corporate expenses that are not allocated to each reporting segment.

(Note 2) Segment profit or loss is reconciled with operating loss in the quarterly consolidated statement of income.

2) Information on Assets by Reporting Segment

The amount of assets for the current first quarter consolidated accounting period increased by 1,004,461 thousand yen compared to the end of the previous consolidated fiscal year. This was primarily due to the acquisition of shares of MSS Inc., which has been newly included in the scope of consolidation. MSS Inc. is classified under the Japan Segment.

3) Information on Impairment Losses of Fixed Assets or Goodwill by Reporting Segment (Significant Changes in the Amount of Goodwill)

In the Japan Segment, goodwill was recognized due to the inclusion of MSS Inc. as a consolidated subsidiary

starting from the current first quarter consolidated accounting period. The goodwill recognized from this event amounted to 1,242,173 thousand yen in the current first quarter consolidated cumulative period.

(Business Combinations, etc.)

[Acquisition of Shares and Wholly-Owned Subsidiary through Share Exchange]

At a meeting of the Board of Directors held on June 3, 2024, the Company resolved to acquire a portion of the issued shares of MSS Inc. (hereinafter referred to as "MSS") (hereinafter referred to as "the Share Acquisition") and subsequently implement a share exchange to make the Company the wholly-owning parent company through share exchange and MSS the wholly-owned subsidiary through share exchange (hereinafter referred to as "the Share Exchange"). On the same date, June 3, 2024, the Company entered into a share transfer agreement and a share exchange agreement. The Share Exchange was executed on July 1, 2024, and MSS became a wholly-owned subsidiary of the Company.

I. Overview of the Business Combination

1) Name of the Acquired Company and Description of Its Business

Name of the Acquired Company	MSS Inc.
Description of Business	Marketing research and sales promotion services

2) Main Reasons for the Business Combination

The Company has been developing a system integration business that promotes customer business improvements by advancing various elemental technologies, such as AI-based image analysis, from the basic research stage in addition to big data analysis. The Company has also been expanding its marketing solutions domain, which supports customers' digital marketing and DX (digital transformation). In recent years, the Company has actively restructured its business portfolio through an M&A strategy, deploying its AI-based image analysis products in over 20 countries globally. Furthermore, in September 2023, the Company acquired a business in the data science and AI field, aiming to realize "The integration of technology and society" and create new corporate value.

As disclosed in the "Announcement of Basic Agreement on Comprehensive Business Alliance with VLC Holdings Co., Ltd." on February 14, 2024, the Company has been exploring specific partnerships with VLC Holdings Co., Ltd., the parent company of MSS, to leverage the strengths and resources of both groups in areas where business synergies can be realized. The Company has now determined that significant synergies exist between MSS's core businesses of marketing research and sales promotion and the Company's marketing solutions domain, which specializes in data analysis, AI, and digital marketing support, including SNS business. The Company believes that making MSS a wholly owned subsidiary will further enhance its corporate value.

Furthermore, we will continue to strengthen our strategic partnership with VHD in a broad range of business domains, including AI and security-related businesses.

3) Date of Business Combination

July 1, 2024 (Deemed acquisition date: June 30, 2024)

4) Legal Structure of the Business Combination

A share exchange in which the Company becomes the wholly-owning parent company through share exchange and the acquired company becomes the wholly-owned subsidiary through share exchange.

5) Name of the Combined Entity

There is no change in the name of the combined entity.

6) Voting Rights Ratio Acquired

Voting rights ratio acquired on the date of the business combination	100%
(Breakdown)	
Voting rights ratio acquired through share transfer	37.5%
Voting rights ratio acquired through share exchange	62.5%

7) Primary Basis for Determining the Acquiring Company

The Company has been determined to be the acquiring company because it acquired MSS Inc. as a wholly owned subsidiary through a combination of share transfer for cash consideration and share exchange.

II. Period of the Acquired Company's Performance Included in the Quarterly Consolidated Financial Statements

As the deemed acquisition date for the acquired company is June 30, 2024, only the balance sheet has been consolidated in the current first quarter consolidated accounting period. Therefore, the performance of the acquired company is not included in the quarterly consolidated statement of income for the current first quarter consolidated cumulative period.

III. Acquisition Cost of the Acquired Company and Breakdown by Type of Consideration

Consideration for share acquisition through cash	300,000 thousand yen
Consideration for acquisition through share exchange	958,415 thousand yen
Total acquisition cost	1,258,415 thousand yen

IV. Share Exchange Ratio by Type of Share, Calculation Method, and Number of Shares Issued

1) Share Exchange Ratio by Type of Share

Type of Share	Common Stock (the Company and MSS Inc.)	
	the Company	MSS Inc.
Share Exchange Ratio	1	4,120

For each share of MSS Inc.'s common stock, 4,120 shares of the Company's common stock were allocated and issued. The shares allocated were newly issued common stock.

2) Method for Calculating the Share Exchange Ratio

An independent third-party valuation firm, BDO Sanyu & Co., was engaged to calculate the share exchange ratio for this share exchange.

For the Company's stock, as the Company is listed on the Tokyo Stock Exchange Growth Market and has a market price, the valuation was based on the market price. Specifically, the trading day immediately prior to the execution date of the share exchange agreement was set as the valuation base date. Regarding the observation period for the stock price used in the valuation, considering that short-term price fluctuations may easily affect the valuation, and based on the agreement with MSS as of May 30, 2024, the six-month average closing price of the Company's stock on the Tokyo Stock Exchange Growth Market prior to the valuation base date was used. This average price was ¥970 (rounded up to the nearest tenth of a yen). The Company's stock closing price as of May 31, 2024, was ¥1,578. This valuation approach was unanimously approved by all directors present at the Board of Directors meeting.

In contrast, for MSS Inc., as an unlisted company with no market price and whose stock value is primarily derived from its future earnings potential, the discounted cash flow (DCF) method was applied to reflect the evaluation of its future business performance and activities.

3) Number of Shares Issued

515,000 shares

V. Details and Amounts of Major Acquisition-Related Costs

Fees and commissions for advisory services, etc.: ¥8,998 thousand

VI. Amount of Goodwill Recognized, Cause of Recognition, Amortization Method, and Amortization Period

1) Amount of Goodwill Recognized

¥1,242,173 thousand

2) Cause of Recognition

Primarily attributable to the excess earning capacity expected from future business development.

3) Amortization Method and Amortization Period

As of now, they have not been determined.

**(Significant Subsequent Events)
(Establishment of a Subsidiary)**

At the Board of Directors meeting held on August 7, 2024, we resolved to establish a subsidiary as described below.

I. Purpose of Establishing the Subsidiary

As disclosed in the "Notice of Basic Agreement Among Four Companies for the Construction of an AI Data Center" dated June 3, 2024, the Company has been advancing the commercialization of new businesses such as AI data centers and the restructuring of the business portfolio in our existing businesses. Following financial restructuring during the fiscal year ended March 31, 2024, we are shifting toward a growth phase with a strong sense of urgency.

To this end, at the Board of Directors meeting held on June 27, 2024, we transitioned to a new management structure led by Representative Director, President, and CEO Norihiko Ishihara, who is overseeing our new business initiatives. Additionally, we have already begun efforts to operate AI data centers, manage AI cloud services, and establish the "AI Infrastructure Global Investment Fund," which are key components of our new strategic initiatives.

To further accelerate the growth of these new businesses while enhancing synergies across our group businesses, we have decided to establish a subsidiary dedicated to these endeavors.

II. Overview of the Subsidiary

(1)	Name	DSAI Inc. (Tentative Name)	
(2)	Location	Gotanda PLACE 8F, 1-3-8 Nishigotanda, Shinagawa-ku, Tokyo, Japan	
(3)	Title and Name of Representative	Representative Director: Norihiko Ishihara	
(4)	Business Description	Business related to the operation of AI data centers and AI cloud services <ul style="list-style-type: none">● Development and provision of AI Cloud Services● Construction and operation of AI Data Centers● AI Global Infrastructure Investment Fund● Sales of GPUs	
(5)	Capital	JPY 100 million (planned)	
(6)	Date of Establishment	August 31, 2024 (planned)	
(7)	Major Shareholders and Ownership Ratio	100% owned by the Company	
(8)	Relationship between the Listed Company and the Subsidiary	Capital Relationship	A wholly owned subsidiary of our company.
		Personnel Relationship	Norihiko Ishihara, Representative Director, President, and CEO of the Company, will concurrently serve as the Representative Director of the subsidiary. Additionally, directors of the Company are expected to assume directorship positions at the subsidiary.
		Business Relationship	The Company plans to provide the subsidiary with approximately JPY 700 million in funding as a business loan.

(Establishment of the Fund)

The Company decided on July 4, 2024, to establish the "DS AI Infrastructure Global Investment Fund" (tentative name, hereinafter referred to as "the Fund") as one of the pillars of its new business strategy under the new management structure approved at the Annual General Meeting of Shareholders held on June 27, 2024. Details of the Fund were resolved at the Board of Directors meeting held on August 7, 2024.

I. Background and Purpose of Establishment

The Company has traditionally provided analysis services based on text analytics and AI development technology using big data. Recently, it announced the launch of new businesses involving the operation of AI data centers and AI cloud services.

The Company possesses comprehensive technological expertise and management capabilities in the AI industry, as well as a robust global network of upstream and downstream partnerships to address geopolitical needs. Leveraging these strengths, it aims to solve the current global shortage of GPUs and stimulate business activities through the utilization of AI.

In addition to Japan and Asia, the Company has positioned the European region as a strategic area for AI data centers and AI cloud services. Beginning with the construction of Asia's largest next-generation AI data center, currently under preparation in Sakai, Osaka, it plans to expand efforts to build state-of-the-art AI data centers and operate AI cloud services in Europe and other global markets.

By establishing the Fund, the Company will accelerate the execution of its new global strategies.

II. Overview of the Fund

(1)	Name	DSAI Infrastructure Global Investment Fund	
(2)	Location	Registered in the Cayman Islands	
(3)	Purpose of Formation	Investment in AI data centers globally (the fund will hold shares in companies operating AI data centers)	
(4)	Formation Date	Targeted within 2024	
(5)	Fund Size	Target of USD 2 billion	
(6)	Overview of the General Partner (GP)	Name	DS AI Investment (Tentative Name)
		GP	<ul style="list-style-type: none">• Datasection Inc.• European banks are considering joining the operation as a joint GP
		Investment Team	<ul style="list-style-type: none">• Pablo Casado Branco (Chairman of the Company)• Norihiko Ishihara (President and CEO of the Company)• Haoyu Wang (Global CFO, Global Strategy Division of the Company)• Matias Jurado Alvarez and others
		Advisory Board	<ul style="list-style-type: none">• HE Anders Fogh Rasmussen (Former Secretary General of NATO, Former Prime Minister of Denmark) and others
		GP Contribution	1.0% of the total fund size (Capital call basis)*
		GP Compensation	<ul style="list-style-type: none">• 2.0% of the total fund size (annual rate)• 20% carried interest (with an 8% hurdle rate)
(7)	Limited Partners (LPs)	Primarily European banks and partner companies collaborating in AI data centers are expected to contribute.	

* Capital Call Basis: A mechanism where committed funds are provided incrementally based on the progress of fund investments.

III. Schedule for the Fund Establishment (Planned)

July 4, 2024 (Thursday)	Decision to establish the Fund
October 1, 2024 (Tuesday)	Establishment of the GP entity (DS AI Investment)
Within 2024	Establishment of the Fund

IV. Future Outlook

Regarding the impact of the Fund's operation on the Company's performance, the Company Group will receive a portion of the GP compensation. Taking into account the profit-sharing arrangement with the co-GP, the Company Group is expected to receive 50% to 80% of the GP compensation, which amounts to 2% of the total fund size. However, details are undecided at this stage.

Once the timing of the Fund's establishment, the final amount, and other details are confirmed, the impact on the current fiscal year's earnings forecast will be reflected accordingly.

(Reference to Auditor's Review Report)

The original Japanese version of this financial report includes an Independent Auditor's Quarterly Review Report on the Consolidated Financial Statements, issued by Amaterasu Limited Audit Company. For reference, the original review report in Japanese is attached to this document.

独立監査人の四半期連結財務諸表に対する期中レビュー報告書

2024年8月14日

データセクション株式会社

取締役会 御中

Amaterasu有限責任監査法人

東京都渋谷区

指定有限責任社員
業務執行社員 公認会計士 三島 圭史

指定有限責任社員
業務執行社員 公認会計士 福留 聡

監査人の結論

当監査法人は、四半期決算短信の「添付資料」に掲げられているデータセクション株式会社の2024年4月1日から2025年3月31日までの連結会計年度の第1四半期連結会計期間（2024年4月1日から2024年6月30日まで）及び第1四半期連結累計期間（2024年4月1日から2024年6月30日まで）に係る四半期連結財務諸表、すなわち、四半期連結貸借対照表、四半期連結損益計算書、四半期連結包括利益計算書及び注記について期中レビューを行った。

当監査法人が実施した期中レビューにおいて、上記の四半期連結財務諸表が、株式会社東京証券取引所の四半期財務諸表等の作成基準第4条第1項及び我が国において一般に公正妥当と認められる四半期財務諸表に関する会計基準（ただし、四半期財務諸表等の作成基準第4条第2項に定める記載の省略が適用されている。）に準拠して作成されていないと信じさせる事項が全ての重要な点において認められなかった。

監査人の結論の根拠

当監査法人は、我が国において一般に公正妥当と認められる期中レビューの基準に準拠して期中レビューを行った。期中レビューの基準における当監査法人の責任は、「四半期連結財務諸表の期中レビューにおける監査人の責任」に記載されている。当監査法人は、我が国における職業倫理に関する規定に従って、会社及び連結子会社から独立しており、また、監査人としてのその他の倫理上の責任を果たしている。当監査法人は、結論の表明の基礎となる証拠を入手したと判断している。

その他の事項

会社の2024年3月31日をもって終了した前連結会計年度の第1四半期連結会計期間に係る四半期連結財務諸表及び前連結会計年度の連結財務諸表は、それぞれ、前任監査人によって期中レビュー及び監査が実施されている。前任監査人は、当該四半期連結財務諸表に対して2023年8月10日付けで無限定の結論を表明しており、また、当該連結財務諸表に対して2024年6月26日付けで無限定適正意見を表明している。

四半期連結財務諸表に対する経営者並びに監査役及び監査役会の責任

経営者の責任は、株式会社東京証券取引所の四半期財務諸表等の作成基準第4条第1項及び我が国において一般に公正妥当と認められる四半期財務諸表に関する会計基準（ただし、四半期財務諸表等の作成基準第4条第2項に定める記載の省略が適用されている。）に準拠して四半期連結財務諸表を作成することにある。これには、不正又は誤謬による重要な虚偽表示のない四半期連結財務諸表を作成するために経営者が必要と判断した内部統制を整備及び運用することが含まれる。

四半期連結財務諸表を作成するに当たり、経営者は、継続企業の前提に基づき四半期連結財務諸表を作成することが適切であるかどうかを評価し、株式会社東京証券取引所の四半期財務諸表等の作成基準第4条第1項及び我が国において一般に公正妥当と認められる四半期財務諸表に関する会計基準（ただし、四半期財務諸表等の作成基準第4条第2項に定める記載の省略が適用されている。）に基づいて継続企業に関する事項を開示する必要がある場合には当該事項を開示する責任がある。

監査役及び監査役会の責任は、財務報告プロセスの整備及び運用における取締役の職務の執行を監視することにある。

四半期連結財務諸表の期中レビューにおける監査人の責任

監査人の責任は、監査人が実施した期中レビューに基づいて、期中レビュー報告書において独立の立場から四半期連結

財務諸表に対する結論を表明することにある。

監査人は、我が国において一般に公正妥当と認められる期中レビューの基準に従って、期中レビューの過程を通じて、職業的専門家としての判断を行い、職業的懐疑心を保持して以下を実施する。

- ・ 主として経営者、財務及び会計に関する事項に責任を有する者等に対する質問、分析的手続その他の期中レビュー手続を実施する。期中レビュー手続は、我が国において一般に公正妥当と認められる監査の基準に準拠して実施される年度の財務諸表の監査に比べて限定された手続である。
- ・ 継続企業の前提に関する事項について、重要な疑義を生じさせるような事象又は状況に関して重要な不確実性が認められると判断した場合には、入手した証拠に基づき、四半期連結財務諸表において、株式会社東京証券取引所の四半期財務諸表等の作成基準第4条第1項及び我が国において一般に公正妥当と認められる四半期財務諸表に関する会計基準（ただし、四半期財務諸表等の作成基準第4条第2項に定める記載の省略が適用されている。）に準拠して作成されていないと信じさせる事項が認められないかどうか結論付ける。また、継続企業の前提に関する重要な不確実性が認められる場合は、期中レビュー報告書において四半期連結財務諸表の注記事項に注意を喚起すること、又は重要な不確実性に関する四半期連結財務諸表の注記事項が適切でない場合は、四半期連結財務諸表に対して限定付結論又は否定的結論を表明することが求められている。監査人の結論は、期中レビュー報告書日までに入手した証拠に基づいているが、将来の事象や状況により、企業は継続企業として存続できなくなる可能性がある。
- ・ 四半期連結財務諸表の表示及び注記事項が、株式会社東京証券取引所の四半期財務諸表等の作成基準第4条第1項及び我が国において一般に公正妥当と認められる四半期財務諸表に関する会計基準（ただし、四半期財務諸表等の作成基準第4条第2項に定める記載の省略が適用されている。）に準拠して作成されていないと信じさせる事項が認められないかどうかを評価する。
- ・ 四半期連結財務諸表に対する結論表明の基礎となる、会社及び連結子会社の財務情報に関する証拠を入手する。監査人は、四半期連結財務諸表の期中レビューに関する指揮、監督及び査閲に関して責任がある。監査人は、単独で監査人の結論に対して責任を負う。

監査人は、監査役及び監査役会に対して、計画した期中レビューの範囲とその実施時期、期中レビュー上の重要な発見事項について報告を行う。

監査人は、監査役及び監査役会に対して、独立性についての我が国における職業倫理に関する規定を遵守したこと、並びに監査人の独立性に影響を与えると合理的に考えられる事項、及び阻害要因を除去するための対応策を講じている場合又は阻害要因を許容可能な水準にまで軽減するためのセーフガードを適用している場合はその内容について報告を行う。

利害関係

会社及び連結子会社と当監査法人又は業務執行社員との間には、公認会計士法の規定により記載すべき利害関係はない。

以上

-
- (注) 1. 上記の期中レビュー報告書の原本は当社(四半期決算短信開示会社)が別途保管しております。
2. XBRLデータ及びHTMLデータは期中レビューの対象には含まれていません。