DIGITAL HEARTS HLDGS.

November 9, 2023

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Company name:	DIGITAL HEARTS HOLDINGS Co., Ltd.
Name of representative:	President and CEO　　Yasumasa Ninomiya (Code number: 3676, Prime, Tokyo Stock Exchange)
Contact:	Executive Officer and CFO　　Hideto Itami (TEL: +81-3-3373-0081)

Notice Regarding Recording of Extraordinary Losses (Consolidated and Non-consolidated) and Revision of Financial Forecast for the Fiscal Year Ending March 31, 2024

DIGITAL HEARTS HOLDINGS Co., Ltd. (hereinafter referred to as the “Company”) announces that in the second quarter of the year ending March 2024, the Company records an extraordinary loss as follows and also has revised its financial forecast for the fiscal year ending March 31, 2024 which was announced on May 11, 2023.
The details are as follows:

1. Recording of extraordinary losses (Consolidated and Non-Consolidated)

(1) Recording of impairment loss on goodwill, etc. (consolidated)

LOGIGEAR CORPORATION ("LGUS"), our U.S. subsidiary of Enterprise Business, has been providing software testing services to U.S. companies for many years. However, new orders were delayed due to the prolonged impact of COVID-19 in the U.S., and sales continued to fall short of expectations, and profitability continued to deteriorate. In addition, LGUS could not expand its business by generating synergies with DEVELOPING WORLD SYSTEMS LIMITED ("DWS") and MK Partners, Inc ("MKP"), which were acquired by LGUS, as anticipated at the time of the acquisitions. As a result, those results for the first half of this fiscal year fell short of forecasts.

Against this backdrop, we undertook a major review of Enterprise Business in U.S. in order to improve its medium-to long-term business performance. Specifically, we have shifted to have a policy to actively utilize engineer resources of LGUS and original tools of DWS and MKP to Japanese clients with the strong sales capabilities of AGEST, Inc. ("AGEST"), our core subsidiary in Japan. We previously used those resources and tools mainly as services for European and U.S. clients, however we decided to change the priority to Japanese market. Accordingly, the Company has also decided to substantially renovate U.S. subsidiary’s management structure, including a change in LGUS's CEO, and to change these companies including LGUS from 100% subsidiaries of the Company to 100% subsidiaries of AGEST.

Due to these recent trends in business performance and the change in businesses strategy, there was a significant change from the cash-flow forecast that had been assumed. Accordingly, goodwill that arose at the time of the acquisition of shares in LGUS, DWS and MKP and other assets were impaired, and these impairment losses were recorded as extraordinary losses. The breakdown of impairment loss is as follows.

Impairment-loss in LGUS	:	584 million yen
Impairment-loss in DWS and MKP	:	446 million yen
Total	:	1,030 million yen

(2) Recording of loss on valuation of stocks of subsidiaries and affiliates (non-consolidated)

Due to the abandonment of net assets resulting from the deterioration of profitability in LGUS, the Company recorded 1,714 million yen loss on valuation of shares of subsidiaries and affiliates held by the Company.

The loss on valuation of stocks of subsidiaries and affiliates is recorded only on the non-consolidated financial statements, and has no effect on consolidated financial results.

2. Detail of revision of consolidated financial forecast

(1) Revision of consolidated financial forecast for the fiscal year ending March 31, 2024
(from April 1, 2023 to March 31, 2024)

	Net sales	Operating income	Ordinary income	Profit attributable to owners of parent	Net income per share
	Million yen	Million yen	Million yen	Million yen	yen
Previous forecast (A)	40,750	3,120	3,160	2,100	95.86
Revised forecast (B)	40,000	2,500	2,560	550	24.69
Change (B - A)	-750	-620	-600	-1,550	
% Change	-1.8	-19.9	-19.0	-73.8	
Actual amount for the previous fiscal year (fiscal year ended March 31, 2023)	36,517	3,000	3,152	799	36.50

(2) Reason for revision

Net sales has become expected to be slightly below the initial forecast in Entertainment Business due to a reaction to the previous year's strong performance of the domestic game market and the impact of COVID-19 and regulation changes in the Chinese game market, and also in Enterprise Business due to weaker sales of new projects after the COVID-19 periods in overseas subsidiaries. In terms of earnings, the Company had the negative impact on operating income and ordinary income in the first half of the fiscal year due to the shortfall in net sales of both businesses and the increase in upfront spending associated with the strengthening of global businesses, such as translation and LQA and marketing support for the gaming industry. And the Company also had the extraordinary loss as the impairment loss on subsidiary goodwill of LGUS and others as described in 1. above, in the second quarter of the fiscal year. Then, the net income attributable to shareholder of the parent company is expected to fall short of the initial forecast.

For the second half of the fiscal year (October 2023 to March 2024), we are forecasting net sales of 21,330 million yen and operating income of 1,770 million yen, both of which will be our highest ever for the half-year period. This is because we expect Enterprise Business to improve profitability by restructuring overseas subsidiaries such as in U.S. and by expanding domestic sales, and expect Entertainment Business to shift back to the growing trend of sales and profts as the domestic gaming market demand will recover in the second half of this year.

* The above forecasts are based on information currently available and actual results may differ from these forecasts due to a variety of factors.