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Summary of Business Results for the First Quarter Ended June 30, 2022 [Japan GAAP] (Consolidated)

August 9, 2022

Company name: DIGITAL HEARTS HOLDINGS Co., Ltd. Listed on the TSE
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 Scheduled date of submission of financial reports: August 10, 2022
 Scheduled commencement of dividend payment: -
 Preparation of supplementary material for quarterly financial results: Yes
 Holding of quarterly financial results meeting: None

(Figures are rounded down to the nearest million yen.)

1. Consolidated results for the first quarter ended June 30, 2022 (April 1, 2022 - June 30, 2022)

(1) Consolidated business results (Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
Three Months Ended								
June 30, 2022	8,372	37.3	639	0.5	637	-4.8	416	-14.7
June 30, 2021	6,098	19.7	636	301.3	670	244.9	487	391.3

(Reference) Comprehensive income: Three months ended June 30, 2022: 717 million yen (41.3%)
 Three months ended June 30, 2021: 507 million yen (643.0%)

	Net income per share	Diluted net income per share
Three Months Ended	(yen)	(yen)
June 30, 2022	19.24	-
June 30, 2021	22.57	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	(%)
As of June 30, 2022	19,033	8,111	39.5
As of March 31, 2022	17,565	7,576	39.9

(Reference) Shareholders' equity: 7,524 million yen (As of June 30, 2022) 7,004 million yen (As of March 31, 2022)

2. Dividends

	Annual dividends				
	Q1	Q2	Q3	Year End	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended March 31, 2022	—	7.50	—	7.50	15.00
Fiscal year ending March 31, 2023	—				
Fiscal year ending March 31, 2023 (Forecasts)		10.50	—	10.50	21.00

(Note) Changes from the latest released dividend forecasts: None

3. Consolidated earnings forecasts for the fiscal year ending March 2023 (April 1, 2022 - March 31, 2023)

(Percentages are changes from the same period of the previous year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Yen)
Full fiscal year	35,500	21.7	3,290	21.8	3,290	18.4	2,250	26.4	104.02

(Note) Changes from the latest released earnings forecasts: None

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of specified accounting treatment used in preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting estimates and restatement

- (a) Changes in accounting policies associated with revision of accounting standards :Yes
- (b) Changes in accounting policies other than (a) above :None
- (c) Changes in accounting estimates :None
- (d) Restatement :None

(Note) For details, please see page 9 of the attached materials to the Quarterly Summary of Business Results "2. Quarterly Consolidated Financial Statements and Important Notes (3) Important Notes to the Quarterly Consolidated Financial Statements (Changes to Accounting Policies)".

(4) Shares outstanding (common stock)

(a) Number of issued shares (including treasury stock)	As of June 30, 2022	23,890,800 shares	As of March 31, 2022	23,890,800 shares
(b) Number of treasury stock	As of June 30, 2022	2,260,060 shares	As of March 31, 2022	2,260,031 shares
(c) Average number of shares during the period	Three months ended June 30, 2022	21,630,756 shares	Three months ended June 30, 2021	21,613,369 shares

* The certified public accountant or the audit procedures are not applicable to this Quarterly Financial Report.

* Explanation for proper use of the earnings forecasts and other special notes

- Any forward-looking statements included in this report such as earnings forecasts are based on the information available to the Company at this time and certain assumptions considered reasonable; and accordingly, actual results may differ significantly from the forecasts due to various factors.
- Presentation material will be posted on TD net and the Company's website.

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1. Qualitative Information on Quarterly Results

(1) Explanation of financial results

	FY2021 Q1 (JPY in thousand)	FY2022 Q1 (JPY in thousand)	Change (%)
Sales	6,098,810	8,372,061	37.3
Operating income	636,462	639,914	0.5
Ordinary income	670,356	637,884	-4.8
Net income attributable to owners of the parent	487,747	416,103	-14.7

Against a backdrop of exponentially increasing use of Internet of Things (IoT) technologies and accelerating digital transformation (DX), the digital markets in which the Group does business are undergoing diversification of content and services at an extremely rapid pace. At the same time, as individual companies are facing chronic shortages in the IT human resources needed to support their development and operation activities, the Group expects continued growth in revenue opportunities from providing services to support clients in areas such as software development, testing, maintenance and operation, and security.

Under these conditions, the Group will aim toward further growth through focusing on expanding the Enterprise Business, where demand is growing rapidly, underpinned by the Entertainment Business, which is a highly profitable business. During the cumulative period through the consolidated first quarter, net sales of the Enterprise Business, which is our focus business, continued their growth at a high level, including growth of approximately 1.8 times thanks in part to the effects of M&A activities, and the Entertainment Business also performed favorably, as it realized double-digit growth in net sales against a backdrop that includes a favorable console-game market.

As a result, net sales during the cumulative period through the consolidated first quarter showed substantial growth to JPY8,372,061 thousand (up 37.3% YoY). Operating income also increased from the previous year to JPY639,914 thousand (up 0.5% YoY), despite more proactive investment, including in human resources, for future growth, centered on the Enterprise Business. Ordinary income, however, was JPY637,884 thousand (down 4.8% YoY) due to factors including the difference in the timing of recording subsidy income, and net income attributable to owners of the parent was JPY416,103 thousand (down 14.7% YoY).

Business results by segment are reviewed below.

	FY2021 Q1 (JPY in thousand)	FY2022 Q1 (JPY in thousand)	Change (%)
Sales	6,098,810	8,372,061	37.3
Enterprise Business	2,029,589	3,589,171	76.8
Entertainment Business	4,069,221	4,818,390	18.4
Adjustment	-	-35,500	-
Operating income	636,462	639,914	0.5
Enterprise Business	87,871	29,681	-66.2
Entertainment Business	930,562	1,036,309	11.4
Adjustment	-381,971	-426,076	-

Net sales of each segment includes internal sales or transfers between segments, and segment profit is based on operating income.

(i) Enterprise Business

This segment mainly consists of QA Solutions such as system testing for detecting defects in enterprise computer systems, security testing, ERP introduction support, and other services, as well as IT services such as dispatching engineers, system maintenance and operation support, and other services.

During the cumulative period through the consolidated first quarter, we proactively carried out hiring activities for engineers using the different "Tech" branding image from the "Game Entertainment" image of the Group, centered on AGEST, Inc., which is the core company in the Enterprise Business, that was newly formed through Group organizational restructuring on April 1, 2022. In addition, combined with promoting efforts to improve quality assurance (QA) technological capabilities through means including launching research institutes and in-house educational institutions related to cutting-edge quality technology, we also endeavored to improve awareness of AGEST, Inc., and identify outsourcing needs such as QA, through means including active participation in seminars and exhibitions conducted by CTSO (Chief Testing Solution Officer). Furthermore, combined with promoting business growth in the ERP domain through enhancing Group-wide coordination with newly joined subsidiaries through acquisition last year, we also promoted growth strategies through use of M&A and other means, including conclusion of absorption-type split contracts and business alliance contracts inherited by AGEST, Inc. in the Quality Assessment Business of Sobal Corporation.

As a result, net sales in the Enterprise Business continued to grow at a high level of JPY3,589,171 thousand (up 76.8% YoY) in the cumulative period through the consolidated first quarter, thanks in part to the effects of M&A activities conducted last year. Segment profits were JPY29,681 thousand (down 66.2% YoY) due to the impact of aggressive investment in future growth.

(ii) Entertainment Business

This segment mainly consists of domestic debugging services for console games, mobile games, and similar software, as well as global services such as game localization and LQA (Linguistic quality assurance), game development support, marketing support, and other services.

In the domestic debugging service during the cumulative period through the consolidated first quarter, we made progress on securing new transactions backed by growth in demand in the robust console-game market, and realized double-digit growth in net sales. In Global and other services, we also secured growing demand for translation, LQA, and marketing support due to the active global deployment of content, and thanks to the effects of M&A activities, we also realized large-scale growth in sales. In addition, we also made progress on efforts toward further growth, including enhancing our services and providing new value, through a capital and business alliance agreement with GameWith, Inc.

As a result, net sales in the Entertainment Business during the cumulative period through the consolidated first quarter were JPY4,818,390 thousand (up 18.4% YoY), and segment income was JPY1,036,309 thousand (up 11.4% YoY).

(2) Description of financial standing

(Assets)

The balance of current assets was JPY10,874,959 thousand, up JPY482,078 thousand from the level of JPY10,392,881 thousand at the end of the previous consolidated fiscal year (up 4.6% from the previous period).

The balance of non-current assets was JPY8,158,469 thousand, up JPY985,990 thousand from the level of JPY7,172,479 thousand at the end of the previous consolidated fiscal year (up 13.7% from the previous period).

This was due mainly to factors such as JPY446,722 thousand in acquisition of investment securities and JPY368,617 thousand in acquisition of property, plant, and equipment through establishment of new offices, etc.

(Liabilities)

The balance of current liabilities was JPY10,759,379 thousand, up JPY1,080,032 thousand from the level of JPY9,679,346 thousand at the end of the previous consolidated fiscal year (up 11.2% from the previous period).

This was due mainly to an increase of JPY1,385,454 thousand in short-term loans payable.

The balance of non-current liabilities was JPY162,574 thousand, down JPY147,100 thousand from the balance of JPY309,674 thousand at the end of the previous consolidated fiscal year (down 47.5% from the previous period).

This was due mainly to a decrease of JPY169,674 thousand in long-term loans payable.

(Net assets)

The balance of net assets was JPY8,111,475 thousand, up JPY535,136 thousand from the level of JPY7,576,339 thousand at the end of the previous consolidated fiscal year (up 7.1% from the previous period).

This was due mainly to a decrease of JPY162,230 thousand in retained earnings resulting from payment of year-end dividends, despite an increase of JPY416,103 thousand in retained earnings resulting from recording quarterly net income attributable to owners of the parent.

(3) Explanation of forward-looking information such as forecasts of consolidated financial results

Financial results are proceeding largely according to plan in the cumulative period through the consolidated first quarter. As of the time of this report, there has been no change from the forecast of financial results announced May 12, 2022 in the Summary of Business Results for the Fiscal Year Ended March 31, 2022[Japan GAAP] (Consolidated).

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2022)	First quarter of this consolidated fiscal year (June 30, 2022)
Assets		
Current assets		
Cash and deposits	5,208,746	5,573,300
Notes and accounts receivable-trade and contract assets	4,411,554	4,614,241
Short-term investment securities	34,506	36,717
Inventories	17,367	39,446
Income taxes receivable	47,112	75,894
Other	741,693	609,312
Allowance for doubtful accounts	-68,099	-73,953
Total current assets	10,392,881	10,874,959
Noncurrent assets		
Property, plant and equipment	693,353	1,067,625
Intangible fixed assets		
Goodwill	4,763,421	4,812,456
Other	331,292	394,444
Total intangible fixed assets	5,094,713	5,206,901
Investments and other assets		
Investment securities	236,595	706,033
Other	1,155,997	1,186,090
Allowance for doubtful accounts	-8,181	-8,181
Total investments and other assets	1,384,412	1,883,942
Total noncurrent assets	7,172,479	8,158,469
Total assets	17,565,361	19,033,429
Liabilities		
current liabilities		
Short-term loans payable	5,421,296	6,806,750
Accrued expenses	1,184,413	1,183,127
Income taxes payable	511,871	281,636
Provision for bonuses	100,190	52,591
Other	2,461,574	2,435,274
Total current liabilities	9,679,346	10,759,379
Noncurrent liabilities		
Long-term loans payable	169,674	-
Net defined benefit liability	45,891	51,686
Other	94,109	110,887
Total noncurrent liabilities	309,674	162,574
Total liabilities	9,989,021	10,921,953

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2022)	First quarter of this consolidated fiscal year (June 30, 2022)
Net assets		
Shareholders' equity		
Capital stock	300,686	300,686
Retained earnings	9,021,248	9,275,121
Treasury stock	-2,545,696	-2,545,746
Total shareholders' equity	6,776,238	7,030,060
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,921	24,680
Foreign currency translation adjustment	219,101	469,365
Total accumulated other comprehensive income	228,022	494,045
Non-controlling interests	572,078	587,368
Total net assets	7,576,339	8,111,475
Total liabilities and net assets	17,565,361	19,033,429

(2) Quarterly Consolidated Income Statement and Quality Consolidated Comprehensive Income Statement
(Quality Consolidated Income Statement)
(Cumulative period through the consolidated first quarter)

(Unit: JPY thousand)

	Cumulative period through the consolidated first quarter of the previous fiscal year (From April 1, 2021) From June 30, 2021)	Cumulative period through the consolidated first quarter of the previous fiscal year (From April 1, 2022) From June 30, 2022)
Sales	6,098,810	8,372,061
Cost of sales	4,271,288	5,899,305
Gross profit	1,827,521	2,472,756
Selling, general, and administrative expenses	1,191,059	1,832,842
Operating income	636,462	639,914
Non-operating income		
Interest income	679	1,143
Subsidy income	34,353	237
Other	3,114	4,056
Total non-operating income	38,147	5,437
Non-operating expenses		
Interest expenses	1,979	1,827
Equity in losses of affiliates	1,345	-
Foreign exchange losses	676	2,736
Commission fee	41	2,760
Other	209	142
Total non-operating expenses	4,252	7,467
Ordinary income	670,356	637,884
Extraordinary income		
Gain on reversal of subscription rights to shares	13,363	-
Total extraordinary income	13,363	-
Extraordinary loss		
Loss on retirement of noncurrent assets	2,356	-
Total extraordinary loss	2,356	-
Quarterly net income before income taxes and minority interests	681,363	637,884
Income taxes-current	176,262	213,979
Income taxes-deferred	13,414	-12,463
Total income taxes	189,677	201,516
Net income	491,686	436,368
Quarterly net income attributable to minority interests	3,939	20,264
Net income attributable to owners of the parent	487,747	416,103

(Quality Consolidated Comprehensive Income Statement)
(Cumulative period through the consolidated first quarter)

(Unit: JPY thousand)

	Cumulative period through the consolidated first quarter of the previous fiscal year (From April 1, 2021) From June 30, 2021)	Cumulative period through the consolidated first quarter of the previous fiscal year (From April 1, 2022) From June 30, 2022)
Net income	491,686	436,368
Other comprehensive income		
Valuation difference on available-for-sale securities	107	15,758
Foreign currency translation adjustment	16,071	265,324
Total other comprehensive income	16,178	281,083
Quarterly comprehensive income	507,865	717,451
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	542,258	682,127
Quarterly comprehensive income attributable to minority interests	-34,393	35,324

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Concerning the Going-Concern Assumption)

Not applicable

(Notes on marked changes to amounts of shareholders' equity)

Not applicable

(Changes to Accounting Policies)

(Application of the Implementation Guidance on the Accounting Standard for Fair Value Measurement)

[Implementation Guidance on Accounting Standard for Fair Value Measurement] (ASBJ Guidance No. 31, June 17, 2021) has been applied since the beginning of the consolidated first quarter. Pursuant to the provisional handling described in Paragraph 27-2 of the Guidance on Application of the Accounting Standard for Fair Value Measurement, the new accounting policies provided for in the Guidance on Application of the Accounting Standard for Fair Value Measurement have been applied to future accounts. This change has had no effect on the quarterly consolidated financial statements.