



DIGITAL HEARTS HDGS.



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## Summary of Business Results for the Third Quarter Ended December 31, 2022 [Japan GAAP] (Consolidated)

February 9, 2023

Company name: DIGITAL HEARTS HOLDINGS Co., Ltd. Listed on the TSE  
 Stock code: 3676 URL: <https://www.digitalhearts-hd.com/>  
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 Scheduled date of submission of financial reports : February 10, 2023  
 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 third quarter ended December 31, 2022 (April 1, 2022 – December 31, 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)	(%)
Nine Months Ended								
December 31, 2022	26,879	26.5	2,140	0.8	2,351	7.3	1,400	2.7
December 31, 2021	21,246	30.2	2,123	79.5	2,192	76.0	1,363	71.6

(Reference) Comprehensive income: Nine months ended December 31, 2022: 2,090 million yen (34.2%)  
 Nine months ended December 31, 2021: 1,557 million yen (98.5%)

	Net income per share	Diluted net income per share
Nine Months Ended	(yen)	(yen)
December 31, 2022	64.26	64.04
December 31, 2021	63.05	—

#### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	(%)
As of December 31, 2022	19,913	10,304	48.2
As of March 31, 2022	17,565	7,576	39.9

(Reference) Shareholders' equity: 9,604 million yen (As of December 31, 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	—	10.50	—		
Fiscal year ending March 31, 2023 (Forecasts)				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): Yes

Newly included: -

Excluded: 2 (Company name) ANET Corporation

Red Team Technologies Co., Ltd.

(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 refer to “2. Quarterly Consolidated Financial Statements and Important Notes (3) Notes to the Quarterly Consolidated Financial Statements (Changes to Accounting Policies)” on page 9 of the Summary of Business Results for the Third Quarter (attached document).

(4) Shares outstanding (common stock)

(a) Number of issued shares (including treasury stock)	As of December 31, 2022	23,890,800 shares	As of March 31, 2022	23,890,800 shares
(b) Number of treasury stock	As of December 31, 2022	1,659,090 shares	As of March 31, 2022	2,260,031 shares
(c) Average number of shares during the period	Nine months ended December 31, 2022	21,795,705 shares	Nine months ended December 31, 2021	21,622,324 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 business results

	FY2021 Q3 (JPY in thousand)	FY2022 Q3 (JPY in thousand)	Change (%)
Sales	21,246,042	26,879,428	26.5
Operating income	2,123,415	2,140,814	0.8
Ordinary income	2,192,295	2,351,905	7.3
Net income attributable to owners of the parent	1,363,214	1,400,619	2.7

Against a backdrop of exponentially increasing use of Internet of Things (IoT) technologies and accelerating digital transformation (DX), the digital markets in which our Group does business are undergoing diversification of contents and services at an extremely rapid pace. At the same time, as individual companies are facing chronic shortages in the IT human resources 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, our Group will aim toward further growth through focusing on expanding Enterprise Business where demand is rapidly growing, underpinned by the highly profitable businesses of Entertainment Business.

During the cumulative period through the consolidated third quarter, net sales of our focused businesses in Enterprise Business continued rapid growth at a rate of approximately 1.5 times partly supported by M&A activities, and 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 third quarter grew massively to JPY26,879,428 thousand (up 26.5% YoY). Profit improved from the previous year, thanks to increased sales of highly profitable Entertainment Business, despite more aggressive investment in human resources and other resources aimed at future growth, mainly in Enterprise Business. The Operating income was JPY2,140,814 thousand (up 0.8% YoY), ordinary income was JPY2,351,905 thousand (up 7.3% YoY), and net income attributable to shareholder of the parent was JPY1,400,619 thousand (up 2.7% YoY).

Business results by segment are reviewed below.

	FY2021 Q3 (JPY in thousand)	FY2022 Q3 (JPY in thousand)	Change (%)
<b>Sales</b>	<b>21,246,042</b>	<b>26,879,428</b>	<b>26.5</b>
Enterprise Business	7,937,561	12,066,159	52.0
Entertainment Business	13,308,480	14,926,328	12.2
Adjustment amount	-	-113,058	-
<b>Operating income</b>	<b>2,123,415</b>	<b>2,140,814</b>	<b>0.8</b>
Enterprise Business	403,195	313,931	-22.1
Entertainment Business	2,884,885	3,206,027	11.1
Adjustment amount	-1,164,665	-1,379,144	-

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

## ①Enterprise Business

This segment mainly consists of System Testing for detecting bug or defect in enterprise computer systems, security testing, QA (quality assurance) solutions for 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 third quarter, we invested strategically to build a solid foundation for growth, centered on AGEST, Inc. ("AGEST"), which was newly formed as a core company in the Enterprise Business through the Group-wide organizational restructuring in April 2022. Specifically, aiming toward securing engineers that are essential to businesses growth and securing further new transactions, the Group focused on raising awareness of AGEST and establishing "tech" brands that differ from the Group's traditional "Game and Entertainment" capabilities through improving the work environment specifically for engineers, renewing corporate websites, and proactively holding various IT seminars. In addition to conducting tests in the final processes of development, we also established educational institutions to train "next-generation QA engineers" with both software development knowledge and advanced test know-how, and cutting-edge technology research institutions in industry-academia collaborations, to establish high-value-added "shift-trend-compatible QA solutions" that support quality from the upstream processes of development. Furthermore, we endeavored to expand our services using the knowledge of test specialized companies, including "Mutation Testing."

In addition, we are actively using M&A to accelerate the pace of Enterprise Business growth. During the cumulative period through the consolidated third quarter, the Quality Assessment businesses of Sobal Corporation was succeeded through an absorption-type split, and the structure for receiving orders was strengthened through measures including obtaining approximately 130 experienced test engineers. We also made progress on expanding market businesses in the per-segment through enhancing Group-wide coordination with companies that became subsidiary in the previous period.

As a result, net sales in the Enterprise Business continued to grow at a rate of JPY12,066,159 thousand (up 52.0% YoY) in the cumulative period through the consolidated third quarter, partly supported by M&A activities. Segment profits, however, stood at JPY313,931 thousand (down 22.1% YoY) in the cumulative period through the consolidated third quarter, despite exceeding those of the previous year in the consolidated third quarter, thanks to intensive strategic investment toward future growth in the first half of the fiscal year.

## ②Entertainment Business

This segment mainly consists of domestic Debugging services for console games, mobile games, and other bug or defect, as well as global and other services such as game localization and LQA (linguistic quality assurance), game development support, and marketing support.

In the domestic Debugging services during the cumulative period through the consolidated third quarter, we realized double-digit growth in net sales thanks to progress on securing new transactions backed by growing demand in the favorable console-game market. At the same time, in the global and other services, as the outlook of the Chinese and other Asian game markets is becoming increasingly uncertain due to factors such as the impact of the spread of the COVID-19, we steadily secured new transactions such as game localization and LQA through enhancing Group-wide coordination. In addition, at our South Korean subsidiary we made progress on efforts toward continuous growth, including a trade name change to unify branding and restructuring of the businesses foundation, including enhancing our marketing functions. Furthermore, we made efforts to expand the services provided and create new value through a capital and business alliance with GameWith, Inc..

As a result, net sales achieved an increase to JPY14,926,328 thousand (up 12.2% YoY) and segment income increased to JPY3,206,027 thousand (up 11.1% YoY) in the cumulative period through the consolidated third quarter.

(2) Description of financial standing

(Assets)

Current assets increased by JPY1,176,172 thousand (up 11.3% from the end of the previous consolidated fiscal year) to JPY11,569,053 thousand.

This was due mainly to increases of JPY739,518 thousand in cash and deposits and JPY518,577 thousand in notes and accounts receivable-trade and contract assets.

Noncurrent assets increased by JPY1,171,484 thousand (up 16.3% from the end of the previous consolidated fiscal year), to JPY8,343,963 thousand.

This was mainly due to increases of JPY407,440 thousand in property, plant, and equipment, JPY319,241 thousand in goodwill resulting from businesses acquisition, and other factors, and JPY281,401 thousand in investment-securities.

(Liabilities)

Current liabilities decreased by JPY183,880 thousand (down 1.9% from the end of the previous consolidated fiscal year) to JPY9,495,466 thousand.

This was mainly due to a decrease of JPY314,546 thousand in short-term loans payable, despite an increase of JPY110,961 thousand in accrued expenses.

Noncurrent liabilities decreased by JPY196,337 thousand (down 63.4% from the end of the previous consolidated fiscal year), to JPY113,337 thousand. This was mainly due to a decrease of JPY169,674 thousand in long-term loans payable.

(Net assets)

Net assets totaled JPY10,304,213 thousand, up JPY2,727,874 thousand (up 36.0% from the end of the previous consolidated fiscal year).

This was mainly due to factors such as increases of JPY406,605 thousand in capital surplus due to exercise of stock acquisition rights and others, JPY1,400,619 thousand in quarterly net income attributable to owners of the parent, decrease of JPY676,885 thousand in treasury stock due to exercise of stock acquisition rights and others, and increase of JPY 643,160 thousand in foreign currency translation adjustment due to yen depreciation, despite a decrease of JPY390,792 thousand in retained earnings due to dividends.

(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 third 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 on March 31, 2022 (Japanese 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)	Third quarter of this consolidated fiscal year (December 31, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	5,208,746	5,948,264
Notes and accounts receivable-trade and contract assets	4,411,554	4,930,132
Short-term investment securities	34,506	43,443
Inventories	17,367	34,417
Income taxes receivable	47,112	40,956
Other	741,693	661,293
Allowance for doubtful accounts	-68,099	-89,454
Total current assets	10,392,881	11,569,053
Noncurrent assets		
Property, plant and equipment	693,353	1,100,794
Intangible fixed assets		
Goodwill	4,763,421	5,082,663
Other	331,292	510,711
Total intangible fixed assets	5,094,713	5,593,374
Investments and other assets		
Investment securities	236,595	517,997
Other	1,155,997	1,131,797
Allowance for doubtful accounts	-8,181	-
Total investments and other assets	1,384,412	1,649,794
Total noncurrent assets	7,172,479	8,343,963
Total assets	17,565,361	19,913,017
<b>Liabilities</b>		
current liabilities		
Short-term loans payable	5,421,296	5,106,750
Accrued expenses	1,184,413	1,295,375
Income taxes payable	511,871	280,313
Provision for bonuses	100,190	89,669
Other	2,461,574	2,723,357
Total current liabilities	9,679,346	9,495,466
Noncurrent liabilities		
Long-term loans payable	169,674	-
Net defined benefit liability	45,891	6,591
Other	94,109	106,746
Total noncurrent liabilities	309,674	113,337
Total liabilities	9,989,021	9,608,803

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2022)	Third quarter of this consolidated fiscal year (December 31, 2022)
Net assets		
Shareholders' equity		
Capital stock	300,686	300,686
Capital surplus	-	375,915
Retained earnings	9,021,248	10,031,075
Treasury stock	-2,545,696	-1,868,810
Total shareholders' equity	6,776,238	8,838,867
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,921	-96,920
Foreign currency translation adjustment	219,101	862,261
Total accumulated other comprehensive income	228,022	765,341
stock acquisition rights	-	6,569
Non-controlling interests	572,078	693,435
Total net assets	7,576,339	10,304,213
Total liabilities and net assets	17,565,361	19,913,017



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

(Unit: JPY thousand)

	Cumulative period through the consolidated third quarter of the previous fiscal year (From April 1, 2021 to December 31, 2021)	Cumulative period through the consolidated third quarter of the previous fiscal year (From April 1, 2022 to December 31, 2022)
Sales	21,246,042	26,879,428
Cost of sales	15,141,985	19,067,671
Gross profit	6,104,056	7,811,757
Selling, general, and administrative expenses	3,980,640	5,670,943
Operating income	2,123,415	2,140,814
Non-operating income		
Interest income	2,136	8,122
Foreign exchange gains	10,420	200,151
Gain on investments in partnership	12,321	-
Subsidy income	44,728	6,179
Other	12,923	20,524
Total non-operating income	82,529	234,977
Non-operating expenses		
Interest expenses	7,330	9,371
Commission fee	124	9,376
Equity in losses of affiliates	4,687	-
Other	1,507	5,137
Total non-operating expenses	13,649	23,886
Ordinary income	2,192,295	2,351,905
Extraordinary income		
Gain on sales of noncurrent assets	1,233	-
Gain on forgiveness of debts	66,979	-
Gain on reversal of subscription rights to shares	13,363	-
Settlement income	-	41,616
Total extraordinary income	81,576	41,616
Extraordinary losses		
Loss on retirement of non-current assets	32,270	2,547
Impairment losses	9,333	-
Office relocation expenses	12,059	4,600
Head office relocation expenses	2,454	1,130
Organizational restructuring expenses	20,594	-
Loss on liquidation of businesses	-	23,354
Settlement payments	-	37,842
Loss on sale of businesses	-	108,786
Total extraordinary losses	76,711	178,261
Quarterly net income before income taxes and minority interests	2,197,159	2,215,260
Income taxes-current	675,106	614,027
Income taxes-deferred	29,178	98,071
Total income taxes	704,284	712,098
Net income	1,492,875	1,503,161
Quarterly net income attributable to minority interests	129,660	102,541
Net income attributable to owners of the parent	1,363,214	1,400,619

(Quarterly Consolidated Statement of Comprehensive Income)

(Cumulative period through the consolidated third quarter)

(Unit: JPY thousand)

	Cumulative period through the consolidated third quarter of the previous fiscal year (From April 1, 2021 to December 31, 2021)	Cumulative period through the consolidated third quarter of the previous fiscal year (From April 1, 2022 to December 31, 2022)
Net income	1,492,875	1,503,161
Other comprehensive income		
Valuation difference on available-for-sale securities	-89	-105,841
Foreign currency translation adjustment	64,408	692,699
Total other comprehensive income	64,318	586,857
Quarterly comprehensive income	1,557,194	2,090,019
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	1,452,303	1,937,946
Quarterly comprehensive income attributable to minority interests	104,890	152,072

(3) Notes to the Quarterly Consolidated Financial Statements

(Notes Regarding the Going-Concern Assumption)

Not applicable

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

Not applicable

(Changes to Accounting Policies)

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

[Guidance on Accounting Standard for Fair Value Measurement] (ASBJ Guidance No. 31, June 17, 2021). Have been be applied since the start of the first quarter of the consolidated fiscal year. Pursuant to the provisional handling described in Paragraph 27-2 of the Accounting Standard for Fair Value Measurement, the new accounting policies provided for in 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.