



DIGITAL HEARTS HDGS.



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Summary of Business Results for the First Quarter Ended June 30, 2023 [Japan GAAP] (Consolidated)

August 10, 2023

Company name: DIGITAL HEARTS HOLDINGS Co., Ltd.

Listed on the TSE

Stock code: 3676

URL: <https://www.digitalhearts-hd.com/>

Representative: Yasumasa Ninomiya, President and CEO

Contact: Hideto Itami, Executive Officer and CFO

TEL: +81-3-3373-0081

Scheduled date of submission of financial reports: August 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 first quarter ended June 30, 2023 (April 1, 2023 - June 30, 2023)

(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, 2023	9,296	11.0	404	-36.3	415	-34.4	338	-18.3
June 30, 2022	8,372	37.3	634	-0.3	632	-5.6	413	-15.1

(Reference) Comprehensive income: Three months ended June 30, 2023: 429 million yen (-39.9%)
Three months ended June 30, 2022: 714 million yen (40.8%)

	Net income per share	Diluted net income per share
Three Months Ended	(yen)	(yen)
June 30, 2023	15.20	-
June 30, 2022	19.14	-

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	(%)
As of June 30, 2023	19,394	9,082	44.7
As of March 31, 2023	19,581	9,474	45.0

(Reference) Shareholders' equity: 8,671 million yen (As of June 30, 2023) 8,806 million yen (As of March 31, 2023)

(Note) The figures for the first quarter ended June 30, 2022 reflect the finalization of provisional accounting treatment for business combination in the last fourth quarter ended March 31, 2023.

2. Dividends

	Annual dividends				
	Q1	Q2	Q3	Year End	Total
	(Yen)	(Yen)	(Yen)	(Yen)	(Yen)
Fiscal year ended March 31, 2023	—	10.50	—	10.50	21.00
Fiscal year ending March 31, 2024	—				
Fiscal year ending March 31, 2024 (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 2024 (April 1, 2023 - March 31, 2024)

(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	40,750	11.6	3,120	4.0	3,160	0.2	2,100	162.6	95.86

(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: 1 (Company name) GPC K.K

Excluded: -

(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 :None

(b) Changes in accounting policies other than (a) above :None

(c) Changes in accounting estimates :None

(d) Restatement :None

(4) Shares outstanding (common stock)

(a) Number of issued shares (including treasury stock)	As of June 30, 2023	23,890,800 shares	As of March 31, 2023	23,890,800 shares
(b) Number of treasury stock	As of June 30, 2023	1,632,090 shares	As of March 31, 2023	1,632,090 shares
(c) Average number of shares during the period	Three months ended June 30, 2023	22,258,710 shares	Three months ended June 30, 2022	21,630,756 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

	FY2022 Q1 (JPY in thousand)	FY2023 Q1 (JPY in thousand)	Change (%)
Sales	8,372,061	9,296,554	11.0
Operating income	634,867	404,299	-36.3
Ordinary income	632,836	415,199	-34.4
Net income attributable to owners of the parent	413,962	338,280	-18.3

In the digital markets in which our Enterprise Business operate, firms are investing more actively in IT thanks to factors such as the acceleration of DX (Digital Transformation), but there is also growing need for outsourcing services to improve the quality of software, including test processes, thanks to factors such as chronic shortages of IT human resources and sophisticated testing know-how accompanying increasingly complex software. In addition, in the game-related markets in which our Entertainment Business operate, in addition to the fact that simultaneous deployment of content overseas is becoming the mainstream, new content development using the latest technologies, including nft games, is becoming active.

Under these conditions, we are now focusing on accelerating the pace of growth in Enterprise Business, where demand is rapidly growing, and shifting from the stable growth phase of our founding Entertainment Business to a growth trajectory.

Net sales during the cumulative period through the consolidated first quarter showed growth to JPY9,296,554 thousand (up 11.0% YoY), thanks to approximately 1.3 times growth in Enterprise Business, partly supported by M&A activities, despite decreased sales due to factors such as a reaction to the Domestic Debugging in which the Entertainment Business performed favorably in the previous period. Profit, on the other hand, increased expenses due to the impact of decreased Entertainment Business sales and factors including the start of preparations for the share-sharing Spin-Off and listing (hereinafter "Spin-Off Listing") of AGESE, Inc. (hereinafter the core subsidiary of the Enterprise Business), while Operating income was JPY404,299 thousand (down 36.3% YoY), ordinary income was JPY415,199 thousand (down 34.4% YoY), and net income attributable to shareholder of the parent was JPY338,280 thousand (down 18.3% YoY).

Business results by segment are reviewed below.

	FY2022 Q1 (JPY in thousand)	FY2023 Q1 (JPY in thousand)	Change (%)
Sales	8,372,061	9,296,554	11.0
Enterprise Business	3,589,171	4,663,955	29.9
Entertainment Business	4,818,390	4,661,369	-3.3
Adjustment amount	-35,500	-28,770	-
Operating income	634,867	404,299	-36.3
Enterprise Business	24,634	83,864	240.4
Entertainment Business	1,036,309	844,149	-18.5
Adjustment amount	-426,076	-523,714	-

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

① Enterprise Business

This segment mainly consists of System Testing for detecting defects in enterprise computer systems, security testing, QA 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 first quarter, in addition to continuing proactive hiring of engineers using “tech” brands-centered on the core subsidiary of AGEST, we also promoted promotional activities aimed at improving AGEST recognition. In addition, not only did we perform testing in the final process of development, for example, by launching a new service “Code Analysis” following “Mutation Testing”, we also endeavored to establish the high-value-added solution “QA for development” that responds to “shift trends” that support quality from the upstream processes of development. Furthermore, looking ahead to the Spin-Off Listing, we also sought to enhance Group-wide coordination between AGEST and LOGIGEAR CORPORATION more than ever before, and endeavored to build a structure for developing offshore facilities and conducting testing using Vietnam's engineering resources.

As a result, net sales in the Enterprise Business during the cumulative period through the consolidated first quarter grew to JPY4,663,955 thousand (up 29.9% YoY) and segment income was JPY83,864 thousand (up 240.4% YoY), thanks in part to the effects of M&A.

② Entertainment 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 first quarter, amid a reaction to the Debugging for console games, which performed favorably in the previous period, the Group endeavored to maintain and increase market shares by striving to increase added value in services through promoting DHQ (Digital Hearts Quality), a unique quality-control method that realizes the optimal QCD (Quality/ Cost/ Delivery) at customer or client companies. Against a backdrop of rising prices and other factors, we also made progress on efforts to improve employee satisfaction and secure excellent human resources, including through means including raising hourly wages of testers in April 2023. At the same time, in the global and other services, as the outlook for the Chinese game market remains uncertain, we steadily secured new transactions in areas such as game localization and LQA through enhancing Group-wide coordination.

As a result, net sales in the Entertainment Business during the cumulative period through the consolidated first quarter were JPY4,661,369 thousand (down 3.3% YoY) and segment income was JPY844,149 thousand (down 18.5% YoY), largely due to the impact of the decline following the strong performance of the Domestic Debugging in the previous period.

(2) Description of financial standing

(Assets)

The balance of current assets was JPY12,160,397 thousand down JPY368,481 thousand (down 2.9% from the previous period) from the level of JPY12,528,879 thousand in current assets at the end of the previous consolidated fiscal year.

This was due mainly to factors such as decreases of JPY256,645 thousand in notes and accounts receivable-trade and contract assets.

The balance of non-current assets was JPY7,234,064 thousand up JPY181,308 thousand from the level of JPY7,052,756 thousand in non-current assets at the end of the previous consolidated fiscal year (up 2.6% from the previous period).

This was due mainly to factors such as an increase of JPY89,668 thousand in property, plant, and equipment.

(Liabilities)

The balance of current liabilities was JPY10,126,630 thousand up JPY195,640 thousand (up 2.0% from the previous period), from the current liabilities of JPY9,930,990 thousand at the end of the previous consolidated fiscal year.

This was due mainly to factors such as a decrease of JPY378,071 thousand in income taxes payable, despite an increase of JPY500,000 thousand in short-term loans payable.

The balance of non-current liabilities was JPY185,130 thousand up JPY9,005 thousand (up 5.1% from the previous period) from non-current liabilities of JPY176,124 thousand at the end of the previous consolidated fiscal year.

(Net assets)

The balance of net assets was JPY9,082,700 thousand down JPY391,819 thousand (down 4.1% from the previous period) from net assets of JPY9,474,520 thousand at the end of the previous consolidated fiscal year.

This was due mainly to factors such as a decrease of JPY327,465 thousand in capital surplus due to transactions with non-controlling shareholder.

(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 11, 2023 in the Summary of Business Results for the Fiscal Year Ended on March 31, 2023 2023 (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, 2023)	This consolidated first quarter period (June 30, 2023)
Assets		
Current assets		
Cash and deposits	6,456,803	6,240,153
Notes and accounts receivable-trade and contract assets	5,377,205	5,120,560
Short-term investment securities	39,810	40,059
Inventories	25,125	21,684
Income taxes receivable	29,041	7,747
Other	691,524	826,127
Allowance for doubtful accounts	-90,632	-95,934
Total current assets	12,528,879	12,160,397
Noncurrent assets		
Property, plant and equipment	1,169,633	1,259,302
Intangible fixed assets		
Goodwill	3,468,425	3,411,603
Other	720,294	735,126
Total intangible fixed assets	4,188,720	4,146,730
Investments and other assets		
Investment securities	494,517	459,003
Other	1,199,884	1,369,027
Total investments and other assets	1,694,401	1,828,031
Total noncurrent assets	7,052,756	7,234,064
Total assets	19,581,635	19,394,461
Liabilities		
current liabilities		
Short-term loans payable	5,106,750	5,606,750
Accrued expenses	1,165,158	1,160,638
Income taxes payable	677,031	298,960
Provision for bonuses	136,348	59,232
Other	2,845,701	3,001,049
Total current liabilities	9,930,990	10,126,630
Noncurrent liabilities		
Net defined benefit liability	7,764	5,726
Other	168,360	179,403
Total noncurrent liabilities	176,124	185,130
Total liabilities	10,107,115	10,311,760

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2023)	This consolidated first quarter period (June 30, 2023)
Net assets		
Shareholders' equity		
Capital stock	300,686	300,686
Capital surplus	393,678	66,213
Retained earnings	9,427,957	9,532,521
Treasury stock	-1,838,397	-1,838,397
Total shareholders' equity	8,283,925	8,061,024
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-86,528	-71,465
Foreign currency translation adjustment	609,357	682,218
Total accumulated other comprehensive income	522,828	610,753
stock acquisition rights	6,345	—
Non-controlling interests	661,421	410,923
Total net assets	9,474,520	9,082,700
Total liabilities and net assets	19,581,635	19,394,461

(2) Quarterly Consolidated Income Statement and Quality Consolidated Comprehensive Income Statement

(Quarterly 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 (April 1, 2022 to June 30, 2022)	Cumulative period through the consolidated first quarter of the previous fiscal year (April 1, 2023 to June 30, 2023)
Sales	8,372,061	9,296,554
Cost of sales	5,899,305	6,890,365
Gross profit	2,472,756	2,406,189
Selling, general, and administrative expenses	1,837,889	2,001,889
Operating income	634,867	404,299
Non-operating income		
Interest income	1,143	2,295
Foreign exchange gains	—	8,915
Subsidy income	237	423
Other	4,056	4,091
Total non-operating income	5,437	15,725
Non-operating expenses		
Interest expenses	1,827	2,904
Foreign exchange losses	2,736	—
Commission fee	2,760	123
Other	142	1,796
Total non-operating expenses	7,467	4,824
Ordinary income	632,836	415,199
Extraordinary loss		
Loss on retirement of noncurrent assets	—	2,430
Total extraordinary loss	—	2,430
Quarterly net income before income taxes and minority interests	632,836	412,769
Income taxes-current	213,979	143,303
Income taxes-deferred	-15,369	-63,693
Total income taxes	198,609	79,609
Net income	434,227	333,159
Quarterly net income (loss) attributable to minority interests	20,264	-5,121
Net income attributable to owners of the parent	413,962	338,280

(Quarterly Consolidated Statement of Comprehensive Income)

(Cumulative period through the consolidated first quarter)

(Unit: JPY thousand)

	Cumulative period through the consolidated first quarter of the previous fiscal year (April 1, 2022 to June 30, 2022)	Cumulative period through the consolidated first quarter of the previous fiscal year (April 1, 2023 to June 30, 2023)
Net income	434,227	333,159
Other comprehensive income		
Valuation difference on available-for-sale securities	15,758	15,063
Foreign currency translation adjustment	264,983	81,539
Total other comprehensive income	280,742	96,602
Quarterly comprehensive income	714,969	429,762
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	678,948	426,205
Quarterly comprehensive income attributable to minority interests	36,020	3,556

(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)

During the cumulative period through the consolidated first quarter, capital surplus decreased by JPY327,465 thousand due to the acquisition of shares in consolidated subsidiary and consolidated sub-subsidiaries.

(Corporate consolidations etc.)

(Important revisions to the initial allocation of purchase price in comparative information)

The provisional account processing of the corporate consolidation conducted on January 17, 2022 between LOGIGEAR CORPORATION, our consolidated subsidiary, and DEVELOPING WORLD SYSTEMS LIMITED, in the period ended March 2022, was finalized at the end of the previous consolidated fiscal year.

As a result of the finalization of this provisional account processing, important revisions to the initial allocation of purchase costs have been reflected in the comparative information included in the quarterly financial statements for the cumulative period through the consolidated first quarter.

As a result, the provisionally estimated amount of goodwill has decreased by JPY173,834 thousand from JPY615,409 thousand to JPY441,574 thousand. In addition, on the quarterly consolidated income statement for the cumulative period through the consolidated first quarter, selling, general, and administrative expenses increased by JPY5,047 thousand, while Operating income, ordinary income, and net income before income taxes and minority interests decreased by JPY5,047 thousand each, and net income and net income attributable to owners of the parent shareholder decreased by JPY2,140 thousand each.

(Corporate consolidation through acquisition)

Based on a resolution of the board of directors held March 17, 2023, we acquired all of the shares outstanding of GPC K.K, making it a subsidiary.

1. Overview of this corporate consolidation

(1) Name of acquired firm and details of its businesses

Name of acquired firm GPC K.K

Details of businesses Support for introduction of SAP/ ERP, development of open system, contracted development

(2) Main reasons for acquisition

In order to enhance our businesses base in the sap and other ERP domains

(3) Date of corporate consolidation

April 3, 2023

(4) Legal form of corporate consolidation

Purchase of shares

(5) Company name after consolidation

No change to name.

(6) Percentage of voting rights acquired

100%

(7) Main evidence leading to the decision on acquisition

Through acquisition of stock in cash.

2. Period of business results of the acquisition included in the quarterly consolidated financial statements

April 3, 2023 - June 30, 2023

3. Price of acquisition and breakdown of price by type

Price of acquisition (cash and deposits)	JPY206,425 thousand
Acquisition cost	JPY206,425 thousand

4. Details and amounts of main costs related to acquisition

Advisory expenses etc. 5.3 million yen

5. Resulting amount of goodwill, its cause, and its redemption method and redemption period

Goodwill and negative goodwill have not occurred.

6. Amounts and main details of assets received and liabilities underwritten on the date of the corporate consolidation

Current assets	JPY332,455 thousand
Noncurrent assets	JPY4,133 thousand
Total assets	JPY336,589 thousand
current liabilities	JPY130,163 thousand
Total liabilities	JPY130,163 thousand

7. Details of conditional acquisition consideration provided in the corporate consolidation agreement and accounting policies for this consolidated fiscal year and beyond

(1) Details of conditional acquisition price

It is to be calculated based on the level of achievement of business results, etc. for 36 months after closing.

(2) Accounting policies for this consolidated fiscal year and beyond

With regard to the increase in goodwill resulting from payments of conditional acquisition consideration, the Company will revise the purchase price to consider that it was paid at the time of acquisition of businesses, and revise the amount of goodwill and amortization of goodwill.

(Transactions Under Common Control, etc.)

Purchase of additional shares of subsidiary

On March 17, 2023, we acquired additional shares in LOGIGEAR CORPORATION, a consolidated subsidiary, making it a wholly owned subsidiary in board of directors.

1. Overview of this corporate consolidation

(1) Name of acquired firm and details of its businesses

Name of acquired firm LOGIGEAR CORPORATION

Details of businesses: System Testing, etc.

(2) Date of corporate consolidation

April 11, 2023 (stock acquisition date)

(3) Legal form of corporate consolidation

Purchase of shares from non-controlling shareholder

(5) Company name after consolidation

No change to name.

(6) Other matters related to outline of transactions

Percentage of voting rights held immediately prior to acquisition 85.5%

Percentage of voting rights newly acquired 14.5%

Percentage of voting rights after acquisition 100.0%

2. Overview of account processing used

Based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for businesses Separation (ASBJ Guidance No. 10, January 16, 2019), account processing has been conducted as transactions involving non-controlling shareholder.

3. Price of purchase of additional shares of subsidiary and breakdown of price by type

Price of acquisition	Cash paid for additional acquisitions	JPY323,104 thousand
Acquisition cost		JPY323,104 thousand

4. Matters related to changes in our equity in transactions with non-controlling shareholder

(1) Main factors contributing to changes in capital surplus

Purchase of additional shares of subsidiary

(2) Amount of capital surplus decreased due to transactions with non-controlling shareholder

JPY194,816 thousand