

Presentation Material

for the First Half of the Fiscal Year Ending March 31, 2024

2023/11/9

Tokyo Stock Exchange Prime Market: Code 3676

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

Executive Summary

*The figures for the second quarter ended September 30, 2022 reflect the finalization of provisional accounting treatment for business combination in the last fourth quarter ended March 31, 2023.

Growing sales through aggressive investing in growing markets in 1H FY2023. On the other hand, impairment loss was recorded due to a review of the structure and businesses plans for the U.S. testing subsidiary, which had been slow to recover since the COVID-19 crisis.

In 2H, aiming to the trend of regrowth of sales and profit, and to achieve record highs net sales and operating income as half year.

Net sales	Operating income	Profit attributable to owners of parent
¥ 18,669 mn (YoY 106.3%)	¥ 729 mn (YoY53.2%)	¥ -436 mn (YoY —)

» Enterprise Business

- Continuous sales growth by over 120% through strategic investments such as recruitment of engineers and expansion of “Shift Left” QA services.
- Segment income decreased due to the weaker gross margin ratio of foreign subsidiaries by a delay in recovering new orders from the impact of COVID-19 and due to the temporary cost increasing for Spin-Off Listing preparation.

» Entertainment Business

- Domestic debugging: Decreased in both sales and profits due to smaller number of large-scale projects compared to the too strong performance in the previous year’s 1H.
- Global and others: Strengthening European and U.S. languages in addition to Asian languages with the trend of simultaneous worldwide title launching. And slowing down demand in China due to the impact of COVID-19 and game regulation changes.

» Consolidated results

- An Extraordinary losses of ¥1 bn due to goodwill impairment loss in the U.S. testing subsidiary and others, related to significant revise of businesses plan with its management member changes and organizational restructuring to react to its continuous weaker profitability due to delays in responding to market changes including COVID-19.

» Forecast of 2H FY2023

- Aiming to achieve a record-high net sales and operating income for half a year, with improved profitability of overseas Enterprise Business after its restructuring, and with an expected improvement in the Domestic debugging’s gross margin with improved sales in 2H.

Revision of Consolidated Earnings Forecast of Full Year of FY2023

- Full year consolidated financial forecast is revised based on 1H results.
- Plan to achieve a record-high operating income of ¥1.7 billion as half a year with continuous investing for growth.

(JPY mn)	FY2022	FY2023 (Initial (A))	FY2023 (Revised (B))	B÷A
Net sales	36,517	40,750	40,000	98.2%
Operating income	3,000	3,120	2,500	80.1%
Operating income margin	8.2%	7.7%	6.3%	-1.4 points
Ordinary income	3,152	3,160	2,560	81.0%
Profit attributable to owners of parent	799	2,100	550	26.2%

Reasons for Revision

Net sales

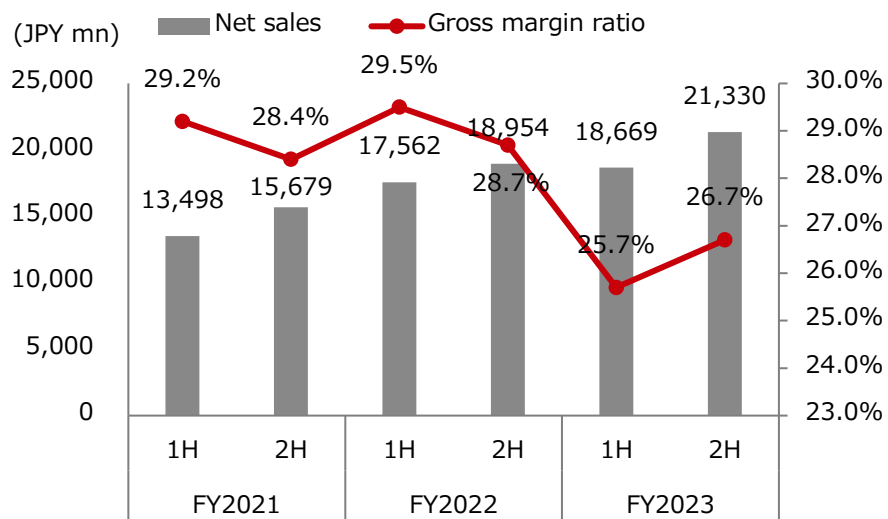
- Weaker sales in 1H compared to too strong market trend of domestic game development and bigger negative impact coming from environment changes in the game industry of China.
- Delay of sales recovery from COVID-19 crisis compared to the initial forecast of overseas subsidiaries in Enterprise Business especially in acquiring new project orders.

Profit

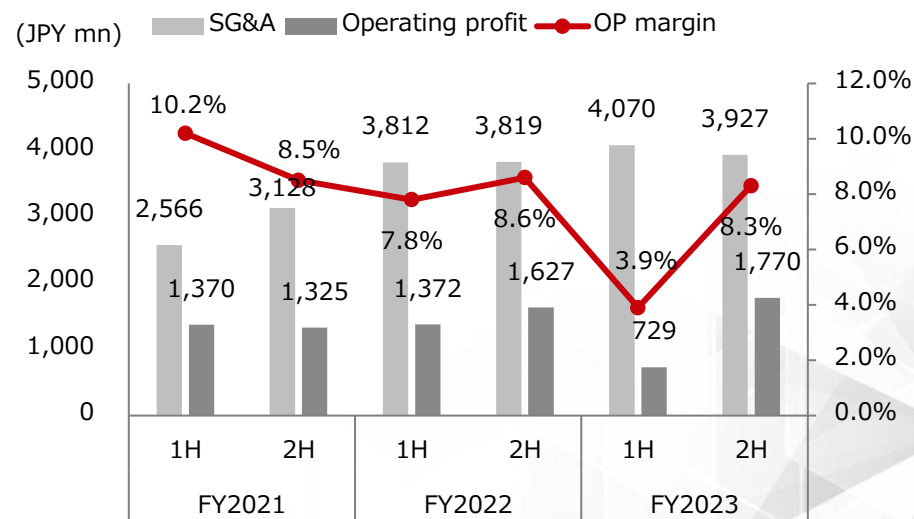
- Worse profitability with smaller sales in high margin segments such as debugging in Japan and testing in U.S.
- Strong investing in global services such as translation/ LQA and marketing support in game industry.
- Extraordinary loss of impairment losses, ¥1 billion for goodwill of LOGIGEAR CORPORATION and others.

- Expecting the strong YoY double-digit sales growth in 2H FY2023 on the back of firm demand for IT investment and a demand recovery the domestic game industry.
- The OP margin is planned to increase to 8.3% in 2H, due to larger sales, significantly improved gross margin ratio, and SG&A controlling.

Net sales / Gross margin ratio



SG&A / Operating profit



Key Points

- To be on a high sales growth trend at 112.5% YoY in 2H with continuous rapid growth of Enterprise Business and sales recovery from weaker Entertainment Business in 1H and to improve gross margin of both businesses.
- Controlling SG&A expenses around ¥4 billion for half a year, including investing for future growth and Spin-Off Listing preparation costs.

1.

Recruiting engineers, strengthening solutions, and developing original tools for future growth. Keeping YoY double-digit sales growth, with tailwinds of DX acceleration and expansion of IT investment.

HR Increase in Next-Generation QA engineers

FY2022 Q2 **14 people** >> FY2023 Q2 **39 People**

HR Deeper collaboration between AGEST and Vietnamese base

New "AGEST DX solution center" in Hanoi, Vietnam
 => Support for in-house DX production for Japanese clients
 Changed Vietnamese subsidiary's name to AGEST Vietnam Co., Ltd.
 => Put the same AGEST name as a symbol of group

Solution

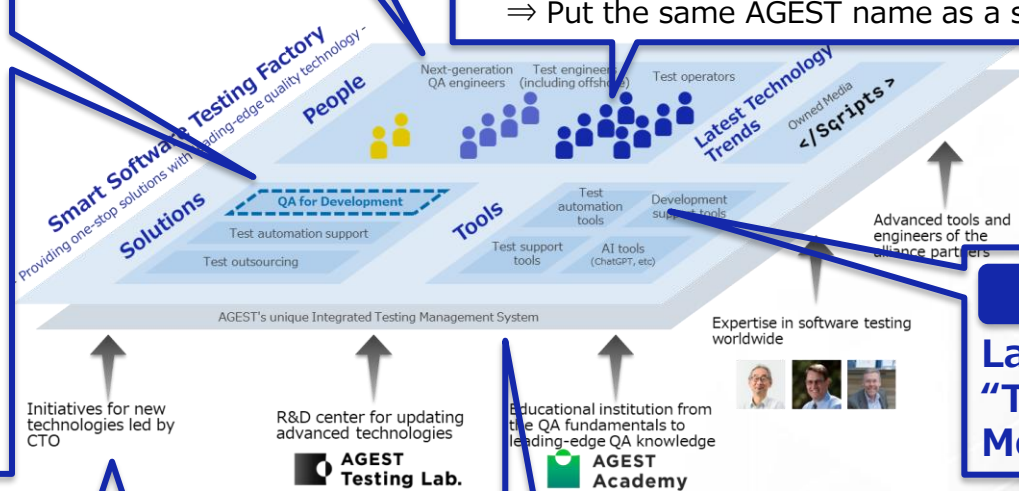
Expand unique "QA for development" services

Available Services

Mutation testing	Risk analysis
New Code Risk Assessment	Code analysis

Services under development

Performance tuning	CI/CD
Code of Coding	Technical review
Refactoring	BDD support etc...



Tool

Launched "TestArchitect for Mobile"

New Technology

Develop and start in-house use of AI tools for automated generating testing plans

ITMS

Started internal use of newly developed Integrated Testing Management System

2.

Group business reorganization to become the global No.1 QA company. Shifting to an organizational structure focused on Japanese businesses with AGEST

Point 1

Group reorganization and renewal of management structure.

- Each Enterprise Business subsidiary to become owned directly by AGEST, Inc. and to be consolidated.
- Restructuring the management members of LOGIGEAR CORPORATION in U.S.

Point 2

Fully utilize Vietnam resources to Japanese market.

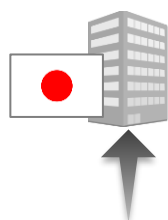
- Unify brands to AGEST by changing Vietnam subsidiary's name to AGEST Vietnam Co., Ltd.
- Strengthen delivery capability for Japan by establishing "AGEST DX solution center" in Hanoi.

Point 3

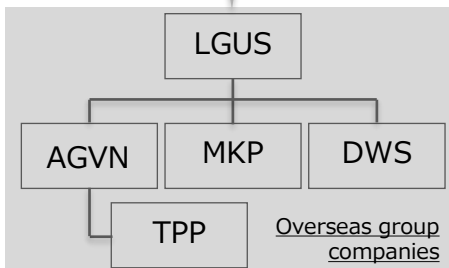
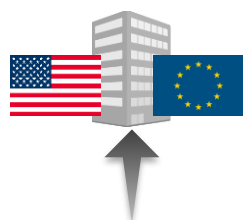
New global initiatives to accelerate the growth of Enterprise Business.

- To utilize Vietnamese engineers and original tools, which had been for U.S. and European clients, for Japanese market under the strong marketing support by AGEST in Japan.

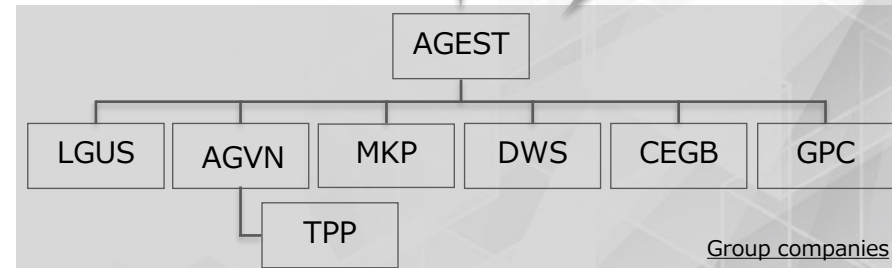
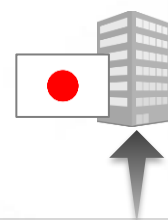
[As is] Japanese Clients



European and American customers



[After Jan.1, 2024] Japanese Clients

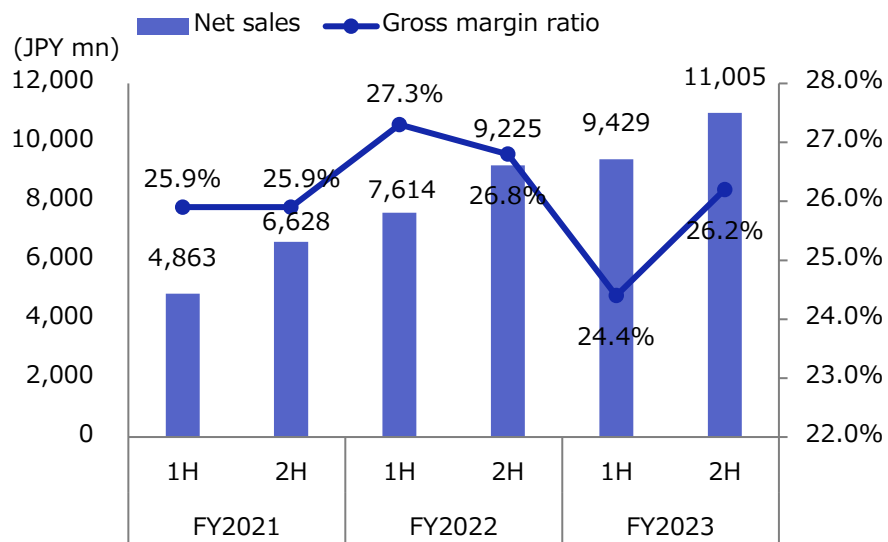


European and American customers

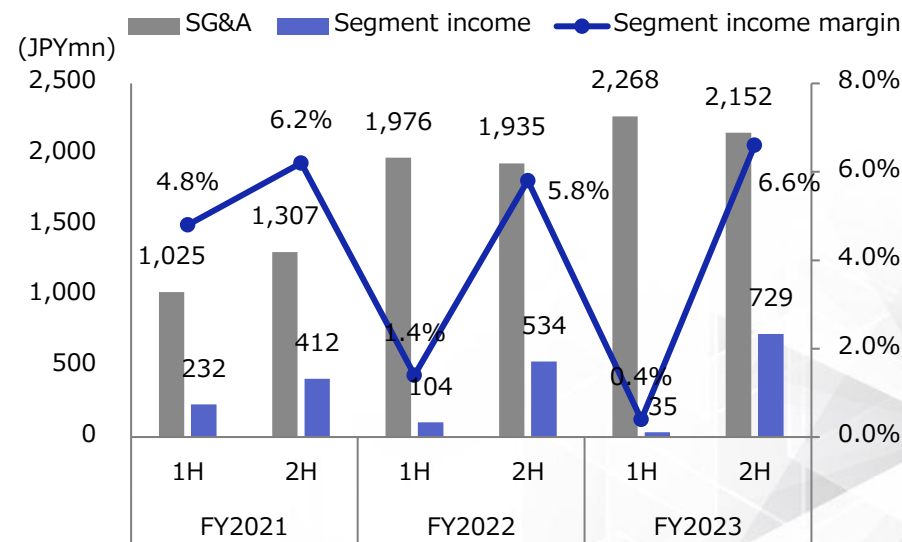


- Aiming to be over ¥10 billion sales in 2H FY2023, as record high of Enterprise Business sales for half a year, with continuous rapid sales growth of YoY 120%.
- To achieve close to 7% segment income margin in 2H, with improving gross margin ratio of overseas subsidiaries and smaller fixed cost ratio due to sales expansion.

Net sales / Gross margin ratio



SG&A / Segment income



Segment income margin FY2023 1H **0.4%** ⇒ 2H **6.6%** (+6.3p)

Gross margin ratio

Revise of management structure and growth strategies of overseas subsidiaries

+1.0p

Gross margin ratio

Elimination of low-profit projects in software development

+0.5p

Improve SG&A ratio

Reduce goodwill amortization and reduce personnel costs by revamping management team

+1.5p

Expand sales of QA business

Lower fixed cost margin by sales expansion

+2.5p

etc...

1. Promoting initiatives to improve quality and productivity of Debugging service

- Improve service quality through our unique quality control method DHQ(*) and strengthen the capability enough for large-scale projects
- Review business processes and utilize tools to improve productivity
- Comprehensive support for game titles with orders by providing Debugging and “+a” service.

2. Strengthen services for the global market by expanding investments in new alliances and technologies.

- Strengthening capability as one-stop from translation/LQA to debugging for simultaneous worldwide titles
- Aiming to reach foreign game clients by strengthening resource of subsidiaries and their global services.
- Actively utilize new business alliances and invest in new technologies.

Topics1

Formed a business alliance with
Localsoft, S.L.



Localization company in Spain

⇒ **Accelerate business expansion in Europe and U.S.**

Topics2

Concluded a joint development agreement with Rozetta Corp.



A company that develops and operates AI automatic translation

⇒ **Started developing the AI translation engine for game titles**

Topics3

Formed a business alliance with TNK Factory Corp.

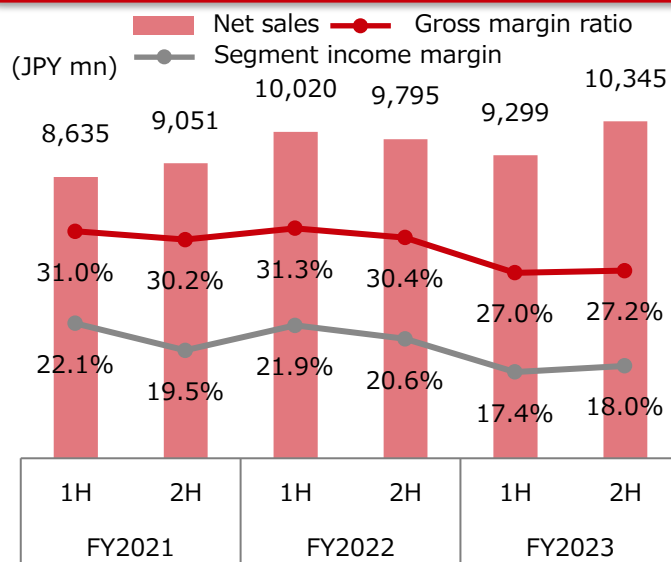


One of the largest marketing AD tech companies in Korea

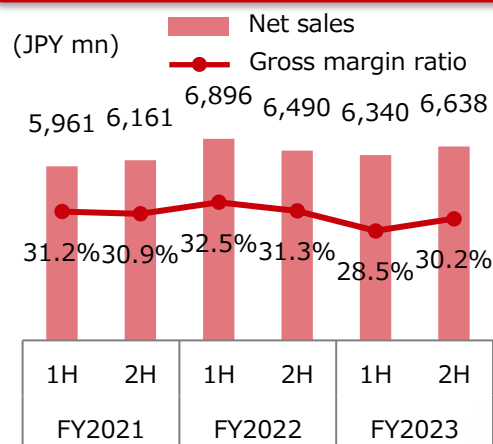
⇒ **Expanding the marketing-related businesses in Korea**

- To have larger sales of Domestic debugging in 2H than in 1H, with the recovering market environment starting from 2H, and to have gross margin ratio of over 30% due to the progress of cost pass-through.
- Forecasting a significant increase in sales of Global and others due to the effects of continuous upfront investment.

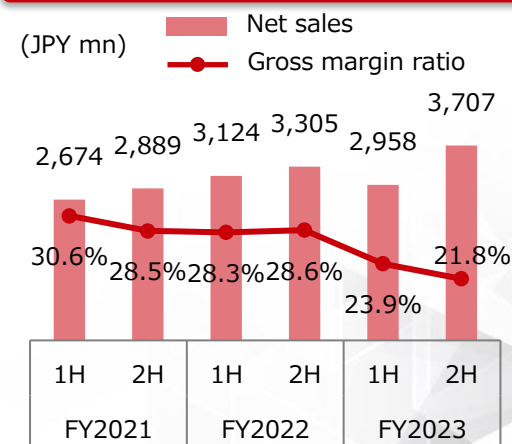
Entertainment Business



Domestic debugging



Global and others



Key Points

- Global and others will expand its sales by wider localization services not only Asian but covering English and other European languages, with expected lower gross margin ratio by upfront personnel investment and the utilization of alliance partners as outsourcing functions.
- Improve our productivity by developing AI translation engines for game titles and creating new AI systems for internal use, and also aim for dramatic improvements in quality and the speed with which services are provided.

Objectives and Goals of Spin-off Listing

Maximize the growth potential of each by actively utilizing each corporate brand and financial capabilities, as an independent public company for each.

New AGEST Group



To be the leading QA solution provider in the global market with the leading-edge quality technology

- Accelerate to grow with centering AGEST, Inc.

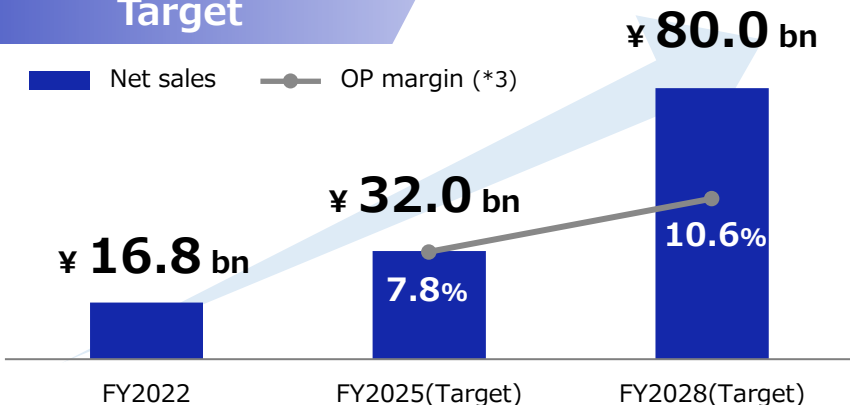
Market environment

Domestic software testing market (*1)

Approx. ¥6 tn

- Chronic shortage of engineers
- "Quality" as the source of competitiveness, testing process becoming more important.
- Sophisticated testing technologies.

Target



*1 Calculated by us based on "Statistical Survey of Selected Service Industries" by METI and "Software Development Data Analysis Data Collection 2022" by IPA.

New DH Group



To be the Global Quality Partner in the Entertainment Industry

- Challenge for global markets and new domains

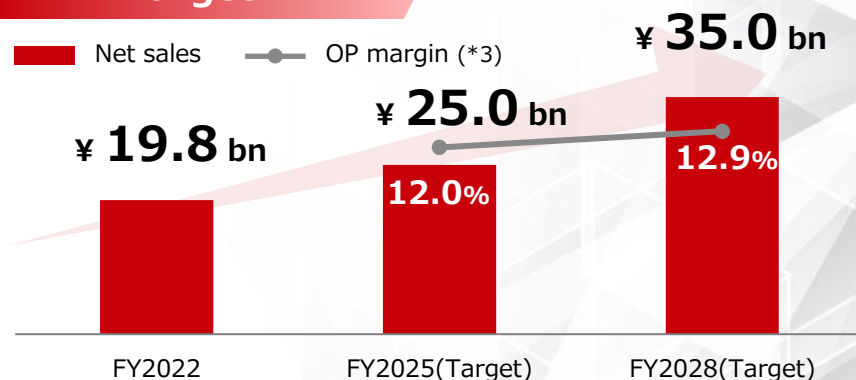
Market environment

Global digital content market(*2)

Approx. ¥53 tn

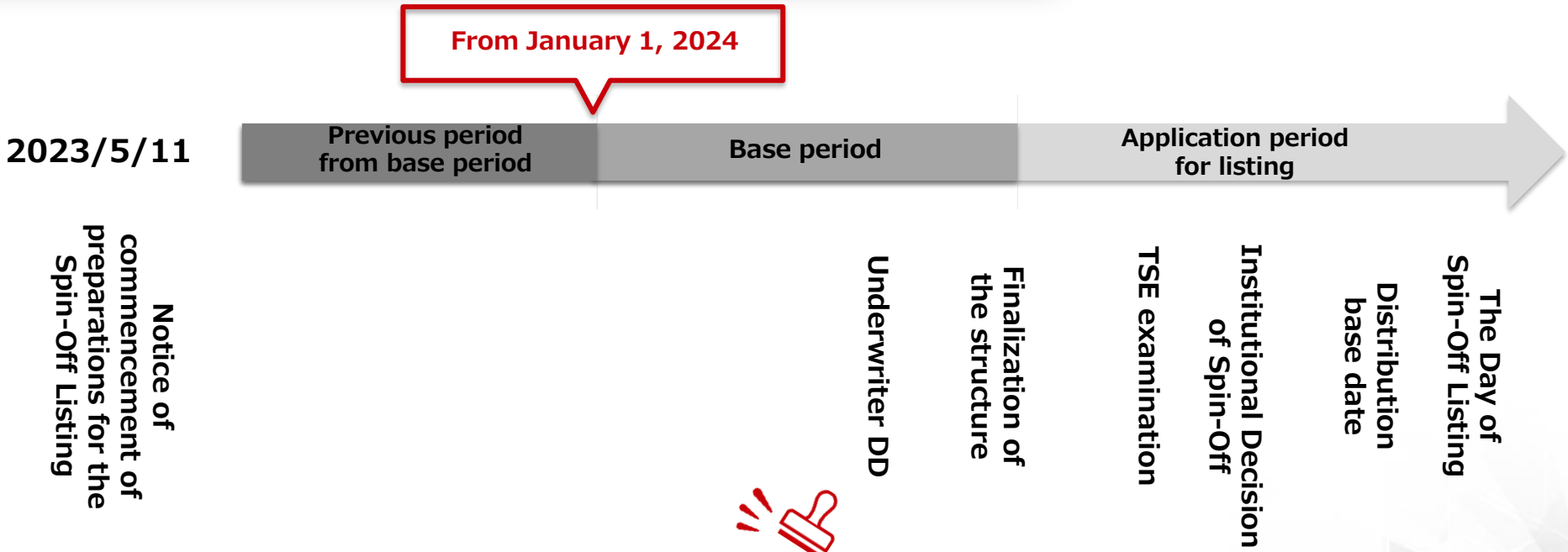
- Simultaneous game titles launching
- From the domestic to the global
- Entertainment digital contents than games

Target



*1 Source: METI "Overview of the Global and Japanese Markets for Contents" Definition of digital content: Digital markets for music, publishing, video, and games. Calculated at \$1 = ¥150.67

*2 Figures for FY2025 and FY2028 are consolidated base with the assumption of after the Spin-Off Listing. Since these figures differ from the definition of FY2022 segment profit, operating income of FY2022 has no date here.



Preparation period for Spin-Off Listing

- ✓ Establishment of head office functions including structure of management and governance **Done**
- ✓ Conclusion of a lead managing underwriter contract and audit contract **Done**
- ✓ Reorganization of group companies **Scheduled to be implemented on January 1, 2024**
- ✓ Appointment of Independent Director
- ✓ Establishment of Board of Corporate Auditors

* Here is an example as an ordinary schedule image plan. Actual schedules may be revised in the process of preparing for the Spin-Off Listing.

Consolidated Financial Results for 1H FY2023

*The figures for the second quarter ended September 30, 2022 reflect the finalization of provisional accounting treatment for business combination in the last fourth quarter ended March 31, 2023.

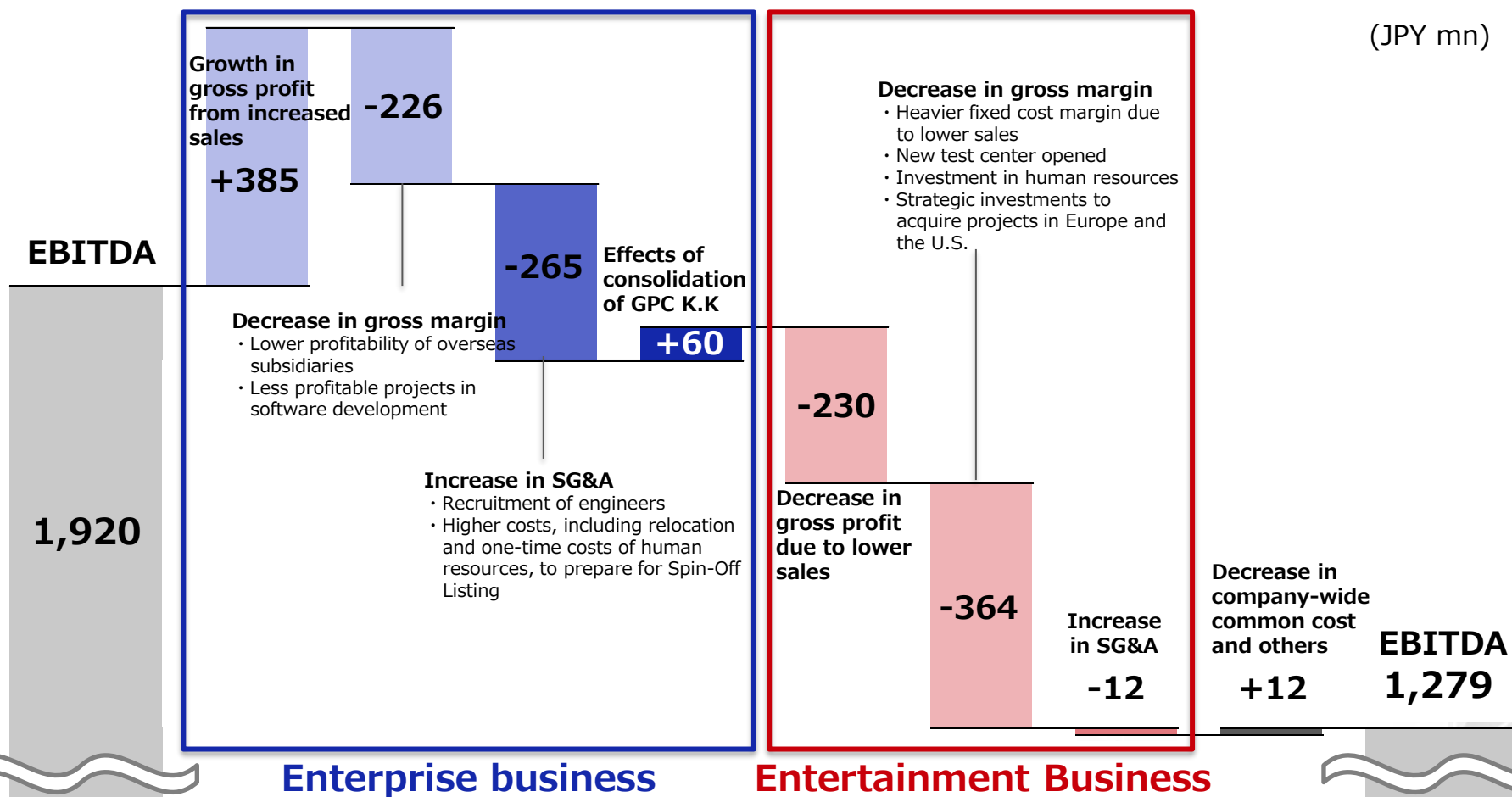
Summary of Business Results for the Six Months Ended September 30, 2023

- Enterprise Business, with the strong trend of IT investment in Japan, contributed the consolidated net sales, though the weaker sales of Entertainment Business comparing with the too strong previous year.
- Decrease in operating income due to the impact of lower sales of Entertainment Business, higher Spin-Off Listing costs and others.
- Extraordinary losses of ¥1 billion mainly due to goodwill impairments of U.S. testing subsidiary, which had been delayed in recovering from the COVID-19 crisis.

(JPY mn)	1H FY2022	1H FY2023	YoY Change	
Net sales	17,562	18,669	1,106	106.3%
Cost of sales	12,376	13,868	1,491	112.1%
Cost of sales (%)	70.5%	74.3%		+3.8 points
Gross profit	5,185	4,800	-385	92.6%
SG&A	3,812	4,070	257	106.8%
Operating income	1,372	729	-642	53.2%
Operating income margin	7.8%	3.9%		-3.9 points
Ordinary income	1,517	792	-724	52.2%
Profit attributable to owners of parent	945	-436	-1,382	—
EBITDA	1,920	1,279	-640	66.6%

Analysis of Changes in EBITDA

Temporarily decreasing in EBITDA, due to the impact of the decline in sales of Entertainment Business and the weaker profit of U.S. testing subsidiary and of the increase in expenses of Spin-Off Listing preparations.



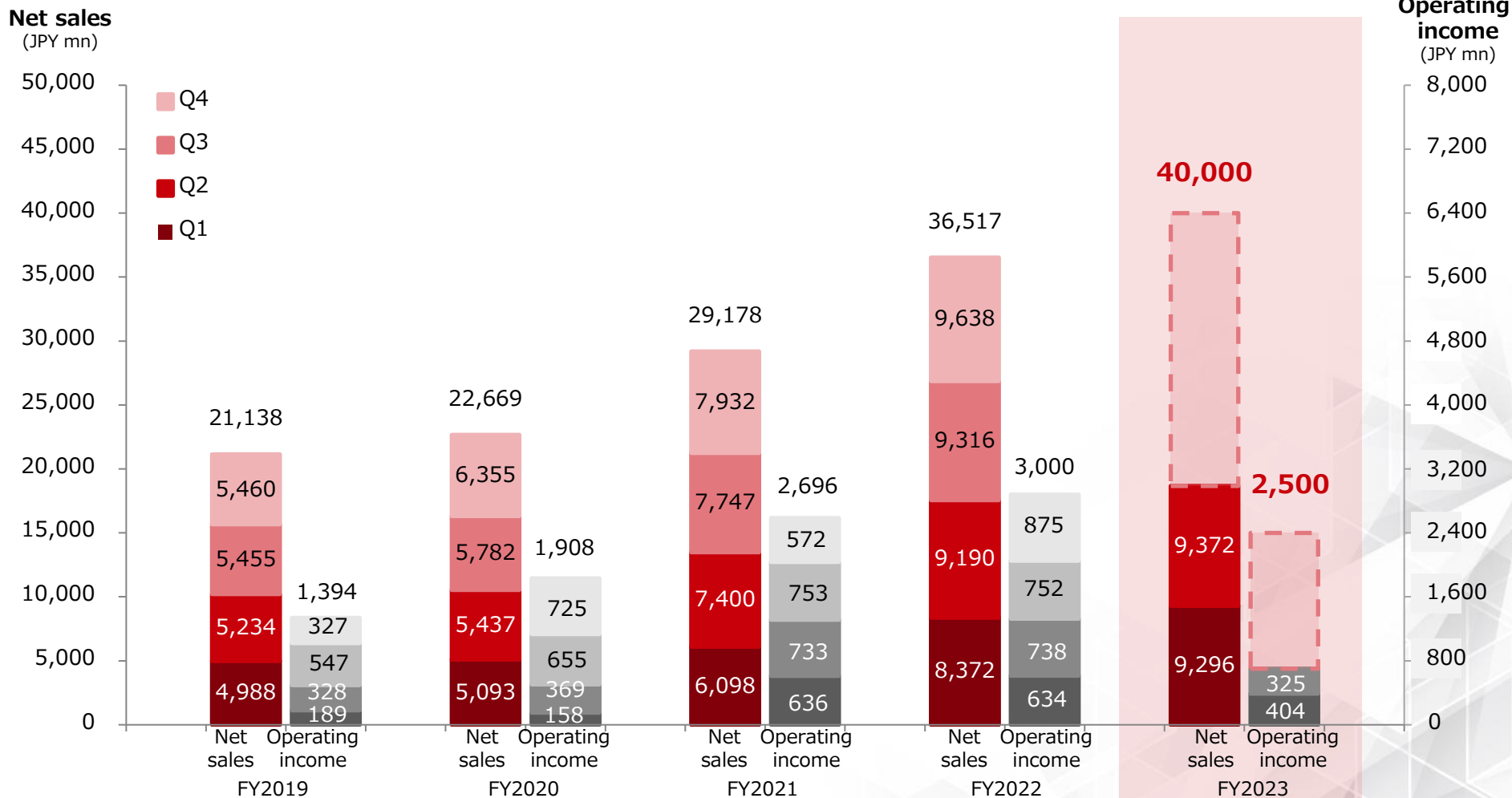
1H FY2022

1H FY2023

Trend in Net Sales and Operating Income

1H: Weaker operating income mainly due to lower earnings in U.S. subsidiary and others, despite sales growth driven by Enterprise Business.

2H: Turned to the trend of sales and profit growth, aiming for record-high net sales and operating income as half a year.



Consolidated Balance Sheets

(JPY mn)	Q4 FY2022 (As of March 31, 2023)	Q2 FY2023 (As of September 30, 2023)	Change from Q4 FY2022
Total assets	19,581	19,291	-290
Current assets	12,528	13,072	543
Cash and deposits	6,456	6,997	540
Noncurrent assets	7,052	6,218	-834
Property, plant and equipment	1,169	1,335	165
Intangible assets	4,188	3,021	-1,166
Goodwill	3,468	2,423	-1,045
Investments and other assets	1,694	1,861	166
Total liabilities	10,107	10,842	735
Current liabilities	9,930	10,644	713
Short-term loans	5,106	5,606	500
Noncurrent liabilities	176	198	22
Total net assets	9,474	8,448	-1,025
Shareholders' equity	8,283	7,310	-973
Accumulated other comprehensive income	522	713	190
Subscription rights to shares	6	—	-6
Non-controlling interests	661	424	-236
Total liabilities and net assets	19,581	19,291	-290

(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net cash provided by operating activities	1,430	1,156	-273
(*Cash flows before income taxes paid)	1,843	1,532	-310
Net cash used in investing activities	-1,496	-592	904
Net cash provided by (used in) financing activities	1,488	-200	-1,688
Effect of exchange rate change on cash and cash equivalents	254	176	-77
Net increase in cash and cash equivalents	1,676	540	-1,135
Cash and cash equivalents at the beginning of period	5,173	6,456	1,283
Cash and cash equivalents at the end of period	6,850	6,997	147

Financial Results of 1H by Segment and Full-year Forecast of FY2023

Summary of Financial Results by Segment

(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net sales	17,562	18,669	106.3%
Enterprise	7,614	9,429	123.8%
Entertainment	10,020	9,299	92.8%
Adjustments	-72	-58	—
Operating income	1,372	729	53.2%
Enterprise	104	35	33.5%
Entertainment	2,192	1,618	73.8%
Adjustments	-924	-923	—
EBITDA	1,920	1,279	66.6%
Enterprise	443	397	89.6%
Entertainment	2,379	1,772	74.5%

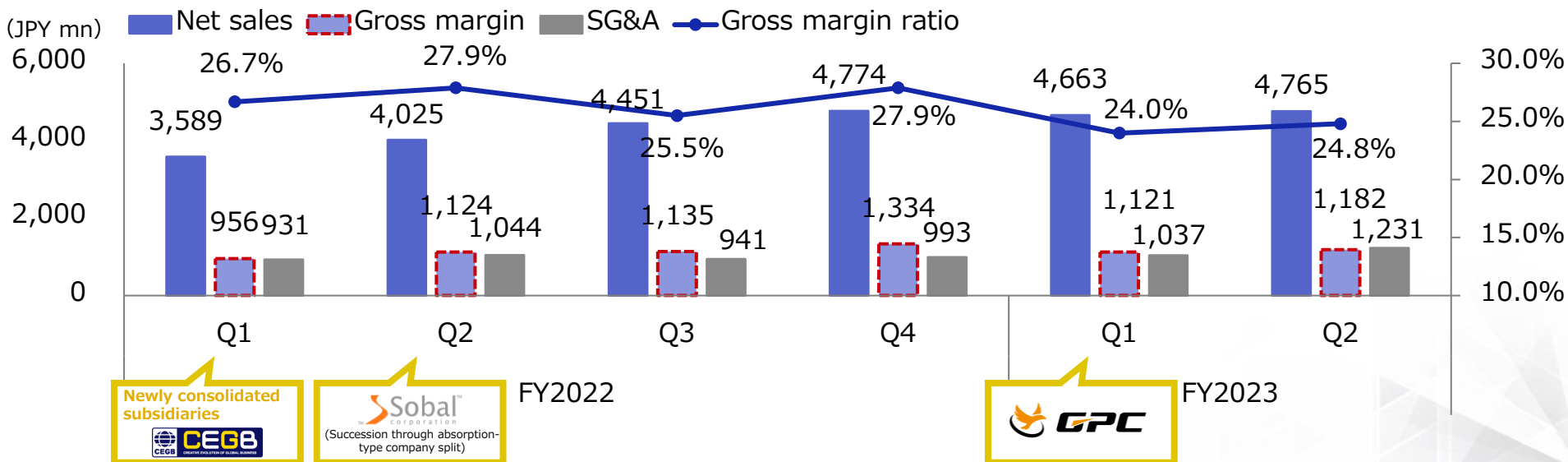
- Continued to achieve high sales growth of YoY123.8% against the tailwind of the increase in domestic IT investment, with recruitment of engineers, enhancement of technological capabilities, and expansion of services offered.
- Expenses related to Spin-Off Listing preparations, such as the subsidiary reorganization to a group-wide structure centered on AGEST, Inc., the increase of HQ's personnel, and the relocation of HQ functions, were incurred.
- Reforming the management structure and renewing the growth-strategy of the U.S. LOGIGEAR CORPORATION, which had been slow to recover since the COVID-19 crisis.

(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net sales	7,614	9,429	123.8%
QA solution	4,583	6,287	137.2%
IT services and others	3,030	3,141	103.7%
Segment income	104	35	33.5%
EBITDA	443	397	89.6%

Enterprise Business

- YoY 120% sales growth trend due to existing business growth and the effects of M&As.
- Aiming to recover gross margin in 2H FY2023 to the same as FY2022 due to the reforming of U.S. testing subsidiary's management structure and sales expansion.
- The number of clients and the average unit price growing steadily, and the number of engineers in Japan has increased at a pace of 100 people per year.

Performance Trends



QA solution division

Number of clients with orders (*)

Q2 FY2022

650 companies

Q2 FY2023

822 companies

Breakdown of YoY changes
in number of clients with orders

Domestic +103 companies
Overseas + 69 companies

Annual sales per client (*)

Q2 FY2022

¥12 mn

Q2 FY2023

¥14 mn

Number of engineers

Q2 FY2022

1,026 people

Q2 FY2023

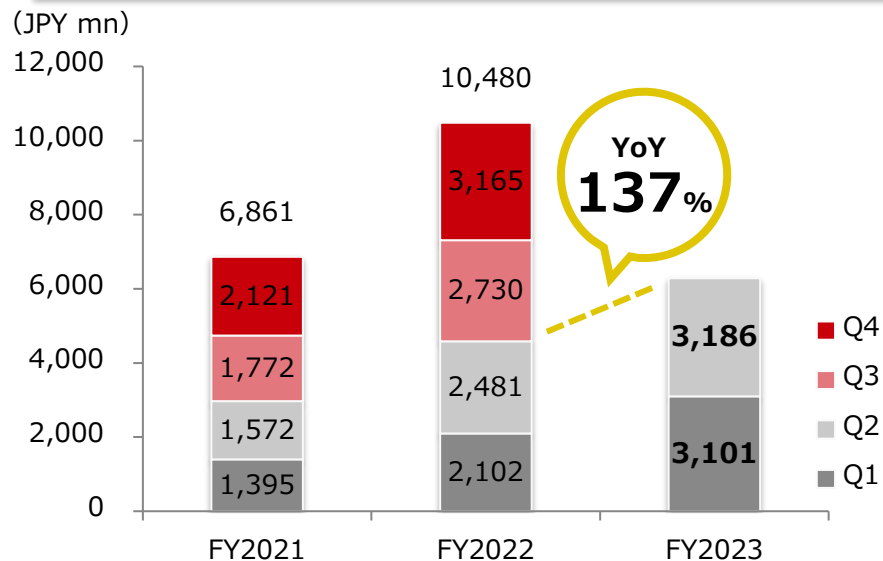
1,082 people

Breakdown of YoY changes
in number of engineers

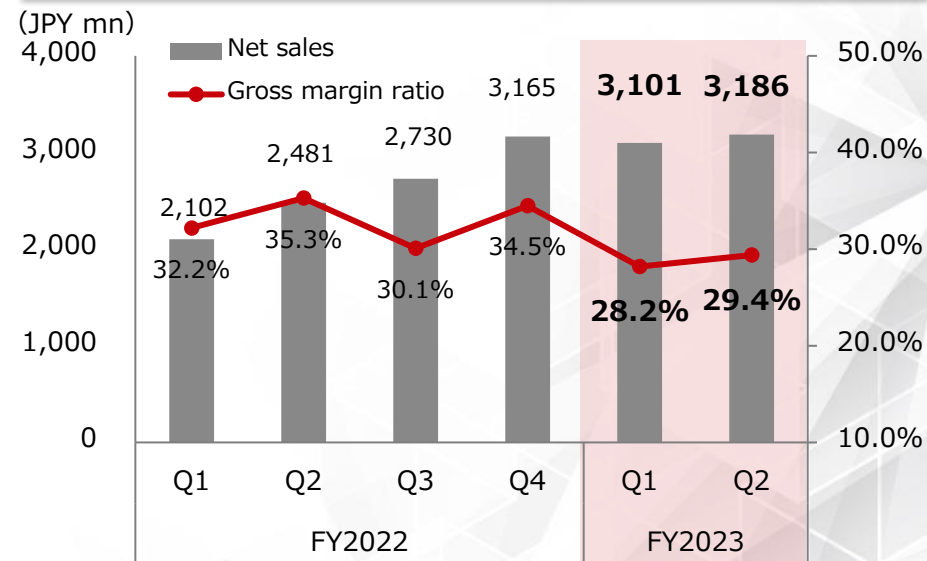
Domestic +102 people
Overseas -46 people

- YoY increase of 127.6% in sales excluding the effects of M&A, with continuous increase in demand for software testing in Japan with the acceleration of DX.
- Changed to a policy of utilizing a testing base in Vietnam and a unique tools of overseas subsidiaries, which had been used for U.S. and European markets, for servicing the domestic clients using the marketing capabilities of AGEST.
- The number of engineer has reached to 1,082 by strengthening recruitment by utilizing the 'Tech' brand image of AGEST for wider range from QA engineers to unexperienced engineer candidates.
- Gross margin ratio, declined by overseas business, is expected to recover to the 30% from Q3 onward.

Quarterly sales

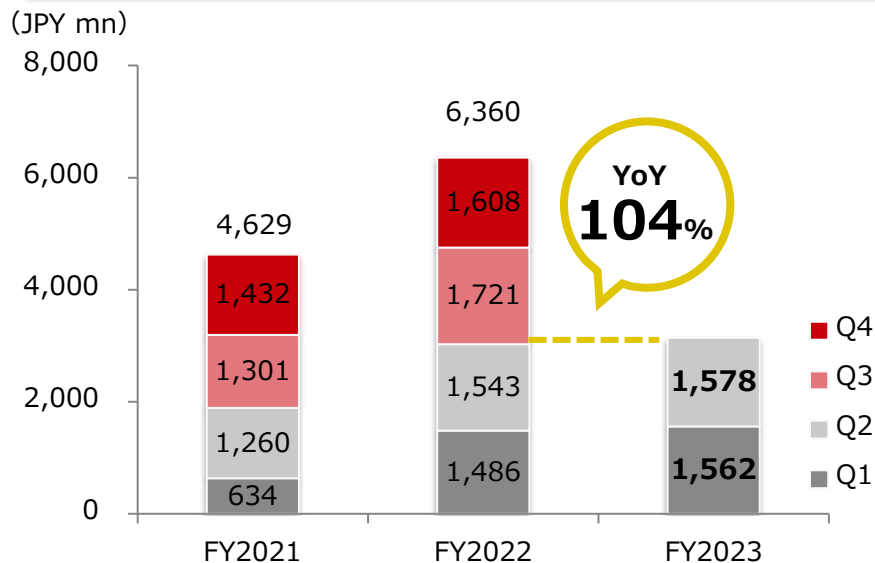


Net sales and Gross margin ratio

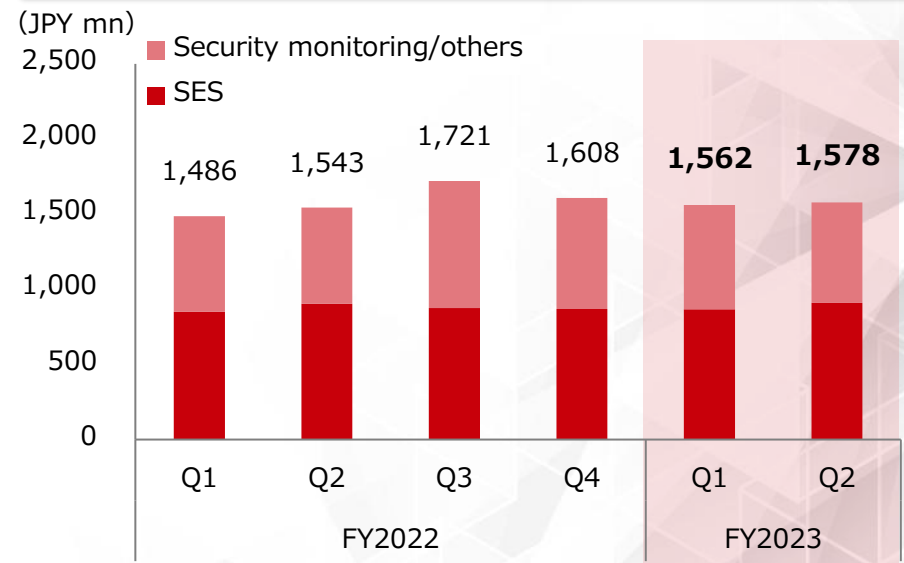


- Security monitoring services reached a strong sales growth of 113.2% YoY, by steadily capturing increasing demand against the backdrop of expansion of remote work.
- The SES businesses of registered engineers in identity Inc. reached 32,000 people.

Quarterly sales



Quarterly sales by service

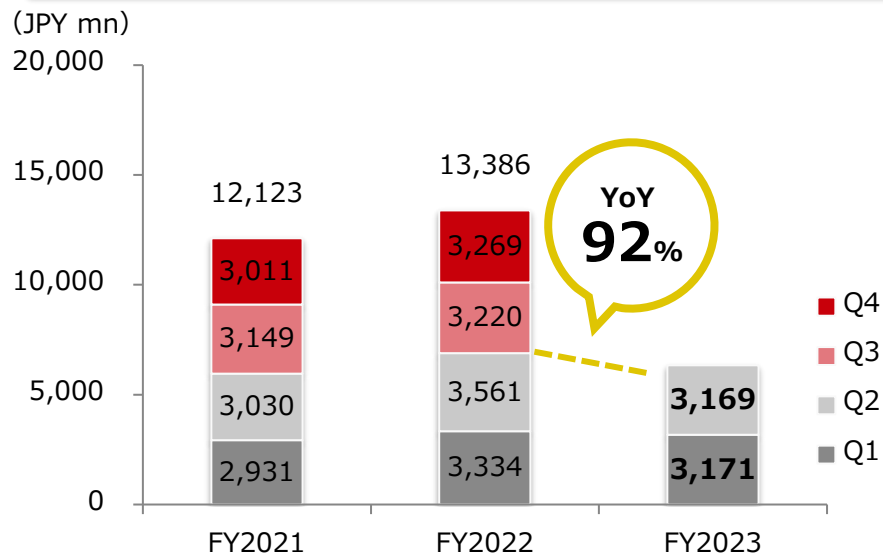


- Domestic debugging sales in 1H remained at a high level of 6.3 billion yen, despite a weaker sales against the too strong sales in the previous year. In 2H, as a period of recovering demand, both sales and income are expected to be trending upward.
- In Global and others segment, actively investing in growth such as strengthening utilization of external resources and development of translation-related tools, despite the lingering effects of COVID-19 and regulation changes in the China.
- Segment income is expected to recover in both net sales and profit margin in 2H, despite a temporary profit decline in 1H, due to the lower sales and the wage hike for testers.

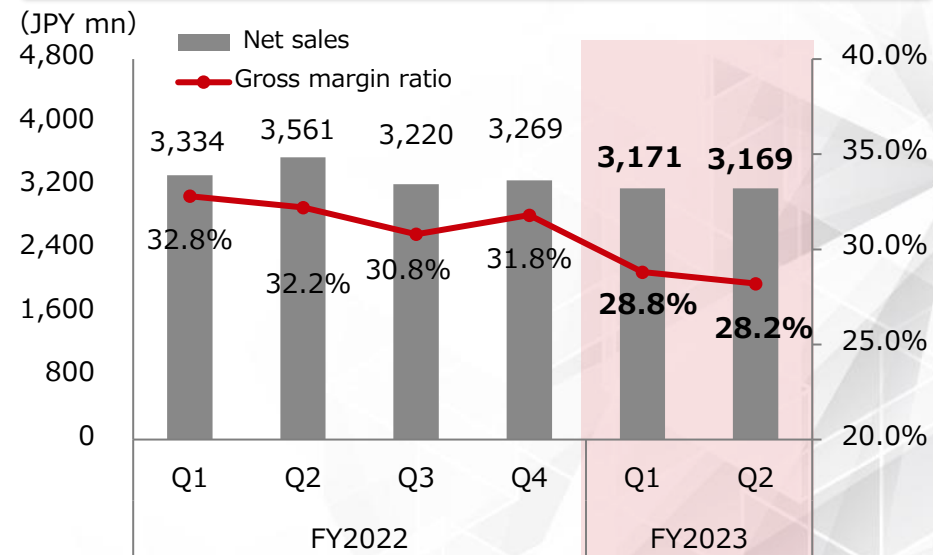
(JPY mn)	1H FY2022	1H FY2023	YoY Change
Net sales	10,020	9,299	92.8%
Domestic debugging	6,896	6,340	91.9%
Global and others	3,124	2,958	94.7%
Segment income	2,192	1,618	73.8%
EBITDA	2,379	1,772	74.5%

- Domestic Debugging maintained its high level of quarterly net sales of ¥3.1 billion in Q1 and Q2 by strengthening the service quality through “DHQ”, although a significant decline in sales from the previous year, when large-scale titles were successively launched in console games.
- Gross margin ratio is expected to recover to around 30% due to the penetration of cost pass-through from October onward and the sales expansion in 2H, although the temporary decline due to the effects of lower sales, the wage hike for testers, and opening cost of a new testing center.

Quarterly sales

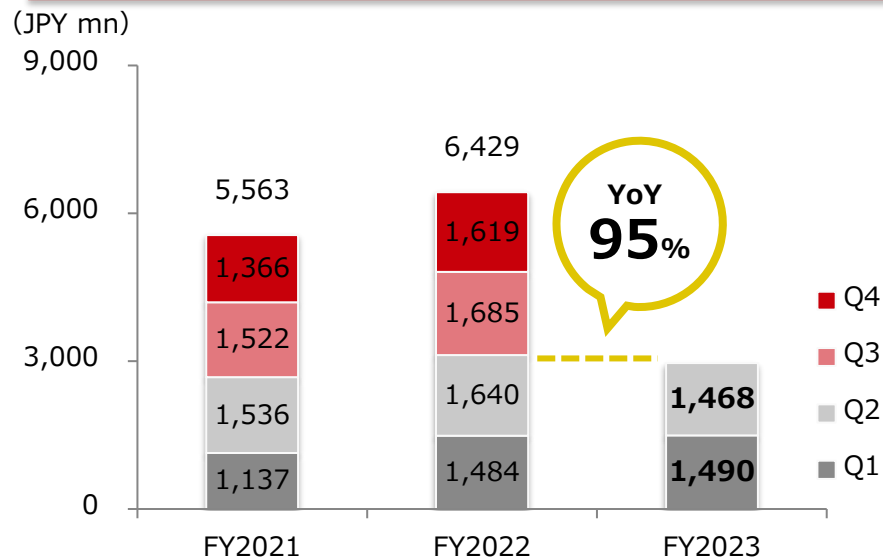


Net sales and Gross margin ratio

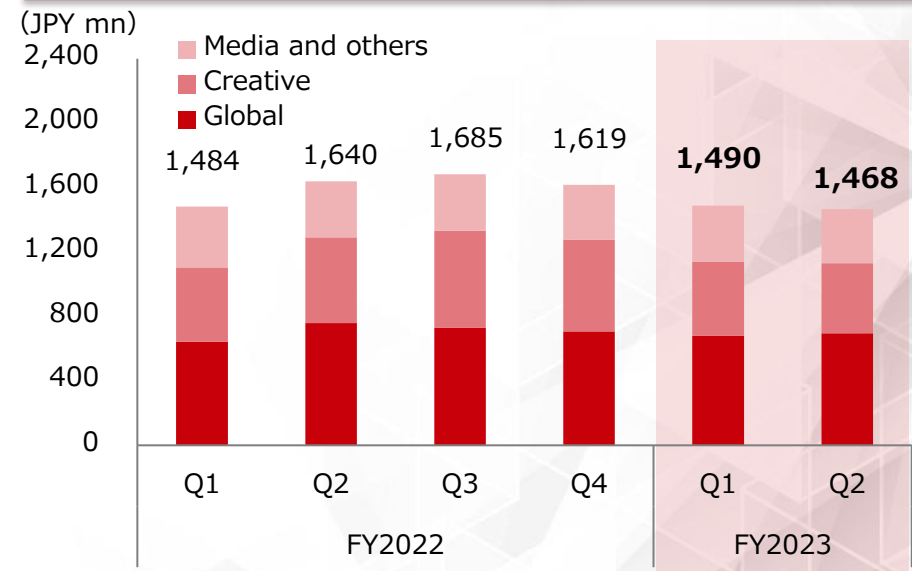


- Despite the decline in sales due to the impact of COVID-19 and regulation changes in the Chinese game industry, sales of Global Services (translation, LQA, and marketing support) recorded high growth 110% YoY after excluding the impacts of businesses restructuring, such as the separation of local advertising agency service in Taiwan.
- Promoting initiatives with an eye to growing markets, such as business alliances with localization companies in Spain aiming to expand businesses for the U.S. and Europe, and start developing translation engines for video games by utilizing AI.

Quarterly sales



Quarterly sales by service



FY2023 Consolidated Financial Forecast

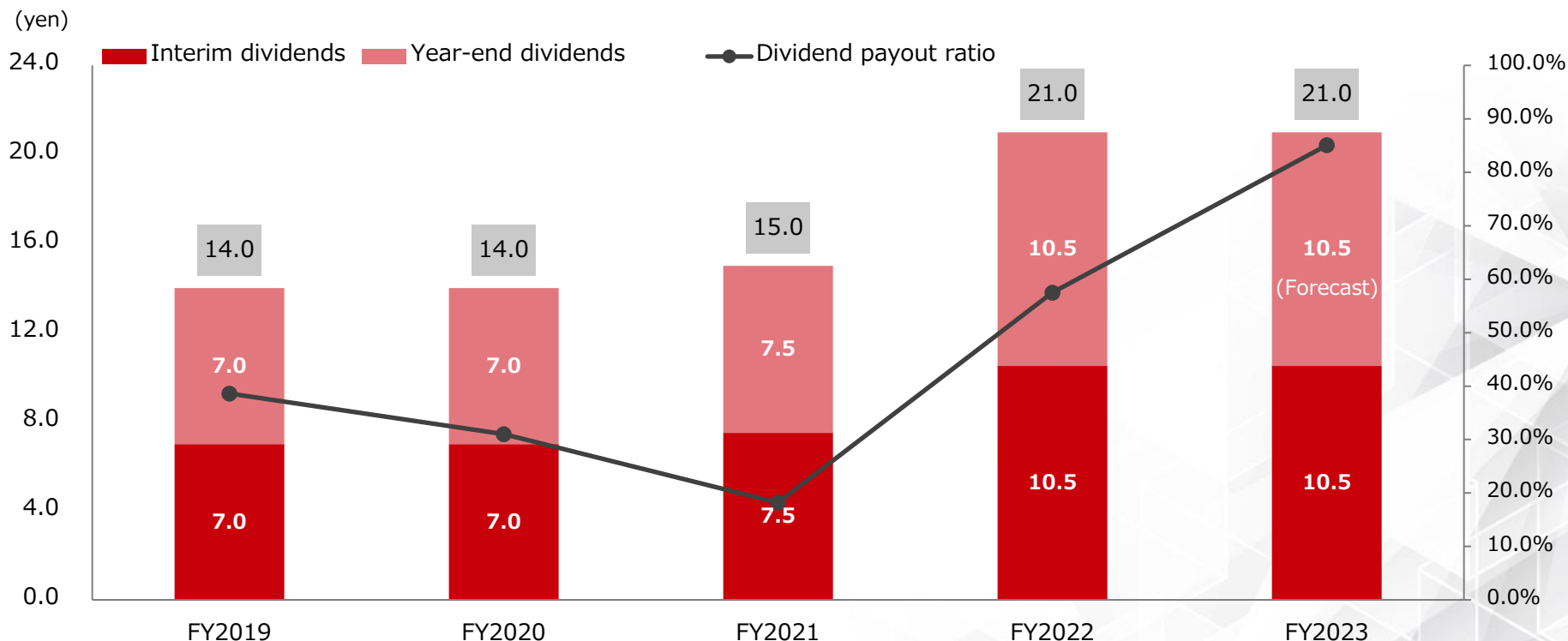
- Full year consolidated financial forecast is revised by reflecting the 1H results.
- Net sales of ¥40 bn, operating income of ¥2.5 bn (assuming ¥0.3 bn in Spin-Off Listing preparation expenses)
- Net income of ¥0.5 bn due to the impact of the subsidiary impairment losses in U.S.
- Aiming for recovering in 2H with a record-high operating income of ¥1.7 bn for half a year.

(JPY mn)	FY2022	FY2023 (Initial (A))	FY2023 (Revised (B))	YoY	B÷A
Net sales	36,517	40,750	40,000	109.5%	98.2%
Enterprise	16,840	20,650	20,435	121.3%	99.0%
Entertainment	19,815	20,100	19,645	99.1%	97.7%
Operating income	3,000	3,120	2,500	83.3%	80.1%
(Excluding costs to prepare for the Spin-Off Listing of AGESt, Inc.)	3,000	3,370	2,800	93.3%	83.1%
Operating income margin	8.2%	7.7%	6.3%	-2.0 points	-1.4 points
Ordinary income	3,152	3,160	2,560	81.2%	81.0%
(Excluding costs to prepare for the Spin-Off Listing of AGESt, Inc.)	3,152	3,410	2,860	90.7%	83.9%
Profit attributable to owners of parent	799	2,100	550	68.8%	26.2%
EBITDA	4,176	4,180	3,460	82.8%	82.8%

The interim dividends are 10.5 yen, in line with the initial forecast. The annual dividend is expected to be stable at 21.0 yen, the same level as the previous year.

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



Spin-Off Listing

Why?

To win in the growing market by refining their respective expertise and human resources in the rapidly evolving and globalizing IT/game markets!

Enterprise Business

To be the leading QA solution provider in the global market with the leading-edge quality technology

- Accelerate rapid growth as a unique model originating in Japan centered on advanced IT engineers.

Entertainment Business

To be a “Global Quality Partner” committed to the success of entertainment companies

- Supporting the quality and operation of digital content, centered on human resources who love game and entertainment

How?

Acquire optimal human resources and investment funds through branding as an independent, publicly traded company!

Enterprise Business

“Global Tech-brand” growing with cutting-edge in both tech and QA

Entertainment Business

“Global entertainment brand” enjoying creativity and diversity.

Enterprise Business has become the second pillar of profitability. Each unique expertise is required to further grow each business.

Net sales (Target)
¥80bn

Enterprise Business

Started the Enterprise Business by utilizing human resources/expertise developed in game debugging service.

Net sales Approx.
¥17bn

Pursue "QA" technologies, including cutting-edge technologies



Next-generation QA domains in response to "shift left"



Field of manual testing by "Engineer"

AGEST

Composition of core company

2001

2017

2023

2029

First Founding

Second Founding

Present to Future

Have been providing game debugging services in the domestic game market by people with passionate about games.



DIGITAL HEARTS

Establishment of core company



Domestic game-related debugging domain with overwhelming market shares



Cross-border projects and debugging services for various entertainment contents

Entertainment Business

Net sales Approx.
¥20bn

Expanding cross-border projects and new debugging areas for other entertainment contents

Net sales (Target)
¥35bn

Enterprise Business

Aiming for "Safe and Secure Software"



Contribute to the improvement of the quality as functions and non-functions of software and to support every aspect of life

"Expert in QA" to help improve the accuracy and efficiency of testing



Testing utilizing cutting-edge QA know-how, including shift-left support and the use of test automation tools

Group of engineers pursuing cutting-edge technologies



Keep pace with rapidly changing trends in technology and improve own skills

Entertainment Business

Aiming for "Maximizing the Attractiveness of Entertainment Contents"



Contribute to the creation of comfortable lifestyles by providing total support, from the creation of attractive contents to marketing activities.

Support for improving content quality from the "user's perspective"



Supporting the development of high-quality contents by detecting bug or defect utilizing the sensibilities of game-lovers and translating them with understanding the worldview of each title.

Diverse human resources with rich creativity, including game enthusiasts



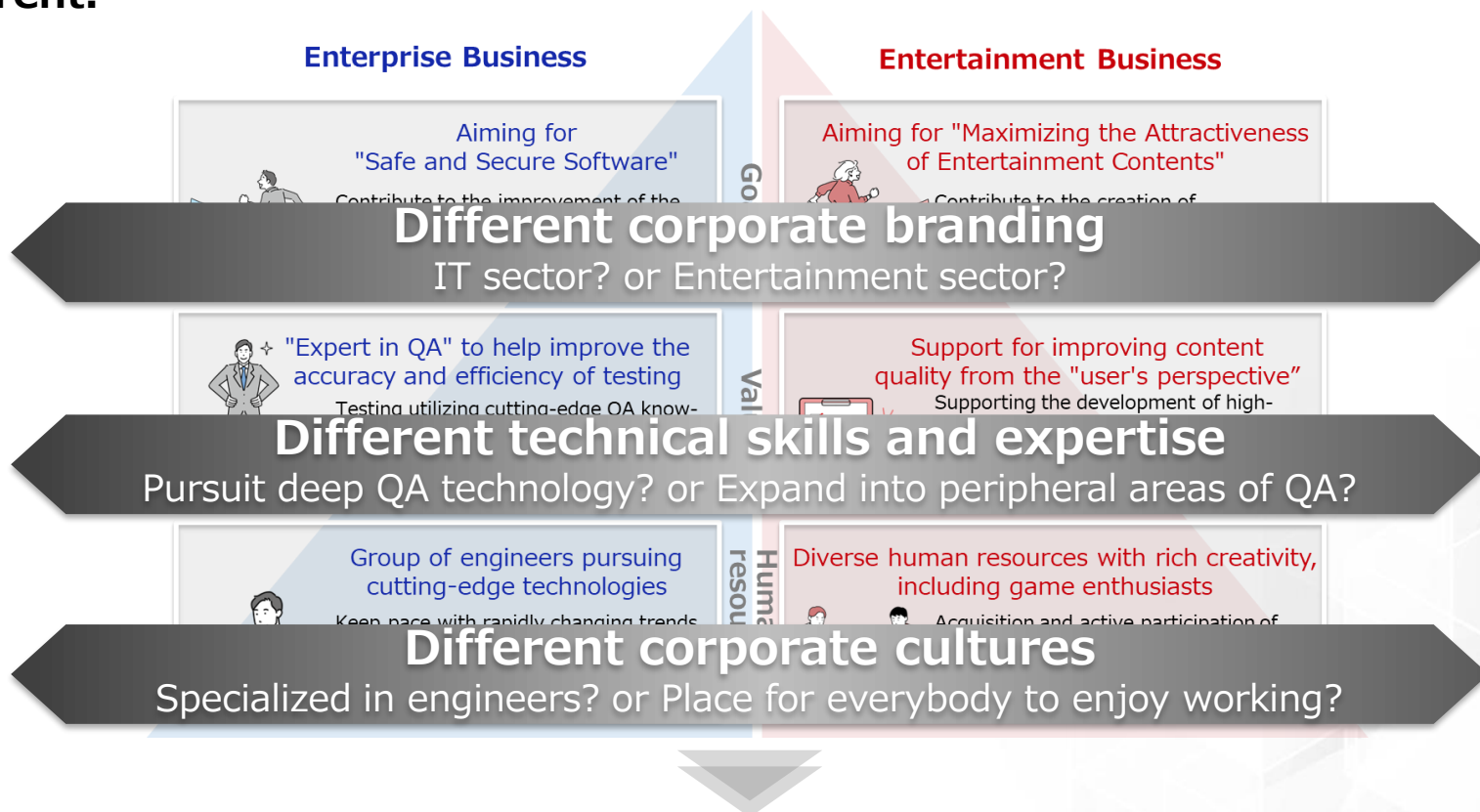
Acquisition and active participation of various testers including withdrawal experienced, young actors, creators and translation professionals.

Goal

Value

Human resources

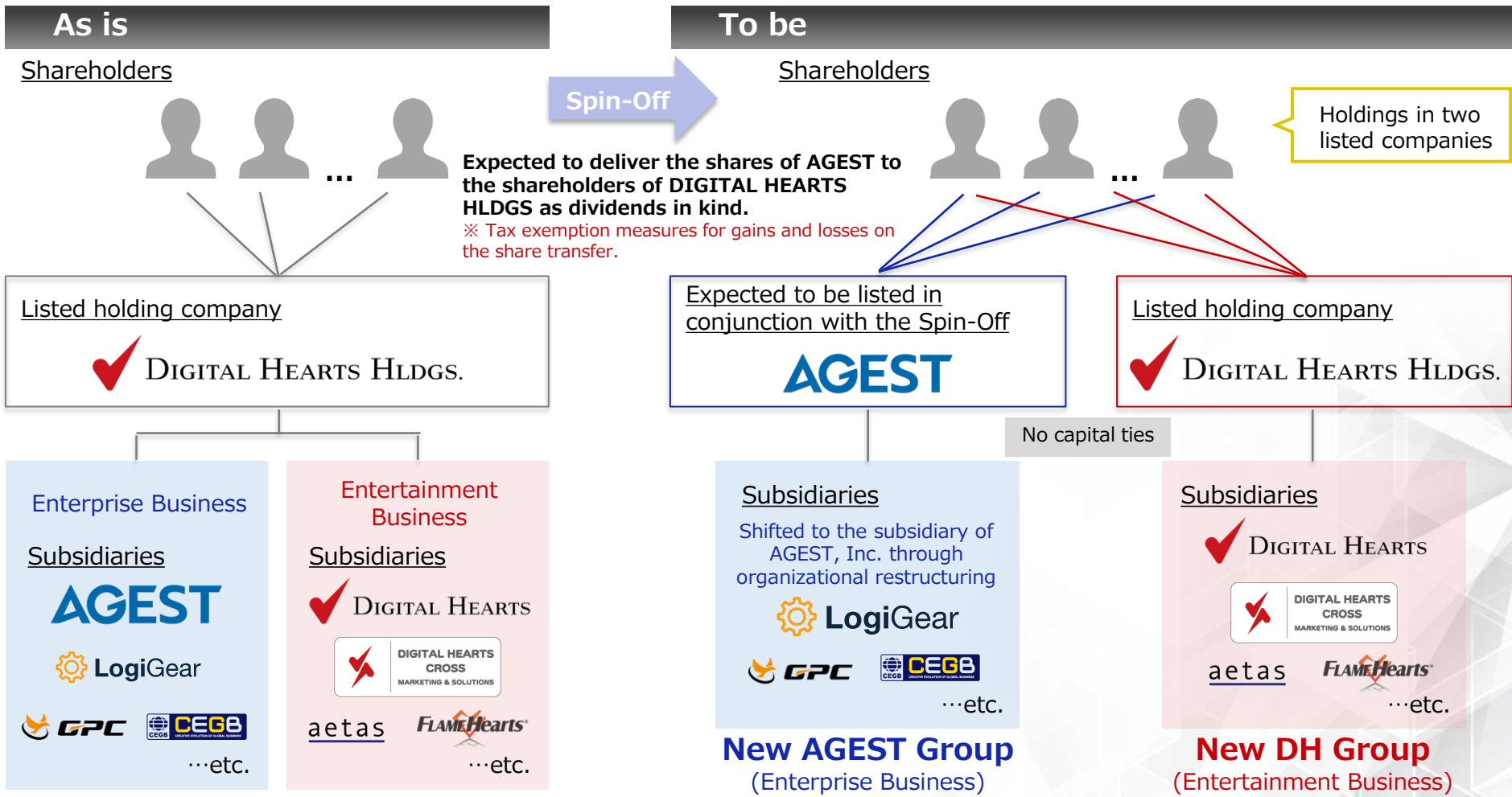
Now that both businesses are of the same size, challenges due to the mix of different specialties and different corporate cultures have gradually become apparent.



Started preparing for the Spin-Off Listing of AGEST Co., Ltd., the core subsidiary of the Enterprise Business, to maximize the growth potential of "both" businesses by making each business as an independent and unique one.

(Appendix) Scheme of Spin-Off Listing

Commence the preparation of the Spin-Off Listing.
To use the Share-Distribution-Type Spin-Off scheme from the perspectives of “business independence,” “economic rationality” and “existing shareholder’s benefit”.



Continue to strategically invest in new technologies/human resources, mainly in the domestic market. Aim to become a global QA company with net sales of ¥80 billion and 10% OP margin.

Market environment

Domestic software testing market (*1)



■ Business opportunity

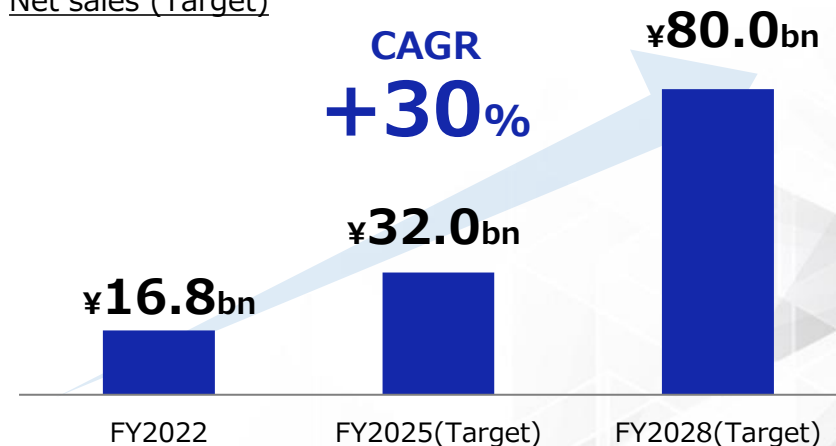
- Chronic shortage of engineers.
- "Quality" is the source of our competitiveness, and the testing process has become more and more important.
- Sophisticated testing technologies.

The outsourcing of testing processes for specialized companies is accelerated

Target

(consolidated)	FY2022*2	FY2025	FY2028
Net sales	¥16.8 bn	¥32.0 bn	¥80.0 bn
Operating income	-	¥2.5 bn	¥8.5 bn

Net sales (Target)



New AGEST Group



*1 See p. 10 of this document for source and other details.

*2 Figures for FY2025 and FY2028 are consolidated base with the assumption of after the Spin-Off Listing. Since these figures differ from the definition of FY2022 segment profit, operating income of FY2022 has no date here.

Accelerating businesses expansion in Europe, the U.S. and other global markets, and challenging in new areas such as NFT and Metaverses, while maintaining stable revenues in the domestic Debugging businesses.

Market environment

Global digital content market (*1)



■ Business opportunity

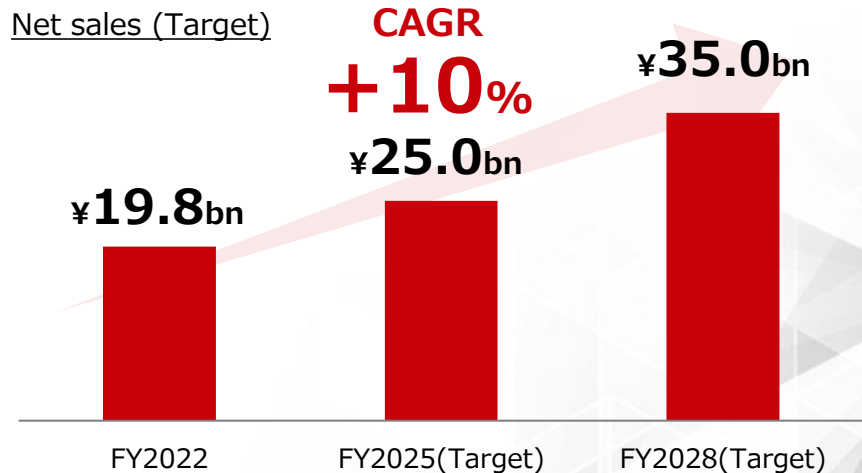
- Accelerating the global expansion of game titles from the domestic to the global
- Increase in entertainment digital contents other than video games



New needs as a quality partner

Target

(consolidated)	FY2022*2	FY2025	FY2028
Net sales	¥19.8 bn	¥25.0 bn	¥35.0 bn
Operating income	-	¥3.0 bn	¥4.5 bn

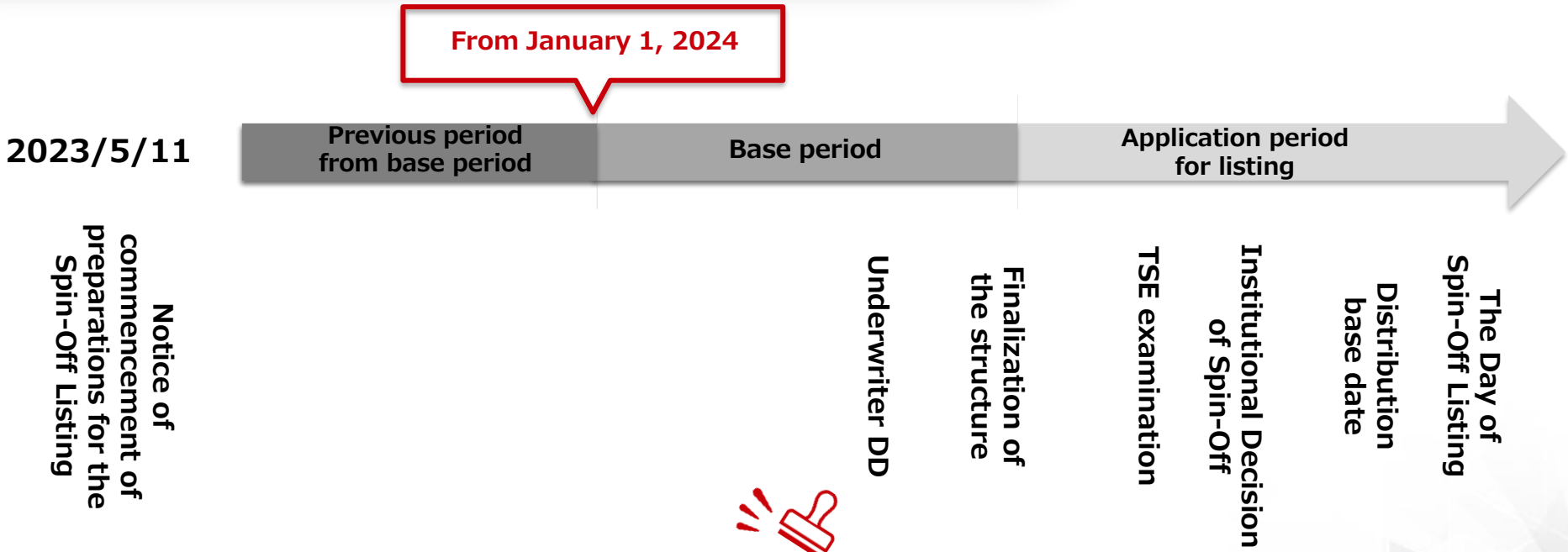


New DH Group



*1 See p. 10 of this document for source and other details.

*2 Figures for FY2025 and FY2028 are consolidated base with the assumption of after the Spin-Off Listing. Since these figures differ from the definition of FY2022 segment profit, operating income of FY2022 has no date here.



Preparation period for Spin-Off Listing

- ✓ Establishment of head office functions including structure of management and governance **Done**
- ✓ Conclusion of a lead managing underwriter contract and audit contract **Done**
- ✓ Reorganization of group companies **Scheduled to be implemented on January 1, 2024**
- ✓ Appointment of Independent Director
- ✓ Establishment of Board of Corporate Auditors

* Here is an example as an ordinary schedule image plan. Actual schedules may be revised in the process of preparing for the Spin-Off Listing.

Appendix

One of the few
testing companies in Japan



Ratio of
outside directors

50.0%



Employment creation
for more than

8,000 testers



Business that supports
Digital security



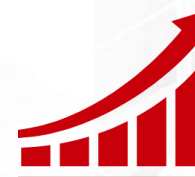
Foreign staff
members of more
than

30 nationalities



High sales growth of

CAGR 16% (*)



Our mission

SAVE the DIGITAL WORLD

Market environment

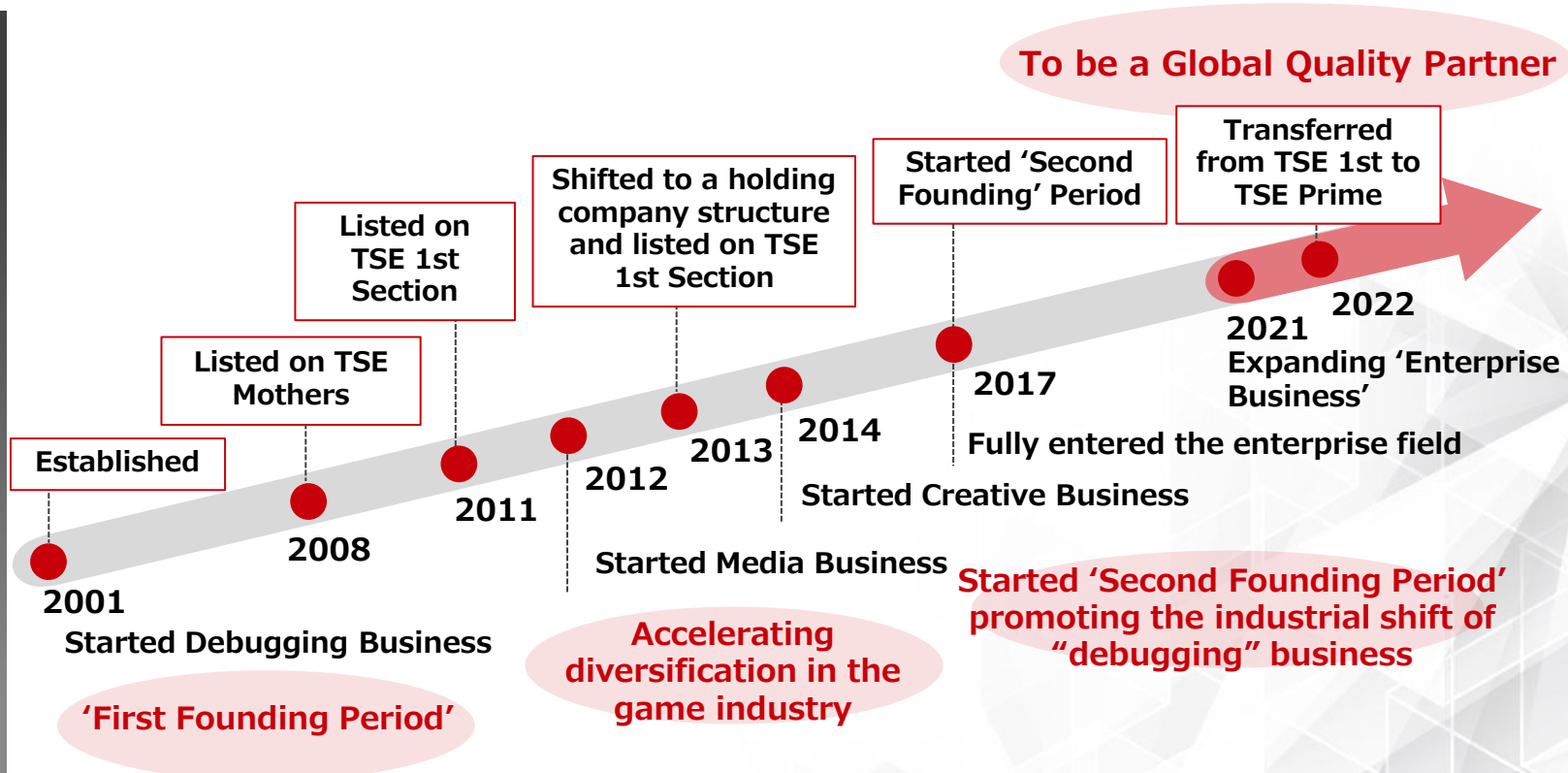
Growth of console game market

Growth of mobile game market

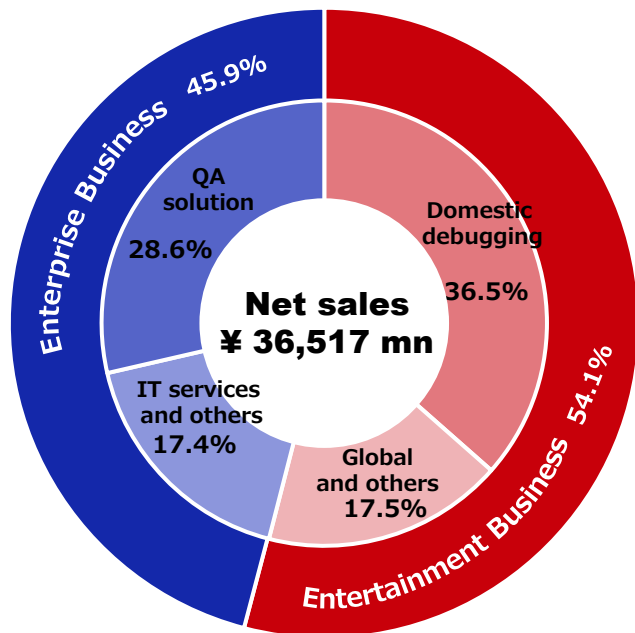
Expansion of IoT

Expansion of DX

History



Our core business: QA(Quality Assurance) and Debugging



Sales breakdown by segment (FY2022)

*Segments include inter-company sales and/or transfers.

Enterprise Business	QA solution	28.6%	<ul style="list-style-type: none"> ➤ Testing for business systems incl. online ➤ Support for test automation ➤ Security test ➤ Introduction of ERP and CRM ➤ System development
	IT services and others	17.4%	<ul style="list-style-type: none"> ➤ IT engineer platform service ➤ Security monitoring ➤ IT support
Entertainment Business	Domestic debugging	36.5%	<ul style="list-style-type: none"> ➤ Debugging for console games, mobile games, etc.
	Global and others	17.5%	<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" ➤ Customer support

✓ **DIGITAL HEARTS HLDGS.**
(Holding Company)

(As of September 30, 2023)

Enterprise Business

AGEST, Inc.

System testing, Cyber-security, etc.

LogiGear Group

System testing, Test automation support

MK Partners, Inc.

Salesforce consulting

TPP SOFTWARE COMPANY LIMITED

System development

DEVELOPING WORLD SYSTEMS LIMITED

Introduction and maintenance support for Oracle products

identity Inc.

IT freelance engineer platform service

CEGB Co., Ltd.

SAP implementation and operation support, system development support, etc.

GPC K.K

SAP/ERP implementation support, System development, etc.

Entertainment Business

DIGITAL HEARTS Co., Ltd.

Game debugging, Localization, etc.

DIGITAL HEARTS CROSS Group

Marketing support, etc.

DIGITAL HEARTS (Shanghai) Co., Ltd.

Game debugging, Localization, etc.

DIGITAL HEARTS USA Inc.

Game debugging, Localization, etc.

DIGITAL HEARTS Seoul Co., Ltd.

Game translation, Marketing support, etc.

Digital Hearts Linguitronics Taiwan Co., Ltd.

Game translation

FLAME Hearts Co., Ltd.

Game development and CG content development

Aetas, Inc.

Operation of a game information site, "4Gamer.net"

Main Business Locations

(As of October 31, 2023)



Establish PP&T as the Enterprise Business platform by bringing together experts from the frontline of the software testing industry.

People



Dr. Juichi Takahashi

A pioneer in software testing in Japan. Holds a PhD in software testing and has published many works. Director and CTSO of AGESt, Inc., our subsidiary



Dr. Hironori Washizaki
Professor,
WASEDA University

Researcher in agile development.



Mr. Rex Black

Worldwide authority on software testing with many published works. Former president of the ISTQB.



Dr. Masahiko Kato
Professor,
University of Nagasaki

Researcher in Security Testing.

Process



Mr. Yohei Takagi

The first Japanese [ISO/IEC/IEEE 29119 Training Trainer]. Executive Officer of AGESt, Inc., our subsidiary.



Dr. Stuart Reid

The founder of the ISTQB. The convener of ISO Software Testing Working Group 26, which has published software testing standard, "ISO /IEC/IEEE 29119."

Technology
















Mr. Kazutaka Jokura

A former CTO in DMM.com LLC. Worked on expanding and training the company's engineers for seven years. Our Chief Technology Officer.



Mr. Hung Nguyen

Worldwide authority on software testing. The co-author of the bible for test engineers. Founder of our subsidiary LOGIGEAR CORPORATION.

	Aims	Past M&As
Enterprise Business	Engineer acquisition	 Software testing engineers in Japan  Software development engineers in Vietnam  Highly skilled domestic freelance engineers
	Technological capabilities	 Test automation tools Offshore in Vietnam  Salesforce consulting  Test automation tools for Oracle software   SAP expertise
Entertainment Business	Services to complement localization	 Japan's largest game information website "4Gamer.net"  Game software development/CG content development
	Geographical expansion	 Game translation in South Korea  Game translation in Taiwan  Marketing and promotion support in China and Asian countries

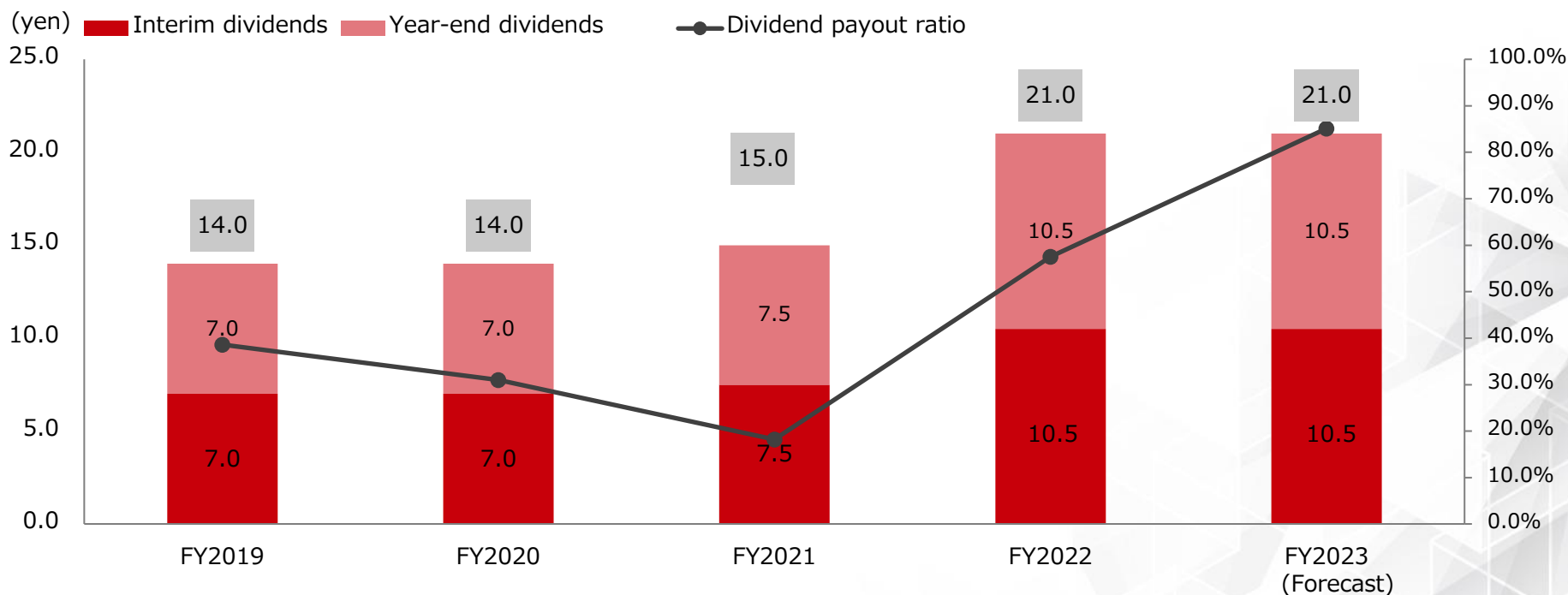
Consolidated Financial Statement

(JPY mn)	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Net sales	15,444	17,353	19,254	21,138	22,669	29,178	36,517
Enterprise Business	1,952	1,892	3,302	5,022	7,021	11,491	16,840
Entertainment Business	13,544	15,568	15,951	16,115	15,647	17,687	19,815
Adjustments	-52	-108	-0	-	-	-	-138
Operating income	1,906	1,735	1,605	1,394	1,908	2,696	3,000
Enterprise Business	203	-14	-226	-67	188	645	639
Entertainment Business	2,453	2,966	3,086	2,964	3,077	3,668	4,214
Adjustments	-750	-1,215	-1,254	-1,503	-1,356	-1,616	-1,853
Operating income margin	12.3%	10.0%	8.3%	6.6%	8.4%	9.2%	8.2%
Enterprise Business	10.4%	-	-	-	2.7%	5.6%	3.8%
Entertainment Business	18.1%	19.1%	19.3%	18.4%	19.7%	20.7%	21.3%
Profit attributable to owners of parent	795	1,200	1,575	792	974	1,778	799
Total assets	7,651	8,575	9,832	10,637	14,338	17,610	19,581
Current assets	6,221	6,813	7,403	7,453	9,744	10,392	12,528
Cash and deposits	3,344	3,894	4,197	3,739	5,076	5,208	6,456
Noncurrent assets	1,430	1,761	2,428	3,183	4,593	7,217	7,052
Goodwill	201	150	481	1,027	2,467	4,588	3,468
Total liabilities	4,793	5,005	4,819	5,198	8,024	10,044	10,107
Interest-bearing liabilities	1,646	1,610	1,764	2,553	4,797	5,590	5,106
Total net assets	2,858	3,570	5,012	5,438	6,314	7,566	9,474
Shareholders' equity	2,632	3,369	4,791	4,922	5,691	6,991	8,806
Shareholders' equity ratio	34.4%	39.3%	48.7%	46.3%	39.7%	39.7%	45.0%
Net cash	1,698	2,283	2,433	1,186	278	-382	1,350
Debt Equity Ratio	0.6	0.5	0.4	0.5	0.8	0.8	0.6
Net cash provided by operating activities	1,825	1,436	889	1,086	1,416	3,077	2,850
Net cash used in investing activities	-610	-618	62	-1,018	-1,813	-2,537	-1,903
Net cash provided by (used in) financing activities	-69	-250	-693	-515	1,730	-546	141
ROE	29.2%	40.0%	38.6%	16.3%	18.4%	28.0%	10.1%
Dividend Payout Ratio	32.3%	20.9%	18.0%	38.6%	31.0%	18.2%	57.5%

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



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
- 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
- Strategically acquiring human resources through our overseas offices

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

- Internal support system for obtaining software test certification of "JSTQB".
- Provide world-class test engineer training program in "AGEST Academy" for employees.
- Provide educational opportunities through collaborations with METI, local governments including Osaka and Gunma prefecture, correspondence high schools, NPOs, and career transition support offices.



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.
- Provide employment opportunities through the operation of the Tokyo Metropolis-Certified Social Firm.
- Employ foreign nationalities of more than 30 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

- Established "AGEST Testing Lab. " to promote research on new software testing methods to support the evolving software society through industry-academic collaboration.
- Launched factory cyber security solutions to Japan market collaboratively with four companies including Siemens K.K.



Communities

To revitalize local community and resolve IT disparities

- Create jobs throughout nationwide test centers (Lab.) and promote teleworking/work-from-home style by Remote Debugging service.
- Contribute to cyber security measures for local communities and SMEs by acquiring a certification from Information-technology Promotion Agency, Japan (IPA).



Terms	Definition
Enterprise Business	Our service-based business segment for non-gaming enterprise software, which provides software testing and cyber security. It is the main driver of growth in our corporate group due to the massive digital transformation currently sweeping through society.
Entertainment Business	Our service-based business segment for the game and entertainment industries, which provides debugging and localization. It is our “cash cow”, primary stream of revenue in Japan and continues to see extensive growth in the global market.
System Testing	This is a term used in our Enterprise Business and the same meaning of software testing. System testing comprises detection of system bugs for enterprise resource planning (ERP) software, websites, business apps, etc.
Debugging	This is a term used in our Entertainment Business. We run tests and find software bugs from the perspective of the user. Debugging generally refers to the identification and correction of errors, but we specialize in identifying and reporting them. Mobile games comprise two-thirds of our debugging requests, with console games making up the other third.
QA	An abbreviation for Quality Assurance. It includes both of software testing and game debugging.
LQA	An abbreviation for Linguistic Quality Assurance. LQA focuses on finding and fixing in-game linguistic errors that occur when translating from a foreign language.
Test Engineer	Engineers who conduct software testing. It has not been popular yet in Japan as a job career and Japan currently has a shortage of test engineers, we often recruit IT engineers and provide them the necessary training.
Tester	Staff members who carry out debugging. Most of our testers are registered part-time workers. Some are trained to work as test engineers or cybersecurity specialists.
Console Games	A game played using dedicated hardware such as the Nintendo Switch or PlayStation.
Qualitist	Our uniquely coined term for specialists who contribute to the quality of software. It refers to all IT specialists such as test engineers and cybersecurity specialists in our Enterprise Business, as well as testers, translators, 2D/3D graphic designers, etc. that work in our Entertainment Business.



DIGITAL HEARTS HLDGS.

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