

Summary of Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2025 [Japanese GAAP]

November 14, 2024

Company name: Datasection Inc. Listing: Tokyo Stock Exchange
 Securities code: 3905 URL: <https://www.datasection.co.jp>
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 Scheduled date of filing of semiannual report: November 14, 2024 Scheduled date of dividend payment commencement: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (For institutional investors and analysts)

(Millions of yen, rounded down to the nearest million)

1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2025 (From April 1, 2024 to September 30, 2024)

(1) Consolidated Operating Results (Cumulative)

(Percentage figures represent year-on-year changes)

	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	%
1H FY2025	1,359	38.9	(167)	-	(16)	-	(225)	-	(246)	-
1H FY2024	978	13.8	(162)	-	(53)	-	(123)	-	(99)	-

(Note) 1. Comprehensive income 1H FY2025 (178)million(-%) 1H FY2024 (38)million(-%)

(Note 2) Adjusted EBITDA is disclosed as an indicator of the Company's ability to generate cash flow in its business activities.

Adjusted EBITDA = Operating profit + Depreciation and amortization + Amortization of intangible assets + Stock-based compensation expenses + M&A-related expenses

	Basic earnings per share	Diluted earnings per share
	yen	yen
1H FY2025	(14.20)	-
1H FY2024	(6.72)	-

(Note) Diluted earnings per share for 1H FY2024 and 1H FY2025 are not presented, even though there were potential shares, because we posted a loss per share.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity-to-asset ratio
	million	million	%
1H FY2025	4,694	2,759	57.1
FY2024	3,786	1,982	50.6

(Reference) Equity 1H FY2025 2,681million FY2024 1,914million

2. Dividend Status

	Annual dividend				
	Q1 End	Q2 End	Q3 End	Year-end	Total annual dividend
	yen	yen	yen	yen	yen
FY2024	-	0.00	-	0.00	0.00
FY2025	-	0.00	-	-	-
FY2025 (Forecast)	-	-	-	0.00	0.00

(Note) 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 figures represent year-on-year changes)

	Net sales		Operating profit		Adjusted EBITDA		Ordinary profit		Profit Attributable to Owners of Parent		Basic earnings per share
	million	%	million	%	million	%	million	%	million	%	yen
Full Year	3,312	48.6	342	-	725	1442.6	317	-	217	-	12.26

(Note) Revisions to the most recently announced earnings forecast: None

(Note) The average number of shares during the period, which is the basis for calculating basic earnings per share, is the number of shares issued as of March 31, 2024 (excluding treasury shares).

*Notes

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

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

(2) Application of special accounting treatments in preparing the interim consolidated financial statements: None

(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): | None |
| 3) Changes in accounting estimates: | None |
| 4) Restatements: | None |

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

1) Total number of issued shares at the end of the period (including treasury shares):	1H FY2025	17,703,051shares	FY2024	17,188,051shares
2) Number of treasury shares at the end of the period:	1H FY2025	64,204shares	FY2024	62,922shares
3) Average number of shares during the period (six-month interim period)	1H FY2025	17,393,186shares	1H FY2024	14,732,296shares

*The financial statements for fiscal first half (six-month interim period) are not subject to review by a certified public accountant or auditing firm.

*Explanation regarding the appropriate use of earnings forecast and other special notes:

Descriptions regarding future projections, such as earnings forecast, 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 interim financial results (4) Explanation of forward-looking statements, including consolidated earnings forecasts, on page 5 of the attached documents.

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1. Qualitative information on interim financial results

(1) Explanation of operating results

Forward-looking statements in the text are based on judgments made as of the end of the interim period under review.

During the current interim period, the Japanese economy showed a moderate recovery trend amid an improving employment and income environment. However, the outlook remains uncertain due to the prolonged situation in Ukraine and the Middle East, rising prices, and the impact of continued high interest rate levels in the U.S. and Europe.

In the domestic market for AI business, investment in the use of systems that specialize in the advancement of application functions and specific tasks is expected to increase from FY2023 onward. As applications and systems become more complex to meet user requirements, it is expected that more cases will be insourced rather than outsourced due to factors such as cost and development speed, and with this, especially items such as middleware and server/storage/IaaS related to in-house production will grow significantly. Thus, in FY2027, the artificial intelligence business is expected to grow 1.7 times compared with FY2021 to 1.9787 trillion yen (Fuji Chimera Research Institute, Inc., *2022 jinkochino bijinesu sochosa* [2022 Comprehensive study on the artificial intelligence business]).

The South American smart retail device market is expected to grow from US\$1.8322 billion in 2019 to US\$2.6692 billion by 2027. It is estimated to grow at a CAGR of 5.3% from 2020 to 2027. The South American smart retail device market is segmented into Brazil, Argentina, and the rest of South America. The region includes several countries with complex macroeconomic and political environments and a variety of growth scenarios. Developing countries such as Brazil, Argentina, Chile, and Peru are investing heavily in infrastructure and retail sector development. In addition, many retailers in these regions have initiated digital transformations to increase their competitiveness and adapt to the benefits of change. Colombia and Brazil are rapidly evolving in digital innovation, and Chile is considered an "outstanding" country, ranking among the best in digitization and innovation. This digital transformation offers new opportunities for the smart retail device market throughout the region. Increasing urbanization has led to the growth of various shopping complexes and recreational centers, which is expected to increase the demand for smart retail devices in the region (Business Market Insights, "South America Smart Retail Devices Market research report").

In the domestic retail tech sector (payment terminals, self-operated terminals, next-generation facilities, next-generation operations), in order to maintain business operations amid the pandemic, investment has been made in fully automated checkout and remote customer service systems, etc., to enable non-contact services and operations to be carried out with a small number of staff. As a result, there has been an increase in the number of items related to the visualization of consumer attributes and in-store behavior that had not been digitized, as well as items related to the utilization of data. In the future, next-generation solutions such as cashier-less payment systems and smart entrances, as well as items related to the optimization of the entire supply chain, such as RFID solutions and demand forecasting systems, are also expected to grow. Thus, the market is expected to be 2.2 times larger in 2030 than in 2021, at 555.3 billion yen (Fuji Keizai, *2022 nen ban jisedai sutoa & riteru tekku shijo no genjo to shorai tenbo* [2022 edition: Current status and future outlook for the next-generation store and retail tech market]).

In the distribution/retail industry related to digital transformation, there is a growing trend toward the introduction of full-self checkout systems that make up for staff shortages in physical stores and improve and enhance the shopping experience for customers, as well as the introduction of shopping carts with tablet terminals in supermarkets and general merchandise stores. Growth in unmanned store solutions is also expected in the future. Retailers, SIs, and advertisers are developing the use of AR/VR technology to expand the shopping experience. In digital operations, automatic ordering systems are being widely adopted mainly by food manufacturers and general merchandise stores, and are also expected to be introduced for SCM by wholesalers, while demand forecasting systems are being introduced by major nationwide retailers due to waste loss reduction and SDGs needs. Thus, the forecast for FY2030 is 185.2 billion yen, 3.6 times the FY2021 level (Fuji Chimera Research Institute, Inc., *2023 Dejitaru toransufomeishon shijo no shorai tenbo shijohen* [2023 Future Outlook for the Digital Transformation Market: Market Edition and Vendor Strategy Edition]).

Business results for the current interim period are as follows.

In the current interim period, we acquired MSS Inc. and made it a newly consolidated subsidiary.

(Net sales)

Net sales totaled 1,359 million yen (up 38.9% year on year). This is mainly due to the growth of each business in the Company, especially the data science business, and the fact that MSS Inc., acquired on July 1, 2024, became a consolidated subsidiary from the current interim period.

(Cost of sales)

Cost of sales was 774 million yen (up 16.0% year on year). Cost of sales includes 388 million yen in personnel expenses, 235 million yen in outsourcing expenses, 80 million yen in depreciation and amortization, and 25 million yen in server usage fees.

(Selling, general and administrative expenses)

Selling, general and administrative expenses were 751 million yen (up 59.2% year on year). Selling, general and administrative expenses consisted mainly of personnel expenses of 449 million yen, outsourcing expenses of 61 million yen, compensation fees paid of 40 million yen, amortization of goodwill and customer-related assets of 39 million yen, land rent of 29 million yen, commissions paid of 21 million yen, taxes and dues of 20 million yen, audit fees of 16 million yen, and travel and transportation expenses of 13 million yen.

(Non-operating income)

The Company recorded 1 million yen as interest income and 4 million yen as other non-operating income.

(Non-operating expenses)

Foreign exchange losses of 40 million yen, interest expenses of 17 million yen, share of loss of entities accounted for using equity method of 3 million yen, and other non-operating expenses of 2 million yen were recorded.

(Extraordinary gains/losses)

Under extraordinary income, 6 million yen was posted as a gain on adjustment of accounts payable and 5 million yen as a gain on sale of investment securities, and under extraordinary loss, 4 million yen was posted as a loss on retirement of non-current assets.

(Total income taxes)

Total income taxes amounted to 27 million yen, including 21 million yen for Income taxes - current and 5 million yen for Income taxes - deferred as a result of estimating future taxable income at the present time and examining the recoverability of deferred tax assets.

As a result, net sales were 1,359 million yen (up 38.9% year on year). We continued to face a certain cost burden as the parent Company simultaneously restructured existing businesses and launched new businesses. Thus, we posted an operating loss of 167 million yen (operating loss of 162 million yen a year earlier). Adjusted EBITDA was a loss of 16 million yen (loss of 53 million yen a year earlier). In addition, the posting of foreign exchange losses of 40 million yen as non-operating expenses resulted in an ordinary loss of 225 million yen (ordinary loss of 123 million yen a year earlier), and the recording of 6 million yen as a gain on adjustment of accounts payable and total income taxes of 27 million yen resulted in a loss attributable to owners of parent of 246 million yen (loss of 99 million yen a year earlier).

*Adjusted EBITDA = Operating profit + Depreciation and amortization + Amortization of intangible assets + Stock-based compensation expenses + M&A-related expenses

Operating results by segment for the current interim period are as follows.

i. Japan Segment

In the Japan Segment, we are engaged in the Data Science domain, System Integration domain, and Marketing Solutions domain.

In the Data Science domain, we support companies' data-driven management and DX promotion through consulting, IT education, and other solutions for data utilization, etc., mainly for major blue-chip companies, based on our strength in data utilization and AI development.

In the System Integration domain, we develop user-specific solutions utilizing our technological capabilities and know-how cultivated through big data analysis and AI technology (text/images/voice), while consolidated subsidiary d-ss. inc. ("DSS"), provides payment services (Biz Prepaid Card prepaid card service for corporate customers [<https://bizpreca.jp/>]), SES services (for credit card companies, payment companies, securities companies, etc.), financial system development mainly for credit card companies, MSP services (cloud system construction, operation and maintenance services centered on AWS), and security services (PCIDSS consulting services, security diagnosis services, etc.).

In the Marketing Solutions domain, we offer FollowUP, a recurring-revenue service in Japan that helps improve store performance by analyzing image and video data acquired by AI cameras installed in retail stores and combining it with POS

data, as well as social media analysis tools Insight Intelligence and Insight Intelligence Q, and other recurring-revenue services. In addition, consolidated subsidiary solid intelligence Inc. ("SI") provides consulting services for multilingual social media analysis. MSS Inc. ("MSS"), which became a consolidated subsidiary during the current interim period, provides support solving issues related to clients' marketing and business strategies through research consulting in the field of marketing research (tailor-made research planning, design, analysis, and survey). MSS also offers services that propose effective advertising and sales promotion plans that meet the needs of both client companies and consumers, making use of our latest sales promotion tools and our long track record of planning, production and editing.

During the current interim period, the Data Science domain consists of the business acquired in September 2023, which will make a full contribution starting from the current fiscal year. Net sales increased significantly as a result.

During the current interim period, the System Integration domain saw a year-on-year sales increase due to orders for large-scale development projects at the Company and steady orders at consolidated subsidiary DSS.

During the current interim period, the Marketing Solutions domain saw a year-on-year sales increase due to the consolidation of MSS, which was acquired on July 1, 2024, from the current interim period.

As a result, net sales from external customers in the Japan Segment for the current interim period amounted to 818 million yen (up 50.6% year on year), mainly due to the growth of each business centering on the Data Science domain in the Company and the consolidation of MSS, which was acquired on July 1, 2024, in the current interim period. Segment loss amounted to 47 million yen (segment loss of 69 million yen in the same period a year earlier) due to an increase in personnel expenses and subcontracting expenses (outsourcing expenses) to strengthen the organization.

ii. Overseas Segment

In the Overseas Segment, we operate FollowUP overseas.

During the current interim period, sales increased year on year in the Overseas Segment due to steady orders in Chile and Colombia, our main bases, as well as the effects of an increase in consolidated subsidiaries (Panama and Spain) during the previous consolidated cumulative period.

As a result, sales to outside customers in the Overseas Segment during the current interim period were 540 million yen (up 22.4% from the same period a year earlier, and segment profit was 83 million yen (down 2.6% from the same period a year earlier).

(2) Explanation of financial position

(Assets)

Total assets increased by 908 million yen (up 24.0% from the end of the previous fiscal year) to 4,694 million yen at the end of the current interim period.

This was mainly due to a decrease of 667 million yen in cash and deposits, despite an increase of 1,209 million yen in goodwill and 286 million yen in other current assets.

(Liabilities)

Total liabilities at the end of the current interim period increased by 131 million yen (up 7.3% from the end of the previous fiscal year) to 1,934 million yen.

This was mainly because long-term borrowings increased by 107 million yen (including the current portion of long-term borrowings), while short-term borrowings increased by 172 million yen and accounts payable-other increased by 73 million yen.

(Net assets)

Net assets at the end of the current interim period increased by 777 million yen (up 39.2% from the end of the previous fiscal year) to 2,759 million yen.

This is mainly because share capital increased by 479 million yen and capital surplus increased by 467 million yen as a result of the issuance of common shares associated with the acquisition of MMS (through a share swap) and because foreign currency translation adjustment increased by 70 million yen after converting overseas subsidiaries' financial statements into yen.

(3) Explanation of cash flow status

Cash and cash equivalents ("cash") at the end of the current interim period decreased by 667 million yen from the end of the previous fiscal year to 991 million yen.

The status of each cash flow and its factors during the current interim period are as follows.

(Cash flows from operating activities)

Net cash used in operating activities amounted to 395 million yen (159 million yen used in the same period a year earlier). This was mainly due to a 218 million yen decline in income before income taxes, depreciation expenses of 87 million yen, goodwill amortization of 38 million yen, decrease (increase) in trade receivables of 41 million yen, and 341 million yen in other decreases.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 319 million yen (92 million yen used in the same period a year earlier). This was mainly due to expenditure of 248 million yen from the acquisition of shares in subsidiaries accompanying changes in the scope of consolidation, expenditure of 49 million yen from the purchase of intangible assets, and expenditure of 40 million yen from the purchase of property, plant and equipment, while there were proceeds from sale of investment securities of 29 million yen.

(Cash flows from financing activities)

Net cash provided by financing activities amounted to 29 million yen (217 million yen used in the same period a year earlier). This was mainly due to proceeds from an increase in short-term borrowings of 170 million yen and expenditure of 141 million yen from repayments of long-term borrowings.

(4) Explanation of forward-looking statements, including consolidated earnings forecasts

There is no change to the consolidated earnings forecast for the full year announced in the "Notice Regarding Revision (Upward) of Full-Year Consolidated Earnings Forecast" announced on August 14, 2024.

2. Interim consolidated financial statements and primary notes

(1) Interim consolidated balance sheets

(Unit: thousands of yen)

	Previous fiscal year (March 31, 2024)	Current interim period (September 30, 2024)
Assets		
Current assets		
Cash and deposits	1,690,432	1,022,498
Notes and accounts receivable - trade, and contract assets	646,601	634,560
Merchandise and finished goods	62,462	96,111
Income taxes refund receivable	70,958	82,160
Other	65,912	352,058
Total current assets	2,536,366	2,187,388
Non-current assets		
Property, plant and equipment	383,698	371,364
Intangible assets		
Goodwill	174,048	1,383,720
Software	450,731	507,202
Other	20,095	20,016
Total intangible assets	644,875	1,910,938
Investments and other assets	221,307	225,169
Total non-current assets	1,249,882	2,507,472
Total assets	3,786,248	4,694,861
Liabilities		
Current liabilities		
Short-term borrowings	600,000	772,486
Current portion of long-term borrowings	258,276	217,092
Accounts payable - other	205,421	278,492
Accrued expenses	87,621	65,727
Income taxes payable	94,270	85,982
Accrued consumption taxes	22,688	25,475
Provision for bonuses	19,159	16,000
Other	31,683	26,655
Total current liabilities	1,319,121	1,487,913
Non-current liabilities		
Long-term borrowings	379,830	313,396
Asset retirement obligations	11,807	9,000
Retirement benefit liability	-	23,514
Deferred tax liabilities	2,551	1,177
Other	90,313	99,956
Total non-current liabilities	484,502	447,045
Total liabilities	1,803,624	1,934,958
Net assets		
Shareholders' equity		
Share capital	1,868,479	2,347,686
Capital surplus	1,577,970	2,045,957
Retained earnings	(1,541,545)	(1,788,444)
Treasury shares	(3)	(3)
Total shareholders' equity	1,904,900	2,605,195
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,876	2,763
Foreign currency translation adjustment	3,404	73,706
Total accumulated other comprehensive income	9,281	76,469
Share acquisition rights	39,237	49,560
Non-controlling interest	29,206	28,677
Total net assets	1,982,624	2,759,902
Total liabilities and net assets	3,786,248	4,694,861

(2) Interim consolidated statements of income and interim consolidated statements of comprehensive income

(Interim consolidated statements of income)

(Unit: thousands of yen)

	Previous interim period (From April 1, 2023 to September 30, 2023)	Current interim period (From April 1, 2024 to September 30, 2024)
Net sales	978,387	1,359,041
Cost of sales	668,128	774,902
Gross profit	310,258	584,138
Selling, general and administrative expenses	472,370	751,859
Operating loss	(162,111)	(167,720)
Non-operating income		
Interest and dividend income	448	1,087
Foreign exchange gains	51,597	-
Other	6,381	4,751
Total non-operating income	58,428	5,838
Non-operating expenses		
Interest expenses	11,122	17,124
Share of loss of entities accounted for using equity method	5,795	3,231
Foreign exchange losses	-	40,896
Other	2,671	2,416
Total non-operating expenses	19,589	63,669
Ordinary loss	(123,272)	(225,551)
Extraordinary income		
Gain on sale of investment securities	-	5,658
Gain on sale of non-current assets	3,323	-
Gain on bargain purchase	6,629	-
Gain on adjustment of accounts payable	-	6,024
Total extraordinary income	9,953	11,682
Extraordinary losses		
Loss on retirement of non-current assets	-	4,654
Total extraordinary losses	-	4,654
Loss before income taxes	(113,319)	(218,523)
Income taxes - current	21,239	21,523
Income taxes-deferred	(33,976)	5,795
Total income taxes	(12,736)	27,319
Loss	(100,582)	(245,843)
Profit (loss) attributable to non-controlling interests	(1,537)	1,055
Loss attributable to owners of parent	(99,045)	(246,898)

(Interim consolidated statements of comprehensive income)

(Unit: thousands of yen)

	Previous interim period (From April 1, 2023 to September 30, 2023)	Current interim period (From April 1, 2024 to September 30, 2024)
Loss	(100,582)	(245,843)
Other comprehensive income		
Valuation difference on available-for-sale securities	2,920	(3,113)
Foreign currency translation adjustment	59,506	70,924
Total other comprehensive income	62,427	67,811
Comprehensive income	(38,155)	(178,032)
(Breakdown)		
Comprehensive income attributable to owners of parent	(37,746)	(179,710)
Comprehensive income attributable to non-controlling interests	(409)	1,678

(3) Interim consolidated statements of cash flows

(Unit: thousands of yen)

	Previous interim period (From April 1, 2023 to September 30, 2023)	Current interim period (From April 1, 2024 to September 30, 2024)
Cash flows from operating activities		
Loss before income taxes	(113,319)	(218,523)
Depreciation and amortization	69,813	87,154
Amortization of goodwill	24,336	38,014
Gain on bargain purchase	(6,629)	-
Interest and dividend income	(448)	(1,087)
Interest expenses	11,122	17,124
Share of loss (profit) of entities accounted for using equity method	5,795	3,231
Foreign exchange losses (gains)	(51,597)	40,896
Gain on sale of non-current assets	(3,323)	-
Loss on retirement of non-current assets	-	4,654
Loss (gain) on investments in silent partnerships	(363)	-
Loss (gain) on sale of investment securities	-	(5,658)
Gain on adjustment of accounts payable	-	(6,024)
Decrease (increase) in trade receivables	32,349	41,543
(Increase) decrease in inventories	19,558	(22,127)
Increase (decrease) in accounts payable and accrued expenses	9,725	11,256
Other	(139,682)	(341,142)
Subtotal	(142,666)	(350,687)
Interest and dividends received	448	1,087
Interest paid	(11,122)	(17,124)
Income taxes paid	(6,195)	(28,722)
Cash flows from operating activities	(159,535)	(395,446)
Cash flows from investing activities		
Purchase of property, plant and equipment	(24,422)	(40,225)
Proceeds from sale of property, plant and equipment	16,860	-
Purchase of intangible assets	(81,672)	(49,567)
Proceeds from sales of investment securities	-	29,487
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(248,283)
Purchase of insurance funds	(20,189)	(20,225)
Proceeds from withdrawal of investments in silent partnership	363	-
Other	17,001	9,338
Cash flows from investing activities	(92,059)	(319,476)
Cash flows from financing activities		
Repayment of long-term borrowings	(200,494)	(141,263)
Increase (decrease) in short-term borrowings	20,106	170,420
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(37,010)	-
Cash flows from financing activities	(217,397)	29,157
Effect of exchange rate change on cash and cash equivalents	12,013	17,832
Net increase (decrease) in cash and cash equivalents	(456,979)	(667,934)
Cash and cash equivalents at beginning of year	1,415,253	1,659,429
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	11,438	-
Cash and cash equivalents at end of interim period	969,713	991,495

(4) Notes to interim consolidated financial statements

(Notes on going concern assumption)

Not applicable.

(Notes on changes in accounting policies)

ASBJ Statement No. 27 (revised 2022) Accounting Standard for Current Income Taxes (October 28, 2022), (the "2022 Revised Accounting Standard") is applied from the beginning of the current interim period.

The revisions to the classification of income taxes (taxation on other comprehensive income) are in accordance with the transitional treatments prescribed in the proviso of Paragraph 20-3 of the 2022 Revised Accounting Standard and the proviso of Paragraph 65-2 (2) of the Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022) (the "2022 Revised Guidance"). There is no effect of this change in accounting policy on the interim consolidated financial statements.

In addition, the Company has applied the 2022 Revised Guidance from the beginning of the current interim period for revisions related to the treatment of consolidated financial statements when gains or losses on the sale of subsidiary shares among consolidated companies are deferred for tax purposes. The change in accounting policy has been applied retrospectively. For the previous interim period and the previous fiscal year, the interim consolidated financial statements and the consolidated financial statements have been adjusted retrospectively. There is no effect of this change in accounting policy on the consolidated interim financial statements for the previous interim period and the consolidated financial statements for the previous fiscal year.

(Notes in the event of significant changes in shareholders' equity)

At a Board of Directors meeting held on June 3, 2024, the Company resolved to conduct a share exchange to make the Company the wholly owning parent of MSS Inc. and MSS a wholly owned subsidiary, effective July 1, 2024. As a result, share capital increased by 479,207 thousand yen and capital surplus by 479,207 thousand yen.

Consequently, share capital and capital surplus amounted to 2,347,686 thousand yen and 2,045,957 thousand yen, respectively, at the end of the current interim period.

(Notes to segment information, etc.)

Segment information

I Interim period ended September 30, 2023 (April 1, 2023 to September 30, 2023)

1. Information on sales and profit or loss by reportable segment and disaggregation of revenue

(Unit: thousands of yen)

	Reportable Segment			Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	Japan Segment	Overseas Segment	Total		
Net sales					
Goods or services transferred at a point in time	260,943	21,949	282,892	-	282,892
Goods or services transferred over a period of time	282,783	419,664	702,447	-	702,447
Revenue from contracts with customers	543,726	441,614	985,340	-	985,340
Other income	-	-	-	-	-
Sales to external customers	543,726	441,614	985,340	-	985,340
Intersegment sales and transfers	(6,952)	-	(6,952)	-	(6,952)
Total	536,773	441,614	978,387	-	978,387
Segment profit (loss)	(69,737)	85,934	16,196	(178,307)	(162,111)

(Note) 1. Adjustment of segment profit (loss) of (178,307) thousand yen is corporate expenses that are not allocated to each reportable segment.

2. Segment profit (loss) is adjusted with operating loss in the interim consolidated statements of income.

2. Information on impairment loss on non-current assets and goodwill by reportable segment

(Significant gain on bargain purchase)

In the Overseas Segment, a gain on bargain purchase was recognized due to the consolidation of Alianza FollowUP Panamá S.A., which was newly included in the scope of consolidation from this interim period. The amount of gain on bargain purchase resulting from this event was 6,629 thousand yen in the current interim period.

II Current interim period (April 1, 2024 to September 30, 2024)

1. Information on sales and profit or loss by reportable segment and disaggregation of revenue

(Unit: thousands of yen)

	Reportable Segment			Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	Japan Segment	Overseas Segment	Total		
Net sales					
Goods or services transferred at a point in time	477,933	24,753	502,687	-	502,687
Goods or services transferred over a period of time	340,770	515,583	856,354	-	856,354
Revenue from contracts with customers	818,704	540,337	1,359,041	-	1,359,041
Other income	-	-	-	-	-
Sales to external customers	818,704	540,337	1,359,041	-	1,359,041
Intersegment sales and transfers	-	-	-	-	-
Total	818,704	540,337	1,359,041	-	1,359,041
Segment profit (loss)	(47,153)	83,699	36,545	(204,266)	(167,720)

(Note) 1. Adjustment of segment income (loss) of (204,266) thousand yen is a corporate expense not allocated to each reportable segment.

2. Segment profit (loss) is adjusted with operating loss in the interim consolidated statements of income.

2. Information on assets by reportable segment

The amount of assets in the current interim period increased by 908,612 thousand yen from the end of the previous fiscal year. This was mainly due to the acquisition of shares in MSS Inc., which was newly included in the scope of consolidation during the current interim period. MSS Inc. belongs to the Japan Segment.

3. Information on impairment loss on non-current assets and goodwill by reportable segment

(Significant changes in the amount of goodwill)

In the Japan Segment, goodwill was generated due to the new consolidation of MSS Inc. The amount of goodwill recorded due to this event was 1,221,471 thousand yen in the current interim period.

(Business combinations)

(Acquisition of shares and conversion to wholly owned subsidiary through share exchange)

At a meeting of the Company's Board of Directors held on June 3, 2024, the Company resolved to acquire a portion of the issued shares of MSS Inc. ("MSS") ("Share Acquisition") and to subsequently conduct a share exchange ("Share Exchange") to make the Company the wholly owning parent and MSS a wholly owned subsidiary. Accordingly, we concluded a share transfer agreement and share exchange agreement on June 3, 2024.

The Share Exchange was executed on July 1, 2024 and MSS became a wholly owned subsidiary of the Company.

1. Outline of business combination

(1) Name of acquiree and its business

Name of acquiree: MSS Inc.

Description of Business: Marketing research and sales promotion

(2) Main reasons for the business combination

In addition to analyzing big data, we have developed multiple elemental technologies, such as image analysis using AI, from the basic research stage, and have developed a system integration business that promotes customers' business improvement, and a marketing solution business that encourages customers' digital marketing and DX. In recent years, we have restructured our business portfolio through an aggressive M&A strategy, and deployed our own products utilizing AI-based image analysis in more than 20 countries around the world. In September 2023, we acquired

businesses in the data science and AI fields. In this way, we are working to create new corporate value by achieving a fusion of technology and the real world.

As disclosed in the “Announcement of Basic Agreement on Comprehensive Business Alliance with VLC Holdings Co., Ltd.” released on February 14, 2024, the Company and VLC, the parent company of MSS, have been exploring a specific alliance in areas where business synergies can be achieved in order to leverage the strengths and resources of both groups in their existing business areas. We have decided to make MSS a wholly owned subsidiary because we believe that there are significant synergies in the complementary relationship between MSS, which has its mainstay marketing research and sales promotion business, and our Group's marketing solutions business, which has strengths in data analytics and AI and is engaged in digital marketing support and SNS business, and that this will contribute to further enhancement of the corporate value of our Group.

The Company will continue to strengthen its strategic alliance with VLC in AI- and security-related businesses and other general business areas.

(3) Date of business combination

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

(4) Legal form of business combination

Share exchange in which the Company becomes the wholly owning parent and the acquired company as the wholly owned subsidiary

(5) Name of company after combination

No change.

(6) Percentage of voting rights acquired

Percentage of voting rights acquired on the date of business combination 100%

(Breakdown)

Percentage of voting rights acquired through share transfer 37.5%

Percentage of voting rights acquired through share exchange 62.5%

(7) Main basis for determining the acquirer

The Company acquired MSS through a share transfer for cash and through a share exchange, making MSS a wholly owned subsidiary. The transaction makes the Company the acquirer.

2. Period of the acquiree's operating results included in the interim consolidated statements of income

From July 1, 2024 to September 30, 2024

3. Acquisition cost of the acquiree and breakdown by type of consideration

Consideration for acquisition of shares in cash 300,000 thousand yen

Consideration for acquisition through share exchange 958,415 thousand yen

Acquisition cost 1,258,415 thousand yen

4. Exchange ratio by type of shares, calculation method, and number of shares delivered

(1) Exchange ratio by type of shares

Type of shares	Common stock (Company and MSS)	
	The Company	MSS
Share exchange ratio	1	4,120

In this transaction, 4,120 shares of common stock of the Company were allocated for each share of common stock of MSS. The shares to be delivered are newly issued common shares.

(2) Calculation method of the share exchange ratio

BDO Sanyu & Co., an independent third-party appraiser, was selected to calculate the share exchange ratio for this share exchange.

With respect to the Company's shares, as the Company is listed on the Growth Market of the Tokyo Stock Exchange and there exists a market share price, the calculation was made with reference to the market share price. Specifically, the business day preceding the date of execution of the share exchange agreement was set as the base date for the calculation. We also considered the fact that the stock price observation period for calculation was susceptible to temporary stock price fluctuation factors in a short period of time. Based on the agreement with MSS on May 30, 2024, the Board of Directors unanimously decided on 970 yen (rounded up to the nearest whole number; the closing price of the Company's stock on May 31, 2024 was 1,578 yen), which is the average closing price of the Company's stock on the Growth Market of the Tokyo Stock Exchange for the most recent six months from the base date of calculation.

On the other hand, since MSS is an unlisted company with no market share price and the source of its share value is its ability to earn future profits, the discounted cash flow method (DCF method) was used to calculate the share value in order to reflect the status of future business activities in the evaluation.

(3) Number of shares delivered 515,000 shares

5. Details and amounts of major acquisition-related expenses

Fees and commissions for advisory services: 8,998 thousand yen

6. Amount of goodwill incurred, reason for incurrence, amortization method and amortization period

(1) Amount of goodwill incurred

1,242,173 thousand yen

(2) Cause of occurrence

It is mainly the excess earning power expected from future business development.

(3) Amortization method and period

Equal amortization over 15 years