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Consolidated Financial Results for the Three Months Ended June 30, 2024 [Japanese GAAP]

August 9, 2024

Company name: SUNCORPORATION

Listing: Tokyo

Securities code: 6736

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Scheduled date to commence dividend payments: -

Preparation of supplementary material on financial results: None

Holding of financial results briefing: None

President and Representative Director
Representative and Executive managing director

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated Financial Results for the Three Months Ended June 30, 2024 (April 1, 2024 to June 30, 2024)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2024	2,356	(0.6)	(130)	-	(75)	-	207	-
June 30, 2023	2,370	(75.2)	25	-	(2,792)	-	(2,614)	-

(Note) Comprehensive income: Three months ended June 30, 2024: ¥ 1,644 million [-%]
Three months ended June 30, 2023: ¥ (1,084) million [-%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2024	9.33	9.32
June 30, 2023	(117.08)	-

(Note) Diluted net income per share for the first quarter of the fiscal year ending March 31, 2024 is not shown in the above table, because net income per share was negative although there are residual shares.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of June 30, 2024	48,911	38,006	77.6
March 31, 2024	46,838	37,259	79.3

(Reference) Equity: As of June 30, 2024: ¥ 37,939 million
As of March 31, 2024: ¥ 37,157 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2024	-	0.00	-	40.00	40.00
Fiscal year ending March 31, 2025	-				
Fiscal year ending March 31, 2025 (Forecast)		-	-	-	-

(Note) The dividend forecast for the fiscal year ending March 31, 2025 is undecided at this time.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2025(April 1, 2024 to March 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit	
	Millions of yen	%	Millions of yen	%
Full year	12,285	22.29	709	126.66

(Note) Revision to the financial results forecast announced most recently: None

The impact of recent geopolitical risks and financial instability on the Company's financial forecast for the fiscal year ending March 31, 2025 is uncertain. And since it is difficult to reasonably calculate the impact on our business performance of changes in fair value of price adjustment clauses, certain restricted stock rights, and derivative warrant liabilities recognized in our equity-method affiliate Cellebrite DI Ltd. at this point in time, we are unable to make a reasonable estimate of the impact on our business performance at each level below ordinary. Therefore, the Company has not yet determined the fair value of the fair value of the restricted stock and the derivative warrants liability.

* Notes:

- (1) Significant changes in the scope of consolidation during the period: None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
 - 1) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
 - 4) Restatement: None
- (4) Number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):

June 30, 2024:	24,007,728 shares
March 31, 2024:	24,007,728 shares
 - 2) Number of treasury shares at the end of the period:

June 30, 2024:	1,752,457 shares
March 31, 2024:	1,769,277 shares
 - 3) Average number of shares outstanding during the period:

Three months ended June 30, 2024:	22,243,289 shares
Three months ended June 30, 2023:	22,332,587 shares

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm: None

* Proper use of earnings forecasts, and other special matters

The forward-looking statements in this document, including earnings forecasts, are based on information currently available to the Company and certain assumptions that the Company deems reasonable, and are not intended to be a promise by the Company that they will be achieved. Actual results may differ materially due to various factors.

1. Qualitative Information on Financial Results for the Three Months Ended June 30, 2024

(1) Explanation of Operating Results

Forward-looking statements contained in this document are based on judgments of the Group as of June 30, 2024.

<External environment>

The data intelligence market, which our Global Data Intelligence business serves, saw a favorable response to the Case-to-Closure platform of Cellebrite DI Ltd. (hereafter, “Cellebrite”), suggesting that the new Inseyets digital forensic software have been gaining popularity. Meanwhile, leading-edge digital intelligence tools, such as Inseyets, are now indispensable solutions and have been adopted by an increasing number of U.S. police organizations.

Regarding the pachinko and pachislot market, one of the markets that our Entertainment-related business serves, smart game machines began being introduced in November 2022, and now there are popular games for these machines. Thus, the demand for such machines, mainly smart pachislot machines, has been increasing. Meanwhile, although there have been signs of recovery from the semiconductor supply crunch due to the global shortage, there are still issues such as the ongoing upsurge of raw material prices and a decrease in number of pachinko parlors. The future of the market thus remains uncertain.

Although games have been established as enjoyable home entertainment during the COVID-19 pandemic, now that other leisure consumption has also recovered, we can see a slight contraction trend in the game content market in developed countries. Furthermore, the market has been increasingly competitive as the number of games released has been increasing in an accelerated manner because the technological advancement has made it possible for a single person to develop video game with a single PC.

In the Internet of things (IoT) market, one of the markets that our New IT-related business serves, demand for monitoring and control systems that can access from remote locations to alleviate labor shortages and improve productivity is increasing, and the industrial network device Rooster capable of stably operating for a long period of time, which is our strength, has been widely installed. Furthermore, migration from 3G to LTE (4G) is smoothly ongoing as communication carriers are scheduled to successively terminate 3G services by March 2026. While the crunch in overall semiconductor supply is easing, component prices are continuing to soar, which may have impacts on supply of our products and our profits, and the impacts remain uncertain at present.

The market environments of some of our core businesses are uncertain as described above. Against this backdrop, we will work to establish new core products and services in line with the current social trend of moving towards utilization of leading-edge technologies, such as IoT, augmented reality (AR), and artificial intelligence (AI) for further improvement of the Group’s business performance.

<Competitive advantages>

In the Global Data Intelligence business, the Company served law enforcement agencies who deal with tech-savvy criminals (criminal organizations) as well as explosive increases in digital evidence. More specifically, we have provided them with state-of-the-art digital intelligence tools, as well as training and services over the years, to enhance the productivity of investigation resources. The next-generation solution “Inseyets,” which was released in January 2024, combines advanced Premium extraction with next-generation UFED, as an all-in digital forensic solution that encompasses the functions of Physical Analyzer (including reader), Cloud and Commander, contributing to a significant reduction in the work time of investigation agencies. In the Japanese market, full-scale deliveries began in April 2024.

In the game machine business of our Entertainment-related business, the Company specializes in certain business fields and customers to establish strong trustful relationships and step up our expressive and technical abilities in the specific areas. This enables us to execute development of contents highly attractive as products, as well as development of high-quality control boards, thus allowing us to enhance our competitive advantages.

In the game content business, the Company internally handles all phases, from development to operation, of console games and mobile games under the famous Shanghai brand. This enables us to maintain cost-efficient

profits over a long term. Furthermore, having a number of intellectual properties (IPs) in the genre of retro games, which is regaining popularity mainly in the European market, we have the prospect of further profit expansion through effective utilization of the IPs.

In the New IT-related business, our efforts center on the following: to maintain technological competitive advantages by establishing strong trustful relationships with our partners such as individual communication carriers and system integrators, and acquiring patents related to migration from 3G to LTE (4G) networks based on technologies accumulated over many years; and to further reinforce our competitiveness by developing products with keywords being 5G and edge AI. Rooster, an industrial network device, supports dual SIM and makes it possible to use lines of different communication carriers redundantly. This device automatically detects a failure in a communication carrier network and switches from the main network to the sub-network, thereby eliminating the effects of network communication failures and enabling uninterrupted operation of remote monitoring and control, and data collection. Thus, sales of Rooster have been growing steadily.

In the IoT field, a problem is to alleviate increasing operational management burdens of a large number of IoT devices installed in remote locations as they move from the introduction to operational phase. To address this issue, our device management service called SunDMS enables alive monitoring and centralized control of Rooster, enabling remote and secure operational management. As a result, on-site maintenance costs such as personnel, operational adjustments, and travel time can be cut down, and the operational burden can be greatly reduced. We are also developing SunDMS-Insight. This makes it possible to collect, control, and visualize any device or network data, such as OKUDAKE Sensor and Programmable Logic Controllers (PLCs). In the future, BI/AI will be used for aggregation, analysis, and detection to improve the efficiency and security of remote operational management in the IoT field, thereby securing a competitive advantage.

<Management initiatives>

We have reviewed our existing business strategies, and have formulated the new Medium-Term Management Plan, which covers three years starting from the fiscal year ending March 2025, with an aim of establishing our future growth base. The quantitative targets for the fiscal year ending March 2027, the last fiscal year covered by the new Medium-Term Management Plan, are net sales of ¥19,200 million and operating profit of ¥2,100 million.

Furthermore, the medium- to long-term management targets after the new Medium-Term Management Plan period have been set to net sales of ¥50,000 million and an operating profit margin of 15% in pursuit of our sustainable growth and corporate value enhancement.

To achieve the above goals, we set up specific strategic themes: 1) Improving our earning power in existing businesses; 2) Creating new growth drivers; and 3) Establishing management base to support business. Under these themes, the following business development is being planned for individual business divisions.

The Global Data Intelligence business will aspire for contributing to global human safety and security and provide products, solutions, and services that are needed to achieve that goal. Specifically, we will strengthen our sales activities based on up-selling and cross-selling and reduce the churn rate so as to expand stock businesses, that is, to acquire stable profit opportunities.

Furthermore, as an initiative related to “creating new growth driver,” aiming for providing new digital tool solutions not limited to the digital forensics field, we will advance our search for products with high added value by leveraging the networks we have developed to date, such as one in Israel.

In the Entertainment-related business, as an initiative related to “improving our earning power in existing businesses”, we will focus on promoting measures such as increasing the number of newly developed games in the game machine business, as well as developing new IPs and promoting overseas marketing in the game business.

The New IT-related business will seek ways to shift from the conventional hardware-based business to a solution business that covers IoT and video solutions, as well as collection, control, visualization, and analysis of data on Rooster and networks. Furthermore, we will strive to shift into the field of intelligence to be capable of, for example, advanced data processing of device data on a network using artificial intelligence (AI).

Meanwhile, we created the R&D Department in October 2022 by combining the Marketing Department and

Technology Development to improve our earning power. In consideration of the Company's future business development, the R&D Department has already started technological development in AI, information security, and healthcare fields under its immediate theme of moving forward with data businesses. Additionally, in research and development, we are aiming to develop differentiated products by conducting joint research with a university that owns a technological seed.

<Overview of products and services>

In the Global Data Intelligence business, we are moving forward with providing products, services, and support related to threat intelligence and active cyber defense in addition to Cellebrite's digital intelligence products that have been conventionally sold in Japan. Aiming to expand sales of Cybersixgill as a new product that can search for usually invisible information on the dark web, we are making active efforts including showcasing the product at an exhibition for industrial sectors.

In the game machine business of the Entertainment-related business, we work as a contractor responsible for all phases of content development for pachinko and pachislot games, including planning, designing, video production, and programming, as well as all phases related to control boards from designing to manufacturing. In addition, leveraging on our know-how in content development, we also offer smartphone applications simulating real pachinko and pachislot machines to contribute to the operation of real pachinko and pachislot machines in the market and raise awareness of contents.

In the game content business, several plans utilizing IPs related to retro games are now underway. Ikki Unite was released for Nintendo Switch™ on April 18, 2024. In addition, early access (an arrangement offered before the full release of a game to enable playing it in its development phase) to Ark of Charon, an all-new product for Steam (PC), was started in July 2024, and this game has gained popularity as indicated by, for example, its high scores on game evaluation sites.

In the New IT-related business, several major beverage vendors adopted our strategic products for beverage vending machines, A330 and A900, in order to reduce management costs and improve operational efficiency, including product replenishment, and more than 500,000 units have already been introduced. Our router products such as Rooster are promoted as products differentiated from those of other companies with the emphasis on features of network redundancy and linkage with the device management service SunDMS, and have been producing steady sales. Aiming to further expand our businesses, we have released an edge computer named LBX8110 in September 2023, where AI image analysis can be implemented. Serving us as a new product in the new IoT field, this edge computer offers new solutions based on the AI technologies such as image analysis. Lastly, our sensor device OKUDAKE Sensor has entered the full-scale introduction phase for Hazard Analysis and Critical Control Points (HACCP)-based temperature management or predictive maintenance based on acceleration (vibration) sensor.

<Overview of the consolidated statements of income>

The Group posted consolidated net sales of ¥2,356 million (down 0.6% year-on-year). Likewise, gross profit, indicative of the added value created by the Group, decreased to ¥658 million (down 6.1% year-on-year), and gross profit margin decreased to 27.9% (down by 1.7 points), due in part to a reduction in game machine-related contracted development in the Entertainment-related business.

Consolidated net sales

Segment	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	222	271	21.8
Entertainment-related	1,465	1,425	2.7
New IT-related	687	664	(3.3)
Adjustment	(4)	(4)	-
Total	2,370	2,356	(0.6)

Gross profit

Segment	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	49	69	41.5
Entertainment-related	424	354	(16.5)
New IT-related	222	229	3.3
Adjustment	4	4	-
Total	700	658	(6.1)

Gross profit margin

Segment	Three months ended June 30, 2023 (%)	Three months ended June 30, 2024 (%)
Global Data Intelligence	22.1	25.7
Entertainment-related	29.0	24.9
New IT-related	32.4	34.6
Total	29.6	27.9

<Overview of selling, general and administrative expenses>

Consolidated selling, general and administrative expenses came to ¥789 million (up 16.9% year-on-year). This is mainly because the expenses for the enhancement of the operational base and the corporate functions for the future increased.

Selling, general and administrative expenses

Segment	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	25	39	55.2
Entertainment-related	242	254	4.8
New IT-related	172	208	20.9
Adjustment	235	287	-
Total	675	789	16.9

Research and development expenses

Segment	Fiscal year ended March 31, 2023 (Millions of yen)	Fiscal year ended March 31, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	-	0	-
Entertainment-related	163	158	(2.7)
New IT-related	46	55	19.8
Adjustment	36	28	-
Total	246	242	(1.4)

<Overview of operating loss>

The Company posted operating loss of ¥130 million (operating profit of ¥25 million for the three months ended June 30, 2023) on a consolidated basis. This is mainly because of a decrease in gross profit and an increase in selling, general and administrative expenses.

Operating profit (loss)

Segment	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in percent (%)
Global Data Intelligence	24	30	27.3
Entertainment-related	186	104	(43.9)
New IT-related	50	21	(57.0)
Adjustment	(235)	(287)	-
Total	25	(130)	-

<Overview of ordinary profit and profit attributable to owners of parent>

The Company posted ordinary loss of ¥75 million (ordinary loss of ¥2,792 million for the three months ended June 30, 2023) on a consolidated basis, and profit attributable to owners of parent of ¥207 million (loss attributable to owners of parent of ¥2,614 million for the previous fiscal year).

<Overview of individual segments>

[Global Data Intelligence business]

	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	222	271	48	21.8
Segment profit	24	30	6	27.3

Net sales and profit for the Global Data Intelligence business both increased mainly due to an increase in the number of orders in the subscription business.

[Entertainment-related business]

	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	1,465	1,425	(39)	(2.7)
Segment profit	186	104	(81)	(43.9)

Net sales and profit both decreased mainly due to a reduction in contracted development in the game machine business.

[New IT-related business]

	Three months ended June 30, 2023 (Millions of yen)	Three months ended June 30, 2024 (Millions of yen)	Year-on-year change in amount (Millions of yen)	Year-on-year change in percent (%)
Net sales	687	664	(22)	(3.3)
Segment profit	50	21	(28)	(57.0)

Net sales and profit for this segment as a whole both decreased because the M2M business remained affected to some extent by soaring raw material prices although the difficulty in component procurement has been easing.

(2) Explanation of Financial Position

(i) State of assets, liabilities, and net assets

(Assets)

Total assets stood at ¥48,911 million, an increase of ¥2,072 million from the end of the previous fiscal year.

Current assets stood at ¥23,435 million, a decrease of ¥13 million from the end of the previous fiscal year.

Non-current assets stood at ¥25,475 million, an increase of ¥2,086 million from the end of the previous fiscal year. The main factor for increase was an increase of ¥2,146 million in investment securities.

(Liabilities)

Total liabilities stood at ¥10,904 million, an increase of ¥1,325 million from the end of the previous fiscal year.

Current liabilities stood at ¥5,850 million, an increase of ¥945 million from the end of the previous fiscal year.

The main factor for increase was an increase of ¥998 million in short-term borrowings.

Non-current liabilities stood at ¥5,053 million, an increase of ¥379 million from the end of the previous fiscal year. The main factor for increase was an increase of ¥392 million in deferred tax liabilities.

(Net assets)

Total net assets stood at ¥38,006 million, an increase of ¥747 million from the end of the previous fiscal year.

The main factor for increase was an increase of ¥1,424 million in valuation difference on available-for-sale securities. On the other hand, the main factor for decrease was a decrease of ¥682 million in retained earnings.

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2. Quarterly Consolidated Financial Statements and Principal Notes

Quarterly Consolidated Financial Statements

Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of March 31, 2024	As of June 30, 2024
Assets		
Current assets		
Cash and deposits	1,732,014	1,542,783
Money held in trust	14,200,000	14,200,000
Notes and accounts receivable - trade	1,812,896	1,685,402
Finished goods	744,912	781,249
Work in process	447,404	515,583
Raw materials	3,711,585	3,799,915
Accounts receivable	86,655	69,735
Other	714,601	841,271
Allowance for doubtful accounts	(499)	(198)
Total current assets	23,449,570	23,435,742
Non-current assets		
Property, plant and equipment		
Land	949,043	949,043
Other, net	630,967	619,781
Total property, plant and equipment	1,580,010	1,568,825
Intangible assets		
Goodwill	457,630	442,115
Other	229,538	222,151
Total intangible assets	687,169	664,266
Investments and other assets		
Investment securities	20,663,685	22,810,087
Shares of subsidiaries and associates	1,000	1,000
Other	457,012	431,213
Total investments and other assets	21,121,697	23,242,300
Total non-current assets	23,388,877	25,475,392
Total assets	46,838,448	48,911,135

(Thousands of yen)

	As of March 31, 2024	As of June 30, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,989,206	1,781,344
Short-term borrowings	1,095,392	2,094,294
Current portion of long-term borrowings	37,445	36,504
Accrued expenses	246,421	280,469
Income taxes payable	361,112	11,442
Contract liabilities	891,842	1,284,883
Provision for bonuses	149,664	122,885
Other	133,926	238,830
Total current liabilities	4,905,012	5,850,654
Non-current liabilities		
Long-term borrowings	257,366	247,723
Deferred tax liabilities	4,372,346	4,765,038
Deferred tax liabilities for land revaluation	9,920	9,920
Retirement benefit liability	10,741	10,909
Other	23,670	20,266
Total non-current liabilities	4,674,045	5,053,858
Total liabilities	9,579,057	10,904,513
Net assets		
Shareholders' equity		
Share capital	2,097,606	2,097,606
Capital surplus	3,316,731	3,309,838
Retained earnings	26,543,187	25,861,156
Treasury shares	(3,643,498)	(3,608,933)
Total shareholders' equity	28,314,026	27,659,667
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,269,293	10,693,878
Revaluation reserve for land	(434,203)	(434,203)
Foreign currency translation adjustment	8,197	20,485
Total accumulated other comprehensive income	8,843,288	10,280,160
Share award rights	24,012	3,448
Share acquisition rights	78,064	63,345
Total net assets	37,259,391	38,006,622
Total liabilities and net assets	46,838,448	48,911,135

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the three months)

(Thousands of yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Net sales	2,370,501	2,356,786
Cost of sales	1,669,548	1,698,409
Gross profit	700,952	658,376
Selling, general and administrative expenses	675,189	789,112
Operating profit (loss)	25,763	(130,736)
Non-operating income		
Interest and dividend income	8,587	74,980
Other	3,573	1,937
Total non-operating income	12,161	76,918
Non-operating expenses		
Interest expenses	961	3,620
Foreign exchange losses	13,830	13,848
Share of loss of entities accounted for using equity method	2,787,858	-
Commission for purchase of treasury shares	22,704	-
Other	4,719	3,848
Total non-operating expenses	2,830,073	21,318
Ordinary loss	(2,792,148)	(75,135)
Extraordinary income		
Gain on reversal of share acquisition rights	476	11,688
Total extraordinary income	476	11,688
Loss before income taxes	(2,791,671)	(63,446)
Income taxes - current	178,780	10,353
Income taxes - deferred	(355,742)	(281,308)
Total income taxes	(176,962)	(270,954)
Profit (loss)	(2,614,709)	207,507
Profit (loss) attributable to owners of parent	(2,614,709)	207,507

Quarterly Consolidated Statements of Comprehensive Income (For the three months)

(Thousands of yen)

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Profit (loss)	(2,614,709)	207,507
Other comprehensive income		
Valuation difference on available-for-sale securities	1,597,215	1,424,584
Foreign currency translation adjustment	1,113	12,287
Share of other comprehensive income of entities accounted for using equity method	(68,129)	-
Total other comprehensive income	1,530,199	1,436,872
Comprehensive income	(1,084,510)	1,644,379
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,084,510)	1,644,379

(3) Notes on Quarterly Consolidated Financial Statements

(Notes regarding assumption of going concern)

Not applicable

(Notes if there are significant changes in the amount of shareholders' equity)

Not applicable

(Changes in accounting policies)

The Company has applied the Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022; hereafter, "Revised Accounting Standard 2022") and other standards from the beginning of the three months ended June 30, 2024.

Regarding the revisions to the classification of income taxes (taxation on other comprehensive income), the Company follows the transitional treatment stipulated in the proviso to paragraph 20-3 of Revised Accounting Standard 2022 and the transitional treatment stipulated in the proviso to paragraph 65-2 (2) of the Guidance on Accounting for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereafter, "Revised Guidance 2022"). The adoption of this accounting standard has no impact on the quarterly consolidated financial statements.

Furthermore, the Company has applied Revised Guidance 2022 from the beginning of the three months ended June 30, 2024, regarding the revisions to the treatment in consolidated financial statements of gains or losses arising from the sale of shares in subsidiaries, etc. between consolidated companies when they are deferred for tax purposes. The Company has applied this change in accounting policy retrospectively, and has adjusted the quarterly consolidated financial statements for the three months ended June 30, 2023 and the consolidated financial statements for the previous fiscal year accordingly. This change in accounting policy has no impact on the quarterly consolidated financial statements for the three months ended June 30, 2023 and the consolidated financial statements for the previous fiscal year.

(Additional information)

(Debt instruments in Cellebrite)

Cellebrite, which is the Company's associate accounted for using equity method, assessed certain restricted shares and warrant liabilities, both of which it inherited from TWC Tech Holding II Corp. (hereafter, "TWC Corp."), at fair value and recognized them as liabilities based on the price adjustment clause in the merger agreement signed on August 30, 2021 when it was listed on the NASDAQ market in the United States of America.

The Company therefore reports share of loss (profit) of entities accounted for using equity method as a result of changes in fair value of the liabilities due to the fluctuation of Cellebrite's share price, etc. as non-operating income/expenses.

(1) Price adjustment clauses based on the merger agreement

As consideration adjustment after the closing of the transaction, if the volume weighted average price (VWAP) of Cellebrite's share exceeds USD 12.5, USD 15 and USD 17.5 for 20 days out of any 30 days within five years from the closing date, every time each condition is satisfied, Cellebrite will issue 5,000,000 shares respectively (up to 15,000,000 shares) for the shareholders at the time of closing, including the Company, according to their holding ratios. Also, if change of control which is defined in the merger agreement takes place in the same period, 15,000,000 shares will be issued at the timing of occurrence of the event.

(2) Restricted shares

Cellebrite has inherited restricted shares for TWC Corp.'s sponsors. If Cellebrite's volume weighted average price (VWAP) exceeds USD 12.5 and USD 15 for 20 days out of any 30 days within seven years from the closing date, rights on 3,000,000 shares will be vested, respectively. When it exceeds USD 30, rights on 1,500,000 shares will be vested. Also, if change of control which is defined in the merger agreement takes place in the same period,

7,500,000 shares will be issued at the timing of occurrence of the event.

(3) Warrant liabilities

Cellebrite has inherited the warrant liabilities (publicly offered warrant liability and privately offered warrant liability) issued by TWC Corp. under the merger agreement with the latter. Holders of the warrant liabilities have rights to purchase shares of Cellebrite at the price of USD 11.5 per share on and after September 29, 2021. The warrant liabilities will expire upon either of five years after the closing date, redemption by Cellebrite based on certain requirements, or Cellebrite's liquidation.

(Segment information, etc.)

[Segment information]

I. Three months ended June 30, 2023 (April 1 to June 30, 2023)

1. Information on net sales and profit (loss) for each reportable segment and information on the disaggregation of revenue

(Thousands of yen)

	Global Data Intelligence business	Entertainment-related business	New IT-related business	Total	Adjusted amount (Note 1)	Amount reported on quarterly consolidated statements of income (Note 2)
Sales						
Goods transferred at a point in time	6,259	1,460,907	673,948	2,141,115	-	2,141,115
Goods transferred over time	216,296	-	13,089	229,385	-	229,385
Revenue from contracts with customers	222,556	1,460,907	687,037	2,370,501	-	2,370,501
Revenue from external customers	222,556	1,460,907	687,037	2,370,501	-	2,370,501
Transactions with other segments	-	4,342	-	4,342	(4,342)	-
Total	222,556	1,465,249	687,037	2,374,843	(4,342)	2,370,501
Segment profit	24,095	186,515	50,376	260,987	(235,223)	25,763

(Notes) 1. Adjusted amount for segment profit of ¥(235,223) thousand mainly consists of general and administrative expenses not attributable to reportable segments and elimination of intersegment transactions.

2. Segment profit has been adjusted with operating profit on the quarterly consolidated statements of income.

2. Information on assets for each reportable segment

In the three months ended June 30, 2023, segment assets of the Global Data Intelligence business decreased by ¥3,010,428 thousand as the Company reported share of loss of entities accounted for using equity method regarding Cellebrite, which is the Company's associate accounted for using equity method.

II. Three months ended June 30, 2024 (April 1 to June 30, 2024)

1. Information on net sales and profit (loss) for each reportable segment and information on the disaggregation of revenue

(Thousands of yen)

	Global Data Intelligence business	Entertainment-related business	New IT-related business	Total	Adjusted amount (Note 1)	Amount reported on quarterly consolidated statements of income (Note 2)
Sales						
Goods transferred at a point in time	15,673	1,421,386	485,671	1,922,731	-	1,922,731
Goods transferred over time	255,335	-	178,719	434,054	-	434,054
Revenue from contracts with customers	271,008	1,421,386	664,390	2,356,786	-	2,356,786
Revenue from external customers	271,008	1,421,386	664,390	2,356,786	-	2,356,786
Transactions with other segments	-	4,063	-	4,063	(4,063)	-
Total	271,008	1,425,450	664,390	2,360,849	(4,063)	2,356,786
Segment profit (loss)	30,664	104,624	21,645	156,934	(287,670)	(130,736)

(Notes) 1. Adjusted amount for segment profit (loss) of ¥(287,670) thousand mainly consists of general and administrative expenses not attributable to reportable segments and elimination of intersegment transactions.

2. Segment profit (loss) has been adjusted with operating (loss) on the quarterly consolidated statements of income.

(Notes on quarterly consolidated statement of cash flows)

No quarterly consolidated statement of cash flows has been prepared for the three months ended June 30, 2024. Depreciation (including amortization of intangible assets excluding goodwill and customer-related assets) and amortization of goodwill and customer-related assets for the three months ended June 30 are as follows:

	For the three months ended June 30, 2023	For the three months ended June 30, 2024
Depreciation	¥53,603 million	¥54,450 million
Amortization of goodwill	¥12,796 million	¥15,515 million
Amortization of customer-related assets	¥2,203 million	¥2,671 million