

Presentation Material

for the First Half of the Fiscal Year Ending March 31, 2022

2021/11/9

Tokyo Stock Exchange First Section : Code 3676
<https://www.digitalhearts-hd.com/>

Business Results for the First Half of FY2021

(The six months ended September 30, 2021)

Business Highlight for the First Half of FY2021

Both Businesses Achieved
**Significant
Increases in Sales**

Net sales

13,498 Mln yen
(YoY 128.2%)

- Enterprise Business, a focus business, continues to **achieve high growth** with the acceleration of DX as a tailwind.
- Entertainment Business also achieved **double-digit sales growth** thanks to strong performance in services for console games.
- The four newly consolidated subsidiaries through M&A has contributed from this Q2.

**New Record High
Profits**
in the First Half

Operating income

1,370 Mln yen
(YoY 259.7%)

- In the Enterprise Business, **stable profits** were generated by net sales growing to a scale that covers continuing investment.
- Entertainment Business also achieved **over 1.5 times profit growth** than precious year with sales increasing and efficient business operations.

Strong progress toward
**Achieving the
Full-year
Forecasts**

Progress rate to
the full-year target

Net sales

47.5%

Operating income

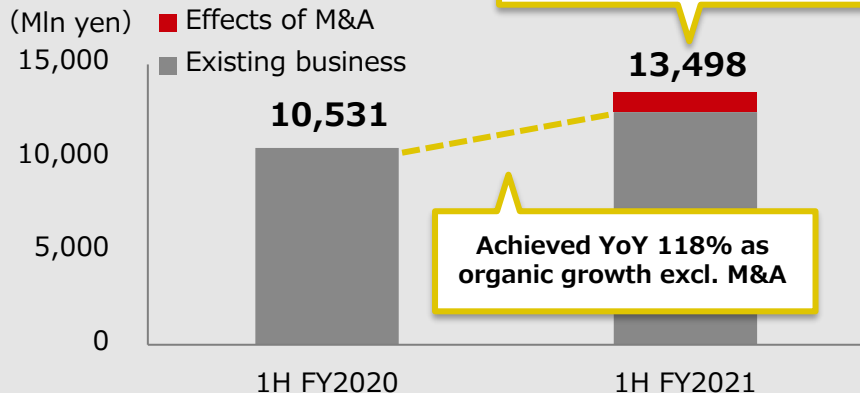
65.2%

- **Sales and operating profit exceeded company forecasts** in both the Enterprise and Entertainment Business.
- Aiming to build a foundation for growth and achieve the full-year plan to achieve the medium-term target of **¥50 billion** in net sales.

01

Achieved YoY 128% high sales growth including M&A contribution

Consolidated net sales



Newly consolidated subsidiaries

Entertainment Business	DIGITAL HEARTS CROSS Group
Enterprise business	MK Partners, Inc.
Enterprise business	TPP SOFT, JSC
Enterprise business	identity Inc.

02

Steady increase in IT human resources and Qualitist(*) to achieve FY23 target of 20,000

IT human resources and Qualitist

4,517 people » **9,171** people

(As of March 31, 2021) (As of September 30, 2021)

*Qualitist...Our original term for specialist contributing to the quality incl. engineers

03

Decided the group reorganization to accelerate the growth in Enterprise Business

Spin out Enterprise Business to form **“Next-Generation QA company”** (*)

→ Detailed P20-P28

Summary of Business Results for the Six Months Ended September 30, 2021

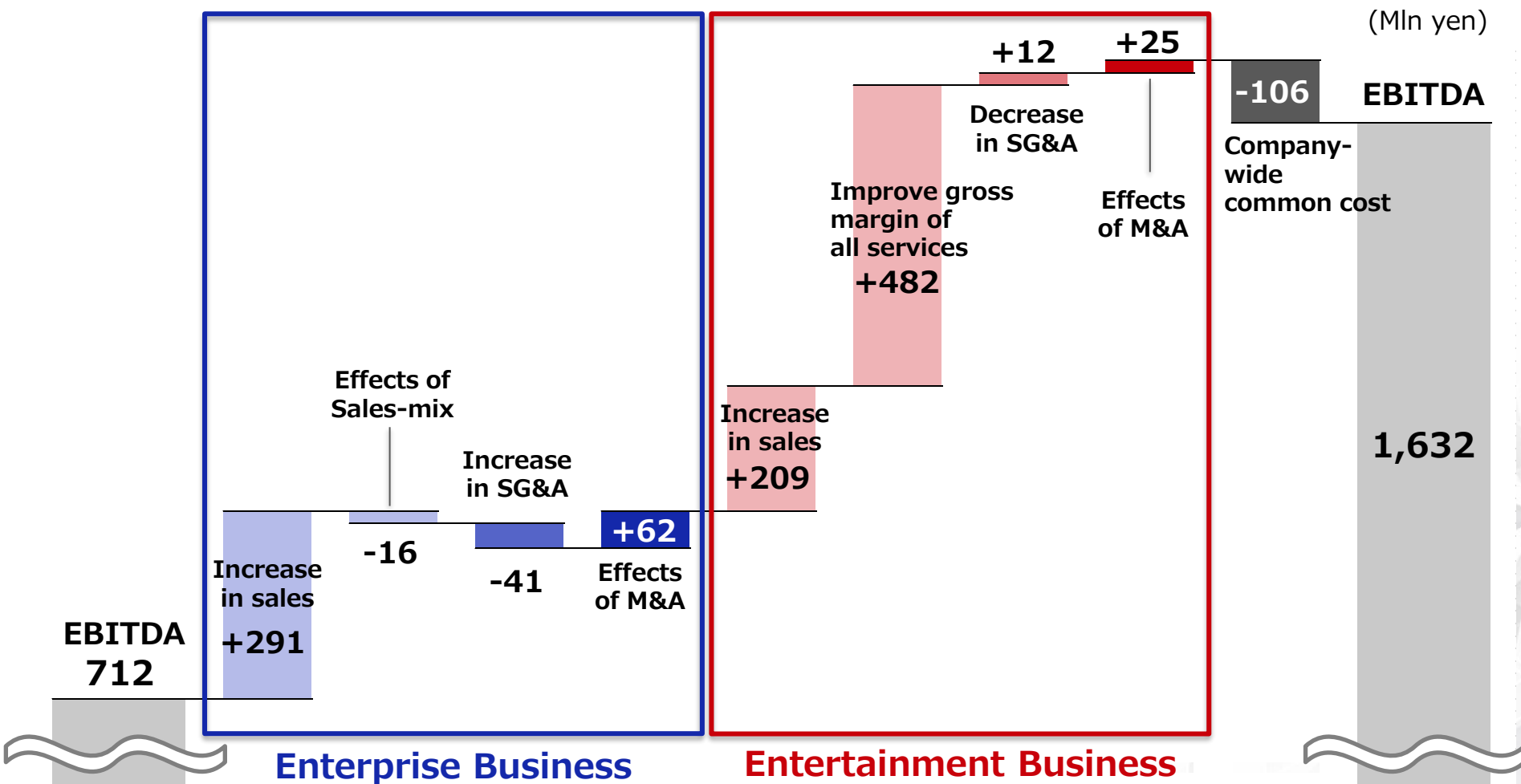


- Record-high net sales and operating income in the first half.
- Progress at a pace significantly compared to the company's full-year forecast.

(Mln Yen)	1H FY2020	1H FY2021	YoY Change	
Net sales	10,531	13,498	2,967	128.2%
Cost of sales	7,820	9,562	1,741	122.3%
Cost of sales (%)	74.3%	70.8%		-3.4points
Gross profit	2,710	3,936	1,226	145.3%
SG&A	2,182	2,566	384	117.6%
Operating income	527	1,370	842	259.7%
Operating income margin	5.0%	10.2%		+5.1points
Ordinary income	570	1,431	860	251.0%
Profit attributable to owners of parent	355	917	561	257.9%
EBITDA	712	1,632	919	229.1%

Analysis of Changes in EBITDA

Significant growth in EBITDA due to increasing sales and profitability improvement in existing businesses as well as the positive impact of M&A.

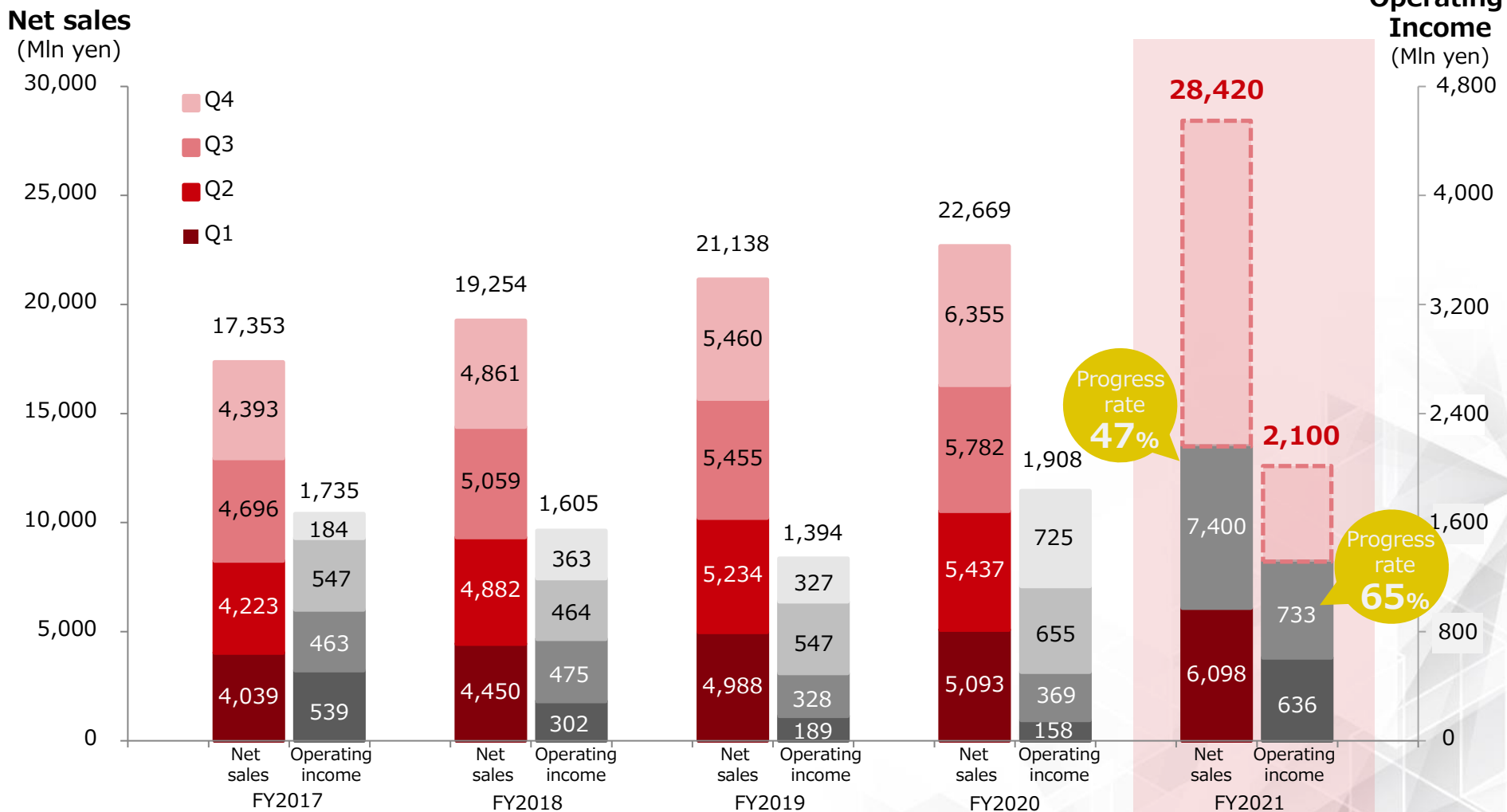


1H FY2020

1H FY2021

Trend in Net Sales and Operating Income

**Progress at a pace significantly exceeding the Company's forecasts in 1H.
Aiming to achieve record-high both sales and profits as a full year.**



Consolidated Balance Sheets

(Mln yen)	Q4 FY2020 (As of March 31, 2021)	Q2 FY2021 (As of September 30, 2021)	YoY Change
Total assets	14,338	16,026	1,688
Current assets	9,744	9,848	103
Cash and deposits	5,076	5,435	359
Noncurrent assets	4,593	6,178	1,584
Property, plant and equipment	598	623	25
Intangible assets	2,670	4,244	1,573
Goodwill	2,467	4,042	1,574
Investments and other assets	1,324	1,309	-15
Total liabilities	8,024	8,830	806
Current liabilities	7,904	8,775	870
Short-term loans	4,728	5,406	677
Noncurrent liabilities	119	55	-63
Total net assets	6,314	7,195	881
Shareholders' equity	5,642	6,436	793
Accumulated other comprehensive income	48	65	16
Subscription rights to shares	13	—	-13
Non-controlling interests	610	694	84
Total liabilities and net assets	14,338	16,026	1,688

Consolidated Statements of Cash Flows

(MIn Yen)	1H FY2020	1H FY2021	YoY Change
Net cash provided by operating activities	101	1,703	1,601
(*Cash flows before income taxes paid)	317	2,053	1,735
Net cash used in investing activities	-261	-1,682	-1,420
Net cash provided by (used in) financing activities	-90	316	406
Effect of exchange rate change on cash and cash equivalents	-2	21	24
Net increase in cash and cash equivalents	-252	359	612
Cash and cash equivalents at the beginning of period	3,704	5,041	1,337
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-3	—	3
Cash and cash equivalents at the end of period	3,447	5,400	1,953

Financial Results of the First Half by Segment and Full-year Forecast of FY2021

【Notice regarding Earnings by Segment】

- Net sales by segment include inter-segment sales or transfers. Segment income is based on operating income.
- Sub-segments of the Entertainment Business changed from Q1 FY2021. For this reason, the figures for FY2020 and earlier by sub-segments of the Entertainment Business are reclassified to reflect the change in sub-segments, and comparisons are made.

Summary of Earnings by Segment

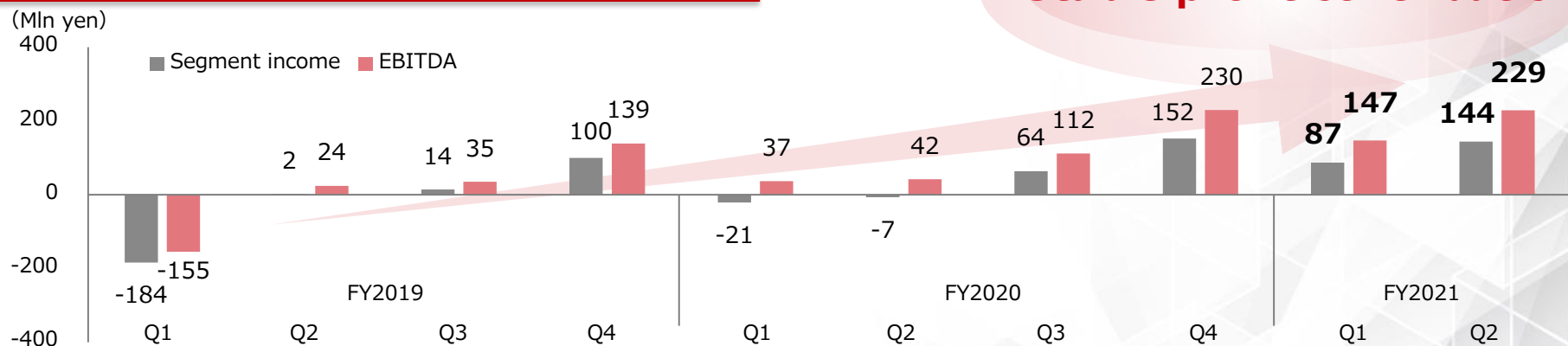
(Mln yen)	1H FY2020	1H FY2021	YoY Change
Net sales	10,531	13,498	128.2%
Enterprise	3,064	4,863	158.7%
Entertainment	7,466	8,635	115.7%
Adjustments	—	—	—
Operating income	527	1,370	259.7%
Enterprise	-28	232	—
Entertainment	1,217	1,906	156.6%
Adjustments	-660	-768	—
EBITDA	712	1,632	229.1%
Enterprise	80	376	465.8%
Entertainment	1,278	2,009	157.2%

Financial Result of Enterprise Business

- **Continued high growth in both sales and profits** due to DX acceleration and growing demand for cyber security in the market.

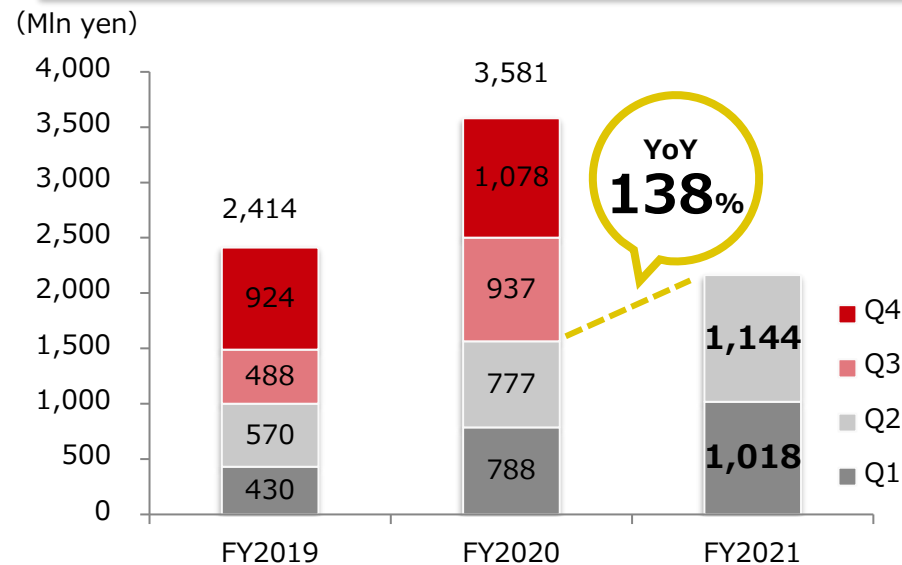
(Mln yen)	1H FY2020	1H FY2021	YoY Change
Net sales	3,064	4,863	158.7%
System Testing	1,565	2,162	138.1%
IT service / Security	1,499	2,700	180.2%
Segment income	-28	232	—
EBITDA	80	376	465.8%

Quarterly results of Enterprise Biz

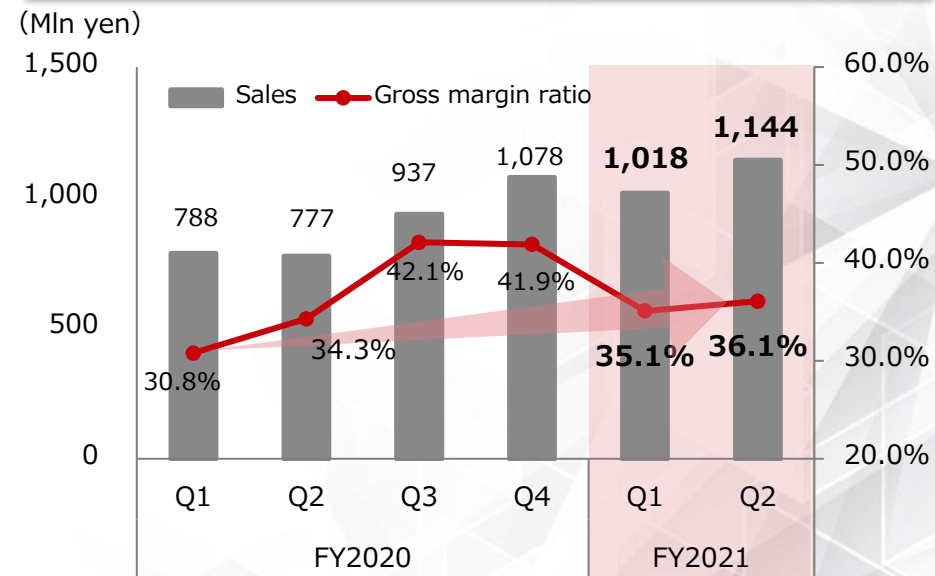


- Aggressive **sales promotion utilizing test automation tools** of U.S. subsidiary LogiGear and other alliance partners for growing demands of test automation with accelerated DX.
- Improving of average sales per customer by **cross-selling of services** such as test automation, manual testing, and vulnerability diagnosis.
- **MK Partners and TPP SOFT** newly joined to LogiGear group through M&A etc. started to contribute as a consolidated subsidiaries from Q2 FY2021.
- Maintain a high gross margin ratio of **over 35%** while investing in human resources.

Quarterly sales

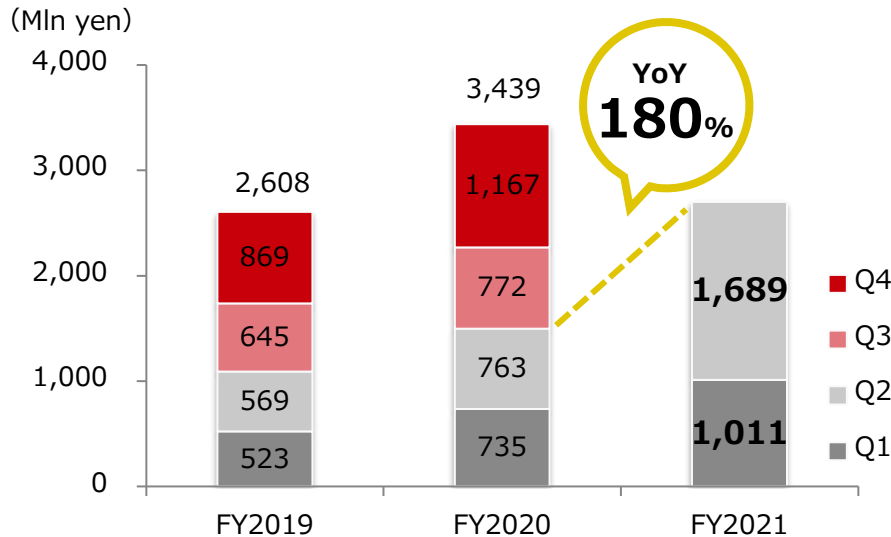


Quarterly trend

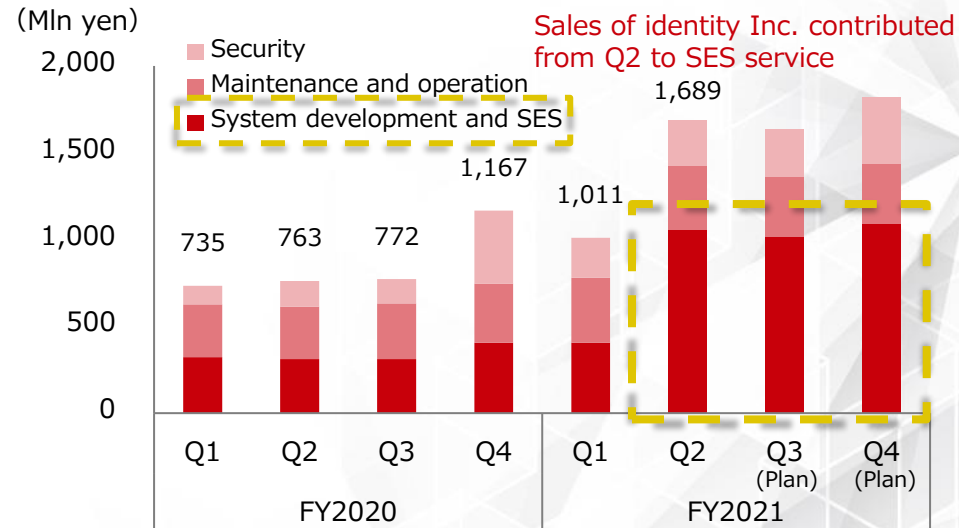


- System Development and SES grew significantly due to the contribution of the results of newly joined **identity Inc.**, consolidated from Q2 FY2021.
- As an organic growth, excluding impacts of M&A, **double-digit sales growth** in all of Security, Maintenance and Operation, and System Development and SES. Especially Security achieved **growth of approx. double (YoY)** against the backdrop of acceleration of DX and expansion of remote work, etc.
- In response to growing cyber security demand, training and developing security personnel by utilizing our unique programs.

Quarterly sales



Quarterly sales by service

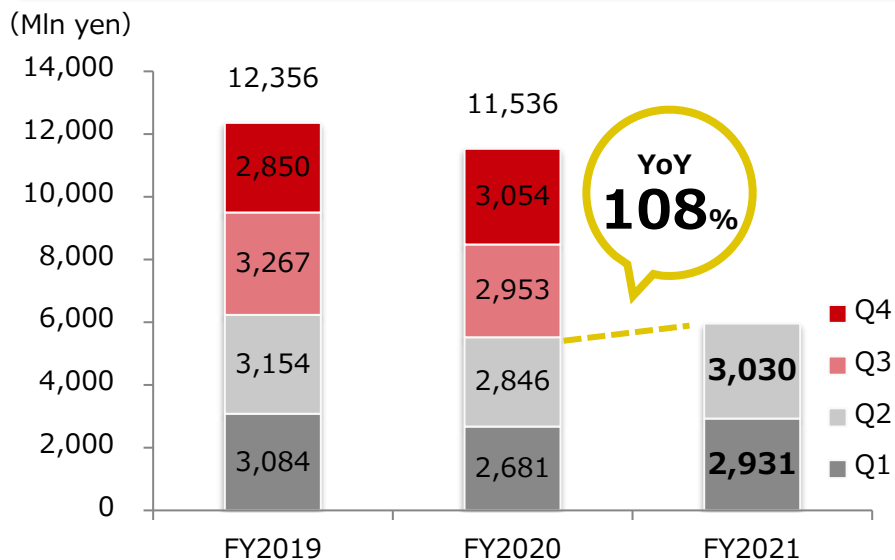


- With the expansion of stay-at-home demand in the pandemic of the COVID-19, development of new titles has become active, mainly in console games. Amid this market environment, we have steadily acquired new debugging projects and global projects, **achieving double-digit growth in net sales in 1H FY2021.**
- Segment income grew significantly, **over 1.5 times (YoY).** In addition to Domestic Debugging division's improvement in the gross margin ratio, Global and others division also contributed to the increase in profits.
- From Q1 FY2021, the classification of sub-segments has been changed to visualize **"Global and others division"** as an independent growth driver of us.

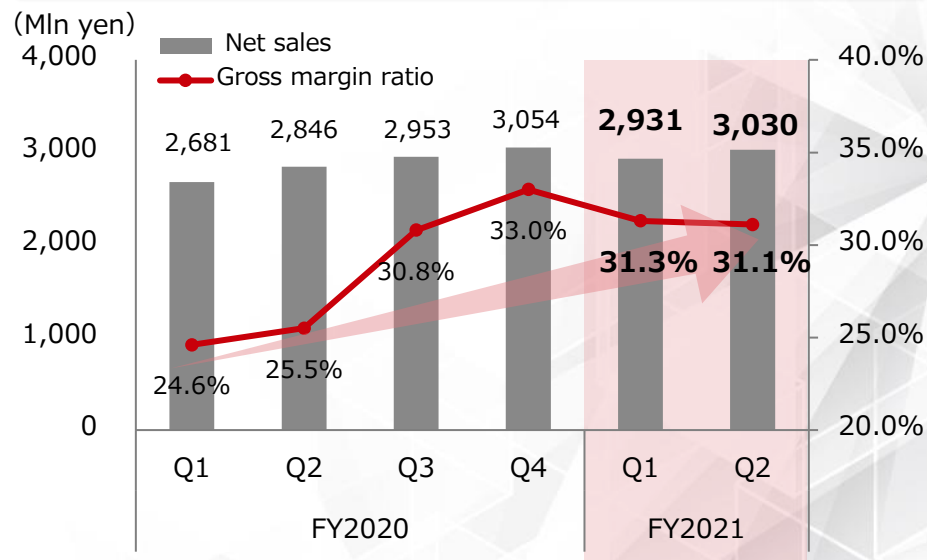
(Mln yen)	1H FY2020	1H FY2021	YoY Change
Net sales	7,466	8,635	115.7%
Domestic Debugging	5,528	5,961	107.8%
Global and others	1,937	2,674	138.0%
Segment income	1,217	1,906	156.6%
EBITDA	1,278	2,009	157.2%

- Debugging for console games was strong with active new title developments, and it has **driven the growth in the Domestic Debugging division**.
- Gross margin ratio was **over 30%**, maintaining a high level from the second half of the previous year, with larger sales volume and improvements in efficiency.
- Aiming to **further increase market share** as a leading company in game debugging and **further improve profitability** by higher operational efficiency.

Quarterly sales

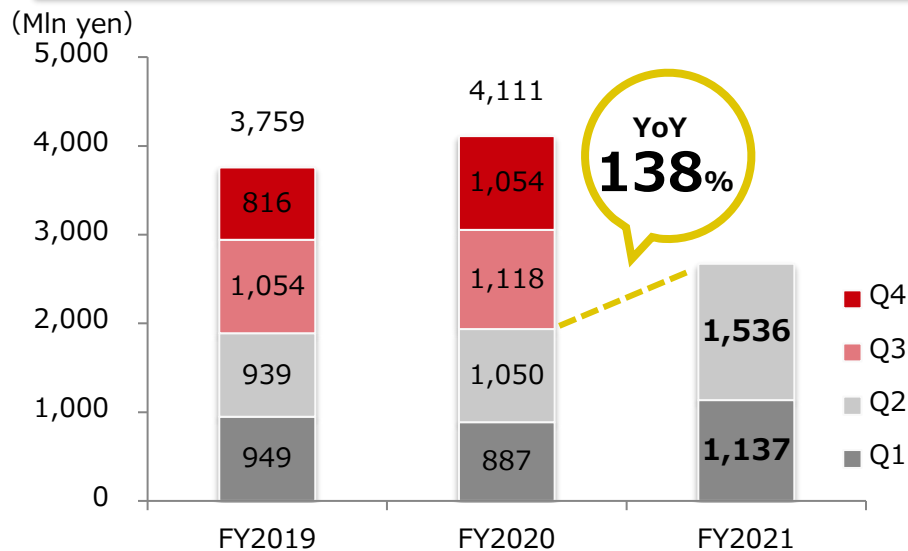


Quarterly trend

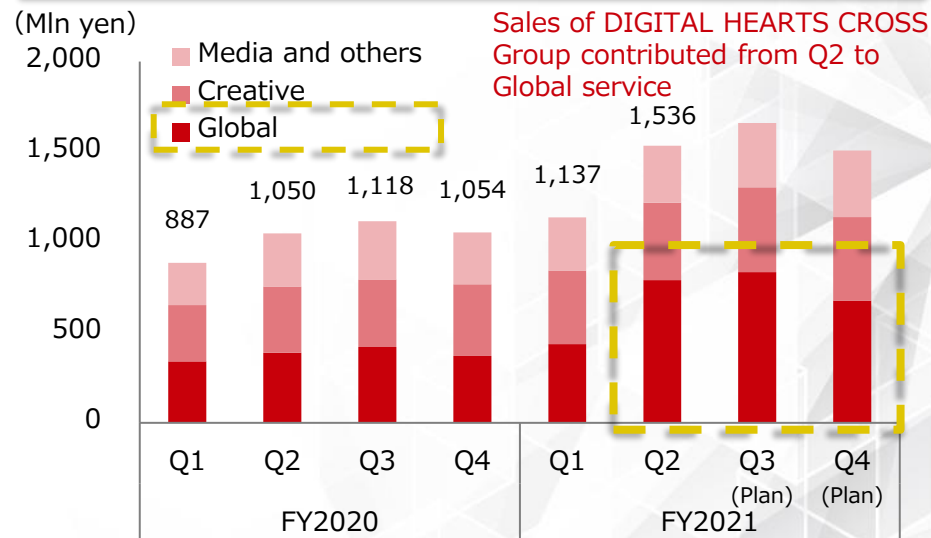


- Amid accelerating multi-national expansion of game titles, actively acquired cross-border/global projects from Japanese, Chinese, and Korean game companies, and **achieved double-digit sales growth of 1H in all services.**
- Significant sales growth in global services from Q2 FY2021 due to contributions from the results of newly consolidated **DIGITAL HEARTS CROSS Group** (Former Metaps Entertainment Group) acquired through M&A.
- **Pursueing synergies** with DIGITAL HEARTS CROSS Group to aim for **rapid expansion** Global and others division.

Quarterly sales









Quarterly sales by service



To aim for double-digit sales growth in both Enterprise and Entertainment Business and record-high profits by contribution of Enterprise Business.

(Mln Yen)	Full-year FY2020 (Actual)	Full-year FY2021 (Forecast)	YoY Change
Net sales	22,669	28,420	125.4%
Enterprise	7,021	11,000	156.7%
Entertainment	15,647	17,420	111.3%
Operating income	1,908	2,100	110.0%
Operating income margin	8.4%	7.4%	-1.0points
Ordinary income	1,975	2,100	106.3%
Profit attributable to owners of parent	974	1,400	143.7%
EBITDA	2,322	2,800	120.5%

Major Initiatives for FY2021

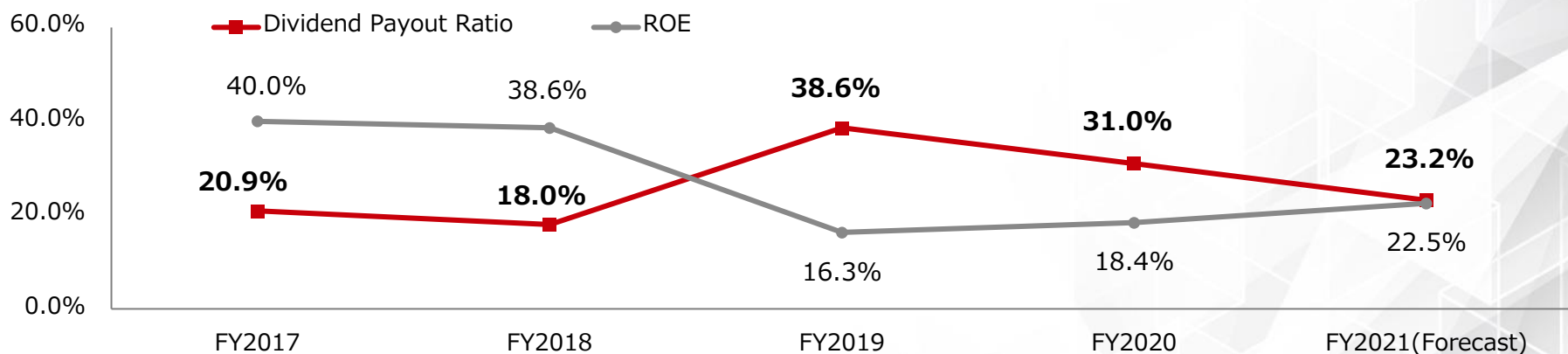
	Major initiatives	Results in 1H
Enterprise Business	Expand investment in advanced IT engineers and other human resources.	 Increase in engineers by recruitment and training, as well as in freelance engineers by acquiring identity Inc. as subsidiary.
	Cultivate new clients and improve the annual sales per client through cross-selling of various services among system testing, cyber security and others.	 Steady increase in number of customers and average sales per client due to strengthened cross-selling, including test automation.
	Utilize offshore bases with engineers in Vietnam.	 Operating rate improved compared to FY2020, but lower than expected due to the impact of lockdowns.
Entertainment Business	Expand the scale of transactions by enhancing added value and sales capabilities.	 Achieved sales growth of 115.7% by expanding sales in both Domestic Debugging and Global and others.
	Improve the profitability by strengthening the operation system and introducing original tools for efficiency.	 Gross margin ratio of 1H for Domestic Debugging improved significantly by 6.1 points (YoY).
	Aim for early launch of "Comprehensive Localization Services" by synergies with newly acquired DIGITAL HEARTS CROSS Group.	 Increase in new acquisition projects for global services by sharing of client bases.

The interim dividends are 7.5 yen, an increase of 0.5 yen from FY2020.
Annual dividends are expected to be 15.0 yen, an increase of 1.0 yen from FY2020.

Basic Policy to Return Profits to Shareholder

While securing sufficient internal reserves to invest in business growth and strengthen our management structure, stable dividends to shareholders with a payout ratio of 20% as the minimum target

(Yen)	FY2017	FY2018	FY2019	FY2020	FY2021 (Forecast)
Annual dividends	11.5	13.0	14.0	14.0	15.0
(Interim dividends)	5.5	6.5	7.0	7.0	7.5
(Year-end dividends)	6.0	6.5	7.0	7.0	7.5



Growth Strategy

With the advent of the DX era, the expertise required for software testing becoming dramatically higher.

What is DX?

As responding to dramatic changes in the business environment, through utilizing data and digital technologies, each company's transforming its products, services, and business models based on the needs of customers and society as well as its business operation, organization, processes, and corporate culture, to establish a competitive advantage in the market.

Changes in Software Development

Upgrading of technology

- Software becoming more and more complex.
- Increasing mission-critical digital services.



Diversification of user needs Increasing uncertainty

- Increased agile development with short cycles to respond flexibly to market changes.



More emphasis on quickness and efficiency

- Efficient development of high-quality products in a short period of time.



Changes in Software Testing

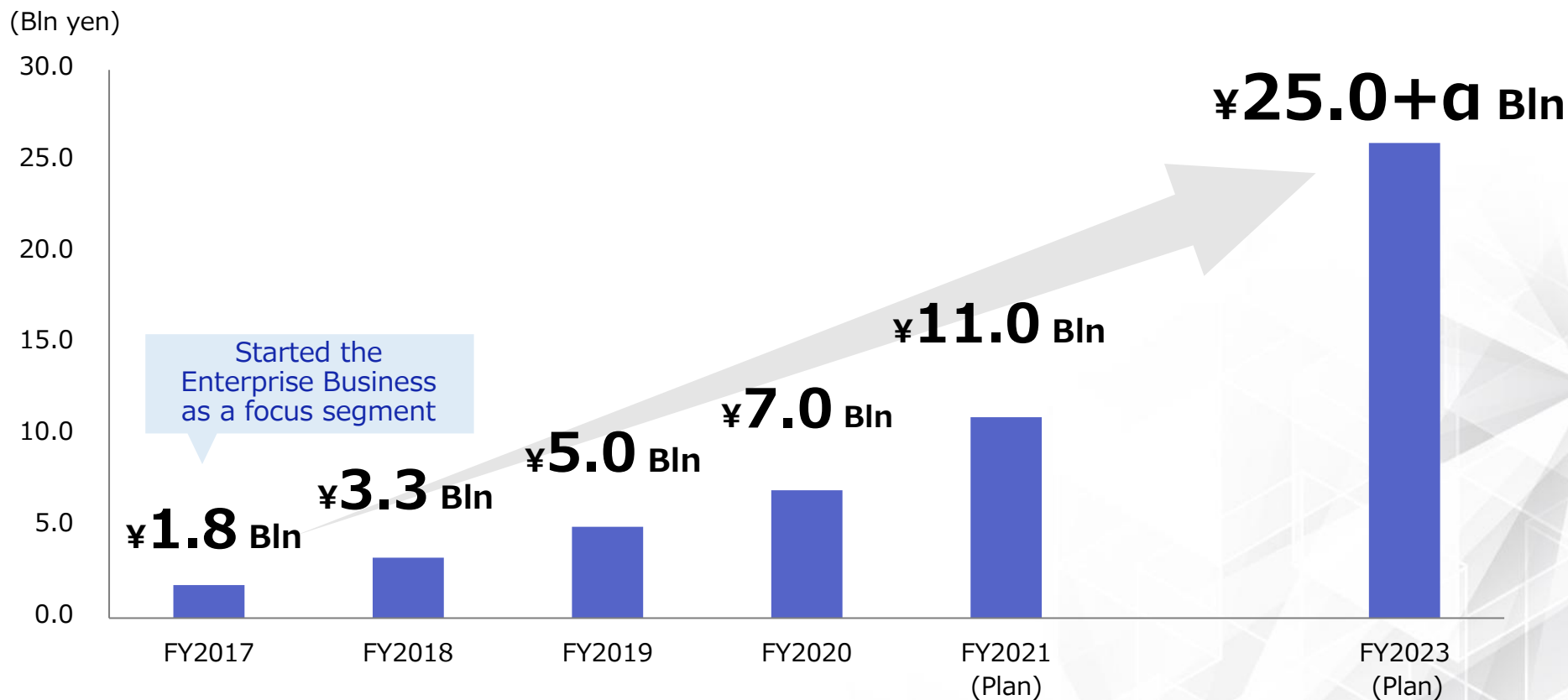
- Software testing also requires advanced technology and knowledge.
- Evolutionary testing techniques need to be established.

- Test execution is required, not to check fully developed software, but to run in parallel with development.

- Requires support for test automation.
- Importance of how to identify the parts by test automation and by manual testing.

**Amid a boost from the acceleration of DX,
further accelerating the growth pace to achieve ¥25.0 billion
in the Enterprise Business**

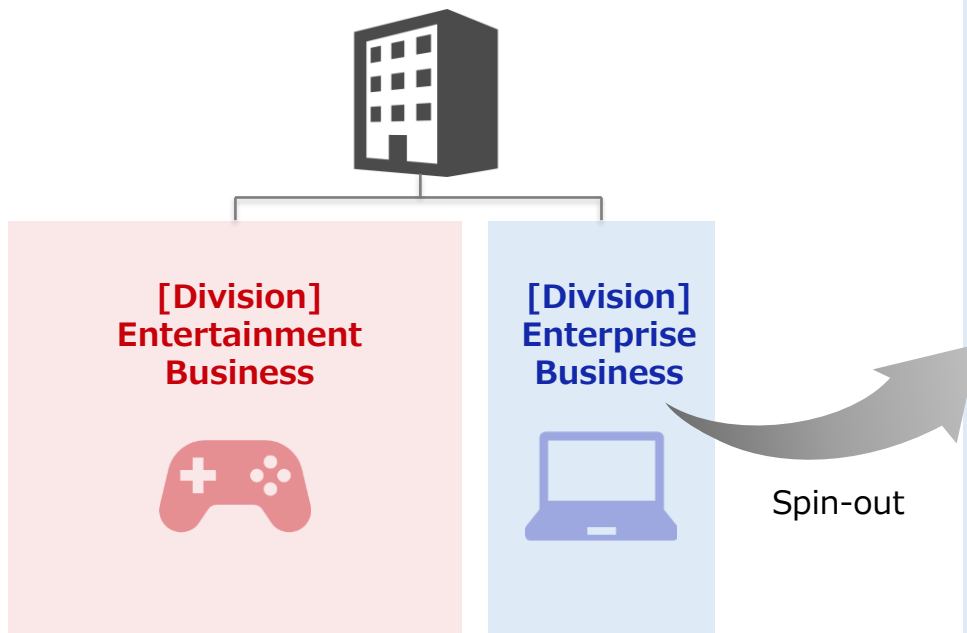
■ Sales of Enterprise Business



Aiming to form an attractive group where leading-edge technology engineers naturally gather

**Spin-out as an independent company
from just as an internal division of a subsidiary**

Subsidiary
DIGITAL HEARTS Co., Ltd.



"Next-Generation QA company"

(Current: DIGITAL HEARTS NETWORKS Co., Ltd.)

* Scheduled to change the company name following to this reorganization



Businesses

System Testing, Cyber-security

Culture

Group of innovative software testing engineers and IT specialists using advanced technologies

Employee Attributes

- Leading-edge technology engineers
- Engineers and IT specialists

M

ission

[Group Mission]

SAVE the DIGITAL WORLD

V



ision

To provide wealth of value and rich experience across all DXs by leading-edge quality technology

To develop a global standard of software testing through innovation by researching advanced technologies and developing QA engineers

Improve technical capabilities and expertise

Collaboration with agile development experts



Technical Adviser
Fujiwara


Partner
Red Journey inc.

**CTO
Jokura**




Overall
Technology

**CTSO(*)
Takahashi**



Technology of
Software Test

**CPO(*)
Seki**



Project
Consulting

Collaboration with software testing experts

Worldwide authority to test the ISTQB (*)



Nguyen Black

Researching advanced technologies

To establish QA Laboratories (tentative)

- Develop new testing methods suitable for agile developments
- Develop software testing tools
- Industry-university collaboration

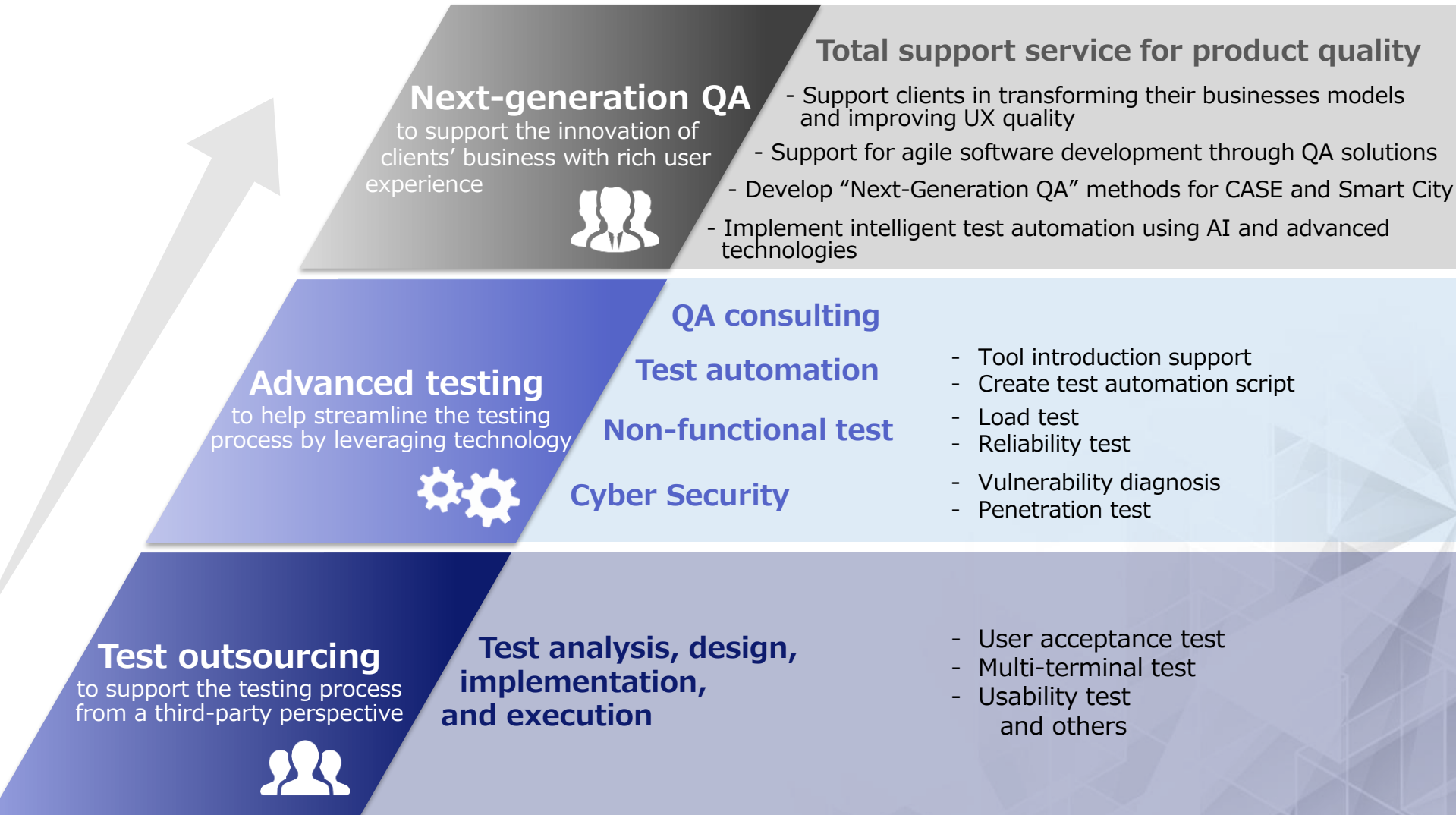
Developing software testing engineers and other specialists

To establish QA Academy (tentative)

- World-class training programs for software testing
- Development programs for cybersecurity specialists based on the knowledge of ethical hackers

Representative of our Group Company "LOGIGEAR CORPORATION"

To provide the best QA solutions for various clients with diverse needs



Medium-Term Targets (FY2021-FY2023)

FY2023 Target

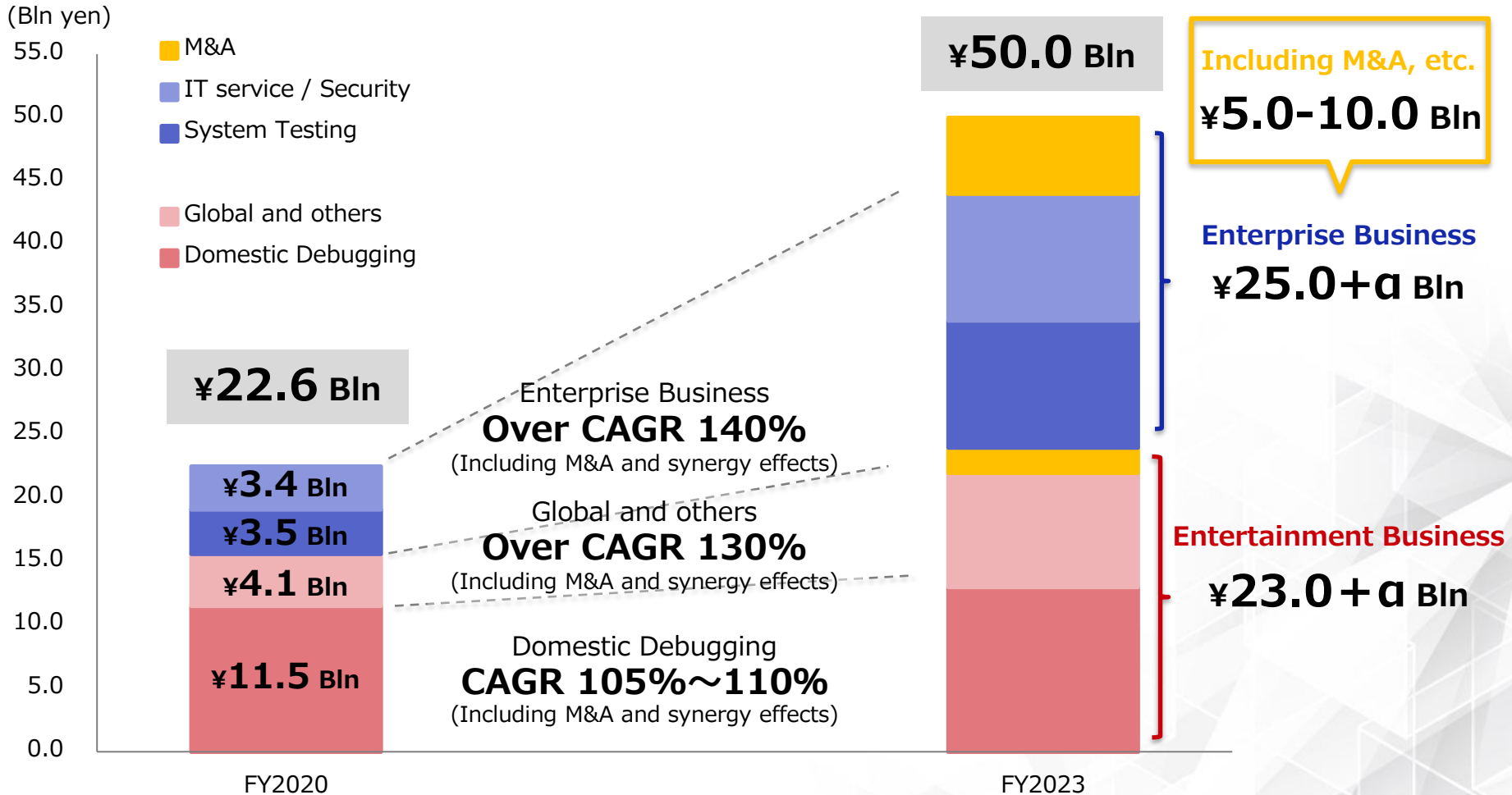
	<FY2020 Result>		<FY2023 Target>
Consolidated Sales	22.6 Bln yen	»	50.0 Bln yen
ROIC ^(*1)	16.8%	»	over 15%
M&A projects	3 projects	»	5 projects (in 3years)
Number of Clients in Japan as a group	878 companies	»	2,000 companies
Number of IT Human Resources incl. Qualitist ^(*2)	4,517 people	»	20,000 people
Female managers ratio (ratio to total managers) ^(*3)	10.7%	»	over 20%

*1 ROIC=EBITDA×(1-effective tax rate)÷(interest-bearing debt+shareholders' equity)

*2 Qualitist...Our original term for specialist contributing to the quality incl. engineers

*3 calculated from the data of our group companies in Japan

Aiming to achieve ¥50.0 billion sales in FY2023 with rapid growth of Enterprise Business led by “Next-generation QA company”



Appendix

Why Invest in DIGITAL HEARTS

Employment creation
for more than
8,000 testers



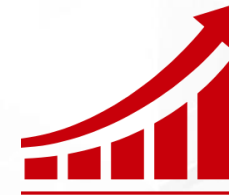
Ratio of
independent
outside directors
40.0%



One of the few
testing focusing companies
in Japan



High market growth rate* with
CAGR at **12%**



Business that supports
Digital security



Foreign staff
members of more
than
20 nationalities



*Data on the growth rate of the market of software testing services for 2020 to 2024
(References)Websites related to "Global Software Testing Services Market 2020-2024"

Our Mission

SAVE the DIGITAL WORLD

Market environment

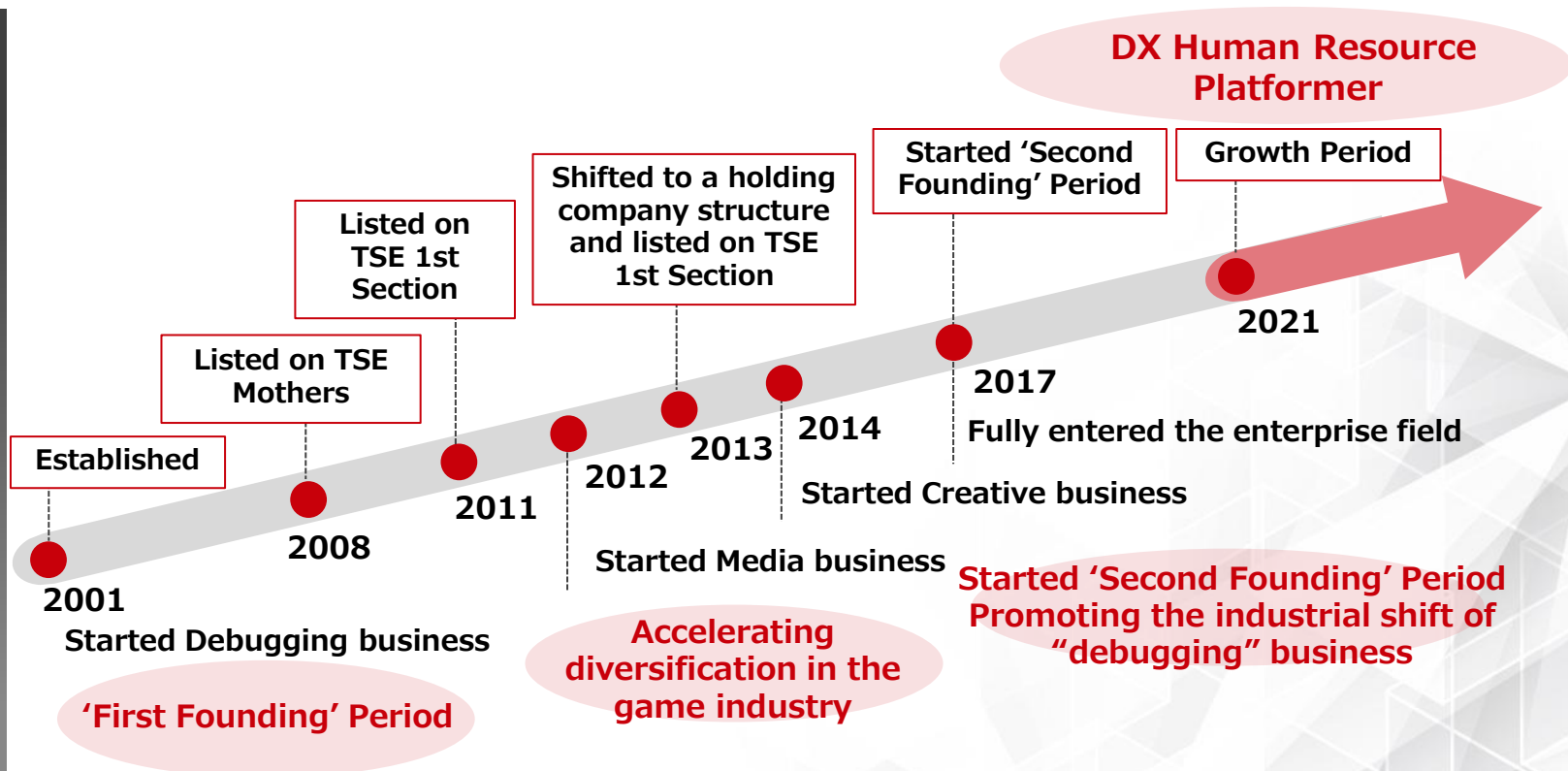
Growth of game console market

Growth of mobile game market

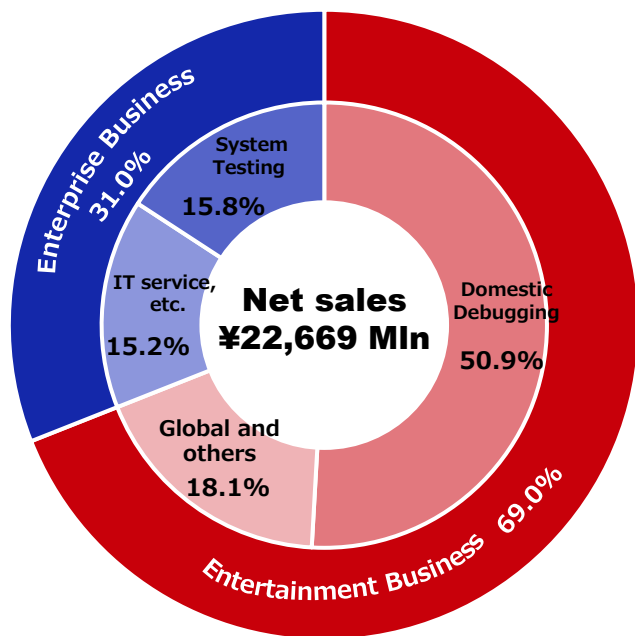
Expansion of IoT

Expansion of DX

History



System Testing and Debugging our core business

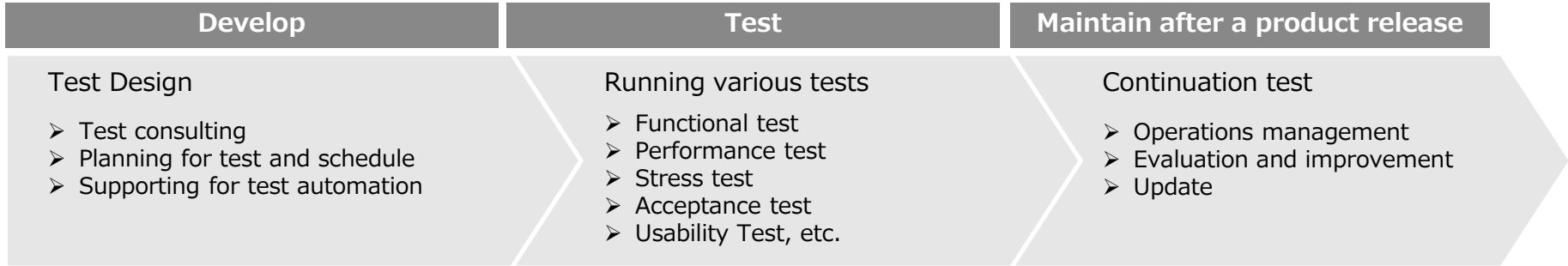


Sales breakdown by segment (FY2020)

※Sales of each segment and unit include inter-company sales and/or transfers.

Enterprise Business	System Testing	15.8%	<ul style="list-style-type: none"> ➤ Testing for enterprise system incl. website ➤ Test automation support ➤ DevOps / Agile testing support
	IT service / Security	15.2%	<ul style="list-style-type: none"> ➤ Development support of IT System ➤ IT support ➤ Security testing / monitoring
Entertainment Business	Domestic Debugging	50.9%	<ul style="list-style-type: none"> ➤ Debugging for console games, mobile games and pachinko/slot machines
	Global and others	18.1%	<ul style="list-style-type: none"> ➤ Translation, LQA*, and localization for game software ➤ Marketing support for game launching in overseas markets ➤ Game development and CG development ➤ Game information site "4Gamer.net"

Our Services



Outline of Services

Service	Description	Main client	Barriers to entry	Outsourced Projects Ratio
System Testing	Detection of bugs in enterprise systems from a test-engineers' knowledge.	<ul style="list-style-type: none"> - SIers - Development vendors - Core system enterprises 	<p>Middle</p> <p>↑ Human resource shortage in IT Industry</p>	Low
Debugging	Detection of bugs in games from a player's perspective.	<ul style="list-style-type: none"> - Game makers 	<p>High</p> <p>↑ A license for purchasing dedicated equipment for debugging is required.</p> <p>↑ Knowledge and expertise on human resource management to accommodate changeable development schedules are required.</p>	High

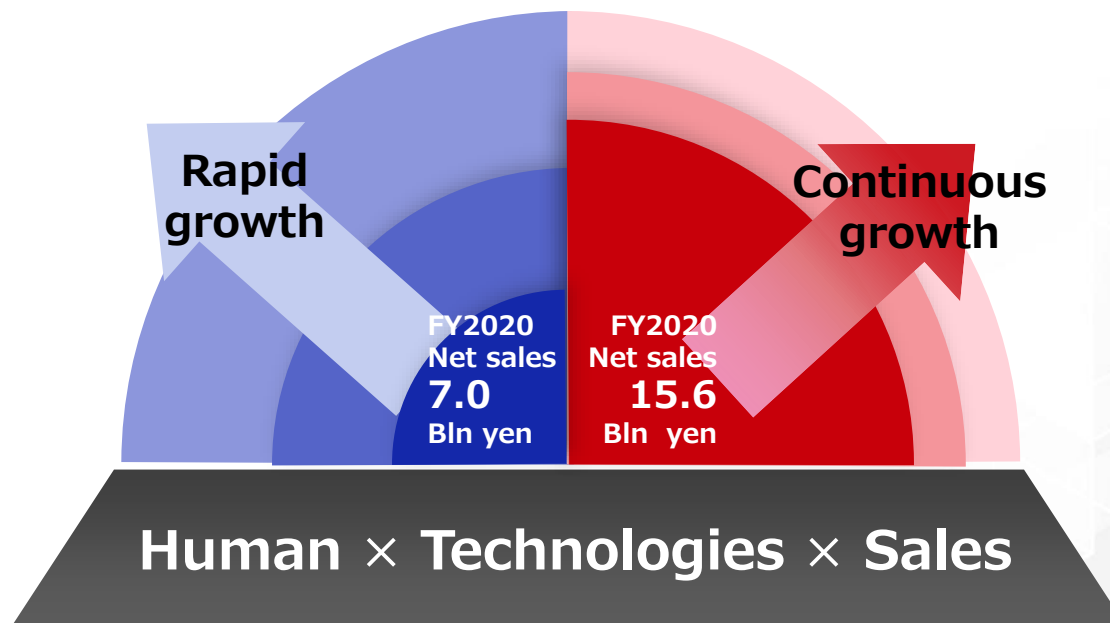
Keep higher growth centered on the Enterprise Business Medium-term target : Sales of 50.0 billion yen and ROIC of over 15% in FY2023

Enterprise Business

- The outsourcing of test processes is accelerated, due to the acceleration of DX and the serious human resources shortage in the IT industry.
- ◆ Accelerate investment in human capital and technologies for business expansion.
- ◆ As the main growth driver, aiming for continuous rapid growth.

Entertainment Business

- The domestic game market remained stable.
- ◆ Focus on expanding business through "comprehensive localization" such as translation and marketing service necessary for overseas expansion of game titles.
- ◆ Continue to improve profitability as a core business of the company.



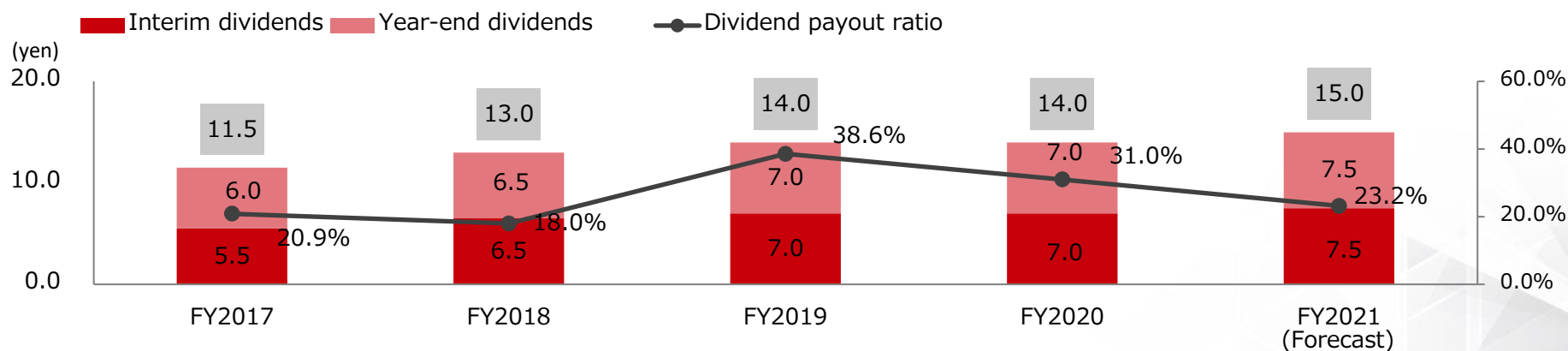
Summary of Earnings by Segment

(MIn yen)		FY2017	FY2018	FY2019	FY2020	
Enterprise Business	Net sales	1,892	3,302	5,022	7,021	
	Segment income	-14	-226	-67	188	
	System Testing	1,084	1,395	2,414	3,581	
	IT service / Security	808	1,907	2,608	3,439	
Entertainment Business	Net sales	15,568	15,951	16,115	15,647	
	Segment income	2,966	3,086	2,964	3,077	
	Domestic Debugging	12,503	12,012	12,356	11,536	
	Global and others	3,065	3,939	3,759	4,111	
Inter-segments adjustments	Net sales	-108	-0	—	—	
	Segment income	-1,215	-1,254	-1,503	-1,356	
	Consolidated total	Net sales	17,353	19,254	21,138	22,669
		Operating income	1,735	1,605	1,394	1,908

Basic Policy to Return Profits to Shareholders

While securing sufficient internal reserves to invest in business growth and strengthen our management structure, stable dividends to shareholders with a payout ratio of 20% as the minimum target

Changes in dividends



Recent treasury stock acquisition

We acquire treasury shares flexibly by considering the necessity in light of our capital policy, the impact on our financial strength, and other factors, after securing funds for investment in growth.

Acquisition period	Acquired shares	Total Purchase Amount
November 12, 2019 - February 6, 2020	474,700 shares	499 Mln yen
February 20, 2017 - April 28, 2017	664,500 shares	999 Mln yen

Major risks

Countermeasures

1. Leakage of confidential information

- Prohibiting staff members from bringing personal items into the test room
- Physical security measures including access control with fingerprint authentication and the installation of security cameras
- Introduction of a personal reference system that applies to all registered testers

2. Obsolescence of existing services by technological innovation

- Focusing on the application of the latest technologies, including a test automation project
- Focusing on the development of new services to improve added value

3. Reduction of productive population in Japan

- Developing internal training programs that will enable the active participation of members with diverse generational, racial, and other backgrounds
- Securing human resources strategically by using overseas offices as well

4. Expansion of corporate acquisition and new businesses

- In-depth market research and due diligence
- Reducing risks by building a system for appropriate business management after acquisition

(Ref.) Our Aims for Sustainable Value Creation

Our Major Initiatives and Sustainable Development Goals (SDGs)

Human resource

To resolve the shortage of IT human resource

- In-house support system for all employees (incl. part-timers) to acquire the test engineer's qualification "JSTQB".
- Ethical hacker training courses and engineer training programs for employees.
- Opened a free school for engineers in collaboration with WORKPORT, inc.
- Project to discover and foster potential ethical hacker candidates among high school students in collaboration with HASSYADAI.social.



Human resource

Workplace for diverse human resources

- Provide workplaces for diverse people such as students, part-timers, young actors and musicians, and people with disabilities at test centers with over 3,000 people every day.
- Employ foreign nationalities of more than 20 countries/areas, such as Asia, Europe and the U.S., who engage in translation/linguistic debugging service, etc.



Technology

To realize a secure and safe digital society

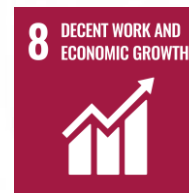
- Contribute to improve quality of various kinds of software through game debugging, system testing, and other services.
- Preservation of information assets in the net society through cyber security services.
- Challenges for technological innovation through research and development on test automation and AI utilization.



Communities

To revitalize local community and resolve IT disparities

- Create jobs through out nationwide test centers (Lab.) and promote teleworking/work-from-home style by Remote Debugging service.
- Implemented "Cyber Security Support Team for SMEs in Tohoku region" as one of projects of Information-technology Promotion Agency, Japan (IPA)



(As of September 30, 2021)

DIGITAL HEARTS Co., Ltd.

Entertainment Business

Enterprise Business

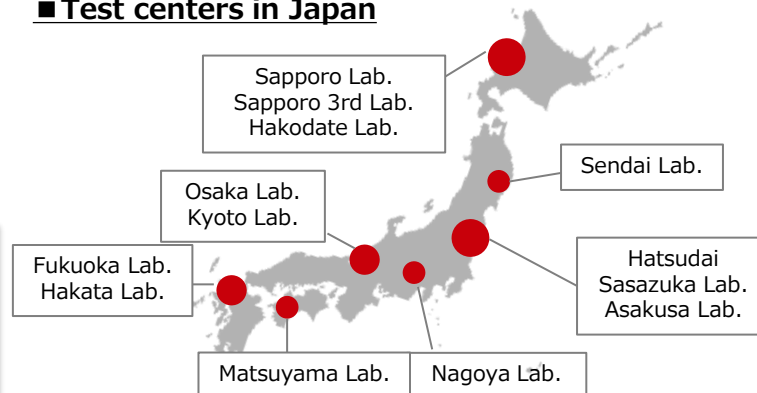


Business Activities : Game debugging, Localization, System testing, System development, Security, etc.

[Strengths]

- **Over 8,000** registered testers
- **Over 300** engineers
- **13** test centers (Lab.)
- Use a variety of **automation tools**

■ Test centers in Japan



DIGITAL HEARTS (Shanghai) Co., Ltd.

Entertainment Business



Business Activities : Game debugging, Localization, etc.

Orgosoft Co., Ltd.

Entertainment Business



Business Activities : Game debugging, Localization, etc.

DIGITAL HEARTS CROSS Group

Entertainment Business



Business Activities : Marketing support, etc.

LogiGear Group

Enterprise Business



Business Activities : System Testing, Test Automation Support



ANET Corporation

Enterprise Business



Business Activities : System testing, System development, etc.

Red Team Technologies Co., Ltd.

Enterprise Business



Business Activities : Ethical hacker service and technical support

Aetas, Inc.

Entertainment Business



Business Activities : Operation of a game information site, "4Gamer.net", etc.

FLAME Hearts Co., Ltd.

Entertainment Business



Business Activities : Game development and CG content development

identity Inc.

Enterprise Business



Business Activities : Freelance engineers' IT projects and job site management, etc.



DIGITAL HEARTS HLDGS.

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