



DIGITAL HEARTS HDLGS.



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## Summary of Business Results for the Third Quarter Ended December 31, 2023 [Japan GAAP] (Consolidated)

February 8, 2024

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 9, 2024  
 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, 2023 (April 1, 2023 – December 31, 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)	(%)
Nine Months Ended								
December 31, 2023	28,666	6.6	1,422	-33.1	1,525	-34.7	-76	-
December 31, 2022	26,879	26.5	2,125	0.1	2,336	6.6	1,394	2.3

(Reference) Comprehensive income: Nine months ended December 31, 2023: 148 million yen (-92.9%)  
 Nine months ended December 31, 2022: 2,083 million yen (33.8%)

	Net income per share	Diluted net income per share
Nine Months Ended	(yen)	(yen)
December 31, 2023	-3.42	-
December 31, 2022	63.96	63.75

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	(Millions of yen)	(Millions of yen)	(%)
As of December 31, 2023	20,914	8,591	39.0
As of March 31, 2023	19,581	9,474	45.0

(Reference) Shareholders' equity: 8,160 million yen (As of December 31, 2023) 8,806 million yen (As of March 31, 2023)

(Note) The figures for the third quarter ended December 31, 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	—	10.50	—		
Fiscal year ending March 31, 2024 (Forecasts)				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	40,000	9.5	2,500	-16.7	2,560	-18.8	550	-31.2	24.69

(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 December 31, 2023	23,890,800 shares	As of March 31, 2023	23,890,800 shares
(b) Number of treasury stock	As of December 31, 2023	1,614,278 shares	As of March 31, 2023	1,632,090 shares
(c) Average number of shares during the period	Nine months ended December 31, 2023	22,267,519 shares	Nine months ended December 31, 2022	21,795,705 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 Q3 (JPY in thousand)	FY2023 Q3 (JPY in thousand)	Change (%)
Sales	26,879,428	28,666,336	6.6
Operating income	2,125,584	1,422,161	-33.1
Ordinary income	2,336,676	1,525,281	-34.7
Net income attributable to owners of the parent Or quarterly net loss (-)	1,394,159	-76,150	—

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.

During the cumulative period through the consolidated third quarter, net sales increased to JPY28,666,336 thousand (up 6.6% YoY), thanks to continued double-digit growth in Enterprise Business supported partly by M&A activities, despite decreased net sales due to factors including the reaction to the domestic Debugging in which the Entertainment Business performed favorably in the previous period. At the same time, profits were impacted by the decline in Entertainment Business sales, lower profitability in overseas subsidiary belonging to the Enterprise Business, and higher expenses associated with preparations for listing (hereinafter referred to as the "Spin-Off Listing") of the AGEST, Inc. (hereinafter referred to as the "AGEST"), which is the core subsidiary of the Enterprise Business, and other factors. As a result, Operating income was JPY1,422,161 thousand (down 33.1% YoY) and ordinary income was JPY1,525,281 thousand (down 34.7% YoY). Net loss attributable to shareholder of the parent was JPY76,150 thousand (vs. net income of JPY1,394,159 thousand in the same quarter of the previous fiscal year), due to factors such as the recording of Impairment losses on goodwill of a consolidated subsidiary as an extraordinary losses in the second quarter of the consolidated fiscal year.

Business results by segment are reviewed below.

	FY2022 Q3 (JPY in thousand)	FY2023 Q3 (JPY in thousand)	Change (%)
<b>Sales</b>	<b>26,879,428</b>	<b>28,666,336</b>	<b>6.6</b>
Enterprise Business	12,066,159	14,415,654	19.5
Entertainment Business	14,926,328	14,336,733	-4.0
Adjustment amount	-113,058	-86,051	—
<b>Operating income</b>	<b>2,125,584</b>	<b>1,422,161</b>	<b>-33.1</b>
Enterprise Business	298,701	203,744	-31.8
Entertainment Business	3,206,027	2,550,391	-20.5
Adjustment amount	-1,379,144	-1,331,974	—

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 third quarter, we reliably secured growing demand through continuing activities to hire engineers using “tech” brand-centered on the core subsidiary of AGEST and focusing on proactive operating activities. In addition, not only did we perform testing in the final process of development, but we also endeavored to differentiate ourselves from competitors and improve competitiveness through efforts such as establishing "QA for development" high-value-added solutions suited to "shift left" that support quality from the upstream processes of development and enhancing technological capabilities of engineers using alliances.

Furthermore, combined with reviewing businesses growth strategies in Europe and the United States, where profitability is declining, and promoting efforts toward the full-fledged use of Vietnamese resources in Japan, including unification of the Vietnam subsidiary into a AGEST brand. In anticipation of Spin-Off Listing, we also sought to transform our structure to focus on businesses growth in Japan, centered on AGEST, through means including implementing organizational restructuring effective January 1, 2024, using Group companies operating in Enterprise Business as direct subsidiary in AGEST. Furthermore, we also made steady progress on preparations for the construction of AGEST's own head office functions and the relocation of the head office, etc. in preparation for Spin-Off Listing implementation within 2025.

As a result, net sales in the Enterprise Business during the cumulative period through the consolidated third quarter grew to JPY14,415,654 thousand (up 19.5% YoY), thanks in part to the effects of M&A. Segment income, however, was JPY203,744 thousand (down 31.8% YoY) due to factors such as decreased profitability in overseas subsidiary and increased expenses related to preparations for Spin-Off Listing, including the impact of reallocation of human resources across the Group.

## 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 third quarter, amid a reaction to the Debugging for console games, which had been favorable mainly in the first half of the previous fiscal year, the Group endeavored to maintain and increase its overwhelming market share through 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. In addition, combined with the establishment of a new test center, Lab., in Kumamoto, we also endeavored to secure talented human resources and improve employee satisfaction, through means including raising the hourly wages of testers more than ever before.

At the same time, in the global and other services, amid lingering uncertainty about the future of the Chinese game market, we made full-fledged progress on businesses growth in Europe and the United States, including conclusion of strategic business alliance contracts with Localsoft, S.L., a Spanish game localization company. In addition, combined with launching joint development of an ai translation engine for entertainment contents with Rozetta Corp., which has strengths in automated translation, we also promoted new challenges toward further growth, including a resolution on the Established of a joint venture for Debugging in JetSynthesys Private Limited and India.

As a result, net sales in the Entertainment Business during the cumulative period through the consolidated third quarter were JPY14,336,733 thousand (down 4.0% YoY) and segment income was JPY2,550,391 thousand (down 20.5% 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 JPY13,818,041 thousand, up JPY1,289,162 thousand (up 10.3% 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 an increase of JPY893,552 thousand in cash and deposits and JPY419,473 thousand in notes and accounts receivable-trade and contract assets.

The balance of non-current assets was JPY7,096,416 thousand, up JPY43,660 thousand (up 0.6% from the previous period), from the level of JPY7,052,756 thousand in non-current assets at the end of the previous consolidated fiscal year.

This was due mainly to factors such as an increase of JPY1,133,299 thousand in investments and other assets and a decrease of JPY1,115,615 thousand in goodwill.

### (Liabilities)

The balance of current liabilities was JPY12,120,383 thousand, up JPY2,189,392 thousand (up 22.0% 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 an increase of JPY2.1 billion in short-term loans payable.

The balance of noncurrent liabilities was JPY202,530 thousand, up JPY26,406 thousand (up 15.0% from the previous period), from the balance of JPY176,124 thousand in noncurrent liabilities at the end of the previous consolidated fiscal year.

### (Net assets)

The balance of net assets was JPY8,591,544 thousand, down JPY882,976 thousand (down 9.3% 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 JPY467,620 thousand in surplus due to dividends and 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 third quarter. As of the time of this report, there has been no change from the forecast of financial results announced November 9, 2023 in the “Notice Regarding Recording of Extraordinary Losses (Consolidated and Non-consolidated) and Revision of Financial Forecast for the Fiscal Year Ending March 31, 2024”.

## 2. Quarterly Consolidated Financial Statements and Important Notes

### (1) Quarterly Consolidated Balance Sheet

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2023)	Third quarter of this consolidated fiscal year (December 31, 2023)
<b>Assets</b>		
Current assets		
Cash and deposits	6,456,803	7,350,356
Notes and accounts receivable-trade and contract assets	5,377,205	5,796,679
Short-term investment securities	39,810	44,874
Inventories	25,125	39,468
Income taxes receivable	29,041	59,132
Other	691,524	639,451
Allowance for doubtful accounts	-90,632	-111,920
Total current assets	12,528,879	13,818,041
Noncurrent assets		
Property, plant and equipment	1,169,633	1,320,831
Intangible fixed assets		
Goodwill	3,468,425	2,352,809
Other	720,294	595,072
Total intangible fixed assets	4,188,720	2,947,882
Investments and other assets		
Investment securities	494,517	1,375,992
Other	1,199,884	1,451,709
Total investments and other assets	1,694,401	2,827,701
Total noncurrent assets	7,052,756	7,096,416
Total assets	19,581,635	20,914,458
<b>Liabilities</b>		
current liabilities		
Short-term loans payable	5,106,750	7,206,750
Accrued expenses	1,165,158	1,374,023
Income taxes payable	677,031	290,295
Provision for bonuses	136,348	125,502
Other	2,845,701	3,123,810
Total current liabilities	9,930,990	12,120,383
Noncurrent liabilities		
Net defined benefit liability	7,764	9,108
Other	168,360	193,422
Total noncurrent liabilities	176,124	202,530
Total liabilities	10,107,115	12,322,914

(Unit: JPY thousand)

	Previous consolidated fiscal year (March 31, 2023)	Third quarter of this consolidated fiscal year (December 31, 2023)
Net assets		
Shareholders' equity		
Capital stock	300,686	300,686
Capital surplus	393,678	70,445
Retained earnings	9,427,957	8,884,186
Treasury stock	-1,838,397	-1,818,333
Total shareholders' equity	8,283,925	7,436,984
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-86,528	-111,600
Foreign currency translation adjustment	609,357	834,668
Total accumulated other comprehensive income	522,828	723,067
stock acquisition rights	6,345	—
Non-controlling interests	661,421	431,491
Total net assets	9,474,520	8,591,544
Total liabilities and net assets	19,581,635	20,914,458



## (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 (April 1, 2022 to December 31, 2022)	Cumulative period through the consolidated third quarter of the previous fiscal year (April 1, 2023 to December 31, 2023)
Sales	26,879,428	28,666,336
Cost of sales	19,067,671	21,181,414
Gross profit	7,811,757	7,484,922
Selling, general, and administrative expenses	5,686,172	6,062,761
Operating income	2,125,584	1,422,161
Non-operating income		
Interest income	8,122	15,696
Foreign exchange gains	200,151	79,968
Subsidy income	6,179	9,804
Gain on investments in silent partnership	—	9,763
Other	20,524	11,006
Total non-operating income	234,977	126,238
Non-operating expenses		
Interest expenses	9,371	9,063
Commission fee	9,376	2,645
Non-deductible consumption taxes	—	5,481
Other	5,137	5,927
Total non-operating expenses	23,886	23,118
Ordinary income	2,336,676	1,525,281
Extraordinary income		
Settlement payments income	41,616	—
Total extraordinary income	41,616	—
Extraordinary loss		
Loss on retirement of noncurrent assets	2,547	7,245
Impairment loss	—	1,052,889
SubsidiaryHead office relocation expenses	1,130	—
Office transfer expenses	4,600	2,255
Penalty fee	—	18,564
Loss on businesses restructuring	—	78,988
Loss on liquidation of businesses	23,354	—
Settlement payments	37,842	—
Loss on sale of businesses	108,786	—
Other	—	11,071
Total extraordinary loss	178,261	1,171,013
Quarterly net income before income taxes and minority interests	2,200,030	354,267
Income taxes-current	614,027	522,694
Income taxes-deferred	89,302	-90,297
Total income taxes	703,329	432,397
Quarterly net income (-)	1,496,701	-78,130
Quarterly net income (loss) attributable to minority interests	102,541	-1,979
Net income (loss) attributable to owners of the parent shareholder or net loss (-) attributable to owners of the parent	1,394,159	-76,150

(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 (April 1, 2022 to December 31, 2022)	Cumulative period through the consolidated third quarter of the previous fiscal year (April 1, 2023 to December 31, 2023)
Quarterly net income (-)	1,496,701	-78,130
Other comprehensive income		
Valuation difference on available-for-sale securities	-105,841	-25,072
Foreign currency translation adjustment	692,902	251,415
Total other comprehensive income	587,060	226,343
Quarterly comprehensive income	2,083,761	148,213
(Breakdown)		
Quarterly comprehensive income attributable to owners of the parent	1,931,730	124,088
Quarterly comprehensive income attributable to minority interests	152,031	24,125

(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, we acquired shares in consolidated subsidiary and consolidated sub-subsidiaries, which resulted in a decline of JPY327,465 thousand in capital surplus.

(Significant Impairment losses on noncurrent assets)

Impairment losses on property, plant and equipment are recorded in Enterprise Business. The recorded amount of this Impairment losses was JPY1,052,889 thousand in the cumulative period through the consolidated third quarter.

(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 third quarter of this consolidated fiscal year.

As a result, the provisionally estimated amount of goodwill has decreased by JPY154,933 thousand from JPY548,495 thousand to JPY393,562 thousand. In addition, on the quarterly consolidated income statement for the cumulative period through the consolidated third quarter, selling, general, and administrative expenses increased by JPY15,229 thousand, while Operating income, ordinary income, and net income before income taxes and minority interests decreased by JPY15,229 thousand each, and net income and net income attributable to owners of the parent shareholder decreased by JPY6,460 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 - December 31, 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

(4) Company name after consolidation

No change to name.

(5) 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