



Explanatory Materials Concerning Financing Through Issuance of Stock Acquisition Rights

Datasection Inc.

February 18, 2025

Securities Code: 3905

Overview of Financing Method

- Issuance of **20th series of stock acquisition rights (with an exercise price revision clause)**
- Structured to enable more flexible and expeditious financing given capital needs and market conditions, as well as to increase equity capital while taking into consideration the impact on dilution of existing shareholders' equity

20th series of stock acquisition rights (with an exercise price revision clause)	
Allottee	Hayate Management Co., Ltd. ("Hayate")
Reference stock price	668 yen
Initial exercise price	688 yen *100% of reference stock price
Revision of exercise price	Closing price of the immediately preceding trading day x 90% (rounded up to the nearest yen)
Lower exercise price	344 yen *50% of reference stock price
Issuance price	Total 15,488,000 yen (3.52 yen per unit)
Number of stock acquisition rights to be issued	44,000 (100 shares per unit)
Exercise period	March 7, 2025 - March 6, 2026 (1 year)
Estimated amount to be raised*	3,009,200,000 yen @ initial exercise price = 688 yen 1,495,600,000 yen @ lower exercise price = 344 yen
Dilution rate**	24.85%
Purpose of use of funds	(i) Development and construction of DS Cloud Stack (ii) Investments in joint ventures related to AI data center operations, DSAI fund investments (iii) Working capital such as recruitment, personnel expenses, and cash on hand (iv) Repayment of borrowings

* Initial exercise price x total number of shares issued - approximate cost of issuance. The total issue price is not included in the estimated amount to be raised due to payment through the offset of the allottee's loan claims against Datasection

** The number of shares to be delivered if all the stock acquisition rights are exercised will be 4,400,000 shares (44,000 voting rights), which is 24.85% of the total number of issued shares (17,703,051 shares) of Datasection as of February 13, 2025 (total voting rights as of September 30, 2024, the date closest to the date of the issuance resolution when the total voting rights can be confirmed by Datasection: 176,279 voting rights). The dilution rate based on voting rights is 24.96%. Both of these percentage figures are rounded down to two decimal places

- Following a comprehensive evaluation of the advantages and disadvantages, we have determined that this financing method is the best option at this time to meet our needs

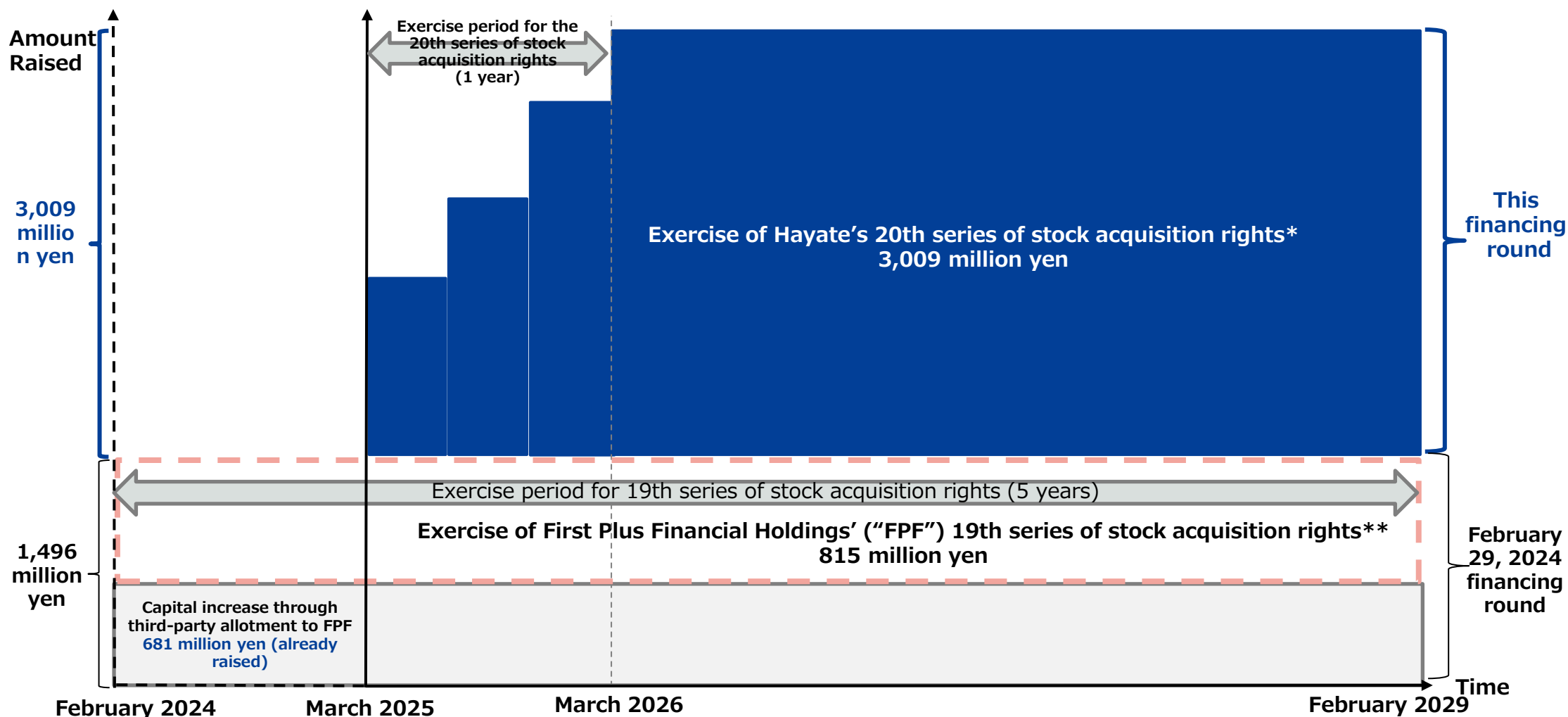
Advantages

- **Limitations on excessive dilution**
 - The maximum number of shares to be delivered is limited (however, the number may be adjusted in conjunction with adjustments to the exercise price following stock dilution events such as stock splits, etc.). Therefore, there will be no dilution beyond the initial estimate
 - A lower limit on the exercise price will be set, ensuring that economic dilution does not exceed a certain threshold
- **Mitigation of impact on stock price**
 - The exercise price will be revised based on the closing price of the trading day immediately preceding each revision date, with the possibility of upward adjustment
 - Exercise volume limits will be set, enabling multiple exercises and anticipated dispersion of exercise prices
- **Dilution can be mitigated in the event of future share price appreciation**
 - No maximum exercise price will be set. If share prices rise, the exercise price will be adjusted correspondingly, thereby mitigating dilution
- **Other**
 - Hayate, the allottee, does not intend to retain the common stock it acquires through exercise for an extended period of time, nor does it have any intention of participating in the management of Datasection

Disadvantages

- **Possibility that the amount raised will be less than the planned amount**
 - A lower limit on the exercise price will be set. Depending on the stock price level after issuance, some or all of the shares may remain unexercised
 - Exercise price will be revised downward
- **Prolonging of financing**
 - Financing may take longer to complete if stock liquidity decreases
- **Potential impact on business strategies**
 - If, as mentioned above, the amount raised is less than planned or it takes time to complete financing, it may not be possible to allocate funds in a timely manner, potential impacting the execution of management strategies
- **Constraints on future financing methods**
 - Shares, stock acquisition rights, etc., or securities with the right to convert into or acquire such shares or stock acquisition rights, etc. cannot be issued without prior written consent from the allottee, for a certain period. This restriction does not apply to (1) the issuance of stock acquisition rights to officers and employees of Datasection and its affiliates or stock issuance under a transfer restricted stock compensation plan, or (2) business alliances with other companies

- Raised 681 million yen in the February 29, 2024 financing round
- Intend to raise **3,009 million yen*** in this financing round



* Amount to be raised assuming that full exercise of the 20th series of stock acquisition rights at the initial exercise price

** None of the 19th series of stock acquisition rights had been exercised as of August 22, 2024. FPF intends to exercise the stock acquisition rights in accordance with our capital needs. However, they may not be exercised depending on share price trends

- We plan to allocate most of the funds to the following three items when executing the new AI-related strategy outlined in the “Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025,” announced on August 20, 2024

(i) Development and construction of DS Cloud Stack

- Amount: 1,000 million yen
- Planned expenditure period: March 2025 to June 2025
- Outline:
 - Costs associated with the development and construction of DS Cloud Stack (an operational optimization algorithm for large-scale AI GPU clusters)
 - Allocated to joint development in collaboration with NNJ (*), an external service provider, and to cover outsourcing costs to NNJ. Expenses incurred within the Group will be covered under (iii)

(ii) Investments in joint ventures related to AI data center operations, DSAI fund investments

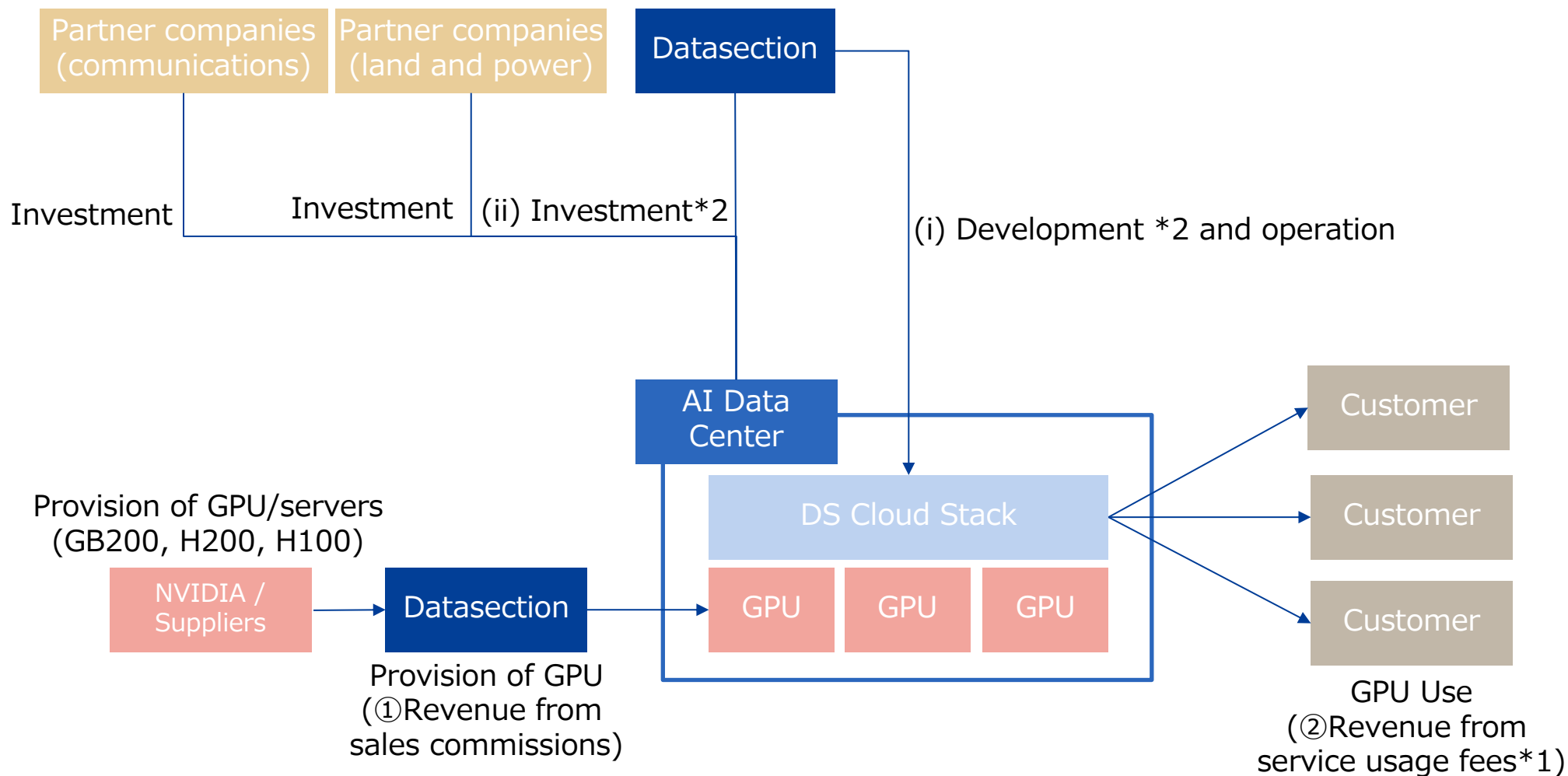
- Amount: 709 million yen
- Planned expenditure period: April 2025 to March 2026
- Outline:
 - Investment in joint ventures related to AI data center operations, or
 - The formation of a DSAI fund in which Datasection acts as GP or Co-GP to invest in AI infrastructure, such as AI data centers, on a global scale

(iii) Other uses (working capital including recruitment costs, personnel expenses and cash on hand, as well as debt repayment)

- Amount: 700 million yen (labor costs including recruitment, personnel, and cash on hand), 600 million yen (debt repayment)
- Planned expenditure period: April 2025 to March 2027 (labor costs including recruitment, personnel, and cash on hand)
March 2025 to February 2026 (debt repayment)
- Outline:
 - Working capital, including recruitment costs for engineers and corporate personnel responsible for the Group’s global AI data center and AI cloud business, as well as personnel expenses and cash on hand
 - Debt repayment to enhance financial stability (including a 384 million yen loan from Hayate)

(*) NowNaw Japan K.K. (location: Chuo-ku, Tokyo; representative: Reika Omi; hereinafter “NNJ”)

- For direct investment in AI data centers, **there are two revenue models**
- Returns from AI data center investments



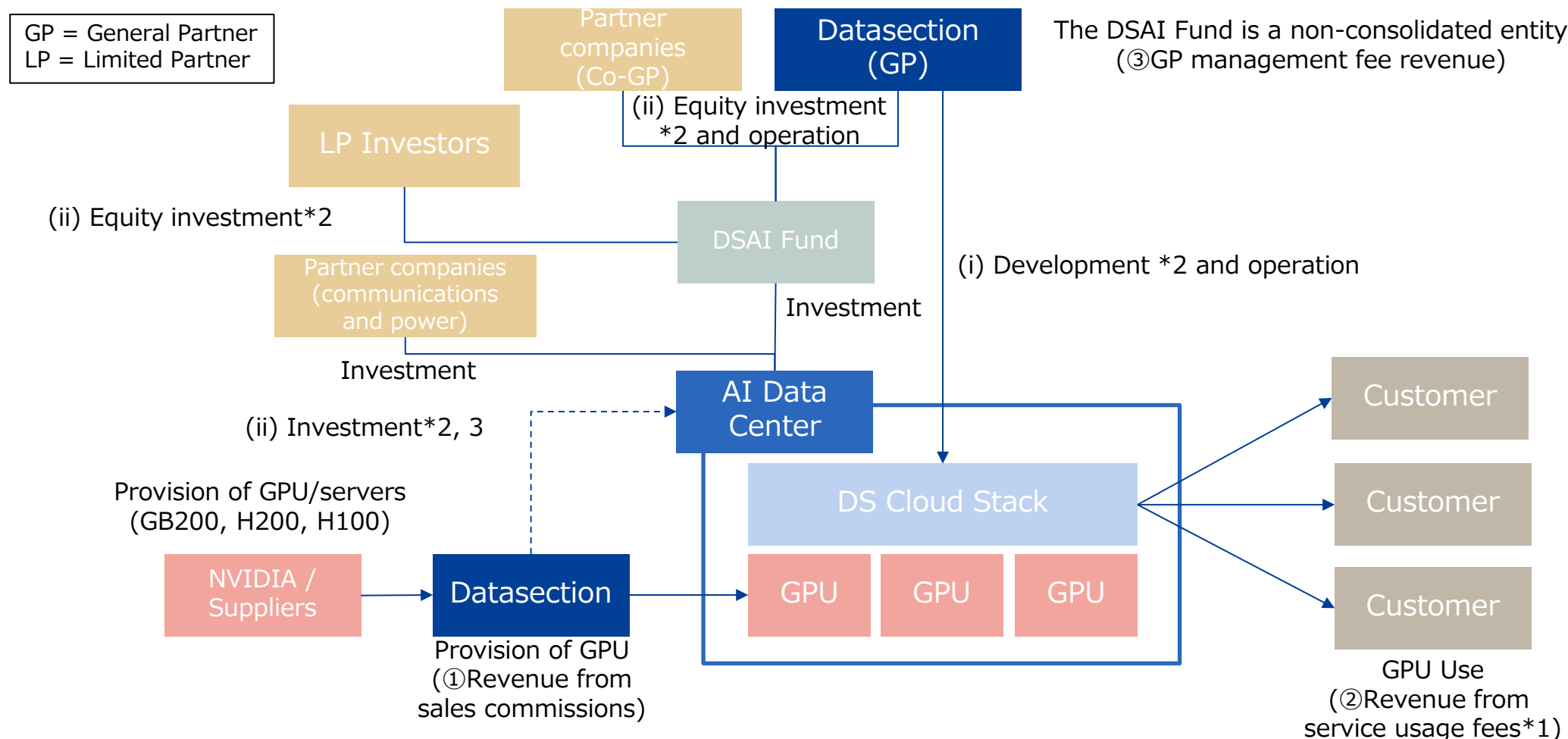
*1 Revenue from customers' GPU usage fees is shared between Datasection and AI data centers

*2 A portion of the funds raised in this financing round will be allocated to the following purposes:

(i) Development and construction of DS Cloud Stack: 1,000 million yen

(ii) Investments in joint ventures related to AI data center operations, DSAI fund investments: 709 million yen

- For AI data centers supported through funds, **there are three revenue models**
- Returns from DSAI Fund investment



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*2 A portion of the funds raised in this financing round will be allocated to the following purposes:

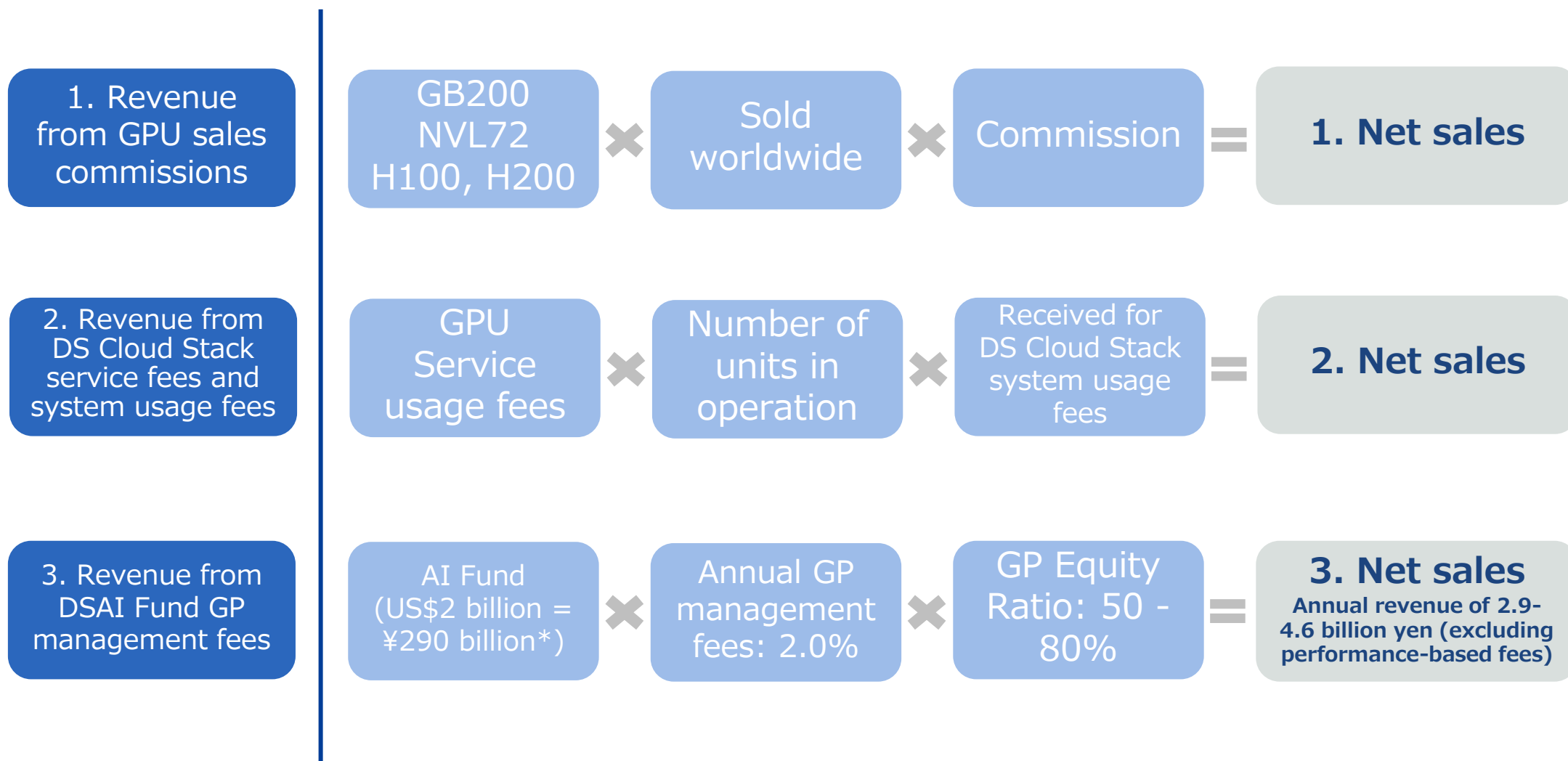
(i) Development and construction of DS Cloud Stack: 1,000 million yen

(ii) Investments in joint ventures related to AI data center operations, DSAI fund investments: 709 million yen

Datasection may also participate as an LP investor

3 AI data centers directly invested in by Datasection may also be included in the DSAI Fund's portfolio

- The new AI business is expected to generate **three primary revenue streams**



(*) Uses the same exchange rate as the rate used in the Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2025, announced on August 20, 2024

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- The contents contained herein are prepared based on generally recognized economic, social and other conditions as well as certain assumptions that we have judged to be reasonable, but may be subject to change without notice due to changes in the business environment or other reasons.
- The materials and information provided in this document include so-called "forward-looking statements." They are based on current estimates, forecasts, and assumptions that involve risks and entail uncertainties that could cause results to differ materially from those in the statements.
- These risks and uncertainties include general industry and market conditions, and general domestic and global economic conditions such as interest rate and currency exchange fluctuations.
- The above earnings forecasts are based on management's assumptions in light of the information currently available to it and involve risks and uncertainties, and are not intended as a guarantee that they will be achieved. Therefore, investors are advised not to make investment decisions by solely relying on these forecasts.